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**Economic forecast
Autumn 2007**



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European Commission

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2007

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Overview

The EU economy was sound before the turbulence...

The EU and euro-area economies entered 2007 on a strong note thanks to sound domestic fundamentals and favourable global growth. In both areas, real GDP growth remained unchanged in the first quarter of 2007 compared to the previous quarter, at 0.8% quarter-on-quarter (QoQ), well above estimates of potential growth. Economic activity started to ease in the second quarter, to 0.5% QoQ in the EU and 0.3% in the euro area, already before the turbulence broke out in the financial markets. The moderation could, at least partly, be explained by temporary factors such as the return to normal levels of construction investment, which were boosted by the unusually mild winter weather at the start of the year. Looking at the first two quarters together gives a more accurate picture of the cyclical strength at the start of this year.

The EU economy was thus in a relatively good position to weather the turmoil in the financial markets that began during the summer. This repricing of risk in global asset markets has not come as a surprise: risk premia had been unusually compressed in recent years, causing excessive risk taking in the search for yield.

...that tightened financing conditions, increased uncertainty and tilted the risks to the downside...

The current distress was triggered by a rapid increase in defaults in the US sub-prime mortgage market, which is a small segment of the overall US mortgage market. However, as these sub-prime loans have been passed on to other banks / institutions, which subsequently mixed them with different loans or receivables into complex and quite opaque financial products such as collateralised debt obligations (CDOs), these risks have been distributed around the global financial system. For instance, some European institutions without any apparent connection to the US mortgage market were severely hit in recent months. Market participants became reluctant to engage with counterparties until the location of these losses became clearer and their own liquidity needs were fully assessed. While some markets have recovered (at least to a degree), crucial segments of the credit market, such as inter-bank lending, remain seriously disrupted. Even though major intervention by Central Banks to inject liquidity has helped to stabilise the markets, the turmoil has clearly tilted the balance of risks to the downside, in particular as regards the outlook for the US.

...although solid fundamentals limit the downward revision

The Commission's baseline forecast assumes that the turbulence will peter out gradually, although with a reduction in investors' appetite for risk and tighter financing conditions as a result. This would have a certain adverse effect on investment and consumption growth, which could be reinforced by wealth and confidence effects. However, a still benign global environment, high profit margins, confidence indicators remaining above their long-term averages, continued employment growth in the EU and, in some cases, expansionary fiscal policies suggest that growth should hold up reasonably well. Real GDP growth is therefore expected to decelerate from 2.9% this year to 2.4% in both 2008 and 2009 in the EU (and in the euro area from 2.6% in 2007 to 2.2% in 2008 and 2.1% in 2009), close to potential growth. This constitutes a downward revision of 0.3 of a percentage point (pp.) in 2008 for both areas compared to the spring forecast.

Economic growth is being driven by domestic demand, with private consumption taking over as the main engine of growth. Equipment investment is supported by sturdy profits and still favourable demand expectations, while tighter financing conditions are likely to mainly affect construction investment. This would thereby accelerate the ongoing correction of the housing market in some countries like Spain and Ireland.

External sector remains supportive...

Economic activity is also supported by a positive, albeit small, net contribution from the external sector this year in the euro area. The international environment is expected to remain supportive, as a more marked slowdown in the US is largely offset by buoyant growth in the emerging markets. World GDP growth (excluding the EU) should ease slightly from 5.6% this year to 5.3% in 2008 before accelerating again to 5.4% in 2009.

World trade growth (excluding the EU) is set to decline somewhat from around 8% in 2006 to 7¼% this year, reflecting the global slowdown in the manufacturing sector. With world GDP growth sustained above 5% per annum, world trade is expected to remain robust at 7-7½% in 2008-2009.

...in spite of the slowdown in the US...

The slowdown in the US economy appears sharper than expected this spring, with the downturn in the housing market curbing GDP growth to around 2% at present, well below trend. A further decline in residential construction investment is forecast, which would bring the share of residential construction down from a peak of 5.5% of GDP in 2005 to 3.5% by the end of 2008. Although different indicators have sent mixed signals recently, the downturn in the housing sector has affected other parts of the economy to a degree. However, the overall outlook remains for a mid-cycle slowdown in the US, not a recession. Once the housing cycle turns, economic activity could rebound to its potential growth rate.

In Japan, following strong growth at the start of this year activity declined in the second quarter (-1.2% QoQ annualised) due to a slump in business investment. Indeed, capital spending has stalled during the first two quarters, following four years of very strong expansion. Looking ahead, indicators point to real GDP growth at around 2% this year and next, i.e. still slightly above potential, before picking up somewhat in 2009. With nominal wages continuing to decline in 2007 and core inflation declining further to -0.3% YoY in September, the economy remains in mild deflation. Inflation is expected to only turn positive at the start of 2008.

...as it is compensated by buoyant growth in emerging economies

The emerging Asian economies continue to post buoyant growth, with China and India exceeding expectations. For the region as a whole (i.e. Asia excluding Japan), real GDP growth is expected to ease marginally to just below 9% this year (an upward revision of 0.5 pp. compared to the spring forecast). Somewhat weaker export growth and the dampening impact of monetary and administrative measures should lead to a mild deceleration of growth in China over the forecast years, contributing to further growth moderation to 8½% in 2008 and 8¼% in 2009 in the region.

Among the other emerging economies, economic growth remains largely unchanged in the Middle East and North Africa at around 5¼% per year, while some deceleration is foreseen for the other regions. Following better-than-expected growth in Russia this year, where the boost to investment from the liberalisation of the financial account in 2006 was underestimated, economic activity in CIS is set to moderate as this temporary effect fades away, remaining however the second fastest growing region in the world. Real GDP growth is gaining momentum in Sub-Saharan Africa this year, not least because of higher oil production and high oil prices in several countries, which is increasingly supporting a pick-up in domestic demand. Growth is expected to moderate somewhat going forward, from around 7% in 2007 to 6½% in 2008 and 2009. Lastly, the outlook for Latin America also remains favourable following stronger-than-expected GDP growth in the first half of 2007. However, due to the expected moderation in global growth and emerging capacity constraints, GDP growth is projected to ease gradually from 5% in 2007 to around 4¼% in 2009.

Owing to an expected rebound of growth in Turkey, real GDP growth in the candidate countries is forecast to accelerate from 5¼% this year to around 6½% in 2009. The disinflation process is set to continue in Turkey, supported by monetary and fiscal policy, contributing to a more balanced growth ahead.

*...and despite continued
high oil prices*

Although commodity prices have more than doubled since 2003, world GDP growth has remained solid. A certain impact on consumer price inflation has been noted, but, due to e.g. moderate wage behaviour overall, has so far not caused any sizeable second-round effects.

Oil prices have reached new record highs during this autumn, with the cost of a barrel of Brent crude oil exceeding 84 US-dollar at the time of the cut-off date (i.e. 24 October). Compared to mid-January, oil prices have risen by 65% (or by 49% expressed in euro), notwithstanding the fact that oil prices had already more than doubled in the preceding three years. A continued tight oil market, with sustained strong demand and a sluggish expansion of supply, suggest that spare capacity and stock levels could remain under pressure. Consequently, oil prices are assumed to stay high in the near future and range, based on futures prices, between 75 and 81 US-dollar per barrel, corresponding to an annual average increase of 6.6% this year and 11.7% in 2008 before easing somewhat in 2009. Since the cut-off date for the autumn forecast, oil prices have continued to rise and reached 90 US-dollar on 2 November; recent developments in the markets would imply that the oil price assumptions would have been around 6 US-dollar higher per barrel next year (or almost 4 additional euros per barrel also taking into account the further strengthening of the euro). Using the multipliers from the Commission's global macroeconomic model QUEST as a rule of thumb, this would have lowered GDP growth by almost 0.2 pp. next year and increased consumer price inflation by 0.1 pp.

Most non-fuel commodity prices also continued to rise this year, especially food commodities and metals. For example, wheat prices have doubled

over the last year as a result of adverse weather conditions in e.g. Europe, Africa and Australia. Under the assumption that weather conditions normalise and conditions in metal markets eases somewhat, non-fuel commodity price inflation could start to recede in the course of 2008.

Although softening, survey data are still at high levels...

Looking ahead, survey data for the EU have started to decline in recent months. According to the Commission's most recent business and consumer surveys, economic sentiment has weakened in all sectors besides the construction sector. However, the economic sentiment indicators remain well above their long-term averages. National business surveys also have declined in recent months, though almost all remain at elevated levels. This would suggest relatively firm real GDP growth in the coming quarters, broadly in line with potential.

Against this background, both hard and soft data suggest that the peak of the current business cycle is behind us, although data may partly be distorted by special factors (e.g. the impact of the VAT increase in Germany on the quarterly profiles at the turn of this year). For the year as a whole, real GDP growth is expected to ease only marginally to 2.9% in the EU and 2.6% in the euro-area economies (thus unchanged from the spring forecast).

Growth rates continue to vary across EU Member States. This can be partly explained by the ongoing catching-up process in the recently-acceded Member States, but there are also sizeable differences among the euro-area countries. Measured by an unweighted standard deviation, the growth dispersion in per capita terms is expected to decline slightly in 2007. However, this follows exclusively from the impact of the smaller Member States as the dispersion among the five largest countries remains unchanged.

Table 1

Main features of the autumn 2007 forecast - EU27

(Real annual percentage change unless otherwise stated)				Autumn 2007 forecast ¹			Difference vs spring 2007 (a)	
	2004	2005	2006	2007	2008	2009	2007	2008
GDP	2.5	1.8	3.0	2.9	2.4	2.4	0.0	-0.3
Private consumption	2.2	1.7	2.2	2.3	2.4	2.2	-0.2	-0.2
Public consumption	1.5	1.7	2.0	2.0	2.0	1.9	0.2	0.2
Total investment	3.2	3.0	5.9	5.6	3.5	3.4	0.4	-0.7
Employment	0.6	0.8	1.5	1.5	0.9	0.8	0.1	-0.2
Unemployment rate (b)	9.1	8.9	8.2	7.1	6.8	6.6	-0.1	0.1
Inflation (c)	2.3	2.3	2.3	2.3	2.4	2.2	0.1	0.3
Government balance (% GDP) (d)	-2.8	-2.4	-1.6	-1.1	-1.2	-1.1	0.1	-0.2
Government debt (% GDP)	62.1	62.7	61.4	59.5	58.3	57.0	-0.4	0.0
Current account balance (% GDP)	0.4	-0.3	-0.7	-0.8	-0.9	-0.9	-0.1	-0.1

¹ The Commission services' Autumn 2007 Forecast is based on available data up to October 24, 2007.
(a) A "+" ("−") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Spring 2007.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.
(d) Including proceeds relative to UMTS licences.

...suggesting more moderate, but still firm GDP growth ahead...

Going forward, output is set to decelerate to 2.4% in both 2008 and 2009 in the EU (2.2% in 2008 and 2.1% in 2009 in the euro area). This follows, in particular, from the impact of tighter financing conditions and reduced confidence on domestic demand.

...reflecting a still favourable outlook for equipment investment...

Gross fixed capital formation, which has given a significant stimulus to growth since early 2006, is expected to moderate in the coming two years, with a more marked slowdown forecast for construction investment. The recent financial turbulence has caused tighter financing conditions and affected investor confidence negatively. On the other hand, still elevated confidence levels in industry and services, high capacity utilisation rates, sizeable profits and sound balance sheets suggest that the near-term outlook for equipment investment remains relatively favourable.

...and private consumption supported by employment growth

Private consumption picked up again in the second quarter of this year, thereby becoming the main engine of growth – as is to be expected in a maturing business cycle. The initially weaker development of private consumption compared to previous recoveries mainly reflected sluggish employment growth at the start of this upturn on top of rather subdued wage growth. On the back of the turnaround in the labour market situation since early 2006, consumer confidence firmed and consumption growth gradually strengthened (although this trend may have been partly overshadowed in 2006-2007 by the temporary impact of the budgetary measures in Germany). With a still favourable employment outlook, a key question is to what degree consumer confidence will be affected by the distress in the financial markets. So far, confidence remains rather strong, although it should be noted that confidence in the retail sector declined sharply in September 2007 (as regards both the present and the expected business situation). The savings rate is expected to broadly stabilise in the EU, suggesting that private consumption would grow at around 2¼% in the coming two years in line with disposable income.

Although the slowdown of growth in the US economy affects exports in the EU, especially in countries such as Ireland and the United Kingdom, the external sector remains supportive to growth this year. The impact of the appreciation of the euro on euro-area exports should be offset by a broadening of world growth and its ongoing shift in the geographical composition in favour of Asian and oil-exporting economies. Moreover, taking into account the developments in other key currencies, the gains in nominal effective terms have been markedly more moderate (about +3% vis-à-vis +8.5% in the bilateral US-dollar/euro rate until end-October). Following a slight deterioration next year, European exports are forecast to benefit from the acceleration of world growth and world trade growth in 2009.

Strong job creation this year...

Turning to the labour market, employment growth accelerated to 1.5% in the euro area in 2007 (whilst remaining unchanged at 1.5% in the EU), reflecting the lagged response of employment to GDP. This corresponds to 3.6 million new jobs in the EU this year (of which 2.3 million in the euro area). The improvement appears broad-based across all sectors as well as various types of work arrangements (e.g. part-time, full-time, permanent and fixed-term contracts). Employment growth also seems to be largely balanced across Member States this year, although not always accelerating and with Hungary being an exception with declining employment.

Going forward, a deceleration in employment growth to around 1% per year is expected in both the EU and the euro area as the business cycle matures. It follows, in particular, from a marked slowdown of job creation expected in Germany, Spain, and Poland among the larger Member States. However, this is still equivalent to 4.5 million new jobs being created in the EU in 2008-2009 (3.2 million in the euro area) and is expected to bring the employment rate to above 66% of the working-age population in the EU by 2009.

...brings unemployment to a record low...

The unemployment rate fell to its lowest level in more than fifteen years at 7% of the labour force in the EU in the early autumn of 2007. The unemployment rate is expected to continue to decline gradually, albeit at a clearly slower pace, to reach 6.6% in the EU in 2009 (7.1% in the euro area). Although the cyclical upswing is the main factor behind the improved labour market situation in recent years, a decline in the estimated structural unemployment rate has also contributed to lower unemployment.

...causing some upward pressures on wages

With unemployment declining, labour shortages are becoming more common in both the manufacturing and services sectors, especially in Bulgaria, Denmark, the Netherlands and Poland. This tightening of the labour market situation is expected to put some upward pressure on

Table 2

Main features of the autumn 2007 forecast - euro area

(Real annual percentage change unless otherwise stated)				Autumn 2007 forecast ¹			Difference vs spring 2007 (a)	
	2004	2005	2006	2007	2008	2009	2007	2008
GDP	2.0	1.5	2.8	2.6	2.2	2.1	0.0	-0.3
Private consumption	1.6	1.5	1.8	1.7	2.1	1.9	-0.4	-0.3
Public consumption	1.3	1.4	1.9	2.0	2.1	2.0	0.2	0.2
Total investment	2.2	2.7	4.8	4.7	2.9	2.6	0.3	-0.7
Employment	0.5	0.5	1.3	1.5	1.0	0.8	0.1	-0.2
Unemployment rate (b)	8.9	8.9	8.3	7.3	7.1	7.1	0.1	0.3
Inflation (c)	2.2	2.2	2.2	2.0	2.1	2.0	0.1	0.2
Government balance (% GDP) (d)	-2.8	-2.5	-1.5	-0.8	-0.9	-0.8	0.2	-0.1
Government debt (% GDP)	69.6	70.3	68.6	66.5	65.0	63.4	-0.3	0.0
Current account balance (% GDP)	1.0	0.2	-0.1	0.0	0.0	0.1	-0.2	-0.1

¹ The Commission services' Autumn 2007 Forecast is based on available data up to October 24, 2007.

(a) A "+" ("−") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Spring 2007.

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

(d) Including proceeds relative to UMTS licences.

nominal wage growth. Compensation of employees per head is therefore forecast to accelerate from 3% this year to 3.6% in 2008 in the EU, before easing somewhat in 2009. Similarly, euro-area wage growth is set to pick up from 2.6% in 2007 to 3.1% in 2008 before moderating to 2.8% in 2009. An easing in 2009 may appear somewhat counterintuitive, but is above all explained by the impact of contract renewals, one-offs and catching-up measures in 2008, particularly in Germany, Italy and Finland, which, at least in the German case, followed several years of wage restraint.

Sustained labour productivity growth is expected over the forecast horizon that, at 1.3% in 2009 in the euro area and 1.6% in the EU, hovers around their long-term averages. This limits the rise in unit labour cost over the forecast period across most Member States. After several years of low actual productivity growth in the 1990s, the decline in trend labour productivity growth seems to have come to a halt, although at this stage there is no robust evidence of a pick-up in the underlying trend.

Contained inflation so far this year...

Inflation has remained relatively contained during the first three quarters of this year. Headline HICP inflation decelerated to 2.1% on average in the EU and 1.8% in the euro area. Indeed, euro-area consumer prices remained below the 2% threshold for twelve months in a row until September this year, when energy prices pushed the inflation rate above 2% again. The main reason behind this development is the strong increase in oil prices during 2006, which caused favourable base effects in energy price inflation (YoY) during the first three quarters of this year. Core inflation (which excludes energy and unprocessed food), on the other hand, continued to drift up. The gap between headline and core inflation that has been observed over the last two years has therefore been closed. Indirect and second-round effects of high oil prices still appear to be relatively limited, as the pick-up in core inflation reflects, in particular, the impact of the German VAT hike by 3 pps. at the start of this year as well as strong increases in primary commodity prices.

...but higher commodity prices cause inflation to accelerate

Going forward, euro-area inflation is expected to rise to 2.4% in the fourth quarter of this year reflecting base effects turning unfavourable and commodity prices on the rise, while unit labour costs remain relatively moderate. Consumer price inflation is expected to come back to around 2% in the second half of 2008 for the remainder of the forecast horizon on the back of an assumed easing of oil prices. A similar pattern is expected in the EU as a whole, albeit at a slightly higher level. This corresponds to a certain upward revision of annual consumer price inflation: to 2.3% this year and 2.4% in 2008 in the EU, before easing slightly to 2.2%, while accelerating from 2% this year to 2.1% in 2008 in the euro area, before decelerating somewhat to 2% in 2009.

Large current-account deficits may support income convergence, but entail risks

The current account is broadly in balance for the EU and the euro area, but varies across Member States. In some of the recently-acceded Member States, a sizeable deficit may be linked to a catching-up process where external savings, especially in the form of foreign direct investment, could play an important role supporting income convergence. Indeed, most of these countries also display buoyant investment growth and an annual

labour productivity growth of 5% or more. However, persistently large (and in some cases growing) deficits and external debts could raise some concerns about sustainability and vulnerability. This may reflect, for example, difficulties in financing large external deficits in an environment of shifting risk preferences in the global markets; or problems in adjusting the external position once the upswing of a strong credit boom has run its course.

Unexpected revenue gains improve the budgetary outlook this year...

Public finances are set to improve further this year. The general government deficit is expected to decline from 1.6% of GDP in 2006 to 1.1% in 2007 in the EU (and from 1.5% to 0.8% in the euro area). This follows, in particular, from stronger-than-expected revenue growth in the euro area, which has been revised up to 4.9% from 4.2% in the spring forecast. However, parts of these windfall gains have been used for additional expenditure this year and next in some of the Member States. Expenditure growth in the euro area is now forecast at 3.1% in 2007 (up from 2.8% in the spring forecast). For 2008, a slight deterioration in the deficit is expected: to 1.2% of GDP in the EU and 0.9% in the euro area, also taking into account the moderation in economic activity. Based on the usual no-policy-change assumptions, the deficits are forecast to broadly stabilise in 2009 in both areas.

...but a worsening is expected for some countries

At the Member State level, the budgetary developments are more diverse than forecast this spring. While the outlook is for an improved budgetary position in most euro-area economies, a worsening is now expected for Ireland throughout the forecast period as well as, although to a lesser extent, for Belgium and Greece this year. The deterioration anticipated for the Netherlands this year is expected to be largely made up for over the coming two years. Conversely, the outlook for 2007 has improved particularly for Germany and Italy, even though the fiscal consolidation projected in the spring for the latter country was slightly higher. A significant improvement is also foreseen for Portugal with the deficit falling below the 3% of GDP threshold in 2008. As regards the four Member States outside the euro area that are currently subject to the excessive deficit procedure (EDP), the budgetary positions improve significantly in Hungary, with the deficit falling from 6.4% this year to 4.2% in 2008, the Czech Republic and Slovakia, while the deficit is set to rebound in Poland above the threshold in 2008 on account of an expansionary budget. Outside the countries currently in EDP, the deficit in Romania is expected to widen significantly and could reach 3.9% of GDP in 2009.

Fiscal consolidation comes to a halt

Taking into account temporary measures and cyclical factors, the estimated structural deficit is also declining this year (from around 1½% to 1% in the EU and from about 1% to ¾% in the euro area). However the decline is less pronounced than for the nominal balance, reflecting a slowdown in fiscal consolidation. On the basis of the usual no-policy-change assumption and the information from the 2008 budgets available at the time of the forecast, no further improvement in the structural balance is expected for 2008 and 2009.

The general government gross debt ratio is maintaining its decline from the 2005 peak. It is expected to decrease by more than 5 pps. between 2006 and 2009 to 63.4% of euro-area GDP. As for the EU as a whole, the debt is forecast to gradually decline, falling below the 60%-of-GDP reference value already in 2007.

Downside risks on growth prevail...

Summing up, the economic outlook in the EU and the euro area is for a moderation of GDP growth to around potential during the forecast period. Consumer price inflation is expected to temporarily accelerate to 2.4% in the fourth quarter of 2007 in the euro area, before coming back to around 2% in the third quarter of 2008 for the remainder of the forecast horizon. However, there are several risk factors to both the growth and the inflation outlook. The balance of risks for economic growth is now clearly tilted to the downside and to the upside for consumer price inflation.

The major downside risks relate to the recent turmoil in the financial markets and a sharper and/or more protracted slowdown in the US economy. While most financial markets have returned to a broadly normal functioning, significant disruptions persist in crucial market segments, signalling a continued lack of confidence affecting credit and liquidity provisions. The lack of transparency of market participants' exposure to the underlying risks could imply that the confidence effect may last for a protracted period of time. In that event, credit conditions and credit availability could be more seriously affected than assumed in the forecast. This could affect *inter alia* housing markets adversely, especially in the US, but also in the EU, thereby deepening and prolonging the ongoing corrections. The impact of a further tightening of lending conditions and reduced credit availability would affect Member States in different ways. Countries having had a housing boom in the recent past, with high external debt or a high share of debt at variable interest rates are likely to be more exposed than others.

Further downside risks relate to a disorderly unwinding of global imbalances in general, even if the current outlook already predicts a certain reduction of the US current-account deficit. Moreover, persistent large current-account imbalances could enhance the risk of protectionist measures. Other downside risks relate to adverse developments in oil prices.

On the other hand, there are a number of upside risks. Commodity prices could well decrease over the forecasting period or the growth momentum in emerging markets could surprise on the upside. The dynamics in the

labour market may also have been underestimated, giving an additional boost to labour income and consumer confidence. This could facilitate a return to a trend decline of the savings rate following the temporary rise after the burst of the dot-com bubble at the start of this century – thereby yielding further support to private consumption.

...while there are upward risks on inflation

Risks appear to have increased also as regards the inflation outlook. This follows, in particular, from the rise in commodity prices where the up-tick in food prices might have boosted inflationary expectations and pressures recently. Indeed, the strong increase of consumer price inflation expected for October (up to 2.6% YoY) from 2.1% in September according to Eurostat's flash estimate, released after this forecast's cut-off date) seem to suggest a more pronounced impact from food and energy prices. However, the marked increases in oil prices (in US-dollar) have had a relatively muted impact in recent years, owing to the competitive pressures of globalisation, a decline in the inflation of other goods and the appreciation of the euro, which partly offset the effect of higher oil prices on domestic inflation. Nevertheless, it cannot be excluded that there may be non-linearities at play, possibly implying that oil prices above a certain threshold could influence domestic inflationary pressures to a greater extent.

Box 1: Some technicalities behind the forecast

The overall cut-off date to take new information into account when preparing this macroeconomic outlook was 24 October 2007. However, unemployment data have been revised thereafter following a major methodological change (see Eurostat's press release n°149/2007, 31 October 2007).

External assumptions

This forecast is based on a set of external assumptions. These assumptions reflect the market expectations at the time of the forecast. To shield the assumptions from possible volatility during one specific trading day, averages from a 10-day reference period have been used for exchange and interest rates as well as for oil prices.

Exchange and interest rates

The technical assumption as regards exchange rates has been standardised using fixed nominal exchange rates for all currencies. They are kept constant based on the averages from 5 to 18 October. This technical assumption leads to implied average USD/EUR rates of 1.36 in 2007, 1.42 in 2008 and 2009, and average JPY/EUR rates of 161.7 in 2007, 165.8 in 2008 and 2009.

Interest rate assumptions are now market-based instead of judgemental as was the case up until the autumn 2006 forecast. Short-term interest rates for the euro area are derived from future contracts. Long-term interest rates for the euro area, as well as short- and long-term interest rates for other Member States, are calculated using implicit forward swap rates, corrected for the spread between the 3-month inter-bank interest rate and the 3-month swap rate. In cases where no market instrument is available, a fixed spread vis-à-vis euro-area interest rates is taken for both short- and long-term rates. The reference period is from 5 to 18 October 2007. As a result, short- and long-term interest rates are expected at 4.3% on average in 2007 and 4.4% in 2008 in the euro area. For 2009, short-term interest rates are assumed at 4.3%, while long-term interest rates are at 4.5%.

Commodity prices

Commodity prices are also 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 70.6 USD/bl in 2007, 78.8 USD/bl in 2008 and 76.0 in 2009, c.f. table 62. This would correspond to an oil price of 51.8 EUR/bl. in 2007, 55.6 EUR/bl. in 2008 and 53.6 EUR/bl. in 2009.

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-linked series are based on previous year's prices (instead of prices from a given base year), which are then 'chained' together.

Budgetary data

Data up to 2006 are based on government debt and deficit data transmitted by Member States to the European Commission in October 2007. In publishing these data, Eurostat has amended the deficit and debt data for Belgium for 2005 and 2006 and, more marginally, the deficit for the United Kingdom for the years 2003-2006. For Greece, the Commission has used new GDP figures that, according to Eurostat, have been revised upwards by 9.6%.

For 2008, budgets adopted or presented to parliaments and all other measures known in sufficient detail are taken into consideration. For 2009, the "no-policy change" assumption used in the forecasts implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail.

The general government balances reported by Member States to the European Commission may be slightly different from those published in the national accounts. The difference concerns settlements under swaps and forward rate agreements (FRA). According to ESA95 (amended by regulation n°2558/2001), swaps and FRA-related swaps are financial transactions and therefore excluded from the calculation of the government balance. However, for the purposes of the excessive deficit procedure, those flows are still booked as interest.

Calendar effects on GDP growth and output gaps

The number of working days may differ from one year to another. For 2005 and 2006, the effects were negative of around -0.1 pp. each year, while it is estimated to be close to neutral in 2007.

Annual GDP figures are not adjusted for the number of working days, while quarterly figures mostly are. The calculation of potential growth and the output gap does not adjust for working days. Since it is considered temporary, it should not affect the cyclically-adjusted balances.

Chapter 1

The world economy

1. Global growth is withstanding the US slowdown

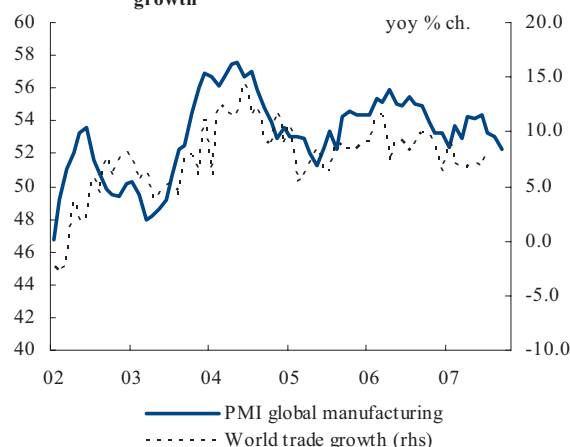
The outlook for the global economy remains largely positive, but the downside risks have clearly increased. This is mainly due to a sharper housing downturn in the US, which has triggered distress in the credit markets. However, the slowdown of the US economy is anticipated to be largely offset by the strong expansion of other regions of the world, in particular Asia. All in all, world GDP growth is projected to ease gradually to 5.1% this year and 4.7% next year, before picking up slightly to 4.8% in 2009.

The main uncertainty of these projections lies in the magnitude of the US slowdown, which has proved to be sharper than expected in the spring forecast. The steep fall in residential investment has depressed growth to below trend, with spillover effects on employment. It has also triggered a re-assessment of risk on the financial markets, initiated by rising defaults in the sub-prime mortgage market. While a certain decoupling between the US economy and the rest of the world has been observed so far, some economies are particularly dependent on US imports and would therefore be affected by a sharper and longer-lasting reduction of consumption growth in the US. In the same vein, a worsening of the situation in the credit markets would lead to a further tightening of financing conditions which could affect confidence and the global economy.

GDP growth is supported by emerging economies...

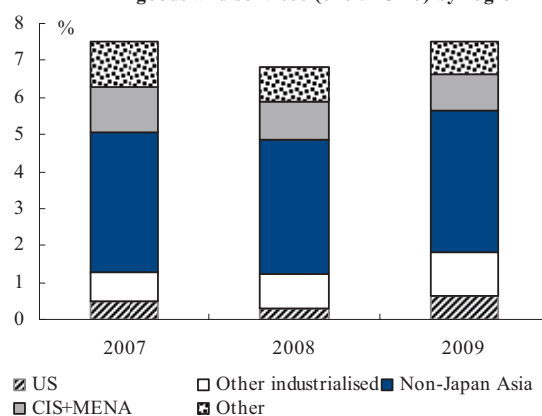
As discussed, the recent developments in the global economy have shown a decoupling between the US and the rest of the world. While the underlying growth rate of the US economy is now clearly below potential, many emerging economies have accelerated more than expected in the spring forecast. They are likely to sustain high rates of growth next year, thus putting a floor under the moderation in global growth expected for 2008. In 2009, the rebound of US GDP growth should lead to a slight acceleration in global activity. Due to weaker US import growth, world trade growth has moderated in the first half of 2007. The global manufacturing PMI indicator, which is normally a reliable indicator of world trade growth, suggests a further decline in the second half of the year. Therefore, growth in global imports of goods and services (excluding the EU) is projected to decrease to 7.8% in 2007 and 7.1% in 2008, before edging up to 7.7% in 2009.

Graph 1.1.1: Global manufacturing PMI and world trade growth



The decline in import growth is particularly strong for the US, whose contribution to world trade growth is now expected to be about 1 pp. below that of 2006, at about 0.6 pp. in 2007 and 0.5 pp. in 2008. This slowdown should have knock-on effects on other economies, thus explaining the moderation of trade projected in other regions. However, in terms of robustness of the global economy, it is a noteworthy fact that several poles are taking over as drivers of world growth, with some of them particularly resilient to the US slowdown. Apart from Asia (especially China and India), the most outstanding cases are the MENA (Middle East and North Africa) and CIS (Commonwealth of Independent States) countries, whose contribution to world trade growth should remain above 1 pp. in 2007 and 2008.

Graph 1.1.2: Contribution to growth of world imports of goods and services (excl. EU 27) by region



However, the resilience of these economies to a long-lasting and sharper-than-expected downturn of the US may be questioned. First, a stagnation of US imports could entail an increase in the current-account deficit of emerging economies (especially in the non-oil-producing CIS countries) and, therefore, lead to a marked depreciation of their currencies. Second, the banking systems of these economies are still fragile and could be affected by their exposure to the US situation, with possible repercussions on domestic consumption and investment.

In terms of global current account imbalances, however, the slowdown of US imports, together with strongly rising exports, is having the positive consequence of reducing the deficit in US external accounts. The domestic counterpart is a rise in the household saving rate which should more than offset a projected increase in the fiscal deficit of general government. Nevertheless, the US current account deficit, even though decreasing, is projected to remain above 4% of GDP throughout the forecast period.

... but is threatened by the turmoil in the credit markets

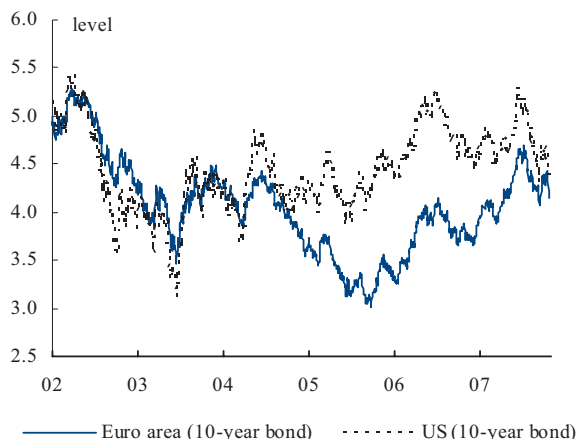
A widespread re-pricing of risk started on the credit markets during the summer. It was triggered by a rapid increase in defaults in the US sub-prime mortgage markets. Due to the complexity of new financial instruments, such as securitisation derivatives, risk has become increasingly difficult to assess for investors, leading to a loss of confidence. As a result, financing conditions have begun to tighten globally.

On inter-bank markets, the spreads between key interest rates and short-term rates have increased due to a rise in the perceived default risk. The spread between the euro-area key interest rate – the minimum rate of submission to the main refinancing operation – and the EURIBOR 3 months reached 75 basis points in October, reflecting heightened nervousness. The same phenomenon was observed on the US market. The repeated injections of liquidity by the ECB and the US Federal Reserve in order to abate tensions have not deterred banks from hoarding excess liquidity, therefore pushing the short-term interest rates higher than usual. Despite the 50-bps-cut of the key policy rate in September and expectations of further reduction, the US 3-month rates are only 25 basis points lower than six months ago, at about

5.10% on 24 October. In the euro area, they are about 75 basis points higher than their spring level, due to both the monetary tightening of the ECB and an increased spread stemming from the higher counterpart risk. On 24 October, they stood at about 4.65%.

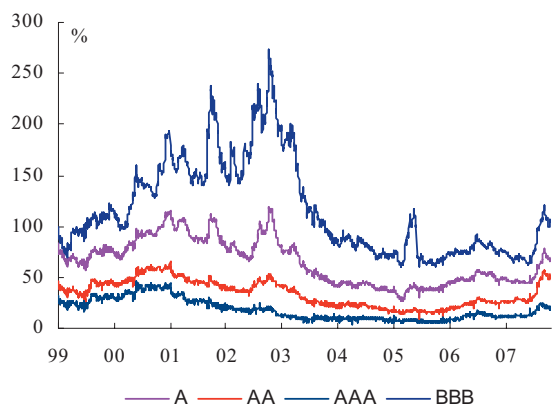
On the bond markets, a general flight to quality caused US interest rates to decrease. This started in mid-July, in conjunction with the downward revision of growth expectations and the monetary policy loosening. On 24 October, the 10-year benchmark rate had declined to about 4.35%. In the euro area, due to different growth scenarios, the developments were somewhat less pronounced. On 24 October, the 10-year rate stood at 4.15%, close to its spring levels.

Graph 1.1.3: Long-term interest rates, euro area and US



At the same time, the yield spreads between corporate and government bonds have increased on all the ratings, due to a sudden reassessment of counterparty risk. In an historical perspective, these yield spreads remain at low levels. However, a further tightening cannot be ruled out. In parallel, banks could also respond to the financial turmoil by a quantitative restriction of credit. In the euro area, while the annual growth rate of loans to the private sector increased to 11.2% in August (and following the cut-off date, to 11.0% in September), the ECB Bank Lending Survey for the third quarter of 2007 expects a deterioration of credit conditions. If this were to become a global phenomenon, it could weigh appreciably on world growth.

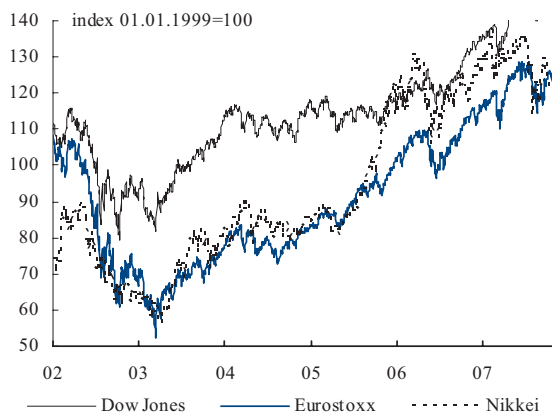
Graph 1.1.4: Corporate yield spreads in the euro area



However, stock markets overcame the turmoil ...

Global equity prices also registered a correction in August 2007. This stemmed from a worsening of the situation on the US sub-prime mortgage markets, and subsequent decisions by major banks to temporarily close some funds. While this closure was purely technical, it triggered fears of an extension of the crisis to other markets. The correction of equity prices was particularly severe for the banking sector. After the emergence of a shortage of liquidity on the money market, and the subsequent intervention of both the ECB and the Fed, banking shares lost up to 20%. However, they started to rebound on 17 August, when the Fed announced a cut in its discount rate by 50 bp.

Graph 1.1.5: Stock prices on world markets



Since then, losses have been mostly recovered. Stock markets have been buoyed up by the Federal

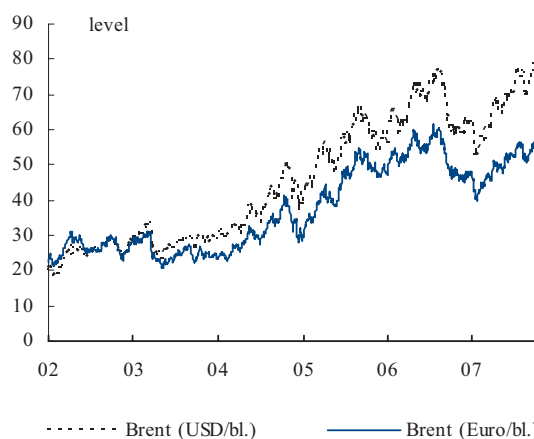
Reserve's monetary policy easing as well as the status quo stance of the ECB. However, after the crisis of mid-2006 and that of February-March 2007, this last episode signals an increased nervousness of investors to any adverse developments in global economic conditions.

...and oil prices are still on the rise

After having eased to almost USD 50/bl in January 2007, oil prices have started to increase again. They are now about 40% higher than at the beginning of the year, oscillating around the level of USD 80/bl. In euro terms, however, the increase is more limited.

This increase comes from both supply-side and demand-side factors. From the supply side, geopolitical tensions are strong, especially regarding the Iran nuclear programme. In addition, US stockpiles of crude oil are decreasing, while bottlenecks persist in the refinery process. From the demand side, world oil demand is expected to continue to rise in the medium term, in connection with the buoyant GDP growth of emerging economies.

Graph 1.1.6: Oil prices (Brent) in USD and €



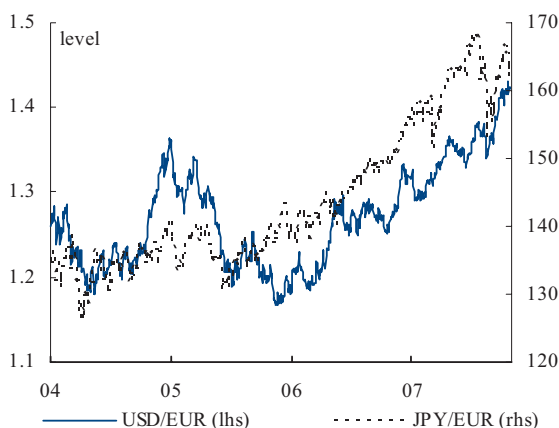
Against this background, oil prices are assumed to remain high over the forecast period. Contracts in the futures market indicate that oil prices may range from USD 75 to USD 81 per barrel in the near to medium term. Based on such contracts, the forecast assumes the price of a barrel of Brent to average USD 70.6 per barrel in 2007, USD 78.8 in 2008 and USD 76.0 in 2009.

At the same time, the real exchange rate of the euro has continued to appreciate

The euro reached an all-time high against the US dollar, trading above 1.40 USD in October. This is an outcome of the relative downward revisions in expected GDP growth, which have been more significant for the US than for the euro area. In addition, the monetary policy loosening by the US Federal Reserve has reduced the interest rate differential between the two regions. Finally, the unwinding of yen carry-trades has also played a role, although a smaller one than what might have been expected from a US downturn. However, gains in nominal effective terms have been markedly more moderate, with an appreciation of about 3% on one year.

Although the Japanese economy has recovered from the last recession, deflation persists and nominal key interest rates are still very low. As a result, the euro reached a new all-time high against the yen in July, before losing some ground after the start of the financial market crisis. With the recovery of the stock market and the disappointing outturn for Japanese GDP growth in the second quarter of 2007, the euro has edged up and is oscillating close to its historical high against the yen, at about 160 JPY.

Graph 1.1.7: Euro exchange rate, USD and JPY



While the weakness of the US dollar is improving US trade, thereby lowering the US current account deficit and global external imbalances, a continuous slide, particularly in isolation from other adjustment in other parities, would have knock-on effects on the EU

economies. Furthermore, the widening of the trade balance between China and both the EU and the US suggests that exchange rate misalignments persist.

Outlook by region

World GDP is expected to ease slightly in 2007 and 2008 to respectively 5.1% and 4.7%, before edging up to 4.8% in 2009. Compared to the 2007 spring forecast, this represents an upward revision for this year which stems essentially from better-than-expected growth in Asia (excluding Japan), Latin America and the CIS countries. However, the moderation of world GDP growth next year will be more pronounced than projected in the 2007 spring forecast, the discrepancy coming from the sharper-than-expected slowdown of the US economy. In line with this scenario, world trade growth is also expected to gradually decelerate, from an estimated annual rate of around 9% in 2006 to around 7.8% in 2007 and 7.1% in 2008, before rebounding to 7.7% in 2009.

After three years of rapid expansion, the US economy shifted to a growth path below trend last year. Between the second quarter of 2006 and the second quarter of 2007 real GDP increased by 1.9%. The slowdown has been concentrated in the housing sector with declining residential investment subtracting 1 pp from GDP growth. Although house prices have started to decline and negative wealth effects are likely to materialise in the near term, consumer spending has so far continued to expand at a solid rate. GDP growth should still reach 2.1% in 2007.

However, the housing downturn has turned out to be more pronounced and more protracted than previously expected. This has led to a significant downward adjustment of projected GDP growth for next year to 1.7%. The main reason is sharply lower consumer spending growth, as the fall-out from the housing correction takes hold. Business investment should also remain subdued, partly because of tighter credit conditions. On the other hand, improving net exports will provide a considerable offset on overall economic activity against the background of past dollar depreciation and robust growth in many export markets. The housing recession is expected to bottom out in the second half of next year, which should allow the economy to recover slowly towards potential, resulting in annual growth of 2.6% in 2009.

The **Japanese economy** should continue to grow at a moderate pace, decreasing to 1.9% in 2007 and 2008 from 2.2% in 2006. While private consumption has proved to be rather strong, especially given the still decreasing nominal wages, business investment fell unexpectedly in the second quarter of 2007, leading to a contraction of GDP. However, private investment is expected to pick up rapidly, against the background of high corporate profits and a rising external demand, especially from the rest of Asia. At the same time, private consumption is projected to be supported by a moderate rise in household income, as wage growth is expected to gear up over the forecast horizon. For 2009, GDP growth is set to edge up to 2.3%.

Economic growth in the **other Asian economies** is expected to continue on a strong footing over the forecast period, although the aggregated regional growth figures mask variations across the different economies. On the one side, China and India are experiencing annual growth rates from 7% to 11%, while on the other side, the countries of South-East Asia are registering growth rates of about 5%. In 2007, GDP growth in the whole region is set to reach 8.8%, before decelerating modestly to 8.4% in 2008 and to 8.2% in 2009.

China's economic growth continues to exceed expectations, with a revised GDP growth rate of 11.1% in 2006. After a slight deceleration at the end of 2006, the Chinese economy reaccelerated in the first six months of 2007. Key factors behind this performance remain outstanding growth in net merchandise exports and investment spending. While the deceleration in US imports should induce a slight deceleration in Chinese exports, they are still expected to expand by about 20% in 2007 and about 15% in 2008. As a result, GDP growth should remain almost unchanged in 2007, before easing slightly to 10.3% in 2008. Such a projection assumes that the monetary and administrative measures undertaken by the government to cool the economy might at last have an impact, and that the slight appreciation of the renminbi in effective terms will continue. If so, GDP growth for 2009 should be contained at below 10%.

Growth in **India** is also projected to moderate somewhat over the forecast period, from 9.2% in 2006 to 7.6% in 2009. This gradual easing reflects the impact of previous monetary tightening and the recent appreciation of the rupee against the US dollar. In the

rest of Asia, economic growth is expected to decrease slightly to below 5% in 2007 and 2008, except in Indonesia, whose growth rate is set to reach 6%. While divergences exist across countries, the general tendency is, for the contribution of domestic demand to GDP growth, to decline somewhat while exports remain buoyant. This is particularly the case for Korea, which could thus suffer more if the slowdown in the USA were to be sharper-than-expected, with some repercussions on its neighbours. However, Asian emerging economies seem to be weathering the US slowdown quite well up to now.

The EFTA countries continue to enjoy strong growth. In **Norway**, GDP growth is forecast at 2.9% in 2007 and should increase to 3.1% in 2008, before moderating to 2.2% in 2009. Domestic activity should continue to be the main driver of growth, supported by strong private consumption. In **Switzerland**, GDP growth is expected to slow gradually in a context of tighter monetary policy and less buoyant international environment. The economy should expand at 2.3% in 2007, before softening to 2.1% in 2008 and 2.0% in 2009.

Economic growth in **Turkey** reached about 6% last year, but is expected to decrease to 5.1% in 2007. This moderation reflects the impact of monetary tightening measures, taken in the aftermath of the financial turbulence last year. However, activity is forecast to reaccelerate gradually to 6.5% in 2009, in line with potential growth. In **Croatia**, strong domestic demand, partly fuelled by some pre-election spending, is likely to increase growth to 6% in 2007, before moderating to 5-5½% in 2008-09. In the **former Yugoslav Republic of Macedonia** GDP growth continues to increase, from 3.1% in 2006 to an expected 5.0% in 2007, 5.5% in 2008 and 5.3% in 2009.

The **CIS region** is the second-fastest-growing region after developing Asia, with economic growth expected at 8.3% in 2007, 7.5% in 2008 and 7.1% in 2009. Economic growth in **Russia** reached 6.7% in 2006 and the forecast for 2007 has been revised upwards, to 7.7% compared to 6.8% in the spring forecast. The growth in domestic demand is still robust, as investment spending and consumption continue to accelerate. Furthermore, oil prices have rebounded after the softening observed at the turn of this year, boosting a still large current account surplus

projected at 7.5% in 2007. For 2008 and 2009, GDP growth is expected to remain buoyant at about 7%. In the **other CIS** countries, economic growth rebounded to 9.5% in 2006, reflecting the strong performance of its biggest economy, **Ukraine**, whose GDP growth is projected at about 7% in 2007 and 6.3% in 2008-09.

Economic growth in **Latin America** continued to be strong in the first half of 2007 and is now expected to reach 5% for the year as a whole. The economic expansion has benefited from favourable external conditions, but is increasingly gaining support from domestic demand, on the back of lower real interest rates, strengthening labour markets and generally expanding credit. In line with the expected moderation in the world economy and emerging capacity constraints in some countries, GDP growth in the region is, however, expected to decelerate to 4.4% in 2008 and 4.2% in 2009. While most economies in the region have shown surprising strength, growth in those economies that are most exposed to the US economy is likely to be lower than what was expected in spring. This is notably the case for Mexico.

GDP growth in the **MENA region** reached 6.2% in 2006, with most oil-importing countries performing better than the oil-exporting countries, as they reap

the fruits of previous structural reforms. For 2007, real growth in the region is expected to reach 5.2% and remain over 5% in 2008 and 2009. In Saudi Arabia and the United Arab Emirates, domestic demand is expected to remain underpinned by oil export revenues, which are financing significant increases in public spending. Buoyant foreign direct investment should also continue to stimulate growth.

In **sub-Saharan Africa**, annual GDP growth is expected to reach 6.9% this year, after 5.8% in 2006. Domestic demand is accelerating markedly and is expected to contribute over 8 pps. to growth, supported by high oil revenues but also a dynamic non-oil sector. However, the external sector contribution remains negative, as imports are boosted by domestic demand. In 2008 and 2009, GDP growth is expected to fall back to about 6½%, as domestic demand decelerates due to the tightening of both monetary and fiscal policies.

Table 1.1.1

International environment

(Real annual percentage change)				Autumn 2007 forecast			Difference vs spring 2007	
	2004	2005	2006	2007	2008	2009	2007	2008
Real GDP growth								
USA	3.6	3.1	2.9	2.1	1.7	2.6	-0.1	-1.0
Japan	2.7	1.9	2.2	1.9	1.9	2.3	-0.4	-0.2
Asia (excl. Japan)	8.3	8.3	9.1	8.8	8.4	8.2	0.5	0.0
of which								
China	10.1	10.2	11.1	11.2	10.3	9.9	0.7	-0.1
ASEAN4 (a) + Korea	4.9	4.9	5.3	5.1	5.3	5.6	0.0	0.0
Candidate Countries	8.3	7.0	5.9	5.2	5.7	6.4	0.3	-0.1
CIS	8.3	6.5	7.6	8.3	7.5	7.1	1.4	0.6
of which								
Russia	7.2	6.4	6.7	7.7	7.0	6.9	0.9	0.5
MENA	5.8	6.3	6.2	5.2	5.3	5.2	-0.2	0.1
Latin America	5.9	4.5	5.4	5.0	4.4	4.2	0.5	0.3
Sub-Saharan Africa	5.0	5.9	5.8	6.9	6.5	6.4	0.4	0.5
World	5.3	4.8	5.4	5.1	4.7	4.8	0.3	-0.1
World excl. EU27	6.0	5.6	6.0	5.6	5.3	5.4	0.3	-0.1
World merchandise trade								
World import growth	11.7	7.9	8.9	7.5	7.0	7.2	-0.2	-0.6
World import growth excl. EU27	13.8	9.0	8.5	8.1	7.4	7.9	0.4	-0.6
Extra EU27 export market growth	:	:	9.3	8.8	7.7	7.9	0.8	-0.1

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

Chapter 2

The economies of the euro area and the EU

1. Growth moderating, but still healthy

GDP growth normalised in the first half of 2007 while remaining dynamic...

The economies of the euro area and the EU have seen a significant acceleration of economic activity since the beginning of 2006. Following fairly weak growth in the early phase of the cyclical upswing, in 2006 GDP grew by 3% in the EU and by 2.8% in the euro area. This was the best performance since 2000 and above the potential growth rate in both regions. While the pick-up in economic activity largely reflected the strengthening of the cyclical upswing, some indicators suggest that structural improvements supporting an increase in growth potential may also be under way. There are signs of an increased resilience to global disturbances. The employment effect of recent output growth has been particularly intense. The acceleration of labour productivity might be more than just cyclical in nature. The structural unemployment rate has declined.

Following the strong performance in 2006, the EU and euro-area economies entered 2007 on a strong note, with quarter-on-quarter GDP growth of 0.8% in both regions. The deceleration of economic activity in the second quarter to 0.5% in the EU and just 0.3% in the euro area came as a surprise but should not be overstated. After five consecutive quarters of above potential growth, some normalisation had to be expected. In addition, mild weather boosted construction activity in the first quarter, thus adversely affecting growth in the second quarter. The downside surprise in the second quarter was also at odds with survey indicators, which did not suggest such a slowdown in economic activity, particularly in the euro area.

Disregarding the volatility of quarterly figures, the economy maintained considerable dynamism in the first half of 2007. Quarter-on-quarter GDP growth was, on average, 0.6% in the EU and 0.5% in the euro area, thus largely in line with the spring forecast. Underlying GDP growth as measured by the year-on-year rate of change stood at 3.1% in the EU and 2.8% in the euro area over the same period. Nevertheless, economic activity in the EU and the euro area has probably passed its cyclical peak.

Differences in GDP growth among the larger euro-area Member States remained sizeable in the first half of 2007, with Spain posting an average quarter-on-quarter growth rate of 1%, the Netherlands 0.5%,

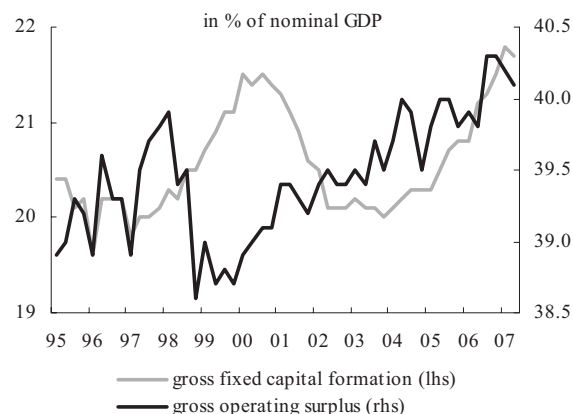
France and Germany 0.4% and Italy 0.2%. Outside the euro area, GDP expanded by 0.8% in the UK (with the preliminary estimate for the third quarter at 0.9%), was up by a healthy 1.5% in Poland while slowing to just 0.2% in Hungary. However, the dispersion of GDP growth rates, as measured by the standard deviation, has not increased compared to 2006.

...underpinned by robust investment growth...

The breakdown of GDP by demand component shows that gross fixed capital formation has been a significant stimulus to economic activity since early 2006. Investment, which was rather subdued in the initial stages of the cycle, has finally reached levels comparable to previous recoveries. The rising trend in gross fixed capital formation has gone hand in hand with a strong turnaround in corporate profitability owing to moderate increases in labour costs and to a rise in labour productivity growth.

In the euro area, the nominal gross operating surplus of corporations, which may be interpreted as a proxy for corporate profits, grew, on average, at a solid 4.5% per year over the 2000-2006 period. In the first quarter of 2007, the gross operating surplus stood at 40.3% as a share of GDP, a record high, and remained above 40% also in the second quarter.

Graph 2.1.1: Gross fixed capital formation and gross operating surplus, euro area



Real unit labour costs declined by 1% (year-on-year) each year between 2004 and 2006 in both the EU and the euro area and a similar contraction is expected in 2007. Labour costs benefited from a moderation of wage dynamics. Despite the strong acceleration of

euro-area economic activity in 2006, the annual growth rate of compensation per employee was 2.4% (in nominal terms), broadly unchanged from the pace of growth that prevailed in the first half of the decade when economic activity was more subdued. In addition, the rise in labour costs has been dampened by the rebound in labour productivity which rose at an average annual pace of 1.3% between the first quarter of 2006 and the second quarter of 2007, well above the 0.5% growth rate of the previous five years. While there is evidence of a recent mild acceleration of wages in specific sectors and Member States, wage growth in the euro area is still projected at a moderate 2.6% for the year 2007 as a whole.

The strength of corporate investment is also visible in corporate borrowing data. Lending to non-financial corporations has been on the rise since the beginning of 2004 and the year-on-year growth rate at the end of 2006 was already higher than the previous peak in late 2000. Growth in loans to non-financial corporations strengthened further in the first half of 2007 and stood at 14.2% (year-on-year) in August.

Recent financial turbulence has shaken investor confidence and should cause tighter credit conditions and tamer investment activity going forward, particularly in the construction sector. However, with business sentiment in industry and services still upbeat at the beginning of the fourth quarter of 2007 (although moderating in both cases), capacity utilisation rates reported to be above the long-term average, sound corporate balance sheets and significant profitability, the near-term outlook for equipment investment remains favourable.

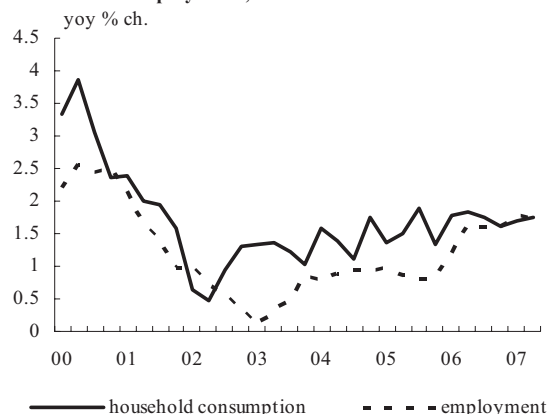
...and consumption gathering pace...

Last year private consumption expanded by 1.8% in the euro area and 2.2% in the EU, gathering pace compared to the subdued performance observed in the early stages of the economic upturn. In the first quarter of 2007, private consumption was adversely affected by the VAT increase in Germany, but gained momentum in the second quarter, expanding by 0.5% (quarter-on-quarter) in both the euro area and the EU, thereby becoming the main engine of growth. Excluding the VAT effect, private consumption has been on a broad 2% growth path since the beginning of 2006.

The initially weaker development of private consumption compared to previous recoveries mirrored employment growth, which remained sluggish for several quarters after the turnaround in economic activity in mid-2003. In addition, wage growth remained subdued for a prolonged period in some euro-area Member States, particularly in Germany. This was a welcome means to restore competitiveness. However, it also acted as a brake on the growth of household income and thereby on private consumption. Since the beginning of 2006, employment growth has picked up significantly and contributed to a more robust expansion of private consumption both by increasing the number of people in employment and by strengthening consumer confidence.

Employment growth accelerated to 1.3% last year in the euro area (1.5% in the EU), up from 0.3% growth on average in the previous three years (0.5% in the EU). As a result, close to 2 million new jobs were created in 2006 in the euro area (more than 3.5 million in the EU). Consumer spending continued to receive support from the improving labour market also in 2007, with euro-area employment increasing at an annual pace of 1.8% in the first half of this year (1.4% in the EU). At the same time, the unemployment rate continued to fall, reaching 7.3% in September 2007 in the euro area (7.0% in the EU), the lowest level since 1993. While the fall in the unemployment rate is largely attributable to the strong cyclical upswing, available estimates also point to a fall in the structural rate of unemployment, suggesting that earlier labour market reforms are starting to bear fruit.

Graph 2.1.2: Household consumption and employment, euro area



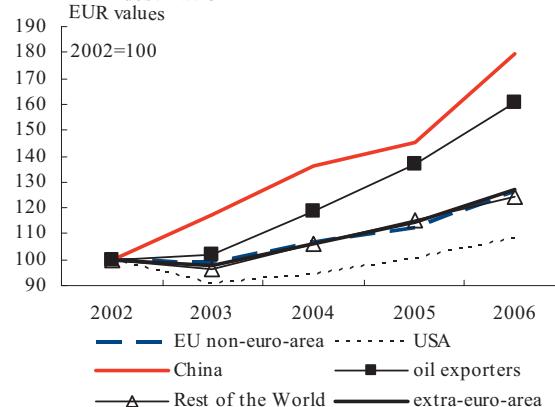
Indicators of private consumption point to continuous, albeit somewhat moderated, growth in the second half of the year. According to the Commission's most recent business and consumer survey, consumer confidence is still fairly strong, consumers' fears of unemployment are decreasing and the assessment of the general economic conditions is improving. However, households' willingness to buy in the future has not improved and neither has their assessment of their own financial situation. Confidence in the retail sector declined sharply in September, due to a significant worsening in retailers' assessment of both the present and expected business situation. The recent financial turmoil is likely to affect consumer confidence and thus dampen consumption growth.

As for financial developments, credit to the household sector remains sustained. The annual growth rate of loans to households stood at 7% in August 2007, unchanged compared to the previous month, pointing to a modest impact of recent financial developments on household borrowing so far. However, growth in loans to the household sector has moderated appreciably since the peak observed in spring 2006. This is in line with the moderation in the rise in house prices and in housing activity in a number of Member States over the past few quarters and the gradual upward trend in mortgage rates.

...with exports still supporting growth despite some headwinds.

Last year net foreign demand contributed 0.3 pp. to GDP growth in the euro area (0.1 pp. in the EU) and a similar contribution was envisaged in the first half of 2007. This was largely due to the very strong performance of exports, across several euro-area countries. The impact of the appreciation of the euro on euro-area exports was thus fairly contained. The broadening of world growth and the concomitant shift in the geographical composition of euro-area exports in favour of Asian and oil-exporting economies more than offset the slowdown in the economic activity of some key trading partners, particularly the USA.

Graph 2.1.3: Extra-euro-area exports of goods by destination



In fact, euro-area exports to China and the oil-exporters have outperformed exports to other destinations. China contributed 8% to total euro-area export growth and a contribution of 21% came from the oil exporters, the CIS, Norway and the OPEC countries, over the period 2001-2006. By contrast, euro-area exports to the US accounted for only 14% of exports outside the euro area in 2006 and contributed only 5% to the growth of these exports.

The good performance of euro-area exports observed up to now despite the sizeable appreciation of the euro exchange rate does not, however, exclude the possibility that a further strengthening of the euro may have adverse non-linear effects on export growth.

2. Financial market turmoil increases economic uncertainty

Uncertainty about future course of financing conditions

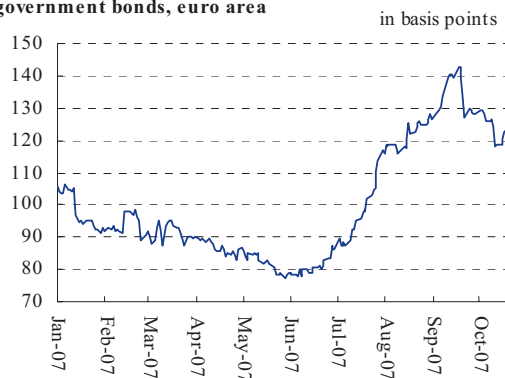
The current forecast is characterised by higher than usual uncertainty, due to ongoing problems in the functioning of several key financial markets and the resulting uncertainty about the future course of financing conditions. The turmoil, which has persisted over many weeks, is increasingly likely to impact on the real economy through a tightening in credit conditions. The extent of this credit tightening will ultimately depend on how long it takes for normality to be restored in the affected financial markets which remains an open question.

The trigger for problems in financial markets has been the deterioration in the US housing market, as reflected in accelerating rates of defaults on higher-risk or sub-prime mortgage loans. While the associated financial losses are small relative to the size of the international financial system, they have triggered a generalised collapse of investor confidence in those securities and institutions with potential sub-prime exposure. These effects have not been confined to the United States. European financial markets have also experienced problems of disruption and dislocation, even though sub-prime mortgage lending is much less prevalent in Europe.

Problems in the US sub-prime lending have impacted on the international financial system because of the way in which the associated credit risks have been managed. Although the sub-prime mortgage loans were originated by US mortgage lenders and retail banks, they were sold on to other financial institutions in the secondary market. These institutions securitised the loans and bundled them together with other securities – based on prime mortgage loans or loans raised by companies – to create marketable securities known as collateralised debt obligations (CDOs). CDOs were then subdivided into tranches, with risk categories ranging from very high risk (junk) to very low (AAA). Each tranche was assessed by a credit rating agency and sold on this basis to investors, including hedge funds, pension funds, insurance companies and banks. In this way, the credit risk associated with US sub-prime mortgage loans was distributed around the global financial system.

Money markets have been among those most disrupted by the loss of investor confidence. Central banks have been required to intervene on many occasions to support the smooth functioning of these markets by providing emergency liquidity. Moreover, the financial turmoil has impacted on the stance of monetary policy. The Federal Reserve has lowered both the discount rate (the rate at which banks borrow from the Federal Reserve) and the target for the federal funds rate (the rate at which banks borrow from each other) in response to growing concern about the implications of the financial turmoil. Both the ECB and the Bank of England, which until the summer were widely expected to raise interest rates, responded to uncertainty in financial markets by holding their policy rates unchanged, while signalling a continued vigilance as regards inflationary developments.

Graph 2.2.1: 10-year corporate BBB spreads vis-à-vis government bonds, euro area



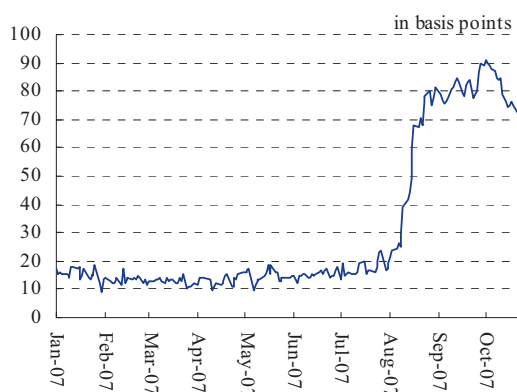
Money markets particularly disrupted

The financial-market turmoil has led to a typical flight to quality, although some calm has been restored to markets in recent weeks. During the initial flight to safety, interest rates on most liquid government paper and sovereign bonds declined sharply, leading to an increase in spreads across sovereign issuers with similar ratings but less liquid markets. The increased risk aversion has been also visible in a sharp rise in investor perceptions of default probabilities and wider spreads on corporate and emerging market bonds. Recently, though, a partial relaxation can be observed. Equity prices initially fell sharply, but recovered in the wake of expected and then realised US interest rate cuts. However, sentiment in equity markets

remains volatile and the recovery in prices has not been uniform, with large multinational corporations generally outperforming smaller firms.

Several key financial markets are still not functioning properly. In the interbank markets, interest rates for maturities longer than a few days remain at elevated levels. Problems in the functioning of the interbank market reflect a combination of perceived counterparty risk related to sub-prime exposures and, particularly more, reluctance among market participants to make multi-day loans because of concerns about future liquidity needs. As a result, interest-rate spreads, e.g. between 3-month interbank lending rates and the respective average risk-free rate on euro-area government bills, have widened significantly.

Graph 2.2.2: Interest-rate spreads between 3-month interbank rates and 3-month government bills, euro area

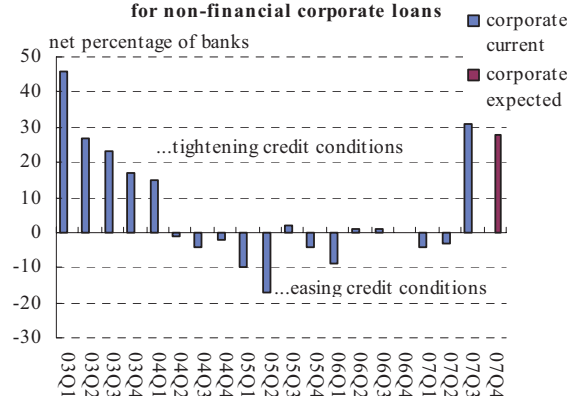


Credit conditions have tightened

The abrupt re-pricing of risk sparked by the financial turmoil has led to a tightening of credit conditions, which is likely to persist going forward. The precise extent and duration of such tightening is, however, difficult to predict.

The sharp decline in the value of some financial assets held by the financial sector since end-July can be seen as a balance-sheet shock for banks and the financial system overall, which is likely to reduce the ability and willingness of institutions to provide credit. In addition, a reduced scope to transfer credit risk via securitisation implies higher lending interest rates and tighter lending standards. In turn, lower levels of lending activity will reduce bank profits.

Graph 2.2.3: Euro-area bank-lending standards for non-financial corporate loans



Tighter credit conditions are visible in the results of the latest ECB bank lending survey. The survey of changes in bank lending standards made during the third quarter of 2007 indicates that a net 31% of all euro-area banks tightened their credit conditions vis-à-vis corporate borrowers (31% of all banks tightening and none easing) and a net 28% of banks expected standards to tighten in the fourth quarter. A net 12% of banks also indicated a tightening of lending standards on mortgage lending in the third quarter (22% tightening and 10% easing) and a net 15% of banks expected to further tighten in the fourth quarter. The survey also revealed that banks have not yet tightened standards on other household sector loan categories, but expect to tighten them in the fourth quarter.

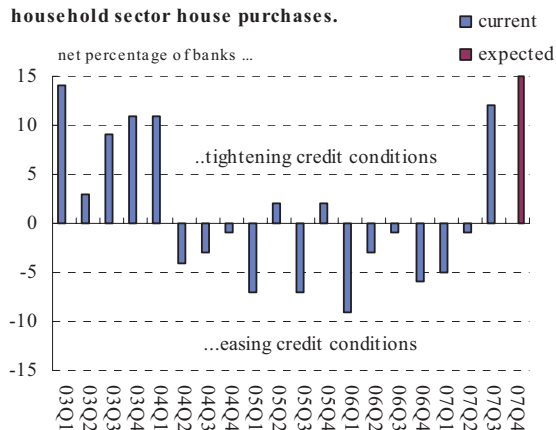
Negative but uncertain impact on economic sectors

Due to the strong profitability of recent years, corporate balance sheets seem well placed on average to withstand the tightening credit conditions. However, external financing demand has risen sharply in the past two years with bank lending to the non-financial corporate sector in the euro area at record high levels. This has partly reflected a corresponding expansion in investment activity but also high levels of M&A activity.

The aggregate growth rate of bank credit to the corporate sector hides considerable differences between Member States. In August 2007, lending was up by about 30% year-on-year in Ireland, Spain and Slovenia. In contrast bank lending to corporations was only 4% in Germany. In the face of these continuing

high financing demands in some countries, corporate debt ratios have risen to record levels with the ratio of euro area corporate debt to GDP exceeding 80% compared to around 60% in 1999.

Graph 2.2.4: Euro-area bank-lending standards for household sector house purchases.



Debt-servicing costs are also trending higher, although they remain below the peak levels recorded in 2001. While a further rise in debt-servicing costs relative to income would seem tolerable on the basis of historical experience, tighter credit conditions could have a more severe impact if consumer demand were to deteriorate as well.

In recent years, EU households have taken advantage of a low interest-rate environment to accumulate record levels of debt, mainly to finance housing investments. In the euro area, the ratio of household debt to (gross) disposable income has risen to 90% from roughly 70% in 1999, while the ratio to GDP has risen to 59% from about 45% over the same period. However, household interest payments to banks remain below the levels recorded in 2000/01. In contrast to the United States, the EU has only a limited market for sub-prime mortgages and the risk of mortgage default seems much lower. However, the prevalence of variable-rate mortgages in some Member States with high household debt levels is a source of concern as it might imply higher servicing costs for households. Another concern relates to the implications of a past weakening of lending standards for credit quality and therefore credit risk going forward.

In this context, the key factor influencing households' wealth and confidence going ahead will be the

evolution of housing markets. House prices are already decelerating from earlier elevated levels, in particular in markets where prices have increased most (possibly to overvalued levels). The evolution of credit standards and house prices will also impact on residential construction, which has been an important driver of GDP growth in many countries over the last few years. Construction could suffer from tighter credit conditions both directly and indirectly via housing-market developments.

Some catching-up EU economies might be vulnerable

The financial turmoil has not had a significant impact on catching-up economies, possibly due to their lower exposure to sophisticated financial products. Some of the Member States in Central and Eastern Europe were affected by the initial phase of the turmoil, experiencing currency depreciation, widening risk premia and declining equity prices. However, most of these effects eased subsequently. Nevertheless, the durable tightening in credit conditions, which is likely to follow the current financial turmoil, increases the risks for these economies. Those Member States with larger external financing needs (which in some cases rely extensively on short-term capital inflows) are particularly vulnerable. Any sharp reduction in access to external financing would directly affect housing markets and consumption (directly via reduced availability of credit and indirectly via wealth effects).

Box 2.2.1: 'Quand le bâtiment va, tout va'

Housing markets in several EU countries have been buoyant over the past decade, driven by low interest rates and – in some cases – dynamic demographics, but some cooling has been apparent lately and more may be in store. Among the largest countries, France, the United Kingdom and Spain have posted two-digit rates of house price increases in real terms for several years in a row since the turn of the century. They have now experienced sharp losses in price momentum and this is also reflected in a slowdown in residential construction activity – although not to the same extent as in the United States.

The greater synchronisation of housing cycles across countries in recent decades has raised concern that a downturn in housing markets could trigger a recession in the near term. While a soft landing appears a likely prospect in most cases, a disorderly correction of house prices would pose risks for macroeconomic and possibly financial stability. There are essentially three channels through which a downturn in housing markets could affect overall economic activity:

1. A fall in house prices in real terms could affect household consumption either via saving responses to households' perceived wealth or via effects on mortgage borrowing stemming from lower estimates of housing collateral for mortgage equity withdrawal. Such consumption responses can be expected to be more marked in countries where financial markets provide easy access to household credit and to financial products that facilitate mortgage equity withdrawal. The strength of the aggregate wealth effect also crucially depends on the home ownership rate.

2. House prices and the underlying supply and demand

conditions may have an important effect on private residential investment. Changes in the profitability of housing investment affect the construction sector as well as employment and demand in property-related sectors. Several factors affect the sensitivity of construction activity. In particular, supply constraints in the form of planning restrictions, the availability of land or the competitive conditions in the construction sector may play a significant role in restraining the growth of housing investment in upturns and hence create pent-up demand which can then act as a buffer during the downturn.

3. Sharp downward corrections in asset markets or other sources of stress in financial markets, e.g. the recent turmoil triggered by the sub-prime crisis, can have large effects on the banking sector. If financial intermediaries misjudge risks, underestimating them in good times and overestimating them in bad times, the potential for credit and asset booms to derail and turn into busts is substantial. In this context, the pro-cyclicality of bank provisioning is a concern. Banks may be reluctant to make adequate provision for loan losses when housing markets are buoyant. Hence, when a crisis strikes, this could lead to a credit squeeze affecting other sectors.

In this context it may be useful to examine past behaviour of EU economies during housing downturns and to compare this with the experience in non-EU economies. A priori EU economies may be expected to display a lower sensitivity of consumption, residential investment and overall activity to swings in housing markets than non-EU economies. The main reason is that planning restrictions and credit constraints on households are generally tighter in most EU countries than in many non-EU countries (such as the United

Housing investment and house prices in selected EU countries and the US

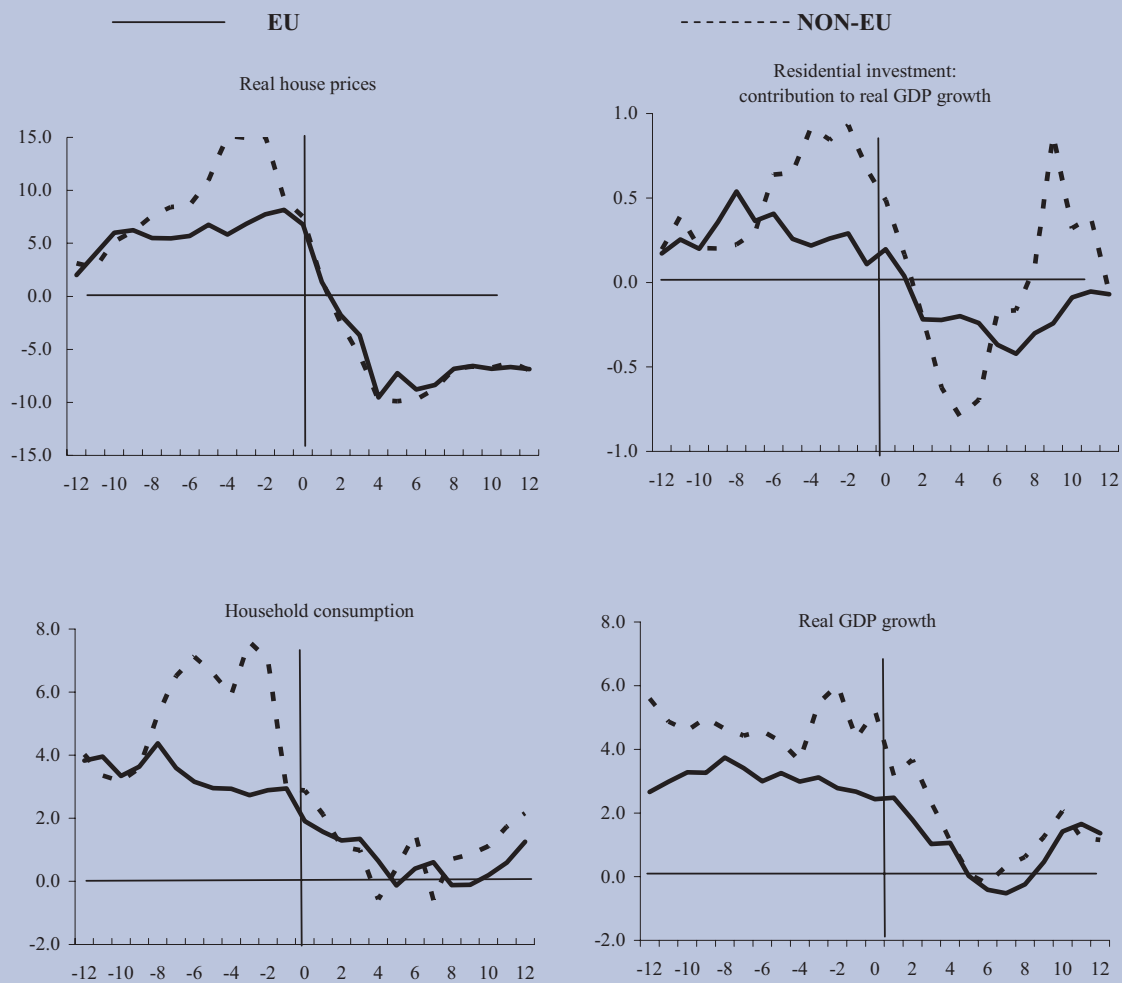
	Contribution of Housing Investment to GDP growth (year-on-year percentage points)									Real house prices (year-on-year rate of change)								
	81-90	91-00	2001	2002	2003	2004	2005	2006	2007*	81-90	91-00	2001	2002	2003	2004	2005	2006	2007*
DE	0.0	0.2	-0.3	-0.3	0.0	-0.2	-0.1	0.3	0.0	-1.6	0.1	-1.9	-3.3	-2.0	-3.8	-2.0	-1.1	-0.6
ES	0.1	0.2	0.4	0.2	0.5	0.3	0.3	0.3	0.2	6.6	1.3	6.5	12.8	16.3	14.9	10.9	6.3	3.8
FR	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.7	0.1	6.0	6.2	9.3	12.5	13.2	10.1	6.8
IT	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.1	0.2	1.6	0.2	6.0	6.6	7.1	7.6	5.2	4.4	3.9
NL	0.0	0.1	0.1	-0.3	-0.1	0.1	0.3	0.1	0.2	-2.1	7.8	5.6	4.2	2.4	2.7	3.3	3.1	2.5
FI	0.1	-0.1	-0.4	0.1	0.3	0.3	0.3	0.1	0.2	8.6	-1.8	-3.5	8.4	4.5	6.0	5.1	8.5	7.3
DK	-0.1	0.1	-0.1	0.0	0.4	0.4	0.6	0.6	0.4	-0.3	3.1	3.5	1.3	1.1	7.9	15.6	19.2	3.4
UK	0.1	0.0	0.1	0.2	0.1	0.2	0.0	0.2	0.0	6.8	1.1	6.9	14.6	14.5	10.3	3.5	3.8	8.3
EA6	0.0	0.1	-0.1	-0.1	0.1	0.0	0.1	0.2	0.1	0.2	0.4	2.8	3.5	5.4	6.2	6.4	5.0	3.6
EU8	0.0	0.1	0.0	-0.1	0.1	0.0	0.1	0.2	0.1	0.8	0.5	3.4	5.2	6.9	7.1	6.0	5.1	4.5
US	0.1	0.1	0.0	0.2	0.3	0.4	0.3	-0.3	-0.6	0.9	0.3	5.0	5.2	4.5	7.7	9.3	5.6	1.2

Sources: OECD, Eurostat (*) First half of the year

(Continued on the next page)

Box (continued)

Features of housing cycles in the European Union
(median quarterly percent rates of change, year-on-year)



Note: The median is across 26 completed real house price cycles in a selection of ten EU countries (DE, FR, IT, UK, DK, FI, IE, NL, ES, SE) and a selection of eight non-EU countries (US, JP, CA, AU, KR, NZ, NO, CH), respectively, over the period 1970-2007. The horizontal axis measures the number of quarters before and after the peak in real house prices. A peak is called if in any quarter real prices have risen over a period of at least six quarters by an accumulated 15% and have subsequently fallen by a period of at least six quarters also by an accumulated 15%.

States, New Zealand and Australia). This prior is indeed confirmed by the data. Real house prices and residential construction are generally more volatile around turning points in the non-EU sample than in EU countries and so are household consumption and real GDP growth.

Even so, the historical experience suggests that major housing downturns have also had a substantial macroeconomic impact in the EU. For example, in past housing downturns the median growth contribution of residential investment swung from a positive contribution of around ½ percentage point to a negative

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Box (continued)

contribution of roughly the same magnitude. The growth rate of household consumption and GDP have also tended to respond strongly, with the former plummeting from roughly 3½ % (annual rate) prior to the housing peak to close to nil one year after the housing peak, the latter falling from around 3% to almost -1% after 1½ years.

The evidence presented above suggests that developments in the housing market may affect growth, via their impact on consumption and investment. In the past few years, household consumption and investment have probably benefited from the strong increases in house prices observed in some EU countries, particularly in the UK, Denmark, Finland, Spain and France. Housing price effects are usually identified as stronger in Anglo-Saxon countries than in the euro area.

Although empirical research has largely focused on the wealth effects of house prices, the role of housing markets in the transmission of monetary policy should

not be overlooked. Housing markets will amplify the impact of changes in monetary policy if the mortgage rates are closely linked to change to base rates because they are predominately based on variable interest rates. Residential mortgage loans in the euro area typically fall into two groups, fixed-interest-rate countries and variable-rate countries. The first group includes Belgium, Denmark, Germany, France, the Netherlands and Sweden. The second group includes Greece, Spain, Ireland, Italy, Luxembourg, Portugal and the UK.

The importance of interest rates and mortgage lending conditions also clearly varies with owner-occupation levels. In countries such as Germany, Denmark, the Netherlands, France, Austria and Finland, which have larger private rented sectors, mortgage interest rates will tend to have less of an impact on household finances and so on consumer spending than in countries such as Spain, Greece, Italy and Ireland where owner-occupation rates are higher.

3. Back to potential growth

Around potential in 2008 and 2009

Following two years of above-potential growth, annual GDP growth in 2008 and 2009 is projected to fall back to around potential in both the euro area and the EU, around 2.2% and 2.4% respectively. In both regions, GDP growth in 2007 is unchanged compared to the spring forecast, but growth in 2008 is revised down by 0.3 pp. The downward revision is mainly due to tighter financing conditions, which are expected to slice 0.7 pp off investment growth (in both regions).

Going into 2009, the contribution of the foreign balance improves (to +0.1 pp in the euro area and to neutral in the EU), while domestic demand decelerates. In the EU, this leaves GDP growth at the same rate as in 2008, while euro-area GDP slows down in 2009.

This outcome at the aggregate level is the result of diverging developments across Member States. For a majority of euro-area Member States, growth is revised upward in 2007. The unchanged figure for the euro area as a whole is due mainly to a downward revision of growth in France by 0.5 pp. On the other hand, the downward revised EU growth figure for 2008 is a reflection of similar revisions for a majority

of Member States, with significant upward revisions observed only for Slovenia, Finland, Lithuania and Slovakia. Finally, growth is expected to decelerate in 2009 in many Member States, due largely to subsiding construction investment, but this is balanced by an assumed acceleration of growth in Germany, Italy and the United Kingdom.

Domestic demand will remain the main driving force of activity, although its contribution to growth is expected to diminish over the forecast horizon. While domestic demand growth will be relatively stable in Germany, France and Italy, it is foreseen to slow down in most other Member States.

Consumption growth restrained by subdued real income growth

The modest evolution of domestic demand is closely linked to the development of private consumption. At around 2.3% average annual growth over 2006-2009, EU consumption growth remains far below the 1997-2001 average (of 2.9%), contributing only about 1⅓ pp to output growth (between 1 and 1¼ pp. in the euro area). In the euro area, the uneven evolution of consumption over the forecast period is mainly due to the effects of the VAT increase in Germany.

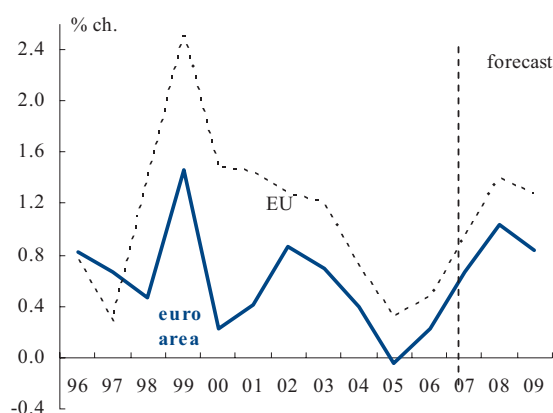
Table 2.3.1

Composition of growth - EU27

	2006		Autumn 2007 forecast							
	bn Euro curr. prices	% GDP	2002	2003	2004	2005	2006	2007	2008	2009
			Real percentage change							
Private consumption	6709.8	57.8	1.6	1.7	2.2	1.7	2.2	2.3	2.4	2.2
Public consumption	2414.5	20.8	2.6	2.1	1.5	1.7	2.0	2.0	2.0	1.9
Gross fixed capital formation	2401.3	20.7	-0.6	1.3	3.2	3.0	5.9	5.6	3.5	3.4
Change in stocks as % of GDP	45.6	0.4	0.0	0.1	0.3	0.2	0.3	0.4	0.4	0.5
Exports of goods and services	4597.4	39.6	1.9	1.8	7.3	5.5	8.7	6.3	5.8	5.8
Final demand	16168.6	139.3	1.2	1.9	3.7	2.9	4.6	3.9	3.5	3.5
Imports of goods and services	4565.0	39.3	1.4	3.4	7.4	5.9	8.7	6.3	6.1	5.8
GDP	11603.7	100.0	1.2	1.3	2.5	1.8	3.0	2.9	2.4	2.4
GNI	11593.9	99.9	1.2	1.5	2.9	1.6	2.9	2.7	2.4	2.4
p.m. GDP euro area	8473.8	73.0	0.9	0.8	2.0	1.5	2.8	2.6	2.2	2.1
			Contribution to change in GDP							
Private consumption			0.9	1.0	1.3	1.0	1.3	1.3	1.4	1.3
Public consumption			0.5	0.4	0.3	0.3	0.4	0.4	0.4	0.4
Investment			-0.1	0.3	0.6	0.6	1.2	1.2	0.8	0.7
Inventories			-0.3	0.1	0.2	-0.1	0.1	0.0	0.0	0.0
Exports			0.7	0.6	2.5	2.0	3.3	2.5	2.3	2.4
Final demand			1.7	2.5	5.0	3.9	6.3	5.4	4.9	4.8
Imports (minus)			-0.5	-1.1	-2.5	-2.1	-3.2	-2.5	-2.5	-2.4
Net exports			0.2	-0.5	0.0	-0.1	0.0	0.0	-0.1	0.0

The excellent performance of the main labour market indicators in the EU seems to be at odds with the development of consumption. Employment growth, while decelerating somewhat after 2007, remains brisk, bringing the EU unemployment rate down to 6.4% of the labour force in 2009.

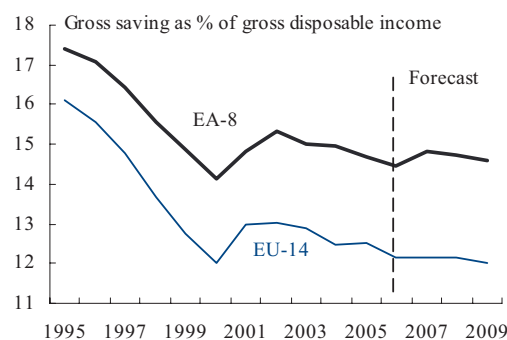
Graph 2.3.1: Real compensation per employee, 1996-2009



While the number of employed persons rises considerably over the forecast horizon, their income evolution is not supportive of a more dynamic profile of consumption. Although growth of real compensation per employee is expected to pick up in 2008, continuing its acceleration since 2005, it remains moderate compared to previous peaks. Growth of real compensation per employee is projected to remain below 1½% in the EU and the euro area. These projections are based on the assumption that increased labour market flexibility and competitive pressures from globalisation will continue to restrain domestic wage dynamics even at a time of low unemployment.

Besides real income growth, consumption is also held back by an essentially stable household saving rate. In 2007, the saving rate is projected to increase in Denmark, Germany, France, Italy, Austria and Sweden, while declining in most other Member States. Whereas in the case of Germany the increase could be seen as a result of the VAT hike, the rises in other Member States are more difficult to explain.

Graph 2.3.2: The saving rate in the EU / euro area



EA-8: average of BE DE ES FR IT NL AT FI; EU-14: average of BE CZ DK DE EE ES FR IT NL AT PL FI SE UK

Rises in most of these Member States' saving rates do not seem to be due to confidence effects. Consumer confidence has not been significantly affected by events in financial markets. Even after its three-point decline since May 2007, EU consumer confidence is still far above its long-term average. Besides specific national policy measures, income-distribution effects may have influenced Member States' aggregate saving rates, as high-income households with a relatively high saving propensity seem to have benefited proportionally more from the economic expansion than low-income households.

Finally, in some Member States, depending on the characteristics of the national housing market, ongoing and expected downward corrections in the housing market might lead to a reduction in expected household wealth, reducing the propensity to consume out of current income. In 2008-2009, upward and downward movements in the saving rate in different Member States cancel each other out, leaving the EU saving rate stable, thus offering no additional support to consumption growth.

Resilient investment in equipment

Investment was the major support to GDP growth in 2006 and 2007. In a majority of Member States, the growth rate of investment in 2007 was revised upwards. This is also the case for the aggregate EU level, notwithstanding downward revisions in some larger countries (France, Italy and the United Kingdom). In 2008, total investment in the EU is expected to decelerate to around 3½% (from 5½% in 2007). In 2009, investment should grow at the same

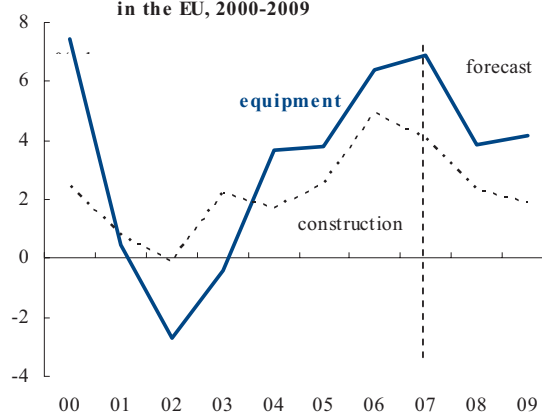
pace, with a further slowdown in a majority of Member States being counterbalanced by a re-acceleration in Ireland and the United Kingdom.

Investment in equipment is projected to grow at respectable rates, of around 4%, during 2008 and 2009 in both the EU and the euro area, following growth of around 7% in 2007, the fastest pace since 2000. This strong performance may seem surprising in view of the results of the October ECB Bank Lending Survey. The survey reported a tightening of credit standards in the euro area in the third quarter of 2007 and expects a further credit tightening in the period ahead. However, the survey is a snapshot of the situation taken at the end of September, and, if financial markets normalise, as this forecast assumes, it can be expected that credit standards will normalise as well. The impact on investment plans of firms outside the financial sector will also be cushioned by the current high profitability which limits their reliance on lending for investment purposes.

Moreover, fundamentals are still supportive of investment in equipment. In the manufacturing sector, the capacity utilisation rate exceeded the maximum of the 1999-2000 expansion in April 2007, though it then saw a small decline of 0.7 pp in July. However, at 83.7%, the present rate of manufacturing capacity

utilisation in the EU is still 2 pps. above the long-term average. Judging from the monthly business survey in industry, short-term demand prospects are still favourable, with a high level of order books and above-average production expectations.

Graph 2.3.3: Investment in equipment and in construction in the EU, 2000-2009



The upbeat picture from industry contrasts with the prospects for the service sector. In view of the subdued development of consumption, the optimism in the service sector has not matched the dynamism of industry during recent years. This is reflected in

Table 2.3.2

Composition of growth - euro area

	2006		Real percentage change						Autumn 2007 forecast		
	bn Euro curr. prices	% GDP	2002	2003	2004	2005	2006	2007	2008	2009	
Private consumption	4826.9	57.0	0.9	1.3	1.6	1.5	1.8	1.7	2.1	1.9	
Public consumption	1723.2	20.3	2.4	1.7	1.3	1.4	1.9	2.0	2.1	2.0	
Gross fixed capital formation	1795.3	21.2	-1.5	1.3	2.2	2.7	4.8	4.7	2.9	2.6	
Change in stocks as % of GDP	29.6	0.3	-0.2	-0.1	0.1	0.1	0.2	0.3	0.4	0.5	
Exports of goods and services	3400.9	40.1	1.7	1.2	7.0	4.5	7.8	5.8	5.3	5.4	
Final demand	11776.0	139.0	0.7	1.4	3.2	2.5	4.1	3.4	3.2	3.1	
Imports of goods and services	3302.3	39.0	0.3	3.1	6.7	5.2	7.5	5.3	5.5	5.3	
GDP	8473.8	100.0	0.9	0.8	2.0	1.5	2.8	2.6	2.2	2.1	
GNI	8461.9	99.9	0.6	1.1	2.6	1.3	2.8	2.4	2.3	2.2	
p.m. GDP EU27	11603.7	136.9	1.2	1.3	2.5	1.8	3.0	2.9	2.4	2.4	
			Contribution to change in GDP								
Private consumption			0.5	0.7	0.9	0.9	1.0	1.0	1.2	1.1	
Public consumption			0.5	0.4	0.3	0.3	0.4	0.4	0.4	0.4	
Investment			-0.3	0.3	0.5	0.5	1.0	1.0	0.6	0.6	
Inventories			-0.3	0.1	0.1	0.0	0.1	0.0	0.0	0.0	
Exports			0.6	0.4	2.5	1.6	2.9	2.3	2.2	2.3	
Final demand			1.0	1.9	4.3	3.3	5.6	4.7	4.4	4.3	
Imports (minus)			-0.1	-1.1	-2.2	-1.8	-2.8	-2.1	-2.2	-2.1	
Net exports			0.5	-0.6	0.2	-0.1	0.2	0.2	0.0	0.1	

sectoral confidence indicators, with services confidence barely above its long-term average (whereas industrial confidence is close to historical highs). Specifically, in the light of possible problems in the financial sector emanating from the financial market turmoil, equipment investment in the services sector is likely to be less dynamic than in industry.

A significant housing market correction in some Member States

Regarding investment in construction, residential investment is expected to slow down markedly, while developments for public and corporate investment in construction should be smoother. In particular, for corporate construction investment the development should be largely in line with that of equipment investment, i.e. growth should hold up well, with industry doing better than services.

As to housing investment, the situation varies significantly across Member States. Some countries (such as Ireland and Spain) have experienced considerable rises in house prices in the past few years, while in others (like Germany) house prices have more or less stagnated. Accordingly, tighter credit conditions across the EU will have a differentiated impact across Member States, with the effect being determined by the house market characteristics of each country. In particular, countries where flexible-rate loans are more widespread can be expected to be more exposed to a change in credit conditions. Overall, however, while concerns exist regarding some mortgage markets, the problem should remain contained as, on average, leverage in Europe is smaller than in the US.

Notwithstanding tightening financing conditions, the forecast for growth in construction investment in 2007 is revised up in a majority of Member States. But there are also some downward revisions, particularly for Germany, Spain, the Netherlands and Ireland (where a contraction of about 3% is now foreseen, instead of an expansion of the same size in the spring), which limit the upward revision for the euro area as whole to 0.4 pp. In 2008, growth in euro-area construction investment is revised downwards to 2.2%, with Ireland (and Denmark outside the euro area) expected to see a contraction of construction investment. Anaemic growth in construction investment will also continue in 2009, with a growth rate of merely 1.3% in the euro area, a figure that is

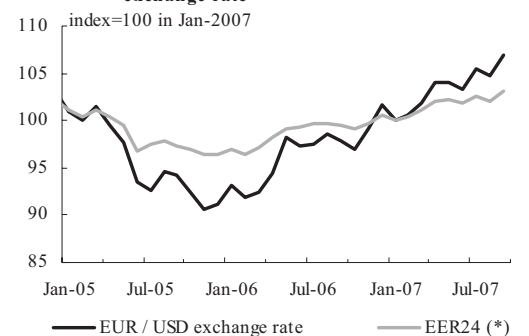
significantly influenced by a contraction in Spain, where construction investment is projected to fall by more than 3%.

Exports benefit from buoyant demand from emerging markets and oil exporters

As detailed in Chapter 1, buoyant developments in emerging markets are expected to compensate for the weakness of US growth. GDP growth in the world excluding the EU should, as a result, remain firm, dropping slightly to 5.3% in 2008 (from 5.6% in 2007), before re-accelerating to 5.4% in 2009. As would be expected, world trade growth shows the same pattern.

Against this background, EU exports of goods and services are projected to slow down, from 6.3% in 2007 to 5.8% in 2008 and 2009. The EU as a whole is expected to limit its market share loss to less than 1% annually, which suggests that EU exports seem to be relatively little affected by exchange rate developments. This is partly due to the fact that, according to Commission estimates, EU exports react more strongly to global trade developments than to movements in the exchange rate. Moreover, exchange rate developments have been narrower than suggested by the bilateral EUR–USD rate. In real effective terms, the euro-area exchange rate appreciated by 2½% YoY in 2007, against an increase of around 10% in the bilateral EUR–USD rate.

Graph 2.3.4: EUR / USD exchange rate and effective exchange rate



(*) EER24: 14 non-euro area EU Member States and the 10 main trading partners outside the EU.

Business survey results confirm the benign short-term export outlook. The ECFIN indicator for export order

books is still very close to its all-time high. The export order index from the PMI manufacturing survey dropped in September to its lowest value since August 2005, but remains above its long-term average. EU exporters are expected to continue to benefit from two "regional" factors. The first one is the buoyancy of demand from emerging markets, which seems to give a particular boost to capital goods producers. The second factor is so-called oil-bill recycling. With oil prices assumed to stay above 70 USD/barrel throughout the forecast period, EU exporters will further enjoy buoyant demand from oil exporters, who source a large share of their imports from the EU.

Cumulated over the forecast period, the euro area is expected to lose about 4% of its export market share (and the EU 2%), with a wide dispersion across Member States, largely in line with competitiveness developments. Among the euro-area Member States that are set to lose less market share than the euro-area average, strongly different current-account situations are found. Five countries (Belgium, Germany, Luxembourg, the Netherlands and Austria) are expected to increase their current account surplus to at least 3% of GDP in 2009. Greece, Portugal and Spain, on the other hand, are projected to retain their large current account deficits in 2009 (in excess of 8% of GDP). While, for Greece and Portugal, this would mean a slight reduction of the deficit over the forecasting period, for Spain a clear deceleration in the rising trend is observed.

Among non-euro-area Member States, current account divergences are even wider. Developments are noteworthy in several countries. Hungary and Slovakia are set to gain large market shares and consequently reduce their current account deficit by a substantial amount. By contrast, five non-euro-area Member States are projected to continue to post large (double-digit) current account deficits in 2009. Among these five countries, improvements compared to 2007 are foreseen for Bulgaria (to 17.6% of GDP), Estonia (to 10.9%) and Latvia (to 19.8%), while a deterioration is expected for Lithuania (to 14.6%) and Romania (to 16.2%).

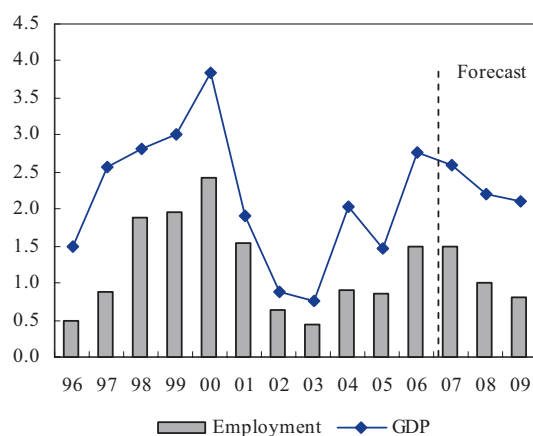
4. Continued strength of the labour market

The labour market continued to benefit from the growth momentum in 2007 in both the euro area and the EU. Due to the lagged response of employment to GDP growth and the maturing cycle, a deceleration in the employment dynamics will become visible in 2008-2009. Overall though, employment growth will be sustained and unemployment should keep declining over the forecast horizon.

Robust employment growth in 2007

Boosted by strong economic activity in the past few quarters, employment in Europe is expected to grow by 1½% in 2007, up by 0.2 pp. in the euro area compared to 2006, and at a strong pace for the second year in a row in the case of the EU. Although not as fast as in the year 2000, this pace of employment growth fares well in a historical perspective. In individual countries, positive surprises have led to sizeable upward revisions in 2007 compared to the spring forecast, especially for Germany, the Netherlands (+0.7 pp.), Finland (+0.8 pp.) and Slovenia (+1.5 pp.).

Graph 2.4.1: Growth of GDP and employment, euro area



By contrast, employment growth has been revised down by 0.4 pp. in Portugal and 0.1 pp. in Italy and Ireland. The increase in job creation in Germany was encouraging, in that the jobs created were mainly regular jobs (e.g. full-time, paying social security contributions). Employment growth appears well balanced across Member States. In the euro area, only France, Italy, and Portugal will see much slower growth than the average.

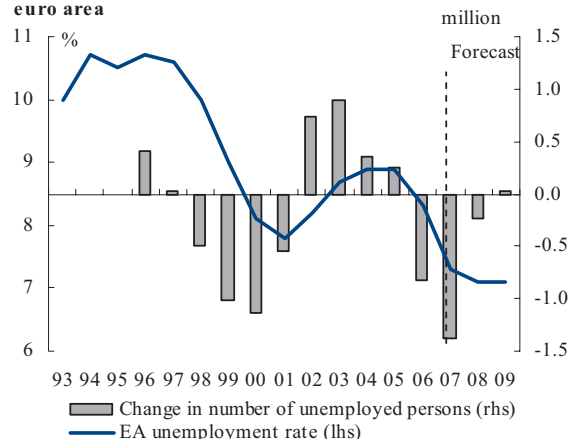
Outside the euro area, the news is also good (especially from Poland), ensuring on the whole a

high level of job creation. All sectors have benefited from the revival of the labour market, as well as the various types of work arrangements (e.g. part-time, full-time, permanent and fixed-term contracts). The labour market improvement across components reflects *inter alia* past structural reforms and the increased confidence of firms, due to the sustained economic activity.

Unemployment at its lowest

As a result of the positive labour market developments, in the summer of 2007 the euro-area unemployment rate reached its lowest point in fifteen years. For the year as a whole, the unemployment rate is expected to decline to 7.3% in 2007 in the euro area and to 7.1% in the EU, from 8.3% in the euro area and 8.2% in the EU in 2006. The unemployment rate has dropped by 1 pp. between 2006 and 2007 in both regions. Following a major revision in the unemployment series in Germany, the euro-area and EU unemployment rates in September declined to 7.3% and 7.0%, respectively (see Eurostat press release 149/2007 of 31 October 2007), and represent a level shift compared with the spring forecast, but the trend continues to decline.

Graph 2.4.2: Unemployed persons and unemployment rate, euro area



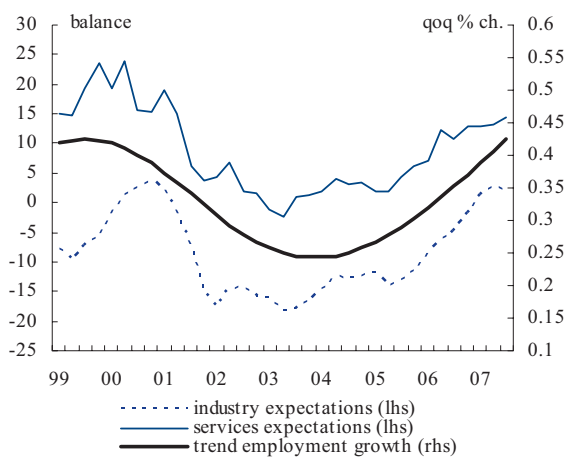
However, unemployment rates continue to differ widely among Member States, ranging from around 3% in the Netherlands and Denmark to 8.6% in France and 11.2% in Slovakia in 2007. Overall, the unemployment rate is continuing to decline throughout the region and employment growth is strong, sending encouraging signals to consumers by supporting consumer confidence, which is welcome at

the current juncture. However, youth unemployment – although it is declining – remains a source of concern in Poland, France, and especially in Spain, where it has increased between 2006 and 2007.

Expectations still upbeat

On the basis of survey data up to the third quarter of 2007, expectations continue to indicate sustained employment growth going forward. Employment prospects reported in the Commission's business and consumer surveys (BCS) suggest that employment creation should continue towards the end of the year, especially in the services sector, while indications from the manufacturing sector are more mixed. The employment component of the Purchasing Managers' Index eased somewhat in August and September after peaking in July, while remaining at elevated levels.

Graph 2.4.3: Euro-area employment expectations



Labour market outlook for 2008-09

Further ahead, employment growth is projected to moderate to slightly below 1% per annum in both the euro area and the EU. This change is especially due to a deceleration in employment growth in Germany, Spain, and Italy, as well as other smaller Member States. Employment growth in the euro area should continue to decelerate gradually towards the long-term average in 2009, and it is foreseen to slow markedly in the EU, from 1.5% in 2007, to 0.9% in 2008 and 0.8% in 2009. This deceleration is due to the drop in employment growth in most euro-area countries, but also in Poland (from 4.4% in 2007 to

1.3% in 2009) and in Sweden and Denmark (with strong declines of around 2 pps).

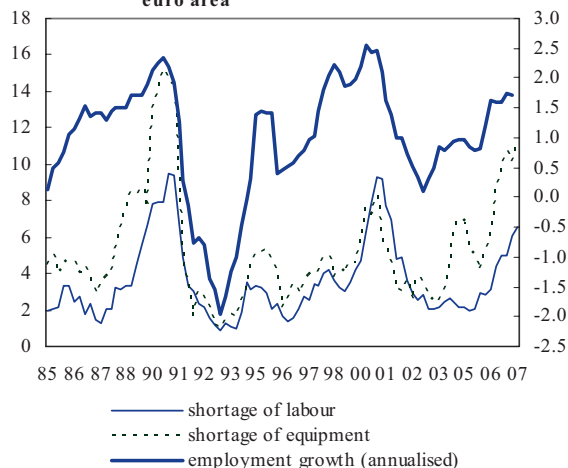
As unemployment keeps dropping...

The unemployment rate is expected to decline to 7.1% in 2008 and 2009 in the euro area and to 6.8% in 2008 and 6.6% in 2009 in the EU. For 2008, the decline in both regions is driven by developments in Germany and the Netherlands. Outside the euro area, unemployment rates are foreseen to decline across the board in 2008-2009, except in the United Kingdom and Estonia, where they remain broadly constant, and in Lithuania, which is the only country where the rate is expected to increase. Following a methodological change in the unemployment series in Germany, the German, EU and euro area rates were revised at the end of October.

... labour markets tighten

As the actual unemployment rate keeps declining, so does the structural unemployment rate (NAIRU), which is estimated to reach 7.1% in the euro area and 6.6% in the EU by 2009. As the actual unemployment rate declines and equals the estimated level of the structural rate in 2009 in both regions, wage pressures could become more prominent.

Graph 2.4.4: Shortage of labour in manufacturing, euro area

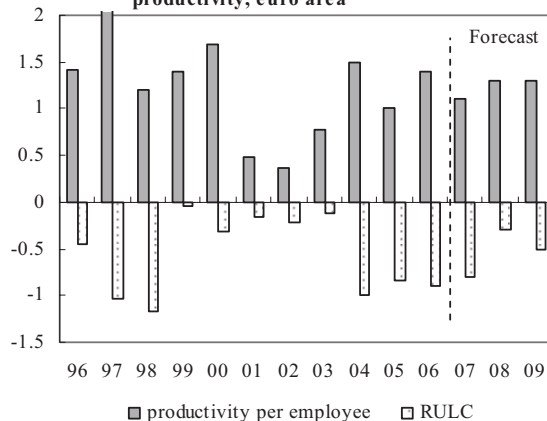


Labour and equipment shortages are more and more visible, affecting both in manufacturing and services. Especially in the Netherlands, Poland, Denmark and Bulgaria, the ongoing tightening in the labour market is likely to put some upward pressure on wages.

Still moderate wage developments

On the back of a tighter labour market situation, real compensation of employees in the euro area is expected to increase over the forecast horizon from 0.2% in 2006 to 0.7% in 2007, and 1.0% in 2008 before easing slightly to 0.8% in 2009. This profile is essentially due to developments in Germany, Finland and Slovenia, where compensation per employee increases in 2008, but then decelerates again in 2009. The spike in 2008 is due partly to temporary developments and catching-up on previous years of wage restraint. In contrast, real compensation per employee is projected to fall slightly in Spain. Turning to the EU, a similar pattern develops across the forecast horizon, with 0.9% in 2007, 1.4% and 1.3% in the subsequent years. However, this overall acceleration in 2008 appears temporary, as it peters out in 2009. These growth rates are nevertheless above the long-term averages of the past ten years for the euro area and the EU as a whole (of around +0.5% and 1.1% per annum, respectively).

Graph 2.4.5: Growth of real unit labour costs and productivity, euro area



In view of the wage restraint in recent years and the tightening in the labour market a gradual normalisation of wage behaviour could have been expected in 2007-2009. However, the projections suggest continued moderate wage developments. A possible explanation for this is pressure from international competition, which diminishes the bargaining power of workers, implying a possible structural change in wage formation.

In this context, unit labour costs are set to continue to grow at a very moderate pace, by 1½ to 2%. Unit

labour costs in the euro area are expected to increase in 2008 (to 1.8%) and then return to 1.5% in 2009 per annum, which translates into negative growth of real unit labour costs. This should continue to support the export performance of the region. The very subdued ULC growth is a general feature across Member States, with the notable exception of Greece and the Netherlands (in both forecast years) and Italy (in 2008).

Could wages be more supportive of private consumption?

Real wage behaviour during the current cycle has so far been characterised by continuing wage moderation, giving little support to household disposable income. Three years of wage growth below 0.5% per year in real terms has given rise to distributional concerns. This has led to questions about the factors behind the substantial decline in the wage share experienced in the recent past. It is therefore useful to explore the reasons behind such developments. In addition to wage moderation there are structural explanations for slow wage developments. In particular, a sectoral re-composition seems to be under way, i.e. a gradual reallocation of value-added towards sectors with a structurally lower share of labour. Moreover, there is also an employment composition effect at work, as the relative weight of the self-employed in total employment has increased. The relative importance of these factors varies across countries and time periods, depending on changes in the structural features of the economy. Overall, changes in the structure of employment seem to play an important role in explaining recent trends in the wage share.

At this juncture, it is expected that (i) employment growth will remain robust, (ii) the unemployment rate will keep declining, (iii) and compensation per employee will see a slight improvement over the forecast horizon. This should support a rise in the overall wage bill which, in turn, should feed into an improved outlook for private consumption.

Following the cyclical upswing, labour productivity growth remains relatively moderate

The moderation of GDP growth coupled with still strong employment growth in 2007 dampened labour productivity growth, which is expected to be 1.1% in 2007, before picking up again (to 1.2 and 1.3%) in

2008-09. The euro area and the EU both display the same pattern, with productivity returning to around the longer-term averages in 2008-2009 in both the euro area (1¼%) and the EU (1½%). Labour productivity should grow faster in the EU, due to the effect of catching-up economies and above-average labour productivity gains in Denmark and the UK. Productivity growth remains relatively low in Italy and Spain, while it should rebound in Germany in 2008 and 2009 as employment growth normalises.

The structural features of European labour markets seem to be prolonging two trends observed already in the 1990s. First, as past structural reforms and wage moderation have begun to bear fruit, employment and labour supply have picked up. Second, the euro-area economy experienced a slowdown in trend productivity which began around the mid-1990s and came to a halt in the mid-2000s.

On average during the first half of this decade employment expanded at a significantly faster pace than during the preceding two decades. In addition, actual data suggests a strong pick-up in labour productivity growth since mid-2005. However, a large part of this apparent acceleration of productivity growth must be attributed to the cyclical upswing which the EU economy has enjoyed in this period. These results are corroborated by estimates of trend growth of total factor productivity which show, as of now, little sign of a pick-up in this component of labour productivity growth. Thus, while the slowdown appears to have ended, trend productivity growth remains at fairly low levels (compared to historical averages) and a reversal of the trend – leading to a sustained pick-up of productivity growth – does not seem to have materialised yet.

Table 2.4.1

Labour market outlook - euro area and EU27

(Annual percentage change)	Euro area				Difference vs spring 2007		EU27				Difference vs spring 2007	
	2006	2007	2008	2009	2007	2008	2006	2007	2008	2009	2007	2008
	Population in working age (15-64)	0.1	0.2	0.2	0.2	-0.1	0.0	0.2	0.2	0.2	0.2	-0.1
Labour force	:	0.7	0.8	0.8	-0.2	0.0	0.8	0.7	0.6	0.6	0.0	0.0
Employment	1.3	1.5	1.0	0.8	0.1	-0.2	1.5	1.5	0.9	0.8	0.1	-0.2
Employment (change in million)	2.1	2.3	1.7	1.5	2.4	1.8	3.5	3.5	2.3	2.1	0.5	-0.2
Unemployment (levels in millions)	12.6	11.2	11.0	11.0	0.2	0.6	19.2	16.8	16.1	15.9	-0.2	0.2
Unemployment rate (% of labour force)	8.3	7.3	7.1	7.1	0.1	0.3	8.2	7.1	6.8	6.6	-0.1	0.1
Labour productivity, whole economy	1.4	1.1	1.2	1.3	-0.1	0.0	1.5	1.3	1.5	1.6	-0.2	0.0
Employment rate (a)	66.0	66.9	67.5	67.9	:	:	64.4	65.3	65.8	66.2	0.3	0.2

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

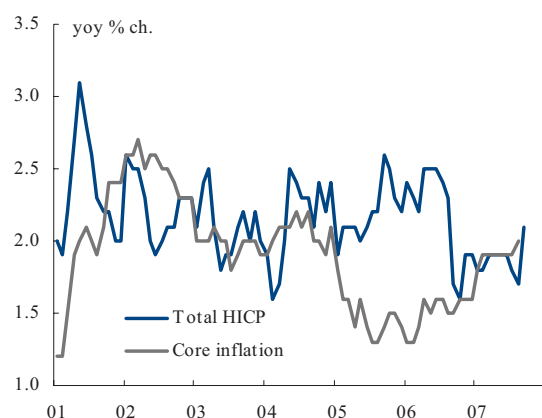
5. Inflation hovering around 2%

Headline inflation has remained contained so far in 2007 due to favourable base effects...

Headline HICP inflation in the EU remained contained in the first three quarters of this year, averaging 1.8% in the euro area and 2.1% in the EU, in both cases lower than in 2006. Moreover, last August marked the first time since 1999 in which the euro area registered a period of twelve consecutive months with inflation rates below 2%.

The short-term dynamics of overall inflation continued to be driven mostly by developments in the energy component. As oil prices rose strongly during most of last year, peaking in the summer, favourable energy-price base effects contributed significantly to the limited increase in overall inflation in the first part of 2007. The annual rate of increase of energy prices in the euro area, for instance, averaged merely 0.5% in the first eight months of the year, compared to double digit rates in the same period last year. However, since oil prices also fell sharply in the autumn of 2006, base effects should reverse direction and push inflation upwards in the last months of 2007. The strong increase in inflation in the euro area in September 2007 (to 2.1%, from 1.7% in August,) is already explained by such effects, combined with the renewed strong increases in oil and commodity prices, though the latter are partly cushioned by the appreciation of the euro.

Graph 2.5.1: Headline and core inflation, euro area



Developments in *unprocessed food* prices, the other main non-core component also showed a moderating trend so far this year, albeit much less marked.

Following an up-tick in the spring, due to unusual weather conditions, inflation in unprocessed food resumed its easing path over the summer, to stand at around 2% in the euro area in September. This was about 2½ pps. below the peak in September 2006. The decline of inflation in this component occurred despite sustained upward pressure on prices of agricultural and food products in world markets. This may reflect a series of attenuating factors such as the appreciation of the euro, the relatively small share of agricultural goods in euro-area imports and the degree of protection from external fluctuations provided by the EU's common agricultural policy to domestic agricultural markets.

...while core inflation continued to drift up, reflecting rising food and services price increases

In contrast, euro-area *core inflation* (HICP excluding energy and unprocessed food) continued to drift up, to stand at 2.0% in September 2007, an increase of nearly ½ pp. since last December. While the firming up of underlying inflation is in line with the economy reaching a mature cyclical position, it also reflects administrative measures – notably the increase in the standard rate of German VAT from 16% to 19% in January 2007 – and strong increases in primary commodity prices, particularly food prices.

The upward drift of core inflation can be traced mainly to developments in the *processed food* and *services* components. The former rose sharply from just below 2% in the spring to just above 3% in September, on the back of the surge in the prices of agricultural commodities and food in world markets. This surge is driven by both, retrenching supply due to damaged crops because of the adverse weather conditions in the winter and spring, and increased demand due to a world switch to bio-fuels and rising income in emerging economies.

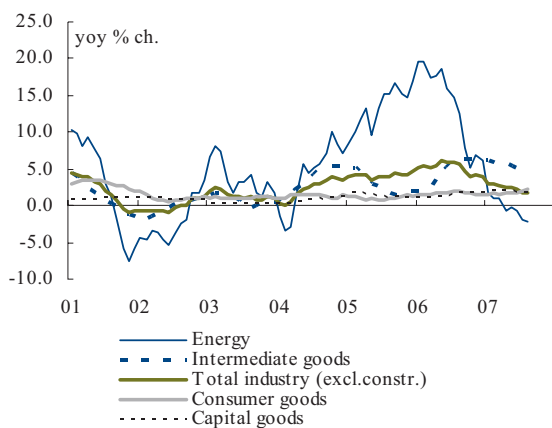
At the same time, *services inflation* has continued on an upward trend since the spring, rising to 2½% in September 2007. This placed services inflation ½ pp. above its level of a year earlier. Part of the increase can be attributed to developments in Germany, where services inflation was affected by the VAT hike. In addition, there is also some evidence suggesting that firms in the services sector, which are more sheltered from foreign competition, are better able to pass on rising cost pressures to consumers. Overall, official estimates indicate that the German VAT increase will

have added about 1 pp. to national inflation, including anticipation effects. This means a 0.3 pp. effect at the euro-area level. However, there is some uncertainty regarding the final price impact.

On the other hand, inflation in *non-energy industrial goods* appears to have ended the gentle upward trend started in mid-2005. Inflation in this component has been mostly steady or easing slightly since the spring. It stood at 1% in September 2007, some 0.2 pp. below the March peak. The moderation of inflation in this component is partly explained by aggressive seasonal discounting in July in several Member States, particularly in clothing and footwear. Another explanatory factor is the decline of import price inflation for consumer goods, most likely linked to appreciation of the euro. It seems that these effects are offsetting the inflationary pressures signalled by capacity utilisation rates in manufacturing, which have reached historically high levels.

Looking at developments at the production stage, there are still some signs of pipeline inflationary pressures, despite the continued easing of the headline index. Overall industrial producer price inflation (PPI, excluding construction) in the euro area fell to 1.7% (YoY) in August, compared to 2½% in the spring and about 6% in August 2006. This was mainly the result of ongoing sharp declines in the energy component, where the annual rate of price declines observed since last April actually accelerated to about -2% in July and August. This compares to inflation rates of around 15% in the same months last year.

Graph 2.5.2: Industrial producer prices, euro area



The picture is, however, less favourable in key non-energy-related components of industrial producer prices. In particular, inflation in intermediate goods, the largest component of the index, remains at an elevated level, although it eased since the spring, to 4¼% in August. Meanwhile, inflation in industrial consumer goods, the most immediately relevant component for consumer prices, increased markedly since the spring, to 2¼% in August, the highest rate since the end of 2001, reflecting the upward pressure on producer prices for consumer food items.

On the side of wages, as mentioned in the previous chapter, the overall picture remains one of continued moderation in the first part of the year. The annual growth rate in compensation per employee in the euro area rose to 2.3% in the first quarter of 2007, up from 1.8% in the fourth quarter of 2006. Other labour cost indicators, such as the ECB's indicator of negotiated wages and Eurostat's hourly labour cost index, also show only a slight acceleration in the second quarter. For the year as a whole, compensation per employee is estimated to grow by 2.6%, only 0.2 pp. above the 2006 average. This suggests the absence of significant second-round effects from the past oil price hikes.

The continued moderation in wage growth is remarkable as it takes place against an ongoing tightening of the labour market, with employment continuing to grow at a healthy pace and unemployment declining to levels not seen for the last 20 years. However, the estimated deceleration in the pace of labour productivity growth for the year as a whole (to 1.1%, from 1.4% last year) implies a somewhat stronger acceleration of unit labour cost gains, from nearly ½ pp in 2007, to 1.4% in 2009.

On the side of inflation expectations, the Commission's consumer surveys show short-term inflation expectations in the euro area to have moved up noticeably, after declining throughout the first half of the year. In September 2007, they were back at the level of December 2006 and, for the second consecutive month, above their historical average. This upturn likely reflects the wide press coverage of the sharp increases in oil prices and in some frequently bought food items; such as bread, cereals, milk and fruits. Inflation in these food items was running at roughly twice their respective historical average in September. Reflecting these developments, consumers' inflation perceptions have also been on the

rise in the last few months. Long-term inflation expectations in the euro area, derived from French government inflation-indexed bonds, also picked-up somewhat recently, after declining slightly since the spring, to stand at about 2.1% in early October. However, caution should be exercised in interpreting inflation expectations derived from financial instruments at a time of heightened financial market volatility.

Inflation set to remain broadly unchanged at about 2% over 2008-09

Looking ahead, average annual HICP inflation in the euro area is projected to decline from 2.2% last year to 2.0% this year, and to remain broadly unchanged at that level over the forecast horizon. In the EU, inflation is expected to remain unchanged at 2.3% this year, rise slightly to 2.4% in 2008 and ease to 2.2% in 2009. Compared to the spring, the new projections entail only slight revisions for 2007 (+0.1 pp. for the euro area and the EU), reflecting mainly data outturns. For 2008, there are somewhat higher upward revisions in the two regions, which take into account the higher oil price assumptions.

In terms of *quarterly profiles*, inflation in the euro area is now expected to rise to about 2½% in the fourth quarter of this year, on account of unfavourable base effects and higher oil prices. It should fall back to 2% in the third quarter of 2008, and remain at around that level for the remainder of the forecast horizon. A similar pattern, but with generally slightly higher inflation rates, is expected in the EU.

The inflation projection is supported externally by reduced inflationary impulses from commodity and import prices and domestically by relatively sustained overall moderation in unit labour cost gains, despite

the expected tightening of the labour market. The annual rate of increase in total primary commodity prices (including fuels) is assumed to fall sharply from about 20% in 2006 to 10% this year and actually register a rate of price decline of almost -3.0% at the end of the forecast period. However, this pattern is delayed for the prices of food and agricultural commodities, which are expected to accelerate significantly this year, and ease rather sharply thereafter. The annual rate of increase of import prices, on the other hand, is projected to ease throughout, from 4½% in 2006 to somewhat below 1½% in 2007-08 and to about 1% in 2009.

On the domestic side, the profile of nominal unit labour costs is explained chiefly by the projected acceleration in compensation per employee in 2008 and the subsequent slight easing, while productivity gains should increase only marginally. Although the acceleration of wage growth is in line with the maturing cyclical position of the euro area and the tightening labour market, it is also affected by special measures in some Member States in 2008, which also explain the slight easing in 2009.

At the Member State level, Germany and France are expected to register the lowest inflation rates in the euro area over 2008-09 (around 1½%), while Greece, Spain, and Slovenia should be at the other end of the scale (with inflation rates around 3%). Outside the euro area, only Sweden and the UK are projected to have inflation rates broadly on a par with the euro-area average over the next 2 years, with the remaining Member States recording higher inflation rates. The Baltic countries, together with Bulgaria, are expected to register the highest inflation rates in the EU in 2009 (roughly between 5-6%), although easing from their levels in 2008.

Table 2.5.1

Inflation outlook - euro area and EU27

(Annual percentage change)	Euro area				Difference vs spring 2007		EU27				Difference vs spring 2007	
	2006	2007	2008	2009	2007	2008	2006	2007	2008	2009	2007	2008
Private consumption deflator	2.2	1.9	2.0	2.0	0.1	0.2	2.2	2.4	1.7	2.1	0.2	-0.3
GDP deflator	1.9	2.2	2.1	2.0	0.1	0.2	2.1	2.8	1.9	2.2	0.2	-0.2
HICP	2.2	2.0	2.1	2.0	0.1	0.2	2.3	2.3	2.4	2.2	0.1	0.3
Compensation per employee	2.4	2.6	3.1	2.8	0.2	0.3	2.7	3.0	3.6	3.4	-0.1	0.3
Unit labour costs	1.0	1.4	1.8	1.5	0.2	0.2	1.2	1.7	2.1	1.8	0.2	0.3
Import prices of goods	4.5	1.3	1.3	1.1	0.6	0.0	4.1	1.5	1.2	1.2	0.5	-0.1

6. Continuous deficit reduction since 2003 comes to a halt

Budgetary consolidation comes to a halt

The general government budget deficit in 2007 is estimated at 0.8% of GDP in the euro area, down from 1.5% in 2006, and 1.1% of GDP in the EU as a whole, down from 1.6% in 2006. A slight deterioration is expected in 2008, as the draft budgets for 2008 do not envisage any further fiscal consolidation. Based on the usual no-policy-change assumption, the deficit is expected to broadly stabilise in 2009. These projections confirm the outlook in the 2007 spring forecast. For 2007 the deficit forecasts for the euro area and the EU have improved somewhat since spring, whereas for 2008 they have increased slightly. The somewhat more favourable public finance outcome for 2007 in the euro area reflects stronger-than-expected revenue growth compared to spring (from 4.2% to 4.8%), partly offset by higher expenditure growth (from 2.8% to 3.1%). Broadly similar revisions took place for the EU.

In the coming years, the revenue-to-GDP ratio in the euro area should decline gradually from 45.6% in 2007 to 45.1% in 2009 (and similarly for the EU, from 44.9% to 44.5%) as taxes are projected to grow less than nominal GDP, reflecting tax cuts in 2008 in a number of countries, including Germany, France, Sweden and Poland. The expenditure ratio is expected to decline in step, from 46.5% of GDP in 2007 to 46.1% in 2009 in the euro area, and from 46.1% to 45.8% for the EU.

Correcting for cyclical factors, one-offs and other temporary measures, the structural deficit is also

declining this year, although less than the nominal balance (from 1% of GDP in 2006 to ¾% in the euro area and from some 1½% to 1% in the EU). From 2008, with the output gap stabilising at around -¼% of potential GDP, a negligible impact of one-off measures (in the euro area and in the EU) and no further consolidation effort, the structural balance closely follows the pattern of the nominal balance, with a structural deficit of around ¾% of GDP in the euro area and 1% in the EU over the forecast period.

Euro area: further improvement in most countries

At the country level, the budgetary outlook compared to the spring forecast is more diverse. While the 2007 outcome in most euro-area countries is better than projected in spring, with a further improvement in the budgetary position expected thereafter, there is a significant worsening in a number of countries. In Ireland for instance, the surplus of 2.9% of GDP in 2006 is set to turn into a deficit of 0.6% of GDP in 2009 (on a pre-budget basis), reflecting inter alia lower property-related taxes in 2007. For France, the outlook for 2007 and especially 2008 is revised down compared to the spring forecast, with a deficit now expected at around 2.6% of GDP throughout the forecast period. Compared to spring, the outlook has deteriorated also, albeit to a lesser extent, in Belgium (in the absence of a budget pending the formation of a new government after the 10 June elections) and Italy (where the forecast confirms a marked deficit improvement in 2007 but the draft budget implies no further consolidation in structural terms in 2008).

Table 2.6.1

General government budgetary position - euro area and EU27

(% of GDP)	Euro area				Difference vs spring 2007		EU27				Difference vs spring 2007	
	2006	2007	2008	2009	2007	2008	2006	2007	2008	2009	2007	2008
	Total revenue (1)	45.6	45.6	45.3	45.1	0.1	-0.1	44.9	44.9	44.6	44.5	0.0
Total expenditure (2)	47.1	46.4	46.2	46.0	-0.1	0.0	46.5	45.9	45.8	45.6	-0.2	-0.1
Actual balance (3) = (1)-(2)	-1.5	-0.8	-0.9	-0.8	0.2	-0.1	-1.6	-1.1	-1.2	-1.1	0.1	-0.2
Interest expenditure (4)	2.9	2.9	2.8	2.8	0.0	0.0	2.6	2.5	2.6	2.5	-0.1	0.0
Primary balance (5) = (3)+(4)	1.3	2.1	2.0	2.0	0.2	0.0	1.0	1.5	1.4	1.4	0.1	-0.2
Cyclically adjusted budget balance	-1.2	-0.7	-0.8	-0.7	0.1	-0.1	-1.4	-1.0	-1.1	-1.0	0.1	-0.2
Cyclically adjusted primary balance	1.6	2.2	2.1	2.1	0.1	-0.1	1.2	1.5	1.5	1.6	-0.1	-0.2
Structural budget balance	-1.1	-0.7	-0.8	-0.7	0.1	-0.1	-1.4	-1.0	-1.1	-1.0	0.1	-0.2
Change in structural budget balance	0.9	0.4	-0.1	0.1	0.1	-0.2	0.7	0.4	-0.1	0.1	0.2	-0.3
Gross debt	68.6	66.5	65.0	63.4	-0.3	0.0	61.4	59.5	58.3	57.0	-0.4	0.0

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

Conversely, the outlook improves particularly for Germany (a budget close to balance throughout the forecast period), Finland (still posting the highest albeit declining surplus in the euro area, of above 4% of GDP), Luxembourg (with a surplus of 1.4% of GDP in 2009), Slovenia and Cyprus (both recording a deficit of below 1% of GDP by the end of the forecast horizon). A significant improvement is also expected for Portugal (where the deficit is now foreseen to fall to the 3% of GDP threshold in 2007) and Greece (owing to a significant consolidation package in the budget resulting in a deficit forecast of 1.8% of GDP in 2008 and 2009). For the Netherlands, the sharp deterioration in 2007 is confirmed to be largely remedied in 2008-2009.

For the remaining euro-area countries, there is little change compared to the spring forecast: the ongoing budgetary consolidation in Malta and the marked reduction of the surplus in Spain over the forecast horizon are broadly confirmed, while in Austria a small deficit remains.

Outside the euro area three countries still above or close to 3% deficit threshold in 2009

Outside the euro area, of the four Member States currently subject to the excessive deficit procedure, the budgetary outlook improves substantially compared to the spring forecast in the Czech Republic (with the deficit now expected to fall below the 3% of GDP reference value in 2008, after the strong deterioration in 2007), Hungary (forecast to reach a deficit of 3.8% of GDP in 2009, compared to 6.4% in 2007) and Slovakia (expected to present a deficit below 3% of GDP in 2007 and reduce it in the two subsequent years). In Poland, the deficit is estimated to fall below 3% of GDP in 2007 (significantly better than expected in spring), but to rebound above the threshold in 2008 on account of an expansionary budget. For several other countries outside the euro area the outlook also improves compared to the spring, for instance in Bulgaria, Latvia and Sweden. By contrast, the deficit in Lithuania is worse than projected in spring, and widens in 2008. The deficit is projected to widen significantly in Romania (with a deficit above 3% in 2008 and forecast to reach almost 4% of GDP in 2009), while the surplus in Denmark and Estonia declines rapidly over the forecast horizon. Also in the UK, the deficit outlook has worsened

compared to the spring with deficits at 3% of GDP in the financial years 2007/08 and 2008/09.

Debt maintains its downward path

In the euro area the debt ratio continues its decline from its 2005 peak. Between 2006 and 2009 it is expected to decrease by more than 5 pps, to 63.4% of GDP, confirming the trend anticipated in the spring forecast. Debt developments for the EU27 as a whole are broadly similar and debt should fall below the 60% of GDP reference value already in 2007. The decreasing trend is shared by all euro-area countries except Ireland, albeit to varying degrees, with France and Portugal witnessing only a slight debt reduction over the period 2006-2009. Compared to the spring forecast most debt projections have been revised downward, except for Ireland and France. Compared to 2006, the debt ratio is expected to have fallen below the 60% of GDP reference value by 2009 in Cyprus, Malta and Austria, whereas in Germany it will fall to 60.3% of GDP. Outside the euro area, debt is decreasing in most countries. The exceptions are the Czech Republic, Romania and the UK and, from 2008, Poland, while the debt ratio is expected to peak in Slovakia in 2007 and one year later in Hungary.

Table 2.6.2

General government structural budget balance

(% of GDP)	2005	2006	2007	2008	2009
Belgium	0.0	-0.3	-0.2	-0.1	0.0
Germany	-2.4	-1.3	0.0	-0.4	-0.2
Ireland	1.0	3.1	1.2	0.3	0.0
Greece	-5.5	-3.5	-3.1	-2.4	-2.3
Spain	1.4	2.1	2.0	1.6	1.4
France	-3.5	-2.8	-2.5	-2.6	-2.4
Cyprus	-2.7	-0.7	-0.6	-0.5	-0.4
Italy	-4.0	-2.7	-2.0	-2.0	-1.9
Luxembourg	0.6	0.8	1.2	1.2	1.7
Malta	-3.1	-2.7	-2.3	-1.7	-1.2
The Netherlands	0.8	1.1	-0.2	0.5	0.7
Austria	-0.9	-1.2	-1.0	-1.0	-0.8
Portugal	-5.1	-2.9	-2.3	-2.1	-2.1
Slovenia	-0.8	-1.1	-1.1	-1.4	-1.0
Finland	3.7	4.1	4.4	3.9	4.0
Euro area	-2.1	-1.1	-0.7	-0.8	-0.7
Bulgaria	1.4	2.7	2.5	3.1	3.4
Czech Republic	-2.2	-3.3	-4.1	-3.6	-3.2
Denmark	4.5	3.6	3.2	3.4	3.0
Estonia	1.7	2.7	2.4	1.9	1.5
Latvia	-0.4	-0.8	0.2	0.5	1.0
Lithuania	-0.8	-0.8	-1.2	-1.5	-0.6
Hungary	-8.4	-9.4	-5.5	-4.2	-3.9
Poland	-4.1	-3.9	-3.0	-3.4	-2.8
Romania	-1.6	-2.6	-3.3	-3.6	-4.0
Slovakia	-1.1	-3.4	-3.0	-2.7	-2.6
Sweden	2.1	2.1	2.7	2.3	2.6
United Kingdom	-3.2	-2.8	-2.7	-2.8	-2.6
EU27	-2.1	-1.4	-1.0	-1.1	-1.0

7. Risks to the forecast

Amid stiff headwinds building up in recent months, the economic outlook for the EU and the euro area has worsened compared to the spring forecast. Growth is now expected to fall back to potential in 2008 and to remain at this rate in 2009. Although risk appetite is not expected to return to pre-crisis levels, with higher borrowing costs and tighter lending conditions as a result, the baseline scenario of this forecast is predicated on a gradual resolution of the current distress in the financial markets.

Indeed, since the outbreak of the turbulence most financial markets have returned to a broadly normal functioning, with credit spreads narrowing, volatility reducing and stock markets regaining pre-crisis valuations. However, significant dislocations have persisted in some important segments such as the asset-backed commercial paper market and the inter-bank money market, signalling a continued lack of confidence affecting credit and liquidity. Were this crisis of confidence to linger for some time, there would be a risk of deepening the distress. The effects of this are difficult to assess with any reliability as markets have evolved in a benign environment in recent years without being tested under more stressful conditions, but credit conditions and credit availability could arguably experience a significant squeeze.

Credit conditions for firms have already deteriorated in the wake of the financial market turbulence according to the most recent surveys by the European Central Bank and the Bank of England. The reduced ability to access market funding was cited as one of the major reasons for tighter credit standards. The tightening was particularly marked for long-term loans, which is the category of credit that had expanded most vigorously in the past few years. As long-term credit is being used to a significant degree to fund fixed capital expenditure, there is a risk that a credit squeeze may dampen corporate investment by more than what is factored into the baseline scenario. Moreover, although household credit so far seems to have been less affected by tightening lending conditions, demand for household credit had already decelerated noticeably prior to the turmoil as a consequence of cooling housing markets. This could mean that both supply and demand for credit could shift markedly lower in the period ahead, with inevitable negative consequences for investment expenditure.

The alternative scenario detailed in Box 2.7.1 simulates the macroeconomic effects of a delayed restoration of confidence in financial markets, assuming that this will also affect adversely housing markets, particularly in the US but also in the EU, thereby deepening and prolonging the ongoing correction in the housing sector. The scenario assumes that the lack of confidence in the banking sector will manifest itself in substantially tighter credit conditions across all risk classes over a prolonged period of time. The results show that this would entail a significant additional loss in output in the US and in the EU in both 2008 and 2009, due to falling growth in both investment and consumption.

At the current juncture, the likelihood of this scenario is considered to be relatively limited, since still-favourable economic fundamentals, such as strong balance sheet positions and high profitability, should enable companies to absorb tighter credit conditions without a major impact on their investment expenditure, while robust employment growth should sustain consumer spending. In the absence of a sharp fall-out on the real sector, financial markets should gradually repair themselves and credit conditions could return to more normal levels with time. However, the likelihood of the alternative scenario would increase appreciably if higher market volatility and wider risk premia were to dampen business and consumer confidence more strongly in the months to come.

The sharp downturn of the US economy in the alternative scenario is also based on the assumption of a sustained deterioration in the US labour market. However, so far the US labour market has shown few signs of weakening, with unemployment remaining close to historically low levels and employment expanding at solid rates. Combined with robust hourly earnings growth, the development of labour income continues to look healthy, cushioning the negative impact of falling house prices on consumption. But if reduced credit availability affected a broader range of households, demand for housing and consumer goods would be further curtailed, which could eventually undermine the solid performance of the labour market going forward, feeding back into household demand and the economic outlook more generally.

A sharper-than-expected downturn in the US would have an impact on the outlook for Europe through

diminished trade. While the importance of the direct trade channel with the US is relatively limited, it is the combination with indirect trade effects, i.e. reduced trade with third countries as a consequence of the impact of the US slowdown on these countries' economies, that could exacerbate any spillovers from an US downturn to output growth in the EU. Moreover, a number of other factors such as the effects of reduced profitability of EU companies established in the US, balance sheet effects due to a fall in asset prices and, particularly, confidence spillovers are likely to magnify the trade effect. However, in the context of the simulations referred to in Box 2.3 confidence effects are taken into account via the impact of the financial markets distress rather than through bilateral spillovers.

On the other hand, emerging market economies have so far proved remarkably resilient against the downturn in the US and the financial market distress. While this is partly linked to high commodity prices, a large part of this decoupling is due to the robust domestic growth momentum in these countries. Moreover, intra-regional trade, especially among the countries in South-East Asia, has gained significant importance relative to trade with the industrialised countries, making these economies more independent of developments outside the region. Since, at the same time, the share of EU exports to these countries in total extra-EU trade is rising rapidly, the external sector could prove more supportive to growth in the EU than assumed in the baseline scenario.

The financial market turmoil may not only aggravate the situation in the US housing market but could also influence developments in the EU housing sector. As shown in Box 2.2.1, the developments of two variables related to the housing market, namely real house prices and the contribution of housing investment to GDP growth, appear to be relatively good predictors of turning points in economic activity. While such relationships should not be interpreted in a mechanistic way, the exceptionally high level these variables have attained in a number of Member States seems to signal a heightened risk of an economic downturn in these countries in the period ahead. House price inflation has indeed started to slow down in countries where price rises in past years have been most pronounced. Moreover, in some countries where the share of the construction sector in the economy has swollen significantly beyond the longer-term

average, such as in Spain and in Ireland, real activity has already started to adjust. With sub-prime mortgage markets not common in the EU, the baseline scenario assumes an orderly and gradual transition to a more sustainable activity level, but a significant deterioration in credit conditions and credit availability could trigger a more abrupt and sharper correction than assumed.

The situation in the housing market suggests that risks in conjunction with tighter lending conditions are not symmetrically distributed among EU Member States. This illustrates the more general point that shifting risk preferences in global markets may affect Member States to a different degree. In this context, it would seem that some Member States are more exposed than others, reflecting different situations in terms of their housing market, the level of their external deficit and debt as well as the share of debt at variable interest rates.

Concern about a disorderly unwinding of global financial imbalances has eased in the recent past, as the economic slowdown in the US in combination with the depreciation of the US dollar has acted to reduce the US current-account deficit. However, the US deficit remains at high levels and the surpluses of many Asian emerging market economies and of oil exporting countries keep rising, with the surplus countries building up sizeable foreign-exchange reserves. While a large part of these reserves are reinvested in the US thanks to the high liquidity and sophistication of the US capital market, returns on US assets have been typically lower than elsewhere in recent years, increasing the risk that investor preference will shift away from US assets. Although some diversification in the allocation of foreign-exchange reserves is already in train, up to now this process has been gradual and has not triggered abrupt exchange rate movements.

Nevertheless, the US dollar recently reached historical lows against the euro and other EU currencies, raising questions of when the pain threshold for EU exports would be reached. While the depreciation of the US dollar by itself is not considered to represent a significant threat to the EU outlook, the fact that countries with large current account surpluses, in particular China, manage their exchange rates vis-à-vis the US dollar rather than in relation to a trade-weighted currency basket, is of greater concern.

Persistent large current account imbalances would also entail the risk of protectionist measures, a risk that would significantly rise if economic growth in the countries concerned were to slow down by more than currently expected.

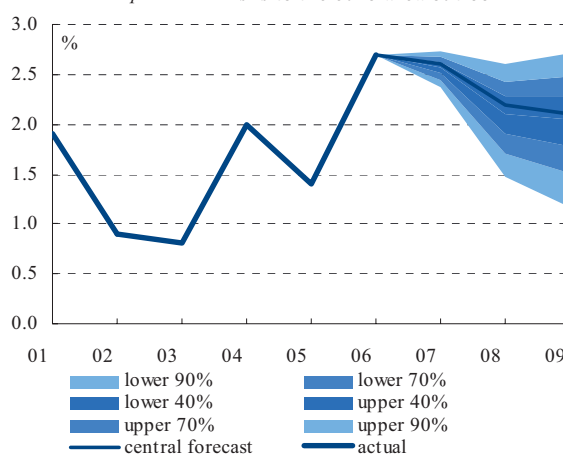
Risks continue to be associated with developments in commodity markets. In particular, oil prices have recently ratcheted up again, reaching historical highs, on the back of limited spare capacity facing robust demand. Moreover, due to shortages of refining capacity, prices for oil products have risen even faster than for crude oil. While additional capacity is gradually coming on-stream, demand growth continues unabated and stocks are at low levels. This makes the market relatively tight and sensitive to even small supply disruptions, actual or expected, e.g. as a result of geopolitical tensions. As a consequence, upside risks to oil prices continue to dominate over the downside risks over the forecast horizon.

The impact on the real economy of the rise in oil prices over past years has been surprisingly muted so far. This can to some extent be ascribed to the fact that, thanks to the competitive pressures of globalisation, a decline in the inflation of other imported goods, especially of manufactures, partly offset the effect of higher oil prices on domestic prices. However, the dampening effect of globalisation on import prices seems to have ground to a halt, with rises in commodity prices starting to outweigh the decline in the inflation of manufacturing prices. Particularly, food prices have recently seen an up-tick and, probably due to the important impact this product category has on consumer perceptions, have added to a rise in inflationary expectations. For this reason, and despite the moderating effect of the appreciation of the euro, upside risks to the inflation outlook appear to have increased.

There are also upside risks to the growth outlook such as the undiminished growth momentum in emerging market economies. On the domestic side, an upside risk is related to consumer expenditure. In particular, the expected favourable labour market developments may give a further boost to consumer confidence, thereby unleashing some of the pent-up demand that accumulated during this cycle of unusually restrained consumer spending. While, in 2008, this could probably only be realised through a fall in the household saving rate – the forecast being based on a

broadly stable saving rate – in 2009 robust employment growth could boost wages by more than what is factored into the forecast. However, if higher wage claims were not matched by equivalent productivity gains this could also turn into an additional risk to the outlook for consumer prices.

Graph 2.7.1: Risks to the euro-area outlook



Taking everything together, risks to the growth outlook for the EU and the euro area appear broadly balanced in 2007 but tilted to the downside in 2008 and 2009. This is depicted in Graph 2.7.1, which provides a quantification of the above-presented risk assessment in terms of possible deviations from the baseline scenario. The chart shows the impact various combinations of risks could have on euro-area GDP growth, the outcomes being weighted by the probability of their occurrence. At a 90% confidence interval, GDP growth in the euro area could be, in the extreme case, up to 0.2 pp. lower or higher in 2007, in line with the assessment of balanced risks. In 2008 and 2009, risks to the forecast become more pronounced and at the same time skewed to the downside. Taking again the 90% confidence interval, euro-area GDP growth could be up to 0.7 and 0.9 pp. lower in 2008 and 2009 respectively, if mostly downside risks materialise. In the opposite case, euro-area GDP could also be somewhat higher, by 0.4 pp. in 2008 and 0.6 pp. in 2009.

Box 2.7.1: Possible impact of a global credit squeeze

One of the most important risks highlighted in this forecast relates to the turmoil that started in the financial markets during the summer. While most financial markets have returned to a broadly normal functioning, significant disruptions persist in some crucial market segments. Although the baseline scenario assumes that the turbulence gradually peters out, with somewhat tighter financing conditions as a result, it cannot be excluded that the lack of confidence may last for a longer period of time or that credit conditions and credit availability are more seriously affected than assumed in the baseline forecast.

This box will briefly discuss the current credit turbulence and the channels through which the euro area could be affected, and will give some indications of the possible quantitative impact of a global credit squeeze on the euro-area economy based on a model scenario.

Both risks and uncertainty spread easily in today's complex financial markets

The ongoing distress in the financial market can be traced back to excessive risk-taking in the past, in an environment where risk premia were compressed to unusually low levels. The turmoil was triggered by a rapid increase in defaults in the US sub-prime mortgage market, which is a small segment of the overall US mortgage market. It quickly turned into a broader liquidity crisis as sub-prime loans have been passed on to other banks/institutions, which subsequently mixed them with other loans or receivables into complex and opaque financial products such as collateralised debt obligations. The credit risks associated with the US sub-prime sector were thereby distributed around the global financial system.

Investor trust was further shaken when some financial institutions without any apparent connection to the US mortgage market were severely hit, such as the IKB Deutsche Industriebank, the Sachsen Landesbank in Germany and Northern Rock in the United Kingdom. As a result, mistrust among investors spread throughout the financial system and market participants became reluctant to engage with counterparties, turning the turbulence into a general lack of confidence and trust among investors.

While some market segments have shown signs of stabilisation lately, crucial segments of the credit market such as inter-bank lending remain seriously disrupted. In response, major central banks intervened on several occasions. If the current turbulences do not peter out gradually (as in the Commission's baseline forecast), investors' appetite for risk will be further reduced, reinforcing a "de-leveraging", whereby investors and institutions reduce their levels of lending and debt. With banks tightening their lending conditions via higher spreads and increased collateral requirements, consumer demand and corporate borrowing could also be affected. In addition, the current credit losses could rise significantly if the turmoil were to affect the real economy substantially going forward. One could therefore not exclude a more pronounced adjustment involving temporary overshooting in the tightening of financing conditions.

Private consumption and construction investment primarily affected by tighter financing conditions

Tighter financing conditions imply not only higher interest rates, but also reduced availability (e.g. changes in lending standards) and increased requirements in terms of collateral. They would have an adverse impact on domestic demand in the euro area, especially for private consumption and investment. As the tightening of financing conditions is not limited to the euro area, a second-round effect may also come from reduced demand elsewhere, lowering growth in the export markets.

As regards private consumption, the direct impact will be most pronounced for credit-constrained households. These households have access to the banking system, although they can only become indebted up to a certain percentage of their income or wealth. Tighter financing conditions and higher collateral constraints would reduce both their consumption and residential investments. The impact could subsequently be reinforced by wealth effects following a decline in the stock of housing combined with a drop in house prices. Liquidity-constrained households, on the other hand, will continue to consume only as much as disposable income allows, since it will become even more difficult for them to gain access to the financial markets. A third category of households is net savers, which could be expected to maintain their low propensity to consume.

(Continued on the next page)

Box (continued)

Turning to the corporate sector, the sound balance sheets and high capacity utilisation rates suggest that the near-term outlook for equipment investment could remain relatively dynamic. That assumption would at least appear reasonable for those enterprises that could finance a sizeable part thereof out of their own accounts, while banklending standards have clearly been tightened also vis-à-vis corporate borrowers according to the ECB's most recent banklending survey.

Construction investment is likely to be more affected by the higher cost of capital, which may also have reinforced the ongoing correction of the housing sector in some of the Member States.

The direct impact on private consumption and investment may be reinforced by both consumer and investor confidence effects. Although survey data have started to decline in recent months, most remain well above their long-term averages, suggesting firm growth ahead. However, with a more pronounced credit squeeze, further confidence effects can by no means be excluded.

A further credit squeeze would take its toll on GDP growth in the euro area and, even more so, in the US

Based on a simulation with the Commission's global macroeconomic model QUEST, a scenario has been simulated to illustrate the impact on the euro area and on the US, via the channels discussed above, of a global credit squeeze.

The simulation is based on the assumption that, on top of the increased cost of capital included in the base-line forecast, there is a further rise in the interest-rate spread of 50 basis points (bp.) in both the US and the EU in 2008-2009. Moreover, the possibly reduced availability of credit is illustrated by an increase in the collateral requirement for households, although somewhat more strongly for the US than the euro area (reflecting the differences in e.g. sub-prime mortgage loans between the US and most European countries.)

The higher interest rate affects the cost of capital for both business and residential investments negatively; both could subsequently decline by 1-1½ percentage points (pps.) in 2008 in the euro area compared to the baseline scenario. A further fall could be expected for residential investment in 2009, while an endogenous model-based monetary-policy response, based on the standard Taylor rule, partly offsets the increase in lending costs for non-residential investments towards the end of the forecast horizon.

The two shocks taken together lead to a reduction in private consumption growth of 0.8 pp. in 2008 and again in 2009 in the euro area. This follows from the limited possibilities of consumption smoothing by credit-constrained households. They have to respond to the credit restrictions by reducing their residential investment and consumption immediately. Moreover, the abrupt reduction in demand has a further impact on house prices causing additional negative wealth effects.

The results are similar in nature, but more pronounced in size, for the US economy. Consumption is set to fall by around 2 pps. in both 2008 and 2009, while residential investment would be 3 pps. lower after two years. A swift response by the monetary authorities could support to non-residential investment. The negative impact in the US is also counterbalanced by a boost to net exports due to a certain endogenous depreciation of the US-dollar (by 3% in real effective terms).

Overall, GDP growth would be reduced by around 0.6 pp. in the euro area in 2008 and a further 0.3 pp. in 2009. For the US, growth would be lowered by 1 pp. and 0.4 pp. respectively.

The impact of a further tightening of lending conditions and reduced credit availability is likely to be asymmetrically distributed among Member States. Countries with a housing boom in the recent past, with high external debt levels or a high share of debt at variable interest rates are likely to be more exposed than others.

Chapter 3

Member States

1. Belgium

Decelerating growth due to less buoyant domestic demand

Activity in 2007

Economic growth remained strong in the first half of the year, mainly due to buoyant domestic demand, but is expected to slow down towards year-end. This is expected to result in annual GDP growth of 2.7%, compared to 2.8% in 2006.

Private consumption in 2007 benefited from increasing real household disposable income and households' high confidence levels, mainly as a result of high employment growth. Private investment also grew at a very rapid pace in the first half of the year. However, a slowdown in both private consumption and investment growth towards the end of the year is expected. Public investment – corrected for the sale of real estate by the government in 2006 – decreased considerably in 2007, after the brisk growth that was recorded last year in the run-up to the local elections. Finally, despite the weakening international economic environment, exports are projected to recover from the unusually low expansion rate in 2006 also due to a more competitive price setting by exporters. However, as imports are likely to increase faster than exports – on the back of high domestic demand – the contribution of net exports to GDP growth is expected to turn negative in 2007.

Prospects for 2008 and 2009

Economic growth in Belgium is forecast to decelerate gradually to 2.1% in 2008 and 2.2% in 2009 on the back of weakening domestic demand.

Private consumption is expected to slow down in 2008, reflecting a considerably smaller increase in

real disposable income as a result of a pick-up in inflation and the slower rise in employment. Also the transformation of part of the health insurance system for self employed from a voluntary private scheme to an obligatory state-run system will affect private consumption. Part of this negative impact will however be offset by a rise in households' non-labour income, partly attributable to higher interest rates.

Deteriorating demand conditions, both in Belgium and abroad, and less beneficial financing conditions are expected to also lead to a slowdown in private investment in the forecast years. Government investment has been strongly influenced by the sale of real estate in recent years. As there are no such operations included in the forecast for 2007-2009, it is expected to return to its trend growth.

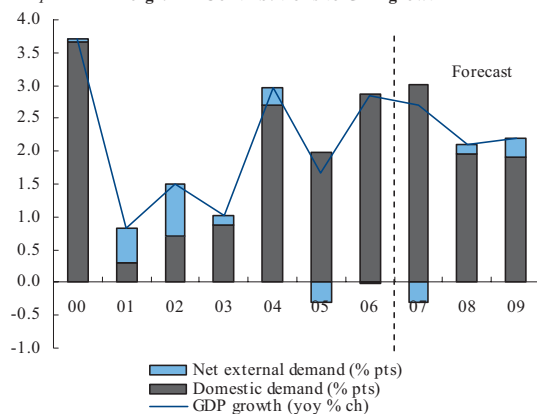
Finally, export growth is forecast to strengthen somewhat further in 2008 and 2009. At the same time, import growth is expected to flatten, reflecting weaker internal demand, so that Belgium's external balance should contribute positively to GDP growth in the next two years.

Labour market, costs and prices

Employment kept rising rapidly in 2007, reflecting the continued positive impact on the labour market of buoyant economic activity. Employment growth should remain sustained with a growth rate of around 1% in 2008-2009, given that changes in economic activity affect the labour market with a certain lag. As the total labour force is expected to grow at a somewhat slower pace, the unemployment rate will decrease. Wage formation decisions in Belgium are partly based on developments in Germany, France and the Netherlands in order to avoid a loss of competitiveness; therefore, the growth rate of Belgian salaries and wages is supposed to develop in line with the expected wage increases in the neighbouring countries.

HICP inflation has remained contained in 2007, as the energy component has exerted a moderating effect, mainly as a result of lower gas prices included in the index. In 2008, however, higher energy prices are expected to drive up inflation to 2.1% on an annual average, after which it is expected to fall back to 1.8%.

Graph 3.1.1: Belgium - Contributions to GDP growth



Public finances

The budget is forecast to show a deficit of 0.3% in 2007, compared to a surplus of 0.4% in 2006. This deterioration is largely the result of the projected zero net impact of one-offs in 2007 (positive and negative one-offs of some 0.1% of GDP offsetting each other), compared to a positive impact of 0.8% of GDP in 2006. The government had targeted in the budget for 2007 a surplus of 0.3% of GDP and announced revenue-raising measures of this type amounting to 0.5% of GDP. However the government, in its caretaker capacity awaiting the installation of a new government following the elections of 10 June, may not go ahead with the remaining operations, based on information available at the time of the forecast.

The expected budgetary outturn for 2007 also suffers from relatively low corporate tax receipts, partly as a result of a reduction of the effective tax rate following the introduction, in 2006, of the possibility for corporations to deduct from their taxable corporate

earnings a notional interest expense related to the size of their own funds. On the other hand, revenues from household income tax, indirect taxes as well as social contributions seem to develop rather favourably, on the back of strong economic growth.

The outgoing government is planning to prepare a provisional budget for 2008 – which cannot include new measures – in the event that a new government may not be appointed in time to permit a finalisation of budget discussions by the end of the year. The deficit on a no-policy-change basis is projected to increase slightly to 0.4% of GDP in 2008-2009, reflecting mainly the impact of the economic slowdown on both government expenditure and revenue.

Having fallen below 90% for the first time in 2006, the debt ratio is expected to continue to decline throughout the forecast horizon, reaching 79% in 2009.

Table 3.1.1

Main features of country forecast - BELGIUM

	2006		92-03	Annual percentage change					
	bn Euro	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at constant prices	316.6	100.0	1.9	3.0	1.7	2.8	2.7	2.1	2.2
Private consumption	166.3	52.5	1.6	1.4	1.3	2.0	2.5	1.8	1.8
Public consumption	70.8	22.4	1.7	1.8	-0.2	0.0	2.4	2.5	2.3
Gross fixed capital formation	65.7	20.7	1.7	7.1	6.7	4.2	5.6	2.1	2.2
of which : equipment	28.8	9.1	1.8	7.7	4.0	4.0	7.6	2.5	2.5
Exports (goods and services)	277.6	87.7	4.1	6.5	3.6	2.6	4.8	5.0	5.1
Final demand	584.2	184.5	2.7	4.5	2.8	2.8	3.9	3.4	3.5
Imports (goods and services)	267.6	84.5	3.9	6.6	4.2	2.7	5.4	5.0	4.9
GNI at constant prices (GDP deflator)	320.5	101.2	2.0	2.5	1.3	3.5	2.6	2.1	2.2
Contribution to GDP growth :									
Domestic demand			1.6	2.9	1.9	1.9	3.0	2.0	1.9
Stockbuilding			0.0	-0.2	0.1	0.9	0.0	0.0	0.0
Foreign balance			0.3	0.3	-0.3	0.0	-0.3	0.1	0.3
Employment			0.6	0.7	1.2	1.2	1.4	1.0	0.9
Unemployment rate (a)			8.4	8.4	8.4	8.2	7.5	7.2	6.9
Compensation of employees/head			3.0	1.9	1.9	3.2	2.4	2.6	2.6
Real unit labour costs			-0.1	-2.7	-1.0	-0.4	-1.0	-0.7	-0.8
Savings rate of households (b)			-	-	12.2	12.5	12.0	11.8	11.6
GDP deflator			1.8	2.4	2.5	2.0	2.1	2.2	2.0
Private consumption deflator			1.7	2.5	2.8	2.5	1.8	2.1	1.9
Harmonised index of consumer prices			1.8	1.9	2.5	2.3	1.7	2.1	1.8
Trade balance (c)			3.3	2.9	1.9	1.3	1.2	1.2	1.3
Current account balance (c)			4.7	3.8	3.0	3.3	3.0	3.1	3.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			4.6	3.8	2.9	3.4	3.1	3.2	3.5
General government balance (c)			-2.4	0.0	-2.3	0.4	-0.3	-0.4	-0.4
Cyclically-adjusted budget balance (c)			-2.3	0.0	-1.9	0.5	-0.2	-0.1	0.0
Structural budget balance (c)			-	-0.8	0.0	-0.3	-0.2	-0.1	0.0
General government gross debt (c)			118.3	94.2	92.2	88.2	84.6	81.7	79.0

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

2. Bulgaria

Tight labour market fuelling wage pressures

Activity in 2007

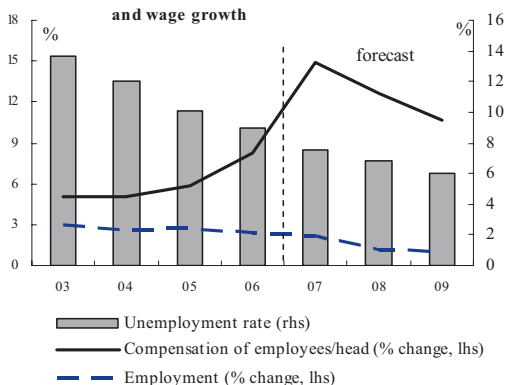
Real GDP growth accelerated to 6.4% in the first half of 2007, up from 6.1% in 2006, mainly driven by strong domestic demand. Fuelled by continued strong FDI inflows and a re-acceleration of credit growth, investment demand was particularly buoyant, expanding by close to 30%. High wage increases and strong employment growth also boosted private consumption, which grew by close to 7%. In contrast, public consumption remained almost unchanged in real terms compared to 2006.

Real export growth decelerated to 7.4%, whilst import growth remained strong at close to 12%. Economic growth has thus become increasingly unbalanced in the first half of 2007. The weak export performance is partly explained by lower energy exports following the partial closure of Kozloduj nuclear power plant at the end of 2006 and the ongoing economic restructuring in certain sectors. It may, however, also reflect an underreporting of intra-EU trade flows following changes in the reporting methodology after accession. In line with a growing trade deficit, the net borrowing of the economy widened to around 18% of GDP (up from 15% in 2006). Economic activity should decelerate slightly in the second half of the year, with real GDP expanding by around 6¼% for the full year.

Prospects for 2008 and 2009

A certain rebalancing of economic activity is expected in 2008 and 2009. Economic growth will, however, remain robust reflecting underlying trends and the continuing catching-up of the Bulgarian economy.

Graph 3.2.1: Bulgaria - Employment, unemployment and wage growth



Real GDP growth is thus projected to decelerate slightly in 2008, on the back of somewhat weaker domestic demand, and to return to close to potential in 2009. Investment growth is expected to decelerate to more sustainable levels as a result of tighter international credit conditions triggering a certain slow-down in FDI inflows. In addition, higher wage growth is compressing profit margins, and hence also dampening investment demand. Moreover, investment activity currently driven by the need to adopt EU standards in certain industries will gradually fade out in the coming years. At the same time, increased public investment associated with the absorption of EU Structural Funds should ensure that investment growth still remains well above 10% per year. Private consumption growth will slow down moderately as nominal wage growth decelerates and high inflation together with lower employment growth also limits growth in disposable incomes.

On the external side, lower domestic demand growth should be reflected in a further cooling down of import growth in 2008 and 2009. At the same time, export growth is expected to recover from the slow down in 2007 as high capital accumulation in recent years should strengthen the export potential of the Bulgarian economy. The negative contribution to growth from net exports should thus decrease noticeably. Together with an improvement in the terms of trade and increasing EU transfers, this will entail a gradual reduction in the net borrowing of the economy to around 16% of GDP in 2008 and 2009.

Labour market, costs and prices

The Bulgarian economy has been showing signs of overheating in 2007 with mounting wage pressures, rising inflation and a widening of external imbalances. Buoyant employment growth and a strong decrease in unemployment have led to a considerable tightening of the labour market, with growing shortages especially for high-skilled labour. Consequently, nominal wage growth has accelerated sharply since the end of 2006 to over 17% in the first half of 2007. Given the sustained decline in the working-age population and somewhat weaker labour demand due to rising wage costs, job creation is projected to slow down to around 1% by 2009. Wage pressures will remain strong over the forecast period, although nominal wage growth may decelerate from the currently high levels. Even though productivity

growth is expected to increase to around 5% in 2009, this would still entail substantial increases in nominal unit labour costs, reducing companies' profit margins and adding to inflationary pressures.

HICP inflation decelerated to around 4½% in the first half of 2007, mainly because of base year effects due to an increase in excise duties at the beginning of 2006. Since July 2007, however, inflation has started to accelerate sharply, largely on the back of drought-related increases in food prices, although core inflation has also picked up noticeably, reflecting increasing demand-side pressures. In view of sustained wage pressures, inflation is expected to remain at around 6-7% throughout the forecast horizon.

Public finances

Thanks to very strong revenue growth, the general government budget surplus is expected to reach around 3% of GDP in 2007, which is clearly above initial budget projections. The revenue over-

performance is largely due to stronger economic activity, with particularly buoyant domestic demand growth generating higher revenue, and to substantially higher inflation than originally expected. In addition, strong growth of corporate income tax revenue – despite a 5-pps. reduction in the tax rate at the beginning of the year – suggests that improved tax compliance and a successful reduction of the informal economy also play a role. At the same time, nominal expenditure growth has remained broadly in line with original budget targets, implying a slight drop in the expenditure-to-GDP ratio. The general government surplus in 2007 also reflects a one-off, expenditure increasing foreign debt cancellation to Libya of around 0.1% of GDP.

Based on a no-policy-change assumption, a comparable general government surplus to 2007 is expected in 2008 and 2009. Together with strong nominal GDP growth, this would imply a further decrease in general government gross debt to below 15% of GDP.

Table 3.2.1

Main features of country forecast - BULGARIA

	2006		92-03	Annual percentage change					
	bn BGN	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at constant prices	49.1	100.0	0.4	6.6	6.2	6.1	6.3	6.0	6.2
Private consumption	34.0	69.2	1.3	5.9	6.1	7.5	7.3	7.0	6.5
Public consumption	8.6	17.5	-3.8	3.8	2.5	2.4	1.5	2.5	3.0
Gross fixed capital formation	12.9	26.2	-	13.5	23.3	17.6	25.0	14.0	12.0
of which : equipment	-	-	-	-	-	-	-	-	-
Exports (goods and services)	31.6	64.4	-	12.7	8.5	9.0	7.4	8.4	8.2
Final demand	89.7	182.7	-	9.2	9.7	10.1	9.2	8.0	7.7
Imports (goods and services)	40.6	82.7	-	14.5	13.1	15.1	12.6	10.6	9.5
GNI at constant prices (GDP deflator)	49.1	100.0	-	6.2	5.7	5.5	5.5	5.8	6.0
Contribution to GDP growth :									
Domestic demand			-	7.6	9.8	10.2	11.9	9.4	8.6
Stockbuilding			-	0.6	1.7	2.2	0.1	0.1	0.2
Foreign balance			-	-2.5	-4.1	-6.2	-5.7	-3.4	-2.5
Employment			-0.6	2.6	2.7	2.4	2.2	1.2	1.0
Unemployment rate (a)			15.4	12.0	10.1	9.0	7.5	6.8	6.0
Compensation of employees/head			-	4.9	5.9	8.2	14.9	12.6	10.7
Real unit labour costs			-	-4.0	-1.3	-3.4	2.8	0.1	0.0
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			58.1	5.1	3.8	8.1	7.6	7.4	5.3
Private consumption deflator			60.1	4.4	5.2	5.2	6.5	6.5	5.1
Harmonised index of consumer prices			-	6.1	6.0	7.4	7.1	7.3	5.8
Trade balance (c)			-5.5	-14.9	-20.2	-21.5	-24.2	-23.9	-23.8
Current account balance (c)			-3.6	-6.6	-12.0	-15.8	-18.1	-17.7	-17.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-3.7	-5.1	-10.8	-15.0	-17.0	-16.0	-15.8
General government balance (c)			-	2.3	2.0	3.2	3.0	3.1	3.1
Cyclically-adjusted budget balance (c)			-	1.8	1.4	2.7	2.7	3.1	3.4
Structural budget balance (c)			-	1.8	1.4	2.7	2.5	3.1	3.4
General government gross debt (c)			-	37.9	29.2	22.8	19.3	15.9	12.9

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

3. Czech Republic

Moderating growth buoyed by consumer demand

Activity in 2007

The strong expansion of the Czech economy has been largely sustained through the first half of 2007. Growth has been mainly propelled by strong consumer demand, partly compensating for lower-than-anticipated investment spending. External demand has remained robust, with exports slightly outpacing imports. The strong rise in consumer spending has been underpinned by a number of factors including climbing wage levels, falling unemployment, expanding credit, moderate inflation and an increase in social benefits. On the supply side, the largest contribution has come from manufacturing, where growth in output has been spread over most sectors, in particular, electronics, transport equipment, and the automotive sector. In keeping with the long-term trend, foreign investment continues to be strongly attracted to the industrial sector where foreign-owned companies dominate export sales.

Prospects for 2008 and 2009

After economic expansion in 2007, growth is expected to moderate in 2008 and 2009, toward its potential level. Growth is foreseen at about 5¾% in 2007, while slowing to about 5% in 2008 and 2009. This is foreseen of in part due to the effects of the anticipated fiscal contraction in both years, stemming from cuts to social expenditure contained in the stabilisation package and further spending restraint in the budget for 2008. Private consumption is expected to continue rising more slowly, due to the fiscal consolidation including cuts to social benefits. While

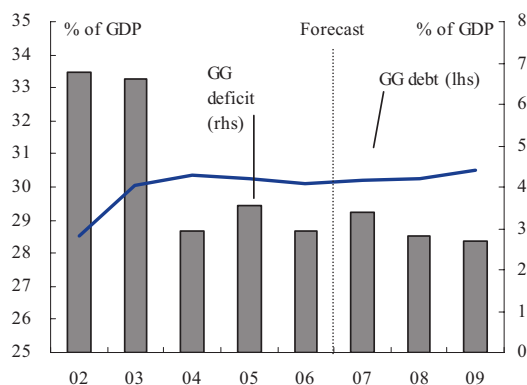
recent investment figures have been below expectations, it is still expected that gross fixed capital formation will provide a strong impetus benefiting from an increased injection of EU funds and a buoyant construction market. The trade balance is anticipated to continue improving over the forecast period, positively influencing the current account balance, partly offset by the increase in the ratio of the repatriation of dividends compared to re-invested profits by foreign enterprises. Government consumption is expected to be constrained during the forecast period, reflecting the aim of fiscal consolidation envisaged in the stabilisation package and proposed budget for 2008.

Labour market, costs and prices

Unemployment fell sharply at the beginning of 2007. Hiring has been particularly buoyant in foreign-owned enterprises. In spite of the recent rises in employment, the number of vacancies still remains high, pointing to the potential for further job creation, but also to the continued presence of structural constraints. It is anticipated that unemployment will fall, albeit more moderately, beneath 5% towards the end of the forecast period. Employment incentives incorporated in the stabilisation package (the reduction to personal and corporate income tax and lowering of social benefits) will contribute to the decline. Public sector employment is expected to remain near current levels. Wages, particularly in the private sector, are set to continue rising strongly.

The effect of two recent rises in excise duties and strong consumer spending is expected to add inflationary pressure in the near term. At the beginning of 2008, a further rise in excise duty, the introduction of environmental taxes and the increase in the lower VAT rate from 5 to 9% will add further to inflationary pressure. In 2008, the consumer price index is expected to rise towards 4% before easing in 2009, given that core inflation should remain moderate. The strong koruna continues to be an offsetting factor against rises in import prices.

Graph 3.3.1: Czech Republic - Government finances



Public finances

The government deficit dropped to below 3% of GDP in 2006, falling well within the agreed consolidation path set out in the 2004 Excessive Deficit Procedure (EDP), albeit helped by stronger-than-anticipated growth generating higher-than-expected revenues.

Despite a revenue boost from stronger-than-anticipated growth, the annual deficit is expected to worsen to about 3½% of GDP in 2007. The deterioration reflects a marked fiscal expansion, mainly due to substantial increases in social expenditure without counterbalancing measures in other areas. The stated intent of the new government has been immediate fiscal consolidation, which has so far been primarily reflected in the expenditure restraint shown in the stabilisation package and the budget for 2008. Based on a successful implementation of the measures announced, and the likelihood of sustained, albeit moderating growth, it is

predicted that the Czech Republic will achieve substantial consolidation in 2008, with a deficit below the 3% of GDP reference value for 2008, and a further modest reduction in 2009. The main downside risk to this forecast is the ability of the government to restrain spending and to continue consolidation in 2009 against a reduction in direct taxation. The existence of the reserve fund, in which government departments roll over spending allocations, continues to add uncertainty to the forecast. The government debt ratio is likely to be constrained to about 30½% of GDP by 2009, partially benefiting from privatization revenue.

Table 3.3.1

Main features of country forecast - THE CZECH REPUBLIC

	2006			Annual percentage change						
	bn CZK	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at previous year prices	3231.6	100.0	1.9		4.5	6.4	6.4	5.8	5.0	4.9
Private consumption	1577.1	48.8	3.9		2.9	2.3	5.4	6.1	4.9	5.3
Public consumption	685.4	21.2	1.2		-3.5	2.2	0.0	0.8	0.8	0.6
Gross fixed capital formation	794.8	24.6	5.0		3.9	2.3	5.5	6.5	6.5	6.6
of which : equipment	326.3	10.1	9.4		5.2	0.7	3.2	4.5	4.4	4.3
Exports (goods and services)	2448.6	75.8	9.1		20.7	11.8	14.4	14.9	12.9	10.8
Final demand	5580.6	172.7	5.5		10.2	6.0	9.8	9.3	8.4	7.6
Imports (goods and services)	2349.0	72.7	13.4		17.9	5.0	13.8	14.1	12.8	11.1
GNI at previous year prices (GDP deflator)	3057.2	94.6	-		3.2	7.0	5.8	5.3	3.6	4.7
Contribution to GDP growth :										
Domestic demand			3.6		1.7	2.3	4.0	4.7	4.2	4.4
Stockbuilding			0.2		1.4	-0.7	1.5	0.0	0.2	0.3
Foreign balance			-1.8		1.3	4.8	0.9	1.0	0.6	0.2
Employment			-		0.1	1.1	1.7	1.6	1.5	1.6
Unemployment rate (a)			-		8.3	7.9	7.1	5.9	5.4	5.0
Compensation of employees/f.t.e.			-		5.7	4.6	6.2	6.5	6.6	6.8
Real unit labour costs			-		-3.1	-0.3	-0.1	0.1	0.2	0.8
Savings rate of households (b)			-		-	6.5	3.6	1.9	1.9	2.3
GDP deflator			8.2		4.5	-0.2	1.7	2.1	2.9	2.6
Private consumption deflator			6.9		3.3	0.9	2.3	3.0	3.8	3.2
Harmonised index of consumer prices			-		2.6	1.6	2.1	3.0	3.8	3.2
Trade balance (c)			-4.9		-0.5	2.0	2.0	2.6	2.7	3.0
Current account balance (c)			-3.6		-5.5	-2.3	-3.1	-2.8	-2.4	-2.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-3.9		-5.4	-2.9	-2.7	-2.5	-2.1	-1.9
General government balance (c)			-		-3.0	-3.5	-2.9	-3.4	-2.8	-2.7
Cyclically-adjusted budget balance (c)			-		-2.0	-3.3	-3.3	-4.1	-3.6	-3.2
Structural budget balance (c)			-		-1.3	-2.2	-3.3	-4.1	-3.6	-3.2
General government gross debt (c)			-		30.4	30.2	30.1	30.2	30.3	30.5

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

4. Denmark

Coping with capacity constraints

Activity in 2007

After a lengthy period of strong real GDP growth, economic activity progressively abated in the first half of the year. Compared with the same period in 2006 the growth rate more than halved from 3¾% to 1½% in 2007. Private consumption declined, indicating that what has been the main driving force of economic growth in recent years is losing steam. This is largely explained by increasing interest rates and a slowdown in the housing market, with both lower turnover and stagnating prices. However, as previously anticipated further interest rate hikes did not materialise and with the prospect of lower taxes, consumption is expected to rebound slightly in the second half of 2007 to ensure annual growth of 2%. Meanwhile, non-residential investment growth, in particular in equipment, has also weakened.

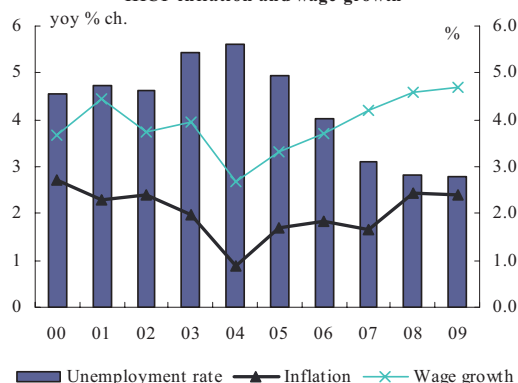
Labour shortages are now clearly constraining economic activity, affecting export growth in particular. Capacity constraint indicators are reaching high levels, and imports are required to meet a larger share of domestic demand. As a result, net exports are continuing to contribute negatively to GDP growth also in 2007. The strained labour market appears to weaken productivity growth.

In summary, the economy now appears to be facing a period of more moderate growth.

Prospects for 2008 and 2009

Over the forecast period, GDP growth is expected to continue to slow down to just below 1½% in 2008 and 2009 as interest rates are expected to increase.

Graph 3.4.1: Denmark - Unemployment rate, HICP inflation and wage growth



Domestic demand is projected to remain robust, driven mainly by private and government consumption, albeit at a lower pace.

Private consumption will be sustained by increasing real disposable income taking over from wealth effects, which have weakened with the stagnation of the housing market. Residential investment is also likely to recede from the current historically high level. Thus far the overall trend of house prices does not point to a dramatic correction, although there are indications that prices have fallen in certain regions.

In anticipation of rising interest rates, house owners have over time shifted towards mortgage types that are less sensitive to interest rate fluctuations. Nevertheless, further increases in interest rates and the development of house prices remain downside risks.

Capacity constraints and labour shortages have varied effects on investment. Capacity pressure is predicted to remain high, thus creating demand for capacity extending investments. Concurrently, labour shortages hinder construction activity and other labour-intensive investments. More generally, the lack of labour supply may encourage substitution to capital.

Export growth is expected to continue to be held back by labour shortages and capacity constraints, resulting in increasing production costs. As import growth is also estimated to decline owing to weaker private consumption, net exports are projected to gradually have a more neutral impact on GDP growth.

Consumer and business confidence depicts a more positive picture than might be expected from the weak outcome in the first half of 2007. Industrial trend indicators and consumer expectations have been quite stable and remain at relatively high levels.

Labour market, cost and prices

The labour market continues to remain tight with unemployment at a historically low level and pervasive labour shortages. Over the forecast period this situation is predicted to remain, although an expected influx of foreign workers could provide partial alleviation.

In the first half of 2007 the excess demand for labour spurred relatively generous private sector wage increases, which are likely to spill over to public sector negotiations to be concluded in 2008.

Cost pressures are mounting due to the strong labour market, in particular for labour-intensive services. Driven also by higher food and energy prices, inflation is expected to increase from a very low level to 2½%.

Public finances

Public finances continue to be strong with a likely surplus of 4% of GDP in 2007, which is expected to ease to 3% in 2008 and 2½% in 2009. Income taxes will be cut gradually in 2008 and 2009 and, given the strained labour market, the expected overall expansionary fiscal stance poses a risk of cost pressure.

The strong labour market position continues to benefit both the expenditure and the revenue side. Public investment is returning to the trend level after extraordinary investments prior to the organisational reform at local government level entering into force in 2007. From 2009, investments are foreseen to

increase slightly with access being granted to a fund dedicated to enhancing the quality of public services.

Revenue will continue to be volatile due to the sensitivity of certain taxes to oil and gas prices and financial market developments. The special pension contribution continues to be suspended in 2008 and is assumed to be reintroduced in 2009.

Following a ruling by the European Court of Justice, the taxation of pensions is being reformed. Although the new rules will only apply from 2010, expected compensational transfers will have effects within the forecast period.

Over the forecast period, government debt is expected to fall from 30% in 2006 to around 17½% in 2009.

Table 3.4.1

Main features of country forecast - DENMARK

	2006		92-03	Annual percentage change					
	bn DKK	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at constant prices	1642.2	100.0	2.2	2.1	3.1	3.5	1.9	1.3	1.4
Private consumption	793.5	48.3	1.7	4.7	4.2	3.1	2.1	1.9	1.8
Public consumption	419.6	25.6	2.2	1.6	1.1	1.5	1.8	1.8	1.5
Gross fixed capital formation	368.0	22.4	3.8	5.6	9.6	12.9	4.5	0.8	1.1
of which : equipment	137.7	8.4	3.5	5.6	12.1	15.9	4.6	1.7	1.1
Exports (goods and services)	853.1	52.0	4.7	2.2	7.2	10.1	3.9	3.9	3.5
Final demand	2446.7	149.0	3.0	3.5	5.3	6.9	3.0	2.5	2.2
Imports (goods and services)	804.5	49.0	5.3	6.9	10.7	14.4	5.3	4.8	3.8
GNI at constant prices (GDP deflator)	1664.9	101.4	2.4	3.2	3.5	4.1	1.9	1.3	1.4
Contribution to GDP growth :									
Domestic demand			2.1	3.7	4.2	4.5	2.5	1.5	1.5
Stockbuilding			0.0	0.1	-0.1	0.4	0.0	0.1	0.0
Foreign balance			0.0	-1.7	-1.0	-1.4	-0.6	-0.3	-0.1
Employment			0.4	0.0	0.7	2.0	2.0	0.1	-0.3
Unemployment rate (a)			6.1	5.5	4.8	3.9	3.0	2.7	2.7
Compensation of employees/head			3.5	2.7	3.3	3.7	4.2	4.5	4.5
Real unit labour costs			-0.1	-1.4	-2.2	0.0	2.0	0.4	-0.1
Savings rate of households (b)			-	-	2.5	3.9	5.1	5.4	5.7
GDP deflator			1.8	2.0	3.2	2.2	2.3	2.9	2.9
Private consumption deflator			1.8	1.5	2.2	2.1	1.8	2.5	2.4
Harmonised index of consumer prices			2.0	0.9	1.7	1.9	1.7	2.4	2.4
Trade balance (c)			4.0	3.7	3.1	1.1	-0.3	-0.7	-0.9
Current account balance (c)			1.8	3.1	3.6	2.4	1.3	0.8	0.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			1.8	3.1	3.7	2.4	1.2	0.7	0.6
General government balance (c)			-0.6	1.9	4.6	4.6	4.0	3.0	2.5
Cyclically-adjusted budget balance (c)			-0.5	2.7	4.8	3.9	3.6	3.2	3.0
Structural budget balance (c)			-	2.5	4.5	3.6	3.2	3.4	3.0
General government gross debt (c)			61.8	44.0	36.3	30.3	25.0	20.9	17.5

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

5. Germany

Leaving the bumpy road behind

Sustained growth driven by domestic demand

The German economy has finally moved to a solid growth path. At the end of 2006, economic growth was boosted by private consumption and buoyant housing investment being brought forward ahead of the increase in the standard VAT rate. As expected, private consumption slowed down substantially in the first months of 2007. A similar profile holds for export growth, which was overstated in the final quarter of 2006 as a consequence of statistical distortions. On the other hand, owing to exceptionally favourable weather conditions at the beginning of this year, the negative echo effect in construction investment was delayed by one quarter. Substantial swings in inventories counterbalanced the uneven developments of expenditure components, and, as a result, headline GDP growth was relatively smooth in recent quarters.

On a solid growth path

Even if the quarterly year-on-year growth rates have now peaked, reaching in the last quarter of 2006 nearly 4%, driven by the temporary factors referred to above, the fundamentals of the German economy are intact with growth expected to be above potential during the forecast period.

However, the phasing-out of the favourable depreciation rules for investment in machinery and equipment at the end of 2007 will shape economic activity around the turn of the year. It is expected to boost investment in the second half of 2007 and to weigh on growth in the first quarter of 2008. Nevertheless, both corporate and government

investment will remain important growth drivers over the forecast period. In contrast, residential construction is likely to suffer further from the VAT hike and the abolition of subsidies for owner-occupied housing investments.

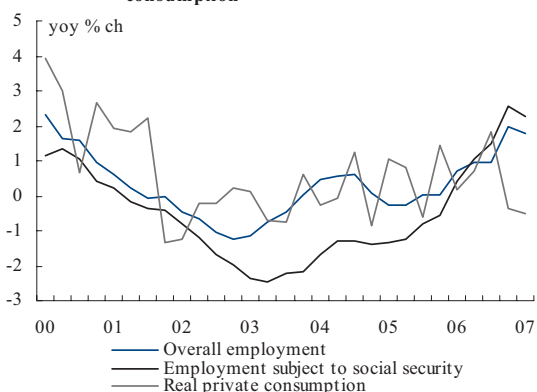
Private consumption, which has so far been relatively sluggish during the current upswing, is expected to recover gradually as a consequence of very favourable labour market developments and significant wage increases. Consumer confidence is also profiting from the rapid fall in unemployment⁽¹⁾. The household savings rate will remain at a high level despite the strong increase in consumption.

By contrast, the appreciation of the euro and slowing world demand (partly a result of the financial market turmoil) is likely to dampen export growth. Moreover, wage moderation, which had backed the sustained improvement in Germany's price competitiveness vis-à-vis its trading partners and thus its remarkable export performance, seems to be coming to an end. This will slow down the decline in real unit labour costs, bringing it more in line with those of Germany's main trading partners. Consequently, there will likely be only minor gains in export market shares. Germany's external surplus will be further dampened by accelerated import growth due to buoyant domestic demand. However, with import volumes being substantially smaller than the export volumes, the growth contribution of net external demand is forecast to remain positive.

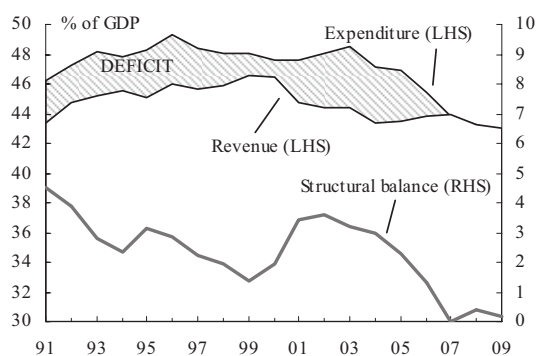
Some clouds in an overall clear sky

Against the background of the recent financial market

Graph 3.5.1: Germany - Employment and private consumption



Graph 3.5.2: Germany - A long way to budget balance



Note: excluding proceeds from UMTS licence sales in 2000.

turmoil, both consumer and business confidence indicators have recently fallen significantly but remain at a relatively high level. While the German economy might be hit indirectly via slower growth in export markets, only a limited credit tightening for the corporate sector has been seen so far. In addition, it seems unlikely that there will be a decline in house prices with corresponding wealth effects on private consumption given the post-reunification recession in the German construction sector and house prices having remained relatively stable during the last one and a half decades. Indeed, the financial situation of the private sector is relatively sound. Private households benefit from the recent strong increase in employment and higher wages. The corporate sector has achieved balance sheet restructuring on the back of high profits and has even been a small net lender of funds in 2006. On an aggregate level, this puts it in a position to finance its investments from own resources. Therefore, the impact of the financial turmoil on the real economy in Germany should be limited to a temporary cooling down around the turn of the year 2007/08.

Inflation to calm down

Given the substantial impact of the VAT increase, inflation in Germany is currently above the euro-area average, in contrast to recent years. While this effect should fade out in 2008, consumer surveys reveal that recent increases in food prices, particularly dairy products, have led to concerns about a higher inflationary trend. Nevertheless, while further food price increases do seem likely, their impact on the overall consumer price index is limited. In addition, higher oil prices are currently mainly balanced out by a stronger euro, which is substantially dampening import prices. In the light of nominal unit labour cost rising only moderately, inflation should calm down in the course of 2008 and remain broadly stable at around 1½% in 2009.

Public finances

The general government budget is projected to be in balance in 2007, for the first time since 2000 when the UMTS licence sales yielded exceptional receipts of 2½% of GDP. The spring 2007 forecast had projected a deficit of 0.6% of GDP.

Consolidation is backed by revenue and expenditure developments. The revenue-to-GDP ratio is almost

back up to its level of five years ago, while the expenditure-to-GDP ratio has fallen to its lowest level since reunification.

The increase in the standard VAT rate from 16% to 19% on 1 January 2007 made a significant contribution to this consolidation. This was coupled with a strong rebound of revenues from direct taxes, especially those related to profits, which has already been visible over the past few years. In line with stronger wage and employment growth, revenues from payroll taxes also picked up this year, exceeding the expectations of the spring 2007 forecast.

As in previous years, expenditure was kept under control in 2007. Despite unexpectedly high revenue growth, total general government expenditure will edge up by less than 1%. This modest increase masks, however, the fact that expenditure on public investment and subsidies has been stepped up in the light of buoyant revenues. In contrast, the better-than-expected labour market developments dampen expenditure growth. Also, despite the turnaround in interest rates, growth in interest expenditure on public debt will remain subdued. As a result, the structural deficit is expected to decline by about one percent of GDP in 2007, enabling Germany to almost reach its medium-term budgetary objective of a balanced budget in structural terms.

In 2008, the general government balance is expected to relapse into a small deficit. The most significant budgetary measure, the reform of company taxation, is expected to burden public finances by more than 0.3% of GDP. Moreover, the strong growth of revenues from profit-related taxes will likely abate. Employees are allowed to deduct their cost of commuting from the wage tax, pending a decision by the Constitutional Court. As the budget of the Federal Employment Agency was in surplus in 2007, the unemployment insurance contribution rate will be reduced next year (from 4.2% to 3.9%, burdening the budget by 0.1% of GDP). As from mid-2008, the contribution rate to the long-term care system is scheduled to increase by 0.25 pp., which will serve to fund additional spending. Public investment is projected to continue trending up, due to the construction of childcare facilities. Finally, the public sector wage agreement at the federal and local level will expire at the end of 2007. Since that agreement foresaw almost zero nominal wage growth in 2006

and 2007, public service unions can be expected to demand wage increases that at least match those in other sectors of the economy. The agreement at the Länder level (which has the largest share of public employment) remains in force until 2008 and foresees wage rises of more than 2½% in that year. In sum, the budget balance can be expected to weaken somewhat in structural terms.

In 2009, the general government balance is projected to move into surplus. Following the assumption of unchanged policies, social contribution rates are projected to remain unchanged and growth in expenditure is projected to be moderate. The virtual absence of new borrowing at the level of general government will dampen the effect of rising interest rates on the cost of public debt. Two one-off events will impact on public finances. A decision by the European Court of Justice will temporarily burden the budget⁽²⁾. In contrast, budgetary relief is expected from a one-time reduction in Germany's contribution to the EU budget⁽³⁾.

The government debt ratio is projected to fall over the forecast period, from almost 65% of GDP in 2007 to close to the 60%-of-GDP reference value by 2009.

- (1) The projection takes into account the recent methodological change in calculating the unemployment rate according to the survey-based Eurostat definition, resulting in an upward revision of the unemployment series between 1 and 2 percentage points since 2005. The national concept, which is based on registered unemployment, has not been altered.
- (2) In March 2007, the European Court of Justice ruled that the taxation of foreign dividend income in the German tax system in force until 2000 was not compatible with EU law. The main budgetary burden from retroactive tax reimbursements is expected to arise in 2009, amounting to over 0.1% of GDP.
- (3) The Council decision on own resources for the EU budget 2007-2013 foresees a reduction in Germany's contribution to the EU budget. As this decision is likely to enter into force by 2009, the forecast for 2009 takes into account a retroactive one-off reduction in Germany's contribution by 0.1% of GDP.

Table 3.5.1

Main features of country forecast - GERMANY

	2006		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at previous year prices		2322.2	100.0	1.4	1.1	0.8	2.9	2.5	2.1	2.2
Private consumption		1357.5	58.5	1.5	0.2	-0.1	1.0	-0.1	2.0	1.4
Public consumption		425.9	18.3	1.6	-1.5	0.5	0.9	1.7	1.4	1.4
Gross fixed capital formation		417.1	18.0	0.5	-0.2	1.0	6.1	5.8	2.9	3.1
of which : equipment		173.7	7.5	0.7	4.4	6.0	8.4	10.5	3.8	4.5
Exports (goods and services)		1046.5	45.1	5.5	10.0	7.1	12.5	7.7	6.8	7.0
Final demand		3242.3	139.6	2.1	2.6	2.4	5.2	3.6	3.6	3.5
Imports (goods and services)		920.1	39.6	4.7	7.2	6.7	11.2	6.2	7.4	6.8
GNI at previous year prices (GDP deflator)		2344.4	101.0	1.3	2.5	1.0	2.9	2.2	2.1	2.3
Contribution to GDP growth :										
	Domestic demand			1.4	-0.2	0.3	1.8	1.3	1.9	1.6
	Stockbuilding			-0.2	0.0	0.1	0.0	0.2	0.0	0.0
	Foreign balance			0.3	1.3	0.5	1.1	1.0	0.2	0.5
Employment				-0.8	-0.4	-0.5	0.2	1.4	0.5	0.4
Unemployment rate (a)				8.2	9.7	10.7	9.8	8.1	7.7	7.6
Compensation of employees/f.t.e.				3.6	1.4	0.5	1.6	1.9	2.7	2.5
Real unit labour costs				-0.2	-1.1	-1.5	-1.6	-1.0	-0.3	-0.5
Savings rate of households (b)				-	-	16.3	16.2	16.7	16.2	16.3
GDP deflator				1.5	1.1	0.7	0.6	1.8	1.4	1.3
Private consumption deflator				1.6	1.6	1.5	1.4	1.8	1.6	1.6
Harmonised index of consumer prices				-	1.8	1.9	1.8	2.2	2.0	1.8
Trade balance (c)				3.4	6.9	6.9	7.0	7.7	7.9	8.3
Current account balance (c)				-0.4	4.5	4.7	5.2	5.8	5.8	6.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-0.4	4.5	4.7	5.2	5.8	5.8	6.1
General government balance (c)				-2.5	-3.8	-3.4	-1.6	0.1	-0.1	0.2
Cyclically-adjusted budget balance (c)				-2.6	-2.9	-2.3	-1.3	-0.1	-0.4	-0.2
Structural budget balance (c)				-	-3.0	-2.4	-1.3	0.0	-0.4	-0.2
General government gross debt (c)				56.1	65.6	67.8	67.5	64.7	62.6	60.3

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

6. Estonia

Slower growth contributes to reducing imbalances

Activity in 2007

After having grown at a rate above 10% for a year and a half, the Estonian economy started to decelerate at the beginning of 2007 with the rate of economic growth reaching 8.8% year-on-year during the first half. Confidence indicators began to fall across all categories, admittedly from exceptionally high levels, at the beginning of the year, reaching their long-term averages by the autumn. Initially, however, the economic slowdown was mainly on the net exports side, while growth in domestic demand still exceeded 12% and investment growth in particular remained strong, as many projects that were started at the peak of the credit and housing boom were finalised.

The subsiding real estate boom is expected to play the key role in the second half of the year and beyond, as the clearest loss of momentum is observed in the industries that are most directly related to it – real estate, renting and business activities and construction. This in itself mirrors the easing of the credit growth that became particularly evident in the summer months when the amount of newly issued housing loans dropped below that of a year ago. The number of real estate transactions has also been falling since the spring and prices seem to have stabilised, although there are no sufficiently representative real estate price indices.

There was a quite remarkable deceleration of both exports and imports in the first half-year. As the slowdown in merchandise exports was steeper than in imports, this could indicate a more constrained competitiveness, but it is also likely to be a reflection

of a decrease in transit-like trade, notably oil, as well as changes in sub-contracting business patterns. Trade in services, meanwhile, showed strong growth. Overall the external balance is showing the first subtle signs of improvement on the back of positive terms-of-trade gains and a higher services balance.

In the second half of the year the general economic slowdown is expected to continue, with overall GDP growth for the year as a whole at 7¼% and the external deficit still high at around 14% of GDP.

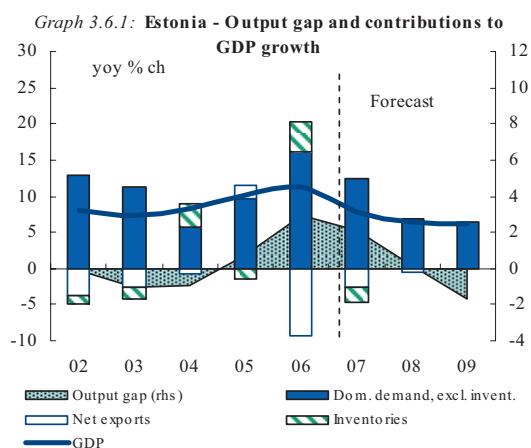
Prospects for 2008 and 2009

Moderation in private consumption and especially investments is expected to slow economic growth to more sustainable levels of between 6% and 6½% in 2008 and 2009. Households' investments in particular are expected to moderate, whereas enterprises will continue to increase their fixed assets, including equipment. Rising government sector investments related to the absorption of EU structural funds will also support the continuation of investment activity. Domestic demand will thus continue to lead economic growth, albeit at a slower pace than in 2007.

Both export and import growth rates are expected to abate compared with the exceptionally high levels of 2006, with the contribution of net exports becoming broadly neutral. The considerable investments that were made in recent years will support the continuing expansion of export-oriented production. Together with a significant increase in capital receipts linked to EU funding, this will contribute to an overall narrowing of the external account deficit to below 10% by the end of the forecast period. Net external liabilities relative to GDP, around three-quarters at mid-2007, will remain broadly stable, though with the external debt ratio expected to overtake that of equity during the forecast period. Net primary income debits are expected to stay high due to increasing debt interest and FDI-related earnings.

Labour market, costs and prices

In 2007 the population of working age started to shrink due to a natural decrease, with little net impact assumed from net migration. Over the forecast period this is not yet expected to reduce total numbers employed, as the younger generation, which is quite numerous, is still entering the labour market; it is also expected that some of those who left the country in



the wave of opening labour markets in the EU will return. However, limited scope for further increases in the labour force will be a significant constraint on increasing capacity going forward.

Shortages of skilled labour in the context of strong growth triggered a leap in wages in the first half of 2007. Robust wage growth is expected to continue over the forecast period, driving up labour costs.

Inflation has worsened in 2007 more than foreseen, reflecting domestic demand pressures, developments in some world market prices, and administrative price increases. This has resulted in an upward revision of the HICP inflation forecast for 2007 from the spring forecast to 6¼%. The forecast for 2008 is 7¼%, an even more significant upward revision, mirroring the decision in June 2007 to bring forward to 2008 all excise tax increases, previously assumed distributed over 2008-2010, that stem from the EU legislation. In 2009 inflation is expected to ease somewhat, but will still be at uncomfortably high levels.

Public finances

In 2007 tax revenues are expected to again considerably exceed those initially planned, resulting in a general government surplus around 3% of GDP. Tax receipts have been particularly strong as regards personal income tax and social contributions, which are most directly linked to the buoyant wage increase, although indirect tax receipts have also been high. In 2008 and 2009 the revenues relative to GDP are expected to stabilise around 37½%, whereas expenditure ratio is expected to rise somewhat. Nonetheless the overall fiscal position of general government is expected to be strong, ensuring a continued surplus.

The level of public debt, already the lowest in the EU, will continue to decrease over the forecast period, while the government's financial assets will continue to accumulate further; the net assets ratio, already significantly positive, will similarly increase.

Table 3.6.1

Main features of country forecast - ESTONIA

	2006			Annual percentage change						
	bn EEK	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	207.1	100.0		-	8.3	10.2	11.2	7.8	6.4	6.2
Private consumption	112.0	54.1		-	6.6	10.7	14.9	12.9	7.7	6.7
Public consumption	33.9	16.4		-	3.0	1.6	2.6	3.4	2.9	2.6
Gross fixed capital formation	70.6	34.1		-	4.4	9.9	22.4	11.9	4.6	4.9
of which : equipment	27.3	13.2		-	-	-	-	-	-	-
Exports (goods and services)	164.4	79.4		-	16.6	20.5	8.3	5.8	7.5	7.1
Final demand	394.9	190.7		-	11.3	13.7	12.5	7.6	6.6	6.2
Imports (goods and services)	187.8	90.7		-	15.5	16.3	17.1	7.4	6.8	6.2
GNI at constant prices (GDP deflator)	197.4	95.3		-	8.6	11.3	10.3	8.2	6.7	5.8
Contribution to GDP growth :										
Domestic demand				-	6.4	8.5	19.2	12.4	6.9	6.3
Stockbuilding				-	2.5	-0.3	1.2	-2.1	0.0	0.0
Foreign balance				-	-0.7	2.0	-9.2	-2.5	-0.5	-0.1
Employment				-	0.1	1.8	5.6	1.1	0.2	0.0
Unemployment rate (a)				-	9.7	7.9	5.9	4.9	4.8	4.9
Compensation of employees/f.t.e.				-	11.2	11.0	14.0	20.2	15.0	12.8
Real unit labour costs				-	0.9	-3.4	2.0	3.7	0.1	-0.1
Savings rate of households (b)				-	-	-0.8	-0.8	-1.0	-1.0	-0.7
GDP deflator				-	1.8	6.2	6.2	8.7	8.2	6.4
Private consumption deflator				-	1.7	2.7	3.8	4.4	6.3	4.9
Harmonised index of consumer prices				-	3.0	4.1	4.4	6.3	7.3	4.8
Trade balance (c)				-	-17.0	-13.7	-17.7	-17.0	-14.6	-12.6
Current account balance (c)				-	-12.4	-10.1	-15.7	-14.6	-12.3	-10.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-11.7	-7.9	-11.9	-13.6	-11.2	-9.6
General government balance (c)				-	1.8	1.9	3.6	3.0	1.9	1.0
Cyclically-adjusted budget balance (c)				-	2.1	1.7	2.7	2.4	1.9	1.5
Structural budget balance (c)				-	2.1	1.7	2.7	2.4	1.9	1.5
General government gross debt (c)				-	5.1	4.4	4.0	2.8	2.3	2.0

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

7. Ireland

Fall in residential construction reduces growth and increases risks

Activity in 2007

Real GDP grew by 6¾% YoY in the first half of 2007, continuing the strong performance of recent years. The manufacturing and services sectors are expected to continue their satisfactory rate of growth in the second half of the year, but slowing construction suggests overall growth of close to 5% for 2007.

Domestic demand grew strongly in the first half of the year and will remain relatively buoyant for the remainder of the year. However, the strength of exports implies a more balanced growth pattern than in recent years. With continued strong job creation, accelerating earnings and the one-off effect of the ending of the government-sponsored saving scheme (SSIA), private consumption is expected to increase by around 6½% for the year as a whole.

The overall picture for investment is mixed. While housing indicators suggest that this sector has begun to decline steeply from its 2006 peak, strongly rising non-residential construction and acquisition of machinery and equipment, mean that overall investment will see a small increase. Trends in non-residential construction reflect planned public infrastructure provisions and buoyant private construction; a high rate of expansion is anticipated for machinery and equipment as a result of aircraft purchases and the pick-up in industrial output.

On the external side, the first half of 2007 saw strong growth in merchandise export volumes, thanks partly to the chemical sector. As in earlier years, business and financial services exports also grew strongly.

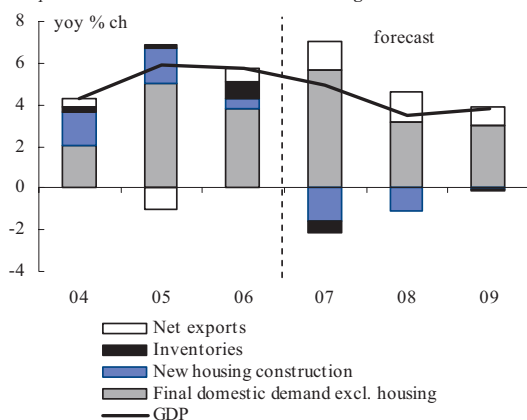
Total exports of goods and services are expected to increase by 7% annually, and with imports expected to grow by 6%, net exports will make their strongest contribution to growth since 2003. Employment rose annually by almost 4% in the first half of the year but the expected deceleration in growth in the second half of the year will be reflected in the labour market, giving an overall annual increase in employment of 3¼%. Annual HICP inflation is projected at 2.8%, faster than the euro area because of higher services inflation. CPI inflation will be around 2 pps. higher, reflecting higher mortgage repayments.

Prospects for 2008 and 2009

Real GDP is projected to grow below potential; by around 3½% in 2008 before picking up to 3¾% in 2009. Given its weight in output and employment, the housing sector will act as a drag on growth over the forecast period. Growth is expected to become more balanced with a significant positive contribution from net exports. The scale and duration of the slowdown will depend crucially on the size of the adjustment in residential construction as well as the adaptability of the economy to global conditions. While Irish exports will continue to benefit from generally favourable EU market conditions, the uncertain prospects for the US economy – the source of much inward investment and the destination of almost one fifth of exports – and the rise in the real effective exchange rate constitute additional risks for exports.

In 2008, private consumption is expected to slow as the impact of the government savings scheme wanes; in 2009, a small rebound is projected. Overall investment is forecast to decline marginally in 2008, negatively affected by a large fall in the housing sector. Continued, albeit lower, increases in other investment components are unlikely to offset this fall until 2009 when an increase is expected. Merchandise exports are projected to rise further but by less than export market growth. Service exports have increased their market share in recent years, but this may slow reflecting the cumulative impact of faster services sector inflation. Imports are projected to slow somewhat reflecting slower domestic demand.

Graph 3.7.1: Ireland - Contributions to growth



Labour market, costs and prices

Employment growth will be considerably less dynamic than recent years. While services sector employment will grow relatively strongly,

construction employment may contract sharply. For 2008, employment growth is projected to slow to around 1¼%, before rising to 1½% in 2009. The economic slowdown is expected to dampen inward migration, and labour force growth is forecast to slow to an annual average 1.9% over the period 2008-2009. As this is faster than forecast employment growth, unemployment is expected to rise to 5¼% in 2008, before rising further to 5½% in 2009. Annual per capita compensation is expected to grow by around 4% over the forecast period. Productivity in terms of value added per employed person will rise somewhat reflecting the shift away from the construction sector; in line with the worsening picture on output, productivity in the rest of the economy is expected to fall slightly. HICP inflation is expected to moderate to 2.2% and 2% in 2008 and 2009, as domestic demand slows and unit labour cost increases decelerate. CPI inflation is also expected to fall to within half a percentage point above the HICP by 2009, as the impact of higher average mortgage repayments recedes.

Public finances

In 2007, a general government surplus of 0.9% of GDP is expected, compared to a Budget 2007 target of 1.2%. Slower economic activity will be reflected in lower tax revenue growth and the weakening of the fiscal position is largely due to lower property-related taxes. On a no-policy-change basis, weakening revenue is expected to result in a deficit of 0.2% of GDP in 2008 and 0.6% in 2009. Current spending is expected to slow, but capital spending will increase, reflecting programmed increases.

In this overall scenario, a worsening of the external environment or a more dramatic correction in the housing sector constitutes significant downside risks, as tax revenue would slow further. In 2007, government debt is projected to remain broadly at its 2006 level and to rise somewhat to 28.5% by end 2009.

Table 3.7.1

Main features of country forecast - IRELAND

	2006		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at previous year prices	174.7	100.0		7.2	4.3	5.9	5.7	4.9	3.5	3.8
Private consumption	79.5	45.5		5.3	4.1	7.3	5.7	6.6	3.4	3.7
Public consumption	27.9	16.0		5.1	1.5	4.0	5.3	5.0	3.5	3.0
Gross fixed capital formation	46.0	26.3		8.4	6.9	11.8	3.1	0.6	-0.5	2.6
of which : equipment	8.7	5.0		8.6	7.5	19.9	-6.7	13.0	6.0	5.0
Exports (goods and services)	139.8	80.0		13.3	7.3	5.2	4.4	7.0	5.8	6.2
Final demand	294.7	168.7		9.2	5.5	6.5	5.1	5.3	4.0	4.6
Imports (goods and services)	121.0	69.3		12.0	8.5	7.7	4.4	6.0	4.7	5.9
GNI at previous year prices (GDP deflator)	150.5	86.1		6.5	4.2	5.7	7.0	4.4	2.8	3.8
Contribution to GDP growth :										
Domestic demand				5.1	3.6	6.8	4.3	4.0	2.1	2.8
Stockbuilding				-0.1	-0.5	-0.1	0.7	-0.6	0.0	0.0
Foreign balance				2.3	0.4	-1.0	0.6	1.4	1.4	0.9
Employment				3.7	3.1	4.7	4.3	3.3	1.3	1.5
Unemployment rate (a)				9.2	4.5	4.3	4.4	4.5	5.3	5.5
Compensation of employees/head				5.4	6.4	5.0	4.5	5.2	4.0	4.0
Real unit labour costs				-2.0	3.0	1.1	0.8	1.5	-0.4	-0.5
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.9	2.2	2.7	2.3	2.1	2.2	2.2
Private consumption deflator				3.5	1.6	1.7	2.2	3.2	2.4	2.4
Harmonised index of consumer prices				-	2.3	2.2	2.7	2.8	2.2	2.0
Trade balance (c)				20.9	21.7	17.5	14.5	13.3	13.2	13.3
Current account balance (c)				1.4	-0.3	-3.5	-4.2	-4.6	-4.4	-4.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				2.3	-0.1	-3.4	-4.0	-4.5	-4.3	-4.2
General government balance (c)				0.3	1.3	1.2	2.9	0.9	-0.2	-0.6
Cyclically-adjusted budget balance (c)				0.3	1.5	1.3	3.1	1.2	0.3	0.0
Structural budget balance (c)				-	2.2	1.0	3.1	1.2	0.3	0.0
General government gross debt (c)				60.7	29.5	27.4	25.1	25.2	26.9	28.5

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

8. Greece

Solid growth driven by domestic demand

Activity in 2007⁽¹⁾

Economic growth accelerated to above 4% on an annual basis in the first half of the year. Although domestic demand is expected to remain robust also in the second half of the year, increasing by 4¾%, high import growth will mean that the contribution of the external sector to GDP will remain negative. As a result, economic activity is estimated to grow around 4% for the year as whole, slowing down marginally compared with the 2006 outcome but well above the euro area. The momentum of last year's extraordinary dynamism in investment activity started fading out already in the 2nd quarter of 2007, returning closer to historical levels, which, along with the private consumption rundown, are behind the deceleration of domestic demand. On the other hand, public consumption rebounded strongly, reflecting the implementation of relief measures for the victims of August fires and the cost of the organisation of early call for elections in September. While exports will still grow above 6%, on account of the rebound taking place in the tourism sector, imports are projected to slow down from the strong increase recorded last year.

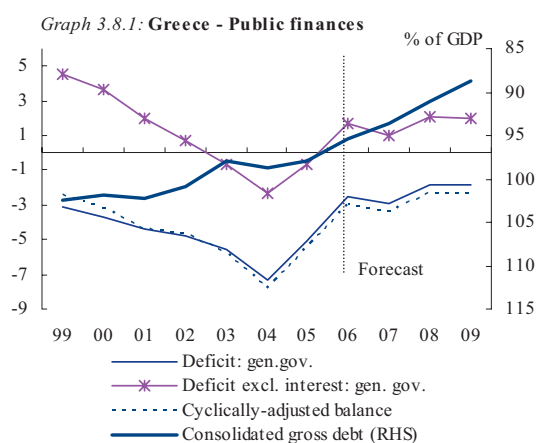
Prospects for 2008 and 2009

Economic growth is expected to decelerate only marginally over the forecast horizon, remaining almost exclusively driven by domestic demand. GDP is projected to grow at around 3¾% over the forecast horizon. Rising interest rate expectations and increasing uncertainties in the global financial markets, coupled with somewhat more moderate wage

growth, will induce a further slowdown in private consumption growth, though it will remain above 3% per year until 2009. Government consumption is expected to decelerate, closer to GDP growth rate, while public investment is projected to continue growing as fast as this year. Although the decelerating investment activity in housing should have a smaller positive impact on construction than in 2007, growth in equipment is projected to continue growing at healthy rates. Overall, domestic demand is forecast to contribute about 4¼ pps. to GDP growth until 2009. 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 growth in exports of goods. Following the rebound of last year, exports of services are expected to continue to be dynamic, but more in line with historical trends. Although a more moderate growth of imports is foreseen, the overall slowdown in exports would result in just a marginal decrease of the negative contribution of the external sector to GDP growth. Consistent with these developments, the current account balance should remain around the level of 2007, at about 10¾% of GDP.

Labour market, costs and prices

Consistent with sustained growth, employment should increase by 1½%, in line with the rate recorded in 2006, while the slight deceleration of economic activity should lead to slightly lower growth in job creation, just above 1¼%, until 2009. The unemployment rate is accordingly expected to decrease by around ½ pp. to below 8%, maintaining the trend of the last few years. As regards prices, annual HICP inflation is projected at 2¾% in 2007, well below nominal wage growth which, given productivity growth of about 1¼%, is pushing unit labour costs clearly above those of the euro area over the forecast horizon. Inflation is expected to rebound marginally in 2008, on the back of the oil price increases and rising indirect taxes on oil sub-products. Wages per head are set to keep rising above productivity, albeit slightly more moderately than this year. This should somewhat slow down the increase in unit labour costs. Even so, they would still rise more than in the euro area's partner countries, thus further worsening the country's competitive position over the forecast horizon, especially in the goods sector.



Public finances

The government deficit for 2006 has been revised upwards from 2.4% to 2.5% of GDP, reflecting the updates in the accounts of extra-budgetary funds and of social security. For 2007, the general government deficit is projected at 2.9% of GDP⁽²⁾. This includes one-off revenues of ¼% of GDP as well as one-off expenditures of half this amount. The latter reflects the implementation of ad hoc measures addressed at compensating the effects of wildfires in August as well as the organisation of early elections in September.

The 2008 draft budget targets a deficit of 1.7% of the unrevised GDP⁽³⁾. No deficit-reducing one-offs are contemplated. Total revenues are budgeted to rise around ½% of GDP, mainly through higher indirect tax revenues. Total expenditures would decrease by more than ¼% of GDP, mostly due to lower government consumption. On account of a slightly less favourable growth scenario and a more prudent

assessment of measures on the revenue side, which takes account of past outcomes, the Commission services project a deficit of 1.8% of GDP in 2008. 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 policy assumption, the 2009 deficit is projected at 1¼% of GDP. After reaching more than 95% of GDP in 2006, the general government debt ratio is projected to decrease to below 90% of GDP by 2009.

(¹) This forecast uses revised GDP figures which, according to the Eurostat Press Release of 22nd October, have been revised upwards by 9.6%.

(²) Figures on public finances for 2007 take account of an eventual one-off payment of arrears associated to the GDP revision, accrued in 2007.

(³) The 2008 draft Budget is based on the unrevised GDP figures.

Table 3.8.1

Main features of country forecast - GREECE

	2006		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	213.8		100.0	2.9	4.6	3.4	4.3	4.1	3.8	3.7
Private consumption	144.7		67.7	2.7	4.7	3.7	3.8	3.6	3.4	3.2
Public consumption	32.4		15.1	2.5	2.8	3.1	0.9	4.3	3.1	3.3
Gross fixed capital formation	54.5		25.5	5.0	5.6	-2.6	12.9	7.9	7.0	6.3
of which : equipment	18.5		8.6	10.2	8.2	-0.7	6.9	6.7	7.8	6.3
Exports (goods and services)	43.2		20.2	5.7	11.7	2.8	6.1	6.3	5.9	5.7
Final demand	275.5		128.9	3.5	5.6	2.3	5.5	4.9	4.5	4.3
Imports (goods and services)	61.7		28.9	5.7	9.3	-1.3	9.8	7.7	7.0	6.0
GNI at constant prices (GDP deflator)	208.6		97.6	2.5	4.8	2.3	3.5	4.3	3.9	3.9
Contribution to GDP growth :										
Domestic demand				3.4	5.1	2.4	6.0	5.2	4.7	4.5
Stockbuilding				0.0	0.0	0.1	-0.1	0.0	0.0	0.0
Foreign balance				-0.5	-0.5	1.0	-1.6	-1.1	-1.0	-0.8
Employment				0.8	2.9	1.3	1.5	1.5	1.4	1.4
Unemployment rate (a)				9.9	10.5	9.8	8.9	8.4	7.9	7.5
Compensation of employees/head				8.8	5.8	6.5	5.9	5.3	5.0	5.0
Real unit labour costs				-0.6	0.7	0.7	-0.1	-0.4	-0.6	-0.6
Savings rate of households (b)				-	-	6.0	4.2	3.6	3.6	3.4
GDP deflator				7.2	3.4	3.7	3.2	3.1	3.2	3.2
Private consumption deflator				7.0	2.5	3.7	3.5	2.9	3.0	3.0
Harmonised index of consumer prices				-	3.0	3.5	3.3	2.8	3.1	3.1
Trade balance (c)				-14.2	-16.8	-15.4	-16.5	-16.6	-16.9	-16.9
Current account balance (c)				-4.3	-9.3	-9.0	-11.1	-10.8	-10.8	-10.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-7.7	-7.6	-9.6	-9.4	-9.5	-9.4
General government balance (c)				-6.7	-7.3	-5.1	-2.5	-2.9	-1.8	-1.8
Cyclically-adjusted budget balance (c)				-6.3	-7.9	-5.5	-3.0	-3.4	-2.4	-2.3
Structural budget balance (c)				-	-7.9	-5.5	-3.5	-3.1	-2.4	-2.3
General government gross debt (c)				99.3	98.6	98.0	95.3	93.7	91.1	88.8

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

9. Spain

Towards a soft landing?

Activity in 2007

Buoyant economic activity continued during the first half of 2007, underpinned by dynamic domestic demand. GDP growth is projected to remain slightly above 3¾% over the whole of the year. However, private consumption is expected to lose momentum on the back of tighter credit conditions. While the growth of investment in dwellings might halve with respect to the previous year, investment in equipment is expected to break through the two-digit barrier. Domestic demand should contribute around 4¾ pps. to GDP growth this year.

Exports would grow by about 4½%, slightly below the 5% recorded in 2006 and overall in line with world trade growth. Whereas export activity is expanding strongly in non-European markets, competitiveness losses and the insufficient recovery of Spain's traditional European partners might be behind sluggish export developments in this area. Imports are projected to increase by 6½%, thus following a decelerating path in line with a slowing down private consumption. As a result, the negative contribution of net exports to growth should decline from 1¼ pps. recorded in 2006 to slightly below 1 pp.

Prospects for 2008 and 2009

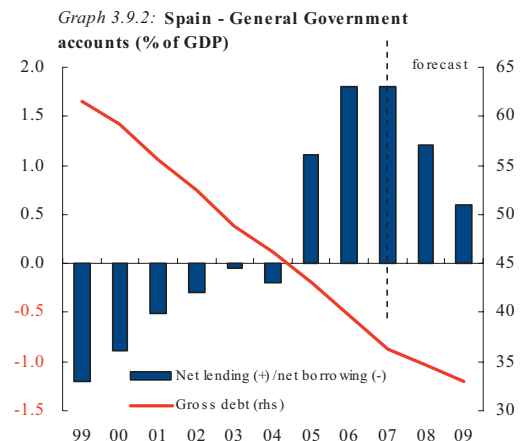
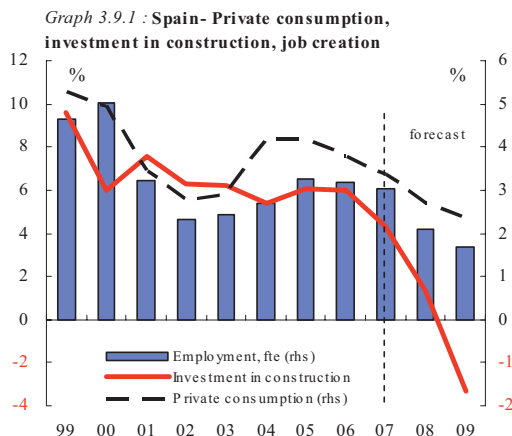
In 2008, GDP growth is foreseen to fall to 3% on the back of cooling private consumption and contracting housing investment. Private consumption might grow at 2¾%, while investment in dwellings is projected to decline by around 1¼%. Yet, total gross fixed capital formation would increase by 3%, thanks to infrastructure investment and investment in

equipment. Overall, domestic demand is projected to contribute 3½ pps. to GDP growth in 2008.

The economic fundamentals, which supported strong and sustained investment in housing, seem to be fading out: credit conditions might tighten, wealth effects seem to be vanishing and, concomitantly, expectations are deteriorating. The effects of all these factors are already visible in the fall in the number of housing start-ups in the first half of 2007 and suggest that the housing sector may be adjusting towards a new equilibrium more consistent with the projected creation of new households.

In addition, private consumption seems to be losing momentum, also in line with its economic fundamentals. Specifically, while less robust employment creation prospects would imply a deceleration of real disposable income, households' debt service payments have been increasing in line with interest rates. Moreover, the recourse to new bank loans to finance private consumption could be more difficult than in the past due to the current uncertainties in financial markets.

Export growth might remain broadly stable in 2008 at around 4½%, on the back of prospects for global demand, which are broadly comparable to those prevailing in 2007, whereas no improvement in competitiveness is on the horizon. Import growth, although projected to slow down in line with private consumption, should still increase well above GDP, in line with strong investment in equipment. Overall, resilient exports together with a moderation of imports should push down the negative contribution



from net exports to GDP growth, to half of one percentage point of GDP.

GDP growth is projected to further slow down in 2009 to around 2¼%. Private consumption would continue its decelerating path in line with the downward pressure put on employment by a shrinking housing investment, which might further decline by around 10%. As a result, gross fixed capital formation growth should increase by a meagre half of one percentage point.

Overall, domestic demand should contribute around 2½ pps. to GDP growth, while the contribution of net exports would become nearly neutral, as a result of lower cyclical imports rather than of more buoyant exports. Export growth is projected to remain broadly stable at around 4½%. This would be slightly higher than import growth at 4¼%, still on a moderating path consistent with domestic demand developments.

Despite this improvement, the trade deficit is forecast to still remain at around 8½% of GDP. Additionally, the balance of primary incomes should worsen on the basis of cumulated external debt vis-à-vis its foreign lenders. Higher payments to foreign investors should bring about a widening of the gap between domestic and national disposable income. All in all, the current account deficit is projected slightly above 9¾% of GDP by the end of the forecasting period.

There are risks to this scenario, the balance of which would be tilted towards the downside. Some of the current developments in the construction sector, in financial markets, households' indebtedness and external imbalances could weigh on economic activity more than projected in the central scenario above.

Specifically, the adjustment in the construction sector could take place quicker than expected, slowing down employment and private consumption more than projected. Additionally, in a scenario of tighter credit conditions, private consumption might further decelerate. Moreover, the Spanish households, highly indebted and at almost exclusively variable interest rates, present a maximum exposure to financial turmoil. Furthermore, within a context of credit restraint, the financing of the external debt of the country could take place at higher risk premia, further weighing on gross fixed capital formation. Finally, population growth might slowdown, on the basis of

less buoyant expectations about economic developments.

Labour market, costs and prices

Consistent with the picture for economic activity, overall job creation is projected to decelerate over the forecast period. In 2007, employment growth should still be robust and increase by 3% (full-time equivalent). Lower employment dynamism is projected in 2008 and 2009, when jobs are expected to be created at rates of about 2% and 1¾% respectively, mainly in the services sector. The unemployment rate might increase by around one percentage point, to 9%, in 2009 with labour force growth outpacing job creation.

In 2007, on the back of lower oil price inflation during the first part of the year, consumer price increase is expected to decelerate to an annual rate just above 2½% in 2007, one percentage point lower than last year. In the same vein, the inflation differential with the euro area should bottom out at around half of one percentage point. However, the transitory base effect of oil prices is vanishing, and a rebound of inflation to well above 3% is expected by the end of the current year. In spite of higher expected oil prices in 2008, which should put upward pressure on prices, weaker domestic demand would act in the opposite direction, so that inflation might remain at levels close to 3% over the forecasting period. By the end of 2009, a decelerating internal demand would ease price pressures, leading to a slight decline of headline inflation to 2¾%. The inflation differential with the euro area is projected to increase to about ¾ of one percentage point over the next two years.

Compensation of employees is projected to closely follow inflation developments between 2007 and 2009, as in the recent past. Productivity growth for the economy as a whole would remain sluggish over the forecast horizon, always below 1% per year. Unit labour costs would not moderate substantially, from marginally above 2% in 2007 to just below 2% in 2009.

Public finances

In 2007, the general government surplus is estimated at around 1¾% of GDP. This is similar to 2006, but well above the target in the 2007 Budget Law (0.7% of GDP). Higher-than-expected revenues, especially

direct taxes, largely explain the better result. Indeed, corporate taxes associated to unusual profits are growing at record levels.

In 2008, the Draft Budget Law targets a surplus of 1¼% of GDP compared to the 0.7% assumed in the updated 2006 Stability Programme. This target appears realistic. Although the Draft Budget Law seems to be based on a slightly favourable macroeconomic scenario (it projects GDP to grow by 3.3% next year), favourable projections for tax revenue growth might be broadly offset by the base effect corresponding to higher-than-expected revenues in 2007. Total expenditures would grow by about 7%, above nominal GDP growth at 6%.

Regarding central government expenditure, the 2008 Draft Budget Law gives priority again to R&D, which should grow in nominal terms by around 17%. As a result, public R&D will represent 0.7% of GDP. Public investment remains dynamic, and should grow

by around 10%, also supported by sizeable below-the-line operations.

In 2009, based on the customary no-policy-change scenario, the general government surplus could narrow to just above half of one percentage point of GDP. Revenues are projected to grow at around 5¼%, slightly below nominal GDP, reflecting mainly fewer indirect and corporate taxes on the back of declining tax collection associated to a scenario of less buoyant housing market and corporate profits. Total expenditures are assumed to follow previous trends and increase by around 6¾%.

Although the primary surplus should decline from 3½% in 2007 to 2% in 2009, the debt-to-GDP ratio is projected to continue on a decreasing path, from 36¼% of GDP in 2007 to around 33% in 2009.

Table 3.9.1

Main features of country forecast - SPAIN

	2006		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at previous year prices	981.0	100.0		2.9	3.3	3.6	3.9	3.8	3.0	2.3
Private consumption	563.2	57.4		2.7	4.2	4.2	3.8	3.4	2.7	2.4
Public consumption	178.0	18.1		3.2	6.3	5.5	4.8	4.9	5.0	4.9
Gross fixed capital formation	298.2	30.4		3.7	5.0	7.0	6.3	6.3	3.0	0.6
of which : equipment	73.1	7.5		3.7	4.4	9.0	9.7	12.2	5.9	5.8
Exports (goods and services)	255.3	26.0		8.4	4.2	2.6	5.1	4.6	4.7	4.6
Final demand	1296.5	132.2		3.9	4.7	4.6	4.9	4.5	3.5	2.8
Imports (goods and services)	315.6	32.2		8.2	9.6	7.7	8.3	6.5	5.2	4.2
GNI at previous year prices (GDP deflator)	966.4	98.5		2.9	3.1	3.5	3.5	3.6	2.8	2.1
Contribution to GDP growth :										
Domestic demand				3.1	4.9	5.4	4.9	4.8	3.4	2.5
Stockbuilding				0.0	0.1	-0.1	0.2	0.0	0.0	-0.1
Foreign balance				-0.1	-1.7	-1.6	-1.2	-0.9	-0.5	-0.1
Employment				2.0	2.7	3.2	3.2	3.0	2.1	1.7
Unemployment rate (a)				14.7	10.6	9.2	8.5	8.1	8.5	9.1
Compensation of employees/f.t.e.				4.1	3.0	2.9	3.0	2.8	3.0	2.8
Real unit labour costs				-0.7	-1.5	-1.7	-1.6	-1.0	-0.9	-0.6
Savings rate of households (b)				-	-	10.8	10.4	10.4	10.0	9.3
GDP deflator				3.9	4.0	4.2	4.0	3.1	3.1	2.9
Private consumption deflator				3.7	3.6	3.4	3.4	2.6	3.0	2.8
Harmonised index of consumer prices				-	3.1	3.4	3.6	2.6	2.9	2.7
Trade balance (c)				-4.1	-6.3	-7.4	-8.1	-8.4	-8.6	-8.6
Current account balance (c)				-2.2	-5.9	-7.5	-8.8	-9.3	-9.6	-9.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.3	-4.8	-6.5	-8.1	-8.7	-9.1	-9.3
General government balance (c)				-3.2	-0.3	1.0	1.8	1.8	1.2	0.6
Cyclically-adjusted budget balance (c)				-2.9	-0.2	1.4	2.1	2.0	1.6	1.4
Structural budget balance (c)				-	-0.2	1.4	2.1	2.0	1.6	1.4
General government gross debt (c)				58.2	46.2	43.0	39.7	36.3	34.6	33.0

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

10. France

Subdued growth in the years ahead

The economic situation in 2007

GDP growth lost momentum in the second quarter of 2007 and is expected to average 1.9% for the year as a whole, virtually the same rate as in 2006. It is still largely supported by domestic demand, while the external sector is likely to again make a negative contribution, albeit less so than in previous years.

The disappointing performance in the second quarter, with GDP increasing by only 0.3% QoQ, largely reflects the unexpected stagnation of business investment which could in part be attributed to a wait-and-see attitude linked to uncertainties about the strategy of a new government. The recent financial turmoil is unlikely to encourage firms to boost their investment plans in the second half of the year. Nevertheless, short-term indicators remain encouraging, at least as regards domestic demand, and a technical rebound in investment spending at the end of the year seems plausible since the productive capacity utilisation rate is slightly above its average level. Consumption in manufactured goods increased by around 2% QoQ in Q3 and demand expectations still remain healthy in both the industrial and services sectors. In particular, private consumption should be more dynamic in the second half of the year, with real personal disposable income supported by income tax cuts introduced with the budget for 2007, combined with muted inflation. The TEPA fiscal package⁽¹⁾, adopted in summer, is not expected to have an impact on growth in 2007. Purchasing power should also be supported by the growth in wage income due to accelerating employment and subdued inflation. HICP inflation is likely to stay close to 1.5% in 2007. The

contribution of the external sector is likely to remain negative, despite the improvement of the economic situation in France's main trading partners, given that imports will continue to grow more strongly than exports.

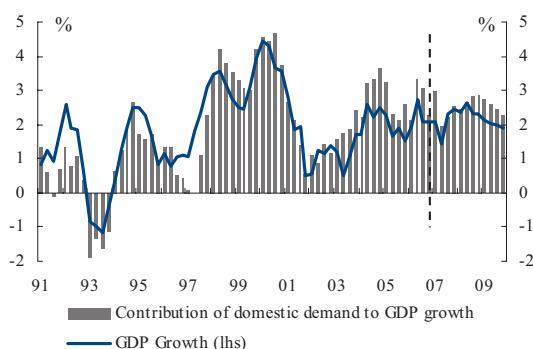
Prospects for 2008 and 2009

In 2008 and 2009, real GDP growth is expected to remain subdued and slightly below current estimates of potential growth. It should still be largely driven by domestic demand, with the external sector once more making a negative contribution.

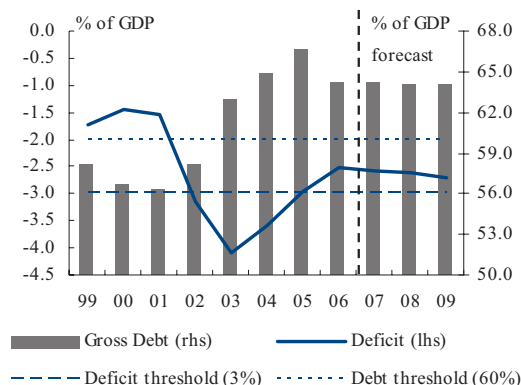
Private consumption is forecast to continue to be the main driver of economic growth. Consumption will increase in line with households' disposable income, reflecting both the expected rise in employment and tax and social contributions cuts introduced with the TEPA package. The new tax deductions on mortgage-loan interest (also part of the TEPA package) should cushion the negative impact of high real-estate prices and tighter financing conditions and hold up demand for housing, and hence domestic demand. Finally, the projected benign inflation outlook should also support households' purchasing power.

Considering the fact that the capacity utilisation rate is now slightly above its long-term average and that some firms need to upgrade and replace their production capacity, investment in equipment is expected to remain robust in the next two years at around 4¼%. Muted inflation combined with the recent financial turmoil could lead to higher real

Graph 3.10.1: France -GDP and domestic demand



Graph 3.10.2: France - General government gross debt and deficit



interest rates. The consequent tightening of financial conditions could hamper the acceleration of investment, although domestic demand expectations should remain healthy.

In the external sector, export growth is likely to be dampened by the appreciation of the euro and a slower global expansion. Moreover, French export growth will still be constrained by an unfavourable product and geographical specialisation. 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 more negative in 2008 and 2009.

Labour markets, costs and prices

In 2007, employment is expected to increase by 1%, i.e. slightly more than expected considering the modest improvement of the economic situation in the first half of 2007. Employment growth is expected to remain robust in 2008 and to slow down gradually towards the end of the forecast period, reflecting the traditional lag with which employment reacts to economic activity.

Given the still high unemployment rate, wage moderation is expected to continue. As productivity growth is expected to decelerate from the high rate observed in 2004, unit labour costs should rise by 2% in 2008 and in 2009. Core inflation is thus projected to pick up gradually, due to price increases in services and some pass-through effects of prices of raw materials. Nevertheless, given the difficulties for companies to fully pass the increase in commodity prices on to final customers, due to the still strong 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 marginally above 1½% in both years.

Public finances

Following a significant decline from 2.9% of GDP in 2005 to 2.5% in 2006, the general government deficit is forecast to broadly stabilise in 2007 at 2.6% of GDP, compared to the government's objective of

2.4% of GDP. This difference would result from slightly higher expenditures, notably in social security (only partially corrected by measures taken in July) and somewhat lower revenues. In spite of the small projected increase in the headline deficit, 2007 should show an improvement in the structural balance (the cyclically-adjusted-balance net of one-offs) of around 0.3% of GDP compared to 2006. One-off measures in 2007 are expected to amount to around 0.05% of GDP, down from 0.3% of GDP in 2006⁽²⁾.

On the revenue side, the effects of the robust employment performance and strong corporate tax proceeds are likely to counterbalance the impact of the income tax reduction included in the 2007 finance law, while VAT receipts are lower than expected. Taking into account also the cuts in social contributions for overtime with an impact of 0.1% of GDP which entered into force on 1 October, the overall tax burden would decrease to 44.0% of GDP, from 44.2% in 2006. On the expenditure side, despite the reduction of state expenditures (although by less than the targeted decrease of 1% in volume), substantial slippages have been recorded in social security and particularly in healthcare, where once again the objective will not be achieved. Local expenditure growth, though slowing, remains dynamic, in line with the electoral cycle. All in all, the expenditure-to-GDP ratio would broadly stabilise compared to 2006 at 53.2% of GDP.

In 2008, the deficit is expected to remain at 2.6% of GDP, compared with an official target of 2.3%. The forecast incorporates the measures in the TEPA package and those presented in the draft finance laws for the state and social security. The main measures, which impact chiefly on revenues, are: (a) the fiscal package (including, inter alia, the virtual elimination of the inheritance tax, an income tax credit for mortgage interests, the "tax shield" or *bouclier fiscal*, i.e. a maximum of 50% of income in tax paid, and tax rebates on overtime) with an overall additional negative impact of 0.4% of GDP in 2008, (b) an additional cut in the local *"taxe professionnelle"* (negative impact of 0.1% of GDP), and (c) a reform in dividends taxation, with a positive one-off effect of 0.1% of GDP in 2008, split between the state and social security⁽³⁾. The forecast also assumes that the new rule for state expenditures, a "zero volume" increase extended to include most transfers from the state to the local authorities, is observed. It is backed

by a decrease in the number of civil servants, whose impact on expenditure in 2008 is, however, minor. Local authorities' expenditures should also decrease significantly in view of the March 2008 local elections, in line with the electoral cycle and also as a result of the new state rule. Healthcare expenditure projections are based on a prudent assessment of corrective measures announced in the draft budget for social security. The revenue-to-GDP ratio would decrease by 0.5 pps. and the expenditure-to-GDP ratio broadly by the same magnitude. In structural terms (net of one-off measures projected at 0.1% of GDP) the 2008 deficit forecast shows a very slight deterioration (0.1 pp.).

The deficit forecast for 2009 is 2.7%, under the conventional assumption of unchanged policies.

After a decrease by 2½ pps. to 64.2% in 2006⁽⁴⁾, the debt ratio is expected to increase to 64.3% in 2007, then decrease to 64.1% in 2008 and broadly stabilise in 2009. This assumes the allocation to debt reduction

of privatisation proceeds that for 2008 and 2009 are at the lower bound of the range announced in the latest stability programme update (0.3% of GDP), after 0.2% of GDP in 2007.

- (¹) The law on work, employment and purchasing power (*Loi en faveur du Travail, de l'Emploi et du Pouvoir d'Achat*).
- (²) In 2007, one-offs should represent around 0.04% of GDP and consist in a change in the corporate tax code and the advanced collection of social contribution (CSG) on saving plans.
- (³) Earlier collection of a social direct tax (CSG) and implementation of a *prélèvement libératoire* (single tax rate, with earlier collection) on dividends.
- (⁴) As a result of an advice by Eurostat to include in the public debt an amount of € 8.2 billion (0.5% of GDP) previously managed by a debt fund under the responsibility of the SNCF (French railways), debt and deficit figures have been revised upwards from 1993 onwards.

Table 3.10.1

Main features of country forecast - FRANCE

	2006		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at previous year prices		1792.0	100.0	1.9	2.5	1.7	2.0	1.9	2.0	1.8
Private consumption		1016.5	56.7	2.0	2.5	2.2	2.0	1.9	2.3	2.1
Public consumption		423.7	23.6	1.5	2.3	0.9	1.4	1.8	1.7	1.7
Gross fixed capital formation		366.4	20.4	1.7	3.6	4.0	3.7	3.5	3.1	3.1
of which : equipment		95.0	5.3	-	2.2	3.6	5.9	4.4	4.3	4.2
Exports (goods and services)		481.2	26.9	5.5	4.0	2.8	5.5	3.2	3.5	3.4
Final demand		2298.9	128.3	2.5	3.4	2.4	3.1	2.3	2.6	2.5
Imports (goods and services)		507.0	28.3	5.1	7.1	5.0	6.8	3.7	4.4	4.6
GNI at previous year prices (GDP deflator)		1805.8	100.8	1.9	2.6	1.7	2.0	2.0	2.3	2.0
Contribution to GDP growth :										
	Domestic demand			1.8	2.6	2.2	2.2	2.2	2.4	2.3
	Stockbuilding			0.0	0.6	0.0	0.2	-0.1	0.0	0.0
	Foreign balance			0.1	-0.7	-0.6	-0.4	-0.2	-0.3	-0.4
Employment				0.6	0.1	0.3	0.7	1.0	0.9	0.7
Unemployment rate (a)				10.4	9.6	9.7	9.5	8.6	8.2	8.1
Compensation of employees/f.t.e.				2.5	3.5	3.2	3.1	3.0	3.0	3.0
Real unit labour costs				-0.2	-0.5	0.0	-0.4	0.2	-0.2	-0.1
Savings rate of households (b)				-	-	15.0	15.2	16.4	16.4	16.3
GDP deflator				1.5	1.6	1.7	2.3	1.9	2.1	2.0
Private consumption deflator				1.3	1.9	1.8	1.9	1.1	1.7	1.5
Harmonised index of consumer prices				1.7	2.3	1.9	1.9	1.5	1.7	1.6
Trade balance (c)				0.7	-0.3	-1.2	-1.6	-2.6	-2.7	-3.0
Current account balance (c)				1.1	-0.6	-1.7	-2.2	-2.3	-2.3	-2.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				1.1	-0.5	-1.7	-2.1	-2.3	-2.2	-2.2
General government balance (c)				-3.5	-3.6	-2.9	-2.5	-2.6	-2.6	-2.7
Cyclically-adjusted budget balance (c)				-3.4	-3.7	-2.9	-2.5	-2.4	-2.5	-2.4
Structural budget balance (c)				-	-3.8	-3.5	-2.8	-2.5	-2.6	-2.4
General government gross debt (c)				54.7	64.9	66.7	64.2	64.3	64.1	64.1

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

11. Italy

Growth continues, but remains below the euro area

Activity in 2007

Following a weak real GDP growth in the first semester of 2007, a more dynamic expansion in economic activity is expected in the third quarter of the year, based on an anticipated rebound in industrial output. On the other hand, for the fourth quarter of the year, business confidence indicators point to an easing of economic growth. Given the good starting position created by the acceleration of GDP growth in the fourth quarter of 2006, economic growth in 2007 as a whole is expected to be 1.9%, in line with the spring forecast and above potential.

Supported by favourable employment developments and fiscal incentives for the purchase of durable goods, private consumption was the main driver of GDP growth in the first half of the year. Domestic demand will continue to be the main contributor to growth throughout the year, also thanks to expected increase in investment. The evolution of exports to date deserves a special mention: while in value terms exports of goods have recorded a strong increase, persistently high estimated price deflators for exported goods imply that Italy is continuing to accumulate significant losses of market shares in volume terms. However, combined with moderate import dynamics, in particular of energy goods, net exports are expected to provide a slightly positive contribution to GDP growth in 2007, even though services, including the tourism sector, have pushed in the opposite direction. The forecast for annual HICP inflation in 2007 is at 1.9%, down from 2.2% in 2006, also thanks to a lower contribution from energy prices and some of the liberalisation measures adopted so

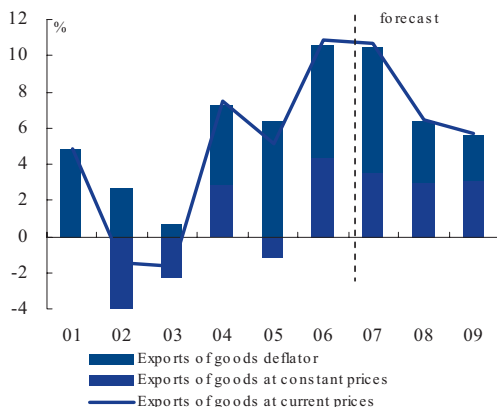
far, namely of telecommunications.

Prospects for 2008 and 2009

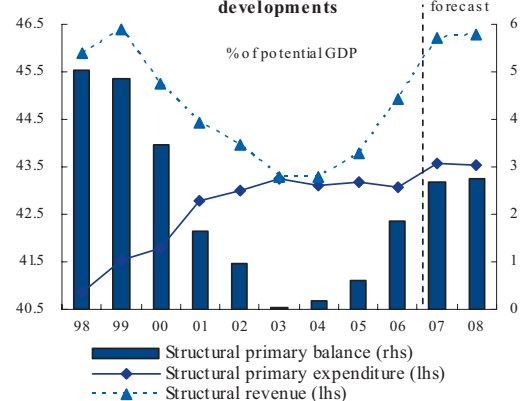
The growth momentum at the start of 2008 will be considerably lower than it was in 2007. In the context of a still benign, though slightly less dynamic and more uncertain international environment, economic growth in 2008 as a whole is expected to be 1.4%, 0.3 of a percentage point lower than in the 2007 spring forecast. For 2009, real GDP growth is forecast to converge towards potential, at 1.6%.

Thanks to the expected increase in real disposable income, private consumption will continue to be the main driver of GDP growth in both years, even though it will decelerate in 2008, on the back of an expected rise in the saving rate. Investment expenditure will decelerate due to less favourable financial conditions and less vigorous public investment. In particular, in 2008, residential construction will undergo a deceleration from the high growth rates recorded in 2005-2007. The currently high capacity utilisation will mean that the equipment component will continue to increase in 2008, albeit at a more moderate pace. In 2009, a slight acceleration is forecast. Given still favourable external demand and the ongoing restructuring in the manufacturing sector, export growth is expected to remain broadly stable in 2008 and to accelerate in 2009, with a higher contribution from services. On the other hand, import growth is expected to recover to a path consistent with historical levels, also driven by the exchange rate appreciation. The result is a slightly negative contribution to economic growth from net exports in

Graph 3.11.1: Italy - Exports of goods



Graph 3.11.2: Italy - Structural budgetary developments



2008 and 2009. In this scenario, Italy will continue losing market shares as measured in volume.

Labour market, costs and prices

In 2007, employment growth will decelerate after the strong increase recorded in 2006. Still, the decline in the unemployment rate will be substantial, as labour force growth is expected to stall. The projected lower economic dynamism in 2008 and 2009 should lead to a further reduction in employment growth. Combined with only a small recovery in the growth rate of the labour force, the unemployment rate is projected to continue decreasing in both 2008 and 2009.

After the significant increase in 2007, labour productivity is forecast to decelerate in 2008, and to recover somewhat in 2009. In the manufacturing sector, productivity growth is set to slow down already in 2007, after the sustained gains recorded in 2006. Growth in compensation per employee will be moderate in 2007, while it is expected to accelerate in 2008, due to the scheduled contract renewals in both the public and the private sectors. As a result, the growth pace of unit labour costs will accelerate from 1.2% in 2007 to 3.1% in 2008.

Dynamic unit labour cost growth together with higher oil and food prices will push HICP inflation slightly up in 2008, to 2%. A new deceleration is expected in the following year, to 1.9%, as inflationary pressures will be contained.

Public finances

In 2007, the general government deficit is forecast at 2.3% of GDP. The improvement with respect to the 4.4% of GDP deficit recorded in 2006 reflects buoyant revenue as well as the impact of one-offs, which turns from a negative 1.2% of GDP in 2006 into a positive 0.2% of GDP (taxes on the revaluation of companies' assets and proceeds from the sale of real estate). A sizeable share of this improvement is accounted for by the new measures compensating the permanent loss in VAT revenue linked to the 2006 European Court of Justice (ECJ) ruling against Italy's VAT regime for company cars, officially estimated at more than 0.3% of GDP. The primary balance is forecast to rise to 2.5% of GDP in 2007.

The revenue to GDP ratio net of one-offs will increase by over 1% of GDP. Around one third of this increase stems from the transfer of part of the severance pay

scheme (TFR) flows from enterprises to the national social security institution (INPS), a measure that brings additional revenues in the short-term, but does not improve public finance sustainability. The remainder can be ascribed to the various measures adopted in 2006 aimed at widening the tax base, as well as to exceptionally buoyant corporate income tax revenue.

On the spending side, interest expenditure as a share of GDP will increase slightly. Two deficit-increasing packages adopted during the year envisaged additional expenditure, officially estimated at 0.9% of GDP. Also as a result of these measures, real current primary expenditure is expected to rise by 2.3% relative to 2006, well above potential output growth. Public investment is forecast to rise even more, although not as much as in the official projections given the fall recorded in the first semester. This explains the 0.1 pp. lower deficit forecast by the Commission services. The expenditure outcome could be somewhat lower than forecast if delays occur in the budgetary execution, in particular at local level, in the final months of the year.

The structural deficit (defined as the cyclically-adjusted deficit net of one-off and temporary measures) is expected to be almost $\frac{3}{4}$ % of GDP lower than in 2006. Over 2006-2007, the overall structural adjustment will be close to 2% of GDP.

The government confirmed the target of a deficit at 2.2% of GDP for 2008, with real GDP growth at 1.5%. Starting from a 1.8% of GDP baseline deficit projection based on unchanged legislation, the draft 2008 budget law adopted on 29 September has a deficit-increasing impact of 0.4 pp. The draft budget law foresees a reshuffling of expenditure as well as additional current expenditure and some tax cuts. The financing of the public sector wage agreement for the period 2006-2007 absorbs almost three quarters of the net additional expenditure. In the official projections, the wage bill increases by around 7% in 2008 (9% over the 2007-2008 period). The tax cuts mainly relate to rent deductibility and housing property taxes collected by municipalities. The draft budget law also envisages a reduction in the tax rates on corporate income (IRES) and of the regional tax on productive activity (IRAP). However, a widening of the tax base would lead to an overall positive budgetary impact.

The Commission services forecast the 2008 deficit at 2.3% of GDP. While the estimate of the impact of the draft 2008 budget law is in line with the official one, the baseline projections of primary expenditure are slightly more cautious, in the absence of convincing measures aimed at containing expenditure growth and taking account that some expenditure could shift from 2007 to 2008. The primary balance is forecast to remain broadly unchanged. Interest expenditure as a share of GDP is expected to rise by another 0.1%. The structural budget balance is estimated to record no improvement (substitutive taxes on the revaluation of companies' assets and proceeds from the sale of real estate are expected to reduce the deficit by 0.1% of GDP).

There are risks on both the negative and the positive sides attached to the deficit forecast for 2008. On the one hand, a better carryover from 2007 is possible given the positive budgetary outturn in the first half of the year and favourable developments in the State sector cash borrowing requirement up to October. On

the other hand, budgetary slippages similar to those recorded in 2007 could lead to a higher deficit. In addition, the outcome of the substantial changes in corporate taxation is subject to significant uncertainty on both sides.

Based on the customary no-policy-change assumption, the 2009 deficit is forecast to remain unchanged at its 2008 level of 2.3% of GDP.

Also due to a high nominal GDP growth, the government debt is forecast to decrease from 106.8% of GDP in 2006 to 104.3% in 2007. The debt ratio is then expected to decline to 102.9% in 2008 and, based on an unchanged policy scenario, to decrease slightly further in 2009.

Table 3.11.1

Main features of country forecast - ITALY

	2006		92-03	Annual percentage change					
	bn Euro	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at constant prices	1475.4	100.0	1.4	1.2	0.1	1.9	1.9	1.4	1.6
Private consumption	875.0	59.3	1.3	0.7	0.6	1.5	1.9	1.4	1.7
Public consumption	299.5	20.3	0.6	1.6	1.5	-0.3	0.7	1.3	1.2
Gross fixed capital formation	306.6	20.8	1.3	1.6	-0.5	2.3	2.9	2.0	2.1
of which : equipment	126.2	8.6	1.7	2.3	-0.8	2.3	1.9	1.8	2.0
Exports (goods and services)	410.7	27.8	3.5	3.3	-0.5	5.3	2.9	2.8	3.1
Final demand	1898.2	128.7	1.7	1.5	0.2	2.4	2.0	1.8	2.0
Imports (goods and services)	422.8	28.7	2.9	2.7	0.5	4.3	2.3	3.2	3.4
GNI at constant prices (GDP deflator)	1471.4	99.7	1.5	1.5	0.2	2.0	1.7	1.4	1.6
Contribution to GDP growth :									
Domestic demand			1.1	1.1	0.6	1.3	1.9	1.5	1.7
Stockbuilding			0.1	0.0	-0.2	0.3	-0.1	0.0	0.0
Foreign balance			0.1	0.2	-0.3	0.3	0.2	-0.1	-0.1
Employment			0.2	0.4	-0.2	1.6	0.8	0.6	0.6
Unemployment rate (a)			10.1	8.0	7.7	6.8	5.9	5.7	5.5
Compensation of employees/f.t.e.			3.4	3.3	3.1	2.5	2.4	3.7	2.3
Real unit labour costs			-1.0	-0.4	0.5	0.5	-1.3	0.5	-0.6
Savings rate of households (b)			-	-	15.9	14.9	15.1	15.4	15.1
GDP deflator			3.3	2.9	2.2	1.8	2.6	2.4	2.0
Private consumption deflator			3.6	2.6	2.4	2.7	1.9	2.0	1.9
Harmonised index of consumer prices			3.2	2.3	2.2	2.2	1.9	2.0	1.9
Trade balance (c)			2.2	0.6	0.0	-0.7	0.3	0.4	0.6
Current account balance (c)			0.8	-0.5	-1.2	-2.0	-1.7	-1.8	-1.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			0.9	-0.4	-1.1	-1.9	-1.6	-1.5	-1.5
General government balance (c)			-4.9	-3.5	-4.2	-4.4	-2.3	-2.3	-2.3
Cyclically-adjusted budget balance (c)			-4.9	-3.3	-3.4	-3.9	-1.9	-1.9	-1.8
Structural budget balance (c)			-	-4.5	-4.0	-2.7	-2.0	-2.0	-1.9
General government gross debt (c)			113.2	103.8	106.2	106.8	104.3	102.9	101.2

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

12. Cyprus

Healthy growth fuelled by strong domestic demand

Activity in 2007

Economic activity in Cyprus remained strong in the first half of 2007, recording a growth rate of 3¾%. GDP is projected to have grown at comparable rates over the second half of the year. Economic activity has been mainly driven by robust domestic demand. In particular, private consumption has benefited from historically low interest rates and favourable credit conditions, continued employment and wage growth and the car-tax reform. Gross fixed capital formation has remained strong. Buoyant private activity in construction investment has sustained growth in the sector at a level close to the strong rate of 2006. Overall, domestic demand is projected to have accounted for almost the whole of GDP growth, while the contribution of net exports has been marginal. After a disappointing 2006, exports of goods have rebounded and grown by about 3%, in line with imports, on the back of accelerating exports of domestically manufactured goods. In parallel, while tourism arrivals declined slightly in the first seven months, revenue from tourism actually increased in real terms in tandem with buoyant activity in export-oriented business and financial services. Total exports are expected to have risen by about 3¾%. This is just below the rate estimated for total imports, which should have increased in line with strong private consumption and investment activity.

Prospects for 2008 and 2009

GDP is projected to continue growing firmly at just below 4% over the forecast period, still driven by domestic demand. Private consumption will continue

to be robust, supported by rising disposable income, reflecting sustained wage and employment growth. However, compared with the most recent past, it is projected to show signs of moderation in an environment of rising interest rate expectations and international credit tightening. Investment should remain strong and continue growing by about 4¾% per year until 2009. It will be mainly driven by construction, underpinned not only by strong demand for dwellings by non-residents, but also by large infrastructure and other projects. Moreover, as in January 2008 Cyprus joins the euro area, confidence effects should also sustain total investment.

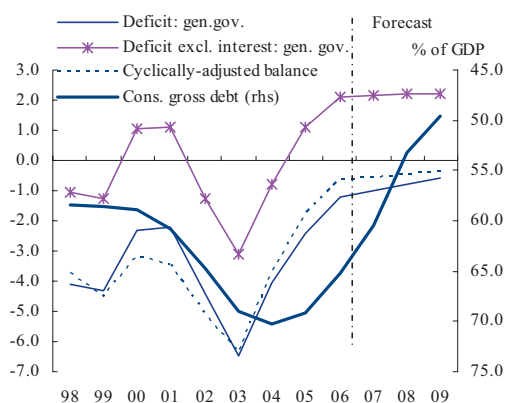
The projected deceleration in private consumption and slight moderation in investment should put a brake on import growth, although their still strong growth and a rebound in re-exports should keep imports growing at high rates until 2009. Exports of goods should continue growing moderately, mainly driven by re-export activity after an accord signed with a major global commercial shipping company to use the port of Limassol as a regional hub. As a result, net borrowing from the rest of the world is projected to decline slightly during the forecast period. However, the contribution of net exports to GDP growth will continue to be neutral overall.

Labour market, costs and prices

Consistent with sustained economic activity, employment is projected to keep growing at around 1½% per year until 2009. Higher participation, particularly by foreign workers, should ensure that wage pressures remain contained, despite the tight labour market conditions. However, a moderation in immigration inflows, coupled with solid employment growth, should keep the unemployment rate decreasing. As productivity growth is projected to rise by slightly above 2½% by 2009, unit labour costs will continue rising, although at lower rates than in the recent past.

Following the developments in the oil and commodity markets, HICP inflation accelerated in the first nine months of 2007. As a result, HICP is expected to average at about 2% for 2007. Base effects from the past sharp increase in oil prices would help rein in inflation. HICP inflation is projected to increase slightly to 2.3% in 2008 before subsiding to just above 2% in 2009, in line with the projected energy prices. This projection does not include the impact of

Graph 3.12.1: Cyprus - Public Finances



VAT adjustments required to comply with the Community *acquis*, estimated at around one percentage point, as the authorities have not yet adopted any legislative measures to harmonise VAT rates.

Public finances

The government deficit for 2006 was recently revised downwards from 1.5% to 1.2% of GDP, reflecting the upward revision of receivable relating to indirect taxes (VAT). For 2007, the government deficit is projected at 1.0% of GDP. No one-offs are included.

The 2008 draft budget targets a deficit of ½% of GDP. No one-off measures are contemplated. The planned adjustment for 2008 is mostly accounted by a reduction of total expenditures, which are expected to be lower in 2008 than in 2007 by ½ pp. of GDP. Interest payments, subsidies and capital expenditures are equally reduced by ¼% of GDP each. These savings are partially offset by an increase in social transfers of about ¼% of GDP. Total revenues are

expected to grow broadly in line with nominal GDP. Higher revenues from direct and indirect taxes are expected to be offset by a reduction in non-tax revenues. On account of a slightly less favourable growth scenario and a more prudent assessment of measures on the revenue side, the Commission services project a deficit of about ¾% of GDP in 2008. Measured by the cyclically-adjusted balance net of one-offs, the structural adjustment would improve by about ¼% of GDP. Based on the customary no-policy-change assumption, the 2009 deficit is projected to inch down at just above ½% of GDP.

Debt is projected to keep on a decreasing path attaining about 49½% of GDP by 2009 (it was 65.2% in 2006). Debt reduction will benefit from the decumulation of deposits in sinking funds held at the Central Bank, amounting to about 4% of GDP in 2008 and 1% in 2009.

Table 3.12.1

Main features of country forecast - CYPRUS

	2006		92-03	Annual percentage change					
	mio Euro	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at constant prices	14391.8	100.0	4.4	4.2	3.9	3.8	3.8	3.9	3.9
Private consumption	9328.3	64.8	-	6.3	4.7	4.0	4.9	3.4	3.5
Public consumption	2682.5	18.6	-	-5.5	3.4	3.2	-0.5	4.4	4.2
Gross fixed capital formation	2751.5	19.1	-	10.0	2.7	5.2	4.8	4.7	4.8
of which : equipment	749.1	5.2	-	10.3	-5.1	7.9	6.0	6.0	6.0
Exports (goods and services)	6744.7	46.9	-	5.1	4.7	2.1	3.8	4.0	4.0
Final demand	21538.3	149.7	-	6.0	3.6	3.2	3.9	3.9	3.9
Imports (goods and services)	7146.6	49.7	-	9.6	3.1	2.2	4.0	3.8	3.9
GNI at constant prices (GDP deflator)	13957.1	97.0	4.3	2.3	4.7	4.1	3.9	4.1	4.2
Contribution to GDP growth :									
Domestic demand			-	4.8	4.2	4.2	4.1	3.9	3.9
Stockbuilding			-	1.7	-1.0	-0.3	-0.1	0.1	0.0
Foreign balance			-	-2.2	0.7	-0.1	-0.2	0.0	0.0
Employment			-	3.8	3.6	2.7	1.5	1.5	1.5
Unemployment rate (a)			-	4.6	5.2	4.6	4.3	4.1	3.9
Compensation of employees/head			-	1.9	1.6	2.2	3.5	3.5	3.5
Real unit labour costs			-	-1.7	-1.1	-1.4	-1.4	-1.9	-1.5
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			3.2	3.3	2.4	2.5	2.5	3.0	2.6
Private consumption deflator			-	1.9	2.7	2.6	2.3	2.6	2.4
Harmonised index of consumer prices			-	1.9	2.0	2.2	2.0	2.3	2.1
Trade balance (c)			-	-25.6	-25.0	-27.1	-26.8	-26.5	-26.2
Current account balance (c)			-	-5.0	-5.6	-5.9	-6.0	-5.9	-5.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-	-	-	-5.8	-5.7	-5.5
General government balance (c)			-	-4.1	-2.4	-1.2	-1.0	-0.8	-0.6
Cyclically-adjusted budget balance (c)			-	-3.7	-1.8	-0.7	-0.6	-0.5	-0.4
Structural budget balance (c)			-	-4.8	-2.7	-0.7	-0.6	-0.5	-0.4
General government gross debt (c)			-	70.2	69.1	65.2	60.5	53.3	49.6

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

13. Latvia

Consequences of overheating will linger

Activity in 2007

After growth of 11.9% in 2006, GDP data for the first two quarters of 2007 give very little sign of a slowdown, with 11.2% annual growth in the first quarter and 11.0% in the second. From the expenditure side, growth was still driven by private consumption and investment, as in previous quarters, and in spite of a significant pick-up in exports the growth of imports continued to exceed that of exports.

The second half is expected to show significantly slower growth, with whole-year GDP up around 10½%. There are strong indications that a slowdown of domestic consumption and a correction to the overheated real estate sector have already begun. The government's anti-inflation plan has helped to end the price boom in the residential real estate market and in slowing down mortgage lending. The annual growth of monthly retail sales and the registration of new cars also suggest that a slowdown of the economy has been ongoing in recent months.

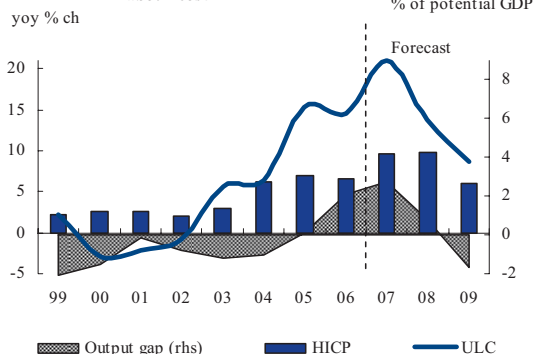
From the production side, growth is still strongest in those sectors which are satisfying domestic demand. The largest segment, real estate, renting and business activities, has continued its robust growth, but by the second quarter the year-on-year growth rate of its gross value-added fell below 10%, representing a marked slowdown from 18% in 2006. The second largest segment of the economy, wholesale and retail trade has also been very dynamic with a growth rate of around 15% in the first half. In a sharp contrast to these segments, manufacturing has stagnated, largely due to the poor performance of its main component,

wood processing. Producers of tradable goods are facing difficulties due to tight labour market conditions, which have led to rapidly increasing unit labour costs and constraints on output. Accordingly, recent strong export growth in value terms has come mainly from a large increase in prices and not volumes¹, as companies forgo gaining market shares in order to sustain their profitability. The external deficit relative to GDP is expected to reach its peak during the forecast period, at well over 20%.

Prospects for 2008 and 2009

A moderate slowdown is projected, to growth rates of 6-7% in 2008 and 2009, although with a high degree of uncertainty on whether a sharper adjustment is in prospect. Continuing rapid real wage growth will provide stimulus for households, but negative wealth effects from falls in nominal house prices, increasing debt service payments and less optimistic expectations will limit private consumption growth. Investment in residential buildings is expected to slow, helping to ease the overheating situation in the construction sector and in the whole economy. However, public investment projects will continue and even increase, which will provide a cushion against a too-sharp adjustment. On the external side, the product composition of Latvian exports does not favour a very rapid expansion of output, but exports are expected to be boosted by the wood industry redirecting sales from domestic to export markets. Overall, GDP growth is expected to remain driven by domestic demand, but the negative contribution of net exports is expected to decrease substantially. Given the current size of external imbalances and increasing property income payments to the rest of the world, the external deficit is set to remain very high, although on a downward trend, and with external indebtedness relative to GDP continuing to increase significantly.

Graph 3.13.1: Latvia - output gap, inflation, unit labour cost



Labour market, costs and prices

Domestic overheating, unfavourable international price developments (increasing food and energy prices) and regulated price increases have resulted in annual HICP inflation and core inflation reaching double-digit levels (11.5% and 11.1% respectively in September 2007). Inflation is poised to remain high in

(¹) However, trade statistics may underestimate ongoing quality improvements in product structure, leading to an overstatement of price growth and underestimation of volume growth.

2007 and early 2008 as a consequence of food, heating and other regulated price increases and accession-related excise harmonization. Inflation is expected to decline below double-digit levels only from mid-2008 onwards, but the moderation will be slow, as the consequence of heightened inflationary expectations, high wage growth and a sharp increase in the price of imported gas are likely to be felt even in the second half of the year.

The rate of unemployment is projected to stay below 6% during the forecast period. However, it is expected that the structure of employment will change, with the construction and retail sectors losing employees in favour of other sectors. Very rapid wage growth in 2007 is expected to slow due to the unwinding of overheating in the construction sector and as a consequence of the government's expected signals in setting public sector wages.

Public finances

The fiscal outcome for 2006 is reported to be a deficit of ½% of GDP. For 2007, a surplus of about 1% of GDP is projected, as the September supplementary budget aims to save the larger part of revenue over-performance projected for this year. Looking ahead, revenue growth is expected to decrease significantly in 2008 and 2009, in line with the slowdown of domestic demand and wages. Additionally, the general government sector will lose some social contribution payments as the pension reform proceeds into its next stages in 2008 and 2009. On the expenditure side, public investment relative to GDP is expected to increase, though taking the two years together the total expenditure ratio will remain fairly stable, with expenditure growth slightly outpacing revenue growth. In consequence, a surplus of around ¾% of GDP in 2008 and ½% of GDP in 2009 seems plausible. The debt ratio, already one of the lowest in the EU, should decrease somewhat further.

Table 3.13.1

Main features of country forecast - LATVIA

	2006			Annual percentage change						
	mio LVL	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	11264.5	100.0	-0.2	-	8.7	10.6	11.9	10.5	7.2	6.2
Private consumption	7364.6	65.4	-	-	9.5	11.5	19.8	17.5	8.0	5.0
Public consumption	1910.4	17.0	-	-	2.1	2.7	4.0	4.5	4.0	3.0
Gross fixed capital formation	3871.3	34.4	-	-	23.8	23.6	18.3	14.0	6.0	7.0
of which : equipment	-	-	-	-	-	-	-	-	-	-
Exports (goods and services)	4980.9	44.2	-	-	9.4	20.3	5.3	10.0	9.0	9.7
Final demand	18518.5	164.4	-	-	11.4	12.1	14.0	13.6	7.4	6.5
Imports (goods and services)	7254.0	64.4	-	-	16.6	14.8	17.5	18.6	7.8	6.8
GNI at constant prices (GDP deflator)	10945.1	97.2	-0.3	-	6.6	11.6	10.2	10.4	6.7	5.6
Contribution to GDP growth :										
Domestic demand			-	-	13.0	15.2	19.9	17.9	8.7	6.8
Stockbuilding			-	-	0.7	-4.4	0.2	0.0	0.0	0.0
Foreign balance			-	-	-5.1	-0.2	-8.1	-7.5	-1.5	-0.5
Employment			-2.8	-	1.1	1.7	4.6	2.0	0.8	0.4
Unemployment rate (a)			13.5	-	10.4	8.9	6.8	5.8	5.5	5.6
Compensation of employees/head			-	-	14.3	25.3	22.0	31.0	21.0	15.0
Real unit labour costs			-	-	-0.6	4.6	2.7	4.6	3.0	2.0
Savings rate of households (b)			-	-	-	-	-	-	-	-
GDP deflator			36.2	-	7.0	10.2	11.1	15.7	10.5	6.5
Private consumption deflator			-	-	7.0	8.7	8.5	9.5	8.5	5.0
Harmonised index of consumer prices			-	-	6.2	6.9	6.6	9.6	9.8	6.0
Trade balance (c)			-12.0	-	-20.2	-18.9	-24.4	-26.0	-23.5	-21.4
Current account balance (c)			-1.8	-	-12.9	-12.6	-21.1	-23.8	-21.6	-19.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			0.9	-	-11.9	-11.2	-19.9	-22.2	-18.9	-18.0
General government balance (c)			-	-	-1.0	-0.4	-0.3	0.9	0.8	0.5
Cyclically-adjusted budget balance (c)			-	-	-0.7	-0.4	-0.8	0.2	0.5	1.0
Structural budget balance (c)			-	-	-0.7	-0.4	-0.8	0.2	0.5	1.0
General government gross debt (c)			-	-	14.5	12.5	10.6	10.2	7.8	6.4

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

14. Lithuania

Strong growth but high external imbalances and inflationary pressures

Activity in 2007

The expected slowdown has not yet clearly set in, and data for the first half of 2007 suggest that economic growth may accelerate further to around 8½%, thereby increasing risks of overheating. Domestic demand remains the main driver of growth.

Investment was robust in the first half of the year and is expected to lead growth in the year as a whole. A large part of investment is directed into the currently booming construction and real estate sectors. Consumer spending is also forecast to remain strong, as suggested by high growth of credit and retail sales. Household disposable income has been buoyed by the 6 pp. cut in the personal income tax rate in July 2006, cash payments in March 2007 as compensation for earlier savings losses during the shift from the Russian rouble to the new national currency, high wage growth and rising employment. The rapid deterioration of the trade balance seen in the first eight months of the year (affected by capacity restrictions in oil refining) looks set to be confirmed as the trend for the whole year. The external deficit is expected to widen to 12½% of GDP compared to slightly below 9% in 2006. However, the temporary negative effect of capacity disruptions in the oil refining industry on both exports and output is set to reverse by the end of 2007.

Prospects for 2008 and 2009

Real GDP growth is projected to gradually weaken but should remain above 7% in 2008 and 6% in 2009, with domestic demand continuing to be the engine of

growth.

Investment is expected to continue to lead growth in 2008-2009. Some deceleration of credit driven by less positive expectations and higher interest rates could lead to a cooling of the housing market, but opportunities for construction should occur in infrastructure projects and in non-residential business investment. However, supply-side constraints have emerged as a consequence of the tight labour market.

Private consumption growth is forecast to remain high, buoyed by high wage growth and a further 3 pp. cut in personal income tax in January 2008, public sector wage increases and higher social transfers. However, consumption growth will be lower than in previous years because of the upturn in interest rates and an expected moderation in credit growth.

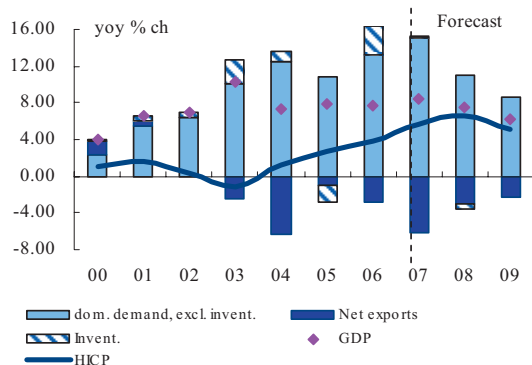
Export growth is expected to pick up in 2008, as the oil-refining industry will be back at full capacity, and remain robust in 2009. Import growth is forecast to slow somewhat in line with domestic demand. Export developments are expected to remain favourable, although much will depend on the ability of companies to remain competitive despite increasing price pressures. The external deficit is expected to stay at a high level, due to a higher merchandise trade deficit and a worsening of the income balance, while the positive impact of increasing current and capital transfers from the EU and expatriate remittances will exert a moderating influence. Consequently, net external liabilities relative to GDP are expected to continue to increase significantly during the forecast period.

Labour market, costs and prices

Employment growth picked up in the first half of 2007, while the unemployment rate declined further to just above 4% and earnings accelerated rapidly. Several sectors are experiencing increasing labour shortages, reinforced by emigration, which has put upward pressures on labour costs.

Employment growth is expected to peak in 2007, due to increased participation rates, before moderating in 2008-2009. Nominal wage growth is expected to remain high and far exceed productivity growth. Unemployment is expected to be stable at a rate of some 4%. Against this background, unit labour costs will increase at a relatively fast rate and

Graph 3.14.1: Lithuania - Contribution to GDP growth and inflation



competitiveness will deteriorate, especially in labour intensive sectors.

Both headline and core inflation in 2007 have been increasing, fuelled by overheating, higher energy tariffs and accession-related excise harmonisation. Food price increases have also strongly fuelled inflation. Inflation for 2007 as a whole is projected to average around 5½%, up from below 4% in 2006.

In 2008, inflation is expected to edge up further to 6½%, prompted by a new round of increases in excise duties (for tobacco and fuel) and higher electricity prices. In 2009, inflation is expected to ease slightly but to stay at a high level. Short-term risks are on the upside, notably through possible higher food prices, wage increases and higher inflation expectations. A possible further gas price increase at the beginning of 2008 (by 30-50%) by Lithuania's sole gas supplier, possibly reaching West European price levels - not assumed in the forecast - also poses a substantial risk.

Public finances

In 2007, the general government deficit is likely to widen to around 0.9% of GDP (2006, 0.6%), in line with the government target. Weaker than planned collection of personal and corporate income tax (in the first nine months) was partly offset by higher VAT and excise tax revenues. The deficit is forecast to widen further in 2008, mainly due to continuing tax and pension reforms (including a cut in personal income tax from 27% to 24% and the abolition of a temporary social tax (3% of corporate profits)), but also higher spending for social transfers and rise in public sector salaries, only partly offset by higher receipts of VAT and property taxes and, as a consequence of accession-related harmonisation, higher excise taxes. In 2009 some narrowing in the deficit is expected, with the increase in receipts outpacing that of expenditure. The general government debt-to-GDP ratio is expected to decrease and remain broadly stable at around 17%.

Table 3.14.1

Main features of country forecast - LITHUANIA

	2006		92-03	Annual percentage change					
	bn LTL	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at constant prices	81.9	100.0	-0.2	7.3	7.9	7.7	8.5	7.5	6.3
Private consumption	53.5	65.3	-	12.2	11.9	11.9	12.9	9.3	7.2
Public consumption	14.8	18.0	-	7.7	3.6	5.5	5.3	4.9	4.5
Gross fixed capital formation	20.3	24.8	-	15.5	10.9	17.4	19.8	11.9	8.2
of which : equipment	7.0	8.6	-	31.9	10.2	12.7	14.0	9.0	6.0
Exports (goods and services)	48.9	59.7	-	4.4	17.7	12.2	8.7	11.3	9.1
Final demand	139.3	170.1	-	10.1	11.2	10.0	11.7	9.7	7.8
Imports (goods and services)	57.4	70.1	-	14.9	17.2	13.8	15.0	12.4	9.6
GNI at constant prices (GDP deflator)	80.1	97.8	-	7.7	8.5	7.1	8.4	7.6	6.3
Contribution to GDP growth :									
Domestic demand			-	12.5	10.9	12.6	15.2	11.0	8.6
Stockbuilding			-	1.1	-2.0	-3.0	0.1	-0.4	0.1
Foreign balance			-	-6.3	-1.0	-2.0	-6.1	-3.1	-2.3
Employment			-1.5	0.0	2.5	1.7	2.2	0.2	-0.1
Unemployment rate (a)			9.8	11.4	8.3	5.6	4.2	4.2	4.4
Compensation of employees/head			-	10.9	11.5	15.1	14.6	15.4	8.3
Real unit labour costs			-	0.7	0.2	2.0	0.1	0.4	-4.0
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			50.8	2.7	5.7	6.6	7.8	7.1	6.0
Private consumption deflator			-	-0.3	1.7	2.9	5.4	6.4	5.3
Harmonised index of consumer prices			-	1.2	2.7	3.8	5.6	6.5	5.2
Trade balance (c)			-	-10.6	-11.4	-14.1	-16.7	-16.9	-17.0
Current account balance (c)			-	-7.5	-7.2	-10.5	-13.9	-14.4	-14.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-6.8	-6.2	-8.9	-12.5	-12.9	-13.0
General government balance (c)			-	-1.5	-0.5	-0.6	-0.9	-1.4	-0.8
Cyclically-adjusted budget balance (c)			-	-1.9	-0.8	-0.8	-1.2	-1.5	-0.6
Structural budget balance (c)			-	-1.9	-0.8	-0.8	-1.2	-1.5	-0.6
General government gross debt (c)			-	19.4	18.6	18.2	17.7	17.2	16.1

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

15. Luxembourg

Slowdown expected in 2008 but growth still well above EU average

Activity in 2007

Since the end of the 2001-2003 slowdown, Luxembourg is experiencing a new period of growth well above the EU average: from a dip of 2.1% in 2003, real GDP growth progressively accelerated to 6.1% in 2006. However, recently released data indicate that the peak of the cycle was reached at the end of 2005 or early 2006 and that growth probably decelerated to about 5% in 2007.

Growth in 2006 was essentially driven by foreign trade, whose contribution reached 5½ pps. of GDP, while private consumption and investment remained subdued. In 2007, domestic demand accelerated: private consumption was hardly more dynamic than in 2006 but investment, which had grown by less than 2½% a year on average from 2003 to 2006 was much stronger, probably rising by about 10%. External trade, on the other hand, though less buoyant than in 2006, remained fairly vigorous, with exports of goods still growing by about 6% and exports of services by around 8%.

Prospects for 2008 and 2009

While remaining significantly stronger than in most other EU countries, GDP growth should continue to slow down to about 4½% in 2008 and 2009. Private consumption will be supported by the fiscal measures announced in the budget but, with the rising share of non residents in the labour force, a large part of the resulting increase in disposable income will be spent abroad. Investment will probably slow down somewhat after the strong growth rate recorded in 2007 (due chiefly to the small size of the country,

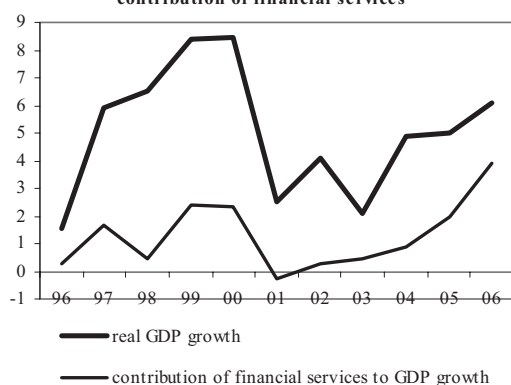
investment is very volatile in Luxembourg). Foreign trade should remain dynamic as exports markets are projected to keep growing at about 6% a year. While there is no hint so far that the recent turmoil on financial markets has had a significant impact on growth in Luxembourg, it has considerably increased the uncertainty surrounding the forecast since financial services represented almost 30% of the total value added of the economy and accounted for nearly two thirds of its real growth in 2006.

Labour market, costs and prices

Employment has been buoyant since the beginning of the current strong growth episode, increasing by nearly 3% a year on average from 2003 to 2006 and probably by about 4% in 2007. However, quite paradoxically, unemployment, though remaining low by international standards, more than doubled in recent years : the unemployment rate started rising from a minimum of 2.3% in 2001, as a result of the slowdown in output and employment, then continued to increase despite the ensuing recovery, reached 4.5% in 2006 and barely stabilised in 2007. The strong employment growth in recent years mostly benefited non-residents, who accounted for three quarters of the jobs created from 2003 to 2006 and now represent more than one third of total labour force. However, with the acceleration in job creation in 2006-2007, resident employment, too, speeded up, from an annual rise of about 1% in 2003-2005 to 1.7% in 2006 and probably 2% in 2007. With still strong projected employment growth over the forecast period, unemployment should eventually begin to edge down slowly in 2008 and 2009. However, as it is now essentially structural in nature, the scope for a reduction is probably quite limited in the short run.

Inflation in recent years has for a large part followed developments in oil prices. Fluctuations were significantly more marked for the HICP than for the national CPI, which excludes consumption of non-residents and especially their large purchases of car fuel. From the spring of 2004 to the autumn of 2006, the annual rise in the HICP had hovered between 3% and 4% but the increase in the national CPI generally remained between 2% and 3%. In the autumn of 2006, the rise in consumer prices declined to around 1½% to 2% following a fall in oil price by about 20% in 4 months. In 2007, the HICP rose by 2.4% on average as against 3.0% in 2006, while the national CPI

Graph 3.15.1: Luxembourg - GDP growth and contribution of financial services



increased by 2.2% after 2.7%. In 2008, inflation is projected to accelerate following the recent hike in oil prices: the rise in the HICP (about 2¾%) should be more pronounced than that in the national CPI (around 2½%). In 2009, with the projected decrease in oil prices, both indexes should decelerate.

Despite the partial de-indexation of wages and social benefits decided in 2006 in order to cope with the deterioration in public finances and in competitiveness (the existing indexation system was replaced up to 2009 by an indexation at predetermined dates), the rise in wages seems to have been substantial in 2006 and 2007, reaching about 4½% in both years. With still strong projected output and employment growth over the forecast horizon, wages should remain rather buoyant in 2008 and 2009.

Public finances

It now appears that the deterioration in government finances since the record surpluses of the early 2000s, though unquestionably substantial, was more limited

than previously believed: while initial estimates indicated that the deficit had reached 2.3% of GDP in 2005, revised data show that it actually peaked at 1.2% in 2004 and almost totally disappeared already in 2005, falling to 0.1%. In 2006, government finance recorded a 0.7% of GDP surplus, which probably widened to about 1¼% in 2007.

The 2008 budget foresees an adaptation of income tax brackets to consumer prices inflation (they had not been indexed since 2002) as well as an increased tax reduction for children (brought to 922.50 euros per child and per year). Moreover, the recent wage agreement in the government sector provides for a bonus amounting to 0.9% of yearly wages to be paid in 2007 and 2008 as well as an additional 1.5% increase in 2009. These measures should lead to a reduction in the government surplus from 1¼% of GDP in 2007 to about 1% in 2008. Under an "unchanged policy" assumption and thanks to still buoyant output and employment growth, the surplus should resume rising to about 1½% of GDP in 2009.

Table 3.15.1

Main features of country forecast - LUXEMBOURG

	2006		Annual percentage change							
	mio Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	33852.0	100.0		4.2	4.9	5.0	6.1	5.2	4.7	4.5
Private consumption	12177.0	36.0		3.1	2.1	3.7	2.0	2.1	3.2	3.0
Public consumption	5192.0	15.3		4.5	5.1	2.4	2.1	3.1	3.0	3.0
Gross fixed capital formation	6221.0	18.4		4.5	2.1	2.1	3.1	10.6	6.6	5.7
of which : equipment	1732.0	5.1		0.7	18.6	-1.1	4.9	14.7	8.5	7.5
Exports (goods and services)	56226.0	166.1		6.8	9.8	6.3	9.6	7.5	7.2	7.0
Final demand	80039.0	236.4		5.5	7.6	5.7	6.7	6.6	6.3	6.1
Imports (goods and services)	46187.0	136.4		6.6	9.7	6.1	7.2	7.7	7.4	7.1
GNI at constant prices (GDP deflator)	28302.0	83.6		2.2	20.1	0.7	4.3	5.4	4.8	4.5
Contribution to GDP growth :										
Domestic demand				3.1	2.1	2.3	1.7	3.4	3.1	2.8
Stockbuilding				-0.1	0.4	1.1	-1.1	0.0	0.0	0.0
Foreign balance				1.3	2.3	1.6	5.5	1.7	1.6	1.8
Employment				3.4	2.2	2.9	3.7	4.0	3.6	3.2
Unemployment rate (a)				2.7	5.1	4.5	4.7	4.7	4.5	4.2
Compensation of employees/head				3.4	3.9	3.8	4.5	4.5	3.2	3.0
Real unit labour costs				0.1	-0.4	-2.4	-3.8	-0.3	-1.5	-1.6
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.5	1.7	4.2	6.2	3.5	3.7	3.3
Private consumption deflator				2.4	2.6	2.9	3.0	2.2	2.4	2.1
Harmonised index of consumer prices				-	3.2	3.8	3.0	2.5	2.8	2.3
Trade balance (c)				-11.2	-10.2	-11.4	-9.7	-9.8	-10.2	-10.7
Current account balance (c)				11.1	11.6	10.9	10.3	11.5	12.7	13.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	11.5	12.7	13.8
General government balance (c)				2.8	-1.2	-0.1	0.7	1.2	1.0	1.4
Cyclically-adjusted budget balance (c)				-	-0.3	0.6	0.8	1.2	1.2	1.7
Structural budget balance (c)				-	-0.3	0.6	0.8	1.2	1.2	1.7
General government gross debt (c)				6.6	6.4	6.2	6.6	6.6	6.0	5.4

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

16. Hungary

Private-sector based gradual economic recovery after slowdown

Activity in 2007

In 2007, economic growth has slowed down considerably, reflecting to a large extent the consolidating efforts of the government which started in mid-2006. Although GDP growth was surprisingly weak in the second quarter this year (0.1 % quarter-on-quarter) it is expected to pace up and reach 2% in 2007. Economic performance is characterised by a pronounced divergence in its main components, with a marked contraction in domestic demand counterbalanced by a strong export performance. In particular, private consumption further decreased and is expected to slightly recede throughout the year, while government consumption has been substantially reduced having a sizeable negative contribution for the entire year. Total economy gross fixed capital formation remains moderate, which leaves net exports as the foremost important contributor to growth.

Prospects for 2008 and 2009

The economy is expected to gradually recover in both 2008 and 2009, as a result of improving domestic demand and a supportive external environment. Throughout the forecast horizon, the private sector is anticipated to increase its contribution to growth, in parallel with continued public sector retrenchment. In reaction to the substantial decrease in real disposable income, households reduced their consumption only moderately while further increasing their indebtedness. Given this smoothing behaviour, consumption expenditure and household investments are likely to be sluggish in regaining pace; nevertheless, their contribution to GDP growth could

amount to over 0.5% by 2009.

The rebound in GDP growth is expected to be supported by still favourable conditions in Hungary's main trading partners, providing exports and investment with perceptible momentum. Private and public investment may further benefit from the increasing inflow of EU structural funds (around 2.5% of GDP). However, rising final demand is accompanied by accelerating imports, gradually shifting the main driver of growth from net exports to domestic demand. Along with an improving trade balance, the current account deficit is expected to reach 2.7% in 2009 from 4.4% in 2007.

Labour market, costs and prices

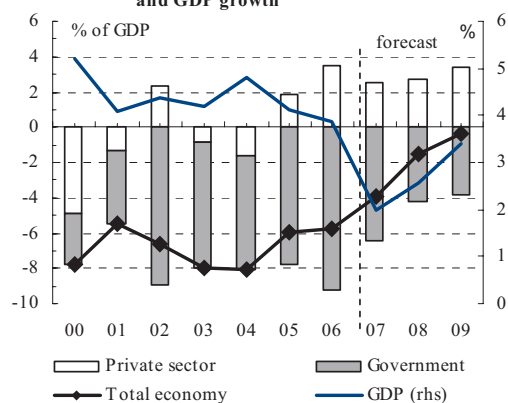
In 2007, private sector wages rose by more than 10%, though part of the increase may be due to the government's efforts to legalise side payments to workers. Public sector employment has dropped by more than 4%. Based on gradual recovery of the economy, a slight increase in employment is projected, leading to a sustained unemployment rate in the order of 7% and gradually declining wage inflation. Public sector wage freezes are expected to remain largely effective in 2008; however a rebound is foreseen in 2009, leading to 3% growth in public sector real wages.

Inflation is driven by increased imported inflation and by the substantial hike in food and agricultural prices worldwide. These price developments mainly affect the HICP at the end of 2007, with a carryover effect and a pass-through to processed food prices in 2008. This prevents a faster decline of inflation leading to 4.9% in 2008, after 7.7% in 2007. Due mainly to base effects, inflation in 2009 is expected to drop to 2.8%.

Public finances

After the very high budgetary outturn recorded in 2006 (a deficit of 9.2% of GDP), the deficit is expected to considerably decrease to 6.4% of GDP in 2007 (in line with the new official forecast for 2007) as a result of the fiscal adjustment measures. This compares to the target of 6.8% of GDP set in the December 2006 convergence programme update. The better outcome is due to higher-than-expected revenues by 0.9% of GDP compared to the budgeted figures and a lower debt service by 0.3% of GDP. The improvement could have been considerably larger,

Graph 3.16.1: Hungary - net lending positions and GDP growth



had pension expenditure not exceeded the planned figure by ¼% of GDP (due to higher inflation than initially projected) and had the government not taken additional discretionary spending measures of ½% of GDP. The general government deficit is expected to decline to 4.2% of GDP in 2008 (against the 4.1% of GDP target set in the draft budget) and, based on the usual no-policy-change assumption, to improve slightly to 3.8% of GDP in 2009, due to continuing expenditure moderation ⁽¹⁾.

For 2008, the forecast takes into account the tax simplification measures contained in the draft budget for 2008 (-0.15% of GDP), as well as a series of measures addressing tax evasion. It also incorporates

the broadening of the tax base for social security contributions as a result of the enforcement of the insurance principle in healthcare services. On the expenditure side, 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 controls in operational expenditures, in preventive care and in the public wage bill, particularly in 2009. The budgetary impact of the February 2007 public wage agreement is reflected in higher pension expenditure for both 2007 and 2008, while the conditionally promised bonus for the public sector (0.2% of GDP) is not incorporated into the deficit forecast in 2008.

After the strong increase in the debt-to-GDP ratio from 61.6% in 2005 to 65.5% in 2006, a more moderate increase to 66.1% and 66.3% is expected in 2007 and 2008 respectively, chiefly as a result of the declining budget deficit. The debt ratio is projected to fall somewhat to around 66% in 2009.

⁽¹⁾ The forecast does not include any possible takeover from the debt of MÁV, the State-owned railway company (over 1% of GDP), nor any additional capital injections to MÁV. It also does not consider either any receipt in relation to the privatisation of the MÁV's cargo division, nor any consequence of the planned privatisation on the sectoral classification of the company.

Table 3.16.1

Main features of country forecast - HUNGARY

	2006		92-03	Annual percentage change					
	bn HUF	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at constant prices	23757.2	100.0	2.8	4.8	4.1	3.9	2.0	2.6	3.4
Private consumption	12745.2	53.6	-	2.7	3.4	1.8	-0.6	0.3	1.6
Public consumption	5430.0	22.9	1.0	1.9	2.5	4.7	-4.7	-1.7	2.8
Gross fixed capital formation	5185.8	21.8	5.5	7.6	5.3	-2.1	3.3	4.8	5.6
of which : equipment	2045.6	8.6	-	-	-	-	11.7	8.2	8.0
Exports (goods and services)	18494.0	77.8	12.4	15.6	11.5	18.9	13.9	10.5	9.5
Final demand	42110.6	177.3	-	8.8	5.8	9.4	5.7	5.2	5.9
Imports (goods and services)	18353.4	77.3	13.3	13.4	6.8	14.5	10.5	8.7	9.1
GNI at constant prices (GDP deflator)	22053	92.8	-	3.8	4.1	2.5	1.3	2.2	3.3
Contribution to GDP growth :									
Domestic demand			3.0	3.6	3.6	1.6	-0.7	0.9	2.6
Stockbuilding			0.4	0.4	-2.3	-0.5	0.0	0.0	0.0
Foreign balance			-0.5	0.8	2.8	2.8	2.7	1.7	0.7
Employment			-	-0.5	0.4	0.9	-0.3	0.1	0.2
Unemployment rate (a)			8.3	6.1	7.2	7.5	7.3	7.0	6.9
Compensation of employees/f.t.e.			-	11.4	7.1	2.6	5.4	5.1	6.4
Real unit labour costs			-	1.3	1.0	-3.9	-2.8	-1.3	-0.1
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			14.9	4.4	2.2	3.7	5.9	4.0	3.3
Private consumption deflator			-	4.6	3.8	3.3	7.8	4.9	2.7
Harmonised index of consumer prices			-	6.8	3.5	4.0	7.7	4.9	2.8
Trade balance (c)			-4.8	-3.0	-1.7	-1.0	1.3	2.5	3.1
Current account balance (c)			-	-8.4	-6.8	-6.5	-4.4	-3.4	-2.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-8.1	-6.0	-5.7	-3.9	-1.5	-0.4
General government balance (c)			-	-6.5	-7.8	-9.2	-6.4	-4.2	-3.8
Cyclically-adjusted budget balance (c)			-	-6.5	-8.0	-9.7	-6.4	-4.1	-3.8
Structural budget balance (c)			-	-6.7	-8.4	-9.4	-5.5	-4.2	-3.9
General government gross debt (c)			-	59.4	61.6	65.6	66.1	66.3	65.9

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

17. Malta

Continuing strong growth in 2007

Activity in 2007

Economic growth accelerated in the first half of 2007 underpinned by higher domestic demand, in particular private consumption. GDP is projected to grow by 3.1% in 2007 in real terms. Private consumption is foreseen to grow by 2.7%. This is attributed to the improvement in disposable income as a result of the increase in employment and earnings as well as the revised lower income tax rates and the fall in the rate of inflation. An additional contributory factor to higher private consumption is the cash de-hoarding in anticipation of the euro changeover. Public consumption is anticipated to grow by 1%, while investment will contract by almost 3%, as a result of capital purchases of an exceptional nature in 2006. Overall, the contribution of domestic demand to GDP growth is expected to amount to around 1.5 pps.

Despite an increase in nominal terms, real exports contracted during the first half of 2007. For the full year, real exports of goods and services are foreseen to contract by around 1.5%. The slowdown in exports is primarily driven by the subdued activity of the electronics sector, which accounts for a large share in manufacturing. Similarly, imports of goods and services will contract by almost 3% mainly on account of a sharp fall in capital imports and lower export activity. As a result of these developments, the external sector is projected to contribute positively, by around 1.5 pps., to GDP growth.

Prospects for 2008 and 2009

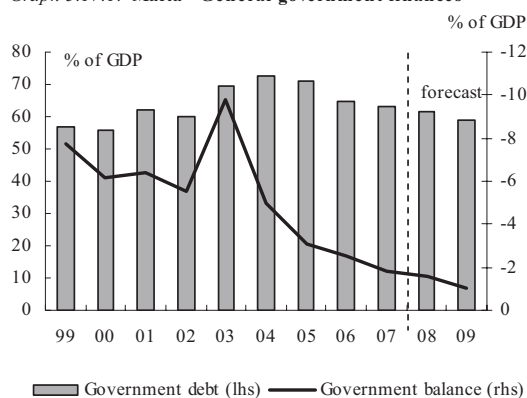
Real GDP growth is expected to decelerate to 2.8% in 2008, before increasing marginally to 2.9% in 2009.

Economic activity is anticipated to be driven primarily by domestic demand in both years, while the contribution of the external sector should also be positive, albeit lower. Private consumption expenditure is projected to grow by 2.8% in 2008, supported by improved disposable income as a result of further lowering of personal income tax rates and higher transfer payments. In 2009, private consumption is projected to decelerate to 2.7% due to the dissipation of one-off factors supporting consumption in 2008. Public consumption is projected to grow by slightly above 1% in 2008 and 2009. In 2008, gross fixed capital formation is anticipated to increase by 1.5%, reflecting a recovery from the low levels of the previous year. For 2009, investment growth is projected to decelerate to 0.6% on the back of lower public gross fixed capital formation. Overall, the contribution of domestic demand to GDP growth is expected to amount to slightly below 2.5 percentage points in 2008 and 2.2 pps. in 2009.

Exports of goods and services are expected to increase by 0.7% in 2008 and by 1.2% in 2009, underpinned primarily by a further expansion of the pharmaceutical industry. Exports of services are also projected to grow, reflecting a better performance of the tourist industry, IT and remote gaming sectors.

After falling to 6.7% of GDP, the current account deficit is anticipated to narrow further to 3.8% of GDP in 2007, on the back of lower imports and a higher value of exports. The anticipated improvement in exports of services will further reduce the current account deficit in 2008 and 2009 to 3.4% and 2.6% of GDP, respectively. As a result of the improvement in the current account deficit, net borrowing from the rest of the world is foreseen to decline throughout the forecast horizon and to be in balance by 2009.

Graph 3.17.1: Malta - General government finances



Labour market, costs and prices

Employment growth in the first half of 2007 increased at a brisk pace. For the whole year, employment is expected to rise by some 1.4%. The pace of employment creation is projected to decelerate to around 1.2% in 2008 - mainly owing to the completion of labour-intensive public construction projects - and remain almost unchanged in 2009. Job creation during the forecast period is expected to be generated mainly by the services sector. As a result, the unemployment rate is anticipated to progressively decline to 6.5% of the labour force by 2009.

Despite high oil prices, HICP inflation is expected to slow down significantly to 0.8% in 2007. This mainly reflects declines in tourist accommodation prices as well as the authorities' decision to keep electricity and water charges to consumers almost unchanged. In 2008, headline inflation is anticipated to rise to around 2.5%, primarily reflecting higher food prices. For 2009, HICP inflation is projected to decline to 2.2%.

Public finances

The general government deficit is expected to continue its downward path reaching 1.8% of GDP in 2007, mainly as a result of a lower current expenditure ratio. In 2007, the structural balance (cyclically-adjusted balance net of one-offs) is forecast to improve by slightly less than 0.5% of GDP.

Taking into account the 2008 draft budget, the deficit for 2008 is projected to decline to 1.6% of GDP, including a ¼% of GDP in deficit-reducing one-off

operations. Total expenditure is projected to fall by 0.3 percentage points of GDP, as a result of a lower current expenditure ratio. However, revenue from tax and social contributions is also forecast to decline, which will be partly offset by higher capital transfers. For 2009, 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 contained at 1% of GDP.

General government debt in 2006 stood at around 64¾% of GDP and is expected to fall to around 63% of GDP in 2007. Under the no-policy-change scenario, the debt ratio is projected to decline further to around 59¼% of GDP by 2009.

Table 3.17.1

Main features of country forecast - MALTA

	2006		92-03	Annual percentage change					
	mio Euro	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at constant prices	5025.3	100.0	3.7	0.1	3.1	3.2	3.1	2.8	2.9
Private consumption	3239.3	64.5	-	2.5	2.3	1.3	2.7	2.8	2.7
Public consumption	1006.3	20.0	-	0.5	0.3	3.7	1.0	1.1	1.2
Gross fixed capital formation	975.1	19.4	-	-0.6	4.9	2.2	-2.9	1.5	0.6
of which : equipment	-	-	-	-	-	-	-	-	-
Exports (goods and services)	4402.7	87.6	-	2.0	-1.2	10.0	-1.4	0.7	1.2
Final demand	9622.6	191.5	-	1.9	2.2	5.7	0.0	1.5	1.6
Imports (goods and services)	4597.3	91.5	-	3.7	1.3	8.1	-2.9	0.3	0.4
GNI at constant prices (GDP deflator)	4875.7	97.0	3.1	-0.6	-0.5	4.9	3.1	2.8	2.9
Contribution to GDP growth :									
Domestic demand			-	1.7	2.6	2.1	1.4	2.4	2.2
Stockbuilding			-	0.2	3.0	0.0	0.0	0.0	0.0
Foreign balance			-	-1.8	-2.5	1.1	1.6	0.3	0.7
Employment			1.1	-0.8	1.8	0.9	1.4	1.2	1.1
Unemployment rate (a)			6.3	7.4	7.3	7.3	6.8	6.6	6.5
Compensation of employees/head			5.7	1.4	1.5	2.7	2.8	3.0	3.1
Real unit labour costs			0.5	-1.2	-2.6	-2.2	-1.4	-1.3	-1.1
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			2.6	1.8	2.9	2.8	2.5	2.7	2.4
Private consumption deflator			-	2.3	2.5	2.4	1.0	2.7	2.4
Harmonised index of consumer prices			-	2.7	2.5	2.6	0.8	2.5	2.2
Trade balance (c)			-18.4	-15.8	-18.9	-18.9	-16.6	-16.5	-15.8
Current account balance (c)			-	-6.0	-8.8	-6.7	-3.8	-3.4	-2.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-4.6	-5.5	-3.7	-0.9	-0.6	0.0
General government balance (c)			-	-4.9	-3.1	-2.5	-1.8	-1.6	-1.0
Cyclically-adjusted budget balance (c)			-	-3.7	-2.2	-2.0	-1.6	-1.5	-1.2
Structural budget balance (c)			-	-4.4	-3.1	-2.7	-2.3	-1.7	-1.2
General government gross debt (c)			-	72.7	70.8	64.7	63.1	61.3	59.2

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

18. The Netherlands

Labour market tightens in light of strong growth

Activity in 2007

Following a buoyant economic performance in 2006, GDP growth continued to be strong in the first quarter of 2007, posting 0.8% quarter-on-quarter, but fell in the second quarter to merely 0.3%. This can in part be explained by a slowdown in the construction sector (due to unfavorable weather conditions) and in the production of the chemical and steel industries. Another factor depressing growth was the high average temperature in the first half of 2007, which led to a sharp reduction in the production of gas. Looking beyond these temporary factors, the underlying economic growth impetus is forecast to remain solid. Economic activity is expected to regain momentum in the second half of the year and annual GDP growth should come out at around 2.7% in 2007.

Private consumption expenditure is expected to grow by 1.9% in 2007, supported by continued buoyant labour market developments. The strong fall in consumer confidence in September is not likely to have significant adverse effects on private consumption growth, as consumers do not expect their personal financial situation to worsen significantly and on average continue to consider the current juncture to be a good time to make major purchases.

The contribution of the foreign balance to GDP growth is expected to be around 0.3 pp. in 2007, while domestic sources contribute almost 2.5 pps. If the growth contribution of demand components is corrected for their respective import contents, the main net⁽¹⁾ contribution to GDP growth in 2007 turns out to come from exports of goods and services, at 1.6

pps. The net contribution of domestic sources is 1.1%. In fact, with export markets for Dutch products growing by around 6½% in 2007, the economy will be able to retain its market share, as the increase in unit labour costs should remain benign and in line with the developments of unit labour costs in the main competitor countries.

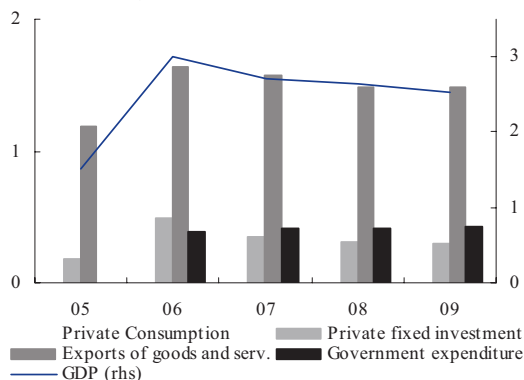
Prospects for 2008 and 2009

Economic growth prospects remain favourable. Real GDP growth is forecast to slow only marginally, to 2.6% in 2008 and 2.5% in 2009. Overall, both domestic and external demand are expected to recede somewhat over the course of the forecast horizon.

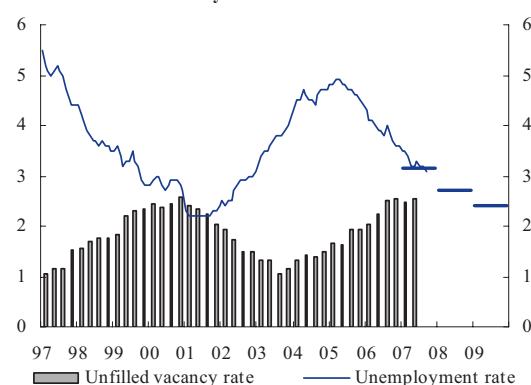
Real private consumption growth should again turn out at around 2% in 2008, despite increases in taxes and social premiums that act as a brake on purchasing power growth. Consumption is supported by continued strong employment growth, but a small part of the increase in consumption is expected to be financed by a reduction in the savings rate, similar to 2007. Real private consumption growth is forecast to fall to 1.6% in 2009, as accelerating consumer prices reduce purchasing power. The maturing economic cycle will reduce the need for expansionary private gross fixed capital formation and annual private investment growth should therefore moderate to around 4% in both 2008 and 2009, down from almost 5% in 2007.

The competitive position of the Dutch economy is expected to worsen in both 2008 and 2009, a result of both the assumed slowdown in world trade growth and the relative increase in unit labour costs. As a

Graph 3.18.1: Netherlands - Net contributions to GDP growth



Graph 3.18.2: Netherlands - Unemployment & vacancy rates



result, export growth will fall to around 5.5% per year. The contribution of exports to GDP growth, corrected for its import content, will consequently fall, but exports remain the main engine of growth in both years. With exports growing slightly faster than imports, the current account surplus is expected to widen to around 8% of GDP in 2009.

Labour markets, costs and prices

The average number of hours worked per person is relatively low in the Netherlands (around 1400 per year in 2006), which can be mostly attributed to the high share of part-time workers. It has continued to decline over the past couple of years, but this process is expected to be halted because of strong demand for labour, which benefits from the favourable economic conditions. In full-time equivalence terms, employment growth should come out in 2007 at around 1.8%, similar to 2006. For 2008 and 2009, employment growth is forecast to remain robust, but to slightly ease to 1.3% in 2009 in the wake of the increasing tightness and mismatches on the labour market.

The rise in labour demand is partly being met by a further reduction in the number of unemployed. The unemployment rate, already at 3.9% in 2006 and 3.1% in September 2007, is foreseen to fall to around 2.5% over the forecast horizon. However, as the total population of working age is expected to be stagnant over the forecast period as a result of demographic developments, most of the extra labour demand is being met through an increase in the activity rate, by men and women who were previously outside the labour force and have been encouraged to work by the apparent tightness of the labour market. These workers enter the labour market not only as employees, but also in increasing numbers as self-employed. In fact, the number of self-employed is set to increase by around 8%, or 100000 people, over the three-year forecast horizon.

Despite the fact that the tightness of the labour market has been apparent since the middle of 2006, unions have kept their collective wage demands relatively subdued. Over the forecast horizon, the scarcity of labour is expected to push wages and salaries per full-time equivalent progressively up, by 3.5% in 2008 and almost 4% in 2009. Rising wage pressures are projected to push up unit labour costs by around 2.5%

per year in both 2008 and 2009, increasing upward price pressures.

HICP inflation in the first nine months of 2007 remained relatively subdued at 1.6%. For 2007, it is expected to also come out at 1.6%, as a rising contribution of energy price inflation is compensated by a low increase in rental prices of regulated housing. Inflation is expected to increase to 2.3% in 2008 and 2.7% in 2009, mainly as a result of wage costs feeding into prices and of continued high energy prices. Furthermore, planned tax measures such as levies on tobacco and fuel will put further upward pressure on prices from 2008 onwards.

Public finances

The government balance is expected to deteriorate substantially, from a surplus of 0.6% of GDP in 2006 to a deficit of 0.4% in 2007. This is still around ¼% of GDP better than expected in the spring 2007 forecast, which is mainly the result of somewhat higher social contributions and a better outcome of the deficit of lower levels of government. These effects are partly offset by lower-than-expected gas revenues, which follow from a lower production of gas in the first half of 2007.

In 2008, the government balance is expected to improve markedly to a surplus of 0.5% of GDP in line with the government target in the budget for 2008. The planned additional expenditure outlays on health care and education of around 0.4% of GDP are more than compensated by the expected improvement on the revenue side by 1.2% of GDP. The endogenous increase in tax receipts and social contributions implied by the above-potential growth is forecast to be around 0.5% of GDP, with tax elasticities excluding policy measures that are expected to return to historical values. Moreover, the budgetary consolidation effort of the newly installed government is concentrated on the revenue side and involves raising a variety of taxes and social contribution rates. The measures include higher health care contributions, increased levies on diesel fuel and the cost of leased cars, and raising excise duties on tobacco and alcohol. These measures are likely to increase receipts from taxes and social contributions by 0.4% of GDP. Finally, in view of continued high energy prices over the forecast horizon and assuming a pick-up in the production volume of gas in 2008,

other current government revenues are expected to increase by around 0.4% of GDP.

Based on a no-policy-change assumption, in 2009 the general government balance is forecast to improve by 0.8% of GDP, to a surplus of 1.3%. Out of this improvement, half a percent of GDP is the result of the reduction in the annual contribution of the Netherlands to the EU budget by slightly less than 0.2% per year according to the Council decision on the EU own resources (cumulated for 2007 to 2009). In line with the draft budget for 2008, it is assumed in this forecast that all national parliaments will have ratified the EU budget by 2009, so that in that year reimbursements for the years 2007 and 2008 will be made together with the regular contribution for 2009.

The structural budget balance is forecast to deteriorate markedly in 2007, from a surplus of around 1% of GDP in 2006 to a slight deficit of 0.2% of GDP. In 2008, it is foreseen to recover partially, to a surplus of ½% and improve only slightly further in 2009. The

underlying assumption is that there will be the positive one-off revenue in 2009 of almost 0.4% of GDP linked to the restitution of the expected reduction in the EU contribution in 2007 and 2008.

The government debt ratio is forecast to fall from 47.9% in 2006 to 41.7% of GDP in 2009. The fall in the debt ratio can be mainly attributed to the growth of nominal GDP.

(¹) The net contribution of expenditure components to GDP involves using input-output analysis to calculate the import share of each expenditure component and correct for it.

Table 3.18.1

Main features of country forecast - THE NETHERLANDS

	2006		92-03	Annual percentage change					
	bn Euro	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at previous year prices	534.3	100.0	2.6	2.2	1.5	3.0	2.7	2.6	2.5
Private consumption	253.5	47.4	2.5	1.0	0.7	-0.8	1.9	2.0	1.6
Public consumption	135.7	25.4	2.4	-0.1	0.0	9.4	2.4	2.3	2.4
Gross fixed capital formation	105.3	19.7	2.8	-1.6	3.0	7.2	4.5	3.6	3.5
of which : equipment	25.8	4.8	1.4	-4.5	1.5	12.5	5.5	4.0	3.9
Exports (goods and services)	391.3	73.2	6.0	7.9	5.9	7.0	6.3	5.5	5.4
Final demand	885.9	165.8	3.9	3.5	3.0	5.0	4.3	3.8	3.7
Imports (goods and services)	351.6	65.8	6.1	5.7	5.5	8.1	6.7	5.6	5.3
GNI at previous year prices (GDP deflator)	543.1	101.6	2.7	3.8	-0.5	4.0	2.3	2.7	2.7
Contribution to GDP growth :									
Domestic demand			2.5	0.2	0.9	3.2	2.4	2.3	2.1
Stockbuilding			-0.1	0.3	-0.1	-0.1	0.1	0.0	0.0
Foreign balance			0.2	1.7	0.7	-0.1	0.3	0.3	0.5
Employment			1.3	-1.0	-0.3	1.8	1.8	1.6	1.3
Unemployment rate (a)			4.5	4.6	4.7	3.9	3.1	2.7	2.4
Compensation of employees/f.t.e.			3.7	3.5	1.6	2.4	2.6	3.4	3.8
Real unit labour costs			-0.2	-0.5	-2.2	-0.8	0.4	0.2	-0.1
Savings rate of households (b)			-	-	12.1	12.5	12.3	12.0	11.9
GDP deflator			2.6	0.7	2.1	1.9	1.4	2.1	2.6
Private consumption deflator			2.6	1.0	2.1	2.3	2.2	2.3	2.8
Harmonised index of consumer prices			2.4	1.4	1.5	1.7	1.6	2.3	2.7
Trade balance (c)			5.4	7.2	7.6	7.4	6.6	6.7	6.9
Current account balance (c)			4.9	8.6	7.1	7.6	6.9	7.5	8.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			4.7	8.3	6.7	7.3	6.6	7.2	7.9
General government balance (c)			-1.8	-1.7	-0.3	0.6	-0.4	0.5	1.3
Cyclically-adjusted budget balance (c)			-1.8	-0.9	0.8	1.1	-0.2	0.5	1.1
Structural budget balance (c)			-	-1.2	0.8	1.1	-0.2	0.5	0.7
General government gross debt (c)			65.3	52.4	52.3	47.9	46.8	44.8	41.7

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

19. Austria

Robust but moderating growth in the years ahead

Activity in 2007

The buoyant activity that started in 2006, continued throughout the first half of 2007. Unlike other euro area countries, Austria did not experience a slowdown in the second quarter as real GDP continued growing steadily by 0.9% quarter-on-quarter in the first six months of the year.

Growth in the first half of the year was to a large extent driven by gross fixed capital formation, which accelerated from an already strong pace in the previous year. Equipment investment in particular continued growing strongly, due to the current high capacity utilisation. Investment in construction, while also rising, registered a gradual slowdown.

Against the background of the generally favourable economic situation in Europe and particularly in Germany, Austria's exports grew strongly, even though a slowdown from the high rate of the previous year was noted. As both private- and government-consumption growth have been sluggish in the first half of the year, net exports provided the major contribution to GDP growth.

All in all, on an annual basis, real GDP growth is projected to stay at about 3.3%, with investment and net exports remaining the key drivers of growth.

Prospects for 2008 and 2009

Having maintained the quick pace of the previous year in 2007, GDP growth is expected to gradually slow down in 2008 and 2009, but should remain close

to potential even at the end of the forecast period. The negative output gap, which is projected to close in 2007, will enter and stay in positive territory throughout the forecast period.

The profile of private consumption is expected to be relatively flat, whereas public consumption will slow down in 2009. Growth in gross fixed capital formation, after its spectacular rebound in 2006, is supposed to ease down over the forecast period.

Growth in exports of goods is expected to decelerate in 2008 and continue to do so in 2009, in line with the gentle slowdown projected for the other EU economies. However, as no major breakthrough in terms of Austria's domestic demand is foreseen, the contribution of net exports to real GDP growth will decline only marginally.

Labour market, costs and prices

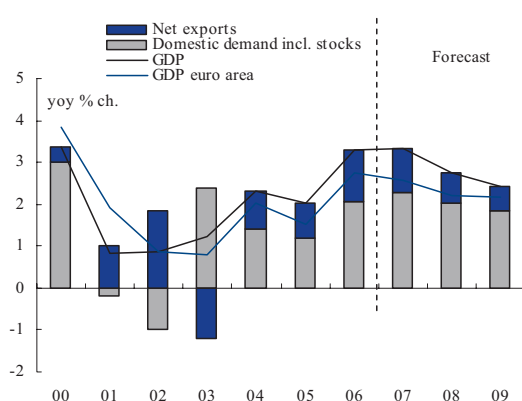
Employment will grow throughout the forecast period, more or less matching the growth level and profile in the euro area on average. With a cyclical recovery usually favouring full-time job sectors, such as manufacturing and construction, a higher number of full-time jobs are likely to be created than during recent years. In the view of the strong job creation, unemployment is projected to go down by about ½ pp. in 2007, but then remain stable as the rise in employment is matched by the labour force growing rapidly due to increased inflows of women and immigrants into the job market and older workers staying in it longer as a consequence of the recent pension reforms.

Prices will grow marginally faster than previously expected, but Austria's HICP should stay comfortably around the 2% threshold. In spite of the cyclical upturn, the increase in wages is expected to be moderate. Unit labour costs are projected to edge up, but the increase will be one of the smallest in the euro area, so that Austria should not experience any significant loss in competitiveness.

Public finances

The federal budget for 2007 and 2008 was adopted by the new parliament at the beginning of May 2007, giving priority in terms of expenditure to R&D, education and social affairs.

Graph 3.19.1: Austria - GDP compared to euro



Looking at the available central government revenue data for 2007, it seems probable that the annual general government deficit will turn out marginally lower than the official budget target of 0.9% of GDP. This is mainly due to the slightly higher-than-expected revenues from personal and corporate income tax, as well as VAT.

The general government deficit is expected to decline marginally as a percentage of GDP in 2008 and 2009, owing things among others to the continued administrative reforms, the phasing out of the investment premium, the effects of the previous pension reforms and the declining unemployment rate. However, at the end of the forecast period it is still expected to be slightly higher than the target of 0.2% of GDP presented in the latest update of the Stability Programme.

Throughout the forecast period, government revenue and expenditure will broadly maintain their downward trend as a percentage of GDP.

On the back of the relatively low nominal budget deficits, the debt ratio is anticipated to decrease continuously over the forecast period. Already in 2007, it is expected to fall to the 60% of GDP threshold for the first time since 1992.

Table 3.19.1

Main features of country forecast - AUSTRIA

	2006		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at previous year prices	257.9	100.0		2.1	2.3	2.0	3.3	3.3	2.7	2.4
Private consumption	142.9	55.4		1.7	1.8	2.0	2.1	1.7	1.9	2.1
Public consumption	46.5	18.0		2.0	1.4	1.9	2.1	1.9	2.1	0.6
Gross fixed capital formation	53.1	20.6		1.4	0.1	0.3	3.8	5.7	3.2	2.4
of which : equipment	20.2	7.8		1.9	-2.3	1.0	1.5	7.7	3.8	2.8
Exports (goods and services)	144.7	56.1		5.4	8.2	6.2	7.5	7.2	6.5	5.9
Final demand	388.0	150.4		2.8	3.8	3.0	4.3	4.2	3.8	3.4
Imports (goods and services)	130.1	50.4		4.7	6.8	5.0	5.6	6.1	6.0	5.3
GNI at previous year prices (GDP deflator)	255.8	99.2		2.1	2.3	1.9	3.0	3.3	2.7	2.4
Contribution to GDP growth :										
Domestic demand				1.7	1.2	1.5	2.1	2.4	2.1	1.7
Stockbuilding				0.0	0.2	-0.3	0.0	-0.2	0.0	0.0
Foreign balance				0.3	0.9	0.8	1.3	1.0	0.7	0.7
Employment				0.3	0.3	0.9	1.6	1.6	0.9	0.6
Unemployment rate (a)				4.0	4.8	5.2	4.7	4.3	4.2	4.2
Compensation of employees/f.t.e.				2.7	1.6	2.6	2.4	2.4	2.8	2.6
Real unit labour costs				-0.6	-2.4	-0.4	-1.0	-1.4	-1.1	-0.6
Savings rate of households (b)				-	-	13.7	14.1	15.3	15.9	16.1
GDP deflator				1.6	2.1	1.8	1.8	2.3	2.1	1.4
Private consumption deflator				2.0	1.9	1.7	1.6	1.8	2.0	1.9
Harmonised index of consumer prices				1.9	2.0	2.1	1.7	1.9	1.9	1.8
Trade balance (c)				-1.8	1.0	1.0	1.4	2.1	2.4	2.4
Current account balance (c)				-0.8	2.4	3.0	3.5	4.8	5.3	5.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.0	2.3	3.0	3.3	4.6	5.2	5.3
General government balance (c)				-2.5	-1.2	-1.6	-1.4	-0.8	-0.7	-0.4
Cyclically-adjusted budget balance (c)				-2.5	-0.5	-0.9	-1.2	-1.0	-1.0	-0.8
Structural budget balance (c)				-	-0.5	-0.9	-1.2	-1.0	-1.0	-0.8
General government gross debt (c)				64.3	63.8	63.4	61.7	60.0	58.4	57.2

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

20. Poland

Strong fundamentals, but public finances remain a weak spot

Activity in 2007

Economic activity continued to be robust in the first half of 2007. Driven by domestic demand, real GDP growth reached 7.1% year-on-year. Growth was driven by private consumption (6.0%) and investment (25.3%).

Quarterly data indicate, however, some loss in momentum in the second quarter after exceptionally high growth in the beginning of the year due *inter alia* to a mild winter. Strong investment activity was backed up by healthy corporate profits and was reflected in increased construction activity in the first half of 2007 (26.1% growth). Significant rebuilding of stocks has also contributed to high GDP growth.

Export and import growth in the first half of 2007 increased to about 10% and 14% respectively in real terms, year-on-year. Net exports contributed negatively to GDP growth increasingly on account of continuing investment activity and overall strong private consumption.

GDP is expected to grow at around 1¼% quarter-on-quarter until the end of 2007. Domestic demand will continue to be the main driver of growth, with a key role for robust gross fixed capital formation and strong consumption. Lower external demand on the side of the main trading partners and rising investment- and consumption-driven imports will slow down the Polish economy in the second half of the year. Consumption growth is likely to be supported by strong wage increases (owing to a tax wedge cut and a tightening labour market) and a recovery in the labour market. For the whole of 2007

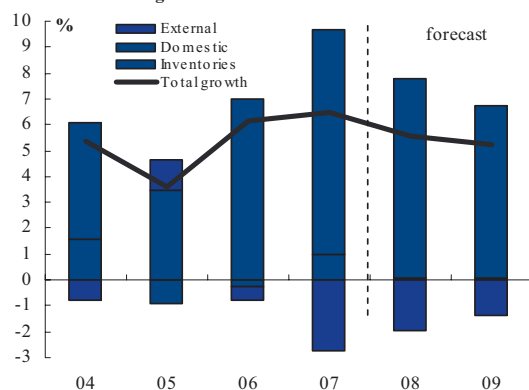
GDP is projected to grow at 6½%.

Prospects for 2008 and 2009

Domestic demand will continue to be the main driving force of GDP growth, which is expected to ease to 5.6% in 2008 and 5.2% in 2009. Both investment and private consumption growth are likely to stay strong over the projection period. Investment is expected to grow at over 12% each year, supported by foreign direct investment and an increased inflow of EU funds. In 2008 Poland will be able to use part of the funds still available after the end of the first programming period 2004–2006, according to the *n+2* rule. At the same time funds from the new programming period of 2007–2013 will already be flowing in. Private consumption is expected to keep its high momentum, albeit moderating slightly in 2009. The better situation in the labour market and accelerating real wage growth because of the tightening labour market, a further cut in the tax wedge in 2008 and lower personal income taxes in 2009 are the main factors supporting private consumption. Increased investments and private consumption will boost domestic demand and increase imports, which will enlarge the negative contribution of net exports to GDP growth.

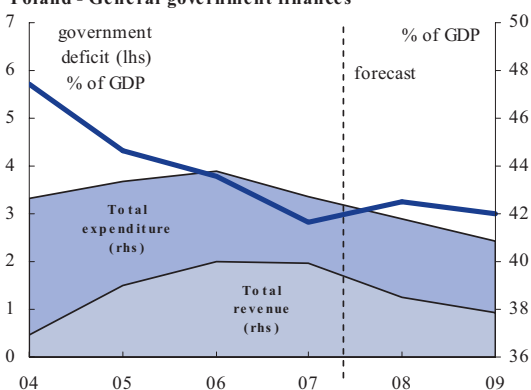
Export growth is expected to slow down slightly to about 8% due to lower external demand in the EU, the main trading partner. Rising investment- and consumption-driven imports will augment the external imbalances, widening the trade and current account deficit in 2009 to -4¾% and -6¼% respectively. Thanks to higher transfers from the EU the external

Graph 3.20.1 : Poland - Contributions to growth



Graph 3.20.2 :

Poland - General government finances



deficit will be limited to 4% of GDP in 2009, which still represents a widening compared to the previous years.

Labour market, costs and prices

In the course of 2007 an impressive improvement was seen in the labour market, continuing the trend from 2006. Until August 2007 the unemployment rate fell by more than 4½ pps. from 13.8% in 2006, which corresponds to a decrease in the number of unemployed by nearly 700,000. Although total employment increased (1¼% in the first half of 2007), part of the drop in the unemployment rate may be attributed to a falling labour force due to increased early retirement, emigration and a growing number of students. As economic activity is expected to be strong, employment should increase by about 7% by the end of the forecast horizon (compared to 2006). The number of unemployed is projected to reach ca. 1.1 million in 2009, somewhat close to 7% of the civilian labour force.

Annual HICP inflation increased from 2.0% in the first quarter of 2007 to 2.4% in the second. The pressure on inflation from rising wages is contained owing to increased competition among the companies. In view of a tightening labour market with unemployment rates close to, though below the estimate of the Non-Accelerating Inflation Rate of Unemployment (NAIRU) and compensation of employees increasing faster than productivity, further monetary policy tightening is expected. Nevertheless inflation is likely to rise, on the back of higher wages and higher food and oil prices, to 2¾% in 2008, and to increase further thereafter to about 3%, which is above the Polish central bank's medium-term target of 2.5%.

Unit labour costs are projected to increase by about 4½% in 2007, as a result of strong wage growth combined with modest productivity increases. In 2008 and 2009, nominal unit labour costs are likely to continue rising, albeit at a slower pace, up to 2% as productivity growth recovers mitigating the impact of accelerating wages linked to the tightening of the labour market.

Public finances

Since the 2007 spring forecast, the acceleration of GDP growth has resulted in better-than-expected revenues in all main tax categories. In particular, revenues from direct taxes are much higher than budgeted, predominantly due to dynamic wage growth. Spending is below the planned levels because of lower-than-budgeted public investment, lower interest expenditure thanks to lower debt growth and a lesser need for social spending on account of a larger-than-projected drop in the unemployment rate. As a result, cash data showed that both the local and central government sub-sectors were still having surpluses in early autumn 2007. Consequently, the general government deficit is now expected to improve from 3.8% of GDP in 2006 to 2.7% of GDP in 2007. However, there still remains some uncertainty as regards the general government balance, mainly because local government spending may accelerate in the last quarter of 2007, as in previous years.

The draft budget indicates a worsening of the central state balance (non ESA95) by about 0.3% of GDP in 2008. Under the assumption that the draft budget is not modified significantly after the early parliamentary elections in October 2007, the general government deficit is expected to deteriorate to 3.2% of GDP in 2008 because of a number of deficit-increasing measures adopted recently by government and parliament and lower GDP growth. The second round of social contribution cuts will reduce government revenues by more than 1% of GDP. In addition, revenues will be negatively affected by large personal income tax reliefs related to the number of children in a family. On the expenditure side, lavish wage-related indexation of social benefits and pensions is restored, with generous special rules for 2008 (indexation based on cumulated inflation for 2006-2007 and elimination of a lower reference value, so called "old wallet"). According to the draft budget, they will not be offset by any expenditure reform (as reform bills were suspended in view of the early elections) and revenue-increasing measures are insufficient to result in deficit reduction. Indirect tax revenues will increase as a result of a hike in some excise duties and value-added tax as related to EU harmonisation, with an estimated effect of 0.2% of GDP. The 2008 fiscal balance may turn out better, if the new government formed after the October 2007 elections introduces some consolidating amendments.

In 2009, the general government deficit is expected to improve marginally to 3.1% of GDP, broadly consistent with the general government deficit target in the draft 2008 budget. Further excise duty hikes determined by the European harmonisation will have a direct deficit-decreasing effect. On the other hand, parliament has already adopted a personal income tax reform which will entail the vast majority of tax-payers being covered by a low marginal rate of 18%. The loss in revenue may be to some extent smoothed by higher proceeds due to higher private consumption. The cut in the statutory minimum wage in 2008 may have a small negative impact on the 2009 budget through the link which exists between the minimum wage on the one hand and some social benefits and wages in the public sector on the other. It should be stressed that this forecast is made under the assumption of no policy change and thus could become outdated, as fiscal policy in 2009 will be determined by the new government.

Gross debt is projected to decrease slightly from 47.6% of GDP in 2006 to 46.8% in 2007 and rebound to 47.1% in 2008 and 2009. Privatisation has been stalled since the beginning of 2006. If it is re-activated by the new government formed after the early elections, the debt ratio may decline faster.

Table 3.20.1

Main features of country forecast - POLAND

	2006			Annual percentage change						
	bn PLN	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at previous year prices	1060.2	100.0	4.3	5.3	3.6	6.1	6.5	5.6	5.2	
Private consumption	657.4	62.0	4.4	4.3	2.0	5.1	6.3	6.2	5.2	
Public consumption	193.7	18.3	2.9	3.1	5.2	3.9	1.8	1.6	1.9	
Gross fixed capital formation	208.9	19.7	6.2	6.4	6.5	16.5	21.6	14.7	12.1	
of which : equipment	81.6	7.7	-	8.0	-	-	24.0	16.0	14.0	
Exports (goods and services)	427.8	40.3	10.7	14.0	8.0	14.5	8.6	8.1	8.0	
Final demand	1502.6	141.7	5.5	7.9	3.8	8.7	8.7	7.5	6.7	
Imports (goods and services)	442.4	41.7	11.4	15.2	4.7	15.8	13.9	11.8	10.1	
GNI at previous year prices (GDP deflator)	1023.4	96.5	4.5	2.6	4.3	6.0	6.1	5.3	5.1	
Contribution to GDP growth :										
Domestic demand			4.6	4.5	3.5	7.0	8.5	7.4	6.5	
Stockbuilding			0.0	1.6	-0.9	-0.3	0.3	0.0	0.0	
Foreign balance			-0.2	-0.8	1.1	-0.5	-2.3	-1.9	-1.3	
Employment			-	1.3	2.3	3.3	4.4	1.7	1.3	
Unemployment rate (a)			14.6	19.0	17.7	13.8	9.4	7.3	6.4	
Compensation of employees/head			21.0	1.8	1.5	1.4	6.3	5.5	5.5	
Real unit labour costs			-	-6.0	-2.3	-2.7	1.3	-1.6	-1.7	
Savings rate of households (b)			-	-	7.2	5.9	4.3	3.4	1.4	
GDP deflator			15.7	4.1	2.6	1.4	2.9	3.2	3.3	
Private consumption deflator			16.6	3.0	2.1	0.9	2.3	2.8	3.0	
Harmonised index of consumer prices			-	3.6	2.2	1.3	2.5	2.8	2.9	
Trade balance (c)			-3.2	-2.2	-0.9	-2.0	-3.9	-5.0	-5.8	
Current account balance (c)			-1.9	-4.4	-1.7	-1.8	-4.3	-5.5	-6.2	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-1.1	-4.2	-1.4	-1.2	-3.3	-2.9	-4.0	
General government balance (c)			-	-5.7	-4.3	-3.8	-2.7	-3.2	-3.1	
Cyclically-adjusted budget balance (c)			-	-5.8	-4.1	-3.9	-3.0	-3.4	-2.8	
Structural budget balance (c)			-	-5.8	-4.1	-3.9	-3.0	-3.4	-2.8	
General government gross debt (c)			-	45.7	47.1	47.6	46.8	47.1	47.1	

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

21. Portugal

Contained imbalances, but subdued growth

Activity in 2007

In Portugal, the first half of 2007 saw the continuation of the upswing in economic activity that started in late 2005. Indicators for more recent months suggest that domestic demand is improving marginally, while the external side appears to be cooling.

For 2007 as a whole, GDP is projected to grow by 1¾% in real terms, up from 1.3% in 2006, helped by both domestic and external sectors. Overall, domestic demand has shown somewhat more strength than before. In particular, investment stops being a drag on GDP growth, thanks to a less pronounced reduction in construction investment and increasing equipment investment. Private and public consumption patterns have barely changed from last year: the former growing below GDP, the latter declining. The external sector has continued to profit from the solid momentum in world trade as exports have grown at a healthy pace, even if less than before, with services exports especially evolving at brisk rates.

Prospects for 2008 and 2009

Portugal's GDP growth is expected to slightly edge up throughout 2008 and 2009 to around 2%.

In the next two years, domestic demand is forecast to post somewhat higher contributions to GDP growth, mainly thanks to the expected recovery in investment. The investment pace is expected to be supported by the real growth of public investment, in contrast with the cuts of recent years. Private investment is also projected to perform better than before. Yet the uncertainty on the financial conditions against the

backdrop of the recent turmoil in financial markets adds considerable risks to this outlook, which can be further compounded by re-assessments of demand prospects. Private consumption is expected to remain subdued as the rising debt service costs resulting from the tightening of monetary conditions, together with the muted labour market situation, will put a lid on disposable income growth.

The external sector is forecast to add to GDP growth in 2008 and 2009, albeit by less than before. Exports are expected to grow at a relatively good pace, though they will subside from previous years as external demand moderates. The trend of imports should mainly follow that of domestic demand weighted for the imported content of its various components.

The projected trade developments will continue narrowing the external deficit of goods and services. Yet higher primary income deficits coming from the rising external debt service will increase borrowing needs.

Labour market, costs and prices

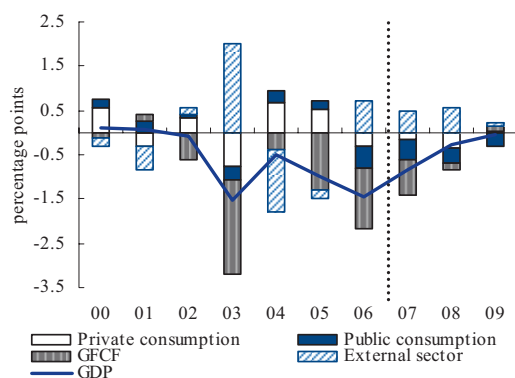
Employment creation has been sluggish, reflecting the lagged response of employment to subdued economic activity, a better labour utilisation and structural changes with the downsizing of labour-intensive sectors. These trends are projected to continue in 2008 and 2009, consequently yielding little relief to unemployment. Thus, wage growth is projected to remain at current levels. All in all, unit labour costs may grow marginally less than in some trade partners.

In 2007, inflation should fall to below 2½% owing to the VAT hike in mid-2005 and the less harmful energy price developments. Against a backdrop of weak demand and moderation in some import prices helped by a stronger euro, price pressure is expected to remain moderate in 2008 and 2009.

Public finances

In 2007, the general government deficit is expected to fall to 3% of GDP, from 3.9% of GDP in 2006. Both buoyant tax revenue growth and moderate expenditure growth have paved the way for this correction. In particular, corporate tax proceeds have grown at impressive rates, with further steam to revenue being added by other direct taxes and social contributions. At the same time, primary spending has expanded less than GDP. Compensation of government employees

Graph3.21.1: Contributions to growth differentials with the euro area



has been curbed largely through wage restraint and a reduction in government employment. In addition, old-age pension growth has been reined in due to more contained retirement patterns. Unemployment benefits have declined on account of tighter eligibility criteria. Interest expenditure has gone up quickly with higher interest rates. ⁽¹⁾

For 2008, the government deficit is projected to come close to 2½% of GDP. On the revenue side, tax revenue growth is assumed to be overall more in line with tax bases than it has been in recent years, with a small additional help coming from changes in some taxes and social contributions. On the spending side, and taking also into account the draft 2008 budget,

⁽¹⁾ This forecast assumes that capital injections in hospitals amounting to almost 0.1% of GDP are eligible to be recorded as financial transactions without a direct impact on the government deficit, while an amount of 0.02% of GDP will be booked as deficit-increasing operations every year up to 2009. The precise recording of those capital injections will be scrutinised by Eurostat at a later stage.

expenditure is projected to continue growing below nominal GDP, yet by a lower margin than in previous years. On the one hand, the contained expansion of compensation of government employees will represent a sizeable consolidation effort. The latter will be allowed by a reduction of public employment by means of an only partial replacement of workers who leave central government. On the other hand, higher spending on some social benefits is foreseen in the light of new policy measures and unemployment benefits which are not expected to continue declining; at the same time, old-age pension spending will increase further in terms of GDP.

In 2009, on the basis of the no-policy-change assumption, the government deficit is expected to decline slightly.

After reaching almost 65% of GDP in 2006, the government debt ratio is expected to stay at a plateau at some 64½% of GDP throughout the forecast period.

Table 3.21.1

Main features of country forecast - PORTUGAL

	2006		92-03	Annual percentage change					
	bn Euro	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at previous year prices	155.1	100.0	2.2	1.5	0.5	1.3	1.8	2.0	2.1
Private consumption	101.0	65.1	2.6	2.5	2.2	1.1	1.2	1.3	1.7
Public consumption	32.0	20.6	2.4	2.6	2.2	-0.5	-0.3	0.4	0.5
Gross fixed capital formation	32.5	20.9	3.1	0.2	-3.3	-1.6	0.9	2.3	3.4
of which : equipment	10.4	6.7	3.0	5.1	-0.3	4.0	3.9	3.8	4.7
Exports (goods and services)	48.2	31.1	4.6	4.0	1.2	8.9	6.7	5.6	4.9
Final demand	215.5	138.9	3.1	2.9	0.9	2.2	2.2	2.3	2.6
Imports (goods and services)	60.4	38.9	5.4	6.7	1.9	4.3	3.4	3.3	3.8
GNI at previous year prices (GDP deflator)	150.1	96.8	2.2	1.3	0.0	0.1	0.9	1.4	1.8
Contribution to GDP growth :									
Domestic demand			2.8	2.2	1.0	0.3	0.9	1.4	1.9
Stockbuilding			0.0	0.5	-0.2	0.0	0.1	0.0	0.0
Foreign balance			-0.6	-1.2	-0.3	0.9	0.7	0.6	0.2
Employment			0.5	0.1	0.0	0.7	0.3	0.6	0.9
Unemployment rate (a)			5.6	6.7	7.6	7.7	8.0	8.0	7.7
Compensation of employees/head			6.3	2.6	2.9	2.4	2.7	2.8	2.8
Real unit labour costs			-0.2	-1.2	-0.4	-1.0	-1.7	-0.9	-0.6
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			4.7	2.4	2.8	2.9	2.9	2.4	2.3
Private consumption deflator			4.1	2.5	2.5	3.3	2.4	2.4	2.3
Harmonised index of consumer prices			3.9	2.5	2.1	3.0	2.4	2.4	2.3
Trade balance (c)			-9.6	-9.5	-10.2	-10.0	-9.1	-8.6	-8.4
Current account balance (c)			-6.2	-7.8	-9.6	-9.9	-9.0	-8.8	-8.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-3.8	-6.1	-8.1	-8.8	-7.9	-7.7	-7.7
General government balance (c)			-3.8	-3.4	-6.1	-3.9	-3.0	-2.6	-2.4
Cyclically-adjusted budget balance (c)			-3.8	-2.8	-5.2	-2.9	-2.2	-2.1	-2.1
Structural budget balance (c)			-	-4.9	-5.1	-2.9	-2.3	-2.1	-2.1
General government gross debt (c)			55.3	58.3	63.7	64.8	64.4	64.7	64.5

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

22. Romania

Growing fiscal and external imbalances

Activity in 2007

After reaching 7.7% in 2006, real GDP growth slowed to 5.8% in the first half of 2007, mainly due to a deceleration of private consumption and a more negative contribution from net exports. However, growth is expected to pick up in the second half of 2007 so that it will reach 6.0% for the year as a whole. This is mostly fuelled by gross fixed capital formation, thanks to record growth rates in the construction sector, and a rebound of private consumption growth. The latter is likely to benefit from strong wage increases and high domestic credit availability. From the supply side, the highest growth rates are observed in the construction sector, while output in agriculture is expected to contract owing to a severe drought affecting large parts of the country.

Strong domestic demand dynamics will likely result in a further widening of the trade deficit to 15½% of GDP in 2007, against a level of around 12% in 2006. Net borrowing from the rest of the world is projected to widen to around 12¾% of GDP in 2007, as compared to 10¼% in 2006, notwithstanding increasing current transfers from abroad linked to EU funds and remittances. Following the slowdown in privatisation of state-owned companies, the FDI coverage of net borrowing is expected to decline from 90% in 2006 to roughly 50% in 2007.

Prospects for 2008 and 2009

Real GDP growth is expected to decelerate only slightly, to 5.9% in 2008 and 5.8% in 2009. Strong, albeit somewhat slowing domestic demand is projected to persist over the forecast period. Gross

fixed capital formation is expected to grow fastest, mainly owing to the continued expansion in the construction sector, further FDI inflows and the increased availability of EU funds. Private consumption growth will also remain strong due to high wage and continued employment growth. Public consumption is expected to record a steady expansion, mainly driven by an increase in public sector wages.

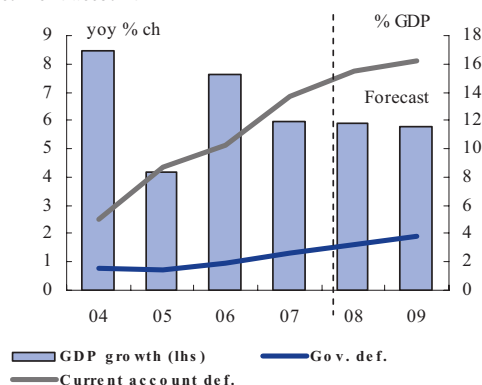
Despite the decrease in domestic demand growth, the increase of imports is projected to continue outpacing the growth of exports. This translates into a further widening of the net borrowing from the rest of the world, which is expected to reach around 15½% of GDP in 2009, in spite of increased EU transfers and higher remittances from abroad.

Labour market, costs and prices

In spite of the contraction of several labour-intensive industries (especially textiles and clothing), overall employment is expected to grow by 1¼% in 2007. Over the period 2008-2009 an average increase in employment of almost 1% is anticipated. The job creation process in the formal private sector will be sustained by foreign investments, offsetting the ongoing lay-offs in some labour-intensive industries, and by a further reduction of the informal economy. Unemployment is projected to decline slightly over the forecast period.

The steady disinflation process over the last years stagnated in the first two quarters of 2007 and even reversed in August and September on the back of higher domestic food prices after the severe drought, increased world food prices and the depreciation of the RON since August 2007 after a long period of sustained appreciation. In combination with strong demand-pull pressures, annual inflation is projected to average 4¾% in 2007. In 2008, average inflation is projected to edge up to 5½%, largely reflecting negative carry-over effects from the 2007 agricultural supply shortfall and the assumed rising international fuel and commodity prices. In 2009, these supply-push factors are expected to ease somewhat, leading to a projected moderation of the inflation rate to 4½%. Over the forecast period, the increased fiscal stimulus, the evolution of credit growth and the strong increase in wages will continue to put upward pressure on inflation from the demand side.

Graph 3.22.1 : Romania - GDP, gov.deficit and current account



Public finances

The pro-cyclical fiscal expansion continues and the budget deficit is expected to deteriorate from 1.9% of GDP in 2006 to 2.7% of GDP in 2007, mainly due to an increase in government consumption, in particular public wages, and social transfers. Furthermore, under-spent public capital expenditure due to low execution of investment plans has been shifted to current spending through successive budget amendments. Revenues are expected to perform well in 2007. The poor performance of indirect taxes in the first quarter and a 2 pp cut in social security contributions will likely be offset by higher-than-anticipated direct tax revenues.

In 2008 and 2009, the deficit is expected to further widen to 3.2% and 3.9% of GDP respectively. The forecast assumes an almost doubling of pensions over 2008 and 2009 compared to the level in 2007 as approved by law in June 2007. In addition, 2 pp of pension contributions in 2008 and 2.5 pp in 2009 will

be redirected to a funded second pension pillar to be introduced in January 2008. This pension reform cost is estimated at 0.2% of GDP in 2008 and 0.3% of GDP in 2009 and is included in the projected deficits. Finally, the forecast reflects the government decision that the rate of social contributions will be cut by 6 pp in three steps in the course of 2008, which exerts its full impact as from 2009. These reforms will be partly financed by some recently approved measures aimed at enlarging the base for social contributions. Furthermore, public wages are expected to remain an important expenditure-increasing item, while gross fixed capital formation is projected to pick up after a slowdown in 2007. Direct tax revenues are expected to remain buoyant on the back of strong GDP growth and improved tax collection.

The debt-to-GDP ratio is projected to increase by 1 pp. between 2007 and 2009 to around 13½% mainly due to higher deficits.

Table 3.22.1

Main features of country forecast - ROMANIA

	2006		92-03	Annual percentage change					
	bn RON	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at constant prices	342.4	100.0	1.0	8.5	4.1	7.7	6.0	5.9	5.8
Private consumption	239.3	69.9	2.5	14.6	9.6	13.9	11.0	9.4	8.4
Public consumption	61.7	18.0	2.6	-4.9	9.0	2.5	5.4	4.5	4.0
Gross fixed capital formation	84.3	24.6	6.1	11.1	12.6	16.1	18.5	14.2	11.2
of which : equipment	41.1	12.0	8.5	8.2	-	-	9.0	7.0	5.0
Exports (goods and services)	110.9	32.4	11.0	13.9	8.1	10.6	8.2	8.9	8.9
Final demand	494.8	144.5	2.7	12.5	8.0	12.3	11.0	9.5	8.6
Imports (goods and services)	152.4	44.5	10.7	22.1	16.6	23.0	22.3	17.4	14.2
GNI at constant prices (GDP deflator)	331.8	96.9	0.9	6.4	5.5	7.4	5.6	6.2	6.1
Contribution to GDP growth :									
Domestic demand			4.1	11.1	10.9	13.8	13.2	11.3	10.0
Stockbuilding			-2.1	1.9	-2.2	0.3	0.0	-0.1	0.0
Foreign balance			-0.8	-4.5	-4.5	-6.4	-7.3	-5.3	-4.2
Employment			-2.2	0.4	0.2	2.8	1.2	1.0	0.8
Unemployment rate (a)			6.3	8.1	7.2	7.3	7.1	7.0	6.9
Compensation of employees/head			78.6	17.8	19.3	17.8	15.3	16.1	13.4
Real unit labour costs			-0.8	-5.2	2.2	1.9	2.3	4.7	2.7
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			74.4	15.0	12.2	10.4	7.7	5.7	5.2
Private consumption deflator			73.1	13.9	7.1	5.1	3.6	3.5	3.4
Harmonised index of consumer prices			-	11.9	9.1	6.6	4.7	5.6	4.6
Trade balance (c)			-6.9	-8.7	-9.8	-12.1	-15.5	-18.0	-19.3
Current account balance (c)			-	-5.0	-8.7	-10.3	-13.7	-15.5	-16.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-4.1	-4.1	-8.0	-10.3	-12.8	-14.5	-15.3
General government balance (c)			-	-1.5	-1.4	-1.9	-2.7	-3.2	-3.9
Cyclically-adjusted budget balance (c)			-	-2.0	-1.6	-2.6	-3.3	-3.6	-4.0
Structural budget balance (c)			-	-2.0	-1.6	-2.6	-3.3	-3.6	-4.0
General government gross debt (c)			-	18.8	15.8	12.4	12.5	12.8	13.5

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

23. Slovenia

Strong but decelerating growth with a pick-up in inflationary pressures

Activity in 2007

Economic growth in Slovenia remained buoyant in 2007. During the first half of the year, real GDP increased by 6.5% year-on-year. Leading indicators for the third quarter show some cooling and a small deceleration of growth is expected for the second half of the year. Overall growth for 2007 is projected at 6.0%, the highest rate in the last decade.

An impressive build-up of fixed capital continued to be the main driving force for this year's record growth. Non-housing construction was particularly buoyant due to, inter alia, motorway construction and other infrastructure investment. Investment in machinery and equipment was also strong, reflecting high capacity utilisation in the manufacturing sector. Private consumption expenditure also remained lively, on the back of a high employment increase and lower taxation of physical persons. Exports of goods and services grew at very high rates during the first half of the year, supported by the adoption of the euro in 2007 and a generally favourable external environment as well as the increased production and export capacity of the car manufacturing sub-sector. However, the external sector is expected to have a negative contribution to growth, due to the very high import growth. The latter is attributed to the strong demand for investment goods as well as intermediate inputs used mainly in the production of export goods.

Prospects for 2008 and 2009

In 2008, economic growth is projected to decelerate to 4.6%. However, this is still well above the average rate of 4.2% recorded during 1997-2006. The main

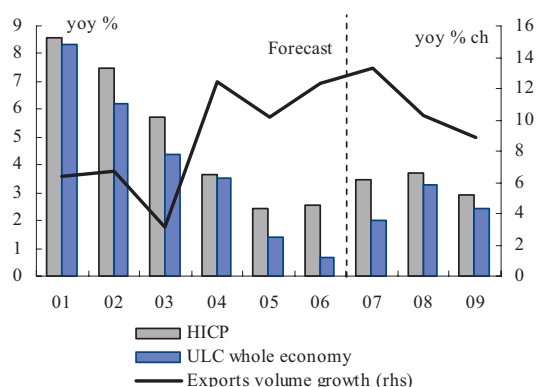
reason for the loss of momentum is the expected considerable slowdown in gross fixed capital formation growth. The already strong expansion of production capacity of the last years, the international economic slowdown and the expected deceleration in housing will all contribute to this. However, private consumption is projected to remain vigorous thanks to higher disposable income, caused by significant wage increases in the public and to a lesser degree the private sector. Exports will likely experience slower growth in a somewhat less dynamic euro area environment and due to the fact that capacity limits in key industries such as car manufacturing have nearly been reached. At the same time, the slowdown in investment and exports will also reduce import growth to a greater extent, resulting in a small positive contribution of net exports to GDP growth.

The slowdown of activity is expected to continue in 2009 with a projected GDP growth rate of around 4%. Further deceleration of capital formation is expected to be the driving force of this development. In particular, construction is projected to expand only marginally, as investment in motorway construction levels off. Private consumption is forecast to weaken somewhat, but remain buoyant. Exports are projected to grow at high, but somewhat lower, rates of growth compared to the preceding years. Imports are expected to increase more moderately, reflecting the slowdown in investment and consumption demand. Overall, net exports are projected to widen their positive contribution to growth. The current account deficit is expected to decline to around 1.8% of GDP.

Labour markets, costs and prices

Consumer price inflation increased markedly in 2007 and is projected to reach an average level of 3.5% for the year as a whole, compared to 2.5% in 2006. Several indicators point to rising demand pressures; surveys of firms report the reaching of capacity levels and lack of skilled personnel; unemployment has fallen to the lowest level recorded since Slovenia's independence and the economy is likely experiencing a positive output gap. Moreover, the increases in food and energy prices experienced by most euro-area countries and low competition in some sectors of the economy also contributed to the rise in inflation. Although euro changeover effects appeared limited initially, some abnormal price increases were reported following the end of the dual price display in June.

Graph 3.23.1: Slovenia - Prices, unit labour cost increases and export growth



In 2008, inflation is projected to rise to 3.7%. Although there is a very high degree of uncertainty, the slowdown in national activity is likely to be overcompensated by rising wage pressures as well as increases in commodity and energy prices. Slovenia is especially vulnerable to changes in oil prices due to the high share of energy in HICP. Also, food prices might experience further increases. Wage pressures arise mainly from the government's efforts to reduce income disparities within the public sector, which are expected to lead to a substantial increase of the public sector wage bill in 2008. Due to demonstration effects, significant increases might also be expected for private sector wages. However, inflation is expected to revert to lower levels in 2009.

Labour market developments have been favourable in 2007, with the increase in employment projected to reach 2.2%, having been especially strong in construction. Unemployment is projected to have fallen to around 5% in 2007 and is now likely below the natural rate. It is expected to decline further in

2008 and 2009, while employment growth is expected to slow down due to the deceleration of economic activity.

Public finances

The general government deficit is expected to narrow to 0.7% of GDP in 2007, well below the 1.5% projected in spring. This is primarily due to the fact that general government revenue increased markedly, despite the comprehensive tax reform. Higher-than-expected GDP growth and a tax-rich composition of growth helped achieve this result. Also, expenditure increased more slowly than in 2006.

Revenues as a share of GDP are expected to decline over the forecast period as the tax reform continues. Given rising public sector wages and slower growth, the general government deficit is projected to increase to 1.0% of GDP in 2008. It will, however, revert to 0.8% in 2009. The debt-to-GDP ratio is expected to decline further, falling below 24% in 2009.

Table 3.23.1

Main features of country forecast - SLOVENIA

	2006		92-03	Annual percentage change					
	bn Euro	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at previous year prices	30.4	100.0	3.2	4.4	4.1	5.7	6.0	4.6	4.0
Private consumption	16.3	53.4	3.8	3.0	2.7	4.0	4.2	4.0	3.5
Public consumption	5.9	19.2	2.8	3.1	3.2	4.4	2.6	3.0	2.6
Gross fixed capital formation	8.0	26.1	7.3	7.3	2.5	8.4	14.4	6.2	3.8
of which : equipment	3.1	10.0	9.9	8.7	2.7	8.6	12.0	6.0	5.0
Exports (goods and services)	20.5	67.4	3.1	12.5	10.1	12.3	13.3	10.2	8.9
Final demand	51.3	168.4	4.1	7.6	5.1	8.2	9.2	6.8	5.7
Imports (goods and services)	20.8	68.4	5.5	13.3	6.7	12.2	13.9	9.8	8.0
GNI at previous year prices (GDP deflator)	30.1	98.9	3.1	4.0	4.5	5.5	6.2	4.4	3.9
Contribution to GDP growth :									
Domestic demand			4.2	4.0	2.7	5.2	6.5	4.4	3.4
Stockbuilding			0.4	0.9	-0.5	0.6	0.0	0.0	0.0
Foreign balance			-1.4	-0.5	2.0	0.0	-0.5	0.1	0.6
Employment			-	0.3	0.2	1.2	2.2	0.9	0.5
Unemployment rate (a)			-	6.3	6.5	6.0	4.9	4.7	4.6
Compensation of employees/head			-	7.8	5.3	5.5	6.2	7.0	5.9
Real unit labour costs			-	0.2	-0.3	-1.0	-0.5	-0.9	-0.6
Savings rate of households (b)			-	-	13.8	13.0	13.6	13.0	12.5
GDP deflator			22.6	3.3	1.7	2.0	2.8	4.2	2.9
Private consumption deflator			21.9	3.0	2.4	2.5	3.5	3.7	2.9
Harmonised index of consumer prices			-	3.7	2.5	2.5	3.5	3.7	2.9
Trade balance (c)			-2.6	-3.8	-3.7	-3.9	-4.9	-3.9	-3.1
Current account balance (c)			0.6	-2.6	-2.0	-2.8	-3.5	-2.6	-1.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			0.6	-2.5	-1.9	-2.6	-3.3	-2.6	-1.9
General government balance (c)			-	-2.3	-1.5	-1.2	-0.7	-1.0	-0.8
Cyclically-adjusted budget balance (c)			-	-1.5	-0.8	-1.1	-1.1	-1.4	-1.0
Structural budget balance (c)			-	-1.5	-0.8	-1.1	-1.1	-1.4	-1.0
General government gross debt (c)			-	27.6	27.4	27.1	25.6	24.5	23.8

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

24. Slovakia

Rapid growth contributes to lower unemployment

Activity in 2007

In 2006, real GDP growth increased to 8¼%. It was primarily driven by domestic demand but the external contribution also entered positive territory. In 2007, data for the first two quarters suggest that economic growth may accelerate further to around 8¾%. It should still be mainly driven by domestic demand, particularly by investment and private consumption, but the external growth contribution is likely to become stronger.

Private consumption growth is expected to increase to some 7% in 2007, benefiting from strong real wage and employment growth. Continued big investment projects in the corporate sector should keep gross fixed capital formation growth above 7%. New export capacities in the manufacturing sector are likely to keep export growth at around 20%, outpacing imports by some 4 pps.

A rapidly falling trade deficit should lead to a decrease in net borrowing from the rest of the world to around 4¼% of GDP in 2007.

Prospects for 2008 and 2009

Economic expansion is expected to gradually decelerate to around 7% and 6¼% in 2008 and 2009 respectively. Domestic demand is likely to remain the main driving force of growth. The positive external contribution should peak in 2007, when most of the new export capacities enter production, while remaining positive in 2008 and 2009.

A steadily improving labour market situation

combined with strong credit growth is expected to continue to support private consumption growth, which, despite slowing down, is likely to remain at above 5% over the forecast period. Gross fixed capital formation should decelerate only marginally as Slovakia continues to attract new FDI projects. Decelerating investment, consumption and exports should contribute to a slowdown in import growth, while the continued launching of new production capacities in the manufacturing sector is likely to ensure that exports continue to outpace imports over the forecast horizon.

Increasing net exports should lead to further improvements in the external balances in 2008 and 2009.

Labour market, costs and prices

Total employment is expected to increase by some 2% in 2007 while the unemployment rate is likely to decrease to close to 11%. Similar, though slower, trends are anticipated in 2008 and 2009 as strong domestic demand and newly built export production capacities are expected to continue to provide additional employment opportunities. Nominal unit labour costs growth is likely to accelerate from 2007 onwards, due to decelerating productivity growth.

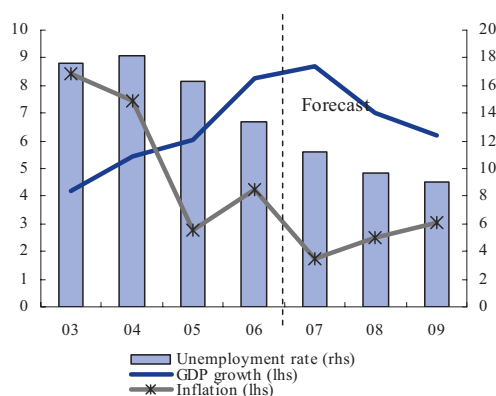
Thanks to lower increases in regulated prices in the energy sector at the beginning of 2007 and the positive impact of exchange rate appreciation, HICP inflation is anticipated to drop to around 1¾% in 2007. An increase in excise taxes on cigarettes and accelerating electricity, water and food prices are expected to push the annual average HICP inflation up to some 2½% in 2008. The fading out of the positive impact of the exchange rate pass-through combined with higher energy prices and a further increase in the excise taxes on cigarettes should cause HICP inflation to increase further to some 3% in 2009.

Public finances

The general government deficit (including the pension reform costs) increased to 3¾% of GDP in 2006, but was still some ½ pp. lower than foreseen in the 2006 budget, mainly thanks to lower-than-budgeted co-financing needs for EU-sponsored projects.

In 2007, stronger-than-expected economic growth is likely to result in higher tax and dividend revenue

Graph 3.24.1: Slovakia - GDP, unemployment and inflation



which together with lower-than-expected interest expenditure should enable the government to bring the deficit below its target of 2.9% of GDP despite higher-than-foreseen transfers to the second pension pillar. However, as in previous years, the positive impact of better-than-expected fundamentals may again be partly offset by some unbudgeted expenditures.

In 2008, revenue-increasing measures adopted by the government should generate additional revenue of around ¼% of GDP. These measures include a broadening of the corporate tax base, an increase in the maximum ceiling on social contributions and the introduction of energy taxes. At the same time, pension eligibility criteria are anticipated to be slightly tightened.

Moreover, the government is considering some modifications to the second pension pillar, which was introduced in 2005. Potential significant reductions in contributions redirected to the second pillar (currently

expected at some 1¼% of GDP) could induce a lower deficit outcome than the government's current 2008 target of 2.3% of GDP, if not offset by unbudgeted public spending.

Under the customary no-policy-change assumption, the budget deficit (including the pension reform costs) is projected to increase to some 2½% of GDP in 2009, due to decelerating growth.

Gross public debt is expected to remain broadly stable over the forecast period, thanks mainly to strong GDP growth.

Table 3.24.1

Main features of country forecast - SLOVAKIA

	2006		92-03	Annual percentage change					
	bn SKK	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at constant prices	1638.0	100.0	-	5.4	6.0	8.3	8.7	7.0	6.2
Private consumption	941.8	57.5	-	4.2	7.0	6.1	6.9	6.2	5.6
Public consumption	297.4	18.2	-	2.0	-0.6	4.1	2.1	2.9	2.8
Gross fixed capital formation	432.1	26.4	-	5.0	17.5	7.3	7.2	6.6	6.1
of which : equipment	230.3	14.1	-	-0.5	24.0	15.2	10.2	8.6	7.4
Exports (goods and services)	1402.2	85.6	-	7.9	13.8	20.7	19.9	12.6	9.1
Final demand	3116.2	190.2	-	7.0	10.9	13.0	12.1	8.9	7.1
Imports (goods and services)	1478.2	90.2	-	8.8	16.6	17.8	15.9	11.0	8.1
GNI at constant prices (GDP deflator)	1588.4	97.0	-	6.7	2.9	7.7	8.7	7.1	6.2
Contribution to GDP growth :									
Domestic demand			-	4.0	8.2	6.1	6.2	5.7	5.2
Stockbuilding			-	2.3	0.6	0.4	-0.3	0.1	0.1
Foreign balance			-	-0.9	-2.8	1.7	2.7	1.2	0.9
Employment			-	-0.3	1.4	2.3	1.9	1.5	1.0
Unemployment rate (a)			-	18.2	16.3	13.4	11.2	9.7	9.0
Compensation of employees/head			-	9.2	5.1	7.7	7.1	6.9	7.3
Real unit labour costs			-	-2.7	-1.8	-1.0	-2.1	-1.3	-0.9
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			-	6.0	2.4	2.7	2.5	2.6	3.0
Private consumption deflator			-	7.4	2.6	5.1	2.3	2.6	3.1
Harmonised index of consumer prices			-	7.5	2.8	4.3	1.7	2.5	3.0
Trade balance (c)			-	-3.8	-5.9	-5.9	-2.4	-1.2	-0.4
Current account balance (c)			-	-2.5	-7.9	-7.7	-4.4	-2.9	-2.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-2.3	-8.1	-7.9	-4.2	-2.7	-1.6
General government balance (c)			-	-2.4	-2.8	-3.7	-2.7	-2.3	-2.4
Cyclically-adjusted budget balance (c)			-	-1.6	-2.1	-3.4	-3.0	-2.7	-2.6
Structural budget balance (c)			-	-1.6	-1.1	-3.4	-3.0	-2.7	-2.6
General government gross debt (c)			-	41.4	34.2	30.4	30.8	30.7	30.6

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

25. Finland

Buoyant growth and rapid wage increases

Activity in 2007

According to preliminary national accounts data, YoY GDP growth reached 5.5% and 4.4% in the first and second quarter of 2007 respectively, well above the potential growth estimate of about 3%. This represents only a slight deceleration from 2006, when GDP growth reached 5% for the year. Growth has remained broad-based, with a strong contribution from foreign demand. However, export prices have persistently risen considerably more slowly than import prices. The resulting strong negative terms-of-trade effect together with relatively subdued wage growth has limited the upward pressures on domestic demand. Private consumption growth slowed down in the second quarter, but this does not seem to signal a comprehensive turn in consumer behaviour. Household confidence has remained steady at high levels and optimism is likely to be supported by rapidly rising wages in the coming years. Investment growth accelerated strongly in the first half of 2007, especially on account of non-residential construction and equipment investment. As in the previous year, exports are driven mainly by the metal engineering industries, which benefit from robust global demand for investment goods. Leading indicators point that growth should remain overall buoyant in the second half of 2007.

Prospects for 2008 and 2009

Economic growth is forecast to gradually moderate from the cyclical peak in 2006 and 2007. The main stimulus to growth over the forecast period is expected to come from private consumption. In 2008,

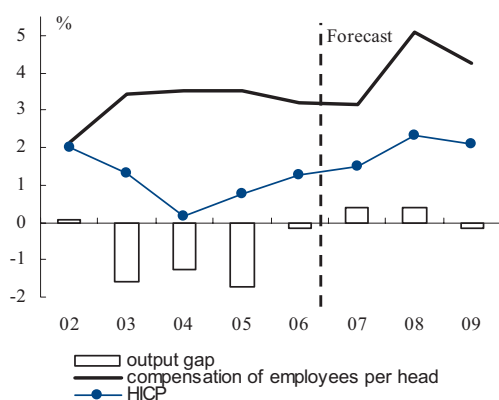
this should be supported by a rapid rise in wage growth, but will abate in 2009 in line with slowing disposable income growth. Higher interest rates and a relatively high household debt burden should curb consumer spending as well as housing investment. Nonetheless, investment growth is still expected to be upheld in 2008 by a sharp rise in government sector investment and capital expenditure in industry encouraged by continued high capacity utilisation rates. However, these factors are forecast to subside in 2009. Government consumption will rise markedly in 2008 on account of the new government frontloading its expenditure increases. Thereafter, government expenditure is forecast to slow in 2009, helped also by the programme to boost productivity in the public sector. Export growth is expected to be increasingly constrained by capacity constraints in the metal engineering industry, which is still expected to remain the fastest growing branch of industry. Export prospects in the wood and paper industries appear less favourable over the medium term, threatened by a sharp rise in Russian round-wood export duties in the coming years, which could effectively cut a significant source of raw-wood imports.

Labour market, costs and prices

Employment growth has been exceptionally fast over 2006-2007, expanding by about 2% annually. Persistent labour shortages are evident in some industrial, construction and service branches and the number of job vacancies has been rising steadily. The employment rate is expected to surpass 70% of the working age population in 2007 and rise further in 2008 and 2009, albeit at a decelerating pace. Unemployment is predicted to drop below 6½ % of the labour force by 2009, which is close to its estimated structural level. The growing tightness in the labour market combined with decelerating economic activity should gradually constrain employment growth.

The labour market bottlenecks did not lead to a noticeable wage drift in 2007 as wages remained strongly guided by the previous central wage agreement. The next round of wage agreements will be settled at sector level. They are likely to reflect some of the wage pressures that have built up over the past few years. Wage growth is set to accelerate sharply in 2008, reflecting also some frontloading of wage rises, followed by a slow down in the following

Graph 3.25.1 : Finland - Wages and Inflation



year. As a result, unit labour costs should rise considerably faster in 2008-2009 than on average over the previous decade.

During the first half of 2007, HICP inflation remained stable overall, although a slight acceleration was visible in the core index. At the same time, CPI inflation accelerated sharply during the first half of 2007 to about 2½% YoY. This is about 1 pp. higher than HICP growth, due to differences in the index basket. The national index basket includes owner-occupied housing and interest rate costs. After several years of subdued inflation, HICP inflation is expected to peak temporarily at 2½% in 2008, of which ½ pp. is explained by alcohol and energy tax hikes and rising health care fees. Inflation should decelerate in 2009 as these temporary factors fade. Also, the foreseen cuts in food VAT rates in the last quarter of 2009 should reduce consumer price growth. Nevertheless, due to the rapidly rising wages and unit labour costs, annual average inflation is forecast to remain slightly above 2% over the forecast period.

Public finances

The general government surplus is expected to peak in 2007 at 4½% of GDP, which is the highest level it has been during the current cyclical upswing. The bulk of the surplus originates from social security accumulating pension fund assets, which has in the recent years consistently recorded a surplus of 3% of GDP. The current rise in the surplus is driven by central government, where expenditure ceilings have helped to maintain expenditure restraint during the good economic times. Also, local governments have recorded marginally stronger fiscal balances on the back of strong tax and non-tax revenues. The frontloading of the new government expenditure in 2008 will reduce the surplus to about 4% of GDP in 2008 and also in 2009. The government debt ratio is projected to decline steeply, to about 30% of GDP by 2009.

Table 3.25.1

Main features of country forecast - FINLAND

	2006		92-03	Annual percentage change					
	bn Euro	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at constant prices	167.1	100.0	2.7	3.7	2.9	5.0	4.3	3.4	2.8
Private consumption	85.9	51.4	2.1	3.0	3.8	4.3	3.5	3.4	2.3
Public consumption	36.3	21.7	0.7	1.8	1.7	1.0	1.1	2.2	1.7
Gross fixed capital formation	32.0	19.1	1.5	3.6	3.7	4.1	5.3	4.0	3.1
of which : equipment	8.5	5.1	2.3	0.4	0.7	2.6	4.4	4.4	3.2
Exports (goods and services)	74.4	44.5	8.9	8.6	7.1	10.4	5.8	5.2	5.1
Final demand	232.7	139.3	3.5	4.8	5.4	5.7	4.2	3.8	3.2
Imports (goods and services)	65.7	39.3	6.2	7.8	12.2	8.3	3.9	4.6	4.2
GNI at constant prices (GDP deflator)	167.9	100.5	2.9	5.9	2.7	5.1	4.4	3.4	2.8
Contribution to GDP growth :									
Domestic demand			1.4	2.5	3.0	3.2	3.1	3.0	2.2
Stockbuilding			0.2	0.2	1.1	-0.1	0.2	0.0	0.0
Foreign balance			1.3	1.0	-1.1	1.3	1.0	0.5	0.6
Employment			0.1	0.4	1.4	1.8	1.8	0.8	0.3
Unemployment rate (a)			12.2	8.8	8.4	7.7	6.7	6.4	6.3
Compensation of employees/head			2.8	3.6	3.8	2.8	3.3	5.1	4.3
Real unit labour costs			-1.6	-0.4	2.0	-1.5	-1.2	0.1	-0.1
Savings rate of households (b)			-	-	7.7	5.5	4.2	4.6	4.6
GDP deflator			1.8	0.6	0.2	1.2	1.9	2.3	1.8
Private consumption deflator			2.0	1.0	0.1	1.4	1.7	2.1	1.9
Harmonised index of consumer prices			1.9	0.1	0.8	1.3	1.5	2.4	2.1
Trade balance (c)			8.7	6.7	4.9	5.3	5.8	5.7	5.6
Current account balance (c)			4.6	7.7	4.9	4.7	5.2	5.1	5.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			4.7	7.8	5.1	5.9	5.3	5.2	5.1
General government balance (c)			-0.7	2.3	2.7	3.8	4.6	4.2	4.0
Cyclically-adjusted budget balance (c)			0.1	3.0	3.7	4.1	4.4	3.9	4.0
Structural budget balance (c)			-	3.0	3.7	4.1	4.4	3.9	4.0
General government gross debt (c)			48.8	44.1	41.4	39.2	35.7	32.4	29.8

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

26. Sweden

Strong economy and healthy public finances here to stay

Activity in 2007

In the first half of 2007, the Swedish economy has continued to grow at a good pace, albeit more slowly than the historically high growth rate recorded in 2006. GDP growth has been supported by favourable domestic conditions, such as a marked increase in disposable incomes, following from lower taxes, higher wages and a rapid increase in employment. Investments have also been booming, supported by high capacity utilisation, good profitability in the enterprise sector and a rapid expansion of residential construction. Moreover, solid local government finances have contributed to resilient public consumption growth.

Nonetheless, private consumption has not provided the strong boost to the economy that might have been expected. Rather consumers appear to be only slowly reacting to the increase in disposable incomes, implying a rise in the savings ratio. External demand has also softened with declining export growth of goods. This is partly due to a weakening international investment cycle, but may also be attributed to an unfavourable composition of exports, a strengthening of the exchange rate and capacity problems in the export sector.

All in all, real GDP growth is forecast to moderate to about 3½% in 2007, with a negative contribution from net exports for the first time since 1998.

Prospects for 2008 and 2009

In the coming two years, the economy is projected to decelerate gradually to about 3% in 2008 and 2½% in

2009. This is slightly below estimated potential growth rates.

Notably, investment growth is expected to normalise as production capacity is restored and interest rates increase. No clear signs of a slowdown in real estate prices are yet visible, but slower residential construction is nonetheless likely to contribute to weaker investment growth, owing notably to emerging labour shortages and higher construction costs. While private consumption is eventually expected to respond to the earlier increase in disposable incomes as well as to additional income tax cuts, consumers are still likely to remain cautious due to the uncertainty associated with the financial market turbulence in 2007. Consequently, private consumption is not anticipated to provide any strong impetus to GDP growth over the forecast period and the savings ratio is expected to remain high.

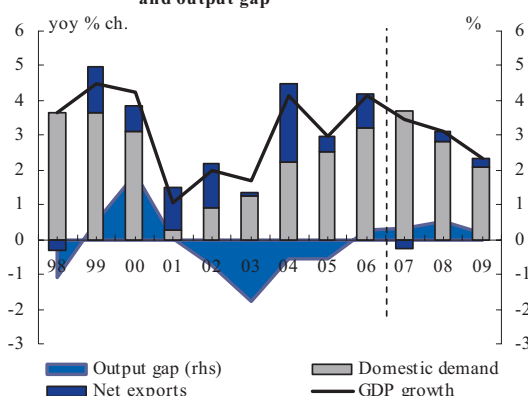
Following from the increase in production capacity, export growth is foreseen to recover somewhat, but will be contained by slower US growth and a deceleration of growth in the other Nordic countries. Nevertheless, net exports are estimated to contribute again to GDP growth as import demand declines, although only marginally.

Labour market, costs and prices

The labour market has strengthened markedly in 2007, partly due to a pent-up need for new hiring after a period of jobless growth and partly as a result of various labour market measures taken by the government. Employment growth is estimated to exceed 2% and unemployment is set to fall by about 1 pp. in 2007 to around 6%. The labour market is expected to remain strong in 2008 and 2009, but unemployment is projected to level out at around 5½% as the effects of the government's labour market policies will also increase labour supply.

Amidst a strong economic expansion, increased demand for labour and high profitability, the 2007 wage negotiation round will lead to higher wage growth over the forecast period, exceeding 4½%. Higher wage growth, combined with weaker productivity growth, is predicted to lead to rising unit labour costs and to have a negative impact on competitiveness.

Graph 3.26.1: Sweden - GDP growth, growth contributions and output gap



During 2007, inflation has gradually picked up, though from a very low level. Increasing domestic cost pressures and rising food prices are projected to contribute to a further gradual increase in inflation to about 2% in 2008 and 2009. As both headline and underlying inflation is increasing, the Riksbank is expected to continue tightening monetary policy and to increase its repo rate in 2008.

Public finances

In particular owing to healthy economic growth, the public finances situation is currently strong. Despite various expansionary elements contained in the 2007 budget, including reductions of both income and wealth taxes, the strengthening of the labour market has contributed to both higher-than-foreseen tax revenue and lower expenditure. As a result, the surplus is anticipated to increase to about 3% of GDP in 2007.

These underlying trends are forecast to spill over into the coming years and the budgetary target (1% surplus

over a 7-year rolling period) is likely to be met with a significant margin over the whole forecast period, with fiscal surpluses in the range of 2¾-3% in both 2008 and 2009. In parallel, further income tax cuts and a policy aimed at containing public expenditure are expected to lead to a continued reduction of both revenue and expenditure as a share of GDP.

On the basis of continued high general government surpluses, the government debt ratio is projected to be further reduced to about 30% of GDP in 2009. This reduction is supported by the government's plans to sell stakes in various state-owned enterprises that are estimated to amount to roughly 2 percent of GDP per year.

Table 3.26.1

Main features of country forecast - SWEDEN

	2006		Annual percentage change							
	bn SEK	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	2831.7	100.0		2.1	4.1	2.9	4.2	3.4	3.1	2.4
Private consumption	1338.2	47.3		1.4	2.2	2.4	2.8	3.0	3.5	3.0
Public consumption	759.2	26.8		0.7	0.4	0.3	1.8	1.8	1.3	0.7
Gross fixed capital formation	507.3	17.9		0.9	6.4	8.1	7.9	10.1	4.6	2.5
of which : equipment	210.3	7.4		4.3	6.5	12.9	5.2	14.0	5.1	2.7
Exports (goods and services)	1451.3	51.3		7.2	11.1	6.6	8.7	5.6	6.0	5.7
Final demand	4056.3	143.2		2.8	5.1	4.1	5.4	4.6	4.1	3.5
Imports (goods and services)	1224.5	43.2		5.1	7.0	6.9	7.9	7.2	6.4	6.0
GNI at constant prices (GDP deflator)	2849.3	100.6		2.4	3.0	2.8	4.8	3.3	3.1	2.3
Contribution to GDP growth :										
Domestic demand				1.0	2.2	2.6	3.2	3.7	2.8	2.1
Stockbuilding				0.1	-0.4	-0.1	0.0	0.0	0.0	0.0
Foreign balance				1.0	2.3	0.4	1.0	-0.3	0.3	0.3
Employment				-0.3	-0.6	0.4	1.8	2.0	1.0	0.3
Unemployment rate (a)				7.4	6.3	7.4	7.1	6.1	5.8	5.7
Compensation of employees/head				4.2	3.7	3.2	2.0	4.2	4.3	4.2
Real unit labour costs				-0.1	-1.1	-0.5	-2.1	0.4	-0.4	-0.2
Savings rate of households (b)				-	-	11.6	11.4	12.0	13.1	12.3
GDP deflator				1.9	0.2	1.2	1.8	2.4	2.5	2.4
Private consumption deflator				2.3	0.8	1.3	1.3	1.8	2.2	2.1
Harmonised index of consumer prices				2.0	1.0	0.8	1.5	1.6	2.0	2.0
Trade balance (c)				5.9	6.7	5.5	5.5	4.8	5.0	5.1
Current account balance (c)				3.1	6.5	5.8	6.9	7.1	7.0	7.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				2.8	6.5	5.9	6.3	7.0	6.9	7.2
General government balance (c)				-2.9	0.8	2.4	2.5	3.0	2.8	3.0
Cyclically-adjusted budget balance (c)				-2.1	1.0	2.5	2.1	2.7	2.3	2.8
Structural budget balance (c)				-	0.5	2.1	2.1	2.7	2.3	2.6
General government gross debt (c)				63.7	52.4	52.2	47.0	41.1	35.7	30.5

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

27. The United Kingdom

Slower growth and higher expenditure weaken public finances

Activity in 2007

Economic activity in the first three quarters of 2007 continued on the strong path of the previous year, with GDP growth of 0.8% in each quarter. Looking ahead, however, it seems increasingly likely that the recent turbulence in world financial markets and the global re-pricing of risk will have a dampening effect on the UK economy in the near to medium term. As a result, economic activity in the final quarter of 2007 is likely to moderate; overall GDP growth in 2007 is expected to reach 3.1% after 2.8% in 2006.

The economy's continued expansion in the first half of this year was primarily driven by robust growth in private consumption, boosted by wealth effects from resilient house price growth. Growth in real disposable household income, however, remained muted, leading to a further fall in the saving ratio to only 2.6%, compared to 5.0% in 2006. In the second half, private consumption growth is expected to remain positive, but to weaken slightly as house price growth moderates and consumer borrowing slows due to a more restrictive overall credit environment and an increase in precautionary savings.

Total investment growth decelerated in the first half of the year, following vigorous growth in 2006. The moderation was mainly driven by business investment, which stalled after strong growth over the second half of 2006. Going forward, gradually tightening credit conditions should temper the growth of overall investment.

Government consumption and expenditure relating to the building up of inventories also provided a minor

additional stimulus to growth in the first half, and the former is expected to pick up throughout the rest of 2007. Net external demand is expected to make a small negative growth contribution in 2007 as a whole, with the external deficit around 3% of GDP.

Prospects for 2008 and 2009

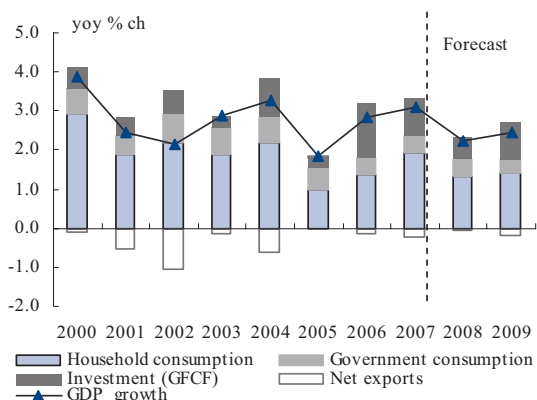
The economic outlook for the next two years is largely shaped by developments in the housing market and the financial sector, both of which are likely to dampen growth in 2008.

The central outlook envisages a slowing of private consumption over the forecast period, driven primarily by a slowdown in house price growth and a related weakening of wealth effects on consumption. In addition, household spending growth is also likely to slow on account of a more restrictive borrowing environment. Whilst positive employment growth and moderate increases in earnings will support private consumption, its contribution to overall growth will probably be somewhat weaker over the coming years.

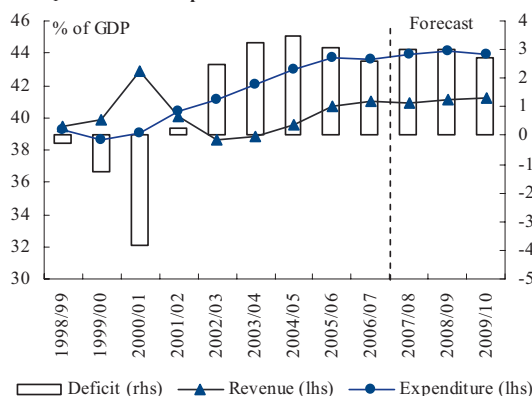
Investment is also set to slow in 2008 on account of tighter lending conditions for corporations. Both the availability and the price of corporate credit have tightened since the summer and are expected to become more difficult over the near to medium term. This will dampen business investment in 2008, though investment should return to robust levels in 2009 due to healthy corporate profitability and mounting pressures on productive capacity, particularly in manufacturing.

Government spending looks set to continue providing

Graph 3.27.1: UK - GDP growth and contributions



Graph 3.27.2: UK - public finances



a moderate stimulus in 2008, with revised plans envisaging somewhat higher overall expenditure in 2008 than expected at the time of the spring forecast.

The growth contribution of net external demand is expected to improve in 2008, when net exports move from constituting a slight drag on growth to being almost neutral. This development is driven by a slowdown in imports in line with the predicted moderation of domestic demand growth, and outweighs the growth of exports due to more subdued growth in key markets such as the US and the euro area⁽¹⁾. Income account receipts will weaken somewhat due to global financial developments, but overall should still be supported by resilient global growth, thus continuing to help finance the UK's substantial trade deficit. The external account is therefore likely to remain in deficit, of around 3½% of GDP over the forecast period.

In summary, growth in the UK economy is expected to slow to 2.2% in 2008. The expected recovery to around 2½% in 2009 will be mainly thanks to a pick-up in investment. This central scenario is subject to downside risks. Future developments in the financial sector are still highly uncertain but could prove pivotal, given the relatively large size of the UK's financial sector: a protracted downturn in financial sector activity would have a direct impact on both growth and employment.

Labour market, costs and prices

The labour market continues to perform well, with high rates of employment (projected at 71.4% in 2007) and low unemployment. Over the forecast period employment growth is expected to slow slightly as a result of a general moderation in activity. The supply of labour is also projected to increase at a slower pace, reflecting reduced immigration, and leading to a stable unemployment rate over the next two years.

Indications of the labour market tightening slightly in 2007 have so far not translated into upward pressure on average earnings growth. Future earnings and wage growth are not expected to diverge from a broadly stable trend, and a fall in HICP inflation over

the summer months to below 2% has eased the likelihood of stronger increases in wages in the months ahead. HICP inflation looks set to settle at just above 2% in 2008, with risks from food and energy price developments tilted to the upside over the medium term.

Public finances

Following the reduction in the general government deficit in the 2006/07 financial year⁽²⁾, slower than expected economic growth and an increase in planned spending are expected to have significant adverse effects on public finances. The deficit in the UK is forecast to rise to around 3% of GDP in 2007/08 and to remain around the same level in 2008/09.

The general government deficit in 2006/07 was 2.6% of GDP, 0.1 pp. lower than that estimated in the spring 2007 forecast. The table below shows the financial-year projections for general government deficit and debt:

Public finances projections on a financial year basis (% of GDP)

	2006/07	2007/08	2008/09	2009/10
General government deficit	2.6	3.0	3.0	2.7
General government gross debt	42.6	43.3	44.5	45.2

In the current financial year, the deficit is expected to increase by 0.4 pp. of GDP in structural terms. The revenue-to-GDP ratio is now forecast to edge downwards from 2006/07, compared with an expectation in the spring of a moderate increase.

The slowdown in economic activity in the second half of the financial year is expected to lead to a deceleration in revenue growth. A discretionary increase in air passenger duty, coupled with measures aimed at reducing tax avoidance, should raise revenues by 0.2% of GDP, but is offset by higher tax repayments to companies overpaying corporate tax in previous years, which are expected to reduce intakes by 0.2% of GDP.

On the expenditure side, the projections assume that the government will meet its latest plans for non-

¹ The projections for export and import volumes in 2007 exclude the impact of Missing Trader Intra-Community (MTIC) fraud on trade figures.

² The United Kingdom financial year runs from April to March.

cyclical primary expenditure, as released in the October 2007 Pre-Budget Report and Comprehensive Spending Review. Total expenditure in 2007/08 is now projected to be 0.2% of GDP higher than envisaged in the March 2007 Budget, partly as a consequence of a national accounts reclassification.

The headline deficit in 2008/09 is expected to remain little changed from 2007/08. With growth slowing to below potential and the negative output gap widening further, the structural deficit is projected to fall by 0.1 pp. of GDP. Revenue growth is expected to slow, dampened by the weaker economic context, and more specifically by reduced corporate profitability, especially from the financial sector. Discretionary tax measures coming into force in April 2008 will have a neutral effect on public finances. In particular, increased revenues from the removal of the 10% starting rate of tax on employment income and the reduction in allowances for investment will largely finance reductions in the basic rate of personal income tax and in the main corporate tax rate.

On the other hand, the spending envelope set out by the government in its Comprehensive Spending Review implies a significant deceleration in spending. The expenditure-to-GDP ratio is nevertheless expected to rise slightly in 2008/09, with both current and capital expenditure contributing.

In 2009/10, the forecast projects some limited fiscal consolidation, with the deficit reduced to around 2¾% of GDP. The weak improvement is expected to be driven by the combined effect of a higher receipts ratio, partly discretionary but boosted by an improved macroeconomic context, and continued slower growth in government expenditure, which should contribute to a slight reduction in the expenditure ratio.

General government gross debt is expected to increase by 2½ pps. of GDP during the forecast period, up from 42.6% of GDP at the end of 2006/07.

Table 3.27.1

Main features of country forecast - THE UNITED KINGDOM

	2006		92-03	Annual percentage change					
	bn GBP	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at constant prices	1301.0	100.0	2.7	3.3	1.8	2.8	3.1	2.2	2.5
Private consumption	828.7	63.7	3.2	3.4	1.5	2.1	3.0	2.1	2.2
Public consumption	285.9	22.0	1.6	3.2	2.7	2.1	2.0	2.1	1.7
Gross fixed capital formation	233.5	17.9	3.7	5.9	1.5	8.2	5.3	2.9	4.8
of which : equipment	75.7	5.8	4.0	4.9	1.3	6.7	4.4	3.1	5.7
Exports (goods and services)	369.5	28.4	5.5	4.9	8.2	10.3	6.1	5.5	5.8
Final demand	1718.9	132.1	3.6	4.0	3.0	4.5	3.9	3.0	3.3
Imports (goods and services)	418.5	32.2	6.5	6.6	7.1	9.8	6.2	5.2	5.8
GNI at constant prices (GDP deflator)	1318.1	101.3	3.0	3.4	1.7	2.1	2.9	2.1	2.4
Contribution to GDP growth :									
Domestic demand			3.0	3.8	1.8	3.2	3.3	2.3	2.6
Stockbuilding			0.1	0.1	-0.1	-0.2	0.0	0.0	0.0
Foreign balance			-0.4	-0.6	0.1	-0.2	-0.2	-0.1	-0.2
Employment			0.7	1.0	0.9	0.8	0.5	0.4	0.6
Unemployment rate (a)			7.1	4.7	4.8	5.3	5.3	5.4	5.3
Compensation of employees/head			4.3	4.3	4.3	5.0	4.3	4.5	4.3
Real unit labour costs			-0.4	-0.5	1.1	0.3	-1.4	0.5	0.1
Savings rate of households (b)			-	-	5.6	5.1	3.6	4.0	4.4
GDP deflator			2.7	2.6	2.3	2.6	3.1	2.1	2.3
Private consumption deflator			2.5	1.7	2.5	2.4	2.3	2.1	2.0
Harmonised index of consumer prices			1.9	1.3	2.1	2.3	2.4	2.2	2.0
Trade balance (c)			-2.7	-5.1	-5.6	-6.0	-5.8	-6.1	-6.3
Current account balance (c)			-1.5	-1.6	-2.5	-3.2	-3.1	-3.5	-3.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-1.4	-1.5	-2.3	-3.2	-3.0	-3.4	-3.4
General government balance (c)			-2.7	-3.4	-3.3	-2.7	-2.8	-3.0	-2.8
Cyclically-adjusted budget balance (c)			-2.6	-3.6	-3.2	-2.5	-2.7	-2.8	-2.6
Structural budget balance (c)			-	-3.6	-3.2	-2.8	-2.7	-2.8	-2.6
General government gross debt (c)			44.1	40.4	42.1	43.2	43.6	44.8	45.6

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

Chapter 4

Candidate Countries

1. Croatia

Robust performance continues

Developments in 2007

In the first half of 2007, real GDP growth accelerated to 6.8%, up from 4.8% in 2006. Growth continued to be driven by continued efficiency gains as well as accelerated employment growth. From the demand side, it is supported by strong domestic demand. Private and public consumption growth accelerated markedly and gross fixed capital formation spending remained strong, supported by an expansion of private sector investments. High-frequency indicators suggest a continuation of relatively strong economic activity in the third quarter. Industrial production expanded by 5.7% and retail trade by 8.2% year on year on average in July and August.

Average annual consumer price inflation declined slightly from 3.3% in 2005 to 3.2% in 2006. Despite a recent increase in agricultural and food prices, average inflation declined further to 2.2% in the first nine months of 2007. Real wage growth remained broadly in line with productivity gains.

The current account deficit stood at 7.8% of GDP in the twelve months to June 2007, unchanged compared to 2006. The merchandise trade deficit remained at 24.7% of GDP while trade in services posted a surplus of 16.9% of GDP. In the twelve months to June, net inflows of FDI reached 9.1% of GDP, up from 7.4% in 2006, and were largely driven by privatisation and recapitalisation of banks.

In the first half of 2007, total revenues of the general government increased by 13.1% year-on-year, while spending rose by 6.7%, resulting in a small cash surplus of 0.3% of GDP. The stock of general

government debt stood at 38% of GDP at the end of June 2007.

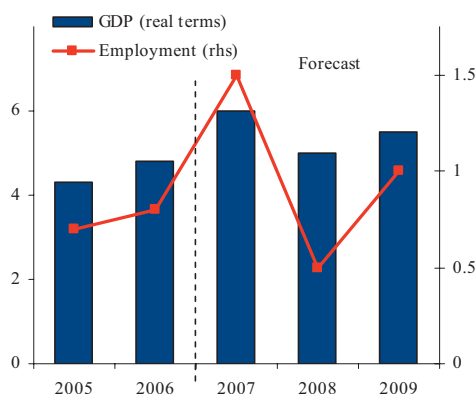
Prospects for 2008 and 2009

The economic performance is expected to remain robust over the forecast horizon. Growth will continue to be driven by strong domestic demand. In 2007, real GDP growth is forecast to accelerate to around 6%, from 4.8% in 2006. Continued strong credit growth and consumer confidence, debt repayments to pensioners, increases in wages and social transfers as well as realised capital gains by private households will contribute to stronger private consumption growth. Recent increases in public sector wages and the expansion of spending in the pre-election context will lead to a marked acceleration of public consumption. Investment growth remains at double-digit levels, supported by strong private investor confidence and a generally supportive business environment. In 2007, imports of goods and services will continue to rise faster than exports, and the contribution of net exports is set to turn more negative. However, in 2008 and 2009 the negative contribution will become smaller, as export growth will accelerate as a result of a relatively favourable external environment, increased competitiveness and a stronger tourism sector.

Some of the effects that are boosting domestic demand in 2007 will weaken in 2008. In particular, one-off payments to pensioners will be lower and public consumption is set to decelerate after the elections. Also, central bank measures to restrict credit growth may eventually have some impact on private households' spending. As a result, GDP growth will slow somewhat, to 5%, in 2008. In line with the general trend of past years, and supported by previous capital accumulation, strong confidence and firmer prospects of EU accession, a slight acceleration of growth is again foreseen for 2009.

The size and composition of external balances is forecast to remain rather stable over the forecast horizon. The trade deficit is forecast to stay at around 24.5% of GDP. Exports will further increase, but are unlikely to outperform imports, which will continue to be driven by domestic consumption and a high import content of exports and investments. A slight lowering of the current account deficit to 8% of GDP will result mainly from a better performance of tourism. Net inflows of foreign direct investment are

Graph 4.1.1: Croatia - GDP and employment (annual percentage growth)



expected to finance a significant part of the current account deficit.

Labour market, costs and prices

Growth and investment dynamics are expected to lead to an acceleration of employment growth in 2007, though it will slow somewhat thereafter. This allows a reduction of the unemployment rate to around 10% at the end of the forecast period. Due to a stable environment with relatively low inflation, a significant increase in wage pressures is unlikely to occur, despite expected wage hikes in some public companies. Average real wages are forecast to grow more slowly than average productivity gains, leading to a lowering of real unit labour costs.

Despite recent increases in agricultural and food prices, annual average consumer price inflation is forecast to further decrease to 2.5% in 2007. It is expected to slightly increase to 3% in 2008 and 2009, driven by further adjustments of administrative prices and catching-up effects.

Public finances

Due to strong revenue growth, combined with some additional spending in the revised 2007 budget, the general government deficit (ESA 95) is projected to remain at around 2.2% in 2007. Lower increases of government consumption in 2008 and 2009 will support a gradual and minor deficit reduction. At the same time, spending on social transfers and subsidies will remain strong. The public debt ratio is expected to be reduced to slightly above 37% of GDP by 2009. Debt reduction will continue to be supported by revenues from privatisation, although they will slightly decline relative to GDP over the forecast horizon.

Table 4.1.1

Main features of country forecast - CROATIA

	2006		92-03	Annual percentage change					
	bn HRK	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at constant prices	250.6	100.0	-	4.3	4.3	4.8	6.0	5.0	5.5
Private consumption	140.3	56.0	-	4.8	3.4	3.5	5.5	3.0	3.9
Public consumption	50.4	20.1	-	-0.3	0.8	2.2	3.5	2.5	2.5
Gross fixed capital formation	74.8	29.8	-	5.0	4.9	10.9	12.0	9.5	10.0
of which : equipment	-	-	-	-	-	-	-	-	-
Exports (goods and services)	120.0	47.9	-	5.7	4.6	6.9	7.1	8.2	8.8
Final demand	392.8	156.8	-	4.4	4.0	5.7	6.8	5.7	6.5
Imports (goods and services)	139.6	55.7	-	4.6	3.5	7.3	8.2	6.9	7.9
GNI at constant prices (GDP deflator)	242.4	96.7	-	6.1	3.5	4.6	6.2	5.0	5.5
Contribution to GDP growth :									
Domestic demand			-	4.3	3.7	5.7	7.7	5.4	6.1
Stockbuilding			-	0.1	0.6	0.2	-0.1	-0.1	0.0
Foreign balance			-	-0.1	0.1	-1.1	-1.6	-0.3	-0.6
Employment			-	1.7	0.8	0.8	2.6	0.5	1.0
Unemployment rate (a)			-	13.6	12.6	11.1	11.0	10.8	10.2
Compensation of employees/head			-	3.2	4.1	6.3	7.1	6.4	6.5
Real unit labour costs			-	-3.2	-2.5	-1.0	0.9	-1.8	-1.3
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			-	3.9	3.2	3.4	2.7	3.7	3.3
Private consumption deflator			-	2.0	3.4	2.9	2.5	3.0	3.0
General index of consumer prices			-	2.0	3.3	3.2	2.5	3.0	3.0
Trade balance (c)			-	-23.5	-24.1	-24.4	-24.9	-24.5	-24.6
Current account balance (c)			-	-5.1	-6.4	-7.8	-8.5	-8.1	-8.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-5.0	-6.2	-8.2	-	-	-
General government balance (c)			-	-4.1	-3.8	-2.2	-2.2	-2.1	-2.0
Cyclically-adjusted budget balance (c)			-	-	-	-	-	-	-
Structural budget balance (c)			-	-	-	-	-	-	-
General government gross debt (c)			-	43.2	43.7	40.8	39.6	38.5	37.3

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

2. The former Yugoslav Republic of Macedonia

Some acceleration of growth ahead

Developments in 2007

Output expanded by some 5½% during the first half of the year, compared to 3½% the year before. A key impulse for this improved growth dynamic came from the export sector, which benefited from strong global demand for basic materials. Private consumption and investment remained in line with the overall performance. Industrial output rose only moderately so far, reflecting lower production of electricity and textiles. For the whole year, real GDP growth is expected to be close to 5%.

Employment increased by nearly 4% in the first half of 2007, mainly due to a strong rise in self-employment. The number of unemployed declined by about ½%. These two factors brought the average unemployment rate down from 36.2 % in the first half of 2006 to 35.4 % in the first half of 2007.

Inflation declined to 1.4% year-on-year during the first nine months of the year, reflecting the petering out of the base effect of last year's increase in excise taxes. For the whole year, consumer price inflation is set to reach some 1¾%, mainly as a result of higher food prices after the dry summer.

External imbalances continued to narrow during the first half of 2007. The trade deficit dropped to some 13% of GDP, compared to nearly 20% a year before, benefiting from a favourable development of external demand and rising metal prices. Private transfers remained high, at some 17% of GDP, compared to 16% the year before. As in the past, the main component of those inflows was workers' remittances. Overall, the current account showed a significant

surplus in mid-2007. However, stronger domestic demand during the second half of the year and an expected dividend payment abroad could bring the current account deficit to close to 3% of GDP.

Public finances registered marked surpluses during the first half of the year, resulting from a stronger revenue performance and lower-than-planned public investment. The authorities have recently adopted additional spending measures, which could bring the deficit close to 1% of GDP. Mainly as a result of already implemented early debt repayments, the debt ratio is likely to drop significantly to some 27% of GDP by the end of the year.

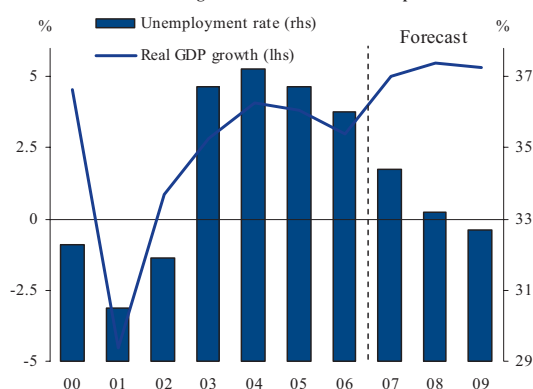
Prospects for 2008 and 2009

For 2008 and 2009, the positive impact of the global economy is expected to subside, in particular given the expected growth moderation in the country's main trading partners. Nevertheless, the country's overall growth performance is likely to be higher than in the past, benefiting not only from stronger consumer confidence, but also from the positive effects of recently taken structural measures to improve the business environment. As a result, domestic demand is likely to increasingly support economic dynamics, compensating the weakening external impulse.

Overall, economic activity is expected to accelerate further, with GDP growth at some 5½% in 2008. In 2009, less buoyant export markets will be the main factors dampening growth to some 5¼%. The biggest contribution to this acceleration will come from private (domestic and foreign) investment, reaping the benefits of the recent measures to improve the business environment. As a result, the investment-to-GDP ratio is expected to converge towards levels observed in other catching-up economies. Private consumption will be another important pillar for stronger growth, benefiting from improving consumer confidence, increased employment and low inflation, which will translate into a strong increase in real disposable income. Public consumption will rise faster than GDP in 2008, reflecting an already adopted strong rise in public sector wages and a more active fiscal policy stance, leading to higher expenditures.

The increasing role of domestic demand and in particular the high import content of investment will lead to a negative contribution of net exports to GDP

Graph 4.2.1: The former Yugoslav Republic of Macedonia - Real GDP growth and labour market performance



growth. The trade balance is likely to deteriorate, in particular in 2008. However, workers' remittances and other capital inflows are expected to largely finance those deficits.

Labour market, costs and prices

The stronger growth performance will translate into additional employment and a decline in the unemployment rate. Given the very low employment ratio, a large part of the new jobs will be filled by so far unregistered labour. This will dampen the decline in the number of unemployed. Overall, employment is expected to increase by close to 4% on average in 2008 and 2009, in particular in the category of self-employed. Unemployment is likely to decline to some 33% of the labour force.

Consumer price inflation is likely to remain low. Increasing wages and higher energy prices will lead to an acceleration in inflation. However, the de facto peg to the euro will help to keep import prices close to EU levels and the reduction in the tax burden will dampen

the increase in the cost of living. Thus, annual inflation is likely to remain below 3% over the forecast period.

Public finances

Rising expenditure, in particular on the country's infrastructure and institutions, will result in a shift from the close-to-balance deficits or surpluses of the previous years to higher deficits in the near future. In 2008, the deficit is expected to reach 1½% of GDP. In 2009, higher revenues, benefiting from the stronger role of domestic demand and improved efficiency in tax collection, could reduce the deficit towards 1¼% of GDP. The debt ratio is expected to continue to decline, reflecting strong nominal GDP growth and a continued policy of repaying public debt early. As a result, the debt-to-GDP ratio could fall to some 23% by 2009.

Table 4.2.1

Main features of country forecast - THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

	2006		92-03	Annual percentage change					
	bn MKD	Curr. prices		% GDP	2004	2005	2006	2007	2008
GDP at constant prices	304.7	100.0	-	4.1	4.1	3.1	5.0	5.5	5.3
Private consumption	237.9	78.1	-	8.0	5.7	3.8	5.0	6.0	5.0
Public consumption	57.8	19.0	-	0.1	0.4	3.0	4.0	6.0	4.5
Gross fixed capital formation	59.8	19.6	-	10.9	-5.4	9.0	11.6	12.5	14.0
of which : equipment	25.2	8.3	-	3.8	-6.7	3.1	12.0	12.0	15.0
Exports (goods and services)	145.7	47.8	-	12.9	13.6	-	14.8	12.6	10.6
Final demand	515.3	169.1	-	8.6	5.8	-	8.3	8.6	7.7
Imports (goods and services)	206.1	67.6	-	16.7	8.7	14.5	15.5	12.8	10.8
GNI at constant prices (GDP deflator)	305.7	100.3	-	4.0	3.9	4.4	4.0	5.5	5.3
Contribution to GDP growth :									
Domestic demand			-	-	-	-	-	-	-
Stockbuilding			-	-	-	-	-	-	-
Foreign balance			-	-	-	-	-	-	-
Employment			-	-2.2	2.1	4.7	3.7	4.1	3.5
Unemployment rate (a)			-	37.2	36.7	36.0	34.4	33.2	32.7
Compensation of employees/head			-	-	-	-	-	-	-
Real unit labour costs			-	-	-	-	-	-	-
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			-	1.3	3.8	3.1	2.1	2.8	2.9
Private consumption deflator			-	0.9	0.8	2.9	2.0	2.5	2.7
General index of consumer prices			-	-0.4	0.5	3.2	1.8	2.3	2.7
Trade balance (c)			-	-20.7	-18.2	-20.2	-22.4	-23.3	-23.9
Current account balance (c)			-	-7.7	-1.4	-0.4	-2.8	-4.1	-3.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-7.7	-1.4	2.6	-	-	-
General government balance (c)			-	0.0	0.2	-0.6	-0.9	-1.5	-1.3
Cyclically-adjusted budget balance (c)			-	-	-	-	-	-	-
Structural budget balance (c)			-	-	-	-	-	-	-
General government gross debt (c)			-	40.0	46.9	39.4	27.0	25.0	23.0

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

3. Turkey

Sustained growth in a context of reduced fiscal imbalances

Developments in 2007

Real GDP growth fell from 6.1% in 2006 to 5.3% in the first half of 2007, chiefly due to weaker private consumption, which was partly driven by the tighter monetary stance, higher interest rates and lower lending. Public consumption and investment increased by respectively 8% and 25% in the first six months of 2007. The contributions of the external sector changed substantially. Imports grew at 7% in 2006 and by 6% in the first half of 2007. Export growth rose from 8½% in 2006 to 13½% in the first six months of 2007.

Inflation fell significantly after going up in early 2006, in large part due to faltering price pressures in the service sector. Consumer price inflation fell from around 11% in 2006 to 7% in the third quarter of 2007, still far above the year-end target of 4%. Meanwhile high real interest rates of above 10% per annum are inviting large capital inflows and putting upward pressure on the Turkish lira.

After three years of strong growth with almost no job creation, employment started to rise in 2007 by roughly 2% annually. The labour force participation rate increased to 49½% in mid-2007. These trends together led to a stable unemployment rate of just below 10%.

The current account deficit stabilised – partly reflecting falling domestic demand in the first half of the year – at just below 8%. FDI inflows increased, and covered about two thirds of the current account deficit in the first half of 2007.

Prospects in 2008 to 2009

The overall picture for the forecasting period looks rather favourable. Turkey should be able to increase export growth in particular in tourism while the monetary and fiscal policy mix will support the disinflation process. A gradual decline in inflationary pressures will allow a fall in interest rates and improve the investment climate. Overall, economic activity is expected to rise gradually from about 5% in 2007 to 6½% in 2009. Output growth is expected to be increasingly balanced, with private consumption and equipment investment growth mitigating lower public consumption and construction growth.

As inflation declines, growth of disposable income will accelerate, which allows the private sector to increase consumption growth from 3 in 2007 to 5½% in 2009. Fixed investment will fall slightly as it continues to benefit from reduced macroeconomic and political uncertainty and declining real interest rates.

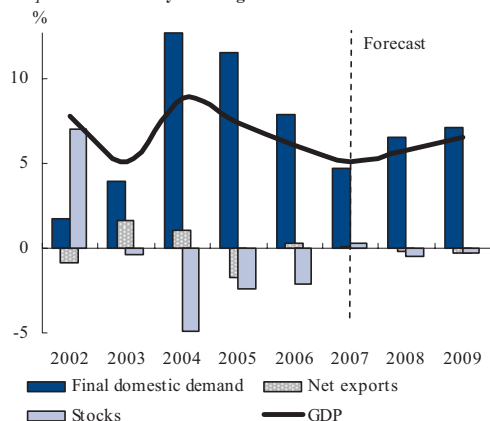
On the other hand, the build-up of stocks is slowing down. Strong investment and higher consumption growth will lead to continued high growth of imports, in particular of consumer durables and capital goods. Exports are buoyant and are benefiting from diversification and quality improvements resulting from earlier high investments.

Growth of imports will remain strong, partially reflecting a rather high import content of exports. In 2008-2009 exports will gradually start benefiting from a weaker currency. The current account deficit is therefore projected to grow moderately, from 8% of GDP in 2007 to 9% of GDP in 2009. A higher surplus of the services balance should contribute to maintain positive medium-term prospects in the external sector.

Labour market, costs and prices

In line with economic expansion, employment is forecast to increase by about 1½% per year. This will lead to a gradual reduction of the unemployment rate from 10% in 2007 to 9% in 2009. The trend in declining inflationary pressures is likely to continue as from 2007. Fiscal discipline and the increasing credibility of the Central Bank's disinflation targets are important elements in this respect. 12-month consumer price inflation is expected to fall below 6% by the end of 2008 and to 4½% at the end of 2009.

Graph 4.3.1: Turkey - GDP growth and contributions



However, high oil and food prices might slow down the disinflation process.

Public finances

In the first half of the election year 2007, fiscal policy was loosened significantly. However, corrective measures are under way, and a primary surplus of 5% of GDP is likely to be achieved in 2006. This still substantial surplus and strong GDP growth led to a reduction in the debt ratio, from 60½% of GDP at the end of 2006 to 54% at the end of 2007. General government interest payments have fallen from about 17% of GDP in 2003 to 7% of GDP in 2007. In addition, public sector balances will be affected by higher interest rates, higher public spending and a slowdown in privatisation. 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 balance is expected to change from a surplus of ½%

of GDP in 2006 to a deficit of 1% of GDP in 2007. In 2008 and 2009, a budgetary surplus of respectively ¼% of GDP and 1¼ is projected as a result of gradual fiscal tightening and falling interest rates.

General government debt is expected to further decline gradually, albeit at a decelerating pace, to less than 50% in 2009. The government has been making progress in lengthening the average maturity and swapping foreign denominated into lira-denominated debt. However, Turkey pays relatively high interest rates on its debt, which highlights its relative high vulnerability to interest and exchange-rate volatility and rollover risk as the average maturity of its domestic debt remains relatively short.

Table 4.3.1

Main features of country forecast - TURKEY

	2006		Annual percentage change							
	bn TRY	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	535.5	100.0	3.4	8.9	7.4	6.1	5.1	5.8	6.5	
Private consumption	367.3	68.6	2.5	10.6	9.1	5.0	3.0	4.8	5.3	
Public consumption	56.8	10.6	3.4	0.5	2.4	9.6	5.9	5.1	4.8	
Gross fixed capital formation	121.1	22.6	1.1	32.4	24.0	14.0	8.5	11.0	11.9	
of which : equipment	61.0	11.4	3.2	55.4	23.8	10.9	6.0	10.0	10.5	
Exports (goods and services)	173.0	32.3	11.5	12.5	8.5	8.5	10.0	7.4	7.5	
Final demand	734.7	137.2	4.8	13.6	8.7	6.5	5.8	6.3	6.7	
Imports (goods and services)	221.1	41.3	9.8	24.7	11.5	7.1	7.8	7.7	7.3	
GNI at constant prices (GDP deflator)	538.5	100.6	3.2	9.5	7.6	6.2	4.9	5.6	6.4	
Contribution to GDP growth :										
Domestic demand			2.7	13.0	11.1	7.5	4.7	6.5	7.1	
Stockbuilding			0.7	0.9	-2.0	-1.6	0.1	-0.2	-0.3	
Foreign balance			-0.1	-4.2	-1.6	0.0	0.3	-0.5	-0.3	
Employment			0.5	3.0	1.4	1.2	1.5	1.5	1.6	
Unemployment rate (a)			8.0	10.3	10.2	9.9	9.7	9.5	8.9	
Compensation of employees/head			63.5	16.5	11.6	6.0	11.2	9.0	7.9	
Real unit labour costs			-3.1	0.3	0.0	-9.3	2.4	1.9	-0.2	
Savings rate of households (b)			-	-	-	-	-	-	-	
GDP deflator			64.2	9.9	5.4	11.5	4.9	2.7	3.1	
Private consumption deflator			64.8	7.4	5.8	10.9	7.5	5.3	5.1	
General index of consumer prices			-	10.1	8.1	9.3	7.6	5.9	5.0	
Trade balance (c)			-8.4	-10.3	-10.9	-12.2	-10.1	-10.7	-11.2	
Current account balance (c)			-2.7	-6.2	-6.7	-7.8	-7.9	-8.6	-9.3	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-	-	-	-	-	-	
General government balance (c)			-	-5.8	-0.3	0.4	-0.7	0.2	1.3	
Cyclically-adjusted budget balance (c)			-	-	-	-	-	-	-	
Structural budget balance (c)			-	-	-	-	-	-	-	
General government gross debt (c)			-	76.9	69.6	60.7	54.1	50.0	46.8	

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

Chapter 5

Other non-EU Countries

1. The United States of America

Better net exports cushion the housing-led downturn

Moderate growth in 2007 despite housing recession

The US economy is expanding at a moderate rate in 2007. GDP growth was 1.9% higher in the second quarter in year-on-year terms. The exceptional weakness in the housing sector has so far remained relatively contained with little spillover to consumer spending. However, the crisis in the sub-prime mortgage market and the recent turmoil in credit and money markets have the potential to restrain economic growth further.

The slide in residential construction explains most of the downshift in economic growth to below potential. It has subtracted 1 pp. from GDP growth over the past four quarters. There was some offset from booming non-residential construction and improving net exports, but equipment investment decelerated to a relatively subdued pace. The main support for economic activity over the past year was continued solid growth in consumer spending at close to 3%. According to the latest revision of national account data, this was exclusively based on gains in disposable personal income and was not supported by a fall in the personal saving rate as in previous years.

The labour market is softening this year with the unemployment rate edging up from a cyclical low of 4.4% in March. At the same time, inflationary pressures are receding with the year-on-year increase in the price index of core personal consumption expenditure falling below 2%. The trade deficit is declining against the background of a weaker dollar, rapid economic growth in many export markets and slower domestic growth. Export volumes were 6.8%

higher year-on-year in the first half of 2007 compared to only 2.5% for import volumes. As a consequence of the improving trade performance, the current account deficit declined from 6.1% of GDP (in national account terms) in 2006 to 5.4% in the first half of 2007. The fiscal deficit of general government fell to 2.6% of GDP in 2006, but has not declined any further.

The housing slump will depress consumption

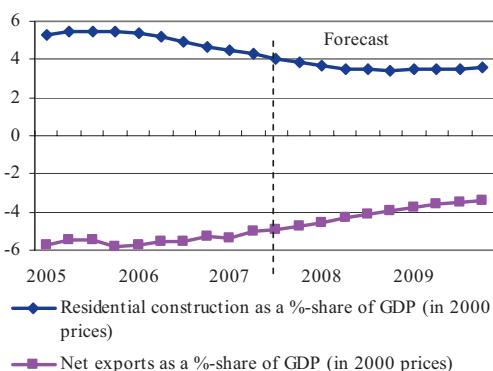
The correction in the housing market is turning out to be more pronounced and more protracted than expected. An already sharp downward trend in housing demand has been aggravated by the recent deterioration in financing conditions. Forward-looking indicators of housing demand point to further weakness in the near term. The forecast now projects that residential construction will continue to decline into the third quarter of next year. This will subtract 0.6 pp. from annual GDP growth in 2008. In addition, the spillover to the broader economy is expected to become significant. Average house prices have started to fall on a year-on-year basis by some measures. A 15-20% decline over two years seems quite plausible considering the unusually large overhang of unoccupied housing. The resulting wealth effect on households, in combination with stagnating employment, is projected to lower consumer spending growth to 1.3% in 2008. Furthermore, non-residential construction can be expected to moderate significantly over the next two years and equipment investment should remain subdued.

... but net exports will support GDP growth.

On the positive side, net exports are expected to offset a significant part of the weakness in domestic demand. Already this year, net exports are contributing to GDP growth for the first time since 1995. In the next two years, this contribution is projected to increase to 0.6-0.7 pp. The ongoing reallocation of productive resources from housing to tradables is shown in Graph 5.1.1.

In a context of moderating inflationary pressures, the Federal Reserve is likely to counter the expected slowing in economic activity with further cuts in short-term interest rates. This should help economic activity to pick up speed from the second half of 2008 onwards.

Graph 5.1.1: USA - House building down - net exports up



Prospects for 2008 and 2009

The US economy is still likely to register annual GDP growth of 2.1% in 2007, although the final quarter is projected to be weaker due to declining consumer spending growth. In the first half of 2008, annualised GDP growth is projected to fall to close to 1%. Subsequently, when the drag from falling residential construction subsides, GDP growth will start to recover. The upturn will be slow at first, but in 2009 quarterly growth rates should exceed long-term potential. Consumer spending is projected to remain relatively depressed throughout the forecasting period in a lagged reaction to lower house prices. Annual GDP growth is projected to fall to 1.7% in 2008 before recovering to 2.6% in 2009.

Unemployment, on a quarterly basis, is projected to rise to 5.5% by the end of next year before falling back slightly in 2009. In view of more slack in overall resource utilisation, overall consumer price inflation is expected to recede to 1.5% year-on-year in 2009.

Household saving as a share of disposable income is projected to rise by 1.3 pps. over the next two years. The balance of payments will improve further with the current account deficit falling into the range of 4-5% of GDP. The fiscal deficit of general government, on the other hand, will again exceed 3% of GDP as tax revenues decelerate.

The significant downward adjustment relative to the spring forecast of projected growth for 2008 is largely a consequence of the worsened outlook for the housing sector. Downside risks to growth from this part of the economy remain, particularly because the fall-out from the recent housing-related financial turmoil may turn out worse than currently expected. Moreover, there are continued downside risks associated with the large current account deficit and a possible disruptive adjustment. But there are also upside risks, in particular from the foreign trade side. The recent gain in international competitiveness might boost net exports even more than projected which would provide an additional contribution to growth.

Table 5.1.1

Main features of country forecast - THE UNITED STATES

	2006			Annual percentage change						
	bn USD	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	13194.9	100.0	3.2	3.6	3.1	2.9	2.1	1.7	2.6	
Private consumption	9224.5	69.9	3.6	3.6	3.2	3.1	2.9	1.3	1.4	
Public consumption	2089.3	15.8	1.6	1.8	0.9	1.6	1.6	1.8	1.9	
Gross fixed capital formation	2596.3	19.7	5.3	6.0	5.9	2.5	-1.6	-0.9	2.8	
of which : equipment	1149.1	8.7	7.6	7.0	9.2	6.0	1.0	2.1	3.0	
Exports (goods and services)	1467.7	11.1	4.7	9.7	6.9	8.4	7.4	8.5	7.8	
Final demand	15424.5	116.9	3.7	4.6	3.5	3.3	2.1	1.7	2.6	
Imports (goods and services)	2229.6	16.9	8.1	11.3	5.9	5.9	2.5	1.8	2.6	
GNI at constant prices (GDP deflator)	13252.9	100.4	3.2	3.8	3.0	2.8	2.1	1.6	2.5	
Contribution to GDP growth :										
Domestic demand			3.6	3.9	3.5	2.9	2.0	1.0	1.8	
Stockbuilding			0.0	0.4	-0.2	0.1	-0.4	-0.1	0.2	
Foreign balance			-0.5	-0.7	-0.2	-0.1	0.4	0.7	0.6	
Employment (*)			1.3	0.9	1.4	1.9	1.1	0.0	0.7	
Unemployment rate (a)			5.5	5.5	5.1	4.6	4.6	5.3	5.4	
Compensation of employees/head			3.7	4.3	3.6	3.9	4.7	3.6	3.4	
Real unit labour costs			-0.1	-1.3	-1.3	-0.2	1.3	0.4	0.1	
Savings rate of households (b)			-	-	3.8	3.2	3.5	3.8	4.8	
GDP deflator			1.9	2.9	3.2	3.2	2.4	1.5	1.5	
Private consumption deflator			2.0	2.6	2.9	2.8	2.4	1.8	1.5	
General index of consumer prices			-	2.7	3.4	3.2	2.7	1.9	1.5	
Trade balance (c)			-3.2	-5.9	-6.4	-6.5	-6.1	-5.8	-5.3	
Current account balance (c)			-2.4	-5.4	-5.9	-6.1	-5.4	-4.9	-4.3	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-2.4	-5.4	-6.0	-6.1	-5.4	-4.9	-4.4	
General government balance (c)			-2.3	-4.4	-3.6	-2.6	-2.7	-3.2	-3.4	
Cyclically-adjusted budget balance (c)			-	-	-	-	-	-	-	
Structural budget balance (c)			-	-	-	-	-	-	-	
General government gross debt (c)			65.1	62.3	62.6	62.1	60.2	61.6	62.8	

(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

Expansion to remain resilient

An erratic growth pattern in 2007

After posting a robust 2.2% GDP growth rate in 2006, the Japanese economy experienced a new temporary soft patch, with a 1.2% quarter-on-quarter annualised GDP contraction in the second quarter of 2007. However, this bad performance can be seen as a compensation of the very strong GDP growth recorded in the two preceding quarters, namely (+5.6% and +3.0%) and, on average, the economic situation remains generally sound with GDP growth still around potential in the first half of 2007.

In the first quarter of the year, household consumption turned out to be unexpectedly dynamic before slowing down in the following quarter. After four years of very strong expansion, business investment has contracted during the first two quarters of 2007. As a result, Japanese import growth remained contained in the first half of 2007 while export growth (in particular in the first quarter) showed an impressive dynamism, reflecting, notably, the resilience of Asian economies (especially non-China Asia). Therefore, while the Japanese expansion had been broadening beyond the export-related sector over the past years, net exports continued contributing to almost half of the GDP expansion in the first half of the year.

Recent indicators suggest that the economic expansion will continue to show some sluggishness until the beginning of next year. The political turbulence and the pension mess – in which the government lost the records of around 50 million pensioners – have probably contributed to the decline in consumer confidence. As a result, household

consumption growth is forecast to be subdued, albeit positive, until the end of the year. The September Tankan survey showed high business confidence, in particular among large manufacturers, but there are some growing concerns about small and medium-sized enterprises that face deteriorating conditions (especially in terms of squeezed profit margins). The recent turmoil in financial markets and the related possibility of a rapid unwinding of carry trades (and of a sharp appreciation of the yen) have also tilted the balance of risks to the Japanese near-term economic outlook to the downside.

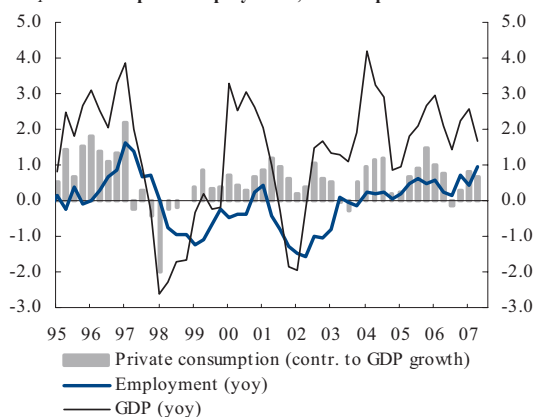
Prospects for 2008 and 2009

Looking ahead, the fundamentals of the Japanese economy are favourable overall and suggest that the Japanese expansion will remain on track. Until now, the strengthening of the labour market (the unemployment rate has been steadily declining from an average of 5.2% in 2003 to 3.8% in August) has failed to translate into higher employee compensation. This disappointing outcome is mainly explained by the increasing number of highly paid baby-boomers' retiring and being replaced by lower-paid young employees and by the increasing recruitment of part-time workers, whose pay is on average well below that of full-timers. The demographic effect (of the retirement and replacement of the baby-boomers) is expected to be less significant in 2008. Firm business activity and current labour shortages are thus forecast to yield higher wage growth. This should be supportive to consumer demand. On the corporate front, once the current uncertainties dissipate, business investment is forecast to pick up again, supported by favourable external demand conditions, in particular from the rest of Asia, a sound financial situation (due in particular to historically high profits) and the end of the inventory-cycle adjustment. The external environment should also remain growth-friendly: net exports are expected to contribute positively to GDP growth although this contribution will gradually decline as import growth speeds up in line with the acceleration of domestic demand. All in all, GDP growth is forecast to decelerate towards 1.9% in 2007 and 2008 before reaccelerating to 2.3% in 2009.

Price and monetary developments

The global economic slowdown, tightened financial conditions and still entrenched mild deflation have

Graph 5.2.1: Japan - Employment, consumption and GDP



prompted the Bank of Japan to postpone the policy rate hike that was expected last August. In September, the BoJ's core CPI (excluding fresh food only) remained unchanged at -0.1% year-on-year while the headline index declined by -0.2% year-on-year. The core CPI (excluding food and energy) also remained in negative territory at -0.3% year-on-year. In this environment, market participants expect that the policy rate will, at the earliest, be raised at the turn of the year. However, although domestic objectives must prevail, the Bank of Japan should continue to monitor the external implications of its ultra-loose monetary stance and, at some point, some normalisation will have to be implemented.

Government finances have yet to be put on a sustainable path

Thanks to cyclical revenue buoyancy (in particular through corporate taxes) and sustained expenditure cuts, noteworthy progress has been recorded in the past fiscal year. The primary deficit for the general

government (excluding social security) is thus projected to decline to about 1% of GDP in FY2007 from over 5% four years ago but the debt-to-GDP ratio remains unsustainable and the Japanese authorities' medium-term fiscal consolidation programme is still not ambitious enough. The plan was presented in July 2006 and is designed in two stages: first, to achieve a primary surplus (excluding social security) by FY2011, then to reduce the debt-to-GDP ratio by the mid-2010s. FY2006's over-performance implies only further modest adjustment requirements to reach the first goal in 2011. Moreover, achieving a primary surplus will not be sufficient to stabilise the debt-to-GDP ratio and some new tax initiatives should be envisaged in order to increase fiscal revenues. The debate about the possibility of increasing tax revenues (in particular through a comprehensive tax reform and a higher consumption tax rate – currently at 5%) is about to start, but the recent election reversals for the ruling coalition may make it more difficult to push ahead with fiscal consolidation.

Table 5.2.1

Main features of country forecast - JAPAN

	2006			Annual percentage change						
	bn YEN	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	507693.2	100.0	0.9	2.7	1.9	2.2	1.9	1.9	2.3	
Private consumption	288122.6	56.8	1.3	1.6	1.6	0.9	1.7	1.6	1.8	
Public consumption	90919.3	17.9	2.9	1.9	1.7	0.4	0.7	0.8	0.7	
Gross fixed capital formation	120846.1	23.8	-1.3	1.4	2.4	3.4	0.8	2.6	4.5	
of which : equipment	-	-	-	-	-	-	-	-	-	
Exports (goods and services)	81756.3	16.1	4.1	13.9	7.0	9.6	7.7	7.3	8.1	
Final demand	583101.0	114.9	1.1	3.2	2.3	2.4	2.0	2.3	3.0	
Imports (goods and services)	75407.8	14.9	3.5	8.1	5.8	4.5	3.4	7.0	8.8	
GNI at constant prices (GDP deflator)	522111.6	102.8	1.0	2.9	2.3	2.7	2.1	2.0	2.5	
Contribution to GDP growth :										
Domestic demand			0.8	1.6	1.7	1.3	1.3	1.6	2.1	
Stockbuilding			0.0	0.3	-0.1	0.1	-0.2	-0.1	-0.2	
Foreign balance			0.1	0.8	0.3	0.8	0.8	0.4	0.3	
Employment			-0.2	0.2	0.4	0.4	0.3	0.1	0.2	
Unemployment rate (a)			3.9	4.7	4.4	4.1	3.9	4.0	4.0	
Compensation of employees/head			0.2	-1.3	0.2	1.1	1.2	1.7	1.8	
Real unit labour costs			-0.4	-2.7	0.0	0.3	0.0	0.1	-0.3	
Savings rate of households (b)			-	-	10.1	10.6	10.5	10.8	10.6	
GDP deflator			-0.5	-1.1	-1.3	-0.9	-0.4	-0.2	0.0	
Private consumption deflator			-0.2	-0.7	-0.8	-0.3	-0.5	-0.2	0.2	
General index of consumer prices			-	0.0	-0.3	0.2	0.0	0.2	0.5	
Trade balance (c)			2.6	2.8	2.1	1.9	2.4	2.4	2.3	
Current account balance (c)			2.6	3.7	3.6	4.0	4.7	4.8	4.8	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			2.5	3.6	3.5	3.9	4.6	4.6	4.6	
General government balance (c)			-5.4	-6.2	-6.4	-4.6	-4.0	-4.2	-4.7	
Cyclically-adjusted budget balance (c)			-	-	-	-	-	-	-	
Structural budget balance (c)			-	-	-	-	-	-	-	
General government gross debt (c)			112.2	167.3	172.1	176.3	179.5	182.4	184.6	

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

3. China

Buoyant growth sustains world economy

Economic growth remained very strong in the first half of 2007

After a (revised) growth rate of 11.1% in 2006, GDP growth accelerated to 11.5% YoY in the first half of 2007. As in the past, the key factors behind this higher-than-expected growth were net merchandise exports and a reacceleration of investment in fixed assets (still accounting for almost 50% of overall GDP). Driven by rising per capita disposable income, private consumption growth also accelerated to 16.4% year-on-year in July.

The growth rate of investment and industrial production, which had slowed somewhat in the second half of 2006 in response to policy actions to curb investment, reaccelerated again in the first six months of 2007. GDP growth in the third quarter also reached 11.5% YoY, underlining the strength of the Chinese economy. Therefore, the current forecast of a growth rate of 11.2% for 2007 as a whole already implies a significant deceleration in the remaining months of this year.

Inflation accelerating...

Inflation, which had been benign in 2006 (average CIP rise by 1.5% year-on-year) accelerated to 2.7% year-on-year in February 2007 and to 6.2% in September, primarily due to a rise in food prices by around 18% on the year. Against this background and in the run-up to the Party Congress this October, the central government announced a price freeze for all goods and services and direct government control up to the end of the year. Inflation for the year 2007 as a

whole, however, is still likely to be around 4.5%.

With the renminbi (RMB) expected to appreciate further and slightly faster than so far and food prices normalising again, the rate of inflation in 2008 and 2009 is projected to decelerate again, in spite of continuous growth of around 10%, higher property prices, further hikes in administered energy and public utility prices, and higher raw material and production costs.

Monetary tightening

Partially in response to a higher-than-targeted expansion in money supply and the considerable rise in consumer prices, the People's Bank of China has taken various measures since mid-2006 to tighten monetary policy, including moral suasion on banks to strictly control credit flows to the overly invested sectors, seven increases in the benchmark lending rate (to 7.29% as of 15 September), and eleven increases in the reserve requirement ratio (to 13% effective as of 25 October). Against the background of ongoing strong growth performance, further tightening measures by the Central Bank are to be expected.

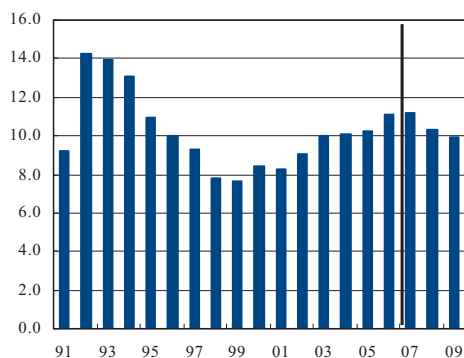
Trade and current account surpluses

According to Chinese customs data, exports in September were up by 22.8% year-on-year. With imports rising somewhat less rapidly, the trade surplus reached USD 23.91 billion in September alone, bringing the trade surplus for the first nine months of 2007 to USD 185.65 billion (up by 69% on the year). Therefore, it seems ever more likely that the 2007 trade surplus will considerably exceed USD 250 billion and the current account surplus could even come close to 10.5% of GDP, with current forecasts for 2008 both for the trade and for current account surplus even higher in absolute terms. The increase in foreign exchange reserves observed in the last four years – reserves up from USD 291 billion end-2002 to USD 1.3326 trillion end-June 2007 (excluding around USD 140 billion held in Hong Kong) – is therefore likely to continue, perhaps somewhat mitigated by growing investment abroad in the framework of the Qualified Domestic Institutional Investment scheme or through the newly created sovereign wealth fund.

Balanced general government budget?

Driven by substantially higher profit and local taxes, total fiscal revenues in the first six months of this year

Graph 5.3.1: China - GDP growth (annual % change)



were substantially higher (up by 30.6% on the year), reaching RMB 2.6 trillion. With fiscal expenditures up by 22.7% to RMB 1.8 trillion, the fiscal surplus reached RMB 819.8 billion, up by RMB 279.3 billion compared to the same period of 2006. These figures compare to a 2007 budget which – based on a real growth rate of 8% and a forecast for the CPI of 3% - expected an increase in total revenues (by all levels of government) of 12% and a rise in total expenditures of 15.7%, leaving a general government deficit of RMB 245 billion or 1.1% of GDP. On the basis of figures for the first half of this year, however, it seems likely that China will come very close to a balanced general government budget in the current year.

Growth outlook for 2008 and 2009

China's growth is expected to ease slightly to 10.3% in 2008 and 9.9% in 2009, reflecting earlier policy measures to rein in investment growth, likely further tightening moves and the expected deceleration in

world trade growth. However, net exports would remain an important source for growth.

With China's trade growth projected to remain relatively strong in 2008 and 2009, both trade and current account surplus are likely to rise further to unprecedented levels.

The balance of risks is very even, with domestic factors (liquidity of enterprises and pent-up demand in consumption and housing) pointing to an even higher growth rate, while the international environment and in particular developments in the United States entail downside risks.

Table 5.3.1

Main features of country forecast · CHINA

	2006		Annual percentage change							
	bn CNY	Curr. prices	% GDP	95-02	2003	2004	2006	2007	2008	2009
GDP at constant prices	21087.1	100.0		8.9	10.0	10.1	11.1	11.2	10.3	9.9
Private consumption	8012.1	38.0		--	--	--	--	--	--	--
Public consumption	3029.3	14.4		--	--	--	--	--	--	--
Gross fixed capital formation	9015.1	42.8		--	--	--	--	--	--	--
of which : equipment	--	--		--	--	--	--	--	--	--
Change in stocks as % of GDP	395.2	1.9		--	--	--	--	--	--	--
Exports (goods and services)	7759.5	36.8	14.3	14.3	28.7	27.1	47.8	21.0	15.0	12.9
Final demand										
Imports (goods and services)	6337.7	30.1	13.0	13.0	31.3	24.4	32.1	17.3	16.8	17.8
GNI at constant prices (GDP deflator)	--	--	--	--	--	--	--	--	--	--
Contribution to GDP growth :										
Domestic demand				--	--	--	--	--	--	--
Stockbuilding				--	--	--	--	--	--	--
Foreign balance				--	--	--	--	--	--	--
Employment				1.1	0.9	1.0	0.8	1.0	0.8	0.8
Unemployment (a)					4.3	4.2	4.1	4.0	3.9	3.9
Compensation of employees/head				--	--	--	--	--	--	--
Unit labour costs				--	--	--	--	--	--	--
Real unit labour costs				--	--	--	--	--	--	--
Savings rate of households				--	--	--	--	--	--	--
GDP deflator				2.5	3.0	6.7	1.3	4.0	3.5	3.2
Private consumption deflator				--	--	--	--	--	--	--
Index of consumer prices (c)				6.4	-0.8	1.2	1.5	4.5	3	2.8
Trade balance (b)				3.2	2.7	3.1	8.2	9.5	8.3	7.7
Current account balance (b)				1.9	2.8	3.6	9.3	10.4	9.4	8.0
Net lending(+) or borrowing(-) vis-à-vis ROW (b)				--	--	--	--	--	--	--
General government balance (b)				-1.6	-2.2	-1.3	-0.7	0.0	0.5	1
General government gross debt (b)				16.9	19.2	18.5				

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

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STATISTICAL ANNEX: AUTUMN 2007 ECONOMIC FORECAST

TABLE 1 : Gross domestic product, volume (percentage change on preceding year, 1992-2009)

24.10.2007

	5-year averages						2007		2008		2009		
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
	Belgium	1.5	2.6	2.0	1.0	3.0	1.7	2.8	2.3	2.7	2.2	2.1	:
Germany	1.4	2.1	0.9	-0.2	1.1	0.8	2.9	2.5	2.5	2.4	2.1	:	2.2
Ireland	6.2	9.0	5.3	4.3	4.3	5.9	5.7	5.0	4.9	4.0	3.5	:	3.8
Greece	1.1	4.2	4.0	5.0	4.6	3.4	4.3	3.7	4.1	3.7	3.8	:	3.7
Spain	1.5	4.4	3.3	3.1	3.3	3.6	3.9	3.7	3.8	3.4	3.0	:	2.3
France	1.2	3.0	1.7	1.1	2.5	1.7	2.0	2.4	1.9	2.3	2.0	:	1.8
Italy	1.1	2.1	0.7	0.0	1.2	0.1	1.9	1.9	1.9	1.7	1.4	:	1.6
Cyprus	5.5	4.2	3.1	1.8	4.2	3.9	3.8	3.8	3.8	3.9	3.9	:	3.9
Luxembourg	2.6	6.3	4.4	2.1	4.9	5.0	6.1	5.0	5.2	4.7	4.7	:	4.5
Malta	5.0	3.4	1.7	-0.3	0.1	3.1	3.2	3.0	3.1	2.8	2.8	:	2.9
Netherlands	2.5	3.7	1.4	0.3	2.2	1.5	3.0	2.8	2.7	2.6	2.6	:	2.5
Austria	2.0	2.6	1.9	1.2	2.3	2.0	3.3	2.9	3.3	2.5	2.7	:	2.4
Portugal	1.6	3.8	0.7	-0.7	1.5	0.5	1.3	1.8	1.8	2.0	2.0	:	2.1
Slovenia	2.0	4.3	4.2	2.8	4.4	4.1	5.7	4.3	6.0	4.0	4.6	:	4.0
Finland	1.3	4.6	3.0	1.8	3.7	2.9	5.0	3.1	4.3	2.7	3.4	:	2.8
Euro area	1.4	2.8	1.6	0.8	2.0	1.5	2.8	2.6	2.6	2.5	2.2	:	2.1
Bulgaria	-2.8	2.0	5.7	5.0	6.6	6.2	6.1	6.1	6.3	6.2	6.0	:	6.2
Czech Republic	2.3	1.2	4.5	3.6	4.5	6.4	6.4	4.9	5.8	4.9	5.0	:	4.9
Denmark	2.6	2.4	1.9	0.4	2.1	3.1	3.5	2.3	1.9	2.0	1.3	:	1.4
Estonia	:	6.2	9.0	7.2	8.3	10.2	11.2	8.7	7.8	8.2	6.4	:	6.2
Latvia	-8.8	6.2	9.0	7.2	8.7	10.6	11.9	9.6	10.5	7.9	7.2	:	6.2
Lithuania	-8.4	5.0	8.0	10.3	7.3	7.9	7.7	7.3	8.5	6.3	7.5	:	6.3
Hungary	0.6	4.6	4.3	4.2	4.8	4.1	3.9	2.4	2.0	2.6	2.6	:	3.4
Poland	4.9	4.4	4.1	3.9	5.3	3.6	6.1	6.1	6.5	5.5	5.6	:	5.2
Romania	1.4	-0.9	6.1	5.2	8.5	4.1	7.7	6.7	6.0	6.3	5.9	:	5.8
Slovakia	:	2.7	5.6	4.2	5.4	6.0	8.3	8.5	8.7	6.5	7.0	:	6.2
Sweden	1.2	3.2	3.0	1.7	4.1	2.9	4.2	3.8	3.4	3.3	3.1	:	2.4
United Kingdom	2.5	3.1	2.6	2.8	3.3	1.8	2.8	2.8	3.1	2.5	2.2	:	2.5
EU27	1.4	2.9	2.0	1.3	2.5	1.8	3.0	2.9	2.9	2.7	2.4	:	2.4
USA	3.3	3.5	2.7	2.5	3.6	3.1	2.9	2.2	2.1	2.7	1.7	:	2.6
Japan	1.4	0.5	1.7	1.4	2.7	1.9	2.2	2.3	1.9	2.1	1.9	:	2.3

TABLE 2 : Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2007-2009)

	2007/1	2007/2	2007/3	2007/4	2008/1	2008/2	2008/3	2008/4	2009/1	2009/2	2009/3	2009/4
Belgium	0.7	0.6	0.6	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.7
Germany	0.5	0.3	0.7	0.5	0.3	0.4	0.5	0.6	0.6	0.6	0.6	0.6
Ireland	5.4	-1.4	0.0	0.0	1.6	1.5	1.5	1.5	0.6	0.6	0.6	0.6
Greece	3.2	-0.9	0.9	0.8	0.9	0.9	1.0	1.1	1.0	0.8	0.7	0.6
Spain	1.0	0.9	0.7	0.7	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.4
France	0.6	0.3	0.7	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.6	0.6
Italy	0.3	0.1	0.5	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Cyprus	1.2	0.8	0.8	0.8	1.1	1.1	1.1	1.0	0.9	0.9	0.9	1.0
Luxembourg	0.9	1.3	:	:	:	:	:	:	:	:	:	:
Malta	6.0	-0.4	:	:	:	:	:	:	:	:	:	:
Netherlands	0.8	0.3	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.5	0.5
Austria	0.9	0.9	0.8	0.4	1.0	0.8	0.7	0.6	0.7	0.5	0.3	0.7
Portugal	0.6	0.5	0.1	0.7	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Slovenia	2.2	1.2	:	:	:	:	:	:	:	:	:	:
Finland	0.7	0.9	0.2	1.1	0.8	1.0	0.4	0.6	0.8	1.0	0.2	0.5
Euro area	0.8	0.3	0.6	0.5	0.5	0.6	0.5	0.6	0.5	0.5	0.5	0.5
Bulgaria	1.3	1.6	2.0	1.7	1.1	1.3	1.4	1.6	1.5	1.7	1.5	1.3
Czech Republic	1.5	1.4	:	:	:	:	:	:	:	:	:	:
Denmark	0.3	-0.4	0.6	0.7	0.2	-0.2	-0.4	0.0	0.6	0.5	0.6	0.8
Estonia	2.1	0.9	2.2	1.3	1.8	1.8	1.8	1.5	1.1	1.1	1.4	1.4
Latvia	2.4	2.7	1.9	1.8	1.9	1.2	1.6	1.5	1.5	1.3	1.7	1.6
Lithuania	1.8	2.1	3.1	2.1	2.0	0.8	1.2	2.1	1.5	1.7	1.2	1.5
Hungary	0.3	0.1	6.4	-1.3	1.8	-0.4	-0.1	0.5	1.0	1.6	1.8	1.8
Poland	1.5	1.5	1.4	1.3	1.4	1.3	1.6	1.3	1.0	1.3	1.4	1.3
Romania	1.0	1.4	:	:	:	:	:	:	:	:	:	:
Slovakia	2.4	2.4	:	:	:	:	:	:	:	:	:	:
Sweden	0.7	0.9	1.2	1.3	0.9	0.6	0.4	0.7	0.8	0.5	0.6	0.6
United Kingdom	0.7	0.8	0.9	0.5	0.5	0.5	0.4	0.5	0.6	0.7	0.8	0.8
EU27	0.8	0.5	0.8	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6
USA	0.2	0.9	0.8	0.4	0.3	0.3	0.5	0.5	0.7	0.7	0.8	0.8
Japan	0.7	-0.3	0.3	0.4	0.5	0.5	0.7	0.8	0.4	0.5	0.5	0.6

TABLE 3 : Profiles (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2007-2009)

24.10.2007

	2007/1	2007/2	2007/3	2007/4	2008/1	2008/2	2008/3	2008/4	2009/1	2009/2	2009/3	2009/4
Belgium	2.9	2.9	2.6	2.3	2.0	1.8	1.8	1.9	2.2	2.3	2.4	2.5
Germany	3.6	2.5	2.5	2.0	1.8	1.9	1.7	1.8	2.1	2.2	2.3	2.3
Ireland	7.8	5.5	2.3	3.9	0.2	3.1	4.7	6.2	5.2	4.3	3.3	2.4
Greece	4.6	4.1	2.8	4.0	1.7	3.5	3.6	4.0	4.1	4.0	3.6	3.1
Spain	4.1	4.0	3.8	3.4	3.2	3.0	2.9	2.8	2.6	2.4	2.2	2.0
France	1.9	1.3	2.0	2.1	2.1	2.3	2.0	1.8	1.7	1.6	1.8	2.0
Italy	2.3	1.8	2.0	1.2	1.2	1.5	1.4	1.5	1.5	1.6	1.5	1.5
Cyprus	4.0	3.8	3.9	3.6	3.5	3.8	4.1	4.3	4.2	4.0	3.8	3.8
Luxembourg	4.7	5.3	:	:	:	:	:	:	:	:	:	:
Malta	4.8	4.2	:	:	:	:	:	:	:	:	:	:
Netherlands	3.2	2.4	2.5	2.6	2.5	3.0	3.0	3.0	2.9	2.7	2.5	2.3
Austria	3.4	3.5	3.5	3.1	3.2	3.1	3.0	3.1	2.8	2.5	2.1	2.2
Portugal	2.0	1.6	1.5	1.9	1.8	1.9	2.3	2.1	2.1	2.1	2.1	2.1
Slovenia	7.5	6.3	:	:	:	:	:	:	:	:	:	:
Finland	5.2	4.7	4.2	3.0	3.1	3.2	3.4	2.9	2.8	2.8	2.6	2.5
Euro area	3.2	2.5	2.6	2.3	2.0	2.2	2.1	2.2	2.2	2.2	2.1	2.1
Bulgaria	6.1	6.2	6.4	6.8	6.6	6.3	5.6	5.5	5.9	6.3	6.4	6.1
Czech Republic	6.2	6.0	:	:	:	:	:	:	:	:	:	:
Denmark	2.7	0.6	1.0	1.2	1.1	1.4	0.4	-0.4	0.1	0.8	1.8	2.6
Estonia	10.1	7.7	7.2	6.7	6.4	7.3	6.9	7.1	6.4	5.7	5.2	5.1
Latvia	11.1	11.2	9.8	9.2	8.6	7.1	6.7	6.4	6.0	6.1	6.3	6.4
Lithuania	7.6	7.6	9.4	9.4	9.6	8.2	6.2	6.3	5.7	6.7	6.7	6.1
Hungary	2.6	1.6	7.4	5.5	7.1	6.5	0.0	1.8	1.0	3.1	5.0	6.4
Poland	6.8	6.7	6.2	5.8	5.7	5.5	5.7	5.6	5.2	5.2	5.0	5.1
Romania	6.1	5.8	:	:	:	:	:	:	:	:	:	:
Slovakia	9.5	9.8	:	:	:	:	:	:	:	:	:	:
Sweden	3.4	3.2	3.8	4.2	4.3	4.0	3.1	2.6	2.5	2.4	2.6	2.4
United Kingdom	3.0	3.0	3.3	3.0	2.8	2.5	1.9	1.9	2.0	2.2	2.7	3.0
EU27	3.4	2.8	2.9	2.6	2.4	2.4	2.2	2.2	2.2	2.3	2.4	2.4
USA	1.5	1.9	2.4	2.3	2.4	1.7	1.4	1.6	2.0	2.4	2.7	3.0
Japan	2.6	1.7	2.1	1.1	1.0	1.8	2.2	2.6	2.5	2.5	2.2	2.0

TABLE 4 : Gross domestic product per capita (percentage change on preceding year, 1992-2009)

	5-year averages					2007		2008		2009			
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	1.2	2.4	1.5	0.6	2.5	1.1	2.1	2.1	2.5	2.0	1.9	:	2.0
Germany	0.9	1.9	0.9	-0.3	1.1	0.8	3.0	2.6	2.6	2.5	2.2	:	2.3
Ireland	5.6	7.6	3.3	2.6	2.5	3.6	3.1	2.7	2.9	2.3	2.3	:	2.6
Greece	0.2	3.8	3.7	4.7	4.2	3.2	4.0	3.3	3.8	3.4	3.4	:	3.4
Spain	1.3	3.7	1.7	1.4	1.6	1.9	2.3	2.7	2.4	2.7	1.6	:	1.1
France	0.8	2.4	1.0	0.4	1.8	1.1	1.4	1.9	1.3	1.7	1.5	:	1.2
Italy	1.1	2.1	0.1	-0.7	0.2	-0.6	1.4	1.7	1.5	1.6	1.2	:	1.4
Cyprus	3.3	3.0	1.2	0.1	1.8	1.4	2.1	1.7	1.9	1.9	2.0	:	1.8
Luxembourg	1.1	5.1	3.0	0.9	3.4	3.4	4.4	4.0	4.2	3.7	3.8	:	3.7
Malta	4.1	2.7	1.1	-0.9	-0.6	2.5	2.6	2.1	2.6	1.9	2.3	:	2.4
Netherlands	1.9	3.1	1.1	-0.1	1.9	1.3	2.9	2.7	2.6	2.5	2.5	:	2.4
Austria	1.4	2.4	1.3	0.8	1.6	1.3	2.7	2.5	2.8	2.1	2.3	:	2.0
Portugal	1.4	3.3	0.1	-1.4	0.9	0.0	0.9	1.4	1.4	1.6	1.6	:	1.7
Slovenia	2.1	4.2	4.0	2.7	4.4	4.0	5.3	4.1	5.5	3.8	4.2	:	3.9
Finland	0.8	4.3	2.7	1.5	3.4	2.6	4.6	2.9	3.9	2.6	3.1	:	2.4
Euro area	1.1	2.5	1.0	0.2	1.4	0.9	2.2	2.3	2.2	2.2	1.9	:	1.8
Bulgaria	-2.2	3.1	6.3	5.6	7.2	6.8	6.6	6.6	6.8	6.7	6.5	:	6.7
Czech Republic	2.3	1.4	4.4	3.6	4.4	6.1	6.0	4.8	5.6	4.8	4.7	:	4.1
Denmark	2.2	2.1	1.6	0.1	1.9	2.8	3.2	2.0	1.7	1.8	0.9	:	1.1
Estonia	:	7.1	9.3	7.7	8.3	10.8	11.4	9.0	8.0	8.4	6.5	:	6.3
Latvia	-7.3	7.1	9.6	7.8	9.3	11.2	12.5	10.2	11.0	8.4	7.7	:	6.8
Lithuania	-7.9	5.7	8.6	10.8	7.9	8.6	8.3	7.6	9.0	6.4	7.6	:	6.4
Hungary	0.7	4.8	4.5	4.5	5.0	4.3	4.0	2.6	2.3	2.8	2.8	:	3.6
Poland	4.7	4.6	4.1	4.0	5.4	3.7	6.2	6.2	6.5	5.6	5.7	:	5.3
Romania	1.9	-0.7	6.9	5.5	8.8	4.4	7.8	7.0	6.3	6.8	6.3	:	6.2
Slovakia	:	2.7	5.5	4.1	5.4	5.9	8.2	8.4	8.6	6.4	6.9	:	6.1
Sweden	0.6	3.0	2.6	1.3	3.7	2.5	3.6	3.3	2.6	3.0	2.3	:	1.9
United Kingdom	2.2	2.8	2.1	2.4	2.8	1.2	2.3	2.3	2.6	2.0	1.8	:	2.0
EU27	1.2	2.7	1.6	0.9	2.0	1.3	2.6	2.6	2.6	2.4	2.2	:	2.1
USA	2.0	2.4	1.7	1.5	2.7	2.1	1.9	1.2	1.1	1.7	0.8	:	1.6
Japan	1.1	0.2	1.6	1.2	2.7	1.9	2.3	2.4	2.0	2.2	2.0	:	2.4

TABLE 5 : Domestic demand, volume (percentage change on preceding year, 1992-2009)

24.10.2007

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	1.2	2.4	1.9	0.9	2.8	2.1	3.0	2.1	3.1	1.9	2.0	:	2.0
Germany	1.5	1.6	0.1	0.7	-0.2	0.3	1.8	2.0	1.6	2.3	2.1	:	1.7
Ireland	3.8	8.2	5.1	3.8	3.7	7.9	5.7	5.2	3.8	3.9	2.3	:	3.2
Greece	1.2	4.3	4.3	5.5	4.6	2.3	5.4	4.0	4.7	3.8	4.3	:	4.0
Spain	0.8	5.0	4.4	3.8	4.8	5.1	4.8	4.4	4.5	4.0	3.2	:	2.3
France	0.7	3.0	2.1	1.7	3.2	2.3	2.4	2.5	2.1	2.4	2.3	:	2.2
Italy	-0.1	2.8	1.0	0.9	1.1	0.3	1.6	1.8	1.8	1.7	1.5	:	1.7
Cyprus	:	3.6	3.9	1.7	6.5	3.1	3.8	3.5	3.9	3.8	3.9	:	3.9
Luxembourg	1.6	5.9	2.8	3.1	3.3	4.4	0.8	4.7	4.7	4.1	4.1	:	3.8
Malta	:	1.4	2.3	5.8	1.8	5.3	1.9	3.0	1.4	1.8	2.3	:	2.1
Netherlands	2.1	3.9	1.0	0.4	0.5	0.9	3.4	3.0	2.6	2.8	2.5	:	2.2
Austria	2.1	1.8	1.3	2.5	1.5	1.3	2.2	2.6	2.4	2.1	2.2	:	1.8
Portugal	2.0	4.6	0.3	-2.0	2.5	0.8	0.2	1.0	1.0	1.6	1.3	:	1.8
Slovenia	5.3	4.2	4.0	4.8	4.9	2.2	5.7	4.1	6.5	3.9	4.3	:	3.4
Finland	0.0	3.3	3.2	4.0	3.0	4.5	3.3	2.7	3.5	2.5	3.1	:	2.3
Euro area	1.1	2.8	1.6	1.5	1.8	1.7	2.6	3.0	2.5	2.3	2.4	:	2.1
Bulgaria	:	5.1	8.5	8.3	7.4	10.3	10.7	8.2	10.1	8.2	7.9	:	7.4
Czech Republic	6.2	1.2	3.7	4.2	3.1	1.6	5.7	3.9	4.9	4.5	4.6	:	4.9
Denmark	2.9	2.2	3.1	0.2	4.1	4.3	5.2	2.7	2.6	2.0	1.7	:	1.5
Estonia	:	5.9	10.9	9.1	8.1	7.5	19.1	12.9	9.0	10.9	5.9	:	5.5
Latvia	:	6.9	11.0	10.7	12.1	9.3	17.3	11.5	14.8	7.7	6.9	:	5.4
Lithuania	:	5.5	9.7	12.1	12.8	8.3	9.0	10.6	13.3	8.0	8.9	:	7.1
Hungary	0.6	4.9	3.7	6.2	3.8	1.3	1.1	-0.4	-0.7	0.9	0.9	:	2.7
Poland	5.4	4.6	3.7	2.7	5.9	2.5	6.7	7.5	8.7	7.0	7.2	:	6.2
Romania	1.4	0.4	9.0	8.4	12.0	8.0	12.8	11.8	11.8	10.2	9.7	:	8.5
Slovakia	:	2.6	4.7	-1.3	6.2	8.6	6.2	6.2	5.7	5.3	5.7	:	5.3
Sweden	-0.1	2.5	2.1	1.7	2.0	2.7	3.5	4.0	4.0	3.1	3.1	:	2.2
United Kingdom	2.3	3.9	2.9	2.8	3.8	1.6	3.0	2.9	3.3	2.4	2.2	:	2.6
EU27	:	3.0	2.0	1.9	2.4	1.9	3.0	3.2	3.0	2.7	2.6	:	2.5
USA	3.4	4.2	3.0	2.8	4.1	3.1	2.8	1.8	1.6	2.6	0.9	:	1.9
Japan	1.6	0.3	1.1	0.8	1.9	1.7	1.4	2.0	1.1	2.0	1.5	:	2.1

TABLE 6 : Final demand, volume (percentage change on preceding year, 1992-2009)

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	2.3	3.6	2.6	1.9	4.5	2.8	2.8	3.8	3.9	3.4	3.4	:	3.5
Germany	1.7	3.2	2.2	1.1	2.6	2.4	5.2	4.2	3.6	3.9	3.6	:	3.5
Ireland	8.7	12.0	4.8	2.1	5.5	6.5	5.1	5.3	5.3	4.4	4.0	:	4.6
Greece	1.6	5.4	4.1	5.0	5.6	2.3	5.5	4.4	4.9	4.2	4.5	:	4.3
Spain	2.3	5.8	4.2	3.8	4.7	4.6	4.9	4.7	4.5	4.3	3.5	:	2.8
France	1.5	4.0	2.2	1.1	3.4	2.4	3.1	3.2	2.3	3.1	2.6	:	2.5
Italy	1.4	2.6	0.9	0.2	1.5	0.2	2.4	2.5	2.0	2.4	1.8	:	2.0
Cyprus	:	4.5	2.9	0.8	6.0	3.6	3.2	3.7	3.9	3.9	3.9	:	3.9
Luxembourg	3.0	8.9	5.3	4.3	7.6	5.7	6.7	7.7	6.6	7.2	6.3	:	6.1
Malta	:	2.7	2.7	2.7	1.9	2.2	5.7	2.9	0.0	2.3	1.5	:	1.6
Netherlands	3.5	5.6	2.5	0.9	3.5	3.0	5.0	4.4	4.3	4.1	3.8	:	3.7
Austria	2.3	3.8	2.8	2.4	3.8	3.0	4.3	4.4	4.2	4.0	3.8	:	3.4
Portugal	2.7	4.8	1.1	-0.7	2.9	0.9	2.2	2.3	2.2	2.6	2.3	:	2.6
Slovenia	2.7	5.5	5.8	4.2	7.6	5.1	8.2	6.1	9.2	5.6	6.8	:	5.7
Finland	2.0	5.7	3.9	2.0	4.8	5.4	5.7	3.9	4.2	3.7	3.8	:	3.2
Euro area	2.0	4.0	2.4	1.4	3.2	2.5	4.1	4.1	3.4	3.4	3.2	:	3.1
Bulgaria	:	5.2	8.8	9.1	9.2	9.7	10.1	8.8	9.2	8.7	8.0	:	7.7
Czech Republic	7.3	4.3	6.9	5.3	10.2	6.0	9.8	7.5	9.3	7.2	8.4	:	7.6
Denmark	3.0	3.7	3.6	-0.2	3.5	5.3	6.9	3.7	3.0	3.2	2.5	:	2.2
Estonia	:	8.9	10.9	9.4	11.3	13.7	12.5	11.0	7.6	9.5	6.6	:	6.2
Latvia	:	6.6	10.5	9.2	11.4	12.1	14.0	10.8	13.6	8.1	7.4	:	6.5
Lithuania	:	5.7	10.5	10.3	10.1	11.2	10.0	10.4	11.7	9.1	9.7	:	7.8
Hungary	:	9.1	7.1	6.2	8.8	5.8	9.4	5.7	5.7	5.2	5.2	:	5.9
Poland	6.4	5.4	5.4	5.2	7.9	3.8	8.7	8.2	8.7	7.6	7.5	:	6.7
Romania	0.9	2.6	9.6	8.4	12.5	8.0	12.3	11.3	11.0	9.7	9.5	:	8.6
Slovakia	:	5.5	8.1	5.7	7.0	10.9	13.0	12.0	12.1	8.4	8.9	:	7.1
Sweden	1.8	4.2	3.6	2.6	5.1	4.1	5.4	5.1	4.6	4.2	4.1	:	3.5
United Kingdom	3.3	4.2	3.3	2.6	4.0	3.0	4.5	3.5	3.9	3.1	3.0	:	3.3
EU27	:	4.1	2.9	1.9	3.7	2.9	4.6	4.3	3.9	3.7	3.5	:	3.5
USA	3.8	4.2	3.2	2.7	4.6	3.5	3.3	2.3	2.1	3.0	1.7	:	2.6
Japan	1.7	0.5	2.0	1.6	3.2	2.3	2.4	2.7	2.0	2.6	2.3	:	3.0

TABLE 7 : Private consumption expenditure, volume (percentage change on preceding year, 1992-2009)

24.10.2007

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	1.3	2.3	1.3	0.8	1.4	1.3	2.0	2.1	2.5	1.6	1.8	:	1.8
Germany	1.9	1.9	0.1	0.1	0.2	-0.1	1.0	1.0	-0.1	2.3	2.0	:	1.4
Ireland	4.0	7.2	4.9	3.0	4.1	7.3	5.7	7.4	6.6	4.4	3.4	:	3.7
Greece	1.8	3.1	4.0	4.7	4.7	3.7	3.8	3.6	3.6	3.4	3.4	:	3.2
Spain	1.1	4.3	3.6	2.9	4.2	4.2	3.8	3.5	3.4	3.3	2.7	:	2.4
France	1.1	2.8	2.2	2.0	2.5	2.2	2.0	2.6	1.9	2.3	2.3	:	2.1
Italy	0.5	2.4	0.8	1.0	0.7	0.6	1.5	1.7	1.9	1.7	1.4	:	1.7
Cyprus	:	4.4	3.6	2.0	6.3	4.7	4.0	3.5	4.9	3.5	3.4	:	3.5
Luxembourg	1.7	4.3	2.9	1.0	2.1	3.7	2.0	3.0	2.1	3.0	3.2	:	3.0
Malta	:	3.6	1.7	3.9	2.5	2.3	1.3	2.8	2.7	2.6	2.8	:	2.7
Netherlands	2.1	3.9	0.3	-0.2	1.0	0.7	-0.8	1.9	1.9	2.8	2.0	:	1.6
Austria	2.1	1.7	1.4	1.3	1.8	2.0	2.1	2.0	1.7	2.1	1.9	:	2.1
Portugal	2.2	3.8	1.4	-0.1	2.5	2.2	1.1	1.3	1.2	1.5	1.3	:	1.7
Slovenia	5.1	3.0	3.0	3.4	3.0	2.7	4.0	3.6	4.2	3.4	4.0	:	3.5
Finland	0.5	3.2	3.6	4.8	3.0	3.8	4.3	2.8	3.5	2.7	3.4	:	2.3
Euro area	:	2.7	1.4	1.3	1.6	1.5	1.8	2.1	1.7	2.4	2.1	:	1.9
Bulgaria	-1.4	2.0	6.4	5.5	5.9	6.1	7.5	7.8	7.3	8.0	7.0	:	6.5
Czech Republic	6.2	1.5	3.8	6.0	2.9	2.3	5.4	4.7	6.1	4.4	4.9	:	5.3
Denmark	2.4	1.0	2.9	1.0	4.7	4.2	3.1	2.4	2.1	1.8	1.9	:	1.8
Estonia	:	6.0	10.6	9.7	6.6	10.7	14.9	15.1	12.9	12.6	7.7	:	6.7
Latvia	:	4.7	11.2	8.2	9.5	11.5	19.8	12.0	17.5	8.0	8.0	:	5.0
Lithuania	:	4.9	10.4	10.2	12.2	11.9	11.9	12.3	12.9	9.1	9.3	:	7.2
Hungary	:	4.8	5.3	8.3	2.7	3.4	1.8	-0.6	-0.6	0.5	0.3	:	1.6
Poland	4.8	4.6	3.3	1.9	4.3	2.0	5.1	5.9	6.3	5.8	6.2	:	5.2
Romania	3.1	0.3	10.3	8.4	14.6	9.6	13.9	11.9	11.0	9.9	9.4	:	8.4
Slovakia	:	3.8	4.5	0.2	4.2	7.0	6.1	6.6	6.9	5.6	6.2	:	5.6
Sweden	-0.1	2.9	2.1	1.8	2.2	2.4	2.8	3.9	3.0	3.6	3.5	:	3.0
United Kingdom	2.4	3.9	2.7	2.9	3.4	1.5	2.1	2.4	3.0	2.2	2.1	:	2.2
EU27	:	2.9	1.9	1.7	2.2	1.7	2.2	2.5	2.3	2.6	2.4	:	2.2
USA	3.3	4.2	3.1	2.8	3.6	3.2	3.1	2.9	2.9	2.0	1.3	:	1.4
Japan	2.2	0.6	1.1	0.4	1.6	1.6	0.9	1.4	1.7	1.7	1.6	:	1.8

TABLE 8 : Government consumption expenditure, volume (percentage change on preceding year, 1992-2009)

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	1.2	2.0	1.3	2.1	1.8	-0.2	0.0	1.7	2.4	2.4	2.5	:	2.3
Germany	2.4	1.1	0.3	0.4	-1.5	0.5	0.9	1.0	1.7	0.9	1.4	:	1.4
Ireland	2.9	7.7	3.8	1.2	1.5	4.0	5.3	4.0	5.0	3.7	3.5	:	3.0
Greece	1.0	4.0	2.4	-2.0	2.8	3.1	0.9	1.3	4.3	3.3	3.1	:	3.3
Spain	2.1	3.8	5.2	4.8	6.3	5.5	4.8	4.6	4.9	4.8	5.0	:	4.9
France	1.8	1.0	1.7	2.0	2.3	0.9	1.4	2.1	1.8	1.5	1.7	:	1.7
Italy	-1.0	1.5	1.4	2.0	1.6	1.5	-0.3	0.6	0.7	1.3	1.3	:	1.2
Cyprus	:	5.3	2.7	6.0	-5.5	3.4	3.2	3.5	-0.5	3.9	4.4	:	4.2
Luxembourg	4.1	4.8	3.7	4.4	5.1	2.4	2.1	2.8	3.1	2.8	3.0	:	3.0
Malta	:	0.0	2.3	3.3	0.5	0.3	3.7	0.3	1.0	0.5	1.1	:	1.2
Netherlands	1.7	2.9	3.0	2.9	-0.1	0.0	9.4	2.3	2.4	2.2	2.3	:	2.4
Austria	2.6	1.5	1.7	1.6	1.4	1.9	2.1	1.8	1.9	2.1	2.1	:	0.6
Portugal	1.5	3.8	1.4	0.2	2.6	2.2	-0.5	-0.1	-0.3	0.3	0.4	:	0.5
Slovenia	2.2	3.6	3.2	1.9	3.1	3.2	4.4	3.4	2.6	3.2	3.0	:	2.6
Finland	-0.6	1.5	1.7	1.5	1.8	1.7	1.0	1.2	1.1	1.3	2.2	:	1.7
Euro area	:	1.7	1.7	1.7	1.3	1.4	1.9	1.8	2.0	1.9	2.1	:	2.0
Bulgaria	-15.4	5.2	4.2	7.7	3.8	2.5	2.4	3.5	1.5	4.0	2.5	:	3.0
Czech Republic	-1.7	1.9	2.4	7.1	-3.5	2.2	0.0	0.6	0.8	1.1	0.8	:	0.6
Denmark	2.6	2.2	1.4	0.7	1.6	1.1	1.5	1.5	1.8	1.2	1.8	:	1.5
Estonia	:	1.6	1.9	0.3	3.0	1.6	2.6	3.3	3.4	3.0	2.9	:	2.6
Latvia	:	2.8	2.6	1.9	2.1	2.7	4.0	3.0	4.5	3.0	4.0	:	3.0
Lithuania	:	1.7	4.4	3.8	7.7	3.6	5.5	6.3	5.3	5.5	4.9	:	4.5
Hungary	-1.7	2.1	4.0	5.3	1.9	2.5	4.7	-1.7	-4.7	-1.4	-1.7	:	2.8
Poland	3.3	2.4	3.7	4.9	3.1	5.2	3.9	1.6	1.8	1.5	1.6	:	1.9
Romania	3.6	0.5	3.4	7.7	-4.9	9.0	2.5	4.8	5.4	5.1	4.5	:	4.0
Slovakia	:	1.4	2.9	3.9	2.0	-0.6	4.1	3.9	2.1	3.3	2.9	:	2.8
Sweden	0.3	0.8	1.1	0.7	0.4	0.3	1.8	1.5	1.8	1.3	1.3	:	0.7
United Kingdom	0.6	1.9	3.0	3.5	3.2	2.7	2.1	2.0	2.0	2.0	2.1	:	1.7
EU27	:	1.7	2.0	2.1	1.5	1.7	2.0	1.8	2.0	1.8	2.0	:	1.9
USA	0.0	2.3	2.4	2.8	1.8	0.9	1.6	2.4	1.6	2.0	1.8	:	1.9
Japan	3.1	2.8	1.7	2.3	1.9	1.7	0.4	1.0	0.7	0.7	0.8	:	0.7

TABLE 11 : Investment in equipment, volume (percentage change on preceding year, 1992-2009)

24.10.2007

	5-year averages					2007		2008		2009			
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	-0.5	6.2	1.8	-2.3	7.7	4.0	4.0	3.0	7.6	2.5	2.5	:	2.5
Germany	-3.1	6.3	2.3	0.9	4.4	6.0	8.4	7.1	10.5	4.7	3.8	:	4.5
Ireland	9.6	11.3	3.7	-0.7	7.5	19.9	-6.7	12.5	13.0	10.0	6.0	:	5.0
Greece	7.4	12.2	7.7	18.3	8.2	-0.7	6.9	6.7	6.7	5.8	7.8	:	6.3
Spain	-0.1	9.1	4.8	4.1	4.4	9.0	9.7	9.9	12.2	7.7	5.9	:	5.8
France	:	:	1.8	1.4	2.2	3.6	5.9	4.0	4.4	5.0	4.3	:	4.2
Italy	-0.1	5.1	0.0	-5.8	2.3	-0.8	2.3	3.8	1.9	3.5	1.8	:	2.0
Cyprus	:	5.3	2.0	-13.0	10.3	-5.1	7.9	6.0	6.0	6.0	6.0	:	6.0
Luxembourg	-4.2	11.0	-0.3	-12.7	18.6	-1.1	4.9	10.7	14.7	8.0	8.5	:	7.5
Malta	:	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	2.7	1.6	0.8	2.5	-4.5	1.5	12.5	5.5	5.5	4.8	4.0	:	3.9
Austria	-0.5	5.5	-0.4	7.7	-2.3	1.0	1.5	7.5	7.7	3.8	3.8	:	2.8
Portugal	1.1	9.1	-0.9	-4.6	5.1	-0.3	4.0	3.2	3.9	4.5	3.8	:	4.7
Slovenia	8.9	13.1	5.8	12.5	8.7	2.7	8.6	5.5	12.0	5.0	6.0	:	5.0
Finland	-1.4	6.7	1.1	7.0	0.4	0.7	2.6	5.2	4.4	4.9	4.4	:	3.2
Euro area	:	:	2.0	0.7	3.1	4.0	6.3	6.0	7.1	5.0	3.9	:	4.0
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:	:
Czech Republic	17.0	5.6	2.1	-5.9	5.2	0.7	3.2	6.8	4.5	6.5	4.4	:	4.3
Denmark	3.3	6.6	5.1	-4.0	5.6	12.1	15.9	10.1	4.6	4.9	1.7	:	1.1
Estonia	:	:	:	:	:	:	:	:	:	:	:	:	:
Latvia	:	:	:	:	:	:	:	:	:	:	:	:	:
Lithuania	:	13.7	14.3	7.5	31.9	10.2	12.7	10.0	14.0	9.5	9.0	:	6.0
Hungary	:	:	:	:	:	:	:	4.0	11.7	6.8	8.2	:	8.0
Poland	:	7.1	:	-1.5	8.0	:	:	17.5	24.0	14.2	16.0	:	14.0
Romania	6.2	9.3	:	18.0	8.2	:	:	13.8	9.0	13.5	7.0	:	5.0
Slovakia	:	2.5	7.9	-0.2	-0.5	24.0	15.2	10.9	10.2	8.8	8.6	:	7.4
Sweden	5.1	5.3	4.7	3.3	6.5	12.9	5.2	8.0	14.0	6.0	5.1	:	2.7
United Kingdom	1.8	8.2	2.2	-3.1	4.9	1.3	6.7	7.2	4.4	5.0	3.1	:	5.7
EU27	:	:	:	:	:	:	:	:	:	:	:	:	:
USA	10.3	8.6	3.7	2.7	7.0	9.2	6.0	1.5	1.0	5.0	2.1	:	3.0
Japan	:	:	:	:	:	:	:	:	:	:	:	:	:

TABLE 12 : Public investment (as a percentage of GDP, 1992-2009)

	5-year averages					2007		2008		2009			
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	1.6	1.8	1.7	1.7	1.6	1.8	1.7	1.6	1.7	1.7	1.7	:	1.7
Germany	2.4	1.8	1.5	1.6	1.4	1.4	1.4	1.4	1.5	1.5	1.6	:	1.6
Ireland	2.2	3.2	3.8	3.8	3.6	3.4	3.7	4.1	4.1	4.3	4.4	:	4.3
Greece	3.0	3.3	3.4	3.6	3.7	3.0	3.1	3.5	3.1	3.5	3.0	:	3.0
Spain	3.7	3.2	3.6	3.6	3.4	3.6	3.8	3.6	3.9	3.7	4.0	:	4.0
France	3.2	3.0	3.2	3.1	3.1	3.3	3.4	3.4	3.4	3.4	3.4	:	3.4
Italy	2.4	2.3	2.2	2.5	2.4	2.3	2.3	2.4	2.4	2.4	2.5	:	2.5
Cyprus	:	:	3.3	3.4	4.0	3.1	3.0	3.3	3.0	3.3	3.0	:	3.0
Luxembourg	4.2	4.0	4.5	4.6	4.3	4.5	4.0	3.9	4.0	3.8	3.9	:	3.8
Malta	:	4.0	4.4	4.7	4.0	4.8	4.3	5.2	4.1	4.0	3.9	:	3.4
Netherlands	2.5	3.1	3.4	3.6	3.2	3.3	3.3	3.3	3.3	3.2	3.2	:	3.2
Austria	3.1	1.6	1.1	1.2	1.1	1.1	1.1	1.1	1.0	1.0	1.0	:	1.0
Portugal	3.6	3.9	3.0	3.1	3.1	3.0	2.3	2.2	2.2	2.2	2.2	:	2.2
Slovenia	:	3.2	3.3	3.3	3.5	3.2	3.7	3.6	3.7	3.0	3.6	:	3.4
Finland	2.9	2.8	2.7	2.9	2.9	2.6	2.4	2.6	2.4	2.7	2.5	:	2.6
Euro area	:	:	2.5	2.5	2.5	2.5	2.5	2.6	2.6	2.6	2.6	:	2.7
Bulgaria	:	3.1	3.3	2.7	2.9	4.2	4.0	4.0	4.3	4.5	4.8	:	5.5
Czech Republic	:	3.8	4.6	4.5	4.8	4.9	5.0	5.3	5.2	5.3	5.6	:	6.3
Denmark	1.8	1.7	1.8	1.6	1.8	1.8	1.9	1.6	1.7	1.5	1.8	:	1.8
Estonia	:	4.2	4.1	4.2	3.4	3.7	4.5	3.8	4.9	4.0	5.2	:	5.4
Latvia	:	1.5	2.9	2.4	3.1	3.4	4.3	3.8	5.0	4.2	5.5	:	5.8
Lithuania	:	2.4	3.4	3.0	3.4	3.5	4.2	5.1	4.7	6.0	4.9	:	5.0
Hungary	:	3.1	4.1	3.5	3.5	4.0	4.4	3.6	3.6	3.3	3.5	:	3.6
Poland	:	3.4	3.5	3.3	3.4	3.4	3.9	4.6	4.6	4.7	5.0	:	5.3
Romania	:	:	3.6	3.2	3.0	3.8	4.9	3.8	4.7	4.1	4.8	:	5.0
Slovakia	:	3.6	2.5	2.6	2.4	2.1	2.2	2.2	2.1	2.2	2.1	:	2.1
Sweden	2.7	3.1	3.1	3.1	3.0	3.0	3.1	3.2	3.0	3.2	3.1	:	3.0
United Kingdom	1.8	1.3	1.4	1.5	1.7	0.7	1.8	2.0	1.9	2.3	2.1	:	2.1
EU27	:	:	2.4	2.4	2.4	2.3	2.5	2.6	2.6	2.7	2.7	:	2.8
USA	2.5	2.6	2.7	2.7	2.6	2.6	2.7	3.3	3.4	3.4	3.5	:	3.5
Japan	6.2	5.5	4.0	4.3	3.9	3.7	3.4	3.2	3.2	3.1	3.0	:	2.9

TABLE 13 : Output gap relative to potential GDP (deviation of actual output from potential output as % of potential GDP, 1992-2009) ¹

24.10.2007

	5-year averages							2007		2008		2009	
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	-0.9	0.4	-0.3	-0.8	0.0	-0.7	-0.3	-0.5	-0.2	-0.6	-0.5	:	-0.7
Germany	0.3	0.2	-1.2	-1.6	-1.7	-2.1	-0.5	0.4	0.3	0.9	0.6	:	0.9
Ireland	-3.2	2.7	0.5	1.1	-0.4	-0.4	-0.5	-0.9	-0.7	-1.6	-1.2	:	-1.3
Greece	-1.7	-1.3	0.8	0.6	1.4	0.9	1.1	1.5	1.3	1.6	1.2	:	1.2
Spain	-2.0	0.6	-0.2	0.2	-0.4	-0.9	-0.6	-1.0	-0.5	-1.3	-0.9	:	-1.8
France	-1.3	0.5	0.1	-0.2	0.1	-0.2	-0.2	-0.9	-0.3	-0.9	-0.3	:	-0.6
Italy	-1.0	0.6	-0.4	-0.2	-0.4	-1.5	-1.1	-1.0	-0.8	-0.9	-0.9	:	-1.0
Cyprus	:	0.5	-0.5	-0.3	-1.0	-1.6	-1.4	-0.8	-1.1	-0.6	-0.8	:	-0.6
Luxembourg	-0.1	0.2	-1.0	-2.2	-1.8	-1.5	-0.2	-0.4	0.0	-0.4	-0.2	:	-0.6
Malta	:	2.0	-1.4	-1.2	-3.1	-2.3	-1.5	-0.6	-0.6	0.1	-0.1	:	0.5
Netherlands	-1.0	1.7	-1.3	-2.0	-1.5	-1.8	-1.0	-0.4	-0.4	-0.1	0.0	:	0.3
Austria	-0.2	0.7	-1.1	-1.7	-1.5	-1.5	-0.4	0.5	0.4	0.8	0.8	:	0.8
Portugal	-1.6	1.7	-1.1	-1.2	-1.3	-2.1	-2.1	-1.7	-1.7	-1.2	-1.2	:	-0.8
Slovenia	:	0.5	-1.2	-2.0	-1.7	-1.6	-0.2	0.5	0.9	0.4	0.8	:	0.3
Finland	-5.1	2.0	-1.1	-1.7	-1.4	-1.9	-0.4	0.3	0.4	-0.1	0.5	:	0.1
Euro area	:	0.6	-0.6	-0.8	-0.8	-1.3	-0.6	:	-0.2	:	-0.1	:	-0.2
Bulgaria	:	-2.0	0.6	-0.1	1.0	1.2	1.1	0.7	0.7	0.3	-0.1	:	-0.6
Czech Republic	:	-1.9	-1.6	-3.1	-2.7	-0.7	1.1	0.5	2.1	0.5	2.1	:	1.4
Denmark	-1.4	1.4	-0.4	-1.6	-1.2	-0.2	1.1	0.1	0.7	-0.4	-0.2	:	-0.9
Estonia	:	-0.8	0.3	-1.0	-0.9	0.7	2.9	0.7	2.1	-0.9	0.1	:	-1.7
Latvia	:	-0.4	-0.1	-1.2	-1.0	0.1	2.1	0.8	2.7	-1.2	0.8	:	-1.7
Lithuania	:	-0.6	0.8	1.6	1.2	1.2	1.0	0.6	1.0	-0.1	0.4	:	-0.6
Hungary	:	-1.0	0.0	-0.8	0.0	0.4	1.1	0.2	0.1	-0.4	-0.3	:	0.0
Poland	:	0.6	-0.5	-1.1	0.3	-0.5	0.3	0.4	0.9	-0.2	0.4	:	-0.6
Romania	:	-4.7	-0.1	-2.1	1.6	0.6	2.4	0.9	2.1	0.2	1.3	:	0.3
Slovakia	:	-0.6	-2.2	-2.6	-2.5	-2.5	-0.8	1.7	1.0	1.8	1.3	:	0.8
Sweden	-3.1	0.1	-0.4	-1.5	-0.3	-0.3	0.5	0.6	0.6	0.8	0.8	:	0.5
United Kingdom	-1.5	0.6	0.0	0.1	0.6	-0.3	-0.3	-0.4	-0.1	-0.5	-0.4	:	-0.6
EU27	:	0.5	-0.5	-0.7	-0.5	-1.0	-0.4	-0.3	-0.1	-0.3	-0.1	:	-0.3

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, 1992-2009)

	5-year averages							2007		2008		2009	
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	2.3	1.5	2.1	1.6	2.4	2.5	2.0	2.2	2.1	2.0	2.2	:	2.0
Germany	2.7	0.3	1.0	1.2	1.1	0.7	0.6	1.8	1.8	0.9	1.4	:	1.3
Ireland	2.7	5.3	2.9	2.6	2.2	2.7	2.3	3.0	2.1	2.6	2.2	:	2.2
Greece	11.5	4.5	3.5	3.5	3.4	3.7	3.2	3.2	3.1	3.3	3.2	:	3.2
Spain	4.7	3.0	4.1	4.1	4.0	4.2	4.0	3.1	3.1	2.9	3.1	:	2.9
France	1.6	1.1	2.0	1.9	1.6	1.7	2.3	1.9	1.9	1.8	2.1	:	2.0
Italy	4.4	2.3	2.7	3.1	2.9	2.2	1.8	2.1	2.6	2.2	2.4	:	2.0
Cyprus	3.6	3.0	2.9	5.1	3.3	2.4	2.5	2.3	2.5	2.3	3.0	:	2.6
Luxembourg	3.7	1.0	3.8	5.0	1.7	4.2	6.2	4.6	3.5	3.7	3.7	:	3.3
Malta	3.0	2.1	2.7	3.0	1.8	2.9	2.8	2.3	2.5	2.2	2.7	:	2.4
Netherlands	1.9	3.1	2.1	2.2	0.7	2.1	1.9	1.7	1.4	2.1	2.1	:	2.6
Austria	2.4	0.9	1.6	1.2	2.1	1.8	1.8	1.8	2.3	1.7	2.1	:	1.4
Portugal	6.4	3.5	3.0	3.1	2.4	2.8	2.9	2.7	2.9	2.5	2.4	:	2.3
Slovenia	47.9	7.4	4.0	5.6	3.3	1.7	2.0	2.8	2.8	2.8	4.2	:	2.9
Finland	1.7	2.4	0.6	-0.4	0.6	0.2	1.2	1.8	1.9	1.6	2.3	:	1.8
Euro area	3.1	1.6	2.1	2.2	2.0	1.9	1.9	2.1	2.2	1.9	2.1	:	2.0
Bulgaria	71.8	72.6	4.6	1.8	5.1	3.8	8.1	4.0	7.6	4.2	7.4	:	5.3
Czech Republic	13.4	5.7	1.9	0.9	4.5	-0.2	1.7	1.8	2.1	2.7	2.9	:	2.6
Denmark	1.4	2.1	2.3	1.6	2.0	3.2	2.2	3.0	2.3	2.8	2.9	:	2.9
Estonia	:	6.9	4.5	4.5	1.8	6.2	6.2	8.2	8.7	6.6	8.2	:	6.4
Latvia	98.3	4.4	7.0	3.6	7.0	10.2	11.1	11.2	15.7	9.3	10.5	:	6.5
Lithuania	160.7	3.1	2.8	-0.9	2.7	5.7	6.6	5.1	7.8	4.5	7.1	:	6.0
Hungary	21.8	11.5	4.8	5.8	4.4	2.2	3.7	6.2	5.9	3.4	4.0	:	3.3
Poland	30.3	8.3	2.1	0.4	4.1	2.6	1.4	2.3	2.9	2.5	3.2	:	3.3
Romania	115.1	62.2	16.9	24.0	15.0	12.2	10.4	9.8	7.7	8.1	5.7	:	5.2
Slovakia	:	6.4	4.1	4.7	6.0	2.4	2.7	3.3	2.5	2.3	2.6	:	3.0
Sweden	2.4	1.4	1.3	2.0	0.2	1.2	1.8	2.5	2.4	2.0	2.5	:	2.4
United Kingdom	2.9	2.3	2.7	3.1	2.6	2.3	2.6	2.6	3.1	2.3	2.1	:	2.3
EU27	:	2.3	2.3	2.4	2.2	2.1	2.1	2.6	2.8	2.1	1.9	:	2.2
USA	2.1	1.8	2.6	2.1	2.9	3.2	3.2	2.2	2.4	1.6	1.5	:	1.5
Japan	0.1	-0.7	-1.3	-1.6	-1.1	-1.3	-0.9	0.1	-0.4	0.3	-0.2	:	0.0

TABLE 15 : Price deflator of private consumption (percentage change on preceding year, 1992-2009)

24.10.2007

	5-year averages						2007		2008		2009		
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	1.8	1.7	2.2	1.7	2.5	2.8	2.5	1.8	1.8	1.8	2.1	:	1.9
Germany	2.4	1.0	1.4	1.5	1.6	1.5	1.4	1.6	1.8	1.3	1.6	:	1.6
Ireland	2.6	4.0	3.0	4.1	1.6	1.7	2.2	2.7	3.2	2.4	2.4	:	2.4
Greece	11.6	4.4	3.0	2.8	2.5	3.7	3.5	3.0	2.9	3.1	3.0	:	3.0
Spain	4.9	2.8	3.3	3.1	3.6	3.4	3.4	2.6	2.6	2.4	3.0	:	2.8
France	1.6	0.9	1.7	1.9	1.9	1.8	1.9	1.3	1.1	1.8	1.7	:	1.5
Italy	5.1	2.4	2.7	2.8	2.6	2.4	2.7	2.0	1.9	2.1	2.0	:	1.9
Cyprus	:	2.3	2.7	4.0	1.9	2.7	2.6	1.9	2.3	2.4	2.6	:	2.4
Luxembourg	2.8	2.3	2.2	2.1	2.6	2.9	3.0	2.3	2.2	2.5	2.4	:	2.1
Malta	:	1.9	2.0	0.8	2.3	2.5	2.4	1.4	1.0	2.1	2.7	:	2.4
Netherlands	2.4	2.9	2.1	2.4	1.0	2.1	2.3	1.4	2.2	2.0	2.3	:	2.8
Austria	2.8	1.4	1.6	1.6	1.9	1.7	1.6	1.6	1.8	1.4	2.0	:	1.9
Portugal	5.7	2.8	2.9	2.9	2.5	2.5	3.3	2.3	2.4	2.3	2.4	:	2.3
Slovenia	45.7	7.6	4.1	5.2	3.0	2.4	2.5	2.5	3.5	2.6	3.7	:	2.9
Finland	1.9	2.5	0.9	-0.4	1.0	0.1	1.4	1.7	1.7	1.7	2.1	:	1.9
Euro area	:	1.7	2.1	2.1	2.1	2.1	2.2	1.8	1.9	1.8	2.0	:	2.0
Bulgaria	80.5	70.1	3.8	0.2	4.4	5.2	5.2	3.2	6.5	3.5	6.5	:	5.1
Czech Republic	11.2	5.3	1.4	-0.4	3.3	0.9	2.3	2.3	3.0	2.7	3.8	:	3.2
Denmark	1.7	2.1	1.7	1.3	1.5	2.2	2.1	1.9	1.8	2.2	2.5	:	2.4
Estonia	:	6.4	2.4	1.0	1.7	2.7	3.8	4.3	4.4	4.8	6.3	:	4.9
Latvia	:	4.1	5.9	3.1	7.0	8.7	8.5	8.0	9.5	6.5	8.5	:	5.0
Lithuania	:	3.0	0.6	-0.9	-0.3	1.7	2.9	3.8	5.4	3.5	6.4	:	5.3
Hungary	:	11.8	3.9	4.1	4.6	3.8	3.3	7.5	7.8	3.9	4.9	:	2.7
Poland	31.6	9.0	1.9	0.4	3.0	2.1	0.9	1.9	2.3	2.5	2.8	:	3.0
Romania	117.3	60.5	12.4	15.2	13.9	7.1	5.1	4.3	3.6	3.8	3.5	:	3.4
Slovakia	:	7.0	5.0	6.6	7.4	2.6	5.1	2.7	2.3	3.3	2.6	:	3.1
Sweden	3.5	1.4	1.4	1.8	0.8	1.3	1.3	1.0	1.8	1.7	2.2	:	2.1
United Kingdom	3.4	2.0	2.0	1.9	1.7	2.5	2.4	2.3	2.3	2.1	2.1	:	2.0
EU27	:	2.5	2.1	2.1	2.1	2.2	2.2	2.2	2.4	2.0	1.7	:	2.1
USA	2.3	1.8	2.4	2.0	2.6	2.9	2.8	1.9	2.4	2.0	1.8	:	1.5
Japan	0.2	-0.2	-0.8	-0.9	-0.7	-0.8	-0.3	-0.1	-0.5	0.3	-0.2	:	0.2

TABLE 16 : Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1992-2009)

	5-year averages						2007		2008		2009		
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	2.2	1.7	2.0	1.5	1.9	2.5	2.3	1.8	1.7	1.8	2.1	:	1.8
Germany	2.7	1.2	1.6	1.0	1.8	1.9	1.8	1.9	2.2	1.7	2.0	:	1.8
Ireland	2.2	3.0	3.2	4.0	2.3	2.2	2.7	2.6	2.8	2.2	2.2	:	2.0
Greece	11.8	3.7	3.4	3.4	3.0	3.5	3.3	3.2	2.8	3.1	3.1	:	3.1
Spain	4.7	2.4	3.3	3.1	3.1	3.4	3.6	2.4	2.6	2.6	2.9	:	2.7
France	2.0	1.2	2.1	2.2	2.3	1.9	1.9	1.5	1.5	1.7	1.7	:	1.6
Italy	4.6	2.1	2.4	2.8	2.3	2.2	2.2	1.9	1.9	2.0	2.0	:	1.9
Cyprus	:	2.7	2.6	4.0	1.9	2.0	2.2	1.3	2.0	2.0	2.3	:	2.1
Luxembourg	2.5	1.9	2.9	2.5	3.2	3.8	3.0	2.4	2.5	2.7	2.8	:	2.3
Malta	:	3.1	2.5	1.9	2.7	2.5	2.6	1.4	0.8	2.1	2.5	:	2.2
Netherlands	2.5	2.6	2.1	2.2	1.4	1.5	1.7	1.5	1.6	2.1	2.3	:	2.7
Austria	2.9	1.3	1.7	1.3	2.0	2.1	1.7	1.8	1.9	1.7	1.9	:	1.8
Portugal	5.6	2.7	2.9	3.3	2.5	2.1	3.0	2.3	2.4	2.3	2.4	:	2.3
Slovenia	:	8.0	4.3	5.7	3.7	2.5	2.5	2.6	3.5	2.7	3.7	:	2.9
Finland	1.6	1.9	1.1	1.3	0.1	0.8	1.3	1.5	1.5	1.7	2.4	:	2.1
Euro area	:	1.7	2.2	2.1	2.2	2.2	2.2	1.9	2.0	1.9	2.1	:	2.0
Bulgaria	:	:	5.5	2.3	6.1	6.0	7.4	4.2	7.1	4.3	7.3	:	5.8
Czech Republic	:	5.6	1.5	-0.1	2.6	1.6	2.1	2.4	3.0	2.9	3.8	:	3.2
Denmark	1.9	2.1	1.8	2.0	0.9	1.7	1.9	1.9	1.7	2.2	2.4	:	2.4
Estonia	:	6.1	3.3	1.4	3.0	4.1	4.4	5.1	6.3	5.3	7.3	:	4.8
Latvia	:	3.9	4.9	2.9	6.2	6.9	6.6	7.2	9.6	6.2	9.8	:	6.0
Lithuania	:	3.9	1.4	-1.1	1.2	2.7	3.8	4.7	5.6	4.4	6.5	:	5.2
Hungary	:	12.3	4.8	4.7	6.8	3.5	4.0	7.5	7.7	3.8	4.9	:	2.8
Poland	:	9.8	1.9	0.7	3.6	2.2	1.3	2.0	2.5	2.5	2.8	:	2.9
Romania	:	63.2	12.9	15.3	11.9	9.1	6.6	4.6	4.7	4.5	5.6	:	4.6
Slovakia	:	8.5	5.3	8.4	7.5	2.8	4.3	1.7	1.7	2.4	2.5	:	3.0
Sweden	2.4	1.5	1.5	2.3	1.0	0.8	1.5	1.2	1.6	1.9	2.0	:	2.0
United Kingdom	2.7	1.3	1.7	1.4	1.3	2.1	2.3	2.3	2.4	2.0	2.2	:	2.0
EU27	:	4.3	2.3	2.1	2.3	2.3	2.3	2.2	2.3	2.1	2.4	:	2.2
USA	2.9	2.5	2.6	2.3	2.7	3.4	3.2	2.3	2.7	1.9	1.9	:	1.5
Japan	0.8	0.1	-0.3	-0.3	0.0	-0.3	0.2	0.0	0.0	0.4	0.2	:	0.5

TABLE 17 : Profiles of quarterly harmonised index of consumer prices (percentage change on corresponding quarter in previous year, 2007-2009) 24.10.2007

	2007/1	2007/2	2007/3	2007/4	2008/1	2008/2	2008/3	2008/4	2009/1	2009/2	2009/3	2009/4
Belgium	1.8	1.5	1.4	2.1	2.4	2.1	2.1	1.9	1.8	1.8	1.8	1.8
Germany	1.9	2.0	2.2	2.7	2.5	2.1	1.9	1.6	1.7	1.8	1.8	1.8
Ireland	2.8	2.8	2.6	3.0	3.0	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Greece	2.9	2.6	2.8	3.0	3.3	3.0	2.9	3.1	3.3	3.0	2.9	3.2
Spain	2.6	2.5	2.4	3.0	3.1	3.0	2.9	2.7	2.7	2.7	2.6	2.6
France	1.3	1.3	1.5	1.9	2.1	1.8	1.5	1.4	1.5	1.6	1.7	1.6
Italy	2.0	1.9	1.7	2.0	2.1	2.1	2.0	1.9	1.9	1.9	1.9	1.9
Cyprus	1.4	1.8	2.3	2.6	2.5	2.3	2.2	2.2	2.1	2.1	2.0	2.0
Luxembourg	2.2	2.3	2.1	3.5	3.3	2.7	2.6	2.6	2.6	2.4	2.2	1.9
Malta	0.8	-0.9	0.7	2.6	3.5	3.1	1.8	1.5	1.4	2.1	2.6	2.6
Netherlands	1.5	1.9	1.3	1.7	2.0	2.0	2.5	2.6	2.6	2.7	2.6	2.8
Austria	1.8	1.9	2.0	2.1	2.1	2.0	1.9	1.8	1.9	1.9	1.8	1.8
Portugal	2.4	2.5	2.1	2.5	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3
Slovenia	2.6	3.2	3.7	4.4	4.4	4.1	3.3	3.0	3.0	2.9	2.9	2.8
Finland	1.3	1.4	1.5	1.9	2.3	2.4	2.4	2.3	2.3	2.3	2.2	1.6
Euro area	1.9	1.9	1.9	2.4	2.4	2.2	2.0	1.9	2.0	2.0	2.0	2.0
Bulgaria	5.2	4.7	9.0	9.5	8.5	8.1	6.5	6.1	5.8	6.0	5.7	5.8
Czech Republic	2.0	3.1	3.0	3.9	4.0	3.9	3.7	3.6	3.4	3.2	3.2	3.0
Denmark	1.8	1.5	1.2	2.1	2.6	2.5	2.3	2.3	2.4	2.4	2.4	2.4
Estonia	5.1	5.9	6.9	7.2	7.9	7.4	6.7	7.1	5.5	5.1	4.6	4.1
Latvia	7.6	8.5	10.5	11.8	11.5	11.1	9.0	7.7	6.5	5.9	6.0	5.6
Lithuania	4.4	5.0	5.9	7.0	6.9	6.4	6.1	6.5	6.2	5.2	4.6	4.8
Hungary	8.8	8.5	7.2	6.2	5.7	5.3	4.4	4.0	3.0	2.8	2.7	2.7
Poland	2.0	2.4	2.5	3.1	3.1	2.9	2.7	2.6	2.7	2.8	2.9	3.1
Romania	3.9	3.9	5.1	5.9	5.8	5.7	5.5	5.6	4.9	4.3	4.5	4.7
Slovakia	2.1	1.7	1.4	1.7	2.0	2.3	2.7	2.8	3.0	3.0	3.1	3.1
Sweden	1.7	1.4	1.5	1.7	2.2	2.0	1.8	1.9	2.1	1.9	1.9	2.0
United Kingdom	2.9	2.6	1.8	2.2	2.3	2.3	2.1	2.0	1.9	2.0	2.0	2.1
EU27	2.3	2.3	2.1	2.6	2.7	2.5	2.3	2.2	2.2	2.2	2.2	2.2
USA	2.4	2.7	2.3	3.3	2.8	1.7	1.7	1.6	1.5	1.5	1.5	1.6
Japan	-0.1	-0.1	-0.1	0.1	0.2	0.3	0.2	0.3	0.6	0.5	0.5	0.4

TABLE 18 : Price deflator of exports of goods in national currency (percentage change on preceding year, 1992-2009)

	5-year averages			2007				2008		2009			
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	0.0	3.2	1.4	-2.9	2.0	4.9	4.1	0.5	0.9	1.2	1.2	:	1.2
Germany	0.4	0.5	0.0	-1.0	-0.1	0.7	1.4	0.9	0.2	0.3	0.5	:	0.3
Ireland	1.1	3.3	-2.7	-8.8	-2.4	-0.5	0.0	2.4	-0.5	1.5	1.0	:	1.0
Greece	7.5	4.0	3.1	0.3	2.8	5.2	5.5	2.4	2.3	2.4	2.2	:	2.1
Spain	3.5	2.1	1.6	-1.3	1.3	4.9	4.4	2.9	1.5	2.7	2.2	:	1.9
France	-0.8	0.0	-0.2	-2.5	0.5	1.3	2.3	1.0	0.6	1.5	1.7	:	1.6
Italy	5.0	4.3	4.0	0.7	4.5	6.3	6.1	3.9	6.9	3.1	3.4	:	2.5
Cyprus	:	3.6	0.1	-3.6	2.3	2.5	3.6	2.0	2.0	2.1	2.2	:	2.1
Luxembourg	-0.2	0.5	2.6	-1.9	7.2	6.6	1.7	2.5	1.5	2.0	1.0	:	1.0
Malta	:	1.4	0.1	-3.4	-6.4	-0.3	8.1	1.8	4.6	1.7	2.3	:	2.1
Netherlands	-0.9	0.9	0.5	-1.6	0.5	3.2	3.5	-0.3	0.2	0.2	1.2	:	1.5
Austria	0.3	0.6	0.9	-0.9	1.2	2.1	2.6	1.2	1.3	0.9	1.1	:	0.9
Portugal	0.7	1.9	0.9	-2.5	1.1	2.3	4.3	1.7	2.9	1.6	1.8	:	1.3
Slovenia	39.9	5.3	2.8	2.0	2.6	2.7	2.8	1.9	3.8	1.9	3.0	:	2.0
Finland	3.7	-1.6	-0.5	-2.0	-0.6	1.1	2.8	0.7	2.8	0.0	0.4	:	0.3
Euro area	:	1.4	0.7	-1.6	0.9	2.5	2.9	1.3	1.4	1.1	1.4	:	1.2
Bulgaria	:	:	4.3	-0.6	6.5	7.5	14.1	3.0	3.8	3.5	3.3	:	2.5
Czech Republic	:	2.0	-1.7	0.0	2.1	-2.9	-1.1	1.1	-0.3	1.2	0.8	:	1.0
Denmark	0.2	1.3	1.6	-0.7	1.4	5.4	2.7	1.8	-0.2	1.8	1.3	:	1.4
Estonia	:	4.7	1.9	0.3	-0.9	4.0	10.9	5.2	3.9	4.6	2.5	:	2.5
Latvia	:	-0.2	8.8	7.9	13.6	10.1	9.6	4.5	10.0	3.0	6.5	:	5.5
Lithuania	:	0.8	2.8	-0.9	7.7	9.6	4.6	3.8	3.5	3.5	3.5	:	3.5
Hungary	:	8.6	-0.3	-0.4	-1.6	-0.7	6.5	-3.5	-3.5	0.9	1.5	:	1.8
Poland	21.1	6.5	3.9	5.9	9.4	-2.7	2.7	2.1	3.8	2.0	2.7	:	2.9
Romania	115.2	49.7	10.2	18.3	13.3	-2.7	5.8	4.6	1.8	4.5	3.0	:	2.6
Slovakia	:	5.0	1.0	1.7	1.4	-2.1	2.5	-3.4	-4.4	2.3	0.5	:	0.7
Sweden	2.1	0.0	0.1	-2.3	-0.8	2.9	3.1	0.7	2.5	-0.6	1.5	:	1.5
United Kingdom	3.1	-2.7	0.8	1.2	-0.2	1.4	1.9	0.0	2.6	1.5	2.4	:	2.1
EU27	:	:	0.8	-1.0	1.1	2.2	2.8	1.5	1.8	1.2	1.4	:	1.4
USA	-0.3	-1.4	2.3	2.0	3.7	3.1	3.3	2.5	3.4	2.0	3.0	:	2.0
Japan	:	-1.9	-0.2	-3.6	-1.3	1.4	3.8	4.6	3.4	2.0	3.0	:	2.0

TABLE 19 : Price deflator of imports of goods in national currency (percentage change on preceding year, 1992-2009)

24.10.2007

	5-year averages							2007		2008		2009	
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	0.2	3.9	1.5	-2.3	2.8	4.8	4.4	0.3	0.5	1.1	1.2	:	1.1
Germany	-1.2	1.2	-0.1	-3.0	0.1	2.5	3.4	-0.3	-0.1	0.6	0.3	:	0.3
Ireland	1.7	2.4	-1.9	-8.4	-2.3	0.9	4.7	1.9	0.5	2.1	0.5	:	0.8
Greece	7.2	4.1	2.2	1.3	0.9	2.9	5.6	0.9	0.4	1.3	1.7	:	1.4
Spain	2.9	2.1	1.1	-1.6	2.3	4.1	3.7	2.3	1.1	2.5	1.5	:	1.3
France	-1.0	0.2	-0.1	-2.3	0.7	3.1	2.5	0.7	0.8	1.2	1.5	:	1.1
Italy	5.2	4.3	4.8	-0.4	5.0	9.0	10.5	2.7	5.5	3.0	3.2	:	2.0
Cyprus	:	2.3	2.7	-0.9	4.0	6.4	3.8	1.2	1.2	1.4	1.6	:	1.4
Luxembourg	0.4	1.9	1.9	-2.6	6.7	7.4	-0.7	0.5	1.0	1.5	1.5	:	1.5
Malta	:	2.5	1.3	-4.3	-3.3	3.7	9.5	1.0	2.8	2.1	2.8	:	2.2
Netherlands	-1.3	0.2	0.2	-2.4	1.0	3.3	3.9	-0.8	1.5	0.0	1.3	:	1.5
Austria	0.4	0.7	1.0	-0.9	0.7	3.0	4.0	1.3	1.1	1.1	1.3	:	2.0
Portugal	0.6	1.7	1.2	-2.1	2.2	3.9	4.6	0.5	0.8	1.5	1.5	:	1.3
Slovenia	36.0	5.5	3.1	1.5	3.9	5.2	3.3	1.6	4.0	1.8	1.8	:	1.5
Finland	3.2	-1.0	2.1	-0.4	2.2	5.7	7.4	1.2	3.5	1.4	1.3	:	1.5
Euro area	:	1.7	0.9	-2.2	1.5	4.0	4.5	0.7	1.3	1.3	1.3	:	1.1
Bulgaria	:	:	3.6	-3.2	5.9	10.0	9.0	1.3	1.2	1.7	0.7	:	0.9
Czech Republic	:	1.9	-1.7	-0.3	1.4	-0.9	0.0	1.1	-0.5	1.0	0.9	:	0.5
Denmark	-0.7	0.2	0.9	-1.3	0.7	3.8	2.9	1.0	0.4	0.9	1.2	:	1.4
Estonia	:	2.6	2.4	-0.9	1.7	4.2	7.7	1.9	2.2	1.5	1.3	:	1.3
Latvia	:	2.2	8.6	6.9	8.2	12.3	9.7	4.0	7.0	2.0	3.5	:	3.0
Lithuania	:	-1.5	1.4	-3.4	-0.5	8.1	8.4	2.0	3.3	2.4	3.3	:	3.3
Hungary	:	9.1	0.6	0.1	-1.0	1.5	8.0	-3.4	-3.5	1.0	1.7	:	1.6
Poland	19.3	7.7	3.8	9.1	4.9	-3.4	3.7	1.8	2.5	1.5	1.7	:	2.2
Romania	125.4	41.2	6.3	15.4	8.7	-5.3	-1.4	-2.0	-2.4	-1.6	0.5	:	0.2
Slovakia	:	4.6	1.3	0.9	2.4	-2.0	4.2	-3.9	-4.4	3.1	0.7	:	1.0
Sweden	2.7	1.6	1.3	-2.8	0.7	5.2	4.2	-1.0	1.2	-0.6	0.5	:	1.0
United Kingdom	3.4	-2.8	0.4	-0.7	-0.6	3.8	2.7	1.3	0.8	1.3	2.8	:	1.7
EU27	:	:	1.0	-1.5	1.3	3.6	4.1	1.0	1.5	1.3	1.2	:	1.2
USA	-0.2	-1.7	3.3	2.9	5.0	6.4	4.2	1.1	3.1	2.8	4.3	:	2.0
Japan	:	-0.8	4.1	-1.5	2.8	9.3	12.2	4.0	5.0	2.5	4.5	:	3.5

TABLE 20 : Terms of trade of goods (percentage change on preceding year, 1992-2009)

	5-year averages							2007		2008		2009	
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	-0.2	-0.7	-0.1	-0.6	-0.8	0.1	-0.3	0.2	0.4	0.1	0.1	:	0.1
Germany	1.6	-0.7	0.1	2.0	-0.2	-1.8	-2.0	1.2	0.3	-0.4	0.2	:	0.0
Ireland	-0.5	0.8	-0.9	-0.5	-0.2	-1.4	-4.6	0.6	-1.0	-0.5	0.5	:	0.2
Greece	0.3	-0.1	0.9	-1.0	1.9	2.2	-0.1	1.5	1.9	1.1	0.5	:	0.7
Spain	0.6	0.0	0.6	0.2	-1.0	0.8	0.7	0.6	0.5	0.1	0.7	:	0.6
France	0.1	-0.2	-0.1	-0.2	-0.2	-1.8	-0.2	0.3	-0.2	0.3	0.2	:	0.5
Italy	-0.1	0.0	-0.7	1.1	-0.5	-2.5	-3.9	1.2	1.3	0.1	0.2	:	0.5
Cyprus	:	1.3	-2.6	-2.7	-1.6	-3.7	-0.2	0.8	0.8	0.7	0.6	:	0.7
Luxembourg	-0.6	-1.4	0.7	0.8	0.4	-0.7	2.4	2.0	0.5	0.5	-0.5	:	-0.5
Malta	:	-1.1	-1.2	0.9	-3.2	-3.9	-1.3	0.8	1.8	-0.4	-0.5	:	-0.1
Netherlands	0.4	0.7	0.3	0.8	-0.4	-0.1	-0.4	0.5	-1.3	0.2	-0.1	:	0.0
Austria	-0.1	-0.1	-0.1	0.0	0.5	-0.9	-1.3	-0.1	0.2	-0.2	-0.1	:	-1.0
Portugal	0.1	0.2	-0.3	-0.3	-1.1	-1.5	-0.2	1.2	2.0	0.1	0.4	:	0.0
Slovenia	2.9	-0.2	-0.3	0.5	-1.2	-2.4	-0.4	0.3	-0.2	0.1	1.2	:	0.5
Finland	0.5	-0.6	-2.5	-1.5	-2.8	-4.3	-4.3	-0.5	-0.7	-1.4	-0.9	:	-1.2
Euro area	:	-0.3	-0.2	0.5	-0.6	-1.5	-1.5	0.6	0.1	-0.2	0.1	:	0.1
Bulgaria	:	:	0.7	2.6	0.6	-2.2	4.7	1.7	2.6	1.8	2.6	:	1.6
Czech Republic	:	0.1	0.0	0.3	0.7	-2.0	-1.1	0.0	0.2	0.2	-0.1	:	0.5
Denmark	1.0	1.0	0.7	0.6	0.7	1.6	-0.2	0.8	-0.6	0.9	0.1	:	0.0
Estonia	:	2.0	-0.5	1.2	-2.5	-0.2	2.9	3.2	1.7	3.1	1.2	:	1.2
Latvia	:	-2.3	0.2	1.0	5.0	-2.0	0.0	0.5	2.8	1.0	2.9	:	2.4
Lithuania	:	2.3	1.4	2.6	8.3	1.4	-3.5	1.8	0.2	1.1	0.2	:	0.2
Hungary	:	-0.4	-0.9	-0.5	-0.7	-2.2	-1.4	0.0	0.0	-0.2	-0.2	:	0.2
Poland	1.5	-1.1	0.1	-2.9	4.3	0.7	-1.0	0.3	1.2	0.5	1.0	:	0.6
Romania	-4.5	6.0	3.7	2.5	4.3	2.8	7.3	6.7	4.3	6.2	2.5	:	2.4
Slovakia	:	0.4	-0.2	0.7	-1.0	-0.1	-1.7	0.5	0.0	-0.8	-0.2	:	-0.2
Sweden	-0.6	-1.6	-1.2	0.5	-1.4	-2.1	-1.0	1.7	1.3	-0.1	1.0	:	0.5
United Kingdom	-0.3	0.1	0.4	1.9	0.4	-2.2	-0.8	-1.3	1.8	0.2	-0.4	:	0.4
EU27	:	:	-0.1	0.5	-0.3	-1.4	-1.3	0.4	0.3	0.0	0.1	:	0.1
USA	-0.1	0.4	-1.0	-0.9	-1.2	-3.2	-0.8	1.4	0.3	-0.7	-1.2	:	0.1
Japan	:	-1.1	-4.2	-2.1	-4.0	-7.2	-7.5	0.6	-1.5	-0.5	-1.4	:	-1.4

TABLE 21 : Compensation of employees per head (percentage change on preceding year, 1992-2009)

24.10.2007

	5-year averages								2007		2008		2009	
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007	
Belgium	3.4	2.8	2.5	1.7	1.9	1.9	3.2	2.5	2.4	2.5	2.6	:	2.6	
Germany	5.4	2.3	1.6	2.5	1.4	0.5	1.6	1.6	1.9	2.4	2.7	:	2.5	
Ireland	4.5	5.9	5.6	6.4	6.4	5.0	4.5	4.6	5.2	4.5	4.0	:	4.0	
Greece	10.8	7.4	6.5	4.6	5.8	6.5	5.9	5.3	5.3	5.0	5.0	:	5.0	
Spain	6.0	2.5	3.2	3.6	3.0	2.9	3.0	3.2	2.8	2.7	3.0	:	2.8	
France	2.8	2.1	3.1	2.8	3.5	3.2	3.1	3.2	3.0	3.0	3.0	:	3.0	
Italy	4.8	2.1	3.1	3.7	3.3	3.1	2.5	2.5	2.4	3.3	3.7	:	2.3	
Cyprus	:	4.6	3.6	7.5	1.9	1.6	2.2	3.5	3.5	3.5	3.5	:	3.5	
Luxembourg	3.9	3.2	3.5	2.2	3.9	3.8	4.5	3.0	4.5	2.8	3.2	:	3.0	
Malta	7.8	4.5	2.7	4.6	1.4	1.5	2.7	1.6	2.8	1.9	3.0	:	3.1	
Netherlands	2.9	4.1	3.4	4.2	3.5	1.6	2.4	3.4	2.6	3.8	3.4	:	3.8	
Austria	3.9	1.9	2.1	1.8	1.6	2.6	2.4	2.4	2.4	2.5	2.8	:	2.6	
Portugal	8.2	5.6	2.9	2.8	2.6	2.9	2.4	2.7	2.7	2.8	2.8	:	2.8	
Slovenia	:	10.6	7.1	7.9	7.8	5.3	5.5	5.2	6.2	5.5	7.0	:	5.9	
Finland	2.5	3.3	2.9	2.8	3.6	3.8	2.8	2.6	3.3	3.6	5.1	:	4.3	
Euro area	:	2.4	2.5	2.8	2.5	2.0	2.4	2.4	2.6	2.8	3.1	:	2.8	
Bulgaria	:	73.8	6.0	5.1	4.9	5.9	8.2	9.0	14.9	9.5	12.6	:	10.7	
Czech Republic	:	7.8	6.6	8.6	5.7	4.6	6.2	3.9	6.5	3.8	6.6	:	6.8	
Denmark	3.1	3.8	3.5	4.0	2.7	3.3	3.7	4.5	4.2	4.3	4.5	:	4.5	
Estonia	:	14.0	11.5	12.2	11.2	11.0	14.0	14.3	20.2	12.5	15.0	:	12.8	
Latvia	:	7.3	15.1	11.3	14.3	25.3	22.0	18.0	31.0	15.0	21.0	:	15.0	
Lithuania	:	9.1	10.2	8.9	10.9	11.5	15.1	15.1	14.6	11.0	15.4	:	8.3	
Hungary	:	14.2	8.7	9.9	11.4	7.1	2.6	7.1	5.4	5.0	5.1	:	6.4	
Poland	37.8	13.8	1.7	1.7	1.8	1.5	1.4	5.1	6.3	3.9	5.5	:	5.5	
Romania	117.4	69.6	20.6	22.7	17.8	19.3	17.8	16.7	15.3	14.0	16.1	:	13.4	
Slovakia	:	10.7	7.9	8.1	9.2	5.1	7.7	7.4	7.1	6.9	6.9	:	7.3	
Sweden	4.8	4.1	3.0	3.0	3.7	3.2	2.0	4.1	4.2	4.4	4.3	:	4.2	
United Kingdom	3.6	5.1	4.4	4.9	4.3	4.3	5.0	4.4	4.3	4.4	4.5	:	4.3	
EU27	:	4.0	2.9	3.3	2.9	2.5	2.7	3.1	3.0	3.3	3.6	:	3.4	
USA	3.0	4.2	3.9	4.3	4.3	3.6	3.9	4.1	4.7	5.3	3.6	:	3.4	
Japan	1.1	0.0	-0.6	-1.4	-1.3	0.2	1.1	1.3	1.2	1.7	1.7	:	1.8	

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 22 : Real compensation of employees per head ¹ (percentage change on preceding year, 1992-2009)

	5-year averages								2007		2008		2009	
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007	
Belgium	1.6	1.0	0.3	0.0	-0.6	-0.8	0.7	0.7	0.6	0.7	0.5	:	0.6	
Germany	2.8	1.3	0.2	1.0	-0.2	-1.0	0.2	0.0	0.1	1.2	1.1	:	0.9	
Ireland	1.9	1.9	2.5	2.3	4.7	3.3	2.2	1.9	1.9	2.1	1.6	:	1.6	
Greece	-0.7	2.9	3.4	1.7	3.2	2.7	2.4	2.2	2.4	1.9	2.0	:	2.0	
Spain	1.0	-0.3	-0.1	0.5	-0.5	-0.5	-0.4	0.6	0.2	0.3	-0.1	:	0.0	
France	1.1	1.2	1.4	0.9	1.6	1.3	1.2	1.8	1.9	1.2	1.3	:	1.5	
Italy	-0.3	-0.3	0.4	0.9	0.7	0.7	-0.2	0.5	0.5	1.2	1.6	:	0.4	
Cyprus	:	2.2	0.9	3.3	0.1	-1.1	-0.3	1.6	1.2	1.1	0.9	:	1.1	
Luxembourg	1.0	0.9	1.3	0.1	1.3	0.9	1.5	0.7	2.3	0.3	0.8	:	0.9	
Malta	:	2.5	0.7	3.7	-0.8	-1.0	0.3	0.2	1.8	-0.2	0.3	:	0.7	
Netherlands	0.5	1.2	1.2	1.8	2.5	-0.5	0.0	1.9	0.4	1.8	1.1	:	0.9	
Austria	1.1	0.5	0.5	0.2	-0.2	0.9	0.9	0.9	0.6	1.0	0.8	:	0.7	
Portugal	2.3	2.7	0.1	-0.2	0.1	0.4	-0.9	0.4	0.3	0.5	0.4	:	0.5	
Slovenia	:	2.8	2.8	2.5	4.7	2.8	2.9	2.6	2.6	2.9	3.2	:	2.9	
Finland	0.6	0.8	2.1	3.2	2.6	3.6	1.4	0.9	1.6	1.9	2.9	:	2.4	
Euro area	:	0.6	0.4	0.7	0.4	0.0	0.2	0.6	0.7	1.0	1.0	:	0.8	
Bulgaria	:	2.2	2.1	4.8	0.5	0.7	2.9	5.6	7.9	5.8	5.7	:	5.4	
Czech Republic	:	2.4	5.0	9.0	2.3	3.7	3.8	1.5	3.4	1.1	2.7	:	3.5	
Denmark	1.4	1.7	1.7	2.7	1.2	1.1	1.6	2.5	2.4	2.1	1.9	:	2.0	
Estonia	:	7.1	8.8	11.0	9.3	8.1	9.8	9.5	15.0	7.4	8.2	:	7.5	
Latvia	:	3.1	8.8	8.0	6.8	15.2	12.5	9.3	19.6	8.0	11.5	:	9.5	
Lithuania	:	6.0	9.5	9.9	11.2	9.7	11.8	10.9	8.7	7.2	8.5	:	2.8	
Hungary	:	2.1	4.6	5.6	6.5	3.2	-0.6	-0.4	-2.2	1.0	0.2	:	3.5	
Poland	4.7	4.4	-0.2	1.3	-1.2	-0.6	0.5	3.1	3.9	1.4	2.6	:	2.4	
Romania	0.0	5.7	7.4	6.5	3.4	11.4	12.1	11.9	11.3	9.8	12.2	:	9.7	
Slovakia	:	3.5	2.7	1.3	1.7	2.5	2.4	4.5	4.7	3.5	4.2	:	4.0	
Sweden	1.3	2.7	1.6	1.2	2.9	1.9	0.7	3.1	2.3	2.6	2.0	:	2.1	
United Kingdom	0.2	3.0	2.3	2.9	2.6	1.8	2.6	2.0	2.0	2.3	2.3	:	2.2	
EU27	:	1.4	0.8	1.2	0.7	0.3	0.5	0.8	0.9	1.3	1.4	:	1.3	
USA	0.7	2.4	1.5	2.3	1.6	0.6	1.1	2.1	2.2	3.3	1.7	:	2.0	
Japan	0.9	0.3	0.2	-0.5	-0.7	1.0	1.4	1.4	1.7	1.4	1.9	:	1.6	

¹ Deflated by the price deflator of private consumption.

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 23 : Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1992-2009)

24.10.2007

	5-year averages					2007		2008		2009			
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	1.3	1.3	1.4	1.0	2.3	0.4	1.6	1.2	1.3	1.3	1.1	:	1.3
Germany	2.8	2.0	1.6	1.5	1.5	1.3	2.7	1.7	1.1	1.8	1.6	:	1.8
Ireland	3.6	3.2	2.1	2.3	1.1	1.2	1.4	1.5	1.5	1.8	2.2	:	2.3
Greece	0.1	3.6	2.6	3.6	1.6	2.0	2.7	2.2	2.6	2.4	2.4	:	2.3
Spain	1.8	0.2	0.5	0.7	0.6	0.4	0.7	0.9	0.8	0.9	0.8	:	0.6
France	1.6	1.2	1.2	1.1	2.4	1.4	1.2	1.5	0.9	1.4	1.1	:	1.1
Italy	2.1	1.0	0.0	-0.6	0.8	0.3	0.2	1.0	1.1	0.9	0.8	:	0.9
Cyprus	:	2.6	-0.1	-1.9	0.4	0.3	1.1	2.3	2.4	2.4	2.5	:	2.4
Luxembourg	0.1	1.5	1.6	0.3	2.6	2.1	2.3	1.4	1.2	1.5	1.1	:	1.3
Malta	3.5	2.6	1.0	-1.3	0.9	1.2	2.2	2.1	1.7	1.8	1.6	:	1.8
Netherlands	1.4	1.4	1.6	1.4	3.3	1.8	1.2	1.7	0.9	1.5	1.0	:	1.2
Austria	2.2	1.6	1.4	1.0	2.0	1.2	1.7	1.7	1.6	1.8	1.8	:	1.8
Portugal	2.4	1.8	0.5	-0.4	1.4	0.5	0.6	1.1	1.5	1.2	1.4	:	1.2
Slovenia	:	3.9	3.6	3.2	4.1	4.0	4.5	3.6	3.7	3.4	3.6	:	3.5
Finland	3.7	2.2	2.1	1.7	3.3	1.5	3.1	2.0	2.5	2.0	2.7	:	2.5
Euro area	:	1.4	1.0	0.8	1.5	1.0	1.4	1.2	1.1	1.2	1.2	:	1.3
Bulgaria	-1.2	2.4	3.4	2.0	3.9	3.5	3.6	4.6	4.0	4.9	4.7	:	5.2
Czech Republic	:	2.0	4.1	4.7	4.3	5.2	4.5	3.9	4.2	4.2	3.4	:	3.3
Denmark	2.4	1.5	1.6	1.7	2.1	2.4	1.5	1.9	-0.1	2.1	1.2	:	1.6
Estonia	:	8.2	6.9	6.4	8.2	8.3	5.3	7.4	6.6	7.2	6.2	:	6.2
Latvia	-1.5	5.9	6.7	5.4	7.5	8.7	7.0	8.1	8.3	6.9	6.3	:	5.8
Lithuania	-5.9	7.2	5.9	7.9	7.3	5.3	5.9	6.6	6.2	6.2	7.3	:	6.4
Hungary	:	3.2	4.0	3.3	5.4	3.7	2.9	2.7	2.4	2.8	2.4	:	3.1
Poland	:	5.5	3.5	5.1	4.0	1.3	2.8	3.6	2.0	3.5	3.8	:	3.9
Romania	4.3	0.9	6.0	5.5	8.0	3.9	4.7	5.4	4.7	5.3	4.9	:	4.9
Slovakia	:	3.9	4.6	2.3	5.8	4.6	5.8	6.7	6.7	5.5	5.5	:	5.2
Sweden	3.2	1.8	2.7	2.0	4.7	2.5	2.4	1.6	1.4	2.3	2.1	:	2.0
United Kingdom	2.5	1.9	1.6	1.8	2.2	0.9	2.0	2.0	2.6	1.8	1.8	:	1.9
EU27	:	2.0	1.3	1.2	1.9	1.0	1.5	1.5	1.3	1.5	1.5	:	1.6
USA	1.5	1.8	2.1	2.7	2.7	1.7	0.9	0.9	1.0	2.1	1.7	:	1.8
Japan	1.0	1.1	1.9	1.7	2.5	1.5	1.8	2.0	1.6	1.8	1.8	:	2.1

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 24 : Unit labour costs, whole economy ¹ (percentage change on preceding year, 1992-2009)

	5-year averages					2007		2008		2009			
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	2.1	1.5	1.1	0.7	-0.3	1.5	1.6	1.3	1.1	1.2	1.4	:	1.2
Germany	2.5	0.3	0.0	1.0	0.0	-0.8	-1.0	-0.1	0.8	0.6	1.1	:	0.7
Ireland	0.9	2.6	3.4	4.0	5.2	3.8	3.1	3.0	3.6	2.6	1.7	:	1.7
Greece	10.7	3.7	3.9	0.9	4.1	4.4	3.1	3.0	2.6	2.5	2.6	:	2.6
Spain	4.1	2.3	2.6	2.9	2.4	2.5	2.3	2.3	2.0	1.8	2.1	:	2.2
France	1.1	0.8	1.9	1.8	1.1	1.7	1.9	1.6	2.1	1.6	1.9	:	1.9
Italy	2.7	1.1	3.1	4.3	2.4	2.8	2.3	1.6	1.3	2.3	2.9	:	1.4
Cyprus	:	1.9	3.7	9.5	1.6	1.3	1.1	1.2	1.1	1.1	1.0	:	1.1
Luxembourg	3.8	1.7	1.9	1.9	1.3	1.7	2.2	1.6	3.3	1.3	2.2	:	1.7
Malta	4.2	1.9	1.6	6.0	0.5	0.2	0.5	-0.5	1.1	0.1	1.4	:	1.3
Netherlands	1.5	2.7	1.7	2.7	0.2	-0.2	1.1	1.6	1.8	2.2	2.3	:	2.5
Austria	1.7	0.2	0.7	0.8	-0.3	1.4	0.7	0.7	0.8	0.7	1.0	:	0.8
Portugal	5.7	3.8	2.5	3.2	1.2	2.4	1.8	1.6	1.1	1.7	1.4	:	1.6
Slovenia	:	6.4	3.4	4.5	3.5	1.3	0.9	1.6	2.3	2.0	3.3	:	2.3
Finland	-1.1	1.1	0.9	1.1	0.2	2.2	-0.3	0.5	0.8	1.6	2.3	:	1.8
Euro area	:	1.0	1.5	2.0	1.0	1.1	1.0	1.2	1.4	1.6	1.8	:	1.5
Bulgaria	:	69.7	2.5	3.0	1.0	2.4	4.5	4.2	10.5	4.3	7.5	:	5.3
Czech Republic	:	5.7	2.4	3.8	1.3	-0.5	1.5	0.0	2.2	-0.4	3.1	:	3.4
Denmark	0.6	2.4	1.8	2.3	0.5	0.9	2.2	2.5	4.4	2.2	3.2	:	2.8
Estonia	:	5.4	4.3	5.4	2.8	2.6	8.3	6.3	12.7	5.0	8.3	:	6.2
Latvia	:	1.3	7.9	5.6	6.4	15.2	14.0	9.1	21.0	7.5	13.8	:	8.7
Lithuania	:	1.8	4.1	0.9	3.3	5.9	8.8	8.0	7.9	4.5	7.5	:	1.7
Hungary	:	10.6	4.6	6.4	5.8	3.2	-0.3	4.3	3.0	2.1	2.6	:	3.2
Poland	:	7.9	-1.7	-3.2	-2.1	0.3	-1.4	1.4	4.2	0.4	1.6	:	1.6
Romania	108.4	68.1	13.8	16.3	9.0	14.7	12.5	10.7	10.2	8.2	10.7	:	8.1
Slovakia	:	6.5	3.1	5.6	3.2	0.5	1.7	0.6	0.4	1.3	1.3	:	2.0
Sweden	1.6	2.3	0.3	1.0	-1.0	0.7	-0.4	2.4	2.8	2.1	2.1	:	2.1
United Kingdom	1.1	3.2	2.7	3.0	2.0	3.4	2.9	2.4	1.7	2.6	2.7	:	2.4
EU27	:	2.0	1.6	2.1	1.0	1.5	1.2	1.5	1.7	1.8	2.1	:	1.8
USA	1.5	2.4	1.7	1.6	1.6	1.8	2.9	3.2	3.7	3.2	1.8	:	1.6
Japan	0.1	-1.1	-2.4	-3.1	-3.8	-1.3	-0.6	-0.7	-0.4	-0.1	-0.1	:	-0.3

¹ Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment.

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 27 : Total employment (percentage change on preceding year, 1992-2009)

24.10.2007

	5-year averages					2007		2008		2009			
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	0.1	1.3	0.6	0.0	0.7	1.2	1.2	1.1	1.4	0.9	1.0	:	0.9
Germany	-1.4	0.0	-0.7	-1.7	-0.4	-0.5	0.2	0.7	1.4	0.5	0.5	:	0.4
Ireland	2.5	5.6	3.2	2.0	3.1	4.7	4.3	3.4	3.3	2.1	1.3	:	1.5
Greece	1.0	0.6	1.4	1.3	2.9	1.3	1.5	1.4	1.5	1.3	1.4	:	1.4
Spain	-0.3	4.1	2.8	2.4	2.7	3.2	3.2	2.8	3.0	2.5	2.1	:	1.7
France	-0.5	1.7	0.4	0.0	0.1	0.3	0.7	0.9	1.0	0.9	0.9	:	0.7
Italy	-0.9	1.1	0.7	0.6	0.4	-0.2	1.6	0.9	0.8	0.8	0.6	:	0.6
Cyprus	:	1.6	3.2	3.8	3.8	3.6	2.7	1.5	1.5	1.5	1.5	:	1.5
Luxembourg	2.5	4.7	2.8	1.8	2.2	2.9	3.7	3.6	4.0	3.2	3.6	:	3.2
Malta	1.5	0.8	0.7	1.0	-0.8	1.8	0.9	0.9	1.4	1.0	1.2	:	1.1
Netherlands	1.0	2.4	-0.2	-1.1	-1.0	-0.3	1.8	1.1	1.8	1.0	1.6	:	1.3
Austria	-0.2	0.9	0.6	0.2	0.3	0.9	1.6	1.2	1.6	0.7	0.9	:	0.6
Portugal	-0.8	1.9	0.2	-0.4	0.1	0.0	0.7	0.7	0.3	0.8	0.6	:	0.9
Slovenia	:	0.3	0.6	-0.4	0.3	0.2	1.2	0.7	2.2	0.5	0.9	:	0.5
Finland	-2.3	2.3	0.9	0.1	0.4	1.4	1.8	1.0	1.8	0.7	0.8	:	0.3
Euro area	:	1.4	0.6	0.0	0.5	0.5	1.3	1.4	1.5	1.2	1.0	:	0.8
Bulgaria	-1.6	-0.4	2.2	3.0	2.6	2.7	2.4	1.4	2.2	1.2	1.2	:	1.0
Czech Republic	:	-0.8	0.4	-1.0	0.1	1.1	1.7	1.0	1.6	0.7	1.5	:	1.6
Denmark	0.2	1.0	0.3	-1.3	0.0	0.7	2.0	0.4	2.0	-0.1	0.1	:	-0.3
Estonia	:	-1.8	1.9	0.8	0.1	1.8	5.6	1.2	1.1	0.9	0.2	:	0.0
Latvia	-7.4	0.3	2.1	1.7	1.1	1.7	4.6	1.4	2.0	0.9	0.8	:	0.4
Lithuania	-2.7	-2.1	2.0	2.2	0.0	2.5	1.7	0.7	2.2	0.1	0.2	:	-0.1
Hungary	:	1.3	0.3	0.8	-0.5	0.4	0.9	-0.3	-0.3	-0.2	0.1	:	0.2
Poland	:	-1.0	0.5	-1.2	1.3	2.3	3.3	2.4	4.4	1.9	1.7	:	1.3
Romania	-2.8	-1.8	0.1	-0.3	0.4	0.2	2.8	1.2	1.2	1.0	1.0	:	0.8
Slovakia	:	-1.1	0.9	1.8	-0.3	1.4	2.3	1.7	1.9	0.9	1.5	:	1.0
Sweden	-2.0	1.3	0.3	-0.3	-0.6	0.4	1.8	2.1	2.0	0.9	1.0	:	0.3
United Kingdom	0.0	1.2	0.9	1.0	1.0	0.9	0.8	0.8	0.5	0.6	0.4	:	0.6
EU27	:	0.9	0.6	0.1	0.6	0.8	1.5	1.4	1.5	1.1	0.9	:	0.8
USA	1.8	1.7	0.6	-0.1	0.9	1.4	1.9	1.3	1.1	0.6	0.0	:	0.7
Japan	0.4	-0.6	-0.2	-0.3	0.2	0.4	0.4	0.3	0.3	0.3	0.1	:	0.2

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 28 : Number of unemployed (as a percentage of civilian labour force, 1992-2009) ¹

	5-year averages					2007		2008		2009			
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	8.9	8.1	8.1	8.2	8.4	8.4	8.2	7.8	7.5	7.6	7.2	:	6.9
Germany	7.8	8.3	9.6	9.3	9.7	10.7	9.8	7.3	8.1	6.5	7.7	:	7.6
Ireland	13.9	6.3	4.5	4.7	4.5	4.3	4.4	4.5	4.5	4.6	5.3	:	5.5
Greece	8.8	10.9	9.8	9.7	10.5	9.8	8.9	8.5	8.4	8.1	7.9	:	7.5
Spain	17.7	13.1	10.1	11.1	10.6	9.2	8.5	8.1	8.1	7.8	8.5	:	9.1
France	11.1	10.1	9.4	9.5	9.6	9.7	9.5	8.9	8.6	8.5	8.2	:	8.1
Italy	10.3	10.5	7.9	8.4	8.0	7.7	6.8	6.6	5.9	6.4	5.7	:	5.5
Cyprus	:	3.9	4.4	4.1	4.6	5.2	4.6	4.8	4.3	4.8	4.1	:	3.9
Luxembourg	2.7	2.4	4.1	3.7	5.1	4.5	4.7	4.6	4.7	4.4	4.5	:	4.2
Malta	5.2	6.8	7.4	7.6	7.4	7.3	7.3	7.4	6.8	7.3	6.6	:	6.5
Netherlands	6.2	3.4	3.9	3.7	4.6	4.7	3.9	3.2	3.1	2.7	2.7	:	2.4
Austria	3.9	4.0	4.6	4.3	4.8	5.2	4.7	4.4	4.3	4.3	4.2	:	4.2
Portugal	6.3	4.9	6.7	6.3	6.7	7.6	7.7	7.7	8.0	7.5	8.0	:	7.7
Slovenia	:	6.9	6.4	6.7	6.3	6.5	6.0	5.8	4.9	5.6	4.7	:	4.6
Finland	14.9	10.6	8.6	9.0	8.8	8.4	7.7	7.2	6.7	6.8	6.4	:	6.3
Euro area	:	9.2	8.6	8.7	8.9	8.9	8.3	7.2	7.3	6.8	7.1	:	7.1
Bulgaria	14.1	16.4	12.6	13.7	12.0	10.1	9.0	8.2	7.5	7.4	6.8	:	6.0
Czech Republic	:	7.7	7.7	7.8	8.3	7.9	7.1	6.4	5.9	6.1	5.4	:	5.0
Denmark	7.8	4.8	4.8	5.4	5.5	4.8	3.9	3.3	3.0	3.3	2.7	:	2.7
Estonia	:	11.1	8.8	10.0	9.7	7.9	5.9	6.6	4.9	6.2	4.8	:	4.9
Latvia	13.8	14.0	9.8	10.5	10.4	8.9	6.8	6.3	5.8	6.0	5.5	:	5.6
Lithuania	5.0	13.3	10.2	12.4	11.4	8.3	5.6	4.8	4.2	4.3	4.2	:	4.4
Hungary	10.3	7.3	6.5	5.9	6.1	7.2	7.5	7.8	7.3	7.8	7.0	:	6.9
Poland	13.4	13.8	18.0	19.6	19.0	17.7	13.8	11.0	9.4	9.0	7.3	:	6.4
Romania	5.8	6.2	7.6	7.0	8.1	7.2	7.3	7.2	7.1	7.1	7.0	:	6.9
Slovakia	:	15.8	16.8	17.6	18.2	16.3	13.4	12.2	11.2	11.7	9.7	:	9.0
Sweden	8.5	7.1	6.3	5.6	6.3	7.4	7.1	6.4	6.1	5.9	5.8	:	5.7
United Kingdom	9.1	5.8	5.0	4.9	4.7	4.8	5.3	5.0	5.3	4.9	5.4	:	5.3
EU27	:	:	8.8	9.0	9.1	8.9	8.2	7.2	7.1	6.7	6.8	:	6.6
USA	6.3	4.5	5.4	6.0	5.5	5.1	4.6	4.7	4.6	5.0	5.3	:	5.4
Japan	2.8	4.4	4.8	5.3	4.7	4.4	4.1	4.1	3.9	4.2	4.0	:	4.0

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

TABLE 29 : Nominal bilateral exchange rates against Ecu/euro (1992-2009)

24.10.2007

	5-year averages					2007		2008		2009			
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	39.91	40.43	:	:	:	:	:	:	:	:	:	:	:
Germany	1.93	1.96	:	:	:	:	:	:	:	:	:	:	:
Ireland	0.79	0.78	:	:	:	:	:	:	:	:	:	:	:
Greece	282.43	328.65	:	:	:	:	:	:	:	:	:	:	:
Spain	152.86	166.45	:	:	:	:	:	:	:	:	:	:	:
France	6.62	6.58	:	:	:	:	:	:	:	:	:	:	:
Italy	1888.18	1936.35	:	:	:	:	:	:	:	:	:	:	:
Cyprus	0.59	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	:	:	:
Luxembourg	39.91	40.43	:	:	:	:	:	:	:	:	:	:	:
Malta	0.45	0.42	0.42	0.43	0.43	0.43	0.43	0.43	0.43	0.43	:	:	:
Netherlands	2.17	2.21	:	:	:	:	:	:	:	:	:	:	:
Austria	13.60	13.79	:	:	:	:	:	:	:	:	:	:	:
Portugal	190.37	200.35	:	:	:	:	:	:	:	:	:	:	:
Slovenia	143.42	197.20	235.62	233.85	239.09	239.57	239.60	:	:	:	:	:	:
Finland	6.05	5.94	:	:	:	:	:	:	:	:	:	:	:
Euro area	:	:	:	:	:	:	:	:	:	:	:	:	:
Bulgaria	0.09	1.95	1.95	1.95	1.95	1.96	1.96	1.96	1.96	1.96	1.96	:	1.96
Czech Republic	34.86	35.71	30.53	31.85	31.89	29.78	28.34	27.98	27.93	27.96	27.49	:	27.49
Denmark	7.53	7.46	7.44	7.43	7.44	7.45	7.46	7.45	7.45	7.45	7.45	:	7.45
Estonia	15.36	15.68	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	:	15.65
Latvia	0.75	0.61	0.66	0.64	0.67	0.70	0.70	0.71	0.70	0.71	0.70	:	0.70
Lithuania	4.45	4.11	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	:	3.45
Hungary	152.74	244.33	252.11	253.62	251.66	248.05	264.26	247.53	250.70	245.89	250.28	:	250.28
Poland	2.88	3.91	4.14	4.40	4.53	4.02	3.90	3.85	3.80	3.84	3.73	:	3.73
Romania	0.20	1.61	3.62	3.76	4.05	3.62	3.53	3.35	3.31	3.34	3.35	:	3.35
Slovakia	:	41.54	40.01	41.49	40.02	38.60	37.23	33.64	33.83	33.40	33.63	:	33.63
Sweden	8.73	8.81	9.19	9.12	9.12	9.28	9.25	9.26	9.21	9.29	9.14	:	9.14
United Kingdom	0.79	0.65	0.67	0.69	0.68	0.68	0.68	0.68	0.68	0.68	0.70	:	0.70
EU27	:	:	:	:	:	:	:	:	:	:	:	:	:
USA	1.25	1.03	1.16	1.13	1.24	1.24	1.26	1.33	1.36	1.34	1.42	:	1.42
Japan	135.36	122.59	133.27	130.97	134.44	136.85	146.02	158.89	161.70	159.86	165.81	:	165.81

TABLE 30 : Nominal effective exchange rates to rest of a group¹ of industrialised countries (percentage change on preceding year, 1992-2009)

	5-year averages					2007		2008		2009		
	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	-1.1	1.4	4.5	1.1	-0.3	0.4	1.0	1.2	0.1	0.5	:	0.0
Germany	-1.1	1.8	5.9	1.7	-0.6	0.5	1.4	1.6	0.1	0.6	:	0.0
Ireland	-1.9	2.4	7.3	2.3	-0.1	0.6	1.9	2.4	0.2	1.2	:	0.0
Greece	0.2	1.7	5.0	1.3	-0.8	0.6	0.9	0.7	0.1	0.2	:	0.0
Spain	-1.1	1.4	4.4	1.1	-0.4	0.4	1.0	1.2	0.1	0.5	:	0.0
France	-1.0	1.7	5.3	1.4	-0.3	0.6	1.4	1.6	0.1	0.6	:	0.0
Italy	0.1	1.9	5.7	1.7	-0.6	0.6	1.3	1.5	0.1	0.6	:	0.0
Cyprus	5.3	1.6	4.2	0.8	0.7	0.5	-0.2	-0.2	0.0	0.2	:	0.0
Luxembourg	-1.1	1.4	4.5	1.1	-0.3	0.4	1.0	1.2	0.1	0.5	:	0.0
Malta	0.2	1.4	3.4	1.9	-0.4	1.0	2.2	3.0	0.2	1.2	:	0.0
Netherlands	-1.0	1.2	3.9	0.9	-0.3	0.3	0.8	1.0	0.1	0.5	:	0.0
Austria	-0.1	1.1	3.7	1.0	-0.7	0.3	0.8	0.9	0.1	0.4	:	0.0
Portugal	-1.1	1.1	3.5	0.8	-0.2	0.3	0.8	1.1	0.1	0.5	:	0.0
Slovenia	-3.9	-1.1	-0.6	-1.4	-1.1	0.2	0.2	0.2	0.0	0.1	:	0.0
Finland	-1.1	1.7	5.4	1.6	-0.4	0.5	1.3	1.4	0.1	0.4	:	0.0
Euro area	-1.5	3.2	10.9	2.9	-1.4	0.8	1.2	2.2	0.1	1.0	:	0.0
Bulgaria	-32.4	1.7	4.7	1.2	-1.3	0.8	0.8	0.5	0.1	-0.1	:	0.0
Czech Republic	0.8	4.5	-0.3	0.4	6.2	5.2	1.3	1.6	0.1	1.8	:	0.0
Denmark	-1.0	1.4	4.7	1.2	-0.5	0.3	1.2	1.3	0.1	0.3	:	0.0
Estonia	-0.4	1.0	3.2	0.9	-0.1	0.2	0.6	0.9	0.1	0.2	:	0.0
Latvia	4.3	-3.4	-5.9	-3.2	-5.0	0.0	-0.9	-0.3	-0.1	-0.3	:	0.0
Lithuania	8.3	2.1	5.0	1.1	-0.5	0.1	0.9	0.7	0.1	0.1	:	0.0
Hungary	-4.7	0.3	-1.2	1.5	0.6	-6.1	6.9	5.6	0.7	0.3	:	0.0
Poland	-1.1	-0.5	-10.1	-2.3	12.1	3.5	1.4	2.8	0.4	2.0	:	0.0
Romania	-30.2	-4.7	-13.8	-6.6	11.2	3.6	5.9	7.1	0.4	-1.1	:	0.0
Slovakia	-1.4	3.6	5.8	4.6	2.4	3.7	10.7	10.2	0.7	0.7	:	0.0
Sweden	-2.6	1.8	6.2	2.1	-2.4	0.8	1.4	1.9	-0.1	1.1	:	0.0
United Kingdom	4.6	0.2	-3.9	4.5	-1.2	1.0	2.9	2.3	-0.1	-1.4	:	0.0
EU27	-1.5	5.2	12.7	6.3	-0.7	2.6	5.8	6.3	0.4	1.3	:	0.0
USA	5.0	-3.9	-9.0	-6.5	-2.0	-0.8	-2.0	-4.7	-0.5	-4.1	:	0.0
Japan	1.5	-2.5	-0.3	1.6	-2.4	-5.8	-5.5	-6.5	-0.3	-1.1	:	0.0

¹ 35 countries : EUR26 (excl. LU), TR, CH, NO, US, CA, JP, AU, MX and NZ.

TABLE 31 : Relative unit labour costs, to rest of a group ¹ of industrialised countries (nat. curr.) (percentage change on preceding year, 1992-2009) 24.10.2007

	5-year averages		2003	2004	2005	2006	2007		2008		2009	
	1997-01	2002-06					IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	-0.7	-0.4	-1.3	-1.3	0.2	0.3	-0.3	-0.8	-0.6	-0.5	:	:
Germany	-2.9	-1.8	-1.1	-1.1	-2.6	-2.8	-2.0	-1.4	-1.4	-0.9	:	:
Ireland	0.4	1.8	2.1	4.2	2.2	1.4	1.2	1.5	0.7	-0.2	:	:
Greece	-1.9	1.6	-2.2	2.6	2.5	1.4	0.8	0.0	0.3	0.1	:	:
Spain	-0.3	0.8	0.5	1.3	0.8	0.8	0.6	0.1	0.0	0.2	:	:
France	-1.7	0.2	-0.4	0.1	0.2	0.5	-0.1	0.1	-0.2	-0.1	:	:
Italy	-2.1	1.4	2.3	1.4	1.2	0.8	-0.2	-0.9	0.5	1.0	:	:
Cyprus	-6.8	1.5	7.0	0.0	-0.9	-0.8	-0.7	-0.9	-0.9	-1.2	:	:
Luxembourg	:	:	:	:	:	:	-0.3	:	-0.6	:	:	:
Malta	0.0	0.3	4.5	-0.1	-1.1	-1.0	-2.1	-0.8	-1.7	-0.3	:	:
Netherlands	0.6	0.3	0.8	-0.7	-1.5	0.0	0.2	-0.1	0.6	0.5	:	:
Austria	-2.4	-0.8	-1.3	-1.3	0.2	-0.3	-0.7	-1.1	-0.9	-1.0	:	:
Portugal	1.7	0.7	1.0	-0.1	0.7	0.2	-0.2	-0.8	-0.2	-0.5	:	:
Slovenia	3.5	1.8	2.3	2.5	0.0	-0.1	0.1	0.4	0.4	1.2	:	:
Finland	-1.7	-0.6	-0.7	-0.6	0.8	-1.8	-1.3	-1.6	-0.3	0.3	:	:
Euro area	-4.0	-0.6	-0.3	-0.3	-1.3	-1.3	-0.5	-1.6	-0.3	-0.6	:	:
Bulgaria	58.5	-0.4	-0.7	-1.2	0.0	2.8	1.8	7.7	2.0	4.9	:	:
Czech Republic	2.8	1.1	1.8	0.6	-1.5	0.8	-2.7	0.4	-3.4	1.2	:	:
Denmark	0.1	0.5	0.6	-0.1	-0.4	0.9	0.9	2.4	0.4	1.3	:	:
Estonia	2.3	2.6	3.5	1.9	0.4	6.6	4.1	9.3	2.8	5.4	:	:
Latvia	-1.9	6.2	3.7	5.5	13.4	12.1	6.8	17.7	5.5	10.9	:	:
Lithuania	-2.1	2.1	-1.5	2.4	3.7	6.6	5.6	4.1	2.3	4.5	:	:
Hungary	7.3	3.1	4.2	4.9	2.0	-1.4	2.8	0.9	0.5	0.5	:	:
Poland	5.2	-3.3	-5.3	-3.1	-0.9	-2.5	-0.1	2.2	-1.3	-0.5	:	:
Romania	60.9	11.4	13.0	7.3	12.7	11.0	8.6	7.8	6.1	8.4	:	:
Slovakia	3.1	1.7	3.5	2.4	-0.3	0.9	-0.7	-1.6	-0.1	-0.7	:	:
Sweden	-0.5	-1.3	-0.8	-1.9	-0.9	-2.1	0.7	0.6	0.1	0.2	:	:
United Kingdom	0.8	1.1	1.2	1.0	2.0	1.4	0.6	-0.5	0.7	0.8	:	:
EU27	-2.7	0.0	0.4	0.2	-0.4	-0.8	-1.1	-1.0	-0.8	0.5	:	:
USA	-0.8	0.2	-1.0	0.7	0.0	1.5	1.6	1.8	1.6	-0.1	:	:
Japan	-3.5	-4.2	-5.1	-5.2	-3.1	-2.8	-3.0	-3.0	-2.4	-2.0	:	:

¹ 35 countries : EUR26 (excl. LU), TR, CH, NO, US, CA, JP, AU, MX and NZ.

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 32 : Real effective exchange rate : ulc relative to rest of a group ¹ of industrialised countries (usd) (% change on preceding year, 1992-2009)

	5-year averages		2003	2004	2005	2006	2007		2008		2009	
	1997-01	2002-06					IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	-1.8	0.9	3.1	-0.2	-0.1	0.7	0.7	0.4	-0.5	0.0	:	:
Germany	-3.9	0.0	4.8	0.6	-3.2	-2.3	-0.7	0.2	-1.2	-0.3	:	:
Ireland	-1.5	4.2	9.5	6.6	2.2	1.9	3.1	4.0	0.9	1.0	:	:
Greece	-1.7	3.3	2.8	3.9	1.6	1.9	1.7	0.8	0.4	0.3	:	:
Spain	-1.4	2.2	5.0	2.4	0.4	1.2	1.6	1.3	0.1	0.7	:	:
France	-2.7	2.0	4.9	1.4	-0.1	1.0	1.3	1.7	0.0	0.5	:	:
Italy	-2.0	3.3	8.1	3.1	0.6	1.4	1.1	0.7	0.6	1.5	:	:
Cyprus	-1.8	3.1	11.5	0.8	-0.2	-0.3	-0.9	-1.2	-0.9	-1.0	:	:
Luxembourg	:	:	:	:	:	:	0.7	:	-0.5	:	:	:
Malta	0.2	1.7	8.0	1.8	-1.5	0.0	0.0	2.2	-1.5	0.9	:	:
Netherlands	-0.4	1.4	4.8	0.2	-1.8	0.3	1.0	0.9	0.7	0.9	:	:
Austria	-2.6	0.3	2.3	-0.3	-0.5	0.0	0.1	-0.2	-0.8	-0.6	:	:
Portugal	0.6	1.7	4.5	0.8	0.5	0.5	0.6	0.3	-0.1	0.0	:	:
Slovenia	-0.6	0.6	1.7	1.1	-1.1	0.0	0.3	0.6	0.4	1.3	:	:
Finland	-2.7	1.1	4.6	1.0	0.4	-1.2	0.0	-0.1	-0.2	0.7	:	:
Euro area	-5.4	2.5	10.6	2.5	-2.6	-0.6	0.7	0.6	-0.2	0.4	:	:
Bulgaria	7.2	1.3	3.9	0.0	-1.2	3.6	2.6	8.2	2.0	4.8	:	:
Czech Republic	3.7	5.7	1.5	1.0	4.6	6.0	-1.4	2.0	-3.4	3.0	:	:
Denmark	-0.9	1.9	5.3	1.1	-0.8	1.2	2.1	3.7	0.5	1.6	:	:
Estonia	1.9	3.6	6.9	2.8	0.3	6.8	4.7	10.2	2.9	5.5	:	:
Latvia	2.4	2.6	-2.5	2.1	7.7	12.1	5.9	17.3	5.4	10.6	:	:
Lithuania	6.0	4.3	3.4	3.5	3.1	6.7	6.6	4.8	2.4	4.6	:	:
Hungary	2.2	3.3	3.0	6.5	2.6	-7.4	9.9	6.6	1.2	0.8	:	:
Poland	4.1	-3.8	-14.9	-5.3	11.0	0.9	1.3	5.0	-0.9	1.5	:	:
Romania	12.3	6.1	-2.5	0.2	25.4	15.0	15.1	15.5	6.5	7.2	:	:
Slovakia	1.7	5.3	9.5	7.1	2.1	4.6	10.0	8.5	0.6	0.0	:	:
Sweden	-3.0	0.5	5.3	0.1	-3.2	-1.3	2.1	2.6	0.0	1.3	:	:
United Kingdom	5.4	1.4	-2.8	5.6	0.8	2.5	3.5	1.8	0.6	-0.6	:	:
EU27	-4.1	5.1	13.1	6.5	-1.1	1.7	4.6	5.2	-0.4	1.8	:	:
USA	4.2	-3.7	-10.0	-5.9	-2.0	0.6	-0.5	-3.0	1.1	-4.2	:	:
Japan	-2.1	-6.6	-5.4	-3.7	-5.4	-8.4	-8.4	-9.3	-2.7	-3.0	:	:

¹ 35 countries : EUR26 (excl. LU), TR, CH, NO, US, CA, JP, AU, MX and NZ.

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 33 : Short term interest rates (1992-2007)

24.10.2007

	5-year averages												
	1992-96	1997-01	2002-06	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Belgium	6.2	3.7	2.6	3.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3
Germany	6.0	3.7	2.6	3.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3
Ireland	7.8	4.6	2.6	5.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3
Greece	20.3	9.8	2.6	14.0	10.1	7.7	4.3	3.3	2.3	2.1	2.2	3.1	4.3
Spain	10.0	4.2	2.6	4.3	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3
France	7.1	3.7	2.6	3.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3
Italy	10.3	4.7	2.6	4.9	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3
Cyprus	:	:	4.1	:	6.3	6.4	5.9	4.4	3.9	4.7	4.3	3.4	4.3
Luxembourg	:	:	:	:	:	:	:	:	:	:	2.2	3.1	4.3
Malta	:	5.1	3.4	5.4	5.2	4.9	4.9	4.0	3.3	2.9	3.2	3.5	4.3
Netherlands	5.7	3.7	2.6	3.4	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3
Austria	5.9	3.7	2.6	3.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3
Portugal	11.5	4.3	2.6	4.3	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3
Slovenia	:	:	5.4	10.3	8.6	10.9	10.9	8.0	6.8	4.7	4.0	3.6	4.3
Finland	7.1	3.7	2.6	3.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3
Euro area	7.9	4.1	2.6	4.1	3.2	4.5	4.3	3.3	2.4	2.1	2.2	3.1	4.3
Bulgaria	:	:	3.9	5.9	5.9	4.6	5.1	4.9	3.7	3.7	3.6	3.7	4.5
Czech Republic	:	9.5	2.5	14.3	6.9	5.4	5.2	3.5	2.3	2.4	2.0	2.3	3.0
Denmark	7.8	4.2	2.7	4.3	3.4	5.0	4.7	3.5	2.4	2.2	2.2	3.2	4.4
Estonia	:	8.3	3.0	13.9	7.8	5.7	5.3	3.9	2.9	2.5	2.4	3.2	4.6
Latvia	:	7.0	4.0	8.4	8.4	5.4	6.9	4.4	3.8	4.2	3.1	4.4	7.7
Lithuania	:	:	3.0	:	13.9	8.6	5.9	3.7	2.8	2.7	2.4	3.1	5.0
Hungary	:	15.1	8.6	17.9	15.1	11.4	10.9	9.2	8.5	11.5	6.7	7.2	6.7
Poland	:	18.7	6.1	20.4	14.7	18.8	16.1	9.0	5.7	6.2	5.3	4.2	4.7
Romania	:	64.4	16.1	69.5	79.6	50.7	41.3	27.3	17.7	19.1	8.4	8.1	6.4
Slovakia	:	15.0	5.2	21.1	15.7	8.6	7.8	7.8	6.2	4.7	2.9	4.3	4.3
Sweden	8.9	4.1	2.9	4.4	3.3	4.1	4.1	4.3	3.2	2.3	1.9	2.6	3.8
United Kingdom	6.8	6.2	4.4	7.4	5.6	6.2	5.0	4.1	3.7	4.6	4.8	4.9	6.0
EU27	:	8.2	3.3	11.7	5.0	5.9	5.4	4.1	3.0	3.1	2.9	3.5	4.6
USA	4.7	5.4	2.7	5.6	5.4	6.5	3.8	1.8	1.2	1.6	3.6	5.2	5.3
Japan	2.3	0.4	0.1	0.7	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.3	0.8

TABLE 34 : Long term interest rates (1992-2007)

	5-year averages												
	1992-96	1997-01	2002-06	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Belgium	7.5	5.2	4.1	4.8	4.8	5.6	5.1	5.0	4.2	4.2	3.4	3.8	4.4
Germany	6.9	5.0	4.0	4.6	4.5	5.3	4.8	4.8	4.1	4.0	3.4	3.8	4.3
Ireland	8.0	5.3	4.1	4.8	4.7	5.5	5.0	5.0	4.1	4.1	3.3	3.8	4.3
Greece	19.9	7.2	4.3	8.5	6.3	6.1	5.3	5.1	4.3	4.3	3.6	4.1	4.6
Spain	10.4	5.3	4.1	4.8	4.7	5.5	5.1	5.0	4.1	4.1	3.4	3.8	4.4
France	7.3	5.0	4.1	4.6	4.6	5.4	4.9	4.9	4.1	4.1	3.4	3.8	4.4
Italy	11.3	5.4	4.2	4.9	4.7	5.6	5.2	5.0	4.3	4.3	3.6	4.1	4.5
Cyprus	:	7.2	5.1	6.7	7.4	7.6	7.6	5.7	4.7	5.8	5.2	4.1	4.4
Luxembourg	7.0	5.1	4.0	4.7	4.7	5.5	4.9	4.7	4.0	4.2	3.4	3.9	4.5
Malta	:	:	4.9	:	:	5.8	6.2	5.8	5.0	4.7	4.6	4.3	4.9
Netherlands	6.9	5.0	4.1	4.6	4.6	5.4	5.0	4.9	4.1	4.1	3.4	3.8	4.3
Austria	7.1	5.1	4.1	4.7	4.7	5.6	5.1	5.0	4.2	4.2	3.4	3.8	4.3
Portugal	10.8	5.4	4.1	4.9	4.8	5.6	5.2	5.0	4.2	4.1	3.4	3.9	4.5
Slovenia	:	:	:	:	:	:	:	:	6.4	4.7	3.8	3.9	4.6
Finland	9.1	5.2	4.1	4.8	4.7	5.5	5.0	5.0	4.1	4.1	3.4	3.8	4.3
Euro area	8.6	5.2	4.1	4.8	4.7	5.4	5.0	4.9	4.2	4.1	3.4	3.8	4.3
Bulgaria	:	:	5.6	:	:	:	:	8.3	6.5	5.4	3.9	4.2	4.8
Czech Republic	:	:	4.2	:	:	6.9	6.3	4.9	4.1	4.8	3.5	3.8	4.3
Denmark	7.9	5.4	4.2	4.9	4.9	5.6	5.1	5.1	4.3	4.3	3.4	3.8	4.4
Estonia	:	:	5.3	13.2	11.4	10.5	10.2	8.4	5.3	4.4	4.0	4.3	5.8
Latvia	:	:	4.6	:	:	:	7.6	5.4	4.9	4.9	3.9	4.1	5.3
Lithuania	:	:	4.7	:	:	:	8.2	6.1	5.3	4.5	3.7	4.1	4.8
Hungary	:	:	7.2	:	9.9	8.6	8.0	7.1	6.8	8.2	6.6	7.1	6.7
Poland	:	:	6.1	:	9.5	11.8	10.7	7.4	5.8	6.9	5.2	5.2	5.5
Romania	:	:	:	:	:	:	:	:	:	:	:	7.2	7.7
Slovakia	:	:	5.0	:	:	8.3	8.0	6.9	5.0	5.0	3.5	4.4	4.5
Sweden	9.3	5.4	4.3	5.0	5.0	5.4	5.1	5.3	4.6	4.4	3.4	3.7	4.2
United Kingdom	8.2	5.6	4.7	5.6	5.0	5.3	5.0	4.9	4.6	4.9	4.5	4.4	5.1
EU27	:	:	:	:	:	:	:	:	:	:	:	4.1	4.6
USA	6.7	5.7	4.4	5.3	5.6	6.0	5.0	4.6	4.0	4.3	4.3	4.8	4.7
Japan	4.0	1.7	1.4	1.3	1.8	1.8	1.3	1.3	1.0	1.5	1.4	1.7	1.7

TABLE 35 : Total expenditure, general government (as a percentage of GDP, 1992-2009) ¹

24.10.2007

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	52.7	49.9	50.0	51.1	49.1	51.6	48.4	48.7	48.3	48.5	48.2	:	48.0
Germany	47.8	47.4	47.2	48.5	47.1	46.9	45.4	44.3	43.8	43.7	43.3	:	42.8
Ireland	39.3	34.0	33.9	33.4	33.9	34.2	34.2	35.1	35.7	35.5	36.6	:	36.8
Greece	44.3	45.6	44.0	44.9	45.5	43.0	42.0	45.4	42.3	45.2	41.8	:	41.9
Spain	44.6	40.0	38.6	38.4	38.9	38.5	38.6	38.3	38.4	38.5	38.7	:	39.4
France	53.3	52.5	53.2	53.3	53.2	53.6	53.3	53.2	53.2	52.7	52.8	:	52.7
Italy	53.2	48.3	48.3	48.3	47.7	48.2	50.1	48.1	48.6	48.3	48.6	:	48.4
Cyprus	:	:	43.1	45.0	42.8	43.6	43.8	44.0	45.9	43.9	45.5	:	45.4
Luxembourg	:	39.3	41.3	41.9	42.5	41.8	39.0	39.0	38.2	38.0	37.2	:	36.6
Malta	:	42.6	45.2	47.8	45.8	45.1	44.1	44.3	42.9	43.4	42.6	:	41.8
Netherlands	52.0	45.9	46.1	47.1	46.1	45.2	46.1	47.0	47.0	46.2	47.4	:	46.9
Austria	53.3	52.2	50.1	50.9	50.1	49.8	49.2	48.3	48.4	47.9	48.0	:	47.8
Portugal	41.2	43.0	46.1	45.5	46.5	47.8	46.4	45.8	45.4	45.5	45.4	:	45.2
Slovenia	:	47.1	46.4	47.1	46.5	46.0	45.3	45.4	43.8	44.4	43.2	:	42.2
Finland	59.9	51.3	49.5	49.9	50.0	50.3	48.7	47.7	47.6	47.3	47.6	:	47.4
Euro area	:	:	47.5	48.1	47.4	47.5	47.1	46.5	46.4	46.2	46.2	:	46.0
Bulgaria	:	:	39.3	40.3	39.7	39.6	37.1	37.3	36.7	37.6	36.3	:	36.3
Czech Republic	:	43.0	45.5	47.3	45.2	44.9	43.6	43.1	43.0	43.0	43.0	:	42.9
Denmark	59.0	55.1	53.6	55.0	54.8	52.6	51.1	50.1	50.8	49.6	51.4	:	51.2
Estonia	:	38.0	34.2	34.6	34.1	33.4	33.0	32.4	34.7	32.4	35.7	:	36.5
Latvia	:	38.1	35.8	34.8	35.8	35.6	37.2	37.3	37.2	36.4	37.6	:	37.0
Lithuania	:	41.1	33.8	33.2	33.4	33.6	34.0	34.8	35.2	36.0	35.6	:	34.6
Hungary	:	48.9	50.2	49.1	48.9	49.9	51.8	50.9	50.3	49.0	48.9	:	48.7
Poland	:	43.7	43.7	44.6	42.6	43.3	43.8	42.4	42.7	41.4	42.3	:	41.8
Romania	:	:	34.9	33.6	32.7	33.6	35.0	33.6	36.6	34.2	39.0	:	40.9
Slovakia	:	47.2	39.6	40.2	37.8	38.1	37.2	36.0	35.9	35.6	35.1	:	34.6
Sweden	65.7	59.3	56.8	58.0	56.6	56.3	55.4	53.0	53.6	52.5	53.0	:	52.6
United Kingdom	42.5	39.2	42.6	42.0	42.5	43.7	43.7	44.2	44.0	44.3	44.0	:	44.1
EU27	:	:	46.8	47.3	46.7	46.9	46.5	46.1	45.9	45.9	45.8	:	45.6
USA	35.9	33.1	34.6	34.8	34.5	34.8	34.7	34.8	35.6	35.1	36.3	:	36.6
Japan	34.9	40.4	40.0	40.2	38.9	40.1	39.9	39.2	39.8	39.0	40.1	:	41.0

¹ ESA 79 up to 1994, ESA 95 from 1995 onwards.TABLE 36 : Total revenue, general government (as a percentage of GDP, 1992-2009) ¹

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	47.4	49.3	49.6	51.1	49.1	49.4	48.8	48.5	48.0	48.2	47.8	:	47.6
Germany	44.8	45.9	43.9	44.5	43.3	43.5	43.8	43.7	43.9	43.4	43.2	:	43.0
Ireland	37.7	36.4	35.0	33.8	35.2	35.4	37.1	36.6	36.6	36.4	36.3	:	36.2
Greece	34.5	41.3	39.0	39.3	38.2	38.0	39.5	43.0	39.4	42.5	39.9	:	40.0
Spain	39.1	38.1	39.0	38.2	38.5	39.4	40.4	39.7	40.2	39.7	40.0	:	39.9
France	48.4	50.4	50.0	49.2	49.6	50.7	50.8	50.7	50.6	50.8	50.2	:	50.0
Italy	44.9	46.1	44.6	44.8	44.2	44.0	45.6	46.0	46.3	46.1	46.3	:	46.1
Cyprus	:	:	39.4	38.5	38.7	41.2	42.6	42.6	45.0	42.6	44.8	:	44.8
Luxembourg	:	43.8	41.7	42.4	41.3	41.7	39.7	39.4	39.3	38.6	38.3	:	38.0
Malta	:	35.0	40.0	37.9	41.0	42.0	41.6	42.2	41.1	41.9	41.1	:	40.8
Netherlands	48.7	46.0	44.8	43.9	44.3	44.9	46.7	46.3	46.7	46.3	47.9	:	48.1
Austria	49.2	50.7	48.9	49.3	48.9	48.2	47.8	47.4	47.5	47.1	47.3	:	47.4
Portugal	36.4	39.7	42.2	42.5	43.1	41.7	42.5	42.3	42.5	42.3	42.8	:	42.8
Slovenia	:	44.1	44.4	44.4	44.2	44.5	44.1	43.9	43.1	42.9	42.1	:	41.4
Finland	54.0	54.1	52.6	52.4	52.3	53.0	52.5	51.3	52.1	50.9	51.8	:	51.4
Euro area	:	:	45.0	45.0	44.6	45.0	45.6	45.5	45.6	45.4	45.3	:	45.1
Bulgaria	:	:	40.7	40.3	42.0	41.6	40.3	39.3	39.7	39.6	39.4	:	39.4
Czech Republic	:	38.6	40.9	40.7	42.2	41.3	40.7	39.2	39.6	39.4	40.2	:	40.2
Denmark	56.5	56.0	55.9	55.0	56.7	57.2	55.7	53.8	54.8	53.1	54.5	:	53.6
Estonia	:	37.4	36.1	36.4	35.9	35.4	36.6	36.2	37.7	35.9	37.7	:	37.5
Latvia	:	36.5	34.7	33.2	34.7	35.2	37.0	37.5	38.1	36.5	38.4	:	37.5
Lithuania	:	36.4	32.7	32.0	31.8	33.1	33.4	34.4	34.3	34.9	34.1	:	33.8
Hungary	:	43.7	42.3	41.9	42.4	42.1	42.6	44.0	43.9	44.1	44.7	:	44.9
Poland	:	39.8	38.7	38.4	36.9	39.0	40.0	39.0	40.0	38.0	39.0	:	38.8
Romania	:	:	33.2	32.1	31.2	32.2	33.2	30.4	33.9	31.0	35.8	:	37.0
Slovakia	:	39.7	35.6	37.4	35.4	35.3	33.5	33.1	33.2	32.8	32.8	:	32.2
Sweden	57.9	60.6	57.5	57.1	57.4	58.7	57.8	55.2	56.7	54.9	55.8	:	55.6
United Kingdom	36.4	39.7	39.7	38.7	39.1	40.3	41.1	41.6	41.3	41.9	41.0	:	41.3
EU27	:	:	44.3	44.2	43.9	44.4	44.9	44.9	44.9	44.8	44.6	:	44.5
USA	31.7	33.5	30.8	30.0	30.1	31.2	32.1	32.2	32.8	32.2	33.1	:	33.3
Japan	32.5	33.1	33.4	32.4	32.8	33.7	35.4	35.3	35.8	35.6	35.9	:	36.4

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, 1992-2009) ¹

24.10.2007

	5-year averages							2007		2008		2009	
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	-5.3	-0.5	-0.4	0.0	0.0	-2.3	0.4	-0.1	-0.3	-0.2	-0.4	:	-0.4
Germany	-3.0	-1.6	-3.3	-4.0	-3.8	-3.4	-1.6	-0.6	0.1	-0.3	-0.1	:	0.2
Ireland	-1.7	2.4	1.1	0.4	1.3	1.2	2.9	1.5	0.9	1.0	-0.2	:	-0.6
Greece	-9.8	-4.2	-5.0	-5.6	-7.3	-5.1	-2.5	-2.4	-2.9	-2.7	-1.8	:	-1.8
Spain	-5.6	-1.9	0.4	-0.2	-0.3	1.0	1.8	1.4	1.8	1.2	1.2	:	0.6
France	-4.9	-2.1	-3.3	-4.1	-3.6	-2.9	-2.5	-2.4	-2.6	-1.9	-2.6	:	-2.7
Italy	-8.3	-2.2	-3.7	-3.5	-3.5	-4.2	-4.4	-2.1	-2.3	-2.2	-2.3	:	-2.3
Cyprus	:	:	-3.7	-6.5	-4.1	-2.4	-1.2	-1.4	-1.0	-1.4	-0.8	:	-0.6
Luxembourg	1.6	4.5	0.4	0.5	-1.2	-0.1	0.7	0.4	1.2	0.6	1.0	:	1.4
Malta	:	-7.6	-5.2	-9.8	-4.9	-3.1	-2.5	-2.1	-1.8	-1.6	-1.6	:	-1.0
Netherlands	-3.3	0.0	-1.3	-3.1	-1.7	-0.3	0.6	-0.7	-0.4	0.0	0.5	:	1.3
Austria	-4.1	-1.5	-1.2	-1.6	-1.2	-1.6	-1.4	-0.9	-0.8	-0.8	-0.7	:	-0.4
Portugal	-4.7	-3.3	-3.8	-2.9	-3.4	-6.1	-3.9	-3.5	-3.0	-3.2	-2.6	:	-2.4
Slovenia	:	-3.0	-2.0	-2.7	-2.3	-1.5	-1.2	-1.5	-0.7	-1.5	-1.0	:	-0.8
Finland	-5.8	2.8	3.1	2.5	2.3	2.7	3.8	3.7	4.6	3.6	4.2	:	4.0
Euro area	:	:	-2.5	-3.1	-2.8	-2.5	-1.5	-1.0	-0.8	-0.8	-0.9	:	-0.8
Bulgaria	:	1.4	1.5	0.0	2.3	2.0	3.2	2.0	3.0	2.0	3.1	:	3.1
Czech Republic	:	-4.4	-4.6	-6.6	-3.0	-3.5	-2.9	-3.9	-3.4	-3.6	-2.8	:	-2.7
Denmark	-2.5	0.9	2.3	-0.1	1.9	4.6	4.6	3.7	4.0	3.6	3.0	:	2.5
Estonia	:	-0.5	1.9	1.8	1.8	1.9	3.6	3.7	3.0	3.5	1.9	:	1.0
Latvia	:	-1.6	-1.1	-1.6	-1.0	-0.4	-0.3	0.2	0.9	0.1	0.8	:	0.5
Lithuania	:	-4.6	-1.2	-1.3	-1.5	-0.5	-0.6	-0.4	-0.9	-1.0	-1.4	:	-0.8
Hungary	:	-5.3	-7.9	-7.2	-6.5	-7.8	-9.2	-6.8	-6.4	-4.9	-4.2	:	-3.8
Poland	:	-3.9	-5.0	-6.3	-5.7	-4.3	-3.8	-3.4	-2.7	-3.3	-3.2	:	-3.1
Romania	:	:	-1.7	-1.5	-1.5	-1.4	-1.9	-3.2	-2.7	-3.2	-3.2	:	-3.9
Slovakia	:	-7.5	-3.9	-2.7	-2.4	-2.8	-3.7	-2.9	-2.7	-2.8	-2.3	:	-2.4
Sweden	-7.8	1.3	0.7	-0.9	0.8	2.4	2.5	2.2	3.0	2.4	2.8	:	3.0
United Kingdom	-6.1	0.6	-2.9	-3.3	-3.4	-3.3	-2.7	-2.6	-2.8	-2.4	-3.0	:	-2.8
EU27	:	:	-2.5	-3.1	-2.8	-2.4	-1.6	-1.2	-1.1	-1.0	-1.2	:	-1.1
USA	-4.2	0.3	-3.9	-4.9	-4.4	-3.6	-2.6	-2.6	-2.7	-2.9	-3.2	:	-3.4
Japan	-2.5	-7.3	-6.6	-7.9	-6.2	-6.4	-4.6	-3.9	-4.0	-3.5	-4.2	:	-4.7

¹ ESA 79 up to 1994, ESA 95 from 1995 onwards.TABLE 38 : Interest expenditure, general government (as a percentage of GDP, 1992-2009) ¹

	5-year averages							2007		2008		2009	
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	9.5	7.0	4.8	5.3	4.7	4.2	4.0	3.9	3.8	3.8	3.6	:	3.5
Germany	3.3	3.2	2.9	3.0	2.8	2.8	2.8	2.8	2.7	2.8	2.7	:	2.6
Ireland	5.6	2.6	1.1	1.2	1.2	1.1	1.0	1.0	0.9	1.0	0.9	:	1.0
Greece	11.5	7.9	4.8	4.9	5.0	4.4	4.1	4.4	3.9	4.2	3.9	:	3.8
Spain	4.8	3.7	2.1	2.3	2.0	1.8	1.6	1.6	1.6	1.5	1.5	:	1.5
France	3.4	3.1	2.7	2.8	2.7	2.6	2.5	2.5	2.6	2.5	2.6	:	2.6
Italy	11.3	7.3	4.9	5.1	4.7	4.5	4.6	4.7	4.7	4.8	4.8	:	4.8
Cyprus	:	:	3.3	3.4	3.3	3.5	3.3	3.1	3.1	3.1	3.0	:	2.8
Luxembourg	0.3	0.4	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.1	0.2	:	0.2
Malta	:	3.3	3.6	3.4	3.7	3.8	3.6	3.3	3.3	3.3	3.2	:	3.1
Netherlands	5.7	4.1	2.5	2.6	2.5	2.4	2.2	2.2	2.2	2.0	2.2	:	2.0
Austria	4.0	3.5	2.9	2.9	2.8	2.9	2.7	2.6	2.6	2.6	2.5	:	2.4
Portugal	5.8	3.3	2.7	2.7	2.7	2.6	2.8	2.9	2.9	3.0	2.9	:	2.9
Slovenia	:	2.4	1.8	2.0	1.7	1.6	1.4	1.5	1.4	1.4	1.3	:	1.2
Finland	4.0	3.2	1.7	1.7	1.6	1.5	1.4	1.4	1.4	1.3	1.4	:	1.3
Euro area	:	:	3.1	3.3	3.1	2.9	2.9	2.9	2.9	2.8	2.8	:	2.8
Bulgaria	:	4.8	1.8	2.0	1.8	1.6	1.3	1.2	1.1	1.1	1.0	:	0.9
Czech Republic	:	1.0	1.2	1.2	1.2	1.2	1.1	1.1	1.0	1.0	1.0	:	1.0
Denmark	6.4	4.1	2.3	2.6	2.3	1.8	1.6	1.4	1.3	1.2	1.2	:	1.1
Estonia	:	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	:	0.1
Latvia	:	0.8	0.6	0.7	0.7	0.6	0.5	0.4	0.4	0.3	0.4	:	0.3
Lithuania	:	1.3	1.0	1.3	0.9	0.8	0.7	0.6	0.9	0.8	0.9	:	1.0
Hungary	:	6.8	4.1	4.0	4.4	4.1	3.9	4.1	3.9	3.9	4.1	:	3.9
Poland	:	3.5	2.8	3.0	2.8	2.8	2.7	2.6	2.3	2.6	2.4	:	2.4
Romania	:	:	1.5	1.6	1.4	1.1	0.8	0.7	0.9	0.8	0.9	:	0.9
Slovakia	:	3.3	2.3	2.5	2.2	1.7	1.5	1.3	1.5	1.3	1.5	:	1.5
Sweden	6.0	4.7	2.0	2.1	1.6	1.7	1.7	1.9	1.6	1.7	1.5	:	1.4
United Kingdom	3.1	3.0	2.0	2.0	1.9	2.1	2.0	2.1	1.7	2.1	2.0	:	2.0
EU27	:	:	2.9	3.0	2.8	2.7	2.6	2.6	2.5	2.6	2.6	:	2.5
USA	4.8	4.0	2.8	2.8	2.7	2.8	2.8	2.8	3.0	2.8	3.1	:	3.1
Japan	3.6	3.4	2.6	2.7	2.5	2.4	2.4	2.7	2.4	3.0	2.6	:	2.8

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

TABLE 39 : Primary balance, general government (as a percentage of GDP, 1992-2009) ^{1 2}

24.10.2007

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	4.2	6.5	4.4	5.3	4.7	1.9	4.3	3.8	3.5	3.5	3.3	:	3.1
Germany	0.3	1.7	-0.4	-1.1	-1.0	-0.6	1.2	2.2	2.8	2.5	2.6	:	2.8
Ireland	4.0	5.0	2.2	1.6	2.5	2.2	3.9	2.5	1.8	2.0	0.7	:	0.4
Greece	1.7	3.7	-0.3	-0.7	-2.4	-0.7	1.6	2.0	1.0	1.5	2.1	:	2.0
Spain	-0.8	1.8	2.5	2.1	1.7	2.8	3.5	3.0	3.4	2.7	2.7	:	2.1
France	-1.5	1.0	-0.5	-1.3	-0.9	-0.3	0.0	0.1	0.0	0.5	0.0	:	-0.1
Italy	3.0	5.1	1.2	1.6	1.3	0.3	0.1	2.7	2.5	2.5	2.4	:	2.5
Cyprus	:	:	-0.4	-3.1	-0.8	1.1	2.1	1.7	2.2	1.7	2.2	:	2.2
Luxembourg	1.9	4.9	0.6	0.7	-1.0	0.0	0.9	0.6	1.3	0.8	1.2	:	1.5
Malta	:	-4.3	-1.6	-6.4	-1.2	0.7	1.0	1.2	1.5	1.8	1.6	:	2.1
Netherlands	2.4	4.1	1.2	-0.6	0.7	2.1	2.8	1.5	1.8	2.1	2.7	:	3.3
Austria	-0.1	2.0	1.6	1.3	1.6	1.3	1.4	1.8	1.7	1.7	1.8	:	2.0
Portugal	1.1	0.0	-1.1	-0.2	-0.7	-3.5	-1.1	-0.6	-0.1	-0.2	0.3	:	0.5
Slovenia	:	-0.6	-0.2	-0.7	-0.5	0.1	0.2	-0.1	0.7	-0.1	0.3	:	0.4
Finland	-1.8	6.0	4.8	4.2	3.8	4.2	5.3	5.1	6.0	4.9	5.6	:	5.3
Euro area	:	:	0.6	0.2	0.3	0.4	1.3	1.9	2.1	2.0	2.0	:	2.0
Bulgaria	:	6.2	3.3	2.0	4.0	3.6	4.6	3.1	4.1	3.0	4.1	:	4.0
Czech Republic	:	-3.4	-3.4	-5.5	-1.8	-2.4	-1.8	-2.8	-2.3	-2.6	-1.8	:	-1.7
Denmark	3.9	5.0	4.5	2.6	4.2	6.5	6.2	5.0	5.3	4.7	4.3	:	3.6
Estonia	:	-0.3	2.1	2.0	2.0	2.1	3.7	3.8	3.1	3.6	2.1	:	1.1
Latvia	:	-0.7	-0.5	-0.9	-0.3	0.2	0.2	0.6	1.3	0.4	1.2	:	0.9
Lithuania	:	-3.3	-0.1	0.0	-0.6	0.3	0.2	0.2	0.0	-0.3	-0.5	:	0.2
Hungary	:	1.6	-3.8	-3.2	-2.1	-3.7	-5.3	-2.7	-2.4	-1.0	-0.2	:	0.1
Poland	:	-0.3	-2.2	-3.3	-2.9	-1.5	-1.1	-0.9	-0.3	-0.8	-0.9	:	-0.7
Romania	:	:	-0.2	0.1	-0.1	-0.3	-1.0	-2.5	-1.8	-2.5	-2.3	:	-3.0
Slovakia	:	-4.2	-1.7	-0.2	-0.2	-1.1	-2.2	-1.5	-1.2	-1.5	-0.8	:	-0.9
Sweden	-1.8	6.0	2.7	1.2	2.4	4.1	4.2	4.1	4.7	4.1	4.3	:	4.5
United Kingdom	-3.0	3.5	-0.9	-1.4	-1.4	-1.2	-0.7	-0.6	-1.1	-0.2	-1.0	:	-0.8
EU27	:	:	0.4	-0.1	0.0	0.3	1.0	1.4	1.5	1.6	1.4	:	1.4
USA	0.6	4.3	-1.0	-2.1	-1.7	-0.8	0.2	0.3	0.2	-0.1	-0.1	:	-0.3
Japan	1.1	-3.9	-4.0	-5.2	-3.6	-4.0	-2.1	-1.2	-1.6	-0.5	-1.6	:	-1.9

¹ ESA 79 up to 1994, ESA 95 from 1995 onwards.² Net lending/borrowing excluding interest expenditure.

TABLE 40 : Cyclically adjusted net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1992-2009)

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	-4.8	-0.7	-0.2	0.5	0.0	-1.9	0.5	0.1	-0.2	0.1	-0.1	:	0.0
Germany	-3.2	-1.7	-2.7	-3.2	-2.9	-2.3	-1.3	-0.8	-0.1	-0.7	-0.4	:	-0.2
Ireland	-0.2	1.3	0.9	0.0	1.5	1.3	3.1	1.8	1.2	1.6	0.3	:	0.0
Greece	-9.2	-3.7	-5.4	-5.9	-7.9	-5.5	-3.0	-3.1	-3.4	-3.4	-2.4	:	-2.3
Spain	-4.7	-2.2	0.4	-0.3	-0.2	1.4	2.1	1.8	2.0	1.7	1.6	:	1.4
France	-4.2	-2.4	-3.3	-4.0	-3.7	-2.9	-2.5	-2.0	-2.4	-1.5	-2.5	:	-2.4
Italy	-7.8	-2.5	-3.5	-3.4	-3.3	-3.4	-3.9	-1.6	-1.9	-1.8	-1.9	:	-1.8
Cyprus	:	:	-3.5	-6.4	-3.7	-1.8	-0.7	-1.1	-0.6	-1.1	-0.5	:	-0.4
Luxembourg	:	4.5	0.9	1.6	-0.3	0.6	0.8	0.6	1.2	0.8	1.2	:	1.7
Malta	:	-8.2	-4.6	-9.4	-3.7	-2.2	-2.0	-1.9	-1.6	-1.6	-1.5	:	-1.2
Netherlands	-2.7	-0.9	-0.6	-2.0	-0.9	0.8	1.1	-0.4	-0.2	0.1	0.5	:	1.1
Austria	-4.0	-1.8	-0.7	-0.8	-0.5	-0.9	-1.2	-1.1	-1.0	-1.2	-1.0	:	-0.8
Portugal	-4.1	-3.9	-3.3	-2.4	-2.8	-5.2	-2.9	-2.7	-2.2	-2.6	-2.1	:	-2.1
Slovenia	:	-3.2	-1.5	-1.8	-1.5	-0.8	-1.1	-1.7	-1.1	-1.7	-1.4	:	-1.0
Finland	-3.0	1.8	3.6	3.4	3.0	3.7	4.1	3.5	4.4	3.6	3.9	:	4.0
Euro area	:	:	-2.2	-2.7	-2.4	-1.9	-1.2	-0.8	-0.7	-0.7	-0.8	:	-0.7
Bulgaria	:	:	1.2	0.1	1.8	1.4	2.7	1.6	2.7	1.8	3.1	:	3.4
Czech Republic	:	-3.7	-3.9	-5.5	-2.0	-3.3	-3.3	-4.1	-4.1	-3.8	-3.6	:	-3.2
Denmark	-1.5	0.1	2.5	1.0	2.7	4.8	3.9	3.6	3.6	3.8	3.2	:	3.0
Estonia	:	-0.3	1.8	2.1	2.1	1.7	2.7	3.5	2.4	3.8	1.9	:	1.5
Latvia	:	-1.5	-1.1	-1.3	-0.7	-0.4	-0.8	0.0	0.2	0.4	0.5	:	1.0
Lithuania	:	-4.4	-1.4	-1.7	-1.9	-0.8	-0.8	-0.6	-1.2	-1.0	-1.5	:	-0.6
Hungary	:	-4.9	-7.9	-6.9	-6.5	-8.0	-9.7	-6.9	-6.4	-4.7	-4.1	:	-3.8
Poland	:	-4.1	-4.8	-5.8	-5.8	-4.1	-3.9	-3.6	-3.0	-3.3	-3.4	:	-2.8
Romania	:	:	-1.6	-0.8	-2.0	-1.6	-2.6	-3.5	-3.3	-3.3	-3.6	:	-4.0
Slovakia	:	-7.3	-3.3	-1.9	-1.6	-2.1	-3.4	-3.4	-3.0	-3.3	-2.7	:	-2.6
Sweden	-6.0	1.2	0.9	0.0	1.0	2.5	2.1	1.9	2.7	1.9	2.3	:	2.8
United Kingdom	-5.5	0.3	-2.9	-3.4	-3.6	-3.2	-2.5	-2.5	-2.7	-2.1	-2.8	:	-2.6
EU27	:	:	-2.2	-2.7	-2.5	-1.9	-1.4	-1.1	-1.0	-0.9	-1.1	:	-1.0

TABLE 41 : Cyclically adjusted primary balance, general government (as a percentage of GDP, 1992-2009)

24.10.2007

	5-year averages					2007				2008		2009	
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	4.7	6.3	4.6	5.8	4.7	2.3	4.5	4.1	3.6	3.9	3.5	:	3.5
Germany	0.1	1.5	0.2	-0.2	-0.1	0.5	1.5	2.0	2.7	2.0	2.3	:	2.4
Ireland	5.4	3.9	2.0	1.2	2.6	2.4	4.1	2.9	2.1	2.6	1.2	:	0.9
Greece	2.3	4.2	-0.6	-0.9	-2.9	-1.0	1.2	1.3	0.5	0.8	1.5	:	1.5
Spain	0.1	1.6	2.5	2.1	1.9	3.2	3.7	3.4	3.6	3.2	3.1	:	2.9
France	-0.8	0.8	-0.6	-1.2	-0.9	-0.2	0.1	0.5	0.1	1.0	0.1	:	0.2
Italy	3.5	4.8	1.4	1.7	1.5	1.1	0.7	3.2	2.8	3.0	2.9	:	3.0
Cyprus	:	:	-0.2	-3.0	-0.4	1.7	2.6	2.1	2.6	2.0	2.5	:	2.5
Luxembourg	:	4.8	1.1	1.8	-0.1	0.8	1.0	0.8	1.3	1.0	1.3	:	1.8
Malta	:	-4.8	-1.0	-6.0	0.0	1.5	1.6	1.4	1.7	1.7	1.7	:	1.9
Netherlands	3.0	3.2	1.9	0.5	1.6	3.1	3.3	1.7	2.0	2.1	2.7	:	3.1
Austria	0.0	1.6	2.2	2.1	2.3	2.0	1.6	1.5	1.5	1.4	1.4	:	1.6
Portugal	1.7	-0.7	-0.6	0.3	-0.1	-2.6	-0.2	0.2	0.7	0.3	0.9	:	0.9
Slovenia	:	-0.8	0.3	0.2	0.2	0.8	0.3	-0.3	0.3	-0.3	-0.1	:	0.2
Finland	1.0	5.0	5.3	5.1	4.6	5.2	5.5	4.9	5.8	5.0	5.3	:	5.3
Euro area	:	:	0.9	0.6	0.7	1.1	1.6	2.1	2.2	2.2	2.1	:	2.1
Bulgaria	:	:	3.0	2.1	3.6	3.1	4.0	2.8	3.8	2.9	4.1	:	4.3
Czech Republic	:	-2.7	-2.8	-4.3	-0.8	-2.1	-2.2	-3.0	-3.1	-2.8	-2.6	:	-2.2
Denmark	4.8	4.2	4.8	3.6	5.0	6.6	5.5	5.0	4.9	5.0	4.4	:	4.1
Estonia	:	0.0	2.0	2.4	2.3	1.9	2.9	3.6	2.5	3.9	2.0	:	1.7
Latvia	:	-0.6	-0.4	-0.6	0.0	0.2	-0.4	0.4	0.6	0.8	1.0	:	1.3
Lithuania	:	-3.1	-0.3	-0.5	-0.9	0.0	-0.1	0.1	-0.3	-0.2	-0.6	:	0.4
Hungary	:	2.0	-3.8	-2.8	-2.1	-3.9	-5.8	-2.8	-2.5	-0.8	0.0	:	0.1
Poland	:	-0.6	-2.0	-2.9	-3.1	-1.3	-1.2	-1.0	-0.7	-0.7	-1.0	:	-0.4
Romania	:	:	-0.1	0.8	-0.6	-0.5	-1.8	-2.8	-2.5	-2.5	-2.7	:	-3.1
Slovakia	:	-4.0	-1.0	0.6	0.5	-0.3	-2.0	-2.0	-1.5	-2.0	-1.2	:	-1.2
Sweden	0.1	6.0	2.9	2.1	2.6	4.2	3.8	3.7	4.4	3.6	3.9	:	4.2
United Kingdom	-2.4	3.3	-0.9	-1.4	-1.7	-1.1	-0.5	-0.4	-1.1	0.0	-0.8	:	-0.6
EU27	:	:	0.6	0.3	0.3	0.8	1.2	1.6	1.5	1.7	1.5	:	1.6

TABLE 42 : Gross debt, general government (as a percentage of GDP, 2000-2009)

						2007				2008		2009	
	1999	2001	2002	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	107.7	106.3	103.3	98.6	94.2	92.2	88.2	85.6	84.6	82.6	81.7	:	79.0
Germany	59.7	58.8	60.3	63.8	65.6	67.8	67.5	65.4	64.7	63.6	62.6	:	60.3
Ireland	37.8	35.5	32.2	31.1	29.5	27.4	25.1	23.0	25.2	21.7	26.9	:	28.5
Greece	101.8	102.2	100.8	97.9	98.6	98.0	95.3	100.9	93.7	97.6	91.1	:	88.8
Spain	59.2	55.5	52.5	48.7	46.2	43.0	39.7	37.0	36.3	34.6	34.6	:	33.0
France	56.7	56.2	58.2	62.9	64.9	66.7	64.2	62.9	64.3	61.9	64.1	:	64.1
Italy	109.1	108.7	105.6	104.3	103.8	106.2	106.8	105.0	104.3	103.1	102.9	:	101.2
Cyprus	58.8	60.7	64.7	68.9	70.2	69.1	65.2	61.5	60.5	54.8	53.3	:	49.6
Luxembourg	6.4	6.5	6.5	6.3	6.4	6.2	6.6	6.7	6.6	6.0	6.0	:	5.4
Malta	55.9	62.1	60.1	69.3	72.7	70.8	64.7	65.9	63.1	64.3	61.3	:	59.2
Netherlands	53.8	50.7	50.5	52.0	52.4	52.3	47.9	47.7	46.8	45.9	44.8	:	41.7
Austria	65.5	66.0	65.8	64.6	63.8	63.4	61.7	60.6	60.0	59.2	58.4	:	57.2
Portugal	50.4	52.9	55.5	56.9	58.3	63.7	64.8	65.4	64.4	65.8	64.7	:	64.5
Slovenia	27.2	27.8	28.5	27.9	27.6	27.4	27.1	27.5	25.6	27.2	24.5	:	23.8
Finland	43.8	42.3	41.3	44.3	44.1	41.4	39.2	37.0	35.7	35.2	32.4	:	29.8
Euro area	69.1	68.0	67.9	69.1	69.6	70.3	68.6	66.8	66.5	65.0	65.0	:	63.4
Bulgaria	73.6	66.2	53.6	45.9	37.9	29.2	22.8	20.9	19.3	19.0	15.9	:	12.9
Czech Republic	18.5	25.1	28.5	30.1	30.4	30.2	30.1	30.6	30.2	30.9	30.3	:	30.5
Denmark	51.7	47.4	46.8	45.8	44.0	36.3	30.3	25.0	25.0	20.0	20.9	:	17.5
Estonia	5.2	4.8	5.6	5.5	5.1	4.4	4.0	2.7	2.8	2.3	2.3	:	2.0
Latvia	12.3	14.0	13.5	14.4	14.5	12.5	10.6	8.0	10.2	6.7	7.8	:	6.4
Lithuania	23.7	22.8	22.2	21.2	19.4	18.6	18.2	18.6	17.7	19.9	17.2	:	16.1
Hungary	54.3	52.1	55.7	58.0	59.4	61.6	65.6	67.1	66.1	68.1	66.3	:	65.9
Poland	35.9	35.8	39.8	47.1	45.7	47.1	47.6	48.4	46.8	49.1	47.1	:	47.1
Romania	23.9	23.2	25.0	21.5	18.8	15.8	12.4	12.8	12.5	13.1	12.8	:	13.5
Slovakia	50.2	48.9	43.3	42.4	41.4	34.2	30.4	29.7	30.8	29.4	30.7	:	30.6
Sweden	52.3	53.8	52.0	53.5	52.4	52.2	47.0	42.1	41.1	37.7	35.7	:	30.5
United Kingdom	40.9	37.7	37.2	38.7	40.4	42.1	43.2	44.0	43.6	44.5	44.8	:	45.6
EU27	61.6	60.7	60.1	61.8	62.1	62.7	61.4	59.9	59.5	58.3	58.3	:	57.0

TABLE 43 : Gross national saving (as a percentage of GDP, 1992-2009)

24.10.2007

	5-year averages							2007		2008		2009	
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	24.8	25.7	24.2	23.6	24.1	23.9	25.2	24.2	25.4	24.5	25.5	:	25.7
Germany	21.2	20.3	21.0	19.5	21.5	21.8	23.0	23.9	24.6	24.0	24.6	:	24.9
Ireland	18.7	24.5	23.1	23.9	23.5	22.8	23.6	24.3	21.3	23.8	20.1	:	19.6
Greece	19.3	16.5	15.1	15.6	16.0	14.8	14.7	15.6	15.3	16.2	15.9	:	16.7
Spain	20.6	22.3	22.5	23.4	22.4	22.0	21.8	22.1	22.1	22.1	21.6	:	20.6
France	18.9	21.1	19.1	19.1	19.0	18.6	18.9	19.8	19.5	20.2	19.9	:	20.3
Italy	20.6	21.3	19.9	19.8	20.3	19.4	19.2	19.7	19.6	19.7	19.6	:	19.7
Cyprus	:	15.7	14.6	15.2	15.2	13.8	13.5	14.5	13.9	14.9	14.7	:	15.4
Luxembourg	35.0	33.4	31.7	29.8	33.0	32.6	29.4	28.4	30.4	29.8	31.6	:	32.6
Malta	:	14.2	12.8	13.4	10.4	10.6	12.7	14.8	14.3	15.5	14.5	:	14.8
Netherlands	25.9	27.1	26.4	25.4	27.6	26.1	27.4	29.5	27.1	29.4	27.8	:	28.6
Austria	21.1	22.1	23.7	23.2	23.7	23.8	24.4	24.9	26.0	25.0	26.5	:	26.6
Portugal	20.4	18.4	14.7	16.4	15.3	12.9	12.3	12.2	12.7	12.8	12.8	:	12.9
Slovenia	23.3	24.5	25.1	24.6	25.1	25.3	25.6	25.3	26.7	25.8	27.3	:	27.7
Finland	17.9	26.8	26.2	24.4	26.5	25.5	26.3	27.8	27.3	27.8	27.3	:	27.4
Euro area	:	21.6	21.0	20.6	21.3	20.9	21.4	22.2	22.1	22.3	22.2	:	22.4
Bulgaria	:	:	16.4	15.8	17.2	16.2	16.2	16.0	15.7	15.6	15.8	:	16.0
Czech Republic	28.1	24.9	22.5	20.7	22.0	23.5	23.8	23.4	23.7	23.8	24.2	:	24.4
Denmark	19.9	22.0	23.8	23.1	23.0	24.4	25.6	25.6	25.3	26.1	24.8	:	24.6
Estonia	:	21.1	23.4	21.8	22.5	25.6	25.2	26.0	24.4	25.5	24.6	:	24.6
Latvia	30.9	16.1	19.9	20.6	20.3	21.8	16.8	17.0	15.6	18.6	16.2	:	17.6
Lithuania	:	14.2	16.9	16.5	16.4	17.9	16.5	14.2	15.8	13.1	15.3	:	15.5
Hungary	:	20.4	17.4	17.1	17.5	16.9	16.7	18.5	18.3	20.5	20.0	:	21.4
Poland	17.2	19.7	17.0	16.6	15.7	17.6	18.7	19.8	19.8	20.5	20.3	:	21.2
Romania	22.9	14.3	16.9	17.1	18.8	14.0	13.9	13.8	13.4	14.6	13.3	:	13.4
Slovakia	:	23.8	22.0	22.5	23.5	21.3	21.2	23.9	23.6	24.4	24.8	:	25.6
Sweden	17.5	21.5	23.1	23.0	22.8	23.0	24.9	26.1	26.0	26.3	26.1	:	26.3
United Kingdom	15.4	16.5	15.5	15.7	15.9	15.1	14.9	14.4	15.3	14.4	15.1	:	15.5
EU27	:	:	20.1	19.8	20.3	19.9	20.4	20.9	21.0	21.0	21.1	:	21.3
USA	16.4	16.9	13.5	13.3	13.5	13.5	13.5	13.3	13.3	13.3	13.1	:	13.9
Japan	31.6	28.5	26.8	26.1	26.8	27.0	28.1	28.7	28.6	29.1	28.9	:	29.6

TABLE 44 : Gross saving, private sector (as a percentage of GDP, 1992-2009) ¹

	5-year averages							2007		2008		2009	
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	28.0	23.8	22.6	22.9	22.6	22.1	23.2	22.6	23.7	22.9	23.8	:	24.0
Germany	20.8	19.6	21.8	20.7	22.8	22.7	22.3	22.3	22.2	22.1	22.4	:	22.4
Ireland	18.6	19.1	18.6	20.2	19.0	18.4	17.1	18.6	16.2	18.4	15.8	:	15.5
Greece	25.5	17.0	16.6	17.1	18.7	16.8	15.6	16.0	16.2	16.9	15.7	:	16.3
Spain	21.8	20.1	17.8	19.4	18.3	16.9	15.5	16.4	15.7	16.6	15.7	:	15.3
France	20.0	19.7	18.9	19.8	19.1	18.2	17.7	18.3	18.3	18.1	18.8	:	19.2
Italy	25.6	20.5	19.9	20.6	20.7	20.0	17.9	17.9	17.9	18.0	18.1	:	18.2
Cyprus	:	:	14.9	17.8	15.9	13.6	11.1	12.2	11.4	12.6	12.2	:	12.7
Luxembourg	:	24.4	25.6	23.6	28.5	26.9	23.1	22.6	23.7	23.9	25.2	:	26.0
Malta	:	17.9	14.6	15.8	12.5	12.5	13.8	14.3	13.7	14.7	13.8	:	13.6
Netherlands	26.4	24.1	24.4	24.7	26.2	23.3	23.9	26.3	23.7	25.7	23.4	:	23.4
Austria	20.4	19.9	21.5	21.4	21.3	22.0	22.5	22.8	23.6	22.9	24.0	:	23.8
Portugal	21.7	17.8	16.5	17.8	17.7	16.1	13.9	13.1	13.6	13.4	13.4	:	13.3
Slovenia	:	23.1	23.0	22.8	22.9	22.8	22.7	22.9	23.3	23.8	24.2	:	24.6
Finland	19.9	21.1	20.5	19.2	21.4	20.3	20.3	21.8	20.5	21.9	20.8	:	21.0
Euro area	:	:	20.3	20.6	21.0	20.2	19.4	19.8	19.6	19.8	19.7	:	19.8
Bulgaria	:	:	10.6	11.8	10.7	8.8	8.7	10.7	8.7	10.2	8.5	:	8.4
Czech Republic	:	21.5	19.7	19.3	18.0	20.0	20.5	20.9	20.9	20.9	20.4	:	20.0
Denmark	20.4	19.3	20.0	21.7	19.7	18.3	19.4	20.7	19.8	21.3	19.8	:	20.5
Estonia	:	16.2	17.6	15.8	17.7	20.2	17.9	19.8	17.4	19.5	18.5	:	19.4
Latvia	:	15.0	17.0	19.5	17.6	18.0	11.1	12.3	9.0	13.6	9.8	:	10.7
Lithuania	:	12.8	14.7	14.7	14.5	15.5	13.6	10.2	13.0	8.9	12.9	:	12.5
Hungary	:	19.9	19.8	19.2	19.6	20.0	20.7	20.4	20.1	21.1	20.3	:	21.9
Poland	:	19.4	17.7	18.3	17.4	17.9	18.1	18.5	18.1	19.2	19.2	:	19.7
Romania	:	:	13.3	13.4	15.5	10.7	9.8	11.7	10.1	12.2	10.3	:	10.8
Slovakia	:	23.6	22.2	22.2	23.2	20.3	22.0	23.9	23.5	24.1	24.3	:	25.2
Sweden	21.4	17.3	19.3	20.9	19.0	17.5	19.1	20.5	19.8	20.5	20.1	:	20.2
United Kingdom	18.9	14.8	16.2	16.9	17.0	16.2	15.1	14.3	15.3	14.1	15.2	:	15.4
EU27	:	:	19.5	19.9	20.1	19.3	18.6	18.8	18.7	18.8	18.9	:	19.0
USA	18.4	14.3	14.7	15.4	15.3	14.5	13.5	12.5	12.6	12.8	12.8	:	13.7
Japan	26.6	27.7	28.4	28.5	29.4	28.3	28.0	28.3	28.2	28.6	28.8	:	29.9

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

TABLE 45 : Gross saving, general government (as a percentage of GDP, 1992-2009) ¹

24.10.2007

	5-year averages						2007		2008		2009		
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	-3.2	1.9	1.6	0.7	1.4	1.8	2.0	1.6	1.7	1.6	1.6	:	1.7
Germany	0.4	0.7	-0.7	-1.3	-1.3	-0.9	0.7	1.6	2.4	2.0	2.2	:	2.5
Ireland	0.0	5.4	4.5	3.7	4.6	4.4	6.5	5.7	5.1	5.4	4.3	:	4.0
Greece	-6.2	-0.5	-1.5	-1.5	-2.6	-2.0	-0.9	-0.3	-0.9	-0.6	0.3	:	0.3
Spain	-1.1	2.1	4.7	3.9	4.0	5.1	6.3	5.7	6.4	5.5	5.9	:	5.4
France	-1.1	1.5	0.2	-0.7	-0.1	0.3	1.2	1.6	1.2	2.0	1.2	:	1.1
Italy	-5.0	0.8	0.0	-0.8	-0.4	-0.5	1.3	1.8	1.7	1.6	1.5	:	1.5
Cyprus	:	:	-0.3	-2.6	-0.6	0.2	2.5	2.3	2.6	2.3	2.5	:	2.7
Luxembourg	:	9.0	6.1	6.2	4.5	5.7	6.2	5.8	6.7	5.9	6.4	:	6.6
Malta	:	-3.7	-1.8	-2.4	-2.1	-1.9	-1.2	0.5	0.7	0.8	0.7	:	1.2
Netherlands	-0.4	3.0	2.0	0.7	1.4	2.8	3.5	3.3	3.4	3.7	4.4	:	5.2
Austria	0.7	2.2	2.2	1.8	2.4	1.8	1.9	2.2	2.3	2.2	2.5	:	2.7
Portugal	-1.3	0.6	-1.8	-1.4	-2.4	-3.2	-1.6	-1.0	-0.9	-0.7	-0.6	:	-0.4
Slovenia	:	1.4	2.2	1.8	2.2	2.5	2.9	2.4	3.4	2.0	3.1	:	3.0
Finland	-2.0	5.6	5.7	5.2	5.1	5.2	6.0	6.1	6.8	6.1	6.5	:	6.4
Euro area	:	:	0.7	0.0	0.3	0.7	2.0	2.3	2.6	2.5	2.5	:	2.5
Bulgaria	:	6.5	5.8	4.0	6.5	7.4	7.5	5.3	7.0	5.4	7.3	:	7.7
Czech Republic	:	3.3	2.8	1.4	4.0	3.5	3.3	2.4	2.8	2.6	3.7	:	4.4
Denmark	-0.6	2.7	3.7	1.4	3.3	6.1	6.1	5.0	5.5	4.9	5.0	:	4.1
Estonia	:	4.9	5.8	6.0	4.8	5.4	7.3	6.2	7.0	6.0	6.1	:	5.2
Latvia	:	1.1	2.9	1.1	2.7	3.9	5.7	4.7	6.7	5.0	6.4	:	6.9
Lithuania	:	1.4	2.1	1.8	2.0	2.4	2.9	4.0	2.8	4.2	2.4	:	3.0
Hungary	:	0.5	-2.4	-2.1	-2.1	-3.1	-4.0	-2.0	-1.8	-0.7	-0.3	:	-0.4
Poland	:	0.3	-0.8	-1.7	-1.7	-0.4	0.6	1.3	1.7	1.3	1.2	:	1.5
Romania	:	:	3.5	3.7	3.3	3.3	4.2	2.1	3.2	2.4	3.0	:	2.6
Slovakia	:	0.2	-0.2	0.3	0.3	1.0	-0.7	0.1	0.1	0.3	0.5	:	0.4
Sweden	-3.8	4.2	3.8	2.2	3.7	5.5	5.7	5.6	6.2	5.8	6.0	:	6.2
United Kingdom	-3.5	1.7	-0.8	-1.2	-1.2	-1.1	-0.2	0.1	0.0	0.4	-0.1	:	0.1
EU27	:	:	0.6	-0.1	0.2	0.6	1.8	2.0	2.2	2.2	2.2	:	2.2
USA	-1.9	2.6	-1.2	-2.2	-1.8	-1.0	-0.1	0.7	0.7	0.5	0.3	:	0.1
Japan	5.0	0.8	-1.7	-2.4	-2.6	-1.3	0.1	0.4	0.3	0.5	0.1	:	-0.4

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

TABLE 46 : Exports of goods and services, volume (percentage change on preceding year, 1992-2009)

	5-year averages						2007		2008		2009		
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	3.9	5.2	3.3	2.9	6.5	3.6	2.6	5.6	4.8	5.1	5.0	:	5.1
Germany	2.8	9.1	7.2	2.5	10.0	7.1	12.5	8.7	7.7	7.1	6.8	:	7.0
Ireland	14.2	16.9	4.5	0.6	7.3	5.2	4.4	5.3	7.0	4.9	5.8	:	6.2
Greece	4.2	11.2	2.6	2.3	11.7	2.8	6.1	6.1	6.3	5.9	5.9	:	5.7
Spain	10.3	8.9	3.5	3.7	4.2	2.6	5.1	5.8	4.6	5.4	4.7	:	4.6
France	5.2	8.1	2.5	-1.2	4.0	2.8	5.5	5.5	3.2	5.6	3.5	:	3.4
Italy	7.4	2.4	0.3	-2.4	3.3	-0.5	5.3	4.9	2.9	4.5	2.8	:	3.1
Cyprus	:	6.0	1.2	-0.7	5.1	4.7	2.1	4.0	3.8	4.0	4.0	:	4.0
Luxembourg	4.4	10.7	6.5	5.0	9.8	6.3	9.6	9.0	7.5	8.4	7.2	:	7.0
Malta	:	4.8	3.2	-0.6	2.0	-1.2	10.0	2.7	-1.4	2.9	0.7	:	1.2
Netherlands	5.8	8.3	4.6	1.5	7.9	5.9	7.0	6.0	6.3	5.5	5.5	:	5.4
Austria	3.1	8.7	5.6	2.3	8.2	6.2	7.5	7.4	7.2	6.9	6.5	:	5.9
Portugal	4.5	5.5	3.9	3.9	4.0	1.2	8.9	6.8	6.7	5.9	5.6	:	4.9
Slovenia	-2.1	7.9	8.9	3.1	12.5	10.1	12.3	9.0	13.3	8.1	10.2	:	8.9
Finland	10.7	10.6	5.3	-1.7	8.6	7.1	10.4	6.6	5.8	6.2	5.2	:	5.1
Euro area	:	7.8	4.4	1.2	7.0	4.5	7.8	6.7	5.8	5.9	5.3	:	5.4
Bulgaria	:	5.5	9.2	10.7	12.7	8.5	9.0	10.0	7.4	9.6	8.4	:	8.2
Czech Republic	9.7	10.3	11.1	7.2	20.7	11.8	14.4	12.1	14.9	10.4	12.9	:	10.8
Denmark	3.4	7.2	4.5	-0.9	2.2	7.2	10.1	5.7	3.9	5.2	3.9	:	3.5
Estonia	:	13.8	10.8	8.0	16.6	20.5	8.3	8.7	5.8	7.8	7.5	:	7.1
Latvia	:	5.7	9.0	5.2	9.4	20.3	5.3	8.7	10.0	9.0	9.0	:	9.7
Lithuania	:	6.7	12.0	6.9	4.4	17.7	12.2	10.2	8.7	11.1	11.3	:	9.1
Hungary	11.7	16.3	11.1	6.2	15.6	11.5	18.9	13.5	13.9	10.5	10.5	:	9.5
Poland	12.2	9.7	11.0	14.2	14.0	8.0	14.5	10.1	8.6	9.0	8.1	:	8.0
Romania	10.4	10.8	11.6	8.4	13.9	8.1	10.6	9.4	8.2	8.1	8.9	:	8.9
Slovakia	:	10.8	12.4	15.9	7.9	13.8	20.7	19.0	19.9	11.9	12.6	:	9.1
Sweden	7.9	8.2	6.4	4.5	11.1	6.6	8.7	7.0	5.6	6.2	6.0	:	5.7
United Kingdom	7.2	5.4	5.2	1.7	4.9	8.2	10.3	5.8	6.1	5.4	5.5	:	5.8
EU27	:	7.6	5.0	1.8	7.3	5.5	8.7	7.0	6.3	6.2	5.8	:	5.8
USA	7.4	4.2	4.7	1.3	9.7	6.9	8.4	7.0	7.4	7.2	8.5	:	7.8
Japan	3.5	2.9	9.4	9.2	13.9	7.0	9.6	7.3	7.7	6.6	7.3	:	8.1

TABLE 47 : Imports of goods and services, volume (percentage change on preceding year, 1992-2009)

24.10.2007

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	3.7	5.1	3.3	2.9	6.6	4.2	2.7	5.4	5.4	4.9	5.0	:	4.9
Germany	3.2	7.5	5.7	5.4	7.2	6.7	11.2	8.5	6.2	7.6	7.4	:	6.8
Ireland	11.9	16.9	4.3	-1.6	8.5	7.7	4.4	5.8	6.0	5.1	4.7	:	5.9
Greece	3.8	9.5	4.1	4.8	9.3	-1.3	9.8	6.5	7.7	5.4	7.0	:	6.0
Spain	6.4	11.4	7.1	6.2	9.6	7.7	8.3	7.6	6.5	7.0	5.2	:	4.2
France	3.2	8.6	4.3	1.1	7.1	5.0	6.8	6.0	3.7	5.6	4.4	:	4.6
Italy	1.9	5.2	1.5	0.8	2.7	0.5	4.3	4.6	2.3	4.5	3.2	:	3.4
Cyprus	:	4.8	2.5	-1.0	9.6	3.1	2.2	3.6	4.0	3.9	3.8	:	3.9
Luxembourg	3.6	11.1	5.9	6.1	9.7	6.1	7.2	9.5	7.7	8.6	7.4	:	7.1
Malta	:	2.4	3.7	5.9	3.7	1.3	8.1	2.7	-2.9	1.8	0.3	:	0.4
Netherlands	5.5	8.9	4.2	1.8	5.7	5.5	8.1	6.3	6.7	6.2	5.6	:	5.3
Austria	3.5	6.7	4.5	5.3	6.8	5.0	5.6	7.3	6.1	6.7	6.0	:	5.3
Portugal	5.6	7.7	2.2	-0.8	6.7	1.9	4.3	3.6	3.4	4.2	3.3	:	3.8
Slovenia	3.1	7.7	8.7	6.7	13.3	6.7	12.2	8.7	13.9	7.9	9.8	:	8.0
Finland	5.7	8.0	6.7	3.3	7.8	12.2	8.3	6.2	3.9	6.4	4.6	:	4.2
Euro area	:	7.9	4.6	3.1	6.7	5.2	7.5	6.7	5.3	6.2	5.5	:	5.3
Bulgaria	:	13.1	12.9	16.4	14.5	13.1	15.1	12.1	12.6	11.6	10.6	:	9.5
Czech Republic	20.1	9.8	9.8	8.0	17.9	5.0	13.8	11.0	14.1	10.0	12.8	:	11.1
Denmark	4.4	7.2	7.4	-1.6	6.9	10.7	14.4	6.4	5.3	5.3	4.8	:	3.8
Estonia	:	12.8	13.0	10.4	15.5	16.3	17.1	13.3	7.4	10.8	6.8	:	6.2
Latvia	:	7.2	13.2	13.1	16.6	14.8	17.5	12.6	18.6	8.4	7.8	:	6.8
Lithuania	:	7.5	14.8	10.4	14.9	17.2	13.8	14.9	15.0	12.9	12.4	:	9.6
Hungary	12.0	16.9	10.1	9.3	13.4	6.8	14.5	10.1	10.5	8.6	8.7	:	9.1
Poland	15.3	9.7	9.4	9.3	15.2	4.7	15.8	13.4	13.9	12.4	11.8	:	10.1
Romania	8.1	12.1	17.9	16.0	22.1	16.6	23.0	21.6	22.3	17.1	17.4	:	14.2
Slovakia	:	9.6	11.0	7.6	8.8	16.6	17.8	15.8	15.9	10.5	11.0	:	8.1
Sweden	4.4	7.3	4.9	5.0	7.0	6.9	7.9	8.2	7.2	6.4	6.4	:	6.0
United Kingdom	6.2	8.1	6.0	2.0	6.6	7.1	9.8	5.7	6.2	5.1	5.2	:	5.8
EU27	:	8.1	5.3	3.4	7.4	5.9	8.7	7.2	6.3	6.6	6.1	:	5.8
USA	8.9	9.2	6.1	4.1	11.3	5.9	5.9	3.2	2.5	5.1	1.8	:	2.6
Japan	6.3	1.3	4.6	3.9	8.1	5.8	4.5	7.3	3.4	7.4	7.0	:	8.8

TABLE 48 : Merchandise trade balance (fob-fob, as a percentage of GDP, 1992-2009)

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	3.3	3.2	2.7	3.5	2.9	1.9	1.3	1.7	1.2	1.9	1.2	:	1.3
Germany	2.2	3.6	6.7	6.1	6.9	6.9	7.0	7.8	7.7	7.6	7.9	:	8.3
Ireland	16.6	23.2	21.1	23.8	21.7	17.5	14.5	13.7	13.3	12.4	13.2	:	13.3
Greece	-12.5	-15.2	-16.0	-15.9	-16.8	-15.4	-16.5	-17.2	-16.6	-16.9	-16.9	:	-16.9
Spain	-3.3	-4.6	-6.4	-5.1	-6.3	-7.4	-8.1	-8.5	-8.4	-8.7	-8.6	:	-8.6
France	0.6	1.0	-0.5	0.1	-0.3	-1.2	-1.6	-2.3	-2.6	-2.3	-2.7	:	-3.0
Italy	2.7	2.1	0.4	0.7	0.6	0.0	-0.7	-0.3	0.3	-0.3	0.4	:	0.6
Cyprus	:	-24.6	-25.8	-23.9	-25.6	-25.0	-27.1	-26.8	-26.8	-26.6	-26.5	:	-26.2
Luxembourg	-10.2	-12.7	-10.4	-10.3	-10.2	-11.4	-9.7	-7.7	-9.8	-7.5	-10.2	:	-10.7
Malta	-22.4	-17.6	-14.9	-12.9	-15.8	-18.9	-18.9	-19.0	-16.6	-18.3	-16.5	:	-15.8
Netherlands	5.0	5.3	7.1	6.5	7.2	7.6	7.4	7.8	6.6	7.7	6.7	:	6.9
Austria	-3.3	-1.4	1.1	0.5	1.0	1.0	1.4	2.2	2.1	2.2	2.4	:	2.4
Portugal	-8.9	-10.6	-9.5	-8.1	-9.5	-10.2	-10.0	-8.7	-9.1	-8.4	-8.6	:	-8.4
Slovenia	-1.1	-4.5	-3.0	-2.2	-3.8	-3.7	-3.9	-3.3	-4.9	-3.0	-3.9	:	-3.1
Finland	7.5	10.0	6.8	7.8	6.7	4.9	5.3	5.7	5.8	5.1	5.7	:	5.6
Euro area	:	1.6	1.6	1.9	1.8	1.2	0.8	0.9	0.8	0.8	0.8	:	0.9
Euro area, adjusted ¹	:	:	:	1.4	1.3	0.6	0.4	:	0.6	:	0.6	:	0.7
Bulgaria	-2.6	-5.6	-16.3	-13.7	-14.9	-20.2	-21.5	-22.1	-24.2	-22.7	-23.9	:	-23.8
Czech Republic	-5.2	-5.3	-0.4	-2.7	-0.5	2.0	2.0	2.3	2.6	3.1	2.7	:	3.0
Denmark	4.1	3.6	3.4	4.6	3.7	3.1	1.1	0.2	-0.3	0.3	-0.7	:	-0.9
Estonia	:	-16.9	-15.9	-15.8	-17.0	-13.7	-17.7	-17.2	-17.0	-17.3	-14.6	:	-12.6
Latvia	-7.1	-14.9	-19.4	-17.8	-20.2	-18.9	-24.4	-24.7	-26.0	-22.6	-23.5	:	-21.4
Lithuania	:	-11.3	-10.9	-9.0	-10.6	-11.4	-14.1	-15.8	-16.7	-16.7	-16.9	:	-17.0
Hungary	-5.6	-4.4	-2.6	-3.9	-3.0	-1.7	-1.0	1.6	1.3	2.8	2.5	:	3.1
Poland	-0.1	-6.4	-2.3	-2.6	-2.2	-0.9	-2.0	-2.6	-3.9	-3.9	-5.0	:	-5.8
Romania	-7.3	-6.6	-8.8	-7.6	-8.7	-9.8	-12.1	-13.9	-15.5	-14.8	-18.0	:	-19.3
Slovakia	:	-8.5	-5.5	-2.5	-3.8	-5.9	-5.9	-3.0	-2.4	-2.6	-1.2	:	-0.4
Sweden	4.8	6.9	6.1	6.1	6.7	5.5	5.5	5.6	4.8	5.4	5.0	:	5.1
United Kingdom	-1.8	-3.0	-5.1	-4.3	-5.1	-5.6	-6.0	-6.9	-5.8	-6.9	-6.1	:	-6.3
EU27	:	0.7	0.3	0.8	0.5	-0.1	-0.5	-0.6	-0.6	-0.8	-0.7	:	-0.7
EU27, adjusted ¹	:	:	:	:	-0.4	-1.0	-1.5	-1.3	-1.4	-1.5	-1.4	:	-1.4
USA	-2.1	-3.6	-5.7	-5.1	-5.9	-6.4	-6.5	-5.9	-6.1	-6.0	-5.8	:	-5.3
Japan	2.7	2.5	2.3	2.4	2.8	2.1	1.9	2.7	2.4	2.7	2.4	:	2.3

¹ See note 8 on concepts and sources.

TABLE 49 : Current account balance (as a percentage of GDP, 1992-2009)

24.10.2007

	5-year averages					2007		2008		2009			
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	4.6	4.8	3.9	4.5	3.8	3.0	3.3	2.7	3.0	2.9	3.1	:	3.4
Germany	-1.1	-0.8	3.7	2.1	4.5	4.7	5.2	5.6	5.8	5.7	5.8	:	6.0
Ireland	2.6	0.7	-1.5	0.9	-0.3	-3.5	-4.2	-3.9	-4.6	-4.4	-4.4	:	-4.3
Greece	-0.6	-5.9	-9.8	-9.8	-9.3	-9.0	-11.1	-11.0	-10.8	-10.5	-10.8	:	-10.6
Spain	-1.4	-2.4	-6.0	-4.0	-5.9	-7.5	-8.8	-9.1	-9.3	-9.7	-9.6	:	-9.8
France	0.5	1.9	-0.7	0.2	-0.6	-1.7	-2.2	-1.9	-2.3	-1.8	-2.3	:	-2.3
Italy	1.0	1.2	-1.0	-0.9	-0.5	-1.2	-2.0	-1.7	-1.7	-1.7	-1.8	:	-1.7
Cyprus	:	-2.4	-4.5	-2.2	-5.0	-5.6	-5.9	-5.6	-6.0	-5.4	-5.9	:	-5.7
Luxembourg	12.8	10.0	10.5	8.0	11.6	10.9	10.3	10.5	11.5	11.9	12.7	:	13.8
Malta	:	-6.4	-4.4	-3.1	-6.0	-8.8	-6.7	-5.6	-3.8	-4.4	-3.4	:	-2.6
Netherlands	4.6	4.8	7.1	6.1	8.6	7.1	7.6	9.2	6.9	9.0	7.5	:	8.2
Austria	-1.8	-1.0	2.6	1.4	2.4	3.0	3.5	3.2	4.8	3.1	5.3	:	5.3
Portugal	-3.1	-8.7	-8.5	-6.4	-7.8	-9.6	-9.9	-9.5	-9.0	-9.0	-8.8	:	-8.7
Slovenia	2.6	-1.3	-1.5	-0.9	-2.6	-2.0	-2.8	-2.4	-3.5	-2.3	-2.6	:	-1.8
Finland	0.6	7.3	6.6	5.9	7.7	4.9	4.7	6.1	5.2	5.8	5.1	:	5.0
Euro area	:	0.5	0.5	0.5	1.0	0.2	-0.1	0.2	0.0	0.1	0.0	:	0.1
Euro area, adjusted ¹	:	:	:	0.4	0.8	0.0	-0.1	:	0.0	:	-0.1	:	0.0
Bulgaria	-4.3	-2.7	-8.5	-5.5	-6.6	-12.0	-15.8	-16.6	-18.1	-17.2	-17.7	:	-17.6
Czech Republic	-2.1	-4.1	-4.7	-6.5	-5.5	-2.3	-3.1	-3.0	-2.8	-2.7	-2.4	:	-2.3
Denmark	1.8	1.2	3.0	3.4	3.1	3.6	2.4	1.9	1.3	2.3	0.8	:	0.7
Estonia	:	-7.0	-12.0	-11.4	-12.4	-10.1	-15.7	-15.1	-14.6	-14.7	-12.3	:	-10.9
Latvia	6.0	-7.3	-12.3	-8.2	-12.9	-12.6	-21.1	-22.4	-23.8	-21.0	-21.6	:	-19.8
Lithuania	:	-8.6	-7.4	-6.8	-7.5	-7.2	-10.5	-12.4	-13.9	-13.4	-14.4	:	-14.6
Hungary	:	-8.0	-7.3	-7.9	-8.4	-6.8	-6.5	-3.5	-4.4	-2.2	-3.4	:	-2.7
Poland	0.6	-4.2	-2.5	-2.1	-4.4	-1.7	-1.8	-3.1	-4.3	-4.3	-5.5	:	-6.2
Romania	:	-5.0	-6.0	-4.8	-5.0	-8.7	-10.3	-12.1	-13.7	-12.3	-15.5	:	-16.2
Slovakia	:	-6.3	-5.5	-2.1	-2.5	-7.9	-7.7	-4.2	-4.4	-3.7	-2.9	:	-2.0
Sweden	0.9	4.2	6.3	6.6	6.5	5.8	6.9	7.5	7.1	7.5	7.0	:	7.3
United Kingdom	-1.4	-1.5	-2.0	-1.3	-1.6	-2.5	-3.2	-3.9	-3.1	-4.1	-3.5	:	-3.5
EU27	:	0.0	0.0	0.2	0.4	-0.3	-0.7	-0.7	-0.8	-0.8	-0.9	:	-0.9
EU27, adjusted ¹	:	:	:	-0.2	-0.6	-0.8	-0.9	-0.9	-1.0	-1.0	-1.0	:	-0.9
USA	-1.1	-2.8	-5.3	-4.7	-5.4	-5.9	-6.1	-5.8	-5.4	-6.0	-4.9	:	-4.3
Japan	2.5	2.5	3.5	3.2	3.7	3.6	4.0	4.2	4.7	4.1	4.8	:	4.8

¹ See note 8 on concepts and sources.

TABLE 50 : Net lending (+) or net borrowing (-) of the nation (as a percentage of GDP, 1992-2009)

	5-year averages					2007		2008		2009			
	1992-96	1997-01	2002-06	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	4.4	4.8	3.9	4.4	3.8	2.9	3.4	2.7	3.1	3.1	3.2	:	3.5
Germany	-1.1	-0.7	3.7	2.1	4.5	4.7	5.2	5.6	5.8	5.7	5.8	:	6.1
Ireland	3.8	1.6	-1.3	1.0	-0.1	-3.4	-4.0	-3.8	-4.5	-4.3	-4.3	:	-4.2
Greece	:	-3.9	-8.4	-8.5	-7.7	-7.6	-9.6	-9.4	-9.4	-9.0	-9.5	:	-9.4
Spain	-0.7	-1.4	-5.0	-2.9	-4.8	-6.5	-8.1	-8.5	-8.7	-9.1	-9.1	:	-9.3
France	0.5	2.0	-0.8	-0.2	-0.5	-1.7	-2.1	-1.9	-2.3	-1.8	-2.2	:	-2.2
Italy	1.1	1.4	-0.9	-0.7	-0.4	-1.1	-1.9	-1.5	-1.6	-1.5	-1.5	:	-1.5
Cyprus	:	:	:	:	:	:	:	-5.4	-5.8	-5.2	-5.7	:	-5.5
Luxembourg	:	:	:	:	:	:	:	10.5	11.5	11.9	12.7	:	13.8
Malta	:	-6.0	-2.8	-2.8	-4.6	-5.5	-3.7	-2.5	-0.9	-1.5	-0.6	:	0.0
Netherlands	4.2	4.6	6.8	5.9	8.3	6.7	7.3	8.8	6.6	8.6	7.2	:	7.9
Austria	-2.0	-1.1	2.5	1.4	2.3	3.0	3.3	3.2	4.6	3.0	5.2	:	5.3
Portugal	-0.6	-6.4	-6.7	-4.1	-6.1	-8.1	-8.8	-8.4	-7.9	-8.0	-7.7	:	-7.7
Slovenia	2.6	-1.2	-1.4	-0.8	-2.5	-1.9	-2.6	-2.2	-3.3	-2.1	-2.6	:	-1.9
Finland	0.7	7.4	7.0	6.0	7.8	5.1	5.9	6.8	5.3	6.5	5.2	:	5.1
Euro area	0.4	0.7	0.6	0.5	1.1	0.4	0.1	0.3	0.1	0.2	0.1	:	0.2
Euro area, adjusted ¹	:	:	:	0.5	1.0	0.2	0.1	:	0.1	:	0.1	:	0.2
Bulgaria	-4.6	-2.5	-8.0	-5.9	-5.1	-10.8	-15.0	-15.6	-17.0	-15.8	-16.0	:	-15.8
Czech Republic	-3.0	-4.0	-4.4	-6.3	-5.4	-2.9	-2.7	-3.5	-2.5	-3.3	-2.1	:	-1.9
Denmark	1.8	1.4	3.0	3.4	3.1	3.7	2.4	1.9	1.2	2.3	0.7	:	0.6
Estonia	:	-7.1	-10.5	-10.8	-11.7	-7.9	-11.9	-12.9	-13.6	-11.9	-11.2	:	-9.6
Latvia	11.9	-7.0	-11.4	-7.5	-11.9	-11.2	-19.9	-20.3	-22.2	-18.7	-18.9	:	-18.0
Lithuania	:	-8.6	-6.6	-6.4	-6.8	-6.2	-8.9	-11.1	-12.5	-12.1	-12.9	:	-13.0
Hungary	:	-7.6	-6.9	-8.0	-8.1	-6.0	-5.7	-3.5	-3.9	-2.2	-1.5	:	-0.4
Poland	2.4	-4.1	-2.3	-2.1	-4.2	-1.4	-1.2	-2.1	-3.3	-3.3	-2.9	:	-4.0
Romania	-3.8	-4.8	-5.5	-4.3	-4.1	-8.0	-10.3	-11.2	-12.8	-11.4	-14.5	:	-15.3
Slovakia	:	-6.4	-6.0	-2.5	-2.3	-8.1	-7.9	-4.0	-4.2	-3.5	-2.7	:	-1.6
Sweden	0.5	3.9	6.1	6.6	6.5	5.9	6.3	7.4	7.0	7.3	6.9	:	7.2
United Kingdom	-1.3	-1.4	-1.9	-1.2	-1.5	-2.3	-3.2	-3.8	-3.0	-4.0	-3.4	:	-3.4
EU27	-0.4	-0.3	-0.6	-0.4	0.0	-1.1	-1.8	-0.5	-0.6	-0.6	-0.6	:	-0.6
EU27, adjusted ¹	:	:	:	-0.6	-1.4	-1.9	-0.7	-0.7	-0.8	-0.7	-0.7	:	-0.7
USA	-1.2	-2.9	-5.3	-4.7	-5.4	-6.0	-6.1	-5.9	-5.4	-6.0	-4.9	:	-4.4
Japan	2.4	2.3	3.4	3.1	3.6	3.5	3.9	4.1	4.6	4.0	4.6	:	4.6

¹ See note 8 on concepts and sources.

TABLE 51 : Merchandise trade balance (fob-fob, in billions of Ecu/euro, 2001-2009)

24.10.2007

	2001	2002	2003	2004	2005	2006	2007		2008		2009	
							IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	7.1	10.2	9.7	8.3	5.7	4.1	5.5	3.8	6.4	4.0	:	4.8
Germany	100.7	136.6	131.9	153.5	155.5	162.6	186.6	187.0	188.2	198.6	:	215.9
Ireland	30.9	36.2	33.2	32.2	28.2	25.4	26.0	25.0	25.3	26.1	:	27.8
Greece	-22.0	-24.3	-27.2	-31.2	-30.7	-35.2	-35.8	-38.0	-37.9	-41.5	:	-44.5
Spain	-38.4	-36.6	-40.2	-53.2	-67.3	-79.7	-88.5	-87.8	-96.8	-95.5	:	-100.3
France	2.4	8.4	2.4	-5.1	-21.2	-41.3	-42.2	-47.4	-44.4	-53.2	:	-59.8
Italy	16.7	14.3	9.5	8.8	0.4	-9.7	-5.0	4.5	-5.0	6.6	:	9.6
Cyprus	-2.9	-3.0	-2.8	-3.3	-3.4	-3.9	-4.1	-4.1	-4.3	-4.3	:	-4.6
Luxembourg	-3.0	-2.5	-2.7	-2.8	-3.4	-3.3	-2.8	-3.6	-3.0	-4.1	:	-4.6
Malta	-0.6	-0.4	-0.6	-0.7	-0.9	-1.0	-1.0	-0.9	-1.0	-0.9	:	-0.9
Netherlands	27.0	31.2	31.0	35.4	38.7	39.6	43.1	36.5	44.3	38.8	:	42.4
Austria	-1.2	3.8	1.2	2.5	2.4	3.5	5.8	5.7	6.2	6.9	:	7.2
Portugal	-14.5	-13.1	-11.2	-13.7	-15.3	-15.4	-14.1	-14.8	-14.2	-14.7	:	-14.9
Slovenia	-0.7	-0.3	-0.6	-1.0	-1.0	-1.2	-1.1	-1.6	-1.0	-1.4	:	-1.2
Finland	14.1	13.5	11.4	10.2	7.7	8.9	10.0	10.3	9.4	10.6	:	11.0
Euro area	119.1	177.2	148.6	143.8	99.6	53.4	82.5	74.5	72.2	76.1	:	88.0
Euro area, adjusted ¹	73.2	127.8	105.0	101.9	46.8	30.3	:	51.4	:	52.9	:	64.8
Bulgaria	-1.8	-1.9	-2.4	-3.0	-4.4	-5.6	-6.1	-6.9	-6.9	-7.8	:	-8.7
Czech Republic	-3.4	-2.3	-2.2	-0.4	2.0	2.3	2.9	3.3	4.0	3.7	:	4.5
Denmark	8.3	8.5	8.7	7.3	6.4	1.0	0.5	-0.7	0.8	-1.8	:	-2.3
Estonia	-0.9	-1.2	-1.4	-1.6	-1.5	-2.3	-2.7	-2.6	-3.1	-2.6	:	-2.5
Latvia	-1.5	-1.6	-1.8	-2.3	-2.5	-4.0	-4.8	-5.3	-5.1	-5.7	:	-5.9
Lithuania	-1.2	-1.4	-1.5	-1.9	-2.4	-3.3	-4.2	-4.6	-5.0	-5.4	:	-6.1
Hungary	-2.6	-2.3	-2.9	-2.5	-1.5	-0.9	1.6	1.3	3.0	2.7	:	3.6
Poland	-8.5	-7.7	-5.1	-4.6	-2.2	-5.5	-7.9	-12.1	-12.5	-17.1	:	-21.3
Romania	-3.4	-2.8	-4.0	-5.3	-7.8	-11.8	-16.7	-18.3	-20.5	-23.5	:	-28.1
Slovakia	-2.5	-2.4	-0.7	-1.3	-2.2	-2.6	-1.6	-1.3	-1.6	-0.7	:	-0.3
Sweden	16.8	17.2	16.5	18.7	15.7	16.8	18.1	15.6	18.6	17.4	:	18.4
United Kingdom	-66.3	-75.9	-70.3	-89.8	-100.6	-114.7	-138.4	-118.9	-145.7	-125.8	:	-135.2
EU27	48.7	100.2	78.1	53.3	-5.7	-77.2	-76.8	-76.0	-101.7	-90.6	:	-95.8
EU27, adjusted ¹	:	:	:	-48.3	-109.7	-169.2	-164.1	-168.0	-189.1	-182.6	:	-187.8
USA	-487.8	-521.2	-495.3	-548.2	-639.2	-677.1	-618.9	-619.5	-649.8	-579.2	:	-554.6
Japan	77.3	97.9	91.5	103.5	75.5	64.8	89.7	75.3	91.3	76.0	:	73.4

¹ See note 8 on concepts and sources.

TABLE 52 : Current account balance (in billions of Ecu/euro, 2001-2009)

	2001	2002	2003	2004	2005	2006	2007		2008		2009	
							IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	10.6	13.3	12.4	11.0	9.0	10.4	8.7	10.0	10.0	10.9	:	12.3
Germany	-0.6	46.1	44.4	98.5	105.7	121.5	135.7	140.6	140.6	144.4	:	155.6
Ireland	-0.5	-0.4	1.3	-0.5	-5.7	-7.3	-7.4	-8.6	-9.0	-8.6	:	-9.0
Greece	-13.4	-15.3	-16.8	-17.2	-17.8	-23.8	-23.0	-24.8	-23.4	-26.5	:	-27.8
Spain	-29.5	-27.4	-31.6	-49.5	-67.8	-83.2	-94.8	-97.2	-107.4	-107.1	:	-115.0
France	17.6	12.2	3.9	-9.7	-28.8	-38.5	-35.2	-44.2	-34.3	-44.5	:	-47.1
Italy	3.6	-4.3	-12.0	-7.0	-17.1	-29.3	-25.9	-26.5	-27.5	-28.1	:	-29.0
Cyprus	-0.4	-0.4	-0.3	-0.6	-0.8	-0.8	-0.9	-0.9	-0.9	-1.0	:	-1.0
Luxembourg	2.0	2.8	2.0	3.2	3.3	3.2	3.8	4.2	4.7	5.1	:	6.0
Malta	-0.2	0.1	-0.1	-0.3	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2	:	-0.2
Netherlands	23.3	28.2	29.2	42.2	35.9	40.9	50.6	38.6	52.2	43.7	:	50.5
Austria	-0.7	5.6	3.3	5.7	7.5	10.3	8.7	13.0	8.5	15.0	:	15.7
Portugal	-13.5	-11.5	-8.9	-11.3	-14.3	-15.3	-15.4	-14.7	-15.4	-14.9	:	-15.5
Slovenia	0.0	0.2	-0.2	-0.7	-0.6	-0.8	-0.8	-1.2	-0.8	-0.9	:	-0.7
Finland	13.1	14.4	8.7	11.7	7.7	7.8	10.8	9.2	10.7	9.5	:	9.9
Euro area	12.2	63.9	35.7	76.4	17.0	-5.5	14.8	-1.5	7.9	-3.3	:	4.9
Euro area, adjusted ¹	-22.1	57.0	32.4	62.5	-0.2	-7.4	:	-3.5	:	-5.2	:	3.0
Bulgaria	-0.9	-0.4	-1.0	-1.3	-2.6	-3.9	-4.6	-5.2	-5.3	-5.8	:	-6.4
Czech Republic	-3.6	-4.9	-5.3	-4.8	-2.3	-3.5	-3.7	-3.5	-3.6	-3.4	:	-3.4
Denmark	5.6	4.6	6.5	6.0	7.5	5.3	4.4	3.0	5.5	2.0	:	1.7
Estonia	-0.3	-0.8	-1.0	-1.2	-1.1	-2.1	-2.3	-2.3	-2.6	-2.2	:	-2.2
Latvia	-0.7	-0.7	-0.8	-1.4	-1.6	-3.4	-4.3	-4.9	-4.8	-5.3	:	-5.5
Lithuania	-0.6	-0.8	-1.1	-1.4	-1.5	-2.5	-3.3	-3.8	-4.0	-4.6	:	-5.2
Hungary	-3.6	-4.9	-5.9	-6.9	-6.0	-5.6	-3.6	-4.5	-2.4	-3.7	:	-3.2
Poland	-6.0	-5.3	-4.1	-8.9	-4.1	-6.7	-9.1	-13.1	-14.0	-18.8	:	-22.8
Romania	-2.5	-0.5	-2.5	-3.0	-6.9	-10.0	-14.5	-16.1	-16.9	-20.2	:	-23.6
Slovakia	-1.7	-1.9	-0.6	-0.8	-3.0	-3.4	-2.3	-2.4	-2.2	-1.7	:	-1.3
Sweden	11.3	13.8	17.9	18.2	16.8	21.9	24.5	23.0	25.6	24.4	:	26.6
United Kingdom	-35.2	-26.3	-21.6	-28.5	-44.5	-62.3	-78.2	-62.9	-86.2	-71.3	:	-75.6
EU27	-26.7	35.6	15.8	41.4	-33.7	-81.6	-82.4	-94.3	-103.1	-113.9	:	-116.0
EU27, adjusted ¹	:	:	:	-20.6	-66.1	-92.1	-104.1	-104.8	-124.8	-124.4	:	-126.5
USA	-413.8	-485.8	-453.5	-502.3	-591.1	-632.6	-607.0	-550.8	-648.8	-492.1	:	-452.7
Japan	98.0	119.8	120.5	138.6	133.4	138.5	136.2	149.2	136.1	151.5	:	155.6

¹ See note 8 on concepts and sources.

TABLE 53 : Export markets (a) (percentage change on preceding year, 2001-2009)

24.10.2007

	2001	2002	2003	2004	2005	2006	2007		2008		2009	
							IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	1.1	2.4	4.0	8.5	6.4	9.5	7.5	6.6	6.9	6.3	:	6.2
Germany	0.6	3.8	4.0	9.7	6.4	9.2	7.7	7.7	7.2	7.0	:	6.9
Ireland	0.1	3.2	3.6	8.5	6.0	8.6	6.3	5.9	6.2	5.4	:	5.7
Greece	1.6	3.2	4.5	9.5	7.5	9.8	8.3	8.0	7.7	7.5	:	7.1
Spain	0.6	1.9	3.1	8.5	5.9	8.7	6.9	6.2	6.5	6.0	:	6.0
France	0.6	2.9	4.6	8.7	6.1	9.2	7.5	7.1	7.0	6.6	:	6.5
Italy	0.5	3.6	5.1	9.9	7.1	9.9	8.1	7.9	7.5	7.2	:	6.9
Cyprus	:	:	:	7.6	6.7	10.2	7.6	7.8	6.8	7.0	:	6.9
Luxembourg (b)	:	:	:	8.1	5.9	9.2	7.4	6.1	6.7	6.1	:	5.9
Malta	:	:	:	11.0	7.2	9.0	7.0	6.7	6.9	6.5	:	6.8
Netherlands	0.3	2.3	4.2	8.3	6.1	9.6	7.8	6.8	7.0	6.6	:	6.4
Austria	1.2	2.0	4.6	9.3	6.3	10.9	8.8	7.8	8.0	7.5	:	7.1
Portugal	0.7	1.4	3.9	8.5	6.5	9.1	7.2	6.8	6.7	6.2	:	5.8
Slovenia	:	:	:	8.4	5.8	10.2	8.9	8.0	7.8	7.6	:	7.3
Finland	0.6	4.0	5.3	9.8	8.8	11.5	10.2	9.3	8.5	8.3	:	8.0
Euro area (c)	0.6	3.1	4.3	9.2	6.4	9.4	7.7	7.3	7.1	6.8	:	6.6
Bulgaria	:	:	:	10.5	6.4	9.2	8.0	7.9	7.3	7.4	:	7.0
Czech Republic	:	:	:	9.2	6.6	11.6	9.5	8.4	8.3	7.8	:	7.1
Denmark	0.1	2.6	4.5	8.7	7.3	9.8	7.9	7.3	7.0	6.8	:	6.6
Estonia	:	:	:	9.7	9.7	11.2	9.6	10.2	8.0	8.2	:	7.7
Latvia	:	:	:	9.2	9.1	13.0	10.9	10.5	9.1	9.2	:	8.2
Lithuania	:	:	:	10.6	9.2	12.8	10.7	11.5	8.7	9.0	:	8.2
Hungary	:	:	:	8.9	6.6	11.3	9.3	8.9	8.2	8.3	:	7.6
Poland	:	:	:	9.6	7.5	11.4	9.3	8.7	8.0	8.1	:	7.5
Romania	:	:	:	8.7	5.5	8.8	7.3	7.1	6.8	6.9	:	6.7
Slovakia	:	:	:	10.3	5.8	11.4	9.3	8.9	8.5	8.4	:	7.7
Sweden	-0.4	3.5	3.9	9.3	7.6	9.8	7.4	7.1	6.8	6.6	:	6.4
United Kingdom	0.0	3.0	4.1	9.0	7.0	8.1	7.1	6.5	6.8	6.0	:	6.0
EU27 (c)	:	:	:	8.7	5.5	9.5	7.8	7.3	7.2	6.8	:	6.6
USA	-2.2	6.5	5.2	10.8	7.3	8.7	7.4	7.3	7.4	6.9	:	7.5
Japan	-2.3	7.9	6.6	12.8	7.6	9.4	8.2	8.6	8.6	8.0	:	8.5

(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, 2001-2009)

	2001	2002	2003	2004	2005	2006	2007		2008		2009	
							IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Belgium	-0.9	-1.1	0.2	-1.1	-3.2	-6.5	-1.3	-1.3	-1.4	-0.9	:	-0.8
Germany	5.6	-0.3	-0.9	0.6	1.0	3.3	1.3	0.0	0.0	-0.1	:	0.2
Ireland	4.5	1.0	-7.4	-2.7	-3.6	-7.1	-3.6	-0.9	-2.6	-1.3	:	-0.9
Greece	-3.1	-10.0	1.1	-10.9	0.2	2.1	0.0	-0.5	-0.7	-0.3	:	-0.1
Spain	3.3	1.7	2.0	-3.1	-4.5	-3.7	-0.9	-1.7	-0.5	-1.7	:	-2.0
France	2.3	-0.9	-4.4	-3.3	-3.1	-2.3	-1.3	-2.9	-1.1	-2.3	:	-2.4
Italy	-0.6	-7.3	-7.1	-6.4	-7.7	-5.0	-3.5	-4.1	-3.3	-3.9	:	-3.6
Cyprus	:	:	:	4.2	19.9	-23.5	-3.4	-4.5	-2.7	-2.9	:	-2.8
Luxembourg (b)	:	:	:	0.3	-7.0	0.9	-1.3	-0.1	-1.1	-0.3	:	-0.4
Malta	:	:	:	-7.4	-10.9	-4.7	-3.6	-8.1	-3.4	-5.8	:	-5.4
Netherlands	1.0	-1.0	-2.0	0.8	0.0	-1.3	-1.4	-0.2	-1.1	-0.6	:	-0.5
Austria	5.5	3.0	-2.0	1.1	0.0	-2.7	-0.6	-0.2	-0.5	-0.7	:	-1.0
Portugal	0.8	0.1	1.8	-5.0	-5.2	-0.8	-0.3	-1.8	-0.7	-0.9	:	-0.8
Slovenia	:	:	:	4.1	4.2	2.9	0.6	4.6	0.6	2.7	:	1.6
Finland	-0.8	-1.6	-4.9	-3.4	-2.6	2.2	-3.4	-2.7	-2.2	-2.9	:	-2.7
Euro area (c)	2.6	-1.6	-2.5	-1.6	-2.0	-1.1	-1.0	-1.3	-1.2	-1.2	:	-1.0
Bulgaria	:	:	:	1.7	3.6	1.6	3.2	-0.8	3.4	1.0	:	1.4
Czech Republic	:	:	:	12.7	4.8	4.0	3.5	6.7	2.7	5.4	:	3.8
Denmark	2.4	1.7	-6.2	-4.5	-2.0	-3.3	-3.2	-3.8	-2.1	-2.9	:	-2.9
Estonia	:	:	:	9.0	14.2	-0.5	-0.2	-4.9	0.2	-0.2	:	-0.2
Latvia	:	:	:	1.5	10.7	-9.9	-2.6	-0.9	-0.1	-0.2	:	1.7
Lithuania	:	:	:	-7.3	6.0	0.6	-0.9	-2.2	2.2	2.8	:	1.2
Hungary	:	:	:	9.2	4.4	5.9	4.6	5.7	2.7	2.6	:	2.3
Poland	:	:	:	4.7	0.2	2.0	0.4	-0.9	0.9	-0.3	:	0.3
Romania	:	:	:	6.5	2.3	-1.5	0.3	-0.1	-0.5	1.4	:	1.9
Slovakia	:	:	:	-0.4	7.2	8.4	9.5	11.4	3.4	4.3	:	1.5
Sweden	-1.7	-1.5	0.9	0.8	-2.3	-1.6	-0.6	-3.2	-0.8	-0.8	:	-1.1
United Kingdom	2.7	-4.1	-4.2	-6.9	2.1	5.0	-1.1	-0.2	-0.9	-0.2	:	0.1
EU27 (c)	:	:	:	-1.1	-0.1	-0.3	-0.6	-0.8	-0.7	-0.7	:	-0.7
USA	-4.0	-9.8	-3.2	-1.6	0.2	1.1	-0.4	-0.2	0.2	2.0	:	0.5
Japan	-4.0	-0.3	2.2	0.9	-1.5	0.8	-0.2	-0.6	-1.5	-0.4	:	0.1

(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, 2002-2009)

24.10.2007

	(a)						2007		2008		2009	
		2002	2003	2004	2005	2006	IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
EU27	20.4	1.2	1.3	2.5	1.8	3.0	2.9	2.9	2.7	2.4	:	2.4
Euro area	14.6	0.9	0.8	2.0	1.5	2.8	2.6	2.6	2.5	2.2	:	2.1
Belgium	0.6	1.5	1.0	3.0	1.7	2.8	2.3	2.7	2.2	2.1	:	2.2
Bulgaria	0.0	4.5	5.0	6.6	6.2	6.1	6.1	6.3	6.2	6.0	:	6.2
Czech Republic	0.2	1.9	3.6	4.5	6.4	6.4	4.9	5.8	4.9	5.0	:	4.9
Denmark	0.4	0.5	0.4	2.1	3.1	3.5	2.3	1.9	2.0	1.3	:	1.4
Germany	4.1	0.0	-0.2	1.1	0.8	2.9	2.5	2.5	2.4	2.1	:	2.2
Estonia	0.0	8.0	7.2	8.3	10.2	11.2	8.7	7.8	8.2	6.4	:	6.2
Ireland	0.3	6.4	4.3	4.3	5.9	5.7	5.0	4.9	4.0	3.5	:	3.8
Greece	0.4	2.9	5.0	4.6	3.4	4.3	3.7	4.1	3.7	3.8	:	3.7
Spain	1.7	2.7	3.1	3.3	3.6	3.9	3.7	3.8	3.4	3.0	:	2.3
France	3.1	1.0	1.1	2.5	1.7	2.0	2.4	1.9	2.3	2.0	:	1.8
Italy	2.6	0.3	0.0	1.2	0.1	1.9	1.9	1.9	1.7	1.4	:	1.6
Cyprus	0.0	2.0	1.8	4.2	3.9	3.8	3.8	3.8	3.9	3.9	:	3.9
Latvia	0.0	6.5	7.2	8.7	10.6	11.9	9.6	10.5	7.9	7.2	:	6.2
Lithuania	0.0	6.9	10.3	7.3	7.9	7.7	7.3	8.5	6.3	7.5	:	6.3
Luxembourg	0.1	4.1	2.1	4.9	5.0	6.1	5.0	5.2	4.7	4.7	:	4.5
Hungary	0.2	4.4	4.2	4.8	4.1	3.9	2.4	2.0	2.6	2.6	:	3.4
Malta	0.0	2.6	-0.3	0.1	3.1	3.2	3.0	3.1	2.8	2.8	:	2.9
Netherlands	0.9	0.1	0.3	2.2	1.5	3.0	2.8	2.7	2.6	2.6	:	2.5
Austria	0.5	0.9	1.2	2.3	2.0	3.3	2.9	3.3	2.5	2.7	:	2.4
Poland	0.5	1.4	3.9	5.3	3.6	6.1	6.1	6.5	5.5	5.6	:	5.2
Portugal	0.3	0.8	-0.7	1.5	0.5	1.3	1.8	1.8	2.0	2.0	:	2.1
Romania	0.2	5.1	5.2	8.5	4.1	7.7	6.7	6.0	6.3	5.9	:	5.8
Slovenia	0.1	3.7	2.8	4.4	4.1	5.7	4.3	6.0	4.0	4.6	:	4.0
Slovakia	0.1	4.1	4.2	5.4	6.0	8.3	8.5	8.7	6.5	7.0	:	6.2
Finland	0.3	1.6	1.8	3.7	2.9	5.0	3.1	4.3	2.7	3.4	:	2.8
Sweden	0.5	2.0	1.7	4.1	2.9	4.2	3.8	3.4	3.3	3.1	:	2.4
United Kingdom	3.4	2.1	2.8	3.3	1.8	2.8	2.8	3.1	2.5	2.2	:	2.5
Candidate Countries	1.0	7.5	5.7	8.3	7.0	5.9	4.9	5.2	5.8	5.7	:	6.4
- Croatia	0.1	5.6	5.3	4.3	4.3	4.8	4.8	6.0	4.5	5.0	:	5.5
- Turkey	0.9	7.9	5.8	8.9	7.4	6.1	4.9	5.1	5.9	5.8	:	6.5
- former Yugoslav Republic of Macedonia	0.0	0.9	2.8	4.1	4.1	3.1	4.3	5.0	5.3	5.5	:	5.3
USA	19.7	1.6	2.5	3.6	3.1	2.9	2.2	2.1	2.7	1.7	:	2.6
Japan	6.3	0.3	1.4	2.7	1.9	2.2	2.3	1.9	2.1	1.9	:	2.3
Canada	1.8	2.9	1.8	3.3	2.9	2.8	2.4	2.4	2.9	2.2	:	2.9
Norway	0.3	1.5	1.0	3.9	2.7	2.8	3.2	2.9	2.7	3.1	:	2.2
Switzerland	0.4	0.4	-0.2	2.5	2.4	3.2	2.1	2.3	1.9	2.1	:	2.0
Iceland	0.0	-0.3	2.7	7.7	7.5	2.6	1.2	0.7	2.5	1.2	:	2.0
Australia	1.1	3.2	4.1	2.7	2.8	2.4	2.9	4.3	3.1	4.0	:	3.4
New Zealand	0.2	4.7	3.6	3.7	1.9	1.7	2.1	2.0	2.2	2.5	:	2.5
Industrialised countries	51.1	1.5	2.0	3.1	2.5	2.9	2.6	2.5	2.7	2.2	:	2.6
Others	48.9	4.9	6.4	7.5	7.3	8.0	7.3	7.8	7.2	7.3	:	7.1
CIS	3.9	5.3	7.9	8.3	6.5	7.6	6.9	8.3	6.9	7.5	:	7.1
- Russia	2.7	4.7	7.3	7.2	6.4	6.7	6.8	7.7	6.5	7.0	:	6.9
- Other	1.2	6.6	9.2	11.0	6.6	9.5	7.2	9.5	7.6	8.6	:	7.4
MENA	4.1	1.8	3.4	5.8	6.3	6.2	5.4	5.2	5.2	5.3	:	5.2
Other emerging markets	40.9	5.2	6.6	7.6	7.4	8.2	7.5	8.0	7.5	7.5	:	7.3
Asia	30.6	6.6	7.9	8.3	8.3	9.1	8.3	8.8	8.4	8.4	:	8.2
- China	15.6	9.1	10.0	10.1	10.2	11.1	10.5	11.2	10.4	10.3	:	9.9
- India	6.5	3.8	8.5	7.5	8.4	9.2	7.6	8.5	7.4	7.7	:	7.6
- Hong Kong	0.4	1.8	3.2	8.6	7.5	6.8	6.1	5.7	6.1	5.3	:	6.6
- Korea	1.8	7.0	3.1	4.7	4.0	5.0	4.3	4.3	4.7	4.5	:	4.8
- Indonesia	1.5	4.4	4.7	5.0	5.7	5.5	5.8	6.0	6.0	6.1	:	6.4
Latin America	7.7	0.1	2.3	5.9	4.5	5.4	4.5	5.0	4.1	4.4	:	4.2
- Brazil	2.6	2.7	1.1	5.7	2.9	3.7	4.2	4.7	3.9	4.4	:	3.9
- Mexico	1.8	0.8	1.4	4.2	2.7	4.8	3.3	2.8	3.7	3.2	:	3.7
Sub-Saharan Africa	2.5	3.5	3.6	5.0	5.9	5.8	6.5	6.9	6.0	6.5	:	6.4
World	100.0	3.1	4.1	5.3	4.8	5.4	4.8	5.1	4.8	4.7	:	4.8
World excluding EU27	79.6	3.6	4.9	6.0	5.6	6.0	5.3	5.6	5.4	5.3	:	5.4
World excluding euro area	85.4	3.5	4.7	5.9	5.4	5.8	5.2	5.5	5.3	5.1	:	5.3

(a) Relative weights, based on GDP (at constant prices and pps) in 2006.

TABLE 56 : World exports of goods and services, volume (percentage change on preceding year, 2002-2009)

24.10.2007

(a)	2002	2003	2004	2005	2006	2007		2008		2009	
						IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
EU27 (b)	39.4	1.9	1.8	7.3	5.5	8.7	7.0	6.3	6.2	5.8	: 5.8
Euro area (b)	29.2	1.7	1.2	7.0	4.5	7.8	6.7	5.8	5.9	5.3	: 5.4
Candidate Countries	1.0	9.7	15.3	11.5	7.9	8.3	6.8	9.6	6.5	7.5	: 7.7
- Croatia	0.1	1.3	11.4	5.7	4.6	6.9	7.2	7.1	7.3	8.2	: 8.8
- Turkey	0.8	11.1	16.0	12.5	8.5	8.5	6.7	10.0	6.4	7.4	: 7.5
- former Yugoslav Republic of Macedonia	0.0	-5.1	-5.7	12.9	13.6	-66.1	14.5	14.3	15.9	11.5	: 9.5
USA	10.0	-2.3	1.3	9.7	6.9	8.4	7.0	7.4	7.2	8.5	: 7.8
Japan	4.8	7.5	9.2	13.9	7.0	9.6	7.3	7.7	6.6	7.3	: 8.1
Canada	3.2	1.2	-2.4	5.2	2.1	0.7	2.8	1.9	3.4	0.0	: 2.1
Norway	1.1	-0.3	-0.2	1.1	0.7	1.6	3.6	3.5	3.4	4.3	: 3.5
Switzerland	1.4	-0.1	-0.5	7.9	7.3	9.9	5.9	6.9	6.0	6.1	: 5.7
Iceland	0.0	-0.5	3.3	12.6	3.2	2.4	8.5	2.5	9.5	5.8	: 7.6
Australia	1.1	0.6	-0.3	2.8	3.2	2.4	6.6	6.0	7.2	7.8	: 8.0
New Zealand	0.2	6.0	1.0	5.5	-1.4	1.7	7.0	6.8	6.8	6.8	: 6.8
Industrialised countries	62.2	1.6	2.2	8.0	5.6	8.1	6.7	6.3	6.2	6.1	: 6.1
Others	37.8	8.8	11.0	17.5	13.6	11.9	9.3	10.0	9.3	8.5	: 8.3
CIS	3.2	-4.9	7.8	17.0	11.4	8.8	4.9	7.0	4.9	6.2	: 5.5
- Russia	2.3	-6.8	6.2	13.0	11.9	5.4	3.2	3.6	3.3	3.6	: 3.6
- Other	0.9	2.0	13.0	29.4	10.0	17.8	8.7	15.2	8.4	11.9	: 9.2
MENA	5.8	7.9	10.1	8.6	15.6	8.3	5.0	5.0	4.7	4.6	: 4.8
Other emerging markets	28.8	10.6	11.5	19.3	13.4	13.0	10.5	11.3	10.5	9.5	: 9.3
Asia	21.8	13.6	13.9	20.9	14.5	15.1	11.7	12.5	11.7	10.7	: 10.2
- China	7.3	24.1	28.7	27.1	21.3	22.1	19.2	21.0	17.9	15.0	: 12.9
- India	1.4	17.5	5.3	31.4	25.6	20.1	12.7	13.6	10.3	13.8	: 13.8
- Hong Kong	2.7	8.7	12.9	16.0	10.9	9.5	7.6	8.4	8.3	8.1	: 8.9
- Korea	2.6	18.4	11.3	20.0	8.9	15.4	9.1	9.1	9.9	9.0	: 9.8
- Indonesia	0.8	-2.4	-4.6	9.1	64.0	11.4	8.2	8.9	8.6	8.3	: 8.2
Latin America	5.4	1.1	4.8	16.0	8.2	7.5	6.1	6.0	6.4	5.9	: 6.3
- Brazil	1.2	9.1	7.9	15.5	4.5	6.0	4.9	6.0	5.4	6.3	: 6.4
- Mexico	1.8	0.9	3.6	12.1	6.2	10.6	5.0	3.8	5.9	4.1	: 5.1
Sub-Saharan Africa	1.7	1.8	1.5	8.7	15.8	2.0	9.6	12.9	7.9	5.8	: 6.6
World	100.0	4.4	5.5	11.6	8.6	9.5	7.7	7.7	7.3	7.0	: 6.9
World excluding EU27	60.6	6.0	7.9	14.4	10.6	10.1	8.1	8.7	8.1	7.8	: 7.7
World excluding euro area	70.8	5.5	7.4	13.5	10.4	10.3	8.1	8.6	7.9	7.6	: 7.5

(a) Relative weights, based on exports of goods and services (at current prices and current exchange rates) in 2006.

(b) Intra- and extra-EU trade.

TABLE 57 : Export shares in EU trade (goods only - 2006)

	EU27	Candidate Countries				Other Industr. Countries	CIS	MENA	Rest Asia	Latin America	Sub Saharan Africa	World
		USA	Japan	Canada								
EU27	68.7	1.8	7.6	1.3	0.7	4.3	3.0	3.7	5.7	1.9	1.4	100
Belgium	77.7	1.1	6.1	0.9	0.7	2.3	1.3	3.0	4.6	1.1	1.3	100
Bulgaria	65.6	16.1	3.2	0.2	0.4	1.2	3.8	3.9	4.3	0.9	0.5	100
Czech Republic	86.1	1.1	2.3	0.4	0.2	2.0	3.5	1.5	1.8	0.6	0.4	100
Denmark	71.7	0.6	6.3	2.0	1.0	7.8	2.2	1.5	4.9	1.3	0.6	100
Germany	64.0	1.9	8.7	1.6	0.7	5.4	3.7	3.1	7.6	2.1	1.2	100
Estonia	69.2	1.2	5.8	0.6	0.6	3.5	11.3	1.1	4.0	0.9	1.8	100
Ireland	63.8	0.5	18.8	2.3	0.4	4.7	0.4	1.4	5.5	1.5	0.8	100
Greece	66.7	8.3	4.6	0.4	0.5	1.4	3.8	9.5	2.8	1.1	1.0	100
Spain	73.1	1.8	4.6	0.8	0.4	2.9	1.2	4.9	3.1	5.6	1.4	100
France	66.6	1.5	6.8	1.5	0.7	3.8	1.7	6.3	6.6	2.1	2.4	100
Italy	61.3	3.0	7.7	1.4	0.8	5.3	3.4	6.7	6.2	2.9	1.4	100
Cyprus	70.0	0.2	0.9	1.5	0.2	1.5	2.9	15.5	4.7	0.2	2.3	100
Latvia	72.8	0.3	1.8	0.7	0.4	4.3	16.7	1.3	1.0	0.3	0.2	100
Lithuania	63.6	1.0	4.3	0.1	2.0	3.3	21.4	0.4	3.1	0.4	0.3	100
Luxembourg	89.7	1.4	2.0	0.1	0.3	1.4	0.9	0.9	2.2	0.7	0.3	100
Hungary	80.2	3.3	2.8	0.5	0.2	1.5	5.2	2.6	2.5	0.5	0.8	100
Malta	49.9	0.2	13.0	4.9	0.5	0.9	0.6	5.4	22.2	0.6	1.8	100
Netherlands	80.1	1.1	4.5	0.6	0.3	2.4	2.1	2.4	3.8	1.3	1.3	100
Austria	73.2	2.1	5.7	1.1	0.9	5.7	3.3	2.1	4.0	1.1	0.8	100
Poland	79.2	1.6	2.0	0.2	0.4	2.9	9.5	1.3	1.8	0.8	0.4	100
Portugal	77.8	0.7	6.4	0.3	0.5	1.4	0.4	1.7	3.8	1.8	5.2	100
Romania	70.5	8.8	3.6	0.6	0.6	1.8	4.2	5.5	3.0	0.6	0.9	100
Slovenia	74.4	11.1	2.3	0.1	0.2	1.4	6.3	2.2	1.3	0.4	0.3	100
Slovakia	87.3	1.5	3.2	0.3	0.3	1.2	3.4	0.9	1.3	0.4	0.3	100
Finland	57.2	1.2	6.5	1.6	0.8	4.6	11.7	5.1	7.3	2.3	1.5	100
Sweden	59.5	1.0	9.5	1.6	1.1	12.1	2.4	3.0	6.4	2.0	1.3	100
United Kingdom	59.7	1.2	14.3	1.8	1.7	4.2	1.5	4.4	7.5	1.5	2.2	100

TABLE 58 : World imports of goods and services, volume (percentage change on preceding year, 2002-2009)

24.10.2007

(a)	2002	2003	2004	2005	2006	2007		2008		2009	
						IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
EU27 (b)	39.9	1.4	3.4	7.4	5.9	8.7	7.2	6.3	6.6	6.1	: 5.8
Euro area (b)	28.9	0.3	3.1	6.7	5.2	7.5	6.7	5.3	6.2	5.5	: 5.3
Candidate Countries	1.3	15.5	25.0	22.0	10.4	7.1	6.1	7.8	5.6	7.6	: 7.4
- Croatia	0.2	13.4	12.1	4.6	3.5	7.3	6.8	8.2	5.8	6.9	: 7.9
- Turkey	1.1	15.8	27.1	24.7	11.5	7.1	6.0	7.8	5.5	7.7	: 7.3
- former Yugoslav Republic of Macedonia	0.0	9.8	-15.2	16.7	8.7	14.5	13.5	15.5	14.3	12.8	: 10.8
USA	15.5	3.4	4.1	11.3	5.9	5.9	3.2	2.5	5.1	1.8	: 2.6
Japan	4.5	0.9	3.9	8.1	5.8	4.5	7.3	3.4	7.4	7.0	: 8.8
Canada	3.0	1.7	4.5	8.2	7.1	5.0	3.8	3.2	5.8	4.0	: 5.3
Norway	1.7	1.0	1.4	8.8	8.6	8.2	4.3	7.5	4.1	6.2	: 6.3
Switzerland	0.2	-1.1	1.3	7.3	6.7	6.9	6.1	7.2	6.1	5.7	: 5.4
Iceland	0.1	-6.5	13.7	15.7	21.4	5.8	2.7	14.2	-0.3	4.6	: -0.6
Australia	1.2	9.3	7.9	13.4	7.7	7.2	7.4	9.1	6.8	5.5	: 6.4
New Zealand	0.2	10.4	6.0	13.3	5.7	0.0	6.9	6.9	7.3	7.4	: 7.2
Industrialised countries	67.5	2.2	4.1	8.8	6.1	7.5	6.1	5.2	6.2	5.1	: 5.3
Others	32.5	8.5	10.1	15.3	10.1	9.9	10.3	11.4	9.8	10.1	: 10.3
CIS	2.4	-0.6	6.9	17.1	13.5	15.4	19.1	20.8	12.8	16.4	: 14.3
- Russia	1.5	-0.7	2.7	12.6	13.2	13.1	24.6	24.7	14.5	19.2	: 16.2
- Other	1.0	-0.4	15.3	24.9	14.0	18.9	9.7	15.0	9.7	11.9	: 11.1
MENA	3.5	7.7	4.9	7.9	14.0	4.6	6.2	6.2	5.9	5.9	: 5.9
Other emerging markets	26.6	9.4	11.0	16.1	9.3	10.1	10.1	11.2	10.0	10.1	: 10.5
Asia	20.1	12.6	13.5	17.8	8.8	10.1	10.6	11.3	10.6	10.9	: 11.5
- China	5.9	23.0	31.3	24.4	9.5	12.5	15.7	17.4	15.6	17.3	: 17.9
- India	1.7	4.5	20.9	5.6	29.2	18.7	15.1	16.5	9.7	11.0	: 10.3
- Hong Kong	2.6	7.4	11.4	14.6	7.6	9.2	7.9	8.9	8.7	8.5	: 8.7
- Korea	2.6	28.9	3.0	11.1	6.7	12.5	7.1	7.3	7.8	6.9	: 7.7
- Indonesia	0.6	-1.7	-0.9	18.3	23.2	-5.0	9.3	9.3	9.2	10.8	: 10.7
Latin America	4.8	-1.0	3.0	12.0	9.0	11.9	8.1	8.8	7.3	7.2	: 7.1
- Brazil	0.9	-3.8	2.2	7.4	6.2	11.1	9.8	11.3	8.3	9.1	: 8.0
- Mexico	1.9	1.1	1.1	11.9	8.7	11.4	6.9	6.5	6.4	5.5	: 6.0
Sub-Saharan Africa	1.6	0.9	4.8	7.4	16.3	5.3	9.5	16.1	9.5	8.3	: 8.6
World	100.0	4.2	6.0	10.9	7.4	8.3	7.4	7.2	7.3	6.7	: 6.9
World excluding EU27	60.1	6.1	7.8	13.2	8.4	8.0	7.5	7.8	7.8	7.1	: 7.7
World excluding euro area	71.1	5.9	7.3	12.7	8.4	8.6	7.6	8.0	7.7	7.2	: 7.6

(a) Relative weights, based on imports of goods and services (at current prices and current exchange rates) in 2006.

(b) Intra- and extra-EU trade.

TABLE 59 : Import shares in EU trade (goods only - 2006)

	EU27	Candidate Countries	Other					CIS	MENA	Rest Asia	Latin America	Sub Saharan Africa	World
			USA	Japan	Canada	Industr. Countries							
EU27	66.2	1.2	4.6	2.0	0.5	4.4	4.8	3.5	9.5	2.1	1.2	100	
Belgium	73.8	0.4	6.4	2.2	0.4	2.0	1.0	2.9	7.7	2.2	1.0	100	
Bulgaria	54.5	7.9	1.3	0.4	0.2	1.2	18.5	0.8	10.2	4.8	0.2	100	
Czech Republic	80.4	0.6	1.3	2.2	0.2	1.9	7.2	0.3	5.5	0.3	0.2	100	
Denmark	74.4	1.1	2.8	1.1	0.3	6.8	1.4	0.7	9.7	1.3	0.3	100	
Germany	67.8	1.3	4.7	2.3	0.4	5.4	3.6	1.8	10.3	1.7	0.8	100	
Estonia	69.8	0.5	1.4	1.1	0.2	1.2	19.4	0.1	6.1	0.2	0.1	100	
Ireland	69.8	0.8	10.6	2.0	0.4	3.7	0.8	0.3	10.6	0.6	0.4	100	
Greece	62.1	3.2	2.5	2.1	0.2	1.6	6.2	9.7	10.8	1.2	0.4	100	
Spain	67.7	1.2	2.3	1.8	0.3	2.4	1.5	7.1	8.4	4.5	2.9	100	
France	72.2	0.9	4.4	1.4	0.4	4.2	2.1	4.6	6.5	1.6	1.7	100	
Italy	59.1	2.2	2.9	1.5	0.4	4.1	7.9	10.0	8.4	2.5	1.1	100	
Cyprus	46.5	0.4	1.7	3.0	0.1	1.0	33.4	5.4	7.0	1.3	0.2	100	
Latvia	68.5	0.6	2.0	0.5	0.3	2.9	18.7	0.4	5.8	0.3	0.1	100	
Lithuania	60.2	1.0	3.1	0.4	0.2	1.5	27.5	0.5	4.8	0.9	0.1	100	
Luxembourg	81.4	0.1	2.3	0.8	0.6	1.7	0.7	1.6	10.5	0.2	0.0	100	
Hungary	72.6	0.9	1.6	2.4	0.2	0.9	10.2	0.2	10.8	0.3	0.0	100	
Malta	57.1	5.4	2.6	2.6	0.1	4.0	6.0	1.4	19.9	0.4	0.5	100	
Netherlands	49.2	0.6	7.1	3.4	0.6	4.2	9.2	4.2	16.0	3.7	1.8	100	
Austria	82.6	1.0	2.2	0.9	0.3	4.4	3.4	1.3	3.0	0.3	0.6	100	
Poland	75.2	0.9	1.5	0.8	0.2	1.6	11.5	0.4	6.3	1.1	0.4	100	
Portugal	75.4	0.8	2.1	1.1	0.2	1.9	3.1	4.6	4.4	3.6	2.8	100	
Romania	65.8	4.5	1.0	0.4	0.3	1.3	11.1	1.0	13.3	1.1	0.2	100	
Slovenia	82.0	6.2	1.1	0.6	0.3	1.6	1.7	1.0	4.2	1.3	0.1	100	
Slovakia	77.3	0.6	1.2	1.1	0.0	0.7	12.4	0.1	6.3	0.1	0.0	100	
Finland	60.3	0.5	3.5	3.2	0.5	4.3	12.8	0.3	12.4	1.9	0.3	100	
Sweden	75.6	0.8	3.3	1.5	0.3	7.5	2.2	0.4	6.5	1.3	0.4	100	
United Kingdom	56.7	1.3	8.4	2.8	1.6	8.8	2.4	2.3	12.6	1.8	1.4	100	

TABLE 60 : World merchandise trade balances (fob-fob, bn. US dollars, 2001-2009)

24.10.2007

	2001	2002	2003	2004	2005	2006	2007		2008		2009	
							IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
EU27	43.6	94.5	88.3	66.2	-7.1	-96.9	-102.1	-103.4	-136.3	-128.6	:	-136.0
EU27, adjusted ¹	:	:	:	-60.0	-136.4	-212.4	-218.3	-228.5	-253.4	-259.3	:	-266.7
Euro area	106.6	167.2	167.9	178.7	123.9	67.1	109.8	101.4	96.7	108.0	:	124.9
Euro area, adjusted ¹	65.5	120.6	118.6	126.6	58.2	38.0	:	69.9	:	75.2	:	92.1
Candidate Countries	-8.6	-14.4	-19.4	-31.1	-39.3	-50.0	-62.1	-59.8	-64.5	-73.1	:	-83.5
USA	-436.7	-491.7	-559.5	-681.2	-795.0	-849.8	-823.1	-842.5	-870.7	-822.5	:	-787.6
Japan	69.2	92.3	103.4	128.6	93.9	81.4	119.4	102.4	122.4	108.0	:	104.3
Canada	45.6	36.5	40.2	50.3	53.5	45.2	44.0	57.6	41.1	49.8	:	39.3
Norway	25.8	23.4	27.0	32.4	46.9	55.9	69.4	61.0	81.9	71.4	:	74.1
Switzerland	-2.8	3.3	3.2	5.4	2.4	4.1	0.7	3.6	0.1	0.7	:	-0.3
Iceland	-0.1	0.2	-0.2	-0.5	-1.5	-2.1	-2.3	-3.4	-2.0	-3.7	:	-3.4
Australia	1.7	-5.5	-15.3	-18.1	-13.4	-9.5	-1.9	-10.3	0.3	-2.2	:	-1.8
New Zealand	1.4	0.1	-0.5	-1.4	-2.7	-2.1	-0.2	-0.1	-0.2	0.6	:	0.2
Industrialised countries	-260.8	-261.4	-333.0	-449.5	-662.2	-823.8	-758.2	-794.9	-827.8	-799.6	:	-794.6
Others	241.9	288.3	380.8	461.7	693.3	908.5	613.9	1007.4	630.6	1048.1	:	944.4
CIS	49.9	49.2	62.3	92.3	124.3	143.2	125.6	131.6	96.9	83.3	:	29.5
MENA	79.9	76.5	112.6	148.9	248.7	319.4	253.6	345.8	284.8	417.4	:	398.3
Other emerging markets	112.1	162.5	205.8	220.5	320.3	445.8	234.6	530.0	248.9	547.4	:	516.5
Asia	104.9	128.6	150.5	136.7	200.5	296.5	102.8	370.1	105.5	370.6	:	349.5
Latin America	-5.9	21.3	43.2	58.5	80.8	106.6	64.2	112.8	68.7	127.6	:	123.3
Sub-Saharan Africa	13.2	12.6	12.1	25.3	39.0	42.8	67.6	47.1	74.8	49.2	:	43.7
World	-18.9	26.9	47.8	12.3	31.2	84.7	-144.3	212.4	-197.1	248.5	:	149.7

¹ See note 8 on concepts and sources.

TABLE 61 : World current account balances (bn. US dollars, 2001-2009)

	2001	2002	2003	2004	2005	2006	2007		2008		2009	
							IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
EU27	-23.9	33.6	17.9	51.5	-41.9	-102.4	-109.6	-128.2	-138.1	-161.8	:	-164.7
EU27, adjusted ¹	:	:	:	-25.6	-82.2	-115.6	-138.5	-142.5	-167.2	-176.7	:	-179.6
Euro area	10.9	60.3	40.3	95.0	21.2	-6.9	19.7	-2.1	10.6	-4.7	:	7.0
Euro area, adjusted ¹	-19.8	53.8	36.6	77.7	-0.2	-9.3	:	-4.7	:	-7.4	:	4.2
Candidate Countries	2.0	-4.4	-9.9	-18.6	-24.3	-33.5	-43.1	-40.0	-44.9	-50.8	:	-60.1
USA	-370.4	-458.3	-512.3	-624.1	-735.1	-794.0	-807.2	-749.1	-869.4	-698.8	:	-642.8
Japan	87.7	113.0	136.1	172.2	165.9	173.8	181.1	202.9	182.4	215.1	:	221.0
Canada	21.9	14.0	11.6	20.7	23.8	21.6	17.9	29.4	12.8	18.1	:	3.9
Norway	27.5	24.2	27.7	32.9	46.7	57.1	72.6	61.6	85.2	73.1	:	74.4
Switzerland	20.4	20.7	38.4	41.6	52.3	67.8	64.6	69.0	71.2	72.9	:	73.1
Iceland	-0.3	0.1	-0.5	-1.3	-2.6	-4.4	-2.4	-4.2	-1.8	-4.4	:	-3.9
Australia	-7.4	-15.8	-28.6	-38.8	-40.9	-40.6	-36.7	-46.5	-34.7	-45.1	:	-47.1
New Zealand	-1.4	-2.5	-3.6	-6.5	-9.8	-9.4	-5.9	-7.1	-6.0	-5.9	:	-6.0
Industrialised countries	-243.9	-275.3	-323.3	-370.5	-565.9	-663.9	-668.9	-612.1	-743.5	-587.7	:	-552.1
Others	104.8	170.8	286.3	374.5	592.2	802.4	509.9	879.4	528.0	889.5	:	794.9
CIS	33.1	30.1	36.1	62.8	86.5	93.2	94.2	92.8	60.0	22.9	:	-57.8
MENA	44.7	39.3	77.1	115.9	215.3	288.1	267.7	311.3	300.6	385.4	:	368.0
Other emerging markets	27.0	101.4	173.1	195.8	290.4	421.1	148.0	475.4	167.4	481.2	:	484.7
Asia	84.8	121.5	169.8	172.8	245.9	352.6	72.5	402.3	87.0	423.3	:	442.4
Latin America	-52.9	-15.6	8.7	21.4	37.2	58.8	34.0	54.8	36.3	39.2	:	30.1
Sub-Saharan Africa	-4.9	-4.5	-5.4	1.6	7.4	9.6	41.5	18.3	44.1	18.7	:	12.2
World	-139.2	-104.5	-37.1	4.0	26.3	138.5	-159.0	267.3	-215.5	301.8	:	242.8

¹ See note 8 on concepts and sources.

TABLE 62 : Primary commodity prices (in US dollars, percentage change on preceding year, 2001-2009)

SITC Classification	2001	2002	2003	2004	2005	2006	2007		2008		2009	
							IV-2007	X-2007	IV-2007	X-2007	IV-2007	X-2007
Food (0 + 1)	0.3	0.6	1.3	7.2	3.9	15.3	13.0	21.4	4.2	10.3	:	-1.5
Basic materials (2 + 4)	-7.0	1.0	8.7	17.8	9.4	33.7	14.0	15.8	-2.3	2.1	:	-2.4
- of which :												
Agricultures non-food	-5.2	4.6	7.3	6.7	-2.6	11.8	13.9	17.4	1.5	6.2	:	-0.1
- of which :												
Wood and pulp	-10.7	-3.3	6.8	13.3	3.2	8.4	3.5	1.8	-4.2	-4.2	:	-0.7
Minerals and metals	-9.6	-4.3	10.9	35.2	24.0	54.7	14.0	14.7	-4.9	-0.9	:	-4.1
Fuel products (3)	-9.1	-0.3	11.8	31.8	45.0	18.3	-0.1	5.3	5.8	10.7	:	-3.3
- of which :												
Crude petroleum	-12.7	0.1	13.9	33.4	44.7	20.2	0.0	6.6	6.2	11.7	:	-3.6
Primary commodities												
- Total excluding fuels	-4.6	0.9	6.1	14.3	7.7	28.2	13.7	17.3	-0.6	4.3	:	-2.1
- Total including fuels	-7.7	0.7	9.0	23.5	28.6	21.9	5.2	9.9	3.1	8.1	:	-2.8
	Crude petroleum - price per barrel (us dollar)											
Brent	25.0	25.0	28.5	38.0	55.1	66.2	66.2	70.6	70.3	78.8	:	76.0

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 Candidate Countries, the European Union as a whole, the euro area and the international environment. Interim forecasts, updating the outlook for the seven largest Member States, EU27 and the euro area, are presented in between the fully-fledged forecasts.
 2. Data for 2007, 2008 and 2009 are forecasts.
For Greece, the Commission has used the revised nominal GDP figures, which according to Eurostat, have increased by 9.6% in 2006. The sources for all tables are the Commission services, unless otherwise stated.
Historical data for the Member States are based on the European System of Accounting (ESA 1995). Most Member States have now introduced chain-linking in their national accounts to measure the development of economic aggregates in volume terms.
For the USA and Japan the definitions are as in the SNA.
 3. Tables 5 and 6 on domestic demand and final demand respectively, present data including inventories.
 4. In Table 16, the data are based on the national index for USA and Japan, and for EU Member States and aggregates prior to 1996.
 5. The potential output gap is calculated with reference to potential output as estimated via a production function, where the increase in the capital stock and the difference between actual unemployment and the NAWRU play a key role.
 6. Employment data used in tables 21-25, 27 and 31-32 are based on full-time-equivalents (FTEs), where available. Currently, Germany, Spain, France, Italy, the Netherlands, the Czech Republic, Estonia, Hungary and Austria report FTE data (taken together, these countries represent 90% of euro-area GDP and 65% of EU GDP). In the absence of FTE data, employment is based on numbers of persons. In the calculation of EU and euro-area aggregates, priority is given to FTE data, as this is regarded as more representative of diverse patterns of working time.
 7. The nominal short term interest rates are defined as the 3-month inter-bank rates. The nominal long term interest rates are defined as the yield on the central government benchmark 10-year bond.
 8. EU27 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 EU27 and euro-area "adjusted" balances. Theoretically, balances of EU27 and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU27 or the euro area. However, intra-EU27 or intra-euro-area balances are non-zero because of reporting errors.
 9. With respect to the 12 RAMS (recently-acceded Member States), which are currently in a transition phase, the quality of statistical data may not always be directly comparable to most EU15 Member States.
 10. Geographical zones are defined as follows :
Euro area :
EUR15 (BE,DE,IE,EL,ES,FR,IT,CY,LU,MT,NL,AT,PT,SI,FI)
Candidate countries :
Croatia, Turkey and former Yugoslav Republic of Macedonia.
Industrialised Countries :
EU27, Candidate Countries, USA, Japan, Canada, Norway, Switzerland, Iceland, Australia and New Zealand.
MENA (Middle East and Northern Africa) :
Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, 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.
Sub-Saharan Africa :
All countries except the African MENA countries.
- 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 EU27 and ECB estimates for the euro area. For the future, they are ECFIN's forecasts based on the extrapolation of the discrepancies observed in 2006.

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