ISSN 0379-0991

No 5 / 2006

EUROPEAN ECONOMY

EUROPEAN COMMISSION

DIRECTORATE-GENERAL FOR ECONOMIC
AND FINANCIAL AFFAIRS

Economic forecasts
Autumn 2006

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

European Commission

EUROPEAN ECONOMY

Directorate-General for Economic and Financial Affairs

2006 Number 5

Printed in Belgium

Economic forecasts
Autumn 2006

Abbreviations and symbols used

Member States

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

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

Currencies

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

Other abbreviations

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

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Overview

Buoyant GDP growth in 2006...

Economic activity accelerated strongly in the first half of 2006 both in the EU and in the euro area. Real GDP growth rose to 0.8% quarter-on-quarter in the first quarter and 0.9% in the second quarter of 2006. Although the upturn is partly explained by temporary factors (such as the football World Cup), this was the strongest pace of expansion since the second quarter of 2000 and well above potential. Output growth is expected to reach 2.8% in the EU and 2.6% in the euro area in 2006. This would be more than 1 percentage point (pp.) above last year's growth and ½ pp. higher than forecast in the spring.

... expected to return to potential in 2007-2008

Over the forecast period, economic growth is expected to moderate to a rate close to potential. This easing reflects mainly a softer world economy and the temporary impact of the budgetary policy measures in Germany. GDP in 2007-2008 is projected to grow by 2.4% in the EU, while in the euro area growth is forecast to reach 2.1% in 2007 and 2.2% in 2008.

The main factors behind this outlook include a tighter macroeconomic policy mix compared with previous years, continued benign financial conditions, higher profit margins and, despite a certain slowdown, the still-solid expansion of the world economy.

Economic growth is being driven by robust growth in domestic demand. Investment, which saw a remarkable acceleration in the first half of 2006, should maintain a solid momentum over the forecast period. Business investment, in particular, is set to continue its brisk pace, while construction investment is likely to soften amid an expected cooling of housing markets in some Member States. Private consumption, which also firmed in 2006, albeit more moderately, is projected to continue its gradual acceleration in line with the turnaround in the labour market.

Global growth has surprised on the upside, but is set to moderate

Economic activity is also being supported by a positive, albeit small, net contribution from the external sector. Indeed, the better-than-expected outcome in the first half of this year is largely explained by a continued strong expansion of the world economy, despite high oil prices. World GDP growth is now estimated at more than 5% this year, marginally below the record high attained in 2004. Global growth will ease somewhat towards the end of this year, predominantly due to a projected slowdown in the United States. World GDP growth is thus set to moderate slightly in 2007-2008, to a rate just above 4½%.

The US economy is poised to slow on the back of a cooling housing market

Growth in the United States has started to slow down this year. Higher energy prices, increases in interest rates and a decline in house price inflation have all started to weigh on domestic demand. Residential construction, in particular, has started to fall (-2.8% q-o-q in 2006Q2). The cooling of the housing market is likely to also curb private consumption in the period ahead. GDP growth is thus poised to ease from 3.4% this year to 2.3% in 2007, before recovering to 2.8% in 2008. Owing to the slowdown in the growth rate of private consumption the households saving rate is expected to move back into positive territory, but not enough to lead to any marked improvement in the current account (which is projected to stabilise at around -6½% of GDP).

Continued robust growth in Asia

The recovery in Japan is becoming increasingly broad-based, with GDP growing by 3.0% in the first half of 2006. Rising confidence and an improved employment outlook are supporting consumption, while healthy profits and a turnaround in bank credit boosted investment. Growth is likely to reach a robust 2.7% this year before easing gradually to 2.3% and 2.1% in the coming two years. Although the Japanese economy is slowly overcoming deflation, a recent rebasing of consumer prices to reflect a revised consumption basket has brought down price increases to ¼% in July. In fact, on the new basis and excluding energy and food prices, consumer prices continued to decline in August.

Growth in the rest of Asia is set to remain strong, although moderating somewhat to around 8% in both 2007 and 2008. Asia is thereby gradually becoming an important driving force of global growth (partly compensating for the slowdown in the United States). For China, growth projections have been revised upwards in view of booming exports and the picking-up of investment spending. Over-investment in some sectors and strong credit expansion are sources of concern for the Chinese authorities, who have recently introduced measures to rein in investment and tighten domestic liquidity conditions. These measures should help dampen output growth, which should nevertheless remain very solid in the period ahead. Slowing economic growth in China and in India will be offset by an acceleration of output growth in other parts of the region.

Among the other emerging regions, economic growth is forecast to slow down to 5-5.5% a year in the Middle East and North Africa and to decline gradually to 3¾% in 2008 in Latin America, while rebounding in Sub-Saharan Africa to 6% next year on the back of higher export growth.

Vibrant world trade, but some easing ahead

Better-than-foreseen growth in world output in the first half of this year also boosted world trade, which is estimated to rise by 9% in 2006, although growth rates have started to decelerate in recent months. Over the forecast period, world trade growth is projected to decline to a rate of 7% in 2008, reflecting mainly lower output growth.

Commodity prices are expected to remain relatively high over the forecast period. Compared with 2005, most commodity prices continue to rise, particularly base metals and fuels, reflecting strong demand growth. Overall, commodity prices are set to increase by more than 20% in 2006 for the third year in a row.

Oil prices have come down in recent months

Oil prices reached a new record high at the beginning of August, with a barrel of Brent crude oil costing almost 80 USD. They fell back significantly thereafter as the risk of an extended conflict in the Middle East receded, tensions over Iran lessened, global demand for oil decreased and stocks in the US increased. In fact, oil prices are now lower than they were at the beginning of 2006. However, a still relatively tight balance between supply and demand coupled with ongoing geopolitical risks suggests that prices could remain high. Based on futures prices, oil is assumed to cost USD 65.8 per barrel in the second half of this year, before increasing gradually to around USD 68.0 per barrel in the beginning of

2008 and stabilising thereafter. This leads to an average of USD 65.6 per barrel for this year, USD 66.3 per barrel in 2007 and USD 68.0 per barrel in 2008. This corresponds to an annual average increase of 21% this year and around 1% and 2½%, respectively, in 2007 and 2008.

Favourable financial conditions with still low bond yields to prevail

Liquidity remains ample by all plausible measures. Both financial market and financing conditions continue to be favourable, supporting economic growth, although to a lesser degree than in 2005. This follows from a global upturn in long-term bond yields since October 2005 and a tightening of monetary policy, with the ECB, for example, having hiked interest rates by 25 basis points five times since December last year. However, global long-term bond yields have declined somewhat since the summer, reflecting, in particular, concerns about the economic outlook for the United States. The differential between the US and euro-area bond yields has gradually narrowed to slightly below 100 basis points. In the euro area, the yield curve has also flattened markedly, from a peak in May this year of around 120 basis points to above 30 basis points at present. In the past, an inverted yield curve was a good predictor of recessions, notably in the US. At the current juncture this predictive power is questioned by financial market participants as the flattening of the yield curve is also driven by exceptionally low long-term rates, which could be attributed to the increased credibility of monetary policy.

The low interest rates in past years have led to a strong growth in borrowing by the household sector, contributing to a rapid accumulation of debt. Looking ahead, this may give rise to concerns about whether current lending dynamics are sustainable. This, in turn, will crucially depend on future interest rate and housing price developments. It is also important to take into account the sizeable differences that exist across Member States, both in terms of lending patterns, the share of variable-interest-rate loans, the degree of loan-to-value ratios etc. Based on mechanical extrapolations, there is little evidence of a sustainability problem for the euro area as a whole, where household debt could rise from 60% of GDP in 2006 to 66% in 2008. In some Member States, however, where debt starts from a higher level and rises at a faster pace (i.e. Spain, Ireland, the Netherlands and Portugal), a slowdown of credit growth appears desirable.

Growth differences among Member States have started to narrow

Growth differences across Member States, although remaining sizeable, narrowed in the first half of this year, particularly for euro-area Member States. However, differences between the recently acceded Member States and the EU-15 continue to be pronounced, largely due to the former's ongoing catching-up process in terms of GDP *per capita*. Among the larger Member States in the euro area, Spain posted the highest average quarterly growth rate in the first half of 2006 (0.9%), followed by Germany, France and the Netherlands (0.8%) and Italy (0.6%).

Hard data is catching up with soft data

As a result of the pick-up in the first half of this year, the gap noted earlier between "hard" statistical data and the more optimistic "soft" survey data seems to have closed. This is also explained by a more mixed picture of recent survey indicators, following the general and strong upward trend from mid-2005 until July this year. In most recent months, some indicators have fallen (PMI services, ZEW), while others have remained broadly stable (the Commission's services confidence indicator, PMI manufacturing, NBB) or have recovered from a decline during summer (the Commission's industrial confidence indicator, IFO). Nevertheless, in view of the high levels across survey indicators, several of which are at or above their last peaks reached in 2000, the outlook is for a continued economic expansion (albeit more moderate).

The Commission's investment survey suggests investment growth of some 7% in 2006 in the euro-area manufacturing sector, which would be the highest rate in 7 years. Consumer confidence remained largely unchanged over the summer, but points to increased spending for durable goods (except cars). Retail confidence is currently at the same level as its previous all-time high (of June 2000) in the EU.

Recovery driven by investment so far...

The economic recovery, which remained subdued in its earlier phase, is now showing a marked acceleration, driven by domestic demand. Following the recent surge in investment spending, the strength of investment growth has become more similar to a typical recovery. The gap in the euro area between investment growth during this recovery and that during previous recoveries has narrowed from 5 pps. one year ago to 2 pps. by mid-2006. In addition to favourable financing conditions, wide profit margins and sound corporate balance sheets, steady increases in capacity utilisation rates should contribute to continued robust investment activity ahead.

...while consumption has picked up more gradually

Consumer spending had initially been more moderate. In 2005, private consumption rose by 0.3% on average (quarter-on-quarter) in both the EU and the euro area. Consumer spending accelerated to 0.7% (quarter-on-quarter) in the first quarter of this year, mirroring an improved performance on the labour market. However, this pick-up was not sustained in the second quarter when consumption growth was halved.

Table 0.1

Main features of the Autumn 2006 forecast - EU25

(Annual percentage change unless otherwise stated)				Autumn 2006 forecast [1]			Difference vs Spring 2006 (a)	
	2003	2004	2005	2006	2007	2008	2006	2007
GDP	1.3	2.4	1.7	2.8	2.4	2.4	0.5	0.2
Consumption	1.6	2.0	1.5	2.2	1.9	2.3	0.3	0.2
Total investment	1.0	3.1	3.0	4.9	3.6	3.3	0.5	0.5
Employment	0.4	0.7	0.9	1.4	1.1	0.9	0.5	0.3
Unemployment rate (b)	9.0	9.1	8.8	8.0	7.6	7.3	-0.5	-0.6
Inflation (c)	1.9	2.1	2.2	2.3	2.3	2.0	0.2	0.1
Government balance (% GDP) (d)	-3.0	-2.7	-2.3	-2.0	-1.6	-1.4	0.3	0.6
Government debt (% GDP)	62.0	62.4	63.3	62.5	61.4	60.4	-0.7	-1.5
Current account balance (% GDP)	0.2	0.3	-0.4	-0.5	-0.4	-0.4	0.4	0.3

[1] The Commission services' autumn 2006 Forecasts are based on available data up to October 24, 2006.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Spring 2006.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.
(d) Including proceeds relative to UMTS licences.

This reflects, above all, a contraction in Germany (-0.4%) and a weak performance in Italy (0.2%) following the exceptionally strong first quarter outcome (+1.1% in Germany and +0.9% in Italy). Information on e.g. household credit growth and retail trade data suggest that consumer spending continued to improve in the second half of this year.

Export growth declined in 2005, reflecting an easing in the growth of global GDP and trade after the record high attained in 2004. However, more subdued export growth was also explained by a loss of market shares owing to the appreciation of the euro in real effective terms in the preceding years. Following a reversal of the euro appreciation in 2005 and better-than-expected global growth, exports grew more strongly in 2006. The contribution of net exports to GDP growth turned positive again in the first half of this year in both the EU and the euro area.

German VAT hike causing a slight dip in early 2007

In the light of positive survey data it appears that the economies of the EU have taken significant momentum into the second half of 2006, leading to a sizeable carry-over for 2007. However, a large part of this statistical overhang will be offset in the first quarter of 2007 when quarterly growth will dwindle to ¼% under the impact of a drop in German output growth by 0.9%. The latter results mainly from the pay-back for the assumed spending spree by German households ahead of the VAT hike on 1 January 2007. Net of the German VAT effect output growth in the first quarter of 2007 would be only marginally lower than in the last quarter of 2006. This is also reflected in a marked difference in German survey data at present between the assessment of the current situation, which remains exceptionally upbeat, and expectations, which have generally declined.

The forecast implies that underlying economic activity will ease slightly at the turn of the year, though remaining at or slightly above potential throughout the forecast period. This deceleration must be seen in the light of the slight weakening of the world economy, reflecting mainly a slowdown in the United States, which will act to dampen export growth in the EU and the euro area. Net exports will nevertheless continue to give a small positive contribution to GDP growth, as import growth will decline in step with weaker growth in domestic demand.

Domestic demand should remain strong

Growth of domestic demand is projected to ease slightly from its remarkable performance in 2006. In 2007, this is almost exclusively due its decline in Germany, while it holds up well in most other countries. In 2008, a moderate slowdown is projected for a majority of countries, with domestic demand in Germany rebounding. Investment growth will slow down somewhat in 2007-2008. The contribution of private consumption to overall growth in the euro area will remain around 1% throughout the forecast period, in line with the longer-term average (1¼% in the EU) .

Compared with the recent past, the driving forces of domestic demand in the period ahead remain essentially unchanged. In particular, business investment will be supported by continued benign financing conditions, a healthy profit situation, increasingly stretched spare capacities and persistently high demand expectations. Housing construction should also hold up well, although an incipient cooling of the housing markets in several Member States should slow down housing starts later in the forecast period. Private consumption will be supported by reinvigorated household confidence, underpinned by a better outlook for disposable income due mainly to robust employment growth. Moreover, with the saving rate of households remaining essentially unchanged over the past couple of years, the improved labour market situation, as reflected by a declining unemployment rate, together with a brighter medium-term outlook for public finances, should encourage consumers to increase spending beyond the rise in disposable income.

Gradual improvement in the labour market

The economic recovery has at last reached the labour market, leading to a strong upturn in employment growth to 1.4% this year. This is the highest rate since 2000 and corresponds to 2.9 million new jobs in the EU (1.9 million in euro area). While easing somewhat, employment growth should remain robust at rates close to 1% *per annum* in the next two years. Job creation will be supported by an improved production outlook together with a moderate increase in unit labour costs. In real terms, unit labour costs are expected to fall, continuing the trend of previous years.

The fall in real unit labour costs over the forecast period is due to both moderate wage rises and a pick-up in labour productivity. Labour productivity growth is expected to average 1.1% during the forecast period in the euro area, double the rate observed on average in the period 2002-2005 (a recovery is also projected for the EU as a whole). While a significant part of this recovery is of a cyclical nature, a breakdown by sectors and countries indicates that a part of the acceleration is also due to longer-term factors such an increase in total factor productivity.

The higher rate of job creation has had positive effects on unemployment. In the second quarter of this year, the unemployment rate in the euro area fell below 8%, for the first time in almost 5 years, and was 8% for the EU

Table 0.2

Main features of the Autumn 2006 forecast - euro area

(Annual percentage change unless otherwise stated)				Autumn 2006 forecast [1]			Difference vs Spring 2006 (a)	
	2003	2004	2005	2006	2007	2008	2006	2007
GDP	0.8	2.0	1.4	2.6	2.1	2.2	0.5	0.3
Consumption	1.2	1.5	1.4	2.0	1.6	2.1	0.3	0.2
Total investment	1.0	2.3	2.5	4.3	3.0	3.0	0.1	0.6
Employment	0.4	0.7	0.7	1.4	1.2	1.1	0.5	0.4
Unemployment rate (b)	8.7	8.9	8.6	8.0	7.7	7.4	-0.4	-0.5
Inflation (c)	2.1	2.1	2.2	2.2	2.1	1.9	0.0	-0.1
Government balance (% GDP) (d)	-3.1	-2.8	-2.4	-2.0	-1.5	-1.3	0.4	0.8
Government debt (% GDP)	69.2	69.7	70.6	69.4	68.0	66.9	-1.1	-2.1
Current account balance (% GDP)	0.5	0.8	0.0	-0.1	0.1	0.1	0.4	0.4

[1] The Commission services' autumn 2006 Forecasts are based on available data up to October 24, 2006.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Spring 2006.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.
(d) Including proceeds relative to UMTS licences.

Note: Slovenia has been included in the euro area in this forecast. Any comparison with the spring forecast should be done with care.

as whole. Unemployment is set to drop further to an average of 7.7% in 2007 and 7.4% in 2008 in the euro area (7.6% and 7.3% in the EU). The cyclical improvement of the labour market is the main factor behind this development, although a decline in the structural unemployment rate as measured by the euro-area NAIRU (from about 8% in 2005 to 7½% in 2008) is also expected to contribute to lower unemployment.

No significant second-round effects from the oil price rises

Driven by marked increases in energy prices headline inflation has remained above 2% in 2006, for the fifth year in a row as regards the euro area. Core inflation, on the other hand, has remained steady at a rate of around 1.5%, indicating that, so far, there have been very limited indirect and second-round effects of rising energy prices. However, some inflationary pressures have surfaced in producer prices, which have increased to almost 6% in mid-2006 from around 4% one year earlier. While most of this increase can be attributed to the energy component, other components such as intermediate goods and consumer goods have also seen rises during this period. In contrast, labour cost indicators continued to signal overall wage moderation, although a slight increase was observed in the second quarter of 2006.

Despite lower inflationary impulses from commodity prices and a broadly unchanged output gap in 2006-2008, headline inflation in the euro area is expected to remain slightly above the ECB's inflation target in 2007, before dropping below this threshold in 2008. This profile is mainly due to the planned VAT increase in Germany which pushes the German headline inflation up in 2007. The projections for the EU show headline inflation to be just above that of the euro area in both years. Divergence among Member States' inflation rates remains large, despite a projected narrowing over the forecast period, with the relative position of high and low-inflation countries remaining basically unchanged.

Public finances have turned out better than expected

The forecast confirms a shift towards a generally brighter public finance outlook in the EU. In 2006, the budget deficit for the euro area is projected to be at 2% of GDP, down from 2.4% in 2005, mainly on the back of a strong and higher than previously expected inflow of tax revenues. Based on the usual no-policy-change assumption, the deficit is set to remain on a declining path in the next two years reaching 1.5% in 2007, chiefly thanks to expenditure restraints, and 1.3% of GDP in 2008. Essentially the same profile is projected for the EU as a whole.

In the euro area, the budgetary correction net of cyclical factors and one-off and other temporary measures is estimated to be in line with the nominal improvement of about ¼ pp. in 2006 and ½ pp. in 2007. The estimated structural improvement for the EU is basically the same. Although the structural improvement in both the euro area and the EU proved relatively sound in 2006, Member States do not seem to have taken full advantage of the robust growth rate coupled with high tax elasticities this year.

Of the countries currently in excessive deficit only Italy is expected to post a deterioration of the budgetary situation in 2006. The apparent deterioration is due to a recent ruling of the European Court of Justice which gives rise to sizeable tax refunds. Thanks to the mostly temporary effects of the ruling, higher-than-expected revenues and the projected impact of the 2007 draft budget, the deficit is estimated to decline marginally below the 3%-of-GDP threshold in 2007. Further measures will be needed to consolidate the result in 2008. In Greece, current policies are expected to halve the deficit this year from 5.2% of GDP in 2005 and to keep it below the 3%-of-GDP threshold over the forecast horizon. Portugal is likely to see a large improvement in the deficit in 2006-2007, but present policies would not lead to a deficit below the 3%-of-GDP threshold by 2008. Conversely, a consistent drop below the deficit limit of the Treaty is projected to take place in Germany and France. Among the other euro-area economies, Spain and Ireland are forecast to experience a noticeable decline in their nominal budget surplus. The same trend is visible in structural terms, although somewhat more subdued in the case of Ireland. In Belgium, the projected deterioration of the nominal budget balance masks an improvement in structural terms.

Outside the euro area, budgetary trends are somewhat more heterogeneous. Starting with the excessive deficit countries, there are only three out of six countries, namely Malta, Poland and the United Kingdom, for which the general government deficit is expected to stay or fall below the 3%-of-GDP threshold in 2006. Under current policies the correction is projected to be relatively clear and lasting in the United Kingdom. As regards Poland, the deficit figures do not include the pension reform costs. The country benefits from the transitory period concerning the sectoral classification of second-pillar pension schemes. The re-classification of these schemes out of the government sector by April 2007 will lead to a significant deterioration in the deficit. In Slovakia, current policies are expected to further increase the deficit in 2006 and to bring it below the 3%-of-GDP threshold only in 2008. In the Czech Republic, the deficit is projected to stay on a downward path, but to remain above 3% of GDP throughout the forecast period. Current policies are forecast to lead to a further significant deterioration of the fiscal position in Hungary this year. The deficit is projected to climb above 10% of GDP in 2006, from 7.8% of GDP in 2005. Assuming that the recently announced budgetary measures are implemented in 2007 and produce part of their effect in 2008 the deficit will go down again to 5.6% of GDP in 2008.

In the non-excessive deficit countries, the deficit in Cyprus is projected to stay below 2% of GDP throughout the forecast period. The budgetary projections for Denmark and Sweden point to continued surpluses, also including pension reform costs. In the Baltic countries, current policies are expected to keep the fiscal position within the margins sufficient to safeguard against the risk of breaching the 3%-of-GDP threshold.

Following an increasing trend in recent years the debt ratio for the euro area is now expected to embark on a gradual downward path. Over the forecast period, the debt ratio is projected to decline by around 3.7 pps. to slightly below 67% of GDP in 2008. A similar development is forecast in the EU, where the debt ratio is expected to come close to the 60%-of-GDP reference value.

The downward trend for the euro area and the EU masks a few notable exceptions. In Hungary, on the back of the very high deficit projections, the debt ratio is expected to rise well above 70% of GDP in 2008, from around 62% of GDP in 2005. The debt ratio in Portugal is expected to climb to similar levels. In the case of Italy, the impact of the tax refunds mentioned above is expected to further increase the debt ratio to around 107% of GDP in 2006, before corrective measures likely to reverse the trend take effect.

Upside and downside risks to the forecast

Summing up, the economic outlook in the EU and the euro area is for a return to potential growth while inflation will gradually decline to 2% or slightly below by 2008. However, there are several risk factors to this outlook that need to be considered.

On the external side, risks relate to world trade. While the US economy is slowing, there are few signs of a deceleration in Asia. In the event of a further re-composition of growth towards domestic demand, Asia might be in a better position to withstand a slowdown in the US than in the past, which could give an additional boost to growth in European export markets. On the other hand, important global imbalances continue to prevail and risks of a disorderly unwinding have not abated.

Furthermore, oil prices have come down by almost USD 20/barrel since their peak in early August. Chances are that oil prices could fall further over the forecasting period, which would evidently be beneficial for the purchasing power of households and profit margins in the corporate sector. While slowing demand is expected to improve the supply-demand balance in the near term, in the current geopolitical environment the possibility of tensions reigniting cannot be ruled out, thereby constituting an upward risk to oil prices.

On the domestic side, upside risks are primarily linked to developments on the labour market. Continued positive surprises on the labour market would have a direct effect on private consumption via higher labour incomes but also boost consumer confidence, thereby strengthening the propensity to consume.

A further upside risk is related to productivity developments. While part of the recent increase in labour productivity growth is of a cyclical nature, ongoing reform efforts combined with rising investment in ICT may also have led to structural improvements. As continued high productivity increases would boost the EU's attractiveness for investors, gross fixed capital formation may continue to surprise on the upside.

Inflation could turn out less benign than projected. In particular, with the labour market becoming tighter, wages, which up to now have been surprisingly contained, may start growing faster. Wage claims were on the rise in the first half of 2006 and may continue to be so in the near term.

Higher wages could translate into higher consumer prices, which may prompt a response from monetary authorities that goes beyond what is assumed in the forecast. On the other hand, the effects of higher wage claims on inflation may be partly offset by the observed increase in labour productivity.

Furthermore, despite a certain cooling in 2006, housing markets continue to be richly valued in a number of Member States and in the event of further interest hikes, a significant correction may occur.

Overall, risks seem to be fairly balanced, with upside risks slightly dominating in 2006, but downside risk becoming more pronounced further ahead. Most importantly, underlying the above baseline scenario is the assumption that the US economy will see a soft landing. There is, however, a risk of a more marked correction of the US housing market causing a sharper-than-assumed economic slowdown. Such a "harder-landing" scenario would in itself lower world output growth, but could have wider implications via a correction in asset prices, confidence linkages and possible downward pressure on the dollar. Based on simulations using the Commission's macroeconomic model, a harder landing in the US (lowering GDP growth in 2007-2008 by a cumulative 2½ pps. compared to the baseline scenario) could reduce GDP growth in the EU, depending on the assumption made, by between 0.3 and 0.8 pp. over the same period.

However, even if a harder landing of the US economy were to occur, the spill-over effects on the EU are likely to be milder than in 2001-2002, since the EU economy appears more resilient today than at the start of the decade. This can be explained by several factors. First, the importance of the US as a destination for EU exports has declined in recent years, while export shares for the recently-acceded Member States, the oil-exporting countries and Asia, particularly China, have increased. Second, the recovery in the EU is increasingly based on domestic demand, with *inter alia* the long-term adjustment of the German construction sector having come to the point where it may no longer constitute a drag on growth. Finally, in contrast to the downturn in 2001-2002, which was caused by a common shock following the bursting of the dot-com bubble, there is no reason to assume that, barring sizeable financial stress, a country-specific downturn in one housing market should spill over into others.

Acceding and candidate countries

Strong economic growth and substantial current account imbalances will remain the main features of both acceding and candidate countries during the forecast period. Improving consumer and business confidence is likely to translate into strong growth in private consumption and investment, while FDI inflows and workers remittances will facilitate the financing of the significant current account deficits. The currently high energy and commodity prices are expected to lead to a temporary acceleration in inflation in most countries, which is likely to revert however in 2007 and 2008. Public finances are likely to remain under control.

In the candidate countries, output growth will either remain relatively stable in Croatia (at around 4½% annually) and Turkey (6-6½%) or accelerate in the former Yugoslav Republic of Macedonia (from 3¾% to 5½%). In Turkey, the impact of the emerging markets crisis in mid-2006 and the resulting increase in inflation and interest rates will reduce economic growth from more than 7% in the first half of 2006 to around 6% for the year as a whole. However, the positive impact of the depreciation on the price competitiveness of Turkish exporters will help to bring economic growth back to around 6½% during 2007-2008. In the former Yugoslav Republic of Macedonia, a relatively weak first half of 2006 is likely to keep economic growth below 4% this year. However, the improving business climate and measures taken by the new government to stimulate growth should help the country to better realise its growth potential.

The acceding countries appear to have entered a faster growth trajectory at above 5%, benefiting from accession-related investment and improving consumer confidence.

Inflation is forecast to continue to decline in most countries, after higher energy prices, price liberalisations and one-off tax measures led to relatively strong increase in prices in 2006. In Turkey, the depreciation of the currency will bring inflation back to above 10% in 2006. However, consumer price inflation will decelerate towards 6% by 2008. In Bulgaria, strong output growth and increasing bottlenecks in the labour market are likely to translate in stronger price rises by 2008.

Unemployment is likely to decline in all five countries. Based on strong output growth, a considerable number of new jobs will be created. However, in view of the ongoing restructuring process, many jobs will be lost, resulting in a relatively low net increase of employment. As a result, unemployment is likely to decline, but only at a moderate pace. A stronger reduction in unemployment is only expected in the former Yugoslav Republic of Macedonia, albeit from a very high level.

Public finances benefit from strong growth. General government deficits are likely to decline slightly in Croatia, while in Turkey general elections in 2007 are expected to temporarily raise the deficit above 3% of GDP. In the Former Yugoslav Republic of Macedonia planned tax reforms might lead to a temporary increase in the deficit above 1% of GDP. In Romania public finances are expected to deteriorate towards 3% of GDP. In Bulgaria, the public sector will continue to register surpluses, which will decline however from 3¼% of GDP in 2006 to 1¾% in 2008.

Current account deficits are expected to remain significant, reflecting strong domestic demand, rising energy prices and strong capital inflows. This is particularly the case for the two acceding countries, where the current account deficit might be above 12% of GDP by 2008. In Turkey and Croatia, the current account deficit is seen to reach 7% of GDP in 2008, while in the former Yugoslav Republic of Macedonia the widening of the external imbalance is expected to remain limited, at some 4% of GDP in 2008.

Chapter 1

The world economy

1. Rebalancing of global growth

The outlook for the global economy remains positive. After several years of strong growth, supported by a buoyant housing market, the US economy is slowing. However, growth in other regions, in particular emerging Asia, is set to remain robust. All in all, the world economy is expected to slow slightly, from 5.1% growth in 2006 (in purchasing-power-adjusted terms) to 4.6% in 2007 and 4.7% in 2008.

The outlook for a soft landing in the US coupled with continued robust growth momentum in other regions is supported by most survey indicators and financial indicators. Recent gains in stock markets, following a correction in May, are indicative of a healthy financial position of corporations and continued positive growth expectations. The positive outlook has also been supported by the recent fall in energy prices, following the dramatic run-up in prices in the summer due to geopolitical tensions in the Middle-East. The fall in long-term interest rates since July reflects the slowing of the US economy and the fact that inflationary expectations remain contained.

Robust world growth despite US slowdown

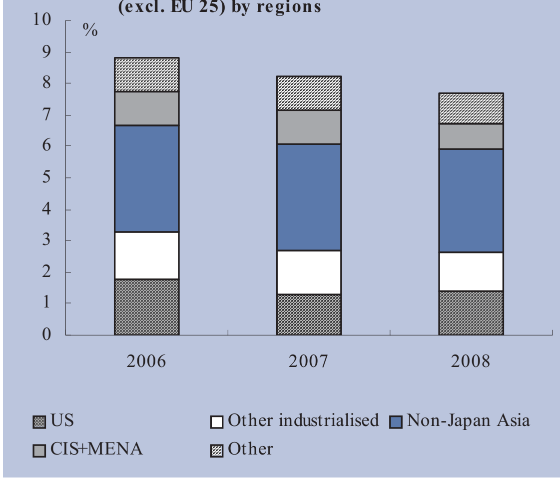
While the indications are that the US economy is slowing, the recent data shows continued strong momentum in the global economy. The global manufacturing PMI indicator, which is normally a good indicator of world trade growth, suggests continued robust growth in the second half of the year. Indicators of output growth and of the inflow of new orders seem to be stabilising at levels more in line with trend growth in the fourth quarter of 2006.

Graph 1.1: **Global manufacturing PMI and world trade growth**

However, the projected easing in global activity is mainly attributable to the slowdown of the US economy, related, in particular, to the effects of a cooling housing market on residential construction and consumer spending. Business indicators for Asia and Europe remain strong, suggesting some rebalancing of growth away from the US. While the slowdown of the US economy is likely to dampen world growth somewhat, other regions are not likely to experience a similar slowdown, in contrast to the global slowdown at the start of the millennium.

Growth in global imports of goods and services (excl. the EU) is set to average 8.8% in 2006, moderating to 8.2% in 2007 and 7.7% in 2008. The contribution of the US to global imports growth (excl. the EU) is set to decline from 1.7 pp in 2006 to 1.2 pp in 2007, while the contribution of Japan and the rest of Asia is projected to remain constant.

Graph 1.2: **Growth of world imports of goods and services (excl. EU 25) by regions**

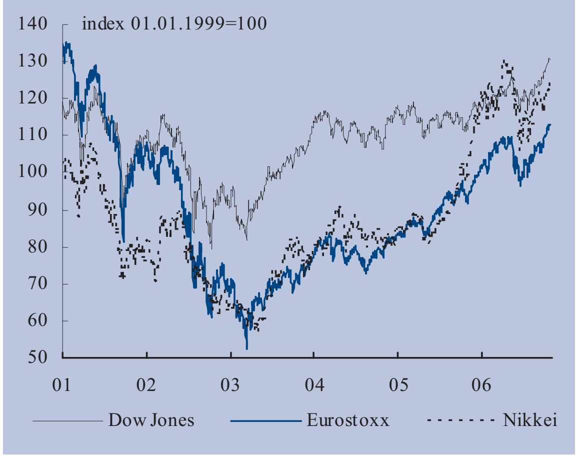


Despite the projected improvement in the saving rate of US households, global imbalances are set to remain, with the US current account deficit reaching over USD 900 billion in 2008. Oil-exporting countries and China represent an increasing share of the corresponding surpluses.

Equity markets suggest a positive growth outlook

Movements in equity prices also lend weight to the positive growth outlook. Following a sharp correction in equity prices in the second week of May, global equity markets have since resumed their prolonged upward trend and some equity indices have recently reached all-time highs, most notably the Dow Jones industrial index.

Graph 1.3: **Stock prices on world markets**



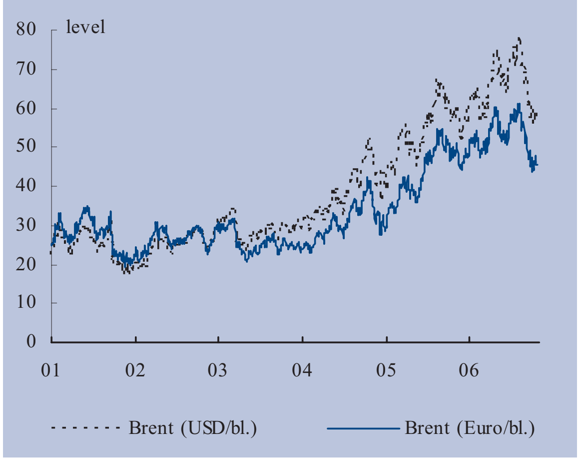
Broader indices, however, such as the S&P 500 index, remain some way from their all-time highs. The positive trend in equity markets reflects the healthy financial position of corporations and continued positive growth expectations, with the US economy expected to stage a soft landing. A caveat to the positive outlook may be that the vulnerability seen in May could be indicative of predominantly downside risks, as risk premiums incorporated in asset prices continue to be at historically low levels.

Support from the recent fall in oil prices

Oil prices continued to surge over the summer reaching a new record of just below 80 USD/bl. in early August. The surge was driven by geopolitical tensions in the Middle-East, with fears of possible severe supply disruptions along with supply disruptions in Alaska. With the easing of these tensions, combined with downward adjustments in the demand growth projections by the International Energy Agency, a milder than usual hurricane season in the Gulf of Mexico, and higher-than-expected oil stocks in the OECD countries, the price of oil has dropped significantly, to below 60 USD/bl. in October.

Oil prices are nevertheless expected to remain relatively high over the forecast period, in view of the still-tight balance between supply and demand, and additional supply coming on-stream only slowly. The forecast assumes, based on futures prices, the price of a barrel of Brent to average 65.6 USD/bl. in 2006, 66.3 USD/bl. in 2007 and 68 USD/bl. in 2008. Compared with the spring forecast assumption the oil price assumption for 2007 is about 4.7 USD/bl. lower.

Graph 1.4: **Oil prices (Brent) in USD and €**

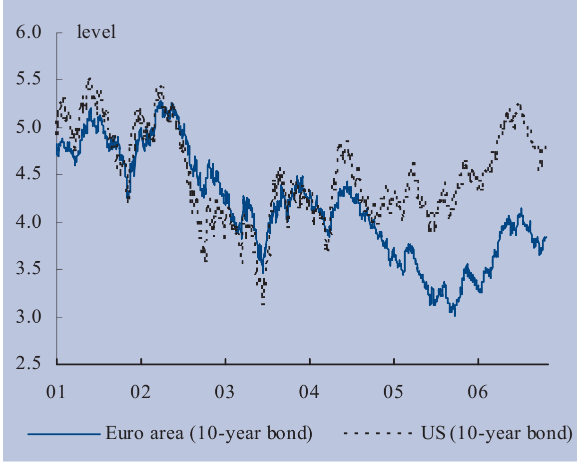


The downward adjustment in oil prices should prove beneficial to the growth outlook in the oil-importing regions, in particular to the US economy which is more energy-intensive and benefits less from exports to the oil-producing countries.

Long-term interest rates have declined

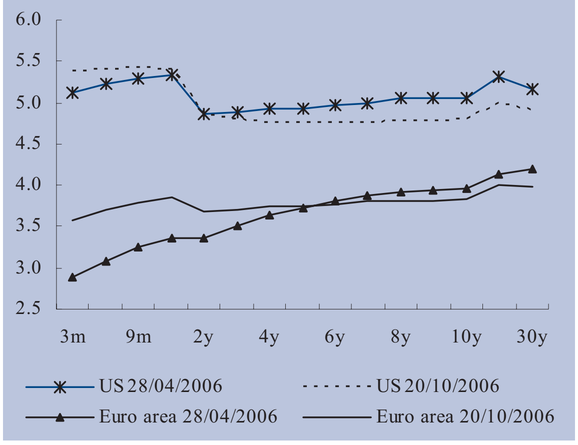
Long-term interest rates have increased from the lows reached in 2005, in line with the progressive tightening of monetary policies.

Graph 1.5: **Long-term interest rates, euro area and US**



However, following the evidence of a deceleration of the US economy long-term bond yields have come down. This results from the increasing likelihood that the US Federal Reserve is close to the end of the tightening cycle, with the weight of the US economy in the global economy causing spill-over effects to yields in other bond markets. The yield curve (depicting yields of bonds of different maturities) has become increasingly inverted in the US as long-term interest rates have fallen while short-term interest rates have continued to rise. This could suggest that financial markets believe that the US economy will achieve a soft landing with receding inflationary pressures, allowing the Federal Reserve to begin easing interest rates. Another, less sanguine, interpretation could be that the US economy is bound for a harder landing, as an inverted yield curve is normally seen as a recession indicator.

Graph 1.6: **Yield curve, euro area and US**

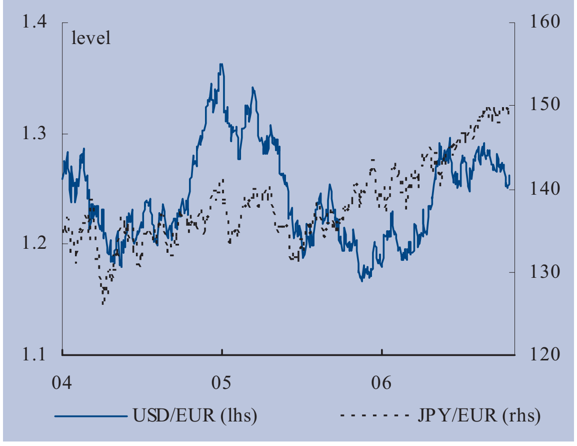


The euro has appreciated against major currencies

The beginning of monetary tightening, in line with an improved growth outlook in the euro area, has seen the exchange rate of the euro appreciate against the major currencies.

Against the Japanese yen in particular, the euro has continued to appreciate, which contrasts with what real exchange rate indicators would suggest. Despite some turbulence in a few emerging market currencies, following the jitters in global equity markets, emerging market economies continue to benefit from easy financial conditions supporting the positive growth outlook.

Graph 1.7: **Euro exchange rate, USD and JPY**



Risks are tilted to the downside

While the general outlook for the world economy continues to be positive, risks are tilted to the downside. The slowdown in the US economy, in particular, could prove harder than expected. Considering the importance of US financial markets and global current account imbalances, this could have implications for the risk preferences of investors and lead to a correction in asset prices, possibly similar to the developments seen in May this year.

Outlook by region

Despite high oil prices, GDP growth in the first half of 2006 was surprisingly strong. This should lead to an annual growth figure of around 5% for the year as a whole, which is almost half a percentage point higher than foreseen in the spring forecast. The upward revision is mainly explained by stronger than expected growth in the US, Asia (excl. Japan) and the oil-exporting countries. While the US economy is likely to experience a period of slower growth over the forecast period, growth in the rest of the world is expected to keep up well, thus contributing to a rebalancing of global growth. As a result, the world economy is projected to expand at a rate slightly above 4½% in 2007-08. In line with the slight moderation in the pace of global economic growth, world trade is also expected to gradually decelerate from an expected annual rate of around 8% in 2006 to around 7% in 2007-08.

The **US economy**, which has been one of the main engines of global growth in recent years, is expected to lose some of its steam over the forecast period. The slowdown is already evident in the cooling housing market. Residential investment is already contracting sharply and the spill-over to consumer spending is expected to become evident towards the end of this year. Moderate employment growth and rising disposable incomes should, however, provide some offsetting support to consumer spending. These developments are expected to translate into an annual GDP growth rate of 2.3% in 2007, before the economy recovers to 2.8% in 2008.

The **Japanese economy** expanded briskly in the first half of 2006, driven mainly by domestic demand. Consumption was supported by rising confidence and better employment prospects while buoyant profits and a turnaround in bank credit have triggered an increase in investment. This should lead to GDP growth of around 2.7% in 2006 as a whole. Although risks remain, in particular on the external side, the economy is expected to continue to expand steadily over the forecast period, with GDP growth exceeding 2% in both 2007 and 2008.

Economic growth in the **rest of Asia** is expected to continue on a strong footing over the forecast period. Real GDP is expected to increase by 8.4% in 2006, before moderating to around 8.0% in 2007 and 2008. This is in line with decelerating growth in the US, and the impact of past oil price increases. However, the aggregated regional growth figures mask variations across the different economies.

China's economic growth continues to be very strong in 2006. After a growth rate of 10.2% in 2005, GDP growth accelerated to 10.9% year-on-year in the first half of 2006. Key factors behind this higher-than-expected growth were net merchandise exports and a reacceleration of investment spending. China's economic growth slightly slowed in the third quarter, to 10.4% yoy, reflecting a tightening of investment rules and monetary policy. China's economic growth is expected to ease in the last quarter of 2006 and in 2007, reflecting earlier policy measures to rein in investment growth as well as likely further tightening moves, alongside an expected moderation in external demand. As a result, GDP growth is likely to average 10.4% in 2006, before slowing to about 9¾% in 2007 and 2008.

The trade and current account surpluses are set to exceed last year's record in 2006 and to grow in the coming years, although stabilising at slightly above 7½% of GDP.

Growth in **India** is also projected to gradually ease over the forecast period, from 8.1% in 2006 to 7.4% and 7.3% in 2007 and 2008, respectively. The sustained momentum in the economy and high oil prices have led to a tightening of monetary conditions by the authorities which should have an impact over the latter part of the forecast horizon. Whilst **Korea** and **Singapore** are also forecast to slow modestly over the forecast period, economic growth in the **ASEAN-4** is projected to accelerate, owing in part to buoyant export growth to China and strengthening intra-regional trade linkages.

Economic growth in the EFTA countries is expected to remain robust over the forecast period. Growth in **Norway** is set to reach 3% in 2006, before moderating somewhat to below 2½% in 2007 and 2008. Domestic activity should continue to be the main driver of growth, supported by strong private consumption and high investment spending in the offshore oil and gas sector. **Switzerland's** economy is expected to grow by 2.7% in 2006, due to strong external demand. In 2007 and 2008, moderated export growth would prompt a return to GDP growth under 2%.

Economic growth in the Candidate Countries is set to remain strong. Turkey is likely to have weathered the financial market turbulence in the spring with GDP growth set to reach about 6% in 2006. In 2007 and 2008 Turkey should experience growth around potential, with improved price competitiveness benefiting exports growth. In **Croatia** and the **Former Yugoslav Republic of Macedonia**, GDP growth is likely to be at around 4-5½%, driven by strong domestic demand growth, especially private consumption and investment. Strong domestic demand is likely to translate into substantial external imbalances, which however are expected to be largely covered by capital inflows, in particular by FDI, and by workers' remittances.

The **CIS region** is expected to remain the second-fastest-growing region, with economic growth likely to exceed 7% in 2006 and projected to remain at around 6¾% in 2007-08. Economic growth in **Russia** is expected to reach 6.7% in 2006 thanks to the continued increase in energy prices and robust growth in domestic demand. The upward revision of growth is limited by the reduced contribution to growth of net exports, and in 2007 and 2008 growth is predicted to decelerate to slightly less than 6½%. Economic growth in the **other CIS** countries is expected to rebound to 8.1% in 2006, having slowed down to 6.4% in 2005 from 11% in 2004. The strengthening of growth in the region reflects primarily **Ukraine's** recovery from last year's slowdown.

Economic growth in **Latin America** is expected to reach 4¾% in 2006, after a strong first half of the year. With domestic demand relatively strong and external conditions remaining relatively favourable (strong global demand, high commodity prices and benign financing conditions), growth in the region is expected to be between 3¾-4% over the forecast period. The resilience of some economies have increased, partly due to improved fiscal management, but the region remains vulnerable to external shocks, such as an unexpectedly sharp slowdown in Asia or the US and variations in commodity prices.

The **MENA region** is expected to grow strongly over the forecast period, with real GDP growth of 5½% in 2006 and remaining above 5% in 2007 and 2008. In Saudi Arabia and the United Arab Emirates (UAE), buoyant domestic demand is underpinned by strengthened oil export revenues, which finance significant increases in public spending. The negative impact of the considerable stock market slides across the region in the first half of 2006 should be modest, due to the relatively limited market capitalisation. The economic impact of ongoing geopolitical uncertainties and regional conflicts remain uncertain. If stability improves, however, a period of higher growth is to be expected, but risks and uncertainty continue to be high.

In 2006, growth in **sub-Saharan Africa** is likely to decelerate slightly to 4.6%, due to slower export growth. Oil production in this region is likely to stagnate in 2006 due to temporary technical problems and delays in the introduction of new facilities. However, high external demand for other commodities should support growth. In 2007, exports are set to pick up strongly, as capacity constraints in the oil sector are progressively eased, leading to a marked pick-up of growth in the region in 2007, with GDP forecast to reach 6%. In 2008 growth should decelerate slightly, to 5½%, following the expected moderation of global growth.

Table 1.1

International environment

(Annual percentage change)					Autumn 2006 forecast			Difference vs Spring 2006	
		2003	2004	2005	2006	2007	2008	2006	2007
					Real GDP growth				
USA		2.5	3.9	3.2	3.4	2.3	2.8	0.2	-0.4
Japan		1.8	2.3	2.6	2.7	2.3	2.1	-0.1	-0.1
Asia (excl. Japan)		8.0	8.4	8.4	8.4	8.0	8.0	0.7	0.5
of which	China	10.0	10.1	10.2	10.4	9.8	9.7	0.9	0.8
	ASEAN4 (a) + Korea	4.0	5.0	4.8	5.1	4.9	5.0	-0.3	0.0
Acceding/Candidate Countries		5.5	8.2	6.4	6.1	6.1	6.1	0.5	0.7
CIS		7.9	8.4	6.4	7.1	6.7	6.7	0.6	0.4
of which	Russia	7.3	7.2	6.4	6.7	6.4	6.4	0.6	0.5
MENA		3.3	5.6	6.9	5.5	5.4	5.2	0.3	0.4
Latin America		2.0	5.5	4.3	4.7	4.0	3.7	0.4	0.3
Sub-Saharan Africa		3.2	4.8	5.1	4.6	6.1	5.5	-1.4	0.6
World		4.1	5.3	4.9	5.1	4.6	4.7	0.5	0.3
World excl. EU25		4.8	6.0	5.6	5.7	5.2	5.2	0.5	0.3
					World merchandise trade				
World import growth		6.7	11.3	7.1	9.5	7.6	7.3	1.0	0.5
World import growth excl. EU25		8.7	13.3	8.2	9.1	8.3	7.9	-0.7	0.1
Extra EU25 export market growth		:	12.1	9.0	9.6	8.6	7.8	-0.2	0.5

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

Chapter 2

The economies of the euro area and the EU

1. The recovery is taking off and is broadening

Growth is finally accelerating…

After the protracted period of slow recovery between mid-2003 and end-2005 with an average annual GDP growth rate of 1.3% in the euro area and 1.7% in the EU, the pace of economic expansion changed gear at the beginning of 2006 in both regions. Quarter-on-quarter GDP growth rose from 0.3% in the last quarter of 2005 in the euro area (0.5% in the EU) to 0.8% in the first quarter in both regions, strengthening further to 0.9% in the second quarter. It was the highest pace of expansion since the second quarter of 2000 and a better outturn than projected in the Commission services' spring 2006 forecasts. As a result, the carryover for annual GDP growth in 2006 increased to 2.2% in the euro area and 2.3% in the EU.

GDP growth in the first half of 2006 was well above potential. The underlying growth momentum, as measured by the year-on-year rate of change in GDP, rose in the euro area from 1.8% in the last quarter of 2005 to 2.6% in the second quarter of 2006 (from 2.1% to 2.8% in the EU), the best reading since early 2001. As a result of this robust performance, the gap between upbeat survey data and mixed hard data, which was observed at the beginning of the year, seems to have largely closed by now.

Table 2.1

Composition of growth in 2005 - Euro area

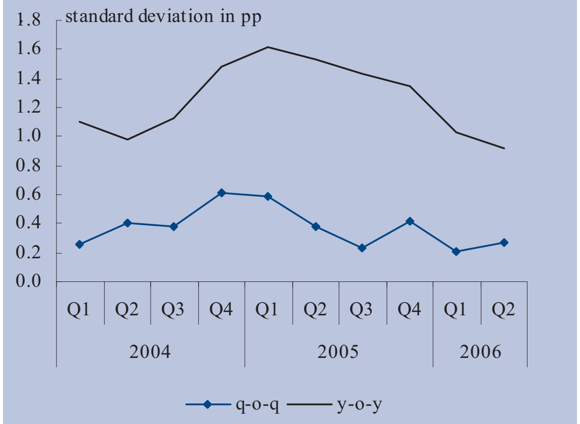
(Seasonally and working day adjusted)	05Q3	05Q4	06Q1	06Q2
	(Quarter-on-quarter % ch.)			
GDP	0.6	0.3	0.8	0.9
Private consumption	0.7	0.1	0.7	0.3
Government consumption	0.7	0.2	0.8	0.4
Gross fixed capital formation	1.2	0.4	0.9	2.1
Changes in inventories (% of GDP)	0.0	0.5	0.0	0.2
Export of goods and services	2.6	0.9	3.9	1.3
Import of goods and services	2.5	1.6	2.9	1.2
	(Contributions in pp.)			
	05Q3	**05Q4**	**06Q1**	**06Q2**
Private consumption	0.4	0.0	0.4	0.2
Government consumption	0.1	0.0	0.1	0.1
Gross fixed capital formation	0.3	0.1	0.2	0.5
Changes in inventories	-0.3	0.4	-0.4	0.1
Net exports	0.1	-0.3	0.5	0.1

However, some uncertainties about the strength of the upturn in the first half of 2006 remain. Particularly, varying calendar factors have created doubts about whether the underlying growth momentum is accurately depicted by the profile of quarterly output growth. High volatility of inventory building has added to the difficulties in interpreting the data. In addition, special factors boosted growth in the second quarter: the football World Cup, for example, as well as the second-quarter correction in construction following depressed construction activity in the first quarter due to bad weather conditions. Nonetheless, there has been an impressive acceleration of underlying economic growth since the summer 2005.

…and appears more broadly based and well-rooted

The heightened growth momentum was accompanied by an encouraging broadening of the recovery. The breakdown of euro-area GDP by demand component shows that domestic demand (excluding inventories) was a significant stimulus in the pick-up of activity in the first half of 2006 with an average (quarter-on-quarter) contribution of 0.7 pp. compared to 0.4 pp. in 2005. Net trade accounted for a smaller fraction (0.2 pp.) of growth, but had still strongly improved compared with last year's negative performance.

Graph 2.1: **Dispersion of GDP growth rates, four larger euro-area Member States**



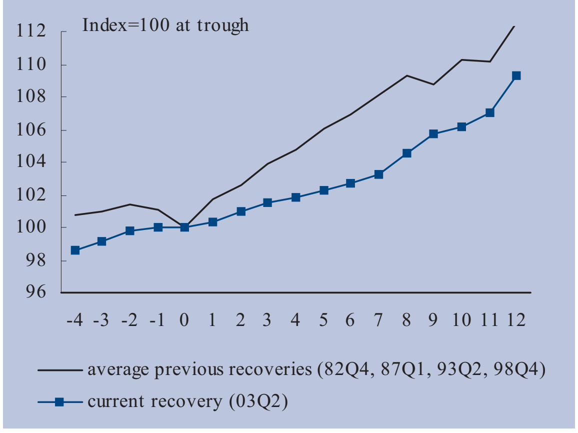
The swift pace of economic growth in the first half of 2006 was well-rooted in the larger euro-area Member States, with Spain posting an average quarter-on-quarter growth rate of 0.9%, Germany, France and the Netherlands 0.8% and Italy still a healthy 0.6%.

Outside the euro area, GDP expanded by 1.1% in Poland, 0.9% in Hungary and 0.7% in the UK. In addition, variations in GDP growth rates have somewhat decreased in recent quarters, particularly among the four largest euro-area Member States. In the first half of 2005, the difference in growth between the best- and the worst-performing country amounted to almost 1 full pp. By the second quarter of 2006, this gap had reduced to 1/3 pp.

The upturn is underpinned by robust investment…

Domestic demand was primarily driven by a surge in investment spending. Gross fixed capital formation, which on average increased at a quarter-on-quarter rate of 0.8% in the euro area in 2005, accelerated to a rate of 2.1% in the second quarter, up from 1% in the first quarter. In a cyclical perspective, one year ago the gap between the cumulative investment growth in this recovery and the previous (four) euro-area recoveries amounted to 5 pps. By now, this gap has narrowed to around 2½ pps. With steady increases in capacity utilisation rates, reported at 84% in the fourth quarter (exceeding the long-term average of 82% by a significant margin), the near-term outlook remains favourable.

Graph 2.2: **Gross fixed capital formation in the current and past recoveries, euro area**



Buoyant corporate capital spending in the first half of 2006 is confirmed by the Commission's bi-annual investment survey, which points to growth rates last seen at the end of the nineties, and in line with the elevated levels of business confidence. The rising trend in gross fixed capital formation came hand in hand with an strong turnaround in corporate profitability during the last two years, owing to moderate increases in labour costs and, more recently, to a remarkable rise in labour productivity growth.

Graph 2.3: **Labour productivity and real unit labour costs, euro area**

Developments in real unit labour costs, which may be interpreted as an inverted measure of profit margins, have been conducive to investment growth in recent years, with an almost uninterrupted decline since mid-2003. This trend continued in the first half of 2006, when real unit labour costs fell by almost 1% (year-on-year). As discussed in section 4, labour costs have benefited from a substantial moderation of wage dynamics. The annual growth rate in compensation per employee in nominal terms was 2% last year (down from 2.4% in 2004) and a similar moderate pace of growth is estimated for the first half of 2006. While there is evidence of a mild acceleration of wages in specific sectors of the euro area economy, this pick-up has to be assessed against the recent rebound of labour productivity which is having a dampening effect on labour costs. Labour productivity in the euro area rose at an annualised pace of about 2% in the first half of 2006. This is significantly above the average annual growth of 0.7% for the previous five years.

On the financial side, credit to non-financial corporations rose at an annual rate of almost 11% (year-on-year) in the second quarter of 2006, the highest growth since 2001. Refinancing conditions in the corporate sector remain growth-supportive despite the upward movement in interest rates. The ECB's latest Bank Lending Survey showed broadly unchanged credit standards for loans to enterprises in the first half of 2006. Credit standards for loans are expected to remain unchanged also in the third quarter. While the real cost of equity-based financing increased somewhat in the second half of 2006, largely reflecting adverse stock market developments, the overall cost of external financing remains low by historical standards and is currently estimated at below 4%.

…signs of awakening for consumption and…

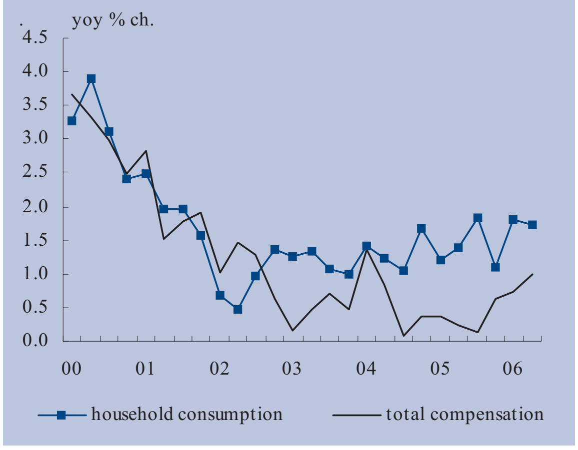
Private consumption increased on average by just 0.3% (quarter-on-quarter) in 2005 in both the euro area and the EU. However, consumer spending accelerated to a quarterly rate of 0.7% in the first quarter of 2006 in both regions, the strongest growth rate since 2001. This pick-up was not confirmed in the second quarter when private consumption growth fell back to 0.3%. Hence, evidence of a sustained pick-up in private consumption is still not very robust.

However, the slowdown in the second quarter should be interpreted with caution as it was mainly the result of a significant contraction of household spending in Germany (-0.4%) and a weak performance in Italy (0.2%). In contrast, consumption accelerated in Spain (0.8%), remained resilient in France (0.7%) and bounced back in the Netherlands (0.4%). The weakness of consumption in Germany and Italy in the second quarter might have been a correction to the strong pick-up in the first quarter (of 1.1% in Germany and 0.9% in Italy). In addition, consumption in Germany has tended to be rather volatile in the last few quarters, possibly affected by unaccounted seasonal factors.

Accordingly, for an assessment of recent consumption developments in the euro area it seems best to look at the first two quarters of 2006 jointly. Indeed, when looking at growth of private consumption in the first half of 2006 a significant acceleration vis-à-vis 2005 can be observed from an annual pace of 1.4% to an annualised rate of 1.9%.

The strengthening of private consumption in the euro area owes much to the improved performance of the labour market. Compared to a growth rate of just 0.7% last year (0.9% in the EU), employment accelerated at an annual pace of 1.5% in the first half of 2006, the strongest increase since the second half of 2000. In parallel, employment expectations have improved substantially since the summer of last year and the outlook for employment based on survey data points to robust job creation also in the second half of 2006.

Graph 2.4: **Consumption and total compensations, euro area**



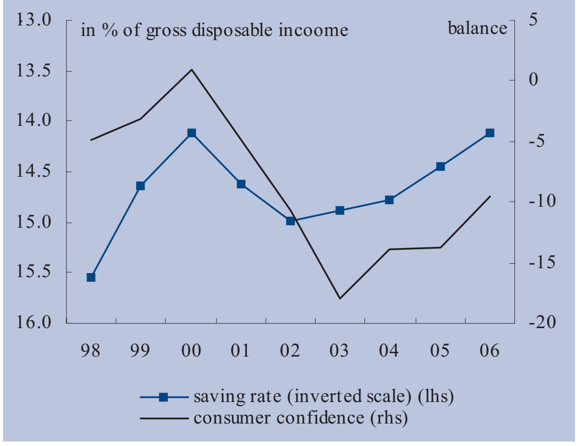
At the same time, the unemployment rate declined to 7.9% in the second quarter of 2006, the lowest rate since late 2001. These developments had a very positive effect on households' unemployment expectations, which declined markedly over the past 12 months. With unemployment expectations being a component of the overall consumer confidence indicator this has contributed to a strengthening of consumer sentiment. Visibly more optimistic household expectations should have a positive impact on the propensity to consume.

Indeed, consumer spending in the first half of 2006 seems to have been supported by a decline in the saving rate. Lack of quarterly data on disposable income for the euro area as a whole prevents a comprehensive assessment of cyclical movements in income and savings. Nevertheless, indirect evidence suggests that consumption growth outpaced (labour) income growth in the first half of 2006. Private consumption expanded by 1.9% (annualised) compared to a 1.5% pick-up in employment and slightly declining real compensation per head.

The recent decline in the saving rate contrasts with developments observed at the beginning of this decade. The longer-term trend of a declining saving rate started to reverse in 2000, and the saving rate peaked at around 15% of disposable income in 2002.

In the following two years it remained broadly unchanged. This was a reflection of several factors, including distortions in inflation perceptions following the introduction of the euro and concerns about the sustainability of public pensions and healthcare systems. These factors more than offset the downward pressure on savings exerted by EMU via lower interest rates and financial liberalisation. Last year, however, the saving rate declined by around ½ pp. and a further decline is envisaged for 2006. Sustained improvements in consumer confidence may be a factor behind this decline. In addition, structural reforms may start to have a positive effect on households' confidence, thereby affecting consumption in a growth-supportive manner.

Graph 2.5: **Household gross saving rate and consumer confidence, euro area**



The acceleration of private consumption growth in the first half of 2006 was accompanied by a continued high level of liquidity and robust credit growth in the euro-area economy. The annual growth rate of loans to the household sector rose by 9.7% in the second quarter of 2006. The main contribution to this expansion came from lending to households for house purchases, which grew at an annual rate of 12%. However, consumer credit growth also ran at an annualised pace of more than 8%. These developments can be seen as a response to the historically very low level of interest rates. In some Member States, consumption benefited from rising property markets. However, as argued in section 2, in an environment of rising interest rates, there are some concerns about possible adverse effects on consumption (and investment), particularly in Member States where variable-interest-rate mortgages predominate.

…softening, but still supportive contribution from foreign demand

After having reduced output growth during the second half of 2005, the contribution of net exports turned positive in the first quarter of 2006 in both the euro area and the EU (at 0.5 and 0.3 pp. respectively). In the subsequent quarter, however, the growth rate of exports decelerated, outpacing the weakening of imports. This reduced the net contribution of foreign demand to just 0.1 pp. in both the euro area and the EU.

The slowdown of exports in the second quarter should be interpreted with caution as trade data tend to be volatile and frequently revised in subsequent releases of National Accounts. The underlying trend, as measured by the year-on-year rate of growth, showed a pick-up of euro-area exports by 9.7% (annualised) in the first half of 2006, well above last year's performance. Robust export growth was consistent with growth in world trade which ran at an annualised pace of 7.1% during the same period. In line with the strengthening of final demand, the underlying trend of import growth also rose in the first half of 2006 (8.1% compared with 5.3% last year).

Nonetheless, signs of moderation in world GDP growth in key industrial countries have emerged recently, particularly in the US (see chapter 1). Survey data generally point to an easing of growth in the short-term. The Quarterly World Economic Survey indicates a deterioration in expectations for world growth in the second half of the year. Similarly, the indicator for world exports in the Global Purchasing Managers' Index declined at the beginning of the third quarter of 2006. In addition, in the euro area export growth is likely to be reduced by lagged effects of the (moderate) appreciation of the euro since the beginning of the year, which has affected the cost competitiveness of euro-area exporters.

However, even though the support from the global economy to euro-area GDP growth is likely to be more limited in the coming quarters compared with the recent past, the outlook for a continuation of economic growth looks solid as it appears less dependent on external demand.

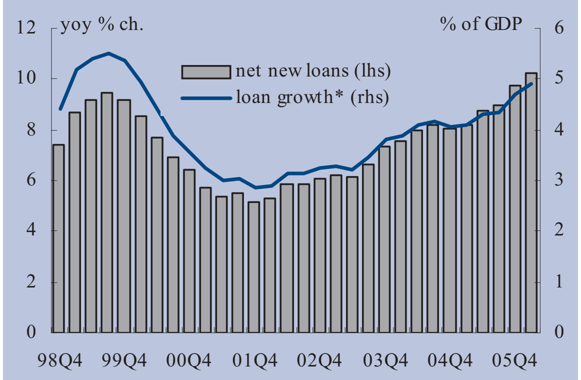
2. Patterns of non-financial private sector lending and house price dynamics: are they sustainable?

Although interest rates have risen in recent months, borrowing by households and non-financial corporations remains brisk. High credit demand reflects in part an acceleration of economic activity and higher spending outlays, thus supporting domestic demand. Another factor behind recent credit growth is the dynamism in house price developments in some euro-area Member States. Ever higher house prices in such countries are propelling household sector credit growth. Dynamic housing activity is also fuelling loan demand by non-financial corporations, notably in the construction sector. Rising M&A activity is another driver of corporate borrowing. However, if interest rates rise and household sector fundamentals deteriorate buoyant patterns of debt growth and related dynamic house price developments might become increasingly unsustainable.

Households are accumulating debt…

While the euro area as a whole is experiencing a robust pace of household sector borrowing, lending growth is spread unevenly across Member States. Overall household sector borrowing (including bank and non-bank lending) was advancing at close to 10% y-o-y in the beginning of 2006, slightly below the previous peak in the late 1990s. When measured against GDP, though, the 4-quarter moving total debt growth has already slightly surpassed its previous 1999 peak level, running at above 5% of GDP.

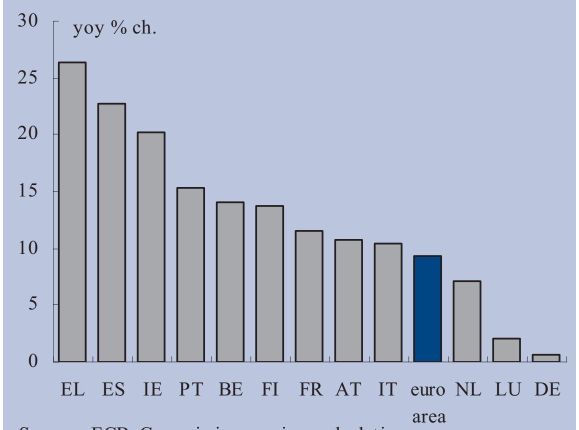
Graph 2.6: **Household sector debt growth**



*4-quarter moving total of net loan flows (transactions) measured against seasonally adjusted annualised quarterly GDP; Source: ECB, Eurostat, Commission Service calculations

Data on bank lending (monetary and financial institutions, excluding the eurosystem) suggest that the trend of strong growth is persisting, although the rate of credit growth has come down from the elevated levels recorded earlier in the year. However, the euro-area average masks important differences at country level. While y-o-y rates are running at 20% or above in Greece, Ireland and Spain, the rate for Germany is below 1%.

Graph 2.7: **Household sector borrowing, August 2006**



Source: ECB, Commission services calculations

The fundamental drivers of household sector borrowing are increasing house prices and ever higher loans to finance their purchase, making banks' profits increasingly dependent on this loan category. Mortgage lending, traditionally the most important lending component of household sector borrowing, has reached about 70% of all bank lending to the household sector in 2006, up from around 60% in 1999, and constitutes more than 32% of overall bank lending to euro-area residents (up form 26% in 1999).

Households have been able to finance increasing house prices owing to changes in conditions since the mid-1990s. First, the adoption of the euro − over and above favourable global liquidity conditions − was associated with a very substantial downward convergence in interest rates and risk premia, allowing several Member States (notably Greece, Spain, Ireland, Italy and Portugal) to gain increasing access to external bank lending. Second, above-average inflation rates in some Member States have lowered real interest rates, providing an additional boost to credit demand. This pro-cyclical effect of real interest rates may have been reinforced by the mutual interaction between real interest rates and house prices (low real interest rates fuel demand for housing, leading to a rise in house prices which pushes up growth and inflation via wealth effects and further depresses real interest rates). Third, demographic developments have been more supportive of demand for housing and mortgages in some Member States than others due, for instance, to significant immigration flows (e.g. Ireland and Spain) or faster population growth in household formation cohorts (e.g. Ireland, Spain, the Netherlands and France). Fourth, the increase in household borrowing for house purchase may reflect differences and changes in Member States' mortgage markets, which have offered households expanded access to credit through (i) longer repayment periods, (ii) higher loan-to-value ratios, (iii) an increasing share of variable-interest-rate loans, (iv) equity withdrawal possibilities in some Member States, while, furthermore, (v) mortgage bonds and debt securitisation have allowed financing institutions to receive additional funding. Fifth, the current lending boom is also supported by bank competition and easing credit conditions in line with subdued levels of defaults on mortgage loans, thus adding an element of pro-cyclicality.

…but its sustainability is an issue

There are increasing doubts concerning the sustainability of current lending patterns and house price dynamics, specifically in those countries, where these dynamics have been particularly strong in recent years. These concerns are related to the outlook of rising interest rates and to current debt dynamics.

While for the euro area as a whole rising interest rates do not seem to pose an immediate risk, household sectors in countries where variable-interest-rate mortgages dominate will be strongly affected by rising financing costs. Data provided by the ECB suggests that over 90% of mortgage loans are variable-rate contracts in Portugal and Finland and over 80% in Spain, Greece, Ireland, Luxembourg and Italy. In contrast, loans linked to short-term rates are less common in Belgium, Germany, France and the Netherlands.

Table 2.2
Variable interest rate loans*, in % of all mortgage loans**

euro area	BE	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI
51	33	17	84	89	29	84	82	83	30	54	98	94

*floating rate and up to 1 year; **business volume averages between January 2003 and May 2006; Source: ECB

Another concern relates to household debt dynamics. While it may be difficult to determine the point at which a given amount of debt becomes impossible to service, extrapolating current trends in accumulation of debt suggests that several Member States are facing an unprecedented additional debt burden on the part of households.

Based on mechanical extrapolations, household debt to GDP will increase until end-2008 to about 140% of GDP in the Netherlands, about 125% of GDP in Ireland, and about 100% of GDP in Spain and Portugal. In contrast, the increase in debt ratios will remain relatively limited in Belgium and in France (roughly 50%) and in Italy (41%). Germany and Luxembourg are the only countries, where the household debt ratios will decline (slightly) in that period. When measured against gross disposable income, the household sector debt ratio is projected to reach about 290% in the Netherlands, 230% in Ireland and 160% in Spain at the end of 2008. Debt to disposable income will rise to about 100% in Austria

Table 2.3
Household debt ratios*

	euro area	BE	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI
	debt to GDP, in %												
2006	60	45	68	46	81	47	86	34	82	124	57	89	49
2007	63	47	67	56	91	49	104	37	79	132	61	95	53
2008	66	49	66	67	101	52	125	41	77	140	64	102	58
	debt to gross disposable income, in %**												
2006	91	76	98	64	127	69	161	47		247	89		87
2007	96	80	97	77	143	73	192	52		267	94		96
2008	100	85	95	93	161	77	228	57		289	100		105

*projected evolutions using 2003 to 2005 data as a base; **gross disposable income data were not available for the base period for Luxembourg and Portugal, data for the euro area are partly estimated, data for Luxembourg is based on Monetary and Financial Institution debt only. Source: Eurostat, Commission database Ameco, ECB, Irish central bank, own calculations and surpass 100% in Finland.

In sum, the analysis suggests that, in a number of Member States, current trends are hardly sustainable. Indeed the growth of credit has slowed down recently: since March 2006, when the current peak in euro-area household credit was measured, annual y-o-y growth rates have come down, sometimes significantly, in almost all euro-area Member States. It remains to be seen if the slowdown is sustained.

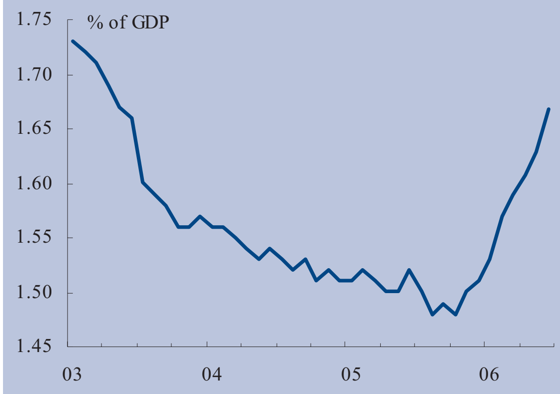
The risks of buoyant lending and house price dynamics have increased and a possible slowdown might affect growth. A slowdown in current trends would affect activity via two main channels: (i) a slowdown in private consumption and (ii) a slowdown in residential construction. Lower lending demand would likely also affect bank profitability. Moreover, highly indebted households may face the risk of severe financial distress in case of a sharp increase in interest rates.

Non-financial corporations are accumulating new debt in the face of rising interest rates

Demand for external funding in the euro-area corporate sector is accelerating, but remains well below the levels recorded in the late 1990s. Recent data suggest a quickening in non-financial corporate sector borrowing, which is consistent with the evidence of a recovery in private investment. The determinants of rising demand for external funding among firms are increasingly broad-based, as indicated in the ECB bank lending survey for July. Among the factors cited are the need to fund M&A activity and corporate restructuring, inventory accumulation, and, increasingly, the need to finance new fixed investments. Housing-related developments are also likely to fuel the borrowing boom in the corporate sector, notably in construction related activities. However, aggregate data for the euro area hide substantial differences at the Member-State level. August bank lending data suggest that the y-o-y growth in credit extended to the corporate sector is especially strong in Ireland (34%) and Spain (29%), but has remained rather weak in Germany (3%).

This recent increase in demand for external funding is set to push corporate debt levels to new highs, raising questions about the adequacy of balance-sheet consolidation in earlier years. Data releases for 2006-Q1 indicate that the accumulated debt of the euro-area non-financial corporate sector is now equivalent to about 65% of GDP and evidence suggests a further rise in the course of 2006. Coming after a prolonged period of largely constant debt levels, the recent upward trend in the debt-to-GDP ratio raises questions about the effects on investment outlays in the event of a sharper-than-expected hike in interest rates. Net interest payments in the euro-area corporate sector moved above 1.6% of GDP in the second quarter of 2006, reversing a downward trend that had lasted several years.

Graph 2.8: **Net interest rate payments, euro-area non-financial corporations**



Source: ECB

As interest rates rise, the cost of rolling over the still substantial portion of short-term and maturing longer-term corporate debt rises correspondingly. It may be argued that the efforts towards increasing liberalisation, integration and innovation in the EU financial sector in recent years have allowed for a higher equilibrium level of corporate debt. If this is correct, it would seem unlikely that a moderate rise in interest rates will impact significantly on investment decisions in the period ahead, given the expected momentum of the recovery. However, in the event of a sharper-than-expected rise in interest rates, possibly combined with a housing market correction affecting the construction sector, the implications of high debt levels could be of greater concern in some euro-area Member States.

Box 2.1: **Some specificities behind the forecasts**

Exchange rates

For currencies in ERM II as well as for Bulgaria, constant nominal exchange rates are assumed. This means that the central rate of these currencies against the euro will remain constant over the forecast period. The ERM currencies are: the DKK (Danish krone), the EEK (Estonian kroon), the CYP (Cyprus pound), the LVL (Latvian lats), the LTL (Lithuanian litas), the MTL (Maltese lira) and the SKK (Slovakian koruna). Constant real effective exchange rates (that is, nominal rates adjusted for changes in GDP deflators) are assumed for all the other countries/areas, i.e. the euro, the CZK (Czech koruna), the HUF (Hungarian forint), the PLN (Polish zloty), the SEK (Swedish krona), and the GBP (sterling), and for non-EU currencies.

The reference period used for the exchange rate constancy assumption is the fourth quarter of 2006, calculated on the basis of the average of a two-week reference period (2 to 16 October 2006). This technical assumption yields the average USD/EUR rate 1.26 and the average JPY/EUR rate 149.8. This, in turn, leads to implied average USD/EUR rates of 1.25 in 2006, 1.27 in 2007 and 1.27 in 2008, and average JPY/EUR rates of 145.5 in 2006, 147.6 in 2007 and 144.6 in 2008.

Interest rates

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

Commodity prices

Commodity prices are forecast taking into account market conditions. In the case of oil prices special attention is paid to futures prices. Prices for Brent oil are, accordingly, projected to be 65.6 USD/bl in 2006, 66.3 USD/bl in 2007 and 68.0 USD/bl in 2008. Prices of primary commodities, excluding fuels, are assumed to increase by 23.2% in 2006, by 1.2% in 2007 and to decline by 3.7% in 2008. In both 2006 and 2007, the prices of most groups are expected to increase compared to 2005.

Chain linking

In order to improve the accuracy of GDP growth estimates, National Accounts have moved to ‘chain linking’ in most Member States to incorporate more up-to-date price weights. Chain-linking uses previous year’s prices (instead of prices from a given base year) which are then ‘chained’ together.

Budgetary data

Data for 2006 are based on government debt and deficit data reported by Member States to the Commission in October 2006. In publishing these data, Eurostat has withdrawn its earlier reservations on the quality of the data in certain Member States. However, Eurostat has amended the deficit and debt data for 2005 reported by Belgium and has kept the former GDP series for Greece (see Eurostat's news release no. 139/2006 of 23 October 2006).

For 2007, budgets adopted or presented to parliaments and all other measures known in sufficient detail are taken into consideration. For 2008, the "no-policy change" assumption used in the forecasts implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail at the time of the completion of the forecast.

The government balances reported by Member States to the Commission may be slightly different from those published in the national accounts because of the recording of swap- and FRA-related flows. While these are usually recorded as financial transactions, Regulation N° 2558/2001 establishes recording them as interest for the purposes of the excessive deficit procedure (EDP).

According to the Eurostat decision of 2 March 2004, funded defined-contribution pension schemes should be classified in the financial sector and not in government. Such a decision should be implemented by all Member States until the end of a transitory period which ends in April 2007. Currently, three Member States (DK, PL and SE) benefit from this transitory period (see Box 2.2).

Calendar effects on GDP growth and output gaps

The number of working days may differ from one year to another. For example, 2004 was a leap year with 2.8 more working days than an average year. This translated to an estimated impact of 0.24 pp. on the GDP growth rate for the euro area. On the other hand, for 2005, the effect was negative, yielding an impact of -0.13 pp. For 2006, the impact is estimated at -0.1 pp.

Annual GDP figures are not adjusted for the number of working days, while most quarterly figures are. The calculation of potential growth and the output gap does not involve any adjustment for working days.

3. Three years of economic growth at or above potential

Three years at or above potential

The autumn forecast projects economic growth to accelerate from 1.4% in 2005 to 2.6% in the euro area and from 1.7% in 2005 to 2.8% in the EU in 2006. This represents an upward revision of 0.5 pp. compared to the spring forecast. The revisions are principally the result of the stronger-than-expected outcome for the first half of 2006.

In addition, during the second half of 2006 and the first half of 2007, quarterly growth rates are, on average, foreseen to be slightly stronger than in the spring projection. The economy will thus enter 2007 with fairly strong momentum, leading to an upward revision of GDP growth in 2007 of 0.3 pp. for the euro area (to 2.1%) and of 0.2 pp. for the EU (to 2.4%). While output growth will temporarily slow at the beginning of 2007 as a consequence of the VAT rise in Germany, it is projected to re-accelerate, from the second quarter on, to a rate close to or above potential.

In 2008, GDP growth is projected to be slightly higher than in 2007, partly because the growth deceleration in Germany at the beginning of 2007 will have a positive echo-effect at the beginning of 2008. For the year as a whole, growth is projected to be 2.2% in the euro area and 2.4% in the EU. Growth will thus be at or above potential for three years in a row.

The optimistic outlook for growth in the period ahead is underpinned by survey evidence. Most Commission confidence indicators are at their highest level since summer 2001. However, some indicators have receded from their peak, following a re-assessment of expectations.

Optimistic expectations have been responsible for a part of the apparent gap between soft and hard data in the recent past. Following recent upward revisions of National Accounts data, however, it appeared that the first releases of hard data underestimated the economic upturn. Since expectations have come down somewhat in the meantime, the gap between hard and soft data seems to have largely closed. The assessment of the current situation in survey data, which has tracked developments of (revised) hard data rather well, points to continued strong momentum in the European economy at the end of 2006.

The robust performance in 2006-2008 is the result of reinvigorated growth of domestic demand combined with a small positive contribution from net foreign trade. Domestic demand in the euro area is expected to grow by 2.5% in 2006 (2.8% in the EU). While

Table 2.4

Composition of growth - EU25

(Annual percentage change)

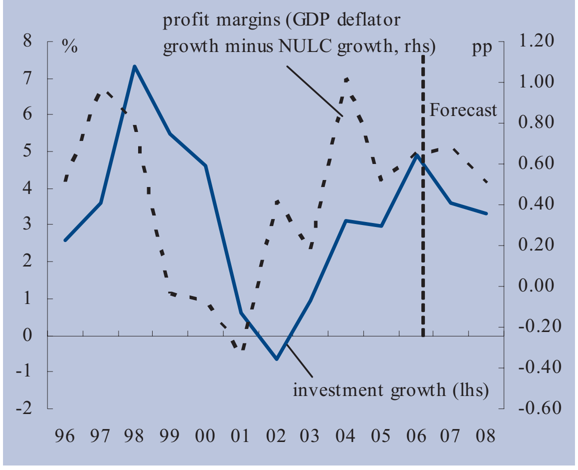
	2005							Autumn 2006 forecast		
	bn Euro curr. prices	% GDP	2001	2002	2003	2004	2005	2006	2007	2008
			Real percentage change							
Private consumption	6296.2	58.1	2.1	1.5	1.6	2.0	1.5	2.2	1.9	2.3
Government consumption	2268.7	20.9	2.1	2.6	2.1	1.5	1.6	2.0	1.5	1.6
Gross fixed capital formation	2152.0	19.9	0.6	-0.6	1.0	3.1	3.0	4.9	3.6	3.3
Change in stocks as % of GDP	35.5	0.3	0.3	0.0	0.2	0.4	0.4	0.3	0.4	0.4
Exports of goods and services	4038.6	37.3	3.6	1.8	1.7	7.1	5.2	9.7	6.5	6.2
Final demand	14791.0	136.6	2.0	1.2	1.8	3.6	2.7	4.7	3.6	3.5
Imports of goods and services	3961.0	36.6	2.3	1.3	3.3	7.2	5.7	9.3	6.2	6.1
GDP	10830.0	100.0	2.0	1.2	1.3	2.4	1.7	2.8	2.4	2.4
GNI	10821.8	99.9	1.9	1.2	1.5	2.6	1.6	2.9	2.4	2.4
p.m. GDP euro area	8027.0	74.1	1.9	0.9	0.8	2.0	1.4	2.6	2.1	2.2
			Contribution to change in GDP							
Consumption			1.7	1.4	1.4	1.5	1.2	1.7	1.4	1.6
Investment			0.1	-0.1	0.2	0.6	0.6	1.0	0.7	0.7
Inventories			-0.3	-0.3	0.2	0.2	0.0	0.0	0.2	0.0
Exports			1.3	0.6	0.6	2.5	1.9	3.7	2.6	2.6
Final demand			2.8	1.6	2.4	4.8	3.7	6.3	4.9	4.9
Imports (minus)			-0.8	-0.5	-1.1	-2.4	-2.0	-3.5	-2.5	-2.5
Net exports			0.5	0.2	-0.5	0.1	-0.1	0.2	0.2	0.1

slowing somewhat thereafter, the growth rate will stay above 2% in 2007-08 in both areas.

Domestic demand should be powered by buoyant investment, which is projected to grow at around 3½% in 2007-08 in the EU, after 4.9% in 2006. Investment growth will be only slightly lower in the euro area, at around 3% in 2007-08, after 4.3% in 2006.

The most dynamic investment component will be investment in equipment, which should be supported by several factors. First, production is meeting capacity constraints, while demand prospects remain fairly bright. For instance, the capacity utilisation rate in manufacturing rose to 84% in the fourth quarter of 2006, which is 2 pps. above the long-term average and the highest level since the first quarter of 2001. Secondly, the growth differential between the GDP deflator and nominal unit labour costs, which should be closely related to profit margins, is projected to remain at an elevated level during the forecasting period. Finally, while financing conditions are becoming less benign than in previous years, they are still relatively favourable.

Graph 2.9: **Investment and profit margins in the EU**



The evolution of construction investment is partly explained by the increase in the German VAT rate in 2007, which is expected to bring forward part of the German housing investment from 2007 to 2006. Net of the effects of the German VAT increase, the apparent turnaround of the German construction sector removes a substantial drag from the European overall investment performance. A certain cooling of housing markets on the back of somewhat tighter financing conditions is expected to reduce the dynamism of housing construction in a number of

Table 2.5

Composition of growth - euro area

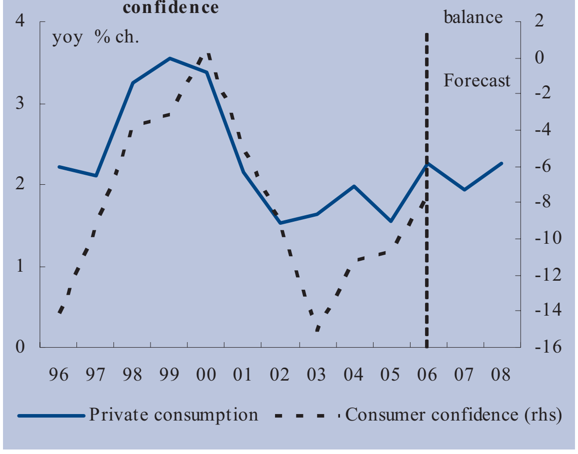
(Annual percentage change)

	2005	2005	2001	2002	2003	2004	2005	Autumn 2006 forecast 2006	2007	2008
	bn Euro curr. prices	% GDP	Real percentage change							
Private consumption	4596.7	57.3	2.0	0.8	1.2	1.5	1.4	2.0	1.6	2.1
Government consumption	1641.6	20.5	2.0	2.4	1.8	1.2	1.4	2.0	1.4	1.4
Gross fixed capital formation	1648.0	20.5	0.5	-1.5	1.0	2.3	2.5	4.3	3.0	3.0
Change in stocks as % of GDP	21.7	0.3	0.1	-0.2	0.1	0.3	0.4	0.2	0.4	0.3
Exports of goods and services	3047.7	38.0	3.7	1.7	1.1	6.8	4.3	7.9	6.0	5.8
Final demand	10955.7	136.5	1.9	0.7	1.4	3.2	2.4	4.0	3.2	3.2
Imports of goods and services	2928.7	36.5	1.8	0.3	3.1	6.7	5.3	7.5	5.7	5.8
GDP	8027.0	100.0	1.9	0.9	0.8	2.0	1.4	2.6	2.1	2.2
GNI	7997.1	99.6	1.6	0.6	1.0	2.4	1.2	2.8	2.2	2.3
p.m. GDP EU25	10830.0	134.9	2.0	1.2	1.3	2.4	1.7	2.8	2.4	2.4
			Contribution to change in GDP							
Consumption			1.5	1.0	1.0	1.1	1.1	1.6	1.2	1.5
Investment			0.1	-0.3	0.2	0.5	0.5	0.9	0.6	0.6
Inventories			-0.4	-0.3	0.2	0.2	0.0	0.0	0.2	-0.1
Exports			1.4	0.6	0.4	2.4	1.6	3.1	2.4	2.5
Final demand			2.6	1.0	1.8	4.2	3.2	5.4	4.4	4.6
Imports (minus)			-0.7	-0.1	-1.1	-2.2	-1.8	-2.8	-2.3	-2.4
Net exports			0.7	0.5	-0.7	0.2	-0.2	0.3	0.2	0.1

Member States, particularly in Spain and Ireland.

Over the last five years, private consumption growth has remained more moderate than investment. This reflected a restructuring of the corporate sector that held back employment and wage growth. Looking ahead, the improved labour market situation and a gradual recovery of consumer confidence is set to stimulate the expansion of private consumption in the EU.

Graph 2.10: **Consumption growth in the EU and consumer confidence**



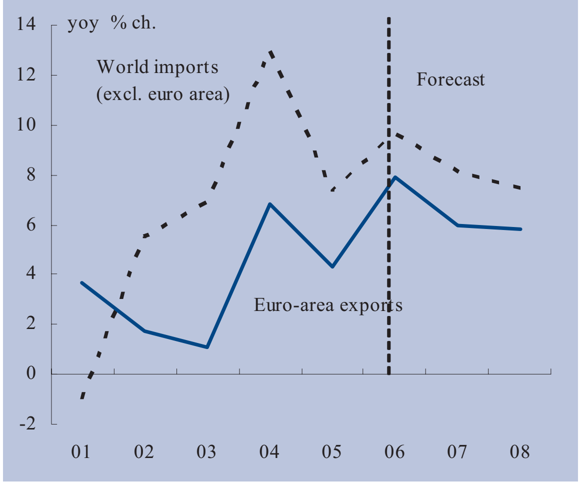
In 2006, rising capacity utilisation rates together with optimistic demand expectations gave a strong boost to employment growth. The clear turnaround in the evolution of employment, which started in the first half of 2006, is expected to steady over the forecasting period, with employment growth rates close to 1% annually. Nominal compensations per head are projected to accelerate, from 2.1% in 2006 to 2.5% in 2008 in the euro area (and to remain stable around 3.0% annually in the EU). As labour incomes will improve in the process, private consumption is expected to continue its gradual revival, with the growth rate in the EU averaging 2.1% over the period 2006-08, while remaining somewhat more moderate in the euro area.

Over the forecast period, the contribution of net exports to growth will be positive, reaching 0.3 pp. in 2006 and 0.2 pp. in 2007 in the euro area (0.2 pp. in both years in the EU), coming down to 0.1 pp. in 2008. Exports and imports are expected to see a certain growth deceleration in 2007-08. The deceleration of export growth will parallel the evolution of world trade. However, EU export markets are projected to grow by a still-respectable rate of 6.8% in 2008, after 7.2% in 2007 and 9.8% in 2006.

The solid EU export performance in 2006 seems artificially boosted by unusually strong figures for the United Kingdom, which appear to be significantly distorted by intra-community VAT fraud.

Market share losses for the euro area are limited to about 1 pp. annually. This average evolution masks, however, relatively large differences between the performance of individual Member States, as a result of diverging competitiveness developments and differences in the composition of export sectors and markets.

Graph 2.11: **Euro-area exports and global imports**



4. Remarkable labour market performance

Employment is finally growing faster...

Owing to the recent improvement in the growth scenario, labour markets have performed distinctly better in 2006 than projected in the spring forecast. Employment grew by 0.7% in the euro area last year (0.9% in the EU) and accelerated to an annual pace of around 1¼% in the first half of 2006, the strongest increase since 2000. Euro-area employment growth picked up markedly in the first half of 2006, to 0.3% in the first quarter and to 0.4% quarter-on-quarter in the second quarter. Overall in 2006, employment is foreseen to grow at an annual pace of 1.4% in both the euro area and the EU.

…and growth appears broad-based across sectors

The improvement in the first half of the year was broad-based across sectors; in particular employment growth in industry is no longer negative, which indicates a clear improvement in developments in that sector.

Table 2.6
Sectoral employment growth in the euro area

(Annual and quarterly percentage change, seasonally adjusted)

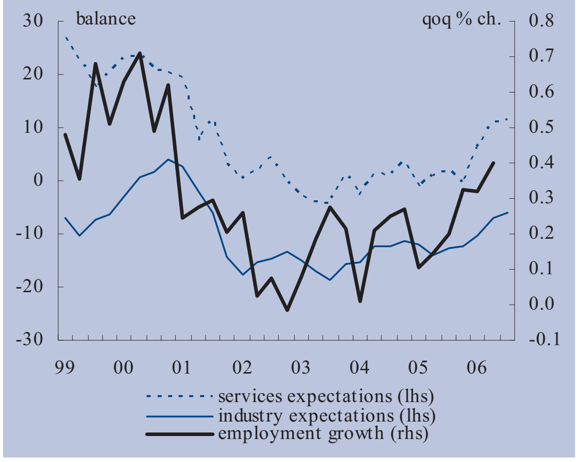
	2004	2005	05Q3	05Q4	06Q1	06Q2
Whole economy	**0.7**	**0.8**	**0.2**	**0.3**	**0.3**	**0.4**
Primary sector	-1.7	-1.2	0.0	0.1	-0.6	0.9
Industry excl. construct	-0.9	-1.2	-0.1	-0.2	-0.2	0.0
Construction	2.3	2.5	0.0	1.1	0.6	0.7
Trade and transport	0.7	0.8	0.0	0.4	0.4	0.4
Financial services	1.6	2.7	0.7	1.1	0.6	1.0

Sectoral data for the larger Member States in the second quarter of 2006 indicate that the pick-up in job creation is mostly attributed to the private business sector, such as financial services and also wholesale and retail trade.

Labour markets in both the euro area and the EU have proved resilient

In the early years of this decade (2001-2003), the economic downturn led to lacklustre performance on the labour market. Employment growth was very slow. Furthermore, it appears to have picked up only gradually during the current recovery, until very recently. Although the euro-area economy has created more than 5 million jobs in the past five years, three years after the beginning of the recovery the level of employment is still growing at an average pace of 1.5 pp. lower than in previous upswings. Spain, Italy, and the United Kingdom have made the largest contributions to the number of jobs created, partly due to record net immigration, which constitutes a step increase in the labour supply.

Graph 2.12: **Euro-area employment growth**



The unemployment rate in the euro area peaked at 8.9% in the second quarter of 2004. Since then, it has been on a continuous downward trend, dropping below 8% in the second quarter of 2006.

Employment expectations point to a sustained improvement

On the basis of data for the larger euro-area economies, expectations for the third quarter of 2006 show that employment growth should accelerate.

Employment prospects as reported in the Commission's business and consumer surveys (BCS) suggest that employment creation will continue throughout the year. This could be an indication of stronger GDP growth in the coming quarters. Moreover, employment and unemployment expectations have improved since the second half of 2005, which could point to a gradually increasing propensity to consume.

Employment outlook for 2007-08

Employment in the euro area is foreseen to grow by 1.4% in 2006, 1.2% in 2007 and 1.1% in 2008 (up by 0.5 pp. for 2006 and 0.4 pp. for 2007 compared to the spring forecast). For the EU, the forecast points to employment growth rates of 1.4% in 2006, 1.1% in 2007 and 0.9% in 2008.

At Member-State level, buoyant job creation is expected for 2006 notably in Ireland, Spain and Luxembourg (above 3% y-o-y), and also in the Netherlands and Italy. Job creation has also been better than expected in Denmark, the United Kingdom, Slovakia and Poland; in addition, the outlook for Germany, France, and Portugal has been revised upwards compared to the spring forecast.

A deceleration of employment growth is foreseen in 2008 due to economic activity returning to potential and labour-intensive sectors such as construction cooling. Yet above-average employment growth should still characterise the labour markets in Greece, Spain, Ireland, and Luxembourg. Employment growth in 2008 is expected to be slightly higher in the euro area (+1.1%) than in the EU as a whole (+0.9%).

Encouraging downward unemployment trend…

The standardised unemployment rate has been on a continuous downward trend since the second half of 2004. It stood at or below 8% in the second quarter of 2006 both in the euro area and in the EU, its lowest level since November 2001. In August 2006, the unemployment rate stood at 7.9% in the euro area, compared to 8.5% a year earlier. Unemployment is set to drop further, declining from an annual average of 8% this year to 7.7% in 2007 and 7.4% in 2008 for the euro area.

This rosier performance for euro-area unemployment in 2006 was driven by the larger Member States. The unemployment rate in Spain fell by 1.0 pp. from January to August 2006, while the French and German rates also dropped by 0.6 pp. However, the situation continues to be disparate in the euro-area Member States, with the unemployment rate ranging from around 4% in Ireland and the Netherlands to around 9% in France, Germany and Greece for 2006 as a whole.

Turning to the EU as a whole, unemployment is expected to fall in a similar way as in the euro area, to 8% in 2006, 7.6% in 2007 and 7.3% in 2008. This additional improvement at EU level mainly stems from decreases in the unemployment rate in Poland and Slovakia. Slovakia will feature the highest unemployment rate in the EU at 14.3% in 2006, while the Polish unemployment rate (at 13.9% in 2006) has been dropping extremely fast. In contrast, increases in the unemployment rate were recorded notably in the United Kingdom, and slight increases in Hungary and Cyprus.

In spite of falling unemployment overall, long-term unemployment continues to be a source of concern, with around 45% of job-seekers having been unemployed for more than a year.

...but employment rates are still low

The employment rate remains low by international standards at 63.5% in the euro area, pointing to an under-utilisation of the EU's potential, although it has increased more markedly in the past three years (+0.5 pp. between 2004 and 2005). In both the US and Japan, the employment rate stands at around 70% of the working-age population. Moreover, the overall employment rate is still far from the agreed Lisbon targets.

The share of so-called ‘flexible’ jobs continues to grow, especially in the services sector in Germany, Spain and Italy. In the euro area in 2005, 19% of workers were part-time (and 16% on temporary contracts); this represents a significant increase over previous years, the share of part-time work for example having risen from around 16% of total employment in 2000. Women's share in part-time employment is over 70% and can partly explain this increase, as female participation rates have improved in the past few years. The expansion of part-time work has contributed to between 60 and 65% of employment creation since 2000.

Still moderate wage developments in 2006…

The annual growth rate in compensation per employee stood at 2% in 2006Q1 in the euro area, unchanged compared with the previous quarter. Although stabilising at around 2% in 2005 and 2006, wage growth should accelerate somewhat (to 2.2% in 2007 and 2.5% in 2008) due to new wage agreements being implemented in some of the larger Member States.

Wage growth is expected to range from 0.4% in Germany to nearly 6% in Greece in 2006, mostly reflecting local labour market conditions and agreements. In the recently acceded Member States, the catch-up process is triggering higher-than-average wage growth, notably in Estonia, Hungary, Latvia, and Lithuania. This mirrors their high GDP growth, though the situation appears worrisome in Hungary because it appears to have come at the expense of slow employment growth. In the case of Portugal and Italy, where GDP is growing below the euro-area average, wage developments are less benign; this may dampen cost competitiveness and thus further slow down economic activity.

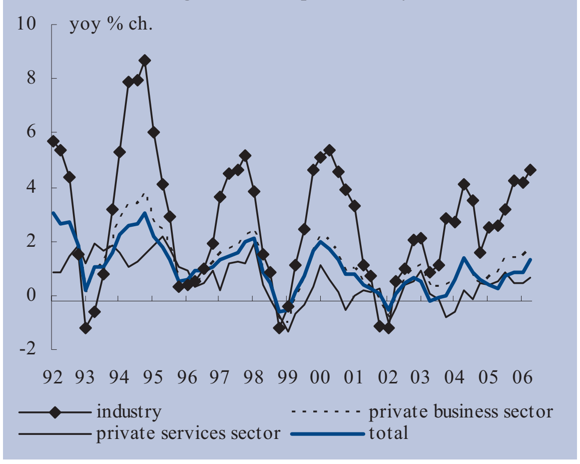
…and labour productivity picking up

Compared to previous economic recoveries, the pick-up in labour productivity since the second half of 2003 has been sluggish. Yet recent developments are closing the gap. The quarterly profile of labour productivity growth confirms a recent acceleration. Labour productivity growth in the euro area reached an annualised pace of 2.2% in the first half of 2006, significantly above the 0.8%, observed as an average for the previous ten years.

A breakdown by sector shows labour productivity now growing faster than the long-term average (0.8%) in private business services (all sectors but agriculture and public services) as well as in industry. Among the larger Member States, productivity gains in industry have been particularly large in Germany and France. The acceleration of productivity growth, if sustained, could hint at a more pronounced recovery of euro-area GDP.

For the time being, labour productivity is expected to grow at 1.2% (annual) in the euro area in 2006, and at around 1% in both 2007 and 2008. Above-average growth is forecast in Belgium, Germany, Greece, France, Luxembourg, Austria, Slovenia, and Finland in 2006, while a sharp decline is expected in Germany in 2007 (-1.3 pps). The forecast projects a relatively mild pick-up in productivity growth over the forecast horizon. Nevertheless, cyclical developments since 2003 seem to have ended the declining trend of the 1990s.

Graph 2.13: **Change in labour productivity**



Together with harmonised wage indicators pointing to a relative moderation for the euro area in the past five years, especially in Germany, the recent pick-up in labour productivity is turning into a boost to competitiveness. Germany, the Netherlands, and Austria, remain well-placed in terms of competitiveness in 2006, while Greece, Spain, and Italy are not.

Table 2.7

Labour market outlook - euro area and EU25

(Annual percentage change)	Euro area				Difference vs Spring 2006		EU25				Difference vs Spring 2006	
	2005	2006	2007	2008	2006	2007	2005	2006	2007	2008	2006	2007
Population in working age (15-64)	0.5	0.3	0.3	0.2	0.0	0.0	0.5	0.4	0.3	0.2	0.0	0.0
Labour force	0.7	0.9	0.9	0.7	0.1	0.1	0.7	0.8	0.7	0.6	0.0	0.0
Employment	0.7	1.4	1.2	1.1	0.5	0.4	0.9	1.4	1.1	0.9	0.5	0.3
Employment (change in million)	1.0	0.2	0.2	0.2	-1.0	-0.9	1.8	2.9	2.2	1.9	1.1	0.5
Unemployment (levels in millions)	12.7	11.9	11.6	11.2	-0.2	-0.3	19.1	17.7	16.9	16.3	-1.0	-1.3
Unemployment rate (% of labour force)	8.6	8.0	7.7	7.4	-0.4	-0.5	8.8	8.0	7.6	7.3	-0.5	-0.6
Labour productivity, whole economy	0.6	1.2	0.9	1.2	0.0	-0.1	0.7	1.3	1.3	1.5	-0.1	0.0
Employment rate (a)	63.5	64.3	64.8	65.4	0.5	0.5	63.8	64.5	65.0	65.5	0.7	0.8

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

Note: Slovenia has been included in the euro area in this forecast. Any comparison with the spring forecast should be done with care.

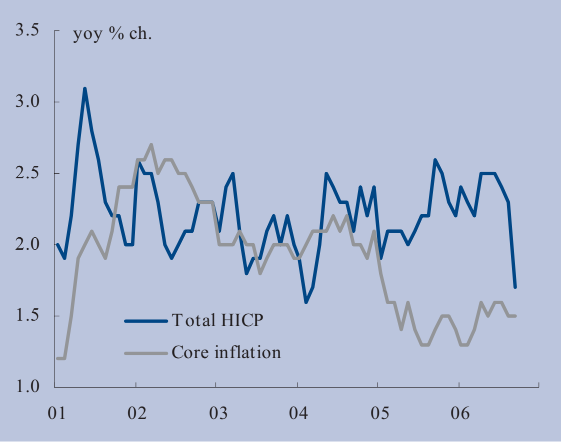
5. Inflation set to gradually edge down

Headline inflation stayed above 2% due to higher energy prices…

Headline HICP inflation in the euro area and the EU remained above 2% (y-o-y) during the first eight months of 2006. This was largely the result of higher energy prices driven by the continued sharp increases in oil prices. Energy price inflation in the euro area was at an elevated level, fluctuating between 10 and 14%, throughout the first half of the year. Over this time, energy price inflation contributed about 1 pp. to overall inflation.

In September, however, headline inflation in the euro area declined markedly, from 2.3% in the previous month to 1.7%. This was the lowest annual inflation rate registered in 2½ years and the first time in 20 months that inflation was below 2.0%. About 0.3 pp. of the decline can be explained by favourable base effects stemming from the sharp increase in energy inflation last year related to the Katrina oil price hike. Much of the rest of the decline can be attributed to the recent and ongoing substantial fall in oil prices. Having dropped below 10% in July, annual energy price inflation in the euro area eased further to just 1.5% in September, the lowest rate since March 2004.

Graph 2.14: **Headline and core inflation, euro area**



Developments in unprocessed food prices were another source of upward pressure on headline inflation in recent months. Owing to extremely warm weather conditions during the summer, unprocessed food inflation increased more than threefold, from about 1% in the spring to just above 4½% in August, the highest inflation rate for this component in three years.

…but underlying inflation remained at around 1½%

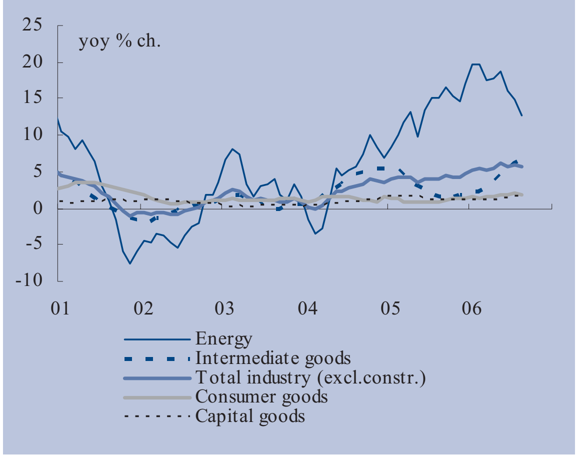
In contrast, core inflation (HICP excluding energy and unprocessed food), although edging up slightly, has remained fairly subdued so far this year, hovering around 1½%. Core inflation was 1.5% in September, unchanged from August. The continued relative stability of core inflation, despite the substantial gap with headline inflation, which amounted to close to 1 pp since mid-2005, suggests that the oil price hike has not had significant indirect effects on the non-energy part of the HICP so far. Given the recent sharp fall in headline inflation, the gap is now nearly closed.

However, indirect effects might not be entirely absent. Inflation in at least two of the three main components of core inflation had eased in 2005 to some of the lowest rates of the last four years, but has since edged up somewhat. In particular, annual inflation in the non-energy industrial goods, although still fairly contained, picked up from around 0.1% in mid-2005 to 0.8% in August 2006. Inflation in processed food also picked up, from about 1½% in mid-2005 to just above 2% in August 2006, before easing to 1.8% in September. However, inflation in services, the third major component of core inflation, has been more stable, fluctuating closely around 2% from the beginning of the year, to stand at 2.0% in September.

Some signs of pipeline inflationary pressures have also emerged at the production stage. Overall producer price inflation (excluding construction) has edged up, from around 4% in mid-2005 to close to 6% in August 2006. This development mostly reflects the influence of sharp rises in the energy component, which remained at levels between 20% and 15% until July of this year, but also of a strong acceleration in intermediate goods inflation, from around 2% at the beginning of the year to 6½% in August 2006. Annual inflation in the consumer goods components, which are the most immediately relevant for consumer prices, while still remaining relatively subdued, have also picked up somewhat (from around 1.5% at the beginning of the year to nearly 2% in August 2006).

The inflationary pressure exerted by the energy component on overall producer prices has recently begun to weaken, as it has in the case of consumer prices. This reflects a combination of base effects from last year's hikes and the slide in oil prices since mid-August. The annual rate of increase in producer energy prices fell to about 13% in August, resulting in a decline in total producer prices inflation to 5.7%.

Graph 2.15: **Industrial producer prices, euro area**



While the surge in oil prices is certainly an important factor explaining the upward movement in some advance inflation indicators, given that it is a key input cost in some industries, there are also additional explanatory factors. Commodity prices in general and import prices have also risen sharply. Among primary commodities, food prices are estimated to have increased by 14% in 2006, after about 4% last year. Minerals and metals' prices increased by an estimated 50% in 2006, compared to 24% in 2005. This is estimated to have led total primary commodities (excluding fuels) to increase by 23% this year, compared to around 8% in 2005. On the side of imports, prices are estimated to have increased by about 5% (4½%) in the euro area (EU) this year, after 4% (3½%) in 2005. It could also be that leading inflation indicators are already responding to the strong domestic growth observed this year.

On the wage side, as mentioned in the previous chapter, labour cost indicators suggest continued overall moderation so far. Annual growth in compensation per employee in the euro area, which is the most prominent indicator, was unchanged at 2.0% in the first quarter of this year, suggesting little sign yet of significant second-round effects from the oil price hike. However, other indicators point to a modest acceleration in the following quarter. The ECB's indicator of negotiated wages moved up from 2.1% in the first quarter of 2006 to 2.3% in the second quarter. Eurostat's hourly labour cost index and DG ECFIN's wage indicator also moved up, showing annual growth rates of about 2.3%-2.4% in the second quarter of this year. For the year as a whole, it estimated that compensation per employee should grow by 2.1%, after 2.0% last year.

Whether the likely acceleration in compensation in recent quarters translates into higher price pressure depends critically on developments in productivity. The marked increase in labour productivity observed in the first half of this year means that growth in unit labour costs has remained contained. It is estimated that productivity should rise by 1.2% this year in the euro area, compared to 0.6% last year. Accordingly, growth in unit labour costs is estimated to ease from 1.3% in 2005 to 0.9% in 2006.

On the side of inflation expectations, short-term inflation expectations in the euro area, based on the Commission's consumer surveys, reached a four-year high in August, but declined in September. This was the first decline since this indicator surpassed its historical average in June. Long-term inflation expectations in the euro area derived from French government inflation-indexed bonds also declined slightly for the fourth consecutive month in September to 2.1%, from 2.3% in May.

Inflation set to decline gradually to below 2% in 2008

Looking ahead, headline HICP inflation in the euro area and the EU is projected to gradually ease over the forecast horizon. In the case of the euro area, HICP inflation should decline from 2.2% this year to 2.1% in 2007 and 1.9% in 2008. In the EU, inflation should average 2.3% this year and in 2007, before declining to 2.0% in 2008. Inflation in the euro area is expected to cross the 2% mark in the first quarter of 2008 and to remain below that threshold for the rest of the year.

Compared to the spring, the new estimates for inflation in 2006 are unchanged for the euro area and include a slight upward revision for the EU (0.2 pp). For 2007, the autumn forecasts include a slight downward revision in the case of the euro area (-0.1 pp.), and a slight upward revision for the EU (also 0.1 pp.).

Overall, the new profile for inflation is supported externally by lower inflationary impulses from expected developments in commodity and import prices and domestically by the expected continued moderate unit labour cost gains as well as a broadly unchanged output gap. The annual rate of increase in total primary commodity prices (including fuels) is projected to plunge from 21% this year to merely 1% in 2007 and to remain essentially flat in 2008. Excluding fuels, primary commodity prices are actually expected to decline by close to 4% in 2008. The annual rate of increase of import prices in the euro area is projected to ease from nearly 5% this year to about 1½% in 2008.

On the domestic side, growth in unit labour costs in the euro area is expected to accelerate, from 0.9% this year to 1.3% in 2008. This profile is explained chiefly by the projected acceleration in compensation per employee (from 2.1% this year to 2.5% in 2008), while productivity gains remain broadly unchanged over the forecast horizon at around 1%.

Inflation prospects across Member States

Among the euro-area Member States, inflation in Germany is expected to increase from 1.8% this year to 2.2% in 2007, before easing to 1.2% in 2008, the lowest rate in the euro area. This profile is significantly influenced by the planned VAT increase in January 2007, which should result in a jump in inflation of about 1 pp. at the turn of the year, from about 1½% in the last quarter of 2006 to close to 2½% in the first quarter of 2007. As the effect of the VAT rise drops out of the calculation of annual rates in 2008, inflation in Germany should ease to just above 1% in the first quarter of 2008 and remain at around that level for the rest of the year.

In France, annual average inflation is projected to slow to just below 2% already in 2007, while in Italy, which starts at a higher level, this should occur a year later. Spain, although maintaining a differential of roughly 1 pp. with the euro area, is expected to see a decline in inflation from close to 3½% in 2006 to somewhat above 2½% in 2008. This would leave Spain with the second highest inflation rate in the area in 2008, when the highest inflation rate is expected to be registered in Greece. In the other Member States, except the Netherlands, Finland, Greece and Slovenia, inflation is expected to ease over the forecast horizon. In the Netherlands, inflation is projected to accelerate from 1.6% this year to 2.3% in 2008, while in Finland it accelerates less markedly, from 1.3% this year to 1.6% in 2008. In Greece and Slovenia, inflation is set to remain broadly unchanged, at close to 3½% in the former and 2½% in the latter.

Outside the euro area, where inflation is generally higher, the picture is more mixed, with only half of the Member States showing inflation easing over the forecast horizon. Inflation in the Czech Republic is projected to rise from 2½% this year to nearly 3% in 2008. In Hungary, reflecting further increases in administered prices, inflation should rise from close to 4% this year to almost 7% in 2007, before easing back to just below 4% in 2008, the third highest rate in the EU. Inflation will also increase in Poland and Sweden, from about 1½% this year in both countries to nearly 3% in 2008 in Poland and to just below 2% Sweden. The Baltic countries are expected to continue registering some of the highest inflation rates in the EU in 2008: about 5½% in Latvia, 4½% in Estonia and 3½% in Lithuania. In the UK, inflation is expected to decline from close to 2½% this year to 2% in 2008, while in Denmark it should ease slightly to just below 2% in 2008.

Table 2.6

Inflation outlook - euro area and EU25

(Annual percentage change)	Euro area				Difference vs Spring 2006		EU25				Difference vs Spring 2006	
	2005	2006	2007	2008	2006	2007	2005	2006	2007	2008	2006	2007
Private consumption deflator	2.1	2.1	2.1	1.8	0.0	0.0	2.1	2.2	2.2	1.9	0.1	0.1
GDP deflator	1.9	1.9	2.0	1.8	0.2	0.1	1.9	2.0	2.1	2.0	0.2	0.1
HICP	2.2	2.2	2.1	1.9	0.0	-0.1	2.2	2.3	2.3	2.0	0.2	0.1
Compensation per employee	2.0	2.1	2.2	2.5	0.0	0.1	2.4	3.1	3.0	3.1	0.4	0.3
Unit labour costs	1.3	0.9	1.2	1.3	0.0	0.1	1.6	1.8	1.7	1.6	0.6	0.4
Import prices of goods	4.0	4.8	1.6	1.6	0.7	0.0	3.6	4.4	1.8	1.5	0.4	0.0

Note: Slovenia has been included in the euro areain this forecast. Any comparison with the spring forecast should done made with care.

6. Public finance outlook benefits from buoyant tax revenues

Gradual improvement of budgetary situation confirmed

Following a relatively long series of negative surprises, the forecast confirms a shift towards a generally brighter public finance outlook in the EU. A gradual improvement in the budgetary situation is on the cards.

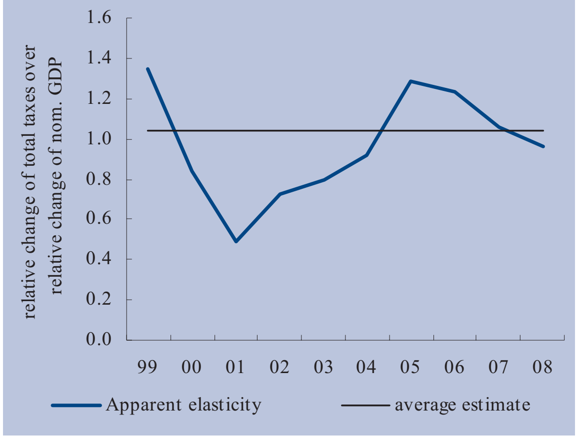
Starting with the headline figures, in 2006 the budget deficit for the euro area is projected to be at 2% of GDP, down from 2.4% in 2005. Based on the usual no-policy-change assumption, the deficit is set to remain on a declining path in the next two years, reaching 1.5% in 2007 and 1.3% of GDP in 2008. A marginally smaller decline is foreseen for the EU.

Although the spring 2006 forecast already pointed to an imminent improvement in the budgetary situation, its public finance projections were decidedly more cautious. The deficit in the euro area and the EU was expected to merely stabilise in 2006 and to start declining only from 2007.

But the upward revision of economic growth by around ½ a percentage point and better-than-expected revenues have led to a brighter public finance outlook for 2006. The revenue ratio is expected to reach 45.2% of GDP in both the euro area and the EU, ¼ of a percentage point higher compared to the forecast for 2006 of six months ago. The decline in the expenditure ratio results from essentially stable expenditure levels coupled with higher-than-expected GDP.

The current buoyancy of tax revenues has gone hand in hand with a sharp recovery of tax elasticities in 2005 and 2006, as illustrated in Graph 2.16. In particular, the apparent tax elasticity (the observed relative change of current tax revenues with respect to the relative change of nominal GDP) for the euro area fell well below the average estimate of slightly above 1 during the past economic slowdown. Apparent tax elasticities also include the effect of discretionary revenue measures. However, few of them were implemented in 2005 and few are expected to be implemented in 2006, at least in the large Member States. Consequently, the currently high tax elasticities are likely to reflect a number of other factors such as a steep recovery of corporate profits, rising oil prices, a recovery of tax-rich domestic demand components, i.e. consumption expenditure, a positive performance of equity markets until the beginning of 2006 and, in some countries, still rising house prices. By major categories, data reveal a particularly large swing in taxes on income and wealth which include the particularly volatile corporate income tax. In 2006, revenues from taxes on income and wealth in the euro area as a whole are expected to increase by more than 7% on the previous year, against an expected increase in nominal GDP of 4.5%. This compares with a situation between 2002 and 2003 when taxes on income and wealth declined in the face of slow yet positive economic growth.

Graph 2.16: **Euro-area tax elasticity with respect to GDP**



In 2007, based on the no-policy-change assumption, which on the revenue side amounts to the idea that tax elasticities will move towards standard values, the projected budgetary improvement in the euro area is forecast to result from significant expenditure restraints. The expected decline in the expenditure ratio for individual countries mainly reflects projections for the large euro-area economies currently in excessive deficit, notably Germany, France and Italy. Unchanged policies are expected to lead to a further though smaller decline in expenditure ratio for the euro area, and in turn of the deficit, in 2008. A similar development is expected for the EU. The projected decline in the apparent tax elasticity in 2008 shown in Graph 2.16 reflects both the effect of some discretionary tax measures included in current policies as well as a slight fall of the labour share in income.

In the euro area, the budgetary correction net of cyclical factors and one-off and other temporary measures is estimated to be essentially in line with the nominal improvement in both 2006 and 2007 on the back of essentially stable cyclical conditions. As shown in Table 2.10, the structural budget balance is expected to improve by around a ¼ of a percentage point in 2006 and by ½ a percentage point in 2007. The estimated structural improvement for the EU is basically the same. Although the structural improvement in both the euro area and the EU proved relatively sound in 2006, Member States do not seem to have taken full advantage of the high growth rate coupled with high tax elasticities this year.

Euro area: Progress towards correction of excessive deficits continues

At the country level, the projected improvement of public finances in the euro area reflects a relatively broad based trend in 2006 followed by a somewhat more heterogeneous picture in 2007.

Among the countries currently in excessive deficit only Italy is expected to post a deterioration of the budgetary situation in 2006. The apparent deterioration is due to a recent ruling of the European Court of Justice which gives rise to sizeable tax refunds. Thanks to the mostly temporary effects of the court ruling coupled with higher than expected revenues and the projected impact of the 2007 draft budget the deficit is estimated to return to just below the 3% of GDP threshold in 2007. Further measures will be needed to consolidate the result in 2008.

In Greece, current policies are expected to halve the deficit this year compared to 5.2% of GDP in 2005 and to keep it below the 3% of GDP threshold over the forecast horizon. While Portugal is likely to achieve a relatively large decline in 2006, the deficit is not expected to fall below the 3% of GDP threshold over the forecast period due to the high starting level of 6% of GDP recorded in 2005. By contrast, a lasting reduction of the deficit to below the Treaty limit is projected to take place in the two largest countries of the euro area. In Germany, current policies are projected to trim the deficit down to 2.3% of GDP in 2006, from 3.2% in the previous year, and produce further reductions in 2007 and 2008. The decline is expected to be somewhat more gradual but still permanent in France.

Among the other euro area economies, Spain and Ireland are forecast to experience a measurable decline in the nominal surplus over the forecast period. The same trend is visible in structural terms, although somewhat flatter in the case of Ireland. In Belgium, a projected deterioration of the nominal budget balance masks an improvement in structural terms.

Heterogeneous trends exist outside the euro area

Outside the euro area, budgetary trends are more heterogeneous. Starting with the excessive deficit countries, in three out of six, namely Malta, Poland, and the United Kingdom, the general government

Table 2.9

General government budgetary position - euro area and EU25

(% of GDP)	Euro area				Difference vs Spring 2006		EU25				Difference vs Spring 2006	
	2005	2006	2007	2008	2006	2007	2005	2006	2007	2008	2006	2007
Total receipts (1)	45.1	45.2	45.2	45.1	0.2	0.4	44.8	45.2	45.1	45.0	0.3	0.4
Total expenditure (2)	47.6	47.2	46.7	46.5	-0.2	-0.4	47.1	47.2	46.7	46.4	0.1	-0.2
Actual balance (3) = (1)-(2)	-2.4	-2.0	-1.5	-1.3	0.4	0.8	-2.3	-2.0	-1.6	-1.4	0.3	0.6
Interest expenditure (4)	2.9	2.9	2.9	2.8	0.0	0.0	2.7	2.7	2.7	2.6	0.0	0.0
Primary balance (5) = (3)+(4)	0.5	0.9	1.4	1.5	0.3	0.8	0.4	0.7	1.1	1.2	0.3	0.6
Cyclically adjusted budget balance	-1.9	-1.7	-1.2	-1.0	0.3	0.7	-1.9	-1.7	-1.3	-1.1	0.2	0.5
Cyclically adjusted primary balance	1.1	1.2	1.7	1.8	0.2	0.6	0.9	0.9	1.3	1.5	0.2	0.4
Structural budget balance	-2.0	-1.7	-1.2	-1.0	0.4	0.7	-2.1	-1.7	-1.3	-1.1	0.4	0.6
Change in structural budget balance	0.8	0.4	0.5	0.1	0.3	0.3	0.7	0.3	0.4	0.2	0.3	0.2
Gross debt	70.6	69.4	68.0	66.9	-1.1	-2.1	63.3	62.5	61.4	60.4	-0.7	-1.5

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

Note: Slovenia has been included in the euro area in this forecast. Any comparison with the spring forecast should be done with care.

deficit is expected to fall or stay below the 3% of GDP threshold in 2006. Under current policies the decline is projected to be relatively clear and lasting in the United Kingdom, while in Malta the deficit is likely to stay close to the threshold from below throughout the forecast period. As regards Poland, deficit figures do not include the costs of pension reform. This country benefits from the transitory period concerning the sectoral classification of the second-pillar pension schemes. The re-classification of these schemes in the corporate sector by April 2007 will lead to a level shift in the deficit. A more detailed discussion of this issue is presented in Box 2.2. In Slovakia current policies are expected to further increase the deficit in 2006 and to bring it marginally below the 3% of GDP threshold only in 2008. In the Czech Republic, although the deficit is projected to stay on a downward path throughout the forecast period, it is likely to stay above 3% of GDP. Current policies are forecast to lead to a further significant deterioration of the fiscal position in Hungary this year; there the deficit is projected to soar to above 10% of GDP, up from 7.8% of GDP in 2005. Assuming that the recently announced budgetary strategy is largely implemented in 2007 and produces parts of its effects in 2008 the deficit would decline again to 5.6% in 2008.

Turning to the non-excessive deficit countries, the deficit in Cyprus is projected to stay below 2% of GDP throughout the forecast period. The budgetary projections for the two Scandinavian countries, Denmark and Sweden, point to a relatively save surplus position, also including pension reform costs (see Box 2.2) In the Baltic countries, current policies are expected to keep the fiscal position well within the margins safeguarding against the risk of breaching the 3% of GDP threshold.

Debt expected to embark on downward trend

Following an increasing trend in recent years, with a peak of 70.6% of GDP in 2005, the debt ratio for the euro area is now expected to embark on a gradual downward path. Over the forecast period the debt ratio is projected to decline by around 3½ percentage points, to slightly below 67% in 2008. A similar development is forecast in the EU, where the debt ratio is expected to come close to the 60% of GDP reference value.

The downward trend for the euro area and the EU masks a few notable exceptions. In Hungary, on the back of the very high deficit projections, the debt ratio is expected to rise well above 70% of GDP in 2008, from around 62% of GDP in 2005. The debt ratio in Portugal is expected to climb to similar levels.

In the case of Italy, the impact of the tax refunds mentioned above is expected to further increase the debt ratio to around 107% of GDP in 2006, after which corrective measures are likely to reverse the trend.

Table 2.10

Structural budget balance (1) (% of GDP)

	2004	2005	2006	2007	2008
Belgium	-0.9	0.2	-0.7	-0.2	-0.1
Germany	-3.3	-2.7	-2.2	-1.4	-1.2
Greece	-8.4	-5.9	-3.7	-3.3	-3.1
Spain	0.0	1.5	1.9	1.6	1.4
France	-3.8	-3.1	-2.6	-2.3	-1.8
Ireland	2.1	1.0	1.7	1.6	1.5
Italy	-4.6	-3.9	-3.6	-2.5	-2.6
Luxembourg	-0.2	0.0	-1.1	-0.2	0.1
Netherlands	-1.1	0.9	0.6	0.4	0.3
Austria	-0.7	-0.9	-1.2	-1.2	-1.0
Portugal	-4.8	-5.1	-3.7	-3.2	-3.2
Slovenia	-1.7	-0.9	-1.5	-1.6	-1.7
Finland	3.0	3.4	2.9	2.8	2.9
Euro area	-2.9	-2.0	-1.7	-1.2	-1.0
Czech Republic	-1.1	-2.2	-3.6	-4.1	-3.8
Denmark	3.4	5.1	3.8	4.2	4.6
Estonia	3.5	2.2	1.5	1.0	1.3
Cyprus	-4.7	-2.7	-1.4	-1.2	-1.2
Latvia	-0.7	0.2	-1.3	-1.3	-0.9
Lithuania	-1.9	-0.8	-1.4	-1.4	-1.2
Hungary	-6.5	-8.5	-10.3	-6.5	-5.1
Malta	-5.0	-4.0	-3.5	-2.5	-2.7
Poland	-4.1	-2.3	-2.3	-2.1	-1.8
Slovakia	-2.2	-1.7	-3.3	-3.3	-3.3
Sweden	1.7	2.9	2.7	2.1	2.1
United Kingdom	-3.5	-3.4	-2.7	-2.6	-2.2
EU-25	-2.8	-2.1	-1.7	-1.3	-1.1

(1) Cyclically-adjusted budget balance net of one-off and other temporary measures. For Denmark, Poland and Sweden the figures do not include pension fund costs (see Box 2.2).

Box 2.2: Recording of pension reform costs

According to ESA95 rules and the Eurostat decision of 2 March 2004, funded defined-contribution (DC) pension schemes should be classified in the financial sector and not in government. Therefore when a government creates a new funded DC pension scheme and shifts to this new scheme a share of the social contributions that were previously collected by social security, government revenue falls. On the other hand, the pensions that will be paid by the new pension scheme will not count as government expenditure. This usually leads to a medium-term deterioration in the government deficit (often known as the pension reform cost) to be offset by an improvement in the future.

The Eurostat decision on the sectoral classification of pension schemes should be implemented by all Member States until the end of a transitory period which ends in April 2007. Currently, Denmark, Poland and Sweden benefit from this transitory period. By April 2007, the government deficits (surpluses) and debts in these countries will have to be revised upwards (downwards) (see Tables 2.11 and 2.12).

Data reported by the Hungarian statistical office (KSH) and published by Eurostat (Eurostat press release n° 139/2006 of 23.10. 2006) will also have to be revised in April 2007. However, deficit figures in the most recent update of the Hungarian convergence programme (September 2006) already include the pension reform costs. For consistency with the convergence programme, the Commission forecasts for Hungary already include the pension reform costs and are therefore not directly comparable to data published by the KSH and Eurostat.

Slovakia also used to benefit from the transitory period. However the most recent government deficit figures published by the Slovak statistical office and Eurostat include the pension reform costs. To reflect this change the Commission services' forecast for the budget balance and the debt is inclusive of pension reform costs as well.

Table 2.11

Government balances and pension reform costs in countries benefiting from the transitory period

% of GDP	2002	2003	2004	2005	2006	2007	2008
Government deficit (-) surplus (+) excl. pension reform costs							
DK	1.2	1.1	2.7	4.9	*4.0*	*4.3*	*4.2*
PL	-3.2	-4.7	-3.9	-2.5	*-2.2*	*-2.0*	*-1.8*
SE	-0.2	0.1	1.8	3.0	*2.8*	*2.4*	*2.5*
Pension reform costs (to be added to government accounts by April 2007)							
DK	1.0	1.1	1.0	0.9	1.0	1.0	1.0
PL	1.8	1.6	1.8	1.9	2.0	2.0	2.1
SE	0.9	0.9	1.0	1.0	1.1	1.1	1.1
Government deficit (-) surplus (+) incl. pension reform costs							
DK	0.2	0.0	1.7	4.0	3.0	3.3	3.2
PL	-5.0	-6.3	-5.7	-4.4	-4.2	-4.0	-3.9
SE	-1.1	-0.8	0.8	2.0	1.7	1.3	1.4

Table 2.12

Government debts in countries benefiting from the transitory period

% of GDP	2002	2003	2004	2005	2006	2007	2008
Government debt (2nd pillar pension schemes in government)							
DK	46.8	44.4	42.6	35.9	*28.5*	*24.5*	*22.0*
PL	39.8	43.9	41.8	42.0	*42.4*	*43.1*	*42.7*
SE	52.0	51.8	50.5	50.4	*46.7*	*42.6*	*38.7*
Impact of pensioin reform on debt (to be added to government accounts by April 2007)							
DK	1.6	1.2	1.2	0.3	1.3	1.2	1.2
PL	2.4	3.2	4.0	5.3	6.9	8.0	8.9
SE	0.7	0.7	0.6	0.6	0.7	0.7	0.7
Government debt (2nd pillar pension schemes in corporate sector)							
DK	48.4	45.6	43.8	36.2	29.8	25.7	23.2
PL	42.2	47.1	45.8	47.3	49.3	51.1	51.6
SE	52.7	52.5	51.1	51.0	47.4	43.3	39.4

7. Risks to the forecast

As always, the outlook is subject to upside and downside risks.

On the external side, risks relate to the outlook for world trade. While the US economy is slowing, there are few signs of a growth deceleration in Asia. In the event of a further re-composition of Asian growth towards domestic demand, Asian economies might be in a better position to withstand a slowdown in the US than in the past. This could give an additional boost to growth in world trade, in general, and with Asia gaining importance as a European export destination, to growth in European export markets in particular.

On the other hand, a sharper-than-expected slowing of the US economy also poses significant downside risks to the outlook for world trade. In addition, important global imbalances continue to prevail and risks of a disorderly unwinding have not abated in recent months. Added to this comes the suspension of the Doha trade round which could reignite protectionist tendencies and encourage moves towards bilateralism.

Oil prices have decreased by almost $20/barrel since their peak in early August. Lower demand, increasing stocks and the recent easing of geopolitical tensions have contributed to a strong downward correction of oil prices. For the first time in several years, assuming no disruptive hurricanes or a rekindling of geopolitical tensions, the chances are that oil prices could fall even further over the forecasting period. This would evidently be beneficial for the purchasing power of households and profit margins in the corporate sector. On the other hand, oil prices could also rise again, thereby constituting a downside risk to growth. In particular, while slowing demand is expected to improve the supply-demand balance in the near term, in the current geopolitical environment it cannot be ruled out that tensions flare up again, thereby quickly raising risk premiums on oil prices.

On the domestic side, upside risks are primarily linked to developments on the labour market. Recently, the unemployment rate has fallen to its lowest level since 2001. Continued positive surprises on the labour market would have a direct effect on private consumption via higher labour incomes. Moreover, it is likely to boost consumer confidence, thereby strengthening the propensity to consume. As there has been little consumption smoothing since the downturn in 2001-2002, households could increase their consumption levels without dipping strongly into their savings.

A further upside risk is related to recent productivity developments. There are indications that labour productivity in Europe has increased substantially over recent quarters. While a large part of this is of a cyclical nature, ongoing reform efforts in combination with rising investments in ICT may also have led to structural improvements. Continued strong productivity increases would, via their effect on corporate profitability, boost Europe's attractiveness as a place to invest and gross fixed capital formation may continue to surprise on the upside in the near-term future.

Downside risks are related to the inflation outlook. With labour markets tightening, wages, which up to now have been surprisingly contained, may grow more than expected. Wage claims have risen in the first half of 2006 and may continue to do so in the near term. Higher wages could translate into higher consumer prices, which may prompt a response from monetary authorities that goes beyond what is assumed in the forecast. On the other hand, the effects of higher wage claims on inflation may be partly offset by the observed increase in labour productivity.

Furthermore, despite a certain cooling in 2006, housing markets continue to be richly valued in a number of Member States. In the event of further interest hikes, an abrupt downward correction may occur, impacting negatively on construction investment and private consumption.

Overall, risks seem to be fairly balanced, with upside risks slightly dominating in 2006, but downside risk becoming more pronounced further ahead.

Underlying the above risk scenario is the assumption that the US economy will see a soft landing. There is, however, a non-negligible probability of an alternative scenario where the US slowdown will be more pronounced than assumed. Such a "harder-landing" scenario would not only have a negative effect on world output growth in itself, but most likely also have wider implications via a correction in asset prices and a downward pressure on the dollar. A significant correction in US financial asset prices would impact on the performance of European households, companies and financial intermediaries, as a result of the deterioration in the balance sheets.

Moreover, a sharp appreciation of the euro in combination with financial-market turbulence could be expected to feed back into the real sector via reductions in the level of investment and household spending.

There are, however, some safety valves which would come into play in the event of such an alternative scenario of a significant compression of demand in the United States. First, weak global demand would curb commodity prices and put downward pressure on producer prices. Second, the appreciation of the euro would help contain inflationary pressures in the EU, providing monetary policy with a larger margin of manoeuvre.

Moreover, even if a harder landing of the US economy were to occur, its impact on the EU economy is likely to be milder than, for instance, in 2001-2002. This can be explained by several factors. First, the euro-area recovery is increasingly based on domestic demand, where *inter alia* the long-term adjustment of the German construction sector has come a long way and may no longer constitute a drag on growth. Second, the importance of the US as a destination for euro-area exports has diminished in recent years, with increasing exports shares directed to the recently-acceded Member States, to oil-exporting countries and to Asia, particularly China. Finally, in contrast to the recession in 2001-2002 that was a common shock following the burst of the dot-com bubble, there is no reason to assume, barring sizeable financial stress, that a country-specific downturn in one housing market should spill over to others.

Box 2.3 in this document discusses in greater detail whether US house prices appear overvalued, how a harder landing of the US could play out and the transmission channels through which the EU could be affected. It also gives some indications of the quantitative impact based on different simulations using the Commission's macroeconomic QUEST model. A harder landing in the US would clearly affect other countries through the direct and indirect trade effect; the impact on confidence and through financial linkages. Depending on the assumptions used in the different scenarios, the more pronounced slowdown in the US housing sector, which could cause a mild recession in the US (reducing GDP by a cumulative 2½ pp. in 2007-2008 compared to the baseline forecast), is expected to reduce GDP growth in the EU by between 0.3 and 0.8 pp. over the same period.

The simulations point to a more limited impact than in the 2000-2001 recession and there are several reasons for that: First, the shock is of a country-specific nature and not sparked by a common adverse shock. Second, corporate balance sheets have improved since the dot-com bubble and current stock market valuations are more in line with fundamentals. Third, the US slowdown is expected to mainly affect the construction sector and private consumption, while the import demand for investment goods could hold up well. Fourth, although house prices in some EU countries appear to be overvalued, developments in housing markets are predominantly driven by local conditions and direct spill-over effects from a cooling of the US housing market are not to be expected. Fifth, growth in the EU and the euro area is increasingly driven by domestic demand and more broad based over the forecast period. Sixth, temporary factors that held back growth in the past, e.g. the long-term adjustment of the German construction sector to pre-unification levels, seem to have petered out. Finally, structural reform efforts may have contributed to strengthen potential growth and thereby also the resilience of the EU economies to external shocks.

Box 2.3: **Economic implications for the EU of a more marked correction of the US housing market**

One risk highlighted in the current forecast reflects growing concern about a more marked cooling of the United States (US) housing market than projected, which could cause a harder landing of the US economy.

This box will briefly discuss whether US house prices appear overvalued; how a harder landing in the US could play out; the channels through which the EU (and the rest of the world) would be affected, and will give some indications of the quantitative impact on the EU economy based on different model scenarios.

US house prices seem overvalued...

House prices in the US have increased by around 50% since 2001 according to the Office of Federal Housing Enterprise Oversight. This has caused a substantial gain in wealth that, with increased mortgage equity withdrawal, has helped to finance consumer spending, providing a boost to US economic growth. According to some estimates, the house price surge has added at least 1 pp. to GDP growth during the past three years.

The US housing market is now facing a downturn. Residential construction fell by 11% (year-on-year) in the second quarter of 2006. In September, housing starts were 18% below the value one year ago, while house-price growth has slowed markedly. The question is how severe the US housing correction will eventually turn out to be. Any estimate of an overvaluation compared to “fundamentals”, i.e. affordability indicators, price/rent-ratios and user cost of owner-occupied housing, crucially depends on the assumptions for interest rates. At present, many private sector estimates of the overvaluation centre around 20%. It could also prove somewhat larger, judging from an OECD study on "Recent house price developments: the role of fundamentals" that indicated an overvaluation of 21% based on 2004 year's prices using the price-to-rent ratio. Looking at earlier housing-market cycles in the US gives limited guidance, as average nation-wide prices have not fallen since reliable data have become available, perhaps to some extent, because the US housing cycle is smoother at the national level. At the regional level, however, there have been episodes of falling prices over the past thirty years.

Turning to other countries for guidance and according to the IMF essay "when bubbles burst", house prices have bust, on average, every 20 years in industrial countries since 1970 (with most house-price busts centred around 1980-82 and 1989-92). The price correction typically amounted to 30%, lasted about four years and was often associated with output losses. The beginning of the slowdown in activity broadly coincided with the beginning of the bust itself, while the recovery typically started after nine quarters. The probability of a housing price boom being followed by a bust amounted to around 40%.

...and a more marked correction could cause a mild recession in the US...

A more pronounced slowdown in the housing sector would involve a sharper fall in both house prices and residential investment. The slowdown in the housing sector would also spill over into consumer spending, via the wealth effect, to the labour market and to business investment (albeit with a somewhat longer lag). However, the outlook for a weaker domestic demand is also likely to initiate a significant monetary policy easing. This, together with an assumed fiscal stimulus, would strengthen a rebound in 2008.

The baseline forecast assumes a 10% fall in the level of house prices and a moderate decline in residential construction until the third quarter of 2007. A sharper correction could see house prices coming down by 20% and residential construction following a more pronounced downturn similar to the one experienced in the 1990/91 recession. In such a scenario, the decline in residential construction alone would yield a negative contribution to GDP growth of 1 pp. in 2007. Based on available estimates of the wealth effect in the US (ranging from 2-6% on consumption, half of which would be realised within a year), consumer spending could contract during three quarters. Business investment would also see a sharper deceleration in this alternative scenario, although it would be partly offset by additional government spending, lower interest rates and tax cuts.

Overall, GDP would fall at an annualised rate of 0.3% in the third and fourth quarter of 2007, i.e. a relatively mild recession, similar to that of 2001. Annual GDP growth would be 1¼ pp. lower in both 2007 and 2008 compared to the baseline forecast. As a result, the household saving rate would rise (to around 4%), the general government deficit would widen to 4½% of GDP, and the current account deficit would improve by around 1 pp. to 5½% of GDP.

...with some, not overly dramatic, impact on the EU

Looking at past business cycles, empirical analyses show co-movements of business cycles between the US and the EU. There seems to be some evidence that the US cycle leads the EU, suggesting a transmission of US shocks to the EU. However, these historical relations may partly reflect the occurrence of common shocks in the past. It is not a priori certain to what extent a country-specific shock in the US would affect the EU economy. If only bilateral trade relations are considered, the impact on the EU would be relatively limited. However, if a harder landing in the US caused a global re-assessment of risks, this could have wider repercussions.

A harder landing in the US would affect other countries through (i) direct and indirect trade effects; (ii) confidence effects; and (iii) corporate and financial market linkages.

Based on simulations using the Commission's global macroeconomic model QUEST, a number of scenarios have been simulated to illustrate these channels. Although the model simulations only show detailed results for the EU-15, the results are likely to be of the same magnitude for the EU as a whole.

The direct trade effect captures the impact of reduced US demand for EU exports. The share in extra-EU exports of goods to the US amounted to 23% in 2005 (albeit with sizeable differences across countries, with the export share ranging in the EU-15 from 11% in Greece to 51% in Ireland). However, indirect effects via other trading partners reinforce this impact.

The trade impact from 3rd countries, particularly from Asia, is difficult to quantify with any significant precision. Exports to the US have declined to about 20% of Asian exports in 2005 (compared to 25% in 2000). In addition, a part of the intra-Asia trade is likely to be affected. This follows from the integration of global production processes, which means that more than 1/3 of intra-Asia trade has industrial countries as its final destination. A harder landing in the US, as outlined above, is estimated to reduce export growth in Asia by around ½ pp. and 1 pp. a year over the forecast period. However, domestic demand is expected to remain robust. Furthermore, in some Asian countries, there could be room for expansionary polices to partly offset the impact of the US slowdown. Overall, GDP growth in Asia is expected to be reduced to just below 7% a year, implying a downward revision by 0.4 pp. in 2007 and 0.3 pp. in 2008 compared to the baseline forecast scenario.

A model simulation also includes a counterbalancing effect from reduced global interest rates (which are endogenous in the model) due to the increase in US savings. Lower interest rates will ceteris paribus cause a small increase in investment. Taken together, the overall effect implies negative spill-over effects on GDP growth by around 0.15 pp. in both 2007 and 2008 (i.e. an accumulated impact of some 0.3 pp. on the EU-15 GDP level).

However, a GDP impact of a mere 0.3 pp. in the EU-15 of a harder landing in the US seems rather benign. Taking into account the impact on global equity markets and investor confidence, a confidence effect in the rest of the world can by no means be excluded. Such an effect would offset the positive impact on domestic demand from lower global real interest rates. Consumption and, in particular, investment growth would be less buoyant than in the first simulation. Overall, the estimated spill-over effects to GDP are almost doubled, reducing EU-15 GDP growth by around ¼ pp. a year (i.e. an accumulated impact of some ½ pp. on the GDP level).

The impact of a harder landing in the US on the EU-15 could also be more marked. This could follow from e.g. increased uncertainty on the financial markets, a re-assessment of global risks and a shift in preferences of international investors out of dollar denominated assets which could cause a depreciation of the US dollar. If such a scenario was to materialise, the impact on the EU would also depend on the exchange rate policy of other countries, especially the Asian ones.

A third scenario has been calibrated to include also the impact of a certain depreciation of the US dollar. To allow for an illustration of the possible impact on the euro area, it has been assumed that the US dollar depreciates by 10% bilaterally, while it is assumed that the Asian currencies maintain a peg relative to the US dollar. This implies a real effective appreciation for the euro of less than 3%. The appreciation of the euro and the reduced demand in the US would limit exports and raise imports further. On the other hand, import prices are also reduced, which would stimulate consumption and investment spending. The downward pressure on European interest rates is reinforced by the assumed shift in investors' preferences, thereby boosting domestic demand. This would partly offset the negative shock to investment stemming from stock markets repercussions and reduced confidence. Overall, GDP growth would be reduced by ½ pp. in 2007 and ¼ pp. in 2008 (i.e. an accumulated impact of around ¾ pp. on the EU-15 GDP level).

Summing up, a harder landing of the US economy can not be excluded. A more marked correction of housing prices could cause a mild recession in the US which would dampen the outlook. However, the impact is expected to be relatively limited. Based on the outcome of model simulations, the impact on the EU-15 GDP level is set to between 0.3 to 0.8 pp. over a two-year period. There are several factors explaining a more limited impact than in the 2000-2001 recession: the shock is of a country-specific nature; corporate balance sheets have improved since the dot-com bubble; the US slowdown is expected to mainly affect the construction sector and private consumption, while the import demand for investment goods could hold up well; although house prices in some countries appear to be overvalued, developments in housing markets are predominantly driven by local conditions; growth is increasingly driven by domestic demand; temporary factors that held back growth in the past, e.g. the long-term adjustment of the German construction sector, seem to have petered out; and, structural reform efforts may have contributed to strengthen potential growth.

Chapter 3

Member States

1. Belgium

The balanced budget under strain

Activity in 2006

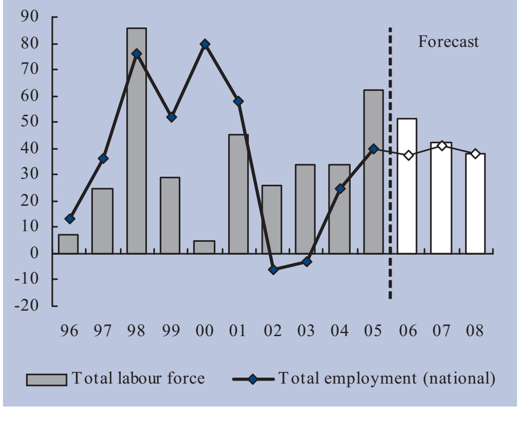
The economic acceleration that started at the end of 2005 led to strong economic growth in the first half of 2006, mainly supported by high domestic demand. In the second half of the year economic activity is expected to decelerate slightly, resulting in annual economic growth of around 2.7%.

Private consumption has benefited from increasing real household disposable income, mainly due to the implementation of the final stage of the 2001 tax reform and also to employment growth. The acceleration in economic activity and strong business confidence have supported fairly strong private investment growth. After correcting for the planned real estate sales by the federal government (recorded as negative investments, but with no impact on economic activity), public investment surged in the run-up to local elections in October. But it is expected to decrease markedly towards the end of the year, following a similar pattern to that observed in the past. Although export expansion was still relatively weak in the first half of the year, it is expected to bring a significant contribution to economic growth in the second half, supported by strong external demand growth.

Prospects for 2007 and 2008

In 2007 and 2008, economic activity is expected to decelerate gradually, as external demand weakens in line with the forecast growth in export markets (such as Germany and the US), and due to increasing interest rates. Overall, economic growth should reach 2.3% in 2007 and 2.2% in 2008.

Graph 3.1 : **Belgium - Labour force and total employment (changes in 1000 persons)**



Domestic demand growth is forecast to remain relatively high throughout 2007, mainly as a result of robust household consumption expenditure. Only in 2008 can some deceleration in activity be expected. Real household disposable income will continue to grow at a high rate, supported by falling inflation and robust employment growth in the wake of the strong economic activity in 2006. Moreover, the share of non-labour income will increase as a result of higher interest rates. The household savings rate is expected to broadly maintain its current level. Sound corporate profitability and a high degree of capacity utilisation support a stable private investment growth (after correcting for the impact of government real estate sales in 2006). Public investment should return to its trend growth. Finally, the contribution of net exports to economic growth will fall as export growth decreases.

Labour market, costs and prices

The acceleration in activity that started at the end of 2005 has also had a positive impact on the labour market. Total employment is projected to grow by about 1% per year until the forecast horizon. However, as in previous years, the impact on unemployment is offset by the growth of the labour force. Wage increases in 2006 should remain subdued in view of the Belgian system of wage indexation and a revision of the product basket of the national consumer price index. However, despite efforts to restrain labour costs, pressures on competitiveness are building up, mainly as a result of the continued wage moderation in Germany.

Primarily as a result of oil price increases in the first half of the year, HICP inflation is likely to reach 2.4% in 2006. From 2007 onwards, it is expected to return to a more moderate level below 2%. Inflation measured by the national CPI in 2006 will, exceptionally, be lower than HICP inflation, due to the revision of the product basket and a change in the base year. From 2007 onwards HICP and CPI inflation are again expected to be about the same.

Public finances

For 2005, Eurostat has amended the deficit and debt data that have been notified by the authorities, in relation a debt assumption from the railway company

SNCB. The deficit for 2005 is therefore 2.3% of GDP (rather than a surplus of 0.1%). As for 2006, public finances have benefited from the higher-than-anticipated economic activity. Indirect tax revenue was quite buoyant during the first half of the year. On the other hand, the advance payments on income taxes stayed below expectations, and the assessment of personal income taxes in 2006 appears to have been overestimated by the Belgian authorities by about 0.3% of GDP. Higher-than-anticipated revenue from real estate sales may partly compensate for this loss in revenue. Moreover, the authorities plan to bring forward the assessment of some corporate taxes from 2007 to 2006. Overall, a deficit of slightly below 0.2% can be anticipated. This includes the revenue of a significant real estate operation (0.2% of GDP), although it is not yet entirely certain that it will be finalised before the end of the year.

As for 2007, the government plans to replace a substantial package of one-offs (around 0.8% of GDP) from the 2006 budget with new taxes on packing material and tobacco, and other revenue increasing measures (close to 0.6% of GDP), combined with continued expenditure restraint. The government is also considering further one-off measures (about 0.4% of GDP), but most of these (namely the real estate sales and the take-over of pension funds) have not been taken into account for the projections, because they were not yet sufficiently specified at the time of the forecast. Moreover, the government is also planning some further reductions in social contributions and limited increases in social benefits. Therefore, on a no-policy-change basis, the government deficit is expected to increase to about 0.5% of GDP. For 2008, a broadly similar deficit can be expected. Meanwhile the debt ratio maintains its downward path. By the end of 2006, it is expected to fall below 90% of GDP for the first time and should continue its downward trend until 2008 when it will reach almost 83% of GDP.

Table 3.1

Main features of country forecast - BELGIUM

		2005		Annual percentage change						
bn Euro		Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices		298.5	100.0	2.0	1.0	3.0	1.1	2.7	2.3	2.2
Private consumption		158.7	53.1	1.7	0.9	1.5	0.9	2.3	2.1	1.9
Public consumption		68.5	22.9	1.7	2.2	2.1	-0.6	2.1	2.4	2.1
Gross fixed capital formation		59.0	19.8	1.9	-0.7	7.9	4.0	2.8	2.4	2.3
of which : equipment		27.0	9.0	2.2	-3.0	8.8	2.2	2.0	4.3	2.5
Exports (goods and services)		257.7	86.3	4.2	2.9	5.9	2.8	5.3	4.9	4.6
Final demand		547.3	183.3	2.8	1.9	4.4	2.1	3.7	3.5	3.2
Imports (goods and services)		248.8	83.3	4.0	3.0	6.3	3.5	5.0	4.9	4.4
GNI at constant prices (GDP deflator)		301.1	100.9	2.1	1.1	2.5	1.0	2.7	2.3	2.2
Contribution to GDP growth :	Domestic demand			1.7	0.8	2.8	1.1	2.2	2.1	1.9
	Stockbuilding			0.0	0.1	0.2	0.4	0.0	0.0	0.0
	Foreign balance			0.3	0.1	0.0	-0.5	0.5	0.2	0.3
Employment				0.7	-0.1	0.6	0.9	0.9	1.0	0.9
Unemployment rate (a)				8.4	8.2	8.4	8.4	8.6	8.5	8.4
Compensation of employees/head				3.2	1.7	2.0	2.4	2.5	2.1	2.2
Real unit labour costs				-0.1	-1.0	-2.7	0.2	-1.4	-1.2	-1.2
Savings rate of households (b)				-	-	13.2	13.2	13.5	13.3	13.3
GDP deflator				1.9	1.6	2.4	2.0	2.1	2.0	2.1
Private consumption deflator				1.7	1.7	2.4	2.9	2.4	1.8	1.7
Harmonised index of consumer prices				1.9	1.5	1.9	2.5	2.4	1.8	1.7
Trade balance (c)				3.3	3.5	2.7	1.6	1.5	1.5	1.7
Current account balance (c)				4.7	4.5	3.6	2.5	2.4	2.5	2.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				4.6	4.4	3.6	2.5	2.8	2.9	3.3
General government balance (c)(d)				-2.7	0.0	0.0	-2.3	-0.2	-0.5	-0.5
Cyclically-adjusted budget balance (c)(d)				-2.5	0.5	0.0	-1.7	0.1	-0.1	-0.1
Structural budget balance (c)				-	-1.0	-0.9	0.2	-0.7	-0.2	-0.1
General government gross debt (c)				120.1	98.6	94.3	93.2	89.4	86.3	83.2

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

2. The Czech Republic

Sustained growth and improving labour market

Activity in 2006

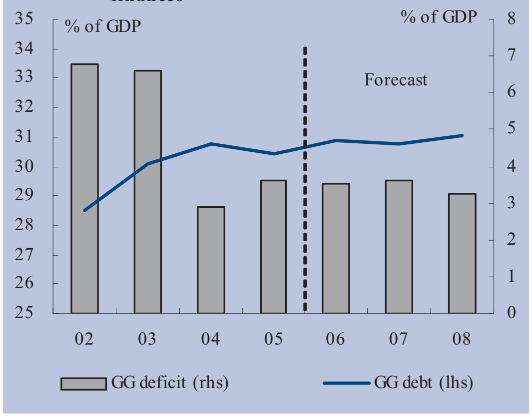
The Czech economy continued to grow strongly in the first half of 2006 driven by increases in private consumption and gross capital formation as well as net exports.

Fixed capital formation has been stimulated by continued inflows of mainly export-oriented foreign direct investment. Private consumption has been boosted by rising household incomes and expanding credit. Mortgage lending, in particular, has increased, sharply influenced by low interest rates and rises in disposable income, in part linked to income tax reductions introduced at the beginning of 2006 affecting the lowest two tax bands. The upturn in net exports in 2005 has been sustained while increases in consumer spending appear to be driving imports at high rates. On the supply side, almost all sectors have contributed to the economic expansion. Manufacturing, particularly transport-related, has grown most strongly, accompanied by strong increases in trade and commercial services. For 2006 as a whole, the economy is likely to at least approach the historically high 6% growth rate set in 2005.

Prospects for 2007 and 2008

The solid expansion of the Czech economy is expected to continue whilst easing to about 5% in 2007 and 2008. The pattern of growth is likely to be maintained: increasing gross fixed capital supported by sustained inflows of foreign direct investment with rising private consumption benefiting from increases in disposable income. The export sector is also likely to benefit from the favourable economic development of the Czech Republic's main trading partners. The pattern of growth is set to be accompanied by rising imports stimulated by private consumption and increased investment, as well as a rise in the real effective exchange rate. Consequently, the contribution to growth from the foreign balance is likely to decline. While government consumption has been decreasing, the medium-term forecast includes a large degree of uncertainty attached to reserve funds carried over from previous budgets.

Graph 3.2: **The Czech Republic - General Government finances**



Labour market, costs and prices

The strong expansion of the Czech economy during 2006 has positively affected the labour market. Employment has risen in the secondary and tertiary sectors, largely following the pattern of economic growth, with strong rises in manufacturing. The increasing demand has been reflected in rising wages which may also have been affected by the increase in the minimum subsistence income paid by the government since the start of 2006 and a substantial increase in the minimum wage. The share of long-term unemployed has declined slightly but still remains high as a proportion of overall unemployment.

Although the employment rate is forecast to continue rising, the creation of new jobs and the fall in the rate of unemployment are still likely to be tempered by structural factors. The introduction of new laws in 2007 to promote active job-seeking, with the effect of increasing the difference between earned incomes and social benefit contributions, should be a counterweight to the wage measures mentioned above but overall the forecast for 2007 and 2008 is for a weaker increase in the employment rate compared with the recent trend. Nevertheless, unemployment, already below the average of the EU-25, is expected to continue falling, albeit at a decelerating rate.

Recent rises in wage levels have been largely balanced by increased productivity and total unit labour costs have remained stable, contributing to a relatively low inflationary environment. Consumer price inflation has risen slightly during the first half of the year due principally to utility charges and rises in fuel prices whilst the impact of rising oil prices has been partially offset by the continued appreciation of the koruna against the dollar.

Increased inflationary pressure is more likely in the medium term given that the output gap turned positive in 2006 after being negative for many years.

Public finances

The government deficit was originally estimated to have fallen from 3.0% in 2004 to 2.6% in 2005. However, following a revision of the budgetary execution, principally the estimate of accrual-based taxation, gross fixed capital and other capital expenditure, the deficit was revised upward to 3.6% of GDP – still considerably below the 2005 deficit target of 4.7% of GDP set out in the 2005 Convergence Programme. Higher-than-expected revenues from increased growth and lower-than-anticipated expenditure due in part to the carryover of unspent funds promoted a more favourable budgetary position.

The deficit for 2006 is expected to be below the government target of 3.8% at about 3½% of GDP. This takes into account the new measures in 2006 to lower taxation on personal income and the settlement of a guarantee to the Czech National Bank, estimated at ½% of GDP, connected to the stabilisation of the Czech banking sector.

The deficit is expected to remain broadly similar in 2007 taking into account increases in social spending approved before the 2006 parliamentary elections and rises in indirect taxation including excise duties.

In 2008, the deficit is expected to decrease slightly to approximately 3¼% of GDP based on the no policy change assumption and continuing robust growth.

The government debt ratio is projected to increase to about 31% of GDP in 2008.

Table 3.2

Main features of country forecast - THE CZECH REPUBLIC

	2005		Annual percentage change						
bn CZK	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at previous year prices	2970.3	100.0	1.8	3.6	4.2	6.1	6.0	5.1	4.7
Private consumption	1473.6	49.6	3.7	6.0	2.6	2.8	3.9	4.0	3.8
Public consumption	663.1	22.3	0.7	7.1	-3.2	1.0	0.8	0.7	0.8
Gross fixed capital formation	740.9	24.9	5.4	0.4	4.7	1.3	6.6	7.6	6.5
of which : equipment	319.1	10.7	10.9	-5.9	4.5	1.9	7.0	7.5	6.5
Exports (goods and services)	2130.6	71.7	9.3	7.2	21.1	10.4	14.0	10.6	10.1
Final demand	5044.0	169.8	5.6	5.3	10.2	5.7	8.2	6.9	6.6
Imports (goods and services)	2073.7	69.8	13.9	8.0	18.2	4.8	11.3	9.4	9.2
GNI at previous year prices (GDP deflator)	2856.3	96.2	-	3.9	2.7	7.5	5.2	3.7	4.6
Contribution to GDP growth :	Domestic demand		3.5	4.8	1.9	2.0	3.8	4.0	3.6
	Stockbuilding		0.3	-0.5	1.0	0.1	0.1	0.0	0.1
	Foreign balance		-2.0	-0.6	1.4	4.0	2.1	1.1	1.0
Employment			-	-1.3	0.1	1.6	0.8	0.7	0.5
Unemployment rate (a)			-	7.8	8.3	7.9	7.4	7.1	6.9
Compensation of employees/head			-	8.8	6.0	4.1	5.6	6.2	5.7
Real unit labour costs			-	2.7	-1.6	-1.0	-0.9	-0.7	-1.0
Savings rate of households (b)			-	-	5.5	7.2	7.0	6.9	6.7
GDP deflator			8.8	0.9	3.5	0.7	1.4	2.4	2.4
Private consumption deflator			7.6	-0.4	3.0	1.7	2.4	2.6	2.7
Harmonised index of consumer prices			-	-0.1	2.6	1.6	2.5	2.7	2.9
Trade balance (c)			-5.1	-2.7	-1.0	1.3	1.8	2.4	3.2
Current account balance (c)			-3.4	-6.5	-6.3	-2.7	-3.1	-2.3	-1.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-3.6	-6.3	-6.2	-3.2	-3.6	-2.8	-2.2
General government balance (c)(d)			-	-6.6	-2.9	-3.6	-3.5	-3.6	-3.2
Cyclically-adjusted budget balance (c)(d)			-	-5.5	-1.8	-3.3	-3.8	-4.1	-3.8
Structural budget balance (c)			-	-5.5	-1.1	-2.2	-3.6	-4.1	-3.8
General government gross debt (c)			-	30.1	30.7	30.4	30.9	30.8	31.0

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

3. Denmark

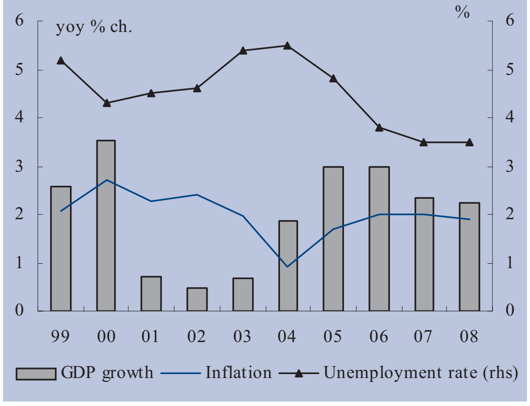
Capacity constraints buiding up

Activity in 2006

The economic recovery in Denmark, which accelerated in 2005, has maintained its momentum in 2006. After a relatively hesitant first quarter, real GDP growth improved again in the second quarter. In the first half of the year real GDP growth reached 3.5% compared with the same period a year earlier. This is somewhat higher than the real GDP growth of 3.0% recorded in 2005. As in 2005, private consumption has continued to be the main driving force and grew by 4.5%. This expansion has been supported in particular by a progressive fall in unemployment, a booming housing market and still relatively low interest rates. Moreover, investment, which took off in 2005, has provided a further impetus to the economy and grew overall by 13.5%. As for the external sector, both exports and imports have accelerated further in 2006. Exports of goods and services grew by about 13% in the first half of the year, but due to buoyant private consumption, growing capacity constraints in the domestic economy and a high import content in exports, imports grew even stronger by more than 18%. Consequently, net exports contributed negatively to GDP growth.

Economic indicators continue to provide a positive picture of the short-term prospects for the Danish economy. Consumer and business confidence are at historically high levels, with the industrial, construction and services sectors all generally positive about sales and production. Given this setting, the developments observed so far are expected to continue for the rest of the year and real GDP is foreseen to grow at about 3% for the year as a whole.

Graph 3.3: **Denmark - GDP growth, unemployment rate and HICP inflation**



Prospects for 2007 and 2008

GDP is expected to continue to grow at a healthy pace over the forecast horizon and, as in 2006, growth is projected to be driven by domestic demand. However, widespread capacity constraints in the domestic economy and a moderation in private consumption are expected to curb growth to 2¼% in 2007 and 2008.

Private consumption is expected to moderate as interest rates increase and the wealth effects of the sharp increase in house prices taper off. Since mid-2006, the increases in real estate prices have shown clear signs of levelling off, notably in the metropolitan areas and for summer cottages. The number of properties for sale in the market has also increased significantly. While a general price fall cannot be completely disregarded, there are few signs of a major forthcoming correction in real estate prices, though this remains a downside risk. Investment is envisaged to continue to slow down over the forecast period, also due to higher interest rates and a slowdown in housing construction. However, high capacity utilisation, combined with labour shortages and good profitability, is expected to provide an impetus to business investment.

As in 2006, imports are expected to grow more than exports. Net exports are therefore expected to continue contributing negatively to growth in the first part of the forecast period. In 2008, however, following a moderation in domestic demand and a recovery in external demand, net exports are expected to start contributing positively to growth.

Labour market, cost and prices

In 2006, employment has picked up further and unemployment has fallen to below 4% of the labour force. At the same time, capacity utilisation is high in the industrial sector and most sectors are reporting rapidly increasing shortages of labour.

Despite this general shortage of labour, the increase in wage growth has so far been moderate and there are few signs of wage-driven inflation in the overall economy. This is somewhat surprising but can be seen as an effect partly of low inflation expectations and partly of increasing effects of globalisation. It is likely that mounting competition from the new Member States and emerging markets is playing a role, insofar as the threat of outsourcing and import of labour is having a dampening effect on wages. Nevertheless, wage pressures are expected to increase moderately over the forecast period.

Consumer price inflation continues to be moderate and slightly below the euro area average at around 2%. Domestic inflation has gradually been increasing due to higher cost pressures, but can still be considered to be rather low. Over the forecast period, capacity constraints and growing wage pressures in the economy are expected to result in clearer upward pressure on inflation. At the same time, counter-pressure from lower energy prices should contribute to maintaining consumer price inflation at the current level.

Public finances

Over the last few years the general government has recorded sizable surpluses of about 3% and 5% of GDP in 2004 and 2005 respectively. As a consequence of still relatively healthy economic growth and high oil prices, and hence high tax revenue, this situation is expected to continue over the forecast period. However, as a consequence of a fall in revenue from the pension yield tax, which was exceptionally high in 2005 due to favourable developments in financial markets, and slightly lower oil prices, the surpluses are expected to be somewhat lower than in 2005, at around 4¼% of GDP through to the forecast horizon. With continued strong surpluses the gross debt ratio is expected to be reduced further, to well below 25% of GDP in 2008.

Until April 2007, Denmark benefits from the transitory period on the sectoral classification of pension schemes. (See box 2.2)

Table 3.3

Main features of country forecast - DENMARK

		2005		Annual percentage change						
	bn DKK	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices		1554.0	100.0	2.3	0.7	1.9	3.0	3.0	2.3	2.2
Private consumption		754.3	48.5	1.7	1.6	3.4	4.1	3.9	2.3	2.0
Public consumption		402.0	25.9	2.4	0.2	1.5	1.3	1.2	1.1	1.1
Gross fixed capital formation		324.1	20.9	4.1	2.1	4.5	9.2	12.0	4.4	3.2
of which : equipment		135.2	8.7	4.2	2.3	4.9	13.1	18.0	4.3	3.4
Exports (goods and services)		753.5	48.5	5.2	-1.2	2.7	8.4	10.6	6.9	6.4
Final demand		2235.1	143.8	3.3	0.0	3.2	5.6	6.9	4.2	3.7
Imports (goods and services)		681.1	43.8	5.9	-1.7	6.4	11.8	14.2	7.6	6.4
GNI at constant prices (GDP deflator)		1557.3	100.2	2.5	1.2	2.2	3.5	2.7	2.6	2.2
Contribution to GDP growth :	Domestic demand			2.3	1.2	2.9	4.1	4.8	2.5	2.1
	Stockbuilding			0.1	-0.6	0.2	-0.2	0.0	0.1	0.1
	Foreign balance			0.0	0.1	-1.3	-1.0	-1.4	-0.2	0.1
Employment				0.5	-1.5	0.0	0.7	1.2	0.2	0.1
Unemployment rate (a)				6.1	5.4	5.5	4.8	3.8	3.5	3.5
Compensation of employees/head				3.5	3.9	2.9	3.5	3.7	4.2	2.9
Real unit labour costs				-0.1	-0.3	-1.2	-1.6	-1.3	-0.3	-1.6
Savings rate of households (b)				-	-	4.3	1.7	2.4	2.4	1.8
GDP deflator				1.8	1.9	2.2	2.8	3.2	2.3	2.4
Private consumption deflator				1.9	2.0	1.7	2.0	2.0	1.9	1.9
Harmonised index of consumer prices				2.0	2.0	0.9	1.7	2.0	2.0	1.9
Trade balance (c)				3.9	4.5	3.7	3.1	1.4	1.3	1.6
Current account balance (c)				1.6	3.2	2.3	2.9	1.9	2.1	2.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				1.7	3.2	2.3	3.0	2.0	2.2	2.3
General government balance (c)(d)(e)				0.0	1.1	2.7	4.9	4.0	4.3	4.2
Cyclically-adjusted budget balance (c)(d)				0.0	1.9	3.6	5.3	4.1	4.5	4.6
Structural budget balance (c)				-	1.9	3.4	5.1	3.8	4.2	4.6
General government gross debt (c)				63.2	44.4	42.6	35.9	28.5	24.5	22.0

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).
(e) Excluding pension reform costs which would worsen the balance in Denmark by 1 pp. to 3 % this year (see also box 2.2).

4. Germany

Stronger growth ahead, with quarterly volatility reflecting budgetary measures

Activity in 2006

Growth in the first half of 2006 was substantially higher than expected. While in 2005 net exports were the main growth driver, recently domestic demand has been picking up, particularly machinery and equipment investment. In addition, after more than a decade of continuous decline, construction has been staging a recovery, interrupted only by cold weather in the first quarter. The corresponding rebound contributed to an exceptionally high growth rate of 0.9% (quarter-on-quarter) in the second quarter. However, half of this growth originated from substantial stockbuilding in view of an expected surge in domestic demand in the second half of the year, in anticipation of the increase in the standard VAT rate from 16% to 19% from 1 January 2007. Finally, the football World Cup boosted service exports.

Recent indicators point to slightly lower but continuing strong growth in the second half of 2006. This is confirmed by incoming orders, production and labour market data, and all coincident survey indicators like the ifo index for the assessment of the current business situation.

The profile of private consumption will be heavily influenced by the VAT increase. While in the first half of 2006 the anticipation effect was not clearly visible in either retail sales or car registrations, substantial additional demand is expected in the second half. The consumer confidence sub-index reflecting the intention to make major purchases has been escalating recently and orders to the automotive industry in the first half of 2006 have been strong.

Investment is also being substantially affected by planned and recently introduced budgetary measures. First, housing investment is being brought forward before the VAT increase. This effect is reinforced by the abolition of the subsidies for owner-occupied housing still valid for the immense number of building permit applications before the end of 2005 as well as by new subsidies for energy-saving construction measures. Consequently, the downward trend in residential construction, which has lasted for a decade, was halted already in the first half of 2006. Second, corporate investment is profiting from the enhanced depreciation rules valid until the end of 2007. Both positive developments in the first half of 2006 will continue in the remainder of the year.

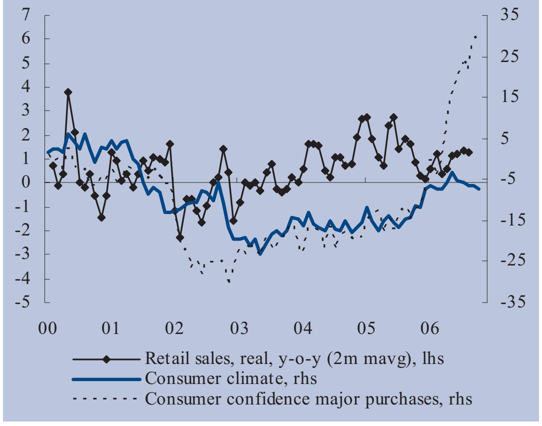
Prospects for 2007 and 2008

In 2007, the negative effect from the anticipation described above will weigh on private consumption, overshadowing the positive underlying growth trend. Subsequently, in 2008 private consumption will again be a strong growth driver. The savings rate of private households is projected to reflect these developments, arriving at a lower level in 2008 compared with 2005.

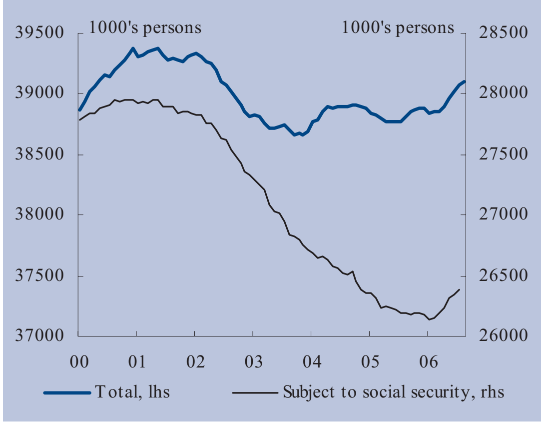
The swings due to budgetary measures will be lower in investment because its different components are affected over different years. While housing investment will suffer in 2007, corporate investment will remain strong in 2007 but fall back in 2008 when the enhanced depreciation rules will no longer apply.

As a result of these swings in domestic demand, net external demand and domestic demand will take turns as the main growth driver during the forecast period.

Graph 3.4: **Germany - Private consumption indicators**



Graph 3.5: **Germany - Increasing employment**



Net external trade will contribute most to GDP growth in 2007, but in 2008 domestic demand will again become the main growth driver, as it was in 2006. Price competitiveness of German exports will continue to improve due to high productivity gains in 2006 and lower social security contributions from 2007 onwards. Consequently, the external surplus is forecast to increase further.

Labour market, costs and prices

The labour market situation is becoming significantly more favourable. Unemployment is on a clear downward trend and employment is growing. Most importantly, for the first time in several years, the employment increase also extends to jobs subject to social security contributions.

Against the improving labour market situation and solid corporate profits, wages may become more dynamic in the private sector. In 2008, this could be the case also for the public sector. The negative drift between effective pay and contract wages is expected to narrow. In addition, lower social contribution rates from 2007 onwards will increase net wages but, via the effect on employer's contributions, dampen the growth of compensation of employees. Consequently, real disposable income is expected to increase in 2006 and 2008, though it would fall in 2007 due to the higher VAT rate. Unit labour costs will continue to decline due to strong productivity growth in 2006 and the reduction in non-wage labour costs in 2007. In 2008 employee compensation will grow in line with productivity, leaving unit labour costs unchanged.

During the remainder of this year, assuming falling oil prices, inflation is expected to ease despite sporadic price increases before the VAT increase, for example for tobacco. At 1.8% on average, inflation will be slightly lower this year than in 2005. In 2007, inflation will be driven by the increase in the standard VAT rate, a significant share of which is expected to be passed on to consumers. With this effect fading out, inflation will fall to slightly above 1% in 2008.

Public finances

The general government deficit is projected to fall from 3.2% of GDP in 2005 to 2.3% in 2006 and hence below the 3%-of-GDP reference value for the first time since 2002. Earlier this year, in spring, the Commission services projected the 2006 deficit at 3.1% of GDP.

The major contribution to this improvement in the budgetary outlook for 2006 comes from the revenue side. The tax burden is projected to increase marginally compared with the previous year, whereas in spring, it was projected to remain unchanged. Revenues from indirect taxes and social contributions are growing in line with their tax bases, while the payroll tax base is developing somewhat more favourably than previously projected. However, the main drivers behind the positive revenue surprise are direct taxes, which are yielding substantially stronger revenues than tax base developments would suggest. As part of the budgetary package adopted in autumn 2005, some direct tax allowances were cut back while others were increased. For example, some income tax loopholes were closed. In contrast, some household services were granted favourable tax-treatment and depreciation rules on non-fixed capital were made more generous. Although the fiscal effects from these measures tend to cancel each other out in 2006, advance payments on profit-related taxes in particular are exceeding expectations.

General government expenditure is being kept under control in 2006, despite the higher-than-anticipated revenues. Total expenditure is projected to grow by 0.8% as projected in spring. The unexpectedly high GDP growth, however, reduces the expenditure share in GDP compared with the previous year by one percentage point. In particular, positive labour market developments have led to a reduction in related expenditure, especially in unemployment insurance (*Arbeitslosengeld I*). This is administered by the Federal Employment Agency, which has continued to reduce spending on active labour market policy. A further factor that has led to the unexpectedly high surplus in the Agency’s cash balance is however budget-neutral in ESA95 accounting: The national authorities required companies to bring their monthly social contributions forward to the end of the month when the payment is due as opposed to the middle of the following month. The resulting thirteen instead of twelve cash payments in 2006 have provided one-off cash relief for the social security system. Public consumption recorded strong growth in the first half of this year, which should abate somewhat in the second half, while interest expenditure and subsidies are projected to contribute to consolidation. The cyclically-adjusted balance is projected to improve by 0.4 percentage points in 2006, reflecting the tax revenue developments.

In 2007, the general government deficit is projected to fall to 1.6% of GDP. The increase in the standard VAT rate should boost revenues by about 1% of GDP. Without this, the tax share in GDP would have declined, because revenue-rich tax bases are developing less dynamically than GDP. The unemployment insurance contribution rate is set to be reduced from 6.5% to 4.5%, while the pension contribution rate is raised from 19.5% to 19.9% as announced by the government. Under current legislation, public health insurers are projected to increase contribution rates by ½ a percentage point. In sum, the tax burden is expected to slightly increase. The expenditure ratio should decline by ½ percentage point or more, reflecting public sector wage restraint and reduced labour-market-related spending, resulting from measures already implemented, such as the reduced benefit duration for older recipients, and favourable labour market developments. The cyclically-adjusted balance would improve by 0.8 percentage points in 2007. Under the assumption of unchanged policy, in 2008 the general government deficit is projected to decline to 1.2% of GDP, due to improving cyclical conditions and to lagged consolidation effects of measures already in force. The envisaged company taxation reform is not considered here, as not enough details were known at the cut-off date for this publication. The government debt ratio is projected to fall only slightly over the forecast period, from 67.9% of GDP in 2005 to 67.7% of GDP in 2008. In 2006 and 2007, the debt ratio is positively affected by below-the-line operations, in particular privatisations, while such transactions are not sufficiently certain for 2008 to be included here.

Table 3.4

Main features of country forecast - GERMANY

	2005		Annual percentage change						
bn Euro	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at previous year prices	2241.0	100.0	1.6	-0.2	1.2	0.9	2.4	1.2	2.0
Private consumption	1321.1	58.9	1.7	-0.1	0.1	0.1	1.0	-0.1	1.9
Public consumption	419.6	18.7	1.7	0.4	-1.3	0.6	1.2	0.8	0.7
Gross fixed capital formation	386.9	17.3	0.6	-0.8	-0.4	0.8	4.5	0.6	2.1
of which : equipment	159.4	7.1	0.7	-0.1	4.2	6.1	6.2	4.8	2.7
Exports (goods and services)	912.3	40.7	5.8	2.4	9.6	6.9	10.1	6.7	6.6
Final demand	3037.3	135.5	2.2	1.1	2.6	2.3	4.3	2.4	3.3
Imports (goods and services)	796.3	35.5	4.7	5.3	6.9	6.5	9.8	5.5	6.7
GNI at previous year prices (GDP deflator)	2248.2	100.3	1.4	0.3	2.1	1.1	2.7	1.5	2.3
Contribution to GDP growth : Domestic demand			1.4	-0.1	-0.3	0.3	1.6	0.2	1.6
Stockbuilding			-0.3	0.7	0.3	0.1	0.1	0.1	0.0
Foreign balance			0.4	-0.8	1.2	0.5	0.6	0.8	0.3
Employment			-0.7	-1.7	-0.5	-0.6	0.4	0.5	0.6
Unemployment rate (a)			8.0	9.0	9.5	9.5	8.9	8.4	7.8
Compensation of employees/head			3.7	2.5	1.5	0.6	0.4	0.5	1.5
Real unit labour costs			-0.2	-0.1	-1.1	-1.5	-2.1	-1.3	-0.2
Savings rate of households (b)			-	-	16.2	16.3	16.2	16.0	15.6
GDP deflator			1.5	1.0	0.9	0.6	0.6	1.2	0.4
Private consumption deflator			1.7	1.5	1.6	1.3	1.5	1.9	0.9
Harmonised index of consumer prices			-	1.0	1.8	1.9	1.8	2.2	1.2
Trade balance (c)			3.2	6.1	7.0	7.0	6.9	7.4	7.2
Current account balance (c)			-0.7	2.0	3.9	4.2	4.5	5.3	5.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-0.7	2.0	3.9	4.2	4.5	5.3	5.4
General government balance (c)(d)			-2.4	-4.0	-3.7	-3.2	-2.3	-1.6	-1.2
Cyclically-adjusted budget balance (c)(d)			-2.5	-3.4	-3.2	-2.6	-2.2	-1.4	-1.2
Structural budget balance (c)			-	-3.4	-3.3	-2.7	-2.2	-1.4	-1.2
General government gross debt (c)			55.4	63.9	65.7	67.9	67.8	67.7	67.3

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

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

5. Estonia

Booming activity on the verge of overheating

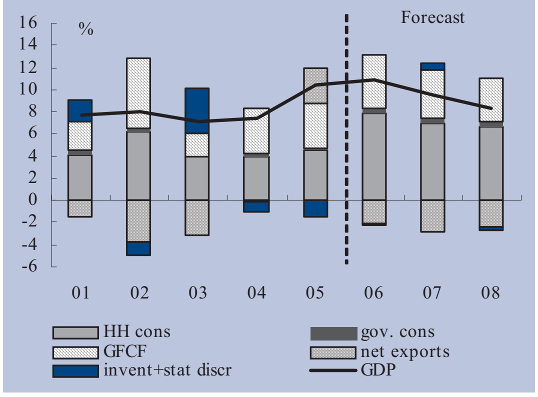
Activity in 2006

GDP growth accelerated during the first six months of 2006 to a booming 11.7% year-on-year, up from an already high average 10.5% in 2005. In the second half of 2006, growth is expected to slow down somewhat, leading to an annual figure of below 11% for the year as a whole. This slight deceleration is likely to be both demand-driven – as growth rates of private credit and real estate prices have started to come down – and imposed by increasing supply bottlenecks, in particular on the labour market.

The driving forces of the very strong activity this year are primarily domestic demand, especially for private consumption, as households increase spending based on growing disposable incomes, and for investment, which is reinforced by strong final demand and favourable monetary conditions. By contrast, the pace of government consumption remains below that of overall GDP growth. Foreign trade activity remains very strong, on both the import and the export side, with the net export contribution turning negative again in early 2006.

Booming private consumption and investment, accompanied by the oil-price-induced weakening of the terms of trade, pushed the current account deficit back to over 12% of GDP in the first half of 2006. The external account deficit, including EU capital transfers, while slightly smaller, confirms the trend reversal. The external imbalance was mainly boosted by an increase in the foreign trade deficit while other components of the current account continued to improve.

Graph 3.6: **Estonia - Contribution to GDP growth of expenditure groups**



Prospects for 2007 and 2008

The economy is projected to remain on a brisk growth path over the entire forecast period, with growth rates gradually down to more sustainable levels of around 8½% by the end of the forecast period.

Domestic demand is expected to continue to drive growth, primarily led by investment, with housing construction still contributing, but at a slower pace. Private consumption is also forecast to remain robust, due to a combination of employment growth and substantial real wage gains. The comparative cost advantage will continue to boost export growth, but imports are expected to grow even more strongly.

In line with a moderation of growth rates and an assumed easing of oil prices, the external account deficit is expected to resume narrowing again, to below 10% of GDP by 2008.

Labour market, costs and prices

As in 2005, buoyant economic growth led to significant employment growth and a marked reduction of unemployment to record low levels in 2006. The labour market continued tightening and wages accelerated rapidly, with a possibility of a temporary mild overshooting of wages in 2006. Employment gains are likely to continue in 2007 and 2008, albeit at a considerably slower pace, given the rapid narrowing of the labour reserve. More and more sectors, including in manufacturing, are facing labour shortages, exacerbated by emigration. However, since structural unemployment is relatively high due to skills mismatches, the remaining unemployment rate is not indicative of available labour resources.

Over the forecast period, the high degree of flexibility which marks the Estonian labour market is projected to bring real per capita wages back into line with high productivity gains in 2007 and 2008. A continuation of cuts in personal income tax rates over the forecast period, will allow net wages to grow more rapidly than gross wages. The main risk to this forecast lies with excessive wage growth resulting from the drying out of the labour market.

Annual HICP inflation increased from an annual 4.1% in 2005 to 4.4 % over the first three quarters of 2006, reflecting continued strong energy price increases. Core inflation has also started to pick up lately, as have producer prices, reflecting pass-through effects from the oil price hike as well as domestic inflationary pressures due to high economic growth and the tightening labour market. A postponement of excise duty increases is expected to ease upward pressure temporarily in 2007, with the full effect hitting inflation in 2008. Risks to this inflation forecast are quite balanced, with oil price and exchange rate developments representing important uncertainties.

Public finances

Stronger-than-projected growth further fuelled revenues and reduced social expenditure in 2006, thus enabling the government to raise the surplus projections for the forecast period. A supplementary budget raising expenditure by 1.7% of GDP has recently been proposed by the government. Despite upcoming parliamentary elections, the budgetary situation is forecast to remain solid over the forecast period, with general government surpluses slowly declining from around 2½% of GDP in 2006 to around 1½% by 2008, in line with a gradual deceleration of economic activity.

With budgetary surpluses revised upwards, government debt, which already is negligible in size and several times covered by government assets, is forecast to decline even more rapidly than previously projected, to around 2% of GDP by the end of 2008.

Table 3.5

Main features of country forecast - ESTONIA

		2005		Annual percentage change						
	bn EEK	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices		173.1	100.0	-	7.1	8.1	10.5	10.9	9.5	8.4
Private consumption		89.7	51.8	-	6.9	6.9	8.2	14.4	12.3	11.5
Public consumption		30.1	17.4	-	0.3	2.2	1.1	3.1	2.9	2.8
Gross fixed capital formation		54.1	31.2	-	7.0	13.5	12.7	14.5	12.9	11.4
of which : equipment		22.7	13.1	-	-	-	-	14.5	12.9	11.4
Exports (goods and services)		138.4	80.0	-	7.6	17.1	21.5	16.6	13.6	12.7
Final demand		319.5	184.6	-	7.4	12.6	13.5	13.9	12.5	11.2
Imports (goods and services)		149.0	86.1	-	10.6	15.2	15.9	17.7	15.4	13.9
GNI at constant prices (GDP deflator)		164.7	95.2	-	5.6	8.5	10.7	10.0	10.6	9.2
Contribution to GDP growth :	Domestic demand			-	8.4	6.4	8.1	13.1	11.7	11.0
	Stockbuilding			-	1.8	1.8	-0.7	-0.8	0.6	-0.2
	Foreign balance			-	-3.1	-0.1	3.1	-2.1	-2.9	-2.4
Employment				-2.9	1.5	0.0	2.0	3.2	2.0	1.1
Unemployment rate (a)				9.4	10.0	9.7	7.9	5.4	3.8	3.1
Compensation of employees/head				-	13.0	12.9	11.2	12.7	11.5	11.3
Real unit labour costs				-	4.7	2.3	-3.9	0.4	-0.5	-1.3
Savings rate of households (b)				-	-	8.6	14.1	13.4	13.6	13.1
GDP deflator				-	2.3	2.1	6.8	4.5	4.4	5.2
Private consumption deflator				-	0.9	1.8	2.9	4.4	4.2	4.6
Harmonised index of consumer prices				-	1.4	3.0	4.1	4.4	4.2	4.6
Trade balance (c)				-	-16.3	-17.4	-13.5	-15.5	-17.5	-19.2
Current account balance (c)				-	-11.5	-12.5	-11.1	-11.5	-10.5	-9.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-10.5	-13.0	-8.4	-10.3	-9.2	-8.3
General government balance (c)(d)				-	2.0	2.3	2.3	2.5	1.6	1.3
Cyclically-adjusted budget balance (c)(d)				-	2.3	2.7	2.3	2.2	1.4	1.5
Structural budget balance (c)				-	2.3	3.5	2.2	1.5	1.0	1.3
General government gross debt (c)				-	5.7	5.2	4.5	4.0	2.7	2.1

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

6. Greece

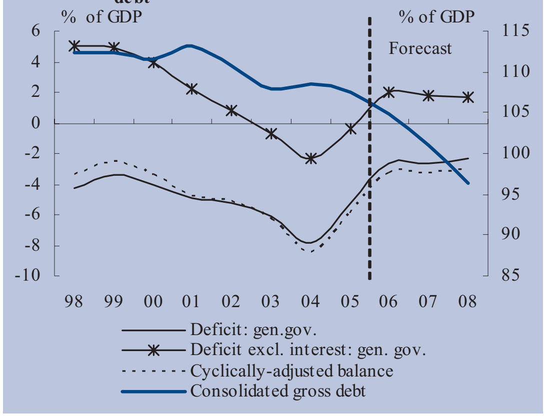
Investment is back again

Activity in 2006[1]

In both the first and the second quarter of the year, economic growth accelerated to above 4% on an annual basis. However, although domestic demand is expected to remain robust also in the second half of the year, higher import growth will mean that the contribution of the external sector to GDP will be negative. As a result, growth is estimated at 3.8% for 2006 as whole, which is comparable with the 2005 outcome and well above the euro area. A highly dynamic investment activity is behind the acceleration of domestic demand, while private consumption is slowing down and public consumption, reflecting fiscal consolidation efforts, should contribute only marginally to growth. Although the fiscal retrenchment is also putting a brake on public investment in real terms, equipment and construction, including housing, are driving total investment growth above 6%. The tax reform on housing implemented in 2005, sustained credit expansion and, due to higher inflation in Greece, still negative real interest rates are inducing a significant increase in construction permits. Overall, domestic demand is expected to contribute by more than 4 percentage points to growth, partially offset by a negative contribution of the external sector. While, on account of the rebound taking place in the tourism sector, exports will still grow above 6½%, imports are projected to strongly rebound from the contraction recorded last year.

Consistent with sustained growth, employment is projected to increase by 1¼%, in line with the rate recorded in 2005. As regards prices, annual HICP inflation is projected at 3¼%, well below nominal wage growth at close to 6%, which, given productivity growth of about 2%, is pushing unit labour costs clearly above those of the euro area.

Graph 3.7: **Greece - Net lending and consolidated gross debt**



Prospects for 2007 and 2008

Although the Greek economy is projected to decelerate only marginally over the forecast horizon, some changes in growth composition are expected to take place. In particular, economic activity is likely to be almost exclusively demand-driven. GDP is projected to grow at just below 3¾% in both 2007 and 2008. Rising interest rate expectations, coupled with somewhat more moderated wage growth, will induce a further slowdown in private consumption growth, though it will remain above 3% per year until 2008. Government consumption is expected to go back to historical rates, closer to GDP growth, while public investment is projected to continue growing at rates as high as this year. Although, the second phase of the tax reform on housing should have a lower positive impact on construction than in 2006, which should moderate the expansion of the housing market, equipment is projected to continue growing at healthy rates. In addition, public investment is expected to return to long-term trend growth rates. Overall domestic demand is forecast to contribute about 4% until 2008. On the external front, imports are projected to keep pace with domestic demand, while the positive differential in terms of unit labour cost growth is likely to weigh on competitiveness and slightly slow down exports of goods. Exports of services are expected to return to growth rates more in line with historical trends, following the statistical rebound of last year. This coupled with a more moderate growth of imports, on the back of slower private consumption and investment, is expected to result in a contribution of the external sector to GDP growth less negative in 2007 and 2008. Consistent with these developments, the current account is projected to attain 7½% of GDP in 2008, compared with around 8½% this year.

Labour market, costs and prices

In line with strong economic activity, employment is projected to still increase above 1¼% per year until 2008. The unemployment rate is accordingly expected to decrease by around ¾ percentage points to below 9% for the first time in some years. Although growing by less than last year, in line with better inflation prospects, wages per head are set to keep rising above productivity. This would slow the increase in unit labour costs, but still worsen the country's competitive position, especially in the goods sector. In 2007 and 2008, inflation is expected to moderate in line with lower unit labour costs and limited oil price hikes.

Public finances

The 2005 deficit was recently revised upwards to 5.2% of GDP, reflecting a further revision in the accounts of extra-budgetary funds and of social security by about ¾% of GDP. Coincidental with the official estimations, the deficit for 2006 is projected just above 2½% of GDP, in line with the Council recommendation under Article 104(9) of the Treaty. This includes one-off revenues of 0.4% of GDP.

The 2007 draft budget targets a deficit of 2.4% of GDP. No deficit-reducing one-offs are contemplated. Total revenues are budgeted to rise by more than ¼% of GDP, mainly through higher indirect tax revenues and social contributions. Total expenditures would decrease by ¼% of GDP, mostly due to lower interest expenditures. On account of a slightly less favourable growth scenario and a more prudent assessment of expenditures, which takes account of past outcomes, the Commission services project a deficit of 2.6% of GDP. Measured by the cyclically-adjusted balance net of one-offs, the structural balance would improve by around ½% of GDP. Based on the customary unchanged legislation assumption, the 2008 deficit is projected at just below 2½% of GDP. After reaching more than 107% of GDP in 2005, the general government debt ratio is projected to decrease to below 100% of GDP by 2008.

[1] This forecast uses the GDP figures provided in the EDP notification of April 2006, and not the revised GDP data reported by the Greek authorities on 1 October 2006. Given the magnitude and complexity of the revised GDP data, Eurostat will carry out a complete verification of GDP data once Greece has delivered a full inventory of the sources and methods used for the new calculations.

Table 3.6

Main features of country forecast - GREECE

	2005		Annual percentage change						
bn Euro	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices	181.1	100.0	2.7	4.8	4.7	3.7	3.8	3.7	3.7
Private consumption	121.5	67.1	2.4	4.5	4.7	3.7	3.4	3.2	3.0
Public consumption	29.6	16.4	2.9	-2.0	2.8	3.1	1.9	1.7	3.8
Gross fixed capital formation	42.9	23.7	4.2	13.7	5.7	-1.4	6.3	6.2	5.4
of which : equipment	16.9	9.3	9.5	18.3	8.2	0.5	5.6	6.2	5.8
Exports (goods and services)	37.7	20.8	6.0	1.0	11.7	2.9	6.6	5.9	5.6
Final demand	231.8	128.0	3.3	4.7	5.7	2.5	4.4	4.0	4.0
Imports (goods and services)	50.8	28.0	5.8	4.5	9.3	-1.2	6.3	5.1	4.9
GNI at constant prices (GDP deflator)	177.8	98.2	2.3	4.4	5.0	2.5	4.9	3.7	3.8
Contribution to GDP growth : Domestic demand			3.1	5.9	5.1	2.7	4.2	4.0	4.0
Stockbuilding			0.0	0.0	0.0	0.0	0.1	-0.1	0.0
Foreign balance			-0.4	-1.2	-0.4	1.0	-0.5	-0.3	-0.3
Employment			0.7	1.3	2.9	1.3	1.4	1.3	1.3
Unemployment rate (a)			9.9	9.7	10.5	9.8	9.3	8.9	8.6
Compensation of employees/head			9.2	4.6	5.8	6.5	5.9	5.0	5.0
Real unit labour costs			-0.4	-2.2	0.6	0.4	-0.1	-0.6	-0.8
Savings rate of households (b)			-	-	7.3	6.6	4.4	3.6	3.3
GDP deflator			7.5	3.5	3.4	3.7	3.6	3.2	3.3
Private consumption deflator			7.4	2.8	2.5	3.7	3.5	3.0	3.1
Harmonised index of consumer prices			-	3.4	3.0	3.5	3.3	3.3	3.3
Trade balance (c)			-14.3	-16.7	-17.7	-16.2	-16.9	-16.6	-16.3
Current account balance (c)			-3.8	-10.0	-9.5	-9.2	-8.5	-8.0	-7.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-8.6	-7.7	-7.7	-7.2	-6.7	-6.2
General government balance (c)(d)			-7.5	-6.1	-7.8	-5.2	-2.6	-2.6	-2.4
Cyclically-adjusted budget balance (c)(d)			-6.8	-6.4	-8.4	-5.9	-3.3	-3.3	-3.1
Structural budget balance (c)			-	-6.4	-8.4	-5.9	-3.7	-3.3	-3.1
General government gross debt (c)			109.1	107.8	108.5	107.5	104.8	101.0	96.4

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

7. Spain

Stronger activity, receding imbalances

Activity in 2006

Strong economic activity continued to prevail during the first half of 2006, underpinned by dynamic domestic demand. The external sector is still contributing negatively to growth, albeit by much less than last year. Industrial production and confidence indicators point to a continuation of these trends over the rest of the year. As a result, GDP growth is projected to remain strong at 3¾% over the whole of the year, above the 3½% recorded in 2005. Supported by strong job creation and still easy monetary and financial conditions, private consumption still outpaces the growth of disposable income. The households saving rate could come down to 9½% in 2006, from 10½% in 2005. Gross fixed capital formation remains strong. Investment in construction is growing at the same strong rate of 2005, and investment in equipment is also expanding at close to the two-digit mark. Domestic demand should contribute around 4½ percentage points to GDP growth this year.

Exports recorded a strong rebound during the first half of the year, largely led by the recovery of activity in the euro area, with no changes as regards competitiveness. The inflation differential with the euro area has remained broadly stable at around 1½ percentage points, but productivity growth is stagnating at ½%, compared with 1¼% in the euro area. While exports could grow by around 7% in 2006 (1½% in 2005), imports seem to be accelerating only slightly and, as a result, the negative contribution of net exports to growth is expected to decline to around 1 percentage point in contrast with the 1.7 percentage points recorded in 2005. The trade deficit should widen to 8% of GDP by the end of the year.

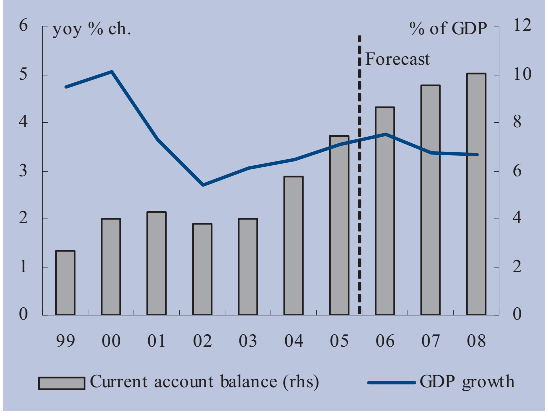
Prospects for 2007 and 2008

In 2007, GDP growth is projected to fall slightly, to 3.4%. Economic activity should still be based on buoyant domestic demand. Real interest rates should remain close to zero and keep on sustaining private consumption, which is expected to grow at a similar pace as disposable income. The households saving rate could slightly increase to just 9¾%. Investment is projected to remain robust, especially in equipment and software, whereas residential construction growth is expected to moderate. Overall, domestic demand is projected to contribute 4¼ percentage points to GDP growth in 2007.

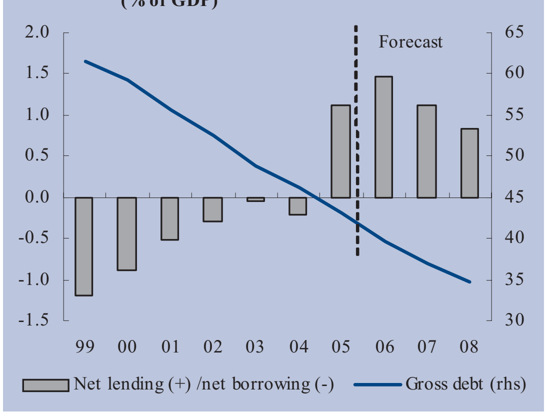
Export growth would increase by close to 5% in real terms, although it may suffer somewhat from the lower GDP growth projected for the euro area. Imports, projected to decelerate in line with private consumption, should go on increasing well above GDP on the back of strong investment in equipment. Overall, the deceleration of both imports and exports would broadly cancel each other out and, thus, the negative contribution from net exports to GDP growth should remain broadly unchanged at 1 percentage point, while the trade deficit should widen to 8¾% of GDP.

GDP growth is projected to decrease marginally in 2008 to 3.3%. Lower inflationary pressures should further increase real interest rates, putting a brake on private consumption and investment in dwellings. The latter would also lead to a slowdown in gross fixed

Graph 3.8: **Spain - GDP growth and current account deficit**



Graph 3.9: **Spain - General government accounts (% of GDP)**



capital formation. Since gross disposable income will still be growing at a similar pace to that of private consumption, the households saving rate will remain broadly stable, while household's indebtedness is projected to keep on rising over the forecast period, attaining more than 130% of the gross disposable income by 2008. Overall, domestic demand, though decelerating, will contribute to GDP growth by around 4 percentage points.

The projected deceleration of domestic demand should moderate import growth to slightly above 6%. A recovery of Spain's main trade partners in the euro area is expected to sustain exports, the growth of which could attain 5½% by the end of the forecasting period. However, export growth will still be insufficient to compensate that of imports and, as a result, the trade deficit might peak at up to 9% of GDP. All in all, the negative contribution to GDP growth from the external sector should decrease to ¾ of a percentage point.

External imbalances are projected to broaden over the forecast horizon. On top of the projected widening of the trade deficit, the surplus recorded by services will expand only slightly, while the deficit in the balance of primary incomes will rise, in line with rising interest payments on external debt. The deficit in the balance of current transfers keeps on reflecting larger remittances abroad by immigrants. As the services surplus will no longer offset the aggregate deficits in the primary income and current transfers accounts, the current account deficit is expected to be larger than the trade deficit and might rise to 10% of GDP by the end of the forecasting period. Net borrowing from the rest of the world is projected to reach 9½% of GDP, on account of the expected reduction of EU transfers. Since there is no evidence to suggest a rebound in foreign direct investment inflows, portfolio investments, mainly channelled by domestic financial institutions, should continue to represent the main source of financing for the external deficit in Spain.

There might, however, be some downside risks to this growth scenario, especially those associated to the inflation differential, the household indebtedness and the external imbalance. However, on current information, the likelihood of a drastic slowdown appears small for several reasons. First, albeit remaining high, the inflation differential with the euro area is being reduced as energy prices ease. Second, in spite of the rising borrowing position of households, mortgage repayment failures remain at the lowest historical levels, underpinning the short-term solvency of the private banking system. Finally, while the external deficit is not projected to recede, the stock of debt of the country, which could attain 140% of GDP in 2008, does not depart significantly from other euro area members, such as France or Germany, while remains below others, such as Ireland or The Netherlands.

Labour market, costs and prices

Job creation is projected to remain robust over the forecast period. In 2006, employment growth will be slightly above 3% (full-time equivalent). Construction and services are the main sources of job creation, whereas in the manufacturing sector employment creation remains stable. In line with slightly slower economic activity, with labour-intensive sectors, such as construction, expected to contribute less to GDP growth, job creation should be more moderate, but still close to a sizeable 3% in 2007 and 2½% in 2008. Coupled with a slower rate of growth of the working-age population, this will lead to a further fall of the unemployment rate to below 7½% by 2008.

Following the oil price hike at the beginning of 2006, HICP crossed the 4% threshold in yearly terms. Lower oil prices during the second half of the year, however, should ease inflationary pressures, leading to an average HICP of 3¾% in 2006 as a whole, still well above the euro area. In the absence of further energy price hikes, inflation is projected to decline to around 2¾% in 2007 and 2008. The inflation differential with the euro area, currently at one and a half percentage points, should indeed decline, but would remain at about 1 percentage point over the forecast horizon. This differential reflects a more advanced cyclical position of the Spanish economy, as well as structural factors, such as insufficient competition in certain utilities and services sectors.

Compensation of employees per head is projected to closely follow inflation developments. Therefore, real wages should remain stable. In spite of an acceleration of productivity in the manufacturing sector this year, productivity growth for the economy as a whole should remain close to ¾% by the end of the forecast period, thus below the euro area.

The combination of a positive wage gap and a negative productivity differential will push unit labour costs to still increase above those of the euro area.

Public finances

In 2006, the general government surplus is projected at around 1½% of GDP. This is well above the targets in both the updated 2005 Stability Programme (0.9%) and the 2006 Budget Law (0.2%). Higher-than-expected revenues seem to be behind this unexpected better result.

In 2007, the Draft Budget Law targets a surplus of 0.7% of GDP. The reduction of the surplus is explained by the impact on total revenues of the implementation of the new personal income and corporate tax law, as well as lower capital transfers from the EU. Specifically, total revenues in 2007 should grow slightly below nominal GDP growth, at around 6¼%. On the spending side, central government expenditure is projected to grow in nominal terms somewhat above nominal GDP (by around 7¼%). However, since the revenue projections may turn out somewhat conservative, the final budgetary outcome could be more favourable than targeted in the draft budget.

In 2008, assuming the customary no-policy-change scenario, the general government surplus could attain just below 1% of GDP. Revenues are projected to grow at around 6%, slightly below nominal GDP, reflecting fewer indirect taxes associated to lower dynamism of both private consumption and investment in dwellings. Total expenditure is assumed to follow previous trends and increase at around 7% in nominal terms.

Although primary surpluses should decline from 3% in 2006 to 2¼% in 2008, the debt-to-GDP ratio is projected to continue decreasing markedly, from 40% of GDP in 2006 to around 35% in 2008.

Table 3.7

Main features of country forecast - SPAIN

	2005		Annual percentage change						
bn Euro	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at previous year prices	905.5	100.0	2.9	3.0	3.2	3.5	3.8	3.4	3.3
Private consumption	524.1	57.9	2.7	2.8	4.2	4.2	3.6	3.4	3.1
Public consumption	162.6	18.0	3.1	4.8	6.3	4.8	4.5	4.4	4.4
Gross fixed capital formation	265.4	29.3	3.5	5.6	4.9	7.2	6.1	5.2	4.7
of which : equipment	63.8	7.0	3.7	2.5	3.7	9.5	7.4	7.4	7.0
Exports (goods and services)	231.0	25.5	8.9	3.7	4.1	1.5	6.9	4.9	5.4
Final demand	1185.1	130.9	4.0	3.8	4.7	4.3	5.0	4.2	4.1
Imports (goods and services)	279.6	30.9	8.4	6.2	9.6	7.0	8.9	6.9	6.2
GNI at previous year prices (GDP deflator)	892.1	98.5	2.8	3.4	3.1	3.5	3.7	3.3	3.4
Contribution to GDP growth : Domestic demand			3.0	3.9	4.8	5.3	4.7	4.3	4.0
Stockbuilding			0.0	-0.1	0.1	-0.1	0.1	0.0	0.0
Foreign balance			-0.1	-0.8	-1.7	-1.7	-1.0	-1.0	-0.7
Employment			1.9	2.4	2.6	3.1	3.2	3.0	2.5
Unemployment rate (a)			15.0	11.1	10.7	9.2	8.1	7.9	7.4
Compensation of employees/head			4.2	3.6	3.1	2.6	3.1	2.9	2.9
Real unit labour costs			-0.7	-1.1	-1.5	-1.8	-1.4	-0.7	-1.1
Savings rate of households (b)			-	-	11.4	10.6	9.6	9.8	9.8
GDP deflator			3.9	4.1	4.0	4.1	3.9	3.2	3.1
Private consumption deflator			3.8	3.1	3.5	3.4	3.6	2.8	2.7
Harmonised index of consumer prices			-	3.1	3.1	3.4	3.6	2.8	2.7
Trade balance (c)			-4.0	-5.1	-6.3	-7.5	-8.1	-8.7	-9.0
Current account balance (c)			-2.1	-4.0	-5.9	-7.5	-8.6	-9.6	-10.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-1.2	-2.9	-4.8	-6.5	-7.8	-9.0	-9.5
General government balance (c)(d)			-3.4	0.0	-0.2	1.1	1.5	1.1	0.9
Cyclically-adjusted budget balance (c)(d)			-3.0	-0.1	0.0	1.5	1.9	1.6	1.4
Structural budget balance (c)			-	-0.1	0.0	1.5	1.9	1.6	1.4
General government gross debt (c)			59.1	48.7	46.2	43.1	39.7	37.0	34.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

8. France

Robust growth in the years ahead

The economic situation in 2006

In 2006, GDP growth gained momentum and is expected to average 2.2%, compared with 1.2% in 2005. GDP growth is still largely driven by domestic demand although the contribution of the external sector, which has acted as a drag on growth in the last three years, is likely to become neutral towards the end of the year.

The expansion of economic activity continued in the first half of 2006 and in particular in the second quarter when GDP growth rebounded by 1.2%. Although this performance is unlikely to be repeated in the second half of the year, economic activity is expected to remain buoyant. Employment growth has shown encouraging signs, especially in the second quarter of 2006. In addition, annual HICP inflation has remained close to 2.0% in 2006 and is thus not weighing on private consumption, which is expected to remain the main driver of economic growth in the coming quarters. Exports are on an upward trend as a result of the economic recovery in Europe. After a loss in market shares over the last three years, export volumes increased again, more in line with the expansion of external demand. This is due to the depreciation of the euro and a concomitant improvement in price competitiveness and a somewhat stronger demand from France's main trading partners. As imports are expected to grow in line with robust domestic demand, the contribution of net exports to GDP growth should still be close to neutral in 2006 (-0.1 %), after -1.2 in 2005.

Prospects for 2007 and 2008

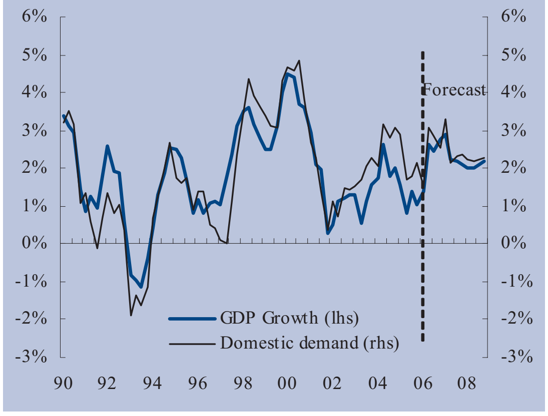
In 2007 and 2008, real GDP growth is projected to remain robust and close to current estimates of potential growth. It is expected to still be largely driven by domestic demand and especially by private consumption.

Private consumption is forecast to remain the main driver of economic growth. Consumption will increase in line with households' disposable income, reflecting both the expected rise in the demand for labour and cuts in personal income tax planned in 2007. The projected benign inflation outlook should also support households' purchasing power. Finally, the relatively strong housing market and the implementation of new mortgage financing conditions may also support private consumption and housing investment.

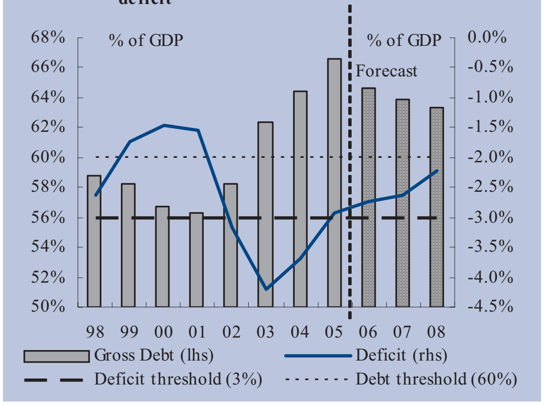
Companies are still likely to focus their efforts on cutting costs due to the deterioration of corporate profit margins linked to the strong past increase in commodity prices. But considering the fact that the capacity utilisation rate is now slightly above its long-term average and the need for some firms to upgrade and replace their production capacity, investment in equipment is expected to accelerate from 3.5% in 2006 to around 5% in 2008. In addition, continuing supportive financing conditions and a buoyant economic outlook should lead firms to implement their investment plans. Although slightly less dynamic than in 2006, investment in construction is expected to remain buoyant over the forecast period.

In the external sector, exports are set to slow down in

Graph 3.10: **France - GDP and domestic demand**



Graph 3.11: **France - General government gross debt and deficit**



line with the expected weakening of external demand. In a context where imports are forecast to remain buoyant in view of robust final demand, the contribution of net trade to GDP growth will again become slightly negative in 2007 and 2008.

Labour markets, costs and prices

In 2006, employment growth is expected to increase by ¾ percentage point. Uncertainties concerning the durability of the recovery and the traditional lag with which employment reacts to economic activity largely explain the current weakness in employment growth. In 2007 and 2008, employment growth is set to gradually strengthen in response to the improved economic situation. The recovery of employment should also be stimulated by the gradual implementation of the "emergency employment plan" which aims to facilitate recruitment by small companies and encourage people to return to work.

Given the still high unemployment rate, wage moderation is expected to continue. Nevertheless, a slight cyclical acceleration in wages is expected to occur in 2007 and 2008, driven by the improvement of the situation in the labour market. As productivity growth is expected to decelerate from the high rate observed in 2004, unit labour costs should rise by 2% in 2007 and in 2008. Core inflation is thus projected to pick up gradually, due to price increases in services and some pass-through effects of raw materials prices. Nevertheless, given the difficulties for companies to fully pass the increase in commodity prices on to final customers, due to the high competition from low-cost countries, prices of manufactured goods are expected to rise only modestly. Inflationary demand pressures should remain subdued due to the persistent negative output gap. In this context, annual HICP inflation should be slightly below 2% in both years.

Public finances

Following a decline from 3.7% of GDP in 2004 to 2.9% of GDP in 2005[1], the general government deficit is projected to be further reduced to 2.7% of GDP in 2006, in line with the government objective. The reduction in the deficit compared to 2005 is the result of (a) an acceleration in GDP growth (from 1.9% to 2.2%) which boosted revenues, and (b) a slowdown in expenditure. On the revenue side, buoyant consumption (VAT), higher corporate profits (corporate tax) and a better employment performance (income tax) are expected to lead to higher-than-expected revenues (about EUR 0.3% of GDP), which would result in an increase in the tax burden to 44.1% of GDP despite the tax cuts implemented in 2006 (increased employment premium, tax exemption for new investment, etc.). On the expenditure side, health-care and other social expenditures slowed down thanks to the measures taken under the health-care reform and the better employment performance. Taken together, this slowdown would more than compensate the still rapid pace of expenditure growth in the local administration sector notably in connection with a rebound in local investment linked to upcoming local elections in 2008. As a result the expenditure-to-GDP ratio is expected to decrease by 0.3% of GDP to 53.5%. The reduction in the deficit will still rely by up to 0.2% of GDP on one-off elements in connection with the transfer to social security of postal sector employees' pension commitments and the exceptional collection of social contribution on specific saving plans that were to be collected at a later stage. The 2006 deficit forecast implies an improvement in the structural balance (the cyclically-adjusted-balance net of one-offs) by 0.6 % of GDP.

The deficit forecast for 2007 of 2.6% of GDP incorporates the measures presented in the 2007 draft budget for the State and the social security sector. The main measures are: (a) the income tax reduction[2] (0.2% of GDP), (b) an increase in the employment premium (0.05% of GDP), (c) lower tax rates on new capital expenditure (0.06% of GDP). Together with other small items, these measures will increase the deficit by about 0.4% of GDP. However, as revenues are still expected to be strong – the tax-to-GDP elasticity would still be slightly higher than the historical average – the revenue-to-GDP ratio is forecast to only decrease by 0.3% of GDP. On the expenditure side, the expenditure-to-GDP ratio is forecast to decrease by 0.4% of GDP. This stems from opposite movements. It includes the biggest innovation of the 2007 draft budget, which consists in the implementation of a stricter expenditure ceiling for the State: after four years of zero growth in real terms, State expenditure is expected to decrease by 1% in real terms (about -0.2% of GDP), as announced in the 2006 update of the French stability programme. Also, the draft budget includes a reduction in the number of civil servants[3], which has a lasting positive impact on the deficit (about 0.03% of GDP) and thus helps support the implementation of the new expenditure ceiling. Also, a significant decrease in social expenditures is expected notably thanks to the better employment performance. On the contrary, expenditure from local administrations, which did not agree to implement any new expenditure rule and/or ceiling, contrary to what was announced earlier, are expected to continue growing at a rapid pace. Concerning health-care expenditure, the expected annual increase in spending (by 2.7%) is expected to be slightly higher than that foreseen by the government (2.5%) based on a prudent assessment of some of the measures announced in the 2007 draft budget bill for the social security sector. In structural terms, the 2007 deficit forecast implies an improvement of 0.3% of GDP.[4]

The deficit forecast for 2008 of 2.2% of GDP follows the conventional assumption of unchanged policies.

After a rise in the debt-to-GDP ratio by 2 percentage points to 66.6% of GDP in 2005, the government committed to reduce it by 2 and 1% in 2006 and in 2007, respectively. Debt reduction, based on the full allocation of privatisation receipts to debt reduction[5], and a better overall management of the debt (notably of the cash-flow) of the different general government entities, requires substantial efforts but seems within reach.

[1] In 2005, the deficit was reduced by one-off revenues totalling 0.6% of GDP in connection with (a) the inclusion of the specific electricity and gas companies' pension schemes in the general regime and (b) the change in the corporate tax code.

[2] The income tax reform reduces the number of income brackets and marginal tax rates, notably the highest from 48.9% to 40%.

[3] The downsizing is larger than in preceding years (about 1 in 5 retiring civil servants will not be replaced) although less ambitious than the original target of 1 in 2 announced after the last presidential elections.

[4] The reduction in the deficit includes 0.05% of GDP of one-off revenues in connection with a change in the corporate tax code and the advanced collection of social contribution on saving plans.

[5] In 2006, privatisation receipts amounted to about 0.1% of GDP.

Table 3.8

Main features of country forecast - FRANCE

	2005			Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at previous year prices		1710.0	100.0	2.0	1.1	2.3	1.2	2.2	2.3	2.1
Private consumption		976.0	57.1	2.0	2.0	2.3	2.0	2.8	2.5	2.3
Public consumption		405.6	23.7	1.4	2.0	2.3	1.1	1.5	0.9	0.7
Gross fixed capital formation		336.6	19.7	1.8	2.2	3.0	3.6	3.4	3.5	3.6
of which : equipment		93.2	5.4	3.7	1.4	1.2	5.2	3.5	4.3	4.7
Exports (goods and services)		445.8	26.1	6.1	-1.2	3.9	3.1	8.0	6.0	5.7
Final demand		2172.2	127.0	2.6	1.1	3.2	2.2	3.6	3.2	3.0
Imports (goods and services)		462.3	27.0	5.5	1.1	6.6	6.1	8.0	6.3	6.1
GNI at previous year prices (GDP deflator)		1719	100.5	2.0	1.4	2.3	1.1	2.6	2.4	2.1
Contribution to GDP growth :	Domestic demand			1.8	2.0	2.4	2.1	2.6	2.4	2.3
	Stockbuilding			0.0	-0.3	0.6	-0.1	-0.1	0.1	0.0
	Foreign balance			0.2	-0.6	-0.6	-0.8	-0.1	-0.2	-0.2
Employment				0.6	0.0	0.0	0.2	0.8	0.9	0.8
Unemployment rate (a)				10.4	9.5	9.6	9.7	9.3	9.0	8.7
Compensation of employees/head				2.5	2.9	3.3	2.8	3.3	3.0	3.1
Real unit labour costs				-0.3	-0.1	-0.6	0.0	-0.1	-0.1	-0.1
Savings rate of households (b)				-	-	15.5	14.7	14.3	14.3	14.2
GDP deflator				1.5	1.9	1.7	1.9	2.0	1.8	1.9
Private consumption deflator				1.2	1.9	1.9	2.0	1.6	1.7	1.9
Harmonised index of consumer prices				1.7	2.2	2.3	1.9	2.0	1.8	1.9
Trade balance (c)				0.8	0.1	-0.4	-1.4	-2.1	-2.1	-2.2
Current account balance (c)				1.2	0.2	-0.6	-2.1	-2.1	-2.0	-2.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				1.2	-0.2	-0.6	-2.1	-2.1	-1.9	-2.1
General government balance (c)(d)				-3.4	-4.2	-3.7	-2.9	-2.7	-2.6	-2.2
Cyclically-adjusted budget balance (c)(d)				-3.3	-4.1	-3.7	-2.5	-2.3	-2.3	-1.8
Structural budget balance (c)				-	-4.1	-3.8	-3.1	-2.6	-2.3	-1.8
General government gross debt (c)				54.0	62.4	64.4	66.6	64.7	63.9	63.3

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

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

9. Ireland

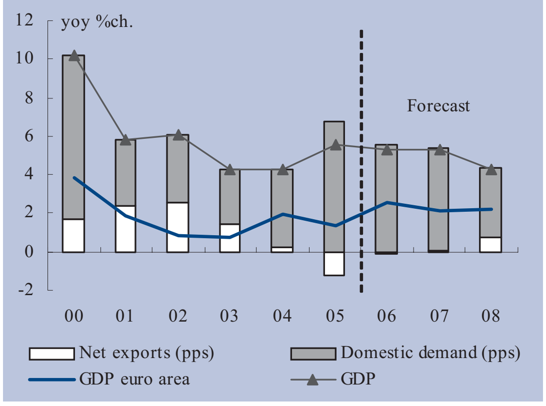
Strong domestic expansion, but some risks ahead

Activity in 2006

According to preliminary data, real GDP expanded by 5.3% on the year in the first half of 2006. As in 2005, economic growth was driven by domestic demand. Private consumption continued its strong performance from 2005, supported by solid employment and disposable income growth. Investment expenditure remained strong, in particular in housing, although the contribution of fixed investment to growth was somewhat lower than in recent years. This reflects, in particular, a much higher base in the previous year for both equipment (including some one-off purchases of aircraft) and housing stock investments. On the external side, merchandise export performance has improved only slightly as compared to 2005, and remains subdued overall by historical standards. Services exports performed strongly in the first half of 2006, reflecting notably strong growth in business and financial services. Imports remained strong, in line with solid private consumption, though reflecting some fluctuations in demand for fixed capital.

For the third quarter, purchasing managers' indices reported increased activity for manufacturing and, in particular, for services. Confidence indicators broadly confirm the pick-up in activity across the board, though there have been some fluctuations in consumer and construction sector sentiment. Overall, prospects for the second half of 2006 remain positive. The economic momentum is supported by recent employment gains (mainly concentrated in the construction and services sectors), boosted by strong immigration flows and increased participation. On the external side, services should buoy overall exports.

Graph 3.12: **Ireland - GDP growth compared to euro area and contributions**



For the year as a whole, real GDP is estimated to grow at around 5¼%.

Prospects for 2007 and 2008

Real GDP is projected to grow by around 5¼% in 2007 before decelerating to around 4¼% in 2008. In 2007, domestic demand growth is expected to remain very solid with a further acceleration of private consumption growth, supported notably by the release of SSIA funds (a government-sponsored saving scheme) into the economy. Into 2008, however, this stimulus will not be repeated, while investment growth is projected to moderate over the forecast period. Housing completions are forecast to taper off in 2007 and 2008 from the very high levels recorded in recent years. A pick-up in investment in house improvements (stimulated by the SSIA release), strong infrastructure investment and commercial construction are partly expected to offset the impact of the downward correction in new residential construction. On the external side, both merchandise and service exports are projected in line with performance in 2006. Import growth is projected to remain strong in 2007 and to moderate into 2008, in line with the assumption that part of the SSIA funds will be spent on imported durable goods. As net profit outflows are expected to remain on an upward trend, the implied growth rate of gross national income (GNI) is somewhat lower than that of GDP. While the most recent data suggest that robust growth will continue over the medium term, it also seems that the vulnerability of the economy has somewhat increased. In particular, the extended residential construction boom and accelerating house prices, coupled with the significant increases in household indebtedness, are noteworthy risks over the medium term; any marked slowdown in the US economy would also weigh heavily.

Labour market, cost and prices

In 2006 employment growth is projected to remain at an extremely robust 4.4%. In line with a strong performance by the services sector, partly offset by some easing of construction activity, employment gains are forecast to be somewhat weaker but still remain solid over the forecast period. Labour force growth, fuelled by significant inward migration (notably from the recently acceded EU Member States) and increased participation, is projected to keep pace with the upward employment trend in 2007.

However, new additions to the labour force are not expected to be matched fully by employment growth in 2008. The unemployment rate is thus estimated to remain at around 4¼% in 2006, before rising slightly and reaching 4¾% in 2008. In line with the pay element of the new social partnership agreement negotiated in 2006, 'Towards 2016', annual growth in annual per capita compensation is estimated to stabilise at 4½% over the forecast period. HICP inflation picked up strongly in the course of 2006, to more than 3%, partly as a result of adverse energy price developments. Due to a base effect, the annual rate is nevertheless expected to moderate slightly in 2007 despite the projected pick-up in private consumption and to fall again into 2008. CPI inflation is expected to be above that of the HICP over the forecast period, with the difference reflecting the expected increase in average mortgage repayments.

Public finances

In 2006, general government is estimated to record a surplus of around 1.2% of GDP, compared to the initial official target of a 0.6% deficit. The strong result reflects in particular the property market buoying capital taxes and, to a much lesser extent, lower-than-budgeted expenditures, especially capital outlays. The surplus is projected to fall to 0.9% of GDP in 2007 and 0.4% in 2008. However, compared with these projections, the macroeconomic risks, if realised, have the potential to worsen the general government balance significantly. Given the non-indexed tax and benefit systems, the no-policy-change assumption for 2007 is made operational, in the absence of announced measures, by freezing average tax rates and adjusting social transfer payments by the forecast CPI inflation rate (with a small top-up). Government debt is projected to fall from 25.8% of GDP in 2006 to below 24% of GDP in 2008.

Table 3.9

Main features of country forecast - IRELAND

		2005		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at previous year prices		161.2	100.0	7.7	4.3	4.3	5.5	5.3	5.3	4.3
Private consumption		71.6	44.4	4.7	2.5	3.1	6.2	6.6	7.0	4.6
Public consumption		25.5	15.8	7.4	5.1	3.8	5.9	4.2	4.2	4.2
Gross fixed capital formation		43.6	27.0	8.6	5.8	7.4	12.7	7.0	5.4	3.0
of which : equipment		9.9	6.2	9.5	0.3	9.1	20.8	9.5	7.5	7.0
Exports (goods and services)		131.0	81.3	14.5	0.5	7.3	3.9	4.7	5.2	5.0
Final demand		271.8	168.6	9.8	2.4	5.4	6.0	5.6	5.6	4.5
Imports (goods and services)		110.6	68.6	13.2	-1.2	8.7	6.5	5.8	6.0	4.7
GNI at previous year prices (GDP deflator)		137.9	85.6	6.7	7.4	4.3	5.8	5.0	5.1	4.1
Contribution to GDP growth :	Domestic demand			5.5	2.3	4.7	6.8	5.5	5.4	3.7
	Stockbuilding			0.0	0.6	-0.7	0.0	0.0	0.0	-0.1
	Foreign balance			2.3	1.5	0.3	-1.2	-0.1	0.1	0.8
Employment				3.8	2.0	3.1	4.6	4.4	3.0	1.5
Unemployment rate (a)				9.6	4.7	4.5	4.3	4.3	4.5	4.8
Compensation of employees/head				5.3	5.0	6.6	5.0	4.8	4.5	4.5
Real unit labour costs				-2.2	0.2	3.5	0.6	1.4	-0.8	-0.7
Savings rate of households (b)				-	-	15.9	15.8	19.0	18.4	18.3
GDP deflator				3.8	2.5	1.8	3.5	2.5	3.1	2.5
Private consumption deflator				4.1	4.3	2.1	1.7	2.3	2.2	2.0
Harmonised index of consumer prices				-	4.0	2.3	2.2	2.9	2.7	2.2
Trade balance (c)				20.0	21.8	19.6	16.7	14.7	13.2	12.4
Current account balance (c)				0.3	0.0	-1.0	-3.1	-3.2	-4.1	-4.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				1.3	0.0	-0.8	-3.0	-3.1	-4.0	-4.1
General government balance (c)(d)				0.3	0.3	1.5	1.1	1.2	0.9	0.4
Cyclically-adjusted budget balance (c)(d)				0.4	-0.3	1.4	1.3	1.7	1.6	1.5
Structural budget balance (c)				-	-0.3	2.1	1.0	1.7	1.6	1.5
General government gross debt (c)				63.6	31.1	29.7	27.4	25.8	24.4	23.6

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

10. Italy

A recovery driven by domestic demand

Activity in 2006

Following stronger than expected economic growth in the first two quarters of the year, economic indicators suggest that activity is likely to remain dynamic in the second half of the year. Quarterly GDP growth is forecast at 0.5% in Q3-2006 and slightly lower in Q4-2006, at around 0.4%. In 2006 as a whole, economic growth is expected to be 1.7%.

The significant contribution of private consumption and gross fixed capital formation to GDP growth in the first two quarters of 2006, as well as positive indications for the services sector, suggest that domestic demand will be the main driver of growth. Given the stronger demand from the euro area, the contribution to economic growth from net exports is expected to turn positive; however, the recovery in exports is still not expected to keep up with the projected expansion of export markets.

After the modest performance in 2004 and 2005, employment growth is back on a surprisingly solid footing. Measured in full-time equivalents, the increase is expected to be 1.3% in 2006, while the head-count is projected to rise by 1.7%, largely driven by people aged over 50, immigrants and women. The increase in employment is the result of both an increase in participation and a decrease in unemployment, whereas the statistical effect of the regularisation of immigrants is fading away.

Annual HICP inflation is projected to average 2.3% in 2006. Although industrial producer prices of final consumption goods accelerated over the first half of the year, there is no major evidence of any significant pass-through of high oil prices to the HICP.

Prospects for 2007 and 2008

Against the background of both the expected softening of economic conditions for Italy's main trading partners and the fiscal policy stance, economic activity in 2007 and 2008 is expected to grow at a more subdued pace than in 2006, around 1.4%, in line with the current estimate of potential growth.

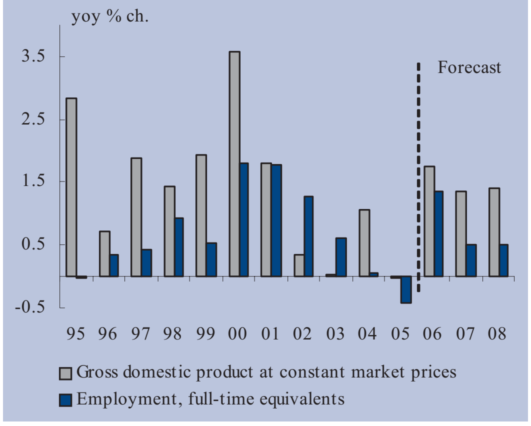
Over 2007-2008, domestic demand is expected to continue to be the main driver of GDP growth, while the contribution from net exports is expected to become broadly neutral.

In 2007, private consumption is projected to slow down also due to fiscal consolidation, which is expected to offset the effect of ongoing job creation. A decrease in the household saving rate will moderate the deceleration in consumption.

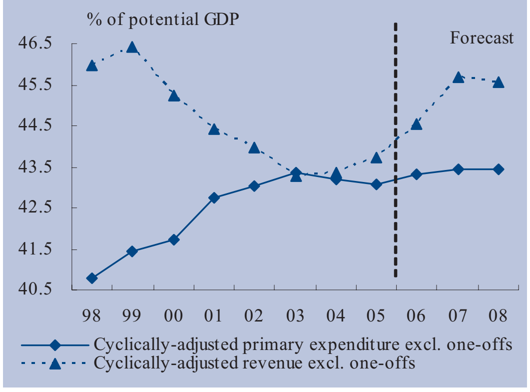
The mitigated demand prospects are expected, in turn, to slow down investment expenditure, particularly its housing component. Nevertheless, gross fixed capital formation is expected to be supported by still favourable financial conditions as well as the measures aimed at improving infrastructure foreseen in the 2007 budget. Overall, after the recovery recorded in 2006, investment expenditure in 2007 is projected to increase by around 2%.

Concerning the external sector, imports should decelerate in line with final demand. Export volumes are set to continue growing at higher rates than in the recent past, although slightly below those recorded in

Graph 3.13: **Italy - Real GDP and employment**



Graph 3.14: **Italy - Government structural primary expenditure and revenue**



2006. However, they will expand at a slower pace than projected for the corresponding export markets, due to persistent competitiveness problems and exporters' price policies.

Labour market, costs and prices

The projected positive economic growth in 2007 and 2008 is likely to continue to push employment up, but at the slower pace of 0.5% per year measured in full-time equivalents. Concerning the impact on employment growth of the measures foreseen in the 2007 draft budget, the effect of the reduction in the labour tax wedge on permanent contracts will be partly offset by the increase in social contributions, mainly for workers on temporary contracts. The unemployment rate is expected to decrease further to 7% in 2007 and remain stable in 2008.

The labour content of growth is expected to be slightly lower than in 2006 thanks to higher productivity gains, projected at around 1% in both years. However, still constrained by structural factors that limit the Italian economy's capacity to innovate, labour productivity growth is expected to remain slightly below the euro area average. The improving productivity outlook should result in a slowdown of unit labour costs, which in turn should have a positive impact on the competitive position of the Italian economy and somewhat mitigate the loss of market shares. Firms will also benefit from the cut in the labour tax wedge through a reduction of the labour tax base of the regional tax on productive activity (IRAP) that is foreseen in the 2007 draft budget.

Annual HICP inflation is expected to slow down to 2% in 2007 and 1.9% in 2008, broadly in line with the euro area average. The liberalisation measures adopted or planned so far by the government will, if effectively implemented, contribute to lower prices.

Public finances

The 2006 budget balance is affected by the negative impact of recent court rulings. The most important was issued in September by the European Court of Justice (ECJ) against Italy's VAT regime for company cars. It entails the refunding of unduly paid VAT over 2003-2005 and lower VAT revenue as from 2006. In line with government's estimations, the amount of the expected one-off reimbursements for the years 2003-2005 is assumed at around 1% of GDP, whereas the permanent negative impact on annual VAT revenue is estimated at over ¼% of GDP[1]. Hence, despite higher-than-expected tax revenues, the deficit is estimated at 4¾% of GDP in 2006, up from slightly above 4% in 2005. The primary balance is expected to turn slightly negative.

The net budgetary impact of one-off and temporary measures in 2006 is estimated to increase the deficit by around ½% of GDP, as the impact of the above refunds is partly offset by sizeable temporary revenues from substitutive taxes on the revaluation of companies' assets and proceeds from the sale of real estate. The structural deficit (defined as the cyclically-adjusted deficit net of one-off and temporary measures) would improve by over ¼% of GDP relative to 2005. Excluding the impact of the ruling on VAT, the deficit would be just below 3½% of GDP and the structural adjustment over ½% of GDP.

In the draft budget for 2007, the government targets a deficit below 3%, as required by the Council recommendation to Italy under Article 104(7) of July 2005. The draft budget and the accompanying legislation adopted by the government on 29 September[2] combine deficit-reducing measures estimated at 2¼% of GDP with new expenditure and tax cuts totalling 1¼% of GDP. This would bring the deficit to around 2¾% of GDP, from an official trend of 3¾% of GDP. The latter already includes the impact of around ½% of GDP corrective measures adopted at the end of June and additional ¼% of GDP taxes to compensate for the permanent loss in VAT revenues linked to the ECJ ruling. The budgetary correction is revenue-based. It includes revenues stemming from the transfer of part of the severance pay scheme of private sector employees (TFR) from enterprises to the national social security institution (INPS), amounting to more than ¼% of GDP. National accounts treat TFR flows as social contributions as they are eventually paid back to employees as social benefits. Hence, this measure does not improve fiscal sustainability.

The 2007 deficit is forecast at just below 3% of GDP. For a number of measures in the draft budget, the budgetary impact is projected to be in line with the official estimations. For others, the Commission services' estimation is more prudent. This is notably the case for the measures aiming to fight tax evasion, the impact of which cannot be easily anticipated.

The primary balance is forecast to turn positive at just below 2% of GDP. Interest expenditure as a share of GDP is expected to increase slightly. Net of cyclical factors and the 0.1% of GDP of one-offs stemming from the sale of real estate and other measures foreseen in previous budgets, the budget balance is estimated to improve by over 1% relative to 2006. Over 2006-2007, the overall structural adjustment will be close to 1½% of GDP.

Risks on both the negative and the positive side are attached to the deficit forecast for 2007. On the one hand, a lower deficit might be achieved if the mechanisms to curb expenditure foreseen in the present and previous budgets are fully implemented and/or the fight of tax evasion is more effective than assumed. A better carryover from 2006 is also possible given the positive outturn in the first half of the year. On the other hand, expenditure overruns in particular in the health care sector and by local governments could lead to a higher deficit. Also the size of additional revenues stemming from the TFR diversion is subject to considerable uncertainty.

The 2008 deficit forecast at just above 3% of GDP is based on the customary no-policy-change assumption.

Largely as a result of the impact of the ECJ ruling on the VAT regime for company cars, the government debt is forecast to increase from 106.6% of GDP in 2005 to 107.2% in 2006. The debt ratio is then expected to decline to 105.9% in 2007 and, based on an unchanged policy scenario, to remain broadly stable in 2008.

[1]The official estimation of the total amount of VAT reimbursements has been provisionally fully accrued as "other capital expenditure" in 2006. The accounting consequences of the court ruling are still to be examined by Eurostat.

[2]Of the amendments under discussion, none were approved before the cut-off date of 24 October 2006.

Table 3.10

Main features of country forecast - ITALY

		2005			Annual percentage change					
bn Euro		**Curr. prices**	**% GDP**	**92-02**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
GDP at constant prices		1417.2	100.0	1.5	0.0	1.1	0.0	1.7	1.4	1.4
Private consumption		834.1	58.9	1.3	1.0	0.6	0.1	1.6	1.0	1.3
Public consumption		287.6	20.3	0.4	2.0	0.5	1.2	0.7	0.6	0.7
Gross fixed capital formation		291.8	20.6	1.6	-1.7	2.2	-0.6	3.3	2.2	2.0
of which : equipment		120.1	8.5	2.4	-5.8	3.3	-1.1	4.3	3.1	2.6
Exports (goods and services)		373.0	26.3	4.1	-2.4	3.0	0.3	5.9	4.1	4.0
Final demand		1791.0	126.4	1.8	0.2	1.4	0.2	2.3	1.9	2.0
Imports (goods and services)		373.7	26.4	3.1	0.8	2.5	1.4	4.6	3.9	3.9
GNI at constant prices (GDP deflator)		1412.6	99.7	1.6	0.0	1.3	0.2	1.8	1.4	1.4
Contribution to GDP growth :	Domestic demand			1.2	0.6	0.9	0.2	1.7	1.2	1.3
	Stockbuilding			0.1	0.2	0.0	0.1	-0.3	0.1	0.1
	Foreign balance			0.2	-0.8	0.1	-0.3	0.4	0.0	0.0
Employment				0.2	0.6	0.0	-0.4	1.3	0.5	0.5
Unemployment rate (a)				10.3	8.4	8.0	7.7	7.1	7.0	7.0
Compensation of employees/head				3.4	3.7	3.5	2.9	3.0	2.8	2.5
Real unit labour costs				-1.2	1.2	-0.5	0.4	0.4	-0.3	-0.7
Savings rate of households (b)				-	-	16.1	16.1	16.2	15.5	16.0
GDP deflator				3.3	3.1	2.9	2.1	2.2	2.2	2.2
Private consumption deflator				3.7	2.8	2.6	2.3	2.5	2.2	2.0
Harmonised index of consumer prices				3.3	2.8	2.3	2.2	2.3	2.0	1.9
Trade balance (c)				2.3	0.7	0.6	0.0	-0.4	-0.2	0.0
Current account balance (c)				1.0	-0.9	-0.5	-1.1	-1.4	-1.1	-0.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				1.1	-0.7	-0.4	-0.9	-1.3	-0.9	-0.6
General government balance (c)(d)				-5.0	-3.5	-3.4	-4.1	-4.7	-2.9	-3.1
Cyclically-adjusted budget balance (c)(d)				-4.9	-3.5	-3.3	-3.4	-4.1	-2.4	-2.5
Structural budget balance (c)				-	-5.2	-4.6	-3.9	-3.6	-2.5	-2.6
General government gross debt (c)				114.0	104.3	103.9	106.6	107.2	105.9	105.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

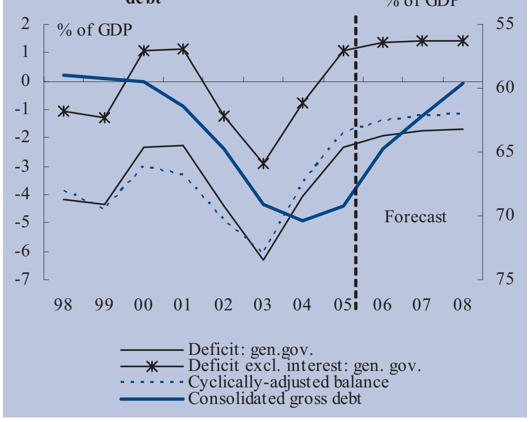
11. Cyprus

Healthy growth and continued fiscal consolidation

Activity in 2006

Economic activity remained strong in the first half of 2006. Real GDP growth in the first two quarters was 3.4% and 3.8% year-on-year, respectively. Growth is projected to further accelerate in the third quarter of the year and decelerate in the fourth quarter, which should lead to GDP growing at 3.8% over the whole year. Economic activity is being mainly driven by strong domestic demand. Although slightly decelerating compared with last year, private consumption remains healthy, supported by historically low interest rates and sustained credit expansion, as well as by continued employment and wage growth. In parallel, buoyant private investment in construction, particularly housing, as well as a rebound in equipment, is accelerating investment to a 5% growth rate. Overall, domestic demand is projected to contribute around 4 percentage points to GDP growth. This will be only slightly offset by the negative contribution of net exports. Reflecting weak re-export activity, which slowed down in the first six months of the year, exports of goods should almost stagnate compared with the past two years. Concurrently, despite the decline of tourism arrivals, revenue from tourism actually increased in the first 8 months in real terms, while export-oriented services are benefiting from the positive outlook in the main export markets. Total exports are now projected to grow at close to 6% in real terms. This is very close to the rate estimated for total imports, which should follow strong domestic demand and investment activity.

Graph 3.15: **Cyprus - Net lending and consolidated gross debt**



Prospects for 2007 and 2008

GDP is projected to continue growing solidly at 3.8% in 2007 and 3.9% in 2008, driven by domestic demand, which would contribute around 4 percentage points to growth. Increasing disposable income, supported by sustained wage and employment growth, will keep private consumption growing at still high rates, but lower than this year on account of rising interest rate expectations. Investment should remain robust and continue growing by close to 5% per year until 2008. This expansion of investment will be mainly driven by construction, underpinned by the strong demand for dwellings by non-residents and also by other large projects. Moreover, confidence effects linked to the prospects of joining the euro area should also sustain total investment through higher investment in machinery and equipment.

Although the projected slowdown in private consumption should put a brake on imports, higher investment in equipment should keep them growing until 2008 at rates comparable to last year. Based on a stronger growth outlook for the EU and other main trading partners, exports should accelerate especially tourism and other services. As a result, the net borrowing vis-à-vis the rest of the world is projected to remain broadly constant at around 5½% of GDP for the forecast period.

Labour market, costs and prices

In line with buoyant economic activity, employment is projected to keep growing at around 1½% per year until 2008. However, higher participation should keep the unemployment rate around its current level. Moreover, higher participation, especially by foreign workers, combined with moderate wage growth in the public sector, should ensure that wage pressure does not increase, in spite of tight labour market conditions. Since productivity growth is expected to rise by slightly above 2½% by 2008, unit labour costs will stay on a positive trend, but at lower rates than in the recent past.

Following the developments in the oil markets, after the price hike at the beginning of the year and the war in Lebanon, HICP inflation increased in the first seven months of 2006. However, lower oil prices during the rest of the year are expected to ease pressures, leading to an average HICP of about 2½% for 2006. Base effects from the past sharp increase in oil prices and slightly restrictive monetary conditions would help rein in inflation. HICP inflation is projected to ease to 2.0% in 2007 before rising again to 2.4% in 2008, in line with projected energy prices. This projection does not take account of the impact of some VAT adjustments, due by end-2007, required to comply with the Community *acquis*, since their precise timing and implementation modalities are not yet known.

Public finances

The government deficit for 2006 is projected at 1.9% of GDP, in line with the officially estimated figure. No one-offs are included, as the initially budgeted 0.3% of GDP from temporary revenues from building permits have not materialised. Such lower temporary receipts have been compensated by higher-than expected tax revenues. Since one-offs in 2005 amounted to almost 1% of GDP, the structural balance (the cyclically-adjusted balance net of one-offs) will improve by around 1¼% of GDP this year.

The 2007 draft budget targets a deficit of just above 1½% of GDP. No one-off measures are planned. The fiscal adjustment is mainly driven by tax revenues, partially offset by the reduction of EU funds. Total revenues are budgeted to rise by almost a ¼% of GDP. Expenditures would remain unchanged in terms of GDP, as the reduction in the interest payments is offset by higher social transfers. The Commission services project a slightly higher deficit (1¾% of GDP) on the back of a more prudent growth scenario. Net of any one-offs, the fiscal adjustment would be about ¼ of GDP, reflecting the deterioration of Cyprus' net position vis-à-vis the EU budget after the phasing out of temporary compensating grants. Under the customary no-policy-change scenario, the deficit for 2008 is projected to inch down, slightly below 1¾% of GDP. Debt is projected to keep on decreasing, attaining about 59½% of GDP by 2008.

Table 3.11

Main features of country forecast - CYPRUS

		2005		Annual percentage change						
	mio CYP	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices		7739.6	100.0	4.6	1.9	3.9	3.8	3.8	3.8	3.9
Private consumption		5036.0	65.1	-	1.6	6.8	4.7	4.1	3.5	3.5
Public consumption		1413.9	18.3	-	5.1	-5.1	2.6	3.9	2.7	3.3
Gross fixed capital formation		1486.9	19.2	-	0.7	10.0	2.6	5.0	4.8	4.8
of which : equipment		409.3	5.3	-	-12.7	10.3	-4.5	3.9	6.0	6.0
Exports (goods and services)		3644.5	47.1	-	-0.2	4.4	3.1	5.7	6.2	6.2
Final demand		11680.6	150.9	-	0.5	6.3	3.6	4.4	4.4	4.5
Imports (goods and services)		3941.0	50.9	-	-2.3	11.1	3.4	5.5	5.5	5.6
GNI at constant prices (GDP deflator)		7547.5	97.5	4.4	3.6	2.5	4.5	4.2	4.0	4.1
Contribution to GDP growth :	Domestic demand			-	2.0	5.4	4.1	4.4	3.7	3.8
	Stockbuilding			-	-1.2	1.9	-0.1	-0.4	0.0	0.0
	Foreign balance			-	1.1	-3.2	-0.2	-0.2	0.2	0.1
Employment				-	3.8	3.7	3.2	1.5	1.5	1.5
Unemployment rate (a)				-	4.1	4.6	5.3	5.4	5.5	5.6
Compensation of employees/head				-	7.2	1.1	2.1	3.5	3.5	3.5
Real unit labour costs				-	4.0	-1.5	-1.2	-1.4	-1.0	-1.2
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.1	5.0	2.4	2.8	2.6	2.1	2.3
Private consumption deflator				-	3.4	2.1	2.8	3.2	2.5	2.5
Harmonised index of consumer prices				-	4.0	1.9	2.0	2.4	2.0	2.4
Trade balance (c)				-	-23.7	-26.2	-25.5	-27.7	-28.6	-29.6
Current account balance (c)				-	-0.9	-5.3	-5.7	-6.0	-5.9	-5.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-5.7	-5.7	-5.7
General government balance (c)(d)				-	-6.3	-4.1	-2.3	-1.9	-1.7	-1.7
Cyclically-adjusted budget balance (c)(d)				-	-6.1	-3.6	-1.8	-1.4	-1.2	-1.2
Structural budget balance (c)				-	-7.8	-4.7	-2.7	-1.4	-1.2	-1.2
General government gross debt (c)				-	69.1	70.3	69.2	64.8	62.2	59.6

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

12. Latvia

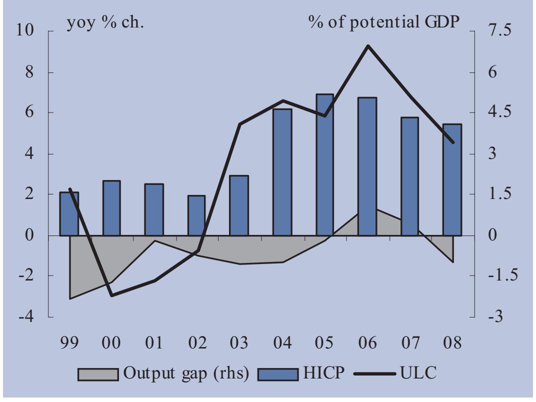
Stabilisation remains elusive

Activity in 2006

In the first half of 2006, real GDP increased by 12.0% compared with the same period a year earlier, which is by far the fastest growth rate since Latvia regained its independence in 1991. The expected slowdown to more sustainable levels has not yet set in, thereby increasing risks from overheating. The major driving force of economic growth was private consumption rather than the external sector, resulting in an expanding import/export gap and growing external debt.

The strong economic performance was based on output sectors reliant on domestic demand. The highest growth in the first half of 2006 was recorded in distribution (18.2%) and construction (16.7%). Transport, storage and communications posted a year-on-year gain in output of 8.6% while the relatively low growth rate in manufacturing (6.5%) mostly reflected a sluggish performance of the wood industry, still affected by the 2005 storms in the Northern Europe, and a slower rise in new export orders. Consequently, export performance was much weaker than expected: export values grew by 14% year-on-year against 37% in the corresponding period last year. At the same time, import performance, fuelled by persistently strengthening domestic demand, remained robust, expanding by just over a quarter. The external imbalance widened. An improved service balance could not compensate for the wider merchandise trade deficit and the current account deficit rose to over 16% of GDP from 10.8% in the corresponding period of the previous year. On the positive side, net inflows of foreign direct investment increased substantially to 9% of GDP.

Graph 3.16: **Latvia - Inflation, unit labour costs and output gap**



The economy's momentum is likely to be maintained in the second half of 2006, supported by significant EU-funds-related activity, increased labour participation and declining unemployment. For the year as a whole, real GDP is estimated to grow by around 11%, after the 10.2% recorded in 2005.

Prospects for 2007 and 2008

Growth prospects for 2007-2008 are strong, with an expected expansion of about 9% in 2007 and 8% in 2008. In consequence overheating is likely to remain evident throughout 2007, with some relief possible only in 2008 as capacity catches up. Final domestic demand is expected to continue to drive overall growth led by investment, with housing construction increasing strongly. Private consumption is also expected to remain strong, given employment growth, substantially higher real wages and easy credit access.

While the high levels of investment in equipment and production facilities will underpin export growth, the relatively high base level and some short-term saturation of foreign markets (the wood sector in particular) will moderate export expansion to rates below those achieved in 2005. Import growth is expected to remain robust due to the increase in investment and demand for inputs of intermediate goods. The external contribution is expected to remain negative, although exports are likely to recover from their poor performance in 2006.

The current account deficit is expected to widen further and peak in 2007, prior to a slight reduction in 2008; given net receipts of capital transfers, external net borrowing is slightly less.

Labour market, costs and prices

In 2006 high economic growth has contributed to reducing unemployment and boosting employment. In line with the projected expansion of the construction sector and a strong performance of the service sector, employment gains are expected to remain robust albeit not as strong as in 2006; annual productivity growth is forecast to remain in the order of 7-8%. The labour market will remain tight: on the supply side significant outward migration and negative demographic trends will offset a rising activity rate, while labour demand will be sustained. Unemployment should continue to decrease rapidly.

After a slowdown in February-April 2006, HICP inflation rose to 7.1% in May, the main reasons being increased gas tariffs and fuel prices and higher hotel and catering charges. Since then inflation has stabilised at slightly less than 7%, with several increases of regulated prices having fuelled inflation, while falling oil prices have acted as a brake.

Extended and aggravated overheating remains the main risk to the inflation outlook. Price increases could become persistent if strong demand continues to drive output above its potential level, exacerbates earnings pressures and feeds into general inflation expectations. Taking the risks into account, the central prospect is assessed to be for HICP inflation to average around 6¾% in 2006 and only modestly lower in 2007 and 2008.

Public finances

In the first eight months of 2006 the inflow of tax revenues exceeded plans by 11%. All tax categories surprised on the upside except the excise tax, which itself reached very close to the planned amount. The general government budget recorded a cumulative cash-based surplus of about 2.6% of GDP, which was entirely absorbed by a supplementary budget approved by the Parliament on 19 October. Altogether, the final deficit outturn for 2006 seems unlikely to be significantly lower than the budgeted 1.5% of GDP. Looking ahead, judging by the opinions voiced by the political parties that are likely to form the new government following the October 2006 general election, there will be no major changes in economic and budgetary strategy, although substantial tax reform proposals are likely when the 2007 budget is eventually presented. On the basis of announced policies, the deficit is expected to remain at around 1% of GDP in 2007-2008. Government debt is projected to approach 10% of GDP at the end of the forecast period.

Table 3.12

Main features of country forecast - LATVIA

	2005		Annual percentage change						
mio LVL	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices	8894.1	100.0	-0.8	7.2	8.6	10.2	11.0	8.9	8.0
Private consumption	5574.2	62.7	-	8.2	9.5	11.4	12.6	11.4	8.9
Public consumption	1542.4	17.3	-	1.9	2.1	2.7	4.5	3.7	3.5
Gross fixed capital formation	2664.3	30.0	-	12.3	23.8	18.6	18.5	11.7	8.6
of which : equipment	-	-	-	-	-	-	-	-	-
Exports (goods and services)	4300.3	48.3	-	5.2	9.4	20.7	14.2	15.0	12.8
Final demand	14470.8	162.7	-	9.2	11.4	11.4	13.5	11.8	9.5
Imports (goods and services)	5576.6	62.7	-	13.1	16.6	13.5	17.7	16.3	11.8
GNI at constant prices (GDP deflator)	8783.9	98.8	-0.9	6.5	6.5	11.1	11.0	9.0	8.1
Contribution to GDP growth : Domestic demand			-	8.8	13.0	13.6	15.1	12.3	9.7
Stockbuilding			-	2.9	0.7	-4.0	0.0	0.0	0.0
Foreign balance			-	-4.5	-5.1	0.7	-4.1	-3.4	-1.7
Employment			-3.2	1.7	1.1	1.5	2.6	1.0	0.7
Unemployment rate (a)			13.7	10.5	10.4	8.9	7.4	7.2	7.0
Compensation of employees/head			-	11.1	14.5	14.9	18.2	15.0	12.0
Real unit labour costs			-	1.9	-0.3	-3.1	0.6	-1.9	-3.1
Savings rate of households (b)			-	-	1.8	2.7	-2.0	-6.0	-7.8
GDP deflator			39.6	3.6	6.9	9.2	8.7	8.8	7.8
Private consumption deflator			-	3.1	7.0	7.0	6.8	5.8	5.4
Harmonised index of consumer prices			-	2.9	6.2	6.9	6.7	5.8	5.4
Trade balance (c)			-11.4	-17.8	-20.3	-18.9	-22.6	-23.8	-23.2
Current account balance (c)			-1.1	-8.0	-12.9	-12.5	-16.1	-17.4	-16.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			1.8	-7.3	-11.8	-11.3	-14.4	-15.4	-14.3
General government balance (c)(d)			-	-1.2	-0.9	0.1	-1.0	-1.2	-1.2
Cyclically-adjusted budget balance (c)(d)			-	-0.9	-0.7	0.2	-1.3	-1.3	-0.9
Structural budget balance (c)			-	-0.8	-0.7	0.2	-1.3	-1.3	-0.9
General government gross debt (c)			-	14.4	14.5	12.1	11.1	10.6	10.3

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

13. Lithuania

Inflationary pressures and tightening labour market

Activity in 2006

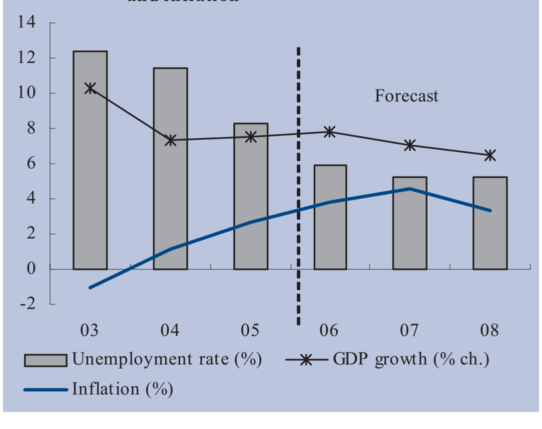
Real GDP grew by around 8½% in the first half of 2006, with domestic demand remaining the driver for growth. A recent accident in the oil-refining industry could lead to some slowdown in the last quarter of 2006. In spite of this, overall growth is estimated to remain buoyant at around 8%.

Investment recorded a robust growth in the first half of the year and is expected to lead growth in the whole of 2006. Private consumption expenditure is forecast to remain strong, stimulated by an increase in household disposable income following cuts in the personal income tax in July 2006, significant wage growth and increasing employment. The slowdown in oil refining activities could affect the imports of crude oil and exports of processed oil products in the last quarter of 2006. The deterioration of the trade balance seen in the first eight months of the year should be confirmed as the trend for the whole year. The net borrowing vis-à-vis the rest of the world is expected to widen to almost 8% of GDP compared to slightly below 6% in 2005 due to a combination of a higher merchandise trade deficit, a lower services balance surplus and a worsening of the income balance while the net current transfers, mainly due to EU funds, will exert a moderating influence.

Prospects for 2007 and 2008

The outlook for growth in 2007 and 2008 remains favourable. Real GDP growth is projected to slow down but remains robust at well above 6%. Domestic demand should continue to be the driver while the external contribution stays negative. Delays in capacity recovery in oil refinery could pose some downward risk to industrial activity in 2007.

Graph 3.17: **Lithuania - GDP grwoth, unemployment rate and inflation**



Investment activity is forecast to remain strong, aided by EU funds and favourable, albeit somewhat less benign financial conditions. After years of buoyant activity, some moderation could come from the construction sector on the back of a cooling of the housing market. A positive income and employment outlook for households should nevertheless sustain developments in the real estate market.

Private consumption growth is forecast to remain strong due to high wage growth, a further cut in personal income tax in January 2008 and higher amounts paid to the population as compensation for losses during the shift from the Russian rouble to the national currency. Nevertheless, some deceleration is expected in line with lower real income growth due to higher inflation and relatively slower improvement in the labour market. A potentially more moderate bank credit growth could also have a dampening effect on consumption.

The outlook for exports remains benign, reflecting positive prospects for Lithuania's major trading partners, while import growth is forecast to remain robust on the back of strong domestic demand. A widening trade deficit and a lower services balance surplus will result in net borrowing vis-à-vis the rest of the world remaining around 8% of GDP.

Labour market, costs and prices

The labour market is tightening rapidly in 2006. Employment growth is picking up, while the unemployment rate is in marked decline. This is the result of the combined effect of strong economic growth and increased labour shortages, partly due to emigration flows.

Looking forward, the labour market is likely to tighten further. Unemployment is expected to continue to decrease, although at a slower pace and stabilise to around 5%. Employment growth is anticipated to remain positive, although at lower levels than in 2005-2006. Against this background, nominal wage growth is expected to remain high.

Annual average HICP inflation rose to 3.5% in September 2006 from 2.7% in 2005, mainly due to rising energy, food, health and services prices (notably hotels and restaurants). In July 2006, Lithuania's single gas supplier increased wholesale gas prices by some 30% in a move towards increasing gas prices supplied to Lithuania to the level of Western Europe. Regulated prices for central heating have not yet been fully adjusted to reflect the higher gas prices and thus the main impact on consumer prices is expected in the second half of 2006 and in 2007. In addition, another increase in gas prices is expected in the course of 2007 with another lagged adjustment of heating prices and possible second-round effects. An increase of the excise duties on tobacco and fuel will also add to inflation, while a favourable evolution of oil prices could ease some pressure on inflation. Against this background, annual average inflation in 2006 is projected to be just below 4% and rise to around 4½% in 2007. In 2008, inflation is expected to decline but remain above 3%.

Public finances

In 2006, the general government deficit is likely to be 1% of GDP, that is, lower than the initial government target. A supplementary budget adopted in July 2006 increased government expenditure by around ½% of GDP but revenues are also higher than expected. The deficit is forecast to deteriorate in 2007 and 2008, mainly due to the tax and pension reforms and higher primary spending partly offset by an improved tax collection, high VAT revenues and higher excise taxes. The general government debt-to-GDP ratio is anticipated to remain at around 20%.

Table 3.13

Main features of country forecast - LITHUANIA

		2005		Annual percentage change						
	bn LTL	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices		71.2	100.0	-1.1	10.3	7.3	7.6	7.8	7.0	6.5
Private consumption		46.5	65.3	-	10.2	12.2	9.8	11.5	9.5	8.6
Public consumption		11.9	16.7	-	3.8	7.7	4.9	6.4	6.1	5.9
Gross fixed capital formation		15.9	22.4	-	14.1	15.5	9.2	12.1	9.7	9.5
of which : equipment		6.1	8.5	-	7.5	31.9	9.2	14.0	11.0	12.0
Exports (goods and services)		41.5	58.3	-	6.9	4.4	14.5	14.2	12.5	10.6
Final demand		117.7	165.3	-	10.3	10.1	10.7	11.5	10.3	9.3
Imports (goods and services)		46.5	65.3	-	10.4	14.9	16.0	17.2	14.9	13.0
GNI at constant prices (GDP deflator)		70.1	98.4	-	8.7	7.7	8.2	7.1	6.9	6.6
Contribution to GDP growth :	Domestic demand			-	10.2	12.5	9.3	11.3	9.6	9.0
	Stockbuilding			-	2.6	1.1	0.2	-0.5	0.2	0.3
	Foreign balance			-	-2.4	-6.3	-2.0	-3.0	-2.8	-2.7
Employment				-1.7	2.3	-0.1	1.4	1.9	0.6	0.3
Unemployment rate (a)				9.5	12.4	11.4	8.3	5.9	5.2	5.2
Compensation of employees/head				-	8.9	11.1	10.0	14.7	14.1	13.1
Real unit labour costs				-	1.9	0.7	-2.0	3.2	0.6	1.0
Savings rate of households (b)				-	-	0.8	1.0	2.3	3.2	2.4
GDP deflator				56.7	-0.9	2.7	5.8	5.0	6.6	5.4
Private consumption deflator				-	-0.9	-0.3	3.7	3.8	4.7	3.3
Harmonised index of consumer prices				-	-1.1	1.2	2.7	3.8	4.6	3.3
Trade balance (c)				-	-9.0	-10.6	-11.1	-12.8	-13.0	-12.9
Current account balance (c)				-	-6.8	-7.9	-6.9	-8.9	-9.4	-9.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-6.4	-7.2	-5.9	-7.7	-8.1	-8.0
General government balance (c)(d)				-	-1.3	-1.5	-0.5	-1.0	-1.2	-1.3
Cyclically-adjusted budget balance (c)(d)				-	-1.8	-1.9	-0.8	-1.4	-1.4	-1.2
Structural budget balance (c)				-	-1.8	-1.9	-0.8	-1.4	-1.4	-1.2
General government gross debt (c)				-	21.2	19.4	18.7	18.9	19.6	19.8

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

14. Luxembourg

Strong growth in 2006, mild slowdown in 2007 and 2008

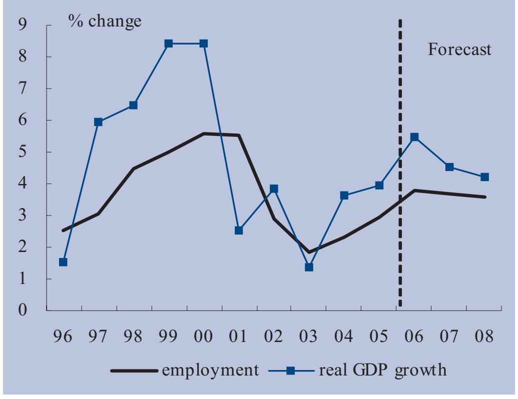
Activity in 2006

Growth accelerated in the course of 2006 and will probably reach more than 5% on average over the year, up from 4% in 2005. Domestic demand has remained dynamic, most likely on the back of a rebound of investment from the very low growth rates recorded over the last three years (only 1.5% on average). Private consumption is expected to grow at about 3½%, as in 2005, boosted by strong employment growth and, linked to it, the expected considerable rise in the total wage bill (more than 7½% in 2006). On the other hand, government consumption, which had been rather dynamic in 2005, growing by 4.8% in real terms, is likely to have decelerated somewhat as a result of the adjustment measures decided by the government in April-May. Last but not least, foreign trade has been buoyant in 2006: both total exports and imports grew by more than 10% in real terms, with exports and imports of services growing by at least 15%. The contribution to growth of net exports, which was slightly negative in 2005, is expected to be markedly positive this year.

Prospects for 2007 and 2008

Real GDP growth is projected to remain fairly strong in Luxembourg in the coming years though somewhat weaker than in 2006. Domestic demand is likely to slow down somewhat, although investment, which has picked up in 2006, is expected to accelerate in 2007 and to slow down only marginally in 2008. Private consumption could slow down slightly and government consumption should continue to decelerate as a result of the recent adjustment measures. However, the main reason for the lower GDP growth will probably be foreign trade, which, though remaining dynamic, will probably not remain as buoyant as in 2006, because the demand from the country's main trading partners is expected to decelerate. Overall, GDP growth could reach about 4¼% to 4½% in 2007 and 2008.

Graph 3.18: **Luxembourg - Employment and GDP growth**



Labour market, costs and prices

After rising by slightly less than 3% in 2005, employment growth accelerated in the course of 2006 to about 4% year-on-year in the last few months. In total, employment is expected to expand by about 3¾% this year. In 2007 and 2008, employment growth is expected to slow down very slightly, only partly reflecting the (moreover limited) deceleration in output as already observed in 2001-2003.

The rather strong employment growth in recent years had mostly benefited non-residents who now exceed one third of the total labour force in Luxembourg. As a result, unemployment has been rising since mid-2002. However, with the acceleration in job creation, the rise in unemployment has significantly slowed down in the course of 2006 and its yearly increase in recent months has been by far the smallest since it started rising in 2002. With employment growth projected to remain strong over the period, this should eventually lead unemployment to stabilise and then to begin declining, probably in the course of 2007.

Due mostly to the large increase in oil prices that occurred in the first half of the year, both the HICP and the national CPI are expected to rise by about 3¼ % and 2¼% respectively in 2006 (the more limited increase in the national CPI being due to the fact that it excludes consumption by non-residents and especially their large purchases of car fuel, alcohol and tobacco products). However, under the assumption of a much more limited increase in oil prices in 2007 and 2008 than in 2005-2006, inflation is projected to significantly decrease over the period, with a more pronounced deceleration in the HICP than in the national CPI for the same reason that the former had increased faster in 2005 and 2006.

Public finances

After a substantial deterioration from record surpluses of about 6% of GDP in 2000-2001 to a 1.1% of GDP deficit in 2004, the general government balance slightly improved in 2005 to -1.0% of GDP. This recently released result, which compares to an initial forecast of a deficit of 2.3% of GDP, is chiefly due to higher-than-expected revenues, especially from corporate taxes and more particularly stemming from the payment made by a single company that had originally been scheduled for 2006. In 2006, the deficit is expected to broadly stabilise due to higher than expected revenues, especially from direct taxes, generated by strong output and employment growth but also to a series of adjustment measures decided last spring by the government and the social partners in order to cope with the deterioration in public finance and to reinforce the competitiveness of the economy. These measures mainly consist in increases in several contributions and taxes and in a temporary (up to 2009) suspension of the normal indexation of wages and social benefits on consumer prices. In 2007, the deficit is projected to improve more visibly thanks to still rather robust output and employment growth and to the lasting effects of the adjustment measures decided in 2006, which should result in some slowdown in expenditure growth. In 2008, under an "unchanged policy" assumption (implying in particular that the adjustment measures decided last spring will be carried out as planned), the deficit should continue improving. The government debt, though remaining very low (6.1% of GDP in 2005) is projected to rise by 1.5 percentage point of GDP in 2006 because several loans related to roads and railways infrastructure projects will be issued during the year for a total of about 1 % of GDP.

Table 3.14

Main features of country forecast - LUXEMBOURG

		2005		Annual percentage change						
mio Euro		Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices		29396.0	100.0	4.4	1.3	3.6	4.0	5.5	4.5	4.2
Private consumption		11873.0	40.4	3.3	2.1	2.8	3.4	3.5	3.0	3.0
Public consumption		4995.0	17.0	4.4	4.4	3.2	4.8	3.8	3.6	3.1
Gross fixed capital formation		5777.0	19.7	4.6	1.9	0.5	2.2	5.6	6.4	5.6
of which : equipment		1553.0	5.3	1.8	-14.5	8.0	9.5	10.6	10.7	8.0
Exports (goods and services)		46820.0	159.3	7.0	3.5	10.1	8.0	14.4	9.7	8.9
Final demand		69954.0	238.0	5.6	3.6	7.4	7.0	10.5	8.0	7.4
Imports (goods and services)		40558.0	138.0	6.7	5.5	10.3	9.3	13.8	10.2	9.3
GNI at constant prices (GDP deflator)		26116	88.8	3.4	-5.0	5.3	3.3	4.9	3.8	3.5
Contribution to GDP growth :	Domestic demand			3.2	2.0	1.8	2.7	3.3	3.2	2.9
	Stockbuilding			-0.2	0.9	0.1	1.2	-1.3	0.0	0.0
	Foreign balance			1.4	-1.6	1.8	0.1	3.4	1.3	1.2
Employment				3.5	1.8	2.3	2.9	3.8	3.7	3.6
Unemployment rate (a)				2.6	3.7	5.1	4.5	4.6	4.4	4.1
Compensation of employees/head				3.6	1.9	4.2	3.7	3.7	3.5	3.5
Real unit labour costs				0.3	-2.4	1.1	-2.0	-2.1	-0.8	-0.2
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.4	4.9	1.7	4.7	4.1	3.5	3.1
Private consumption deflator				2.4	2.4	2.5	3.6	2.8	1.9	1.8
Harmonised index of consumer prices				-	2.5	3.2	3.8	3.2	2.2	1.8
Trade balance (c)				-11.3	-11.2	-10.2	-11.1	-9.9	-10.2	-10.2
Current account balance (c)				11.3	6.4	10.6	9.7	11.4	12.2	12.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	11.4	12.2	12.8
General government balance (c)(d)				3.0	0.3	-1.1	-1.0	-1.5	-0.5	-0.3
Cyclically-adjusted budget balance (c)(d)				-	1.0	-0.2	0.0	-1.1	-0.2	0.1
Structural budget balance (c)				-	1.0	-0.2	0.0	-1.1	-0.2	0.1
General government gross debt (c)				6.6	6.3	6.6	6.0	7.4	7.3	7.1

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

15. Hungary

Overdue fiscal consolidation after major slippages

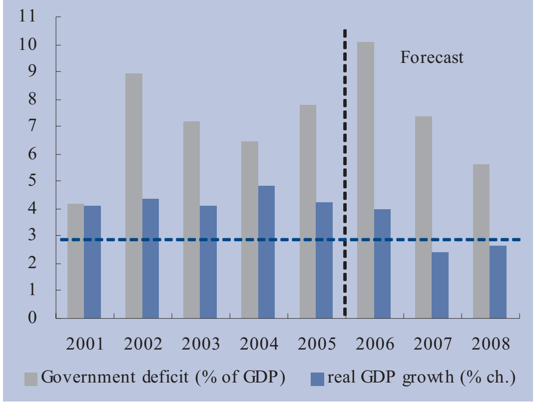
Activity in 2006

After relatively strong growth of 4.2% in 2005, real GDP continued to grow at a sustained pace in the first half of 2006, mainly driven by buoyant government consumption and net exports. For the year as a whole, GDP is expected to increase by 4%, supported by a balanced contribution of domestic and external factors. While some slowdown in government and (to a lesser extent) household consumption can be expected in the second half of the year as a result of the Government's new fiscal consolidation strategy, the growth of gross fixed capital formation is forecast to remain relatively high. External trade is also expected to continue to expand dynamically thereby providing a strong positive contribution to growth.

Prospects for 2007 and 2008

The Government's new budgetary consolidation strategy endorsed by the Parliament in July 2006, which aims to create the basis for sustainable growth over the medium to long term, is expected to dampen domestic demand in the short run. The biggest impact is expected for 2007 when real GDP growth is forecast to fall to 2.4%. As a consequence of contracting real disposable income on the back of tax and regulated price increases, household consumption is expected to decrease by ½%. For the same reason, investment in housing construction is also forecast to drop significantly. This, together with a sharp slow-down of investment in non-residential construction, leads to an overall deceleration in gross fixed capital formation. The positive contribution of net exports is forecast to increase as import demand decelerates more than exports, which should result in an improvement of the balance of goods and services. In 2008, with domestic demand slowly recovering, real GDP is expected to grow by 2.5%, still primarily driven by net exports. The current account deficit is expected to fall below 4% of GDP by 2008.

Graph 3.19: **Hungary - Government deficit and GDP growth**



Labour market, costs and prices

Lay-offs in the public sector, increasing production factor costs and the overall impact of cyclical conditions are expected to slightly decrease employment in 2007 with a minor pick-up expected for 2008. These factors and an inflow of previously inactive persons into the labour market (on account of recently adopted regulatory measures) are expected to raise the unemployment rate above the EU average. HICP inflation fell in the first half of 2006 to 2.6%, whereas the forint depreciated by around 8% amidst investors' globally increasing risk sensitivity and growing financial market concerns about the state of Hungary's public finances. Major one-shot inflation shocks from increased VAT and cuts in price subsidies (part of the fiscal consolidation package) along with the depreciation of the currency and increasing oil prices are estimated to bring average annual inflation close to 4% in 2006. HICP inflation is expected to peak at close to 7% in 2007, also due to some further increases in regulated consumer prices (in energy and public transport). It should then drop below 4% in 2008, as the impact of fiscal measures ends and linked to the moderate impact of adverse cyclical conditions and expected lower energy prices.

Public finances[1]

After a 1.3 percentage point increase in 2005 to 7.8% of GDP, the general government deficit is expected to be considerably higher in 2006, due to major slippages. The deficit is expected to reach 10.1% of GDP (compared to the original target of 6.2% of GDP), despite the corrective measures worth around 1.5% of GDP taken in summer. Around half of the overshoot compared to the original target is due to current expenditure overruns, which have occurred chiefly in the areas of pension, healthcare, price subsidies and operational costs of central government. The remainder is mainly explained by deficit-increasing one-off measures, as well as by the correction of the accounting of motorway investment (around 1% of GDP).

The forecast projects a sharp decline of the deficit to 7.4% of GDP in 2007 and, based on the usual no-policy-change assumption, a further improvement in 2008 to 5.6% of GDP, due to the continuing fiscal retrenchment. This compares with the revised deficit targets of 6.8% of GDP in 2007 and 4.3% of GDP in 2008 in the adjusted convergence programme update.

The Commission services' forecast does not take into account the draft 2007 budget, since it will not be submitted to Parliament until 31 October, i.e. after the cut-off date of the forecast. However, it incorporates the increases in taxes and in social contributions adopted by Parliament in July 2006. This entails an increase in the tax burden of 1.2 percentage points between 2006 and 2008. On the expenditure side, only those expenditure reduction measures are considered (e.g. freezes in operational and wage expenditure and cuts in investment and price subsidies), which were adopted by the Government and are known in sufficient detail at time of the cut-off date. It is assumed that the planned savings in social transfers and government consumption will only partly be achieved, since it may be difficult to fully enforce the envisaged cuts in preventive care and in the public wage bill, particularly towards the end of the forecast horizon. Furthermore, interest expenditure for both 2007 and 2008 is expected to be higher compared to official estimates, due to rising yields and higher government debt. The forecast does not include any debt assumption from the state-guaranteed debt of the national railway (MÁV) company (over 1% of GDP), though it is subject to risk. The debt-to-GDP ratio is projected to significantly increase in 2006 to 67.6% from 61.7% in 2005. For 2007 and 2008, the debt ratio is projected to further increase to 70.9% of GDP and 72.7% of GDP respectively.

[1] The deficit and debt figures reported in this document include the costs of the pension reform, in line with the convergence programme update of September 2006 (see box 2.2).

Table 3.15

Main features of country forecast - HUNGARY

	2005		Annual percentage change						
bn HUF	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices	22026.8	100.0	2.7	4.1	4.9	4.2	4.0	2.4	2.7
Private consumption	12204.4	55.4	-	8.4	3.1	3.9	3.0	-0.5	0.5
Public consumption	4975.0	22.6	0.7	5.4	1.9	1.9	0.6	-1.5	-1.2
Gross fixed capital formation	4995.3	22.7	5.8	2.1	7.7	5.6	5.2	2.2	3.6
of which : equipment	2002.3	9.1	-	-	-	-	5.4	4.1	7.8
Exports (goods and services)	14626.2	66.4	13.0	6.2	15.7	11.6	13.1	10.3	9.3
Final demand	36958.8	167.8	-	6.1	9.1	5.9	6.2	4.4	4.7
Imports (goods and services)	14932.0	67.8	13.7	9.3	14.1	6.8	9.6	7.0	7.2
GNI at constant prices (GDP deflator)	20759.1	94.2	-	4.6	3.9	4.4	2.5	1.8	2.4
Contribution to GDP growth :	Domestic demand		2.7	6.2	3.9	3.8	3.0	-0.1	0.8
	Stockbuilding		0.5	0.1	0.5	-2.4	-1.2	0.0	0.0
	Foreign balance		-0.4	-2.1	0.5	2.8	2.2	2.5	1.9
Employment			-	1.3	-0.7	0.0	0.2	-0.2	0.1
Unemployment rate (a)			8.5	5.9	6.1	7.2	7.3	7.7	7.7
Compensation of employees/head			-	9.4	11.5	6.5	6.5	6.7	3.8
Real unit labour costs			-	0.7	1.2	0.1	-0.3	-0.8	-2.1
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			15.7	5.7	4.3	2.0	2.9	4.7	3.4
Private consumption deflator			-	4.0	4.5	3.6	3.9	6.8	3.9
Harmonised index of consumer prices			-	4.7	6.8	3.5	3.9	6.8	3.9
Trade balance (c)			-4.8	-3.9	-3.0	-1.7	-1.1	0.6	1.9
Current account balance (c)			-	-7.9	-8.4	-6.8	-7.3	-5.1	-3.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-8.0	-8.1	-	-6.6	-3.6	-1.6
General government balance (c)(d)			-	-7.2	-6.5	-7.8	-10.1	-7.4	-5.6
Cyclically-adjusted budget balance (c)(d)			-	-6.9	-6.5	-8.1	-10.5	-7.4	-5.4
Structural budget balance (c)			-	-6.9	-6.5	-8.5	-10.3	-6.5	-5.1
General government gross debt (c)			-	58.0	59.4	61.7	67.6	70.9	72.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

16. Malta

Modest domestically-led recovery confirmed

Activity in 2006

Economic activity continued growing at a sustained pace in the first half of 2006 on the back of higher domestic demand, in particular total consumption. GDP is projected to grow by around 2¼% in 2006 in real terms. Maintaining the momentum registered in the first half of the year, private consumption is projected to grow by around 2¼%, helped by employment creation and a continued expansion in consumer credit. Public consumption is projected to grow by 1%, while investment growth is expected to remain robust during 2006, reflecting the ongoing construction of the Mater Dei hospital and other infrastructure projects financed through the EU structural funds. Overall, domestic demand is expected to contribute around 4½ percentage points to GDP growth, partly explained by a positive contribution of stock-building.

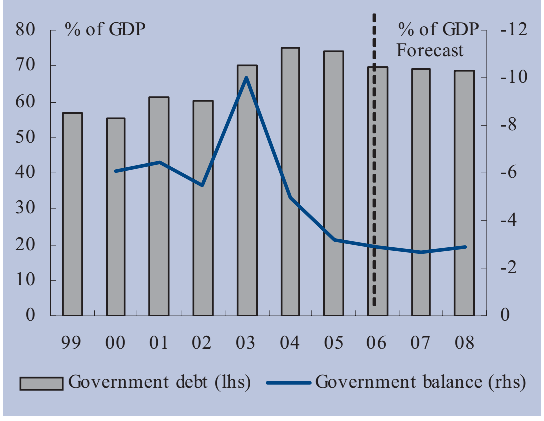
Despite a robust increase in nominal terms, real exports contracted during the first half of 2006. This was due to a base effect, as export prices rebounded from the depressed levels of the corresponding 2005 period. This, coupled with weak tourism results, should lead to real export growth of only ½% in 2006. A more dynamic domestic demand, coupled with exceptional operations (the purchase of sea vessels and transport infrastructure), should pull up imports by around 2¾%. As a result, the external sector is projected to contribute negatively by some 2 of a percentage points to GDP growth.

Prospects for 2007 and 2008

Real GDP growth is expected to decline slightly to around 2% in 2007 and 2008. Economic activity is expected to be driven by domestic demand in both years, while the contribution of the external sector should improve but remain negative. Private consumption is projected to grow at a faster pace of around 2½% in 2007, and accelerate slightly in 2008, on account of an improvement in disposable income. Public consumption is projected to ease in 2007 and accelerate to about 1% in 2008. Gross fixed capital formation is expected to slow down in 2007 as a result of the completion of the Mater Dei hospital and to decelerate further in 2008. Overall, domestic demand is expected to contribute by some 2¾ percentage points to GDP growth.

The rebound of exports in 2006 is projected to accelerate in 2007 and in 2008, supported mainly by a better outlook for the semiconductors sector and by an expansion of the pharmaceutical industry. Tourism activity is also expected to register some gains. By 2008, imports should reach 2½%, while the detraction of net exports from GDP growth is projected to fall to around ¼ of a percentage point. The current account deficit is projected to reach almost 11% of GDP in 2006 and 2007 as the trade imbalance continues to widen. Further deterioration is expected in 2008 as the improvement in the services balance is projected to fall short of the widening trade imbalance. From 2007, developments in the current account deficit also reflect the re-classification of part of EU funds under the new financial perspective (previously booked under current transfers) to the capital account. The current external deficit is expected to be only partially financed by capital inflows from the EU budget. The net borrowing vis-à-vis the rest of the world is projected to fluctuate around 8% of GDP over the forecast horizon.

Graph 3.20: **Malta - General government finances**



Labour market, costs and prices

Employment growth in the first half of 2006 increased at a brisk pace. For the whole year, employment is expected to rise by some 1%. The pace of employment creation is projected to decelerate slightly in 2007, partly due to the completion of labour-intensive public construction projects. However, over the forecast horizon, the expansion of the pharmaceutical sector should provide some respite to sagging employment in manufacturing. Nevertheless, employment should be mainly generated by the services sector, in particular information technology and financial services. Unemployment is anticipated to progressively decline to around 7% of the labour force by 2008.HICP inflation increased in the first half of 2006, mainly due to higher energy prices. For the whole year, headline inflation is projected at 3% as the impact of a relatively high increase in energy prices which started in late 2005, fades away towards year-end. HICP inflation is projected to keep easing somewhat to slightly above 2½% in 2007. For 2008, HICP inflation is projected to decline marginally below 2½%, in line with more stable energy prices.

Public finances

The general government deficit is expected to fall to just below 3% in 2006 mainly as a result of lower current expenditure. The structural balance (cyclically-adjusted balance net of one-offs) is forecast to improve by ½% of GDP in 2006.

Taking into account the 2007 draft Budget, the deficit for 2007 is projected at around 2¾% of GDP, including ¼% of GDP in deficit-reducing one-offs. This outcome is a result of projected higher revenues of around ¼ of a percentage point of GDP mainly due to taxes on production and imports on the back of higher private consumption. Current expenditure should fall by around 1 percentage points of GDP which is expected to be completely offset by an increase in capital expenditure. For 2008, under the no-policy change scenario, which takes into account changes in interest payments but excludes one-off operations (consisting of sale of land), the deficit is expected to be slightly below 3% of GDP. General government debt in 2005 stood at around 74¼% of GDP and is expected to fall to around 69½% of GDP in 2006, mainly due to privatisation proceeds estimated at some 3½% of GDP. For 2007, the debt ratio is projected to decline to 69% of GDP. Under the no-policy change scenario, the debt ratio is expected to fall to around 68½% of GDP in 2008.

Table 3.16

Main features of country forecast - MALTA

		2005			Annual percentage change					
mio MTL		Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices		1941.1	100.0	4.1	-2.4	0.0	2.2	2.3	2.1	2.2
Private consumption		1301.1	67.0	-	3.3	1.1	2.8	2.3	2.5	2.6
Public consumption		425.4	21.9	-	3.0	1.4	0.6	1.0	0.4	1.1
Gross fixed capital formation		406.5	20.9	-	29.0	0.8	7.4	7.5	4.6	2.4
of which : equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		1406.7	72.5	-	-2.4	4.1	-6.2	0.6	2.1	2.4
Final demand		3543.8	182.6	-	1.7	2.1	0.2	2.5	2.3	2.3
Imports (goods and services)		1602.7	82.6	-	6.2	4.3	-1.8	2.7	2.6	2.5
GNI at constant prices (GDP deflator)		1938.3	99.9	3.6	-3.2	-0.7	1.6	2.3	2.1	2.2
Contribution to GDP growth :	Domestic demand			-	7.0	1.2	3.5	3.4	2.8	2.5
	Stockbuilding			-	-1.6	-0.8	2.8	1.0	0.0	0.0
	Foreign balance			-	-7.8	-0.4	-4.1	-2.1	-0.7	-0.3
Employment				1.1	1.0	-0.8	1.5	1.0	0.8	0.9
Unemployment rate (a)				6.1	7.6	7.4	7.3	7.0	7.0	6.9
Compensation of employees/head				5.8	3.8	2.0	0.5	1.9	2.0	2.1
Real unit labour costs				0.2	3.3	1.0	-2.2	-2.5	-2.1	-1.9
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.5	4.0	0.1	2.0	3.1	2.9	2.7
Private consumption deflator				-	0.6	2.4	2.5	3.1	2.8	2.4
Harmonised index of consumer prices				-	1.9	2.7	2.5	3.0	2.6	2.4
Trade balance (c)				-19.1	-13.9	-17.1	-21.1	-22.4	-22.6	-22.8
Current account balance (c)				-	-5.0	-7.5	-11.0	-10.9	-10.9	-11.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-4.7	-6.0	-7.8	-7.9	-8.0	-8.3
General government balance (c)(d)				-	-10.0	-5.0	-3.2	-2.9	-2.7	-2.9
Cyclically-adjusted budget balance (c)(d)				-	-9.7	-4.3	-2.4	-2.3	-2.3	-2.7
Structural budget balance (c)				-	-6.5	-5.0	-4.0	-3.5	-2.5	-2.7
General government gross debt (c)				-	70.2	74.9	74.2	69.6	69.0	68.6

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

17. The Netherlands

Firm economic recovery

Activity in 2006

The long awaited economic recovery that took hold mid-2005 was consolidated in the first half of 2006, with economic growth averaging 2.7% year-on-year. The Dutch economy is expected to continue to perform above potential in the second half of 2006, with economic growth slightly above the 3% mark. Dutch exports will continue to benefit from a supportive external environment, but as imports will grow at a similar pace, the positive growth contribution from net exports will be unchanged.

The acceleration of economic activity after a prolonged economic trough has been instrumental in restoring consumer confidence. Private consumption, which grew at only half a percentage point on average per year in the past four years, is expected to benefit from the improved outlook and pick up strongly[1]. In part, this increase in private consumption represents a catching-up in durable goods. Interestingly, the strong growth in consumption is not supported by strong wage developments in 2006 and hence the saving rate is expected to show a sizeable decline of around 1½ percentage points in 2006.

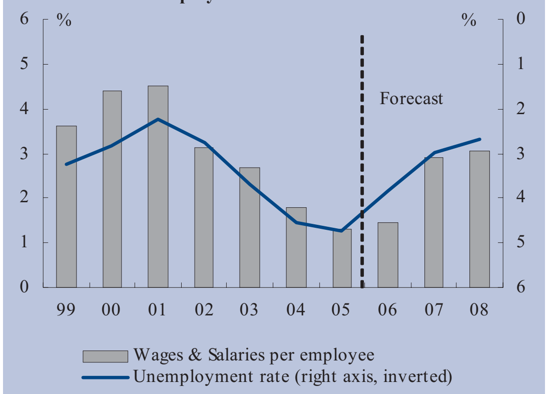
Prospects for 2007 and 2008

The Dutch economy is expected to continue its above-potential growth performance in 2007 and 2008, with only a slight moderation in the latter year. Despite the moderation in world trade, economic growth will continue to be supported by export demand.

In both years, economic growth is expected to benefit from continued strong domestic demand. Private consumption will retreat slightly as the catching-up in durable goods consumption abates, but underlying consumption growth is continuing at around 2% in both years. Disposable household income is expected to increase due to strong wage and employment developments, which provide a solid basis for the rise in private consumption while the household saving rate is expected to stabilise around 10½%.

Private gross fixed capital formation will continue to show strong momentum throughout 2007. The prospects for investment in equipment are supported by regained producer confidence as well as by strong profit developments in recent years. Investment in housing construction will remain favourable as the demand for new homes continues to be strong. Some moderation is expected to occur towards 2008 as the economic cycle matures.

Graph 3.21: **The Netherlands - Wage growth and unemployment**



Labour market, costs and prices

Following three years of decline, employment is expected to expand strongly in 2006 on the back of the vigorous economic recovery. Employment growth (in full-time equivalent) will reach around 1½% in both 2006 and 2007. As it outpaces labour supply growth in all forecast years, unemployment is expected to show a continuous fall, to around 3% as early as 2007. The rapid tightening of the labour market is expected to hold back employment growth in the last forecast year, slowing it down to around ¾%. Furthermore, from 2007 onwards, labour scarcity is expected to elicit a strong endogenous wage reaction, despite contractual wages currently being fixed at relatively low levels. A similar wage response emerged at the height of the previous economic peak (Graph 3.21) when unemployment reached similar levels to those currently anticipated for the outer forecast years.

Inflationary pressures will start to emerge as a result of rising labour costs. HICP inflation is expected to increase from 1.6% in 2006 to 1.8% in 2007 and 2.3% in 2008. Although rising product prices will hold back real unit labour costs, nominal unit labour costs will increase around 1½% per year from 2007 onwards and this will partially reverse the improvement in the competitive position that has taken place over the course of the past few years.

Public finances

After a remarkably strong improvement in recent years, the Dutch public finances are expected to further improve slightly in 2006, to reach a balance. In structural terms, there is no further strengthening. An important explanation for the better nominal outcome in 2006 is higher revenues from indirect taxes, in particular VAT, in part because of the above-mentioned catching-up of durable private consumption. Furthermore, higher energy prices are expected to raise government revenue by around ½% of GDP due to higher gas-related revenues.

In 2007, the government balance is expected to turn into a small surplus of 0.2% of GDP, and total spending is projected to respect and even fall slightly short of allotted expenditure ceilings. The government balance is also expected to benefit from a projected further increase in gas-related revenues. Because of the end of the current government term in 2007, no expenditure ceilings exist beyond that year. Based on the no-policy-change assumption, it is expected that strong revenue growth will result in a small increase in the general government surplus in 2008.

Thanks to the budgetary position and sales of financial participations, the debt-to-GDP ratio is projected to further decline from over 50% of GDP in 2006 to around 45½% of GDP in 2008.

[1] The reform of the health care system at the beginning of 2006 resulted in a shift of health care expenditures of around €8 billion (or 1½% of GDP) from private to public consumption, downwardly distorting private consumption growth by around 3 percentage points in 2006.

Table 3.17

Main features of country forecast - THE NETHERLANDS

	2005			Annual percentage change						
bn Euro		Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at previous year prices		505.6	100.0	2.7	0.3	2.0	1.5	3.0	2.9	2.6
Private consumption		247.1	48.9	2.7	-0.2	0.6	0.7	-0.6	1.8	2.1
Public consumption		121.8	24.1	2.2	2.9	0.1	0.3	7.0	2.3	2.0
Gross fixed capital formation		97.7	19.3	2.8	-1.5	-0.8	3.6	4.5	4.4	2.3
of which : equipment		27.7	5.5	3.9	5.0	-0.5	4.3	5.2	4.9	2.7
Exports (goods and services)		353.6	69.9	6.5	1.5	8.0	5.5	8.2	6.8	6.5
Final demand		820.3	162.2	4.0	0.9	3.8	3.0	5.1	4.6	4.2
Imports (goods and services)		314.6	62.2	6.5	1.8	6.4	5.1	8.1	6.9	6.3
GNI at previous year prices (GDP deflator)		510.2	100.9	2.8	0.6	3.7	-0.4	3.0	3.1	2.6
Contribution to GDP growth :	Domestic demand			2.5	0.3	0.1	1.1	2.2	2.3	1.9
	Stockbuilding			-0.1	0.1	0.4	-0.2	0.0	0.1	0.0
	Foreign balance			0.3	-0.1	1.4	0.7	0.7	0.5	0.6
Employment				1.5	-1.1	-1.4	-0.3	1.6	1.4	0.8
Unemployment rate (a)				4.6	3.7	4.6	4.7	3.9	3.0	2.7
Compensation of employees/head				3.7	4.2	3.8	1.5	1.5	3.1	3.3
Real unit labour costs				-0.2	0.5	-0.4	-2.0	-1.4	-0.5	-0.7
Savings rate of households (b)				-	-	13.1	12.4	10.9	10.4	10.3
GDP deflator				2.6	2.2	0.7	1.7	1.7	2.1	2.1
Private consumption deflator				2.6	2.4	0.8	1.6	2.0	2.2	2.3
Harmonised index of consumer prices				2.4	2.2	1.4	1.5	1.6	1.8	2.3
Trade balance (c)				5.5	6.5	7.1	7.6	8.3	8.6	8.9
Current account balance (c)				4.9	6.1	8.6	7.1	7.6	8.1	8.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				4.6	5.9	8.4	6.8	7.3	7.8	8.2
General government balance (c)(d)				-1.7	-3.1	-1.8	-0.3	0.0	0.1	0.3
Cyclically-adjusted budget balance (c)(d)				-1.8	-2.1	-0.9	0.9	0.6	0.4	0.3
Structural budget balance (c)				-	-2.1	-1.1	0.9	0.6	0.4	0.3
General government gross debt (c)				66.5	52.0	52.6	52.7	50.5	47.8	45.4

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

18. Austria

Balanced growth exceeding the euro-area average

Activity in 2006

The beginning of the year saw a slowdown in economic growth from 0.8% quarter-on-quarter in late 2005 to 0.6%. However, real GDP growth accelerated again to 0.9% in the following period. Overall, activity in the first six months turned out much stronger than previously expected.

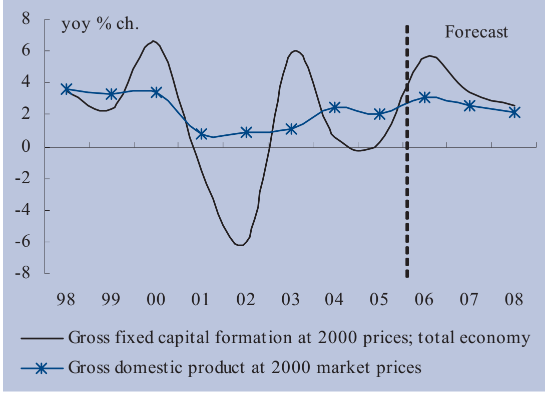
The growth in the first half of the year was to a large extent driven by gross fixed investment, which finally picked up after a prolonged period of weakness. The rebound was particularly spectacular for equipment investment, supported by favourable prospects for exports of goods and rising capacity utilisation.

Net exports also developed favourably[1], contributing to growth thanks to the surprisingly strong demand in the euro area in particular in the second quarter. Exports of goods should remain strong in the second half of the year, partly because of the carry-forward effects in private consumption in Germany due to the increase in the standard German VAT rate as from 2007.

In spite of the 2004/2005 tax cuts, the lower-than-initially-expected inflation and the relatively strong job creation, private consumption remained subdued in the first half of the year, but it is expected to accelerate slightly in the second half.

All in all, on an annual basis, real GDP growth is projected to increase to 3.1% in 2006, with investment and net exports mainly responsible for this favourable outcome.

Graph 3.22: **Austria - Investment growth versus GDP growth**



Prospects for 2007 and 2008

Having picked up significantly in 2006, GDP growth is expected to slow down in 2007 and 2008, but should remain close to its potential even at the end of the forecast period. The negative output gap is supposed to close towards the forecast horizon.

The profiles of both private and government consumption are expected to be relatively flat. Gross fixed capital formation, after its spectacular rebound in 2006, is expected to ease down over the forecast period.

Exports of goods are anticipated to decelerate in 2007 - to a large extent due to the above-mentioned rise in the German VAT rate - and continue to do so in 2008, in line with the foreseen slowdown in world trade. As a result GDP growth towards the end of the forecast period will increasingly rely on domestic demand.

Labour market, costs and prices

Employment will grow throughout the forecast period, albeit more slowly than in the euro area on average. Unemployment is expected to edge down marginally in 2006 from its previous year's level, but then will remain stable as job creation is matched by a labour force growing rapidly due to more women and immigrants entering the job market and older workers staying in it longer as a consequence of the recent pension reform.

With oil prices easing down, consumer price inflation is projected to stay below 2% over the forecast period. No inflationary pressures are expected to stem from labour costs as wage developments should stay in line with gains in productivity.

Public finances

2006 was supposed to see the peak of the revenue loss, estimated at 1.4% of GDP, caused by the 2004/2005 tax reform. In addition, the 2006 budget is burdened with the cost of the regional employment and growth initiative of August 2005 and a package of measures aimed at combating youth unemployment and helping women re-enter the job market, which the government adopted in September 2005 (about 0.16% of GDP in total). As a counterbalance, the implementation of the second stage of the administrative reform, agreed on by the different levels of government in November 2005, should result in expenditure savings of around 0.1% of GDP. Looking at the available central government's revenue data for 2006, it seems probable that the annual general government deficit will turn out lower than the officially forecast 1.5% of GDP. This is mainly due to higher-than-expected proceeds from VAT and corporate tax.

It should be noted that at the time of writing, the composition of the new government was not yet known, let alone its budgetary plans for the next year. Under a no-policy-change assumption, the deficit is expected to decline marginally in 2007 and 2008 as the impact of the tax reform wears off, but it will still be higher than the targets of 0.8% and 0% of GDP respectively presented in the update of the Stability Programme submitted in November 2005.

The debt ratio is anticipated to decrease continuously over the forecast period. In 2008, it is expected to fall just below the 60% of GDP threshold for the first time since 1992.

[1] Quarterly data concerning net exports should be treated with caution as they are heavily distorted by a break in the series of services exports and imports caused by a change in the methodology of gathering the data. A revision is expected on the occasion of the publication of the third quarter data.

Table 3.18

Main features of country forecast - AUSTRIA

		2005		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at previous year prices		245.0	100.0	2.1	1.1	2.4	2.0	3.1	2.6	2.1
Private consumption		137.6	56.1	1.7	1.3	1.9	1.7	2.0	2.1	1.8
Public consumption		44.4	18.1	2.0	1.2	1.4	1.9	1.7	1.6	1.6
Gross fixed capital formation		50.3	20.5	1.0	5.9	0.6	0.3	5.6	3.4	2.6
of which : equipment		19.6	8.0	1.4	7.2	-1.6	0.2	6.4	4.6	4.0
Exports (goods and services)		133.1	54.3	5.7	2.0	10.0	6.4	3.9	6.1	5.8
Final demand		366.4	149.5	2.8	2.3	4.3	3.1	3.0	3.6	3.2
Imports (goods and services)		121.4	49.5	4.6	5.1	8.7	5.2	2.9	5.5	5.5
GNI at previous year prices (GDP deflator)		242.5	99.0	2.1	1.4	2.2	2.2	3.1	2.0	1.6
Contribution to GDP growth :	Domestic demand			1.7	2.2	1.5	1.3	2.6	2.2	1.9
	Stockbuilding			0.0	0.2	0.0	-0.1	-0.1	-0.2	-0.2
	Foreign balance			0.5	-1.3	0.9	0.9	0.7	0.6	0.4
Employment				0.5	0.1	0.0	0.3	0.7	0.7	0.7
Unemployment rate (a)				4.0	4.3	4.8	5.2	5.1	5.1	5.1
Compensation of employees/head				2.8	2.0	1.7	1.6	2.8	2.2	2.1
Real unit labour costs				-0.4	-0.4	-2.4	-1.9	-1.0	-1.4	-1.2
Savings rate of households (b)				-	-	13.2	13.5	14.1	13.3	13.0
GDP deflator				1.6	1.3	1.7	1.9	1.5	1.8	1.9
Private consumption deflator				2.0	1.6	1.9	1.7	1.7	1.6	1.6
Harmonised index of consumer prices				1.9	1.3	2.0	2.1	1.8	1.8	1.7
Trade balance (c)				-2.0	0.5	1.2	1.0	1.6	2.0	2.3
Current account balance (c)				-0.9	1.7	2.1	2.9	3.0	2.8	2.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.1	1.7	1.9	2.8	2.9	2.7	2.6
General government balance (c)(d)				-2.6	-1.6	-1.2	-1.5	-1.3	-1.2	-1.0
Cyclically-adjusted budget balance (c)(d)				-2.7	-0.9	-0.7	-0.9	-1.2	-1.2	-1.0
Structural budget balance (c)				-	-0.9	-0.7	-0.9	-1.2	-1.2	-1.0
General government gross debt (c)				64.3	64.6	63.8	63.4	62.1	60.9	59.8

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

19. Poland

Investment boom supports growth

Activity in 2006

Economic activity in the first half of 2006 confirmed the recovery observed since mid-2005. Driven by domestic demand, real GDP growth in the second quarter of 2006 reached 5.5% year-on-year, up from 5.2% in the first quarter. Quarterly data indicate, however, some loss in momentum, except for gross fixed capital formation. Notably, private consumption growth weakened slightly towards the end of the second quarter which may be attributed to feeble consumer confidence resulting from political disturbances connected with the dismissal of the Marcinkiewicz government. Investment growth in the second quarter of 2006 jumped to 14.4% year-on-year, mainly thanks to small firms which increased their investment outlays. Such a high investment growth was last observed in 1998. Strong investment activity was backed up by healthy corporate profits and reflected in an increased construction activity.

Export and import growth in the first half of 2006 increased to about 17% and 15% in real terms, year-on-year, respectively. Net exports contributed positively to GDP growth but this contribution was diminishing. A less volatile exchange rate and solid external demand maintained the growth of Polish exports despite a food exports ban to Russia and Ukraine. The growth of imports can be attributed to continuing investment activity and overall strong private consumption.

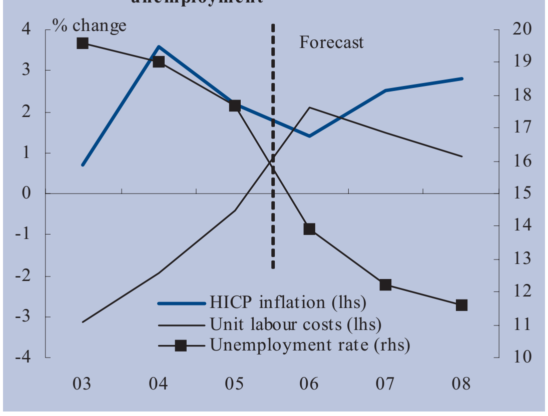
Since the new investments take time to come on stream, temporary capacity constraints may limit the production dynamics in the second half of the year and prevent some firms from meeting the increased demand. Also the short-term indicators point at stabilisation of GDP growth for the remaining part of the year. For the whole 2006 GDP is projected to grow at 5¼ % on average.

Prospects for 2007 and 2008

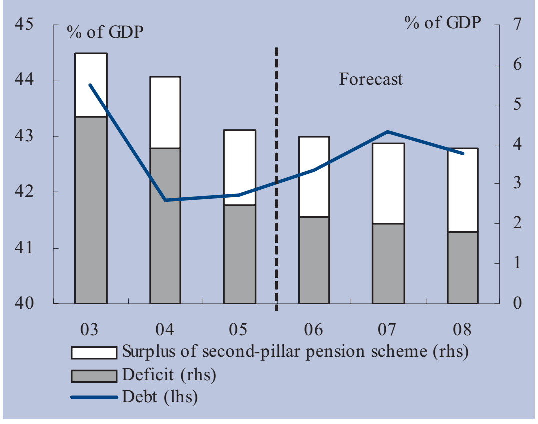
Domestic demand will continue to be the main driving force of GDP growth in 2007 and 2008. Both investment and private consumption growth are likely to stay strong over the projection period. Investments will be supported by increased inflow of EU funds. Poland will be still able to use for two years the funds after the end of the first programming period 2004–2006. At the same time funds from the new programming period of 2007–2013 will already be available. Despite the current political instabilities, capacity constraints will lead to investment growth of over 10% each year, further supported by foreign direct investment and by ample supply of EU funds. Private consumption is expected to keep its high momentum as a result of the better situation in the labour market and accelerating real wage growth. Administrative difficulties encountered in dealing with EU funds have limited Poland's absorption capacity, but the situation has started to improve which bodes well for the coming years. Therefore, in 2007 and 2008, EU funds (up to 3¼% of GDP) will boost domestic demand and increase imports, which will translate into a negative contribution of net exports to GDP growth.

Export growth is expected to slow down slightly due to lower external demand in the EU, the main trading

Graph 3.23 : **Poland - Prices, labour costs and unemployment**



Graph 3.24: **Poland - General government finances**



partner. This might lead to some shift in the direction of trade from EU countries to the countries on Poland's eastern border (Russia and Ukraine). Rising investment-driven imports will augment the external imbalances widening the trade and current account deficit in 2007 and 2008. However, higher transfers from the EU will have a positive impact on both the current and capital accounts. In total, the external deficit is projected to widen to 2¾% of GDP in 2008.

Labour market, costs and prices

In the course of 2006 one could observe an impressive improvement in the labour market. Until September the unemployment rate has fallen by nearly 2½ percentage point from 17.7% in 2005, which corresponds to a decrease in the number of unemployed by nearly 400 thousand people. Although total employment increased significantly (2½% in the first half of 2006), part of the drop in unemployment rate may be attributed to a falling labour force due to increased early retirements, emigration and a growing number of students. As economic activity is expected to be strong, employment should increase by about 5% by the end of the forecast horizon. The number of unemployed is projected to reach ca. 2 million people, somewhat more than 12% of the civilian labour force in 2008.

Annual HICP inflation decreased to a record low of 0.8% at the end of 2005 and rebounded slightly since then to about 1.5% in mid-2006. Inflationary expectations are muted so far. Nevertheless inflation is expected to rise at a slow pace because of higher expected food prices due to a poor harvest, emerging bottlenecks on the labour market and rising wage pressures as the expected improvement in the labour market will bring unemployment rates close to the estimate of Non-Accelerating Inflation Rate of Unemployment (NAIRU). Furthermore, companies are in a very good financial situation and can afford to pay higher wages. Inflation in 2007 is projected to come close to the Polish central bank’s medium-term target of 2.5% and reach 2¾% in 2008.

Unit labour costs are projected to grow by ca. 2¼% in 2006, owing to strong wage growth combined with modest productivity increases. In 2007 and 2008, nominal unit labour costs are likely to continue rising, albeit at a slower pace, up to 1% as productivity growth will recover and offset the accelerating compensation of employees due to tightening labour markets.

Public finances

Since the 2006 spring forecast, the acceleration of GDP growth has resulted in better than expected revenues from direct taxes. Moreover, there was slower-than-budgeted investment expenditure by local government related to lower-than-projected absorption of EU funds. The general government balance is now expected to improve from −2.5% of GDP in 2005 to −2.2% of GDP in 2006. However, there still remains some uncertainty as regards the general government balance due to the November 2006 municipal elections, which may boost local government expenditure in the last quarter of 2006.

Assuming that the parliament does not significantly modify the draft budget, the general government balance is expected to improve marginally to −2.0% of GDP in 2007 thanks to some revenue-increasing measures, mainly hikes of excise duty on fuel and cigarettes. The unfreezing of the indexation of personal income tax brackets and pro-family tax relief will be the main revenue-reducing measure. Compared to the target presented in the draft 2007 budget, the general government balance is expected to be worse by 0.3% of GDP mainly because of less optimistic revenue forecast for direct taxes as well as expected higher expenditure on public investment and social transfers.

In 2008, the general government balance is expected to improve slightly to −1.8% of GDP under the assumption of no policy change. On the positive side, the government intends to keep its 30 bn złoty nominal deficit anchor (ceiling) for the state budget deficit. On the negative side (from the government balance perspective), rising absorption of EU funds will also require increased spending by local government and the balance of local authorities may deteriorate weighing on the government deficit as a whole, whereas no plausible expenditure reforms are planned by the government so far. GDP growth is expected to be less tax-rich.

The gross debt figure is projected to increase from 42% of GDP in 2005 to slightly more than 43% in 2007 as a result of still-high deficits and slow privatisation. In 2008, the debt ratio may decline below 43%.

Until April 2007, Poland benefits from the transitional period for the sectoral classification of pension schemes. (See box 2.2).

Table 3.19

Main features of country forecast - POLAND

		2005					Annual percentage change			
	bn PLN	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at previous year prices		980.7	100.0	4.3	3.8	5.3	3.2	5.2	4.7	4.8
Private consumption		616.3	62.8	4.6	1.9	3.9	2.3	4.6	3.9	3.6
Public consumption		179.0	18.3	2.7	4.9	4.2	2.8	2.5	3.3	3.6
Gross fixed capital formation		178.4	18.2	6.8	-0.1	6.3	6.2	10.4	10.8	10.8
of which : equipment		69.0	7.0	-	-1.4	8.0	7.7	11.0	12.0	12.0
Exports (goods and services)		364.7	37.2	10.4	14.2	14.0	7.1	16.7	11.1	9.5
Final demand		1348.7	137.5	5.5	5.2	7.9	3.3	8.3	6.9	6.6
Imports (goods and services)		368.0	37.5	11.6	9.3	15.2	3.4	16.6	12.0	10.5
GNI at previous year prices (GDP deflator)		944.4	96.3	4.6	3.1	2.2	4.4	5.3	5.0	5.5
Contribution to GDP growth :	Domestic demand			4.7	2.1	4.5	3.1	5.2	5.1	5.1
	Stockbuilding			-0.1	0.6	1.6	-1.2	0.0	0.1	0.3
	Foreign balance			-0.4	1.1	-0.8	1.4	0.0	-0.5	-0.6
Employment				-	-	-	-	3.3	1.2	0.8
Unemployment rate (a)				14.2	19.6	19.0	17.7	13.9	12.2	11.6
Compensation of employees/head				22.9	1.8	1.9	0.5	4.0	5.0	4.9
Real unit labour costs				-	-	-	-	1.1	-0.4	-1.6
Savings rate of households (b)				-	-	6.4	7.3	7.2	7.0	6.7
GDP deflator				17.2	0.4	4.0	2.8	1.0	1.9	2.5
Private consumption deflator				18.2	0.4	3.1	1.8	1.4	2.3	2.7
Harmonised index of consumer prices				-	0.7	3.6	2.2	1.4	2.5	2.8
Trade balance (c)				-3.3	-2.6	-2.3	-1.1	-1.3	-2.0	-2.6
Current account balance (c)				-1.9	-2.1	-4.2	-2.2	-2.3	-2.7	-2.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.0	-2.1	-4.0	-1.9	-1.8	-1.4	-1.2
General government balance (c)(d)(e)				-	-4.7	-3.9	-2.5	-2.2	-2.0	-1.8
Cyclically-adjusted budget balance (c)(d)				-	-4.2	-4.1	-2.3	-2.3	-2.1	-1.8
Structural budget balance (c)				-	-4.2	-4.1	-2.3	-2.3	-2.1	-1.8
General government gross debt (c)				-	43.9	41.8	42.0	42.4	43.1	42.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).
(e) Excluding pension reform costs which would worsen the balance in Poland by 2 pp. to -4.2 % this year (see also box 2.2).

20. Portugal

Gradual recovery, mainly relying on exports

Activity in 2006

Economic activity in Portugal has gradually improved since late 2005. In 2006, GDP is expected to expand by 1¼% in real terms, after growing by 0.4% in 2005. The ongoing recovery has been associated with a change in growth composition with the external sector becoming the driver of growth, in contrast with the pattern of previous years. Exports have been expanding at a fast pace since mid-2005, especially to a number of extra-EU markets, helped by the lively momentum of world trade. At the same time, imports have been contained, such that the external sector will provide a substantial contribution to GDP growth.

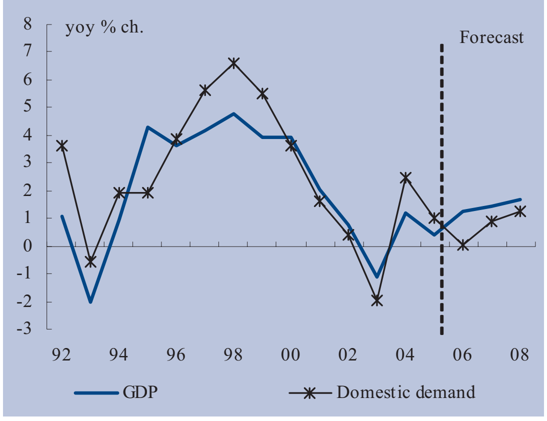
Domestic demand has not been adding to GDP growth. Investment continues to recede, with a further contraction in construction playing a role, which seems to be the continuation of the downward trend observed since the beginning of the decade. At the same time, both household and government consumption have cooled notably since last year, with qualitative indicators suggesting a mild improvement in the former in more recent months.

Prospects for 2007 and 2008

Throughout 2007 and 2008, Portugal's GDP is expected to continue on a moderate upward path, with chances that growth rates will edge up to around 1½% next year and some 1¾% in 2008.

Domestic demand is expected to gradually recover from its weak 2006 performance. Investment is projected to stop dragging down GDP growth already in 2007, but its expansion may be limited by some consolidation in firms' balance sheets to address their high debt levels and further adjustment in the construction sector. The projected increases in household consumption assume tighter financial conditions against high levels of indebtedness and limited growth of labour income and social transfers.

Graph 3.25: **Portugal - GDP and domestic demand growth**



The external sector is expected to make a positive contribution to GDP growth in the next two years, though lower than in 2006. While exports of goods and services will grow less rapidly, they will benefit from a still favourable external demand outlook. Exports should be helped by their further orientation towards fast-growing markets, nevertheless, international competition and a still relatively high share of low-growth sectors in the product mix may dampen their expansion. Import growth is forecast to be modest due to the sluggish domestic demand.

Trade developments should lead to a narrowing current account deficit throughout the forecast period. The improvement will be partly offset by higher primary income deficits coming from the nation's rising external debt and by lower transfers from the EU budget. As a result, the external deficit will decline to 7% of GDP in 2008.

Labour market, costs and prices

The unemployment rate has climbed quickly in recent years and is now expected to stabilize over the forecast period. Hence, wage growth is thus projected to remain subdued.

In 2006, inflation will rebound to almost 3% from its low 2005 level as a result of high energy prices and, to a lesser extent, the effects of indirect tax hikes in 2005. In 2007 and 2008, inflation is expected to fall to just over 2%, with price stability being helped by the subdued cyclical conditions, as revealed by a large negative output gap, and moderation in import prices.

Public finances

In 2006, the general government deficit is expected to fall to some 4½% of GDP, down from 6% of GDP in 2005. Tax revenues have been growing strongly, as a result of various rate increases, especially in the VAT standard rate from 19 to 21% in mid-2005, and curbs on tax benefits. Moreover, part of the increase in revenue can be ascribed to enhanced efficiency of tax and social contribution administration. Dividends from state-owned enterprises have also recovered from last year's shortfall. On the spending side, most categories, except social transfers other than in kind and interest expenditure, are forecast to decline as a share of GDP.

For 2007, the government deficit is projected to decline towards 4% of GDP. On the revenue side, additional proceeds will come from higher social contributions by government employees but, overall, tax revenue is forecast to grow moderately as it will no longer benefit from large increases in rates and the domestic demand upturn will be subdued. Furthermore, the additional gains of improved tax collection may be lower than the substantial ones of the past years. This forecast takes account of corrective measures implemented recently with a view to reining in spending, as well as of the 2007 budget, which, *i.a.*, targets a halt in the growth of social transfers in kind. Opposing forces will be at play. On the one hand, the fact that workers leaving the central government will only partially be replaced will help contain personnel expenditure. This will be further compounded by wage restraint and cuts in temporary government jobs. Health expenditure may stabilise as a result of the restructuring of the health services network, lower expenditure for medication and a tightening of benefit for parts of the civil service. On the other hand, spending pressure will remain high due to public-private partnerships agreed in the past for the construction of motorways and to interest expenditure. At the same time, even if the tightening of retirement rules, especially from the civil service, is alleviating pressure on spending, pension expenditure will still grow strongly in the coming years[1]. On the basis of the no-policy change assumption, the 2008 deficit is expected to decline only slightly.

The government debt ratio is projected to continue increasing, approaching almost 71% at the end of the forecast period.

[1] This forecast does not include the possible effects of the old-age pension reform under preparation.

Table 3.20

Main features of country forecast - PORTUGAL

		2005		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at previous year prices		147.4	100.0	2.5	-1.1	1.2	0.4	1.2	1.5	1.7
Private consumption		96.5	65.5	2.8	0.1	2.4	2.0	1.1	1.3	1.4
Public consumption		31.0	21.1	2.6	0.3	2.5	1.8	0.0	0.0	-0.3
Gross fixed capital formation		31.8	21.6	4.1	-10.0	0.9	-3.0	-2.6	0.4	2.2
of which : equipment		10.0	6.8	3.7	-6.4	4.7	-0.7	0.4	2.6	4.0
Exports (goods and services)		42.1	28.6	4.7	3.7	4.5	0.9	7.9	5.4	5.5
Final demand		202.6	137.4	3.4	-0.9	2.8	0.8	1.7	1.9	2.2
Imports (goods and services)		55.2	37.4	6.0	-0.4	6.8	1.8	2.9	3.0	3.6
GNI at previous year prices (GDP deflator)		144.9	98.3	2.4	-0.6	1.1	-0.1	1.0	1.1	1.4
Contribution to GDP growth :	Domestic demand			3.2	-2.4	2.2	1.0	0.2	1.0	1.3
	Stockbuilding			0.1	0.0	0.2	-0.2	-0.1	0.0	0.0
	Foreign balance			-0.8	1.2	-1.1	-0.4	1.2	0.5	0.3
Employment				0.5	-0.4	0.1	0.0	0.6	0.6	0.7
Unemployment rate (a)				5.5	6.3	6.7	7.6	7.6	7.7	7.7
Compensation of employees/head				6.7	3.1	2.4	3.1	2.9	2.8	2.8
Real unit labour costs				-0.1	1.1	-1.4	0.1	0.1	-0.2	-0.5
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				4.8	2.7	2.8	2.7	2.2	2.1	2.3
Private consumption deflator				4.2	2.8	2.6	2.5	3.0	2.2	2.1
Harmonised index of consumer prices				4.0	3.3	2.5	2.1	2.9	2.2	2.1
Trade balance (c)				-9.7	-8.3	-9.6	-10.4	-10.0	-9.5	-9.1
Current account balance (c)				-6.1	-6.5	-7.8	-9.5	-9.0	-8.7	-8.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-3.8	-4.0	-5.8	-7.9	-7.4	-7.3	-7.0
General government balance (c)(d)				-3.9	-2.9	-3.2	-6.0	-4.6	-4.0	-3.9
Cyclically-adjusted budget balance (c)(d)				-4.0	-2.4	-2.6	-5.1	-3.7	-3.2	-3.2
Structural budget balance (c)				-	-4.8	-4.8	-5.1	-3.7	-3.2	-3.2
General government gross debt (c)				55.1	57.0	58.6	64.0	67.4	69.4	70.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

21. Slovenia

Economy thrives in the run-up to euro adoption

Activity in 2006

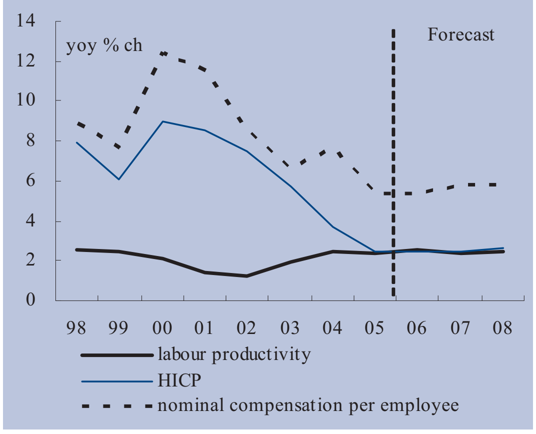
In the first half of 2006, the economy grew at 5.0% in real terms year-on-year – the highest rate since 1999, despite the rise in oil prices. According to the leading indicators, the momentum seems to have stabilised in the third quarter but is likely to start waning towards the end of the year. Overall real GDP growth for 2006 is projected at 4.8%.

This year the main impetus came from an impressive build-up of fixed capital while de-stocking continued. In particular, investment in equipment, related to production restructuring aimed at improving competitiveness, boomed. Private expenditure also remained buoyant. A further boost to GDP growth came from external demand; the contribution of net exports is anticipated to stay positive for the second year in a row against the background of a robust recovery in Slovenia's main trading partners.

Prospects for 2007 and 2008

In 2007, however, export expansion is expected to slow down following a tempering of the revival in the foreign markets. Imports are also projected to decelerate in step with more modest domestic demand. On the one hand, households may moderate their consumption while adjusting to the new currency – the euro. This prudence is assumed to limit the impact of the personal income tax reform, which curbs taxation progression by reducing the number of tax brackets from five to three and capping the top tax rate at 41% (previously 50%). On the other hand, enterprises are likely to reconsider their investment expenditure in the light of the new corporate income tax regime, which lowers the tax rate from 25% to 23% but, at the same time, excludes all non-R&D-related investment from tax exemptions. Nevertheless, fixed capital formation is anticipated to stay solid on account of vigorous construction activity. Housing construction, in particular, is forecast to rally prior to 2008, when the transition period of levying a reduced VAT rate on new houses ends. Furthermore, a major investment in highway construction is planned. Within a relatively benign international environment real GDP growth is projected to decelerate to 4.2% in 2007.

Graph 3.26: **Slovenia - Price and wage developments**



The projections foresee a slight improvement of economic activity in 2008 with output increasing by 4.5%. Supposing that the VAT rates are not raised in that general election year – though the idea is currently under consideration in the government's mid-term budgetary planning – private consumption is forecast to rise steadily. Investment, on the other hand, is expected to slow further. While imports are projected to increase more moderately, a good export performance is likely to persist against the backdrop of stable conditions in the world markets. The current account deficit is thus projected to decline to around 1.5% of GDP, after lingering at 2% since 2004.

Labour market, costs and prices

During 2006, a smooth disinflationary trend was interrupted by an oil price hike. Already dropping to 2.3% in March, the 12-month moving average inflation rate climbed back to 2.7% by August. The possibility of counteracting the adverse effects of high oil prices by adjusting the excise taxes on energy products had not been available since July 2005, when the lowest level of taxes allowed by EU legislation was reached. In response to the recent easing of oil prices, the government has started increasing excise duties again (twice since August). Still, average annual inflation notched down to 2.6% in September and is forecast to come to 2.5% by the end of the year, unchanged compared with 2005.

Consumer price growth is projected to stabilise around this level throughout the forecast period, given that the government remains bound by the mid-term plan of regulating administered price rises and the accession agreement, requiring harmonisation of excise duties on tobacco with EU law. The forecast, however, is vulnerable to oil price shocks and the liberalisation of the electricity and natural gas market for households due by 1 July 2007. Moreover, there are uncertainties related to the potential increase in VAT rates, which could add some 0.8 percentage points to the rate of inflation in the year when the new regime comes into effect.

Limited risk stems from wage pressures, which are expected to stay well contained based on the June 2006 pay agreement in the private sector for the 2006-2007 period, stipulating a moderate 2% adjustment of nominal wages. Bargaining at sector level, however, will give social partners the possibility to negotiate additional pay rises based on productivity growth. The positive labour market developments are forecast to endure until 2008, with a further rise in employment and the unemployment rate falling to 6%.

Public finances

In 2005, the general government deficit declined to 1.4% of GDP, well below the anticipated deficit of 2.1%. Despite the broadly favourable economic trends throughout 2006, the deficit ratio is projected to deteriorate slightly this year as revenue windfalls based on vigorous activity do not compensate for the loss due to the lowering of the payroll tax rate by 20% – a first step towards its gradual elimination by 2009. Furthermore, the decision to index pensions to wages has partly offset the cost-saving measures related to rationalisation of government procurement as well as restrictive employment and wage policies in the public sector. Assuming that the general government expenditure remains constrained and that the new direct income tax regimes enter into force in January 2007 while the phasing-out of the payroll tax continues, as reflected in the new 2007-2008 budget proposal, the deficit is set to linger at 1.5% of GDP. An increase in VAT rates is being considered as a possible measure to cover for the loss in revenue in 2008. Over the forecast horizon, the general government debt is expected to stay at just below 30% of GDP.

Table 3.21

Main features of country forecast - SLOVENIA

		2005		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at previous year prices		27.6	100.0	3.1	2.7	4.4	4.0	4.8	4.2	4.5
Private consumption		15.2	54.9	3.8	3.4	2.6	3.4	3.6	3.5	3.6
Public consumption		5.4	19.6	2.9	1.6	3.4	2.2	3.0	2.9	3.1
Gross fixed capital formation		6.7	24.4	7.2	7.1	7.9	1.5	8.1	4.8	3.9
of which : equipment		2.8	10.0	9.7	11.4	7.6	2.6	10.4	2.0	4.1
Exports (goods and services)		17.8	64.6	3.1	3.1	12.5	10.5	10.3	8.4	8.0
Final demand		45.6	165.1	4.0	4.1	7.6	5.2	6.4	5.6	5.5
Imports (goods and services)		18.0	65.1	5.3	6.7	13.4	7.0	8.7	7.5	7.1
GNI at previous year prices (GDP deflator)		27.3	99.0	3.1	2.4	4.0	4.3	4.6	4.1	4.4
Contribution to GDP growth :	Domestic demand			4.1	3.8	4.0	2.7	4.5	3.7	3.5
	Stockbuilding			0.3	0.8	1.0	-0.6	-0.7	0.0	0.3
	Foreign balance			-1.3	-2.0	-0.5	2.0	0.9	0.6	0.6
Employment				-	-0.4	0.5	0.3	0.8	0.4	0.5
Unemployment rate (a)				-	6.7	6.3	6.5	6.1	6.1	6.0
Compensation of employees/head				-	6.6	7.6	5.4	5.4	5.8	5.8
Real unit labour costs				-	-2.2	0.3	0.1	-0.2	-1.3	-0.7
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				24.1	5.8	3.3	1.5	1.6	3.3	2.6
Private consumption deflator				23.5	5.4	3.3	2.2	2.3	2.4	2.6
Harmonised index of consumer prices				-	5.7	3.7	2.5	2.5	2.5	2.6
Trade balance (c)				-2.6	-2.2	-3.8	-3.7	-3.2	-2.7	-2.1
Current account balance (c)				0.7	-0.8	-2.6	-2.0	-1.9	-1.8	-1.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.7	-0.8	-2.5	-1.9	-2.1	-2.0	-1.6
General government balance (c)(d)				-	-2.8	-2.3	-1.4	-1.6	-1.6	-1.5
Cyclically-adjusted budget balance (c)(d)				-	-2.0	-1.7	-0.9	-1.5	-1.6	-1.7
Structural budget balance (c)				-	-2.0	-1.7	-0.9	-1.5	-1.6	-1.7
General government gross debt (c)				-	28.5	28.7	28.0	28.4	28.0	27.6

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

22. Slovakia

Growth contribution of net exports expected to turn positive again

Activity in 2006

Real GDP growth increased to 6% in 2005. It was driven by domestic demand while the external contribution remained negative. Data for the first two quarters suggest that economic growth in 2006 continues to accelerate to around 6¾%. It is still mainly driven by domestic demand, particularly by investment and private consumption, but the external growth contribution should also enter positive territory.

Private consumption growth is expected to remain very strong at around 5¾% in 2006 benefiting from real wage and employment growth. Realisation of some big investment projects in the corporate sector is estimated to keep gross fixed capital formation growth above 9%. The anticipated positive contribution of net exports is mainly a result of decelerating real import growth.

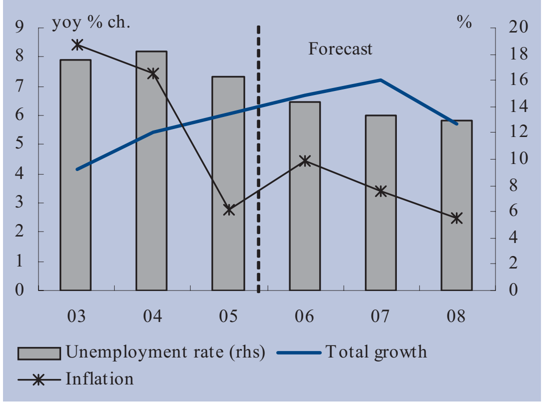
While a lower trade deficit is offset by a deteriorating income balance, improving net capital transfers should lead to a decrease in the net borrowing from the rest of the world to below 8% of GDP in 2006.

Prospects for 2007 and 2008

Economic expansion is expected to further accelerate to above 7% in 2007 and then to decelerate to around 5¾ in 2008. Domestic demand is likely to remain the main driving force, while the positive external contribution should peak in 2007, when new export capacities in the automotive sector come on stream.

A rapidly improving labour market situation combined with strong credit growth is expected to continue to support private consumption growth, which, despite slowing down, should remain at above 4% over the forecast period. Gross fixed capital formation should start to decelerate markedly in 2007 as major investment projects in the automotive industry will be finalised in 2006. The investment boom should further ease in 2008, assuming that there are no new major foreign direct investments. Decelerating investment and consumption should contribute to a slowdown in import growth.

Graph 3.27: **Slovakia - GDP growth, unemployment rate and inflation**



Increasing net exports should lead to a significant improvement in the external balances in 2007 and 2008.

Labour market, costs and prices

Total employment is expected to increase by some 2½% in 2006 while the unemployment rate is likely to decrease to close to 14%. Similar, though slower, trends are anticipated in 2007 and 2008 as strong domestic demand and newly built export production capacities are expected to continue to provide additional employment opportunities. Despite strong productivity growth, nominal unit labour costs are likely to continue to grow over the whole forecast period, as wage growth remains substantial.

Due to adjustments in administered prices at the end of 2005, average annual HICP inflation is estimated to increase to around 4½% in 2006. As lower increases in regulated prices in the energy sector are expected at the end of this year, HICP inflation is anticipated to drop to below 3½% in 2007. Assuming that no significant adjustments in administered prices will be required for 2008, annual average HICP inflation is forecast to decrease further, to around 2½%, in 2008.

Public finances

A pension reform was launched in 2005, affecting social contributions by redirecting 9% of gross wages to a funded (second) pension pillar. Due to gradual transition and a widespread public interest in this pillar, these revenue transfers are estimated to increase from some ½% of GDP in 2005 to about 1¼% of GDP in 2006, 2007 and 2008.

The general government deficit (including the pension reform costs) was slightly above 3% of GDP in 2005, around one percentage point lower than foreseen in the 2005 budget. This better-than-anticipated outcome was partly due to the January 2006 increases in excise taxes on cigarettes and alcohol which induced a large accumulation of stocks of these products by consumers and enterprises at the end of 2005 and thus resulted in better-than-expected tax revenues for the year (¼% of GDP).

This effect, which was not foreseen in the 2006 budget, had a correspondingly negative impact on tax revenues in 2006. Higher-than-expected GDP and employment growth combined with lower interest expenditure should, nevertheless, ensure that the 2006 general government deficit (including the pension reform costs) ends up at around 3½% of GDP, some ¾ percentage points below the level foreseen in the 2006 budget, in spite of increases in some public expenditure. The latter is mitigated by the fact that a lower-than-expected absorption of EU funds is likely to ease demands on public expenditure through co-financing.

Thanks to strong economic activity and restrained public expenditure growth, the general government deficit (including the pension reform costs) is anticipated to decrease to around 3% of GDP in 2007 if the government thoroughly implements the 2007 budget. In order to respect the 3% deficit limit the government decided to introduce some widespread spending cuts while keeping increases in expenditure available to education and social affairs ministries below nominal GDP growth. On the other hand, increased health spending represents a downside risk for the budget.

Under the customary no policy change assumption the budget deficit (including the pension reform costs) is projected to remain around 3% in 2008.

Gross public debt is expected to continue falling over the forecast period thanks mainly to strong GDP growth.

Table 3.22

Main features of country forecast - SLOVAKIA

	2005		Annual percentage change						
bn SKK	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices	1471.1	100.0	-	4.2	5.4	6.0	6.7	7.2	5.7
Private consumption	844.2	57.4	-	0.2	4.2	7.0	5.8	5.3	4.4
Public consumption	272.2	18.5	-	3.9	2.0	-0.6	3.7	3.2	2.8
Gross fixed capital formation	394.6	26.8	-	-2.3	5.0	17.5	9.6	6.5	5.2
of which : equipment	196.1	13.3	-	0.3	9.8	12.4	7.9	5.8	4.6
Exports (goods and services)	1136.9	77.3	-	15.9	7.9	13.8	13.8	14.6	10.3
Final demand	2682.7	182.4	-	5.7	7.0	10.9	9.2	9.1	6.9
Imports (goods and services)	1211.5	82.4	-	7.6	8.8	16.6	12.3	11.3	8.2
GNI at constant prices (GDP deflator)	1433.6	97.4	-	3.6	6.7	2.9	5.2	7.5	5.9
Contribution to GDP growth : Domestic demand			-	0.3	4.0	8.2	6.6	5.4	4.3
Stockbuilding			-	-1.6	2.3	0.6	-0.4	-0.3	-0.3
Foreign balance			-	5.5	-0.9	-2.8	0.5	2.1	1.7
Employment			-	1.8	-0.3	1.4	2.6	1.5	0.9
Unemployment rate (a)			-	17.6	18.2	16.3	14.3	13.3	12.9
Compensation of employees/head			-	8.1	9.2	5.1	7.8	7.2	6.3
Real unit labour costs			-	0.8	-2.7	-1.8	-0.5	-1.9	-0.6
Savings rate of households (b)			-	-	3.7	6.8	7.3	7.5	7.5
GDP deflator			-	4.7	6.0	2.4	4.2	3.5	2.0
Private consumption deflator			-	6.6	7.4	2.6	4.5	3.4	2.5
Harmonised index of consumer prices			-	8.4	7.5	2.8	4.5	3.4	2.5
Trade balance (c)			-	-2.5	-3.8	-5.9	-5.1	-2.6	-1.5
Current account balance (c)			-	-2.1	-2.5	-7.9	-7.8	-4.8	-3.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-2.5	-2.3	-8.1	-7.5	-4.5	-3.1
General government balance (c)(d)			-	-3.7	-3.0	-3.1	-3.4	-3.0	-2.9
Cyclically-adjusted budget balance (c)(d)			-	-2.8	-2.2	-2.5	-3.2	-3.3	-3.3
Structural budget balance (c)			-	-2.4	-2.2	-1.7	-3.3	-3.3	-3.3
General government gross debt (c)			-	42.7	41.6	34.5	33.0	31.6	31.0

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

23. Finland

Activity to peak in 2006, but will remain high

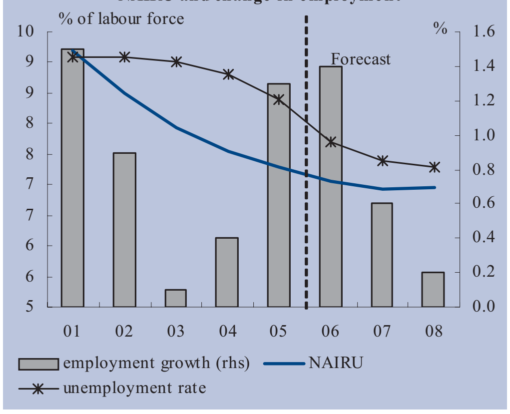
Activity in 2006

Economic growth in the first two quarters of 2006 accelerated sharply to about 6% year-on-year. Part of the increase is explained by the base effect from the production stoppage in the paper industry in the second quarter of 2005, which will also have lagged effects in the third quarter. The base effect on GDP growth for the full year is estimated at about 1 percentage point.

During the first half of 2006, growth was well balanced, mainly driven by net exports and persistently strong private consumption. Household confidence has remained strong, boosted by rapid employment growth and favourable real disposable income developments, supported by substantial income tax cuts. Export growth was particularly rapid as both the metal engineering and electronics manufacturing sectors benefited from lively foreign demand, while wood and paper exports were boosted by the base effect. Private consumption and export growth are expected to moderate in the second half of the year, still warranting an over 1 percentage point upward revision in GDP growth for the year as a whole.

Following a slump in 2005, investment in machinery and equipment is expected to pick up in 2006 and 2007, boosted by strong prospects and confidence in industry and the delivery of nuclear plant equipment. Housing investment will remain strong in 2006, though leading indicators point to a deceleration in the following years.

Graph 3.28: **Finland - Unemployment rate, NAIRU and change in employment**



Prospects for 2007 and 2008

Economic growth is forecast to gradually cool down in the next years to rates close to the estimated growth potential of about 3%. The slowdown in growth is influenced by an expected economic downturn in the export markets, as well as more modest increases in private consumption. The growth of real disposable income is set to abate, as wage and employment growth will slow and income tax cuts will be smaller. Household borrowing is expected to slow in line with interest rate rises and a slowdown in housing demand. Investment in equipment and machinery will decelerate in 2008 from high growth rates as the special factors affecting 2006 and 2007 will fade.

In 2007 and 2008, the main stimulus to growth is expected to come from private consumption. The contribution from net exports will not be as phenomenal as in 2006, but will remain positive nevertheless. However, the continuous weakening in the terms of trade will lead to a slight decline in the substantial external surplus. Public consumption growth is forecast to abate, given the efforts of the central government to control expenditure.

Labour market, costs and prices

Similarly to 2005, employment is set to grow by about 1½% in 2006, which will lead also to notable reductions in unemployment and a rise in labour supply. Strong demand for labour has caused shortages and a rise in job vacancies in some industrial, construction and service sectors, which have not been substantially alleviated by the migrant workers or increased domestic participation rates. The structural nature of unemployment limits the reduction of unemployment that could be achieved in the present favourable environment. However, the labour market bottlenecks have not led to a noticeable wage drift. On the aggregate level, wages are strongly guided by the current central wage agreement, valid until the end of September 2007. Wage negotiations covering the period after 2007 have not yet started. The present forecast assumes a slight frontloading of wage claims to 2008, which explains an increase in nominal unit labour costs.

In 2007 and 2008, employment growth is expected to slow considerably as the rate of economic expansion abates and unemployment levels decline closer to their structural limits. Employment in industry is forecast to be on a declining trend, as labour-intensive production is facing pressures to relocate to low-cost countries. The unemployment rate is projected to stabilise at slightly over 7% in 2007 and 2008.

Finland recorded the lowest HICP inflation rate in the euro area in 2005, when prices rose by just 0.8%. HICP inflation is expected to increase only slightly from the 1.4% forecast for 2006 and remain close to 1½% throughout the forecast period. Finnish price levels are about one fifth higher than in the euro area on average, which leaves further room for competition-induced price moderation. The subdued import prices of consumption goods will contribute to lower inflation.

Public finances

The general government surplus is forecast to remain fairly stable between 2½% and 3% over the forecast period. This is only slightly more optimistic than in the spring 2006 forecast, since the growth surprise for 2006 has a low tax content, being largely export-driven. The present forecast assumes no policy change and therefore no tax measures for 2008. Central government spending is expected to remain contained by the mid-term budgetary rules and remain broadly balanced. Local government finances are expected to stay marginally in deficit in spite of measures to balance the position. The general government surplus continues to be generated by social security.

The government debt ratio is projected to steadily decline to about 36% of GDP by the end of the forecast period.

Table 3.23

Main features of country forecast - FINLAND

		2005			Annual percentage change					
	bn Euro	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices		157.4	100.0	2.8	1.8	3.5	2.9	4.9	3.0	2.6
Private consumption		81.5	51.8	1.9	4.8	3.2	3.8	3.7	2.9	2.6
Public consumption		34.8	22.1	0.6	1.5	1.7	1.6	1.1	1.0	1.5
Gross fixed capital formation		29.5	18.8	1.2	4.0	4.9	3.3	5.1	3.9	2.8
of which : equipment		8.0	5.1	1.9	7.0	4.9	1.3	6.0	6.5	3.5
Exports (goods and services)		65.8	41.8	9.9	-1.7	7.5	7.3	11.2	6.9	6.1
Final demand		214.3	136.1	3.7	2.0	4.8	5.1	5.6	4.0	3.6
Imports (goods and services)		56.9	36.1	6.4	3.3	7.4	12.3	7.7	6.5	6.0
GNI at constant prices (GDP deflator)		157.3	100.0	3.2	0.1	5.5	2.4	4.9	3.0	2.6
Contribution to GDP growth :	Domestic demand			1.2	3.6	2.5	3.2	3.1	2.4	2.2
	Stockbuilding			0.3	0.0	0.3	0.8	-0.2	0.0	0.0
	Foreign balance			1.5	-1.7	0.6	-1.0	1.9	0.6	0.4
Employment				0.0	0.1	0.4	1.3	1.4	0.6	0.2
Unemployment rate (a)				12.4	9.0	8.8	8.4	7.7	7.4	7.3
Compensation of employees/head				2.8	2.8	3.5	3.6	3.0	2.6	3.2
Real unit labour costs				-1.9	1.5	-0.1	1.4	-1.8	-1.2	-0.6
Savings rate of households (b)				-	-	9.2	7.2	8.2	8.7	8.5
GDP deflator				2.0	-0.4	0.6	0.6	1.4	1.3	1.4
Private consumption deflator				2.2	-0.4	0.7	0.4	1.2	1.6	1.6
Harmonised index of consumer prices				1.9	1.3	0.1	0.8	1.3	1.5	1.6
Trade balance (c)				8.8	7.8	6.7	4.9	5.7	5.3	4.8
Current account balance (c)				4.5	5.9	7.6	4.6	5.5	5.2	4.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				4.6	6.0	7.3	5.0	5.5	5.3	4.8
General government balance (c)(d)				-1.0	2.5	2.3	2.7	2.9	2.9	2.9
Cyclically-adjusted budget balance (c)(d)				-0.2	3.3	3.0	3.4	2.9	2.8	2.9
Structural budget balance (c)				-	3.3	3.0	3.4	2.9	2.8	2.9
General government gross debt (c)				49.2	44.3	44.3	41.3	38.8	37.3	35.8

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

24. Sweden

Economic activity to remain strong

Activity in 2006

Economic activity in the first half of 2006 came out very strong with growth supported by domestic demand, implying accelerating private consumption and a continued positive investment cycle. In addition, export performance remained positive.

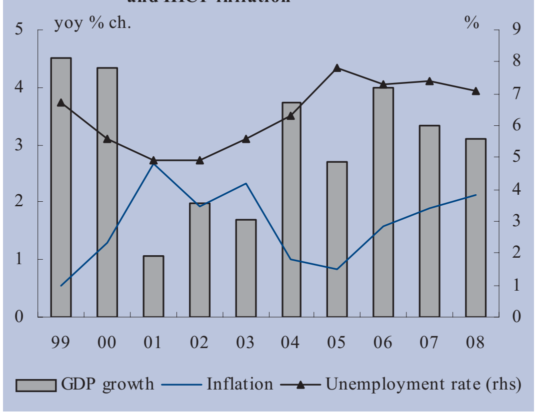
Recent forward-looking indicators are generally positive. Consumer confidence is supported by favourable household sentiment on the economy as a whole and on their own economic situation; this partially reflects the improving labour market. Industrial confidence is high in general, as it is for services, retail trade and, in particular, construction, where signs of capacity constraints are nevertheless beginning to show. These indicators should support continued buoyant performance in 2006, when GDP growth for the whole year is expected to be above 4%.

Prospects for 2007 and 2008

In the coming two years, economic growth is expected to decelerate somewhat towards 3% per year, close to estimated potential growth rates. Private consumption is expected to consolidate its position as the main growth driver, as investment growth subsides somewhat after the large expansion in recent years. Net exports are expected to continue to contribute positively to growth.

The continued steady growth in private consumption is enabled by the resumption of employment growth which contributes positively to household disposable income. In addition, the proposed reduction in labour income taxes as from 2007 will also contribute. While households have taken on more debt, financial wealth has benefited from rising equity and property prices, contributing to the maintenance of a relatively strong net wealth position. A gradual reduction of the saving rate is expected over the forecast period.

Graph 3.29: **Sweden - GDP growth, unemployment rate and HICP inflation**



Growth of public consumption is expected to strengthen, reflecting the room for manoeuvre provided by the stronger public finance situation, in particular at local level. As regards investment, the conditions for a continued expansion, albeit at a decelerating pace, remain in place: a benign demand outlook, favourable financing conditions and high capacity utilisation in manufacturing. Exports are expected to continue to grow relatively strongly both in 2007 and 2008, in line with world markets. Imports are also expected to continue to grow at high rates as domestic demand strengthens.

Labour market, costs and prices

The continued strong pace of economic activity foreseen over the forecast period is expected to be accompanied by a moderation in the cyclically high labour productivity growth seen over the last few years. Private sector employment growth, after having been weak in the recent past, is expected to build on the improved situation in 2006 and remain dynamic. The new government intends to reduce sharply the number of people engaged in active labour market programmes; given the classification of some current programmes to education this will contribute to increase the measured labour force. At the same time, incentives to work should strengthen given planned changes in the tax and benefit systems (see public finance section), also contributing to an increase in labour supply. Overall, measured unemployment will increase somewhat in 2007 before being reduced in 2008, reaching 7% of the labour force.

The weak developments in the labour market over the last few years have helped to contain wage demands. Despite the improving labour market situation, wage demands are expected to remain contained, though this will need to be confirmed by the outcome of the encompassing private sector wage negotiation round in 2007. Given the somewhat stronger inflation outlook, the Riksbank has started to raise interest rates towards more neutral levels, with a cumulative increase by 100 basis points so far in 2006. Overall, inflationary pressures remain relatively subdued with underlying inflation rising towards 2% during the course of the forecast period. With robust growth over this period, and with a stronger labour market, interest rates may rise further.

Public finances

In 2005, the budget surplus was a full 3.0% of GDP. The 2006 Budget contained some expansionary elements (including tax cuts and increases in active labour market programmes), but higher than foreseen tax revenues and lower expenditures for unemployment and illness at work limit the net impact on the budget balance. As a result, the 2006 surplus is expected to be 2.8% of GDP.

This positive underlying trend spills over to the 2007-2008 period, allowing surpluses to remain high despite the fairly expansionary 2007 budget proposed by the new government. The 2007 budget includes in particular substantial tax cuts, including a large cut in labour income taxes (estimated to be worth about 1.3% of GDP), a halving of wealth taxes and a freezing of property taxes. This is partially financed by higher contributions for unemployment insurance (worth about 0.3% of GDP), cuts in active labour market programmes, increases in taxes on tobacco and abolition of tax deductions for union fees and unemployment insurance fees. Overall the budget surplus is expected to be reduced to around 2½% of GDP in 2007 and 2008 on current policies. Over the whole 2006-2008 period both the expenditure and revenue ratios to GDP continue to decline.

General government gross debt, mainly central government liabilities, is projected to continue to fall, to well below 40% of GDP in 2008. This also takes into account the ambitious privatisation plans in the budget, at a rate of roughly 2% of GDP per year.

Until April 2007, Sweden benefits from the transitional period for the sectoral classification of pension schemes. (See box 2.2).

Table 3.24

Main features of country forecast - SWEDEN

	2005		Annual percentage change						
bn SEK	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices	2673.0	100.0	2.1	1.7	3.7	2.7	4.0	3.3	3.1
Private consumption	1282.9	48.0	1.4	1.8	1.8	2.4	3.4	3.5	3.4
Public consumption	727.7	27.2	0.7	0.7	0.1	0.7	1.6	1.6	1.5
Gross fixed capital formation	454.6	17.0	0.8	1.1	5.1	8.5	7.3	4.5	3.3
of which : equipment	193.2	7.2	4.3	3.3	4.2	11.3	7.0	4.0	3.0
Exports (goods and services)	1298.8	48.6	7.4	4.5	10.8	6.4	8.2	6.6	6.0
Final demand	3765.6	140.9	2.9	2.6	4.5	4.0	5.1	4.4	4.0
Imports (goods and services)	1092.6	40.9	5.1	5.0	6.4	7.3	7.8	7.0	5.9
GNI at constant prices (GDP deflator)	2666.2	99.7	2.4	3.0	2.6	2.6	4.0	3.3	3.1
Contribution to GDP growth :	Domestic demand		1.0	1.2	1.7	2.7	3.3	2.9	2.6
	Stockbuilding		0.1	0.3	-0.3	-0.2	-0.1	0.1	0.0
	Foreign balance		1.1	0.1	2.3	0.2	0.8	0.3	0.5
Employment			-0.3	-0.3	-0.5	0.3	1.6	1.4	1.0
Unemployment rate (a)			7.5	5.6	6.3	7.8	7.3	7.4	7.1
Compensation of employees/head			4.3	3.0	3.7	3.8	3.5	3.8	4.0
Real unit labour costs			0.0	-1.0	-1.4	0.3	-0.6	-0.5	-0.3
Savings rate of households (b)			-	-	11.3	10.8	10.5	10.5	9.7
GDP deflator			1.9	2.0	0.8	1.1	1.7	2.3	2.1
Private consumption deflator			2.4	1.8	1.3	1.0	1.3	2.0	1.7
Harmonised index of consumer prices			2.0	2.3	1.0	0.8	1.5	1.6	1.8
Trade balance (c)			5.9	6.1	6.7	5.5	5.4	5.2	5.2
Current account balance (c)			2.8	6.6	6.6	5.9	6.3	6.4	6.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			2.5	6.6	6.6	6.0	5.6	6.3	6.4
General government balance (c)(d)(e)			-2.5	0.1	1.8	3.0	2.8	2.4	2.5
Cyclically-adjusted budget balance (c)(d)			-1.5	1.0	2.2	3.3	2.7	2.1	2.1
Structural budget balance (c)			-	1.0	1.7	2.9	2.7	2.1	2.1
General government gross debt (c)			64.6	51.8	50.5	50.4	46.7	42.6	38.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).
(e) Excluding pension reform costs which would worsen the balance in Sweden by 1.1 pp. to 1.7 % this year (see also box 2.2).

25. The United Kingdom

Rebalancing ahead

Activity in 2006

After the sharp slowdown registered in 2005, when the economy grew well below potential at 1.9%, real GDP growth rebounded at the turn of the year 2005 and remained robust in the first three quarters of 2006, posting annualised growth of 2.8%.

Output in the dominant service sector continued to grow steadily in the first half of 2006. Manufacturing output, which actually shrank in 2005, picked up in the first half of 2006, offsetting a significant fall in oil output.

For 2006 as a whole, real GDP is expected to grow by 2¾%. The recovery is driven by domestic demand, with household consumption returning to more sustained growth after its weakness in 2005, although this pace is expected to moderate slightly in the remainder of the year. Despite higher inflation reducing real income growth, consumption has been supported by an increase in employment and sustained growth in nominal incomes, as well as a pick-up in the housing market.

Total investment also picked up in the first half of the year, supported by the continued substantial increase in government investment, but also reflecting stronger growth of business investment which might be responding to favourable conditions (high liquidity, low cost of capital and low relative cost of capital goods) after relatively subdued growth in the past. Total investment is expected to continue to grow relatively strongly in the second half of the year.

Net trade evolved erratically in the first half of 2006, with very strong recorded growth of both exports and imports, although data are estimated to be significantly distorted by intra-Community VAT fraud. Overall, in the first half of 2006 net trade constituted a small drag on growth which is expected to be the case for the year as a whole.

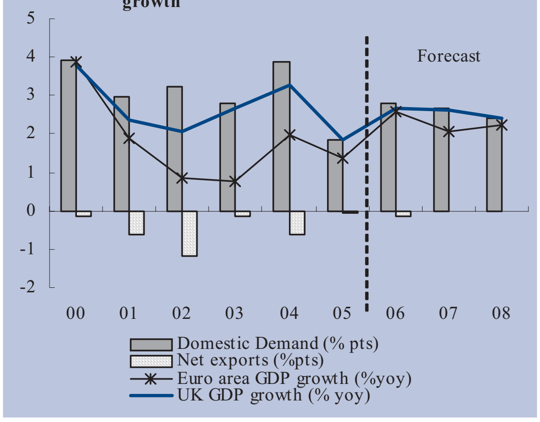
Prospects for 2007 and 2008

Real GDP growth is expected to moderate slightly over the forecast period to around 2½% in 2007 and 2008.

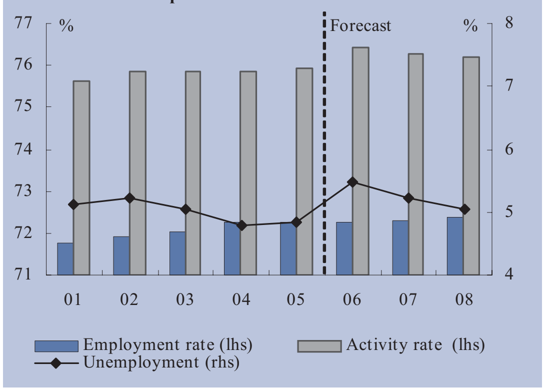
Private consumption growth is forecast to stabilise at a growth rate of around 2¼% over the forecast period, a more moderate rate compared to the average growth of over 3% seen in the past ten years. This is supported by relatively firm growth of disposable incomes, which should be buoyed by a decline in consumer price inflation offsetting a slight softening of employment growth. More subdued prospects for consumption are reflected in an expected increase in household saving rates, continuing the rise seen last year from the low levels in 2004, with households consolidating their balance sheets in response to uncertainty about future income and employment prospects and concern for the adequacy of savings for retirement.

Total investment is expected to continue to grow at a sustained rate in 2007 and then moderate in 2008. This reflects significant planned government investment growth, which peaks in 2007 and moderates subsequently. Housing investment is also expected to soften by the end of the forecast period, responding to tighter financial conditions, while

Graph 3.30: **The United Kingdom - Contributions to GDP growth**



Graph 3.31: **The United Kingdom - Labour market developments**



business investment should continue to grow at a moderate but significant pace, responding to the erosion of spare capital capacity and to the increase in the labour supply.

Government consumption is expected to continue to grow relatively steadily, in line with expenditure plans up to 2007 and consistent with a technical assumption on the evolution of expenditure in 2008.

On the external side, net trade should provide a neutral contribution to growth. This reflects improving prospects for the euro area, the UK's largest export market, and an expected slowing in import growth, given an only moderate private consumption pick-up.

Labour market, costs and prices

Despite recent declines in energy prices, announced increases in utility prices, matched with the probable impact of an increase in higher education costs, are expected to push HICP[1] inflation close to 2½% for 2006 as a whole. Second-round inflationary pressures have, however, not materialised so far, with wage growth remaining subdued, while the expected decrease in wholesale energy prices seen in the late summer should feed into retail prices with a lag. Thus inflation should moderate back towards the 2% Bank of England target within the forecast horizon.

Over the past year, the labour market has seen a sharp increase in labour supply, partly due to record net immigration, but also to the increasing labour force participation of older workers, possibly as a consequence of structural reforms – such as targeted labour market policies – as well as concerns relating to the adequacy of retirement savings. This increase in labour market participation is reflected both in growth in numbers in employment and by an increase in the unemployment rate. The latter is also likely to reflect some unwinding of labour hoarding that took place during the slowdown in 2005, and is a factor supporting a recovery in productivity growth. Going forwards, unemployment is expected to fall back to around 5% over the forecast period, as unemployed workers are either absorbed by an increase in employment or leave the labour market.

[1] Known as Consumer Price Index (CPI) in the UK.

Public finances

According to data released in September, the general government deficit in the 2005/06 financial year[2] was 2.9% of GDP, a lower deficit than estimated on the basis of preliminary outturns in the spring forecast. The downward revision to deficit is due to lower investment expenditure than originally planned by the government and to a reclassification by the UK Office for National Statistics of a public entity into general government, which has a temporary deficit-reducing impact in 2005/06.

The table below shows the projections for general government deficit and debt on a financial year basis.

General government projections on a financial year basis (% GDP)

	2005-06	2006-07	2007-08	2008-09
Deficit	2.9	3.0	2.7	2.5
Gross debt	42.1	42.5	43.4	44.1

In the current financial year, the deficit is expected to remain at around the 3% of GDP reference value, while it is expected to narrow progressively to 2¾% of GDP and to 2½ % of GDP in 2007/08 and 2008/09 respectively.

In 2006/07 revenues are expected to increase supported by a general pick-up in economic growth, and more specifically by high corporate profitability boosting corporate tax receipts, especially from the oil and financial sectors, continuing the trend that started in late 2005. However, while profitability across the economy is expected to remain high, the recent decrease of world oil prices and the significant drop in domestic oil production in the UK might dampen oil sector profitability going forward.

The projections also assume that the government will meet its plans for non-cyclical primary expenditure, and thus that the under-spending seen in 2005/06 should not be carried over or repeated. Higher unemployment should marginally increase pressure on social expenditure, although the larger part of

[2] The EDP applies to the United Kingdom on a UK financial year basis.. Actual UK general government balance data reported here apply the Eurostat decision of 14 July 2000 on the allocation of UMTS receipts. The UK has not generally applied this decision in domestic publication of its deficit data, which results in the net lending balance as per Eurostat accounting norms being up to 0.1% points of GDP per annum lower than reported in UK national accounts from 2001 (2001/02 in UK terms) onwards.

social benefits in the UK is not directly unemployment-related.

The deficit in 2007/08 is expected to improve to below the 3% of GDP reference value, driven by fiscal drag, a slight moderation in expenditure growth and the lagged effect of discretionary measures implemented since autumn 2005 – including an increase in taxation on oil companies – and further measures to improve tax compliance.

In 2008/09 the forecast projects a continued moderate fiscal consolidation, with the deficit reduced to 2½% of GDP. This improvement is driven mainly by fiscal drag, while the expenditure to GDP ratio is assumed to remain constant. This is technical assumption, as the UK authorities have not confirmed specific spending plans for 2008/09, which will be published in the Comprehensive Spending Review, announced for July 2007. Should the Comprehensive Spending Review fully implement the UK authorities' current working assumption on the evolution of expenditure in 2008/09, which implies a drop in the expenditure ratio by about 0.3% of GDP, the fiscal consolidation would be more marked..

General government gross debt is projected to increase from around 42% of GDP in 2005/06 to around 44% of GDP in 2008/09.

Table 3.25

Main features of country forecast - THE UNITED KINGDOM

	2005			Annual percentage change						
bn GBP	Curr. prices	% GDP		92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices	1224.4	100.0		2.7	2.7	3.3	1.9	2.7	2.6	2.4
Private consumption	791.5	64.6		3.2	2.9	3.4	1.4	2.3	2.3	2.2
Public consumption	268.3	21.9		1.5	3.5	3.2	2.8	2.1	1.8	2.0
Gross fixed capital formation	205.4	16.8		3.9	0.4	6.0	2.7	5.2	4.7	3.1
of which : equipment	72.6	5.9		4.7	-3.0	4.9	1.7	4.7	4.9	3.5
Exports (goods and services)	323.4	26.4		5.8	1.7	4.9	7.1	17.8	6.7	6.0
Final demand	1592.3	130.0		3.7	2.5	4.0	2.8	5.9	3.6	3.2
Imports (goods and services)	368.7	30.1		7.0	2.0	6.6	6.5	16.5	6.2	5.5
GNI at constant prices (GDP deflator)	1253.4	102.4		3.0	2.7	3.4	2.0	2.5	2.4	1.9
Contribution to GDP growth :	Domestic demand			3.0	2.7	3.8	1.9	2.8	2.7	2.4
	Stockbuilding			0.1	0.1	0.1	-0.1	0.0	0.0	0.0
	Foreign balance			-0.4	-0.1	-0.6	0.0	-0.2	0.0	0.0
Employment				0.6	1.0	1.0	1.0	0.8	0.8	0.5
Unemployment rate (a)				7.3	4.9	4.7	4.7	5.3	5.0	4.8
Compensation of employees/head				4.3	4.9	4.3	4.6	4.9	4.4	4.6
Real unit labour costs				-0.5	0.0	-0.6	1.5	0.4	0.0	0.2
Savings rate of households (b)				-	-	3.7	4.9	5.7	6.2	7.0
GDP deflator				2.6	3.1	2.6	2.2	2.6	2.5	2.5
Private consumption deflator				2.6	1.9	1.7	2.5	2.5	2.2	2.0
Harmonised index of consumer prices				2.0	1.4	1.3	2.1	2.4	2.2	2.0
Trade balance (c)				-2.6	-4.4	-5.2	-5.6	-6.0	-6.3	-6.5
Current account balance (c)				-1.5	-1.3	-1.6	-2.2	-2.5	-2.6	-2.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.4	-1.2	-1.5	-2.0	-2.6	-2.5	-2.7
General government balance (c)(d)				-2.6	-3.3	-3.2	-3.3	-2.9	-2.8	-2.5
Cyclically-adjusted budget balance (c)(d)				-2.3	-3.3	-3.5	-3.2	-2.7	-2.6	-2.2
Structural budget balance (c)				-	-3.3	-3.5	-3.4	-2.7	-2.6	-2.2
General government gross debt (c)				44.8	38.9	40.4	42.4	43.2	44.1	44.7

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

Chapter 4

Acceding Countries

1. Bulgaria

Accelerating growth and rapidly falling unemployment

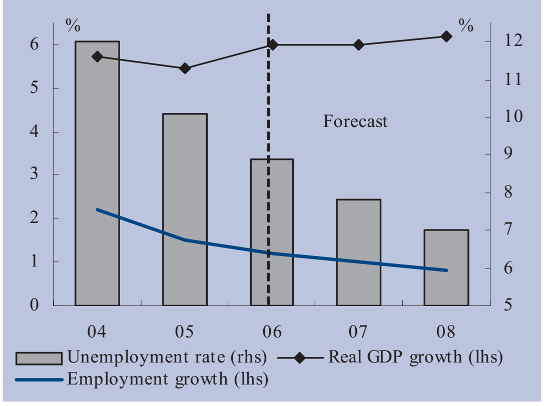
Activity in 2006

Real GDP growth had declined to 5.5% in 2005, due to the flood-related slowdown in the second half. It reaccelerated to 6.1% in the first half of 2006. Growth was mainly driven by private consumption, which expanded by 6.4%, and by exceptionally strong investment growth. In the second half of 2005 and first half of 2006 gross fixed capital formation grew by more than 20%. Growth of exports of goods and services remained robust at a rate of above 10% in the first two quarters of 2006, while growth of imports of goods and services started to decelerate in the second quarter.

Inflation remained at above 8% in the first half of 2006, mainly due to a hike in excise duties on tobacco and cigarettes taking effect in January. Due to a base year effect, inflation came down to 5.6% in September as the impact of higher prices for oil and food in the second half of last year is starting to wane. Employment growth has been strong in the first half, due to private sector job creation and a shift from informal employment to the formal sector following a reduction of social security contributions in January. The unemployment rate thus continued to fall to 9.0% at the end of the second quarter.

Although growth of merchandise exports outpaced that of imports, the trade deficit increased slightly again in the first half of 2006 to 20.5% of GDP. This, together with higher imports of services, lower current transfers and lower net incomes from abroad, has led to a further widening of the current account deficit to 13.9% of GDP.

Graph 4.1: **Bulgaria - Real GDP growth and labour market performance**



Prospects for 2007 and 2008

Economic growth is expected to accelerate further in 2007 and 2008 as strong investment growth and ongoing enterprise restructuring continue to bear fruit and as higher EU transfers and associated infrastructure investments give a further boost to growth.

In both 2007 and 2008, increasing absorption of EU transfers together with continued strong foreign capital inflows will help to sustain relatively high rates of investment growth of around 14% per year. At the same time, higher real wage increases and robust employment growth are expected to lead to a stronger expansion of private consumption. This will only partly be offset by a slower rise in public consumption as the government tries to make room for increased capital expenditures. Some fiscal expansion in 2007 and 2008 as a result of additional, accession-related expenditure needs will further boost domestic demand. Consequently, real GDP growth is expected to gradually increase to above 6% in 2008.

Growth of merchandise exports is expected to remain robust as foreign investments and restructuring continue to strengthen the export basis of the Bulgarian economy, which should at the same time diversify further into higher value added sectors. Strong demand for investment and consumer goods implies, however, that import growth is likely to outpace export growth in the next two years in real terms. The trade deficit is therefore expected to increase further. A modest reduction in the current account deficit may nevertheless be expected thanks to considerably higher inflows of current transfers.

Labour market, costs and prices

With a decreasing and rapidly ageing population, the potential for further employment growth is limited. Sustained improvements in participation and employment rates are expected to allow for further employment growth of around 1% over the forecasting period. This will go hand in hand with a further rapid decline in the unemployment rate to around 7% in 2008. The labour market situation is thus becoming increasingly tight, with labour shortages becoming more acute in some sectors, especially with regard to better qualified workers. This is expected to lead to noticeably higher wage increases in the future. Nevertheless, real wage increases are expected to still remain largely in line with productivity gains.

Due to the increase in indirect taxes, consumer price inflation is expected to accelerate to close to 7% on average in 2006. Decreasing oil prices and the base-year effect of the tax increases in 2006 should reduce average inflation to around 3½% next year. However, underlying price pressures from wage increases and in the service sector could imply a moderate re-acceleration of inflation in 2008.

Public finances

Further efforts to tighten fiscal policy in 2006 should lead to an increase in the general government surplus to above 3% of GDP this year. This will be achieved despite a significant reduction in social security contributions at the start of the year and is due to revenue over-performance as a result of higher-than-expected growth as well as expenditure restraint.

Some further tax cuts in 2007 together with lower VAT revenues following accession will imply a somewhat lower growth of revenue next year. At the same time, Bulgaria's financial contribution to the EU and additional financing needs related to the co-financing of Structural Funds projects are likely to imply a stronger increase in expenditures. Consequently, some fiscal relaxation is expected in 2007 and – albeit to a much lesser extent – in 2008. The general government budget surplus is thus expected to come down to around 2% of GDP.

In line with the strong GDP growth and the continuation of fiscal surpluses, general government gross debt is expected to drop further, to below 20% of GDP, up to the end of the forecasting period.

Table 4.1

Main features of country forecast - BULGARIA

		2005		Annual percentage change						
bn BGN		Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices		41.9	100.0	0.0	4.5	5.7	5.5	6.0	6.0	6.2
Private consumption		29.4	70.0	0.6	6.4	4.7	7.7	6.0	6.5	7.0
Public consumption		8.0	19.1	-4.8	7.6	6.5	3.5	2.5	3.0	3.0
Gross fixed capital formation		10.0	23.8	-	13.9	13.5	19.0	17.5	14.0	14.0
of which : equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		25.3	60.4	-	8.0	13.0	7.2	12.6	11.2	11.0
Final demand		74.2	176.9	-	8.5	9.1	9.2	9.6	8.8	9.1
Imports (goods and services)		32.5	77.5	-	15.3	14.1	14.6	13.5	11.6	11.8
GNI at constant prices (GDP deflator)		42.4	101.1	0.9	2.7	10.6	5.5	5.0	5.9	6.2
Contribution to GDP growth :	Domestic demand			-	8.3	7.1	9.8	8.8	8.8	9.3
	Stockbuilding			-	1.1	0.6	1.5	0.5	0.1	0.1
	Foreign balance			-	-4.9	-1.9	-5.7	-2.8	-2.4	-2.7
Employment				-1.6	6.3	2.2	1.5	1.2	1.0	0.8
Unemployment rate (a)				13.3	13.7	12.0	10.1	8.9	7.7	7.0
Compensation of employees/head				-	1.0	6.6	9.5	10.2	9.8	10.3
Real unit labour costs				-	0.4	-1.7	1.5	-1.4	1.1	0.3
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				64.4	2.3	4.8	3.8	6.7	3.5	4.4
Private consumption deflator				67.1	0.5	4.2	4.6	6.5	3.0	3.5
Harmonised index of consumer prices				-	2.3	6.1	5.0	7.0	3.5	3.8
Trade balance (c)				-4.7	-12.5	-15.1	-20.4	-20.9	-21.3	-21.5
Current account balance (c)				-3.4	-5.5	-5.8	-11.3	-13.9	-13.5	-12.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-5.8	-11.8	-13.9	-13.5	-12.4
General government balance (c)(d)				-	0.3	2.7	2.4	3.3	1.8	1.7
Cyclically-adjusted budget balance (c)(d)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				-	46.0	38.4	29.8	25.8	21.8	17.9

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

2. Romania

Broad-based recovery and strong demand dynamics

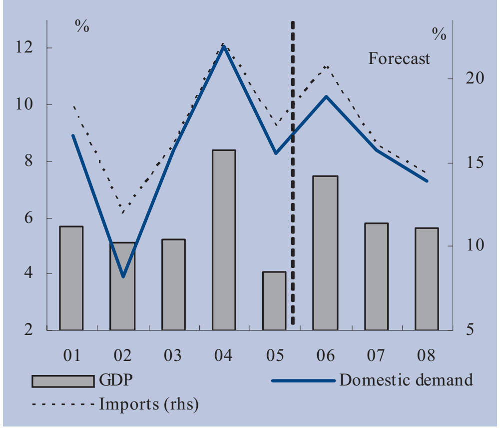
Developments in 2005

After strong growth of 8.4% in 2004, real GDP growth slowed to 4.1% in 2005, due mainly to the negative impact of floods and structural changes in industrial activity on the back of a rapid real appreciation of the exchange rate, increasing energy prices and high wage growth. Value added in agriculture declined by 13.9% and recorded a modest increase of 2.5% in industry. Gross fixed capital formation increased strongly by 13%, outpacing private consumption, which grew by 9.7%. Stocks contributed negatively to growth by 1.1 percentage point due to the depletion of agricultural stocks. Imports again expanded more strongly than exports, which lost momentum as a consequence of the above-mentioned adverse shocks. Consumer price inflation declined to 9%, but the disinflation process slowed despite the fall in import prices caused by the real appreciation. Employment continued to grow, although only slowly as several labour-intensive industries contracted. The current account deficit widened to 8.7% of GDP, of which 75% was covered by net foreign direct investment.

Prospects for 2006 to 2008

In 2006 real GDP growth is expected to bounce back strongly to 7.2%, driven by a broad-based recovery in industrial activity, construction and agriculture. Over 2007 and 2008, real growth will remain robust at respectively 5.8% and 5.6%. Industrial activity is projected to remain fairly resilient to the structural challenges posed by EU accession, high energy prices and the redirection of output growth towards higher value-added sectors. The boom in the construction sector is foreseen to continue on the back of high demand for residential and office buildings as well as public infrastructure projects. Agricultural output will, assuming normal weather conditions, grow by 4.5% in 2006, recovering from the depressed output in 2005, and will then return to a long-term average growth rate of around 3%.

Graph 4.2: **Romania - GDP and components**



Strong domestic demand dynamics are foreseen to persist over the forecast period. Gross fixed capital formation is expected to grow robustly by around 10% annually on the back of considerable FDI inflows, further flood repairs in 2006 and the acceleration of public investment projects. Private consumption growth will be buoyant in 2006 due to extraordinarily high retail sales, surging credit growth and a positive trend in the rural population’s own consumption as a result of the sector's recovery. In 2007-08, the central bank's policy to restrict lending and more subdued wage dynamics are expected to help private consumption gradually return to a more sustainable growth path. Public consumption is expected to record a steady expansion, mainly driven by the increase in current spending. There is a tangible risk, however, that household consumption will not moderate and that an increasingly pro-cyclical public expenditure policy will be enacted. In that case, an excessive expansion of domestic demand and an unsustainable widening of external imbalances cannot be ruled out.

Annual average consumer price inflation is expected to gradually decline to around 4.6% in 2008 as it is assumed that demand-pull and cost-push factors will be kept in check by a continued tight monetary policy, a sound fiscal policy and prudent wage growth.

A modest increase in employment of about 0.2% is anticipated over the forecast period, which is considerably lower than the economic growth rate might indicate. The job creation process in the private sector will be mitigated by the continuation of lay-offs in state-owned enterprises and the shrinking of labour-intensive light industry. Unemployment is foreseen to remain broadly stable.

Public finance

The 2005 general government deficit was revised up from 0.4% of GDP to 1.5% of GDP due to a strong increase in public sector wages and transfers against the background of income and profit tax cuts having had a negative impact on direct tax revenue of 1% of GDP in 2005. Over the forecast period, revenues from both direct and indirect taxes are projected to increase relative to GDP due to the favourable macroeconomic conditions and the continued efforts to broaden the tax base and improve collection. The increasingly relaxed expenditure policy will over the forecast period cause considerable growth in social transfers, wage expenditure and other current spending as a share of GDP. Supported by EU accession, public investment will increase faster than GDP, even if implementation difficulties do not allow the government's ambitious investment programme to be met. The general government deficit is projected to expand to 1.4% of GDP in 2006 and remain roughly stable at around 2.6% of GDP in 2007-08. The downward revision of the deficit in 2006-07 is due to higher-than-expected direct tax revenue and to the Property Fund scheme for compensation of citizens for the non-return of confiscated property advancing only slowly. The stock of public debt will decline further in 2006 to 13.7% of GDP but then increase slowly due to higher primary deficits.

External balances

The robust growth in export volumes is projected to continue and will be accompanied by a gradual decline in the growth of import volumes as domestic demand growth eases. A slight improvement in the terms of trade is expected to continue until 2008. However, even these beneficial factors will not prevent a further widening of the trade deficit from to nearly 14% of GDP in 2008. Remittances and EU transfers will mitigate the impact on the current account deficit, which will nevertheless still continue to widen considerably.

Table 4.2

Main features of country forecast - ROMANIA

		2005		Annual percentage change						
	bn RON	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices		287.2	100.0	0.7	5.2	8.4	4.1	7.2	5.8	5.6
Private consumption		195.6	68.1	2.0	8.4	14.2	9.7	11.5	9.0	7.5
Public consumption		56.2	19.6	2.1	7.7	4.2	4.5	4.0	4.5	5.0
Gross fixed capital formation		66.4	23.1	5.9	8.6	10.8	13.0	10.0	10.5	9.0
of which : equipment		-	-	9.2	7.7	-	-	-	-	-
Exports (goods and services)		94.9	33.0	11.2	8.4	13.9	7.6	14.6	10.7	12.2
Final demand		411.9	143.4	2.2	8.4	12.5	8.1	11.3	8.9	8.4
Imports (goods and services)		124.7	43.4	10.3	16.0	22.1	17.2	20.7	16.0	14.3
GNI at constant prices (GDP deflator)		278.8	97.1	0.6	3.9	6.3	5.4	7.5	5.9	5.6
Contribution to GDP growth :	Domestic demand			3.7	8.8	12.5	10.2	10.9	9.4	8.2
	Stockbuilding			-2.3	0.1	0.5	-1.1	0.4	0.0	0.0
	Foreign balance			-0.5	-3.6	-4.5	-5.0	-4.1	-3.6	-2.6
Employment				-2.3	-0.3	0.4	0.2	0.2	0.2	0.1
Unemployment rate (a)				6.1	6.8	7.6	7.7	7.6	7.5	7.6
Compensation of employees/head				84.8	23.3	22.1	25.9	16.2	13.9	12.5
Real unit labour costs				-0.3	-5.7	-1.7	8.2	-2.1	-0.4	0.8
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				79.9	24.0	15.0	12.0	10.9	8.3	5.8
Private consumption deflator				79.6	15.2	12.2	6.7	5.5	5.0	4.5
Harmonised index of consumer prices				-	15.3	11.9	9.1	6.8	5.1	4.6
Trade balance (c)				-6.6	-7.6	-8.7	-9.8	-11.2	-12.6	-13.9
Current account balance (c)				-	-4.8	-12.7	-8.7	-10.3	-11.8	-13.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.0	-4.3	-	-	-10.3	-11.8	-13.3
General government balance (c)(d)				-	-1.5	-1.5	-1.5	-1.4	-2.6	-2.6
Cyclically-adjusted budget balance (c)(d)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				-	21.5	18.8	15.9	13.7	13.9	14.4

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

Chapter 5

Candidate Countries

1. Croatia

Domestic demand drives modest growth acceleration

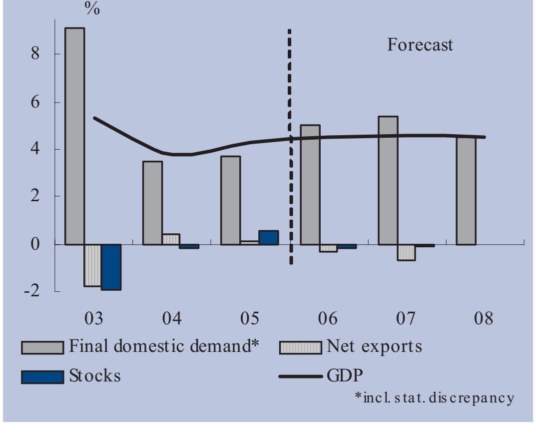
Recent economic developments

In the first half of 2006, GDP grew by 4.8%, up from 3.5% in the same period a year ago. Growth continued to be driven by strong domestic demand. In particular, investment spending increased strongly by 12.6% year on year. Private consumption expanded by 3%, somewhat lower than during the same period a year ago. Real growth of imports of goods and services was slightly stronger (9.5%) than the growth of exports (9%), and net exports posted a negative contribution to growth (2.2 percentage points). High frequency indicators suggest a continuation of growth in the third quarter, when industrial production expanded by 5.8% year on year. Construction output rose 8.3% year on year in July.

On a twelve-months moving average, annual average consumer prices increased slightly to 3.6% in September (2005: 3.3%), largely on the back of higher prices for energy, food and local services. In the same month, end-year consumer price inflation came down to 2.8% and producer price inflation stood at 2%.

According to most recent data published by the Croatian National Bank, the current account deficit widened further. In the twelve months to end-June, it increased sharply to 7.7% of GDP as compared to 6.3% of GDP in 2005. In the same time, the trade deficit rose to 24.8% of GDP (up from 24.3% in 2005) and the surplus in services slightly declined to 16.8% (from 17.1%). Moreover, a higher income balance deficit of 3.4% (3.1% in 2005) and a lower surplus in transfers of 3.7% (against 4.0% in 2005) added to the increase of the current account deficit.

Graph 5.1: **Croatia - GDP growth and contributions**



Prospects for 2006 to 2008

In 2006 and 2007, real GDP growth is projected to accelerate modestly to 4.5% and 4.6%, respectively. Growth will continue to be driven by strong domestic demand. Continued strong credit growth and consumer confidence, debt repayments to pensioners as well as an increase in wages and social transfers will support an acceleration of private consumption growth to 4% in 2006 and 4.4% in 2007. Some pre-election spending before the general elections scheduled for late 2007 will push average public consumption growth upwards to 2.5% and 2.7% in 2006 and 2007, respectively, compared to 0.8% in 2005. The forecast projects an acceleration of gross fixed capital formation growth over the reference period to 7.5% in 2008, as compared to 4.8% in 2005. This will result from stronger private investment as investor confidence improves further in view of the EU accession process. Also, a temporary boost of public investment projects appears likely in view of the 2007 general elections. A favourable external environment will help boosting real export growth to above 7% in 2007 and 2008, also driven by strong services exports. The growth of real import is expected to accelerate to 6.8% in 2007, before it slightly falls to 5.8% in 2008 as domestic demand pressures will start to ease.

A continuation of stability-oriented monetary policies will keep inflation at relatively low levels over the forecast period. Annual average consumer price inflation will slightly increase to 3.4% in 2006, mainly as a result of higher prices for energy, food and some services provided at the municipal level. Inflation will slightly fall in 2007 and 2008, as energy prices are set to increase at a slower pace. However, catching-up effects and further administrative price adjustments will prevent average inflation to fall below 3%.

Growth and investment dynamics are expected to lead to a slightly higher employment growth of 1.5% in 2006 and 1.8% in 2007, as compared to 0.8% recorded in 2005. This supports a gradual reduction of the unemployment rate to 11% at the end of the forecast period. In 2006 and 2007, real average wages are expected to grow stronger than average productivity gains, leading to an increase in real unit labour costs of around 1% in 2006 and in 2007.

Public finances

The forecast projects a slowing of fiscal adjustment in late 2006 and 2007 and higher fiscal deficits than those officially projected by the authorities. Due to favourable fiscal developments in the first half of 2006, namely strong revenue growth and some moderation of current and capital spending, the general government deficit (ESA95) is projected to be reduced from 3.9% in 2005 to 3.5% of GDP in 2006. In 2007, the deficit is expected to slightly increase to 3.6% of GDP. Stronger public consumption will prevent further deficit reduction. In particular, the public sector wage bill is forecast to increase due to both wage increases and a rise in employment. The growth of social welfare spending including pensions and of public investments are expected to accelerate in 2007. The public debt ratio is expected to be reduced only slightly to 44% of GDP by 2008, as part of privatisation revenues will be used to finance the scheduled repayment of pensioner's debt in 2006 and 2007.

External balances

The trade deficit is forecast to increase to 25% of GDPP in 2007, driven by strong import demand, a slight deterioration of the terms of trade as well as a high import content of exports and investment. The surplus of the services balance will slightly increase, mostly due to a good tourism performance. However, the current account deficit is set to widen to around 7% of GDP over the forecast period. Net foreign direct investments, which are largely driven by further major privatisation deals, are expected to finance a significant share of the current account deficit over the forecast period.

Table 5.1

Main features of country forecast - CROATIA

		2005			Annual percentage change					
bn HRK		Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices		229.0	100.0	-	5.3	3.8	4.3	4.5	4.6	4.5
Private consumption		130.6	57.0	-	4.6	3.9	3.4	4.0	4.4	3.6
Public consumption		46.7	20.4	-	1.3	-0.3	0.8	2.5	2.7	0.5
Gross fixed capital formation		65.4	28.6	-	24.7	4.4	4.8	7.2	7.5	7.5
of which : equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		107.8	47.1	-	11.4	5.4	4.6	6.8	7.1	7.2
Final demand		356.8	155.8	-	7.8	3.7	4.0	5.0	5.5	5.0
Imports (goods and services)		124.1	54.2	-	12.1	3.5	3.5	6.0	6.8	5.8
GNI at constant prices (GDP deflator)		221.9	96.9	-	-	-	-	4.3	4.6	4.5
Contribution to GDP growth :	Domestic demand			-	9.1	3.5	3.7	5.0	5.4	4.5
	Stockbuilding			-	-1.9	-0.2	0.6	-0.2	-0.1	0.0
	Foreign balance			-	-1.8	0.4	0.1	-0.3	-0.7	0.0
Employment				-	0.6	1.7	0.8	1.5	1.8	0.8
Unemployment rate (a)				-	14.1	13.6	12.4	11.5	10.9	10.7
Compensation of employees/head				-	-	-	-	7.0	7.4	6.1
Real unit labour costs				-	-	-	-	0.8	0.9	-1.0
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				-	3.9	3.3	3.2	3.0	3.5	3.3
Private consumption deflator				-	1.9	2.2	3.4	3.4	3.3	3.0
General index of consumer prices				-	1.8	2.1	3.3	3.4	3.1	3.0
Trade balance (c)				-	-	-	-	-24.6	-25.0	-24.9
Current account balance (c)				-	-	-	-	-7.0	-7.2	-6.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-7.0	-7.2	-6.9
General government balance (c)(d)				-	-4.5	-5.0	-3.9	-3.5	-3.6	-3.3
Cyclically-adjusted budget balance (c)(d)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				-	40.9	43.7	44.2	44.5	44.3	44.0

(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

2. The Former Yugoslav Republic of Macedonia

Ready to move into higher gear?

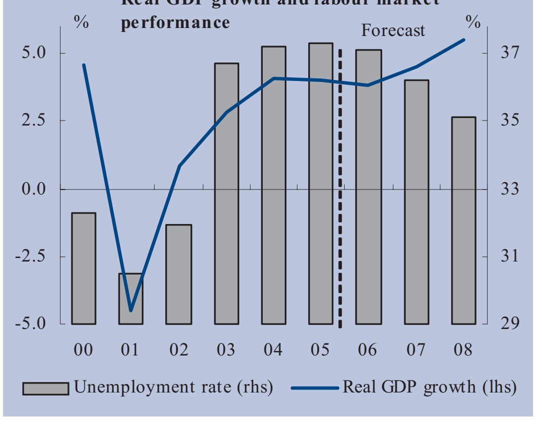
The situation in 2006

During the first half of 2006, economic growth slowed down to 2.6%, compared to 3.9% a year before. Main factors were weak output growth in manufacturing and construction, while transport and retail trade performed better than the overall aggregate. Contemporaneous indicators such as industrial production point to a marked acceleration of economic activity during the second half of 2006, which is likely to bring GDP growth close to 4% for the whole year. Employment increased by some 6% during the first half of 2006, while the official unemployment rate declined by 1 percentage point to 36.1% by mid-2006. The positive impact of stronger employment growth on unemployment was reduced by a rising labour supply.

Inflation accelerated to 3.3% year-on-year during the first nine months of 2006, reflecting higher energy prices and increases in excise taxes on alcohol and tobacco, which were aligned with European levels. Inflation is likely to remain slightly above 3% for the rest of the year, which will bring average inflation to about 3¼% for 2006. In 2005, annual inflation had been 0.5%, reflecting declining food prices as a result of the trade liberalisation due to WTO membership.

External balances so far remained relatively stable after the marked improvement during 2005, when a strong increase in private transfers had helped to reduce the current account deficit from 7.7% of GDP in 2004 to 1.4% of GDP in 2005. During the first half of 2006, the trade deficit remained largely unchanged at some 20% of GDP, while the annualised current account deficit was at some 2¾% of GDP.

Graph 5.2: **The Former Yugoslav Republic of Macedonia - Real GDP growth and labour market performance**



Public finances continue to remain close to balance. After a surplus of 0.3% of GDP in 2005, the revenue and expenditure performance during the first half of 2006 points to a general government deficit for the whole year close to the target of 0.6% of GDP. The debt ratio declined to some 35% of GDP by mid-2006, after a financing transaction had led to a temporary increase from 36.6% of GDP end of 2004 to 40.9% end of 2005.

Prospects in 2007 and 2008

During the last years the country made significant progress in consolidating its economy, achieving sound public sector balances, a stronger external position, which allowed lower interest rates, and improved confidence of consumers and international and domestic investors. As a result, the economy has reached a favourable position for better realising the country's growth potential. However, the international environment will be less favourable in 2007 and 2008, mainly as a result of the expected deceleration of growth in the country's main export markets.

Overall, output growth is expected to reach some 4½% in 2007 and 5½% in 2008. Like in the case of other candidate countries, economic growth is likely to be driving mainly by domestic factors, such as private consumption and investment. Private consumption will benefit from improved confidence of consumers, strong growth of real disposable income and continued inflows of private capital transfers, for example in the form of workers remittances. Plans of the new government to reduce the tax burden should further increase disposable income. Private investment will be supported by recent improvements in the business environment, benefiting from measures to simplify administrative procedures and to strengthen competition within the economy. Here too, plans of the new government to promote investment and to reduce the tax burden should create additional incentives for investment, bringing investment growth to levels comparable to other catching-up economies. The strong growth of domestic demand and the deceleration of export growth will lead to a negative contribution of net-exports to GDP growth. However, due to the high import content of exports, the deceleration of exports will also translate into a deceleration of overall import growth.

Public finances

The plans of the new government to reduce the tax burden and to promote economic growth could lead to a temporary increase in the general government deficit to slightly above 1% in 2007. However, stronger economic growth and the positive revenue effects of the planned tax reforms will lead to a decline in the deficit in 2008. The combination of strong economic growth and relatively low deficits will lead to a further reduction of the debt ratio towards 34% of GDP by 2008.

Labour market, costs and prices

The acceleration in economic activity will create additional employment. However, unemployment is likely to remain high, as a part of the new jobs might be filled by increased labour supply. As a result, the official unemployment rate might decline from 37% in 2006 to about 35% in 2008, only. Wage growth is expected to remain largely in line with productivity developments.

Consumer price inflation is likely to decelerate in 2007 and 2008, as the inflationary impulse from higher energy prices and the increase in excise taxes will fade away. This should reduce consumer price inflation towards 2¼% by 2008.

External balances

The trade balance is likely to maintain its current level, as the high import content of exports will largely compensate the deceleration in exports by also lowering imports. However, increasing import of services and lower cash inflows will contribute to an increase in the current account deficit from 2¾% of GDP in 2006 to about 4% in 2008. Workers remittances and other capital inflows, such as increasing FDI, are expected to largely finance those deficits.

Table 5.2

Main features of country forecast - FORMER YUGOSLAV REPUBLIC OF MACEDONIA

		2005		Annual percentage change						
	bn MKD	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices		277.3	100.0	-0.6	2.8	4.1	4.0	3.8	4.5	5.5
Private consumption		215.4	77.7	-	-	-	-	3.0	3.5	4.2
Public consumption		55.1	19.9	-	-	-	-	2.0	2.5	3.0
Gross fixed capital formation		50.6	18.2	-	-	-	-	4.0	10.0	15.0
of which : equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		123.8	44.7	-	-	-	-	-	-	-
Final demand		454.9	164.1	-	-	-	-	-	-	-
Imports (goods and services)		177.6	64.1	-	-	-	-	-	-	-
GNI at constant prices (GDP deflator)		274.6	99.0	-	2.9	4.1	3.7	3.8	4.6	5.5
Contribution to GDP growth :	Domestic demand			-	-3.2	8.1	-	-	-	-
	Stockbuilding			-	-0.7	0.0	-	-	-	-
	Foreign balance			-	6.7	-4.4	1.9	0.4	-0.4	-1.2
Employment				-	-2.9	-2.4	4.3	3.1	3.4	3.6
Unemployment rate (a)				-	36.7	37.2	37.3	37.1	36.2	35.1
Compensation of employees/head				-	-	-	-	4.3	3.7	3.2
Real unit labour costs				-	-	-	-	-0.1	-1.1	-1.0
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				67.1	0.3	1.3	0.5	3.7	3.6	2.5
Private consumption deflator				-	-	-	-	3.3	2.9	2.4
General index of consumer prices				-	-	-	-	-	-	-
Trade balance (c)				-	-18.4	-20.7	-18.8	-18.1	-17.8	-18.1
Current account balance (c)				-	-3.3	-7.7	-1.4	-2.8	-3.4	-4.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-3.3	-	-	-2.8	-3.4	-4.0
General government balance (c)(d)				-	-1.1	0.0	0.3	-0.6	-1.2	-1.0
Cyclically-adjusted budget balance (c)(d)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				-	39.0	36.6	40.9	35.6	34.6	34.0

(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

3. Turkey

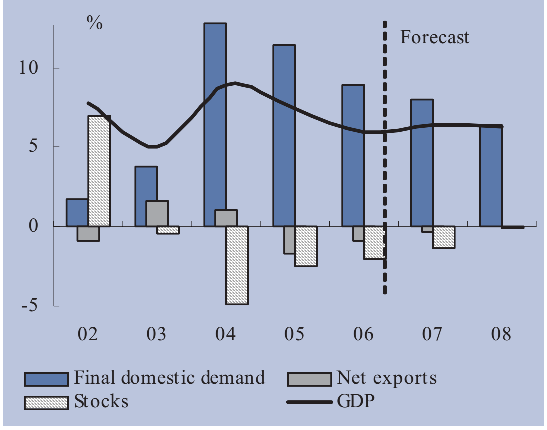
Financial market turbulence hardly affects growth prospects

Recent economic developments

In 2005 and early 2006, economic stabilisation has continued along with a better balancing of the sources of growth. During the first half year of 2006, strong domestic demand led to an increase in output by 7%. Favourable base-year effects, improved price and cost competitiveness - due to the a weaker lira - and leading indicators, such as industrial production and business confidence, point to better export prospects and continued strong growth in the second half, which most likely will bring GDP growth in 2006 to about 6%. Inflation increased dramatically, reflecting in large part the depreciation of the Turkish currency and continued upward price pressures in the service sector. As a result, consumer price inflation increased to 10½% in September 2006, far above the year-end target of 5%.

After three years of strong growth with almost no job creation, employment started to rise since mid-2004 by roughly 1½% year-on-year. The labour force participation rate fell slightly to 47%. These trends together led to a small fall in the unemployment rate to below 10%. Public finances remained largely on track, achieving a primary surplus of 6½% of GDP. This substantial surplus and strong GDP growth led to a reduction in the debt ratio, from 77% of GDP in 2004 to 70% in 2005. The current account deficit widened - reflecting strong domestic demand - from 6½% of GDP in 2005 to about 7 % in the first half of 2006.

Graph 5.3: **Turkey - GDP growth and contributions**



Prospects in 2007 to 2008

The overall picture for the forecasting period looks favourable. Turkey should be able to increase export growth - in particular in tourism - while the tight fiscal policy stance will support the disinflation process, in spite of pressures arising from exchange rate pass-trough and rigidities in services prices.

A gradual decline in inflationary pressures will allow for a fall in interest rates and improve the investment climate. Overall, economic activity is expected to increase by about 6½% throughout the forecasting period. Output growth is expected to be increasingly balanced, with private investment and net exports outpacing overall growth. Along with the declining inflation, growth of disposable income may remain broadly constant, which allows the private sector to maintain consumption growth at rates above 5½% in 2006-2008. Fixed investment will continue to benefit from reduced macroeconomic and political uncertainty - in particular after the 2007 elections - and declining real interest rates. On the other hand, the build-up of stocks is slowing down considerably since 2004. Strong investment and consumption will lead to continued high growth of imports, in particular of consumer durables and capital goods. Exports should benefit from a weaker lira, as well as from diversification and quality improvements resulting from earlier high investments. Parliamentary and Presidential elections are due in 2007. Any possible impact stemming from policy changes in the context of political events has not been incorporated in the current forecast.

The trend in declining inflationary pressures is likely to continue as from 2007. Fiscal discipline, improving credibility of the Central Bank's disinflation targets are important elements in this respect. 12-month consumer price inflation is expected to stay below 9% by the end of 2007. However, high oil and services prices might slowdown the disinflation process in 2007-2008.

In line with the strong growth performance, employment is forecast to increase by about 2% per year. This will lead to a slight reduction of the unemployment rate from 10% in 2005 to 9% in 2008.

Public finances

Public sector balances will be affected by higher interest rates and higher public spending in the election year 2007 and in 2008. Conversely, the ongoing public finance reforms will help to widen the tax base and to increase the efficiency of tax collection. Non-interest expenditures are seen to remain largely constant relative to GDP. The general government deficit is expected to increase gradually from 1.2% of GDP in 2005 to 4% of GDP in 2007. General government debt is forecast to stabilize around 69-70% in 2006-2007 before falling to 63% at the end of 2008.

External balances

Growth of imports will remain strong, partially reflecting a rather high import content of exports. Exports will gradually start benefiting from a weaker currency. The current account deficit is therefore forecast to stabilize around 7% of GDP in 2007-2008. A higher surplus of the services balance should contribute to maintain positive medium-term prospects in the external sector.

Table 5.3

Main features of country forecast - TURKEY

		2005		Annual percentage change						
	bn TRY	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices		564.3	100.0	3.1	5.8	8.9	7.4	6.0	6.4	6.3
Private consumption		313.3	55.5	2.0	7.2	10.6	9.1	7.8	7.0	5.5
Public consumption		56.8	10.1	3.9	-2.4	0.5	2.4	11.2	6.0	4.0
Gross fixed capital formation		95.3	16.9	0.3	10.0	32.4	24.0	11.3	10.3	8.1
of which : equipment		51.2	9.1	1.1	43.7	61.7	23.4	14.0	10.0	7.5
Exports (goods and services)		113.3	20.1	11.1	16.0	12.5	8.5	5.2	5.9	6.2
Final demand		604.0	107.0	4.0	10.4	12.8	8.5	6.2	6.3	6.1
Imports (goods and services)		153.4	27.2	8.4	27.1	24.7	11.5	6.4	6.0	5.5
GNI at constant prices (GDP deflator)		566.8	100.4	3.0	5.9	9.5	7.6	7.7	5.6	6.3
Contribution to GDP growth :	Domestic demand			2.6	6.2	12.2	10.9	8.9	8.0	6.4
	Stockbuilding			0.5	2.4	0.9	-2.0	-2.0	-1.3	-0.1
	Foreign balance			0.2	-2.8	-4.2	-1.6	-0.9	-0.3	0.0
Employment				0.7	-1.0	3.0	1.4	1.6	1.9	1.4
Unemployment rate (a)				7.8	10.5	10.3	10.3	9.8	9.1	8.9
Compensation of employees/head				67.2	27.9	16.5	12.1	16.7	14.1	12.3
Real unit labour costs				-3.2	-2.3	0.3	0.5	3.0	1.2	2.0
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				68.6	22.5	9.9	5.4	8.5	8.0	5.0
Private consumption deflator				69.5	21.2	7.4	5.8	10.7	9.0	5.9
General index of consumer prices				-	25.3	10.1	8.1	10.2	8.6	6.1
Trade balance (c)				-8.4	-8.1	-9.0	-4.0	-10.4	-10.2	-10.0
Current account balance (c)				-2.6	-4.1	-6.2	-6.7	-6.5	-7.2	-7.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-6.4	-8.3	-8.6
General government balance (c)(d)				-	-11.3	-5.7	-1.2	-3.6	-4.0	-3.3
Cyclically-adjusted budget balance (c)(d)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				-	85.1	76.9	69.6	69.4	66.1	63.3

(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

Chapter 6

Other non-EU Countries

1. The United States of America

Adverse spillover from a cooling housing market

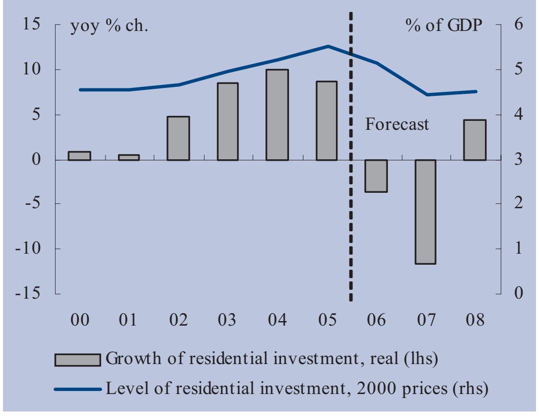
A maturing expansion with decelerating growth

US economic growth has decelerated over the past six months. In the three years to the first quarter of 2006 the economy grew at an average annual rate of 3.8%, clearly above its long-term potential. The current expansion, which started in late 2001, seems now to have reached a mature phase and signs of a slowdown are becoming evident. GDP growth fell to an annual rate of 2.6% in the second quarter and the available data suggest that output growth has slowed further in the third quarter.

The slowdown is so far mainly concentrated in the housing sector. Residential investment contracted at an annual rate of 11% in the second quarter. Housing starts have fallen by about 20% and home sales by 10% since the fourth quarter of last year. House price appreciation has also slowed sharply and some local markets have experienced outright price declines. However, significant spillover effects on other parts of the economy are not yet discernible in the data. Certainly, consumer spending has softened somewhat, but more likely as a result of surging energy prices up to July. Non-residential construction activity actually increased sharply in the first half of the year. Business equipment investment stalled in the second quarter, but probably only in reaction to very strong growth in the first quarter.

The labour market has remained relatively tight through the third quarter with the unemployment rate hovering around 4.7%. Nominal wage growth has gradually increased to 4.0% year-on-year in September, unit labour costs have increased

Graph 6.1: **The United States - Boom and bust in residential investment**



significantly since mid-2005, and core PCE inflation has risen to 2½%. The current account deficit reached 6.4% of GDP in national account terms in the first half of the year while the fiscal deficit of general government receded to 2.2% of GDP. The unexpected improvement in the fiscal position was due to continued strength in tax revenue growth.

Housing correction expected to result in a "soft landing" for the economy.

The outlook depends crucially on how much further the housing sector will cool down and how strong the spillover effects to the rest of the economy will be. The forecast assumes that residential construction will continue to contract until the middle of next year. Its share of GDP (in 2000 prices) will fall from the historically high level of 5.5% in 2005 to 4.4% by the third quarter of next year which is equal to its level before the onset of the recent building boom. Such downsizing of residential investment would reduce overall GDP growth by 0.6 percentage points in 2007. Following the pattern of previous building cycles, the sector would then rebound in 2008.

As part of the housing market slowdown, it is assumed that the level of house prices will fall by 10% nationwide in the twelve months to mid-2007 (following a 50% rise in the most reliable house price index in 2001-2005). The associated negative wealth effect will reduce consumer spending by 2/3 of a percentage point of GDP. To this one can add some consumer retrenchment from confidence effects.

In the near term consumer spending will receive a positive impulse from the recent fall in energy prices. Financial conditions are expected to remain quite supportive of borrowing and spending. Business investment will not be immune from adverse spillover effects from the housing sector, but it will be supported by relatively high capacity utilisation, high profitability, and healthy corporate balance sheets.

Although the housing market correction should keep GDP growth below long-term potential through 2007, the economy is not expected to go into a downward spiral. Since inflationary pressures have remained relatively contained and are likely to moderate over time, a "soft landing" of the economy could be supported by an easing of monetary policy in 2007. Continuing solid growth in US export markets should also dampen the slowdown.

Prospects for 2007 and 2008

The forecast projects GDP growth in the 2%–3% range from the fourth quarter of 2006 to mid-2008. In the last six months of the forecast period, when the contractionary effects of the housing correction will have largely petered out, quarterly GDP growth (in annual terms) should rise to the 3%–3⅓% range, close to long-term potential. Consumer spending growth is projected to recede to 1¾ % in the middle quarters of next year before rising back up to the 2 – 2½ % range. As the household sector's disposable income should rise somewhat faster than personal consumption on the basis of moderately rising employment and wages, the household saving rate would recover from -0.5% in 2006 to +1.8% in 2008.

In the context of a slowing economy, unemployment is projected to rise above 5% while inflation should fall gradually to a level just below 2% by 2008. The fiscal deficit of general government should rise again over the next two years, particularly because the growth in tax receipts is likely to fall sharply. The current account deficit is projected to remain at 6.4% of GDP next year, but to worsen slightly in 2008, partly because of continued deterioration in the balance of net investment income.

There are risks to the growth forecast on both sides. On the downside, there is the possibility that the housing market correction will be more pronounced and/or that the spillover to the rest of the economy will be stronger than assumed. There also continue to be risks associated with the large current account deficit and a possible disruptive adjustment. On the upside, there is a possibility that the housing correction and its overall impact will be weaker than outlined above. Financial conditions could also become more accommodative to growth than expected.

Table 6.1

Main features of country forecast - THE UNITED STATES

	2005		Annual percentage change						
bn USD	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices	12456.0	100.0	3.2	2.5	3.9	3.2	3.4	2.3	2.8
Private consumption	8742.4	70.2	3.7	2.8	3.9	3.5	3.2	2.4	2.2
Public consumption	1975.8	15.9	1.4	2.8	2.5	1.0	1.6	2.2	2.0
Gross fixed capital formation	2433.1	19.5	5.5	3.0	6.0	6.5	4.0	1.0	4.8
of which : equipment	1075.2	8.6	8.0	2.7	7.0	8.7	7.0	5.2	5.3
Exports (goods and services)	1303.2	10.5	5.1	1.3	9.2	6.8	8.5	7.2	6.8
Final demand	14475.8	116.2	3.8	2.7	4.8	3.6	3.8	2.7	3.1
Imports (goods and services)	2019.8	16.2	8.5	4.1	10.8	6.1	6.6	4.7	5.1
GNI at constant prices (GDP deflator)	12487.8	100.3	3.2	2.8	3.8	3.1	3.2	2.1	2.6
Contribution to GDP growth :	Domestic demand		3.7	2.9	4.2	3.8	3.3	2.2	2.8
	Stockbuilding		0.0	0.0	0.4	-0.3	0.2	0.0	0.0
	Foreign balance		-0.5	-0.4	-0.6	-0.3	-0.2	0.0	-0.1
Employment (*)			1.5	0.9	1.1	1.8	1.7	0.7	0.8
Unemployment rate (a)			5.4	6.0	5.5	5.1	4.7	5.1	5.4
Compensation of employees/head			3.6	4.3	4.2	3.7	5.8	5.0	5.2
Real unit labour costs			-0.1	0.5	-1.5	-0.8	0.9	0.6	1.5
Savings rate of households (b)			-	-	2.1	-0.4	-0.5	0.5	1.8
GDP deflator			1.9	2.1	2.8	3.0	3.2	2.7	1.7
Private consumption deflator			2.0	2.0	2.6	2.9	3.1	2.3	1.8
General index of consumer prices			-	2.3	2.7	3.4	3.4	2.5	1.9
Trade balance (c)			-3.0	-5.1	-5.8	-6.4	-6.5	-6.3	-6.3
Current account balance (c)			-2.2	-4.7	-5.6	-6.2	-6.4	-6.4	-6.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-2.2	-4.7	-5.6	-6.3	-6.4	-6.4	-6.5
General government balance (c)(d)			-2.1	-4.9	-4.6	-3.7	-2.2	-2.4	-2.8
Cyclically-adjusted budget balance (c)(d)			-	-	-	-	-	-	-
Structural budget balance (c)			-	-	-	-	-	-	-
General government gross debt (c)			68.7	63.8	64.5	64.6	61.3	60.9	61.3

(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(*) Employment data from the BLS household survey.

2. Japan

Gradual slowdown towards potential

Economic expansion strengthened in 2006

In spite of a deceleration in the second quarter of the year, the Japanese economy continues to expand vigorously. GDP growth averaged 3.0% in the first half of 2006, mainly driven by domestic factors.

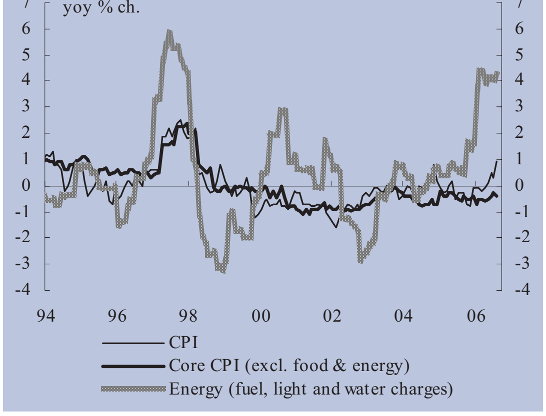
The lower growth performance in the second quarter of the year was mainly due to a negative contribution to GDP growth from public investment, stocks and net trade. Since the beginning of the year, household consumption remained supported by high confidence and better employment prospects. Industrial production embarked last year on an upward trend. Buoyant profits and a turnaround in bank credit, notably to small firms, have triggered an increase of business investment since the middle of last year.

Prospects for 2007 and 2008

Looking ahead, Japanese economy is set to continue to expand steadily. The situation in the labour market is still improving. At 4.1% in August, the unemployment rate remains close to an eight-year low. In addition, full-time employment has been on a rising trend for several quarters after six years of decline. Household income has started to rise, albeit still moderately, and it is expected to further expand in the near future. Household consumption growth is thus forecast to remain robust in the coming years.

The quarterly September Tankan survey showed strong business confidence. Non-residential investment is expected to remain dynamic over the coming quarters, supported by strong profits and a sound financial situation in Japanese firms. On the back of rising land prices after several years of decline, residential investment growth is forecast to resume.

Graph 6.2: **Japan - Consumer prices**



On the external side, net exports are expected to add little to GDP growth in the coming quarters as the foreseen acceleration in imports should partially offset the strength of exports. Though remaining sizeable, Japan's current account surplus is forecast to diminish gradually, from 3.6% of GDP in 2005 to 2.8% in 2008.

All in all, GDP growth is projected to reach 2.7% in 2006, after 2.6% in 2005. Growth should thereafter decelerate gradually but is expected to remain above the potential rate. GDP growth should reach 2.3% and 2.1% respectively in 2007 and 2008.

Price developments and monetary policy

The Japanese economy is gradually coming out of deflation. In August, the annual rate of headline inflation stood at 0.9%; the Bank of Japan's core inflation (excluding only fresh food) stood at 0.3%. Both indices were rebased in July to incorporate a new benchmark basket of consumption. After the rebasing, it appears that inflation has been slightly positive for the last few months only, while it was thought to be positive since the beginning of 2006. Moreover, excluding food and energy, consumer prices are continuing to decline (-0.4% year-on-year in August) as is the private consumption deflator (-0.1% year-on-year in the second quarter of 2006). However, the underlying gradual and slow up-trend out of deflation remains valid. Headline inflation is forecast to average 0.4% and 0.7% in 2007 and 2008 respectively.

In light of these developments and of the strengthening of the economic expansion, the Bank of Japan (BoJ) decided last spring to end the quantitative easing policy framework that had been in place since 2001 and to introduce a new framework based on the overnight call rate as the operating target. On 14 July, the BoJ decided to raise the policy rate to 0.25%, with further increases expected in the near future. The new inflation figures might force the Bank of Japan to continue to act with caution when gradually bringing the policy rate back to a neutral level.

Public finances remain on a long-term unsustainable path

The government has repeatedly stated the objective of reducing the primary deficit by about 0.5 of a percentage point annually so as to achieve the target of primary balance in the early 2010s. In July 2006, the Japanese government adopted an economic and fiscal blueprint that spells out the fiscal strategy.

To achieve a fiscal primary surplus by 2011, the Japanese government estimated, in the absence of corrective measures, a fiscal revenue shortfall of about 16.5 trl JPY (3.3% GDP) over the next five years, under the assumption of 3% yearly nominal GDP growth and long-term yields at 4%. The bulk of the revenue shortfall should be compensated by spending cuts (mainly public works, social security spending, and public payroll). The remainder of the budget shortfall is expected to be offset by higher revenues elsewhere and sales of public assets. While precise numerical targets for the spending cuts were indicated in the 2006 guidelines, how the remaining shortfall is to be made up still needs to be spelt out. For instance, it is estimated that a 1 to 2% increase in the consumption tax rate could, on its own, be sufficient to finance the estimated revenue shortfall. On the other had, a more ambitious hike (to a double-digit rate) would yield higher revenues and lead more rapidly to a large fiscal primary surplus, which is a precondition for reducing the debt-to-GDP ratio.

While the reduction in public spending should continue, tax reform measures (which might include a reform of the income tax or a consumption tax rate hike) seem necessary to produce the fiscal consolidation needed to ensure public debt sustainability.

Table 6.2

Main features of country forecast - JAPAN

		2005		Annual percentage change						
	bn YEN	Curr. prices	% GDP	92-02	2003	2004	2005	2006	2007	2008
GDP at constant prices		502495.2	100.0	0.9	1.8	2.3	2.6	2.7	2.3	2.1
Private consumption		288642.2	57.4	1.4	0.6	1.9	2.1	1.8	1.9	1.9
Public consumption		90250.2	18.0	2.9	2.3	2.0	1.7	0.4	0.7	0.7
Gross fixed capital formation		116722.8	23.2	-1.3	0.3	1.1	3.3	4.9	4.6	3.7
of which : equipment		-	-	0.3	5.5	7.7	-	-	-	-
Exports (goods and services)		71912.6	14.3	3.6	9.0	13.9	7.0	9.6	6.9	6.3
Final demand		567451.7	112.9	1.0	2.0	2.9	3.0	3.2	3.0	2.7
Imports (goods and services)		64956.5	12.9	3.5	3.9	8.5	6.2	7.7	9.5	7.5
GNI at constant prices (GDP deflator)		514344	102.4	1.0	1.8	2.5	3.0	2.7	2.2	2.0
Contribution to GDP growth :	Domestic demand			0.9	0.8	1.7	2.3	2.2	2.3	2.1
	Stockbuilding			-0.1	0.3	-0.2	0.1	0.0	0.1	0.0
	Foreign balance			0.1	0.6	0.8	0.2	0.5	-0.1	0.1
Employment				-0.2	-0.3	0.2	0.4	0.4	0.3	0.3
Unemployment rate (a)				3.8	5.3	4.7	4.4	4.3	4.3	4.3
Compensation of employees/head				0.4	-1.4	-1.6	0.6	0.8	1.2	1.4
Real unit labour costs				-0.3	-2.0	-2.5	-0.3	-0.8	-0.5	-0.3
Savings rate of households (b)				-	-	10.3	10.0	9.4	9.1	8.4
GDP deflator				-0.5	-1.6	-1.2	-1.3	-0.7	-0.3	0.0
Private consumption deflator				-0.2	-0.9	-0.7	-0.8	-0.1	0.1	0.4
General index of consumer prices				-	-0.3	0.0	-0.3	0.3	0.4	0.7
Trade balance (c)				2.6	2.5	2.9	1.9	1.9	1.6	1.5
Current account balance (c)				2.7	3.5	4.0	3.6	3.5	3.0	2.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				2.9	3.6	4.1	3.5	3.4	2.9	2.6
General government balance (c)(d)				-5.2	-8.0	-6.3	-6.5	-5.6	-5.1	-4.7
Cyclically-adjusted budget balance (c)(d)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				108.1	160.2	157.3	158.9	161.5	163.7	165.3

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

3. China

Still booming

Economic growth has remained very strong in 2006.

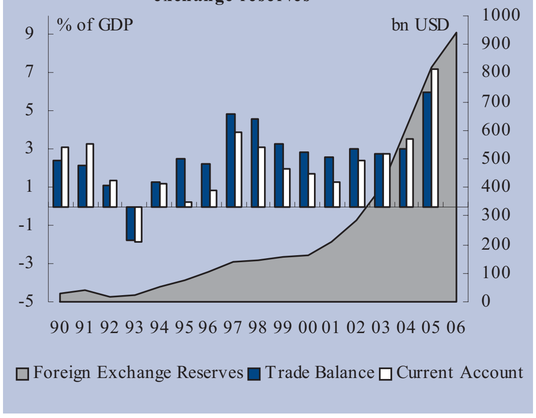
After a growth rate of 10.2% in 2005 (an upward revision from the earlier estimate of 9.9%), GDP growth accelerated to 10.9% y-o-y in the first half of 2006. The key factors behind this higher-than-expected growth are net merchandise exports and a reacceleration of investment spending. GDP growth slightly slowed in the third quarter to 10.4% yoy, reflecting tightened investment rules and monetary policy.

Restricted investment rules and tightened monetary policy

As the investment rate continued to be very high, even excessive in some sectors, notably in construction and real estate, two sectors of major policy concern, in April 2006 the authorities started introducing measures to rein in investment in sectors such as the cement, aluminium, steel, auto and coal industries and in real estate. More recently, they also stepped up enforcement rules that govern investment projects and land use.

In order to contain the excessive credit expansion, driven by the strong increase in foreign exchange reserves, the People's Bank of China have taken various measures since end-April 2006 to tighten domestic liquidity conditions, including moral suasion on banks to strictly control credit flows to the overly invested sectors, two increases in the benchmark lending rate and two increases in the reserve requirement ratio.

Graph 6.3: **China - Current account and foreign exchange reserves**



Those measures seem to have started working, albeit only modestly so far.

The growth rate of investment and industrial production slowed somewhat in the third quarter, responding to the policy actions to curb investment, which led to the modest slowing of GDP growth. Money and credit growth also showed some moderation in August and September. Given the so far modest impact of the previous measures, further tightening measures may be needed.

Inflation under control

Despite continued strong output growth and higher raw material and energy costs, year-on-year inflation has fallen in 2006, with the rate of CPI decreasing from 1.8% in 2005 to 1.3% on average in the three first quarters of 2006. This was largely due to a deceleration of food price increases and state controls on local oil prices. Inflation was slightly higher in the second and third quarter compared to the first, mostly reflecting higher food prices and higher domestic oil prices following the two price hikes this year.

A very modest appreciation against the background of a booming current account surplus

After reaching a record surplus of $134 bn (6% of GDP), implying an unprecedented current account surplus of 7.2% of GDP, China's trade balance continued to rise in 2006. In the first half of 2006, the trade surplus was more than 50% higher than in the same period last year, leading to a current account surplus of about 8% of GDP. Despite these strong capital inflows, Chinese exchange rate only gained 2.6% against the dollar in 2005 (including the 2.1% revaluation of July 2005) and another 2.1% in the first nine months of 2006. The volatility and the speed of appreciation have however somewhat accelerated in recent months, particularly in September.

Prospects for 2006 and 2007

China's growth is expected to further ease in the last quarter of 2006 and in 2007, reflecting earlier policy measures to rein in investment growth as well as likely further tightening moves. A moderation of external demand following some softness in US growth is also expected to contribute to some growth deceleration. Private consumption is forecast to remain strong, partially offsetting the moderation in investment activity. As a result, GDP growth is likely to average 10.4% in 2006, before modestly slowing to about 9.8% in 2007 and 9.7% in 2008.

This is a significant upward revision compared with the spring forecast (of 0.9 percentage points for 2006 and 0.8 percentage points for 2007) due to the stronger-than-expected outcome in first half of this year and the revision of the initial GDP growth estimate for 2005 from 9.9% to 10.2%.

Inflation is likely to somewhat accelerate, with the CPI rate averaging about 1.8% in 2006 and remaining in the vicinity of 2% in the forecast period, reflecting higher property prices, further hikes in administered energy and public utility prices, and higher raw material and production costs following rapid investment growth.

For 2006 as a whole, the trade surplus, and hence the current account surplus, is likely to exceed last year's record and to continue to grow in the coming years. However, as a percentage of GDP, it is likely to stabilise slightly above 7.5%.

The balance of risks is more on the upside, at least in the short term

Despite recent tightening steps, there are significant risks that the measures enacted so far will not be sufficient to restrain investment growth, notably because of the excessive liquidity of the banking system following recent foreign exchange accumulations. Also, the growing importance of retained cash flows and the informal financial sector in financing investment and continued local governments' pressure on banks to expand their lending cast doubts on the efficacy of the enacted administrative measures to curb investment. Growth could therefore be higher than forecast in the short term, but with the accompanying risk of a harder landing further down the road.

Table 6.3

Main features of country forecast · CHINA

	2005			Annual percentage change							
	bn CNY	Curr. prices	% GDP	95-02	2002	2003	2004	2005	2006	2007	2008
GDP at constant prices		18670.1	100.0	8.9	9.1	10.0	10.1	10.2	10.4	9.8	9.7
Private consumption		7090.6	38.0	--	--	--	--	--	--	--	
Public consumption		2601.2	13.9	--	--	--	--	--	--	--	
Gross fixed capital formation		7746.4	41.5	--	--	--	--	--	--	--	
of which : equipment		--	--	--	--	--	--	--	--	--	
Change in stocks as % of GDP		209.5	1.1	--	--	--	--	--	--	--	
Exports (goods and services)		6856.7	36.7	15.5	24.6	29.8	28.4	21.4	18.5	16.1	15.1
Final demand		24504.5	131.3	8.3	8.2	8.5	8.7	10.3	10.0	9.3	9.2
Imports (goods and services)		5834.2	31.2	13.9	23.6	32.7	27.2	9.7	15.1	14.7	14.2
GNI at constant prices (GDP deflator)		--	--	--	--	--	--	--	--	--	
Contribution to GDP growth :	Domestic demand			--	--	--	--	--	--	--	
	Stockbuilding			--	--	--	--	--	--	--	
	Foreign balance			--	--	--	--	--	--	--	
Employment				1.1	1.0	0.9	1.0	0.8	1.1	1.2	1.2
Unemployment (a)				3.2	4.0	4.3	4.2	4.2	4.1	4.1	4.0
Compensation of employees/head				--	--	--	--	--	--	--	
Unit labour costs				--	--	--	--	--	--	--	
Real unit labour costs				--	--	--	--	--	--	--	
Savings rate of households				--	--	--	-- -	--	--	--	
GDP deflator				2.6	0.5	2.4	19.8	3.5	3.5	3.7	3.7
Private consumption deflator				--	--	--	--	--	--	--	
Index of consumer prices (c)				6.4	0.7	-0.8	1.2	3.9	1.8	2.1	2.2
Trade balance (b)				3.2	3.0	2.7	3.1	6.0	6.8	7.3	7.5
Current account balance (b)				1.9	2.4	2.8	3.6	7.2	7.6	7.7	7.7
Net lending(+) or borrowing(-) vis-à-vis ROW (b)				--	--	--	-- -	--	--	--	
General government balance (b)				-1.6	-2.6	-2.2	-1.3	-1.6	-1.5	-1.4	-1.4
General government gross debt (b)				16.9	18.9	19.2	18.5	17.9	21.2	20.5	19.5

(a) urban unemployment, as % of labour force. (b) as a percentage of GDP. (c) national indicator.

Statistical Annex

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Prices

Wages, population and labour market

Interest and exchange rates

General Government

Saving

Trade and international payments

World economy

STATISTICAL ANNEX : AUTUMN 2006 ECONOMIC FORECASTS

TABLE 1 : Gross domestic product, volume (percentage change on preceding year, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	1.5	2.6	1.8	1.5	1.0	3.0	1.1	*2.3*	2.7	*2.1*	2.3	*:*	2.2
Germany	1.4	2.1	0.9	0.0	-0.2	1.2	0.9	*1.7*	2.4	*1.0*	1.2	*:*	2.0
Greece	1.1	4.0	4.1	3.8	4.8	4.7	3.7	*3.5*	3.8	*3.4*	3.7	*:*	3.7
Spain	1.5	4.4	3.3	2.7	3.0	3.2	3.5	*3.1*	3.8	*2.8*	3.4	*:*	3.3
France	1.2	3.0	1.6	1.0	1.1	2.3	1.2	*1.9*	2.2	*2.0*	2.3	*:*	2.1
Ireland	5.9	9.9	5.1	6.0	4.3	4.3	5.5	*4.9*	5.3	*5.1*	5.3	*:*	4.3
Italy	1.1	2.1	0.6	0.3	0.0	1.1	0.0	*1.3*	1.7	*1.2*	1.4	*:*	1.4
Luxembourg	2.6	6.3	3.7	3.8	1.3	3.6	4.0	*4.4*	5.5	*4.5*	4.5	*:*	4.2
Netherlands	2.3	3.7	1.4	0.1	0.3	2.0	1.5	*2.6*	3.0	*2.6*	2.9	*:*	2.6
Austria	2.0	2.6	1.9	0.9	1.1	2.4	2.0	*2.5*	3.1	*2.2*	2.6	*:*	2.1
Portugal	1.6	3.8	0.5	0.8	-1.1	1.2	0.4	*0.9*	1.2	*1.1*	1.5	*:*	1.7
Slovenia	2.0	4.2	3.9	3.5	2.7	4.4	4.0	*4.3*	4.8	*4.1*	4.2	*:*	4.5
Finland	1.3	4.6	2.9	1.6	1.8	3.5	2.9	*3.6*	4.9	*2.9*	3.0	*:*	2.6
Euro area	1.4	2.8	1.5	0.9	0.8	2.0	1.4	*2.1*	2.6	*1.8*	2.1	*:*	2.2
Czech Republic	2.3	1.2	4.3	1.9	3.6	4.2	6.1	*5.3*	6.0	*4.7*	5.1	*:*	4.7
Denmark	2.6	2.4	1.8	0.5	0.7	1.9	3.0	*3.2*	3.0	*2.3*	2.3	*:*	2.2
Estonia	:	6.2	8.9	8.0	7.1	8.1	10.5	*8.9*	10.9	*7.9*	9.5	*:*	8.4
Cyprus	5.5	4.2	3.1	2.1	1.9	3.9	3.8	*3.8*	3.8	*3.8*	3.8	*:*	3.9
Latvia	-8.8	6.2	8.7	6.5	7.2	8.6	10.2	*8.5*	11.0	*7.6*	8.9	*:*	8.0
Lithuania	-8.4	5.0	8.0	6.9	10.3	7.3	7.6	*6.5*	7.8	*6.2*	7.0	*:*	6.5
Hungary	0.6	4.6	4.3	4.3	4.1	4.9	4.2	*4.6*	4.0	*4.2*	2.4	*:*	2.7
Malta	5.0	3.6	0.8	2.2	-2.4	0.0	2.2	*1.7*	2.3	*1.9*	2.1	*:*	2.2
Poland	4.9	4.4	3.8	1.4	3.8	5.3	3.2	*4.5*	5.2	*4.6*	4.7	*:*	4.8
Slovakia	:	2.7	5.3	4.1	4.2	5.4	6.0	*6.1*	6.7	*6.5*	7.2	*:*	5.7
Sweden	1.2	3.2	2.8	2.0	1.7	3.7	2.7	*3.4*	4.0	*3.0*	3.3	*:*	3.1
United Kingdom	2.5	3.1	2.5	2.1	2.7	3.3	1.9	*2.4*	2.7	*2.8*	2.6	*:*	2.4
EU25	:	2.9	1.8	1.2	1.3	2.4	1.7	*2.3*	2.8	*2.2*	2.4	*:*	2.4
Bulgaria	-2.8	2.0	5.3	4.9	4.5	5.7	5.5	*5.4*	6.0	*5.7*	6.0	*:*	6.2
Romania	1.4	-0.9	6.0	5.1	5.2	8.4	4.1	*5.5*	7.2	*5.1*	5.8	*:*	5.6
USA	3.3	3.5	2.9	1.6	2.5	3.9	3.2	*3.2*	3.4	*2.7*	2.3	*:*	2.8
Japan	1.4	0.5	1.9	0.1	1.8	2.3	2.6	*2.8*	2.7	*2.4*	2.3	*:*	2.1

TABLE 2 : Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2006-2008)

	2006/1	2006/2	2006/3	2006/4	2007/1	2007/2	2007/3	2007/4	2008/1	2008/2	2008/3	2008/4
Belgium	0.9	0.8	0.6	0.7	0.5	0.4	0.5	0.5	0.6	0.6	0.6	0.7
Germany	0.7	0.9	0.7	0.7	-0.9	0.9	0.5	0.4	0.2	0.4	0.4	0.4
Greece	2.8	-0.4	0.8	0.8	1.0	1.2	1.1	1.1	0.9	0.7	0.8	0.7
Spain	0.9	0.9	1.0	0.9	0.8	0.8	0.8	0.9	0.8	0.9	0.8	0.8
France	0.4	1.2	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Ireland	1.2	0.9	1.4	0.9	1.4	1.5	1.4	1.1	1.0	0.9	0.9	0.9
Italy	0.7	0.5	0.5	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Luxembourg	1.3	0.6	:	:	:	:	:	:	:	:	:	:
Netherlands	0.5	1.2	0.9	0.8	0.7	0.6	0.5	0.7	0.7	0.7	0.7	0.7
Austria	0.6	0.9	0.6	0.8	0.5	0.6	0.6	0.5	0.6	0.4	0.4	0.4
Portugal	0.3	0.9	-0.2	0.0	0.3	0.7	0.7	0.4	0.4	0.3	0.4	0.4
Slovenia	1.0	2.8	0.1	0.1	1.5	1.2	1.2	1.4	1.1	1.0	0.9	0.9
Finland	2.1	1.9	-0.4	-0.2	1.2	1.4	0.9	0.6	0.4	0.6	0.6	1.0
Euro area	0.8	0.9	0.6	0.6	0.2	0.7	0.5	0.5	0.5	0.5	0.5	0.5
Czech Republic	1.5	1.2	1.1	0.8	1.5	1.4	1.2	1.3	1.0	1.1	1.1	1.0
Denmark	0.9	1.6	0.4	1.0	0.4	-0.1	0.3	-0.1	1.1	0.6	0.7	0.9
Estonia	3.4	2.8	-1.7	0.5	-1.0	10.9	-1.0	1.9	-4.5	11.4	1.5	1.2
Cyprus	0.8	1.0	1.1	1.1	0.8	0.9	0.9	0.9	1.0	1.0	1.0	1.0
Latvia	2.7	2.6	:	:	:	:	:	:	:	:	:	:
Lithuania	1.7	2.5	:	:	:	:	:	:	:	:	:	:
Hungary	1.0	0.9	1.1	1.1	1.1	1.0	1.0	1.0	0.9	1.0	1.0	1.3
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Poland	1.2	1.1	1.3	1.3	1.1	1.1	1.0	0.9	1.4	1.3	1.1	1.2
Slovakia	1.6	1.7	:	:	:	:	:	:	:	:	:	:
Sweden	1.4	1.3	0.5	0.4	0.8	0.9	0.9	0.9	0.7	0.6	0.6	0.6
United Kingdom	0.7	0.7	0.7	0.8	0.7	0.6	0.5	0.5	0.7	0.6	0.6	0.6
EU25	0.8	0.9	0.7	0.7	0.3	0.7	0.6	0.5	0.6	0.6	0.6	0.6
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:
Romania	:	:	:	:	:	:	:	:	:	:	:	:
USA	1.4	0.6	0.4	0.7	0.5	0.5	0.6	0.6	0.7	0.7	0.8	0.8
Japan	0.8	0.2	0.4	0.8	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.6

TABLE 3 : Profiles (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2006-2008) 24.10.2006

	2006/1	2006/2	2006/3	2006/4	2007/1	2007/2	2007/3	2007/4	2008/1	2008/2	2008/3	2008/4
Belgium	2.3	2.8	3.0	3.1	2.7	2.3	2.2	2.0	2.0	2.2	2.3	2.5
Germany	1.7	2.4	2.6	3.0	1.4	1.4	1.2	0.9	2.0	1.6	1.5	1.5
Greece	4.1	4.1	3.0	4.0	2.2	3.9	4.2	4.5	4.4	3.9	3.5	3.1
Spain	3.6	3.7	3.9	3.8	3.6	3.5	3.2	3.2	3.3	3.4	3.4	3.3
France	1.4	2.6	2.4	2.7	2.9	2.2	2.2	2.1	2.0	2.0	2.1	2.2
Ireland	5.7	4.9	5.7	4.5	4.7	5.3	5.3	5.5	5.1	4.5	4.0	3.7
Italy	1.6	1.5	1.7	2.1	1.7	1.5	1.3	1.2	1.3	1.4	1.5	1.6
Luxembourg	6.4	5.6	:	:	:	:	:	:	:	:	:	:
Netherlands	2.4	3.0	3.2	3.4	3.7	3.1	2.7	2.6	2.5	2.6	2.7	2.7
Austria	3.1	3.3	3.0	3.0	2.9	2.6	2.6	2.3	2.3	2.1	2.0	1.9
Portugal	1.1	0.9	1.5	1.0	1.1	0.9	1.8	2.2	2.2	1.8	1.5	1.5
Slovenia	4.8	5.6	4.9	4.0	4.5	2.9	4.1	5.5	5.0	4.7	4.4	3.8
Finland	4.7	6.6	4.6	3.3	2.5	2.0	3.3	4.2	3.3	2.5	2.2	2.6
Euro area	2.2	2.7	2.8	3.0	2.4	2.2	2.1	1.9	2.2	2.1	2.1	2.1
Czech Republic	6.9	6.5	5.9	4.6	4.7	4.9	5.0	5.6	5.0	4.7	4.6	4.3
Denmark	3.5	3.6	3.2	3.9	3.4	1.7	1.6	0.5	1.3	2.0	2.4	3.4
Estonia	11.6	11.8	5.5	10.5	10.6	9.6	8.5	9.1	9.3	7.6	7.9	8.6
Cyprus	3.4	3.8	3.8	4.0	3.9	3.8	3.7	3.5	3.8	3.9	4.0	4.1
Latvia	11.8	11.2	:	:	:	:	:	:	:	:	:	:
Lithuania	8.2	8.9	:	6.5	6.7	7.4	7.1	6.7	6.5	6.5	6.5	6.3
Hungary	4.3	4.0	4.0	4.1	4.2	4.3	4.2	4.1	4.0	4.0	4.0	4.2
Malta	-1.8	5.5	6.9	4.1	-0.1	2.3	1.2	2.8	4.1	3.3	0.6	1.0
Poland	4.6	5.6	5.2	5.0	5.0	5.0	4.7	4.3	4.6	4.7	4.8	5.1
Slovakia	7.2	7.1	:	6.5	7.4	7.1	7.3	7.2	6.2	6.0	5.5	5.3
Sweden	4.2	4.8	4.1	3.6	3.0	2.6	3.0	3.5	3.4	3.1	2.8	2.6
United Kingdom	2.3	2.6	2.9	3.0	3.0	2.8	2.6	2.2	2.3	2.3	2.5	2.6
EU25	2.4	2.9	2.9	3.1	2.6	2.4	2.3	2.1	2.4	2.3	2.3	2.4
Bulgaria	5.3	6.7	:	:	:	:	:	:	:	:	:	:
Romania	9.1	9.2	:	:	:	:	:	:	:	:	:	:
USA	3.7	3.5	2.8	3.1	2.2	2.2	2.4	2.3	2.5	2.7	2.8	3.0
Japan	3.4	2.5	2.4	2.2	2.1	2.4	2.5	2.2	2.0	2.0	2.0	2.1

TABLE 4 : Gross domestic product per capita (percentage change on preceding year, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	1.2	2.4	1.4	1.0	0.6	2.5	0.5	*2.0*	2.5	*1.9*	2.1	*:*	2.0
Germany	0.9	1.9	0.8	-0.2	-0.2	1.3	1.0	*1.7*	2.4	*1.0*	1.1	*:*	2.0
Greece	0.2	3.5	3.8	3.5	4.4	4.3	3.5	*3.2*	3.5	*3.1*	3.3	*:*	3.4
Spain	1.3	3.7	1.8	1.2	1.4	1.6	2.1	*1.9*	2.5	*1.9*	2.4	*:*	2.7
France	0.8	2.4	0.9	0.4	0.4	1.7	0.6	*1.3*	1.6	*1.4*	1.7	*:*	1.5
Ireland	5.3	8.5	3.1	4.2	2.6	2.6	3.2	*2.7*	2.7	*3.4*	3.0	*:*	2.6
Italy	1.1	2.1	0.0	0.0	-0.7	0.1	-0.8	*1.1*	1.4	*1.0*	1.2	*:*	1.2
Luxembourg	1.1	5.1	2.8	2.8	0.5	2.9	3.1	*3.7*	4.9	*3.8*	3.9	*:*	3.6
Netherlands	1.7	3.1	1.0	-0.6	-0.1	1.6	1.3	*2.5*	2.9	*2.6*	3.0	*:*	2.6
Austria	1.4	2.4	1.3	0.3	0.7	1.7	1.3	*2.0*	2.6	*1.8*	2.2	*:*	1.7
Portugal	1.4	3.3	-0.2	0.0	-1.8	0.6	-0.2	*0.3*	0.6	*0.5*	0.9	*:*	1.1
Slovenia	2.1	4.2	3.7	3.3	2.6	4.4	3.8	*4.1*	4.6	*3.9*	4.0	*:*	4.3
Finland	0.8	4.3	2.7	1.4	1.5	3.2	2.6	*3.4*	4.7	*2.7*	2.9	*:*	2.5
Euro area	1.1	2.5	0.9	0.3	0.1	1.3	0.8	*1.7*	2.1	*1.5*	1.7	*:*	1.9
Czech Republic	2.3	1.4	4.3	2.1	3.6	4.2	5.8	*5.2*	5.9	*4.6*	5.0	*:*	4.6
Denmark	2.2	2.1	1.5	0.1	0.4	1.6	2.7	*3.1*	2.9	*2.2*	2.3	*:*	2.2
Estonia	:	7.0	9.3	8.5	7.5	8.4	10.7	*9.3*	11.3	*8.3*	9.9	*:*	8.7
Cyprus	3.3	3.0	1.1	0.8	0.2	1.5	1.3	*1.8*	1.8	*1.8*	1.8	*:*	1.9
Latvia	-7.3	7.1	9.3	7.2	7.8	9.2	10.8	*8.8*	11.6	*7.9*	9.4	*:*	8.5
Lithuania	-7.9	5.7	8.5	7.3	10.8	7.9	8.3	*6.7*	8.3	*6.3*	7.2	*:*	6.5
Hungary	0.7	4.8	4.6	4.6	4.4	5.1	4.5	*4.8*	4.2	*4.4*	2.6	*:*	2.9
Malta	4.1	2.9	0.1	1.5	-3.0	-0.7	1.4	*0.8*	1.3	*1.0*	1.1	*:*	1.3
Poland	4.7	4.6	3.8	1.5	3.9	5.3	3.3	*4.6*	5.3	*4.7*	4.8	*:*	4.9
Slovakia	:	2.6	5.2	4.6	4.1	5.4	5.5	*6.0*	6.6	*6.4*	7.1	*:*	5.6
Sweden	0.6	3.0	2.4	1.7	1.3	3.3	2.3	*3.0*	3.6	*2.6*	2.9	*:*	2.8
United Kingdom	2.2	2.8	2.0	1.7	2.3	2.8	1.2	*2.0*	2.1	*2.4*	2.2	*:*	2.0
EU25	:	2.7	1.4	0.8	0.8	1.9	1.2	*2.0*	2.4	*1.9*	2.0	*:*	2.1
Bulgaria	-2.2	3.1	5.8	5.5	5.1	6.3	6.1	*5.7*	6.3	*6.0*	6.3	*:*	6.6
Romania	1.9	-0.7	6.8	8.1	5.5	8.8	4.3	*5.7*	7.4	*5.5*	6.0	*:*	5.8
USA	2.0	2.4	1.9	0.6	1.5	2.9	2.3	*2.3*	2.4	*1.7*	1.3	*:*	1.8
Japan	1.1	0.3	1.8	-0.1	1.6	2.3	2.6	*2.9*	2.8	*2.5*	2.4	*:*	2.2

TABLE 5 : Domestic demand, volume (percentage change on preceding year, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	IV-2006	X-2006	IV-2006	X-2006	IV-2006	X-2006
Belgium	1.3	2.4	1.7	0.7	1.0	3.1	1.6	1.8	2.3	1.9	2.2	:	2.0
Germany	1.5	1.5	0.2	-2.0	0.6	0.0	0.5	1.8	1.8	-0.2	0.4	:	1.7
Greece	1.2	4.1	4.2	4.7	5.4	4.7	2.5	3.2	3.9	3.4	3.6	:	3.7
Spain	0.8	5.0	4.3	3.2	3.8	4.8	5.0	4.3	4.5	3.5	4.1	:	3.7
France	0.7	3.0	2.0	1.1	1.7	3.0	1.9	2.4	2.4	2.2	2.5	:	2.2
Ireland	4.0	8.8	5.3	4.1	3.4	4.8	7.9	5.4	6.3	5.5	6.0	:	4.0
Italy	-0.1	2.8	1.0	1.3	0.9	1.0	0.3	1.3	1.4	1.2	1.3	:	1.4
Luxembourg	1.6	5.9	3.2	2.5	3.7	2.4	4.9	2.8	2.5	3.3	4.0	:	3.7
Netherlands	1.8	3.9	0.8	-0.4	0.5	0.5	0.9	2.6	2.4	1.9	2.6	:	2.1
Austria	2.1	1.8	1.4	-1.0	2.5	1.6	1.2	2.1	2.6	2.0	2.1	:	1.7
Portugal	2.1	4.6	0.2	0.0	-2.2	2.3	0.7	0.6	0.1	1.0	0.9	:	1.2
Slovenia	5.3	4.1	3.6	2.4	4.7	4.9	2.0	3.6	3.9	4.2	3.7	:	3.8
Finland	0.0	3.3	3.2	1.4	4.0	3.1	4.4	2.8	3.1	2.5	2.6	:	2.4
Euro area	1.0	2.8	1.6	0.4	1.5	1.8	1.6	2.7	2.5	1.6	2.1	:	2.1
Czech Republic	6.2	1.2	3.4	3.8	4.2	2.8	2.1	3.4	4.0	3.7	4.1	:	3.9
Denmark	2.9	2.2	2.9	1.7	0.6	3.3	4.1	3.1	4.9	2.2	2.6	:	2.1
Estonia	:	5.9	9.3	11.3	9.4	7.4	6.8	8.0	11.6	8.1	11.5	:	9.9
Cyprus	:	3.6	4.1	4.7	0.8	7.3	3.9	3.7	3.8	3.5	3.5	:	3.7
Latvia	:	6.9	10.0	6.0	10.7	12.1	8.2	8.9	13.2	7.4	10.5	:	8.1
Lithuania	:	5.5	10.1	6.7	12.1	12.8	8.9	7.1	10.1	6.9	9.0	:	8.5
Hungary	0.6	4.9	4.0	6.4	6.1	4.2	1.4	3.9	1.7	3.4	-0.1	:	0.8
Malta	:	1.7	2.2	-4.5	5.6	0.4	6.0	1.8	4.0	1.9	2.5	:	2.3
Poland	5.4	4.5	3.3	0.9	2.7	5.9	1.9	4.8	5.2	5.1	5.2	:	5.3
Slovakia	:	2.6	4.7	4.1	-1.3	6.2	8.6	4.6	5.9	4.3	4.9	:	4.0
Sweden	0.0	2.5	2.0	0.8	1.7	1.5	2.7	3.3	3.4	2.8	3.3	:	2.8
United Kingdom	2.3	3.9	2.8	3.1	2.7	3.8	1.8	2.4	2.7	2.6	2.6	:	2.4
EU25	:	3.0	1.9	1.0	1.8	2.4	1.8	2.7	2.8	2.0	2.3	:	2.3
Bulgaria	:	5.6	7.6	3.8	8.8	7.0	10.3	6.1	8.0	7.1	7.5	:	8.0
Romania	1.4	0.4	8.6	3.9	8.4	12.1	8.3	8.4	10.3	7.0	8.4	:	7.3
USA	3.4	4.2	3.2	2.2	2.8	4.4	3.3	3.4	3.3	2.4	2.2	:	2.7
Japan	1.5	0.4	1.4	-0.6	1.2	1.5	2.5	2.3	2.3	2.4	2.4	:	2.1

TABLE 6 : Final demand, volume (percentage change on preceding year, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	IV-2006	X-2006	IV-2006	X-2006	IV-2006	X-2006
Belgium	2.3	3.6	2.6	0.9	1.9	4.4	2.1	3.1	3.7	3.2	3.5	:	3.2
Germany	1.7	3.2	2.0	-0.4	1.1	2.6	2.3	3.2	4.3	1.9	2.4	:	3.3
Greece	1.6	5.1	4.0	2.5	4.7	5.7	2.5	3.7	4.4	3.8	4.0	:	4.0
Spain	2.3	5.8	4.1	2.9	3.8	4.7	4.3	3.8	5.0	3.3	4.2	:	4.1
France	1.5	4.0	2.2	1.2	1.1	3.2	2.2	2.9	3.6	2.9	3.2	:	3.0
Ireland	8.3	12.4	4.7	4.3	2.4	5.4	6.0	5.4	5.6	5.4	5.6	:	4.5
Italy	1.4	2.6	0.9	0.2	0.2	1.4	0.2	1.8	2.3	1.6	1.9	:	2.0
Luxembourg	3.0	8.9	6.1	2.2	3.6	7.4	7.0	6.6	10.5	6.5	8.0	:	7.4
Netherlands	3.3	5.6	2.6	0.1	0.9	3.8	3.0	4.4	5.1	4.2	4.6	:	4.2
Austria	2.3	3.8	2.6	0.5	2.3	4.3	3.1	3.7	3.0	3.1	3.6	:	3.2
Portugal	2.7	4.8	0.9	0.3	-0.9	2.8	0.8	1.3	1.7	1.7	1.9	:	2.2
Slovenia	2.7	5.4	5.4	3.9	4.1	7.6	5.2	5.2	6.4	5.4	5.6	:	5.5
Finland	2.0	5.7	3.9	1.8	2.0	4.8	5.1	4.5	5.6	3.6	4.0	:	3.6
Euro area	1.9	4.0	2.3	0.7	1.4	3.2	2.4	3.4	4.0	2.7	3.2	:	3.2
Czech Republic	7.3	4.3	6.5	3.2	5.3	10.2	5.7	6.7	8.2	6.3	6.9	:	6.6
Denmark	3.0	3.7	3.6	2.5	0.0	3.2	5.6	4.4	6.9	3.3	4.2	:	3.7
Estonia	:	8.9	11.0	7.6	7.4	12.6	13.5	10.1	13.9	10.0	12.5	:	11.2
Cyprus	:	4.4	3.2	1.2	0.5	6.3	3.6	4.6	4.4	4.6	4.4	:	4.5
Latvia	:	6.6	10.2	5.9	9.2	11.4	11.4	10.0	13.5	8.6	11.8	:	9.5
Lithuania	:	5.7	10.7	10.9	10.3	10.1	10.7	8.4	11.5	8.0	10.3	:	9.3
Hungary	:	9.1	6.5	5.3	6.1	9.1	5.9	7.6	6.2	7.4	4.4	:	4.7
Malta	:	2.7	1.4	0.4	1.7	2.1	0.2	1.5	2.5	2.1	2.3	:	2.3
Poland	6.4	5.5	5.2	1.7	5.2	7.9	3.3	5.6	8.3	5.6	6.9	:	6.6
Slovakia	:	5.5	7.4	4.3	5.7	7.0	10.9	8.5	9.2	8.7	9.1	:	6.9
Sweden	1.9	4.2	3.4	0.9	2.6	4.5	4.0	4.6	5.1	4.0	4.4	:	4.0
United Kingdom	3.3	4.2	3.6	2.7	2.5	4.0	2.8	3.1	5.9	3.2	3.6	:	3.2
EU25	:	4.1	2.8	1.2	1.8	3.6	2.7	3.6	4.7	3.0	3.6	:	3.5
Bulgaria	:	5.6	8.3	4.9	8.5	9.1	9.2	7.5	9.6	8.0	8.8	:	9.1
Romania	0.9	2.6	9.5	7.1	8.4	12.5	8.1	8.5	11.3	7.6	8.9	:	8.4
USA	3.8	4.2	3.3	1.8	2.7	4.8	3.6	3.9	3.8	3.0	2.7	:	3.1
Japan	1.7	0.6	2.2	0.2	2.0	2.9	3.0	3.2	3.2	3.1	3.0	:	2.7

TABLE 7 : Private consumption expenditure, volume (percentage change on preceding year, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	1.3	2.3	1.3	0.8	0.9	1.5	0.9	*1.7*	2.3	*1.9*	2.1	*:*	1.9
Germany	1.9	1.9	0.1	-0.8	-0.1	0.1	0.1	*1.2*	1.0	*-0.3*	-0.1	*:*	1.9
Greece	1.8	2.8	4.0	3.6	4.5	4.7	3.7	*3.1*	3.4	*3.0*	3.2	*:*	3.0
Spain	1.1	4.3	3.5	2.8	2.8	4.2	4.2	*3.7*	3.6	*3.1*	3.4	*:*	3.1
France	1.1	2.8	2.3	2.4	2.0	2.3	2.0	*2.1*	2.8	*2.2*	2.5	*:*	2.3
Ireland	3.8	5.9	4.3	3.0	2.5	3.1	6.2	*6.0*	6.6	*6.7*	7.0	*:*	4.6
Italy	0.5	2.4	0.7	0.2	1.0	0.6	0.1	*1.0*	1.6	*1.1*	1.0	*:*	1.3
Luxembourg	1.7	4.3	3.6	6.1	2.1	2.8	3.4	*2.2*	3.5	*2.5*	3.0	*:*	3.0
Netherlands	1.9	3.9	0.3	0.9	-0.2	0.6	0.7	*-2.1*	-0.6	*1.5*	1.8	*:*	2.1
Austria	2.1	1.7	1.4	0.1	1.3	1.9	1.7	*2.0*	2.0	*2.1*	2.1	*:*	1.8
Portugal	2.2	3.8	1.4	1.3	0.1	2.4	2.0	*1.2*	1.1	*1.2*	1.3	*:*	1.4
Slovenia	5.1	2.9	2.9	1.3	3.4	2.6	3.4	*3.5*	3.6	*3.4*	3.5	*:*	3.6
Finland	0.5	3.2	3.5	2.2	4.8	3.2	3.8	*2.9*	3.7	*2.5*	2.9	*:*	2.6
Euro area	1.4	2.6	1.4	0.8	1.2	1.5	1.4	*1.7*	2.0	*1.4*	1.6	*:*	2.1
Czech Republic	6.2	1.5	3.5	2.2	6.0	2.6	2.8	*3.1*	3.9	*3.3*	4.0	*:*	3.8
Denmark	2.4	1.0	2.9	1.5	1.6	3.4	4.1	*2.9*	3.9	*2.0*	2.3	*:*	2.0
Estonia	:	6.0	9.5	11.2	6.9	6.9	8.2	*7.7*	14.4	*7.2*	12.3	*:*	11.5
Cyprus	:	4.3	3.7	1.5	1.6	6.8	4.7	*4.1*	4.1	*3.5*	3.5	*:*	3.5
Latvia	:	4.7	9.8	7.4	8.2	9.5	11.4	*7.8*	12.6	*7.5*	11.4	*:*	8.9
Lithuania	:	4.9	9.9	6.0	10.2	12.2	9.8	*8.0*	11.5	*7.4*	9.5	*:*	8.6
Hungary	:	4.8	5.7	10.5	8.4	3.1	3.9	*3.8*	3.0	*3.2*	-0.5	*:*	0.5
Malta	:	3.6	1.5	-2.2	3.3	1.1	2.8	*1.3*	2.3	*1.5*	2.5	*:*	2.6
Poland	4.8	4.6	3.2	3.3	1.9	3.9	2.3	*4.0*	4.6	*3.6*	3.9	*:*	3.6
Slovakia	:	3.8	4.4	5.2	0.2	4.2	7.0	*4.7*	5.8	*4.9*	5.3	*:*	4.4
Sweden	-0.1	2.9	2.2	1.5	1.8	1.8	2.4	*3.2*	3.4	*3.2*	3.5	*:*	3.4
United Kingdom	2.4	3.9	2.7	3.5	2.9	3.4	1.4	*1.9*	2.3	*2.3*	2.3	*:*	2.2
EU25	:	2.9	1.8	1.5	1.6	2.0	1.5	*1.9*	2.2	*1.7*	1.9	*:*	2.3
Bulgaria	-1.4	2.0	5.7	3.5	6.4	4.7	7.7	*5.0*	6.0	*6.5*	6.5	*:*	7.0
Romania	3.1	0.3	9.8	5.2	8.4	14.2	9.7	*7.5*	11.5	*6.5*	9.0	*:*	7.5
USA	3.3	4.2	3.2	2.7	2.8	3.9	3.5	*2.9*	3.2	*2.1*	2.4	*:*	2.2
Japan	2.2	0.7	1.5	1.1	0.6	1.9	2.1	*2.2*	1.8	*2.0*	1.9	*:*	1.9

TABLE 8 : Government consumption expenditure, volume (percentage change on preceding year, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	1.2	2.0	1.7	2.9	2.2	2.1	-0.6	*1.8*	2.1	*1.9*	2.4	*:*	2.1
Germany	2.4	1.1	0.5	1.5	0.4	-1.3	0.6	*0.3*	1.2	*0.1*	0.8	*:*	0.7
Greece	1.0	4.0	2.6	7.4	-2.0	2.8	3.1	*0.4*	1.9	*3.1*	1.7	*:*	3.8
Spain	2.1	3.8	5.0	4.5	4.8	6.3	4.8	*4.3*	4.5	*4.1*	4.4	*:*	4.4
France	1.8	1.0	1.7	1.9	2.0	2.3	1.1	*1.8*	1.5	*1.2*	0.9	*:*	0.7
Ireland	3.8	10.8	5.7	9.4	5.1	3.8	5.9	*3.5*	4.2	*3.5*	4.2	*:*	4.2
Italy	-1.0	1.5	1.3	2.1	2.0	0.5	1.2	*0.6*	0.7	*0.6*	0.6	*:*	0.7
Luxembourg	4.1	4.8	4.1	4.2	4.4	3.2	4.8	*3.5*	3.8	*3.2*	3.6	*:*	3.1
Netherlands	1.3	2.9	2.7	3.3	2.9	0.1	0.3	*9.5*	7.0	*1.6*	2.3	*:*	2.0
Austria	2.6	1.5	1.6	1.8	1.2	1.4	1.9	*1.3*	1.7	*1.3*	1.6	*:*	1.6
Portugal	1.5	3.8	1.4	2.6	0.3	2.5	1.8	*0.3*	0.0	*-0.1*	0.0	*:*	-0.3
Slovenia	2.2	3.6	2.7	3.2	1.6	3.4	2.2	*2.8*	3.0	*2.9*	2.9	*:*	3.1
Finland	-0.6	1.5	1.7	2.7	1.5	1.7	1.6	*1.3*	1.1	*1.3*	1.0	*:*	1.5
Euro area	1.4	1.7	1.8	2.4	1.8	1.2	1.4	*2.0*	2.0	*1.2*	1.4	*:*	1.4
Czech Republic	-1.7	1.9	2.4	6.7	7.1	-3.2	1.0	*1.0*	0.8	*0.6*	0.7	*:*	0.8
Denmark	2.6	2.2	1.3	2.1	0.2	1.5	1.3	*1.0*	1.2	*0.7*	1.1	*:*	1.1
Estonia	:	1.6	1.7	1.9	0.3	2.2	1.1	*6.6*	3.1	*6.3*	2.9	*:*	2.8
Cyprus	:	5.7	2.7	7.3	5.1	-5.1	2.6	*1.8*	3.9	*3.4*	2.7	*:*	3.3
Latvia	:	2.8	2.7	2.2	1.9	2.1	2.7	*2.8*	4.5	*3.0*	3.7	*:*	3.5
Lithuania	:	1.7	4.9	1.6	3.8	7.7	4.9	*4.6*	6.4	*4.6*	6.1	*:*	5.9
Hungary	-1.7	2.1	3.1	6.0	5.4	1.9	1.9	*1.8*	0.6	*0.2*	-1.5	*:*	-1.2
Malta	:	0.0	2.0	3.8	3.0	1.4	0.6	*1.1*	1.0	*1.4*	0.4	*:*	1.1
Poland	3.3	2.4	3.1	1.3	4.9	4.2	2.8	*2.9*	2.5	*3.0*	3.3	*:*	3.6
Slovakia	:	1.4	2.8	5.2	3.9	2.0	-0.6	*3.1*	3.7	*2.8*	3.2	*:*	2.8
Sweden	0.3	0.8	1.1	2.3	0.7	0.1	0.7	*1.6*	1.6	*1.0*	1.6	*:*	1.5
United Kingdom	0.6	1.9	3.0	3.5	3.5	3.2	2.8	*3.0*	2.1	*2.2*	1.8	*:*	2.0
EU25	:	1.8	2.0	2.6	2.1	1.5	1.6	*2.1*	2.0	*1.4*	1.5	*:*	1.6
Bulgaria	-15.4	5.2	4.8	4.1	7.6	6.5	3.5	*4.0*	2.5	*4.0*	3.0	*:*	3.0
Romania	3.6	0.5	4.7	3.2	7.7	4.2	4.5	*5.5*	4.0	*5.0*	4.5	*:*	5.0
USA	0.0	2.3	2.5	4.7	2.8	2.5	1.0	*1.9*	1.6	*2.2*	2.2	*:*	2.0
Japan	3.1	2.8	1.8	2.4	2.3	2.0	1.7	*0.9*	0.4	*0.8*	0.7	*:*	0.7

TABLE 9 : Total investment, volume (percentage change on preceding year, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	0.8	3.9	2.3	-2.2	-0.7	7.9	4.0	*1.9*	2.8	*2.1*	2.4	:	2.3
Germany	0.7	1.8	-0.4	-6.1	-0.8	-0.4	0.8	*6.1*	4.5	*-0.5*	0.6	:	2.1
Greece	-0.2	8.6	5.9	5.7	13.7	5.7	-1.4	*4.6*	6.3	*4.7*	6.2	:	5.4
Spain	-0.3	7.6	5.4	3.3	5.6	4.9	7.2	*5.3*	6.1	*4.1*	5.2	:	4.7
France	-0.7	5.0	2.1	-1.7	2.2	3.0	3.6	*3.5*	3.4	*3.6*	3.5	:	3.6
Ireland	7.5	10.9	7.2	3.4	5.8	7.4	12.7	*5.4*	7.0	*4.5*	5.4	:	3.0
Italy	-0.9	3.6	1.4	4.0	-1.7	2.2	-0.6	*2.3*	3.3	*2.2*	2.2	:	2.0
Luxembourg	1.1	8.2	3.0	4.7	1.9	0.5	2.2	*3.6*	5.6	*5.3*	6.4	:	5.6
Netherlands	2.4	4.9	0.2	-4.5	-1.5	-0.8	3.6	*4.4*	4.5	*3.4*	4.4	:	2.3
Austria	1.1	2.4	1.2	-6.0	5.9	0.6	0.3	*3.0*	5.6	*2.4*	3.4	:	2.6
Portugal	2.7	7.2	-3.7	-3.5	-10.0	0.9	-3.0	*-0.8*	-2.6	*1.3*	0.4	:	2.2
Slovenia	7.2	8.4	5.0	0.9	7.1	7.9	1.5	*4.4*	8.1	*5.8*	4.8	:	3.9
Finland	-3.8	7.5	2.8	-3.0	4.0	4.9	3.3	*4.0*	5.1	*3.9*	3.9	:	2.8
Euro area	0.1	4.1	1.7	-1.5	1.0	2.3	2.5	*4.2*	4.3	*2.4*	3.0	:	3.0
Czech Republic	10.9	0.3	3.6	5.1	0.4	4.7	1.3	*5.0*	6.6	*6.6*	7.6	:	6.5
Denmark	4.3	4.8	5.5	0.1	2.1	4.5	9.2	*7.0*	12.0	*4.0*	4.4	:	3.2
Estonia	:	7.7	14.2	24.1	7.0	13.5	12.7	*9.5*	14.5	*8.0*	12.9	:	11.4
Cyprus	:	1.9	5.2	8.1	0.7	10.0	2.6	*5.0*	5.0	*4.8*	4.8	:	4.8
Latvia	:	17.4	17.2	13.0	12.3	23.8	18.6	*14.0*	18.5	*9.2*	11.7	:	8.6
Lithuania	:	8.1	12.3	10.9	14.1	15.5	9.2	*9.7*	12.1	*8.7*	9.7	:	9.5
Hungary	2.7	8.2	6.1	10.1	2.1	7.7	5.6	*6.8*	5.2	*6.6*	2.2	:	3.6
Malta	:	-0.7	4.1	-18.7	29.0	0.8	7.4	*4.0*	7.5	*3.5*	4.6	:	2.4
Poland	9.9	6.6	3.1	-6.3	-0.1	6.3	6.2	*10.2*	10.4	*11.2*	10.8	:	10.8
Slovakia	:	1.4	5.8	0.3	-2.3	5.0	17.5	*7.9*	9.6	*6.1*	6.5	:	5.2
Sweden	-1.5	4.0	3.8	-2.6	1.1	5.1	8.5	*5.6*	7.3	*4.5*	4.5	:	3.3
United Kingdom	2.3	5.6	3.6	3.7	0.4	6.0	2.7	*3.4*	5.2	*4.3*	4.7	:	3.1
EU25	:	4.3	2.2	-0.6	1.0	3.1	3.0	*4.4*	4.9	*3.1*	3.6	:	3.3
Bulgaria	:	13.0	14.4	8.5	13.9	13.5	19.0	*14.0*	17.5	*14.0*	14.0	:	14.0
Romania	10.4	1.2	10.1	8.2	8.6	10.8	13.0	*11.0*	10.0	*10.0*	10.5	:	9.0
USA	6.9	6.0	3.1	-3.9	3.0	6.0	6.5	*5.3*	4.0	*3.7*	1.0	:	4.8
Japan	-0.3	-1.6	0.9	-5.0	0.3	1.1	3.3	*3.9*	4.9	*4.0*	4.6	:	3.7

TABLE 10 : Investment in construction, volume (percentage change on preceding year, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	1.4	1.4	2.7	-1.4	-0.5	6.4	5.3	*3.4*	3.7	*-0.7*	0.1	:	2.1
Germany	2.9	-1.6	-2.4	-5.8	-1.6	-3.8	-3.6	*5.6*	3.1	*-5.1*	-3.3	:	1.4
Greece	-3.1	6.4	4.0	3.6	11.0	3.7	-4.5	*2.7*	6.7	*4.1*	6.7	:	5.4
Spain	-0.9	6.4	6.1	6.2	6.3	5.5	6.0	*4.3*	6.2	*2.9*	4.3	:	3.4
France	-2.5	2.8	2.0	-1.5	2.2	3.2	2.3	*3.0*	3.9	*3.0*	3.2	:	2.9
Ireland	7.1	10.3	7.3	5.1	7.4	7.3	10.4	*4.5*	6.2	*3.6*	4.6	:	1.3
Italy	-2.2	2.2	2.0	4.8	1.4	0.9	0.6	*0.9*	2.3	*0.8*	1.1	:	1.1
Luxembourg	4.1	6.2	3.3	13.8	7.9	-4.2	-1.8	*2.6*	2.0	*4.6*	3.5	:	3.4
Netherlands	1.3	3.7	-0.7	-4.9	-3.9	-1.1	2.6	*3.0*	4.1	*3.2*	4.0	:	2.0
Austria	2.1	-0.4	1.5	-4.5	5.1	1.6	0.4	*2.9*	5.3	*2.0*	2.6	:	1.7
Portugal	3.3	6.5	-5.4	-3.3	-11.9	-1.6	-4.7	*-3.1*	-5.0	*0.1*	-1.6	:	0.6
Slovenia	3.8	4.2	4.9	4.1	5.3	7.9	0.5	*5.3*	6.7	*4.8*	7.0	:	3.9
Finland	-6.0	7.9	2.8	-1.7	1.4	4.9	4.3	*4.0*	5.0	*3.9*	3.0	:	2.5
Euro area	:	1.7	1.3	-1.0	1.2	1.1	1.2	*3.4*	3.9	*0.7*	1.7	:	2.3
Czech Republic	4.3	-4.9	4.6	2.4	7.9	4.7	1.5	*4.8*	6.5	*6.9*	7.9	:	6.6
Denmark	3.2	2.1	3.0	-4.5	2.4	3.9	5.9	*8.2*	7.9	*5.2*	4.8	:	3.1
Estonia	:	:	:	:	:	:	:	*9.5*	14.5	*8.0*	12.9	:	11.4
Cyprus	:	-0.1	7.3	6.1	9.6	10.0	6.5	*4.5*	4.5	*4.3*	4.3	:	4.3
Latvia	:	:	:	:	:	:	:	*:*	:	*:*	:	:	:
Lithuania	:	4.1	11.5	11.3	19.7	5.8	9.9	*8.2*	11.0	*8.0*	9.0	:	8.0
Hungary	:	:	:	:	:	:	:	*10.1*	7.6	*6.9*	2.6	:	1.6
Malta	:	:	:	:	:	:	:	*:*	:	*:*	:	:	:
Poland	:	5.6	3.5	-3.8	-0.3	5.4	6.9	*11.7*	10.0	*12.2*	10.0	:	10.0
Slovakia	:	:	0.3	-13.8	-6.3	-1.8	15.5	*9.2*	10.9	*8.3*	7.0	:	5.7
Sweden	-6.9	0.8	4.2	2.6	-2.1	5.3	7.6	*6.4*	8.1	*5.2*	5.2	:	4.0
United Kingdom	1.4	2.5	5.3	5.2	7.1	3.2	5.3	*3.4*	5.6	*4.1*	4.6	:	2.8
EU25	:	:	:	:	:	:	:	*:*	:	*:*	:	:	:
Bulgaria	:	:	:	:	:	:	:	*:*	:	*:*	:	:	:
Romania	15.0	4.4	:	9.5	4.1	:	:	*:*	:	*:*	:	:	:
USA	3.9	3.4	2.3	-2.3	3.3	5.2	4.7	*2.9*	0.7	*0.9*	-3.8	:	4.1
Japan	-1.5	-3.8	:	-3.4	-2.1	-2.1	:	*:*	:	*:*	:	:	:

TABLE 11 : Investment in equipment, volume (percentage change on preceding year, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	-0.5	6.2	1.1	-4.0	-3.0	8.8	2.2	*0.5*	2.0	*3.7*	4.3	*:*	2.5
Germany	-2.9	6.3	1.6	-7.5	-0.1	4.2	6.1	*6.7*	6.2	*4.7*	4.8	*:*	2.7
Greece	7.4	12.2	7.7	6.8	18.3	8.2	0.5	*7.4*	5.6	*6.1*	6.2	*:*	5.8
Spain	-0.1	9.2	3.9	-2.9	2.5	3.7	9.5	*7.9*	7.4	*7.0*	7.4	*:*	7.0
France	1.0	8.0	1.4	-4.0	1.4	1.2	5.2	*4.8*	3.5	*4.9*	4.3	*:*	4.7
Ireland	9.6	11.1	8.0	1.4	0.3	9.1	20.8	*7.5*	9.5	*6.7*	7.5	*:*	7.0
Italy	-0.1	5.1	0.5	2.0	-5.8	3.3	-1.1	*3.6*	4.3	*3.4*	3.1	*:*	2.6
Luxembourg	-4.2	11.0	0.0	-10.5	-14.5	8.0	9.5	*5.0*	10.6	*6.0*	10.7	*:*	8.0
Netherlands	3.6	6.0	1.8	-4.9	5.0	-0.5	4.3	*6.2*	5.2	*3.7*	4.9	*:*	2.7
Austria	-0.5	5.5	0.4	-9.2	7.2	-1.6	0.2	*3.0*	6.4	*2.9*	4.6	*:*	4.0
Portugal	1.1	9.1	-2.2	-8.2	-6.4	4.7	-0.7	*1.8*	0.4	*2.6*	2.6	*:*	4.0
Slovenia	8.9	13.1	5.7	-2.7	11.4	7.6	2.6	*3.2*	10.4	*7.2*	2.0	*:*	4.1
Finland	-1.4	6.7	2.8	-4.8	7.0	4.9	1.3	*4.6*	6.0	*4.4*	6.5	*:*	3.5
Euro area	-0.6	6.8	1.7	-3.7	-0.1	3.4	4.0	*5.4*	5.2	*4.5*	4.6	*:*	3.8
Czech Republic	17.0	5.6	2.9	7.9	-5.9	4.5	1.9	*5.5*	7.0	*6.5*	7.5	*:*	6.5
Denmark	3.3	6.6	6.9	-2.6	2.3	4.9	13.1	*6.2*	18.0	*3.0*	4.3	*:*	3.4
Estonia	:	:	:	:	:	:	:	*9.5*	14.5	*8.0*	12.9	*:*	11.4
Cyprus	:	5.4	1.3	11.8	-12.7	10.3	-4.5	*3.9*	3.9	*6.0*	6.0	*:*	6.0
Latvia	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Lithuania	:	13.7	14.3	10.8	7.5	31.9	9.2	*12.3*	14.0	*10.1*	11.0	*:*	12.0
Hungary	:	:	:	:	:	:	:	*5.5*	5.4	*5.7*	4.1	*:*	7.8
Malta	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Poland	:	7.1	3.1	-8.5	-1.4	8.0	7.7	*8.5*	11.0	*10.0*	12.0	*:*	12.0
Slovakia	:	7.7	7.7	8.2	0.3	9.8	12.4	*7.1*	7.9	*4.9*	5.8	*:*	4.6
Sweden	5.1	5.2	4.3	-3.6	3.3	4.2	11.3	*5.0*	7.0	*4.0*	4.0	*:*	3.0
United Kingdom	2.1	8.2	1.9	1.2	-3.0	4.9	1.7	*3.4*	4.7	*4.4*	4.9	*:*	3.5
EU25	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Bulgaria	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Romania	6.2	11.3	:	13.3	7.7	:	:	*:*	:	*:*	:	*:*	:
USA	10.3	8.6	3.9	-5.5	2.7	7.0	8.7	*7.4*	7.0	*6.0*	5.2	*:*	5.3
Japan	1.5	0.6	:	-7.0	5.5	7.7	:	*:*	:	*:*	:	*:*	:

TABLE 12 : Public investment (as a percentage of GDP, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	1.6	1.8	1.7	1.7	1.7	1.6	1.8	*1.7*	1.6	*1.7*	1.8	*:*	1.8
Germany	2.4	1.8	1.5	1.7	1.6	1.4	1.3	*1.3*	1.3	*1.3*	1.4	*:*	1.4
Greece	3.2	3.7	3.8	3.7	4.0	4.2	3.5	*3.1*	3.5	*3.1*	3.5	*:*	3.5
Spain	3.7	3.2	3.5	3.5	3.6	3.4	3.6	*3.6*	3.6	*3.7*	3.6	*:*	3.7
France	3.2	3.0	3.1	2.9	3.1	3.1	3.2	*3.3*	3.3	*3.4*	3.4	*:*	3.5
Ireland	2.2	3.3	3.6	4.2	3.8	3.7	3.2	*3.7*	3.3	*4.0*	3.5	*:*	3.7
Italy	2.4	2.3	2.3	1.7	2.5	2.4	2.4	*2.5*	2.5	*2.5*	2.6	*:*	2.6
Luxembourg	4.2	4.0	4.7	5.0	4.6	4.4	4.6	*4.7*	4.7	*4.8*	4.6	*:*	4.5
Netherlands	2.5	3.1	3.3	3.5	3.6	3.2	3.2	*2.9*	3.1	*2.8*	3.1	*:*	3.0
Austria	3.1	1.6	1.1	1.3	1.2	1.1	1.1	*1.1*	1.1	*1.1*	1.0	*:*	1.0
Portugal	3.6	3.9	3.0	3.5	3.1	3.1	2.8	*2.9*	2.5	*2.8*	2.3	*:*	2.3
Slovenia	:	:	3.4	3.0	3.3	3.5	3.6	*3.4*	3.8	*3.3*	3.9	*:*	3.8
Finland	2.9	2.8	2.7	2.7	2.9	2.9	2.6	*2.7*	2.6	*2.7*	2.5	*:*	2.5
Euro area	:	:	2.5	2.4	2.5	2.5	2.5	*2.5*	2.5	*2.5*	2.6	*:*	2.6
Czech Republic	:	3.8	4.7	3.9	4.5	4.9	5.0	*6.5*	5.0	*6.8*	5.0	*:*	5.0
Denmark	1.8	1.7	1.8	1.8	1.6	1.9	1.8	*1.7*	1.8	*1.6*	1.6	*:*	1.7
Estonia	:	4.2	3.7	4.9	4.2	3.1	3.2	*4.0*	3.4	*4.1*	3.5	*:*	3.5
Cyprus	:	:	3.3	3.0	3.4	4.0	3.1	*3.4*	3.1	*3.4*	3.1	*:*	3.1
Latvia	:	1.5	2.1	1.3	1.5	1.9	2.3	*2.7*	3.4	*3.2*	3.9	*:*	4.6
Lithuania	:	2.4	3.4	2.9	3.0	3.4	3.5	*3.5*	4.2	*3.5*	4.6	*:*	4.7
Hungary	:	3.0	4.1	4.9	3.4	3.5	4.0	*2.7*	4.5	*2.6*	3.5	*:*	3.2
Malta	:	:	4.5	4.4	5.1	2.1	5.4	*4.6*	5.7	*4.1*	6.3	*:*	6.3
Poland	:	3.4	3.5	3.4	3.3	3.4	3.4	*4.0*	3.8	*4.1*	4.1	*:*	4.2
Slovakia	:	3.6	2.5	3.2	2.6	2.4	2.1	*1.9*	1.9	*1.5*	1.6	*:*	1.3
Sweden	2.7	3.1	3.1	3.2	3.1	3.0	3.0	*3.0*	3.0	*3.0*	3.0	*:*	3.0
United Kingdom	1.8	1.3	1.8	1.5	1.8	1.9	1.9	*2.2*	2.1	*2.4*	2.4	*:*	2.4
EU25	:	:	2.4	2.3	2.5	2.4	2.4	*2.5*	2.5	*2.6*	2.6	*:*	2.6
Bulgaria	:	:	3.0	2.7	2.5	2.7	3.1	*4.1*	3.8	*4.9*	4.5	*:*	5.2
Romania	:	2.0	3.1	3.1	3.2	3.0	2.9	*3.1*	3.1	*3.2*	3.2	*:*	3.3
USA	2.5	2.6	2.8	2.8	2.7	2.6	2.6	*3.3*	3.3	*3.4*	3.3	*:*	3.3
Japan	6.2	5.5	4.0	4.8	4.3	3.9	3.7	*3.5*	3.3	*3.3*	3.2	*:*	3.0

TABLE 13 : Output gap relative to potential GDP (deviation of actual output from potential output as % of potential GDP, 1992-2008) [1] 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	-0.9	0.4	-0.4	0.1	-0.8	0.1	-1.0	*-0.9*	-0.6	*-1.0*	-0.6	*:*	-0.7
Germany	0.2	0.1	-0.8	0.0	-1.3	-1.0	-1.3	*-0.1*	-0.2	*-0.3*	-0.4	*:*	0.1
Greece	-1.8	-1.5	1.0	-0.1	0.5	1.5	1.5	*1.9*	1.5	*1.9*	1.5	*:*	1.8
Spain	-2.5	0.4	-0.2	1.1	0.2	-0.5	-0.8	*-1.0*	-0.9	*-1.5*	-1.1	*:*	-1.3
France	-1.2	0.6	-0.2	0.9	-0.1	0.0	-0.8	*-1.0*	-0.8	*-1.3*	-0.7	*:*	-0.9
Ireland	-3.6	3.2	0.7	3.5	1.7	0.1	-0.5	*-2.4*	-1.4	*-2.9*	-1.9	*:*	-2.7
Italy	-1.1	0.5	-0.3	1.1	0.0	-0.2	-1.4	*-1.3*	-1.0	*-1.4*	-1.0	*:*	-1.1
Luxembourg	-0.2	0.6	-1.0	1.5	-1.6	-1.9	-2.2	*-1.2*	-0.9	*-1.0*	-0.7	*:*	-0.9
Netherlands	-1.2	1.7	-1.4	-0.1	-1.8	-1.7	-2.0	*-1.6*	-1.2	*-1.0*	-0.4	*:*	0.0
Austria	-0.2	0.8	-0.9	-0.5	-1.5	-1.1	-1.3	*-0.4*	-0.2	*-0.3*	0.2	*:*	0.0
Portugal	-1.6	1.7	-1.0	1.5	-1.0	-1.2	-2.0	*-2.2*	-2.0	*-2.3*	-1.8	*:*	-1.5
Slovenia	:	0.5	-1.0	-0.7	-1.8	-1.3	-1.1	*-0.3*	-0.3	*0.1*	0.0	*:*	0.4
Finland	-4.7	1.9	-0.8	-0.1	-1.5	-1.3	-1.5	*-0.4*	0.1	*-0.4*	0.2	*:*	-0.2
Euro area	:	0.5	-0.5	0.5	-0.6	-0.5	-1.1	*-0.8*	-0.6	*-0.9*	-0.7	*:*	-0.6
Czech Republic	:	-2.4	-1.8	-2.9	-3.0	-2.8	-0.9	*1.0*	0.9	*1.4*	1.4	*:*	1.5
Denmark	-1.5	1.4	-0.7	-0.2	-1.3	-1.4	-0.6	*0.0*	-0.2	*0.1*	-0.4	*:*	-0.6
Estonia	:	-1.6	-0.2	0.0	-0.7	-1.2	0.0	*1.1*	1.2	*1.0*	0.9	*:*	-0.6
Cyprus	:	0.5	-0.6	1.3	-0.6	-1.2	-1.3	*-0.5*	-1.3	*0.0*	-1.3	*:*	-1.3
Latvia	:	-0.5	-0.4	-0.7	-1.1	-1.0	-0.2	*0.5*	1.1	*-0.7*	0.4	*:*	-1.0
Lithuania	:	-1.7	1.0	-1.1	2.0	1.6	1.2	*1.6*	1.4	*0.4*	0.7	*:*	-0.6
Hungary	:	-0.9	0.0	-0.8	-0.8	0.1	0.6	*-0.1*	1.0	*0.3*	0.1	*:*	-0.5
Malta	:	1.8	-0.7	3.1	-0.8	-2.1	-2.1	*-2.1*	-1.4	*-1.6*	-1.1	*:*	-0.5
Poland	:	-0.3	-0.5	-2.0	-1.2	0.5	-0.3	*0.8*	0.4	*1.1*	0.3	*:*	0.1
Slovakia	:	0.3	-2.0	-1.6	-3.0	-2.7	-2.0	*-0.8*	-0.7	*0.2*	1.1	*:*	1.6
Sweden	-3.2	-0.1	-0.6	-0.6	-1.5	-0.6	-0.5	*0.3*	0.2	*0.4*	0.5	*:*	0.6
United Kingdom	-1.9	0.4	0.0	0.1	0.1	0.7	-0.3	*-0.7*	-0.4	*-0.7*	-0.5	*:*	-0.7
EU25	:	0.4	-0.4	0.3	-0.6	-0.3	-0.9	*-0.7*	-0.5	*-0.8*	-0.5	*:*	-0.5
Bulgaria	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Romania	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:

[1] When comparing output gaps between the spring and the autumn forecast it has to be taken into account that the overall revisions to the forecast may have led to changes in the estimates for potential output.

TABLE 14 : Deflator of gross domestic product (percentage change on preceding year, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	2.2	1.5	2.0	1.9	1.6	2.4	2.0	*2.0*	2.1	*2.0*	2.0	*:*	2.1
Germany	2.7	0.3	0.9	1.4	1.0	0.9	0.6	*0.4*	0.6	*1.1*	1.2	*:*	0.4
Greece	11.5	4.5	3.6	3.8	3.5	3.4	3.7	*3.0*	3.6	*3.0*	3.2	*:*	3.3
Spain	4.7	3.0	4.1	4.3	4.1	4.0	4.1	*4.2*	3.9	*3.6*	3.2	*:*	3.1
France	1.7	1.1	1.9	2.4	1.9	1.7	1.9	*1.5*	2.0	*1.9*	1.8	*:*	1.9
Ireland	2.8	4.6	3.0	5.0	2.5	1.8	3.5	*2.8*	2.5	*2.9*	3.1	*:*	2.5
Italy	4.4	2.3	2.7	3.4	3.1	2.9	2.1	*2.0*	2.2	*2.1*	2.2	*:*	2.2
Luxembourg	3.7	1.0	3.6	2.7	4.9	1.7	4.7	*3.1*	4.1	*3.0*	3.5	*:*	3.1
Netherlands	2.0	3.1	2.0	3.8	2.2	0.7	1.7	*1.3*	1.7	*1.4*	2.1	*:*	2.1
Austria	2.4	0.9	1.6	1.4	1.3	1.7	1.9	*1.9*	1.5	*1.8*	1.8	*:*	1.9
Portugal	6.4	3.5	2.9	3.9	2.7	2.8	2.7	*1.7*	2.2	*2.8*	2.1	*:*	2.3
Slovenia	47.9	7.1	4.0	7.9	5.8	3.3	1.5	*2.2*	1.6	*2.5*	3.3	*:*	2.6
Finland	1.7	2.4	0.7	1.3	-0.4	0.6	0.6	*0.8*	1.4	*0.9*	1.3	*:*	1.4
Euro area	3.2	1.6	2.1	2.6	2.1	1.9	1.9	*1.7*	1.9	*1.9*	2.0	*:*	1.8
Czech Republic	13.4	5.7	1.9	2.8	0.9	3.5	0.7	*1.3*	1.4	*2.1*	2.4	*:*	2.4
Denmark	1.4	2.1	2.5	2.3	1.9	2.2	2.8	*3.2*	3.2	*2.4*	2.3	*:*	2.4
Estonia	:	6.9	3.9	3.8	2.3	2.1	6.8	*3.7*	4.5	*3.1*	4.4	*:*	5.2
Cyprus	3.5	2.9	3.0	2.2	5.0	2.4	2.8	*2.3*	2.6	*2.3*	2.1	*:*	2.3
Latvia	98.3	4.4	6.4	3.6	3.6	6.9	9.2	*7.3*	8.7	*6.2*	8.8	*:*	7.8
Lithuania	160.7	3.1	2.5	0.1	-0.9	2.7	5.8	*4.6*	5.0	*2.8*	6.6	*:*	5.4
Hungary	21.8	11.5	4.6	7.9	5.7	4.3	2.0	*2.3*	2.9	*2.8*	4.7	*:*	3.4
Malta	3.1	1.9	2.3	2.3	4.0	0.1	2.0	*3.5*	3.1	*2.9*	2.9	*:*	2.7
Poland	30.3	8.3	2.1	2.2	0.4	4.0	2.8	*0.4*	1.0	*1.5*	1.9	*:*	2.5
Slovakia	:	6.4	4.4	4.6	4.7	6.0	2.4	*4.0*	4.2	*2.8*	3.5	*:*	2.0
Sweden	2.4	1.4	1.5	1.6	2.0	0.8	1.1	*1.5*	1.7	*2.1*	2.3	*:*	2.1
United Kingdom	2.9	2.3	2.7	3.1	3.1	2.6	2.2	*2.1*	2.6	*2.4*	2.5	*:*	2.5
EU25	:	1.9	2.2	2.7	2.3	2.1	1.9	*1.8*	2.0	*2.0*	2.1	*:*	2.0
Bulgaria	71.8	72.6	4.3	3.8	2.3	4.8	3.8	*4.7*	6.7	*4.1*	3.5	*:*	4.4
Romania	115.1	62.2	16.9	23.4	24.0	15.0	12.0	*8.7*	10.9	*6.5*	8.3	*:*	5.8
USA	2.1	1.8	2.6	1.8	2.1	2.8	3.0	*2.5*	3.2	*1.7*	2.7	*:*	1.7
Japan	0.1	-0.8	-1.2	-1.6	-1.6	-1.2	-1.3	*-0.3*	-0.7	*0.4*	-0.3	*:*	0.0

TABLE 15 : Price deflator of private consumption (percentage change on preceding year, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	1.8	1.7	2.1	1.3	1.7	2.4	2.9	2.4	2.4	2.0	1.8	:	1.7
Germany	2.4	1.0	1.4	1.2	1.5	1.6	1.3	1.4	1.5	2.0	1.9	:	0.9
Greece	11.6	4.4	3.0	2.5	2.8	2.5	3.7	3.2	3.5	3.2	3.0	:	3.1
Spain	4.9	2.8	3.3	2.8	3.1	3.5	3.4	3.6	3.6	3.2	2.8	:	2.7
France	1.6	0.9	1.7	1.0	1.9	1.9	2.0	1.8	1.6	1.8	1.7	:	1.9
Ireland	2.9	5.1	3.2	5.8	4.3	2.1	1.7	2.3	2.3	2.3	2.2	:	2.0
Italy	5.1	2.4	2.6	2.9	2.8	2.6	2.3	2.4	2.5	2.1	2.2	:	2.0
Luxembourg	2.8	2.3	2.3	0.3	2.4	2.5	3.6	3.2	2.8	2.5	1.9	:	1.8
Netherlands	2.3	2.9	1.9	3.0	2.4	0.8	1.6	2.0	2.0	2.1	2.2	:	2.3
Austria	2.8	1.4	1.6	1.2	1.6	1.9	1.7	1.7	1.7	1.7	1.6	:	1.6
Portugal	5.7	2.8	2.8	3.0	2.8	2.6	2.5	2.8	3.0	2.5	2.2	:	2.1
Slovenia	45.7	7.5	4.2	7.9	5.4	3.3	2.2	2.2	2.3	2.4	2.4	:	2.6
Finland	1.9	2.5	0.8	2.2	-0.4	0.7	0.4	1.2	1.2	1.3	1.6	:	1.6
Euro area	3.3	1.7	2.1	1.9	2.1	2.1	2.1	2.1	2.1	2.1	2.1	:	1.8
Czech Republic	11.2	5.3	1.6	1.2	-0.4	3.0	1.7	2.0	2.4	2.3	2.6	:	2.7
Denmark	1.7	2.1	1.9	1.7	2.0	1.7	2.0	1.9	2.0	2.0	1.9	:	1.9
Estonia	:	6.4	2.6	2.9	0.9	1.8	2.9	3.6	4.4	2.9	4.2	:	4.6
Cyprus	:	2.4	2.8	2.5	3.4	2.1	2.8	3.2	3.2	2.5	2.5	:	2.5
Latvia	:	4.1	5.2	2.2	3.1	7.0	7.0	6.6	6.8	5.6	5.8	:	5.4
Lithuania	:	3.0	1.2	-0.1	-0.9	-0.3	3.7	3.5	3.8	3.3	4.7	:	3.3
Hungary	:	11.8	4.0	3.9	4.0	4.5	3.6	2.7	3.9	3.8	6.8	:	3.9
Malta	:	1.6	2.1	2.0	0.6	2.4	2.5	3.2	3.1	2.8	2.8	:	2.4
Poland	31.6	8.9	2.0	3.3	0.4	3.1	1.8	0.5	1.4	1.6	2.3	:	2.7
Slovakia	:	7.0	4.9	3.3	6.6	7.4	2.6	3.7	4.5	2.4	3.4	:	2.5
Sweden	3.5	1.4	1.4	1.7	1.8	1.3	1.0	1.3	1.3	1.5	2.0	:	1.7
United Kingdom	3.4	2.0	2.0	1.6	1.9	1.7	2.5	2.1	2.5	2.1	2.2	:	2.0
EU25	:	2.0	2.1	1.9	2.0	2.1	2.1	2.1	2.2	2.1	2.2	:	1.9
Bulgaria	80.5	70.1	3.9	4.0	0.5	4.2	4.6	6.5	6.5	3.0	3.0	:	3.5
Romania	117.3	60.5	12.0	21.4	15.2	12.2	6.7	8.0	5.5	6.0	5.0	:	4.5
USA	2.3	1.8	2.4	1.4	2.0	2.6	2.9	2.3	3.1	1.5	2.3	:	1.8
Japan	0.2	-0.3	-0.8	-1.4	-0.9	-0.7	-0.8	0.5	-0.1	0.7	0.1	:	0.4

TABLE 16 : Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	2.2	1.7	2.0	1.6	1.5	1.9	2.5	2.4	2.4	2.1	1.8	:	1.7
Germany	2.7	1.2	1.6	1.4	1.0	1.8	1.9	1.7	1.8	2.3	2.2	:	1.2
Greece	11.8	3.7	3.4	3.9	3.4	3.0	3.5	3.3	3.3	3.3	3.3	:	3.3
Spain	4.7	2.4	3.3	3.6	3.1	3.1	3.4	3.6	3.6	3.1	2.8	:	2.7
France	2.0	1.2	2.1	1.9	2.2	2.3	1.9	1.9	2.0	1.8	1.8	:	1.9
Ireland	2.2	3.0	3.2	4.7	4.0	2.3	2.2	2.4	2.9	2.3	2.7	:	2.2
Italy	4.6	2.1	2.4	2.6	2.8	2.3	2.2	2.2	2.3	2.0	2.0	:	1.9
Luxembourg	2.5	1.9	3.0	2.1	2.5	3.2	3.8	4.1	3.2	3.4	2.2	:	1.8
Netherlands	2.5	2.6	2.1	3.9	2.2	1.4	1.5	1.8	1.6	2.1	1.8	:	2.3
Austria	2.9	1.3	1.8	1.7	1.3	2.0	2.1	1.7	1.8	1.6	1.8	:	1.7
Portugal	5.6	2.7	2.9	3.7	3.3	2.5	2.1	2.7	2.9	2.4	2.2	:	2.1
Slovenia	:	8.0	4.3	7.5	5.7	3.7	2.5	2.4	2.5	2.5	2.5	:	2.6
Finland	1.6	1.9	1.1	2.0	1.3	0.1	0.8	1.4	1.3	1.4	1.5	:	1.6
Euro area	:	1.7	2.2	2.3	2.1	2.1	2.2	2.2	2.2	2.2	2.1	:	1.9
Czech Republic	:	5.6	1.6	1.4	-0.1	2.6	1.6	2.5	2.5	2.7	2.7	:	2.9
Denmark	1.9	2.1	1.8	2.4	2.0	0.9	1.7	2.1	2.0	2.0	2.0	:	1.9
Estonia	:	6.1	3.3	3.6	1.4	3.0	4.1	3.6	4.4	2.9	4.2	:	4.6
Cyprus	:	2.7	2.6	2.8	4.0	1.9	2.0	2.4	2.4	2.2	2.0	:	2.4
Latvia	:	3.9	4.9	2.0	2.9	6.2	6.9	6.7	6.7	5.6	5.8	:	5.4
Lithuania	:	3.9	1.4	0.3	-1.1	1.2	2.7	3.5	3.8	3.3	4.6	:	3.3
Hungary	:	12.3	4.8	5.2	4.7	6.8	3.5	2.3	3.9	3.3	6.8	:	3.9
Malta	:	3.1	2.6	2.6	1.9	2.7	2.5	2.9	3.0	2.7	2.6	:	2.4
Poland	:	9.8	2.0	1.9	0.7	3.6	2.2	1.0	1.4	2.0	2.5	:	2.8
Slovakia	:	8.5	5.3	3.5	8.4	7.5	2.8	4.4	4.5	2.7	3.4	:	2.5
Sweden	2.4	1.5	1.5	1.9	2.3	1.0	0.8	1.1	1.5	1.8	1.6	:	1.8
United Kingdom	2.7	1.3	1.7	1.3	1.4	1.3	2.1	2.0	2.4	2.0	2.2	:	2.0
EU25	:	2.2	2.1	2.1	1.9	2.1	2.2	2.1	2.3	2.2	2.3	:	2.0
Bulgaria	:	:	5.3	5.8	2.3	6.1	5.0	7.0	7.0	3.5	3.5	:	3.8
Romania	:	63.2	13.0	22.5	15.3	11.9	9.1	7.8	6.8	5.7	5.1	:	4.6
USA	2.9	2.5	2.7	1.6	2.3	2.7	3.4	2.9	3.4	1.6	2.5	:	1.9
Japan	0.8	0.1	-0.2	-0.9	-0.3	0.0	-0.3	0.7	0.3	1.0	0.4	:	0.7

TABLE 17 : Profiles of quarterly harmonised index of consumer prices (percentage change on corresponding quarter in previous year, 200(24.10.2006

	2006/1	2006/2	2006/3	2006/4	2007/1	2007/2	2007/3	2007/4	2008/1	2008/2	2008/3	2008/4
Belgium	2.6	2.6	2.2	2.1	1.9	1.8	1.8	1.8	1.8	1.7	1.8	1.7
Germany	2.1	2.1	1.6	1.4	2.6	2.2	2.1	2.1	1.1	1.1	1.2	1.2
Greece	3.2	3.4	3.5	3.3	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Spain	4.1	4.0	3.5	2.8	2.9	2.7	2.8	2.7	2.8	2.8	2.7	2.6
France	2.0	2.2	1.8	1.8	2.0	1.5	1.8	1.8	1.8	1.8	1.9	1.9
Ireland	2.7	2.9	2.7	3.2	3.0	2.6	2.6	2.5	2.5	2.3	2.2	2.1
Italy	2.2	2.3	2.3	2.3	2.2	2.0	2.0	1.9	1.9	1.9	1.9	1.9
Luxembourg	3.9	3.7	2.8	2.6	3.0	2.4	1.8	1.8	1.7	1.7	1.8	1.9
Netherlands	1.6	1.8	1.7	1.5	1.9	1.7	1.9	2.0	2.1	2.2	2.4	2.4
Austria	1.4	2.0	1.8	1.8	1.8	1.9	1.8	1.7	1.7	1.7	1.7	1.8
Portugal	2.9	2.8	3.0	2.9	2.4	2.1	2.3	2.0	2.3	1.8	2.2	2.1
Slovenia	2.3	3.1	2.3	2.4	2.2	2.4	2.6	2.6	2.7	2.6	2.5	2.5
Finland	1.2	1.6	1.2	1.4	1.4	1.5	1.6	1.5	1.6	1.5	1.6	1.7
Euro area	2.3	2.4	2.1	2.0	2.4	2.0	2.1	2.1	1.8	1.8	1.9	1.9
Czech Republic	2.4	2.5	2.5	2.7	2.5	2.7	2.6	2.8	2.9	3.1	3.0	2.7
Denmark	2.0	2.0	1.9	2.1	2.0	2.0	1.9	2.1	2.0	1.9	1.8	2.0
Estonia	4.5	4.5	4.2	4.3	4.3	3.8	4.1	4.4	4.8	5.0	4.4	4.3
Cyprus	2.3	2.6	2.6	2.0	2.0	1.9	1.9	2.1	2.5	2.4	2.3	2.2
Latvia	7.0	6.5	6.6	6.9	6.4	5.9	5.3	5.7	5.6	5.3	5.4	5.6
Lithuania	3.3	3.6	3.9	4.3	4.5	4.6	4.7	4.6	3.5	3.4	3.2	3.3
Hungary	2.4	2.7	4.1	6.5	7.3	7.4	6.5	5.8	4.5	4.1	3.8	3.5
Malta	2.5	3.4	3.2	2.7	2.7	2.5	2.6	2.6	2.5	2.5	2.4	2.4
Poland	0.9	1.4	1.6	1.8	2.3	2.4	2.5	2.6	2.3	2.6	2.9	3.2
Slovakia	4.2	4.6	4.8	4.3	3.6	3.5	3.4	3.1	2.9	2.6	2.4	2.1
Sweden	1.2	1.9	1.5	1.3	1.7	1.3	1.7	1.8	1.6	1.7	1.8	1.9
United Kingdom	1.9	2.2	2.4	3.0	2.5	2.3	2.1	2.0	2.0	2.0	2.0	2.0
EU25	2.2	2.4	2.2	2.2	2.4	2.2	2.2	2.1	1.9	1.9	2.0	2.0
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:
Romania	:	:	:	:	:	:	:	:	:	:	:	:
USA	3.7	3.9	3.4	2.9	3.0	2.4	2.3	2.5	2.2	2.0	1.7	1.6
Japan	-0.1	0.2	0.6	0.8	0.5	0.6	0.2	0.2	0.6	0.6	0.8	0.9

TABLE 18 : Price deflator of exports of goods in national currency (percentage change on preceding year, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	0.0	3.2	1.5	-0.9	-2.9	2.1	4.7	*3.1*	4.6	*2.1*	1.7	*:*	1.2
Germany	0.4	0.5	0.2	-0.9	-1.0	-0.2	0.7	*0.7*	2.2	*0.3*	1.1	*:*	0.4
Greece	7.5	4.0	3.1	2.0	0.3	2.8	5.2	*1.3*	5.5	*1.0*	2.4	*:*	2.4
Spain	3.5	2.1	1.5	-0.9	-1.3	1.3	5.0	*3.3*	3.9	*2.7*	2.5	*:*	2.7
France	-0.8	0.0	-0.2	-2.5	-2.5	0.8	1.4	*1.8*	1.7	*2.0*	1.5	*:*	1.3
Ireland	1.1	3.3	-1.9	-1.5	-8.8	-2.4	1.3	*2.4*	2.3	*1.3*	1.5	*:*	1.7
Italy	5.0	4.3	3.9	2.6	0.7	4.5	6.6	*6.1*	5.1	*2.3*	2.5	*:*	2.4
Luxembourg	-0.2	0.5	2.3	-1.3	-0.8	5.9	4.0	*1.5*	4.0	*2.0*	3.0	*:*	2.5
Netherlands	-0.6	0.9	0.7	-3.2	-1.6	0.3	3.4	*4.8*	5.1	*1.0*	1.3	*:*	1.6
Austria	0.3	0.6	1.1	-0.5	-0.6	0.9	3.2	*1.1*	2.5	*1.0*	1.5	*:*	1.3
Portugal	0.7	1.9	0.5	-0.8	-2.8	0.5	2.2	*1.9*	3.6	*1.8*	1.9	*:*	1.7
Slovenia	39.9	5.3	2.7	3.7	2.0	2.6	2.7	*1.2*	2.4	*1.0*	1.1	*:*	1.0
Finland	3.7	-1.6	-0.4	-3.4	-2.0	0.4	1.1	*0.5*	2.0	*0.1*	-0.8	*:*	-1.0
Euro area	1.3	1.4	0.8	-1.0	-1.6	0.9	2.7	*2.5*	3.2	*1.3*	1.5	*:*	1.2
Czech Republic	:	2.0	-2.0	-6.7	0.0	2.1	-2.8	*-1.9*	-2.4	*1.7*	0.2	*:*	0.7
Denmark	0.2	1.3	1.7	-0.4	-1.1	1.1	4.0	*5.6*	5.3	*2.1*	1.6	*:*	1.5
Estonia	:	4.7	0.2	-4.0	0.9	-1.5	1.8	*2.9*	4.1	*2.6*	3.7	*:*	3.9
Cyprus	:	3.7	0.7	-4.0	-0.8	1.1	2.1	*5.0*	5.0	*2.5*	2.5	*:*	2.5
Latvia	:	-0.2	7.9	2.8	7.9	13.7	10.0	*6.3*	5.1	*3.7*	3.7	*:*	1.9
Lithuania	:	0.8	4.1	-6.3	-0.9	7.7	13.1	*8.2*	8.0	*4.0*	4.0	*:*	3.9
Hungary	:	8.6	0.2	-5.0	-0.4	-1.6	-0.8	*1.4*	9.2	*2.0*	5.2	*:*	2.3
Malta	:	1.2	-0.3	3.1	-3.5	-6.4	0.8	*2.9*	5.0	*3.1*	3.5	*:*	2.5
Poland	21.1	6.5	3.0	4.8	5.9	9.4	-4.4	*1.4*	0.1	*1.4*	1.1	*:*	1.8
Slovakia	:	4.5	0.8	1.9	1.7	1.4	-2.2	*3.2*	1.4	*2.4*	3.6	*:*	0.2
Sweden	2.1	0.0	0.2	-2.3	-2.3	-0.3	3.2	*1.7*	3.1	*0.9*	1.0	*:*	0.9
United Kingdom	3.1	-2.7	1.0	-0.2	1.2	-0.2	1.5	*3.9*	2.4	*2.9*	2.3	*:*	1.4
EU25	:	1.0	0.8	-1.0	-1.1	1.0	2.3	*2.6*	3.1	*1.5*	1.6	*:*	1.3
Bulgaria	:	:	:	:	:	:	:	*6.0*	9.0	*3.0*	3.5	*:*	3.5
Romania	115.2	49.7	10.5	17.6	18.3	13.4	-2.1	*0.4*	6.4	*4.1*	5.8	*:*	6.9
USA	-0.3	-1.4	2.3	-0.6	2.0	3.7	3.1	*2.4*	3.2	*1.8*	2.8	*:*	2.1
Japan	:	:	:	:	:	:	:	*5.6*	5.5	*2.7*	2.7	*:*	2.0

TABLE 19 : Price deflator of imports of goods in national currency (percentage change on preceding year, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	0.2	3.9	1.7	-1.8	-2.3	2.8	4.9	*3.7*	5.2	*2.1*	1.6	*:*	1.0
Germany	-1.2	1.2	0.1	-3.4	-3.0	0.0	2.4	*2.8*	4.4	*1.1*	1.9	*:*	1.7
Greece	7.2	4.1	2.2	0.3	1.3	0.9	2.9	*2.8*	5.6	*2.8*	1.3	*:*	1.3
Spain	2.9	2.1	1.2	-3.0	-1.6	2.3	4.0	*3.8*	4.3	*2.5*	2.5	*:*	2.6
France	-1.0	0.2	0.2	-4.2	-2.3	1.3	3.3	*3.3*	3.2	*1.4*	1.1	*:*	1.4
Ireland	1.7	3.4	-2.1	-3.8	-8.4	-2.3	0.8	*4.0*	3.6	*1.5*	1.7	*:*	1.8
Italy	5.2	4.3	4.3	0.2	-0.4	5.0	8.7	*7.9*	8.6	*2.1*	1.4	*:*	1.3
Luxembourg	0.4	1.9	1.7	-2.6	-1.1	4.5	3.9	*2.0*	4.0	*2.0*	2.5	*:*	2.0
Netherlands	-1.0	0.2	0.4	-4.6	-2.4	0.6	3.3	*5.9*	5.4	*1.5*	1.2	*:*	1.5
Austria	0.4	0.7	0.9	-1.9	-1.4	1.0	3.5	*1.7*	3.4	*1.4*	1.5	*:*	1.1
Portugal	0.6	1.7	1.1	-2.3	-2.5	1.9	3.8	*4.0*	4.8	*1.6*	1.7	*:*	1.2
Slovenia	36.0	5.5	3.1	1.7	1.5	3.9	5.2	*3.7*	3.5	*1.3*	1.5	*:*	1.3
Finland	3.2	-1.0	1.5	-4.2	-0.4	2.4	5.6	*2.9*	4.4	*1.6*	1.0	*:*	0.8
Euro area	0.8	1.7	1.0	-2.9	-2.2	1.5	4.0	*4.1*	4.8	*1.6*	1.6	*:*	1.6
Czech Republic	:	1.9	-1.9	-8.6	-0.3	1.4	-1.0	*-0.7*	-0.7	*1.7*	0.5	*:*	0.6
Denmark	-0.7	0.2	1.5	-1.5	-0.1	0.8	4.0	*3.7*	4.4	*1.6*	1.5	*:*	1.0
Estonia	:	2.6	2.0	-0.2	-0.9	1.8	4.1	*3.9*	5.6	*2.8*	4.2	*:*	4.5
Cyprus	:	2.4	2.9	-0.6	-1.0	3.8	5.0	*8.0*	7.3	*3.0*	3.0	*:*	3.0
Latvia	:	2.2	8.4	6.0	6.9	8.2	12.7	*7.8*	8.5	*4.1*	4.5	*:*	2.5
Lithuania	:	-1.5	1.3	-4.7	-3.4	-0.5	9.0	*7.5*	6.9	*2.2*	1.5	*:*	1.0
Hungary	:	9.1	1.2	-5.4	0.1	-0.9	1.4	*3.8*	11.3	*3.6*	5.6	*:*	2.5
Malta	:	2.7	0.2	2.5	-5.7	-3.0	3.1	*3.5*	4.6	*3.6*	3.0	*:*	2.8
Poland	19.3	7.7	3.0	5.2	9.1	4.9	-4.5	*2.1*	1.0	*2.0*	2.0	*:*	2.2
Slovakia	:	4.8	1.0	0.9	0.9	2.4	-1.0	*3.5*	1.6	*2.2*	3.1	*:*	0.8
Sweden	2.7	1.6	1.3	-0.5	-2.8	0.7	5.2	*2.7*	4.0	*0.7*	1.1	*:*	1.0
United Kingdom	3.4	-2.8	0.5	-2.8	-0.7	-0.6	3.7	*5.2*	3.1	*2.7*	2.2	*:*	1.4
EU25	:	1.3	1.0	-2.7	-1.6	1.3	3.6	*4.0*	4.4	*1.8*	1.8	*:*	1.5
Bulgaria	:	:	:	:	:	:	:	*6.0*	6.0	*1.0*	1.5	*:*	1.5
Romania	125.4	41.2	7.1	15.8	15.4	8.7	-5.9	*0.6*	3.2	*4.2*	3.7	*:*	6.0
USA	-0.2	-1.7	3.4	-1.8	2.9	5.0	6.5	*4.5*	4.6	*1.4*	2.1	*:*	1.9
Japan	:	:	:	:	:	:	:	*10.0*	10.5	*2.0*	4.0	*:*	2.5

TABLE 20 : Terms of trade of goods (percentage change on preceding year, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	-0.2	-0.7	-0.2	1.0	-0.6	-0.7	-0.2	*-0.6*	-0.6	*0.0*	0.1	*:*	0.2
Germany	1.6	-0.7	0.1	2.5	2.0	-0.2	-1.7	*-2.0*	-2.1	*-0.8*	-0.9	*:*	-1.3
Greece	0.3	-0.1	0.9	1.7	-1.0	1.9	2.2	*-1.4*	-0.1	*-1.8*	1.1	*:*	1.1
Spain	0.6	0.0	0.4	2.2	0.2	-1.0	1.0	*-0.5*	-0.4	*0.2*	0.0	*:*	0.1
France	0.1	-0.2	-0.4	1.9	-0.2	-0.5	-1.8	*-1.4*	-1.4	*0.6*	0.4	*:*	-0.1
Ireland	-0.5	-0.2	0.2	2.4	-0.5	-0.2	0.5	*-1.6*	-1.3	*-0.2*	-0.2	*:*	-0.1
Italy	-0.1	0.0	-0.4	2.5	1.1	-0.5	-2.0	*-1.7*	-3.2	*0.2*	1.1	*:*	1.1
Luxembourg	-0.6	-1.4	0.6	1.3	0.3	1.3	0.1	*-0.5*	0.0	*0.0*	0.5	*:*	0.5
Netherlands	0.5	0.7	0.3	1.5	0.8	-0.3	0.1	*-1.1*	-0.3	*-0.5*	0.1	*:*	0.1
Austria	-0.1	-0.1	0.2	1.4	0.8	-0.1	-0.3	*-0.6*	-0.9	*-0.4*	0.0	*:*	0.2
Portugal	0.1	0.2	-0.6	1.5	-0.3	-1.3	-1.5	*-2.0*	-1.1	*0.2*	0.2	*:*	0.5
Slovenia	2.9	-0.2	-0.4	2.0	0.5	-1.2	-2.4	*-2.4*	-1.1	*-0.3*	-0.4	*:*	-0.3
Finland	0.5	-0.6	-1.9	0.8	-1.5	-2.0	-4.3	*-2.3*	-2.3	*-1.5*	-1.8	*:*	-1.8
Euro area	0.5	-0.3	-0.2	1.9	0.6	-0.6	-1.3	*-1.5*	-1.6	*-0.3*	-0.1	*:*	-0.3
Czech Republic	:	0.1	-0.1	2.1	0.3	0.7	-1.8	*-1.2*	-1.7	*0.0*	-0.3	*:*	0.1
Denmark	1.0	1.0	0.3	1.1	-1.0	0.3	0.0	*1.8*	0.8	*0.4*	0.2	*:*	0.4
Estonia	:	2.0	-1.7	-3.7	1.9	-3.2	-2.2	*-1.0*	-1.4	*-0.2*	-0.5	*:*	-0.6
Cyprus	:	1.3	-2.1	-3.4	0.2	-2.5	-2.7	*-2.8*	-2.2	*-0.5*	-0.5	*:*	-0.5
Latvia	:	-2.3	-0.5	-3.0	1.0	5.1	-2.4	*-1.4*	-3.1	*-0.4*	-0.7	*:*	-0.6
Lithuania	:	2.3	2.8	-1.6	2.6	8.3	3.7	*0.7*	1.0	*1.8*	2.5	*:*	2.9
Hungary	:	-0.4	-1.0	0.4	-0.5	-0.7	-2.2	*-2.3*	-1.9	*-1.6*	-0.4	*:*	-0.2
Malta	:	-1.4	-0.5	0.6	2.4	-3.5	-2.3	*-0.6*	0.4	*-0.5*	0.5	*:*	-0.3
Poland	1.5	-1.1	0.0	-0.4	-2.9	4.3	0.1	*-0.7*	-0.9	*-0.6*	-0.9	*:*	-0.4
Slovakia	:	-0.2	-0.1	0.9	0.7	-1.0	-1.1	*-0.3*	-0.2	*0.2*	0.5	*:*	-0.6
Sweden	-0.6	-1.6	-1.0	-1.8	0.5	-1.0	-1.9	*-1.0*	-0.8	*0.2*	0.0	*:*	-0.1
United Kingdom	-0.3	0.1	0.5	2.8	1.9	0.4	-2.1	*-1.3*	-0.6	*0.1*	0.1	*:*	-0.1
EU25	:	-0.2	-0.1	1.8	0.5	-0.3	-1.3	*-1.4*	-1.3	*-0.3*	-0.1	*:*	-0.2
Bulgaria	:	:	:	:	:	:	:	*0.0*	2.8	*2.0*	2.0	*:*	2.0
Romania	-4.5	6.0	3.1	1.6	2.5	4.4	4.0	*-0.2*	3.1	*0.0*	2.0	*:*	0.8
USA	-0.1	0.4	-1.1	1.1	-0.9	-1.2	-3.2	*-2.0*	-1.3	*0.4*	0.6	*:*	0.2
Japan	:	:	:	:	:	:	:	*-4.0*	-4.5	*0.7*	-1.3	*:*	-0.5

TABLE 21 : Compensation of employees per head (percentage change on preceding year, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	3.4	2.8	2.5	3.8	1.7	2.0	2.4	*2.4*	2.5	*2.2*	2.1	*:*	2.2
Germany	5.4	2.3	1.4	1.9	2.5	1.5	0.6	*0.2*	0.4	*-0.2*	0.5	*:*	1.5
Greece	10.8	7.4	6.5	10.0	4.6	5.8	6.5	*5.9*	5.9	*5.0*	5.0	*:*	5.0
Spain	6.0	2.5	3.1	3.3	3.6	3.1	2.6	*3.3*	3.1	*3.2*	2.9	*:*	2.9
France	2.8	2.1	3.1	3.0	2.9	3.3	2.8	*3.3*	3.3	*3.2*	3.0	*:*	3.1
Ireland	4.5	5.9	5.4	5.5	5.0	6.6	5.0	*5.0*	4.8	*4.8*	4.5	*:*	4.5
Italy	4.8	2.1	3.2	2.7	3.7	3.5	2.9	*2.6*	3.0	*2.7*	2.8	*:*	2.5
Luxembourg	3.9	3.2	3.4	3.6	1.9	4.2	3.7	*3.5*	3.7	*3.0*	3.5	*:*	3.5
Netherlands	2.9	4.1	3.2	5.2	4.2	3.8	1.5	*2.2*	1.5	*2.7*	3.1	*:*	3.3
Austria	3.9	1.9	2.1	2.1	2.0	1.7	1.6	*2.8*	2.8	*2.2*	2.2	*:*	2.1
Portugal	8.2	5.7	3.2	4.4	3.1	2.4	3.1	*2.7*	2.9	*2.5*	2.8	*:*	2.8
Slovenia	:	10.6	6.7	8.5	6.6	7.6	5.4	*5.2*	5.4	*5.0*	5.8	*:*	5.8
Finland	2.5	3.3	3.0	1.8	2.8	3.5	3.6	*2.8*	3.0	*2.5*	2.6	*:*	3.2
Euro area	:	2.4	2.4	2.8	2.8	2.5	2.0	*2.1*	2.1	*2.1*	2.2	*:*	2.5
Czech Republic	:	7.9	6.4	7.4	8.8	6.0	4.1	*4.8*	5.6	*5.1*	6.2	*:*	5.7
Denmark	3.1	3.8	3.6	3.8	3.9	2.9	3.5	*3.8*	3.7	*3.9*	4.2	*:*	2.9
Estonia	:	13.7	11.8	9.1	13.0	12.9	11.2	*11.7*	12.7	*11.1*	11.5	*:*	11.3
Cyprus	:	4.0	3.8	5.3	7.2	1.1	2.1	*3.5*	3.5	*3.5*	3.5	*:*	3.5
Latvia	:	7.3	12.4	4.0	11.1	14.5	14.9	*15.0*	18.2	*12.0*	15.0	*:*	12.0
Lithuania	:	8.9	9.9	5.1	8.9	11.1	10.0	*8.9*	14.7	*8.2*	14.1	*:*	13.1
Hungary	:	14.2	9.3	12.7	9.4	11.5	6.5	*5.3*	6.5	*4.0*	6.7	*:*	3.8
Malta	7.7	4.4	2.3	3.2	3.8	2.0	0.5	*2.9*	1.9	*3.0*	2.0	*:*	2.1
Poland	37.8	13.7	2.1	2.3	1.8	1.9	0.5	*4.6*	4.0	*5.2*	5.0	*:*	4.9
Slovakia	:	10.7	7.9	9.3	8.1	9.2	5.1	*7.3*	7.8	*6.5*	7.2	*:*	6.3
Sweden	4.8	4.1	3.4	2.9	3.0	3.7	3.8	*3.7*	3.5	*4.3*	3.8	*:*	4.0
United Kingdom	3.6	5.1	4.4	3.3	4.9	4.3	4.6	*4.3*	4.9	*4.4*	4.4	*:*	4.6
EU25	:	3.5	3.0	3.2	3.3	3.0	2.4	*2.7*	3.1	*2.7*	3.0	*:*	3.1
Bulgaria	:	80.1	6.4	4.7	1.0	6.6	9.5	*9.4*	10.2	*9.3*	9.8	*:*	10.3
Romania	117.4	69.6	22.6	25.9	23.3	22.1	25.9	*13.8*	16.2	*10.9*	13.9	*:*	12.5
USA	3.1	4.1	4.3	3.6	4.3	4.2	3.7	*3.8*	5.8	*4.1*	5.0	*:*	5.2
Japan	1.1	0.0	-0.7	-1.5	-1.4	-1.6	0.6	*0.8*	0.8	*1.0*	1.2	*:*	1.4

TABLE 22 : Real compensation of employees per head [1] (percentage change on preceding year, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	1.5	1.0	0.3	2.5	0.0	-0.4	-0.5	*0.0*	0.1	*0.2*	0.3	*:*	0.5
Germany	2.8	1.4	0.0	0.7	1.0	-0.1	-0.7	*-1.3*	-1.1	*-2.1*	-1.4	*:*	0.6
Greece	-0.7	2.9	3.4	7.3	1.7	3.2	2.7	*2.6*	2.3	*1.7*	1.9	*:*	1.9
Spain	1.0	-0.3	-0.2	0.5	0.5	-0.4	-0.8	*-0.4*	-0.5	*0.0*	0.1	*:*	0.1
France	1.1	1.2	1.4	2.1	1.0	1.4	0.8	*1.5*	1.6	*1.4*	1.3	*:*	1.2
Ireland	1.6	0.8	2.1	-0.3	0.7	4.5	3.3	*2.6*	2.4	*2.4*	2.2	*:*	2.5
Italy	-0.3	-0.3	0.5	-0.1	0.9	0.8	0.5	*0.2*	0.4	*0.6*	0.6	*:*	0.5
Luxembourg	1.0	0.9	1.1	3.3	-0.5	1.6	0.0	*0.3*	0.9	*0.5*	1.5	*:*	1.7
Netherlands	0.6	1.2	1.3	2.1	1.8	3.0	-0.1	*0.2*	-0.5	*0.7*	0.9	*:*	0.9
Austria	1.1	0.5	0.4	0.9	0.4	-0.2	-0.1	*1.1*	1.1	*0.5*	0.6	*:*	0.5
Portugal	2.3	2.8	0.4	1.3	0.3	-0.1	0.5	*-0.1*	-0.1	*0.0*	0.5	*:*	0.7
Slovenia	:	2.9	2.4	0.6	1.1	4.1	3.1	*2.9*	3.0	*2.5*	3.3	*:*	3.1
Finland	0.6	0.8	2.1	-0.4	3.2	2.8	3.1	*1.6*	1.8	*1.3*	1.0	*:*	1.6
Euro area	:	0.6	0.4	0.9	0.7	0.4	-0.1	*0.0*	0.0	*-0.1*	0.1	*:*	0.7
Czech Republic	:	2.4	4.7	6.1	9.3	2.9	2.4	*2.7*	3.1	*2.7*	3.5	*:*	2.9
Denmark	1.4	1.7	1.7	2.0	1.9	1.2	1.5	*1.9*	1.7	*1.9*	2.2	*:*	1.0
Estonia	:	6.8	9.0	6.0	11.9	10.9	8.1	*7.9*	8.0	*8.0*	7.0	*:*	6.4
Cyprus	:	1.5	1.0	2.8	3.7	-1.0	-0.7	*0.3*	0.3	*1.0*	1.0	*:*	1.0
Latvia	:	3.1	6.9	1.8	7.9	7.0	7.4	*7.8*	10.7	*6.1*	8.7	*:*	6.2
Lithuania	:	5.8	8.6	5.3	9.9	11.3	6.0	*5.2*	10.5	*4.7*	9.0	*:*	9.5
Hungary	:	2.1	5.1	8.4	5.2	6.7	2.8	*2.5*	2.5	*0.2*	-0.1	*:*	-0.1
Malta	:	2.8	0.1	1.1	3.2	-0.5	-2.0	*-0.3*	-1.2	*0.2*	-0.8	*:*	-0.3
Poland	4.7	4.4	0.1	-1.0	1.4	-1.2	-1.3	*4.1*	2.6	*3.5*	2.6	*:*	2.1
Slovakia	:	3.5	2.9	5.8	1.3	1.7	2.5	*3.4*	3.2	*4.0*	3.7	*:*	3.7
Sweden	1.3	2.7	1.9	1.1	1.2	2.3	2.8	*2.4*	2.2	*2.7*	1.8	*:*	2.3
United Kingdom	0.2	3.0	2.3	1.7	2.9	2.6	2.1	*2.2*	2.4	*2.3*	2.2	*:*	2.5
EU25	:	1.4	0.9	1.3	1.2	0.9	0.3	*0.6*	0.9	*0.6*	0.8	*:*	1.2
Bulgaria	:	5.9	2.3	0.7	0.5	2.3	4.7	*2.7*	3.5	*6.1*	6.6	*:*	6.5
Romania	0.0	5.7	9.4	3.7	7.0	8.8	18.0	*5.4*	10.1	*4.6*	8.5	*:*	7.7
USA	0.7	2.3	1.9	2.1	2.3	1.5	0.8	*1.5*	2.7	*2.6*	2.6	*:*	3.3
Japan	0.9	0.3	0.1	-0.1	-0.5	-1.0	1.4	*0.3*	0.9	*0.3*	1.1	*:*	1.0

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

TABLE 23 : Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	1.3	1.3	1.4	1.7	1.1	2.4	0.1	*1.3*	1.8	*1.2*	1.3	*:*	1.3
Germany	2.8	2.1	1.6	1.1	1.5	1.7	1.6	*1.4*	2.0	*0.7*	0.7	*:*	1.3
Greece	0.1	3.4	2.7	3.7	3.4	1.7	2.3	*2.2*	2.3	*2.1*	2.3	*:*	2.4
Spain	1.8	0.2	0.5	0.4	0.6	0.6	0.4	*0.4*	0.5	*0.6*	0.4	*:*	0.8
France	1.6	1.2	1.2	0.1	1.1	2.3	0.9	*1.4*	1.4	*1.4*	1.3	*:*	1.3
Ireland	3.3	4.1	1.9	4.2	2.3	1.2	0.9	*2.0*	0.9	*2.5*	2.2	*:*	2.8
Italy	2.1	1.0	0.1	-0.9	-0.6	1.0	0.4	*1.1*	0.4	*1.0*	0.9	*:*	0.9
Luxembourg	0.1	1.5	0.9	0.9	-0.5	1.3	1.0	*1.3*	1.7	*1.4*	0.7	*:*	0.6
Netherlands	1.3	1.4	1.7	0.3	1.4	3.4	1.8	*1.8*	1.3	*1.8*	1.5	*:*	1.8
Austria	1.9	1.5	1.7	1.0	1.0	2.5	1.7	*1.9*	2.4	*1.3*	1.9	*:*	1.4
Portugal	2.4	1.8	0.3	0.4	-0.7	1.1	0.3	*0.7*	0.6	*0.8*	0.9	*:*	1.0
Slovenia	:	4.1	3.3	1.9	3.1	3.9	3.7	*3.7*	4.0	*3.6*	3.8	*:*	3.9
Finland	3.7	2.2	2.1	0.7	1.7	3.1	1.6	*2.2*	3.4	*2.0*	2.5	*:*	2.4
Euro area	:	1.1	0.7	0.2	0.3	1.2	0.6	*1.2*	1.2	*1.0*	0.9	*:*	1.2
Czech Republic	:	2.1	4.0	1.3	5.0	4.1	4.4	*4.6*	5.1	*4.2*	4.4	*:*	4.2
Denmark	2.4	1.5	1.7	0.5	2.2	1.9	2.2	*2.7*	1.8	*2.2*	2.1	*:*	2.1
Estonia	:	7.7	7.2	6.6	5.5	8.1	8.3	*8.0*	7.5	*7.3*	7.4	*:*	7.2
Cyprus	:	1.6	0.2	0.0	-1.8	0.2	0.5	*2.3*	2.3	*2.3*	2.4	*:*	2.5
Latvia	-1.5	5.9	6.9	4.8	5.4	7.5	8.6	*7.4*	8.2	*6.8*	7.8	*:*	7.2
Lithuania	-5.9	7.1	6.0	2.8	7.9	7.4	6.1	*5.5*	5.8	*5.6*	6.4	*:*	6.3
Hungary	:	3.2	4.1	4.3	2.8	5.6	4.3	*4.4*	3.8	*3.6*	2.6	*:*	2.6
Malta	3.5	2.8	0.2	1.6	-3.4	0.8	0.7	*1.4*	1.3	*1.4*	1.2	*:*	1.3
Poland	:	:	:	:	:	:	:	*2.3*	1.8	*2.7*	3.5	*:*	4.0
Slovakia	:	3.9	4.3	4.7	2.3	5.8	4.6	*4.8*	4.0	*5.5*	5.6	*:*	4.8
Sweden	3.2	1.8	2.6	1.8	2.0	4.3	2.4	*1.8*	2.4	*2.0*	1.9	*:*	2.1
United Kingdom	2.5	1.9	1.6	1.3	1.7	2.2	0.9	*2.0*	1.8	*2.2*	1.8	*:*	1.9
EU25	:	1.6	1.1	0.8	0.9	1.6	0.7	*1.4*	1.3	*1.3*	1.3	*:*	1.5
Bulgaria	-1.2	4.1	3.0	4.5	-1.7	3.4	3.9	*4.3*	4.7	*4.9*	4.9	*:*	5.4
Romania	4.3	0.9	6.5	8.1	5.5	8.0	3.9	*5.3*	7.0	*4.9*	5.5	*:*	5.5
USA	1.6	1.8	1.9	1.9	1.6	2.8	1.4	*1.8*	1.6	*2.1*	1.6	*:*	2.0
Japan	0.9	1.2	2.1	1.7	2.1	2.1	2.2	*2.4*	2.3	*2.0*	2.0	*:*	1.8

TABLE 24 : Unit labour costs, whole economy [1] (percentage change on preceding year, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	2.1	1.5	1.1	2.1	0.6	-0.3	2.3	*1.0*	0.7	*1.0*	0.8	*:*	0.9
Germany	2.5	0.3	-0.2	0.9	1.0	-0.2	-0.9	*-1.2*	-1.6	*-0.9*	-0.1	*:*	0.1
Greece	10.7	3.9	3.8	6.0	1.2	4.0	4.1	*3.6*	3.5	*2.9*	2.6	*:*	2.5
Spain	4.1	2.3	2.6	2.9	3.0	2.5	2.2	*2.8*	2.5	*2.6*	2.5	*:*	2.0
France	1.1	0.8	1.9	2.9	1.8	1.0	1.9	*1.9*	1.9	*1.8*	1.7	*:*	1.8
Ireland	1.2	1.8	3.5	1.2	2.7	5.4	4.1	*2.9*	3.9	*2.2*	2.2	*:*	1.7
Italy	2.7	1.1	3.1	3.7	4.3	2.4	2.5	*1.5*	2.6	*1.7*	1.9	*:*	1.6
Luxembourg	3.8	1.7	2.5	2.7	2.4	2.8	2.6	*2.1*	2.0	*1.6*	2.7	*:*	2.9
Netherlands	1.6	2.7	1.5	4.8	2.7	0.3	-0.3	*0.4*	0.2	*0.9*	1.5	*:*	1.4
Austria	2.0	0.4	0.3	1.1	1.0	-0.7	-0.1	*0.9*	0.4	*0.8*	0.3	*:*	0.7
Portugal	5.7	3.9	2.8	4.0	3.9	1.3	2.7	*2.0*	2.3	*1.7*	1.9	*:*	1.8
Slovenia	:	6.3	3.3	6.5	3.5	3.6	1.6	*1.4*	1.4	*1.3*	1.9	*:*	1.8
Finland	-1.1	1.1	0.9	1.1	1.1	0.5	2.0	*0.6*	-0.4	*0.5*	0.1	*:*	0.8
Euro area	:	1.3	1.7	2.5	2.5	1.3	1.3	*0.9*	0.9	*1.1*	1.2	*:*	1.3
Czech Republic	:	5.7	2.3	6.0	3.6	1.9	-0.3	*0.2*	0.4	*0.9*	1.7	*:*	1.4
Denmark	0.6	2.4	1.8	3.2	1.7	1.0	1.2	*1.0*	1.9	*1.7*	2.0	*:*	0.7
Estonia	:	5.5	4.3	2.3	7.0	4.5	2.6	*3.4*	4.9	*3.6*	3.8	*:*	3.8
Cyprus	:	2.4	3.6	5.3	9.2	0.9	1.6	*1.2*	1.2	*1.1*	1.1	*:*	1.0
Latvia	:	1.3	5.2	-0.8	5.5	6.6	5.8	*7.1*	9.3	*4.9*	6.7	*:*	4.5
Lithuania	:	1.7	3.7	2.2	0.9	3.4	3.6	*3.2*	8.4	*2.4*	7.2	*:*	6.4
Hungary	:	10.6	5.0	8.0	6.5	5.6	2.1	*0.8*	2.6	*0.4*	3.9	*:*	1.2
Malta	4.1	1.6	2.1	1.5	7.4	1.1	-0.2	*1.5*	0.6	*1.6*	0.7	*:*	0.8
Poland	:	:	:	:	:	:	:	*2.3*	2.1	*2.4*	1.5	*:*	0.9
Slovakia	:	6.5	3.5	4.4	5.6	3.2	0.5	*2.4*	3.7	*1.0*	1.5	*:*	1.4
Sweden	1.6	2.3	0.8	1.0	1.0	-0.6	1.4	*1.9*	1.1	*2.2*	1.9	*:*	1.8
United Kingdom	1.1	3.2	2.8	2.0	3.1	2.0	3.7	*2.3*	3.0	*2.2*	2.5	*:*	2.6
EU25	:	1.8	1.9	2.4	2.4	1.3	1.6	*1.2*	1.8	*1.3*	1.7	*:*	1.6
Bulgaria	:	73.1	3.3	0.2	2.7	3.0	5.4	*4.9*	5.2	*4.2*	4.6	*:*	4.6
Romania	108.4	68.1	15.2	16.5	16.8	13.0	21.2	*8.1*	8.6	*5.7*	7.9	*:*	6.6
USA	1.5	2.3	2.4	1.6	2.7	1.3	2.2	*2.0*	4.1	*2.0*	3.3	*:*	3.2
Japan	0.2	-1.2	-2.7	-3.2	-3.5	-3.6	-1.6	*-1.5*	-1.5	*-1.0*	-0.8	*:*	-0.3

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

TABLE 25 : Real unit labour costs [1] (percentage change on preceding year, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	-0.2	0.0	-0.9	0.3	-1.0	-2.7	0.2	*-0.9*	-1.4	*-1.0*	-1.2	*:*	-1.2
Germany	-0.2	-0.1	-1.1	-0.5	-0.1	-1.1	-1.5	*-1.6*	-2.1	*-2.0*	-1.3	*:*	-0.2
Greece	-0.7	-0.6	0.1	2.1	-2.2	0.6	0.4	*0.6*	-0.1	*-0.1*	-0.6	*:*	-0.8
Spain	-0.6	-0.7	-1.4	-1.4	-1.1	-1.5	-1.8	*-1.3*	-1.4	*-0.9*	-0.7	*:*	-1.1
France	-0.5	-0.2	-0.1	0.5	-0.1	-0.6	0.0	*0.3*	-0.1	*-0.1*	-0.1	*:*	-0.1
Ireland	-1.6	-2.6	0.4	-3.5	0.2	3.5	0.6	*0.2*	1.4	*-0.7*	-0.8	*:*	-0.7
Italy	-1.6	-1.2	0.4	0.3	1.2	-0.5	0.4	*-0.6*	0.4	*-0.4*	-0.3	*:*	-0.7
Luxembourg	0.1	0.7	-1.1	-0.1	-2.4	1.1	-2.0	*-1.0*	-2.1	*-1.3*	-0.8	*:*	-0.2
Netherlands	-0.3	-0.4	-0.5	1.0	0.5	-0.4	-2.0	*-0.9*	-1.4	*-0.4*	-0.5	*:*	-0.7
Austria	-0.4	-0.5	-1.2	-0.3	-0.4	-2.4	-1.9	*-0.9*	-1.0	*-0.9*	-1.4	*:*	-1.2
Portugal	-0.6	0.4	0.0	0.1	1.1	-1.4	0.1	*0.3*	0.1	*-1.1*	-0.2	*:*	-0.5
Slovenia	:	-0.8	-0.7	-1.3	-2.2	0.3	0.1	*-0.7*	-0.2	*-1.1*	-1.3	*:*	-0.7
Finland	-2.8	-1.3	0.2	-0.1	1.5	-0.1	1.4	*-0.1*	-1.8	*-0.3*	-1.2	*:*	-0.6
Euro area	:	-0.3	-0.4	-0.1	0.3	-0.6	-0.5	*-0.8*	-1.0	*-0.9*	-0.7	*:*	-0.5
Czech Republic	:	0.0	0.4	3.1	2.7	-1.6	-1.0	*-1.1*	-0.9	*-1.2*	-0.7	*:*	-1.0
Denmark	-0.8	0.3	-0.7	0.9	-0.3	-1.2	-1.6	*-2.1*	-1.3	*-0.7*	-0.3	*:*	-1.6
Estonia	:	-1.3	0.4	-1.4	4.7	2.3	-3.9	*-0.3*	0.4	*0.5*	-0.5	*:*	-1.3
Cyprus	:	-0.5	0.5	3.0	4.0	-1.5	-1.2	*-1.1*	-1.4	*-1.1*	-1.0	*:*	-1.2
Latvia	:	-2.9	-1.1	-4.2	1.9	-0.3	-3.1	*-0.2*	0.6	*-1.3*	-1.9	*:*	-3.1
Lithuania	:	-1.3	1.2	2.2	1.9	0.7	-2.0	*-1.4*	3.2	*-0.3*	0.6	*:*	1.0
Hungary	:	-0.8	0.4	0.1	0.7	1.2	0.1	*-1.4*	-0.3	*-2.4*	-0.8	*:*	-2.1
Malta	0.9	-0.4	-0.2	-0.7	3.3	1.0	-2.2	*-1.9*	-2.5	*-1.3*	-2.1	*:*	-1.9
Poland	:	:	:	:	:	:	:	*1.8*	1.1	*0.9*	-0.4	*:*	-1.6
Slovakia	:	0.1	-0.9	-0.2	0.8	-2.7	-1.8	*-1.5*	-0.5	*-1.8*	-1.9	*:*	-0.6
Sweden	-0.8	0.9	-0.7	-0.6	-1.0	-1.4	0.3	*0.3*	-0.6	*0.1*	-0.5	*:*	-0.3
United Kingdom	-1.7	0.9	0.1	-1.1	0.0	-0.6	1.5	*0.1*	0.4	*-0.2*	0.0	*:*	0.2
EU25	:	-0.1	-0.3	-0.3	0.1	-0.8	-0.3	*-0.6*	-0.2	*-0.7*	-0.5	*:*	-0.4
Bulgaria	:	0.3	-0.9	-3.4	0.4	-1.7	1.5	*0.2*	-1.4	*0.1*	1.1	*:*	0.3
Romania	-3.1	3.6	-1.5	-5.6	-5.7	-1.7	8.2	*-0.6*	-2.1	*-0.7*	-0.4	*:*	0.8
USA	-0.7	0.5	-0.2	-0.1	0.5	-1.5	-0.8	*-0.5*	0.9	*0.3*	0.6	*:*	1.5
Japan	0.1	-0.4	-1.5	-1.7	-2.0	-2.5	-0.3	*-1.2*	-0.8	*-1.4*	-0.5	*:*	-0.3

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

TABLE 26 : Total population (percentage change on preceding year, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	0.3	0.2	0.4	0.5	0.4	0.4	0.5	*0.2*	0.2	*0.2*	0.2	*:*	0.2
Germany	0.5	0.1	0.0	0.2	0.0	0.0	0.0	*0.0*	0.0	*0.0*	0.1	*:*	0.0
Greece	0.9	0.4	0.3	0.3	0.3	0.4	0.2	*0.3*	0.3	*0.3*	0.3	*:*	0.3
Spain	0.2	0.6	1.5	1.5	1.7	1.6	1.4	*1.2*	1.2	*0.9*	1.0	*:*	0.7
France	0.4	0.5	0.6	0.7	0.7	0.6	0.6	*0.6*	0.6	*0.5*	0.6	*:*	0.5
Ireland	0.6	1.3	2.0	1.7	1.6	1.7	2.2	*2.2*	2.5	*1.6*	2.2	*:*	1.7
Italy	0.0	0.0	0.6	0.3	0.8	1.0	0.7	*0.2*	0.3	*0.2*	0.2	*:*	0.2
Luxembourg	1.4	1.2	0.8	1.1	0.9	0.7	0.9	*0.6*	0.6	*0.6*	0.6	*:*	0.6
Netherlands	0.6	0.7	0.4	0.6	0.5	0.3	0.2	*0.1*	0.1	*0.0*	0.0	*:*	0.0
Austria	0.5	0.2	0.6	0.5	0.4	0.7	0.7	*0.5*	0.5	*0.4*	0.4	*:*	0.4
Portugal	0.2	0.5	0.6	0.7	0.7	0.6	0.6	*0.6*	0.6	*0.6*	0.6	*:*	0.6
Slovenia	-0.1	0.0	0.1	0.2	0.1	0.0	0.2	*0.2*	0.2	*0.2*	0.2	*:*	0.2
Finland	0.4	0.2	0.3	0.3	0.2	0.3	0.3	*0.2*	0.2	*0.2*	0.2	*:*	0.1
Euro area	0.3	0.3	0.6	0.6	0.6	0.6	0.6	*0.4*	0.4	*0.3*	0.4	*:*	0.3
Czech Republic	0.0	-0.2	0.0	-0.2	0.0	0.1	0.3	*0.1*	0.1	*0.1*	0.1	*:*	0.1
Denmark	0.4	0.4	0.3	0.4	0.3	0.2	0.3	*0.1*	0.1	*0.1*	0.1	*:*	0.0
Estonia	-1.9	-0.7	-0.3	-0.4	-0.4	-0.3	-0.2	*-0.4*	-0.4	*-0.3*	-0.4	*:*	-0.4
Cyprus	2.1	1.2	2.0	1.3	1.8	2.4	2.4	*2.0*	2.0	*2.0*	2.0	*:*	2.0
Latvia	-1.6	-0.8	-0.6	-0.7	-0.6	-0.5	-0.5	*-0.3*	-0.6	*-0.3*	-0.5	*:*	-0.5
Lithuania	-0.6	-0.7	-0.5	-0.3	-0.4	-0.5	-0.6	*-0.2*	-0.4	*-0.1*	-0.2	*:*	0.0
Hungary	-0.1	-0.2	-0.2	-0.3	-0.3	-0.2	-0.2	*-0.2*	-0.2	*-0.2*	-0.2	*:*	-0.2
Malta	0.9	0.7	0.7	0.7	0.6	0.7	0.8	*1.0*	0.9	*0.9*	0.9	*:*	0.9
Poland	0.2	-0.2	-0.1	0.0	-0.1	0.0	0.0	*-0.1*	-0.1	*-0.1*	-0.1	*:*	-0.1
Slovakia	0.3	0.1	0.0	-0.4	0.0	0.1	0.5	*0.1*	0.1	*0.1*	0.1	*:*	0.1
Sweden	0.5	0.1	0.4	0.3	0.4	0.4	0.4	*0.4*	0.4	*0.4*	0.4	*:*	0.3
United Kingdom	0.3	0.3	0.5	0.4	0.4	0.5	0.6	*0.4*	0.5	*0.4*	0.5	*:*	0.4
EU25	0.3	0.2	0.4	0.4	0.5	0.5	0.5	*0.3*	0.4	*0.3*	0.3	*:*	0.3
Bulgaria	-0.6	-1.1	-0.5	-0.6	-0.6	-0.5	-0.5	*-0.3*	-0.3	*-0.3*	-0.3	*:*	-0.3
Romania	-0.5	-0.2	-0.7	-2.7	-0.3	-0.3	-0.2	*-0.2*	-0.2	*-0.3*	-0.2	*:*	-0.2
USA	1.2	1.1	1.0	1.0	1.0	1.0	0.9	*1.0*	0.9	*1.0*	1.0	*:*	1.0
Japan	0.3	0.2	0.1	0.2	0.2	0.0	0.0	*-0.1*	-0.1	*-0.1*	-0.1	*:*	-0.1

TABLE 27 : Total employment (percentage change on preceding year, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	0.1	1.3	0.4	-0.1	-0.1	0.6	0.9	*0.9*	0.9	*0.9*	1.0	*:*	0.9
Germany	-1.4	0.0	-0.7	-1.0	-1.7	-0.5	-0.6	*0.3*	0.4	*0.3*	0.5	*:*	0.6
Greece	1.0	0.6	1.4	0.1	1.3	2.9	1.3	*1.3*	1.4	*1.3*	1.3	*:*	1.3
Spain	-0.3	4.1	2.7	2.3	2.4	2.6	3.1	*2.7*	3.2	*2.2*	3.0	*:*	2.5
France	-0.5	1.7	0.4	0.9	0.0	0.0	0.2	*0.4*	0.8	*0.6*	0.9	*:*	0.8
Ireland	2.5	5.6	3.2	1.8	2.0	3.1	4.6	*2.9*	4.4	*2.4*	3.0	*:*	1.5
Italy	-0.9	1.1	0.6	1.3	0.6	0.0	-0.4	*0.2*	1.3	*0.2*	0.5	*:*	0.5
Luxembourg	2.5	4.7	2.8	2.9	1.8	2.3	2.9	*3.0*	3.8	*3.0*	3.7	*:*	3.6
Netherlands	1.0	2.4	-0.3	-0.3	-1.1	-1.4	-0.3	*0.8*	1.6	*0.8*	1.4	*:*	0.8
Austria	0.1	1.1	0.2	-0.1	0.1	0.0	0.3	*0.6*	0.7	*0.9*	0.7	*:*	0.7
Portugal	-0.8	1.9	0.1	0.4	-0.4	0.1	0.0	*0.2*	0.6	*0.3*	0.6	*:*	0.7
Slovenia	:	0.1	0.5	1.5	-0.4	0.5	0.3	*0.6*	0.8	*0.4*	0.4	*:*	0.5
Finland	-2.3	2.3	0.8	1.0	0.1	0.4	1.3	*1.4*	1.4	*0.8*	0.6	*:*	0.2
Euro area	:	1.7	0.8	0.6	0.4	0.7	0.7	*0.9*	1.4	*0.8*	1.2	*:*	1.1
Czech Republic	:	-0.9	0.3	0.6	-1.3	0.1	1.6	*0.6*	0.8	*0.5*	0.7	*:*	0.5
Denmark	0.2	1.0	0.1	-0.1	-1.5	0.0	0.7	*0.4*	1.2	*0.1*	0.2	*:*	0.1
Estonia	-5.2	-1.4	1.6	1.3	1.5	0.0	2.0	*0.8*	3.2	*0.6*	2.0	*:*	1.1
Cyprus	:	2.6	2.9	2.1	3.8	3.7	3.2	*1.5*	1.5	*1.5*	1.5	*:*	1.5
Latvia	-7.4	0.3	1.7	1.6	1.7	1.1	1.5	*1.0*	2.6	*0.7*	1.0	*:*	0.7
Lithuania	-2.7	-1.9	1.9	4.0	2.3	-0.1	1.4	*0.9*	1.9	*0.6*	0.6	*:*	0.3
Hungary	:	1.4	0.2	0.0	1.3	-0.7	0.0	*0.1*	0.2	*0.5*	-0.2	*:*	0.1
Malta	1.5	0.8	0.7	0.6	1.0	-0.8	1.5	*0.3*	1.0	*0.5*	0.8	*:*	0.9
Poland	:	:	:	:	:	:	:	*2.2*	3.3	*1.8*	1.2	*:*	0.8
Slovakia	:	-1.1	1.0	-0.5	1.8	-0.3	1.4	*1.2*	2.6	*0.9*	1.5	*:*	0.9
Sweden	-2.0	1.3	0.2	0.2	-0.3	-0.5	0.3	*1.6*	1.6	*1.0*	1.4	*:*	1.0
United Kingdom	0.0	1.2	0.9	0.8	1.0	1.0	1.0	*0.4*	0.8	*0.6*	0.8	*:*	0.5
EU25	:	1.3	0.8	0.4	0.4	0.7	0.9	*0.9*	1.4	*0.8*	1.1	*:*	0.9
Bulgaria	-1.6	-2.0	2.3	0.4	6.3	2.2	1.5	*1.0*	1.2	*0.8*	1.0	*:*	0.8
Romania	-2.8	-1.8	-0.5	-2.7	-0.3	0.4	0.2	*0.2*	0.2	*0.2*	0.2	*:*	0.1
USA	1.7	1.7	1.0	-0.3	0.9	1.1	1.8	*1.4*	1.7	*0.6*	0.7	*:*	0.8
Japan	0.4	-0.6	-0.2	-1.6	-0.3	0.2	0.4	*0.4*	0.4	*0.3*	0.3	*:*	0.3

TABLE 28 : Number of unemployed (as a percentage of civilian labour force, 1992-2008) [1]

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	8.9	8.1	8.2	7.5	8.2	8.4	8.4	*8.0*	8.6	*7.6*	8.5	*:*	8.4
Germany	7.8	8.1	9.0	8.2	9.0	9.5	9.5	*9.4*	8.9	*9.2*	8.4	*:*	7.8
Greece	8.8	11.0	9.9	10.3	9.7	10.5	9.8	*9.5*	9.3	*9.1*	8.9	*:*	8.6
Spain	17.7	13.1	10.0	11.1	11.1	10.7	9.2	*8.7*	8.1	*8.3*	7.9	*:*	7.4
France	11.1	10.1	9.4	8.9	9.5	9.6	9.7	*9.4*	9.3	*9.3*	9.0	*:*	8.7
Ireland	13.9	6.3	4.5	4.5	4.7	4.5	4.3	*4.4*	4.3	*4.4*	4.5	*:*	4.8
Italy	10.4	10.5	8.0	8.6	8.4	8.0	7.7	*7.7*	7.1	*7.7*	7.0	*:*	7.0
Luxembourg	2.7	2.4	4.1	2.8	3.7	5.1	4.5	*5.7*	4.6	*5.8*	4.4	*:*	4.1
Netherlands	6.2	3.4	3.9	2.8	3.7	4.6	4.7	*4.3*	3.9	*3.9*	3.0	*:*	2.7
Austria	3.9	4.0	4.7	4.2	4.3	4.8	5.2	*5.2*	5.1	*5.2*	5.1	*:*	5.1
Portugal	6.3	4.9	6.6	5.0	6.3	6.7	7.6	*8.1*	7.6	*8.3*	7.7	*:*	7.7
Slovenia	:	6.9	6.4	6.3	6.7	6.3	6.5	*6.3*	6.1	*6.3*	6.1	*:*	6.0
Finland	14.9	10.6	8.6	9.1	9.0	8.8	8.4	*7.9*	7.7	*7.6*	7.4	*:*	7.3
Euro area	:	9.2	8.5	8.3	8.7	8.9	8.6	*8.4*	8.0	*8.2*	7.7	*:*	7.4
Czech Republic	:	7.7	7.7	7.3	7.8	8.3	7.9	*7.7*	7.4	*7.6*	7.1	*:*	6.9
Denmark	7.8	4.8	4.8	4.6	5.4	5.5	4.8	*4.0*	3.8	*3.8*	3.5	*:*	3.5
Estonia	7.5	11.1	8.7	10.3	10.0	9.7	7.9	*7.0*	5.4	*6.3*	3.8	*:*	3.1
Cyprus	:	3.9	4.6	3.6	4.1	4.6	5.3	*5.4*	5.4	*5.4*	5.5	*:*	5.6
Latvia	13.8	14.0	9.9	12.2	10.5	10.4	8.9	*8.4*	7.4	*7.9*	7.2	*:*	7.0
Lithuania	5.0	13.3	10.3	13.5	12.4	11.4	8.3	*7.1*	5.9	*6.5*	5.2	*:*	5.2
Hungary	10.3	7.3	6.5	5.8	5.9	6.1	7.2	*7.7*	7.3	*7.6*	7.7	*:*	7.7
Malta	5.2	6.8	7.4	7.5	7.6	7.4	7.3	*7.4*	7.0	*7.4*	7.0	*:*	6.9
Poland	13.6	13.8	18.0	19.9	19.6	19.0	17.7	*16.2*	13.9	*15.2*	12.2	*:*	11.6
Slovakia	:	15.8	17.0	18.7	17.6	18.2	16.3	*15.5*	14.3	*14.8*	13.3	*:*	12.9
Sweden	8.5	7.1	6.4	4.9	5.6	6.3	7.8	*7.0*	7.3	*6.7*	7.4	*:*	7.1
United Kingdom	9.1	5.8	4.9	5.1	4.9	4.7	4.7	*5.0*	5.3	*4.8*	5.0	*:*	4.8
EU25	:	9.1	8.7	8.8	9.0	9.1	8.8	*8.5*	8.0	*8.2*	7.6	*:*	7.3
Bulgaria	11.3	14.2	12.6	18.1	13.7	12.0	10.1	*9.0*	8.9	*8.3*	7.7	*:*	7.0
Romania	5.8	6.1	7.4	7.5	6.8	7.6	7.7	*7.8*	7.6	*7.6*	7.5	*:*	7.6
USA	6.3	4.5	5.4	5.8	6.0	5.5	5.1	*4.8*	4.7	*5.1*	5.1	*:*	5.4
Japan	2.8	4.4	4.8	5.4	5.3	4.7	4.4	*4.3*	4.3	*4.3*	4.3	*:*	4.3

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

TABLE 29 : Nominal bilateral exchange rates against Ecu/euro (1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	39.91	40.43	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Germany	1.93	1.96	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Greece	282.43	328.65	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Spain	152.86	166.45	:	:	:	:	:	*:*	:	*:*	:	*:*	:
France	6.62	6.58	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Ireland	0.79	0.78	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Italy	1888.18	1936.35	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Luxembourg	39.91	40.43	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Netherlands	2.17	2.21	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Austria	13.60	13.79	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Portugal	190.37	200.35	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Slovenia	143.42	197.20	235.62	225.98	233.85	239.09	239.57	*239.61*	239.60	*:*	:	*:*	:
Finland	6.05	5.94	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Euro area	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Czech Republic	34.86	35.71	30.54	30.80	31.85	31.89	29.78	*28.52*	28.39	*28.32*	28.31	*:*	28.47
Denmark	7.53	7.46	7.44	7.43	7.43	7.44	7.45	*7.46*	7.46	*7.46*	7.46	*:*	7.46
Estonia	15.36	15.68	15.65	15.65	15.65	15.65	15.65	*15.65*	15.65	*15.65*	15.65	*:*	15.65
Cyprus	0.59	0.58	0.58	0.58	0.58	0.58	0.58	*0.58*	0.58	*0.59*	0.59	*:*	0.59
Latvia	0.75	0.61	0.66	0.58	0.64	0.67	0.70	*0.70*	0.70	*0.70*	0.70	*:*	0.70
Lithuania	4.45	4.11	3.45	3.46	3.45	3.45	3.45	*3.45*	3.45	*3.45*	3.45	*:*	3.45
Hungary	152.74	244.33	252.65	242.96	253.62	251.66	248.05	*263.20*	266.94	*267.08*	276.26	*:*	280.32
Malta	0.45	0.42	0.42	0.41	0.43	0.43	0.43	*0.43*	0.43	*0.43*	0.43	*:*	0.43
Poland	2.88	3.91	4.15	3.86	4.40	4.53	4.02	*3.91*	3.92	*3.93*	3.92	*:*	3.92
Slovakia	:	41.54	40.06	42.69	41.49	40.02	38.60	*38.20*	37.52	*38.46*	38.46	*:*	38.46
Sweden	8.73	8.81	9.20	9.16	9.12	9.12	9.28	*9.35*	9.29	*9.34*	9.28	*:*	9.29
United Kingdom	0.79	0.65	0.67	0.63	0.69	0.68	0.68	*0.69*	0.68	*0.70*	0.68	*:*	0.68
EU25	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Bulgaria	0.09	1.95	1.95	1.95	1.95	1.95	1.96	*1.96*	1.96	*1.96*	1.96	*:*	1.96
Romania	0.20	1.61	3.62	3.13	3.76	4.05	3.62	*3.56*	3.54	*3.73*	3.66	*:*	3.84
USA	1.25	1.03	1.16	0.95	1.13	1.24	1.24	*1.22*	1.25	*1.22*	1.27	*:*	1.27
Japan	135.36	122.59	133.16	118.06	130.97	134.44	136.85	*142.45*	145.49	*141.13*	147.56	*:*	144.61

TABLE 30 : Nominal effective exchange rates to rest of a group [1] of industrialised countries (percentage change on preceding year, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	:	-1.1	1.4	1.2	4.5	1.1	-0.3	*0.0*	0.3	*0.2*	0.3	*:*	0.1
Germany	:	-1.1	1.8	1.7	5.9	1.7	-0.6	*0.0*	0.5	*0.2*	0.6	*:*	0.1
Greece	:	0.2	1.7	2.5	5.0	1.3	-0.8	*-0.1*	0.6	*0.4*	0.8	*:*	0.4
Spain	:	-1.1	1.4	1.4	4.4	1.1	-0.4	*0.0*	0.4	*0.3*	0.4	*:*	0.1
France	:	-1.0	1.7	1.7	5.3	1.4	-0.3	*0.1*	0.5	*0.2*	0.5	*:*	0.1
Ireland	:	-1.9	2.4	2.0	7.3	2.3	-0.1	*-0.1*	0.5	*0.3*	0.4	*:*	0.1
Italy	:	0.1	1.9	2.1	5.7	1.7	-0.6	*-0.1*	0.5	*0.3*	0.6	*:*	0.1
Luxembourg	:	-1.1	1.4	1.2	4.5	1.1	-0.3	*0.0*	0.3	*0.2*	0.3	*:*	0.1
Netherlands	:	-1.0	1.2	1.1	3.9	0.9	-0.3	*0.1*	0.3	*0.2*	0.3	*:*	0.1
Austria	:	-0.1	1.1	0.9	3.7	1.0	-0.7	*0.0*	0.3	*0.2*	0.5	*:*	0.1
Portugal	:	-1.1	1.1	0.9	3.5	0.8	-0.2	*0.0*	0.2	*0.2*	0.3	*:*	0.1
Slovenia	:	-3.9	-1.1	-2.7	-0.6	-1.4	-1.1	*-0.1*	0.2	*0.2*	0.4	*:*	0.2
Finland	:	-1.1	1.7	1.6	5.4	1.6	-0.4	*0.0*	0.5	*0.2*	0.5	*:*	0.0
Euro area	:	-1.5	3.2	3.0	10.9	2.9	-1.4	*0.0*	0.8	*0.5*	1.1	*:*	0.3
Czech Republic	:	0.8	4.5	11.6	-0.3	0.4	6.2	*4.4*	5.1	*0.9*	0.7	*:*	-0.5
Denmark	:	-1.0	1.4	1.4	4.7	1.2	-0.5	*0.0*	0.3	*0.1*	0.4	*:*	0.0
Estonia	:	-0.4	1.0	0.6	3.2	0.9	-0.1	*0.1*	0.3	*0.1*	0.4	*:*	0.0
Cyprus	:	5.3	1.7	1.9	4.2	0.8	0.7	*-1.2*	0.6	*0.3*	-1.5	*:*	0.1
Latvia	:	4.3	-3.4	-3.0	-5.9	-3.2	-5.0	*-0.9*	0.1	*0.3*	-0.7	*:*	0.1
Lithuania	:	8.3	2.1	5.1	5.0	1.1	-0.5	*0.1*	0.1	*0.1*	0.5	*:*	0.1
Hungary	:	-4.7	0.1	6.9	-1.2	1.5	0.7	*-6.0*	-7.1	*-1.2*	-3.0	*:*	-1.2
Malta	:	0.2	1.4	1.1	3.4	1.9	-0.4	*0.4*	0.9	*0.2*	0.5	*:*	0.0
Poland	:	-1.1	-0.6	-4.3	-10.1	-2.3	12.1	*2.7*	3.0	*-0.2*	0.4	*:*	0.1
Slovakia	:	-1.4	3.4	1.5	5.8	4.6	2.5	*0.7*	2.9	*-0.5*	-2.1	*:*	0.2
Sweden	:	-2.6	1.7	2.4	6.2	2.1	-2.4	*-0.9*	0.3	*0.2*	0.7	*:*	-0.2
United Kingdom	:	4.6	0.2	1.0	-3.9	4.5	-1.2	*-1.8*	0.8	*-0.9*	1.4	*:*	-0.7
EU25	:	0.4	5.0	5.7	12.7	6.3	-1.2	*-0.6*	1.9	*0.4*	2.1	*:*	0.1
Bulgaria	:	-32.4	1.7	3.2	4.7	1.2	-1.2	*-0.2*	0.8	*0.6*	1.0	*:*	0.5
Romania	:	-30.2	-4.8	-15.3	-13.8	-6.6	11.2	*1.6*	3.2	*-4.1*	-2.5	*:*	-4.5
USA	:	5.0	-3.8	-0.9	-9.0	-6.5	-2.0	*1.4*	-0.5	*0.1*	-0.7	*:*	-0.3
Japan	:	1.5	-2.4	-5.1	-0.3	1.6	-2.4	*-4.8*	-5.7	*1.4*	-0.6	*:*	2.3

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

TABLE 31 : Relative unit labour costs, to rest of a group [1] of industrialised countries (nat. curr.) (percentage change on preceding year, 19 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	:	-0.7	-0.5	-0.1	-1.4	-1.2	1.0	*-0.2*	-0.7	*-0.3*	-0.8	*:*	:
Germany	:	-2.9	-2.1	-1.5	-1.2	-1.3	-2.8	*-2.4*	-3.7	*-2.7*	-2.1	*:*	:
Greece	:	-1.7	1.3	2.8	-1.9	2.4	1.9	*1.8*	1.2	*1.1*	0.4	*:*	:
Spain	:	-0.3	0.7	0.5	0.6	1.3	0.5	*1.3*	0.7	*1.1*	0.7	*:*	:
France	:	-1.7	0.2	0.8	-0.4	0.0	0.4	*0.4*	0.2	*0.3*	0.0	*:*	:
Ireland	:	-0.4	1.8	-0.4	0.8	4.5	2.4	*1.4*	2.0	*0.6*	0.4	*:*	:
Italy	:	-2.1	1.4	1.4	2.3	1.4	0.9	*-0.2*	0.8	*0.1*	0.1	*:*	:
Luxembourg	:	-0.7	-0.5	-0.1	-1.4	-1.2	1.0	*-0.2*	-0.7	*-0.3*	-0.8	*:*	:
Netherlands	:	0.6	0.0	2.8	0.8	-0.6	-1.7	*-0.8*	-1.1	*-0.3*	0.0	*:*	:
Austria	:	-2.5	-0.9	-1.2	-1.0	-1.3	-0.3	*0.3*	-0.6	*0.4*	-0.9	*:*	:
Portugal	:	1.8	1.0	1.8	1.7	0.1	1.1	*0.4*	0.5	*0.1*	0.0	*:*	:
Slovenia	:	3.4	1.6	4.0	1.3	2.6	0.3	*0.2*	0.1	*0.1*	0.4	*:*	:
Finland	:	-1.7	-0.6	-0.7	-0.7	-0.4	0.6	*-0.8*	-2.1	*-1.0*	-1.7	*:*	:
Euro area	:	-4.0	-0.9	0.2	-0.4	-0.5	-1.5	*-1.3*	-2.5	*-1.5*	-1.6	*:*	:
Czech Republic	:	2.8	1.0	4.0	1.7	1.1	-1.1	*-0.9*	-0.6	*-0.1*	0.4	*:*	:
Denmark	:	0.1	0.4	1.5	0.0	0.3	-0.1	*-0.3*	0.5	*0.3*	0.4	*:*	:
Estonia	:	2.4	2.6	0.6	5.1	3.4	1.0	*1.9*	3.1	*2.1*	1.9	*:*	:
Cyprus	:	-6.4	1.3	2.5	6.6	-0.7	-0.7	*-0.5*	-0.8	*-0.5*	-0.8	*:*	:
Latvia	:	-1.9	3.5	-2.7	3.5	5.5	4.3	*5.5*	7.3	*3.3*	4.6	*:*	:
Lithuania	:	-2.2	1.8	0.2	-1.5	2.2	2.0	*1.1*	6.1	*0.4*	5.1	*:*	:
Hungary	:	7.3	3.4	5.7	4.3	4.7	0.8	*-0.2*	1.4	*-0.7*	2.4	*:*	:
Malta	:	-0.3	0.8	0.0	5.9	0.6	-1.5	*0.3*	-1.1	*0.3*	-1.0	*:*	:
Poland	:	5.2	-2.7	-4.4	-5.2	-2.9	-1.6	*1.3*	0.8	*1.3*	-0.1	*:*	:
Slovakia	:	3.1	2.0	2.0	3.5	2.4	-0.3	*1.5*	2.6	*0.1*	0.1	*:*	:
Sweden	:	-0.5	-0.8	-0.8	-0.8	-1.5	-0.1	*0.4*	-0.7	*0.6*	0.0	*:*	:
United Kingdom	:	0.8	1.2	0.0	1.3	1.1	2.3	*0.8*	1.2	*0.7*	0.7	*:*	:
EU25	:	-4.9	-0.8	0.2	-0.2	-0.2	-1.3	*-1.2*	-2.5	*-1.4*	-1.6	*:*	:
Bulgaria	:	61.7	0.3	-4.0	-1.0	0.8	3.1	*2.7*	2.6	*2.2*	2.2	*:*	:
Romania	:	60.9	12.6	12.9	13.6	11.3	19.2	*6.5*	6.4	*4.1*	5.8	*:*	:
USA	:	-0.7	0.4	-0.1	-0.8	0.5	0.1	*0.6*	2.6	*0.6*	1.7	*:*	:
Japan	:	-3.6	-4.5	-4.8	-5.4	-4.7	-3.4	*-3.3*	-4.1	*-2.8*	-3.1	*:*	:

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

TABLE 32 : Real effective exchange rate : ulc relative to rest of a group [1] of industrialised countries (usd) (% change on preceding year, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	:	-1.8	0.9	1.2	3.1	-0.1	0.7	*-0.2*	-0.4	*-0.1*	-0.5	*:*	:
Germany	:	-3.9	-0.3	0.2	4.7	0.4	-3.4	*-2.4*	-3.2	*-2.4*	-1.6	*:*	:
Greece	:	-1.5	3.0	5.4	3.0	3.7	1.1	*1.7*	1.8	*1.6*	1.2	*:*	:
Spain	:	-1.4	2.1	1.9	5.0	2.4	0.1	*1.3*	1.1	*1.4*	1.2	*:*	:
France	:	-2.7	1.9	2.6	4.9	1.4	0.0	*0.5*	0.8	*0.6*	0.4	*:*	:
Ireland	:	-2.3	4.2	1.6	8.1	6.9	2.4	*1.3*	2.5	*0.9*	0.8	*:*	:
Italy	:	-2.0	3.2	3.5	8.1	3.1	0.3	*-0.2*	1.4	*0.4*	0.7	*:*	:
Luxembourg	:	-1.8	0.9	1.2	3.1	-0.1	0.7	*-0.2*	-0.4	*-0.1*	-0.5	*:*	:
Netherlands	:	-0.4	1.2	3.9	4.8	0.3	-2.0	*-0.8*	-0.8	*-0.1*	0.3	*:*	:
Austria	:	-2.6	0.2	-0.2	2.6	-0.3	-1.0	*0.4*	-0.2	*0.6*	-0.5	*:*	:
Portugal	:	0.7	2.1	2.7	5.3	1.0	0.9	*0.4*	0.8	*0.3*	0.3	*:*	:
Slovenia	:	-0.7	0.5	1.2	0.7	1.2	-0.8	*0.1*	0.2	*0.3*	0.8	*:*	:
Finland	:	-2.7	1.1	0.9	4.6	1.2	0.2	*-0.8*	-1.6	*-0.8*	-1.2	*:*	:
Euro area	:	-5.5	2.2	3.2	10.4	2.3	-2.8	*-1.3*	-1.8	*-0.9*	-0.6	*:*	:
Czech Republic	:	3.7	5.5	16.0	1.4	1.5	5.0	*3.5*	4.5	*0.9*	1.1	*:*	:
Denmark	:	-0.9	1.8	2.8	4.7	1.6	-0.6	*-0.3*	0.7	*0.4*	0.8	*:*	:
Estonia	:	2.0	3.6	1.2	8.5	4.4	0.8	*2.0*	3.4	*2.2*	2.3	*:*	:
Cyprus	:	-1.4	3.0	4.5	11.1	0.2	0.0	*-1.7*	-0.2	*-0.1*	-2.2	*:*	:
Latvia	:	2.4	0.0	-5.6	-2.6	2.2	-1.0	*4.6*	7.4	*3.6*	3.8	*:*	:
Lithuania	:	5.9	3.9	5.4	3.4	3.3	1.4	*1.2*	6.2	*0.5*	5.6	*:*	:
Hungary	:	2.3	3.4	13.0	3.1	6.3	1.5	*-6.2*	-5.8	*-1.9*	-0.7	*:*	:
Malta	:	0.0	2.1	1.1	9.5	2.6	-1.9	*0.7*	-0.3	*0.6*	-0.4	*:*	:
Poland	:	4.0	-3.2	-8.5	-14.7	-5.1	10.3	*4.0*	3.9	*1.1*	0.3	*:*	:
Slovakia	:	1.7	5.5	3.5	9.5	7.1	2.2	*2.2*	5.6	*-0.5*	-2.0	*:*	:
Sweden	:	-3.0	0.9	1.6	5.4	0.6	-2.4	*-0.5*	-0.4	*0.8*	0.8	*:*	:
United Kingdom	:	5.5	1.4	1.0	-2.7	5.7	1.1	*-1.0*	2.1	*-0.2*	2.2	*:*	:
EU25	:	-4.5	4.2	5.9	12.6	6.1	-2.4	*-1.9*	-0.6	*-1.1*	0.4	*:*	:
Bulgaria	:	9.3	2.0	-1.0	3.6	2.0	1.8	*2.5*	3.5	*2.8*	3.3	*:*	:
Romania	:	12.3	7.2	-4.4	-2.1	3.9	32.5	*8.2*	9.8	*-0.2*	3.1	*:*	:
USA	:	4.2	-3.4	-1.0	-9.8	-6.1	-1.9	*2.1*	2.1	*0.7*	1.0	*:*	:
Japan	:	-2.2	-6.8	-9.7	-5.7	-3.2	-5.7	*-7.9*	-9.5	*-1.4*	-3.6	*:*	:

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

TABLE 33 : Short term interest rates (1992-2006) 24.10.2006

	5-year averages												
	1992-96	1997-01	2002-06	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	6.2	3.7	2.6	3.4	3.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1
Germany	6.0	3.7	2.6	3.3	3.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1
Greece	20.3	9.8	2.6	12.8	14.0	10.1	7.7	4.3	3.3	2.3	2.1	2.2	3.1
Spain	10.0	4.2	2.6	5.4	4.3	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1
France	7.1	3.7	2.6	3.5	3.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1
Ireland	7.8	4.6	2.6	6.1	5.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1
Italy	10.3	4.7	2.6	6.8	4.9	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1
Luxembourg	6.2	3.7	2.6	3.4	3.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1
Netherlands	5.7	3.7	2.6	3.3	3.4	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1
Austria	5.9	3.7	2.6	3.5	3.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1
Portugal	11.5	4.3	2.6	5.7	4.3	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1
Slovenia	:	:	5.3	:	10.3	8.6	10.9	10.9	8.0	6.8	4.7	4.0	3.1
Finland	7.1	3.7	2.6	3.2	3.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1
Euro area	:	:	2.6	:	4.2	3.1	4.5	4.3	3.3	2.3	2.1	2.2	3.1
Czech Republic	:	9.5	2.5	16.0	14.3	6.9	5.4	5.2	3.5	2.3	2.4	2.0	2.3
Denmark	7.8	4.2	2.7	3.7	4.3	3.4	5.0	4.7	3.5	2.4	2.2	2.2	3.2
Estonia	:	8.3	3.0	8.6	13.9	7.8	5.7	5.3	3.9	2.9	2.5	2.4	3.2
Cyprus	:	:	4.2	:	:	6.3	6.4	5.9	4.4	3.9	4.7	4.3	3.6
Latvia	:	7.0	4.0	6.0	8.4	8.4	5.4	6.9	4.4	3.8	4.2	3.1	4.5
Lithuania	:	:	3.0	:	:	13.9	8.6	5.9	3.7	2.8	2.7	2.4	3.1
Hungary	:	15.1	8.6	20.4	17.9	15.1	11.4	10.9	9.2	8.5	11.5	6.7	6.9
Malta	:	5.1	3.4	5.1	5.4	5.2	4.9	4.9	4.0	3.3	2.9	3.2	3.6
Poland	:	18.7	6.1	23.7	20.4	14.7	18.8	16.1	9.0	5.7	6.2	5.3	4.2
Slovakia	:	15.0	5.2	21.8	21.1	15.7	8.6	7.8	7.8	6.2	4.7	2.9	4.3
Sweden	8.9	4.1	2.8	4.4	4.4	3.3	4.1	4.1	4.3	3.2	2.3	1.9	2.5
United Kingdom	6.8	6.2	4.4	6.9	7.4	5.6	6.2	*5.0*	4.1	*3.7*	4.6	*4.8*	4.8
EU25	:	:	3.1	:	:	4.2	5.4	*5.0*	3.8	*2.8*	2.8	*2.8*	3.4
Bulgaria	:	:	3.6	:	5.9	5.9	4.6	*5.1*	4.9	*3.6*	3.3	*2.9*	3.1
Romania	:	64.4	16.0	80.8	69.5	79.6	50.7	*41.3*	27.3	*17.7*	19.1	*8.4*	7.2
USA	4.7	5.4	2.7	5.8	5.6	5.4	6.5	*3.8*	1.8	*1.2*	1.6	*3.6*	5.2
Japan	2.3	0.4	0.1	0.6	0.7	0.2	0.3	*0.2*	0.1	*0.1*	0.1	*0.1*	0.3

TABLE 34 : Long term interest rates (1992-2006)

	5-year averages												
	1992-96	1997-01	2002-06	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	7.5	5.2	4.1	5.8	4.8	4.8	5.6	5.1	5.0	4.2	4.2	3.4	3.8
Germany	6.9	5.0	4.0	5.6	4.6	4.5	5.3	4.8	4.8	4.1	4.0	3.4	3.8
Greece	:	7.2	4.3	9.9	8.5	6.3	6.1	5.3	5.1	4.3	4.3	3.6	4.1
Spain	10.4	5.3	4.1	6.4	4.8	4.7	5.5	5.1	5.0	4.1	4.1	3.4	3.8
France	7.3	5.0	4.1	5.6	4.6	4.6	5.4	4.9	4.9	4.1	4.1	3.4	3.8
Ireland	8.0	5.3	4.1	6.3	4.8	4.7	5.5	5.0	5.0	4.1	4.1	3.3	3.7
Italy	11.3	5.4	4.2	6.9	4.9	4.7	5.6	5.2	5.0	4.3	4.3	3.6	4.1
Luxembourg	7.1	5.1	4.0	5.6	4.7	4.7	5.5	4.9	4.7	4.0	4.2	3.4	3.9
Netherlands	6.9	5.0	4.1	5.6	4.6	4.6	5.4	5.0	4.9	4.1	4.1	3.4	3.8
Austria	7.1	5.1	4.1	5.7	4.7	4.7	5.6	5.1	5.0	4.2	4.2	3.4	3.8
Portugal	11.1	5.4	4.1	6.4	4.9	4.8	5.6	5.2	5.0	4.2	4.1	3.4	3.9
Slovenia	:	:	:	:	:	:	:	:	:	6.4	4.7	3.8	3.9
Finland	9.1	5.2	4.1	6.0	4.8	4.7	5.5	5.0	5.0	4.1	4.1	3.4	3.8
Euro area	:	:	:	:	:	:	:	:	:	4.2	4.1	3.4	3.8
Czech Republic	:	:	4.2	:	:	:	6.9	6.3	4.9	4.1	4.8	3.5	3.8
Denmark	7.9	5.4	4.2	6.3	4.9	4.9	5.6	5.1	5.1	4.3	4.3	3.4	3.8
Estonia	:	:	5.2	:	13.2	11.4	10.5	10.2	8.4	5.3	4.4	4.0	4.2
Cyprus	:	7.2	5.1	6.9	6.7	7.4	7.6	7.6	5.7	4.7	5.8	5.2	4.2
Latvia	:	:	4.6	:	:	:	:	7.6	5.4	4.9	4.9	3.9	4.0
Lithuania	:	:	4.7	:	:	:	:	8.2	6.1	5.3	4.5	3.7	4.1
Hungary	:	:	7.2	:	:	9.9	8.6	8.0	7.1	6.8	8.2	6.6	7.3
Malta	:	:	4.9	:	:	:	5.8	6.2	5.8	5.0	4.7	4.6	4.3
Poland	:	:	6.1	:	:	9.5	11.8	10.7	7.4	5.8	6.9	5.2	5.3
Slovakia	:	:	5.0	:	:	:	8.3	8.0	6.9	5.0	5.0	3.5	4.5
Sweden	9.3	5.4	4.3	6.6	5.0	5.0	5.4	5.1	5.3	4.6	4.4	3.4	3.7
United Kingdom	8.2	5.6	4.7	7.1	5.6	5.0	5.3	*5.0*	4.9	*4.6*	4.9	*4.5*	4.4
EU25	:	:	:	:	:	:	:	*:*	:	*4.3*	4.4	*3.7*	4.0
Bulgaria	:	:	5.6	:	:	:	:	*:*	8.3	*6.4*	5.3	*3.8*	4.5
Romania	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	7.3
USA	6.7	5.7	4.4	6.5	5.3	5.6	6.0	*5.0*	4.6	*4.0*	4.3	*4.3*	4.8
Japan	4.0	1.7	1.4	2.2	1.3	1.8	1.8	*1.3*	1.3	*1.0*	1.5	*1.4*	1.8

TABLE 35 : Total expenditure, general government (as a percentage of GDP, 1992-2008) [1] 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	IV-2006	X-2006	IV-2006	X-2006	IV-2006	X-2006
Belgium	52.7	49.9	49.8	49.8	51.1	49.2	52.2	49.6	47.0	49.4	46.8	:	46.4
Germany	47.8	47.4	47.3	48.1	48.5	47.1	46.8	46.1	45.8	45.5	45.2	:	44.8
Greece	48.5	50.0	48.0	49.1	49.1	49.9	46.8	44.9	44.9	44.9	44.7	:	44.4
Spain	44.6	39.9	38.4	38.7	38.2	38.7	38.2	38.3	38.2	38.5	38.3	:	38.5
France	53.3	52.4	53.3	52.6	53.3	53.2	53.7	54.0	53.5	53.8	53.1	:	52.8
Ireland	39.4	34.2	34.0	33.6	33.5	34.0	34.1	34.9	35.0	35.1	35.0	:	35.4
Italy	53.2	48.3	48.2	47.2	48.3	47.7	48.1	48.1	49.5	48.4	48.6	:	48.6
Luxembourg	:	39.3	42.6	41.4	42.3	43.1	43.2	44.0	43.1	43.8	41.9	:	41.4
Netherlands	52.0	45.9	46.3	46.2	47.1	46.3	45.4	47.7	46.6	47.1	46.2	:	45.7
Austria	53.3	52.2	50.0	50.5	50.9	50.2	49.8	48.6	48.8	48.2	48.3	:	47.7
Portugal	41.2	43.0	46.3	44.2	45.8	46.6	47.8	48.0	47.1	48.0	46.6	:	46.4
Slovenia	:	:	47.7	48.0	48.0	47.4	47.2	47.3	48.0	47.0	47.0	:	46.4
Finland	59.9	51.3	49.5	48.8	49.9	50.1	49.9	49.9	48.6	49.6	48.0	:	47.8
Euro area	:	:	47.6	47.7	48.2	47.6	47.6	47.4	47.2	47.1	46.7	:	46.5
Czech Republic	:	43.0	45.1	46.3	47.3	44.4	44.1	44.1	43.6	43.9	43.8	:	43.8
Denmark	59.0	55.1	53.5	54.5	54.6	54.4	52.5	50.8	51.3	49.8	50.3	:	49.4
Estonia	:	38.0	34.1	35.6	35.3	34.2	33.2	35.8	32.3	35.9	31.5	:	30.9
Cyprus	:	:	43.6	40.3	45.1	42.9	43.6	43.9	45.9	43.8	46.0	:	46.0
Latvia	:	38.2	36.3	35.6	34.6	35.8	36.0	37.1	39.5	37.1	39.3	:	38.8
Lithuania	:	41.0	33.7	34.4	33.2	33.3	33.6	32.6	34.0	31.7	33.0	:	31.9
Hungary	:	48.7	50.1	51.2	49.1	48.8	49.9	49.8	51.7	49.2	50.3	:	48.6
Malta	:	:	46.8	43.5	48.6	47.7	47.4	45.3	47.0	43.4	47.1	:	47.3
Poland	:	43.7	43.7	44.2	44.6	42.6	43.3	44.6	44.0	43.7	44.4	:	43.6
Slovakia	:	47.3	39.0	43.3	39.4	38.9	37.1	35.7	36.5	34.6	35.4	:	35.0
Sweden	65.7	59.2	56.7	57.5	57.8	56.4	56.0	55.9	55.6	55.5	54.2	:	53.5
United Kingdom	42.8	39.4	43.1	41.2	42.8	43.0	44.0	45.2	44.6	45.5	44.6	:	44.6
EU25	:	:	47.1	46.8	47.5	47.0	47.1	47.1	47.2	46.9	46.7	:	46.4
Bulgaria	:	:	38.0	37.8	38.5	38.0	38.7	39.1	37.3	40.7	38.0	:	37.8
Romania	:	:	38.6	39.6	38.1	38.3	38.2	19.0	38.8	19.2	39.8	:	40.4
USA	35.9	33.1	34.6	34.4	34.8	34.5	34.8	34.7	34.5	35.1	34.8	:	35.1
Japan	34.9	40.5	39.7	40.7	40.3	39.2	39.5	38.8	38.7	38.5	38.7	:	38.8

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

TABLE 36 : Total revenue, general government (as a percentage of GDP, 1992-2008) [1]

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	IV-2006	X-2006	IV-2006	X-2006	IV-2006	X-2006
Belgium	47.4	49.3	49.4	49.8	51.1	49.2	49.9	49.3	46.8	48.5	46.3	:	45.9
Germany	44.8	45.9	43.9	44.4	44.5	43.4	43.5	43.1	43.5	43.0	43.6	:	43.6
Greece	37.8	45.3	42.6	43.9	43.0	42.1	41.6	41.9	42.2	41.3	42.1	:	42.0
Spain	39.1	38.1	38.8	38.4	38.2	38.6	39.4	39.3	39.6	38.8	39.5	:	39.3
France	48.4	50.4	50.0	49.5	49.2	49.6	50.9	51.0	50.8	50.7	50.5	:	50.6
Ireland	37.7	36.6	34.8	33.2	33.9	35.5	35.2	35.1	36.1	34.7	35.9	:	35.7
Italy	44.9	46.1	44.5	44.4	44.8	44.3	44.0	44.0	44.9	43.8	45.7	:	45.5
Luxembourg	:	43.8	42.4	43.5	42.5	42.1	42.2	42.2	41.6	42.3	41.5	:	41.1
Netherlands	48.6	46.0	44.9	44.2	43.9	44.5	45.2	46.5	46.5	46.4	46.3	:	46.0
Austria	49.2	50.7	48.8	50.0	49.3	49.0	48.3	46.6	47.6	46.8	47.2	:	46.7
Portugal	36.4	39.7	42.4	41.4	42.9	43.5	41.7	43.0	42.5	43.1	42.5	:	42.5
Slovenia	:	:	45.6	45.5	45.3	45.1	45.8	45.5	46.4	45.3	45.4	:	44.8
Finland	54.0	54.1	52.4	52.9	52.4	52.4	52.6	52.7	51.5	52.1	50.9	:	50.7
Euro area	:	:	45.1	45.1	45.1	44.8	45.1	45.0	45.2	44.8	45.2	:	45.1
Czech Republic	:	38.6	40.5	39.5	40.7	41.5	40.4	40.8	40.1	40.4	40.2	:	40.5
Denmark	56.9	57.0	56.2	55.7	55.6	57.2	57.4	54.7	55.3	53.8	54.6	:	53.6
Estonia	:	37.4	36.0	36.0	37.4	36.6	35.5	37.3	34.8	36.8	33.1	:	32.1
Cyprus	:	:	39.8	35.9	38.8	38.8	41.2	41.8	44.0	41.8	44.3	:	44.3
Latvia	:	36.3	35.3	33.4	33.5	34.9	36.2	36.1	38.5	36.1	38.1	:	37.6
Lithuania	:	36.4	32.5	32.9	31.9	31.8	33.0	32.0	33.0	30.7	31.7	:	30.6
Hungary	:	43.7	42.0	42.2	41.9	42.4	42.1	43.1	41.6	42.2	42.9	:	43.0
Malta	:	:	41.5	38.0	38.6	42.6	44.2	42.4	44.2	40.2	44.4	:	44.4
Poland	:	40.5	40.5	41.0	39.9	38.7	40.9	41.6	41.8	40.7	42.3	:	41.8
Slovakia	:	40.0	34.8	35.7	35.6	35.9	33.9	33.0	33.1	32.5	32.4	:	32.1
Sweden	58.1	61.3	58.2	57.3	57.9	58.2	59.0	58.2	58.4	57.7	56.6	:	56.0
United Kingdom	36.7	40.2	40.2	39.5	39.5	39.8	40.8	42.2	41.7	42.7	41.8	:	42.1
EU25	:	:	44.6	44.5	44.5	44.3	44.8	44.9	45.2	44.7	45.1	:	45.0
Bulgaria	:	:	39.7	37.4	38.9	40.7	41.1	42.1	40.6	42.5	39.7	:	39.5
Romania	:	:	37.0	37.6	36.5	36.8	36.8	16.7	37.5	13.8	37.1	:	37.8
USA	31.7	33.5	30.8	30.6	30.0	29.9	31.1	30.7	32.3	30.7	32.3	:	32.3
Japan	32.5	33.2	32.8	32.6	32.3	32.9	33.0	33.0	33.2	33.1	33.5	:	34.1

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

TABLE 37 : Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1992-2008) [1] 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	-5.3	-0.5	-0.5	0.0	0.0	0.0	-2.3	*-0.3*	-0.2	*-0.9*	-0.5	*:*	-0.5
Germany	-3.0	-1.6	-3.4	-3.7	-4.0	-3.7	-3.2	*-3.1*	-2.3	*-2.5*	-1.6	*:*	-1.2
Greece	-10.7	-4.7	-5.4	-5.2	-6.1	-7.8	-5.2	*-3.0*	-2.6	*-3.6*	-2.6	*:*	-2.4
Spain	-5.6	-1.8	0.4	-0.3	0.0	-0.2	1.1	*0.9*	1.5	*0.4*	1.1	*:*	0.9
France	-4.9	-2.1	-3.3	-3.2	-4.2	-3.7	-2.9	*-3.0*	-2.7	*-3.1*	-2.6	*:*	-2.2
Ireland	-1.6	2.3	0.7	-0.4	0.3	1.5	1.1	*0.1*	1.2	*-0.4*	0.9	*:*	0.4
Italy	-8.3	-2.2	-3.7	-2.9	-3.5	-3.4	-4.1	*-4.1*	-4.7	*-4.5*	-2.9	*:*	-3.1
Luxembourg	1.6	4.5	-0.2	2.1	0.3	-1.1	-1.0	*-1.8*	-1.5	*-1.5*	-0.5	*:*	-0.3
Netherlands	-3.3	0.0	-1.4	-2.0	-3.1	-1.8	-0.3	*-1.2*	0.0	*-0.7*	0.1	*:*	0.3
Austria	-4.1	-1.5	-1.2	-0.5	-1.6	-1.2	-1.5	*-1.9*	-1.3	*-1.4*	-1.2	*:*	-1.0
Portugal	-4.7	-3.3	-3.9	-2.9	-2.9	-3.2	-6.0	*-5.0*	-4.6	*-4.9*	-4.0	*:*	-3.9
Slovenia	:	:	-2.1	-2.5	-2.8	-2.3	-1.4	*-1.9*	-1.6	*-1.6*	-1.6	*:*	-1.5
Finland	-5.8	2.8	2.9	4.1	2.5	2.3	2.7	*2.8*	2.9	*2.5*	2.9	*:*	2.9
Euro area	:	:	-2.6	-2.5	-3.1	-2.8	-2.4	*-2.4*	-2.0	*-2.3*	-1.5	*:*	-1.3
Czech Republic	:	-4.4	-4.7	-6.8	-6.6	-2.9	-3.6	*-3.2*	-3.5	*-3.4*	-3.6	*:*	-3.2
Denmark	-2.1	1.8	2.8	1.2	1.1	2.7	4.9	*3.9*	4.0	*4.0*	4.3	*:*	4.2
Estonia	:	-0.6	1.9	0.4	2.0	2.3	2.3	*1.4*	2.5	*0.8*	1.6	*:*	1.3
Cyprus	:	:	-3.8	-4.4	-6.3	-4.1	-2.3	*-2.1*	-1.9	*-2.0*	-1.7	*:*	-1.7
Latvia	:	-1.9	-1.1	-2.3	-1.2	-0.9	0.1	*-1.0*	-1.0	*-1.0*	-1.2	*:*	-1.2
Lithuania	:	-4.6	-1.1	-1.5	-1.3	-1.5	-0.5	*-0.6*	-1.0	*-0.9*	-1.2	*:*	-1.3
Hungary	:	-5.1	-8.1	-9.0	-7.2	-6.5	-7.8	*-6.7*	-10.1	*-7.0*	-7.4	*:*	-5.6
Malta	:	:	-5.3	-5.5	-10.0	-5.0	-3.2	*-2.9*	-2.9	*-3.2*	-2.7	*:*	-2.9
Poland	:	-3.2	-3.3	-3.2	-4.7	-3.9	-2.5	*-3.0*	-2.2	*-3.0*	-2.0	*:*	-1.8
Slovakia	:	-7.3	-4.2	-7.7	-3.7	-3.0	-3.1	*-2.7*	-3.4	*-2.1*	-3.0	*:*	-2.9
Sweden	-7.6	2.2	1.5	-0.2	0.1	1.8	3.0	*2.2*	2.8	*2.3*	2.4	*:*	2.5
United Kingdom	-6.1	0.8	-2.9	-1.7	-3.3	-3.2	-3.3	*-3.0*	-2.9	*-2.8*	-2.8	*:*	-2.5
EU25	:	:	-2.5	-2.3	-3.0	-2.7	-2.3	*-2.3*	-2.0	*-2.2*	-1.6	*:*	-1.4
Bulgaria	:	:	1.7	-0.4	0.3	2.7	2.4	*3.0*	3.3	*1.9*	1.8	*:*	1.7
Romania	:	-0.7	-1.6	-2.0	-1.5	-1.5	-1.5	*-2.3*	-1.4	*-5.4*	-2.6	*:*	-2.6
USA	-4.2	0.3	-3.8	-3.8	-4.9	-4.6	-3.7	*-4.1*	-2.2	*-4.4*	-2.4	*:*	-2.8
Japan	-2.5	-7.4	-6.9	-8.2	-8.0	-6.3	-6.5	*-5.8*	-5.6	*-5.4*	-5.1	*:*	-4.7

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards. The net lending (borrowing) includes one-off proceeds relative to UMTS licences (see note 10 on concepts and sources). However, it does not include the so-called pension reform cost for Denmark, Poland and Sweden that are still benefiting of the transitory period ending in April 2007 (see box 2.2 on recording of pension reform costs). Including these costs, the government balance would amount to 3 % in Denmark, -4.2 % in Poland and 1.7 % in Sweden this year.

TABLE 38 : Interest expenditure, general government (as a percentage of GDP, 1992-2008) [1]

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	9.5	7.0	4.8	5.7	5.3	4.7	4.2	*4.2*	4.1	*3.9*	3.9	*:*	3.7
Germany	3.3	3.2	2.8	2.9	3.0	2.8	2.8	*2.8*	2.7	*2.8*	2.7	*:*	2.7
Greece	12.6	8.7	5.3	6.0	5.5	5.5	4.9	*4.9*	4.6	*4.9*	4.4	*:*	4.0
Spain	4.8	3.7	2.1	2.7	2.3	2.0	1.8	*1.6*	1.6	*1.5*	1.5	*:*	1.4
France	3.4	3.1	2.7	2.9	2.8	2.7	2.7	*2.6*	2.6	*2.6*	2.7	*:*	2.7
Ireland	5.6	2.6	1.1	1.3	1.2	1.1	1.0	*1.2*	1.0	*1.2*	1.0	*:*	1.0
Italy	11.3	7.3	4.9	5.5	5.1	4.7	4.6	*4.5*	4.6	*4.8*	4.8	*:*	4.7
Luxembourg	0.3	0.4	0.2	0.3	0.2	0.2	0.2	*0.1*	0.2	*0.1*	0.2	*:*	0.2
Netherlands	5.7	4.1	2.5	2.8	2.6	2.5	2.4	*2.3*	2.3	*2.3*	2.2	*:*	2.1
Austria	4.0	3.5	2.9	3.1	2.9	2.8	2.8	*2.7*	2.7	*2.6*	2.6	*:*	2.5
Portugal	5.8	3.3	2.8	2.9	2.7	2.7	2.7	*2.9*	2.9	*3.1*	3.0	*:*	3.2
Slovenia	:	:	1.9	2.3	2.1	1.8	1.7	*1.5*	1.5	*1.4*	1.4	*:*	1.3
Finland	4.0	3.2	1.6	2.1	1.7	1.5	1.5	*1.4*	1.4	*1.3*	1.3	*:*	1.3
Euro area	:	:	3.1	3.5	3.3	3.1	2.9	*2.9*	2.9	*2.9*	2.9	*:*	2.8
Czech Republic	:	1.0	1.2	1.2	1.2	1.2	1.2	*1.4*	1.2	*1.4*	1.1	*:*	1.1
Denmark	6.4	4.1	2.3	3.0	2.6	2.3	1.8	*1.8*	1.7	*1.5*	1.3	*:*	1.1
Estonia	:	0.3	0.2	0.2	0.2	0.2	0.2	*0.2*	0.2	*0.2*	0.1	*:*	0.1
Cyprus	:	:	3.3	3.2	3.4	3.3	3.4	*3.1*	3.3	*3.0*	3.1	*:*	3.1
Latvia	:	0.8	0.7	0.7	0.7	0.7	0.6	*0.6*	0.6	*0.6*	0.5	*:*	0.5
Lithuania	:	1.3	1.0	1.3	1.3	0.9	0.8	*0.7*	0.8	*0.7*	0.8	*:*	0.8
Hungary	:	6.8	4.0	3.9	3.9	4.2	3.9	*3.7*	4.0	*3.7*	4.5	*:*	4.3
Malta	:	:	3.8	3.7	3.6	4.0	3.9	*3.8*	3.8	*3.7*	3.5	*:*	3.5
Poland	:	3.5	2.6	2.7	2.8	2.6	2.6	*2.5*	2.4	*2.6*	2.4	*:*	2.4
Slovakia	:	3.3	2.3	3.5	2.5	2.2	1.7	*1.8*	1.7	*1.7*	2.0	*:*	2.0
Sweden	6.0	4.6	2.0	2.8	2.0	1.6	1.6	*1.8*	1.7	*1.8*	1.7	*:*	1.8
United Kingdom	3.2	3.0	2.0	2.0	2.0	2.0	2.1	*2.0*	2.0	*2.1*	2.0	*:*	2.1
EU25	:	:	2.9	3.1	3.0	2.8	2.7	*2.7*	2.7	*2.7*	2.7	*:*	2.6
Bulgaria	:	:	1.8	2.1	2.2	1.8	1.6	*1.4*	1.4	*1.2*	1.2	*:*	1.0
Romania	:	4.3	1.6	2.5	1.7	1.5	1.1	*0.9*	1.0	*0.8*	1.0	*:*	0.9
USA	4.8	4.0	2.8	3.0	2.8	2.7	2.8	*2.8*	2.9	*2.9*	3.0	*:*	3.1
Japan	3.6	3.4	3.2	3.1	2.8	2.7	3.5	*3.7*	3.7	*3.9*	4.0	*:*	4.3

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

TABLE 39 : Primary balance, general government (as a percentage of GDP, 1992-2008) [1] [2] 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	4.2	6.5	4.3	5.7	5.4	4.7	1.9	*3.8*	3.9	*3.1*	3.4	*:*	3.2
Germany	0.3	1.7	-0.6	-0.7	-1.1	-0.9	-0.5	*-0.3*	0.4	*0.3*	1.1	*:*	1.5
Greece	1.8	4.0	-0.1	0.8	-0.7	-2.3	-0.4	*1.9*	2.0	*1.4*	1.8	*:*	1.7
Spain	-0.8	1.9	2.5	2.4	2.3	1.9	2.9	*2.6*	3.1	*1.9*	2.7	*:*	2.3
France	-1.5	1.0	-0.6	-0.3	-1.4	-1.0	-0.2	*-0.4*	-0.1	*-0.5*	0.0	*:*	0.4
Ireland	4.0	5.0	1.9	0.9	1.6	2.6	2.1	*1.3*	2.2	*0.8*	1.9	*:*	1.4
Italy	3.0	5.1	1.2	2.7	1.6	1.3	0.5	*0.5*	-0.1	*0.2*	1.8	*:*	1.7
Luxembourg	1.9	4.9	0.0	2.4	0.5	-0.9	-0.8	*-1.7*	-1.3	*-1.4*	-0.3	*:*	-0.1
Netherlands	2.4	4.1	1.1	0.8	-0.6	0.7	2.1	*1.2*	2.3	*1.6*	2.3	*:*	2.3
Austria	-0.1	2.0	1.6	2.6	1.3	1.6	1.3	*0.8*	1.4	*1.3*	1.5	*:*	1.5
Portugal	1.1	0.0	-1.1	0.0	-0.2	-0.5	-3.3	*-2.1*	-1.7	*-1.8*	-1.0	*:*	-0.7
Slovenia	:	:	-0.2	-0.2	-0.7	-0.5	0.3	*-0.4*	-0.1	*-0.2*	-0.2	*:*	-0.3
Finland	-1.8	6.0	4.5	6.2	4.2	3.8	4.1	*4.2*	4.3	*3.9*	4.2	*:*	4.1
Euro area	:	:	0.6	1.0	0.2	0.3	0.5	*0.6*	0.9	*0.6*	1.4	*:*	1.5
Czech Republic	:	-3.4	-3.5	-5.5	-5.5	-1.7	-2.5	*-1.8*	-2.3	*-2.0*	-2.4	*:*	-2.1
Denmark	4.3	5.9	5.1	4.2	3.7	5.0	6.7	*5.7*	5.7	*5.5*	5.6	*:*	5.3
Estonia	:	-0.3	2.1	0.6	2.3	2.5	2.5	*1.6*	2.7	*1.0*	1.8	*:*	1.4
Cyprus	:	:	-0.5	-1.2	-2.9	-0.8	1.1	*1.0*	1.4	*1.0*	1.4	*:*	1.4
Latvia	:	-1.0	-0.4	-1.5	-0.5	-0.2	0.7	*-0.5*	-0.4	*-0.4*	-0.7	*:*	-0.7
Lithuania	:	-3.3	-0.1	-0.2	0.0	-0.5	0.3	*0.1*	-0.2	*-0.2*	-0.4	*:*	-0.5
Hungary	:	1.8	-4.1	-5.1	-3.3	-2.3	-3.9	*-3.0*	-6.1	*-3.3*	-2.9	*:*	-1.4
Malta	:	:	-1.5	-1.8	-6.4	-1.0	0.8	*0.9*	0.9	*0.5*	0.7	*:*	0.6
Poland	:	0.3	-0.7	-0.4	-1.9	-1.3	0.1	*-0.5*	0.2	*-0.4*	0.4	*:*	0.6
Slovakia	:	-4.0	-1.8	-4.1	-1.2	-0.8	-1.4	*-0.9*	-1.7	*-0.4*	-1.1	*:*	-0.9
Sweden	-1.5	6.8	3.5	2.6	2.1	3.4	4.6	*4.0*	4.5	*4.1*	4.1	*:*	4.3
United Kingdom	-2.9	3.8	-0.9	0.3	-1.3	-1.3	-1.1	*-1.0*	-0.9	*-0.7*	-0.8	*:*	-0.4
EU25	:	:	0.4	0.8	0.0	0.1	0.4	*0.4*	0.7	*0.5*	1.1	*:*	1.2
Bulgaria	:	:	3.5	1.8	2.5	4.5	3.9	*4.4*	4.7	*3.1*	2.9	*:*	2.7
Romania	:	3.6	0.0	0.5	0.2	0.0	-0.3	*-1.4*	-0.4	*-4.6*	-1.7	*:*	-1.7
USA	0.6	4.3	-1.0	-0.8	-2.1	-1.9	-0.9	*-1.2*	0.7	*-1.4*	0.6	*:*	0.3
Japan	1.1	-3.9	-3.7	-5.1	-5.2	-3.6	-3.0	*-2.1*	-1.9	*-1.5*	-1.2	*:*	-0.4

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

TABLE 40 : Cyclically adjusted net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	-4.8	-0.8	-0.2	-0.1	0.5	0.0	-1.7	*0.1*	0.1	*-0.3*	-0.1	*:*	-0.1
Germany	-3.1	-1.6	-3.0	-3.6	-3.4	-3.2	-2.6	*-3.0*	-2.2	*-2.3*	-1.4	*:*	-1.2
Greece	-10.0	-4.0	-5.8	-5.1	-6.4	-8.4	-5.9	*-3.8*	-3.3	*-4.4*	-3.3	*:*	-3.1
Spain	-4.4	-2.0	0.5	-0.7	-0.1	0.0	1.5	*1.3*	1.9	*1.0*	1.6	*:*	1.4
France	-4.3	-2.4	-3.2	-3.6	-4.1	-3.7	-2.5	*-2.5*	-2.3	*-2.5*	-2.3	*:*	-1.8
Ireland	0.1	1.1	0.5	-1.8	-0.3	1.4	1.3	*1.1*	1.7	*0.8*	1.6	*:*	1.5
Italy	-7.7	-2.5	-3.5	-3.4	-3.5	-3.3	-3.4	*-3.4*	-4.1	*-3.8*	-2.4	*:*	-2.5
Luxembourg	:	4.3	0.2	1.4	1.0	-0.2	0.0	*-1.3*	-1.1	*-1.0*	-0.2	*:*	0.1
Netherlands	-2.6	-0.9	-0.7	-1.9	-2.1	-0.9	0.9	*-0.3*	0.6	*-0.2*	0.4	*:*	0.3
Austria	-3.9	-1.9	-0.8	-0.3	-0.9	-0.7	-0.9	*-1.7*	-1.2	*-1.2*	-1.2	*:*	-1.0
Portugal	-4.1	-4.0	-3.5	-3.5	-2.4	-2.6	-5.1	*-4.0*	-3.7	*-3.8*	-3.2	*:*	-3.2
Slovenia	:	:	-1.7	-2.2	-2.0	-1.7	-0.9	*-1.8*	-1.5	*-1.7*	-1.6	*:*	-1.7
Finland	-3.2	1.8	3.3	4.1	3.3	3.0	3.4	*3.0*	2.9	*2.7*	2.8	*:*	2.9
Euro area	:	:	-2.3	-2.8	-2.7	-2.5	-1.9	*-2.0*	-1.7	*-1.9*	-1.2	*:*	-1.0
Czech Republic	:	-3.5	-4.0	-5.7	-5.5	-1.8	-3.3	*-3.6*	-3.8	*-4.0*	-4.1	*:*	-3.8
Denmark	-1.2	0.9	3.3	1.4	1.9	3.6	5.3	*3.9*	4.1	*4.0*	4.5	*:*	4.6
Estonia	:	-0.1	2.0	0.4	2.3	2.7	2.3	*1.1*	2.2	*0.5*	1.4	*:*	1.5
Cyprus	:	:	-3.6	-4.9	-6.1	-3.6	-1.8	*-1.9*	-1.4	*-2.0*	-1.2	*:*	-1.2
Latvia	:	-1.7	-0.9	-2.1	-0.9	-0.7	0.2	*-1.2*	-1.3	*-0.8*	-1.3	*:*	-0.9
Lithuania	:	-4.1	-1.4	-1.2	-1.8	-1.9	-0.8	*-1.0*	-1.4	*-1.0*	-1.4	*:*	-1.2
Hungary	:	-4.7	-8.1	-8.6	-6.9	-6.5	-8.1	*-6.6*	-10.5	*-7.1*	-7.4	*:*	-5.4
Malta	:	:	-5.1	-6.6	-9.7	-4.3	-2.4	*-2.2*	-2.3	*-2.6*	-2.3	*:*	-2.7
Poland	:	-3.1	-3.1	-2.4	-4.2	-4.1	-2.3	*-3.3*	-2.3	*-3.5*	-2.1	*:*	-1.8
Slovakia	:	-7.4	-3.6	-7.2	-2.8	-2.2	-2.5	*-2.4*	-3.2	*-2.1*	-3.3	*:*	-3.3
Sweden	-5.7	2.3	1.9	0.1	1.0	2.2	3.3	*2.1*	2.7	*2.1*	2.1	*:*	2.1
United Kingdom	-5.3	0.6	-2.9	-1.7	-3.3	-3.5	-3.2	*-2.7*	-2.7	*-2.5*	-2.6	*:*	-2.2
EU25	:	:	-2.3	-2.5	-2.7	-2.5	-1.9	*-1.9*	-1.7	*-1.8*	-1.3	*:*	-1.1
Bulgaria	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Romania	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:

TABLE 41 : Cyclically adjusted primary balance, general government (as a percentage of GDP, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	4.7	6.2	4.6	5.7	5.8	4.7	2.5	*4.3*	4.2	*3.6*	3.8	*:*	3.6
Germany	0.2	1.6	-0.2	-0.7	-0.4	-0.4	0.2	*-0.2*	0.5	*0.5*	1.3	*:*	1.5
Greece	2.5	4.7	-0.5	0.9	-0.9	-3.0	-1.0	*1.1*	1.3	*0.6*	1.1	*:*	0.9
Spain	0.4	1.7	2.6	2.0	2.2	2.1	3.3	*3.0*	3.5	*2.5*	3.1	*:*	2.9
France	-0.9	0.8	-0.5	-0.7	-1.3	-1.0	0.2	*0.1*	0.3	*0.2*	0.4	*:*	0.9
Ireland	5.7	3.7	1.6	-0.4	0.9	2.5	2.3	*2.3*	2.8	*2.0*	2.7	*:*	2.5
Italy	3.6	4.8	1.4	2.1	1.6	1.4	1.2	*1.1*	0.5	*0.9*	2.4	*:*	2.2
Luxembourg	:	4.6	0.5	1.7	1.2	0.0	0.2	*-1.1*	-0.9	*-0.9*	0.0	*:*	0.3
Netherlands	3.1	3.2	1.8	0.9	0.5	1.6	3.2	*2.1*	2.9	*2.1*	2.6	*:*	2.3
Austria	0.0	1.6	2.1	2.9	2.0	2.1	1.9	*1.0*	1.5	*1.4*	1.4	*:*	1.5
Portugal	1.8	-0.7	-0.7	-0.7	0.3	0.1	-2.4	*-1.1*	-0.8	*-0.7*	-0.2	*:*	0.0
Slovenia	:	:	0.2	0.1	0.1	0.1	0.7	*-0.3*	0.1	*-0.3*	-0.2	*:*	-0.4
Finland	0.9	5.0	5.0	6.2	5.0	4.5	4.9	*4.4*	4.2	*4.1*	4.2	*:*	4.2
Euro area	:	:	0.8	0.7	0.5	0.6	1.1	*1.0*	1.2	*1.1*	1.7	*:*	1.8
Czech Republic	:	-2.5	-2.8	-4.4	-4.3	-0.6	-2.1	*-2.2*	-2.7	*-2.6*	-3.0	*:*	-2.6
Denmark	5.2	5.0	5.6	4.4	4.5	5.9	7.1	*5.7*	5.8	*5.5*	5.9	*:*	5.7
Estonia	:	0.2	2.2	0.6	2.5	2.9	2.5	*1.3*	2.3	*0.7*	1.5	*:*	1.6
Cyprus	:	:	-0.2	-1.7	-2.7	-0.3	1.6	*1.2*	1.8	*1.0*	1.9	*:*	1.9
Latvia	:	-0.9	-0.3	-1.3	-0.2	0.1	0.7	*-0.6*	-0.7	*-0.2*	-0.8	*:*	-0.4
Lithuania	:	-2.8	-0.4	0.1	-0.5	-0.9	0.0	*-0.3*	-0.6	*-0.3*	-0.6	*:*	-0.4
Hungary	:	2.1	-4.1	-4.7	-2.9	-2.3	-4.2	*-2.9*	-6.5	*-3.5*	-2.9	*:*	-1.2
Malta	:	:	-1.3	-2.9	-6.1	-0.3	1.5	*1.6*	1.5	*1.1*	1.1	*:*	0.7
Poland	:	0.4	-0.5	0.4	-1.4	-1.5	0.2	*-0.8*	0.1	*-0.9*	0.3	*:*	0.6
Slovakia	:	-4.1	-1.3	-3.6	-0.3	0.0	-0.8	*-0.7*	-1.5	*-0.4*	-1.4	*:*	-1.3
Sweden	0.4	6.9	3.8	3.0	3.0	3.8	5.0	*3.8*	4.4	*3.9*	3.8	*:*	3.9
United Kingdom	-2.2	3.6	-0.9	0.3	-1.4	-1.6	-1.0	*-0.7*	-0.8	*-0.5*	-0.5	*:*	-0.1
EU25	:	:	0.6	0.6	0.3	0.3	0.9	*0.7*	0.9	*0.9*	1.3	*:*	1.5
Bulgaria	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Romania	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:

TABLE 42 : Gross debt, general government (as a percentage of GDP, 1999-2008)

								2006		2007		2008	
	1999	2000	2001	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	113.6	107.7	106.3	103.3	98.6	94.3	93.2	*89.8*	89.4	*87.0*	86.3	*:*	83.2
Germany	60.9	59.7	58.8	60.3	63.9	65.7	67.9	*68.9*	67.8	*69.2*	67.7	*:*	67.3
Greece	112.3	111.6	113.2	110.7	107.8	108.5	107.5	*105.0*	104.8	*102.1*	101.0	*:*	96.4
Spain	61.5	59.2	55.5	52.5	48.7	46.2	43.1	*40.0*	39.7	*37.9*	37.0	*:*	34.7
France	58.3	56.7	56.2	58.2	62.4	64.4	66.6	*66.9*	64.7	*67.0*	63.9	*:*	63.3
Ireland	48.4	37.8	35.5	32.2	31.1	29.7	27.4	*27.2*	25.8	*27.0*	24.4	*:*	23.6
Italy	113.7	109.1	108.7	105.6	104.3	103.9	106.6	*107.4*	107.2	*107.7*	105.9	*:*	105.7
Luxembourg	6.7	6.4	6.5	6.5	6.3	6.6	6.0	*7.9*	7.4	*8.2*	7.3	*:*	7.1
Netherlands	61.1	53.8	50.7	50.5	52.0	52.6	52.7	*51.2*	50.5	*50.3*	47.8	*:*	45.4
Austria	66.5	65.5	66.0	65.8	64.6	63.8	63.4	*62.4*	62.1	*61.6*	60.9	*:*	59.8
Portugal	51.4	50.4	52.9	55.5	57.0	58.6	64.0	*68.4*	67.4	*70.6*	69.4	*:*	70.7
Slovenia	24.6	27.6	28.3	29.1	28.5	28.7	28.0	*29.9*	28.4	*29.7*	28.0	*:*	27.6
Finland	45.5	43.8	42.3	41.3	44.3	44.3	41.3	*39.7*	38.8	*38.3*	37.3	*:*	35.8
Euro area	71.8	69.2	68.2	68.0	69.2	69.7	70.6	*70.5*	69.4	*70.1*	68.0	*:*	66.9
Czech Republic	16.4	18.5	25.1	28.5	30.1	30.7	30.4	*31.5*	30.9	*32.4*	30.8	*:*	31.0
Denmark	57.4	51.7	47.4	46.8	44.4	42.6	35.9	*30.0*	28.5	*26.5*	24.5	*:*	22.0
Estonia	6.0	5.2	4.8	5.6	5.7	5.2	4.5	*3.6*	4.0	*3.0*	2.7	*:*	2.1
Cyprus	59.2	59.5	61.4	64.7	69.1	70.3	69.2	*69.1*	64.8	*67.8*	62.2	*:*	59.6
Latvia	12.4	12.3	14.0	13.5	14.4	14.5	12.1	*11.3*	11.1	*10.9*	10.6	*:*	10.3
Lithuania	22.8	23.7	22.8	22.2	21.2	19.4	18.7	*18.9*	18.9	*19.7*	19.6	*:*	19.8
Hungary	58.9	53.4	50.7	55.6	58.0	59.4	61.7	*59.9*	67.6	*62.0*	70.9	*:*	72.7
Malta	55.7	55.4	61.3	60.1	70.2	74.9	74.2	*74.0*	69.6	*74.0*	69.0	*:*	68.6
Poland	39.3	35.9	35.9	39.8	43.9	41.8	42.0	*45.5*	42.4	*46.7*	43.1	*:*	42.7
Slovakia	47.5	50.2	48.9	43.3	42.7	41.6	34.5	*34.3*	33.0	*34.7*	31.6	*:*	31.0
Sweden	62.2	52.3	53.8	52.0	51.8	50.5	50.4	*47.6*	46.7	*44.8*	42.6	*:*	38.7
United Kingdom	44.1	41.2	38.0	37.5	38.9	40.4	42.4	*44.1*	43.2	*44.7*	44.1	*:*	44.7
EU25	66.0	62.0	61.1	60.5	62.0	62.4	63.3	*63.2*	62.5	*62.9*	61.4	*:*	60.4
Bulgaria	:	:	:	53.7	46.0	38.4	29.8	*26.7*	25.8	*22.4*	21.8	*:*	17.9
Romania	24.0	23.9	23.2	25.0	21.5	18.8	15.9	*14.7*	13.7	*15.4*	13.9	*:*	14.4

TABLE 43 : Gross national saving (as a percentage of GDP, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	24.8	25.7	23.7	24.2	23.6	23.9	23.4	*23.7*	23.5	*23.8*	23.6	*:*	24.0
Germany	21.2	20.3	20.7	19.4	19.5	21.0	21.4	*21.2*	22.1	*21.8*	22.8	*:*	22.9
Greece	19.3	16.3	15.1	13.9	15.2	15.7	14.6	*16.2*	16.3	*16.3*	17.0	*:*	17.7
Spain	20.6	22.3	22.6	22.9	23.4	22.4	22.1	*22.1*	22.0	*22.1*	21.8	*:*	21.9
France	19.0	21.1	18.9	19.8	19.1	18.8	18.1	*20.0*	18.7	*20.3*	19.1	*:*	19.3
Ireland	17.7	22.6	23.3	21.3	23.5	23.5	23.9	*24.5*	24.3	*23.9*	23.7	*:*	23.4
Italy	20.6	21.3	20.1	20.8	19.8	20.3	19.8	*19.9*	19.8	*20.1*	20.4	*:*	20.7
Luxembourg	35.0	33.4	30.9	32.9	28.3	31.7	31.0	*29.2*	30.7	*29.8*	31.5	*:*	32.0
Netherlands	25.8	27.1	26.5	25.7	25.4	27.8	26.4	*26.4*	27.0	*26.8*	27.8	*:*	28.0
Austria	21.3	22.1	23.6	23.3	23.2	23.3	23.9	*25.0*	24.4	*25.3*	24.4	*:*	24.4
Portugal	20.3	18.4	14.8	17.0	16.3	15.1	12.8	*12.3*	12.6	*12.4*	12.8	*:*	13.4
Slovenia	23.3	24.2	24.2	24.4	23.9	24.2	24.1	*25.1*	24.2	*25.9*	25.2	*:*	25.7
Finland	17.9	26.8	26.0	28.3	24.4	26.2	25.0	*24.4*	26.1	*24.3*	26.2	*:*	26.0
Euro area	20.9	21.6	20.9	20.9	20.6	21.1	20.8	*21.2*	21.3	*21.5*	21.7	*:*	21.9
Czech Republic	28.1	24.9	22.2	22.4	20.7	21.2	23.4	*24.1*	23.4	*25.1*	24.5	*:*	25.1
Denmark	19.9	22.0	23.3	22.9	22.9	22.5	23.8	*24.7*	24.5	*25.0*	25.1	*:*	25.5
Estonia	:	21.1	23.8	22.0	21.8	22.3	25.8	*25.2*	27.2	*26.9*	29.9	*:*	32.2
Cyprus	:	16.6	15.3	15.1	16.4	15.2	14.8	*15.0*	14.8	*15.1*	14.9	*:*	15.1
Latvia	30.9	16.3	21.0	20.3	20.8	20.2	21.7	*21.2*	21.9	*22.0*	22.6	*:*	24.0
Lithuania	:	14.2	16.9	16.9	16.5	16.0	18.2	*18.8*	17.2	*17.7*	17.1	*:*	18.0
Hungary	:	20.4	17.1	18.9	17.0	17.2	16.5	*15.2*	15.7	*15.5*	17.5	*:*	19.4
Malta	:	15.4	12.2	16.6	13.5	9.3	10.0	*11.2*	11.6	*12.2*	12.0	*:*	11.8
Poland	20.7	21.5	20.2	20.8	20.5	21.0	20.7	*18.1*	17.8	*19.2*	18.6	*:*	20.0
Slovakia	:	23.8	22.1	21.7	22.5	23.5	21.3	*23.3*	21.3	*25.3*	23.6	*:*	24.6
Sweden	17.5	21.5	22.9	21.9	23.0	22.8	23.0	*23.2*	23.9	*23.6*	24.2	*:*	24.4
United Kingdom	15.1	16.0	15.1	15.3	15.1	15.3	14.9	*15.0*	15.1	*15.3*	15.4	*:*	15.5
EU25	:	20.6	20.0	19.9	19.7	20.1	19.8	*20.2*	20.3	*20.6*	20.7	*:*	20.9
Bulgaria	9.4	14.1	:	15.1	:	:	:	*16.6*	16.2	*17.7*	17.2	*:*	19.0
Romania	22.9	14.3	15.1	20.6	17.1	9.6	14.0	*13.9*	14.1	*13.4*	14.0	*:*	13.3
USA	16.4	16.9	13.4	13.6	13.3	13.2	13.0	*13.9*	13.8	*14.2*	13.8	*:*	13.9
Japan	31.7	28.7	26.7	26.1	26.5	26.7	26.8	*27.0*	27.3	*27.2*	27.4	*:*	27.4

TABLE 44 : Gross saving, private sector (as a percentage of GDP, 1992-2008) [1]

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	28.0	23.8	22.3	22.3	22.8	22.6	21.6	*22.2*	22.1	*22.8*	22.2	*:*	22.6
Germany	20.8	19.6	21.5	20.3	20.8	22.3	22.2	*22.1*	22.2	*22.2*	22.3	*:*	22.0
Greece	26.1	16.8	16.2	14.6	16.8	18.2	16.0	*16.4*	15.6	*17.1*	16.3	*:*	16.6
Spain	21.8	20.2	18.0	19.0	19.5	18.4	16.9	*16.8*	16.4	*17.2*	16.4	*:*	16.7
France	20.1	19.6	18.8	19.5	19.8	19.1	17.8	*19.5*	17.7	*19.7*	17.9	*:*	17.6
Ireland	17.6	17.2	19.0	17.7	19.6	18.7	19.5	*21.0*	19.5	*20.4*	18.8	*:*	18.8
Italy	25.6	20.6	20.4	20.6	20.7	20.7	20.5	*20.5*	19.5	*20.9*	19.3	*:*	19.8
Luxembourg	:	24.4	25.1	24.7	22.3	26.9	26.0	*24.8*	25.7	*25.1*	26.0	*:*	26.4
Netherlands	26.2	24.1	24.4	23.9	24.7	26.6	23.6	*24.3*	23.4	*24.2*	23.5	*:*	23.5
Austria	20.7	20.0	21.6	20.6	21.6	21.1	22.1	*23.7*	22.6	*23.5*	22.5	*:*	22.4
Portugal	21.6	17.8	16.7	17.3	17.8	17.4	16.0	*14.3*	14.8	*14.5*	14.5	*:*	14.9
Slovenia	:	:	21.8	22.9	22.0	22.0	21.2	*22.7*	20.9	*23.6*	21.7	*:*	22.1
Finland	19.9	21.1	20.6	21.5	19.4	21.3	20.0	*19.2*	20.9	*19.5*	21.0	*:*	20.9
Euro area	:	:	20.3	20.2	20.6	20.9	20.1	*20.5*	19.8	*20.7*	19.9	*:*	19.8
Czech Republic	:	21.5	19.3	20.5	19.2	17.1	20.0	*20.1*	20.0	*21.7*	21.2	*:*	21.6
Denmark	20.1	18.5	19.1	20.1	20.4	18.4	17.5	*19.4*	19.0	*19.7*	19.5	*:*	19.9
Estonia	:	16.3	18.4	16.3	15.6	17.5	21.3	*19.9*	21.5	*22.3*	25.1	*:*	27.7
Cyprus	:	:	15.7	16.0	18.8	15.8	14.5	*13.4*	13.2	*13.4*	13.2	*:*	13.3
Latvia	:	15.4	18.2	19.3	19.2	17.4	17.4	*17.7*	17.4	*18.4*	18.2	*:*	19.4
Lithuania	:	12.8	14.9	15.3	14.7	14.2	15.7	*16.5*	14.8	*15.7*	14.8	*:*	15.6
Hungary	:	20.0	19.6	19.4	19.1	19.4	19.7	*19.0*	20.2	*20.1*	20.0	*:*	20.6
Malta	:	:	13.9	17.8	15.6	11.1	11.4	*13.3*	13.3	*15.1*	12.4	*:*	12.2
Poland	:	20.6	19.2	19.8	20.6	20.9	19.1	*16.7*	15.8	*17.8*	16.2	*:*	17.3
Slovakia	:	22.0	21.9	22.4	22.8	23.2	20.0	*21.9*	21.2	*23.6*	23.2	*:*	24.1
Sweden	21.1	16.4	18.6	19.2	20.1	18.3	17.2	*18.3*	18.2	*18.7*	19.0	*:*	19.0
United Kingdom	18.5	14.1	15.8	15.2	16.1	16.2	15.9	*15.2*	15.5	*15.0*	15.2	*:*	15.1
EU25	:	:	19.4	19.2	19.7	19.8	19.1	*19.4*	18.9	*19.6*	19.0	*:*	19.0
Bulgaria	:	:	:	12.7	:	:	:	*9.4*	8.9	*10.7*	10.9	*:*	12.2
Romania	:	12.5	11.8	17.4	13.4	6.0	11.0	*10.9*	10.9	*11.0*	11.7	*:*	11.1
USA	18.4	14.3	14.4	14.8	15.4	15.2	14.1	*14.6*	12.7	*15.2*	12.9	*:*	13.4
Japan	26.6	28.0	29.4	28.3	29.1	29.5	30.2	*30.0*	30.2	*30.0*	30.2	*:*	30.0

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

TABLE 45 : Gross saving, general government (as a percentage of GDP, 1992-2008) [1] **24.10.2006**

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	-3.2	1.8	1.5	2.0	0.8	1.4	1.9	*1.6*	1.4	*1.1*	1.5	*:*	1.5
Germany	0.4	0.7	-0.9	-0.8	-1.3	-1.3	-0.9	*-0.9*	-0.1	*-0.4*	0.5	*:*	0.9
Greece	-6.8	-0.5	-1.2	-0.7	-1.5	-2.6	-1.6	*-0.3*	0.6	*-0.8*	0.6	*:*	0.9
Spain	-1.1	2.1	4.5	3.9	3.9	4.1	5.2	*5.3*	5.6	*4.9*	5.4	*:*	5.2
France	-1.1	1.5	0.1	0.3	-0.8	-0.2	0.3	*0.5*	1.0	*0.6*	1.2	*:*	1.8
Ireland	0.1	5.5	4.3	3.5	3.9	4.8	4.4	*3.5*	4.8	*3.5*	4.8	*:*	4.6
Italy	-5.0	0.7	-0.2	0.3	-0.8	-0.4	-0.5	*-0.5*	0.4	*-0.8*	1.0	*:*	0.9
Luxembourg	:	9.0	5.7	8.1	6.0	4.8	5.0	*4.4*	4.5	*4.7*	5.4	*:*	5.5
Netherlands	-0.4	3.0	2.1	1.8	0.7	1.3	2.9	*2.1*	3.7	*2.7*	4.3	*:*	4.6
Austria	0.6	2.1	2.1	2.9	1.8	2.3	1.8	*1.4*	1.9	*1.9*	2.0	*:*	2.0
Portugal	-1.3	0.6	-1.9	-0.3	-1.4	-2.3	-3.2	*-2.1*	-2.2	*-2.0*	-1.7	*:*	-1.5
Slovenia	:	:	2.4	1.5	1.8	2.2	2.9	*2.4*	3.3	*2.3*	3.5	*:*	3.5
Finland	-2.0	5.6	5.5	6.8	5.2	5.1	5.2	*5.3*	5.4	*5.0*	5.4	*:*	5.3
Euro area	:	:	0.6	0.7	0.0	0.3	0.7	*0.8*	1.4	*0.9*	1.8	*:*	2.0
Czech Republic	:	3.3	2.9	2.0	1.4	4.1	3.5	*3.9*	3.4	*3.3*	3.3	*:*	3.4
Denmark	-0.2	3.6	4.3	2.7	2.5	4.1	6.4	*5.4*	5.7	*5.5*	5.8	*:*	5.7
Estonia	:	4.8	5.4	5.7	6.2	4.8	4.5	*5.2*	5.7	*4.6*	4.8	*:*	4.4
Cyprus	:	:	-0.4	-0.9	-2.3	-0.6	0.3	*1.6*	1.5	*1.7*	1.7	*:*	1.7
Latvia	:	0.9	2.8	1.0	1.6	2.8	4.2	*3.5*	4.5	*3.6*	4.4	*:*	4.6
Lithuania	:	1.4	2.0	1.7	1.8	1.8	2.4	*2.3*	2.3	*2.0*	2.2	*:*	2.3
Hungary	:	0.5	-2.5	-0.5	-2.1	-2.2	-3.2	*-3.7*	-4.5	*-4.6*	-2.5	*:*	-1.2
Malta	:	:	-1.7	-1.2	-2.2	-1.9	-1.4	*-2.1*	-1.8	*-2.7*	-0.4	*:*	-0.4
Poland	:	1.0	0.9	1.1	-0.1	0.2	1.5	*1.4*	2.0	*1.4*	2.4	*:*	2.7
Slovakia	:	1.8	0.2	-0.7	-0.3	0.4	1.3	*1.3*	0.2	*1.7*	0.4	*:*	0.5
Sweden	-3.6	5.1	4.5	3.0	3.1	4.7	6.1	*5.0*	5.8	*5.0*	5.4	*:*	5.5
United Kingdom	-3.4	1.9	-0.6	0.1	-1.0	-0.9	-1.0	*-0.2*	-0.3	*0.2*	0.2	*:*	0.4
EU25	:	:	0.6	0.7	-0.1	0.3	0.7	*0.8*	1.3	*1.0*	1.7	*:*	1.9
Bulgaria	:	:	4.7	2.3	2.9	5.4	5.8	*:*	7.3	*:*	6.3	*:*	6.8
Romania	:	1.8	3.3	3.2	3.7	3.6	3.0	*:*	3.3	*:*	2.3	*:*	2.3
USA	-1.9	2.6	-1.1	-1.2	-2.2	-2.0	-1.1	*-0.7*	1.1	*-1.0*	0.9	*:*	0.5
Japan	5.0	0.8	-2.8	-2.2	-2.5	-2.8	-3.3	*-3.0*	-2.9	*-2.8*	-2.7	*:*	-2.5

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

TABLE 46 : Exports of goods and services, volume (percentage change on preceding year, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	3.9	5.2	3.6	1.2	2.9	5.9	2.8	*4.6*	5.3	*4.6*	4.9	*:*	4.6
Germany	2.8	9.1	6.6	4.3	2.4	9.6	6.9	*6.6*	10.1	*6.5*	6.7	*:*	6.6
Greece	4.2	11.0	2.7	-7.7	1.0	11.7	2.9	*6.3*	6.6	*5.8*	5.9	*:*	5.6
Spain	10.3	8.9	3.6	2.0	3.7	4.1	1.5	*2.0*	6.9	*2.3*	4.9	*:*	5.4
France	5.2	8.1	3.0	1.5	-1.2	3.9	3.1	*5.1*	8.0	*5.3*	6.0	*:*	5.7
Ireland	14.2	16.9	4.1	4.3	0.5	7.3	3.9	*5.5*	4.7	*5.4*	5.2	*:*	5.0
Italy	7.4	2.4	0.5	-4.0	-2.4	3.0	0.3	*3.5*	5.9	*3.1*	4.1	*:*	4.0
Luxembourg	4.4	10.7	7.5	2.1	3.5	10.1	8.0	*8.4*	14.4	*7.9*	9.7	*:*	8.9
Netherlands	5.9	8.3	4.8	0.9	1.5	8.0	5.5	*6.5*	8.2	*6.7*	6.8	*:*	6.5
Austria	3.1	8.7	5.2	4.0	2.0	10.0	6.4	*6.8*	3.9	*5.0*	6.1	*:*	5.8
Portugal	4.5	5.5	3.7	1.5	3.7	4.5	0.9	*3.9*	7.9	*4.5*	5.4	*:*	5.5
Slovenia	-2.1	7.9	8.6	6.7	3.1	12.5	10.5	*7.7*	10.3	*7.3*	8.4	*:*	8.0
Finland	10.7	10.6	5.3	2.8	-1.7	7.5	7.3	*8.0*	11.2	*5.7*	6.9	*:*	6.1
Euro area	5.2	7.8	4.3	1.7	1.1	6.8	4.3	*5.4*	7.9	*5.3*	6.0	*:*	5.8
Czech Republic	9.7	10.3	10.8	2.1	7.2	21.1	10.4	*11.1*	14.0	*9.7*	10.6	*:*	10.1
Denmark	3.4	7.2	4.9	4.1	-1.2	2.7	8.4	*7.0*	10.6	*5.4*	6.9	*:*	6.4
Estonia	:	13.8	12.6	1.7	7.6	17.1	21.5	*12.5*	16.6	*12.1*	13.6	*:*	12.7
Cyprus	:	5.9	1.5	-5.2	-0.2	4.4	3.1	*6.6*	5.7	*6.8*	6.2	*:*	6.2
Latvia	:	5.7	10.8	5.4	5.2	9.4	20.7	*12.8*	14.2	*11.7*	15.0	*:*	12.8
Lithuania	:	6.7	11.7	19.4	6.9	4.4	14.5	*10.8*	14.2	*9.9*	12.5	*:*	10.6
Hungary	11.7	16.3	10.0	3.9	6.2	15.7	11.6	*11.6*	13.1	*11.5*	10.3	*:*	9.3
Malta	:	4.5	0.3	6.1	-2.4	4.1	-6.2	*1.1*	0.6	*2.3*	2.1	*:*	2.4
Poland	12.2	9.7	11.3	4.8	14.2	14.0	7.1	*7.8*	16.7	*6.9*	11.1	*:*	9.5
Slovakia	:	10.8	11.1	4.7	15.9	7.9	13.8	*13.7*	13.8	*14.3*	14.6	*:*	10.3
Sweden	7.9	8.2	6.2	1.2	4.5	10.8	6.4	*7.2*	8.2	*6.2*	6.6	*:*	6.0
United Kingdom	7.2	5.4	6.3	1.0	1.7	4.9	7.1	*5.9*	17.8	*5.2*	6.7	*:*	6.0
EU25	:	7.6	5.0	1.8	1.7	7.1	5.2	*5.9*	9.7	*5.7*	6.5	*:*	6.2
Bulgaria	:	5.5	9.5	7.0	8.0	13.0	7.2	*10.2*	12.6	*9.8*	11.2	*:*	11.0
Romania	10.4	10.8	12.3	17.5	8.4	13.9	7.6	*9.0*	14.6	*9.9*	10.7	*:*	12.2
USA	7.4	4.2	4.6	-2.3	1.3	9.2	6.8	*9.2*	8.5	*8.4*	7.2	*:*	6.8
Japan	3.5	2.9	9.4	7.6	9.0	13.9	7.0	*10.0*	9.6	*8.1*	6.9	*:*	6.3

TABLE 47 : Imports of goods and services, volume (percentage change on preceding year, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	3.7	5.1	3.6	0.2	3.0	6.3	3.5	*4.1*	5.0	*4.5*	4.9	*:*	4.4
Germany	3.2	7.5	5.4	-1.4	5.3	6.9	6.5	*7.7*	9.8	*4.3*	5.5	*:*	6.7
Greece	3.8	9.4	3.4	-1.4	4.5	9.3	-1.2	*4.4*	6.3	*5.0*	5.1	*:*	4.9
Spain	6.4	11.4	7.1	3.7	6.2	9.6	7.0	*6.0*	8.9	*4.9*	6.9	*:*	6.2
France	3.2	8.6	4.7	1.7	1.1	6.6	6.1	*6.0*	8.0	*5.6*	6.3	*:*	6.1
Ireland	12.0	16.9	4.3	2.1	-1.2	8.7	6.5	*6.1*	5.8	*6.0*	6.0	*:*	4.7
Italy	1.9	5.2	1.7	-0.5	0.8	2.5	1.4	*3.4*	4.6	*3.2*	3.9	*:*	3.9
Luxembourg	3.6	11.1	7.9	1.0	5.5	10.3	9.3	*8.1*	13.8	*7.8*	10.2	*:*	9.3
Netherlands	5.3	8.9	4.3	0.3	1.8	6.4	5.1	*7.0*	8.1	*6.4*	6.9	*:*	6.3
Austria	3.5	6.7	4.4	0.1	5.1	8.7	5.2	*5.2*	2.9	*4.5*	5.5	*:*	5.5
Portugal	5.6	7.7	2.0	-0.7	-0.4	6.8	1.8	*2.3*	2.9	*3.4*	3.0	*:*	3.6
Slovenia	3.1	7.7	8.1	4.8	6.7	13.4	7.0	*6.6*	8.7	*7.5*	7.5	*:*	7.1
Finland	5.7	8.0	6.6	2.5	3.3	7.4	12.3	*7.0*	7.7	*5.5*	6.5	*:*	6.0
Euro area	3.8	7.9	4.6	0.3	3.1	6.7	5.3	*6.0*	7.5	*4.8*	5.7	*:*	5.8
Czech Republic	20.1	9.8	9.3	5.0	8.0	18.2	4.8	*8.6*	11.3	*8.5*	9.4	*:*	9.2
Denmark	4.4	7.2	7.5	7.5	-1.7	6.4	11.8	*6.3*	14.2	*5.3*	7.6	*:*	6.4
Estonia	:	12.8	13.0	6.0	10.6	15.2	15.9	*11.2*	17.7	*12.0*	15.4	*:*	13.9
Cyprus	:	4.7	3.3	-0.5	-2.3	11.1	3.4	*6.1*	5.5	*6.1*	5.5	*:*	5.6
Latvia	:	7.2	13.0	4.7	13.1	16.6	13.5	*12.6*	17.7	*10.3*	16.3	*:*	11.8
Lithuania	:	7.5	15.2	17.7	10.4	14.9	16.0	*11.4*	17.2	*10.5*	14.9	*:*	13.0
Hungary	12.0	16.9	9.3	6.8	9.3	14.1	6.8	*10.3*	9.6	*9.9*	7.0	*:*	7.2
Malta	:	2.2	1.9	-1.6	6.2	4.3	-1.8	*1.2*	2.7	*2.2*	2.6	*:*	2.5
Poland	15.3	9.7	9.3	2.7	9.3	15.2	3.4	*8.4*	16.6	*8.1*	12.0	*:*	10.5
Slovakia	:	9.6	9.9	4.6	7.6	8.8	16.6	*11.4*	12.3	*11.3*	11.3	*:*	8.2
Sweden	4.4	7.3	4.8	-1.9	5.0	6.4	7.3	*7.7*	7.8	*6.4*	7.0	*:*	5.9
United Kingdom	6.2	8.1	7.2	4.8	2.0	6.6	6.5	*5.2*	16.5	*4.3*	6.2	*:*	5.5
EU25	:	8.1	5.3	1.3	3.3	7.2	5.7	*6.2*	9.3	*5.1*	6.2	*:*	6.1
Bulgaria	:	13.1	12.4	4.9	15.3	14.1	14.6	*10.1*	13.5	*10.9*	11.6	*:*	11.8
Romania	8.1	12.1	17.6	12.0	16.0	22.1	17.2	*15.4*	20.7	*13.3*	16.0	*:*	14.3
USA	8.9	9.2	6.1	3.4	4.1	10.8	6.1	*8.1*	6.6	*4.7*	4.7	*:*	5.1
Japan	6.2	1.3	5.4	0.9	3.9	8.5	6.2	*8.1*	7.7	*9.8*	9.5	*:*	7.5

TABLE 48 : Merchandise trade balance (fob-fob, as a percentage of GDP, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	3.3	3.2	2.6	3.8	3.5	2.7	1.6	*0.9*	1.5	*1.0*	1.5	*:*	1.7
Germany	2.2	3.6	6.7	6.4	6.1	7.0	7.0	*6.3*	6.9	*7.0*	7.4	*:*	7.2
Greece	-12.5	-15.6	-16.8	-16.3	-16.7	-17.7	-16.2	*-16.2*	-16.9	*-16.5*	-16.6	*:*	-16.3
Spain	-3.3	-4.6	-6.4	-5.0	-5.1	-6.3	-7.5	*-8.5*	-8.1	*-9.1*	-8.7	*:*	-9.0
France	0.6	1.0	-0.6	0.5	0.1	-0.4	-1.4	*-2.6*	-2.1	*-2.7*	-2.1	*:*	-2.2
Ireland	16.6	22.3	19.6	25.2	21.8	19.6	16.7	*15.9*	14.7	*14.9*	13.2	*:*	12.4
Italy	2.7	2.1	0.4	1.1	0.7	0.6	0.0	*-0.3*	-0.4	*-0.3*	-0.2	*:*	0.0
Luxembourg	-10.2	-12.7	-10.6	-10.6	-11.2	-10.2	-11.1	*-12.5*	-9.9	*-12.4*	-10.2	*:*	-10.2
Netherlands	5.3	5.3	7.2	6.7	6.5	7.1	7.6	*8.2*	8.3	*8.6*	8.6	*:*	8.9
Austria	-3.3	-1.4	1.2	1.7	0.5	1.2	1.0	*1.7*	1.6	*1.7*	2.0	*:*	2.3
Portugal	-8.9	-10.6	-9.6	-9.7	-8.3	-9.6	-10.4	*-10.9*	-10.0	*-10.7*	-9.5	*:*	-9.1
Slovenia	-1.1	-4.5	-2.8	-1.1	-2.2	-3.8	-3.7	*-4.4*	-3.2	*-4.7*	-2.7	*:*	-2.1
Finland	7.5	10.0	6.9	9.4	7.8	6.7	4.9	*5.0*	5.7	*4.7*	5.3	*:*	4.8
Euro area	1.3	1.7	1.6	2.4	2.0	1.8	1.2	*0.5*	0.9	*0.6*	0.9	*:*	0.8
Euro area, adjusted [1]				1.8	1.4	1.4	0.7	*0.1*	0.5	*0.2*	0.5	*:*	0.5
Czech Republic	-5.2	-5.3	-0.7	-2.9	-2.7	-1.0	1.3	*2.2*	1.8	*3.1*	2.4	*:*	3.2
Denmark	4.1	3.6	3.5	4.6	4.5	3.7	3.1	*3.3*	1.4	*3.5*	1.3	*:*	1.6
Estonia	:	-16.9	-15.6	-15.2	-16.3	-17.4	-13.5	*-13.9*	-15.5	*-14.5*	-17.5	*:*	-19.2
Cyprus	:	-25.0	-26.1	-27.2	-23.7	-26.2	-25.5	*-27.6*	-27.7	*-28.4*	-28.6	*:*	-29.6
Latvia	-7.1	-14.9	-19.1	-15.8	-17.8	-20.3	-18.9	*-20.1*	-22.6	*-19.6*	-23.8	*:*	-23.2
Lithuania	:	-11.3	-10.6	-9.4	-9.0	-10.6	-11.1	*-11.8*	-12.8	*-11.7*	-13.0	*:*	-12.9
Hungary	-5.6	-4.4	-2.6	-3.2	-3.9	-3.0	-1.7	*-2.3*	-1.1	*-2.6*	0.6	*:*	1.9
Malta	-22.9	-17.5	-16.6	-8.4	-13.9	-17.1	-21.1	*-20.0*	-22.4	*-20.1*	-22.6	*:*	-22.8
Poland	-0.1	-6.4	-2.2	-3.7	-2.6	-2.3	-1.1	*-1.5*	-1.3	*-2.2*	-2.0	*:*	-2.6
Slovakia	:	-8.5	-5.3	-9.3	-2.5	-3.8	-5.9	*-4.4*	-5.1	*-2.3*	-2.6	*:*	-1.5
Sweden	4.8	6.9	6.1	6.6	6.1	6.7	5.5	*5.0*	5.4	*5.1*	5.2	*:*	5.2
United Kingdom	-1.9	-3.0	-5.1	-4.5	-4.4	-5.2	-5.6	*-5.9*	-6.0	*-5.9*	-6.3	*:*	-6.5
EU25	:	0.7	0.4	1.0	0.8	0.6	0.0	*-0.5*	-0.3	*-0.5*	-0.4	*:*	-0.5
EU25, adjusted [1]				0.0	-0.1	-0.3	-0.8	*-1.3*	-1.0	*-1.2*	-1.0	*:*	-1.1
Bulgaria	-2.6	-5.7	-15.8	-10.2	-12.5	-15.1	-20.4	*-21.8*	-20.9	*-21.9*	-21.3	*:*	-21.5
Romania	-7.3	-6.1	-8.6	-5.7	-7.6	-8.7	-9.8	*-11.6*	-11.2	*-13.1*	-12.6	*:*	-13.9
USA	-2.1	-3.6	-5.7	-4.7	-5.1	-5.8	-6.4	*-6.8*	-6.5	*-6.6*	-6.3	*:*	-6.3
Japan	2.8	2.5	2.3	2.4	2.5	2.9	1.9	*1.9*	1.9	*1.9*	1.6	*:*	1.5

[1] See note 8 on concepts and sources.

TABLE 49 : Current account balance (as a percentage of GDP, 1992-2008) 24.10.2006

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	4.6	4.8	3.6	5.0	4.5	3.6	2.5	*2.3*	2.4	*2.4*	2.5	*:*	2.9
Germany	-1.1	-0.8	3.3	2.2	2.0	3.9	4.2	*3.3*	4.5	*4.1*	5.3	*:*	5.4
Greece	-0.6	-5.9	-9.4	-9.7	-10.0	-9.5	-9.2	*-7.8*	-8.5	*-7.8*	-8.0	*:*	-7.5
Spain	-1.4	-2.4	-6.0	-3.8	-4.0	-5.9	-7.5	*-8.7*	-8.6	*-9.2*	-9.6	*:*	-10.0
France	0.5	1.9	-0.8	0.8	0.2	-0.6	-2.1	*-1.7*	-2.1	*-1.6*	-2.0	*:*	-2.1
Ireland	1.8	-0.7	-1.8	-1.4	0.0	-1.0	-3.1	*-2.6*	-3.2	*-3.1*	-4.1	*:*	-4.2
Italy	1.0	1.2	-0.8	-0.3	-0.9	-0.5	-1.1	*-1.5*	-1.4	*-1.4*	-1.1	*:*	-0.8
Luxembourg	12.8	10.0	9.8	11.0	6.4	10.6	9.7	*9.2*	11.4	*9.9*	12.2	*:*	12.8
Netherlands	4.8	4.8	7.1	6.0	6.1	8.6	7.1	*6.5*	7.6	*6.7*	8.1	*:*	8.5
Austria	-1.6	-1.0	2.4	2.5	1.7	2.1	2.9	*3.7*	3.0	*4.0*	2.8	*:*	2.7
Portugal	-3.1	-8.7	-8.2	-8.2	-6.5	-7.8	-9.5	*-9.8*	-9.0	*-9.6*	-8.7	*:*	-8.3
Slovenia	2.6	-1.2	-1.3	1.1	-0.8	-2.6	-2.0	*-1.6*	-1.9	*-1.8*	-1.8	*:*	-1.4
Finland	0.6	7.3	6.7	10.0	5.9	7.6	4.6	*2.4*	5.5	*2.0*	5.2	*:*	4.7
Euro area	0.2	0.5	0.4	0.9	0.5	0.8	0.0	*-0.5*	-0.1	*-0.3*	0.1	*:*	0.1
Euro area, adjusted [1]				0.7	0.4	0.6	-0.3	*-0.9*	-0.4	*-0.7*	-0.2	*:*	-0.2
Czech Republic	-2.1	-4.1	-4.9	-6.1	-6.5	-6.3	-2.7	*-2.6*	-3.1	*-2.0*	-2.3	*:*	-1.7
Denmark	1.8	1.2	2.6	2.5	3.2	2.3	2.9	*3.4*	1.9	*3.4*	2.1	*:*	2.3
Estonia	:	-7.0	-11.4	-10.4	-11.5	-12.5	-11.1	*-9.8*	-11.5	*-9.0*	-10.5	*:*	-9.6
Cyprus	:	-1.7	-4.4	-3.8	-0.9	-5.3	-5.7	*-6.1*	-6.0	*-6.0*	-5.9	*:*	-5.9
Latvia	6.0	-7.2	-11.2	-6.4	-8.0	-12.9	-12.5	*-13.1*	-16.1	*-12.6*	-17.4	*:*	-16.6
Lithuania	:	-8.6	-7.1	-5.1	-6.8	-7.9	-6.9	*-7.3*	-8.9	*-7.4*	-9.4	*:*	-9.1
Hungary	:	-8.0	-7.5	-6.9	-7.9	-8.4	-6.8	*-8.3*	-7.3	*-8.5*	-5.1	*:*	-3.5
Malta	:	-6.1	-6.6	1.3	-5.0	-7.5	-11.0	*-12.6*	-10.9	*-12.3*	-10.9	*:*	-11.2
Poland	0.6	-4.2	-2.7	-2.5	-2.1	-4.2	-2.2	*-2.0*	-2.3	*-2.5*	-2.7	*:*	-2.8
Slovakia	:	-6.3	-5.5	-7.3	-2.1	-2.5	-7.9	*-5.7*	-7.8	*-3.4*	-4.8	*:*	-3.4
Sweden	0.9	4.2	6.2	5.3	6.6	6.6	5.9	*5.8*	6.3	*6.0*	6.4	*:*	6.5
United Kingdom	-1.4	-1.5	-1.9	-1.6	-1.3	-1.6	-2.2	*-3.3*	-2.5	*-3.2*	-2.6	*:*	-2.8
EU25	:	0.1	0.0	0.4	0.2	0.3	-0.4	*-0.9*	-0.5	*-0.7*	-0.4	*:*	-0.4
EU25, adjusted [1]				0.0	0.0	-0.1	-0.8	*-1.3*	-1.0	*-1.2*	-0.8	*:*	-0.8
Bulgaria	-4.3	-2.6	-7.8	-2.4	-5.5	-5.8	-11.3	*-12.3*	-13.9	*-11.5*	-13.5	*:*	-12.4
Romania	:	-5.0	-7.5	-1.1	-4.8	-12.7	-8.7	*-10.4*	-10.3	*-12.0*	-11.8	*:*	-13.3
USA	-1.1	-2.8	-5.5	-4.4	-4.7	-5.6	-6.2	*-7.0*	-6.4	*-6.9*	-6.4	*:*	-6.5
Japan	2.5	2.9	3.5	3.1	3.5	4.0	3.6	*3.6*	3.5	*3.4*	3.0	*:*	2.7

[1] See note 8 on concepts and sources.

TABLE 50 : Net lending (+) or net borrowing (-) of the nation (as a percentage of GDP, 1992-2008)

	5-year averages							2006		2007		2008	
	1992-96	1997-01	2002-06	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	4.4	4.8	3.6	4.8	4.4	3.6	2.5	*2.1*	2.8	*2.3*	2.9	*:*	3.3
Germany	-1.1	-0.7	3.3	2.1	2.0	3.9	4.2	*3.2*	4.5	*4.1*	5.3	*:*	5.4
Greece	:	-4.0	-7.9	-8.6	-8.6	-7.7	-7.7	*-6.4*	-7.2	*-6.4*	-6.7	*:*	-6.2
Spain	-0.7	-1.4	-5.0	-2.7	-2.9	-4.8	-6.5	*-8.0*	-7.8	*-8.8*	-9.0	*:*	-9.5
France	0.5	2.0	-0.8	0.8	-0.2	-0.6	-2.1	*-1.4*	-2.1	*-1.3*	-1.9	*:*	-2.1
Ireland	2.9	0.2	-1.6	-1.0	0.0	-0.8	-3.0	*-2.4*	-3.1	*-2.9*	-4.0	*:*	-4.1
Italy	1.1	1.4	-0.7	-0.3	-0.7	-0.4	-0.9	*-1.4*	-1.3	*-1.3*	-0.9	*:*	-0.6
Luxembourg	:	:	:	:	:	:	:	*9.2*	11.4	*9.9*	12.2	*:*	12.8
Netherlands	4.4	4.6	6.9	5.9	5.9	8.4	6.8	*6.4*	7.3	*6.4*	7.8	*:*	8.2
Austria	-1.7	-1.1	2.3	2.3	1.7	1.9	2.8	*3.7*	2.9	*3.9*	2.7	*:*	2.6
Portugal	-0.6	-6.5	-6.3	-6.4	-4.0	-5.8	-7.9	*-8.2*	-7.4	*-8.3*	-7.3	*:*	-7.0
Slovenia	2.6	-1.2	-1.3	1.1	-0.8	-2.5	-1.9	*-1.6*	-2.1	*-1.8*	-2.0	*:*	-1.6
Finland	0.7	7.4	6.8	10.1	6.0	7.3	5.0	*2.5*	5.5	*2.1*	5.3	*:*	4.8
Euro area	0.3	0.7	0.5	0.9	0.5	0.9	0.2	*-0.3*	0.1	*-0.1*	0.2	*:*	0.2
Euro area, adjusted [1]				0.8	0.5	0.8	-0.1	*-0.7*	-0.2	*-0.6*	-0.1	*:*	0.0
Czech Republic	-3.0	-4.0	-4.8	-4.7	-6.3	-6.2	-3.2	*-2.4*	-3.6	*-1.9*	-2.8	*:*	-2.2
Denmark	1.8	1.4	2.6	2.6	3.2	2.3	3.0	*3.4*	2.0	*3.4*	2.2	*:*	2.3
Estonia	:	-7.1	-10.4	-9.9	-10.5	-13.0	-8.4	*-8.5*	-10.3	*-7.5*	-9.2	*:*	-8.3
Cyprus	:	:	:	:	:	:	:	*-5.8*	-5.7	*-5.8*	-5.7	*:*	-5.7
Latvia	11.9	-6.8	-10.2	-6.1	-7.3	-11.8	-11.3	*-11.1*	-14.4	*-10.2*	-15.4	*:*	-14.3
Lithuania	:	-8.6	-6.4	-4.7	-6.4	-7.2	-5.9	*-6.3*	-7.7	*-6.4*	-8.1	*:*	-8.0
Hungary	:	-7.6	:	-6.6	-8.0	-8.1	:	*-7.4*	-6.6	*-7.0*	-3.6	*:*	-1.6
Malta	:	-5.7	-5.0	1.5	-4.7	-6.0	-7.8	*-9.1*	-7.9	*-8.9*	-8.0	*:*	-8.3
Poland	2.4	-4.2	-2.5	-2.5	-2.1	-4.0	-1.9	*-1.7*	-1.8	*-2.2*	-1.4	*:*	-1.2
Slovakia	:	-6.4	-5.9	-9.3	-2.5	-2.3	-8.1	*-5.4*	-7.5	*-3.1*	-4.5	*:*	-3.1
Sweden	0.5	3.9	6.0	5.3	6.6	6.6	6.0	*5.9*	5.6	*6.1*	6.3	*:*	6.4
United Kingdom	-1.3	-1.4	-1.8	-1.5	-1.2	-1.5	-2.0	*-3.1*	-2.6	*-3.1*	-2.5	*:*	-2.7
EU25	:	:	:	:	:	:	:	*-0.7*	-0.4	*-0.6*	-0.2	*:*	-0.2
EU25, adjusted [1]				:	:	:	:	*-1.1*	-0.8	*-1.0*	-0.6	*:*	-0.6
Bulgaria	-4.6	:	:	:	:	-5.8	-11.8	*-12.3*	-13.9	*-11.5*	-13.5	*:*	-12.4
Romania	-3.8	-4.8	:	-1.0	-4.3	:	:	*-10.4*	-10.3	*-12.0*	-11.8	*:*	-13.3
USA	-1.2	-2.9	-5.5	-4.4	-4.7	-5.6	-6.3	*-7.0*	-6.4	*-6.9*	-6.4	*:*	-6.5
Japan	2.5	3.1	3.6	3.2	3.6	4.1	3.5	*3.4*	3.4	*3.3*	2.9	*:*	2.6

[1] See note 8 on concepts and sources.

TABLE 51 : Merchandise trade balance (fob-fob, in billions of Ecu/euro, 2000-2008) 24.10.2006

							2006		2007		2008	
	2000	2001	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	5.3	7.1	10.2	9.7	7.8	4.7	*2.9*	4.7	*3.2*	4.9	*:*	5.7
Germany	62.6	100.7	136.6	131.9	155.2	156.3	*144.0*	159.4	*163.9*	174.0	*:*	174.3
Greece	-23.0	-21.3	-23.4	-26.0	-29.9	-29.3	*-31.3*	-32.9	*-34.0*	-34.6	*:*	-36.4
Spain	-39.9	-38.4	-36.6	-40.2	-53.2	-67.5	*-83.0*	-79.2	*-94.2*	-90.3	*:*	-99.8
France	-2.5	2.4	8.4	2.4	-6.1	-33.9	*-46.6*	-36.8	*-49.3*	-38.8	*:*	-43.0
Ireland	24.9	28.1	32.7	30.3	28.9	26.9	*27.6*	25.6	*27.9*	25.0	*:*	24.9
Italy	10.5	16.7	14.3	9.5	7.7	0.2	*-5.0*	-6.2	*-4.7*	-3.5	*:*	0.4
Luxembourg	-2.8	-3.0	-2.6	-2.9	-2.8	-3.3	*-3.8*	-3.2	*-4.1*	-3.5	*:*	-3.8
Netherlands	23.8	27.0	31.2	31.0	34.5	38.6	*43.0*	43.8	*46.5*	47.6	*:*	52.0
Austria	-3.1	-1.2	3.8	1.2	2.8	2.6	*4.4*	4.2	*4.5*	5.3	*:*	6.3
Portugal	-14.7	-14.5	-13.1	-11.4	-13.8	-15.4	*-16.4*	-15.3	*-16.8*	-15.1	*:*	-14.9
Slovenia	-1.2	-0.7	-0.3	-0.5	-1.0	-1.0	*-1.3*	-1.0	*-1.5*	-0.9	*:*	-0.7
Finland	14.9	14.1	13.5	11.4	10.2	7.7	*8.2*	9.5	*7.9*	9.3	*:*	8.7
Euro area	54.7	117.0	174.7	146.4	140.6	86.6	*43.7*	72.8	*50.9*	79.3	*:*	73.8
Euro area, adjusted [1]	31.6	73.2	128.6	106.1	105.3	54.1	*10.6*	40.3	*17.8*	46.9	*:*	41.3
Czech Republic	-3.4	-3.4	-2.3	-2.2	-0.8	1.3	*2.4*	2.0	*3.7*	3.0	*:*	4.2
Denmark	7.2	8.3	8.5	8.5	7.3	5.2	*7.2*	3.2	*8.1*	2.9	*:*	3.8
Estonia	-0.9	-0.9	-1.2	-1.4	-1.6	-1.5	*-1.7*	-2.0	*-1.9*	-2.6	*:*	-3.2
Cyprus	-2.7	-2.9	-3.0	-2.8	-3.3	-3.4	*-3.9*	-3.9	*-4.2*	-4.2	*:*	-4.7
Latvia	-1.1	-1.5	-1.6	-1.8	-2.3	-2.4	*-3.0*	-3.5	*-3.3*	-4.3	*:*	-4.9
Lithuania	-1.2	-1.2	-1.4	-1.5	-1.9	-2.3	*-2.7*	-3.0	*-2.9*	-3.5	*:*	-3.9
Hungary	-3.3	-2.6	-2.3	-2.9	-2.5	-1.5	*-2.0*	-1.0	*-2.4*	0.6	*:*	1.8
Malta	-0.8	-0.6	-0.4	-0.6	-0.7	-1.0	*-0.9*	-1.1	*-1.0*	-1.1	*:*	-1.2
Poland	-13.3	-8.5	-7.7	-5.1	-4.6	-2.6	*-3.8*	-3.4	*-6.0*	-5.8	*:*	-8.0
Slovakia	-1.1	-2.5	-2.4	-0.7	-1.3	-2.2	*-1.8*	-2.2	*-1.1*	-1.2	*:*	-0.8
Sweden	16.9	16.8	17.2	16.5	18.8	15.8	*14.9*	16.4	*16.0*	16.8	*:*	17.7
United Kingdom	-54.1	-66.3	-75.9	-70.3	-89.8	-100.4	*-109.8*	-114.2	*-114.9*	-125.9	*:*	-136.8
EU25	-3.2	51.7	102.3	82.1	57.9	-8.8	*-61.8*	-39.6	*-61.5*	-45.8	*:*	-61.7
EU25, adjusted [1]	:	-39.6	4.4	-6.7	-29.3	-85.3	*-142.0*	-116.2	*-141.7*	-122.4	*:*	-138.2
Bulgaria	-1.3	-1.8	-1.7	-2.2	-3.0	-4.3	*-5.1*	-5.1	*-5.7*	-5.7	*:*	-6.3
Romania	-1.9	-3.4	-2.8	-4.0	-5.3	-7.8	*-10.7*	-10.8	*-13.0*	-13.4	*:*	-15.8
USA	-497.7	-487.8	-521.2	-495.3	-544.4	-636.3	*-736.8*	-691.4	*-746.7*	-695.9	*:*	-725.7
Japan	126.4	78.4	99.4	93.7	106.4	70.7	*68.2*	66.6	*70.8*	55.6	*:*	55.1

[1] See note 8 on concepts and sources.

TABLE 52 : Current account balance (in billions of Ecu/euro, 2000-2008)

							2006		2007		2008	
	2000	2001	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	10.5	10.6	13.3	12.2	10.5	7.5	*7.1*	7.7	*7.8*	8.3	*:*	9.9
Germany	-33.6	-0.6	46.1	43.6	85.1	94.7	*74.5*	103.0	*96.5*	124.4	*:*	130.3
Greece	-11.1	-12.3	-13.9	-15.6	-16.0	-16.6	*-15.0*	-16.6	*-16.0*	-16.7	*:*	-16.8
Spain	-25.3	-29.5	-27.4	-31.5	-49.4	-67.4	*-84.2*	-84.5	*-94.8*	-99.7	*:*	-111.1
France	15.9	17.6	12.2	3.9	-10.7	-35.3	*-29.9*	-37.1	*-28.7*	-36.2	*:*	-39.6
Ireland	-1.7	-2.0	-1.8	-0.1	-1.5	-3.7	*-4.6*	-5.6	*-5.8*	-7.8	*:*	-8.5
Italy	-1.7	3.6	-4.3	-12.0	-7.3	-15.1	*-21.7*	-20.6	*-21.9*	-16.3	*:*	-11.9
Luxembourg	2.9	2.0	2.7	1.6	2.9	2.4	*2.8*	3.7	*3.3*	4.3	*:*	4.8
Netherlands	26.4	23.1	28.0	28.9	42.1	35.9	*34.2*	40.3	*36.2*	44.9	*:*	49.3
Austria	-2.2	-0.7	5.6	3.9	4.9	7.1	*9.6*	7.8	*10.7*	7.4	*:*	7.4
Portugal	-13.2	-13.3	-11.1	-8.9	-11.2	-14.0	*-14.7*	-13.7	*-15.0*	-13.8	*:*	-13.6
Slovenia	-0.6	0.0	0.3	-0.2	-0.7	-0.5	*-0.5*	-0.6	*-0.6*	-0.6	*:*	-0.5
Finland	11.0	13.1	14.4	8.7	11.6	7.3	*3.9*	9.1	*3.4*	9.1	*:*	8.6
Euro area	-22.5	11.7	63.9	34.5	60.2	2.3	*-38.0*	-7.2	*-24.3*	7.3	*:*	8.2
Euro area, adjusted [1]	-88.8	-21.6	53.3	32.4	49.9	-23.1	*-75.4*	-32.6	*-61.7*	-18.1	*:*	-17.2
Czech Republic	-2.9	-3.6	-4.9	-5.3	-5.5	-2.1	*-2.9*	-3.4	*-2.4*	-2.8	*:*	-2.2
Denmark	2.4	5.6	4.6	6.2	4.5	6.1	*7.5*	4.2	*7.9*	4.8	*:*	5.5
Estonia	-0.3	-0.3	-0.8	-1.0	-1.2	-1.2	*-1.2*	-1.5	*-1.2*	-1.5	*:*	-1.6
Cyprus	-0.4	-0.2	-0.4	-0.1	-0.7	-0.8	*-0.9*	-0.9	*-0.9*	-0.9	*:*	-0.9
Latvia	-0.4	-0.7	-0.6	-0.8	-1.4	-1.6	*-1.9*	-2.5	*-2.1*	-3.2	*:*	-3.5
Lithuania	-0.7	-0.6	-0.8	-1.1	-1.4	-1.4	*-1.7*	-2.1	*-1.9*	-2.5	*:*	-2.7
Hungary	-4.4	-3.6	-4.9	-5.9	-6.9	-6.2	*-7.3*	-6.5	*-7.9*	-4.7	*:*	-3.4
Malta	-0.5	-0.2	0.1	-0.2	-0.3	-0.4	*-0.6*	-0.5	*-0.6*	-0.5	*:*	-0.6
Poland	-10.8	-6.0	-5.3	-4.1	-8.6	-4.2	*-5.1*	-6.0	*-6.8*	-7.8	*:*	-8.5
Slovakia	-0.5	-1.7	-1.9	-0.6	-0.8	-3.0	*-2.4*	-3.4	*-1.5*	-2.3	*:*	-1.7
Sweden	10.8	11.3	13.8	17.9	18.5	17.1	*17.5*	19.3	*19.0*	20.5	*:*	22.1
United Kingdom	-40.8	-35.2	-26.3	-21.6	-28.5	-40.1	*-60.5*	-47.7	*-62.2*	-52.1	*:*	-58.0
EU25	-71.0	-23.5	36.4	17.9	27.9	-35.7	*-97.3*	-57.9	*-86.1*	-45.4	*:*	-46.9
EU25, adjusted [1]	:	-74.0	-0.3	-1.5	-13.7	-87.9	*-150.1*	-110.1	*-138.9*	-97.6	*:*	-99.1
Bulgaria	-0.8	-0.9	-0.4	-1.0	-1.1	-2.4	*-2.9*	-3.4	*-3.0*	-3.6	*:*	-3.7
Romania	-1.6	-2.5	-0.5	-2.5	-7.7	-6.9	*-9.6*	-10.0	*-11.8*	-12.7	*:*	-15.2
USA	-429.9	-413.8	-485.8	-453.5	-522.4	-620.2	*-756.6*	-680.9	*-782.1*	-703.5	*:*	-741.9
Japan	146.9	113.5	127.7	131.6	147.9	133.3	*128.4*	123.8	*128.3*	105.6	*:*	99.8

[1] See note 8 on concepts and sources.

TABLE 53 : Export markets (a) (percentage change on preceding year, 2000-2008) 24.10.2006

							2006		2007		2008	
	2000	2001	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	11.9	1.1	2.4	4.0	8.5	6.4	*7.5*	9.8	*5.9*	6.9	*:*	6.7
Germany	12.3	0.6	3.8	4.0	9.7	6.4	*7.7*	9.7	*6.7*	7.6	*:*	7.0
Greece	9.7	1.6	3.2	4.5	9.5	7.5	*8.2*	10.2	*6.9*	7.7	*:*	7.3
Spain	10.8	0.6	1.9	3.1	8.5	5.9	*6.7*	9.0	*5.8*	6.5	*:*	6.3
France	10.7	0.6	2.9	4.6	8.7	6.1	*7.4*	9.6	*6.0*	6.9	*:*	6.6
Ireland	11.5	0.1	3.2	3.6	8.5	6.0	*7.0*	9.9	*5.5*	6.4	*:*	6.1
Italy	12.3	0.5	3.6	5.1	9.9	7.1	*8.1*	10.1	*6.6*	7.5	*:*	7.1
Luxembourg (b)	:	:	:	:	8.1	5.9	*6.9*	9.5	*5.5*	6.5	*:*	6.4
Netherlands	9.6	0.3	2.3	4.2	8.3	6.1	*7.3*	9.9	*5.7*	6.7	*:*	6.6
Austria	12.5	1.2	2.0	4.6	9.3	6.3	*8.2*	10.0	*6.3*	7.3	*:*	7.2
Portugal	12.5	0.7	1.4	3.9	8.5	6.5	*7.0*	9.7	*5.6*	6.8	*:*	6.5
Slovenia	:	:	:	:	8.4	5.8	*7.7*	9.5	*6.3*	7.6	*:*	7.1
Finland	11.6	0.6	4.0	5.3	9.8	8.8	*9.6*	11.8	*8.1*	9.8	*:*	8.4
Euro area (c)	11.5	0.6	3.1	4.3	9.1	6.4	*7.6*	9.8	*6.3*	7.2	*:*	6.8
Czech Republic	:	:	:	:	9.2	6.6	*8.6*	10.7	*6.6*	7.5	*:*	7.2
Denmark	9.5	0.1	2.6	4.5	8.7	7.3	*8.1*	9.9	*6.5*	7.1	*:*	6.7
Estonia	:	:	:	:	9.7	9.7	*9.3*	11.4	*7.5*	9.5	*:*	8.0
Cyprus	:	:	:	:	7.6	6.7	*7.4*	11.4	*6.6*	7.3	*:*	6.7
Latvia	:	:	:	:	9.2	9.1	*8.5*	13.9	*6.9*	10.6	*:*	9.2
Lithuania	:	:	:	:	10.6	9.2	*9.5*	13.1	*7.8*	10.8	*:*	8.9
Hungary	:	:	:	:	8.9	6.6	*8.1*	10.5	*6.3*	7.6	*:*	7.3
Malta	:	:	:	:	11.0	7.2	*8.6*	9.9	*7.2*	7.0	*:*	6.7
Poland	:	:	:	:	9.6	7.5	*8.5*	10.8	*6.7*	7.9	*:*	7.4
Slovakia	:	:	:	:	10.3	5.8	*8.4*	10.4	*6.5*	7.6	*:*	7.5
Sweden	11.3	-0.4	3.5	3.9	9.3	7.6	*8.1*	10.2	*6.4*	7.2	*:*	6.8
United Kingdom	11.4	0.0	3.0	4.1	9.0	7.0	*7.9*	8.4	*6.4*	6.9	*:*	6.6
EU25 (c)	:	:	:	:	9.1	6.6	*7.7*	9.8	*6.3*	7.2	*:*	6.8
Bulgaria	:	:	:	:	10.5	6.4	*7.7*	8.8	*6.5*	7.1	*:*	6.7
Romania	:	:	:	:	8.7	5.5	*7.2*	8.7	*6.0*	6.6	*:*	6.4
USA	10.8	-2.2	6.5	5.2	10.8	7.3	*8.5*	8.8	*7.4*	7.6	*:*	7.2
Japan	12.5	-2.3	7.9	6.6	12.8	7.6	*9.7*	9.7	*8.2*	8.5	*:*	8.4

(a) Imports of goods to the various markets (incl. EU-markets) weighted according to their share in country's exports of goods.
(b) Included in the figures for Belgium up to 2003.
(c) Intra- and extra-EU trade.

TABLE 54 : Export performance (a) (percentage change on preceding year, 2000-2008)

							2006		2007		2008	
	2000	2001	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
Belgium	-4.0	-0.9	-1.1	0.2	-1.7	-3.9	*-2.4*	-3.5	*-0.8*	-1.5	*:*	-1.7
Germany	1.1	5.6	-0.3	-0.9	0.5	0.6	*-0.8*	0.6	*0.2*	-0.7	*:*	-0.3
Greece	-0.9	-3.1	-10.0	-0.3	-10.9	0.6	*-1.2*	-2.0	*0.0*	-0.6	*:*	-0.9
Spain	-0.7	3.3	1.7	2.0	-3.1	-5.5	*-4.7*	-1.2	*-3.5*	-1.3	*:*	-0.8
France	1.4	2.3	-0.9	-4.4	-3.7	-2.8	*-1.7*	0.7	*-0.5*	-0.4	*:*	-0.5
Ireland	6.2	4.5	1.0	-7.3	-2.8	-3.2	*-1.2*	-6.1	*0.3*	-2.0	*:*	-2.0
Italy	-2.6	-0.6	-7.3	-7.1	-6.5	-7.3	*-4.5*	-4.8	*-3.4*	-3.3	*:*	-3.0
Luxembourg (b)	:	:	:	:	1.0	-2.0	*-1.8*	2.7	*-0.3*	-0.5	*:*	-0.8
Netherlands	2.1	1.0	-1.0	-2.0	1.0	0.2	*-0.2*	-1.1	*1.3*	0.5	*:*	0.2
Austria	0.5	5.5	3.0	-2.3	3.1	-0.5	*-1.0*	-0.5	*-1.0*	-0.2	*:*	-0.7
Portugal	:	0.8	0.1	1.7	-3.7	-5.1	*-2.7*	-2.0	*-0.8*	-1.3	*:*	-0.9
Slovenia	:	:	:	:	4.1	4.2	*0.4*	1.6	*1.1*	1.3	*:*	1.3
Finland	9.9	-0.8	-1.6	-4.9	-4.4	-2.5	*-1.0*	0.4	*-2.1*	-2.6	*:*	-2.1
Euro area (c)	0.7	2.8	-1.3	-2.5	-1.7	-2.1	*-1.8*	-1.1	*-0.7*	-1.0	*:*	-0.8
Czech Republic	:	:	:	:	12.7	4.7	*3.0*	3.7	*3.6*	3.3	*:*	3.3
Denmark	0.4	2.4	1.7	-6.1	-4.1	-0.7	*-1.4*	0.5	*-0.9*	0.1	*:*	0.1
Estonia	:	:	:	:	9.6	16.8	*3.6*	8.3	*4.6*	6.1	*:*	6.3
Cyprus	:	:	:	:	3.9	12.2	*-0.7*	-7.1	*0.0*	-1.3	*:*	-0.7
Latvia	:	:	:	:	1.5	9.7	*4.3*	1.0	*5.8*	4.7	*:*	2.6
Lithuania	:	:	:	:	-7.3	2.9	*0.7*	0.9	*1.3*	1.0	*:*	0.8
Hungary	:	:	:	:	9.2	4.5	*3.8*	2.8	*5.3*	2.6	*:*	1.8
Malta	:	:	:	:	-5.6	-14.0	*-6.3*	-8.1	*-3.5*	-4.2	*:*	-3.5
Poland	:	:	:	:	4.7	0.2	*-0.6*	4.7	*0.3*	1.9	*:*	1.5
Slovakia	:	:	:	:	-0.4	7.3	*4.8*	3.9	*7.4*	7.1	*:*	3.0
Sweden	0.7	-1.7	-1.5	0.9	0.4	-2.5	*-1.1*	-3.0	*-0.1*	-0.7	*:*	-0.7
United Kingdom	0.7	2.7	-4.1	-4.2	-6.9	2.1	*-1.9*	15.1	*-1.5*	-0.4	*:*	-0.6
EU25 (c)	:	:	:	:	-1.6	-1.3	*-1.5*	0.8	*-0.4*	-0.6	*:*	-0.5
Bulgaria	:	:	:	:	:	:	*3.5*	4.8	*4.2*	4.6	*:*	5.0
Romania	:	:	:	:	6.4	1.7	*1.7*	4.0	*3.8*	3.2	*:*	5.3
USA	0.4	-4.0	-9.8	-3.2	-1.6	0.2	*2.2*	1.1	*0.8*	0.3	*:*	0.1
Japan	-0.1	-4.0	0.1	2.4	1.2	-1.9	*-0.1*	-0.2	*-0.2*	-1.8	*:*	-2.0

(a) Index for exports of goods divided by an index for growth of markets.
(b) Included in the figures for Belgium up to 2003.
(c) Intra- and extra-EU trade.

TABLE 55 : World GDP, volume (percentage change on preceding year, 2001-2008) 24.10.2006

							2006		2007		2008	
	(a)	2001	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
EU25	20.8	2.0	1.2	1.3	2.4	1.7	*2.3*	2.8	*2.2*	2.4	*:*	2.4
Euro area	15.2	1.9	0.9	0.8	2.0	1.4	*2.1*	2.6	*1.8*	2.1	*:*	2.2
Belgium	0.6	0.8	1.5	1.0	3.0	1.1	*2.3*	2.7	*2.1*	2.3	*:*	2.2
Czech Republic	0.2	2.5	1.9	3.6	4.2	6.1	*5.3*	6.0	*4.7*	5.1	*:*	4.7
Denmark	0.4	0.7	0.5	0.7	1.9	3.0	*3.2*	3.0	*2.3*	2.3	*:*	2.2
Germany	4.3	1.2	0.0	-0.2	1.2	0.9	*1.7*	2.4	*1.0*	1.2	*:*	2.0
Estonia	0.0	7.7	8.0	7.1	8.1	10.5	*8.9*	10.9	*7.9*	9.5	*:*	8.4
Greece	0.3	5.1	3.8	4.8	4.7	3.7	*3.5*	3.8	*3.4*	3.7	*:*	3.7
Spain	1.7	3.6	2.7	3.0	3.2	3.5	*3.1*	3.8	*2.8*	3.4	*:*	3.3
France	3.3	1.9	1.0	1.1	2.3	1.2	*1.9*	2.2	*2.0*	2.3	*:*	2.1
Ireland	0.3	5.8	6.0	4.3	4.3	5.5	*4.9*	5.3	*5.1*	5.3	*:*	4.3
Italy	2.7	1.8	0.3	0.0	1.1	0.0	*1.3*	1.7	*1.2*	1.4	*:*	1.4
Cyprus	0.0	4.1	2.1	1.9	3.9	3.8	*3.8*	3.8	*3.8*	3.8	*:*	3.9
Latvia	0.0	8.0	6.5	7.2	8.6	10.2	*8.5*	11.0	*7.6*	8.9	*:*	8.0
Lithuania	0.0	6.6	6.9	10.3	7.3	7.6	*6.5*	7.8	*6.2*	7.0	*:*	6.5
Luxembourg	0.1	2.5	3.8	1.3	3.6	4.0	*4.4*	5.5	*4.5*	4.5	*:*	4.2
Hungary	0.2	4.1	4.3	4.1	4.9	4.2	*4.6*	4.0	*4.2*	2.4	*:*	2.7
Malta	0.0	-0.4	2.2	-2.4	0.0	2.2	*1.7*	2.3	*1.9*	2.1	*:*	2.2
Netherlands	1.0	1.9	0.1	0.3	2.0	1.5	*2.6*	3.0	*2.6*	2.9	*:*	2.6
Austria	0.5	0.8	0.9	1.1	2.4	2.0	*2.5*	3.1	*2.2*	2.6	*:*	2.1
Poland	0.5	1.1	1.4	3.8	5.3	3.2	*4.5*	5.2	*4.6*	4.7	*:*	4.8
Portugal	0.3	2.0	0.8	-1.1	1.2	0.4	*0.9*	1.2	*1.1*	1.5	*:*	1.7
Slovenia	0.1	2.7	3.5	2.7	4.4	4.0	*4.3*	4.8	*4.1*	4.2	*:*	4.5
Slovakia	0.1	3.2	4.1	4.2	5.4	6.0	*6.1*	6.7	*6.5*	7.2	*:*	5.7
Finland	0.3	2.6	1.6	1.8	3.5	2.9	*3.6*	4.9	*2.9*	3.0	*:*	2.6
Sweden	0.6	1.1	2.0	1.7	3.7	2.7	*3.4*	4.0	*3.0*	3.3	*:*	3.1
United Kingdom	3.4	2.4	2.1	2.7	3.3	1.9	*2.4*	2.7	*2.8*	2.6	*:*	2.4
Acc/Cand Countries	1.5	-4.3	6.9	5.5	8.2	6.4	*5.6*	6.1	*5.4*	6.1	*:*	6.1
- Bulgaria	0.1	4.1	4.9	4.5	5.7	5.5	*5.4*	6.0	*5.7*	6.0	*:*	6.2
- Romania	0.3	5.7	5.1	5.2	8.4	4.1	*5.5*	7.2	*5.1*	5.8	*:*	5.6
- Croatia	0.1	4.4	5.6	5.3	3.8	4.3	*4.4*	4.5	*4.5*	4.6	*:*	4.5
- Turkey	1.1	-7.5	7.9	5.8	8.9	7.4	*5.8*	6.0	*5.5*	6.4	*:*	6.3
- Former Yugoslav Republic of Macedonia	0.0	-4.5	0.9	2.8	4.1	4.0	*4.3*	3.8	*4.7*	4.5	*:*	5.5
USA	20.6	0.8	1.6	2.5	3.9	3.2	*3.2*	3.4	*2.7*	2.3	*:*	2.8
Japan	6.5	0.4	0.1	1.8	2.3	2.6	*2.8*	2.7	*2.4*	2.3	*:*	2.1
Canada	1.8	1.8	3.1	2.0	2.9	2.9	*3.2*	2.8	*2.7*	2.6	*:*	3.0
Norway	0.3	2.7	1.1	1.1	3.1	2.3	*2.5*	3.0	*2.0*	2.4	*:*	2.2
Switzerland	0.4	1.0	0.3	-0.2	2.3	1.9	*1.8*	2.7	*2.2*	1.9	*:*	1.7
Iceland	0.0	3.3	-1.3	3.6	6.2	6.6	*5.6*	4.1	*0.4*	1.2	*:*	2.5
Australia	1.1	3.8	3.2	4.0	2.3	2.6	*2.9*	2.9	*3.2*	3.2	*:*	2.8
New Zealand	0.2	3.5	4.6	3.6	4.4	2.7	*1.2*	1.6	*2.1*	2.1	*:*	2.4
Industrialised countries	51.8	1.2	1.5	2.0	3.2	2.6	*2.9*	3.1	*2.5*	2.5	*:*	2.6
Others	48.2	4.5	5.1	6.4	7.5	7.3	*6.7*	7.3	*6.4*	6.9	*:*	6.9
CIS	3.7	6.3	5.3	7.9	8.4	6.4	*6.5*	7.1	*6.3*	6.7	*:*	6.7
- Russia	2.5	5.1	4.7	7.3	7.2	6.4	*6.1*	6.7	*5.9*	6.4	*:*	6.4
- Other	1.2	9.0	6.5	9.1	11.1	6.5	*7.2*	8.1	*6.9*	7.2	*:*	7.4
MENA	3.9	0.9	1.8	3.3	5.6	6.9	*5.2*	5.5	*5.0*	5.4	*:*	5.2
Other emerging markets	40.7	4.6	5.3	6.6	7.7	7.4	*6.9*	7.5	*6.6*	7.1	*:*	7.1
Asia	30.6	5.7	6.9	8.0	8.4	8.4	*7.7*	8.4	*7.5*	8.0	*:*	8.0
- China	16.1	8.3	9.1	10.0	10.1	10.2	*9.5*	10.4	*9.0*	9.8	*:*	9.7
- India	6.1	5.1	4.6	8.3	8.1	8.3	*7.3*	8.1	*7.3*	7.4	*:*	7.3
- Hong Kong	0.4	0.6	1.8	3.2	8.6	7.3	*5.8*	5.9	*4.7*	5.1	*:*	4.7
- Korea	1.7	3.8	7.0	3.1	4.6	3.9	*4.9*	4.9	*5.0*	4.0	*:*	4.0
- Indonesia	1.6	3.8	4.4	4.7	5.1	5.6	*5.1*	5.3	*5.5*	5.8	*:*	5.9
Latin America	7.5	0.5	-0.2	2.0	5.5	4.3	*4.3*	4.7	*3.7*	4.0	*:*	3.7
- Brazil	2.6	1.3	1.9	0.5	4.9	2.3	*3.5*	3.3	*3.5*	3.5	*:*	3.5
- Mexico	1.8	0.0	0.8	1.4	4.0	3.0	*3.6*	4.2	*3.4*	3.7	*:*	3.5
Sub-Saharan Africa	2.5	3.9	3.5	3.2	4.8	5.1	*6.0*	4.6	*5.5*	6.1	*:*	5.5
World	100.0	2.7	3.2	4.1	5.3	4.9	*4.6*	5.1	*4.3*	4.6	*:*	4.7
World excluding EU25	79.2	2.9	3.7	4.8	6.0	5.6	*5.2*	5.7	*4.9*	5.2	*:*	5.2
World excluding euro area	84.8	2.9	3.6	4.7	5.8	5.4	*5.1*	5.6	*4.8*	5.0	*:*	5.1

(a) Relative weights, based on GDP (at constant prices and pps) in 2005.

TABLE 56 : World exports of goods and services, volume (percentage change on preceding year, 2001-2008) 24.10.2006

							2006		2007		2008	
	(a)	2001	2002	2003	2004	2005	IV-2006	X-2006	IV-2006	X-2006	IV-2006	X-2006
EU25 (b)	40.4	3.6	1.8	1.7	7.1	5.2	5.9	9.7	5.7	6.5	:	6.2
Euro area (b)	30.5	3.7	1.7	1.1	6.8	4.3	5.4	7.9	5.3	6.0	:	5.8
Acc/Cand Countries	1.2	8.8	10.9	12.9	12.0	7.7	8.3	8.2	8.7	7.6	:	8.1
- Bulgaria	0.1	10.0	7.0	8.0	13.0	7.2	10.1	12.6	9.8	11.2	:	10.9
- Romania	0.2	12.1	17.5	8.4	13.9	7.6	9.0	14.6	9.9	10.6	:	12.2
- Croatia	0.1	8.1	1.3	11.4	5.4	4.6	5.5	6.8	5.8	7.1	:	7.2
- Turkey	0.6	7.4	11.1	16.0	12.5	8.5	7.9	5.2	8.4	5.9	:	6.2
- Former Yugoslav Republic of Macedonia	0.0	:	:	:	:	:	10.0	18.0	9.0	14.0	:	16.0
USA	10.5	-5.4	-2.3	1.3	9.2	6.8	9.2	8.5	8.4	7.2	:	6.8
Japan	5.3	-6.7	7.6	9.0	13.9	7.0	10.0	9.6	8.1	6.9	:	6.3
Canada	3.4	-3.0	1.0	-2.1	5.0	2.2	6.2	1.7	4.8	3.9	:	4.2
Norway	1.1	5.0	-0.8	0.2	0.6	0.7	5.7	3.2	4.4	3.4	:	4.2
Switzerland	1.4	0.2	-0.7	-0.4	8.4	6.4	6.2	7.4	4.8	5.3	:	5.0
Iceland	0.0	-1.9	0.7	1.4	17.2	4.2	6.2	5.3	8.7	8.4	:	9.5
Australia	1.1	0.7	0.3	-0.8	2.2	3.4	5.8	7.1	6.7	6.6	:	6.7
New Zealand	0.2	2.8	5.6	1.0	5.6	-0.7	5.7	5.6	6.6	5.6	:	6.4
Industrialised countries	64.6	0.9	1.6	2.1	7.8	5.4	6.8	8.8	6.3	6.4	:	6.2
Others	35.4	-2.1	8.9	10.5	16.7	11.5	9.8	9.6	9.0	9.3	:	8.7
CIS	3.1	-14.3	-5.2	7.6	17.7	12.0	7.5	7.5	6.9	6.7	:	6.1
- Russia	2.2	-17.2	-7.3	5.9	13.3	12.7	6.9	6.7	5.3	5.9	:	5.1
- Other	0.9	-4.2	1.0	12.4	29.5	10.5	8.7	9.2	10.2	8.7	:	8.4
MENA	4.7	-4.9	6.9	5.0	2.8	8.7	6.1	6.2	6.0	6.1	:	5.5
Other emerging markets	27.6	-0.3	10.8	11.8	18.9	11.9	10.6	10.5	9.6	10.1	:	9.5
Asia	20.8	-0.4	13.9	14.2	20.4	13.5	11.3	11.7	10.5	10.8	:	10.4
- China	6.7	14.8	24.6	29.8	28.4	21.4	16.9	18.5	15.4	16.1	:	15.1
- India	1.0	7.4	15.4	4.6	19.0	14.0	13.0	13.0	10.3	12.0	:	10.3
- Hong Kong	2.8	-2.5	8.8	12.9	15.0	9.9	9.3	9.6	8.5	8.6	:	8.0
- Korea	2.7	-10.0	22.3	14.9	21.1	10.6	9.2	9.2	8.3	8.4	:	8.3
- Indonesia	0.5	-2.5	-2.7	-5.3	15.8	-1.1	7.4	8.0	8.8	8.2	:	8.8
Latin America	5.2	-0.7	1.0	4.9	16.5	7.8	7.7	7.2	6.3	6.1	:	6.4
- Brazil	1.1	10.7	9.4	13.1	17.9	9.3	8.0	5.9	6.7	5.9	:	5.9
- Mexico	1.8	-4.4	0.9	3.3	11.3	4.4	6.8	7.3	5.9	5.5	:	5.9
Sub-Saharan Africa	1.6	2.7	2.3	2.0	8.1	5.3	9.4	4.7	8.6	13.8	:	7.8
World	100.0	-0.1	4.2	5.1	10.9	7.6	7.8	9.1	7.2	7.4	:	7.1
World excluding EU25	59.6	-2.7	5.8	7.4	13.5	9.1	9.2	8.7	8.3	8.1	:	7.7
World excluding euro area	69.5	-1.7	5.3	6.9	12.8	9.0	8.9	9.6	8.0	8.1	:	7.6

(a) Relative weights, based on exports of goods and services (at current prices and current exchange rates) in 2005.
(b) Intra- and extra-EU trade.

TABLE 57 : Export shares in EU trade (goods only - 2005)

	EU-25	Acceding/ Candidate Countries	USA	Japan	Canada	Other Industr. Countries	CIS	MENA	Rest Asia	Latin America	Sub Saharan Africa	World
EU25	67.3	2.6	8.0	1.4	0.7	4.5	2.5	4.0	5.7	1.9	1.4	100
Belgium	77.0	1.4	6.4	1.0	0.7	2.1	1.0	3.1	5.1	1.1	1.1	100
Czech Republic	84.7	2.6	2.6	0.4	0.2	1.8	3.1	1.8	1.7	0.6	0.4	100
Denmark	71.3	0.9	6.5	2.3	0.9	7.6	1.8	2.0	4.9	1.2	0.6	100
Germany	63.7	2.8	8.8	1.7	0.7	5.4	3.1	3.2	7.1	2.2	1.2	100
Estonia	79.2	0.9	3.2	0.3	0.7	3.7	8.9	0.4	1.8	0.5	0.4	100
Greece	57.6	15.5	5.8	0.3	0.7	1.8	3.1	8.6	3.4	1.1	2.2	100
Spain	73.7	2.5	4.1	0.8	0.5	2.8	0.9	5.0	3.1	5.2	1.3	100
France	64.1	2.2	7.4	1.5	0.7	4.3	1.5	7.5	6.5	2.0	2.4	100
Ireland	63.5	0.6	18.8	2.7	0.4	5.4	0.3	1.3	5.2	1.2	0.7	100
Italy	59.5	4.9	8.2	1.6	0.8	5.4	2.9	6.5	5.9	2.8	1.4	100
Cyprus	73.2	1.9	1.9	1.9	0.2	0.8	2.2	11.8	3.9	0.2	1.9	100
Latvia	76.7	0.3	2.7	0.9	0.4	4.3	12.3	0.7	0.7	0.7	0.3	100
Lithuania	65.6	1.6	4.7	0.1	2.8	2.9	17.7	0.3	3.7	0.4	0.2	100
Luxembourg	89.1	1.2	2.2	0.3	0.4	1.6	0.7	1.1	2.1	1.0	0.4	100
Hungary	77.6	7.5	3.1	0.6	0.1	1.7	3.8	2.6	2.0	0.5	0.7	100
Malta	51.0	0.4	14.5	2.1	0.8	0.9	0.6	7.7	18.7	1.3	2.0	100
Netherlands	80.1	1.5	4.4	0.7	0.3	2.7	1.9	2.4	3.7	1.1	1.2	100
Austria	70.1	4.5	5.9	1.2	0.9	6.3	3.0	2.0	4.4	1.0	0.8	100
Poland	77.8	3.1	2.1	0.2	0.6	3.2	8.7	1.2	1.7	0.9	0.4	100
Portugal	80.1	1.1	5.6	0.3	0.5	1.5	0.4	2.0	3.0	1.4	4.2	100
Slovenia	72.8	12.9	2.1	0.1	0.2	1.8	5.8	2.3	1.2	0.4	0.4	100
Slovakia	86.0	3.3	3.1	0.3	0.2	1.1	3.2	0.9	1.2	0.4	0.3	100
Finland	56.0	1.4	6.2	1.7	1.0	4.6	12.4	5.8	7.3	2.2	1.4	100
Sweden	57.7	1.4	10.9	1.6	1.1	11.6	2.4	3.6	6.3	2.1	1.4	100
United Kingdom	54.9	1.6	15.4	1.9	1.6	5.2	1.3	5.6	8.3	1.5	2.5	100

TABLE 58 : World imports of goods and services, volume (percentage change on preceding year, 2001-2008) 24.10.2006

							2006		2007		2008	
	(a)	2001	2002	2003	2004	2005	*IV-2006*	X-2006	*IV-2006*	X-2006	*IV-2006*	X-2006
EU25 (b)	39.8	2.3	1.3	3.3	7.2	5.7	*6.2*	9.3	*5.1*	6.2	*:*	6.1
Euro area (b)	29.4	1.8	0.3	3.1	6.7	5.3	*6.0*	7.5	*4.8*	5.7	*:*	5.8
Acc/Cand Countries	1.5	-7.1	13.6	21.6	20.5	12.1	*10.3*	10.2	*9.1*	8.8	*:*	8.1
- Bulgaria	0.2	14.8	4.9	15.3	14.1	14.6	*10.1*	13.5	*10.8*	11.6	*:*	11.8
- Romania	0.3	18.4	12.0	16.0	22.1	17.2	*15.4*	20.7	*13.3*	16.0	*:*	14.3
- Croatia	0.2	9.8	13.4	12.1	3.5	3.5	*3.6*	6.0	*4.3*	6.8	*:*	5.8
- Turkey	0.9	-24.8	15.8	27.1	24.7	11.5	*9.9*	6.4	*8.2*	6.0	*:*	5.5
- Former Yugoslav Republic of Macedonia	0.0	:	:	:	:	:	*8.3*	12.0	*8.5*	11.0	*:*	14.0
USA	16.3	-2.7	3.4	4.1	10.8	6.1	*8.1*	6.6	*4.7*	4.7	*:*	5.1
Japan	4.8	0.9	0.9	3.9	8.5	6.2	*8.1*	7.7	*9.8*	9.5	*:*	7.5
Canada	3.1	-5.1	1.5	4.1	8.1	7.2	*8.4*	5.8	*6.4*	5.7	*:*	5.6
Norway	0.7	0.9	0.7	1.1	8.9	7.4	*9.6*	7.9	*6.7*	5.0	*:*	5.4
Switzerland	1.2	3.2	-2.6	1.0	7.4	5.3	*6.9*	6.8	*4.7*	5.8	*:*	5.5
Iceland	0.1	-17.8	-5.8	11.4	18.4	24.1	*7.1*	15.8	*-0.2*	2.7	*:*	-0.3
Australia	1.2	-4.0	9.3	7.9	12.8	9.1	*7.1*	8.1	*7.5*	7.4	*:*	8.4
New Zealand	0.3	-2.9	9.7	6.0	12.6	6.2	*7.6*	6.8	*7.8*	7.1	*:*	7.5
Industrialised countries	68.9	0.3	2.2	4.0	8.6	6.2	*7.0*	8.4	*5.5*	6.1	*:*	6.0
Others	31.1	-1.3	8.1	9.6	16.8	7.9	*10.8*	10.5	*9.9*	10.2	*:*	9.4
CIS	2.3	2.5	-1.1	7.0	19.4	16.5	*17.3*	16.3	*14.9*	18.6	*:*	12.5
- Russia	1.4	2.9	-1.2	2.6	16.5	18.0	*22.5*	20.7	*18.5*	24.2	*:*	14.4
- Other	0.9	1.9	-0.8	15.1	24.3	14.3	*9.5*	9.5	*8.8*	8.8	*:*	8.8
MENA	3.1	7.0	4.7	1.9	4.4	9.1	*8.3*	8.9	*7.7*	7.0	*:*	6.0
Other emerging markets	25.8	-2.6	9.3	10.8	18.0	7.0	*10.5*	10.1	*9.8*	9.9	*:*	9.5
Asia	19.6	-4.2	12.5	13.4	20.4	7.1	*11.4*	10.5	*10.7*	10.5	*:*	10.1
- China	5.7	12.5	23.6	32.7	27.2	9.7	*18.0*	15.1	*16.4*	14.7	*:*	14.2
- India	1.3	2.6	4.4	18.5	23.8	24.4	*12.3*	14.1	*8.6*	11.8	*:*	8.5
- Hong Kong	2.7	-1.9	7.4	11.4	13.8	7.4	*8.2*	9.0	*7.9*	8.8	*:*	8.4
- Korea	2.5	-17.5	32.1	6.3	12.5	6.5	*7.7*	7.5	*8.3*	7.4	*:*	8.3
- Indonesia	0.5	-14.9	-1.8	-4.3	42.4	-21.9	*7.6*	7.5	*6.0*	8.6	*:*	6.0
Latin America	4.7	-0.5	-2.2	1.9	12.7	5.9	*7.5*	8.5	*6.7*	7.1	*:*	7.0
- Brazil	0.8	6.8	-10.9	-3.9	14.6	5.2	*6.8*	6.6	*6.9*	7.2	*:*	7.6
- Mexico	2.0	-2.6	1.0	1.1	10.6	0.5	*6.9*	8.2	*6.3*	6.4	*:*	6.4
Sub-Saharan Africa	1.5	12.2	2.3	4.5	3.1	10.0	*9.0*	11.1	*8.0*	10.5	*:*	9.5
World	100.0	-0.2	4.0	5.7	11.2	6.7	*8.1*	9.0	*6.9*	7.4	*:*	7.0
World excluding EU25	60.2	-1.8	5.8	7.4	13.8	7.3	*9.5*	8.8	*8.1*	8.2	*:*	7.7
World excluding euro area	70.6	-1.0	5.5	6.9	13.0	7.3	*9.1*	9.6	*7.7*	8.1	*:*	7.5

(a) Relative weights, based on imports of goods and services (at current prices and current exchange rates) in 2005.
(b) Intra- and extra-EU trade.

TABLE 59 : Import shares in EU trade (goods only - 2005)

	EU-25	Acceding/ Candidate Countries	USA	Japan	Canada	Other Industr. Countries	CIS	MENA	Rest Asia	Latin America	Sub Saharan Africa	World
EU25	66.4	1.7	4.7	2.2	0.5	4.4	4.1	3.6	9.2	2.0	1.3	100
Belgium	72.4	1.0	6.5	2.5	0.6	2.6	1.0	3.0	7.1	1.8	1.6	100
Czech Republic	78.9	1.2	1.5	2.0	0.2	2.5	6.9	0.5	5.4	0.7	0.3	100
Denmark	73.7	1.1	2.7	1.2	0.3	7.1	1.2	1.2	9.6	1.4	0.4	100
Germany	67.0	2.0	4.4	2.4	0.3	5.8	3.2	1.7	10.4	1.9	0.8	100
Estonia	67.0	0.5	1.3	2.3	0.2	1.2	21.5	0.1	5.5	0.3	0.0	100
Greece	63.5	4.5	2.3	1.7	0.2	1.9	4.9	9.7	9.4	1.4	0.4	100
Spain	69.7	1.4	2.4	1.8	0.3	2.6	1.5	6.4	7.2	3.9	2.8	100
France	71.6	1.2	4.5	1.6	0.4	4.4	1.8	5.3	6.2	1.5	1.7	100
Ireland	68.8	0.5	12.6	2.6	0.5	2.6	1.0	0.3	9.9	0.7	0.5	100
Italy	60.2	3.5	3.1	1.5	0.4	3.9	6.6	9.2	7.8	2.3	1.5	100
Cyprus	39.9	1.3	0.7	2.5	0.1	0.6	43.6	5.4	4.8	1.1	0.1	100
Latvia	67.3	0.7	1.9	0.6	0.3	2.1	21.4	0.3	5.0	0.3	0.0	100
Lithuania	56.1	1.0	2.8	0.4	0.2	1.5	32.1	0.3	4.9	0.6	0.1	100
Luxembourg	77.7	0.1	3.4	1.0	0.4	2.0	0.4	1.6	12.9	0.3	0.1	100
Hungary	70.0	3.0	1.6	2.9	0.1	1.0	9.9	0.2	10.7	0.5	0.1	100
Malta	62.6	5.3	4.5	1.9	0.2	1.8	3.3	1.0	18.4	0.5	0.3	100
Netherlands	50.6	0.9	7.2	3.3	0.5	3.6	7.1	4.6	16.9	3.8	1.6	100
Austria	81.3	3.0	2.2	0.9	0.3	4.6	3.0	0.9	2.9	0.3	0.6	100
Poland	75.3	1.5	1.3	1.1	0.2	1.7	11.6	0.4	5.5	1.1	0.3	100
Portugal	76.7	0.7	1.7	1.2	0.2	1.7	3.6	4.3	3.7	3.1	3.2	100
Slovenia	82.0	7.3	1.3	0.7	0.3	1.5	1.2	1.0	3.4	1.0	0.2	100
Slovakia	79.9	1.0	0.5	0.7	0.1	0.7	12.4	0.1	4.4	0.2	0.0	100
Finland	63.2	0.5	3.5	2.9	0.6	3.3	12.4	0.2	11.6	1.4	0.3	100
Sweden	75.1	0.9	3.4	1.8	0.3	7.9	2.3	0.7	5.9	1.3	0.4	100
United Kingdom	58.7	1.6	8.0	3.1	1.3	7.4	1.9	2.3	12.1	1.7	1.9	100

TABLE 60 : World merchandise trade balances (fob-fob, bn. US dollars, 2000-2008) 24.10.2006

							2006		2007		2008	
	2000	2001	2002	2003	2004	2005	IV-2006	X-2006	IV-2006	X-2006	IV-2006	X-2006
EU25	-3.0	46.2	96.5	92.8	71.9	-10.9	-75.4	-49.6	-75.0	-58.2	:	-78.3
EU25, adjusted [1]	:	-35.4	4.2	-7.6	-36.4	-106.1	-173.3	-145.2	-172.9	-155.4	:	-175.5
Euro area	50.5	104.7	164.8	165.4	174.7	107.7	53.3	91.0	62.1	100.7	:	93.7
Euro area, adjusted [1]	29.2	65.5	121.3	119.9	130.8	67.3	12.9	50.4	21.7	59.5	:	52.5
Acc/Cand Countries	-30.0	-13.2	-18.6	-26.5	-37.5	-61.2	-64.7	-76.8	-73.0	-89.9	:	-101.1
USA	-459.2	-436.7	-491.7	-559.5	-676.4	-791.3	-898.9	-864.3	-911.0	-883.8	:	-921.6
Japan	116.6	70.2	93.8	105.8	132.2	87.9	83.1	83.2	86.4	70.6	:	69.9
Canada	45.1	45.6	36.5	41.1	50.8	53.5	75.2	47.0	75.2	40.7	:	37.2
Norway	26.0	25.8	23.4	27.0	32.2	46.8	59.8	57.2	56.0	58.9	:	51.7
Switzerland	-2.5	-2.8	3.3	3.2	5.4	2.5	1.9	2.8	1.8	1.2	:	0.3
Iceland	-0.5	-0.1	0.2	-0.2	-0.5	-1.5	-1.2	-2.3	-0.9	-2.2	:	-1.9
Australia	-4.8	1.7	-5.5	-15.3	-18.1	-13.7	-21.7	-9.2	-22.5	-9.1	:	-12.6
New Zealand	0.7	1.5	0.2	-0.5	-1.4	-2.9	-4.2	-2.3	-4.5	-2.4	:	-3.1
Industrialised countries	-311.6	-261.6	-262.1	-332.1	-441.5	-690.7	-846.1	-814.3	-867.5	-874.3	:	-959.5
Others	261.4	192.5	215.8	284.1	354.0	476.7	598.9	578.5	644.1	595.6	:	589.7
CIS	63.4	49.9	49.2	62.3	92.3	124.2	16.6	144.0	21.0	127.5	:	106.4
MENA	105.3	69.3	68.0	90.9	116.7	189.9	367.2	265.5	394.0	274.8	:	296.5
Other emerging markets	92.7	73.3	98.5	130.8	145.0	162.6	215.1	169.0	229.1	193.3	:	186.8
Asia	61.9	59.0	69.2	88.7	90.2	91.8	89.1	81.4	82.6	82.0	:	73.2
Latin America	10.2	1.0	15.7	23.8	31.3	43.3	62.7	53.4	69.8	63.8	:	65.3
Sub-Saharan Africa	20.6	13.3	13.6	18.3	23.5	27.4	63.3	34.1	76.8	47.5	:	48.3
World	-50.2	-69.1	-46.3	-48.0	-87.5	-214.1	-247.1	-235.8	-223.4	-278.7	:	-369.8

[1] See note 8 on concepts and sources.

TABLE 61 : World current account balances (bn. US dollars, 2000-2008)

							2006		2007		2008	
	2000	2001	2002	2003	2004	2005	IV-2006	X-2006	IV-2006	X-2006	IV-2006	X-2006
EU25	-65.5	-21.0	34.4	20.2	34.7	-44.4	-118.7	-72.3	-105.1	-57.6	:	-59.6
EU25, adjusted [1]	:	-66.2	-0.3	-1.7	-17.0	-109.3	-183.1	-137.6	-169.5	-123.9	:	-125.9
Euro area	-20.8	10.5	60.3	39.0	74.8	2.8	-46.4	-9.0	-29.7	9.3	:	10.4
Euro area, adjusted [1]	-81.9	-19.3	50.3	36.6	62.0	-28.7	-92.0	-40.7	-75.3	-23.0	:	-21.8
Acc/Cand Countries	-15.6	-1.1	-5.3	-13.9	-29.6	-38.1	-43.6	-47.8	-50.1	-61.8	:	-70.7
USA	-396.6	-370.4	-458.3	-512.3	-649.1	-771.3	-923.0	-851.1	-954.1	-893.5	:	-942.2
Japan	135.5	101.6	120.5	148.7	183.8	165.7	156.7	154.8	156.5	134.1	:	126.7
Canada	23.6	21.9	14.9	13.8	20.9	27.0	44.2	17.0	41.8	8.7	:	4.5
Norway	26.0	26.2	24.4	28.9	34.6	49.1	57.2	56.6	49.5	54.7	:	40.5
Switzerland	29.6	21.0	20.9	40.1	46.9	50.0	49.7	51.2	50.1	53.8	:	53.0
Iceland	-0.8	-0.3	-0.1	0.9	1.9	2.9	-1.8	-3.0	-1.3	-2.5	:	-1.8
Australia	-15.3	-7.9	-16.5	-29.7	-40.1	-42.1	-42.9	-42.8	-41.9	-41.4	:	-45.5
New Zealand	-2.7	-1.4	-2.5	-3.6	-6.5	-8.2	-10.4	-7.4	-8.7	-6.7	:	-7.2
Industrialised countries	-281.7	-231.6	-267.7	-306.9	-402.5	-609.2	-832.6	-744.9	-863.5	-812.1	:	-902.4
Others	176.9	115.7	144.4	218.1	274.2	449.7	555.7	494.6	597.1	482.5	:	471.3
CIS	48.1	33.1	30.1	36.1	62.6	87.4	9.8	115.1	12.9	87.1	:	59.0
MENA	67.6	33.7	30.0	55.6	86.0	159.1	381.9	281.1	410.5	292.1	:	315.7
Other emerging markets	61.2	49.0	84.3	126.4	125.6	203.2	164.0	98.4	173.7	103.4	:	96.6
Asia	62.9	65.8	82.4	112.0	112.5	174.6	77.6	60.2	69.8	49.2	:	46.9
Latin America	-4.6	-11.6	5.9	12.5	14.4	23.5	39.6	23.5	46.4	30.4	:	29.6
Sub-Saharan Africa	2.9	-5.2	-3.9	1.9	-1.3	5.1	46.9	14.7	57.5	23.8	:	20.1
World	-104.9	-115.9	-123.3	-88.8	-128.4	-159.5	-276.9	-250.3	-266.4	-329.6	:	-431.1

[1] See note 8 on concepts and sources.

TABLE 62 : Primary commodity prices (in US dollars, percentage change on preceding year, 2000-2008)

SITC							2006		2007		2008	
Classification	2000	2001	2002	2003	2004	2005	IV-2006	X-2006	IV-2006	X-2006	IV-2006	X-2006
Food (0 + 1)	0.4	0.3	0.6	1.3	7.2	3.9	12.2	14.0	6.5	5.3	:	1.5
Basic materials (2 + 4)	5.4	-7.0	1.0	8.7	19.8	10.2	18.6	27.0	-1.6	-0.3	:	-5.7
- of which :												
Agricultures non-food	1.5	-5.2	4.6	7.3	9.8	-0.7	5.2	5.0	0.4	1.3	:	0.1
- of which :												
Wood and pulp	3.4	-10.7	-3.3	6.8	13.3	3.2	-1.0	-0.8	-3.4	-5.2	:	-4.1
Minerals and metals	11.4	-9.6	-4.3	10.9	35.2	24.0	32.5	49.3	-3.2	-1.3	:	-10.0
Fuel products (3)	47.5	-8.9	-0.2	12.5	30.3	43.3	25.0	19.7	3.0	1.0	:	2.4
- of which :												
Crude petroleum	59.1	-12.4	0.2	14.8	31.6	42.8	27.4	21.3	3.1	1.1	:	2.6
Primary commodities												
- Total excluding fuels	3.7	-4.6	0.9	6.1	15.6	8.3	16.8	23.2	0.7	1.2	:	-3.7
- Total including fuels	23.6	-7.5	0.7	9.4	23.4	27.8	21.9	21.0	2.1	1.1	:	0.1
							Crude petroleum - price per barrel (us dollar)					
Brent	28.5	25.0	25.0	28.8	37.8	54.1	68.9	65.6	71.0	66.3	:	68.0

Note on concepts and sources

1. The directorate general for economic and financial affairs (DG ECFIN) produces, under its own responsibility, short- term fully-fledged economic forecasts twice a year: in the spring and in the autumn. These forecasts cover the principal macroeconomic aggregates for the Member States, the Acceding and the Candidate Countries, the European Union as a whole, the euro area and the international environment. Interim forecasts, updating the outlook for the six largest Member States, EU25 and the euro area, are presented in between the fully-fledged forecasts.
2. Data for 2006, 2007 and 2008 are forecasts. The sources for all tables are the Commission services, except where it is otherwise stated. Historical data for Member States are based on the European System of Accounts (ESA 1995). Most Member States have now introduced chain linking in their national accounts to measure the development of economic aggregates in volume terms. For the USA and Japan the definitions are as in the SNA.
3. Tables 5 and 6 on domestic demand and final demand respectively present data including inventories.
4. In Table 16, the data are based on the national index for USA and Japan, and for EU Member States and aggregates prior ro 1996.
5. The potential output gap is calculated with reference to potential output as estimated via a production function, where the increase in the capital stock and the difference between actual unemployment and the NAIRU play a key role.
6. Employment data are based on numbers of persons employed. The concept of full-time equivalent (FTE) is used for Spain, France, Italy, the Netherlands and Poland. Tables 21-27 and 31-32 use data on FTE for these countries.
7. The nominal short term interest rates are defined as the 3-month inter-bank rates. The nominal long term interest rates are defined as the yield on the central government benchmark 10-year bond.
8. EU25 and euro area data are aggregated using exchange rates. World GDP is aggregated using purchasing power standards (PPS). In the tables on world trade and international payments, the aggregation is carried out on the basis of current exchange rates. Tables 48 - 52, 60 and 61 show also EU25 and euro-area "adjusted" balances. Theoretically, balances of EU25 and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU25 or the euro area. However, intra-EU25 or intra-euro-area balances are non-zero because of reporting errors.

   The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading to an overestimation of the surplus. For the past the "adjusted" balances are Eurostat estimates for EU25 and ECB estimates for the euro area. For the future, they are ECFIN's forecasts based on the extrapolation of the discrepancies observed in 2005.
9. Tables 37, 38, 39 and 42 are based on government deficit and debt data for the period 2002-2007, as transmitted by Member States to the European Commission in October 2006. The data are according to ESA95. Interest expenditure includes settlements under swap arrangements and forward rate agreements (Tables 35, 37, 38 and 40).
10. The allocation of mobile phone licences (UMTS) impacts strongly on the general government accounts for some countries in 2000-2007. Tables 35, 37 and 39 include the amounts from the sale of the licences, while the cyclically adjusted balances in tables 41 and 42 exclude these amounts. The amounts in bn of national currency are for BE 0.5, for CZ 7.4, for DK 3.2, for DE 50.8, for EE 0.2, for EL 0.7, for ES 0.5, for FR 1.8, for IE 0.2, for IT 13.8, for HU 52.0, for NL 2.7, for AT 0.8, for PL 8.2, for PT 0.4, for SI 24.3, for SK 3.0, for UK 22.5, for EU25 110.5, and for euro area 72.2.
11. With respect to the RAMS (recently-acceded Member States), and the acceding countries, which are currently in a transition phase, the quality of statistical data may not always be directly comparable to most EU15 Member States.
12. Slovenia has been included in the euro area (EUR13) in the autumn 2006 forecast. This implies that the comparison with the spring forecast must be done with care (comparing EUR13 with EUR12).

Geographical zones are defined as follows :

Euro area :
EUR13 (BE, DE, EL, ES, FR, IE, IT, LU, NL, AT, PT, SI, FI)

Acceding countries :
Bulgaria and Romania.

Candidate countries :
Croatia, Turkey and Former Yugoslav Republic of Macedonia.

Industrialised Countries :
EU25, Acceding and Candidate Countries, USA, Japan, Canada, Norway, Switzerland, Iceland, Australia and New Zealand.

MENA (Middle East and Northern Africa) :
Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Lybia, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen.

Asia :
All countries except Japan and the Asian MENA countries.

Latin America :
All countries.

Africa :
All countries except the African MENA countries.

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ISBN 92-79-01235-5