ISSN 0379-0991

No 2 / 2002

EUROPEAN ECONOMY

EUROPEAN COMMISSION

DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

Economic forecasts
Spring 2002

European Economy appears six times a year. It contains important reports and communications from the Commission to the Council and the Parliament on the economic situation and developments ranging from *the Broad Economic Policy Guidelines* and its *Implementation Report* to the *Economic Forecasts*, the *EU Economic Review* and the *Public Finance Report*. As a complement, *Special Reports* focuses on problems concerning economic policy.

Subscription terms are shown on the back and the address of the sales offices are shown on page 3 of the cover.

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

European Commission

EUROPEAN ECONOMY

Directorate-General for Economic and Financial Affairs

2002 Number 2

Printed in Belgium

Economic forecasts
Spring 2002

Abbreviations and symbols used

Member States

B	Belgium
DK	Denmark
D	Germany
EL	Greece
E	Spain
F	France
IRL	Ireland
I	Italy
L	Luxembourg
NL	The Netherlands
A	Austria
P	Portugal
FIN	Finland
S	Sweden
UK	United Kingdom
WD	West Germany
EU	European Union
EU-15	European Community, 15 Member States
EUR-11	Group of 11 Member States participating in monetary union (B, D, E, F, IRL, I, L, NL, A, P, FIN)
Euro area (EUR-12)	Member States currently participating in monetary union (EUR-11 plus EL)

Currencies

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

Other abbreviations

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

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Overview

The euro area economy contracted in the last quarter of 2001, but a gradual recovery is shaping up as confidence returns, depleted inventories are rebuilt and international trade picks up. Nevertheless, the average growth rate this year will be lower than in the previous year. Private consumption holds the key for the recovery gaining momentum. Unemployment will rise temporarily and the inflation rate will be slow to fall below 2 %. The general government deficit in the euro area is expected to widen for two consecutive years, for cyclical reasons, reaching 1.4 % of GDP in 2002. However, the underlying structural balance is not expected to deteriorate in 2002 as Member States are committed to realise government accounts close to balance or in surplus from 2003 or 2004.

After the synchronised slowdown, a global upturn, but Japan remains behind

The collapse of international trade proved to be worse than initially foreseen, but the confidence shock caused by the terrorist attack on 11 September appears to have been short-lived. Against all expectations the US economy did not contract in the last quarter of 2001 thanks to robust private consumption. The Japanese economy remained plagued by deep-rooted structural problems in its financial and corporate sector. On the other hand, the financial crisis in Argentina which led to a break-up of its currency board did not lead to contagion to other emerging markets which recovered remarkably well from the burst in the ICT-bubble.

International trade which did not increase in 2001 for the first time in 20 years, is now resuming gradually as confidence is returning. In 2003, international trade is set to expand by about 7 %. It will be a main driving force for getting the world economy into a higher gear, together with a rebuilding of inventories after the dramatic rundown last year. Investment was one of the triggers for the global slowdown, but it is unlikely to lead the recovery as uncertainty with respect to profits expectations remains.

As the turn for the better in some regions takes place earlier than foreseen, notably in the US, world GDP growth is revised upwards to 2.9% in 2002 and is expected to accelerate further to 3.9% in 2003.

While the start of the recovery may seem moderate in the euro area,…

From 2000 to 2001 average growth in the euro area halved to 1.6 %. Growth was particularly low in Germany and Finland, while in Greece domestic demand completely offset the global slowdown. Also in the United Kingdom, resilient private consumption made the growth deceleration (only 0.6 of a % point) very soft. To a lesser extent this was also the case in Spain, France and Italy. The small open economies all experienced severe growth slowdowns.

The contraction in the last quarter of 2001 in the euro area weighs heavily on the average growth rate in the current year, which remains limited to 1.4 % despite a continuous improvement leading to an annual growth rate of 2.6% in the fourth quarter of this year. Growth in the euro area is forecast to be lower than in 2001 and below the projected growth rate for the US. Initially the pick-up will be based on the unwinding of the shocks which caused the slowdown and in particular on a rebuilding of inventories. German growth remains the slowest in the EU on average.

On the whole the recovery will be moderate in the first half of 2002 since the restraining factors will take time to resolve themselves. Exports are held back by the still low level of external demand, investment is hampered by uncertainty and households hesitate to spend as they fear unemployment and the rise in prices will be felt on real income.

Table 0.1

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

(Real annual percentage change unless otherwise stated)					Spring 2002		Difference with Autumn 2001 (a)	
	1998	1999	2000	2001	2002	2003	2002	2003
GDP growth	2.9	2.7	3.4	1.6	1.4	2.9	0.1	0.0
Investment in equipment	9.5	7.2	7.9	-1.1	-0.7	5.9	-1.9	0.7
Employment	1.7	1.7	2.0	1.3	0.3	1.1	0.1	-0.1
Unemployment rate (b)	10.7	9.8	8.8	8.3	8.5	8.1	-0.1	-0.1
Inflation (c)	1.2	1.1	2.4	2.5	2.2	2.0	0.4	0.2
Government balance (% GDP) (d)	-2.2	-1.3	0.2	-1.3	-1.4	-1.2	0.0	-0.2
Government debt (% GDP)	73.7	72.6	70.2	69.1	68.6	67.2	0.2	0.5
Current account balance (% GDP)	1.0	0.5	0.0	0.8	1.1	1.0	0.7	0.6
p.m. GDP growth EU-15	2.9	2.6	3.3	1.7	1.5	2.9	0.1	0.0

[1] The Commission services' Spring 2002 Forecasts are based on available data up to April 12, 2002.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Autumn 2001.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.
(d) Including proceeds relative to UMTS licences in 2000, 2001 and 2002. The UMTS amounts as a % of GDP would be, according to the Spring 2002 forecasts : 1.1%, 0% and 0% , respectively.

a platform for a sustainable pick-up exists

As the past interest rate reductions and the working of the automatic stabilisers take effect against the background of an improved international environment, the euro area economy is expected to gain momentum in the second half of this year, when above potential growth should be reached continuing into 2003. In that year, GDP growth is forecast to be 2.9 % for the euro area as a whole, which is free of major imbalances: limited over-capacity, healthy savings rate of households, sustainable current account. All Member States benefit from the pick-up, but not too the same extent.

Responding to evidence that inflation is on a downward track and brightened employment prospects, from, respectively, the middle and end of this year, households should spend more. Private consumption is expected to accelerate and to provide greater support for the expansion. The average growth rate of private consumption is forecast to attain 2.5 % in 2003 in the euro area compared to 1.2 % in the current year.

Investment activity declined in 2001 and prospects have been considerably revised downwards in the wake of reduced profit expectations. Equipment investment still contracts on average in the current year, but a turnaround is in the offing as spare capacities are absorbed and demand prospects brighten. In 2003 it could expand by 5.9 % on average in the euro area. German construction activity continues to weigh negatively on the euro area average, but the situation should improve next year.

A temporary and contained increase in unemployment

The slowdown takes its toll on the labour market, but thanks to past structural reform the damage is likely to be smaller than in previous cyclical downturns and the rapidly improving outlook should limit labour shedding.

In 2001 about 1.7 million jobs were created in net terms, representing an increase of 1.3 % in employment, mainly realised in the first half of the year. Reacting to faltering GDP growth, employment creation will be very subdued at 0.3 % in the current year, before rebounding more vigorously to 1.1 % in 2003. In four countries (Germany, Austria, Finland and Sweden) the number of persons losing their job is larger than those getting one in 2002 and overall employment declines. Taking the euro area as a whole, employment increases by 1.8 million in the current year and 2003 combined.

The average unemployment rate in the euro area was 8.3 % in 2001. Unemployment reacts with a lag with respect to the cycle and it could be on an ascending path until the third quarter, before resuming its downward trend so that the increase in the average unemployment rate in 2002 remains limited to 8.5 %. Next year at 8.1 %, it could be even marginally lower than the average unemployment rate in 2001. Only in Luxembourg, the Netherlands and Portugal the unemployment rate does not decline, but the level of unemployment is much lower.

Wage moderation should continue

The increase in labour productivity was very low at 0.3% in the euro area last year, but this appears to be a cyclical phenomenon as is the expected rise in the following two years. Wages are expected to increase at about 3 % per year in the euro area in 2002 and 2003, somewhat faster than in the previous two years. As a result of these developments, unit labour costs sharply increased in 2001, but should decelerate afterwards. However, in Ireland, the Netherlands and Portugal where the unemployment rate is low, unit labour costs are mounting and creating inflationary pressures. Also in Greece, Spain and Finland, where the unemployment rate is still relatively high, the rise in unit labour costs could impact on inflation and slow down the reduction in unemployment.

Delayed decline in inflation

The decline in inflation since June 2001 was interrupted at the beginning of 2002 under the influence of changes to indirect taxes which were implemented in several Member States and a surge in food prices due to cold weather. Furthermore the introduction of euro notes and coins may have added up to 0.16 percentage points to headline inflation in January.

Although there may be some volatility in the monthly year-on-year inflation rates due to base effects, the downward trend should resume as the impact of the various price shocks fade. The direct impact of these shocks seems now to be over, but the indirect effect is still being felt as the oil and food price increases are being passed through which explains why inflation is slow to fall. It is forecast that the inflation rate in the euro area will fall to the ECB's medium-term objective of 2 % in the second quarter of this year, but the annual average remains at 2.2 % compared to 2.5 % in 2001. Next year, the average inflation rate is forecast at 2.0 %.

Public finances responding to the cycle

The worsening of the actual general government deficit in the euro area last year to 1.3 % of GDP from 0.8 % in 2000 (excluding UMTS licenses) conceal different national situations. The underlying structural deficit widened to 1.5 % of GDP from 1.3 %, but the ongoing process of tax reduction and reform to strengthen the supply side of the economy is partly responsible for it. In some Member States (Denmark, Spain, Italy Austria, Sweden) the general government balance improved, while the deterioration was small in Belgium. In these countries the impact of the economic slowdown on public finances was tempered by a tightening of fiscal policy. Thanks to strong growth, also in Greece the general government deficit declined. In Germany and Portugal, the general government deficit started approaching the 3 % of GDP reference value as, inter alia, the operation of the automatic stabilisers or tax cuts were not offset.

As Member States intend to resume fiscal consolidation, the deterioration in the actual government deficit in the euro area to 1.5 % of GDP is marginal in 2002 and of a cyclical nature. The German and Portuguese government deficits remain close to the 3 % ceiling. Belgium, Austria and the United Kingdom fall into deficit this year, while they did not have one in the previous year. In Belgium and Austria this situation is corrected in 2003, but in that year the Netherlands is forecast to join the group of countries with a deficit.

Budgetary projections for 2003 are based on the no-policy change assumption. These projections indicate that Germany, France, Italy and Portugal have to step up their efforts to meet the commitments they made to realise government accounts close to balance or in surplus, not later than 2004. The large government surplus of Ireland declined significantly between 2000 and 2003.

The risks are more balanced

In the aftermath of the 11 September events, risks in the external environment were skewed downwards, but now appear better balanced thanks to the surprising resilience of the US economy. On the negative side remains international political uncertainty as reflected in the volatility of oil prices. Furthermore, the US imbalances remain a cause for concern.

Thanks to sound fundamentals risks appear small in the EU and the recovery looks solid provided private consumption does not disappoint, wages remain in line with productivity developments and the public finance deterioration is addressed in the Member States concerned. The recovery could be stronger than expected, since those global forces of interdependence which last year caused a sharper and deeper slowdown than was expected could this year be at work in a positive direction.

Chapter 1

World economy

1. Synchronised downturn, synchronised upturn ?

Following the terrorist attack on 11 September, overall uncertainty reached heights not seen since the first oil price shock in the seventies. The absence of further terrorist attacks and the swift end to the war in Afghanistan brought the world economy back in charted territory. The road-map to use is, however, not the customary one: contrary to the other big deceleration phases of the last forty years, this one did not start with very restrictive monetary policy. Low interest rates even contributed to the investment bubble, together with unrealistic profit expectations – as reflected in the stock market evaluations prevailing in 2000. The burst of the investment bubble (concentrated in the ICT sector) was one of the three main causes of the present slowdown, together with the collapse in world trade and the rise in oil prices. The oil price rise and the risks of overheating had made global monetary policy turn mildly restrictive in 2000.

Graph 1.1: **OECD Leading indicator for the OECD zone**

Indicators seem to suggest that the terrorist attack only postponed the economic recovery. The key issue is, as prior to 11 September, how strong the recovery in the world economy can be under the existence of serious imbalances in the US economy. At present, it looks as if the slowdown has been very mild and that it has not led and will not lead in the near term to a notable correction in the imbalances. The US current account deficit, which reflects the relentless consumption and import behaviour of America, has the potential to disrupt the world economy by ending a period of relative stable exchange rates.

The influence of the US economy and the synchronisation of business cycles

The global slowdown that occurred in 2001 has drawn attention to the synchronisation of business cycles in the major economies. This reflects, on the one hand, previous non-attention to the existence of a global business cycle as it was masked during the nineties by region-specific shocks, such as German reunification and the aftermath of the burst of the Japanese asset bubble. There is, on the other hand, an awareness that international linkages have intensified through foreign direct investment, trade and financial market integration. Around the world business operations have continuously been bought or set up by multinational companies in their quest for a better use of the specialisation of the different economies, while investors have scanned foreign financial markets in their quest for a better return.

Recoveries in different regions will reinforce each other in a similar way as did the decelerations, and a synchronised upturn should follow. The resumption of US growth will in the first place pull up the economies of Canada, Mexico and the East Asian region, the latter also helped by the recovery in the ICT-sector.

The impact of 11 September

With fiscal stimulus in the US and a generalised loosening of monetary policy, financial markets and confidence indicators staged a quick recovery from the 11 September slump. The speed and size of that recovery seem to suggest that 11 September was only a transitory shock. It remains, however, to be seen what will be the damage from the expected medium-term effects – such as higher insurance and transportation costs, and increased risk aversion. The corporate sector has used the impact of 11 September as an argument to advance and/or deepen cost-cutting measures. This has laid, together with the policy stimulus and the return of confidence, the groundwork for the recovery.

Countries with structural and fiscal problems lag behind

While the average annual growth rate of world GDP is expected to accelerate from 2.3% in 2001 to 2.9% in 2002, another year of negative growth is foreseen for *Japan* and *Argentina*.

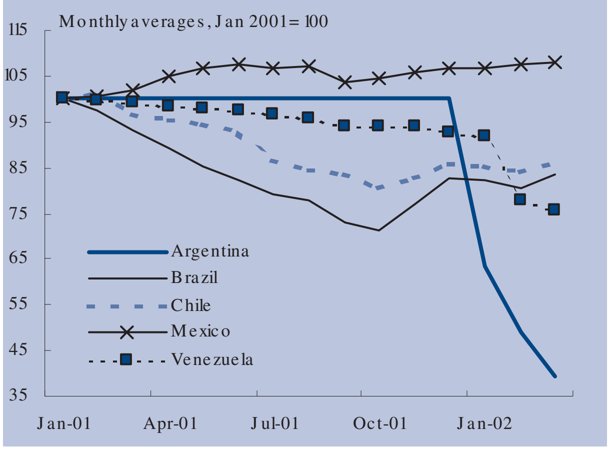
For *Japan*, this would mean that growth would be negative in three out of the five years up to 2002. Consumers are not spending and firms are not investing. Net exports will be the only source of growth in 2002, as the weak yen and the global recovery underpin exports. While some weak positive growth may return in 2003, the main structural and fiscal problems will have to be tackled to achieve significant growth rates again.

After the sovereign default and the devaluation, the economy of *Argentina* will likely shrink for a fourth consecutive year in 2002 – GDP would reach less than 90% of the 1998 level. Like Japan, Argentina had made little progress on structural and fiscal reforms. Unlike Hong Kong, Argentina lacked the flexibility in terms of prices and wages to compensate for the absence of the monetary policy tool under a fixed exchange rate regime.

While countries with structural and fiscal problems lag behind, the economies that were at the heart of the emerging market crisis of 1997-1999 are expected to grow again above the world average in 2002 and 2003. Growth is supported by structural reform in *Russia* and most East Asian economies. However, progress with their reform agenda is slow. As a result, most *East Asian* economies remain very dependent on export growth, mainly to the US. *Brazil* has managed to de-couple from neighbour Argentina on the basis of an encouraging fiscal performance under an IMF-led support package.

Contagion from Argentina to neighbouring countries – as seen in financial market developments – has been limited, with the exception of Uruguay. As the *Latin American* countries differ strongly – in importance of export markets, export products, exchange rate policies and debt situations – a Latin American crisis similar to what East Asia experienced in 1997-1998 seems to be ruled out.

Graph 1.2: **Latin American currencies in USD**



The recent devaluation in *Venezuela* was not due to regional contagion but was triggered by a combination of the then low oil price and home-grown factors such as political instability and an unsustainable fiscal policy.

After the financial crises of end-2000 and early 2001, *Turkey* is trying to tackle its fiscal and structural problems under a new IMF-led programme that was approved in February 2002. The ambitious programme sets an agenda of structural reforms and aims at bringing inflation under control through tight fiscal policy. Tight fiscal policy will dampen economic growth initially, which is not expected to exceed world GDP growth in 2002 and 2003.

Most other *candidate countries* now benefit from past reforms, that, supported by significant and continuing foreign direct investment inflows, have enhanced the competitiveness of the local exporters. This helps to explain why export growth slowed less than might be expected on the basis of the size of the economic slowdown in the EU. In most candidate countries, with the notable exception of Poland, domestic demand is also supporting growth. The average GDP growth rate for the ten Europe Agreement countries would be about 3% in 2001 and 2002. In 2003, average growth could accelerate to about 4%.

Table 1.1

International environment

(Real annual percentage change)		1998	1999	2000	2001	Spring 2002: 2002	Spring 2002: 2003	Difference with Autumn 2001: 2002	Difference with Autumn 2001: 2003
					Real GDP growth				
USA		4.3	4.1	4.2	1.2	2.7	3.1	2.2	-0.3
Asia		2.9	5.2	5.5	3.6	4.1	4.9	0.5	0.6
of which	Japan	-1.1	0.7	2.4	-0.5	-0.8	0.6	0.1	0.1
	China	7.8	7.1	7.1	7.3	7.3	7.4	0.3	0.0
	ASEAN4 + Korea (a)	-8.4	4.7	5.9	2.3	3.0	4.3	0.9	1.1
EAC (b)		2.8	2.5	3.8	3.1	2.9	4.0	-0.2	-0.1
FSU		-3.0	4.4	7.9	5.5	4.1	4.6	-0.1	-0.5
of which	Russia	-4.9	5.4	8.3	5.0	3.7	4.5	-0.1	-0.5
OPEC-Indonesia		-1.2	2.1	5.1	2.8	2.9	3.9	0.0	0.5
Latin America		2.4	0.5	4.1	0.3	1.0	3.7	-0.7	-0.1
Africa		3.2	3.1	3.4	2.9	3.1	3.8	0.4	-0.1
World		2.6	3.6	4.6	2.3	2.9	3.9	0.7	0.2
World excl. euro area		2.6	3.8	4.8	2.4	3.1	4.0	0.8	0.1
					World trade				
World import growth		5.8	7.2	11.6	0.1	3.2	7.0	1.4	1.0
World import growth excl. euro area		4.0	7.3	11.6	0.0	3.9	7.1	2.5	1.3
Extra euro area export market growth		5.2	11.4	11.7	1.3	3.5	6.5	1.0	0.3

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

2. International trade and commodity prices

Strong recovery in the volume of world trade in goods expected for 2002 and 2003

In the first ten months of 2001, the value of world imports of goods was about 1% lower than the value for the corresponding period of 2000. As national data for the major economies point to a significant contraction in trade at the end of 2001, the full-year value of world trade very likely declined in 2001.

World trade volume growth is estimated at about zero in 2001, as international trade prices likely shrank about as much as values. The downward movement of prices stemmed from the global synchronised slowdown and gathered pace in the fourth quarter because of the drop in the oil price since end-September 2001.

There will be a significant negative carry-over into 2002 for trade volume growth, implying that dynamic recoveries in quarterly trade volumes will not easily show up in annual growth rates. Nevertheless, world import growth is forecast at 3.2% for 2002. A positive carry-over effect would boost the 2003 growth rate to 7.0%.

Trade and current account imbalances widen again in 2002 and 2003

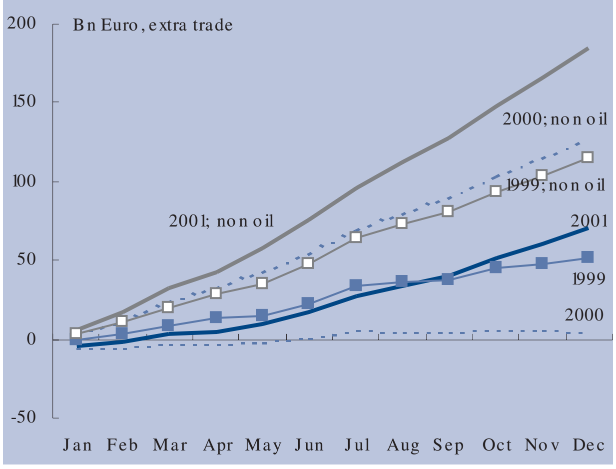
In 2001, international trade flows involving the euro area were more dynamic than those involving other regions of the world. This comparative advantage is a logical consequence of the bad situation of the Japanese economy and the short sharp dip through which the US economy went. In 2002, euro area exports of goods would again outperform the US, as the latter are confronted with a huge negative carry-over and a problem of competitiveness, stemming from the dollar exchange rate. Japan, benefiting from a weak yen, would be the only major country to achieve double-digit growth in exports of goods in 2002.

US imports will grow much faster than US exports in 2002 and 2003. The US trade deficit that shrank to 4.3% of GDP in 2001 is forecast to expand again to 4.7% in 2002 and 5.2% in 2003. As a partial reflection of this development, the Japanese trade surplus would widen to 2.7% of GDP in 2003, from 1.6% in 2001. The main other beneficiaries would be Asia excluding Japan, of which the trade surplus would jump from $125bn in 2001 to $179bn in 2003.

As euro area imports grew more slowly than exports, the euro area trade surplus (adjusted for intra trade) jumped from 0.5% of GDP in 2000 to 0.9% in 2001. Price effects contributed also to this advance: terms of trade improved by 0.8% in 2001, after the 3.8% decline in 2000. This development is mainly due to the reversal of the oil price hike. The euro area trade surplus would settle at a comfortable level of 1.3% of GDP in 2002 and 2003.

In 2001, the euro area accumulated sizeable surpluses in non-oil trade. However, up to September 2001, high oil prices kept the oil deficit at about the same level as in 2000 and limited the overall trade balance improvement.

Graph 1.3: **Euro area trade balance cumulated from year start**



The divergent movements in trade balances are mirrored in the current account developments. The US current account deficit is forecast to reach an unprecedented 5.2% of GDP in 2003, raising questions about the sustainability of the financing of this gap. After the big drop in 2001 (to 1.9% of GDP), the Japanese current account surplus would gradually increase to just above the 2000 level, at 2.8% of GDP in 2003. The current account surplus of Asia excluding Japan would increase significantly during the forecast period. The euro area current account (adjusted for intra-trade) would stay close to balance from 2001 on.

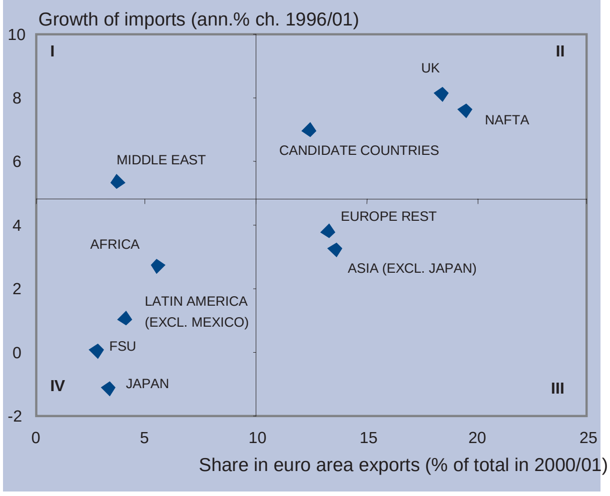
Export destinations and exchange rate developments help euro area exports

In the last six years, euro area export growth has been supported by a favourable composition of exports by destination. In general, the regions that have a large weight in euro area exports exhibited strong import growth over this period. Taken together, the United Kingdom, NAFTA (the United States, Canada and Mexico) and the candidate countries accounted for more than 60% of the increase in total euro area exports outside the euro area. As the emerging markets crisis of 1997-1999 is behind the below-average import performance of Asia (excluding Japan), its important share could prove a valuable asset for the future development of euro area exports. The emerging market crisis explains also the weak performance of Latin America and the former Soviet Union countries (FSU) in this comparison.

A remarkable consequence of the high oil prices up to September 2001 is that the values imported from the euro area by the main oil-exporting countries grew at an astonishing pace in 2000 and in 2001. This annual pace was above 20% for OPEC countries and above 30% for the FSU.

The weakness of the euro has supported euro area export growth and significant gains in markets share have been recorded for the euro area in 2000 and 2001. Over the next two years the market share of the euro area would hardly change.

Graph 1.4: **Euro area exports by destination**



Oil prices to remain in the OPEC target band during the forecast period

Up to the second half of September 2001, OPEC managed to keep oil prices in its target band of 22 to 28 dollars a barrel. Following the terrorist attack, oil prices dropped below the lower limit of the target band. Up to March 2002, the Brent oil price moved between \$17.5/bl and \$22/bl, depending on how the market assessed the sustainability of the pledges of OPEC members and non-members to cut production. In the medium-term, the market discipline of all oil producers, who balance market share with revenue considerations, is key to the oil price outlook. The long-term strategy of Russia, non-member of OPEC and already the second biggest producer in the world, to increase production and exports dampens the oil price's potential to rise.

In March 2002, however, the Brent started rising steadily, topping \$27/bl in April 2002, on political uncertainty related to the Middle East and Venezuela. According to futures price developments, markets expect a return to about \$22/bl by the end of the year. In the forecast, the oil price is expected to come down gradually this year, yielding an annual average Brent price of \$23.8/bl for 2002, from \$25.0/bl in 2001. The global recovery would raise oil prices steadily throughout 2003, leading to an annual average of \$24.1/bl.

Chapter 2

The economy of the euro area

1. A sharp slowdown in 2001

A contraction in the last quarter of 2001

Sluggish consumption and an exports slump in the second half of the year deepened the impact of the contraction in investment for four quarters in a row and the steep fall in inventories.

Table 2.1

Composition of growth in 2001 - Euro area

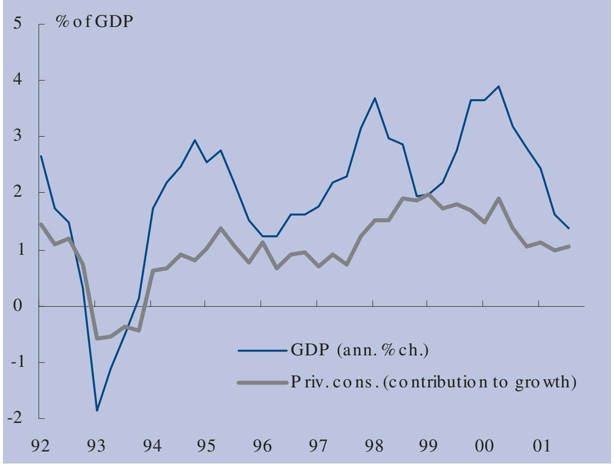
(Seasonally and working day adjusted)	Quarterly % change			
	Q1	**Q2**	**Q3**	**Q4**
GDP	0.5	0.1	0.2	-0.2
Private consumption	1.0	0.4	0.1	0.1
Government consumption	0.6	0.4	0.3	0.5
Gross fixed capital formation	-0.3	-0.6	-0.3	-0.7
Changes in inventories (% of GDP)	-0.1	-0.1	-0.3	-0.4
Export of goods and services	-0.1	-0.5	-0.4	-0.6
Import of goods and services	-1.6	0.0	-1.4	-0.6
	% contribution			
	Q1	**Q2**	**Q3**	**Q4**
GDP	0.5	0.1	0.2	-0.2
Private consumption	0.6	0.3	0.0	0.1
Government consumption	0.1	0.1	0.1	0.1
Gross fixed capital formation	-0.1	-0.1	-0.1	-0.2
Changes in inventories	-0.7	0.1	-0.2	-0.2
Net exports	0.6	-0.2	0.4	0.0

Euro area GDP contracted by –0.2% in the last quarter of 2001 after two quarters of almost no growth. The euro area would thus avoid a technical recession, that is two consecutive quarters in which GDP contracts. The average growth rate in 2001 is estimated at 1.6 %. This is as low as in 1996 when exchange rate turbulence in the previous year both outside (peso-crisis) and inside the ERM (the last devaluation of escudo and peseta) took its toll.

Sluggish private consumption

Already in the second half of 2000, private consumption was slowing. Unexpected hikes in the prices of food and oil (the latter amplified by the depreciation of the euro) dented consumer purchasing power. Private consumption weakened further as confidence was undermined by the fall in stock prices (- 40% from January to October 2001) and increasing uncertainty. The reduction in unemployment stopped in Summer 2001 and uncertainties have significantly increased in the second semester, notably following the 11 September events. All this led to an increase in the savings rate.

Graph 2.1: **The contribution of private consumption to euro area GDP growth**



After a temporary strengthening in early 2001 linked to the implementation of tax cuts to the extent of 0.6% of euro area GDP, consumption has remained subdued and stagnated at +0.1% in the last two quarters of 2001. Nevertheless, compared to previous slowdowns in the nineties private consumption remained more resilient, even if not as much as in 1998/99 following the Asian crisis. This can be attributed to the tax cuts and success in reducing unemployment.

Investment contracted

Investment contracted as profit expectations plunged, actual profits declined, demand prospects deteriorated and uncertainty increased.

Graph 2.2: **Investment and profit expectations in the euro area**

The surge in oil price and the bursting of the of ICT bubble have initiated a reversal in profit expectations. Profit expectations, for which stocks prices can be used as a proxy (because they incorporate the discounted value of future earnings), have plunged since the second half of 2000 and did not bounce back in 2001. In particular, investment in the ICT sector was cut in the second half of 2001.

Low labour productivity in 2001 coupled with moderate but sustained wage increases led to an increase in unit labour costs, while the price of output (as measured by the GDP deflator) remained subdued. In consequence, profit margins came under pressure, adding to the reduction in corporate profitability that results from output slowdown and low capacity utilisation. The gross operating surplus declined slightly in the second half of 2001.

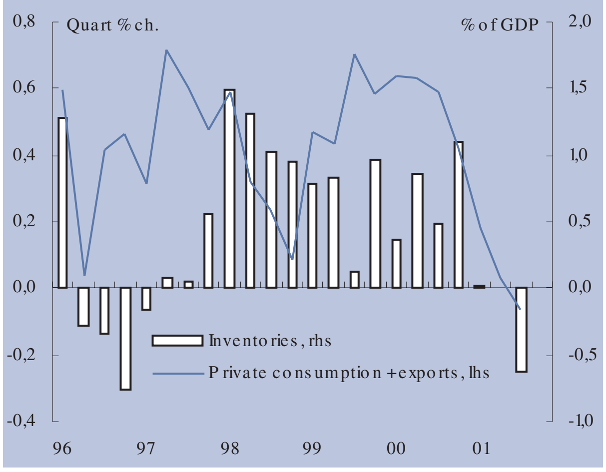
In the second part of the downswing, the adjustment of demand expectations was a major drag on investment. In particular, the fall in exports has amplified the trend.

Finally, investment was delayed in the last quarter of 2001 as uncertainty about future growth increased following the 11th September events. With euro area advanced indicators of business activity bottoming out in November 2001, uncertainty subsided.

Inventories were depleted

The depletion of inventories reflected the marked downturn in demand expectations. Stockbuilding had a negative contribution to GDP growth of 0.5% point in 2001. Compared with previous downswings, the magnitude is similar but inventories were depleted about one to two quarters faster.

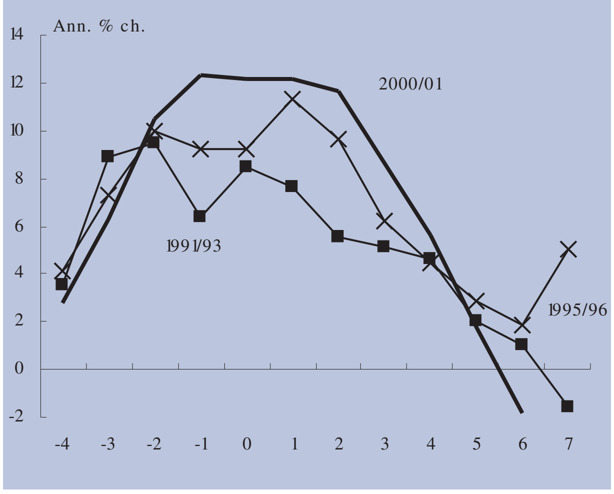
Graph 2.3: **Final demand and inventories in the euro area**



Exports and imports tumbled

Exports remained relatively strong in the beginning of the slowdown, but plunged afterwards and more than in previous downturns in the nineties, as suggested in graph 2.4. In the graph exports are anchored on the peak preceding the slowdowns of 1991/93, 1995/96 and 2000/01 (indicated as quarter 0 on the x-axis).

Graph 2.4: **Growth of exports in the euro area across cycles in the nineties**



Only in the second quarter of 2001 was the contribution of net exports to growth negative. For the year as a whole net exports made a positive contribution as imports contracted at a faster pace than exports, reflecting subdued final demand. There was in particular a steep fall in imports of capital goods.

Differences across sectors

Agriculture, which was severely hit by the animal diseases, recovered in the third quarter of last year. The industrial sector recorded a sharp recession in the last quarter of 2001. Durable consumer goods and intermediate goods sectors recorded the most severe drop. The construction sector was more resilient towards the end of the year and also the car industry. By contrast, the services sector resisted better to the slowdown, although also retail trade and transport felt the decline in activity following the 11th September events.

Table 2.2.
Sectoral breakdown of growth in 2001 - euro area

Gross value added	**Quarterly % change**			
(Season. & working day adj.)	**Q1**	**Q2**	**Q3**	**Q4**
GDP	0.5	0.1	0.2	-0.2
Agriculture	-1.3	-0.1	1.3	-0.3
Industry	1.1	-1.0	-0.1	-1.6
Construction	0.3	-0.9	0.0	0.2
Wholesale and retail trade	0.8	0.4	0.2	0.2
Financial intermediation	0.8	0.8	0.7	0.6
Public administration and defence	0.3	0.3	0.3	0.2

An attempt to quantify the causes of the slowdown

Economic growth in the euro area halved from 3.4% in 2000 to 1.6% in 2001, as a number of shocks hit the economy. An attempt is made here to quantify the impact of these shocks on GDP growth, using results of simulations with the Commission services' QUEST model. The impact of monetary and fiscal policy is also assessed. The results should be seen as rough isolated estimates of the individual effects, as no interaction between the individual shocks is assumed.

1) *Oil prices*
Oil prices increased 50 % in 2000 and remained at this higher level in 2001. It is estimated that, in 2001, growth was 0.4% lower than what it would have been otherwise.

2) *Food prices*
An exogenous shock adding 0.5% was given to consumer price inflation in the first quarter of 2001. Growth would have been reduced by 0.1% in 2001.

3) *Temporary re-assessment of productivity gains*
The new economy paradigm states that an efficient use of capital and labour leads to strong growth of total factor productivity (TFP). However, in 2001 euro area TFP growth slowed sharply to 0.2% (from 1.3% in 2000), partly due to a deceleration in the rate of technical progress and to productivity gains which did not materialise, because of over-investment. The TFP shock reduced growth by 0.7% in 2001.

4) *Changes in monetary policy*
The combined effect of the tightening of monetary policy in 2000 and the loosening in 2001 dampened growth in 2001 (-0.3%), because of the normal lags with which changes in monetary policy affect the real economy. In 2002, monetary policy would exert a positive influence on growth.

5) *Effects of discretionary fiscal policy*
The fiscal impulse encompasses the impact of the various fiscal policy measures on the economy. It distinguishes between the various categories of spending and revenues, and estimates the different effects of these components on the economy. The expansionary effect of the changes in fiscal policy (mainly tax cuts) on growth was 0.3% in 2001.

6) *Residual effect: interdependence and confidence*
An aggregation of these estimates should be interpreted with caution, as the shocks are interrelated (for example, the oil price increase was a factor behind the tightening of monetary policy in 2000). The aggregation yields a result (-1.2%) that is below the actual slowdown (-1.8%). The residual effect comes from a number of factors, which can be grouped as global interdependence (US slowdown, collapse in world trade) and confidence effects (11 September, stock market fall).

Box 2.1: External assumptions and budgetary conventions

Exchange rates

Constant nominal exchange rate in the ERM2 (DKK/EUR rates) and constant real rates (nominal rates adjusted for changes in GDP deflators) for Sweden, the UK and non-EU currencies are assumed. The period considered for the stability assumption is the first quarter of 2002, with historical values up to 19 March and the average of the first 19 days in March used for the remainder of the first quarter. The average USD/EUR rate for this period was 0.88 and the JPY/EUR rate 115.8. This leads to average USD/EUR rates of 0.87 in 2002 and 2003 and JPY/EUR rates of 114.1 and 111.4 respectively.

Interest rates

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

Commodity prices

Commodity prices are set taking into account market conditions. The current level of oil prices, at around 26 USD/bl is considered to prevail only temporarily and for the rest of 2002 the projection follows closely the most recent trend in futures markets. For 2003, the assumed strengthening in world oil demand reflects the expected acceleration in world output and the assumed price for oil departs somewhat from the trend in futures markets. Prices for Brent oil are forecast at 23.8 USD/bl on average in 2002 and 24.1 USD/bl in 2003. Prices of non-fuel commodities are thought to have bottomed out and are expected to increase, as economic activity in the world picks up, but because of the negative carry-over into 2002, will not show an acceleration on average in 2002 compared to 2001. Hence, prices of primary commodities, excluding fuels, are assumed to remain stable in 2002 and to rise by 4.8% in 2003. Metals, being the most cyclical category, should lead the pick-up in 2003.

Budgetary policy

Estimates for 2001 are based on the March 2002 Excessive Deficit Procedure notification, with the exception of Denmark, Portugal and Sweden for which additional information has been used for the year 2001. In this way, the reported figures may be slightly different from figures produced in a strictly national accounts context. In particular, the net borrowing/lending of general government in terms of GDP is different in the national accounts framework and the EDP notification in 2001 for Austria and Italy. Eurostat reported in March 2002 (press release 35/2002) that it could not certify the reported figures for Greece, Austria and Portugal, while some issues on "securitisation" needed further discussion before taking a decision in July 2002. This issue is relevant for the accounts of Austria, Finland, Greece, Ireland and Italy. For 2002, the budgets adopted or presented to parliaments and all other measures known in sufficient detail are taken into consideration. For 2003, the no-policy change assumption used in the forecasts implies that presently known measures and trends are extrapolated.

UMTS

According to Eurostat, proceeds from the allocation of mobile phone licences (UMTS) must be recorded in the general government accounts as an expenditure with a negative sign at the moment the licence is sold. The cyclically adjusted net balance is calculated without taking into account these one-off proceeds.

Swaps

According to ESA95, swap settlements are excluded from the calculation of general government balances. However, for the purposes of the Excessive Deficit Procedure and the Stability and Growth Pact, balances do include swaps. According to Regulation N° 2558/2001, interest flows under swaps have been reclassified from income property to the financial account, while stating the need for a specific treatment of these flows for data transmitted under the Excessive Deficit Procedure.

2. A moderate recovery in the pipeline

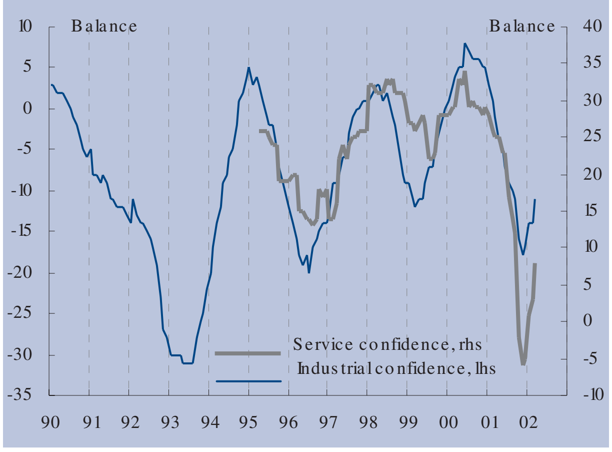
2.1. The difficulties of a turning point

It is mostly qualitative data that point to an upturn, while hard evidence is coming in slowly. At turning points information is lagging, raising issues concerning the dating of the trough, the sequencing of events, and the strength of the recovery.

Dating the trough

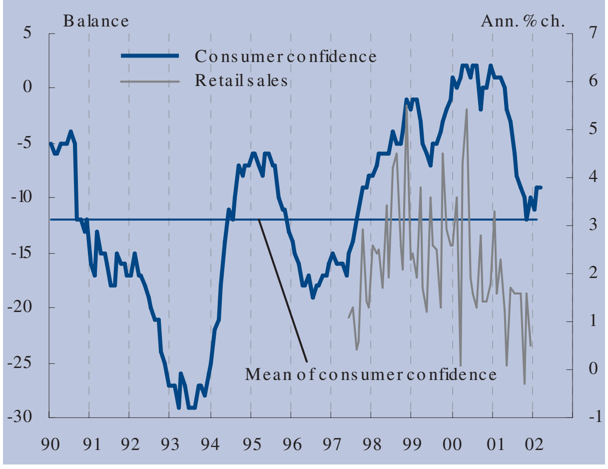
Both business and service confidence reached the bottom in November 2001 and have since then showed steady improvement. The level of the indicators is still below their long-term average, indicating that uncertainty regarding the future is still high.

Graph 2.5: **Industrial and service confidence indicator**



Consumer confidence also bottomed out in November, but gives mixed indications regarding the future. In recent months, the indicator has been hovering around the long-term mean, reflecting uncertainty regarding employment, stock markets, and inflation. So far industrial production and retail sales have failed to pick up decisively.

Graph 2.6: **Consumer confidence in the euro area**



Will every quarter show an improvement?

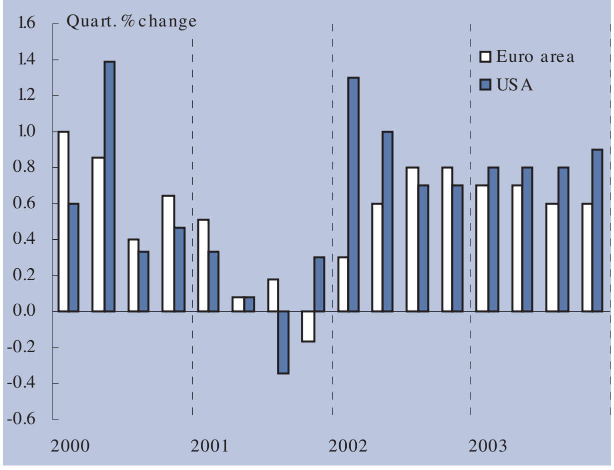
A cause for concern is a double dip scenario that could delay the upturn, a feature sometimes observed in US data. A double dip is a further adjustment of inventories that drag the economy into another period of GDP contraction. This would potentially hamper external demand of the euro area, on which growth traditionally depends. The conventional explanation for a double dip rests on a combination of inventory volatility and errors in sales expectations.

The euro area has not experienced a double dip in the past. At the present juncture, consumption growth is weak, but appears to have momentum of its own. A relapse in final demand is therefore less likely, and the pick-up in production should not be interrupted, with a positive effect on income and spending.

Sequencing of the euro area-US cycles

The timing of international cycles is an important determinant for generating a positive spiral of increased production through the trade channel. Also the initial strength of investment growth is dependent on international developments, especially since exports constitute a significant part of the demand firms face.

Graph 2.7: **Quarterly profiles of euro area and US growth**



Recent indicators on the US economy are surprisingly good: consumption has been resilient throughout the downturn. Nevertheless, the US suffers from imbalances, such as over-investment, a low savings rate of households, and a growing current account deficit. In the short term, these problems will probably not affect the current outlook.

In the euro area, structural reforms have been undertaken, but rigidities remain, notably in the labour market. Fiscal and monetary policy reacted also more cautiously to the downturn than in the US.

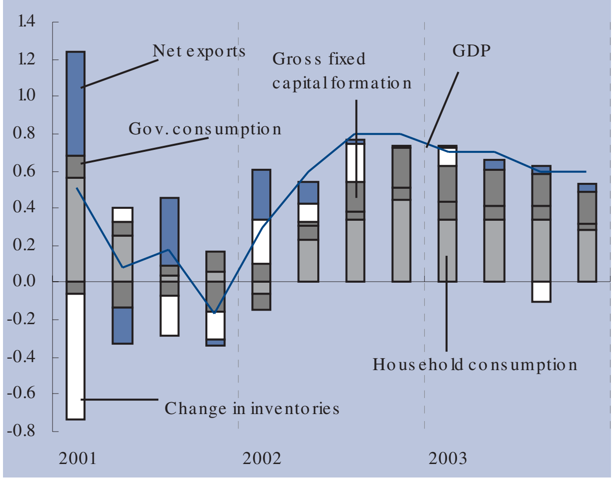
Through the unwinding of the common shocks, the upturn will be broadly synchronised with some lag for the euro area, which experienced the trough a quarter later than the US. The recovery could be brisker in the US with a temporary relapse (double dip) below potential growth, which is higher than in the euro area.

Sequencing of demand components

In the nineties the turnarounds in the euro area have started with increases in exports stimulating investments and stock building, then followed by consumption. Although still important, investments could play a less dominant role.

Initially, the recovery relies on stock building, receiving further support from the improved international environment. Consumer confidence has declined to its long-term average, but never plunged like the other confidence indicators, and should also be supportive.

Graph 2.8: **Quarterly profiles of GDP components**



Investment is expected to remain weak until both domestic and external demand gain momentum, as business surveys do not support a quick recovery in investment.

Strength of recovery

The projection for the euro area is a moderate recovery in the first half of 2002, before the synergies of a more synchronised positive economic development is realised towards the end of the year. Euro area GDP is expected to increase by only 1.4% on average during 2002. Data confirming the recovery are only slowly coming in, and all demand components have been affected by the slowdown. Initially the recovery relies on the unwinding of shocks that caused the slowdown, i.e. the end of the negative inventory and investment cycles.

Although the external environment is improving, leading to a high net export contribution, the euro area cannot expect to see high growth rates until the second half of 2002. GDP growth is strengthened by gradually improving consumption growth, from the second quarter onwards. Investment picks up to a quarterly growth rate of about 1% from -0.2% in the first half. In 2003, the euro area is back to a respectable growth rate of 2.9%. The negative output gap closes only gradually in the forecast horizon.

Table 2.3

Composition of growth - euro area

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

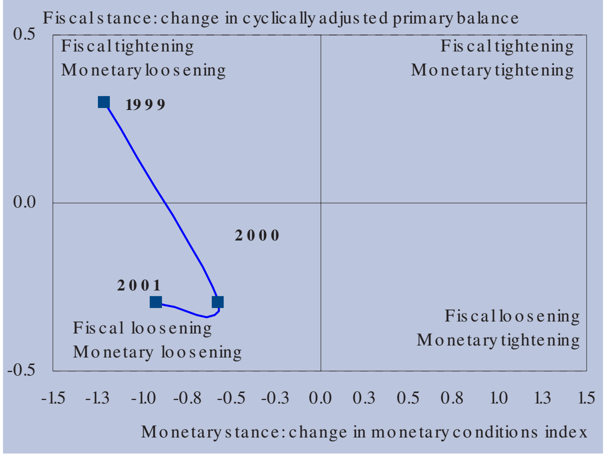
	2000		1996	1997	1998	1999	2000	2001	2002	2003
	bn Euro curr. prices	% GDP	Real percentage change							
Private consumption	3746.0	57.2	1.7	1.8	3.2	3.2	2.6	1.8	1.2	2.5
Government consumption	1299.6	19.8	1.6	1.3	1.3	2.1	2.0	2.2	1.6	1.4
Gross fixed capital formation	1406.2	21.5	1.7	2.7	5.5	5.7	4.6	-0.2	0.2	3.8
- of which : equipment	557.3	8.5	4.1	5.4	9.5	7.2	7.9	-1.1	-0.7	5.9
- of which : construction	703.3	10.7	-0.8	-0.4	1.7	3.9	2.1	-0.1	0.5	2.1
Change in stocks as % of GDP	38.4	0.6	0.0	0.1	0.5	0.2	0.2	-0.3	-0.2	0.1
Exports of goods and services	2438.5	37.2	4.4	10.4	7.2	5.2	12.1	2.7	2.6	6.7
Final demand	8928.6	136.3	1.9	3.9	4.6	3.8	5.2	1.4	1.6	3.9
Imports of goods and services	2378.5	36.3	3.3	9.3	10.1	7.2	10.8	0.8	2.0	6.9
GDP	6550.2	100.0	1.5	2.4	2.9	2.7	3.4	1.6	1.4	2.9
p.m. GDP EU-15	8397.2		1.7	2.6	2.9	2.6	3.3	1.7	1.5	2.9
			Contribution to change in GDP							
Consumption			1.3	1.3	2.0	2.3	1.9	1.4	1.0	1.7
Investment			0.3	0.6	1.1	1.2	1.0	0.0	0.0	0.8
Inventories			-0.5	0.1	0.5	-0.3	0.0	-0.5	0.1	0.2
Exports			1.3	3.1	2.3	1.7	4.2	1.0	1.0	2.6
Final demand			2.4	5.0	5.9	5.0	7.0	1.9	2.2	5.3
Imports (minus)			-0.9	-2.6	-3.0	-2.3	-3.6	-0.3	-0.8	-2.5
Net exports			0.4	0.5	-0.7	-0.6	0.6	0.7	0.3	0.1

2.2. Driving forces of the pick-up

Easing of policies

Monetary policy (measured with the monetary conditions index, graph 2.9) has been loosened in order to fight the slowdown and to maintain confidence in the wake of the 11 September attack. Taxes have been cut in an ongoing process to improve the supply side of the economy and in consequence fiscal policy (measured with the cyclically adjusted primary balance) has been loosened as well. This policy stance supports consumption and investment, and is conducive to growth in general, provided that Member States stick to their budgetary targets.

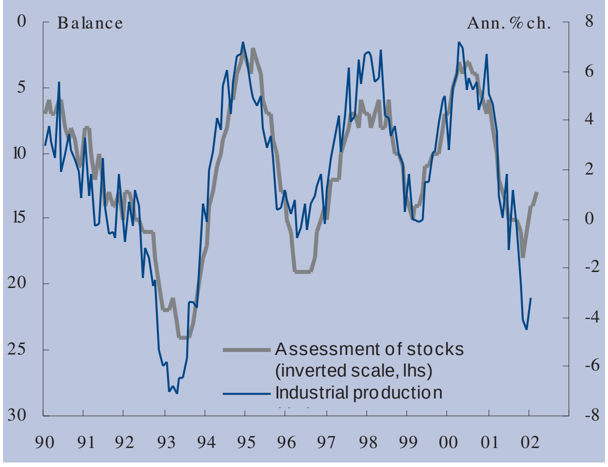
Graph 2.9: **Change in fiscal and monetary stance in the euro area**



Inventories are rebuilt

The depletion of inventories is expected to end during the first half of 2002, initially as a consequence of resumed exports. The end of the downward adjustment will significantly contribute to GDP growth in the euro area, already in the first quarter of 2002. Stock-building will subsequently take place as demand recovers towards the second half of the year, spurring production and closing the capacity utilisation gap. Firm profitability should also improve as a consequence of reduced costs for keeping stocks.

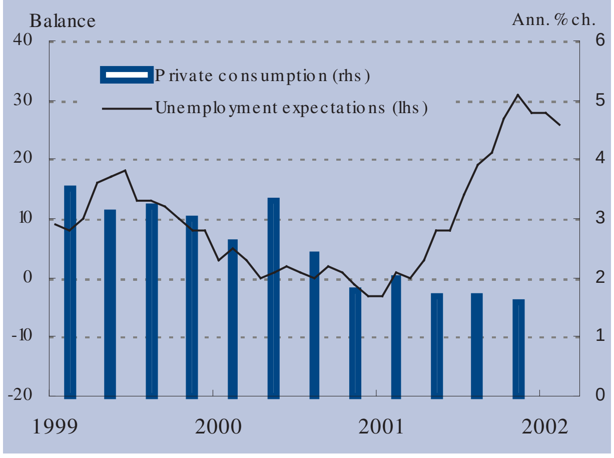
Graph 2.10: **Stockbuilding and industrial production in the euro area**



Consumption accelerates

Consumption has been fairly resilient to the slowdown, but there are three reasons to expect consumption growth to be held back during the initial recovery. First, there have been reports of layoffs, which take effect with a lag. Potentially the unemployment rate increases. The fear of this makes consumers more hesitant, thus restrains their spending with an increase in the saving rate. Second, the wealth effects of lower priced stock markets hampers purchases of durable goods. Third, real gross disposable income growth will be subdued during 2002 as compared with recent years.

Graph 2.11: **Expectations in unemployment and consumption in the euro area**



The acceleration phase of the euro area economy during the second half of 2002 is foreseen to rely more on private consumption than in the past. Relative to other indicators, consumer confidence has held up well during the slowdown, and is the only indicator above its long-term average. Real salaries are expected to improve, as the hiccup of inflation in the first quarter of 2002 is seen as temporary. Furthermore, the already implemented tax cuts should continue to exert a positive effect on disposable income. Finally, the saving rate is expected to decline as confidence is increasing.

Table 2.4

Determinants of private consumption expenditure - euro area

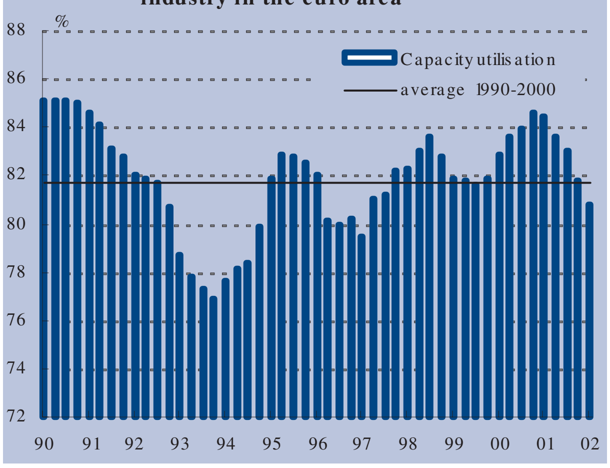
(Annual percentage change)					Spring 2002		Difference with Autumn 2001 (a)	
	1998	1999	2000	2001	2002	2003	2002	2003
Real private consumption expenditure	3.2	3.2	2.6	1.8	1.2	2.5	-0.4	0.0
Compensation per employee	1.5	2.3	2.5	2.7	2.9	3.0	-0.1	0.1
Real compensation per employee	-0.1	1.0	0.3	0.3	0.8	1.1	-0.3	0.0
Employment	1.7	1.7	2.0	1.3	0.3	1.1	0.1	-0.1
Real gross disposable income	2.4	1.8	2.0	2.4	1.5	2.2	-0.1	-0.1
Saving rate of households (b)	16.0	14.8	14.3	14.8	15.1	14.8	0.3	0.1
Labour tax wedge (c)	51.7	52.0	52.0	51.1	51.0	50.8	-0.1	-0.1

(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Autumn 2001.
(b) As a percentage of gross disposable income.
(c) Defined as the difference between the gross wage paid by the firm and the income effectively left in the hands of the employee after deduction of social security contributions, personal income tax, as a percentage of the gross wage bill.

Investment picks up slowly

Over-investment was not just a problem in the ICT sector. Initially, there is enough overall production capacity to meet higher domestic demand without major new investments. Capacity utilisation is still following a downward trend and is now standing about 1% below its long-term average. Profit margins have also been under pressure, which reduce the return on investment.

Graph 2.12: **Capacity utilisation in manufacturing industry in the euro area**



Investment is not expected to resume until consumption and external demand gain momentum towards the end of 2002. During the latter half of the nineties, exports were the fastest growing GDP component. Growth rates in the order of 7-8% per year constituted an increasingly important incentive for firms to invest. Such growth rates are unlikely to be again realised soon. A synchronised recovery in both domestic and external demand is foreseen to generate an accelerator effect in 2003, when consumption and trade will spur future investment.

2.3. Growth differences remained wide in the euro area, but are decreasing

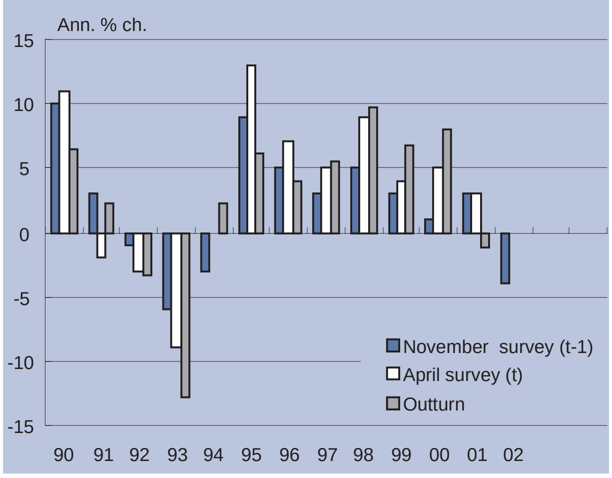
Growth differentials in the euro area were not reduced in 2001, as compared with previous years. The growth slowdown has been specifically pronounced in some countries. Germany and Finland recorded their worst growth rates since 1993. In Germany the construction sector has been stuck in recession since the over-investment that followed the reunification boom. In Finland, the exporting sectors were deeply affected by the ICT and world trade slump.

Growth was also low in Belgium, the Netherlands, Austria, and Portugal. The Netherlands has lost competitiveness, as there appears to be an end to the years-long tradition of wage moderation. The Portuguese economy suffers from serious imbalances: private debt has increased significantly, the general government deficit is about 2½%, and the current account deficit is almost 10% of GDP.

Among the countries that have better resisted the slowdown, France and Italy realised growth rates in the order of 2%, while Spain and Greece have performed relatively even better. Growth slowed down considerably in Ireland, but remained the highest in the EU.

Outside the euro area, resilience in the UK service sector compensated for the fall in the industrial sector. Economic growth was weak in Sweden due to the slump in the ICT sector, but the outcome could have been worse if it had not been for the strong budgetary support. The Danish economy slowed down markedly as well, but the steep fall in investment was partly compensated by a pick-up in consumption.

Graph 2.13: **Surveys of industrial investment intentions and outcome in the euro area**



Overall, growth differentials in the euro area are shrinking in the forecast horizon. This gradual process has been continuing during the later part of the nineties, especially after the introduction of the euro, and the forecast projects a continuation. In 2001 the standard deviation of country specific growth rates was 2.0%, which is expected to fall to 1.0% in 2002, and increase only slightly in 2003 to 1.2% when growth takes hold in the euro area.

Box 2.2: *Aggregation in a single currency area*

Euro area statistics on macro-economic variables need to be treated as if they were data for a single country. As data are all expressed in the same currency, they can simply be added up. The main problem is aggregation covering the euro area for the period before 1999.

Exchange rate movements, a cause for concern in aggregation

The volatility of exchange rates can influence the weight (expressed in a common currency) of Member States in the aggregate and hence impact on the average, in addition to the contribution coming from the underlying series. Working with Purchasing Power Standards (PPS) is a way to temper the effect of exchange rates in the calculation of the aggregate. In addition to the exchange rate, there exist several other issues. Levels or growth rates could be aggregated. Also, weights may be constant or changing over time. Moreover, these weights could be based on nominal or real variables and, if fixed, one could use a base year. An exhaustive analysis of all possible aggregation methods is beyond the scope of this short box.

Desired properties of aggregates

Three properties are desirable for aggregates:

- The aggregate should not move in a direction opposite to the one they move separately in all Member States, when expressed in national currency (consistency among components);
- same treatment for both historical and new data (consistency over time);
- same treatment of countries irrespectively of the different geopolitical entity (consistency across geopolitical entities).

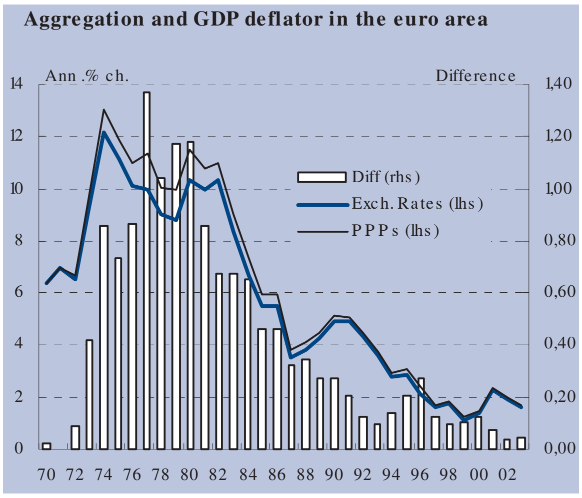
In addition, the use of chain-linked aggregates is considered to be a desired property because the weights applied in the aggregation process are based on recent data (previous year), as compared to a fixed year which is more distant in the past and may not fully demonstrate the most recent pattern. Furthermore, the construction of chain-linked aggregates for the EU-15 and euro area aggregates is in line with the requirement for Member States to introduce by 2005 annual chained indices for national accounts according to Commission Decision 98/715.

Year-to-year value and volume changes are obtained as arithmetic averages of corresponding changes in national currencies, weighted by *previous year's* nominal values converted in a common currency.

However, the implicit price change is not expressed as an arithmetic average, but, as an harmonic average of national price changes weighted with *current nominal values* converted with previous year's exchange rates. The advantage of this approach is that it provides coherent data for values, volumes and prices for periods before and after EMU and for any geopolitical entity.

From PPSs to exchange rates: small changes

To increase transparency and ensure consistency the aggregation method concerning the euro area and the EU, which was up to now based on PPSs, was changed to exchange rates. The application of this method implies that small changes on the aggregate level are to be expected when compared with previously published data.



For the GDP deflators the differences reached 1.4 of a percentage point in 1978. The reason behind the differences in the euro area aggregates, if weighted by PPS or exchange rates, is found in the very large differences in GDP deflators among Member States and large volatility in exchange rates for some currencies in specific years. For example in 1977, the GDP deflator for Germany was 3.7 %, while in Spain and Italy it was 23.4 % and 18.7 % respectively. Moreover, in 1977 the Spanish peseta depreciated by 22.1 % and the ITL by 14.2 % against the DEM.

3. A temporary increase in unemployment

3.1. Less favourable employment prospects

The labour market deteriorated in the second half of 2001

Employment in the euro area is estimated to have grown by 1.3 % last year, in line with what had been forecast in Autumn. While still representing a healthy pace of employment growth, this figure is significantly lower than the annual average growth of about 1.8 % recorded during the period 1998-2000. Following the strong slowdown of economic growth since the second half of 2000 and consistent with a lagged effect of activity on employment growth and a relatively resilient private consumption in the first half of 2001, job creation only started to slow in the second quarter of 2001. The annual growth rate of employment came down to 1.6 % year on year in the second quarter of 2001 compared to 1.9 % in the same quarter of 2000 and continued to decline in the following months to stand at 1.2 % in the third quarter of 2001, last available figure (Table 2.5). The upward trend reversed its pattern earlier in some countries (Germany, the Netherlands, Finland, Austria and Ireland) than in others (Spain, Greece, France, Italy, Portugal and Sweden).

The slowdown in employment growth applies to all sectors. Although growth rates remained strongest in the service sector, they have been falling slowly below 2.0 % growth for the first time since 1998. Employment growth deteriorated in the industry sector and, excluding construction, the employment decline was even greater as industrial production has been severely hit by the global slowdown. Employment in agriculture continues to record negative growth rates for structural reasons and also because the sector is still suffering from the loss of consumer confidence due to the BSE crisis.

Paralleling the slowdown in employment growth, the decrease in the euro area *unemployment rate* has slowed during 2001 after significant reductions recorded in previous years. The harmonised unemployment rate declined from 10.7% in 1998 to 8.8% in 2000 while, according to the last reading, it stood at 8.4% in February 2001, the same rate as one year earlier. Clearly, the slowdown in the reduction of the unemployment rate reflected the reaction of the labour market to the deterioration of economic activity. Unemployment rates in Member States remain quite dispersed. In 2001, relatively low rates were registered in Luxembourg, the Netherlands, Austria, Portugal, and Ireland while in France, Italy, Greece, Finland and Spain unemployment rates still remained above the euro area average.

Table 2.5

Sectoral employment growth in the euro area

(ann. % change seas. adjusted)	99	00	01	00Q4	01Q1	01Q2	01Q3
Whole economy	1.7	2.0	1.3	2.2	2.1	1.6	1.2
Agriculture	-2.9	-1.5		-0.8	-0.1	-0.6	-1.3
Industry	0.3	1.0		1.3	1.2	0.8	0.3
Services	2.6	2.8		2.8	2.5	2.1	1.8

A limited rise of unemployment in 2002

The ongoing deceleration of employment is forecast to continue in 2002 as economic activity remains weak and a negative overhang from the previous year weighs on the annual average. The projected increase in employment for 2002 is 0.3%, a full percentage point lower than in the previous year. Employment rates are

Table 2.6

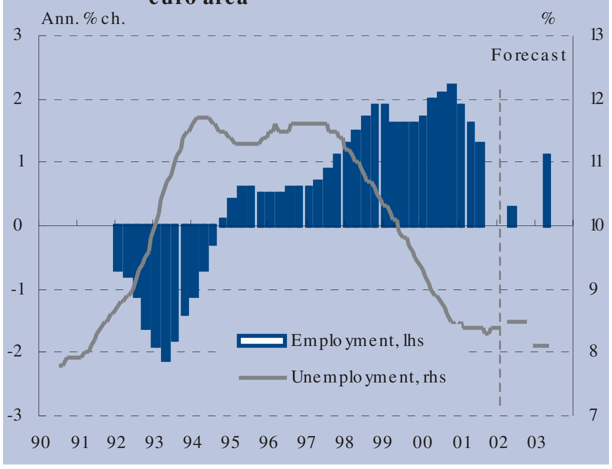
Labour market outlook - euro area

(Annual percentage change)					Spring 2002		Difference with Autumn 2001	
	1991-95	1996-00	2000	2001	2002	2003	2002	2003
Population in working age (15-64)	0.4	0.2	0.3	0.4	0.2	0.2	0.0	0.0
Labour force	0.3	0.9	1.1	0.7	0.6	0.7	0.0	0.0
Employment	-0.2	1.3	2.0	1.3	0.3	1.1	0.1	-0.1
Employment (change in million)	-2.8	7.9	2.5	1.7	0.4	1.4	0.1	-0.1
Unemployment (levels in millions)	13.0	13.9	12.0	11.4	11.7	11.3	-0.2	-0.1
Unemployment rate (% of labour force)	9.9	10.4	8.8	8.3	8.5	8.1	-0.1	-0.1
Labour productivity, whole economy	1.8	1.3	1.4	0.3	1.1	1.8	0.0	0.1
Employment rate (a)	58.5	59.3	61.2	61.7	61.8	62.3	-0.3	-0.5
p.m. Employment EU-15	-0.4	1.3	1.8	1.2	0.3	1.0	0.1	0.0

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

expected to remain almost stagnant in most Member States and even fall in Austria, Germany and Finland while somewhat more positive developments are anticipated for Luxembourg, Spain, Ireland and France. Employment is expected to pick up by 1.1% in 2003 following the rebound of economic activity but the favourable developments remain uneven across member States. In absolute terms, it is estimated that over the forecasting period about 1.8 million new jobs will be created in the euro area, significantly less than the approximately 4.2 million jobs created during the previous two years. The weakness of the labour market will be reflected in the developments of the *employment rate*. The latter, defined as total employment divided by the population of working age (from 15 to 64 years) was estimated at 61.7% in 2001 and barely moves in 2002 while it is forecast to increase to 62.3% in 2003, benefiting from the recovery.

Graph 2.14: **Employment and unemployment in the euro area**



As a consequence of low job creation, unemployment will not fall significantly over the forecasting period. Total unemployment (Eurostat definition) was estimated at 11.4 million persons in 2001 and is projected to increase by about 0.3 million in 2002 before declining again in 2003 to approximately 11.3 million persons. These numbers compare poorly with the marked reduction in unemployment levels recorded during the period 1998-2000, which has been estimated at about 3 million persons. These developments translate into a deterioration of the *unemployment rate* (Eurostat definition, based on the labour force survey) in 2002 which is forecast to increase to 8.5% for the first time since 1993. The unemployment rate is expected to reverse its upward path in the second part of 2002 and to decline moderately in the following months to reach an annual average of 8.1% in 2003.

Important differences at the level of individual Member States remain. Unemployment rates in 2002 are expected to remain low in Luxembourg and the Netherlands (2-3%), to range from 4 to 5% in Ireland, Austria and Portugal while they are forecast at 6.8% in Belgium, 8.3% in Germany and to stay above the euro area average in France (8.8%), Finland (9.3%), Italy (9.5%), Greece (9.9%) and Spain (12.8%). The favourable economic condition will reduce the average dispersion of unemployment rates in 2003 but differences continue to remain wide.

3.2. Structural improvements in unemployment

In the second half of the nineties labour market reforms have been implemented in many Member States.

Employment reform efforts have been aiming at facilitating the adoption of more flexible labour contractual arrangements, reducing the tax burden on labour income, promoting active labour market policies and reviewing the existing tax and benefit schemes.

Compared to the early nineties, these institutional changes translated into a more employment-friendly behaviour. The employment content of growth (the number of jobs created for a given GDP growth rate) has increased significantly and this has been accompanied by less wage rigidity and low wage inflation. Moreover, second round effects in the form of wage-price spirals have been avoided. In essence the reforms resulted in lower labour costs and facilitated job creation.

Table 2.7

Actual unemployment rate and Nairu - Euro area

(% of labour force)	1996	2000	2001	2002	2003
Unemployment rate	11.3	8.8	8.3	8.5	8.1
NAIRU	10.4	9.4	9.0	8.8	8.4

Nairu: Non-accelerating inflation rate of unemployment

Over the period 1996-2001 the unemployment rate in the euro area fell from 11.3% to 8.3% of the labour force and is projected at 8.1% in 2003. While the decline in unemployment certainly benefited from the average strength of economic growth, there is little doubt that the improvement is also due to structural factors. This is confirmed by a recent simulation by DG ECFIN which estimated the change in structural unemployment, the NAIRU (Non accelerating inflation rate of unemployment), over the period 1996-2003.

According to the results from the simulation, the *structural unemployment rate* for the euro zone is estimated to decline by about 2 percentage points, from 10.4% in 1996 to 8.4% in 2003. This means that approximately 2/3 of the improvement in actual unemployment over the estimation period could be considered structural in nature. However, as the labour reform process has been fairly uneven across Member states, it must be acknowledged that the improvements in structural unemployment rates are still widespread.

3.3. State of play on wage negotiations

In several countries important wage negotiations are in place this year. In Germany, for instance, the metal workers' union which this year is taking the lead in the wage round claims a significant wage hike of 6.5%. The effective wage agreement is likely to be reached much below this demand but could still be too high in the light of inflationary expectations it may generate. In France there are signs that wage growth is picking up as the period of wage restraint, due to labour market reforms and the introduction of the 35-hour work week, seems to have come to an end. Additional details on the state of play of wage negotiations in Member States are given in box 2.3.

Excessive wage increases may pose risks to the development of employment as companies cut jobs when they do not have the possibility to pass higher costs into final prices. However, while tensions during the wage round cannot be excluded, wage moderation should remain in place over the forecasting period for the euro area as a whole as higher labour flexibility and subdued economic activity this year are expected to dampen wage demands.

Box 2.3: ***Wage agreements/negotiations in Member States***

Wage Negotiations Procedures in Member States:

Centralised Wage Setting:	The dominant level of wage negotiations is Sectoral/Intersectoral.
Mixed Wage Setting:	Both Sectoral/Intersectoral and Company levels of wage negotiations are important.
Decentralised Wage Setting:	Wage negotiations mainly take place at the Company level.

Belgium	*Mixed wage setting* - The new framework inter-professional agreement of December 2000, caps increases in nominal wages to 6.4% for 2001-2002 compared to 5.9% in the previous agreement 1999-2000. It allows also for more flexibility in adapting wages to sector specificity.
Denmark	*Mixed wage setting* – Private sector agreements include an additional week of paid holidays and a rise in employers' social security contributions. Wage negotiations for the public sector take place during spring 2002.
Germany	*Mixed wage setting* - In 2002, tariff agreements end for practically all sectors. Difficult negotiations are under way for the metals, electronics, and chemical industries and the construction sector. The metal workers' union (IGM) and the union covering the mining and chemical industry (IGBCE) are about to demand wage hikes of 6.5% and 5.5%, respectively. Public sector negotiations will take place in autumn.
Greece	*Mixed wage setting* – Sectoral and regional agreements are based on the framework two-year agreement, setting minimum wage increases. The benchmark is the public sector wage claim of 3.3% for 2002.
Spain	*Mixed wage setting* – A national wage agreement between trade unions and the national employers association was reached in December 2001 in order to keep wage growth set up in collective bargaining within a range of 2 and 3% during the current year.
France	*Decentralised wage setting* - The latest wage round in the public sector ended without complete agreement between unions and the government. The latter announced a rise in civil servants' wages of 1.2% for 2001 and 2002. Unions claimed for a higher increase.
Ireland	*Centralised wage setting* – A national agreement with the trade unions provides for a 17% increase in basic pay over the 33 months from April 2000 to December 2002 for the private sector and from October 2000 to June 2003 for the public sector.
Italy	*Mixed wage setting* – In January 2002 the percentage of wage agreements due for renewal, measured in terms of contractual compensations, increased to 65.5% up from 4.7% in December. In 2002 as a whole, contractual wages are forecast to increase between 2.5% and 3%.
Luxembourg	*Mixed wage setting* – Compensation per employee rose by 5.3% in 2001 after 4.3% in 2000. The increase might slow slightly down in 2002 as inflation is decelerating and wages are formally indexed on the consumer price index.
Netherlands	*Decentralised wage setting* – Collective agreements have already been signed for the whole year 2000 for about 25% of employees in the market sector, providing an average 4.0% annual rise in contractual wages.
Austria	*Mixed wage setting* – For 2002, wage agreements between 0.8% in the public sector and 2.9% in the metal industry.
Portugal	*Mixed wage setting* – For 2002, wages scales in the government sector were raised by 2¾%. Compensation of employees per head is forecast to increase by around 4½% in 2002.
Finland	*Centralised wage setting* – In December 2000 the social partners reached a two year wage agreement awarding a general increase of 3.1% in 2001 and of 2.3% in 2002 covering about 95% of salary earners. Wage drift of well above 1% led to an average wage rise of 4.5% in 2001.
Sweden	*Mixed wage setting* – Wage agreements from 2001, assisted by the Mediation Authority, are in place for most of the labour market until 2004. Wages are forecast to increase by around 4% in 2002.
United Kingdom	*Decentralised wage setting* – Compensation of employees per head is forecast to increase by around 4.5% in 2002.

4. Inflation and monetary conditions

After a hiccup in the beginning of 2002, inflation set to fall

The *headline* HICP-inflation rose from 1.1% in early 1999 to 2.9% at the end of 2000, mainly under the pressures of higher oil prices exacerbated by a weak euro. Higher food prices were the main contributor to the continued rise in inflation to 3.4% in May 2001. Thereafter inflation cooled down due to a marked decrease in the energy component, but a hiccup occurred in January 2002 when inflation jumped to 2.7%.

Several temporary factors are behind this hiccup. Fresh food prices increased as well as public service and utilities prices. Indirect taxes have been increased in some Member states. Finally, Eurostat estimated that the introduction of notes and coins may have added up to 0.16 percentage points to inflation. This may be linked to rounding.

Core inflation (obtained by excluding energy and unprocessed food from headline inflation) continued on an ascending path as the hike in energy and food prices have been passed-through to other components of the consumer basket. Core inflation is above headline inflation suggesting that the direct impact of the price increases has come to an end, but that the indirect and second-round effects are still being felt slowing the decline in headline inflation.

Graph 2.15 : **Contributions to euro area HICP inflation**

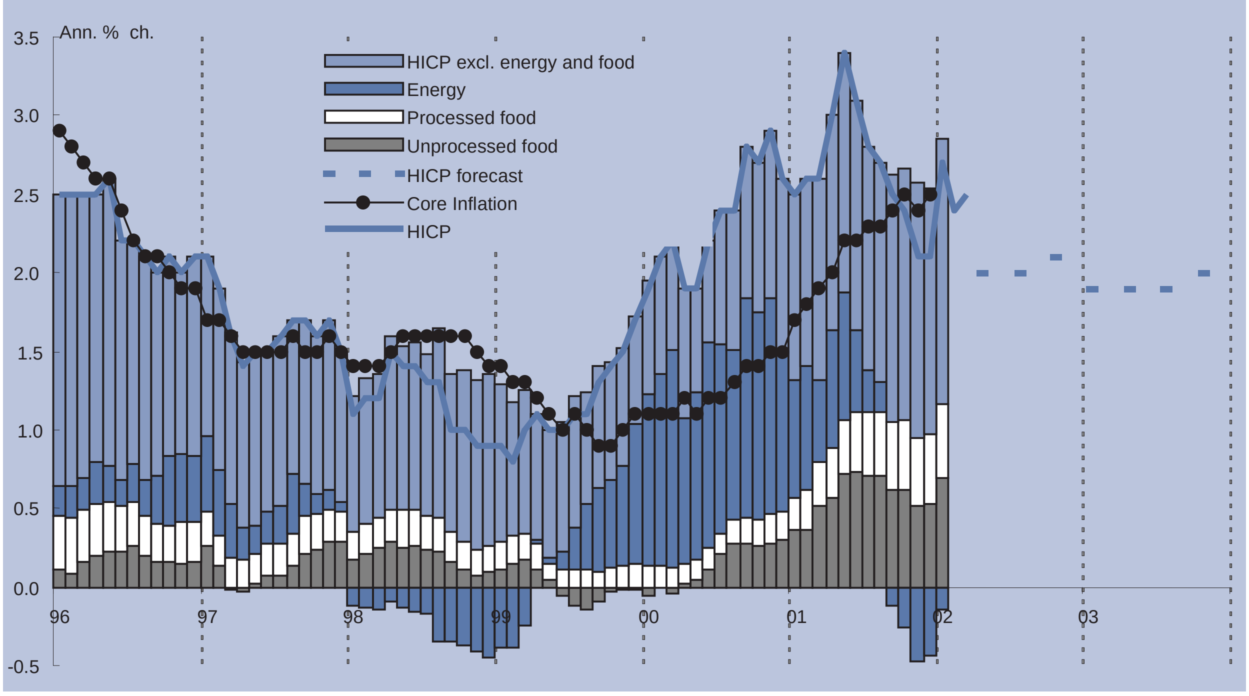


Table 2.8

Inflation outlook - euro area

(Annual percentage change)					Spring 2002		Difference with Autumn 2001	
	1998	1999	2000	2001	2002	2003	2002	2003
Private consumption deflator	1.6	1.2	2.2	2.3	2.1	1.9	0.3	0.1
GDP deflator	1.8	1.2	1.5	2.3	2.0	1.7	0.0	0.0
HICP	1.2	1.1	2.4	2.5	2.2	2.0	0.4	0.2
Compensation per employee	1.5	2.3	2.5	2.7	2.9	3.0	-0.1	0.1
Unit labour costs	0.3	1.3	1.1	2.4	1.8	1.2	-0.1	0.0
Import prices of goods	-2.3	-0.5	9.2	0.9	0.4	2.2	0.4	0.0
p.m. HICP EU-15	1.3	1.2	2.1	2.3	2.1	1.9	0.4	0.2

With respect to the *outlook*, although base effects caused by the timing of the different price shocks may add some volatility in the annual inflation rate observed each month, the trend should be downwards as the impact of these price shocks fade. Producer prices have been declining. Furthermore, the subdued growth outlook, both outside and inside the EU, should temper price increases from three angles:

- wage moderation should continue as the situation in the labour market remains uncertain;
- profit margins cannot be increased if sales levels are difficult to maintain;
- import prices are likely to be weak, especially in 2002, though oil prices remain an important risk factor.

Finally, increased competition in EMU and the credibility of the ECB which contains inflationary expectations in the medium-term, should also contribute to lower inflation.

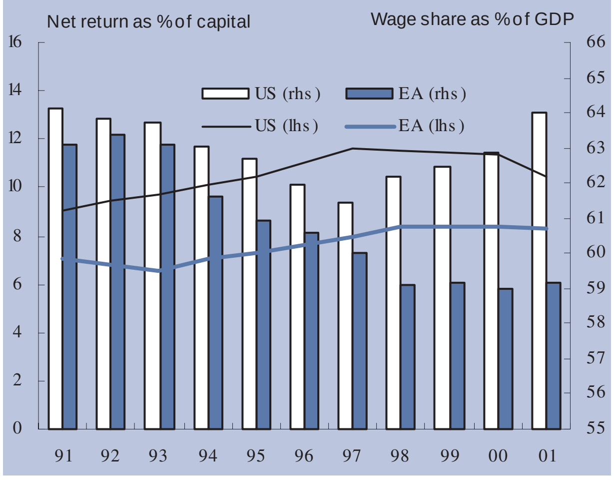
HICP-inflation in the euro area is expected to be around the ECB's medium-term objective for price stability of 2 % in the second quarter of this year, but remain above that level at 2.2 % for the year as a whole. In 2003, the average inflation rate is forecast to be 2.0 % in the euro area.

Inflation differentials in 2001 were wide in the euro area. An increase in indirect taxes and an apparent end to wage moderation which characterised for so long the Netherlands, made that country the worst performer at 5.1 %. Inside the euro area only France realised an inflation rate below 2 % in 2001; outside the euro area also the United Kingdom was in that situation. In the current year inflation differentials are not expected to decline much. Inside the euro area, Ireland is the only country experiencing a rise in the average inflation rate in 2002 (to 4.5 %, the highest in the area), due to various increases in indirect tax rates. Inflation differentials are expected to narrow in 2003 as the high inflation countries come down, while in the low inflation countries prices are expected to increase somewhat as the economic expansion gains momentum.

Last year's hike in unit labour costs should be temporary

There was hardly any labour productivity growth last year. On the other hand wages increased somewhat faster than in the previous years in an attempt to recuperate some of the loss in purchasing power caused by the unexpected increase in prices. In consequence, unit labour costs jumped by 2.4 %. This appears to be a cyclical phenomenon, which should abate as labour productivity picks up and provided that wage moderation is maintained.

Graph 2.16: **Wage share and net returns on capital in the euro area and in US**



Nominal compensation per employee might increase by about 3% per year in 2002 and 2003 in the euro area. On the whole, trend labour productivity growth is likely to be somewhat lower than in the beginning of the nineties, reflecting the increased employment content of GDP growth. In this light, moderate wage developments are important to avoid inflationary pressures and to maintain the profitability of firms so that a sustainable recovery can be realised.

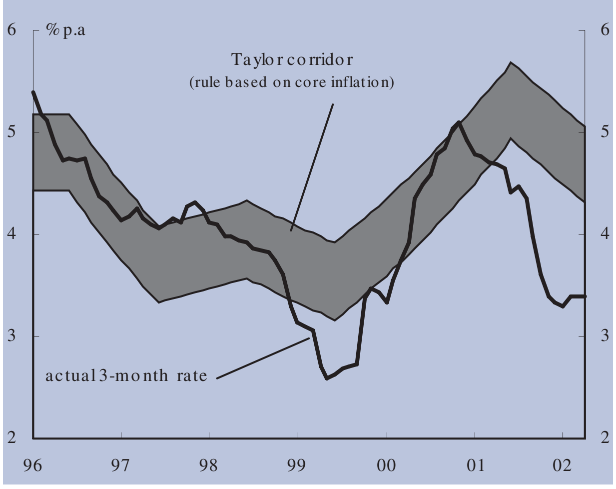
Since 1994 wage moderation has been an important factor for the strengthening of European corporate profitability. The wage share in GDP has decreased and remained steady in the euro area after 1998, whereas it has gone up in the US since 1997. These trends in wage shares are reflected in the net returns on capital. They increased in the euro area and apparently reached a ceiling in 1998 without catching up with the high US returns, which declined at the end of the nineties.

In particular, in Ireland, the Netherlands and Portugal where the unemployment rate is low, unit labour costs are mounting creating inflationary pressures. Also in Greece, Spain and Finland, where the unemployment rate is still relatively high, the rise in unit labour costs has to be monitored carefully for its impact on inflation and also to avoid its detrimental effect on unemployment reduction.

Monetary conditions have eased

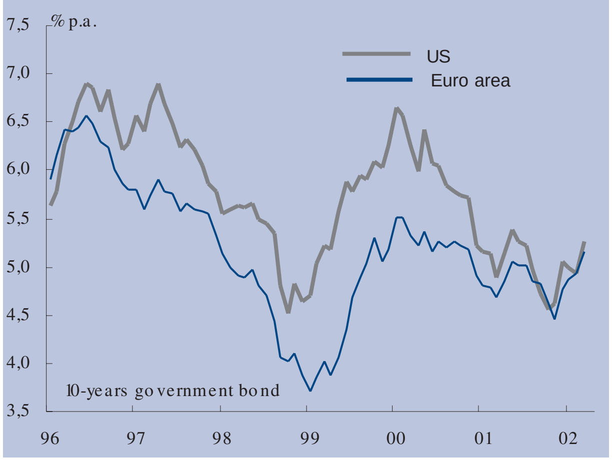
In the absence of immediate inflationary threats and in order to ward off a full blown recession when confidence was badly shaken by the terrorist attacks on 11 September, monetary conditions have been eased in 2001. The ECB has cut interest rates four times by a total of 150 basis point to 3.25% at the end of 2001.

Graph 2.17 : **Euro area short term rates, Taylor rates**



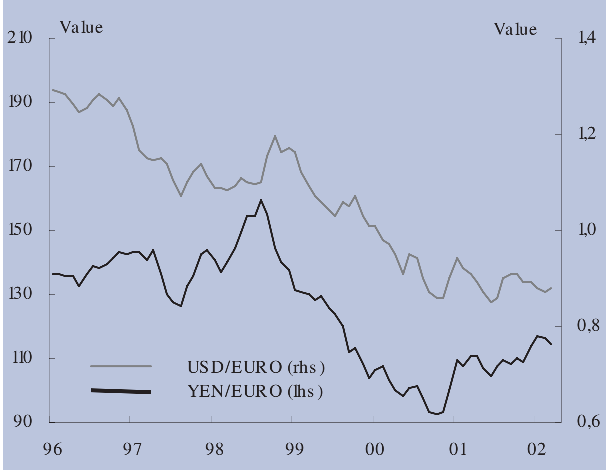
In the US, the Federal Reserve responded to the weakening economy by markedly faster pace of interest rate reductions. The target for the federal funds rate was lowered eleven times in 2001 from 6.5% to an historical low of 1.75%.

Graph 2.18: **Nominal long-term interest rates**



Monetary conditions are conducive to growth in the euro area as suggested by the Taylor rule. According to this rule central banks adjust short-term interest rates in a systematic way to minimise the output gap and the difference between actual inflation and the benchmark. Because the results are sensitive to the parameters chosen, the Taylor rule is usually formulated as a range. The short-term interest rate has eased below the Taylor corridor corresponding to a "neutral" interest rate.

Graph 2.19: **Euro exchange rate**



Also long-term interest rates in the euro area and the US have eased, but in the last quarter of 2001 have started to rise as optimism about a recovery gained ground while inflation remained high. However, based on information from indexed bonds and opinion surveys, inflationary expectations remain below 2%.

The euro nominal effective exchange rate vis-à-vis its main trading partners has remained broadly stable throughout 2001 consolidating the competitiveness gains realised in the previous two years. In 2001 the exchange rate of the euro has hovered in a range of 0.83 to 0.95 USD/EUR. Initially, the euro strengthened against the US dollar, but since the end of September a weakening followed. Market operators seem to be more confident of a recovery in the US than in the euro area.

The euro remained fairly stable vis-à-vis the yen, in a range of 107-111 JPY/EUR in the first semester of 2001. Afterwards it appreciated by more than 10%, as Japan remains stuck with deflation. The euro has slightly depreciated against the pound, notably since the last quarter of 2001.

5. Public finances: responding to adverse cyclical developments

General government deficits widen

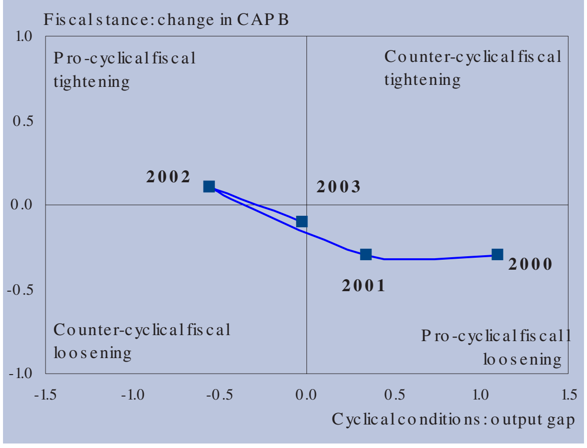
The budgetary outcomes for 2001 turned out to be, in general, less favourable than expected earlier. Excluding UMTS proceeds, for the euro area, the deficit was at 1.3 % of GDP, marking a deterioration for the first time since 1993. This deficit is 0.4 % of GDP higher than the 2000 outcome (net of UMTS). In 2001, eleven EU Member States recorded budget positions either in balance or in surplus. However, in Germany, France, Italy and Portugal the budget positions were in deficit, which ranged from 1.4 % of GDP in Italy to 2.7 % of GDP in Germany and Portugal. Nonetheless, despite the slowdown in economic activity, actual balances did not deteriorate in Belgium, Denmark and Italy, while they continued to improve in Greece, Spain, Austria and Sweden. However, this apparent improvement was to a large extent the result in many cases of one-off measures and the shifting of tax revenues between two years.

For 2002, the Commission is forecasting a pick up in GDP growth, which will help contain the budget deficit. Nonetheless, the forecast deficit of 1.4 % of GDP marks a marginal deterioration in comparison with the 2001 deficit. For 2003, the expected budgetary position for the euro area implies a slight improvement, with a deficit decreasing to 1.2 % of GDP. Expected developments across Member States show that in 2002 Belgium, Spain and the UK may record small deficits compared to balanced positions or surpluses in 2001. While Belgium and Spain are forecasted to move back to small surpluses in 2003, it is the Netherlands which will join the group of countries with a deficit in 2003. Also, in 2002 and 2003 the Irish, Finnish and Swedish surpluses are expected to decline substantially compared to their 2001 levels.

Effect of the cycle

While most Member States have achieved relatively safe budgetary positions allowing them to let automatic fiscal stabilisers work during the current slowdown, in others further consolidation is needed to reduce the still sizeable deficits, in both actual and cyclical adjusted terms.

Graph 2.20: **Euro area fiscal stance and cyclical conditions**



The main explanation for the deterioration in the actual balance in 2001 is the cyclical downturn. This effect is estimated at 0.4 % of GDP. In addition discretionary tax cuts played a role. The marginal worsening in the actual balance in 2002 is only due to the cycle while in 2003 output is forecast to rise somewhat faster than potential thus generating a positive cyclical effect to the budget which is estimated at 0.3 % of GDP.

Table 2.9

General government budgetary position - euro area

(% of GDP)					Spring 2002		Difference with Autumn 2001	
	1998	1999	2000	2001	2002	2003	2002	2003
Total receipts (1)	47.1	47.7	47.3	46.7	46.6	46.2	-0.2	-0.3
Total expenditure (2)	49.3	49.0	47.1	48.0	48.1	47.4	-0.1	-0.1
Actual balance (3) = (1)-(2)	-2.2	-1.3	0.2	-1.3	-1.4	-1.2	0.0	-0.2
Interest (4)	4.8	4.3	4.1	3.9	3.7	3.7	0.0	0.1
Primary balance (5) = (3)+(4)	2.6	3.0	4.3	2.6	2.3	2.4	-0.1	-0.3
UMTS	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0
Cyclically adjusted balance (6)	-2.1	-1.3	-1.3	-1.5	-1.2	-1.2	-0.1	-0.3
Cyclically adj. prim. balance = (6)+(4)	2.7	3.0	2.7	2.4	2.5	2.4	-0.1	-0.3
Change in actual balance :	0.4	0.9	1.5	-1.5	-0.1	0.2	0.2	-0.2
Du - Cycle	0.3	0.2	0.5	-0.4	-0.4	0.3	0.1	0.0
- UMTS	0.0	0.0	1.1	-1.1	0.0	0.0	0.0	0.0
- Interest	0.3	0.5	0.2	0.2	0.2	0.0	0.0	-0.1
- Cycl. adj. primary balance	-0.3	0.3	-0.3	-0.3	0.1	-0.1	0.1	-0.2
Gross debt	73.7	72.6	70.2	69.1	68.6	67.2	0.2	0.5
p.m. Actual balance EU-15	-1.6	-0.7	1.1	-0.6	-1.1	-0.9	-0.2	-0.3
p.m. Primary balance EU-15	3.0	3.3	4.9	3.0	2.4	2.4	-0.1	-0.3
p.m. Cycl. adj. prim. balance EU-15	3.1	3.3	3.1	2.8	2.6	2.4	-0.2	-0.3

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

Over the forecast period, budget balances benefit from lower interest payments, as both interest rates and the outstanding amount of debt, as a percent of GDP are set to decline. Interest expenditure amounted to 3.9 % of GDP in 2001 and is projected to decline to 3.7 % in 2002, decreasing further to 3.6 % in 2003. Interest payments contribute positively to the change in actual balance by 0.2 % of GDP in 2002 and have a neutral contribution in 2003.

According to the Commission Spring 2002 forecast, budgetary policy is broadly neutral for the euro area in 2002 and, under the "no policy change" assumption also in 2003. The cyclically adjusted primary balance for the euro area was estimated at 2.4 % of GDP in 2001 and is forecast to remain constant during the current year and next.

On a country level the cyclically adjusted primary balance is expected to show a tightening in fiscal policy in Germany and Portugal, in line with the commitments of these two countries following the "early warnings". The CAPB for Germany is expected to increase from 0.7 % of GDP in 2001 to 1.2 % in 2002 and 1.4 % of GDP in 2003. In Portugal the tightening according to the forecasts, is reflected in the increase from -0.1 % of GDP in CAPB of 2001 to 0.3 % and 0.6 % of GDP this year and next. In all other countries, fiscal policy is assumed to be neutral or slightly loosening.

Composition of government accounts

As regards the composition of the government balance, the total revenue to GDP ratio is projected to decrease from 47.3 % of GDP in 2000 and 46.7 % in 2001 to 46.2 % in 2003 for the euro area. Government expenditure (excluding UMTS proceeds) represented about 48.2 % of GDP in 2000 and 48 % of GDP 2001 in the euro area. This is expected to remain broadly unchanged in 2002 due to a combination of slowing economic activity, lower interest payments and higher unemployment-related expenditures. In 2003, the share of total government expenditure over GDP is forecast to decline to 47.4 % in the euro area and to 46.6 % in the EU as a whole.

This small decline in both revenue and expenditure ratios is general across Member States in the 2001/03 period with the only exceptions of Germany and Portugal, where the revenue ratios are expected to increase slightly, while expenditure ratios in Ireland, Luxembourg and the UK may increase because of discretionary measures. In 2001, discretionary tax cuts were used in many Member States, with the larger cuts implemented in Ireland, Germany, France Luxembourg and Sweden. Cuts in personal income and corporate taxes have been announced by almost all Member States. Also, social security contributions are reduced, with the aim of lowering non-wage costs.

Box 2.4 presents the main discretionary measures taken in 2001 or projected in 2002. For the euro area, the impact of such measures on general government accounts is estimated to reduce revenues by 0.8 % of GDP in 2001 and increase expenditure by 0.2 % of GDP. For 2002, the impact is at a the aggregate euro area level is close to zero on the revenue side, while may increase expenditure by 0.4 % of GDP.

Growth and Stability Pact, Stability and Convergence programmes

According to the updates of the Stability programmes, the projected deficit is 0.9% of GDP in 2002, while according to the forecasts the deficit of the euro area is expected to represent 1.5 % of GDP. The difference between the forecasts and the Stability programmes for 2003 becomes larger (0.7 of a percentage point), although the forecasts are based on the "no-policy change" assumption. For 2002, the main reason behind the greater optimism for budget targets in the Stability programmes compared to the forecasts, is the difference by 0.6 percentage point higher GDP growth assumption in the programmes.

According to the programmes in 2003, Germany and France will still show deficits of 1.5 % of GDP, while Portugal aims at a target for a deficit of 1 % of GDP. All other euro area countries, are committed to targets of general government positions either in balance or in surplus. The Commission forecasts a deficit close to 2½ % of GDP for Portugal, slightly above 2 % for Germany and below 2 % of GDP for France in 2003.

The significant slippage from agreed budgetary targets, towards levels that potentially risk breaching the 3 % of GDP reference, occurred in Germany and Portugal in 2001. The Commission on 30 January 2002, by proposing to activate an early warning, in the context of

Table 2.10

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

(% of GDP)	Spring 2002				Stability & Convergence Programmes (submitted between Oct 2001 and Jan 2002)				
	2000	2001	2002	2003	2000	2001	2002	2003	2004
B	0.1	0.0	-0.2	0.2	0.1	0.0	0.0	0.5	0.6
D	-1.3	-2.7	-2.8	-2.1	-1.3	-2.5	-2.5	-1.5	-1.0
EL	-0.8	-0.4	0.3	0.5	-1.1	0.1	0.8	1.0	1.2
E	-0.4	-0.2	-0.3	0.0	-0.3	0.0	0.0	0.0	0.1
F	-1.3	-1.5	-2.0	-1.8	-1.4	-1.4	-1.8	-1.5	-0.5
IRL	4.5	1.7	0.4	0.2	4.5	1.4	0.7	-0.5	-0.6
I	-1.7	-1.4	-1.3	-1.3	-1.5	-1.1	-0.5	0.0	0.0
L	5.8	5.0	2.0	2.5	6.2	4.1	2.8	3.1	3.4
NL	1.5	0.2	0.0	-0.4	1.5	0.7	0.4	0.2	0.5
A	-1.9	0.1	-0.1	0.3	-1.1	0.0	0.0	0.0	0.2
P	-1.9	-2.7	-2.6	-2.5	-1.5	-2.2	-1.8	-1.0	0.0
FIN	7.0	4.9	3.3	2.7	6.9	4.8	2.6	2.1	2.6
euro area	-0.8	-1.3	-1.5	-1.2	-0.6	-0.9	-0.9	-0.5	-0.2
DK	2.5	2.9	2.1	2.4	2.5	1.9	1.9	2.1	2.1
S	3.7	4.8	1.7	1.9	4.1	4.6	2.1	2.2	2.3
UK	1.8	0.9	-0.2	-0.5	2.0	-0.2	-1.1	-1.3	-1.1
EU-15	-0.2	-0.7	-1.1	-0.9	-0.1	-0.7	-1.0	-0.7	-0.3

1. Government balances in 2000, 2001 and 2002 exclude one-off proceeds from the sale of UMTS licences.
The UMTS amounts as a % of GDP would be, according to the Spring 2002 forecasts,
In 2000 : D : 2.5%, E : 0.1%, I : 1.2%, NL : 0.7%, A : 0.4%, P : 0.3%, euro area : 1.1%, UK : 2.4% and EU-15 : 1.2%.
In 2001 : B : 0.2%, EL : 0.5%, E : 0.1%, F : 0.1%, euro area : 0%, DK : 0.2% and EU-15 : 0%.
In 2002 : E : 0.1%, F : 0.1%, IRL : 0.2%, euro area : 0% and EU-15 : 0%.
In the German stability programme the target for 2004 was set at -1 % of GDP, but at the February ECOFIN Council the German government committed itself to a budget close to balance by 2004.
For France figures take into account the adjustments made by the French authorities to the 2001 stability programme in a letter sent to the Commission on 22 January 2002.

the SGP, for Germany and Portugal, made clear that it is determined to use its prerogatives to prevent deficits from breaching the reference value.

Outstanding accounting issues

Eurostat in a press release (N° 35/2002), while validating the reported figures on the March 2002 Excessive deficit procedure, reported a few methodological cases on which final decisions have not yet been taken. The EDP figures up to 2001, according to the March 2002 notification, are those used in the Spring forecasts, with small adjustments, where more recent information has become available. On Greece, Eurostat was not at a position to certify the notified figures, mainly, because of lack of information on share convertible bonds. As share convertible bonds and privatisation certificates by the Greek State have not been included in the debt figures, these figures may be modified once a decision is taken on this issue. For Austria, the issue which needs further investigation by Eurostat concerns the lack of information on the amount of tax revenues collected in 2001 and which were due for payment in previous years. The final settlement of this issue risks modifying the notified surplus for 2001. On Portugal, issues related to lack of information on capital injections from the government to public corporations at the time of the notification are in the process of being settled.

The securitisation issue is of particular importance for Italy, although it also applies to Austria, Finland, Greece and Ireland, and needs further analysis by Eurostat before taking a final decision. Securitisation is described as the transaction, when a unit borrows now with the intention of paying the interest and capital from a specific source of income, resulting from the resale of a non-financial asset, from payments by debtors or from flows generated by some activity. The specific income is said to be "securitised". ESA 95 provides very little guidance on the treatment of securitisation operations by general government.

Budgetary impact of the non-returned old notes and coins

The changeover to the euro has implications for both National Central Banks and general government. The possible non-surrender of notes and coins in the national currencies which were replaced by the euro will improve the balance sheets of NCB's, as notes are part of their liabilities, and that of governments for non-returned coins. However, it is difficult to assess both the timing and the size of such an impact.

Although for the moment no formal recommendation has been adopted from the methodological point of view, Eurostat considers that this is a financial transaction without any impact on the net borrowing/lending of general government. The effect should be felt, at the earliest in 2002 and could last for many years as the period for recovering the old legacy currencies is very long and is open-ended in most participating countries for notes returned to central banks. By 28 February 2002, 86% of notes in circulation at the end of 2001, in value terms, had been recovered. The withdrawal of coins has been slower, as by 1 March 2002 only 31 % of national coins in value terms had been recovered by central banks.

Knowing that a large amount of coins will never be returned, compared to notes, the probable size of the impact of such a financial transaction on the debt is attempted under two different assumptions. According to what may be called the high assumption, where 5 % of notes and 50 % of coins is not returned, then the size of the impact will be of the order of 0.4 % of GDP. If, 1 % of notes and 25 % of coins is never returned, according to the low assumption, then the impact on the debt should be of the order of 0.1 % of GDP. Given that the total impact will not be accounted for in a single year but will be spread over many years, it is reasonable to say that the impact will only be marginal for the debt/GDP ratio in a particular year. Also, it is worth noting that the impact on debt as a percentage of GDP may differ across Member States of the euro area.

*Box 2.4: **Main discretionary measures on revenues and expenditure***

	Description of planned Revenues	2001 % GDP	2002 % GDP	Description of planned Expenditure	2001 % GDP	2002 % GDP
B	Personal income tax cuts; Gradual suppression of some direct taxes.	-0.1	-0.6			
DK	Income tax cuts; Lower tax deductions on inte-rest payments; Rise energy taxes, tax freeze.	0.1	-0.1	Hospitals, elderly care, reduction of subsidies, "elderly package"	0.4	0.3
D	Change in SSC, direct taxes and indirect taxes.	-1.4	0.5	Rise in child benefits and 'Eigenheim-zulage' and in Security spending	0.1	0.3
EL	Indexation and reduction in the maximum rate of personal income tax; reduction in the corporate tax rate; abolition of special stamp on services; increase in untaxable income.	-0.4	-0.5	Increase in farmers pensions; financing of active employment policies; fight against poverty and social exclusion; measures to reduce unemployment.	0.5	1.2
E	Freeze income tax breaks; Corporate tax cuts; Rise in VAT and excise duties, for some items; Changes in UMTS fees; Measures to ease oil price effects.	0.2	0.1	Agreement to increase widower's/widow's and orphanage pensions	0.0	0.1
F	Income and corporate tax cuts; diminution of VAT rates; social contribution rebates; introduction of a tax credit; abolition of the car registration tax; increases in duties on tobacco; cut in local taxes on housing.	-1.0	-0.4	Total real general govern. expenditures increased by 1.9% in 2001 and are planned to increase by 2.2% in 2002 (excluding UMTS revenues). This rate is lower than GDP growth in 2001 and higher in 2002. Government priorities are: education, employment, security and environment.	-0.2	0.3
IRL	Cuts in income rates and bands; cuts in corporate tax rates; cuts in indirect taxes (2001) and increases in (2002)	-1.4	-0.3	Increases in voted current and capital expenditure	4.1	2.9
I	Tax and SSC breaks granted in 2001 budget (partial freeze in 2002); Tax incentives on investment; Tax amnesties for underground economy and on financial activities held abroad; new SSC rebates; Increase in family allowances; Tax on revaluation of shareholdings.	-0.5	-0.5	Incentives for investment in depressed areas; Increases in social transfers other than in kind; Abolition of the co-participation system for healthcare expenditure.	0.2	0.3
L	2001 and 2002 : cuts in two steps in the income tax. 2002 : reduction in the corporate tax rate from 30% to 22%	-1.1	-3.3			
NL	2001 : cuts in income tax and social contributions paid by households, only partially compensated by a rise in indirect taxes, mainly in the standard VAT rate (from 17.5% to 19%) 2002 : cuts in income tax and social contributions paid by households ; reduction in the corporate tax rate (from 35% to 34.5%)	-0.8	-0.3	Additional spending in priority areas (education, healthcare and security) using the room for manoeuvre created inside the expenditure ceilings by lower than expected interest payments and social security outlays	0.7	0.9
A	Rise in various taxes and SSC; Introduction university fees	1.5	-0.4	Administrative reform (incl. personnel expenditure); pension reform; social transfers; childcare allowance; additional spending for universities + handicapped	-0.4	-0.2
P				Current primary expenditure cuts	0.6	0.0
FIN	Cuts of SSC and income tax.	-0.9	-0.7	Increased spending on social security, education and health care; transfers to local government and social security institutions.	0.5	1.1
S	Cuts of income, wealth, corporate, real estate and consumption taxes; Rise of environmental taxes.	-1.1	-1.1	Adjustment of levels in transfers to the household sector, reforms in the fields of education and health-care	0.6	0.6
UK	Reduced vehicle excise duty rates, over-indexation of starting income tax rate	-0.4				
EU-15		-0.7	-0.1		0.2	0.4
Euro area		-0.8	-0.1		0.2	0.4

6. The risks are more balanced

As reflected in increasingly reassuring confidence indicators, risks to the economic growth projection appear to be smaller and better balanced. Nevertheless, oil prices remain a source for concern. Risks could also emanate from the US, while less so from the EU thanks to sound fundamentals. The main upward risk is global and relates to self reinforcing interdependence.

International uncertainty and rising oil prices

With the swift end of the war in Afghanistan, uncertainty subsided, but international political tensions remained, not least in the Middle East. As a consequence, oil prices have risen to USD 27 per barrel, but in the meantime declined again to USD 24. A permanent increase could weigh on growth and inflation. It is estimated that a USD 4 rise in oil prices reduces growth by about 0.1%-point and adds 0.2%-point to inflation after one year.

The US imbalances

The US continues to surprise and the strength of private consumption may underpin a robust recovery with positive consequences for the rest of the world. On the other hand, a double-dip weighs on the short-term outlook, although no further negative quarter is expected. In this scenario production picks up to replenish inventories, but demand may falter at a certain moment provoking a relapse in output.

Furthermore, the downturn has not corrected the twin imbalances in the US. The saving ratio is lower than ever and the current account deficit is projected to reach 5 % of GDP in 2003. In the mean time, the government surplus turned into a deficit adding to savings/investment imbalances. Sooner or later these imbalances have to be addressed, but the timing is uncertain.

Small risks in the EU

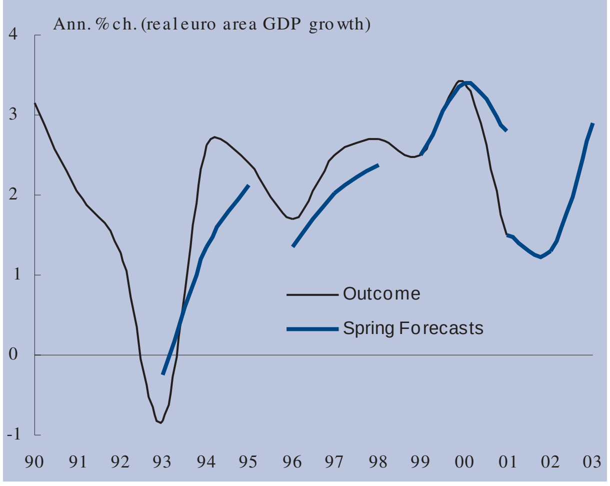
Thanks to overall sound fundamentals, domestic risks in the EU appear limited. Remaining uncertainty relates to the strength of private consumption and wage pressures. If the rise in the unemployment rate is stronger than foreseen or tax cuts miss their effect, household spending will suffer and the expansion may not be sustained.

Another risk lies in the attempt to recuperate some of the lost purchasing power so that wages rise excessively despite the poor productivity performance of the euro area. The ensuing rise in unit labour costs could lead to employment losses, will not help in restoring profitability of investment and could create inflationary pressure to which the ECB may have to react.

Global interconnections and a positive surprise from world trade and investment

It is difficult to forecast the strength of a recovery. In the early nineties, the pick-up following the recession was underestimated, while the rebound in 1999 from the Asian crisis was about right, but it did not last (see graph). The same forces which led to an unexpectedly sharp slowdown in 2001, could be at work to have a stronger recovery than what is projected in the Spring Forecasts. International trade may recover more briskly with stronger knock-on effects on the rest of the economy. Furthermore, investment may surprise positively as profitability is restored more quickly.

Graph 2.21: **Forecasting the strength of a recovery**



Chapter 3

Member States

1. Belgium

Progressive recovery in economic activity in 2002

The situation in 2001 and prospects

Economic activity is expected to recover in the first quarters of this year and more firmly in the second semester, as prospects for the European and global economy will improve and international trade progressively gain momentum after recording negative growth rates in 2001. The synthetic indicator of the National Bank of Belgium - which has been a good early indicator of turning points of the business cycle with a lead of one quarter - recorded such an upward movement in December 2001, the first after many months. The Belgian economy is expected to grow in 2002 at a rate marginally higher than 1%, similar to that estimated for 2001. However, the profile and composition of growth should be quite different this year: while economic activity was weak towards the end of last year –according to provisional estimates real GDP in the fourth quarter of 2001 declined by 0.4% on the previous quarter- a gradual recovery of economic growth should take place from the start of this year and strengthen in subsequent quarters, creating the momentum for a more robust GDP growth in 2003; moreover, while deteriorating economic conditions and business confidence in 2001 led to a massive reduction in stocks, with a negative contribution of 1 percentage point to GDP growth, a gradual reconstitution of stocks is expected to take place this year as economic prospects improve.

GDP components

Both export and import volumes should grow faster in 2002 compared to 2001 but the contribution of net exports to GDP growth will be negative this year, in contrast to the situation in 2001 when imports contracted more than exports; the expected faster growth of imports this year is related to a re-building of stocks and to evidence that the business cycle in Belgium leads that of the euro area. After two years of low growth, the economy is expected to expand by 2.8% in 2003, taking advantage of the projected recovery in international trade and more robust domestic demand. Private consumption should remain the backbone of GDP growth, supported by improved employment and households real income. The saving rate of households, which reached the lowest level in many years in 2001, is expected to rise somewhat this year and stabilise next year as economic activity and employment improve. Business investment is expected to be more robust in 2003, after two years of very modest increase, responding to improved demand conditions and, to some extent, profitability of companies; investment in housing should also rise from a relatively low growth rate this year; public investment should be higher in 2003, after two years of decline.

Labour market, cost and prices

Employment increase was relatively robust in 2001, estimated at 1.1%, despite the sharp slowdown in economic activity, a development reflecting the lagged effects of changes in the business cycle on the labour market; job creation is expected to be very limited, this year, as companies are adjusting to changing market conditions. Employment should increase again in 2003 although at a more modest rate compared to the recent past. Unemployment should rise somewhat this year and is expected to resume its falling trend from 2003. After some acceleration in consumer prices last January, due mainly to transient factors, inflation is expected to resume its falling trend which started at the middle of last year; underlying inflation which was rising until November, has also started moving downwards. The HICP should decelerate to 1.7%, on average, in 2002, down from 2.4% in 2001; lower import prices, notably oil prices since mid-2001, which are expected to prevail on average in 2002, should contribute considerably to such a trend; moreover, the abolition this year of the radio and TV licence fee in Flanders and Brussels Regions is expected to reduce inflation by about 0.3 percentage points. Inflation is expected to remain at a similar level in 2003, as some acceleration in nominal wages, due to stronger economic activity and tightening labour markets, should be offset by declining unit labour costs and enhanced competition in the domestic and international markets.

Table 3.1

Main features of country forecast - BELGIUM

	2000			Annual percentage change						
	bn Euro Curr. prices	% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices	248.3	100.0	1.9	2.2	3.0	4.0	1.0	1.1	2.8
Private consumption	134.3	54.1	1.7	2.9	2.1	3.8	1.7	1.3	2.1
Public consumption	52.5	21.2	1.2	1.5	3.2	2.5	2.1	1.6	1.6
GFCF	52.5	21.1	2.0	4.3	3.3	2.6	0.3	0.5	3.4
of which : equipment	26.2	10.6	-	-	-	-	1.2	1.9	4.3
Change in stocks as % of GDP	1.0	0.4	0.3	0.1	-0.2	0.2	-0.7	-0.5	-0.4
Exports (goods and services)	214.3	86.3	4.4	5.8	5.0	9.7	-0.4	1.8	5.5
Final demand	454.6	183.0	2.6	4.4	3.4	6.4	0.0	1.6	3.8
Imports (goods and services)	206.2	83.0	3.9	7.5	4.1	9.7	-1.2	2.3	5.2
Contribution to GDP growth : Domestic demand			1.6	2.7	2.5	3.1	1.4	1.1	2.2
Stockbuilding			0.0	0.3	-0.4	0.5	-1.0	0.2	0.1
Foreign balance			0.4	-0.8	0.9	0.5	0.6	-0.3	0.6
Employment			0.1	1.2	1.4	1.6	1.1	0.1	0.9
Unemployment (a)			9.1	9.3	8.6	6.9	6.6	6.8	6.6
Compensation of employees/head			4.7	1.8	3.2	3.2	2.6	3.2	3.2
Unit labour costs			2.8	0.8	1.6	0.8	2.7	2.2	1.2
Real unit labour costs			-0.7	-0.8	0.4	-0.6	0.1	0.1	-0.6
Savings rate of households (b)			-	16.6	16.1	14.7	14.6	14.9	14.9
GDP deflator			3.4	1.6	1.2	1.4	2.6	2.1	1.9
Private consumption deflator			3.5	1.2	1.0	2.2	2.3	1.7	1.7
Harmonised index of consumer prices			-	0.9	1.1	2.7	2.4	1.7	1.7
Trade balance (c)			-0.8	3.7	3.6	2.1	2.7	2.6	2.9
Balance on current transactions with ROW (c)			1.6	5.0	5.3	4.7	5.2	4.7	5.0
Net lending(+) or borrowing(-) vis à vis ROW (c)			1.4	5.0	5.3	4.5	5.2	4.7	5.0
General government balance (c)(d)			-7.2	-0.8	-0.6	0.1	0.2	-0.2	0.2
General government gross debt (c)			124.4	119.3	115.0	109.3	107.5	104.3	99.4

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

Concerns expressed recently in Belgium, based on studies of economic advisory bodies such as the "National Economic Council", about loss of competitiveness by the Belgian economy vis-à-vis its main trading partners in recent years, should encourage moderate wage developments. A new framework wage agreement for the period 2003-2004 is expected to be concluded by the end of this year.

Public finances

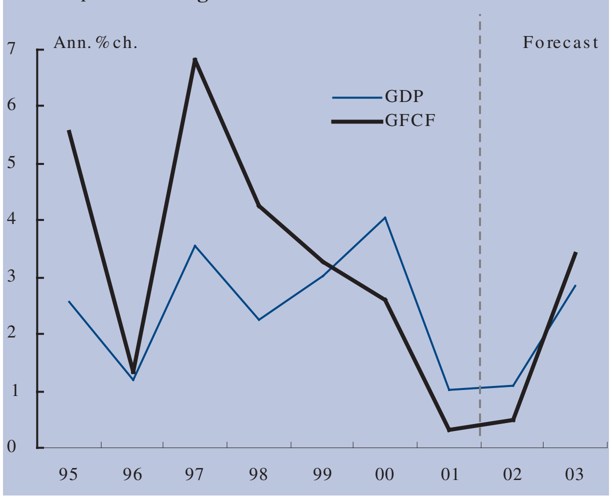
In spite of the sharp slowdown in economic activity in 2001, the general government accounts were in balance as in 2000 and recorded a small surplus of 0.2% of GDP, when including the UMTS licenses receipts. This result was made possible by maintaining a high primary surplus, estimated at 6.7% of GDP; ad hoc factors, including UMTS receipts, contributed by about 0.3% of GDP to this outcome.

In 2002, the general government sector is expected to register a 0.2% of GDP deficit resulting mainly from the adverse impact on tax revenue of a rather weak economic activity and, to some extent, from increased expenditure is specific areas, such as health care. The government, in the context of the spring budgetary control exercise, announced a tighter control of government expenditure, on a monthly basis, and lowered the targeted growth rate of primary expenditure for this year in order to achieve the budgetary objectives.

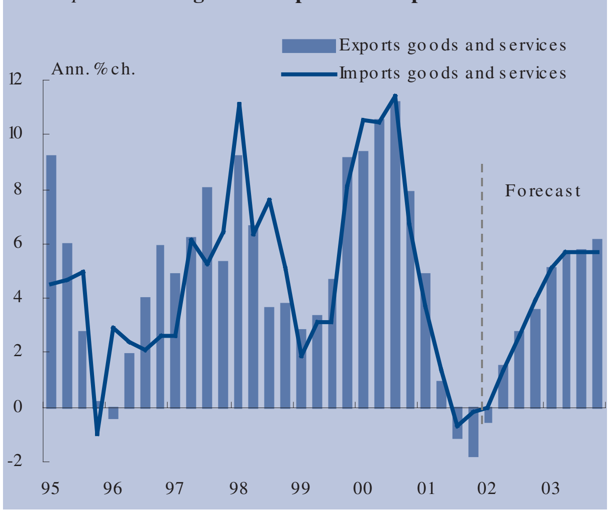
In 2003, the general government accounts would turn to a surplus of 0.2% of GDP resulting mainly from higher economic activity and relatively contained primary expenditure growth. Public finance projections assume that, broadly, the budgetary strategy of the 2001 update of the stability programme of Belgium will be followed;

this implies, in particular, primary surpluses of the order of 6% per year realised mainly through control of primary expenditures. A corporate tax reform announced last March will apply from 2003 and according to the government will be budgetary neutral. According to the forecast, the government revenue to GDP ratio is expected to decline in the coming two years, while the expenditure ratio is projected to remain practically unchanged this year before resuming a more clear falling trend in 2003. Corrected for the influence of the economic cycle, the estimated budgetary result in 2001 and that projected for this year show an improvement in the underlying budgetary position; a smaller improvement in the cyclically adjusted budgetary balance is projected for 2003. The decline in the government debt ratio was modest in 2001 and less than initially projected, a development attributed to the low nominal GDP growth as well as ad hoc factors, notably the incorporation in the general government sector of the debt of the former OCCH which was guaranteed by the State; exogenous, ad hoc, operations increased the debt to GDP ratio by around 2 percentage points. The government debt ratio is projected to fall further in the coming two years to marginally below 100 percent of GDP at the end of 2003.

Graph 3.1: **Belgium - GDP and GFCF**



Graph 3.2: **Belgium - Import and export**



2. Denmark

Growth gradually picking up and driven by domestic demand

The economy in 2001

The Danish economy slowed in 2001 due both to the fading of extensive repair works in 2000, after a storm that hit Denmark, and to the international slowdown. The Danish economy was, however, not as adversely affected as many other economies by the international downturn due to a favourable composition of exports. Agricultural production was left fairly untouched by the livestock diseases which hit other countries thereby leading the way for export market gains. Overall, real GDP growth was 0.9%.

After having remained largely unchanged since 1998 private consumption picked up slightly in 2001 and grew by 0.6%. The increase was, however, well below that of real disposable incomes. Investments, which were buoyant in 2000, remained unchanged in real terms in 2001 as the impact of the repair works after the storm faded and profit margins declined. Inventories increased during the year from a very low level in 2000 and contributed to GDP growth by 0.4 percentage points. Growth rates of both exports and imports of goods fell markedly compared to the high levels in 2000 and net exports had a small negative impact on GDP growth.

The labour market tightened further as unemployment fell slightly and employment rose by 0.5%. The tight labour market also resulted in high wage increases during the year. HICP inflation came down to 2.3% after having been relatively high in 2000.

The surplus on the general government finances, according to the EDP definition, remained high in 2001 at 3.1% of GDP (including UMTS revenues of 0.2% of GDP) and the general government debt declined further to 44.7% of GDP.

Prospects

Based on the preliminary quarterly national accounts and industrial turnover the fourth quarter of 2001 was bleak. GDP grew by only 0.1% in real terms and industrial turnover fell on the quarter.

However, there are signs that a turn around could be expected soon as the quarterly national accounts confirmed the continued increase in growth rates of exports and private consumption finally picked up slightly. Car sales and retail sales developed stronger in the first months of 2002 compared to the last quarters of 2001. Furthermore, industrial orders have picked up recently and economic survey indicators indicate that the general sentiment is improving for producers, but to a lesser extent for consumers.

Real GDP growth is expected to average 1.7% in 2002 and should start to recover more rapidly in the second quarter of 2002. Strong growth rates are expected to continue into 2003 leading to an average real GDP growth rate of 2.5%. In both years domestic demand is expected to be the main factor driving GDP growth with neutral or negative contribution from net exports.

GDP components

Private consumption is expected to pick up further over the forecast horizon supported by continued increases in real disposable income. Growth rates of investment are set to increase over the forecast period. Investments in equipment are expected to pick up over the forecast horizon as profit margins and the production outlook improve. Investments in housing are in both years supported by the government's housing package. With regards to non-residential construction a slow development is expected in the first half of 2002 as the current uncertainty on whether the pick up has set in may postpone larger investment projects, but an increase is expected in the second half of 2002 and to continue into 2003. In 2002, no growth contribution is expected from stocks, while in 2003 a small positive contribution is expected as the economy picks up.

Exports of goods are expected to grow fairly in line with external demand. Imports of goods which were relatively low in 2001 should return to a more normal relationship to final demand. Exports and imports of services are set to develop fairly in line, but somewhat below recent years' very high growth rates. Overall, these developments would lead to a negative

Table 3.2

Main features of country forecast - DENMARK

		2000		Annual percentage change						
	bn DKK	Curr. prices	% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices		1296.1	100.0	1.8	2.5	2.3	3.0	0.9	1.7	2.5
Private consumption		613.3	47.3	1.5	2.3	0.2	-0.3	0.6	1.6	2.0
Public consumption		325.8	25.1	1.4	3.1	1.8	0.6	1.4	1.4	0.8
GFCF		283.0	21.8	2.5	10.0	1.0	10.7	0.0	4.1	5.4
of which : equipment		122.8	9.5	3.7	7.5	1.5	12.6	2.6	2.8	4.5
Change in stocks as % of GDP		-1.8	-0.1	0.4	1.1	-0.2	0.0	0.2	0.2	0.2
Exports (goods and services)		567.4	43.8	4.2	4.3	10.8	11.5	3.1	2.4	5.8
Final demand		1787.6	137.9	2.3	4.1	2.6	5.2	1.8	2.2	3.6
Imports (goods and services)		491.4	37.9	4.3	8.9	3.3	11.2	3.8	3.4	6.3
Contribution to GDP growth :	Domestic demand			1.6	4.0	0.8	2.3	0.7	2.1	2.4
	Stockbuilding			0.1	-0.1	-1.3	0.2	0.4	0.0	0.1
	Foreign balance			0.1	-1.4	2.8	0.6	-0.1	-0.3	0.0
Employment				0.2	1.7	1.5	0.8	0.5	0.1	0.4
Unemployment (a)				7.2	4.9	4.8	4.4	4.3	4.4	4.3
Compensation of employees/head				5.4	3.8	2.9	3.9	4.2	3.6	3.8
Unit labour costs				3.8	3.0	2.0	1.6	3.8	2.0	1.7
Real unit labour costs				-0.7	2.0	-0.6	-2.0	1.1	-0.2	-0.8
Savings rate of households (b)				-	3.7	1.7	4.0	6.3	6.9	6.9
GDP deflator				4.5	1.0	2.7	3.7	2.7	2.2	2.4
Private consumption deflator				4.5	1.3	2.6	3.0	2.1	2.4	2.1
Harmonised index of consumer prices				-	1.3	2.1	2.7	2.3	2.3	2.1
Trade balance (c)				1.2	1.2	2.7	3.2	3.2	2.8	2.7
Balance on current transactions with ROW (c)				-1.1	-0.9	1.7	1.6	2.5	2.0	2.1
Net lending(+) or borrowing(-) vis à vis ROW (c)				-1.1	-0.9	2.3	1.6	2.5	2.0	2.0
General government balance (c)(d)				-2.0	1.1	3.1	2.5	3.1	2.1	2.4
General government gross debt (c)				64.2	56.2	52.7	46.8	44.7	43.2	39.8

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences in 2001. The UMTS amount as a % of GDP would be : 0.2%.

contribution to GDP growth from net exports this year and a neutral contribution in 2003.

The large current account surplus should decline slightly in 2002, followed by a minor increase in 2003

Costs and prices

Inflation (HICP) increased in the first quarter of 2002 as a result of increasing oil prices and a technical change to the index for clothing. Inflation is expected to decelerate through the year on the back of falling oil prices. The full effect on the inflation rate of the "tax freeze" introduced by the new government will first be visible in 2003 and combined with the disappearance of one-off effects, it is expected to lead to an average inflation rate of 2.1% in 2003. The continued tight labour market and high wage increases may add to the price increases.

In 2002 productivity increases are expected to be slightly subdued as the increase in unemployment does not fully reflect the slowing of the economy. This is due to the tight labour market, where firms are likely to hold back on lay-offs as it may be difficult to rehire when the economy picks up. For 2003 productivity increases are set to return to "normal" levels.

Labour market

The labour market is expected to remain tight throughout the forecast period. However, a minor increase in unemployment is expected in 2002 as a delayed effect of the slowdown in economic growth in 2001. In 2003, unemployment is expected to fall marginally again. In both years unemployment is forecast to be close to the estimated structural level. Employment creation is set to slow markedly in 2002, as a reaction to the current slow economic growth but also as a result of the reduction of the number of employees in central government. To some extent this reduction curbs the trend for rising public employment, even though increases in employment in local governments are foreseen. In 2003, employment creation is expected to pick up again. Given the tight labour market, wage increases are expected to remain relatively high over the forecast period, hovering around 3½-3¾%, after correction for the reduction in working time. However, given the tightness of the labour market there is a risk of larger increases in wages. Wage agreements for the private sector cover most of the forecast period whereas public sector wages are negotiated this spring.

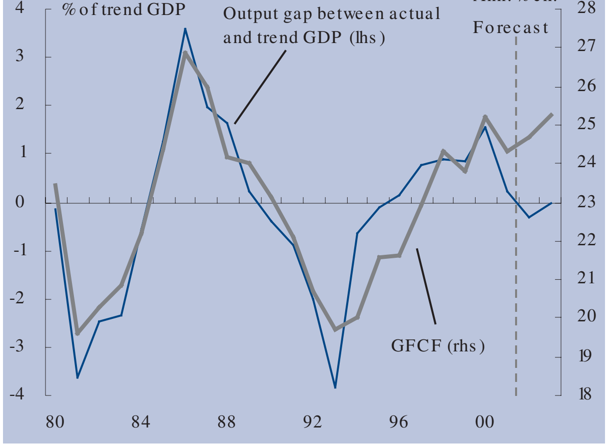
Public finances

The surplus on the general government finances is expected to decline to 2.1% of GDP this year as the slowdown in 2001 leads to smaller increases in tax revenues, especially on taxes paid by corporations. This effect is, however, partly offset by the reduction in subsidies and the slim-lining of central government undertaken in the budget for 2002. Furthermore, the "special pension contribution" which amounts to 1% of the total wage bill is proposed to be changed from a public pension scheme to a private scheme as the redistributive effects in the pension scheme are eliminated. This would lower revenues, the surplus on public finances and the tax burden by approximately ½% of GDP in both 2002 and 2003. In 2003, the surplus on general government finances is expected to increase to 2.4% of GDP due to the stronger growth rate of the economy.

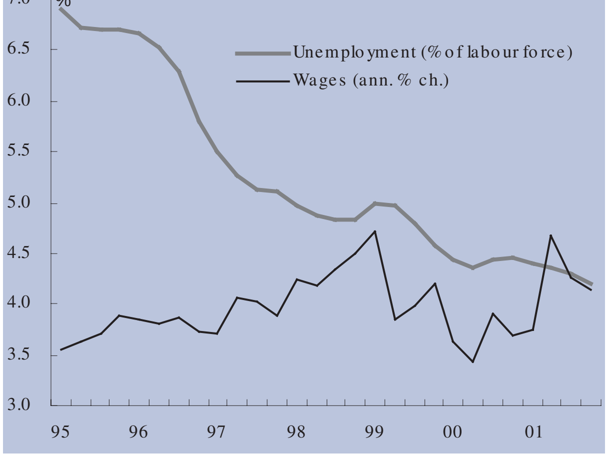
The balance on general government has become more volatile due to changes to the way pension funds are taxed. Revenues are now more closely linked to the developments in the stock market and therefore difficult to predict. The increased volatility may be in the order of 1 percentage point of GDP.

The general government debt to GDP ratio is expected to decline by 5 percentage points over the forecast period and reach some 40% of GDP in 2003.

Graph 3.3: **Denmark - Investment ratio and output gap**



Graph 3.4: **Denmark - Labour market**



3. Germany

At the turning point

The economy in 2001

GDP rose by 0.6% in 2001, which constitutes the worst performance of the German economy since 1993. Only the first quarter of the year registered positive growth, not least because the tax reform gave a boost to private consumption. This was, however, only a temporary reprieve from the impact of the 2000 oil price hike. Sharply falling investment volumes brought economic growth to a halt in the second quarter. Construction, which had been falling since the middle of the nineties, fell yet again by a massive 5.8% in 2001. Equipment investment fared hardly better with a decline of 5%.

As consumption also started to decline in the second half of the year, GDP growth turned negative from the third quarter onward, already before the events of 11 September. By severely lowering consumer and business confidence, the terrorist attacks deepened the economic downswing. In this pessimistic environment, demand was increasingly met by reducing inventories instead of increasing production. The resulting stock depletions alone reduced GDP growth in 2001 by 0.9 percentage points. Had it not been for the statistical overhang from 2000, the economy would have actually stagnated in 2001.

At the end of 2001, unemployment figures were above the levels registered a year before. Nevertheless, the average number of unemployed in 2001 remained 30,000 below the figure for 2000. The high level of unemployed will, however, affect the aggregate figure for the following year.

Consumer price inflation, which peaked in May at 3.5%, declined rapidly as a result of falling energy and import prices, reaching an average rate of 2.4%.

Prospects

At a beginning of 2002, the economy finds itself at a turning point. On the one hand, growth in the first quarter of the year will be low due to a fall in investments and shrinking consumption. This is also picked up by the Ifo index, where the assessment of the current situation is at its lowest level since 1993.

On the other hand, there is a remarkable upturn in producer expectations. Both the Ifo expectations index and the ZEW confidence indicator have been rising rapidly since November 2001. Combined with a recent increase in orders, even if mostly from abroad, this points strongly to a recovery around the middle of 2002. Expectations are that the economic momentum will be maintained also in 2003.

Despite a substantial upswing, leading to a year-on-year growth rate in the last quarter of 2.6%, average GDP growth in 2002 will remain at 0.8%, barely above growth in 2001. This is a result of a strong negative statistical carry-over, which affects also the individual components of GDP, especially investment. The full impact of the recovery will, however, be visible in the figures for 2003, with a predicted growth of 2.7%.

By the same token, unemployment will remain on average above the 4 million mark in 2002, some 180,000 higher than the year before. It should, however, revert to its original level by 2003.

GDP components

Domestic demand lags substantially behind international developments. Foreign orders are picking up fast, implying strong increases in exports from the second quarter of 2002 onwards. Despite a negative statistical overhang, annual export growth should therefore be slightly above 2%. Imports, however, which are falling dramatically in the first quarter, will likely be stagnant over the year. Consequently, GDP growth in 2002 will be carried by a very strong external contribution of 0.8%, even though this is barely half the 2001 value. Only in 2003 will this effect disappear.

Domestic final demand will contract in 2002. In particular, private consumption remains bogged down by the high level of unemployment, and is likely to shrink significantly in the first quarter. It is, however, expected to pick up by the second half of the year, supporting the economic upswing.

Similarly, the rise in business confidence is expected to manifest itself in growing investment volumes from the second half of 2002 onwards. If wage negotiations in

Table 3.3

Main features of country forecast - GERMANY

		2000		Annual percentage change						
	bn Euro	Curr. prices	% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices		2025.5	100.0	2.0	2.0	1.8	3.0	0.6	0.8	2.7
Private consumption		1182.8	58.4	2.0	1.8	3.1	1.4	1.1	-0.2	2.1
Public consumption		384.5	19.0	1.4	1.2	1.6	1.2	1.7	1.5	1.1
GFCF		438.1	21.6	1.4	3.0	4.2	2.3	-4.8	-2.4	3.6
of which : equipment		174.8	8.6	1.6	9.2	7.2	8.7	-5.0	-3.9	7.8
Change in stocks as % of GDP		12.1	0.6	0.0	0.2	-0.2	0.2	-0.7	-0.3	0.1
Exports (goods and services)		683.3	33.7	5.1	6.8	5.6	13.2	4.7	2.2	7.0
Final demand		2700.8	133.3	2.4	3.4	3.3	4.6	0.4	0.6	3.8
Imports (goods and services)		675.3	33.3	4.1	8.9	8.5	10.0	0.1	0.0	7.5
Contribution to GDP growth :	Domestic demand			1.7	1.9	3.0	1.6	-0.1	-0.3	2.1
	Stockbuilding			0.0	0.5	-0.4	0.4	-0.9	0.4	0.5
	Foreign balance			0.4	-0.4	-0.7	1.1	1.6	0.8	0.1
Employment				0.3	1.1	1.2	1.6	0.2	-0.3	0.8
Unemployment (a)				-	9.3	8.6	7.9	7.9	8.3	7.9
Compensation of employees/head				3.8	1.0	1.2	1.2	1.6	2.4	2.6
Unit labour costs				2.0	0.2	0.6	-0.2	1.2	1.2	0.7
Real unit labour costs				-0.7	-0.9	0.2	0.2	-0.1	-0.2	-0.2
Savings rate of households (b)				-	16.9	15.4	15.4	15.8	16.4	16.0
GDP deflator				2.8	1.1	0.5	-0.4	1.3	1.4	0.9
Private consumption deflator				2.7	1.1	0.4	1.4	1.8	1.7	1.6
Harmonised index of consumer prices				-	0.6	0.6	2.1	2.4	1.8	1.7
Trade balance (c)				3.8	3.6	3.4	3.1	4.8	5.9	5.9
Balance on current transactions with ROW (c)				1.2	-0.3	-0.8	-1.0	0.5	1.5	1.4
Net lending(+) or borrowing(-) vis à vis ROW (c)				1.1	-0.3	-0.8	-0.2	0.5	1.5	1.4
General government balance (c)(d)				-2.4	-2.2	-1.6	1.2	-2.7	-2.8	-2.1
General government gross debt (c)				45.2	60.9	61.3	60.3	59.8	60.8	60.1

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

spring will not be disruptive, the growth impulse will come mostly from equipment investment. Construction will continue to remain flat, because a pick-up in business construction and to a much lesser extent in housing will be balanced by a likely fall in public construction, as cash-strapped local governments are expected to cut down on their investment plans. Due to a very strong negative overhang in both equipment and construction investment, the year-on-year growth figures for 2002 will, nevertheless, remain negative. Investment figures for 2003, by contrast, should be positive again.

A significant factor in driving growth will come from inventories. A reversal of the strong stock depletion in 2001 is likely to contribute positively to growth in 2002 in the order of nearly one half of a percentage point. This reversal more than matches the anticipated decline in the contribution of net exports and of final demand.

Costs and prices

Consumer price inflation is likely to fall further to a level of around 1.8% annually in 2002, due to lower energy prices. Even though the fall in oil prices might have come to a halt, notably gas prices, which follow oil prices with a lag, will continue to decline. The short-term upward blip in the CPI registered in January 2002 as a result of hikes in tobacco, fuel and other taxes and of a bad vegetables harvest should be reverted during the course of the year.

Wages will likely rise more than in 2001, as a result of difficult ongoing wage negotiations. Nevertheless, one can expect that the high level of unemployment will limit the wage increases to a level that should not threaten price stability. Average inflation in 2003 should therefore remain at the same low level as 2002, because acceleration in economic activity is not expected to result in strong price pressures.

Public finances

According to the latest estimate by the Statistical Office, the 2001 general government deficit reached 2.7% of GDP, compared to a deficit of 1.3% of GDP in the year 2000 (excluding UMTS). This deterioration is mainly due to the stronger than expected slowdown in growth; expenditure overruns, however, occurred in the health care sector and in some Länder.

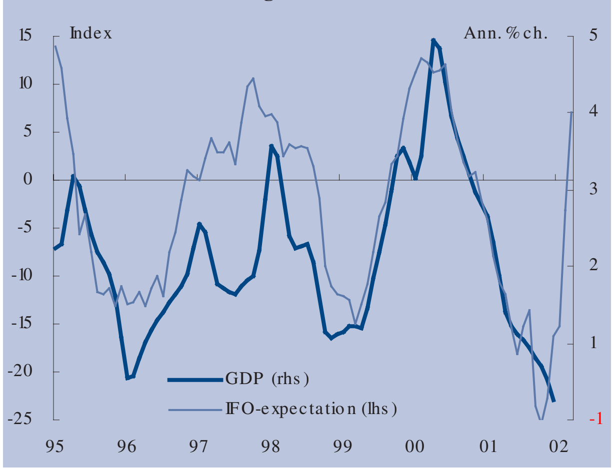
In the current year, the general government deficit is expected to reach 2.8% of GDP; the slight increase would not only be due to the implemented rise in some benefits but also to the higher than budgeted payments resulting from rising unemployment. Furthermore, the projected growth pattern (weak private consumption and an important growth contribution from stocks) would not be tax-friendly. Government consumption is forecast to rise by more than 2% on the back of higher spending on internal and external security, a higher rise in public sector salaries and rising health expenditure.

Given the budgetary constraint and the projected strong growth performance and in spite of the next step of income tax reform, which reduces taxes by 0.3% of GDP, the deficit in 2003 is forecast to decline to 2.2% of GDP. Assuming unchanged policies, this deficit forecast is based on higher taxes due to a strong growth of private consumption and employment and lower social security transfers due to a fall in unemployment.

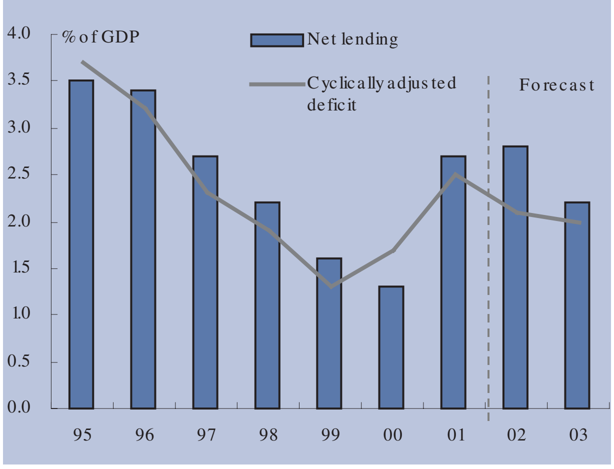
The current 2003 estimate assumes that there will be no decline in social security contributions and that the rise in health expenditure will be more moderate than in the recent past. Moreover, wage agreements in the public sector are expected to be moderate.

In 2001, the debt ratio has declined to slightly less than 60% of GDP but is expected to rise again to 60.8% in 2002 as a consequence of the combination of a relatively high nominal deficit and weak nominal GDP growth. With the nominal deficit projected to decrease clearly in 2003 and nominal GDP growth forecast to come close to 4%, the debt ratio should again come close to the Treaty's reference value.

Graph 3.5: **Germany - Business expectations and GDP-growth**



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



4. Greece

Economic growth is easing but activity continues at a strong pace

The economy in 2001

Real GDP rose still at a strong pace in 2001, exceeding the EU and the euro area average, despite weak export markets; the expansion was mainly supported by domestic demand. Considerably lower interest rates, since the adoption of the euro as from 1 January 2001, combined with increased financial flows from the EU Structural Funds and the preparation for the Olympic Games of 2004 have boosted investment which increased much faster than real GDP. Residential investment posted a strong recovery as a result of lower lending rates and of strong supply for housing loans. On the other hand, a spectacular increase in consumer credit supply supported private consumption which rose by more than 3%. Consumer spending was also assisted by the recovery in real disposable income despite a deceleration in non-labour income to be attributed to lower income from interest. On the external side, the slowdown in world demand reduced significantly the rate of increase in exports, but imports also slowed down resulting in a marginally negative contribution of the external balance to real GDP growth.

The situation in the labour market improved but at a slow pace. A mild job creation in the services and the construction sectors was not sufficient to offset the fall in employment in the traditional manufacturing sectors. Total employment is estimated to have declined marginally in 2001. On the other hand, the unemployment rate fell below 11% in 2001 and remained thus at a high level. Wage increases were moderate in the framework of the benchmark wage agreement conditions for the private sector.

Consumer price inflation started to decelerate in the Summer months but accelerated by the end of the year partly as a result of temporary shocks as high food prices due to bad whether. Nonetheless, underlying inflation exceeded the headline rate throughout the year implying the persistence of second round effects from the oil prices hike in 2000. In 2001, consumer inflation accelerated to 3.4% as measured by the national index and to 3.7% as measured by the harmonized index of consumer prices, up from 3.2% and 2.9% respectively in 2000.

GDP components in 2002 and 2003

Economic activity prospects continue to be good and will improve with the external recovery. Real GDP growth is expected to continue to rise above potential, averaging below 4% in 2002 and to recover in 2003 following strengthening world demand. Thus, job creation should start responding positively to the current expansion phase, potentially assisted also by the implementation of active labour market policies. The unemployment rate should then fall below 10% by the end of the forecast period.

Consumer spending is expected to remain sustained but with no marked acceleration given the slow improvement in the situation in the labour market and uncertainty with respect to inflation pressures. The driving force for real GDP growth in both years will, thus, be investment. Activity in the construction sector will be buoyant as a number of infrastructure plans needs to be finished before the Olympic Games of 2004, but also residential construction will continue to grow at rates above real GDP growth. Short-term indicators suggest that residential construction will also remain strong. Public investment growth, supported by large inflows from EU Structural Funds, and lower interest rates will also assist private investment. Investment in equipment goods is expected to continue at a strong pace but this should imply additional increase in imports exerting a dampening effect on real output. Nonetheless, the expected recovery in world demand should boost exports progressively over the forecast period, keeping the average contribution of the real external balance broadly unchanged.

Costs and prices

Consumer prices accelerated in the first quarter of 2002, rising on average by 3.9% (national definition) and by 4.4% (the harmonized index). Underlying measures suggest a mixed picture: core inflation, measured by the CPI (national definition) excluding fresh food and vegetables and fuels, is on a downward trend and rose

Table 3.4

Main features of country forecast - GREECE

	2000		Annual percentage change						
	bn Euro Curr. prices	% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices	121.4	100.0	1.1	3.4	3.6	4.1	4.1	3.7	4.2
Private consumption	84.9	69.9	2.1	3.5	2.9	3.2	3.2	2.8	3.0
Public consumption	18.7	15.4	1.2	1.7	-0.1	2.3	1.8	0.5	1.0
GFCF	27.5	22.6	0.6	10.6	6.2	7.8	7.4	9.6	9.8
of which : equipment	9.9	8.1	4.4	16.5	1.0	17.2	5.2	8.1	8.1
Change in stocks as % of GDP	0.0	0.0	0.0	0.3	-0.3	0.0	-0.1	0.0	-0.1
Exports (goods and services)	30.3	25.0	3.1	5.3	8.1	18.9	2.4	4.3	6.6
Final demand	161.4	133.0	1.8	4.7	3.6	6.6	3.6	4.1	4.7
Imports (goods and services)	40.0	33.0	5.0	9.2	3.6	15.0	2.1	5.4	6.0
Contribution to GDP growth : Domestic demand			1.3	4.9	3.4	4.4	4.2	4.3	4.7
Stockbuilding			0.1	-0.1	-0.6	0.4	-0.1	0.1	-0.1
Foreign balance			-0.5	-1.6	0.6	-0.4	-0.1	-0.7	-0.4
Employment			0.7	4.1	-0.8	-0.3	-0.1	0.3	0.5
Unemployment (a)			7.4	10.9	11.6	10.9	10.2	9.9	9.3
Compensation of employees/head			16.3	5.3	5.5	6.1	6.2	6.6	5.8
Unit labour costs			15.9	6.1	1.1	1.7	1.9	3.1	2.0
Real unit labour costs			-0.4	0.8	-1.8	-1.7	-1.2	-0.2	-1.1
Savings rate of households (b)			-	10.3	19.1	17.7	16.9	18.4	20.1
GDP deflator			16.4	5.2	3.0	3.4	3.2	3.3	3.2
Private consumption deflator			16.0	4.5	2.1	3.1	3.0	3.3	2.9
Harmonised index of consumer prices			-	4.5	2.1	2.9	3.7	3.6	3.2
Trade balance (c)			-11.4	-14.8	-13.5	-16.1	-16.3	-16.5	-16.7
Balance on current transactions with ROW (c)			-1.0	-3.5	-2.8	-4.5	-4.2	-4.7	-4.8
Net lending(+) or borrowing(-) vis à vis ROW (c)			-	-1.4	-1.1	-2.4	-2.2	-2.7	-2.8
General government balance (c)(d)			-10.2	-2.4	-1.7	-0.8	0.1	0.3	0.5
General government gross debt (c)			78.7	105.0	103.8	102.8	99.7	97.9	95.2

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

below the headline rate in January and February 2002. In contrast, wholesale prices have accelerated since December and are exceeding the headline CPI rate.

Price developments are influenced by a number of factors that point to opposite directions. Taking into account the underlying assumptions for world primary commodities price increases, oil prices and the exchange rate of the euro, inflation should decelerate in coming quarters. On the domestic side, in 2002 some acceleration in wages will be implied from the application of the compensation clause for the higher than expected inflation rate in 2001; the adjustment will be equal to 1.1% and will result in an acceleration in real compensations; moreover, the outcome of the ongoing negotiations on wage increases in the private sector will be crucial in determining cost-pressures both in 2002 and 2003. Furthermore, despite some weakening in 2002, the economy is expected to continue growing above potential.

On the basis of the above, there may be no significant deceleration in the rate of inflation until 2003. Consumer price increases are forecast to average above 3% in 2002 and 2003.

Public finances in 2001

In 2001, the general government accounts reached their first surplus after three decades, although the target of the stability programme, a surplus of 0.5% of GDP, was missed. However, excluding non budgeted receipts from the sale of mobile phone licenses (UMTS) which amounted to 0.5% of GDP, in 2001, the government accounts would still be in deficit of 0.4% of GDP.

The implementation of the 2001 State budget was adversely affected by slower than projected GDP growth which resulted in a shortfall in tax revenues, only partly offset by higher non-tax revenues. Moreover, the projected restrain in current primary expenditure was not fully realised.

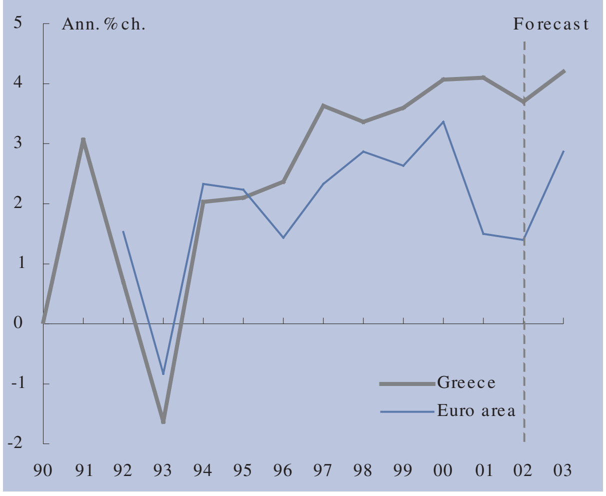
After reaching 6.2% of GDP in 2000, the primary surplus of the general government remained at a high level (equal to 6.3% of GDP or 5.8% of GDP when excluding receipts from UMTS licenses). As a result, the general government debt ratio continued its downward trend initiated in the mid-1990s, but was still close to 100% of GDP at the end of 2001[1].

Public finances in 2002 and 2003

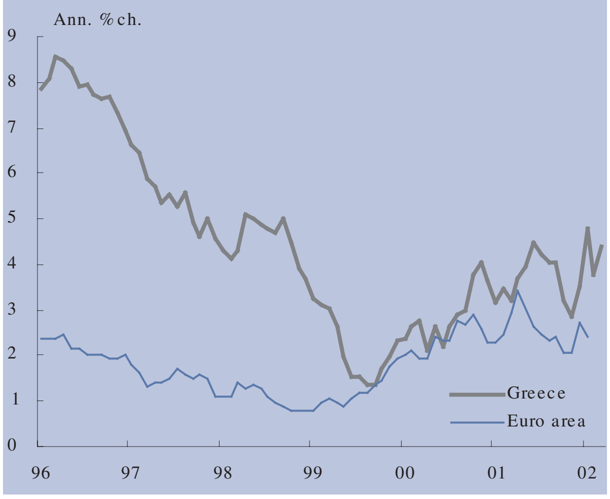
The State budget for 2002 and the 2001 updated stability programme target a deficit consistent with a surplus of 0.8% of GDP for the general government, down from 1.5% projected in the 2000 stability programme. Underlying further improvement in the budgetary position, there is the continuing reduction in debt servicing costs which follows the decline in interest rates and in the debt ratio. For 2003, the 2001 update of the stability programme projects a surplus of 1% of GDP, a level which represents half the projection included in the first stability programme. The downward revision of the budgetary targets is mostly explained by the assumed much lower rate of growth in real GDP.

The debt ratio is also projected to decline albeit at a slower pace than projected previously, to around 93% of GDP in 2003. The budgetary strategy is based on further decline in the interest burden for the general government, while the projected fall in current primary expenditure should partly compensate the impact of the tax package announced at end-2001. The primary surplus of the general government is projected to decline marginally but to remain at a high level. However, the projected cut in primary spending may be difficult to implement given that the main components of current spending are highly inelastic (mostly, wages and grants). Furthermore, under unchanged policies, the performance of budget revenues, in particular tax revenues, seems to have been overvalued. Thus, it is likely that the general government accounts will remain in surplus, in both 2002 and 2003, but at lower levels than projected in the stability programme. This explains that the government debt ratio can be expected to decline only moderately.

Graph 3.7: **Greece - GDP growth compared to the euro area**



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



1 Eurostat is not currently in a position to certify the figures included in the Spring notification 2002 of Greece under the excessive deficit procedure (according to Council Regulation n° 3605/93, amended by Council Regulation n°475/2000); among other reasons, uncertainties are related to the share convertible bonds treatment.

5. Spain

Expected recovery in the second half of 2002

Activity

In 2001 GDP decelerated significantly, recording 2.8% growth for the whole year, in sharp contrast to 4.1% growth in 2000. The deceleration was mainly driven by final domestic demand with growth of 2.7% contrasting with 4.4% recorded in 2000; accordingly, its contribution to GDP growth declined to 2.8 percentage points from 4.5 percentage points in the preceding year. The change in inventories provided a positive contribution to GDP growth of 0.1 points. The external sector also showed markedly slower growth of both exports and imports, resulting in a negative growth contribution of 0.1 percentage points after -0.2% in 2000.

In 2002 growth of domestic demand is envisaged to moderate further while external demand is expected to recover slightly. In the year as a whole GDP growth is expected to be 2.1%, with a significant recovery that should become evident in the second half of the year. This recovery profile is expected to continue in 2003, with GDP growth of 3.1%, roughly in line with that of estimated potential.

GDP components

The slower growth experienced in 2001 is mainly due to significant reductions in private consumption and investment growth rates. Private consumption grew in real terms by 2.7% in 2001, from 4.0% in 2000. Due to a small acceleration in the last quarter, attributed partially to spending of accumulated peseta notes ahead of the introduction of euro notes and the resilience of employment, there is a positive carry-over effect of around 0.8 points in 2002. Low growth of gross fixed capital formation, 2.5% in 2001, can mostly be attributed to investment in equipment falling 2.2% due to worsened business expectations. On the external side, the moderate growth of exports of 3.4% in 2001 contrasts with the 9.6% in 2000, in accordance with the downward trend observed in world demand.

For 2002 as a whole a further deceleration is expected given the weakness at the end of 2001. Nevertheless, through the year a recovery is envisaged in all demand components with the exception of government consumption expenditure which remains stable, following the expected recovery of world demand. Private consumption is expected to grow by around 2% as a consequence of moderation in employment and wage growth, non-indexation of income tax brackets and to the disappearance of the end-2001 euro effect noted above. Nevertheless, a recovery is expected in the second half, which will consolidate during 2003, as a result of faster job creation and higher growth of compensation of employees. Consequently, private consumption should expand by over 3.1% in 2003. The saving ratio is envisaged to recover slightly from a 2001 trough.

Following a weak performance through 2001, whole-year investment will continue to show a deceleration in 2002, growing by 1.9%. An improved business climate in response to better growth prospects and a decline in real unit labour costs should fuel a recovery in investment from the second half of 2002. Investment is expected to expand 4.2% in 2003, with particular strength shown by investment in equipment.

Provided world demand recovers as assumed, export growth is expected to rise strongly during 2002. Import growth is also expected to recover as a result of the better domestic scenario. All in all, the contribution of the external side to GDP growth is expected to remain marginally negative in 2002 and to worsen slightly in 2003.

Labour market

The deceleration of activity has had a significant impact on employment creation, which averaged only 2.0% in 2001 after 4.7% in the preceding year (Labour Force Survey data). Employment growth is expected to slow to 1.0% in 2002 and to revert to a roughly trend increase of 2.2% in 2003. Despite less buoyant employment growth, the increase in unemployment in 2002 is expected to be limited and short-lived, with the average rate for the year close to that of 2001, around 13%,with the rate falling further to 12% in 2003. The

Table 3.5

Main features of country forecast - SPAIN

		2000		Annual percentage change						
	bn Euro	Curr. prices	% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices		608.8	100.0	2.5	4.3	4.1	4.1	2.8	2.1	3.1
Private consumption		360.4	59.2	2.1	4.5	4.7	4.0	2.7	2.0	3.1
Public consumption		106.0	17.4	4.1	3.7	4.2	4.0	3.1	3.1	3.1
GFCF		154.2	25.3	3.3	9.7	8.8	5.7	2.5	1.9	4.2
of which : equipment		45.1	7.4	3.6	13.3	7.7	4.8	-2.2	-1.4	4.9
Change in stocks as % of GDP		1.9	0.3	0.3	0.4	0.5	0.3	0.4	0.4	0.3
Exports (goods and services)		182.6	30.0	7.5	8.2	7.6	9.6	3.4	3.6	6.6
Final demand		805.0	132.2	3.4	6.2	6.1	5.4	3.0	2.5	4.0
Imports (goods and services)		196.2	32.2	8.4	13.3	12.8	9.8	3.7	3.6	6.7
Contribution to GDP growth :	Domestic demand			2.6	5.5	5.6	4.5	2.8	2.2	3.4
	Stockbuilding			0.0	0.2	0.1	-0.1	0.1	0.0	-0.1
	Foreign balance			0.0	-1.3	-1.5	-0.2	-0.1	-0.1	-0.2
Employment				0.6	3.6	3.5	3.1	2.4	1.2	2.1
Unemployment (a)				19.4	18.6	15.7	14.0	13.0	12.8	11.8
Compensation of employees/head				8.7	2.7	2.7	3.4	4.3	3.5	3.0
Unit labour costs				6.6	2.0	2.1	2.4	4.0	2.5	1.9
Real unit labour costs				-0.8	-0.4	-0.7	-1.0	0.0	-0.6	-0.7
Savings rate of households (b)				-	12.7	10.7	9.5	9.4	9.9	10.0
GDP deflator				7.4	2.4	2.9	3.4	3.9	3.1	2.6
Private consumption deflator				7.4	2.2	2.4	3.2	3.2	2.9	2.6
Harmonised index of consumer prices				-	1.8	2.2	3.5	3.2	3.0	2.5
Trade balance (c)				-4.0	-3.6	-5.1	-6.1	-5.7	-5.6	-5.7
Balance on current transactions with ROW (c)				-1.3	-0.6	-2.3	-3.4	-3.0	-2.5	-2.3
Net lending(+) or borrowing(-) vis à vis ROW (c)				-1.0	0.5	-1.1	-2.5	-1.9	-1.4	-1.1
General government balance (c)(d)				-4.8	-2.6	-1.1	-0.3	0.0	-0.2	0.0
General government gross debt (c)				46.1	64.6	63.1	60.4	57.2	55.5	53.5

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

(d) Including proceeds relative to UMTS licences in 2000, 2001 and 2002. The UMTS amounts as a % of GDP would be : 0.1%, 0.1% and 0.1% respectively.

activity rate is expected to rise only very modestly by the end of the forecast period.

The increase in employee compensation per full-time equivalent in 2002 is expected to fall to around 3.5%, due to a weaker labour market and somewhat better inflation performance than in 2001. The growth in unit labour costs is similarly expected to fall, to 2.5% compared to 3.9% in 2001, yielding a decline in real terms that would extend the trend observed in previous years. Despite the recovery of employment growth in 2003, a further moderation of compensation per employee, by 3.0%, and improved productivity would produce a further deceleration in unit labour costs to 1.9%, and real unit labour costs would continue to decline.

Prices

The HICP and national CPI inflation rates averaged 3.2% and 3.6% in 2001, respectively. Despite the relatively moderate behaviour of wages, price developments were worse than expected, mainly due to unprocessed food and services. On the other hand, lower energy prices in the second half of the year contributed to a fall in headline inflation rates (energy prices declined on a year-on-year basis by 10% in December). Core CPI inflation averaged 3.5% in 2001 with an acceleration in the second half of the year. In 2002, as a result of the downturn in activity, a better performance of food components and moderate growth of unit labour costs, the HICP and CPI inflation rates are expected to decrease to 3.0% and to ease further to

2.5% in 2003. On the other hand, core inflation is expected to show little change in 2002 compared with 2001, though should moderate in 2003.

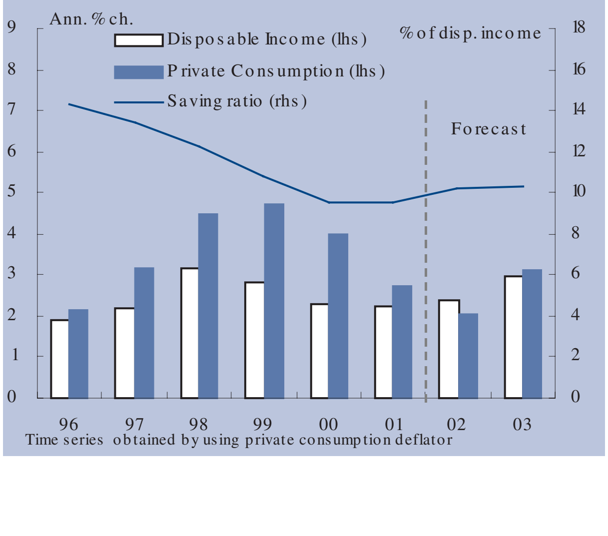
External sector

The current account deficit fell to 3.0% of GDP in 2001 from 3.4% in 2000; growth of merchandise trade slumped. A significant recovery of exports of goods is expected to begin in the second quarter of 2002 as a result of stronger world demand, with a subsequent recovery of imports of goods in the second half in line with the reinforced domestic activity. The upward trend is expected to continue in 2003 for both imports and exports. The current account deficit is foreseen to narrow further to around 2.5% as a result of gains in the terms of trade in 2002 and a growing services surplus in both 2002 and 2003.

Public finances

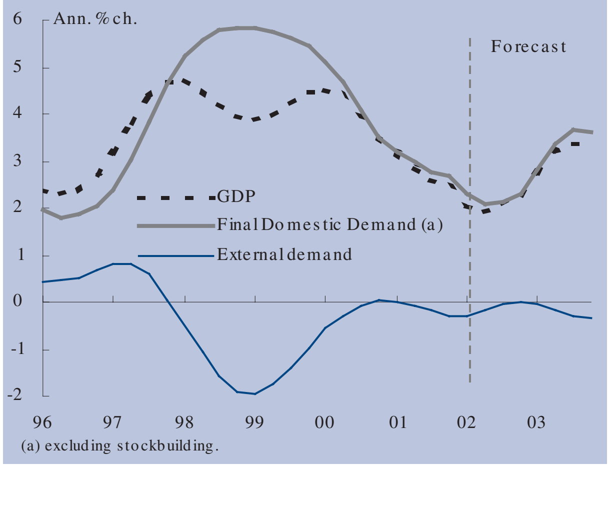
The path of fiscal consolidation followed in recent years continued in 2001. The general government budget was balanced, compared to a 0.3% deficit in 2000, meeting the official target. This performance was based partly on the strength of social security contributions and increased revenues from UMTS fees, but principally through expenditure restraint. On the other hand, the economic slowdown contributed to increase social transfers and to moderate the growth of tax revenue. In 2002 the slowdown will have a negative impact, with the budget balance forecast to return to a moderate deficit of 0.2%. Several factors contribute to avoid a stronger deterioration: first, unlike 2001, the indexation of pensions in 2002 could have a more moderate budgetary impact than in 2001 since inflation should be somewhat lower. Second, interest payments will continue to benefit from low interest rates. Finally, in the 2002 budget, income tax brackets were not adjusted for inflation, while VAT and excise duties on some items were raised. In 2003, assuming no policy changes, the budget is forecast to return to balance. The debt-to-GDP ratio is expected to continue on a declining path throughout the forecast period.

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



Time series obtained by using private consumption deflator

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



(a) excluding stockbuilding.

6. France

Economic activity is projected to accelerate markedly on the course of 2002

The economy in the second half of 2001

Economic activity continued decelerating in the second half of 2001, real GDP growing at an annualised pace of 0.6%, its lowest rate since 1995. The main reason of this slowdown is the impact on final demand and business confidence of the global slowdown of last year, the effects of which were amplified by the events of the 11th September 2001. The impact of these events on trade volumes was more pronounced than expected. Exports and imports registered their sharpest decline since quarterly national accounts were created in 1978. French firms reacted rapidly by cutting the level of stocks (their variation contributed negatively to real GDP growth by 1 percentage point over the last two quarters of 2001), and by postponing investment plans. Conversely, private consumption remained dynamic in the second half of 2001, increasing by a strong 3% annualised, allowing the French economy to avoid an even more severe slowdown.

Current situation and prospects

Recent converging elements suggest that real GDP growth might have bottomed in the last quarter of 2001, when it decreased by 0.1%. Indeed, business surveys indices have been rising since November in all sectors of the economy. In the manufacturing industry, output expectations, a key variable of the survey, recorded in December/January the highest cumulated increase since 1976. Though following a sharp drop, this pick-up heralds an acceleration in industrial production in the next few months. In the service sector, which represents two thirds of the economy, the deterioration in confidence observed in Q4-01 was almost completely reversed in Q1-02, the main variables of the survey being already back to a level close to long term average. On the consumer side, even if fear of unemployment continued increasing, confidence stabilised at a level slightly higher than long term average, after declining continuously from January to October 2001.

These developments show that the sharp drop in confidence in the business sector was short-lived. This scenario is largely consistent with that described in Autumn by the Commission forecasts. It suggests that a significant lift in real GDP growth should occur from the first quarter of 2002. This rebound would reflect the influence of several factors. First, along with the recovery in the world economy, export markets growth for France is expected to accelerate gradually from the first quarter of 2002. Second, monetary and fiscal easing resulting from past cuts in interest rates and the cumulated impact of fiscal automatic stabilisers and tax cuts should stimulate economic activity. Last but not least, the decline in inflation expected in next Spring should increase the purchasing power of households, and thus favour private consumption, which remains the mainstay of the current phase of expansion.

GDP components

The decline in exports volumes observed in 2001 is projected to come to an end, thus supporting an improvement in demand expectations. Such a development should sustain a re-stocking phase in the first semester of 2002. After eighteen months of relative stagnation, productive investment should re-accelerate in the second part of 2002, when the improvement in demand prospects will be confirmed and the rate of capacity utilisation resumes. The continued moderation in the cost of borrowing should also contribute to the recovery in private investment.

After the remarkable dynamism of the last three years, private consumption is expected to experience a temporary slowdown in early 2002, in parallel with the evolution of real gross disposable income. From next Spring, private consumption should gradually resume and remain firm throughout the rest of the forecast period. The acceleration in private spending would be favoured by the implementation of tax cuts and price moderation, and, later in the year, by the recovery in employment growth.

Table 3.6

Main features of country forecast - FRANCE

	2000			Annual percentage change						
	bn Euro	Curr. prices	% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices		1404.8	100.0	1.9	3.4	2.9	3.1	2.0	1.6	2.8
Private consumption		769.1	54.8	1.6	3.4	2.8	2.5	2.9	1.7	2.8
Public consumption		327.1	23.3	2.5	-0.1	2.0	2.2	2.1	1.7	1.4
GFCF		276.5	19.7	1.4	7.0	6.2	6.1	2.8	-0.1	3.1
of which : equipment		101.6	7.2	3.9	12.5	6.6	8.5	3.4	-1.2	4.2
Change in stocks as % of GDP		12.2	0.9	0.1	0.7	0.5	0.6	-0.4	-0.5	-0.2
Exports (goods and services)		402.6	28.7	5.0	8.3	4.0	12.6	1.1	2.5	6.7
Final demand		1787.5	127.2	2.2	4.9	3.3	5.3	1.6	1.5	3.7
Imports (goods and services)		382.7	27.2	3.9	11.6	4.7	14.2	-0.2	0.9	7.1
Contribution to GDP growth :	Domestic demand			1.8	3.1	3.2	3.1	2.6	1.3	2.5
	Stockbuilding			-0.1	0.8	-0.2	0.1	-1.0	-0.1	0.3
	Foreign balance			0.2	-0.5	-0.1	-0.1	0.4	0.5	0.1
Employment				0.2	1.3	1.8	2.2	1.9	0.5	1.2
Unemployment (a)				9.8	11.4	10.7	9.3	8.6	8.8	8.4
Compensation of employees/head				5.5	2.3	2.4	1.9	2.0	2.5	2.8
Unit labour costs				3.7	0.2	1.3	1.0	1.9	1.4	1.1
Real unit labour costs				-0.6	-0.7	0.8	0.1	0.3	0.0	-0.2
Savings rate of households (b)				-	15.7	15.3	15.7	16.5	16.5	16.1
GDP deflator				4.3	0.9	0.5	0.9	1.6	1.4	1.4
Private consumption deflator				4.6	0.7	0.4	1.5	1.2	1.4	1.6
Harmonised index of consumer prices				-	0.7	0.6	1.8	1.8	1.7	1.6
Trade balance (c)				-1.0	1.4	0.7	-0.6	-0.2	0.0	-0.1
Balance on current transactions with ROW (c)				-1.1	2.4	2.3	1.4	1.9	2.2	2.0
Net lending(+) or borrowing(-) vis à vis ROW (c)				-1.2	2.4	2.2	1.5	2.0	2.2	2.0
General government balance (c)(d)				-3.1	-2.7	-1.6	-1.3	-1.4	-1.9	-1.8
General government gross debt (c)				38.5	59.5	58.5	57.4	57.2	57.4	57.2

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences in 2001 and 2002. The UMTS amounts as a % of GDP would be : 0.1% and 0.1% respectively.

Labour market, costs and prices

In 2001, the deterioration in economic conditions impacted the labour market: employment growth slowed from annualised 2.5% in the first half to below 1% in the second. In the next few quarters, this evolution is expected to continue, employment growth becoming virtually nil in the first half of 2002. The slowdown in employment growth also reflects the gradual fading of active labour market policies. In particular, the impact of the reduction in working time on employment creations should be more limited in 2002 and 2003, the implementation of the 35 hours working week in small and medium companies being more gradual than in large ones. The increase in the unemployment rate, started in May 2001 after three years of decline, should continue until the end of next Spring, when the re-acceleration in economic activity is projected to trigger a rebound in employment growth.

Wage moderation is expected to continue in 2002 and 2003, even if a gradual acceleration at the end of the forecast period should be observed. In this context, unit labour costs should not constitute a major threat to price stability. The slight, and partly cyclical, acceleration in unit costs observed in 2001 should not last. Indeed, labour productivity is projected to accelerate over the next two years, in a context where the labour deepening phenomenon observed since 1997 vanishes gradually.

Against this background, underlying inflationary pressures should remain limited. Apart from wage moderation, the temperance in prices will also reflect the stabilisation of the euro and the normalisation of energy and food prices. After a temporary acceleration in the first few months of 2002, overall inflation should decrease rapidly during 2002. Along with the economic recovery, inflation is expected to re-accelerate moderately in 2003, although remaining below 2%.

Public finances

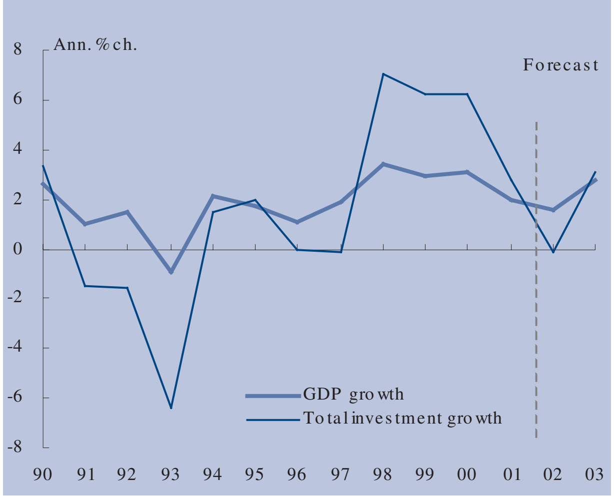
The slowdown in economic activity is fully reflected in the projections for general government revenues. The French government revised upwards its estimation for the 2001 general government deficit to 1.5% (excluding UMTS revenues worth 0.1 percentage point of GDP), while the deficit for 2002 is now expected to reach 1.8/1.9% of GDP and 1.7/1.8% of GDP in 2003 under macroeconomic assumptions comparable to those presented here. The general government deficit targets of the 2001 updated stability programme were 1.8% of GDP for 2002 and 1.5% of GDP in 2003 respectively.

The general government deficit, estimated at 1.5% of GDP in 2001 (excluding UMTS revenues), is projected to reach 2.0% in 2002 (excluding UMTS revenues). This projection makes the assumption that nominal expenditures in 2002 will increase in line with the target fixed in the 2002 Finance Law. Given that inflation excluding tobacco will be 1.3% - as against 1.5% projected in the 2002 budget bill - this imply that real expenditures are projected to overrun the 2.2% growth target. In general, such an asymmetric behaviour of real expenditures with respect to expected inflation was observed in recent years: when actual inflation turned out to be lower than expected, norms were overshot; yet, the reverse happened only very partially when actual inflation was higher than expected.

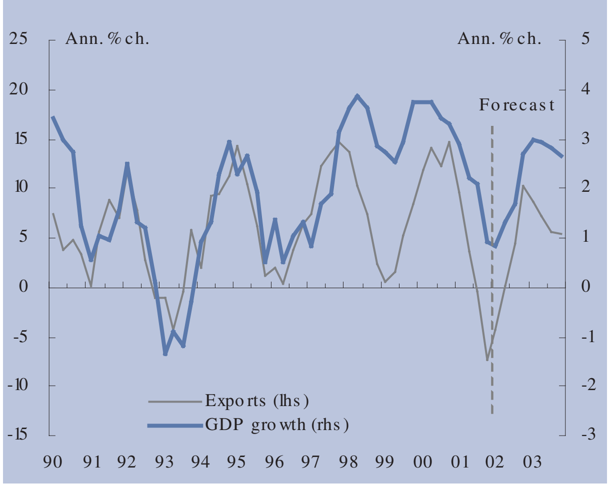
The assumption that nominal expenditures will not overshoot the limit implicit in the 2002 Finance Law is crucial when considering that significant risks of overspending exist in the health sector, that the impact of the change in unemployment benefit rules (PARE) is difficult to evaluate in the current period of increasing unemployment, and that costs associated with the implementation of working time reduction in the public sector could well be higher than projected.

In 2003, the general government deficit should decrease to 1.8% of GDP, under the assumption that the objective for real expenditures set in the 2001 update of the stability programme (+1.4%) will be met. The reduction in the deficit in 2003 is dampened by two elements: (i) the implementation of the last step of the multi-annual plan of tax cuts decided in 2000 and (ii) a return towards more acceptable levels of the increase in non fiscal revenues.

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



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



7. Ireland

A sharp slowdown followed by recovery to sustainable growth

Output in 2001

Provisional national accounts data for 2000 show record real GDP growth of 11.5%, with a rapid pace of expansion of 12.1% year-on-year in the final quarter. Provisional quarterly data reveal annual GDP growth of 8.3% in the first three quarters of 2001. Although impressive, activity actually slowed significantly in 2001 under the combined influence of supply constraints, especially labour shortages, and several exogenous shocks (foot-and-mouth precautions, international slowdown and world-wide ICT retrenchment). While official seasonally-adjusted GDP data are unavailable, the economy is expected to have contracted sharply in the third quarter of 2001. For the year as a whole, growth was probably just under 7%. With a carry-over from 2000 estimated at some 5%, the forecast incorporates little intra-year growth.

Demand components in 2001

The fundamental determinants of private consumption in 2001 were high growth in earnings per capita, significant direct tax relief and a healthy rise in employment. Nonetheless, falling confidence levels leading to a rise in the savings ratio after the big drop in 2000 and a normalisation in car sales after record figures in the preceding year contributed to a sharply weaker rate of expansion than in 2000. Housing completions continued to expand firmly, especially in the social housing sector. Other construction is forecast to have grown strongly as well, as implementation of the National Development Plan progressed. By contrast, investment in equipment is expected to have shrunk in line with lower business confidence. Merchandise exports suffered from the international and ICT slowdown and some loss in competitiveness after several years of gains. Merchandise imports were virtually unchanged from the level in 2000, a strong indication of the extent to which economic activity weakened. Somewhat surprisingly, trade in services remained remarkably buoyant in 2001.

Growth outlook

Consumer and business surveys suggest that a rebound from a low in late-2001 is underway. The purchasing managers' indices for manufacturing and services are recovering steadily from a trough in October 2001, although the former continued to signal contraction until January. The forecast assumes that the recovery will gather pace as the year progresses, but, in the absence of a significant positive carry-over from 2001, annual growth will be far below potential in 2002. Private consumption is expected to show a healthy rate of expansion, given further direct tax relief in the most recent budget, very low real interest rates, wage growth around 8% and some employment gains. In line with the most recent budget, public consumption and investment are also forecast to grow strongly. Private house-building activity is likely to benefit from stimulatory measures in the budget, while growth in equipment investment is expected to recover into positive territory as a result of improved economic prospects. Given the import-intensity of the recovery, imports growth should outstrip exports growth. In contrast to the recent past, the contribution to growth from the external side is thus assumed to be negligible in 2002. For 2003, the projections assume that the economy will attain a pace of expansion around that commonly thought to be sustainable in the medium term, delivering growth of some 6%.

Labour market

The steady fall in unemployment since 1996 finally came to a halt in early 2001, with the rate virtually flat to mid-2001 at below 4%. Since then, a moderate rise has been recorded, to a level slightly above 4% in 2002-Q1. The achievement of effectively full employment has been accompanied by growing shortages of both skilled and unskilled labour. The economic slowdown is expected to lead to employment growth temporarily below labour force growth in 2002. As a result, the forecast envisages a rise in the unemployment rate in 2002 to 4½% and a similar level is projected for 2003.

Table 3.7

Main features of country forecast - IRELAND

	2000			Annual percentage change						
	bn Euro Curr. prices	% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices	103.5	100.0	4.6	8.6	10.8	11.5	6.8	3.5	6.1
Private consumption	49.4	47.7	2.8	7.3	8.3	10.0	5.5	4.3	5.9
Public consumption	13.9	13.4	1.3	5.7	6.3	5.4	7.0	5.5	3.3
GFCF	24.4	23.6	2.9	15.7	13.5	7.3	1.3	2.4	3.6
of which : equipment	7.9	7.7	2.9	24.9	17.9	6.3	-4.8	2.5	3.5
Change in stocks as % of GDP	0.3	0.3	0.5	1.7	-0.1	0.4	0.2	0.1	0.1
Exports (goods and services)	98.2	94.9	10.5	21.4	15.7	17.8	8.2	5.5	10.0
Final demand	186.2	179.9	5.6	15.8	11.3	13.8	6.5	4.8	7.8
Imports (goods and services)	83.5	80.7	7.6	25.8	11.9	16.6	6.5	6.4	9.7
Contribution to GDP growth :	Domestic demand		2.4	7.8	8.0	7.4	3.9	3.3	4.1
	Stockbuilding		0.2	0.5	-1.8	0.5	-0.1	-0.1	0.0
	Foreign balance		1.8	-0.3	5.0	3.7	2.9	0.2	2.0
Employment			1.0	8.6	6.0	4.7	2.9	1.0	2.1
Unemployment (a)			14.2	7.5	5.6	4.2	3.8	4.5	4.4
Compensation of employees/head			7.2	4.6	5.3	8.8	9.2	8.1	6.9
Unit labour costs			3.5	4.5	0.7	2.2	5.3	5.5	2.9
Real unit labour costs			-1.7	-1.3	-3.3	-2.0	0.3	0.9	-0.8
Savings rate of households (b)			-	12.0	12.8	11.4	13.1	13.5	12.9
GDP deflator			5.3	5.9	4.2	4.3	4.9	4.5	3.6
Private consumption deflator			5.3	3.5	3.4	4.6	4.5	4.4	3.3
Harmonised index of consumer prices			-	2.1	2.5	5.3	4.0	4.5	3.3
Trade balance (c)			7.5	23.0	25.6	26.8	28.9	28.3	29.6
Balance on current transactions with ROW (c)			-1.9	0.9	0.4	-0.6	-0.6	-1.4	-1.1
Net lending(+) or borrowing(-) vis à vis ROW (c)			-	2.0	1.2	0.6	0.3	-0.7	-0.4
General government balance (c)(d)			-5.3	2.3	2.3	4.5	1.7	0.6	0.2
General government gross debt (c)			95.8	55.1	49.6	39.0	36.3	33.6	31.4

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

Wage developments

The revised pay clause of the national agreement 2000-2002, the *Programme for Prosperity and Fairness* (PPF), provides for a 7.5% increase in basic pay from April (October) 2001 for the private (public) sector. The agreement awards another 4% increase for the nine months from April (October) 2002 for the private (public) sector plus a 1% lump sum payment in April (October). Negotiations for a possible new agreement would take place in the latter half of 2002.

The available evidence for 2001 points to a faster rise in average earnings than in 2000, although the weakness of personal income taxes through 2001 suggests that the downturn has produced some downward flexibility in the rise of overall compensation of employees. The forecast assumes some drift above the PPF provisions, but projects a gradual downward trend to 2003. This results, on the one hand, from a labour market that is expected to remain largely supply-determined, coupled with relatively sticky inflation expectations. On the other hand, wages in the exposed sectors of the economy are assumed to respond more flexibly to the world-wide downturn, in order to safeguard competitiveness. However, the expected rise in average HICP inflation between 2001 and 2002 can be seen as a risk to this relatively benign outlook.

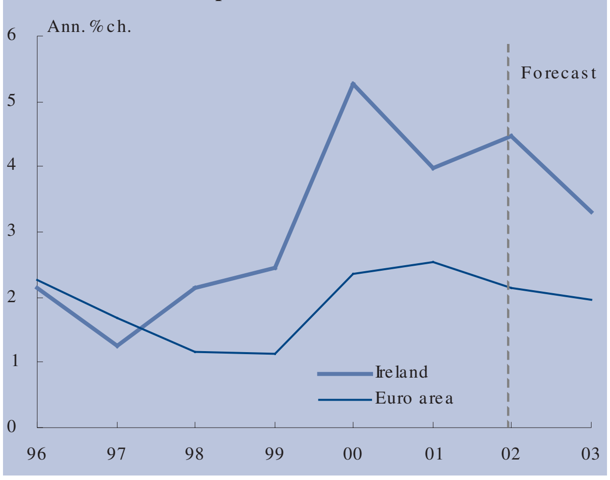
Prices

The improvement in HICP inflation in 2001, to 4.0% on average from 5.3% in 2000, was partly due to a reversal of one-off factors which drove up inflation in 2000 and partly to indirect tax cuts implemented by the budget for 2001. However, domestically-generated pressures remained strong in 2001, with underlying inflation (measured as the HICP minus energy, food, alcohol and tobacco) actually increasing from 4.0% in H1-2001 to 4.9% in H2-2001. For 2002, the Irish authorities estimate indirect tax rate hikes to add 0.9 percentage points to the average CPI inflation rate. As a result, and despite the easing influence of the economic slowdown, average HICP inflation in 2002 is forecast to exceed last year's average. In 2003, however, inflation should ease while continuing to exceed the euro area average. The uncertain outlook on the wage front constitutes a risk to the gradual downward trend in HICP inflation that is assumed to occur from the second quarter of 2002.

Public finances

A large tax undershoot in 2001 is the main reason for the decline in the general government surplus from 4.5% in 2000 to 1.7% in 2001. Apart from the economic downturn and the impact of fiscal largesse in the 2001 budget, this may be partly explained, for indirect taxes, by special circumstances, such as the steep decline in revenue-intensive car sales and extensive restrictions on movement (to ward off foot-and-mouth disease) affecting cross-border trade. The budget for 2002 awards some further direct tax relief for households and companies, the revenue implications of which are offset by a rise in several indirect tax rates and a gradual advancement of the date of payment of corporation taxes. On the expenditure side, double-digit increases are budgeted for improving the quality of public service provision and tackling infrastructural needs. Assuming that tax revenues behave in more predictable ways in 2002, a small surplus is expected for 2002 (including the discounted proceeds of the allocation of four UMTS licences, which is projected to yield some 0.2% of GDP). On a no-policy change basis (and excluding the "contingency provision against unforeseen developments" of some 0.8% of GDP that is part of the 2003 budget target in the most recent update of Ireland's stability programme), the general government balance is projected to decline further in 2003. Overall, the state of the public finances remains healthy, with the debt ratio expected to decline further towards slightly above 30% of GDP by 2003.

Graph 3.13 : **Ireland - HICP inflation compared to the euro area**



Graph 3.14 : **Ireland - GDP growth compared to the euro area**

8. Italy

Cyclical turnaround to grow into full recovery in the second half of 2002

The economy in 2001

Economic growth suffered a marked slowdown over the course of the year. Following the sharp deceleration in the second quarter, economic output was slightly up in the third and contracted in the fourth. Early signs around mid-year pointing to a possible recovery before the end of 2001 were later on belied by the uncertainties originating from the September 11th events. Thanks to the strong kick-off in the first three months of the year, real GDP growth was 1.8% in the year as a whole, slightly above the euro area average (1.6%).

The economic deceleration was led by a weakening of net exports and investment expenditure. Compared with the rest of the euro area, Italian exports fared slightly better in the first three months, but gave in more sharply afterwards on both EU and third markets. The slowdown in investment expenditure largely resulted from a sluggish performance of private business investment. In particular, expenditure on machinery and equipment other than cars was virtually flat in the year as a whole. It appears that the announcement early in 2001 of the "Tremonti law", a tax incentive scheme, led firms to postpone investment plans followed by a further deferral, except for cars, in the light of the worsened economic outlook in autumn. Although with a lag, private consumption was also hit by the cyclical slowdown in 2001, posting a decline in the third quarter. The higher than expected CPI inflation, averaging 2.7%[2], and the shock to confidence after September 11th prevailed over the positive performance of the labour market. Indeed, employment grew throughout the year, though at a slowing rate. A pro-cyclical labour force added to the downward trend of the unemployment rate, which fell to 9.2% in October.

Prospects

Since December 2001, economic surveys as well as hard data have increasingly supported the view that the cyclical downturn reached the bottom in November. While being clearly positive, the evidence also suggests that the recovery of economic activity will be gradual in the first quarter of 2002, especially on account of the slow recuperation of industrial production. The recovery is forecast to become more vigorous around mid-year, when the global economic environment is assumed to strengthen. On the domestic side aggregate demand will be reinforced by the fiscal measure in support of private business investment. However, due to the deceleration at the end of 2001, the statistical overhang of economic growth weighs on the annual rate of increase that can be achieved in 2002. In the year as a whole real GDP is forecast to progress by 1.4%, which, thanks to the assumed acceleration in the second half of the year, produces a favourable starting point for 2003, when GDP growth is forecast to rise to 2.7%.

GDP components

Private consumption is forecast to strengthen throughout 2002 on account of several elements, the most important being the high level of consumer confidence reached in the first few months of the year, ongoing employment creation and, to some extent, fiscal policy measures in support of low income families. By contrast, investment expenditure is likely to remain sluggish at first as there is sufficient unused capacity to increase production in the first few months of the upturn. A clear change is expected in the second half of the year, when firms, considering the improved economic outlook, will try to take advantage of the tax incentive by bringing forward some of their investment plans. On the external side, the expected increase in exports ensuing from the recovery of world demand will be more than compensated by imports, in particular in view of the traditionally high import content of investment expenditure. Hence, the contribution of net exports is expected to turn negative in 2002, before moving into the black again in 2003.

[2] In January 2002 Italy adopted the Commission regulation n. 2602/2000 according to which temporary price reductions such as those granted during sales are to be included in the calculation of the harmonised index of consumer prices (HICP). The resulting structural break in the series has changed the official HICP inflation rate in 2001 from 2.7% to 2.3%.

Table 3.8

Main features of country forecast - ITALY

	2000			Annual percentage change						
	bn Euro Curr. prices	% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices	1164.8	100.0	1.9	1.8	1.6	2.9	1.8	1.4	2.7
Private consumption	704.1	60.4	2.1	3.2	2.4	2.7	1.1	1.7	2.3
Public consumption	212.2	18.2	1.7	0.2	1.3	1.7	2.3	1.1	1.0
GFCF	231.0	19.8	1.1	4.0	5.7	6.5	2.4	2.8	4.9
of which : equipment	112.8	9.7	2.1	7.2	8.3	7.1	1.1	3.1	6.5
Change in stocks as % of GDP	6.2	0.5	0.7	0.8	0.9	-0.2	-0.2	0.0	0.1
Exports (goods and services)	330.3	28.4	5.2	3.4	0.3	11.7	0.8	2.6	6.9
Final demand	1483.7	127.4	2.3	3.2	2.4	4.3	1.4	2.1	3.7
Imports (goods and services)	319.0	27.4	4.7	8.9	5.3	9.4	0.2	4.8	7.1
Contribution to GDP growth : Domestic demand			1.8	2.7	2.8	3.2	1.6	1.8	2.6
Stockbuilding			-0.1	0.3	0.1	-1.1	0.0	0.2	0.1
Foreign balance			0.2	-1.2	-1.3	0.8	0.2	-0.6	0.1
Employment			0.2	1.0	1.1	1.9	1.6	0.8	1.2
Unemployment (a)			9.3	11.7	11.2	10.4	9.5	9.5	8.9
Compensation of employees/head			9.0	-1.5	2.4	3.0	2.8	2.7	2.9
Unit labour costs			7.2	-2.3	2.0	2.0	2.6	2.1	1.5
Real unit labour costs			-0.8	-4.8	0.3	-0.1	-0.1	-0.2	-0.7
Savings rate of households (b)			-	16.9	15.6	14.8	15.1	14.8	14.5
GDP deflator			8.1	2.7	1.7	2.1	2.6	2.4	2.2
Private consumption deflator			8.0	2.1	2.1	2.8	2.9	2.3	2.1
Harmonised index of consumer prices			-	2.0	1.7	2.6	2.3	2.2	2.0
Trade balance (c)			0.6	3.4	2.4	1.3	1.9	1.6	1.7
Balance on current transactions with ROW (c)			-0.2	1.9	1.0	-0.2	0.6	0.3	0.4
Net lending(+) or borrowing(-) vis à vis ROW (c)			-0.1	2.1	1.2	0.1	0.7	0.4	0.5
General government balance (c)(d)			-9.8	-2.8	-1.8	-0.5	-1.4	-1.3	-1.3
General government gross debt (c)			95.9	116.4	114.5	110.6	109.4	107.8	105.6

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

Labour market

Despite the economic slowdown in 2001, employment continued to progress in the three months up to January 2002. The quarterly rate of increase actually accelerated compared with the previous three months producing an overhang of one full percentage point. Therefore, even assuming a lagged slowdown of employment growth in the remaining quarters of 2002, the rate of unemployment is unlikely to rise in the year as a whole. In 2003, with the economic recovery expected to steady, employment creation is finally forecast to regain strength confirming the higher job content of growth observed in the recent past. The rate of unemployment is expected to fall below 9%.

Costs and prices

The downward trend in inflation, in progress since April last year, was interrupted at the beginning of 2002 when the consumer price index (CPI) rose strongly in both January and February. Behind the sudden rise were mainly one-off effects such as the impact of the unusually cold weather on food prices and adjustments of regulated prices. Underlying cost and demand developments, by contrast, are expected to remain conducive to low inflationary pressure throughout the year. Nevertheless, in view of the adverse beginning to 2002, it is rather unlikely that CPI inflation falls below 2% in the year as a whole. In 2003 the renewal of wage agreements of some employment categories usually acting as leaders may push up labour costs. However, thanks to a parallel increase in productivity, this will not feed through into consumer prices. However, as the output gap is forecast to close over the course of the recovery, the ensuing demand pressure will keep inflation from falling below 2% also in 2003.

Public finances

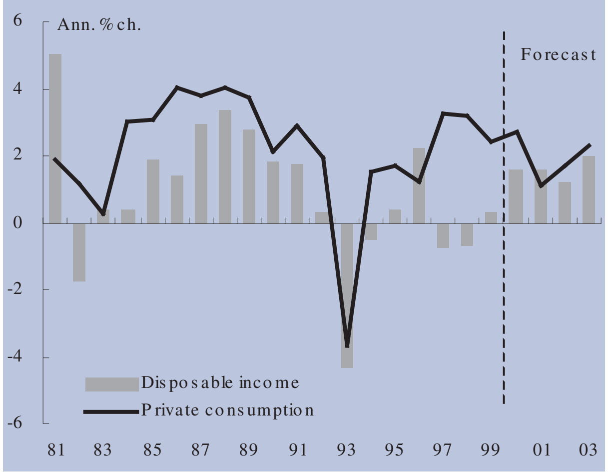
The net borrowing of the general government in 2001 was 1.4% of GDP, down from a revised figure of 1.7% (excluding UMTS proceeds) in 2000, but higher than the government's earlier estimate of 1.1%. The primary surplus slightly increased compared to 2000 (excluding UMTS proceeds). The government debt ratio edged down from 110.6% of GDP in 2000 to 109.4%, higher than the original objective of 107.5%.

The budgetary outcome in 2001 benefited from sales of public real estate assets (0.4% of GDP), largely securitised, and from the securitisation of future net proceeds from the state lottery (0.2% of GDP). If the securitisation of future receipts from the state lotteries as recorded by Italy were confirmed, revenues accruing from lotteries in subsequent years would be reduced. This is reflected in the Commission's forecasts. However, the government deficit in 2001 (and implications for future years) could be modified on the basis of the set of rules on the accounting treatment of securitisation, on which Eurostat, together with the Member States, is to decide by July 2002.

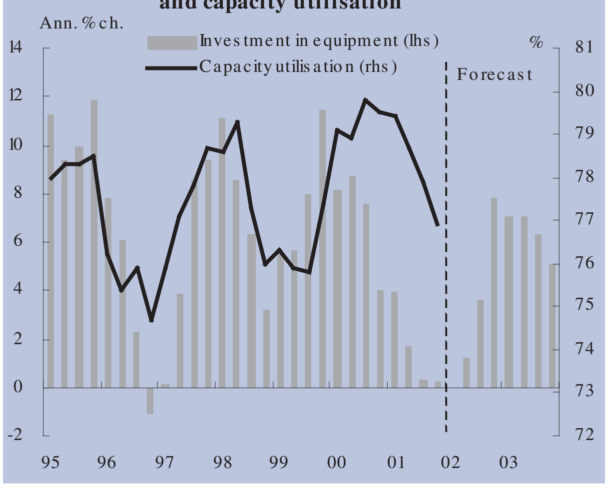
The evaluation of legislation adopted in 2001 and of the Budget Law for 2002 leads to a deficit forecast of 1.3% of GDP in 2002, unchanged in 2003, in the absence of further policy measures. The primary surplus deteriorates in 2002, broadly stabilising in 2003. Interest payments are estimated to continue to decline relative to GDP over the forecast period. The tax burden (EU definition) decreases in both years. The debt ratio continues to decline slowly, reaching 105.6% of GDP at end-2003.

Most provisions in the Budget Law for 2002 are subsumed in the forecast (higher current expenditure for pensions and public sector wages, increases in family allowances, freeze in the implementation of some of tax reductions granted in 2000, extension of the tax on the voluntary re-evaluation of company assets). However, savings in general government expenditures are expected to be slightly lower than officially assumed.

The measures encouraging the "surfacing" of the underground economy are assumed to increase revenues by 0.2% of GDP in 2002 (mostly the one-off effect of the tax and social security contributions amnesty) and 0.1% of GDP in 2003, similarly to the prudent official forecast. The tax amnesty on capital assets held abroad is assumed to increase capital revenue in 2002 as in the official forecast. The tax incentive scheme to support investment is estimated to reduce fiscal revenues by 0.3% of GDP in both 2002 and 2003, but also to induce higher tax receipts through somewhat stronger economic growth in 2002. The one-off impact on the budget from the securitisation of the sale of publicly-owned real assets matches the estimate in the November 2001 updated Stability programme (0.6% of GDP in 2002 and 0.5% in 2003), given the government's firm commitment to achieve such sales. However, while the remaining property of the social security institutions (0.3-0.4% of GDP) is well identified, identification and evaluation of other public real assets available for sale is still preliminary. There is therefore a risk that the sales may not yield the full expected amounts in 2002 and especially in 2003.



Graph 3.15: **Italy - Disposable income and private consumption**



Graph 3.16: **Italy - Investment in equipment and capacity utilisation**

9. Luxembourg

Activity remained buoyant in 2001 but is expected to decelerate to 2003

The economy in 2001

Real GDP growth was extremely strong in Luxembourg in recent years, reaching 7.5% in 2000 and 7% in yearly average over the period 1997-2000. However, economic activity decelerated progressively in the course of 2001, especially in the second half of the year, along with the general slowdown in the EU economy; but yearly GDP growth still amounted to some 5.1%. Industrial production rose by 4% (against 5.1% in 2000) but this still solid increase was mostly due to two enterprises the production of which expanded spectacularly. Construction slowed significantly down with respect to 2000 and most branches of market services, notably financial services also showed signs of deceleration in the course of the year.

On the contrary, retail trade remained dynamic, reflecting buoyancy in private consumption, which increased by 3.4% in volume as against 3.1% in 2000, boosted by still strong employment creation in the first half of the year, by the acceleration in wages and by large cuts in income tax implemented at the beginning of the year. Government consumption rose by 4.6% in real terms, hardly less than in the previous year. Total investment increased by 5.9% in volume, while it had decreased in 2000 for incidental reasons. Exports rose by about 8%, mostly driven by exports of services, which increased by 10% in volume, but exports of goods remained more dynamic than expected, increasing by 4.5%. Imports rose slightly faster than exports, imports of goods being sustained by dynamic consumption and investment.

Prospects

Real GDP growth is expected to accelerate in the course of 2002 but, due to a much smaller overhang at the end of 2001 than one year before, the yearly average will most probably be significantly lower than last year. Private consumption should remain dynamic both in 2002 and 2003, despite the expected slowdown in job creation, due to still rapidly rising wages and a second step of cuts in income tax, entered into force on 1st January 2002. Government consumption will probably continue to rise rather fast, like in recent years. Investment should slow significantly down and will probably even decrease in volume in 2002, despite government investment projected to rise by more than 5% in real terms. As usual in Luxembourg, these large fluctuations in total investment are caused by huge swings in equipment investment; due to the size of the country, a few large projects or even a single one may result in dramatic fluctuations in investment growth. However, as equipment is for a large part imported, the effect on real GDP growth is much more limited. Exports, especially exports of goods, will probably slow considerably down from the still high rate of increase recorded in 2001, but so should imports, due to the projected decline in investment in equipment. All in all, real GDP growth is expected to reach about 3% in 2002, much less than in recent years but, due to the dynamism in consumption (both public and private), significantly more than in neighbouring countries.

Real GDP growth will probably accelerate in the course of 2002 and in yearly average in 2003: not only should exports follow the recovery in international trade, but domestic demand might also grow faster than in 2002 due to an expected recovery in investment. Imports should also reaccelerate, reflecting the faster rise in domestic demand, especially in equipment investment.

Employment and unemployment

Employment kept rising fast in 2001, by 5.7%, marginally more than in 2000 (5.6%). However, it decelerated over the year from a record 6.8% year-on-year rise registered in January. Like in previous years, the largest share of job creation (about 70% in 2001) went to non-residents, which represent now about one third of total employment. However, despite this still strong increase in employment, unemployment started to rise again in the second part of the year. As a result, the unemployment rate in the whole year remained at the same level as in 2000 (2.6%).

Table 3.9

Main features of country forecast - LUXEMBOURG

	2000			Annual percentage change						
mio Euro	Curr. prices	% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices	20564.0	100.0	4.5	5.8	6.0	7.5	5.1	2.9	5.2
Private consumption	8061.0	39.2	2.6	4.0	2.1	3.1	3.4	4.0	3.5
Public consumption	3342.0	16.3	2.7	1.4	7.7	4.7	4.6	3.7	3.5
GFCF	4374.9	21.3	4.3	2.8	19.6	-3.0	5.9	-0.5	5.3
of which : equipment	1947.1	9.5	-	-3.1	42.3	-9.1	10.0	-5.0	6.0
Change in stocks as % of GDP	97.1	0.5	-0.5	0.8	0.4	0.5	0.7	0.4	0.7
Exports (goods and services)	31708.0	154.2	5.7	12.9	13.3	16.4	7.9	3.7	7.5
Final demand	47583.0	231.4	4.7	8.7	11.0	10.9	6.7	3.2	6.4
Imports (goods and services)	27019.0	131.4	5.0	11.5	15.6	13.8	8.3	3.5	7.4
Contribution to GDP growth :	Domestic demand		3.0	2.7	6.5	1.4	3.5	2.1	3.2
	Stockbuilding		0.4	-0.1	-0.4	0.2	0.2	-0.3	0.3
	Foreign balance		1.0	3.2	-0.3	5.4	1.2	1.0	1.7
Employment			2.1	4.5	5.4	5.3	5.7	2.0	3.0
Unemployment (a)			2.5	2.7	2.4	2.4	2.4	2.6	2.7
Compensation of employees/head			5.1	2.3	3.4	4.3	5.3	3.7	4.0
Unit labour costs			2.8	1.0	2.8	2.1	5.9	2.9	1.8
Real unit labour costs			-1.2	-1.6	0.3	-1.5	4.9	0.6	-1.8
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			4.0	2.6	2.5	3.7	0.9	2.3	3.7
Private consumption deflator			4.1	1.3	1.4	2.8	2.8	1.9	2.1
Harmonised index of consumer prices			-	1.0	1.0	3.8	2.4	2.0	2.2
Trade balance (c)			-12.0	-10.2	-13.5	-11.3	-12.7	-12.3	-12.2
Balance on current transactions with ROW (c)			-	-	-	21.9	20.1	19.4	20.1
Net lending(+) or borrowing(-) vis à vis ROW (c)			-	-	-	-	-	-	-
General government balance (c)			-	3.2	3.8	5.8	5.0	2.0	2.5
General government gross debt (c)			7.1	6.3	6.0	5.6	5.5	5.2	5.1

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

Employment growth should slow down considerably in 2002, while remaining much faster than in neighbouring countries. It will probably recover in 2003 but significantly less than GDP, reflecting the usual lag between fluctuations in activity and in employment. Unemployment should continue to increase during the largest part of the forecast period, since job creation will not reach the rather fast pace which seems necessary to keep it constant. Moreover, as unemployment will also rise (and probably even more) in the regions surrounding Luxembourg, the competition will intensify between residents and non-residents, whose reservation wage is probably significantly lower. However, the rise in unemployment should remain limited, at least because a growing number of persons will probably be absorbed in the specific programmes that the Luxembourg authorities have already implemented to put unemployed at work. The number of people subject to these measures rose by 15% in 2001.

Costs and prices

Price inflation had significantly accelerated in 2000 for a large part due to the rise in oil prices. It slowed significantly down in 2001 for symmetric reasons, the annual rise in the HICP declining from 3.8% in 2000 to 2.4%, while the national CPI decelerated from 3.2% to 2.7%. However, underlying inflation accelerated, due to the lagged effects of the rise in oil prices and of the wage indexation mechanism. This slowdown in consumer price inflation should continue in 2002 but a slight acceleration might occur in 2003, following the forecast rise in the price of oil.

Wage increase remained more or less in line with developments in neighbouring countries until the first semester of 2000. Then, it accelerated significantly, reaching 3.9% in 2000 and about 5.3% in 2001, significantly higher than the EU average. This acceleration is probably mostly attributable to the automatic indexation of wages on consumer prices. Wage increase might well slow down in 2002 before accelerating slightly again in 2003, reflecting developments in the CPI.

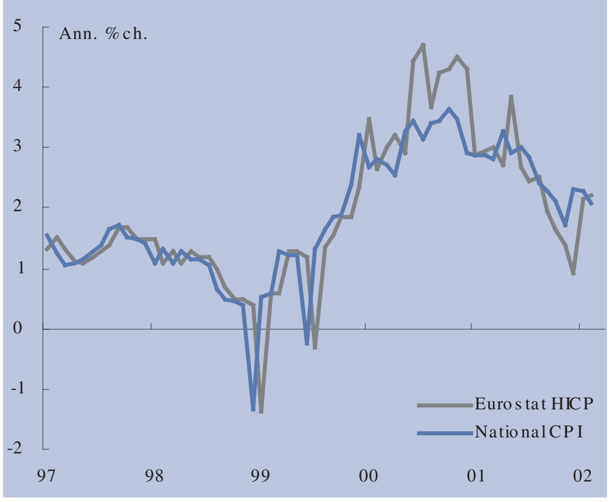
Public finance

Strong activity had boosted government revenues in 2000 to the point that the general government surplus had reached 5.8% of GDP, despite a rather fast rise in expenditure. In 2001, the increase in government current revenues slowed considerably down, from 12.6% in 2000 to 5.3%: receipts from indirect taxes rose by a modest 1.2% as against 15.3% in 2000, while a first round of cuts in income tax was implemented, the *ex-ante* cost of which for public finance was estimated at 1.1% of GDP. On the contrary, the rise in current expenditure accelerated from 7.4% in 2000 to 10.8%, essentially due to a fast increase in government consumption and social transfers. Moreover, general government investment rose by 14.6%. Nevertheless, the general government surplus declined only to 5.0% of GDP, due to the proceeds, amounting to 1.9% of GDP, of the extension of a concession granted to the satellite company ASTRA.

In 2002, on the contrary, the general government surplus should decrease significantly, due to the effects of the slowdown in activity but also to a second round of cuts in income tax as well as a reduction in corporate tax, amounting *ex-ante* respectively to 1.8% and 1.5% of GDP. In 2003, the surplus should increase again as a result of the acceleration in activity and its effects on revenues.

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

Graph 3.18: **Luxembourg - Eurostat's HICP versus national CPI**



10. The Netherlands

Abrupt deceleration in 2001, slow recovery in 2002, strengthening in 2003

The economy in 2001

From the 1993 recession to 2000, the Dutch real GDP grew by 3% or more in all years but 1995. This exceptional period came abruptly to an end at the beginning of 2001, when real GDP growth was null in the 1st quarter, recovered only slightly in the 2nd quarter (+0.3%) and was null again in the last two quarters. The Dutch economy was thus on the verge of a recession in the 2nd semester of the year and yearly GDP growth reached only 1.1% as against 3.5% in 2000.

Like in most other EU countries, the slowdown in activity chiefly resulted from the deceleration in international trade: both exports and imports, which had been rising by more than 2% in quarterly figures up to the end of 2000, fell abruptly and simultaneously from the 1st quarter of 2001.

However, other factors also played a role in this slowdown: private consumption fell by 0.8% quarter-on-quarter in the 1st quarter, despite still rapidly rising employment, fast increasing wages and a supplementary boost given to disposable income by large cuts in income taxes and social contributions paid by households, implemented as part of a wide-ranging fiscal reform entered into force on 1st January. Actually, households had anticipated much more than generally expected the rise in VAT which was part of the same tax reform and had massively brought forward purchases of durable goods in the latest months of 2000. Private consumption recovered somewhat from the 2d quarter, growing by nearly 0.7% quarter-on-quarter on average in the last three quarters of the year but at a decelerating pace, reflecting probably the decline in consumers confidence resulting from the slowdown in activity.

Private investment started to decrease in the 3rd quarter of 2000 and declined further all along 2001, falling by more than 2% in yearly terms, investment in equipment collapsing by more than 4%. Inventories decreased only slightly over the year but fell by more than 1 percentage point of GDP in the 4th quarter of 2001, explaining for a large part the decline in domestic demand at that moment. However, in terms of real GDP growth, this fall was partially compensated by an even bigger drop in imports. Actually, the main support to growth in 2001 came from public spending, government consumption and investment rising year-on-year by 3.4% and 5.1% respectively and contributing together for 0.9% to GDP growth, significantly more than private consumption or exports (0.6% each).

Prospects

After the incidental fall at the beginning of 2001, private consumption should continue to recover in 2002 and 2003 but only progressively: slow job creation and rising unemployment will partially offset the effects of fast rising wages and of the large increase in disposable income which occurred in 2001 (resulting until now mostly in additional saving). Due to slowly improving demand and to the deterioration in profitability caused by the fast increase in wages in recent years, recovery in private investment should only effectively materialise at the end of 2002 or in 2003. On the contrary, stocks might pick up rather promptly after the big fall registered in the 4th quarter of 2001 and perhaps bring real GDP growth back in positive territory already at the beginning of 2002.

Exports should begin to rise again in the course of 2002, perhaps already in the 1st quarter, in line with the recovery in international trade. However, they will probably increase significantly slower than total market growth due to deteriorating external competitiveness resulting from fast wage increases. Imports will probably recover faster than exports, due to the earlier acceleration in domestic demand. In total, real GDP should accelerate only modestly in yearly average in 2002 and more significantly in 2003, rising by about 1½% and 2¾% respectively.

Employment and unemployment

Employment was very dynamic in recent years, rising by 2½% a year on average from 1995 to 2000. It kept increasing rapidly in the first half of 2001, slowed down

Table 3.10

Main features of country forecast - NETHERLANDS

	2000			Annual percentage change						
	bn Euro Curr. prices	% GDP		1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices	401.1	100.0		2.4	4.3	3.7	3.5	1.1	1.5	2.7
Private consumption	199.9	49.8		1.6	4.8	4.5	3.8	1.2	2.1	3.4
Public consumption	91.2	22.7		2.0	3.6	2.8	1.9	3.4	2.0	1.7
GFCF	90.9	22.7		2.2	4.2	7.8	3.8	-1.1	-0.8	2.4
of which : equipment	31.4	7.8		4.1	2.3	8.9	5.5	-4.3	-2.3	3.5
Change in stocks as % of GDP	-0.4	-0.1		0.4	0.7	0.1	-0.1	-0.2	-0.2	0.2
Exports (goods and services)	269.6	67.2		5.3	7.4	5.4	9.5	0.9	1.1	5.1
Final demand	651.2	162.4		3.0	5.8	4.7	5.7	1.0	1.3	3.9
Imports (goods and services)	250.1	62.4		4.4	8.5	6.3	9.4	0.9	1.1	6.0
Contribution to GDP growth :	Domestic demand			1.8	4.1	4.5	3.1	1.1	1.3	2.6
	Stockbuilding			-0.1	0.4	-0.6	-0.2	-0.1	0.1	0.3
	Foreign balance			0.5	-0.2	-0.2	0.6	0.1	0.1	-0.2
Employment				1.3	2.6	2.5	2.4	2.1	0.6	0.9
Unemployment (a)				7.2	3.8	3.2	2.8	2.4	3.0	3.5
Compensation of employees/head				2.5	3.5	3.3	4.6	4.6	5.2	4.5
Unit labour costs				1.4	1.8	2.1	3.5	5.6	4.3	2.6
Real unit labour costs				-0.6	0.1	0.4	-0.3	0.4	1.0	-0.3
Savings rate of households (b)				-	19.4	15.2	13.1	15.8	16.9	16.1
GDP deflator				2.0	1.7	1.7	3.7	5.2	3.2	3.0
Private consumption deflator				2.6	1.7	1.9	2.8	4.5	3.3	2.5
Harmonised index of consumer prices				-	1.8	2.0	2.3	5.1	3.5	2.2
Trade balance (c)				3.7	5.2	4.0	4.8	5.4	5.3	5.1
Balance on current transactions with ROW (c)				3.8	3.0	4.1	5.1	5.3	4.8	4.6
Net lending(+) or borrowing(-) vis à vis ROW (c)				3.5	2.8	3.9	4.9	5.1	6.0	5.0
General government balance (c)(d)				-4.2	-0.8	0.4	2.2	0.2	0.0	-0.4
General government gross debt (c)				71.6	66.8	63.1	56.0	52.9	50.1	47.4

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

in the second but still grew by slightly more than 2% in yearly average; this means that GDP per occupied person declined by about 1%. This substantial labour hoarding probably resulted from the sudden character of the slowdown in activity and from its widely unexpected sharpness but also from the fact that firms were certainly reluctant to lay off employees taking into account the acute problems they had faced in hiring staff in recent years (the number of vacancies has been higher than recorded unemployment since the Summer of 2000 and still remains so, while declining significantly in recent months).

Employment should rise only modestly in 2002, by about ½%, and a somewhat faster in 2003, by around 1%. Consequently, unemployment, which remained stable until the end of 2001, contrarily to most expectations, will eventually begin to rise in 2002. It should stop increasing and even begin to decline before the end of the forecasting period but, as its decline in 2003 is likely to be slower than its rise in 2002, it will probably still increase in yearly average next year, the Eurostat harmonised rate rising to some 3.3% from 2.4% in 2001 and 2.9% in 2002.

Costs and prices

Due to strong job creation, falling unemployment and the ensuing rising tensions on the labour market, the increase in wages accelerated significantly in recent years, from 1.4% in 1996 to about 4½% in 2001. It should decelerate only marginally during the forecast period as the increase in unemployment should remain rather limited and its level comparatively low, while inflation will probably slow down only gradually.

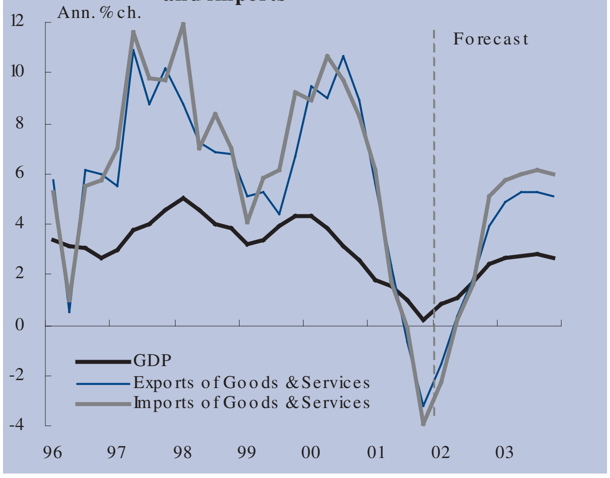
Inflation had remained moderate up to 1999 but, partly as a result of rising oil prices, it accelerated significantly in the course of 2000, reaching 3% at the end of the year. It speeded up even more at the beginning of 2001, partly because of a rise from 17.5% to 19% in the standard VAT rate which was part of the fiscal reform. For the whole year, the HICP rose by 5.1% and the national CPI by 4.5% against 2.3% and 2.5% respectively in 2000. Wages still rising rapidly, the deceleration in inflation should be only progressive over the forecast period, both indexes increasing by about 3¼% to 3½% this year and 2¼% to 2½% next year.

Public finance

The general government surplus had reached 1.5% of GDP in 2000 (2.2% including revenues from UMTS licences) but fell to around 0.2% in 2001 due to a series of factors: the large tax cuts operated at the beginning of the year and amounting *ex ante* to 0.7% of GDP, additional spending decided in the Spring for about 0.7% of GDP (but compensated by lower than projected interest payments and social security outlays), the purchase by the State of the stake of the firm DSM in the energy concern EBN for another 0.3% of GDP and also the slowdown in activity, which resulted in the latest months of the year in significant shortfalls in taxes and social contributions.

The surplus should fall to about zero this year, following new tax cuts (albeit for a much smaller amount than in 2001) and additional expenditure for about 0.8% of GDP decided in the 2002 budget, but al so due to slow economic growth and an increase in unemployment outlays. With unchanged policy, rising unemployment spending and the lagged effect of economic slowdown on some tax receipts should even result in a small deficit in 2003. This should not prevent the debt ratio from continuing to decline, but at a slower pace than in recent years, from 52.9% in 2001 to around 50% in 2002 and to about 47½% in 2003.

Graph 3.19 : **The Netherlands - GDP, exports and imports**



Graph 3.20 : **The Netherlands -Consumer price inflation**

11. Austria

Sluggish domestic demand in 2002 to accelerate in 2003

The economy in 2001

Economic activity in 2001 slowed considerably from the buoyancy in 2000. This was caused by a sharp fall in domestic demand growth while the growth contribution of the external sector improved, reflecting basically a slump in import growth. In comparison with the previous year, growth of private consumption halved, to 1¼ %, as real disposable income of households declined under the impact of weak employment growth, higher than anticipated inflation and a rise in income taxes. Investment took a dive, with construction suffering from oversupply and budgetary restraint, while equipment investment plunged in a context of deteriorating demand expectations. Export growth proved surprisingly resilient in the face of sluggish external demand, thanks partially to significant improvements in external competitiveness over recent years which helped gain market shares. Overall, at 1% output growth came in 2 percentage points below the rate of the previous year.

Prices increased at the beginning of the year but, as oil prices fell and other special factors faded (e.g. excise tax increases), started to fall towards the middle of the year. The weak output growth reversed the trend decline in unemployment observed in previous years, with the unemployment rate staying nonetheless significantly below the average of the EU15.

Prospects

Economic activity in 2002 is influenced by the slack in world economic growth and sluggish domestic demand. Private and public consumption will continue to be curbed by slow employment growth and budgetary restraint. Investment is projected to pick up only by mid-2002, thus delaying an upswing. Export growth in 2002 is likely to slow further, at least on an annual average, with the first half of the year expected to record particularly low growth rates. As a result, output growth in 2002 is expected to remain more or less steady at below 1¼ with domestic demand offsetting a further decline in export growth. A full reversal of this is only expected in 2003, when a revival of both external trade and domestic demand should bring output expansion close to a rate of 2½%.

Demand components

In 2002, households' disposable income should again expand, if moderately, thanks to decelerating price increases and the introduction of a new childcare allowance. However, a less benign employment outlook will partly counter this effect. As a result, private consumption is expected to accelerate only slightly in 2002 before recovering more vigorously in 2003. Public consumption is projected to fall again in 2002 due to budgetary consolidation, before expanding moderately in 2003. Construction investment is projected to bottom out towards the end of 2002, with a slight expansion foreseen in 2003. Equipment investment is expected to pick up by mid-2002 reflecting the improvement in demand conditions. Due to sluggish external demand in the first half of the year, on an annual average export growth is projected to decelerate in 2002, but with import growth declining as well net exports should continue to contribute positively to GDP growth, albeit somewhat less than a year before. Exports are expected to gain momentum from mid-2002 onwards, coming into full swing in 2003. With imports also surging, reflecting the expected pick-up in domestic demand, the contribution of net exports to GDP growth should be close to neutral in 2003.

Prices and Wages

In 2002, the assumed lower oil price and the easing of other import prices should have a moderating impact on consumer prices. With the effect of this vanishing and activity reviving a gentle increase in price inflation should be expected in 2003. The collective wage bargaining round in the private sector points towards a nominal increase in contract wages somewhat below that of 2001. Owing also to the more favourable inflation outlook, this implies a slight increase in real wages. In 2003, despite the cyclical upswing wage moderation in the private sector is expected to continue, leading to only slightly higher wage settlements than in

Table 3.11

Main features of country forecast - AUSTRIA

	2000			Annual percentage change						
	bn Euro Curr. prices	% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices	204.8	100.0	2.2	3.5	2.8	3.0	1.0	1.2	2.5
Private consumption	116.8	57.0	2.5	2.8	2.7	2.5	1.3	1.6	2.3
Public consumption	39.7	19.4	1.8	2.8	2.2	0.9	-0.2	-0.1	0.2
GFCF	48.5	23.7	2.1	3.4	1.5	5.1	-1.5	0.6	4.0
of which : equipment	20.2	9.9	2.3	5.2	4.0	11.7	-1.2	2.5	7.6
Change in stocks as % of GDP	1.7	0.8	0.3	0.7	0.8	0.5	0.4	0.3	0.5
Exports (goods and services)	102.7	50.1	4.5	7.9	8.7	12.2	5.5	4.2	7.5
Final demand	309.5	151.1	2.7	4.2	4.6	5.5	1.9	2.0	4.3
Imports (goods and services)	104.6	51.1	4.2	5.9	8.8	11.1	3.6	3.5	7.6
Contribution to GDP growth :	Domestic demand		2.2	2.9	2.3	2.8	0.3	1.0	2.2
	Stockbuilding		0.0	0.1	0.2	-0.3	-0.3	-0.1	0.2
	Foreign balance		0.1	0.8	0.0	0.5	1.0	0.4	0.1
Employment			0.1	0.7	1.2	0.5	0.2	-0.4	0.5
Unemployment (a)			3.2	4.5	3.9	3.7	3.6	4.0	3.8
Compensation of employees/head			4.7	2.8	2.4	2.1	2.8	2.4	2.6
Unit labour costs			2.5	-0.1	0.8	-0.4	2.0	0.8	0.6
Real unit labour costs			-0.6	-0.6	0.1	-1.5	0.1	-0.8	-0.7
Savings rate of households (b)			-	-	12.2	11.3	9.5	8.5	8.5
GDP deflator			3.1	0.5	0.7	1.2	1.8	1.7	1.3
Private consumption deflator			3.2	0.5	0.7	1.5	2.3	2.2	2.0
Harmonised index of consumer prices			-	0.8	0.5	2.0	2.3	1.6	1.7
Trade balance (c)			-3.9	-1.6	-1.6	-1.3	-1.3	-1.1	-1.4
Balance on current transactions with ROW (c)			-0.8	-2.0	-3.1	-2.7	-2.1	-1.6	-1.9
Net lending(+) or borrowing(-) vis à vis ROW (c)			-0.9	-2.1	-3.2	-3.0	-2.3	-1.8	-2.2
General government balance (c)(d)			-3.2	-2.4	-2.2	-1.5	0.1	-0.1	0.3
General government gross debt (c)			56.0	63.9	64.9	63.5	61.8	60.2	57.6

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences in 2000. The UMTS amount as a % of GDP would be : 0.4%.

2002. In the public sector, by contrast, as the agreed pay-rise for the period 2001-02 was very moderate and entailed significant losses in real terms, and given that 2003 is an election year, prospects are for noticeable higher wage demands. In sum, wage growth in 2003 should be somewhat above that in 2002.

Labour market

The slack in output growth in 2002 is expected to impact negatively on the labour market, with total employment expected to fall. Dependent labour is nevertheless projected to expand slightly in 2002 while a more sustained pick-up should be expected for 2003. The gentle decline in self-employment is expected to continue over the whole forecasting period. Total employment growth is thus expected to resume in 2003. Labour supply is subject to partly offsetting tendencies related to changes in social security legislation and the introduction of a new childcare allowance. Overall, the activity rate is projected to increase slightly over the forecast period. Reflecting the projected tendencies of labour demand and supply, unemployment is expected to continue to rise in 2002 before starting to fall again in 2003.

Current account

The current account deficit is expected to narrow in 2002 due basically to weak domestic demand. This is particularly reflected in a declining trade deficit under the impact of slowing import growth. In 2003, despite a relatively stable services surplus the projected rise in the growth rate of imports of goods should again lead to a widening of the current account deficit.

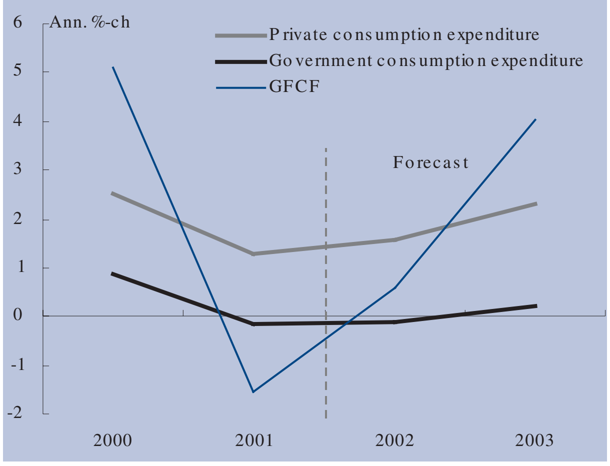
Public finances

In 2001, budgetary consolidation was impressive. General government finances improved from a deficit of 1.5% of GDP in 2000 (excluding UMTS proceeds) to a small surplus of 0.1%[3]. As this was achieved against low output growth the improvement in the cyclically-adjusted position was even stronger. Austria therefore achieved the goal of a budget close to balance or in surplus one year ahead of the target set in the updated stability programme of 2000. The favourable outcome in 2001 was due mainly to a strong increase in tax income, which exceeded expectations, reflected in a sharp increase in the tax burden to more than 45% of GDP.

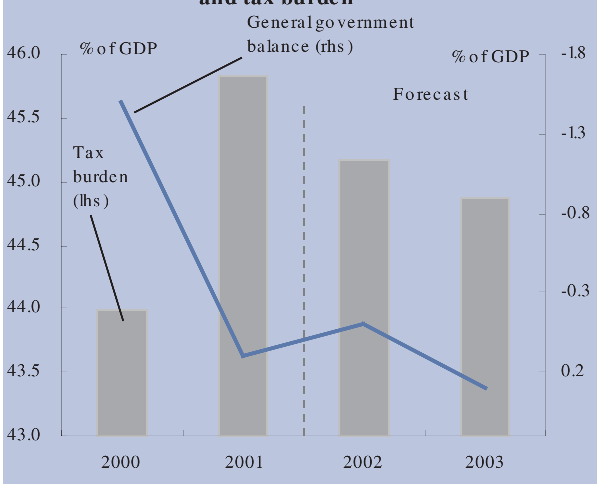
Although a new childcare allowance was introduced as of January, the budget 2002 implies significant restraint. Expenditure growth is projected to be kept at bay thanks to the continued effects of the pension reform and the ongoing administrative reform. Although government spending in percent of GDP should fall significantly, the slack in output growth and projected revenue shortfalls from unsettled tax claims linked to higher prepayments in 2001 are expected to deteriorate government finances to a small deficit of 0.1% of GDP.

In 2003, by contrast, the expected cyclical upswing in combination with the continued impact of structural expenditure savings should again result in a small budgetary surplus. This forecast is, however, based on a no-policy-change assumption, taking into account only measures decided at the cut-off date (e.g. the planned reduction in non-wage labour cost is not included).

Graph 3.21: **Austria - Growth rates of domestic demand compantents**



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



3 Eurostat is currently not in a position to certify the figures included in the Spring 2002 notification of Austria under the excessive deficit procedure (according to Council regulation n° 3605/93, amended by Council regulation n° 475/2000); among other reasons uncertainties are related to the attribution of taxes collected in 2001 but due in previous years.

12. Portugal

Correction of macro-economic imbalances delays upswing

The economy in 2001

In the first 3 quarters of 2001 GDP is estimated to have grown by around 2% compared with the same period of 2000. With output growth likely to have decelerated also in the fourth quarter, the annual growth rate is estimated at some 1¾%, implying a sharp deceleration in the pace of economic activity from the period 1999-2000. This was due to a rapid decline in the growth contribution of domestic demand which was only partly offset by an improvement in the external contribution. In particular, growth of private consumption saw a strong downturn and investment growth is expected to have declined by about ½%, reflecting a weakening in residential construction and business investment. Public investment, by contrast, picked up partly due to a catch-up effect following teething problems with the new Community Support Framework in 2000 and an investment cycle due to local elections. Export growth is estimated to have slowed from some 8% in 2000 to about 3½% in 2001, in tandem with the decline in export market growth. At the same time, import growth fell from 5¾% in 2000 to near stagnation in 2001 as a result of weakening domestic demand. In net terms, therefore, the contribution of the external sector to output growth improved to about 1% of GDP.

Inflation was pushed up in 2001 by a number of temporary factors, such as the oil price hike and increases in non-processed food prices. Although inflationary pressures started to subside from the second quarter of 2001 onwards, the annual average increase amounted to 4.4 %.

Employment grew by a strong 1.6% in 2001. Due to a concomitant rise in the labour force, the unemployment rate remained unchanged at about 4%.

Outlook

While the first half of 2002 should see a further decline in economic activity, a moderate pick-up is expected from the second half of 2002 onwards, reflecting the assumption of favourable developments in the world economy. However, in view of the negative overhang at the beginning of the year, on an annual average GDP growth is expected to reach only 1½% in 2002 before reviving to an annual growth rate of some 2¼% in 2003. Domestic demand is forecast to grow by about ¾ % in 2002 before picking up to about 2% in 2003. The subdued growth of domestic demand, especially in 2002, is mainly due to continued efforts of private sector agents to redress their balance sheets, following the sharp rise in indebtedness levels in recent years. While export growth is expected to revive in the forecast period imports will also pick up, resulting in a decline in the growth contribution of net exports.

GDP components

Private consumption is expected to remain subdued in 2002-03 as consumer confidence is currently low and the households' saving rate is assumed to stabilise at around 13% of gross disposable income after having reached a historically low level in 1999. In particular, consumption of durable goods, especially vehicles, is expected to remain weak, reflecting saturation effects and the impact of changes in indirect taxes.

Total investment is forecast to grow by 1¼% on average in 2002-03. Investment in construction is expected to be affected by continued weakness in residential construction which, following a normalisation in the level of capital transfers from the Community Support Framework, should be progressively offset by higher public investment. Investment in equipment is expected to remain subdued in the first half of 2002, due to a low rate of capacity utilisation and a weak profitability of enterprises, but should strengthen by mid-2002, reflecting the improvement in the international environment.

Due to a strong negative statistical overhang, the sharp deceleration in export growth in 2001 is expected to affect export growth also in 2002. As export market growth progressively gathers pace, reaching about 6½% in 2003, total export growth is projected to recover over the forecast period. The total import elasticity of final

Table 3.12

Main features of country forecast - PORTUGAL

	2000			Annual percentage change						
	bn Euro Curr. prices	% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices	115.4	100.0	2.9	4.5	3.4	3.4	1.8	1.5	2.2
Private consumption	71.3	61.8	2.7	5.1	4.8	2.6	0.8	0.7	2.0
Public consumption	23.4	20.3	4.0	3.8	4.5	2.5	2.3	1.7	1.0
GFCF	32.9	28.5	3.5	11.2	7.2	4.8	-0.5	0.5	2.1
of which : equipment	16.4	14.2	2.9	17.2	10.8	6.5	-1.2	0.5	2.7
Change in stocks as % of GDP	0.8	0.7	0.5	0.8	1.0	0.7	0.4	0.4	0.4
Exports (goods and services)	36.6	31.7	6.5	9.2	3.2	8.2	3.3	2.4	6.1
Final demand	165.0	142.9	3.9	7.2	5.0	4.1	1.2	1.2	2.9
Imports (goods and services)	49.7	43.1	6.8	14.2	8.7	5.7	0.1	0.6	4.5
Contribution to GDP growth :	Domestic demand		3.3	6.7	5.8	3.5	0.8	0.9	2.0
	Stockbuilding		0.0	0.3	0.2	-0.3	-0.1	0.0	0.0
	Foreign balance		-0.4	-2.6	-2.6	0.2	1.1	0.6	0.2
Employment			-0.3	2.7	1.8	1.7	1.6	0.2	0.3
Unemployment (a)			6.8	5.1	4.5	4.1	4.1	4.6	5.0
Compensation of employees/head			14.9	3.7	4.2	6.3	5.8	4.4	3.7
Unit labour costs			11.4	1.9	2.6	4.6	5.6	3.2	1.8
Real unit labour costs			-1.3	-1.9	-0.7	1.5	0.8	-0.1	-0.6
Savings rate of households (b)			-	-	10.7	12.1	13.5	13.7	13.2
GDP deflator			12.8	3.9	3.3	3.0	4.8	3.2	2.4
Private consumption deflator			12.6	2.9	2.3	2.8	4.4	3.1	2.4
Harmonised index of consumer prices			-	2.2	2.2	2.8	4.4	3.1	2.4
Trade balance (c)			-12.8	-11.0	-12.3	-13.6	-12.0	-11.1	-11.0
Balance on current transactions with ROW (c)			-3.6	-7.2	-8.9	-10.4	-9.6	-8.7	-8.6
Net lending(+) or borrowing(-) vis à vis ROW (c)			-	-4.6	-6.1	-8.8	-8.6	-7.3	-6.9
General government balance (c)(d)			-5.9	-2.3	-2.2	-1.5	-2.7	-2.6	-2.5
General government gross debt (c)			59.8	54.8	54.2	53.4	55.4	56.5	57.2

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

demand is estimated to decline in 2001 and in 2002, because of the marked slowdown in the demand for durables with a high import content. With the gradual revival of investment and exports, the import elasticity should edge up again at the end of the forecast period. Overall, the contribution of net exports to output growth is forecast to be about ½ percentage point in 2002 and ¼ percentage point in 2003.

External Balance

A sizeable external deficit, as measured by the sum of the current and the capital balance, is the counterpart of the strong increase in private sector indebtedness over recent years. A gradual adjustment process has set in as witnessed by the decline in domestic demand. Although this process should act to narrow the external deficit, it is likely to be slow. As a result, and despite the expected normalisation in the level of capital transfers from the Community Support Framework, the external deficit is projected to decline only mildly from 8½% of GDP in 2001 to about 7% in 2003.

Prices

Due to the disappearance of temporary factors, which increased price pressures in 2000 and at the beginning of 2001, inflation is on a decelerating trend. As domestic demand is expected to remain subdued, inflation is projected to pursue its slowdown over the forecast period, attaining an annual average close to 2½% in 2003.

Labour Market

Employment growth is forecast to slow down to about ¼% per year in the forecast period, whereas the unemployment rate is expected to rise to about 5% in 2003. The easing of labour market tensions combined with the expected decline in inflation, together with the favourable spill-over effects from comparatively low wage agreements in the public sector, should have a dampening effect on wage increases in the private sector. As a result, total wage growth is expected to decelerate from about 5¾% in 2001 to 3¾% in 2003.

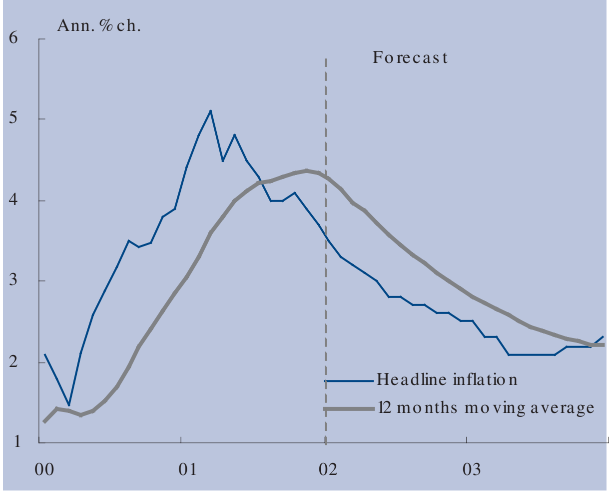
Public finances

The February 2002 EDP notification by the Portuguese authorities estimated the general government deficit in 2001 at 2¼ % of GDP.[4] In the meantime, following additional information on certain capital transactions between the government and public enterprises, Eurostat reclassified some of these operations as capital transfers rather than as capital injections, resulting at this stage in an upward revision of around ¼ % of GDP.

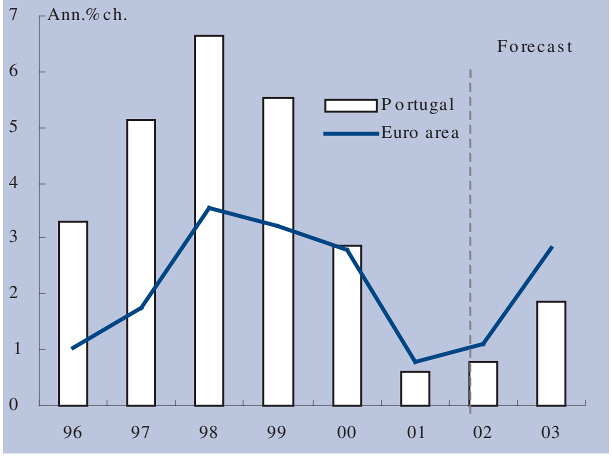
In addition, official estimates of the borrowing requirement of local authorities in 2001 were revised upwards by ¼ % of GDP. As a consequence, the new estimate for the 2001 deficit, based on the available information at the cut-off date of the forecast, is 2.7% of GDP.

Regarding the year 2002, the deficit estimate for 2002 is based on the initial 2002 budget and, taking into account the worse point of departure, centred around 2½ % of GDP. The new government, which took office in early April, announced plans to amend the current budget trough a supplementary budget to be presented in May.

Graph 3.23: **Portugal - CPI inflation**



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



4 Eurostat was not in a position to certify this figure of Portugal under the excessive deficit procedure (according to Council regulation n° 3605/93, amended by Council regulation n° 475/2000); among other reasons uncertainties were related to capital transfer to public enterprises.

13. Finland

Subdued growth in 2002 followed by a recovery in 2003

Economy in 2001

The Finnish economy experienced a severe slowdown in 2001, after seven years of robust growth averaging more than 4% per year. Real GDP grew by a modest 0.7%, down from 5.6% in 2000. The slowdown was mainly due to a collapse in global export demand which also led to a vast de-stocking. The growth contribution from net exports fell to zero as exports and imports decreased by 0.7% and 1.0%, respectively. Growth came thus exclusively from the domestic side, with domestic demand expanding by 0.8%. Private consumption grew by 1.4%, although, with real disposable income of households increasing by 2.9%, the savings rate levelled upwards. Government consumption rose by 1.7% due mostly to a rise in expenditure of local governments. Total investment strengthened by 2.1% although the pattern was somewhat mixed since construction investment fell due to poor housing construction whereas other construction still improved. Equipment and other investment, however, continued to lift overall investment expenditure.

Unemployment averaged 9.1% of the total labour force in 2001, down from 9.8% in 2000. This owed to a still favourable employment growth of 1.2% of which most came from the service sector, particularly from financial and public services. The labour force participation rate improved by 0.2 pp. to an annual average of 66.7%. Inflation (HICP) eased gently to 2.7% as shocks from higher prices of oil and housing faded towards the end of the year. However, prices of services continued to uphold inflation.

Prospects

Against the background of negative GDP growth in the fourth quarter of 2001 some rebound effects can be expected in the first quarter of 2002. Nevertheless, economic indicators point to moderate growth rates in the first half of 2002. Therefore, GDP is expected to gain momentum only from summer on in step with improved external demand. As a result, real GDP is forecast to grow by a moderate 1½% on average in 2002. In 2003, annual average growth should pick up to close to 3 ¼%.

Under the forecast profile of moderate output growth, employment creation will be modest in 2002 and will be concentrated in the service sector – particularly in public services. Employment growth will be dampened also by a further increase in regional and skill mismatch. Consequently, a small rise in unemployment is forecast for 2002. This is likely to be accentuated by an increase in the labour market inflow of persons currently outside the work force (students, housewives etc.) which will raise the participation rate slightly. The projected rise in unemployment would be even higher if it were not for the labour-hoarding behaviour of employers preparing to face labour shortages as a result of the baby boom generation beginning to retire. Unemployment is expected to resume its downward trend in 2003 along with the acceleration in economic activity.

GDP components

Finland is one of the countries most exposed to global developments in the ICT sector. Due to the poor performance of this sector in combination with soft global demand, exports will most likely stagnate in the first half of 2002 followed by a rebound in the second half as global conditions improve. In 2003, thanks to a still good price competitiveness of Finnish exporters and to the expected boost from third generation mobile technology investment, net exports are expected to boost GDP growth by nearly 1½ pp. Consumer spending in 2002 should be supported by continued income tax cuts and an expected moderation in inflation. However, the positive impact of these factors might be dampened by the expected mild increase in unemployment. In 2003, improving employment conditions and higher wage rises are expected to result in a slight acceleration of private consumption growth. Owing to a low capacity utilisation rate and the weak export demand, business investment is expected to stay relatively weak in 2002 but should start to pick up gradually by mid 2003, along with improved demand prospects and as financing conditions remain

Table 3.13

Main features of country forecast - FINLAND

	2000			Annual percentage change						
	bn Euro Curr. prices	% GDP	1981-97	1998	1999	2000	2001		2002	2003
GDP at constant prices	131.2	100.0	2.2	5.3	4.1	5.6	0.7		1.6	3.3
Private consumption	64.9	49.5	2.2	5.1	4.0	2.2	1.4		2.1	2.2
Public consumption	27.1	20.6	2.1	1.7	1.9	-0.2	1.7		1.6	1.1
GFCF	25.3	19.3	0.3	9.3	3.0	4.8	2.1		-1.2	2.8
of which : equipment	7.9	6.0	1.4	8.0	-2.0	1.1	4.5		-0.3	4.6
Change in stocks as % of GDP	1.7	1.3	0.1	1.1	-0.1	1.1	-0.1		0.0	0.1
Exports (goods and services)	56.3	42.9	4.9	8.9	6.8	18.2	-0.7		3.0	6.9
Final demand	175.3	133.6	2.5	6.1	4.0	8.2	0.3		1.9	3.9
Imports (goods and services)	44.0	33.6	3.7	8.5	4.0	16.2	-1.0		2.9	5.6
Contribution to GDP growth :	Domestic demand		1.7	4.6	3.0	2.0	1.4		1.1	1.8
	Stockbuilding		-0.1	0.7	-1.2	1.3	-0.7		0.1	0.1
	Foreign balance		0.5	1.0	1.6	2.6	0.0		0.4	1.4
Employment			-0.6	2.1	2.7	1.9	1.2		-0.1	0.3
Unemployment (a)			8.3	11.4	10.2	9.8	9.1		9.3	9.2
Compensation of employees/head			6.9	4.1	2.1	3.9	4.5		3.5	3.8
Unit labour costs			4.0	0.9	0.8	0.3	5.0		1.8	0.8
Real unit labour costs			-0.8	-2.0	0.9	-2.8	2.8		0.5	-1.1
Savings rate of households (b)			-	8.4	9.2	8.3	9.8		9.7	9.3
GDP deflator			4.9	3.0	-0.2	3.2	2.2		1.2	1.9
Private consumption deflator			4.7	1.7	1.0	3.8	2.7		1.9	2.0
Harmonised index of consumer prices			-	1.4	1.3	3.0	2.7		2.0	2.1
Trade balance (c)			3.6	9.7	9.5	11.4	10.5		10.2	10.6
Balance on current transactions with ROW (c)			-1.1	5.6	6.0	7.2	6.5		6.4	7.1
Net lending(+) or borrowing(-) vis à vis ROW (c)			-1.0	5.3	6.4	7.3	6.5		6.4	7.1
General government balance (c)			0.2	1.3	1.9	7.0	4.9		3.3	2.7
General government gross debt (c)			29.7	48.8	46.8	44.0	43.6		43.1	42.9

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

favourable. A higher vacancy rate for business premises coupled with a decline in the demand for housing will hold back construction investment throughout the forecast period.

Costs and prices

Although economic activity is expected to gradually pick up, lower energy and food prices should reduce price pressures throughout 2002. HICP inflation is expected to fall to close to 2%, although prices of services are projected to continue to sustain inflation. In December 2000, a centralised two-years wage agreement awarded a general wage rise of 3.1% in 2001 and of 2.3% in 2002. Due to a positive wage drift *per-capita* wages increased by 4.5% in 2001, contributing to a rise in unit labour costs by 5%, much above that of the partner countries in the euro area. In 2002, owing to the agreed moderate wage rises, nominal unit labour costs appear to increase again in parallel with partner countries. Still, applying the previous average wage drift to the agreed rise in wages results in labour cost exceeding the average productivity. As for 2003, the centralised wage agreement could prove costly as wage claims in some part of the public sector appear rather high. As a consequence, and owing also to the pick up in economic activity, the forecast expects average compensations of employees to rise by 3 ¾% in 2003.

Public finances

The sound position in public finances continued in 2001 with the surplus reaching a still strong 4.9% of GDP after a record height of 7% in 2000. The easing of the budgetary balance owed to a decline in the surplus of central government finances. Furthermore, local government finances relapsed into their customary deficit position following an unexpected surplus in

2000. The budgetary position of the central government was affected by a marked fall in revenue. Corporate taxes dropped by about one sixth while income taxes were dampened by rate cuts in the framework of the government's medium-term income tax reform. Moreover, income from privatisation nearly faded. In addition, expenditure increased above the rate agreed in the medium-term spending guidelines.

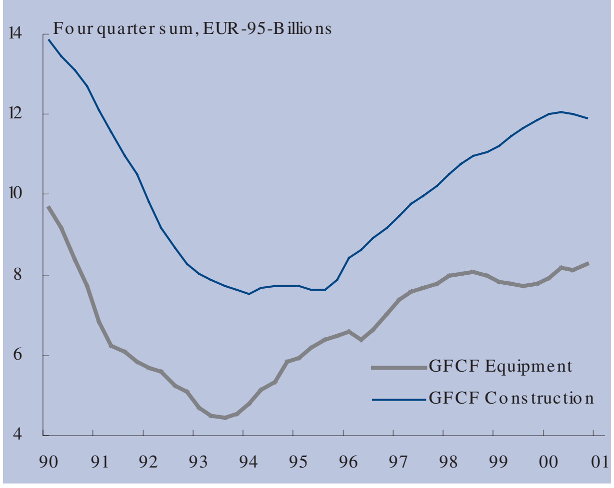
The general government debt to GDP ratio declined by about ½ pp. to 43.6% of GDP. The muted fall in the debt ratio was due to the reduced redemption of central government debt but also to the statistical effect of social security institutions` asset restructuring away from domestic government bonds towards bonds of other euro-area countries.

Even though economic activity is expected to revive in 2002, the surplus in general government finances is anticipated to continue to ease gently in 2002 and 2003. However, at 3¼ and 2¾% of GDP, respectively, the surplus is expected to remain high. The expected easing owes to the further weakening of central and local government finances.

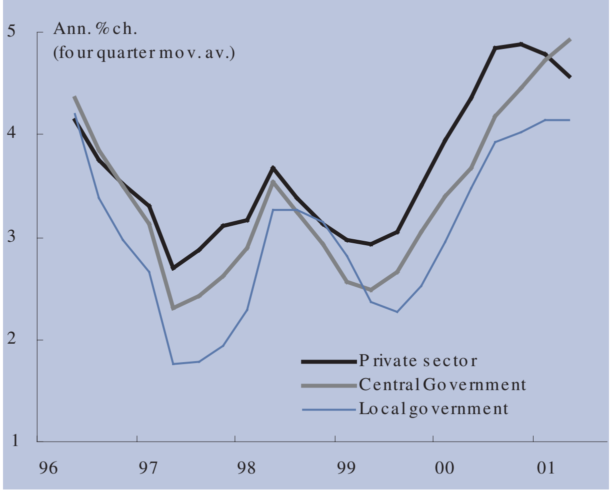
This is due to continued income tax cuts, increases in central government outlays, manifest in various areas of the budget, and higher expenditure of local governments due to a series of new functions conferred on them by legislation. Discretionary measures like improved unemployment benefits and increased social transfers in other areas will also raise spending. In 2003, plans of reforming the unemployment insurance system and of certain infrastructure investments will further increase central government expenditure.

In 2002 and 2003, the trend of a mildly rising nominal government debt is expected to continue. This owes to a decline in the primary surplus and to the ongoing decline in the holdings of domestic government bonds by social security funds. As a consequence of the expected acceleration of GDP growth, the debt ratio is anticipated to hover around of 43% of GDP during the forecast period.

Graph 3.25 : **Finland - Investment**



Graph 3.26 : **Finland - Wages**



14. Sweden

The economy is set to recover in 2002 and 2003

The economy in 2001

Swedish economic growth was weak in 2001 and GDP rose by 1.2%, compared with 3.6% in 2000. Despite the fact that export of goods collapsed in Q1-2001 and fell in real terms in Q2 through Q4, the contribution to growth from net exports was highly positive, due to even bigger falls in import of goods. The global slump in the telecom sector coupled with lower world trade in 2001 weighed heavily on Swedish exports and in particular on manufactured goods. On the domestic side too, economic activity was sluggish. Private consumption was up by a mere 0.2%, adversely affected by strong price rises and also of a notable fall in vehicle purchases of 19%. Share prices continued to be depressed during most in 2001 and consumer confidence was low, which led households the increase the saving rate. By contrast, public consumption rose strongly in Q4, bringing annual growth to 1.4%. Investment was relatively subdued, but nevertheless rose by 1.5%, influenced by very large public investment in infrastructure in Q4. The contribution from stocks to growth was negative, with significant de-stocking in the second half of 2001. With the sharp fall of GDP growth and at the same time continued employment growth, albeit slowing substantially over the year, productivity growth per person fell sharply.

Prospects

Recent indicators point to the economy being near a turning point. Both business and consumer confidence indicators suggest that the downturn has bottomed out and some improvements have been recorded very recently. Indications of a recovery in the USA also support this tentatively positive outlook. These prospects, both domestically and externally, are expected to result in a gradual recovery in 2002. However, annual GDP growth should remain relatively subdued in 2002, as the overhang from last year is considerable. A further recovery in growth is expected in 2003, with both private consumption and investment being more buoyant. External demand growth should pick up further in 2003, resulting in stronger recovery of exports. Overall, GDP is expected to grow by 1.7% in 2002 and 2.8% in 2003.

Inflation is expected to come down from around 3% at present towards the Riksbank's inflation target of 2% over the course of 2002 and remain thereabout during 2003. Employment is expected to fall slightly as announced lay-offs materialise in 2002, which results in some increase in unemployment. This should be reversed in line with the economic situation improving further in 2003.

GDP components

The tax cuts in 2002 raises disposable incomes and should result in higher private consumption growth while at the same time allow for a rise in the saving ratio, being low in comparison to recent years. As the economy recovers further in 2003 and some employment growth is expected, private consumption should rise further. Investment growth is expected to be relatively subdued in 2002, as capacity utilisation fell last year. However, continued strong demand for housing helps sustain total investment growth. In 2003, an acceleration of, in particular, equipment investment should take place as capacity utilisation rises, resulting in relatively strong investment growth. Stocks are expected to contribute negatively to growth also in 2002, but should nevertheless turn around over the year and give a small positive contribution in 2003. As external demand growth is set to gain momentum during 2002, Swedish exports are set to recover robustly. However, given the falls during 2001, annual export growth is expected to be fairly subdued in 2002. In 2003, a further recovery in exports is expected, in line with export markets. Imports too should pickup as final demand recovers over the forecast period. However, the overhang of negative growth in 2001 is expected to result in low import growth in 2002.

Costs and prices

Inflation has remained relatively high since April 2001 and still in March HICP inflation was 3.0% and CPI

Table 3.14

Main features of country forecast - SWEDEN

	2000		Annual percentage change						
	bn SEK Curr. prices	% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices	2098.5	100.0	1.6	3.6	4.5	3.6	1.2	1.7	2.8
Private consumption	1060.4	50.5	1.1	2.7	3.9	4.5	0.2	1.7	2.6
Public consumption	549.0	26.2	1.1	3.2	1.7	-0.9	1.4	0.7	0.5
GFCF	363.3	17.3	1.1	8.5	9.6	5.0	1.5	1.6	4.6
of which : equipment	179.7	8.6	4.0	11.0	13.2	4.6	2.1	0.8	5.3
Change in stocks as % of GDP	13.7	0.7	-0.1	0.8	0.2	0.7	0.1	0.0	0.1
Exports (goods and services)	990.1	47.2	5.4	8.4	6.5	10.3	-1.4	1.6	6.9
Final demand	2976.5	141.8	2.2	5.7	4.5	5.9	-0.3	1.4	3.9
Imports (goods and services)	878.0	41.8	3.9	11.2	4.4	11.5	-3.9	0.5	6.7
Contribution to GDP growth : Domestic demand			1.1	3.5	4.0	2.9	0.7	1.3	2.2
Stockbuilding			-0.1	0.4	-0.6	0.5	-0.5	-0.1	0.1
Foreign balance			0.6	-0.3	1.3	0.4	1.0	0.5	0.6
Employment			-0.3	1.2	2.2	2.1	2.0	-0.4	0.3
Unemployment (a)			4.8	8.3	7.2	5.9	5.1	5.4	5.2
Compensation of employees/head			6.9	3.3	1.3	7.3	3.8	3.9	4.0
Unit labour costs			4.9	0.9	-1.0	5.8	4.6	1.8	1.4
Real unit labour costs			-0.7	0.1	-1.6	4.7	2.5	-0.4	-0.6
Savings rate of households (b)			-	7.8	7.8	6.8	9.3	10.2	9.8
GDP deflator			5.6	0.9	0.7	1.0	2.0	2.2	2.1
Private consumption deflator			6.3	1.0	1.0	1.0	1.6	1.9	2.0
Harmonised index of consumer prices			-	1.0	0.6	1.3	2.7	2.2	2.2
Trade balance (c)			3.2	7.2	7.0	6.6	6.4	6.7	6.5
Balance on current transactions with ROW (c)			0.2	3.8	4.0	3.6	3.3	3.2	3.1
Net lending(+) or borrowing(-) vis à vis ROW (c)			-0.7	3.8	2.7	3.5	3.2	3.1	3.0
General government balance (c)			-3.0	1.9	1.5	3.7	4.8	1.7	1.9
General government gross debt (c)			60.9	70.5	65.0	55.3	55.9	52.6	49.9

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

inflation was 2.9% This can in part be attributed to temporary factors, which are expected to subdue, and inflation should come down towards 2% during 2002, aided by lower oil prices. However, wages have recently accelerated slightly despite wage agreements reached in the spring of 2001 for a large part of the labour market until 2004, due to higher wage drift. This should moderate as a weakening of the labour market is expected to take place in 2002. As the recovery advances in 2003 and productivity growth strengthens, wage increases of around 4 % should be compatible with inflation close to the Riksbank's 2% target. Moreover, the strengthening of the Swedish Krona observed since the end of last year should help limit inflationary pressures.

Labour market

Employment growth was strong in 2001 and employment grew by 2%, although it weakened considerably over the year. Lagged effects of announced lay-offs suggest that employment should fall slightly in 2002, which will result in a slight increase in the unemployment rate. In 2003, this is expected to be reversed and some employment growth should help reduce unemployment, as economic activity gains momentum.

Public finances

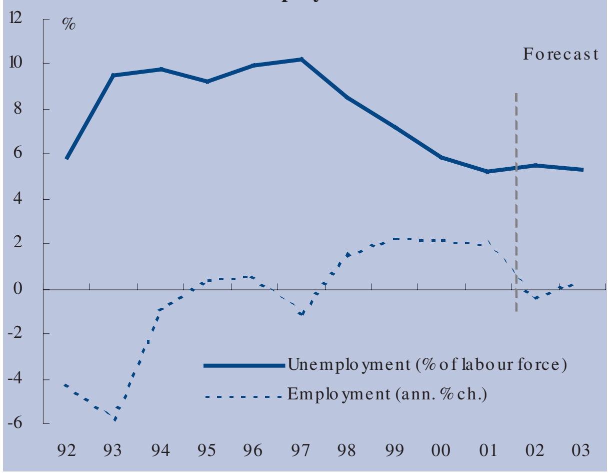
Swedish public finances have been in surplus each year since 1998 and an increase in the surplus was posted in 2001, of 4.8% of GDP, surpassing the surplus of 3.7% of GDP achieved in 2000. This is to large extent influenced by carry-over effects of strong tax revenue stemming from, in particular, good corporate profits and capital gains in 2000. The continued adherence to the central government expenditure ceilings – central government expenditure came out under the ceilings in

2001 - has also contributed to the strong fiscal position. In 2002, the surplus in public finances is expected to be much lower. Relatively subdued economic growth and additional tax cuts of the order of 1.1% of GDP contributes to this and also, not least, the absence of positive carry-over effects on tax revenue. On the expenditure side, the government maintains and remains committed to the previously set expenditure ceilings on central government, as announced in the budget for 2002. However, the budgetary margins within the expenditure ceilings are very small and expenditure in some expenditure areas, such as sick pay, could be higher than planned in the budget. In addition, relatively high inflation in June 2001 increases indexed transfer payments in 2002.

Overall, it is assumed that the expenditure ceilings on central government will not be breached, although some discretionary restraining measures may be necessary if signs of spending overruns become visible. This helps keeping the public finances in good shape and a budget surplus of 1.7% of GDP is forecast for 2002. A stronger budget surplus of 1.9% of GDP is expected in 2003, as economic growth accelerates further. Gross debt was 55.9% of GDP in 2001, almost unchanged from 2000, despite the strong surplus recorded in 2001. This was largely due to a reduction in the social security sectors' holdings of government debt in 2001. The debt-to-GDP ratio is nevertheless expected to fall over the forecast period and reach around 50% of GDP in 2003, as the budget surpluses described above take effect.

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

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



15. United Kingdom

Annual growth expected to be a little below trend to 2002 but should be sustained by consumption growth

The economy in 2001

For 2001 as a whole, GDP growth averaged 2.4% - little below trend. GDP decelerated during 2001. Output in the final quarter of 2001 was stagnant following three-quarters of respectable growth. Household expenditure remained very buoyant in Q4 and retail sales in recent months suggest strong growth has continued. However, in Q4 the strength of household consumption was completely offset by falls in fixed investment and net exports; these latter being associated with the global slowdown. General government consumption was surprisingly weak in view of plans. On the output side, services output continued to rise strongly in Q4, though slower than in recent quarters, but industrial production continued to fall, in association with falling exports. The labour market, despite the slowdown in growth, has stayed strong. Productivity growth averaged only 1.6% on the year. Inflationary pressures remain weak - on the HICP measure, inflation is under 2% and is around the lowest in the EU. RPIX inflation is around the 2.5% target.

Prospects

GDP growth is expected to recover early in 2002 though quarterly growth may remain below trend for a short while. Survey indicators, for the household, services, construction and manufacturing sectors suggest recovery. Retail sales in January, while down on those of December, remain strong and the labour market is also showing resilience. Growth is expected to rise throughout the year and be at, or slightly above, trend in the second half of 2002 as growth in UK markets recovers. There is little reason to expect a continuation of stagnant output revealed by the Q4 2001 GDP figure. Indeed, the external factors, both direct and indirect, that have weakened growth recently may now be recovering and the improving economic indications in the US are especially relevant given the UK's above average exposure to US economic and financial developments. This will support continuing growth in domestic demand resulting, in part, from macro-economic policy; namely monetary loosening in the shape of a 2% cumulative cut in the repo rate since the beginning of the 2001 and a fiscal stimulus, largely in the form of planned rises in general government spending. With GDP recovering within the year, growth for 2002 on average should be around 2% - a little below trend. With growth below trend both in 2001 and 2002, a small negative output gap will emerge during the course of 2002. Unemployment is expected to rise by 0.2 of a percentage point. Upward pressures on wage increases are not expected and though productivity growth may remain weak, rises in unit labour costs will be subdued. With growth in UK markets strengthening, and with a small negative output gap emerging in 2002, growth should rebound in 2003 to a little above trend at 3%.

GDP components

Growth in household consumption is expected to be maintained in 2002, albeit below the rapid rates observed in 2001. Real wage earnings are expected to grow moderately and disposable incomes will benefit from the cuts in interest rates. However, some rise in the saving ratio is expected as households adjust their consumption growth to more sustainable rates as the labour market eases a little and rising gross debt levels relative to income act as a restraint. The strong net asset position of the personal sector, however, has been re-enforced by continued strong growth in house prices and will limit the downside risk to consumption growth. While year on year growth of fixed investment will remain weak with strong planned boosts to general government investment being offset to a large extent by a fall in business investment, fixed investment is expected to recover, within 2002 as the global economy, and accordingly business expectations, revive. Government consumption is expected to be an important contributor to demand growth as established in the Government's Comprehensive Spending Review that details spending plans to 2003-04. Export growth is

Table 3.15

Main features of country forecast - UNITED KINGDOM

	2000			Annual percentage change						
	bn GBP Curr. prices	% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices	944.9	100.0	2.4	3.0	2.1	3.0	2.2	2.0	3.0
Private consumption	618.1	65.4	2.9	3.8	4.2	4.1	3.9	2.6	2.8
Public consumption	177.8	18.8	0.9	1.5	2.8	3.3	2.7	3.3	3.3
GFCF	163.8	17.3	3.1	13.2	0.9	3.9	0.1	2.1	3.7
of which : equipment	78.1	8.3	3.9	17.2	7.9	3.5	-1.5	0.3	3.0
Change in stocks as % of GDP	1.9	0.2	0.1	0.6	0.6	0.4	0.2	0.1	0.3
Exports (goods and services)	265.6	28.1	4.6	3.0	5.4	10.3	1.0	1.1	5.9
Final demand	1227.2	129.9	3.0	4.6	3.9	5.2	2.4	2.2	3.9
Imports (goods and services)	281.8	29.8	5.4	9.6	8.9	10.9	2.8	2.8	6.1
Contribution to GDP growth : Domestic demand			2.6	5.1	3.5	4.1	3.1	2.8	3.2
Stockbuilding			0.1	0.1	0.1	-0.3	-0.2	-0.1	0.2
Foreign balance			-0.2	-2.2	-1.4	-0.7	-0.8	-0.7	-0.5
Employment			0.2	1.4	1.1	1.0	0.8	0.2	0.6
Unemployment (a)			9.3	6.2	5.9	5.4	5.1	5.3	5.3
Compensation of employees/head			7.0	5.0	5.3	4.2	5.2	4.3	4.5
Unit labour costs			4.7	3.4	4.2	2.1	3.7	2.5	2.1
Real unit labour costs			-0.4	0.4	1.5	0.4	1.3	0.0	-0.4
Savings rate of households (b)			-	5.8	4.8	4.3	5.4	6.2	6.3
GDP deflator			5.1	2.9	2.6	1.7	2.4	2.5	2.5
Private consumption deflator			5.2	2.7	1.5	0.6	1.5	2.0	2.0
Harmonised index of consumer prices			-	1.6	1.3	0.8	1.2	1.6	1.8
Trade balance (c)			-1.9	-2.5	-3.1	-3.2	-3.3	-3.7	-3.9
Balance on current transactions with ROW (c)			-1.1	-0.6	-2.1	-1.8	-1.8	-2.5	-2.6
Net lending(+) or borrowing(-) vis à vis ROW (c)			-1.5	-0.5	-2.0	-1.6	-1.6	-2.3	-2.4
General government balance (c)(d)			-3.2	0.4	1.1	4.1	0.9	-0.2	-0.5
General government gross debt (c)			48.3	47.6	45.2	42.3	39.0	37.6	36.1

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

(d) Including proceeds relative to UMTS licences in 2000. The UMTS amount as a % of GDP would be : 2.4%.

expected to be weak in 2002 as a whole but recover during the year. Import growth will be a little stronger than export growth in 2002 as a whole

Labour Market

The labour market has remained strong despite the global slowdown with the unemployment rate hitting a twenty five year low of 5.1% and is still around this level. Employment has grown moderately and rose by 0.3% in the final quarter of 2001 despite zero GDP growth. Wage earnings are not a cause for concern. The labour market is expected to ease a little in 2002 with little employment creation and a slight rise in unemployment. Productivity growth is expected to recover in 2002 from the low rate observed in 2001 but will remain a little subdued. With a rebound in GDP growth expected in 2003, and an expected tighter labour market, it is forecast that productivity will accelerate in 2003. Unit labour costs rises are expected to be moderate and sustainable over the forecast period.

External balance

The current account is projected to be in deficit rising to close to 2% of GDP in 2002 before falling back to 1½% of GDP in 2003. The negative contribution of net exports of goods and services to GDP growth in 2002 is expected to remain quite high – around the same drag as in 2001 but is expected to fall in 2003 as UK overseas markets show good growth.

Prices

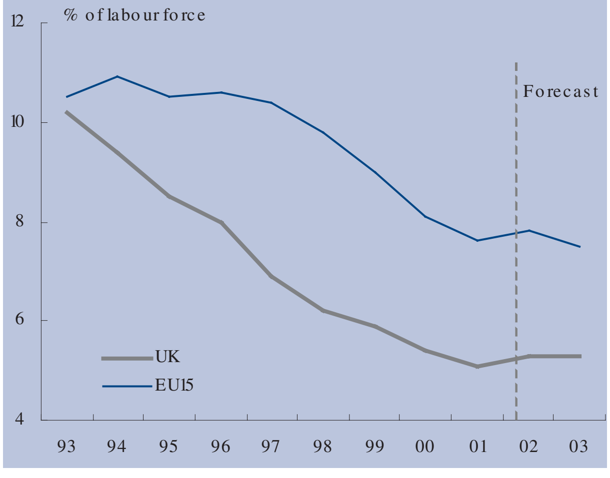
HICP inflation is low at under 2% - around the lowest in the EU. RPIX inflation is around the 2.5% target. It is expected that the latter will continue to be met. Benign developments in unit labour costs, should continue in the face of an economy operating around potential and with unemployment close to the NAIRU.

Public finances

The general government finances are expected to move into small deficit over the period. Despite slower growth than expected in 2001, the out-turn for the year was of a substantial surplus of 0.9% of GDP. This will fall to a deficit of around 0.2% of GDP in 2002 as growth, in the year as a whole, is slower and some tax revenues, notably corporation tax, are weak and discretionary expenditure growth rises strongly as planned. These strong rises in expenditure will persist into 2003 and the deficit may rise a little to around ½% of GDP. The ratio of gross debt to GDP will fall to around 36% by the end of 2003.

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

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



Chapter 4

Non-EU countries

1. United States

From mild recession to renewed growth

The economy in 2001

The US economy underwent a steep decline in real GDP growth from 4.1% in 2000 to 1.2% in 2001. Quarterly growth rates in annualized terms dropped even from 5.7% in Q2 of 2000 to –1.3% in Q3 of 2001, the first quarterly contraction since the early 1990s. The authoritative business-cycle dating committee of the NBER determined last November that the US economy fell into recession in March 2001 when employment started to decline.

The slowdown was driven by sharply falling spending by business on fixed investment and huge reductions of inventories. Private consumption, on the other hand, held up remarkably well throughout the slowdown resulting in an annual growth rate of 3.1% for this component of GDP. Surprisingly, in view of the major adverse shock of 11 September, growth in consumer spending even accelerated strongly in Q4. This, together with a sharp increase in government spending, limited the economic contraction to Q3. Despite further strong declines in overall business investment, real GDP increased at an annualized rate of 1.7% in the final quarter of the year.

During the 12-month period ended last December, the consumer price index advanced by 1.6%, the dollar appreciated by 3.8% in real terms, and unemployment increased from 4.0% to 5.8%. The fiscal surplus of general government declined to 0.5% of GDP for the year as a whole from 1.7% in 2000 due to lower income tax receipts and higher public spending. Exports and imports decreased in both nominal and real terms in each quarter of the year; proportionally, exports fell more than imports. The deficits on the trade balance and in the current account diminished slightly, but were still at very high levels of 3.2% and 3.9% of GDP, respectively.

Conditions set for a constrained recovery

In the early months of 2002, various economic indicators have been improving and activity has begun to firm. These reports show that the contraction phase of the current business cycle is definitely over and that recovery is taking hold. This makes the recession of 2001 the mildest in post-war history.

The turnaround in the US economy is to a large extent based on the fiscal and monetary policy measures taken during the slowdown. The Federal Reserve cut the federal funds target rate aggressively in eleven steps from 6.5% to 1.75% in the course of 2001. Tax cuts adopted in June 2001 are being phased in, injecting a stimulus estimated to 0.7% of GDP in 2002. In addition, a number of new public spending measures have been adopted in the wake of the terrorist attacks last September.

The recovery is also built upon the beneficial effects of the fall in oil prices in 2001 and the particular dynamics of the current business cycle. Last year's downturn in the inventory cycle has reduced the economy-wide inventory/sales ratio to a record low. The inevitable slowing down and eventual cessation of inventory liquidation will give a significant lift to GDP growth, at least for a couple of quarters. More important in the slightly longer term is the apparent bottoming out of the downturn in equipment investment, although a sustained return to double-digit growth rates for this GDP component appears unlikely for a while.

Productivity growth remained relatively robust during the recession and this bodes well for the long-term growth potential of the US economy. However, the strength of the recovery at hand is likely to be constrained from at least two sides. First, the international competitiveness of US goods and services has deteriorated in recent years due to dollar appreciation. External trade will therefore exert a significant drag on the growth rate as imports will rise much stronger than exports. Second, growth in consumer spending is likely to be limited by the household sector's extremely low saving rate (0.4% of disposable personal income in 2001 Q4) and high level of debt service burden. Overall household wealth relative to income has dropped from a peak multiple of about 6.3 at the end of 1999 to around 5.3 in early 2002. This net decline in wealth could exert a dampening

Table 4.1

Main features of country forecast - UNITED STATES

	2000			Annual percentage change						
	bn USD Curr. prices		% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices	9873.0		100.0	2.6	4.3	4.1	4.2	1.2	2.7	3.1
Private consumption	6728.4		68.1	2.5	4.8	5.0	4.8	3.1	3.0	2.6
Public consumption	1422.7		14.4	1.5	1.5	2.4	2.7	3.1	4.5	4.5
GFCF	2036.5		20.6	3.6	10.5	7.9	6.8	-1.0	0.0	5.9
of which : equipment	1116.7		11.3	6.9	14.5	12.0	10.8	-3.4	0.9	7.0
Change in stocks as % of GDP	49.4		0.5	0.1	0.9	0.7	0.6	-0.7	0.4	0.7
Exports (goods and services)	1103.0		11.2	6.7	2.1	3.2	9.5	-4.7	-4.3	3.2
Final demand	11340.0		114.9	3.5	5.2	4.9	5.4	0.4	2.8	3.8
Imports (goods and services)	1467.0		14.9	6.9	11.8	10.5	13.4	-2.7	3.4	7.8
Contribution to GDP growth :		Domestic demand		2.5	5.4	5.3	5.1	2.3	2.7	3.7
		Stockbuilding		0.1	0.2	-0.2	-0.1	-1.2	1.1	0.4
		Foreign balance		0.1	-1.3	-1.1	-0.9	-0.1	-1.0	-0.9
Employment				1.6	2.2	1.9	1.9	-0.1	-0.8	0.6
Unemployment (a)				9.7	4.5	4.2	4.0	4.8	5.7	5.6
Compensation of employees/head				4.5	4.5	4.1	5.1	5.2	3.9	4.0
Unit labour costs				3.5	2.3	1.9	2.8	3.9	0.4	1.5
Real unit labour costs				-0.1	1.1	0.4	0.6	1.7	-1.0	-0.6
Savings rate of households (b)				-	4.4	2.6	1.0	1.7	0.9	0.6
GDP deflator				3.6	1.2	1.4	2.3	2.2	1.4	2.1
Private consumption deflator				4.1	1.1	1.6	2.7	1.8	1.4	2.3
Harmonised index of consumer prices				-	1.6	2.2	3.4	2.8	1.4	2.4
Trade balance (c)				2.7	-2.9	-3.8	-4.7	-4.3	-4.7	-5.2
Balance on current transactions with ROW (c)				-1.8	-2.3	-3.3	-4.4	-3.9	-4.6	-5.2
Net lending(+) or borrowing(-) vis à vis ROW (c)				-1.2	-2.3	-3.3	-4.4	-3.9	-4.6	-5.2
General government balance (c)				-4.8	0.3	0.9	1.7	0.5	-0.7	-0.9
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.

effect on consumer spending. A relatively soft labour market which is unlikely to tighten much for a time should work to the same effect.

Projections

The forecast projects that economic growth will accelerate to about 5% annualized in the first quarter of 2002, primarily on the basis of the turnaround in the inventory cycle. Subsequently, a reduced contribution from the rebuilding of inventories should push annualized growth rates back to below 3% in the second half of the year. Such a second dip in the economy's growth profile after a recession is a frequent occurrence in US business cycles. Final domestic demand is projected to remain relatively stable in 2002 with renewed growth in equipment investment offsetting a small reduction in household spending growth from the high level at the beginning of the year. The projected development would result in a year-on-year growth rate for real GDP of 2.7%.

For 2003 it is projected that both private consumption and business investment will accelerate slowly while government expenditure should continue to expand at the relatively high rate reached in the previous year. In the context of the global recovery, US exports should also expand moderately, but this will be accompanied by much faster import growth. Quarterly annualized GDP growth rates are projected to rise from 3.0% to 3.6% in the course of the year, resulting in a year-on-year growth rate of 3.1%. Such a growth rate profile compares with an estimate of 3-3½ % for long-term potential output growth in the US.

Unemployment is projected to reach an average rate of 5.7% in 2002 before receding slightly in 2003 to an average of 5.6%. This would leave the unemployment rate above even pessimistic estimates of NAIRU which place it in the 5-5½ % range. Related to this, the outlook for inflation is relatively benign: consumer prices are on average only expected to be 1.4% higher in 2002 than in the previous year. For 2003, an increase to 2.4% of the overall CPI-level is projected. Recent and projected variations in the inflation rate reflect to a large extent changes in energy prices, while the core rate remains much more stable.

Government finances at a watershed

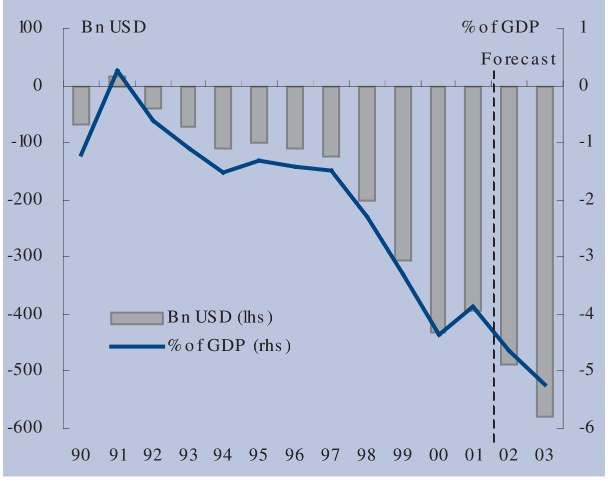
US public finances improved strongly over the past decade with general government reaching a fiscal surplus in 1998 (see graph 1). In 2001, the automatic budgetary effect of the economic slowdown and a fiscal expansion reverted the course of public finances and lowered the surplus of general goverment to about 0.5% of GDP. In the following years, and in spite of the projected economic upturn, the planned course for public revenues and expenditures will result in a return to budgetary deficits, estimated to be 0.7% of GDP in 2002 and 0.9% in 2003. The June 2001 tax cuts are lowering the projected federal revenues significantly and the upswing in defence and security outlays are boosting projected federal spending. If the Administration's budget proposal for fiscal year 2003 is adopted, combined spending on defence and homeland security would rise to 3.8% of GDP from a low point of 3.0% in 2000. State and local public budgets are not expected to counter the fiscal expansion at the federal level by much.

External account deficits set to break new records

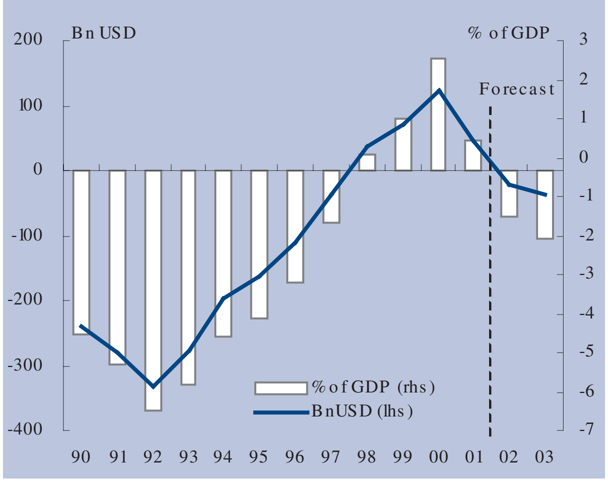
After falling sharply in 2001, exports of goods and services are projected to start recovering in 2002 in response to a firming of activity in key export markets. However, due to the substantial overhang from the previous year, the annual growth rate will still show a significant decline this year (–4.3%) before reaching +3.2% in 2003. Imports, on the other hand, will rebound strongly in conjunction with the domestic economic recovery which will result in 3.4% real growth this year and 7.8% in 2003. As a result, the deficit on goods and services trade is projected to rise to 3.9% of GDP in 2002 and to 4.5% in the following year.

Mainly as a consequence of the worsening trade performance, the current account deficit is projected to deteriorate to 4.6% of GDP in 2002 and to 5.2% in 2003. This will continue the trend started in the 1990s and will set new negative records for the external account of the United States (see graph 2). It will undoubtedly intensify the concern about the sustainability of the deficit.

Graph 4.1: **USA - Current account balance (NIPA def.)**



Graph 4.2: **USA - General government net lending**



2. Japan

Recession in 2001 and 2002 and modest export-led recovery in 2003

The economy in 2001

The Japanese economy entered its third recession in a decade during 2001. Real GDP growth dropped to -1.2% quarter-on-quarter in Q2-2001, and continued with quarter-on-quarter declines of 0.5% in Q3 and 1.2% in Q4-2001. The main contributor to the contraction in 2001 was the weakening of net exports. The fall in foreign demand, especially in the high-technology sector, particularly affected Japan. Private consumption expenditure, for so long a relatively stable component of domestic demand, began weakening during the second quarter and continued to decline in the following period.

Investment was declining during the first half of 2001 as the benefits of an earlier fiscal stimulus programme introduced by the government began to wear off. Business confidence faded as foreign demand slowed. Profit expectations were negative, and capital expenditure plans were reduced. Bank of Japan surveys confirmed sharply deteriorating business confidence. Last year's stock market falls continue to raise concerns about the fund-raising ability of corporations, as well as the ability of some banks to fulfil capital adequacy requirements. Corporate bankruptcies in year 2001 reached their highest level since 1984. Indeed, the number of cases in January 2002 was the largest in Japanese post-war history on a single month basis.

Prices in Japan continued to fall, both at wholesale and retail level. In February 2002, the consumer price index was 1.6% lower than a year before, and 2001 was the third year of price deflation in a row. Deflation has become a prime policy concern, since it is directly contributing to the growing volume of bankruptcies and bad debts in the economy, placing significant strains on the health of the financial system. At the end of February 2002, the Japanese government announced an anti-deflation package, with a modest selection of measures which are meant to address the problem. The Economic and Fiscal Policy Minister described the package as the first step in a series of measures to be unveiled in the next two years. As the measures announced in the February package stand, they are not easily quantifiable, and were consequently not incorporated into the forecast.

Downside risks

The forecast is once again characterised by significant downside risks. Although the US economy is showing signs that it is recovering, which is good news for Japan's export sector in 2002, there are continuing serious doubts about the health of the Japanese financial system. Also, a continuing stream of poor economic data is testing the authorities' resolve to adhere to their structural reform plans. In addition, it is impossible to quantify the potential short-term impact of the clean-up of the banking system's bad loans, which are worth 7% of GDP according to official estimates released this February.

Prospects

Real GDP is expected to contract by 0.5% in 2001. It continues with a fall of –0.8% in 2002. A tentative recovery begins only at the end of 2002, led by the boost to net exports given by a resurgence of international demand, so that GDP is expected to grow by 0.6% in 2003 as a whole.

The main contributor to the continued contraction in 2002 is weak domestic demand, most notably in private sector consumption. Household behaviour has become more noticeably affected by concerns about rising unemployment, the dire state of government finances, the funding of the public pension schemes, the fragile financial situation of many life insurance companies and falling stock prices. Nominal compensation per head is expected to decline over the next two years, but unit labour costs are also set to fall.

Recently published data on machinery orders suggest a significant slowdown in private sector equipment investment for 2002. The significant declines in corporate profitability in 2001, combined with the stock market falls to 18-year lows, affect corporations' funding ability for investment. Furthermore, the stimulus to investment from the two supplementary

Table 4.2

Main features of country forecast - JAPAN

	2000		Annual percentage change						
bn YEN	Curr. prices	% GDP	1981-97	1998	1999	2000	2001	2002	2003
GDP at constant prices	513533.9	100.0	3.1	-1.1	0.7	2.4	-0.5	-0.8	0.6
Private consumption	287230.7	55.9	2.3	0.1	1.2	0.6	0.3	-0.1	0.2
Public consumption	85730.8	16.7	2.6	1.9	4.5	4.6	3.1	-0.8	0.3
GFCF	135051.8	26.3	1.5	-4.0	-0.8	3.2	-1.7	-5.3	0.2
of which : equipment	63458.5	12.4	-0.1	-3.8	-0.5	7.8	-2.5	-8.5	1.0
Change in stocks as % of GDP	-1794.9	-0.3	0.2	0.0	-0.3	-0.3	-0.4	-0.4	-0.4
Exports (goods and services)	55255.5	10.8	5.6	-2.3	1.4	12.4	-6.6	9.3	6.6
Final demand	561473.9	109.3	3.2	-1.5	0.8	2.9	-0.5	-0.7	0.9
Imports (goods and services)	46863.8	9.1	3.5	-6.8	3.0	9.6	-2.0	0.8	4.2
Contribution to GDP growth :	Domestic demand		2.1	-0.8	1.1	1.9	0.2	-1.6	0.2
	Stockbuilding		0.2	-0.6	-0.3	0.0	0.0	-0.1	0.0
	Foreign balance		0.7	0.3	-0.1	0.5	-0.6	0.9	0.4
Employment			0.8	-0.7	-0.8	-0.2	-0.5	-0.5	-0.3
Unemployment (a)			4.1	4.1	4.7	4.7	5.1	6.2	7.1
Compensation of employees/head			6.3	-0.2	-1.0	0.4	-0.9	-2.9	-0.1
Unit labour costs			3.9	0.3	-2.5	-2.1	-0.8	-2.6	-1.0
Real unit labour costs			-0.5	0.3	-1.0	-0.2	0.6	-1.4	-1.1
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			4.5	-0.1	-1.4	-2.0	-1.4	-1.2	0.2
Private consumption deflator			5.3	-0.1	-0.5	-1.1	-1.5	-0.9	0.1
Harmonised index of consumer prices			-	0.6	-0.3	-0.7	-0.5	-0.9	-0.1
Trade balance (c)			4.0	2.3	2.9	2.6	1.6	2.3	2.7
Balance on current transactions with ROW (c)			2.0	3.0	2.6	2.7	1.9	2.4	2.8
Net lending(+) or borrowing(-) vis à vis ROW (c)			2.0	2.6	2.2	2.7	1.9	2.4	2.8
General government balance (c)			3.8	-10.7	-7.0	-7.4	-6.9	-6.3	-6.1
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.

budgets announced in November 2001 is markedly down on previous fiscal stimulus programmes. This follows from the Koizumi government's desire to begin with fiscal consolidation, and to move away from its predecessors' Keynesian strategy of financing large-scale public works programmes to stimulate demand. While government investment may continue to contract in 2003 in line with the authorities' policy objective of fiscal retrenchment, the decline in private sector investment turns around for 2003 assuming improved world demand conditions.

In 2001, Japan's trade surplus was shrinking, as exports dropped, while imports slackened less quickly. This reflected not only deteriorating conditions in world markets, but also structural changes in Japan's external trade, following increased trade liberalisation in Japan in recent years and improvements to market access for foreign companies. The figures show a marked fall in export volumes of –6.6 % for 2001. The decline is reversed during 2002, in line with improved conditions in Japan's export markets. The fall in import volume growth of –2% in 2001 is expected to reverse in 2002 to reach almost +1 % in 2002, and 4% by 2003 as domestic demand recovers.

Unemployment

Unemployment is currently close to its December 2001 record high of 5.6 %, and the forecast predicts further rises throughout the forecast period to reach 7.1 % by 2003. However, the government's desire for extensive structural reforms in the financial and state sectors could have a significant additional impact on unemployment.

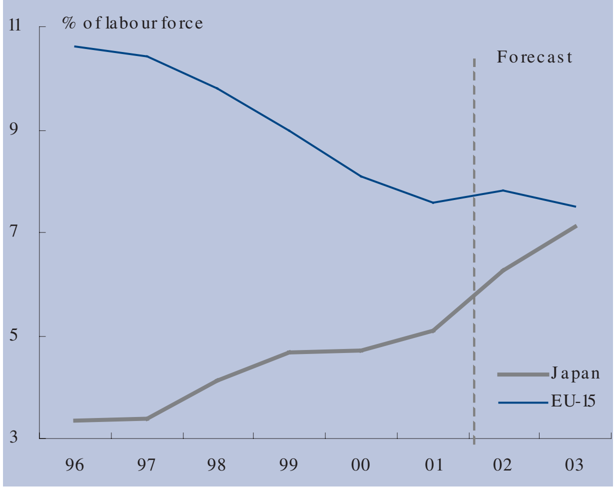
Costs and Prices

To address the on-going price deflation, the Bank of Japan relaxed its monetary policy repeatedly during the past year, increasing outright purchases of government bonds and raising its targets for balances held at the central bank. Following the implementation of the measures during 2001, the headline overnight interest rate dropped to zero, where it has stayed since, and long rates are at around 1.4%. However, Japan's persistent price-deflation has continued, despite narrow money growth rates of around 30% per annum. The injection of money through purchases of government bonds has not stimulated expenditure, and bank lending has continued to fall. The ability of monetary policy to stimulate the economy by conventional means is thus constrained.

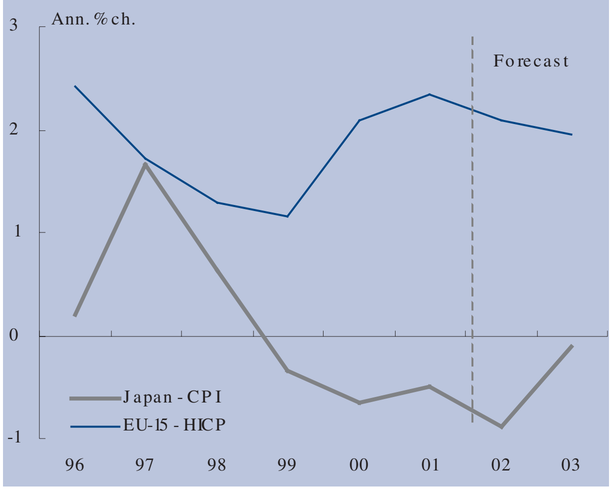
Public finances

The state of Japan's public finance situation is giving rise for increasing concern. The public debt burden is around 140 % of GDP, and the fiscal deficit, excluding social security, has risen to around 7 % of GDP as a result of successive fiscal stimulus packages and underlying falls in tax revenue. The government has announced plans for fiscal consolidation, and approved cuts in general expenditures in its draft budget for FY2002 (April 2002 to March 2003) which amount to a 4.9% drop compared to the FY2001 budget including its two supplementary budgets. Its aim is to have general government expenditure in balance 'in the medium term'. The forecast assumes that the initial budget for FY2002 will be carried out. It should be noted, however, at a time when the economy is in recession, that the authorities may introduce supplementary budgets during the course of FY2002, as they did during FY2001 and previous years.

Graph 4.3 : **Japan - Unemployment rate**



Graph 4.4 : **Japan - Consumer price inflation**



Chapter 5

Special Topics

1. The cyclical behaviour of unemployment

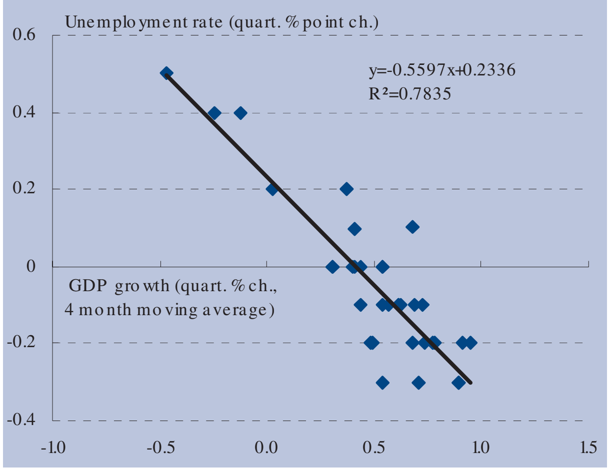
In the wake of the recent slowdown in economic activity, the fall in the euro area unemployment rate which began in Spring 1997 came to a halt; but so far only a minor increase in unemployment - one tenth of a percentage point - was registered in the last quarter of 2001, and overall employment continued to grow, albeit at a much lower speed. This has prompted speculation among some observers that recent structural reform efforts have made the euro area labour market more shock-resilient and, thus, no significant negative impact on unemployment may materialise. However, this conclusion may well be premature given the usual "reaction lag" of unemployment to output developments. Indeed, if the typical pattern of the 1990s prevails, the unemployment rate must be expected to creep up relentlessly during most of the remainder of this year. On the other hand, it must be noted that any cyclical swing in unemployment will be superimposed on the trend decrease in structural unemployment observed in recent years.

Against this background, this section takes a closer look at the cyclical responsiveness of employment and unemployment in the euro area and briefly discusses trends in underlying structural unemployment.

The lagged reaction of unemployment

Analytically, movements in actual unemployment can be decomposed into a cyclical component and a non-cyclical structural component. The latter is typically assumed to reflect the set of microeconomic and institutional design factors affecting the working of labour (and product) markets, while the former is basically driven by short-run fluctuations of output around trend. However, it usually takes some time before cyclical fluctuations in economic activity show up in unemployment. Chart 1 depicts the relation between the change in the euro area unemployment rate (qoq seasonally adjusted) and average GDP growth over the previous 4 quarters.

Graph 5.1: **Unemployment and GDP growth in the euro area (1993-2001)**



Econometric estimation of this relationship over the period 1993q2-2001q3 does indeed suggest to include up to four lags of quarterly GDP growth (in fact, with somewhat different weights for different quarters) in the explanation of the current quarter change in unemployment; see Table 1.

Table 5.1

Regression: The lagged impact of the cycle on unemployment

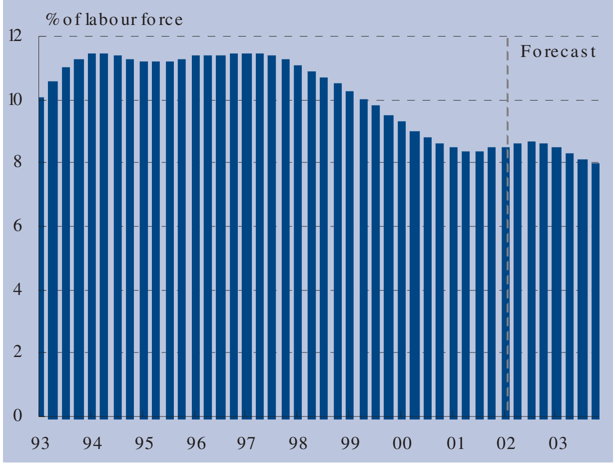
Dependent variable: Quarterly % point change in unemploy. rate (UR_Q - Ur_{Q-1})

Independent variables:		**Coefficient**	**t-value**
GDP growth rate in	Q-1	-0.1421	2.66
	Q-2	-0.1689	2.93
	Q-3	-0.1027	1.81
	Q-4	-0.1437	2.93
Constant term		0.2325	7.00

R^2 = 0.788
S.E. = 0.099

Thus, using the most recent available data and incorporating the current forecast, a straightforward extrapolation of the short-run unemployment reaction pattern prevailing in the 1990s into the current conjuncture suggests an almost steady increase in euro area unemployment, that is not expected to stop before the third quarter of this year. However from the final quarter of 2002 onwards, euro area unemployment should start to fall again.

Graph 5.2: **Unemployment rate in the euro area**



The rather moderate swing in the euro area unemployment rate forecast for 2002 and 2003, as exhibited in Chart 2, should not be misread as reflecting a genuine reduction of the cyclical volatility of unemployment. On the contrary, the cyclical responsiveness of unemployment to output fluctuations rather appears to have increased in the 1990s when compared to the previous two decades. But clearly, for an explanation of actual unemployment developments, movements in trend unemployment have to be taken into account as well.

Okun's law: relating output to unemployment

To illustrate the point, consider the following variant of Okun's law describing the relation between the cyclical component of unemployment and the deviation of actual output from potential

$$(1) \qquad UR - UR^* = -\mu\,(Y - Y^*)$$

where UR denotes the actual rate of unemployment, UR* is the (unobserved) rate of structural unemployment and (Y-Y*) is a measure of the output gap (OG). The Okun-coefficient μ characterises the transmission of cyclical fluctuations in output into cyclical variations in the unemployment rate. Taking first differences and rearranging terms regets:

$$(2) \qquad UR - UR_{t-1} = UR^* - UR^*_{t-1} - \mu\,(OG - OG_{t-1})$$

i.e. the change in actual unemployment is decomposed into the change in structural unemployment and a cyclical component stemming from changes in the output gap weighted by Okun's μ.

The cyclical responsiveness of unemployment

An estimate for Okun's μ can be derived in different ways. In a mechanical sense, cyclical fluctuations in output may lead – in varying degrees across countries – to variations in employment which, in turn, may trigger different responses of the labour force and, ultimately unemployment. Table 2 presents simple econometric estimates of the cyclical responsiveness of employment to output and of the cyclical sensitivity of the labour force to employment fluctuations, together with the implied value for Okun's μ, for the two time periods 1969-89 and 1989-2001.

For the period of the 1970s and 1980s, the Okun-coefficient μ is estimated at 0.31 for the euro area according to the specification in Table 2. This result would suggest that, roughly speaking and averaged over these two decades, a negative output gap of 1 per cent has drove up unemployment in the euro area by about three tenths of a percentage point. Thus, the cyclicality of unemployment had not been very pronounced in what is today the euro zone. Various forms of labour hoarding, probably stimulated by relatively strict employment protection regulation, and fairly pronounced reactions of participation rates to the cycle have apparently dampened the unemployment response in the business cycle.

However, when looking at the Okun-relation in the more recent past, i.e. 1989-2001, the empirical findings indicate that the Okun-coefficient is estimated to have been much higher in the 1990s. Taken at face value, the cyclicality of unemployment now also appears to be significantly more pronounced in the euro area than in the US, perhaps merely reflecting the absence of strong cyclical swings in the US over most of the decade. In Japan, employment shows little sensitivity to cyclical conditions, and the already weak employment response is to a large extent absorbed by cyclical labour force

Table 5.2

The cyclical responsiveness of labour markets

	Employment to GDP[1]		Labour Force to Employment[2]		Okun's - µ [3]	
	69-89	**89-01**	**69-89**	**89-01**	**69-89**	**89-01**
Belgium	0.53	0.63	0.16	-0.26	0.45	0.79
Denmark	0.57	0.64	0.18	0.32	0.47	0.44
Germany	0.44	0.83	0.47	0.37	0.23	0.53
Greece	-0.02	-0.24	1.16	-0.24	0.00	0.04
Spain	0.83	1.35	0.35	0.09	0.54	1.24
France	0.45	0.76	0.28	0.15	0.33	0.65
Ireland	0.73	0.66	0.53	0.54	0.35	0.30
Italy	0.22	1.17	0.86	0.56	0.03	0.52
Luxembourg	0.21	0.32	0.78	0.83	0.05	0.06
Netherlands	0.51	0.82	0.65	0.29	0.18	0.58
Austria	0.46	0.71	0.82	0.79	0.09	0.15
Portugal	0.35	0.65	0.63	0.67	0.13	0.22
Finland	0.63	0.99	0.35	0.26	0.41	0.73
Sweden	0.48	1.10	0.31	0.38	0.33	0.67
UK	0.55	1.06	0.36	0.47	0.35	0.56
EU-15	0.54	1.24	0.29	0.36	0.38	0.80
Euro area	0.49	1.10	0.37	0.31	0.31	0.76
USA	0.58	0.59	0.29	0.31	0.41	0.40
Japan	0.16	0.13	0.82	0.92	0.03	0.04

1 Estimated coefficient in a regression of the deviations of employment from trend on the deviation of GDP from trend, where the trends have been established by the Hodrick-Prescott filter imposing identical smoothing factors for employment and GDP in all countries.
2 Estimated coefficient in a regression of the trend deviation in the labour force on the trend deviation of employment, where the trends have been established by the Hodrick-Prescott filter imposing identical smoothing factors for employment and the labour force in all countries.
3 Estimated Okun-coefficients as implied by the cyclical responsiveness of employment tot GDP (1), and the cyclical responsiveness of the labour force to employment (2); calculated as (1) times [1 - (2)]

movements; as a result, Japanese unemployment exhibits almost no cyclical volatility.

The estimates in Table 2 suggest that pro-cyclical variations in the labour force now provide somewhat less of a cushion for the effect of cyclical employment fluctuations on unemployment than in the 1970s and 1980s.

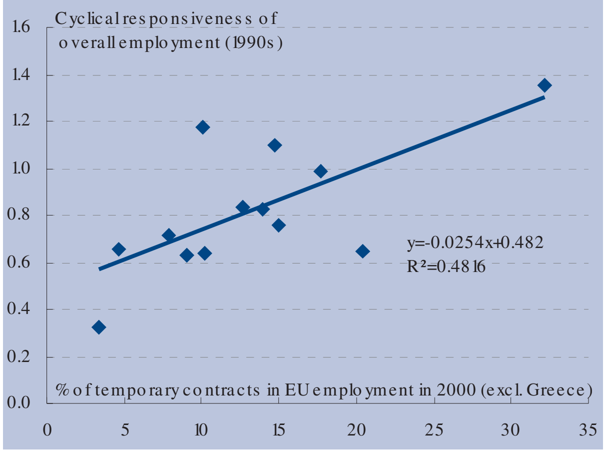
Basically, however, the finding of an increase in unemployment cyclicality in the euro area is driven by a significantly higher employment responsiveness in the past decade, when employment fluctuations have shown much stronger co-variation with output variations than before. Put differently, in almost all countries of the area, labour productivity per worker exhibited much less pro-cyclicality in the 1990s than before.

Employment cyclicality and temporary work

Obviously, the cyclical responsiveness of employment is determined by a variety of factors. Among them, the cost of adjustment or non-adjustment of the workforce at the firms' level are likely to play a prominent role. Against this background, it may be reasonably concluded that labour market reforms in the Nineties have been successful insofar as rigidities with respect to employment decisions were apparently significantly reduced. In fact, in a number of EU countries regulations on employment contracts have been significantly eased, in particular on so-called "atypical" employment contracts such as part-time jobs and temporary work. Chart 3 does indeed suggest that about half of the cross-country variance in the cyclical responsiveness of employment to output fluctuations can be explained by different shares of fixed-term contracts in overall employment.

However, the apparent increase in overall employment flexibility may also reflect a much stronger segmentation of the labour market. Thus, with sustained strict employment protection regulation on regular contracts, there have been additional incentives to switch from permanent contracts to more flexible work arrangements. While this may have helped to achieve the required workforce flexibility in otherwise still fairly rigid labour markets, it may also have led to a more segmented labour market in which those with permanent contracts benefit both from employment protection legislation and from increased bargaining power by virtue of a growing number of workers in "atypical" forms of employment. Apart from discriminating against "outsiders", this could, over the medium term, harm the quality of labour supply, since employers remain reluctant to hire on a permanent basis and have little incentive to invest in training if they must rely on temporary recruitment.

Graph 5.3: **Temporary contracts and cyclical responsiveness of employment in the EU**



Trends in structural unemployment

As it is evident from equation (2), the finding of an increase in the cyclical responsiveness of unemployment has to be complemented by a perspective on the evolution of trend unemployment. In fact, over the period 1997-2001 the euro area's unemployment rate fell from around 11½ % to 8½ % of the labour force. Over the same period, DG ECFIN's most recent assessment – based upon a Kalman-filtering exercise - indicates a decline of the NAIRU for the Euro Zone by about 1½ percentage points, from 10.4 to 9.0, suggesting therefore that about half of the improvement in actual unemployment could be considered structural in nature. Put differently, the trend fall in structural unemployment is estimated at about 0.3-0.4 percentage points annually.

In terms of having a better understanding of the nature of the fall in the NAIRU, the second half of the 1990s has indeed witnessed relatively widespread product and labour market reforms in most euro area countries, spurring competition in goods and services markets and cracking down on barriers to create and/or to take up jobs. Employment stimulating reform efforts have addressed, inter alia, tax and benefit systems, for example in the form of cuts in payroll taxes for targeted groups or in-work financial support for low-wage earners, more active and preventive labour market policies, and a modernisation of work organisation, including the facilitation of part-time work and more flexible work contract arrangements.

While it is certainly difficult to establish precisely the contribution of the various reform efforts, there can be little doubt that they have left their traces in a higher employment content of growth and a reduction of the NAIRU. However, it must also be acknowledged that reform progress has been fairly uneven across countries – with all the major economies of the euro area still plagued by relatively high structural unemployment - and of a rather piecemeal character, suggesting that the various labour market policy initiatives implemented over the past several years may offer only a partial explanation for the apparent area wide improvement in the short-run unemployment-inflation trade off. Thus, it is difficult to account for the fall in the NAIRU without invoking the role of widespread wage moderation, inter alia based upon informal incomes policies in a number of countries.

Concluding remarks

Plugging together the assembled evidence in terms of equation (2), and bearing in mind that in the present forecast the euro area output gap has been estimated to deteriorate by slightly less than 1 percentage point this year, allows the following conclusions to be drawn:

- Assuming that structural unemployment remains unchanged in 2002, actual unemployment should rise by 0.7 pp this year, if one were to apply a mechanical extrapolation of the pure cyclical effect.
- The current forecast expects an increase of the euro area unemployment rate from 8.3 % in Q3 2001 by 0.3 pp to 8.6 % in Q3 2002; this translates into an annual average level of 8.5 % in 2002. In terms of equation (2), this would implicitly require a drop in structural unemployment by about 0.4 percentage points; a value roughly reflecting the annual trend fall in structural unemployment in recent years. Obviously, sustained wage discipline in the euro area and a determined resumption of structural reform efforts constitute an indispensable condition for such an outcome to materialise.

- Unemployment in the euro area is forecasted to resume its downward trend next year, attaining an annual average level of 8.1 % in 2003. All too often in the past, increases in unemployment of an initially cyclical nature became persistent, inter alia as a result of misguided efforts to slow down inevitable adjustment processes in the economy. However, provided such ratcheting-up effects are avoided this time, the euro area unemployment rate can be expected to revert to its pre-slowdown level in the course of 2003, and should even fall slightly below it by the end of next year.

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2. Business cycle synchronisation and variability in the euro area

This note explores the linkages and the variability in output fluctuations of euro area countries over the nineties. The main stylised facts are the following.

- Over the nineties, the degree of synchronisation between output fluctuations as measured by the correlation coefficient shows a gradual decline from 1994/95 up to 1998/99 and then increases again. For most countries the degree of synchronisation is about the same now as at the beginning of the decade.
- Over the nineties there was a continuous gradual decline in output variability which more recently has been accompanied by increased interdependence. This is possibly linked to the implementation of a common monetary policy and the fiscal prescriptions emanating from the Stability and Growth Pact.
- The overall pattern of synchronisation depends on sometimes offsetting trends in co-movement and variability of output fluctuations. The decline in synchronisation up to 1998/99 was mainly the result of a fall in output co-movement, partially counterbalanced by a reduction in output variability. The recent increase in synchronisation results from a rise in output co-movements, while output variability remained subdued.
- A factor dampening the amplitude of output fluctuations has been the reduced volatility in stockbuilding thanks to improved inventory management and increased just-in-time production. Another important factor contributing to the reduction of output variability has been the gradual shift in the composition of valued added from manufacturing to services which typically display greater cyclical stability.

Methodology and data

The cyclical component of GDP is examined for statistical relationships using correlations, covariances and standard deviations. The data used in this note are from Eurostat and refer to seasonally adjusted figures on quarterly GDP at constant (1995) prices for the period 1991Q1-2001Q3. For reasons of data availability, only eight countries have been considered (Belgium, Germany, Spain, France, Italy, the Netherlands, Austria and the overall “euro-8” aggregate) which, however, represent on average about 95% of the whole euro area GDP over the decade.

Since the GDP of the analysed economies grows over time, to evaluate their cyclical position it is necessary to detect the trend component from the original series. For this purpose, the Hodrick- Prescott (HP) filter is applied uniformly to the levels of all time series([1]). The resulting series tracing the pattern of output fluctuations are then examined to investigate their degree of synchronisation vis-à-vis the euro area aggregate and their amplitude. To measure for synchronisation and amplitude of output fluctuations we use moving correlations, covariances and standard deviations computed over a 3-year period (12 quarters).

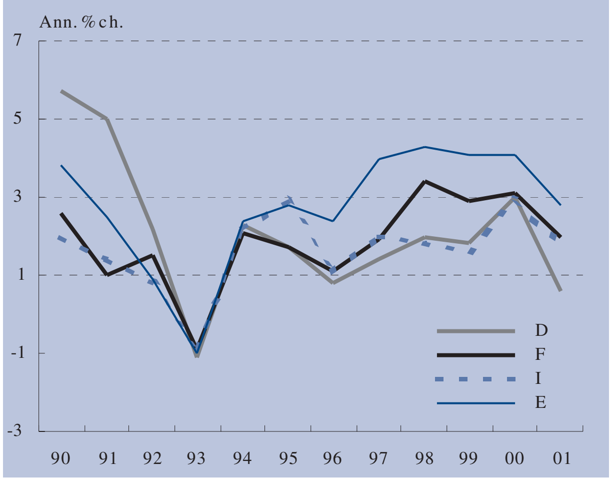
Business cycle linkages among euro area participants

The world economy has been experiencing its first synchronised downturn since the beginning of the 1980s. In the US, the euro area and Japan, economic activity in 2001 decelerated considerably. The primary sources of the downturn has often been associated with the impact of three shocks: the oil price hike, the ICT boom and bust and the collapse of world trade.

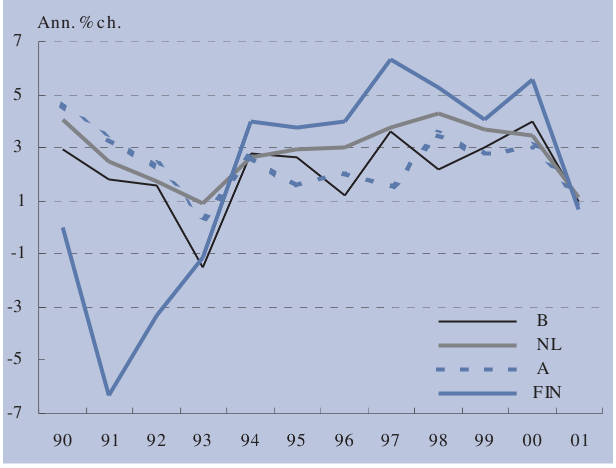
A striking feature of the recent slowdown is that country-specific offsetting factors have been mostly absent. This compares with the experience during part of the 1990s, when domestic factors have often been at work to counterbalance, at least partly, the impact of common shocks.

([1])The HP filter is widely employed in the business cycle literature as a detrending method even though its use is not completely uncontroversial.

Graph 5.4: **GDP growth in Germany, France, Italy and Spain**



Graph 5.5: **GDP growth in Austria, Belgium, Finland and the Netherlands**



Also within the euro area, output fluctuations have become closer during the recent slowdown (graphs 5.4 and 5.5). Three elements are usually put forward to explain the strength of business cycle linkages and the speed of the transmission of shocks across borders:

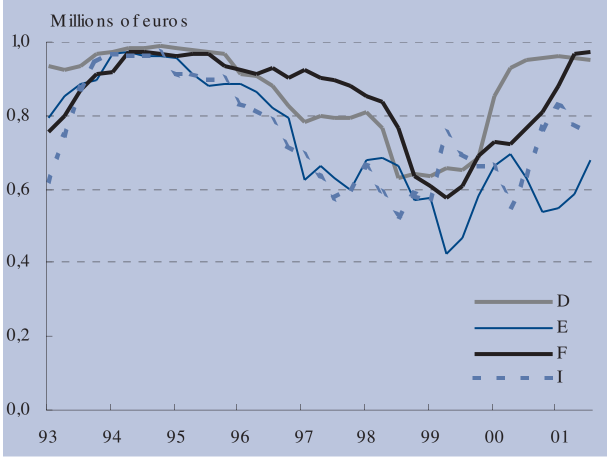
- Economic interdependence is increasing due to larger intra-euro area trade and inter-company links thanks to more direct investment;
- Financial market linkages are strengthening because of growing non-resident portfolios and confidence spill-over effects;
- Macroeconomic policies have come to rely more on the same stability oriented framework with the implementation of a common monetary policy and the fiscal prescriptions emanating from the Stability and Growth Pact.

However, increased economic and financial integration does not necessarily imply closer business cycle linkages. Indeed, a possible outcome of higher openness could be stronger regional and product specialisation that would decrease rather than increase co-movements in output fluctuations.

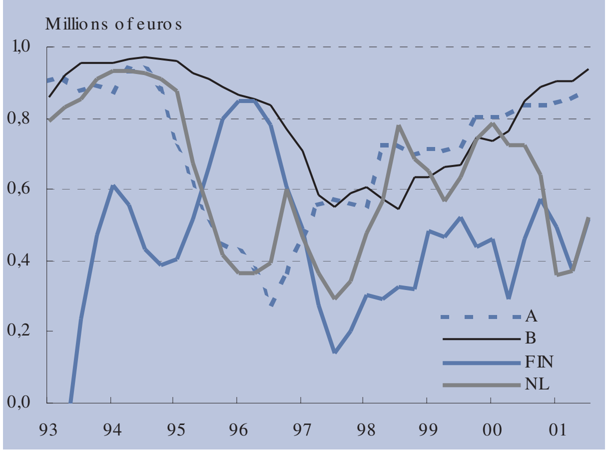
Synchronisation as measured by correlation

In an attempt to quantify the degree of synchronisation in economic activity among Member States, moving correlations have been computed between the cyclical component of GDP vis-à-vis the corresponding euro area (euro8) aggregate (graphs 5.6 and 5.7). Each point on the figure gives the sample correlation over the previous 3 years (12 quarters).

Graph 5.6: **Output correlations for Germany, France, Italy and Spain compared to the euro area**



Graph 5.7: **Output correlations for Austria, Belgium, Finland and the Netherlands compared to the euro area**



In Germany, Spain, France and Italy, the evolution of the correlations declines by approximately 30% between 94/95 and 1998/1999, thus indicating a less synchronous business cycle and perhaps more asymmetry in the transmission of common shocks. Amongst the different factors explaining this pattern, it should be noted that for a number of reasons, Germany has shown a high level of idiosyncrasy during the past fifteen years. The unification of the country in 1990 as well as the associated changes in macroeconomic policies with their repercussions abroad are amongst the main reasons.

From 1998/99 onwards, output fluctuations are exhibiting more synchronisation and for most Member States output correlations are at about the same level as they were in the early nineties. This is particularly the case for Germany and France while a lower degree of synchronisation appears for Spain and Italy. Among the smaller economies, Austria and Belgium are exhibiting closer links with overall output fluctuations in the euro area. By contrast, Finland and to a lesser extent the Netherlands display a higher degree of idiosyncratic behaviour.

Disentangling co-movement and variability

Output correlations should be interpreted with care as, by definition, the correlation coefficient (*Corr*) between two business cycles (y_i^c and y_j^c) is given by the ratio of the covariance (*Cov*) and the product of their standard deviations (*SD*):

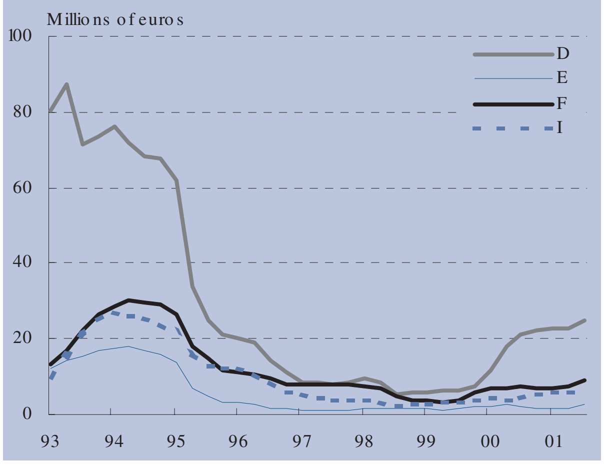
$$Corr(y_i^c y_j^c) = \frac{Cov(y_i^c y_j^c)}{SD(y_i^c)SD(y_j^c)}$$

Thus, the evidence of stronger synchronisation in output fluctuations as measured by higher output correlations may be partially misleading. Indeed, it may reflect the reduction in the amplitude of output fluctuations rather than their closer alignment. If a variable fluctuates less but continues to covary with another variable as before, then the idiosyncratic component of that variable becomes smaller.

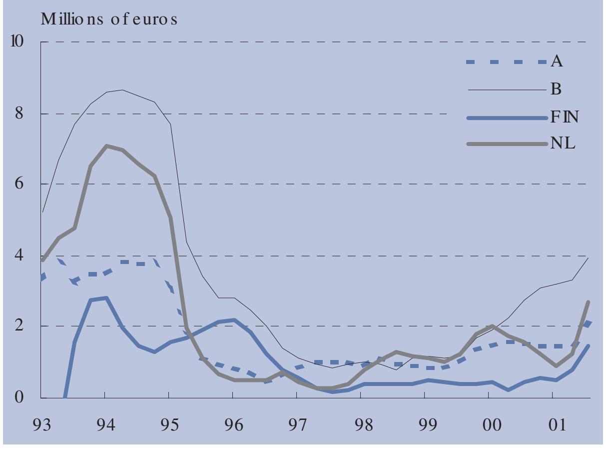
Both variability and co-movement matter for synchronisation

In order to disentangle the patterns of correlations from output variability, moving covariances of output fluctuations between each country and the overall euro area aggregate are computed.

Graph 5.8: **Output covariances for Germany, France, Italy and Spain compared to the euro area**



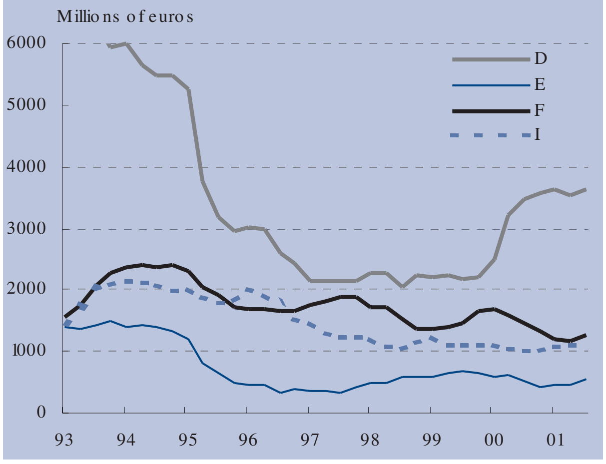
Graph 5.9: **Output covariances for Austria, Belgium, Finland and the Netherlands compared to the euro area**



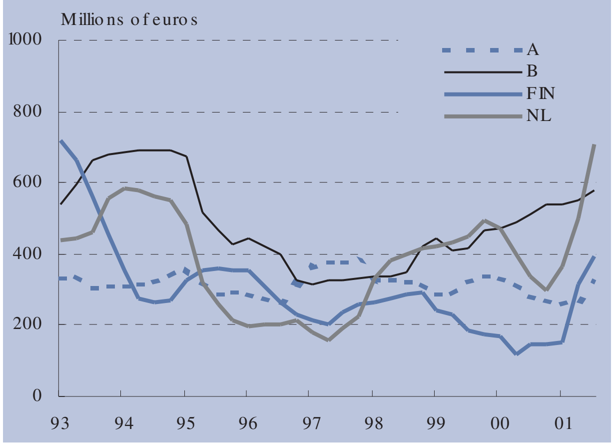
The covariances fall between 1994 and 1998 and then partly reverse this pattern (graphs 5.8 and 5.9). However, covariances remain lower at the end of the nineties than for the most part of the decade. The covariances fail to display the marked increases exhibited by the correlation coefficients at the end of the nineties leading to the picture that the level of synchronisation at the end of the nineties is about the same as at the beginning.

There is also evidence of a reduction in output fluctuations during the most part of the decade and particularly in the largest countries (graphs 5.10 and 5.11). On average, the amplitude of output fluctuations in Germany, Spain, France, Italy and to a lesser extent in Austria, Belgium and Finland, is now significantly smaller than in the first part of the 1990s. More recently, however, the declining pattern has shown a reversal in some countries (Germany, Belgium, Finland, the Netherlands). Clearly, smaller amplitudes in output fluctuations especially for large countries weigh on the overall average and imply a gradual smoothing of the euro area business cycle.

Graph 5.10: **Standard deviation of output fluctuations for Germany, France, Italy and Spain**



Graph 5.11: **Standard deviation of output fluctuations for Austria, Belgium, Finland and the Netherlands**



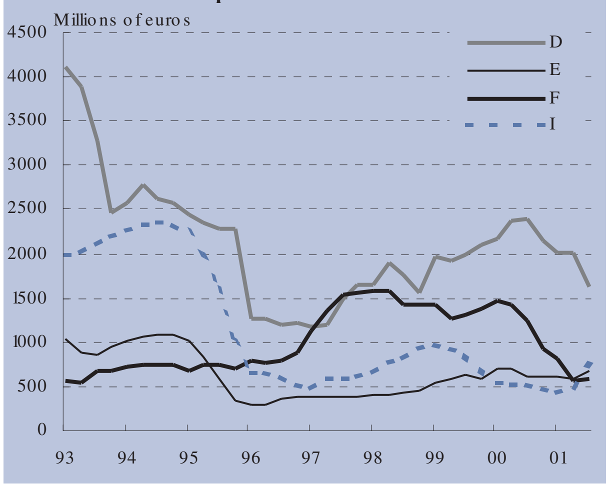
The fall in the variability of output fluctuations has implications for interpreting recent data on heightened synchronisation. Indeed, if we observe correlation coefficients approximately of the same magnitude as they were ten years ago but at the same time fail to see a corresponding increase in covariances then it must be the case that, on average, the variability of output fluctuations has declined. Output stabilisation is an important factor in the drive for more synchronisation.

Improved inventory management and increased importance of services: key factors explaining greater output stability

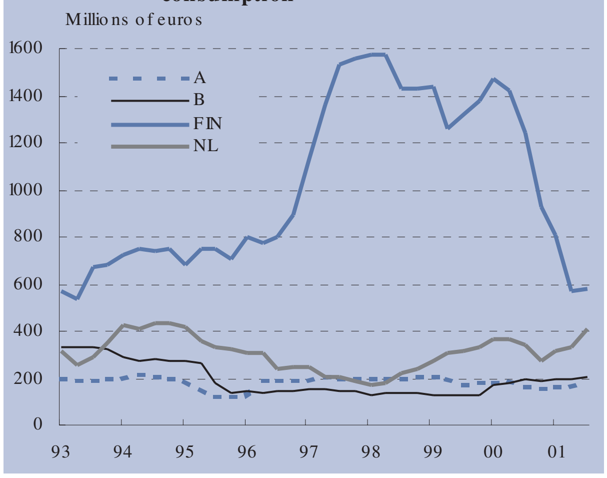
The following factors are usually mentioned when it comes to explaining the reduction in business cycle fluctuations over the decade:

- Financial liberalisation, as it facilitates intertemporal substitution and thus allows for smoother consumption patterns;
- Improvements in inventory management as they reduce the procyclical effect of stock-building;
- A shift of value added from manufacturing to the service sector as the latter typically displays smaller fluctuations.

Graph 5.12: **Standard deviation of private consumption**

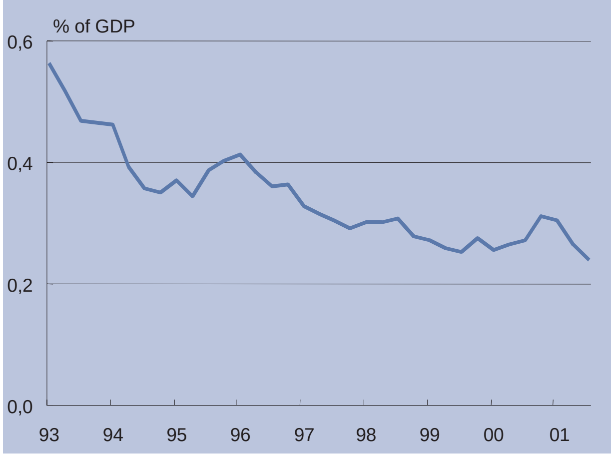


Graph 5.13: **Standard deviation of private consumption**



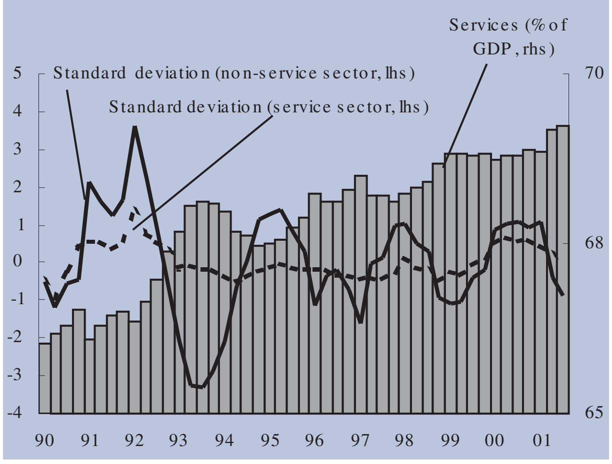
Graph 5.12 and 5.13 plot, for each country, the moving standard deviation for private consumption expenditure. It does not seem that consumption accounts for a large reduction in output fluctuations. The level of variability of private consumption is about equal to that of GDP and there is no clear evidence of a declining pattern, particularly as regards the largest economies; Italy may represent an exception.

Graph 5.14: **Stockbuilding in the euro area**



There is more evidence for a role of inventories in explaining the reduced variability of output. Indeed, the change in stocks as a percent of GDP (computed as a 3 year moving average, see graph 5.14) has declined continuously over the past decade. This may be due to a combination of better inventory management and increased use of just-in-time production.

Graph 5.15: **Variability and composition of GDP**



To investigate the sectoral contributions to overall output fluctuations, a breakdown of total value added (GDP from the output side) between the service and non-service sectors has been computed (graph 5.15). Over the past decade there has been a continuous shift from manufacturing to a more service-based economy. While at the beginning of the nineties, services accounted for about 66 % of value added, its share increased to 69 % and is by far the largest sector. As the service sector displays a greater cyclical stability, it definitely contributed to the gradual decline in the overall variability of output fluctuations in the euro area.

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STATISTICAL ANNEX : SPRING 2002 ECONOMIC FORECASTS

TABLE 1 : Gross domestic product, volume (percentage change on preceding year, 1961-2003) 12.04.2002

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	3.4	1.4	2.8	3.6	2.2	3.0	4.0	1.3	1.0	1.3	1.1	2.8	2.8
DK	2.7	2.0	2.7	3.0	2.5	2.3	3.0	1.3	0.9	1.6	1.7	2.5	2.5
D	3.1	2.0	1.8	1.4	2.0	1.8	3.0	0.7	0.6	0.7	0.8	2.8	2.7
EL	4.5	1.2	3.4	3.6	3.4	3.6	4.1	4.1	4.1	3.5	3.7	4.2	4.2
E	4.6	1.5	3.8	4.0	4.3	4.1	4.1	2.7	2.8	2.0	2.1	3.2	3.1
F	3.8	1.1	2.5	1.9	3.4	2.9	3.1	2.0	2.0	1.5	1.6	2.6	2.8
IRL	4.2	4.7	9.9	10.8	8.6	10.8	11.5	6.5	6.8	3.3	3.5	5.5	6.1
I	3.9	1.3	1.9	2.0	1.8	1.6	2.9	1.8	1.8	1.3	1.4	2.7	2.7
L	3.5	3.9	6.4	9.0	5.8	6.0	7.5	4.0	5.1	3.0	2.9	5.4	5.2
NL	3.4	2.1	3.7	3.8	4.3	3.7	3.5	1.5	1.1	1.5	1.5	3.1	2.7
A	3.6	2.0	2.6	1.6	3.5	2.8	3.0	1.1	1.0	1.2	1.2	2.4	2.5
P	4.8	1.7	3.8	3.9	4.5	3.4	3.4	1.7	1.8	1.5	1.5	2.3	2.2
FIN	3.8	-0.7	5.1	6.3	5.3	4.1	5.6	0.5	0.7	1.7	1.6	2.9	3.3
S	2.9	0.6	3.0	2.1	3.6	4.5	3.6	1.4	1.2	1.6	1.7	2.6	2.8
UK	2.5	1.8	2.8	3.4	3.0	2.1	3.0	2.3	2.2	1.7	2.0	3.0	3.0
EU-15	3.4	1.6	2.6	2.6	2.9	2.6	3.3	1.7	1.7	1.4	1.5	2.9	2.9
Euro area	3.7	1.5	2.6	2.4	2.9	2.7	3.4	1.6	1.6	1.3	1.4	2.9	2.9
USA	3.5	2.4	4.1	4.5	4.3	4.1	4.2	0.9	1.2	0.5	2.7	3.4	3.1
JAP	6.2	1.4	1.4	1.8	-1.1	0.7	2.4	-0.6	-0.5	-0.9	-0.8	0.5	0.6

TABLE 2 : Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2001-2003)

	2001/1	2001/2	2001/3	2001/4	2002/1	2002/2	2002/3	2002/4	2003/1	2003/2	2003/3	2003/4
B	0.2	-0.5	0.0	-0.4	0.4	0.7	0.8	0.8	0.7	0.7	0.5	0.5
DK	-0.5	0.3	0.5	0.2	0.3	0.5	0.7	0.6	0.6	0.4	0.7	0.5
D	0.4	0.0	-0.2	-0.3	0.1	0.6	0.8	0.8	0.8	0.6	0.5	0.4
EL	:	:	:	:	:	:	:	:	:	:	:	:
E	0.7	0.6	0.5	0.5	0.3	0.5	0.7	0.8	0.8	0.9	0.8	0.7
F	0.4	0.2	0.5	-0.2	0.4	0.7	0.8	0.8	0.6	0.6	0.7	0.7
IRL	1.7	0.5	-1.0	0.2	0.9	1.9	2.0	1.7	1.4	1.3	1.3	1.3
I	0.8	0.0	0.1	-0.2	0.4	0.6	0.9	0.9	0.5	0.6	0.6	0.6
L	:	:	:	:	:	:	:	:	:	:	:	:
NL	0.0	0.3	0.0	0.0	0.6	0.6	0.6	0.7	0.7	0.7	0.6	0.6
A	0.1	0.1	-0.4	-0.2	0.6	0.6	0.8	0.8	0.5	0.6	0.6	0.6
P	0.2	1.0	-0.3	1.9	-0.5	0.0	0.6	0.9	0.5	0.5	0.4	0.5
FIN	0.0	-1.8	1.4	-0.5	0.7	0.6	0.7	0.8	1.1	0.8	0.6	0.7
S	0.4	0.0	0.1	0.3	0.4	0.6	0.7	0.7	0.7	0.8	0.8	0.8
UK	0.6	0.5	0.4	0.0	0.5	0.7	0.7	0.8	0.8	0.7	0.7	0.7
EU-15	0.5	0.1	0.2	-0.1	0.4	0.6	0.8	0.8	0.7	0.7	0.7	0.6
Euro area	0.5	0.1	0.2	-0.2	0.3	0.6	0.8	0.8	0.7	0.7	0.6	0.6
USA	0.3	0.1	-0.3	0.3	1.3	1.0	0.7	0.7	0.8	0.8	0.8	0.9
JAP	1.0	-1.2	-0.5	-1.2	0.4	0.2	-0.1	0.1	0.2	0.3	0.1	0.3

TABLE 3 : Profiles (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2001-2003)

	2001/1	2001/2	2001/3	2001/4	2002/1	2002/2	2002/3	2002/4	2003/1	2003/2	2003/3	2003/4
B	2.9	1.4	0.6	-0.7	-0.5	0.7	1.5	2.7	3.0	3.1	2.7	2.5
DK	2.2	0.9	1.2	0.6	1.4	1.6	1.9	2.3	2.6	2.5	2.5	2.4
D	1.8	0.7	0.4	0.0	-0.4	0.3	1.3	2.5	3.1	3.0	2.7	2.2
EL	:	:	:	:	:	:	:	:	:	:	:	:
E	3.2	2.9	2.6	2.4	2.0	1.9	2.1	2.4	2.8	3.2	3.3	3.3
F	2.9	2.2	2.1	0.9	0.9	1.3	1.6	2.7	3.0	2.9	2.8	2.7
IRL	:	:	:	1.4	0.6	1.9	5.0	6.5	7.0	6.4	5.7	5.3
I	2.5	2.2	1.8	0.7	0.3	0.9	1.6	2.7	2.9	2.9	2.7	2.4
L	:	:	:	:	:	:	:	:	:	:	:	:
NL	1.8	1.5	1.0	0.2	0.9	1.1	1.7	2.4	2.6	2.7	2.8	2.7
A	2.2	1.2	0.6	-0.4	0.1	0.5	1.7	2.7	2.6	2.7	2.5	2.4
P	1.9	2.8	1.3	2.8	2.1	1.0	2.0	0.9	2.0	2.5	2.3	2.0
FIN	3.2	0.5	0.3	-0.9	-0.2	2.2	1.5	2.8	3.1	3.4	3.3	3.2
S	2.4	1.3	0.8	0.9	0.8	1.5	2.1	2.6	2.9	3.0	3.1	3.2
UK	2.9	2.4	2.0	1.6	1.4	1.6	1.9	2.8	3.0	3.0	3.0	2.9
EU-15	2.5	1.7	1.5	0.7	0.6	1.1	1.7	2.6	3.0	3.0	2.9	2.6
Euro area	2.4	1.6	1.4	0.6	0.4	0.9	1.6	2.6	3.0	3.0	2.9	2.6
USA	2.6	1.2	0.5	0.4	1.4	2.3	3.3	3.7	3.1	2.9	3.1	3.3
JAP	1.4	-0.6	-0.5	-1.9	-2.5	-1.1	-0.7	0.6	0.4	0.5	0.7	0.9

ANNEX

TABLE 4 : Domestic demand, volume (percentage change on preceding year, 1961-2003) 12.04.2002

	long-term							2001		2002		2003	
	average	5-year average						estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	3.3	1.1	2.6	2.8	3.3	2.2	3.8	1.6	0.4	1.3	1.4	2.6	2.4
DK	2.5	2.3	2.6	4.9	4.0	-0.5	2.6	0.5	1.1	2.0	2.1	2.3	2.6
D	3.0	2.1	1.5	0.6	2.4	2.6	2.0	-0.3	-1.0	1.0	0.1	2.6	2.7
EL	4.7	1.3	3.6	3.5	4.6	2.7	4.1	4.2	3.8	3.9	4.1	4.3	4.2
E	4.9	1.0	4.2	3.5	5.7	5.6	4.2	2.8	2.8	2.0	2.2	3.2	3.2
F	3.8	0.7	2.3	0.7	4.0	3.1	3.3	1.7	1.7	1.6	1.2	2.6	2.9
IRL	3.6	2.5	8.6	9.4	10.3	6.6	9.2	5.2	4.5	3.7	3.9	4.8	4.9
I	3.8	0.3	2.4	2.7	3.1	3.0	2.1	1.7	1.6	1.9	2.0	2.8	2.7
L	3.4	3.8	4.7	6.7	3.1	7.5	2.4	3.8	4.5	3.1	2.3	4.7	4.4
NL	3.3	1.4	3.8	3.9	4.8	4.2	3.0	1.3	1.1	1.5	1.5	3.0	3.1
A	3.4	2.5	2.3	1.5	2.7	2.8	2.5	0.6	0.1	0.9	0.9	2.4	2.5
P	4.9	2.5	4.7	5.1	6.7	5.5	2.9	0.7	0.6	1.5	0.8	2.1	1.9
FIN	4.0	-2.7	3.9	4.7	4.8	2.8	3.3	1.2	0.8	2.0	1.4	2.0	2.2
S	2.7	-0.9	2.5	0.8	4.3	3.5	3.5	1.0	0.2	1.6	1.3	2.2	2.4
UK	2.6	1.3	3.8	3.9	5.1	3.4	3.6	3.0	2.8	2.3	2.6	3.3	3.2
EU-15	3.4	1.1	2.8	2.3	3.9	3.3	3.0	1.5	1.2	1.7	1.5	2.9	2.9
Euro area	3.7	1.1	2.6	2.0	3.7	3.3	2.8	1.3	0.9	1.6	1.2	2.8	2.8
USA	3.4	2.4	4.8	4.7	5.5	5.0	4.8	0.9	1.0	0.6	3.6	3.7	3.8
JAP	6.1	1.4	1.2	0.9	-1.5	0.8	1.9	0.0	0.2	-1.0	-1.7	0.3	0.2

TABLE 5 : Final demand, volume (percentage change on preceding year, 1961-2003)

	long-term							2001		2002		2003	
	average	5-year average						estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	4.2	2.3	4.0	4.2	4.4	3.4	6.4	1.2	0.0	1.6	1.6	4.0	3.8
DK	3.1	2.4	3.8	4.7	4.1	2.6	5.2	1.6	1.8	1.9	2.2	3.3	3.6
D	3.6	2.5	3.0	2.7	3.4	3.3	4.6	1.0	0.4	1.0	0.6	3.6	3.8
EL	5.0	1.5	4.8	5.8	4.7	3.6	6.6	4.5	3.6	3.6	4.1	4.9	4.7
E	5.2	2.4	5.4	5.8	6.2	6.1	5.4	3.3	3.0	2.4	2.5	4.2	4.0
F	4.1	1.4	3.5	2.8	4.9	3.3	5.3	2.0	1.6	1.8	1.5	3.5	3.7
IRL	5.0	6.6	12.7	13.2	15.8	11.3	13.8	7.3	6.5	4.6	4.8	6.7	7.8
I	4.3	1.6	2.8	3.5	3.2	2.4	4.3	2.2	1.4	1.9	2.1	3.7	3.7
L	4.1	3.7	9.1	10.4	8.7	11.0	10.9	4.4	6.7	2.8	3.2	6.6	6.4
NL	4.1	3.2	5.1	5.8	5.8	4.7	5.7	1.7	1.0	1.3	1.3	3.8	3.9
A	4.2	2.5	4.3	4.5	4.2	4.6	5.5	2.2	1.9	2.0	2.0	4.2	4.3
P	5.5	2.8	5.2	5.6	7.2	5.0	4.1	2.0	1.2	1.6	1.2	2.9	2.9
FIN	4.1	-0.2	6.0	7.4	6.1	4.0	8.2	-0.2	0.3	2.1	1.9	3.2	3.9
S	3.2	1.1	4.5	4.7	5.7	4.5	5.9	0.6	-0.3	2.2	1.4	3.8	3.9
UK	2.8	2.1	4.6	4.9	4.6	3.9	5.2	2.8	2.4	2.0	2.2	3.9	3.9
EU-15	3.9	2.1	4.0	4.1	4.6	3.8	5.2	2.1	1.5	1.8	1.7	3.8	3.9
Euro area	4.2	2.1	3.9	3.9	4.6	3.8	5.2	2.0	1.4	1.7	1.6	3.8	3.9
USA	3.7	2.8	5.0	5.5	5.2	4.9	5.4	0.3	0.4	0.0	2.8	3.6	3.8
JAP	6.3	1.5	1.6	1.8	-1.5	0.8	2.9	-0.6	-0.5	-1.0	-0.7	0.8	0.9

TABLE 6 : Gross domestic product at current market prices (percentage change on preceding year, 1961-2003)

	long-term							2001		2002		2003	
	average	5-year average						estimate of		forecast of		forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	8.5	4.2	4.2	5.0	3.9	4.3	5.4	3.5	3.6	3.2	3.2	4.3	4.7
DK	10.4	4.1	5.1	5.2	3.5	5.0	6.8	4.3	3.6	3.4	3.9	4.8	5.0
D	7.2	5.5	2.4	2.1	3.1	2.3	2.6	2.0	1.9	2.0	2.3	3.6	3.6
EL	17.3	15.4	8.7	10.7	8.8	6.7	7.6	7.5	7.4	7.1	7.1	7.7	7.5
E	15.3	7.0	6.8	6.4	6.8	7.1	7.7	6.6	6.8	4.8	5.3	5.6	5.8
F	10.8	3.2	3.5	3.2	4.4	3.4	4.0	3.5	3.6	3.2	3.0	4.2	4.3
IRL	13.2	7.7	14.4	15.4	15.1	15.5	16.2	11.6	12.0	8.1	8.2	9.6	10.0
I	14.2	6.2	4.8	4.5	4.6	3.3	5.1	4.4	4.4	3.2	3.8	4.9	4.9
L	8.7	7.6	9.2	12.1	8.6	8.7	11.5	7.1	6.1	6.5	5.2	8.4	9.1
NL	8.5	4.4	5.8	5.9	6.1	5.5	7.3	7.3	6.4	5.0	4.8	5.2	5.7
A	8.3	5.2	3.5	2.5	4.1	3.5	4.2	2.5	2.9	2.8	2.9	3.5	3.9
P	17.3	9.7	7.4	7.9	8.6	6.8	6.5	5.7	6.6	4.7	4.8	4.6	4.6
FIN	12.2	1.5	6.7	8.5	8.5	3.9	8.9	2.9	2.9	2.7	2.8	4.5	5.2
S	10.3	4.0	4.1	3.8	4.5	5.2	4.7	3.3	3.3	3.8	3.9	4.8	5.0
UK	10.8	5.2	5.6	6.4	6.0	4.8	4.8	4.7	4.7	4.3	4.5	5.6	5.6
EU-15	10.9	5.4	4.6	4.5	5.0	4.1	4.9	4.1	4.0	3.5	3.7	4.8	4.8
Euro area	11.0	5.5	4.4	4.2	4.8	4.0	4.9	4.1	3.9	3.3	3.5	4.6	4.7
USA	8.4	5.0	6.0	6.5	5.6	5.6	6.6	3.4	3.4	2.4	4.2	5.1	5.3
JAP	11.6	2.4	0.6	2.2	-1.2	-0.8	0.3	-1.3	-1.9	-0.8	-2.0	0.4	0.8

ANNEX

TABLE 7 : Private consumption expenditure, volume (percentage change on preceding year, 1961-2003) 12.04.2002

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	3.2	1.4	2.4	2.0	2.9	2.1	3.8	2.0	1.7	1.6	1.3	2.6	2.1
DK	2.1	2.3	1.5	2.9	2.3	0.2	-0.3	1.2	0.6	1.7	1.6	2.0	2.0
D	3.5	2.3	1.6	0.6	1.8	3.1	1.4	1.5	1.1	0.6	-0.2	1.8	2.1
EL	4.8	1.8	2.9	2.7	3.5	2.9	3.2	3.1	3.2	2.7	2.8	2.9	3.0
E	4.5	1.2	3.7	3.2	4.5	4.7	4.0	2.6	2.7	1.6	2.0	3.1	3.1
F	3.7	0.7	2.0	0.2	3.4	2.8	2.5	2.7	2.9	1.9	1.7	2.6	2.8
IRL	3.1	3.2	7.9	7.4	7.3	8.3	10.0	6.2	5.5	4.2	4.3	5.6	5.9
I	4.4	0.9	2.6	3.2	3.2	2.4	2.7	1.6	1.1	2.0	1.7	2.7	2.3
L	3.8	1.9	3.3	3.6	4.0	2.1	3.1	3.7	3.4	3.5	4.0	4.0	3.5
NL	3.6	1.6	4.0	3.0	4.8	4.5	3.8	1.3	1.2	2.3	2.1	3.3	3.4
A	3.6	2.3	2.6	1.7	2.8	2.7	2.5	1.4	1.3	1.6	1.6	2.3	2.3
P	4.0	2.3	3.8	3.4	5.1	4.8	2.6	1.1	0.8	1.2	0.7	1.8	2.0
FIN	3.9	-0.9	3.8	3.5	5.1	4.0	2.2	1.5	1.4	1.9	2.1	1.9	2.2
S	2.3	-0.2	2.9	2.0	2.7	3.9	4.5	0.9	0.2	1.7	1.7	2.3	2.6
UK	2.7	1.5	4.0	3.8	3.8	4.2	4.1	3.8	3.9	2.2	2.6	2.6	2.8
EU-15	3.5	1.4	2.7	2.2	3.3	3.4	2.9	2.3	2.1	1.7	1.5	2.5	2.6
Euro area	3.9	1.4	2.5	1.8	3.2	3.2	2.6	2.0	1.8	1.6	1.2	2.5	2.5
USA	3.7	2.6	4.3	3.6	4.8	5.0	4.8	2.5	3.1	-0.5	3.0	2.9	2.6
JAP	5.7	2.2	1.0	0.8	0.1	1.2	0.6	0.5	0.3	0.1	-0.1	0.4	0.2

TABLE 8 : Government consumption expenditure, volume (percentage change on preceding year, 1961-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	3.5	1.5	2.0	0.3	1.5	3.2	2.5	2.4	2.1	1.1	1.6	1.6	1.6
DK	3.6	2.1	1.9	0.8	3.1	1.8	0.6	1.7	1.4	1.4	1.4	1.2	0.8
D	3.0	1.9	1.2	0.3	1.2	1.6	1.2	1.4	1.7	1.3	1.5	1.3	1.1
EL	4.6	0.5	1.6	3.0	1.7	-0.1	2.3	1.8	1.8	0.5	0.5	0.6	1.0
E	4.9	3.0	3.2	2.9	3.7	4.2	4.0	2.0	3.1	2.4	3.1	2.2	3.1
F	3.4	2.3	1.7	2.1	-0.1	2.0	2.2	1.9	2.1	2.0	1.7	1.5	1.4
IRL	3.6	2.7	5.2	5.3	5.7	6.3	5.4	6.0	7.0	3.8	5.5	2.7	3.3
I	3.4	-0.2	0.9	0.2	0.2	1.3	1.7	1.2	2.3	1.6	1.1	0.9	1.0
L	3.0	2.5	4.4	3.0	1.4	7.7	4.7	3.4	4.6	3.0	3.7	4.0	3.5
NL	2.8	2.1	2.2	3.2	3.6	2.8	1.9	3.4	3.4	2.5	2.0	1.7	1.7
A	2.7	3.0	1.1	-1.5	2.8	2.2	0.9	-0.2	-0.2	-0.1	-0.1	0.2	0.2
P	7.6	2.7	3.3	2.2	3.8	4.5	2.5	1.9	2.3	1.1	1.7	0.9	1.0
FIN	4.4	-0.5	2.0	4.1	1.7	1.9	-0.2	1.7	1.7	1.6	1.6	1.1	1.1
S	3.5	0.4	0.7	-1.2	3.2	1.7	-0.9	1.1	1.4	1.0	0.7	0.8	0.5
UK	1.8	1.2	1.8	0.1	1.5	2.8	3.3	2.4	2.7	3.4	3.3	3.2	3.3
EU-15	3.1	1.6	1.7	1.0	1.4	2.2	2.0	1.8	2.2	1.9	1.9	1.6	1.7
Euro area	3.5	1.7	1.7	1.3	1.3	2.1	2.0	1.7	2.2	1.7	1.6	1.4	1.4
USA	2.5	-0.1	1.7	1.3	1.5	2.4	2.7	3.4	3.1	6.3	4.5	2.4	4.5
JAP	4.4	3.2	3.0	1.3	1.9	4.5	4.6	2.1	3.1	1.2	-0.8	0.3	0.3

TABLE 9 : Total investment, volume (percentage change on preceding year, 1961-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	3.6	-0.1	3.6	6.8	4.3	3.3	2.6	-0.6	0.3	1.6	0.5	3.8	3.4
DK	2.7	1.8	7.2	10.9	10.0	1.0	10.7	-2.3	0.0	3.3	4.1	4.1	5.4
D	2.3	1.8	1.8	0.6	3.0	4.2	2.3	-2.7	-4.8	-0.3	-2.4	3.7	3.6
EL	3.5	-0.1	7.9	6.8	10.6	6.2	7.8	9.1	7.4	9.2	9.6	10.4	9.8
E	6.0	-0.5	6.2	5.0	9.7	8.8	5.7	3.8	2.5	2.6	1.9	4.2	4.2
F	4.5	-1.2	3.8	-0.1	7.0	6.2	6.1	2.8	2.8	0.9	-0.1	3.7	3.1
IRL	5.2	2.3	14.1	17.8	15.7	13.5	7.3	3.4	1.3	2.7	2.4	4.2	3.6
I	2.9	-1.2	4.3	2.1	4.0	5.7	6.5	1.6	2.4	2.7	2.8	3.8	4.9
L	3.4	3.3	6.8	14.3	2.8	19.6	-3.0	5.8	5.9	2.9	-0.5	5.5	5.3
NL	3.0	0.7	5.7	6.6	4.2	7.8	3.8	-1.3	-1.1	-0.8	-0.8	2.5	2.4
A	3.9	2.4	2.8	2.0	3.4	1.5	5.1	-0.2	-1.5	0.8	0.6	3.5	4.0
P	4.6	2.2	8.6	13.9	11.2	7.2	4.8	-1.0	-0.5	2.2	0.5	3.7	2.1
FIN	3.3	-9.5	7.4	11.9	9.3	3.0	4.8	1.8	2.1	0.5	-1.2	2.9	2.8
S	3.1	-4.4	5.3	-1.1	8.5	9.6	5.0	3.2	1.5	3.1	1.6	4.0	4.6
UK	3.3	-0.3	5.9	7.1	13.2	0.9	3.9	2.0	0.1	1.1	2.1	4.3	3.7
EU-15	3.5	-0.2	4.4	3.4	6.7	5.0	4.6	0.9	-0.1	1.4	0.6	3.9	3.9
Euro area	3.5	0.0	4.0	2.7	5.5	5.7	4.6	0.7	-0.2	1.3	0.2	3.9	3.8
USA	3.6	4.1	8.7	9.5	10.5	7.9	6.8	-1.6	-1.0	-2.6	0.0	6.0	5.9
JAP	8.0	-0.9	1.2	1.0	-4.0	-0.8	3.2	-2.4	-1.7	-4.5	-5.3	0.1	0.2

ANNEX

TABLE 10 : Investment in construction, volume (percentage change on preceding year, 1971-2003) 12.04.2002

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1971-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	:	:	:	:	:	:	:	:	1.5	:	2.0	:	2.5
DK	-1.0	-0.6	3.1	5.1	-2.0	-3.6	6.8	-7.6	-6.8	3.0	1.2	2.7	4.6
D	0.5	4.0	-1.3	-1.5	-1.0	1.5	-2.5	-5.1	-5.8	-1.0	-1.8	0.5	0.2
EL	0.2	-2.8	5.7	7.1	9.2	7.6	2.9	10.2	8.6	11.2	11.0	12.1	11.5
E	3.1	0.1	4.7	2.3	8.1	9.0	6.2	5.8	5.7	3.6	4.0	4.6	4.2
F	1.1	-2.1	1.3	-3.4	1.9	5.6	5.6	1.6	1.9	0.2	0.0	2.6	2.0
IRL	2.3	3.3	13.2	17.7	11.6	11.3	7.4	2.4	5.8	2.7	2.3	3.9	3.8
I	0.4	-2.4	1.9	-2.0	-0.2	2.8	5.6	2.8	3.7	2.1	2.3	2.6	2.8
L	:	:	4.1	1.9	8.2	4.3	4.8	1.7	2.3	2.9	3.6	4.7	4.7
NL	0.0	0.3	3.5	2.4	3.6	6.1	3.4	0.4	1.7	0.1	0.2	2.2	1.8
A	2.4	3.6	0.0	-1.0	1.3	-0.7	0.3	-2.6	-2.2	-1.3	-1.3	0.4	0.8
P	:	:	:	9.8	8.3	:	:	0.1	0.2	1.7	0.5	3.0	1.5
FIN	2.1	-11.1	9.2	12.6	11.2	6.3	7.1	0.1	-1.0	0.0	-3.0	0.6	0.3
S	0.3	-8.5	0.4	-8.0	2.7	1.2	5.1	3.9	1.2	3.7	3.0	4.8	4.7
UK	1.9	-1.8	2.3	4.4	3.5	2.7	1.7	4.2	2.3	4.8	4.4	5.2	4.6
EU-15 [1]	1.1	0.4	1.4	0.1	1.9	3.6	2.2	0.6	0.2	1.7	1.2	3.0	2.6
Euro area [1]	1.1	0.9	1.3	-0.4	1.7	3.9	2.1	0.1	-0.1	1.1	0.5	2.6	2.1
USA	1.7	0.7	4.7	5.6	6.0	3.6	2.4	2.7	2.7	-2.9	-1.3	4.0	4.1
JAP	3.8	-1.9	-1.2	-1.2	-4.2	-1.1	-1.1	-1.8	-0.9	-3.5	-2.1	-0.7	-0.6

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

TABLE 11 : Investment in equipment, volume (percentage change on preceding year, 1971-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1971-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	:	:	:	:	:	:	:	:	1.2	:	1.9	:	4.3
DK	2.9	2.5	6.7	15.4	7.5	1.5	12.6	-3.1	2.6	0.9	2.8	5.1	4.5
D	2.7	-2.4	6.1	3.7	9.2	7.2	8.7	-0.5	-5.0	-0.2	-3.9	7.0	7.8
EL	3.5	4.6	12.3	5.2	16.5	1.0	17.2	8.3	5.2	7.0	8.1	8.5	8.1
E	4.3	-2.5	8.9	10.8	13.3	7.7	4.8	1.2	-2.2	1.1	-1.4	4.1	4.9
F	5.3	-0.1	6.5	2.8	12.5	6.6	8.5	3.8	3.4	0.8	-1.2	4.7	4.2
IRL	4.5	1.8	15.2	15.6	24.9	17.9	6.3	4.5	-4.8	2.7	2.5	4.5	3.5
I	3.9	-0.1	6.5	6.3	7.2	8.3	7.1	0.2	1.1	3.1	3.1	4.4	6.5
L	:	:	9.7	27.8	-3.1	42.3	-9.1	9.0	10.0	3.0	-5.0	6.0	6.0
NL	2.6	1.3	7.0	9.3	2.3	8.9	5.5	-3.4	-4.3	-2.2	-2.3	2.9	3.5
A	3.5	0.3	6.2	5.8	5.2	4.0	11.7	2.3	-1.2	3.0	2.5	6.7	7.6
P	:	0.0	11.6	16.4	17.2	10.8	6.5	-2.0	-1.2	2.7	0.5	4.3	2.7
FIN	3.4	-9.3	5.9	12.2	8.0	-2.0	1.1	1.0	4.5	0.5	-0.3	4.5	4.6
S	4.7	-0.6	7.9	1.7	11.0	13.2	4.6	2.7	2.1	2.7	0.8	3.5	5.3
UK	2.9	1.1	9.7	10.5	17.2	7.9	3.5	0.3	-1.5	-1.8	0.3	3.5	3.0
EU-15 [1]	3.8	-0.4	7.3	6.4	10.8	7.4	7.2	0.6	-1.0	0.8	-0.4	4.9	5.3
Euro area [1]	3.9	-0.9	6.8	5.4	9.5	7.2	7.9	0.7	-1.1	1.2	-0.7	5.2	5.9
USA	5.3	7.7	12.3	13.2	14.5	12.0	10.8	-4.3	-3.4	-2.4	0.9	7.4	7.0
JAP	5.3	0.3	3.8	3.4	-3.8	-0.5	7.8	-3.1	-2.5	-5.5	-8.5	1.0	1.0

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

TABLE 12 : Public investment (as a percentage of GDP, 1971-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1971-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	3.6	1.5	1.7	1.6	1.6	1.8	1.8	1.5	1.6	1.3	1.4	1.3	1.4
DK	3.0	1.8	1.8	1.9	1.7	1.7	1.7	1.8	1.7	1.8	1.8	1.8	1.8
D	3.2	2.6	1.9	1.9	1.8	1.9	1.9	1.8	1.7	1.8	1.7	1.7	1.6
EL	2.9	3.2	3.5	3.4	3.6	3.7	3.7	4.2	3.8	4.3	4.0	4.4	4.0
E	2.9	4.1	3.2	3.1	3.3	3.4	3.2	3.3	3.4	3.4	3.5	3.5	3.6
F	3.4	3.3	3.0	3.0	2.9	2.9	3.0	3.0	3.0	3.0	3.0	3.1	3.0
IRL	3.9	2.2	2.8	2.5	2.7	3.1	3.6	4.2	4.1	4.6	4.3	4.9	4.3
I	3.2	2.7	2.3	2.2	2.4	2.4	2.4	2.3	2.2	2.2	2.0	2.0	2.0
L	:	4.7	4.5	4.2	4.5	4.6	4.3	4.3	4.6	4.5	4.8	4.3	4.6
NL	2.9	2.2	3.0	2.9	2.9	3.0	3.2	3.3	3.3	3.3	3.3	3.3	3.4
A	4.3	3.2	2.0	2.0	1.9	1.7	1.5	1.6	1.3	1.6	1.2	1.5	1.2
P	3.1	3.6	4.1	4.3	3.9	4.1	3.7	3.9	4.2	4.0	4.2	4.1	4.3
FIN	3.8	3.2	2.9	3.2	2.9	2.9	2.5	2.4	2.7	2.5	2.7	2.4	2.6
S	3.9	2.4	2.7	2.7	2.7	2.7	2.5	2.6	2.6	2.5	2.6	2.5	2.6
UK	3.0	1.9	1.2	1.2	1.2	1.1	1.1	1.5	1.3	1.8	1.5	1.9	1.7
EU-15	3.3	2.7	2.3	2.2	2.2	2.3	2.2	2.3	2.3	2.4	2.3	2.4	2.3
Euro area	3.3	2.9	2.5	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.4	2.5	2.4
USA	2.7	2.5	2.6	2.6	2.6	2.7	2.7	3.3	3.3	3.4	3.5	3.4	3.6
JAP	5.3	5.8	5.6	5.5	5.5	5.7	5.0	5.5	5.5	5.3	5.3	5.0	5.1

TABLE 13 : Output gap relative to trend GDP (deviation of actual output from trend output as percentage of trend GDP, 1961-2003) [1] 12.04.2002

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	0.0	0.1	-0.1	-0.4	-0.5	0.2	1.9	0.7	0.6	-0.3	-0.5	0.1	0.0
DK	0.2	-1.5	0.8	0.8	0.9	0.9	1.6	0.5	0.2	-0.2	-0.3	0.0	0.0
D	-0.2	2.2	-0.4	-0.9	-0.7	-0.6	0.6	-0.4	-0.5	-1.5	-1.4	-0.6	-0.5
EL	0.1	-0.4	-0.8	-1.1	-0.8	-0.4	0.2	0.8	0.8	0.8	0.9	1.4	1.4
E	0.2	0.0	-0.4	-1.5	-0.3	0.7	1.6	1.3	1.2	0.2	0.3	0.4	0.4
F	0.1	0.2	-0.7	-1.9	-0.7	0.0	0.8	0.7	0.5	-0.1	-0.2	0.1	0.2
IRL	0.2	-3.2	1.5	-0.1	0.6	3.3	6.8	6.4	6.0	2.7	2.3	1.5	1.5
I	0.1	-0.2	-0.4	-0.4	-0.4	-0.7	0.2	0.2	0.1	-0.5	-0.5	0.1	0.1
L	0.0	0.2	-0.4	-0.6	-0.2	0.5	2.6	2.2	2.5	0.0	0.3	0.3	0.5
NL	-0.1	-0.2	0.7	-0.4	0.9	1.7	2.4	0.8	0.8	-0.5	-0.3	-0.1	-0.1
A	-0.1	0.9	0.0	-1.3	-0.1	0.6	1.4	0.4	0.3	-0.4	-0.5	0.1	0.1
P	-0.1	0.0	0.4	-0.7	0.9	1.5	2.2	1.3	1.4	0.4	0.5	0.4	0.4
FIN	0.7	-4.9	1.0	-0.3	1.8	2.4	4.6	2.1	1.9	0.7	0.2	0.4	0.2
S	0.3	-1.8	-0.2	-1.9	-0.7	1.3	2.3	1.2	0.9	0.2	0.0	0.2	0.2
UK	0.2	-1.7	0.4	0.4	0.8	0.3	0.8	0.5	0.5	-0.2	-0.1	0.3	0.4
EU-15	0.1	0.2	-0.2	-0.8	-0.2	0.1	1.1	0.4	0.3	-0.5	-0.5	0.0	0.0
Euro area	0.0	0.7	-0.3	-1.0	-0.4	0.0	1.1	0.4	0.3	-0.6	-0.6	-0.1	0.0

[1] Output gaps are non observable concepts and can be measured in different ways. Analysis based on them should be treated with prudence.
(see note 5 on concepts and sources). This measure of output gap is used for the cyclical adjustment of public finance data.

TABLE 14 : Output gap relative to potential GDP (deviation of actual output from potential output as percentage of potential GDP, 1986-2003) [1]

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1965-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	0.1	0.1	-0.1	-0.5	-0.4	0.2	1.8	0.8	0.4	-0.3	-0.6	0.3	-0.1
DK	0.1	-1.2	0.9	0.7	0.8	0.9	1.5	1.1	0.3	0.4	-0.1	0.7	0.1
D	0.6	1.8	-0.5	-0.9	-0.7	-0.5	0.6	-0.5	-0.8	-1.5	-1.5	-0.5	-0.7
EL	0.2	-0.6	-0.4	-1.1	-0.3	0.4	1.2	2.0	1.9	2.2	2.6	3.0	3.5
E	0.1	-0.6	-0.3	-1.2	0.2	0.8	1.3	0.2	0.7	-0.9	-0.2	-0.4	-0.3
F	0.0	-0.2	-0.5	-1.7	-0.4	0.2	0.9	0.3	0.4	-0.6	-0.6	-0.4	-0.3
IRL	-0.1	-3.0	1.6	0.6	0.6	2.8	5.9	4.0	4.7	-0.2	0.8	-1.8	-0.3
I	0.2	-0.3	-0.2	-0.1	-0.2	-0.5	0.2	-0.3	-0.3	-0.9	-1.2	-0.2	-0.9
L	:	0.2	-0.4	-0.1	0.2	-0.3	1.2	-0.3	0.5	-3.0	-2.1	-3.6	-2.5
NL	0.0	-0.1	0.9	0.0	1.2	1.8	2.2	0.3	0.5	-1.1	-0.9	-0.7	-0.8
A	-0.1	0.6	0.0	-1.3	0.1	0.5	1.2	-0.3	0.2	-1.1	-0.4	-0.6	0.1
P	0.0	0.4	0.8	0.3	1.2	1.6	1.8	0.0	-0.1	-1.5	-1.6	-2.0	-2.6
FIN	0.1	-6.8	-0.4	-1.6	0.4	0.7	3.2	3.0	0.6	1.8	-0.7	1.8	-0.5
S	0.3	-2.0	0.4	-0.7	-0.1	1.4	2.2	1.7	0.7	0.7	0.1	0.8	0.4
UK	0.2	-1.5	0.7	1.1	1.2	0.4	0.4	0.0	-0.1	-1.0	-0.9	-0.6	-0.7
EU-15	0.3	0.0	-0.1	-0.6	0.0	0.2	0.9	0.1	0.0	-0.9	-0.8	-0.4	-0.5
Euro area	0.3	0.4	-0.2	-0.8	-0.2	0.1	0.9	0.1	0.0	-0.9	-0.9	-0.4	-0.5

[1] Output gaps are non observable concepts and can be measured in different ways. Analysis based on them should be treated with prudence, series under revision.
(see note 5 on concepts and sources).

TABLE 15 : Deflator of gross domestic product (percentage change on preceding year, 1961-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	4.9	2.7	1.3	1.3	1.6	1.2	1.4	2.1	2.6	1.9	2.1	1.5	1.9
DK	7.5	2.1	2.4	2.2	1.0	2.7	3.7	2.9	2.7	1.8	2.2	2.3	2.4
D	3.9	3.4	0.6	0.7	1.1	0.5	-0.4	1.3	1.3	1.3	1.4	0.8	0.9
EL	12.2	14.0	5.1	6.8	5.2	3.0	3.4	3.3	3.2	3.5	3.3	3.4	3.2
E	10.3	5.4	2.9	2.3	2.4	2.9	3.4	3.8	3.9	2.7	3.1	2.4	2.6
F	6.7	2.1	1.0	1.3	0.9	0.5	0.9	1.5	1.6	1.7	1.4	1.6	1.4
IRL	8.7	2.9	4.1	4.1	5.9	4.2	4.3	4.8	4.9	4.6	4.5	3.9	3.6
I	9.9	4.9	2.8	2.4	2.7	1.7	2.1	2.6	2.6	1.9	2.4	2.2	2.2
L	5.0	3.6	2.7	2.8	2.6	2.5	3.7	3.0	0.9	3.4	2.3	2.8	3.7
NL	4.9	2.3	2.1	2.0	1.7	1.7	3.7	5.7	5.2	3.5	3.2	2.0	3.0
A	4.6	3.1	0.9	0.9	0.5	0.7	1.2	1.4	1.8	1.5	1.7	1.0	1.3
P	11.9	7.9	3.4	3.8	3.9	3.3	3.0	3.9	4.8	3.2	3.2	2.3	2.4
FIN	8.1	2.2	1.6	2.1	3.0	-0.2	3.2	2.4	2.2	0.9	1.2	1.6	1.9
S	7.2	3.4	1.1	1.7	0.9	0.7	1.0	1.9	2.0	2.1	2.2	2.2	2.1
UK	8.1	3.4	2.7	2.9	2.9	2.6	1.7	2.3	2.4	2.5	2.5	2.5	2.5
EU-15	7.3	3.8	1.9	1.9	2.0	1.5	1.5	2.4	2.3	2.1	2.1	1.8	1.9
Euro area	7.1	3.9	1.7	1.7	1.8	1.2	1.5	2.4	2.3	2.0	2.0	1.7	1.7
USA	4.6	2.5	1.8	2.0	1.2	1.4	2.3	2.4	2.2	1.8	1.4	1.6	2.1
JAP	5.1	1.0	-0.8	0.4	-0.1	-1.4	-2.0	-0.7	-1.4	0.1	-1.2	-0.1	0.2

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TABLE 16 : Price deflator of private consumption (percentage change on preceding year, 1961-2003) 12.04.2002

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	4.9	2.5	1.7	1.8	1.2	1.0	2.2	2.4	2.3	1.4	1.7	1.4	1.7
DK	7.4	2.3	2.3	2.2	1.3	2.6	3.0	2.5	2.1	1.8	2.4	2.0	2.1
D	3.4	3.3	1.3	2.0	1.1	0.4	1.4	1.8	1.8	1.6	1.7	1.5	1.6
EL	11.5	13.8	4.7	5.6	4.5	2.1	3.1	3.1	3.0	3.0	3.3	2.8	2.9
E	10.0	5.6	2.8	2.6	2.2	2.4	3.2	3.3	3.2	2.4	2.9	2.1	2.6
F	6.7	2.5	1.2	1.4	0.7	0.4	1.5	1.5	1.2	1.4	1.4	1.4	1.6
IRL	8.7	2.7	3.4	2.7	3.5	3.4	4.6	4.6	4.5	3.7	4.4	3.2	3.3
I	9.4	5.8	2.7	2.2	2.1	2.1	2.8	2.8	2.9	1.8	2.3	1.9	2.1
L	4.7	3.0	1.8	1.4	1.3	1.4	2.8	2.7	2.8	2.3	1.9	1.9	2.1
NL	4.8	2.6	2.1	2.0	1.7	1.9	2.8	4.6	4.5	2.5	3.3	1.9	2.5
A	4.4	3.1	1.2	1.5	0.5	0.7	1.5	2.6	2.3	1.9	2.2	1.9	2.0
P	12.2	7.5	2.9	3.0	2.9	2.3	2.8	4.3	4.4	2.8	3.1	2.2	2.4
FIN	7.4	3.0	1.9	1.3	1.7	1.0	3.8	2.6	2.7	1.8	1.9	2.0	2.0
S	7.2	4.8	1.3	2.3	1.0	1.0	1.0	2.3	1.6	2.1	1.9	1.9	2.0
UK	7.7	4.1	2.0	2.3	2.7	1.5	0.6	1.5	1.5	1.8	2.0	2.0	2.0
EU-15	7.1	4.2	2.0	2.2	1.7	1.3	1.9	2.3	2.1	1.8	2.1	1.8	1.9
Euro area	6.9	4.2	2.0	2.1	1.6	1.2	2.2	2.5	2.3	1.8	2.1	1.8	1.9
USA	4.6	2.7	1.9	1.9	1.1	1.6	2.7	1.9	1.8	1.5	1.4	1.8	2.3
JAP	5.5	1.1	-0.2	1.0	-0.1	-0.5	-1.1	-1.0	-1.5	-0.1	-0.9	0.1	0.1

TABLE 17 : Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1961-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	5.1	2.4	1.6	1.5	0.9	1.1	2.7	2.4	2.4	1.4	1.7	1.4	1.7
DK	7.2	2.0	2.0	1.9	1.3	2.1	2.7	2.3	2.3	1.7	2.3	2.0	2.1
D	3.5	3.5	1.2	1.5	0.6	0.6	2.1	2.4	2.4	1.5	1.8	1.5	1.7
EL	11.6	13.9	4.6	5.4	4.5	2.1	2.9	3.6	3.7	2.7	3.6	2.9	3.2
E	10.1	5.2	2.6	1.9	1.8	2.2	3.5	3.7	3.2	2.3	3.0	2.1	2.5
F	6.7	2.2	1.3	1.3	0.7	0.6	1.8	1.8	1.8	1.4	1.7	1.5	1.6
IRL	8.6	2.5	2.6	1.2	2.1	2.5	5.3	4.0	4.0	3.3	4.5	2.9	3.3
I	9.1	5.0	2.4	1.9	2.0	1.7	2.6	2.7	2.3	1.7	2.2	1.8	2.0
L	4.6	2.8	1.7	1.4	1.0	1.0	3.8	2.6	2.4	2.2	2.0	1.7	2.2
NL	4.7	2.9	1.9	1.9	1.8	2.0	2.3	5.2	5.1	2.6	3.5	1.9	2.2
A	4.5	3.2	1.2	1.2	0.8	0.5	2.0	2.4	2.3	1.7	1.6	1.8	1.7
P	13.2	7.1	2.4	1.9	2.2	2.2	2.8	4.3	4.4	2.8	3.1	2.2	2.4
FIN	7.6	2.3	1.6	1.2	1.4	1.3	3.0	2.7	2.7	2.0	2.0	2.2	2.1
S	6.9	4.2	1.1	1.8	1.0	0.6	1.3	2.7	2.7	2.2	2.2	2.2	2.2
UK	8.0	3.4	1.6	1.8	1.6	1.3	0.8	1.3	1.2	1.3	1.6	1.5	1.8
EU-15	7.1	3.9	1.7	1.7	1.3	1.2	2.1	2.5	2.3	1.7	2.1	1.7	1.9
Euro area	6.9	4.0	1.7	1.7	1.2	1.1	2.4	2.8	2.5	1.8	2.2	1.8	2.0
USA	5.1	3.1	2.5	2.3	1.6	2.2	3.4	3.0	2.8	1.8	1.4	2.0	2.4
JAP	5.6	1.4	0.3	1.7	0.6	-0.3	-0.7	-0.6	-0.5	-0.8	-0.9	0.2	-0.1

TABLE 18 : Profiles of quarterly harmonised index of consumer prices (percentage change on corresponding quarter in previous year, 2001-2003)

	2001/1	2001/2	2001/3	2001/4	2002/1	2002/2	2002/3	2002/4	2003/1	2003/2	2003/3	2003/4
B	2.5	3.0	2.4	1.9	2.0	1.6	1.5	1.5	1.5	1.4	1.5	1.6
DK	2.3	2.5	2.3	2.0	2.4	2.3	2.3	2.2	2.0	1.9	2.3	2.3
D	2.4	3.2	2.4	1.7	1.9	1.5	1.7	2.1	1.8	1.6	1.7	1.9
EL	3.3	4.0	4.1	3.2	4.4	3.9	3.4	3.0	3.0	3.1	3.6	3.2
E	3.2	4.1	2.6	3.0	3.2	3.0	2.7	2.8	2.7	2.6	2.4	2.3
F	1.4	2.2	1.9	1.5	2.3	1.4	1.5	1.6	1.5	1.6	1.7	1.8
IRL	4.0	4.2	3.9	3.9	5.1	4.5	4.2	4.1	3.5	3.4	3.2	3.2
I	2.0	2.9	2.2	2.3	2.5	2.2	2.1	2.0	2.0	2.0	2.0	2.1
L	2.9	3.1	2.3	1.3	2.1	1.7	2.1	2.0	1.8	2.2	2.4	2.6
NL	4.9	5.3	5.2	5.0	4.6	3.6	3.0	2.9	2.0	2.1	2.2	2.3
A	2.0	2.7	2.5	2.0	1.8	1.5	1.4	1.5	1.6	1.6	1.8	1.8
P	4.8	4.7	4.1	4.1	3.5	3.2	2.9	2.7	2.6	2.4	2.3	2.2
FIN	2.7	3.0	2.6	2.3	2.5	1.8	1.9	2.0	1.8	2.2	2.2	2.3
S	1.6	3.0	3.1	3.0	2.9	2.0	1.8	2.3	2.2	2.2	2.3	2.3
UK	0.9	1.5	1.5	1.0	1.5	1.6	1.6	1.7	1.7	1.8	1.8	1.9
EU-15	2.2	2.9	2.4	2.0	2.3	1.9	1.9	2.0	1.9	1.9	1.9	2.0
Euro area	2.4	3.1	2.5	2.2	2.5	2.0	2.0	2.1	1.9	1.9	1.9	2.0
USA	3.4	3.4	2.7	1.9	1.2	1.0	1.4	2.1	2.4	2.4	2.4	2.4
JAP	-0.2	-0.5	-0.6	-0.9	-1.3	-0.9	-0.7	-0.5	-0.3	-0.2	0.0	0.2

TABLE 19 : Price deflator of exports of goods in national currency (percentage change on preceding year, 1961-2003) 12.04.2002

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	4.1	-0.6	3.1	5.2	-0.9	-0.3	10.0	1.1	2.7	1.0	1.2	1.9	1.9
DK	:	1.2	1.5	1.7	-3.0	0.9	6.9	2.3	2.4	0.8	1.4	1.7	2.1
D	2.8	0.9	0.7	1.2	0.2	-1.0	3.1	1.0	1.4	0.7	0.7	2.0	1.6
EL	9.4	6.8	5.5	3.1	2.3	1.0	16.4	2.2	1.9	1.4	1.4	2.9	3.0
E	:	3.1	2.3	3.4	-0.1	-0.8	8.4	2.3	2.5	0.3	0.4	2.3	2.3
F	5.0	-1.5	0.5	2.3	-2.3	-0.8	1.6	0.9	0.9	1.4	-0.1	1.4	1.4
IRL	7.4	1.1	2.2	1.1	2.8	2.4	5.4	1.8	2.7	1.3	1.8	2.6	2.3
I	7.5	5.5	1.2	0.1	0.6	-0.5	5.4	2.5	3.6	1.0	2.0	2.3	3.0
L	:	-2.0	-0.1	0.7	-0.1	-2.7	3.8	0.0	0.5	-0.5	-0.5	2.0	2.0
NL	2.8	-0.8	2.0	2.6	-1.9	-0.8	9.9	2.5	1.1	0.9	0.7	2.0	2.6
A	:	-0.1	0.6	0.3	0.2	-0.6	2.2	1.1	1.3	0.5	1.0	1.5	1.8
P	:	2.7	:	:	:	:	:	1.5	2.5	0.7	0.8	2.3	2.4
FIN	:	3.7	-1.1	-1.7	-1.3	-5.6	4.4	1.0	-3.1	-1.9	-1.0	0.6	1.6
S	:	3.2	-1.6	-0.5	-1.8	-2.2	2.2	4.8	2.2	3.1	0.5	1.5	1.5
UK	6.7	3.0	-2.3	-5.2	-5.8	-2.9	1.4	0.7	-0.4	0.2	1.3	2.6	1.7
EU-15	4.8	1.3	0.7	0.9	-1.2	-1.1	4.5	1.5	1.5	0.9	0.9	2.0	1.9
Euro area	4.5	1.0	1.2	1.8	-0.5	-0.8	5.0	1.5	1.7	0.8	0.8	2.0	2.0
USA	3.9	0.3	-1.8	-2.7	-3.1	-1.4	1.1	-0.5	-0.7	0.4	-1.4	2.0	1.2
JAP	:	:	:	:	:	:	:	7.6	1.9	-1.9	1.2	-0.9	2.1

TABLE 20 : Price deflator of imports of goods in national currency (percentage change on preceding year, 1961-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	4.3	-0.7	3.9	6.5	-2.7	0.8	12.6	1.2	2.7	0.5	0.9	2.0	2.0
DK	:	0.5	0.5	0.7	-3.0	-1.4	7.4	1.1	1.2	0.7	1.6	1.7	1.9
D	2.3	-0.1	1.4	2.9	-2.6	-1.7	8.9	1.0	0.9	-0.2	-0.4	2.0	2.0
EL	10.6	8.5	5.1	2.9	3.6	2.3	11.8	2.1	3.4	0.9	1.7	2.7	2.9
E	:	2.3	2.6	3.3	-0.7	0.2	10.4	1.3	-0.4	-0.1	0.1	2.1	2.5
F	5.6	-1.7	1.1	1.8	-3.5	-0.4	5.5	0.9	0.4	0.0	0.5	2.0	1.8
IRL	7.2	2.4	2.6	0.4	2.3	3.0	8.4	1.7	2.6	0.5	1.7	2.4	2.1
I	7.8	4.9	1.6	0.5	-2.6	-0.5	13.4	1.5	1.1	-0.1	0.9	2.4	2.6
L	:	-1.8	0.0	0.1	-2.2	-0.9	4.7	1.0	0.7	-1.0	-1.0	1.5	1.5
NL	2.8	-1.2	2.3	2.1	-2.0	0.5	9.9	0.6	0.1	-0.3	1.0	2.5	2.4
A	:	0.1	1.2	1.3	-0.5	-0.1	3.5	1.6	2.0	0.4	0.9	2.3	2.2
P	:	0.7	:	:	:	:	:	2.5	1.9	0.3	0.7	2.5	2.5
FIN	:	3.7	-0.1	-0.3	-4.1	-1.7	6.4	-0.3	-3.1	-0.3	-0.3	1.8	2.1
S	:	3.4	-0.1	0.3	-1.1	0.6	4.8	6.1	3.3	3.6	1.1	2.1	3.3
UK	6.8	3.4	-3.6	-7.3	-7.4	-3.3	0.5	1.5	-0.5	0.4	1.9	2.3	1.9
EU-15	5.1	1.1	0.9	0.9	-3.0	-0.9	7.7	1.3	0.8	0.2	0.7	2.2	2.1
Euro area	4.7	0.6	1.8	2.4	-2.3	-0.5	9.2	1.2	0.9	0.0	0.4	2.2	2.2
USA	5.3	0.1	-1.6	-4.1	-6.0	0.2	4.8	-2.5	-3.0	-1.1	-2.6	2.2	1.2
JAP	:	:	:	:	:	:	:	3.7	6.9	-1.0	5.7	2.2	1.3

TABLE 21 : Terms of trade of goods (percentage change on preceding year, 1961-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	-0.2	0.1	-0.7	-1.2	1.8	-1.1	-2.3	-0.1	0.0	0.5	0.3	-0.1	-0.1
DK	:	0.7	1.1	1.0	0.0	2.3	-0.5	1.2	1.2	0.2	-0.2	0.0	0.2
D	0.4	1.0	-0.7	-1.7	2.9	0.7	-5.4	0.0	0.4	0.9	1.1	0.0	-0.4
EL	-1.1	-1.6	0.4	0.2	-1.2	-1.3	4.1	0.1	-1.5	0.6	-0.3	0.2	0.1
E	:	0.8	-0.3	0.1	0.6	-1.0	-1.8	0.9	3.0	0.4	0.3	0.1	-0.1
F	-0.5	0.2	-0.6	0.5	1.2	-0.4	-3.7	0.0	0.5	1.3	-0.5	-0.5	-0.4
IRL	0.1	-1.2	-0.3	0.7	0.5	-0.6	-2.8	0.1	0.1	0.8	0.1	0.2	0.1
I	-0.3	0.5	-0.4	-0.3	3.3	0.0	-7.0	0.9	2.4	1.1	1.1	-0.1	0.4
L	:	-0.2	-0.1	0.6	2.1	-1.8	-0.8	-1.0	-0.2	0.5	0.5	0.5	0.5
NL	-0.1	0.4	-0.3	0.5	0.1	-1.3	0.0	1.8	1.0	1.2	-0.3	-0.4	0.2
A	:	-0.1	-0.6	-1.0	0.7	-0.4	-1.2	-0.5	-0.6	0.1	0.1	-0.8	-0.4
P	:	2.0	:	:	:	:	:	-1.0	0.7	0.4	0.1	-0.1	-0.1
FIN	:	-0.1	-1.0	-1.3	2.9	-3.9	-1.9	1.2	0.0	-1.6	-0.7	-1.1	-0.5
S	:	-0.2	-1.5	-0.7	-0.7	-2.8	-2.6	-1.2	-1.0	-0.5	-0.6	-0.7	-1.7
UK	-0.1	-0.4	1.4	2.3	1.8	0.4	0.9	-0.8	0.0	-0.1	-0.6	0.2	-0.3
EU-15	-0.3	0.2	-0.2	0.0	1.9	-0.2	-3.0	0.2	0.7	0.7	0.2	-0.2	-0.2
Euro area	-0.2	0.4	-0.6	-0.6	1.9	-0.3	-3.8	0.4	0.8	0.9	0.4	-0.2	-0.2
USA	-1.3	0.2	-0.2	1.5	3.0	-1.5	-3.5	2.0	2.4	1.5	1.3	-0.2	-0.1
JAP	:	:	:	:	:	:	:	3.8	-4.7	-0.9	-4.2	-3.0	0.8

ANNEX

TABLE 22 : Compensation of employees per head (percentage change on preceding year, 1961-2003) 12.04.2002

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	8.4	4.7	2.5	2.9	1.8	3.2	3.2	3.2	2.6	3.1	3.2	2.3	3.2
DK	9.8	3.1	3.7	3.7	3.8	2.9	3.9	3.8	4.2	3.7	3.6	3.7	3.8
D	6.8	5.4	1.1	0.8	1.0	1.2	1.2	1.9	1.6	2.3	2.4	2.4	2.6
EL	15.7	12.1	7.9	13.7	5.3	5.5	6.1	5.5	6.2	5.7	6.6	5.5	5.8
E	14.9	7.2	3.1	2.3	2.7	2.7	3.4	3.9	4.3	3.5	3.5	2.8	3.0
F	10.1	3.2	2.3	2.3	2.3	2.4	1.9	2.2	2.0	2.6	2.5	2.7	2.8
IRL	12.4	4.5	5.2	4.1	4.6	5.3	8.8	9.5	9.2	8.0	8.1	6.9	6.9
I	13.6	5.3	2.8	4.0	-1.5	2.4	3.0	3.2	2.8	2.8	2.7	2.9	2.9
L	7.7	4.6	3.0	3.1	2.3	3.4	4.3	4.4	5.3	4.3	3.7	3.7	4.0
NL	7.8	3.4	2.9	2.1	3.5	3.3	4.6	5.0	4.6	4.5	5.2	3.9	4.5
A	7.9	5.1	2.0	1.5	2.8	2.4	2.1	2.4	2.8	2.4	2.4	2.6	2.6
P	17.0	10.5	5.3	3.7	3.7	4.2	6.3	6.4	5.8	4.7	4.4	4.0	3.7
FIN	11.5	3.3	2.9	1.7	4.1	2.1	3.9	4.4	4.5	3.5	3.5	3.4	3.8
S	9.5	4.5	4.5	3.8	3.3	1.3	7.3	3.8	3.8	3.8	3.9	3.9	4.0
UK	10.5	4.9	4.5	4.3	5.0	5.3	4.2	4.3	5.2	3.9	4.3	4.4	4.5
EU-15	10.3	5.1	2.8	2.7	2.2	2.8	3.0	3.3	3.2	3.2	3.3	3.2	3.3
Euro area	10.3	5.1	2.3	2.3	1.5	2.3	2.5	3.0	2.7	3.0	2.9	2.9	3.0
USA	6.2	3.4	3.9	3.1	4.5	4.1	5.1	5.3	5.2	2.2	3.9	3.1	4.0
JAP	10.1	2.0	0.3	1.6	-0.2	-1.0	0.4	0.8	-0.9	-1.5	-2.9	-0.1	-0.1

TABLE 23 : Real compensation of employees per head [1] (percentage change on preceding year, 1961-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	3.3	2.1	0.8	1.1	0.6	2.1	0.9	0.8	0.3	1.7	1.5	0.9	1.5
DK	2.3	0.8	1.4	1.4	2.4	0.3	0.8	1.3	2.0	1.9	1.2	1.7	1.6
D	3.3	2.0	-0.2	-1.2	-0.1	0.9	-0.2	0.1	-0.2	0.7	0.7	0.9	1.0
EL	3.7	-1.5	3.0	7.7	0.8	3.3	3.0	2.3	3.1	2.6	3.2	2.6	2.8
E	4.5	1.5	0.3	-0.3	0.6	0.3	0.2	0.6	1.1	1.0	0.6	0.6	0.3
F	3.2	0.7	1.1	0.8	1.6	2.0	0.4	0.7	0.8	1.2	1.1	1.3	1.2
IRL	3.5	1.8	1.8	1.3	1.0	1.9	4.1	4.7	4.5	4.1	3.5	3.6	3.5
I	3.8	-0.5	0.0	1.7	-3.6	0.3	0.2	0.4	-0.1	1.0	0.4	1.0	0.8
L	2.9	1.5	1.2	1.6	1.0	1.9	1.4	1.6	2.4	1.9	1.8	1.7	1.8
NL	2.9	0.7	0.9	0.1	1.7	1.4	1.7	0.4	0.1	2.0	1.8	2.0	2.0
A	3.4	1.9	0.7	0.0	2.3	1.6	0.5	-0.1	0.4	0.5	0.2	0.7	0.6
P	4.2	2.8	2.3	0.7	0.8	1.9	3.4	2.0	1.3	1.8	1.3	1.8	1.3
FIN	3.8	0.2	1.0	0.4	2.3	1.0	0.1	1.8	1.8	1.7	1.5	1.4	1.8
S	2.1	-0.2	3.1	1.5	2.2	0.2	6.3	1.5	2.2	1.6	2.0	2.0	2.0
UK	2.5	0.8	2.4	1.9	2.2	3.7	3.6	2.7	3.7	2.1	2.3	2.4	2.5
EU-15	3.0	0.8	0.8	0.5	0.4	1.4	1.1	0.9	1.1	1.3	1.2	1.4	1.4
Euro area	3.2	0.9	0.3	0.2	-0.1	1.0	0.3	0.5	0.3	1.1	0.8	1.1	1.1
USA	1.5	0.7	1.9	1.2	3.4	2.4	2.4	3.4	3.3	0.7	2.5	1.3	1.7
JAP	4.4	0.9	0.5	0.5	0.0	-0.4	1.5	1.8	0.6	-1.4	-2.0	-0.2	-0.2

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

TABLE 24 : Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1961-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	3.2	1.6	1.7	2.8	1.0	1.6	2.4	0.1	-0.1	0.9	1.0	1.5	1.9
DK	2.1	2.2	1.5	1.8	0.8	0.8	2.2	0.9	0.4	1.5	1.6	2.0	2.1
D	2.8	2.1	1.1	1.6	0.9	0.6	1.3	0.6	0.4	1.0	1.2	2.0	1.9
EL	4.2	0.7	3.0	4.2	-0.7	4.4	4.4	3.0	4.2	2.9	3.4	3.0	3.7
E	4.3	2.0	0.9	1.1	0.7	0.6	1.0	0.4	0.3	1.0	0.9	1.1	1.1
F	3.3	1.2	1.3	1.4	2.1	1.1	0.9	0.3	0.1	1.1	1.1	1.4	1.6
IRL	3.9	2.7	4.0	5.0	0.0	4.6	6.5	4.1	3.7	2.5	2.4	3.6	3.9
I	3.6	1.8	0.9	1.6	0.7	0.5	1.0	0.3	0.2	0.9	0.6	1.4	1.5
L	2.3	1.2	2.1	5.8	1.3	0.5	2.1	-1.4	-0.6	0.7	0.9	1.5	2.1
NL	2.2	1.0	1.1	0.6	1.7	1.2	1.1	-0.4	-1.0	1.0	0.9	1.8	1.8
A	3.4	1.9	2.1	1.1	2.8	1.5	2.5	1.1	0.8	1.5	1.6	2.1	2.0
P	4.7	2.3	3.5	2.2	1.8	1.5	1.6	0.2	0.1	0.8	1.2	1.5	1.8
FIN	3.4	3.2	2.7	2.9	3.2	1.3	3.6	-0.8	-0.5	1.7	1.7	2.4	3.0
S	2.2	2.8	2.2	3.2	2.3	2.3	1.5	-0.4	-0.8	1.5	2.1	1.9	2.5
UK	2.1	2.7	1.5	1.4	1.6	1.1	2.0	1.6	1.4	1.7	1.8	2.6	2.3
EU-15	3.0	2.0	1.3	1.6	1.2	1.0	1.5	0.7	0.5	1.2	1.2	1.8	1.9
Euro area	3.3	1.8	1.3	1.6	1.1	0.9	1.4	0.5	0.3	1.1	1.1	1.7	1.8
USA	1.5	1.3	2.1	2.1	2.1	2.2	2.2	1.0	1.3	1.1	3.5	2.5	2.5
JAP	5.1	0.6	1.5	0.8	-0.4	1.5	2.6	-0.3	-0.1	-0.5	-0.3	0.8	0.9

TABLE 25 : Unit labour costs, whole economy [1] (percentage change on preceding year, 1961-2003) 12.04.2002

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	5.0	3.1	0.8	0.1	0.8	1.6	0.8	3.1	2.7	2.1	2.2	0.8	1.2
DK	7.6	0.9	2.1	1.9	3.0	2.0	1.6	2.9	3.8	2.2	2.0	1.6	1.7
D	3.9	3.2	0.0	-0.7	0.2	0.6	-0.2	1.3	1.2	1.2	1.2	0.4	0.7
EL	11.0	11.4	4.7	9.1	6.1	1.1	1.7	2.5	1.9	2.8	3.1	2.4	2.0
E	10.2	5.1	2.2	1.2	2.0	2.1	2.4	3.5	4.0	2.4	2.5	1.6	1.9
F	6.7	2.0	1.0	0.9	0.2	1.3	1.0	1.9	1.9	1.5	1.4	1.3	1.1
IRL	8.2	1.7	1.2	-0.9	4.5	0.7	2.2	5.2	5.3	5.3	5.5	3.2	2.9
I	9.7	3.4	1.9	2.3	-2.3	2.0	2.0	2.9	2.6	2.0	2.1	1.5	1.5
L	5.3	3.4	0.8	-2.5	1.0	2.8	2.1	5.9	5.9	3.5	2.9	2.1	1.8
NL	5.5	2.4	1.9	1.5	1.8	2.1	3.5	5.5	5.6	3.5	4.3	2.1	2.6
A	4.4	3.2	-0.1	0.4	-0.1	0.8	-0.4	1.3	2.0	0.9	0.8	0.5	0.6
P	11.8	8.1	1.8	1.5	1.9	2.6	4.6	6.2	5.6	3.9	3.2	2.5	1.8
FIN	7.8	0.0	0.2	-1.1	0.9	0.8	0.3	5.3	5.0	1.7	1.8	1.0	0.8
S	7.1	1.7	2.2	0.6	0.9	-1.0	5.8	4.2	4.6	2.3	1.8	2.0	1.4
UK	8.2	2.2	2.9	2.9	3.4	4.2	2.1	2.6	3.7	2.1	2.5	1.8	2.1
EU-15	7.0	3.0	1.4	1.1	0.9	1.8	1.4	2.6	2.7	1.9	2.0	1.3	1.4
Euro area	6.8	3.3	1.0	0.7	0.3	1.3	1.1	2.5	2.4	1.9	1.8	1.2	1.2
USA	4.6	2.1	1.7	1.0	2.3	1.9	2.8	4.3	3.9	1.0	0.4	0.7	1.5
JAP	4.8	1.3	-1.2	0.8	0.3	-2.5	-2.1	1.2	-0.8	-1.0	-2.6	-0.9	-1.0

[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, 1961-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	0.1	0.3	-0.5	-1.2	-0.8	0.4	-0.6	1.0	0.1	0.2	0.1	-0.8	-0.6
DK	0.1	-1.2	-0.3	-0.3	2.0	-0.6	-2.0	-0.1	1.1	0.4	-0.2	-0.6	-0.8
D	0.0	-0.2	-0.5	-1.4	-0.9	0.2	0.2	0.0	-0.1	-0.1	-0.2	-0.3	-0.2
EL	-1.1	-2.3	-0.4	2.2	0.8	-1.8	-1.7	-0.8	-1.2	-0.7	-0.2	-0.9	-1.1
E	-0.1	-0.2	-0.7	-1.1	-0.4	-0.7	-1.0	-0.3	0.0	-0.3	-0.6	-0.7	-0.7
F	-0.1	-0.2	0.0	-0.4	-0.7	0.8	0.1	0.3	0.3	-0.2	0.0	-0.3	-0.2
IRL	-0.4	-1.1	-2.8	-4.8	-1.3	-3.3	-2.0	0.4	0.3	0.6	0.9	-0.7	-0.8
I	-0.2	-1.5	-0.9	-0.1	-4.8	0.3	-0.1	0.3	-0.1	0.0	-0.2	-0.7	-0.7
L	0.3	-0.2	-1.8	-5.2	-1.6	0.3	-1.5	2.8	4.9	0.2	0.6	-0.7	-1.8
NL	0.6	0.1	-0.2	-0.5	0.1	0.4	-0.3	-0.3	0.4	0.1	1.0	0.1	-0.3
A	-0.2	0.1	-1.1	-0.5	-0.6	0.1	-1.5	0.0	0.1	-0.6	-0.8	-0.6	-0.7
P	-0.1	0.2	-1.6	-2.2	-1.9	-0.7	1.5	2.2	0.8	0.7	-0.1	0.2	-0.6
FIN	-0.2	-2.1	-1.3	-3.1	-2.0	0.9	-2.8	2.8	2.8	0.8	0.5	-0.6	-1.1
S	0.0	-1.6	1.1	-1.1	0.1	-1.6	4.7	2.3	2.5	0.1	-0.4	-0.2	-0.6
UK	0.1	-1.2	0.2	0.0	0.4	1.5	0.4	0.2	1.3	-0.4	0.0	-0.7	-0.4
EU-15	-0.2	-0.7	-0.5	-0.8	-1.0	0.3	-0.1	0.2	0.4	-0.1	-0.1	-0.5	-0.5
Euro area	-0.3	-0.5	-0.7	-1.0	-1.5	0.0	-0.3	0.1	0.0	-0.1	-0.2	-0.5	-0.5
USA	0.0	-0.4	0.0	-1.0	1.1	0.4	0.6	1.8	1.7	-0.8	-1.0	-1.0	-0.6
JAP	-0.4	0.3	-0.4	0.5	0.3	-1.0	-0.2	1.9	0.6	-1.1	-1.4	-0.7	-1.1

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

TABLE 27 : Total employment (percentage change on preceding year, 1961-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	0.3	-0.2	1.1	0.7	1.2	1.4	1.6	1.2	1.1	0.3	0.1	1.2	0.9
DK	0.6	-0.2	1.2	1.2	1.7	1.5	0.8	0.4	0.5	0.2	0.1	0.5	0.4
D	0.3	-0.1	0.7	-0.2	1.1	1.2	1.6	0.0	0.2	-0.3	-0.3	0.8	0.8
EL	0.3	0.6	0.4	-0.6	4.1	-0.8	-0.3	1.1	-0.1	0.6	0.3	1.2	0.5
E	0.3	-0.5	2.9	2.9	3.6	3.5	3.1	2.3	2.4	1.0	1.2	2.1	2.1
F	0.5	-0.2	1.2	0.5	1.3	1.8	2.2	1.6	1.9	0.4	0.5	1.2	1.2
IRL	0.2	1.9	5.7	5.6	8.6	6.0	4.7	2.3	2.9	0.8	1.0	1.8	2.1
I	0.3	-0.6	1.0	0.4	1.0	1.1	1.9	1.5	1.6	0.4	0.8	1.3	1.2
L	1.2	2.7	4.2	3.1	4.5	5.4	5.3	5.4	5.7	2.3	2.0	3.8	3.0
NL	1.2	1.1	2.6	3.2	2.6	2.5	2.4	1.9	2.1	0.5	0.6	1.3	0.9
A	0.2	0.2	0.5	0.5	0.7	1.2	0.5	0.0	0.2	-0.3	-0.4	0.3	0.5
P	0.1	-0.6	0.3	1.7	2.7	1.8	1.7	1.5	1.6	0.7	0.2	0.8	0.3
FIN	0.4	-3.8	2.3	3.3	2.1	2.7	1.9	1.4	1.2	0.0	-0.1	0.5	0.3
S	0.7	-2.2	0.8	-1.1	1.2	2.2	2.1	1.8	2.0	0.1	-0.4	0.7	0.3
UK	0.4	-0.9	1.3	2.0	1.4	1.1	1.0	0.7	0.8	0.0	0.2	0.4	0.6
EU-15	0.4	-0.4	1.3	1.0	1.7	1.6	1.8	1.1	1.2	0.2	0.3	1.0	1.0
Euro area	0.4	-0.2	1.3	0.8	1.7	1.7	2.0	1.2	1.3	0.2	0.3	1.2	1.1
USA	2.0	1.1	2.0	2.3	2.2	1.9	1.9	-0.1	-0.1	-0.6	-0.8	0.9	0.6
JAP	1.0	0.8	-0.1	1.0	-0.7	-0.8	-0.2	-0.3	-0.5	-0.3	-0.5	-0.3	-0.3

ANNEX

TABLE 28 : Number of unemployed (as a percentage of civilian labour force, 1964-2003) [1] 12.04.2002

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1964-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	5.7	8.3	8.7	9.2	9.3	8.6	6.9	6.9	6.6	7.0	6.8	6.9	6.6
DK	4.2	8.1	5.1	5.2	4.9	4.8	4.4	4.6	4.3	4.7	4.4	4.6	4.3
D	3.2	6.6	8.9	9.9	9.3	8.6	7.9	7.8	7.9	8.2	8.3	7.8	7.9
EL	4.5	8.3	10.6	9.8	10.9	11.6	10.9	10.6	10.2	10.1	9.9	9.6	9.3
E	9.5	20.7	18.2	20.6	18.6	15.7	14.0	13.0	13.0	13.0	12.8	12.1	11.8
F	5.4	10.7	11.0	11.8	11.4	10.7	9.3	8.7	8.6	9.2	8.8	8.7	8.4
IRL	9.7	14.5	7.8	9.9	7.5	5.6	4.2	3.8	3.8	4.5	4.5	4.5	4.4
I	6.7	10.0	11.3	11.6	11.7	11.2	10.4	9.5	9.5	9.6	9.5	8.9	8.9
L	1.1	2.5	2.6	2.7	2.7	2.4	2.4	2.2	2.4	2.4	2.6	2.2	2.7
NL	4.9	6.1	4.1	4.9	3.8	3.2	2.8	2.3	2.4	3.2	3.0	3.5	3.5
A	2.0	3.6	4.2	4.4	4.5	3.9	3.7	3.9	3.6	4.3	4.0	4.2	3.8
P	5.2	5.7	5.6	6.8	5.1	4.5	4.1	3.8	4.1	4.3	4.6	4.7	5.0
FIN	3.9	13.3	11.7	12.7	11.4	10.2	9.8	9.2	9.1	9.4	9.3	9.3	9.2
S	2.2	7.2	8.2	9.9	8.3	7.2	5.9	5.2	5.1	5.6	5.4	5.4	5.2
UK	5.4	9.3	6.5	6.9	6.2	5.9	5.4	5.1	5.1	5.4	5.3	5.4	5.3
EU-15	5.3	9.7	9.6	10.4	9.8	9.0	8.1	7.7	7.6	8.0	7.8	7.6	7.5
Euro area	5.5	9.9	10.4	11.3	10.7	9.8	8.8	8.3	8.3	8.6	8.5	8.2	8.1
USA	6.1	6.6	4.6	4.9	4.5	4.2	4.0	4.7	4.8	5.9	5.7	5.7	5.6
JAP	1.9	2.6	4.1	3.4	4.1	4.7	4.7	5.2	5.1	6.5	6.2	7.3	7.1

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

TABLE 29 : Nominal bilateral exchange rates against Ecu/euro (1970-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1970-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	44.45	40.50	40.23	40.53	40.62	40.34	40.34	40.34	40.34	:	:	:	:
DK	7.65	7.64	7.45	7.48	7.50	7.44	7.45	7.46	7.45	7.46	7.46	7.46	7.46
D	2.64	1.96	1.95	1.96	1.97	1.96	1.96	1.96	1.96	:	:	:	:
EL	80.44	266.37	321.61	309.36	330.73	325.76	336.63	340.75	340.75	:	:	:	:
E	102.29	146.41	165.32	165.89	167.18	166.39	166.39	166.39	166.39	:	:	:	:
F	6.17	6.71	6.57	6.61	6.60	6.56	6.56	6.56	6.56	:	:	:	:
IRL	0.64	0.79	0.78	0.75	0.79	0.79	0.79	0.79	0.79	:	:	:	:
I	1137.90	1803.04	1940.89	1929.30	1943.65	1936.27	1936.27	1936.27	1936.27	:	:	:	:
L	44.45	40.50	40.23	40.53	40.62	40.34	40.34	40.34	40.34	:	:	:	:
NL	2.83	2.20	2.20	2.21	2.22	2.20	2.20	2.20	2.20	:	:	:	:
A	18.83	13.80	13.73	13.82	13.85	13.76	13.76	13.76	13.76	:	:	:	:
P	84.58	186.94	199.40	198.59	201.70	200.48	200.48	200.48	200.48	:	:	:	:
FIN	4.77	5.88	5.92	5.88	5.98	5.95	5.95	5.95	5.95	:	:	:	:
S	6.05	8.53	8.67	8.65	8.92	8.81	8.45	9.28	9.26	9.61	9.17	9.64	9.20
UK	0.59	0.76	0.69	0.69	0.68	0.66	0.61	0.62	0.62	0.63	0.62	0.63	0.62
EU-15	:	:	:	:	:	:	:	:	:	:	:	:	:
Euro area	:	:	:	:	:	:	:	:	:	:	:	:	:
USA	1.11	1.24	1.10	1.13	1.12	1.07	0.92	0.90	0.90	0.91	0.87	0.91	0.87
JAP	262.44	141.04	128.47	137.08	146.42	121.32	99.47	108.54	108.68	108.48	114.10	106.40	111.42

TABLE 30 : Nominal effective exchange rates to rest of 22 [1] **industrialised countries (percentage change on preceding year, 1970-2003)**

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1970-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	1.0	1.9	-2.2	-4.3	0.3	-1.4	-3.6	0.7	0.6	0.2	-0.2	0.0	-0.1
DK	1.4	1.8	-1.9	-3.3	1.0	-1.6	-4.5	1.4	1.4	0.4	-0.5	-0.1	-0.1
D	6.2	2.4	-2.9	-5.2	0.6	-2.1	-5.0	0.7	0.6	0.3	-0.4	-0.1	-0.1
EL	-4.6	-7.2	-3.5	-2.6	-5.9	-0.5	-6.6	-0.7	-0.8	0.3	-0.3	0.0	-0.1
E	0.8	-3.9	-1.8	-4.8	-0.1	-1.6	-3.5	0.5	0.4	0.3	-0.3	0.0	0.0
F	-1.2	1.8	-1.9	-4.0	1.0	-2.0	-4.6	0.6	0.5	0.3	-0.3	-0.1	-0.1
IRL	-1.4	-0.6	-1.9	1.8	-4.6	-3.1	-5.8	0.8	0.6	0.4	-0.5	0.0	-0.1
I	-3.3	-6.9	0.4	-0.2	0.1	-2.3	-4.5	0.5	0.4	0.3	-0.3	-0.1	-0.1
L	1.0	1.9	-2.2	-4.3	0.3	-1.4	-3.6	0.7	0.6	0.2	-0.2	0.0	-0.1
NL	0.9	2.0	-2.2	-4.4	0.1	-1.2	-3.3	0.7	0.6	0.2	-0.2	0.0	0.0
A	1.9	1.7	-1.8	-3.1	0.4	-1.2	-2.9	0.4	0.3	0.1	-0.3	-0.1	-0.1
P	0.5	-1.1	-1.5	-2.6	-1.1	-1.2	-2.9	0.5	0.4	0.2	-0.3	0.0	0.0
FIN	-1.8	-2.7	-2.7	-3.4	-0.5	-2.1	-4.6	1.3	1.2	0.5	-0.3	-0.1	-0.1
S	-0.1	-4.1	0.2	-4.1	-1.6	-1.7	-0.6	-8.6	-8.3	-3.2	0.4	-0.3	-0.4
UK	-3.6	-3.0	4.5	15.9	3.9	-0.5	2.5	-1.7	-1.7	-0.1	0.5	-0.7	-1.1
EU-15	1.6	-2.3	-3.6	-4.8	2.3	-6.2	-11.2	-0.1	-0.3	0.3	-0.7	-0.6	-0.9
Euro area	3.5	-0.2	-4.6	-8.7	0.5	-4.6	-10.1	1.6	1.3	0.7	-0.8	-0.1	-0.2
USA	-4.2	0.4	4.7	7.9	6.1	-0.5	4.6	4.8	5.1	0.1	2.7	0.2	0.1
JAP	4.8	9.4	0.3	-5.6	-5.7	16.8	12.2	-8.9	-9.4	1.0	-6.1	2.0	2.3

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

TABLE 31 : Relative unit labour costs, to rest of 22 [1] industrialised countries (nat. curr.) (percentage change on preceding year, 1963-2003) 12.04.2002

	long-term average 1963-90	5-year average 1991-95	5-year average 1996-00	1997	0	1999	2000	2001 estimate of XI-2001	2001 estimate of IV-2002	2002 forecast of XI-2001	2002 forecast of IV-2002	2003 forecast of XI-2001	2003 forecast of IV-2002
B	-0.7	0.5	-0.4	-0.8	-0.3	0.1	-0.7	0.3	-0.1	0.4	0.6	-0.4	0.0
DK	1.2	-1.5	0.8	1.0	1.6	0.7	-0.1	0.0	1.0	0.5	0.5	0.5	0.5
D	-2.8	0.6	-1.5	-2.1	-1.0	-1.0	-2.0	-1.8	-1.8	-0.6	-0.3	-0.8	-0.6
EL	5.5	8.5	3.5	8.2	5.5	-0.3	0.3	-0.2	-0.7	1.1	1.5	1.4	0.8
E	3.9	2.1	1.0	0.3	1.3	0.6	0.7	0.5	1.1	0.5	0.9	0.4	0.6
F	0.4	-1.3	-0.6	-0.5	-1.2	-0.5	-0.5	-0.5	-0.5	-0.1	-0.3	0.1	-0.4
IRL	1.5	-0.8	-0.3	-2.1	3.0	-1.1	0.6	2.2	2.3	3.6	4.0	2.1	1.5
I	4.2	0.3	0.5	1.4	-3.7	0.2	0.5	0.2	-0.1	0.3	0.7	0.4	0.3
L	:	:	:	:	:	:	:	:	:	:	:	:	:
NL	-1.0	-0.6	0.9	0.7	1.1	0.7	2.2	2.9	3.1	1.9	2.8	1.1	1.5
A	-1.7	0.1	-0.9	-0.2	-0.5	-0.7	-0.6	-1.2	-0.4	-0.8	-0.8	-0.5	-0.4
P	5.8	5.2	0.4	0.5	0.7	1.0	3.0	3.3	2.7	2.0	1.4	1.3	0.5
FIN	1.6	-2.4	-1.2	-2.2	-0.5	-0.6	-1.4	2.3	2.1	0.0	0.3	-0.1	-0.4
S	0.8	-0.6	0.8	-0.5	-0.7	-2.7	4.2	1.2	1.5	0.6	0.3	0.8	0.2
UK	2.2	-0.4	1.7	2.0	2.2	3.0	0.5	-0.5	0.9	0.4	1.1	0.7	0.9
EU-15	1.2	0.5	0.0	-0.4	-1.1	0.3	-0.3	-0.6	0.2	0.8	1.8	0.6	0.5
Euro area	-0.2	0.7	-0.9	-1.2	-1.9	-0.7	-1.0	-0.4	-0.4	0.4	1.0	0.0	0.0
USA	-2.2	-1.1	-0.5	-1.8	-0.2	-0.5	1.3	1.0	1.3	-1.3	-0.9	-0.8	0.5
JAP	-1.1	-1.1	-2.9	-0.4	-1.6	-4.3	-4.5	-2.4	-4.2	-2.6	-3.8	-1.9	-2.4

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

TABLE 32 : Real effective exchange rate : ulc relative to rest of 22 [1] industrialised countries (usd) (percentage change on preceding year, 1963-2003)

	long-term average 1963-90	5-year average 1991-95	5-year average 1996-00	1997	0	1999	2000	2001 estimate of XI-2001	2001 estimate of IV-2002	2002 forecast of XI-2001	2002 forecast of IV-2002	2003 forecast of XI-2001	2003 forecast of IV-2002
B	-0.1	2.4	-2.7	-5.1	0.0	-1.3	-4.2	1.0	0.5	0.6	0.3	-0.4	-0.1
DK	1.4	0.2	-1.1	-2.3	2.6	-1.0	-4.6	1.4	2.4	0.9	0.1	0.5	0.4
D	0.3	3.0	-4.3	-7.2	-0.4	-3.1	-6.8	-1.1	-1.3	-0.3	-0.7	-0.9	-0.8
EL	-1.4	0.7	-0.1	5.3	-0.8	-0.8	-6.3	-0.9	-1.5	1.3	1.2	1.3	0.8
E	1.9	-1.9	-0.9	-4.5	1.2	-1.0	-2.8	1.0	1.5	0.8	0.6	0.4	0.6
F	-0.7	0.5	-2.5	-4.5	-0.3	-2.5	-5.1	0.1	0.0	0.2	-0.6	0.1	-0.5
IRL	0.2	-1.4	-2.2	-0.4	-1.8	-4.1	-5.3	3.0	3.0	4.0	3.6	2.1	1.5
I	1.0	-6.6	0.9	1.2	-3.6	-2.2	-4.0	0.7	0.3	0.6	0.3	0.4	0.2
L	:	:	:	:	:	:	:	:	:	:	:	:	:
NL	0.6	1.4	-1.4	-3.7	1.2	-0.5	-1.2	3.6	3.7	2.1	2.5	1.0	1.4
A	0.3	1.8	-2.6	-3.3	-0.1	-1.9	-3.5	-0.8	-0.1	-0.7	-1.1	-0.6	-0.5
P	-0.3	4.0	-1.1	-2.1	-0.4	-0.3	0.0	3.8	3.1	2.3	1.1	1.3	0.5
FIN	0.6	-5.0	-3.8	-5.5	-1.0	-2.7	-6.0	3.7	3.4	0.6	-0.1	-0.2	-0.5
S	0.0	-4.6	1.0	-4.6	-2.3	-4.3	3.6	-7.5	-7.0	-2.6	0.7	0.5	-0.3
UK	0.0	-3.4	6.3	18.2	6.2	2.5	3.0	-2.2	-0.8	0.3	1.6	-0.1	-0.1
EU-15	0.6	-1.8	-3.7	-5.3	1.1	-5.9	-11.4	-0.7	-0.2	1.1	1.2	-0.1	-0.4
Euro area	0.6	0.4	-5.5	-9.9	-1.5	-5.2	-10.9	1.2	0.9	1.1	0.2	-0.1	-0.2
USA	-1.7	-0.8	4.1	5.9	5.9	-1.1	5.9	5.9	6.4	-1.2	1.7	-0.6	0.6
JAP	2.4	8.2	-2.6	-6.0	-7.1	11.7	7.1	-11.1	-13.2	-1.6	-9.6	0.0	-0.1

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

TABLE 33 : Short term interest rates (1961-2001)

	long-term average 1961-90	5-year average 1991-95	5-year average 1996-00	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
B	7.9	7.4	3.5	9.4	8.1	5.6	4.7	3.2	3.4	3.5	3.0	4.4	4.3
DK	9.7	8.7	4.0	11.0	10.5	6.1	6.1	3.9	3.7	4.1	3.4	5.0	4.7
D	6.2	7.1	3.5	9.5	7.2	5.3	4.5	3.3	3.3	3.5	3.0	4.4	4.3
EL	:	22.1	11.7	23.5	23.5	24.6	16.4	13.8	12.8	14.0	10.1	7.7	4.3
E	:	11.1	4.9	13.3	11.7	8.0	9.4	7.5	5.4	4.3	3.0	4.4	4.3
F	8.3	8.2	3.7	10.4	8.6	5.9	6.6	3.9	3.5	3.6	3.0	4.4	4.3
IRL	:	8.8	4.9	12.4	9.3	5.9	6.3	5.4	6.1	5.5	3.0	4.4	4.3
I	10.0	11.0	5.5	14.0	10.2	8.5	10.3	8.7	6.8	4.9	3.0	4.4	4.3
L	7.9	7.4	3.5	9.4	8.1	5.6	4.7	3.2	3.4	3.5	3.0	4.4	4.3
NL	5.9	7.0	3.4	9.4	6.9	5.2	4.4	3.0	3.3	3.4	3.0	4.4	4.3
A	:	7.0	3.6	9.3	7.2	5.0	4.5	3.3	3.5	3.6	3.0	4.4	4.3
P	:	13.6	5.0	16.2	13.3	11.1	9.8	7.4	5.7	4.3	3.0	4.4	4.3
FIN	:	9.0	3.6	13.3	7.8	5.3	5.8	3.6	3.2	3.6	3.0	4.4	4.3
S	:	10.1	4.4	13.5	8.8	7.6	8.9	5.9	4.5	4.3	3.3	4.1	4.1
UK	9.7	7.9	6.4	9.6	5.9	5.5	6.7	6.0	6.8	7.3	5.5	6.2	5.0
EU-15	8.4	8.9	4.7	11.2	8.6	6.6	7.0	5.4	4.9	4.7	3.6	4.8	4.4
Euro area	8.0	9.0	4.3	11.5	9.1	6.8	7.0	5.3	4.5	4.2	3.0	4.4	4.3
USA	6.6	4.6	5.7	3.5	3.1	4.7	6.0	5.5	5.7	5.5	5.4	6.5	3.8
JAP	:	3.6	0.5	4.4	3.0	2.3	1.2	0.6	0.6	0.8	0.2	0.3	0.2

ANNEX

TABLE 34 : Long term interest rates (1961-2001) 12.04.2002

	long-term average 1961-90	5-year average 1991-95	1996-00	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
B	8.5	8.1	5.5	8.6	7.2	7.8	7.5	6.5	5.8	4.7	4.8	5.6	5.1
DK	12.1	8.7	5.8	10.1	7.2	7.9	8.3	7.2	6.2	4.9	4.9	5.6	5.1
D	7.4	7.3	5.2	8.0	6.4	6.9	6.8	6.2	5.7	4.6	4.5	5.3	4.8
EL	:	:	:	:	:	:	:	:	:	8.5	6.5	6.5	5.3
E	:	11.2	6.0	12.2	10.1	10.1	11.3	8.7	6.4	4.8	4.7	5.5	5.1
F	9.4	7.8	5.3	8.6	6.7	7.3	7.5	6.3	5.6	4.6	4.6	5.4	5.0
IRL	:	8.5	5.7	9.1	7.8	8.1	8.3	7.3	6.3	4.8	4.6	5.4	4.9
I	11.1	12.0	6.2	13.7	11.1	10.4	11.9	9.2	6.7	4.8	4.8	5.6	5.2
L	:	7.5	5.3	7.9	6.8	7.2	7.2	6.3	5.6	4.7	4.6	5.4	5.0
NL	7.5	7.4	5.3	8.1	6.3	6.9	6.9	6.2	5.6	4.6	4.6	5.4	5.0
A	:	7.5	5.4	8.3	6.6	6.7	7.2	6.3	5.7	4.7	4.7	5.6	5.1
P	:	13.0	6.1	15.4	9.5	10.4	11.5	8.6	6.4	5.0	4.8	5.6	5.2
FIN	9.9	9.8	5.6	12.0	8.2	8.4	8.8	7.1	6.0	4.8	4.7	5.5	5.0
S	9.1	10.0	6.0	10.0	8.6	9.5	10.2	8.1	6.7	5.0	5.0	5.4	5.1
UK	10.1	8.5	6.1	9.1	7.3	8.1	8.2	7.8	7.0	5.5	5.0	5.3	4.9
EU-15	9.4	8.9	5.7	9.8	7.8	8.2	8.6	7.3	6.2	4.9	4.7	5.3	4.9
Euro area	9.1	9.0	5.6	10.0	7.9	8.1	8.6	7.2	6.0	4.8	4.6	5.4	4.9
USA	7.4	7.1	5.9	7.7	5.8	7.1	6.6	6.4	6.3	5.3	5.6	6.0	5.0
JAP	:	4.7	2.0	5.3	4.0	4.2	3.3	3.0	2.2	1.3	1.8	1.8	1.3

TABLE 35 : Total expenditure, general government (as a percentage of GDP, 1970-2003) [1]

	long-term average 1970-90	5-year average 1991-95	1996-00	1997	1998	1999	2000	2001 estimate of XI-2001	2001 estimate of IV-2002	2002 forecast of XI-2001	2002 forecast of IV-2002	2003 forecast of XI-2001	2003 forecast of IV-2002
B	52.9	54.0	50.9	51.4	50.7	50.3	49.5	49.1	49.0	49.6	48.9	49.1	48.3
DK	50.3	59.4	57.1	58.0	57.6	56.1	54.1	52.6	53.8	52.7	53.3	52.0	52.3
D	45.8	48.2	48.6	49.3	48.8	48.9	45.9	48.6	48.5	49.4	48.9	48.6	48.0
EL [2]	33.2	47.6	46.3	44.7	44.6	48.0	48.3	47.8	47.9	47.3	47.4	46.4	46.6
E	31.6	45.4	41.6	42.2	41.6	40.8	39.8	39.5	39.6	39.9	39.7	39.7	39.6
F	45.3	53.0	54.0	55.0	53.9	53.2	52.5	52.7	52.6	52.9	52.9	52.2	52.3
IRL	42.6	39.6	35.9	37.4	35.2	34.8	32.6	32.1	34.3	32.6	35.4	32.6	35.2
I	44.1	54.6	50.0	51.1	49.9	48.9	46.9	47.5	47.7	47.7	47.3	46.8	46.7
L	:	:	42.6	43.4	42.2	41.9	40.3	40.3	40.8	40.8	43.2	40.3	42.3
NL	51.5	53.0	47.5	48.2	47.2	47.1	45.4	44.5	45.4	44.5	44.8	43.8	44.6
A	46.2	53.3	54.5	54.1	54.4	54.2	52.8	52.9	52.5	52.0	51.6	51.2	50.6
P	32.8	42.3	44.5	44.2	43.7	45.0	44.3	44.7	46.1	44.6	46.0	44.6	45.9
FIN	39.2	58.8	54.2	56.8	53.2	52.1	48.6	48.5	49.4	48.5	49.9	47.5	49.6
S	55.3	66.4	61.5	63.2	60.8	60.3	57.7	57.4	57.1	57.2	57.3	56.8	56.8
UK	41.5	42.3	40.0	41.1	39.8	39.3	36.9	40.4	40.1	40.9	41.2	40.4	41.1
EU-15	44.6	50.3	48.4	49.3	48.2	47.8	45.7	46.9	47.0	47.2	47.2	46.6	46.6
Euro area	44.5	50.8	49.4	50.2	49.3	49.0	47.1	47.9	48.0	48.2	48.1	47.5	47.4
USA	33.6	35.9	33.1	33.6	32.7	32.4	32.0	32.7	33.0	34.0	33.0	33.4	32.9
JAP	28.4	33.2	39.1	36.4	42.9	38.9	39.6	41.7	40.6	42.3	41.0	42.5	40.6

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

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

TABLE 36 : Total revenue, general government (as a percentage of GDP, 1970-2003) [1]

	long-term average 1970-90	5-year average 1991-95	1996-00	1997	1998	1999	2000	2001 estimate of XI-2001	2001 estimate of IV-2002	2002 forecast of XI-2001	2002 forecast of IV-2002	2003 forecast of XI-2001	2003 forecast of IV-2002
B	46.1	48.2	49.5	49.4	49.8	49.7	49.5	49.1	49.2	49.4	48.8	49.3	48.5
DK	50.5	57.0	58.4	58.4	58.8	59.2	56.6	54.8	56.8	54.3	55.4	54.0	54.7
D	43.9	45.1	46.9	46.6	46.6	47.4	47.1	46.0	45.7	46.7	46.1	46.4	45.8
EL [2]	27.5	36.0	42.7	40.0	41.5	46.3	47.5	47.8	48.0	47.6	47.7	47.2	47.1
E	29.4	39.8	39.2	39.0	39.1	39.7	39.5	39.6	39.6	39.7	39.6	39.7	39.6
F	44.1	48.5	51.5	51.9	51.2	51.7	51.2	51.2	51.2	51.0	51.0	50.7	50.5
IRL	34.9	37.5	38.0	38.6	37.5	37.2	37.1	34.5	36.0	34.5	36.0	34.4	35.4
I	34.8	45.5	46.9	48.4	46.8	47.1	46.3	46.3	46.2	46.5	46.1	45.9	45.4
L	:	:	46.2	46.2	45.3	45.7	46.1	44.7	45.9	43.6	45.2	43.5	44.8
NL	48.5	49.5	47.3	47.1	46.4	47.5	47.5	45.9	45.6	45.0	44.8	45.2	44.2
A	44.4	49.5	52.0	52.1	51.9	51.8	51.2	52.7	52.4	51.7	51.4	51.7	50.9
P	28.2	37.4	42.1	41.7	41.4	42.7	42.8	42.7	43.3	42.9	43.4	43.2	43.4
FIN	43.1	53.8	55.3	55.3	54.5	54.0	55.6	53.3	54.2	51.4	53.2	49.8	52.3
S	55.8	58.8	61.9	61.6	62.9	61.6	61.4	61.3	61.9	58.8	59.0	58.7	58.6
UK	39.3	36.6	39.8	38.9	40.2	40.4	40.9	41.6	41.0	41.3	41.0	40.9	40.6
EU-15	41.6	45.1	46.8	46.8	46.6	47.1	46.7	46.4	46.3	46.3	46.1	46.0	45.7
Euro area	41.1	45.8	47.4	47.6	47.1	47.7	47.3	46.8	46.7	46.8	46.6	46.5	46.2
USA	:	31.4	33.0	32.6	33.0	33.2	33.8	32.4	33.5	30.4	32.4	30.0	31.9
JAP	27.5	32.6	32.3	32.7	32.1	31.9	32.4	35.2	33.7	36.4	34.8	36.9	34.5

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

[2] Total current receipts.

TABLE 37 : Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1970-2003) [1] 12.04.2002

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1970-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	-6.8	-5.9	-1.4	-2.0	-0.8	-0.6	0.1	0.0	0.2	-0.2	-0.2	0.1	0.2
DK [2]	-0.5	-2.4	1.2	0.4	1.1	3.1	2.5	2.2	3.1	1.6	2.1	2.0	2.4
D	-1.9	-3.1	-1.7	-2.7	-2.2	-1.6	1.2	-2.5	-2.7	-2.7	-2.8	-2.2	-2.1
EL	-5.7	-11.5	-3.5	-4.7	-2.4	-1.7	-0.8	0.0	0.1	0.3	0.3	0.8	0.5
E	-2.4	-5.6	-2.4	-3.2	-2.6	-1.1	-0.3	0.1	0.0	-0.2	-0.2	0.0	0.0
F	-1.2	-4.5	-2.5	-3.0	-2.7	-1.6	-1.3	-1.5	-1.4	-2.0	-1.9	-1.6	-1.8
IRL	-7.7	-2.1	2.0	1.2	2.3	2.3	4.5	2.4	1.7	1.8	0.6	1.8	0.2
I	-9.1	-9.1	-3.0	-2.7	-2.8	-1.8	-0.5	-1.2	-1.4	-1.2	-1.3	-0.9	-1.3
L	:	1.9	3.5	2.8	3.2	3.8	5.8	4.4	5.0	2.8	2.0	3.2	2.5
NL	-3.2	-3.5	-0.2	-1.1	-0.8	0.4	2.2	1.3	0.2	0.5	0.0	1.4	-0.4
A	-1.8	-3.8	-2.4	-2.0	-2.4	-2.2	-1.5	-0.2	0.1	-0.4	-0.1	0.4	0.3
P	-4.6	-5.0	-2.5	-2.6	-2.3	-2.2	-1.5	-2.0	-2.7	-1.6	-2.6	-1.4	-2.5
FIN	3.9	-5.0	1.1	-1.5	1.3	1.9	7.0	4.8	4.9	2.9	3.3	2.3	2.7
S	0.6	-7.6	0.5	-1.6	1.9	1.5	3.7	3.9	4.8	1.6	1.7	1.9	1.9
UK	-2.2	-5.7	-0.2	-2.2	0.4	1.1	4.1	1.2	0.9	0.4	-0.2	0.5	-0.5
EU-15	-2.9	-5.1	-1.6	-2.5	-1.6	-0.7	1.1	-0.5	-0.6	-0.9	-1.1	-0.6	-0.9
Euro area	-3.4	-5.0	-2.0	-2.6	-2.2	-1.3	0.2	-1.1	-1.3	-1.4	-1.4	-1.0	-1.2
USA	-3.2	-4.5	-0.1	-1.0	0.3	0.9	1.7	-0.3	0.5	-3.6	-0.7	-3.4	-0.9
JAP	-1.4	-0.8	-6.8	-3.7	-10.7	-7.0	-7.4	-6.5	-6.9	-5.9	-6.3	-5.6	-6.1

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

TABLE 38 : Interest expenditure, general government (as a percentage of GDP, 1970-2003) [1]

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1970-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	6.6	10.1	7.6	8.0	7.5	7.0	6.8	6.5	6.5	6.1	6.2	5.8	5.8
DK	4.5	6.9	5.2	5.7	5.3	4.7	4.2	3.7	4.1	3.5	3.5	3.2	3.2
D	2.1	3.2	3.6	3.6	3.6	3.5	3.4	3.2	3.2	3.2	3.3	3.2	3.2
EL	3.2	11.7	8.2	8.2	7.8	7.3	7.0	6.6	6.2	5.8	5.6	5.2	5.1
E	1.3	4.6	4.2	4.8	4.3	3.5	3.3	3.2	3.1	3.1	2.9	3.0	2.8
F	1.8	3.3	3.6	3.7	3.6	3.3	3.3	3.2	3.2	3.2	3.1	3.1	3.1
IRL	6.2	6.2	3.3	4.2	3.4	2.4	2.1	1.8	1.5	1.6	1.6	1.4	1.5
I	5.6	11.2	8.5	9.4	8.3	6.8	6.5	6.2	6.4	5.8	5.8	5.6	5.7
L	:	0.3	0.3	0.3	0.4	0.3	0.3	0.2	0.3	0.2	0.3	0.2	0.2
NL	4.3	5.9	4.8	5.2	4.8	4.5	3.9	3.3	3.4	2.9	3.0	2.6	2.7
A	2.4	4.2	3.9	4.0	3.9	3.7	3.7	3.4	3.5	3.3	3.4	3.2	3.3
P	3.7	6.6	3.9	4.2	3.5	3.2	3.2	3.1	3.1	3.0	3.1	3.0	3.2
FIN	1.2	3.6	3.6	4.3	3.6	3.1	2.8	2.3	2.7	2.2	2.6	2.1	2.5
S	4.2	5.9	5.6	6.5	5.7	5.0	4.2	3.5	3.4	3.2	3.1	2.9	2.9
UK	4.2	3.0	3.3	3.6	3.5	2.9	2.8	2.5	2.4	2.2	2.3	1.9	2.2
EU-15	3.2	5.1	4.6	4.9	4.6	4.1	3.9	3.6	3.7	3.5	3.5	3.3	3.4
Euro area	3.0	5.4	4.8	5.1	4.8	4.3	4.1	3.9	3.9	3.7	3.7	3.6	3.7
USA	3.6	4.9	4.2	4.5	4.3	3.9	3.7	3.4	3.3	3.2	3.0	3.0	2.9
JAP	2.7	3.6	3.4	3.4	3.4	3.4	3.3	4.0	3.4	4.2	3.4	4.4	3.4

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

TABLE 39 : Primary balance, general government (as a percentage of GDP, 1970-2003) [1] [2]

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1970-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	-0.2	4.2	6.2	6.0	6.7	6.4	6.8	6.5	6.7	5.9	6.1	6.0	6.0
DK	4.0	4.4	6.4	6.1	6.5	7.8	6.7	6.0	7.1	5.1	5.5	5.3	5.7
D	0.2	0.1	1.8	0.9	1.4	2.0	4.5	0.7	0.5	0.5	0.5	1.0	1.1
EL	-2.4	0.2	4.7	3.6	5.3	5.6	6.2	6.5	6.3	6.0	5.8	6.0	5.7
E	-1.1	-1.0	1.8	1.6	1.7	2.5	2.9	3.3	3.1	2.9	2.8	3.0	2.8
F	0.5	-1.2	1.0	0.7	0.9	1.7	1.9	1.7	1.8	1.2	1.2	1.5	1.3
IRL	-1.5	4.1	5.3	5.3	5.7	4.7	6.6	4.2	3.3	3.4	2.2	3.2	1.7
I	-3.5	2.1	5.4	6.7	5.2	5.0	5.9	5.0	4.9	4.6	4.5	4.7	4.4
L	:	2.2	3.8	3.2	3.5	4.1	6.0	4.7	5.3	3.0	2.2	3.4	2.7
NL	1.1	2.4	4.6	4.1	4.1	4.9	6.1	4.6	3.6	3.4	3.0	4.0	2.3
A	0.6	0.4	1.4	2.0	1.4	1.3	2.1	3.2	3.4	2.9	3.3	3.6	3.6
P	-0.9	1.6	1.4	1.7	1.2	1.0	1.6	1.1	0.3	1.4	0.5	1.7	0.7
FIN	5.0	-1.4	4.7	2.7	4.9	5.0	9.8	7.0	7.6	5.1	6.0	4.4	5.2
S	4.8	-1.7	6.1	4.9	7.7	6.3	7.9	7.3	8.2	4.8	4.8	4.8	4.8
UK	2.0	-2.7	3.1	1.4	3.9	4.0	6.9	3.8	3.2	2.7	2.1	2.3	1.7
EU-15	0.3	0.0	3.0	2.5	3.0	3.3	4.9	3.2	3.0	2.5	2.4	2.7	2.4
Euro area	-0.4	0.4	2.7	2.5	2.6	3.0	4.3	2.8	2.6	2.4	2.3	2.7	2.4
USA	0.4	0.4	4.2	3.5	4.5	4.8	5.4	3.1	3.8	-0.4	2.3	-0.4	2.0
JAP	1.3	2.8	-3.4	-0.4	-7.3	-3.6	-4.1	-2.6	-3.6	-1.7	-2.8	-1.2	-2.7

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

ANNEX

TABLE 40 : Cyclically adjusted net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1970-2003) [1] 12.04.2002

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	1997	1998	1999	2000	2001 estimate of XI-2001	2001 estimate of IV-2002	2002 forecast of XI-2001	2002 forecast of IV-2002	2003 forecast of XI-2001	2003 forecast of IV-2002
B	-6.9	-5.9	-1.4	-1.7	-0.6	-0.7	-1.1	-0.7	-0.4	0.1	0.2	0.1	0.2
DK	-0.7	-1.3	0.6	-0.3	0.4	2.5	1.3	1.6	2.6	1.8	2.3	2.0	2.4
D	-1.9	-4.1	-2.0	-2.3	-1.9	-1.3	-1.6	-2.3	-2.5	-2.0	-2.1	-1.9	-1.9
EL	-5.8	-11.4	-3.3	-4.2	-2.8	-1.6	-0.9	-0.8	-0.7	-0.1	-0.1	0.2	-0.1
E	-2.4	-5.6	-2.3	-2.6	-2.5	-1.3	-1.1	-0.4	-0.7	-0.3	-0.4	-0.1	-0.2
F	-1.3	-4.6	-2.2	-2.2	-2.4	-1.6	-1.6	-1.9	-1.6	-1.9	-1.9	-1.6	-1.9
IRL	-7.8	-1.0	1.6	1.2	2.1	1.3	2.4	0.4	-0.1	0.9	-0.3	1.3	-0.3
I	-9.2	-9.0	-3.1	-2.5	-2.9	-1.5	-1.9	-1.2	-1.5	-1.0	-1.0	-1.0	-1.4
L	:	:	3.8	3.2	3.2	3.5	4.2	3.1	3.6	2.8	1.8	3.1	2.2
NL	-3.3	-3.4	-0.8	-0.8	-1.4	-0.7	-0.1	0.8	-0.3	0.8	0.2	1.4	-0.3
A	-1.8	-4.1	-2.6	-1.6	-2.5	-2.6	-2.5	-0.3	-0.2	-0.2	0.0	0.4	0.3
P	-4.6	-4.9	-2.7	-2.3	-2.6	-2.7	-2.6	-2.5	-3.2	-1.8	-2.8	-1.5	-2.6
FIN	3.1	-1.4	0.5	-1.3	0.1	0.3	4.0	3.4	3.6	2.4	3.2	2.0	2.5
S	0.3	-6.4	0.6	-0.3	2.6	0.5	2.1	3.0	4.2	1.5	1.8	1.7	1.7
UK	-2.3	-5.0	-0.9	-2.4	0.0	1.0	1.2	1.0	0.6	0.6	-0.2	0.3	-0.7
EU-15	-3.0	-5.2	-1.8	-2.1	-1.6	-0.8	-0.7	-0.7	-0.9	-0.7	-0.9	-0.6	-1.0
Euro area	-3.4	-5.3	-2.1	-2.2	-2.1	-1.3	-1.3	-1.3	-1.5	-1.1	-1.2	-0.9	-1.2

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

TABLE 41 : Cyclically adjusted primary balance, general government (as a percentage of GDP, 1970-2003) [1]

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	1997	1998	1999	2000	2001 estimate of XI-2001	2001 estimate of IV-2002	2002 forecast of XI-2001	2002 forecast of IV-2002	2003 forecast of XI-2001	2003 forecast of IV-2002
B	-0.3	4.2	6.3	6.2	7.0	6.3	5.7	5.8	6.2	6.3	6.4	6.0	6.0
DK	3.9	5.6	5.8	5.5	5.8	7.2	5.5	5.4	6.6	5.2	5.8	5.3	5.7
D	0.2	-0.9	1.5	1.4	1.7	2.3	1.7	0.9	0.7	1.3	1.2	1.3	1.4
EL	-2.5	0.3	4.9	4.0	5.0	5.7	6.1	5.8	5.5	5.7	5.5	5.4	5.1
E	-0.9	-1.0	1.9	2.1	1.8	2.2	2.2	2.8	2.4	2.8	2.5	2.9	2.6
F	0.5	-1.3	1.3	1.5	1.2	1.7	1.6	1.3	1.5	1.2	1.3	1.4	1.2
IRL	-1.6	5.3	4.9	5.4	5.5	3.6	4.5	2.2	1.4	2.5	1.3	2.6	1.2
I	-3.5	2.2	5.4	6.9	5.4	5.3	4.6	5.0	4.9	4.8	4.8	4.6	4.3
L	:	:	4.1	3.6	3.6	3.8	4.5	3.3	3.8	3.0	2.0	3.2	2.4
NL	0.9	2.5	4.0	4.3	3.5	3.8	3.9	4.1	3.1	3.7	3.2	4.1	2.4
A	0.6	0.1	1.4	2.4	1.4	1.1	1.2	3.1	3.3	3.0	3.4	3.6	3.6
P	-0.9	1.6	1.2	1.9	0.9	0.5	0.5	0.7	-0.1	1.3	0.3	1.5	0.6
FIN	4.3	2.2	4.1	2.9	3.7	3.4	6.8	5.7	6.3	4.6	5.8	4.1	5.0
S	4.5	-0.5	6.2	6.2	8.2	5.4	6.4	6.5	7.6	4.7	4.9	4.6	4.6
UK	1.9	-2.0	2.4	1.2	3.5	3.9	4.0	3.5	3.0	2.8	2.1	2.2	1.5
EU-15	0.2	-0.1	2.8	2.8	3.1	3.3	3.1	2.9	2.8	2.8	2.6	2.7	2.4
Euro area	-0.4	0.1	2.7	3.0	2.7	3.0	2.7	2.6	2.4	2.6	2.5	2.7	2.4

[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.

TABLE 42 : Gross debt, general government (as a percentage of GDP, 1980-2003) [1]

	1980	1985	1990	1997	1998	1999	2000	2001 estimate of XI-2001	2001 estimate of IV-2002	2002 forecast of XI-2001	2002 forecast of IV-2002	2003 forecast of XI-2001	2003 forecast of IV-2002
B	78.3	121.8	127.7	124.7	119.3	115.0	109.3	107.0	107.5	103.9	104.3	99.4	99.4
DK [2]	36.4	69.8	57.7	61.2	56.2	52.7	46.8	43.2	44.7	42.5	43.2	40.0	39.8
D	31.7	41.7	43.5	61.0	60.9	61.3	60.3	60.0	59.8	61.0	60.8	60.6	60.1
EL	27.9	59.9	89.0	108.2	105.0	103.8	102.8	99.8	99.7	98.5	97.9	95.1	95.2
E	17.0	42.7	44.0	66.6	64.6	63.1	60.4	58.0	57.2	57.3	55.5	55.6	53.5
F	20.4	31.8	36.3	59.3	59.5	58.5	57.4	57.1	57.2	57.3	57.4	56.6	57.2
IRL	72.3	105.3	97.5	65.1	55.1	49.6	39.0	34.3	36.3	30.8	33.6	27.1	31.4
I	58.3	82.0	97.3	120.2	116.4	114.5	110.6	108.2	109.4	106.9	107.8	103.4	105.6
L	9.3	9.6	4.4	6.0	6.3	6.0	5.6	5.3	5.5	5.2	5.2	4.9	5.1
NL	46.3	70.5	77.4	69.9	66.8	63.1	56.0	51.8	52.9	48.9	50.1	45.3	47.4
A	36.4	49.4	57.5	64.7	63.9	64.9	63.6	62.3	61.8	61.2	60.2	58.7	57.6
P	34.9	66.6	63.0	58.9	54.8	54.2	53.4	53.5	55.4	53.5	56.5	53.3	57.2
FIN	11.6	16.4	14.5	54.1	48.8	46.8	44.0	42.7	43.6	42.0	43.1	41.7	42.9
S	40.0	61.9	42.0	73.1	70.5	65.0	55.3	52.7	55.9	50.5	52.6	48.2	49.9
UK	54.9	54.4	35.1	50.8	47.6	45.2	42.4	39.3	39.0	37.2	37.6	34.8	36.1
EU-15	38.4	53.8	54.9	71.0	68.9	67.3	64.2	62.5	62.8	61.8	61.9	59.9	60.5
Euro area	35.1	52.8	59.1	75.3	73.7	72.6	70.2	68.8	69.1	68.4	68.6	66.7	67.2

[1] Government gross debt as defined in Council Regulation (EC) N° 3605/93. ESA 95 from 1996 onwards.

[2] Government deposits with the central bank, government holdings of non-government bonds and public enterprise related debt amounted to 9.1 % of GDP in 2001.

TABLE 43 : Gross national saving (as a percentage of GDP, 1970-2003) 12.04.2002

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	1997	1998	1999	2000	2001 estimate of XI-2001	2001 estimate of IV-2002	2002 forecast of XI-2001	2002 forecast of IV-2002	2003 forecast of XI-2001	2003 forecast of IV-2002
B	21.4	24.2	25.5	25.4	25.5	26.0	26.2	25.3	25.5	25.1	25.0	25.2	25.6
DK	19.6	19.8	21.5	21.2	20.8	21.8	23.3	23.9	23.7	23.5	23.6	24.1	24.2
D	23.5	22.4	21.3	21.4	21.5	21.0	21.3	20.4	20.5	20.3	20.9	20.7	21.3
EL	26.7	20.0	18.0	17.9	17.8	18.6	18.2	18.9	19.0	19.8	19.5	21.1	20.4
E	23.5	20.9	22.3	22.6	22.6	22.2	22.3	22.9	22.5	23.1	22.9	23.5	23.1
F	22.6	19.8	21.0	20.4	21.4	21.8	22.0	21.7	21.8	21.4	21.7	21.7	21.8
IRL	18.6	17.9	23.9	23.8	25.3	24.3	24.1	22.5	22.8	21.9	21.6	21.8	21.7
I	24.2	19.7	21.1	21.6	21.2	20.8	20.2	20.4	20.4	19.9	20.3	20.4	20.9
L	47.1	:	:	:	:	:	:	41.1	42.4	40.4	40.9	40.4	41.5
NL	22.8	25.6	26.8	27.9	25.2	26.7	27.6	27.7	27.2	27.3	26.3	27.5	26.3
A	25.9	23.0	21.6	21.7	21.9	21.0	21.8	21.1	21.6	21.0	21.5	20.9	21.5
P	23.3	21.4	19.9	20.1	20.5	19.4	19.0	19.8	18.7	20.2	19.1	20.8	19.2
FIN	26.3	17.1	24.5	24.1	24.9	25.1	27.8	26.6	26.4	25.8	25.6	26.4	26.4
S	20.9	16.8	20.5	19.9	20.6	21.2	21.6	21.5	20.9	20.7	20.8	20.8	21.2
UK	18.9	14.9	16.3	16.9	17.6	15.7	15.5	15.5	15.4	14.8	14.6	15.7	14.8
EU-15	22.6	20.2	20.9	21.1	21.3	20.9	21.1	20.6	20.6	20.3	20.4	20.8	20.8
Euro area	23.4	21.3	21.8	21.8	21.9	21.8	22.0	21.7	21.7	21.5	21.7	21.9	22.1
USA	18.9	16.3	17.3	18.0	18.0	17.2	16.3	15.8	15.5	16.1	15.1	16.5	15.2
JAP	33.6	32.3	29.6	30.9	29.9	28.4	28.4	27.7	27.6	26.7	26.8	26.6	27.1

TABLE 44 : Gross saving, private sector (as a percentage of GDP, 1970-2003) [1]

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	1997	1998	1999	2000	2001 estimate of XI-2001	2001 estimate of IV-2002	2002 forecast of XI-2001	2002 forecast of IV-2002	2003 forecast of XI-2001	2003 forecast of IV-2002
B	24.0	28.1	24.5	25.0	23.9	24.1	23.7	23.2	23.5	23.2	23.2	22.8	23.4
DK	16.5	20.5	18.6	19.0	18.0	17.2	19.2	20.2	19.3	20.3	19.9	20.4	20.2
D	20.7	21.6	20.8	21.5	21.0	19.8	19.7	20.3	20.3	20.4	20.9	20.5	20.7
EL	28.7	27.0	18.4	19.4	17.7	16.9	15.5	16.0	16.2	16.0	16.3	16.8	17.0
E	21.8	21.5	21.0	22.2	21.4	19.4	18.8	18.9	18.5	19.3	18.8	19.4	18.7
F	20.2	20.7	20.0	20.4	20.4	19.7	19.8	19.7	19.7	19.8	20.1	19.6	20.1
IRL	21.6	18.5	19.2	20.9	21.0	17.6	16.1	16.1	17.3	15.6	17.1	15.2	17.4
I	29.4	25.1	21.3	21.8	21.1	19.1	18.7	18.3	18.7	18.1	18.7	18.3	19.2
L	:	:	:	:	:	:	:	31.4	33.4	32.2	33.2	32.0	33.4
NL	21.4	26.2	24.5	26.6	23.4	23.4	23.1	23.4	23.7	23.9	23.5	23.1	23.8
A	21.7	22.1	20.0	19.9	20.1	19.5	20.0	17.8	17.1	18.1	17.3	17.3	17.3
P	24.1	22.9	18.7	19.0	18.7	17.8	17.5	18.1	17.7	18.1	18.0	18.2	17.9
FIN	18.4	18.7	20.5	22.5	20.7	20.5	18.4	19.5	18.7	20.6	19.5	21.9	21.1
S	16.1	20.6	17.5	18.4	16.7	17.1	15.6	15.1	13.7	16.7	16.5	16.5	16.8
UK	17.8	17.8	15.4	17.5	15.7	13.1	12.7	12.5	12.8	12.3	12.6	13.0	13.0
EU-15	21.4	21.8	20.0	20.9	20.1	18.8	18.5	18.3	18.3	18.4	18.6	18.4	18.7
Euro area	22.5	22.6	20.9	21.7	21.0	19.9	19.6	19.7	19.7	19.8	20.0	19.8	20.1
USA	:	18.5	15.0	16.6	15.4	13.9	12.2	13.2	12.0	16.6	12.5	16.9	12.7
JAP	28.6	25.9	28.3	28.1	28.6	28.4	28.6	27.6	27.8	26.3	26.6	26.1	27.0

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

TABLE 45 : Gross saving, general government (as a percentage of GDP, 1970-2003) [1]

	long-term average 1970-90	5-year average 1991-95	5-year average 1996-00	1997	1998	1999	2000	2001 estimate of XI-2001	2001 estimate of IV-2002	2002 forecast of XI-2001	2002 forecast of IV-2002	2003 forecast of XI-2001	2003 forecast of IV-2002
B	-2.7	-3.9	1.0	0.4	1.6	1.9	2.6	2.1	2.0	2.0	1.8	2.4	2.3
DK	3.1	-0.7	2.9	2.2	2.8	4.6	4.0	3.7	4.4	3.2	3.7	3.7	4.1
D	2.8	0.8	0.5	-0.1	0.5	1.2	1.5	0.1	0.2	-0.2	0.1	0.3	0.6
EL	-2.1	-7.1	-0.4	-1.5	0.1	1.7	2.7	2.9	2.8	3.8	3.2	4.3	3.3
E	1.7	-0.6	1.4	0.4	1.2	2.9	3.5	4.0	4.0	3.9	4.1	4.2	4.4
F	2.5	-0.9	1.0	-0.1	1.1	2.1	2.2	2.0	2.1	1.6	1.6	2.1	1.7
IRL	-3.0	-0.6	4.7	2.9	4.4	6.7	7.9	6.5	5.6	6.3	4.5	6.6	4.3
I	-5.1	-5.5	-0.1	-0.2	0.1	1.7	1.5	2.1	1.7	1.8	1.6	2.1	1.7
L	:	:	8.9	8.0	8.7	9.1	10.9	9.7	9.0	8.2	7.7	8.5	8.1
NL	1.4	-0.6	2.3	1.3	1.8	3.3	4.5	4.3	3.5	3.5	2.8	4.4	2.5
A	4.2	1.0	1.5	1.8	1.8	1.5	1.8	3.3	4.4	3.0	4.2	3.5	4.3
P	-0.8	-1.5	1.2	1.0	1.8	1.7	1.6	1.7	1.0	2.2	1.1	2.6	1.3
FIN	7.9	-1.6	4.1	1.6	4.2	4.7	9.4	7.1	7.7	5.2	6.2	4.5	5.4
S	4.8	-3.8	3.0	1.5	3.8	4.1	6.0	6.3	7.3	4.0	4.2	4.3	4.4
UK	1.2	-2.9	0.9	-0.6	2.0	2.6	2.9	3.0	2.6	2.5	1.9	2.7	1.8
EU-15	1.2	-1.5	1.0	0.1	1.2	2.2	2.5	2.3	2.3	1.9	1.9	2.3	2.0
Euro area	0.9	-1.2	0.9	0.2	0.9	1.9	2.3	2.0	2.0	1.7	1.7	2.1	1.9
USA	:	-2.2	2.3	1.3	2.6	3.3	4.2	2.7	3.5	-0.5	2.6	-0.3	2.4
JAP	5.0	6.4	1.4	2.9	1.3	0.0	-0.2	0.1	-0.3	0.4	0.2	0.5	0.1

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

ANNEX

TABLE 46 : Exports of goods, volume (percentage change on preceding year, 1961-2003) 12.04.2002

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	6.2	4.8	5.3	5.0	5.1	4.2	9.1	0.7	-0.4	1.9	1.8	5.5	5.6
DK	5.8	3.4	6.0	5.8	3.9	7.2	10.2	2.9	1.1	2.2	2.3	5.7	5.4
D	6.2	3.6	8.5	11.1	7.5	5.6	13.5	5.4	5.3	1.2	2.4	6.8	7.2
EL	8.6	6.1	2.3	2.1	2.7	-4.9	11.8	3.0	1.3	2.0	3.3	6.0	5.9
E	:	11.9	9.9	16.8	7.1	6.3	9.2	4.1	2.0	3.6	2.8	7.0	7.2
F	7.0	5.9	8.1	11.9	9.1	4.1	13.1	2.1	0.1	2.7	2.3	6.3	6.9
IRL	8.5	13.2	15.3	17.0	16.0	14.3	17.6	9.2	6.2	5.1	5.1	7.9	9.6
I	8.1	7.3	4.6	5.0	3.5	1.2	11.7	2.8	0.2	2.3	2.6	6.4	6.6
L	4.2	3.9	8.2	11.8	9.8	5.6	14.8	4.3	4.5	1.0	1.3	6.0	6.6
NL	6.6	6.5	7.0	8.8	7.4	4.8	10.0	2.0	1.0	1.0	1.1	4.8	5.3
A	:	4.6	10.0	16.3	8.2	7.9	13.5	5.2	4.6	3.8	4.1	7.4	7.3
P	:	6.1	:	:	:	:	:	6.4	3.4	2.0	2.2	5.2	6.7
FIN	:	7.7	12.1	16.2	9.8	7.2	20.6	-2.9	-0.7	2.2	3.1	5.7	6.9
S	:	7.5	8.4	12.7	8.1	5.6	11.2	-2.4	-4.4	3.3	1.6	7.1	7.2
UK	4.6	5.3	6.6	8.4	1.3	4.4	11.6	3.5	2.1	0.8	1.2	6.6	6.3
EU-15 [1]	6.6	6.0	7.8	10.3	6.7	5.0	12.3	3.3	2.0	2.0	2.2	6.4	6.7
Euro area [2]	7.0	6.1	7.9	10.6	7.4	5.0	12.5	3.5	2.3	2.1	2.4	6.3	6.8
USA	6.2	7.7	8.0	14.5	2.1	3.9	11.3	-5.5	-5.7	-6.1	-5.2	2.5	3.2
JAP	:	1.9	3.8	9.0	-1.5	-5.5	12.4	-2.1	-8.1	3.8	12.3	6.2	7.2

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

TABLE 47 : Imports of goods, volume (percentage change on preceding year, 1961-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1961-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	5.8	3.8	5.4	4.3	7.3	3.3	9.6	1.0	-1.3	1.9	2.3	5.5	5.2
DK	4.8	4.3	7.0	10.8	8.8	3.6	9.0	0.8	2.3	3.3	3.6	5.6	6.2
D	6.5	3.8	8.0	8.7	10.3	8.0	10.6	1.9	-0.3	2.0	-0.5	6.7	7.7
EL	8.0	3.9	6.6	6.4	9.4	-5.1	15.8	5.8	3.1	4.3	5.2	6.4	5.8
E	:	7.5	11.4	13.7	13.4	12.5	9.6	4.6	3.6	3.7	3.4	7.4	6.7
F	7.2	3.8	8.1	7.1	12.3	5.8	15.6	2.1	-0.8	3.1	0.6	6.8	7.1
IRL	6.7	7.9	13.4	15.2	18.6	8.3	15.6	6.6	0.2	5.8	5.7	7.7	8.1
I	7.2	3.6	7.2	11.4	8.8	7.2	11.0	3.5	-0.2	4.3	4.9	7.3	7.0
L	5.0	4.9	9.1	13.7	9.0	11.3	8.0	4.5	7.0	2.0	2.0	7.0	7.0
NL	6.0	5.9	7.6	9.9	8.3	5.9	9.5	1.6	0.4	0.9	0.6	4.7	6.2
A	:	3.7	7.9	9.8	7.6	7.2	10.8	4.3	3.8	3.2	3.5	7.5	7.5
P	:	6.7	:	:	:	:	:	3.1	1.1	1.9	0.5	4.2	4.7
FIN	:	0.8	11.2	14.2	11.9	2.7	16.8	-2.2	-0.3	2.9	3.2	4.7	6.0
S	:	3.7	7.8	11.0	10.9	3.2	11.9	-2.8	-6.2	3.5	-0.1	6.8	6.8
UK	4.7	3.0	9.6	9.9	9.0	7.8	12.0	4.8	3.3	2.8	2.6	6.7	6.4
EU-15 [1]	6.4	4.2	8.3	9.5	10.2	6.9	11.6	2.7	0.5	2.8	1.8	6.5	6.8
Euro area [2]	6.8	4.4	8.2	9.3	10.4	6.9	11.6	2.6	0.3	2.8	1.6	6.5	6.9
USA	6.8	8.2	12.2	14.2	11.7	12.4	13.5	-3.4	-2.8	-2.8	4.3	4.9	8.0
JAP	:	5.1	3.5	2.4	-4.9	-1.0	11.9	0.7	0.7	0.3	2.0	4.1	5.4

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

TABLE 48 : Trade balance (fob-fob, as a percentage of GDP, 1974-2003)

	long-term average	5-year average						2001 estimate of		2002 forecast of		2003 forecast of	
	1974-90	1991-95	1996-00	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	-2.9	0.4	3.4	3.9	3.7	3.6	2.1	1.8	2.7	2.1	2.6	2.1	2.9
DK	-2.5	3.8	2.6	2.5	1.2	2.7	3.2	4.4	3.2	4.1	2.8	4.2	2.7
D	4.3	1.9	3.3	3.4	3.6	3.4	3.1	4.1	4.8	4.2	5.9	4.4	5.9
EL	-9.9	-12.6	-14.2	-13.5	-14.8	-13.5	-16.2	-16.5	-16.3	-16.4	-16.5	-16.7	-16.7
E	-5.2	-3.8	-4.0	-2.4	-3.6	-5.1	-6.1	-6.0	-5.7	-5.9	-5.6	-6.2	-5.7
F	-1.8	-0.1	0.9	1.7	1.4	1.0	-0.2	-0.5	-0.2	-0.3	0.0	-0.6	-0.1
IRL	-4.8	15.1	24.0	23.0	23.0	25.6	26.8	27.9	28.9	27.5	28.3	28.0	29.6
I	-1.1	2.2	3.1	3.8	3.4	2.4	1.3	1.6	1.9	1.4	1.6	1.3	1.7
L	-8.6	-12.5	-11.6	-11.7	-10.2	-13.5	-11.3	-15.7	-12.7	-15.0	-12.3	-15.2	-12.2
NL	1.1	5.0	5.0	5.6	5.2	4.0	4.8	5.8	5.4	6.3	5.3	6.2	5.1
A	-5.0	-3.7	-1.9	-1.9	-1.6	-1.6	-1.3	-1.3	-1.3	-1.0	-1.1	-1.4	-1.4
P	:	-11.0	-10.9	-9.4	-11.0	-12.3	-13.6	-12.6	-12.0	-12.2	-11.1	-12.2	-11.0
FIN	0.2	6.1	9.8	9.5	9.7	9.5	11.4	10.9	10.5	10.0	10.2	10.2	10.6
S	:	4.1	7.2	8.0	7.2	7.0	6.6	6.3	6.4	6.3	6.7	6.4	6.5
UK	-2.1	-1.8	-2.4	-1.5	-2.5	-3.1	-3.2	-3.7	-3.3	-4.1	-3.7	-4.2	-3.9
EU-15	-0.6	0.5	1.3	1.9	1.5	1.0	0.4	0.6	1.0	0.6	1.2	0.5	1.1
EU-15, adj.	:	:	:	:	:	0.2	-0.6	-0.1	-0.2	-0.1	0.0	-0.2	0.1
Euro area	-0.3	0.6	1.8	2.4	2.2	1.6	1.0	1.3	1.7	1.4	2.0	1.4	2.1
Euro area, adj.	:	:	:	:	:	1.2	0.5	0.9	0.9	0.9	1.3	0.9	1.3
USA	-1.6	-1.9	-3.2	-2.4	-2.9	-3.8	-4.7	-4.3	-4.3	-4.1	-4.7	-4.4	-5.2
JAP	2.1	2.9	2.5	2.7	2.3	2.9	2.6	1.9	1.6	2.2	2.3	2.2	2.7

TABLE 49 : Balance on current transactions with the rest of the world (as a percentage of GDP, 1961-2003) 12.04.2002

	long-term average 1961-90	5-year average 1991-95	5-year average 1996-00	1997	1998	1999	2000	2001 estimate of XI-2001	2001 estimate of IV-2002	2002 forecast of XI-2001	2002 forecast of IV-2002	2003 forecast of XI-2001	2003 forecast of IV-2002
B	0.2	3.7	5.0	5.1	5.0	5.3	4.7	4.4	5.2	4.6	4.7	4.5	5.0
DK	-2.6	1.6	0.8	0.4	-0.9	1.7	1.6	3.2	2.5	2.5	2.0	2.7	2.1
D	1.3	-0.9	-0.5	-0.1	-0.3	-0.8	-1.0	-0.1	0.5	-0.2	1.5	-0.1	1.4
EL	-0.9	-0.5	-3.1	-2.1	-3.5	-2.8	-4.5	-4.3	-4.2	-4.5	-4.7	-4.7	-4.8
E	-1.1	-2.0	-1.1	0.5	-0.6	-2.3	-3.4	-3.1	-3.0	-2.9	-2.5	-2.7	-2.3
F	-0.7	-0.1	1.9	2.5	2.4	2.3	1.4	1.7	1.9	1.8	2.2	1.5	2.0
IRL	-4.4	1.9	1.4	3.1	0.9	0.4	-0.6	-1.5	-0.6	-2.0	-1.4	-2.2	-1.1
I	0.2	-0.1	1.7	2.8	1.9	1.0	-0.2	0.2	0.6	-0.1	0.3	-0.3	0.4
L	18.2	:	:	:	:	:	:	20.1	20.1	19.7	19.4	19.7	20.1
NL	1.5	4.3	4.7	6.2	3.0	4.1	5.0	5.8	5.3	6.1	4.8	6.0	4.6
A	-0.5	-1.1	-2.5	-2.6	-2.0	-3.1	-2.7	-2.7	-2.1	-2.4	-1.6	-2.7	-1.9
P	-2.5	-2.7	-7.3	-6.2	-7.2	-8.9	-10.4	-8.7	-9.6	-8.3	-8.7	-8.2	-8.6
FIN	-2.0	-1.2	5.7	5.6	5.6	6.0	7.2	7.1	6.5	6.2	6.4	6.6	7.1
S	-0.4	-0.1	3.8	4.3	3.8	4.0	3.6	3.4	3.3	2.4	3.2	2.2	3.1
UK	-0.3	-1.6	-1.2	-0.2	-0.6	-2.1	-1.9	-1.9	-1.8	-2.9	-2.5	-2.6	-2.6
EU-15	0.0	-0.4	0.6	1.4	0.8	0.3	-0.1	0.2	0.5	-0.1	0.5	-0.1	0.5
EU-15, adj.	:	:	:	:	:	0.0	-0.8	-0.2	-0.3	-0.5	-0.2	-0.5	-0.2
Euro area	0.2	-0.2	0.8	1.5	1.0	0.5	0.0	0.4	0.8	0.4	1.1	0.4	1.0
Euro area, adj.	:	:	:	:	:	-0.3	-0.9	-0.3	-0.2	-0.3	0.1	-0.3	0.1
USA	-0.3	-0.9	-2.6	-1.5	-2.3	-3.3	-4.4	-3.7	-3.9	-3.3	-4.6	-3.6	-5.2
JAP	1.0	2.5	2.3	2.2	3.0	2.6	2.5	2.3	1.9	2.3	2.4	2.1	2.8

TABLE 50 : Trade balance (fob-fob, in billions of Ecu/euro, 1995-2003)

	1995	1996	1997	1998	1999	2000	2001 estimate of XI-2001	2001 estimate of IV-2002	2002 forecast of XI-2001	2002 forecast of IV-2002	2003 forecast of XI-2001	2003 forecast of IV-2002
B	9.1	8.3	8.3	8.3	8.4	5.3	4.7	7.0	5.7	6.9	5.9	8.0
DK	3.8	4.8	3.7	1.8	4.5	5.6	8.0	5.8	7.8	5.2	8.4	5.2
D	48.0	55.7	63.1	69.4	66.6	62.5	85.3	99.0	87.8	123.7	96.0	130.0
EL	-11.0	-13.0	-14.4	-16.1	-15.3	-19.6	-21.6	-21.3	-23.0	-23.1	-25.1	-25.1
E	-14.0	-12.8	-12.0	-18.7	-28.6	-37.4	-39.1	-36.9	-40.0	-38.5	-44.3	-41.5
F	4.3	8.4	21.1	18.4	9.4	-7.9	-7.9	-3.3	-5.1	0.2	-9.3	-2.2
IRL	10.3	12.4	16.3	17.8	22.8	27.7	32.2	33.5	34.4	35.5	38.4	40.8
I	33.3	46.0	38.6	36.8	26.1	14.8	19.3	22.5	17.9	20.7	16.9	22.9
L	-1.3	-1.6	-1.8	-1.7	-2.5	-2.3	-3.4	-2.8	-3.5	-2.8	-3.9	-3.1
NL	18.8	17.9	18.6	18.2	15.1	19.4	24.8	23.1	28.3	23.7	29.5	24.0
A	-4.7	-5.4	-3.4	-3.0	-3.1	-2.7	-2.6	-2.8	-2.2	-2.3	-3.2	-3.1
P	-6.8	-7.4	-8.9	-11.0	-12.8	-15.1	-15.3	-14.7	-15.5	-14.4	-16.3	-14.8
FIN	9.5	8.9	10.2	11.2	11.5	14.9	14.8	14.2	14.0	14.2	14.8	15.5
S	13.2	14.9	16.9	15.5	15.9	16.3	14.7	15.1	14.5	16.3	15.5	16.7
UK	-14.5	-16.9	-17.8	-32.3	-41.8	-49.3	-58.7	-53.2	-66.8	-62.5	-71.9	-68.5
EU-15	97.9	120.2	138.4	114.6	76.2	35.2	55.2	88.1	54.3	106.1	51.4	108.0
EU-15, adjusted	:	:	109.1	83.3	12.1	-53.5	-11.4	-14.2	-12.3	3.8	-15.2	5.7
Euro area	95.5	117.4	135.7	129.5	97.6	59.5	91.2	117.6	98.7	143.8	99.4	151.5
Euro area, adjusted	:	:	116.4	109.0	75.6	35.6	58.0	63.6	65.5	89.9	66.2	97.6
USA	-132.9	-149.6	-173.1	-222.1	-327.2	-498.6	-483.3	-488.7	-474.6	-576.0	-530.6	-670.8
JAP	100.4	65.9	101.8	79.7	121.3	136.2	89.7	72.3	99.9	97.5	103.6	118.9

TABLE 51 : Balance on current transactions with the rest of the world (in billions of Ecu/euro, 1995-2003)

	1995	1996	1997	1998	1999	2000	2001 estimate of XI-2001	2001 estimate of IV-2002	2002 forecast of XI-2001	2002 forecast of IV-2002	2003 forecast of XI-2001	2003 forecast of IV-2002
B	11.3	10.1	11.1	11.3	12.4	11.7	11.2	13.4	12.1	12.6	12.3	13.9
DK	1.0	2.1	0.6	-1.4	2.7	2.8	5.9	4.6	4.8	3.8	5.4	4.0
D	-15.2	-6.2	-1.8	-5.9	-15.3	-19.3	-2.7	10.8	-5.2	31.8	-2.0	30.7
EL	-0.8	-2.3	-2.3	-3.8	-3.2	-5.5	-5.6	-5.4	-6.3	-6.5	-7.0	-7.1
E	-0.1	0.7	2.3	-3.3	-12.9	-20.5	-19.9	-19.3	-19.4	-16.9	-19.4	-16.6
F	3.1	11.2	31.6	30.8	31.7	20.1	24.4	28.1	26.4	32.8	23.4	31.0
IRL	1.4	1.9	2.2	0.7	0.3	-0.6	-1.7	-0.7	-2.5	-1.8	-3.0	-1.5
I	18.8	31.1	28.6	20.5	11.0	-1.9	2.3	7.6	-1.8	3.8	-3.6	5.8
L	:	:	:	:	3.3	4.5	4.4	4.4	4.6	4.5	5.0	5.0
NL	20.2	17.6	20.5	10.5	15.3	20.4	24.8	22.5	27.7	21.5	28.6	21.6
A	-4.3	-4.0	-4.7	-3.8	-6.0	-5.6	-5.7	-4.4	-5.1	-3.4	-6.1	-4.4
P	-2.5	-3.5	-5.8	-7.2	-8.9	-12.0	-10.7	-11.8	-10.6	-11.3	-10.9	-11.6
FIN	4.1	4.1	6.0	6.4	7.2	9.5	9.6	8.7	8.7	8.8	9.5	10.4
S	6.9	7.2	9.0	8.1	9.1	9.0	8.0	7.7	5.6	7.9	5.3	8.0
UK	-10.9	-10.7	-2.5	-7.1	-29.0	-28.0	-30.9	-28.1	-47.3	-41.4	-44.9	-45.2
EU-15	33.0	59.4	94.9	55.9	17.8	-13.9	9.1	39.6	-12.9	47.9	-12.4	45.7
EU-15, adjusted	:	:	95.4	56.6	0.4	-66.1	-21.6	-25.6	-43.7	-17.3	-43.2	-19.5
Euro area	36.0	60.8	87.8	56.3	35.0	0.8	26.1	53.9	23.9	75.9	21.8	77.3
Euro area, adjusted	:	:	62.1	31.9	-18.3	-59.9	-19.1	-12.3	-21.3	9.6	-23.4	11.0
USA	-74.9	-87.2	-108.6	-178.3	-287.7	-467.3	-415.7	-439.7	-378.1	-557.6	-433.7	-663.7
JAP	84.4	51.8	85.6	105.9	114.5	138.7	105.3	87.0	104.5	105.2	99.0	124.2

ANNEX

TABLE 52 : Export markets (a) (percentage change on preceding year, 1995-2003) 12.04.2002

							2001		2002		2003	
							estimate of		forecast of		forecast of	
	1995	1996	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	6.8	4.1	9.3	8.2	6.9	11.9	2.3	0.7	2.5	2.2	6.4	6.8
DK	6.9	4.7	8.6	6.9	5.0	9.5	2.1	0.5	2.6	2.0	6.0	5.5
D	7.7	5.1	9.8	7.3	5.9	12.3	2.3	0.8	2.7	3.1	6.4	6.6
EL	7.4	4.3	8.8	6.0	5.6	9.7	3.3	1.5	3.2	3.1	6.6	6.8
E	7.4	4.1	9.4	8.5	6.0	10.8	2.4	0.5	2.6	2.3	6.1	6.7
F	7.8	4.8	9.6	7.3	7.2	10.7	2.4	0.9	2.6	2.8	6.3	6.6
IRL	6.5	5.6	9.3	7.8	6.9	11.5	1.9	0.3	1.9	2.6	6.0	6.5
I	7.1	5.5	9.8	7.1	6.4	12.3	2.3	0.9	2.6	2.7	6.4	6.9
L (b)	:	:	:	:	:	:	:	:	:	:	:	:
NL	5.7	4.0	7.9	7.2	4.8	9.6	2.4	0.3	2.7	2.3	6.1	6.2
A	7.1	3.7	10.3	8.6	6.6	12.5	3.1	1.4	3.1	2.4	6.9	7.0
P	7.8	4.7	9.8	9.3	8.2	12.5	2.4	0.8	2.5	2.0	6.6	6.7
FIN	8.1	4.7	10.0	6.0	3.8	11.6	2.7	1.2	3.1	2.9	6.6	6.3
S	7.1	5.2	9.9	7.3	6.0	11.3	1.7	0.3	2.3	2.5	5.9	5.6
UK	8.3	5.4	9.8	7.5	6.5	11.4	1.6	0.4	2.1	2.9	6.1	6.6
EU-15 (c)	7.4	4.9	9.5	7.4	6.2	11.5	2.2	0.7	2.5	2.7	6.3	6.6
Euro area (c)	7.2	4.8	9.5	7.5	6.2	11.5	2.4	0.8	2.6	2.7	6.3	6.6
USA	10.5	6.6	10.0	1.6	6.7	10.8	0.0	-0.9	1.9	3.4	5.9	6.9
JAP	10.8	6.8	11.6	3.2	9.1	12.5	-0.4	-0.7	1.4	3.8	6.2	7.3

(a) Imports to the various markets (incl. EU-markets) weighted according to their share in country's exports.
(b) Included in the figures for Belgium.
(c) Intra- and extra-EU trade.

TABLE 53 : Export performance (a) (percentage change on preceding year, 1995-2003)

							2001		2002		2003	
							estimate of		forecast of		forecast of	
	1995	1996	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
B	0.9	-0.3	-2.7	-3.8	-1.6	-2.5	-1.6	-1.1	-0.6	-0.4	-0.8	-1.1
DK	-7.3	-2.7	-1.9	-5.2	2.3	0.6	0.8	0.6	-0.4	0.3	-0.3	-0.1
D	-3.4	-0.5	1.6	0.2	-0.6	1.1	3.0	4.5	-1.5	-0.7	0.4	0.6
EL	-3.6	-1.8	-4.6	-4.1	-3.1	1.9	-0.3	-0.2	-1.2	0.2	-0.6	-0.8
E	2.3	6.2	3.6	-3.1	-0.9	-1.4	1.7	1.5	1.0	0.5	0.8	0.5
F	-0.2	-1.0	2.0	-0.5	-3.3	2.2	-0.3	-0.8	0.1	-0.5	0.0	0.3
IRL	8.0	4.5	5.4	12.6	4.5	5.5	7.2	5.9	3.1	2.4	1.8	2.9
I	3.6	-5.5	-5.2	-3.4	-5.0	-0.5	0.5	-0.7	-0.3	-0.1	0.0	-0.3
L (b)	:	:	:	:	:	:	:	:	:	:	:	:
NL	0.6	0.1	-1.9	-0.7	0.8	0.4	-0.4	0.7	-1.7	-1.2	-1.2	-0.8
A	0.9	1.9	2.1	-0.4	1.2	0.9	2.0	3.2	0.7	1.7	0.5	0.3
P	4.3	5.5	-0.3	-1.5	:	:	3.9	2.6	-0.5	0.2	-1.3	0.0
FIN	-2.5	-0.3	4.7	3.8	3.7	8.1	-5.5	-1.9	-0.9	0.2	-0.8	0.6
S	5.2	0.7	2.4	-0.5	-1.0	-0.1	-4.0	-4.7	1.0	-0.9	1.1	1.5
UK	-1.8	1.4	-1.8	-5.8	-2.8	0.2	1.9	1.7	-1.3	-1.7	0.5	-0.3
EU-15 (c)	-0.1	-0.3	-0.2	-1.4	-1.6	0.7	1.1	1.3	-0.5	-0.5	0.1	0.1
Euro area (c)	0.3	-0.3	0.2	-0.6	-1.5	0.9	1.1	1.5	-0.5	-0.3	0.0	0.2
USA	0.1	0.9	5.0	0.5	-2.5	0.5	-5.5	-4.8	-7.9	-8.3	-3.2	-3.5
JAP	-5.2	-4.4	-1.9	-4.5	-13.4	-0.1	-1.7	-7.5	2.4	8.2	0.0	-0.1

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

TABLE 54 : World GDP, volume (percentage change on preceding year, 1996-2003) 12.04.2002

							2001 estimate of		2002 forecast of		2003 forecast of	
	(a)	1996	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
EU-15	17.8	1.7	2.6	2.9	2.6	3.3	1.7	1.7	1.4	1.5	2.9	2.9
Euro area	14.5	1.5	2.4	2.9	2.7	3.4	1.6	1.6	1.3	1.4	2.9	2.9
Belgium	0.6	1.2	3.6	2.2	3.0	4.0	1.3	1.0	1.3	1.1	2.8	2.8
Denmark	0.4	2.5	3.0	2.5	2.3	3.0	1.3	0.9	1.6	1.7	2.5	2.5
Germany	4.7	0.8	1.4	2.0	1.8	3.0	0.7	0.6	0.7	0.8	2.8	2.7
Greece	0.2	2.4	3.6	3.4	3.6	4.1	4.1	4.1	3.5	3.7	4.2	4.2
Spain	1.3	2.4	4.0	4.3	4.1	4.1	2.7	2.8	2.0	2.1	3.2	3.1
France	3.2	1.1	1.9	3.4	2.9	3.1	2.0	2.0	1.5	1.6	2.6	2.8
Ireland	0.2	7.8	10.8	8.6	10.8	11.5	6.5	6.8	3.3	3.5	5.5	6.1
Italy	2.4	1.1	2.0	1.8	1.6	2.9	1.8	1.8	1.3	1.4	2.7	2.7
Luxembourg	0.0	3.6	9.0	5.8	6.0	7.5	4.0	5.1	3.0	2.9	5.4	5.2
Netherlands	0.9	3.0	3.8	4.3	3.7	3.5	1.5	1.1	1.5	1.5	3.1	2.7
Austria	0.5	2.0	1.6	3.5	2.8	3.0	1.1	1.0	1.2	1.2	2.4	2.5
Portugal	0.2	3.8	3.9	4.5	3.4	3.4	1.7	1.8	1.5	1.5	2.3	2.2
Finland	0.3	4.0	6.3	5.3	4.1	5.6	0.5	0.7	1.7	1.6	2.9	3.3
Sweden	0.5	1.1	2.1	3.6	4.5	3.6	1.4	1.2	1.6	1.7	2.6	2.8
United Kingdom	2.4	2.6	3.4	3.0	2.1	3.0	2.3	2.2	1.7	2.0	3.0	3.0
Candidate Countries	3.2	5.0	4.7	2.9	0.0	4.9	:	0.1	:	2.8	:	3.9
Europe Agreement Countries	2.2	4.0	3.3	2.8	2.5	3.8	3.1	3.1	3.1	2.9	4.1	4.0
- Bulgaria	0.1	-10.1	-6.9	3.4	2.4	5.8	4.2	4.2	3.6	4.0	4.4	5.0
- Czech Republic	0.3	3.9	1.0	-2.3	-0.8	2.9	3.5	3.6	3.8	3.4	4.2	3.9
- Estonia	0.0	3.9	10.6	4.0	-1.1	6.9	5.3	4.1	4.7	3.8	5.4	6.2
- Hungary	0.3	1.3	4.6	5.1	4.5	5.2	3.8	3.8	3.2	3.3	4.6	4.6
- Latvia	0.0	3.3	8.6	3.6	1.1	6.8	7.9	7.6	4.5	5.0	6.5	6.0
- Lithuania	0.1	4.7	7.3	5.1	-4.2	3.9	4.5	5.7	3.5	4.0	4.3	5.0
- Poland	0.8	6.0	6.8	4.8	4.1	4.0	1.5	1.1	1.9	1.4	3.4	3.1
- Romania	0.3	3.9	-6.1	-5.4	-3.2	1.8	4.6	5.3	4.4	4.2	4.8	4.9
- Slovakia	0.1	6.6	6.5	4.4	1.9	2.2	2.7	3.3	3.5	3.6	4.0	4.2
- Slovenia	0.1	3.5	4.6	4.0	4.9	4.6	3.7	3.7	3.3	3.2	4.0	4.0
Other Candidate Countries	1.0	6.7	7.2	3.2	-4.1	7.3	:	-7.0	:	2.5	:	3.7
- Cyprus	0.0	1.9	2.4	5.0	4.5	5.1	:	3.7	:	2.5	:	4.0
- Malta	0.0	4.0	4.9	3.4	4.1	5.3	:	-0.1	:	3.8	:	4.0
- Turkey	1.0	7.0	2.8	5.0	-2.8	7.4	-6.8	-7.4	2.7	2.5	4.2	3.7
USA	23.0	3.6	4.5	4.3	4.1	4.2	0.9	1.2	0.5	2.7	3.4	3.1
Japan	7.7	3.5	1.8	-1.1	0.7	2.4	-0.6	-0.5	-0.9	-0.8	0.5	0.6
Canada	2.1	1.5	4.5	4.0	5.1	4.6	1.6	1.5	1.0	3.2	3.5	4.4
Norway	0.3	4.9	4.7	2.4	1.1	2.3	2.0	1.7	1.9	2.4	2.1	2.5
Switzerland	0.5	0.3	1.7	2.4	1.6	3.0	1.7	1.7	1.0	1.9	2.0	3.3
Iceland	0.0	5.2	4.8	4.5	4.3	5.0	2.6	2.6	3.2	3.2	3.3	3.3
Australia	1.2	3.6	4.8	5.4	4.3	3.4	2.1	2.3	3.6	3.1	4.2	4.1
New Zealand	0.2	2.6	1.9	0.0	4.4	3.0	1.9	2.4	3.1	2.3	3.1	3.5
Industrialised countries	55.9	2.9	3.5	3.0	2.9	3.7	:	1.1	:	1.9	:	2.8
Others	44.1	5.8	5.2	2.2	4.5	5.8	:	3.8	:	4.2	:	5.2
CIS	3.8	-3.5	0.6	-3.0	4.4	7.9	5.5	5.5	4.2	4.1	5.1	4.6
Russia	2.6	-3.4	0.9	-4.9	5.4	8.3	5.0	5.0	3.8	3.7	5.0	4.5
Ukraine	0.4	-10.1	-3.2	-1.7	-0.4	5.8	7.0	7.0	5.5	5.5	6.0	5.0
Other	0.8	1.2	2.1	3.0	4.0	7.4	6.3	6.4	5.0	4.8	5.0	4.9
OPEC	4.8	6.2	4.7	-5.2	1.7	5.0	2.2	3.0	2.5	3.0	3.3	3.9
Indonesia	1.6	7.8	4.7	-13.1	0.8	4.8	1.5	3.3	2.1	3.0	3.2	4.0
Other emerging markets	35.5	6.7	5.8	3.7	4.9	5.7	:	3.7	:	4.4	:	5.4
Asia	24.4	7.8	6.3	4.2	6.7	6.5	:	5.0	:	5.6	:	6.2
- China	12.1	9.6	8.8	7.8	7.1	7.1	7.4	7.3	7.0	7.3	7.4	7.4
- India	4.9	6.9	4.6	6.4	7.2	5.9	4.2	5.1	4.7	5.8	4.7	6.1
- Hong Kong	0.4	4.5	5.0	-5.3	3.0	10.5	-0.8	0.2	2.9	1.6	4.7	4.0
- Korea	1.8	6.8	5.0	-6.7	10.9	8.8	1.9	3.0	2.1	4.6	3.5	6.6
Latin America	8.2	3.8	5.2	2.4	0.5	4.1	:	0.3	:	1.0	:	3.7
- Argentina	0.9	5.5	8.1	3.8	-3.4	-0.5	:	-4.5	:	-6.5	:	2.7
- Brazil	2.8	2.7	3.3	0.2	0.8	4.5	1.2	1.5	2.0	2.0	4.0	3.8
- Mexico	2.1	5.2	6.8	5.0	3.8	6.9	0.5	-0.3	1.3	1.9	4.0	4.0
Africa	2.9	5.1	3.1	3.2	3.1	3.4	2.7	2.9	2.7	3.1	3.9	3.8
- South Africa	0.8	4.1	2.5	0.7	1.9	3.1	:	2.3	:	2.3	:	2.7
World	100.0	4.2	4.3	2.6	3.6	4.6	2.1	2.3	2.2	2.9	3.7	3.9
World excluding EU-15	82.2	4.7	4.6	2.6	3.9	4.9	2.2	2.4	2.3	3.2	3.9	4.1
World excluding euro area	85.5	4.6	4.6	2.6	3.8	4.8	2.2	2.4	2.3	3.1	3.9	4.0

(a) Relative weights, based on GDP (at constant prices and pps) in 2000.

ANNEX

TABLE 55 : World exports of goods, volume (percentage change on preceding year, 1996-2003) 12.04.2002

							2001 estimate of		2002 forecast of		2003 forecast of	
	(a)	1996	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
EU-15 (b)	35.9	4.7	10.3	6.7	5.0	12.3	3.3	2.0	2.0	2.2	6.4	6.7
Euro area (b)	29.2	4.4	10.6	7.4	5.0	12.5	3.5	2.3	2.1	2.4	6.3	6.8
Candidate Countries	2.5	-9.6	18.2	2.7	0.2	19.0	:	10.0	:	5.9	:	9.6
Europe Agreement Countries	2.0	-7.0	15.8	1.3	1.8	21.5	9.4	10.7	6.5	6.1	10.3	10.0
- Bulgaria	0.1	:	:	-22.7	-4.6	25.5	5.5	14.3	6.0	5.0	13.0	7.0
- Czech Republic	0.5	6.2	13.7	13.8	8.7	19.9	9.0	14.7	7.0	8.0	8.1	9.2
- Estonia	0.1	0.9	35.7	18.2	-5.0	39.9	6.0	-4.0	5.5	6.5	11.0	10.5
- Hungary	0.4	8.4	29.9	17.8	9.8	21.8	11.0	9.0	7.6	4.8	12.4	12.0
- Latvia	0.0	4.4	24.6	7.0	-2.8	14.1	7.0	6.5	4.5	3.0	7.4	8.0
- Lithuania	0.1	:	18.4	-9.8	-21.5	24.6	17.0	21.5	6.2	7.2	10.8	8.4
- Poland	0.5	3.5	5.0	10.6	-6.4	25.0	9.0	10.9	6.5	5.5	12.5	12.3
- Romania	0.2	3.1	11.9	6.3	8.8	24.5	12.4	10.6	5.6	6.0	8.1	8.6
- Slovakia	0.2	3.3	3.3	11.7	5.3	17.0	7.8	6.1	6.6	6.3	9.5	9.5
- Slovenia	0.1	2.6	13.0	9.0	2.6	12.8	7.5	7.8	4.0	4.4	5.5	5.8
Other Candidate Countries	0.5	-20.3	27.6	8.2	-6.1	9.0	:	7.4	:	5.0	:	8.0
- Cyprus	0.0	:	:	:	:	:	:	:	:	:	:	:
- Malta	0.0	:	:	:	:	:	:	:	:	:	:	:
- Turkey	0.5	-20.3	27.6	8.2	-6.1	9.0	7.0	7.4	8.0	5.0	9.0	8.0
USA	12.6	8.7	14.5	2.1	3.9	11.3	-5.5	-5.7	-6.1	-5.2	2.5	3.2
Japan	7.1	5.5	9.0	-1.5	-5.5	12.4	-2.1	-8.1	3.8	12.3	6.2	7.2
Canada	4.6	5.5	9.1	8.5	11.0	8.5	-3.5	-3.0	-2.5	4.6	5.3	7.8
Norway	0.9	10.4	6.5	-0.7	2.9	2.3	3.4	2.2	2.3	3.1	2.9	5.4
Switzerland	1.4	2.0	7.9	4.8	4.4	11.2	3.3	1.6	1.4	2.9	3.2	6.6
Iceland	0.0	-5.2	19.0	2.2	5.5	2.5	0.8	0.8	2.9	2.9	4.8	4.8
Australia	1.0	12.2	8.1	0.1	5.2	9.5	2.5	2.5	2.5	2.0	4.0	6.2
New Zealand	0.2	4.1	5.8	0.1	2.9	5.7	6.0	6.0	3.8	3.2	5.2	6.0
Industrialised countries	66.3	5.2	11.0	4.6	3.8	11.9	:	-0.6	:	2.2	:	6.3
Others	33.7	7.4	9.4	5.3	5.4	12.3	:	1.5	:	4.6	:	6.9
CIS	2.4	11.0	3.0	-6.3	-3.8	28.1	5.9	3.1	2.0	1.7	1.9	1.2
Russia	1.7	11.1	3.8	-3.2	-3.0	28.6	6.2	1.9	1.0	0.5	1.4	0.5
Ukraine	0.3	8.0	-6.5	-13.7	-4.7	16.1	5.8	6.8	5.8	5.0	7.0	4.3
Other	0.4	13.2	7.9	-12.4	-6.3	33.9	4.9	6.0	3.4	4.0	0.9	1.9
OPEC	4.9	5.5	4.2	7.5	-2.8	-7.2	2.9	1.7	2.2	3.1	4.2	5.9
Indonesia	0.9	3.7	12.9	17.2	1.4	-2.0	4.6	5.0	2.0	3.5	6.0	8.0
Other emerging markets	26.4	7.4	10.9	5.9	7.7	14.5	:	1.4	:	5.1	:	7.5
Asia	19.6	6.9	11.7	5.6	9.3	18.1	:	1.2	:	4.6	:	7.5
- China	4.0	3.8	25.9	13.5	8.2	26.2	5.2	6.5	4.3	6.8	5.8	8.6
- India	0.7	13.2	-7.1	4.4	8.6	17.4	2.1	4.2	3.8	4.0	4.6	4.6
- Hong Kong	3.3	4.4	5.8	-3.8	3.0	16.8	0.0	0.0	3.0	3.5	6.5	6.4
- Korea	2.8	19.8	24.9	12.2	11.3	19.4	2.9	3.0	3.0	5.0	7.5	9.6
Latin America	5.5	8.4	9.1	8.6	2.7	3.3	:	1.5	:	7.3	:	8.1
- Argentina	0.4	6.6	15.1	10.5	-25.3	7.0	:	-5.0	:	9.0	:	8.0
- Brazil	0.9	-0.7	4.8	10.2	-0.7	7.0	0.5	10.5	5.0	8.5	8.0	9.5
- Mexico	2.7	16.1	11.9	12.3	14.0	4.4	0.0	-1.0	2.0	7.0	8.0	8.0
Africa	1.3	11.5	7.1	-1.0	5.4	7.6	3.4	4.3	2.4	3.6	7.6	6.5
- South Africa	0.5	12.7	8.2	-7.8	7.3	18.4	:	7.5	:	7.1	:	4.5
World	100.0	6.0	10.5	4.8	4.4	12.0	1.0	0.2	1.3	3.0	5.6	6.5
World excluding EU-15	64.1	6.6	10.6	3.8	4.0	11.9	-0.4	-0.9	0.9	3.5	5.1	6.3
World excluding euro area	70.8	6.6	10.4	3.7	4.1	11.8	-0.1	-0.7	1.0	3.3	5.3	6.3

(a) Relative weights, based on exports (at current prices and current exchange rates) in 2000.
(b) Intra- and extra-EU trade.

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

	EU-15	USA	Japan	Canada	Candidate Countries	EAC	CIS	OPEC	Other Emerging Markets	Asia	Latin America	Africa	World
EU-15	58.3	8.8	1.7	0.8	5.7	4.4	1.0	2.1	8.7	4.5	2.2	2.0	100
Belgium	69.5	5.5	1.1	0.4	3.1	2.1	0.6	1.2	8.2	5.6	1.1	1.5	100
Denmark	67.9	6.0	3.5	0.7	4.0	3.5	1.3	1.3	5.9	3.5	1.5	0.9	100
Germany	51.8	9.4	2.0	0.7	8.8	7.5	1.5	1.7	8.3	4.7	2.2	1.4	100
Greece	40.2	5.0	0.7	0.6	19.5	9.4	3.2	2.4	9.4	5.0	1.8	2.6	100
Spain	63.7	4.7	0.9	0.5	4.3	2.4	0.6	2.3	10.3	2.6	5.2	2.5	100
France	57.4	8.1	1.5	0.8	4.0	2.6	0.7	2.8	11.1	4.3	2.5	4.3	100
Ireland	60.1	17.0	3.8	0.5	2.0	1.5	0.3	1.1	6.9	4.9	0.9	1.1	100
Italy	50.5	9.5	1.6	0.8	7.3	5.2	1.3	3.0	10.4	4.6	3.3	2.4	100
Luxembourg	82.0	4.0	0.6	0.6	3.0	2.5	0.5	0.6	3.1	1.6	0.7	0.7	100
Netherlands	76.6	4.2	0.9	0.4	3.3	2.5	0.9	1.2	5.0	2.9	1.0	1.1	100
Austria	57.1	4.6	1.2	0.7	13.1	12.4	1.4	1.2	4.2	2.4	0.9	0.8	100
Portugal	76.4	5.8	0.5	0.6	1.7	1.2	0.1	0.6	6.6	1.4	1.5	3.7	100
Finland	49.9	6.7	1.6	0.7	7.9	6.7	4.3	2.2	10.0	6.5	2.0	1.5	100
Sweden	53.5	9.4	2.8	1.1	5.5	4.2	0.9	1.9	10.3	5.8	3.0	1.6	100
United Kingdom	54.2	15.1	1.9	1.8	3.2	2.0	0.5	2.8	9.2	5.8	1.6	1.9	100

TABLE 57 : World imports of goods, volume (percentage change on preceding year, 1996-2003) 12.04.2002

							2001 estimate of		2002 forecast of		2003 forecast of	
	(a)	1996	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
EU-15 (b)	35.4	3.8	9.5	10.2	6.9	11.6	2.7	0.5	2.8	1.8	6.5	6.8
Euro area (b)	28.8	2.8	9.3	10.4	6.9	11.6	2.6	0.3	2.8	1.6	6.5	6.9
Candidate Countries	3.3	9.0	16.7	1.5	-1.7	19.1	:	0.7	:	7.0	:	9.0
Europe Agreement Countries	2.5	1.8	14.3	1.9	1.8	16.2	9.8	9.6	7.1	6.4	9.7	9.0
- Bulgaria	0.1	:	:	-1.9	11.1	14.9	10.0	19.1	11.0	5.0	14.0	6.5
- Czech Republic	0.5	12.4	10.6	8.7	6.0	22.4	10.1	16.1	7.5	7.5	7.7	8.2
- Estonia	0.1	6.9	33.8	11.8	-8.1	32.4	4.0	2.0	5.0	7.5	10.0	10.0
- Hungary	0.4	11.7	26.4	23.7	11.1	21.1	12.3	6.9	8.6	5.5	13.8	11.5
- Latvia	0.1	9.3	13.5	32.3	-3.0	4.2	11.6	13.8	6.1	2.0	7.1	6.6
- Lithuania	0.1	:	24.7	-2.6	-15.1	12.4	12.2	18.6	4.9	6.0	9.1	8.0
- Poland	0.7	31.9	16.6	13.0	-0.7	10.5	7.4	2.6	6.8	6.5	10.5	10.5
- Romania	0.2	8.7	7.5	19.1	-4.8	30.9	16.3	19.3	7.1	7.7	7.5	8.0
- Slovakia	0.2	22.9	-5.9	9.9	-3.5	11.8	12.3	12.2	6.3	6.4	8.6	8.0
- Slovenia	0.2	2.4	12.5	16.8	7.6	7.4	3.5	2.6	4.0	4.3	5.0	5.0
Other Candidate Countries	0.9	29.2	23.5	0.2	-11.7	27.4	:	-24.5	:	8.5	:	9.0
- Cyprus	0.0	:	:	:	:	:	:	:	:	:	:	:
- Malta	0.0	:	:	:	:	:	:	:	:	:	:	:
- Turkey	0.9	29.2	23.5	0.2	-11.7	27.4	-23.2	-24.5	5.1	8.5	7.5	9.0
USA	20.0	9.4	14.2	11.7	12.4	13.5	-3.4	-2.8	-2.8	4.3	4.9	8.0
Japan	5.1	10.0	2.4	-4.9	-1.0	11.9	0.7	0.7	0.3	2.0	4.1	5.4
Canada	3.9	6.0	17.1	7.3	10.4	8.2	-4.3	-4.9	-2.0	3.6	4.7	6.5
Norway	0.5	10.8	10.2	9.0	-3.6	2.5	2.1	-0.2	2.5	1.6	2.7	3.6
Switzerland	1.4	2.5	8.7	9.9	5.9	11.2	3.5	0.8	1.8	0.9	3.3	3.5
Iceland	0.0	15.8	3.9	23.3	6.1	5.9	2.5	2.5	4.4	4.4	6.2	6.2
Australia	1.1	6.9	6.4	6.9	6.6	5.4	3.5	3.5	4.1	2.5	5.4	5.4
New Zealand	0.2	3.5	3.5	2.5	13.3	-2.7	2.5	2.5	2.5	2.5	7.1	7.1
Industrialised countries	71.1	6.3	11.0	8.9	7.6	12.1	:	-0.6	:	2.8	:	7.0
Others	28.9	6.3	6.7	-1.6	6.2	10.4	:	1.8	:	4.2	:	7.1
CIS	1.4	10.2	3.5	-13.6	-27.8	12.3	13.4	12.2	6.6	6.9	7.2	6.6
Russia	0.7	5.1	4.5	-12.0	-30.0	14.3	16.1	15.1	7.2	7.6	10.2	9.3
Ukraine	0.2	13.5	-6.5	-23.9	-29.6	7.7	12.0	12.0	8.5	8.5	9.0	7.0
Other	0.4	19.3	11.2	-8.4	-22.1	11.6	9.3	7.2	4.4	4.5	0.2	0.9
OPEC	2.7	2.2	6.8	-4.4	-0.6	-2.7	6.2	6.6	4.3	4.0	5.8	5.9
Indonesia	-0.5	5.6	1.5	-26.4	-10.6	-22.3	5.0	3.0	5.2	4.0	8.8	8.8
Other emerging markets	24.9	6.6	6.9	-0.7	8.8	11.7	:	0.7	:	4.1	:	7.3
Asia	17.7	4.9	7.0	-5.7	11.4	12.9	:	1.4	:	3.9	:	6.8
- China	3.2	7.5	7.0	10.8	20.3	17.3	8.2	9.7	8.3	7.0	10.0	9.5
- India	0.8	4.8	10.8	16.7	11.3	3.4	4.9	5.3	5.0	5.0	8.5	6.5
- Hong Kong	3.4	4.3	7.7	-6.9	-0.5	18.1	2.0	0.5	4.0	3.0	6.8	6.8
- Korea	2.5	12.6	1.5	-19.4	29.2	16.4	-0.5	-0.5	3.2	3.2	7.5	7.0
Latin America	5.7	11.0	6.6	11.9	1.9	9.4	:	-2.3	:	4.3	:	9.3
- Argentina	0.4	19.9	30.0	9.2	-13.2	-3.6	:	-25.0	:	-12.5	:	15.0
- Brazil	0.9	8.1	-15.6	0.8	-7.4	8.5	3.5	7.0	2.0	6.0	5.0	9.0
- Mexico	2.8	20.6	23.3	17.3	14.8	13.2	0.0	-4.5	0.5	6.0	5.0	8.5
Africa	1.5	9.9	5.9	11.6	3.8	6.2	5.8	3.8	5.3	5.7	4.0	6.0
- South Africa	0.4	11.0	7.0	-3.7	-3.1	15.8	:	3.9	:	7.3	:	7.7
World	100.0	6.3	9.7	5.8	7.2	11.6	1.0	0.1	1.8	3.2	6.0	7.0
World excluding EU-15	64.6	7.6	9.9	3.5	7.3	11.6	0.0	-0.2	1.2	4.0	5.8	7.2
World excluding euro area	71.2	7.6	9.9	4.0	7.3	11.6	0.3	0.0	1.4	3.9	5.8	7.1

(a) Relative weights, based on imports (at current prices and current exchange rates) in 2000.
(b) Intra- and extra-EU trade.

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

	EU-15	USA	Japan	Canada	Candidate Countries	EAC	CIS	OPEC	Other Emerging Markets	Asia	Latin America	Africa	World
EU-15	53.6	7.6	3.3	0.7	4.5	3.7	2.0	3.2	10.6	6.9	1.9	1.8	100
Belgium	62.0	6.8	2.7	0.7	2.4	2.0	0.9	1.4	10.5	6.3	1.8	2.5	100
Denmark	68.0	4.2	1.4	0.6	4.4	3.9	1.0	0.7	7.9	6.1	1.4	0.4	100
Germany	46.3	7.7	4.4	0.6	8.6	7.5	2.9	1.7	10.2	7.5	1.6	1.1	100
Greece	53.4	3.0	2.7	0.3	5.4	3.9	4.4	9.5	8.8	6.2	1.0	1.6	100
Spain	58.3	4.1	2.1	0.3	1.7	1.2	1.6	7.6	11.5	5.5	3.5	2.5	100
France	61.3	7.0	2.2	0.6	2.6	1.8	1.5	3.4	9.8	5.5	1.8	2.5	100
Ireland	56.3	16.3	4.1	0.9	1.4	1.2	0.0	0.2	9.8	8.5	0.6	0.6	100
Italy	51.2	4.8	2.3	0.7	4.7	3.9	3.8	7.3	10.6	5.8	2.1	2.7	100
Luxembourg	86.9	3.6	1.6	0.3	1.3	1.3	0.2	0.4	2.2	1.4	0.6	0.2	100
Netherlands	46.3	9.2	4.3	0.5	2.4	1.9	1.7	4.2	14.8	10.8	2.8	1.2	100
Austria	63.6	3.8	1.4	0.6	11.0	10.5	2.1	1.3	2.9	2.1	0.4	0.3	100
Portugal	69.6	2.9	2.4	0.3	1.7	1.3	0.8	4.7	8.2	3.5	2.6	2.1	100
Finland	58.1	4.7	3.6	0.4	5.1	4.8	9.4	0.4	6.8	4.9	1.4	0.5	100
Sweden	65.6	7.2	3.2	0.4	5.4	4.9	0.8	1.2	5.6	4.2	1.0	0.4	100
United Kingdom	47.7	12.9	4.6	1.8	2.6	1.8	0.8	1.8	13.1	9.1	1.8	2.2	100

ANNEX

TABLE 59 : World trade balances (fob-fob, bn. US dollars, 1995-2003) 12.04.2002

							2001 estimate of		2002 forecast of		2003 forecast of	
	1995	1996	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
EU-15	128.1	152.6	156.9	128.3	81.2	32.4	49.7	78.8	49.3	92.7	46.6	94.0
EU-15, adjusted	:	:	123.7	93.4	12.9	-49.4	-10.2	-12.7	-11.2	3.4	-13.8	5.0
Euro area	124.8	149.0	153.8	145.0	104.0	54.8	82.0	105.2	89.7	125.7	90.1	131.8
Euro area, adjusted	:	:	132.0	122.2	80.6	32.9	52.1	57.0	59.5	78.5	60.0	84.9
Candidate Countries	-26.9	-35.5	-43.9	-43.1	-37.5	-49.9	:	-34.6	:	-37.8	:	-44.0
Europe Agreement Countries	-13.7	-25.0	-21.5	-28.8	-27.1	-27.6	-28.9	-29.6	-31.7	-31.2	-32.8	-35.5
Other Candidate Countries	-13.2	-10.6	-22.4	-14.3	-10.4	-22.4	:	-5.0	:	-6.6	:	-8.6
USA	-173.8	-189.9	-196.2	-248.7	-348.6	-459.4	-434.4	-437.3	-431.2	-503.3	-481.3	-583.6
Japan	131.2	83.6	115.4	89.3	129.2	125.5	80.6	64.7	90.7	85.2	93.9	103.4
Canada	25.8	31.1	17.2	12.9	25.2	39.9	48.4	42.1	50.0	39.8	55.1	46.6
Norway	7.9	12.3	11.2	1.7	10.2	25.7	23.7	24.8	22.4	21.8	21.7	25.2
Switzerland	0.9	0.9	-0.3	-1.6	-0.2	-1.5	-3.4	-0.2	-4.4	2.3	-5.3	4.4
Iceland	0.2	0.0	0.0	-0.4	-0.3	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4
Australia	-4.2	-0.6	1.8	-5.3	-9.7	-4.2	-7.2	-7.1	-9.9	-8.2	-9.8	-7.3
New Zealand	1.0	0.5	0.9	0.9	-0.4	0.6	1.2	1.3	1.7	1.6	1.8	1.8
Industrialised countries	90.2	55.0	63.0	-66.0	-151.0	-291.3	:	-267.9	:	-306.3	:	-360.0
Others	36.0	58.8	72.2	107.3	201.0	295.3	:	254.8	:	250.1	:	281.5
CIS	15.7	11.5	5.3	6.7	34.3	63.2	55.8	52.8	46.7	42.6	46.2	41.2
OPEC	59.4	92.0	85.3	35.2	78.1	136.4	100.4	105.1	76.6	90.8	90.0	99.3
Other emerging markets	-39.1	-44.7	-18.5	65.4	88.6	95.7	:	96.9	:	116.8	:	141.0
Asia	-27.3	-33.6	12.4	121.6	114.0	119.8	:	125.2	:	148.5	:	179.2
Latin America	-0.6	0.2	-18.8	-39.4	-11.1	-10.6	:	-10.9	:	-9.4	:	-14.9
Africa	-11.1	-11.2	-12.1	-16.9	-14.4	-13.4	-15.8	-17.5	-19.0	-22.3	-16.9	-23.4
World	126.2	113.9	135.2	41.3	50.1	4.0	-44.3	-13.1	-72.7	-56.2	-97.7	-78.6

TABLE 60 : World current account balances (bn. US dollars, 1995-2003)

							2001 estimate of		2002 forecast of		2003 forecast of	
	1995	1996	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
EU-15	43.1	75.4	107.6	62.6	19.0	-12.8	8.2	35.4	-11.7	41.8	-11.3	39.7
EU-15, adjusted	:	:	108.2	63.5	0.4	-61.1	-19.4	-22.9	-39.7	-15.1	-39.2	-17.0
Euro area	47.1	77.2	99.5	63.0	37.3	0.7	23.5	48.3	21.8	66.3	19.8	67.2
Euro area, adjusted	:	:	70.4	35.8	-19.5	-55.3	-17.2	-11.0	-19.3	8.4	-21.2	9.6
Candidate Countries	-10.8	-15.6	-16.7	-2.5	-23.9	-28.9	:	-14.5	:	-17.6	:	-22.9
Europe Agreement Countries	-8.4	-13.2	-7.7	-18.1	-22.6	-19.0	-19.2	-17.9	-20.7	-19.0	-20.2	-22.3
Other Candidate Countries	-2.3	-2.4	-9.0	15.6	-1.4	-9.8	:	3.3	:	1.4	:	-0.6
USA	-98.0	-110.7	-123.1	-199.7	-306.5	-430.5	-373.6	-393.4	-343.5	-487.3	-393.4	-577.5
Japan	110.4	65.8	97.0	118.6	122.0	127.7	94.6	77.9	95.0	91.9	89.8	108.1
Canada	-1.6	4.7	-6.7	-7.4	-2.3	18.1	25.7	21.3	27.2	17.0	32.3	24.5
Norway	4.9	10.2	8.7	-1.3	7.2	24.1	24.0	24.5	20.6	19.1	19.9	22.3
Switzerland	21.8	22.4	25.8	25.9	29.8	30.5	32.6	31.8	36.4	33.3	38.6	34.4
Iceland	0.1	-0.1	-0.1	-0.6	-0.6	-0.5	-0.6	-0.6	-0.4	-0.4	-0.2	-0.2
Australia	-19.3	-15.8	-12.4	-18.0	-23.0	-20.2	-23.2	-23.1	-25.9	-24.2	-25.8	-23.3
New Zealand	-3.0	-4.0	-4.4	-2.2	-3.6	-2.7	-2.1	-2.1	-1.7	-1.8	-1.6	-1.5
Industrialised countries	47.6	32.3	75.6	-24.5	-182.0	-295.1	:	-242.8	:	-328.1	:	-396.5
Others	-80.5	-53.2	-36.5	-12.7	92.3	164.5	:	162.7	:	179.2	:	205.1
CIS	3.8	6.2	-4.3	-5.8	22.5	48.5	40.9	35.5	35.7	27.8	36.2	25.8
OPEC	-1.4	25.5	18.6	-18.4	22.4	68.7	76.0	83.4	63.0	78.4	80.8	87.7
Other emerging markets	-82.9	-84.8	-50.8	11.5	47.3	47.3	:	43.7	:	72.9	:	91.6
Asia	-31.8	-34.0	25.5	112.8	112.0	116.2	:	101.7	:	123.2	:	151.2
Latin America	-40.8	-43.5	-68.3	-90.5	-58.5	-60.0	:	-60.2	:	-51.8	:	-62.6
Africa	-10.3	-7.3	-8.0	-10.8	-6.2	-8.9	-2.8	2.2	-3.0	1.5	-2.4	3.0
World	-32.8	-20.9	39.1	-37.2	-89.7	-130.6	-105.1	-80.2	-118.2	-148.9	-147.8	-191.4

TABLE 61 : Primary commodity prices (in US dollars, percentage change on preceding year, 1995-2003) 12.04.2002

							2001		2002		2003	
SITC							estimate of		forecast of		forecast of	
Classification	1995	1996	1997	1998	1999	2000	XI-2001	IV-2002	XI-2001	IV-2002	XI-2001	IV-2002
Food (0 + 1)	7.2	7.4	-5.6	-14.5	-15.2	-2.4	-1.3	1.1	-1.4	2.1	3.1	3.3
Basic materials (2 + 4)	9.7	-4.8	-2.1	-14.8	-2.1	4.7	-4.6	-8.5	-1.5	-1.0	4.1	5.5
- of which :												
Agricultures non-food	4.4	-1.2	-5.9	-14.3	-3.1	0.4	-0.3	-7.2	3.5	-1.6	4.0	4.5
- of which :												
Wood and pulp	2.4	-4.6	-6.4	-13.1	8.8	2.7	0.7	-10.0	3.6	-4.8	3.4	3.4
Minerals and metals	18.0	-10.0	3.7	-15.4	-0.8	10.6	-10.0	-10.3	-8.3	-0.1	4.1	6.9
Fuel products (3)	8.6	17.1	-6.1	-26.7	25.6	47.5	-12.8	-10.4	-9.7	-5.3	10.3	1.6
- of which :												
Crude petroleum	7.8	21.1	-7.5	-33.4	41.1	59.1	-12.9	-12.4	-10.7	-4.7	11.2	1.3
Primary commodities												
- Total excluding fuels	8.9	-0.8	-3.4	-14.7	-6.7	2.4	-3.6	-5.6	-1.4	0.0	3.8	4.8
- Total including fuels	8.6	6.5	-4.8	-21.0	6.6	26.0	-8.0	-8.2	-6.1	-2.2	7.3	3.0
Crude petroleum - price per barrel (us dollar)												
Brent	17.1	20.7	19.1	12.7	17.9	28.5	24.9	25.0	22.3	23.8	24.8	24.1

Note on concepts and sources

1. Directorate General "ECFIN" produces, under its own responsibility, short- term economic forecasts twice a year: in the spring and in the autumn. These forecasts cover the principal macroeconomic aggregates for the Member States, the european Union as a whole, the euro area and the international environment. Although the forecasts primarily serve as a support to the internal work of the Commission and its services, they are also published in the Supplement A series "Economic Trends" of "european Economy".

2. Data for 2001, 2002 and 2003 are estimates and projections. The sources for all tables are the Commission services, except where it is stated otherwise. In general, the historical data for the Member States are based on the ESA 95 system. These data start in the late 1980s, early 1990s or in 1995, with the exception of DK, F, I, NL, FIN and the UK, where most data cover longer periods in the past. For the USA and Japan the definitions are as in the SNA.

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

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

5. The trend output gap is calculated with reference to trend GDP obtained with a Hodrick-Prescott filter. The cyclical adjustment of budgetary balances is based on this concept.
The potential output gap is calculated with reference to potential output estimated in a production function where the increase in the capital stock and the difference between actual unemployment and the NAIRU play a key role.

6. Employment data are based on numbers of persons employed. The concept of full-time equivalent is used for the Netherlands, Italy, Spain and the USA. Tables 22-27 and 31, 32 also use data on the basis of full-time equivalent for these countries.

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

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

9. Tables 37 and 39 are based on Excessive Deficit Procedure data for 1998-2001, except for Denmark, Portugal and Sweden, where additional information for 2001 is included. (See Eurostat news release Nº 35, March 2002).

10. The allocation of mobile phone licences (UMTS) impacts strongly on the general government accounts for some countries in 2000, 2001 and 2002. Tables 35, 37 and 39 include the amounts from the sale of the licences, while the cyclically adjusted balances in tables 40 and 41 exclude these amounts.

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

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

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