

European Commission

Directorate-General for Economic and Financial Affairs

Economic Forecast

Spring 2008

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OVERVIEW

Growth is moderating...

Economic activity in the EU and euro-area economies has started to slow. GDP growth eased to 0.5% quarter-on-quarter (qoq) in the EU in the last quarter of 2007 and to 0.4% in the euro area. This represents a moderation by 0.3 percentage point (pp.) in both regions compared to the exceptional performance observed in the third quarter.

For 2007 as a whole, GDP growth amounted to 2.8% in the EU (2.6% in the euro area), still well above estimates of potential growth. Growth was supported by sound domestic fundamentals that boosted investment and, to a lesser degree, private consumption growth.

...not surprisingly, in view of the shocks

However, the moderation in growth towards the end of last year did not come as a surprise in view of the turmoil in financial markets, which broke out last summer and is still persisting, and the marked slowdown of global activity, with the United States on the brink of a recession. Moreover, soaring energy and food prices affected both growth and inflation adversely.

Going forward, the financial turmoil is proving deeper, wider and longer-lasting, while the downturn in the US looks set to be more pronounced and protracted than assumed in the autumn forecast. The EU economy is still in a relatively good position to weather these headwinds on the back of improved fundamentals. Overall, compared with the autumn 2007 forecast, GDP growth for the EU has been revised down by about ½ pp. for both this year and next, to 2.0% in 2008 and 1.8% in 2009 (1.7% and 1.5%, respectively, in the euro area).

Assumptions on these shocks are now key to any forecast

The global economic situation and outlook are beset with more than usual uncertainty and, therefore, the forecast is surrounded with considerable risks. The baseline forecast depends crucially on the assumptions that the distress in the financial markets will play out gradually and on how manageable the effect on the real economy proves to be.

Uncertainty about the size and location of credit losses and therefore of counterparty risk is assumed to prevail until the end of this year, before gradually petering out during the first half of next year. The financial distress could have a lagged impact on the real economy. Indeed, the effect so far must be considered relatively limited given the sizeable shocks the European economy is facing. That could be a sign of the transmission lags being longer than earlier expected. It could also be taken as evidence of the improved resilience of the EU economy.

An alternative scenario illustrates the current uncertainties

Even if the EU economy is more resilient than earlier, thanks in part to the positive impact of past structural reforms and increased credibility of macroeconomic policies, Europe cannot escape unaffected. It can also not be ruled out that the underlying assumption on the financial turmoil and the US could prove to be too optimistic. The impact of a more pronounced credit squeeze is discussed in an alternative scenario, see Box 2.7.1, pointing to GDP growth being reduced by a further 0.5 pp. this year and 0.1 pp. next in both the euro area and the US.

Global growth is cooling...

Turning to the new baseline forecast in greater detail, global growth is cooling rapidly from the exceptionally strong growth of recent years, to an expected 3.8% in 2008 and 3.6% in 2009. This revision also includes the

impact of a downward shift of global growth data by about $\frac{1}{2}$ pp. in 2002-2007 following a recent update of the purchasing power parities used for the aggregation of global growth (updating the base year from 1993 to 2005), see Box 1.1.1. Excluding the EU, global growth is projected at 4.4% this year and 4.2% next. Similarly, world trade growth is slowing markedly, down from about 7% in 2007 to 6% during both years of the forecast period.

Despite this sizeable downward revision of global growth, it remains in line with its long-term average, reflecting the growing importance of emerging economies and their relative robustness at the current juncture. Notwithstanding the dampening impact of the appreciation of the euro, economic activity is therefore expected to be supported by a positive, albeit small, net contribution from the external sector this year and next.

...above all, as US GDP growth falls to less than 1%...

At the regional level, recent information points to both a deeper and more protracted downturn of *the US* economy as the severe contraction of the housing sector, reinforced by the distress in financial markets, spreads to the rest of the economy. Consumption has stagnated following a weakening labour market, rising inflation, deteriorating credit conditions and, possibly, negative wealth effects from falling house and stock prices. Consumer confidence has collapsed to a long-time low. In spite of a considerable positive contribution from net exports, real GDP growth dropped to 0.1% qoq in the fourth quarter of 2007, down from 1.2% in the third quarter.

Looking ahead and despite the sizeable fiscal and monetary policy stimulus, US GDP growth is now projected at 0.9% in 2008 and 0.7% in 2009, implying a downward revision of 0.8 pp. and 1.9 pps., respectively, since the autumn forecast. The US economy seems to be set for an extended period of sluggish growth. The expected impact of the tax rebates mid-2008, temporarily boosting activity in the second half of the year, in combination with a weak underlying recovery points to a drawn out W-shaped profile for GDP growth over the forecast period. The adjustment of the US economy, whilst clearly painful, should allow the current-account deficit to fall back to 4% of GDP in 2009 while the households' savings rate improves by almost 2 pps., thereby reducing global imbalances. At the same time, the budget deficit is set to deteriorate rapidly to about 6% of GDP in 2009.

The outlook for *Japan* is also bleaker this year, despite the surprisingly strong growth recorded in the last quarter of 2007 when GDP growth rose to 0.9% qoq (up from 0.3% in the third quarter). This follows, in particular, from the sharp deterioration in consumer confidence pointing to weak consumption growth ahead. Construction investment, on the other hand, should rebound this year (as the administrative problems related to the introduction of new anti-seismic regulations are overcome). Overall, GDP growth is expected to be 1.2% this year and 1.1% next. On the back of higher oil and commodity prices, inflation turned positive at the end of 2007 and is expected to remain so, albeit below 1% this year and next.

...while emerging economies are holding up better...

Activity in *emerging Asian* economies continues to hold up relatively well in the light of the marked deterioration in the outlook for advanced economies. Indeed, both China and India exceeded earlier expectations, yet again, and posted growth of 11.9% and 8.4% respectively in 2007. In view of the share of the US in the exports for some of the emerging economies, however, a protracted slowdown of US imports cannot go unnoticed. Moreover, the surge in consumer price inflation (to about 7% in China, for example), has forced central banks to continue to tighten monetary policy, thereby

dampening domestic demand growth. For the region as a whole (i.e. Asia excluding Japan), real GDP growth is expected to decelerate from 8.6% in 2007 to 7.9% this year and 7.6% next. This translates into a downward adjustment of about ½ pp. a year since last autumn.

Growth in the *other emerging economies* also remains robust. Indeed, as regards the Middle East and North Africa region, growth is accelerating and has been revised up to around 6% a year on the back of oil revenues for some and the impact of past structural reforms for others. In the CIS countries (i.e. the Commonwealth of Independent States), activity is set to moderate somewhat, to 7¾% this year, as the temporary boost to investment in Russia from the financial liberalisation in 2006 fades away, but the growth outlook is largely maintained from last autumn. Similarly, Latin America is weathering the slowdown in developed economies better than during similar periods in the past. Following sizeable inflows of private capital, improved labour market situations and reduced macroeconomic imbalances, real GDP growth is expected at 4¼% this year. Lastly, the outlook for Sub-Saharan Africa also remains broadly unchanged with a GDP growth of more than 6½% in 2008 as the economies benefit from high oil and/or commodity prices as well as increased openness.

In the *candidate countries*, i.e. in Croatia, the former Yugoslav Republic of Macedonia and Turkey, economic activity slowed markedly during the second half of 2007. This reflects lower global demand, the end of an election-related boost to public spending in Turkey and Croatia and the impact of earlier monetary tightening in Turkey, the by far largest economy of this group. Looking ahead, a moderate recovery is expected by 2009, allowing GDP growth to rebound to close to 5% (though this is 1½ pps. below the autumn projection). This forecast also includes an outlook for the *potential candidate countries*, comprising Albania, Bosnia, Kosovo, Montenegro and Serbia, pointing to a certain moderation in GDP growth to around 6%, mirroring the slowdown in global growth.

...which, in turn, is contributing to higher commodity prices

Commodity prices continued to soar at the start of this year with new all-time highs reached for food, metal and oil prices. This is, to a certain extent, explained by a weaker US dollar (USD) and the financial turmoil turning some commodities into investment alternatives at the current juncture.

Table 1

Main features of the Spring 2008 forecast - EU27

(Real annual percentage change unless otherwise stated)				Spring 2008 forecast ¹			Difference vs Autumn 2007 (a)	
	2004	2005	2006	2007	2008	2009	2008	2009
GDP	2.5	1.9	3.1	2.8	2.0	1.8	-0.4	-0.6
Private consumption	2.2	1.8	2.1	2.1	1.6	1.6	-0.8	-0.6
Public consumption	1.6	1.7	2.0	2.0	1.9	1.7	-0.1	-0.2
Total investment	3.2	3.3	6.0	5.4	2.8	2.0	-0.7	-1.4
Employment	0.4	0.8	1.6	1.7	0.8	0.5	-0.1	-0.3
Unemployment rate (b)	9.0	8.9	8.1	7.1	6.8	6.8	0.0	0.2
Inflation (c)	2.3	2.3	2.3	2.4	3.6	2.4	1.2	0.2
Government balance (% GDP) (d)	-2.8	-2.5	-1.4	-0.9	-1.2	-1.3	0.0	-0.2
Government debt (% GDP)	62.1	62.6	61.3	58.7	58.9	58.4	0.6	1.4
Current account balance (% GDP)	0.3	-0.4	-0.9	-0.9	-0.9	-0.9	0.0	0.0

¹ The Commission services' Spring 2008 Forecast is based on available data up to April 15, 2008.

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

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

(d) Including proceeds relative to UMTS licences.

A moderation of global growth ought to ease price pressures in some of these markets. Nevertheless, robust demand from emerging economies and geopolitical tensions in some of the commodity exporting countries point to continued high price levels ahead. Food prices, in particular, rose by almost 40% year-on-year (yoy) in euro terms in the second half of 2007. This is the result of increased demand in emerging markets, strong demand for some crops from the biofuel industry and the ensuing substitution effects, and poor harvests as well as export taxes imposed in some of the major exporting countries. Food price inflation accelerated further during the first two months of 2008 and, based on future contracts, prices are assumed to increase by 54% yoy in the first half of this year, before stabilising.

Prices for most metals have also risen markedly in recent months on the back of stronger demand. Future prices point to a stabilisation at these higher levels for most, but not all metals.

Based on contracts in the futures markets, oil prices are assumed to increase to 101.2 USD per barrel (bl.) in 2008 (up from 72.5 USD / bl. in 2007 and revised up by 22½ USD or 28% since the autumn forecast) before declining slightly next year. For the euro area, the impact of higher oil prices is partly cushioned by the appreciation of the euro (EUR). Measured in EUR, oil prices are assumed to increase to 65.3 EUR / bl. this year, limiting the upward revision to 13%.

Financing conditions
have tightened...

Concerning financing conditions, the distress in the markets has caused risk premia to widen markedly since last summer. The tightening of credit conditions has, however, been partly offset by the decline in benchmark interest rates in recent months. This reflects among other things the weakened growth outlook, especially for the US, the flight to quality and a shift in expectations towards a looser monetary policy.

...but there is no
general credit
squeeze

So far, there are no firm signs of a credit squeeze. Although the bank lending survey by the ECB points to a tightening of credit conditions, at the aggregate level M3 growth remains buoyant at more than 11% yoy in February 2008. This is explained by a continued acceleration of lending growth (especially bank lending) to non-financial corporations reaching a new record high, while lending growth to households for house purchases remains on a decelerating trend.

Survey data point to
an easing of growth

Most survey data at the beginning of 2008 point to a gradual easing of GDP growth in the coming quarters. Notwithstanding a slight rebound in the Commission's most recent business and consumer surveys from March 2008, confidence has deteriorated in all sectors and for all of the largest EU economies since their peak last summer, with the exception of Poland where it remains robust. Nonetheless, the sectoral confidence indicators for industry and construction remain above their long-term averages, while confidence in the services sector has dropped well below.

GDP growth falls to 2%
in the EU this year...

Against this backdrop, both hard and soft data point to a slowdown in economic activity. The deceleration in real GDP growth is being temporarily reinforced in the second quarter of this year when construction investment is set to fall back in Germany following a boost due to the mild weather in the first quarter. For 2008, in view of the carry-over of 0.9 pp. from 2007 (0.7 pp. in the euro area) and available information suggesting still firm growth in the first quarter in other Member States as well, real GDP growth is expected to decelerate from 2.8% in 2007 to 2.0% in 2008 in the EU (and down to 1.7%

in the euro area). Reflecting the assumed improvement in confidence in the course of next year, economic activity could gradually accelerate towards potential at the end of 2009. For the year as a whole, however, GDP growth is expected to decelerate further to 1.8% (1.5% in the euro area). This would imply a downward revision by about ½ pp. in both 2008 and 2009 compared to the autumn forecast.

Revisions to GDP per capita growth are of the same magnitude, bringing it down to 1.7% in 2008 and 1.5% in 2009 in the EU (1.4% and 1.2%, respectively, in the euro area). As a comparison, per capita GDP growth in the US is now forecast at around 0% for both years. Another measure of the 'relative resilience' of Europe would be a comparison of the estimated output gaps where both regions started with a largely balanced position in 2007, expected to fall to -0.6% of GDP in the EU by 2009 compared to over -3% in the US (according to IMF's recent projection for the latter).

...which, given the size of the shocks, confirms improved resilience

The relative resilience, in view of the magnitude of the shocks, follows from improved fundamentals in the EU economy. Macroeconomic imbalances were largely absent in 2007. Both public finances and the current account posted deficits below 1% of GDP (with the budget deficit around ½% and current account in balance in the euro area), even if differences are large across Member States with some countries exhibiting a significant degree of external financing need. Households and enterprise balance sheets have improved markedly in recent years, making these sectors more resilient. Strong momentum in the labour market drove the unemployment rate down to 7.1% of the labour force (7.4% in the euro area), the lowest rate in more than 15 years.

Growth rates continue to vary across EU Member States, not least because of the catching-up process in the recently-acceded Member States. Some of the countries who have benefitted from strong growth in recent years are now clearly slowing. Economic activity in others is holding up better (in view of the current headwinds) following e.g. several years of wage restraints and/or improved productivity.

Investment growth is weakening...

As regards the demand components, gross fixed capital formation, which has been the main source of growth in recent years, is set to decelerate over the forecast period. Total investment growth falls from 5.4% in 2007 to 2.8% in

Table 2

Main features of the Spring 2008 forecast - euro area

(Real annual percentage change unless otherwise stated)				Spring 2008 forecast ¹			Difference vs Autumn 2007 (a)	
	2004	2005	2006	2007	2008	2009	2008	2009
GDP	2.1	1.6	2.8	2.6	1.7	1.5	-0.5	-0.6
Private consumption	1.6	1.6	1.8	1.5	1.4	1.5	-0.7	-0.4
Public consumption	1.4	1.5	2.0	2.3	1.9	1.7	-0.2	-0.3
Total investment	2.4	3.0	5.0	4.3	2.0	1.2	-0.9	-1.4
Employment	0.4	0.6	1.4	1.6	0.9	0.5	-0.1	-0.3
Unemployment rate (b)	8.8	8.8	8.2	7.4	7.2	7.3	0.1	0.2
Inflation (c)	2.1	2.2	2.2	2.1	3.2	2.2	1.1	0.2
Government balance (% GDP) (d)	-2.9	-2.5	-1.3	-0.6	-1.0	-1.1	-0.1	-0.3
Government debt (% GDP)	69.6	70.2	68.5	66.4	65.2	64.3	0.2	0.9
Current account balance (% GDP)	0.8	0.1	-0.2	0.0	-0.1	-0.1	-0.1	-0.2

¹ The Commission services' Spring 2008 Forecast is based on available data up to April 15, 2008.

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

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

(d) Including proceeds relative to UMTS licences.

2008 and 2.0% in 2009 in the EU (down to 2.0% and 1.2% in the euro area). Construction investment, in particular, but also equipment investment, are revised down substantially.

...due to a cooling-off of overvalued housing markets...

The weakening in construction investment reflects the cooling-off of overvalued housing markets in several EU countries, particularly Ireland, as well as in Denmark, Estonia and Spain where construction investment is contracting.

...and the cyclical slowdown

As for equipment investment, although the distress in the financial markets does not yet appear to have affected bank lending to corporates, investor confidence has deteriorated and the profit share is likely to have peaked. The outlook is for a deterioration as economic activity weakens (and since demand factors are generally considered the key driving forces of industrial investment in the medium term), with the banking sector particularly affected. On the other hand, high capacity utilisation rates and sound balance sheets suggest that the outlook for equipment investment remains relatively favourable in some countries and sectors, especially where investments can be self-financed.

Consumption held back by inflation surge in 2007...

In contrast to earlier business cycles, private consumption has yet to take over as the main engine of growth, which would be unusual as the cycle has already peaked. Weak private consumption could partly be explained by temporary factors in 2007 following the impact of e.g. the increase of the VAT rate in Germany or the general surge in consumer price inflation towards the end of last year (with consumption decelerating to 0.1% qoq in the fourth quarter in the EU and -0.1% in the euro area).

However, the weakness in household spending cannot be explained only by temporary factors. Four years into the current cycle, the level of private consumption is about 3½ pps. below the average level recorded in the four previous business cycles. This appears to be explained, above all, by a lower growth in real compensation, while employment gains have been stronger than during previous recoveries.

...with few reasons to expect a strong rebound ahead

Looking ahead, with employment and real wage growth decelerating this year and consumer confidence in steady decline (below its long-term average in March), private consumption growth is expected to decelerate from 2.1% in 2007 to 1.6% in both 2008 and 2009.

The relatively favourable composition of EU exports in product and geographical terms (with e.g. increased importance of emerging and oil-producing countries) limits the impact of the marked deterioration in the outlook for the US at the aggregated level, although it will be clearly noticeable for some countries such as Ireland and the United Kingdom. With the projected moderation of world trade, a further appreciation in nominal effective terms and, as regards the euro area, a deceleration in import growth reflecting an easing of domestic demand growth, the growth contribution from net exports diminishes (remaining slightly positive in both areas and for both years). Divergences in export performance remain sizeable across Member States, as a result of differences in cost competitiveness and in the product structure and geographical composition of exports.

Dynamic job-creation has led to low unemployment

Turning to the labour market, employment continued to benefit from the strong growth momentum until the first half of 2007, in accordance with its usual lagged response. For the year as a whole, employment growth amounted to 1.7% in the EU (1.6% in the euro area), corresponding to nearly

4 million new jobs, and was broad-based across sectors, various types of work arrangements and most, but not all Member States (with e.g. marginal growth recorded in Portugal and a decline noted in Hungary). Going forward, employment growth is projected to slow down markedly to 0.8% this year and 0.5% next in the EU (0.9% and 0.5%, respectively, in the euro area), bringing it well below the long-term average.

The unemployment rate fell to a record low last year of 7.1% of the labour force in the EU and 7.4% in the euro area (down from more than 8% in both areas in 2006) and continued to improve in the first quarter of this year. This improvement is explained by both cyclical and structural factors. Differences nevertheless remain sizeable across countries, with the unemployment rate ranging from some 3% in the Netherlands to more than 11% in Slovakia, notwithstanding the latter's impressive improvements in recent years. With job creation slowing forward, the unemployment rate is forecast to bottom out this year in the euro area and somewhat later - at the turn of 2008/2009 - in the EU.

Tight labour markets suggest a slight pick-up in wages...

Labour shortages became increasingly visible towards the end of 2007 and were still on the rise in the first quarter of 2008 in the manufacturing sector, although no longer in the services sector. However, with the actual unemployment rate bottoming out and a deceleration foreseen in employment growth, compensation of employees per head is expected to remain relatively moderate over the forecast horizon, though Germany is set to see a more pronounced acceleration of wage growth (up from 1.1% to 2.1% this year and 2.6% next, following several years of wage restraints). Overall, wage growth is expected to accelerate from 2.9% to 3.8% in 2008, temporarily boosted by some catching-up measures, before decelerating again to 3.5% next year.

...but real unit labour cost remain broadly unchanged

Labour productivity growth is forecast to remain at 1.2% in 2008 in the EU (and at 0.9% in the euro area), staying below its long-term average. This implies an acceleration of unit labour cost growth to 2.6% in the EU this year (and 2.4% in the euro area). In real terms, however, real unit labour costs declined last year and remain broadly unchanged in 2008 and 2009 in both regions.

Inflation up on soaring food and energy prices

Consumer price inflation remained contained in the first three quarters of 2007. Indeed, the inflation rate remained below 2% in the euro area for one year up until August 2007. However, headline inflation has increased rapidly thereafter to reach 3.6% yoy in March 2008, the highest level in 12 years. The sharp increase reflects a combination of soaring food and energy prices as well as the fading of favourable base effects. Although core inflation, which excludes energy and unprocessed food, has also increased to 2.7% yoy in March 2008, a sizeable gap between headline and core inflation has reappeared.

Notably in view of the markedly higher commodity price assumption, the inflation forecast has been revised upwards by more than 1 pps. for 2008 compared to the autumn forecast. Inflation is expected to increase temporarily from 2.4% in 2007 to 3.6% in 2008, before coming down to 2.4% in 2009 in the EU (up from 2.1% to 3.2% this year and back to 2.2% in 2009 in the euro area). In terms of quarterly profile, inflation is projected to peak in the second quarter of 2008 in the EU and to gradually decrease throughout the rest of the year.

Large current-account deficits in some countries entail risks

The EU current-account deficit remains largely unchanged over the forecast period to just below 1% of GDP, while the euro-area current account would be broadly balanced. However, the aggregated development masks stark differences across EU Member States. This reflects partly the increased heterogeneity within the EU the last two accessions brought about, as the catching-up process may involve sizeable current-account imbalances. For example, the current-account deficit is forecast at some 20% of GDP in Bulgaria and Latvia in 2008. Large external deficits and rising debts could, however, raise concerns about sustainability in case resources are not allocated to productivity-enhancing activities.

Differences are, however, also large within the euro area. The current-account deficits are substantial, e.g., in Greece, Spain and Portugal where, despite an economic slowdown, they are expected to reach 10-15% of GDP in 2008. In these countries, rising external debt service burdens imply a loss of domestically available income. In contrast, large and increasing surpluses are projected for Germany and the Netherlands (of 7-10% of GDP) as well as for Luxembourg and Austria (5-6% of GDP). There could be several reasons for these developments, including an increased divergence in competitiveness across euro-area countries, mirrored in losses or gains of market shares, or differences in consumption propensity (due e.g. to wealth effects). The ongoing financial market turmoil, by hampering the smooth flow of funds within the euro area and the EU, increases the risks for the financing of large current-account deficits.

Public deficit fell below 1% of GDP in 2007...

On the back of the good economic performance and structural adjustment, public finances improved markedly in 2007, with the general government budget deficit falling to 0.9% of GDP in the EU, down from 1.4% in 2006 (and to 0.6% of GDP in the euro area, down from 1.3%). While the deficit thus declined for the fourth year in a row, this trend is expected to reverse in 2008, on account of slower output growth and tax cuts in some countries. The deficit is projected to rise by 0.3 pps. in the EU, to 1.2% of GDP, and by 0.4 pps. in the euro area, to 1.0%. Based on the usual no-policy-change assumption, the deficit is forecast to remain broadly unchanged in both the EU and the euro area in 2009.

...but is set to reverse this year

The projected deterioration of the budgetary outlook for 2008 concerns most countries as only seven of the 27 EU Member States show improvements in the headline balances compared to 2007. Forecasts for 2009 on unchanged policies suggest that eight countries will show an improvement in their headline balance.

Most countries in EDP posted deficits below 3% of GDP in 2007

Six countries are currently in the excessive deficit procedure (EDP). As concerns the two euro-area EDP countries, Italy and Portugal, the 2007 outcome confirms that the deficit has been brought below the 3% of GDP threshold. In Italy, the deficit is forecast to increase again over the forecast horizon, while remaining below the 3% threshold. In Portugal, after a further reduction in 2008, the deficit is expected to rebound to 2.6% of GDP in 2009 in a no-policy change scenario. As in 2007, no euro-area country is projected to have a budget deficit in excess of 3% of GDP in 2008.

Outside the euro area, the budgetary outlook improved in all four EDP countries compared to the autumn forecast. In the Czech Republic, Poland and Slovakia, the 2007 deficit fell below the 3% of GDP reference value. The deficit is projected to decline further in the Czech Republic, to remain broadly unchanged in Slovakia, and to rebound to 2.5% in Poland in 2008.

Following a remarkable consolidation effort in 2007 and a smaller improvement expected in the current year, Hungary is forecast to post a deficit of 4% of GDP in 2008, which is projected to fall further in 2009.

For France, the deficit outlook has deteriorated compared to the autumn forecast and would reach 3% of GDP in 2009 with unchanged policy. In the UK, due to the worsened growth outlook, the deficit is forecast to exceed the 3% of GDP reference value in both of the financial years 2008/09 and 2009/10. For Romania, despite a slight improvement of the fiscal outlook compared to the autumn forecast, the projections continue to show a strong widening of the deficit over the forecast period to 3.7% in 2009.

Improved structural deficit, but potentially overstated

Correcting for cyclical factors, one-offs and other temporary measures, the structural deficit also fell markedly: from 1½% of GDP in 2006 to 1% in the EU in 2007 (from 1¼% to ¾% in the euro area). While the good economic performance was helpful in improving public finances, the outcome shows that a large part of the consolidation was of a discretionary nature, reflecting largely prudent fiscal policies. It is possible, however, that the estimate for the structural balance overstates the strength of the underlying budgetary position, notably on account of temporary favourable revenue surprises over the past two years. Future revisions may therefore point to a less favourable underlying budgetary position.

In 2008, the structural deficit is forecast to deteriorate by around ¼ pps. in both the EU and the euro area, in line with the headline balance. For 2009, however, on the back of a broadly unchanged headline balance combined with a projected output growth below potential, the structural deficit is forecast to improve slightly again in both areas.

The general government gross debt ratio continues to decline, a trend that started in 2006. In the EU as a whole debt fell below the 60% of GDP reference value in 2007. After a temporary halt in 2008, the downward trend is expected to continue in 2009. In the euro area, between 2007 and 2009, the debt ratio is expected to decrease by around 2 pps., to some 64¼% of GDP.

Unusually uncertain situation...

Summing up, the economic outlook for the EU and the euro area is for a marked deceleration of GDP growth, down from some 3% to around 2% in both 2008 and 2009 in the EU (and down to 1¾-1½% in the euro area), falling below potential. Although this implies a marked downward revision, it is far from a recession scenario. At the same time, inflation has been revised up by more than 1 pps. this year due to soaring food and energy prices.

The economic situation and outlook is unusually uncertain at the current juncture. Even though some of the risks identified in the autumn forecast have materialised and others have been more extensively incorporated into the current outlook, downside risks prevail.

...with downside risks for growth...

As regards the growth outlook, the major downside risks relate to the still ongoing turmoil in the financial markets which may reinforce the US downturn further. The uncertainty remains large as regards the ultimate size and location of credit losses and significant disruption persists in some market segments. In spite of the impact of the financial distress on the real economy so far appearing limited in the EU, it cannot be ruled out that the lags are longer (or credit losses larger) than assumed and that credit conditions, credit availability and confidence may be more seriously affected. This would reinforce the ongoing correction of some housing markets, notably that of the US, but also within the EU (e.g. those of Ireland and

Spain) – and could trigger a more pronounced downturn in the housing markets of some other EU countries, with the subsequent risk of putting balance sheets under increasing strain. The risks stemming from imbalances in some of the countries with sizeable current-account deficits and/or external debts could be reinforced by shifts in risk preferences following a further deepening and/or widening of the financial crisis.

Although the current outlook implies a marked improvement of global imbalances, with the US current-account deficit expected to fall to 4% of GDP in 2009, a disorderly unwinding of remaining imbalances cannot be excluded; and nor can the possibility that the adjustment of global growth and related exchange-rate developments could trigger protectionist measures.

Future commodity prices could, as always, entail both positive and negative surprises. There are some upside risks related to the underlying strength of emerging economies, as well as the flexibility of the US economy and what impact the fiscal and monetary stimulus might have. Within the EU, the momentum in the labour market may also prove more sustained, which could support labour income and consumption to a greater extent.

...and upside risks for inflation...

As regards the inflation outlook, the major risk relates to the recent surge in energy and food prices. Although second-round effects appear limited so far, inflation expectations have increased slightly, in particular in some of the recently-acceded Member States, but also somewhat in the euro area. Together with a still tight labour market in some countries and sectors, wage increases could accelerate further, although for the tradeable sector, competitive pressures together with the cooling of world activity should limit the impact on wage growth.

...although, overall, risks are better balanced

Overall, risks are more balanced than in the autumn 2007 forecast. Nonetheless, the balance of risks for the growth outlook continues to be tilted to the downside, especially for 2009, while the risks for inflation are somewhat on the upside, and, in particular, for some of the recently-acceded Member States.

Box 1: Some technicalities behind the forecast

The overall cut-off date to take new information into account when preparing this macroeconomic outlook is 15 April 2008. The forecast also incorporates validated public finance data from Eurostat's press release 54/2008, dated 18 April 2008.

External assumptions

This forecast is based on a set of external assumptions, reflecting 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 (i.e. from 26 March to 8 April 2008) 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. This technical assumption leads to implied average USD/EUR rates of 1.37 in 2007, 1.55 in 2008 and 1.57 in 2009, and average JPY/EUR rates of 161.3 in 2007, 158.6 in 2008 and 158.9 in 2009.

Interest-rate assumptions are market-based. Short-term interest rates for the euro area are derived from future contracts. Long-term interest rates for the euro area, as well as short- and long-term interest rates for other Member States, are calculated using implicit forward swap rates, corrected for the spread between the 3-month interbank interest rate and the 3-month swap rate. In cases where no market instrument is available, a fixed spread vis-à-vis euro-area interest rates is taken for both short- and long-term rates. As a result, short-term interest rates are expected at 4.3% on average in 2007, 4.3% in 2008 and 3.8% in 2009 in the euro area. Long-term interest rates are assumed at 4.2%, in 2007, and 4.0% in 2008 and 2009.

Commodity prices

Commodity-price assumptions are also, to the extent possible, based on market conditions, c.f. table 62. In the case of oil prices special attention is paid to futures' prices. Prices for Brent oil are, accordingly, projected to be 72.5 USD/bl in 2007, 101.2 USD/bl in 2008 and 100.0 in 2009. This would correspond to an oil price of 52.9 EUR/bl. in 2007, 65.3 EUR/bl. in 2008 and 63.7 EUR/bl. in 2009.

Budgetary data

Data up to 2007 are based on government debt and deficit data notified by Member States to the European Commission in April 2008. In validating these data, Eurostat has made the following reservation: 'Eurostat is in the process of clarifying, in close co-operation with the Greek statistical authorities, some issues relating to the recording of EU grants in 2006 and 2007, the existence of a substantial statistical discrepancy in 2007 of 0.6% of GDP and the insufficient coverage of source data for extra-budgetary funds, local government and social security funds achieved for the first estimate of the 2007 balance'.

Moreover, Eurostat has, as usual, amended the deficit data notified by the United Kingdom for years 2004 to 2007 for consistency of recording of UMTS licences proceeds. Reported debt figures were kept unchanged.

In addition, Eurostat noted that the recent events in the financial markets, as well as the interventions of governments in support of affected financial institutions directly or indirectly, have raised a number of national accounting issues, which will be addressed with the concerned Member States in the coming weeks. Eurostat also announced that it is in the process of clarifying the accounting treatment of flows and debt relating to public infrastructure investments, as well as the sector classification of the concerned public units.

For 2008, budgets adopted or presented to national 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 No 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.

(Continued on the next page)

Box (continued)

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 around -0.1 pp. each year, while they are estimated to be close to neutral in 2007. The Commission's annual GDP forecasts are not adjusted for the number of working days, while quarterly forecasts are. As 2008 is a leap year, the working-day adjustment is positive, estimated at around 0.1 pp. for the euro area.

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

Current international developments and prospects

1. CLOUDS ARE GATHERING OVER THE GLOBAL ECONOMY

The outlook for the global economy remains unusually uncertain, as several headwinds continue to threaten world growth. First, the risk of recession of the US economy has begun to materialise; second, the financial turmoil is still on-going with many banks severely affected by losses and write-downs; third, commodity prices – for oil, food and metals – are soaring. However, global growth has proved relatively resilient so far, as the emerging economies continue to expand at a buoyant pace.

All in all, world GDP growth (excluding the EU) is projected to slow to 4.4% in 2008 and 4.2% in 2009, after 5.2% in 2007. This is markedly less than expected in the autumn forecast, even when excluding the impact of the revision of purchasing power parities which lowered growth by about ½ pp. during 2005-2007 (see Box 1.1.1). However, world growth is now in line with its long-term average, which is outstanding given the sluggish US GDP growth. As a matter of fact, the emerging economies now contribute to about 60% of the world GDP growth. Nevertheless, these economies also face challenges which have proved difficult to overcome in the past: a contraction of exports to the US, a generalised movement of flight-to-quality on financial markets and, last but not least, a (possible) resurgence of inflation. As a result, risks are clearly tilted to the downside as regards the outlook for the global growth.

The US economy faces a risk of recession ...

In the last quarter of 2007, GDP growth dropped to a rate of 0.1%, down from 0.9% and 1.2% in the previous two quarters. The contraction in the housing sector continues to deepen, triggering spill-over effects on consumption.

Housing starts are now less than half what they were at their peak, while manufacturing output has declined since the end of 2007. As a result, the labour market weakened significantly in the first quarter of 2008 with falling employment and a rising unemployment rate. Real consumption has stagnated in response to the softening labour market, soaring inflation, deteriorating credit conditions, and negative wealth effects stemming from falling house and stock prices. Consumer

confidence, at 112.6 last July, collapsed to 64.5 in March.

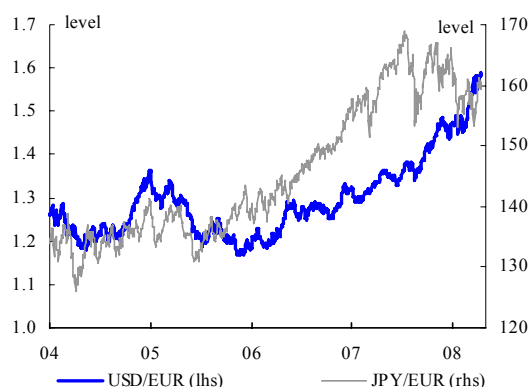
These developments are expected to persist: inflation - at 4.0% yoy in March - is being fuelled by higher energy prices and food prices, while the weakness of the dollar pushes up the price of imports. As for house prices, their decline is causing new delinquencies on home loans, leading to tighter credit conditions and a further decline in house prices. In order to break this spiral, monetary policy has been loosened aggressively since last August, as the federal funds target rate has been lowered by 300 basis points to 2.25%. In addition, a fiscal package, consisting mainly of rebates in personal income taxes, was enacted to provide households with additional purchasing power equivalent to about 1% of GDP around mid-year.

Despite the policy stimulus, the outlook for 2008 and 2009 is bleak. GDP growth is now projected to be 0.9% for 2008 and 0.7% for 2009 which is respectively 0.8 pp and 1.9 pps. lower than in the autumn forecast. The first reason for this is that the housing crisis and its financial fallout is now considered likely to exert a heavier drag on the broader economy than previously expected. Second, this projection takes into account the surge in commodity prices, which was not expected last autumn. Against this background, and taking into account the sharp improvement in net exports, the current account deficit is set to narrow from 5.1% in 2007 to 4.0 in 2009. This improvement is obtained by solidly growing exports and a sharp slowdown in import volumes. The latter are set to grow by only 0.9% in 2008 and to contract by 0.5% in 2009. Therefore, a certain reduction of global imbalances would be achieved, but at the expense of global growth. While they have proved resilient so far, a severe and protracted slowdown in US imports will also affect the emerging economies, especially those, like China, whose growth is, to a large extent, based on exports.

In conjunction with the monetary policy easing, the deteriorating US outlook has entailed a further weakening of the US dollar against the euro. The euro stood at 1.58 USD on 15 April 2008, which is about 17% higher than one year ago. As a result,

the export shares of the euro area to the US could be reduced further, which would particularly weigh on growth in the countries where they are high, Ireland in particular, though also, to a lesser extent, Germany, Italy and France. This risk is reinforced by the fact that the euro has also appreciated against the UK pound and the Chinese renminbi. Of the main currencies, only the Japanese yen has gained some ground against the euro, coming back close to its level of one year ago, at 159 euro on 1 April 2008.

Graph 1.1.1: Euro exchange rate, USD and JPY



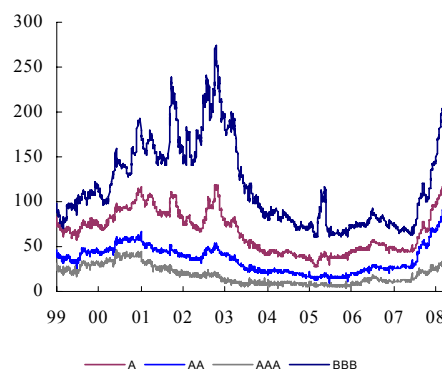
... which feeds the financial turmoil ...

With mounting delinquencies in the US mortgage market, US banks have continued to report losses which, in some cases, have been large enough to endanger their solvency. In addition, the slowdown of the US economy has pushed up risk premia on the credit markets, especially for the lowest ratings. Due to the fact that many international banks and financial institutions have bought financial products linked to mortgage loans and other risky assets, this decline in confidence has spread throughout the global market.

The flight-to-quality rush is particularly striking in the euro area inter-bank market, where the spread between the key interest rate - the minimal rate of submission to the main refinancing operation - and the 3-month EURIBOR remains high. While it had narrowed to 30 basis points (bp) at the mid-January, it has widened to about 75 bp by the mid-April, after the announcement of the difficulties of the US-based investment bank Bear Sterns. This phenomenon is striking since the level of excess reserves is not higher than usual, suggesting an absence of a liquidity squeeze. Such high spreads mainly reflect a rising perception of counterparty risk which makes banks reluctant to lend money

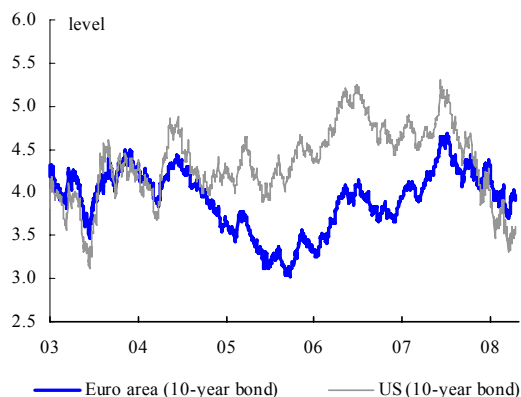
without sound collateral in return. The declining risk appetite is also visible on the bond market, where the yield spreads between corporate and government bond have increased on all the ratings.

Graph 1.1.2: Corporate yield spreads in the euro area



However, this tightening of the credit market conditions has been moderated by a decrease in long-term interest rates, following the aggressive easing of US monetary policy and the downward revisions of growth expectations. On 15 April, the US 10-year rate was at 3.60%, i.e. about 90 bp below its autumn level. In the euro area, the decline has been less pronounced, as growth expectations have been revised more moderately. On 15 April, the 10-year rate stood at 3.97%, about 20 bp below its autumn levels. That being said, the decrease in bond yields also depends on maturity, with a maximum decline for the middle of the yield curve (2-5 years), which loosened by about 60 bp.

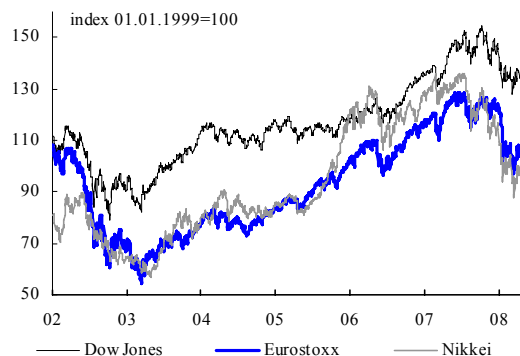
Graph 1.1.3: Long-term interest rates, euro area and US



Meanwhile, global equity prices have corrected. Since the outbreak of the turmoil, at the end of July 2007, the Eurostoxx has lost about 15%. The downward revisions of growth forecasts and earning reports have weighed on the index, in

conjunction with a strong correction of banking shares due to the emergence of the subprime mortgage crisis. Surprisingly, the correction has been less sharp on the US stock market, where the decline of the Dow Jones has been limited to about 10% so far. The developments in the exchange rates of the euro and the US dollar partly explain this divergence.

Graph 1.1.4: Stock prices on world markets

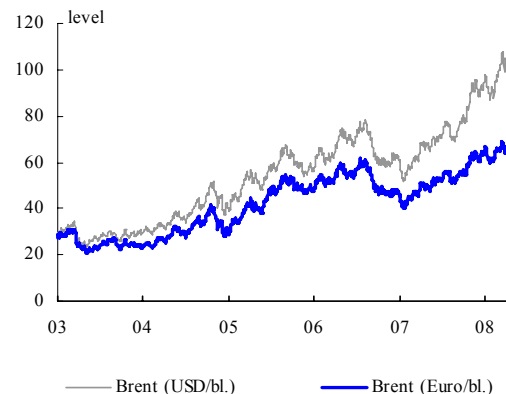


... while commodity prices are soaring

Commodity prices have increased to new all-time highs, in food, oil and metal. This has not only pushed up production costs, but could also endanger price stability. Therefore, many central banks are facing the challenge of having to deal with both a bleak outlook and resurgent inflation simultaneously.

Oil prices are now around USD 110 per barrel, which represents a rise of about 60% since last year, and about 20% since last autumn. Even if the weakness of the US dollar has played a role in this appreciation, the rise still remains significant in euro. With the price of oil standing at about EUR 68 per barrel, this puts the increase at about 35% in one year and 15% since the autumn forecast. The main reasons of the increase have not fundamentally changed since last autumn. From the supply-side, the OPEC countries are unwilling to increase their production and geopolitical tensions are still strong. In addition, US crude stockpiles remain low, while bottlenecks persist in the refinery process. From the demand-side, world demand is expected to grow quickly in the medium term, though the turndown in global growth could also help to contain prices in the short run.

Graph 1.1.5: Oil prices (Brent) in USD and €



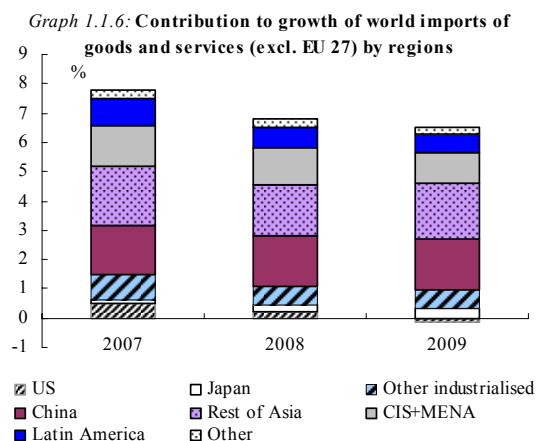
Contracts in the futures market indicate that prices should range from USD 104 to 98 within the forecast horizon. Based on such contracts, the forecast assumes the price of a barrel of Brent to average USD 101.2 in 2008 and USD 100.0 in 2009. In euro, the price would be EUR 65.1 in 2008 and EUR 63.6 in 2009.

Food prices have also soared recently. In 2007, they have increased by about 20% in USD, and are expected to increase by about 40% in 2008. The rise is driven by cereals and dairy products which have more than doubled since mid-2006. These developments have mainly been triggered by short-term factors, such as weather-related shortfalls. However, long-term factors have also played a role, especially a growing population and an increasing demand for higher value-added food in some catching-up countries and a rising demand for biofuels. Lastly, mineral and metal prices are also on a rising trend, with an increase of 13.5% in 2007, after about 50% in 2006 and 25% in 2005. Geopolitical tensions partly explain this phenomenon, but the growing demand from developing countries should not be overlooked. In 2008, mineral and metal prices are expected to increase further, by about 10 %.

However, growth continues to be buoyant, while slowing somewhat, in emerging economies ...

In spite of the bleak US outlook, world growth appears to be quite robust. This is mainly due to the weight of emerging countries in global growth, as almost half of the world GDP growth now comes from Asia alone. However, considering the share of the USA in the exports of some emerging countries (about 20% for China and Brazil), a protracted slowdown in US imports will certainly

affect the world economy as a whole, at least in a medium term. This is illustrated by the deceleration of import growth which is expected to take place in all regions of the world in 2009.



In China, GDP growth increased to 11.9% yoy in 2007, from 11.6% in 2006. The key factors behind this higher-than-expected growth were net merchandise exports and a reacceleration of investment in fixed assets. However, economic growth is expected to ease to 10.0% in 2008 and about 9.1% in 2009, compared to 10.3% and 9.9% respectively in the 2007 autumn forecast. This is due firstly to the People's Bank of China continuing to tighten monetary policy in the face of strong consumer price inflation of about 7% in 2007, with a further rise in both interest rates and the reserve requirement ratio. A second reason is the contraction in US imports, which can be expected to affect Chinese exports which make up one third of the China's total GDP. However, this scenario is also associated with upside risks, as the various measures to curb investment, including administrative steps, have proved relatively inefficient so far. As for exports, despite the slight appreciation of the renminbi, China could continue to win new market shares in world trade.

While growth in **India** is also projected to moderate somewhat over the forecast period (from 8.4% in 2007 to 8.0% in 2008 and 2009), it is still strong, owing to the continued strength of domestic demand. However, even though fears of overheating have receded, wholesale price inflation has picked up recently to above 6%. Further downside risks remain to the economic outlook. These include a further softening of external demand and consumption (owing to lags in the cycle of previous monetary tightening and the trend appreciation of the rupee against the US

dollar) as well as high international crude oil prices.

In the **rest of Asia** (excluding Japan), GDP growth is supported by a buoyant domestic demand and should therefore decelerate only gradually. In Indonesia, it is expected to fall back to 6.1% in 2008 and 6.0% in 2009, from 6.3% in 2007. In Malaysia, the economy could continue to expand at a pace of about 5% over the forecast horizon. In Korea, thanks to a diversification in the export base, growth is expected to moderate only slightly, to 4.7% in 2008 and 4.8% in 2009 after 5.0% in 2007.

In Russia, real GDP is estimated to have expanded by 8.1% in 2007, after 7.4% in 2006, which in itself was an upward revision. This acceleration is explained by higher domestic demand, especially investment. While the latter was supported by a significant increase in net capital inflows and booming oil revenues, private consumption expanded due to a stronger labour market and rising wages. For 2008 and 2009, GDP growth is expected to be at above 7%. In the other CIS countries, economic growth is foreseen to average 8% in 2008 and 2009, after about 9% in 2007, reflecting the strong performance of its second biggest economy, **Ukraine** (7.3% in 2007) and continuing strong growth in the third and fourth largest economies of the region, Kazakhstan and Belarus.

In the Middle East and North Africa (MENA), annual GDP growth is estimated to remain robust at around 6% in 2008 and 2009, after 5.2% in 2007. Oil-importing countries should continue to perform better than most oil-exporting countries, due to the positive impact of past structural reforms. Growth in Saudi Arabia weakened in 2007, but is expected to rebound to 6%, in 2008, driven by higher energy prices. The same applies to the United Arab Emirates and the other energy exporting countries, including Iran. In the other countries of the MENA region, the stimulation of growth will come mainly from buoyant foreign direct and portfolio investment inflows.

In Latin America, economic growth is estimated to have reached 5.3% last year, almost matching the performance in 2006. In spite of the turmoil in world financial markets, Latin American countries as a whole experienced very favourable developments in 2007, characterised by a combination of a current account surplus (0.7% of

GDP), improving terms of trade (+2.6%), an ongoing decrease in unemployment and a primary surplus in public budgets (2.2% of GDP). Due to the strong inflow of private capital to the region, currencies were undergoing pressure to appreciate. This led to a considerable (3.5% of GDP) increase in foreign exchange reserves, allowing for a reduction in external debt. These developments appear to have put the region as a whole on a much better footing to weather the expected global slowdown than in similar situations in the past.

However, there is no denying that some countries of the region seem particularly vulnerable to the stagnation in US import, especially Mexico whose export base is almost exclusively made of US imports. A reversal in capital inflows, such as those which occurred in the past, would also have recessive effects on the economies of the region. Lastly, developments in commodity prices constitute a downside risk for some countries. At the same time, other countries, such as Brazil, are clearly benefiting from the increase in commodity prices. For the region as a whole, GDP growth is expected to slow to 4.3% in 2008 and to 4.0% in 2009.

In 2007, GDP growth in **sub-Saharan Africa** reached 6.5%, after 6.1% in 2006. Oil production gained strength in several countries, notably in Angola and Sudan. In oil-importing countries, growth was boosted by higher (non-oil) commodity prices, improved macro-economic stability, increased openness and recovery from drought in many areas. Debt relief and rising private capital inflows also contributed positively to growth. Consumer price inflation (excluding hyperinflation in Zimbabwe) accelerated moderately to 7.6% from 6.9% in 2006, reflecting increased pass-through from higher energy and food prices. These trends are likely to continue in 2008, as growth is expected to edge up to 6.7%, before slowing down to around 6% in 2009 when exports are projected to moderate.

.. and to be proving resilient in most other trade partners of the EU

In Japan, GDP growth decelerated from an average of 2.4% in 2006 to 2.0% in 2007. This slowdown is expected to continue in the near future, with a GDP growth set to drop to 1.2% for 2008 and 1.1% for 2009. Household consumption is anticipated to remain sluggish, while Japanese firms are also expected to remain cautious in their

investment plans over the course of the year. Business investment is expected to rebound afterwards and support domestic demand. As for external trade, the US import stagnation should further curb Japan's export growth. So far, exports to Asia have compensated for this loss, but this will only be sustainable if the non-US trading partner economies hold up.

In Canada, the economy is benefiting from high commodity prices and robust domestic demand growth, but the slowdown in the US and the recent appreciation of the Canadian dollar should bring about an accelerating decline in real net exports this year, resulting in a decline in GDP growth from 2.7% in 2007 to 1.5% in 2008 and 1.9% in 2009. **Australia's** long-term economic expansion looks set to continue, with the economy expected to grow by 4.2% in 2007 and by 3.5% in 2008 and 2009. Favourable labour market conditions, including rising employment and real wages, should support domestic demand. After experiencing a recovery in 2007, **New Zealand's** economy is expected to decelerate slightly due to the economic slowdown in the US and decreasing business confidence. The annual growth rates for 2008 and 2009 could remain below 2%.

Among the EFTA countries, the **Swiss** economy should slow gradually over the forecast horizon, in a context of tighter monetary policy and slightly less buoyant international environment. In 2007 GDP growth is estimated at 3.1%, reflecting a strong external demand and a healthy business environment. For the years 2008 and 2009 a return to more moderate growth rates is expected at 2.2% for both years. In **Norway**, real GDP growth is also expected to decelerate to 2.5% in 2008 and 2.1% in 2009, from 3.5% in 2007. Domestic activity will continue to be the main driver of growth in the forecast years, supported by strong private consumption, partly due to low interest rates. However, the large volumes of investment in the oil and gas sector that were spurred by soaring oil prices are expected to come to completion in the course of 2008, causing a further deceleration in investment growth. Lastly, in **Iceland**, an investment boom helped GDP growth to reach 4.2% in 2006 but it subsequently fell to 2.7 % in 2007. Looking forward, a gradual decline is expected with a growth of 1.3% in 2008 and 0.4% in 2009.

In the candidate countries, economic activity appears to have decelerated markedly during the

second half of 2007. In particular in **Turkey**, which accounts for more than 90% of this country group, private consumption and investment slowed sharply, reflecting monetary tightening, the end of the election-related boom in public spending and bad weather conditions during the summer affecting the agricultural sector. For 2008 and 2009, a moderate recovery is likely, which could bring GDP growth in this group of country back to 4½% - 5%, from 4.6% in 2007. In **Croatia**, economic output might decelerate to some 4½% in 2008, largely reflecting lower government spending after the 2007 elections. In 2009 a renewed acceleration - to some 5% - appears likely. After years of weak growth, economic activity is expected to accelerate in the **former Yugoslav Republic of Macedonia**, to some 5% in 2008 and 5½% in 2009. However, the recent Greek veto of the country's application to join NATO could be seen as also impeding the country's EU accession prospects, which could lead to weaker investment and accordingly lower growth.

The aggregate GDP of the **potential candidate countries** - Serbia, Montenegro, Bosnia, Albania and Kosovo – which is comparable to that of Slovakia, is estimated to have increased by nearly 7% in 2007. Most likely, output growth will slow down to some 6% in 2008 and 2009, reflecting the generally less dynamic international environment.

Table 1.1.1

International environment

(Real annual percentage change)

				Spring 2008 forecast			Difference vs Autumn 2007	
	2004	2005	2006	2007	2008	2009	2008	2009
Real GDP growth								
USA	3.6	3.1	2.9	2.2	0.9	0.7	-0.8	-1.9
Japan	2.7	1.9	2.4	2.0	1.2	1.1	-0.7	-1.2
Asia (excl. Japan)	8.0	8.0	8.8	8.6	7.9	7.6	-0.5	-0.6
of which								
China	10.1	11.1	11.6	11.9	10.0	9.1	-0.3	-0.8
ASEAN4 (a) + Korea	4.9	4.9	5.3	5.6	5.4	5.4	0.1	-0.2
Candidate Countries	8.8	8.0	6.7	4.6	4.3	4.8	-1.4	-1.6
CIS	8.2	6.6	7.5	8.5	7.8	7.5	0.3	0.4
of which								
Russia	7.1	6.4	7.4	8.1	7.3	7.0	0.3	0.1
MENA	6.3	6.8	6.3	5.2	6.2	6.1	0.9	0.9
Latin America	6.0	4.4	5.4	5.3	4.3	4.0	-0.1	-0.2
Sub-Saharan Africa	5.8	6.0	6.1	6.5	6.7	6.1	0.2	-0.3
World	4.9	4.4	4.9	4.6	3.8	3.6	-0.9	-1.2
World merchandise trade								
World import growth	11.3	8.3	11.0	6.8	6.2	5.8	-0.8	-1.4
Extra EU27 export market growth	:	:	9.3	8.9	7.8	7.3	0.1	-0.6

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

Box 1.1.1: Updated estimates of Purchasing Power Parities lower global growth

The International Comparison Programme (ICP), a joint project by the World Bank, Eurostat and OECD, has released new Purchasing Power Parity (PPP) exchange rates for 146 countries. These are used to calculate the relative size of individual economies and aggregate to world GDP. They are based on the price levels of year 2005 and replace previous estimates from 1993. Using these new PPP exchange rates entails a downward revision of world GDP growth by around $\frac{1}{2}$ pp. each year during 2002-07, as the relative share of the fastest-growing economies has been lowered slightly.

PPP exchange rates reflect relative prices of goods and services but they are difficult to compute

The PPP exchange rate is defined as the rate at which the currency of a country would have to be converted into that of a reference country to buy the same amount of goods and service in each country. Therefore, it can deviate by a large amount from the market exchange rate, especially in the short run: while PPP exchange rates depend on the relative developments in consumer prices between countries, the developments in market exchange rates depend on international trade and capital flows.

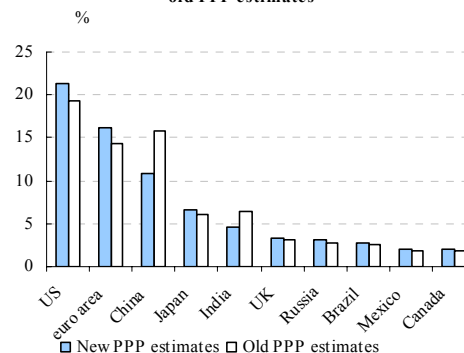
As a result, PPP exchange rates are less volatile than market exchange rates, a key point when the purpose is to assess the respective size of economies. A further advantage of PPP exchange rates is to cover all the goods and services of a reference basket, including those which are non-tradable such as hair dressers. However, PPP exchange rates are difficult to compute, as they require, for all countries, the construction of a reference basket of goods and services. The latest assessment of PPP exchange rates was carried out in 1993. Improvements introduced by the new PPP update and enlarge this basket to more than 1000 goods and services, and benefit from the participation of China in the survey programme for the first time.

With the new PPP exchange rates, the relative size of some emerging economies has been lowered

The new PPP exchanges entail a downward revision of the share of emerging economies, for both structural and statistical reasons. In developing countries, the change in relative price can be relatively fast due to the productivity gains in the manufacturing sector. As a result, the structure of consumption expenditures changes and the reference basket becomes less representative. In addition, previous estimates for the Chinese PPP exchange rates were simply extrapolated from a

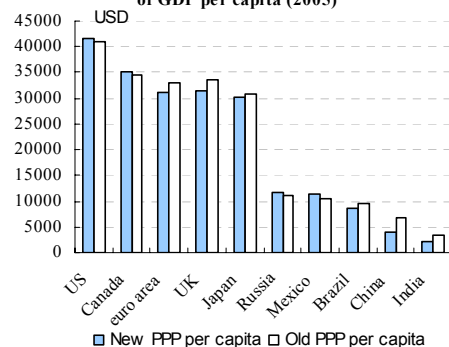
bilateral comparison of 1986 prices between China and the United States. This proved to be an inaccurate guide, as by applying the PPP methodology, the size of China has shrunk by nearly 40%. The sizes of other large emerging economies have also been revised, down by 37% for India and 10% for Brazil, but up by 7% for Russia.

Graph 1: Shares in world GDP using new and old PPP estimates



Among the largest countries, the fastest-growing economies are the BRICs (i.e. Brazil, Russia, India and China). Therefore, a reduction of their relative size in the world GDP, from 26.5% to 20.2% for year 2005, results in a lowered world GDP growth by about $\frac{1}{2}$ pp, at 4.7% (including the EU), instead of 5.2% with old PPP exchange rates. For the forecast horizon, the impact of the downside revision is also about $\frac{1}{2}$ pp.

Graph 2: Comparison between old and new PPP estimates of GDP per capita (2005)



(Continued on the next page)

Box (continued)

However, the share of emerging economies in the world output is on a rising trend

With globalisation and the resulting productivity gains in the emerging economies, the developing countries are engaged in a catching-up process. For years, their potential growth is higher than that of the industrialized countries by several percentage points. As a result, even if their share in the world output has been revised down, it is still growing and will do as long as the catching-up process prevails. For instance, if China continues to expand at the same pace as today, its economy will have overtaken that of the USA around year 2020.

However, the gap in terms of GDP per capita remains considerable between emerging and industrialized countries. While the Chinese GDP is half of the US GDP, its GDP per capita is only the tenth of that of the US. Such differences in living standards suggest that the catching-up process is likely to continue for a long time.

Chapter 2

The economies of the euro area and the EU

1. RESILIENT GROWTH IN THE FACE OF HEADWINDS

Softening of solid growth

Following strong economic activity in 2006, the economy of the European Union continued to expand at a healthy pace in 2007. GDP growth was 2.6% in the euro area and 2.8% in the EU, in line with the autumn 2007 forecast and above trend-growth for the second year in a row. The output gap moved into positive territory (at about 1/3 pp. in both the euro area and the EU) for the first time since 2002.

In the first half of 2007, output growth even reached an annualised 3% in the EU, moderating to 2.7% in the second half (from 2.8% to 2.4% in the euro area). The softening of the growth momentum reflected several factors, including a general deterioration in external conditions, surging commodity prices and continued turbulence in financial markets.

Table 2.1.1:

Composition of growth in 2007 - euro area

(Seasonally and working day adjusted)	(Quarter-on-quarter % ch.)			
	07Q1	07Q2	07Q3	07Q4
GDP	0.8	0.3	0.7	0.4
Private consumption	0.0	0.6	0.5	-0.1
Government consumption	1.1	0.2	0.7	-0.1
Gross fixed capital formation	1.7	0.0	1.2	0.8
Changes in inventories (% of GDP)	0.0	-0.3	-0.1	-0.2
Export of goods and services	0.9	0.8	2.1	0.5
Import of goods and services	1.4	0.3	2.5	-0.4
	(Contributions in pp.)			
	06Q1	06Q2	06Q3	06Q4
Private consumption	0.0	0.3	0.3	0.0
Government consumption	0.2	0.0	0.1	0.0
Gross fixed capital formation	0.4	0.0	0.3	0.2
Changes in inventories	0.3	-0.3	0.2	-0.1
Net exports	-0.2	0.2	-0.1	0.4

World trade growth has continued to decelerate during 2007, averaging 6.8% on the year as a whole compared to 9.5% in 2006. The loss in import momentum was broad-based although sharper in industrial countries than in emerging economies. The euro has strengthened. In nominal effective terms, it has appreciated by 2.4% in 2007, mostly in the second half of the year. The redirection of EU exports to fast growing markets in recent years has limited the negative effects of the slowdown in the US and other developed

economies. But, the negative impact on euro-area exports is likely to be larger in the future than it has been in the recent past, due to the usual lags in the reaction of trade to exchange rate developments and cooling global growth.

Both food and oil prices increased sharply last year (by 19.1% and 9.5%, respectively, in USD) and the rise is proving to be more persistent than expected. Thanks to the appreciation of the euro, the euro-area's terms of trade did not deteriorate in 2007, preventing a drain on national income. But adverse commodity developments have had a substantial impact on headline inflation, pushing it above 3% towards the end of the year, and curbing the purchasing power of households.

The extent to which the financial turbulence has spilled over into the real economy is difficult to assess, as the EU economy has been hit simultaneously by a number of shocks. However, the financial turmoil has led to a tightening of financial conditions. The flight to quality has led to a widening of spreads on government bonds rates since July 2007, by 50 basis points for short-term interest rates and more moderately – by 20 basis points – for long-term interest rates. Collateral requirements have also tightened.

Sluggish labour income behind weak consumption

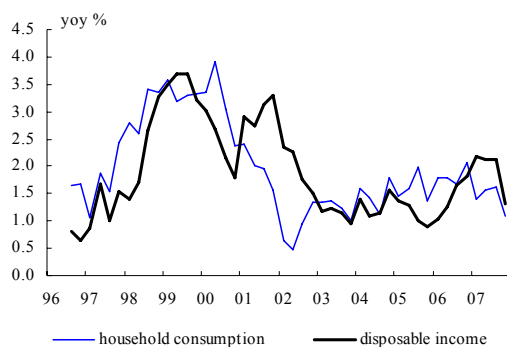
As regards the composition of GDP growth, the contribution of domestic demand weakened in 2007, in particular in the euro area (to 2.2 pp. compared to 2.6 pp. in 2006), while the contribution of net trade strengthened (to 0.4 pp. from 0.2 pp. in 2006) despite the appreciation of the euro.

Private consumption contributed 1.2% to GDP growth in the EU in 2007, but only 0.9 pp. in the euro area. The sizeable contraction of private consumption in Germany in the first quarter of 2007 due to VAT-related effects and poor performance in the following quarters weighed on euro-area household spending in 2007. That said, euro-area private consumption has been on a modest growth path since 2002, posting an average growth rate of only 1.4% between 2002 and 2007, significantly below the 2.5% rate of growth recorded between 1996 and 2001. An analysis of

the dynamics of euro-area consumption across similar expansion phases confirms that the weakness of household spending is a specific characteristic of the current cycle as a whole and not only of 2007. Four years after the start of the current recovery (2003Q3), the level of private consumption is currently about 3.5 pps. below the average level recorded in previous expansion phases.

The weakness of private consumption in recent years has gone hand in hand with a subdued performance by disposable income, by far the most important determinant of household spending. Diverging developments between these two variables in the short-term are possible, but there is a long-term tendency of consumption and disposable income to move together. Weak disposable income, rising at an average annual pace of only 1.5% between 2002 and 2007 (down from 2.5% during the period 1996-2001), simply did not allow for a stronger consumption dynamic.

Graph 2.1.1: Consumption and household disposable income, euro area



In particular, labour income was dragged down by the low growth in real wages. Average quarter-on-quarter growth in real compensation per head was slightly negative during this recovery (-0.1%) and largely positive during previous upswings (+0.3%). This has helped improve euro-area competitiveness, but depressed household income. By contrast, employment gains have been somewhat stronger in the current upturn than during previous recoveries (0.3% qoq compared to 0.2%). In 2007, the labour market has continued to support household income, with employment expanding (by around 1½% in both the euro area and the EU) and the unemployment rate reaching a 15-year low (7.4% in the euro area and 7.1% in the EU).

A rise in the household saving ratio from 13.9% in 2006 to 14.5% in 2007 further depressed consumption in the euro area. Rising inflation perceptions may have had an adverse impact on consumption and saving propensity. And if so, the recent jump in headline inflation and the related upward movement in inflation expectations could result in a higher saving rate going forward. This, together with the reduction of the purchasing power of households, does not bode well for consumption in the quarters ahead.

...while investment has so far maintained its growth momentum

A more positive development in 2007 was the continued strong growth in investment spending. Gross fixed capital formation rose by 4.3% last year in the euro area (5.4% in the EU), following the robust performance of 5% in 2006 (5.6% in the EU). When compared to average growth rates between 1997 and 2006 of 3.1% in the euro area and 3.5% in the EU, the figures for investment growth in 2007 stand out. In a cyclical perspective, capital spending has now outpaced the level reached in previous expansion phases by about 5 pps.

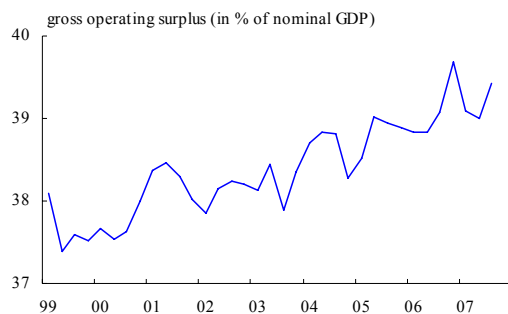
In 2007, the positive performance of gross fixed capital formation can be ascribed to both equipment and construction investment, the former expanding by 6.1%, the latter by 3.2%, thus well above the average growth for 1997-2006 of, respectively, 4.4% and 1.6%.

However, construction investment experienced a significant deceleration in the second half of 2007. The year-on-year growth rate came down from 5.1% in 07H1 to 2.3% in 07H2. During the same period, growth in equipment investment accelerated from 4.9% to 5.3%. It is therefore, the weaker investment in construction (which amounts to around 50% of total investment in the euro area) which can be responsible for the deceleration in overall gross fixed capital formation towards the end of the year. This largely reflects the cooling-off of the housing market in several euro-area countries, most notably in Spain and Ireland. A clear indication is the substantial fall in building permits by more than 20% since January 2006 in the euro area.

According to investment surveys, demand factors are the key driving forces of industrial investment. Above potential GDP growth in the last two years

has therefore fuelled capital spending. The degree of capacity utilisation in the manufacturing sector has steadily increased since the beginning of 2006, reaching the same level as the peak of the previous cycle in the second quarter of 2007. Although it has since been declining, its level of 84.2 for 2007 as a whole was well above its long-term average (81.9%).

Graph 2.1.2: Consumption and disposable income, euro area



The healthy financial position of the non-financial corporate sector is another factor contributing to the strong growth in equipment investment in 2007. The share of gross operating surplus (a good proxy for profits) of nonfinancial corporations has been on the rise for several years and it stood at 39% of value added in 2007, a record high.

Efforts to modernise the capital stock have also underpinned investment. The contribution to potential growth of capital deepening and total factor productivity has improved in 2006-2007 - admittedly - only moderately by 0.2 pp., but nevertheless interrupting a prolonged downward trend. The trend in labour-productivity¹ has also improved or at least ceased to deteriorate, according to a recent DG ECFIN research.

On the negative side, the rise in oil prices in 2007 and the tightening of credit conditions since the start of the financial turmoil may have had a dampening impact on capital spending. However, high profitability has allowed companies to absorb the oil price shock more easily than in the past. As for interest rates, their current level, especially on the long-end, remains low by historical standards, as confirmed by the sustained growth in loans to non-financial corporations (at a record high in February 2008). In addition, a large share of

investment can be financed by means of generated cash flows, making euro-area firms less dependent on prevailing financing conditions, at least temporarily

Heterogeneous country performances

Growth rates continue to vary across EU Member States. The dispersion of annual GDP growth across EU countries has remained almost unchanged between 1996 and 2005 and has slightly increased in the last two years. This development is primarily due to significant heterogeneity in trend GDP growth rates. This partly reflects a catching-up process of some economies, particularly those of the recently-acceded Member States. In fact, in 2007 the growth rate of potential GDP in the EU was about ¼ pp higher than in the euro area, with that of the new EU Member States significantly above that of the euro-area average. Some heterogeneity in country's performance is visible also in the larger euro-area Member States. In recent years, Spain (together with some of the smaller economies such as Ireland, Finland Portugal and Greece) has recorded GDP growth rates well above the euro-area average, France GDP has expanded in line with the euro area and, Germany and, in particular, Italy well below. Again, these different performances are backed by differences in potential output growth. Looking ahead, however, the relative positions of some of these countries are set to shift (see also section 2.3).

By contrast, cyclical developments across EU countries appear more synchronised. The dispersion of output gaps in the EU has halved between 2003 and 2007, declining from an average standard deviation of 0.8 pp. in 2003-2005 to around 0.4 pp. in 2006-2007. A similar pattern is envisaged in the four largest euro-area economies (Germany, France, Italy and Spain).

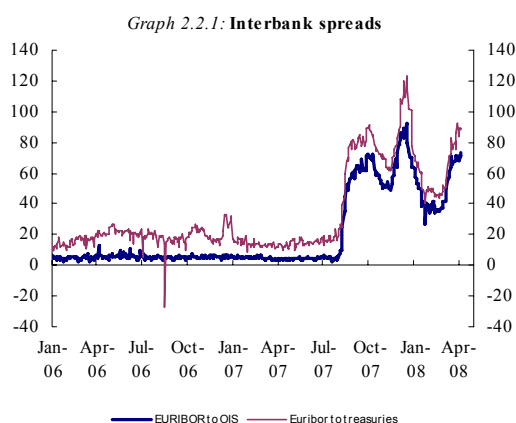
That said, quarterly GDP growth rates in the euro area were less uniform in 2007 than in 2006. The increased dispersion is likely to reflect the varying degrees of vulnerabilities in different countries. On the one hand, Germany appears more resilient and less exposed to current headwinds in credit and housing markets. On the other hand, both France and Italy suffer from a weak external competitive position, Italy also suffers from weak domestic demand, while both Spain and the UK are more exposed to a downturn in the housing market reinforced by the financial distress.

¹ The EU Economy 2007 Review (2007), *Moving Europe's productivity frontier*, European Commission.

2. UNFOLDING FINANCIAL CRISIS POSES RISKS

Crisis ongoing

The international financial system remains in a state of crisis, with banks in the most developed economies unwilling to lend to each other on an unsecured basis. Several other key credit markets are either malfunctioning or dislocated. The fragility of the situation was underlined by the near-collapse of Bear Stearns in March, when US authorities intervened to orchestrate an emergency takeover of the liquidity-constrained investment bank. As Bear Stearns had announced a solid liquidity position only two days earlier, it is clear that banks remain highly vulnerable to adverse market sentiment, which may or may not be justified.



In recent weeks, strains have re-emerged in the interbank markets, with all major central banks injecting additional liquidity in an effort to ensure market functioning and keep market interest rates in line with policy rates. The liquidity measures have had limited effect so far, partly due to pending financial reporting deadlines and partly due to concerns about counterparty risk among banks. The US Federal Reserve has created several new facilities allowing banks – and for the first time also investment banks – to access liquidity in exchange for an increasingly broad array of collateral, including highly-rated asset-backed securities. The ECB has always accepted asset-backed securities as collateral for its lending operations.

Uncertainty about counterparty risk among banks arises from their growing credit losses, of which more than USD 200 billion have been disclosed so

far. There is a concern among investors that substantially more losses may be disclosed in the future, as problems in sub-prime mortgage markets have spread to other credit markets, e.g. credit cards, car loans, and corporate loans to highly indebted borrowers (leveraged loans). Concerns remain about the possible downgrading of monoline insurers and the associated risk that some sellers of credit insurance may not be able to honour their commitments in the now vast (USD 40 trillion) market for credit default swaps (CDS). In such an event, the consequence would be further losses, uncertainty and higher risk premia. In addition, major banks, which are big players in the CDS market, could be at risk.

In another development, investors have begun to discriminate between countries on the basis of their relative funding needs and perceived riskiness. This has been reflected in emerging-market bond spreads. So far, investor concern has been concentrated on Iceland and, to a lesser extent, Turkey but market commentary increasingly points also to the Baltics and some other new Member States such as Romania, Bulgaria and Hungary. Investor discrimination has even caused government bond spreads within the euro area to widen to the highest levels since the euro's introduction in 1999. While credit-risk spreads were unusually narrow before the current crisis, there is now a risk of over-shooting, similar to that observed in other areas of the credit market.

As a result of the deepening and broadening credit problems, there is a growing perception that the financial crisis will now last at least until the end of 2008, a marked change from earlier, when there was a consensus that the worst would be over in the first quarter of 2008.

Lending flows still generally robust

Despite the ongoing financial crisis, bank lending to the private sector remains brisk, at least in the euro area. The year-on-year growth rate of loans to non-financial corporate firms reached a new record high of 14.8% in February. Non-financial corporate loan growth is also strong in the UK. In contrast, loan growth to the household sector in the euro area is decelerating – continuing a trend already in place before the crisis began. The growth rate of loans for house purchases was 6.7%

in February, which is a 15-year low. Mortgage loan growth is also decelerating in the UK.

The robustness of bank lending is surprising against the background of turmoil in financial markets and survey evidence of a significant tightening in lending standards. On the basis of available lending data, it would seem that any slowdown in credit is driven more by a decline in demand than by constraints on supply. However, there is a risk that the effects of the financial crisis on bank lending behaviour will be felt with a lag. If so, the current situation of strong funding to the non-bank private sector will not last, as banks feel progressively compelled to cut back their lending activities due to larger-than-expected losses and a need to rebuild capital ratios.

Transmission to real economy

The main transmission mechanisms from the financial crisis to the real economy are threefold, coming directly from deteriorating credit conditions but also more indirectly from a less favourable external environment and a decline in business and consumer confidence.

While a significant retrenchment of credit to the private sector has not materialised so far, survey evidence suggests that the attitude of banks to credit risk has changed. If this change in risk preferences feeds through to actual lending behaviour, the cost of external financing for both corporate and household sectors could rise significantly. In addition to higher funding costs, there might also be a reduction in the availability of credit to some business and household borrowers.

A more indirect effect of the financial crisis on the EU economy will come via the effect of tightening credit conditions on other parts of the global economy. In particular, the performance of the US economy has been severely weakened by the impact of the financial crisis. To this extent, the EU economy is exposed via the traditional trade and investment channels, but also via balance sheet exposures. Another negative stimulus would arise in the event of a further sharp appreciation in the euro, partly driven by the monetary easing by the Fed in response to macro-financial pressures in the US.

The EU economy might also be affected indirectly by negative effects of the financial crisis on

business and consumer confidence. Such confidence effects are difficult to predict but can have a pervasive impact on real-sector activity. So far, overall economic sentiment in the EU has been underpinned by optimism in the manufacturing sector, although services and consumer confidence have been less buoyant. The symbiotic relationship between economic confidence and the global housing boom in recent years points to the risk of a mutually reinforcing downward trend in economic confidence and housing-market correction.

Housing sector

The question for the EU is whether the US housing adjustment could herald similar developments elsewhere. The recent boom in the housing market has been – with a few exceptions such as in Germany – a global phenomenon, encompassing most of the EU and several euro-area countries as well. Housing construction has boomed and saving rates have declined, while household sector debt has soared to record levels. The broadly based housing upswing raises the question of whether the US experience could trigger similar experiences across the global economy.

The question regains in importance as signs of a housing slowdown emerge in the EU, with the pace in price increases decelerating markedly in the euro area as a whole but also outside the area with prices declining in the UK, for instance. Available information suggests that the deceleration of euro area house prices continued in the second half of 2007 on the back of a decelerated bank credit growth for house purchase loans. In addition, euro area building permit indicators have weakened considerably. All this would suggest that a significant housing downturn could be ahead.

While overall housing trends have been mostly smaller in the euro area, there have been a number of "hot-spot" countries with much more pronounced rates of house price increases and associated debt accumulation. In these countries, house prices seem to have increased at a similar rate as in the US, household sector debt ratios climbed to similar levels or have surpassed US levels and the share of residential construction on GDP is often much higher than in the US.

However, EU mortgage markets are organised differently than in the US, reflected in the near absence of subprime lending and a much lower

degree of loan securitisation, thus requiring banks to keep loans on their books until maturity and therefore compel them to a solid credit analysis. Also, the possibilities for households to extract equity from their home are much more limited and European households have a much higher saving rates than their US peers, providing them with a financial buffer.

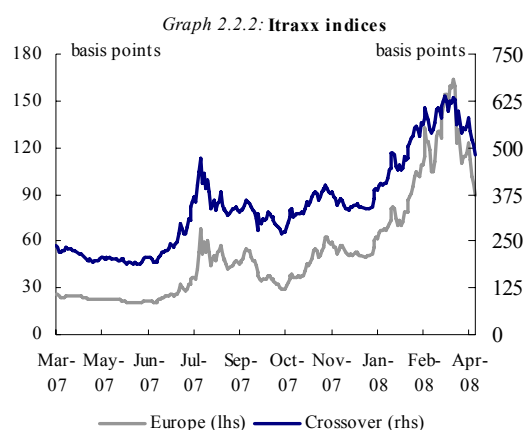
There is a concern, though, that house price corrections in especially vulnerable euro area countries could trigger a broader euro area decline. While it was widely assumed before the US housing downturn that the housing correction caused by subprime would stay limited to that particular market segments and therefore not affect the broader market, subsequent developments have shown that modern financial linkages packaged all market segments together. Similarly, the expectation that a house price correction would be confined to the particularly vulnerable euro area countries could prove equally false. Transmission factors not only include trade but also confidence effects and – especially - financial market linkages as they become increasingly integrated. Also, some of the "hot-spot" countries were active in securitising loans and in the covered bond market and have spread their mortgage exposure to investors all over the euro area (and the EU as well). As a result, a house price slump in those countries could - via financial linkages - trigger a broader decline for other euro area countries as well.

Corporate sector

The euro-area corporate sector has accumulated record debt levels and runs a financial deficit in aggregate. Some companies involved in leveraged buy-outs could be especially vulnerable to tighter financing conditions and the price of leveraged loans has already declined significantly in secondary trading. Also, much of the non-financial corporate debt has been amassed by the construction sector or by land developers, and a housing downturn would affect those segments and lead to higher loan delinquencies. Overall, the financial balance of the euro-area corporate sector – also defined as savings minus investment outlays – records a financial deficit in the euro area. This is in contrast to US corporate balance sheets, which record a surplus.

While corporate profits remain strong at present, a slowdown in economic growth and falling share

prices would suggest that profits will weaken going forward. Declining business confidence and faltering retail sales are adding to worries for the business sector. A higher risk of corporate defaults, which remain at historically low levels, is also increasingly priced in via higher corporate spreads which have reached multi-year highs. Higher investor perception of corporate defaults is also visible in the indices measuring the annual costs of investor protection against corporate defaults.



Recently-acceded Member States

Some of the recently-acceded Member States are also vulnerable to deteriorating financial conditions. Unlike on previous occasions, the financial turbulence has affected mainly financial products and banks in more developed countries. In contrast, there has been a notable absence of geographical risk aversion based on – for instance – unsustainably wide current-account deficits. Going forward one cannot exclude the possibility that this geographical element might become more important. This would make countries excessively reliant on short-term financing flows vulnerable to sudden reversals in risk-preferences, with implications for exchange rates. In the recently-acceded Member States, lending activities are often dependent on foreign banks, which might be under pressure from events in their domestic markets to curtail lending in the host Member States.

3. FINANCIAL TURMOIL AND HIGH COMMODITY PRICES REDUCE EU GROWTH

Downward growth revisions

The expression "unusually uncertain" describes the current economic situation and outlook particularly well. Most of the risks to the outlook for growth and inflation identified in the autumn forecast have started to materialise simultaneously. This, in itself, is unusual.

The global economy is cooling and, in particular, the US economy is on the brink of a recession. According to the CPB indicator, year-on-year world trade volume growth more than halved during 2007. Moreover, the financial turmoil is ongoing and intensifying, putting the credit-sensitive components of growth at risk. Commodity prices are increasing further and, notwithstanding the dampening impact from the appreciation of the euro, are pushing inflation up to rates not seen in many years.

So far, the European economy has weathered these headwinds relatively well, with its fundamentals on a sound footing when the turmoil broke out. The observed impact of the financial crisis on the real economy is relatively limited so far, and there is no evidence of a credit squeeze or crunch in the EU. Although this is difficult to assess, a certain lagged impact is to be expected, especially in economies with a large financial sector or a stretched housing market.

As a result of the persistence of the negative factors weighing on the European economy, the projections for EU and euro-area GDP growth in 2008 and 2009 are revised down by about ½ pp., compared to the autumn forecast. EU growth will decelerate from 2.8% in 2007 to 2.0% in 2008 and 1.8% in 2009. For the euro area, the respective figures will be 2.6%, 1.7% and 1.5%. While below potential, the projections for the EU clearly exceed those for the US and Japan.

Among individual Member States, the largest revisions occur, as expected, for the Member States with a large financial sector, significant macro-economic imbalances, high exposure to the US or a likely correction in the housing market. This concerns, in particular, Ireland, Spain, Italy and Luxembourg in the euro area, as well as

Estonia, Latvia, Lithuania and the United Kingdom. It has to be noted that the large downward revision of Italian growth in 2008 is partly due to unexpectedly weak growth in the last quarter of 2007, which reduces the carry-over.

Compared to the interim forecast of 21 February, the forecast for EU growth in 2008 is unchanged, while euro-area growth is reduced by 0.1pp. This may come as a surprise, in light of the new information regarding the US economy, the financial turmoil and inflation. However, while growth for all other large euro-area Member States was revised down, the German outlook for 2008 was revised up, due to significantly better news on developments in the first quarter.

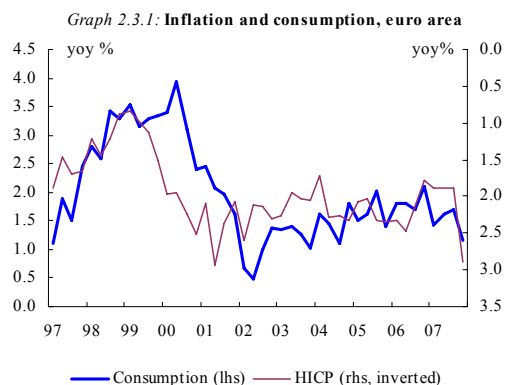
As the slowdown affects some of the fastest-growing EU economies the most, the dispersion of growth rates declines. GDP growth rates of the largest economies of the euro area converge in a range of 1.4-1.8% in 2009, with the exception of Italy.

Domestic demand will slow down substantially, from 2.9% in 2007 to 1.7% in 2009 in the EU. It will nevertheless be the mainstay of GDP growth, as the net external contribution fades to 0.1 pp. in 2008 and 2009 (both in the EU and the euro area), reflecting the global slowdown reinforced by the euro appreciation.

Inflation dampens private consumption growth

In recent years, globalisation and increased labour market flexibility have put downward pressure on nominal wage developments. Over the last ten years, nominal compensation per employee grew on average by 2½% per year in the euro area. While globalisation curbed price developments for manufactured products, the credible monetary policy that aims at keeping inflation at or below 2%, ensured some room was left for increases in real income. Moreover, employment growth has been accelerating (to 1½% annual growth in the euro area in 2006 and 2007, somewhat higher in the EU). Together, this should have paved the way for reasonable growth in real disposable income and, consequently, private consumption. However, the recent sharp rises in food and energy prices

have depressed households' purchasing power and consumer spending in the last quarter of 2007 and are expected to continue to do so during most of 2008.



Looking forward, consumption is unlikely to get much help from key driving variables. The pace of job creation is already slowing and will ease further as weaker GDP starts feeding through to the labour market, exerting also some downward pressure on nominal wage growth. In some countries, the labour market cycle has already turned and unemployment is expected to rise already in 2008 in Spain, Ireland, Estonia, Latvia and the United Kingdom. Moreover, the end of the rise in house prices will dampen consumption growth through direct wealth effects as well as indirect confidence effects. EU consumer confidence has already fallen significantly since the summer of 2007, with expectations for

households' own situation at their lowest level for ten years.

As a result, the forecast projects fairly bleak private consumption growth in the euro area given the mature position of the business cycle (respectively 1.5%, 1.4% and 1.5% in 2007, 2008 and 2009). The apparent acceleration in 2009 is partly due to a normalisation of consumption growth in Germany and Italy. In both Member States, growth in 2008 is temporarily depressed by the estimated contraction in the last quarter of 2007, which substantially reduces the carry-over.

Non-residential activity prevents total investment in construction from shrinking in 2008 and 2009

Gross fixed capital formation was the main driver of GDP growth in 2006-2007, growing by 6.0% in 2006 and 5.4% in 2007 in the EU. However, investment growth is projected to be less than half that in 2008 and 2009, mainly due to tighter credit conditions and weaker overall demand. Investment is projected to grow by respectively 2.8% and 2.0% in 2008 and 2009. Investment in construction, in particular, but also in equipment, is revised downwards significantly.

As regards investment in construction, a lot of attention is traditionally paid to the housing sector. However, it is often overlooked that non-residential construction (including civil engineering) makes up slightly more than half of

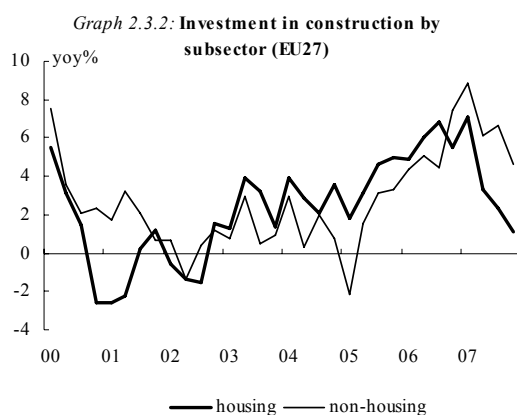
Table 2.3.1

Composition of growth - EU27

(Real annual percentage change)			Spring 2008 forecast							
2006			2002	2003	2004	2005	2006	2007	2008	2009
bn Euro curr. prices	% GDP	Real percentage change								
Private consumption	6708.6	57.8	1.6	1.8	2.2	1.8	2.1	2.1	1.6	1.6
Public consumption	2412.8	20.8	2.6	2.1	1.6	1.7	2.0	2.0	1.9	1.7
Gross fixed capital formation	2402.2	20.7	-0.5	1.4	3.2	3.3	6.0	5.4	2.8	2.0
Change in stocks as % of GDP	49.8	0.4	-0.1	0.1	0.3	0.1	0.3	0.4	0.5	0.5
Exports of goods and services	4609.8	39.7	2.0	1.8	7.4	5.7	8.8	5.1	4.9	4.7
Final demand	16183.3	139.5	1.3	1.9	3.8	3.0	4.7	3.5	2.8	2.6
Imports of goods and services	4582.5	39.5	1.5	3.4	7.6	6.1	8.9	4.9	4.8	4.5
GDP	11600.8	100.0	1.2	1.3	2.5	1.9	3.1	2.8	2.0	1.8
GNI	11570.2	99.7	1.2	1.5	2.9	1.8	2.8	2.6	2.1	1.7
p.m. GDP euro area	8479.1	73.1	0.9	0.8	2.1	1.6	2.8	2.6	1.7	1.5
			Contribution to change in GDP							
Private consumption			0.9	1.0	1.3	1.0	1.2	1.2	0.9	0.9
Public consumption			0.5	0.4	0.3	0.4	0.4	0.4	0.4	0.3
Investment			-0.1	0.3	0.6	0.6	1.2	1.1	0.6	0.4
Inventories			-0.3	0.1	0.2	-0.1	0.1	0.1	0.0	0.0
Exports			0.7	0.7	2.6	2.0	3.3	2.0	2.0	1.9
Final demand			1.8	2.5	5.1	4.0	6.4	4.9	3.9	3.7
Imports (minus)			-0.5	-1.2	-2.5	-2.1	-3.3	-1.9	-1.9	-1.9
Net exports			0.2	-0.5	0.0	-0.1	0.0	0.1	0.1	0.1

total construction investment. During the forecast period, non-residential construction will provide some stability to the development of total construction investment (as it did already during 2007). It is actually expected to prevent total investment in construction from shrinking in 2008 and 2009 in the euro area. The evolution of investment in non-residential construction is the outcome of various influencing factors, including the idiosyncratic cycle of public investment, the weakness of the financial sector and, finally, the role of the non-financial corporate sector.

Turning to housing investment, the jump in inflation at the end of 2007 aggravated households' financing possibilities for house purchases, which were already suffering from the high level of house prices and the tightening of credit conditions. The ECB's interest rate statistics show that, depending on the maturity of the loans, interest rates on new loans for house purchases increased by 25 to 55 basis points between February 2007 and February 2008 in the euro area. There is evidently a sizeable risk that, as a result of the financial turmoil, credit costs will increase further in the near future.



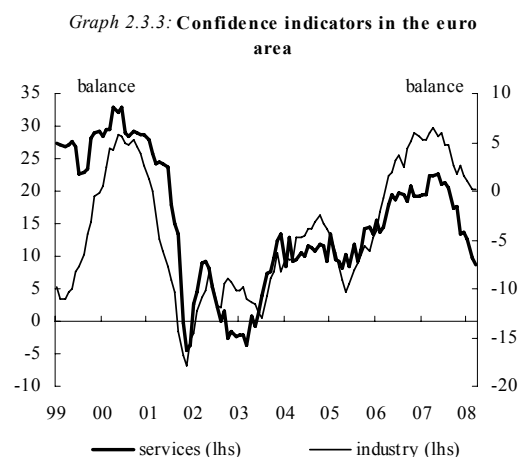
Signs of a housing slowdown have become evident: indicators for house prices, building permits and credit growth for house purchases all weakened during 2007 in the euro area. Credit growth for house purchases, which was already declining before the financial turmoil, dropped to a 15-year low in February 2008 (+6.7% yoy). As a result of these factors, housing investment is projected to contract in the euro area in 2008 and 2009, dragged down by developments in Ireland and Spain. Notwithstanding the substantial downward revision to housing investment, its share in GDP remains above its long-term average in some Member States in 2009, pointing to

persistent country-specific downside risks to housing investment.

Some resilience in equipment investment

Equipment investment has been an important source of growth in the recent past. The high profitability of the non-financial corporate sector and the existing capacity constraints should continue to support equipment investment during the forecast period. The gross operating surplus (a good proxy for profits) of non-financial corporations has been on the rise for several years, but is likely to come under increasing pressures ahead. Although capacity utilisation in the manufacturing sector has declined slightly since its peak in the summer of 2007, it stands well above its long-term average.

Confidence also remained relatively resilient in the manufacturing sector since the outbreak of the financial turmoil. Most business survey indicators, including the European Commission's manufacturing survey, the Reuters PMI index for manufacturing activity and the IFO indicators, despite declining in recent months, remain at fairly high levels, well above their long-term average.



Confidence in the service sector, however, has been markedly less robust. This should come as no surprise in view of the large weight of the financial sector in the service sector and the weakness of private consumption. Moreover, equipment investment is typically closely related to overall demand expectations, which are affected by bleaker export prospects and the slowdown in consumption. Finally, tighter financing conditions ought to dampen investment activities where these cannot be financed out of own resources. The

ECB's interest rate statistics show that, depending on the maturity and amount of the loans, interest rates on new loans to the non-financial corporate sector increased by 37 to 77 basis points between February 2007 and February 2008 in the euro area. Increasing write-downs for non-performing loans could cause banks to increase rates further.

The projections foresee euro-area equipment investment growth decelerating from 6.4% in 2007 to 3.9% in 2008 and 2.1% in 2009. The latter projection has been revised down from 4.0% in the autumn forecast. In 2008, the projection for Italy is significantly lower than the euro-area average. This is partly due to the estimated contraction in the last quarter of 2007, which substantially reduces the carry-over.

A neutral contribution from the external side

The EU is not alone in facing the multiple headwinds of the ongoing financial turmoil, high and rising commodity prices and a severe slowdown in the US. As a result, year-on-year world trade volume growth more than halved during 2007, from 9.7% in January 2007 to 4.3% in January 2008 according to the CPB indicator.

The less supportive global environment is reflected in the projections, where world GDP (outside the EU) has been revised down by about ½ pp. in 2007, 1 pp. in 2008 and 1¼ pps. in 2009. Revisions to world trade have been smaller for 2007 and 2008, due to the relative resilience of the

emerging markets: respectively, 0 pp. and ¼ pp., to 7.8% and 6.8% for world imports of goods and services (excluding the EU). In 2009, world trade will further decelerate to 6.4%.

The combined forces of the less favourable global environment and the appreciation of the exchange rate push euro-area export growth down to 4.4% in 2008 and 4.0% in 2009, from 6.1% in 2007. The relative stability in 2009 reflects both a relatively favourable composition of European exports (in product and geographical terms) as well as a relative resilience against the appreciation of the exchange rate.

The supportive role of demand from emerging markets, specifically from oil exporters and emerging Asia, for EU exports is expected to continue during the forecast period. Between 1999 and 2007, the contribution of EU exports to oil exporters and emerging Asia to total export values exceeded their weight in the EU export basket by, respectively, 4.1 pps. and 1.1 pps. EU exports include also intra-EU trade, where the supportive role of demand from the recently-acceded Member States is also expected to continue. Indeed, their contribution exceeded their weight by 7.0 pps.

When assessing the impact of the exchange rate appreciation, it is important to look beyond the bilateral euro-dollar rate. According to the usual technical assumption (keeping nominal exchange rates constant from a specific base period), the euro will depreciate in 2008 against the Japanese

Table 2.3.2

Composition of growth - euro area

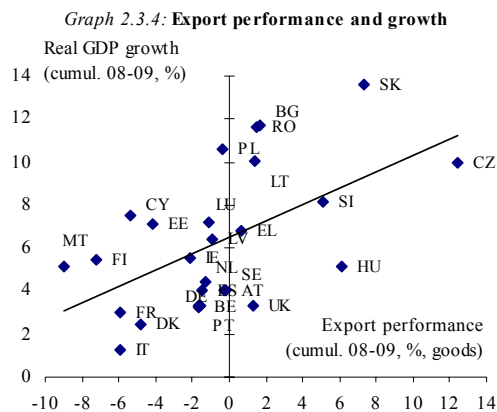
(Real annual percentage change)

	2006							Spring 2008 forecast		
	bn Euro curr. prices	% GDP	2002	2003	2004	2005	2006	2007	2008	2009
Real percentage change										
Private consumption	4833.5	57.0	0.9	1.3	1.6	1.6	1.8	1.5	1.4	1.5
Public consumption	1725.1	20.3	2.4	1.8	1.4	1.5	2.0	2.3	1.9	1.7
Gross fixed capital formation	1801.9	21.3	-1.4	1.4	2.4	3.0	5.0	4.3	2.0	1.2
Change in stocks as % of GDP	29.3	0.3	-0.2	-0.1	0.1	0.0	0.2	0.3	0.5	0.5
Exports of goods and services	3407.3	40.2	1.8	1.2	7.2	4.7	7.9	6.1	4.4	4.0
Final demand	11797.1	139.1	0.8	1.4	3.4	2.6	4.2	3.4	2.6	2.2
Imports of goods and services	3318.0	39.1	0.4	3.3	7.0	5.4	7.7	5.2	4.3	3.9
GDP	8479.1	100.0	0.9	0.8	2.1	1.6	2.8	2.6	1.7	1.5
GNI	8467.3	99.9	0.6	1.0	2.7	1.5	2.8	2.4	1.7	1.5
p.m. GDP EU27	11600.8	136.8	1.2	1.3	2.5	1.9	3.1	2.8	2.0	1.8
Contribution to change in GDP										
Private consumption			0.5	0.7	0.9	0.9	1.0	0.9	0.8	0.9
Public consumption			0.5	0.4	0.3	0.3	0.4	0.5	0.4	0.4
Investment			-0.3	0.3	0.5	0.6	1.0	0.9	0.4	0.3
Inventories			-0.3	0.1	0.1	0.0	0.1	0.0	0.1	0.0
Exports			0.7	0.4	2.5	1.7	3.0	2.4	1.8	1.7
Final demand			1.1	1.9	4.5	3.6	5.7	4.7	3.5	3.2
Imports (minus)			-0.2	-1.1	-2.3	-1.9	-2.8	-2.0	-1.7	-1.6
Net exports			0.5	-0.7	0.2	-0.2	0.2	0.4	0.1	0.1

yen, the Swiss franc and some currencies of the recently-acceded Member States. While the euro is assumed to appreciate by 13% in 2008 against the US dollar, the nominal effective exchange rate of the EU (and the euro area) will increase by 5½% in 2008, leading to an appreciation of 6% in real terms (4¾% for the euro area). While the real effective exchange rate of the euro area is still relatively close to its long-term average, it is not excluded that the impact on exports may become stronger the longer and further the appreciation continues, as hedging only provides coverage against short- to medium-term variations.

The resilience of EU exports to the appreciation of the exchange rate is reflected in subdued export market share losses (¾% in both 2008 and 2009, against slightly more than 1% for the euro area). The evolution at the aggregate level is the result of diverging developments at the Member State level. Overall, the net external contribution fades to 0.1 pp. in 2008 and 2009 in the EU and the euro area. In these years, the net external contribution is reduced severely in many Member States where it was large in 2007 (i.e. Germany, Malta, Austria and Slovakia).

average as a result of the larger role for services and/or domestic demand. Weaker domestic demand leads to a reduction in the current account deficit during the forecast period for a majority of the Member States with a large deficit (i.e. Portugal, Bulgaria, Estonia, Latvia and Lithuania). However, the widening of the deficit in some other Member States continues to raise concerns (i.e. Spain, Cyprus, and Romania).



Differences in competitiveness developments and in the composition of the export baskets (in product and geographical terms) continue to lead to divergent developments among Member States in export market shares, merchandise trade and current account balances and, ultimately, GDP growth. Hungary, the Czech Republic and Slovakia will post cumulative gains in export market share (for goods) of over 7% during 2008-2009. Cumulative losses of over 4% are projected in Malta, Finland, Italy, France, Cyprus, Denmark and Estonia. Some of these Member States will nevertheless post GDP growth rates above the EU

Box 2.3.1: Estimation of the impact of the oil-price shock

Crude oil prices increased strongly over the recent past. In April 2008, they were about 60% higher in US dollar and 35% higher in euro terms than one year ago. In four years, the oil prices have almost doubled in euro, and almost tripled in dollars.

The origins of this increase are difficult to disentangle. Demand-related factors have certainly played a role, as the world demand for oil has increased by about 4% in the last three years, mainly due to fast-growing demand from emerging markets. However, supply-related factors are also important: geopolitical tensions, refinery bottlenecks and the unwillingness of the OPEC to increase its production significantly.

This box briefly discusses the macroeconomic impact of the oil shock on the euro-area economies. For that purpose, simulations have been carried out with a multi-region version of the QUEST model. This model belongs to the modern class of *Dynamic Stochastic General Equilibrium* (DSGE) models that now serve as the foundation for macroeconomic policy analysis. It includes an energy production sector in which energy serves as an intermediate input in the final goods production. The relative price of oil is exogenously determined.

The past increases in oil prices have led to lower GDP growth and to higher inflation

In an attempt to capture the gradual and unanticipated nature of the oil price shocks, a first simulation assumes a stepwise increase in current and expected future oil prices of 100% over a period of three years. This scenario consists of a succession of three permanent shocks in which, compared to the baseline, oil prices are raised by 33% the first year, 66% the second year and 100% the third year. This roughly corresponds to the increase in oil prices between January 2004 (27 EUR per barrel) and November 2007 (55 EUR per barrel).

The outcome of the simulation is that real GDP falls by 1 percent below baseline after three years, which implies a loss in GDP growth of about 0.3 pp a year. The impact on consumption is stronger, with a decline of 2% after three years. Investment decreases by almost 3% in the first five years. In spite of the increasing deficit on the oil balance, the trade balance improves due to higher exports to oil-exporting countries and a contraction of imports driven by the lower consumption. As for inflation, it rises by 0.7% for the first three years, which is

roughly in line with the increase in energy prices and their share in the consumer price index.

A further 25 % increase in oil prices would cut GDP growth by about 0.2 pp in the first two years

A second scenario takes the previous simulation as a new baseline and shows the effects of a further oil price increase of 25% (i.e. about 15 EUR). This would imply oil prices in line with what is currently assumed for 2008 and 2009. Such a rise would have a negative impact on real GDP of around 0.2% the first year, 0.35% the second and about 0.7% after 10 years. There would be a sharper fall in consumption and in investment spending, partly offset by growth in net exports. As for inflation, the oil price shock would add about 0.7 pp to the consumer price index.

However, the impact strongly depends on underlying assumptions

There are several factors which influence the outcome of the model. Among them, the way wages respond to the oil shock plays an important role: if real wages decrease in line with productivity, the negative growth impact is reduced. If they are indexed to consumer prices – as they were in the 1970s, with strong second-round effects – the cost is markedly higher, since the adjustment is obtained only after a strong decrease in production and subsequently in labour demand.

Another important difference with the 1970s is the nature of the shock. The previous simulation has been carried out assuming an exogenous shock to oil prices. However, the current persistent increase in world oil prices could be partly endogenous, driven by demand factors and higher productivity growth in oil-importing countries. Even if the impact of higher oil prices on world growth is still negative, it could be a simple consequence of higher world growth, from which the euro-area economies benefit via other channels.

4. LABOUR MARKETS STILL SOLID, SOFTENING AHEAD

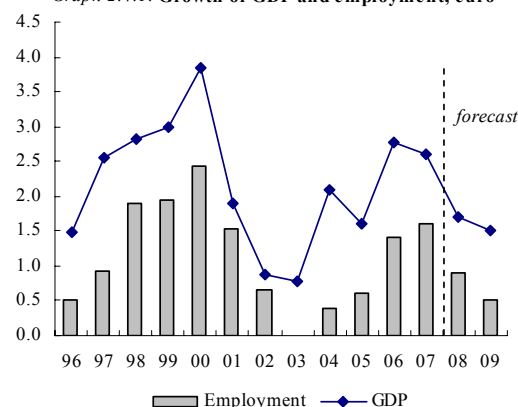
Employment continued to benefit from the growth momentum in 2007 in both the euro area and the EU. Due to the lagged response of employment to GDP growth and assuming that the cycle reached its peak in the first half of 2007, a deceleration in employment growth will become visible in 2008-2009. On top of this, as GDP growth slows down further due to the current headwinds, employment growth should slow even more going forward. Overall, unemployment rates are expected to stabilise over the forecast horizon, while employment growth is set to decline. Between 2007 and 2009, the euro-area economy is expected to create 4½ million new jobs, and the EU economy – above 7 million.

Robust employment growth in 2007

Boosted by strong economic activity in 2007 (well above potential), *employment* grew by 1.6% in 2007 in the euro area and 1.7% in the EU. These rates are broadly comparable to 2006, and are above average for the second year in a row. In more detail, positive surprises have led to sizeable upward revisions to data for 2007, especially in the Netherlands and Slovenia, but also, to a lesser extent in Germany, Italy, France, Austria and a number of smaller Member States, compared to the assessment in the autumn 2007 forecast. In contrast, employment growth has been revised down, notably in Greece, Denmark and Estonia. Overall, Europe created nearly 4 million jobs in 2007 and the euro area 2½ million. The main contributions in terms of jobs created were from Spain, Germany and Poland, where over 600 thousand additional persons were employed in each country compared with 2006.

Employment growth appeared broad across Member States, although employment in Portugal grew at a much more subdued pace than the euro-area average. Good news (from Poland especially) translates into a still high level of job creation in the EU as a whole. All sectors benefited from the revival of the labour market (manufacturing and to a lesser extent, services), as well as the growing uptake of various types of work arrangements (e.g. part-time, full-time, permanent and fixed-term contracts).

Graph 2.4.1: Growth of GDP and employment, euro



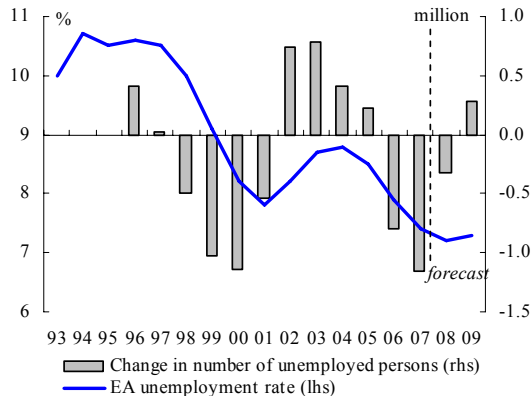
Unemployment at a historical low

The *unemployment rate* declined to 7.4% in the euro area in 2007 and to 7.1% in the EU, from above 8% in both regions in 2006. This represents a sizeable drop between 2006 and 2007, at the peak of the cycle, which was mainly driven by Germany (-1.4 pps.) and France (-0.9 pp.), while the unemployment rate increased in Portugal and Ireland. Differences in unemployment rates continued to be large among euro-area Member States, ranging from 3.2% in the Netherlands to above 8% in Germany, Greece, Spain and France in 2007. Turning to the EU, in 2007, Slovakia featured the highest unemployment rate at 11.1%; nevertheless, a drop by 2.3 pps. within the past year is encouraging, as was the drop in Poland, where the unemployment rate came down by an impressive 4.2 pps. The reduction in the number of unemployed persons in 2006-2007 is comparable to the previous upturn, although the current cycle might be shorter-lived. That said, in February 2008 around 11 million people were still registered as unemployed in the euro area, and close to 16 million in the EU.

Entering into 2008, the unemployment rate in the EU kept declining, to reach 6.7% in February (down from 6.8% in January), while the rate in the euro area remained unchanged at 7.1%. Employment growth, although moderating, remained solid, especially in Germany, and thus could potentially support consumer confidence, which would be welcome at the current juncture. However, unemployment has started to rise again

during the past year, especially in Spain, but also to a degree in Ireland, Estonia and Hungary.

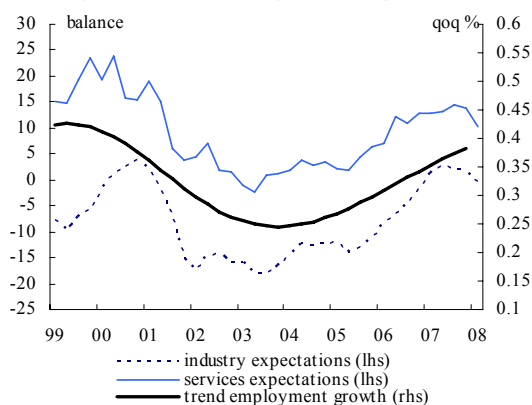
Graph 2.4.2: Unemployed persons and unemployment rate, euro area



Expectations pointing down

However, given the weakened economic growth prospects, labour market expectations worsened in the first quarter of 2008. They indicate a deceleration of employment growth going forward, compared to the buoyant performance over the last couple of years. Employment prospects reported in the Commission's business and consumer surveys (BCS) point to managers' employment expectations declining in manufacturing and services in recent months and stabilising in March; consumers' unemployment expectations for the next 12 months are also on a decreasing trend and worsened further in March. The employment component of the Purchasing Managers' Index eased after a peak last summer. While remaining at levels indicative of robust employment growth, this suggests softening labour markets. The employment component of the index improved slightly in manufacturing, while it continues to decline in services.

Graph 2.4.3: Euro-area employment expectations



Labour market outlook for 2008-2009

Further ahead, employment growth is projected to slow down markedly to around 0.8-0.9% in 2008 and 0.5% in 2009 in both the euro area and the EU. This change is due to a deceleration in employment growth in almost all Member States. Employment growth in the euro area and the EU in 2009 is expected to be well below the long-term average. This board downturn in employment growth is mainly being driven by the slowdown in GDP growth. However, employment growth is projected to recover in 2009 in some cases, notably in Ireland, Italy, Hungary, and some smaller Member States.

Unemployment stabilises

The unemployment rate is expected to decline to around 7¼ % in 2008-2009 in the euro area and to 6.8% in both years in the EU. This is higher than expected in the autumn 2007 forecast, by 0.1-0.2 pp. in both forecast years, and reflects the fact that the unemployment rate is still decreasing, but at a slower pace. The unemployment rate is expected to bottom out in 2008 in the euro area, on account of increases in Spain, Ireland, Belgium, and Austria. In the EU, the unemployment rate is set to flatten out in 2008-2009, but to increase in the United Kingdom, Sweden, Hungary and the Baltic States.

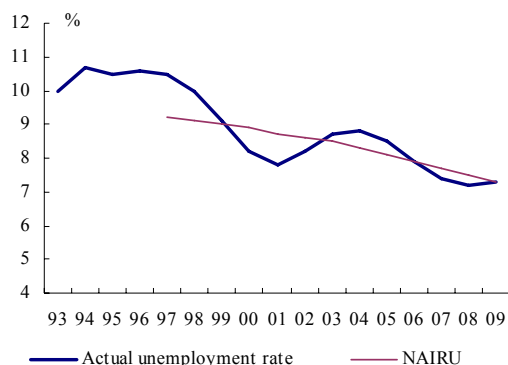
Labour markets tensions are expected to ease

The estimate of the structural unemployment rate (NAIRU) is declining, and it should reach 7.3% in the euro area and 6.7% in the EU by 2009. As the actual unemployment rate in the euro area is expected to increase slightly in 2009, the unemployment gap should widen somewhat, pointing to a certain easing in the labour market situation. This should alleviate wage pressures, according to the theory behind the structural rate of unemployment. At the individual country level, though, this estimate of the structural unemployment rate appears set to rise over the forecast horizon in Spain, the United Kingdom, Ireland, and Portugal.

An additional indicator of labour market tension is *shortages* on the labour market. Labour shortages and equipment shortages became more and more visible towards the end of 2007, and shortage of labour was still on the rise in the euro area in the first quarter of 2008 in manufacturing, but no longer in the services sector, possibly leading to a turnaround. As the production cycle peaks, it is

likely that shortages will fall back, thereby alleviating potential upward pressure on wages.

Graph 2.4.4: Actual and structural unemployment rate, euro area



Moderate real wage developments

In the past decade, wage moderation has prevailed. In the autumn forecast, given the strength and the gradual tightening of European labour markets, the outlook was for more dynamic wage developments, ultimately supporting consumption. However, towards the end of 2007 and at the beginning of 2008, inflation developments gradually ate up the slight wage increases (see also section 5 on inflation).

As a result, and in view of the deceleration in employment growth, *real compensation of employees* in the euro area is likely to increase only very moderately over the forecast horizon, from 0.4 % in 2007 and 2008 to 0.9% in 2009. This relatively flat profile in 2007-2008 is essentially due to opposite developments in Italy and France, which cancel each other out. Real compensation per employee is forecast to increase in Germany in 2009, at last. In the EU, real compensation should increase to 1.3% annual growth in 2009, reflecting the similar albeit less pronounced profile for the euro area. These growth rates are nevertheless around the long-term averages of the past ten years for the euro area and the EU as a whole. In that respect, current developments are far from extraordinary.

Such *moderate* wage developments can be understood in the context of competitive pressure from the international environment, where it may have diminished the bargaining power of workers in some more exposed sectors. This may have implied a structural change in wage formation. However, employment composition effects also

play an important role. All in all, sizeable wage hikes seem unlikely even beyond the forecast horizon.

Moreover, unit labour costs (ULC) continue to grow at a very moderate pace, by 1½ to 2% in the euro area and the EU on average. In real terms, negative *real* unit labour costs continue prevail in the euro area, as they have in the past fifteen years. This very subdued ULC growth is a general feature across euro-area Member States. This should continue to support the export performance of the region, but implies that the wage share is still declining in line with the trend that has now prevailed for some time. All in all, the wage bill is projected to continue to decline. On the other hand, employment growth has been relatively robust across the last cycle. This adjustment mechanism, which is common in a monetary union comes at the expense of consumption, which is certainly the most sluggish variable observed across the current cycle. Meanwhile, *labour productivity* growth has also remained rather subdued, below its longer-term average, even at the peak of the cycle. Labour productivity will grow by 1% in the euro area in 2009 and by 1.3% in the EU.

Structural reforms are paying off

The improvement across different types of employment reflects *inter alia* past structural reforms and the increased use of flexible types of work arrangements. Various types of labour-market reforms have been enacted in the period 2000-2006 (e.g. flexible working-time arrangements, employment protection legislation, taxation) and the information available suggests that reforms put in place have focused on increasing labour utilisation (to integrate 'outsiders'). The examples gathered in the Commission's LABREF database indicate that most of the larger Member States have implemented reforms (see Quarterly Report on the Euro Area, No 1 2008). Analysis indicates that these have paid off, by increasing employment and participation rates in the euro area and strengthening the response of employment to cyclical fluctuations, although at the expense of (temporarily) dampened labour productivity growth and, in some cases, increased dualism in the labour market.

The overall employment rate is expected to continue increasing, albeit at a slower pace than in the years of the cyclical upturn, reaching 67.8 % of

the working-age population in the euro area and 66.0% in the EU, up from 61.7% in the euro area and 62.2% in the EU in the year 2000. Given the remaining gap, the overall target of 70% by 2010 which Europe had set itself in the Lisbon agenda cannot be achieved. That said, the structural reforms undertaken have clearly improved the functioning of the labour market, and contributed to an increase in the employment rate by around 3 to 4 pps. since 2000 until now (corresponding to 18 million new jobs in the EU). Despite recent improvement, the EU will also fall short of the targets for older workers (50%) and female (60%) employment rates. Despite across-the-board increases in overall employment rates, large variations persist across Member States. According to the current projections, the employment rate will vary from 55.4% in Malta to 77.9% in Denmark in 2009.

Table 2.4.1

Labour market outlook - euro area and EU27

	Euro area				Difference vs Autumn 2007		EU27				Difference vs Autumn 2007	
	2006	2007	2008	2009	2008	2009	2006	2007	2008	2009	2008	2009
Population in working age (15-64)	0.4	0.4	0.2	0.2	0.0	0.0	0.4	0.4	0.2	0.2	0.0	0.0
Labour force		0.7	0.7	0.7	-0.1	-0.1	1.0	0.6	0.5	0.5	-0.1	-0.1
Employment	1.4	1.6	0.9	0.5	-0.1	-0.3	1.6	1.7	0.8	0.5	-0.1	-0.3
Employment (change in million)	2.2	2.5	1.3	0.8	-0.4	-0.7	3.7	3.9	2.0	1.1	-0.3	-1.0
Unemployment (levels in millions)	12.5	11.4	11.0	11.3	0.0	0.3	19.2	16.9	16.1	16.3	0.0	0.4
Unemployment rate (% of labour force)	8.2	7.4	7.2	7.3	0.1	0.2	8.1	7.1	6.8	6.8	0.0	0.2
Labour productivity, whole economy	1.5	0.9	0.9	1.0	-0.3	-0.3	1.7	1.3	1.2	1.3	-0.3	-0.3
Employment rate (a)	66.2	67.1	67.5	67.8	0.0	-0.1	64.5	65.4	65.8	66.0	0.0	-0.2

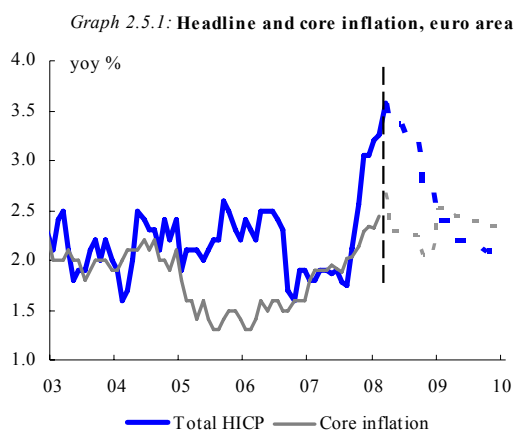
(a) As a percentage of population of working age. Definition according to structural indicators.

5. INFLATION TO SURGE TEMPORARILY

Headline inflation doubled since last autumn ...

Headline HICP inflation in the EU has remained well contained in 2007 until the autumn. Indeed, 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%. However, since August 2007, headline inflation in the euro area has doubled, reaching 3.6% in March 2008 – the highest level in 12 years. Inflation in the whole EU has also doubled, from 1.9% in August 2007 to 3.8% in March 2008.

The sharp increase reflected a combination of soaring oil and food prices and the fading of favourable base effects. As oil prices rose strongly during most of 2006, peaking in the summer, favourable energy-price base effects contributed significantly to the limited increase in overall inflation in the first part of 2007. However, since oil prices subsequently fell sharply in the autumn of 2006, base effects reversed and pushed inflation upwards in the last months 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 over 8½% since then (reaching 11.2% in March 2008). The sharp increase over the last few months turned the contribution of this component to headline inflation from about -0.1 pp. in August 2007 to over 1 pps. in the first months of 2008, see also Box 2.3.1.



Inflation in the other main non-core component, i.e. *unprocessed food*, also increased recently and stands ¼ pp. above the 2007 averages in both the euro area and the EU at 3% and 3.5%,

respectively. Unlike past food price shocks, the latest surge in food commodity prices has mostly affected processed, rather than unprocessed food prices. The latest pick-up is due to an ongoing increase in meat prices, resulting from the rising cost of animal feed and increased demand from emerging markets.

... while core inflation swelled on the back of increasing prices of processed food and services

Similarly, euro-area *core inflation* (HICP excluding energy and unprocessed food) recently accelerated to 2.7% in March, after hovering around 2% for most of 2007. Although the rise of underlying inflation is in line with the economy reaching a mature cyclical position, it also reflects a certain pass-through of strong increases in primary commodity prices, particularly food prices.

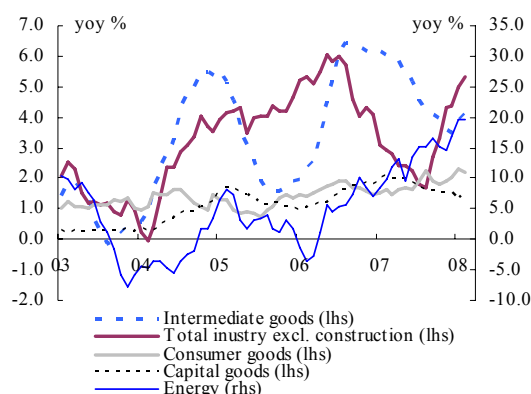
The increase in core inflation can be attributed to services, non-energy industrial goods and processed food altogether. The latter climbed sharply from just below 2% in the summer of 2007 to 6 ¾% in March 2008, on the back of the surge in the prices of agricultural commodities and food in world markets. This hike is driven by a combination of both transitory and structural supply and demand factors. As regards the former, the supply is reduced due to damaged crops because of the adverse weather conditions in 2007 and speculation by institutional investors stemming from financial markets turbulence. For the latter, demand is boosted due to a switch to biofuels and a rising income level in emerging economies.

At the same time, *services inflation* in the beginning of 2008 eased somewhat to just below 2.5% after a continuous upward drift observed until September 2007, to rise again to 2.8% in March 2008. This placed services inflation 0.5 pp. above its level of a year earlier. Part of the overall increase can be attributed to developments in Germany, where services inflation was affected by e.g. the VAT hike. However, 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.

Inflation in *non-energy industrial goods* continued in 2007 on the gentle upward trend started in mid-2005, reflecting the gradual pass-through of past increases in oil and non-oil commodity prices. In the beginning of 2008 inflation in this component decreased by about 0.2 pp. from last year average of 1%, reflecting the pattern of seasonal discounting and to some extent some base effects from the VAT increase in Germany in the beginning of 2007. Despite capacity utilisation in the manufacturing sector reaching historically high levels and input cost pressures, the dynamics of industrial goods inflation remains subdued, which can be attributed both to the dampening effect of appreciating euro on import prices and a competitive international environment.

Looking at developments at the production stage, soaring food and oil prices led to rising inflationary pressures. Overall industrial producer price inflation (PPI, excluding construction) in the euro area have been on the rise from a 1.7% (yoy) last August to 5.3% in February 2008. This was mainly the result of the sharp increase in the energy component, which climbed in that period from -2.2% to 11.7%. At the same time, inflation in industrial consumer goods, the most immediately relevant component for consumer prices, hovered around 2.1%, 0.4 pp. higher than in the first half of 2007. The annual rate of price increases in intermediate goods, the largest component of the index, increased slightly in the beginning of 2008 after a long downward drift that started in August 2006.

Graph 2.5.2: Industrial producer prices, euro area



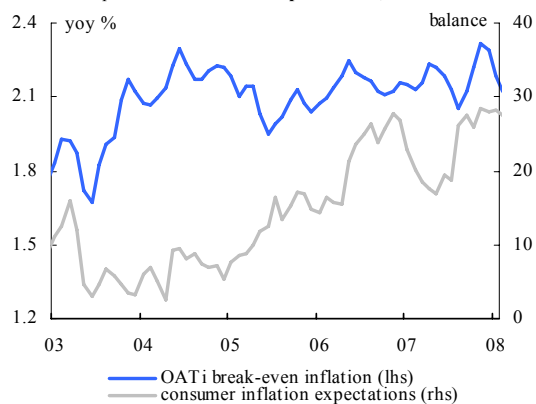
Labour costs remain subdued, as mentioned in the labour market section. The annual growth rate in compensation per employee in the euro area reached 2.0% in the third quarter of 2007, which compares with 1.8% at the end of 2006. This slight

increase still suggests no significant second-round effects, so far, from the past commodity price hikes. For the year as a whole, compensation per employee is estimated to have accelerated to 2.5%, after 1.3% in 2006.

Other labour cost indicators also point to contained wage developments in course of last year. The ECB's indicator of negotiated wages moved down from 2.5% in the fourth quarter of 2006 to 2.1% in the fourth quarter of 2007. On average, negotiated wages in the euro area grew by 2.1% in 2007, compared with 2.3% in 2006. The annual growth rate in Eurostat's hourly labour cost index shows an acceleration from 2.2% to 2.7% in the course of 2007, ½ pp. higher than one year before. The relatively subdued growth of total hourly labour cost and compensation of employees in view of a tightening labour market was partially due to dampening effects of cuts in social security contributions implemented in some euro-area economies in 2007. However, the remarkable moderation in wage growth in euro area observed in 2005-2006 (with no growth in real compensation per employee) has come to an end and wages have started to pick up somewhat.

A slowdown in labour productivity growth in 2007 meant that the acceleration of wage growth had a slight inflationary impact. It is estimated that productivity in the euro area rose by 1.1% in 2007, which represents a deceleration of 0.2 pp. compared to 2006, although still above the average gains of the four previous years. Accordingly, growth in unit labour costs is estimated to have picked up from 1.1% in 2006 to 1.4% in 2007.

Graph 2.5.3: Inflation expectations, euro area



At this juncture, the key concern is whether inflation *expectations* will remain well-anchored. In March 2008 future price developments showed

diverging developments. Compared to February, managers' selling-price expectations decreased slightly in industry in the euro area, while remaining stable in the EU, whereas they decreased in the construction sector in both the euro area and the EU. Consumers' price expectations decreased, but currently stand close to the high levels reached in 2001. After increasing somewhat at the end of last year, long-term inflation expectations in the euro area derived from French government inflation-indexed bonds hit the record high of 2.32% in March 2008, following a temporary decline to 2.12% one month earlier.

A temporarily dire inflation outlook at the aggregate level

Looking ahead, average annual HICP inflation in the euro area is projected to rise sharply from 2.1% last year to 3.2% this year, before coming back to around 2.2% in 2009. In the EU, inflation is expected to mount from 2.4% in 2007 to 3.6% this year and to ease significantly to 2.4% in 2009. Compared to the autumn, the new projections entail a sizable upward revision for 2008 (for both the euro area and the EU by 1.1 pps. and 1.2 pps., respectively), which reflects mainly higher commodity prices. For 2009, the inflation projection is revised up both for the euro area and the EU by 0.2 pp.

In terms of quarterly profiles, inflation in the euro area is now deemed to have reached a peak in the first quarter of 2008 and expected to gradually decrease throughout the rest of the year, to fall below 3% in the last quarter. In the EU, the highest inflation rate is expected in the second quarter of 2008, with gradual easing thereafter, though it is likely to remain above 3% until the first quarter of 2009. In the beginning of next year, the unfavourable base effects from commodity price increases are projected to fade out, bringing the inflation rate steadily down from about 2.4% to

2.1% at the end of the forecast horizon in the euro area and from 2.6% to 2.3% in the EU.

The new projection for inflation originates externally from higher commodity prices and, domestically by possible extra financial cost caused by the credit squeeze and certain acceleration in unit labour cost, albeit modest given the easing in the cyclical momentum. The annual rate of increase in total primary commodity prices (including fuels) is assumed to rise sharply from merely 1.3% in the first half of last year to nearly 50% in the first half of 2008, and lose momentum thereafter to decrease slightly at the end of the forecast period, on account of falling fuel prices. On the other hand, prices of other primary commodities are set to peak only in the third quarter of 2009. Meanwhile, the annual rate of increase of import prices is projected to increase from 1¼% in 2007 to about 2½% in 2008 and ease thereafter to 1½%.

On the domestic side, the pipeline inflationary pressures from rising input costs, together with higher cost of capital following from the tighter credit conditions may induce firms to pass these extra costs onto consumers, especially in some segments of the market with lower competition. Moreover, growth in nominal unit labour costs in the euro area is expected to accelerate from 1.5% in 2007 to 2.4% in 2008 and 1.9% the following year. This profile is explained chiefly by the projected acceleration of 0.3 pp. in nominal compensation per employee over the forecast horizon (to 2.9% in 2009, following a temporary increase to 3.3% in 2008), while productivity gains remain broadly unchanged (at 1.0%), with a temporary slowdown in 2008. The acceleration in wage growth appears in line with the maturing cyclical position of the euro area and the still tight labour market. The euro-area unemployment rate is foreseen to stay below the NAWRU in 2008, putting a slight upward pressure on wages and inflation. The unemployment rate should stabilise

Table 2.5.1

Inflation outlook - euro area and EU27

	Euro area				Difference vs Autumn 2007		EU27				Difference vs Autumn 2007	
	2006	2007	2008	2009	2008	2009	2006	2007	2008	2009	2008	2009
Private consumption deflator	2.2	2.0	2.8	2.1	0.8	0.1	2.2	2.2	3.0	2.2	1.3	0.1
GDP deflator	1.9	2.2	2.4	2.0	0.3	0.0	2.1	2.5	2.5	2.2	0.6	0.0
HICP	2.2	2.1	3.2	2.2	1.1	0.2	2.3	2.4	3.6	2.4	1.2	0.2
Compensation per employee	2.4	2.4	3.3	2.9	0.2	0.1	2.7	2.9	3.8	3.5	0.2	0.1
Unit labour costs	1.0	1.5	2.4	1.9	0.6	0.4	1.2	1.8	2.6	2.2	0.5	0.4
Import prices of goods	4.2	1.2	2.5	1.6	1.2	0.5	4.0	1.3	2.2	1.7	1.0	0.5

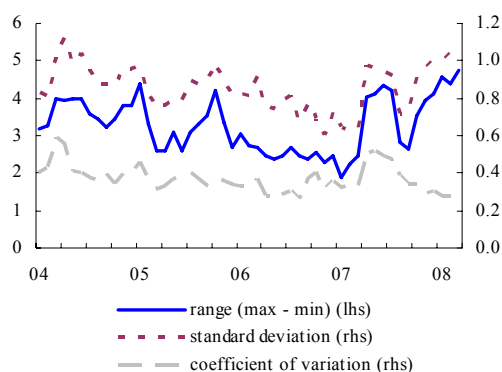
around 7¼% until 2009, the lowest rate since the early 1990s. At the same time, the output gap is projected to close in 2008 and turn slightly negative by the end of the forecast horizon.

follows from a lower share of energy and food components in the HICP basket and favourable base effects pursuant to high inflation rates already one year ago.

Inflation prospects differ across Member States

At the level of Member States, the upward revisions for 2008 were registered in all euro-area countries, however, the amplitude of corrections ranged from 0.4 pp. in Portugal and the Netherlands to 1.7 pp. in Slovenia, which implies bigger dispersion of inflation rates across the euro-area member states. Among the largest countries, inflation in 2008 is set to increase in Germany to 2.7%, in France and Italy to 3.0%, and in Spain to 3.8%. In 2009 the picture is more mixed, as compared to the autumn, inflation has been revised upwards in most countries, but not in all of them (including e.g. Germany and Spain). This reflects, inter alia, different lag patterns of pass-through from high oil and food prices to headline inflation across member states, impact of indexation in some countries and diverging cyclical positions.

Graph 2.5.4: Dispersion of euro area MS inflation rates



Outside the euro area, inflation for 2008 was also revised up in all Member States, but particularly in five of them, which also happen to display some of the highest inflation rates in the EU: Estonia, Latvia, Lithuania, Bulgaria and the Czech Republic. In 2009, inflation is set to ease again, although the projections are in most cases higher compared to the autumn forecast. Among the larger non-euro-area Member States, inflation in Poland is set to increase to 4.3% in 2008 and 3.4% in 2009, while in the UK it is expected to rise to 2.8% in 2008 and come down by ½ pp. one year later. The UK's inflation outlook is more benign than in the euro area despite the expected continued depreciation of the Sterling. This

6. A SLIGHT DETERIORATION IN THE BUDGETARY OUTLOOK FOR 2008

Continuous budgetary consolidation since 2003 partly reversed in 2008

The general government budget deficit in 2007 reached 0.6% of GDP in the euro area, down from 1.3%, and 0.9% of GDP in the EU as a whole, compared to 1.4% in 2006. While the deficit thus declined for the fourth time in a row, this trend is expected to reverse in 2008, on the back of slower output growth and tax cuts in some countries. The deficit is projected to rise by 0.3 pps. in the EU, to 1.2% of GDP, and by 0.4 pps. in the euro area, to 1.0%. Based on the usual no-policy-change assumption, in 2009 the deficit is forecast to remain broadly unchanged in both the EU and the euro area.

These projections largely confirm those of the 2007 autumn forecast. For 2007, the deficits for both the euro area and the EU turned out somewhat lower than forecast in autumn. The deficit projections have remained broadly unchanged for 2008, whereas they have increased somewhat for 2009.

The better-than-expected outcome for 2007 largely reflects a positive base effect from a downward revision of the 2006 deficit, due to a slightly lower-than-projected revenue ratio being more than offset by a downward revised expenditure ratio. These improved results were partially carried over to 2007, with the revenue-to-GDP ratio remaining at the projected 45.6% of GDP in the euro area (44.9% in the EU) and the expenditure-

to-GDP ratio turning out to be slightly lower than forecast in autumn (at 46.3% in the euro area and 45.8% in the EU).

Over the forecast period, the revenue-to-GDP ratio is projected to decline from 45.6% in 2007 to 45.2% in 2009 in the euro area (and from 44.9% to 44.5% in the EU). This reflects discretionary tax cuts in a number of Member States, but also tax elasticities coming down from their exceptional heights in recent years to more normal levels. The expenditure ratio is expected to decline only marginally in the euro area, from 46.3% of GDP in 2007 to 46.2% in 2009, and to remain unchanged at 45.8% in the EU.

Correcting for cyclical factors, one-offs and other temporary measures, the structural deficit in the euro area was at $\frac{3}{4}$ % of GDP in 2007. This is the lowest level on record since the early 1970s. While the good economic performance was helpful in improving public finances, the outcome shows that a large part of the consolidation was of a discretionary nature, reflecting by and large prudent fiscal policies. It is possible, however, that the estimate for the structural balance overstates the strength of the underlying budgetary position, notably on account of temporary favourable revenue surprises. In addition, the experience from the early years of this decade suggests that current estimates of potential output in 2007 may be on the high side and therefore underestimate the cyclical part of the budgetary improvement. Future

Table 2.6.1

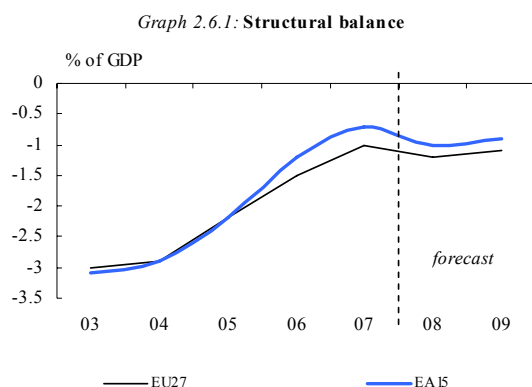
General government budgetary position - euro area and EU27

(% of GDP)	Euro area				Difference vs		EU27				Difference vs	
					Autumn 2007						Autumn 2007	
	2006	2007	2008	2009	2008	2009	2006	2007	2008	2009	2008	2009
Total receipts (1)	45.4	45.6	45.2	45.2	-0.1	0.1	44.8	44.9	44.6	44.5	0.0	0.0
Total expenditure (2)	46.8	46.3	46.2	46.2	0.0	0.2	46.3	45.8	45.8	45.8	0.0	0.2
Actual balance (3) = (1)-(2)	-1.3	-0.6	-1.0	-1.1	-0.1	-0.3	-1.4	-0.9	-1.2	-1.3	0.0	-0.2
Interest expenditure (4)	2.9	3.0	2.9	2.8	0.1	0.0	2.6	2.7	2.7	2.6	0.1	0.1
Primary balance (5) = (3)+(4)	1.6	2.3	1.9	1.8	-0.1	-0.2	1.2	1.8	1.4	1.3	0.0	-0.1
Cyclically adjusted budget balance	-1.2	-0.7	-1.0	-0.8	-0.2	-0.1	-1.4	-1.0	-1.2	-1.1	-0.1	-0.1
Cyclically adjusted primary balance	1.7	2.3	1.9	2.0	-0.2	-0.1	1.2	1.7	1.4	1.5	-0.1	-0.1
Structural budget balance	-1.2	-0.7	-1.0	-0.9	-0.2	-0.2	-1.5	-1.0	-1.2	-1.1	-0.1	-0.1
Change in structural budget balance	1.0	0.6	-0.3	0.1	-0.2	0.0	0.8	0.5	-0.2	0.1	-0.1	0.0
Gross debt	68.5	66.4	65.2	64.3	0.2	0.9	61.3	58.7	58.9	58.4	0.6	1.4

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

revisions may therefore point to a less favourable underlying budgetary position.

In 2008, the structural deficit is forecast to increase somewhat, in line with the headline balance, to 1% of GDP. In 2009, the structural deficit is forecast to edge down again. A similar pattern can be observed for the EU as a whole.



Euro area: budgetary weakening in 2008, but all countries continue to respect the 3% of GDP reference value

In 2007, no euro-area country had a budget deficit in excess of the 3% of GDP reference value. While the projected weakening of the budgetary outlook in 2008 concerns most countries, with only Greece, Malta, the Netherlands and Portugal showing improvements in the headline balances compared to 2007, deficits are expected to remain below the 3% threshold across the board. The budgetary weakening mainly reflects the economic slowdown and tax cuts in some countries. For 2009, the budgetary position is forecast to improve in five countries and remain unchanged in two others.

For countries currently in the excessive deficit procedure (EDP), the 2007 outcomes confirm that the deficit has been brought below the 3% of GDP threshold in both Italy (1.9%) and Portugal (2.6%), in both cases by a larger margin than previously expected. The deficit is forecast to increase again in Italy, to reach 2.4% of GDP by 2009. In Portugal, after a further reduction in 2008 (to 2.2%), the deficit is expected to rebound to 2.6% of GDP in 2009.

For France, the deficit for 2008 and especially 2009 is revised upward compared to the autumn forecast, and with unchanged policy would reach

3% of GDP in 2009. A deterioration of the fiscal outlook compared to the autumn 2007 forecast is also projected for Ireland, Spain and Germany. Conversely, the outlook has improved for Cyprus, Luxembourg, the Netherlands and Finland.

For the remaining euro-area countries, the budgetary forecast has little changed compared to the autumn.

Broadly in line with the developments in the headline balances, the underlying structural budgetary position in 2008 is forecast to deteriorate in all countries but Belgium, Greece, Malta, the Netherlands and Portugal. In 2009, against the background of less favourable cyclical conditions, the structural position is forecast to improve in the majority of countries, particularly in Malta and Slovenia, while it is expected to worsen in Ireland, Spain and Portugal.

Outside the euro area, budgetary outlook improved for all four EDP countries

Outside the euro area, the budgetary outlook improved compared to the autumn forecast in all four Member States currently subject to the excessive deficit procedure. In the Czech Republic, Poland and Slovakia, the deficit fell clearly below the 3% of GDP reference value already in 2007. Over the forecast period, the deficit is projected to decline further in the Czech Republic to 1.1% by 2009, to remain broadly unchanged in Slovakia, at 2.3%, and to rebound to 2.6% in Poland. Following a much better-than-expected consolidation effort in 2007 and smaller improvements over the forecast horizon, Hungary is expected to post a deficit of 3.6% of GDP in 2009.

Also for Denmark and, to a lesser extent, Romania, the outlook improved compared to the autumn forecast. By contrast, the projections for the headline balance have worsened compared to the autumn 2007 forecast for Estonia and Latvia and, to a lesser extent, also for Lithuania, Sweden and the UK. Due to the worsened outlook for the UK, the deficit is forecast to exceed the 3% of GDP reference value in both of the financial years 2008-2009 and 2009-2010. For Romania, despite a slight improvement of the fiscal outlook, the projections continue to show a strong widening of the deficit over the forecast period (from 2.5% in 2007 to close to 3% in 2008 and 3¼ % in 2009).

Table 2.6.2:

General government structural budget balance

(% of GDP)	2005	2006	2007	2008	2009
Belgium	-0.2	-0.6	-0.3	-0.2	-0.1
Germany	-2.4	-1.4	-0.3	-0.8	-0.8
Greece	-5.7	-3.7	-3.3	-2.6	-2.3
Spain	1.2	2.0	2.4	1.1	0.9
France	-3.6	-2.7	-2.7	-2.8	-2.6
Ireland	1.3	2.9	0.2	-0.8	-0.9
Cyprus	-2.8	-0.7	3.5	1.9	2.0
Italy	-4.5	-2.8	-1.5	-1.9	-1.6
Luxembourg	0.4	1.4	2.8	2.7	2.9
Malta	-3.8	-2.9	-2.4	-1.7	-1.0
The Netherlands	0.8	1.1	0.3	1.0	1.3
Austria	-0.8	-1.4	-1.0	-1.2	-0.9
Portugal	-5.2	-3.2	-2.2	-1.9	-2.2
Slovenia	-0.9	-1.3	-0.7	-1.1	-0.7
Finland	3.7	4.2	4.9	4.8	4.9
Euro area	-2.2	-1.2	-0.7	-1.0	-0.9
Bulgaria	1.5	2.5	3.1	2.9	3.2
Czech Republic	-3.3	-2.9	-2.3	-1.9	-1.5
Denmark	5.3	4.1	3.9	4.6	3.7
Estonia	1.2	1.0	1.3	0.4	0.6
Latvia	-0.5	-1.1	-1.4	-1.3	-1.1
Lithuania	-1.1	-1.0	-1.4	-2.0	-1.3
Hungary	-8.6	-9.7	-4.7	-3.7	-3.3
Poland	-4.2	-4.0	-2.5	-2.7	-2.3
Romania	-1.6	-2.7	-3.4	-3.7	-4.1
Slovakia	-1.0	-3.1	-2.6	-2.8	-3.1
Sweden	1.9	1.5	2.8	2.4	2.5
United Kingdom	-3.4	-2.8	-3.0	-3.2	-2.8
EU27	-2.2	-1.5	-1.0	-1.2	-1.1

In structural terms, the budgetary position is set to weaken in 2008 in most countries, the major exceptions being Hungary, Denmark and the Czech Republic. For 2009, the structural position is set to improve in all countries but Denmark Romania and Slovakia.

Debt continues its downward path

In the euro area, the debt ratio continues its decline that started in 2006. Between 2007 and 2009, it is expected to continue to decrease by more than 2 pps, to some 64¼% of GDP, confirming the trend anticipated in the autumn forecast, albeit at a lower pace particularly in 2009. In the EU27 as a whole debt has fallen below the 60% of GDP reference value already in 2007. After a temporary halt in 2008, the downward trend is expected to continue in 2009.

The decreasing trend over the period 2007-2009 is shared by all euro-area countries except Ireland, France, Luxembourg and Portugal, albeit to varying degrees. Compared to the autumn 2007 forecast the debt projections have been revised upward for a slight majority of Member States, notable exceptions from this trend being Cyprus, the Netherlands and Slovenia. The debt ratio dropped below the 60% of GDP reference value in 2007 in Cyprus and Austria. It is expected to fall

below the reference value by 2009 in Malta. In Germany, it is forecast to decline to about 61½% of GDP by 2009.

Outside the euro area, debt is decreasing in the majority of Member States over the period 2007-2009. Notable exceptions to this trend are Latvia, Romania and the UK.

7. RISKS TO THE FORECAST

Unusual uncertainty characterises the current economic situation, as most of the risks to the outlook for growth and inflation identified in autumn last year have started to materialise simultaneously. The global economy is cooling and, in particular, the US economy appears markedly more fragile. Weakening US labour markets and consumer demand in the first half of 2008 suggest that the US could slip into recession. The financial turmoil is spreading and intensifying. Commodity prices are increasing further.

Since the beginning of the financial turbulence in July 2007, however, evidence of negative effects on the 'real' economy is meagre. This partly stems from the fact that European economies were in a sound position in 2007, more resilient to external shocks. Moreover, central banks, including the ECB have injected liquidity in the system in order to secure the smooth functioning of the financial markets. On the nominal side, second-round effects from increases in oil and commodity prices have been largely absent so far. With some of the risks identified in the autumn forecast materialising and, as no surprise, GDP growth started to moderate in the fourth quarter of 2007. Other risks have been incorporated into the current outlook to a greater degree, pointing to a further easing ahead, even if the Commission's new baseline forecast is not without risks.

Risks to the *growth outlook* relate first to the slowdown in the United States. A worse-than-foreseen contraction in the US could dampen world growth further through the trade impact and, possibly more importantly, spillover effects on the financial markets and confidence. In addition, the slowdown in world growth has so far been relatively mild, but could prove to be larger in the course of this year, if the downturn in US growth starts to bite in emerging markets economies and oil-producing economies to a greater extent.

Second, the financial crisis, which originated in the US subprime mortgage market last summer, is spreading. While the turmoil in the financial markets has proven more persistent than assumed last autumn, its impact on the real economy has been relatively limited so far. A lagged impact is to be expected, as loan growth reacts with a lag to changes in lending standards, and a credit squeeze could emerge going forward. Credit-losses may

also prove larger than expected and might also surface in countries that are less directly exposed to the financial distress, as a substantial amount of outstanding loans are held in other countries than the originating country. As of mid-April, announced losses and write-downs of financial institutions have amounted to about USD 300 billion. Around half of this originates in US-based banks and a further 40 percent in European banks (a third of which is explained by Swiss banks). With first quarter reporting still under way, announced losses are likely to rise further in the coming weeks.

Following the collapse of confidence in the financial markets, credit spreads rose to and remain at elevated levels (not only compared to the level of last summer, when risks were compressed to an unsustainable low level, but also above long-term averages). However, this is partly compensated by lower government bond yields. The turmoil will be more long-lasting and it cannot be excluded that credit conditions, such as increased collateral requirements, and credit availability are more seriously affected than assumed in the current GDP outlook.

More adverse shifts in investor and consumer confidence cannot be ruled out. A negative wealth effect, due to falling real and financial asset prices could hamper domestic demand. Hikes in inflation rates observed recently in Europe could also (as is already the case in some countries) have a further impact on consumer confidence, on top of the current declining trend in consumer confidence due to the turmoil itself.

The impact of a further tightening of lending conditions and reduced credit availability is likely to be asymmetric across Member States. In particular, countries experiencing a housing market correction may be hit more adversely, not only in the US, but also in the EU, especially Ireland and Spain. The exposure to and impact from the current distress in the financial markets differ across Member States. Countries having had a housing boom in the recent past, with high external deficit and debt or a high share of debt at variable interest rates are likely to be more exposed than others. Moreover, the difficult intermediation due to the ill-functioning segments of the financial markets adds to these risks at the current juncture.

Current-account imbalances in some EU Member States could raise concern in terms of their financing and sustainability. This reflects partly the increased heterogeneity within the EU, as the catching-up process may involve sizeable current-account deficits. Differences are, however, also large and growing within the euro area. The rising burden of the external debt service implies a loss of domestically available income, which ultimately hampers growth. The ongoing financial market turmoil, by hampering the smooth flow of funds within the euro area and the EU, increases the risks for the financing of large current account deficits.

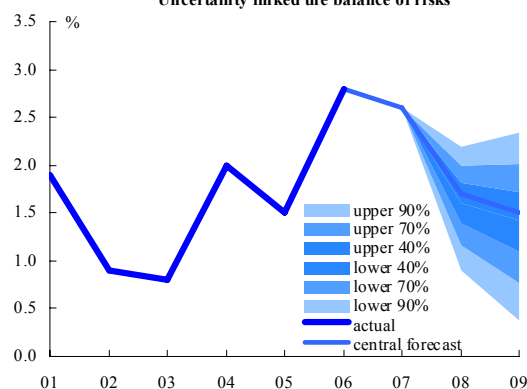
Other downside risks to the growth outlook relate to the possibility of disruptive exchange-rate developments associated with the continuation of significant current account imbalances (although the US deficit, on our assumptions, is projected to narrow further over the forecast period). Furthermore, the risk of protectionist and other trade-distorting measures is sustained, possibly fuelled by the surge in food prices. Further appreciation of the euro, possibly reaching levels unheard of so far, would weigh on economic activity.

On the upside, though, the current scenario of a global growth slowdown could turn out to be shorter than foreseen in the baseline. In particular, the underlying strength of emerging markets may have been underestimated. Growth in the United States could also rebound sooner and in a more dynamic way than foreseen, as a result of the strong monetary and fiscal easing, but where the impact of the stimulus is surrounded by a sizeable degree of uncertainty. Within EU economies, upside risks to the growth outlook relate to relatively sound fundamentals, allowing European economies to withstand the current headwinds better. The importance of the still positive employment growth in the regular labour market on consumption propensity may also have been underestimated.

Graph 2.7.1 provides a quantification of these risks in terms of the possible deviation of output growth from the main scenario. More specifically, the graph 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 1 pp. lower in 2008 compared to the central scenario if all

negative factors materialise. But growth could also be up to 0.9 pp. higher if the positive risks to the outlook were to materialise.

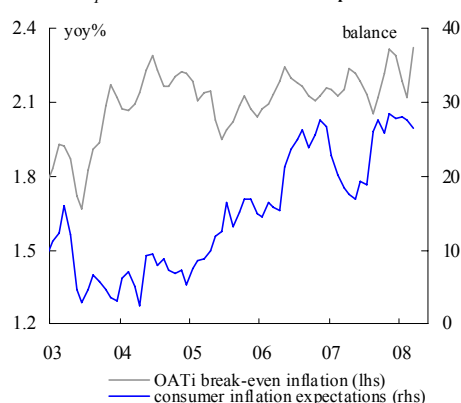
Graph 2.7.1: Euro area GDP forecasts:
Uncertainty linked the balance of risks



As regards the *inflation outlook*, the risks identified in the autumn forecast of a further up-tick in commodity prices have already materialised and have had a direct impact on consumer price inflation. This is currently also contributing to social unrest in parts of the developing world.

Within the EU, a certain impact from soaring oil- and especially food prices on inflation expectations (see graph 2.7.2) and subsequently on wage claims has been noted in some Member States. In particular, some of the recently-acceded Member States are witnessing double-digit inflation rates in the first months of 2008 (e.g. the Baltic States). These countries are more vulnerable and could be subject to second-round effects in the coming months. Economies with a sound external position, strong cyclical growth (e.g. the Czech Republic and Poland) and credible policy frameworks are less sensitive to the outburst of inflationary pressures.

Graph 2.7.2: Euro-area inflation expectations



On the other hand, the risk of second-round effects is considered to be relatively small, as competitive pressure from globalisation is expected to limit the acceleration in wage growth at the aggregated level. Simultaneously, labour market tensions are expected to ease as the unemployment rate stabilises and the unemployment gap gradually becomes positive again.

Moreover, in view of a general moderation of growth, domestic inflationary pressures should ease going forward. In particular, if commodity prices were to decline faster than futures' markets suggest, and if oil prices eventually recede owing to a slowdown in GDP growth, notably in the United States. Some investors' preferences have shifted away from financial assets given their riskiness and towards commodities in recent months. As tensions on equity markets fade, investors could return to a more regular bundle of assets, which would cease putting upward pressure on commodities. On the other hand, commodity prices have surprised on the upside several years in a row, and a gradual decline in the coming years is not a certainty.

Overall, while risks are more balanced than in the autumn 2007 forecast, the balance of risks for the growth outlook continues to be tilted to downside, especially for 2009, while risks for inflation are somewhat on the upside, and, in particular, for some of the recently-acceded Member States.

To conclude, risks to the forecast appear more balanced in 2008 and 2009. Given the number of risks though, and the unusual surrounding uncertainty, an *alternative scenario* is presented in Box 2.7.1, which simulates the macroeconomic impact of a further tightening of financial conditions (an increase in spreads and a further tightening of collateral requirements), and spillovers from the United States. The results show that all risks taken together would entail a significant additional loss in output of some 0.5 pp. this year and a further 0.1 pp. for both the euro area and the US next year compared to the baseline scenario contained in this forecast.

Box 2.7.1: Alternative scenario for the euro area: a credit-squeeze would further dampen domestic demand

This box briefly presents the results of the simulations that were carried out by the Commission services to describe the impact relative to the baseline of (1) a further deterioration of the housing market in both the US and the euro area, resulting from an increase in the collateral requirement for households (both in the US and the euro area); (2) an increase in the interest rate spread of 50 bps both in the US and the euro area; and (3) the combination of these two shocks.

The results presented in this box are obtained with the Commission's QUEST III model which is a dynamic stochastic general equilibrium (DSGE) model, with forward-looking agents. It comprises nominal and real rigidities, and assumes two kinds of households, Ricardian and liquidity-constrained households.

Model simulations indicate that a more pronounced financial distress dampens domestic demand. Simulations with the QUEST III model indicate that the impact of (1), that is, an increase in the collateral requirement for households (causing a decline of the mortgage-debt-to-GDP ratio by 5% in the medium run), would affect investment and consumption directly, both in 2008 and in 2009.

Credit rationing by banks affects both housing investment and private consumption, as it reduces credit availability for less wealthy households who borrow against the value of their houses. Relative to the baseline scenario, this 'domestic demand'-channel would reduce euro-area and US GDP growth in the first year.

An increase in interest-rate spreads (2) affects the cost of capital for both business and residential investment. For credit-constrained households, higher credit costs tighten their budget constraint and therefore reduce consumption relative to the baseline, see table 1. The fall in consumption is relatively large, as credit-constrained households cannot smooth their consumption but have to respond immediately to credit restriction by reducing their residential investment and consumption.

The combined effect of a collateral tightening and increased interest-rate spreads (3) would reduce GDP growth in both the euro area and the US by 0.5 pp. in 2008 and a further 0.1 pp. in 2009 relative to the baseline. With the current baseline

scenario, this would mean a euro-area GDP growth of 1.2% in 2008 and 1.4% in 2009.

How euro-area growth prospects would be further affected by an additional slide in the value of the dollar depends on the driving factors behind it. If, for example, a further depreciation of the dollar was driven by a shift in investors' preferences away from the dollar in favour of the euro, it might have a negative impact in the short run on the tradable sector, but this would be mitigated in the medium run by the positive domestic demand effects from lower real interest rates in the euro area.

Table 1:

Risks and impact on euro-area and US GDP growth		
	2008	2009
(1) Collateral tightening		
euro-area GDP growth	-0.39	0.04
US GDP growth	-0.40	0.09
(2) Increase in interest-rate spread		
euro-area GDP growth	-0.07	-0.16
US GDP growth	-0.07	-0.18
(3) Collateral tightening + increase in spread		
euro-area GDP growth	-0.46	-0.12
US GDP growth	-0.47	-0.10

Chapter 3

Member States

1. BELGIUM

Domestic demand under pressure

Activity in 2007

GDP growth came out at 2.7% in 2007 and was mainly driven by domestic demand. In line with the global deceleration, growth gradually slowed down towards the end of 2007.

Private consumption was buoyant in the first three quarters of the year, mainly on the back of increasing real household disposable income. Rapidly increasing inflation and a deterioration of the economic environment, with a negative impact on consumer confidence, led to a slowdown in consumption growth from 0.9% qoq in the first three quarters to an estimated 0.4% in the fourth quarter. Investment growth was impressive in the first quarter and gradually fell to more moderate levels afterwards. Despite the slower growth of export markets and the appreciation of the euro, exports recovered from the unusually low expansion rate in 2006 as Belgian exporters were able to limit their loss of market share. Imports increased faster, however, so that the contribution of net exports to GDP growth became negative.

Prospects for 2008 and 2009

Given the deteriorating international environment, strongly rising inflation and tighter financing conditions, both for corporations and households, economic growth in Belgium is set to continue its decelerating trend in the next quarters, before slowly picking up towards the end of 2008 (see graph). This is projected to result in an annual growth rate of 1.7% in 2008 and 1½% in 2009.

Private consumption growth is forecast to weaken

as the slowdown in employment creation, the peak in inflation and smaller real wage increases will lead to a slower growth of real disposable income. Furthermore, the transformation of part of the health insurance system for self employed from a voluntary private scheme to an obligatory state-run system will negatively affect consumption growth in 2008. On the other hand, households are likely to smooth consumption to a certain extent; their saving rate is set to decline in 2008 and stabilise in 2009.

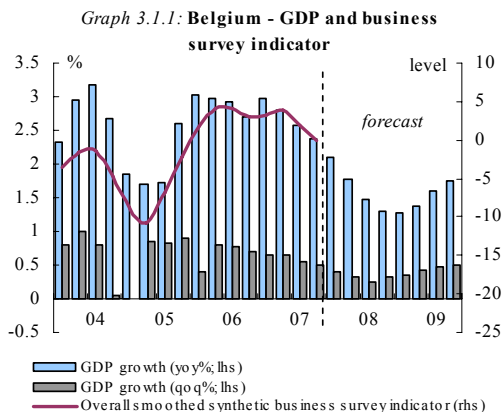
Projected slower real disposable income growth and lower confidence levels, together with an expected tightening of banks' lending conditions and a partly related softening of the housing market after a number of years with rapidly increasing prices, are projected to induce a marked slowdown in housing investment. Deteriorating demand conditions, the unusually high level of uncertainty and less beneficial financing conditions are likely to put a drag on corporate investment in the forecast years. Government investment is set to return to its trend growth.

Finally, export growth is expected to suffer from weakening foreign demand while Belgian exporters are also projected to continue to loose market share. Import growth is also expected to slow, reflecting weakening final demand. Net external demand is forecast to make a negative contribution to GDP growth of 0.2 percentage points in both 2008 and 2009.

Labour market, costs and prices

Employment kept rising rapidly in 2007 (1.7%), reflecting the continued positive impact of buoyant economic activity on the labour market, but also the creation of a large number of subsidised jobs under the system of "cheques services". In view of weaker economic growth, employment is forecast to increase at a slower pace in 2008 (0.9%) and 2009 (0.4%). As a result, the unemployment rate is expected to rise slightly in 2009, after a sustained decrease between 2005 and 2008.

HICP inflation has remained contained in 2007 (1.8%), as the energy component has exerted a moderating effect. In 2008, inflation is set to rise to 3.6% in view of higher processed food and energy prices on global markets. The main gas



providers implemented large price increases and distribution costs for gas and electricity were raised, which is projected to result in an inflation rate above the euro area average. The gradual transmission of these higher prices into a wide range of goods and services should result in a still relatively high inflation rate of 2.3% in 2009.

The sharp price increase will have a lagged impact on nominal wages as these are automatically adapted to a measure of past inflation. Although this measure excludes a number of goods, such as motor fuels, for which inflation has been particularly high in recent months, wages are projected to increase more than in the neighbouring countries in 2008. Wage developments in 2009 will depend on the outcome of the upcoming bargaining rounds, but are forecast to be largely in line with those in France, Germany and the Netherlands.

Public finances

The budget balance amounted to -0.2% of GDP in 2007. This is 0.5 p.p. below the budget target, in spite of stronger-than-expected economic growth. The difference is largely due to the non-execution of a package of revenue-raising one-offs for 0.4%

of GDP however, resulting in a slight improvement of the structural balance in 2007.

Given the difficulties encountered in forming a new federal government following the elections of June 10 2007, a budget for 2008 could only be agreed by the end of February, once a new interim government had been formed. The government targets a balanced budget and plans limited deficit-increasing measures (0.1% of GDP), mainly aiming at increasing purchasing power and lowering labour taxation for the most vulnerable households. The budget is however based on quite optimistic macro-economic assumptions. In addition, a number of measures, such as the imposition of a specific tax on the energy sector (0.1% of GDP) or the collection of additional corporate taxes following more effective fraud detection (0.1% of GDP), are not sufficiently documented to be taken into account in the forecast. Overall, a deficit of around 0.4% of GDP can be expected for 2008. As for 2009, on a no-policy-change basis, a further slight deterioration of the deficit to around 0.6% of GDP is forecast, reflecting the weaker economic environment.

The debt-to-GDP ratio is expected to remain on a downward path, falling to just below 80% in 2009.

Table 3.1.1:

Main features of country forecast - BELGIUM

	2006			Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	316.6	100.0		1.9	3.0	1.7	2.8	2.7	1.7	1.5
Private consumption	166.3	52.5		1.6	1.4	1.3	2.0	2.5	1.5	1.4
Public consumption	70.8	22.4		1.7	1.8	-0.2	0.0	2.3	2.4	2.2
Gross fixed capital formation	65.7	20.7		1.7	7.1	6.7	4.2	5.1	2.2	1.9
of which : equipment	28.8	9.1		1.8	7.7	4.0	4.0	5.9	3.2	2.8
Exports (goods and services)	277.6	87.7		4.1	6.5	3.6	2.6	4.6	3.9	3.6
Final demand	584.2	184.5		2.7	4.5	2.8	2.8	3.7	2.9	2.6
Imports (goods and services)	267.6	84.5		3.9	6.6	4.2	2.7	5.0	4.3	3.8
GNI at constant prices (GDP deflator)	320.5	101.2		2.0	2.5	1.3	3.5	2.6	1.7	1.5
Contribution to GDP growth :										
Domestic demand				1.6	2.9	1.9	1.9	2.9	1.8	1.7
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	-0.2	-0.2	-0.2
Employment				0.6	0.7	1.2	1.2	1.7	0.9	0.4
Unemployment rate (a)				8.4	8.4	8.4	8.2	7.5	7.3	7.5
Compensation of employees/head				3.0	1.9	1.9	3.2	3.0	3.5	2.9
Real unit labour costs				-0.1	-2.7	-1.0	-0.4	0.3	0.1	-0.3
Savings rate of households (b)				-	-	12.2	12.5	12.5	12.0	12.1
GDP deflator				1.8	2.4	2.5	2.0	1.7	2.6	2.1
Private consumption deflator				1.7	2.5	2.8	2.5	2.0	3.5	2.2
Harmonised index of consumer prices				1.8	1.9	2.5	2.3	1.8	3.6	2.3
Trade balance (c)				3.3	2.9	1.9	1.3	1.2	0.7	0.7
Current account balance (c)				4.7	3.8	3.0	3.3	3.3	2.7	2.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				4.6	3.8	2.9	3.4	3.2	2.6	2.4
General government balance (c)				-2.4	0.0	-2.3	0.3	-0.2	-0.4	-0.6
Cyclically-adjusted budget balance (c)				-2.3	-0.1	-2.1	0.3	-0.3	-0.2	-0.1
Structural budget balance (c)				-	-0.9	-0.2	-0.6	-0.3	-0.2	-0.1
General government gross debt (c)				118.4	94.2	92.1	88.2	84.9	81.9	79.9

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

2. BULGARIA

Robust growth despite large imbalances

Activity in 2007

Driven by buoyant domestic demand, real GDP growth remained strong in 2007, at 6.2%, despite a sharp drop in activity in agriculture. On the back of record-high FDI inflows and a re-acceleration of bank credit, gross fixed capital formation was particularly strong, increasing by 21.7%. Private consumption, however, decelerated to 5.3%, down from 9.5% in 2006, despite very high wage increases and relatively strong employment growth implying a rising household savings ratio. In contrast, public consumption was boosted by a large additional spending package in late 2007, accelerating to 3.1% in real terms. The composition of growth remained fairly unbalanced with a strong negative contribution of net exports at around 5% of GDP.

Export performance was exceptionally weak in 2007. Growth of goods exports remained substantially below import growth and, as a result, the trade deficit widened further to 25.5% of GDP. This weak export performance may reflect an underreporting of intra-EU trade flows caused by the introduction of the Intrastat system upon accession. A decrease in net current transfers and negative net incomes from abroad led to a further worsening in the current account deficit. Net borrowing vis-à-vis the rest of the world increased to around 21% of GDP in 2007.

Prospects for 2008 and 2009

The Bulgarian economy has been fairly resilient to the global financial markets turmoil in 2007. Nevertheless, the deterioration in the international

economic outlook is expected to have an impact on the economy and lead to a slow-down in economic activity. Real GDP growth will thus moderate to below 6% in 2008 and 2009, although the catching-up process, in terms of GDP per capita, remains vibrant.

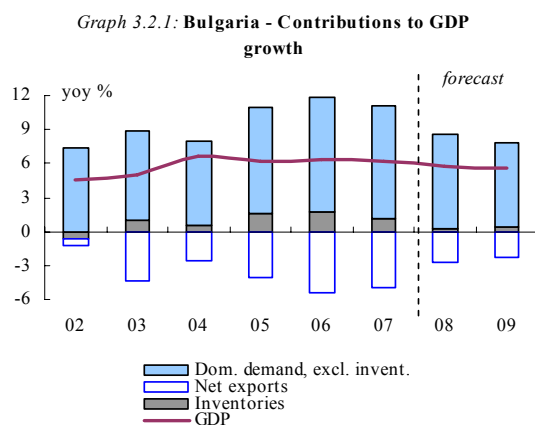
Prolonged and growing uncertainty on the international financial markets, a more protracted slow-down in world growth, and higher external oil, food and commodity prices will imply a deceleration in domestic demand. Tighter global liquidity conditions, rising interest rate spreads, and lower returns are expected to bring a decrease in FDI and investment growth. Private consumption growth will also moderate due to higher inflation and lower bank credit growth. However, relatively strong wage and robust employment growth as well as the favourable impact from the reduction in personal income taxation on disposable income should limit this deceleration.

On the external side, exports are expected to recover from the dip in 2007 as the large build-up in investments over recent years starts to improve the export potential of the economy. At the same time, in line with weaker domestic demand, import growth should cool down. The negative contribution of net exports to growth will thus decrease. With the trade deficit starting to narrow, a gradual reduction in the current account deficit is foreseen. This, together with strong capital transfers from the EU, should help reduce the net borrowing of the economy to around 19% of GDP in 2009.

Labour market, costs and prices

Employment growth decelerated slightly from 3.3% in 2006 to 2.8% in 2007. Against robust economic activity, employment will continue to grow, albeit at a decelerating rate. Increasing participation rates and possible hiring of workers from abroad would mitigate to a certain extent the tightness in labour supply. Unemployment is projected to decline further to below 6% in 2009.

In line with the tightened labour market conditions, nominal wage growth has accelerated sharply since the end of 2006 to around 18% on average in 2007. Wage pressures will remain substantial over the



forecast period. However, nominal wage growth may decelerate from the currently high levels as a result of weaker labour demand due to rising wage costs and employment rationalization in the public sector. Labour productivity is expected to increase to around 4½% and growth in nominal unit labour costs would thus decelerate, especially in 2009. Consequently, real unit labour costs will start to decrease after the sharp acceleration in 2007.

HICP inflation remained high, increasing from 7.4% on average in 2006 to 7.6% in 2007. On the back of considerably rising oil and food prices and increasing demand pressures, inflation accelerated substantially in the second half of 2007, reaching 11.6% at the end of the year. In 2008, annual average inflation is expected to increase further to around 10% due to higher oil, food and commodity prices and sustained wage pressures. In 2009, HICP inflation is projected to moderate thanks to base effects and a certain moderation in wage growth.

Public finances

The general government surplus reached 3½% of GDP in 2007, against an official target of about ¾% in the budget law. The budgetary over-performance was entirely due to higher-than-

expected revenue reflecting favourable growth composition, higher inflation and improved tax compliance. Expenditure control was, however, not fully maintained. Initially envisaged savings of current expenditures were not implemented, pensions were increased by more than prescribed in the law, and an additional spending package of around 2% of GDP was approved in late 2007.

The general government budget surplus is expected to remain high at slightly above 3% of GDP in 2008 and 2009. A small drop in the revenue-to-GDP ratio in 2008 is linked to the impact of the introduction of a 10% flat-rate personal income tax, the decrease in social contributions in 2007, and a less tax rich growth composition. On the expenditure side, efforts to contain the public sector wage bill will imply a slight reduction of the overall expenditure ratio. In 2009, the projection is based on a no-policy-change assumption.

In line with strong nominal GDP growth and continued high primary fiscal surpluses, general government gross debt is expected to drop to close to 10% of GDP by 2009.

Table 3.2.1:

Main features of country forecast - BULGARIA

	2006			Annual percentage change						
	bn BGN	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	49.4	100.0	0.4	6.6	6.2	6.3	6.2	5.8	5.6	
Private consumption	34.8	70.4	1.3	5.9	6.1	9.5	5.3	5.0	4.8	
Public consumption	8.2	16.6	-3.8	3.8	2.5	-1.3	3.1	4.1	4.1	
Gross fixed capital formation	12.8	25.9	-	13.5	23.3	14.7	21.7	14.0	11.0	
of which : equipment	-	-	-	-	-	-	-	-	-	
Exports (goods and services)	31.9	64.5	-	12.7	8.5	8.7	5.2	7.1	6.7	
Final demand	90.5	183.3	-	9.0	9.4	9.7	7.9	7.0	6.5	
Imports (goods and services)	41.1	83.3	-	14.5	13.1	14.0	9.9	8.5	7.7	
GNI at constant prices (GDP deflator)	48.3	97.9	-	6.5	5.9	4.6	7.3	5.6	5.4	
Contribution to GDP growth :										
Domestic demand			-	7.5	9.5	10.0	9.9	8.3	7.4	
Stockbuilding			-	0.6	1.5	1.8	1.2	0.3	0.4	
Foreign balance			-	-2.5	-4.1	-5.4	-4.9	-2.8	-2.2	
Employment			-0.6	2.6	2.7	3.3	2.8	1.6	1.2	
Unemployment rate (a)			15.4	12.0	10.1	9.0	6.9	6.0	5.4	
Compensation of employees/head			-	4.9	5.9	7.4	17.9	13.7	10.9	
Real unit labour costs			-	-4.0	-1.3	-3.8	5.9	0.6	0.4	
Savings rate of households (b)			-	-	-	-	-	-	-	
GDP deflator			58.1	5.1	3.8	8.5	7.9	8.6	5.8	
Private consumption deflator			60.1	4.4	5.2	5.7	6.8	8.1	4.8	
Harmonised index of consumer prices			-	6.1	6.0	7.4	7.6	9.9	5.9	
Trade balance (c)			-5.5	-14.9	-20.2	-22.0	-25.5	-24.9	-24.6	
Current account balance (c)			-3.6	-6.5	-11.5	-16.3	-22.0	-21.2	-20.9	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-3.7	-5.0	-10.6	-15.2	-20.8	-19.8	-19.3	
General government balance (c)			-	1.4	1.8	3.0	3.4	3.2	3.2	
Cyclically-adjusted budget balance (c)			-	1.0	1.3	2.4	2.9	2.9	3.2	
Structural budget balance (c)			-	1.0	1.5	2.5	3.1	2.9	3.2	
General government gross debt (c)			-	37.9	29.2	22.7	18.2	14.1	10.8	

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

3. THE CZECH REPUBLIC

Decelerating growth with rising inflation

Activity in 2007

The strong expansion of the Czech economy continued in 2007 with record annual GDP growth of 6½%. The growth was mainly driven by strong domestic demand while trade balance and stock building also contributed positively to the growth performance.

The surge in consumer spending was underpinned by a number of factors including climbing wage levels, falling unemployment, expanding credit and an increase in social benefits. Gross fixed capital formation remained strong channelling mainly into construction, transport infrastructure, machinery and transport equipment. Export and import growth rates were 14.5% and 13.7% respectively. The foreign trade balance was higher than expected recording a surplus for the third consecutive year. The income account registered a widening deficit chiefly due to the outflow of profits from the current FDI, thus adversely affecting the current account balance. On the supply side, and linked to high export growth, manufacturing performed very well, in particular the automotive and electronics sectors. With regard to the financial turmoil the Czech economy is likely to be less exposed due to the focus of the banking sector on the retail sector and the relatively low indebtedness of households.

Prospects for 2008 and 2009

Economic growth is foreseen to slow down to about 4.7% in 2008, before edging up again to 5.0% in 2009. Domestic demand is set to continue as the main driver of growth, while contribution

from the foreign balance is likely to remain positive. Consumer spending growth is expected to decelerate in 2008, owing primarily to the measures envisaged in the stabilisation package, before regaining momentum in 2009. The increase in the lower band of VAT will weigh on consumption as well as the surge in inflation, partly due to increases in regulated prices at the beginning of 2008.

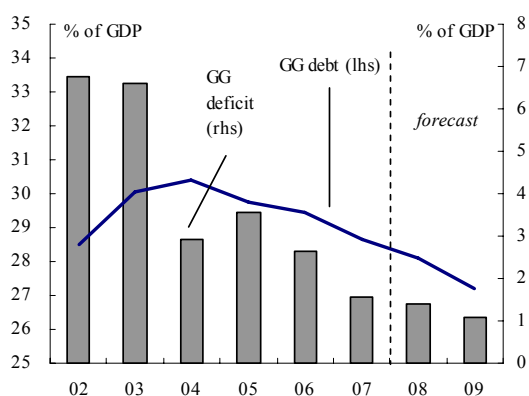
Investment growth is expected to be solid supported by FDI and by EU funds. While export growth was stronger than anticipated in 2007, it is expected to moderate under the influence of a high koruna during 2008 before receiving a boost in 2009 from the start-up of a large new automotive plant. Imports are likely to be affected by slowing consumer demand. The trade balance is expected to remain in surplus for 2008 and 2009. Government consumption is expected to be constrained during 2008 and 2009, reflecting the aim of fiscal consolidation envisaged in the stabilisation package and 2008 budget.

Labour market, costs and prices

In spite of government incentives to stimulate the labour market, employment growth is likely to moderate slightly in 2008 due to the overall slowdown, planned cuts to public sector employment, and as a consequence of significant employment growth in 2007 which has brought the unemployment level to a record low since transition. Wage increases are generally expected to remain strong given rising inflation in 2008.

Inflation remained low until the fourth quarter of 2007 when it began to escalate due mainly to rising food and fuel prices. A range of administrative measures stoked inflation 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% effective from January 2008 have all contributed to greater inflationary pressure. While inflation is expected to remain high, at over 6% for 2008, there are a number of mitigating influences which are likely to ensure a gradual decline in the medium-term: notably, moderate consumer spending, public expenditure restraint, and a firm koruna which will act as an offsetting factor against external price shocks.

Graph 3.3.1: Czech Republic - Government finances



Public finances

Government finances were significantly better-than-targeted in 2007. The government deficit fell to just above 1½% of GDP. The better-than-expected out-turn was due to increased revenue from record high growth while government expenditure was also restrained. Given the much better base in 2007, it is anticipated that the deficit will continue to be reduced to 1.4% of GDP in 2008 and about 1% of GDP in 2009. This is based on the estimated impact of the stabilisation package, aimed at further consolidation, the introduction of partial charges for basic health care, and continued government expenditure restraint, particularly with respect to public sector employment and other government consumption expenditure. The main downside risks to this forecast relate to the expected moderation in economic growth and the inflationary pressure in 2008 which may impact on public sector wage demands. The range of changes occurring to direct and indirect taxation at the same time makes forecasting revenues difficult. The continued use of reserve funds, in which government departments roll over spending allocations, also adds some uncertainty to expenditure. The reserve funds expanded to about 2.8% of GDP in 2007, of which it is estimated around a third could potentially swell future spending. The other two-

thirds are related to EU funds and, as such, backed up by revenues.

The Czech government adopted a proposal in January 2008 on compensation for the confiscation of churches by the communist regime. Should the compensation be approved by parliament it has the potential to temporarily, but in a significant way increase the general government deficit in the forecast period. However, on a no-policy change basis, this measure is not taken into account in the forecast.

As a result of firm growth over the forecast period and the fiscal contraction, the government debt ratio is expected to fall to below 28% of GDP by 2009.

Table 3.3.1:

Main features of country forecast - THE CZECH REPUBLIC

	2006			92-03	Annual percentage change					
	bn CZK	Curr. prices	% GDP		2004	2005	2006	2007	2008	2009
GDP at previous year prices		3231.6	100.0	1.9	4.5	6.4	6.4	6.5	4.7	5.0
Private consumption		1577.1	48.8	3.9	2.9	2.3	5.4	5.6	3.8	4.2
Public consumption		685.4	21.2	1.2	-3.5	2.2	0.0	0.9	-0.1	0.1
Gross fixed capital formation		794.8	24.6	5.0	3.9	2.3	5.5	6.1	7.7	7.4
of which : equipment		326.3	10.1	-	-	-	-	4.3	5.9	5.6
Exports (goods and services)		2448.6	75.8	9.1	20.7	11.8	14.4	14.5	11.1	13.2
Final demand		5580.6	172.7	5.5	9.7	5.8	9.4	9.5	7.5	8.3
Imports (goods and services)		2349.0	72.7	13.4	17.9	5.0	13.8	13.7	11.0	12.6
GNI at previous year prices (GDP deflator)		3037.6	94.0	-	3.2	7.0	5.8	6.3	4.2	4.5
Contribution to GDP growth :	Domestic demand			3.6	1.7	2.3	4.0	4.4	3.7	3.8
	Stockbuilding			0.2	1.4	-0.7	1.5	1.0	0.6	0.3
	Foreign balance			-1.8	1.3	4.8	0.9	1.0	0.6	1.1
Employment				-	0.1	1.1	1.7	1.8	1.1	0.5
Unemployment rate (a)				-	8.3	7.9	7.1	5.3	4.5	4.4
Compensation of employees/head				-	5.7	4.6	6.2	7.0	7.2	7.2
Real unit labour costs				-	-3.1	-0.3	-0.1	-1.1	0.0	0.2
Savings rate of households (b)				-	-	5.8	4.9	5.4	3.3	3.7
GDP deflator				8.2	4.5	-0.2	1.7	3.4	3.5	2.4
Private consumption deflator				6.9	3.3	0.9	2.3	2.9	5.0	2.7
Harmonised index of consumer prices				-	2.6	1.6	2.1	3.0	6.2	2.7
Trade balance (c)				-4.9	-0.5	2.0	2.0	3.3	3.2	3.8
Current account balance (c)				-3.6	-5.5	-2.3	-3.1	-2.4	-2.9	-2.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-3.9	-5.4	-2.9	-2.7	-2.0	-2.3	-1.8
General government balance (c)				-	-3.0	-3.6	-2.7	-1.6	-1.4	-1.1
Cyclically-adjusted budget balance (c)				-	-2.0	-3.3	-3.0	-2.3	-1.9	-1.5
Structural budget balance (c)				-	-1.3	-3.3	-2.9	-2.3	-1.9	-1.5
General government gross debt (c)				-	30.4	29.7	29.4	28.7	28.1	27.2

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

4. DENMARK

Cooling down after a period of sustained growth

Activity in 2007

The slowdown of growth in Denmark predates the global trend and is due to capacity constraints following a period of high growth. GDP growth rate was reduced by more than half to below 2% in 2007. Growth weakened in all major demand components, most significantly in construction investment reflecting the cooling down of the housing market.

Private consumption growth nonetheless exceeded the annual average of the past decade. This reflected continued strong employment growth and low inflation boosting the real disposable income of households. In spite of the negative developments in financial markets and the stagnation in the housing market, there was a strong rebound in consumption and investment in the second half of the year. With domestic production capacity being constrained, export growth declined and imports were required to cover an increasing share of the strong domestic demand. The net external balance therefore continued to contribute negatively to GDP growth.

Prospects for 2008 and 2009

GDP growth is set to moderate further over the forecast period reflecting the turn of the cycle as well as international trends. The deceleration takes place amidst high inflation, a stagnating housing market and higher financing costs. Overall, GDP growth is expected to slow to 1¼% in 2008 and 1% in 2009, remaining well below potential, providing for an easing of capacity constraints.

Private consumption is foreseen to gear down as wealth effects taper off and higher inflation and interest payments reduce disposable household income. Meanwhile the strong labour market position, sizable wage increases, tax cuts being implemented in 2008 and 2009, and stable interest rates over the forecast period are counterbalancing factors implying that private consumption will continue to drive growth.

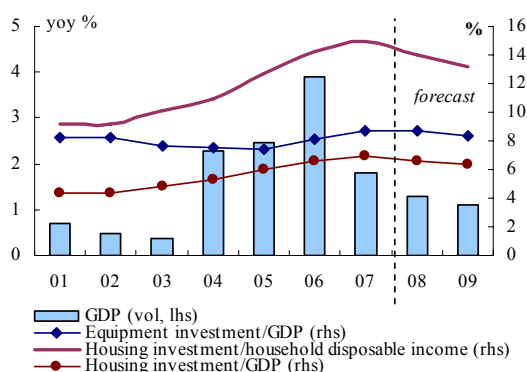
The housing market is key to domestic demand on the back of a boom over the 2004-2006 period. So far, price developments have varied significantly across regions and real estate categories. On average, they do not suggest a major general downward correction. Forced sales have remained at a low level, and household wealth is assessed to be sufficient to cushion the blow from falling real and financial asset prices. A soft landing remains the central scenario, where broadly stagnating nominal house prices over time will imply a gradual correction as real disposable incomes catch up. Assuming stable long-term interest rates at the current level, a severe downward adjustment is unlikely. Nevertheless, it remains a prominent downside risk, potentially restraining private consumption via the impact on wealth and consumer confidence.

Weaker investment activity, notably in housing construction, is the principle factor behind the moderation of growth. The ratio of housing-investments-to-GDP is foreseen to recede from the currently highest level in the past 30 years. This is driven by the combination of stagnating house prices and increasing construction costs reducing profitability. The gloomy outlook is reflected in survey data of the construction sector. However, should housing construction fail to come down, excess supply would increase the risk of a stronger correction in house prices.

Equipment investment has reached a high level. In view of the high capacity utilisation and labour shortages further investments are nonetheless expected in 2008 to raise the capital stock. Meanwhile the ongoing financial turmoil is expected to reduce the propensity to invest as financing costs increase and asset prices fall.

A moderation of export growth is foreseen in view of lower global growth and the effective exchange

Graph 3.4.1: Denmark - Investment and GDP



rate appreciation. As final demand slows down, capacity pressures are expected to ease and import growth to decelerate. Overall, it is foreseen that the external balance is moving to a more neutral impact on GDP growth.

Labour market, costs and prices

The labour market is generally expected to remain tight. After a period of substantial gains, employment is forecast to start declining slightly during the course of 2008 and into 2009, notably in the construction sector. Nevertheless, the unemployment rate is predicted to remain around the historically low level over the forecast period.

Productivity is assumed to improve after a very weak growth in 2007. Wage growth has picked up and is expected to remain higher than in previous years over the forecast period. Inflation is foreseen to follow global trends, where increasing energy and food prices erode consumer purchasing power. Domestic inflationary pressures are also expected to rise, albeit from a low level. Overall, inflation is expected to come down during the course of 2009 while remaining high by historical standards.

Public finances

The strong labour market position is expected to benefit public finances both in terms of revenue and expenditure. The tax burden is foreseen to decrease by 1 percentage point over the forecast period, primarily due to income tax cuts, the continued application of the tax freeze⁽¹⁾, and the reintroduction of the special pension contribution (SP). The suspension of the SP expires by the end of 2008 implying a reintroduction of the compulsory saving scheme. Due to the tax treatment of contributions, tax revenue is foreseen to decrease by ¼ % of GDP. Measures to stem recurrent spending overruns by local governments are to be agreed in budget negotiations in mid-2008 to ensure that expenditure growth limits are respected.

The trend of high general government surpluses is foreseen to continue, albeit declining from 4½% of GDP in 2007 to around 3% in 2009 as cyclical and temporary effects subside. Gross government debt is forecast to fall well below 20% of GDP.

(1) The tax freeze implies that from 2002 onwards, neither direct nor indirect tax rates can be raised, whether defined in nominal or percentage terms.

Table 3.4.1:

Main features of country forecast - DENMARK

	2006			Annual percentage change						
	bn DKK	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	1641.5	100.0		2.2	2.3	2.5	3.9	1.8	1.3	1.1
Private consumption	805.2	49.1		1.7	4.7	5.2	3.8	2.5	2.1	1.4
Public consumption	421.2	25.7		2.2	1.8	0.9	2.0	1.7	1.7	1.3
Gross fixed capital formation	354.8	21.6		3.8	3.9	6.2	14.0	6.0	0.9	-0.9
of which : equipment	132.5	8.1		3.5	5.6	12.1	15.9	11.9	3.2	-1.6
Exports (goods and services)	851.1	51.8		4.7	2.8	8.2	9.0	3.7	3.3	3.2
Final demand	2447.6	149.1		3.0	3.8	5.0	7.1	3.1	2.2	1.7
Imports (goods and services)	806.0	49.1		5.3	7.7	11.2	14.1	5.6	4.0	2.8
GNI at constant prices (GDP deflator)	1672	101.9		2.4	3.4	3.4	4.4	1.8	1.3	1.1
Contribution to GDP growth :										
Domestic demand				2.1	3.5	3.9	5.2	3.0	1.7	0.8
Stockbuilding				0.0	0.6	-0.7	0.6	-0.3	0.0	0.0
Foreign balance				0.0	-1.8	-0.8	-1.8	-0.8	-0.4	0.2
Employment				0.4	-0.6	0.8	1.6	1.8	0.2	-0.4
Unemployment rate (a)				6.1	5.5	4.8	3.9	3.7	3.1	3.2
Compensation of employees/head				3.5	3.3	3.5	3.9	3.7	4.6	4.5
Real unit labour costs				-0.1	-1.9	-1.1	-0.4	2.2	0.4	0.4
Savings rate of households (b)				-	-	2.6	4.0	4.0	3.4	5.0
GDP deflator				1.8	2.3	3.1	2.0	1.5	3.1	2.5
Private consumption deflator				1.8	1.3	2.1	2.1	1.9	3.3	2.4
Harmonised index of consumer prices				2.0	0.9	1.7	1.9	1.7	3.3	2.3
Trade balance (c)				4.0	3.6	2.9	1.0	-0.4	-0.6	-0.3
Current account balance (c)				1.8	3.0	4.4	2.6	1.1	0.9	1.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				1.8	3.0	4.5	2.6	1.1	0.9	1.1
General government balance (c)				-0.6	1.9	5.0	4.8	4.4	3.9	2.9
Cyclically-adjusted budget balance (c)				-0.5	2.5	5.3	4.1	3.9	4.0	3.6
Structural budget balance (c)				-	2.5	5.3	4.1	3.9	4.6	3.7
General government gross debt (c)				61.8	43.8	36.4	30.4	26.0	21.7	18.4

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

5. GERMANY

Activity proving resilient to adverse external influences

Activity in 2007

Demand and output growth slowed towards the end of the year, not so much under the impact of the financial turmoil, but due to a setback in private consumption. Employment growth has traditionally been the main determinant of private consumption, both on the positive side in the 1990s and on the negative side in the first half of this decade.

Since the onset of the last recovery, this close relationship has been troubled by a number of one-off factors. While the anticipation of the VAT increase led to a temporary increase in private consumption in 2006, the negative echo-effects of this could be felt in 2007. In addition, in the last quarter of 2007 the self-employed and family-owned companies may have availed of the improved depreciation rules in operation until the end of 2007 to invest at the expense of consumption. Of greater importance, however, seems to be the strong acceleration of inflation, which has a particular impact on consumer confidence because it is concentrated in high frequency purchases like fuel and food.

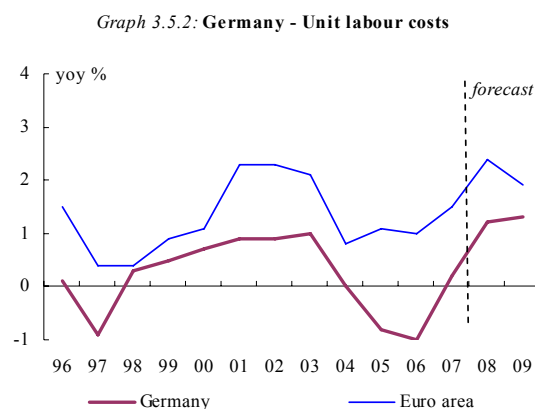
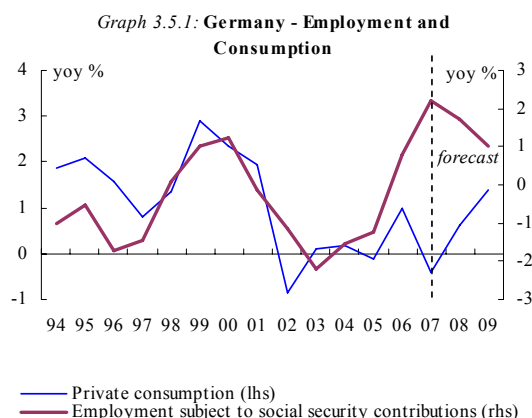
On the other hand, the above-mentioned phasing-out of improved depreciation rules boosted investment in machinery and equipment in 2007, which also benefited from sound external demand.

Prospects for 2008 and 2009

The reduction in the statistical carry-over from 2007 explains about half of the downward revision of growth in 2008 compared with the autumn

forecast. Going forward, growth is set to remain relatively stable in 2008 and to moderately accelerate in the course of 2009. The positive fundamentals underlying private consumption should prevail as the temporary effects of the VAT increase and the improved depreciation rules will not weigh on private consumption again in 2008 and inflation is forecast to decelerate in the second half of 2008. With a declining but still positive employment growth and accelerating wage increases, rising real disposable income will help private consumption to pick up moderately. Improved job security will also be supportive, as unemployment should fall towards 7% in 2009 – lower by one-third than in 2005. This could boost households' spending propensity, thereby lowering the persistently high savings rate.

With the weakening of the external environment and the appreciation of the euro, corporate investment, while remaining an important growth contributor, is set to slow down. This is also supported by recent domestic investment orders and production data. The impact of the financial turmoil on credit to enterprises is manifesting itself in a stricter risk assessment by banks, particularly for companies with a relatively low owner capital share. In contrast, growth of credit to enterprises has clearly accelerated since summer 2007. Moreover, the balance sheet restructuring undertaken in recent years, as well as the healthy profit situation, have led to a sound overall financial situation of enterprises in Germany. Collectively, the sector has a positive net savings that allow investments to be financed from own resources and makes companies less vulnerable to



the potential impacts of the financial turmoil.

Fluctuation in economic activity in the first two quarters is driven by construction investment profiting from unusual warm weather conditions in the winter months, reducing the seasonal pick-up in spring. Independently from this short term swing, public investment will continue to profit from pent-up demand for infrastructure investment and improved public finances, also at the local level. In contrast, housing investment should remain stable until the end of 2009. Since, in contrast to most economies, German house prices have been stable in recent years and the construction sector has declined since the middle of the 1990s, the financial turmoil is not expected to have a negative impact on this sector. On the contrary, mortgage rates have fallen rather than increased since the beginning of the financial turmoil last year.

While growth in Germany in recent years was to a large extent driven by net exports, it is set to become more balanced in 2008 and 2009. As world demand decelerates and the euro appreciates, the main demand component affected by the financial turmoil is undoubtedly exports. In addition, Germany's price competitiveness compared with its main trading partners is not likely to improve further due to stronger wage increases and an increase in unit labour costs beyond that in other euro area economies, in particular in 2009. Given the mainly steadily accelerating growth in domestic demand and, consequently, the relatively strong import growth, the growth contribution of net external demand will decline.

Costs and prices

Inflation in Germany has reached levels not seen for nearly 1½ decades driven by rising food and energy prices. However, inflation in these components should peak in summer 2008. Due to favourable base effects, particularly for the food and energy prices but also for the VAT increase and the introduction of tuition fees in some Länder, headline inflation should start decelerating in the second half of this year, falling towards 2% in the last few months of 2008 and below this level in late spring 2009. While stronger wage increases are leading to rising unit labour costs, inflationary pressure from wages remains limited. Consequently, core inflation might also decelerate

in 2009, after rising moderately in the coming months.

Public finances

In 2007, the general government budget was in balance for the first time in nearly two decades, with the exception of the year 2000 (when the one-off revenues from the auction of the UMTS licences were realised).

The revenue side benefited from the increase in the standard VAT rate and substantially stronger revenues from direct taxes, in particular those related to profits. At the same time, receipts from social contributions declined due to a reduction in the unemployment insurance contributions rate (from 6.5% to 4.2%), which was not matched by the increases in the pension contribution rate (from 19.5% to 19.9%) and higher contributions to health care insurance.

Despite exceptionally strong revenue growth, total general government spending grew by less than 1%. With lively GDP growth, the expenditure-to-GDP ratio fell by 1½ pp. Positive labour market developments led to a reduction in related expenditure, in particular on unemployment insurance (*Arbeitslosengeld I*).

In 2008, the general government balance is projected to weaken and to give rise to a deficit of ½% of GDP, a more marked reversal than expected last autumn.

The short-run effects of the reform of company taxation are expected to lead to revenue losses of 0.3% of GDP. Moreover, the expected strong wage increases should dampen company profits, and hence profit-related taxes. An additional burden to the budget will come from the reduction of the unemployment insurance contribution rate (from 4.2% to 3.3%). As of 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.

The expected further decline in the unemployment rate should lead to a reduction in spending on unemployment insurance. However, the budget is likely to be burdened by the upward adjustment of retirement benefits, which exceeds that envisaged by the legislation in force after the 2004 pension reform, and increases in public sector wages. In particular, the new wage and working time

agreement for employees at the federal and local level foresees an effective increase by 4½% in 2008. In addition, working time is to be raised to at least 39 hours per week. The still valid agreement at the Länder level (which claims the largest share of public employment) foresees wage rises of 3% in 2008.

Moreover, financial market turbulence should weigh on revenues from profit-related taxes. So far, the extent of tax revenue losses due to the write-offs and revaluation of the bank portfolios could amount, according to some estimates, to about 0.2 % of GDP. However, the exact magnitude and timing of these effects is still unknown due to the uncertainty related to the evaluation of the underlying outstanding risks and their maturity structure. In addition, the budget is likely to be burdened by the bank rescue operations organised by the German government at the federal and Länder level. The extent of this effect will depend on the precise recording of government actions to be ruled upon by Eurostat at a later stage.

In 2009, the general government balance is projected to improve slightly. Under the assumption of unchanged policies, social contribution rates will remain constant. Finally, the

agreement on public sector wages foresees a further increase of 2.8% as well as a one-off payment of 225 euro in 2009.

In addition, both the 2008 and 2009 budgets will be burdened by the retroactive tax reimbursements resulting from the ruling of the European Court of Justice on taxation of foreign dividend income. In 2009, a temporary budget relief is expected from a one-time reduction in Germany's contributions to the EU budget based on the Council decision on the own resources for the EU budget 2007-2013.

The government debt ratio is projected to fall over the forecast period, from 65% of GDP in 2007 to slightly more than 61.6% in 2009, supported by the relatively solid GDP growth in 2008 and 2009.

Table 3.5.1:

Main features of country forecast - GERMANY

	2006		92-03	Annual percentage change					
	bn Euro	Curr. prices		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	1.8	1.5
Private consumption	1357.5	58.5	1.5	0.2	-0.1	1.0	-0.4	0.6	1.4
Public consumption	425.9	18.3	1.6	-1.5	0.5	0.9	2.1	1.4	1.4
Gross fixed capital formation	417.1	18.0	0.5	-0.2	1.0	6.1	5.0	3.4	1.7
of which : equipment	173.7	7.5	0.7	4.6	6.0	8.3	8.2	6.2	2.6
Exports (goods and services)	1046.5	45.1	5.5	10.0	7.1	12.5	7.8	5.6	4.7
Final demand	3242.3	139.6	2.1	2.6	2.4	5.2	3.3	2.9	2.6
Imports (goods and services)	920.1	39.6	4.7	7.2	6.7	11.2	4.8	5.7	5.1
GNI at previous year prices (GDP deflator)	2344.4	101.0	1.3	2.5	1.0	2.9	2.5	1.8	1.5
Contribution to GDP growth :			1.3	-0.2	0.2	1.9	1.1	1.2	1.3
Domestic demand			-0.2	0.0	0.1	0.0	-0.1	0.3	0.0
Stockbuilding			0.3	1.3	0.5	1.1	1.6	0.4	0.2
Foreign balance			-0.8	-0.4	-0.5	0.2	1.5	1.0	0.3
Employment			8.2	9.7	10.7	9.8	8.4	7.3	7.1
Unemployment rate (a)			3.6	1.4	0.5	1.6	1.1	2.1	2.6
Compensation of employees/f.t.e.			-0.2	-1.1	-1.5	-1.6	-1.6	-0.7	-0.1
Real unit labour costs			-	-	16.3	16.2	16.6	16.6	16.3
Savings rate of households (b)			1.5	1.1	0.7	0.6	1.8	1.9	1.4
GDP deflator			1.6	1.6	1.5	1.4	1.7	2.1	1.5
Private consumption deflator			-	1.8	1.9	1.8	2.3	2.9	1.8
Harmonised index of consumer prices			3.4	6.9	6.9	7.0	8.5	9.0	9.1
Trade balance (c)			-0.4	4.5	4.7	5.2	6.9	7.2	7.3
Current account balance (c)			-0.4	4.5	4.7	5.2	6.9	7.3	7.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-2.5	-3.8	-3.4	-1.6	0.0	-0.5	-0.2
General government balance (c)			-2.6	-3.0	-2.4	-1.4	-0.4	-0.9	-0.7
Cyclically-adjusted budget balance (c)			-	-3.0	-2.4	-1.4	-0.3	-0.8	-0.8
Structural budget balance (c)			56.1	65.6	67.8	67.6	65.0	63.1	61.6
General government gross debt (c)									

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

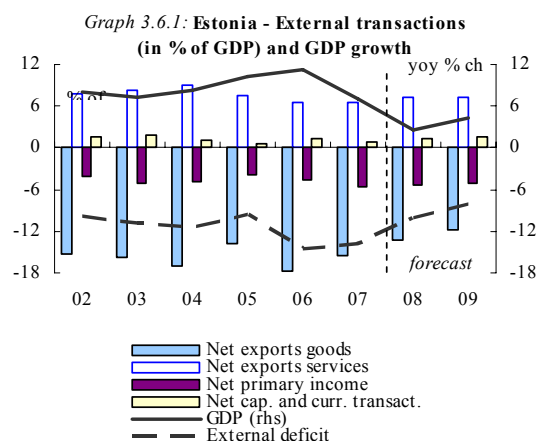
6. ESTONIA

Marked slowdown

Activity in 2007

The deceleration of the Estonian economy in the second half of 2007 turned out to be steeper than previously expected with the rate of economic growth coming down to 7.1% for the year as a whole and just 5.0% yoy in the last quarter of the year, compared with 10.2% in 2005 and 11.2% in 2006. Confidence indicators started to decelerate abruptly in 2007, in many cases dipping below their historical averages around the turn of the year and corresponded to a pronounced slowdown in private consumption. Much of the moderation in domestic demand is related to slowing credit growth and the easing of the housing boom, as annual credit growth halved and real estate transactions decreased by a third; this was reflected in a decline in investment activity. International credit pressures notwithstanding, most of the moderation in credit growth seemed due to lower demand rather than restriction in its supply.

Export and import growth slowed throughout the year, mostly related to developments in quasi-transit trade and sub-contracting in electronics. Annual growth in exports moderated to 1.5% (8.3% in 2006), while annual growth in imports slowed to 2.8% (17.1% in 2006). An improvement in the trade balance, in line with slowing domestic demand, set in rather noticeably towards the end of the year, with the contribution of net exports turning positive in the final quarter. There has nevertheless been no improvement in the external account due to a record income deficit, where the bulk of recorded outflows were reinvested.



Prospects for 2008 and 2009

The economy is expected to slow considerably more in 2008 and 2009 than earlier projected due to the deceleration of domestic demand, but with momentum starting to recover by the end of 2008, driven firstly by net exports and subsequently by domestic demand. Private consumption growth seems fragile, especially in light of exceptionally high price increases in early 2008, and is expected to remain subdued at below 3% in 2008 and recover to 4½% in 2009. Fixed investments, where growth rates are expected to decline noticeably and turn negative for construction, will at the same time be supported by government and other EU-funding related investments, as well as by increases in equipment investment, motivated by high labour costs and favourable price dynamics. Domestic demand is expected to pick up in late-2008 and 2009 on the back of strengthening consumer confidence, when the dampening effect of very high inflation on disposable income recedes and expectations of a new growth phase become more widely shared. Higher pension increases from April 2008 and family-supporting measures agreed in the 2008 budget are expected to contribute to strengthening consumer confidence. The contribution of net exports is expected to remain positive in 2008, turning neutral in 2009.

The strength of the projected recovery will depend on the ability of the economy to cope with price pressures, as well as on its degree of flexibility to re-orient output towards niches where demand is strong. The export sector is still competitive in the higher value-added segments, where there are signs of increasing production and exports. However, there are also signs of deteriorating competitiveness in more labour intensive sectors. The trade balance is set to improve in line with lower domestic demand, which will help to narrow the external account deficit to below 10% of GDP. Net external liabilities relative to GDP, around three-quarters at end-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

Labour supply remains tight, in particular for skilled workers. However, some decrease in employment and an increase in the number of unemployed is expected in 2008 as the economy cools. Wage growth is expected to remain far above that of productivity over the forecast period, with the gap narrowing only gradually.

HICP inflation started picking up at the peak of the economic cycle, reflecting strong domestic demand growth and rising wage costs, and rose further in late 2007 mainly driven by global price developments. Excise tax increases at the beginning of 2008 brought inflation to double-digit levels for the first time since 1998. While price pressures are expected to moderate gradually with the cooling of the economy, HICP inflation will remain strong over the whole forecast period at 9½% in 2008 and above 5% in 2009.

negative effect on the government balance of 0.4% points of GDP ⁽²⁾. However, public finance prospects have worsened due to decelerating domestic demand, reflected in a sluggish tax collection in the first months of 2008. While still expected to maintain a small surplus in 2008, public finances are likely to experience a deficit in 2009 due to a combination of slowing tax collection reflecting lower and less tax-intensive growth, as well as increasing social expenditure and the impact of proposed changes to corporate income tax legislation.

The general government debt ratio decreased further in 2007, even with the effect of reclassification, and will remain low over the forecast period.

Public finances

The general government budget position for 2007 turned out to be strong with a surplus of 2.8% of GDP, even though headline surplus numbers were revised downwards in the spring fiscal notification due to the reclassifying of some companies and foundations inside the government sector, with a

⁽²⁾ This reclassification is not yet reflected in government total expenditure and revenue, which thus cannot be compared directly with the general government balance.

Table 3.6.1:

Main features of country forecast - ESTONIA

	2006			92-03	Annual percentage change					
	bn EEK	Curr. prices	% GDP		2004	2005	2006	2007	2008	2009
GDP at constant prices		207.1	100.0	-	8.3	10.2	11.2	7.1	2.7	4.3
Private consumption		112.0	54.1	-	6.6	10.7	14.9	9.0	2.6	4.3
Public consumption		33.9	16.4	-	3.0	1.6	2.6	4.8	3.9	3.0
Gross fixed capital formation		70.6	34.1	-	4.4	9.9	22.4	7.8	2.1	3.9
of which : equipment		27.3	13.2	-	-	-	-	17.0	4.8	7.5
Exports (goods and services)		164.4	79.4	-	16.6	20.5	8.3	1.5	3.5	5.7
Final demand		394.9	190.7	-	11.3	13.7	12.5	4.9	2.5	4.6
Imports (goods and services)		187.8	90.7	-	15.5	16.3	17.1	2.8	2.4	4.9
GNI at constant prices (GDP deflator)		197.5	95.4	-	8.6	11.3	10.3	4.9	4.0	4.7
Contribution to GDP growth :	Domestic demand			-	6.4	8.5	19.2	8.8	2.9	4.4
	Stockbuilding			-	2.5	-0.3	1.2	-0.1	-0.8	0.0
	Foreign balance			-	-0.7	2.0	-9.2	-1.5	0.6	0.0
Employment				-	0.1	1.8	5.6	0.4	-1.0	0.0
Unemployment rate (a)				-	9.7	7.9	5.9	4.7	6.0	6.0
Compensation of employees/f.t.e.				-	11.2	11.0	14.0	26.5	13.6	8.2
Real unit labour costs				-	0.9	-3.4	2.0	8.1	0.1	-1.1
Savings rate of households (b)				-	-	-0.8	-0.7	2.7	6.7	5.7
GDP deflator				-	1.8	6.2	6.2	9.7	9.4	4.8
Private consumption deflator				-	1.7	2.7	3.8	5.8	8.8	4.5
Harmonised index of consumer prices				-	3.0	4.1	4.4	6.7	9.5	5.1
Trade balance (c)				-	-17.0	-13.7	-17.7	-15.5	-13.2	-11.7
Current account balance (c)				-	-12.4	-10.1	-15.7	-15.7	-11.2	-9.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-11.7	-9.5	-14.6	-14.7	-10.0	-8.0
General government balance (c)				-	1.6	1.8	3.4	2.8	0.4	-0.7
Cyclically-adjusted budget balance (c)				-	1.6	1.2	1.9	1.6	0.6	0.2
Structural budget balance (c)				-	1.6	1.2	1.0	1.3	0.4	0.6
General government gross debt (c)				-	5.1	4.5	4.2	3.4	3.4	3.5

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

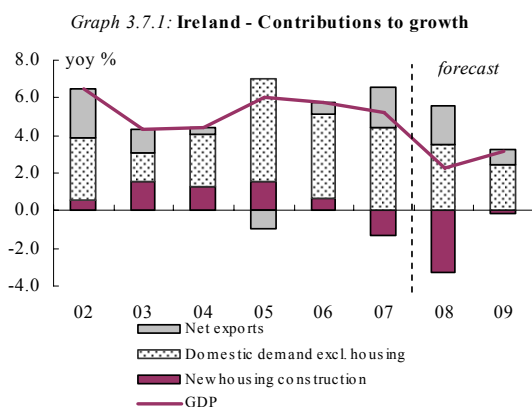
7. IRELAND

Housing market adjustment tames Celtic tiger

Activity in 2007

Preliminary estimates showed GDP growth at 5.3% in 2007, broadly in line with the earlier part of the decade. However, this robust performance masked a significant deterioration over the course of the year, as annual growth slowed to 3.5% by the final quarter mainly due to a severe correction in the housing sector. House completions fell by one tenth from their 2006 peak. Other classes of investment grew relatively robustly: machinery and equipment was buoyed by aircraft imports; strong growth in non-residential construction reflected planned public infrastructure provisions and buoyant private non-residential construction. Consequently, the overall volume of investment remained broadly at 2006 levels. Private consumption grew by 5.4 % annually, supported by continued strong growth in employment and incomes as well as the maturation of a one-off government-sponsored saving scheme. Public consumption grew by 6.7% reflecting a strongly expansionary stance. Domestic demand growth therefore remained relatively robust at 3½% annually.

On the external side, the performance of merchandise exports was the strongest for a number of years, thanks partly to a strong chemical sector performance and continued rapid growth in services exports. The latter grew by almost 15% especially trade-related, computer and business services. Overall exports grew by 8.2% while imports remained strong growing at 6.4%, somewhat faster than final demand.



Prospects for 2008 and 2009

GDP growth is expected to slow sharply to around 2¼% in 2008 and, despite a pickup to 3¼% in 2009, should remain well below potential over the forecast period. However the overall growth picture is heavily influenced by the trajectory in the residential construction sector, with growth remaining relatively robust in the rest of the economy. Therefore, despite private consumption growth of around 3% in 2008, domestic demand is projected to be broadly flat, largely reflecting an expected further large fall in house completions. While this correction in the housing market, in response to higher interest rates and rising prices, had been underway since later 2006, it has been compounded by the worsening international economic and financial environment. Although the full extent of the correction or its duration remains uncertain, with the prospect of relative stability in housing output in 2009, domestic demand growth is expected to return to 2¾% annually.

In 2008, economic growth is projected to come mainly from net exports reflecting strong growth in services exports, as well slower imports as domestic demand weakens. In 2009, the contribution of net exports is expected to moderate but remain positive. Thus, while considerably weaker than in the recent past, overall growth is expected to be more balanced between domestic and external components. While this reflects cyclical factors and the ending of the housing boom in particular, it also reflects some improvement in underlying productivity.

Labour market, costs and prices

Employment rose annually by 3.6% in 2007. The services sector, both public and private, accounted for most of this increase, whereas the construction sector had registered an annual fall in employment by the end of the year. Annual HICP inflation in 2007 was 2.9%, which was significantly above euro area inflation mainly because of the services sector. CPI inflation was even higher at 4.9%, reflecting higher mortgage repayments. In 2008, employment growth is projected to slow to around ¾% reflecting in particular a sharp contraction in construction employment and less dynamic services sector employment growth. A smaller fall in construction employment during 2009 will

allow for some recovery in total employment growth to around 1½%. Slower growth is also expected to have a negative impact on labour supply through reduced immigration and unchanged labour force participation, but unemployment is still expected to rise to 5½% in 2008 and 5¾% in 2009. The rate of growth of compensation per employee is projected to slow to 4¼% in 2008 and further to 3¾% in 2009. Productivity will be affected by countervailing influences. On the one hand, cyclical conditions suggest a weakening. On the other, the structural move away from reliance on the highly labour-intensive residential construction sector may offset this, on balance leaving economy-wide productivity growth broadly unchanged. While cyclical conditions might be expected to lead to a moderation of inflation by the end of the projection, recent adverse energy and food price developments are likely to delay the projected fall in HICP inflation from 3.3% in 2008 to 2.4% in 2009. Importantly for price expectations, national CPI inflation is expected to fall faster in line with interest rate assumptions, as the impact of higher average mortgage repayments recedes - from 4.2% in 2008 to 2.2% in 2009. With the assumed appreciation of the exchange rate, merchandise export prices are expected to continue falling over the projection period. Similarly merchandise

import prices are expected to fall in 2008, although the extent of this will be tempered by rising energy import prices, and overall import prices are expected to start increasing again in 2009. The worsening merchandise terms of trade over the forecast period, offset to some extent by an improved terms of trade for the services balance, is expected to delay the cyclically related improvement in the balance of payments deficit from 5% in 2007 to 4.7% in 2009.

Public finances

In 2007, general government is estimated to have registered a surplus of 0.3% of GDP, compared to an original Budget 2007 target of 1.2% reflecting higher than targeted spending and undershooting tax revenues linked with the slowdown in the housing market. For 2008, weaker nominal GDP growth and relative weakness in tax revenues at the beginning of the year suggest that the outturn could be somewhat worse than projected (1.4% of GDP against a targeted 0.9%). For 2009, a projected slowdown in government spending may not be sufficient to offset continued weakness in tax revenues, leading to a further worsening of the nominal balance to 1.7% of GDP. Government debt is projected to increase from 25¼ % of GDP in 2007 to about 28¾% 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	4.4	6.0	5.7	5.3	2.3	3.2
Private consumption	79.5		45.5	5.4	4.0	7.4	5.7	5.4	2.9	3.2
Public consumption	27.9		16.0	5.7	3.6	5.2	5.5	6.7	3.5	1.6
Gross fixed capital formation	46.0		26.3	8.1	6.9	11.7	3.1	0.2	-7.4	2.5
of which : equipment	7.9		4.5	7.8	7.2	19.4	-8.2	12.6	10.0	6.0
Exports (goods and services)	139.8		80.0	13.3	7.3	5.2	4.4	8.2	5.4	4.9
Final demand	295.7		169.3	9.2	5.6	6.7	5.1	5.7	2.7	3.7
Imports (goods and services)	121.0		69.3	11.9	8.5	7.7	4.4	6.4	3.3	4.5
GNI at previous year prices (GDP deflator)	150.5		86.2	6.6	4.3	5.8	7.0	4.4	1.3	3.6
Contribution to GDP growth :										
Domestic demand				5.1	3.9	7.0	4.3	3.6	0.1	2.4
Stockbuilding				0.0	-0.7	-0.1	0.7	-0.5	0.2	0.0
Foreign balance				2.3	0.4	-1.0	0.6	2.1	2.0	0.8
Employment				3.7	3.1	4.7	4.3	3.6	0.7	1.6
Unemployment rate (a)				9.2	4.5	4.3	4.4	4.5	5.6	5.8
Compensation of employees/head				5.4	6.4	5.0	4.5	5.8	4.9	3.5
Real unit labour costs				-2.0	3.0	1.1	0.8	3.2	1.5	0.4
Savings rate of households (b)				-	-	13.0	11.0	8.7	8.6	8.7
GDP deflator				3.9	2.1	2.6	2.3	0.9	1.7	1.4
Private consumption deflator				3.4	1.5	1.4	2.1	3.8	2.6	2.4
Harmonised index of consumer prices				-	2.3	2.2	2.7	2.9	3.3	2.4
Trade balance (c)				20.9	21.7	17.5	14.5	12.3	11.3	10.3
Current account balance (c)				1.4	-0.3	-3.5	-4.2	-5.0	-4.8	-4.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				2.3	-0.1	-3.4	-4.0	-5.0	-4.7	-4.6
General government balance (c)				0.3	1.4	1.6	3.0	0.3	-1.4	-1.7
Cyclically-adjusted budget balance (c)				0.3	1.4	1.6	2.9	0.2	-0.8	-0.9
Structural budget balance (c)				-	2.1	1.3	2.9	0.2	-0.8	-0.9
General government gross debt (c)				60.7	29.5	27.4	25.1	25.4	26.9	28.8

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

8. GREECE

Wider external imbalances in a context of decelerating growth

Activity in 2007

Economic activity decelerated marginally to 4% in 2007, from 4¼% in 2006, remaining robust and exclusively domestic-demand driven. This deceleration reflects the adjustment of private consumption to a more sustainable pace, the fading-out of last year's extraordinary dynamism in residential investment activity and the decline in government's public investment programme in the second half of the year. On the other hand, the improving business environment and increasing corporate profitability benefited investment, which rebounded strongly, compensating partly for the slowdown in residential construction. Public consumption accelerated significantly in 2007, clearly above the historical levels, after contracting marginally in 2006. The rebound was mainly driven by the implementation of relief measures for the areas hit by the August fires and the unforeseen cost of the organisation of the call for elections in September 2007. Overall, domestic demand contributed almost 5¼ percentage points to growth. On the external front, the declining but still dynamic performance of exports of goods and the rebound in the tourism and transportation sectors led to a significant reduction of the negative contribution of net exports to growth.

Prospects for 2008 and 2009

Economic growth is projected to decelerate over the forecast horizon, with real GDP growing at just below 3½% in both 2008 and 2009. Economic activity is likely to remain exclusively driven by domestic demand and changes in the growth composition compared with the 2007 outcome are

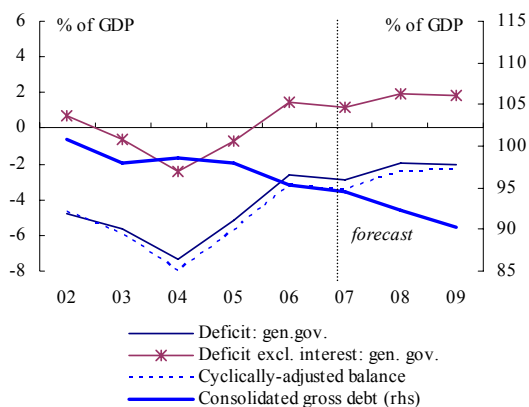
expected to be marginal, with private and public consumption growth easing to more sustainable levels. The effective tightening of credit conditions and the effects of higher food and oil prices on household disposable income are expected to outweigh positive developments in employment, real wage growth, cuts in income taxes and higher social benefits. This would lead to a marginal slowdown in private consumption growth, which should remain just above 3% per year. Public consumption growth is expected to move closer to 3¼% after last year's temporary hike. Residential investment is likely to decline further, while corporate and public investment is foreseen to remain strong. Specifically, investment growth should continue to derive support from still negative real interest rates, the healthy financial and cash-flow position of enterprises, the strong corporate profitability of last year, EU structural funds inflows and the launch of public-private partnership investment projects.

Overall, domestic demand is projected to contribute just below 4½ percentage points to GDP growth per year. On the external front, imports are projected to decelerate in step with domestic demand, while the growing differential with Greece's main trade partners in terms of unit labour costs will further worsen competitiveness and, consequently, result in a relatively weak performance of exports of goods. Exports of services however, are foreseen to keep the momentum of the recent past, on the back of a dynamic transportation sector. As a result, the contribution of the net exports to GDP growth is projected to remain negative. In view of developments in the external sector, the current account deficit is projected to remain high, above 16% of GDP in 2008 and 2009, reflecting a further widening in the trade balance deficit.

Labour market, costs and prices

Consistent with buoyant growth, employment grew by 1¼% in 2007. However, the projected slowdown of economic activity should lead to slightly lower growth in job creation, at around 1% in both 2008 and 2009. The unemployment rate is expected to decrease accordingly, by around ½ percentage point per year to just below 7½% in 2009, maintaining the steady downward trend of the last few years. As regards prices, annual HICP

Graph 3.8.1: Greece - Public finances



inflation was contained at 3% in 2007, compared to 3.3% in 2006. In 2008, however, it has already exceeded 4¼% in the first quarter, fed mainly by the ongoing acceleration in food and oil prices. Inflationary pressures are expected to remain strong throughout the year, on the back of uncertainties in the global energy markets, rising indirect taxes on oil sub-products and recent developments in labour costs. Specifically, wages per head in 2008 are set to grow faster than in 2007 and continue to exceed productivity growth. This should somewhat accelerate the increase in unit labour costs, which would continue to rise by more than in the euro area's trading partners and thus, contribute to a further deterioration in the country's competitive position, especially in the traded goods.

Public finances

The general government deficit outcome for 2007 was 2.8% of GDP, including a net one-off⁽³⁾ deficit-increasing impact of some ¼ percentage points of GDP⁽⁴⁾. The December 2007 update of the Stability and Growth programme targets a deficit of 1.6% of GDP in 2008, in line with the 2008 Budget Law. Deficit-reducing one-off measures of some 0.1% of GDP are included. Total revenues are budgeted to rise by some 1

percentage point of GDP, on the back of indirect and property tax increases. In contrast, total expenditures are projected to decrease by some ½ percentage point of GDP, mostly due to lower public 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 around 2% of GDP in 2008. Measured by the cyclically-adjusted balance net of one-offs, the structural balance should improve by more than ½% of GDP. Based on the customary unchanged policy assumption, the 2009 deficit is projected at around 2% of GDP. The general government debt ratio should decrease to about 90% of GDP by 2009.

⁽³⁾ This net one-off impact is the combination of deficit-increasing one-offs of 1 percentage point (mainly related to the arrears paid to the EU budget following the GDP revision and the cost of summer forest fires) and deficit-reducing measures of 0.8 of a percentage point of GDP (related to deferred payments by private banks to the pension funds).

⁽⁴⁾ Eurostat is in the process of clarifying, in close co-operation with the Greek statistical authorities, some issues relating to the recording of EU grants in 2006 and 2007, the existence of a sizeable statistical discrepancy in 2007 and the insufficient coverage of source data for extra-budgetary funds, local government and social security funds achieved for the first estimate of the 2007 balance.

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	214.4	100.0	2.8	4.6	3.8	4.2	4.0	3.4	3.3	
Private consumption	152.0	70.9	2.8	4.7	4.2	4.2	3.4	3.1	3.0	
Public consumption	34.2	16.0	2.7	2.7	1.4	-0.7	7.4	3.6	3.3	
Gross fixed capital formation	55.2	25.7	5.3	6.0	0.7	14.8	5.9	5.8	5.5	
of which : equipment	19.8	9.2	11.4	8.0	1.7	6.5	9.4	8.6	7.6	
Exports (goods and services)	46.9	21.9	5.6	12.6	2.7	5.1	5.9	5.5	5.4	
Final demand	288.1	134.4	3.5	6.1	3.0	5.4	4.8	4.1	4.0	
Imports (goods and services)	73.8	34.4	6.1	10.7	0.5	8.7	7.0	6.1	5.7	
GNI at constant prices (GDP deflator)	210.5	98.2	2.5	4.4	2.9	4.4	3.4	3.8	3.4	
Contribution to GDP growth :										
Domestic demand			3.6	5.3	3.3	6.4	5.2	4.4	4.3	
Stockbuilding			-0.1	0.3	0.1	-0.4	0.1	0.0	0.0	
Foreign balance			-0.6	-1.0	0.4	-1.8	-1.3	-1.1	-1.0	
Employment			1.0	0.9	1.5	2.5	1.2	1.1	1.1	
Unemployment rate (a)			9.9	10.5	9.8	8.9	8.3	8.3	8.0	
Compensation of employees/head			8.8	5.6	6.1	6.3	7.2	7.4	6.8	
Real unit labour costs			-0.3	-1.6	0.5	1.1	1.2	1.5	0.9	
Savings rate of households (b)			-	-	0.7	1.2	1.4	0.9	0.5	
GDP deflator			7.3	3.4	3.3	3.4	3.1	3.5	3.6	
Private consumption deflator			7.1	2.4	3.3	3.5	3.1	3.7	3.6	
Harmonised index of consumer prices			-	3.0	3.5	3.3	3.0	3.7	3.6	
Trade balance (c)			-14.7	-19.6	-18.3	-18.8	-19.0	-19.3	-19.5	
Current account balance (c)			-5.1	-13.3	-13.4	-14.4	-16.2	-16.2	-16.2	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-11.7	-12.1	-12.3	-14.1	-14.3	-14.4	
General government balance (c)			-6.7	-7.4	-5.1	-2.6	-2.8	-2.0	-2.0	
Cyclically-adjusted budget balance (c)			-6.3	-8.0	-5.7	-3.2	-3.5	-2.5	-2.3	
Structural budget balance (c)			-	-8.0	-5.7	-3.7	-3.3	-2.6	-2.3	
General government gross debt (c)			99.4	98.6	98.0	95.3	94.5	92.4	90.2	

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

9. SPAIN

The housing sector contracts, external imbalances persist

Activity in 2007

Buoyant economic activity continued during 2007, when real GDP grew at 3.8%. However, this high growth rate for the year as a whole actually conceals a decelerating quarterly profile. Domestic demand started to show some signs of fatigue already during the second quarter, which accentuated during the second half of the year. Private consumption and investment lost momentum due to both worsening consumer confidence and tighter credit conditions associated with the financial market turmoil. Only investment in equipment remained resilient and continued growing at two-digit levels. For the year as a whole, domestic demand contributed 4.6 percentage points to GDP growth.

Exports increased by 5.3%, slightly above the 5% recorded in 2006 and broadly in line with market growth. Due to the recorded slowdown in private consumption, imports grew by 6.6%, compared with more than 8% in 2006. As a result, the negative growth contribution of net exports declined from 1.2 pp in 2006 to slightly below 0.7 pp in 2007.

Prospects for 2008 and 2009

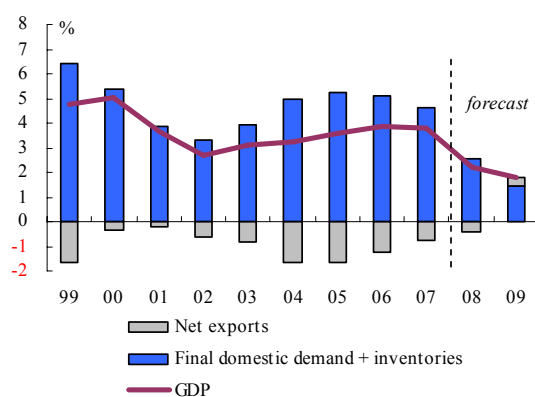
In 2008, GDP growth is foreseen to slow down to 2¼% on the back of cooling private consumption and contracting housing investment. The factors supporting strong and sustained investment in housing have faded away. Credit demand for housing began to ease already in 2006 and credit conditions tightened in 2007. Moreover, confidence deteriorated last year and the financial

turmoil put additional pressure on credit markets. The number of housing approvals has been on a sharply declining path since the first half of 2007. This persistent fall in building permits provides evidence that the housing sector is immersed in a structural, as opposed to a cyclical, adjustment process towards a new equilibrium. This is in line with the projected creation of new households, which could reduce the size of the sector by about 1/3 in real terms over the next three years. On this basis, investment in dwellings is projected to decline by around 5%. Nevertheless, total gross fixed capital formation should increase by a meagre 1½% (6% in 2007), thanks to still relatively strong infrastructure and equipment investment.

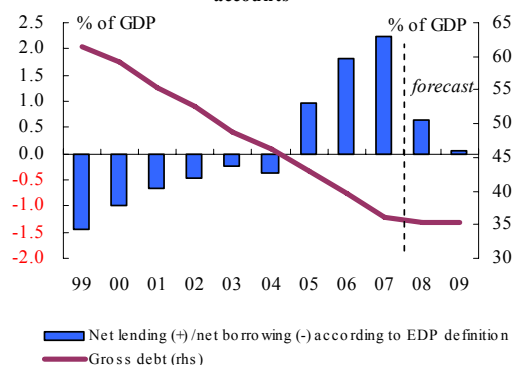
In addition, private consumption is losing momentum in line with its economic fundamentals. Specifically, sluggish employment creation prospects would imply a deceleration of real disposable income. Moreover, the recourse to consumption credit could be more difficult than in the past due to high household indebtedness ratios in Spain and uncertainties in financial markets. The announced fiscal stimulus (see further details in the public finance section below) might provide some support to households' disposable income during the second half of the year and, as a result, private consumption could grow at 2¼%. The household saving rate is projected to reverse its previous declining trend. Overall, domestic demand is projected to contribute 2¾ percentage points to GDP growth in 2008.

Export growth is foreseen to decrease in 2008 to around 4%. On top of the dollar depreciation, the

Graph 3.9.1: Spain- Contributions to growth



Graph 3.9.2: Spain - General Government accounts



inflation differential of the country with the euro area is not expected to narrow over the forecasting horizon, weakening the competitiveness position of the Spanish economy further. Moreover, it is anticipated that global demand will worsen. Together with the slowdown in the pace of private consumption, imports should grow by 4½% in real terms, lowering the negative contribution from net exports to GDP growth, to below half a percentage point of GDP.

GDP growth is projected to slow down further in 2009 to around 1¾%. The ongoing contraction in housing investment, which is projected to decline by around 15%, is likely to weigh on job creation, thus further decelerating private consumption. Unlike in 2008, the projected increase in infrastructure should fail to offset the fall in housing investment and, consequently, gross fixed capital formation might contract by 1½%. Overall, domestic demand should contribute 1½ percentage points to GDP growth. It is envisaged that the contribution of net exports will become slightly positive, especially on the back of lower import growth reflecting slowing domestic demand. Exports are projected to accelerate slightly, allowing the country to broadly keep its market shares.

The trade deficit is forecast to further increase to around 9% of GDP. This partially reflects the deterioration in the terms of trade by 1¼% and ½% in 2008 and 2009, respectively. Additionally, the balance of primary incomes should worsen because of a higher debt burden vis-à-vis foreign lenders. Higher payments to foreign investors should also bring about a widening of the gap between domestic and national disposable income. All in all, the current account deficit is expected to stay in two-digit territory throughout the forecasting period.

There are risks to this scenario. On the one hand, sustained population growth might result in a better-than-expected outcome for economic activity. Specifically, in spite of the deterioration of economic activity, population growth might remain significant in the short-term, thus helping to sustain private consumption and to soften the adjustment of investment in dwellings. On the other hand, a sharper-than-expected adjustment of the housing sector and further tightening in financial markets could weigh on economic activity more than projected in the baseline scenario above. In a context of tighter credit

conditions, the adjustment in the housing sector would take place more rapidly than expected, further slowing down the pace of employment and private consumption growth. Spanish households, highly indebted at almost exclusively variable interest rates, are significantly exposed to possible hikes in the cost of credit. Furthermore, within a context of credit restraint, the financing of the fast rising external debt of the country might further weigh on domestic activity.

Labour market, costs and prices

In line with economic activity, job creation is projected to decelerate strongly in 2008 and 2009. Employment (full time equivalent) is expected to grow by about 1¼ % and ¾% respectively, mainly in the service sector. This compares with a rate of job creation of 3% in 2007. With still relatively strong migrant inflows, labour force growth could outpace job creation, thus raising the number of the unemployed. As a result, the unemployment rate should increase by around one percentage point per year, to above 10% in 2009.

On the back of higher oil and food prices, inflation is expected to remain at around 4% until the end of the current year, when price pressures should ease to 2¾%. The average annual inflation rate could stand just above 3¾% in 2008, one percentage point higher than last year. In the same vein, the inflation differential with the euro area would remain at around one percentage point, comparable to the average recorded over the last decade. In 2009, a decelerating internal demand might alleviate price pressures, leading to a substantial decline of headline inflation to 2½%, on average for the whole year. The inflation differential with the euro area is projected to narrow to slightly below ¾ of a percentage point.

Compensation of employees is expected to closely follow, and even surpass, inflation developments. In 2008, labour costs increase per head could reach 4¼% before easing to 3¼% in 2009. This leads to an increase of real unit labour costs, which contrasts with its declining path in the recent past. Productivity growth for the economy as a whole should remain sluggish over the forecast horizon, at around 1% per year. Unit labour costs might grow by 3½% in 2008 and just below 2¼% in 2009. Accordingly, the competitiveness of the Spanish economy vis-à-vis the rest of the euro area would deteriorate further.

Public finances

For 2007, the general government surplus is estimated at 2¼% of GDP. This is a better budgetary outcome than in 2006, and well above the target in the 2007 Budget Law (0.7% of GDP), mainly explained by higher-than-expected revenues. Specifically, corporate taxes associated with unusual profits have been growing at record levels.

For 2008, the Budget Law targets a surplus of 1¼% of GDP, fully in line with the updated 2007 Stability Programme. Although the Budget Law seems to be based on an optimistic macroeconomic scenario (it projects GDP growth of 3.3%), favourable projections for tax revenues might be largely offset by the better base effect of 2007. However, the recently announced fiscal package, with an estimated cost of €6 billion (0.6% of GDP), implies a downward revision of the public surplus in 2008, which might bottom out at around ½% of GDP. Specifically, the measure with the highest budgetary impact consists of a tax credit of €400 granted to each tax payer (employees, self-employees and pensioners) during the second half of the current year by lowering tax withholdings and, as result, revenues might increase by a modest 3¼%. On top of the fiscal package, should the downward risks to the macroeconomic outlook

presented above materialise, the projected surplus might eventually vanish.

Total expenditures are expected to grow by about 7¼%, well above nominal GDP growth below 5%. Regarding central government expenditure, the 2008 Draft Budget Law gives priority for the fourth consecutive year to R&D, which should grow in nominal terms by around 17%. As a result, public R&D would represent 0.7% of GDP.

In 2009, based on the customary no-policy-change scenario, the general government surplus could narrow to a close-to-balance position. Revenues are projected to grow at around 4%, close to nominal GDP, reflecting mainly low indirect and corporate taxes on the back of declining tax collection associated with a scenario of less buoyant housing market and corporate profits. Total expenditures are assumed to grow by 5½%, above nominal GDP, mainly explained by the functioning of automatic stabilisers, especially higher unemployment benefits.

Although the primary surplus should decline from 3¾% in 2007 to 1½% in 2009, the debt-to-GDP ratio is projected to continue on a decreasing path, from 36¼% in 2007 to around 35¼% 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	2.2	1.8
Private consumption		563.2	57.4	2.7	4.2	4.2	3.8	3.2	2.2	1.9
Public consumption		178.0	18.1	3.2	6.3	5.5	4.8	5.1	5.0	4.3
Gross fixed capital formation		298.2	30.4	3.7	5.1	6.9	6.8	6.0	1.4	-1.5
of which : equipment		73.1	7.5	3.7	5.1	9.2	10.4	11.5	4.3	1.5
Exports (goods and services)		255.3	26.0	8.4	4.2	2.6	5.1	5.3	4.0	4.9
Final demand		1296.5	132.2	3.9	4.7	4.6	4.9	4.5	2.7	2.1
Imports (goods and services)		315.6	32.2	8.2	9.6	7.7	8.3	6.6	4.5	3.0
GNI at previous year prices (GDP deflator)		964.2	98.3	2.9	3.1	3.5	3.5	2.9	1.8	1.3
Contribution to GDP growth :										
	Domestic demand			3.1	4.9	5.3	5.1	4.5	2.6	1.5
	Stockbuilding			0.0	0.0	-0.1	0.1	0.0	0.0	0.0
	Foreign balance			-0.1	-1.7	-1.6	-1.2	-0.7	-0.4	0.3
Employment				2.0	2.7	3.2	3.2	3.0	1.3	0.7
Unemployment rate (a)				14.7	10.6	9.2	8.5	8.3	9.3	10.6
Compensation of employees/f.t.e.				4.1	3.0	2.9	3.0	3.6	4.3	3.3
Real unit labour costs				-0.7	-1.5	-1.7	-1.6	-0.4	0.8	0.1
Savings rate of households (b)				-	-	10.9	10.5	10.3	10.7	10.9
GDP deflator				3.9	4.0	4.2	4.0	3.1	2.6	2.0
Private consumption deflator				3.7	3.6	3.4	3.4	2.8	3.8	2.6
Harmonised index of consumer prices				-	3.1	3.4	3.6	2.8	3.8	2.6
Trade balance (c)				-4.1	-6.3	-7.4	-8.1	-8.4	-9.1	-9.0
Current account balance (c)				-2.2	-5.9	-7.5	-8.8	-10.0	-11.0	-11.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.3	-4.8	-6.5	-8.1	-9.5	-10.6	-10.8
General government balance (c)				-3.2	-0.3	1.0	1.8	2.2	0.6	0.0
Cyclically-adjusted budget balance (c)				-2.9	-0.2	1.2	2.0	2.4	1.1	0.9
Structural budget balance (c)				-	-0.2	1.2	2.0	2.4	1.1	0.9
General government gross debt (c)				58.2	46.2	43.0	39.7	36.2	35.3	35.2

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

10. FRANCE

Lacklustre growth and higher budget deficits ahead

Activity in 2007

In 2007, the economy grew by 1.9% in real terms after 2% in 2006, close to potential. Domestic demand remained resilient, while the contribution from net exports was again significantly negative (-0.4 pp after -0.5 in 2006).

GDP growth was therefore still exclusively driven by domestic demand, in particular private consumption. Robust employment creation buttressed the strong increase in household disposable income. In the wake of surging inflation, household consumption slowed in the fourth quarter (which was also affected by ten days of strikes against the Government's plans to reform special pension regimes), while business investment remained dynamic. Despite buoyant government investment spurred by the local electoral cycle, investment in construction decelerated relative to the previous year as the housing market continued to cool. Export growth held up during most of the year but contracted in the last quarter in the wake of the deteriorating global environment. Imports, which had developed in line with the robustness of final demand, fell sharply in the last quarter, partly on account of the marked decrease in household consumption of durable goods.

Prospects for 2008 and 2009

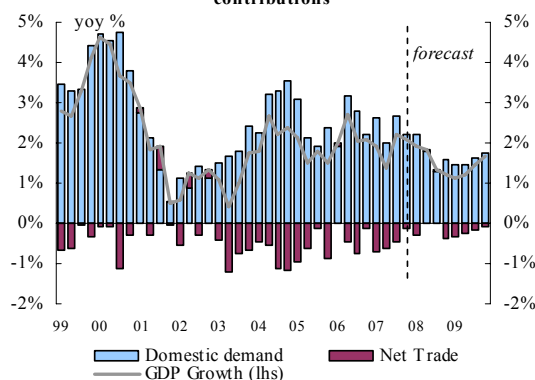
In a macroeconomic context characterised by growing uncertainties, still high inflation and some tightening of financial conditions, real GDP growth is forecast to decelerate in 2008. In 2009, economic activity is projected to remain lacklustre,

with GDP growth picking up only very moderately in the second half of the year in a context of gradually abating inflation pressures and slowly improving prospects in some of France's largest trading partners. Growth is expected to continue to be largely driven by domestic demand. Net exports should again provide a negative contribution, albeit less than in previous years.

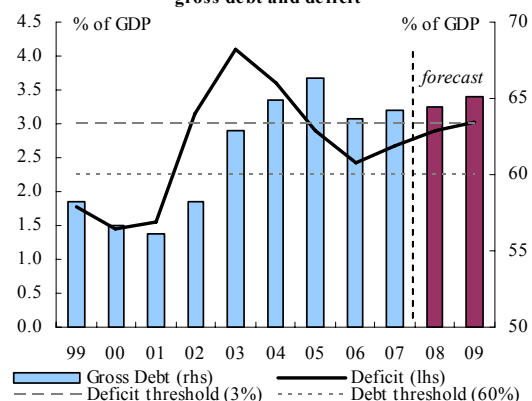
Private consumption, though slowing, would remain the main driving force of economic growth. In 2008, household real disposable income would be dampened considerably, on the back of a slowing labour market and higher inflation. However, as in the past, households are likely to react with a lag to changes in disposable income and to smooth consumption, reducing their savings in 2008, which increased considerably in 2007. After a relatively strong first quarter of the year, household consumption would slow somewhat, though a minor positive impact from the unfreezing of employees' stake in companies⁵ is assumed in the second half of the year. In 2009, cuts in the personal income tax introduced with the TEPA⁶ package, though slightly less effective than previously estimated (*inter alia*, as concerns taxation on overtime), are expected to support some recovery in household real disposable income, which would also benefit from lower inflationary pressures.

Investment in machinery and equipment should remain comparatively resilient in the first half of the year, as indicated by recent business surveys and production data and the fact that the capacity utilisation rate is slightly above its long-term average. It is however expected to slow more

Graph 3.10.1: France -GDP growth and contributions



Graph 3.10.2: France -General Government gross debt and deficit



markedly from the second half of the year onwards, due to deteriorating demand prospects and tightening credit conditions. Although evidence of a restriction of credit to enterprises is still limited, the forecast assumes that, given the fact that French firms have in recent years reduced financing from own resources, their investment decisions are somewhat vulnerable to banks' intentions to enforce stricter risk assessment as a consequence of the financial turmoil. As for investment in construction, the phasing out of the impulse from the local electoral cycle and the slowdown in the housing market should all contribute to making it considerably less dynamic in 2008 and 2009. The forecast is based on the assumption of a soft landing for the French housing market. Prices, which have been declining since January 2006, appear to have stabilised in the fourth quarter of 2007. Housing demand has slowed in recent months, but looking ahead demographic factors as well as fiscal measures taken to support household housing investment may be expected to somewhat mitigate the slowdown in demand.

On average, French export volumes are projected to slow down in 2008 due to weakening external demand, the deterioration in price competitiveness linked to the appreciation of the euro and still unfavourable cost competitiveness. The outlook in 2009 is foreseen to remain relatively downbeat. In a context of slowing final demand, import growth is also expected to diminish significantly compared to 2007 and remain subdued over the forecast period.

Labour markets, costs and prices

Despite modest GDP growth, employment continued to expand robustly in 2007 (+1.2% after +0.8% in 2006), largely due to the performance in construction and services. In 2008 and in 2009, employment growth is set to decelerate markedly in the wake of the economic slowdown. Following two years on a strong downward trajectory, the unemployment rate is projected to decrease marginally in 2008, and rise again in 2009.

With a still high unemployment rate (around 1 pp above the euro-area average) and the projected slowdown in employment growth, wage moderation is expected to continue over the forecast horizon. The risk of second-round effects on wages from the flare-up in prices cannot be excluded, but seems relatively limited. Unit labour

costs should broadly stabilise in 2008 and slow down marginally in 2009, as productivity growth is expected to increase slightly. HICP inflation should be around 3% in 2008. Inflationary pressures are expected to gradually abate, in line with the assumptions on oil and commodity prices, the slowdown in economic activity and assuming some marginal effects from the *Loi Châtel* on retail prices. In this context, HICP inflation is projected around 2% in 2009. Core inflation is expected to slightly rise from the first quarter of 2008 and to start decelerating as of the beginning of 2009.

Public finances

The general government deficit, which had been reduced to 2.4% of GDP in 2006 thanks to higher-than-expected revenues (including one-offs of 0.3% of GDP), increased to 2.7% of GDP in 2007, slightly above the Commission's autumn 2007 forecast of 2.6% of GDP. The structural balance (the cyclically-adjusted-balance net of one-offs) showed no improvement.

On the revenue side, the overall tax burden is projected to have decreased to 43.7% of GDP, from 44.0% in 2006, and total revenue from 50.3% of GDP to 49.9%. The income tax reduction enacted with the 2007 finance law and cuts in social contributions for overtime, which entered into force on 1 October, were partly counterbalanced by the effects of the robust employment performance and strong corporate tax proceeds. On the expenditure side, the state expenditure rule (a reduction of state expenditures by 1% in volume) was not achieved⁷. Slippages were recorded in social security and particularly in healthcare, where once again the objective was not met. Local expenditure growth was very dynamic, especially in investment, in line with the electoral cycle. All in all, the expenditure-to-GDP ratio decreased very marginally compared to 2006, from 52.7% to 52.6% of GDP.

In 2008, the deficit is expected to increase to 2.9% of GDP. This compares with a new official target of 2.5%, up from 2.3%. The difference with this target stems both from lower revenue, partly linked to the deterioration of the macroeconomic environment envisaged in the Commission's scenario, and from slightly higher expenditure, notably in social security. 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,

impacting chiefly on revenues, are: (a) the TEPA package⁵, with an overall negative impact of 0.3% of GDP in 2008, slightly below the cost assumed in the autumn, (b) an additional cut in the "*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. The forecast 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. Local authorities' investment growth should slow down 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 social security bill.

Overall, the revenue-to-GDP ratio would decrease by 0.3 pp and the expenditure-to-GDP ratio by 0.1 pp. In structural terms (net of one-off measures projected at 0.1% of GDP), the 2008 deficit deteriorates by 0.1 pp.

The deficit forecast for 2009 is 3%, under the conventional assumption of unchanged policies. The revenue-to-GDP ratio would marginally decrease, reflecting the further deterioration of the

economic situation as well the small residual additional impact in 2009 of the TEPA package. This would go alongside a minimal increase in the expenditure-to-GDP ratio, notably due to the indexation of most social transfers to the evolution of prices in the previous year, while *inter alia* compensation of employees and interest expenditure would be less dynamic than in 2008.

After 64.2% in 2007, the debt ratio is expected to further slightly rise in 2008, and increase more significantly in 2009, just above 65%, based also on the allocation to debt reduction of privatisation proceeds, which for 2008 and 2009 are assumed to be at a level equivalent to those achieved in 2007.

⁵ *Loi sur le pouvoir d'achat*, adopted in February.

⁶ *Loi sur le Travail, l'Emploi et le Pouvoir d'Achat*, adopted in August 2007.

⁷ The breach of the objective in volume terms may have been due to lower inflation than originally expected, while the underlying nominal target for state expenditure is likely to have been achieved.

⁸ It includes the virtual elimination of the inheritance tax, an income tax credit for mortgage interests, the "tax shield" or *bouclier fiscal*, which sets a maximum of 50% of income in tax paid, and tax rebates on overtime.

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	1.6	1.4
Private consumption		1016.5	56.7	2.0	2.5	2.2	2.0	2.0	1.8	1.7
Public consumption		423.7	23.6	1.5	2.3	0.9	1.4	1.4	1.4	1.4
Gross fixed capital formation		366.4	20.4	1.7	3.6	4.0	3.7	3.9	2.0	1.6
of which : equipment		95.0	5.3	-	2.2	3.6	5.9	4.6	2.7	2.0
Exports (goods and services)		481.2	26.9	5.5	4.0	2.8	5.5	2.7	2.2	2.0
Final demand		2298.9	128.3	2.5	3.4	2.4	3.1	2.3	1.8	1.6
Imports (goods and services)		507.0	28.3	5.1	7.1	5.0	6.8	4.1	2.6	2.4
GNI at previous year prices (GDP deflator)		1805.8	100.8	1.9	2.6	1.7	2.0	1.9	1.5	1.4
Contribution to GDP growth :										
	Domestic demand			1.8	2.6	2.2	2.2	2.3	1.8	1.6
	Stockbuilding			0.0	0.6	0.0	0.2	0.0	0.0	0.0
	Foreign balance			0.1	-0.7	-0.6	-0.4	-0.4	-0.2	-0.2
Employment				0.6	0.1	0.3	0.7	1.2	0.6	0.3
Unemployment rate (a)				10.2	9.3	9.2	9.2	8.3	8.0	8.1
Compensation of employees/f.t.e.				2.5	3.5	3.2	3.1	3.0	3.0	2.9
Real unit labour costs				-0.2	-0.5	0.0	-0.4	0.0	-0.2	-0.1
Savings rate of households (b)				-	-	15.0	15.3	16.4	16.0	16.3
GDP deflator				1.5	1.6	1.7	2.3	2.3	2.3	2.0
Private consumption deflator				1.3	1.9	1.8	1.9	1.5	2.8	1.9
Harmonised index of consumer prices				1.7	2.3	1.9	1.9	1.6	3.0	2.0
Trade balance (c)				0.7	-0.3	-1.2	-1.6	-2.8	-3.1	-3.2
Current account balance (c)				1.1	-0.6	-1.7	-2.2	-2.6	-2.9	-3.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				1.1	-0.5	-1.7	-2.1	-3.0	-3.6	-3.5
General government balance (c)				-3.5	-3.6	-2.9	-2.4	-2.7	-2.9	-3.0
Cyclically-adjusted budget balance (c)				-3.4	-3.7	-2.9	-2.4	-2.6	-2.7	-2.6
Structural budget balance (c)				-	-3.8	-3.6	-2.7	-2.7	-2.8	-2.6
General government gross debt (c)				54.7	64.9	66.4	63.6	64.2	64.4	65.1

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

11. ITALY

Marked slowdown underway

Activity in 2007

Annual real GDP growth in 2007 is reported at 1.5%. While quarterly data consistent with the revised accounts are not yet available, the large contraction of industrial production in the fourth quarter suggests that economic activity ended 2007 on a negative note.

On average throughout the year, the main driver of economic growth was domestic demand, particularly private consumption. This was supported by an increase in disposable income and fiscal incentives for the purchase of durable goods. Net exports provided a slightly positive contribution, as merchandise exports increased again at a sustained pace. On the supply side, the rate of growth in manufacturing value added slowed down from the value recorded in 2006, but still outperformed the low and even negative readings recorded in the first half of the decade. Value added growth in construction was similar to that recorded in 2006, but below the average for previous years. Services continued to record a healthier growth rate.

Prospects for 2008 and 2009

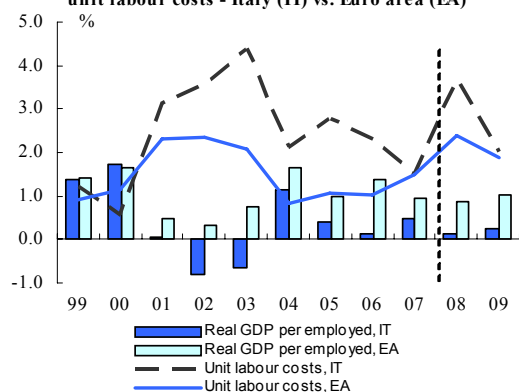
The estimated contraction of economic activity in the fourth quarter of 2007 implies a negative growth impulse into 2008. In addition, available indicators suggest that economic activity will remain subdued in the first half of the year. But while the purchasing managers' index (PMI) for the services sector has fallen well below the critical threshold of stagnating activity, it has remained around that threshold in the

manufacturing sector. Moreover, since part of the contraction in industrial production in Q4-2007 could be due to exceptional factors – namely, strikes in the transportation sector in December – a slight recovery of economic growth is expected in the first quarter of 2008, followed by flat growth in the second. In the remaining two quarters, economic activity is expected to increase, although at a slow pace.

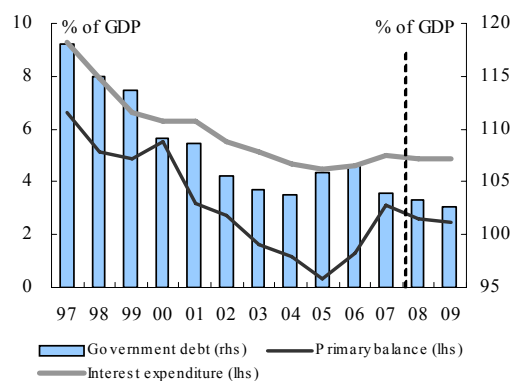
Overall, real GDP growth in 2008 is projected to be 0.5%, almost 1 pp. lower than in the autumn forecast and clearly below potential. The persistently negative growth gap with the average for the euro area will widen further despite the relatively modest exposure of the Italian banking system to the financial turmoil. The projected deceleration of growth stems from all demand components. Private consumption will lose momentum under the impact of higher inflation and lower confidence, even though the increase in wages and employment will support nominal disposable income. The household saving rate should increase slightly, partly on the back of negative wealth effects. Investment in the private sector is expected to stagnate owing to decreasing capacity utilisation and tighter financing conditions, affecting both the corporate sector and households. By contrast, in the public sector, the increase in investment, including non-residential construction, should be sustained. The deceleration in foreign demand and the appreciation of the real effective exchange rate will affect export growth. As a result, the negative gap with growth in Italy's export markets will widen.

In 2009, economic activity is expected to remain

Graph 3.11.1: Italy - Labour productivity and unit labour costs - Italy (IT) vs. Euro area (EA)



Graph 3.11.2: Italy - Government gross debt, primary balance and interest expenditure



subdued, under the influence of a still unfavourable external environment, but the growth momentum from 2008 should be slightly positive. Real GDP growth in 2009 is thus expected to stay below potential at 0.8%. Private consumption will regain some strength as pressures on prices ease. Gross fixed capital formation should remain weak under the lagged impact of the demand slowdown. Net exports are likely to provide a moderately negative contribution to real GDP growth, as import growth outpaces that of exports, in line with domestic demand and exchange rate developments.

Labour market, costs and prices

According to national account figures, in 2007 employment in full-time equivalent terms (FTE) rose by 1% yoy, after 1.7% in 2006. As a result, labour productivity growth accelerated mildly from an almost flat outcome in 2006 and growth in unit labour costs slowed down. The unemployment rate decreased further, to 6.1% in 2007 from 6.8% in 2006. This decline was concentrated in the first three quarters of the year, when it was associated with a reduction in the number of active jobseekers, particularly in regions of the South.

The significant slowdown in economic activity in 2008 and 2009 is likely to be reflected in decelerating employment growth, which is expected to be 0.4% and 0.5%, respectively, in full-time equivalent terms. The unemployment rate is nonetheless projected to continue falling to 6% in 2008 and to 5.9% in 2009, due to moderate labour supply growth.

As the job content of growth is set to remain relatively high, labour productivity is forecast to increase by a mere 0.2% in 2008 and 2009, values that point to a persistent productivity challenge for the Italian economy. The wage agreements signed in late 2007 and those scheduled for 2008 in many sectors of the economy, both private and public, are likely to bring about an appreciable acceleration in compensation per employee. In the public sector, the expected sizeable increase results from the delayed implementation of the agreement on contract renewal at local level for the period 2006-2007. Combined with slower labour productivity growth, this will fuel unit labour costs, also when measured in real terms. It will have a negative impact on the competitive position of the Italian economy, both within the euro area and vis-à-vis the rest of the world. In 2009, labour

cost growth should ease; in real terms it will be broadly in line with productivity growth.

Annual HICP inflation was 2.0% in 2007, down from 2.2% in the previous two years. The surge in oil and food prices boosted year-on-year headline inflation in the latter part of the year. On the assumption of stable oil and commodity prices over the forecast horizon, inflation should progressively ease from 3.3% in the first two quarters of 2008 to reach 2.5% towards the end of the year, due to a smaller base effect. Overall, HICP inflation is expected to average 3.0% in 2008. In 2009, HICP inflation might ease further to 2.2%. After improving in 2007, Italy's terms of trade are projected to deteriorate in 2008, due to the increase in the prices of energy products, which is only partly offset by the appreciation of the euro. In contrast, an improvement in the terms of trade is foreseen for 2009.

Public finances

In 2007, the deficit decreased to 1.9% of GDP, down from 3.4% of GDP in 2006 and below the 3% of GDP threshold for the first time since 2002. The primary surplus rose to 3.1% of GDP, from 1.3% in 2006. The correction was mainly revenue-based.

Overall, one-off and temporary measures increased the deficit by 0.2% of GDP. The structural balance, i.e. the cyclically adjusted deficit excluding one-offs, improved by about 1¼ percentage points of GDP relative to 2006. Over the 2006-2007 period, the correction of the structural deficit amounted to 3% of GDP.

The official deficit projection for 2008 was revised upwards on 12 March, to 2.4% of GDP, from the 2.2% of GDP deficit targeted in the 2007 update of the stability programme. Starting from the favourable base effect acquired with the better-than-expected 2007 deficit outturn, this revision reflects lower real GDP growth (0.6% in the updated official forecast as compared with 1.5% in the update). It also incorporates some budgetary slippages, including some discretionary measures approved by Parliament in February 2008.

Taking account of the budgetary measures that have been adopted by the time of the completion of the forecast, the Commission anticipates a rise in the general government deficit to 2.3% of GDP in 2008. The primary surplus should shrink by ½

of a percentage point of GDP. Net of cyclical factors and excluding one-off measures, both the deficit and the primary balance are projected to worsen by more than $\frac{1}{4}$ of a percentage point of GDP. This deterioration is due to additional spending and tax cuts.

In particular, both the Commission and the official forecast incorporate the postponement to 2008 of the deficit-increasing impact of some new social transfers, investments and cuts in the regional taxes on productive activities (IRAP), originally planned for 2007. In the Commission forecast, public investment is projected to rise substantially, but by less than in the official projections, on the assumption that some delays will continue to be experienced in the budgetary execution of investments.

The positive developments recorded by the state cash borrowing requirement in the first three months of 2008 reflect still buoyant revenue, matched by continued control in expenditure execution. However, upbeat revenue developments are expected to peter out progressively under the lagged impact of the economic slowdown and the disappearance of some temporary factors. Some court rulings are pending, particularly concerning the non-deductibility of IRAP from the tax base of

income taxes. Finally, the outcome of the substantial changes in corporate taxation introduced by the 2008 budget is subject to considerable uncertainty.

Based on the customary no-policy-change assumption, the general government deficit is forecast to rise slightly in 2009, to 2.4% of GDP. This marginal increase is driven by lower corporate income taxes, as a result of both discretionary measures and the negative economic cycle. The expenditure ratio will remain broadly stable, as the sharp increase in outlays on compensation of employees that is due to occur in 2008 will not repeat. With a negative output gap that is projected to open up further, the structural balance should improve slightly from 2008 to 2009.

Government debt declined to 104% of GDP in 2007, from 106.5% in 2006. The debt ratio is expected to further decline slightly to 103.2% in 2008 and, assuming unchanged policies, to continue diminishing in 2009.

Table 3.11.1:

Main features of country forecast - ITALY

	2006			Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices		1480.0	100.0	1.4	1.5	0.6	1.8	1.5	0.5	0.8
Private consumption		874.4	59.1	1.3	0.8	0.9	1.1	1.5	0.4	0.9
Public consumption		299.1	20.2	0.6	2.2	1.9	0.8	1.2	1.0	1.2
Gross fixed capital formation		311.2	21.0	1.3	2.3	0.7	2.5	1.2	0.5	0.5
of which : equipment		136.7	9.2	2.2	3.0	1.3	3.5	-0.1	0.4	0.4
Exports (goods and services)		411.9	27.8	3.8	4.9	1.0	6.2	5.0	3.2	3.0
Final demand		1904.1	128.7	1.7	2.1	0.9	2.7	2.1	1.1	1.4
Imports (goods and services)		424.2	28.7	3.2	4.2	2.2	5.9	4.4	3.2	3.3
GNI at constant prices (GDP deflator)		1477.6	99.8	1.5	1.8	0.8	2.0	1.1	0.5	0.7
Contribution to GDP growth :										
	Domestic demand			1.1	1.4	1.1	1.3	1.4	0.5	0.9
	Stockbuilding			0.1	0.0	-0.2	0.4	0.0	0.0	0.0
	Foreign balance			0.1	0.2	-0.3	0.1	0.1	0.0	-0.1
Employment				0.2	0.4	0.2	1.7	1.0	0.4	0.5
Unemployment rate (a)				10.1	8.0	7.7	6.8	6.1	6.0	5.9
Compensation of employees/f.t.e.				3.4	3.3	3.2	2.5	1.9	3.8	2.2
Real unit labour costs				-1.0	-0.5	0.7	0.6	-0.8	0.8	-0.1
Savings rate of households (b)				-	-	15.8	15.0	14.8	15.1	15.1
GDP deflator				3.3	2.6	2.1	1.7	2.3	2.8	2.1
Private consumption deflator				3.6	2.6	2.3	2.7	2.2	3.0	2.2
Harmonised index of consumer prices				3.2	2.3	2.2	2.2	2.0	3.0	2.2
Trade balance (c)				2.2	0.6	0.0	-0.7	0.1	0.1	0.3
Current account balance (c)				0.8	-0.5	-1.2	-2.0	-1.7	-2.0	-2.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.9	-0.4	-1.1	-1.8	-1.6	-1.8	-1.8
General government balance (c)				-4.9	-3.5	-4.2	-3.4	-1.9	-2.3	-2.4
Cyclically-adjusted budget balance (c)				-4.8	-3.5	-3.9	-3.2	-1.7	-1.8	-1.6
Structural budget balance (c)				-	-4.7	-4.5	-2.8	-1.5	-1.9	-1.6
General government gross debt (c)				113.2	103.8	105.8	106.5	104.0	103.2	102.6

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

12. CYPRUS

Buoyant activity, widening external imbalance

Activity in 2007

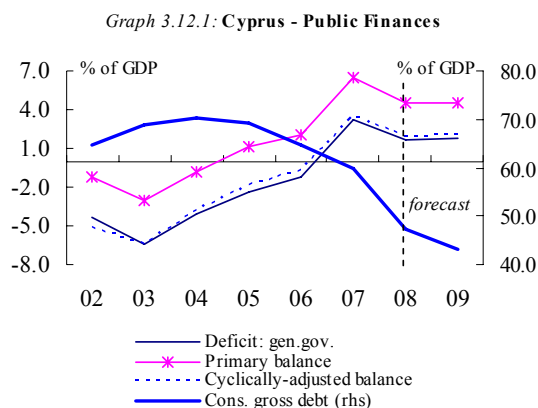
Economic activity accelerated in 2007, posting a real GDP growth rate of 4½% after attaining 4% in 2006. Growth was underpinned by dynamic domestic demand while net exports continued to contribute negatively. In particular, private consumption accelerated due to historically low interest rates, sustained credit expansion and continued employment and wage gains. A personal income tax cut also supported disposable income. Furthermore, a reform reducing car tax, introduced in November 2006, also added extra dynamism to private consumption, by stimulating the demand for cars. In parallel, sustained buoyant private investment in construction, especially housing, supported investment growth. Overall, domestic demand is estimated to have contributed 5¼ pps. to GDP growth, which was partially offset by a negative contribution from net exports. Total exports grew by 4¼% in real terms, while total imports rose by almost 7%, in line with strong consumer demand and investment. Reflecting weak re-export activity, exports of goods fell for a second consecutive year. In contrast, export-oriented services continued to benefit from the positive outlook in the main export markets, while revenue growth from tourism accelerated compared with the past two years.

Prospects for 2008 and 2009

In 2008 and 2009, economic growth is projected to decelerate from the exceptionally high rate of 2007, yet to grow solidly at 3.7%, against an adverse external environment.

Economic activity will be exclusively driven by domestic demand while the external sector will continue to weigh negatively on GDP growth. Disposable income, supported not only by sustained wage and employment growth but also by the second phase of the enacted personal income tax reform, will keep private consumption growing robustly, although at a slower pace than in 2007 on account of tighter credit conditions. Construction investment though should decelerate throughout the forecast period, compared to the exceptionally high levels of the last years. Investment in equipment, the bulk of which takes in the construction sector, is projected to follow suit. The main reasons for the deceleration in construction are the softening of demand for dwellings by non-residents and some policy measures aiming at cooling the housing market, such as the Central Bank directive concerning the reduction of the value-to-loan ratio.

Albeit decelerating, exports of services should remain dynamic, also on the back of positive prospects for tourism. Exports of goods, which consist mainly of re-exports, are projected to post some positive growth after the adoption of measures to boost the sector, such as the agreement with a global shipping corporation to use Cyprus as a regional hub, as well as the deepening of the port so as to serve larger vessels. Imports, in real terms, are projected to moderate, following developments in private consumption and investment activity, while remaining buoyant. However, in nominal terms, imports are likely to accelerate in 2008 but decelerate the following year in line with oil prices. As a result, the terms of trade would deteriorate in 2008 but level out in 2009. Consequently, the current account deficit would worsen to 8½% of GDP in 2008, and improve slightly the following year.



Labour market, costs and prices

Labour market conditions remained close to full employment in 2007, with an unemployment rate of 3.9% and employment growth at 3¼%. In line with buoyant economic activity, employment should continue growing at around 1½% per year also in 2009. High 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 sustain the fall in the unemployment rate. Since productivity growth is expected to rise by about 2¼% by 2009, unit labour costs will rise but at lower rates than in the recent past and in the euro area over the forecast period.

Average HICP inflation was 2.2% in 2007. Due to the hike of commodity prices, especially oil and food prices, overall HICP inflation is expected to accelerate to 3¾% in 2008. In 2009, it is set to decline to 2½%, against a background of moderating oil prices and domestic demand.

Public finances

2007 marked a turnaround in Cyprus public finances as the general government balance reached a surplus of 3¼% of GDP, almost 4 percentage points better than the 1½% deficit target of the Budget. In structural terms, the balance improved by around 4¼% of GDP in 2007. The turnaround in 2007 is attributed to an exceptional rise in revenues, due to especially high tax receipts resulting from strong profitability in the financial sector and booming real estate investment. Consequently, part of the increase in tax bases and in the associated revenues does not appear to be permanent. While the 2008 Budget

Law targeted a deficit of ½% of GDP, the new official target is for a surplus of about 1%. No one-off measures are planned. The worsening of the government balance compared with 2007 comes from lower tax revenues, as part of their increase last year is considered to be due to temporary composition effects. Expenditure is assumed to remain constant as a percentage of GDP. The Commission services project a higher surplus to account for a reduction of revenues of only 1½% of GDP, as in the Stability Programme. In structural terms, the fiscal worsening in 2008 is expected to be about 1½% of GDP, which would imply an expansionary fiscal stance. However, the Government's consideration that the rise in revenues in 2007 is only partially permanent reflects a prudent budgetary approach. In 2009, on a no-policy-change basis, the surplus is projected to inch up, due to interest payment savings. The debt-to-GDP ratio is projected to remain on a decreasing path, reaching about 43% by 2009, driven by the planned reduction of deposits with the central bank.

Table 3.12.1:

Main features of country forecast - CYPRUS

	2006			Annual percentage change						
	mio Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices		14393.6	100.0	4.4	4.2	3.9	4.0	4.4	3.7	3.7
Private consumption		9284.3	64.5	-	6.3	4.0	4.2	6.2	5.3	4.8
Public consumption		2682.6	18.6	-	-5.5	3.4	7.4	-0.1	5.5	3.9
Gross fixed capital formation		2919.7	20.3	-	10.0	6.0	7.3	6.3	4.2	4.0
of which : equipment		837.1	5.8	-	10.3	2.2	10.2	8.4	5.0	5.0
Exports (goods and services)		6942.8	48.2	-	5.1	4.7	4.5	4.3	3.8	4.1
Final demand		21864.9	151.9	-	6.0	3.6	5.0	5.3	4.3	4.4
Imports (goods and services)		7471.3	51.9	-	9.6	3.1	6.6	6.9	5.3	5.4
GNI at constant prices (GDP deflator)		13937.3	96.8	4.4	2.3	4.3	4.6	4.5	3.9	4.1
Contribution to GDP growth :										
	Domestic demand		-	4.9	4.3	5.4	5.3	5.3	4.7	
	Stockbuilding		-	1.7	-1.1	-0.1	0.6	-0.6	0.0	
	Foreign balance		-	-2.2	0.7	-1.2	-1.6	-1.0	-1.0	
Employment			-	3.8	3.6	1.7	3.2	1.5	1.5	
Unemployment rate (a)			-	4.6	5.2	4.6	3.9	3.7	3.5	
Compensation of employees/head			-	1.9	1.8	2.7	3.5	3.5	3.5	
Real unit labour costs			-	-1.7	-0.9	-2.2	-0.7	-2.3	-1.4	
Savings rate of households (b)			-	-	-	-	-	-	-	
GDP deflator			3.3	3.3	2.3	2.8	3.1	3.7	2.7	
Private consumption deflator			-	1.8	2.5	2.4	2.7	4.0	2.5	
Harmonised index of consumer prices			-	1.9	2.0	2.2	2.2	3.8	2.5	
Trade balance (c)			-	-25.6	-25.0	-27.3	-28.8	-29.8	-30.8	
Current account balance (c)			-	-5.0	-5.9	-5.9	-7.3	-8.5	-8.0	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-4.1	-5.3	-5.7	-7.1	-8.3	-7.9	
General government balance (c)			-	-4.1	-2.4	-1.2	3.3	1.7	1.8	
Cyclically-adjusted budget balance (c)			-	-3.8	-1.9	-0.7	3.5	1.9	2.0	
Structural budget balance (c)			-	-4.9	-2.8	-0.7	3.5	1.9	2.0	
General government gross debt (c)			-	70.2	69.1	64.8	59.8	47.3	43.2	

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

13. LATVIA

Economy undergoing a marked adjustment

Activity in 2007

In 2007, real GDP growth slowed to 10.3% from 12.2% in 2006. From the expenditure side, the pattern of growth was still characterized by buoyant domestic demand driven by private consumption, although investment growth fell sharply late in the year. The government's March 2007 anti-inflation plan has helped to end the boom in the residential real estate market, a key factor behind the domestic demand overheating. Prices of standard Riga apartments started to decrease in the middle of 2007, but in spring 2008 were still at a significantly higher level than two years ago. Further expectations on easing house prices have curbed residential demand for mortgage loans, while banks have become more cautious to lend in view of falling collateral values and a less favourable economic outlook. Nevertheless, the moderation of lending growth has remained gradual with the growth rate of industrial loans surpassing mortgage loans by the last quarter of the year.

The quarterly figures show a marked deceleration of domestic demand in the last quarter of 2007 with net exports contributing positively to growth, as imports decreased sharply; exports continued to perform well.

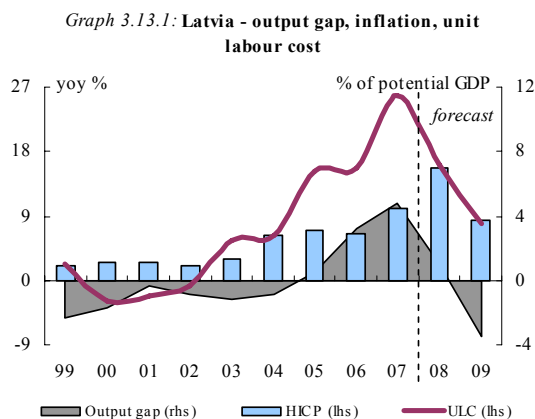
On the production side, GDP growth in 2007 was still strongest in sectors satisfying domestic demand. The highest growth rate was registered in the financial sector followed by construction, retail and wholesale and real estate, renting and business activities. From the main exporting sectors transport, storage and communications performed

best with some pick-up during the course of the year. Manufacturing output stagnated, partly due to the closure of the sugar industry in Latvia.

Prospects for 2008 and 2009

Currently there is unusually large uncertainty around short-term economic prospects due to the temporary fading of earlier main growth drivers and doubts as to the ability of domestic industry to increase exports and thus to help achieve a more balanced growth path. GDP data for the last quarter of 2007 and indicators for the first months of 2008 point to a sharper slowdown than assumed in the autumn forecast.

In 2008, the growth of private consumption is expected to be dragged down by decreasing consumer confidence, negative wealth effects, lower real wage growth, deteriorating labour market conditions and increasing debt service obligations. 2009 is forecast to see a slow recovery of private consumption in quarter-on-quarter growth terms, due to the expected decrease in inflation and subsequent improvement in consumer confidence. A slowing in credit expansion and in real estate related economic activities is expected to continue throughout 2008 and in the first part of 2009. In 2009, however, some recovery in residential investment can be expected. Public investment projects will continue at a significant level which will provide a cushion against a too-sharp adjustment. Net exports are expected to have a positive growth contribution in 2008 and 2009, as the weakening of domestic demand should depress imports. On the other hand, export growth is expected to remain healthy, driven by wood products, transport services and capital-intensive segments of manufacturing, where the rapid wage increases of previous years had a lower impact than in low-tech, labour-intensive segments. However, the loss in cost competitiveness in the latter clouds somewhat the short-term export prospects, weighing on overall industrial output development despite the successful ongoing restructuring of manufacturing towards more capital-intensive segments. The contemporaneous growth downturn in Latvia's Baltic markets is also unfavourable for exports growth picking up over the forecast horizon.



The ratio to GDP of net external liabilities is expected to continue to increase in 2008 and 2009, as the external imbalance is poised to stay high with its financing remaining one of the key risk factors to this forecast, especially in view of the concomitant global financial turmoil.

Labour market, costs and prices

With the culmination of overheating on the labour market in 2007, employment grew by 3.5%, unemployment decreased to below 6% and whole economy nominal unit labour cost increased by around 25% (and in manufacturing by 30%), though an unidentifiable part of this increase is due to legalization of wages. With the peak of the cycle passed, a gradual reversal of the labour market trends can be expected in 2008 and 2009 with the construction sector leading the way followed by other domestic demand oriented sectors. However, public sector wages are set to continue to increase rapidly in 2008, exerting a potentially significant negative impact on private sector wage flexibility. Inflation is hitting record highs in a decade, as food and regulated price increases coincide with the impact of the domestic cost shock from higher wages and still high inflationary expectations. Inflation is expected to decrease to single-digit levels only in 2009.

Public finances

The fiscal outturn for 2007 is reported to be around balance, weaker than expected in the autumn forecast. With domestic demand easing, the growth rate of tax revenues is expected to slow significantly over the forecast period. High inflation will compensate to some extent the impact of lower real growth, but this effect is expected to fade in 2009. On the other hand, higher inflation puts pressure on the expenditure side, especially on pensions and public sector wages. Under a no policy change assumption, a deficit of around 1% of GDP can be expected for 2008 and of around 2% of GDP for 2009. The deterioration is mainly explained by the projected decrease in the revenue to GDP ratio, due to lower growth in 2009. However, risks are skewed towards higher deficits, given the possibility of economic stimulation measures being taken.

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	11171.5	100.0	-0.2	8.7	10.6	12.2	10.3	3.8	2.5	
Private consumption	7280.5	65.2	-	9.8	11.2	21.2	14.2	3.0	1.0	
Public consumption	1855.2	16.6	-	2.1	2.7	4.9	4.8	4.5	3.0	
Gross fixed capital formation	3644.2	32.6	-	23.8	23.6	16.4	2.9	-5.0	1.0	
of which : equipment	-	-	-	-	-	-	-	-	-	
Exports (goods and services)	5014.3	44.9	-	9.4	20.3	6.5	11.1	8.6	8.8	
Final demand	18583.7	166.4	-	11.4	12.1	14.9	12.1	2.8	3.2	
Imports (goods and services)	7412.3	66.4	-	16.6	14.8	19.3	15.0	1.4	4.4	
GNI at constant prices (GDP deflator)	10841.6	97.0	-0.3	6.7	11.6	10.3	9.4	3.4	2.5	
Contribution to GDP growth :			-	13.2	15.1	20.2	11.6	1.1	1.4	
Domestic demand			-	0.5	-4.2	0.7	3.5	0.0	0.0	
Stockbuilding			-	-5.1	-0.2	-8.6	-4.9	2.7	1.0	
Foreign balance			-	-2.8	1.1	1.7	4.7	3.5	-0.4	-1.2
Employment			13.5	10.4	8.9	6.8	6.0	6.4	6.9	
Unemployment rate (a)			-	14.3	25.3	23.6	33.2	21.0	12.0	
Compensation of employees/head			-	-0.6	4.6	4.9	10.3	0.9	0.3	
Real unit labour costs			-	-	-	-	-	-	-	
Savings rate of households (b)			36.2	7.0	10.2	9.9	13.3	15.1	7.6	
GDP deflator			-	7.0	8.7	6.0	10.0	15.0	8.0	
Private consumption deflator			-	6.2	6.9	6.6	10.1	15.8	8.5	
Harmonised index of consumer prices			-11.9	-20.2	-18.9	-25.6	-24.5	-20.0	-18.5	
Trade balance (c)			-1.8	-12.8	-12.5	-22.5	-22.9	-17.7	-15.5	
Current account balance (c)			0.9	-11.8	-11.2	-21.3	-20.8	-15.5	-13.7	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-1.0	-0.4	-0.2	0.0	-1.1	-2.1	
General government balance (c)			-	-0.8	-0.5	-1.1	-1.4	-1.3	-1.1	
Cyclically-adjusted budget balance (c)			-	-0.8	-0.5	-1.1	-1.4	-1.3	-1.1	
Structural budget balance (c)			-	14.9	12.4	10.7	9.7	10.0	11.2	
General government gross debt (c)										

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

14. LITHUANIA

Onto a deceleration path

Activity in 2007

Real GDP growth in 2007 reached 8¾%; however, data for the last quarter of 2007 already show signs of slowdown.

Domestic demand was the main driver of growth, but was losing momentum with both consumption and investment increasing at a slower pace and net exports turning positive in the second half of 2007. Investment grew by nearly 16% over the year but weakened in the second half as previously booming construction and real estate sectors started to cool, partly in response to tightening credit conditions. Nevertheless, credit to households continued to grow rapidly and growth of consumer spending remained strong (11%). Household disposable income was buoyed by the 6 pp cut in the personal income tax rate in July 2006, as well as by high wage growth and rising employment. The trade balance stabilised after the rapid widening of the deficit in the first half of the year when it was affected by capacity restrictions in oil refining. The external deficit widened to over 12% of GDP from slightly below 9% in 2006.

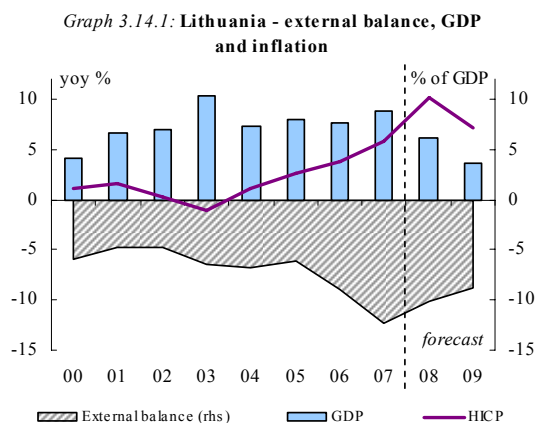
Prospects for 2008 and 2009

Real GDP growth is projected to weaken to around 6% in 2008 and even more considerably in 2009 to 3¾%, led by a slowdown in domestic demand. This reflects both tighter lending standards as regards credit supply and reduced confidence on the demand for credit which should moderate private investment and consumption growth substantially.

Investment growth is thus likely to decelerate significantly in 2008-2009. Even though the profitability of companies reached record levels in 2007, residential construction is expected to drop as a consequence of a housing market correction; some relief should come from continuing infrastructure projects and non-residential business investment. Supply-side constraints as a consequence of the tight labour market will continue to hinder growth in some sectors.

Private consumption growth is forecast to weaken, but to remain relatively high, buoyed by continuing still substantial real wage growth (including from increases in minimum and public sector wages), a further 3 pp. cut in personal income tax rate in January 2008, and higher social transfers.

Export growth should pick up in 2008 and remain robust in 2009. Export developments are expected to remain favourable, although price pressures are increasing and growth in main trading partners is expected to weaken. Deteriorating export opportunities in EU countries will be offset by continuing demand from neighbouring CIS countries. Import growth is forecast to slow somewhat in line with slowing demand. The external deficit is expected to improve but remain substantial; while the negative income balance should stay high, the merchandise trade deficit is likely to improve and increasing current and capital transfers from the EU and expatriate remittances should 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

The labour market is expected to remain tight with the rate of unemployment staying just above 4% and a limited growth in the labour force; net migration is still negative. However, a slight easing is expected due to higher immigration including returning emigrants. Employment is forecast to grow slightly in 2008 before stagnating in 2009. Labour shortages, especially as regards skilled labour, have put upward pressure on labour costs. Wage growth should thus show some inertia in 2008 but decline in 2009. Unemployment is expected to increase somewhat in 2008 and 2009.

Against this background, unit labour costs will still rise at a relatively fast rate, exerting pressure on competitiveness, especially in labour-intensive sectors.

Annual average HICP inflation rose from 3.8% in 2006 to 5.8% in 2007 fuelled by overheating and higher energy and food prices following global trends; however, core inflation also rose. At the beginning of 2008 Lithuania's sole natural gas supplier increased its contract price by 80% yoy, the price reaching West European price levels. Gas prices for consumers increased by around 65% at the beginning of 2008 and regulated prices for heating are likely to go up by around 30% in autumn 2008 with possible second-round effects to be registered. An increase of excise duties on fuel, alcohol and tobacco at the beginning of 2008 has also added to inflation. Transport prices are likely to accelerate. Overall in 2008 annual average inflation is expected to exceed 10%. In 2009, given the substantial base effects in 2008, inflation is expected to ease slightly but to stay at a high level. Additional upside risks relate to possibly higher electricity and heating prices for households in 2009.

Public finances

In 2007, the general government deficit widened to around 1.2% of GDP (2006, 0.5%), higher than the government target of 0.9% of GDP. Weaker than planned collection of personal and corporate income tax was partly offset by higher VAT tax collection and higher excise tax revenues. The deficit is forecast to widen further in 2008, mainly due to ongoing pension reforms and direct tax reductions (including a cut in personal income tax from 27% to 24% and the abolition of a temporary tax of 3% of corporate profits), but also higher spending for social transfers and a rise in public sector salaries, only partly offset by the increased excise duties noted above. There are risks that additional expenditures will be planned in the run-up to the parliamentary elections in October 2008. A recent decision to increase teachers' wages adds to planned expenditures in 2008 and 2009. In 2009 the deficit is expected to narrow only slightly as domestic growth weakens and expenditure growth remains high. The general government debt-to-GDP ratio is forecast to remain broadly stable at around 17%.

Table 3.14.1:

Main features of country forecast - LITHUANIA

	2006			Annual percentage change						
	bn LTL	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	81.9	100.0		-0.2	7.3	7.9	7.7	8.8	6.1	3.7
Private consumption	53.5	65.3		-	12.2	11.9	11.9	11.6	6.6	3.7
Public consumption	14.8	18.0		-	7.7	3.6	5.5	3.8	4.6	5.4
Gross fixed capital formation	20.3	24.8		-	15.5	10.9	17.4	15.7	4.5	2.6
of which : equipment	7.0	8.6		-	31.9	10.2	12.7	13.1	6.0	3.0
Exports (goods and services)	48.9	59.7		-	4.4	17.7	12.2	4.7	9.4	7.2
Final demand	139.3	170.1		-	10.1	11.2	10.0	8.9	6.9	4.8
Imports (goods and services)	57.4	70.1		-	14.9	17.2	13.8	9.1	8.0	6.5
GNI at constant prices (GDP deflator)	80.1	97.8		-	7.7	8.5	7.1	6.7	5.9	3.6
Contribution to GDP growth :				-						
Domestic demand				-	12.5	10.9	12.6	12.2	6.4	4.0
Stockbuilding				-	1.1	-2.0	-3.0	0.2	0.0	0.0
Foreign balance				-	-6.3	-1.0	-2.0	-3.5	-0.2	-0.3
Employment				-1.5	0.0	2.5	1.7	1.9	0.1	-0.1
Unemployment rate (a)				9.8	11.4	8.3	5.6	4.3	4.5	4.8
Compensation of employees/head				-	10.9	11.5	15.1	14.1	15.0	9.6
Real unit labour costs				-	0.7	0.2	2.0	-1.5	-1.2	-1.5
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				50.8	2.7	5.7	6.6	8.6	9.7	7.3
Private consumption deflator				-	-0.3	1.7	2.9	6.4	10.1	7.1
Harmonised index of consumer prices				-	1.2	2.7	3.8	5.8	10.1	7.2
Trade balance (c)				-	-10.6	-11.4	-14.1	-14.4	-12.8	-12.0
Current account balance (c)				-	-7.5	-7.2	-10.5	-13.8	-12.3	-11.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-6.8	-6.2	-9.0	-11.9	-10.2	-8.8
General government balance (c)				-	-1.5	-0.5	-0.5	-1.2	-1.7	-1.5
Cyclically-adjusted budget balance (c)				-	-2.1	-1.1	-1.0	-1.9	-2.0	-1.3
Structural budget balance (c)				-	-2.1	-1.1	-1.0	-1.4	-2.0	-1.3
General government gross debt (c)				-	19.4	18.6	18.2	17.3	17.0	16.8

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

15. LUXEMBOURG

Slower but sustained growth

Activity in 2007

GDP growth had culminated at 6.1% in real terms in 2006, the highest growth rate since 1999-2000. It remained dynamic in 2007, reaching about 5% according to a preliminary estimate based on the first three quarters. As expected, domestic demand replaced external trade as the main engine of growth: the contribution of net exports to GDP growth, which had amounted to 5.6 percentage points in 2006, is likely to have declined to about 1% but that of domestic demand is expected to have risen to nearly 4%. Private consumption, boosted by strong job creation and rather fast rising wages, accelerated to about 3% after a rather subdued 2.0% in 2006 (despite the strong rise in employment and wages as well as the relatively moderate inflation in that year). Investment, both private and public, was very strong, rising by about 10% in real terms due probably to strong GDP growth and compensating to some extent for a rather modest 3% increase in 2006. By contrast, exports were weaker than in 2006 when they had expanded by around 10%: exports of goods were significantly and exports of services slightly less buoyant than in 2006 as the effects of the financial turmoil began to be felt in the second semester.

Prospects for 2008 and 2009

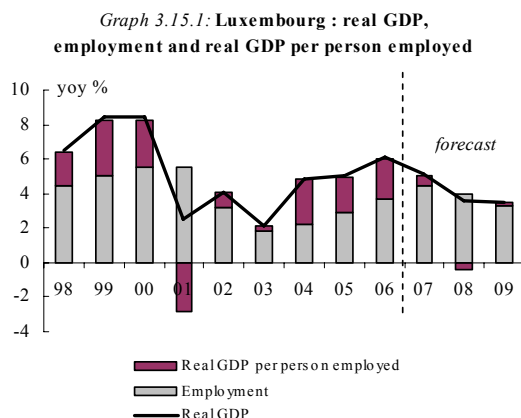
Growth should continue to slow down from 2007 to 2008, declining to around 3½%, while remaining broadly stable in 2009. Domestic demand is projected to remain relatively dynamic: in particular, despite the recent decline in consumer confidence (much less pronounced, however, than in most other EU countries), private

consumption should be boosted by still robust employment growth and buoyant wages as well as the cuts in income tax foreseen in the 2008 budget. Investment is likely to be rather resilient, though decelerating significantly with respect to 2007. By contrast, exports of services will be strongly affected by the financial turmoil (exports of financial services amounted to two-thirds of exports of services and to half of total exports in 2006), while exports of goods will suffer from the slowdown in the trade partners.

Labour market, costs and prices

Employment was very dynamic in 2007, growing by about 4½% after 3.7% in 2006. Non-residents were the main beneficiaries of this strong job creation but residents' employment accelerated too, rising by about 2% after 1.7% in 2006. As a result, unemployment began to decrease in September for the first time since autumn 2001⁽⁹⁾. Employment is projected to decelerate slightly but to remain dynamic over the forecast period, repeating the pattern already observed during the 2001-2003 slowdown, when, due to a considerable amount of labour hoarding, it followed developments in output with a significant lag. However, it will probably decelerate enough to bring the decline in unemployment to a quasi-standstill in 2009 (employment has to rise by at least 3½% a year for residents' unemployment to decrease).

Wages rose strongly in 2007 (by about 4% after 4.5% in 2006), reflecting the fast employment growth and the relatively tight labour market. They should decelerate in 2008 and 2009 but not dramatically (their slowdown in 2008 will probably be overstated by the likely drastic reduction in profit-related bonuses in the financial sector) as the rise in employment is projected to remain rather robust and inflation to be quite strong both by historical and international standards. Labour productivity might well stagnate or even slightly decrease in 2008 and 2009 due to the fact that employment will probably react with a significant lag and only partially to the slowdown in output (during the previous slowdown, employment peaked in 2000 and 2001 but output had already considerably slowed down in 2001, so that GDP per person employed fell by 2.9% in that year). Consequently, unit labour costs should rise significantly, by about 3½% in 2008 and 2009.



Inflation remained rather subdued in yearly average in 2007, with both Eurostat's HICP (up by 2.7%) and the national CPI (up by 2.3%) rising slightly less than in 2006. However, as a result of rising world food and energy prices, it accelerated strongly in the fourth quarter of 2007, with the yearly increase in the HICP nearly doubling to 4% compared with the first 9 months of the year. As usual, the surge in the national CPI, which excludes consumption by non-residents (and especially their large purchases of car fuel, alcohol and tobacco products), was more limited (3.2% in 2007Q4). Inflation will accelerate on an annual basis in 2008, with the HICP rising by around 4¼% and the national CPI by 3.4%. In 2009, under the assumptions of a stabilisation in the world price of food and of a slight decrease in oil prices, inflation should be significantly lower than in 2008.

due to large revenue windfalls. The surplus is expected to decline to 2.4% of GDP in 2008, essentially because the rise in revenues is projected to be much slower than in 2007. This will be due for a part to the cuts in income tax foreseen in the 2008 budget (the *ex ante* cost of which has been estimated at around 0.8% of GDP) but also, to some extent, to the effects of the slowdown in growth. These effects, however, are likely to be felt only gradually, as corporate tax receipts generally reflect fluctuations in companies' profits with a significant lag. In 2009, at unchanged policy, the surplus should remain broadly stable due to the fact that, despite the delayed effects of the forecast slowdown in growth, the rise in revenues will be stronger than in 2008, when it was reduced by the tax cuts. The general government debt, which amounted to 6.8% of GDP in 2007, should remain very low, reaching some 7½% of GDP in 2009

Public finances

According to recently released revised public finance data, the general government surplus, which was estimated by the October 2007 stability programme to have risen from 0.7% of GDP in 2006 to 1.0% in 2007, actually surged from 1.3% of GDP in 2006 to 3.1% in 2007. This much-better-than-expected result seems to be essentially

(⁹) This refers to the number of unemployed measured by the Administration de l'Emploi. The Eurostat unemployment rate followed a slightly different pattern in recent years.

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		33852.4	100.0	4.2	4.9	5.0	6.1	5.1	3.6	3.5
Private consumption		12176.9	36.0	3.1	2.1	3.7	2.0	3.0	3.4	3.2
Public consumption		5192.4	15.3	4.5	5.1	2.4	2.1	3.0	3.7	3.6
Gross fixed capital formation		6220.9	18.4	4.5	2.1	2.1	3.1	10.7	5.2	3.8
of which : equipment		1731.7	5.1	0.7	18.6	-1.1	4.9	20.0	6.5	4.0
Exports (goods and services)		56225.7	166.1	6.8	9.8	6.3	9.6	7.1	2.8	3.9
Final demand		80039.1	236.4	5.5	7.6	5.7	6.7	6.6	3.1	3.8
Imports (goods and services)		46186.4	136.4	6.6	9.7	6.1	7.2	7.7	2.8	4.0
GNI at constant prices (GDP deflator)		27703.4	81.8	2.2	20.1	0.7	4.3	3.5	2.2	5.0
Contribution to GDP growth :										
Domestic demand				3.1	2.1	2.3	1.7	3.8	3.0	2.6
Stockbuilding				-0.1	0.4	1.1	-1.1	0.3	-0.2	0.0
Foreign balance				1.3	2.3	1.6	5.5	0.9	0.8	0.9
Employment				3.4	2.2	2.9	3.7	4.5	4.0	3.3
Unemployment rate (a)				2.7	5.1	4.5	4.7	4.7	4.5	4.4
Compensation of employees/head				3.4	3.9	3.8	4.5	4.0	3.2	3.5
Real unit labour costs				0.1	-0.4	-2.4	-3.8	2.2	2.9	2.5
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.5	1.7	4.2	6.2	1.1	0.7	0.8
Private consumption deflator				2.4	2.6	2.9	3.0	2.3	3.4	2.4
Harmonised index of consumer prices				-	3.2	3.8	3.0	2.7	4.2	2.5
Trade balance (c)				-11.2	-10.2	-11.4	-9.7	-10.7	-10.6	-10.8
Current account balance (c)				11.1	11.6	10.9	10.3	9.1	6.2	6.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	9.1	6.2	6.3
General government balance (c)				2.8	-1.2	-0.1	1.3	2.9	2.4	2.3
Cyclically-adjusted budget balance (c)				-	-0.9	0.4	1.4	2.8	2.7	2.9
Structural budget balance (c)				-	-0.9	0.4	1.4	2.8	2.7	2.9
General government gross debt (c)				6.6	6.3	6.1	6.6	6.8	7.4	7.6

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

16. HUNGARY

External conditions burden the recovery

Activity in 2007

After coming to a halt in the second quarter of 2007, economic activity continued to be extremely weak in the following quarters reflecting to a large extent the fiscal consolidation efforts of the government starting in mid-2006. Overall, GDP grew by 1.3% in 2007, down from 3.9% in 2006.

By reducing their savings rate households were able to smooth consumption despite the significant fall in real disposable income; hence consumer expenditure declined only moderately in 2007. On the other hand, government consumption fell by 6% due to significant expenditure cuts related to health-care services and public administration. Investment remained lacklustre, resulting in a mere 1% annual increase of gross fixed capital formation. Investment across sectors differed substantially however, as in export-oriented industries a marked increase was recorded. Strong external demand boosted exports which increased by more than 14% in 2007; however, net export growth already started to slow down.

Prospects for 2008 and 2009

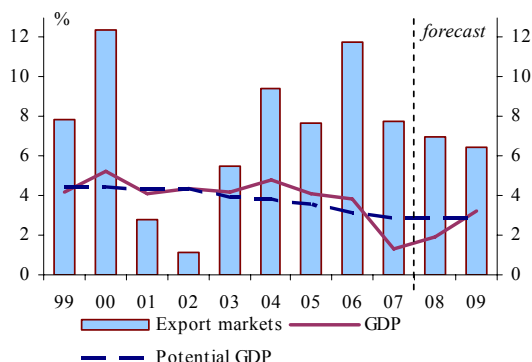
Economic activity is projected to recover only slowly, reaching 1.9% in 2008, since growth remained subdued in the second half of 2007, commodity prices have increased substantially, the outlook for the EU economy has become dimmer, and credit conditions are tightening. Nevertheless, as the impact of the fiscal retrenchment is to fading out, domestic demand is anticipated to gather pace, pushing GDP growth to around potential in 2009.

The recovery is expected to take place with a growing contribution from domestic components, despite a gradually shrinking momentum from net exports. In particular, consumer expenditure is foreseen to accelerate moderately, in line with the households' consumption smoothing behaviour. Government consumption is expected to continue to have a negative impact on growth in 2008, but a reversal in trend is envisaged in 2009. Even though profit margins were reduced by the consolidation measures (increasing the effective tax burden) and credit may become more difficult to acquire, private investment is foreseen to support the recovery as capacity utilisation levels are high. Moreover, the increase in the available EU funds is also anticipated to support corporate investment. Export growth, on the other hand, is expected to slow down to around 10% annually, due to the unfavourable external environment. However, as a result of strengthening domestic demand, import growth is foreseen to approach to that of exports. Against this background, the current account deficit is projected to drop from 5% in 2007 to 3.9% in 2009.

Labour market, costs and prices

In the second half of 2007, labour market conditions started to adjust to the economic slowdown. As a result private sector employment started to decrease and unemployment began to rise. This process is foreseen to continue in 2008; in 2009 however, as the economic recovery further accelerates, a slight increase in employment can be expected. Such labour market conditions allow for only a moderate increase in real private wages throughout the forecast period, whereas in the public sector wages are assumed to exceed inflation, but only in 2009.

Graph 3.16.1: Hungary - Export markets, actual and potential GDP (annual growth)



At the end of 2007, the substantial increase in energy and food prices worldwide temporarily reversed the disinflationary process in Hungary and led to an annual increase of 8%. The upward pressure was further increased by the impact of the liberalisation of the electricity market in January 2008. Based on the forecast assumptions on food and energy prices and in the absence of additional pressures from wages, CPI inflation is nevertheless expected to resume its downward path and reach 6.3% in 2008 and 3.7% in 2009.

Public finances

As a result of the Government's fiscal consolidation programme (including revenue-increasing measures as well as expenditure freezes and structural reform steps), the budget deficit significantly decreased to 5.5% of GDP in 2007, down from 9.2% in 2006. The fiscal improvement was almost evenly distributed between the revenue and the expenditure side (the latter was achieved despite sizeable one-off expenditures of 0.9% of GDP). In 2008, the deficit is expected to further decrease to 4% of GDP, due to the elimination of deficit increasing one-off operations and continued fiscal adjustment. Based on the usual no-policy-change assumption (including as regards the tax code), the forecast projects a modest improvement in 2009 to 3.6% of GDP, thanks to a continued expenditure moderation in government consumption achieved by a series of structural reform measures to streamline the public sector. In structural terms the deficit is expected to fall from 4¾% in 2007 to 3¼% of GDP in 2009.

The decrease in the budget deficit in 2008 is partly explained by a more efficient collection of taxes and social contributions due to a series of measures addressing tax evasion, entailing a moderate increase in the tax burden by half a percentage point to 39.9% of GDP in 2008. On the

expenditure side, the elimination of a number of investment and capital transactions (financed from domestic sources) as well as moderate increases in the public wage bill and price subsidies (totalling around 1¼% of GDP in 2008) are the main reasons behind the reduction in the expenditure ratio. However, for 2009, it is assumed that not all of the planned further savings in government consumption (especially price subsidies and the public wage bill) and in subsidies on products will be achieved, since it may be difficult to continue to contain spending. The forecast does not include any possible takeover from the debt of MÁV, the state-owned railway company (around 1% of GDP), nor any additional capital injections to MÁV. It also does not consider any consequence of the ongoing restructuring of MÁV on the sectoral classification of the company's successor units.

After a moderate increase in 2007 to 66% of GDP (from 65.6% in 2006), the debt ratio is projected to continue to increase somewhat to 66.5% of GDP in 2008, before declining to 65.7% of GDP in 2009.

Table 3.16.1:

Main features of country forecast - HUNGARY

	2006			Annual percentage change						
	bn HUF	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	23757.2	100.0	2.8	4.8	4.1	3.9	1.3	1.9	3.2	
Private consumption	12745.2	53.6	-	2.7	3.4	1.8	-0.5	0.3	1.5	
Public consumption	5430.0	22.9	1.0	1.8	2.4	4.7	-6.3	-1.7	3.1	
Gross fixed capital formation	5155.3	21.7	5.5	7.6	5.3	-2.8	1.0	4.3	5.8	
of which : equipment	1896.5	8.0	-	-	-	-	10.9	6.6	7.0	
Exports (goods and services)	18494.0	77.8	12.4	15.6	11.5	18.9	14.2	10.3	10.0	
Final demand	42110.6	177.3	-	8.8	5.8	9.4	7.1	5.0	6.1	
Imports (goods and services)	18353.4	77.3	13.3	13.4	6.8	14.5	12.2	9.1	9.7	
GNI at constant prices (GDP deflator)	22053	92.8	-	3.8	4.1	2.5	0.9	1.6	3.2	
Contribution to GDP growth :										
Domestic demand			3.0	3.6	3.6	1.4	-1.5	0.7	2.7	
Stockbuilding			0.4	0.4	-2.3	-0.3	1.2	0.0	0.0	
Foreign balance			-0.5	0.8	2.8	2.8	1.6	1.2	0.6	
Employment			-	-0.5	0.4	0.9	-0.1	-1.1	0.6	
Unemployment rate (a)			8.3	6.1	7.2	7.5	7.4	8.3	7.8	
Compensation of employees/f.t.e.			-	11.2	7.1	8.4	8.4	6.9	6.7	
Real unit labour costs			-	1.1	1.0	1.6	1.3	-0.7	0.3	
Savings rate of households (b)			-	-	-	-	-	-	-	
GDP deflator			14.9	4.4	2.2	3.7	5.4	4.5	3.7	
Private consumption deflator			-	4.6	3.8	3.3	6.6	6.3	3.7	
Harmonised index of consumer prices			-	6.8	3.5	4.0	7.9	6.3	3.7	
Trade balance (c)			-4.8	-3.0	-1.7	-1.0	0.9	1.9	2.5	
Current account balance (c)			-	-8.4	-6.8	-6.5	-5.0	-4.4	-3.9	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-8.1	-6.0	-5.7	-4.1	-2.4	-1.6	
General government balance (c)			-	-6.5	-7.8	-9.2	-5.5	-4.0	-3.6	
Cyclically-adjusted budget balance (c)			-	-6.6	-8.2	-10.0	-5.6	-3.6	-3.3	
Structural budget balance (c)			-	-6.9	-8.6	-9.7	-4.7	-3.7	-3.3	
General government gross debt (c)			-	59.4	61.6	65.6	66.0	66.5	65.7	

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

17. MALTA

Domestic demand continues to feed growth

Activity in 2007

Malta's real GDP grew by 3.8% in 2007, accelerating from 3.4% in the previous year. Economic activity was mainly driven by domestic demand, most notably higher private consumption. Inventories, and to a lesser extent, net exports also contributed to GDP growth. Private consumption increased by 2.8%, recovering from a declining trend that began in 2003. Strong job creation, coupled with lower personal income taxes and favourable inflationary developments, supported real disposable income growth. Private consumption was also boosted by strong growth in consumer credit and cash de-hoarding in the run-up to euro changeover. Public consumption increased by 0.6%, reflecting the expenditure-led fiscal consolidation.

Growth in gross fixed capital formation slowed down to 0.3%, in the wake of lower public capital spending following the completion, by mid-year, of a major healthcare facility. The contribution of final domestic demand to GDP growth amounted to slightly more than 2 percentage points. In addition, net exports contributed around 0.8 percentage points to growth.

Despite an increase in nominal terms, real exports of goods and services contracted by 0.6%. Foreign sales of goods, which account for three-fifths of total exports, declined sharply, primarily as a result of a closure of two sizeable textile factories. The poor performance of merchandise exports was partly offset by significant growth in export of services, mainly explained by higher revenue from tourism. Imports contracted by 1.3% in 2007,

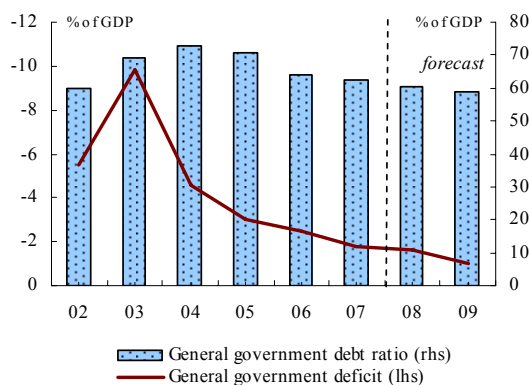
weighed down by the slower pace of investment growth and the fall in exports of goods which, for Malta, are characterised by a relatively high import content.

Prospects for 2008 and 2009

GDP is expected to slow down to 2.6% in 2008 and 2.5% in 2009. Economic activity is projected to be mainly domestically-driven in both years. For 2008, the boost to disposable income brought about by further tax cuts and higher transfer payments, is expected to be dampened by higher food and oil prices and a moderation in employment growth. Against this background, private consumption growth is anticipated to decelerate in 2008 and recover slightly in 2009. Public consumption is projected to increase at low rates during the forecast horizon. Investment is anticipated to post strong growth in 2008 and 2009, by around 3.5% and 3% respectively, on the back of higher private capital spending linked, amongst others, to a major ICT project. Overall, final domestic demand is expected to contribute by 2.5 percentage points to GDP growth during the forecast horizon.

Exports of goods and services are anticipated to recover in 2008 and remain unchanged in 2009, as the losses in export market shares of traditional manufacturing sectors registered in previous years, make way for further growth in rapidly-expanding sectors such as pharmaceuticals. Meanwhile, positive results for the first two months of 2008 and favourable indications for the rest of the year – partly owing to the servicing of new routes by low-cost airlines - point to further expansion in tourism, albeit at a slower pace. In line with an improved export performance and buoyant investment, imports are foreseen to increase by 0.6% in 2008 and by 0.7% in 2009. Following a sharp decline to 5.5% of GDP in 2007, the current account deficit is projected to deteriorate to 5.9% of GDP in 2008, mainly due to a higher fuel import bill, and improve to 5.6% in 2009. As a result, net borrowing vis-à-vis the rest of the world is foreseen to reach around 4.8% of GDP by 2009.

Graph 3.17.1: Malta - General Government finances



Labour market, costs and prices

Employment grew by a significant 2.7% in 2007, and was concentrated in services, partly in

response to the recovery in tourism. Although moderating in 2008 and 2009, the pace of job creation is expected to be above the historical average, driven mainly by information technology, tourism and remote gaming. The unemployment rate is foreseen to decline slightly from 6.4% in 2007 to 6.2% in 2009.

Although bottlenecks in certain sectors of the job market and the automatic wage indexation to past inflation would push wages up, new employees entering the labour market should partially ease the pressure. Compensation per employee is projected to grow by above 3% in nominal terms, in line with the euro area average. Productivity gains are expected to remain moderate at around 1¼%, leading to faster growth in unit labour costs over the forecast horizon. However, the acceleration of unit labour costs is on average less marked than that of the euro area.

In 2007, HICP inflation fell sharply to 0.7%, mainly on account of declines in tourist accommodation prices as well as the authorities' decision to keep utility prices unchanged. Higher food and oil prices are expected to push up inflation to 3.4% in 2008. Thereafter, the rate of price increases will ease to 2.2%, brought about by

the unwinding of the previous year's build-up in food and energy prices.

Public finances

The general government deficit fell to 1.8% of GDP in 2007, primarily as a result of a decline in current expenditure-to-GDP ratio. The structural balance (cyclically-adjusted balance net of one-offs) improved by around ½ a percentage point of GDP in 2007. For 2008, the deficit is projected to decline further to 1.6% of GDP. The ratio of current expenditure to GDP is projected to continue to fall, mainly as a result of slower growth in compensation of employees in relation to nominal GDP, and lower interest expenditure.

For 2009, under the no-policy-change scenario, the deficit is expected to decline further to 1% of GDP. The improvement in the fiscal stance will result mainly from a further decline in both the ratio of compensation of employees to GDP and government gross fixed capital formation.

General government debt in 2007 stood at around 62.5% of GDP and is anticipated to decline to 60.6% of GDP in 2008. Under the no-policy-change scenario, the debt ratio is foreseen to fall to below 59% of GDP in 2009.

Table 3.17.1:

Main features of country forecast - MALTA

	2006			Annual percentage change						
	mio Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices		5066.5	100.0	3.7	0.2	3.4	3.4	3.8	2.6	2.5
Private consumption		3206.4	63.3	-	2.4	1.9	0.7	2.8	2.3	2.5
Public consumption		1010.5	19.9	-	0.6	0.2	4.2	0.6	1.6	1.2
Gross fixed capital formation		987.7	19.5	-	-0.9	5.9	3.0	0.3	3.5	3.0
of which : equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		4437.7	87.6	-	2.2	-0.9	10.0	-0.6	0.8	0.8
Final demand		9704.6	191.5	-	2.0	2.6	5.9	1.2	1.6	1.6
Imports (goods and services)		4638.1	91.5	-	3.8	1.8	8.3	-1.3	0.6	0.7
GNI at constant prices (GDP deflator)		4841.2	95.6	3.1	-0.5	-0.2	3.6	5.7	2.9	2.7
Contribution to GDP growth :										
	Domestic demand			-	1.5	2.5	1.9	2.1	2.5	2.5
	Stockbuilding			-	0.4	3.5	0.6	0.9	0.0	0.0
	Foreign balance			-	-1.7	-2.6	0.9	0.8	0.2	0.1
Employment				1.1	-0.6	1.3	1.2	2.7	1.3	1.3
Unemployment rate (a)				6.3	7.4	7.3	7.3	6.4	6.3	6.2
Compensation of employees/head				5.7	1.3	2.0	3.3	1.5	3.0	3.2
Real unit labour costs				0.5	-1.2	-3.0	-1.8	-1.8	-0.5	-0.3
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.6	1.7	3.0	2.9	2.3	2.1	2.2
Private consumption deflator				-	2.3	2.6	2.5	1.0	3.6	2.4
Harmonised index of consumer prices				-	2.7	2.5	2.6	0.7	3.4	2.2
Trade balance (c)				-18.4	-15.7	-18.7	-19.0	-17.5	-17.9	-17.8
Current account balance (c)				-	-5.9	-8.8	-8.3	-5.5	-5.9	-5.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-4.4	-5.5	-5.3	-4.6	-5.0	-4.8
General government balance (c)				-	-4.6	-3.0	-2.5	-1.8	-1.6	-1.0
Cyclically-adjusted budget balance (c)				-	-3.5	-2.2	-2.2	-1.7	-1.6	-1.0
Structural budget balance (c)				-	-4.2	-3.8	-2.9	-2.4	-1.7	-1.0
General government gross debt (c)				-	72.6	70.4	64.2	62.6	60.6	58.8

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

18. THE NETHERLANDS

Strong labour market performance despite economic slowdown

Activity in 2007

Following growth of 3% in 2006, GDP continued to grow strongly in 2007, at 3.5%, the highest growth rate since the start of the century. The quarterly growth pattern was distorted by unusually high temperatures in the first half of 2007 (reducing gas production) and a subsequent normalisation of gas production boosting growth in the second half of the year. Overall, GDP growth over the year 2007 was roughly unaffected by gas production volatility and primarily driven by strong domestic demand, while also supported by the still favourable international environment.

Despite on average lower consumption of energy products, private consumption increased by a healthy 2.1% in 2007. Consumer confidence fell in the second half of the year in response to the developing international financial turmoil, but private consumption expenditure remained unaffected as Dutch consumers did not experience any direct personal financial consequences. In fact, consumption growth of consumer durables remained strong in the second half of the year, although this was also supported by the relatively benign price developments of those products. Overall, private consumption expenditure growth slightly outpaced net disposable income.

Private investment growth slowed in 2007 following very buoyant growth in 2006. The slowdown was concentrated in transportation equipment. Investments in other categories remained strong in 2007, especially in the construction sector and residential dwellings.

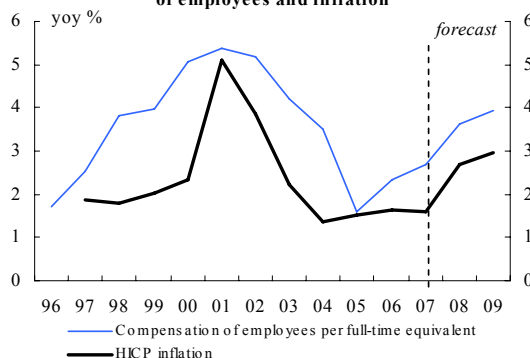
The contribution of net exports to GDP was relatively high in 2007 as export growth remained strong, driven by continued high international trade developments in the first three quarters of the year. At the same time, overall import growth slowed in response to reduced investment demand for transportation equipment, much of which is imported. Only at the end of 2007 did export growth start to weaken in response to the slowdown in international import demand.

Prospects for 2008 and 2009

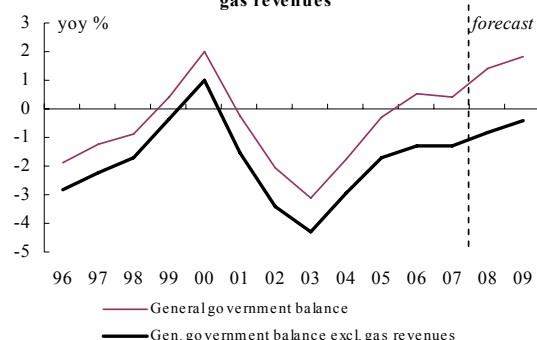
Economic growth prospects have turned significantly less favourable recently, as the international economic slowdown is projected to be more pronounced than was expected a short while ago. The projected high annual growth figure of 2.6% is related to the exceptionally high carry-over from 2007, which accounts for 1.9% of growth in 2008 and hides the substantial slowdown in growth dynamics. For 2009, the carry-over from 2008 is only 0.6% and annual GDP growth is expected to come out at 1.8%.

Throughout 2008, quarterly growth rates are expected to average 0.4% qoq, which is marginally below potential and significantly more modest than average quarterly growth rates in 2007 (of 1.1%). In the first quarter of 2008, a small negative effect is expected from lower gas production related to above-average temperatures, but in quarter-on-quarter terms growth is expected to remain clearly positive. For 2009, quarterly rates are expected to be at potential, at around 0.5% throughout the year.

Graph 3.18.1: The Netherlands - Compensation of employees and inflation



Graph 3.18.2: The Netherlands - General government balance including and excluding gas revenues



On the demand side, real private consumption expenditure growth is expected to slow significantly to around $\frac{1}{4}\%$ qoq throughout the forecast period⁽¹⁰⁾. This results in annual growth of 2.2% in 2008 and around 1% in 2009. The main reasons for the slowdown – which is occurring despite favourable employment developments – are increasing social contributions in 2008 and upward price pressures from mid-2008 onwards that reduce purchasing power. As the economic outlook deteriorates, corporations are expected to reduce private gross fixed capital formation. As a result, total investments in fixed capital will likely slow from 5.1% in 2007 to 3% and 1.3% in 2008 and 2009, respectively.

Due to its openness, the very open Dutch economy is expected to be affected disproportionately by the projected slowdown in international trade over the forecast horizon. This is in part the result of the high share of transit trade in total Dutch trade. Taking advantage of its geographical location, a significant (and growing) part of all the Netherlands' imports is re-exported to the European hinterland. As import growth in other European countries slows, this affects both import and export trade flows. Nevertheless, the external trade balance is expected to contribute positively to GDP growth over the forecast period, as import growth slows more rapidly than export growth, on account of decelerating private demand.

The current account surplus is foreseen to increase over the forecast horizon, continuing a trend that started at the end of the last decade. The balance of trade in goods is set to increase from a surplus of 7.3% of GDP in 2007 to roughly 8% in 2009 as export growth slightly outpaces import growth. Regarding 2009, the current account surplus also increases because of the reduction in the contribution to the EU own resources.

Labour market, costs and prices

In 2007, employment growth was 2.4% in full-time equivalence terms. It is expected to slow to 1.3% in 2008 and 0.7% in 2009, which is the result of opposing factors. On the one hand, existing tightness is expected to persist in large sections of the labour market, while on the other hand labour demand growth is expected to slow in response to the economic slowdown and the rising cost of labour. The unemployment rate is likely to continue its fall in 2008 to come out slightly below 3% and stabilise in 2009 as net employment

demand is expected to be in line with the increase in the labour force.

Despite the apparent tightness of the labour market, labour unions have kept their wage demands relatively subdued to date. Over the forecast horizon, wage demands are expected to rise in response to both the still tight labour market and increasing inflation. It is expected that contractual wages will accelerate this and next year. In all, wages and salaries per full-time equivalent are expected to increase by 3.6% in 2008 and almost 4% in 2009.

HICP inflation has remained relatively low in 2007 coming out at 1.6%, putting the Netherlands among the best performing countries in the EU. However, it is expected to increase rapidly in the course of 2008 and 2009 to reach around 3% in 2009⁽¹¹⁾, clearly above the projected EU inflation forecast for that year. Higher projected inflation is in part related to the recent sharp increase in international food prices and the continued high energy prices. The effect of these developments on consumer price inflation is likely to be relatively drawn out as a result of the current fierce competition among food retailers and the relatively long lags in the transmission of energy prices to heating costs. Furthermore, the anticipated increase in wages is expected to put upward pressure on inflation, especially in 2009. Finally, plans to introduce an aviation tax and a packaging tax and to increase levies on fuels and tobacco will put further upward pressure on inflation from mid-2008 onwards.

Public finances

The headline budget balance did not benefit from the remarkably high economic growth in 2007 and came out at 0.4% of GDP, roughly identical to the outcome in 2006 of 0.5% of GDP. Total tax revenues exceeded budgeted amounts, but overall receipts from the sale of natural gas came out lower, which was related to lower-than-expected gas production in the first half of 2007. Furthermore, there were expenditure overruns, mainly concentrated in health care. Overall, the structural balance fell by roughly $\frac{3}{4}$ percentage point of GDP in 2007. If the structural balance is corrected for the slowdown in gas revenues, the deterioration comes out around $\frac{1}{2}\%$ of GDP.

In 2008, the headline balance is expected to improve by 1 percentage point of GDP to 1.4% of

GDP. Half of the budgetary improvement is related to the projected rise in non-tax gas revenues from 1.4% of GDP in 2007 to around 2% of GDP in 2008 in view of the continued high energy prices over the forecast horizon. Furthermore, budgetary consolidation is planned on the revenue side that involves raising a variety of taxes and social contribution rates. The measures include higher health care contributions, increased fuel levies, the introduction of a tax on aviation and on packaging from mid-2008 onwards and higher excise duties on tobacco and alcohol. These factors raise overall government revenues and outweigh the additional expenditure outlays that are planned in the fields of health care and education. The structural budgetary balance is expected to improve by around ¾% of GDP in 2008. Corrected for the increase in gas revenues, the improvement is only around ¼%.

For 2009, the headline budgetary balance is expected to improve by roughly half a percent of GDP to 1.8% in 2009, whereby it is assumed that tax elasticities excluding policy measures return to levels somewhat below their historical values, as is common in a cyclical downturn. Although the forecast is based on a no-policy-change assumption, the projected outcome is affected by several tax measures that will be implemented in mid-2008 and that improve the budgetary outcome

in 2009 by 0.1% of GDP. Furthermore, gas revenues are expected to increase slightly based on continued high energy prices. Finally, the balance in 2009 is affected by the reduction in the annual contribution of the Netherlands to the EU budget of slightly less than 0.2% per year according to the Council decision on the EU own resources. Cumulated for the years 2007 to 2009, this amounts to 0.5% of GDP, out of which 0.3% of GDP is a one-off. Corrected for this one-off and the increase in gas revenues, the balance in 2009 would remain unchanged compared with 2008. Corrected for gas revenue increases, the structural balance is planned to remain roughly unchanged in 2009, implying a broadly neutral fiscal stance.

The government debt ratio is forecast to fall from 47.9% in 2006 to 39% of GDP in 2009. The fall in the debt ratio can be mainly attributed to the growth of nominal GDP.

⁽¹⁰⁾ Private consumption expenditure is expected to be higher in the first quarter of 2008, only. This is related to a modification to the health care system that leads to a reclassification of public health consumption to private health consumption.

⁽¹¹⁾ The government plans to raise the main VAT rate in 2009 from 19 to 20%. In line with the no-policy-change assumption, this has not been taken into account.

Table 3.18.1:

Main features of country forecast - THE NETHERLANDS

	2006			Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at previous year prices		534.3	100.0	2.6	2.2	1.5	3.0	3.5	2.6	1.8
Private consumption		253.5	47.4	2.5	1.0	0.7	-0.8	2.1	2.2	0.9
Public consumption		135.7	25.4	2.4	-0.1	0.0	9.4	2.7	1.1	1.5
Gross fixed capital formation		105.3	19.7	2.8	-1.6	3.0	7.2	5.1	3.0	1.3
of which : equipment		30.8	5.8	4.5	-2.5	3.7	14.4	9.2	4.0	1.8
Exports (goods and services)		391.3	73.2	6.0	7.9	5.9	7.0	6.4	4.4	4.1
Final demand		885.9	165.8	3.8	3.7	3.1	5.1	4.4	3.2	2.5
Imports (goods and services)		351.6	65.8	6.1	5.7	5.5	8.1	5.5	4.1	3.6
GNI at previous year prices (GDP deflator)		543.1	101.6	2.7	3.8	-0.5	4.0	3.8	2.7	2.0
Contribution to GDP growth :										
	Domestic demand			2.5	0.2	0.9	3.2	2.7	1.9	1.0
	Stockbuilding			-0.1	0.3	-0.1	-0.1	-0.2	0.2	0.1
	Foreign balance			0.2	1.7	0.7	-0.1	1.0	0.6	0.7
Employment				1.3	-1.0	-0.3	1.8	2.4	1.3	0.7
Unemployment rate (a)				4.5	4.6	4.7	3.9	3.2	2.9	2.8
Compensation of employees/f.t.e.				3.7	3.5	1.6	2.4	2.7	3.6	3.9
Real unit labour costs				-0.2	-0.5	-2.2	-0.8	0.4	-0.3	0.0
Savings rate of households (b)				-	-	12.1	12.5	13.2	12.1	12.7
GDP deflator				2.6	0.7	2.1	1.9	1.2	2.6	2.9
Private consumption deflator				2.6	1.0	2.1	2.3	1.7	2.7	2.8
Harmonised index of consumer prices				2.4	1.4	1.5	1.7	1.6	2.7	2.9
Trade balance (c)				5.4	7.2	7.6	7.4	7.3	7.6	7.9
Current account balance (c)				4.9	8.6	7.1	7.6	8.4	9.0	10.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				4.7	8.3	6.7	7.3	8.0	8.5	9.5
General government balance (c)				-1.8	-1.7	-0.3	0.5	0.4	1.4	1.8
Cyclically-adjusted budget balance (c)				-1.8	-0.9	0.8	1.1	0.3	1.0	1.6
Structural budget balance (c)				-	-1.1	0.8	1.1	0.3	1.0	1.3
General government gross debt (c)				65.3	52.4	52.3	47.9	45.4	42.4	39.0

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

19. AUSTRIA

Growth moderating due to weakening external environment

Activity in 2007

The Austrian economy grew by 3.4% in 2007 with quarter-on-quarter growth slowing down gradually throughout the year, from 0.9% qoq in the first three months of the year to 0.6% in the last quarter.

The main contribution to growth came from exports, which registered one of the highest growth rates in the last decade, benefitting from the favourable economic situation in Europe, particularly in Germany, and sustained gains in cost competitiveness.

Gross fixed capital formation, which accelerated from an already strong pace of the previous year, provided the second largest contribution to growth. In particular, investment in equipment saw a significant rebound on the back of the high capacity utilisation. Investment in construction, by contrast, registered a gradual slowdown, which was due to an abrupt falloff in housing construction.

Since both private and public consumption grew only moderately, they contributed to growth to a much lesser extent than net exports and investment.

Prospects for 2008 and 2009

The still buoyant activity at the beginning of 2008 is set to gradually slow down over the course of the year, only to start picking up as from mid-2009 on the back of an improving external environment. The output gap, which closed in 2006, is envisaged to remain positive but gradually diminish

throughout the forecast period as growth is likely to be much lower than potential in 2009.

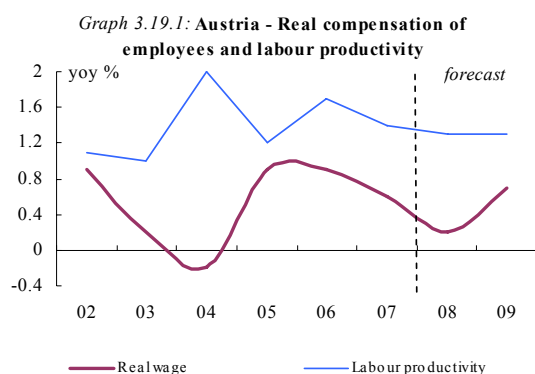
Against the background of the expected high inflation, marginally rising saving rate of households and slightly worsening prospects for the labour market, the profile of private consumption is projected to stay relatively flat. Growth in public consumption is anticipated to slow down in 2009, to a large extent due to the phasing-out of payments for military equipment. Having peaked in 2007, growth in gross fixed capital formation is expected to ease over the forecast period. Investment in equipment is likely to slow down sharply, due to deteriorating prospects for exports.

Since Austria's exports to the US constitute only a small percentage of the total, the impact of the slowdown in the American economy will mostly be indirect. The projected deceleration of German exports (which have a high Austrian import share), is predicted nevertheless to take its toll on the Austrian economy. Therefore, the contribution of net exports to real GDP is set to decline somewhat. However, it is expected to remain positive throughout the forecast period and the current account balance will gradually increase to just above 5% of GDP.

Labour market, costs and prices

Thanks to the continued strong activity, employment registered its fastest growth in decades and unemployment rate declined to 4.4% in 2007. However, on the back of moderating activity, employment growth is envisaged to decelerate throughout the forecast period. The unemployment rate, which has been on the decline since 2006, is anticipated to pick up marginally in 2009, as job creation will not be sufficient to match the growing labour force due to increased inflows of immigrants, and rising participation rate of women and older workers. The latter now stay longer in the labour market as a consequence of the recent pension reforms.

Prices are set to grow much faster than previously expected, with Austria's HICP surpassing the 2% threshold by a wide margin in 2008, but returning to it the year after. The increase in wages is projected to be slightly lower than the euro-area



average, which combined with the strong growth of Austria's labour productivity in comparison to other euro-area countries will ensure maintaining of relative price competitiveness.

Public finances

At 0.5% of GDP, the headline general government deficit for 2007 turned out much lower than the initial 0.9% of GDP officially expected. The favourable outcome was mainly due to higher-than-expected receipts from wage and corporate taxes as well as capital yields taxes, which more than offset slightly higher-than-planned expenditure growth.

The federal budget for 2008 was adopted (together with that for 2007) by the new parliament in May 2007, giving priority to expenditure on R&D, education and social affairs. In addition, the budget will be burdened by the recently agreed exemptions for low-wage workers from paying unemployment insurance contributions. As cyclical conditions are bound to worsen and no concrete saving measures within the framework of the administrative reforms have been decided yet, the deficit is expected to deteriorate marginally in 2008, but still stay close to the target set in the recent update of the Stability Programme.

Afterwards it will improve slightly due - to a large extent - to the phasing-out of expenditure on new military equipment. However, this improvement will not match the consolidation effort foreseen in the Stability Programme.

In 2007, the debt-to-GDP ratio finally dipped under the 60% of GDP threshold, for the first time since 1992. With nominal budget deficits staying relatively low, the debt ratio is anticipated to decrease continuously over the forecast period.

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	3.4	2.2	1.8	
Private consumption	142.9	55.4	1.7	1.8	2.0	2.1	1.4	1.4	1.5	
Public consumption	46.5	18.0	2.0	1.4	1.9	2.1	2.5	3.3	0.4	
Gross fixed capital formation	53.1	20.6	1.4	0.1	0.3	3.8	4.8	2.4	2.1	
of which : equipment	20.2	7.8	1.9	-2.3	1.0	1.5	6.3	2.5	1.8	
Exports (goods and services)	144.7	56.1	5.4	8.2	6.2	7.5	8.1	6.0	5.7	
Final demand	387.9	150.4	2.8	3.8	3.0	4.3	4.7	3.5	3.1	
Imports (goods and services)	130.1	50.4	4.7	6.8	5.0	5.6	6.6	5.9	5.5	
GNI at previous year prices (GDP deflator)	255.1	98.9	2.1	2.3	1.9	3.0	3.3	2.2	1.9	
Contribution to GDP growth :										
Domestic demand			1.7	1.3	1.6	2.3	2.2	1.9	1.3	
Stockbuilding			0.0	0.2	-0.3	0.0	0.4	-0.1	0.0	
Foreign balance			0.3	0.9	0.8	1.3	1.2	0.5	0.5	
Employment			0.3	0.3	0.9	1.6	1.9	0.9	0.5	
Unemployment rate (a)			4.0	4.8	5.2	4.7	4.4	4.2	4.3	
Compensation of employees/f.t.e.			2.7	1.6	2.6	2.4	2.6	3.2	2.8	
Real unit labour costs			-0.6	-2.4	-0.4	-1.0	-1.1	-0.9	-0.3	
Savings rate of households (b)			-	-	13.7	14.1	15.4	15.4	15.7	
GDP deflator			1.6	2.1	1.8	1.8	2.3	2.8	1.8	
Private consumption deflator			2.0	1.9	1.7	1.6	2.1	3.0	2.0	
Harmonised index of consumer prices			1.9	2.0	2.1	1.7	2.2	3.0	1.9	
Trade balance (c)			-1.8	1.0	1.0	1.4	2.1	2.0	1.9	
Current account balance (c)			-0.8	2.4	3.0	3.5	4.7	5.0	5.2	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-1.0	2.3	3.0	3.3	4.5	4.8	5.0	
General government balance (c)			-2.5	-3.7	-1.5	-1.5	-0.5	-0.7	-0.6	
Cyclically-adjusted budget balance (c)			-2.5	-3.1	-0.8	-1.4	-1.0	-1.2	-0.9	
Structural budget balance (c)			-	-3.1	-0.8	-1.4	-1.0	-1.2	-0.9	
General government gross debt (c)			64.3	63.8	63.5	61.8	59.1	57.7	56.8	

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

20. POLAND

Resilient growth, but inflation noticeably higher

Activity in 2007

Economic activity was robust in 2007. Driven by domestic demand, real GDP increased by 6½% yoy (in line with the Commission services' autumn 2007 forecast). Growth was supported by private consumption (5.2%) and buoyant investment (20.4%). Nevertheless, economic activity decelerated slightly throughout 2007. In the final quarter of 2007 economic growth reached a preliminary 6.7% yoy on the back of lower private consumption. Total domestic demand grew by a strong 7.3% in 2007. Export and import growth decreased to 9.1% and 10.9% in real terms, year-on-year, respectively. Net exports contributed negatively to GDP growth (-0.9 percentage points) on account of continuing investment activity and overall strong private consumption.

Prospects for 2008 and 2009

Domestic demand will continue to be the main driving force of GDP growth, which is expected to ease to 5.3% in 2008 and 5.0% in 2009. Both investment and private consumption growth are likely to stay robust over the projection period. The effects of financial turmoil are foreseen to remain limited due to ample liquidity in the market and strong demand for housing supported by rising employment and wages. Investment is expected to grow at over 12% each year, on the back of foreign direct investment and an increased inflow of EU funds. In 2008 Poland will still be able to use the funds from both the 2004-2006 and 2007-2013 programming periods.

Private consumption is expected to accelerate by

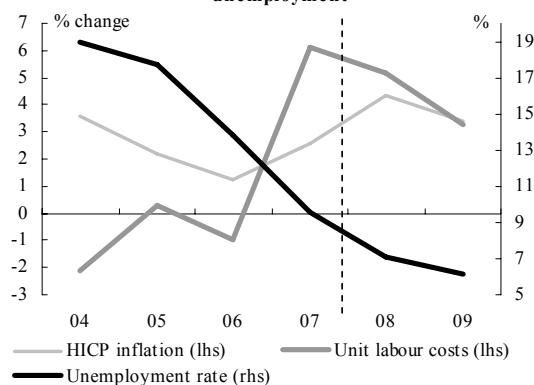
5.6% in 2008, although it will moderate somewhat in 2009. The better employment situation, increasing wage growth because of tightening in the labour market, a further cut in the tax wedge in 2008 and lower personal income taxes in 2009 are the main factors supporting strong growth in private consumption. This outlook is underpinned by short-term indicators which point to industrial production, retail sales and construction activity remaining close to historically high levels in the first quarter of 2008. Increased private consumption and investments will boost domestic demand and increase imports, which will enlarge the negative contribution of net exports to GDP growth in 2008.

Imports are expected to grow at 10½% in 2008 while export growth is expected to slow down to about 7% due to lower external demand in the EU, Poland's main trading partner. After reaching 3.7% in 2007, the current account deficit is expected to widen to about 4.6% in 2008 and 5½% in 2009, but higher transfers from the EU will have a moderating impact on the capital account. The external deficit will be limited to 3.6% in 2009 and will to a large extent be financed by a stable inflow of foreign direct investments.

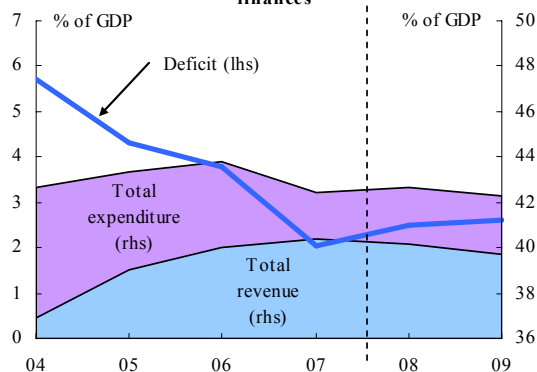
Labour market, costs and prices

Labour market conditions improved substantially in 2007 with employment growing by 4.5% and the number of unemployed decreasing by more than 700.000 to 1.6 million. In the coming years, employment will continue to increase, though at a slower pace on the back of sectoral labour shortages, so that employment growth will

Graph 3.20.1: Poland - Prices, labour costs and unemployment



Graph 3.20.2: Poland - General government finances



decrease gradually to 1.3% in 2009. The projected rise in the employment level should translate into a lower unemployment rate, which will come down to 6.3% of the civilian labour force in 2009, the lowest since the beginning of the economic transformation. The reduction of taxes on labour, substantial increases in wages and the planned measures to increase the participation of older workers will all have a favourable impact on employment and the participation rate within the forecast horizon. Unit labour costs grew by 6% in 2007, as a result of strong wage growth combined with modest productivity growth.

In 2008 and 2009, nominal unit labour costs are likely to continue rising, albeit at a slower pace, as productivity growth recovers supported by high investments from previous years and slower employment creation. Annual HICP inflation reached 2.6% in 2007, accelerating strongly in the fourth quarter of the year on the back of rising food and energy prices. In view of a tightening labour market and compensation of employees increasing faster than productivity, market participants still expect some monetary policy tightening. Nevertheless, inflation is likely to rise, on the back of higher wages, rising food prices and hikes in controlled prices of energy and gas, to 4.3% in 2008. HICP inflation is expected to decline to 3.4% in 2009, as the one-off price hikes fall out of the calculation of annual rates strengthening the favourable base effects.

Public finances

As foreseen in the autumn 2007 forecast, revenues from all major tax components were much higher than projected in the budget, predominantly due to a positive GDP growth surprise and dynamic wage growth, especially in the second half of the year. Total revenues for the year turned out 0.6% of GDP higher than forecast in the autumn. In particular, current taxes on income and wealth outperformed the previous forecast. On top of higher revenue, government expenditure turned out slightly lower than anticipated in the autumn 2007 forecast. In particular, public investment growth was below the expected rate mainly on account of subdued absorption of EU funds. In addition, social spending needs were less than expected thanks to a larger rise in income per head and a slightly bigger-than-expected drop in the unemployment rate. The resulting better primary balance allowed for lower-than-planned debt growth and interest expenditure leading to a much

lower-than-budgeted general government deficit (2.0% of GDP compared to 3.4% in the November 2006 convergence programme).

The 2008 budget indicates a worsening of the central state balance (non ESA95) by about 0.8% of GDP in 2008 compared to the 2007 outturn because of a number of deficit-increasing measures adopted before the parliamentary elections. Most of them will reduce government revenues: (i) a second cut in social contributions (exceeding 1% of GDP and following the one made in the middle of 2007) is the most costly item, followed by (ii) personal income tax relief for families based on number of children.

On the expenditure side, the 2008 budget restores the generous (inflation plus wage growth) annual indexation of pensions and disability benefits, which had been abandoned as part of the Hausner plan in 2004, with an overall budgetary cost in 2008 estimated at almost ½% of GDP.

The deficit-increasing measures will be partly offset by (i) significantly higher inflation, compared to the budgetary projections, that reduces real expenditure which is predominantly fixed in nominal terms, (ii) improving tax compliance and falling inactivity rate owing to the tax wedge cut, (iii) higher taxable income due to lower social contributions, and (iv) excise duty hikes related to the EU tax harmonisation. All things considered, this forecast anticipates that the general government deficit will increase to 2.5% of GDP in 2008 according to the spring 2008 forecast.

In 2009, the general government deficit ratio is expected to rise marginally. A personal income tax reform will be the main deficit-increasing measure (estimated at about 0.6% of GDP). The vast majority of tax-payers will be subject to a low marginal rate of 18%. This impact will be cushioned by further improvement in tax compliance and falling inactivity thanks to lower overall tax wedge. There seems to be a particularly high potential for reducing the shadow economy and stimulating labour activity in Poland, as suggested by the significant difference between the registered unemployment rate and the unemployment rate from labour force surveys (about 3 percentage points in the beginning of 2008). Furthermore, Poland has one of the lowest activity rates in the EU (63½% compared to almost 71% in the EU in the second half of 2007),

especially for those aged 55+. The steep increase in corporate-income and small-business personal-income tax revenues in the recent years in Poland may be partly explained with a better compliance following a reduction of initially high tax rates. One more round of hikes in indirect taxes required for EU harmonisation will have a direct deficit-decreasing effect (about 0.1% of GDP). After a steep decrease (by about 2½% of GDP) in 2007, gross debt is projected to fall more slowly this year and next to about 44% of GDP in 2009. If privatisation is reactivated, as planned by the new government, 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	6.2	6.5	5.3	5.0	
Private consumption	657.4	62.0	4.4	4.3	2.0	4.8	5.2	5.6	4.7	
Public consumption	193.7	18.3	2.9	3.1	5.2	5.8	0.4	0.7	1.3	
Gross fixed capital formation	208.9	19.7	6.2	6.4	6.5	15.6	20.5	15.3	12.0	
of which : equipment	84.5	8.0	-	9.0	9.9	19.6	30.4	18.0	13.0	
Exports (goods and services)	427.8	40.3	10.7	14.0	8.0	14.6	9.1	6.9	6.6	
Final demand	1502.6	141.7	5.5	7.9	3.8	9.3	7.9	6.9	6.1	
Imports (goods and services)	442.4	41.7	11.4	15.2	4.7	17.4	10.9	10.5	8.7	
GNI at previous year prices (GDP deflator)	1015.4	95.8	4.5	2.6	4.4	5.6	6.4	5.0	4.7	
Contribution to GDP growth :										
Domestic demand			4.5	4.5	3.4	6.9	7.4	7.0	6.0	
Stockbuilding			0.0	1.6	-0.9	0.4	0.0	0.0	0.0	
Foreign balance			-0.2	-0.8	1.1	-1.1	-0.9	-1.7	-1.0	
Employment			-	1.3	2.3	3.3	4.5	2.6	1.3	
Unemployment rate (a)			14.6	19.0	17.7	13.8	9.6	7.1	6.1	
Compensation of employees/head			21.0	1.8	1.6	1.9	8.1	8.0	7.0	
Real unit labour costs			-	-6.0	-2.3	-2.4	3.0	0.2	0.1	
Savings rate of households (b)			-	-	7.2	6.6	7.5	8.9	9.2	
GDP deflator			15.7	4.1	2.6	1.5	3.0	4.9	3.1	
Private consumption deflator			16.6	3.0	2.1	1.2	2.4	4.1	3.1	
Harmonised index of consumer prices			-	3.6	2.2	1.3	2.6	4.3	3.4	
Trade balance (c)			-3.2	-2.2	-0.9	-2.0	-3.1	-3.9	-4.7	
Current account balance (c)			-1.9	-4.4	-1.6	-3.1	-3.7	-4.6	-5.5	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-0.8	-4.1	-1.2	-2.5	-2.6	-2.3	-3.6	
General government balance (c)			-	-5.7	-4.3	-3.8	-2.0	-2.5	-2.6	
Cyclically-adjusted budget balance (c)			-	-5.9	-4.2	-4.0	-2.5	-2.7	-2.3	
Structural budget balance (c)			-	-5.9	-4.2	-4.0	-2.5	-2.7	-2.3	
General government gross debt (c)			-	45.7	47.1	47.6	45.2	44.5	44.1	

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

21. PORTUGAL

External developments and structural fragilities weigh on recovery

Activity in 2007

In 2007, GDP grew by 1.9%, thus continuing the moderate acceleration of economic activity that started in mid-2005. This upturn was driven by greater dynamism of domestic demand, especially investment, and a robust export performance.

Domestic demand grew by about 1½%, picking up from a situation of quasi-stagnation in the preceding year. This upturn was mainly driven by the revival of gross fixed capital formation, with equipment investment posting strong growth and the construction sector displaying some signs of recovery in the second half of 2007 after years of marked retrenchment. Economic activity was further helped by a slight acceleration in household consumption on the back of a significant rise in durable goods expenditure.

The contribution of the external sector to GDP growth declined significantly in 2007. This profile reflects a progressive deceleration of exports over the course of the year, as well as a greater dynamism of imports. The former largely reflected a fast deceleration in car and machinery exports, while the latter was primarily fuelled by the brisk expansion in durable goods consumption and investment in equipment.

Prospects for 2008 and 2009

The economic outlook for the forecast period is affected by adverse external developments against a backdrop of persistent structural fragilities and

low potential GDP growth. In particular, actual GDP growth appears to be dampened by the slowdown in economic activity of major trading partners, the effects of the persistent credit market turmoil, and higher energy and food prices. As a result, real GDP growth is expected to decelerate, hovering 1½% in 2009.

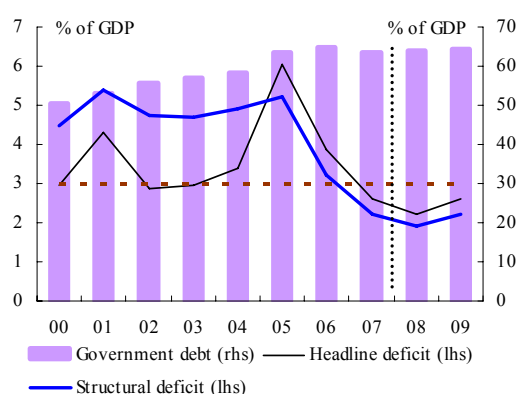
Household spending in 2008 should be constrained by higher inflation, tighter financial conditions, and increased uncertainty. However, in 2009, household disposable income is expected to benefit somewhat from the normalisation in financial markets through a relief in the debt service. Private investment is projected to decelerate while still exhibiting some resilience in the earlier part of the forecast period, largely owing to the expected impact of a number of specific investment decisions. Thereafter, the investment revival is foreseen to fade away against a backdrop of the uncertain financial and economic outlook.

The contribution of the external sector to GDP growth is foreseen to be slightly positive over the projection period. Whilst exports are expected to grow at a slower pace, in line with the predicted moderation of external demand, imports should also decelerate in the face of weaker domestic demand. It is worth noting, however, that the projections for export activity are subject to considerable risks. On the one hand, exports could display increased resilience due to lower growth in unit labour costs than in some main trading partners, an upgraded product mix and the wider geographical diversification observed in recent years. On the other hand, export growth may be further contained by lower-than-expected growth of some major trading partners. The external deficit is forecast to remain high. It should be attenuated by higher EU funds transfers in 2008, amid still the change to a new seven-year package, and benefit from the projected stabilisation in commodities prices in 2009.

Labour market, costs and prices

After the upward trend observed in recent years, the unemployment rate has been declining moderately since mid-2007. Against the current economic outlook, the unemployment rate is

Graph 3.21.1 : Portugal - Government finances



projected to remain relatively flat in 2008 and 2009.

After having declined in 2007, inflation is expected to pick up in 2008, fuelled by rising energy and food prices. In 2009, in line with the projected containment of the prices of those items inflation looks set to slow down again. In addition, inflationary pressures might be slightly mitigated by the effects of the 1 percentage point cut in the VAT standard rate as of July 2008.

Public finances

In 2007, the general government deficit represented 2.6% of GDP, after 3.9% of GDP in 2006. This narrowing of the fiscal imbalance was underpinned by buoyant tax revenue mainly due to improved tax administration and compliance. In addition, the expenditure-to-GDP ratio declined with current primary expenditure flat in real terms. Spending moderation was driven mainly by containment of personnel expenditure, and was further supported by the fall in unemployment benefits and some health-related expenditure.

In 2008, the government deficit is forecast to decline to around 2¼% of GDP. Overall tax receipts are projected to continue increasing in

2008, albeit less markedly than in 2007, reflecting the projected deceleration of economic activity and the cut in VAT standard rate as of July 2008. In addition, after the high figures observed in recent years, tax elasticities are assumed to move closer to their historical average reflecting declining marginal gains from enhanced tax administration and compliance. The expenditure-to-GDP ratio is forecast to remain broadly stable, with personnel expenditure continuing to display a contained expansion as a result of wage moderation and declining central government employment. The granting of concessions for the exploitation of dams will provide a one-off deficit-reducing contribution of almost 0.2% of GDP.

In 2009, on the basis of unchanged policies, the government deficit is projected to rebound to over 2½% of GDP. Besides the base effect associated with the 2008 one-off operation, this deterioration is expected to be driven mainly by the further impact of the VAT cut in mid-2008. This forecast is made on the assumption that tax proceeds evolve in line with the relevant tax bases.

After falling to 63½% of GDP in 2007, the government debt ratio is projected to upturn again and reach 64¼% of GDP in 2009.

Table 3.21.1:

Main features of country forecast - PORTUGAL

	2006		Annual percentage change							
	bn Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at previous year prices		155.3	100.0	2.2	1.5	0.9	1.3	1.9	1.7	1.6
Private consumption		101.0	65.0	2.6	2.5	2.0	1.1	1.5	1.2	1.4
Public consumption		32.2	20.7	2.5	2.6	3.2	-1.2	0.3	0.3	0.5
Gross fixed capital formation		33.5	21.6	3.1	0.2	-0.9	-1.0	3.2	2.9	1.4
of which : equipment		10.4	6.7	3.0	5.1	-0.3	4.0	6.9	3.6	0.9
Exports (goods and services)		48.4	31.2	4.6	4.0	2.0	9.2	7.1	4.6	4.2
Final demand		216.2	139.2	3.1	2.9	1.6	2.3	3.0	2.1	1.9
Imports (goods and services)		60.9	39.2	5.4	6.7	3.5	4.6	5.4	3.3	2.8
GNI at previous year prices (GDP deflator)		150.5	96.9	2.2	1.3	0.5	0.2	1.0	1.4	1.5
Contribution to GDP growth :	Domestic demand			2.8	2.2	1.7	0.2	1.7	1.5	1.3
	Stockbuilding			0.0	0.5	-0.1	0.0	0.0	0.0	0.0
	Foreign balance			-0.6	-1.2	-0.7	0.9	0.1	0.2	0.3
Employment				0.5	0.1	0.0	0.7	0.2	0.7	0.5
Unemployment rate (a)				5.5	6.7	7.6	7.7	8.0	7.9	7.9
Compensation of employees/head				6.3	2.6	2.9	2.4	2.1	2.6	2.7
Real unit labour costs				-0.2	-1.2	-0.6	-1.0	-2.5	-0.4	-0.8
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				4.7	2.4	2.5	2.7	3.0	2.1	2.4
Private consumption deflator				4.1	2.5	2.7	3.3	2.7	2.8	2.2
Harmonised index of consumer prices				3.9	2.5	2.1	3.0	2.4	2.8	2.3
Trade balance (c)				-9.6	-9.5	-10.3	-10.1	-9.9	-10.6	-10.1
Current account balance (c)				-6.2	-7.8	-9.8	-9.8	-9.8	-10.1	-9.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-3.8	-6.1	-8.3	-8.6	-8.6	-8.7	-8.1
General government balance (c)				-3.8	-3.4	-6.1	-3.9	-2.6	-2.2	-2.6
Cyclically-adjusted budget balance (c)				-3.9	-2.8	-5.4	-3.2	-2.1	-1.8	-2.2
Structural budget balance (c)				-	-4.9	-5.2	-3.2	-2.2	-1.9	-2.2
General government gross debt (c)				55.3	58.3	63.6	64.7	63.6	64.1	64.3

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

22. ROMANIA

Growing macro-financial vulnerabilities

Activity in 2007

After reaching 7.9% in 2006, real GDP growth slowed to 6.0% in 2007. Fuelled by strong wage increases, rising employment and the rapid expansion of credit, domestic demand remained the driver of economic growth, with gross fixed capital formation reaching a record increase of almost 29% in real terms. The value-added in the construction sector also grew at a record level of 34%. A negative contribution came from the drought-induced agricultural supply shortfall that resulted in a considerable reduction of stocks. Value-added in agriculture contracted by 17%. Furthermore, the strong appreciation of the RON in the first half of the year led to a higher negative contribution from the external balance. The latter was only partly mitigated by the improved export performance in the last quarter of 2007, which materialised on the back of a sharp depreciation of the RON since August.

Mainly driven by the trade balance, net borrowing from the rest of the world widened from 10.4% of GDP in 2006 to 13.2% in 2007. As the privatization of state-owned enterprises is largely over, FDI inflows slowed down in 2007 and the FDI coverage of external net borrowing dropped from 89% in 2006 to 44% in 2007. This may weigh unfavourably on Romania's external vulnerability.

Prospects for 2008 and 2009

The forecast projects real GDP growth at 6¼ % in 2008, easing towards just above 5% in 2009. Initially, domestic demand dynamics are expected

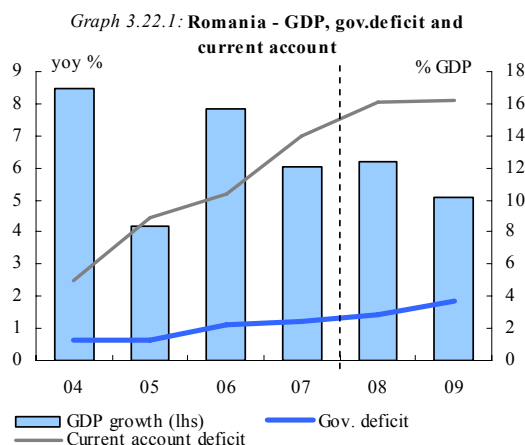
to keep their momentum on the back of buoyant credit and wage growth. However, in the second half of 2008, rising commodity prices and tighter credit conditions, including the cumulative impact of recent interest rate hikes by the central bank, are likely to start dampening consumption and investment growth. This effect is expected to persist well into 2009. With domestic demand gradually cooling down, import growth is expected to decelerate as well, leading to a halt in the expansion of net borrowing from the rest of the world, which is forecast to reach 15½% of GDP in 2009.

In contrast to the projected gradual slowdown in the forecast scenario, the risk of a sustained strong boom and a further build-up of domestic and external imbalances leading ultimately to a sharper and more sudden adjustment cannot be fully excluded. A continuation of the boom could in particular result from higher than assumed wage increases in a context of increased inflation expectations and a fiscal policy stance that is not sufficiently geared to the need to contain domestic demand pressure. The general uncertainty related to the unfolding of the international financial turmoil could also spring negative surprises.

Labour market, costs and prices

In spite of the contraction of several labour-intensive industries (especially textiles and clothing), overall employment grew by 1.3% in 2007 and is projected to still expand by almost 1% in 2008 and ¾% in 2009. The job creation process in the formal private sector will be sustained by foreign investment and goes hand in hand with a further reduction of the informal economy. Unemployment is projected to decline slightly over the forecast period to just above 6%. However, increasing skill shortages are driving up unit labour cost, affecting Romania's international competitiveness in spite of the recent RON depreciation.

Wage and exchange rate developments, compounded by supply-side shocks and rising international commodity prices have also fuelled an upturn in inflation, which reached an annual 6¾% in December 2007, thereby exceeding the central bank's end-year target band of 4+/-1%. In response, the main policy rate has been increased



by a cumulative 250 bps since November 2007. Nevertheless, annual inflation is projected to edge-up to an average of around 7½% in 2008, reflecting the pass-through of external price increases and exchange rate depreciation along strong demand pull pressures. In 2009 it should ease to slightly below 5% in 2009.

Public finances

The budget deficit was 2.5% of GDP in 2007 (up from 2.2%¹ of GDP in 2006). This is slightly lower than the original budget target of 2.7% of GDP. Higher-than-planned public wages and social transfers were compensated by an under-realisation of capital spending and well performing revenues.

In 2008 and 2009, the deficit is expected to further widen to 2.9% and, under unchanged policies, 3.7% of GDP respectively. One important expenditure increasing factor is an almost doubling of pensions over this period. Also, part of pension contributions are redirected to a funded second pension pillar introduced in 2008 (the budgetary cost is estimated at 0.2% and 0.3% of GDP in 2008 and 2009 respectively). In addition, the social contribution rate will be gradually cut by 6pps in the course of 2008 with the full impact felt as from

2009. These reforms will be partly financed by some measures aimed at broadening the contribution base. Gross fixed capital formation is projected to gradually increase, assuming an improved absorption of EU funds. Direct tax revenues are expected to remain the main revenue-increasing item. Despite recent measures to control public expenditure, there remains a considerable risk of higher deficits, adding to the already expansionary fiscal policy in a context where macro-economic vulnerabilities would call for a more restrictive fiscal policy. The risk factors include: lower revenues, including a more negative impact of the above-mentioned reforms on social contributions; public wage slippages as seen in the past; a continuation of the dismal track record in terms of budgetary planning and execution (in particular if the recent measures are not effective); and expenditure pressures due to the political cycle (elections in 2008 and 2009).

The 2006 deficit was revised upwards from 1.9% of GDP, due to new information on debt cancellation in favour of third countries, partially compensated by the positive impact of revisions concerning other government transactions.

Table 3.22.1:

Main features of country forecast - ROMANIA

	2006			Annual percentage change						
	bn RON	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	344.5		100.0	1.0	8.5	4.2	7.9	6.0	6.2	5.1
Private consumption	237.5		68.9	2.5	14.6	9.9	12.4	11.0	8.2	7.1
Public consumption	57.2		16.6	2.6	-4.9	8.5	-3.1	5.6	4.1	3.5
Gross fixed capital formation	88.3		25.6	6.1	11.1	12.7	19.3	28.9	13.4	10.3
of which : equipment	42.0		12.2	8.5	8.2	17.8	19.3	26.7	13.0	11.0
Exports (goods and services)	111.2		32.3	11.0	13.9	7.7	10.6	8.8	8.9	8.6
Final demand	497.2		144.3	2.7	12.5	7.9	12.2	12.2	9.0	7.8
Imports (goods and services)	152.7		44.3	10.7	22.1	16.0	22.4	26.1	15.3	13.3
GNI at constant prices (GDP deflator)	333.1		96.7	0.9	6.4	5.5	7.4	5.7	6.6	5.4
Contribution to GDP growth :		Domestic demand		4.1	11.1	11.0	12.6	15.9	10.4	8.8
		Stockbuilding		-2.1	1.9	-2.3	1.5	-1.2	-0.1	0.0
		Foreign balance		-0.8	-4.5	-4.4	-6.2	-8.7	-4.1	-3.7
Employment				-2.1	-1.7	-1.5	2.8	1.3	0.9	0.8
Unemployment rate (a)				6.3	8.1	7.2	7.3	6.4	6.1	5.9
Compensation of employees/head				79.2	13.9	22.1	17.8	20.2	18.1	16.4
Real unit labour costs				-0.5	-10.2	2.8	1.3	3.6	2.7	2.8
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				74.4	15.0	12.2	10.8	10.8	9.4	8.6
Private consumption deflator				73.1	13.9	7.3	5.2	4.7	7.0	4.6
Harmonised index of consumer prices				-	11.9	9.1	6.6	4.9	7.6	4.8
Trade balance (c)				-6.9	-8.7	-9.8	-12.1	-14.6	-17.2	-17.8
Current account balance (c)				-	-5.0	-8.9	-10.4	-13.9	-16.1	-16.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.1	-4.1	-7.9	-10.4	-13.2	-15.4	-15.5
General government balance (c)				-	-1.2	-1.2	-2.2	-2.5	-2.9	-3.7
Cyclically-adjusted budget balance (c)				-	-1.8	-1.6	-3.3	-3.4	-3.7	-4.1
Structural budget balance (c)				-	-1.8	-1.6	-2.7	-3.4	-3.7	-4.1
General government gross debt (c)				-	18.8	15.8	12.4	13.0	13.6	14.9

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

23. SLOVENIA

Inflation peaks and decelerates as GDP growth moderates

Activity in 2007

Economic activity in Slovenia continued to be buoyant in 2007. Real GDP growth in this first year of euro-area membership reached 6.1% yoy, the highest value since the country's independence. However, this was accompanied by a marked pick-up in inflation, with average annual HICP inflation standing at 3.8%.

As in 2006, economic growth was mainly driven by gross fixed capital formation. The latter increased by an impressive 17.2%, mainly as a result of buoyant motorway and other infrastructure construction, as well as a strong increase in residential construction. Household consumption growth was sustained, due to a marked rise in employment as well as a favourable development of net wages. In contrast, the external sector's contribution to GDP growth turned negative in 2007 (-0.9 pp.) despite very vigorous growth in exports of goods and services (13.0%). The even stronger increase in imports (14.1%) was mainly fuelled by buoyant demand for investment goods and intermediate goods used in exports. Despite the recorded gains in export market shares, some deterioration in competitiveness indicators emerged due to the pick-up in domestic inflation.

Prospects for 2008 and 2009

The central scenario foresees a moderate deceleration of GDP growth in Slovenia to 4.2% in 2008. This slowdown to slightly below the average of 4.3% recorded in 1998-2007 is linked mainly to a projected significant deceleration of gross fixed capital formation, which after last year's

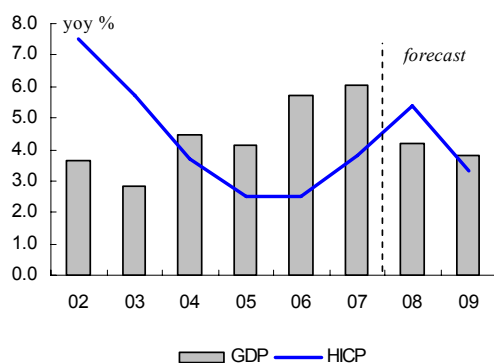
exceptional growth is set to increase by around 6.5 % in 2008. It is expected that the still dynamic investment activity will continue to be sustained by the public sector's infrastructure investment, especially in motorways and railways. Private consumption is projected to slightly accelerate. Continuing strong real disposable income stems mainly from significant wage increases in the public and probably also the private sector. Income groups with a high spending propensity should benefit particularly from net wage growth. The rate of growth of exports is projected to decelerate in the context of a less favourable euro area environment. At the same time, the slowdown in investment and exports should reduce import growth, resulting in a small positive contribution of net exports to GDP growth.

With a projected GDP growth rate of slightly below 4%, the slowdown of GDP growth is expected to continue in 2009, mainly due to further deceleration of capital formation. In particular, construction is projected to expand more slowly as investment in motorway construction levels off. Private consumption is forecast to remain buoyant on the back of continued growth in real disposable income due to sustained wage growth and declining inflation. It is envisaged that exports growth will ease compared to the preceding years. The growth rate of imports should also moderate, reflecting the slowdown in investment and consumption demand. Thus, net exports should maintain their positive contribution to growth.

Labour markets, costs and prices

Consumer price inflation increased markedly in 2007, reaching an average level of 3.8 % for the year as a whole, compared to 2.5 % in 2006. While external shocks reflecting food and energy price developments played a significant role, their effects are likely to have been amplified by domestic factors. In particular, price increases may have been facilitated by low competition in some sectors as well as strong demand pressures. Several indicators suggest rising demand pressures led to some overheating of the economy in 2007: firm surveys reported high capacity utilisation and lack of skilled personnel; real interest rates have been very low; and the economy has probably been experiencing a positive output gap. In contrast, according to recent estimates, the adoption of the

Graph 3.23.1: Slovenia - GDP growth and inflation



euro did not contribute more than 0.3 pp. to annual inflation.

From a high of 6.5% in the first quarter, HICP inflation is projected to decelerate in the course of 2008, leading to an elevated average rate of about 5.4% for the year as a whole. Despite the expected slowdown in activity, and also in view of expected commodity price developments, the risks to the inflation outlook are mainly on the upside. Private sector wage negotiations are ongoing and are likely to be influenced by the January 2008 agreement for the public sector, which implied almost full indexation of wages to the difference between expected and actual inflation in 2007. The government's efforts to reduce income disparities within the public sector in 2008-2010 might imply that employees will press for even higher increases.

Labour market developments were favourable in 2007 with a strong increase in employment of 2.7 % yoy. Employment expansion was especially strong in construction. Unemployment fell to 4.8 % in 2007 and is probably below the natural rate. It is projected to decline somewhat further in 2008 and 2009, while employment growth is expected to decelerate in the face of the economic slowdown.

Public finances

The general government deficit narrowed to 0.1 % of GDP in 2007 after 1.2% in 2006. This outturn was below the 0.6 % deficit anticipated in the November 2007 stability programme. On the back of the strong economic activity and positive labour market developments, revenue increased markedly despite the reduction of personal income tax brackets and the fall in corporate and payroll taxes, in the framework of a comprehensive tax reform.

The general government deficit is expected to increase to 0.6% of GDP in 2008. Revenue as a share of GDP should decline as the tax reform continues. Measures designed to raise disposable income, including tax breaks for lower income groups and increases in some transfers, are projected to have an adverse effect on the deficit. However, the better-than-planned 2007 budgetary outcome is expected to offset these effects to a large extent. In contrast, ignoring the demands of certain groups of public sector employees for higher-than-anticipated wage rises might prove difficult, especially in view of the general elections scheduled for October. Over the forecast horizon, debt as a share of GDP is projected to decline slowly to around 23 % in 2009, while the general budget deficit is not expected to deteriorate despite the continuing slowdown.

Table 3.23.1:

Main features of country forecast - SLOVENIA

	2006			Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at previous year prices	30.4		100.0	3.1	4.4	4.1	5.7	6.1	4.2	3.8
Private consumption	16.3		53.4	3.8	3.0	2.7	4.0	3.1	3.2	3.4
Public consumption	5.9		19.2	2.9	3.1	3.2	4.4	1.4	2.9	2.6
Gross fixed capital formation	8.0		26.1	6.9	7.3	2.5	8.4	17.2	6.5	4.8
of which : equipment	3.1		10.0	9.7	8.5	3.1	8.3	12.6	4.0	4.6
Exports (goods and services)	20.5		67.4	3.1	12.5	10.1	12.3	13.0	9.3	8.8
Final demand	51.3		168.4	4.1	7.9	5.2	8.5	9.7	6.2	5.8
Imports (goods and services)	20.8		68.4	5.4	13.3	6.7	12.2	14.1	8.9	8.3
GNI at previous year prices (GDP deflator)	30.1		98.9	3.1	4.0	4.5	5.5	5.0	4.4	3.8
Contribution to GDP growth :										
Domestic demand				4.2	4.2	2.6	5.3	6.8	4.2	3.8
Stockbuilding				0.4	0.9	-0.5	0.6	0.6	-0.1	-0.1
Foreign balance				-1.4	-0.5	2.0	0.0	-0.9	0.2	0.1
Employment				-	0.3	0.2	1.2	2.7	0.9	0.5
Unemployment rate (a)				-	6.3	6.5	6.0	4.8	4.7	4.7
Compensation of employees/head				-	7.8	5.3	5.5	6.2	7.8	6.5
Real unit labour costs				-	0.2	-0.3	-1.0	-1.0	0.3	-0.1
Savings rate of households (b)				-	-	16.8	16.1	16.1	15.9	15.8
GDP deflator				22.5	3.3	1.7	2.0	3.9	4.0	3.3
Private consumption deflator				21.8	3.0	2.4	2.5	4.6	5.4	3.2
Harmonised index of consumer prices				-	3.7	2.5	2.5	3.8	5.4	3.3
Trade balance (c)				-2.6	-3.8	-3.7	-3.9	-5.0	-5.6	-5.2
Current account balance (c)				0.4	-2.6	-2.0	-2.8	-4.8	-4.9	-4.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.4	-2.5	-1.9	-2.6	-4.5	-4.7	-4.1
General government balance (c)				-	-2.3	-1.5	-1.2	-0.1	-0.6	-0.6
Cyclically-adjusted budget balance (c)				-	-1.6	-0.9	-1.3	-0.7	-1.1	-0.7
Structural budget balance (c)				-	-1.6	-0.9	-1.3	-0.7	-1.1	-0.7
General government gross debt (c)				-	27.6	27.5	27.2	24.1	23.4	22.5

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

24. SLOVAKIA

Slower growth with moderately higher inflation

Activity in 2007

In 2007, economic growth accelerated to 10½% from 8½% recorded in 2006, thus continuing the strong performance of recent years. Economic expansion was fuelled by both domestic demand, especially by investment and private consumption, and a strongly increased external growth contribution.

Private consumption expenditure increased by some 7% benefiting from strong wage growth and improved labour market conditions. Robust investment activity in the corporate sector kept gross fixed capital formation growth at almost 8%, while pre-stocking with cigarettes at the end of 2007 (preceding the excise tax hike in January 2008) has added around 1 percentage point to growth in 2007.

In spite of the strong exchange rate appreciation, export growth maintained significant momentum, although slowing by some 5 percentage points to around 16%, as the recently built manufacturing capacities in the automotive and electronics sectors continued to increase production. At the same time, import growth fell substantially, including a drop in investment related technology imports. As a consequence, an improved trade deficit induced a significant decline in net borrowing from the rest of the world, which decreased to roughly 4¾% of GDP.

Prospects for 2008 and 2009

Economic growth is expected to ease to some 7% in 2008 and 6¼% in 2009. Domestic demand is

likely to remain the main driving force of economic expansion while the contribution of net exports should decline markedly over the forecast horizon.

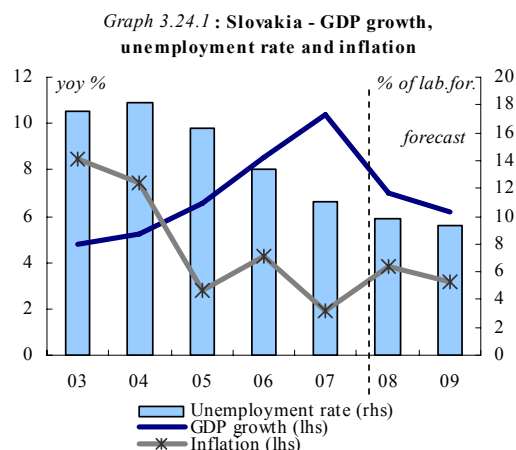
Further improvements in the labour market and sustained credit expansion are expected to continue to support private consumption growth, which, albeit moderating, should remain at well above 5%. Gross fixed capital formation should stay robust at around 7%, due to additional foreign direct investments in the automotive and electronics sectors, as more suppliers of automotive and electronics parts are expected to settle close to the already built assembly plants.

The somewhat decreasing dynamics of gross fixed capital formation and consumption should dampen import growth. As export growth is anticipated to continue to exceed import growth, the trade balance is likely to keep improving and thus contribute to a further decline in net borrowing from the rest of the world.

Labour market, costs and prices

In 2007, total employment increased by some 2% while the unemployment rate fell significantly to almost 11%. Unemployment is expected to further go down in 2008 and 2009, though at a slower pace, as still expanding export production capacities are likely to continue to provide additional employment opportunities. Although wage growth is expected to remain stable, falling productivity growth will create some upward pressure on unit labour cost.

HICP inflation dropped significantly to just below 2% in 2007, thanks mainly to smaller increases in energy prices combined with strong exchange rate appreciation. However, since the last quarter of 2007, rapidly growing food and energy prices have resulted in gradually rising HICP inflation, which is expected to peak in the third quarter of 2008. Favourable base effects at the end of 2008 should ensure some moderation in the inflation rate, especially if second round effects are kept in check and there is no further surge in commodity prices at the world markets. The disinflationary base effect is, however, likely to be partly offset by a jump in the inflation contribution of tobacco prices in the last quarter of 2008 as accumulated stocks of



cheaper cigarettes are expected to run out. As a result, average HICP inflation is estimated to increase to around 3¼% in 2008 and then to decrease to some 3¼% in 2009.

Public finances

The January 2008 increase in excise taxes induced a larger-than-expected accumulation of stocks of cigarettes by consumers and enterprises at the end of 2007. It thus resulted in extra revenue of some ½% of GDP compared to ¼% of GDP foreseen by the budget. This effect together with higher-than-expected GDP and employment growth and lower-than-budgeted spending on co-financing for EU-funds ensured that the general government deficit dropped to 2¼% of GDP in 2007.

Revenue-increasing measures included in the 2008 budget such as a broadening of the corporate and personal income tax base and an increase in the maximum ceiling on social contributions are foreseen to generate additional revenue of around ¼% of GDP in 2008. However, these revenue-increasing measures will be more than fully offset by the unexpected revenue shortfall induced by the 2007 pre-stocking. On the other hand, a further revenue-increasing effect is likely to stem from another hoarding of cigarettes motivated by a

lower excise tax hike planned for the end of 2008. On the expenditure side, farming subsidies are set to continue increasing substantially. Nevertheless, continued strong growth combined with limited wage increases in the public sector should ensure that the general government deficit falls to some 2% of GDP in 2008.

Under the customary no-policy-change assumption the budget deficit is projected to increase to around 2¼% in 2009 given the likely revenue shortfall of some ½% of GDP resulting from the expected pre-stocking with cigarettes at the end of 2008.

Gross public debt is expected to remain broadly stable over the forecast horizon.

Table 3.24.1:

Main features of country forecast - SLOVAKIA

	2006			Annual percentage change						
	bn SKK	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	1659.6	100.0	-	-	5.2	6.6	8.5	10.4	7.0	6.2
Private consumption	943.1	56.8	-	-	4.6	6.5	5.6	7.1	5.5	5.3
Public consumption	315.3	19.0	-	-	-2.0	3.5	10.1	0.7	2.4	2.8
Gross fixed capital formation	436.2	26.3	-	-	4.8	17.6	8.1	7.9	7.0	6.8
of which : equipment	184.4	11.1	-	-	-0.5	24.0	15.2	7.8	7.4	6.7
Exports (goods and services)	1400.7	84.4	-	-	7.4	13.9	21.0	16.0	11.7	9.7
Final demand	3123.7	188.2	-	-	6.3	11.0	13.3	10.9	8.3	7.2
Imports (goods and services)	1464.1	88.2	-	-	8.3	16.1	17.7	10.4	9.7	8.3
GNI at constant prices (GDP deflator)	1617.4	97.5	-	-	6.3	8.0	8.7	8.4	7.1	6.2
Contribution to GDP growth :			-	-	3.4	8.7	7.2	6.3	5.3	5.2
Domestic demand			-	-	2.2	0.1	-0.2	-0.2	0.0	-0.3
Stockbuilding			-	-	-0.9	-2.1	1.7	4.3	1.7	1.3
Foreign balance			-	-	-0.2	1.4	2.3	2.1	1.5	0.9
Employment			-	-	18.2	16.3	13.4	11.1	9.8	9.3
Unemployment rate (a)			-	-	8.4	9.7	7.9	8.3	8.4	8.6
Compensation of employees/head			-	-	-2.9	1.9	-1.2	-0.9	0.4	0.8
Real unit labour costs			-	-	-	-	-	-	-	-
Savings rate of households (b)			-	-	5.9	2.4	2.9	1.1	2.4	2.4
GDP deflator			-	-	7.4	2.6	4.9	2.6	4.2	3.4
Private consumption deflator			-	-	7.5	2.8	4.3	1.9	3.8	3.2
Harmonised index of consumer prices			-	-	-3.8	-5.4	-5.1	-1.2	-0.1	0.5
Trade balance (c)			-	-	-6.6	-8.5	-7.7	-5.4	-4.0	-3.1
Current account balance (c)			-	-	-6.4	-8.9	-7.2	-4.7	-3.4	-2.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-	-2.4	-2.8	-3.6	-2.2	-2.0	-2.3
General government balance (c)			-	-	-1.4	-1.9	-3.1	-2.7	-2.8	-3.1
Cyclically-adjusted budget balance (c)			-	-	-1.4	-1.0	-3.1	-2.6	-2.8	-3.1
Structural budget balance (c)			-	-	41.4	34.2	30.4	29.4	29.2	29.7
General government gross debt (c)			-	-						

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

25. FINLAND

An orderly growth slowdown

Activity in 2007

GDP growth reached 4.4% in 2007, about 1 percentage point above the potential growth estimate. The current cyclical upswing appears to have peaked during the first half of 2007, when growth reached over 5% yoy. In the second half of 2007, growth moderated to about 3½ %, led by slowing domestic demand. Weakening consumer confidence triggered a slowdown of private consumption in the final quarter of 2007. Contrary to the other demand components, investment growth did not moderate over 2007, expanding by 7½ % for the year as a whole. This is the fastest growth recorded over the present decade, driven notably by non-residential construction. Also, equipment investment picked up in 2007 after several years of weak growth, supported by capital replacement needs and high capacity utilisation rates in industry. On the other hand, housing investment increased only incrementally after strong expansion over several previous years. Trade volumes also slowed markedly during the second half of 2007, but the contribution to growth from foreign demand remained positive. The metal industry was the main driver of export growth, benefiting from robust global demand for investment goods.

Prospects for 2008 and 2009

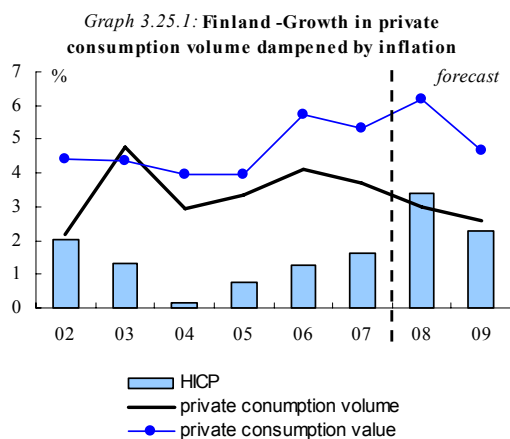
Finland is relatively well shielded from the direct impact of the global turmoil, as its financial sector appears unaffected to date and the real-estate market is set to slow in an orderly fashion. Nevertheless, it is expected that economic activity will moderate subsequent to the boom years of

2006-2007. The rapid rise in wages (determined by sectoral agreements) and strong employment growth at the beginning of 2008 do not appear to boost growth of private consumption further. A sharp rise in inflation in 2008 will cut purchasing power, combined with global economic turbulences undermining consumer and business confidence. Weaker global demand will curb export growth in all the main industries. Notably, wood and paper exports are expected to contract both in 2008 and 2009, due to wood supply disturbances caused by Russian round-wood export duties, a strong euro and global demand shifts for paper and wood products. Investment activity is expected to moderate steadily over the forecast period. Growth should be upheld by non-residential construction and capital expenditure, with housing investment shrinking marginally. A sharp rise in government sector investment will boost expenditure on infrastructure projects, budgeted mainly for 2008.

Quarterly yoy growth is forecast to subside somewhat below potential growth during the second half of 2008 and first half of 2009. However, by the end of 2009, growth momentum is expected to pick up and settle at close to its estimated potential. The predicted improvement in the external environment and global growth, coupled with a deceleration of inflation to about 2%, is seen to support exports and private consumption in the last quarters of 2009. Nevertheless, the recovery of the external sector is forecast to be modest, given that the relatively high wage growth would erode external competitiveness.

Labour market, costs and prices

During the cyclical upswing in 2006-2007, employment increased rapidly by about 2% annually, mainly on account of new jobs in services and construction. Unemployment is predicted to decline to close to 6% of the labour force by the end of the forecast period, but further improvement is held back by relatively large geographical and skills mismatches in the labour market. The growing tightness in the labour market combined with decelerating economic activity is expected to increasingly constrain employment growth. The current multi-annual wage agreements provide for 5½ % wage growth in 2008 and



slightly less in 2009. This is 1½ percentage points higher than on average over the recent years. As a result, unit labour costs will rise, reaching particularly high levels in services, and leading to domestic inflationary pressures. In industry, productivity growth has traditionally been considerably faster than in services, translating to a more limited loss of external competitiveness than what could be concluded from the national average.

After low yearly increases of about 1½ % during the first half of 2007, HICP inflation accelerated to close to 2% in the final quarter of 2007 on the back of energy price rises. A further sharp increase occurred in the beginning of 2008, when rising food prices pushed inflation up to 3½ %. The rise in world food prices passed through to retail prices with a considerable lag, but in a single large step, as Finnish retailers appear to have relatively long-term supply contracts. Also, the rise of energy and alcohol excises at the beginning of the year contributed to inflation by about 0.3 percentage points. In line with the expected softening of global energy and food price pressures, inflation is expected to fall back to below 2½ % in 2009, also helped by the cuts to food VAT rates in October 2009.

Public finances

The general government surplus peaked at 5.3% of GDP in 2007 (including a 0.3 p.p. upward revision from pension funds' investments). The bulk of the general government surplus originates from accumulating pension fund assets, accounting annually for about 3% of GDP. Local governments have consistently recorded a close-to-balance fiscal position in recent years. The short-term fluctuations in the general government surplus are largely driven by central government finances, where expenditure ceilings have helped to build up surpluses during good economic times. While the sharp rise of central government expenditure in 2008 will reduce the surplus, it will decline moderately by about half a percentage point as higher expenditure is mitigated by rapid nominal growth in tax bases. The surplus will further edge down in 2009, in line with the slowing growth profile. The government debt ratio is projected to decline to below 30% of GDP by 2009.

Table 3.25.1:

Main features of country forecast - FINLAND

	2006			Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices	167.0	100.0		2.7	3.7	2.8	4.9	4.4	2.8	2.6
Private consumption	85.9	51.4		2.1	3.0	3.3	4.1	3.7	3.0	2.6
Public consumption	36.4	21.8		0.7	1.7	1.9	0.6	0.8	1.9	1.4
Gross fixed capital formation	32.2	19.3		1.5	3.6	3.5	4.7	7.7	4.7	3.5
of which : equipment	8.7	5.2		2.3	0.4	-0.2	4.1	6.6	4.9	4.2
Exports (goods and services)	75.5	45.2		8.9	8.6	7.0	11.8	4.8	3.4	3.5
Final demand	234.2	140.2		3.5	4.8	5.2	6.0	4.2	3.1	2.8
Imports (goods and services)	67.2	40.2		6.5	7.2	11.8	7.8	4.1	3.7	3.2
GNI at constant prices (GDP deflator)	168.4	100.8		2.9	5.8	2.7	5.3	4.3	2.7	2.5
Contribution to GDP growth :										
Domestic demand				1.5	2.6	2.8	3.2	3.6	2.9	2.3
Stockbuilding				0.2	0.2	1.2	-0.2	0.0	0.0	0.0
Foreign balance				1.1	1.0	-1.1	2.0	0.5	0.0	0.2
Employment				0.1	0.4	1.4	1.8	2.2	1.2	0.6
Unemployment rate (a)				12.2	8.8	8.4	7.7	6.9	6.3	6.1
Compensation of employees/head				2.8	3.6	3.8	2.9	3.3	5.5	4.5
Real unit labour costs				-1.6	-0.4	1.9	-1.4	-1.3	0.7	0.1
Savings rate of households (b)				-	-	8.0	5.6	4.5	4.8	4.9
GDP deflator				1.8	0.6	0.4	1.3	2.5	3.1	2.4
Private consumption deflator				2.0	1.0	0.6	1.6	1.6	3.1	2.1
Harmonised index of consumer prices				1.9	0.1	0.8	1.3	1.6	3.4	2.3
Trade balance (c)				8.7	6.7	4.9	5.5	5.0	4.1	3.9
Current account balance (c)				4.4	6.7	3.9	4.9	4.4	3.4	3.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				4.9	7.9	5.2	6.1	4.4	3.5	3.3
General government balance (c)				-0.7	2.4	2.9	4.1	5.3	4.9	4.6
Cyclically-adjusted budget balance (c)				0.1	2.9	3.7	4.2	4.9	4.8	4.9
Structural budget balance (c)				-	2.9	3.7	4.2	4.9	4.8	4.9
General government gross debt (c)				48.8	44.1	41.3	39.2	35.4	31.9	29.1

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

26. SWEDEN

Slower growth but public finances firmly in surplus

Activity in 2007

Despite domestic demand remaining very strong during the first three quarters of 2007, annual GDP growth in Sweden slowed to 2.6% for the year as a whole. This compares with an above-trend growth of 4.1% reached in 2006. The slowdown was mainly due to a weak export performance, where buoyant services exports only partly compensated for a very sluggish increase in exports of goods. The latter was held back by subdued external demand and capacity constraints in the export sector. Combined with relatively strong import growth resulting from continued strong consumption and investment growth, net exports gave a significantly negative contribution to GDP growth in 2007. There was a substantial stock-building in 2007, contributing 0.7 percentage points to GDP growth. This was mainly due to weaker than expected demand.

Prospects for 2008 and 2009

The Swedish economy is expected to continue to slow down in both 2008 and 2009, with annual GDP growth decelerating to 2.2% and 1.8%, respectively. Feeling the effects of the turbulence in the international financial markets that started last summer combined with a more pessimistic view of the outlook for the global economy, Swedish consumers started to rein in spending already in the fourth quarter of 2007. Most indicators at the beginning of 2008 point to continued consumer cautiousness, with retail sales (including auto sales) and consumer confidence showing continued weakness. In the latter part of 2007, rising inflation started to erode the real

purchasing power of consumers, who have also seen a sharp decline in their wealth over the last couple of months as a result of the slump in stock prices and the stagnation in house price appreciation. Despite relatively strong nominal wage gains and some further increases in employment, consumer spending is forecast to expand at a slower pace over the forecast period. Typical of this stage of the cycle, the household saving rate thus looks set to rise over the forecast horizon, exceeding 11% in 2009.

After posting a strong performance in 2007, investment growth looks set to slow down over the forecast period. The combination of a more subdued outlook for economic activity and the effect of previous strong investment should lead to a lower capacity utilisation in the years ahead. The deceleration should be broad-based, but more pronounced in the residential construction sector, where investment growth is expected to ease from an average pace of 15% in the 2004-06 period to about 1 ½ % in 2008-09.

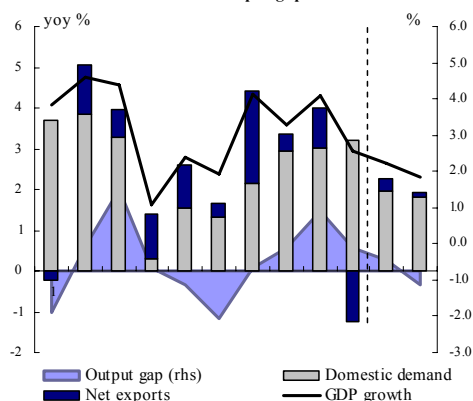
Export growth is expected to continue to moderate somewhat over the forecast period. While external demand remained fairly strong in early 2008, the effects of the financial turmoil, the slowdown of the US economy and falling cost-competitiveness are likely to restrain export growth going forward. However, as domestic demand – and thus imports – is also forecast to grow less briskly, net exports should contribute positively to GDP growth in both forecast years.

Labour market, costs and prices

The labour market strengthened markedly in 2007, with employment expanding by 2.4%. This performance can be explained by a pent-up need for new hiring after a period of jobless growth in 2004/2005 and the various measures undertaken by the government to increase labour market participation. Unemployment fell by almost 1 percentage point to 6.2%. While employment is expected to continue to increase in 2008 and 2009, albeit at a significantly slower pace, unemployment is projected to rise slightly over the forecast period.

As a consequence of strong employment gains and decelerating output growth, productivity slowed

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



sharply in 2007. As employment gains decelerate over the forecast period, productivity is likely to recover somewhat. However, with last year's wage agreements resulting in strong nominal wage gains, real unit labour costs are likely to continue to rise in both forecast years.

As a result of sharply higher food and energy prices and some domestic cost pressures, inflation picked up towards the end of 2007. While it is expected to gradually come down over the forecast period, the 12-month figure is likely to remain above 2% for the whole of 2008. To prevent rising inflation expectations from translating into higher actual inflation, the Riksbank hiked its policy rate by 25 basis points to 4.25% in February 2008. In view of the slowdown of the economy and the expected stabilisation of international commodity prices, the Riksbank is likely to cut rates somewhat during the forecast period.

labour market contributed to both higher-than-foreseen tax revenues and lower expenditure.

While public finances are expected to remain strong over the forecast period, the surplus is likely to narrow somewhat. The effects on tax receipts from both smaller capital gains and slower economic growth are likely to bring the surplus down to 2.7% and 2.3% of GDP in 2008 and 2009, respectively. While the revenue to GDP ratio is forecast to come down slightly, public spending as a share of GDP should remain more or less constant.

On the basis of continued high general government surpluses, the government debt ratio is projected to decline further to less than 32% of GDP in 2009.

Public finances

Public finances had a very strong performance in 2007, registering a surplus of 3.5% of GDP. Despite various expansionary elements contained in the 2007 budget, including reductions of both income and wealth taxes, the strengthening of the

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	2899.7	100.0	2.2	4.1	3.3	4.1	2.6	2.2	1.8	
Private consumption	1373.9	47.4	1.6	2.6	2.7	2.5	3.1	2.0	1.8	
Public consumption	761.9	26.3	0.7	-0.2	0.4	1.5	0.8	1.2	1.3	
Gross fixed capital formation	524.7	18.1	1.1	5.7	8.9	7.7	8.0	3.9	3.4	
of which : equipment	215.0	7.4	4.6	3.9	12.3	5.6	11.1	5.0	5.0	
Exports (goods and services)	1490.9	51.4	7.1	11.0	6.6	8.9	5.5	5.1	4.3	
Final demand	4152.6	143.2	2.9	5.0	4.4	5.4	4.8	2.9	2.8	
Imports (goods and services)	1253.0	43.2	5.2	6.8	7.0	8.2	9.5	5.6	5.0	
GNI at constant prices (GDP deflator)	2889.1	99.6	2.5	3.0	3.4	6.0	3.0	2.2	1.8	
Contribution to GDP growth :			1.1	2.2	2.9	3.0	3.1	2.0	1.8	
Domestic demand			0.1	-0.3	0.0	0.2	0.7	-0.5	-0.1	
Stockbuilding			1.0	2.3	0.4	1.0	-1.1	0.3	0.1	
Foreign balance			-0.3	-0.7	0.3	1.7	2.2	0.8	0.2	
Employment			7.4	6.3	7.4	7.0	6.1	6.2	6.5	
Unemployment rate (a)			4.2	4.0	3.1	2.2	4.2	4.6	3.7	
Compensation of employees/head			-0.3	-1.1	-0.8	-2.0	0.5	1.9	0.2	
Real unit labour costs			-	-	9.5	9.8	10.9	10.9	11.3	
Savings rate of households (b)			2.0	0.2	0.9	1.8	3.3	1.1	1.8	
GDP deflator			2.4	0.9	1.2	0.9	1.3	2.6	2.2	
Private consumption deflator			2.0	1.0	0.8	1.5	1.7	2.4	1.9	
Harmonised index of consumer prices			6.0	6.8	5.8	5.8	4.6	4.0	3.7	
Trade balance (c)			3.5	6.7	6.1	8.5	6.5	5.9	5.6	
Current account balance (c)			3.1	6.7	6.2	7.9	5.9	5.3	5.1	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-2.9	0.8	2.2	2.3	3.5	2.7	2.3	
General government balance (c)			-2.0	0.7	1.9	1.5	3.1	2.5	2.5	
Cyclically-adjusted budget balance (c)			-	0.2	1.9	1.5	2.8	2.4	2.5	
Structural budget balance (c)			63.8	51.2	50.9	45.9	40.6	35.5	31.9	
General government gross debt (c)										

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

27. THE UNITED KINGDOM

Economic slowdown strains public finances

Activity in 2007

Economic activity in the final two quarters of 2007 still showed relatively robust GDP growth of 0.6% in each quarter, having slowed slightly compared to the first two quarters. Following minor downward revisions annual GDP growth stood at 3.0% in 2007, after 2.9% in 2006. Financial market conditions were tense through the latter part of the year, during which credit conditions tightened and liquidity problems in the banking sector persisted.

The economy's expansion in the second half of the year continued to be supported by private consumption, which showed signs of moderating in the final quarter. Growth in gross disposable income rebounded in the final quarter, bolstered by wages and salaries and by property income received by households. This helped households to rebuild savings, with the saving ratio nonetheless falling to 2.9% for the whole year, compared to an already low 4.8% in 2006.

Total investment growth accelerated in the second half of the year, following subdued activity in the second quarter. The recovery was mainly driven by business investment, with some additional stimulus from general government investment.

General government consumption was broadly growth-neutral in the second half of the year. Build-up of inventories strongly supported growth in the third quarter, with the contribution easing in the final quarter.

Net external demand proved volatile throughout 2007, but continued to exert an overall drag on

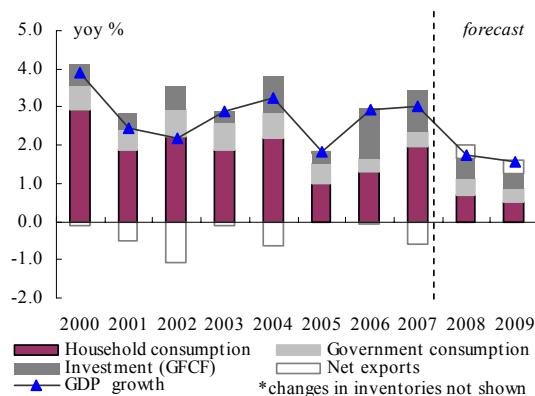
growth in the second half. Due to a sizeable fall in earnings on direct investment in the UK stemming from the ongoing financial market turmoil, the external deficit fell from 5.5% of GDP in the third quarter to 2.4% in the fourth, bringing the annual deficit to 4.2% of GDP.

Prospects for 2008 and 2009

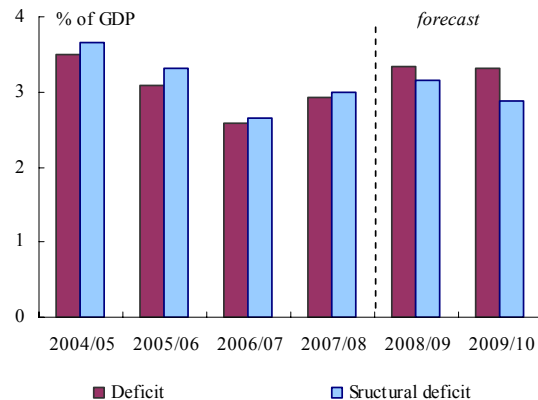
The economic outlook for 2008 and 2009 is largely shaped by developments in the housing market and the financial sector, both of which are likely to dampen growth in 2008. At the same time, the significant depreciation of the pound's nominal effective exchange rate (by over 11% between August and March) is likely to improve the price competitiveness of UK exports, while at the same time aggravating inflationary risks in the short term.

The central outlook envisages a marked slowing of private consumption in 2008, driven by more restrictive borrowing conditions and a downward correction in house prices, and only a limited recovery in 2009. The Bank of England's April 2008 credit conditions survey showed that conditions for all types of lending to households tightened in the first quarter, and were expected to be restricted further in the second quarter. Expected falls in net housing equity would also weaken the collateral value of housing for secured borrowing, thus compounding the ongoing tightening of credit conditions. As a consequence, household spending growth will slow on account of lower secured and unsecured borrowing and a squeeze in gross disposable income due to lower net interest income. Whilst moderate earnings

Graph 3.27.1: UK - GDP growth and contributions



Graph 3.27.2: UK - general government finances



growth will support private consumption, employment growth will no longer do so as it slows to almost zero over the forecast horizon.

Investment is also set to slow in 2008 on account of tighter lending conditions, including through the consequences of the housing market correction on residential investment. Both the availability and the price of corporate credit have been tightened successively since mid-2007 and are expected to become more restrictive over the near term. Together with a weaker business climate, this will dampen business investment in 2008, though investment should return to more robust levels in 2009 due to improved corporate earnings and elevated capacity utilisation.

Government consumption will continue providing a moderate stimulus in 2008, with the latest Budget plans confirming a relatively tight expenditure envelope over the forecast horizon.

The growth contribution of net external demand is expected to turn sharply positive from 2008. This is driven by a slowdown in imports in line with a moderation of domestic demand growth and the weaker exchange rate, while the pound's depreciation will support a recovery in exports that more than makes up for more subdued growth in key markets such as the US and the euro area.¹² Income account payments and receipts will be affected in the short term by writedowns of banking assets amidst the ongoing financial turmoil, but UK investment earnings overall should still be supported by global growth and the net effect of sterling depreciation, thus continuing to help finance the UK's substantial trade deficit. The external deficit is therefore likely to improve to around 3% of GDP over the forecast period.

In summary, growth in the UK economy is expected to slow to around 1¾% in 2008. In 2009, with no large carryover effect from 2008, the gradual recovery in domestic demand through the year will bring annual growth to just over 1½%. This scenario is subject to downside risks relating to the length and severity of financial market problems, which remain highly uncertain but are crucial in view of the typically strong growth contribution of the UK's financial sector.

Labour market, costs and prices

The labour market has recently performed well, with high rates of employment (71.5% in 2007)

and low unemployment. Over the forecast period employment growth is expected to slow to near-zero as a result of the moderation in activity. The supply of labour is also projected to increase at a slower pace, reflecting reduced immigration, and as a result of slowing activity the unemployment rate is set to increase slightly over the next two years.

Indications of the labour market tightening throughout in 2007 have not brought about an increase in average earnings growth. Future earnings and wage growth are not expected to diverge from a broadly stable trend, although a slight moderation is expected in 2008 due to labour market easing. HICP inflation looks set to rise further to around 2¾% in 2008 (exceeding 3% in the third quarter), due to food and energy price developments and a weaker exchange rate.

Public finances

Following a large unbudgeted increase in the general government deficit in the 2007/08 financial year¹³, the weaker macroeconomic context is expected to contribute to a further deterioration in public finances during the forecast period. The deficit is forecast to rise from 2.9% of GDP in 2007/08 to 3¼% in 2008/09 and to remain around the same level in 2009/10.

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

	2006/07	2007/08 ¹	2008/09 ²	2009/10 ²
General government deficit	2.6	2.9	3.3	3.3
General government debt	42.5	43.2	46.2	47.5

¹ Commission estimate, ² Spring 2008 forecast

In structural terms, the deficit in 2007/08 is estimated to have increased by 0.4 percentage points of GDP from the preceding year, half of this attributable to an increase in tax repayments due to companies overpaying corporate tax in previous years. The latter could have flattered the deficit reported for 2006/07.

In 2008/09, the deficit is expected to increase by around ¼ percentage point. Revenue growth is expected to slow from the previous year. Weaker employment earnings and reduced corporate profitability are expected to constrain revenues

from income taxation, while lower housing market activity is set to dampen intakes from stamp duties. Indirect tax revenues will also grow at a lower rate than in 2007 due to lower household spending and an increase in the share of expenditure on food, which is not subject to the standard VAT rate.

Discretionary tax measures coming into force in April 2008 have an essentially neutral effect on public finances. The 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 expenditure side, the envelope set in the government's 2007 Comprehensive Spending Review for the three years beginning in April 2008 envisages a deceleration in non-cyclical primary expenditure, which the forecast assumes will be adhered to, but which also implies a greater risk of spending overruns relative to previous years.

In 2009/10, with growth forecast to remain well below potential and the negative output gap thus widening further, little change is projected in the nominal deficit. In structural terms, the deficit is nevertheless forecast to decrease by ¼% of GDP,

reflecting the combined effects of discretionary measures, including the higher taxes on alcohol and motor vehicles introduced in the 2008 Budget, and continued slower growth in government expenditure.

General government gross debt is expected to increase by 4 percentage points of GDP during the forecast period, to 47½% of GDP at the end of 2009/10, with the replacement of the Bank of England's loan to Northern Rock with government financing accounting for an increase in the ratio by 1% in 2008/09.

¹² The projections for export and import volumes exclude the impact of Missing Trader Intra-Community (MTIC) fraud on trade figures.

¹³ The United Kingdom financial year runs from April to March.

Table 3.27.1:

Main features of country forecast - THE UNITED KINGDOM

	2006			Annual percentage change						
	bn GBP	Curr. prices	% GDP	92-03	2004	2005	2006	2007	2008	2009
GDP at constant prices		1302.5	100.0	2.7	3.3	1.8	2.9	3.0	1.7	1.6
Private consumption		827.6	63.5	3.2	3.4	1.5	2.0	3.1	1.1	0.8
Public consumption		286.4	22.0	1.6	3.2	2.7	1.7	1.9	2.2	1.6
Gross fixed capital formation		231.8	17.8	3.7	5.9	1.5	7.6	6.2	2.9	2.2
of which : equipment		74.8	5.7	5.1	5.0	0.3	6.0	9.1	2.8	2.2
Exports (goods and services)		370.8	28.5	5.5	4.9	8.2	10.7	-5.3	5.0	5.4
Final demand		1719.3	132.0	3.6	4.0	3.0	4.5	1.7	2.1	2.1
Imports (goods and services)		417.3	32.0	6.5	6.6	7.1	9.8	-2.9	3.3	3.8
GNI at constant prices (GDP deflator)		1309	100.5	3.0	3.4	1.6	1.4	2.8	3.8	1.4
Contribution to GDP growth :	Domestic demand			3.0	3.8	1.8	3.0	3.5	1.7	1.3
	Stockbuilding			0.1	0.1	-0.1	0.0	0.4	-0.2	0.0
	Foreign balance			-0.4	-0.6	0.1	-0.1	-0.6	0.3	0.3
Employment				0.7	1.0	1.0	0.9	0.7	0.1	0.0
Unemployment rate (a)				7.1	4.7	4.8	5.3	5.2	5.4	5.7
Compensation of employees/head				4.3	4.3	4.3	5.0	3.9	4.3	4.4
Real unit labour costs				-0.4	-0.5	1.1	0.2	-1.5	0.6	0.6
Savings rate of households (b)				-	-	5.6	4.8	2.9	2.9	4.1
GDP deflator				2.7	2.6	2.3	2.7	3.1	2.0	2.2
Private consumption deflator				2.5	1.7	2.5	2.4	2.6	2.8	2.2
Harmonised index of consumer prices				1.9	1.3	2.1	2.3	2.3	2.8	2.2
Trade balance (c)				-2.7	-5.1	-5.6	-5.9	-6.3	-7.1	-7.0
Current account balance (c)				-1.5	-1.6	-2.5	-3.9	-4.2	-3.2	-3.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.4	-1.5	-2.4	-3.8	-4.0	-3.1	-3.1
General government balance (c)				-2.7	-3.4	-3.4	-2.6	-2.9	-3.3	-3.3
Cyclically-adjusted budget balance (c)				-2.6	-3.7	-3.4	-2.6	-3.0	-3.2	-2.8
Structural budget balance (c)				-	-3.7	-3.4	-2.8	-3.0	-3.2	-2.8
General government gross debt (c)				44.2	40.4	42.1	43.1	43.8	45.6	48.2

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

Chapter 4

Candidate Countries

1. CROATIA

Consumption growth moderates, but investments remain robust

Activity in 2007

In 2007, real GDP grew by 5.6%, up from 4.8% in 2006, backed by strong domestic demand. Private consumption growth accelerated to 6.2%, up from 3.5% in 2006. Public consumption also recorded a stronger growth rate, partly driven by pre-election spending. Investment activity slowed somewhat, due to a gradual termination of public investment projects in transport, but private investments became more dynamic. Imports of goods and services grew slightly more strongly than exports, leading to a negative contribution of net exports to GDP growth.

Consumer price inflation (CPI) accelerated markedly to 5.8% at end-2007, on the back of higher food and energy prices. Annual average inflation in 2007 stood at 2.9%, somewhat lower than in 2006. The current account deficit continued to widen, to 8.6% of GDP, from 7.9% in 2006. A higher merchandise trade deficit as well as lower surpluses in the trade with services and a decline in net transfers contributed to the higher current account deficit. Net inflows of FDI reached 9.1% of GDP and thus more than compensated for the deficit in the current account.

Prospects for 2008 and 2009

So far, the financial turmoil appears to have caused limited negative effects on the Croatian economy. However, it cannot be excluded that growth prospects may worsen in the case of a proliferation of the financial market turbulences. In general, economic activity is forecast to remain robust in 2008 and 2009. Consumer and investor

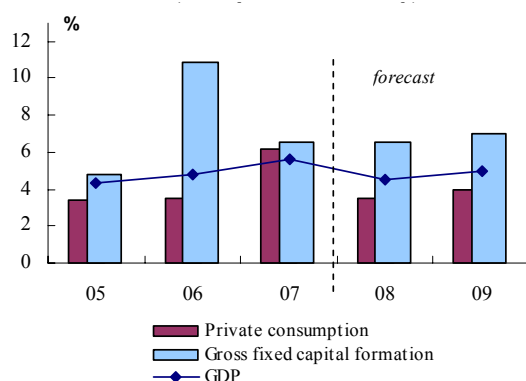
confidence are expected to remain positively affected by the prospects of EU accession in a not too distant future.

Real GDP growth is expected to slow somewhat to around 4.5% in 2008, before it mildly accelerates to 5% in 2009. The main reason for the growth slowdown in 2008 is a significant moderation of private consumption. Specific factors which fuelled demand in 2007, such as payments to pensioners, will be considerably lower in 2008. Also, the recent rise in inflation reduces real wages and disposable incomes and may worsen consumer expectations. Costs for household credits may increase as financing conditions for banks tighten up further. Private consumption may also be negatively affected by wealth effects, following the recent decline in the Zagreb Stock Exchange index. Public consumption growth is also expected to slowdown compared to the election year 2007. However, expected increases in public sector employment and wages may partly compensate for lower spending on goods and services. Investment growth is forecast to remain strong in 2008 and to accelerate somewhat in 2009. The contribution of public investment remains significant, but total investments will increasingly be driven by a more dynamic private sector which benefits from generally comfortable confidence levels and recent improvements in the overall business environment. However, downside risks to the investment performance could ensue from less favourable financing conditions on domestic and foreign capital markets.

The forecast expects a mild acceleration of export growth, due to higher exports to neighbouring countries in the region and a better performance of tourism and some manufacturing sectors. However, the risk of a less benign economic environment in the main EU trading partners could undermine export performance. The growth of total imports is forecast to decelerate in 2008, in line with lower domestic demand, and to pick up somewhat in 2009. The contribution of net exports to growth will remain negative over the forecast horizon, although to a lesser extent.

The current account deficit is expected to be slightly reduced to below 8% of GDP by 2009, as total exports are set to rise more strongly than imports. An increase of surplus in the trade with

Graph 4.1.1: Croatia - Real GDP, consumption and investment (annual percentage growth)



services will contribute to the improvement of the current account.

Labour market, costs and prices

Growth and investment dynamics will continue to impact favourably on the labour market. Total employment will continue to rise, by 1-1.5% on average. The unemployment rate (LFS) is expected to further decline. The growth of nominal wages is expected to accelerate somewhat in 2008, as unions will succeed in obtaining partial compensations for the recent surge in inflation. This will lead to a temporary stronger increase in unit labour costs.

The forecast assumes a moderation of commodity price developments, in particular for food and energy, during 2008. However, the significant acceleration of inflation towards the end of 2007 and ensuing carry-over effects contribute to a marked increase of average inflation in 2008, to close to 6%. Part of this increase is expected to come from further adjustments of administrative prices. A sound monetary policy framework will continue stabilising inflation expectations. This together with a lowering of domestic demand pressures will help bringing average inflation back to around 3% in 2009.

Public finances

A particularly strong revenue performance in 2007 led to a further reduction of the general government deficit (ESA 95) to 1.6% of GDP (from 2.5% in 2006). However, the "adjusted" deficit, including pension debt repayments currently recorded off-budget, stood at an estimated 2.8% of GDP (3.4% in 2006). In 2008, the growth of public consumption is expected to moderate somewhat compared to the election year 2007. However, spending on subsidies, transfers and social benefits are expected to remain strong, given the generally slow pace of enterprise restructuring and recent announcements (e.g. in the PEP 2007) to increase social welfare spending in some areas. Also, policy measures aimed at supporting an expenditure-led fiscal consolidation process are not expected to be adopted over the short-term. At the same time, a moderation of real GDP growth in 2008 is likely to reduce the growth of tax revenues. Altogether, this will lead to a deterioration of the fiscal balance in 2008, before it improves in 2009 on the back of stronger economic activity. The public debt-to-GDP ratio is set to further decline, partly driven by proceeds from privatisation.

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	2009
GDP at constant prices		250.6	100.0	-	4.3	4.3	4.8	5.6	4.5	5.0
Private consumption		140.3	56.0	-	4.8	3.4	3.5	6.2	3.5	4.0
Public consumption		50.4	20.1	-	-0.3	0.8	2.2	3.4	2.5	3.5
Gross fixed capital formation		74.8	29.8	-	5.0	4.9	10.9	6.5	6.5	7.0
of which : equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		120.0	47.9	-	5.7	4.6	6.9	5.7	6.2	7.0
Final demand		392.8	156.8	-	4.4	4.0	5.7	5.7	4.8	5.4
Imports (goods and services)		139.4	55.6	-	4.6	3.5	7.3	5.8	5.2	6.2
GNI at constant prices (GDP deflator)		242.1	96.6	-	6.1	3.5	4.6	5.9	4.8	5.2
Contribution to GDP growth :	Domestic demand			-	4.3	3.7	5.7	6.4	4.6	5.3
	Stockbuilding			-	0.1	0.6	0.2	0.0	0.1	0.1
	Foreign balance			-	-0.1	0.1	-1.1	-0.8	-0.2	-0.4
Employment				-	1.7	0.8	0.8	2.0	1.0	1.5
Unemployment rate (a)				-	13.6	12.6	11.1	9.1	8.9	8.4
Compensation of employees/head				-	3.2	4.1	6.3	6.3	7.5	6.5
Real unit labour costs				-	-3.2	-2.5	-1.0	-1.1	-1.2	0.4
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				-	3.9	3.2	3.4	3.9	5.1	2.6
Private consumption deflator				-	2.0	3.4	2.9	3.1	5.5	3.0
General index of consumer prices				-	2.0	3.3	3.2	2.9	5.9	3.0
Trade balance (c)				-	-23.5	-24.1	-24.4	-25.2	-24.5	-24.7
Current account balance (c)				-	-5.1	-6.4	-7.8	-8.6	-8.1	-7.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-5.0	-6.2	-8.2	-	-	-
General government balance (c)				-	-4.3	-4.0	-2.5	-1.5	-2.1	-1.8
Cyclically-adjusted budget balance (c)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				-	43.2	43.7	40.8	37.8	36.5	35.7

(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

Increased uncertainty impairs economic consolidation

Activity in 2007

Output growth accelerated in 2007, improving from 4% in 2006 to 5.1% in 2007. A key impulse for this improved growth dynamics 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, which accounts for some 20% of value added, rose by 3.7% only, reflecting lower production of electricity and textiles.

The labour market situation continued to improve, although the level of unemployment is still particularly high. Employment increased by 3.5% compared to the year before, while the number of unemployed dropped by 1.8%. As a result, the annual unemployment rate declined from 36% in 2006 to 34.9% in 2007. About 22% of the unemployed are between 15-24 years old. The unemployment rate in this age group dropped from 64% in 2006 to some 62% in 2007.

Inflation had been rather low in the first three quarters of 2007, with inflation rates of around 1%. However, towards the end of the year, increasing prices for food and energy brought the annual inflation rate to 2.3%. In 2006, inflation had been 3.2%, largely reflecting the impact of increases in excise taxes.

The current account deteriorated during the last months of 2007 from a largely balanced account during the year to a deficit of about 3% of GDP by

end-2007. A marked increase in imports and less buoyant private transfers were the main reasons for this deterioration. Inflows of net private transfers continue to amount to nearly 18% of GDP, and are thus nearly of a similar size as the trade deficit. Inflows of FDI came down to about 4.3% of GDP, compared to 6.8% of GDP in 2006. However, a large share of this inflow in 2006 had been related to the privatisation of the electricity distribution company ESM, sold to a foreign investor.

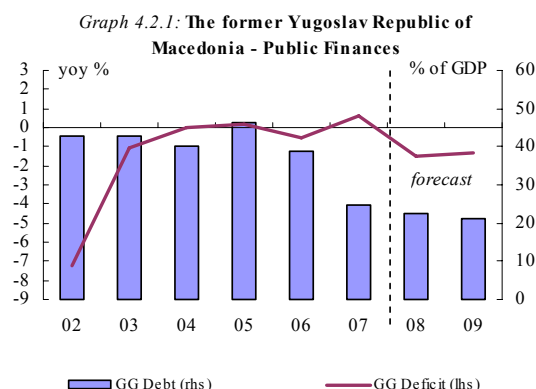
In 2007, the general government accounts registered a surplus of 0.6% of GDP, compared to a deficit of 0.5% in 2006. The original budget for 2007 had envisaged a deficit of 1% of GDP. The main reason for the better than expected performance was higher tax revenues, due to strong economic growth and improved tax collection. Towards the end of the year, the government has increased spending for social and labour market related purposes and construction and renovation activities (about ¼% of GDP).

The general government debt ratio declined from 39% of GDP at the end of 2006 to some 25% at the end 2007. This sharp decline is largely a result of early debt repayments.

Prospects for 2008 and 2009

For 2008 and 2009, the so far positive impact of the global economy is expected to subside, in particular given the expected growth moderation in the country's main trading partners. In addition, the recent threat of Greece to veto the country's EU accession process has further added to the global and regional uncertainty. Nevertheless, the country's overall growth performance is likely to benefit from robust domestic demand - partly fuelled by private transfers - and the positive effects of recently taken structural measures to improve the business environment.

Overall, economic activity is expected to remain strong, with GDP growth at 4¾% in 2008 and 5½% in 2009. The biggest contributions will come from private consumption, benefitting for transfers from abroad. The increase of public consumption will be slightly GDP growth in 2008, reflecting an already adopted strong rise in public sector wages,



costs of modernising public administration and a more active fiscal policy stance.

Domestic and foreign investment is seen to respond to the overall less benign international environment but also to the recent increase of political tensions in the region (Kosovo vs Serbia, the country's name issue with Greece). As a result, investment in equipment is seen to decelerate to some 12% in 2008 and to 11% in 2009. The high import content of equipment investment will limit the immediate impact on growth. However, in the medium-term, lower investment growth impedes the country's improvement of its growth potential.

Labour market, costs and prices

The still solid GDP growth and measures to reduce the informal sector will translate into additional employment and a decline in the unemployment rate. A large part of the new jobs will be filled by so far unregistered labour, which will dampen the decline in the number of unemployed. Overall, employment is expected to increase by some 3½% on average in 2008 and 2009. Unemployment is seen to decline to some 32% of the labour force.

Higher prices for food, energy and basic materials will raise consumer price inflation to some 6% in

2008. However, after the petering out of this cost push, headline inflation should drop to below 3% in 2009.

Public finances

A more active policy stance government, and the need to modernise the country's infrastructure and institutions will result in a shift from the close-to-balance deficits or surpluses of the previous years, to higher deficits in the near future. 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 early repaying public debt. As a result, the debt ratio could fall to some 21% of GDP by 2009.

Table 4.2.1:

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

	2006			Annual percentage change						
	bn MKD	Curr. prices	% GDP	92-03	2004	2005	2006	2007		
								2007	2008	2009
GDP at constant prices		310.9	100.0	-	4.1	4.1	4.0	5.1	4.8	5.5
Private consumption		243.1	78.2	-	8.0	5.7	6.0	5.2	5.0	5.5
Public consumption		57.6	18.5	-	0.1	0.4	1.8	4.0	5.0	5.0
Gross fixed capital formation		56.5	18.2	-	10.9	-5.4	11.6	14.0	10.8	11.4
of which : equipment		21.5	6.9	-	3.8	-6.7	8.0	15.0	12.0	11.0
Exports (goods and services)		149.7	48.1	-	12.9	11.2	8.4	19.3	11.0	11.5
Final demand		518.5	166.8	-	8.6	4.9	6.7	10.0	7.4	8.0
Imports (goods and services)		207.5	66.8	-	16.7	6.2	11.0	17.3	11.0	11.3
GNI at constant prices (GDP deflator)		309.1	99.4	-	4.0	2.8	5.4	5.7	4.8	5.5
Contribution to GDP growth :	Domestic demand			-	7.9	3.6	7.0	7.4	6.9	7.4
	Stockbuilding			-	0.4	-0.2	0.0	0.0	0.0	0.0
	Foreign balance			-	-4.3	0.7	-3.1	-2.2	-2.1	-2.0
Employment				-	-2.2	2.1	3.2	3.5	3.3	3.8
Unemployment rate (a)				-	37.2	36.7	36.0	34.6	33.3	31.8
Compensation of employees/head				-	-	-	-	-	-	-
Real unit labour costs				-	-	-	-	-	-	-
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				-	1.3	3.8	4.3	2.7	6.4	2.9
Private consumption deflator				-	0.9	0.8	3.0	2.0	5.4	2.4
General index of consumer prices				-	-0.4	0.5	3.2	2.3	6.0	2.7
Trade balance (c)				-	-21.2	-18.3	-20.2	-21.1	-20.8	-21.6
Current account balance (c)				-	-8.4	-2.7	-0.9	-3.1	-4.4	-5.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	0.0	0.2	-0.5	0.6	-1.5	-1.3
Cyclically-adjusted budget balance (c)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				-	40.0	46.5	38.7	24.7	22.7	21.3

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

3. TURKEY

Weaker growth and stronger price pressures

Activity in 2007

Real GDP growth fell from 7% in 2006 to 4½% in 2007, chiefly due to weaker domestic demand, which was partly driven by the tighter monetary stance, higher interest rates and lower lending. Contributions of the external sector changed substantially. Imports grew at 11% in 2007, up from 6¾% in 2006. Exports' growth rose from 4¾% in 2006 to 6½% in 2007.

Inflation rose significantly to just over 9% yoy in March 2008 after going down to 7% in the third quarter of 2007, still far above the Central Bank's year-end target of 4%. At the same time, Turkey has been paying high real interest rates - of above 10% per annum – but observed capital outflows and downward pressure on the Turkish lira.

Strong growth over the five previous years has not fuelled substantial job creation. Employment started to rise since 2007 by roughly 1% annually. However, in particular due to a large inflow of young people in the labour force, employment rates stagnated at just 41%. These trends together led to stable unemployment rate just below 10%.

The current account deficit fell slightly – partly reflecting falling domestic demand in the first half of the year - from 6% in 2006 to 5¾% in 2007. FDI-inflows remained historically high, and covered over half of the current account deficit.

Prospects for 2008 to 2009

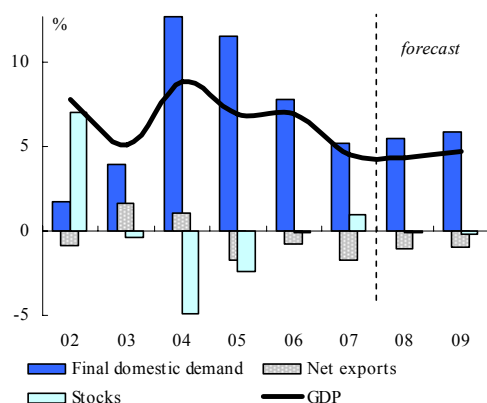
Due to its sizeable financing needs, Turkey may be more vulnerable to the current financial turbulence than most EU-Member States or other candidate countries.

The overall picture for the forecasting period looks rather mixed. Turkey should be able to increase export growth - in particular in tourism - while the tight monetary and fiscal policy mix will start supporting the disinflation process. A gradual decline in inflationary pressures may then allow a fall in interest rates and improve the investment climate. Overall, economic activity is expected to rise only gradually from 4¼% in 2008 to 4¾% in 2009. Output growth is expected to be increasingly balanced, with private consumption and equipment investment growth mitigating lower public consumption and construction growth than in previous years.

Since inflation is expected to fall only gradually, growth of disposable income may not accelerate very rapidly, which is expected to put a break on private sector consumption growth from 4½% in 2008 to 5% in 2009. Fixed investment may increase slightly provided it continues to benefit from reduced macroeconomic uncertainty and declining real interest rates.

On the other hand, the build-up of stocks is slowing down. Strong investment and stable consumption growth will lead to continued high growth of imports, in particular of capital goods and consumer durables. Exports have been buoyant so far in 2008, and benefit from a weaker Turkish Lira and from diversification and quality improvements resulting from earlier high investments.

Graph 4.3.1: Turkey - GDP growth and contributions



Labour market, costs and prices

In line with the pace of economic expansion, employment is forecast to increase by about 1% per year. Given the sizeable inflows in the labour force age population, this will lead to a flat unemployment rate of 10% in 2008 and 2009.

As from mid-2008, inflationary pressures are expected to fall slowly. Fiscal discipline and a rising credibility of the Central Bank's

disinflation targets are important elements in this respect. 12-month consumer price inflation is expected to fall below 8% by the end of 2008 and to 6% at the end of 2009. However, high oil and food prices and exchange rate pass-through might slow down the disinflation process.

Growth of imports will remain strong, partially reflecting a rather high import content of exports. In 2008 exports will start benefiting from a weaker currency. The current account deficit is therefore forecast to stabilize around 6½% of GDP in 2008-2009. A higher surplus of the services balance should contribute to maintain positive medium-term prospects in the external sector.

Public finances

In the election year 2007, fiscal policy was loosened significantly. However, corrective measures in the second part of the year brought the primary surplus to just over 4% of GDP. This still substantial surplus brought about a reduction in the debt ratio, from 46% of GDP at the end of 2006 to 39% at the end of 2007. General government interest payments have fallen from about 13% of GDP in 2003 to 7% of GDP in 2007. In the short term, public sector balances may be affected by higher interest rates 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 deficit of 1¼% of GDP in 2007 to a deficit of 1% of GDP in 2009, as a result of gradual fiscal tightening and slowly falling interest rates.

General government debt is expected to further decline gradually, albeit at a decelerating pace, to about 28% in 2009. Until early 2008, the government has been making progress in lengthening the average maturity and swapping foreign denominated into lira denominated debt. However, since the financial turbulence in spring 2008, Turkey's vulnerability to interest and exchange rate volatility and rollover risk have become increasingly visible and the average maturity of its domestic debt has even started to shorten.

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
GDP at constant prices		733.4	100.0	3.4	9.4	8.4	6.9	4.5	4.3	4.7
Private consumption		519.3	70.8	3.4	11.0	7.9	4.6	4.6	4.8	5.1
Public consumption		56.8	7.7	3.7	6.0	2.5	8.4	2.8	3.5	4.2
Gross fixed capital formation		121.1	16.5	2.8	28.4	17.4	13.3	6.7	7.0	7.1
of which : equipment		96.7	13.2	3.6	43.3	22.2	10.2	4.2	4.8	5.5
Exports (goods and services)		173.0	23.6	9.5	11.2	7.9	6.6	6.5	7.4	6.5
Final demand		868.4	118.4	4.7	11.6	9.2	6.9	5.9	5.4	5.4
Imports (goods and services)		221.1	30.1	9.7	20.8	12.2	6.9	11.1	9.4	8.0
GNI at constant prices (GDP deflator)		736.4	100.4	3.4	9.8	8.7	6.8	4.4	4.6	5.2
Contribution to GDP growth :										
	Domestic demand			3.7	13.7	9.9	7.4	4.7	5.0	5.3
	Stockbuilding			0.2	-1.8	0.0	-0.1	1.0	-0.1	-0.2
	Foreign balance			-0.4	-2.6	-1.5	-0.4	-1.7	-1.1	-1.0
Employment				0.5	3.0	1.4	1.3	1.1	1.3	1.4
Unemployment rate (a)				8.0	10.3	10.2	9.9	9.9	10.0	9.8
Compensation of employees/head				63.5	16.5	11.6	12.7	12.3	9.8	7.5
Real unit labour costs				-2.6	-2.3	-2.5	-2.3	0.5	0.1	-1.7
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				63.3	12.4	7.1	9.3	8.2	6.5	5.9
Private consumption deflator				63.9	10.8	8.2	9.8	8.3	7.9	6.1
General index of consumer prices				-	10.1	8.1	9.3	8.8	7.8	6.0
Trade balance (c)				-6.3	-6.1	-6.8	-7.5	-7.5	-9.7	-10.1
Current account balance (c)				-1.6	-3.8	-4.4	-5.8	-5.7	-6.4	-6.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	-4.5	-0.6	-0.1	-1.2	-1.4	-0.9
Cyclically-adjusted budget balance (c)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				-	59.2	52.3	46.1	38.8	32.9	28.0

(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

Consumer retrenchment leads to protracted slowdown

From housing correction to recession

Declining residential construction has pushed US growth lower over the past two years, although GDP growth still registered 2.2% in 2007. But the housing-led slowdown broadened to the wider economy in the fourth quarter with GDP growth dropping to an annual rate of 0.6%. The economy has decelerated further in the first quarter of 2008 and is now in a state which ultimately is likely to be designated a recession.

Looking forward, it is particularly noteworthy that real consumer spending already started to stagnate last winter in response to rising energy prices, deteriorating credit conditions, falling house prices, and a weakening labour market. Consumer confidence has collapsed to long-time lows in recent months. At the same time, the housing sector slump continues to deepen. House prices are already around 10% lower on a nation-wide basis. The sector is caught in a vicious circle in which excess supply causes prices to fall; price declines cause delinquencies on home loans to rise; the resulting foreclosures lead to tighter credit standards; this aggravates excess supply. In addition, non-residential construction has started to decline and equipment investment is close to stagnation. These developments will weigh heavily on economic growth over the forecast period.

The most positive development is the turnaround in net exports. For the first time since 1995, net exports made a positive contribution to GDP growth last year as real imports decelerated sharply. Consequently, and despite sharply higher oil prices, the current account deficit narrowed

significantly in 2007. On the other hand, the fiscal deficit of general government is deteriorating again. It already surpassed 3% of GDP last year.

The end of the six-year long expansion is reflected in the labour market where employment has started to decline and the unemployment rate has risen from the cyclical low of 4.4% in March 2007 to 5.1% one year later. Meanwhile, overall CPI inflation has increased to 4% as energy prices have soared, but core CPI inflation has remained within the 2 - 2½% range over the past year.

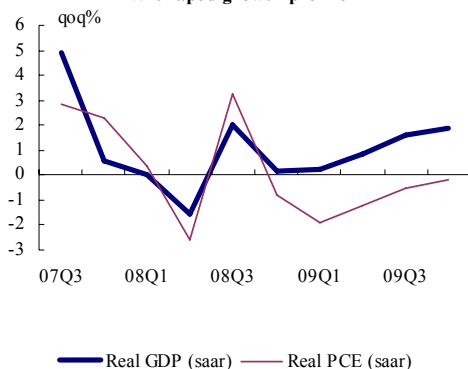
Consumers under pressure

The factors which have made private consumption stagnate in recent months will, on balance, gain in strength in the near term. In particular, employment has much further to fall as businesses adjust their workforce to lower demand for their output. With rising unemployment, nominal wages will decelerate. Credit availability is likely to remain curtailed and house prices are expected to fall by another 10% over the next twelve months. These factors will depress consumer spending significantly and for an extended period. Only in the third quarter of 2008, the personal income tax rebates, the central part of the recently adopted economic stimulus package, will temporarily bolster consumer spending. Even if house prices stop falling in 2009, as assumed, consumer spending is likely to remain depressed well beyond the forecast horizon because the negative wealth effect from the housing slump kicks in with a considerable time lag.

On the investment side, residential construction will only bottom out in the second quarter of next year since housing demand is still falling and the inventory of unsold homes remains at record levels. Non-residential construction should also decline over the forecast period while equipment investment will remain close to stagnation. The downturn will be tempered by the fact that business inventories are already relatively lean.

Net exports can be expected to offset part of the weakness in domestic demand over the next two years. Although there may be some slowing of economic growth in key export markets, real exports should continue to expand at a healthy pace supported by the recent gains in international

Graph 5.1.1: USA - Fiscal stimulus results in a W-shaped growth profile



price competitiveness. Real imports, on the other hand, will stagnate and even decline next year.

Prospects for 2008 and 2009

GDP growth of 0.9% this year, as projected, is exclusively due to the carryover from last year. Following stagnation in the first quarter, growth is expected to contract by 1½% on an annual basis in the second quarter, but the fiscal stimulus should lead to 2% growth in the third quarter. In the following four quarters, consumer spending should decline again, but the positive contribution from net exports would prevent GDP from contracting. When the housing sector emerges from the doldrums in the second half of next year, growth could start to crawl back to the 2% mark. The annual growth rate in 2009 would nevertheless only muster 0.7%. Due to the policy-induced spike in the second half of this year, the growth profile resembles a drawn out W (see Graph 5.1.1).

The fiscal deficit of general government will suffer from a sharp deceleration in tax receipts because of the stimulus package and the cyclical downturn. It is projected that the fiscal deficit will rise to almost 6% of GDP next year. Unemployment is expected to rise gradually to 6.3% of the labour force in the second half of next year since trend growth will

not yet be achieved by the end of the forecasting period. In view of the increasing slack in resource utilisation and the stabilisation of commodity prices, overall consumer price inflation is expected to recede to 1.3% at the end of 2009. Household saving as a share of disposable income is projected to rise by 1.8 percentage points over two years. The current account deficit will continue to shrink to 4% of GDP in 2009 - still a relatively high level.

The significant downward adjustment of US growth, relative to the autumn forecast, is partly due to the unexpected surge in commodity prices, particularly the oil price, since last October. Even more important is that the housing crisis and its financial fallout are exerting a heavier drag on the broader economy than previously expected. Nevertheless, the risks to the present forecast remain skewed to the downside. The ongoing credit crunch may cause an even deeper cut in private consumption than projected here. House prices may fall by more than the projected 20%. The negative wealth effect may also be stronger. Furthermore, the feedback loop between the credit crunch, the housing crisis, the labour market, and consumer spending may be underestimated.

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	2.2	0.9	0.7	
Private consumption	9224.5	69.9	3.6	3.6	3.2	3.1	2.9	0.8	-0.7	
Public consumption	2089.3	15.8	1.6	1.8	0.9	1.6	1.9	2.0	2.1	
Gross fixed capital formation	2596.3	19.7	5.3	6.0	5.9	2.5	-1.2	-4.0	-0.7	
of which : equipment	1149.1	8.7	7.6	7.0	9.2	6.0	1.3	0.4	1.5	
Exports (goods and services)	1467.7	11.1	4.7	9.7	6.9	8.4	8.1	8.6	6.6	
Final demand	15424.5	116.9	3.7	4.6	3.5	3.3	2.3	1.0	0.6	
Imports (goods and services)	2229.6	16.9	8.1	11.3	5.9	5.9	1.9	0.9	-0.5	
GNI at constant prices (GDP deflator)	13252.9	100.4	3.2	3.8	3.0	2.8	2.4	1.0	0.6	
Contribution to GDP growth :	Domestic demand		3.6	3.9	3.5	2.9	2.1	0.1	-0.3	
	Stockbuilding		0.0	0.4	-0.2	0.1	-0.3	0.0	0.1	
	Foreign balance		-0.5	-0.7	-0.2	-0.1	0.6	0.9	1.0	
Employment (*)			1.3	0.9	1.3	2.1	1.1	-0.2	-0.3	
Unemployment rate (a)			5.5	5.5	5.1	4.6	4.6	5.4	6.2	
Compensation of employees/head			3.7	4.3	3.6	4.2	4.4	2.7	2.2	
Real unit labour costs			-0.1	-1.3	-1.3	0.2	0.6	-0.6	-0.6	
Savings rate of households (b)			-	-	3.8	3.2	3.2	3.8	5.0	
GDP deflator			1.9	2.9	3.2	3.2	2.7	2.1	1.7	
Private consumption deflator			2.0	2.6	2.9	2.8	2.5	3.2	1.7	
General index of consumer prices			-	2.7	3.4	3.2	2.8	3.6	1.6	
Trade balance (c)			-3.2	-5.9	-6.4	-6.5	-6.0	-6.1	-5.2	
Current account balance (c)			-2.4	-5.4	-5.9	-6.1	-5.1	-5.0	-4.0	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-2.4	-5.4	-6.0	-6.1	-5.1	-5.0	-4.0	
General government balance (c)			-2.3	-4.4	-3.6	-2.6	-3.0	-5.0	-5.9	
Cyclically-adjusted budget balance (c)			-	-	-	-	-	-	-	
Structural budget balance (c)			-	-	-	-	-	-	-	
General government gross debt (c)			65.1	62.3	62.8	62.3	62.4	65.3	69.5	

(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

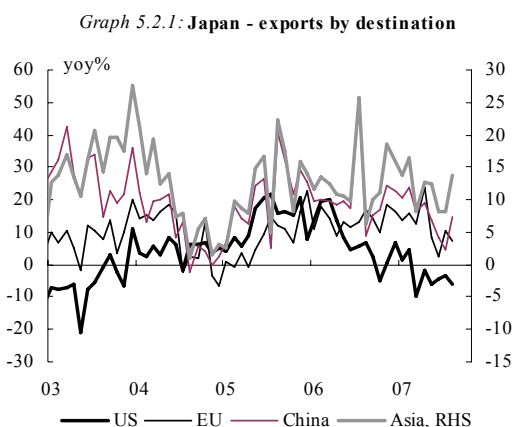
The economy entering a new soft patch

Resilient growth in 2007

Despite some deceleration, GDP growth has remained resilient at the end of 2007. For 2007 as a whole, GDP growth decelerated from an average of 2.4% in 2006 to 2.0%. The strong GDP growth in the last quarter of 2007 (+3.5% qoq annualised) reflects a significant contribution from government consumption and business investment. The positive contribution of net exports remained also sizeable as exports (in particular to the rest of Asia) were still very dynamic while imports continued to be anaemic. On the other hand, household consumption remained sluggish and construction investment plummeted significantly, due to new domestic building regulation measures.

Prospects for 2008 and 2009

The economic upturn which started in 2002 has been based on the steady growth in business investment and employment, while wages and household consumption remained on the side lines. Several indicators show that the corporate sector has lost some momentum and recent business surveys suggest that this weakness will continue in 2008. As a result, the resilience of the corporate sector will be key to keep some growth momentum. So far, the expansion has failed to spread to households, whose confidence has been hit by several factors including low wage growth, the increase in oil and food prices, the sharp fall in the stock market, the errant implementation of the revised building standard law, several food safety scandals, and the political stalemate resulting from the divided control of the Parliament.



Looking ahead, against the backdrop of the global economic slowdown, business investment growth is expected to slow in 2008, albeit moderately, due to sizeable profit margins, very little credit tightening and still dynamic export markets (mainly to the rest of Asia). Thereafter, Japanese firms are expected to be less cautious when the gradual normalisation in the markets and the global outlook will occur. Construction activity is already showing signs of improvement, suggesting that the effects of the change in building standards are waning. As regard consumption, a slight deterioration in the labour market is expected to contain wage growth while confidence will continue to be hit by higher inflation prospects and perceptions. As a result, household spending is forecast to remain sluggish in 2008 and 2009. On the external side, though decelerating, emerging market economies are expected to show some resilience to the US slowdown. As a result, Japanese exports are forecast to decelerate gradually in the course of 2008 and to pick-up again progressively the following year. Imports, which were surprisingly weak in 2007, are expected to accelerate in 2008 and 2009, in line with domestic demand growth. All in all, Japan GDP growth is forecast to slow from 2.0% in 2007 to 1.2% in 2008 and to remain just above 1.0% in 2009.

Price and monetary developments

Despite some positive developments, deflation is not yet fully overcome. In February, both headline and BoJ's core CPI (excluding fresh food only) reached +1.0% yoy. Excluding food and energy, the core CPI remained unchanged at -0.1% yoy for the fourth consecutive month. High energy prices are expected to continue to support price increases. Headline inflation is forecast to accelerate somehow, albeit remaining below 1%, to an average of 0.7% in 2008 and 0.6% in 2008 after 0.1% in 2007.

Since February 2007, the policy rate has been maintained at 0.5%. Against the backdrop of a gloomier economic outlook, market participants expect a rate cut by the end of the year. However, once the uncertainties related to the financial turmoil dissipate, the Bank of Japan should continue to keep its strategy to remove gradually monetary accommodation not least to monitor the

external implications of its ultra-loose monetary stance.

Public finance remain unsustainable in a long term perspective

A noteworthy improvement has been recorded in the past fiscal year thanks to cyclical revenue buoyancy (in particular through corporate taxes) and sustained expenditure cuts. However, the Japanese authorities' medium term fiscal consolidation programme remains not ambitious enough. The programme, presented in July 2006, foresees two stages: a primary surplus (excluding social security) would be achieved by FY2011, and then, by the mid-2010s, the debt-to-GDP ratio would be progressively brought down.

FY2007 over-performance implies that the central and local government primary balance has improved to -0.7% of GDP (from -1.7% the year before). On 17 January 2008, the Japanese authorities presented revised medium-term fiscal projections that forecast that, even under the most optimistic growth scenario, the local and central government primary balance will continue to remain in deficit in 2011, if no additional measure to increase the revenues is implemented.

While the reduction in expenditures should continue, a significant increase in revenues is necessary to, at least, stabilise the debt-to-GDP ratio (currently at 180% of GDP). Increasing fiscal revenues will be all the more urgent given that the central government's contribution to the basic pension program will increase in 2009 from one third to one half of the costs. This is expected to add an additional 1% of GDP per year to public expenditures. Moreover, the inability to get a political consensus on the renewal of a temporary tax on gasoline will probably imply an "unexpected" fiscal stimulus of 0.5% of GDP in 2008.

The possibility of increasing tax revenues (in particular through a comprehensive tax reform and a higher consumption tax rate – currently at 5%) was expected to be discussed ahead of FY2008 budget deliberations but the ruling party's defeat at the Upper house election has further complicated the political landscape and delayed measures aimed at 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	508925.1	100.0	0.9	2.7	1.9	2.4	2.0	1.2	1.1	
Private consumption	290719.0	57.1	1.3	1.6	1.3	2.0	1.4	0.7	0.7	
Public consumption	89958.0	17.7	2.9	1.9	1.6	-0.4	0.8	1.0	0.8	
Gross fixed capital formation	119415.1	23.5	-1.3	1.4	3.1	1.3	-0.1	-0.3	1.5	
of which : equipment	-	-	-	-	-	-	-	-	-	
Exports (goods and services)	81756.3	16.1	4.1	13.9	7.0	9.7	8.8	7.0	5.2	
Final demand	584332.9	114.8	1.1	3.2	2.3	2.6	2.0	1.3	1.5	
Imports (goods and services)	75407.8	14.8	3.5	8.1	5.8	4.2	1.7	3.2	4.7	
GNI at constant prices (GDP deflator)	523343.5	102.8	1.0	2.9	2.4	2.9	2.5	1.3	1.4	
Contribution to GDP growth :										
Domestic demand			0.8	1.6	1.8	1.4	0.9	0.5	0.9	
Stockbuilding			0.0	0.3	-0.1	0.2	0.1	-0.2	-0.1	
Foreign balance			0.1	0.8	0.3	0.8	1.1	0.7	0.3	
Employment			-0.2	0.2	0.4	0.4	-0.2	0.2	0.2	
Unemployment rate (a)			3.9	4.7	4.4	4.1	3.9	4.0	4.2	
Compensation of employees/head			0.2	-1.3	-0.1	0.1	-0.1	0.6	0.9	
Real unit labour costs			-0.4	-2.7	-0.4	-0.8	-1.6	-0.1	0.2	
Savings rate of households (b)			-	-	10.6	9.7	9.2	9.1	9.3	
GDP deflator			-0.5	-1.1	-1.2	-1.0	-0.7	-0.3	-0.2	
Private consumption deflator			-0.2	-0.7	-0.8	-0.3	-0.5	0.2	0.1	
General index of consumer prices			-	0.0	-0.3	0.3	0.1	0.7	0.6	
Trade balance (c)			2.6	2.8	2.1	1.9	2.4	2.6	2.6	
Current account balance (c)			2.6	3.7	3.6	3.9	4.8	5.1	5.0	
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			2.5	3.6	3.5	3.8	4.7	4.9	4.9	
General government balance (c)			-5.4	-6.2	-6.7	-1.4	-1.6	-1.9	-2.7	
Cyclically-adjusted budget balance (c)			-	-	-	-	-	-	-	
Structural budget balance (c)			-	-	-	-	-	-	-	
General government gross debt (c)			112.1	167.1	177.3	179.7	180.7	182.8	185.5	

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

3. CHINA

Export deceleration expected to lower external surplus

Strong growth performance

With GDP growth of 11.9%, 2007 was the fifth year in a row with double digit growth figures, bringing the average annual growth to 10% since economic reforms began in 1979. Like in preceding years, GDP growth was driven by very strong growth in fixed asset investment (up by 24.8% in value terms) and a rise in the trade surplus from USD 177.5 billion in 2006 to USD 262.2 billion last year. Although retail sales of consumer goods jumped almost 17% in nominal terms, the even faster growth rate of investment and net exports implies another decline in the share of private consumption in overall GDP.

Inflation accelerating further...

Following an increase in consumer prices by 1.5% in 2006, inflation accelerated to 4.8% in 2007 and an even higher 8.7% in February. Consumer price inflation continues to be driven by food prices which have a very high share in the typical consumption basket as China is still a developing country.

...and financial conditions continue to tighten

Given the strong acceleration in consumer prices, the People's Bank of China has continued to raise both its benchmark lending rate (to 7.47% as of 15 December) and has brought the reserve requirement ratio for banks up to 15.5% as of 25 March (compared to a rate of 13% end of October 2007).

While the appreciation of the Renminbi (RMB) against the US Dollar has even accelerated recently, the RMB has not changed much in effective terms, not least due to the almost uninterrupted depreciation against the Euro.

All in all, financial conditions have tightened clearly and are likely to tighten further, given the politically motivated strong determination of the Chinese leadership to decelerate the rise in consumer prices. Given the projected stabilisation of food prices at current high levels, however, it will take some time before inflation will start to decelerate to more acceptable levels. All in all, the rise in CPI is now projected to reach 5.7% in 2008 and to decelerate to 3.2% in 2009.

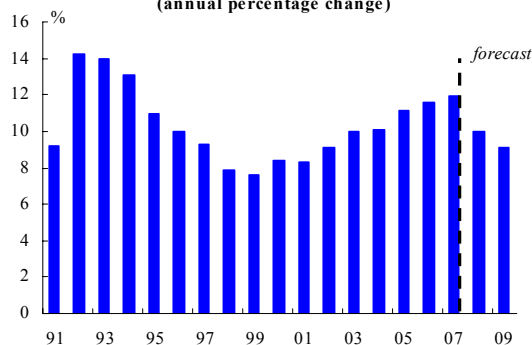
Growth outlook for 2008

On the back of tightening financial conditions and slowing demand in particular from the US and Japan, China's growth is likely to decelerate to 10% in the current year. However, following a deceleration in February linked to the heavy snowfalls in central and southern China, exports are likely to recover somewhat in the near future. Available data on profits for the first two months of this year actually show a strong deceleration in profit growth of industrial enterprises from close to 40% on the year end of 2007 to 16.5% early this year, indicating that (export) companies are accepting cuts in their margins to continue to sell their products, a strategy visible on the external side for some time now.

Furthermore, given the likely general government surplus in 2007, the government has already announced some measures like a 43% rise in the central education budget to overcome not only social problems in rural areas but also to maintain and even encourage private consumption. The government has also announced that it is willing to intervene further should the external slowdown reveal itself stronger than projected by authorities so far.

Based on these assumptions, imports are expected to continue their strong rise; in value terms, this development is likely to be supported by the high level of petrol prices. With the growth rate of

Graph 5.3.1: China - GDP growth
(annual percentage change)



exports projected to decelerate, the 2008 trade surplus is likely to grow only marginally in nominal terms and to decrease in terms of GDP. However, combined with ever rising capital inflows, foreign currency reserves – which reached US Dollar 1.68 trillion end March 2008 – are very likely to rise even faster, obliging the People's Bank of China to intervene even more in order to avoid another jump in liquidity.

As the slowdown in the US is now projected to continue well into next year, China's GDP is now expected to grow by 9.1% in 2009, i.e. clearly below its average of 10% since economic reforms took off in 1979. While domestic demand is likely to remain strong, exports of goods are forecast to grow by 12% in volume terms only compared to more than 20% per year since 2002). With imports continuing their fast increase, such a development will drive down the trade surplus not only in relative, but also in nominal terms. This development would also be driven by the ongoing rise in the imports of services, in particular Chinese tourists going abroad (which already constitute a considerable source of income not only for places like Macao and Hong Kong SARs, but also for countries like Australia).

The challenge for the Chinese leadership in the coming 20 months will be to make sure that inflation comes down and, in the meantime, to avoid that growth rates fall below the employment creating threshold, which some observers put at 6.5% (because of the fast growth in productivity). A slowdown in growth in line with the above Commission projections would therefore be highly welcome as it would allow for a more stable economic environment.

Table 5.3.1

Main features of country forecast - CHINA

	2006			Annual percentage change						
	bn CNY	Curr. prices	% GDP	95-03	2004	2005	2006	2007	2008	2009
GDP at constant prices		20900.0	100.0	9.1	10.1	11.1	11.6	11.9	10.0	9.1
Private consumption		8012.0	-	-	-	-	-	-	-	-
Public consumption		3029.0	-	-	-	-	-	-	-	-
Gross fixed capital formation		9015.0	-	-	-	-	-	-	-	-
of which : equipment		-	-	-	-	-	-	-	-	-
Change in stocks as % of GDP		-	-	-	-	-	-	-	-	-
Exports (goods and services)		7759.0	-	-	27.2	20.7	28.2	21.2	14.4	11.8
Final demand		-	-	-	-	-	-	-	-	-
Imports (goods and services)		6337.0	-	-	23.2	10.5	20.7	17.4	17.3	17.6
GNI at constant prices (GDP deflator)		-	-	-	-	-	-	-	-	-
Contribution to GDP growth :	Domestic demand			-	-	-	-	-	-	-
	Stockbuilding			-	-	-	-	-	-	-
	Foreign balance			-	-	-	-	-	-	-
Employment				1.1	1.0	0.8	0.8	1.0	0.8	0.7
Unemployment (a)				-	4.2	4.2	4.1	4.0	4.0	4.0
Compensation of employees/head				-	-	-	-	-	-	-
Unit labour costs				-	-	-	-	-	-	-
Real unit labour costs				-	-	-	-	-	-	-
Savings rate of households				-	-	-	-	-	-	-
GDP deflator				-	6.7	-	1.3	4.0	3.9	2.0
Private consumption deflator				-	-	-	-	-	-	-
Index of consumer prices (c)				6.0	1.2	-	1.5	4.8	5.5	3.6
Trade balance (b)				3.5	3.1		8.2	9.5	-	-
Current account balance (b)				2.1	3.6	7.2	9.4	11.1	9.0	6.6
Net lending(+) or borrowing(-) vis-à-vis ROW (b)				-	-	-	-	-	-	-
General government balance (b)				-	-1.3	-1.0	-0.5	0.6	-0.2	-0.8
General government gross debt (b)				-	-	-	-	-	-	-

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

4. EFTA

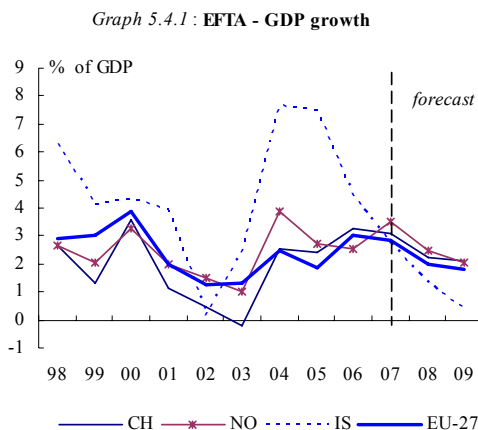
Economic growth remains robust

Over the past few years the EFTA (¹⁴) countries have enjoyed a period of strong growth. The outlook for the forecast years, however, shows a return to more moderate growth in Switzerland, Norway and Liechtenstein¹. Iceland's GDP is forecast to decline considerably in 2008 and 2009 following the impact of the financial turmoil and the conclusion of the large investments that have taken place in recent years.

Norway enjoys strong economic growth...

Norway continued to enjoy dynamic growth for the fourth year in a row, with GDP growth for the mainland reaching the second highest level in 10 years in 2007 at 3.5%. Growth is broadly based, sustained by an expansion in almost all demand components and in most main industries, except the petroleum sector which remains stable. The real GDP growth rate for 2008 is forecast to moderate to 2.5% and to 2.1% in 2009 thus narrowing the output gap.

Domestic activity will continue to be the main driver of growth, with still low interest rates fuelling strong private consumption. The latter is expected to keep growing at annual rates above 3% until 2009. The large investments in the oil and gas sector that were spurred by soaring oil prices are expected to be completed in the course of 2008, implying a continuation of the deceleration in investment growth that started already in 2007. Norway is expected to continue its expansionary fiscal policy, which is mainly funded through high oil revenues and tax increases.



...with record-low unemployment

The expansion in economic activity has led to a decline in unemployment, which has reached the lowest level in 20 years despite high labour force growth. Unemployment is forecast to remain low, but to inch up slightly in 2008 and 2009. Inflation remains subdued but is expected to increase to 2.5% in 2008, mainly due to electricity price increases. In 2009 inflation is expected to ease to 1.5%.

The outlook for Switzerland remains positive...

The economic upturn that started four years ago seems to have ended in 2007. The upswing, which was initially driven by foreign demand, has become more broadly based over the last two years thanks to a significant expansion in domestic demand. Further supported by an accommodative monetary policy, GDP growth in 2007 was largely driven by domestic demand. The slowdown in world growth is expected to dampen foreign demand for Swiss goods and services this year and next. Consequently, real growth in exports of goods and services is likely to decelerate in 2008 and to remain around or slightly below that level in 2009. Imports grew at a slower pace than exports in 2007 but are likely to match export growth in the forecast years. External trade should therefore continue to make a positive, albeit declining, net contribution to economic growth over the whole forecast period.

All in all, GDP growth in 2008 reflects both relatively strong external demand and sound investment growth, mirroring a healthy business environment. The capacity of the domestic economy to stimulate growth can be observed through the remaining strong demand for imported consumer and capital goods. Stable growth in consumer spending will be based on continued growth in incomes. GDP growth is expected to decelerate slightly to 2.2% in 2008 and 2.1% for 2009, but to remain close to potential output growth.

...while unemployment continues to be low

Employment is expected to increase slightly in 2008, while the unemployment rate is expected to remain low at around or under 3.5%. The

improved prospects for employment and wage income are contributing to rising consumer confidence, which in turn should provide support to private consumption.

Iceland, economic balance in sight?

After a period of high growth rates supported by large investment projects and strong domestic demand, which have generated significant imbalances, Iceland is now facing a period of macroeconomic adjustment. GDP growth is expected to decline significantly over the forecast period to around 0.4% in 2009. Further downside risks due to the uncertainty generated by the current credit crisis, the weakening krona and increasing unemployment could eventually lead to a GDP contraction in 2009. Declining domestic demand and a worsening labour market are turning the positive output gap in 2008 into a negative gap in 2009.

Demand pressures in the economy are expected to decline sharply in 2008, largely due to high interest rates, slowing private consumption and expected ongoing weakness of domestic demand, though public consumption should partly offset continued weakness in investment.

Unemployment is likely to increase slightly this year, staying under 2.5%, but an acceleration is expected in 2009, almost doubling the unemployment rate. Inflation, however, is expected to slow down in 2008 and 2009, partly due to government measures to reduce food prices. The current account deficit is expected to decline significantly in 2008 and 2009 following an improvement in the terms of trade.

⁽¹⁴⁾ Liechtenstein and Switzerland are forming a single economic area, using the Swiss franc as a currency. Liechtenstein's GDP growth and inflation rate in this forecast are assumed to follow those of Switzerland.

Table 5.4.1:

Main features of country forecast - EFTA

	Iceland			Norway			Switzerland		
(Annual percentage change)	2007	2008	2009	2007	2008	2009	2007	2008	2009
GDP at constant prices	2.7	1.3	0.4	3.5	2.5	2.1	3.1	2.2	2.2
Private consumption	4.2	1.1	-2.1	6.4	3.9	3.2	2.1	2.1	1.9
Public consumption	3.3	2.5	2.6	3.2	3.2	3.0	0.1	0.6	0.9
Gross fixed capital formation	-14.9	-14.5	-9.6	9.6	3.5	1.8	2.7	2.2	1.5
of which : equipment	-23.9	-27.3	-12.2	13.2	6.0	0.5	7.5	2.5	1.5
Exports (goods and services)	12.1	8.1	6.0	3.2	2.0	1.8	9.8	5.1	5.3
Final demand	1.4	-0.4	-0.6	4.7	3.1	2.4	3.7	3.2	3.1
Imports (goods and services)	-2.2	-3.6	-4.0	8.5	5.1	3.7	5.1	5.1	5.1
GNI at constant prices (GDP deflator)	-	-	-	3.5	2.5	2.0	2.2	1.3	2.2
Contribution to GDP growth :									
Domestic demand	-1.7	-2.8	-2.9	5.6	3.3	2.6	1.9	1.8	1.5
Stockbuilding	-0.8	0.0	0.0	-0.7	0.0	0.0	-1.6	0.0	0.0
Foreign balance	6.5	4.3	3.7	-1.6	-1.0	-0.6	2.9	0.5	0.6
Employment	0.5	0.5	0.5	3.9	1.2	1.1	1.6	1.1	1.0
Unemployment rate (a)	1.0	1.9	3.6	3.3	3.5	3.5	3.7	3.6	3.4
Compensation of employees/head	-	-	-	5.7	5.7	5.6	-	-	-
Real unit labour costs	-	-	-	3.7	-0.3	1.3	-	-	-
Savings rate of households (b)	-	-	-	7.0	5.4	5.5	17.3	17.0	16.3
GDP deflator	5.6	-1.8	2.9	4.6	4.7	3.2	1.4	3.5	1.9
Private consumption deflator	4.5	3.9	2.7	4.6	4.0	3.1	0.9	1.9	1.5
General index of consumer prices	1.4	3.9	2.7	0.8	2.5	1.6	0.7	1.8	1.5
Trade balance (c)	-10.8	-1.4	-10.1	14.6	13.7	13.3	1.9	3.1	3.3
Current account balance (c)	-12.8	-10.2	-7.4	14.8	14.1	13.4	15.1	15.2	15.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)	-1.5	-11.2	-8.0	14.8	14.1	13.4	15.1	15.0	14.6
General government balance (c)	3.8	0.7	-1.7	17.6	17.3	16.8	-0.8	-0.6	-0.7
Cyclically-adjusted budget balance (c)	-	-	-	-	-	-	-	-	-
Structural budget balance (c)	-	-	-	-	-	-	-	-	-
General government gross debt (c)	26.0	28.6	32.5	43.8	39.5	36.4	49.3	45.4	42.6

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

5. RUSSIAN FEDERATION

Growth accelerates, amid changes in the external accounts

Growth has accelerated again in 2007

2007 was the 9th straight year of strong growth for Russia, which, like most emerging markets, has remained so far largely unaffected by the ongoing financial instability. After reaching 7.4% in 2006 (revised upwards from the 6.7%, mainly due to investment), GDP growth reached 8.1% in 2007. Russia's GDP is now roughly 16% of the EU's in PPP terms.

The key factors behind the higher-than-expected 2007 growth were a continued acceleration of investment spending (which grew by almost 21% in 2007) and the very significant increase of net capital inflows observed since full capital account liberalisation in mid-2006, as well as by a rebound in oil prices. An additional factor was the increase in fiscal spending linked to the electoral cycle. All those factors were supported by a continued strong expansion of private consumption, which soared by around 13%. The strong expansion in investment is expected to continue, and average 18% during 2008-2009. Private consumption is forecast to grow by 10.5% on average, while the fiscal expansion is expected to abate somewhat. On the other hand, the outlook for capital inflows is somewhat uncertain.

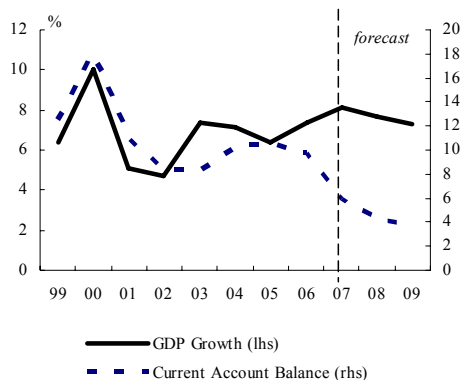
External position and unstable capital flows

The reliance of the recent growth performance on capital inflows is highlighted by changes in the current account. After reaching a goods trade balance of over 14% of GDP in 2006 and a current account surplus of almost 10% of GDP, Russia experienced a reduction in both in 2007, largely

due to an increase in imports, which grew by almost 36% in USD terms, more than twice the growth rate of exports. As a result, the trade surplus fell to around 10%, while the current account surplus fell to around 6% of GDP. The commission forecast projects the continuation of this trend, with a sustained reduction of both the trade and current account surplus during 2008-2009, expected to average, respectively, 7.2% and 4% (these developments are highly dependent on the outlook for oil prices: during the first quarter of 2008 the rise in oil prices generated a record current account surplus of USD 37 billion, or a 61% increase over the same period of 2007).

The fall in the current account surplus in 2007 described above was more than compensated by developments in the financial account, leading to a surplus: the surplus there is estimated to have reached almost 7% of GDP in 2007. The Central Bank of Russia (CBR) estimates net private capital inflows of USD 87 billion in 2007. This was largely fuelled by borrowing by Russian companies – in particular state-owned companies and banks (in contrast, estimations for the first quarter of 2008 point to a significant net capital outflow during that period, of almost USD 23 billion, driven by the repayment of foreign loans by the non-financial sector). FDI into Russia also increased in 2007, reaching over USD 52 billion, with net FDI estimated at USD 6.8 billion. Larger net FDI inflows could in the short run counteract this expected fall in the current account and the instability of short-term loans, while in the long run diversifying the economy away from the primary sector, reducing its import intensity and boosting its export potential. However, for this scenario to become true the investment climate in Russia would need to improve.

Graph 5.5.1: Russian Federation - GDP growth and Current account balance



Investment supporting increase in growth

Industrial output grew by 6.3% in 2007, while manufacturing growth reached 7.9%, amid a continued deceleration of the quarrying and mining sector to 0.3% (from 1.6% in 2006): oil production has declined, indicating the need for a more supportive policy framework for the sector. The highest sector growth rates in 2007 were registered in construction, which reflects the very significant and largely state-supported investments in infrastructure, and in services. Supporting this

strong performance by the industrial sectors – industrial production growth in March 2008 was up 6.5% yoy and 11.7% mom, investment growth yoy also continued to be very robust, at around 20%, close to the Commission's forecast for the period 2008-2009. GDP is up by an estimated 8% during the first quarter of 2008.

A strong fiscal expansion

The period 2007-2008 witnessed a long electoral cycle for Russia, as elections to the Duma were held in December 2007, and presidential elections in early March 2008. Reflecting this political cycle, the expenditures in the 2007 Federal Budget increased by around 2% of GDP compared to 2006 (as indicated above, government expenditures, especially in infrastructure, are an important component of the pick-up in investment). As a consequence, the budget surplus fell to 5.5% in 2007. With the end of the electoral cycle, the fiscal expansion is expected to subside to some extent, but the surplus is still expected to fall to below 5% of GDP by 2009 (this depends on oil prices, given Russia's reliance on energy for fiscal revenues).

Inflation bounces back

Russian CPI inflation increased again to above the 10% mark in 2007, reaching 11.9% (end-of-year figures) on the back of global food price increases,

the growth of fiscal expenditures, a continued monetary expansion fuelled by capital inflows, policy measures to offset potential liquidity shortages and the faster GDP growth itself. The March 2008 CPI increased further, reaching 13.3% yoy. Accordingly, this forecast anticipates a slow fall in inflation to 9.5% only by 2009. Inflation is now a considerable policy concern in Russia.

Main prospects for 2008 and 2009

Russia's growth is expected to remain strong during 2008-2009, due to a continuation of the increase in investment, supported by foreign capital inflows and the elections-induced fiscal expansion. Private consumption is also forecast to remain strong, growing at above 10% on average, supporting the previous factors. As a result, GDP growth is likely to average 7.5% in 2008-2009. This will lead to a continued reduction of unemployment, which is expected to fall to around 4% in 2008-2009, while inflation will fall to below double-digit levels only slowly. The budget surplus will fall below 5% of GDP. Russia is at the same time also forecast to experience continued reductions of both its trade and current account surpluses to, on average, 7% and 4% respectively.

Table 5.5.1:

Main features of country forecast - RUSSIA

	2006		95-03	Annual percentage change					
	bn RUB	Curr. prices		2004	2005	2006	2007	2008	2009
GDP at constant prices	26,882.9	100	-	7.1	6.4	7.4	8.1	7.7	7.3
Private consumption	12,883.0	47.9	3.3	11.7	12.3	11.3	12.8	11.0	10.0
Public consumption	4,566.0	17.0	1.4	2.1	2.2	2.3	5.0	4.0	4.0
Gross fixed capital formation	4,957.2	18.4	1.1	12.6	8.3	17.5	20.8	20.0	15.0
of which : equipment	-	-	-	-	-	-	-	-	-
Change in stocks as % of GDP	768.4	2.9	2.3	2.5	2.3	2.9	3.5	3.0	2.5
Exports (goods and services)	9,084.6	33.8	6.6	11.8	6.4	7.3	6.4	7.7	6.4
Final demand	32,259.2	120.0	3.5	10.8	8.4	10.1	11.5	10.7	9.4
Imports (goods and services)	5,665.2	21.1	6.3	23.3	17.0	21.6	27.3	24.8	19.6
GNI at constant prices (GDP deflator)	-	-	-	-	-	-	-	-	-
Contribution to GDP growth :									
Domestic demand				8.6	7.8	9.5	11.7	11.1	9.4
Stockbuilding				0.0	0.0	0.4	0.7	0.7	0.5
Foreign balance				-1.4	-1.4	-2.1	-3.6	-3.5	-2.2
Employment			0.4	1.3	1.3	1.0	2.3	1.9	1.5
Unemployment (a)			10.2	7.6	7.7	6.9	6.1	3.9	3.7
Compensation of employees/head			2.7	10.5	12.6	14.4	18.3	14.8	14.5
Unit labour costs (index for manufacturing, 2004=100)			-	100	92	92	-	-	-
Real unit labour costs			-	-	-	-	-	-	-
Savings rate of households			-	-	-	-	-	-	-
GDP deflator			42.2	20.1	19.2	16.1	17.8	16.3	15.3
Private consumption deflator			45.0	14.5	12.1	9.2	12.6	11.7	11.6
Index of consumer prices (c)			49.5	10.9	12.7	9.7	11.9	11.0	9.5
Trade balance (b)			12.5	14.5	15.4	14.3	9.9	8.0	6.8
Current account balance (b)			7.6	9.9	11.0	9.8	5.9	4.3	3.6
Net lending(+) or borrowing(-) vis-à-vis ROW (b)			-	-	-	-	-	-	-
General government balance (b)			-2.7	4.2	7.5	7.4	5.5	5.5	4.8
General government gross debt (b)			-	20.9	13.2	8.5	7.5	7.1	7.0

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

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STATISTICAL ANNEX: SPRING 2008 ECONOMIC FORECAST

TABLE 1 : Gross domestic product, volume (percentage change on preceding year, 1992-2009)

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	1.5	2.6	2.0	1.0	3.0	1.7	2.8	2.7	2.7	2.1	1.7	2.2	1.5
Germany	1.4	2.1	0.9	-0.2	1.1	0.8	2.9	2.5	2.5	2.1	1.8	2.2	1.5
Ireland	6.2	9.0	5.4	4.5	4.4	6.0	5.7	4.9	5.3	3.5	2.3	3.8	3.2
Greece	1.1	3.9	4.3	5.0	4.6	3.8	4.2	4.1	4.0	3.8	3.4	3.7	3.3
Spain	1.5	4.4	3.3	3.1	3.3	3.6	3.9	3.8	3.8	3.0	2.2	2.3	1.8
France	1.2	3.0	1.7	1.1	2.5	1.7	2.0	1.9	1.9	2.0	1.6	1.8	1.4
Italy	1.1	2.1	0.9	0.0	1.5	0.6	1.8	1.9	1.5	1.4	0.5	1.6	0.8
Cyprus	5.5	4.2	3.2	1.9	4.2	3.9	4.0	3.8	4.4	3.9	3.7	3.9	3.7
Luxembourg	2.6	6.3	4.4	2.1	4.9	5.0	6.1	5.2	5.1	4.7	3.6	4.5	3.5
Malta	5.0	3.4	1.9	-0.3	0.2	3.4	3.4	3.1	3.8	2.8	2.6	2.9	2.5
Netherlands	2.5	3.7	1.4	0.3	2.2	1.5	3.0	2.7	3.5	2.6	2.6	2.5	1.8
Austria	2.0	2.6	1.9	1.2	2.3	2.0	3.3	3.3	3.4	2.7	2.2	2.4	1.8
Portugal	1.6	3.8	0.7	-0.8	1.5	0.9	1.3	1.8	1.9	2.0	1.7	2.1	1.6
Slovenia	2.0	4.2	4.2	2.8	4.4	4.1	5.7	6.0	6.1	4.6	4.2	4.0	3.8
Finland	1.3	4.6	3.0	1.8	3.7	2.8	4.9	4.3	4.4	3.4	2.8	2.8	2.6
Euro area	1.4	2.8	1.6	0.8	2.1	1.6	2.8	2.6	2.6	2.2	1.7	2.1	1.5
Bulgaria	-2.8	2.0	5.7	5.0	6.6	6.2	6.3	6.3	6.2	6.0	5.8	6.2	5.6
Czech Republic	2.3	1.2	4.5	3.6	4.5	6.4	6.4	5.8	6.5	5.0	4.7	4.9	5.0
Denmark	2.6	2.4	1.9	0.4	2.3	2.5	3.9	1.9	1.8	1.3	1.3	1.4	1.1
Estonia	:	6.6	9.0	7.2	8.3	10.2	11.2	7.8	7.1	6.4	2.7	6.2	4.3
Latvia	-8.7	6.3	9.0	7.2	8.7	10.6	12.2	10.5	10.3	7.2	3.8	6.2	2.5
Lithuania	-8.4	5.0	8.0	10.3	7.3	7.9	7.7	8.5	8.8	7.5	6.1	6.3	3.7
Hungary	0.6	4.6	4.3	4.2	4.8	4.1	3.9	2.0	1.3	2.6	1.9	3.4	3.2
Poland	4.9	4.4	4.1	3.9	5.3	3.6	6.2	6.5	6.5	5.6	5.3	5.2	5.0
Romania	1.4	-0.9	6.2	5.2	8.5	4.2	7.9	6.0	6.0	5.9	6.2	5.8	5.1
Slovakia	:	2.7	6.0	4.8	5.2	6.6	8.5	8.7	10.4	7.0	7.0	6.2	6.2
Sweden	1.2	3.3	3.2	1.9	4.1	3.3	4.1	3.4	2.6	3.1	2.2	2.4	1.8
United Kingdom	2.5	3.1	2.6	2.8	3.3	1.8	2.9	3.1	3.0	2.2	1.7	2.5	1.6
EU27	1.4	2.9	2.0	1.3	2.5	1.9	3.1	2.9	2.8	2.4	2.0	2.4	1.8
USA	3.3	3.5	2.7	2.5	3.6	3.1	2.9	2.1	2.2	1.7	0.9	2.6	0.7
Japan	1.4	0.5	1.8	1.4	2.7	1.9	2.4	1.9	2.0	1.9	1.2	2.3	1.1

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	0.5	0.5	0.4	0.3	0.2	0.3	0.4	0.4	0.5	0.5
Germany	0.6	0.2	0.7	0.3	0.7	0.0	0.3	0.3	0.5	0.4	0.5	0.5
Ireland	4.8	-1.4	1.2	-0.8	0.8	0.8	1.1	1.2	1.1	1.0	0.9	0.8
Greece	1.0	0.9	0.9	0.7	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.7
Spain	1.0	0.9	0.7	0.8	0.3	0.3	0.5	0.4	0.4	0.4	0.4	0.4
France	0.6	0.4	0.8	0.4	0.4	0.3	0.2	0.3	0.3	0.4	0.5	0.5
Italy	0.3	0.1	0.4	-0.3	0.3	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Cyprus	1.3	1.1	1.0	0.8	0.7	1.0	1.1	0.9	0.8	0.9	0.9	1.0
Luxembourg	1.7	0.6	0.7	:	:	:	:	:	:	:	:	:
Malta	1.4	0.9	1.1	0.9	:	:	:	:	:	:	:	:
Netherlands	0.9	0.4	1.8	1.2	0.3	0.5	0.4	0.3	0.5	0.5	0.5	0.5
Austria	0.9	0.8	0.7	0.6	0.7	0.5	0.5	0.4	0.3	0.4	0.6	0.8
Portugal	0.7	0.7	-0.1	0.7	0.5	0.4	0.2	0.4	0.4	0.5	0.5	0.5
Slovenia	1.7	1.0	1.4	0.4	1.5	1.0	0.8	1.1	1.0	0.9	0.9	1.1
Finland	1.3	1.0	0.5	0.9	1.0	0.5	0.3	0.5	0.8	0.8	0.5	0.8
Euro area	0.7	0.3	0.7	0.4	0.5	0.2	0.4	0.4	0.4	0.4	0.5	0.5
Bulgaria	1.3	1.7	1.6	1.7	1.3	1.1	1.4	1.1	1.4	1.5	1.4	1.5
Czech Republic	1.6	1.6	1.6	1.7	0.9	0.8	0.9	0.9	1.3	1.5	1.5	1.6
Denmark	1.0	-1.1	1.7	0.3	0.6	-0.2	0.0	0.1	0.5	0.3	0.5	0.5
Estonia	1.6	1.1	1.3	0.9	-0.3	0.6	1.3	1.4	0.7	0.9	1.4	1.8
Latvia	2.2	2.4	2.3	1.1	0.6	0.4	0.3	0.4	0.5	0.8	1.0	1.0
Lithuania	1.9	2.2	2.9	1.3	1.7	0.8	0.4	0.2	0.8	0.9	1.1	1.4
Hungary	0.1	0.0	0.2	0.1	0.4	0.6	0.5	0.7	1.2	0.9	1.0	1.2
Poland	1.6	1.5	1.4	2.0	1.1	1.1	1.0	1.0	1.2	1.5	1.4	1.2
Romania	1.0	1.5	1.8	2.0	1.8	1.5	1.1	0.7	0.9	1.1	1.7	1.8
Slovakia	2.4	3.0	3.0	3.3	0.5	2.0	1.7	1.4	0.8	2.7	2.1	1.6
Sweden	0.5	0.8	0.6	0.8	2.6	0.2	0.4	0.4	0.4	0.8	1.1	1.0
United Kingdom	0.7	0.8	0.6	0.6	0.4	0.3	0.2	0.2	0.4	0.5	0.5	0.6
EU27	0.8	0.5	0.8	0.5	0.6	0.3	0.4	0.4	0.5	0.5	0.6	0.6
USA	0.2	0.9	1.2	0.1	0.0	-0.4	0.5	0.0	0.1	0.2	0.4	0.5
Japan	1.0	-0.4	0.3	0.9	0.3	0.3	0.0	0.2	0.3	0.4	0.4	0.4

TABLE 3 : Profiles (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2007-2009)

15.04.2008

	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	3.0	2.8	2.6	2.4	2.0	1.7	1.5	1.3	1.3	1.4	1.6	1.8
Germany	3.7	2.6	2.5	1.8	1.9	1.7	1.3	1.4	1.2	1.6	1.7	1.9
Ireland	7.9	5.6	3.7	3.8	-0.2	2.1	2.0	4.0	4.3	4.4	4.1	3.7
Greece	4.3	4.1	3.8	3.6	3.3	3.3	3.2	3.3	3.3	3.3	3.3	3.2
Spain	4.1	4.0	3.8	3.5	2.8	2.2	2.0	1.7	1.8	1.9	1.7	1.7
France	1.9	1.4	2.2	2.1	2.0	1.9	1.3	1.2	1.1	1.2	1.5	1.6
Italy	2.4	1.8	1.9	0.5	0.5	0.4	0.3	0.8	0.7	0.8	0.7	0.7
Cyprus	4.3	4.3	4.6	4.3	3.7	3.6	3.7	3.8	3.9	3.8	3.6	3.7
Luxembourg	5.9	5.6	5.6	:	:	:	:	:	:	:	:	:
Malta	3.4	3.8	4.5	4.3	:	:	:	:	:	:	:	:
Netherlands	3.3	2.4	3.9	4.3	3.7	3.8	2.4	1.5	1.7	1.8	2.0	2.2
Austria	3.4	3.4	3.3	3.0	2.8	2.6	2.4	2.1	1.8	1.6	1.7	2.1
Portugal	2.0	1.9	1.7	2.0	1.9	1.6	1.9	1.5	1.4	1.5	1.7	1.8
Slovenia	7.5	6.3	6.2	4.6	4.4	4.4	3.7	4.4	3.8	3.8	3.9	3.9
Finland	4.9	4.5	3.9	3.8	3.4	2.9	2.7	2.3	2.2	2.5	2.8	3.0
Euro area	3.2	2.5	2.7	2.2	1.9	1.8	1.5	1.5	1.4	1.5	1.6	1.7
Bulgaria	6.4	6.3	6.0	6.6	6.4	5.8	5.6	5.0	5.1	5.6	5.6	6.0
Czech Republic	6.4	6.4	6.4	6.6	5.9	5.1	4.4	3.6	4.0	4.7	5.4	6.1
Denmark	4.0	-0.2	1.6	1.9	1.5	2.4	0.8	0.5	0.3	0.9	1.4	1.9
Estonia	9.6	7.7	6.4	5.0	3.0	2.5	2.6	3.1	4.1	4.4	4.4	4.8
Latvia	11.3	11.0	10.5	8.3	6.5	4.4	2.4	1.6	1.6	2.0	2.8	3.5
Lithuania	8.1	8.0	10.4	8.5	8.3	6.8	4.3	3.2	2.2	2.3	3.0	4.2
Hungary	2.5	1.5	0.9	0.4	0.7	1.3	1.6	2.2	2.9	3.3	3.8	4.4
Poland	6.7	6.7	6.0	6.7	6.1	5.7	5.3	4.3	4.4	4.9	5.2	5.4
Romania	6.2	5.9	5.7	6.5	6.8	6.5	5.9	5.0	4.9	4.8	5.1	5.5
Slovakia	8.7	9.7	10.7	12.2	10.1	9.0	7.6	5.6	5.9	6.7	7.1	7.4
Sweden	3.1	2.8	2.6	2.6	4.9	4.2	4.0	3.5	1.4	2.0	2.7	3.4
United Kingdom	3.0	3.2	3.1	2.8	2.4	1.9	1.5	1.0	1.1	1.3	1.7	2.1
EU27	3.3	2.8	2.9	2.5	2.4	2.2	1.7	1.6	1.5	1.7	1.9	2.1
USA	1.5	1.9	2.8	2.5	2.2	0.9	0.2	0.1	0.2	0.8	0.7	1.2
Japan	2.9	1.7	1.9	1.8	1.1	1.7	1.4	0.7	0.7	0.9	1.3	1.6

TABLE 4 : Gross domestic product per capita (percentage change on preceding year, 1992-2009)

	5-year averages				2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06	2003			X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	1.2	2.4	1.5	0.6	2.5	1.1	2.2	2.5	2.5	1.9	1.5	2.0
Germany	0.9	1.9	0.9	-0.3	1.1	0.8	3.0	2.6	2.6	2.2	2.0	2.3
Ireland	5.6	7.7	3.4	2.8	2.6	3.7	3.1	2.9	3.1	2.3	0.9	2.6
Greece	0.2	3.4	3.9	4.7	4.2	3.4	3.8	3.8	3.8	3.4	3.1	3.4
Spain	1.3	3.7	1.7	1.4	1.6	1.9	2.3	2.4	2.0	1.6	0.9	1.1
France	0.8	2.4	1.0	0.4	1.8	1.1	1.4	1.3	1.2	1.5	1.1	1.2
Italy	1.1	2.1	0.2	-0.8	0.5	-0.2	1.3	1.5	1.0	1.2	0.4	1.4
Cyprus	3.3	3.0	1.3	0.1	1.8	1.5	2.1	1.9	2.4	2.0	1.7	1.8
Luxembourg	1.1	5.1	3.0	0.9	3.4	3.4	4.4	4.2	4.1	3.8	2.7	3.7
Malta	4.1	2.7	1.2	-0.9	-0.4	2.8	2.6	2.6	3.1	2.3	2.1	2.4
Netherlands	1.9	3.1	1.1	-0.1	1.9	1.3	2.9	2.6	3.3	2.5	2.5	2.4
Austria	1.4	2.4	1.3	0.8	1.6	1.3	2.7	2.8	3.0	2.3	1.9	2.0
Portugal	1.4	3.3	0.2	-1.5	0.9	0.5	1.0	1.4	1.6	1.6	1.3	1.7
Slovenia	2.1	4.2	4.0	2.7	4.4	4.0	5.3	5.5	5.6	4.2	3.9	3.9
Finland	0.8	4.3	2.7	1.5	3.4	2.5	4.4	3.9	4.0	3.1	2.5	2.4
Euro area	1.1	2.5	1.0	0.2	1.4	1.0	2.2	2.2	2.1	1.9	1.4	1.8
Bulgaria	-2.2	3.1	6.3	5.6	7.2	6.8	6.6	6.8	6.7	6.5	6.3	6.7
Czech Republic	2.3	1.4	4.4	3.6	4.4	6.1	6.0	5.6	5.9	4.7	4.4	4.1
Denmark	2.2	2.1	1.6	0.1	2.1	2.2	3.6	1.7	1.4	0.9	0.8	1.1
Estonia	:	7.5	9.3	7.7	8.3	10.8	11.4	8.0	7.3	6.5	2.8	6.3
Latvia	-7.4	7.2	9.6	7.8	9.3	11.2	12.9	11.0	10.9	7.7	4.3	6.8
Lithuania	-7.9	5.7	8.6	10.8	7.9	8.6	8.3	9.0	9.4	7.6	6.6	6.4
Hungary	0.7	4.8	4.5	4.5	5.0	4.3	4.0	2.3	1.5	2.8	2.1	3.6
Poland	4.7	4.4	4.2	4.0	5.4	3.7	6.3	6.5	6.6	5.7	5.4	5.3
Romania	2.0	-0.7	6.4	5.5	8.7	4.4	8.1	6.3	6.4	6.3	6.5	6.2
Slovakia	:	2.7	5.9	4.8	5.1	6.5	8.5	8.6	10.3	6.9	6.9	6.1
Sweden	0.7	3.1	2.7	1.5	3.7	2.9	3.5	2.6	1.4	2.3	2.0	1.9
United Kingdom	2.2	2.8	2.1	2.4	2.8	1.2	2.3	2.6	2.6	1.8	1.3	2.0
EU27	1.2	2.7	1.6	0.9	2.1	1.4	2.6	2.6	2.5	2.2	1.7	2.1
USA	2.0	2.4	1.8	1.6	2.7	2.1	1.9	1.1	1.2	0.8	0.0	1.6
Japan	1.1	0.2	1.7	1.2	2.7	1.9	2.4	2.0	2.0	2.0	1.2	2.4

TABLE 5 : Domestic demand, volume (percentage change on preceding year, 1992-2009)

15.04.2008

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	1.2	2.4	1.9	0.9	2.8	2.1	3.0	3.1	3.0	2.0	1.9	2.0	1.7
Germany	1.5	1.5	0.1	0.6	-0.2	0.3	1.9	1.6	1.0	2.1	1.6	1.7	1.4
Ireland	4.2	7.9	5.4	4.4	3.8	8.1	5.7	3.8	3.5	2.3	0.3	3.2	2.7
Greece	1.2	4.0	5.0	6.6	4.9	3.0	5.4	4.7	4.6	4.3	3.9	4.0	3.7
Spain	0.8	5.0	4.4	3.8	4.8	5.1	4.8	4.5	4.3	3.2	2.4	2.3	1.4
France	0.7	3.0	2.1	1.7	3.2	2.3	2.4	2.1	2.2	2.3	1.7	2.2	1.5
Italy	-0.1	2.8	1.2	0.8	1.3	0.8	1.8	1.8	1.3	1.5	0.5	1.7	0.9
Cyprus	:	3.6	4.2	1.7	6.5	3.1	5.2	3.9	5.7	3.9	4.5	3.9	4.5
Luxembourg	1.6	5.9	2.8	3.1	3.3	4.4	0.8	4.7	5.6	4.1	3.7	3.8	3.4
Malta	:	1.4	2.4	5.8	1.9	5.7	2.3	1.4	2.8	2.3	2.3	2.1	2.3
Netherlands	2.1	3.9	1.0	0.4	0.5	0.9	3.4	2.6	2.7	2.5	2.3	2.2	1.2
Austria	2.0	1.8	1.3	2.5	1.6	1.3	2.4	2.4	2.8	2.2	1.9	1.8	1.4
Portugal	2.0	4.6	0.5	-2.0	2.5	1.5	0.3	1.0	1.6	1.3	1.4	1.8	1.2
Slovenia	5.2	4.2	4.1	5.0	5.1	2.1	5.8	6.5	7.3	4.3	4.0	3.4	3.6
Finland	-0.3	3.8	3.2	3.8	3.0	4.3	3.2	3.5	3.8	3.1	3.0	2.3	2.4
Euro area	1.1	2.8	1.7	1.5	1.9	1.8	2.7	2.5	2.3	2.4	1.8	2.1	1.5
Bulgaria	:	5.6	8.3	8.2	7.3	9.9	10.2	10.1	9.3	7.9	7.0	7.4	6.4
Czech Republic	6.2	1.2	3.7	4.2	3.1	1.6	5.7	4.9	5.6	4.6	4.5	4.9	4.3
Denmark	2.9	2.2	3.1	0.2	4.3	3.4	6.0	2.6	2.7	1.7	1.7	1.5	0.8
Estonia	:	6.4	10.9	9.1	8.1	7.5	19.1	9.0	7.6	5.9	1.8	5.5	3.8
Latvia	:	6.9	11.2	10.7	12.1	9.3	18.1	14.8	12.5	6.9	0.9	5.4	1.2
Lithuania	:	5.5	9.7	12.1	12.8	8.3	9.0	13.3	11.2	8.9	5.6	7.1	3.6
Hungary	0.6	4.9	3.7	6.2	3.8	1.3	1.1	-0.7	-0.3	0.9	0.7	2.7	2.7
Poland	5.4	4.5	3.8	2.7	6.0	2.4	7.3	8.7	7.3	7.2	6.9	6.2	5.9
Romania	1.4	0.4	9.0	8.4	12.0	7.9	12.7	11.8	13.2	9.7	9.0	8.5	7.5
Slovakia	:	2.5	4.9	-0.3	5.5	8.6	6.6	5.7	5.9	5.7	5.3	5.3	4.9
Sweden	0.0	2.6	2.3	1.7	2.0	3.2	3.4	4.0	4.3	3.1	1.6	2.2	1.9
United Kingdom	2.3	3.9	2.8	2.8	3.8	1.6	2.8	3.3	3.7	2.2	1.4	2.6	1.2
EU27	1.4	3.0	2.1	1.9	2.5	2.0	3.0	3.0	2.9	2.6	2.0	2.5	1.7
USA	3.4	4.2	3.0	2.8	4.1	3.1	2.8	1.6	1.7	0.9	0.1	1.9	-0.2
Japan	1.6	0.3	1.1	0.8	1.9	1.7	1.6	1.1	1.0	1.5	0.4	2.1	0.8

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					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	2.3	3.6	2.6	1.9	4.5	2.8	2.8	3.9	3.7	3.4	2.9	3.5	2.6
Germany	1.7	3.2	2.2	1.1	2.6	2.4	5.2	3.6	3.3	3.6	2.9	3.5	2.6
Ireland	8.5	12.3	4.9	2.4	5.6	6.7	5.1	5.3	5.7	4.0	2.7	4.6	3.7
Greece	1.6	5.0	4.6	6.0	6.1	3.0	5.4	4.9	4.8	4.5	4.1	4.3	4.0
Spain	2.3	5.8	4.2	3.8	4.7	4.6	4.9	4.5	4.5	3.5	2.7	2.8	2.1
France	1.5	4.0	2.2	1.1	3.4	2.4	3.1	2.3	2.3	2.6	1.8	2.5	1.6
Italy	1.4	2.7	1.3	0.2	2.1	0.9	2.7	2.0	2.1	1.8	1.1	2.0	1.4
Cyprus	:	4.5	3.3	0.9	6.0	3.6	5.0	3.9	5.3	3.9	4.3	3.9	4.4
Luxembourg	3.0	8.9	5.3	4.3	7.6	5.7	6.7	6.6	6.6	6.3	3.1	6.1	3.8
Malta	:	2.7	2.8	2.7	2.0	2.6	5.9	0.0	1.2	1.5	1.6	1.6	1.6
Netherlands	3.4	5.6	2.6	0.9	3.7	3.1	5.1	4.3	4.4	3.8	3.2	3.7	2.5
Austria	2.3	3.8	2.8	2.4	3.8	3.0	4.3	4.2	4.7	3.8	3.5	3.4	3.1
Portugal	2.7	4.8	1.3	-0.7	2.9	1.6	2.3	2.2	3.0	2.3	2.1	2.6	1.9
Slovenia	2.7	5.5	6.0	4.3	7.9	5.2	8.5	9.2	9.7	6.8	6.2	5.7	5.8
Finland	2.0	5.7	4.0	2.0	4.8	5.2	6.0	4.2	4.2	3.8	3.1	3.2	2.8
Euro area	2.0	4.0	2.5	1.4	3.4	2.6	4.2	3.4	3.4	3.2	2.6	3.1	2.2
Bulgaria	:	5.8	8.6	9.0	9.0	9.4	9.7	9.2	7.9	8.0	7.0	7.7	6.5
Czech Republic	7.3	4.4	6.6	5.3	9.7	5.8	9.4	9.3	9.5	8.4	7.5	7.6	8.3
Denmark	3.0	3.7	3.6	-0.2	3.8	5.0	7.1	3.0	3.1	2.5	2.2	2.2	1.7
Estonia	:	8.8	10.9	9.4	11.3	13.7	12.5	7.6	4.9	6.6	2.5	6.2	4.6
Latvia	:	6.6	10.7	9.2	11.4	12.1	14.9	13.6	12.1	7.4	2.8	6.5	3.2
Lithuania	:	5.7	10.5	10.3	10.1	11.2	10.0	11.7	8.9	9.7	6.9	7.8	4.8
Hungary	:	9.1	7.1	6.2	8.8	5.8	9.4	5.7	7.1	5.2	5.0	5.9	6.1
Poland	6.4	5.4	5.5	5.2	7.9	3.8	9.3	8.7	7.9	7.5	6.9	6.7	6.1
Romania	0.9	2.6	9.6	8.4	12.5	7.9	12.2	11.0	12.2	9.5	9.0	8.6	7.8
Slovakia	:	5.4	8.2	6.3	6.3	11.0	13.3	12.1	10.9	8.9	8.3	7.1	7.2
Sweden	1.9	4.3	3.7	2.4	5.0	4.4	5.4	4.6	4.8	4.1	2.9	3.5	2.8
United Kingdom	3.3	4.2	3.3	2.6	4.0	3.0	4.5	3.9	1.7	3.0	2.1	3.3	2.1
EU27	2.2	4.1	2.9	1.9	3.8	3.0	4.7	3.9	3.5	3.5	2.8	3.5	2.6
USA	3.8	4.2	3.2	2.7	4.6	3.5	3.3	2.1	2.3	1.7	1.0	2.6	0.6
Japan	1.7	0.5	2.0	1.6	3.2	2.3	2.6	2.0	2.0	2.3	1.3	3.0	1.5

TABLE 7 : Private consumption expenditure, volume (percentage change on preceding year, 1992-2009)

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	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	1.3	2.3	1.3	0.8	1.4	1.3	2.0	2.5	2.5	1.8	1.5	1.8	1.4
Germany	1.9	1.9	0.1	0.1	0.2	-0.1	1.0	-0.1	-0.4	2.0	0.6	1.4	1.4
Ireland	5.2	6.3	4.8	2.9	4.0	7.4	5.7	6.6	5.4	3.4	2.9	3.7	3.2
Greece	1.8	3.0	4.5	5.0	4.7	4.2	4.2	3.6	3.4	3.4	3.1	3.2	3.0
Spain	1.1	4.3	3.6	2.9	4.2	4.2	3.8	3.4	3.2	2.7	2.2	2.4	1.9
France	1.1	2.8	2.2	2.0	2.5	2.2	2.0	1.9	2.0	2.3	1.8	2.1	1.7
Italy	0.5	2.4	0.8	1.0	0.8	0.9	1.1	1.9	1.5	1.4	0.4	1.7	0.9
Cyprus	:	4.4	3.6	2.2	6.3	4.0	4.2	4.9	6.2	3.4	5.3	3.5	4.8
Luxembourg	1.7	4.3	2.9	1.0	2.1	3.7	2.0	2.1	3.0	3.2	3.4	3.0	3.2
Malta	:	3.6	1.5	3.9	2.4	1.9	0.7	2.7	2.8	2.8	2.3	2.7	2.5
Netherlands	2.1	3.9	0.3	-0.2	1.0	0.7	-0.8	1.9	2.1	2.0	2.2	1.6	0.9
Austria	2.1	1.7	1.4	1.3	1.8	2.0	2.1	1.7	1.4	1.9	1.4	2.1	1.5
Portugal	2.1	3.8	1.4	-0.1	2.5	2.0	1.1	1.2	1.5	1.3	1.2	1.7	1.4
Slovenia	5.1	3.0	3.0	3.4	3.0	2.7	4.0	4.2	3.1	4.0	3.2	3.5	3.4
Finland	0.5	3.2	3.5	4.8	3.0	3.3	4.1	3.5	3.7	3.4	3.0	2.3	2.6
Euro area	1.4	2.7	1.4	1.3	1.6	1.6	1.8	1.7	1.5	2.1	1.4	1.9	1.5
Bulgaria	-1.4	2.0	6.8	5.5	5.9	6.1	9.5	7.3	5.3	7.0	5.0	6.5	4.8
Czech Republic	6.2	1.5	3.8	6.0	2.9	2.3	5.4	6.1	5.6	4.9	3.8	5.3	4.2
Denmark	2.4	1.0	3.2	1.0	4.7	5.2	3.8	2.1	2.5	1.9	2.1	1.8	1.4
Estonia	:	5.9	10.6	9.7	6.6	10.7	14.9	12.9	9.0	7.7	2.6	6.7	4.3
Latvia	:	4.7	11.5	8.2	9.8	11.2	21.2	17.5	14.2	8.0	3.0	5.0	1.0
Lithuania	:	4.9	10.4	10.2	12.2	11.9	11.9	12.9	11.6	9.3	6.6	7.2	3.7
Hungary	:	4.8	5.3	8.3	2.7	3.4	1.8	-0.6	-0.5	0.3	0.3	1.6	1.5
Poland	4.8	4.6	3.3	1.9	4.3	2.0	4.8	6.3	5.2	6.2	5.6	5.2	4.7
Romania	3.1	0.3	10.1	8.4	14.6	9.9	12.4	11.0	11.0	9.4	8.2	8.4	7.1
Slovakia	:	3.8	4.8	1.7	4.6	6.5	5.6	6.9	7.1	6.2	5.5	5.6	5.3
Sweden	0.0	3.0	2.5	2.0	2.6	2.7	2.5	3.0	3.1	3.5	2.0	3.0	1.8
United Kingdom	2.4	3.9	2.7	2.9	3.4	1.5	2.0	3.0	3.1	2.1	1.1	2.2	0.8
EU27	1.7	2.9	1.9	1.8	2.2	1.8	2.1	2.3	2.1	2.4	1.6	2.2	1.6
USA	3.3	4.2	3.1	2.8	3.6	3.2	3.1	2.9	2.9	1.3	0.8	1.4	-0.7
Japan	2.2	0.6	1.3	0.4	1.6	1.3	2.0	1.7	1.4	1.6	0.7	1.8	0.7

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					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	1.2	2.0	1.3	2.1	1.8	-0.2	0.0	2.4	2.3	2.5	2.4	2.3	2.2
Germany	2.4	1.1	0.3	0.4	-1.5	0.5	0.9	1.7	2.1	1.4	1.4	1.4	1.4
Ireland	0.6	10.8	5.4	3.3	3.6	5.2	5.5	5.0	6.7	3.5	3.5	3.0	1.6
Greece	1.0	4.3	1.9	-1.0	2.7	1.4	-0.7	4.3	7.4	3.1	3.6	3.3	3.3
Spain	2.1	3.8	5.2	4.8	6.3	5.5	4.8	4.9	5.1	5.0	5.0	4.9	4.3
France	1.8	1.0	1.7	2.0	2.3	0.9	1.4	1.8	1.4	1.7	1.4	1.7	1.4
Italy	-1.0	1.6	1.9	1.9	2.2	1.9	0.8	0.7	1.2	1.3	1.0	1.2	1.2
Cyprus	:	5.3	3.5	6.0	-5.5	3.4	7.4	-0.5	-0.1	4.4	5.5	4.2	3.9
Luxembourg	4.1	4.8	3.7	4.4	5.1	2.4	2.1	3.1	3.0	3.0	3.7	3.0	3.6
Malta	:	0.0	2.4	3.3	0.6	0.2	4.2	1.0	0.6	1.1	1.6	1.2	1.2
Netherlands	1.7	2.9	3.0	2.9	-0.1	0.0	9.4	2.4	2.7	2.3	1.1	2.4	1.5
Austria	2.6	1.5	1.7	1.6	1.4	1.9	2.1	1.9	2.5	2.1	3.3	0.6	0.4
Portugal	1.6	3.8	1.5	0.2	2.6	3.2	-1.2	-0.3	0.3	0.4	0.3	0.5	0.5
Slovenia	2.2	3.8	3.2	1.9	3.1	3.2	4.4	2.6	1.4	3.0	2.9	2.6	2.6
Finland	-0.6	1.5	1.7	1.5	1.7	1.9	0.6	1.1	0.8	2.2	1.9	1.7	1.4
Euro area	1.4	1.7	1.8	1.8	1.4	1.5	2.0	2.0	2.3	2.1	1.9	2.0	1.7
Bulgaria	-15.4	5.2	3.4	7.7	3.8	2.5	-1.3	1.5	3.1	2.5	4.1	3.0	4.1
Czech Republic	-1.7	1.9	2.4	7.1	-3.5	2.2	0.0	0.8	0.9	0.8	-0.1	0.6	0.1
Denmark	2.6	2.2	1.5	0.7	1.8	0.9	2.0	1.8	1.7	1.8	1.7	1.5	1.3
Estonia	:	0.1	1.9	0.3	3.0	1.6	2.6	3.4	4.8	2.9	3.9	2.6	3.0
Latvia	:	2.8	2.7	1.9	2.1	2.7	4.9	4.5	4.8	4.0	4.5	3.0	3.0
Lithuania	:	1.7	4.4	3.8	7.7	3.6	5.5	5.3	3.8	4.9	4.6	4.5	5.4
Hungary	-1.7	2.1	4.0	5.3	1.8	2.4	4.7	-4.7	-6.3	-1.7	-1.7	2.8	3.1
Poland	3.3	2.4	4.1	4.9	3.1	5.2	5.8	1.8	0.4	1.6	0.7	1.9	1.3
Romania	3.6	0.5	2.1	7.7	-4.9	8.5	-3.1	5.4	5.6	4.5	4.1	4.0	3.5
Slovakia	:	1.4	3.9	4.2	-2.0	3.5	10.1	2.1	0.7	2.9	2.4	2.8	2.8
Sweden	0.4	0.8	0.8	0.4	-0.2	0.4	1.5	1.8	0.8	1.3	1.2	0.7	1.3
United Kingdom	0.6	1.9	2.9	3.5	3.2	2.7	1.7	2.0	1.9	2.1	2.2	1.7	1.6
EU27	0.8	1.8	2.0	2.1	1.6	1.7	2.0	2.0	2.0	2.0	1.9	1.9	1.7
USA	0.0	2.3	2.4	2.8	1.8	0.9	1.6	1.6	1.9	1.8	2.0	1.9	2.1
Japan	3.1	2.8	1.6	2.3	1.9	1.6	-0.4	0.7	0.8	0.8	1.0	0.7	0.8

TABLE 9 : Total investment, volume (percentage change on preceding year, 1992-2009)

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	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	0.7	3.9	3.0	-0.2	7.1	6.7	4.2	5.6	5.1	2.1	2.2	2.2	1.9
Germany	0.7	1.8	0.0	-0.3	-0.2	1.0	6.1	5.8	5.0	2.9	3.4	3.1	1.7
Ireland	7.5	10.3	6.1	5.6	6.9	11.7	3.1	0.6	0.2	-0.5	-7.4	2.6	2.5
Greece	-0.2	8.1	9.4	15.4	6.0	0.7	14.8	7.9	5.9	7.0	5.8	6.3	5.5
Spain	-0.3	7.6	5.6	5.9	5.1	6.9	6.8	6.3	6.0	3.0	1.4	0.6	-1.5
France	-0.9	5.0	2.4	2.2	3.6	4.0	3.7	3.5	3.9	3.1	2.0	3.1	1.6
Italy	-0.9	3.7	1.6	-1.2	2.3	0.7	2.5	2.9	1.2	2.0	0.5	2.1	0.5
Cyprus	:	1.7	6.4	1.2	10.0	6.0	7.3	4.8	6.3	4.7	4.2	4.8	4.0
Luxembourg	1.1	8.2	3.0	2.4	2.1	2.1	3.1	10.6	10.7	6.6	5.2	5.7	3.8
Malta	:	-0.1	1.4	23.1	-0.9	5.9	3.0	-2.9	0.3	1.5	3.5	0.6	3.0
Netherlands	3.3	4.9	0.4	-1.5	-1.6	3.0	7.2	4.5	5.1	3.6	3.0	3.5	1.3
Austria	1.1	2.4	0.7	5.9	0.1	0.3	3.8	5.7	4.8	3.2	2.4	2.4	2.1
Portugal	2.7	7.2	-2.6	-7.4	0.2	-0.9	-1.0	0.9	3.2	2.3	2.9	3.4	1.4
Slovenia	6.9	8.1	5.3	7.4	7.3	2.5	8.4	14.4	17.2	6.2	6.5	3.8	4.8
Finland	-3.8	7.5	2.5	4.0	3.6	3.5	4.7	5.3	7.7	4.0	4.7	3.1	3.5
Euro area	0.3	4.1	2.0	1.4	2.4	3.0	5.0	4.7	4.3	2.9	2.0	2.6	1.2
Bulgaria	:	13.0	14.7	13.9	13.5	23.3	14.7	25.0	21.7	14.0	14.0	12.0	11.0
Czech Republic	10.9	0.3	3.4	0.4	3.9	2.3	5.5	6.5	6.1	6.5	7.7	6.6	7.4
Denmark	4.3	4.8	4.7	-0.2	3.9	6.2	14.0	4.5	6.0	0.8	0.9	1.1	-0.9
Estonia	:	10.1	15.8	19.2	4.4	9.9	22.4	11.9	7.8	4.6	2.1	4.9	3.9
Latvia	:	17.4	17.7	12.3	23.8	23.6	16.4	14.0	2.9	6.0	-5.0	7.0	1.0
Lithuania	:	8.1	13.7	14.1	15.5	10.9	17.4	19.8	15.7	11.9	4.5	8.2	2.6
Hungary	2.7	8.2	4.4	2.2	7.6	5.3	-2.8	3.3	1.0	4.8	4.3	5.6	5.8
Poland	9.9	6.6	4.2	-0.1	6.4	6.5	15.6	21.6	20.5	14.7	15.3	12.1	12.0
Romania	10.4	1.2	11.9	8.6	11.1	12.7	19.3	18.5	28.9	14.2	13.4	11.2	10.3
Slovakia	:	1.4	5.4	-2.7	4.8	17.6	8.1	7.2	7.9	6.6	7.0	6.1	6.8
Sweden	-1.4	4.4	4.3	1.4	5.7	8.9	7.7	10.1	8.0	4.6	3.9	2.5	3.4
United Kingdom	2.3	5.7	3.9	1.1	5.9	1.5	7.6	5.3	6.2	2.9	2.9	4.8	2.2
EU27	2.0	4.3	2.6	1.4	3.2	3.3	6.0	5.6	5.4	3.5	2.8	3.4	2.0
USA	6.9	6.0	2.6	3.0	6.0	5.9	2.5	-1.6	-1.2	-0.9	-4.0	2.8	-0.7
Japan	-0.3	-1.6	0.0	-0.5	1.4	3.1	1.3	0.8	-0.1	2.6	-0.3	4.5	1.5

TABLE 10 : Investment in construction, volume (percentage change on preceding year, 1992-2009)

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	1.4	1.4	3.5	0.1	5.4	9.9	4.0	3.7	4.2	1.7	1.3	1.8	1.1
Germany	2.9	-1.6	-2.1	-1.6	-3.8	-3.1	4.3	2.2	2.3	1.9	0.9	1.6	0.9
Ireland	7.1	10.3	7.1	7.4	7.3	10.0	5.6	-2.8	-2.0	-2.4	-11.8	1.8	1.6
Greece	-3.1	5.9	7.5	11.0	3.7	-1.0	21.6	9.2	4.0	7.1	4.0	6.7	4.1
Spain	-0.9	6.6	6.0	6.2	5.4	6.1	6.0	4.4	4.0	1.3	-0.7	-3.3	-4.8
France	:	:	2.1	2.2	3.4	4.0	2.3	3.0	3.8	2.4	1.1	2.3	0.6
Italy	-2.2	4.1	2.5	2.4	2.2	0.5	1.6	4.1	2.2	2.2	0.4	2.1	0.4
Cyprus	:	-0.1	7.9	9.6	10.0	7.8	6.0	4.3	5.3	4.1	3.8	4.3	3.5
Luxembourg	4.1	6.2	4.2	9.7	-4.5	2.5	0.8	8.3	5.2	5.3	4.0	4.3	3.1
Malta	:	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	1.4	3.7	-0.9	-3.9	-1.9	2.8	3.8	3.8	6.0	3.5	2.3	3.3	1.0
Austria	2.1	-0.4	1.3	4.9	1.3	0.1	5.1	4.6	3.7	2.8	2.3	2.2	2.3
Portugal	3.3	6.5	-5.1	-9.7	-1.8	-4.8	-5.9	-1.8	-0.1	0.8	2.3	2.0	1.9
Slovenia	2.5	4.8	5.0	5.5	5.9	2.3	8.4	16.9	20.8	6.7	7.8	3.2	4.6
Finland	-5.9	7.8	2.7	1.4	4.9	4.2	4.9	5.5	6.8	3.5	4.4	2.6	2.9
Euro area	:	:	1.4	1.4	1.1	1.5	3.8	3.5	3.2	2.2	0.8	1.3	0.3
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:	:
Czech Republic	:	:	:	:	:	:	:	8.0	7.4	8.0	9.1	8.2	8.6
Denmark	3.2	2.1	4.5	2.5	4.8	7.6	12.9	4.7	2.3	-0.6	-1.2	0.9	-0.8
Estonia	:	:	:	:	:	:	:	:	-2.2	:	-1.2	:	-0.5
Latvia	:	:	:	:	:	:	:	:	:	:	:	:	:
Lithuania	:	4.1	13.7	19.7	5.8	11.3	21.2	24.8	15.4	14.2	3.3	9.8	2.0
Hungary	:	:	:	:	:	:	:	-2.4	-6.8	2.3	3.1	3.6	5.3
Poland	:	5.6	3.5	-0.3	5.3	5.0	11.9	20.0	13.4	13.8	13.3	10.8	11.2
Romania	:	:	:	:	:	:	:	29.5	31.3	21.5	13.8	17.0	9.8
Slovakia	:	1.6	2.1	-4.4	11.7	11.6	-1.7	3.2	6.2	3.9	6.6	4.5	7.1
Sweden	-7.4	0.8	4.2	-2.2	6.3	4.7	9.9	8.0	6.6	4.5	1.7	2.4	1.7
United Kingdom	0.9	2.6	5.7	3.9	6.7	2.9	9.3	6.1	4.7	2.6	3.1	4.1	2.1
EU27	:	:	:	:	:	:	:	:	:	:	:	:	:
USA	3.9	3.4	1.8	3.3	5.2	3.4	-0.3	-4.6	-4.2	-4.6	-9.5	2.5	-3.7
Japan	:	:	:	:	:	:	:	:	:	:	:	:	:

TABLE 11 : Investment in equipment, volume (percentage change on preceding year, 1992-2009)

15.04.2008

	5-year averages				2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06						X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	-0.5	6.2	1.8	-2.3	7.7	4.0	4.0	4.0	7.6	5.9	2.5	3.2	2.5	2.8
Germany	-2.9	6.3	2.4	1.2	4.6	6.0	8.3	10.5	8.2	3.8	6.2	4.5	2.6	2.6
Ireland	9.6	9.3	3.2	-0.9	7.2	19.4	-8.2	13.0	12.6	6.0	10.0	5.0	6.0	6.0
Greece	7.4	11.2	11.9	22.9	8.0	1.7	6.5	6.7	9.4	7.8	8.6	6.3	7.6	7.6
Spain	-0.1	9.1	5.1	4.1	5.1	9.2	10.4	12.2	11.5	5.9	4.3	5.8	1.5	1.5
France	:	:	1.8	1.4	2.2	3.6	5.9	4.4	4.6	4.3	2.7	4.2	2.0	2.0
Italy	-0.1	6.1	0.9	-4.9	3.0	1.3	3.5	1.9	-0.1	1.8	0.4	2.0	0.4	0.4
Cyprus	:	5.3	3.9	-13.0	10.3	2.2	10.2	6.0	8.4	6.0	5.0	6.0	5.0	5.0
Luxembourg	-4.2	11.0	-0.3	-12.7	18.6	-1.1	4.9	14.7	20.0	8.5	6.5	7.5	4.0	4.0
Malta	:	:	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	5.0	6.0	2.9	5.0	-2.5	3.7	14.4	5.5	9.2	4.0	4.0	3.9	1.8	1.8
Austria	-0.5	5.5	-0.4	7.7	-2.3	1.0	1.5	7.7	6.3	3.8	2.5	2.8	1.8	1.8
Portugal	1.1	9.1	-0.9	-4.6	5.1	-0.3	4.0	3.9	6.9	3.8	3.6	4.7	0.9	0.9
Slovenia	9.7	11.8	5.8	12.4	8.5	3.1	8.3	12.0	12.6	6.0	4.0	5.0	4.6	4.6
Finland	-1.4	6.7	1.2	7.0	0.4	-0.2	4.1	4.4	6.6	4.4	4.9	3.2	4.2	4.2
Euro area	:	:	2.4	1.2	3.4	4.6	6.7	7.1	6.4	3.9	3.9	4.0	2.1	2.1
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:	:	:
Czech Republic	:	:	:	:	:	:	:	4.5	4.3	4.4	5.9	4.3	5.6	5.6
Denmark	3.3	6.6	5.1	-4.0	5.6	12.1	15.9	4.6	11.9	1.7	3.2	1.1	-1.6	-1.6
Estonia	:	:	:	:	:	:	:	:	17.0	:	4.8	:	7.5	7.5
Latvia	:	:	:	:	:	:	:	:	:	:	:	:	:	:
Lithuania	:	13.7	14.3	7.5	31.9	10.2	12.7	14.0	13.1	9.0	6.0	6.0	3.0	3.0
Hungary	:	:	:	:	:	:	:	11.7	10.9	8.2	6.6	8.0	7.0	7.0
Poland	:	7.1	5.3	-1.5	9.0	9.9	19.6	24.0	30.4	16.0	18.0	14.0	13.0	13.0
Romania	6.2	9.3	13.8	18.0	8.2	17.8	19.3	9.0	26.7	7.0	13.0	5.0	11.0	11.0
Slovakia	:	2.5	7.9	-0.2	-0.5	24.0	15.2	10.2	7.8	8.6	7.4	7.4	6.7	6.7
Sweden	5.1	5.9	4.5	4.8	3.9	12.3	5.6	14.0	11.1	5.1	5.0	2.7	5.0	5.0
United Kingdom	4.6	8.1	1.8	-3.2	5.0	0.3	6.0	4.4	9.1	3.1	2.8	5.7	2.2	2.2
EU27	:	:	:	:	:	:	:	:	:	:	:	:	:	:
USA	10.3	8.6	3.7	2.7	7.0	9.2	6.0	1.0	1.3	2.1	0.4	3.0	1.5	1.5
Japan	:	:	:	:	:	:	:	:	:	:	:	:	:	:

TABLE 12 : Public investment (as a percentage of GDP, 1992-2009)

	5-year averages				2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06						X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	1.6	1.8	1.7	1.7	1.6	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Germany	2.4	1.8	1.5	1.6	1.4	1.4	1.4	1.5	1.5	1.6	1.6	1.6	1.6	1.6
Ireland	2.2	3.2	3.8	3.8	3.6	3.4	3.7	4.1	4.2	4.4	4.5	4.3	4.5	4.5
Greece	3.0	3.4	3.3	3.6	3.7	3.0	3.1	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Spain	3.7	3.2	3.6	3.6	3.4	3.6	3.8	3.9	3.8	4.0	3.8	4.0	3.8	3.8
France	3.2	3.0	3.1	3.1	3.1	3.3	3.2	3.4	3.3	3.4	3.2	3.4	3.2	3.2
Italy	2.4	2.3	2.3	2.5	2.4	2.4	2.4	2.4	2.4	2.5	2.4	2.5	2.4	2.4
Cyprus	:	:	3.3	3.4	4.0	3.1	3.0	3.0	3.1	3.0	2.9	3.0	2.9	2.9
Luxembourg	4.2	4.0	4.4	4.6	4.3	4.5	3.6	4.0	3.9	3.9	4.0	3.8	4.1	4.1
Malta	:	4.0	4.4	4.7	4.0	4.9	4.2	4.1	4.1	3.9	3.9	3.4	3.3	3.3
Netherlands	2.5	3.1	3.4	3.6	3.2	3.3	3.3	3.3	3.4	3.2	3.5	3.2	3.4	3.4
Austria	3.1	1.6	1.1	1.2	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Portugal	3.7	4.0	3.0	3.1	3.1	2.9	2.3	2.2	2.4	2.2	2.4	2.2	2.4	2.4
Slovenia	:	3.2	3.4	3.3	3.5	3.2	3.7	3.7	3.7	3.6	3.7	3.4	3.6	3.6
Finland	2.9	2.8	2.7	2.9	2.9	2.6	2.4	2.4	2.5	2.5	2.5	2.6	2.5	2.5
Euro area	2.8	2.5	2.5	2.5	2.5	2.5	2.5	2.6	2.6	2.6	2.6	2.7	2.6	2.6
Bulgaria	:	3.1	3.4	2.7	2.9	4.2	4.2	4.3	4.8	4.8	5.4	5.5	5.9	5.9
Czech Republic	:	3.8	4.6	4.5	4.8	4.9	5.0	5.2	4.8	5.6	4.8	6.3	4.9	4.9
Denmark	1.8	1.7	1.8	1.6	1.9	1.8	1.9	1.7	1.8	1.8	1.9	1.8	1.9	1.9
Estonia	:	4.3	4.1	4.2	3.4	3.7	4.5	4.9	4.4	5.2	4.4	5.4	4.8	4.8
Latvia	:	1.5	3.0	2.4	3.1	3.4	4.7	5.0	5.7	5.5	5.4	5.8	5.6	5.6
Lithuania	:	2.4	3.4	3.0	3.4	3.5	4.2	4.7	5.2	4.9	5.2	5.0	5.2	5.2
Hungary	:	3.1	4.1	3.5	3.5	4.0	4.4	3.6	3.6	3.5	3.6	3.6	3.3	3.3
Poland	:	3.4	3.5	3.3	3.4	3.4	3.9	4.6	4.1	5.0	4.5	5.3	4.8	4.8
Romania	:	:	3.7	3.2	3.0	3.9	5.1	4.7	5.5	4.8	5.8	5.0	6.1	6.1
Slovakia	:	3.6	2.5	2.6	2.4	2.1	2.2	2.1	1.9	2.1	1.9	2.1	1.9	1.9
Sweden	2.7	3.0	3.0	2.9	2.9	3.0	3.1	3.0	3.1	3.1	3.2	3.0	3.2	3.2
United Kingdom	1.8	1.3	1.4	1.5	1.7	0.7	1.8	1.9	1.8	2.1	2.0	2.1	1.9	1.9
EU27	:	2.4	2.4	2.4	2.4	2.3	2.5	2.6	2.6	2.7	2.6	2.8	2.6	2.6
USA	2.5	2.6	2.7	2.7	2.6	2.6	2.7	3.4	3.4	3.5	3.5	3.5	3.6	3.6
Japan	6.2	5.5	4.0	4.3	3.9	3.6	3.2	3.2	3.1	3.0	3.0	2.9	2.8	2.8

TABLE 13 : Output gap relative to potential GDP (deviation of actual output from potential output as % of potential GDP, 1992-2009) ¹

15.04.2008

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	-1.0	0.5	-0.1	-0.7	0.3	-0.3	0.1	-0.2	0.3	-0.5	-0.3	-0.7	-1.0
Germany	0.3	0.1	-1.1	-1.5	-1.6	-1.8	-0.3	0.3	0.7	0.6	0.9	0.9	0.8
Ireland	-3.2	2.5	0.8	1.3	-0.1	0.1	0.1	-0.7	0.2	-1.2	-1.4	-1.3	-2.0
Greece	-1.7	-1.1	0.9	0.7	1.4	1.3	1.3	1.3	1.5	1.2	1.1	1.2	0.7
Spain	-2.1	0.5	0.0	0.3	-0.2	-0.6	-0.5	-0.5	-0.4	-0.9	-1.2	-1.8	-2.1
France	-1.3	0.5	0.2	-0.2	0.3	0.0	0.1	-0.3	-0.2	-0.3	-0.5	-0.6	-0.8
Italy	-1.1	0.5	0.0	-0.2	0.0	-0.6	-0.3	-0.8	-0.3	-0.9	-1.0	-1.0	-1.6
Cyprus	:	0.4	-0.4	-0.2	-0.8	-1.3	-1.3	-1.1	-0.6	-0.8	-0.6	-0.6	-0.6
Luxembourg	-0.2	0.2	-0.5	-1.4	-0.7	-0.9	-0.3	0.0	0.3	-0.2	-0.5	-0.6	-1.3
Malta	:	2.0	-1.3	-1.4	-3.2	-2.1	-1.0	-0.6	-0.1	-0.1	0.0	0.5	0.0
Netherlands	-1.0	1.6	-1.4	-2.1	-1.6	-2.0	-1.1	-0.4	0.3	0.0	0.7	0.3	0.4
Austria	-0.2	0.7	-1.1	-1.7	-1.4	-1.4	-0.2	0.4	0.9	0.8	0.9	0.8	0.6
Portugal	-1.6	1.6	-0.9	-1.3	-1.3	-1.7	-1.6	-1.7	-1.1	-1.2	-1.0	-0.8	-1.0
Slovenia	:	0.4	-1.0	-1.8	-1.4	-1.3	0.2	0.9	1.4	0.8	0.9	0.3	0.2
Finland	-5.1	2.0	-0.9	-1.5	-1.1	-1.6	-0.2	0.4	0.8	0.5	0.3	0.1	-0.4
Euro area	-1.0	0.5	-0.4	-0.8	-0.6	-0.9	-0.2	-0.2	0.2	-0.1	-0.1	-0.2	-0.5
Bulgaria	:	-2.3	0.8	0.0	1.1	1.4	1.6	0.7	1.4	-0.1	0.8	-0.6	0.2
Czech Republic	:	-2.0	-1.7	-3.0	-2.6	-0.8	0.8	2.1	2.0	2.1	1.4	1.4	1.1
Denmark	-1.4	1.4	-0.4	-1.5	-1.0	-0.4	1.2	0.7	0.7	-0.2	-0.3	-0.9	-1.0
Estonia	:	-1.1	1.2	-0.6	-0.3	1.9	4.7	2.1	4.0	0.1	-0.5	-1.7	-2.9
Latvia	:	-0.5	0.2	-1.2	-0.8	0.5	3.2	2.7	4.8	0.8	1.0	-1.7	-3.5
Lithuania	:	-2.5	1.5	2.2	2.1	2.2	1.9	1.0	2.6	0.4	1.4	-0.6	-1.1
Hungary	:	-1.1	0.4	-0.6	0.4	1.0	1.8	0.1	0.2	-0.3	-0.8	0.0	-0.5
Poland	:	0.5	-0.4	-1.0	0.4	-0.4	0.6	0.9	1.2	0.4	0.5	-0.6	-0.7
Romania	:	-4.9	0.2	-2.0	1.7	1.1	3.4	2.1	3.0	1.3	2.6	0.3	1.2
Slovakia	:	-3.5	-2.9	-3.2	-3.4	-3.2	-1.6	1.0	1.9	1.3	2.7	0.8	2.5
Sweden	-3.3	-0.1	0.1	-1.2	0.1	0.6	1.5	0.6	0.6	0.8	0.3	0.5	-0.3
United Kingdom	-1.5	0.5	0.1	0.1	0.7	-0.1	0.0	-0.1	0.4	-0.4	-0.3	-0.6	-1.0
EU27	:	0.4	-0.3	-0.7	-0.3	-0.7	-0.1	-0.1	0.3	-0.1	-0.1	-0.3	-0.6

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			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	2.3	1.5	2.1	1.6	2.4	2.5	2.0	2.1	1.7	2.2	2.6	2.0	2.1
Germany	2.7	0.3	1.0	1.2	1.1	0.7	0.6	1.8	1.8	1.4	1.9	1.3	1.4
Ireland	2.7	5.2	2.8	2.5	2.1	2.6	2.3	2.1	0.9	2.2	1.7	2.2	1.4
Greece	11.5	4.7	3.5	3.5	3.4	3.3	3.4	3.1	3.1	3.2	3.5	3.2	3.6
Spain	4.7	3.0	4.1	4.1	4.0	4.2	4.0	3.1	3.1	3.1	2.6	2.9	2.0
France	1.6	1.1	2.0	1.9	1.6	1.7	2.3	1.9	2.3	2.1	2.3	2.0	2.0
Italy	4.4	2.3	2.6	3.1	2.6	2.1	1.7	2.6	2.3	2.4	2.8	2.0	2.1
Cyprus	3.6	3.0	2.9	5.1	3.3	2.3	2.8	2.5	3.1	3.0	3.7	2.6	2.7
Luxembourg	3.7	1.0	3.8	5.0	1.7	4.2	6.2	3.5	1.1	3.7	0.7	3.3	0.8
Malta	3.0	2.1	2.7	3.0	1.7	3.0	2.9	2.5	2.3	2.7	2.1	2.4	2.2
Netherlands	1.9	3.1	2.1	2.2	0.7	2.1	1.9	1.4	1.2	2.1	2.6	2.6	2.9
Austria	2.4	0.9	1.6	1.2	2.1	1.8	1.8	2.3	2.3	2.1	2.8	1.4	1.8
Portugal	6.4	3.5	3.0	3.2	2.4	2.5	2.7	2.9	3.0	2.4	2.1	2.3	2.4
Slovenia	47.9	7.2	4.0	5.6	3.3	1.7	2.0	2.8	3.9	4.2	4.0	2.9	3.3
Finland	1.7	2.4	0.6	-0.4	0.6	0.4	1.3	1.9	2.5	2.3	3.1	1.8	2.4
Euro area	3.1	1.6	2.1	2.2	1.9	1.9	1.9	2.2	2.2	2.1	2.4	2.0	2.0
Bulgaria	71.8	72.6	4.7	1.8	5.1	3.8	8.5	7.6	7.9	7.4	8.6	5.3	5.8
Czech Republic	13.4	5.7	1.9	0.9	4.5	-0.2	1.7	2.1	3.4	2.9	3.5	2.6	2.4
Denmark	1.4	2.1	2.3	1.6	2.3	3.1	2.0	2.3	1.5	2.9	3.1	2.9	2.5
Estonia	:	6.8	4.5	4.5	1.8	6.2	6.2	8.7	9.7	8.2	9.4	6.4	4.8
Latvia	98.4	4.3	6.8	3.6	7.0	10.2	9.9	15.7	13.3	10.5	15.1	6.5	7.6
Lithuania	160.7	3.1	2.8	-0.9	2.7	5.7	6.6	7.8	8.6	7.1	9.7	6.0	7.3
Hungary	21.8	11.5	4.8	5.8	4.4	2.2	3.7	5.9	5.4	4.0	4.5	3.3	3.7
Poland	30.3	8.3	2.2	0.4	4.1	2.6	1.5	2.9	3.0	3.2	4.9	3.3	3.1
Romania	115.1	62.2	17.0	24.0	15.0	12.2	10.8	7.7	10.8	5.7	9.4	5.2	8.6
Slovakia	:	6.6	4.1	5.3	5.9	2.4	2.9	2.5	1.1	2.6	2.4	3.0	2.4
Sweden	2.6	1.4	1.3	1.9	0.2	0.9	1.8	2.4	3.3	2.5	1.1	2.4	1.8
United Kingdom	2.9	2.3	2.7	3.1	2.6	2.3	2.7	3.1	3.1	2.1	2.0	2.3	2.2
EU27	19.1	2.3	2.3	2.4	2.2	2.0	2.1	2.8	2.5	1.9	2.5	2.2	2.2
USA	2.1	1.8	2.6	2.1	2.9	3.2	3.2	2.4	2.7	1.5	2.1	1.5	1.7
Japan	0.1	-0.7	-1.3	-1.6	-1.1	-1.2	-1.0	-0.4	-0.7	-0.2	-0.3	0.0	-0.2

TABLE 15 : Price deflator of private consumption (percentage change on preceding year, 1992-2009)

15.04.2008

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	1.8	1.7	2.2	1.7	2.5	2.8	2.5	1.8	2.0	2.1	3.5	1.9	2.2
Germany	2.4	1.0	1.4	1.5	1.6	1.5	1.4	1.8	1.7	1.6	2.1	1.6	1.5
Ireland	1.5	5.0	2.8	3.9	1.5	1.4	2.1	3.2	3.8	2.4	2.6	2.4	2.4
Greece	11.6	4.5	2.9	2.7	2.4	3.3	3.5	2.9	3.1	3.0	3.7	3.0	3.6
Spain	4.9	2.8	3.3	3.1	3.6	3.4	3.4	2.6	2.8	3.0	3.8	2.8	2.6
France	1.6	0.9	1.7	1.9	1.9	1.8	1.9	1.1	1.5	1.7	2.8	1.5	1.9
Italy	5.1	2.4	2.6	2.8	2.6	2.3	2.7	1.9	2.2	2.0	3.0	1.9	2.2
Cyprus	:	2.3	2.6	4.0	1.8	2.5	2.4	2.3	2.7	2.6	4.0	2.4	2.5
Luxembourg	2.8	2.3	2.2	2.1	2.6	2.9	3.0	2.2	2.3	2.4	3.4	2.1	2.4
Malta	:	1.9	2.0	0.8	2.3	2.6	2.5	1.0	1.0	2.7	3.6	2.4	2.4
Netherlands	2.4	2.9	2.1	2.4	1.0	2.1	2.3	2.2	1.7	2.3	2.7	2.8	2.8
Austria	2.8	1.4	1.6	1.6	1.9	1.7	1.6	1.8	2.1	2.0	3.0	1.9	2.0
Portugal	5.7	2.8	2.9	2.9	2.5	2.7	3.3	2.4	2.7	2.4	2.8	2.3	2.2
Slovenia	45.7	7.4	4.1	5.2	3.0	2.4	2.5	3.5	4.6	3.7	5.4	2.9	3.2
Finland	1.9	2.5	1.0	-0.4	1.0	0.6	1.6	1.7	1.6	2.1	3.1	1.9	2.1
Euro area	3.5	1.7	2.1	2.1	2.1	2.1	2.2	1.9	2.0	2.0	2.8	2.0	2.1
Bulgaria	80.5	70.1	3.9	0.2	4.4	5.2	5.7	6.5	6.8	6.5	8.1	5.1	4.8
Czech Republic	11.2	5.3	1.4	-0.4	3.3	0.9	2.3	3.0	2.9	3.8	5.0	3.2	2.7
Denmark	1.7	2.1	1.7	1.3	1.3	2.1	2.1	1.8	1.9	2.5	3.3	2.4	2.4
Estonia	:	6.6	2.4	1.0	1.7	2.7	3.8	4.4	5.8	6.3	8.8	4.9	4.5
Latvia	:	4.2	5.4	3.1	7.0	8.7	6.0	9.5	10.0	8.5	15.0	5.0	8.0
Lithuania	:	3.0	0.6	-0.9	-0.3	1.7	2.9	5.4	6.4	6.4	10.1	5.3	7.1
Hungary	:	11.8	3.9	4.1	4.6	3.8	3.3	7.8	6.6	4.9	6.3	2.7	3.7
Poland	31.6	8.9	2.0	0.4	3.0	2.1	1.2	2.3	2.4	2.8	4.1	3.0	3.1
Romania	117.3	60.5	12.5	15.2	13.9	7.3	5.2	3.6	4.7	3.5	7.0	3.4	4.6
Slovakia	:	7.4	4.8	6.5	7.4	2.6	4.9	2.3	2.6	2.6	4.2	3.1	3.4
Sweden	3.7	1.3	1.3	1.7	0.9	1.2	0.9	1.8	1.3	2.2	2.6	2.1	2.2
United Kingdom	3.4	2.0	2.0	1.9	1.7	2.5	2.4	2.3	2.6	2.1	2.8	2.0	2.2
EU27	19.4	2.6	2.1	2.1	2.1	2.2	2.2	2.4	2.2	1.7	3.0	2.1	2.2
USA	2.3	1.8	2.4	2.0	2.6	2.9	2.8	2.4	2.5	1.8	3.2	1.5	1.7
Japan	0.2	-0.2	-0.8	-0.9	-0.7	-0.8	-0.3	-0.5	-0.5	-0.2	0.2	0.2	0.1

TABLE 16 : Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1992-2009)

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	2.2	1.7	2.0	1.5	1.9	2.5	2.3	1.7	1.8	2.1	3.6	1.8	2.3
Germany	3.1	1.2	1.6	1.0	1.8	1.9	1.8	2.2	2.3	2.0	2.9	1.8	1.8
Ireland	2.2	3.0	3.2	4.0	2.3	2.2	2.7	2.8	2.9	2.2	3.3	2.0	2.4
Greece	11.6	3.7	3.4	3.4	3.0	3.5	3.3	2.8	3.0	3.1	3.7	3.1	3.6
Spain	4.7	2.4	3.3	3.1	3.1	3.4	3.6	2.6	2.8	2.9	3.8	2.7	2.6
France	2.0	1.2	2.1	2.2	2.3	1.9	1.9	1.5	1.6	1.7	3.0	1.6	2.0
Italy	4.6	2.1	2.4	2.8	2.3	2.2	2.2	1.9	2.0	2.0	3.0	1.9	2.2
Cyprus	4.3	2.7	2.6	4.0	1.9	2.0	2.2	2.0	2.2	2.3	3.8	2.1	2.5
Luxembourg	1.8	1.9	2.9	2.5	3.2	3.8	3.0	2.5	2.7	2.8	4.2	2.3	2.5
Malta	3.3	3.1	2.5	1.9	2.7	2.5	2.6	0.8	0.7	2.5	3.4	2.2	2.2
Netherlands	2.5	2.6	2.1	2.2	1.4	1.5	1.7	1.6	1.6	2.3	2.7	2.7	2.9
Austria	2.9	1.3	1.7	1.3	2.0	2.1	1.7	1.9	2.2	1.9	3.0	1.8	1.9
Portugal	5.6	2.7	2.9	3.3	2.5	2.1	3.0	2.4	2.4	2.4	2.8	2.3	2.3
Slovenia	:	8.0	4.3	5.7	3.7	2.5	2.5	3.5	3.8	3.7	5.4	2.9	3.3
Finland	1.5	1.9	1.1	1.3	0.1	0.8	1.3	1.5	1.6	2.4	3.4	2.1	2.3
Euro area	3.4	1.7	2.2	1.9	2.1	2.2	2.2	2.0	2.1	2.1	3.2	2.0	2.2
Bulgaria	87.7	:	5.5	2.3	6.1	6.0	7.4	7.1	7.6	7.3	9.9	5.8	5.9
Czech Republic	:	5.6	1.5	-0.1	2.6	1.6	2.1	3.0	3.0	3.8	6.2	3.2	2.7
Denmark	1.9	2.1	1.8	2.0	0.9	1.7	1.9	1.7	1.7	2.4	3.3	2.4	2.3
Estonia	120.7	6.1	3.3	1.4	3.0	4.1	4.4	6.3	6.7	7.3	9.5	4.8	5.1
Latvia	70.3	3.9	4.9	2.9	6.2	6.9	6.6	9.6	10.1	9.8	15.8	6.0	8.5
Lithuania	179.8	3.9	1.4	-1.1	1.2	2.7	3.8	5.6	5.8	6.5	10.1	5.2	7.2
Hungary	23.2	12.3	4.8	4.7	6.8	3.5	4.0	7.7	7.9	4.9	6.3	2.8	3.7
Poland	31.4	9.8	1.9	0.7	3.6	2.2	1.3	2.5	2.6	2.8	4.3	2.9	3.4
Romania	116.9	63.2	12.9	15.3	11.9	9.1	6.6	4.7	4.9	5.6	7.6	4.6	4.8
Slovakia	:	8.5	5.3	8.4	7.5	2.8	4.3	1.7	1.9	2.5	3.8	3.0	3.2
Sweden	2.4	1.5	1.5	2.3	1.0	0.8	1.5	1.6	1.7	2.0	2.4	2.0	1.9
United Kingdom	2.8	1.3	1.7	1.4	1.3	2.1	2.3	2.4	2.3	2.2	2.8	2.0	2.2
EU27	20.5	4.3	2.3	2.1	2.3	2.3	2.3	2.3	2.4	2.4	3.6	2.2	2.4
USA	2.9	2.5	2.6	2.3	2.7	3.4	3.2	2.7	2.8	1.9	3.6	1.5	1.6
Japan	0.7	0.1	-0.2	-0.3	0.0	-0.3	0.3	0.0	0.1	0.2	0.7	0.5	0.6

TABLE 17 : Profiles of quarterly harmonised index of consumer prices (percentage change on corresponding quarter in previous year, 2007-2009) 15.04.2008

	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	1.3	2.7	3.8	3.8	3.7	3.2	2.4	2.3	2.2	2.1
Germany	1.9	2.0	2.2	3.1	3.1	3.2	3.2	2.3	2.2	1.7	1.6	1.6
Ireland	2.8	2.8	2.6	3.2	3.6	3.4	3.3	3.0	2.7	2.3	2.2	2.3
Greece	2.9	2.6	2.8	3.6	4.2	3.6	3.4	3.7	3.8	3.6	3.5	3.6
Spain	2.5	2.4	2.4	4.0	4.5	4.1	3.9	2.8	2.4	2.5	2.6	2.9
France	1.3	1.3	1.4	2.5	3.3	3.2	3.0	2.6	2.3	2.1	2.0	1.8
Italy	2.0	1.9	1.7	2.6	3.3	3.3	2.9	2.5	2.3	2.2	2.1	2.1
Cyprus	1.4	1.8	2.3	3.2	4.4	4.2	3.3	2.8	2.5	2.4	2.3	2.2
Luxembourg	2.2	2.3	2.1	4.0	4.2	4.1	4.5	4.1	3.6	2.7	2.1	1.7
Malta	0.8	-0.9	0.4	2.5	4.0	4.0	3.2	2.4	2.4	2.2	2.1	2.0
Netherlands	1.5	1.9	1.3	1.7	1.9	2.3	3.2	3.3	3.1	3.2	2.7	2.8
Austria	1.8	1.9	2.0	3.2	3.1	3.6	3.0	2.3	2.2	1.7	1.8	2.0
Portugal	2.4	2.5	2.1	2.7	2.9	3.0	2.9	2.5	2.4	2.3	2.2	2.0
Slovenia	2.6	3.2	3.7	5.5	6.5	6.0	5.1	4.2	3.8	3.4	3.3	2.7
Finland	1.4	1.4	1.6	2.0	3.5	3.4	3.5	3.4	2.4	2.3	2.4	2.1
Euro area	1.9	1.9	1.9	2.9	3.4	3.4	3.2	2.7	2.4	2.2	2.1	2.1
Bulgaria	5.3	4.7	9.0	11.2	12.4	12.7	8.6	6.3	5.7	5.3	5.9	6.5
Czech Republic	1.7	2.6	2.7	4.9	7.5	6.7	5.9	4.9	2.9	2.7	2.7	2.7
Denmark	1.9	1.5	1.0	2.2	3.2	3.5	3.9	2.8	2.5	2.4	2.2	2.2
Estonia	5.1	5.8	6.7	9.2	11.3	10.2	9.3	7.5	5.6	5.6	4.8	4.4
Latvia	7.6	8.5	10.4	13.7	16.3	17.8	16.0	13.2	10.2	8.3	8.2	7.5
Lithuania	4.4	5.0	5.9	7.9	10.7	11.0	9.5	9.3	8.5	7.4	6.4	6.5
Hungary	8.8	8.5	7.3	7.1	6.9	6.6	6.4	5.3	4.1	3.9	3.5	3.2
Poland	2.0	2.3	2.4	3.7	4.5	4.6	4.5	3.8	3.6	3.5	3.3	3.3
Romania	3.9	3.9	5.1	6.8	8.0	8.6	7.4	6.5	5.4	4.9	4.6	4.4
Slovakia	2.1	1.7	1.4	2.4	3.4	3.8	4.1	3.8	3.3	3.2	3.2	3.1
Sweden	1.7	1.4	1.4	2.3	3.2	3.2	2.9	2.4	1.8	1.8	1.8	1.8
United Kingdom	2.8	2.6	1.8	2.1	2.4	2.7	3.2	2.7	2.3	2.2	2.1	2.1
EU27	2.3	2.3	2.2	3.1	3.7	3.8	3.7	3.1	2.6	2.4	2.3	2.3
USA	2.4	2.6	2.4	4.0	4.2	3.8	3.6	2.8	2.1	1.7	1.5	1.3
Japan	-0.1	-0.1	-0.1	0.5	0.9	0.8	0.7	0.4	0.5	0.6	0.6	0.6

TABLE 18 : Price deflator of exports of goods in national currency (percentage change on preceding year, 1992-2009)

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	0.0	3.2	1.4	-2.9	2.0	4.9	4.1	0.9	2.2	1.2	1.8	1.2	1.9
Germany	0.4	0.5	0.0	-1.0	-0.1	0.7	1.4	0.2	0.5	0.5	1.9	0.3	1.3
Ireland	1.1	3.3	-2.6	-8.9	-2.3	-0.8	0.0	-0.5	-2.7	1.0	-3.0	1.0	-1.0
Greece	7.5	4.4	2.9	0.4	2.6	4.8	4.1	2.3	2.4	2.2	2.8	2.1	2.6
Spain	3.5	2.1	1.6	-1.3	1.3	4.9	4.4	1.5	1.9	2.2	1.8	1.9	1.9
France	-0.8	0.0	-0.2	-2.5	0.5	1.3	2.3	0.6	0.3	1.7	1.5	1.6	1.5
Italy	5.0	3.8	2.6	-0.1	2.5	4.4	5.2	6.9	4.2	3.4	3.5	2.5	2.5
Cyprus	:	3.6	-0.1	-3.6	2.3	2.5	2.6	2.0	2.0	2.2	3.0	2.1	2.4
Luxembourg	-0.2	0.5	2.6	-1.9	7.2	6.6	1.7	1.5	5.0	1.0	2.5	1.0	1.5
Malta	:	1.4	0.2	-3.4	-6.4	-0.9	9.5	4.6	9.7	2.3	4.8	2.1	2.1
Netherlands	-0.9	0.9	0.5	-1.6	0.5	3.2	3.5	0.2	1.3	1.2	1.9	1.5	0.7
Austria	0.3	0.6	0.9	-0.9	1.2	2.1	2.6	1.3	1.8	1.1	1.4	0.9	0.8
Portugal	0.7	1.9	0.7	-2.5	1.1	1.8	4.2	2.9	2.6	1.8	3.4	1.3	1.4
Slovenia	39.9	5.3	2.8	2.0	2.6	2.7	2.8	3.8	3.2	3.0	3.5	2.0	2.5
Finland	3.7	-1.6	-0.4	-2.0	-0.6	1.0	3.0	2.8	1.0	0.4	0.5	0.3	0.7
Euro area	1.7	1.4	0.5	-1.7	0.7	2.2	2.8	1.4	1.3	1.4	1.9	1.2	1.4
Bulgaria	:	:	4.8	-0.6	6.5	7.5	17.0	3.8	5.9	3.3	3.4	2.5	4.5
Czech Republic	:	2.0	-1.7	0.0	2.1	-2.9	-1.1	-0.3	0.0	0.8	-6.0	1.0	1.8
Denmark	0.2	1.3	1.7	-0.7	0.6	5.5	3.7	-0.2	-0.7	1.3	1.7	1.4	1.7
Estonia	:	4.5	1.9	0.3	-0.9	4.0	10.9	3.9	5.5	2.5	5.0	2.5	5.0
Latvia	:	-0.2	9.1	7.9	13.6	10.1	11.2	10.0	13.3	6.5	6.0	5.5	4.5
Lithuania	:	0.8	2.8	-0.9	7.7	9.6	4.6	3.5	6.7	3.5	6.9	3.5	3.7
Hungary	:	8.6	-0.3	-0.4	-1.6	-0.7	6.5	-3.5	-5.0	1.5	3.9	1.8	3.4
Poland	21.1	6.5	3.8	5.9	9.4	-3.3	2.5	3.8	3.0	2.7	2.2	2.9	2.5
Romania	115.2	49.7	10.7	18.3	13.3	-0.2	5.5	1.8	2.0	3.0	14.0	2.6	6.5
Slovakia	:	5.0	1.1	1.4	2.7	-1.7	1.8	-4.4	-1.6	0.5	-0.4	0.7	0.8
Sweden	2.4	0.0	0.1	-2.4	-0.7	2.9	3.2	2.5	2.5	1.5	1.2	1.5	1.2
United Kingdom	3.1	-2.7	0.9	1.2	-0.2	1.4	2.0	2.6	3.1	2.4	10.7	2.1	2.9
EU27	:	5.5	0.7	-1.1	0.9	2.0	2.8	1.8	1.7	1.4	1.7	1.4	1.6
USA	-0.3	-1.4	2.3	2.0	3.7	3.1	3.3	3.4	3.7	3.0	4.3	2.0	2.8
Japan	:	-1.9	-0.2	-3.6	-1.3	1.4	3.8	3.4	2.0	3.0	0.5	2.0	1.0

TABLE 19 : Price deflator of imports of goods in national currency (percentage change on preceding year, 1992-2009)

15.04.2008

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	0.2	3.9	1.5	-2.3	2.8	4.8	4.4	0.5	2.0	1.2	2.3	1.1	1.9
Germany	-1.2	1.2	-0.1	-3.0	0.1	2.5	3.4	-0.1	-0.4	0.3	1.9	0.3	1.3
Ireland	1.7	2.4	-1.7	-8.4	-2.3	1.6	4.7	0.5	1.2	0.5	-2.0	0.8	1.0
Greece	7.2	4.3	2.1	0.9	0.9	3.6	4.1	0.4	3.1	1.7	3.0	1.4	2.7
Spain	2.9	2.1	1.1	-1.6	2.3	4.1	3.7	1.1	2.1	1.5	3.6	1.3	2.4
France	-1.0	0.2	-0.1	-2.3	0.7	3.1	2.5	0.8	0.8	1.5	2.4	1.1	1.7
Italy	5.2	3.8	3.3	-0.9	3.0	6.8	8.9	5.5	2.6	3.2	4.5	2.0	2.0
Cyprus	:	2.3	2.4	-0.9	4.0	6.4	2.3	1.2	2.4	1.6	3.7	1.4	2.5
Luxembourg	0.4	1.9	1.9	-2.6	6.7	7.4	-0.7	1.0	4.0	1.5	3.0	1.5	2.0
Malta	:	2.5	1.3	-4.3	-3.3	3.2	10.3	2.8	4.6	2.8	5.2	2.2	2.4
Netherlands	-1.3	0.2	0.2	-2.4	1.0	3.3	3.9	1.5	1.7	1.3	1.8	1.5	0.7
Austria	0.4	0.7	1.0	-0.9	0.7	3.0	4.0	1.1	1.1	1.3	1.4	2.0	1.2
Portugal	0.6	1.7	1.0	-2.1	2.2	3.0	4.7	0.8	1.3	1.5	4.9	1.3	0.8
Slovenia	36.0	5.5	3.1	1.5	3.9	5.2	3.3	4.0	3.5	1.8	4.7	1.5	2.1
Finland	3.2	-1.0	2.0	-0.4	2.2	5.5	7.1	3.5	2.6	1.3	2.4	1.5	1.6
Euro area	1.1	1.6	0.8	-2.2	1.3	3.7	4.2	1.3	1.2	1.3	2.5	1.1	1.6
Bulgaria	:	:	4.0	-3.2	5.9	10.0	11.4	1.2	7.3	0.7	2.4	0.9	2.7
Czech Republic	:	1.9	-1.7	-0.3	1.4	-0.9	0.0	-0.5	-1.2	0.9	-6.1	0.5	1.7
Denmark	-0.7	0.2	0.8	-1.3	-0.3	3.9	3.2	0.4	0.7	1.2	1.2	1.4	1.5
Estonia	:	2.7	2.4	-0.9	1.7	4.2	7.7	2.2	2.7	1.3	2.9	1.3	3.3
Latvia	:	2.2	9.1	6.9	8.2	12.3	12.4	7.0	5.5	3.5	4.0	3.0	4.0
Lithuania	:	-1.5	1.4	-3.4	-0.5	8.1	8.4	3.3	4.8	3.3	5.5	3.3	3.0
Hungary	:	9.1	0.6	0.1	-1.0	1.5	8.0	-3.5	-4.3	1.7	4.2	1.6	3.2
Poland	19.3	7.7	3.4	9.1	4.9	-4.2	2.8	2.5	1.8	1.7	0.4	2.2	2.2
Romania	125.4	41.2	6.7	15.4	8.7	-3.6	-1.0	-2.4	-5.9	0.5	11.0	0.2	2.0
Slovakia	:	4.6	1.4	1.7	2.3	-1.7	3.6	-4.4	-0.5	0.7	0.6	1.0	1.6
Sweden	2.8	1.5	1.3	-2.7	0.7	5.1	4.0	1.2	-0.5	0.5	3.0	1.0	1.5
United Kingdom	3.4	-2.8	0.4	-0.7	-0.6	3.8	2.7	0.8	0.9	2.8	12.8	1.7	3.0
EU27	:	5.0	0.8	-1.5	1.1	3.4	4.0	1.5	1.3	1.2	2.2	1.2	1.7
USA	-0.2	-1.7	3.3	2.9	5.0	6.4	4.2	3.1	3.6	4.3	9.1	2.0	1.5
Japan	:	-0.8	4.2	-1.5	2.8	9.3	12.7	5.0	6.7	4.5	3.5	3.5	3.0

TABLE 20 : Terms of trade of goods (percentage change on preceding year, 1992-2009)

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	-0.2	-0.7	-0.1	-0.6	-0.8	0.1	-0.3	0.4	0.2	0.1	-0.4	0.1	0.0
Germany	1.6	-0.7	0.1	2.0	-0.2	-1.8	-2.0	0.3	0.9	0.2	0.0	0.0	0.0
Ireland	-0.5	0.8	-0.9	-0.6	-0.1	-2.4	-4.5	-1.0	-3.9	0.5	-1.0	0.2	-2.0
Greece	0.3	0.2	0.7	-0.5	1.7	1.1	0.0	1.9	-0.7	0.5	-0.2	0.7	-0.1
Spain	0.6	0.0	0.6	0.2	-1.0	0.8	0.7	0.5	-0.2	0.7	-1.8	0.6	-0.4
France	0.1	-0.2	-0.1	-0.2	-0.2	-1.8	-0.2	-0.2	-0.5	0.2	-0.9	0.5	-0.2
Italy	-0.1	0.0	-0.7	0.8	-0.5	-2.3	-3.3	1.3	1.5	0.2	-1.0	0.5	0.5
Cyprus	:	1.3	-2.5	-2.7	-1.6	-3.7	0.3	0.8	-0.4	0.6	-0.7	0.7	-0.1
Luxembourg	-0.6	-1.4	0.7	0.8	0.4	-0.7	2.4	0.5	1.0	-0.5	-0.5	-0.5	-0.5
Malta	:	-1.1	-1.1	0.9	-3.2	-4.0	-0.7	1.8	4.9	-0.5	-0.4	-0.1	-0.3
Netherlands	0.4	0.7	0.3	0.8	-0.4	-0.1	-0.4	-1.3	-0.4	-0.1	0.1	0.0	0.0
Austria	-0.1	-0.1	-0.1	0.0	0.5	-0.9	-1.3	0.2	0.7	-0.1	0.0	-1.0	-0.4
Portugal	0.1	0.2	-0.3	-0.3	-1.1	-1.2	-0.4	2.0	1.2	0.4	-1.4	0.0	0.6
Slovenia	2.9	-0.2	-0.3	0.5	-1.2	-2.4	-0.4	-0.2	-0.4	1.2	-1.1	0.5	0.4
Finland	0.5	-0.6	-2.3	-1.5	-2.8	-4.3	-3.8	-0.7	-1.5	-0.9	-1.9	-1.2	-0.9
Euro area	0.5	-0.3	-0.2	0.5	-0.6	-1.5	-1.4	0.1	0.1	0.1	-0.6	0.1	-0.1
Bulgaria	:	:	0.8	2.6	0.6	-2.2	5.1	2.6	-1.4	2.6	1.0	1.6	1.8
Czech Republic	:	0.1	0.0	0.3	0.7	-2.0	-1.1	0.2	1.2	-0.1	0.1	0.5	0.1
Denmark	1.0	1.0	0.9	0.6	0.8	1.5	0.5	-0.6	-1.4	0.1	0.5	0.0	0.2
Estonia	:	1.7	-0.5	1.2	-2.5	-0.2	2.9	1.7	2.7	1.2	2.0	1.2	1.6
Latvia	:	-2.3	0.0	1.0	5.0	-2.0	-1.1	2.8	7.4	2.9	1.9	2.4	0.5
Lithuania	:	2.3	1.4	2.6	8.3	1.4	-3.5	0.2	1.8	0.2	1.3	0.2	0.7
Hungary	:	-0.4	-0.9	-0.5	-0.7	-2.2	-1.4	0.0	-0.7	-0.2	-0.2	0.2	0.2
Poland	1.5	-1.1	0.3	-2.9	4.3	1.0	-0.3	1.2	1.1	1.0	1.8	0.6	0.3
Romania	-4.5	6.0	3.7	2.5	4.3	3.5	6.6	4.3	8.4	2.5	2.7	2.4	4.4
Slovakia	:	0.4	-0.3	-0.3	0.4	0.0	-1.8	0.0	-1.1	-0.2	-1.0	-0.2	-0.8
Sweden	-0.4	-1.5	-1.2	0.3	-1.4	-2.0	-0.8	1.3	3.0	1.0	-1.7	0.5	-0.3
United Kingdom	-0.3	0.1	0.4	1.9	0.4	-2.2	-0.7	1.8	2.2	-0.4	-1.9	0.4	-0.1
EU27	:	0.5	-0.1	0.5	-0.2	-1.4	-1.1	0.3	0.5	0.1	-0.5	0.1	-0.1
USA	-0.1	0.4	-1.0	-0.9	-1.2	-3.2	-0.8	0.3	0.1	-1.2	-4.4	0.1	1.2
Japan	:	-1.1	-4.3	-2.1	-4.0	-7.2	-7.9	-1.5	-4.3	-1.4	-2.9	-1.4	-1.9

TABLE 21 : Total population (percentage change on preceding year, 1992-2009)

15.04.2008

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	0.3	0.2	0.5	0.4	0.4	0.5	0.7	0.2	0.2	0.2	0.2	0.2	0.2
Germany	0.5	0.1	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Ireland	0.6	1.3	2.0	1.6	1.7	2.2	2.5	1.9	2.1	1.2	1.4	1.2	1.3
Greece	0.9	0.4	0.4	0.3	0.3	0.4	0.4	0.3	0.1	0.3	0.2	0.3	0.2
Spain	0.2	0.6	1.6	1.7	1.6	1.7	1.5	1.4	1.8	1.3	1.3	1.2	1.2
France	0.4	0.5	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Italy	0.0	0.0	0.7	0.8	1.0	0.7	0.6	0.4	0.4	0.2	0.2	0.1	0.1
Cyprus	2.1	1.2	1.9	1.8	2.4	2.4	2.0	2.0	1.9	2.0	1.9	2.0	2.0
Luxembourg	1.4	1.2	1.4	1.2	1.4	1.5	1.6	1.0	1.0	0.9	0.9	0.8	0.8
Malta	0.9	0.7	0.7	0.6	0.7	0.6	0.8	0.5	0.6	0.5	0.5	0.5	0.5
Netherlands	0.6	0.7	0.4	0.5	0.3	0.3	0.1	0.1	0.2	0.1	0.1	0.2	0.2
Austria	0.5	0.2	0.6	0.4	0.7	0.7	0.6	0.4	0.4	0.4	0.3	0.4	0.3
Portugal	0.2	0.5	0.6	0.7	0.6	0.5	0.3	0.4	0.3	0.4	0.3	0.4	0.3
Slovenia	-0.1	0.0	0.2	0.1	0.0	0.2	0.4	0.5	0.4	0.3	0.3	0.1	0.1
Finland	0.4	0.2	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Euro area	0.3	0.3	0.6	0.6	0.6	0.6	0.5	0.4	0.5	0.4	0.4	0.3	0.3
Bulgaria	-0.6	-1.2	-0.5	-0.6	-0.5	-0.5	-0.3	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Czech Republic	0.0	-0.2	0.1	0.0	0.1	0.3	0.3	0.2	0.5	0.3	0.3	0.7	0.3
Denmark	0.4	0.4	0.3	0.3	0.2	0.3	0.3	0.2	0.4	0.3	0.5	0.3	0.3
Estonia	-2.0	-0.8	-0.3	-0.4	0.0	-0.6	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Latvia	-1.5	-0.8	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Lithuania	-0.6	-0.7	-0.5	-0.4	-0.5	-0.6	-0.6	-0.5	-0.5	-0.1	-0.5	-0.1	-0.2
Hungary	-0.1	-0.2	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Poland	0.2	0.0	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Romania	-0.6	-0.2	-0.2	-0.3	-0.3	-0.2	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4
Slovakia	0.3	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Sweden	0.5	0.1	0.4	0.4	0.4	0.4	0.6	0.8	1.2	0.7	0.2	0.5	0.2
United Kingdom	0.3	0.3	0.5	0.4	0.5	0.6	0.6	0.5	0.4	0.4	0.4	0.4	0.4
EU27	0.2	0.2	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.3	0.3	0.3	0.2
USA	1.2	1.1	1.0	1.0	0.9	0.9	1.0	0.9	1.0	0.9	1.0	0.9	0.9
Japan	0.3	0.2	0.1	0.2	0.0	0.0	0.0	-0.1	0.0	-0.1	0.0	-0.1	-0.1

TABLE 22 : Total employment (percentage change on preceding year, 1992-2009)

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	0.1	1.3	0.6	0.0	0.7	1.2	1.2	1.4	1.7	1.0	0.9	0.9	0.4
Germany	-1.4	0.0	-0.7	-1.7	-0.4	-0.5	0.2	1.4	1.5	0.5	1.0	0.4	0.3
Ireland	2.5	5.6	3.2	2.0	3.1	4.7	4.3	3.3	3.6	1.3	0.7	1.5	1.6
Greece	1.0	0.7	1.7	1.9	0.9	1.5	2.5	1.5	1.2	1.4	1.1	1.4	1.1
Spain	-0.3	4.1	2.8	2.4	2.7	3.2	3.2	3.0	3.0	2.1	1.3	1.7	0.7
France	-0.5	1.7	0.4	0.0	0.1	0.3	0.7	1.0	1.2	0.9	0.6	0.7	0.3
Italy	-0.9	1.1	0.8	0.6	0.4	0.2	1.7	0.8	1.0	0.6	0.4	0.6	0.5
Cyprus	:	1.6	3.0	3.8	3.8	3.6	1.7	1.5	3.2	1.5	1.5	1.5	1.5
Luxembourg	2.5	4.7	2.8	1.8	2.2	2.9	3.7	4.0	4.5	3.6	4.0	3.2	3.3
Malta	1.5	0.8	0.7	1.0	-0.6	1.3	1.2	1.4	2.7	1.2	1.3	1.1	1.3
Netherlands	1.0	2.4	-0.2	-1.1	-1.0	-0.3	1.8	1.8	2.4	1.6	1.3	1.3	0.7
Austria	-0.2	0.9	0.6	0.2	0.3	0.9	1.6	1.6	1.9	0.9	0.9	0.6	0.5
Portugal	-0.8	1.9	0.2	-0.4	0.1	0.0	0.7	0.3	0.2	0.6	0.7	0.9	0.5
Slovenia	:	0.2	0.6	-0.4	0.3	0.2	1.2	2.2	2.7	0.9	0.9	0.5	0.5
Finland	-2.3	2.3	0.9	0.1	0.4	1.4	1.8	1.8	2.2	0.8	1.2	0.3	0.6
Euro area	-0.6	1.4	0.6	0.0	0.4	0.6	1.4	1.5	1.6	1.0	0.9	0.8	0.5
Bulgaria	-1.6	-0.4	2.4	3.0	2.6	2.7	3.3	2.2	2.8	1.2	1.6	1.0	1.2
Czech Republic	:	-0.8	0.4	-1.0	0.1	1.1	1.7	1.6	1.8	1.5	1.1	1.6	0.5
Denmark	0.1	1.0	0.2	-1.1	-0.6	0.8	1.6	2.0	1.8	0.1	0.2	-0.3	-0.4
Estonia	:	-1.8	1.9	0.8	0.1	1.8	5.6	1.1	0.4	0.2	-1.0	0.0	0.0
Latvia	-7.4	0.3	2.2	1.7	1.1	1.7	4.7	2.0	3.5	0.8	-0.4	0.4	-1.2
Lithuania	-2.7	-2.1	2.0	2.2	0.0	2.5	1.7	2.2	1.9	0.2	0.1	-0.1	-0.1
Hungary	:	1.3	0.3	0.8	-0.5	0.4	0.9	-0.3	-0.1	0.1	-1.1	0.2	0.6
Poland	:	-1.0	0.5	-1.2	1.3	2.3	3.3	4.4	4.5	1.7	2.6	1.3	1.3
Romania	-2.8	-1.8	-0.7	0.0	-1.7	-1.5	2.8	1.2	1.3	1.0	0.9	0.8	0.8
Slovakia	:	-1.1	0.9	1.1	-0.2	1.4	2.3	1.9	2.1	1.5	1.5	1.0	0.9
Sweden	-1.9	1.4	0.1	-0.6	-0.7	0.3	1.7	2.0	2.2	1.0	0.8	0.3	0.2
United Kingdom	0.0	1.2	0.9	1.0	1.0	1.0	0.9	0.5	0.7	0.4	0.1	0.6	0.0
EU27	:	0.9	0.6	0.1	0.4	0.8	1.6	1.5	1.7	0.9	0.8	0.8	0.5
USA	1.8	1.7	0.6	-0.1	0.9	1.3	2.1	1.1	1.1	0.0	-0.2	0.7	-0.3
Japan	0.4	-0.6	-0.2	-0.3	0.2	0.4	0.4	0.3	-0.2	0.1	0.2	0.2	0.2

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 23 : Number of unemployed (as a percentage of civilian labour force, 1992-2009) ¹

15.04.2008

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	8.9	8.1	8.1	8.2	8.4	8.4	8.2	7.5	7.5	7.2	7.3	6.9	7.5
Germany	7.8	8.3	9.6	9.3	9.7	10.7	9.8	8.1	8.4	7.7	7.3	7.6	7.1
Ireland	13.9	6.3	4.5	4.7	4.5	4.3	4.4	4.5	4.5	5.3	5.6	5.5	5.8
Greece	8.8	10.9	9.8	9.7	10.5	9.8	8.9	8.4	8.3	7.9	8.3	7.5	8.0
Spain	17.7	13.1	10.1	11.1	10.6	9.2	8.5	8.1	8.3	8.5	9.3	9.1	10.6
France	11.0	10.0	9.1	9.0	9.3	9.2	9.2	8.6	8.3	8.2	8.0	8.1	8.1
Italy	10.3	10.5	7.9	8.4	8.0	7.7	6.8	5.9	6.1	5.7	6.0	5.5	5.9
Cyprus	:	3.9	4.4	4.1	4.6	5.2	4.6	4.3	3.9	4.1	3.7	3.9	3.5
Luxembourg	2.7	2.4	4.1	3.7	5.1	4.5	4.7	4.7	4.7	4.5	4.5	4.2	4.4
Malta	5.2	6.8	7.4	7.6	7.4	7.3	7.3	6.8	6.4	6.6	6.3	6.5	6.2
Netherlands	6.2	3.4	3.9	3.7	4.6	4.7	3.9	3.1	3.2	2.7	2.9	2.4	2.8
Austria	3.9	4.0	4.6	4.3	4.8	5.2	4.7	4.3	4.4	4.2	4.2	4.2	4.3
Portugal	6.1	4.8	6.7	6.3	6.7	7.6	7.7	8.0	8.0	8.0	7.9	7.7	7.9
Slovenia	:	6.9	6.4	6.7	6.3	6.5	6.0	4.9	4.8	4.7	4.7	4.6	4.7
Finland	14.9	10.6	8.6	9.0	8.8	8.4	7.7	6.7	6.9	6.4	6.3	6.3	6.1
Euro area	10.1	9.2	8.5	8.6	8.8	8.8	8.2	7.3	7.4	7.1	7.2	7.1	7.3
Bulgaria	14.1	16.4	12.6	13.7	12.0	10.1	9.0	7.5	6.9	6.8	6.0	6.0	5.4
Czech Republic	:	7.7	7.7	7.8	8.3	7.9	7.1	5.9	5.3	5.4	4.5	5.0	4.4
Denmark	7.8	4.8	4.8	5.4	5.5	4.8	3.9	3.0	3.7	2.7	3.1	2.7	3.2
Estonia	:	11.1	8.8	10.0	9.7	7.9	5.9	4.9	4.7	4.8	6.0	4.9	6.0
Latvia	13.8	14.0	9.8	10.5	10.4	8.9	6.8	5.8	6.0	5.5	6.4	5.6	6.9
Lithuania	5.0	13.3	10.2	12.4	11.4	8.3	5.6	4.2	4.3	4.2	4.5	4.4	4.8
Hungary	10.3	7.3	6.5	5.9	6.1	7.2	7.5	7.3	7.4	7.0	8.3	6.9	7.8
Poland	13.4	13.8	18.0	19.6	19.0	17.7	13.8	9.4	9.6	7.3	7.1	6.4	6.1
Romania	5.8	6.3	7.6	7.0	8.1	7.2	7.3	7.1	6.4	7.0	6.1	6.9	5.9
Slovakia	:	15.8	16.8	17.6	18.2	16.3	13.4	11.2	11.1	9.7	9.8	9.0	9.3
Sweden	8.5	7.1	6.2	5.6	6.3	7.4	7.0	6.1	6.1	5.8	6.2	5.7	6.5
United Kingdom	9.1	5.9	5.0	4.9	4.7	4.8	5.3	5.3	5.2	5.4	5.4	5.3	5.7
EU27	9.8	8.8	8.8	8.9	9.0	8.9	8.1	7.1	7.1	6.8	6.8	6.6	6.8
USA	6.3	4.5	5.4	6.0	5.5	5.1	4.6	4.6	4.6	5.3	5.4	5.4	6.2
Japan	2.8	4.4	4.8	5.3	4.7	4.4	4.1	3.9	3.9	4.0	4.0	4.0	4.2

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

TABLE 24 : Compensation of employees per head (percentage change on preceding year, 1992-2009)

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	3.4	2.8	2.5	1.7	1.9	1.9	3.2	2.4	3.0	2.6	3.5	2.6	2.9
Germany	5.4	2.3	1.6	2.5	1.4	0.5	1.6	1.9	1.1	2.7	2.1	2.5	2.6
Ireland	4.5	5.9	5.6	6.4	6.4	5.0	4.5	5.2	5.8	4.0	4.9	4.0	3.5
Greece	10.8	7.6	6.3	5.6	5.6	6.1	6.3	5.3	7.2	5.0	7.4	5.0	6.8
Spain	6.0	2.5	3.2	3.6	3.0	2.9	3.0	2.8	3.6	3.0	4.3	2.8	3.3
France	2.8	2.1	3.1	2.8	3.5	3.2	3.1	3.0	3.0	3.0	3.0	3.0	2.9
Italy	4.8	2.1	3.1	3.7	3.3	3.2	2.5	2.4	1.9	3.7	3.8	2.3	2.2
Cyprus	:	4.6	3.8	7.7	1.9	1.8	2.7	3.5	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	4.5	4.0	3.2	3.2	3.0	3.5
Malta	7.8	4.5	2.8	4.6	1.3	2.0	3.3	2.8	1.5	3.0	3.0	3.1	3.2
Netherlands	2.9	4.1	3.4	4.2	3.5	1.6	2.4	2.6	2.7	3.4	3.6	3.8	3.9
Austria	3.9	1.9	2.1	1.8	1.6	2.6	2.4	2.4	2.6	2.8	3.2	2.6	2.8
Portugal	8.2	5.6	2.9	2.8	2.6	2.9	2.4	2.7	2.1	2.8	2.6	2.8	2.7
Slovenia	:	10.4	7.1	7.9	7.8	5.3	5.5	6.2	6.2	7.0	7.8	5.9	6.5
Finland	2.5	3.3	3.0	2.8	3.6	3.8	2.9	3.3	3.3	5.1	5.5	4.3	4.5
Euro area	4.6	2.4	2.5	2.8	2.5	2.1	2.4	2.6	2.4	3.1	3.3	2.8	2.9
Bulgaria	:	73.8	5.8	5.1	4.9	5.9	7.4	14.9	17.9	12.6	13.7	10.7	10.9
Czech Republic	:	7.8	6.6	8.6	5.7	4.6	6.2	6.5	7.0	6.6	7.2	6.8	7.2
Denmark	3.2	3.8	3.7	3.7	3.3	3.5	3.9	4.2	3.7	4.5	4.6	4.5	4.5
Estonia	:	13.5	11.5	12.2	11.2	11.0	14.0	20.2	26.5	15.0	13.6	12.8	8.2
Latvia	:	7.3	15.4	11.3	14.3	25.3	23.6	31.0	33.2	21.0	21.0	15.0	12.0
Lithuania	:	9.1	10.2	8.9	10.9	11.5	15.1	14.6	14.1	15.4	15.0	8.3	9.6
Hungary	:	14.0	10.0	9.9	11.2	7.1	8.4	5.4	8.4	5.1	6.9	6.4	6.7
Poland	37.8	13.8	1.8	1.7	1.8	1.6	1.9	6.3	8.1	5.5	8.0	5.5	7.0
Romania	117.4	69.6	21.5	28.3	13.9	22.1	17.8	15.3	20.2	16.1	18.1	13.4	16.4
Slovakia	:	10.3	8.6	8.2	8.4	9.7	7.9	7.1	8.3	6.9	8.4	7.3	8.6
Sweden	4.8	3.9	3.1	3.2	4.0	3.1	2.2	4.2	4.2	4.3	4.6	4.2	3.7
United Kingdom	3.6	5.1	4.3	4.9	4.3	4.3	5.0	4.3	3.9	4.5	4.3	4.3	4.4
EU27	:	4.1	3.0	3.5	2.7	2.7	2.7	3.0	2.9	3.6	3.8	3.4	3.5
USA	3.0	4.2	4.0	4.3	4.3	3.6	4.2	4.7	4.4	3.6	2.7	3.4	2.2
Japan	1.1	0.0	-0.9	-1.4	-1.3	-0.1	0.1	1.2	-0.1	1.7	0.6	1.8	0.9

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 25 : Real compensation of employees per head ¹ (percentage change on preceding year, 1992-2009)

15.04.2008

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	1.6	1.0	0.3	0.0	-0.6	-0.8	0.7	0.6	1.1	0.5	0.1	0.6	0.7
Germany	2.8	1.3	0.2	1.0	-0.2	-1.0	0.2	0.1	-0.6	1.1	0.0	0.9	1.1
Ireland	3.0	0.9	2.7	2.4	4.8	3.6	2.4	1.9	1.9	1.6	2.3	1.6	1.0
Greece	-0.7	3.0	3.3	2.8	3.1	2.7	2.7	2.4	3.9	2.0	3.5	2.0	3.1
Spain	1.0	-0.3	-0.1	0.5	-0.5	-0.5	-0.4	0.2	0.8	-0.1	0.5	0.0	0.7
France	1.1	1.2	1.4	0.9	1.6	1.3	1.2	1.9	1.4	1.3	0.3	1.5	1.0
Italy	-0.3	-0.3	0.4	0.9	0.7	0.9	-0.2	0.5	-0.2	1.6	0.8	0.4	0.0
Cyprus	:	2.2	1.1	3.5	0.1	-0.7	0.3	1.2	0.7	0.9	-0.4	1.1	0.9
Luxembourg	1.0	0.9	1.3	0.1	1.3	0.9	1.5	2.3	1.7	0.8	-0.2	0.9	1.1
Malta	:	2.5	0.8	3.7	-1.0	-0.6	0.8	1.8	0.5	0.3	-0.5	0.7	0.8
Netherlands	0.5	1.2	1.2	1.8	2.5	-0.5	0.0	0.4	1.0	1.1	0.9	0.9	1.1
Austria	1.1	0.5	0.5	0.2	-0.2	0.9	0.9	0.6	0.6	0.8	0.2	0.7	0.7
Portugal	2.3	2.7	0.0	-0.2	0.1	0.2	-0.9	0.3	-0.6	0.4	-0.2	0.5	0.4
Slovenia	:	2.8	2.8	2.5	4.7	2.8	2.9	2.6	1.6	3.2	2.2	2.9	3.2
Finland	0.6	0.8	2.0	3.2	2.6	3.1	1.3	1.6	1.7	2.9	2.3	2.4	2.4
Euro area	1.3	0.6	0.4	0.7	0.4	0.0	0.2	0.7	0.4	1.0	0.4	0.8	0.9
Bulgaria	:	2.2	1.9	4.8	0.5	0.7	1.6	7.9	10.5	5.7	5.2	5.4	5.8
Czech Republic	:	2.4	5.0	9.0	2.3	3.7	3.8	3.4	4.0	2.7	2.1	3.5	4.4
Denmark	1.5	1.7	1.9	2.4	2.1	1.4	1.8	2.4	1.7	1.9	1.3	2.0	2.1
Estonia	:	6.5	8.8	11.0	9.3	8.1	9.8	15.0	19.5	8.2	4.4	7.5	3.5
Latvia	:	3.1	9.6	8.0	6.8	15.2	16.6	19.6	21.1	11.5	5.2	9.5	3.7
Lithuania	:	6.0	9.5	9.9	11.2	9.7	11.8	8.7	7.3	8.5	4.4	2.8	2.3
Hungary	:	1.9	5.8	5.6	6.3	3.2	5.0	-2.2	1.6	0.2	0.6	3.5	3.0
Poland	4.7	4.4	-0.2	1.3	-1.2	-0.6	0.7	3.9	5.5	2.6	3.7	2.4	3.8
Romania	0.0	5.7	8.0	11.4	0.0	13.8	12.0	11.3	14.8	12.2	10.4	9.7	11.3
Slovakia	:	2.7	3.6	1.5	1.0	6.9	2.9	4.7	5.5	4.2	4.1	4.0	5.1
Sweden	1.1	2.6	1.8	1.4	3.1	1.9	1.2	2.3	2.8	2.0	1.9	2.1	1.5
United Kingdom	0.2	3.0	2.3	2.9	2.5	1.8	2.6	2.0	1.3	2.3	1.5	2.2	2.2
EU27	:	1.5	0.8	1.4	0.6	0.5	0.5	0.9	0.7	1.4	0.7	1.3	1.3
USA	0.7	2.4	1.6	2.3	1.6	0.6	1.4	2.2	1.8	1.7	-0.5	2.0	0.4
Japan	0.9	0.3	0.0	-0.5	-0.7	0.7	0.5	1.7	0.4	1.9	0.4	1.6	0.8

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 26 : Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1992-2009)

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	1.3	1.3	1.4	1.0	2.3	0.4	1.6	1.3	1.0	1.1	0.8	1.3	1.1
Germany	2.8	2.0	1.6	1.5	1.5	1.3	2.7	1.1	1.0	1.6	0.8	1.8	1.2
Ireland	3.6	3.2	2.2	2.4	1.2	1.3	1.4	1.5	1.6	2.2	1.6	2.3	1.6
Greece	0.1	3.1	2.5	3.1	3.7	2.3	1.7	2.6	2.7	2.4	2.2	2.3	2.2
Spain	1.8	0.2	0.5	0.7	0.6	0.4	0.7	0.8	0.8	0.8	0.9	0.6	1.1
France	1.6	1.2	1.2	1.1	2.4	1.4	1.2	0.9	0.6	1.1	0.9	1.1	1.0
Italy	2.1	1.0	0.0	-0.6	1.2	0.4	0.1	1.1	0.5	0.8	0.1	0.9	0.2
Cyprus	:	2.6	0.2	-1.8	0.4	0.3	2.3	2.4	1.1	2.5	2.2	2.4	2.3
Luxembourg	0.1	1.5	1.6	0.3	2.6	2.1	2.3	1.2	0.6	1.1	-0.4	1.3	0.2
Malta	3.5	2.6	1.1	-1.3	0.8	2.0	2.2	1.7	1.1	1.6	1.3	1.8	1.2
Netherlands	1.4	1.4	1.6	1.4	3.3	1.8	1.2	0.9	1.1	1.0	1.3	1.2	1.0
Austria	2.2	1.6	1.4	1.0	2.0	1.2	1.7	1.6	1.4	1.8	1.3	1.8	1.3
Portugal	2.4	1.8	0.6	-0.4	1.4	0.9	0.6	1.5	1.7	1.4	1.0	1.2	1.0
Slovenia	:	4.0	3.6	3.2	4.1	4.0	4.5	3.7	3.3	3.6	3.3	3.5	3.2
Finland	3.7	2.2	2.0	1.7	3.3	1.4	3.0	2.5	2.1	2.7	1.6	2.5	1.9
Euro area	2.1	1.5	1.1	0.9	1.8	1.1	1.5	1.1	0.9	1.2	0.9	1.3	1.0
Bulgaria	-1.2	2.4	3.3	2.0	3.9	3.5	2.9	4.0	3.3	4.7	4.1	5.2	4.3
Czech Republic	:	2.0	4.1	4.7	4.3	5.2	4.5	4.2	4.6	3.4	3.5	3.3	4.5
Denmark	2.5	1.4	1.7	1.5	2.9	1.6	2.2	-0.1	0.0	1.2	1.1	1.6	1.5
Estonia	:	8.5	6.9	6.4	8.2	8.3	5.3	6.6	6.6	6.2	3.7	6.2	4.3
Latvia	-1.5	6.0	6.7	5.4	7.5	8.7	7.2	8.3	6.6	6.3	4.3	5.8	3.8
Lithuania	-5.9	7.2	5.9	7.9	7.3	5.3	5.9	6.2	6.7	7.3	6.0	6.4	3.7
Hungary	:	3.2	4.0	3.3	5.4	3.7	2.9	2.4	1.5	2.4	3.1	3.1	2.6
Poland	:	5.5	3.6	5.1	4.0	1.3	2.9	2.0	1.9	3.8	2.6	3.9	3.6
Romania	4.3	0.9	6.9	5.3	10.3	5.8	4.9	4.7	4.7	4.9	5.2	4.9	4.2
Slovakia	:	3.8	5.0	3.6	5.5	5.1	6.1	6.7	8.1	5.5	5.5	5.2	5.2
Sweden	3.1	1.8	3.0	2.5	4.9	3.0	2.3	1.4	0.3	2.1	1.5	2.0	1.6
United Kingdom	2.5	1.9	1.6	1.8	2.2	0.8	2.0	2.6	2.3	1.8	1.7	1.9	1.6
EU27	:	1.7	1.4	1.3	2.1	1.2	1.7	1.3	1.3	1.5	1.2	1.6	1.3
USA	1.5	1.8	2.1	2.7	2.7	1.7	0.8	1.0	1.0	1.7	1.1	1.8	1.0
Japan	1.0	1.1	1.9	1.7	2.5	1.5	2.0	1.6	2.3	1.8	1.0	2.1	0.9

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 27 : Unit labour costs, whole economy ¹ (percentage change on preceding year, 1992-2009)

15.04.2008

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	2.1	1.5	1.1	0.7	-0.3	1.5	1.6	1.1	2.0	1.4	2.7	1.2	1.8
Germany	2.5	0.3	0.0	1.0	0.0	-0.8	-1.0	0.8	0.2	1.1	1.2	0.7	1.3
Ireland	0.9	2.6	3.3	3.9	5.1	3.7	3.1	3.6	4.2	1.7	3.3	1.7	1.9
Greece	10.7	4.4	3.7	2.4	1.8	3.7	4.6	2.6	4.4	2.6	5.1	2.6	4.5
Spain	4.1	2.3	2.6	2.9	2.4	2.5	2.3	2.0	2.7	2.1	3.4	2.2	2.2
France	1.1	0.8	1.9	1.8	1.1	1.7	1.9	2.1	2.3	1.9	2.1	1.9	1.8
Italy	2.7	1.1	3.0	4.4	2.1	2.8	2.3	1.3	1.5	2.9	3.7	1.4	2.0
Cyprus	:	1.9	3.5	9.7	1.5	1.4	0.5	1.1	2.4	1.0	1.3	1.1	1.2
Luxembourg	3.8	1.7	1.9	1.9	1.3	1.7	2.2	3.3	3.4	2.2	3.6	1.7	3.3
Malta	4.2	1.9	1.7	6.0	0.5	-0.1	1.0	1.1	0.5	1.4	1.7	1.3	1.9
Netherlands	1.5	2.7	1.7	2.7	0.2	-0.2	1.1	1.8	1.6	2.3	2.3	2.5	2.8
Austria	1.7	0.2	0.7	0.8	-0.3	1.4	0.7	0.8	1.2	1.0	1.9	0.8	1.4
Portugal	5.7	3.8	2.4	3.2	1.2	2.0	1.8	1.1	0.4	1.4	1.7	1.6	1.6
Slovenia	:	6.2	3.4	4.5	3.5	1.3	0.9	2.3	2.8	3.3	4.4	2.3	3.2
Finland	-1.1	1.1	0.9	1.1	0.2	2.3	-0.2	0.8	1.1	2.3	3.9	1.8	2.5
Euro area	2.5	1.0	1.5	2.1	0.8	1.1	1.0	1.4	1.5	1.8	2.4	1.5	1.9
Bulgaria	:	69.7	2.5	3.0	1.0	2.4	4.4	10.5	14.2	7.5	9.3	5.3	6.3
Czech Republic	:	5.7	2.4	3.8	1.3	-0.5	1.5	2.2	2.3	3.1	3.5	3.4	2.6
Denmark	0.6	2.3	1.9	2.2	0.4	1.9	1.7	4.4	3.7	3.2	3.5	2.8	2.9
Estonia	:	4.6	4.3	5.4	2.8	2.6	8.3	12.7	18.6	8.3	9.5	6.2	3.7
Latvia	:	1.3	8.2	5.6	6.4	15.2	15.3	21.0	24.9	13.8	16.1	8.7	7.9
Lithuania	:	1.8	4.1	0.9	3.3	5.9	8.8	7.9	7.0	7.5	8.4	1.7	5.6
Hungary	:	10.4	5.8	6.3	5.5	3.2	5.3	3.0	6.8	2.6	3.7	3.2	4.0
Poland	:	7.9	-1.7	-3.2	-2.1	0.3	-1.0	4.2	6.1	1.6	5.2	1.6	3.3
Romania	108.4	68.1	13.7	21.9	3.3	15.4	12.3	10.2	14.8	10.7	12.3	8.1	11.6
Slovakia	:	6.3	3.4	4.4	2.8	4.3	1.7	0.4	0.2	1.3	2.8	2.0	3.3
Sweden	1.6	2.1	0.1	0.6	-0.8	0.1	-0.2	2.8	3.9	2.1	3.0	2.1	2.1
United Kingdom	1.1	3.2	2.7	3.0	2.0	3.5	2.9	1.7	1.5	2.7	2.6	2.4	2.8
EU27	:	2.0	1.6	2.3	0.6	1.6	1.2	1.7	1.8	2.1	2.6	1.8	2.2
USA	1.5	2.4	1.8	1.6	1.6	1.8	3.4	3.7	3.3	1.8	1.6	1.6	1.1
Japan	0.1	-1.1	-2.7	-3.1	-3.8	-1.6	-1.8	-0.4	-2.3	-0.1	-0.4	-0.3	0.0

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 28 : Real unit labour costs ¹ (percentage change on preceding year, 1992-2009)

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	-0.2	0.0	-0.9	-0.9	-2.7	-1.0	-0.4	-1.0	0.3	-0.7	0.1	-0.8	-0.3
Germany	-0.2	-0.1	-1.0	-0.2	-1.1	-1.5	-1.6	-1.0	-1.6	-0.3	-0.7	-0.5	-0.1
Ireland	-1.7	-2.5	0.5	1.4	3.0	1.1	0.8	1.5	3.2	-0.4	1.5	-0.5	0.4
Greece	-0.7	-0.3	0.2	-1.0	-1.6	0.5	1.1	-0.4	1.2	-0.6	1.5	-0.6	0.9
Spain	-0.6	-0.7	-1.5	-1.2	-1.5	-1.7	-1.6	-1.0	-0.4	-0.9	0.8	-0.6	0.1
France	-0.4	-0.2	-0.1	-0.1	-0.5	0.0	-0.4	0.2	0.0	-0.2	-0.2	-0.1	-0.1
Italy	-1.6	-1.2	0.4	1.2	-0.5	0.7	0.6	-1.3	-0.8	0.5	0.8	-0.6	-0.1
Cyprus	:	-1.1	0.6	4.3	-1.7	-0.9	-2.2	-1.4	-0.7	-1.9	-2.3	-1.5	-1.4
Luxembourg	0.1	0.7	-1.9	-3.0	-0.4	-2.4	-3.8	-0.3	2.2	-1.5	2.9	-1.6	2.5
Malta	1.2	-0.2	-1.0	3.0	-1.2	-3.0	-1.8	-1.4	-1.8	-1.3	-0.5	-1.1	-0.3
Netherlands	-0.4	-0.4	-0.4	0.5	-0.5	-2.2	-0.8	0.4	0.4	0.2	-0.3	-0.1	0.0
Austria	-0.6	-0.7	-0.9	-0.4	-2.4	-0.4	-1.0	-1.4	-1.1	-1.1	-0.9	-0.6	-0.3
Portugal	-0.6	0.3	-0.6	0.1	-1.2	-0.6	-1.0	-1.7	-2.5	-0.9	-0.4	-0.6	-0.8
Slovenia	:	-1.0	-0.6	-1.1	0.2	-0.3	-1.0	-0.5	-1.0	-0.9	0.3	-0.6	-0.1
Finland	-2.8	-1.3	0.3	1.5	-0.4	1.9	-1.4	-1.2	-1.3	0.1	0.7	-0.1	0.1
Euro area	-0.7	-0.5	-0.6	-0.1	-1.1	-0.8	-0.8	-0.8	-0.7	-0.3	0.0	-0.5	-0.1
Bulgaria	:	-1.7	-2.1	1.2	-4.0	-1.3	-3.8	2.8	5.9	0.1	0.6	0.0	0.4
Czech Republic	:	0.0	0.4	2.8	-3.1	-0.3	-0.1	0.1	-1.1	0.2	0.0	0.8	0.2
Denmark	-0.8	0.3	-0.4	0.6	-1.9	-1.1	-0.4	2.0	2.2	0.4	0.4	-0.1	0.4
Estonia	:	-2.1	-0.2	0.9	0.9	-3.4	2.0	3.7	8.1	0.1	0.1	-0.1	-1.1
Latvia	:	-2.8	1.3	2.0	-0.6	4.6	4.9	4.6	10.3	3.0	0.9	2.0	0.3
Lithuania	:	-1.2	1.3	1.9	0.7	0.2	2.0	0.1	-1.5	0.4	-1.2	-4.0	-1.5
Hungary	:	-1.0	1.0	0.5	1.1	1.0	1.6	-2.8	1.3	-1.3	-0.7	-0.1	0.3
Poland	:	-0.4	-3.8	-3.6	-6.0	-2.3	-2.4	1.3	3.0	-1.6	0.2	-1.7	0.1
Romania	-3.1	3.6	-2.8	-1.7	-10.2	2.8	1.3	2.3	3.6	4.7	2.7	2.7	2.8
Slovakia	:	-0.3	-0.6	-0.9	-2.9	1.9	-1.2	-2.1	-0.9	-1.3	0.4	-0.9	0.8
Sweden	-1.0	0.7	-1.2	-1.3	-1.1	-0.8	-2.0	0.4	0.5	-0.4	1.9	-0.2	0.2
United Kingdom	-1.7	0.9	-0.1	-0.5	1.1	0.2	0.2	-1.4	-1.5	0.5	0.6	0.1	0.6
EU27	:	-0.3	-0.7	-0.1	-1.5	-0.5	-0.9	-0.8	-0.7	-0.2	0.1	-0.4	0.0
USA	-0.6	0.6	-0.8	-0.5	-1.3	-1.3	0.2	1.3	0.6	0.4	-0.6	0.1	-0.6
Japan	0.0	-0.4	-1.5	-1.6	-2.7	-0.4	-0.8	0.0	-1.6	0.1	-0.1	-0.3	0.2

¹ Nominal unit labour costs divided by GDP price deflator.

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 29 : Nominal bilateral exchange rates against Ecu/euro (1992-2009)

	5-year averages		2003	2004	2005	2006	2007		2008		2009		15.04.2008
	1992-96	1997-01					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008	
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	:	:	:	:	:
Luxembourg	39.91	40.43	:	:	:	:	:	:	:	:	:	:	:
Malta	0.45	0.42	0.42	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	1.96
Czech Republic	34.86	35.71	30.53	31.85	31.89	29.78	28.34	27.93	27.77	27.49	25.27	27.49	25.17
Denmark	7.53	7.46	7.44	7.43	7.44	7.45	7.46	7.45	7.45	7.45	7.46	7.45	7.46
Estonia	15.36	15.68	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65	15.65
Latvia	0.75	0.61	0.66	0.64	0.67	0.70	0.70	0.70	0.70	0.70	0.70	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	3.45
Hungary	152.74	244.33	252.11	253.62	251.66	248.05	264.26	250.70	251.35	250.28	257.41	250.28	256.78
Poland	2.88	3.91	4.14	4.40	4.53	4.02	3.90	3.80	3.78	3.73	3.52	3.73	3.50
Romania	0.20	1.61	3.62	3.76	4.05	3.62	3.53	3.31	3.34	3.35	3.70	3.35	3.71
Slovakia	:	41.54	40.01	41.49	40.02	38.60	37.23	33.83	33.77	33.63	32.63	33.63	32.49
Sweden	8.73	8.81	9.19	9.12	9.12	9.28	9.25	9.21	9.25	9.14	9.38	9.14	9.38
United Kingdom	0.79	0.65	0.67	0.69	0.68	0.68	0.68	0.68	0.70	0.78	0.70	0.70	0.79
EU27	:	:	:	:	:	:	:	:	:	:	:	:	:
USA	1.25	1.03	1.16	1.13	1.24	1.26	1.36	1.37	1.42	1.55	1.42	1.57	1.57
Japan	135.36	122.59	133.27	130.97	134.44	136.85	146.02	161.70	161.25	165.81	158.63	165.81	158.91

TABLE 30 : Nominal effective exchange rates to rest of a group ¹ of industrialised countries (percentage change on preceding year, 1992-2009)

	5-year averages		2003	2004	2005	2006	2007		2008		2009	
	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	-1.1	1.4	4.5	1.1	-0.3	0.4	1.2	1.3	0.5	2.6	0.0	0.3
Germany	-1.0	1.8	5.9	1.7	-0.6	0.5	1.6	1.8	0.6	2.9	0.0	0.3
Ireland	-1.9	2.4	7.3	2.3	-0.1	0.6	2.4	2.6	1.2	5.2	0.0	0.5
Greece	0.3	1.7	5.1	1.3	-0.8	0.6	0.7	0.9	0.2	2.9	0.0	0.4
Spain	-1.1	1.4	4.4	1.1	-0.4	0.4	1.2	1.3	0.5	2.7	0.0	0.3
France	-1.0	1.7	5.3	1.4	-0.3	0.6	1.6	1.7	0.6	3.0	0.0	0.3
Italy	0.1	1.9	5.7	1.7	-0.6	0.6	1.5	1.7	0.6	2.9	0.0	0.3
Cyprus	5.3	1.6	4.2	0.8	0.7	0.5	-0.2	-0.1	0.2	3.0	0.0	0.3
Luxembourg	-1.1	1.4	4.5	1.1	-0.3	0.4	1.2	1.3	0.5	2.6	0.0	0.3
Malta	0.3	1.4	3.4	1.9	-0.4	1.0	3.0	3.1	1.2	3.8	0.0	0.4
Netherlands	-1.0	1.2	3.9	0.9	-0.3	0.3	1.0	1.1	0.5	2.5	0.0	0.3
Austria	-0.1	1.1	3.7	1.0	-0.7	0.3	0.9	1.0	0.4	1.7	0.0	0.2
Portugal	-1.1	1.1	3.5	0.8	-0.2	0.3	1.1	1.2	0.5	2.4	0.0	0.2
Slovenia	-3.9	-1.1	-0.6	-1.4	-1.1	0.2	0.2	0.3	0.1	1.1	0.0	0.1
Finland	-1.1	1.7	5.4	1.6	-0.4	0.5	1.4	1.6	0.4	2.7	0.0	0.3
Euro area	-1.5	3.2	10.9	2.9	-1.4	0.8	2.2	2.4	1.0	5.4	0.0	0.6
Bulgaria	-32.2	1.7	4.8	1.2	-1.3	0.8	0.5	0.6	-0.1	2.7	0.0	0.5
Czech Republic	0.8	4.5	-0.3	0.4	6.2	5.2	1.6	2.3	1.8	11.2	0.0	0.5
Denmark	-1.0	1.4	4.7	1.2	-0.5	0.3	1.3	1.4	0.3	2.5	0.0	0.3
Estonia	-0.4	1.0	3.2	0.9	-0.1	0.2	0.9	1.1	0.2	1.9	0.0	0.2
Latvia	4.3	-3.4	-5.9	-3.2	-5.0	0.0	-0.3	-0.1	-0.3	2.0	0.0	0.2
Lithuania	8.3	2.1	5.0	1.1	-0.6	0.1	0.7	0.8	0.1	1.6	0.0	0.2
Hungary	-4.7	0.3	-1.2	1.5	0.6	-6.1	5.6	5.4	0.3	-1.0	0.0	0.4
Poland	-1.1	-0.5	-10.1	-2.3	12.1	3.5	2.8	3.4	2.0	9.3	0.0	0.7
Romania	-30.1	-4.7	-13.8	-6.6	11.2	3.6	7.1	6.2	-1.1	-8.1	0.0	0.2
Slovakia	-1.3	3.6	5.8	4.6	2.4	3.7	10.2	10.4	0.7	4.3	0.0	0.6
Sweden	-2.5	1.8	6.2	2.1	-2.4	0.8	1.9	1.7	1.1	1.5	0.0	0.4
United Kingdom	4.7	0.2	-3.9	4.5	-1.2	1.0	2.3	2.0	-1.4	-10.0	0.0	-0.7
EU27	-1.5	5.2	12.7	6.3	-0.7	2.6	6.3	6.5	1.3	5.5	0.0	0.9
USA	5.0	-3.9	-9.0	-6.5	-2.0	-0.8	-4.7	-5.0	-4.1	-8.5	0.0	-0.6
Japan	1.5	-2.5	-0.3	1.6	-2.4	-5.8	-6.5	-5.9	-1.1	8.6	0.0	0.5

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) 15.04.2008

	5-year averages		2003	2004	2005	2006	2007		2008		2009	
	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	-0.7	-0.5	-1.3	-1.2	0.2	0.1	-0.8	0.0	-0.5	0.4	:	-0.2
Germany	-2.9	-1.9	-1.1	-1.0	-2.6	-3.1	-1.4	-2.3	-0.9	-1.5	:	-0.8
Ireland	0.4	1.7	1.9	4.2	2.2	1.2	1.5	2.1	-0.2	1.1	:	0.0
Greece	-1.2	1.3	-0.9	0.4	1.8	2.5	0.0	1.3	0.1	1.8	:	2.0
Spain	-0.3	0.7	0.5	1.3	0.9	0.5	0.1	0.7	0.2	1.0	:	0.1
France	-1.7	0.2	-0.4	0.1	0.3	0.3	0.1	0.3	-0.1	-0.4	:	-0.2
Italy	-2.1	1.3	2.3	1.2	1.2	0.6	-0.9	-0.9	1.0	1.2	:	-0.1
Cyprus	-6.8	1.3	6.9	0.2	-0.7	-1.6	-0.9	0.0	-1.2	-1.6	:	-1.3
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Malta	0.0	0.4	4.5	-0.1	-1.3	-0.5	-0.8	-1.1	-0.3	-0.3	:	0.2
Netherlands	0.6	0.3	0.8	-0.6	-1.5	-0.2	-0.1	-0.3	0.5	-0.1	:	0.9
Austria	-2.4	-0.8	-1.3	-1.2	0.2	-0.6	-1.1	-0.9	-1.0	-0.6	:	-0.6
Portugal	1.7	0.6	1.0	0.0	0.3	0.0	-0.8	-1.7	-0.5	-0.9	:	-0.4
Slovenia	3.2	1.7	2.3	2.6	-0.1	-0.4	0.4	0.6	1.2	1.6	:	1.0
Finland	-1.6	-0.6	-0.7	-0.5	0.9	-1.8	-1.6	-1.4	0.3	1.2	:	0.4
Euro area	-4.0	-0.7	-0.3	-0.3	-1.3	-1.9	-1.6	-2.2	-0.6	-0.8	:	-0.6
Bulgaria	58.2	-0.6	-1.0	-0.8	0.1	1.9	7.7	10.7	4.9	5.7	:	3.5
Czech Republic	2.9	1.1	1.8	0.6	-1.6	0.5	0.4	0.2	1.2	1.0	:	0.5
Denmark	0.1	0.6	0.6	-0.2	0.7	0.2	2.4	1.4	1.3	1.0	:	0.8
Estonia	1.5	2.6	3.5	1.9	0.5	6.2	9.3	14.4	5.4	5.7	:	1.1
Latvia	-1.9	6.4	3.7	5.5	13.4	13.1	17.7	21.0	10.9	12.2	:	5.2
Lithuania	-2.1	2.1	-1.5	2.4	3.6	6.3	4.1	2.6	4.5	4.5	:	2.9
Hungary	7.1	4.2	4.1	4.9	2.0	3.9	0.9	4.4	0.5	1.0	:	1.7
Poland	5.2	-3.3	-5.3	-3.0	-1.0	-2.4	2.2	3.8	-0.5	2.5	:	1.0
Romania	60.8	11.2	18.4	1.8	13.5	10.1	7.8	12.0	8.4	9.1	:	9.2
Slovakia	2.9	1.9	2.2	2.2	3.4	0.5	-1.6	-2.0	-0.7	0.1	:	1.1
Sweden	-0.7	-1.5	-1.2	-1.7	-1.5	-2.1	0.6	1.3	0.2	0.4	:	-0.2
United Kingdom	0.8	1.1	1.1	1.1	2.1	1.2	-0.5	-0.7	0.8	0.3	:	1.0
EU27	-2.6	-0.2	0.3	0.1	-0.3	-1.5	-1.0	-1.1	0.5	0.5	:	0.6
USA	-0.6	0.2	-1.0	0.6	0.3	1.2	1.8	1.4	-0.1	-0.9	:	-1.1
Japan	-3.5	-4.5	-5.1	-5.2	-3.4	-3.9	-3.0	-4.9	-2.0	-2.6	:	-1.8

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					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	-1.8	0.9	3.1	-0.1	-0.1	0.5	0.4	1.3	0.0	3.0	:	0.1
Germany	-3.9	-0.1	4.7	0.7	-3.2	-2.6	0.2	-0.6	-0.3	1.4	:	-0.5
Ireland	-1.5	4.1	9.3	6.5	2.1	1.8	4.0	4.8	1.0	6.3	:	0.5
Greece	-0.9	3.0	4.1	1.7	1.0	3.1	0.8	2.2	0.3	4.8	:	2.4
Spain	-1.4	2.1	4.9	2.5	0.5	0.9	1.3	2.0	0.7	3.7	:	0.4
France	-2.7	1.9	4.8	1.5	-0.1	0.8	1.7	2.0	0.5	2.6	:	0.2
Italy	-2.0	3.2	8.1	2.9	0.6	1.1	0.7	0.8	1.5	4.1	:	0.2
Cyprus	-1.8	3.0	11.5	1.1	0.0	-1.1	-1.2	-0.1	-1.0	1.3	:	-1.0
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Malta	0.2	1.8	8.0	1.8	-1.8	0.5	2.2	2.0	0.9	3.5	:	0.7
Netherlands	-0.4	1.4	4.8	0.2	-1.8	0.1	0.9	0.8	0.9	2.4	:	1.1
Austria	-2.5	0.2	2.3	-0.1	-0.5	-0.3	-0.2	0.1	-0.6	1.1	:	-0.4
Portugal	0.6	1.6	4.6	0.8	0.1	0.3	0.3	-0.5	0.0	1.5	:	-0.1
Slovenia	-0.8	0.6	1.6	1.2	-1.1	-0.3	0.6	0.9	1.3	2.7	:	1.2
Finland	-2.7	1.2	4.6	1.1	0.6	-1.3	-0.1	0.1	0.7	3.9	:	0.7
Euro area	-5.4	2.4	10.6	2.6	-2.7	-1.2	0.6	0.2	0.4	4.6	:	0.0
Bulgaria	7.2	1.2	3.7	0.4	-1.1	2.7	8.2	11.4	4.8	8.5	:	4.0
Czech Republic	3.7	5.6	1.5	1.0	4.5	5.7	2.0	2.5	3.0	12.3	:	1.0
Denmark	-0.8	2.0	5.2	1.0	0.2	0.5	3.7	2.8	1.6	3.5	:	1.1
Estonia	1.1	3.6	6.9	2.9	0.3	6.4	10.2	15.6	5.5	7.7	:	1.3
Latvia	2.4	2.8	-2.5	2.2	7.7	13.1	17.3	21.0	10.6	14.5	:	5.4
Lithuania	6.0	4.2	3.4	3.6	3.1	6.3	4.8	3.4	4.6	6.1	:	3.1
Hungary	2.1	4.5	2.9	6.4	2.6	-2.3	6.6	10.1	0.8	0.0	:	2.1
Poland	4.1	-3.7	-14.9	-5.2	11.0	1.0	5.0	7.3	1.5	12.0	:	1.8
Romania	12.4	5.9	2.1	-4.9	26.1	14.1	15.5	18.9	7.2	0.2	:	9.4
Slovakia	1.5	5.6	8.1	6.9	6.0	4.2	8.5	8.2	0.0	4.4	:	1.6
Sweden	-3.2	0.3	5.0	0.3	-3.8	-1.3	2.6	3.1	1.3	1.9	:	0.2
United Kingdom	5.5	1.4	-2.8	5.6	0.9	2.3	1.8	1.2	-0.6	-9.8	:	0.3
EU27	-4.1	5.0	13.1	6.5	-1.0	1.0	5.2	5.3	1.8	6.0	:	1.4
USA	4.4	-3.7	-10.0	-6.0	-1.7	0.4	-3.0	-3.7	-4.2	-9.4	:	-1.6
Japan	-2.1	-6.8	-5.4	-3.6	-5.7	-9.5	-9.3	-10.5	-3.0	5.8	:	-1.3

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)

15.04.2008

	5-year averages			1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	1992-96	1997-01	2002-06										
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	4.9
Czech Republic	:	9.5	2.5	14.3	6.9	5.4	5.2	3.5	2.3	2.4	2.0	2.3	3.1
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	4.9
Latvia	:	7.0	4.0	8.4	8.4	5.4	6.9	4.4	3.8	4.2	3.1	4.4	8.7
Lithuania	:	:	3.0	:	13.9	8.6	5.9	3.7	2.8	2.7	2.4	3.1	5.1
Hungary	:	15.1	8.6	17.9	15.1	11.4	10.9	9.2	8.5	11.5	6.7	7.2	7.7
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	7.2
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	3.9
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			1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	1992-96	1997-01	2002-06										
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	4.3
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	4.2
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	4.5
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	4.3
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	4.3
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	4.5
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	4.6
Malta	:	:	4.9	:	:	5.8	6.2	5.8	5.0	4.7	4.6	4.3	4.7
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	4.4
Slovenia	:	:	5.5	:	:	:	:	8.7	6.4	4.7	3.8	3.9	4.5
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	4.2
Bulgaria	:	:	5.6	:	:	:	:	8.3	6.5	5.4	3.9	4.2	4.5
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	4.3
Estonia	:	:	5.3	13.2	11.4	10.5	10.2	8.4	5.3	4.4	4.0	4.3	6.1
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	4.5
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	7.1
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	4.5
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	4.6
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

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	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	52.7	49.9	50.0	51.1	49.1	51.7	48.4	48.3	48.8	48.2	49.0	48.0	49.3
Germany	47.8	47.4	47.2	48.5	47.1	46.9	45.4	43.8	43.9	43.3	43.3	42.8	43.0
Ireland	39.3	34.0	33.8	33.4	33.9	33.8	34.2	35.7	36.4	36.6	38.1	36.8	38.5
Greece	44.3	45.6	44.0	44.9	45.5	43.0	42.0	42.3	43.1	41.8	42.4	41.9	42.4
Spain	44.6	40.0	38.6	38.4	38.9	38.5	38.6	38.4	38.8	38.7	39.7	39.4	40.2
France	53.3	52.5	53.0	53.3	53.2	53.3	52.7	53.2	52.6	52.8	52.5	52.7	52.5
Italy	53.2	48.3	48.0	48.3	47.7	48.0	48.8	48.6	48.5	48.6	48.7	48.4	48.7
Cyprus	:	:	43.0	45.0	42.8	43.6	43.6	45.9	43.9	45.5	43.9	45.4	43.8
Luxembourg	:	39.3	41.3	41.8	42.6	41.8	38.6	38.2	37.5	37.2	38.8	36.6	39.4
Malta	:	42.6	45.1	47.8	45.8	45.0	43.9	42.9	42.5	42.6	42.5	41.8	41.8
Netherlands	52.0	45.9	46.1	47.1	46.1	45.2	46.1	47.0	45.9	47.4	45.9	46.9	45.7
Austria	53.3	52.3	50.5	50.7	52.5	49.6	49.1	48.4	48.0	48.0	47.7	47.8	47.5
Portugal	41.4	43.3	46.0	45.5	46.5	47.7	46.3	45.4	45.7	45.4	45.7	45.2	45.9
Slovenia	:	46.7	46.4	47.1	46.5	46.0	45.3	43.8	43.3	43.2	43.3	42.2	42.5
Finland	59.9	51.3	49.5	49.9	50.0	50.2	48.8	47.6	47.4	47.6	47.5	47.4	47.4
Euro area	50.1	47.7	47.4	48.1	47.5	47.4	46.8	46.4	46.3	46.2	46.2	46.0	46.2
Bulgaria	:	:	39.1	40.3	39.7	39.2	36.4	36.7	37.8	36.3	37.7	36.3	37.7
Czech Republic	:	43.0	45.5	47.3	45.2	44.9	43.6	43.0	42.4	43.0	42.2	42.9	41.8
Denmark	59.0	55.1	53.4	54.9	54.4	52.5	51.1	50.8	50.6	51.4	51.0	51.2	50.8
Estonia	:	37.7	34.2	34.6	34.1	33.5	33.0	34.7	33.7	35.7	36.1	36.5	36.5
Latvia	:	38.0	35.9	34.8	35.8	35.6	37.9	37.2	38.0	37.6	38.2	37.0	38.5
Lithuania	:	41.3	33.8	33.2	33.4	33.6	33.9	35.2	35.6	35.6	36.4	34.6	36.7
Hungary	:	48.9	50.2	49.1	48.9	49.9	51.9	50.3	50.1	48.9	49.1	48.7	48.4
Poland	:	43.7	43.7	44.6	42.6	43.3	43.8	42.7	42.4	42.3	42.6	41.8	42.3
Romania	:	:	35.1	33.6	33.6	33.5	35.3	36.6	36.9	39.0	38.5	40.9	39.9
Slovakia	:	47.4	39.6	40.2	37.8	38.1	37.2	35.9	36.9	35.1	36.3	34.6	36.1
Sweden	64.6	57.9	55.5	56.7	55.3	55.0	54.2	53.6	52.5	53.0	52.8	52.6	52.6
United Kingdom	42.5	39.1	42.7	42.0	42.5	44.0	43.8	44.0	43.6	44.0	44.1	44.1	44.3
EU27	:	46.7	46.7	47.2	46.7	46.8	46.3	45.9	45.8	45.8	45.8	45.6	45.8
USA	35.9	33.1	34.6	34.8	34.5	34.8	34.7	35.6	35.5	36.3	36.7	36.6	37.7
Japan	34.9	40.4	39.6	40.2	38.9	40.4	37.9	39.8	38.2	40.1	38.7	41.0	40.0

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					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	47.4	49.3	49.6	51.1	49.1	49.4	48.8	48.0	48.7	47.8	48.7	47.6	48.6
Germany	44.8	45.9	43.9	44.5	43.3	43.5	43.8	43.9	43.9	43.2	42.8	43.0	42.7
Ireland	37.7	36.4	35.0	33.9	35.3	35.5	37.2	36.6	36.7	36.3	36.7	36.2	36.8
Greece	34.5	41.4	38.9	39.3	38.1	37.8	39.4	39.4	40.2	39.9	40.4	40.0	40.4
Spain	39.1	38.1	39.0	38.2	38.5	39.4	40.4	40.2	41.0	40.0	40.3	39.9	40.2
France	48.4	50.4	49.8	49.2	49.6	50.4	50.3	50.6	49.9	50.2	49.6	50.0	49.5
Italy	44.9	46.1	44.5	44.8	44.2	43.8	45.4	46.3	46.6	46.3	46.4	46.1	46.4
Cyprus	:	:	39.3	38.5	38.7	41.2	42.4	45.0	47.2	44.8	45.6	44.8	45.7
Luxembourg	:	43.8	41.8	42.4	41.4	41.7	39.9	39.3	40.5	38.3	41.2	38.0	41.7
Malta	:	35.0	40.0	37.9	41.1	42.1	41.3	41.1	40.7	41.1	40.9	40.8	40.9
Netherlands	48.7	46.0	44.8	43.9	44.3	44.9	46.6	46.7	46.3	47.9	47.3	48.1	47.6
Austria	49.2	50.7	48.7	49.4	48.8	48.1	47.6	47.5	47.5	47.3	47.0	47.4	46.8
Portugal	36.7	40.0	42.2	42.5	43.1	41.6	42.4	42.5	43.1	42.8	43.6	42.8	43.3
Slovenia	:	43.8	44.4	44.4	44.2	44.5	44.1	43.1	43.2	42.1	42.7	41.4	41.9
Finland	54.0	54.1	52.7	52.5	52.4	53.1	52.9	52.1	52.7	51.8	52.4	51.4	52.0
Euro area	45.1	46.0	45.0	45.0	44.6	44.9	45.4	45.6	45.6	45.3	45.2	45.1	45.2
Bulgaria	:	:	40.3	40.3	41.2	41.0	39.4	39.7	41.2	39.4	40.9	39.4	40.9
Czech Republic	:	38.6	41.0	40.7	42.2	41.4	41.0	39.6	40.8	40.2	40.7	40.2	40.7
Denmark	56.5	56.1	56.0	55.0	56.4	57.7	56.1	54.8	55.1	54.5	54.8	53.6	53.7
Estonia	:	37.3	36.1	36.4	35.9	35.4	36.6	37.7	36.9	37.7	36.5	37.5	35.8
Latvia	:	36.6	34.8	33.2	34.7	35.2	37.7	38.1	38.0	38.4	37.2	37.5	36.4
Lithuania	:	36.4	32.7	32.0	31.8	33.1	33.4	34.3	34.3	34.1	34.7	33.8	35.1
Hungary	:	43.7	42.3	41.9	42.4	42.1	42.6	43.9	44.6	44.7	45.1	44.9	44.8
Poland	:	39.8	38.7	38.4	36.9	39.0	40.0	40.0	40.4	39.0	40.1	38.8	39.7
Romania	:	:	33.5	32.1	32.4	32.3	33.1	33.9	34.4	35.8	35.6	37.0	36.2
Slovakia	:	40.0	35.7	37.4	35.4	35.3	33.5	33.2	34.7	32.8	34.3	32.2	33.8
Sweden	56.9	59.1	56.2	55.8	56.1	57.2	56.5	56.7	56.0	55.8	55.5	55.6	55.0
United Kingdom	36.4	39.7	39.8	38.7	39.1	40.6	41.3	41.3	40.8	41.0	40.8	41.3	41.0
EU27	:	45.4	44.3	44.1	43.9	44.4	44.8	44.9	44.9	44.6	44.6	44.5	44.5
USA	31.7	33.5	30.8	30.0	30.1	31.2	32.1	32.8	32.5	33.1	31.6	33.3	31.9
Japan	32.5	33.1	33.6	32.4	32.8	33.7	36.5	35.8	36.6	35.9	36.8	36.4	37.2

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

15.04.2008

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	-5.3	-0.5	-0.4	0.0	0.0	-2.3	0.3	-0.3	-0.2	-0.4	-0.4	-0.4	-0.6
Germany	-3.0	-1.6	-3.3	-4.0	-3.8	-3.4	-1.6	0.1	0.0	-0.1	-0.5	0.2	-0.2
Ireland	-1.7	2.4	1.2	0.4	1.4	1.6	3.0	0.9	0.3	-0.2	-1.4	-0.6	-1.7
Greece	-9.8	-4.2	-5.1	-5.6	-7.4	-5.1	-2.6	-2.9	-2.8	-1.8	-2.0	-1.8	-2.0
Spain	-5.6	-1.9	0.4	-0.2	-0.3	1.0	1.8	1.8	2.2	1.2	0.6	0.6	0.0
France	-4.9	-2.1	-3.2	-4.1	-3.6	-2.9	-2.4	-2.6	-2.7	-2.6	-2.9	-2.7	-3.0
Italy	-8.3	-2.2	-3.5	-3.5	-3.5	-4.2	-3.4	-2.3	-1.9	-2.3	-2.3	-2.3	-2.4
Cyprus	:	:	-3.7	-6.5	-4.1	-2.4	-1.2	-1.0	3.3	-0.8	1.7	-0.6	1.8
Luxembourg	1.6	4.5	0.5	0.5	-1.2	-0.1	1.3	1.2	2.9	1.0	2.4	1.4	2.3
Malta	:	-7.6	-5.1	-9.8	-4.6	-3.0	-2.5	-1.8	-1.8	-1.6	-1.6	-1.0	-1.0
Netherlands	-3.3	0.0	-1.3	-3.1	-1.7	-0.3	0.5	-0.4	0.4	0.5	1.4	1.3	1.8
Austria	-4.1	-1.6	-1.7	-1.4	-3.7	-1.5	-1.5	-0.8	-0.5	-0.7	-0.7	-0.4	-0.6
Portugal	-4.7	-3.4	-3.8	-2.9	-3.4	-6.1	-3.9	-3.0	-2.6	-2.6	-2.2	-2.4	-2.6
Slovenia	:	-3.0	-2.0	-2.7	-2.3	-1.5	-1.2	-0.7	-0.1	-1.0	-0.6	-0.8	-0.6
Finland	-5.8	2.8	3.2	2.6	2.4	2.9	4.1	4.6	5.3	4.2	4.9	4.0	4.6
Euro area	-5.0	-1.6	-2.5	-3.1	-2.9	-2.5	-1.3	-0.8	-0.6	-0.9	-1.0	-0.8	-1.1
Bulgaria	:	1.4	1.2	0.0	1.4	1.8	3.0	3.0	3.4	3.1	3.2	3.1	3.2
Czech Republic	:	-4.4	-4.5	-6.6	-3.0	-3.6	-2.7	-3.4	-1.6	-2.8	-1.4	-2.7	-1.1
Denmark	-2.5	0.9	2.4	0.0	1.9	5.0	4.8	4.0	4.4	3.0	3.9	2.5	2.9
Estonia	:	-0.5	1.8	1.8	1.6	1.8	3.4	3.0	2.8	1.9	0.4	1.0	-0.7
Latvia	:	-1.4	-1.1	-1.6	-1.0	-0.4	-0.2	0.9	0.0	0.8	-1.1	0.5	-2.1
Lithuania	:	-4.9	-1.1	-1.3	-1.5	-0.5	-0.5	-0.9	-1.2	-1.4	-1.7	-0.8	-1.5
Hungary	:	-5.3	-7.9	-7.2	-6.5	-7.8	-9.2	-6.4	-5.5	-4.2	-4.0	-3.8	-3.6
Poland	:	-3.9	-5.0	-6.3	-5.7	-4.3	-3.8	-2.7	-2.0	-3.2	-2.5	-3.1	-2.6
Romania	:	:	-1.6	-1.5	-1.2	-1.2	-2.2	-2.7	-2.5	-3.2	-2.9	-3.9	-3.7
Slovakia	:	-7.5	-3.9	-2.7	-2.4	-2.8	-3.6	-2.7	-2.2	-2.3	-2.0	-2.4	-2.3
Sweden	-7.7	1.2	0.6	-0.9	0.8	2.2	2.3	3.0	3.5	2.8	2.7	3.0	2.3
United Kingdom	-6.1	0.6	-2.9	-3.3	-3.4	-3.4	-2.6	-2.8	-2.9	-3.0	-3.3	-2.8	-3.3
EU27	:	-1.4	-2.5	-3.1	-2.8	-2.5	-1.4	-1.1	-0.9	-1.2	-1.2	-1.1	-1.3
USA	-4.2	0.3	-3.9	-4.9	-4.4	-3.6	-2.6	-2.7	-3.0	-3.2	-5.0	-3.4	-5.9
Japan	-2.5	-7.3	-6.0	-7.9	-6.2	-6.7	-1.4	-4.0	-1.6	-4.2	-1.9	-4.7	-2.7

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			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	9.5	7.0	4.8	5.3	4.7	4.2	4.0	3.8	3.8	3.6	3.7	3.5	3.6
Germany	3.3	3.2	2.9	3.0	2.8	2.8	2.8	2.7	2.8	2.7	2.6	2.6	2.6
Ireland	5.6	2.6	1.2	1.2	1.2	1.1	1.0	0.9	0.9	0.9	1.0	1.0	1.1
Greece	11.5	7.9	4.8	4.9	5.0	4.4	4.1	3.9	4.1	3.9	3.9	3.8	3.9
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	1.5
France	3.4	3.1	2.7	2.8	2.7	2.6	2.5	2.6	2.7	2.6	2.8	2.6	2.7
Italy	11.3	7.3	4.9	5.1	4.7	4.5	4.6	4.7	5.0	4.8	4.9	4.8	4.9
Cyprus	:	:	3.3	3.4	3.3	3.5	3.3	3.1	3.2	3.0	2.9	2.8	2.7
Luxembourg	0.3	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Malta	:	3.3	3.6	3.4	3.7	3.7	3.5	3.3	3.4	3.2	3.2	3.1	3.0
Netherlands	5.7	4.1	2.5	2.6	2.5	2.4	2.2	2.2	2.3	2.2	2.0	2.0	1.9
Austria	4.0	3.5	2.9	2.9	2.8	2.9	2.7	2.6	2.7	2.5	2.6	2.4	2.6
Portugal	5.8	3.2	2.7	2.7	2.7	2.6	2.8	2.9	2.8	2.9	2.8	2.9	2.7
Slovenia	:	2.3	1.8	2.0	1.7	1.6	1.4	1.4	1.3	1.3	1.2	1.2	1.1
Finland	4.0	3.2	1.7	1.7	1.6	1.5	1.4	1.4	1.5	1.4	1.4	1.3	1.3
Euro area	5.6	4.3	3.1	3.3	3.1	2.9	2.9	2.9	3.0	2.8	2.9	2.8	2.8
Bulgaria	:	4.8	1.8	2.0	1.8	1.7	1.4	1.1	1.0	1.0	0.9	0.9	0.8
Czech Republic	:	1.0	1.2	1.2	1.2	1.2	1.1	1.0	1.2	1.0	1.1	1.0	1.1
Denmark	6.4	4.1	2.3	2.6	2.3	1.8	1.6	1.3	1.5	1.2	1.4	1.1	1.2
Estonia	:	0.3	0.2	0.2	0.2	0.2	0.2	0.1	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	0.5	0.4	0.5	0.3	0.6
Lithuania	:	1.3	1.0	1.3	0.9	0.8	0.7	0.9	0.7	0.9	0.7	1.0	0.7
Hungary	:	6.8	4.1	4.0	4.4	4.1	3.9	3.9	4.1	4.1	4.2	3.9	4.1
Poland	:	3.5	2.8	3.0	2.8	2.8	2.7	2.3	2.6	2.4	2.7	2.4	2.7
Romania	:	:	1.5	1.6	1.4	1.1	0.8	0.9	0.7	0.9	0.8	0.9	0.9
Slovakia	:	3.3	2.3	2.5	2.2	1.7	1.5	1.5	1.4	1.5	1.4	1.5	1.4
Sweden	6.0	4.2	2.0	2.0	1.6	1.6	1.7	1.6	1.8	1.5	1.8	1.4	1.7
United Kingdom	3.1	3.0	2.0	2.0	1.9	2.1	2.0	1.7	2.2	2.0	2.2	2.0	2.1
EU27	:	4.1	2.9	3.0	2.8	2.7	2.6	2.5	2.7	2.6	2.7	2.5	2.6
USA	4.8	4.0	2.8	2.8	2.7	2.8	2.8	3.0	2.9	3.1	2.9	3.1	3.0
Japan	3.6	3.4	2.6	2.7	2.5	2.4	2.4	2.4	2.8	2.6	2.7	2.8	3.0

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}

15.04.2008

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	4.2	6.5	4.4	5.3	4.7	1.9	4.3	3.5	3.7	3.3	3.3	3.1	2.9
Germany	0.3	1.7	-0.4	-1.1	-1.0	-0.6	1.2	2.8	2.8	2.6	2.2	2.8	2.3
Ireland	4.0	5.0	2.3	1.6	2.5	2.7	4.0	1.8	1.2	0.7	-0.3	0.4	-0.6
Greece	1.7	3.7	-0.3	-0.7	-2.4	-0.8	1.4	1.0	1.2	2.1	2.0	2.0	1.9
Spain	-0.8	1.8	2.4	2.1	1.7	2.8	3.4	3.4	3.8	2.7	2.2	2.1	1.6
France	-1.5	1.0	-0.5	-1.3	-0.9	-0.3	0.2	0.0	0.1	0.0	-0.1	-0.1	-0.3
Italy	3.0	5.1	1.4	1.6	1.2	0.3	1.3	2.5	3.1	2.4	2.6	2.5	2.5
Cyprus	:	:	-0.4	-3.1	-0.8	1.1	2.1	2.2	6.5	2.2	4.6	2.2	4.6
Luxembourg	1.9	4.9	0.7	0.7	-1.1	0.1	1.5	1.3	3.1	1.2	2.6	1.5	2.5
Malta	:	-4.3	-1.5	-6.4	-1.0	0.8	1.0	1.5	1.6	1.6	1.7	2.1	2.1
Netherlands	2.4	4.1	1.1	-0.6	0.7	2.1	2.7	1.8	2.7	2.7	3.4	3.3	3.7
Austria	-0.1	1.8	1.2	1.6	-0.9	1.4	1.2	1.7	2.2	1.8	1.9	2.0	2.0
Portugal	1.1	-0.1	-1.1	-0.2	-0.7	-3.5	-1.1	-0.1	0.2	0.3	0.6	0.5	0.1
Slovenia	:	-0.6	-0.2	-0.7	-0.5	0.1	0.2	0.7	1.2	0.3	0.6	0.4	0.5
Finland	-1.8	6.0	4.9	4.3	3.9	4.4	5.5	6.0	6.8	5.6	6.3	5.3	5.9
Euro area	0.6	2.6	0.7	0.2	0.2	0.4	1.6	2.1	2.3	2.0	1.9	2.0	1.8
Bulgaria	:	6.2	3.1	2.0	3.2	3.5	4.4	4.1	4.4	4.1	4.1	4.0	4.0
Czech Republic	:	-3.4	-3.3	-5.5	-1.8	-2.4	-1.5	-2.3	-0.4	-1.8	-0.3	-1.7	0.0
Denmark	3.9	5.0	4.7	2.6	4.2	6.8	6.4	5.3	5.9	4.3	5.3	3.6	4.1
Estonia	:	-0.2	2.0	2.0	1.8	1.9	3.5	3.1	3.0	2.1	0.5	1.1	-0.6
Latvia	:	-0.6	-0.5	-0.9	-0.3	0.2	0.3	1.3	0.5	1.2	-0.5	0.9	-1.5
Lithuania	:	-3.6	-0.1	0.0	-0.6	0.3	0.3	0.0	-0.5	-0.5	-0.9	0.2	-0.8
Hungary	:	1.6	-3.8	-3.1	-2.1	-3.7	-5.3	-2.4	-1.4	-0.2	0.2	0.1	0.5
Poland	:	-0.3	-2.2	-3.3	-2.9	-1.5	-1.1	-0.3	0.6	-0.9	0.2	-0.7	0.1
Romania	:	:	-0.2	0.1	0.2	-0.1	-1.4	-1.8	-1.8	-2.3	-2.1	-3.0	-2.9
Slovakia	:	-4.2	-1.7	-0.2	-0.2	-1.1	-2.2	-1.2	-0.8	-0.8	-0.6	-0.9	-1.0
Sweden	-1.8	5.4	2.6	1.1	2.4	3.9	4.0	4.7	5.3	4.3	4.4	4.5	4.0
United Kingdom	-3.0	3.6	-0.9	-1.4	-1.5	-1.3	-0.5	-1.1	-0.7	-1.0	-1.2	-0.8	-1.1
EU27	:	2.7	0.4	-0.1	0.0	0.3	1.2	1.5	1.8	1.4	1.4	1.4	1.3
USA	0.6	4.3	-1.0	-2.1	-1.7	-0.8	0.2	0.2	-0.1	-0.1	-2.2	-0.3	-2.9
Japan	1.1	-3.9	-3.4	-5.2	-3.6	-4.3	1.0	-1.6	1.1	-1.6	0.8	-1.9	0.3

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					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	-4.8	-0.8	-0.3	0.4	-0.1	-2.1	0.3	-0.2	-0.3	-0.1	-0.2	0.0	-0.1
Germany	-3.2	-1.6	-2.7	-3.3	-3.0	-2.4	-1.4	-0.1	-0.4	-0.4	-0.9	-0.2	-0.7
Ireland	-0.2	1.3	0.9	-0.1	1.4	1.6	2.9	1.2	0.2	0.3	-0.8	0.0	-0.9
Greece	-9.2	-3.8	-5.5	-5.9	-8.0	-5.7	-3.2	-3.4	-3.5	-2.4	-2.5	-2.3	-2.3
Spain	-4.7	-2.2	0.3	-0.3	-0.2	1.2	2.0	2.0	2.4	1.6	1.1	1.4	0.9
France	-4.2	-2.4	-3.3	-4.0	-3.7	-2.9	-2.4	-2.4	-2.6	-2.5	-2.7	-2.4	-2.6
Italy	-7.8	-2.5	-3.5	-3.4	-3.5	-3.9	-3.2	-1.9	-1.7	-1.9	-1.8	-1.8	-1.6
Cyprus	:	:	-3.6	-6.4	-3.8	-1.9	-0.7	-0.6	3.5	-0.5	1.9	-0.4	2.0
Luxembourg	:	4.4	0.8	1.2	-0.9	0.4	1.4	1.2	2.8	1.2	2.7	1.7	2.9
Malta	:	-8.2	-4.6	-9.3	-3.5	-2.2	-2.2	-1.6	-1.7	-1.5	-1.6	-1.2	-1.0
Netherlands	-2.7	-0.9	-0.6	-2.0	-0.9	0.8	1.1	-0.2	0.3	0.5	1.0	1.1	1.6
Austria	-4.0	-1.9	-1.2	-0.6	-3.1	-0.8	-1.4	-1.0	-1.0	-1.0	-1.2	-0.8	-0.9
Portugal	-4.1	-4.0	-3.4	-2.3	-2.8	-5.4	-3.2	-2.2	-2.1	-2.1	-1.8	-2.1	-2.2
Slovenia	:	-3.1	-1.6	-1.9	-1.6	-0.9	-1.3	-1.1	-0.7	-1.4	-1.1	-1.0	-0.7
Finland	-3.1	1.8	3.6	3.3	2.9	3.7	4.2	4.4	4.9	3.9	4.8	4.0	4.9
Euro area	-4.5	-1.9	-2.2	-2.7	-2.6	-2.0	-1.2	-0.7	-0.7	-0.8	-1.0	-0.7	-0.8
Bulgaria	:	:	1.0	0.0	1.0	1.3	2.4	2.7	2.9	3.1	2.9	3.4	3.2
Czech Republic	:	-3.7	-3.9	-5.5	-2.0	-3.3	-3.0	-4.1	-2.3	-3.6	-1.9	-3.2	-1.5
Denmark	-1.5	0.1	2.6	0.9	2.5	5.3	4.1	3.6	3.9	3.2	4.0	3.0	3.6
Estonia	:	-0.1	1.4	2.0	1.6	1.2	1.9	2.4	1.6	1.9	0.6	1.5	0.2
Latvia	:	-1.3	-1.1	-1.3	-0.8	-0.5	-1.1	0.2	-1.4	0.5	-1.3	1.0	-1.1
Lithuania	:	-4.2	-1.5	-1.9	-2.1	-1.1	-1.0	-1.2	-1.9	-1.5	-2.0	-0.6	-1.3
Hungary	:	-4.8	-8.1	-6.9	-6.6	-8.2	-10.0	-6.4	-5.6	-4.1	-3.6	-3.8	-3.3
Poland	:	-4.1	-4.9	-5.9	-5.9	-4.2	-4.0	-3.0	-2.5	-3.4	-2.7	-2.8	-2.3
Romania	:	:	-1.7	-0.8	-1.8	-1.6	-3.3	-3.3	-3.4	-3.6	-3.7	-4.0	-4.1
Slovakia	:	-6.4	-3.1	-1.8	-1.4	-1.9	-3.1	-3.0	-2.7	-2.7	-2.8	-2.6	-3.1
Sweden	-5.9	1.3	0.6	-0.2	0.7	1.9	1.5	2.7	3.1	2.3	2.5	2.8	2.5
United Kingdom	-5.5	0.3	-3.0	-3.4	-3.7	-3.4	-2.6	-2.7	-3.0	-2.8	-3.2	-2.6	-2.8
EU27	:	-1.6	-2.3	-2.7	-2.7	-2.1	-1.4	-1.0	-1.0	-1.1	-1.2	-1.0	-1.1

TABLE 41 : Cyclically adjusted primary balance, general government (as a percentage of GDP, 1992-2009)

15.04.2008

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	4.8	6.2	4.5	5.7	4.6	2.1	4.3	3.6	3.5	3.5	3.4	3.5	3.4
Germany	0.1	1.6	0.1	-0.3	-0.1	0.4	1.3	2.7	2.4	2.3	1.7	2.4	1.9
Ireland	5.4	4.0	2.0	1.1	2.6	2.7	4.0	2.1	1.2	1.2	0.2	0.9	0.2
Greece	2.2	4.1	-0.7	-1.0	-3.0	-1.3	0.9	0.5	0.6	1.5	1.5	1.5	1.6
Spain	0.1	1.6	2.4	2.0	1.8	3.0	3.6	3.6	3.9	3.1	2.7	2.9	2.5
France	-0.8	0.8	-0.6	-1.2	-1.0	-0.3	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Italy	3.5	4.8	1.4	1.8	1.2	0.6	1.4	2.8	3.3	2.9	3.2	3.0	3.3
Cyprus	:	:	-0.2	-3.0	-0.5	1.6	2.6	2.6	6.7	2.5	4.8	2.5	4.8
Luxembourg	:	4.8	1.0	1.5	-0.7	0.5	1.6	1.3	3.0	1.3	2.9	1.8	3.1
Malta	:	-4.9	-1.0	-5.9	0.2	1.5	1.3	1.7	1.7	1.7	1.7	1.9	2.1
Netherlands	3.0	3.2	1.9	0.6	1.6	3.2	3.3	2.0	2.6	2.7	3.0	3.1	3.5
Austria	0.0	1.5	1.7	2.3	-0.3	2.0	1.3	1.5	1.7	1.4	1.5	1.6	1.7
Portugal	1.7	-0.8	-0.7	0.4	-0.1	-2.7	-0.4	0.7	0.7	0.9	1.0	0.9	0.6
Slovenia	:	-0.8	0.2	0.1	0.1	0.7	0.1	0.3	0.6	-0.1	0.1	0.2	0.4
Finland	0.9	5.0	5.3	5.0	4.5	5.2	5.6	5.8	6.4	5.3	6.2	5.3	6.1
Euro area	1.1	2.4	0.9	0.6	0.5	0.9	1.7	2.2	2.3	2.1	1.9	2.1	2.0
Bulgaria	:	:	2.8	2.0	2.9	3.0	3.8	3.8	3.9	4.1	3.8	4.3	4.0
Czech Republic	:	-2.7	-2.7	-4.4	-0.8	-2.1	-1.8	-3.1	-1.2	-2.6	-0.8	-2.2	-0.4
Denmark	4.8	4.2	4.9	3.6	4.8	7.1	5.7	4.9	5.4	4.4	5.5	4.1	4.8
Estonia	:	0.2	1.6	2.2	1.8	1.4	2.1	2.5	1.7	2.0	0.7	1.7	0.3
Latvia	:	-0.5	-0.5	-0.6	-0.1	0.1	-0.6	0.6	-0.8	1.0	-0.8	1.3	-0.6
Lithuania	:	-2.9	-0.5	-0.6	-1.1	-0.3	-0.2	-0.3	-1.2	-0.6	-1.3	0.4	-0.6
Hungary	:	2.0	-4.0	-2.9	-2.3	-4.1	-6.1	-2.5	-1.5	0.0	0.5	0.1	0.8
Poland	:	-0.5	-2.0	-2.9	-3.1	-1.4	-1.3	-0.7	0.1	-1.0	0.0	-0.4	0.3
Romania	:	:	-0.2	0.8	-0.4	-0.5	-2.5	-2.5	-2.7	-2.7	-2.9	-3.1	-3.2
Slovakia	:	-3.1	-0.8	0.7	0.8	-0.2	-1.7	-1.5	-1.3	-1.2	-1.4	-1.2	-1.7
Sweden	0.1	5.5	2.5	1.8	2.3	3.5	3.2	4.4	5.0	3.9	4.3	4.2	4.2
United Kingdom	-2.4	3.3	-1.0	-1.4	-1.7	-1.3	-0.5	-1.1	-0.8	-0.8	-1.1	-0.6	-0.7
EU27	:	2.5	0.5	0.2	0.1	0.6	1.2	1.5	1.7	1.5	1.4	1.6	1.5

TABLE 42 : Gross debt, general government (as a percentage of GDP, 2000-2009)

	1999	2001	2002	2003	2004	2005	2006	2007		2008		2009	
								X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	107.8	106.5	103.4	98.6	94.2	92.1	88.2	84.6	84.9	81.7	81.9	79.0	79.9
Germany	59.7	58.8	60.3	63.8	65.6	67.8	67.6	64.7	65.0	62.6	63.1	60.3	61.6
Ireland	37.8	35.5	32.2	31.1	29.5	27.4	25.1	25.2	25.4	26.9	26.9	28.5	28.8
Greece	101.8	103.0	100.8	97.9	98.6	98.0	95.3	93.7	94.5	91.1	92.4	88.8	90.2
Spain	59.2	55.5	52.5	48.7	46.2	43.0	39.7	36.3	36.2	34.6	35.3	33.0	35.2
France	56.7	56.2	58.2	62.9	64.9	66.4	63.6	64.3	64.2	64.1	64.4	64.1	65.1
Italy	109.1	108.7	105.6	104.3	103.8	105.8	106.5	104.3	104.0	102.9	103.2	101.2	102.6
Cyprus	58.8	60.7	64.6	68.9	70.2	69.1	64.8	60.5	59.8	53.3	47.3	49.6	43.2
Luxembourg	6.4	6.5	6.5	6.3	6.3	6.1	6.6	6.6	6.8	6.0	7.4	5.4	7.6
Malta	55.9	62.1	60.1	69.3	72.6	70.4	64.2	63.1	62.6	61.3	60.6	59.2	58.8
Netherlands	53.8	50.7	50.5	52.0	52.4	52.3	47.9	46.8	45.4	44.8	42.4	41.7	39.0
Austria	65.5	66.0	65.8	64.6	63.8	63.5	61.8	60.0	59.1	58.4	57.7	57.2	56.8
Portugal	50.4	52.9	55.5	56.9	58.3	63.6	64.7	64.4	63.6	64.7	64.1	64.5	64.3
Slovenia	27.2	27.8	28.5	27.9	27.6	27.5	27.2	25.6	24.1	24.5	23.4	23.8	22.5
Finland	43.8	42.3	41.3	44.3	44.1	41.3	39.2	35.7	35.4	32.4	31.9	29.8	29.1
Euro area	69.1	68.0	67.9	69.1	69.6	70.2	68.5	66.5	66.4	65.0	65.2	63.4	64.3
Bulgaria	74.3	67.3	53.6	45.9	37.9	29.2	22.7	19.3	18.2	15.9	14.1	12.9	10.8
Czech Republic	18.5	25.1	28.5	30.1	30.4	29.7	29.4	30.2	28.7	30.3	28.1	30.5	27.2
Denmark	51.7	47.4	46.8	45.8	43.8	36.4	30.4	25.0	26.0	20.9	21.7	17.5	18.4
Estonia	5.2	4.8	5.6	5.5	5.1	4.5	4.2	2.8	3.4	2.3	3.4	2.0	3.5
Latvia	12.3	14.0	13.5	14.6	14.9	12.4	10.7	10.2	9.7	7.8	10.0	6.4	11.2
Lithuania	23.7	23.1	22.4	21.2	19.4	18.6	18.2	17.7	17.3	17.2	17.0	16.1	16.8
Hungary	54.3	52.1	55.7	58.0	59.4	61.6	65.6	66.1	66.0	66.3	66.5	65.9	65.7
Poland	36.8	37.6	42.2	47.1	45.7	47.1	47.6	46.8	45.2	47.1	44.5	47.1	44.1
Romania	24.7	26.0	25.0	21.5	18.8	15.8	12.4	12.5	13.0	12.8	13.6	13.5	14.9
Slovakia	50.4	49.0	43.4	42.4	41.4	34.2	30.4	30.8	29.4	30.7	29.2	30.6	29.7
Sweden	53.6	54.4	52.6	52.3	51.2	50.9	45.9	41.1	40.6	35.7	35.5	30.5	31.9
United Kingdom	41.0	37.7	37.5	38.7	40.4	42.1	43.1	43.6	43.8	44.8	45.6	45.6	48.2
EU27	61.7	60.8	60.2	61.7	62.1	62.6	61.3	59.5	58.7	58.3	58.9	57.0	58.4

TABLE 43 : Gross national saving (as a percentage of GDP, 1992-2009)

15.04.2008

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	24.8	25.7	24.2	23.6	24.1	23.9	25.2	25.4	25.3	25.5	24.7	25.7	24.6
Germany	21.2	20.3	21.0	19.5	21.5	21.8	23.0	24.6	25.1	24.6	25.7	24.9	25.8
Ireland	18.6	23.9	22.9	23.6	23.4	22.7	23.6	21.3	20.7	20.1	18.6	19.6	18.4
Greece	19.3	15.1	10.9	11.2	11.4	10.4	11.3	15.3	9.7	15.9	10.0	16.7	10.3
Spain	20.6	22.3	22.5	23.4	22.4	22.0	21.8	22.1	21.3	21.6	19.6	20.6	18.2
France	18.9	21.1	19.1	19.1	19.0	18.6	18.9	19.5	19.5	19.9	19.2	20.3	19.2
Italy	20.6	21.3	20.0	19.8	20.3	19.6	19.6	19.6	19.7	19.6	19.3	19.7	19.2
Cyprus	:	13.8	14.8	15.2	15.2	14.1	14.6	13.9	14.3	14.7	12.4	15.4	13.0
Luxembourg	35.0	33.4	31.7	29.8	33.0	32.6	29.4	30.4	28.5	31.6	26.2	32.6	26.6
Malta	:	14.2	12.9	13.4	10.7	11.4	12.5	14.3	15.2	14.5	14.6	14.8	14.8
Netherlands	25.9	27.1	26.4	25.4	27.6	26.1	27.4	27.1	28.2	27.8	28.8	28.6	29.6
Austria	21.1	22.1	23.7	23.2	23.7	23.8	24.4	26.0	26.0	26.5	26.1	26.6	26.3
Portugal	20.3	18.4	14.7	16.4	15.3	12.8	12.5	12.7	12.3	12.8	12.4	12.9	12.8
Slovenia	23.4	24.6	25.1	24.6	25.1	25.3	25.6	26.7	26.5	27.3	26.5	27.7	26.9
Finland	18.0	26.9	26.4	24.5	26.6	25.7	26.8	27.3	27.9	27.3	27.6	27.4	27.7
Euro area	20.9	21.6	20.9	20.5	21.2	20.8	21.4	22.1	22.1	22.2	21.9	22.4	21.8
Bulgaria	:	:	16.2	15.6	17.3	16.5	14.9	15.7	14.8	15.8	15.7	16.0	17.0
Czech Republic	28.1	24.9	22.5	20.7	22.0	23.5	23.8	23.7	24.8	24.2	24.6	24.4	25.0
Denmark	19.9	22.0	23.8	23.1	23.4	24.5	25.2	25.3	24.5	24.8	23.8	24.6	23.4
Estonia	:	21.8	23.4	21.8	22.5	25.6	25.2	24.4	23.1	24.6	24.1	24.6	24.3
Latvia	31.2	16.6	20.0	20.6	20.2	21.9	17.2	15.6	13.6	16.2	13.6	17.6	14.5
Lithuania	:	14.2	16.9	16.5	16.4	17.9	16.5	15.8	15.7	15.3	15.6	15.5	15.6
Hungary	:	20.3	17.3	17.3	17.5	16.9	16.4	18.3	18.1	20.0	18.8	21.4	19.8
Poland	17.2	19.7	16.8	16.6	15.7	17.7	18.0	19.8	20.0	20.3	20.8	21.2	21.4
Romania	22.9	14.3	17.3	17.1	18.8	13.7	16.1	13.4	15.7	13.3	16.1	13.4	17.6
Slovakia	:	23.9	20.1	18.3	19.7	20.4	20.3	23.6	21.6	24.8	22.7	25.6	23.3
Sweden	17.8	21.9	23.8	23.4	23.1	23.4	26.7	26.0	26.2	26.1	25.5	26.3	25.4
United Kingdom	15.4	16.5	15.3	15.7	15.9	15.1	14.2	15.3	14.6	15.1	15.8	15.5	15.9
EU27	:	20.9	20.0	19.7	20.2	19.9	20.3	21.0	20.8	21.1	20.9	21.3	20.8
USA	16.4	16.9	13.5	13.3	13.5	13.5	13.5	13.3	13.6	13.1	12.5	13.9	13.1
Japan	31.6	28.5	26.8	26.1	26.8	27.2	27.9	28.6	28.7	28.9	28.6	29.6	28.8

TABLE 44 : Gross saving, private sector (as a percentage of GDP, 1992-2009) ¹

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	28.0	23.8	22.6	22.9	22.6	22.0	23.1	23.7	23.3	23.8	23.0	24.0	23.1
Germany	20.8	19.6	21.8	20.7	22.8	22.7	22.3	22.2	22.8	22.4	23.9	22.4	23.7
Ireland	18.6	18.5	18.3	19.9	18.8	17.9	17.0	16.2	16.0	15.8	15.0	15.5	15.0
Greece	25.5	15.5	12.5	12.7	14.2	12.5	12.3	16.2	11.4	15.7	10.4	16.3	10.8
Spain	21.8	20.1	17.8	19.4	18.3	16.9	15.5	15.7	14.4	15.7	14.2	15.3	13.3
France	20.0	19.7	18.9	19.8	19.1	18.3	17.6	18.3	18.4	18.8	18.4	19.2	18.5
Italy	25.6	20.5	20.0	20.6	20.6	20.1	18.2	17.9	17.5	18.1	17.7	18.2	17.7
Cyprus	:	:	15.1	17.7	15.8	13.9	12.2	11.4	7.3	12.2	7.5	12.7	8.0
Luxembourg	:	24.4	25.5	23.6	28.6	26.9	22.9	23.7	20.6	25.2	18.7	26.0	19.2
Malta	:	17.9	14.7	15.8	12.8	13.0	13.8	13.7	14.4	13.8	14.1	13.6	13.6
Netherlands	26.4	24.1	24.4	24.7	26.2	23.3	23.9	23.7	24.4	23.4	24.0	23.4	24.3
Austria	20.6	20.1	21.9	21.6	21.7	22.3	23.0	23.6	23.8	24.0	24.1	23.8	24.3
Portugal	21.5	17.7	16.5	17.8	17.7	16.0	14.1	13.6	12.4	13.4	12.4	13.3	12.9
Slovenia	:	23.2	23.0	22.8	22.9	22.8	22.7	23.3	22.5	24.2	23.2	24.6	23.6
Finland	20.0	21.3	20.6	19.3	21.4	20.3	20.4	20.5	20.2	20.8	20.2	21.0	20.6
Euro area	22.2	20.2	20.2	20.5	20.9	20.1	19.4	19.6	19.4	19.7	19.6	19.8	19.5
Bulgaria	:	:	10.7	11.6	11.3	9.9	7.7	8.7	7.2	8.5	8.4	8.4	9.4
Czech Republic	:	21.5	19.6	19.3	18.0	20.0	20.2	20.9	20.4	20.4	20.4	20.0	20.5
Denmark	20.5	19.3	19.8	21.5	19.9	17.8	18.6	19.8	18.4	19.8	17.8	20.5	18.7
Estonia	:	17.8	17.6	15.8	17.7	20.2	17.9	17.4	16.0	18.5	19.9	19.4	20.9
Latvia	:	15.3	17.1	19.5	17.5	18.0	11.4	9.0	8.2	9.8	9.5	10.7	10.9
Lithuania	:	12.8	14.7	14.7	14.5	15.5	13.5	13.0	12.2	12.9	13.0	12.5	13.3
Hungary	:	19.8	19.7	19.3	19.7	20.0	20.4	20.1	18.7	20.3	18.6	21.9	19.8
Poland	:	19.4	17.6	18.3	17.3	18.0	17.4	18.1	17.4	19.2	18.9	19.7	19.4
Romania	:	:	13.7	13.4	15.4	10.4	11.8	10.1	11.7	10.3	12.3	10.8	14.4
Slovakia	:	23.7	20.3	18.1	19.4	19.4	21.0	23.5	20.6	24.3	21.8	25.2	22.7
Sweden	21.6	17.8	20.1	21.4	19.4	18.0	21.2	19.8	19.5	20.1	19.6	20.2	19.8
United Kingdom	18.9	14.8	16.1	16.9	17.1	16.3	14.3	15.3	15.1	15.2	16.4	15.4	16.7
EU27	:	19.4	19.4	19.8	20.1	19.3	18.5	18.7	18.5	18.9	18.8	19.0	18.9
USA	18.4	14.3	14.7	15.4	15.3	14.5	13.5	12.6	13.2	12.8	14.0	13.7	15.3
Japan	26.6	27.7	28.5	28.5	29.4	28.6	27.8	28.2	28.9	28.8	29.1	29.9	30.2

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

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	5-year averages						2007		2008		2009		
	1992-96	1997-01	2002-06	2003	2004	2005	2006	X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	-3.2	1.9	1.6	0.7	1.4	1.9	2.1	1.7	2.0	1.6	1.7	1.7	1.5
Germany	0.4	0.7	-0.7	-1.3	-1.3	-0.9	0.7	2.4	2.3	2.2	1.8	2.5	2.0
Ireland	0.0	5.4	4.6	3.7	4.6	4.8	6.6	5.1	4.8	4.3	3.6	4.0	3.4
Greece	-6.2	-0.5	-1.6	-1.5	-2.7	-2.1	-1.0	-0.9	-1.7	0.3	-0.4	0.3	-0.4
Spain	-1.1	2.1	4.7	3.9	4.0	5.1	6.3	6.4	6.9	5.9	5.4	5.4	4.9
France	-1.1	1.5	0.2	-0.7	-0.1	0.3	1.3	1.2	1.1	1.2	0.8	1.1	0.6
Italy	-5.0	0.8	0.0	-0.8	-0.4	-0.6	1.3	1.7	2.3	1.5	1.6	1.5	1.5
Cyprus	:	:	-0.3	-2.6	-0.6	0.2	2.5	2.6	7.0	2.5	4.9	2.7	5.0
Luxembourg	:	9.0	6.2	6.2	4.5	5.7	6.4	6.7	7.9	6.4	7.5	6.6	7.4
Malta	:	-3.7	-1.8	-2.4	-2.1	-1.7	-1.3	0.7	0.8	0.7	0.5	1.2	1.2
Netherlands	-0.4	3.0	2.0	0.7	1.4	2.8	3.4	3.4	3.8	4.4	4.8	5.2	5.3
Austria	0.5	1.9	1.8	1.6	2.0	1.6	1.4	2.3	2.3	2.5	2.0	2.7	2.1
Portugal	-1.2	0.6	-1.8	-1.4	-2.4	-3.3	-1.6	-0.9	-0.1	-0.6	0.0	-0.4	-0.1
Slovenia	:	1.4	2.2	1.8	2.2	2.5	2.9	3.4	4.0	3.1	3.3	3.0	3.2
Finland	-2.0	5.7	5.8	5.2	5.2	5.4	6.3	6.8	7.7	6.5	7.4	6.4	7.1
Euro area	-1.5	1.4	0.7	0.0	0.3	0.7	2.0	2.6	2.7	2.5	2.3	2.5	2.2
Bulgaria	:	6.5	5.5	4.0	6.0	6.5	7.2	7.0	7.6	7.3	7.3	7.7	7.6
Czech Republic	:	3.3	2.9	1.4	4.0	3.5	3.6	2.8	4.4	3.7	4.3	4.4	4.5
Denmark	-0.6	2.6	4.0	1.6	3.5	6.6	6.6	5.5	6.1	5.0	6.1	4.1	4.7
Estonia	:	4.0	5.8	6.0	4.8	5.4	7.3	7.0	7.1	6.1	4.2	5.2	3.3
Latvia	:	1.3	2.9	1.1	2.7	3.9	5.8	6.7	5.5	6.4	4.1	6.9	3.6
Lithuania	:	1.4	2.2	1.8	2.0	2.4	3.0	2.8	3.4	2.4	2.6	3.0	2.3
Hungary	:	0.5	-2.4	-2.1	-2.1	-3.1	-4.0	-1.8	-0.6	-0.3	0.2	-0.4	0.1
Poland	:	0.3	-0.8	-1.7	-1.7	-0.4	0.6	1.7	2.5	1.2	1.9	1.5	2.0
Romania	:	:	3.6	3.7	3.4	3.4	4.3	3.2	4.0	3.0	3.8	2.6	3.2
Slovakia	:	0.2	-0.2	0.3	0.3	1.0	-0.7	0.1	1.0	0.5	0.9	0.4	0.5
Sweden	-3.8	4.1	3.7	2.0	3.6	5.3	5.5	6.2	6.7	6.0	5.9	6.2	5.6
United Kingdom	-3.5	1.7	-0.8	-1.2	-1.2	-1.2	-0.1	0.0	-0.4	-0.1	-0.7	0.1	-0.8
EU27	:	1.5	0.6	-0.1	0.2	0.6	1.8	2.2	2.4	2.2	2.0	2.2	2.0
USA	-1.9	2.6	-1.2	-2.2	-1.8	-1.0	-0.1	0.7	0.4	0.3	-1.5	0.1	-2.2
Japan	5.0	0.8	-1.7	-2.4	-2.6	-1.4	0.1	0.3	-0.2	0.1	-0.6	-0.4	-1.4

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	X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	3.9	5.2	3.3	2.9	6.5	3.6	2.6	4.8	4.6	5.0	3.9	5.1	3.6
Germany	2.8	9.1	7.2	2.5	10.0	7.1	12.5	7.7	7.8	6.8	5.6	7.0	4.7
Ireland	14.2	16.9	4.5	0.6	7.3	5.2	4.4	7.0	8.2	5.8	5.4	6.2	4.9
Greece	4.2	10.6	2.8	2.5	12.6	2.7	5.1	6.3	5.9	5.9	5.5	5.7	5.4
Spain	10.3	8.9	3.5	3.7	4.2	2.6	5.1	4.6	5.3	4.7	4.0	4.6	4.9
France	5.2	8.1	2.5	-1.2	4.0	2.8	5.5	3.2	2.7	3.5	2.2	3.4	2.0
Italy	7.4	2.9	1.4	-2.0	4.9	1.0	6.2	2.9	5.0	2.8	3.2	3.1	3.0
Cyprus	:	6.0	1.7	-0.7	5.1	4.7	4.5	3.8	4.3	4.0	3.8	4.0	4.1
Luxembourg	4.4	10.7	6.5	5.0	9.8	6.3	9.6	7.5	7.1	7.2	2.8	7.0	3.9
Malta	:	4.8	3.3	-0.6	2.2	-0.9	10.0	-1.4	-0.6	0.7	0.8	1.2	0.8
Netherlands	5.8	8.3	4.6	1.5	7.9	5.9	7.0	6.3	6.4	5.5	4.4	5.4	4.1
Austria	3.1	8.7	5.6	2.3	8.2	6.2	7.5	7.2	8.1	6.5	6.0	5.9	5.7
Portugal	4.5	5.5	4.1	3.9	4.0	2.0	9.2	6.7	7.1	5.6	4.6	4.9	4.2
Slovenia	-2.1	7.9	8.9	3.1	12.5	10.1	12.3	13.3	13.0	10.2	9.3	8.9	8.8
Finland	10.7	10.6	5.6	-1.7	8.6	7.0	11.8	5.8	4.8	5.2	3.4	5.1	3.5
Euro area	5.7	7.9	4.5	1.2	7.2	4.7	7.9	5.8	6.1	5.3	4.4	5.4	4.0
Bulgaria	:	5.5	9.2	10.7	12.7	8.5	8.7	7.4	5.2	8.4	7.1	8.2	6.7
Czech Republic	9.7	10.3	11.1	7.2	20.7	11.8	14.4	14.9	14.5	12.9	11.1	10.8	13.2
Denmark	3.4	7.2	4.6	-0.9	2.8	8.2	9.0	3.9	3.7	3.9	3.3	3.5	3.2
Estonia	:	13.4	10.8	8.0	16.6	20.5	8.3	5.8	1.5	7.5	3.5	7.1	5.7
Latvia	:	5.8	9.2	5.2	9.4	20.3	6.5	10.0	11.1	9.0	8.6	9.7	8.8
Lithuania	:	6.7	12.0	6.9	4.4	17.7	12.2	8.7	4.7	11.3	9.4	9.1	7.2
Hungary	11.7	16.3	11.1	6.2	15.6	11.5	18.9	13.9	14.2	10.5	10.3	9.5	10.0
Poland	12.2	9.7	11.0	14.2	14.0	8.0	14.6	8.6	9.1	8.1	6.9	8.0	6.6
Romania	10.4	10.8	11.6	8.4	13.9	7.7	10.6	8.2	8.8	8.9	8.9	8.9	8.6
Slovakia	:	10.8	12.6	15.9	7.4	13.9	21.0	19.9	16.0	12.6	11.7	9.1	9.7
Sweden	7.8	8.2	6.3	4.0	11.0	6.6	8.9	5.6	5.5	6.0	5.1	5.7	4.3
United Kingdom	7.2	5.4	5.2	1.7	4.9	8.2	10.7	6.1	-5.3	5.5	5.0	5.8	5.4
EU27	6.7	7.7	5.1	1.8	7.4	5.7	8.8	6.3	5.1	5.8	4.9	5.8	4.7
USA	7.4	4.2	4.7	1.3	9.7	6.9	8.4	7.4	8.1	8.5	8.6	7.8	6.6
Japan	3.5	2.9	9.4	9.2	13.9	7.0	9.7	7.7	8.8	7.3	7.0	8.1	5.2

TABLE 47 : Imports of goods and services, volume (percentage change on preceding year, 1992-2009)

15.04.2008

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	3.7	5.1	3.3	2.9	6.6	4.2	2.7	5.4	5.0	5.0	4.3	4.9	3.8
Germany	3.2	7.5	5.7	5.4	7.2	6.7	11.2	6.2	4.8	7.4	5.7	6.8	5.1
Ireland	11.9	16.9	4.2	-1.6	8.5	7.7	4.4	6.0	6.4	4.7	3.3	5.9	4.5
Greece	3.8	9.2	5.6	8.7	10.7	0.5	8.7	7.7	7.0	7.0	6.1	6.0	5.7
Spain	6.4	11.4	7.1	6.2	9.6	7.7	8.3	6.5	6.6	5.2	4.5	4.2	3.0
France	3.2	8.6	4.3	1.1	7.1	5.0	6.8	3.7	4.1	4.4	2.6	4.6	2.4
Italy	1.9	5.6	2.7	1.2	4.2	2.2	5.9	2.3	4.4	3.2	3.2	3.4	3.3
Cyprus	:	4.8	3.4	-1.0	9.6	3.1	6.6	4.0	6.9	3.8	5.3	3.9	5.4
Luxembourg	3.6	11.1	5.9	6.1	9.7	6.1	7.2	7.7	7.7	7.4	2.8	7.1	4.0
Malta	:	2.4	3.8	5.9	3.8	1.8	8.3	-2.9	-1.3	0.3	0.6	0.4	0.7
Netherlands	5.5	8.9	4.2	1.8	5.7	5.5	8.1	6.7	5.5	5.6	4.1	5.3	3.6
Austria	3.5	6.7	4.5	5.3	6.8	5.0	5.6	6.1	6.6	6.0	5.9	5.3	5.5
Portugal	5.6	7.7	2.6	-0.8	6.7	3.5	4.6	3.4	5.4	3.3	3.3	3.8	2.8
Slovenia	3.1	7.7	8.7	6.7	13.3	6.7	12.2	13.9	14.1	9.8	8.9	8.0	8.3
Finland	5.7	8.7	6.6	3.0	7.2	11.8	7.8	3.9	4.1	4.6	3.7	4.2	3.2
Euro area	3.8	8.0	4.7	3.3	7.0	5.4	7.7	5.3	5.2	5.5	4.3	5.3	3.9
Bulgaria	:	13.1	12.7	16.4	14.5	13.1	14.0	12.6	9.9	10.6	8.5	9.5	7.7
Czech Republic	20.1	9.8	9.8	8.0	17.9	5.0	13.8	14.1	13.7	12.8	11.0	11.1	12.6
Denmark	4.3	7.2	7.6	-1.6	7.7	11.2	14.1	5.3	5.6	4.8	4.0	3.8	2.8
Estonia	:	12.5	13.0	10.4	15.5	16.3	17.1	7.4	2.8	6.8	2.4	6.2	4.9
Latvia	:	7.3	13.6	13.1	16.6	14.8	19.3	18.6	15.0	7.8	1.4	6.8	4.4
Lithuania	:	7.5	14.8	10.4	14.9	17.2	13.8	15.0	9.1	12.4	8.0	9.6	6.5
Hungary	12.0	16.9	10.1	9.3	13.4	6.8	14.5	10.5	12.2	8.7	9.1	9.1	9.7
Poland	15.3	9.7	9.7	9.3	15.2	4.7	17.4	13.9	10.9	11.8	10.5	10.1	8.7
Romania	8.1	12.1	17.6	16.0	22.1	16.0	22.4	22.3	26.1	17.4	15.3	14.2	13.3
Slovakia	:	9.6	10.7	7.4	8.3	16.1	17.7	15.9	10.4	11.0	9.7	8.1	8.3
Sweden	4.4	7.6	4.8	3.8	6.8	7.0	8.2	7.2	9.5	6.4	5.6	6.0	5.0
United Kingdom	6.2	8.1	6.0	2.0	6.6	7.1	9.8	6.2	-2.9	5.2	3.3	5.8	3.8
EU27	5.2	8.2	5.5	3.4	7.6	6.1	8.9	6.3	4.9	6.1	4.8	5.8	4.5
USA	8.9	9.2	6.1	4.1	11.3	5.9	5.9	2.5	1.9	1.8	0.9	2.6	-0.5
Japan	6.3	1.3	4.6	3.9	8.1	5.8	4.2	3.4	1.7	7.0	3.2	8.8	4.7

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					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	3.3	3.2	2.7	3.5	2.9	1.9	1.3	1.2	1.2	1.2	0.7	1.3	0.7
Germany	2.2	3.6	6.7	6.1	6.9	6.9	7.0	7.7	8.5	7.9	9.0	8.3	9.1
Ireland	16.6	23.2	21.1	23.8	21.7	17.5	14.5	13.3	12.3	13.2	11.3	13.3	10.3
Greece	-12.5	-15.8	-18.4	-18.3	-19.6	-18.3	-18.8	-16.6	-19.0	-16.9	-19.3	-16.9	-19.5
Spain	-3.3	-4.6	-6.4	-5.1	-6.3	-7.4	-8.1	-8.4	-8.4	-8.6	-9.1	-8.6	-9.0
France	0.6	1.0	-0.5	0.1	-0.3	-1.2	-1.6	-2.6	-2.8	-2.7	-3.1	-3.0	-3.2
Italy	2.7	2.1	0.4	0.7	0.6	0.0	-0.7	0.3	0.1	0.4	0.1	0.6	0.3
Cyprus	:	-24.6	-25.8	-23.9	-25.6	-25.0	-27.3	-26.8	-28.8	-26.5	-29.8	-26.2	-30.8
Luxembourg	-10.2	-12.7	-10.4	-10.3	-10.2	-11.4	-9.7	-9.8	-10.7	-10.2	-10.6	-10.7	-10.8
Malta	-22.4	-17.6	-14.8	-12.9	-15.7	-18.7	-19.0	-16.6	-17.5	-16.5	-17.9	-15.8	-17.8
Netherlands	5.0	5.3	7.1	6.5	7.2	7.6	7.4	6.6	7.3	6.7	7.6	6.9	7.9
Austria	-3.3	-1.4	1.1	0.5	1.0	1.0	1.4	2.1	2.1	2.4	2.0	2.4	1.9
Portugal	-8.9	-10.6	-9.5	-8.1	-9.5	-10.3	-10.1	-9.1	-9.9	-8.6	-10.6	-8.4	-10.1
Slovenia	-1.1	-4.5	-3.0	-2.2	-3.8	-3.7	-3.9	-4.9	-5.0	-3.9	-5.6	-3.1	-5.2
Finland	7.5	10.0	6.9	7.8	6.7	4.9	5.5	5.8	5.0	5.7	4.1	5.6	3.9
Euro area	1.2	1.6	1.6	1.9	1.7	1.1	0.7	0.8	0.9	0.8	0.8	0.9	0.8
Euro area, adjusted ¹	:	:	:	1.4	1.3	0.6	0.3	0.6	0.7	0.6	0.6	0.7	0.6
Bulgaria	-2.6	-5.6	-16.4	-13.7	-14.9	-20.2	-22.0	-24.2	-25.5	-23.9	-24.9	-23.8	-24.6
Czech Republic	-5.2	-5.3	-0.4	-2.7	-0.5	2.0	2.0	2.6	3.3	2.7	3.2	3.0	3.8
Denmark	4.1	3.6	3.3	4.6	3.6	2.9	1.0	-0.3	-0.4	-0.7	-0.6	-0.9	-0.3
Estonia	:	-16.7	-15.9	-15.8	-17.0	-13.7	-17.7	-17.0	-15.5	-14.6	-13.2	-12.6	-11.7
Latvia	-7.0	-14.8	-19.7	-17.8	-20.2	-18.9	-25.6	-26.0	-24.5	-23.5	-20.0	-21.4	-18.5
Lithuania	:	-11.3	-10.9	-9.0	-10.6	-11.4	-14.1	-16.7	-14.4	-16.9	-12.8	-17.0	-12.0
Hungary	-5.6	-4.4	-2.6	-3.9	-3.0	-1.7	-1.0	1.3	0.9	2.5	1.9	3.1	2.5
Poland	-0.1	-6.4	-2.3	-2.6	-2.2	-0.9	-2.0	-3.9	-3.1	-5.0	-3.9	-5.8	-4.7
Romania	-7.3	-6.6	-8.8	-7.6	-8.7	-9.8	-12.1	-15.5	-14.6	-18.0	-17.2	-19.3	-17.8
Slovakia	:	-8.6	-5.2	-2.5	-3.8	-5.4	-5.1	-2.4	-1.2	-1.2	-0.1	-0.4	0.5
Sweden	5.0	6.9	6.3	6.4	6.8	5.8	5.8	4.8	4.6	5.0	4.0	5.1	3.7
United Kingdom	-1.8	-3.0	-5.1	-4.3	-5.1	-5.6	-5.9	-5.8	-6.3	-6.1	-7.1	-6.3	-7.0
EU27	-0.1	0.7	0.3	0.7	0.5	-0.1	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7
EU27, adjusted ¹	:	:	:	:	-0.4	-0.9	-1.5	-1.4	-1.3	-1.4	-1.4	-1.4	-1.4
USA	-2.1	-3.6	-5.7	-5.1	-5.9	-6.4	-6.5	-6.1	-6.0	-5.8	-6.1	-5.3	-5.2
Japan	2.7	2.5	2.3	2.4	2.8	2.1	1.9	2.4	2.4	2.4	2.6	2.3	2.6

¹ See note 8 on concepts and sources.

TABLE 49 : Current account balance (as a percentage of GDP, 1992-2009)

15.04.2008

	5-year averages			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	4.6	4.8	3.9	4.5	3.8	3.0	3.3	3.0	3.3	3.1	2.7	3.4	2.5
Germany	-1.1	-0.8	3.7	2.1	4.5	4.7	5.2	5.8	6.9	5.8	7.2	6.0	7.3
Ireland	2.6	0.7	-1.5	0.9	-0.3	-3.5	-4.2	-4.6	-5.0	-4.4	-4.8	-4.3	-4.7
Greece	-0.6	-6.8	-13.2	-13.2	-13.3	-13.4	-14.4	-10.8	-16.2	-10.8	-16.2	-10.6	-16.2
Spain	-1.4	-2.4	-6.0	-4.0	-5.9	-7.5	-8.8	-9.3	-10.0	-9.6	-11.0	-9.8	-11.2
France	0.5	1.9	-0.7	0.2	-0.6	-1.7	-2.2	-2.3	-2.6	-2.3	-2.9	-2.3	-3.0
Italy	1.0	1.2	-1.0	-0.9	-0.5	-1.2	-2.0	-1.7	-1.7	-1.8	-2.0	-1.7	-2.0
Cyprus	:	-4.3	-4.5	-2.2	-5.0	-5.9	-5.9	-6.0	-7.3	-5.9	-8.5	-5.7	-8.0
Luxembourg	12.8	10.0	10.5	8.0	11.6	10.9	10.3	11.5	9.1	12.7	6.2	13.8	6.3
Malta	:	-6.4	-4.7	-3.1	-5.9	-8.8	-8.3	-3.8	-5.5	-3.4	-5.9	-2.6	-5.6
Netherlands	4.6	4.8	7.1	6.1	8.6	7.1	7.6	6.9	8.4	7.5	9.0	8.2	10.0
Austria	-1.8	-1.0	2.6	1.4	2.4	3.0	3.5	4.8	4.7	5.3	5.0	5.3	5.2
Portugal	-3.1	-8.7	-8.5	-6.4	-7.8	-9.8	-9.8	-9.0	-9.8	-8.8	-10.1	-8.7	-9.4
Slovenia	2.5	-1.6	-1.5	-0.9	-2.6	-2.0	-2.8	-3.5	-4.8	-2.6	-4.9	-1.8	-4.3
Finland	0.7	7.2	5.8	4.8	6.7	3.9	4.9	5.2	4.4	5.1	3.4	5.0	3.2
Euro area	0.3	0.5	0.4	0.4	0.8	0.1	-0.2	0.0	0.0	0.0	-0.1	0.1	-0.1
Euro area, adjusted ¹			:	0.4	0.8	0.1	-0.1	0.0	0.1	-0.1	0.0	0.0	0.0
Bulgaria	-4.3	-2.7	-8.6	-5.9	-6.5	-11.5	-16.3	-18.1	-22.0	-17.7	-21.2	-17.6	-20.9
Czech Republic	-2.1	-4.1	-4.7	-6.5	-5.5	-2.3	-3.1	-2.8	-2.4	-2.4	-2.9	-2.3	-2.6
Denmark	1.8	1.2	3.2	3.4	3.0	4.4	2.6	1.3	1.1	0.8	0.9	0.7	1.1
Estonia	:	-7.5	-12.0	-11.4	-12.4	-10.1	-15.7	-14.6	-15.7	-12.3	-11.2	-10.9	-9.3
Latvia	6.0	-7.3	-12.5	-8.2	-12.8	-12.5	-22.5	-23.8	-22.9	-21.6	-17.7	-19.8	-15.5
Lithuania	:	-8.6	-7.4	-6.8	-7.5	-7.2	-10.5	-13.9	-13.8	-14.4	-12.3	-14.6	-11.2
Hungary	:	-8.0	-7.3	-7.9	-8.4	-6.8	-6.5	-4.4	-5.0	-3.4	-4.4	-2.7	-3.9
Poland	0.6	-4.2	-2.7	-2.1	-4.4	-1.6	-3.1	-4.3	-3.7	-5.5	-4.6	-6.2	-5.5
Romania	:	-5.0	-6.0	-4.8	-5.0	-8.9	-10.4	-13.7	-13.9	-15.5	-16.1	-16.2	-16.2
Slovakia	:	-6.4	-7.3	-6.3	-6.6	-8.5	-7.7	-4.4	-5.4	-2.9	-4.0	-2.0	-3.1
Sweden	1.2	4.6	6.7	6.8	6.7	6.1	8.5	7.1	6.5	7.0	5.9	7.3	5.6
United Kingdom	-1.4	-1.5	-2.2	-1.3	-1.6	-2.5	-3.9	-3.1	-4.2	-3.5	-3.2	-3.5	-3.2
EU27	-0.1	0.0	-0.1	0.1	0.3	-0.4	-0.9	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9
EU27, adjusted ¹			:	:	0.1	-0.2	-0.8	-0.9	-0.7	-1.0	-0.7	-0.9	-0.7
USA	-1.1	-2.8	-5.3	-4.7	-5.4	-5.9	-6.1	-5.4	-5.1	-4.9	-5.0	-4.3	-4.0
Japan	2.5	2.5	3.5	3.2	3.7	3.6	3.9	4.7	4.8	4.8	5.1	4.8	5.0

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			2003	2004	2005	2006	2007		2008		2009	
	1992-96	1997-01	2002-06					X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	4.4	4.8	3.9	4.4	3.8	2.9	3.4	3.1	3.2	3.2	2.6	3.5	2.4
Germany	-1.1	-0.7	3.7	2.1	4.5	4.7	5.2	5.8	6.9	5.8	7.3	6.1	7.5
Ireland	3.8	1.6	-1.3	1.0	-0.1	-3.4	-4.0	-4.5	-5.0	-4.3	-4.7	-4.2	-4.6
Greece	:	-4.8	-11.7	-11.8	-11.7	-12.1	-12.3	-9.4	-14.1	-9.5	-14.3	-9.4	-14.4
Spain	-0.7	-1.4	-5.0	-2.9	-4.8	-6.5	-8.1	-8.7	-9.5	-9.1	-10.6	-9.3	-10.8
France	0.5	2.0	-0.8	-0.2	-0.5	-1.7	-2.1	-2.3	-3.0	-2.2	-3.6	-2.2	-3.5
Italy	1.1	1.4	-0.9	-0.7	-0.4	-1.1	-1.8	-1.6	-1.6	-1.5	-1.8	-1.5	-1.8
Cyprus	:	-4.3	-4.1	-1.9	-4.1	-5.3	-5.7	-5.8	-7.1	-5.7	-8.3	-5.5	-7.9
Luxembourg	:	:	:	:	:	:	:	11.5	9.1	12.7	6.2	13.8	6.3
Malta	:	-6.0	-3.1	-2.8	-4.4	-5.5	-5.3	-0.9	-4.6	-0.6	-5.0	0.0	-4.8
Netherlands	4.2	4.6	6.8	5.9	8.3	6.7	7.3	6.6	8.0	7.2	8.5	7.9	9.5
Austria	-2.0	-1.1	2.5	1.4	2.3	3.0	3.3	4.6	4.5	5.2	4.8	5.3	5.0
Portugal	-0.6	-6.4	-6.7	-4.1	-6.1	-8.3	-8.6	-7.9	-8.6	-7.7	-8.7	-7.7	-8.1
Slovenia	2.4	-1.6	-1.4	-0.8	-2.5	-1.9	-2.6	-3.3	-4.5	-2.6	-4.7	-1.9	-4.1
Finland	0.8	7.6	7.1	6.1	7.9	5.2	6.1	5.3	4.4	5.2	3.5	5.1	3.3
Euro area	0.4	0.7	0.5	0.5	1.0	0.3	0.1	0.1	0.2	0.1	0.0	0.2	0.1
Euro area, adjusted ¹			:	0.5	1.0	0.3	0.1	0.1	0.3	0.1	0.1	0.2	0.3
Bulgaria	-4.6	-2.5	-8.0	-6.1	-5.0	-10.6	-15.2	-17.0	-20.8	-16.0	-19.8	-15.8	-19.3
Czech Republic	-3.0	-4.0	-4.4	-6.3	-5.4	-2.9	-2.7	-2.5	-2.0	-2.1	-2.3	-1.9	-1.8
Denmark	1.8	1.4	3.2	3.4	3.0	4.5	2.6	1.2	1.1	0.7	0.9	0.6	1.1
Estonia	:	-7.0	-11.3	-10.8	-11.7	-9.5	-14.6	-13.6	-14.7	-11.2	-10.0	-9.6	-8.0
Latvia	11.9	-7.0	-11.6	-7.5	-11.8	-11.2	-21.3	-22.2	-20.8	-18.9	-15.5	-18.0	-13.7
Lithuania	:	-8.6	-6.6	-6.4	-6.8	-6.2	-9.0	-12.5	-11.9	-12.9	-10.2	-13.0	-8.8
Hungary	:	-7.6	-6.9	-8.0	-8.1	-6.0	-5.7	-3.9	-4.1	-1.5	-2.4	-0.4	-1.6
Poland	3.1	-4.1	-2.5	-2.1	-4.1	-1.2	-2.5	-3.3	-2.6	-2.9	-2.3	-4.0	-3.6
Romania	-3.8	-4.8	-5.5	-4.3	-4.1	-7.9	-10.4	-12.8	-13.2	-14.5	-15.4	-15.3	-15.5
Slovakia	:	-6.5	-7.7	-6.6	-6.4	-8.9	-7.2	-4.2	-4.7	-2.7	-3.4	-1.6	-2.7
Sweden	0.9	4.3	6.6	6.9	6.7	6.2	7.9	7.0	5.9	6.9	5.3	7.2	5.1
United Kingdom	-1.3	-1.4	-2.1	-1.2	-1.5	-2.4	-3.8	-3.0	-4.0	-3.4	-3.1	-3.4	-3.1
EU27	-0.4	-0.3	-0.7	-0.4	-0.1	-1.2	-2.0	-0.6	-2.4	-0.6	-2.6	-0.6	-2.5
EU27, adjusted ¹			:	:	-0.3	-1.0	-1.9	-0.7	-2.2	-0.7	-2.4	-0.7	-2.3
USA	-1.2	-2.9	-5.3	-4.7	-5.4	-6.0	-6.1	-5.4	-5.1	-4.9	-5.0	-4.4	-4.0
Japan	2.4	2.3	3.4	3.1	3.6	3.5	3.8	4.6	4.7	4.6	4.9	4.6	4.9

¹ See note 8 on concepts and sources.

TABLE 51 : Merchandise trade balance (fob-fob, in billions of Ecu/euro, 2001-2009)

15.04.2008

	2001	2002	2003	2004	2005	2006	2007		2008		2009	
							X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	7.1	10.2	9.7	8.3	5.7	4.1	3.8	4.1	4.0	2.5	4.8	2.3
Germany	100.7	136.6	131.9	153.5	155.5	162.6	187.0	206.3	198.6	225.5	215.9	236.8
Ireland	30.9	36.2	33.2	32.2	28.2	25.4	25.0	22.9	26.1	21.8	27.8	20.8
Greece	-23.7	-26.7	-31.3	-36.3	-36.4	-40.3	-38.0	-43.6	-41.5	-47.4	-44.5	-51.3
Spain	-38.4	-36.6	-40.2	-53.2	-67.3	-79.7	-87.8	-88.7	-95.5	-100.4	-100.3	-103.1
France	2.4	8.4	2.4	-5.1	-21.2	-41.3	-47.4	-51.5	-53.2	-59.4	-59.8	-64.8
Italy	16.7	14.3	9.5	8.8	0.4	-10.5	4.5	1.1	6.6	1.0	9.6	4.1
Cyprus	-2.9	-3.0	-2.8	-3.3	-3.4	-3.9	-4.1	-4.5	-4.3	-5.0	-4.6	-5.5
Luxembourg	-3.0	-2.5	-2.7	-2.8	-3.4	-3.3	-3.6	-3.8	-4.1	-4.0	-4.6	-4.2
Malta	-0.6	-0.4	-0.6	-0.7	-0.9	-1.0	-0.9	-0.9	-0.9	-1.0	-0.9	-1.1
Netherlands	27.0	31.2	31.0	35.4	38.7	39.6	36.5	40.8	38.8	44.6	42.4	48.7
Austria	-1.2	3.8	1.2	2.5	2.4	3.5	5.7	5.6	6.9	5.8	7.2	5.6
Portugal	-14.5	-13.1	-11.2	-13.7	-15.4	-15.6	-14.8	-16.1	-14.7	-17.9	-14.9	-17.7
Slovenia	-0.7	-0.3	-0.6	-1.0	-1.0	-1.2	-1.6	-1.7	-1.4	-2.0	-1.2	-2.0
Finland	14.1	13.5	11.4	10.2	7.7	9.2	10.3	8.9	10.6	7.8	11.0	7.8
Euro area	117.4	174.9	144.4	138.7	93.8	47.4	74.5	78.8	76.1	72.0	88.0	76.4
Euro area, adjusted ¹	73.2	127.8	105.0	104.4	49.4	24.8	51.4	60.7	52.9	53.9	64.8	58.3
Bulgaria	-1.8	-1.9	-2.4	-3.0	-4.4	-5.6	-6.9	-7.4	-7.8	-8.2	-8.7	-9.1
Czech Republic	-3.4	-2.3	-2.2	-0.4	2.0	2.3	3.3	4.2	3.7	4.9	4.5	6.3
Denmark	8.3	8.5	8.7	7.2	6.0	2.2	-0.7	-0.8	-1.8	-1.4	-2.3	-0.8
Estonia	-0.9	-1.2	-1.4	-1.6	-1.5	-2.3	-2.6	-2.4	-2.6	-2.3	-2.5	-2.2
Latvia	-1.5	-1.6	-1.8	-2.3	-2.5	-4.1	-5.3	-4.9	-5.7	-4.8	-5.9	-4.8
Lithuania	-1.2	-1.4	-1.5	-1.9	-2.4	-3.3	-4.6	-4.0	-5.4	-4.2	-6.1	-4.4
Hungary	-2.6	-2.3	-2.9	-2.5	-1.5	-0.9	1.3	0.9	2.7	2.0	3.6	2.8
Poland	-8.5	-7.7	-5.1	-4.6	-2.2	-5.5	-12.1	-9.7	-17.1	-14.2	-21.3	-18.8
Romania	-3.4	-2.8	-4.0	-5.3	-7.8	-11.8	-18.3	-17.7	-23.5	-21.9	-28.1	-25.7
Slovakia	-2.5	-2.4	-0.7	-1.3	-2.1	-2.3	-1.3	-0.6	-0.7	-0.1	-0.3	0.3
Sweden	16.9	17.4	17.5	19.7	17.1	18.2	15.6	15.2	17.4	13.5	18.4	13.0
United Kingdom	-66.3	-75.9	-70.3	-89.8	-100.6	-113.8	-118.9	-128.1	-125.8	-131.0	-135.2	-132.1
EU27	47.1	98.0	75.0	49.0	-10.4	-79.5	-76.0	-76.4	-90.6	-95.6	-95.8	-99.0
EU27, adjusted ¹	:	:	:	-43.1	-101.5	-168.4	-168.0	-160.2	-182.6	-179.4	-187.8	-182.8
USA	-487.8	-521.2	-495.3	-548.2	-639.2	-677.1	-619.5	-603.6	-579.2	-559.8	-554.6	-484.6
Japan	77.3	97.9	91.5	103.5	75.5	64.8	75.3	76.8	76.0	86.8	73.4	84.5

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	
							X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	10.6	13.3	12.4	11.0	9.0	10.4	10.0	10.9	10.9	9.2	12.3	9.0
Germany	-0.6	46.1	44.4	98.5	105.7	121.5	140.6	166.2	144.4	179.9	155.6	189.2
Ireland	-0.5	-0.4	1.3	-0.5	-5.7	-7.5	-8.6	-9.3	-8.6	-9.2	-9.0	-9.4
Greece	-15.3	-18.4	-22.6	-24.6	-26.6	-30.9	-24.8	-37.3	-26.5	-39.7	-27.8	-42.5
Spain	-29.5	-27.4	-31.6	-49.5	-67.8	-85.7	-97.2	-105.0	-107.1	-121.5	-115.0	-128.3
France	17.6	12.2	3.9	-9.7	-28.8	-38.5	-43.2	-48.3	-44.5	-56.4	-47.1	-60.8
Italy	3.6	-4.3	-12.0	-7.6	-16.9	-29.1	-26.5	-26.8	-28.1	-31.0	-29.0	-32.1
Cyprus	-0.4	-0.4	-0.3	-0.6	-0.8	-0.8	-0.9	-1.1	-1.0	-1.4	-1.0	-1.4
Luxembourg	2.0	2.8	2.0	3.2	3.3	3.5	4.2	3.3	5.1	2.3	6.0	2.5
Malta	-0.2	0.1	-0.1	-0.3	-0.4	-0.4	-0.2	-0.3	-0.2	-0.3	-0.2	-0.3
Netherlands	23.3	28.2	29.2	42.2	35.9	40.4	38.6	47.2	43.7	52.9	50.5	61.4
Austria	-0.7	5.6	3.3	5.7	7.5	14.1	13.0	12.9	15.0	14.3	15.7	15.3
Portugal	-13.5	-11.5	-8.9	-11.3	-14.6	-15.1	-14.7	-16.0	-14.9	-17.1	-15.5	-16.6
Slovenia	0.0	0.2	-0.2	-0.7	-0.6	-0.8	-1.2	-1.6	-0.9	-1.8	-0.7	-1.7
Finland	12.1	12.7	7.0	10.2	6.1	7.9	9.2	7.9	9.5	6.5	9.9	6.4
Euro area	9.2	59.1	28.3	66.8	6.5	-11.4	-1.5	2.6	-3.3	-13.5	4.9	-9.4
Euro area, adjusted ¹	-22.1	56.9	33.6	63.8	10.1	-10.8	-3.5	13.1	-5.2	-3.0	3.0	1.1
Bulgaria	-0.9	-0.4	-1.0	-1.3	-2.5	-4.6	-5.2	-6.4	-5.8	-7.0	-6.4	-7.7
Czech Republic	-3.6	-4.9	-5.3	-4.8	-2.3	-4.2	-3.5	-3.0	-3.4	-4.5	-3.4	-4.3
Denmark	5.6	4.6	6.5	5.9	9.1	5.8	3.0	2.5	2.0	2.0	1.7	2.6
Estonia	-0.3	-0.8	-1.0	-1.2	-1.1	-2.1	-2.3	-2.4	-2.2	-1.9	-2.2	-1.8
Latvia	-0.7	-0.7	-0.8	-1.4	-1.6	-3.6	-4.9	-4.6	-5.3	-4.2	-5.5	-4.1
Lithuania	-0.6	-0.8	-1.1	-1.4	-1.5	-2.5	-3.8	-3.9	-4.6	-4.0	-5.2	-4.1
Hungary	-3.6	-4.9	-5.9	-6.9	-6.0	-5.8	-4.5	-5.0	-3.7	-4.6	-3.2	-4.4
Poland	-6.0	-5.3	-4.1	-8.9	-3.9	-8.7	-13.1	-11.4	-18.8	-17.0	-22.8	-21.9
Romania	-2.5	-0.5	-2.5	-3.0	-7.1	-10.2	-16.1	-16.9	-20.2	-20.4	-23.6	-23.5
Slovakia	-1.7	-1.9	-1.9	-2.3	-3.3	-3.4	-2.4	-2.9	-1.7	-2.5	-1.3	-2.1
Sweden	12.3	14.4	18.9	19.2	18.1	20.2	23.0	21.6	24.4	20.0	26.6	19.8
United Kingdom	-35.2	-26.3	-21.6	-28.5	-45.3	-74.3	-62.9	-84.4	-71.3	-59.6	-75.6	-59.7
EU27	-28.7	31.3	8.1	31.3	-42.2	-104.8	-94.3	-114.2	-113.9	-117.2	-116.0	-120.6
EU27, adjusted ¹	:	:	:	10.3	-27.6	-96.3	-104.8	-80.8	-124.4	-83.7	-126.5	-87.1
USA	-413.8	-485.8	-453.5	-502.3	-591.1	-632.6	-550.8	-519.1	-492.1	-459.6	-452.7	-375.1
Japan	98.0	119.8	120.5	138.6	133.4	136.0	149.2	154.9	151.5	165.8	155.6	166.0

¹ See note 8 on concepts and sources.

TABLE 53 : Export markets (a) (percentage change on preceding year, 2001-2009)

15.04.2008

	2001	2002	2003	2004	2005	2006	2007		2008		2009	
							X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	2.4	4.0	8.5	6.4	9.5	6.6	6.6	5.5	6.3	5.1	6.2	4.7
Germany	3.8	4.0	9.7	6.4	9.2	7.7	7.7	7.0	7.0	6.3	6.9	6.0
Ireland	3.2	3.6	8.5	6.0	8.6	5.9	5.9	3.5	5.4	4.2	5.7	3.9
Greece	3.2	4.5	9.5	7.5	9.8	8.0	8.0	7.6	7.5	6.8	7.1	6.4
Spain	1.9	3.1	8.5	5.9	8.7	6.2	6.2	5.5	6.0	5.1	6.0	4.8
France	2.9	4.6	8.7	6.1	9.2	7.1	7.1	5.8	6.6	5.8	6.5	5.3
Italy	3.6	5.1	9.9	7.1	9.9	7.9	7.9	6.9	7.2	6.3	6.9	5.9
Cyprus	:	:	7.6	6.7	10.2	7.8	7.8	5.1	7.0	6.0	6.9	5.8
Luxembourg (b)	:	:	8.1	5.9	9.2	6.1	6.1	5.1	6.1	5.0	5.9	4.6
Malta	:	:	11.0	7.2	9.0	6.7	6.7	5.2	6.5	5.3	6.8	5.1
Netherlands	2.3	4.2	8.3	6.1	9.6	6.8	6.8	5.4	6.6	5.6	6.4	5.1
Austria	2.0	4.6	9.3	6.3	10.9	7.8	7.8	7.0	7.5	6.6	7.1	6.2
Portugal	1.4	3.9	8.5	6.5	9.1	6.8	6.8	5.5	6.2	4.9	5.8	4.2
Slovenia	:	:	8.4	5.8	10.2	8.0	8.0	7.8	7.6	7.0	7.3	6.8
Finland	4.0	5.3	9.8	8.8	11.5	9.3	9.3	8.8	8.3	8.1	8.0	7.7
Euro area (c)	3.1	4.3	9.2	6.4	9.4	7.3	7.3	6.3	6.8	5.9	6.6	5.5
Bulgaria	:	:	10.5	6.4	9.2	7.9	7.9	8.1	7.4	6.9	7.0	6.4
Czech Republic	:	:	9.2	6.6	11.6	8.4	8.4	7.0	7.8	6.7	7.1	6.1
Denmark	2.6	4.5	8.7	7.3	9.8	7.3	7.3	6.3	6.8	5.7	6.6	5.2
Estonia	:	:	9.7	9.7	11.2	10.2	10.2	9.8	8.2	7.3	7.7	6.9
Latvia	:	:	9.2	9.1	13.0	10.5	10.5	8.8	9.2	8.3	8.2	7.8
Lithuania	:	:	10.6	9.2	12.8	11.5	11.5	11.2	9.0	8.3	8.2	8.0
Hungary	:	:	8.9	6.6	11.3	8.9	8.9	8.0	8.3	7.3	7.6	6.7
Poland	:	:	9.6	7.5	11.4	8.7	8.7	8.2	8.1	7.2	7.5	6.8
Romania	:	:	8.7	5.5	8.8	7.1	7.1	7.0	6.9	6.2	6.7	5.8
Slovakia	:	:	10.3	5.8	11.4	8.9	8.9	8.2	8.4	7.4	7.7	7.2
Sweden	3.5	3.9	9.3	7.6	9.8	7.1	7.1	6.1	6.6	5.6	6.4	4.9
United Kingdom	3.0	4.1	9.0	7.0	8.1	6.5	6.5	6.2	6.0	5.0	6.0	4.6
EU27 (c)	:	:	8.7	5.5	9.5	7.3	7.3	6.4	6.8	5.9	6.6	5.5
USA	6.5	5.2	10.8	7.3	8.7	7.3	7.3	7.6	6.9	7.0	7.5	6.8
Japan	7.9	6.6	12.8	7.6	9.4	8.6	8.6	8.1	8.0	7.5	8.5	7.4

(a) Imports of goods to the various markets (incl. EU-markets) weighted according to their share in country's exports of goods.

(b) Included in the figures for Belgium up to 2003.

(c) Intra- and extra-EU trade.

TABLE 54 : Export performance (a) (percentage change on preceding year, 2001-2009)

	2001	2002	2003	2004	2005	2006	2007		2008		2009	
							X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Belgium	-1.1	0.2	-4.0	0.8	-5.9	-3.9	-1.3	-0.6	-0.9	-0.8	-0.8	-0.8
Germany	-0.3	-0.9	-6.0	3.7	-1.6	4.7	0.0	0.8	-0.1	-0.2	0.2	-1.2
Ireland	1.0	-7.4	-11.5	-0.6	-5.6	-4.8	-0.9	0.5	-1.3	-1.6	-0.9	-0.9
Greece	-10.0	1.1	-1.6	-6.5	-2.1	4.1	-0.5	-1.2	-0.3	-1.5	-0.1	-1.6
Spain	1.7	2.0	-3.1	-0.7	-7.0	-1.5	-1.7	-0.8	-1.7	-1.2	-2.0	-0.2
France	-0.9	-4.4	-8.0	-0.9	-5.8	-0.4	-2.9	-2.2	-2.3	-2.9	-2.4	-2.8
Italy	-7.3	-7.1	-10.4	-2.1	-8.4	-2.1	-4.1	-1.2	-3.9	-2.5	-3.6	-2.5
Cyprus	:	:	-11.3	5.1	16.0	-18.2	-4.5	-9.4	-2.9	-2.9	-2.8	-2.1
Luxembourg (b)	:	:	-5.4	2.3	-9.8	3.8	-0.1	-0.5	-0.3	-0.5	-0.4	-0.4
Malta	:	:	-10.1	-4.0	-11.9	-4.1	-8.1	-12.9	-5.8	-4.9	-5.4	-4.3
Netherlands	-1.0	-2.0	-5.7	2.9	-3.2	1.2	-0.2	1.0	-0.6	-0.8	-0.5	-0.5
Austria	3.0	-2.0	-6.3	3.9	-4.2	0.1	-0.2	1.2	-0.7	-0.3	-1.0	-0.3
Portugal	0.1	1.8	-2.5	-3.3	-6.5	1.5	-1.8	0.1	-0.9	-1.0	-0.8	-0.2
Slovenia	:	:	-3.7	6.6	0.0	5.0	4.6	4.4	2.7	2.4	1.6	2.1
Finland	-1.6	-4.9	-8.8	-2.5	-4.8	4.0	-2.7	-3.4	-2.9	-4.3	-2.7	-3.9
Euro area (c)	-1.6	-2.5	-6.8	1.1	-4.4	1.0	-1.3	-0.2	-1.2	-1.1	-1.0	-1.3
Bulgaria	:	:	0.2	5.7	0.9	0.5	-0.8	-2.0	1.0	0.7	1.4	0.8
Czech Republic	:	:	0.1	15.4	0.1	7.0	6.7	7.8	5.4	4.5	3.8	7.2
Denmark	1.7	-6.2	-9.8	-2.9	-3.9	-2.5	-3.8	-3.4	-2.9	-2.7	-2.9	-2.1
Estonia	:	:	-0.5	9.0	12.7	0.4	-4.9	-9.6	-2.2	-4.5	-0.2	-1.3
Latvia	:	:	-2.2	1.6	6.9	-7.9	-0.9	-1.4	-0.2	-3.0	1.7	0.2
Lithuania	:	:	-3.1	-6.1	2.6	1.8	-2.2	-6.3	2.8	1.1	1.2	-0.9
Hungary	:	:	0.5	11.6	0.0	8.2	5.7	7.0	2.6	3.4	2.3	3.6
Poland	:	:	7.2	6.7	-2.7	4.7	-0.9	-1.0	-0.3	-0.4	0.3	-0.3
Romania	:	:	-0.9	9.7	-3.2	0.3	-0.1	-1.5	1.4	0.7	1.9	0.9
Slovakia	:	:	9.5	1.9	1.6	12.3	11.4	7.8	4.3	4.4	1.5	2.5
Sweden	-1.5	0.9	-4.0	2.4	-4.4	1.0	-3.2	-3.3	-0.8	-0.3	-1.1	-0.7
United Kingdom	-4.1	-4.2	-8.5	-5.1	1.1	6.0	-0.2	-17.2	-0.2	0.0	0.1	1.0
EU27 (c)	:	:	-5.9	2.0	-3.6	1.8	-0.8	-1.7	-0.7	-0.8	-0.7	-0.7
USA	-9.8	-3.2	-8.1	1.6	-1.1	2.5	-0.2	0.3	2.0	1.7	0.5	-0.2
Japan	-0.3	2.2	-3.5	5.7	-3.1	1.5	-0.6	0.9	-0.4	-0.2	0.1	-1.9

(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)

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TABLE 33 : World GDI, volume (percentage change on preceding year, 2002-2007)							2007		2008		2009	
	(a)	2002	2003	2004	2005	2006	X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
EU27	22.9	1.2	1.3	2.5	1.9	3.1	2.9	2.8	2.4	2.0	2.4	1.8
Euro area	16.7	0.9	0.8	2.1	1.6	2.8	2.6	2.6	2.2	1.7	2.1	1.5
Belgium	0.6	1.5	1.0	3.0	1.7	2.8	2.7	2.7	2.1	1.7	2.2	1.5
Bulgaria	0.0	4.5	5.0	6.6	6.2	6.3	6.3	6.2	6.0	5.8	6.2	5.6
Czech Republic	0.2	1.9	3.6	4.5	6.4	6.4	5.8	6.5	5.0	4.7	4.9	5.0
Denmark	0.4	0.5	0.4	2.3	2.5	3.9	1.9	1.8	1.3	1.3	1.4	1.1
Germany	4.6	0.0	-0.2	1.1	0.8	2.9	2.5	2.5	2.1	1.8	2.2	1.5
Estonia	0.0	8.0	7.2	8.3	10.2	11.2	7.8	7.1	6.4	2.7	6.2	4.3
Ireland	0.3	6.6	4.5	4.4	6.0	5.7	4.9	5.3	3.5	2.3	3.8	3.2
Greece	0.4	3.9	5.0	4.6	3.8	4.2	4.1	4.0	3.8	3.4	3.7	3.3
Spain	1.9	2.7	3.1	3.3	3.6	3.9	3.8	3.8	3.0	2.2	2.3	1.8
France	3.5	1.0	1.1	2.5	1.7	2.0	1.9	1.9	2.0	1.6	1.8	1.4
Italy	2.9	0.5	0.0	1.5	0.6	1.8	1.9	1.5	1.4	0.5	1.6	0.8
Cyprus	0.0	2.1	1.9	4.2	3.9	4.0	3.8	4.4	3.9	3.7	3.9	3.7
Latvia	0.0	6.5	7.2	8.7	10.6	12.2	10.5	10.3	7.2	3.8	6.2	2.5
Lithuania	0.0	6.9	10.3	7.3	7.9	7.7	8.5	8.8	7.5	6.1	6.3	3.7
Luxembourg	0.1	4.1	2.1	4.9	5.0	6.1	5.2	5.1	4.7	3.6	4.5	3.5
Hungary	0.2	4.4	4.2	4.8	4.1	3.9	2.0	1.3	2.6	1.9	3.4	3.2
Malta	0.0	2.6	-0.3	0.2	3.4	3.4	3.1	3.8	2.8	2.6	2.9	2.5
Netherlands	1.1	0.1	0.3	2.2	1.5	3.0	2.7	3.5	2.6	2.6	2.5	1.8
Austria	0.5	0.9	1.2	2.3	2.0	3.3	3.3	3.4	2.7	2.2	2.4	1.8
Poland	0.5	1.4	3.9	5.3	3.6	6.2	6.5	6.5	5.6	5.3	5.2	5.0
Portugal	0.3	0.8	-0.8	1.5	0.9	1.3	1.8	1.9	2.0	1.7	2.1	1.6
Romania	0.2	5.1	5.2	8.5	4.2	7.9	6.0	6.0	5.9	6.2	5.8	5.1
Slovenia	0.1	3.7	2.8	4.4	4.1	5.7	6.0	6.1	4.6	4.2	4.0	3.8
Slovakia	0.1	4.8	4.8	5.2	6.6	8.5	8.7	10.4	7.0	7.0	6.2	6.2
Finland	0.3	1.6	1.8	3.7	2.8	4.9	4.3	4.4	3.4	2.8	2.8	2.6
Sweden	0.6	2.4	1.9	4.1	3.3	4.1	3.4	2.6	3.1	2.2	2.4	1.8
United Kingdom	3.8	2.1	2.8	3.3	1.8	2.9	3.1	3.0	2.2	1.7	2.5	1.6
Candidate Countries	1.1	6.0	5.2	8.8	8.0	6.7	5.2	4.6	5.7	4.3	6.4	4.8
- Croatia	0.1	5.6	5.3	4.3	4.3	4.8	6.0	5.6	5.0	4.5	5.5	5.0
- Turkey	1.0	6.2	5.3	9.4	8.4	6.9	5.1	4.5	5.8	4.3	6.5	4.7
- The former Yugoslav Republic of Macedonia	0.0	0.9	2.8	4.1	4.1	4.0	5.0	5.1	5.5	4.8	5.3	5.5
Potential Candidates	0.1	3.9	2.9	6.9	5.3	5.8	:	6.7	:	5.9	:	6.2
USA	22.3	1.6	2.5	3.6	3.1	2.9	2.1	2.2	1.7	0.9	2.6	0.7
Japan	6.9	0.3	1.4	2.7	1.9	2.4	1.9	2.0	1.9	1.2	2.3	1.1
Canada	2.0	2.9	1.9	3.1	3.1	2.8	2.4	2.7	2.2	1.5	2.9	1.9
Norway	0.4	1.5	1.0	3.9	2.7	2.5	2.9	3.5	3.1	2.5	2.2	2.1
Switzerland	0.5	0.4	-0.2	2.5	2.4	3.2	2.3	3.1	2.1	2.2	2.0	2.2
Iceland	0.0	0.1	2.4	7.7	7.1	4.2	0.7	2.7	1.2	1.3	2.0	0.4
Australia	1.2	3.2	4.1	2.7	2.8	2.4	4.3	4.2	4.0	3.5	3.4	3.5
New Zealand	0.2	4.7	3.6	3.7	1.9	1.7	2.0	2.2	2.5	1.7	2.5	1.6
Industrialised countries	57.5	1.5	1.9	3.1	2.5	2.9	2.5	2.6	2.2	1.5	2.6	1.4
Others	42.5	4.4	5.8	7.3	6.9	7.6	7.8	7.5	7.3	6.9	7.1	6.6
CIS	4.4	5.2	7.8	8.2	6.6	7.5	8.3	8.5	7.5	7.8	7.1	7.5
- Russian Federation	3.2	4.7	7.3	7.1	6.4	7.4	7.7	8.1	7.0	7.3	6.9	7.0
- Other	1.2	6.6	9.0	10.8	7.0	9.8	9.5	9.6	8.6	8.2	7.4	7.8
MENA	4.8	2.0	4.0	6.3	6.8	6.3	5.2	5.2	5.3	6.2	5.2	6.1
Other emerging markets	33.4	4.6	5.8	7.4	6.9	7.8	8.0	7.7	7.5	6.9	7.3	6.6
Asia	22.8	6.4	7.5	8.0	8.0	8.8	8.8	8.6	8.4	7.9	8.2	7.6
- China	10.3	9.1	10.0	10.1	11.1	11.6	11.2	11.9	10.3	10.0	9.9	9.1
- India	4.5	3.8	8.5	7.5	8.4	9.7	8.5	8.4	7.7	8.0	7.6	8.0
- Hong Kong	0.5	1.8	3.2	8.6	7.5	6.9	5.7	6.3	5.3	6.4	6.6	6.7
- Korea	1.9	7.0	3.1	4.7	4.0	5.0	4.3	5.0	4.5	4.7	4.8	4.8
- Indonesia	1.3	4.4	4.7	5.0	5.7	5.5	6.0	6.3	6.1	6.1	6.4	6.0
Latin America	8.3	0.2	1.9	6.0	4.4	5.4	5.0	5.3	4.4	4.3	4.2	4.0
- Brazil	2.9	2.7	1.1	5.7	2.9	3.8	4.7	5.4	4.4	4.6	3.9	4.3
- Mexico	2.1	0.8	1.4	4.2	2.7	4.8	2.8	3.3	3.2	2.6	3.7	2.5
Sub-Saharan Africa	2.3	3.5	3.4	5.8	6.0	6.1	6.9	6.5	6.5	6.7	6.4	6.1
World	100.0	2.7	3.6	4.9	4.4	4.9	5.1	4.6	4.7	3.8	4.8	3.6
World excluding EU27	77.1	3.2	4.3	5.6	5.1	5.5	5.6	5.2	5.3	4.4	5.4	4.2
World excluding euro area	83.3	3.1	4.2	5.5	5.0	5.4	5.5	5.1	5.1	4.2	5.3	4.0

(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)

15.04.2008

	(a)	2002	2003	2004	2005	2006	2007		2008		2009	
							X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
EU27 (b)	39.4	2.0	1.8	7.4	5.7	8.8	6.3	5.1	5.8	4.9	5.8	4.7
Euro area (b)	29.2	1.8	1.2	7.2	4.7	7.9	5.8	6.1	5.3	4.4	5.4	4.0
Candidate Countries	1.0	6.1	7.5	10.4	7.4	6.7	9.6	6.4	7.5	7.2	7.7	6.5
- Croatia	0.1	1.3	11.4	5.7	4.6	6.9	7.1	5.7	8.2	6.2	8.8	7.0
- Turkey	0.8	6.9	6.9	11.2	7.9	6.6	10.0	6.5	7.4	7.4	7.5	6.5
- former Yugoslav Republic of Macedonia	0.0	-5.1	-5.7	12.9	11.2	8.4	14.3	19.3	11.5	11.0	9.5	11.5
USA	10.0	-2.3	1.3	9.7	6.9	8.4	7.4	8.1	8.5	8.6	7.8	6.6
Japan	4.8	7.5	9.2	13.9	7.0	9.7	7.7	8.8	7.3	7.0	8.1	5.2
Canada	3.2	1.2	-2.3	4.8	2.2	0.7	1.9	0.9	0.0	-2.7	2.1	0.3
Norway	1.1	-0.3	-0.2	1.1	1.1	0.4	3.5	3.2	4.3	2.0	3.5	1.8
Switzerland	1.4	-0.1	-0.5	7.9	7.3	9.9	6.9	9.8	6.1	5.1	5.7	5.3
Iceland	0.0	-0.5	3.3	12.6	3.2	2.9	2.5	12.1	5.8	8.1	7.6	6.0
Australia	1.1	0.6	-0.3	2.8	3.2	2.5	6.0	5.8	7.8	6.5	8.0	8.0
New Zealand	0.2	6.0	1.0	5.6	-1.5	1.6	6.8	6.6	6.8	6.0	6.8	6.1
Industrialised countries	62.1	1.7	2.1	8.0	5.7	8.1	6.3	5.8	6.1	5.3	6.1	4.9
Others	37.9	8.8	11.0	17.7	13.0	15.9	10.0	10.0	8.5	8.2	8.3	7.6
CIS	3.2	-4.9	7.8	17.2	11.4	8.6	7.0	10.5	6.2	7.2	5.5	6.0
- Russia	2.3	-6.8	6.2	11.8	6.4	7.3	3.6	7.4	3.6	7.7	3.6	6.4
- Other	0.9	2.0	13.0	29.5	10.0	17.8	15.2	17.8	11.9	7.8	9.2	5.2
MENA	5.9	7.5	10.6	10.9	13.8	11.9	5.0	3.5	4.6	4.8	4.8	4.7
Other emerging markets	28.7	10.6	11.4	19.2	13.0	17.6	11.3	11.2	9.5	9.0	9.3	8.4
Asia	21.6	13.6	13.8	21.1	14.2	20.5	12.5	12.6	10.7	10.1	10.2	9.2
- China	7.2	24.0	28.4	27.2	20.7	28.2	21.0	21.2	15.0	14.4	12.9	11.8
- India	1.4	17.5	5.9	25.7	22.3	26.6	13.6	13.6	13.8	13.1	13.8	12.6
- Hong Kong	2.7	8.7	12.9	16.0	10.9	9.7	8.4	8.8	8.1	7.8	8.9	7.9
- Korea	2.6	18.4	11.3	20.0	8.9	15.4	9.1	9.1	9.0	8.2	9.8	8.2
- Indonesia	0.8	-2.4	-4.8	9.7	63.4	13.0	8.9	9.0	8.3	7.9	8.2	7.7
Latin America	5.3	1.3	4.9	15.9	8.1	10.1	6.0	7.4	5.9	5.6	6.3	5.5
- Brazil	1.2	9.1	7.9	15.5	4.5	5.3	6.0	7.4	6.3	6.7	6.4	6.0
- Mexico	1.8	0.9	3.6	12.1	6.2	10.8	3.8	6.8	4.1	3.0	5.1	2.9
Sub-Saharan Africa	1.8	2.2	1.6	5.7	13.4	4.4	12.9	5.9	5.8	6.1	6.6	6.1
World	100.0	4.4	5.4	11.7	8.5	11.1	7.7	7.3	7.0	6.4	6.9	5.9
World excluding EU27	60.6	5.9	7.8	14.5	10.3	12.5	8.7	8.8	7.8	7.4	7.7	6.7
World excluding euro area	70.8	5.5	7.3	13.6	10.1	12.4	8.6	7.9	7.6	7.2	7.5	6.6

(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)

	Candidate		Other				Rest		Latin		Sub	World
	EU27	Countries	USA	Japan	Canada	Industr. Countries	CIS	MENA	Asia	America	Saharan Africa	
EU27	68.6	1.8	7.6	1.3	0.8	4.3	3.0	3.7	5.7	1.9	1.4	100
Belgium	77.4	1.1	6.2	0.9	0.7	2.3	1.3	3.0	4.7	1.1	1.3	100
Bulgaria	64.9	16.6	3.1	0.2	0.4	1.1	4.0	3.6	4.6	1.1	0.4	100
Czech Republic	86.1	1.1	2.3	0.4	0.2	2.1	3.5	1.5	1.8	0.6	0.4	100
Denmark	71.8	0.6	6.3	2.0	1.0	7.7	2.2	1.5	4.9	1.3	0.7	100
Germany	63.7	1.9	8.8	1.6	0.7	5.5	3.7	3.1	7.7	2.1	1.2	100
Estonia	68.7	1.2	6.9	0.6	0.6	3.4	11.0	1.1	3.9	0.8	1.8	100
Ireland	63.5	0.5	18.8	2.3	0.4	4.7	0.4	1.4	5.6	1.5	0.8	100
Greece	67.6	8.3	4.6	0.4	0.5	1.5	3.0	9.2	2.8	1.1	1.0	100
Spain	73.4	1.9	4.6	0.8	0.5	2.9	1.2	4.9	3.1	5.5	1.4	100
France	66.9	1.5	6.7	1.5	0.7	3.8	1.7	6.2	6.6	2.1	2.3	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	63.7	1.0	4.3	0.1	2.0	3.3	21.3	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	80.4	3.2	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	79.9	1.1	4.5	0.6	0.3	2.6	2.0	2.4	3.9	1.3	1.3	100
Austria	72.6	2.1	5.8	1.1	0.9	5.8	3.4	2.1	4.0	1.1	0.9	100
Poland	79.3	1.6	1.9	0.2	0.4	2.9	9.5	1.2	1.8	0.8	0.4	100
Portugal	77.7	0.7	6.4	0.3	0.5	1.4	0.4	1.7	3.8	1.8	5.2	100
Romania	72.3	8.7	2.6	0.3	0.2	1.7	4.9	5.6	2.3	0.6	0.7	100
Slovenia	74.3	11.1	2.4	0.1	0.2	1.4	6.3	2.2	1.3	0.4	0.3	100
Slovakia	87.4	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)

15.04.2008

		2007						2008		2009		
	(a)	2002	2003	2004	2005	2006	X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
EU27 (b)	39.9	1.5	3.4	7.6	6.1	8.9	6.3	4.9	6.1	4.8	5.8	4.5
Euro area (b)	28.9	0.4	3.3	7.0	5.4	7.7	5.3	5.2	5.5	4.3	5.3	3.9
Candidate Countries	1.3	19.9	22.0	18.7	11.0	6.9	7.8	10.4	7.6	8.8	7.4	7.8
- Croatia	0.2	13.4	12.1	4.6	3.5	7.3	8.2	5.8	6.9	5.2	7.9	6.2
- Turkey	1.1	20.9	23.5	20.8	12.2	6.9	7.8	11.1	7.7	9.4	7.3	8.0
- former Yugoslav Republic of Macedonia	0.0	9.8	-15.2	16.7	6.2	11.0	15.5	17.3	12.8	11.0	10.8	11.3
USA	15.5	3.4	4.1	11.3	5.9	5.9	2.5	1.9	1.8	0.9	2.6	-0.5
Japan	4.5	0.9	3.9	8.1	5.8	4.2	3.4	1.7	7.0	3.2	8.8	4.7
Canada	3.0	1.7	4.1	8.3	7.5	5.0	3.2	5.7	4.0	4.4	5.3	4.3
Norway	0.7	1.0	1.4	8.8	8.7	8.1	7.5	8.5	6.2	5.1	6.3	3.7
Switzerland	1.2	-1.1	1.3	7.3	6.7	6.9	7.2	5.1	5.7	5.1	5.4	5.1
Iceland	0.1	-6.5	13.7	15.7	21.4	5.3	14.2	-2.2	4.6	-3.6	-0.6	-4.0
Australia	1.2	9.3	7.9	13.4	7.7	7.1	9.1	9.1	5.5	5.5	6.4	6.4
New Zealand	0.2	10.4	6.0	13.2	5.8	-0.1	6.9	7.0	7.4	7.4	7.2	7.2
Industrialised countries	67.4	2.4	4.0	8.8	6.3	7.6	5.2	4.3	5.1	3.9	5.3	3.5
Others	32.6	8.5	10.6	14.5	11.0	14.8	11.4	11.7	10.1	10.4	10.3	10.1
CIS	2.4	-0.6	6.9	16.8	13.6	15.7	20.8	24.2	16.4	18.9	14.3	16.5
- Russia	1.5	-0.7	2.7	23.3	17.0	21.6	24.7	30.4	19.2	9.6	16.2	13.6
- Other	1.0	-0.4	15.2	25.0	14.1	19.0	15.0	22.4	11.9	13.1	11.1	11.0
MENA	3.7	7.5	5.1	10.2	11.9	14.0	6.2	7.4	5.9	7.6	5.9	6.4
Other emerging markets	26.4	9.5	11.7	14.9	10.6	14.8	11.2	11.1	10.1	10.0	10.5	10.1
Asia	20.0	12.7	13.1	17.7	10.7	16.4	11.3	11.1	10.9	10.4	11.5	10.9
- China	5.9	22.9	31.2	23.2	10.5	20.7	17.4	17.4	17.3	17.3	17.9	17.6
- India	1.6	4.5	19.2	16.5	46.7	18.6	16.5	16.3	11.0	10.8	10.3	10.2
- Hong Kong	2.6	7.4	11.4	14.6	7.6	9.2	8.9	8.9	8.5	6.1	8.7	6.7
- Korea	2.6	28.9	3.0	11.1	6.7	12.5	7.3	7.5	6.9	6.2	7.7	6.6
- Indonesia	0.7	-1.7	-0.9	17.5	21.3	-0.7	9.3	9.6	10.8	10.4	10.7	11.1
Latin America	4.8	-0.9	8.5	6.2	9.0	11.3	8.8	11.3	7.2	9.0	7.1	7.7
- Brazil	0.9	-3.5	26.4	-13.9	6.2	9.4	11.3	18.4	9.1	11.3	8.0	8.0
- Mexico	1.9	1.1	1.1	11.9	8.4	11.2	6.5	9.6	5.5	8.9	6.0	7.6
Sub-Saharan Africa	1.6	1.1	5.0	5.4	14.5	6.6	16.1	9.9	8.3	8.3	8.6	6.9
World	100.0	4.4	6.2	10.7	7.8	9.9	7.2	6.7	6.7	6.0	6.9	5.6
World excluding EU27	60.1	6.3	8.0	12.7	8.9	10.6	7.8	7.8	7.1	6.8	7.7	6.4
World excluding euro area	71.1	6.0	7.4	12.3	8.8	10.9	8.0	7.3	7.2	6.6	7.6	6.3

(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	USA	Japan	Canada	Other Industr. Countries	CIS	MENA	Rest Asia	Latin America	Sub Saharan Africa	World
EU27	66.1	1.2	4.6	2.0	0.5	4.6	4.7	3.6	9.5	2.0	1.2	100
Belgium	73.5	0.4	6.5	2.2	0.6	2.1	1.0	2.9	7.8	1.9	1.1	100
Bulgaria	55.6	8.0	1.3	0.4	0.2	1.4	17.4	0.7	10.2	4.3	0.4	100
Czech Republic	81.0	0.6	1.3	2.2	0.2	2.5	6.2	0.3	5.6	0.1	0.2	100
Denmark	74.6	1.1	2.8	1.1	0.3	7.0	1.4	0.7	9.5	1.2	0.3	100
Germany	67.9	1.3	4.7	2.3	0.4	5.2	3.5	1.9	10.3	1.7	0.9	100
Estonia	69.2	0.5	1.4	1.1	0.2	1.4	19.4	0.1	6.2	0.4	0.1	100
Ireland	69.4	0.7	10.6	2.0	0.4	3.8	0.8	0.3	10.7	0.8	0.4	100
Greece	61.3	3.2	2.5	2.1	0.2	2.1	6.2	9.8	11.0	1.1	0.4	100
Spain	67.5	1.2	2.3	1.8	0.3	2.9	1.5	7.3	8.0	4.4	2.9	100
France	72.3	0.9	4.4	1.4	0.5	4.4	2.0	4.6	6.4	1.5	1.7	100
Italy	59.2	2.1	2.9	1.5	0.4	4.3	7.9	10.0	8.3	2.5	1.0	100
Cyprus	43.6	0.4	1.6	2.8	0.1	1.0	30.6	5.0	13.5	1.3	0.1	100
Latvia	68.2	0.6	1.9	0.5	0.4	3.0	18.6	0.4	5.7	0.7	0.1	100
Lithuania	60.4	1.0	3.1	0.4	0.2	1.6	27.2	0.5	4.9	0.9	0.0	100
Luxembourg	81.6	0.1	2.3	0.8	0.6	1.3	0.7	1.6	10.7	0.1	0.1	100
Hungary	72.7	0.9	1.6	2.4	0.2	1.2	10.2	0.2	10.5	0.2	0.0	100
Malta	54.2	4.9	2.4	2.4	0.1	3.9	5.8	1.2	24.2	0.4	0.6	100
Netherlands	49.0	0.6	7.0	3.3	0.6	4.6	9.2	4.1	15.6	4.1	1.8	100
Austria	83.3	1.0	2.2	0.9	0.3	3.8	3.3	1.3	3.1	0.2	0.6	100
Poland	74.6	0.9	1.5	0.8	0.2	2.0	11.3	0.4	6.9	1.0	0.4	100
Portugal	75.4	0.8	2.1	1.1	0.2	2.4	3.0	4.5	4.3	3.5	2.7	100
Romania	65.3	4.5	1.0	0.4	0.4	1.6	10.9	1.3	13.7	0.9	0.1	100
Slovenia	82.7	6.2	1.1	0.6	0.2	1.5	1.6	1.0	4.0	1.1	0.1	100
Slovakia	77.7	0.6	1.2	1.1	0.0	0.9	12.4	0.1	5.7	0.1	0.0	100
Finland	59.0	0.5	3.4	3.1	0.5	4.7	12.5	0.3	13.8	1.9	0.3	100
Sweden	75.6	0.8	3.3	1.5	0.3	7.8	2.2	0.4	6.2	1.3	0.4	100
United Kingdom	56.9	1.3	8.4	2.8	1.6	8.8	2.3	2.3	12.5	1.7	1.4	100

TABLE 60 : World merchandise trade balances (fob-fob, bn. US dollars, 2001-2009)

15.04.2008

	2001	2002	2003	2004	2005	2006	2007	2008	2009			
							X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
EU27	42.1	92.5	84.8	60.9	-12.9	-99.8	-103.4	-104.7	-128.6	-148.2	-136.0	-155.5
EU27, adjusted ¹	:	:	:	-53.6	-126.2	-211.3	-228.5	-219.4	-259.3	-278.1	-266.7	-287.0
Euro area	105.1	165.0	163.2	172.3	116.7	59.5	101.4	107.9	108.0	111.6	124.9	120.0
Euro area, adjusted ¹	65.5	120.6	118.6	129.7	61.4	31.1	69.9	83.1	75.2	83.6	92.1	91.6
Candidate Countries	-4.8	-7.8	-13.5	-23.7	-32.5	-50.0	-59.8	-62.0	-73.1	-88.1	-83.5	-99.8
USA	-436.7	-491.7	-559.5	-681.2	-795.0	-849.8	-842.5	-826.7	-822.5	-867.7	-787.6	-760.9
Japan	69.2	92.3	103.4	128.6	93.9	81.4	102.4	105.2	108.0	134.5	104.3	132.6
Canada	45.6	36.5	40.3	50.5	52.4	45.2	57.6	46.3	49.8	35.8	39.3	23.0
Norway	25.8	23.4	27.0	32.4	46.8	55.9	61.0	58.3	71.4	66.6	74.1	68.4
Switzerland	-2.8	3.3	3.2	5.4	2.4	4.1	3.6	8.2	0.7	16.3	-0.3	18.4
Iceland	-0.1	0.2	-0.2	-0.5	-1.5	-2.2	-3.4	-3.6	-3.7	-3.9	-3.4	-3.6
Australia	1.7	-5.5	-15.3	-18.1	-13.4	-9.6	-10.3	-11.0	-2.2	9.2	-1.8	12.8
New Zealand	1.4	0.1	-0.5	-1.4	-2.7	-2.1	-0.1	-0.5	0.6	3.3	0.2	2.9
Industrialised countries	-258.4	-256.7	-330.5	-447.1	-662.4	-826.9	-794.9	-790.4	-799.6	-842.2	-794.6	-761.6
Others	240.8	288.2	378.4	477.9	712.2	916.6	1007.4	1024.6	1048.1	1349.7	944.4	1307.6
CIS	49.9	49.2	62.3	92.3	124.3	143.2	131.6	146.7	83.3	186.4	29.5	173.4
MENA	79.1	76.4	109.8	149.2	254.5	318.9	345.8	342.7	417.4	600.4	398.3	630.9
Other emerging markets	111.8	162.6	206.3	236.4	333.3	454.5	530.0	535.2	547.4	563.0	516.5	503.4
Asia	104.9	128.6	151.2	152.8	212.5	297.6	370.1	375.1	370.6	329.9	349.5	273.9
Latin America	-5.9	21.3	43.3	58.8	81.6	109.5	112.8	109.4	127.6	159.0	123.3	151.2
Sub-Saharan Africa	12.8	12.7	11.8	24.8	39.2	47.4	47.1	50.7	49.2	74.0	43.7	78.3
World	-17.6	31.5	48.0	30.8	49.7	89.7	212.4	234.2	248.5	507.5	149.7	546.1

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			
							X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
EU27	-25.7	29.5	9.2	38.9	-52.4	-131.5	-128.2	-156.5	-161.8	-181.6	-164.7	-189.3
EU27, adjusted ¹	:	:	:	12.8	-34.3	-120.9	-142.5	-110.7	-176.7	-129.8	-179.6	-136.8
Euro area	8.3	55.8	32.0	83.1	8.0	-14.3	-2.1	3.6	-4.7	-20.9	7.0	-14.8
Euro area, adjusted ¹	-19.8	53.7	38.0	79.3	12.6	-13.6	-4.7	17.9	-7.4	-4.6	4.2	1.7
Candidate Countries	6.3	1.7	-7.7	-14.8	-21.2	-33.4	-40.0	-41.0	-50.8	-51.9	-60.1	-56.5
USA	-370.4	-458.3	-512.3	-624.1	-735.1	-794.0	-749.1	-710.9	-698.8	-712.4	-642.8	-589.0
Japan	87.7	113.0	136.1	172.2	165.9	170.6	202.9	212.1	215.1	257.0	221.0	260.6
Canada	21.9	14.0	12.0	21.4	22.1	21.6	29.4	14.2	18.1	1.7	3.9	-14.8
Norway	27.5	24.2	27.7	32.9	49.1	57.5	61.6	59.1	73.1	68.2	74.4	69.3
Switzerland	20.4	20.7	38.4	41.6	52.3	56.1	69.0	64.1	72.9	79.7	73.1	83.2
Iceland	-0.3	0.1	-0.5	-1.3	-2.6	-4.3	-4.2	-4.3	-4.4	-4.6	-3.9	-4.0
Australia	-7.4	-15.8	-28.7	-38.8	-41.0	-41.2	-46.5	-52.2	-45.1	-42.8	-47.1	-40.7
New Zealand	-1.4	-2.5	-3.6	-6.5	-9.8	-9.4	-7.1	-10.5	-5.9	-6.2	-6.0	-6.9
Industrialised countries	-241.4	-273.3	-329.4	-378.5	-572.6	-707.9	-612.1	-625.9	-587.7	-592.8	-552.1	-488.0
Others	103.8	170.7	277.8	374.1	594.8	808.1	879.4	923.4	889.5	1260.1	794.9	1222.5
CIS	33.1	30.2	36.1	63.5	87.5	94.4	92.8	118.7	22.9	152.0	-57.8	130.4
MENA	44.0	39.0	74.2	116.3	220.5	279.7	311.3	293.4	385.4	548.3	368.0	579.4
Other emerging markets	26.8	101.6	167.5	194.2	286.8	433.9	475.4	511.3	481.2	559.8	484.7	512.7
Asia	85.0	121.7	164.9	171.8	242.3	360.4	402.3	436.6	423.3	444.0	442.4	408.7
Latin America	-53.0	-15.7	8.7	21.5	37.9	60.9	54.8	50.2	39.2	68.5	30.1	54.5
Sub-Saharan Africa	-5.3	-4.5	-6.1	1.0	6.6	12.7	18.3	24.4	18.7	47.3	12.2	49.5
World	-137.6	-102.6	-51.6	-4.5	22.1	100.2	267.3	297.5	301.8	667.3	242.8	734.5

¹ See note 8 on concepts and sources.

TABLE 62 : Primary commodity prices (in US dollars, percentage change on preceding year, 2001-2009)

TABLE 6.1 Primary commodity prices (in US dollars, percentage change on preceding year 2001=100)												
SITC	2007						2008		2009			
Classification	2001	2002	2003	2004	2005	2006	X-2007	IV-2008	X-2007	IV-2008	X-2007	IV-2008
Food (0 + 1)	-1.5	2.5	1.3	7.1	3.9	15.3	21.4	19.1	10.3	38.6	-1.5	-0.5
Basic materials (2 + 4)	-7.2	1.2	8.7	17.8	9.4	33.7	15.8	13.9	2.1	16.1	-2.4	-0.1
- of which :												
Agricultures non-food	-5.4	4.9	7.3	6.7	-2.6	11.8	17.4	14.5	6.2	27.8	-0.1	0.0
- of which :												
Wood and pulp	-10.7	-3.3	6.9	13.3	3.2	8.4	1.8	-2.3	-4.2	-8.5	-0.7	-0.7
Minerals and metals	-9.6	-4.3	10.9	35.2	24.0	54.7	14.7	13.5	-0.9	7.9	-4.1	-0.2
Fuel products (3)	-9.2	-0.3	11.8	31.8	45.0	18.3	5.3	8.0	10.7	39.4	-3.3	2.0
- of which :												
Crude petroleum	-12.7	0.1	13.9	33.4	44.7	20.2	6.6	9.5	11.7	39.7	-3.6	-1.3
Primary commodities												
- Total excluding fuels	-5.3	1.6	6.1	14.3	7.7	28.2	17.3	15.3	4.3	22.3	-2.1	-0.2
- Total including fuels	-7.7	0.7	9.0	23.5	28.6	21.9	9.9	10.8	8.1	32.6	-2.8	1.2
Crude petroleum - price per barrel												
Brent (usd)	25.0	25.0	28.5	38.0	55.1	66.2	70.6	72.5	78.8	101.2	76.0	100.0
Brent (euro)	27.9	26.5	25.2	30.6	44.3	52.7	56.8	52.9	57.9	65.3	53.5	63.7

Note on concepts and sources

1. The directorate general for economic and financial affairs (DG ECFIN) produces, under its own responsibility, short-term fully-fledged economic forecasts twice a year : in the spring and in the autumn. These forecasts cover the principal macroeconomic aggregates for the Member States, the Candidate Countries, the European Union as a whole, the euro area and the international environment. Interim forecasts, updating the outlook for the seven largest Member States, EU27 and the euro area, are presented in between the fully-fledged forecasts.
2. Data for 2007 are estimates, while for 2008-09 they 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, Estonia, Spain, France, Italy, the Netherlands, 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. For Estonia, where no appropriate benchmark government bond is available, the indicator provided in Table 34 is a weighted average of MFI interest rates for new EEK-denominated loans to households and non-financial businesses.
8. 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. 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.
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.
 - Potential Candidates :
Albania, Bosnia-Herzegovina, Kosovo, Montenegro and Serbia.
 - 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, Libya, 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.
 - Commonwealth of Independent States (CIS):
Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.