# OECD Economic Outlook

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# OECD ECONOMIC OUTLOOK

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**DECEMBER 2003**

OECD

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## Conventional signs

| | | | |
|---|---|---|---|
| $ | US dollar | . | Decimal point |
| ¥ | Japanese yen | I, II | Calendar half-years |
| £ | Pound sterling | Q1, Q4 | Calendar quarters |
| € | Euro | Billion | Thousand million |
| mbd | Million barrels per day | Trillion | Thousand billion |
| . . | Data not available | s.a.a.r. | Seasonally adjusted at annual rates |
| 0 | Nil or negligible | n.s.a. | Not seasonally adjusted |
| – | Irrelevant | | |

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## Summary of projections

| | 2003 | 2004 | 2005 | 2003 Q2 | 2003 Q3 | 2003 Q4 | 2004 Q1 | 2004 Q2 | 2004 Q3 | 2004 Q4 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Per cent | | | | | | | | | | | | |
| **Real GDP growth** | | | | | | | | | | | | | |
| United States | 2.9 | 4.2 | 3.8 | 3.3 | 7.2 | 3.4 | 4.0 | 4.0 | 4.1 | 4.1 | 3.8 | 4.1 | 3.6 |
| Japan | 2.7 | 1.8 | 1.8 | 3.9 | 0.6 | 2.6 | 1.3 | 1.7 | 1.5 | 1.7 | 2.4 | 1.6 | 1.9 |
| Euro area | 0.5 | 1.8 | 2.5 | 0.0 | 1.1 | 1.6 | 2.1 | 2.1 | 2.3 | 2.3 | 0.6 | 2.2 | 2.6 |
| European Union | 0.7 | 1.9 | 2.5 | 0.3 | 1.3 | 1.8 | 2.2 | 2.2 | 2.4 | 2.4 | 0.9 | 2.3 | 2.7 |
| Total OECD | 2.0 | 3.0 | 3.1 | 2.0 | 3.3 | 3.1 | 2.9 | 3.0 | 3.2 | 3.3 | 2.4 | 3.1 | 3.1 |
| **Inflation** | | | | | | | | | | | | | |
| United States | 1.6 | 1.2 | 1.2 | 1.0 | 1.7 | 1.2 | 1.3 | 1.0 | 1.0 | 1.0 | 1.6 | 1.1 | 1.2 |
| Japan | -2.5 | -1.3 | -0.8 | -2.6 | -0.4 | -0.9 | -1.9 | -1.5 | -1.0 | -0.9 | -1.6 | -1.3 | -0.6 |
| Euro area | 1.9 | 1.7 | 1.6 | 1.9 | 2.1 | 1.8 | 1.7 | 1.6 | 1.4 | 1.4 | 1.9 | 1.5 | 1.7 |
| European Union | 2.1 | 1.8 | 1.7 | 1.9 | 2.0 | 1.9 | 1.8 | 1.7 | 1.6 | 1.6 | 2.0 | 1.7 | 1.8 |
| Total OECD | 1.8 | 1.4 | 1.4 | 1.4 | 1.1 | 1.4 | 1.5 | 1.5 | 1.4 | 1.3 | 1.5 | 1.4 | 1.4 |
| **Unemployment rate** | | | | | | | | | | | | | |
| United States | 6.1 | 5.9 | 5.2 | 6.2 | 6.1 | 6.2 | 6.1 | 5.9 | 5.8 | 5.6 | 6.2 | 5.6 | 5.0 |
| Japan | 5.3 | 5.2 | 5.0 | 5.4 | 5.3 | 5.3 | 5.3 | 5.3 | 5.2 | 5.2 | 5.3 | 5.2 | 4.9 |
| Euro area | 8.8 | 9.0 | 8.7 | 8.8 | 8.8 | 9.0 | 9.0 | 9.0 | 8.9 | 8.9 | 9.0 | 8.9 | 8.6 |
| European Union | 8.0 | 8.1 | 7.9 | 8.0 | 8.0 | 8.2 | 8.2 | 8.1 | 8.1 | 8.1 | 8.2 | 8.1 | 7.8 |
| Total OECD | 7.1 | 7.0 | 6.7 | 7.1 | 7.1 | 7.2 | 7.1 | 7.1 | 7.0 | 7.0 | 7.2 | 7.0 | 6.4 |
| **World trade growth** | 4.0 | 7.8 | 9.1 | 2.6 | 5.2 | 7.5 | 8.6 | 9.0 | 9.1 | 9.1 | 4.3 | 9.0 | 9.0 |
| **Current account balance** | | | | | | | | | | | | | |
| United States | -5.0 | -5.0 | -5.1 | | | | | | | | | | |
| Japan | 2.9 | 3.6 | 4.3 | | | | | | | | | | |
| Euro area | 0.4 | 0.7 | 0.9 | | | | | | | | | | |
| European Union | 0.1 | 0.1 | 0.3 | | | | | | | | | | |
| Total OECD | -1.4 | -1.3 | -1.3 | | | | | | | | | | |
| **Cyclically-adjusted fiscal balance** | | | | | | | | | | | | | |
| United States | -4.5 | -5.1 | -5.0 | | | | | | | | | | |
| Japan | -6.9 | -6.5 | -6.6 | | | | | | | | | | |
| Euro area | -1.7 | -1.5 | -1.8 | | | | | | | | | | |
| European Union | -1.7 | -1.5 | -1.9 | | | | | | | | | | |
| Total OECD | -3.4 | -3.6 | -3.7 | | | | | | | | | | |
| **Short-term interest rate** | | | | | | | | | | | | | |
| United States | 1.2 | 1.5 | 2.7 | 1.2 | 1.1 | 1.1 | 1.1 | 1.4 | 1.6 | 1.9 | 1.1 | 1.9 | 3.4 |
| Japan | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Euro area | 2.3 | 2.0 | 2.2 | 2.4 | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.5 |

*Note:* Real GDP growth, inflation (measured by the increase in the GDP deflator) and world trade growth (the arithmetic average of world merchandise import and export volumes) are seasonally and working-day-adjusted annual rates. The "fourth quarter" columns are expressed in year-on-year growth rates where appropriate. The unemployment rate is in per cent of the labour force while the current account balance is in per cent of GDP. The cyclically-adjusted fiscal balance is in per cent of potential GDP. Interest rates are for the United States: 3-month eurodollar deposits; Japan: 3-month CDs; euro area: 3-month interbank rates.

Assumptions underlying the projections include:

- no change in actual and announced fiscal policies;
- unchanged exchange rates as from 3 November 2003; in particular 1$ = 111.20 yen and 0.873 euros;

The cut-off date for other information used in the compilation of the projections is 7 November 2003.

*Source:* OECD.

# EDITORIAL:
# MAKING THE MOST OF THE RECOVERY

After a drawn-out period of fits and starts, a palpable recovery has finally taken hold across the OECD. The strong momentum already achieved in Asia, North America and the United Kingdom provides ample evidence of the renewed strength of the world economy. Despite lingering domestic weaknesses, Continental Europe is also on its way to join the recovery.

This turn for the better stems from a variety of factors. Since the spring, the geopolitical environment has steadied, allowing oil prices to stabilise and confidence to strengthen. In the United States, this revival of "animal spirits" has taken place in a context where the underlying stimulus provided by monetary and fiscal policies was still very powerful and where past excesses in business investment had been largely worked off. As expected in the previous *OECD Economic Outlook*, the US economy has recovered strongly, with investment starting to take over the baton from consumption. More fundamentally, the US economy will greatly benefit from strong productivity gains and high potential growth over the next few years.

The American upswing has coincided with a marked and better-than-expected improvement in Japan, driven in large part by better investment prospects in the manufacturing sector and fast-growing markets in neighbouring Asian economies.

Looking further ahead, the most likely scenario for the next two years is one of sustained growth in the United States and progressive recovery in Europe and Japan, in a context of low inflationary pressures and with a gradual reduction in unemployment. This central scenario would be underpinned by a prolonged period of monetary ease and moderate long-term interest rates.

While encouraging, this scenario is not devoid of vulnerabilities. In Europe, balance-sheet problems are still prevalent in the business sector and will continue to inhibit investment. In a variety of countries – including the United States, the United Kingdom and Australia – households remain highly indebted and may suffer large income and wealth losses, especially in the housing sector, should interest rates increase abruptly. Such a back-up in interest rates cannot be ruled out, in a context where all large OECD countries are now suffering from historically wide public deficits, which will not disappear easily given their predominantly structural nature.

The persistence of very large current account imbalances at this early stage of the recovery may also complicate the outlook. The combination of large public and external deficits in the United States could be a source of exchange rate instability, given the potentially short-run nature of much of the international capital currently flowing in. Under such delicate circumstances, a sudden weakening of the dollar could stifle a fledgling European recovery. This would exacerbate the unevenness of the global upturn while not doing much to help reduce current account imbalances or tensions in the trade policy arena.

These various imbalances and sources of vulnerability are largely inherited from past policy mistakes. This is especially true of fiscal policies which often failed to take advantage of "good times" to replenish public coffers and have led to exceedingly large deficits after several years of economic slowdown. With ageing-related financial pressures looming larger than ever, taking advantage of the economic upswing to restore the sustainability of public finances will be crucial. The challenge will be, for many countries, to fight fiscal complacency during a period of sustained growth, in marked departure from the repeated failures of the past two decades. To succeed in this difficult endeavour, it will be necessary to re-establish or revitalise long-term oriented fiscal frameworks and to improve fiscal institutions so as to

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prevent the reappearance of procyclical fiscal policies and to enhance the cost-effectiveness of public expenditures in a context where competing claims are on the rise. Given the magnitude of the challenge, a special dossier is devoted to these medium-term fiscal issues in this *Economic Outlook*.

It will be equally crucial to draw lessons from the very uneven ability of OECD countries to withstand adverse economic shocks. Performance gaps are often too large to be ascribed exclusively to differences in macroeconomic policies or idiosyncratic shocks. Strikingly divergent performance within the European Union in recent years reflects unequal degrees of resilience in the face of shocks, as well as marked differences in potential growth rates. Both are clearly linked to structural policies, where a lot of work remains to be done over the coming "good years" so as to raise potential growth rates and living standards, and to strengthen OECD countries' capacity to weather the next economic slowdown.

20 November 2003

Jean-Philippe Cotis
Chief Economist

# I. GENERAL ASSESSMENT OF THE MACROECONOMIC SITUATION

## Overview: A firming but uneven recovery

***The recovery is gathering pace, though unevenly…***

Global activity is picking up, with financial-market conditions improving and business investment in the process of taking over the baton from consumption. OECD-wide GDP growth, which languished below potential during the past three years, has firmed to an annualised rate probably exceeding 3 per cent in the second half of 2003 and is set to continue at about that pace during the 2004-05 projection period (Table I.1). The upturn is led by the US economy and, more unusually in light of the poor growth performance of the past decade, by Japan, which has experienced a surprisingly strong rebound. The euro area, where domestic demand has remained weak for longer, will receive some support from the global recovery, but is unlikely fully to work off its considerable slack over the next two years. Overall, inflation will remain low, with some further decline projected for the euro area, while deflation may be receding in Japan. Labour markets are expected to turn around, with employment rebounding rather strongly in the United States, following the shake-out of the past two years. In contrast, in the euro area, the recovery of employment is likely to be more subdued in a context of still relatively large labour hoarding. Improved employment prospects (even if modest) should, in turn, strengthen confidence and support consumption.

***… and with some worrying imbalances…***

The risks appear more balanced than they have been over the past two years. On the downside, several negative risks still surround this baseline projection. The dependence of the global upturn on the US economy is of concern, given its unsustainably wide fiscal and current account gaps. At some point, these might trigger an

Table I.1. **OECD-wide developments and prospects**

| | Average 1991-2000 | 2001 | 2002 | 2003 | 2004 | 2005 | q4 2003 | q4 2004 | q4 2005 |
|---|---|---|---|---|---|---|---|---|---|
| **Real GDP growth**[a] | 2.7 | 0.9 | 1.8 | 2.0 | 3.0 | 3.1 | 2.4 | 3.1 | 3.1 |
| United States | 3.2 | 0.3 | 2.4 | 2.9 | 4.2 | 3.8 | 3.8 | 4.1 | 3.6 |
| Japan | 1.4 | 0.4 | 0.2 | 2.7 | 1.8 | 1.8 | 2.4 | 1.6 | 1.9 |
| Euro area | 2.4 | 1.7 | 0.9 | 0.5 | 1.8 | 2.5 | 0.6 | 2.2 | 2.6 |
| **Output gap**[b] | -0.5 | -0.5 | -1.2 | -1.7 | -1.2 | -0.6 | | | |
| **Unemployment rate**[c] | 6.9 | 6.4 | 6.9 | 7.1 | 7.0 | 6.7 | 7.2 | 7.0 | 6.4 |
| **Inflation**[d] | 4.0 | 2.9 | 2.1 | 1.8 | 1.4 | 1.4 | 1.5 | 1.4 | 1.4 |
| **Fiscal balance**[e] | -2.9 | -1.3 | -2.9 | -3.8 | -3.8 | -3.7 | | | |

*a)* Yearly growth rates and q4/q4 growth rates (last three colums), in per cent.
*b)* Per cent of potential GDP.
*c)* Per cent of labour force.
*d)* GDP deflator growth. Over the past four quarters in the last three columns.
*e)* Per cent of GDP.
*Source:* OECD.

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undesirably large and rapid exchange rate slide and a significant increase in long-term interest rates, which could spill over to other regions. High household indebtedness in a number of countries could cause consumption to be scaled back, especially if interest rates were to rise sharply. The investment recovery is also vulnerable to the extent that stock market valuations may again reflect relatively optimistic expectations about profit growth. On the other hand, a swifter return of confidence could lead to faster recovery, not least via more vigorous business investment. Past experience also suggests that once a recovery is firmly rooted in the United States, growth can be more rapid for several quarters than is projected here.

***… calling for sustained monetary ease, forward-looking fiscal policy and bold structural reform***

Against this backdrop, the stance of monetary policy can and should remain accommodating well into the upturn. In most countries, the scope for support from the fiscal side is exhausted. Any easing would compound the already challenging budgetary adjustments lying ahead in many countries, most strikingly in the largest OECD economies. At a minimum, credible fiscal consolidation measures must be prepared now for execution as the recovery strengthens. These measures need to be embedded in a medium-term framework, ensuring that adjustment continues unabated throughout the upswing, which was not the case in the latter stages of the 1990s upturn. This macroeconomic policy mix should be combined with intensified structural reform efforts, which will help raise potential growth and ease the burden of fiscal policy adjustment.

# Recent developments and near-term tendencies

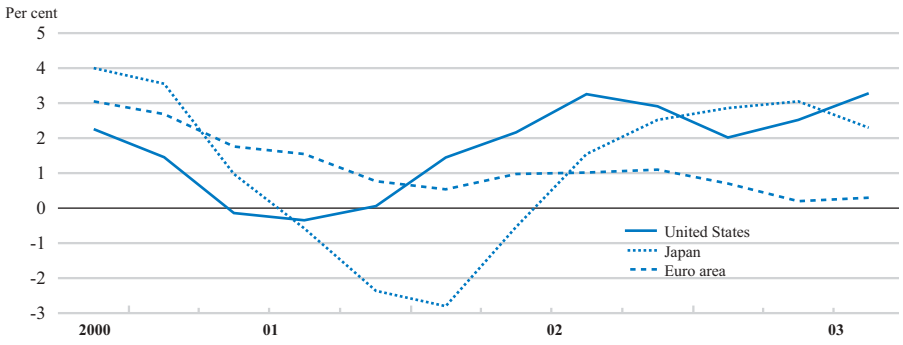
## Activity and confidence are firming

***Activity in the OECD area has been picking up***

While some of the forces which caused the global downturn had begun to dissipate by the beginning of 2003, in large part due to the impact of strong policy responses, activity in the OECD area slowed during the period of geopolitical uncertainty preceding the war in Iraq (Figure I.1). For many countries, this meant that the downturn which began in 2001 entered its third year. Global output started recovering in the course of the spring, as the feared oil price surges failed to materialise and as geopolitical tensions eased. Among the major countries, improvement has been concentrated

Figure I.1. **Activity in the major OECD regions**

*Real year-on-year GDP growth*




*Source:* OECD.

on the United States, where macroeconomic policy action to cushion the cyclical downturn was most vigorous, but has also been noticeable in the United Kingdom and Japan. Output has recently started to increase in the euro area, but only modestly.

***The United States is leading the upturn, with Japan contributing…***

In the United States, growth picked up to around potential in the second quarter of 2003 and exceeded 7 per cent in annualised terms in the third, despite some drag from stockbuilding. Household consumption accelerated, particularly for durable goods, as did residential investment. Capital formation in the business sector rebounded, especially in high-tech, which had started to firm earlier. In Japan, real GDP accelerated in the second quarter and growth remained above potential in the third, although nominal GDP has risen only slightly. The recovery is mainly driven by business investment and exports, with household consumption remaining flat. The abrupt slowdown witnessed in Canada in the second quarter can be ascribed to a series of mainly temporary adverse shocks while the underlying tendency remains relatively strong.[1]

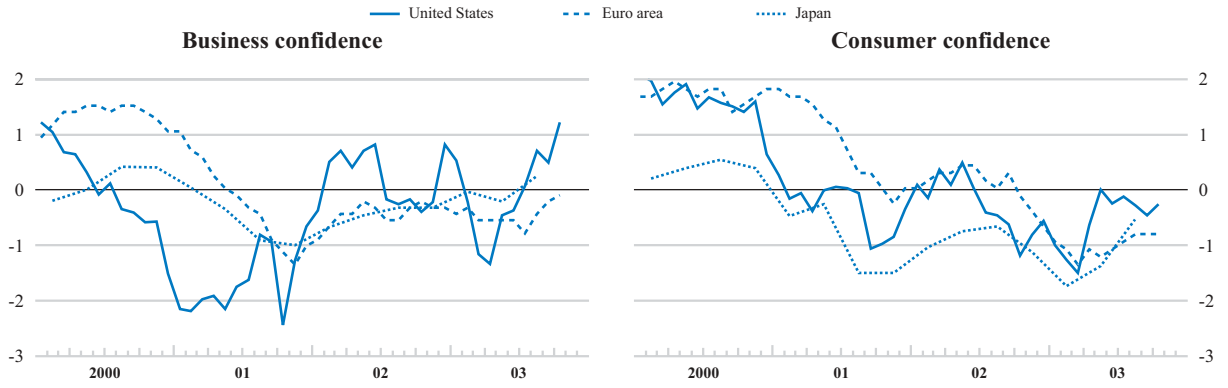
***… and continental Europe lagging***

In the European Union (EU), activity in the United Kingdom has also accelerated, with growth at around potential in the second and third quarter of 2003. In the euro area, output shrank during the first half of 2003, with final domestic demand sluggish and the euro's appreciation weighing on exports, but activity began to pick up in the third quarter.

***Business confidence has improved***

Incoming information from business and consumer surveys (Figures I.2 and I.3) and accompanying high-frequency consumption and investment data suggest that activity in the OECD area is on course for a robust final quarter of 2003. Business sentiment has improved since the spring in the United States, Japan and the euro area (Figure I.2). Order books have been lengthening in the United States but have only inched up in the euro area (Figure I.3). Stock levels are deemed appropriate by firms in the United States and Japan. They have been easing in the euro area, but are still considered excessive in Germany and the Netherlands.

Figure I.2. **Confidence indicators**




*Note:* All series have been normalised at the average for the period for which data are available and are presented in units of standard deviation. Business confidence is measured by firms' expectations of their own future production. Consumer confidence is the overall balance. Monthly data for the euro area and the United States, quarterly data for Japan.
*Source:* OECD, *Main Economic Indicators*.

1. The shocks included the outbreak of the severe acute respiratory syndrome (SARS) epidemic and the reverberations of a reported case of mad cow disease. But exchange rate appreciation *vis-à-vis* the dollar has also been important.

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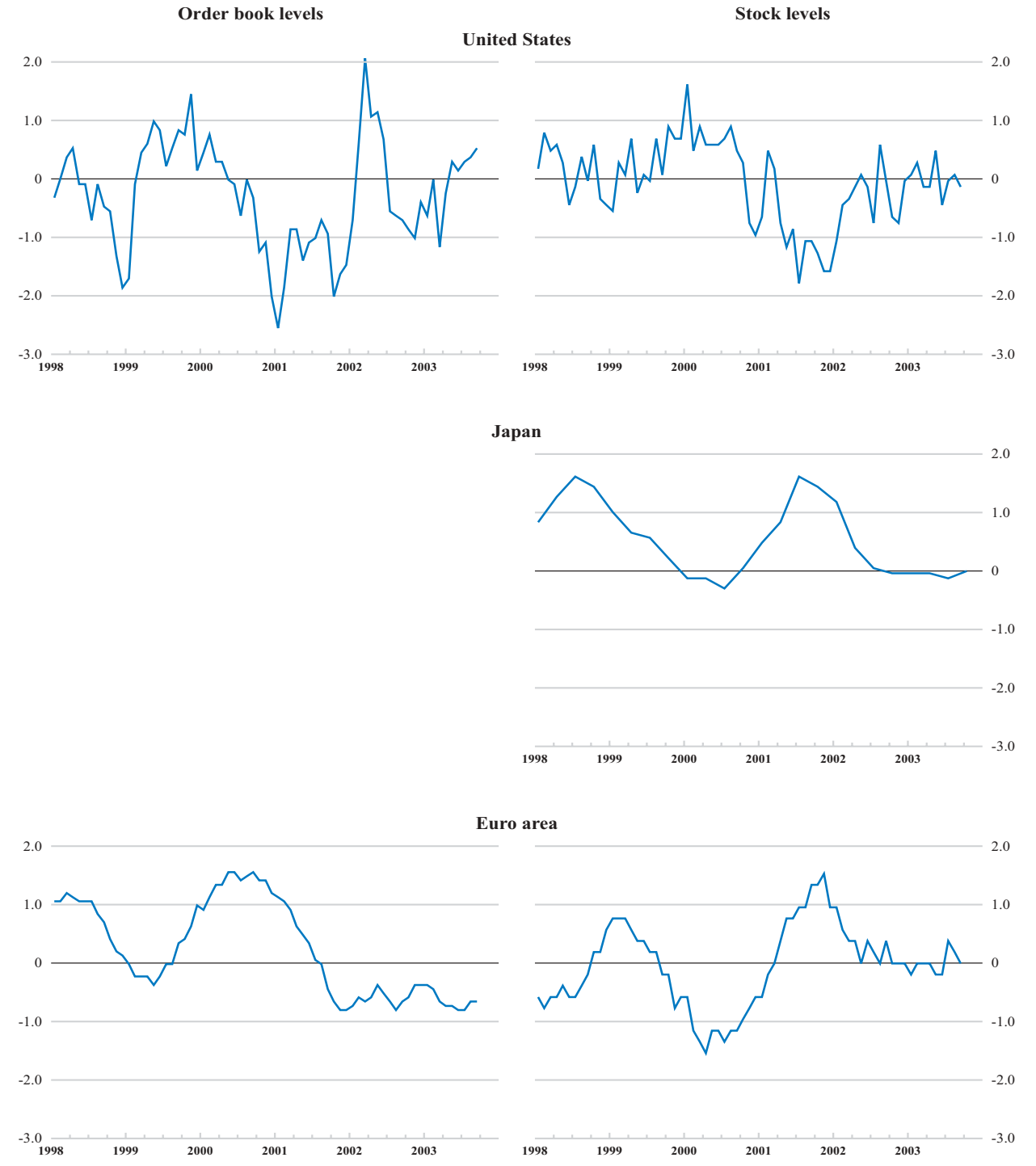
Figure I.3. **Orders and stocks**




*Note:* All series have been normalised at the average for the period for which data are available and are presented in units of standard deviation. Monthly data, seasonally adjusted except Japan (quarterly, s.a.).
*Source:* OECD, *Main Economic Indicators*.

Table I.2. **The immediate conjuncture**

*Real GDP growth, per cent, quarter-on-quarter*

| | Outcomes | | | Estimates | |
|---|---|---|---|---|---|
| | **2003 Q1** | **2003 Q2** | **2003 Q3** | **2003 Q4** | **2004 Q1** |
| United States | 0.4 | 0.8 | 1.7 | 1.2 (0.7 - 1.7) | 1.1 (0.5 - 1.7) |
| Euro area | 0.0 | -0.1 | 0.4 | 0.5 (0.2 - 0.8) | 0.6 (0.2 - 1.0) |
| Germany | -0.2 | -0.2 | 0.2 | 0.5 (0.0 - 1.0) | 0.6 (0.0 - 1.2) |
| France | 0.1 | -0.3 | 0.4 | 0.5 (0.1 - 0.9) | 0.5 ( 0.0 - 1.0) |
| Italy | -0.2 | -0.1 | 0.5 | 0.5 (0.2 - 0.8) | 0.5 ( 0.1 - 0.9) |
| United Kingdom | 0.2 | 0.6 | 0.6 | 0.5 (0.2 - 0.8) | 0.6 (0.3 - 0.9) |

*Note:* Quarterly GDP data and estimates are seasonally and in some cases also working-day adjusted. Based on available GDP releases and conjunctural indicators published until 14 November 2003. In parentheses is the associated ± one standard error range, calculated using the errors made in similar forecasts in an out-of-sample exercise over 1998-2002.
*Source* : National statistical offices, Eurostat and OECD.

***Conjunctural indicators bode well for the immediate future***

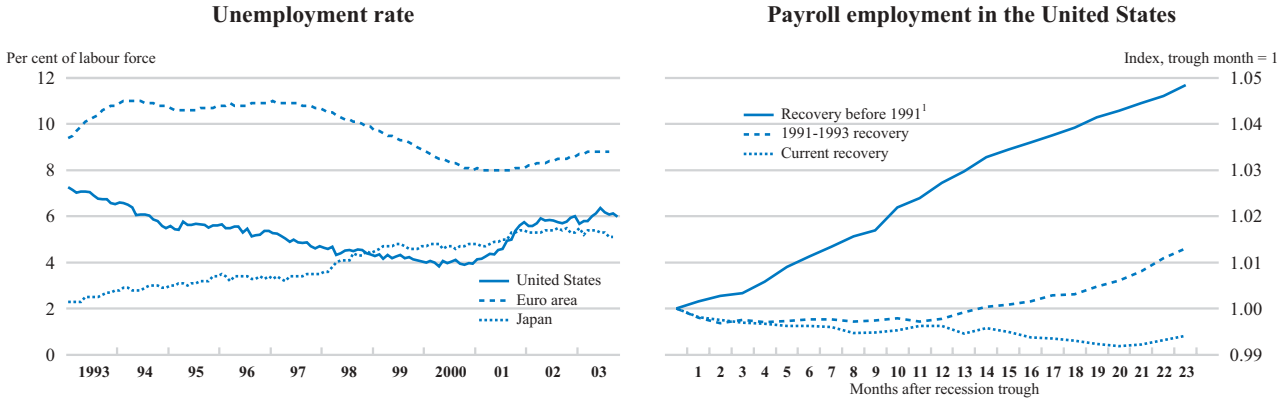
For the very near term, the Secretariat's suite of indicator-based models (presented in Box I.1) points to a continued, albeit diminishing, divergence between the United States and the United Kingdom on the one hand, where GDP growth will be at or above potential, and euro-area economies on the other, where it is projected to move towards potential (Table I.2).

## Labour markets are soft, and disinflation is continuing

***Unemployment is relatively high…***

Unemployment has continued to rise in a majority of OECD countries in 2003 (Figure I.4) and is substantially above estimated structural levels in most. Unemployment seems, however, to be close to its cyclical peak in the United States, as the number of initial benefit claims has been falling and employment has started to move up, while Japan has recorded a small decline in unemployment in response to strong economic activity. In the United States, the persistence of job losses well into the recovery, though normal insofar as employment lags output, may also reflect unusually intense structural change resulting in longer-run shifts in the distribution of workers across sectors. Permanent job losses dwarfed temporary layoffs during this

Figure I.4. **Labour market developments**




1. Average of five recoveries during the 1960-1982 period.
*Source:* OECD, *Main Economic Indicators*, European Central Bank, National Bureau of Economic Research.

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## Box I.1. Indicators of the immediate conjuncture

*Assessing the business cycle is hampered by long information lags.* Obtaining early and reliable information about the state of the business cycle is of critical importance for shaping views about the very near-term outlook. However, most hard macroeconomic data have quarterly frequencies and become available only with considerable delays (GDP typically becomes available one to three months after the end of the quarter in question). To overcome this information lag, high frequency (monthly) data are often used to produce indicators of real GDP growth.

*Business and consumer surveys have shorter information lags*. Business and consumer surveys provide a qualitative snapshot of the state of the economy with a shorter information lag (being published about three to four weeks following the polling). Business surveys provide information about how firms judge their own economic situation (current and future production, order books, employment, prices, and inventories). Consumer surveys describe household perceptions of their current and future economic situation, in addition to their evaluation of spending plans and employment prospects. Business surveys appear to have a higher correlation with GDP growth than do surveys of consumer confidence.[1] There are two widely used methods of analysing survey data: simple diffusion indexes (the balance of positive and negative responses), such as, for example, businesses' expectations of their own future production; and a broader, composite, diffusion index, calibrated such that if it exceeds or undershoots a threshold level (normally 50), it indicates either expansion or contraction of the real economy. Purchasing manager indexes are one example of this type of indicator. Survey data have the advantage that they are rarely revised, in contrast to most national accounts series. But they may provide misleading signals when unusual shocks occur, and it may be optimal to use them alongside other high frequency indicators on actual production and sales. In addition, while survey results are useful for determining the direction of change, they cannot easily be translated into quantitative forecasts.

*Traditional composite indicators have their own limitations.* In many countries, the business cycle is monitored by coincident and leading composite indicators. These are weighted averages of high frequency data series that are considered to have a clear correlation – coincident or with a stable lead – with a reference series such as industrial production. The weight attached to each data series reflects how closely correlated it is to the reference series. Such indexes are comprehensive in their statistical coverage and can be a useful characterisation of the overall conjunctural mood. But they may be constructed from a large number of variables, making their movements occasionally difficult to interpret. Moreover, being developed mainly to detect business cycle turning points, it is not clear that they are a suitable tool for producing accurate short-term projections of economy-wide developments at all points in time.

*High-frequency GDP growth estimates can be generated from monthly data.* An econometric approach has been developed at the OECD to provide estimates of GDP growth for five major OECD countries and the euro area in the two quarters following the last quarter for which official data have been published.[2] The objective is to help reduce the information gap and provide a starting point for the forecasting exercise which is consistent with recent high-frequency data. The models exploit the considerable amount of monthly conjunctural information released before the official national accounts data. Information found to be statistically significant is incorporated from both "soft" indicators, such as business surveys, and "hard" indicators, such as industrial production and retail sales, and use is made of different frequencies of data and a variety of estimation techniques.[3] An automated procedure has been developed allowing the indicator models to be run whenever new monthly data are released.

recession, and in most industries, job losses have not yet been reversed.[2] In some euro area countries, employment displayed remarkable resilience during the downturn. This may have been a symptom of labour hoarding, given high firing and hiring costs. In some cases, notably in France but even more so in Italy, it may also have reflected past labour market reform efforts aimed at pricing low-productivity workers into employment. Nevertheless, in the absence of a prompt recovery, employment growth in the euro area at large eventually ceased in 2003, and unemployment has

2. See Groshen, E. and S. Potter, "Has structural change contributed to a jobless recovery?", Federal Reserve Bank of New York, *Current Issues*, Vol. 9, No. 8, 2003. Restructuring typically plays an important role in recessions but apparently increasingly so over time (see Figura, A., "The effect of restructuring on unemployment", Federal Reserve, Finance and Economics Discussion Series, forthcoming). A key dimension of restructuring relates to the response to a rising propensity to import foreign-made consumer goods.

## Box I.1. **Indicators of the immediate conjuncture** *(cont.)*

*Characteristics and performance.* The main findings are the following:

- For current-quarter forecasts, that is forecasts made at or after the start of the quarter to which they relate, estimated indicator models appear to outperform autoregressive time series models, both in terms of size of error and directional accuracy. This suggests there are clear gains from developing such models.
- The main gains from the monthly approach start to appear once one month of data is available for the quarter being forecast. This is typically two to three months before the publication of the first official outturn estimate for GDP. This finding is in line with other empirical studies.
- For one-quarter-ahead projections, the performance of the estimated indicator models does not appear noticeably better than that of time series models until one to two months of information become available in the quarter preceding the one for which the forecast is being made. However there are some modest gains in terms of directional accuracy from using the indicator models.
- The most suitable model for any given information set and fixed forecast horizon varies across countries and time. For the current quarter, models with hard indicators alone, or combining hard indicators with survey information, outperform models using only survey data. The pure hard indicator model appears the most suitable for the United States and the euro area, whereas some form of combined model, either through estimation or through a consensus of the different model forecasts, appears more suitable for Germany, France, Italy and the United Kingdom. For the one-quarter-ahead forecasts, the inclusion of hard indicator data for the quarter in which the forecast is being made appears to add little to the information provided by surveys. Survey data appear to contain especially useful information in France and Italy.
- There are limits to the ability of any estimated model to forecast the quarterly rate of GDP growth precisely. Even when a complete set of monthly indicators are available for a quarter, the 70 per cent confidence band (approximately one standard error) around any point estimate for GDP growth in that quarter is found to range from 0.4 to 0.8 percentage points, depending on the country or region. The degree of uncertainty around a point estimate is also found to widen as the forecast horizon lengthens. Moreover, forecasting errors can arise for many different reasons, including revisions to the initial published data for some high-frequency indicators and inaccuracies in the projections of the incoming monthly data. Both of these factors help explain the relative weakness of activity in the euro area in the first half of 2003 compared with that expected at the time of the previous *Economic Outlook*.

The overall conclusion is that it is not optimal to always employ the same single, fixed-coefficient, indicator model for each country. Instead, it is preferable to have a suite of indicator models that can be updated automatically as new data appears. The model to be chosen from this suite at any given moment depends on the information then available.

1. See Santero, T. and N. Westerlund, "Confidence indicators and their relationships to changes in economic activity", *OECD Economics Department Working Papers*, No. 170, 1996.
2. See Sédillot, F. and N. Pain, "Indicator models of real GDP growth in selected OECD countries", *OECD Economics Department Working Papers*, No. 364, 2003.
3. The use of regression techniques to identify indicator series that are closely related to GDP growth over the economic cycle as a whole differs from the longstanding approach used to produce the OECD Composite Leading Indicator series. The latter are constructed using a set of 5-10 variables for each country that have been observed to be closely related to past turning points in a proxy reference series such as GDP or, more typically, industrial production.

risen in all euro area countries (apart from Italy), averaging 8¾ per cent of the labour force in the third quarter of 2003.

***… and disinflation is continuing***

Inflation is generally low, especially after allowing for measurement biases.[3] In the United States, core consumer price inflation had drifted down to slightly below 1½ per cent and is set to remain at that level. By contrast, in Japan, where deflation

3. Despite improvements in consumer price index (CPI) design in recent years, CPI inflation is still estimated to overstate the increase in the cost of living by 0.3 to 1.4 percentage points per year in the United States (Lebow, D. and J. Rudd, "Measurement error in the Consumer Price Index: where do we stand?", *Journal of Economic Literature*, Vol. XLI, March 2003). The Japanese CPI may also be biased upwards (Ariga, K. and K. Matsui, "Mismeasurement of the CPI", *NBER Working Papers*, No. 9436, 2003). Some studies argue that this is the case in the euro area as well (Cecchetti, S. and M. Wynne, "Inflation measurement and the ECB's pursuit of price stability: a first assessment", *Economic Policy*, Vol. 18, No. 37, 2003), but the evidence there is less clear-cut.

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Table I.3. **Underpredicting euro area inflation**

| | Inflation[a] | | |
|---|---|---|---|
| | **Predicted[b]** | **Actual** | **Average underprediction[c]** |
| Euro area | 1.79 | 2.11 | 0.32 |
| France | 1.69 | 1.86 | 0.18 |
| Germany | 0.60 | 1.06 | 0.46 |
| Italy | 2.18 | 2.74 | 0.56 |
| Spain | 3.17 | 3.41 | 0.24 |
| *Memorandum item:* | | | |
| United States | 1.47 | 1.49 | 0.02 |

*a)* Annualised core CPI inflation (excluding food and energy) during 2001Q3-2003Q2, using the HICP for the euro area.
*b)* Average rate as predicted by a quarterly Phillips curve equation.
*c)* Over the 1982Q3-2001Q2 period, the residuals sum to zero.
*Source:* OECD.

has been entrenched for half a decade, core consumer price inflation is inching up and may be headed towards zero, although this partly reflects the transient impact of hikes in regulated prices. In the euro area, energy price hikes and the drought have tended to offset the disinflation induced by widening output gaps and joblessness. However, core inflation has exhibited a high degree of inertia and the deceleration in both headline and core inflation has actually been quite modest, in view of the slow growth of activity over the past two years or more and the appreciation of the euro since 2001. Indeed, over the past two years, and in contrast to the United States, observed euro-area-wide core inflation has, on average, exceeded what would have been predicted on the basis of past experience, given the unemployment gap, imported inflation and inflation expectations (Table I.3). This is true for each of the four largest euro area countries, but especially for Germany (even allowing for indirect tax increases) and Italy. Nonetheless, continued economic slack is expected to lead to some further disinflation.

# The projections to 2005: a broadening but still uneven expansion

***The recovery is uneven***

Looking further ahead, the upturn seems set to become more broadly based geographically, with the pick-up in activity in the euro area finally taking hold. However, the projected central recovery scenario will not be strong enough to make rapid inroads into unemployment in the OECD area at large, whilst certain internal and external imbalances will persist or even worsen, implying some risks to its sustainability.

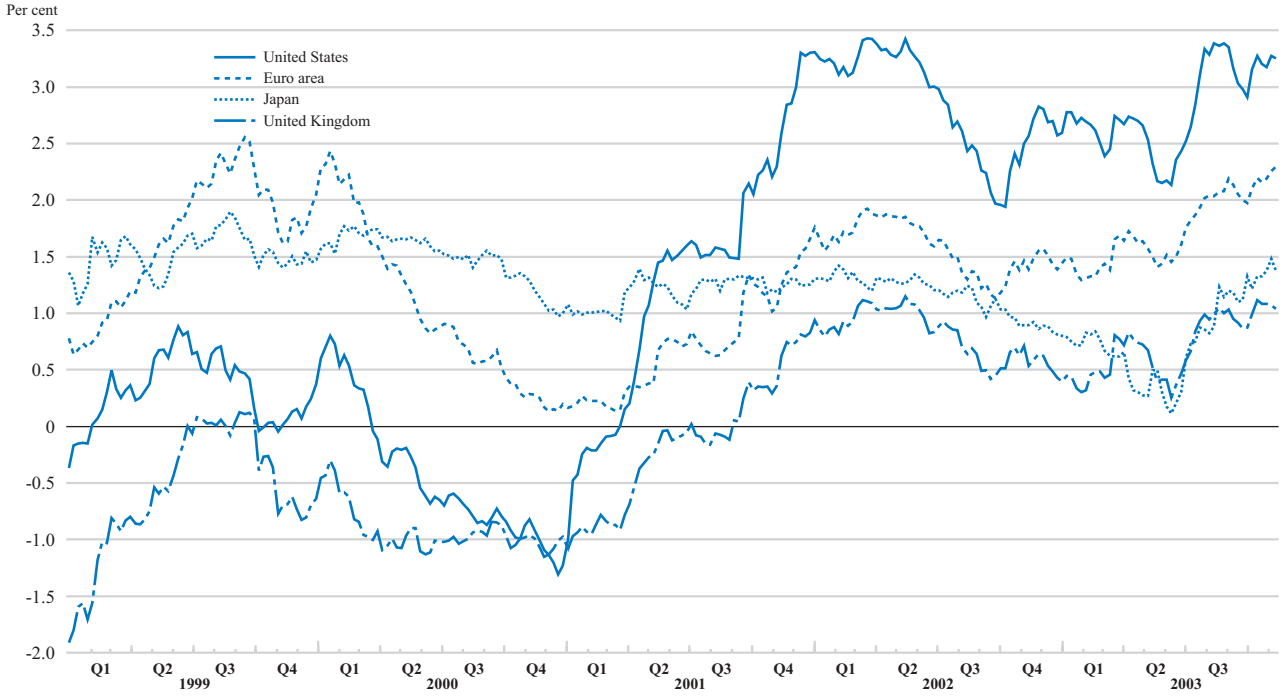
## Domestic and policy factors shaping the outlook

***Substantial stimulus is coming from macroeconomic policies***

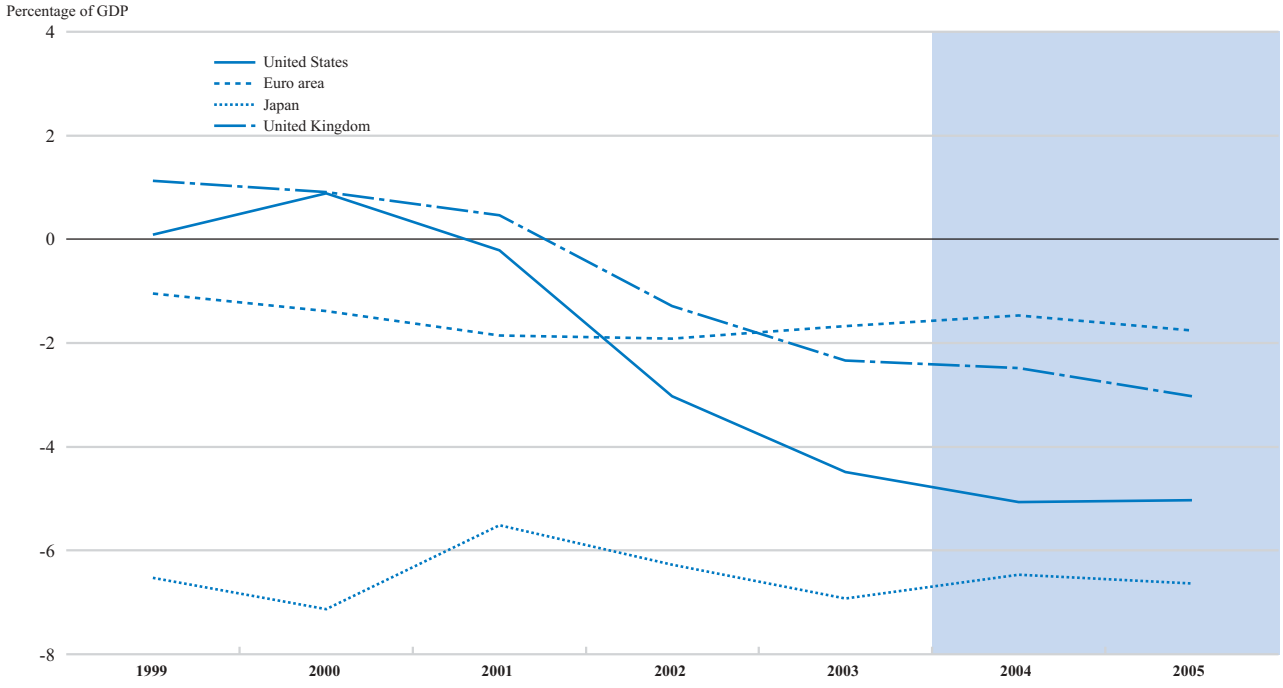
To a large extent, the impulse for the global recovery is currently policy-induced (Figure I.5). As discussed in more detail in the policy section below, the macroeconomic policy stance has been exceptionally expansionary since 2001 in the United States. Short-term interest rates have been brought down aggressively, whilst public spending has been actively increased and substantial tax cuts introduced. Given the lags associated with monetary and fiscal action, the ensuing impulse will

Figure I.5. **Yield gaps and fiscal impulses**

**The yield gap**[1]




**Cyclically-adjusted budget balances**




1. Difference between the 10-year government bond yield and the 3-month money market rate.
*Source:* Datastream, OECD.

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still be working its way through well into 2004. (Box I.2). The overall policy stance has been less stimulative in the euro area. Short-term interest rates have also been cut to their lowest level in half a century, but the euro has appreciated considerably. Tax cuts in several euro area countries have been timed to help foster a recovery, but generally the fiscal response has been limited to the operation of the built-in stabilisers. In Japan, the fiscal stance has been neutral to mildly expansionary over the last two years. While the Bank of Japan has had no scope to lower interest rates further, it has attempted to reflate the economy by making more liquidity available both to banks and directly to corporate entities.

***The investment climate has improved…***

Monetary ease has contributed to reducing firms' funding costs, both directly, via lower short-term interest rates, and indirectly, as the whole term structure shifted down (Figure I.6). As signs of the US and Japanese recovery became more robust, OECD area-wide bond yields backed up substantially during the summer, especially in the United States. But they subsequently eased and remain relatively low compared with their levels at the same stage of earlier recoveries. Meanwhile, corporate bond spreads have fallen to more normal levels, following their surge in the wake of

## Box I.2. Policy and other assumptions underlying the central projections[1]

Fiscal policy assumptions are based as closely as possible on legislated tax and spending provisions (current policies or "current services"). Where policy changes have been announced but not legislated, they are incorporated if the assessment is that they will be implemented in a shape close to that announced. For the present projections the implications are as follows:

- The US projection embodies the $87.5 billion supplemental appropriation enacted in November 2003. For FY 2005, the projection assumes that the tax provisions scheduled to expire at the end of 2004 will be extended and that real discretionary spending will increase by 3 per cent rather than remain unchanged as assumed in the Congressional Budget Office baseline.
- The projection for Japan incorporates the budgeted broadening of the direct and indirect tax bases in 2004. No supplementary budgets are assumed over the projection period.
- Measures to meet budget deficit objectives under the Stability and Growth Pact are incorporated provided they are enshrined in law or about to be legislated. Hence, the projection for Germany builds in the relatively moderate income tax cuts in 2004 and the larger cuts in 2005 which have been enacted, but not the proposed frontloading into 2004 of the 2005 cuts nor the savings package, neither of which had been passed as of the cut-off date for the projections. In the case of France, the 2004 draft Budget calls for a 0.7 per cent of GDP reduction in the cyclically-adjusted deficit, but explicit announced measures account for only part of this planned improvement.

Policy-controlled interest rates are set in line with the stated objectives of the relevant monetary authorities with respect to inflation and activity. In the United States, the federal funds target rate, which was last lowered to 1 per cent in June 2003, is assumed to increase gradually from the second quarter 2004 to 3¼ per cent at the end of the projection period, as some withdrawal of policy stimulus accompanies the progressively self-sustained expansion. In the euro area, the main refinancing rate, which was lowered by ½ percentage point in June 2003 to 2 per cent, is assumed to gradually move up from around mid-2005 to some 2½ per cent in the final quarter of 2005. In Japan, short-term interest rates are assumed to remain close to zero throughout the projection period.

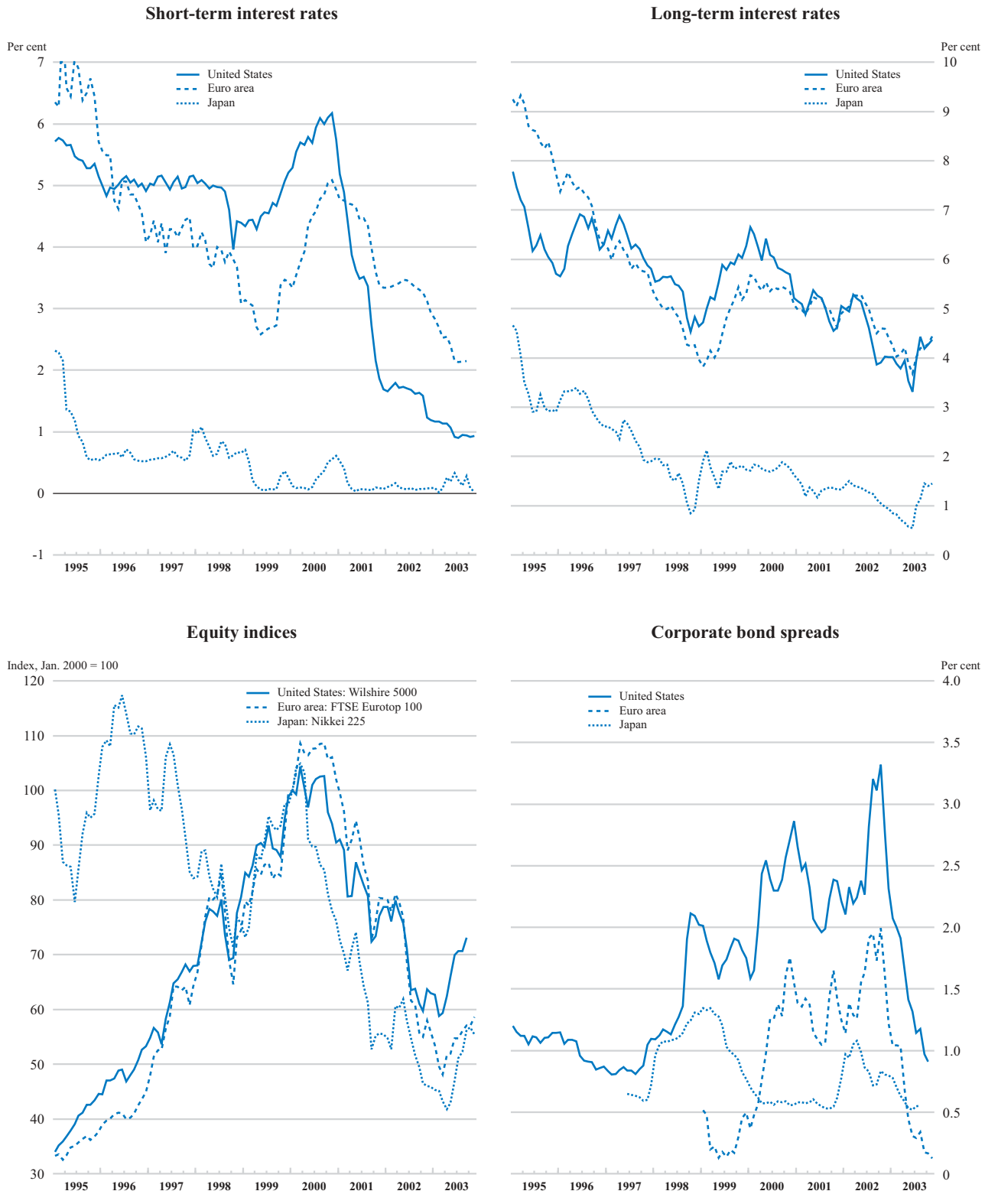
The projections assume unchanged exchange rates from those prevailing on 3 November 2003, at one US dollar equals ¥ 111.2 and € 0.873. For Turkey, the exchange rate is assumed to depreciate in line with projected inflation.

Oil prices have become increasingly volatile and difficult to predict in the short term, as they respond not only to economic but also to geopolitical factors. The OECD has therefore adopted the practice of assuming unchanged oil prices as from a given day. The economic factors influencing oil prices are described in more detail in the main text. The working hypothesis is that oil prices (Brent crude) average $27 per barrel from the fourth quarter of 2003 onwards.

The cut-off date for information used in the projections was 7 November 2003.

1. Details of assumptions for individual countries are provided in the corresponding country notes.

Figure I.6. **Financial market developments**




*Source:* Datastream.

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the corporate governance scandals. In addition, the vigorous stock market rebound witnessed since the first quarter of 2003 – following three years of sharp declines – has brought equity prices back to around their 1997-98 levels in the United States and the euro area. In Japan, equity prices have also staged a major rebound since last spring.

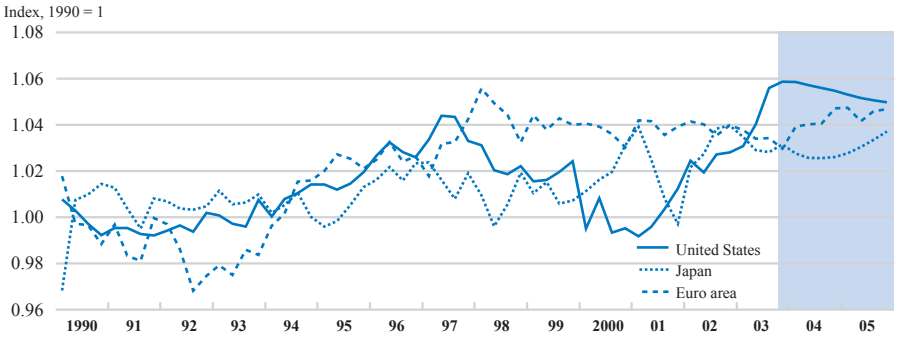
***… reflecting a recovery in profits***

Higher stock prices in part reflect improving profit margins (Figure I.7) and a reassessment of earnings performance. In the second quarter of 2003, the share of profits in GDP rose significantly in the United States, reverting to its average over the 1990s.[4] Hourly compensation has been rising rapidly, despite labour-market weakness, largely due to health-care and pension-benefit costs, but productivity growth has more than compensated for the negative impact on margins. Profits have recovered in Japan and the United Kingdom too, but to a lesser degree. In the euro area, evidence to this effect is more anecdotal: there have been some relatively encouraging quarterly earnings reports, but profitability has been held back by the appreciation of the euro.

***Credit to households has been supporting consumption***

While corporate finances are on the mend, increasing household indebtedness has helped sustain private consumption as well as housing investment, in the United States and United Kingdom in particular but also in some other countries such as Australia and Korea. With interest rates bottoming out, however, support from this side may start to fade. In the United States, mortgage refinancing has slowed considerably since the summer, against the backdrop of rising bond yields. In the euro area, by contrast, the build-up in household debt has been more limited, and consumption and housing investment correspondingly less buoyant. In general, unemployment prospects also influence consumer spending patterns and, with joblessness unlikely to reverse quickly in many OECD countries, this is likely to exert a restraining influence on household spending in the near term.

Figure I.7. **Profit margins**[1]




1. Ratio of value-added deflator to unit labour costs in the business sector.
*Source:* OECD.

4. Strong corporate tax receipts in the third quarter of 2003 suggest that profits continued to improve since mid-year.

## Influence of international factors

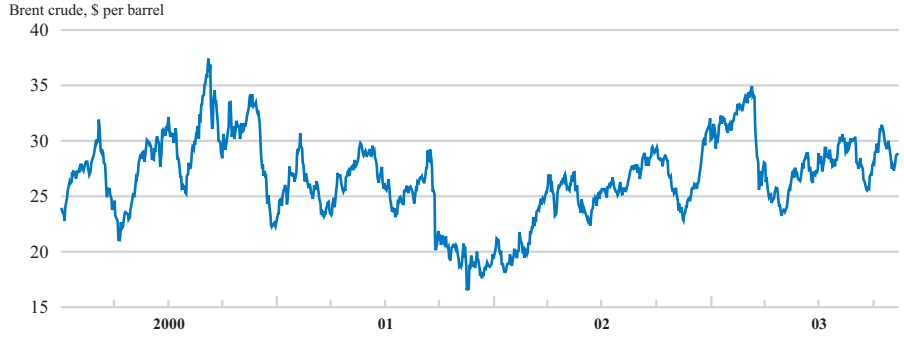
***Some commodity price pressures are foreseen***

Geopolitical tensions have eased but, in a context of low global oil stocks, economic recovery in the United States and Asia has been putting upward pressure on oil prices (Figure I.8). Several special factors reinforced this over the summer,[5] while a cutback in OPEC (Organisation of Petroleum Exporting Countries) production starting in November 2003 prevented any subsequent seasonal decline. The working hypothesis underlying the baseline projections is for the crude Brent oil price to remain at $27 per barrel, which is somewhat above the mid-point of OPEC's target range, but well below the forward levels seen during the run-up to the war in Iraq. In real terms, based on the OECD-wide GDP deflator, the assumed price is 15 per cent higher than the average price during the 1990s.[6] Natural gas prices have risen considerably since 2002, especially in North America, and with demand projected to outstrip supply, they stand to rise further. Non-energy commodity prices have recently been rising relatively fast, pulled by industrial raw materials and in particular base metals, reflecting the pick-up of activity in the United States and Asia, and for agricultural products the summer drought. This trend is likely to continue in the short term but should moderate as higher prices bring forth increased supplies.

***Exchange rates have shifted***

Currency movements are also influencing relative growth patterns. The depreciation of the dollar, which lost 15 per cent of its value against the euro in the year to end-October 2003 and 11 per cent against the yen, has affected price competitiveness in the euro area and Japan, reducing the role of exports as an engine of growth in the two regions. The positive terms-of-trade effects will, however, serve to promote real income growth, offsetting oil and commodity price increases in dollar terms.

Figure I.8. **Oil prices**




*Source:* OECD.

5. The United States added considerably to its strategic oil reserves. Japan's nuclear reactor problems resulted in larger-than-normal oil-based energy production. Output in Venezuela and Nigeria is still far below past full-capacity, and Iraqi oil is only slowly coming on stream.
6. In the case of the euro area, however, the real euro-denominated price of oil is projected to be slightly below the average during the 1990s.

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## An OECD-wide recovery should unfold in 2004-05

***The recovery should consolidate in 2004…***

Against this background, a global recovery is under way. The US expansion may slow somewhat from the strong pace observed in the third quarter of 2003 but should retain substantial momentum. The cyclical recovery should continue in Japan, even though recent above-trend growth rates seem concentrated in particular sectors and may prove difficult to sustain. While euro-area growth performance is projected to continue to lag, a recovery is in the making, as the impact of an expanding global economy feeds through, notwithstanding a stronger euro.

***... with robust output growth in North America…***

Business investment is projected to continue to grow robustly in the United States (Figure I.9), boosted in the near term by the tax relief measures enacted in May 2003 (see below) and by a positive contribution from stockbuilding. Residential investment, which is only a third as large, is likely to slow. While the impact of low interest rates on consumer spending will fade, household spending should continue to be supported by lower taxes and increasingly be underpinned by job creation. Spurred by dollar depreciation, and by a recovering global market, exports are expected to accelerate. GDP would thus expand at a rate of close to 4 per cent over the projection period, with some marginal deceleration over time, as the impact of past policy stimulus fades. In Canada, growth should pick up to over 3 per cent, following the setback in 2003.

Figure I.9. **Investment**

*Percentage change year-on-year*


*Source:* OECD.

*… and sustained, if slower, growth in Japan*

The recovery in Japan partly reflects successful restructuring in a number of large firms. In the rest of the economy, however, restructuring has made less headway, so the recovery is likely to remain narrowly based. The expansion is thus projected to continue at a more moderate pace. Business investment should slow from its recent very rapid rate of growth, which has pushed the capital/output ratio to a new high, but private consumption could firm, helped by the turnaround in the labour market. Exports, while held back by yen appreciation, should benefit from the dynamism of intra-Asia trade.

*The euro area should join in the recovery…*

Activity in the euro area has bottomed out as international prospects have improved. Exports will remain an important driver, despite the losses in competitiveness entailed by euro appreciation, but domestic demand will make an increasing contribution to growth. A revival in business fixed investment should occur from early 2004, based initially on export-oriented sectors, but subsequently broadening. Consumer spending should recover as employment starts growing anew and confidence improves. Tax cuts due to come into force could support consumption in several countries. Overall, real GDP growth is projected to rise gradually and to match or exceed potential from mid-2004 onwards. By implication, the output gap would still widen for a few quarters, to average 2¼ per cent of potential GDP in 2004 – the same level as in 1993. UK growth, which stood up well during the global downturn due to the stimulus from public spending and the effects of monetary easing on consumption, should gain further speed and broaden to exports and investment as those influences fade.

*... and a strengthening should occur elsewhere in the OECD area*

Elsewhere in the OECD area, growth is projected to pick up most markedly in Mexico and Switzerland, following a mediocre performance in 2001-03. Activity would gain some more momentum in the four EU accession countries that are also OECD members (Czech Republic, Hungary, Poland and Slovak Republic), as well as in Australia, Korea, Norway and Sweden, whilst remaining at around 5 per cent in Turkey and 3 per cent in New Zealand.

## World trade and non-OECD prospects are favourable

*World trade will rebound but current account imbalances will endure*

World trade is already beginning to pick up and is projected to firm over the projection period, the pace of growth rising from 4 per cent in 2003 to an average of close to 8½ per cent in 2004-05. Reflecting the non-synchronised nature of the recovery, trade and current account imbalances are projected to increase (Table I.4). The US current account deficit is estimated to have reached 5 per cent of GDP in 2003 and will continue to rise slightly. At the same time, the Japanese and euro-area surpluses would increase from some 3 and ½ per cent of GDP in 2003, respectively, to around 4¼ and 1 per cent in 2005. In the United Kingdom, the current account deficit is set to widen from 2¾ to 3½ per cent of GDP.

*Growth should be sustained in China and Dynamic Asia…*

Growing imports from non-OECD Asian economies should play an increasingly supportive role in the global recovery. Growth is projected to remain rapid in China, at over 7 per cent, and should pick up to close to an average of 5 per cent in Asia by 2005,[7] following the temporary disruption caused by the SARS epidemic and helped by the high-tech cycle and effective exchange rate depreciation. The

7. Dynamic Asia includes Hong Kong, China; Chinese Taipei; Indonesia; Malaysia; the Philippines; Singapore and Thailand.

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Table I.4. **World trade and current account summary**

| | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| | Percentage changes | | | |
| **Goods and services trade volume** | | | | |
| World trade[a] | 3.4 | 4.0 | 7.8 | 9.1 |
| OECD exports | 1.9 | 1.5 | 6.5 | 7.9 |
| OECD imports | 2.4 | 3.1 | 6.3 | 7.4 |
| Non-OECD exports | 8.0 | 9.1 | 10.8 | 11.7 |
| Non-OECD imports | 5.9 | 7.8 | 11.5 | 13.3 |
| **Trade prices** | | | | |
| OECD exports[b] | 1.8 | 10.7 | 1.9 | 1.1 |
| OECD imports[b] | 1.3 | 10.1 | 1.7 | 1.1 |
| Non OECD exports[b] | -0.4 | 5.4 | 0.6 | 1.1 |
| Non OECD imports[b] | 0.2 | 6.7 | 1.3 | 1.2 |
| **Current account balances** | Per cent of GDP | | | |
| United States | -4.6 | -5.0 | -5.0 | -5.1 |
| Japan | 2.8 | 2.9 | 3.6 | 4.3 |
| Euro area | 1.1 | 0.4 | 0.7 | 0.9 |
| European Union | 0.7 | 0.1 | 0.1 | 0.3 |
| OECD | -1.1 | -1.4 | -1.3 | -1.3 |
| | $ billion | | | |
| United States | -480.9 | -548.6 | -575.8 | -612.2 |
| Japan | 112.5 | 122.9 | 155.0 | 185.6 |
| Euro area | 71.4 | 35.5 | 61.3 | 78.4 |
| European Union | 57.4 | 6.7 | 15.8 | 30.0 |
| OECD | -288.4 | -408.2 | -405.2 | -404.8 |
| Non-OECD | 181.5 | 215.6 | 209.6 | 200.0 |
| World | -106.9 | -192.6 | -195.6 | -204.8 |

*Note:* Regional aggregates include intra-regional trade.
*a)* Growth rates of the arithmetic average of world import volumes and world export volumes.
*b)* Average unit values in $.
*Source:* OECD.

Dynamic Asian Economies are reaping the fruits of the financial sector, corporate governance and other structural reforms undertaken in the wake of the 1997 crisis. However, a number of them face significant fiscal consolidation in coming years, and non-performing loans and corporate debt loads are still high or even rising in some. China itself continues to suffer from severe structural problems in its financial and real sectors that will need to be addressed if vigorous growth is to continue.

***… as well as in Russia…***

In Russia, real GDP growth is set to exceed 6 per cent in 2003. Recent events have revived concerns about the security of property rights which are likely to negatively affect investment and growth. Nevertheless, growth should remain robust in 2004 and 2005, at around 5 per cent, on the assumption of oil prices staying at around $27 per barrel and barring further reverberations of the Yukos affair. Sustaining rapid growth over the longer term will depend on structural reforms in a number of areas, especially the banking, electricity and gas sectors, and on improving the administration and enforcement of law.

***… and Latin America***

In Latin America, the outlook is improving, based on a favourable external environment, some further strengthening in commodity prices, and sizeable fiscal and current-account adjustment in many of the countries of the region. Growth in Brazil is projected to pick up from ½ per cent in 2003 to 3 per cent in 2004. In Argentina, following a deep plunge, growth might approach 7 per cent in 2003, but

beyond the very near term growth prospects hinge on successful internal and external debt restructuring.

## Labour market and inflation outlook

***Despite better growth, labour markets will only improve moderately…***

Global economic growth is unlikely to be strong enough to make major inroads into unemployment in the very near term. Even so, job creation should be sufficiently robust by 2005 for unemployment to drop more rapidly then, despite the foreseeable rebound in participation rates (Table I.5). OECD-wide unemployment is

Table I.5. **Productivity, unemployment, output gaps and inflation**

| | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| | | Per cent | | |
| **Labour productivity**[a] | | | | |
| United States | 4.2 | 3.1 | 2.9 | 1.6 |
| Japan | 1.5 | 2.8 | 1.5 | 1.8 |
| Euro area | 0.5 | 0.6 | 1.4 | 1.6 |
| European Union | 0.7 | 0.8 | 1.7 | 1.8 |
| Total OECD | 2.2 | 2.0 | 2.2 | 1.8 |
| **Employment growth** | | | | |
| United States | -0.3 | 0.8 | 1.4 | 2.2 |
| Japan | -1.3 | -0.1 | 0.2 | 0.0 |
| Euro area | 0.5 | 0.0 | 0.5 | 1.0 |
| European Union | 0.5 | 0.1 | 0.5 | 0.9 |
| Total OECD | 0.3 | 0.5 | 0.9 | 1.4 |
| | | Percentage of labour force | | |
| **Unemployment rate** | | | | |
| United States | 5.8 | 6.1 | 5.9 | 5.2 |
| Japan | 5.4 | 5.3 | 5.2 | 5.0 |
| Euro area | 8.4 | 8.8 | 9.0 | 8.7 |
| European Union | 7.7 | 8.0 | 8.1 | 7.9 |
| Total OECD | 6.9 | 7.1 | 7.0 | 6.7 |
| | | Per cent | | |
| **Output gaps**[b] | | | | |
| United States | -1.3 | -1.5 | -0.3 | 0.4 |
| Japan | -3.2 | -1.9 | -1.5 | -1.0 |
| Euro area | -0.8 | -2.2 | -2.4 | -1.9 |
| European Union | -0.7 | -2.0 | -2.1 | -1.5 |
| Total OECD | -1.2 | -1.7 | -1.2 | -0.6 |
| **Inflation**[c] | | GDP deflator | | |
| United States | 1.1 | 1.6 | 1.2 | 1.2 |
| Japan | -1.7 | -2.5 | -1.3 | -0.8 |
| Euro area | 2.4 | 1.9 | 1.7 | 1.6 |
| European Union | 2.5 | 2.1 | 1.8 | 1.7 |
| Total OECD *less* Turkey | 1.4 | 1.4 | 1.2 | 1.2 |
| Total OECD | 2.1 | 1.8 | 1.4 | 1.4 |
| | | Consumer price index | | |
| United States | 1.6 | 2.3 | 1.7 | 1.8 |
| Japan | -0.9 | -0.2 | -0.2 | -0.2 |
| Euro area[d] | 2.3 | 2.0 | 1.5 | 1.4 |

*a)* In the business sector.
*b)* Per cent of potential GDP.
*c)* Percentage change from previous period.
*d)* Harmonised index of consumer prices.
*Source:* OECD.

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projected to fall by 0.8 percentage point over the course of the next two years. It would decline by 1.2 percentage point in the United States between end-2003 and end-2005, but by only 0.4 percentage point in the euro area, reflecting greater labour hoarding during the downswing.

***… while inflation will remain subdued***

With a persistently negative albeit closing output gap, inflation may ease further in the United States and the euro area over the coming quarters and would not start to edge up before 2005. In Japan, downward pressures on prices may ease, although not sufficiently to end deflation within the horizon of the short-term projection.

## Is the recovery sustainable?

***Risks have become more balanced, but uncertainties remain***

The overall balance of risks surrounding the outlook is now less skewed to the downside than at the time of the previous few editions of the *OECD Economic Outlook*. On the positive side, there has been an overall reduction in uncertainty facing the immediate economic outlook since the spring. A marked improvement in equity prices and reduced corporate spreads indicate a receding risk premium, while the recent upward shift in the yield curve, with implied short-term interest rate increases starting in 2004, may indicate market expectations of a firmer future output trend. In these circumstances, the recovery could turn out to be stronger than projected, notably in the United States, where past upturns have typically been brisker in their early stages than is envisaged here. But significant uncertainties and tensions persist, and the recovery could be derailed if some of the existing domestic or international tensions and imbalances were to unwind abruptly.

***Consumption strength hinges in part on asset price developments***

Household indebtedness and housing markets are one possible source of tension (Box I.3). Where household consumption has cushioned the downturn – particularly in the United States and the United Kingdom but also in countries such as Australia, New Zealand and Spain – it has generally been underwritten by a significant increase in household debt and buoyant housing markets (Figure I.10). As a result, debt-to-income ratios have been rising. However, many highly indebted households also hold sizeable assets and, because of low interest rates, debt service ratios have remained relatively stable, suggesting that households are not currently overextended. Moreover, fundamentals such as innovation and increasing competition in the mortgage market as well as supply constraints – particularly in the United Kingdom – can explain much of the observed house price increases. But debt burdens are not evenly distributed across households, leaving a significant proportion of borrowers with few or no liquid assets vulnerable to interest rate increases. If interest rates were to rise faster than explicitly assumed in the baseline projection, household spending might lose momentum rather abruptly, as interest payments rise and house prices fall, with accompanying negative wealth effects.[8] This could occur before business investment has taken over the reins. Likewise, consumption has been supported, with some lag, by the stock market rebound. If equity prices were to weaken, consumption would be adversely affected.

8. The impact would be more pronounced in the United Kingdom than in the United States, given the prevalence of fixed-rate mortgages in the latter and of floating-rate mortgages in the former.

## Box I.3. Housing market risk

*Importance of housing wealth for consumption.* House prices have been rising rapidly in a number of OECD economies, notably in the United Kingdom (see Figure 10). The increase in housing wealth since the late 1990s has been one of the driving forces behind the strength of consumer spending in several cases.[1] Very rapid house price inflation, however, is unlikely to continue indefinitely, especially in countries where the ratio of house prices to rents is now far above long-run averages. For illustrative purposes, the table below shows the effect that a sustained 10 per cent drop in housing wealth relative to baseline would have:[2] the level of consumption would be reduced by ¼ to ½ percentage point in the United States and by over 1 percentage point in the United Kingdom. The effect is stronger for the United Kingdom because the value of property holdings is almost three times as large relative to disposable income, and due to a higher marginal propensity to consume out of wealth.[3]

**Long-term impact of a 10 per cent decline in real housing wealth**

| | Net housing wealth in per cent of household disposable income in 2003 Q2 | Propensity to consume out of housing wealth (per cent) | Long-run change in consumption (percentage point) |
|---|---|---|---|
| United States | 110 | 3 | -0.4 |
| United Kingdom | 285 | 4 | -1.2 |

*Impact of a house price correction.* Estimates of the longer-term impact of housing wealth changes may, however, understate the scale of the immediate adjustment triggered by a sharp fall in house prices. For some countries, the short-term effect of house prices on consumption can be stronger than the long-run effect, reflecting the potency of housing equity extraction/injection mechanisms. This would apply especially to the United Kingdom but also to the Netherlands and the Nordic countries.[4] In the case of the Netherlands, where a house price correction has taken place, estimates of such short-run effects suggest that if nominal house prices were to decline and to be 10 per cent lower than projected in 2004, this would reduce private consumption growth by some 1½ percentage point next year.[5]

*Role of the mortgage market in stabilisation.* More generally, the way households borrow to pay for their homes substantially affects consumption and saving behaviour, and by implication the transmission mechanisms of monetary policy. In contrast to the United Kingdom, fixed-rate mortgages are more common in the euro area (Spain being an exception). At the same time, mortgage refinancing, which allows borrowers to take advantage of lower interest rates and frees up household spending power, typically incurs substantial penalties. In Germany, for example, mortgage rates are usually fixed for ten years and any consumer refinancing response to monetary easing is effectively ruled out. While housing finance arrangements in floating-rate economies can contribute substantially to boom-and-bust cycles, it is also clear that in fixed-rate regimes with limited scope for refinancing monetary policy has less traction.

1. See Box I.1 in *OECD Economic Outlook*, No. 72, December 2002.
2. Based on the estimates presented in Boone, L. and N. Girouard, "The stock market, the housing market and consumer behaviour", *OECD Economic Studies*, No. 35, 2002.
3. Strong effects have also been estimated for Australia (Dvornak, N. and M. Kohler, "Housing wealth, stock market wealth and consumption: a panel analysis for Australia", Reserve Bank of Australia, *Research Discussion Papers*, No. 2003-07, 2003).
4. See H.M. Treasury, *Housing, consumption and EMU*, London, June 2003. Changes in real house prices are highly correlated with changes in UK private consumption, more so in fact than the change in real personal disposable income. The observed correlation is also remarkably high in Denmark, Ireland, the Netherlands, Sweden and Finland.
5. Verbruggen, J.P., "The Dutch economy", *CPB Report*, July 2003.

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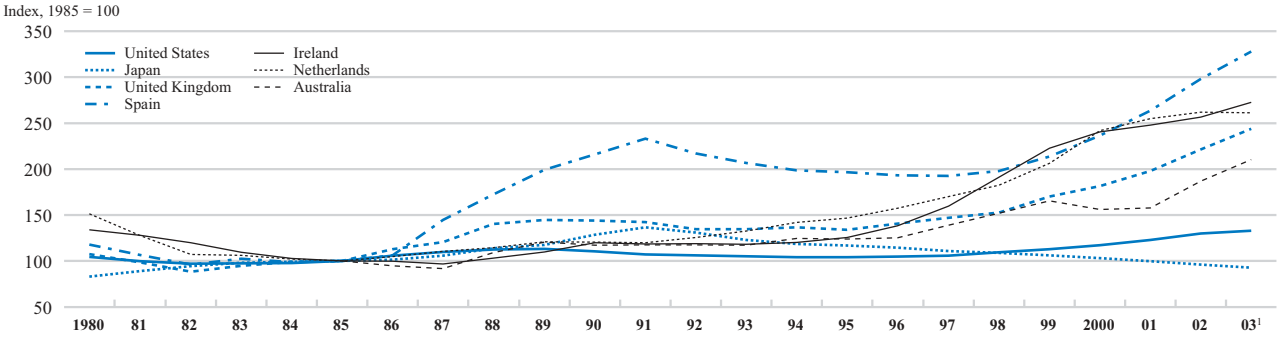
Figure I.10. **House prices**

*Deflated by overall consumer price index, 1985 = 100*




1. Data for 2003 stand for the first half, except for Japan (first quarter).

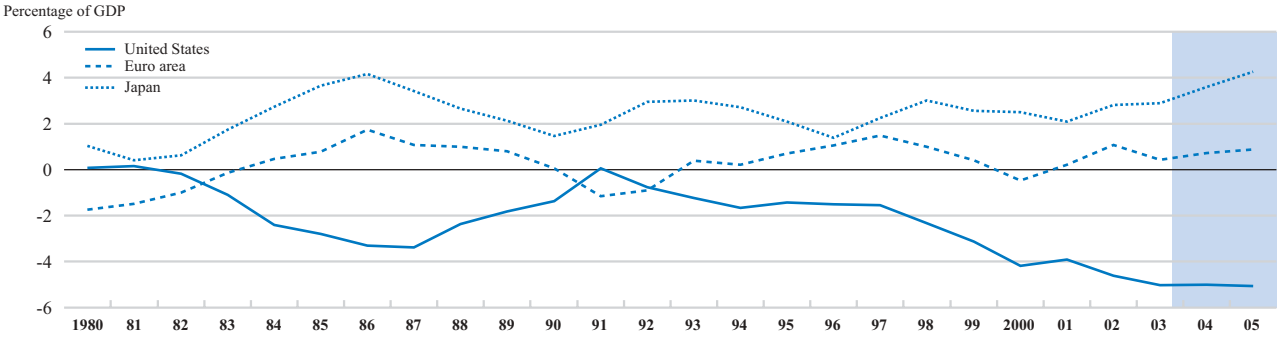
*Source:* Australian Commonwealth Bank Housing Industry Association, Bank of Spain, Bank for International Settlements, Irish Department of the Environment, Japan Real Estate Institute, Statistics Netherlands, UK Office of the Deputy Prime Minister, US Office of Federal Housing Enterprise Oversight, OECD, *Main Economic Indicators.*

***Further restructuring of corporate balance sheets may be in store***

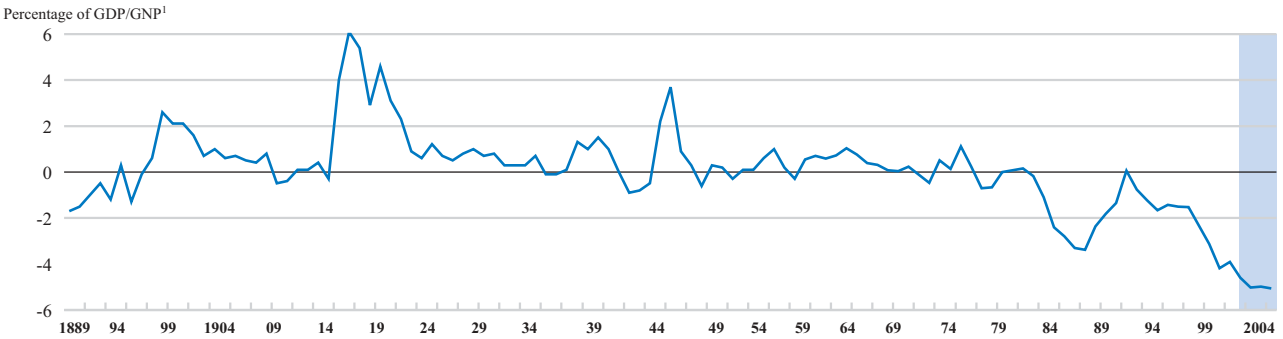
There could be a risk to corporate balance sheets and stock prices if productivity and profit growth were to be slower than projected. Price-earnings ratios have been rising as share prices have recovered and they now tend to look rich in some countries (see Appendix). Corporate balance sheet restructuring has been facilitated by low interest rates and, more recently, by the stock market rebound, but progress in this regard has been more impressive in the United States than in Europe, where high

Figure I.11. **Current account imbalances**

**The three main OECD regions**




**The US current account in historical perspective**




1. GNP before 1929.

*Source:* OECD, US Bureau of Economic Analysis; and for the pre-1946 period Bureau of the Census: Historical Statistics of the United States, Washington DC, 1975.

leverage may continue to damp companies' appetite for debt-financed investment, particularly in France and Germany. At the same time, obvious balance sheet problems, aggravated by deflation, endure in Japan. In addition, the full extent of some balance sheet weaknesses has surfaced only belatedly, notably as regards firms' pension obligations (Box I.4). In all, some further balance sheet restructuring could be in store in a number of countries before a fully sustainable employment and investment recovery can take off.

***Current account imbalances may not be sustainable…***

The US current account deficit may also be a threat to the sustainability of the recovery. At 5 per cent of GDP in 2003, it has reached the highest level ever recorded (Figure I.11).[9] Also unique is the fact that the US external deficit is so large at the onset of a recovery. On current projections, which assume unchanged exchange rates, imbalances among the three main OECD regions are set to significantly exceed the levels reached in the mid-1980s. Capital mobility has, of course, increased in recent years, meaning that US or other precedents may no longer be immediately relevant. Nonetheless, the US net international investment position, which was balanced as recently as the late 1990s, showed a net debt of 25 per cent of GDP at the end of 2002, and is scheduled to continue deteriorating.

***… and adjustment may come via further dollar depreciation…***

Whether this debt build-up is sustainable depends on the global demand for dollar assets, the composition of which may not match that of supply, particularly where the counterpart is increasing credit demand of the government. The composition of capital inflows has completely changed since the expansion of the late 1990s (Table I.6). In 1999-2000, close to 90 per cent of the deficit was covered by foreign direct investment (FDI) inflows. By the first half of 2003,

Table I.6. **Capital flows into the United States**

*Net, $ billion*

| | 1999 | 2000 | 2001 | 2002 | 2003 First half[a] |
|---|---|---|---|---|---|
| Foreign direct investment | 289.4 | 321.3 | 151.6 | 39.6 | 93.0 |
| Foreign official purchases of US Government securities | 32.5 | 30.7 | 31.7 | 73.5 | 136.6 |
| Other foreign purchases of US Treasury securities | -44.5 | -76.9 | -7.4 | 96.2 | 151.4 |
| *Memorandum items:* | | | | | |
| Current account deficit | 290.8 | 411.5 | 393.7 | 480.9 | 554.8 |
| Stock of foreign official assets in the United States[b] | | | | | 1239.1 |
| Held as Treasury securities[b] | | | | | 766.9 |
| Held in Asia[b] | | | | | 819.5 |

*a)* Seasonally-adjusted and annualised. Provisional estimate.
*b)* For 2003, end of first half.
*Source* : US Bureau of Economic Analysis.

9. The US current account deficit and net debtor position may be somewhat overstated for statistical reasons, but not sufficiently so to alter the analysis.

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## Box I.4. Corporate pension funding gaps

Stock price gyrations affect economies through various channels, including via their impact on corporate pension schemes, which in a number of countries took off during the 1990s. In the latter years of the bull market, companies tended to contribute less or even stopped contributing to defined-benefit (DB) pension funds, as the value of the assets held by the latter soared. During the early phases of the bear market, this behaviour persisted, but as stock prices continued to decline, large pension funding gaps started to emerge, calling for substantial cash infusions. The funding gaps reflect erosion on the asset side of pension funds' balance sheets but also the increase in the present value of their liabilities, as interest rates declined.

*Extent of underfunding.* Among OECD countries, this problem is particularly prominent in the United States, the United Kingdom, Canada and the Netherlands, but it is also of concern elsewhere, including in Japan, Germany and Switzerland. While no comprehensive and internationally comparable data are as yet available on the magnitude of the shortfall, partial information suggests that by end-2002 it had become very significant. In the United States, one estimate points to a shortfall of $220 billion, as against a surplus of some $250 billion three years earlier, for the S&P 500 companies alone.[1] In FY 2002, the Pension Benefit Guaranty Corporation – which insures pension benefits worth $1.5 trillion of 44 million US employees in about 32 500 private DB pension plans – recorded its largest financial loss since its creation in 1974, of $11.4 billion, while the shortfall for all insured private DB plans reached a record $300 billion (equivalent to 3 per cent of annual GDP). In the United Kingdom, the aggregate shortfall of the DB schemes reached an estimated £65 billion (or 6½ per cent of GDP). In Canada, underfunding has been put at CAD 225 billion (20 per cent of GDP). In the Netherlands, the average funding ratio of pension funds fell by 25 percentage points in the two years to 2002, dropping in many cases below 100 per cent. In Japan, 73 of the 1 650 corporate pension funds were dissolved in fiscal year 2002, while 366 reduced the benefits they had promised to pay. In Switzerland, funding ratios have declined to 100 per cent or less in most pension funds.[2] In Germany, Siemens indicated that under US accounting rules its pension shortfall exceeded € 5 billion in mid-2002.[3]

*Macroeconomic implications.* While the extent of underfunding is severe (and will in all likelihood remain so despite the upturn of stock prices since the end of last winter and the more recent rise in long-term interest rates), companies are generally allowed to replenish funding shortfalls gradually. Even so, the macroeconomic repercussions of underfunding are likely to be significant:

- As pension financing gaps come to light, rating agencies and investment analysts downgrade the sponsoring companies. This pushes up the cost of capital and thereby dampens investment.
- The replenishment of pension funds curtails internal enterprise funding for capital spending, which also tends to constrain investment.
- Pension contribution rates are raised and wages increase more slowly, putting pressure on public finances (to the extent contributions are tax-deductible) and on household consumption.
- Prospective pensioners' worries about the ability of DB schemes to pay out pensions in the future increases precautionary saving and thus also reduces consumption.

Quantifying these effects is very difficult, as national accounting standards and rules vary enormously and behaviour differs across firms (*e.g.* as regards the actuarial methods and assumptions, and the extent and speed of pension fund replenishment), even as disclosure requirements are often limited. In fact, employers' financial commitments to DB plans are sometimes ill-defined. Nevertheless, recent studies shed light on the possible magnitude of some of the effects. In the Netherlands, where pension funds are required to restore their funding ratios more expeditiously than in the United States or the United Kingdom,[4] pension contribution rates might be lifted by over 4 percentage points on average by 2007. This would raise the wedge between take-home pay and labour costs, and at the 2007 horizon could reduce consumption by 1.5 per cent and GDP by 1.2 per cent, worsen the fiscal balance by 1.3 percentage point of GDP and cut private sector employment by 0.8 per cent.[5] In the United Kingdom, the foreseeable increase in pension contributions may constrain business investment at a time when private and public consumption are set to slow.[6]

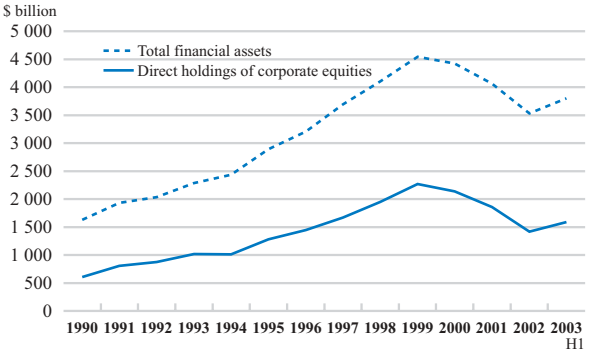
Against this background, the trend away from DB and toward defined-contribution schemes, already well under way, is continuing, with companies now rarely offering DB plans to new recruits. In the United States, proposals have been tabled to ensure that pension fund assets more closely match their liabilities. In the United Kingdom, the creation of a compulsory insurance scheme akin to the US one is under way, and the prudential regulations governing minimum funding requirements are set to change. The regulatory framework is also under reconsideration in a number of other OECD countries. At the international level, new guidelines on private pension funding and investment rules are being developed under the aegis of the OECD.

## Box I.4. **Corporate pension funding gaps** *(cont.)*

### Pension funds

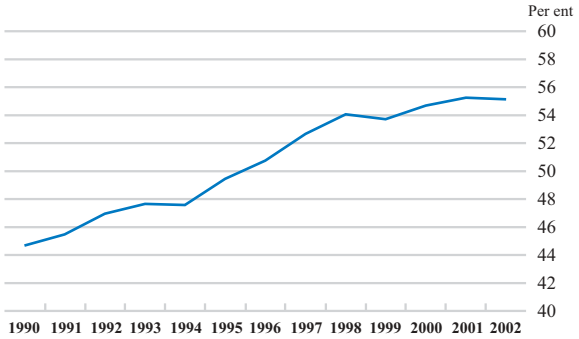
**Private pension fund assets in the United States**[1]

Amounts outstanding at end-period, not seasonally adjusted

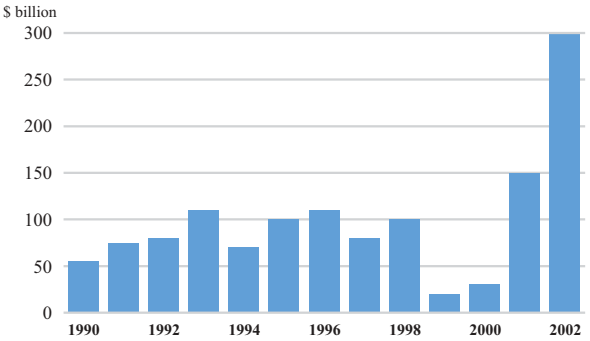



**Share of defined-contribution plan assets**

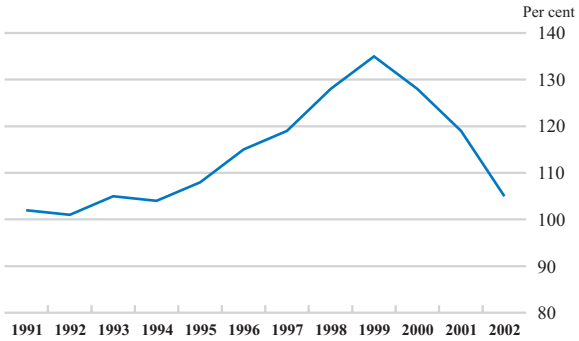
In total US private pension fund assets[1]




**Total underfunding of insured US single-employer plans**




**Funding ratio of the pension funds in the Netherlands**




1. Private and defined-contribution plans include 401(k)-type plans and the Federal Employees Retirement System Thrift Savings Plan.

*Source:* US Federal Reserve, Standard and Poor's, US Pension Benefit Guaranty Corporation, Van Ewijk, C. and M. van de Ven, "Pension funds at risk", *CPB Report*, No. 1, 2003.

1. Of these companies, 90 per cent showed underfunding at end-2002, as against 23 per cent at end-1999. Most severely affected are firms in older manufacturing industries which in the past, when DB plans were the norm, had sizeable workforces.
2. The sources for these estimates are respectively: Standard & Poor's and Morgan Stanley; Steven Kandarian, Statement before the US Senate Committee on Finance, 11 March 2003; Watson Wyatt, "Pension funding deficit is £65 billion", 10 January 2003 (there exist higher estimates, up to £300 billion, see Confederation of British Industry, *Focus on investment: the impact of pension deficits*, July 2003); Towers Perrin, Watson Wyatt and Mercer Human Resource Consulting; van Ewijk, C. and M. van de Ven, "Pension funds at risk", *CPB Report*, No. 1, 2003; Association Suisse des Institutions de Prévoyance, "Prudence dans le domaine des placements en des temps difficiles", 5 March 2003.
3. DB schemes of this sort are rare in Germany, however. Moreover, there is no legal funding requirement in Germany, unlike in the US, UK or Dutch cases.
4. In the Netherlands, the extent of benefit indexation is determined by the pension fund's board on the basis of the fund's solvency, rather than by the sponsor when the plan is set up, and members can be called upon to make additional contributions. In Switzerland, funds' obligations can be redefined in situations of financial stress.
5. See van Ewijk, C. and M. van de Ven, *op. cit.* and for further discussion and caveats Detragiache, E., "Company pension plans, stock market returns, and labor demand", *IMF Working Papers*, No. 03/222, 2003.
6. See Confederation of British Industry, *op. cit.*

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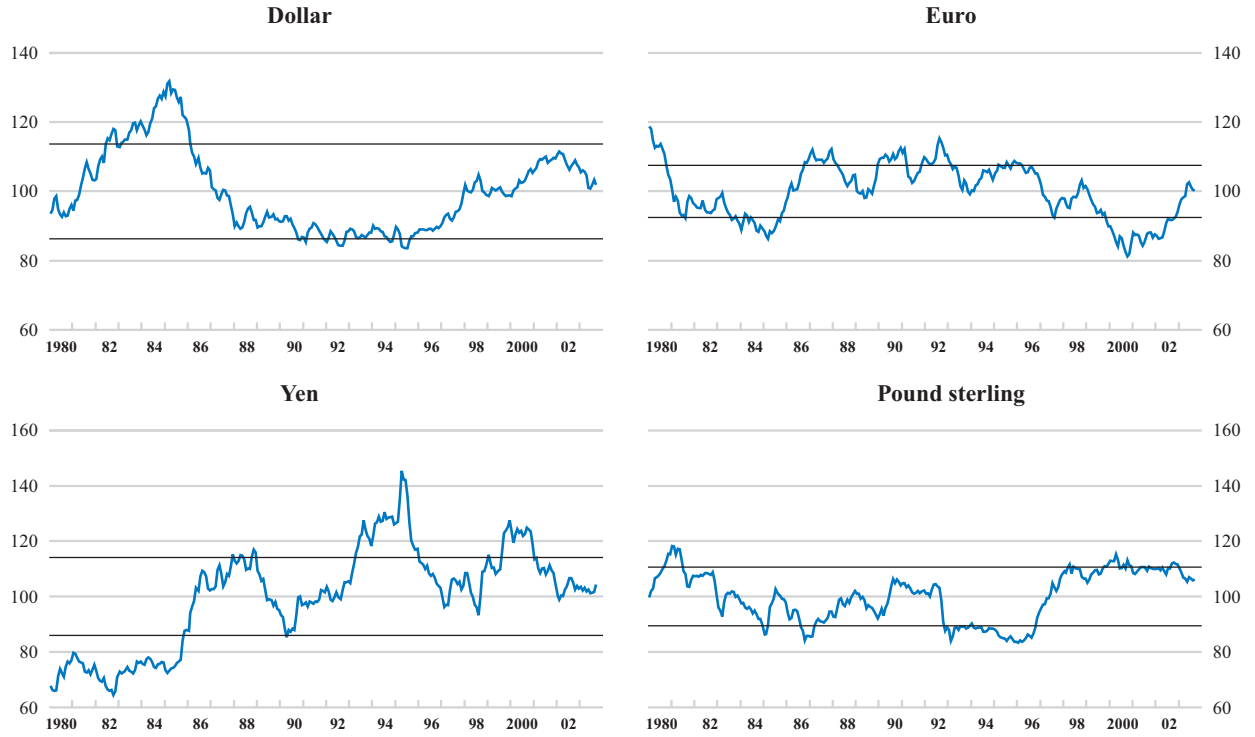
Figure I.12. **Real effective exchange rates**

*Index, average since 1980 = 100*[1]




1. The consumer price index is used as a deflator. Horizontal lines delineate +/- one standard deviation from the average since 1980.
*Source:* OECD, *Main Economic Indicators.*

about half of the deficit was financed by central bank and private purchases of US government securities, and only a minor fraction by FDI. In the process, several Asian central banks in particular have built up considerable holdings of US government or government-backed securities (notably mortgage securities guaranteed by a US government agency or by government-sponsored enterprises). The accumulation of foreign claims could continue for a time, but at some point it may well slow and possibly even reverse. This has already been priced in to some extent in the foreign exchange markets, with some dollar depreciation since the spring (Figure I.12).

***… which could be disruptive***

A weaker dollar helps improve US export performance, as well as the US international investment position. However, even a large further depreciation would not by itself suffice to work off the US current account deficit over the next few years (see Box I.5), unless accompanied by a significant monetary and fiscal squeeze or by a shift in private sector saving. Moreover, in practice, any abrupt exchange rate realignment might be disruptive and could even derail recoveries elsewhere, exacerbating the divergences in global growth patterns. Faster autonomous growth of demand in partner countries would help reduce this risk, as well as the risk of protectionist measures.

## Box I.5. The dollar, fiscal stance and the US current account

The macroeconomic impact of a further weakening of the dollar has been simulated using the OECD's INTERLINK model. Specifically, and purely for illustrative purposes, a once-and-for-all 10 per cent nominal effective depreciation of the dollar has been assumed on top of the OECD's baseline projection, with some adjustment in nominal short-term interest rates to buffer the exchange-rate induced changes in inflation in the United States and in the euro area.[1]

### Effect of a 10 per cent effective US dollar depreciation

*Deviations from baseline, in percentage points* [a]

| | Years after the shock | | |
|---|---|---|---|
| | **1** | **2** | **3** |
| **United States** | | | |
| Output gap[b] | 0.3 | 0.6 | 0.2 |
| Inflation[c] | 1.0 | 0.6 | 0.9 |
| Current account balance[d] | -0.1 | 0.1 | 0.2 |
| **Euro area** | | | |
| Output gap[b] | -0.2 | -0.2 | -0.3 |
| Inflation[c] | -0.4 | -0.2 | -0.3 |
| Current account balance[d] | -0.1 | -0.3 | -0.4 |
| **Japan** | | | |
| Output gap[b] | -0.2 | -0.5 | -0.6 |
| Inflation[c] | -0.2 | -0.2 | -0.4 |
| Current account balance[d] | 0.0 | -0.2 | -0.3 |
| **OECD** | | | |
| Output gap[b] | -0.1 | -0.1 | -0.2 |
| Inflation[c] | 0.0 | 0.0 | 0.0 |
| Current account balance[d] | 0.1 | 0.0 | 0.0 |
| *Memorandum item:* | | | |
| US current account balance assuming some fiscal restraint[e] | 0.1 | 0.3 | 0.4 |

*a)* Assuming unchanged real government spending in all regions, and limited offsetting interest rate movements, as specified in the text.
*b)* In per cent of potential GDP.
*c)* Private consumption deflator.
*d)* In per cent of GDP.
*e)* As specified in the text.

If real government outlays and tax rates are also assumed to be unchanged, an exchange rate realignment of this magnitude would not suffice to deliver a large current account adjustment. Broadly speaking, the US current account deficit would be reduced by barely ¼ percentage point of GDP after three years, while the euro area and Japanese surpluses would decline only marginally more in percentage points of GDP.

A swifter US current account adjustment would obtain if in addition a tightening of US fiscal policy were assumed, offsetting the positive effects of depreciation on GDP and the output gap. For example, a lasting 0.3 percentage point of GDP reduction in public spending compared with the baseline, combined with the same interest rate assumptions as above, would leave the output gap broadly unchanged and curtail the current account gap by 0.4 percentage point of GDP by the third year. More significant fiscal adjustment, as is called for in any event, would contribute substantially to reducing the current account imbalance.

1. A one percentage point increase in nominal short-term US interest rates is assumed, coupled with a one percentage point cut in euro area ones. An ancillary assumption is that nominal long-term US rates are higher by ¾ percentage point and that euro area ones are lower by ¾ percentage point. Nominal interest rates are assumed to remain unchanged in Japan.

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# Policy issues

## Monetary ease can be maintained for some time

***Interest rates are low and in some cases close to the zero bound***

Against the background of low inflation (Figure I.13) and considerable slack, monetary policy has continued to be accommodative. Indeed, during the first three quarters of 2003, central banks in most OECD countries made further cut in rates from what were already historically low levels. In several cases, this has brought the policy-controlled interest rate very close to the zero bound or actually to the zero bound (in Japan and Switzerland). More recently, however, a few central banks have started to raise rates. In parallel with the pursuit of accommodation, monetary policy frameworks are evolving in some of the largest countries, with some convergence towards greater transparency and more explicit inflation objectives (Box I.6).

***The US Federal Reserve should keep its rate low for quite some time…***

In the United States, the Federal Reserve reduced the targeted federal funds rate by 25 basis points in June 2003, to a 45-year low of 1 per cent. While the advent of deflation is seen to carry a low probability, the central bank has put increasing emphasis on avoiding unwelcome disinflation, to the point where an announcement was made and subsequently repeated to the effect that short-term interest rates are to be kept low for a considerable time. Having entered negative territory in 2001, the real fed funds rate has since remained there. In light of the ample margins of excess labour and capital capacity, and with persistently buoyant productivity growth, it is not projected to turn positive before next spring.

***… and so should the Eurosystem***

In the euro area, the main policy rate was cut by 50 basis points in June 2003 and, at 2 per cent, nominal short-term interest rates are also historically low. Real short-term rates are now essentially zero. Taking exchange rate movements into account, however, financial conditions have tightened in recent months. The OECD's baseline scenario assumes a very gradual normalisation of the policy rate starting around mid-2005. This profile would be consistent with keeping harmonised consumer price inflation below but close to 2 per cent. There remains room for further easing should the recovery stall and/or the euro appreciate abruptly.

***Policy rates have started to be raised in the United Kingdom and Australia***

In the United Kingdom, the policy rate was brought down to 3½ per cent in July 2003 – its lowest level since the mid-1950s. This precautionary move was reversed in early November 2003, however, as household spending and the housing market slowed less than expected. The OECD projection assumes a continued earlier withdrawal of monetary stimulus than in the euro area or the United States, given more limited slack as well as high and rising household indebtedness.[10] In Australia too, the central bank raised its policy rate in early November 2003, also in a context of very rapid house price increases.

***In Japan, "quantitative easing" has continued***

In Japan, money market rates have remained virtually nil and the Bank of Japan should continue "quantitative easing" until deflation is durably overcome. In recent months, the target for current account balances at the Bank of Japan has been raised

10. The observed build-up of UK household debt exceeds what the spread of homeownership and low inflation and interest rates would have predicted (Hamilton, R., "Trends in households' aggregate secured debt", *Bank of England Quarterly Bulletin*, autumn 2003).

Figure I.13. **Inflation**


*Note:* Year-on-year percentage changes. Harmonised index of consumer prices (HICP) for the euro area. Core measured as total less food and energy.
*Source:* OECD, *Main Economic Indicators.*

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## Box I.6. Evolving monetary policy frameworks

Over the last decade, monetary policy frameworks have evolved considerably in OECD countries, with the launch of the euro and the spread of inflation targeting, as well as a more general trend towards increased transparency. In recent months, the European Central Bank (ECB) has reconsidered its policy framework and amended it somewhat. Changes have also been announced to the inflation target in the United Kingdom, against the backdrop of a governmental decision not to join the euro yet, and the Bank of Japan has committed itself to more transparency and has clarified its target. Moreover, possible changes in the US framework are being discussed.

In May 2003, against the background of mounting concerns about deflation, the ECB introduced several changes to the *modus operandi* of monetary policy in the euro area, including:

- A "clarification" of the definition of price stability, which was henceforth to be understood as an inflation rate (in terms of the harmonised index of consumer prices, HICP) which over the medium term would be "below but close to" 2 per cent, instead of simply "below" that threshold.[1] This underlines the ECB's commitment to provide a sufficient safety margin to guard against the risks of deflation. It also addresses the issue of the possible presence of a measurement bias in the HICP and the implications of inflation differentials within the euro area.
- A reordering of the two "pillars" in its monthly policy presentation, which no longer discusses the evolution of broad money first. It now starts with an analysis of how real side variables affect the outlook for price stability in the short run.[2] Then follows the analysis of money and credit developments, in a longer-run perspective.[3]

In June 2003, the British Chancellor of the Exchequer notified the Governor of the Bank of England of a forthcoming change in the remit of the Monetary Policy Committee, involving the replacement of the retail price index excluding mortgage interest payments by the HICP as the symmetric inflation target.[4]

Hence, while the changes in the ECB's framework can be interpreted as inching towards inflation targeting, a key parameter of UK monetary policy is now set to be more closely aligned with the ECB norm, an explicit aim being to help ensure that inflation expectations in the United Kingdom remain in line with those in the euro area.

In October 2003, the Bank of Japan announced measures to enhance transparency, including prompter publication of its monthly report and a more timely monthly press conference, henceforth to be held by the governor on the same day as the monetary policy meeting, like in the euro area. The Bank of Japan also clarified its policy objective, indicating that it would continue with quantitative easing if core CPI inflation had not become durably positive or if it deemed that there remained a risk of a dip back into negative territory. It added that even with those two conditions fulfilled, it might judge it appropriate to continue with quantitative easing.

In the United States as well, central bank communication policy has evolved. Recent statements by the Federal Open Market Committee (FOMC) have departed from the model used since 2000 with respect to the description of the balance of risks surrounding the prospects for price stability and sustainable growth.[5] More fundamentally, some thought is being given, both outside and within the Federal Reserve, to a move to formal inflation targeting.[6]

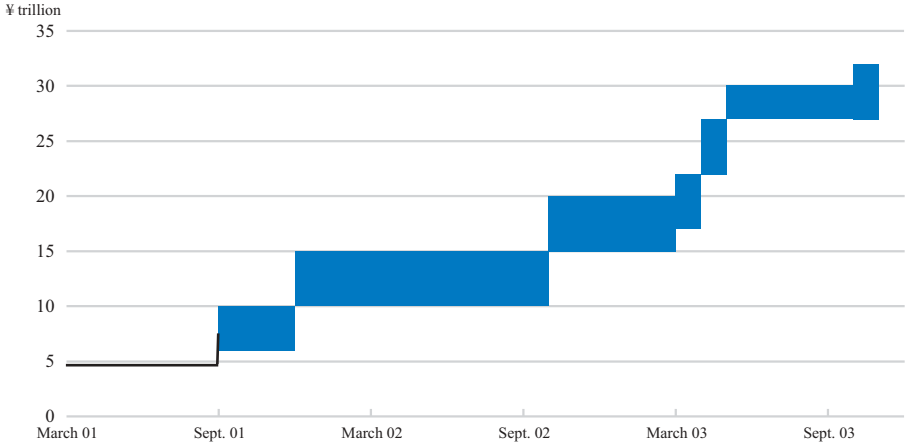
1. Over the first four years following the launch of the euro, headline HICP inflation averaged exactly 2.0 per cent, so that in practical terms the new definition need imply no discontinuity.
2. This encompasses a discussion of near-term economic projections. The latter are given significantly more weight now than in the early days of monetary union, at least in public communication.
3. While monetary analysis initially centred very much on broad money, it gradually became more diversified, with a richer discussion of credit trends in particular. Also denoting a lesser emphasis on the monetary pillar is the decision no longer to review the reference value for broad money growth every year, but to do so only once it is felt the need arises.
4. It is not yet clear, however, whether the HICP that will be targeted in the United Kingdom will be identical to the one used by the ECB, or if it will cover housing costs more broadly than the current euro area HICP does.
5. In March 2003, the FOMC refrained from characterising the balance of risks, on account of exceptionally high uncertainty. Its May statement for the first time dissociated risks to price stability from risks to activity. It also innovated in that it underlined the danger of further disinflation.
6. See the *OECD Economic Survey of the United States*, Paris, 2002; Santomero, A., "Flexible commitment or inflation targeting for the U.S.?", New York, 10 June 2003; and Bernanke, B., "An unwelcome fall in inflation?", San Diego, 23 July 2003. Chairman Greenspan, however, has argued against such a move (see "Monetary policy under uncertainty", Jackson Hole, 29 August 2003).

several times (Figure I.14). Unsterilised intervention on the foreign exchange market has taken place on a large scale to contain exchange rate appreciation.[11] The central bank has also started to purchase securities backed primarily by receivables from or loans to small and medium-sized enterprises (SMEs). In addition, public funds have

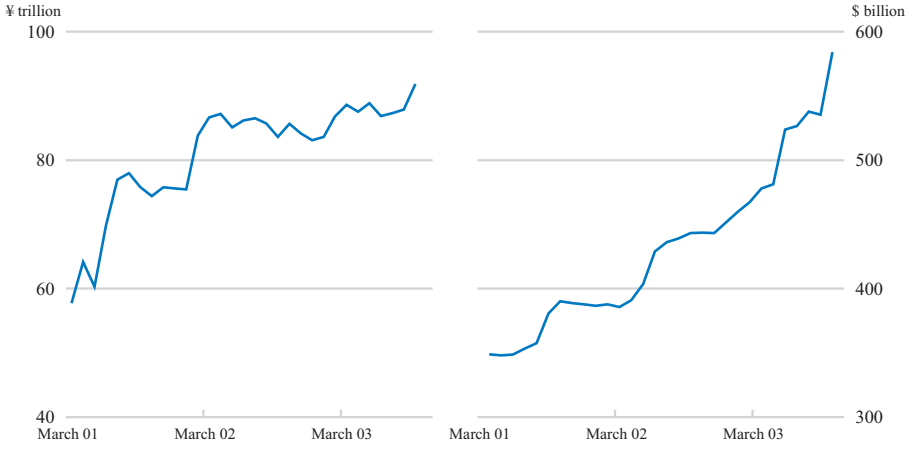
11. During the first ten months of 2003, ¥ 16.2 trillion (close to $150 billion at current exchange rates) has been sold by the Japanese authorities, mostly in covert interventions.

## Figure I.14. **Quantitative easing in Japan**

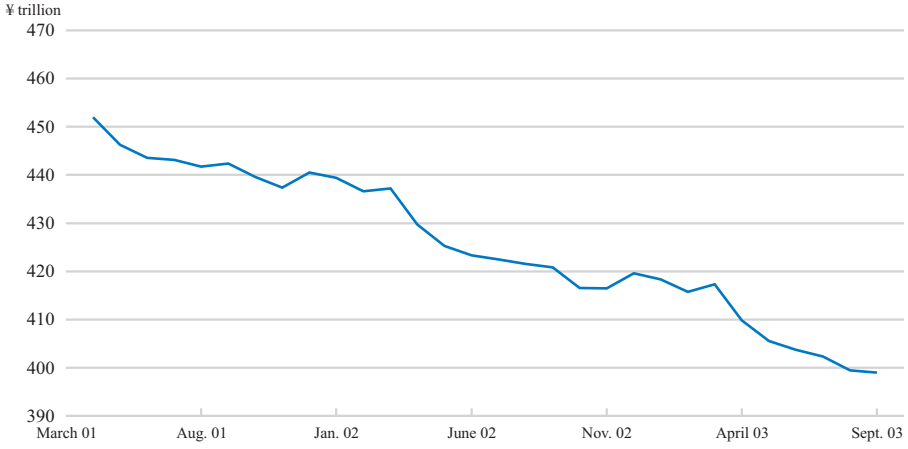
**Target balance for current accounts at the Bank of Japan**[1]




**Bank of Japan holdings of government securities and foreign exchange reserves**




**Nominal bank lending**




1. From 1 April 2003, Japan Post deposits with the Bank of Japan are included. They averaged 6.4 trillion yen in April 2003.

*Source:* Bank of Japan and International Monetary Fund, *International Financial Statistics.*

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been injected into a failing commercial bank, thereby activating the financial crisis response framework for the first time. Even so, bank lending has continued to contract both in nominal and in real terms, partly owing to weak demand. The rate of decline in prices may be lessening, although the signals sent by the consumer price index and the GDP deflator conflict. In any event, the effectiveness of any monetary policy measures hinges on the health of the banking system, which needs to give traction to monetary policy through the effective intermediation of credit (see below).

## Fiscal sustainability will need to be restored

***The fiscal outlook continues to worsen***

In 2003, the OECD-wide fiscal deficit is set to reach 3.8 per cent of GDP, and no significant improvement is expected in 2004-05 (Table I.7). In cyclically-adjusted terms, it is projected at 3.4 per cent of potential GDP in 2003, and would remain around that level over the projection period.[12] Public debt ratios are on the rise and, OECD-wide, they are on course to reach the unprecedented level of 82 per cent of GDP in 2005. On unchanged policies, OECD-wide public debt would continue to rise thereafter and reach 90 per cent of GDP by the end of the decade.[13] Debt service

Table I.7. **General government financial balances**

*Per cent of GDP / Potential GDP*

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| United States | | | | | |
| Actual balance | -0.5 | -3.4 | -4.9 | -5.1 | -4.9 |
| Cyclically-adjusted balance | -0.2 | -3.0 | -4.5 | -5.1 | -5.0 |
| Cyclically-adjusted primary balance | 2.1 | -1.1 | -2.8 | -3.4 | -3.2 |
| Japan[a] | | | | | |
| Actual balance | -6.1 | -7.1 | -7.4 | -6.8 | -6.9 |
| Cyclically-adjusted balance | -5.5 | -6.3 | -6.9 | -6.5 | -6.6 |
| Cyclically-adjusted primary balance | -4.1 | -4.8 | -5.3 | -4.7 | -4.8 |
| Euro area | | | | | |
| Actual balance | -1.7 | -2.3 | -2.7 | -2.6 | -2.7 |
| Cyclically-adjusted balance | -1.9 | -1.9 | -1.7 | -1.5 | -1.8 |
| Cyclically-adjusted primary balance | 1.6 | 1.3 | 1.3 | 1.5 | 1.2 |
| European Union | | | | | |
| Actual balance | -1.1 | -2.0 | -2.7 | -2.6 | -2.7 |
| Cyclically-adjusted balance | -1.3 | -1.7 | -1.7 | -1.5 | -1.9 |
| Cyclically-adjusted primary balance | 1.9 | 1.2 | 1.1 | 1.1 | 0.8 |
| OECD[b] | | | | | |
| Actual balance | -1.3 | -2.9 | -3.8 | -3.8 | -3.7 |
| Cyclically-adjusted balance | -1.4 | -2.8 | -3.4 | -3.6 | -3.7 |
| Cyclically-adjusted primary balance | 1.1 | -0.6 | -1.4 | -1.5 | -1.6 |

*Note:* Actual balances are in a per cent of nominal GDP. Cyclically-adjusted balances are in a per cent of potential GDP. The primary cyclically-adjusted balance is the cyclically-adjusted balance less net debt interest payments.

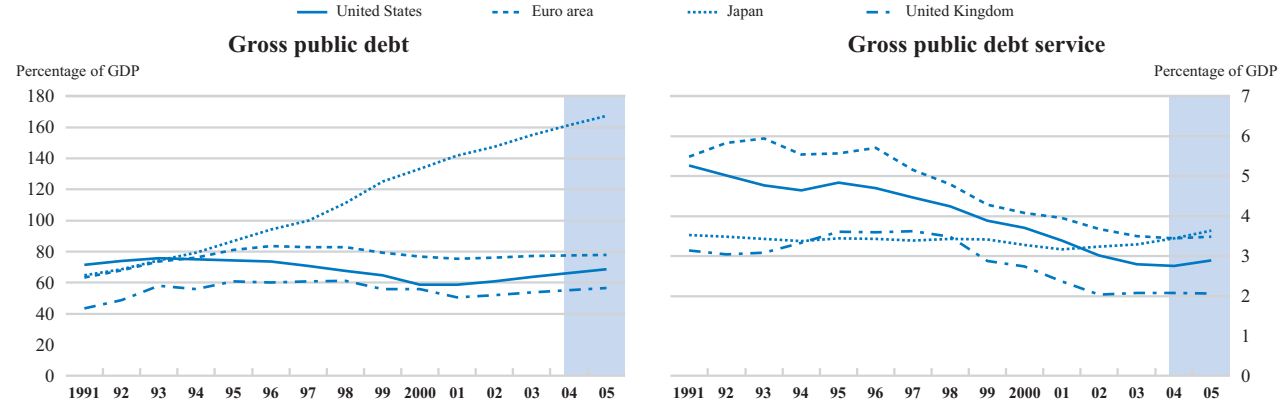
*a)* Includes deferred tax payments on postal saving accounts amounting to 0.2 per cent of GDP in 2002.

*b)* Total OECD figures for the actual balance exclude Mexico, Switzerland and Turkey and those for the cyclically-adjusted balance further exclude the Czech Republic, Hungary, Korea, Luxembourg, Poland and the Slovak Republic.

*Source:* OECD.

12. Precise quantification of the underlying fiscal position, correcting for cycles in economic activity and asset prices, but also for one-off factors, is difficult. For example, it cannot be ruled out that in some countries potential output is lower than currently estimated, which would imply a worse underlying fiscal position. Nonetheless, the overall characterisation presented here still stands.
13. See Downes, P., A. Drew and P. Ollivaud "The OECD medium-term reference scenario: *Economic Outlook No. 74*", *OECD Economics Department Working Papers*, No. 372.

Figure I.15. **Public debt and debt service**




*Source:* OECD.

ratios are now relatively low (Figure I.15), because of the decline in interest rates but are set to rise as rates back up. In these circumstances, a number of unsustainable tensions may be building. In the first place, unfavourable public debt dynamics could compromise the upturn by putting upward pressure on interest rates and crowding out private investment. In the United States, a persistent, large fiscal deficit might also exacerbate the current-account financing issue described above. Alternatively, taxes may be increased to restore stable debt dynamics in the face of rising spending pressures (especially from ageing populations), when the general requirement would be for lower taxes to foster potential growth. More generally, historical experience shows that a combination of high indebtedness and high taxes can make it difficult to operate fiscal policy in a stabilising way.[14]

***The fiscal stance is being relaxed further in the United States***

In the United States, the May 2003 Jobs and Growth Act is the third large package of tax cuts in three years. It involves bringing forward some of the income tax cuts previously enacted for 2004 and 2006, increasing the deduction for married couples and the child tax credit, reducing dividend taxation and providing more generous depreciation allowances for investment. On the spending side, federal discretionary outlays have risen very rapidly over the past two years, and a supplemental appropriation of $87.5 billion (*i.e.* 0.8 per cent of annual GDP) was recently passed to cover military operations and reconstruction costs in Iraq and Afghanistan. On current policies, the US general government deficit would hover around 5 per cent of GDP from 2003 to 2005, a level significantly in excess of that recorded during the 1980s.[15] While the Administration's baseline projection foresees a gradual decline in the deficit ratio thereafter, this is based on the assumptions of zero real spending growth and the phasing out of tax relief, neither of which may be borne out. Under more plausible assumptions, a sizeable fiscal gap could endure into the next decade (Figure I.16).[16]

14. See Chapter IV, "Fiscal stance over the cycle: the role of debt, institutions, and budget constraints".
15. A prescription drug benefit for Medicare enrolees is also being considered, which would add substantially to fiscal outlays over the medium term but is not reflected in the OECD projection.
16. Figure 16 pertains to the Federal government balance only and reflects a number of policy assumptions, some of which depart from those underlying the OECD projection.

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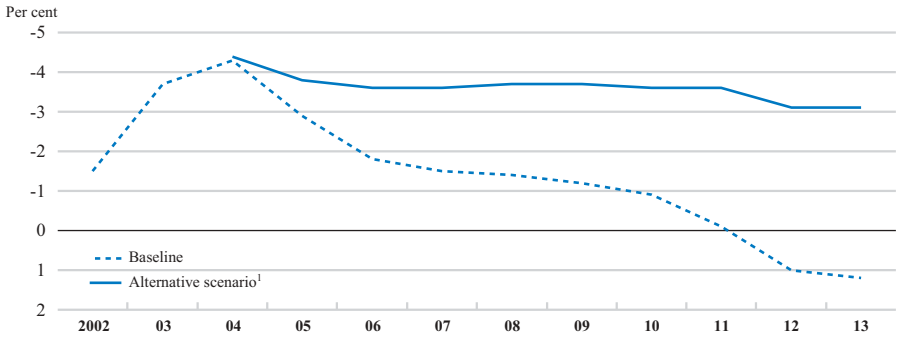
Figure I.16. **Medium-term fiscal outlook in the United States**

*Federal fiscal balance, as a percentage of GDP (inverted scale)*




1. Assumes the extension of the expiring tax provisions, a reform of the alternative minimum tax, Medicare reform (including adding a prescription drug benefit), and discretionary spending rising in line with nominal GDP (for details, see CBO report).

*Source:* US Congressional Budget Office, *The Budget and Economic Outlook: An Update,* August 2003.

***Persistent deficits will push up bond yields internationally***

Persistent deficits of that order would be difficult to sustain without adverse consequences. In the 1980s, fiscal deficits were accompanied by high real long-term interest rates. While there is some uncertainty as to the precise impact of fiscal imbalances on interest rates, and their effect varies somewhat across countries, its direction is unambiguous. A recent empirical study of the United States suggests that, other things being equal, a deterioration of one per cent of GDP in the projected fiscal deficit will raise long-term interest rates by around 25 basis points, while a 10 percentage points increase in the projected ratio of public debt to GDP will push long-term interest rates up by 40 basis points.[17] Interest rates could rise in the United States before the recovery is firmly under way in the euro area and in Japan. Based on past experience, there would then be a risk that the international propagation of long-term interest rate increases would derail the recovery overseas, as was indeed the case in the euro area in the mid-1990s.

***The fiscal stance remains broadly unchanged in the euro area at large…***

In the euro area as a whole, the fiscal stance has not changed much since the onset of the downturn, meaning that automatic stabilisers have worked to the full. In the process, the area-wide deficit has increased by 1½ percentage points of GDP.[18] Across member countries, however, different strategies have been followed. Some have initially relaxed the stance, notably via tax cuts albeit also reflecting insufficient control over spending, but they are now planning gradual tightening or at least considering measures to limit the deficit increase entailed by new tax relief (*e.g.* France and Germany). Others have essentially continued to consolidate their underlying position throughout the slowdown (notably Belgium, the Netherlands and Spain).[19] Elsewhere in the European Union, situations diverge markedly, with Denmark keeping

17. See Laubach, T., "New evidence on the interest rate effects of budget deficits and debt", Federal Reserve Board, *Finance and Economics Discussion Series*, No. 2003/12. The effects are not additive. For a broader discussion, see Brook, A-M., "Recent and prospective trends in real long-term interest rates: fiscal policy and other drivers", *OECD Economics Department Working Papers*, No. 367, 2003.
18. Excluding the 1.1 per cent of GDP associated with UMTS (universal mobile telecommunication system) license receipts from the balance in 2000.
19. In Italy, the standard measure of the fiscal stance is hard to interpret owing to large non-cyclical but also non-structural one-off measures (including securitisation operations, tax amnesties and one-off fines for unauthorised real estate work). Also complicating interpretation in some countries is the payment to the government of one-off compensation when unfunded pension obligations are transferred from public corporations to the State (notably in Portugal, where it reduces the deficit by ¾ per cent of GDP in 2003, and possibly in Belgium as well).

its stance broadly unchanged, while Sweden and even more so the United Kingdom have in effect operated fiscal policy in a counter-cyclical fashion. In the UK case, unlike in Denmark and Sweden, a sizeable structural deficit has re-emerged, approaching 2½ per cent of GDP in 2003, which suggests that going forward the "golden rule" (stipulating that over the course of the cycle the government should not borrow to finance current expenditure) may be more difficult to meet than expected. Fiscal strains are also showing in the incoming EU members, including the Czech Republic, Hungary, Poland and the Slovak Republic, where general government deficits are set to exceed 3 per cent of GDP throughout the projection period.

***… and consolidation is needed to restore fiscal credibility***

With fiscal deficits continuing substantially to overshoot the 3 per cent of GDP mark in some euro area countries, and the Stability and Growth Pact's excessive deficit procedure having been activated for three of them (Portugal, followed by Germany and France), various proposals to amend the Pact have surfaced. One is to shift some categories of public outlays – such as research or defence – below the line, with a view to circumventing the 3 per cent of GDP deficit constraint.[20] This would, however, invite *ad hoc* spending reclassifications. Another proposal is to redefine the exceptionality clause of the Pact to allow any occurrence of negative annual growth to justify a temporary fiscal deficit of over 3 per cent of GDP.[21] Even where such proposals may merit consideration in themselves, further loosening fiscal policy in the current situation may fail or even turn out to be counterproductive if agents do not perceive the enacted tax cuts or spending increases as permanent and instead factor in their reversal. Conversely, while an over-rapid fiscal correction could also prove counterproductive, safeguarding the credibility of the rules-based policy framework and, more fundamentally, providing for the future budget claims caused by ageing would require that the structural deficit in the largest euro area countries be reduced gradually and perceptibly. This may require an adjustment of at least ½ per cent of GDP *per annum*.

***In Japan, debt dynamics could become unstable…***

In Japan, the fiscal balance has deteriorated since 2001, and the deficit is about twice as wide as in the OECD at large. Despite very low interest rates, the public debt ratio is rising rapidly. In gross terms, it exceeds 150 per cent of GDP in 2003 – again twice the OECD average. Japanese long-term interest rates have traditionally been relatively unresponsive to budget deficits, as high domestic saving rates – and more recently central bank bond purchases – act as a buffer. They continue to do so. But the accumulation of huge fiscal imbalances has rendered Japan more vulnerable to unfavourable debt dynamics. The transition to positive rates of inflation will be accompanied by a normalisation of nominal interest rates, which will considerably increase nominal public debt service, and could be destabilising if it reduces the national appetite for public debt.

***… and over the long run major tax and spending reforms are needed***

In these circumstances, major long-run fiscal adjustments will be needed in Japan. To achieve the Government's medium-term objective of capping public spending at its FY2002 level of 38 per cent of GDP, further restructuring of the composition of outlays will be necessary, given the rising burden of age-related spending as well as the fiscal cost of financial-sector rehabilitation (see below). A comprehen-

20. Such proposals emerged during the run-up to monetary union (see *e.g.* F. Modigliani, J-P. Fitoussi, A. Lindbeck, B. Moro, D. Snower, R. Solow, A. Steinherr and P. Labini, "An economists' manifesto on unemployment in the European Union", *Banca Nazionale del Lavoro Quarterly Review*, Vol. 51, No. 206, 1998). More recently, O. Blanchard and F. Giavazzi have proposed an exemption for net public investment ("Improving the SGP through a proper accounting of public investment", *mimeo*, February 2003), while others argue that public research-and-development spending should be shifted below the line (see "Les obstacles à la croissance européenne", *Cercle des Économistes*, Cahier No. 3, July 2003).
21. See A. Sapir, (chair), *An agenda for a growing Europe: Making the EU economic system deliver*, Report of an independent High Level Study Group established on the initiative of the President of the European Commission, July 2003.

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sive and specific fiscal consolidation programme is therefore required, involving a significant rise in revenue, which at around 30 per cent of GDP is well below the OECD average.[22] In particular, there is scope for broadening the income tax base by streamlining existing tax relief provisions and allowances, while an increase in the value-added tax rate should also be contemplated. The planned broadening of the income tax and value-added tax base in 2004 is a welcome first step in this direction.

***Fiscal consolidation cannot be delayed***

Against the above backdrop, the fiscal position is now precarious in many OECD countries. To the extent that this is recognised by consumers and investors, any further loosening would impart only limited stimulus, if any. In those cases, specific and credible medium-term fiscal consolidation measures need to be announced to steer public finances back onto a sustainable course. Where they are under duress, medium-term frameworks are being reassessed, but retaining some forward-looking fiscal rule that helps keep deficits and spending in check is essential.[23] Where it is missing, such a framework should be (re-)established. And whatever the rule's idiosyncratic features, it should be designed and implemented so as to ensure that, unlike in the last upturn, full advantage is taken of the recovery to restore fiscal sustainability.

## Stepping up structural reform

***Structural reforms would ease fiscal tensions, raise growth and bolster resilience***

More rapid structural reforms would help reduce fiscal tensions while raising growth and improving the resilience of OECD economies to future shocks. To some extent, the observed performance gap between real GDP growth in the United States and the United Kingdom on the one hand, and in the euro area and Japan on the other, is driven by demography, which will continue to drag down the euro area and Japan's relative growth performance going forward. Even so, there is significant scope to increase potential and actual growth in the euro area and Japan through improved use of labour resources and, more generally, by stepping up structural-reform efforts at large.

***There is ample scope for progress in Europe…***

Structural reform priorities vary across OECD countries or regions. EU members should strive to get back on the roadmap laid out by the European Council in Lisbon in 2000. Some incremental progress has been made in recent months. At the EU-wide level changes have been made to the Common Agricultural Policy, further decoupling support from production levels, although it remains a significant source of distortions. In some countries progress is being made on pension reform (Austria, France, Germany and, more tentatively, Italy) and tax reform (in France, Germany, and Italy – although it is partly deficit financed). Germany is in the process of legislating a series of labour market reforms. However, the reforms undertaken since the Lisbon agenda was agreed have been piecemeal and inadequate. The biggest challenges still lie ahead, especially in the larger euro area countries. They span a wide spectrum, including agriculture, health care, early retirement and pension arrangements, making work pay, labour market regulation, and the internal market for services.[24] Simulations suggest that there is scope to gradually push euro area growth up

22. In the short run, the unexpectedly vigorous recovery may bring in more tax receipts than budgeted, but any such windfall should serve to curtail the deficit. In any event, faster-than-planned growth may not generate that much of a tax bonus given the amount of corporate losses that are being carried forward.
23. Efforts to improve the effectiveness of public spending should underpin the implementation of such a rule, see Chapter VI, "Enhancing the cost-effectiveness of public spending". This also involves the creation of effective institutions and incentives with respect to relations between central government and sub-national governments, see Chapter V, "Fiscal relations across levels of government".
24. In the United Kingdom, supply-side measures should be introduced to promote greater housing market flexibility.

towards US rates in per capita terms, even if the precise impact of structural reform is difficult to quantify.[25] EU enlargement provides new growth opportunities for incumbent as well as incoming member states.

***… as well as in Japan…***

In Japan, a key priority is the continuation and acceleration of financial and corporate sector restructuring, as underlined in earlier editions of the *OECD Economic Outlook*. The turnaround in the stock market is relieving some of the pressure on balance sheets, but rising bond yields have worked in the opposite direction. Achieving the Government's objective of halving the major banks' non-performing loan ratio in the three years to March 2005 remains a challenge, in light of the weakness of banks' capital. In this area, it is important to rigorously enforce guidelines prohibiting banks from acquiring capital from troubled clients in exchange for loans, to scale back the growing role of government financial institutions and to reconsider the constraints imposed on bank lending to SMEs. Moreover, any further injections of public funds into the banking system should be highly selective and subject to strict restructuring conditions. Much also remains to be done on the labour-market side, where restrictions on fixed-term contracts, temporary work and private job-placement firms should be further relaxed and the high level of protection for regular workers reduced. Progress has been achieved as regards the liberalisation of urban zoning regulations and the facilitation of firm creation, but the officially proposed removal of barriers to entry in education and agriculture is being delayed. Competition generally remains weak in a number of sectors, particularly in network industries (but also in health care for instance). Increased inflows of foreign direct investment could spur competition and the Government's action plan to dismantle obstacles to such inflows should be carried out.[26]

***… but also in the United States***

While markets are clearly more flexible in the United States, the structural reform agenda is also substantial there, encompassing *inter alia* agriculture, health care, education, the energy sector, corporate governance, the financial sector and the tort system. Significant reductions in government subsidies to agriculture have been proposed in the context of multilateral trade negotiations and should indeed be pursued. Any extension of Medicare benefits should be undertaken in the context of a broader strategy restoring the system's longer-term financial viability. Long-term growth and social concerns would also be served by action to overcome failures in the school system. Energy-sector reform is under way, but the pending legislation involves heavy subsidisation. Effective implementation of the 2002 Sarbanes-Oxley Act, which overhauled the corporate governance framework,[27] continues to be challenging. Concerning corporate governance in the financial sector, deficient risk management, accounting and disclosure practices in government-sponsored mortgage refinancing institutions have raised the question of these agencies' special status, including the government's implicit guarantee. Practices in the mutual funds industry are under scrutiny as well. The distortions brought by the US tort system with respect to product liability have long been recognised.[28] Legislation is being discussed to curb excessive litigation in areas such as medical malpractice, construction defects and interstate class actions.

25. See the *OECD Economic Survey of the Euro Area*, Paris, 2003, which also illustrates the improvement in the underlying public finance positions that would result from higher participation rates and other reforms.
26. For details, see *OECD Economic Survey of Japan*, Paris, 2003.
27. See Box I.3 in *OECD Economic Outlook*, No. 72, December 2002.
28. See the *OECD Economic Survey of the United States*, Paris, 1993.

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***International trade liberalisation needs to regain momentum***

Lastly, following the impasse in the Doha Round trade talks in Cancún, regaining lost momentum in multilateral liberalisation is important. Distortions to agricultural trade remain acute.[29] But liberalisation is also crucial in other sectors, where trade disputes linger and in some cases threaten to degenerate into protectionist measures, or where some backsliding has already been observed, as with steel. Over the medium term, greater openness is indeed one of the most powerful instruments for boosting growth and living standards.[30]

29. Across OECD countries, government support to farmers totals $235 billion per year, making up over 30 per cent of farm revenue, and two thirds of these transfers come in the form of price support.
30. See *The Sources of Economic Growth in OECD Countries*, OECD, Paris, 2003.

# Appendix: Current equity prices and earnings growth

***Equity prices discount rapid earnings growth***

Equity markets in virtually all economies have bounced back from their early-2003 lows, in part because earnings growth is expected to pick up as the recovery gains traction. To gauge the size of the expected near-term earnings outturns priced in by the markets, as well as the robustness of these expectations, Appendix Table I.1 provides some simple calculations. These are rooted in a model which states that, over the long run, the dividend yield plus the future growth in earnings should correspond to the risk-free real interest rate plus a risk premium. Over the short run, however, the model accounts for the fact that when markets are recovering from a trough, short-run real earnings growth is likely to be above normal for a time, before converging to the historical norm. The model is consistent with the observed cyclical pattern of earnings (Appendix Figure I.1).

***Based on a set of stylised assumptions…***

For ease of comparison, common assumptions for the risk premium, real interest rates as well as the time it takes for above- or below-average earnings growth to return to normal are used for the three markets examined.[31] This permits a focus on two key factors: the observed dividend-price ratio and long-run earnings growth, which is assumed to equal OECD estimates of potential GDP growth. Given these

Appendix Table I.1. **Implied short-term earnings growth**

| | United States | Germany | United Kingdom |
|---|---|---|---|
| ***Short-term real earnings growth (g') implied by current share prices*** | | | |
| Central scenario | 17.8 | 42.3 | 10.8 |
| Assuming a one percentage point fall/rise in the real interest rate or the risk premium | 8.4 / 27.2 | 31.1 / 53.6 | 4.0 / 17.5 |
| ***Observed or assumed benchmark data*** | | | |
| Dividend yield, D/P[a] | 2.66 | 2.23 | 3.69 |
| Assumptions: | | | |
| Risk premium, σ | 4 | 4 | 4 |
| Real rate of interest, r | 3.5 | 3.5 | 3.5 |
| Long-run real earnings growth, g | 3.2 | 1.6 | 2.5 |
| Half-life of non-normal earnings growth in years, H | 4 | 4 | 4 |
| *Memorandum items:* | | | |
| Real earnings growth over the last three months | 16.5 | -6.0 | -3.2 |
| Maximum past recorded short-term earnings growth[b] | 25.5 | 33.5 | 20.9 |
| Standard deviation of real earnings growth[b] | 12.1 | 15.1 | 11.1 |

*Note:* The calculations are based on a modified version of the Gordon equity price formula (due to R. Fuller and C. Hsia "A simplified common stock valuation model", *Financial Analysis Journal*, Vol. 40, No. 5, 1984): P/D=[(1+g) + H(g'-g)]/(r+σ-g), where the symbols are defined above. This equation assumes that after a shock real earnings growth returns linearly towards its mean over a period of 2H years. The equation is solved here for g'.

*a)* Average of most recent three months. For the United States, a 1 per cent repurchase rate has been added.

*b)* 1991 to present.

*Source:* Datastream, OECD.

31. The assumed risk premia are at the lower end of the (wide) range found in the literature but consistent with what has been used for example by N. Panigirtzoglou and R. Scammell ("Analysts' earnings forecasts and equity valuations", *Bank of England Quarterly Bulletin*, spring 2002) for the US and UK economies.

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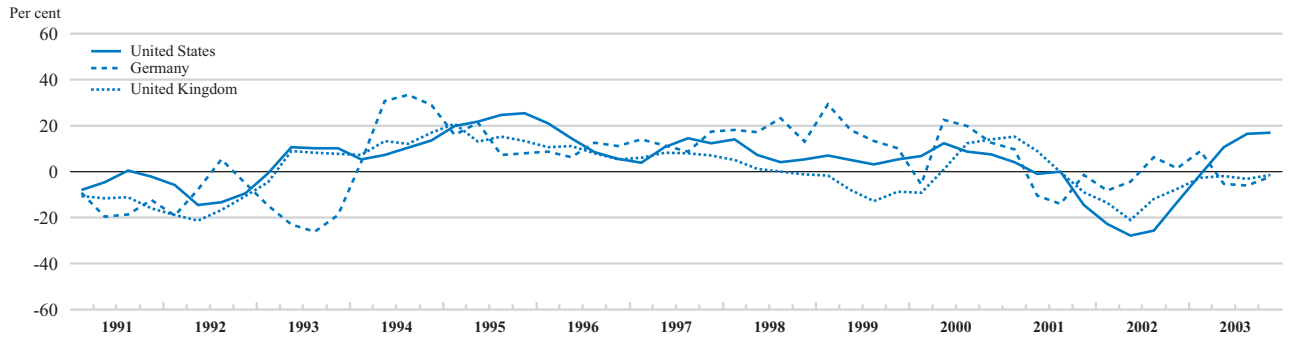
Appendix Figure I.1. **Real earnings growth**




*Note:* Nominal earnings deflated by GDP deflators.
*Source:* Datastream and OECD.

two factors, estimates of short-run real earnings growth implied by existing dividend-price yields can be derived. The actual value for real earnings growth over the past three months, its historical peak, and its standard deviation are also provided. The sensitivity of estimates of short-run real earnings growth to changes in assumptions about the real interest rate or the risk premium is also shown.

The following points emerge:

***… current equity valuations imply a vigorous profit recovery***

– For the US and UK markets, the implied short-run growth in earnings far exceeds the long-run average, as expected during a recovery, but remains below previous peaks.

– However, if interest rates or the risk premium were higher by one percentage point, US equity prices would embody a short-run growth rate of earnings just above the previous peak. This is not the case in the United Kingdom, where under this assumption implied short-run earnings growth would still be within historical norms.

– In Germany, the implied short-run growth of real earnings is above its previous peak, and even if a lower interest rate were assumed, real short-term earnings growth would be only marginally below that peak.

Set against the historical track record, and taking into account potential output growth, markets thus seem to be pricing in a quite vigorous profit recovery in all three cases, but especially so in Germany.

# II. DEVELOPMENTS IN INDIVIDUAL OECD COUNTRIES

## United States

*Economic growth has increased markedly since the spring, supported by highly stimulative fiscal and monetary policies. Consumption responded strongly to increases in disposable income induced by tax reductions, and business investment rebounded noticeably. Military expenditures are providing a further boost to demand. The recent rapid productivity growth bodes well for future investment and growth. Despite its strength, the current recovery is only beginning to generate employment gains and to support consumer confidence.*

*With inflation slightly below desirable levels, monetary policy has remained supportive, but interest rates will need to be raised as the slack in product and labour markets dissipates. Government finances have deteriorated substantially as a result of tax cuts, additional military spending, and the widening output gap. The large deficits projected over the coming years underline the need to adjust current policies towards balancing the budget to cope with impending demographic pressures.*

***Growth has strengthened…***

Real GDP accelerated in the second quarter of this year and surged in the third. Household spending, in particular on durable goods, increased rapidly. Although long-term interest rates have begun to rise from their extraordinary low levels over the summer, residential investment has so far remained buoyant. The strengthening of activity spread to the business sector, where investment in equipment and software has picked up sharply since the spring. Net exports, which on balance continued to exert a drag in the first half of the year, have improved of late, possibly partly in response to the continuing decline of the dollar.

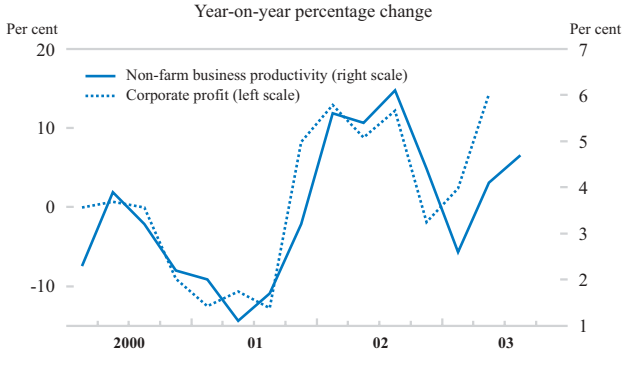
***… supported by expansionary policies…***

Expansionary federal fiscal policy has contributed importantly to the recent acceleration in activity, both directly through rapid growth of government purchases and indirectly through the effects of personal income tax reductions on household income. Military spending surged in the second quarter and remained at roughly that

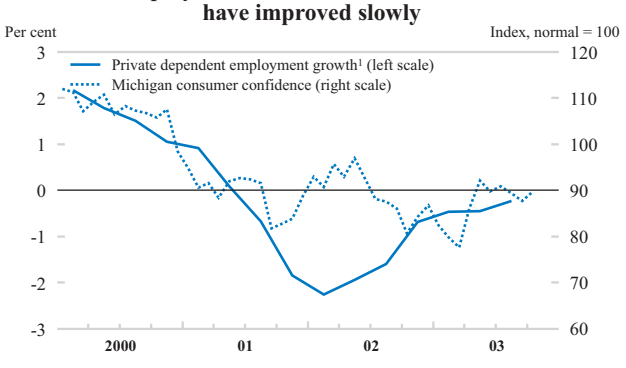
**United States**

**Productivity and profits have rebounded**

Year-on-year percentage change




**Employment and consumer confidence have improved slowly**




1. Year-on-year percentage change.
*Source:* US Department of Labor and Bureau of Economic Analysis.

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United States: **Employment, income and inflation**

*Percentage changes from previous period*

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Employment[a] | -0.1 | -1.2 | 0.0 | 1.4 | 2.3 |
| Unemployment rate[b] | 4.8 | 5.8 | 6.1 | 5.9 | 5.2 |
| Employment cost index | 4.1 | 3.8 | 3.9 | 3.6 | 3.2 |
| Compensation per employee[c] | 2.5 | 2.5 | 2.4 | 3.2 | 3.2 |
| Labour productivity[c] | 0.4 | 4.2 | 3.1 | 2.9 | 1.6 |
| Unit labour cost[c] | 2.1 | -1.7 | -0.6 | 0.3 | 1.6 |
| GDP deflator | 2.4 | 1.1 | 1.6 | 1.2 | 1.2 |
| Consumer price index | 2.8 | 1.6 | 2.3 | 1.7 | 1.8 |
| Private consumption deflator | 2.0 | 1.4 | 1.9 | 1.3 | 1.2 |
| Real household disposable income | 1.8 | 4.2 | 2.6 | 3.9 | 4.0 |

*a)* Whole economy, for further details see *OECD Economic Outlook* Sources and Methods, *(http://www.oecd.org/eco/sources-and-methods).*
*b)* As a percentage of labour force.
*c)* In the business sector.
*Source:* OECD.

level in the third. The provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003 – which reduced marginal tax rates, expanded the 10 per cent bracket, and accelerated "marriage penalty" relief – boosted disposable personal income in the third quarter by about 5 per cent (saar).

***… but it has been slow to generate employment gains***

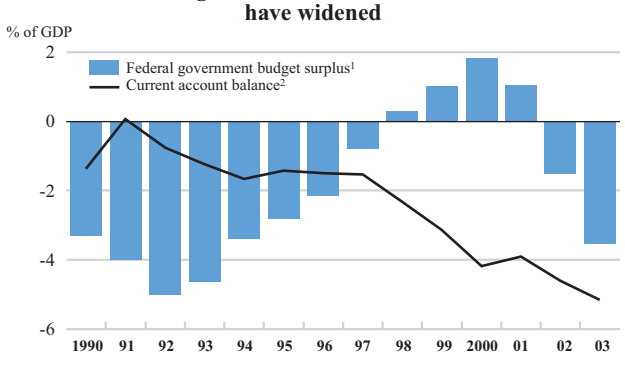
The divergence between developments in product and labour markets, which has been a remarkable feature of the current expansion, has become even more pronounced since the spring, with production growing rapidly while until recently employment continued to decline. The strong productivity growth implied by this divergence, as well as the rebound in corporate profits, bodes well for future business investment. Despite the impressive productivity gains, firms will probably soon be forced to expand their payrolls in order to meet demand.

***Monetary stimulus will need to be withdrawn***

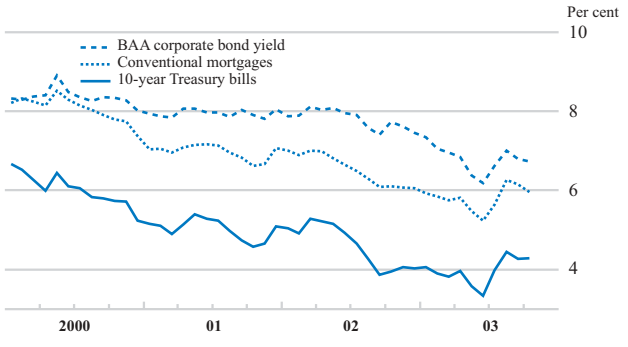
The Federal Reserve added to the already substantial impetus to demand by cutting the federal funds rate by another 25 basis points in June and holding it at 1 per cent since then. Long-term interest rates declined substantially until around the

**United States**

**The budget and current account deficits have widened**




**Long-term interest rates have begun to rise**




1. Fiscal year basis.
2. Average of the first two quarters for 2003.
*Source:* Board of Governors of the Federal Reserve System and Bureau of Economic Analysis.

United States: **Financial indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Household saving ratio[a] | 2.3 | 3.7 | 3.4 | 3.8 | 4.2 |
| General government financial balance[b] | -0.5 | -3.4 | -4.9 | -5.1 | -4.9 |
| Current account balance[b] | -3.9 | -4.6 | -5.0 | -5.0 | -5.1 |
| Short-term interest rate[c] | 3.7 | 1.8 | 1.2 | 1.5 | 2.7 |
| Long-term interest rate[d] | 5.0 | 4.6 | 4.0 | 4.6 | 5.3 |

*a)* As a percentage of disposable income.
*b)* As a percentage of GDP.
*c)* 3-month euro-dollar.
*d)* 10-year government bonds.
*Source:* OECD.

middle of the year, in a context of very low inflation, impressive productivity gains and declining unit labour costs. As the pick-up in economic activity became clearer, long-term interest rates rebounded. With demand projected to advance briskly over the coming quarters, the risks of a renewed stalling of the recovery should subside. A move toward a more neutral policy stance should therefore begin during the first half of 2004, but interest-rate increases should initially remain modest as the output gap is expected to close only by late 2004 and inflation to remain at the lower end of the acceptable range.

***The fiscal deficit must be reduced over the medium term***

On the spending side, the projection incorporates the Administration's budget proposal for fiscal year (FY) 2004 and the two supplemental budget requests related to military operations and reconstruction in Iraq and Afghanistan. Federal purchases of goods and services expanded by 13 per cent in FY 2003, and are expected to grow by about 8 per cent in FY 2004. On the tax side, the projections embody the tax law changes included in the Reconciliation Act, including the expanded child tax credits and accelerated reductions in marginal tax rates. The projections assume that these changes will be extended beyond 2004. Federal revenues declined by 4½ per cent in

United States: **Demand and output**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion $ | Percentage changes, volume | | | | |
| Private consumption | 6 683.8 | 2.5 | 3.1 | 3.1 | 3.4 | 3.4 |
| Government consumption | 1 431.2 | 3.8 | 4.4 | 3.7 | 2.9 | 2.5 |
| Gross fixed investment | 2 011.6 | -2.6 | -1.7 | 3.7 | 7.2 | 5.3 |
| Public | 319.8 | 3.4 | 4.5 | 1.7 | 2.1 | 1.8 |
| Residential | 426.1 | 0.3 | 3.9 | 8.5 | 5.3 | 1.9 |
| Non-residential | 1 265.8 | -5.2 | -5.7 | 2.3 | 9.7 | 7.9 |
| Final domestic demand | 10 126.6 | 1.6 | 2.4 | 3.3 | 4.0 | 3.6 |
| Stockbuilding[a] | 63.5 | -1.4 | 0.7 | -0.2 | 0.3 | 0.2 |
| Total domestic demand | 10 190.1 | 0.4 | 3.0 | 3.1 | 4.3 | 3.8 |
| Exports of goods and services | 1 101.2 | -5.4 | -1.6 | 1.4 | 8.5 | 8.7 |
| Imports of goods and services | 1 466.6 | -2.9 | 3.7 | 3.6 | 7.3 | 7.1 |
| Net exports [a] | - 365.5 | -0.2 | -0.8 | -0.4 | -0.3 | -0.2 |
| GDP at market prices | 9 824.7 | 0.3 | 2.4 | 2.9 | 4.2 | 3.8 |

*Note:* National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook* Sources and Methods, *(http://www.oecd.org/eco/sources-and-methods).*
*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*Source:* OECD.

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United States: **External indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| | | | $ billion | | |
| Goods and services exports | 1 034.2 | 1 014.9 | 1 052.3 | 1 158 | 1 274 |
| Goods and services imports | 1 383.0 | 1 438.5 | 1 548.7 | 1 684 | 1 830 |
| Foreign balance | - 348.9 | - 423.6 | - 496.5 | - 526 | - 556 |
| Invisibles, net | - 44.9 | - 57.2 | - 52.2 | - 49 | - 56 |
| Current account balance | - 393.7 | - 480.9 | - 548.6 | - 576 | - 612 |
| | | | Percentage changes | | |
| Goods and services export volumes | - 5.4 | - 1.6 | 1.4 | 8.5 | 8.7 |
| Goods and services import volumes | - 2.9 | 3.7 | 3.6 | 7.3 | 7.1 |
| Export performance [a] | - 4.7 | - 3.4 | - 1.9 | 1.0 | - 0.2 |
| Terms of trade | 2.2 | - 0.6 | - 1.6 | 0.0 | - 0.2 |

*a)* Ratio between export volume and export market of total goods and services.
*Source:* OECD.

FY 2003, and are expected to rise by almost 7 per cent in FY 2004. With outlays outgrowing revenues in the near-term, the federal deficit is expected to widen from 3½ per cent of GDP in FY 2003 to almost 4½ per cent in FY 2004 before declining slightly to 4¼ per cent of GDP in FY 2005. The growing deficit contributes importantly to the projected rise in long-term interest rates. A renewed emphasis on procedure to ensure that spending increases must be matched by increases in revenues, such as the Budget Enforcement Act that expired in 2002, will be necessary to restore spending discipline. State and local governments have also been severely affected by the weakness in revenues, but their budgetary pressures should ease significantly as the economic expansion gathers pace and they continue to adopt deficit-reducing measures.

***Growth is projected to remain robust…***

The recent rapid pace of growth is expected to moderate over the coming quarters, but annual GDP growth should exceed its potential rate of about 3¼ per cent for the foreseeable future. An acceleration in worldwide demand and the depreciation of the dollar are expected to reduce the drag from net exports on GDP growth. Consumption expenditures are expected to grow more modestly over 2004, as the stimulus from income tax reductions fades, before picking up in 2005 in response to an improving employment situation and faster income increases. Business fixed investment is expected to advance rapidly, although the expiration of the partial expensing provisions at the end of 2004 is likely to reduce the growth of spending on equipment in early 2005. Residential investment, on the other hand, will tend to weaken as the rise in long-term interest rates progresses. Nonetheless, the momentum from consumption and investment should keep real GDP expanding at a rate of close to 4 per cent even as federal purchases decelerate in 2005 after the current round of spending increases has run its course.

***... but there are substantial risks***

There are substantial risks to the outlook, although they appear more evenly balanced now than half a year ago. On the downside, if firms continue to exercise great caution in hiring, or if unfulfilled profit expectations significantly reduce stock-market valuations, consumption may decelerate more than currently projected, and confidence in the viability of the expansion may falter. Moreover, the sharp rise in the federal budget and current-account deficits increases the risk of disorderly exchange-rate movements and a larger rise in long-term interest rates than projected. On the upside, the recent strong productivity performance may spark another cycle of optimism concerning business profits and household incomes, and fuel business investment and household spending.

# Japan

*Following the recent acceleration of growth, led by business investment and exports, activity is likely to be sustained by faster world trade growth. However, the upturn, which is concentrated in certain manufacturing industries, is unlikely to be strong enough either to reduce unemployment significantly or to end deflation. The pressure for a rise in the yen and the strains associated with rising public debt pose risks to a durable expansion.*

*Monetary policy should continue to focus on ending deflation by enhancing the effectiveness of quantitative easing. This should remain in place until positive inflation is achieved on a sustained basis and the risk of deflation is negligible. Putting the structural budget deficit on a downward path in 2004 would boost confidence in the prospects for consolidation over the medium term. Financial-sector restructuring, including the reduction of non-performing loans, should be a priority, accompanied by a broad structural reform programme to revitalise business activity.*

***Economic activity strengthened in 2003 led by business investment***

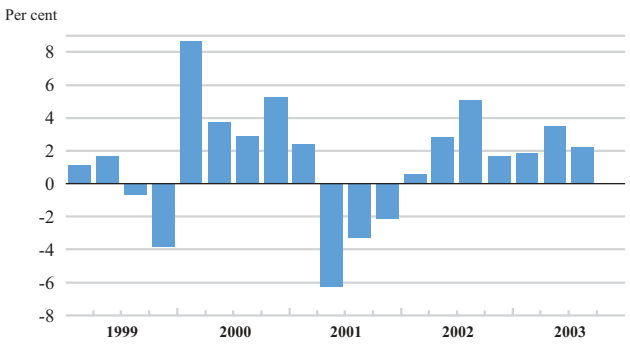
The economic upturn that began in early 2002 accelerated markedly in the second quarter of 2003, led by a strong increase in business investment and a steady rise in private consumption, despite some weakening in exports. Restructuring in the corporate sector has paid off in terms of higher profitability and greater business confidence, leading to a rebound in fixed investment and a stabilisation of employment. However, the recovery is narrowly based in certain manufacturing industries, while the non-manufacturing sector, where restructuring is less advanced, is still constrained by excess debt. The recovery has not been sufficient thus far to reduce the unemployment rate significantly from its record high of more than 5 per cent and bring deflation to an end. Although the decline in the headline consumer price index is approaching zero, the underlying rate of deflation, excluding the impact of higher regulated prices, remains around ½ per cent. Moreover, the GDP deflator is falling at a rate of more than 2 per cent.

***Macroeconomic policy has supported the upturn***

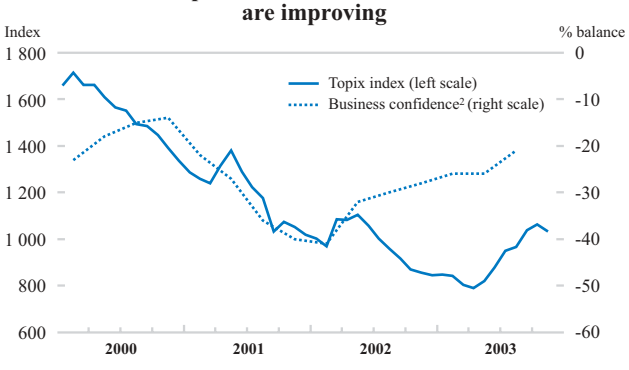
Macroeconomic policy has played an important role in supporting demand. Fiscal policy is expansionary again in 2003, partly as a result of a ¥ 1.8 trillion tax cut. Meanwhile, the quantitative easing approach to monetary policy has kept long-term interest rates at a low level, despite a 100 basis-point correction since June which has boosted the yield on ten-year government bonds to around 1½ per cent. The target

**Japan**

**GDP growth has picked up**[1]




**Share prices and business confidence are improving**




1. Annualised percentage change over preceding quarter.
2. The diffusion index derived from the Bank of Japan Tankan Survey.

*Source:* Economic and Social Research Institute, Bank of Japan and Datastream.

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Japan: **Employment, income and inflation**

*Percentage changes from previous period*

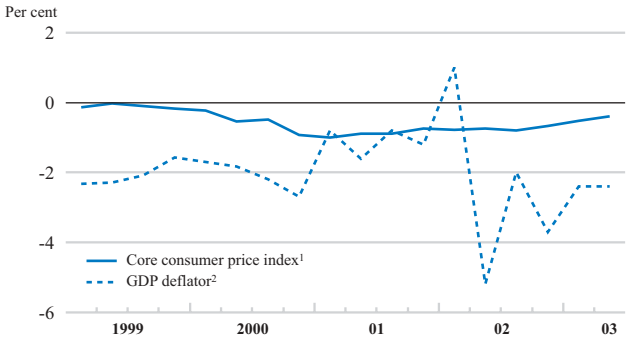
| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Employment | -0.5 | -1.3 | -0.1 | 0.2 | 0.0 |
| Unemployment rate [a] | 5.0 | 5.4 | 5.3 | 5.2 | 5.0 |
| Compensation of employees | -0.4 | -2.3 | 0.3 | 0.7 | 0.4 |
| Unit labour cost | -0.8 | -2.4 | -2.3 | -1.1 | -1.3 |
| Household disposable income | -2.9 | -1.3 | 0.5 | 0.4 | 0.7 |
| GDP deflator | -1.6 | -1.7 | -2.5 | -1.3 | -0.8 |
| Consumer price index | -0.7 | -0.9 | -0.2 | -0.2 | -0.2 |
| Private consumption deflator | -1.5 | -1.5 | -1.4 | -0.6 | -0.4 |

*a)* As a percentage of labour force.
*Source:* OECD.

for current account balances at the central bank was raised by ¥ 5 trillion, to a range of ¥ 22 to 27 trillion in April 2003 and further to ¥ 27 to 30 trillion in May, with the upper bound boosted again to ¥ 32 trillion in October. The May action was prompted by a serious shortage of capital in the fifth largest private bank. The Bank of Japan's response, together with the injection of public funds into the bank, maintained stability in financial markets. The Bank's decision to broaden the range of assets that it purchases to include securities backed primarily by receivables held by, or loans to, small and medium-sized enterprises, is likely to increase financing for smaller firms and enhance the effectiveness of quantitative easing. The stabilisation of the the headline consumer price index has raised concern about a possible change in monetary policy, prompting the Bank of Japan to clarify that it will only change its current policy when inflation remains zero or positive for a sustained period and the risk of falling back into deflation has become negligible. Active intervention in the foreign exchange market has also had an important impact by preventing a significant appreciation of the yen until mid-September, effectively supporting profits and further boosting the monetary base.

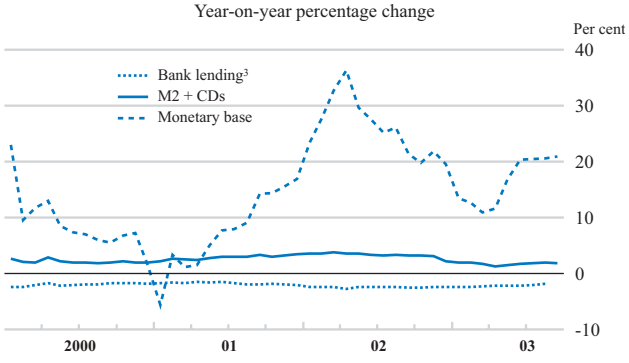
**Japan**

**Deflation continues at a moderate pace**




**Credit growth remains weak**

Year-on-year percentage change




1. Year-on-year change. Includes publicly regulated prices which have risen significantly in 2003.
2. Annualised percentage change over preceding quarter.
3. Year-on-year percentage change, adjusted for loan write-offs.
*Source:* Bank of Japan.

Japan: **Financial indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Household saving ratio[a] | 6.9 | 5.9 | 6.6 | 6.6 | 6.6 |
| General government financial balance[b] | -6.1 | -7.1 | -7.4 | -6.8 | -6.9 |
| Current account balance[b] | 2.1 | 2.8 | 2.9 | 3.6 | 4.3 |
| Short-term interest rate[c] | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Long-term interest rate[d] | 1.3 | 1.3 | 1.1 | 1.7 | 1.8 |

*a)* As a percentage of disposable income.
*b)* As a percentage of GDP.
*c)* 3-month CDs.
*d)* 10-year government bonds.
*Source:* OECD.

***There has been progress in dealing with problems in the banking sector***

The increase in base money has not reversed the decline in bank lending, which continues to fall at around a 2 per cent annual rate, reflecting a lack of corporate demand and serious problems in the banking sector. However, the implementation of the Financial Revival Programme launched in October 2002 is addressing underlying problems of weak bank capital. Concerns in this regard have also been eased somewhat by the buoyancy of the stock market, which has generated capital gains for banks that exceed their losses resulting from the correction in bond prices. Stricter self-assessment of assets by banks, reinforced by the second round of special inspections of large borrowers, has led to increased loan loss reserves. In addition, the major banks' stock of non-performing loans (NPLs) fell from 8.4 to 7.2 per cent of total loans in the year to March 2003, in line with the goal of reducing this ratio to the 4 per cent level by March 2005. The recently created Industrial Revitalisation Corporation has started negotiations to purchase loans from banks to accelerate the disposal of NPLs and revitalise viable corporations. Nevertheless, if the profitability of the banks remains low, achieving the NPL target will be a challenge.

Japan: **Demand and output**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices trillion ¥ | Percentage changes, volume (1995 prices) | | | | |
| Private consumption | 285.8 | 1.7 | 1.3 | 1.1 | 1.1 | 1.1 |
| Government consumption | 86.0 | 2.5 | 2.3 | 1.6 | 2.0 | 1.8 |
| Gross fixed investment | 134.8 | -1.2 | -4.7 | 4.4 | 0.2 | 0.0 |
| Public[a] | 35.6 | -4.1 | -4.9 | -7.0 | -8.3 | -3.5 |
| Residential | 20.3 | -5.4 | -4.8 | -1.9 | -1.4 | -2.0 |
| Non-residential | 78.9 | 1.0 | -4.7 | 10.3 | 3.5 | 1.5 |
| Final domestic demand | 506.6 | 1.1 | -0.2 | 2.0 | 1.0 | 0.9 |
| Stockbuilding[b] | - 0.3 | 0.0 | -0.4 | 0.2 | 0.1 | 0.1 |
| Total domestic demand | 506.3 | 1.1 | -0.5 | 2.3 | 1.1 | 1.1 |
| Exports of goods and services | 55.3 | -6.0 | 8.1 | 7.5 | 9.5 | 9.8 |
| Imports of goods and services | 47.9 | 0.1 | 2.0 | 4.5 | 5.2 | 5.1 |
| Net exports[b] | 7.4 | -0.7 | 0.7 | 0.5 | 0.7 | 0.8 |
| GDP at market prices | 513.6 | 0.4 | 0.2 | 2.7 | 1.8 | 1.8 |

*a)* Including public corporations.
*b)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*Source:* OECD.

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Japan: **External indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| | | | $ billion | | |
| Goods and services exports | 433.4 | 446.7 | 491.9 | 537 | 587 |
| Goods and services imports | 406.9 | 395.4 | 431.4 | 453 | 475 |
| Foreign balance | 26.4 | 51.3 | 60.5 | 84 | 112 |
| Invisibles, net | 61.2 | 61.2 | 62.4 | 71 | 74 |
| Current account balance | 87.7 | 112.5 | 122.9 | 155 | 186 |
| | | | Percentage changes | | |
| Goods and services export volumes | - 6.0 | 8.1 | 7.5 | 9.5 | 9.8 |
| Goods and services import volumes | 0.1 | 2.0 | 4.5 | 5.2 | 5.1 |
| Export performance [a] | - 4.4 | 2.6 | 1.6 | - 0.3 | - 1.2 |
| Terms of trade | - 1.6 | 0.1 | - 1.9 | - 0.1 | - 0.2 |

*a)* Ratio between export volume and export market of total goods and services.
*Source:* OECD.

***Fiscal consolidation is projected for 2004***

The 2003 tax cuts are to be partially offset by a broadening of the base for income tax and consumption tax (VAT) in 2004, while expenditure by the central government is to be held constant in nominal terms in fiscal year (FY) 2003 and FY 2004. Consequently, the fiscal stance is projected to tighten in 2004, assuming no supplementary budget in FY 2003. The spending plans are part of the medium-term objective of keeping general government expenditures relative to GDP at the level recorded in FY 2002, with a view to achieving a primary budget surplus in the early 2010s. Meeting this objective will require substantial cuts in discretionary expenditures, while limiting the rise in mandatory spending by reforming the pension and health care systems.

***The dualistic nature of the economy limits prospects for growth***

The rebound in export growth that began in mid-2003 is likely to accelerate through 2004, thanks to a pick-up in the world economy. Gains in real disposable income are expected to support private consumption growth, while improving corporate profits sustain business investment, boosting output growth to around 2¾ per cent in 2003. Investment growth may decelerate after mid-2004 in line with the long-run declining trend in the investment rate. Moreover, the weakness of the non-manufacturing sector in Japan's dualistic economy may limit the improvement in the labour market, slowing the pace of growth to around 1¾ per cent in 2004 and 2005. Nevertheless, an economic expansion through 2005 should help to reduce the rate of decline in the GDP deflator to around ¾ per cent. However, there are a number of risks that could limit the pace and durability of the upturn. A sharp rise in the currency could slow growth while strengthening deflationary pressure. Other risks include the emergence of larger risk premia in interest rates and other strains associated with rising public debt. Over the longer term, failure to press ahead with structural reform, notably in the financial and corporate sectors, would constrain Japan's growth potential.

# Euro area

*Growth is estimated to have slumped further to a meagre ½ per cent in 2003. It should pick up to 1¾ and 2½ per cent in 2004 and 2005 respectively, underpinned by rebounding world trade, improving corporate balance sheets and a supportive stance of monetary policy. However, further exchange rate appreciation could hamper the recovery. Fiscal policy is set to be broadly neutral despite calls for fiscal consolidation. The unemployment rate is expected to peak at 9 per cent in 2004 with inflation remaining subdued.*

*Achieving economic growth on a sustainable basis requires that greater progress be made in implementing the structural reform agenda already laid out and that attention be given to the additional efforts which may be required. The gains from creating a truly integrated and competitive European market, increasing business dynamism, investing in knowledge and innovation and pushing ahead with labour market and pension reforms could be very large.*

***The downturn has bottomed out***

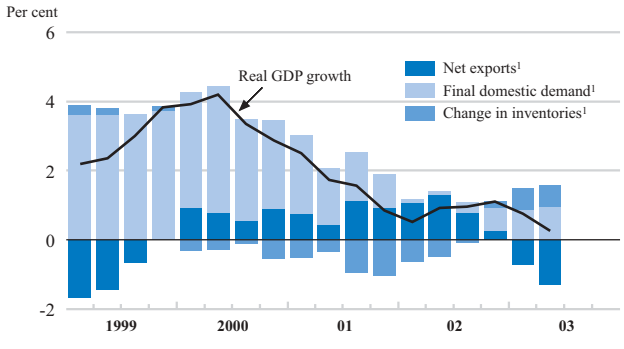
The area relapsed into virtual recession in the first half of 2003. The slowdown was driven by a sharp fall in net foreign trade and declining investment, while other demand components failed to pick up the slack due to adverse confidence effects. Recent indicators suggest that the economy turned the corner over the summer, but the rebound looks to be modest initially as household sentiment has remained poor due to deteriorating job prospects. The unemployment rate has been creeping up to 8.8 per cent since its 8 per cent low in 2001. With the exchange rate appreciating and slack building up, inflation has been tapering off slowly towards the 2 per cent mark consistent with the price stability objective of the European Central Bank (ECB).

***Financial headwinds are waning***

The appreciation of the euro in effective terms since the start of 2002, which now amounts to 20 per cent, probably contributed to the 2003 downturn. While the positive terms of trade effect has implied a favourable impact on prices, real household incomes and the import costs of firms, it has adversely affected net foreign trade and the profit margins of the exposed sectors. It may also account in part for the longer-than-expected downturn in investment. However, with the stock market recovering, lower corporate bond spreads and strengthening corporate balance sheets, the conditions for a sustained investment recovery now look to be in place.

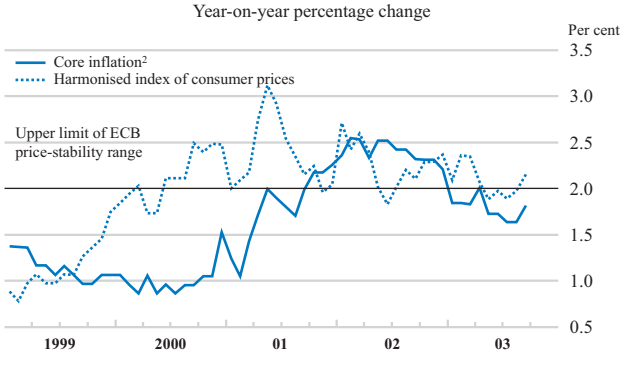
## Euro area

**The recovery stalled as net exports fell**




**Core inflation is below the 2 per cent mark**

Year-on-year percentage change




1. Contribution to real GDP growth, year-on-year growth rates.
2. Harmonised index of consumer prices excluding energy, food, alcohol and tobacco.

*Source:* Eurostat.

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Euro area: **Employment, income and inflation**

*Percentage changes from previous period*

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Employment | 1.5 | 0.5 | 0.0 | 0.5 | 1.0 |
| Unemployment rate [a] | 8.0 | 8.4 | 8.8 | 9.0 | 8.7 |
| Compensation per employee [b] | 2.5 | 2.3 | 2.5 | 2.1 | 2.2 |
| Labour productivity [b] | 0.1 | 0.5 | 0.6 | 1.4 | 1.6 |
| Unit labour cost [b] | 2.4 | 1.8 | 1.9 | 0.7 | 0.6 |
| Household disposable income | 4.9 | 3.2 | 3.0 | 3.2 | 3.8 |
| GDP deflator | 2.4 | 2.4 | 1.9 | 1.7 | 1.6 |
| Harmonised index of consumer price | 2.4 | 2.3 | 2.0 | 1.5 | 1.4 |
| Private consumption deflator | 2.3 | 2.3 | 1.9 | 1.6 | 1.4 |

*a)* As a percentage of labour force.
*b)* In the business sector.
*Source:* OECD.

On the other hand, the favourable wealth effects on household spending stemming from soaring house prices in some countries may be tapering off.

***Labour markets are surprisingly resilient***

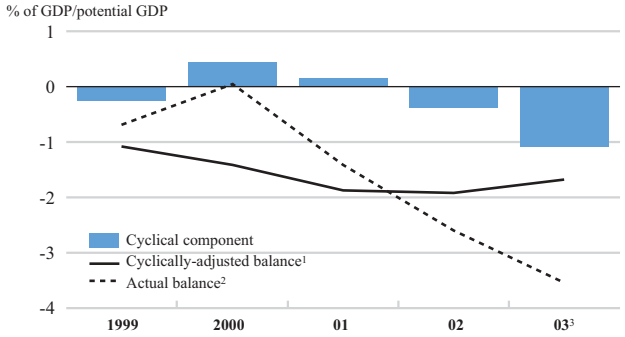
The increase in unemployment since 2001 has been surprisingly muted. High costs of hiring and firing may have made firms reluctant to shed labour at a time when expectations that the slowdown might be short-lived made the case for doing so unclear. Alternatively, employment resilience may reflect the fact that European economies have become more labour intensive in a context of more flexible labour markets. However, evidence of downward pressure on wages has also been limited to date. This suggests that wages in the area respond to labour market conditions with a rather long lag due to formal indexation mechanisms and longer-term contracts.

***The area-wide stance of fiscal policy is neutral***

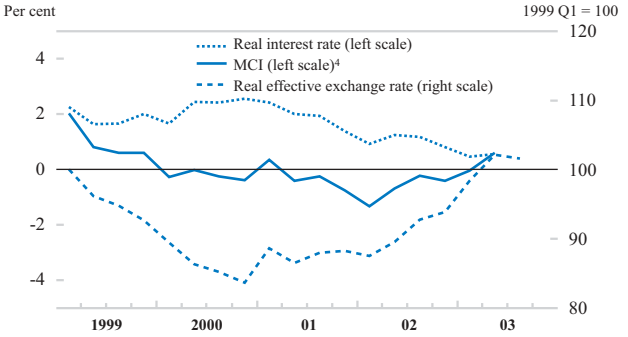
The Maastricht Treaty requires governments to take corrective action under the Excessive Deficit Procedure as soon as the 3 per cent of GDP reference value for the budget deficit has been breached, which has been the case for Germany and France

**Euro area**

**The fiscal stance is pratically neutral**




**Monetary conditions have tightened**




1. Per cent of potential GDP.
2. Actual balance excludes UMTS licence proceeds.
3. OECD projection.
4. Monetary condition index.

*Source:* OECD.

Euro area: **Financial indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Household saving ratio[a] | 11.3 | 11.6 | 11.3 | 11.1 | 11.2 |
| General government financial balance[b] | -1.7 | -2.3 | -2.7 | -2.6 | -2.7 |
| Current account balance[b] | 0.2 | 1.1 | 0.4 | 0.7 | 0.9 |
| Short-term interest rate[c] | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 |
| Long-term interest rate[d] | 5.0 | 4.9 | 4.2 | 4.5 | 5.1 |

*a)* As a percentage of disposable income.
*b)* As a percentage of GDP.
*c)* 3-month interbank rate.
*d)* 10-year government bonds.
*Source:* OECD.

since 2002. Discussions have been ongoing between the European Commission, the relevant Council of Ministers (*Ecofin*) and the countries concerned as to whether the terms of the excessive deficit procedure should be eased somewhat to provide more leeway for governments in breach of the reference value to smooth the required adjustment over time. In any event, on the basis of currently adopted policies progress in fiscal consolidation is set to be small, with France and Germany still breaching the 3 per cent limit in 2005 and Italy breaching it as well in 2005, despite the recovery. As a result, after a tightening of around ½ per cent of GDP in 2003, the stance of fiscal policy, as gauged by the area-average change in the cyclically-adjusted balance, is projected to be broadly neutral over the projection period.

***Monetary policy has eased but the exchange rate has appreciated***

Monetary policy has been eased considerably since the start of 2003, with the ECB cutting the refinancing rate by 25 and 50 basis points in March and June, respectively, to 2 per cent. The recent appreciation of the currency has taken back most of the resulting demand stimulus as monetary conditions are back at their level when the current cycle of policy easing started in 2001. With inflation pressure waning, the ECB's refinancing rate is assumed to be maintained at 2 per cent until the recovery is firm and inflationary pressures visibly start rebuilding.

Euro area: **Demand and output**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion € | Percentage changes, volume (1999 prices) | | | | |
| Private consumption | 3 765.7 | 1.9 | 0.6 | 1.4 | 1.7 | 2.4 |
| Government consumption | 1 306.3 | 2.5 | 2.8 | 1.5 | 1.0 | 1.0 |
| Gross fixed investment | 1 419.8 | 0.1 | -2.4 | -1.0 | 2.3 | 3.9 |
| Public | 172.9 | 2.1 | 0.4 | 2.2 | 1.3 | 2.2 |
| Residential | 369.7 | -2.4 | -1.4 | 0.1 | 1.8 | 1.9 |
| Non-residential | 877.3 | 0.9 | -3.4 | -2.1 | 2.7 | 5.1 |
| Final domestic demand | 6 491.8 | 1.6 | 0.4 | 0.9 | 1.7 | 2.4 |
| Stockbuilding[a] | 26.6 | -0.5 | 0.0 | 0.3 | 0.1 | 0.0 |
| Total domestic demand | 6 518.5 | 1.1 | 0.4 | 1.2 | 1.8 | 2.4 |
| Net exports[a] | 57.8 | 0.6 | 0.5 | -0.7 | 0.0 | 0.1 |
| Error of estimate[a] | - 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| GDP at market prices | 6 576.2 | 1.7 | 0.9 | 0.5 | 1.8 | 2.5 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*Source:* OECD.

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Euro area: **External indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| | | | $ billion | | |
| Foreign balance | 102.8 | 174.1 | 169.1 | 195 | 214 |
| Invisibles, net | - 89.5 | - 102.7 | - 133.6 | - 134 | - 136 |
| Current account balance | 13.3 | 71.4 | 35.5 | 61 | 78 |

*Source:* OECD.

***The recovery is set to gather steam***

Against this backdrop, real GDP growth is projected[1] to recover from an estimated ½ per cent in 2003 to 1¾ per cent in 2004, with a further acceleration to a rate slightly above potential at 2½ per cent in 2005. Exports may be spurred by the rebound in world trade, even though the area is projected to lose further market shares in view of the strong currency. Investment could pick up in tandem, while consumption is set to recover more modestly. The unemployment rate is projected to peak at 9 per cent in 2004 before falling back slightly in 2005. With the impact of euro appreciation feeding through, inflation is projected to fall to 1½ per cent in 2004, but with the output gap gradually closing from mid-2004 onwards it may start drifting up towards the 2 per cent mark by the end of the projection period.

***Risks are more balanced***

Risks surrounding the projection have become more evenly balanced. On the one hand, global current account imbalances may prompt realignments between the major currencies and this may result in a further appreciation of the euro in effective terms. If so, this could weaken the momentum of the recovery. On the other hand, accelerator mechanisms underpinned by restored corporate balance sheets could spur business investment to levels well above those embodied in the projection.

1. Projections for the euro area are derived by aggregating projections for the individual euro area countries.

# Germany

*Output fell in the first half of 2003, as exports declined sharply and domestic demand remained weak. While activity for the year as a whole is estimated to have stagnated, forward looking indicators signal that growth is likely to have picked up in the second half and into 2004 driven initially by strengthening exports. As activity broadens in 2005, GDP is projected to grow at above its potential rate, at some 2¼ per cent.*

*The general government deficit is likely to exceed 4 per cent of GDP in 2003 and – on current legislation – will remain at around 3½ per cent in 2005. Expenditure reforms are required to reduce the structural deficit in a sustainable way. Income tax reductions should not be brought forward into 2004 without corresponding reductions in government spending and tax expenditures. Important steps have been taken towards implementing the government's programme of labour market and social spending reform. These reform plans must not be watered down.*

***Economic activity decreased during the first half…***

GDP fell in the first half of the year, as domestic demand remained subdued and exports declined sharply in a context of sluggish world trade and a markedly appreciating euro. Industrial production firmed in the summer however, suggesting that economic activity has bottomed out.

***… and is now experiencing the first signs of recovery***

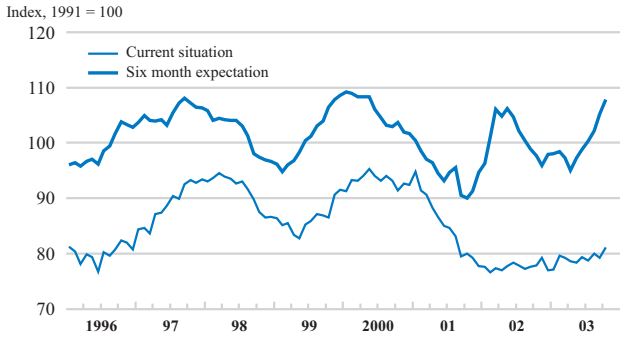
Forward-looking indicators also suggest that a recovery may be under way. Orders have increased, following a decline over much of the first half of the year, as the export sector has started to recover. Business expectations have improved for several months and production plans have been revised upward, reflecting improved export expectations and possibly a more positive outlook for domestic economic reform. Consumer confidence has not improved significantly, however, in a context of persistent labour market weakness and lingering uncertainty about the sustainability of Germany's public finances.

***Employment continues to fall and inflation is low***

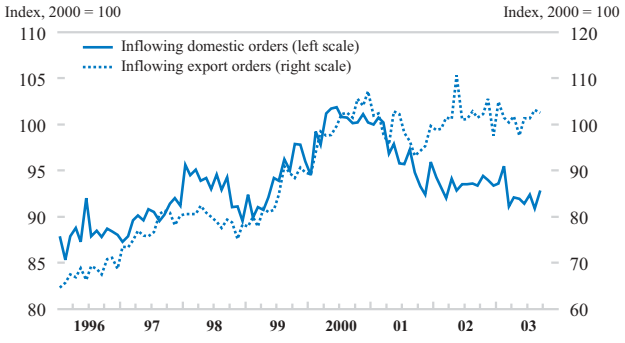
Employment has declined throughout the year, though at a diminishing rate in recent months, as the number of people opting for self-employment in jobs with few hours worked increased markedly in response to a more friendly policy environment. Even so, registered unemployment is not rising on a seasonally-adjusted basis, due to stricter screening for readiness to work by the Labour Office. Headline inflation

## Germany

**Business expectations are improving**[1]




**Orders have increased**[2]




1. Industry, western Germany.
2. Industry, volume.

*Source:* Ifo Institut für Wirtschaftsforschung; Deutsche Bundesbank.

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Germany: **Employment, income and inflation**

*Percentage changes from previous period*

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Employment | 0.4 | -0.6 | -1.5 | -0.4 | 0.6 |
| Unemployment rate [a] | 7.4 | 8.1 | 8.9 | 9.1 | 8.8 |
| Compensation of employees | 2.0 | 0.8 | 0.6 | 1.2 | 2.3 |
| Unit labour cost | 1.1 | 0.6 | 0.6 | -0.2 | 0.0 |
| Household disposable income | 3.7 | 0.5 | 1.5 | 2.0 | 3.4 |
| GDP deflator | 1.3 | 1.6 | 1.0 | 1.2 | 0.9 |
| Harmonised index of consumer price | 1.9 | 1.3 | 0.9 | 0.8 | 0.7 |
| Private consumption deflator | 1.6 | 1.3 | 0.9 | 0.8 | 0.7 |

*a)* As a percentage of labour force.
*Source:* OECD.

(measured by the harmonised index of consumer prices) fell below 1 per cent in the middle of the year as the impact of earlier increases in administrative prices and indirect taxes petered out. More recently, inflation appears to have edged up and stabilised at around 1 per cent.

***The financial environment is now more conducive to growth***

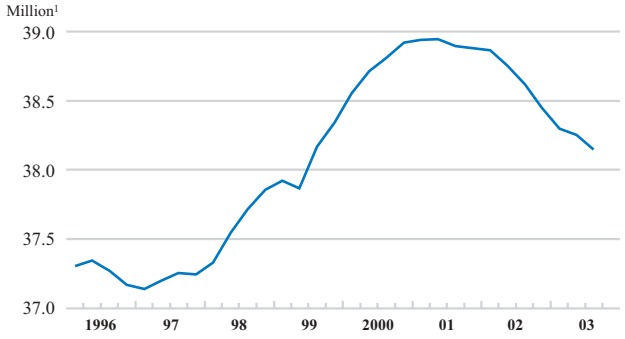
Banks have reduced non-performing loans and are strengthening their risk management, while real interest rates are low by historical standards across maturities. Stock prices have gained significantly since the spring, which can be expected to have positive repercussions on both the quality of balance sheets of financial intermediaries and financing conditions for enterprises.

***The general government deficit has reached 4 per cent of GDP…***

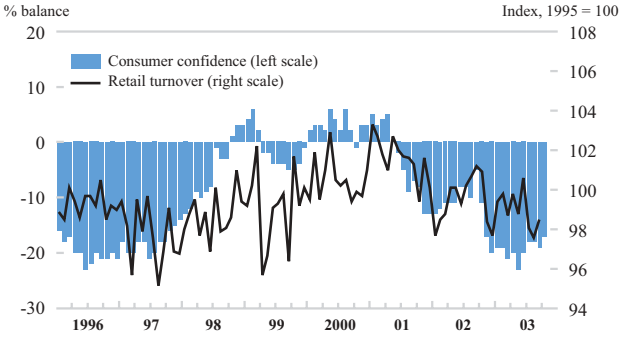
With the negative output gap opening up further, the general government deficit is projected to widen by ½ percentage point of GDP in 2003, reaching 4.1 per cent – substantially above the deficit limit of the Stability and Growth Pact for a second year in a row. While some consolidation measures have become effective on both the revenue and the spending sides of the budget, reform initiatives have not progressed rapidly enough to contribute to fiscal consolidation this year.

## Germany

**Employment is still falling**




**Consumer confidence remains low**




1. Seasonally adjusted employment, domestic concept of the national accounts.
*Source:* Deutsche Bundesbank; OECD.

## Germany: **Financial indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Household saving ratio[a] | 10.3 | 10.6 | 10.7 | 10.9 | 11.4 |
| General government financial balance[b] | -2.8[c] | -3.5 | -4.1 | -3.7 | -3.5 |
| Current account balance[b] | 0.2 | 2.7 | 2.1 | 2.8 | 3.3 |
| Short-term interest rate[d] | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 |
| Long-term interest rate[e] | 4.8 | 4.8 | 4.1 | 4.5 | 5.0 |

*a)* As a percentage of disposable income.
*b)* As a percentage of GDP.
*c)* Including proceeds of sales of mobile telephone licences (around 2.5 per cent of GDP).
*d)* 3-month interbank rate.
*e)* 10-year government bonds.
*Source:* OECD.

***… and will remain high in the next couple of years***

The government has tabled a fiscal consolidation package for 2004, consisting of revenue-raising measures as well as spending restraint. But at the same time, legislation has been tabled to bring forward income tax reductions, presently scheduled to become effective in 2005, into 2004. These are estimated to amount to 0.7 per cent of GDP. Most of the package of tax reductions and financing measures is opposed by the parliamentary opposition and subject to a parliamentary mediation process between both chambers of parliament. Therefore, the package has not been incorporated into the OECD projections. Based on current legislation and observed recent consolidation trends – notably reductions in government employment, subsidies and investment and already-voted revenue-raising measures – the OECD projects the structural deficit to improve by about 0.4 percentage points in 2004, but then to increase again in 2005 on account of the tax reductions as originally scheduled.

## Germany: **Demand and output**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion euros | Percentage changes, volume (1995 prices) | | | | |
| Private consumption | 1 196.2 | 1.5 | -1.0 | 0.7 | 1.2 | 2.2 |
| Government consumption | 385.6 | 1.0 | 1.7 | 0.8 | 0.1 | -0.4 |
| Gross fixed investment | 440.0 | -3.9 | -6.5 | -2.1 | 1.4 | 3.2 |
| Public | 37.0 | -2.5 | -4.0 | 1.3 | -3.6 | -2.0 |
| Residential | 140.2 | -6.2 | -5.7 | -3.7 | -0.5 | 0.2 |
| Non-residential | 262.8 | -2.9 | -7.2 | -1.7 | 3.2 | 5.5 |
| Final domestic demand | 2 021.8 | 0.2 | -1.7 | 0.1 | 1.0 | 1.9 |
| Stockbuilding[a] | 0.7 | -0.8 | 0.1 | 0.6 | 0.2 | 0.1 |
| Total domestic demand | 2 022.5 | -0.7 | -1.6 | 0.8 | 1.2 | 2.0 |
| Exports of goods and services | 686.1 | 6.1 | 3.4 | 0.3 | 4.6 | 7.2 |
| Imports of goods and services | 678.6 | 1.2 | -1.6 | 2.9 | 4.4 | 7.1 |
| Net exports[a] | 7.5 | 1.7 | 1.7 | -0.8 | 0.2 | 0.4 |
| GDP at market prices | 2 030.0 | 1.0 | 0.2 | 0.0 | 1.4 | 2.3 |
| *Memorandum items* | | | | | | |
| Investment in machinery and equipment | 199.8 | -3.6 | -7.6 | 0.5 | 3.7 | 6.3 |
| Construction investment | 240.2 | -4.8 | -5.8 | -4.2 | -0.5 | 0.5 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*Source:* OECD.

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Germany: **External indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| | | | $ billion | | |
| Goods and services exports | 655.3 | 716.7 | 850.1 | 915 | 999 |
| Goods and services imports | 618.4 | 630.8 | 754.2 | 798 | 868 |
| Foreign balance | 36.9 | 85.9 | 95.9 | 117 | 131 |
| Invisibles, net | - 33.1 | - 31.0 | - 46.6 | - 47 | - 47 |
| Current account balance | 3.8 | 54.9 | 49.3 | 70 | 85 |
| | | | Percentage changes | | |
| Goods and services export volumes | 6.1 | 3.4 | 0.3 | 4.6 | 7.2 |
| Goods and services import volumes | 1.2 | - 1.6 | 2.9 | 4.4 | 7.1 |
| Export performance [a] | 4.4 | 0.6 | - 3.1 | - 2.1 | - 0.9 |
| Terms of trade | 0.1 | 1.9 | 1.8 | 1.5 | 0.3 |

*a)* Ratio between export volume and export market of total goods and services.
*Source:* OECD.

***Output started growing again in the second half***

Growth is estimated to have swung back into positive territory in the second half of 2003, although for the year as a whole GDP will have stagnated. World trade is recovering and accelerating exports will be the major driving force for higher growth in 2004. Private consumption will strengthen only slowly, as consumer confidence is low and the decline in employment is projected to continue well into 2004. The effect on consumption of the income tax reductions already legislated for 2004 will be offset, to a considerable extent, by the scheduled increases in indirect taxes. Consumption will accelerate as labour-shedding ceases, while the income tax reductions legislated for 2005 will provide an extra boost to spending in that year, even if a large share of the tax relief is expected to be saved. Increasing capacity utilisation will lead to a strengthening of investment in machinery and equipment, though construction investment will continue to be a drag on growth. All in all, GDP is projected to grow by 1½ per cent in 2004 and, as the upswing broadens by some 2¼ per cent in 2005, which would be significantly above potential. Inflation (consumer prices) is projected to average below 1 per cent over the projection period, though increases in administrative prices and in indirect taxes will prevent significant further disinflation.

***Risks to these projections are substantial***

With legislation on key fiscal issues pending, the fiscal stance of the general government is subject to considerable uncertainty. Depending on whether the income tax reductions scheduled for 2005 become effective in 2004, and on the size of additional savings measures, both the deficit and GDP could deviate from the path projected. If world trade were to be stronger or weaker than foreseen, the impact on German growth could also be substantial. Moreover, major elements of the government's labour market reform agenda are being challenged in the second chamber of parliament and are subject to a parliamentary mediation process between both chambers. If labour market and public sector reforms are implemented in full, confidence and economic activity would be reinforced.

# France

*GDP declined somewhat in the first half of 2003, reflecting a sharp fall in exports and weaker domestic demand. Data for the third quarter show a pick-up in activity. Considering the extent of the slowdown, unemployment has increased only moderately. At the same time, the August heatwave and administrative price hikes have brought an end to declining inflation. Overall, economic activity is projected to continue strengthening through 2004, with GDP increasing by some 2½ per cent in 2005.*

*The draft budget for 2004 calls for a substantial tightening of fiscal policy, principally from slower expenditure growth. For this objective to be met, effective action will have to be taken to ensure that past slippages in the deficit will not be repeated. Over the medium-term a comprehensive reform of the healthcare system would help contain overall government spending.*

***Output declined somewhat in the first half of 2003***

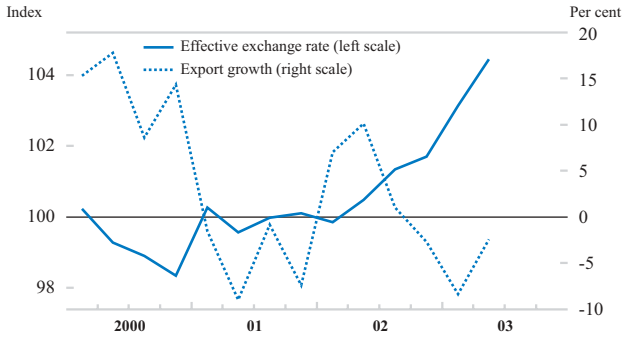
Economic activity shrank by 0.2 per cent (annual rate) in the first half of 2003. A strong appreciation of the euro contributed to the sharp decline in exports in both the first and second quarters. While this was initially the main source of weakness, lower levels of activity provoked a slowing in consumer demand and a weak investment activity, resulting in a decline in second quarter GDP. In the third quarter, GDP grew by 1.5 per cent, reflecting strong export growth and a pick-up in virtually all elements of domestic demand, which was partially offset by destocking.

***Employment levels have stabilised, while inflation is on the rise***

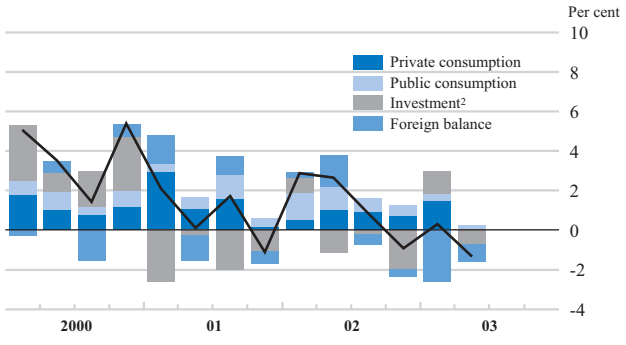
In this weak environment, the labour market has continued to perform relatively well. The standardised unemployment rate has risen only marginally, reaching 9.5 per cent in September. Moreover, employment was stable in the second and third quarters. The effect of the August heatwave has also been felt on prices. While inflation had been trending down for much of this year, rising prices for fresh produce and a 20 per cent hike in tobacco prices caused the twelve-monthly rate of both core and headline inflation to surge, reaching 1.7 and 2.2 respectively in October.

## France

**Currency appreciation has slowed exports**




**Falling exports and investment have sapped growth**[1]




1. Contributions to growth.
2. Including changes in stock.

*Source:* National Institute for Statistics and Economic Studies (INSEE) and OECD.

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France: **Employment, income and inflation**

*Percentage changes from previous period*

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Employment | 1.5 | 0.4 | -0.1 | 0.2 | 0.4 |
| Unemployment rate [a] | 8.7 | 9.0 | 9.6 | 9.8 | 9.7 |
| Compensation of employees | 4.9 | 3.6 | 2.8 | 2.8 | 3.0 |
| Unit labour cost | 2.8 | 2.3 | 2.7 | 1.2 | 0.6 |
| Household disposable income | 4.9 | 3.9 | 2.6 | 3.1 | 2.9 |
| GDP deflator | 1.7 | 1.9 | 1.5 | 1.3 | 1.0 |
| Harmonised index of consumer price | 1.8 | 1.9 | 2.0 | 1.4 | 0.9 |
| Private consumption deflator | 1.4 | 1.8 | 1.7 | 1.5 | 0.9 |

*a)* As a percentage of labour force.
*Source:* OECD.

***The 2004 budget calls for tighter fiscal policy***

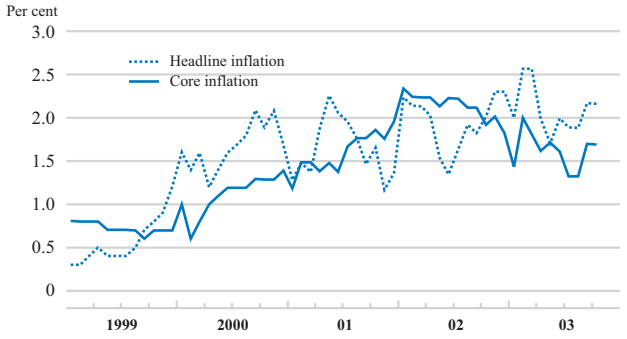
The draft budget for 2004 foresees a reduction in the general government deficit from 4.0 to 3.6 per cent of GDP between 2003 and 2004. The authorities estimate that this would represent a tightening of 0.7 per cent of GDP on a cyclically-adjusted basis. However, unless additional savings beyond those already announced are found, the deficit will come in at around 3¾ per cent of GDP. Meanwhile, notwithstanding falling interest rates, the appreciation of the euro (up 4.6 per cent in effective terms since early 2002) has tightened monetary and financial market conditions. This has probably played a role in the decline of inflation and partly explains the weak performance of exports at the beginning of the year.

***Near-term indicators suggest a moderate pick up***

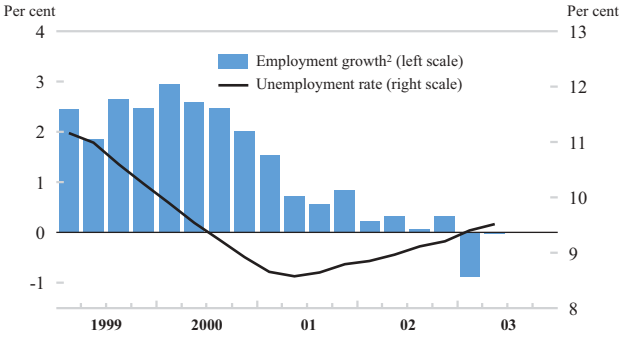
High frequency data and business confidence indicators suggest that the pick-up in growth registered in the third quarter should by followed by a further moderate strengthening in the fourth quarter. In both the industrial and service sectors, managers' expectations for both their own sales and those of their sectors as a whole have improved in recent months. At the same time, orders are beginning to increase. There

**France**

**A recent pick up in inflation**[1]




**Rising unemployment and stagnating employment**




1. Year-on-year percentage changes.
2. From previous period at annual rates.
*Source:* National Institute for Statistics and Economic Studies (INSEE) and OECD.

France: **Financial indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Household saving ratio[a] | 11.5 | 12.0 | 11.4 | 11.4 | 11.2 |
| General government financial balance[b] | -1.5 | -3.1 | -4.0 | -3.7 | -3.5 |
| Current account balance[b] | 1.6 | 2.0 | 0.9 | 1.0 | 1.2 |
| Short-term interest rate[c] | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 |
| Long-term interest rate[d] | 4.9 | 4.9 | 4.1 | 4.6 | 5.1 |

*a)* As a percentage of disposable income.
*b)* As a percentage of GDP.
*c)* 3-month interbank rate.
*d)* 10-year benchmark government bonds.
*Source:* OECD.

are also signs that the process of balance sheet consolidation may be coming to an end. Since the second quarter of 2003, firms have once again been taking on debt, albeit at a more moderate pace than in the past, and housing-related consumer debt has also been on the rise.

***The recovery should strengthen in 2004 and 2005***

GDP is projected to increase only marginally in 2003 considered as a whole. For 2004, improved conditions should see the initially export-driven pick-up in output spark an increase in investment activity and an acceleration of GDP. This recovery should gain strength during the course of the year and into 2005, when GDP is projected to expand by about 2½ per cent. Employment, which has benefited from an unusually high level of labour hoarding during the downturn, is expected to react only slowly to the pick up in demand. Hence, the unemployment rate will not begin to fall until towards the end of 2004. The combination of higher food prices and the impact of tobacco price increases should see inflation rise somewhat before reverting to its lower underlying rate in 2005.

France: **Demand and output**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion euros | Percentage changes, volume (1995 prices) | | | | |
| Private consumption | 773.7 | 2.8 | 1.5 | 1.6 | 1.6 | 2.2 |
| Government consumption | 330.2 | 2.9 | 4.1 | 2.0 | 1.5 | 1.7 |
| Gross fixed investment | 287.2 | 2.1 | -1.4 | -1.1 | 1.6 | 3.7 |
| General government | 45.8 | -0.2 | -1.0 | -0.1 | 0.1 | 0.1 |
| Household | 67.7 | 0.8 | 0.8 | 1.1 | 1.5 | 1.4 |
| Other | 173.8 | 3.1 | -2.3 | -2.2 | 2.0 | 5.5 |
| Final domestic demand | 1 391.2 | 2.7 | 1.5 | 1.1 | 1.6 | 2.4 |
| Stockbuilding[a] | 12.3 | -0.7 | -0.3 | 0.0 | 0.2 | 0.0 |
| Total domestic demand | 1 403.4 | 2.0 | 1.1 | 1.1 | 1.7 | 2.4 |
| Exports of goods and services | 406.1 | 1.8 | 1.3 | -2.2 | 4.6 | 7.1 |
| Imports of goods and services | 387.9 | 1.4 | 0.8 | 1.2 | 5.0 | 7.2 |
| Net exports[a] | 18.2 | 0.1 | 0.2 | -1.0 | -0.1 | 0.0 |
| GDP at market prices | 1 421.6 | 2.1 | 1.3 | 0.1 | 1.7 | 2.4 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*Source:* OECD.

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France: **External indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| | | | $ billion | | |
| Goods and services exports | 370.2 | 389.5 | 449.2 | 475 | 509 |
| Goods and services imports | 348.4 | 359.4 | 429.7 | 454 | 485 |
| Foreign balance | 21.7 | 30.1 | 19.5 | 21 | 25 |
| Invisibles, net | - 0.6 | - 1.7 | - 3.2 | - 3 | - 3 |
| Current account balance | 21.2 | 28.4 | 16.3 | 18 | 22 |
| | | | Percentage changes | | |
| Goods and services export volumes | 1.8 | 1.3 | - 2.2 | 4.6 | 7.1 |
| Goods and services import volumes | 1.4 | 0.8 | 1.2 | 5.0 | 7.2 |
| Export performance [a] | 0.5 | - 0.7 | - 5.3 | - 1.7 | - 0.7 |
| Terms of trade | 1.0 | 1.5 | - 0.2 | 0.5 | 0.5 |

*a)* Ratio between export volume and export market of total goods and services.
*Source:* OECD.

***… but its strength remains uncertain***

The recovery could lose headway if business confidence fails to strengthen further or if real consumer demand falls by more than expected because of higher inflation. Similarly, if the euro continues to appreciate, in contrast to the technical assumption of an unchanged exchange rate, export growth is likely to be weaker and inflation lower than projected. On the upside, a stronger than expected recovery outside of France and a more robust bounce back in either exports or domestic industrial activity could be reflected in a stronger recovery and less disinflation.

# Italy

*The economy stalled in the first half of 2003, but has since recovered somewhat. Growth should gradually gather strength during 2004, largely in response to more robust world trade growth. Employment has held up well, thanks to structural reforms. Persistently high inflation is harming competitiveness, but a continuing large output gap and decelerating unit labour costs should support disinflation during 2004.*

*The public sector deficit-to-GDP ratio is increasing in 2003 and could rise further in 2004 because of the weak economy and the likelihood of higher than programmed public capital spending. In the absence of corrective measures, the 3 per cent threshold could be exceeded in 2005. A significant decline in the high debt ratio will require additional structural measures, notably a faster implementation of the recent pension proposals. More rapid progress in product market reforms is also required to bring inflation closer to the euro area average and spur investment dynamism.*

***The economy stalled in the first half of 2003***

Real GDP stagnated in the first half of 2003. The export sector suffered more markedly than in other euro area countries from slow world growth and the appreciation of the euro. Investment fell as a result of weak exports and the expiry of tax incentives at the end of 2002. Consumption performed better, thanks to positive labour market developments and tax cuts for low-income families.

***A moderate recovery is apparent***

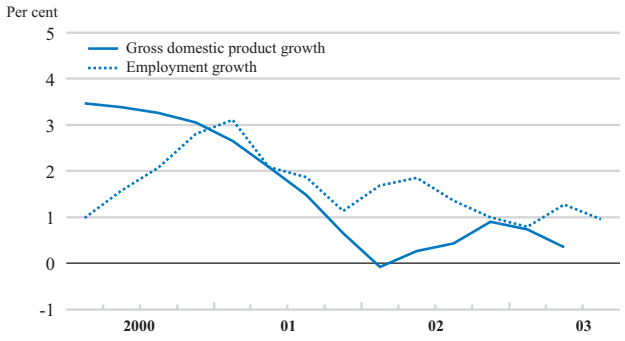
A moderate recovery seems to be occurring. Net exports appear to be rebounding as a result of euro depreciation in the third quarter together with a cut in euro prices by exporting companies, in an effort to stem further market share losses. However, with unit labour cost still rising sharply, profit margins in the exposed sectors are suffering, while excess capacity exists. Hence, any pick-up in investment will materialise only slowly. On the other hand, private consumption appears to be continuing to grow at a satisfactory pace. On balance, output growth in 2003 might be around ½ per cent.

***Employment growth remains positive…***

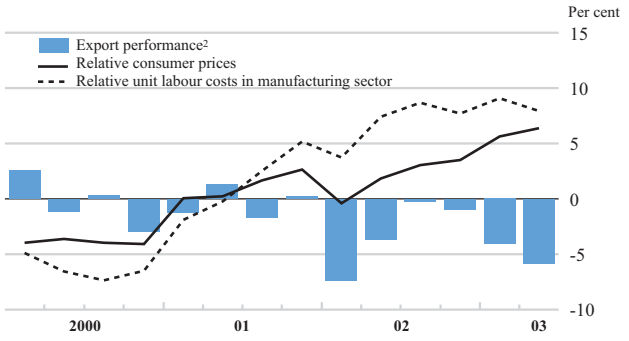
Despite output stagnation, employment kept growing in the first half of 2003, although at a more moderate pace. The increase in employment mainly concerned older workers (50-59 years old), perhaps as a result of the policy measures implemented to allow for combined work and retirement income. Past reforms reducing

## Italy

**Employment growth is still relatively strong**[1]




**Competitiveness has steadily deteriorated**[1]




1. Year-on-year percentage changes.
2. Ratio between export volumes and export markets weighted by Italy's trade shares.

*Source:* Eurostat, OECD.

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Italy: **Employment, income and inflation**

*Percentage changes from previous period*

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Employment | 2.0 | 1.5 | 1.0 | 1.0 | 1.3 |
| Unemployment rate [a] | 9.6 | 9.1 | 8.9 | 8.9 | 8.8 |
| Compensation of employees | 5.3 | 4.0 | 3.7 | 3.7 | 4.5 |
| Unit labour cost | 3.5 | 3.6 | 3.2 | 2.1 | 2.3 |
| Household disposable income | 5.0 | 4.0 | 3.9 | 2.5 | 3.6 |
| GDP deflator | 2.7 | 2.7 | 2.7 | 2.0 | 2.2 |
| Harmonised index of consumer price | 2.3 | 2.6 | 2.8 | 2.0 | 1.9 |
| Private consumption deflator | 2.7 | 3.0 | 2.9 | 2.0 | 2.0 |

*a)* As a percentage of labour force.
*Source:* OECD.

hiring and firing costs for many new workers have led to labour deepening. However, in the absence of labour shedding during the downturn and with sticky wages, productivity has declined cyclically with attendant rises in unit labour costs. This trend is expected to persist into 2004, albeit at a slowing rate. While *ceteris paribus* these cost increases are likely to hurt employment, job creation should nonetheless be sustained in a context of continuing labour market reforms.

***… but high inflation is harming competitiveness***

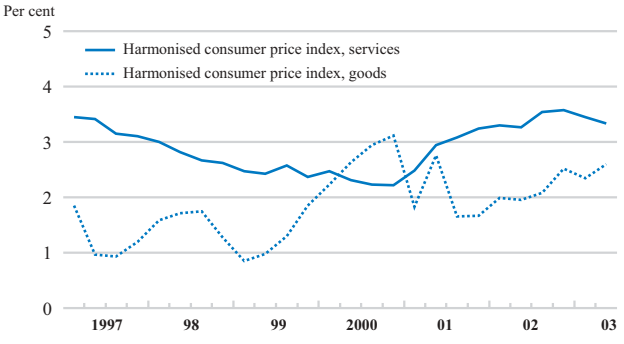
Rising unit labour costs and increasingly high margins in some parts of the service sector are in turn contributing to relatively high inflation, although in the fourth quarter a stronger euro contributes to more moderate price developments. For the year as a whole, headline inflation could end up at around 2½ per cent. The inflation differential compared with the main European trading partners remains persistently positive, harming competitiveness.

***The government deficit has been revised upward***

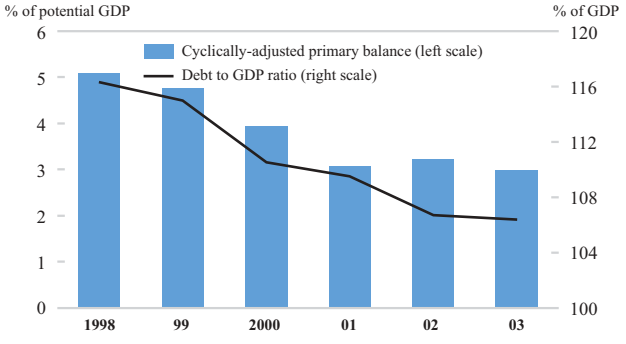
At the end of September, the government presented to parliament the 2004 Budget Bill, together with a decree law immediately implementing some of its measures. The deficit was officially revised up to 2.5 per cent of GDP in 2003 and to 2.2 per cent in 2004, with the structural deficit expected to decrease by 0.3 percentage points

**Italy**

**Sheltered sectors are boosting inflation**




**Debt remains at high levels**[1]




1. Data for 2003 are estimates.
*Source:* Eurostat, OECD.

Italy: **Financial indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Household saving ratio[a] | 15.4 | 15.9 | 15.1 | 14.1 | 13.7 |
| General government financial balance [b,c] | -2.7 | -2.5 | -2.7 | -2.9 | -3.9 |
| Current account balance[b] | -0.1 | -0.6 | -1.2 | -1.2 | -1.4 |
| Short-term interest rate[d] | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 |
| Long-term interest rate[e] | 5.2 | 5.0 | 4.3 | 4.7 | 5.2 |

*a)* As a percentage of disposable income.
*b)* As a percentage of GDP.
*c)* Excludes the impact of swaps and forward rate transactions on interest payments. These operations are however included in the financial balance reported to the European Commission for purposes of the excessive deficit procedure.
*d)* 3-month interbank rate.
*e)* 10-year government bonds.
*Source:* OECD.

each year thanks to lower estimated interest payments. Besides the impact of lower-than-expected growth, the upward revision of the projected deficit in 2004 reflects the introduction of some development measures, among them a package to boost research and development (R&D) – mainly through tax deductions for new investments – and to raise benefits for families with two or more children.

***The corrective measures for 2004 are mainly one-off***

Corrective measures presented in the 2004 budget amount to around 1¼ per cent of GDP. Two thirds of these are one-off, the main element being one-time fines for regularising unauthorised construction. Moreover, new securitisations and sell-offs of public real estate are expected, in part reflecting postponements from 2003. The main structural measures reinforce previous ones (like freezing public employment) while introducing higher social security contributions on certain categories of self-employed workers. With respect to pension spending, the government has

Italy: **Demand and output**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion euros | Percentage changes, volume (1995 prices) | | | | |
| Private consumption[a] | 706.2 | 1.1 | 0.4 | 1.9 | 1.7 | 2.1 |
| Government consumption | 213.3 | 3.6 | 1.7 | 1.3 | 0.8 | 1.0 |
| Gross fixed investment | 231.3 | 2.4 | 0.7 | -2.1 | 2.3 | 3.8 |
| Machinery and equipment | 136.2 | 2.0 | 0.9 | -6.1 | 2.0 | 4.2 |
| Construction | 95.1 | 3.1 | 0.4 | 3.6 | 2.7 | 3.2 |
| Residential | 52.0 | 1.6 | 0.9 | 1.8 | 3.0 | 2.4 |
| Non-residential | 43.1 | 4.9 | -0.2 | 5.8 | 2.3 | 4.1 |
| Final domestic demand | 1 150.9 | 1.8 | 0.7 | 0.9 | 1.6 | 2.2 |
| Stockbuilding[b] | 5.2 | -0.1 | 0.4 | 0.8 | 0.2 | 0.0 |
| Total domestic demand | 1 156.1 | 1.7 | 1.1 | 1.7 | 1.8 | 2.2 |
| Exports of goods and services | 330.0 | 1.1 | -1.0 | -2.6 | 4.9 | 5.6 |
| Imports of goods and services | 318.6 | 1.0 | 1.5 | 1.6 | 5.5 | 5.8 |
| Net exports[b] | 11.4 | 0.1 | -0.7 | -1.2 | -0.2 | -0.1 |
| GDP at market prices | 1 167.5 | 1.7 | 0.4 | 0.5 | 1.6 | 2.1 |

*a)* Final consumption in the domestic market by households.
*b)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*Source:* OECD.

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Italy: **External indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| | | | $ billion | | |
| Goods and services exports | 310.0 | 320.9 | 368.7 | 396 | 428 |
| Goods and services imports | 294.0 | 307.7 | 366.6 | 397 | 430 |
| Foreign balance | 15.9 | 13.2 | 2.2 | - 1 | - 2 |
| Invisibles, net | - 16.6 | - 20.4 | - 19.7 | - 19 | - 20 |
| Current account balance | - 0.7 | - 7.2 | - 17.5 | - 19 | - 22 |
| | | | Percentage changes | | |
| Goods and services export volumes | 1.1 | - 1.0 | - 2.6 | 4.9 | 5.6 |
| Goods and services import volumes | 1.0 | 1.5 | 1.6 | 5.5 | 5.8 |
| Export performance [a] | - 0.3 | - 3.1 | - 6.2 | - 1.8 | - 2.5 |
| Terms of trade | 1.6 | 1.4 | 0.5 | - 0.2 | - 0.2 |

*a)* Ratio between export volume and export market of total goods and services.
*Source:* OECD.

proposed structural measures restricting eligibility criteria and introducing more actuarially fair rules for early retirement, albeit taking effect only from 2008. Fiscal incentives to remain longer in the workforce have also been proposed and may be implemented much sooner. However, the entire package remains to be approved by parliament.

***The deficit ratio could be close to 3 per cent in 2004***

On present policies, the officially projected deficit for 2004 may be significantly overshot. OECD projections are for a deficit of just below 3 per cent of GDP in 2004, mainly reflecting lower GDP growth than assumed by the government, uncertainty about private participation in infrastructure projects, and the prudent assumption that the state road agency (ANAS) remains within the general government. In the absence of further corrective measures, the deficit could climb considerably beyond the 3 per cent threshold in 2005. The debt ratio would still decrease slowly to just below 106 per cent of GDP.

***Growth should be underpinned by the global recovery***

Underpinned by stronger world growth, GDP growth is expected to pick up to around 1½ and 2 per cent in 2004 and 2005, respectively. Exports would progressively increase, stimulating investment. Investment could also be temporarily pushed up by the tax incentives introduced with the 2004 budget package. Consumption should be sustained by a further reduction in unemployment, a recovery of consumer confidence and disinflation. Thanks to a return to positive productivity growth and to moderate wage increases, unit labour cost growth would gradually decrease. As a result, the rate of inflation should gradually slow towards 2 per cent during 2004.

***Risks are relatively balanced***

The strength of the upturn is highly dependent on the pace of global recovery. On the negative side, slow progress on product market reform – notably in the sheltered sectors and network industries – could retard the decline in inflation. This could depress household disposable income and company profits in the exposed sector, with negative consequences for consumption and investment. More positively, replacing one-off budget measures by more permanent ones, as the government has proposed for 2005, would improve both fiscal stability and future growth prospects.

# United Kingdom

*The UK economy continues to exhibit greater resilience than most other OECD countries. Growth, led by private and public consumption, has remained close to potential, while inflation and unemployment are internationally low. The recent pick-up in activity should lead to above trend growth in 2004-05, with a more balanced expenditure composition, providing instability stemming from the housing market can be avoided.*

*A gradual continuation of the recent tightening of monetary policy will be needed to ensure consistency with the inflation target and would also reduce the risk of another surge in house prices. The public sector deficit has widened considerably and, though arguably still consistent with the "golden rule", may call for a slowdown in spending or a rise in taxes during the current upswing to avoid a destabilising adjustment later on.*

***Growth has picked up***

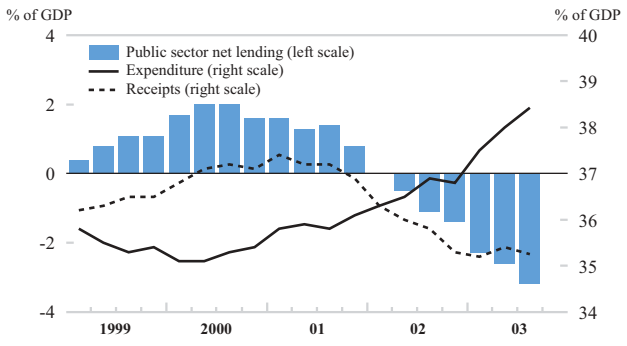
GDP rebounded in the second and third quarters of 2003, implying growth over the year to the third quarter of 2 per cent, while output in the other major European economies has either fallen or stagnated. The composition of growth continues to be skewed towards private and public consumption, although less than previously estimated following data revisions and chain-linking of national accounts. Real business investment has remained subdued, partly because companies have needed to divert funds into shoring up company pension schemes. With demand growth more robust than in much of the rest of Europe, net exports have continued to be a drag on activity.

***Consumption is still supported by the housing market***

Continued growth in private consumption has outpaced personal disposable income since early 2002, with the housing market becoming an increasingly important driver. The boom in house prices has almost entirely offset the effect of the fall in equity prices on household wealth since 2000 and led to mortgage equity withdrawal running at close to a record high of 6 per cent of disposable income in the first half of 2003. Signs of a slowdown in the housing market at the beginning of the year appear to have been confounded, with mid-year house price inflation running at annualised rates of around 15 per cent.

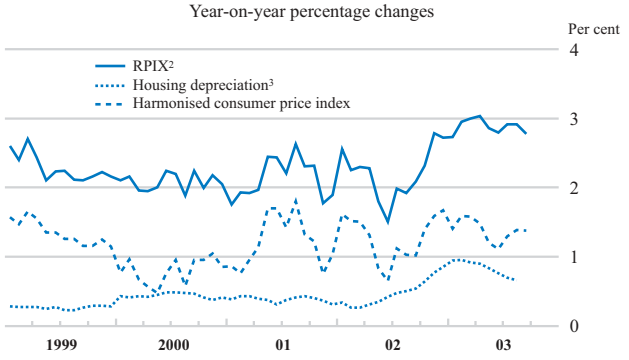
## United Kingdom

**The public sector deficit is widening**[1]




**A large gap persists between inflation measures**

Year-on-year percentage changes




1. Four quarter moving-average.
2. Retail price index, all items excluding mortgage interest payments, seasonally-adjusted data.
3. Contribution to RPIX inflation.

*Source:* HM Treasury and National Statistics.

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United Kingdom: **Employment, income and inflation**

*Percentage changes from previous period*

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Employment | 0.8 | 0.7 | 0.9 | 0.5 | 0.6 |
| Unemployment rate [a] | 5.1 | 5.2 | 5.0 | 4.9 | 4.8 |
| Compensation of employees | 5.9 | 4.2 | 4.2 | 4.3 | 5.0 |
| Unit labour cost | 3.7 | 2.4 | 2.2 | 1.5 | 2.1 |
| Household disposable income | 7.0 | 2.8 | 3.1 | 3.3 | 4.7 |
| GDP deflator | 2.3 | 3.2 | 2.8 | 2.2 | 2.5 |
| Consumer price index [b] | 2.1 | 2.2 | 2.8 | 2.6 | 2.7 |
| Private consumption deflator | 2.2 | 1.3 | 1.2 | 1.7 | 2.3 |

*a)* As a percentage of labour force.
*b)* Retail price index excluding mortgage payments RPIX.
*Source:* OECD.

***The fiscal stance has supported activity***

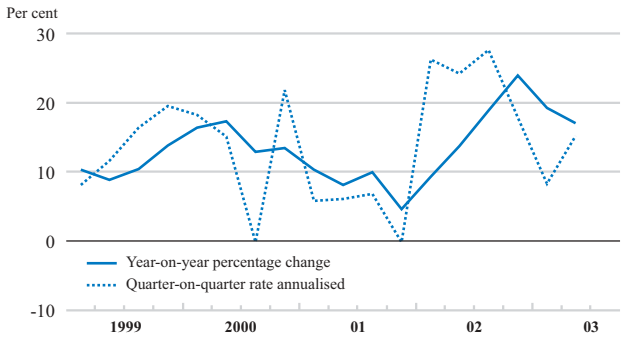
The fiscal stance has been strongly supportive of activity with the general government financial balance, on a Maastricht basis, declining from a surplus of ¾ per cent of GDP in 2001 to a deficit of 1½ per cent of GDP in 2002. This reflects a combination of higher public expenditure, aimed at raising the performance of public services, particularly in health and education, as well as a fall in the tax-to-GDP ratio from both cyclical weakness and lower equity price related tax revenues. While the within-year borrowing profile must be treated with caution, figures to the third quarter suggest that there has been slippage relative to the 2003 Budget plans. The deficit (on a Maastricht basis) may rise to 3 per cent of GDP, despite the increase in national insurance contributions which raised revenues by about ¾ per cent of GDP from the second quarter of 2003.

***Some tightening of fiscal policy may be prudent***

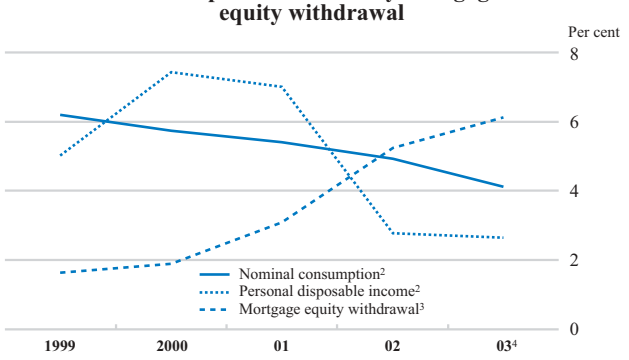
On the basis of current plans, the ratio of public expenditure to GDP is likely to rise by a further ¾ percentage point over the next two years. In the absence of a strong recovery in financial company profits or asset-related tax revenues, the usual

**United Kingdom**

**House price inflation has picked up again**[1]




**Consumption is boosted by mortgage equity withdrawal**




1. House prices from Office of the Deputy Prime Minister, seasonally-adjusted data by OECD.
2. Percentage change from previous year.
3. In a per cent of personal disposable income, figures for 2003 are based on 4-quarter sum to 2003 Q2.
4. Figures for 2003 are based on 4-quarter sum to 2003 Q2.

*Source:* National Statistics and OECD.

United Kingdom: **Financial indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Household saving ratio[a] | 6.7 | 5.3 | 4.8 | 4.2 | 4.3 |
| General government financial balance[b] | 0.7 | -1.5 | -2.9 | -2.9 | -3.2 |
| Current account balance[b] | -1.8 | -1.8 | -2.7 | -3.5 | -3.6 |
| Short-term interest rate[c] | 5.0 | 4.0 | 3.6 | 4.4 | 5.0 |
| Long-term interest rate[d] | 4.9 | 4.9 | 4.4 | 4.7 | 5.2 |

*a)* As a percentage of disposable income.
*b)* As a percentage of GDP.
*c)* 3-month interbank rate.
*d)* 10-year government bonds.
*Source:* OECD.

cyclical upswing in revenues will still leave a government deficit of around 3 per cent of GDP. Structural deficits of this size may still be consistent with the "golden rule" – that, over the course of the cycle, the public sector should only borrow to invest – given the large surpluses banked at the beginning of the cycle. Moreover the government's debt position as a proportion of GDP will remain the lowest among the seven major countries with the exception of Canada. Nevertheless, either an increase in taxes or a slowing in expenditure growth would be prudent before the end of the current cycle to ensure adherence to the broader principles of the government's Code for Fiscal Stability. In particular, these require a clarification of how the fiscal position will be sustained in the long run and the avoidance of instability that might result from postponing adjustment to substantial structural deficits.

***Monetary policy has begun to tighten***

The Monetary Policy Committee of the Bank of England increased the repo rate by ¼ percentage point on 6 November 2003, the first rise in almost 4 years, reflecting the need to contain pressures which could generate future increases in inflation. Currently, inflation measured by the retail price index excluding mortgage interest payments (RPIX) is at 2¾ per cent, above the 2½ per cent target, but partly reflecting

United Kingdom: **Demand and output**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion £ | Percentage changes, volume (2000 prices) | | | | |
| Private consumption | 626.5 | 3.1 | 3.6 | 2.4 | 2.4 | 2.2 |
| Government consumption | 177.8 | 1.7 | 2.4 | 3.4 | 1.7 | 2.4 |
| Gross fixed investment | 161.2 | 3.6 | 1.8 | 2.9 | 4.9 | 6.4 |
| Public[a] | 12.1 | 12.0 | 7.4 | 19.3 | 19.6 | 21.6 |
| Private residential | 36.8 | 0.9 | 16.1 | 1.0 | 4.9 | 4.3 |
| Private non-residential | 112.3 | 3.6 | -3.5 | 1.5 | 2.7 | 4.5 |
| Final domestic demand | 965.5 | 2.9 | 3.0 | 2.7 | 2.7 | 2.9 |
| Stockbuilding[b] | 5.3 | -0.2 | -0.2 | -0.3 | 0.3 | 0.2 |
| Total domestic demand | 970.8 | 2.7 | 2.9 | 2.4 | 3.0 | 3.1 |
| Exports of goods and services | 267.0 | 2.5 | -0.9 | -0.9 | 6.5 | 8.0 |
| Imports of goods and services | 286.6 | 4.5 | 3.6 | 1.1 | 7.0 | 8.0 |
| Net exports[b] | - 19.6 | -0.6 | -1.4 | -0.6 | -0.4 | -0.4 |
| GDP at market prices | 951.3 | 2.1 | 1.7 | 1.9 | 2.7 | 2.9 |

*a)* Including nationalised industries and public corporations.
*b)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*Source:* OECD.

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United Kingdom: **External indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| | | | $ billion | | |
| Goods and services exports | 391.4 | 409.7 | 442.9 | 484 | 527 |
| Goods and services imports | 431.2 | 456.9 | 500.5 | 554 | 603 |
| Foreign balance | - 39.8 | - 47.1 | - 57.7 | - 70 | - 76 |
| Invisibles, net | 13.8 | 18.9 | 9.9 | 3 | 3 |
| Current account balance | - 25.9 | - 28.2 | - 47.7 | - 67 | - 73 |
| | | | Percentage changes | | |
| Goods and services export volumes | 2.5 | - 0.9 | - 0.9 | 6.5 | 8.0 |
| Goods and services import volumes | 4.5 | 3.6 | 1.1 | 7.0 | 8.0 |
| Export performance [a] | 1.9 | - 3.1 | - 3.5 | 0.3 | 0.2 |
| Terms of trade | - 0.7 | 3.4 | 0.6 | - 0.7 | 0.0 |

*a)* Ratio between export volume and export market of total goods and services.
*Source:* OECD.

a large contribution from housing costs. According to the harmonised index of consumer prices (HICP), which excludes housing costs and is likely to become the new target variable before the end of 2003, inflation is only 1½ per cent, which is below the likely new target of 2 per cent. Nevertheless, the labour market remains tight with unemployment stable at about 5 per cent, slightly below OECD estimates of the structural rate. While there has yet to be any sign of a generalised pick-up in wage inflation, public sector wages have increased more strongly than in the private sector, with the public sector accounting for all of the recent employment growth. Given the pick-up in growth and the absence of slack in the labour market, monetary policy is expected to continue gradually to tighten, particularly as additional cost pressures may emerge as a delayed response to exchange rate depreciation and higher social insurance contributions.

***Growth will pick up and become more balanced***

Various leading indicators, in particular buoyant retail sales, suggest a continuation of growth at trend, or slightly above, for the remainder of 2003. With a gradual fall in house price inflation, private consumption, together with rising public expenditure, have remained the main drivers of activity in 2003. As exports recover with the projected pick-up in world trade, and the United Kingdom may make some modest gains in market share following the depreciation of sterling since the beginning of the year. The current account deficit is nevertheless likely to widen to around 3½ per cent of GDP given a weaker recovery in the rest of Europe. There should also be a boost to activity from stockbuilding as the stock-output ratio is restored to more normal levels. However, a substantial strengthening in business investment may be delayed until 2005 as companies continue to divert funds into reducing pension fund deficits. Overall, GDP growth of 2¾ per cent is projected for 2004, rising to 3 per cent in 2005.

***Major risks stem from the housing market***

Apart from international factors, the major risk to the outlook concerns possible instability stemming from a sudden drop in house prices leading to a sharp retrenchment of consumers' expenditure. This would be all the more likely to occur if house price inflation were to continue at double digit rates well into next year and reinforces the case for a continued, but gradual tightening of monetary policy.

# Canada

*A series of adverse shocks and the sharp appreciation of the exchange rate have caused economic activity to weaken markedly since the spring. The output slowdown and lower import prices have also contributed to a rapid decline in inflation. But continuing robust household spending and the expected global demand recovery should help output growth return to above its potential rate. Over time, rising capacity utilisation and profit growth should also support a pick-up in business investment.*

*The Bank of Canada has reacted appropriately to the changing output and inflation outlook by reversing the earlier rise in interest rates. But since the adverse shocks were temporary, it will need to be ready to resume monetary tightening as soon as the recovery is firmly in place and the output gap is narrowing. The additional public spending announced in the last budget has turned out to be helpful in underpinning economic activity through the recent soft patch, but an expansionary fiscal stance will no longer be justifiable next year and in 2005, when the recovery is in full swing.*

***Currency appreciation and adverse shocks have slowed economic activity***

The slowdown that was already perceptible around the turn of the year has since turned out to be more pronounced than both the authorities and most private forecasters had expected, although it is still likely to prove short-lived. Its underlying drivers include both weak external demand and a number of temporary domestic shocks. Exports, which had started to weaken in the latter part of last year on account of the sluggish US recovery, have subsequently been further depressed by the effects of the Canadian dollar's sharp appreciation (by around 19 per cent against its US counterpart in the 12 months to November). The domestic shocks experienced in the spring included an epidemic of severe acute respiratory syndrome (SARS), which negatively affected tourist flows and disrupted economic activity, particularly in the Toronto area, and the discovery of a case of bovine spongiform encephalopathy (BSE) in Alberta that led other countries to restrict beef imports from Canada. During the summer, production was again held back, by the Ontario power blackout and by forest fires in British Columbia.

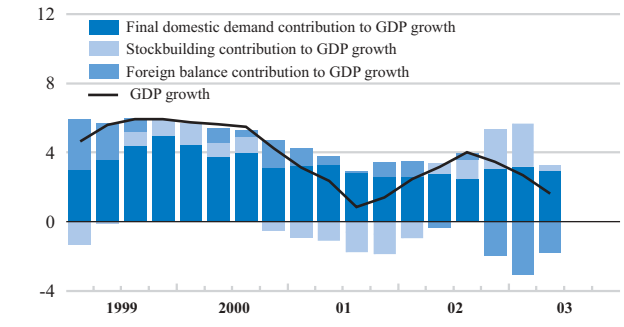
***Consumer spending still supports the economy's underlying momentum***

Strong consumer demand has, however, continued to buttress economic activity, with durables still its most dynamic component. One reason for such resilience is that even though employment growth slowed considerably in 2003, leading to a temporary rise in the unemployment rate, the lagged effects on household incomes of the large number of jobs created last year were still being felt. Thus, consumer confi-

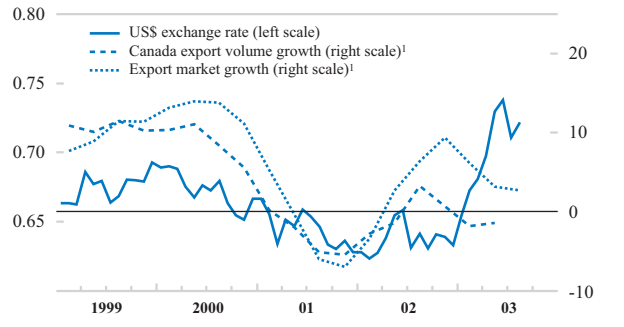
## Canada

**Net trade has contributed negatively to GDP**

Year-on-year change




**The currency has appreciated and export market share has fallen**




1. Year-on-year.
*Source:* Statistics Canada.

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Canada: **Employment, income and inflation**

*Percentage changes from previous period*

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Employment | 1.1 | 2.2 | 2.0 | 1.2 | 1.5 |
| Unemployment rate [a] | 7.2 | 7.6 | 7.8 | 7.8 | 7.4 |
| Compensation of employees | 4.6 | 4.8 | 3.8 | 4.1 | 5.0 |
| Unit labour cost | 2.6 | 1.5 | 2.0 | 1.3 | 1.7 |
| Household disposable income | 4.4 | 4.7 | 3.4 | 5.0 | 5.2 |
| GDP deflator | 1.0 | 1.0 | 3.5 | 1.6 | 1.8 |
| Consumer price index | 2.5 | 2.2 | 2.8 | 1.4 | 2.1 |
| Private consumption deflator | 1.8 | 1.9 | 1.8 | 1.5 | 2.0 |

*a)* As a percentage of labour force.
*Source:* OECD.

dence declined only moderately, remaining well above long-term average levels. Healthy household finances and low interest rates have also helped to maintain housing investment growth, albeit no longer at the double-digit rates experienced last year. By contrast, business investment, particularly machinery and equipment, has remained relatively weak ever since the 2001 downturn.

***Inflation has fallen sharply…***

Consumer price inflation declined sharply during the spring and summer months, partly as a result of the waning or reversal of the one-off effects that had led to the previous surge, but also to a large extent reflecting falling import prices due to the exchange rate appreciation and renewed spare capacity. With activity running somewhat below potential, both the headline and core inflation rates are likely to remain in the lower part of the Bank of Canada's target range for most of next year if the exchange rate remains at current levels. Moderate wage settlements seem to confirm that inflationary pressures are at present well under control.

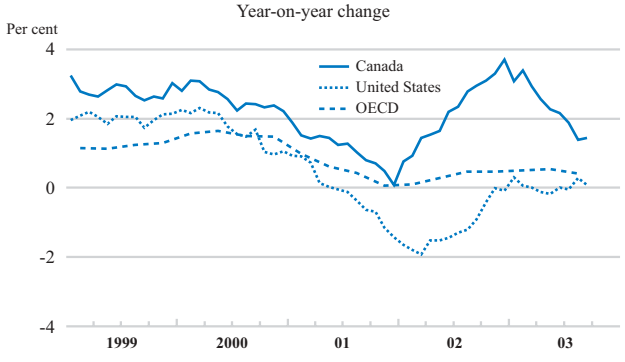
***... and the monetary policy response has been timely***

The Bank of Canada responded swiftly and appropriately to the rapidly changing circumstances: only a few months after it had last raised interest rates in the face of strong demand and rising inflation, it cut them twice during the summer, by a total

**Canada**

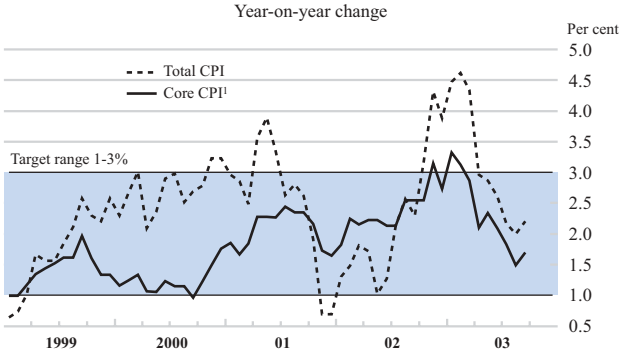
**Employment growth remains comparatively strong**

Year-on-year change




**Inflation has receded**

Year-on-year change




1. Consumer price index. The core measure excludes the 8 most volatile components and indirect taxes.
*Source:* Statistics Canada.

Canada: **Financial indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Household saving ratio[a] | 4.5 | 4.2 | 2.5 | 2.9 | 2.9 |
| General government financial balance[b] | 1.4 | 0.8 | 1.0 | 0.7 | 0.8 |
| Current account balance[b] | 2.4 | 2.0 | 1.9 | 1.9 | 1.9 |
| Short-term interest rate[c] | 4.0 | 2.6 | 2.9 | 3.1 | 4.1 |
| Long-term interest rate[d] | 5.5 | 5.3 | 4.8 | 5.1 | 5.4 |

*a)* As a percentage of disposable income.
*b)* As a percentage of GDP.
*c)* 3-month deposit rate.
*d)* 10-year government bonds.
*Source:* OECD.

of a half percentage point, in reaction to evidence that activity was going to be weaker and inflation was lower than previously foreseen. With core inflation well below 2 per cent and the exchange rate still high, there is room to maintain the present expansionary stance into 2004. The shocks the Bank reacted to were, nevertheless, temporary, and over the course of the year it will need to start the process of returning rates to their neutral level if, as projected, a robust recovery materialises and the existing margins of excess capacity begin to narrow.

***The fiscal policy stance remains moderately expansionary***

Fiscal policy also continues to support economic activity, as the new spending announced in the budget earlier this year is implemented both at the federal level and by the provincial governments, which are receiving increased federal transfers to fund health expenditures. Since automatic stabilisers are being allowed to operate in full, lower revenues will probably also contribute to reducing this year's general government surplus.

Canada: **Demand and output**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion CAD | Percentage changes, volume | | | | |
| Private consumption | 596.3 | 2.6 | 3.4 | 3.4 | 3.1 | 3.0 |
| Government consumption | 197.9 | 3.7 | 3.0 | 3.1 | 3.4 | 3.2 |
| Gross fixed investment | 207.4 | 4.3 | 1.3 | 3.3 | 4.9 | 4.6 |
| Public[a] | 24.4 | 10.3 | 11.8 | 6.4 | 5.9 | 5.0 |
| Residential | 48.5 | 10.3 | 14.2 | 5.9 | 2.9 | -0.1 |
| Non-residential | 134.5 | 1.0 | -6.0 | 1.3 | 5.7 | 7.0 |
| Final domestic demand | 1 001.5 | 3.2 | 2.9 | 3.4 | 3.5 | 3.4 |
| Stockbuilding[b] | 12.1 | -1.4 | 0.8 | 0.7 | -0.4 | 0.0 |
| Total domestic demand | 1 013.6 | 1.4 | 3.8 | 4.1 | 3.1 | 3.3 |
| Exports of goods and services | 490.2 | -3.1 | -0.1 | -1.8 | 5.0 | 6.6 |
| Imports of goods and services | 428.2 | -5.0 | 0.6 | 3.8 | 6.2 | 7.3 |
| Net exports[b] | 61.9 | 0.6 | -0.3 | -2.1 | -0.3 | -0.1 |
| Error of estimate[b] | 0.0 | 0.0 | 0.1 | -0.1 | 0.0 | 0.0 |
| GDP at market prices | 1 075.6 | 1.9 | 3.3 | 1.8 | 2.8 | 3.2 |

*Note:* National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see OECD Economic Outlook Sources and Methods, *(http://www.oecd.org/eco/sources-and-methods).*
*a)* Excluding nationalized industries and public corporations.
*b)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*Source:* OECD.

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Canada: **External indicators**

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| | | | $ billion | | |
| Goods and services exports | 311.5 | 302.2 | 331.8 | 366 | 396 |
| Goods and services imports | 270.6 | 270.1 | 294.9 | 326 | 356 |
| Foreign balance | 40.9 | 32.0 | 36.9 | 40 | 40 |
| Invisibles, net | - 23.5 | - 17.2 | - 20.3 | - 22 | - 21 |
| Current account balance | 17.4 | 14.9 | 16.6 | 18 | 19 |
| | | | Percentage changes | | |
| Goods and services export volumes | - 3.1 | - 0.1 | - 1.8 | 5.0 | 6.6 |
| Goods and services import volumes | - 5.0 | 0.6 | 3.8 | 6.2 | 7.3 |
| Export performance [a] | - 1.0 | - 3.6 | - 5.4 | - 2.2 | - 0.8 |
| Terms of trade | - 1.5 | - 2.1 | 6.3 | 0.8 | - 0.2 |

*a)* Ratio between export volume and export market of total goods and services.
*Source:* OECD.

***Output growth is expected to pick up in 2004***

Since most of the above-mentioned adverse shocks have now ceased to affect output, a strong bounce-back is expected in the last quarter of 2003, as also suggested by the recent pick-up in job creation. Activity should continue to expand thereafter at a pace slightly exceeding that of potential output, even though the lagged effects of the exchange rate appreciation will continue to be felt for some time and restrictions on Canada's beef exports have not yet been completely lifted. Together with consumer expenditure, a recovery of export demand should be one of the drivers of the upswing, especially if the US economy continues to expand at a robust pace. In this scenario, with rising rates of capacity utilisation and historically high business sector profits, the conditions for an acceleration of business investment next year should also be fulfilled.

***Investment and exports are sources of risk***

A downside risk to the projection is that productivity growth could be lower than projected (and even lower in comparison with the United States), so that the higher exchange rate squeezes the profit margins of tradable-goods producers and as a result the long-overdue recovery in business investment may not come about. On the other hand, if exporters manage to take full advantage of the ongoing cyclical upswing in world trade, the simultaneous acceleration of exports and investment, combined with continuing robust consumer spending, could cause the expansion to be even stronger.

# Australia

*The economy slowed sharply during the first half of 2003, when brisk domestic demand growth was almost offset by a steep fall in exports. With farm output likely to recover from the drought and adverse external influences receding, economic activity is projected to gather momentum, despite a cyclical downturn in housing investment. The labour market should improve further, with inflation remaining under control, given sizeable productivity gains, wage moderation and the strong Australian dollar.*

*To preserve price stability over the longer run, monetary policy needs to move to a more neutral policy stance. The government should maintain its fiscal objective of keeping the budget balanced over the economic cycle, allowing fiscal policy to play a stabilisation role through the operation of the automatic stabilisers. Reform of the income support system should aim at strengthening the incentives of welfare recipients to participate in gainful employment.*

***Falling exports brought economic growth to a near standstill…***

The slowdown of economic growth during the first half of 2003 reflected the depressing effect on exports of the drought-induced fall in farm production and weaker global demand, accentuated by the war in Iraq, the severe acute respiratory syndrome (SARS) and currency appreciation. Despite a fall in dwelling investment, total domestic demand grew strongly, with private consumption being stimulated by the ongoing steep increase in house prices and concomitant high mortgage equity withdrawals. Strong consumer confidence and a range of very positive business surveys point to continuing resilience in the domestic economy.

***... but unemployment fell below the 6 per cent mark***

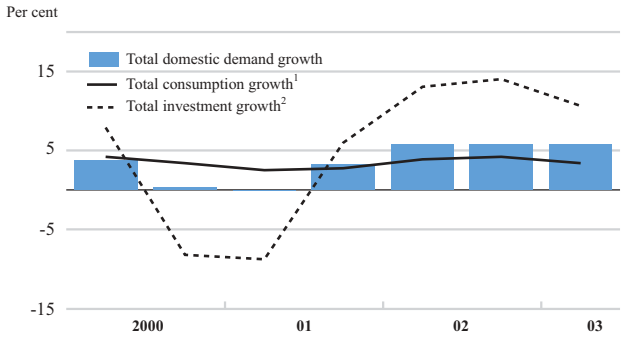
Employment held up well and the unemployment rate fell to 5.8 per cent during the third quarter, which is close to the estimated structural rate of unemployment. The increased employment content of economic growth has implied a pronounced slowing of labour productivity in recent quarters, but the latest increases in the wage cost index remain consistent with low inflation.

***Monetary policy remains accommodating…***

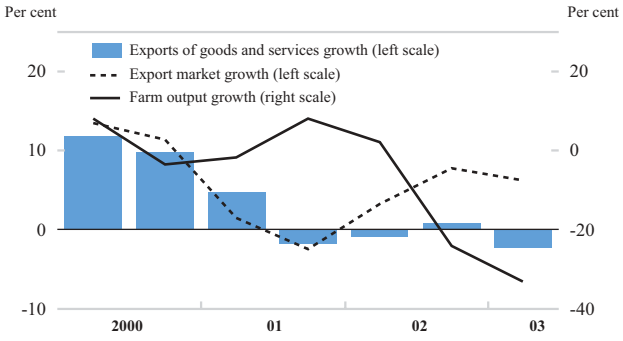
With actual and expected inflation under control, the setting of monetary policy has been supportive of activity for an extended period. However, the effective exchange rate appreciation since mid-2002 has implied a substantial firming of overall monetary conditions and the Reserve Bank raised the cash rate from 4.75 to 5 per cent in early November 2003, in view of the diminishing need for an expansionary monetary policy. The projection is based on a further gradual tightening of monetary policy, to bring the cash rate close to a "neutral" level of 5½ to 6 per cent in 2005.

## Australia

**Domestic demand has been strong**




**Exports have shrunk**




1. Private and public consumption.
2. Private and public fixed investment.

*Source:* OECD, Reserve Bank of Australia.

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Australia: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion AUD | Percentage changes, volume | | | | |
| Private consumption | 389.0 | 3.0 | 4.1 | 3.8 | 3.6 | 3.1 |
| Government consumption | 118.8 | 1.6 | 4.0 | 3.0 | 3.5 | 3.3 |
| Gross fixed capital formation | 147.8 | -1.7 | 13.6 | 7.5 | 3.6 | 4.5 |
| Final domestic demand | 655.6 | 1.7 | 6.1 | 4.5 | 3.6 | 3.5 |
| Stockbuilding [a] | 3.3 | -0.1 | -0.3 | 0.8 | 0.0 | 0.4 |
| Total domestic demand | 658.9 | 1.6 | 5.8 | 5.3 | 3.6 | 3.9 |
| Exports of goods and services | 142.6 | 1.4 | -0.1 | -2.7 | 7.1 | 9.1 |
| Imports of goods and services | 149.8 | -4.1 | 12.0 | 9.4 | 6.8 | 7.7 |
| Net exports [a] | - 7.2 | 1.3 | -2.5 | -2.7 | -0.2 | -0.1 |
| Statistical discrepancy [a] | 0.0 | -0.1 | 0.1 | -0.2 | 0.1 | -0.1 |
| GDP at market prices | 651.8 | 2.7 | 3.3 | 2.4 | 3.7 | 4.0 |
| GDP deflator | _ | 3.1 | 2.8 | 2.8 | 2.4 | 2.3 |
| *Memorandum items* | | | | | | |
| Consumer price index | _ | 4.4 | 3.0 | 2.8 | 2.0 | 2.3 |
| Private consumption deflator | _ | 3.5 | 2.2 | 2.2 | 2.1 | 2.5 |
| Unemployment rate | _ | 6.8 | 6.3 | 6.0 | 5.9 | 5.7 |
| Household saving ratio [b] | _ | 3.2 | 0.6 | -1.1 | -0.7 | -0.7 |
| General government financial balance [c] | _ | 0.0 | 1.1 | 0.8 | 0.5 | 0.5 |
| Current account balance [c] | _ | -2.0 | -4.0 | -5.8 | -5.3 | -4.7 |

*Note:* National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook* Sources and Methods, *(http:// www.oecd.org/eco/sources-and-methods).*

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

*b)* As a percentage of disposable income.

*c)* As a percentage of GDP.

*Source:* OECD.

***… and fiscal policy aims at small budget surpluses over coming years***

In fiscal year 2002-03, the general government sector recorded a much higher than budgeted surplus of 1 per cent of GDP, bringing net government debt down to 3.9 per cent of GDP. This outcome was mainly due to higher-than-expected corporation tax receipts. Further – but lower – budget surpluses are expected for 2004 and 2005, in spite of personal income tax reductions worth a cumulative 1½ per cent of GDP over the next four years and increased spending for defence, domestic security, health and education.

***Economic growth is likely to accelerate…***

The projections are for an acceleration of economic growth, accompanied by a rebalancing of aggregate spending from domestic to foreign sources. Much of this shift will come from the expected further cooling in the residential construction boom and some slowing of private consumption, given the likely upward drift of interest rates and its impact on the servicing of the high level of household debt. With the global economy recovering and the drought likely to break, exports are set to accelerate, narrowing the current external deficit from 6¾ per cent of GDP in mid-2003 to 4¾ per cent of GDP in 2005. The improved global environment should bode well for business investment, given existing high capacity utilisation, favourable company profitability and low corporate gearing. Inflation should remain within the Reserve Bank's 2 to 3 per cent target range, underpinned by the recent exchange rate appreciation, modest wage increases and a projected pick up in labour productivity.

***… though there are some risks***

Risks attach to the projection from the possibilities that the global recovery could be more or less forceful than expected. Downside risks relate to the possibility that rainfall in rural areas could be insufficient, which would harm exports, and further currency appreciation. There is an upside risk in the short run from a longer-than-expected boom in housing investment, fuelled by buy-to-let investors, which could lead to an eventual sharp correction of construction activity rather than a smooth slowdown.

# Austria

*Output growth was weak in the first half of the year but is expected to gain momentum gradually this year and through 2005 in line with the broadening of the recovery in Europe. The unemployment rate will fall slightly and inflation will continue to be low.*

*Tax reductions scheduled for 2005, which will be mostly debt-financed, will mean a delay in reaching the objective of a balanced budget and are likely to have a procyclical impact. Priority should be given to cuts in government expenditure to create room for the planned tax reductions, while also reducing impediments to increased labour market participation.*

***Activity remains weak***

Growth remained slow in the first six months of the year, as falling output in Germany weighed on activity. Exports were particularly weak while growth of consumption spending remained moderate. Nevertheless fixed investment grew for the first time year-on-year since the beginning of 2001, reflecting tax allowances introduced by the government to stimulate activity. Employment increased marginally. As in other Europan Union countries, inflation has continued to fall as a result of a negative output gap and declining petrol prices.

***The fiscal stance is expansionary***

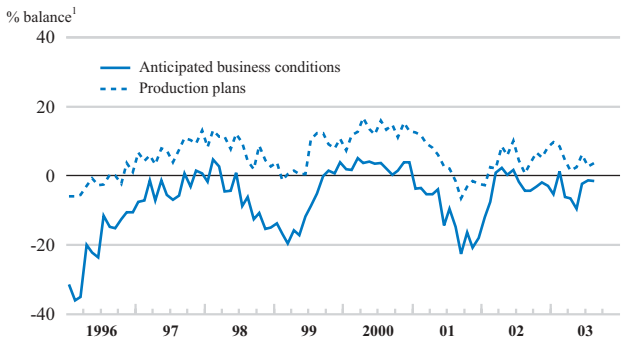
Activity is being supported by an expansionary fiscal stance. About half of the increase in the government deficit of some 0.8 per cent of GDP this year is accounted for by an increase in the structural balance, reflecting *inter alia* increased social spending. Tax reductions amounting to about 1.3 per cent of GDP, mostly scheduled for 2005, will also boost domestic demand. While they provide a welcome reduction in the high tax-to-GDP ratio and tax wedges on labour, the tax reductions will increase the deficit to about 1.8 per cent of GDP in 2005.

***Recovery will be shaped by growth in Europe***

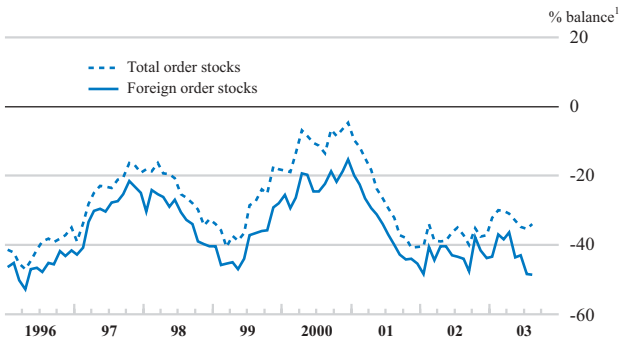
While export orders have been falling, business expectations appear to be improving. Economic activity will gain momentum as the expected turnaround in Germany, Austria's largest trading partner, underpins activity. Growth will pick up further as the recovery in Europe broadens and taxes are reduced in 2005, but will remain moderately paced, the unemployment rate being projected to fall only in 2005, by about 0.3 percentage points. Inflation will remain low, edging up towards

## Austria

**Business confidence has improved recently**




**Export orders have been declining**




1. Seasonally adjusted balance of positive and negative replies.
*Source:* WIFO Institut für Wirtschaftsforschung; OECD.

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Austria: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion euros | Percentage changes, volume (1995 prices) | | | | |
| Private consumption | 117.4 | 1.4 | 0.8 | 1.3 | 1.7 | 2.3 |
| Government consumption | 39.7 | -1.4 | 0.1 | -0.4 | -0.3 | -0.2 |
| Gross fixed capital formation | 49.7 | -2.3 | -2.8 | 2.6 | 3.7 | 5.6 |
| Final domestic demand | 206.8 | 0.0 | -0.2 | 1.3 | 1.8 | 2.6 |
| Stockbuilding [a] | 0.7 | -0.1 | -0.1 | -0.6 | 0.2 | 0.0 |
| Total domestic demand | 207.5 | -0.1 | -0.3 | 0.7 | 2.1 | 2.6 |
| Exports of goods and services | 103.9 | 7.5 | 3.7 | 0.1 | 3.7 | 6.8 |
| Imports of goods and services | 105.2 | 5.9 | 1.2 | 1.0 | 3.8 | 7.4 |
| Net exports [a] | - 1.3 | 0.9 | 1.4 | -0.5 | 0.0 | -0.1 |
| GDP at market prices | 206.7 | 0.8 | 1.4 | 0.8 | 1.6 | 2.4 |
| GDP deflator | _ | 2.1 | 1.4 | 1.8 | 1.0 | 1.1 |
| *Memorandum items* | | | | | | |
| Harmonised index of consumer price | _ | 2.3 | 1.7 | 1.3 | 1.0 | 1.1 |
| Private consumption deflator | _ | 2.2 | 1.1 | 1.2 | 0.9 | 1.1 |
| Unemployment rate [b] | _ | 4.8 | 5.3 | 5.5 | 5.5 | 5.2 |
| Household saving ratio [c] | _ | 7.4 | 7.6 | 7.9 | 7.9 | 8.6 |
| General government financial balance [d] | _ | 0.1 | -0.4 | -1.3 | -1.2 | -1.8 |
| Current account balance [d] | _ | -2.0 | 0.4 | -0.2 | -0.2 | -0.3 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* See data annex for details.
*c)* As a percentage of disposable income.
*d)* As a percentage of GDP.
*Source:* OECD.

the end of the projection period. Domestic demand growth and weak exports will move the current account balance into deficit this year, where it is projected to remain. Part of the boost to investment this year and next will prove to be temporary, as investment tax allowances are expected to be phased out by the end of 2004, but private consumption will accelerate owing to increases in disposable income, notably in 2005.

***Recovery is highly dependent on developments in neighbouring countries***

Failure to achieve progress, as intended, in the consolidation of the general government's deficit might adversely affect sentiment, especially if unforeseen shocks lead to increased budget deficits. Like other euro area countries, the high dependence of the Austrian economy on external developments makes it vulnerable to the risk of an unexpected appreciation of the euro. The pace of the recovery in Germany will also seriously affect business prospects in Austria. On the other hand, the accession of neighbouring Eastern European countries to the European Union may boost trade and investment beyond projected levels.

# Belgium

*Economic growth is beginning to recover and should reach around 2¾ per cent in 2005 as the international economy recovers and business investment strengthens. Meanwhile, unemployment is likely to remain above 8 per cent and inflation to fall below 1½ per cent in 2004-05, mainly reflecting significantly lower increases in unit labour costs.*

*The government should continue to take the steps necessary to ensure that the budget remains balanced. This is important to maintain confidence in its debt-reduction strategy, a central element in preparing for population ageing. This should be supported by further reductions in the tax burden on low-income earners and in incentives for early retirement.*

***Domestic demand has been the mainstay of activity***

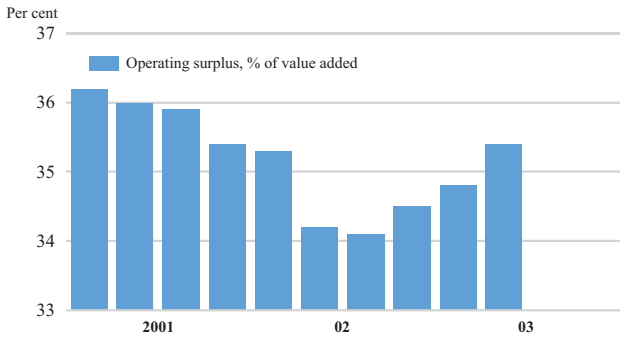
Economic growth continued to weaken during the first half of the year, falling to 0.8 per cent year-on-year in the second quarter. Export volumes contracted, reflecting weak export markets and a loss of competitiveness stemming both from high increases in unit labour costs in recent years and from the appreciation of the euro. Domestic demand, by contrast, has strengthened. Private consumption expenditure has been buoyed by tax cuts while business investment has been supported by improving profitability. Both business and consumer confidence have recently regained the ground lost earlier, returning to around the levels obtaining at the beginning of the year. Employment has been declining since early 2002. The unemployment rate has crept up to around 8 per cent in recent months, significantly above the estimated structural rate (7 per cent). Hourly wage increases have slowed sharply, reflecting the lower wage accord agreed for 2003-04 (a maximum increase of 5.4 per cent per hour) and the fact that it delayed most of this increase until 2004. Harmonized inflation excluding energy, unprocessed food, tobacco and alcohol increased from 1.2 per cent year-on-year in the first quarter of 2003 to 1.5 per cent in the third quarter, mainly owing to the phasing out of some of the effects of the abolition or reduction of radio and television licence fees. With weaker world oil prices, headline harmonized inflation has increased by somewhat less, to 1.6 per cent year-on-year, despite an increase in fuel excise taxes and higher unprocessed food prices (an outcome of the heat wave in Europe).

***Cyclical deterioration in the budget balance is being offset***

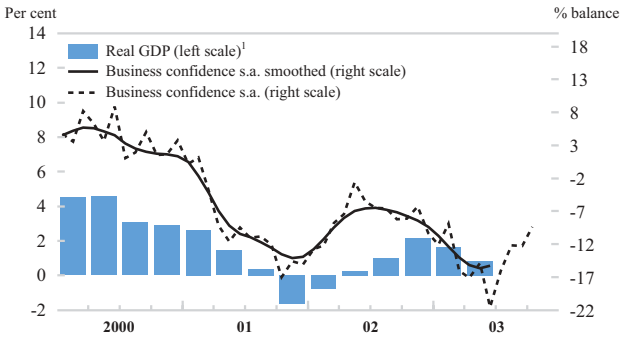
The government recently announced that it is aiming to achieve a small budget surplus (0.2 per cent of GDP) in 2003 and a balanced budget in 2004, despite a further cyclical deterioration in the budget. The attainment of these objectives is being backed

## Belgium

**Profitability has begun to improve**




**Business confidence has turned up**




1. Year-on-year percentage change.
*Source:* OECD and National Accounts Institute.

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Belgium: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion euros | Percentage changes, volume (2000 prices) | | | | |
| Private consumption | 134.1 | 0.9 | 0.4 | 1.8 | 1.8 | 2.1 |
| Government consumption | 52.3 | 2.5 | 1.9 | 1.9 | 1.9 | 1.6 |
| Gross fixed capital formation | 52.4 | 0.5 | -2.2 | 0.3 | 2.9 | 4.7 |
| Final domestic demand | 238.8 | 1.2 | 0.2 | 1.5 | 2.0 | 2.5 |
| Stockbuilding [a] | 1.0 | -0.7 | 0.8 | 0.2 | 0.0 | 0.0 |
| Total domestic demand | 239.8 | 0.5 | 1.0 | 1.7 | 2.0 | 2.5 |
| Exports of goods and services | 212.4 | 1.3 | 0.8 | -1.3 | 4.7 | 6.9 |
| Imports of goods and services | 204.5 | 1.1 | 1.1 | -0.2 | 4.9 | 6.7 |
| Net exports [a] | 7.9 | 0.2 | -0.3 | -1.0 | -0.1 | 0.3 |
| GDP at market prices | 247.7 | 0.7 | 0.7 | 0.7 | 1.9 | 2.8 |
| GDP deflator | _ | 1.8 | 1.7 | 2.5 | 1.6 | 1.4 |
| *Memorandum items* | | | | | | |
| Harmonised index of consumer price | _ | 2.4 | 1.6 | 1.5 | 1.4 | 1.4 |
| Private consumption deflator | _ | 2.5 | 1.7 | 1.7 | 1.4 | 1.4 |
| Unemployment rate | _ | 6.7 | 7.3 | 8.2 | 8.5 | 8.2 |
| Household saving ratio [b] | _ | 13.3 | 14.4 | 13.6 | 12.9 | 12.9 |
| General government financial balance [c] | _ | 0.5 | 0.0 | 0.2 | 0.0 | -0.5 |
| Current account balance [c] | _ | 4.0 | 4.7 | 5.1 | 5.5 | 6.0 |

*Note:* Corrected for calendar effects.
*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* As a percentage of disposable income.
*c)* As a percentage of GDP.
*Source:* OECD.

up by the transfer to the government of the Belgacom pension fund, which has a positive effect on the budget balance amounting to 1.3 per cent of GDP in 2003 and 0.5 per cent of GDP in 2004. Personal income tax cuts amounting to 0.4 per cent of GDP occurred in 2003, with smaller reductions to follow in subsequent years. In the context of a plan to stimulate employment growth, the government has also decided to make further reductions in employers' social security contributions, amounting to 0.2 per cent of GDP in both 2004 and 2005. A planned tax amnesty is expected to increase tax revenues on a largely one-off basis by 0.3 per cent of GDP in 2004, while the real growth in primary expenditure is to be limited to 2.3 per cent. Expenditure restraint will need to continue in 2005 as the government is committed to maintaining budget balance. But constraining expenditure growth will not be easy given that substantial increases in healthcare expenditure are planned (4.5 per cent real increase per year).

***The recovery should build as export markets improve***

Economic growth is projected to strengthen as the international economy recovers and to exceed the trend rate (around 2 per cent) by 2005, significantly reducing the negative output gap. With improving profit margins and the growing need for replacement and upgrading of equipment, business investment should continue to recover in 2004. Private consumption expenditure is likely to remain buoyant, supported by personal income tax cuts, and strengthen further in 2005 as labour market conditions improve. Underlying inflation is projected to ease back to slightly below 1½ per cent in 2004, owing to the appreciation of the euro and low growth in unit labour costs, and to remain around this level in 2005. The main domestic risk to these projections is that more restrictive measures than anticipated may be required to keep the budget in balance, notably owing to the prospective difficulty of controlling growth in expenditure, especially for healthcare.

# Czech Republic

*Domestic demand growth is weakening as the effects of earlier fiscal expansion wane. But signs of a recovery in exports are becoming visible. Together with an investment rebound driven by foreign companies, this should lead to a gradual acceleration in GDP to above 3 per cent over the next two years.*

*Fiscal policy has embarked on a consolidation path, though a gradual one, which is likely to postpone joining the euro to 2010 or beyond. Establishing a multi-year budgeting framework will be essential to implementing the consolidation plan. Monetary policy has been successful in bringing down inflation and establishing an environment of lower interest rates.*

***A broadening of economic activity is under way…***

Strong private and public sector wage growth, together with low inflation, has boosted real household incomes considerably since 2000, underpinning very dynamic consumption growth. Investment has remained flat, as expansion in foreign investment is being offset by ongoing contraction domestically, principally among the remaining state-owned companies and companies privatised under the voucher scheme. With interest rates low and improved access to consumer credit in the wake of banking privatisation and restructuring, private consumption continued to expand vigorously into 2003 but has slowed more recently. Foreign trade has begun to pick up and, together with the unwinding of the supply disruptions related to the 2002 summer floods, this should result in GDP growth of around 2½ per cent this year.

***… supported by a climate of low inflation and falling interest rates***

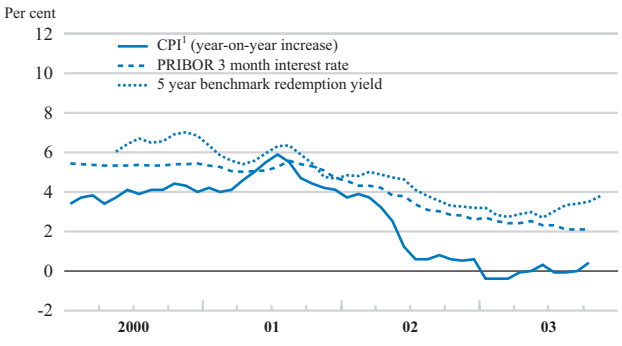
Inflation targets set by the Czech National Bank continue to be undershot by actual performance, which would be at the lower end of the inflation spectrum within the enlarged European Union. Low inflation has continued to prevail even though currency appreciation came to a halt about a year ago. This has helped to establish a solid climate of price stability following a succession of one-off impacts, allowing interest rates to come down and generating easier financial conditions for borrowers. The labour market remains tight and unemployment has not risen much, despite an ongoing reduction in government employment and layoffs in the domestic sector.

***Fiscal consolidation will be gradual***

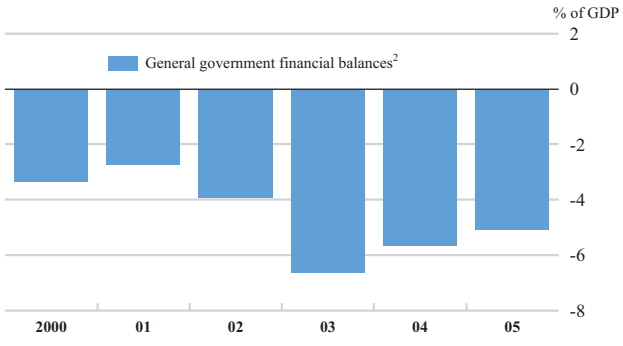
Already-legislated budget consolidation measures imply a slowdown in government spending growth over the next two years. The government aims to bring down the general government deficit by a little less than one percentage point per year until

## Czech Republic

**Disinflation is accompanied by lower interest rates**




**Fiscal consolidation is proceeding gradually**




1. Consumer price index.
2. OECD projections for 2003 to 2005. Data are based on the methodology used by the International Monetary Fund for the Government Finance Statistics, adjusted for losses of transformation institutions and financial operations.

*Source:* Czech National Bank; Datastream; OECD.

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Czech Republic: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion CZK | Percentage changes, volume (1995 prices) | | | | |
| Private consumption | 1 074.1 | 3.6 | 4.0 | 4.8 | 3.1 | 3.2 |
| Government consumption | 388.3 | 5.3 | 5.7 | 1.6 | 0.1 | -0.5 |
| Gross fixed capital formation | 561.5 | 5.5 | 0.6 | -0.4 | 3.6 | 4.3 |
| Final domestic demand | 2 023.9 | 4.5 | 3.2 | 2.6 | 2.7 | 2.9 |
| Stockbuilding [a] | 27.2 | 0.7 | 0.3 | 1.0 | 0.4 | 0.5 |
| Total domestic demand | 2 051.1 | 5.1 | 3.4 | 3.5 | 3.0 | 3.3 |
| Exports of goods and services | 1 385.9 | 11.9 | 2.8 | 6.2 | 9.2 | 9.5 |
| Imports of goods and services | 1 452.2 | 13.6 | 4.3 | 6.9 | 8.6 | 8.9 |
| Net exports [a] | - 66.3 | -2.3 | -1.7 | -1.4 | -0.4 | -0.5 |
| GDP at market prices | 1 984.8 | 3.1 | 2.0 | 2.5 | 2.9 | 3.2 |
| GDP deflator | _ | 6.3 | 2.6 | 2.2 | 2.2 | 1.8 |
| *Memorandum items* | | | | | | |
| Consumer price index | _ | 4.8 | 1.8 | 0.7 | 2.6 | 2.4 |
| Private consumption deflator | _ | 3.8 | -0.1 | -0.2 | 1.8 | 1.4 |
| Unemployment rate | _ | 8.2 | 7.3 | 7.5 | 7.5 | 7.3 |
| General government financial balance [b] | _ | -2.7 | -3.9 | -6.6 | -5.7 | -5.1 |
| Current account balance [b] | _ | -5.7 | -6.5 | -6.9 | -6.9 | -6.7 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* As a percentage of GDP.
*Source:* OECD.

it reaches 4 per cent in 2006. This gradual consolidation path, even if fully realised, will possibly postpone entry to the Economic and Monetary Union (EMU) to the end of this decade or beyond. The introduction of a proper multi-year budgeting framework is imperative to anchor fiscal consolidation better, particularly in light of the thin parliamentary support for the government. A substantial fiscal reform bill has been presented to parliament and will be treated according to the regular legislative calendar. In the meantime the government is relying on a mix of revenue-increasing measures and *ad hoc* spending cuts.

***Appreciation of the crown has been partly reversed***

The Czech National Bank has managed, in co-operation with the Ministry of Finance, to partly reverse the substantial appreciation of the crown during 2002, despite ongoing capital inflows related to privatisation and foreign direct investment. This has further improved confidence in monetary stability. With the exchange rate normalising, and with indirect tax increases being introduced, the undershooting of the inflation target is not projected to continue over the coming two years. While interest rates are projected to increase (in line with euro rates), real interest rates may fall.

***The outlook is for a broadening recovery***

Private consumption is projected to decelerate to a 3 per cent rate over the coming two years, while public consumption growth is projected to slow more dramatically. This will provide room for a welcome broadening of economic activity. Exports having begun to turn, investment spending is projected to follow in 2004. Thus GDP growth can be expected to firm gradually to above 3 per cent in the coming two years. An obvious risk to the projection would be a loss of confidence following a failure to establish a medium-term budgeting framework for implementing the consolidation plans on which a great deal of the optimising mood among consumers and investors is based.

# Denmark

*Demand has slowed considerably, reflecting weak export market growth and household and business caution. Growth prospects should brighten as the international situation improves and firms gain sufficient optimism to increase investment and hiring. Wage and price inflation pressures have eased as output has slipped below potential and are likely to remain contained over the projection period.*

*A neutral fiscal stance, with automatic stabilisers working to cushion output fluctuations, remains appropriate. But the government's strategy for managing public finances prudently could be put at risk if local government spending continues to slip. A faster pick-up in activity than projected could put upward pressure on wage inflation as the output gap closes. Further labour market reforms would not only help to address such risks but also reinforce the longer-term budget position.*

***The pace of activity is poised to pick up***

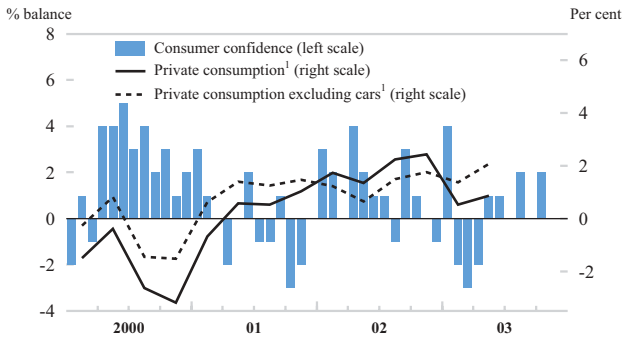
The Danish economy has shown signs of renewed activity in the second half of this year, after the downturn of the past year. Export growth picked up modestly in the first half of the year, but rising unemployment and ebbing consumer confidence led households to take a more cautious approach to spending and avoid large purchases such as cars. Business investment has been pruned back sharply, although both manufacturing and services firms have become gradually more optimistic since the mid-year. Export markets are more buoyant, but the Danish upswing may not be fully established before the end of the year. The strong decline in private sector employment has been cushioned by a further expansion in public sector jobs. Wage growth has moderated and supply pressures have eased somewhat, as unemployment has risen and output has fallen below its potential.

***Policy settings may ease slightly***

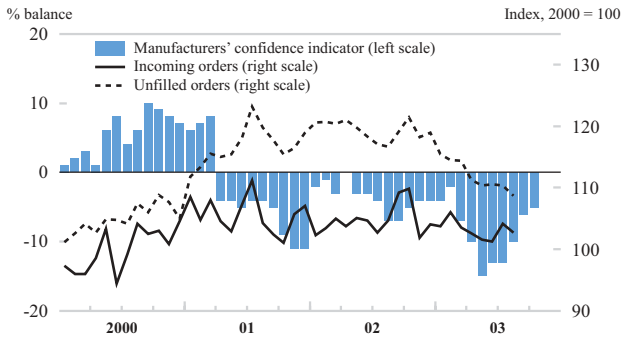
The general government surplus has shrunk markedly, to less than 1 per cent of GDP, as the automatic stabilisers have come into play. In addition, the government will provide a slight boost to activity next year through income tax cuts. The general government surplus is expected to improve only slightly next year, but will reach around 1½ per cent of GDP in 2005. The structural budget balance is projected to remain around 1¾ per cent of potential GDP, a level consistent with long-term fiscal sustainability. However, local authority expenditures could be difficult to rein in despite the "tax freeze" and may yet result in some budgetary slippage. Monetary

## Denmark

**Consumer sentiment remains volatile**




**Manufacturing indicators are still weak**




1. Per cent change, 4-quarter moving average.
*Source:* Statistics Denmark; OECD.

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Denmark: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion DKK | Percentage changes, volume (1995 prices) | | | | |
| Private consumption | 608.7 | 0.4 | 1.9 | 0.8 | 2.3 | 2.2 |
| Government consumption | 323.8 | 2.1 | 2.1 | 1.1 | 0.7 | 0.6 |
| Gross fixed capital formation | 268.0 | 1.9 | 0.3 | -4.2 | 2.3 | 5.4 |
| Final domestic demand | 1 200.5 | 1.2 | 1.6 | -0.4 | 1.9 | 2.5 |
| Stockbuilding [a] | 3.7 | -0.3 | -0.3 | 0.3 | 0.0 | 0.0 |
| Total domestic demand | 1 204.2 | 0.9 | 1.2 | -0.1 | 1.9 | 2.5 |
| Exports of goods and services | 567.3 | 3.0 | 5.8 | 1.9 | 6.1 | 7.0 |
| Imports of goods and services | 490.7 | 1.9 | 4.2 | 0.8 | 5.5 | 7.2 |
| Net exports [a] | 76.6 | 0.6 | 0.9 | 0.6 | 0.7 | 0.4 |
| GDP at market prices | 1 280.8 | 1.4 | 2.1 | 0.5 | 2.4 | 2.8 |
| GDP deflator | _ | 2.0 | 0.9 | 1.7 | 1.8 | 2.2 |
| *Memorandum items* | | | | | | |
| Consumer price index | _ | 2.3 | 2.4 | 2.0 | 1.6 | 2.0 |
| Private consumption deflator | _ | 2.6 | 2.4 | 1.9 | 1.5 | 1.9 |
| Unemployment rate | _ | 4.3 | 4.5 | 5.5 | 5.3 | 5.0 |
| Household saving ratio [b] | _ | 7.0 | 7.2 | 8.3 | 8.0 | 6.7 |
| General government financial balance [c] | _ | 2.8 | 2.0 | 0.8 | 1.0 | 1.5 |
| Current account balance [c] | _ | 3.1 | 2.5 | 3.7 | 3.5 | 3.5 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* As a percentage of disposable income.
*c)* As a percentage of GDP.
*Source:* OECD.

conditions are assumed to ease slightly in the near term and, as usual, will follow interest rate developments in the euro area over the projection period.

***The outlook is positive, depending on the international upturn***

Output is expected to accelerate to 2½ per cent in 2004 and 2¾ per cent in 2005, as export markets improve and households consume more of their income. Business investment is also projected to gather pace as demand gains momentum. Employment is projected to increase modestly next year, but by enough to allow the unemployment rate to decline gradually. With the output gap remaining negative through the projection period, wage and price increases are expected to be moderate, but a faster pick-up in activity than projected could lead to capacity pressures and wage inflation. The other main risk to the outlook stems from international developments and their implications for Danish exports.

# Finland

*GDP fell slightly during the first half of 2003, despite a significant fiscal stimulus to public and private consumption. A pick-up in world trade is likely to contribute substantially to growth over the coming years and the current negative output gap should close by 2005.*

*Tax cuts implemented in the summer and proposed for the 2004 budget will sustain demand but pose a challenge to the government's objective of balancing central government finances by 2007. Cuts in labour taxes are welcome if accompanied by spending restraint, but further fiscal stimulus would risk being pro-cyclical, and make it more difficult to cope with the future fiscal implications of ageing.*

***GDP growth has been subdued***

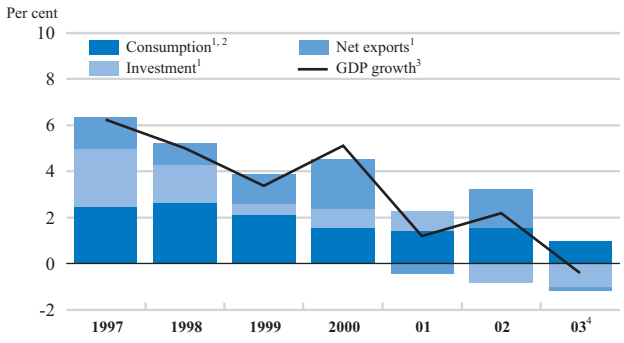
In the first half of 2003, GDP fell slightly compared to the second half of 2002, in line with the euro area average. Continued output volatility, combined with large swings in stockbuilding and an unusually large statistical discrepancy between the output and the (more strongly growing) expenditure measure of GDP, makes it difficult to assess short-term developments. It is, however, clear that public and private consumption have been important in supporting activity over recent years, whereas exports have been generally weak and business investment has fallen substantially. The most recent data indicate a pick-up in industrial production over the summer, but its durability remains unclear.

***A substantial fiscal stimulus is sustaining consumption***

Substantial fiscal expansion has been an important factor underpinning consumption growth, and will continue to be so into 2004. Starting from over 7 per cent of GDP at the peak of the cycle in 2000, general government net lending has fallen to 4¼ per cent in 2002 and is likely to fall further, to 2 per cent of GDP by 2004. This partly reflects a loss in tax revenues from both cyclical weakness and the fall in equity prices, while the ratio of general government consumption expenditure to GDP is estimated to have risen by 1½ percentage points between 2000 and 2003. More recently, income tax rates were cut by 1 percentage point in July and a similar reduction is proposed for early 2004, together with a strong reduction of alcohol taxation to counter cross-border trade. These tax cuts imply a discretionary easing of fiscal policy by ¾ per cent of GDP. While the general government fiscal balance continues to show the largest surplus among European Union countries, this is essentially generated by the pension funds, as the central government will run a deficit

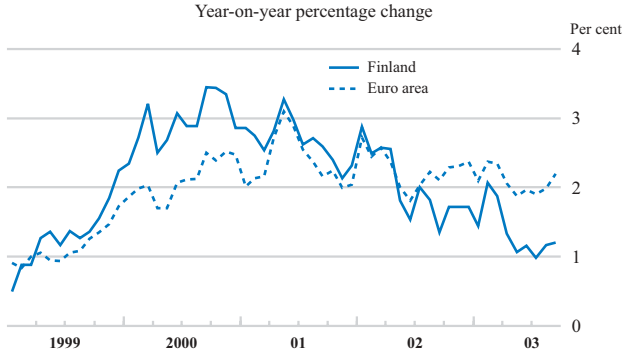
## Finland

**Weak exports and investment drive growth down**




**Inflation is below the euro area average**

Year-on-year percentage change




1. Contribution to GDP growth.
2. Public and private.
3. GDP growth can deviate from the sum of the components shown because of stock building and statistical discrepancy in the national accounts.
4. First half of 2003 on second half of 2002 at annual rate.

*Source:* OECD.

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Finland: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion euros | Percentage changes, volume (2000 prices) | | | | |
| Private consumption | 64.4 | 2.0 | 1.5 | 3.2 | 2.9 | 2.8 |
| Government consumption | 26.9 | 2.2 | 4.0 | 1.5 | 1.9 | 1.5 |
| Gross fixed capital formation | 25.8 | 4.3 | -4.0 | -3.7 | 3.4 | 3.6 |
| Final domestic demand | 117.1 | 2.5 | 0.8 | 1.3 | 2.8 | 2.7 |
| Stockbuilding [a] | 1.0 | -0.7 | 0.5 | 0.7 | -0.6 | 0.0 |
| Total domestic demand | 118.1 | 1.8 | 1.4 | 2.1 | 2.1 | 2.7 |
| Exports of goods and services | 55.9 | -0.8 | 4.9 | 1.8 | 8.6 | 9.9 |
| Imports of goods and services | 43.9 | 0.2 | 1.3 | 0.9 | 8.1 | 9.0 |
| Net exports [a] | 12.0 | -0.4 | 1.6 | 0.5 | 1.1 | 1.4 |
| GDP at market prices | 130.1 | 1.2 | 2.2 | 1.0 | 3.4 | 3.8 |
| GDP deflator | _ | 2.7 | 1.1 | 0.5 | 1.1 | 1.6 |
| *Memorandum items* | | | | | | |
| Harmonised index of consumer price | _ | 2.7 | 2.0 | 1.3 | 0.4 | 1.8 |
| Private consumption deflator | _ | 3.4 | 3.0 | 0.9 | 1.2 | 1.7 |
| Unemployment rate | _ | 9.1 | 9.1 | 9.2 | 9.0 | 8.5 |
| General government financial balance [b] | _ | 5.2 | 4.2 | 2.6 | 1.9 | 2.0 |
| Current account balance [b] | _ | 7.2 | 7.6 | 7.3 | 7.6 | 8.2 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* As a percentage of GDP.
*Source:* OECD.

from 2003 onwards. In the light of pressures for increased service spending in municipalities, it will be challenging to reach the objective of balancing the central government finances by the end of the electoral period in 2007, as set out in the new government's programme.

***Export demand should drive a recovery***

A return to above-trend growth relies on a pick-up in world trade and export demand. Finland may be better placed to take advantage of such an upturn than many other euro area countries, given the larger geographical diversification of its exports, as the revival in export demand is initially likely to be much stronger outside the euro area. Net exports are projected to add 1 and 1½ percentage points to GDP growth in 2004 and 2005, respectively. This is more than for other European countries because of the cyclical sensitivity of the export composition, and because the gain in market shares is expected to continue. Business investment is expected to respond to rising demand and to recover gradually. With output growth of around 3½ per cent in 2004 and 2005, the output gap is expected to close in 2005. However, the unemployment rate will remain above 8 per cent, demonstrating the need for measures to reduce structural unemployment.

***Inflation is low***

The negative output gap has caused inflation to fall to well below the euro area average. It should fall further during 2004, although the wage agreements running until February 2005 put a floor on inflation developments as nominal wages are expected to grow by about 4 per cent in 2003, followed by 3¼ per cent in 2004. The path of consumer prices will also be shaped by a reduction in alcohol taxation in early 2004, taking 0.8 percentage points off the harmonised index of consumer prices.

***The strength of the upturn depends on world trade***

The reliance on net exports to generate above-trend growth means that the strength of the upturn depends heavily on export demand. Although the geographical diversification of Finland's exports is a positive factor, its reliance on a limited range of export products raises the risk of sector-specific shocks.

# Greece

*The economy performed strongly in the first half of 2003, as buoyant domestic demand more than offset the weakness of exports. With monetary and other conditions remaining supportive and net exports recovering thanks to the international rebound, output growth is projected to gather additional momentum, before easing somewhat in 2005. The labour market should improve further, but the inflation gap vis-à-vis the euro area average is likely to widen.*

*Fiscal consolidation, especially tighter control of government primary expenditure, needs to be persevered with, to ensure the reduction of the still high debt-to-GDP ratio. There is also a need to strengthen the longer-term underpinnings of growth and competitiveness, through more decisive action to address labour market rigidities and to open up network industries to competition.*

***Growth has been brisk***

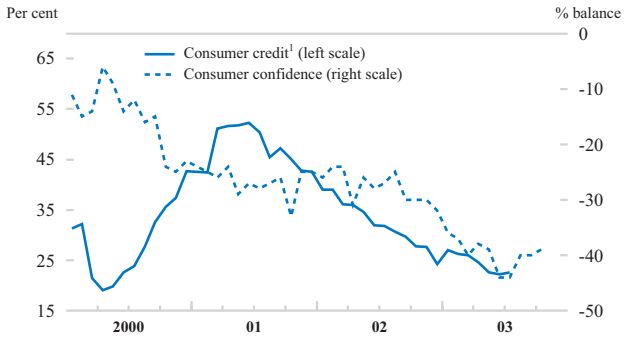
Economic activity was buoyant in the first half of 2003, with GDP growth reaching a year-on-year rate of around 4½ per cent. Low interest rates and final preparations for the 2004 Olympic Games have boosted investment, in combination with the continued implementation of the Third Community Support Framework Programme 2002-06 (CSF III). Consumer spending has provided further stimulus to growth, on the back of still rapidly-expanding credit and gains in employment. Nevertheless, consumer confidence has remained at low levels since March 2003, signalling a moderation of private consumption from a strong first half-year. For 2003 as a whole, real output is estimated to have grown by 4 per cent, continuing to largely outpace the euro-area average. The unemployment rate is expected to have declined to around 9 per cent, close to its structural rate. Unemployment is concentrated among women and youths, while participation rates are below the European Union average. The current account deficit will have remained broadly unchanged in 2003 at 6½ per cent of GDP.

***Inflation remains above the euro-area average***

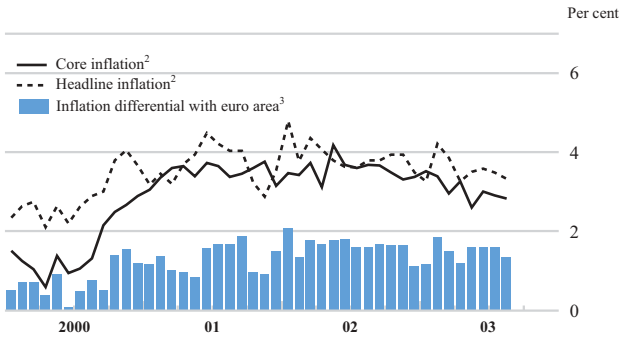
While falling from a spike in early-2003, harmonised consumer price inflation averaged around 3.6 per cent in the first eight months of the year, exceeding the euro-area average by 1.5 percentage points. Adverse weather conditions resulted in higher fresh food and vegetable prices, contributing significantly to this outcome. Underlying inflation has moved downward over the year, largely reflecting a decline in telecommunications costs, but service sector prices – excluding public enterprises – continue to rise quickly.

## Greece

**Consumption indicators have weakened**




**The inflation differential persists**




1. Year-on-year percentage changes.
2. Year-on-year percentage changes. Harmonised index of consumer prices. Core inflation excludes energy, food, alcohol and tobacco.
3. Harmonised index of consumer prices.

*Source:* OECD; Bank of Greece.

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Greece: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion euros | Percentage changes, volume (1995 prices) | | | | |
| Private consumption | 83.9 | 2.8 | 2.8 | 3.2 | 3.4 | 3.2 |
| Government consumption | 19.1 | -1.0 | 5.1 | 0.9 | 1.1 | 0.8 |
| Gross fixed capital formation [a] | 28.7 | 6.5 | 5.7 | 8.5 | 7.2 | 4.5 |
| Final domestic demand | 131.7 | 3.2 | 3.8 | 4.1 | 4.0 | 3.3 |
| Stockbuilding [b,c] | 0.4 | -0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Total domestic demand | 132.1 | 2.9 | 3.9 | 4.1 | 4.0 | 3.3 |
| Exports of goods and services | 31.1 | -1.1 | -7.7 | 1.1 | 6.6 | 7.5 |
| Imports of goods and services | 41.5 | -3.4 | -4.7 | 2.4 | 5.7 | 5.3 |
| Net exports [b] | - 10.4 | 0.9 | -0.4 | -0.5 | -0.3 | 0.1 |
| GDP at market prices | 121.7 | 4.0 | 3.8 | 4.0 | 4.1 | 3.6 |
| GDP deflator | _ | 3.5 | 4.0 | 3.5 | 3.6 | 3.3 |
| *Memorandum items* | _ | | | | | |
| Harmonised index of consumer price | _ | 3.7 | 3.9 | 3.5 | 3.6 | 3.5 |
| Private consumption deflator | _ | 3.4 | 3.6 | 3.4 | 3.5 | 3.4 |
| Unemployment rate | _ | 10.4 | 10.0 | 9.3 | 8.9 | 8.8 |
| General government financial balance [d] | _ | -1.4 | -1.5[e] | -1.6 | -1.6 | -1.5 |
| Current account balance [f] | _ | -6.2 | -6.4 | -6.5 | -6.3 | -5.9 |

*a)* Excluding ships operating overseas.
*b)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*c)* Including statistical discrepancy.
*d)* National Account basis, as a percentage of GDP.
*e)* Including proceeds of sales of mobile telephone licences (around 0.5 per cent of GDP).
*f)* On settlement basis, as a percentage of GDP.
*Source:* OECD.

***Monetary conditions continue to be supportive…***

Notwithstanding the euro's appreciation, monetary conditions remain easy, real short-term interest rates being negative given the current rate of inflation. Total credit continues to grow strongly, but at a decelerating pace. Consumer credit rose by more than 47 per cent in 2001, falling back to around 25 per cent in the first half of 2003. With effect from mid-June 2003, the Bank of Greece has lifted remaining consumer credit ceilings, allowing banks to set their own upper limits.

***… and the budget deficit will exceed the official target in 2003***

The general government budget deficit for 2003 is estimated to be 1.4 per cent of GDP, overshooting the original target by 0.5 per cent of GDP. This deviation mainly reflects an overrun in current expenditure, as well as a lower-than-programmed European Union (EU) financing for public investment spending. The draft 2004 budget, which embodies a new package of tax cuts and benefit increases, targets a small reduction in the deficit, to 1.2 per cent of GDP. The OECD projections are less optimistic, at 1.6 per cent of GDP, and do not embody any narrowing of the deficit in structural terms in the short run.

***Growth should remain robust, with a risk of inflationary pressures***

Economic activity is expected to remain strong in 2004, with real GDP growing at around 4 per cent, supported by buoyant domestic demand and increased export activity reflecting both the Olympic Games and the international recovery. Moreover, consumption will be boosted by the implementation of the new fiscal package. Output growth is projected to slow to 3.6 per cent in 2005, which is close to its potential rate. While investment activity will moderate after the Olympic Games, other favourable factors, such as relatively low interest rates, the more rapid implementation of EU structural fund projects, and an improving international environment will remain in play. However, given the strength of demand, there is a risk that the inflation may fail to moderate, eroding longer-term competitiveness.

# Hungary

*Growth is projected to rise from 3 per cent in 2003 to close to 4 per cent in 2005 and become better balanced. While exceptional consumption growth carried through to the first quarter of 2003, it is set to slow considerably. Exports are estimated to have picked up in the second half of 2003 and are projected to accelerate further.*

*Successful entry to the euro area, planned for January 2008, requires strong consensus and co-ordination on macroeconomic policy and determined fiscal discipline. Measures to strengthen the budget process need to be implemented soon, and the authorities should use consolidation as a vehicle for deep reforms to public expenditure.*

***The consumption stimulus is tailing off***

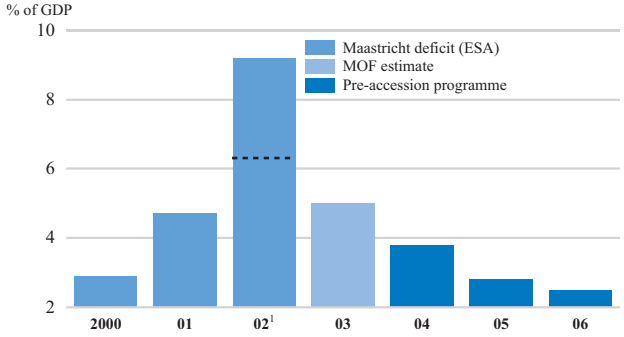
Strong household income and consumption growth through the 2002 election year continued into the first quarter of 2003, partly driven by large public-sector pay increases. This impact will have tailed off significantly by the end of the year and consumption is following suit. Evidence of this is seen in the almost 2 per cent fall in private consumption between the first and second quarters of this year. The global economic downturn strongly affected Hungary's exports, which grew by only 3.8 per cent in 2002 and indicators remain mixed. While exports rebounded strongly in the first quarter of this year, they flattened in the second quarter but are expected to have picked up again in the second half of 2003 with recovering export market growth.

***Meeting budget and inflation goals will be difficult…***

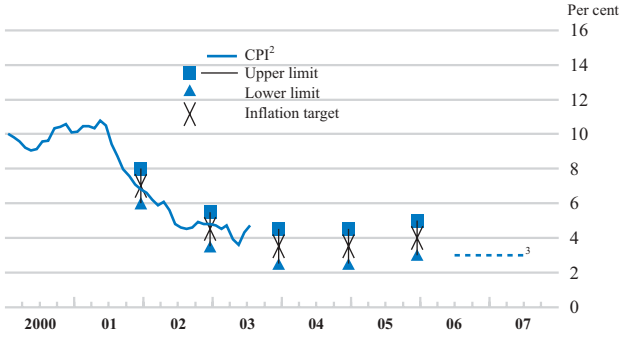
The government is projecting a 4.8 per cent of GDP deficit for 2003 and has a target to bring this down to 2.8 per cent by 2005 – a considerable but not impossible challenge. OECD projections are that the 2003 budget outturn may be somewhat above the government projection but that the deficit will decline by about one per cent of GDP in 2004 to 4.3 per cent, largely due to tax increases. With the scope for revenue measures exhausted, substantial expenditure cuts will be required for the 2005 budget if the target is to be met. Consumer price inflation will substantially overshoot the 3.5 per cent target for end-2004, in part because of value-added tax increases. The Central Bank and the government recently announced a joint 4 per cent inflation target for end-2005. Unless the outturn is at the bottom of the ±1 per cent range, this implies a rapid disinflation thereafter in the final run-up to assessment

## Hungary

**Official fiscal plans are ambitions**




**Disinflation needs to continue**




1. In 2002, from the dotted line upwards represents a one-off operations.
2. Year-on-year percentage change.
3. Approximate assessment period for euro-entry; three per cent inflation is widely judged to be the average inflation required.

*Source:* Eurostat, Ministry of Finance, Central Statistical Office, National Bank of Hungary.

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Hungary: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion HUF | Percentage changes, volume (2000 prices) | | | | |
| Private consumption | 6 879.1 | 5.7 | 10.0 | 8.0 | 2.0 | 3.6 |
| Government consumption | 2 736.3 | 4.3 | 2.2 | 2.0 | 0.5 | 0.1 |
| Gross fixed capital formation | 3 179.8 | 3.5 | 5.8 | 3.0 | 5.6 | 7.6 |
| Final domestic demand | 12 795.3 | 4.8 | 7.3 | 5.6 | 2.5 | 3.9 |
| Stockbuilding [a] | 884.9 | -2.7 | -1.9 | 0.2 | 0.1 | 0.1 |
| Total domestic demand | 13 680.2 | 1.9 | 5.1 | 5.7 | 2.6 | 3.9 |
| Exports of goods and services | 9 863.1 | 8.8 | 3.8 | 4.3 | 7.2 | 9.0 |
| Imports of goods and services | 10 371.0 | 6.1 | 6.1 | 7.7 | 6.0 | 8.9 |
| Net exports [a] | - 507.9 | 1.9 | -1.9 | -3.0 | 0.6 | -0.4 |
| GDP at market prices | 13 172.3 | 3.8 | 3.3 | 2.9 | 3.3 | 3.8 |
| GDP deflator | _ | 8.6 | 10.7 | 6.4 | 5.7 | 4.2 |
| *Memorandum items* | | | | | | |
| Consumer price index | _ | 9.2 | 5.3 | 4.6 | 6.5 | 4.5 |
| Private consumption deflator | _ | 8.2 | 5.0 | 4.6 | 6.5 | 4.5 |
| Unemployment rate | _ | 5.8 | 5.9 | 5.9 | 5.6 | 5.2 |
| General government financial balance [b,c] | _ | -4.7 | -9.2 | -5.2 | -4.3 | -3.3 |
| Current account balance [b] | _ | -3.4 | -3.9 | -6.0 | -5.5 | -5.5 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* As a percentage of GDP.
*c)* OECD estimate which adjusts official GSF data, see *Economic Survey of Hungary*, 2002.
*Source:* OECD.

for euro entry. Furthermore, the authorities aim to keep the exchange rate within a narrow band of 250-260 forints, based on an assessment of the optimal rate for the currency to enter the Exchange Rate Mechanism II. Entry must take place by the end of 2005 to meet government's aim of entering the euro area by January 2008.

***Consumption will weaken but exports should pick up***

With nominal wage growth moderating further in 2004, consumption will be weakened temporarily by increases in social security contributions and indirect taxes, and is projected to grow by only 2 per cent. The indirect tax increases account for about one percentage point of the 6½ per cent average inflation projected for 2004. Disinflation will resume in 2005 after the indirect tax increase have petered out. Recovering real income growth is projected to allow consumption to rebound again in 2005. Export activity is expected to pick up throughout the projection period, as the pace of market-share gain increases.

***Uncertainty concerns export growth and the evolution of policies***

Higher than projected wage growth would undermine an export recovery and is a key element of risk. Achieving inflation objectives would then require tighter monetary conditions, thereby putting at risk overall growth and the intended budget consolidation. On the other hand, the prospect of entry into the Economic and Monetary Union should help to anchor inflation expectations, allowing inflation goals to be achieved with a less restrictive monetary policy.

# Iceland

*A new economic expansion has begun, driven by domestic demand, and growth is projected to exceed 5 per cent per annum by 2005 as work on the major aluminium-related investment projects gathers momentum. Inflation is likely to move to the top of the official target range.*

*The challenge for policymakers will be to restrain domestic demand and avoid overheating at the peak of construction activity in the middle of the decade, through timely monetary and fiscal tightening. Government plans to cut taxes from 2005 should be reconsidered if the intended slowdown in public spending growth is not achieved. In any case, official interest rates will need to be raised substantially, probably in the not-too-distant future.*

***The economy is recovering…***

Following two years of retrenchment, domestic demand picked up strongly in the first half of 2003, led by private consumption which was bolstered by reviving real disposable income growth and pent-up demand for durable goods. In the spring, early construction work on hydropower facilities boosted investment, while public spending remained robust. Nonetheless, real GDP growth eased somewhat as a declining fish catch depressed exports. Combined with surging imports (in particular of motor vehicles), this led to the re-emergence of an external current account deficit and a weakening of the krona. Given a substantial appreciation of the currency until May and the slack in product and labour markets prevailing at the onset of the recovery, inflation has remained subdued. Annual consumer price increases have been fluctuating around 2 per cent, while underlying inflation has been close to 2½ per cent, the central bank's official target.

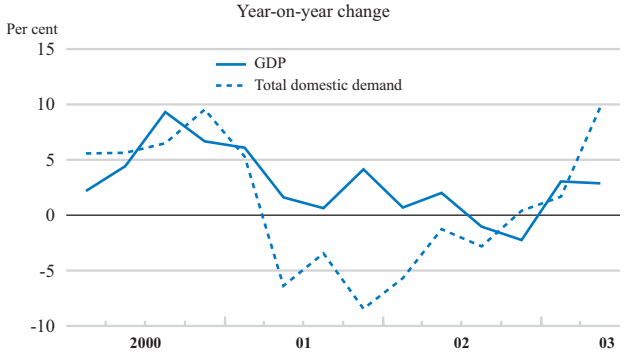
***… and policies are moving in a restrictive direction***

The 2004 budget aims at a return to government surpluses after two years of fiscal deficits. Government finances will improve as a result of rising economic activity, in addition to an envisaged tightening of the fiscal stance. This is to be achieved by a marked slowdown in public consumption growth and a sharp reduction in public investment, in order to prevent overheating in the construction sector. At the same time, however, the incoming government's Policy Statement calls for tax cuts beginning in 2005, thereby reducing the restrictive thrust of fiscal policy. Monetary policy has been on hold since February when the central bank reduced its policy interest rate to 5.3 per cent, the lowest level since 1994. This reflects benign inflation

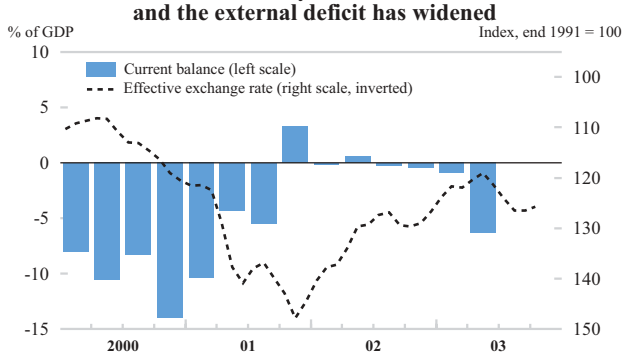
## Iceland

**The domestic economy has recovered**

Year-on-year change




**The currency has weakened and the external deficit has widened**




*Source:* Central Bank and Statistics Iceland.

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Iceland: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion ISK | Percentage changes, volume (1990 prices) | | | | |
| Private consumption | 389.6 | -3.0 | -1.1 | 3.6 | 3.7 | 5.2 |
| Government consumption | 157.9 | 3.1 | 4.1 | 3.5 | 2.5 | 2.0 |
| Gross fixed capital formation | 159.4 | -6.3 | -13.0 | 7.8 | 8.4 | 16.0 |
| Final domestic demand | 706.9 | -2.6 | -2.8 | 4.4 | 4.4 | 6.8 |
| Stockbuilding [a] | 2.5 | -0.9 | 0.4 | 0.3 | -0.1 | 0.1 |
| Total domestic demand | 709.4 | -3.4 | -2.4 | 4.7 | 4.3 | 6.9 |
| Exports of goods and services | 231.6 | 7.7 | 3.7 | 0.0 | 4.8 | 5.0 |
| Imports of goods and services | 278.6 | -9.0 | -2.3 | 6.5 | 7.1 | 8.5 |
| Net exports [a] | - 47.0 | 6.8 | 2.3 | -2.5 | -1.0 | -1.6 |
| GDP at market prices | 662.4 | 3.1 | -0.2 | 1.9 | 3.7 | 5.6 |
| GDP deflator | _ | 9.9 | 3.9 | 1.0 | 4.4 | 4.5 |
| *Memorandum items* | | | | | | |
| Consumer price index | _ | 6.4 | 5.2 | 2.0 | 2.6 | 3.6 |
| Private consumption deflator | _ | 8.1 | 3.6 | 1.8 | 2.6 | 3.6 |
| Unemployment rate | _ | 2.3 | 3.3 | 3.3 | 3.3 | 2.8 |
| General government financial balance [b] | _ | 0.3 | -1.0 | -1.0 | 0.2 | 0.8 |
| Current account balance [b] | _ | -4.0 | -0.1 | -3.3 | -3.4 | -4.4 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* As a percentage of GDP.
*Source:* OECD.

outcomes which, so far, have bettered expectations. The projections assume a gradual rise in the policy rate beginning early in 2004. The timing and magnitude of interest-rate increases will depend on the momentum of the economy, future currency developments and the actual fiscal stance adopted.

***Maintaining economic stability will be a challenging task***

Despite the assumed policy tightening, the sheer size of the aluminium-related investment projects makes the emergence of some tensions and imbalances unavoidable. Inflation is projected to pick up to 4 per cent by the end of the projection period, the central bank's upper tolerance limit. The current account deficit is expected to widen to 4½ per cent of GDP, although increased catch quotas in the fishing year beginning in September 2003 should lead to a temporary improvement. Capacity pressures could be even stronger, if the planned expansion of an existing aluminium smelter and related power investments in the southwest of Iceland were to go ahead before work currently underway on the projects in the east of the country has peaked. A major risk to the outlook would seem to be fiscal slippage. In the light of past experience, the intended sharp slowdown in public expenditure growth looks ambitious. The absence of substantial fiscal restraint would complicate the task of monetary policy and necessitate even higher interest rates, which in turn would put pressure on the exchange rate, squeezing the exposed sector of the economy.

# Ireland

*GDP growth plummeted from 7 per cent in 2002 to an estimated 1¾ per cent in 2003, as exports were hit by the appreciation of the euro and investment declined sharply. Growth is set to recover to around 3½ per cent in 2004 and nearly 5 per cent in 2005. With the unemployment rate remaining close to 5 per cent, inflation should decelerate to 3 per cent over the next two years.*

*To contain inflationary pressures, competition and regulatory policy should focus on the sheltered sectors (notably construction and business services). Tax incentives that boost the demand for housing in an already overheated residential market should be cut, which would also enable resources to be reallocated towards urgently needed infrastructure development.*

***Output growth stalled abruptly in early 2003***

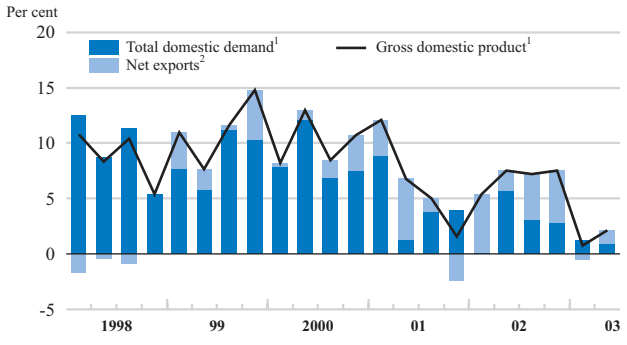
Having resisted the global downturn in 2001-02, GDP growth eased abruptly from 7 per cent in 2002, falling by 1½per cent in the first half of 2003. Domestic demand had already weakened in 2002, in line with the much slower growth of gross national product (GNP), which excludes profits earned by foreign multinationals based in Ireland. But with exports and investment plummeting in the wake of the euro's appreciation, GDP followed suit in 2003. Recent indicators suggest that activity turned the corner over the summer. The unemployment rate has edged up only slightly to 4½ per cent so far, with lower working hours and the withdrawal of discouraged workers from the labour market bearing the brunt of the adjustment. Inflation declined to around 4 per cent over the summer owing to falling energy prices.

***Medium-term potential growth remains high***

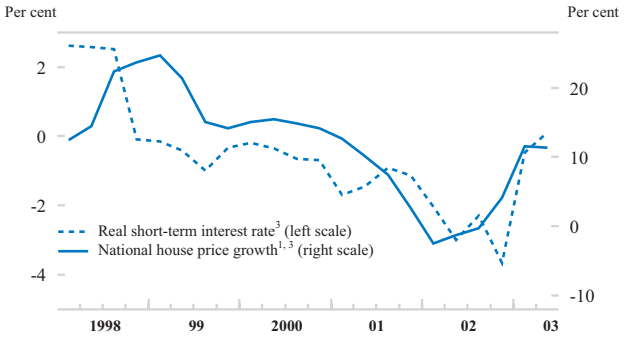
The "Celtic tiger" era, with double digit growth rates spurred by foreign direct investment, belongs to the past. Competitiveness has deteriorated, which aside from the strong currency reflects past high inflation and wage growth. Competition for capital flows from the European Union-accession countries and dynamic Asian economies has also stiffened. Despite these factors, Ireland still has a strong position in fast-growing sectors such as information and communication technology (ICT) and other high technology industries. This may enable potential growth to stabilise at around 5 per cent *per annum* over the medium term, underpinned also by continued rapid growth in the supply of prime-age workers. Bottlenecks in housing and infrastructure development are likely to persist and remain a source of inflation in the property markets.

## Ireland

**Growth has stalled**




**House prices have rebounded**




1. Year-on-year percentage changes.
2. Contribution to GDP growth.
3. In real terms, adjusted with the private consumption deflator.

*Source:* OECD.

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Ireland: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion euros | Percentage changes, volume (1995 prices) | | | | |
| Private consumption | 49.6 | 4.8 | 2.7 | 1.8 | 3.2 | 4.3 |
| Government consumption | 13.6 | 13.5 | 8.8 | 3.5 | 2.1 | 1.9 |
| Gross fixed capital formation | 24.9 | 0.1 | 1.7 | -8.2 | 3.4 | 5.1 |
| Final domestic demand | 88.0 | 5.0 | 3.5 | -0.3 | 3.0 | 4.0 |
| Stockbuilding [a] | 0.8 | -0.4 | -0.5 | 1.3 | -0.7 | 0.3 |
| Total domestic demand | 88.9 | 4.4 | 2.9 | 1.4 | 2.1 | 4.4 |
| Exports of goods and services | 100.1 | 8.3 | 6.2 | -6.9 | 4.0 | 7.4 |
| Imports of goods and services | 86.8 | 6.5 | 2.3 | -9.7 | 2.6 | 7.7 |
| Net exports [a] | 13.4 | 2.9 | 4.6 | 1.0 | 1.9 | 1.4 |
| GDP at market prices | 102.8 | 6.2 | 6.9 | 1.8 | 3.6 | 4.8 |
| GDP deflator | _ | 5.1 | 5.4 | 1.7 | 4.2 | 3.4 |
| *Memorandum items* | | | | | | |
| Harmonised index of consumer price | _ | 4.0 | 4.7 | 4.1 | 2.8 | 3.1 |
| Private consumption deflator | _ | 5.5 | 6.1 | 2.5 | 3.1 | 3.0 |
| Unemployment rate | _ | 3.9 | 4.4 | 4.8 | 5.0 | 5.0 |
| General government financial balance [b] | _ | 0.9 | -0.2 | -1.0 | -1.3 | -1.3 |
| Current account balance [b] | _ | -0.7 | -0.7 | -1.7 | -1.4 | 0.5 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* As a percentage of GDP.
*Source:* OECD.

***Policy is on balance supportive***

Monetary conditions are projected to be supportive despite the strong currency, with real interest rates remaining negative or close to zero. As a result, the housing market will continue to be buoyant, with the risk of a major correction of house prices in the event of a hike in long-term interest rates. Some market segments, such as the buy-to-let market, have become particularly vulnerable, although there is so far little concern over the ability of banks to absorb the effects of a house-price shock on their loan portfolios. Fiscal policy is projected to remain broadly neutral, with the deficit widening somewhat in 2004 due to revenue shortfalls associated with slumping earnings growth. Public sector wages are expected to increase faster than private sector wages, due to a "benchmarking" operation which will allow public sector pay to catch up with that of comparable occupations in the private sector. Based on current plans this should be offset by slower public employment growth, although there is political pressure to fill employment gaps in the health and education sectors.

***Growth is set to recover, boosted by exports and investment***

Real GDP growth is projected to pick up to 3½ and nearly 5 per cent in 2004 and 2005, respectively. The main engines of the recovery are exports and business investment, although household spending should also be buoyed by low interest rates, disinflation and the unwinding of adverse confidence effects. The unemployment rate should stabilise at close to 5 per cent. With some downward pressure on wages in the private sector and the euro appreciation feeding through, inflation is expected to drift down to 3 per cent.

***Exchange and interest rate risks cast a shadow***

Since the Irish economy is very open and dependent on foreign direct investment, the strength of the recovery depends on developments in world trade, while activity remains vulnerable to a deterioration in competitiveness arising from either a further appreciation of the euro or a reacceleration of wages. The principal domestic risk is that a hike in bond yields could lead to a sudden downturn in the housing market and undermine household confidence.

# Korea

*The economy experienced a sharp downturn in the first half of 2003 following a number of negative shocks. A strengthening of confidence and a pick-up in world trade should lead to a recovery that would lift growth to around 4¾ per cent in 2004 and 5½ per cent in 2005. However, there are risks, including a further appreciation of the exchange rate and some retrenchment by the household sector following a credit boom, which could affect the timing and strength of the recovery.*

*Given the high costs incurred for financial-sector restructuring, the fiscal policy stance should return to neutral in 2004 as the economic recovery begins. Further structural reforms, particularly in the corporate and financial sector and in the labour market, are needed to strengthen confidence and boost Korea's growth potential.*

***Domestic demand is falling and confidence declining***

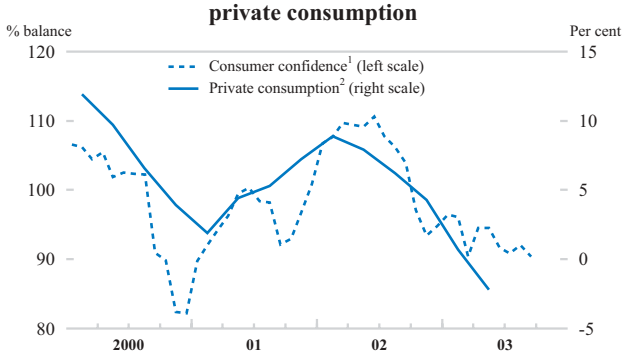
A series of negative shocks – including the North Korean nuclear issue, a serious accounting scandal, labour unrest and the severe acute respiratory syndrome (SARS) epidemic – resulted in negative output growth (seasonally-adjusted) in the first two quarters of 2003 and undermined confidence. This was compounded by financial distress in the credit card sector and a slowing in bank lending to households. The weakness in domestic demand has been partially offset by strong export growth, despite labour strikes in some key sectors such as cars. Exports are being driven by shipments to China, which rose 48 per cent (year-on-year in dollar terms) in the first eight months of 2003. The impact of the downturn on the labour market has been surprisingly mild thus far. The unemployment rate has risen modestly from 3 per cent at the end of 2002 to 3½ per cent (seasonally-adjusted), while wage growth in the first half of 2003 continued at a double-digit pace, sustained by large bonus payments. Inflation, as measured by the core consumer price index, is stable near the midpoint of the 2.5 to 3.5 per cent medium-term target.

***Economic policies have become expansionary***

Both fiscal and monetary policies have become expansionary. Including a 0.8 per cent of GDP supplementary budget passed in August, spending is projected to rise by 12 per cent in 2003. This excludes the impact of bringing into the budget a portion of the publicly-guaranteed borrowing used to fund financial-sector restructuring (2.8 per cent of GDP). Meanwhile, the central bank has cut the overnight call rate by a total of 50 basis points since May, to 3.75 per cent, matching its record low

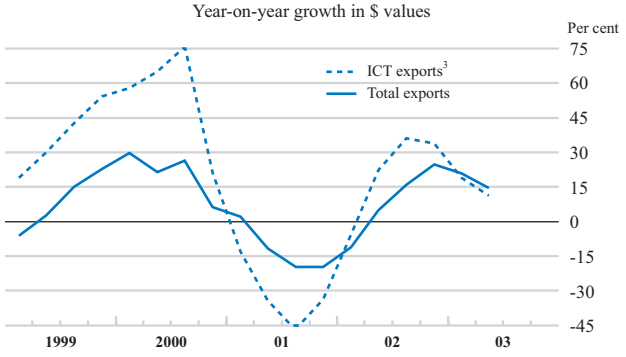
## Korea

**Weak consumer confidence has reduced private consumption**




**Export growth remains relatively buoyant**

Year-on-year growth in $ values




1. A score of 100 means that consumption is expected to be the same in six months as at present.
2. Year-on-year percentage change in real terms.
3. Information and communication technology products, including semi-conductors.

*Source:* Bank of Korea and Korea National Statistical Office.

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Korea: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices trillion KRW | Percentage changes, volume (1995 prices) | | | | |
| Private consumption | 299.1 | 4.7 | 6.8 | -0.9 | 2.5 | 3.8 |
| Government consumption | 52.5 | 1.3 | 2.9 | 3.6 | 1.9 | 2.0 |
| Gross fixed capital formation | 148.2 | -1.8 | 4.8 | 2.5 | 3.6 | 6.7 |
| Final domestic demand | 499.8 | 2.3 | 5.8 | 0.5 | 2.8 | 4.5 |
| Stockbuilding [a] | - 1.0 | -0.1 | -0.2 | -0.1 | 0.0 | 0.0 |
| Total domestic demand | 498.8 | 2.2 | 5.7 | 0.4 | 2.8 | 4.6 |
| Exports of goods and services | 233.8 | 0.7 | 14.9 | 13.8 | 13.1 | 12.2 |
| Imports of goods and services | 217.8 | -3.0 | 16.4 | 13.2 | 13.5 | 13.9 |
| Net exports [a] | 15.9 | 1.4 | 2.0 | 2.6 | 2.4 | 1.8 |
| Statistical discrepancy [a] | 7.2 | -0.2 | -0.4 | -0.2 | 0.0 | 0.0 |
| GDP at market prices | 522.0 | 3.1 | 6.3 | 2.7 | 4.7 | 5.5 |
| GDP deflator | _ | 2.5 | 1.7 | 1.3 | 1.0 | 1.0 |
| *Memorandum items* | | | | | | |
| Consumer price index | _ | 4.1 | 2.8 | 3.5 | 2.7 | 3.0 |
| Private consumption deflator | _ | 4.1 | 3.0 | 3.6 | 2.9 | 3.3 |
| Unemployment rate | _ | 3.8 | 3.1 | 3.4 | 3.3 | 3.0 |
| Household saving ratio [b] | _ | 7.7 | 7.6 | 8.2 | 7.6 | 7.7 |
| Consolidated central government balance [c] | _ | 1.3 | 3.8 | 0.0 | 0.5 | 1.0 |
| Current account balance [c] | _ | 1.9 | 1.3 | 1.5 | 1.3 | 0.0 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* As a percentage of disposable income.
*c)* As a percentage of GDP.
*Source:* OECD.

level. However, this has raised concern about additional upward pressure on housing prices, prompting a lengthy list of regulatory and tax measures aimed at stabilising housing prices.

***Problems in the financial sector are being addressed***

The authorities have also taken steps to address financial-sector problems that have influenced private consumption. After a boom in 2002, lending by credit card companies has fallen nearly a third, reflecting liquidity problems in the wake of a rise in the delinquency ratio from 6½ per cent in 2002 to nearly 10½ per cent in August 2003. The government mapped out a package of measures in April to ease the credit card companies' problems, through collective financial support from their creditor financial institutions. Prudential concerns about the rapid growth in bank lending to households, which increased nearly 30 per cent in 2002, led the authorities to increase provisioning requirements on such loans. By the second quarter of 2003, the growth of such lending had slowed to 10 per cent.

***A recovery in confidence should boost growth in 2004***

With strong export growth, large wage increases, fiscal stimulus and interest rate cuts, the elements needed for a strong recovery appear to be in place, but the timing of the upturn will depend on confidence, which remains weak. The economy is expected to grow by less than 3 per cent in 2003, before entering a recovery phase that will boost growth to around 4¾ per cent in 2004 and 5½ per cent in 2005. Such a recovery is likely to reduce the unemployment rate to 3 per cent in 2005, while keeping core inflation steady at around that rate. However, there are a number of risks that could affect the timing and strength of the upturn. In particular, further appreciation of the won, which has already risen about 6 per cent since March, would have a negative impact. In addition, the household sector, which increased its debt from 86 per cent of disposable income in 1998 to an estimated 129 per cent in 2002, could increase its saving rate in 2004 and 2005.

# Luxembourg

*GDP growth has been low for a third year in a row owing to the weakness of financial markets and stagnation in the euro area. It is likely to strengthen in 2004 as exports and business investment pick up. In the wake of the recent sluggish adjustment of the labour market, employment growth is expected to follow the business cycle with a considerable lag.*

*The government should take advantage of the economic upturn to put fiscal policy on a sustainable path, by reducing growth in current public spending in line with lower medium-term growth prospects.*

### *Economic growth remains sluggish*

As in the euro area at large, economic activity stagnated in 2003. The recent turnaround in financial markets has not yet gained enough strength to offset the losses from falling stock prices earlier this year. Weak economic activity in industry and construction means that the business sector is still reluctant to embark on new investment projects and fixed capital formation is mainly accounted for by brisk public investment. Whereas export volumes have started to grow again due to the strong performance of non-financial services, import volumes have grown even more rapidly, thus resulting in a negative contribution of net exports to growth. Private consumption growth is expected to be weaker in 2003 than in 2002 when it was boosted by an increase in disposable income following the reduction in personal income tax rates. Consumer confidence has recovered over the summer, but it has not yet reached the levels registered during the first half of last year.

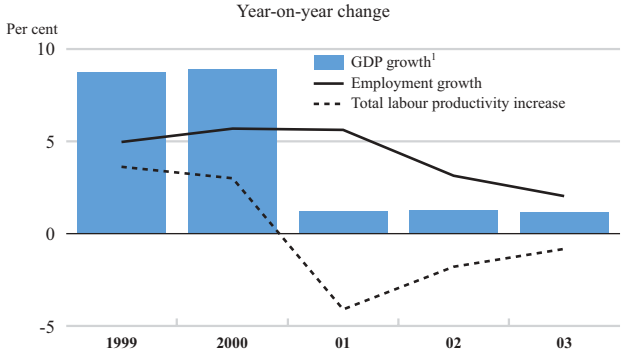
### *The labour market is slow to adjust*

Strong output fluctuations, in combination with severe labour shortages which emerged during the economic boom of the 1990s, have induced firms to delay redundancies in response to unfavourable economic developments. As a consequence, domestic employment growth decelerated with a considerable lag. The counterpart to sluggish labour market adjustment has been a steep fall in labour productivity with a prolonged period of negative growth. The continued slowdown in domestic employment growth in 2003, which affects trans-border workers as well as national residents, has further limited the ability to absorb the expansion of the national labour force, resulting in a sharp increase in the unemployment rate (which is still low by European standards). The slow labour market adjustment has also been reflected in a slow downward adjustment of the inflation rate. Lower wage pressures resulting

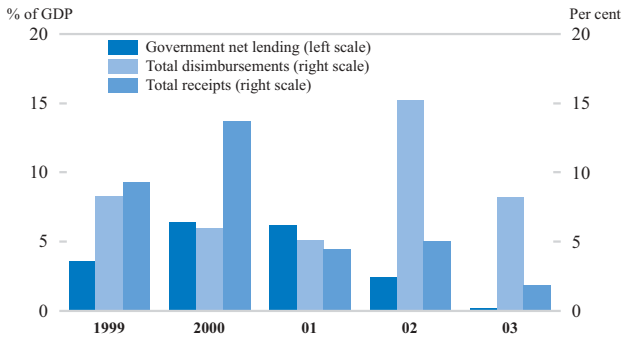
## Luxembourg

**Labour market adjustment is slow**

Year-on-year change




**The budget surplus has disappeared**




1. OECD estimates for 2003.
*Source:* OECD.

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Luxembourg: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion euros | Percentage changes, volume (1995 prices) | | | | |
| Private consumption | 8.5 | 4.5 | 2.3 | 1.6 | 1.9 | 2.4 |
| Government consumption | 3.3 | 7.0 | 4.2 | 3.9 | 2.5 | 2.9 |
| Gross fixed capital formation | 4.4 | 10.1 | -1.4 | 0.5 | 1.9 | 2.5 |
| Final domestic demand | 16.3 | 6.5 | 1.6 | 1.8 | 2.0 | 2.5 |
| Stockbuilding [a] | 0.6 | -1.7 | -2.0 | 0.0 | 0.0 | 0.0 |
| Total domestic demand | 16.8 | 4.2 | -0.7 | 1.8 | 2.0 | 2.6 |
| Exports of goods and services | 32.2 | 2.6 | -0.3 | 1.2 | 3.9 | 5.9 |
| Imports of goods and services | 27.7 | 4.8 | -1.6 | 1.6 | 4.1 | 6.0 |
| Net exports [a] | 4.4 | -2.3 | 1.6 | -0.3 | 0.3 | 0.7 |
| GDP at market prices | 21.3 | 1.2 | 1.3 | 1.2 | 2.0 | 2.9 |
| GDP deflator | _ | 2.2 | 0.6 | 1.6 | 2.9 | 2.6 |
| *Memorandum items* | | | | | | |
| Harmonised index of consumer price | _ | 2.4 | 2.1 | 2.5 | 1.9 | 1.6 |
| Private consumption deflator | _ | 3.3 | 2.3 | 2.0 | 1.8 | 1.6 |
| Unemployment rate | _ | 2.6 | 3.0 | 3.8 | 4.2 | 4.4 |
| General government financial balance [b] | _ | 6.2 | 2.4 | -0.3 | -1.8 | -2.6 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* As a percentage of GDP.
*Source:* OECD.

from a further easing of the labour market and the appreciation of the euro will bring down inflation from 2.1 per cent to 2 per cent in 2003, with higher energy prices preventing a steeper fall.

***The budgetary situation has deteriorated sharply***

The growth in government outlays accelerated sharply in 2002 and continued to be strong in 2003. In contrast, weak economic growth and the implementation of tax reforms weakened the growth of receipts. [(Personal income tax cuts, amounting to 1.2 per cent of GDP in 2001 and 2.5 per cent of GDP in 2002, were followed by a reduction in corporate tax rates as of 2003)]. As a result the budget worsened from a surplus of some 6 per cent of GDP in 2001 to a small deficit in 2003. The government budget is expected to deteriorate further in 2004 when tax receipts are expected to be further depressed due to a reduction in corporate tax rates and the contraction of the tax base following several years of low profits.

***The economic recovery will be characterised by rising unemployment***

Financial market recovery and the pick up in export market growth will both contribute to a strengthening in economic activity in 2004 and 2005. During this period, Luxembourg is expected to slightly outperform the European Union economies on average because, as a small open economy, it benefits more from the expansion of world trade. However, it is unlikely that growth rates will come close to the levels observed during the previous boom, as the conditions behind that strong performance were unique. Given the slowness of the labour market adjustment, the prospect is that employment growth will remain too low to arrest the rising trend in the unemployment rate. Inflation is projected to converge again to the euro area average of 1.6 per cent in 2005, after being temporarily higher at 1.9 per cent in 2004 due to a hike in excise taxes on energy products.

# Mexico

*A pick-up in exports to the United States is expected to be the main driver of a recovery which has been delayed by the weakness of the US manufacturing sector. The pace of activity is expected to gain momentum as business investment starts to increase and employment to expand. Consumer price inflation is falling again and is likely to be on target at the end of the year.*

*The Central Bank has shown its readiness to respond quickly to changes in the inflation outlook. Its current cautious monetary stance is appropriate. On the fiscal front, there is no room for slippage. The government needs to bring the public sector deficit into near balance, and the borrowing requirement down to about 2 per cent of GDP, by 2005. The approval of a strong tax package will be crucial for boosting investor confidence.*

***The recovery is still hesitant***

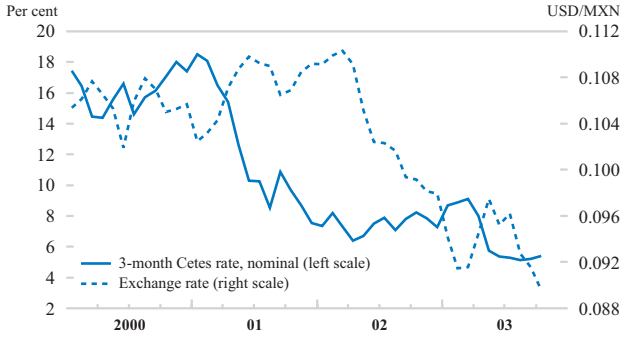
In the first half of 2003, real GDP growth was sluggish. Mexico's manufacturing exports to the United States did not pick up because of sluggish US industrial production, and domestic demand remained very subdued. The current account deficit continued to narrow, reflecting weak domestic demand and high oil prices. At $3.7 billion (half-yearly data), the deficit remained lower than net foreign direct investment, which again dominated capital inflows. Overall, the peso depreciated *vis-à-vis* the dollar in the first nine months of 2003, with some volatility, but against the background of weak activity, there was no pass-through to inflation. Headline inflation, measured by the consumer price index, has come down in the course of 2003, largely reflecting wage moderation. By September it was down to 4 per cent, with core inflation at 3½ per cent. The recovery remains hesitant insofar as employment in the formal sector has been declining, but private consumption has continued to show some strength.

***Fiscal and monetary policies continue to be cautious***

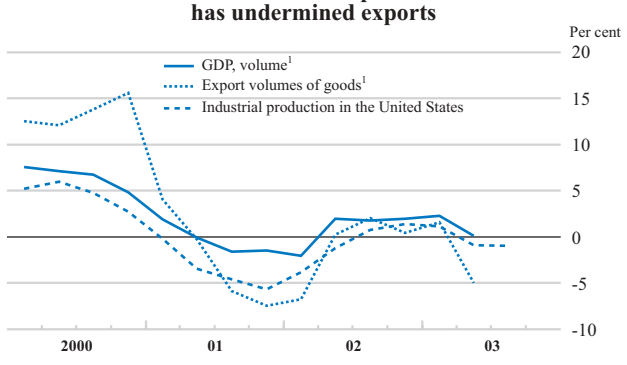
The public sector deficit is expected to be on target in 2003, at 0.5 per cent of GDP, despite weaker activity than assumed in the budget. Extra oil-related revenue in the first half of 2003 and unexpected resources from non-recurrent operations allowed both larger increases in public spending and a sizeable rise in the primary surplus. If revenue for the year as a whole comes out higher than projected, part of the windfall will be spent on infrastructure investment. The broader public sector borrowing requirement (PSBR) is expected to be close to 3 per cent of GDP. For

## Mexico

**Monetary conditions have eased**




**Weak US industrial production has undermined exports**




1. At constant prices of 1993, year-on-year percentage change.
*Source:* Bank of Mexico; OECD.

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Mexico: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion MXN | Percentage changes, volume (1993 prices) | | | | |
| Private consumption | 3 683.7 | 2.7 | 1.2 | 2.8 | 3.6 | 4.4 |
| Government consumption | 609.7 | -1.2 | -1.3 | 2.1 | 2.3 | 2.2 |
| Gross fixed capital formation | 1 174.1 | -5.8 | -1.3 | -1.2 | 4.8 | 6.3 |
| Final domestic demand | 5 467.6 | 0.6 | 0.5 | 2.0 | 3.7 | 4.6 |
| Stockbuilding [a] | 136.4 | -0.2 | 0.5 | -1.0 | 0.3 | 0.0 |
| Total domestic demand | 5 603.9 | 0.4 | 1.0 | 1.0 | 3.9 | 4.5 |
| Exports of goods and services | 1 704.1 | -3.6 | 1.4 | -0.3 | 6.5 | 7.8 |
| Imports of goods and services | 1 810.6 | -1.5 | 1.6 | -1.7 | 7.2 | 8.4 |
| Net exports [a] | - 106.5 | -0.7 | -0.1 | 0.5 | -0.4 | -0.5 |
| GDP at market prices | 5 497.4 | -0.3 | 0.9 | 1.5 | 3.6 | 4.2 |
| GDP deflator | _ | 6.4 | 4.6 | 5.2 | 3.3 | 3.3 |
| *Memorandum items* | | | | | | |
| Consumer price index | _ | 6.4 | 5.0 | 4.5 | 3.4 | 3.1 |
| Private consumption deflator | _ | 7.2 | 4.8 | 4.6 | 3.4 | 3.1 |
| Unemployment rate [b] | _ | 2.4 | 2.7 | 3.0 | 3.0 | 2.8 |
| Current account balance [c] | _ | -2.9 | -2.2 | -1.9 | -2.5 | -3.0 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* Based on the National Survey of Urban Employment.
*c)* As a percentage of GDP.
*Source:* OECD.

2004 the budget deficit is assumed to be further reduced, in line with the medium-term objective to balance the public sector accounts by 2005. By then, the PSBR is to be brought down to 2¼ per cent of GDP. Following some tightening in early 2003, monetary conditions have eased as inflation expectations have come down. Short-term interest rates fell to historical lows in nominal and real terms in the third quarter. It is assumed that they will edge up in 2004 and 2005, in line with US rates. The Central Bank objective is to bring consumer price inflation down to 3 per cent, with a variability interval of plus or minus 1 per cent, by the end of 2003 and maintain it in that range thereafter.

***The prospect of a firm pick-up in activity has been postponed***

GDP growth is expected to gain momentum during 2004 on the back of exports. Uncertainties, both about the international environment and on the domestic front regarding progress in structural reform, are limiting the pace of the recovery in private investment. Against this background, the overall recovery will be driven mainly by external demand, especially the strength of US industrial production. The current account deficit is expected to widen from its 2003 record low, reaching 3 per cent of GDP by 2005, but continuing to be mostly financed by foreign direct investment.

***Uncertainties relate to US export demand and the structural agenda***

On the domestic front the main uncertainty relates to the pace of structural reform. Approval of a tax package that increases revenue while reducing distortions would be an important step forward. Together with proposed reforms for the electricity sector and in labour markets, this would help restore domestic and foreign investor confidence, pushing up GDP growth. The main external risk still concerns the speed of US growth and the degree to which it translates into demand for Mexico's exports.

# Netherlands

*After two years of near-stagnation the Dutch economy contracted in the first half of 2003. GDP is set to decline by ½ per cent for the year as a whole, as consumers are adjusting to weak disposable income and fading wealth effects, business is struggling to restore competitiveness and sound balance sheets and the government has tightened fiscal policy. Although real GDP growth may reach 1 per cent in 2004 and accelerate to 2 per cent in 2005, this would still leave a substantial negative output gap and the unemployment rate is expected to increase to 5 per cent in 2004. This should lead to a further deceleration in wages and prices.*

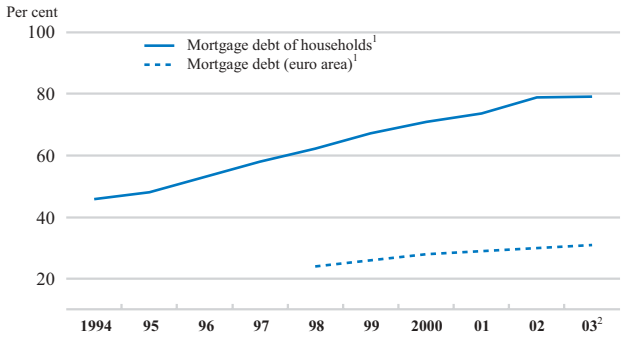
*Restoring international competitiveness is key for GDP growth to return to rates at or above potential. The government should increase the safety margin in the cyclically sensitive fiscal balance in order to avoid the need for pro-cyclical tightening in the future.*

***GDP has been falling again***

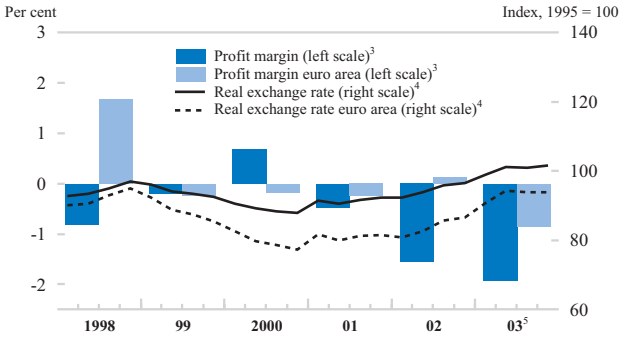
The Dutch economy is going through its most severe recession since 1982. After a timid pick-up in mid-2002, GDP started falling again and by mid-2003 was 1.2 per cent lower than a year before. Private consumption has shrunk so far this year, as employment growth has turned negative, social security contributions have been increased, and the savings ratio has risen. Dutch households have very high mortgage debt by international standards and have become increasingly risk-aware as the boom in housing prices has come to an end and mortgages with variable interest rates have become more widespread. Saving is being further fuelled by a sharp rise in contribution rates to private pension funds, which is also weakening corporate earnings and, together with high past inflation and the appreciation of the euro, impairing competitiveness. As a consequence, exports fell in the first half of 2003, underperforming the euro area average and further lowering capacity utilisation. While labour shedding has intensified, business fixed investment fell at a much slower pace than in 2002, as the need for replacing obsolete equipment grew more important. Domestic manufacturing orders recovered over the summer, while export orders posted smaller gains. With government consumption offsetting most of private consumption weakness, GDP grew slightly in the third quarter. Despite low labour demand, labour-force participation is rising, leading to a substantial increase in unemployment and bringing wage and price inflation down considerably. Headline inflation (measured by the harmonised index of consumer prices) stood at 2 per cent (year-on-year) in September, which is below the euro area average for the first time since May 2000.

## Netherlands

**Household debt is high**




**Margins have suffered from losses in competitiveness**




1. As a percentage of GDP.
2. First half of 2003.
3. Ratio of GDP deflator to unit labour costs, change over previous year.
4. Based on relative consumer prices, trade weighted.
5. Projections.

*Source:* OECD; De Nederlandsche Bank (DNB); European Central Bank (ECB).

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Netherlands: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion euros | Percentage changes, volume | | | | |
| Private consumption | 200.6 | 1.4 | 0.8 | -1.1 | -0.1 | 1.9 |
| Government consumption | 91.3 | 4.2 | 3.8 | 1.0 | 0.0 | 1.0 |
| Gross fixed capital formation | 89.0 | -0.1 | -4.5 | -1.7 | 1.7 | 3.3 |
| Final domestic demand | 380.9 | 1.7 | 0.3 | -0.7 | 0.3 | 2.0 |
| Stockbuilding [a] | 0.4 | -0.1 | -0.3 | 0.1 | 0.1 | 0.2 |
| Total domestic demand | 381.3 | 1.7 | 0.0 | -0.6 | 0.4 | 2.2 |
| Exports of goods and services | 271.4 | 1.7 | 0.1 | -0.5 | 2.6 | 5.2 |
| Imports of goods and services | 250.4 | 2.4 | -0.2 | -0.5 | 1.8 | 5.7 |
| Net exports [a] | 21.0 | -0.4 | 0.2 | 0.0 | 0.7 | 0.0 |
| GDP at market prices | 402.3 | 1.2 | 0.2 | -0.5 | 1.0 | 2.0 |
| GDP deflator | _ | 5.4 | 3.4 | 2.7 | 0.8 | 1.1 |
| *Memorandum items* | | | | | | |
| Harmonised index of consumer price | _ | 5.1 | 3.9 | 2.3 | 1.2 | 1.1 |
| Private consumption deflator | _ | 4.7 | 3.1 | 2.1 | 1.4 | 1.0 |
| Unemployment rate | _ | 2.0 | 2.3 | 3.7 | 5.2 | 5.2 |
| Household saving ratio [b] | _ | 9.0 | 8.6 | 8.9 | 9.3 | 9.1 |
| General government financial balance [c] | _ | 0.0 | -1.6 | -2.4 | -2.5 | -1.8 |
| Current account balance [c] | _ | 2.0 | 1.4 | 1.9 | 3.2 | 2.9 |

*Note:* National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook* Sources and Methods, *(http:// www.oecd.org/eco/sources-and-methods).*

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

*b)* As a percentage of disposable income, including savings in life insurance and pension schemes.

*c)* As a percentage of GDP.

*Source:* OECD.

***Fiscal policy is being tightened***

The fiscal balance worsened by more than 3 per cent of GDP from 2000 (excluding sales of third-generation mobile phone licenses) to 2002. The greater deterioration in comparison with the euro area is mainly due to the more severe downturn. The stance of fiscal policy has become restrictive in 2003 and will remain tight through to 2005, as the multi-annual fiscal framework, which is reflected in the 2003 and 2004 budgets, has been adjusted to counter the deterioration in the balance. The cumulative effect of all the packages introduced on the structural balance amounts to 1.4 per cent of GDP in 2003, 2.5 per cent in 2004 and about 3 per cent in 2005. Whereas part of this is achieved through revenue increases, the main focus is on expenditure reductions, including the freeze in public sector contractual wages in 2004 and 2005 and thus the social benefits linked to them. Furthermore, the growth in health care expenditure will be reined in by higher co-payments and deductibles and a reduction in the public health insurance package. The actual balance will again deteriorate slightly in 2004, as structural consolidation is outweighed by further cyclical deterioration, but should improve markedly in 2005.

***Activity will gain momentum only gradually***

The recovery in the world economy will lead to an increase in exports that should gather momentum in 2004 as the effects of the euro appreciation fade. Strong wage moderation is likely for 2004 and 2005, and this too should help restore competitiveness. Better prospects for sales and profits, increasing capacity utilisation and low interest rates on loans will help business investment to grow again, beginning in the first half of 2004. Private consumption is the weak spot in the outlook, being expected to resume only very slowly during 2004, in tandem with gradually improving labour market prospects. By the end of 2004, GDP growth should match potential and unemployment should stabilise. With output levels remaining far behind potential, inflationary pressures will be absent. The main risks to the forecast are a fall in house prices and a stronger-than-expected rise in long-term interest rates, which would make mortgage debt less sustainable and further damp private consumption.

# New Zealand

*Activity has been very strong over the past four years. Most recently, buoyancy due to immigration has outweighed the negative impulse from an appreciating exchange rate. This has left productive resources stretched. Rising house prices are providing further impetus to domestic demand. However, the pace of activity should soon cool to more normal rates of growth.*

*The moderate headline inflation rate reflects the net outcome of falling import prices and high domestically-generated inflation. On current monetary policy settings, these factors are likely to continue balancing out and inflation should remain under control. The budget surplus has been surprisingly large, but the government should continue to exercise caution in raising expenditure until the evidence is clear that the revenue surprise is permanent.*

***Domestic demand has remained surprisingly strong***

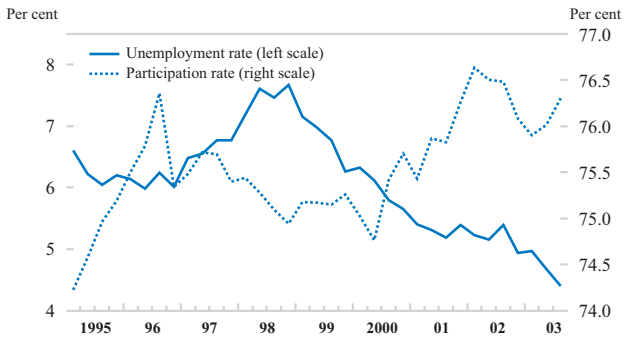
Export incomes have been falling from their unusually high peaks of a couple of years ago. The weakening external sector should have affected the rest of the economy by now, but the expected slowdown in domestic activity has not yet occurred. In fact, domestic demand grew by more than 6 per cent in the year ending in the second quarter, propelled by vigorous consumption spending and a housing boom. Consequently, both labour and capital resources are in short supply, with unemployment under 5 per cent and capacity utilisation rates at lofty levels. Output is above potential, and so domestically-generated (or non-tradeables) inflation has picked up to around 4 per cent *per annum*. However, this has been offset by falling import prices, pulling down the overall inflation rate to just 1½ per cent.

***Immigration has boosted activity, while exports have acted as a brake***

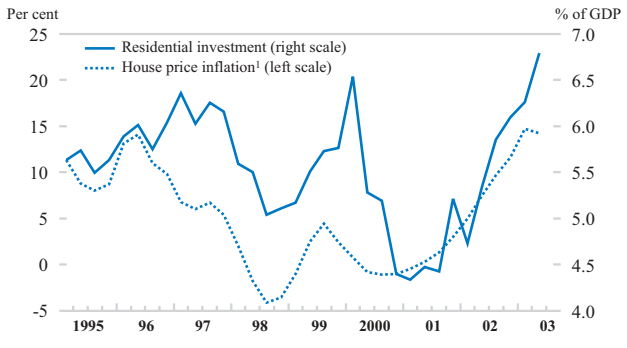
The main positive impulse has come from high immigration, which has boosted the working-age population by around 1 per cent *per annum* over the past two years. This stimulus has become most visible in the demand for housing and consumer durables, with residential construction at a 30-year high. It has also contributed to a fairly strong rise in house prices. The resulting increase in homeowners' wealth has supported consumption more broadly, as has the strong labour market. Offsetting these positive factors, export earnings have been reduced by deteriorating terms of trade, with commodity prices falling back to more normal levels, and by a continued appreciation of the currency. The higher exchange rate has allowed the Reserve Bank to cut official interest rates by 75 basis points this year, to 5.25 per cent. But as in the mid-1990s, the Bank faces an awkward juggling act between the booming housing sector and subdued export earnings. Its current stance is to wait and see whether the predicted slowdown materialises.

## New Zealand

**The labour market is tight**




**Housing sector growth is vigorous**




1. Year-on-year change.
*Source:* Statistics New Zealand.

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New Zealand: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion NZD | Percentage changes, volume | | | | |
| Private consumption | 67.8 | 2.2 | 3.8 | 4.2 | 3.5 | 3.2 |
| Government consumption | 20.2 | 3.5 | 4.7 | 3.8 | 3.3 | 2.6 |
| Gross fixed capital formation | 22.2 | -1.8 | 8.1 | 12.7 | 6.0 | 2.4 |
| Final domestic demand | 110.2 | 1.6 | 4.8 | 5.8 | 4.0 | 2.9 |
| Stockbuilding [a] | 0.8 | 0.3 | 0.1 | -0.3 | 0.3 | 0.1 |
| Total domestic demand | 111.1 | 1.9 | 5.0 | 4.9 | 4.2 | 3.0 |
| Exports of goods and services | 39.6 | 2.4 | 5.8 | 1.2 | 3.5 | 6.7 |
| Imports of goods and services | 38.2 | 1.6 | 8.8 | 9.1 | 7.1 | 6.7 |
| Net exports [a] | 1.3 | 0.3 | -0.8 | -2.5 | -1.3 | -0.2 |
| GDP (expenditure) at market prices | 112.3 | 2.2 | 4.2 | 2.7 | 3.1 | 2.9 |
| GDP deflator | _ | 4.7 | 0.2 | 1.2 | 2.5 | 2.8 |
| *Memorandum items* | | | | | | |
| GDP (production) | _ | 2.6 | 4.4 | 3.3 | 3.2 | 2.9 |
| Consumer price index | _ | 2.6 | 2.7 | 1.7 | 1.9 | 2.3 |
| Private consumption deflator | _ | 2.1 | 1.5 | 0.6 | 2.0 | 2.3 |
| Unemployment rate | _ | 5.3 | 5.2 | 4.8 | 5.0 | 5.1 |
| General government financial balance [b] | _ | 2.0 | 2.7 | 2.6 | 2.2 | 2.0 |
| Current account balance [b] | _ | -2.6 | -3.7 | -5.2 | -5.2 | -5.0 |

*Note:* National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook* Sources and Methods, *(http:// www.oecd.org/eco/sources-and-methods).*

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

*b)* As a percentage of GDP.

*Source:* OECD.

***Domestic demand may soon start to slow***

The outlook depends on how the balance of these forces plays out. Residential construction is likely to remain buoyant for some months to come, especially if speculative dynamics take hold in the housing market. This will put further pressure on economic resources and on inflation. Consumption is projected to return to more normal rates of growth when the housing market turns, mostly likely early next year. Some support for domestic demand is expected to come from a pick-up in business investment, which has remained surprisingly anaemic to date. Lower export earnings will provide some negative counter-weight, but the export sector should begin to recover again in 2004 as the world economy rebounds.

***The government accounts are healthy***

The strong economy has boosted tax revenues, lifting the central government's "core" operating surplus in 2002-03 to 4.4 per cent of GDP, some 2½ percentage points higher than the budget forecast. So far, the government has prudently avoided raising expenditure, preferring to wait and see whether the large surpluses are here to stay. However, next year's budget is likely to respond to spending pressures in the areas of infrastructure and income support for low-income families. The government has thus far avoided entering into permanent commitments based on revenue windfalls that may prove temporary, in view of the long-term fiscal gap arising from the ageing of the population.

***Risks are balanced***

The key upside risk is that the housing market may develop a full-blown bubble, in which case the projected export recovery would fuel activity at the same time as domestic demand would be continuing apace, putting the top of the inflation target in jeopardy. Alternatively, a substantial fall in residential construction, perhaps triggered by a fall in net immigration, may result in consumption rapidly stalling as households have only a limited financial buffer, indebtedness being high and the savings rate low.

# Norway

*Large interest rate cuts, exchange rate depreciation, increasing oil investment and expanding export markets are expected to lead to an economic recovery towards the end of 2003. Mainland GDP growth may reach 2¾ per cent in 2004, with the unemployment rate peaking at some 4¾ per cent. Inflation should remain low, reflecting the negative output gap being closed only in 2005.*

*The Government is continually moving away from its fiscal guidelines, thereby posing a threat to fiscal credibility. Long-run fiscal sustainability is conditional on pension reform, as future pension expenditure growth is projected to be extremely rapid in Norway compared to other countries. Reforms to curb public spending and enhance competition in sheltered sectors, in addition to prudent wage settlements, would provide a sounder environment for longer-term growth.*

***The economic downturn came to a halt in early 2003***

GDP grew by a meagre 1 per cent in 2002, held back by weak exports and investment. Activity continued to be depressed in the first quarter of 2003, partly because of surging electricity prices. Rebounding private consumption and exports led the mainland economy into positive terrain in the second quarter. Non-oil investment has continued to shrink as many large-scale projects in the manufacturing sector are wound down and there is overcapacity in the office market, while residential investment has yet to react to lower interest rates. However, because of an upswing in oil investment, the overall level of gross fixed capital formation has remained broadly unchanged. The labour market has deteriorated further, and unemployment is expected to average 4½ per cent in 2003. Core inflation has been below the ±1 percentage point interval around the 2.5 per cent inflation target since May 2003.

***Monetary policy has become highly accommodative***

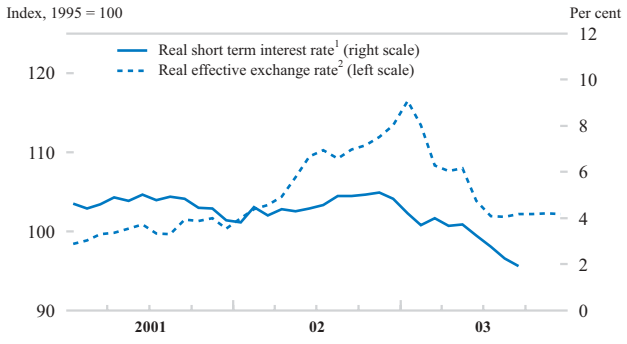
The exposed sectors have been severely squeezed since the economy peaked in 1998, and since 2000 both rising labour costs and an appreciating exchange rate have led to steep falls in the profitability of the exposed sectors. Increasing unemployment and depressed growth prospects prompted the central bank to cut its official sight deposit rate by 4.5 percentage points between December 2002 and September 2003, to 2.5 per cent. Falling interest rate spreads caused the effective exchange rate to fall, making for a significant easing in monetary conditions.

***Fiscal policy is mildly supportive***

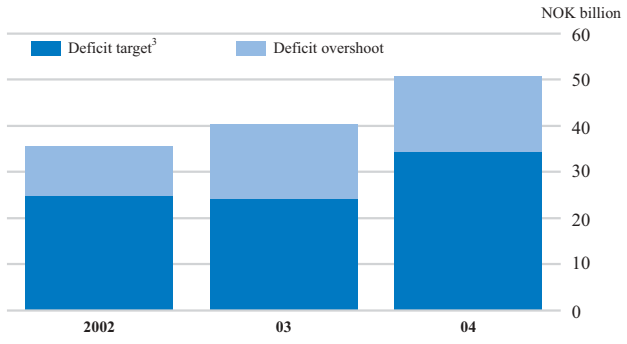
According to the National Budget, the non-oil structural deficit will exceed what is suggested by the fiscal policy guidelines[1] by as much as 1 per cent of mainland GDP in both 2003 and 2004. Measured by the change in the non-oil structural deficit, the fiscal stance is expansionary, but the impact on the economy is mainly offset by the macroeconomic impact of changes in the composition of receipts and

**Norway**

**Monetary conditions have eased**




**The non-oil deficit has overshot**




1. Deflated using the basis of consumer price index excluding changes in duties and energy prices.
2. Deflated using the consumer price index.
3. Equals 4 per cent of the market value of the Government Petroleum Fund according to the fiscal rule.

*Source:* Ministry of Finance, 2004 National Budget, OECD.

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Norway: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion NOK | Percentage changes, volume (2000 prices) | | | | |
| Private consumption | 625.5 | 2.6 | 3.6 | 3.2 | 4.0 | 3.0 |
| Government consumption | 281.1 | 2.7 | 3.2 | 1.0 | 2.0 | 2.0 |
| Gross fixed capital formation | 272.8 | -4.2 | -3.6 | 1.9 | 3.7 | -0.5 |
| Final domestic demand | 1 179.4 | 1.0 | 1.9 | 2.4 | 3.4 | 2.0 |
| Stockbuilding [a] | 35.0 | -0.5 | 0.2 | -0.3 | 0.1 | 0.0 |
| Total domestic demand | 1 214.4 | 0.4 | 2.1 | 2.0 | 3.5 | 2.0 |
| Exports of goods and services | 686.0 | 4.1 | -0.5 | -0.8 | 2.2 | 3.2 |
| Imports of goods and services | 431.3 | 0.9 | 1.7 | 2.5 | 4.0 | 3.9 |
| Net exports [a] | 254.6 | 1.6 | -0.8 | -1.1 | -0.2 | 0.3 |
| GDP at market prices | 1 469.1 | 1.9 | 1.0 | 0.6 | 2.8 | 2.0 |
| GDP deflator | _ | 1.9 | -1.3 | 2.0 | 2.5 | 3.3 |
| *Memorandum items* | | | | | | |
| Mainland GDP at market prices [b] | _ | 1.7 | 1.3 | 0.3 | 2.7 | 2.2 |
| Consumer price index | _ | 3.0 | 1.3 | 2.5 | 1.2 | 2.5 |
| Private consumption deflator | _ | 2.4 | 0.7 | 2.0 | 1.1 | 2.3 |
| Unemployment rate | _ | 3.5 | 4.0 | 4.5 | 4.7 | 4.5 |
| Household saving ratio [c] | _ | 3.7 | 6.9 | 5.0 | 5.3 | 5.4 |
| General government financial balance [d] | _ | 13.7 | 10.9 | 9.8 | 9.7 | 8.4 |
| Current account balance [d] | _ | 15.3 | 13.2 | 12.7 | 12.4 | 12.3 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* GDP excluding oil and shipping.
*c)* As a percentage of disposable income.
*d)* As a percentage of GDP.
*Source:* OECD.

outlays. In particular, the income side will suffer from loss of extraordinary receipts which are not likely to have much impact on activity. Making the strong assumption that the non-oil structural deficit henceforth remains at its 2004 level in kroner terms, *i.e.* that no extra oil money is spent, fiscal policy will not be back in line with the guidelines before the end of this decade.

***Activity is set to pick up***

Growth in mainland GDP is projected to recover from ½ per cent in 2003 to some 2¾ per cent in 2004. Low inflation and still-rising government transfers will help boost household real disposable income. Together with low interest rates, higher incomes should support private consumption, which in turn will provide the main impetus to growth. Mainland exports, which should finally gain some leeway from favourable currency and wage developments, will pick up as the world recovery gains momentum. Real public expenditure is estimated to decelerate as a share of mainland GDP. With inflation still low and unemployment remaining high, wage growth is likely to be moderate, in line with trading partners.

***The recovery is exposed to downside and upside risks***

Despite recent improvements in external competitiveness, the accumulated deterioration since 1998 has left the exposed sectors in a vulnerable state. Several factors could damage the recovery in confidence. Renewed wage pressures as recovery gets under way could increase the uncertainty as to whether a sustained upswing is attainable. Furthermore, in light of the long-run vulnerability in public finances, a too-expansionary stance of fiscal policy could result in market pressures on both interest rates and the exchange rate. On the other hand, the currently very low level of interest rates could boost consumer spending more than anticipated.

1. The fiscal policy guidelines, adopted in 2001, state that the use of oil money in government budgets, measured as the non-oil structural deficit, should equal the projected real return on the Petroleum Fund, estimated at 4 per cent.

# Poland

*GDP increased by 3 per cent year-over-year in the first half of 2003, driven by strong export growth following the depreciation of the zloty. Improved profitability and rising consumer demand are projected to broaden the base of the recovery, allowing growth to strengthen and reach 4½ per cent in 2005. Unemployment is expected to begin falling towards the end of 2004 as employment starts to expand, but the still-large output gap should keep inflationary pressures in check.*

*Substantial cuts in nominal interest rates and the depreciation of the zloty have eased monetary conditions, but real interest rates remain high, indicating scope for further relaxation. In order to do so without provoking the emergence of an unsustainable current account deficit, an already relaxed fiscal stance needs to be tightened rather than loosened as currently proposed.*

***A recovery is underway***

Real GDP grew by 3 per cent (year-over-year) in the first half of 2003. The driving force behind the recovery during this period was a 10 per cent increase in exports, which coincided with a 13 per cent effective depreciation of the currency. So far, the contribution of domestic demand to growth has been limited, with consumption being held back by weak incomes and falling investment, although at a diminishing rate. Meanwhile, there has been a further depreciation, which bodes well for continued strong export performance. Recent industrial production and retail sales data indicate that the recovery continued during the third quarter, with the latter suggesting that domestic demand is also strengthening.

***Inflation remains low and employment has stopped falling***

Employment continued to decline in the first half of 2003, although less rapidly than in previous years. The most recent data suggest that it may have increased during the third quarter, with all regions sharing in the improvement. Overall, the unemployment rate has stabilised at a very high 19 per cent of the labour force. In these conditions, private sector wage growth has been moderate, which has allowed inflation to remain at very low levels – notwithstanding a recent reversal of food price declines. At 0.5 and 0.9 per cent in September, both core and headline inflation remain well below the central bank's official target of 3 ±1 per cent.

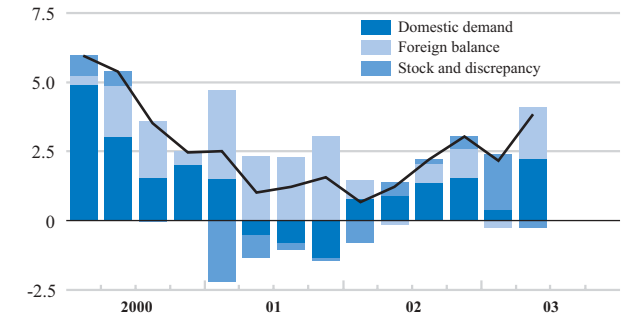
***Fiscal policy will loosen substantially in 2004***

The 2004 Budget builds in a further relaxation of fiscal policy of 1 per cent of GDP, prospectively bringing the public-sector deficit to some 5 per cent of GDP. A medium-term plan proposes spending cuts that would come into force mainly in

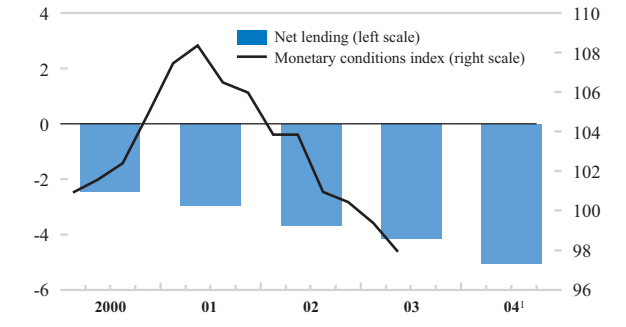
## Poland

**Exports are leading growth**

Contributions to year-on-year growth




**Fiscal and monetary conditions have eased**




1. Official budget bill estimates.

*Source:* OECD.

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Poland: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion PLZ | Percentage changes, volume | | | | |
| Private consumption | 454.2 | 2.0 | 3.3 | 2.8 | 3.2 | 4.0 |
| Government consumption | 127.9 | 0.6 | 1.2 | 0.4 | 1.2 | 1.3 |
| Gross fixed capital formation | 170.4 | -8.8 | -6.8 | 1.1 | 5.0 | 6.5 |
| Final domestic demand | 752.6 | -0.6 | 0.9 | 2.1 | 3.2 | 4.0 |
| Stockbuilding [a] | 8.1 | -1.2 | 0.0 | 0.7 | 0.1 | 0.0 |
| Total domestic demand | 760.7 | -1.6 | 1.0 | 2.6 | 3.2 | 4.0 |
| Exports of goods and services | 201.5 | 3.1 | 4.8 | 9.8 | 10.5 | 11.5 |
| Imports of goods and services | 248.9 | -5.4 | 2.6 | 7.3 | 9.0 | 9.5 |
| Net exports [a] | - 47.3 | 3.1 | 0.7 | 0.9 | 0.6 | 0.9 |
| Statistical discrepancy [a] | 0.0 | -0.5 | -0.3 | -0.2 | -0.3 | -0.3 |
| GDP at market prices | 713.4 | 1.0 | 1.4 | 3.3 | 3.5 | 4.5 |
| GDP deflator | _ | 4.2 | 1.4 | 0.4 | 0.9 | 0.6 |
| *Memorandum items* | | | | | | |
| Consumer price index | _ | 5.5 | 1.9 | 0.8 | 1.9 | 1.4 |
| Private consumption deflator | _ | 5.0 | 1.8 | 0.8 | 1.9 | 1.4 |
| Unemployment rate | _ | 18.2 | 19.9 | 19.3 | 19.2 | 18.5 |
| General government financial balance [b] | _ | -3.0 | -3.7 | -4.2 | -5.0 | -4.8 |
| Current account balance [b] | _ | -2.9 | -2.8 | -3.1 | -3.9 | -4.3 |

*Note:* National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook* Sources and Methods, *(http:// www.oecd.org/eco/sources-and-methods).*

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

*b)* As a percentage of GDP.

*Source:* OECD.

2005, but its credibility is uncertain given elections scheduled for that year. The budgetary expansion, if pursued, would come on top of a substantial relaxation of monetary conditions, following the depreciation of the currency and several cuts in interest rates.

***The recovery should strengthen…***

Looking forward, real GDP is projected to gradually accelerate, reaching 4½ per cent in 2005. Export growth is expected to remain strong, supported by the cumulative effects of the exchange rate depreciation and accelerating foreign demand. As profitability improves within sectors serving external markets and opportunities emerge from accession to the European Union, investment growth is likely to pick up, widening the base of the recovery. Despite heightened activity, the pace of consumer demand is projected to remain moderate, both because employment is expected to respond only slowly and because high unemployment should keep increases in wages moderate. Notwithstanding strong export growth, rising imports in response to the pick up in domestic demand are projected to cause the already large current account deficit to widen, reaching more than 4 per cent of GDP in 2005. High unemployment and a still large output gap should ensure that inflationary pressures remain muted.

***… but an emerging twin deficit problem could slow growth***

The main risk pertaining to this projection concerns the reaction of domestic demand to more relaxed monetary conditions and the simultaneous loosening of fiscal policy at a time when demand is already recovering. Should domestic demand accelerate more rapidly than projected, the current account deficit could reach unsustainable levels, provoking an increase in the risk premium on the zloty and higher interest rates, choking off the recovery.

# Portugal

*Activity is estimated to have contracted in 2003, reflecting a further fall in private domestic demand and weak external markets. However, both have turned around from mid-year and a gradual recovery is projected for 2004 and 2005. The output gap will nevertheless remain large in 2005, and the unemployment rate high. In this context, the inflation differential vis-à-vis the euro area should continue to narrow.*

*The recession brought a halt to the reduction in the fiscal deficit, despite continuing consolidation efforts. Continued forceful implementation of already-approved structural measures is essential to rein in public spending. Additional measures will be needed to reduce the structural deficit further over the medium term.*

***Portugal was in recession in 2003***

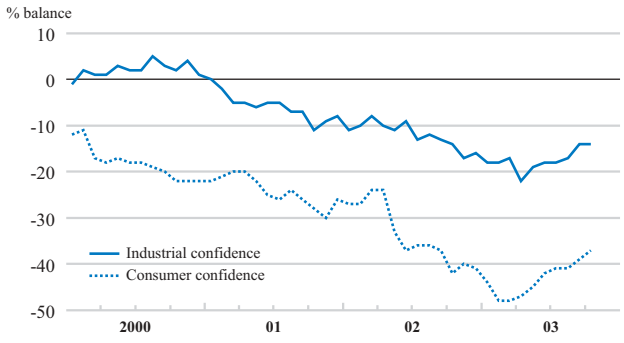
Activity contracted in 2003, as the downward adjustment of private demand initiated in the early 2000s accelerated. In a depressed European environment, external demand did not take over as an engine of growth. The output gap widened and unemployment reached its highest level since 1997. The low point of the cycle was reached by mid-year and some positive signs have appeared since then. Business and household confidence, while still low, have turned around and domestic and foreign orders have recovered somewhat. Reflecting rising unemployment, nominal wages have decelerated, albeit with a lag. Although remaining large in the first half of the year, the inflation differential *vis-à-vis* the euro area subsequently narrowed (to close to 1 percentage point in September 2003 for headline inflation). Imports contracted along with domestic demand, and the current account deficit narrowed to a still high 4.9 per cent of GDP.

***Efforts towards fiscal consolidation continue***

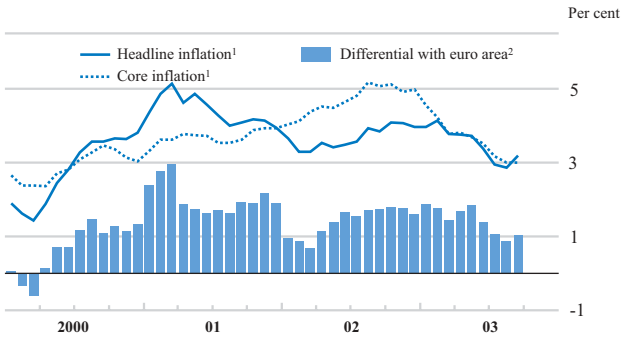
In 2002, Portugal succeeded in bringing its fiscal deficit back to below 3 per cent of GDP from the 4.3 per cent reached in 2001, although partly through a tax amnesty and last minute one-off operations. In 2003, the contraction in activity put a halt to deficit reduction. Control over current expenditure was maintained following measures approved in 2002, but tax revenues have been much lower than expected. As a result, the 2003 fiscal deficit might have been expected to go back to well above the 3 per cent limit. However, a recent decision by Eurostat allowing the recording of one-off transfers (of 0.7 per cent of GDP) as State receipts will keep the deficit under 3 per cent of

## Portugal

**Confidence indicators have picked up**




**Inflation is coming down**




1. Year-on-year percentage changes. Harmonised index of consumer prices. Core inflation excludes energy, food, alcohol and tobacco.
2. Harmonised index of consumer prices.

*Source:* European Commission; OECD.

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Portugal: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion euros | Percentage changes, volume (1995 prices) | | | | |
| Private consumption | 71.6 | 1.3 | 0.6 | -1.0 | 1.2 | 2.4 |
| Government consumption | 23.7 | 3.4 | 2.8 | -1.0 | -1.0 | -0.9 |
| Gross fixed capital formation | 32.4 | 0.1 | -5.3 | -9.0 | 1.9 | 6.0 |
| Final domestic demand | 127.7 | 1.3 | -0.5 | -2.9 | 1.0 | 2.6 |
| Stockbuilding[a] | 0.8 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 |
| Total domestic demand | 128.5 | 1.3 | -0.5 | -3.0 | 0.9 | 2.6 |
| Exports of goods and services | 36.4 | 1.8 | 2.1 | 3.3 | 5.1 | 6.6 |
| Imports of goods and services | 49.4 | 0.9 | -0.4 | -3.0 | 3.1 | 6.1 |
| Net exports[a] | - 13.0 | 0.2 | 0.9 | 2.5 | 0.5 | -0.2 |
| GDP at market prices | 115.5 | 1.7 | 0.4 | -0.8 | 1.5 | 2.6 |
| GDP deflator | _ | 4.9 | 4.6 | 2.6 | 2.3 | 2.1 |
| *Memorandum items* | | | | | | |
| Harmonised index of consumer price | _ | 4.4 | 3.7 | 3.3 | 2.1 | 1.8 |
| Private consumption deflator | _ | 4.4 | 3.7 | 3.6 | 2.1 | 1.8 |
| Unemployment rate | _ | 4.1 | 5.1 | 6.4 | 6.5 | 6.0 |
| Household saving ratio[b] | _ | 10.9 | 12.1 | 13.1 | 13.2 | 12.4 |
| General government financial balance[c] | _ | -4.3 | -2.7 | -2.9 | -3.0 | -2.3 |
| Current account balance[c] | _ | -9.4 | -7.1 | -4.9 | -4.0 | -3.7 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* As a percentage of disposable income.
*c)* As a percentage of GDP.
*Source:* OECD.

GDP in 2003.[1] Consolidation efforts are set to continue in 2004 and 2005. The 2004 budget preparation confirms tight control over expenditure. Moreover, the impact of structural measures decided in 2002 (regarding the health sector and public administration) should become increasingly visible. Excluding the impact of the 2003 one-off transfer, the cyclically-adjusted budget deficit is expected to decline gradually by close to ½ per cent of GDP a year in 2004 and in 2005. This consolidation would, however, be insufficient to approach balance in 2005 (even adjusting for the cycle) and additional retrenchment efforts would be needed to reach this target.

***Portugal should recover, in step with Europe, but domestic risks persist***

A gradual recovery in activity is expected for 2004 and 2005. The output gap, though narrowing, is unlikely to be closed by 2005 and unemployment is set to remain well above the estimated structural rate of unemployment. Against this background, wages are expected to decelerate further, and the inflation differential *vis-à-vis* the euro area should disappear by end 2005. The upturn will be driven by both stronger foreign and private domestic demand. In particular, private investment is set to start growing briskly now that excess capacity has been whittled away. Private consumption will pick up with a lag as employment recovers. Consumer behaviour, nevertheless, remains a key uncertainty in the projection, particularly with respect to the speed at which improvements in confidence translate into increased spending. A further risk to the recovery lies in wage behaviour. If wages do not slow as expected, and the upward trend in unit labour costs is not halted, then further competitiveness losses could jeopardise the recovery.

1. On 21 October 2003, Eurostat decided that the payment to the government of one-off compensation when unfunded pension obligations are transferred from a public corporation to the State was to be recorded as government revenue. This decision applies to Portugal, where the government received one-off compensation as unfunded pension obligations were transferred from postal services (CTT).

# Slovak Republic

*Output is likely to accelerate in 2004, driven by strong private investment and exports, and growth should reach almost 4½ per cent in 2005. Headline inflation is expected to surge once again in 2004, as administered prices are increased towards cost-recovery levels, but to converge subsequently towards the average inflation rate in the European Union. Unemployment will continue to fall, but remain at a high level.*

*The planned consolidation of public finances is welcome. Compliance with the Economic and Monetary Union fiscal rules in 2006, as envisaged by the government, is within reach and would help balance the policy mix. The ambitious structural reforms under way are commendable and, if pursued, would foster sustained increases in output and employment.*

***GDP continues to grow strongly***

Output growth in Slovakia remains the strongest among the Central and Eastern European countries, even though it has fallen back to about 4 per cent during 2003, as fiscal policies were tightened and administered prices were increased, squeezing real wages and damping consumption. Private investment and exports have been firmer than in 2002. The large current account deficit of more than 8 per cent of GDP has been cut to just over 2 per cent in 2003 as exports, particularly those from foreign direct investment (FDI)-firms, have expanded markedly. FDI continues to flow in on a large scale thanks to low labour costs, privatisation efforts and a favourable business environment.

***Inflation surged temporarily***

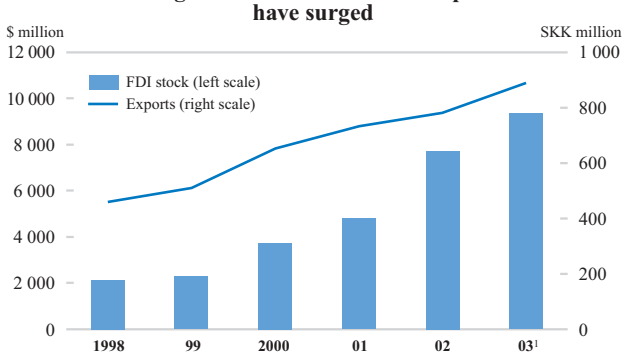
Headline inflation has risen sharply in 2003, as a result of the administrated price adjustments, and is expected to reach about 8.5 per cent as a yearly average. Excluding regulated prices, inflation remains modest. The unemployment rate has declined somewhat to 14 per cent in autumn 2003 (registered basis), but unemployment in the long-term and low-skilled segment is becoming entrenched.

***Disinflation and currency stabilisation are being pursued in parallel***

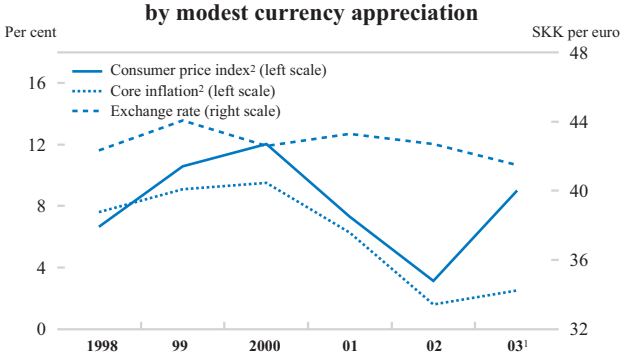
The Central Bank has been intervening in foreign exchange markets to contain pressure on the Koruna, while sterilising the resulting increases in base money. Pursuing a disinflation strategy, it has also maintained relatively high policy rates. However, they were cut in September 2003 in order to contain short-term capital inflows and in view of persistently high unemployment, low core inflation and earlier efforts at fiscal consolidation.

## Slovak Republic

**Foreign direct investment and exports have surged**




**Disinflation is backed by modest currency appreciation**




1. Estimate based on developments during the first half of 2003.
2. Year-on-year percentage change. Core inflation excludes changes in administered prices.

*Source:* National bank of Slovakia and OECD.

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Slovak Republic: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion SKK | Percentage changes, volume (1995 prices) | | | | |
| Private consumption | 510.7 | 3.9 | 5.3 | 0.5 | 2.1 | 4.2 |
| Government consumption | 180.3 | 5.1 | 4.0 | -0.6 | 1.2 | 1.2 |
| Gross fixed capital formation | 267.9 | 9.6 | -0.9 | 0.7 | 6.0 | 8.5 |
| Final domestic demand | 958.9 | 5.7 | 3.2 | 0.3 | 3.0 | 4.8 |
| Stockbuilding [a] | - 28.1 | 1.4 | 0.8 | 0.0 | 0.0 | 0.0 |
| Total domestic demand | 930.9 | 7.2 | 4.0 | 0.3 | 3.0 | 4.8 |
| Exports of goods and services | 652.4 | 6.5 | 5.9 | 19.8 | 9.3 | 9.0 |
| Imports of goods and services | 674.5 | 11.7 | 5.3 | 14.7 | 8.0 | 9.5 |
| Net exports [a] | - 22.1 | -4.0 | 0.3 | 3.5 | 1.2 | -0.4 |
| GDP at market prices | 908.8 | 3.3 | 4.4 | 3.9 | 4.2 | 4.4 |
| GDP deflator | _ | 5.4 | 4.0 | 5.2 | 5.7 | 3.3 |
| *Memorandum items* | | | | | | |
| Consumer price index | _ | 7.3 | 3.1 | 8.6 | 7.9 | 4.0 |
| Private consumption deflator | _ | 5.6 | 2.4 | 8.6 | 7.9 | 4.0 |
| Unemployment rate | _ | 19.3 | 18.6 | 17.6 | 16.9 | 16.5 |
| General government financial balance [b] | _ | -6.8 | -7.2 | -5.1 | -4.1 | -3.5 |
| Current account balance [b] | _ | -8.5 | -8.1 | -2.2 | -2.8 | -4.0 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* As a percentage of GDP.
*Source:* OECD.

***Fiscal consolidation has started, but its extent is unclear***

The government is committed to reducing the budget deficit from 7.2 per cent of GDP (on an ESA 95 national accounts basis) in 2002 to 4.9 per cent in 2003 and to reaching the Maastricht level of 3 per cent by 2006, mainly through broad-based expenditure cuts. However, lower-than-expected tax revenues induced the authorities to advance a planned increase in excise taxes by five months, and higher-than-planned payment arrears appear to have built up in the education and health sectors. Any remaining shortfalls in the budget may be met through financial asset transactions, normally recorded below the line. The precise assessment of the fiscal stance is difficult, as data and projections on a consolidated general government accounts basis are not readily available in the context of ongoing decentralisation.

***Structural reforms and foreign investment are driving growth***

An ambitious set of structural reforms is being launched, comprising a redesign of the welfare system to stimulate labour supply and demand, a reduction in income taxes to strengthen economic incentives, and an overhaul of the expenditure system, and will help to support activity. The reforms have the potential to broaden the basis of growth and make it more job-rich, by facilitating the development of small-scale domestic firms. At the same time, growing exports by new and expanding FDI-firms will continue to boost economic activity.

***Growth should accelerate, with some downside risks***

GDP is projected to accelerate to about 4¼ per cent in 2004 and 4½ per cent in 2005. Headline inflation is expected to drop only slightly in 2004, as further increases in administrated prices, together with higher food prices following the adoption of the Common Agricultural Policy after European Union (EU) accession, will temporarily push up the price level. More marked disinflation is projected for 2005. The main downside risks relate to political opposition to public expenditure cuts, which could threaten the fiscal consolidation efforts. Also, large-scale capital inflows related to EU accession could amplify tensions between inflation and exchange-rate stabilisation objectives if the exchange rate is defended by lowering policy rates.

# Spain

*Activity has been more resilient in Spain than in most other European Union countries. While foreign demand has suffered from weak activity in Europe and the appreciation of the euro, buoyant consumption and construction demand have sustained growth. Meanwhile, inflation has moderated, partly due to the euro appreciation, although a significant but shrinking inflation differential with the euro area persists. Growth should progressively accelerate to 3 per cent by 2005, with a more balanced contribution across demand components.*

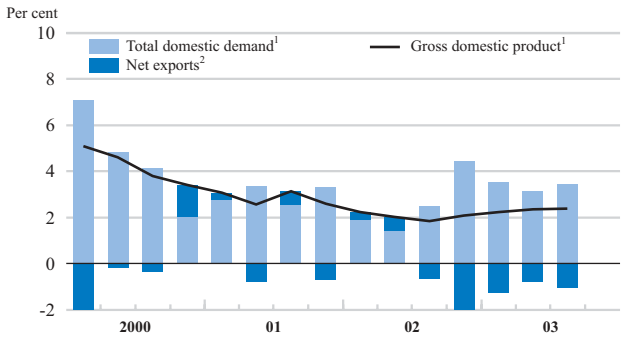
*In 2004, the government foresees a balanced budget once more, thus complying with the Fiscal Stability Law. The fiscal stance will be broadly neutral, which is appropriate given the resilience of the economy and the relatively relaxed monetary conditions. Reforms to improve flexibility in wage bargaining and to further raise competition in sheltered sectors would contribute to reducing the inflation differential with the euro area.*

***Domestic demand has sustained activity and inflation has moderated***

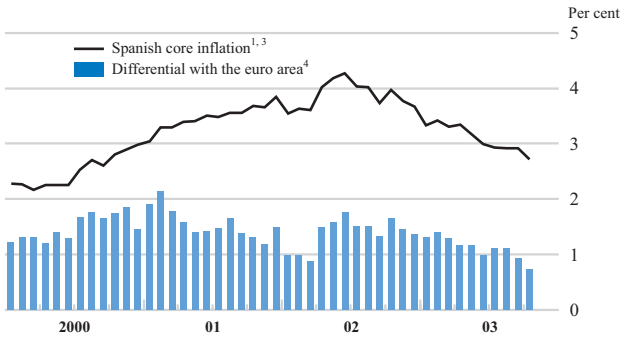
Sustained by strong private consumption and construction investment, the Spanish economy has continued to weather the international slowdown well. Equipment investment, which had fallen since mid-2001, recovered at the end of 2002 but has been more hesitant recently. Overall, domestic demand has been growing at above 3 per cent a year over the last year and a half. With an effective appreciation of 4 per cent since the beginning of 2002 and no recovery in Europe, net exports have remained a drag on growth. Job creation has decelerated but remains strong, with national accounts employment growing at more than 1½ per cent during the first half of 2003. However, the unemployment rate has stabilised at around 11¼ per cent as the labour force has continued to expand due to immigration and the progressive increase in female participation. Recent activity indicators are mixed. Car sales have soared and service sector indicators are strong, but industrial production is still weak. Headline inflation has slowed from 3¾ per cent in late 2002 to under 3 per cent as energy prices have fallen and the euro appreciation has moderated import prices. Underlying inflation has also receded, although the inflation differential with the euro area is at around ¾ per cent. Wage growth has, nevertheless, accelerated from 3 to 3½ per cent over the first half of 2003, due to inflation catch-up clauses.

## Spain

**Activity has been resilient**




**Inflation has decelerated**




1. Year-on-year percentage changes.
2. Contribution to GDP growth.
3. The break in 2001 of the Spanish harmonised consumer price index has been corrected using the national consumer price data.
4. The differential is calculated with core harmonised consumer price data.

*Source:* Instituto Nacional de Estadística, Eurostat and OECD.

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Spain: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion euros | Percentage changes, volume (1995 prices) | | | | |
| Private consumption | 359.3 | 2.8 | 2.6 | 3.4 | 3.5 | 3.4 |
| Government consumption | 107.2 | 3.6 | 4.4 | 3.5 | 3.5 | 3.2 |
| Gross fixed capital formation | 154.5 | 3.3 | 1.0 | 2.8 | 4.0 | 4.7 |
| Final domestic demand | 621.1 | 3.1 | 2.6 | 3.3 | 3.6 | 3.7 |
| Stockbuilding [a] | 2.3 | -0.1 | 0.0 | 0.0 | 0.1 | 0.0 |
| Total domestic demand | 623.4 | 3.0 | 2.6 | 3.3 | 3.7 | 3.7 |
| Exports of goods and services | 183.7 | 3.6 | 0.0 | 4.1 | 5.2 | 7.2 |
| Imports of goods and services | 197.3 | 4.0 | 1.8 | 7.1 | 7.6 | 8.3 |
| Net exports [a] | - 13.6 | -0.2 | -0.6 | -1.1 | -1.0 | -0.7 |
| GDP at market prices | 609.7 | 2.8 | 2.0 | 2.3 | 2.9 | 3.1 |
| GDP deflator | _ | 4.2 | 4.4 | 3.7 | 3.3 | 3.1 |
| *Memorandum items* | | | | | | |
| Harmonised index of consumer price | _ | 2.8 | 3.6 | 3.2 | 2.8 | 2.9 |
| Private consumption deflator | _ | 3.3 | 3.5 | 3.0 | 2.8 | 2.9 |
| Unemployment rate [b] | _ | 10.5 | 11.4 | 11.4 | 11.0 | 10.6 |
| Household saving ratio [c] | _ | 10.1 | 10.6 | 10.8 | 10.4 | 9.9 |
| General government financial balance [d] | _ | -0.3 | 0.1 | 0.1 | 0.2 | 0.3 |
| Current account balance [d] | _ | -2.8 | -2.4 | -3.6 | -4.0 | -4.3 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* Spanish data on labour force, employment and unemployment are revised since 1976 using the methodology applied by the Labour Force Survey as from 2002. Revisions are made by the OECD based on information from the official Statistical Office in Spain. They imply a downward revision of the unemployment rate by 2.5 points in 2001.
*c)* As a percentage of disposable income.
*d)* As a percentage of GDP.
*Source:* OECD.

***The fiscal stance will be appropriately neutral in 2004 and 2005***

The appreciation of the euro has tightened monetary conditions, which nevertheless remain relaxed due to negative real short-term interest rates. The general government account is likely to be in balance in 2003, as officially projected. For 2004, the government again aims at a balanced budget, with a small State deficit compensated by a surplus in the social security accounts. The personal income tax reform implemented in 2003 should affect tax receipts in 2004 only marginally. Overall, the fiscal stance is expected to remain broadly neutral over the projection period, with small budget surpluses in 2004 and 2005.

***A recovery in export demand should bring more balanced growth***

Real GDP growth should progressively pick up in 2004 as the international environment improves. Internal demand is projected to remain strong, with a lower contribution from construction demand but more equipment investment as companies start to expand capacity. Export growth will pick up, though it will continue to be affected by the recent euro appreciation, and net exports will continue to make a negative contribution because of lower demand in the euro area than in Spain. Overall, growth should firm progressively to 3 per cent by 2005, with a more balanced contribution across demand components. Employment should continue to grow strongly, pulled by more vigorous activity, with labour productivity recovering only slightly and unemployment falling to 10½ per cent by the end of the projection period. Inflation should moderate somewhat in 2004, but could pick up again in 2005 as the output gap starts to close.

***Risks are balanced***

Uncertainties relate to the strength of the recovery in the European Union and to a further appreciation of the euro, which could have a negative impact on net exports. Given the large rise in house prices in recent years, a sudden and sharp correction, though unlikely, is a risk, and would have a negative wealth effect on consumer spending. On the other hand, if activity in construction does not moderate growth would be higher than projected.

# Sweden

*The economy expanded moderately in 2003, with output growth remaining somewhat below its potential rate. Prospects look brighter for 2004 and 2005, when external demand is projected to pick up and household spending and business investment to accelerate. While the immediate risk to inflation from the collective wage negotiations in spring 2004 has abated, the final agreements may end up reducing working hours, thereby restricting potential growth.*

*Further stimulus through fiscal or monetary policy easing would not be warranted. The current structural surplus should be sustained and monetary policy tightened gradually as the expansion gathers steam.*

***Activity is increasing at a moderate pace***

Output growth decelerated somewhat in the second quarter of 2003 after a strong rebound at the beginning of the year, reflecting slowing though still-robust export growth and a decline in business investment. Rising unemployment has probably been restraining household spending, but buoyant retail sales and a marked improvement in consumer sentiment over the summer point to some acceleration of private consumption. However, business confidence remains subdued despite some recent firming, which along with relatively low outstanding orders indicates that a further moderation of activity took place in the second half of the year. Growth for the year as a whole is likely to have been around 1½ per cent. Consumer price inflation has eased substantially after the up-tick in the early months of 2003, mostly reflecting lower underlying inflation but also some reversal of earlier energy price increases.

***Previous tax cuts are stimulating domestic demand…***

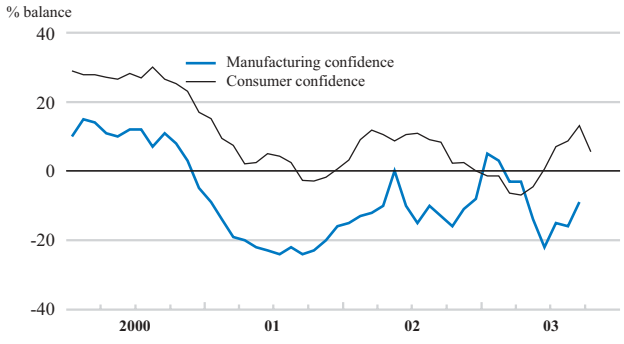
While households have reacted cautiously to the large central government tax cuts and other discretionary easing of fiscal policy in 2002 by saving more, a gradual reduction of the saving ratio is projected to boost private consumption in 2004 and 2005. Fiscal policy is assumed not to add further stimulus over the projection period, as higher local government taxes broadly offset a slight central government easing. Automatic stabilisers and falling revenues from corporate and capital gains taxes have reduced the general government surplus to almost zero in 2003, while the closing of the output gap should contribute to bringing it back to around 1 per cent of GDP by 2005.

***… along with a recent easing of monetary policy***

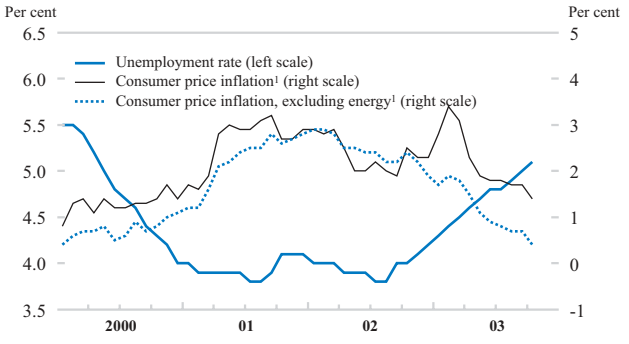
The *Riksbank* provided additional monetary stimulus when lowering its policy rate by 75 basis points in June and July 2003, leaving the repo rate at a long-time low of 2¾ per cent. Although annual inflation is likely to drop temporarily below 1 per

## Sweden

**Confidence indicators are mixed**




**Inflation pressure is easing**




1. Year-on-year.
*Source:* Statistics Sweden; National Institute for Economic Research; OECD.

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Sweden: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion SEK | Percentage changes, volume | | | | |
| Private consumption | 1 078.0 | 0.2 | 1.3 | 1.7 | 2.5 | 2.6 |
| Government consumption | 589.6 | 0.9 | 2.1 | 0.7 | 0.7 | 0.7 |
| Gross fixed capital formation | 389.3 | 0.8 | -2.5 | 0.4 | 2.7 | 6.1 |
| Final domestic demand | 2 057.0 | 0.5 | 0.8 | 1.2 | 2.1 | 2.7 |
| Stockbuilding [a] | 16.2 | -0.4 | -0.1 | 0.1 | 0.0 | 0.0 |
| Total domestic demand | 2 073.1 | 0.0 | 0.6 | 1.3 | 2.1 | 2.7 |
| Exports of goods and services | 1 006.8 | -0.8 | 0.4 | 5.0 | 5.0 | 6.6 |
| Imports of goods and services | 883.1 | -3.5 | -2.7 | 5.2 | 4.8 | 6.9 |
| Net exports [a] | 123.6 | 1.1 | 1.3 | 0.5 | 0.6 | 0.7 |
| GDP at market prices | 2 196.8 | 1.1 | 1.9 | 1.5 | 2.3 | 2.7 |
| GDP deflator | _ | 2.0 | 1.3 | 2.0 | 2.2 | 2.8 |
| *Memorandum items* | | | | | | |
| Consumer price index | _ | 2.6 | 2.4 | 2.1 | 1.4 | 2.2 |
| Private consumption deflator | _ | 2.1 | 2.0 | 2.2 | 1.4 | 2.0 |
| Unemployment rate [b] | _ | 4.0 | 4.0 | 4.8 | 4.7 | 4.4 |
| Household saving ratio [c] | _ | 5.2 | 8.2 | 8.2 | 6.5 | 5.7 |
| General government financial balance [d,e] | _ | 4.6 | 1.1 | 0.2 | 0.5 | 1.0 |
| Current account balance [d] | _ | 3.9 | 4.1 | 3.7 | 4.3 | 4.9 |

*Note:* National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook* Sources and Methods, *(http://www.oecd.org/eco/sources-and-methods).*

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* Based on monthly Labour Force Surveys.
*c)* As a percentage of disposable income.
*d)* As a percentage of GDP.
*e)* Maastricht definition.
*Source:* OECD.

cent in the early months of 2004, as large rises in electricity prices in early 2003 drop out of the base, a cautious approach to any further interest rate reductions is warranted. Once the economy gathers steam and approaches its potential, rate hikes would be appropriate.

***Growth should accelerate in 2004 and 2005…***

Output growth is projected to climb to around 2¼ per cent in 2004 and 2¾ per cent in 2005. Private consumption and business investment should accelerate through 2004, as households and firms respond to the policy stimulus. The unemployment rate is projected to fall back as businesses start to increase hiring during 2004. Wage increases should be moderate for a time, before rising again in 2005 as the labour market tightens. This could push up consumer price inflation to around 2¼ per cent in 2005.

***… but prospects could be hampered by increasing wage pressure***

With the telecommunications sector seemingly on a more stable footing, the main risk centres on the collective wage negotiations in 2004. Though the recent agreement for the municipal sector may provide a yardstick for achieving a moderate wage outcome, the signals in the 2004 state budget concerning lower working hours and "sabbatical leave" may inspire demands for more leisure. Along with a still growing number of disability pensioners, this could generate additional pressure on capacity and more wage drift.

# Switzerland

*Switzerland has been hit harder than the majority of other OECD countries by the downturn in international activity. Output is likely to have declined by ½ per cent in 2003, but could pick up gradually and grow by 1¼ per cent in 2004 as a result of the improved external environment and the fall in the franc. Unemployment is unlikely to recede before the second half of 2004, while inflation could dip further and lead to virtual price stagnation.*

*Monetary conditions should remain easy until the recovery is firmly established. In the absence of room for interest rate cuts, the Swiss National Bank should stand ready to intervene in the foreign exchange market to head off any unwanted appreciation of the franc to minimise the risk of deflation. Any further relaxation of fiscal policy would, on the other hand, be neither desirable nor effective as a way of stimulating activity. For growth to pick up on a sustainable basis, the scope and pace of structural reforms in the product markets need to be stepped up.*

***The economy is in recession and inflation is very low***

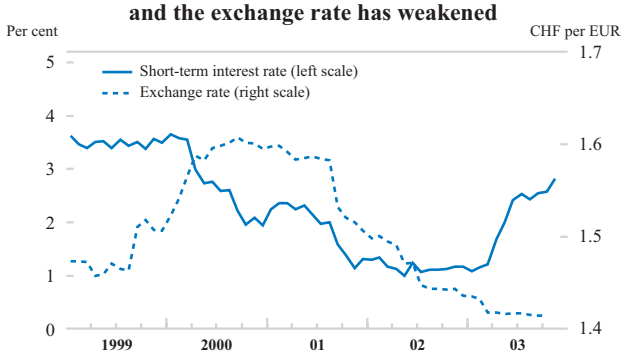
Since the end of 2002, the Swiss economy has been going through its second recession in two years. This is due partly to the deterioration in the external environment, which was especially marked in the financial, capital goods and tourism sectors, in which Switzerland is specialised, while the appreciation of the franc up until spring 2003 curbed exports. There was also a pronounced downturn in domestic demand caused by the fall in investment and inventories, while private consumption, although more resilient, weakened as household confidence deteriorated. According to recent indicators, activity remained sluggish in the third quarter of 2003 and further job losses are to be expected over the coming months, even though the unemployment rate was around 4 per cent in autumn 2003, the highest level for five years. Against this background, inflation has declined further to ½ per cent in October 2003.

***Monetary conditions remain easy***

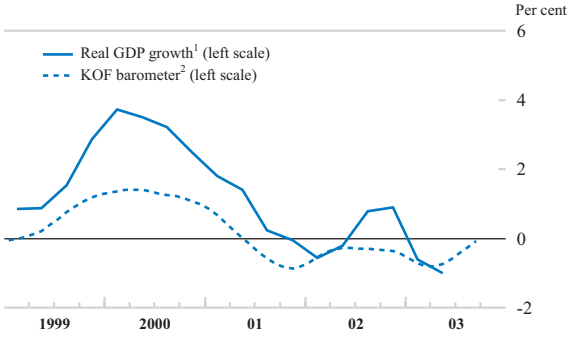
The last cut in interest rates by the Swiss National Bank (SNB), which lowered the 3-month LIBOR to ¼ per cent in March 2003, contributed to a weakening of the franc of almost 5 per cent against the euro, and of 4 per cent in effective terms between spring and autumn 2003. With no room left to reduce interest rates, the monetary authorities indicated their intention of intervening on the foreign exchange market in the event of an unwanted rise in the exchange rate. In the projections, it is assumed that the SNB will keep rates unchanged until early 2005.

## Switzerland

**Interest rates have been cut and the exchange rate has weakened**




**The economy may have bottomed out**




1. Year-on-year percentage changes.
2. The KOF barometer is a leading indicator of future GDP growth, with an average lead of 6 to 9 months.

*Source:* National Swiss Bank; Credit Suisse; OECD, *Quarterly National Accounts;* Federal Institute of Technology of Zurich.

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Switzerland: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices billion CHF | Percentage changes, volume (1990 prices) | | | | |
| Private consumption | 242.0 | 2.1 | 0.7 | 0.4 | 1.2 | 1.8 |
| Government consumption | 59.7 | 2.4 | 1.9 | 0.9 | 0.4 | 0.4 |
| Gross fixed capital formation | 84.1 | -3.3 | -4.1 | -2.1 | 0.6 | 3.0 |
| Final domestic demand | 385.7 | 0.7 | -0.3 | -0.1 | 0.9 | 1.9 |
| Stockbuilding[a] | - 1.1 | 0.0 | -0.9 | -1.2 | 0.4 | 0.0 |
| Total domestic demand | 384.6 | 0.7 | -1.2 | -1.4 | 1.3 | 2.0 |
| Exports of goods and services | 178.2 | 0.0 | -0.4 | -0.5 | 3.8 | 5.9 |
| Imports of goods and services | 157.1 | -0.3 | -3.5 | -2.4 | 4.4 | 6.5 |
| Net exports[a] | 21.2 | 0.1 | 1.4 | 0.8 | -0.2 | -0.1 |
| GDP at market prices | 405.8 | 0.9 | 0.2 | -0.5 | 1.2 | 1.8 |
| GDP deflator | _ | 1.1 | 0.6 | -0.1 | -0.1 | 0.3 |
| *Memorandum items* | | | | | | |
| Consumer price index | _ | 1.0 | 0.6 | 0.6 | 0.3 | 0.2 |
| Private consumption deflator | _ | 0.7 | 0.8 | 0.7 | 0.3 | 0.2 |
| Unemployment rate | _ | 2.5 | 3.1 | 3.9 | 3.9 | 3.6 |
| Current account balance[b] | _ | 8.9 | 9.3 | 9.4 | 8.9 | 9.2 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* As a percentage of GDP.
*Source:* OECD.

***Fiscal policy will remain expansionary in 2004***

The worsening of the general government deficit in 2003, which could widen to 2 per cent of GDP, reflects both cyclical and non-cyclical factors. The latter are due in particular to the sharp decline in revenue from financial activities. For 2004, the draft budget assumes growth of 1 per cent. At the federal level, the authorities intend to pursue a neutral fiscal policy, which will imply a temporary easing of the constraint imposed by the new rule requiring the accounts to be balanced in structural terms. For the general government, however, the fiscal stance is likely to be slightly expansionary, given the expected fall in unemployment insurance contributions and the evolution of cantonal and local finances. As a result, the general government deficit could be above 2½ per cent of GDP.

***The strength of the recovery will depend on the external environment***

According to leading indicators, a recovery is about to get underway. Its strength will depend on the pick-up in exports, which should be stimulated by the depreciation of the franc. With a low rate of capacity utilisation and a depressed labour market, growth of investment and private consumption will be initially moderate. All in all, output could rise by 1¼ per cent in 2004, close to potential growth, before accelerating to 1¾ per cent in 2005. This will not bring a rapid fall in unemployment, while the persistence of a substantial output gap is likely to reduce inflation further. The main risks as regards this projection concern the evolution of foreign demand and the exchange rate. On the domestic side, an abrupt change in the contributions received and benefits paid by pension funds, aimed at restoring their funding ratios following the sharp financial market fall, could slow the recovery.

# Turkey

*A virtuous cycle of fiscal stabilisation, interest rate declines and increasing confidence should help maintain GDP growth on a strong path. After increasing by 5 per cent in 2003, GDP may decelerate slightly in 2004 as a result of adjustments in stockbuilding, but should rebound in 2005 provided that positive expectations are maintained.*

*The authorities should stick rigorously to the fiscal stabilisation and structural reform programme, pursuing the primary budget surplus target and implementing the new policies regarding social security, banking, privatisation and foreign direct investment. A firm policy stance in the face of pressures emanating from the local elections in spring 2004 would help to preserve the crucial momentum of positive expectations.*

***The economy is growing strongly***

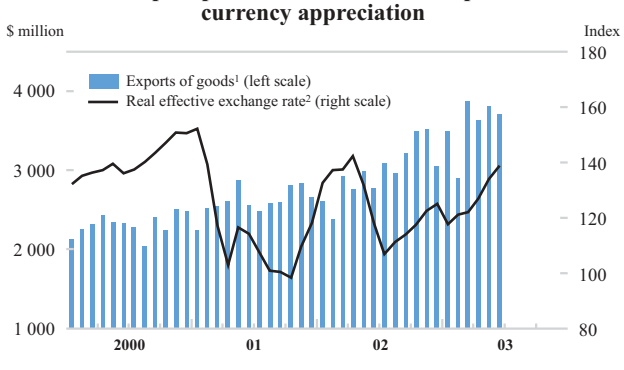
GDP growth was strong in the first half of 2003 and is expected to reach 5 per cent for the year. Private investment and consumption have been the main drivers, while the contribution of net exports is negative because of accelerating imports. Export growth, resulting from successful product differentiation and market diversification in spite of the weakness in the main European export markets, is keeping industrial investment and stockbuilding at high levels, while the tourism sector has rebounded following the Iraq war. Employment creation remains weak following sharp productivity growth in industry and labour adjustments in the public sector, with the non-farm unemployment rate reaching 13 per cent in the middle of the year. Real wages have declined, and disinflation is continuing with the support of currency appreciation.

***Stabilisation has triggered positive expectations***

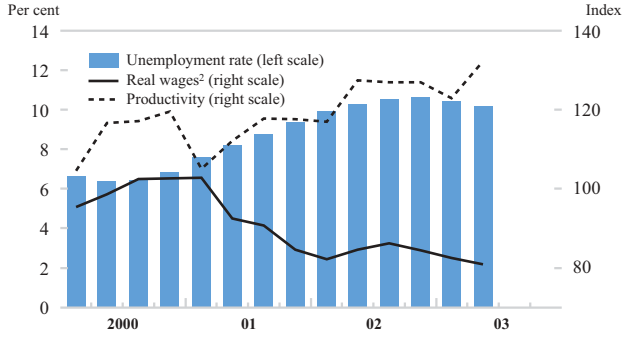
Positive expectations continue to be fuelled by the Government's commitment to the stabilisation programme (in spite of some slippage early in the year), the expected achievement of the primary budget surplus target of 6.5 per cent of GDP for 2003, the successful completion of the fifth review with the International Monetary Fund, and the rescheduling of the stand-by repayments over the next two years. The 2004 draft budget aims at a primary budget surplus of the same magnitude as 2003 and the government is committed to ensuring that spending on rural support and public sector wages and tax amnesties do not result in overall slippage. The risk premia on Turkish eurobonds are at a historical low of 500 basis points, and the nominal interest rates on Lira denominated Treasury bonds have declined to 30 per cent as of October (20 per cent in real terms on an *ex ante* basis).

## Turkey

**Export performance is robust despite currency appreciation**




**Productivity is strong and real wages have fallen**




1. Monthly rates.
2. Deflated by consumer prices.

*Source:* State Statistical Institute and OECD.

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Turkey: **Demand, output and prices**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| | Current prices trillion TRL | Percentage changes, volume (1987 prices) | | | | |
| Private consumption | 89 098 | -9.2 | 2.0 | 4.7 | 4.4 | 4.3 |
| Government consumption | 17 539 | -8.5 | 5.4 | -1.9 | 1.0 | 1.1 |
| Gross fixed capital formation | 27 848 | -31.5 | -0.8 | 9.8 | 14.0 | 18.0 |
| Final domestic demand | 134 485 | -15.1 | 1.7 | 5.2 | 6.2 | 7.2 |
| Stockbuilding [a] | 2 685 | -4.0 | 7.0 | 1.4 | -0.2 | -1.0 |
| Total domestic demand | 137 170 | -18.5 | 9.2 | 6.4 | 5.6 | 5.8 |
| Exports of goods and services | 29 959 | 7.4 | 11.0 | 11.2 | 10.9 | 11.2 |
| Imports of goods and services | 39 285 | -24.8 | 15.7 | 16.6 | 13.3 | 12.6 |
| Net exports [a] | -9 326 | 12.4 | -0.9 | -1.3 | -0.6 | -0.3 |
| Statistical discrepancy [a] | -3 261 | 0.0 | 0.0 | 0.2 | 0.0 | 0.1 |
| GDP at market prices | 124 583 | -7.5 | 7.8 | 5.0 | 4.9 | 5.4 |
| GDP deflator | _ | 54.8 | 43.5 | 24.5 | 14.3 | 11.2 |
| *Memorandum items* | | | | | | |
| Consumer price index | _ | 54.4 | 45.0 | 24.5 | 15.9 | 10.2 |
| Private consumption deflator | _ | 58.8 | 40.4 | 26.5 | 16.9 | 11.3 |
| Unemployment rate | _ | 8.5 | 10.3 | 10.2 | 9.9 | 9.6 |
| Current account balance [b] | _ | 2.5 | -0.8 | -3.2 | -3.4 | -3.3 |

*a)* Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
*b)* As a percentage of GDP.
*Source:* OECD.

***Monetary policy easing has led to a more balanced policy mix***

Year-on-year inflation moved down to 21 per cent in October, from 33 per cent a year earlier. This was helped by moderate adjustments in administered prices, and by a rise in labour productivity. Following sustained declines in inflation expectations, the Central Bank cut overnight interest rates several times in 2003, to 26 per cent in October. Monetary conditions have begun to ease in spite of the sharp appreciation of the currency over the second half of the year.

***The pursuit of structural reforms should consolidate the upturn***

Sticking rigorously to the structural reforms set out in the International Monetary Fund stand-by arrangement and in the convergence plan with the European Union should help to preserve growth momentum. The restructured banking supervision framework has begun to enhance credit allocation. The social security reform should help contain the recent overspending, while streamlined tax incentives and a new budget system should facilitate spending rationalisation. The completion of planned privatisations will lift productivity in the state-owned sector. Implementing privatisations under transparent and attractive terms might trigger the long expected wave of foreign direct investment inflows which are further encouraged by a new law on foreign investments. Full implemention of these policies would not only help maintain the valuable momentum of positive expectations but also reinforce productivity growth and competitiveness.

***Strong growth is conditional on implementing the reform agenda***

GDP is projected to decelerate slightly to just under 5 per cent in 2004 due to adjustments in stockbuilding. It should rebound again, to close to 5½ per cent in 2005. This scenario is, however, conditional on pursuing the current policy agenda in earnest. Should there be a failure in this regard, notably because of slippages in the context of the local elections in spring 2004, the economy might drift to a different path, characterised by lower confidence, higher interest rates, slower output growth and the resurgence of fiscal and debt instability.

# III. DEVELOPMENTS IN SELECTED NON-MEMBER ECONOMIES

*Economic activity in the non-member Asian economies has been rebounding rapidly, following the containment of the outbreak of severe acute respiratory syndrome in June. Growth in the Dynamic Asian Economies is expected to gain momentum during 2004 on the back of strong exports, particularly to China, and a recovery in domestic demand. In China, a surge in capital spending accompanied by a marked acceleration in bank lending is pushing real GDP growth to its fastest pace in several years. The monetary authorities now face the challenge of ensuring that lending growth does not become excessive, a task complicated by the large balance of payments surplus and substantial excess reserves in the banking system.*

*In South America, the economic recovery initiated in the second half of 2002 is gaining momentum, based on favourable export demand, improved terms of trade for commodities, and sizeable fiscal and current account adjustments in many countries in the region. After a recession in the first half of 2003, growth in Brazil is finally picking up. Argentina's economy is also rebounding, while GDP growth in Chile is accelerating. In contrast, Venezuela remains a dark spot in the region.*

*While growth in South-east Europe slowed somewhat in 2003, it accelerated in the Newly Independent States, led largely by a strong growth pick-up in Russia. Economic activity in Russia was mainly driven by oil and related sectors, as well as sectors oriented to domestic consumption. Growth is set to moderate in 2004, not least as a result of slower investment growth following on from the so-called "Yukos affair".*

***Asian economies are now recovering from the effects of SARS…***

Real GDP growth in the Asian region slowed in the second quarter of 2003 due to the outbreak of severe acute respiratory syndrome (SARS), which mainly affected the economies of Hong Kong, China; Chinese Taipei; Singapore; and China. However, economic activity has rebounded strongly since the outbreak was contained in June.

***… and fundamentals favour strong real growth though risks remain***

Overall, economic fundamentals, notably the prospect of recovery in world electronic markets, benefits from economic reforms taken after the 1997 crises, and dynamism imparted by growing intraregional trade, are now more favourable to growth in the Asian region than they have been in several years. Real GDP should gain momentum in 2004, led by strong export growth and strengthening domestic demand. However, the growing trade and investment linkages of the Dynamic Asian Economies (DAEs) with China expose them to the risks attending the current investment and lending boom in that country (see below). Moreover, high non-performing loans (NPLs) and corporate debt loads, weak property prices, and structural adjustments driven in part by growing competition from China – all of which are present to varying degrees in most of the DAEs – mean the fundamentals underlying domestic demand are still somewhat fragile.

***South American growth is showing signs of recovery***

The upturn in the South American economies is gaining momentum in 2003, after a weak performance in 2002. This recovery is led by rising net exports. In Brazil, domestic demand was weak, particularly in the first half of 2003, but is expected to pick up in the second half, mainly driven by lower real interest rates. Argentina's rebound in 2003 is backed by stronger political leadership, the stand-by credit-arrangement finally agreed with the International Monetary Fund and an increase in net exports. Nevertheless, this recovery needs to be consolidated

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by the restructuring both of the partially bankrupt banking and corporate sectors, and of Argentina's large foreign debt. Chile's GDP growth is accelerating, with strong domestic demand and growing exports in the context of the new free trade agreements with the United States and the European Union. Overall, economic growth in South America is projected at around 1.5 per cent in 2003, and should pick-up more strongly over the coming years as world trade recovers. Downside risks are associated with a continuation of weak foreign direct investment and other capital inflows despite a substantial reduction in interest rate spreads. Moreover, political uncertainty, related, in particular, to recent events in Bolivia and the continuing crisis situation in Venezuela, may also negatively affect the outlook.

***Activity has picked up strongly in the Newly Independent States***

Growth has picked up strongly in the Newly Independent States (NIS) in 2003, driven largely by a surge in Russian growth, which reached an annualized 7 per cent in the first half. Russia's acceleration was driven mainly by an upsurge in investment and consumer demand, with the latter being supported by a significant pre-election fiscal stimulus. By contrast, South-eastern Europe has experienced a slowdown in growth rates, although these remain in the range of 4-6 per cent. However, these economies are better positioned to benefit from a strengthening of the recovery in Western Europe. This upturn should also help sustain Russian/NIS growth as Russia's pre-election boom fades and the costs of the conflict surrounding the Yukos oil company become evident. Inflation trends across the region are more mixed but disinflation continues in most countries.

## China

***Real GDP growth is regaining momentum***

China's real GDP growth is regaining momentum after a sharp slowdown in the second quarter of 2003 attributable to SARS. The strong growth, averaging 8.5 per cent year-on-year in the first three quarters of this year, has been driven by domestic demand. The contribution of net exports to growth has been small, as very strong export growth has been accompanied by even stronger growth in imports and a falling current account surplus.

***Business capital spending is now a major driver of domestic demand***

GDP growth is being driven by private consumption and by fixed investment, which expanded by 32 per cent year-on-year in the first eight months. The two largest components of fixed investment, government infrastructure spending

Table III.1. **Projections for China**[a]

| | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| Real GDP growth | 8.0 | 8.4 | 7.8 | 7.4 |
| Inflation | -0.8 | 0.6 | 1.0 | 1.5 |
| Fiscal balance (% of GDP) | -3.0 | -2.9 | -2.8 | -2.7 |
| Current account balance ($ billion) | 35.4 | 16.3 | 8.0 | 15.6 |
| Current account balance (% of GDP) | 2.9 | 1.2 | 0.6 | 1.0 |

*a)* The figures given for GDP and inflation are percentage changes from the previous year. Inflation refers to the consumer price index.

*Source:* Figures for 2002 are from national sources. Figures for 2003-05 are OECD estimates and projections.

and real estate investment, continue to advance strongly, but business capital spending has emerged as a new driver of growth. Investment has been particularly strong in automobiles, iron and steel, metallurgy, textiles and high-tech industries. However, there are concerns that some of the investment may not turn out to be profitable and may add to excess capacity and NPLs in the future. For example, despite government attempts to consolidate the automobile industry, an increasing number of local governments are venturing into automobile production.

***Capital spending is being spurred by a surge in loan growth***

Business capital spending has been underpinned by exceptionally strong bank lending growth, which reached 24 per cent (year-on-year) in the first eight months of 2003 compared to 13 per cent for the same period of 2002. The pick-up of bank lending has been financed mainly from excess reserves, while total bank reserves have remained virtually flat since mid-2002. The shift from excess reserves to loans has been encouraged by the central bank's decision to reduce the interest paid on excess reserves. Foreign exchange reserves have risen by nearly $70 billion in the first seven months of 2003, but the increase has been largely sterilised through the sale of central bank bonds to commercial banks. The rise in foreign exchange reserves reflects a marked turnaround in net capital inflows beginning in 2002, attributable at least partly to falling interest rates in OECD countries.

***Major drivers of growth are likely to slow***

Government infrastructure investment is expected to slow further in 2004 and 2005 but this is likely to be partially offset by the growing role of non-state investment in infrastructure. Real estate investment is likely to moderate as a result of the restrictions on lending for real-estate purposes issued by the Central Bank in June 2003. Business capital spending should moderate as a result of government campaigns against excess capacity in several sectors – and assuming that the monetary authorities move to contain loan growth to prudent rates. Private consumption spending is also expected ultimately to ease as the market for new homes and home furnishings matures, while rural incomes continue to be weak. Export growth should slow somewhat in 2004, due in part to a planned reduction in the refund rate of the value-added tax (VAT) on exports beginning in January 2004, but pick up moderately in 2005 in response to phasing out of textile quotas under the Multi-Fibre Agreement.

***Monetary and prudential authorities face significant challenges***

The Central Bank and the newly created China Banking Regulatory Commission (CBRC) face difficult challenges in ensuring that real growth remains at a rapid but sustainable rate over the next two years. To maintain loan growth at prudent levels, the central bank will have to sterilise the balance of payments surplus and absorb large amounts of bank reserves. The central bank increased the required reserve ratio from 6 to 7 per cent of deposits in September of this year, but this still leaves excess reserves at nearly 3 per cent of deposits. Ensuring that loans are prudently made and preventing the emergence of substantial NPLs will depend largely on the effectiveness of the CBRC. The current situation also underscores the difficulty of adjusting to shifts in capital flows and realignments of major currencies under China's current regime of a fixed exchange rate and stringent capital controls. While the authorities intend to move eventually toward a more flexible exchange rate and capital account convertibility, the pace at which they can prudently do so depends critically on broader reforms to improve the soundness of the banking system, further strengthen financial supervision, develop capital markets, and enhance corporate governance.

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# Brazil

***The macroeconomic adjustment continued…***

The Brazilian economy continued the adjustment path initiated after the turmoil of last year's Presidential elections. Since May the exchange rate has stabilised and the 12-month inflation rate has decreased. Concomitantly, Brazil's risk evaluation by markets has also improved. Exports have continued to boom, while imports have fallen. As a result the trade account moved from a near balance in 2001 to a sizeable surplus, and the current account deficit is vanishing. Such an adjustment is paralleled by a sharp slowdown of foreign capital inflows, notably foreign direct investment.

***… but economic performance was poor***

Despite the sharp rise in net exports, the ongoing macroeconomic adjustment in Brazil has been costly in terms of economic growth. During the first two quarters of 2003, private consumption and fixed investment contracted substantially and GDP stalled compared to the same period in 2002.

***Monetary policy is being eased…***

In order to stem the strong inflationary pressures at the turn of the year, the Central Bank drastically tightened monetary policy. The base interest rate (SELIC) peaked at 26.5 per cent between February and May. This was justified in the context of the limited credibility of the inflation-targeting framework in Brazil: since 2001 the target has been systematically overshot. With decreasing inflationary pressures, the Central Bank is progressively easing its monetary stance.

***… while fiscal consolidation continues***

Fiscal policy remained on track due to strong wage containment and selective expenditure cuts in the public sector. The government is expected to meet the International Monetary Fund (IMF) primary surplus target in 2003. This adjustment was also pursued with some difficulties at the level of the states. Nevertheless, with low growth and high real interest rates, the net public debt to GDP ratio has increased again since the beginning of this year, although the government, taking advantage of the more favourable recent developments, has managed to improve the maturity profile of the debt.

***Structural reforms are advancing only slowly…***

The social security and tax reforms are behind schedule, due to the fierce political debate surrounding these issues and the fact that the government has to negotiate complex political compromises in order to pass reforms. However, the government seems to be firmly committed to this process and continues pushing the reform

Table III.2. **Projections for Brazil**[a]

| | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| Real GDP growth | 1.5 | 0.5 | 3.0 | 3.5 |
| Inflation | 12.5 | 10.0 | 7.0 | 6.0 |
| Fiscal balance (% of GDP)[b] | -4.7 | -4.0 | -3.0 | -2.0 |
| Primary fiscal balance (% of GDP) | 3.9 | 4.3 | 4.2 | 4.0 |
| Current account balance ($ billion) | -7.7 | -0.2 | -4.9 | -5.0 |
| Current account balance (% of GDP) | -1.6 | 0.0 | -1.0 | -0.9 |

*a)* The figures given for GDP and inflation are percentage changes from the previous period. Inflation refers to the end-year consumer price index (IPCA).

*b)* Harmonised concept excluding revaluations of public debt due to changes in the exchange rate.

*Source:* Figures for 2002 are from national sources. Figures for 2003-05 are OECD estimates and projections.

agenda through Congress. The new bankruptcy law, which is expected to help increase financial intermediation through banks, is also being discussed in Congress.

***… which may affect the sustainability of the recovery***

Against the background of fiscal stability, monetary easing and the continuation of an export drive, the recovery of economic activity is projected to start in the last quarter of 2003 and gain momentum over 2004 and 2005. Domestic demand and credit conditions in Brazil, being sensitive to a reduction in the base real interest rate, should rebound relatively quickly. The main downside risk is associated with political difficulties that would delay the reform process, affecting confidence and threatening public debt sustainability. Against these uncertainties, the government has renewed the IMF agreement for 2004, which shows its commitment to the continuation of the reform efforts and the importance it attaches to a stable macroeconomic environment.

## The Russian Federation

***Growth has been driven by consumption and investment***

The growth rate is set to rise from 4.3 per cent in 2002 to somewhat more than 6 per cent in 2003. Growth has been relatively broad-based but has been particularly strong in the oil industry and oil-related machine-building, as well as domestically oriented sectors such as construction, transport, communications, and retail trade. On the demand side, growth has been driven by rising household consumption and a sharp acceleration in fixed investment, but also, to some extent, by stockbuilding. Domestic demand has been supported by a significant fiscal stimulus ahead of parliamentary and presidential elections. Balance of payments data for the first half of 2003 showed private capital inflows exceeding outflows, although preliminary third-quarter data show large renewed outflows, which appear to be mainly a response to the official campaign against the Yukos oil company and which may therefore continue for some time.

***Fiscal policies remain responsible…***

The pre-election fiscal stimulus, while noticeable, does not appear irresponsible. The budget is set to show a surplus above the planned level of 0.5 per cent this year, although it would probably be in deficit if the oil price were nearer to its ten-year

Table III.3. **Projections for the Russian Federation**[a]

| | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| Real GDP growth | 4.3 | 6.3 | 5.0 | 5.0 |
| Inflation | 15.1 | 13.0 | 11.0 | 9.0 |
| Fiscal balance (% of GDP)[b] | 1.0 | 1.0 | 0.5 | 0.5 |
| Primary fiscal balance (% of GDP)[c] | 3.9 | 3.5 | 3.0 | 3.0 |
| Current account balance ($ billion) | 29.9 | 36.5 | 28.0 | 21.0 |
| Current account balance (% of GDP) | 8.6 | 8.5 | 5.5 | 3.5 |

*a)* The figures given for GDP are percentage changes from previous year. Inflation refers to the end-of-year consumer price index.
*b)* Consolidated budget (including federal, regional and municipal budgets, excluding off-budget funds).
*c)* Federal Budget.
*Source:* Figures for 2002 are figures from national sources. Figures for 2003-05 are OECD projections.

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average of around $20 per barrel. However, the authorities remain committed to achieving balanced budgets at that price in 2004-05. This will require the share of non-interest spending in GDP to fall significantly, especially in view of forthcoming tax cuts. The government also plans to establish the long-promised stabilisation fund next year, to reduce the budget's vulnerability to oil price fluctuations. This should improve Russia's resilience to oil price shocks.

***… as monetary policy tries to balance competitiveness and disinflation***

High oil-driven foreign-exchange inflows have maintained upward pressure on the exchange rate, which the authorities have sought to limit. Monetary policy thus continues to be dominated by conflicting goals, as the central bank tries to reduce inflation while limiting real exchange-rate appreciation. Given the limited sterilisation mechanisms available, large Central Bank purchases of foreign reserves have led to a sharp acceleration in money-supply growth. Rising money demand and the government's drive to hold down regulated monopoly tariffs ahead of the elections have meant that inflation has nevertheless fallen (albeit slowly), but it is set to exceed the government's target of 10-12 per cent for the year. Further disinflation may prove impossible if monetary growth does not decelerate.

***Some of the government's fiscal plans give cause for concern…***

The decision in October to increase discretionary spending this year by around 0.4 per cent of GDP highlights the continuing pressure on the government to increase spending at a time when its fiscal plans require expenditure restraint. Next year, the basic rate of VAT will fall two percentage points, and the sales tax will be abolished. These reductions are to be financed by cuts in federal and regional expenditure that have not yet been identified. Moreover, the authorities aim to lower the unified social tax substantially from 2005. While desirable in principle, this cut is to be financed largely by improved tax compliance. However, this is unlikely to be sufficient to offset the revenue losses fully.

***… and opposition to structural reform has increased markedly***

The approach of the elections has reinforced opposition to structural reforms. The authorities are finding it increasingly difficult to implement reforms already adopted, while much reform legislation has been stalled in the State Duma. At the same time, the deployment of the prosecutors, police and security services in a legal and political campaign directed against top executives of Yukos, Russia's largest private company, has renewed concerns about the security of property rights and threatens to have a lasting impact on business confidence.

***Growth is likely to ease but should remain strong***

With the pre-election boom fading next year, growth is expected to slow. Growth will continue to be driven by sectors oriented to domestic private consumption, which should continue expanding robustly, as well as by oil and oil-related sectors. The escalation of the Yukos conflict will cause growth to slow more sharply than it would otherwise have done. There are already signs that the attack on Yukos is having a negative impact on fixed investment, especially in the oil sector. Most oil-sector investment is aimed at increasing current production rather than developing new fields, so any slowdown in the growth of capital expenditure will result in slower growth in both production and exports – particularly given that the two companies at the centre of the scandal have hitherto achieved much faster production growth than the industry as a whole. Given Russia's high export/GDP ratio, this means that, even if the Yukos affair is resolved without too much further disruption, it will have a palpable negative impact on real GDP growth next year. The costs will be greater still if such actions are extended to other targets.

***The Yukos case has highlighted key institutional weaknesses***

While mid-term growth prospects remain positive, they have been damaged by the campaign against Yukos. A compromise resolution of the situation surrounding Yukos is still possible and would help to contain its economic impact, but the case has highlighted once again institutional weaknesses and risks that will not be remedied by an *ad hoc* agreement between Yukos and the authorities or by more reassuring statements directed at investors by senior officials. There is an urgent need to improve the quality of institutions involved in rule application and enforcement, to reduce bureaucratic involvement in the affairs of private businesses, and to depoliticise commercial conflicts.

***Much depends on how policy develops after the elections***

Longer-term prospects will depend on the authorities' commitment to macroeconomic discipline and structural reform after the elections. Exemplary fiscal prudence will be crucial if Russia wishes to avoid stop-and-go growth cycles. On the structural side, banking reforms will be especially important in fostering the emergence of a financial system capable of efficiently allocating investment across sectors. Improving prudential regulation is vital, since other planned reforms, such as the introduction of deposit insurance, could prove counterproductive in the absence of tighter supervision.

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# IV. FISCAL STANCE OVER THE CYCLE: THE ROLE OF DEBT, INSTITUTIONS, AND BUDGET CONSTRAINTS

## Introduction

*Fiscal stance may respond pro-cyclically to the business cycle…*

This chapter describes the extent to which fiscal policy has been a stabilising or destabilising influence on economic activity in the OECD area over the last two decades, and investigates some of the institutional factors which may have led to the observed outcome. The concerns motivating the chapter relate to the fact that discretionary fiscal interventions may be pro-cyclical, as in the case of fiscal tightening during downturns especially. In part, this may be because of unsustainably high government indebtedness. But pro-cyclicality could also be due to implementation problems or to the institutional framework in which policies are designed and managed, including some rules-based approaches to fiscal stability, which may hamper the symmetrical operation of built-in stabilisers over the cycle.

*… and institutions may contribute to that outcome*

Against this background, the chapter begins by assessing the extent to which the stance of fiscal policy has been pro- or counter-cyclical in the OECD area and for individual countries during 1980-2002, with pro-cyclicality defined as periods when fluctuations in cyclically-adjusted budget balances moved inversely with the output gap (towards surplus in downturns and vice versa). It then uses pooled cross-country and time-series data to assess the extent to which built-in stabilisers have been offset by discretionary action and how the institutional framework in which policies are designed and implemented may have affected policy outturns. The institutional factors investigated include the type of fiscal rule adopted,[1] the size of the tax burden, public expenditure rigidities, the political cohesion of government, and electoral systems and cycles.

*Summary of conclusions*

The main conclusions to emerge from this chapter are:

– Sustainability problems, associated with indebtedness, seem to be a key determinant of whether fiscal stance is pro-cyclical during downturns. Abstracting from debt-sustainability issues, fiscal stance tends to be predominantly counter-cyclical in bad times, but with some evidence in the OECD area of discretionary pro-cyclical easing in upturns.

– The very institutional features of the policymaking process which make for high automatic short-term stabilisation, such as a large public sector and a

1. The *OECD Economic Outlook, No. 72* (December 2002) provides an overview of the main provisions of fiscal rules in member countries, including the date of enactment. See Chapter V, "Fiscal Relations across Levels of Government", for an overview of fiscal rules at the sub-national level in the OECD area and selected non-member countries.

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high tax burden, may also at the political level lead to more pro-cyclical fiscal policy. High tax ratios allow for greater automatic stabilisation, but tax cuts implemented during upturns may reduce the scope for counter-cyclical easing in subsequent downturns.

– The constraints imposed by the Maastricht Treaty (MT) and, later, the Stability and Growth Pact (SGP) do not seem to have created a discernibly pro-cyclical bias during downturns in the Economic and Monetary Union (EMU) area as a whole.

– Fiscal tightening during downturns is somewhat less likely to occur in the presence of expenditure rigidities. This is the case when, for example, payroll outlays, which are harder to retrench than capital spending, account for a large share of government spending and when the government is a sizeable employer relative to the private sector.

– Political institutions also matter, and undesirable pro-cyclical retrenchment seems less prevalent in countries with more politically fragmented governments and electoral systems based on proportional representation, rather than plurality (*i.e.* "first-past-the-post" regimes). Electoral cycles have a role to play and pro-cyclical retrenchment appears to be less common in election years.

## Trends in fiscal stance over the cycle

***Fiscal stance has differed considerably among OECD countries…***

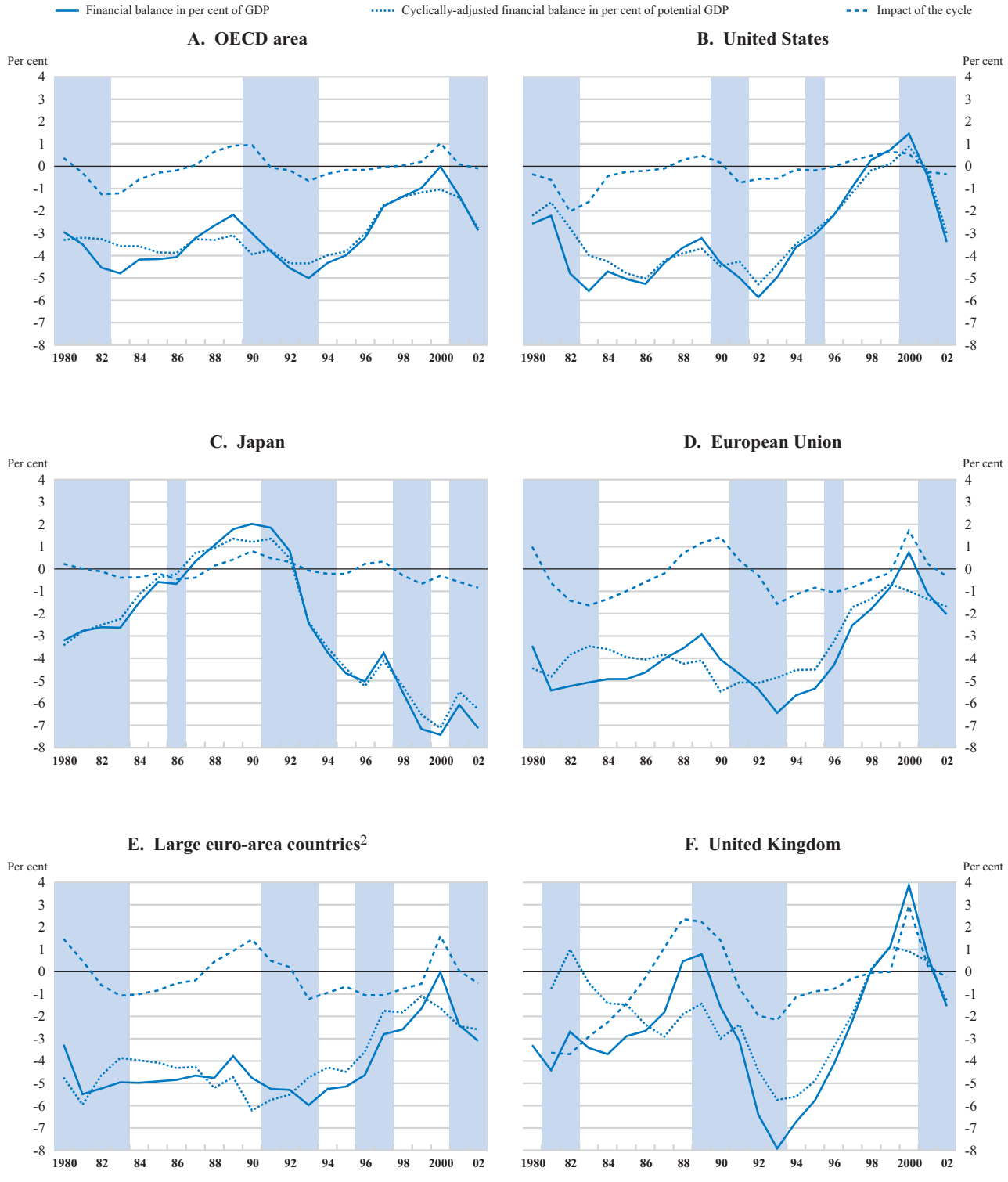
The area-wide general government budget balance has exhibited considerable cyclical variation since the early 1980s, with its cyclically-adjusted component fluctuating narrowly around –4.0 per cent of GDP until the early 1990s and moving considerably towards balance thereafter (Figure IV.1, Panel A). Since 2000, there has been a sharp downward swing in both actual and cyclically-adjusted balances. Regional differences behind these aggregate movements have remained significant. In particular, the experience of Japan contrasts with the reduction in the US deficit over the same period and the collective fiscal consolidation effort in the run-up to the 1997 qualification date for entry to the single currency in Europe (Panels B-D). Since 2000, the discretionary relaxation of fiscal stance has been particularly marked in the United States, and to a lesser extent in the United Kingdom (Panel F). It has been less dramatic in continental Europe, but began earlier – in 1999 – in the large euro area economies (Panel E).

***… with a pro-cyclical bias in some cases***

While fiscal adjustment has been counter-cyclical for extensive periods in the OECD area, notably from 1993 to 2000, it has also acted somewhat pro-cyclically in some cases, as evidenced by the periods when cyclically-adjusted budget positions were moving in opposite direction to the cyclical component of the budget balance.[2] This was true for the United States during 1982-86 and for the large European economies for most of the period up to 1993. By contrast, the period of retrenchment in the 1990s took place when output gaps were closing in the United States and Europe, reinforcing the cyclical buoyancy of revenues. However, fiscal stance in the larger euro area economies was pro-cyclical in 2000, becoming counter-cyclical in 2001.

2. Fiscal stance is counter-cyclical when it contributes to cushioning the economy from business cycle fluctuations. Pro-cyclicality occurs when, in an upturn, spending rises and/or revenue decreases, leading to a fall in the budget balance.

Figure IV.1. **Fiscal stance over the cycle**[1]




1. The shaded areas identify cyclical downturns, defined as the years in which changes in the output gap relative to the previous year are non-positive.
2. France, Germany and Italy.

*Source:* OECD.

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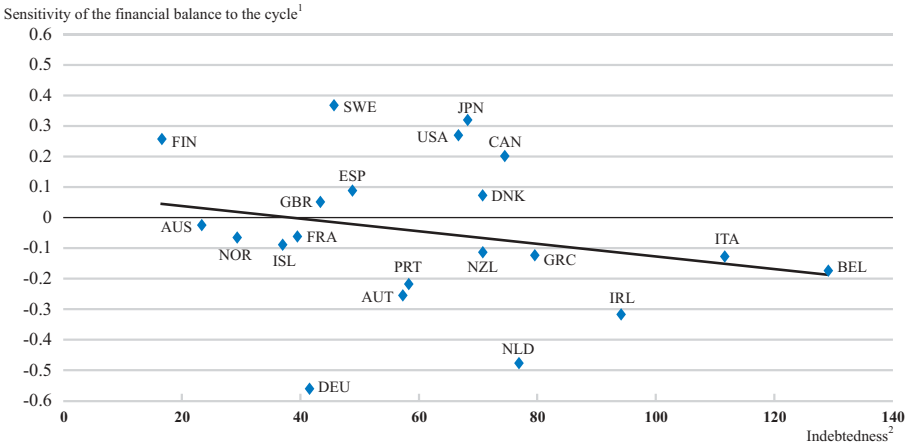
***Individual country experiences are diverse***

Turning to individual country experiences, fiscal stance has been counter-cyclical in about half of the countries examined (Figure IV.2). In these countries, located in the upper quadrant, year-to-year fluctuations in the output gap were positively correlated with year-to-year changes in the cyclically-adjusted budget balance during 1981-2002.[3] However, for those countries in the lower quadrant, which include nine of the members of the EMU, a rise in the output gap was typically accompanied by expansionary fiscal policies, while falling output gaps were associated with a restrictive fiscal stance.

***High debt may have reduced the scope for counter-cyclical response***

There seems to be a relationship between the sensitivity of the cyclically-adjusted budget balance and government indebtedness, suggesting that fiscal policy might be conditional on long-term fiscal sustainability. As the dynamics of debt accumulation become, or come to be perceived as, unsustainable, fiscal consolidation may become necessary, regardless of the economy's position in the business cycle.[4] This consolidation may not necessarily be destabilising. Fiscal retrenchment in a downturn may conceivably be expansionary because it puts the debt dynamics on a sustainable path.[5]

Figure IV.2. **Fiscal stance over the cycle and indebtedness**




1. Correlation between changes in the cyclically-adjusted budget balance and in the output gap between 1981-2002 (1982-2002, for Canada; 1987-2002, for New Zealand).
2. Public debt stock in per cent of GDP in 1990 (1993, for New Zealand).

*Source:* OECD.

3. These raw correlations, although illustrative, may be affected by measurement errors arising from the fact that cyclically-adjusted budget balances are not observed directly but are calculated on the basis of the estimated sensitivity of tax revenue and certain expenditure items to the business cycle. The biases due to measurement errors can be mitigated in the more formal multivariate analysis below.
4. In this respect, Auerbach (2002) argues that fiscal policy in the United States has become more sensitive over time to both the business cycle and pre-existing fiscal imbalances, since a rising public debt has led to a progressive tightening of fiscal stance. This assessment is shared by Wyplosz (2002), who discusses the effect of indebtedness on the cyclicality of fiscal policy in selected OECD countries. Likewise, Ballabriga and Martinez-Mongay (2002) show that, for the EMU countries during 1979-98, indebtedness was indeed associated with greater pro-cyclicality.
5. There is a growing body of empirical evidence that a corrective fiscal contraction in a downturn may become expansionary, and hence counter-cyclical. For example, Giavazzi *et al.* (2000), as well as Alesina and Ardagna (1998), among others, show that fiscal contractions may be expansionary in indebted countries and that the composition of adjustment, via tax increases and/or expenditure cuts, affects the expansionary potential of fiscal retrenchment.

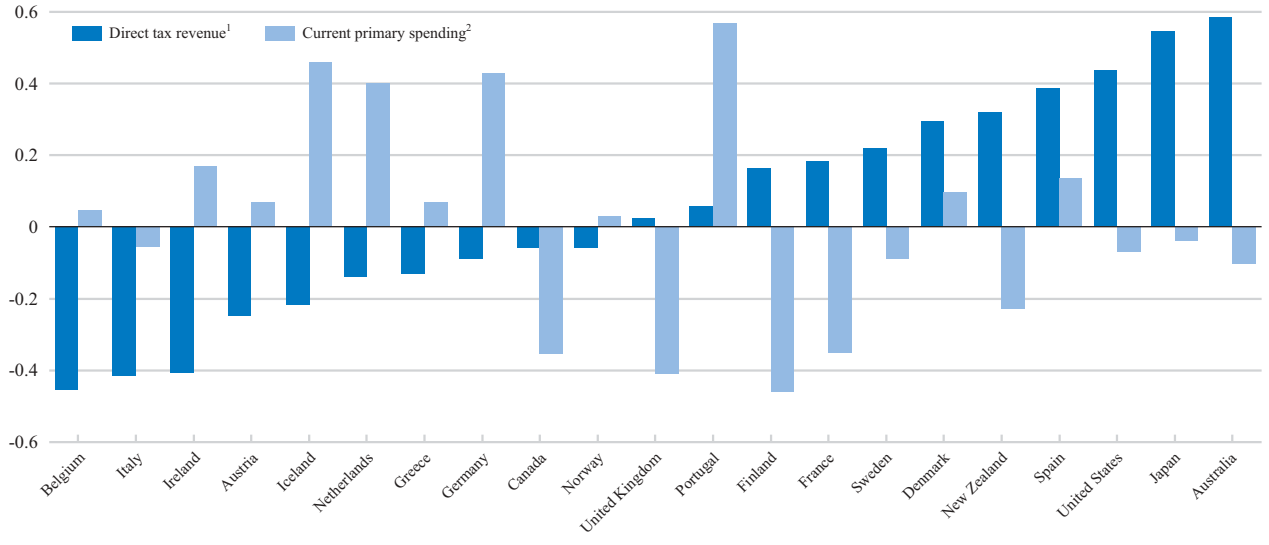
***Tax cuts are often at the heart of pro-cyclicality…***

Decomposing the shifts in fiscal stance into their revenue and expenditure components indicates that both tax cuts and tax increases can contribute to pro-cyclicality (Figure IV.3). Changes in direct tax revenue (adjusted for the cycle) tend to correlate negatively with changes in the output gap in many countries. Public reaction to high tax ratios means that there is a strong incentive for funds generated during upturns to be used to make tax rate cuts as economies approach their cyclical peaks. Tax cuts in the upturn are also facilitated by mistaking the permanence of revenues yielded by income-elastic taxes. These may be overestimated, for example, in the presence of sharp movements in asset and real estate prices. Since 2000, and in parallel with the rise in the mid-1990s, revenues have fallen below the levels that might have been expected from the cyclical downturn, particularly in the United States, and some European Union (EU) member countries, such as the United Kingdom.

***… with expenditure retrenchment facilitated by cyclical upturns***

No clear international picture emerges with respect to the relationship between movements in public spending and the business cycle. On the one hand, falling expenditure/GDP ratios may be a feature of cyclical upturns in several countries. And for the OECD area as a whole, cyclically-adjusted current primary spending tended to fall as output gaps rose during the 1990s, possibly helped by the influence of fiscal rules (Figure IV.4, Panels A, B, D and F). On the other hand, in the euro area, lower interest rates may have created room for governments to reduce the pace of primary spending retrenchment, or even to increase primary outlays at the end of the late 1990s boom – a pro-cyclical tendency (Panel E). In the current downturn, a counter-cyclical rise in primary current spending (adjusted for the cycle) is evident in the United States, Japan, and the United Kingdom. Because government primary spending is relatively inflexible, instances of pro-cyclical expenditure retrenchment are rarer, and are usually focused on public investment, which tends to suffer more adversely than current outlays in periods of fiscal duress, being easier to cut back.

Figure IV.3. **Sensitivity of revenue and expenditure to the cycle**




1. Correlation between changes in cyclically-adjusted direct tax revenue and in the output gap between 1981-2002 (1982-2002, for Canada; 1987-2002, for New Zealand). A negative correlation indicates pro-cyclicality.
2. Correlation between changes in cyclically-adjusted current primary spending and in the output gap between 1981-2002 (1982-2002, for Canada; 1987-2002, for New Zealand). A positive correlation indicates pro-cyclicality.

*Source:* OECD.

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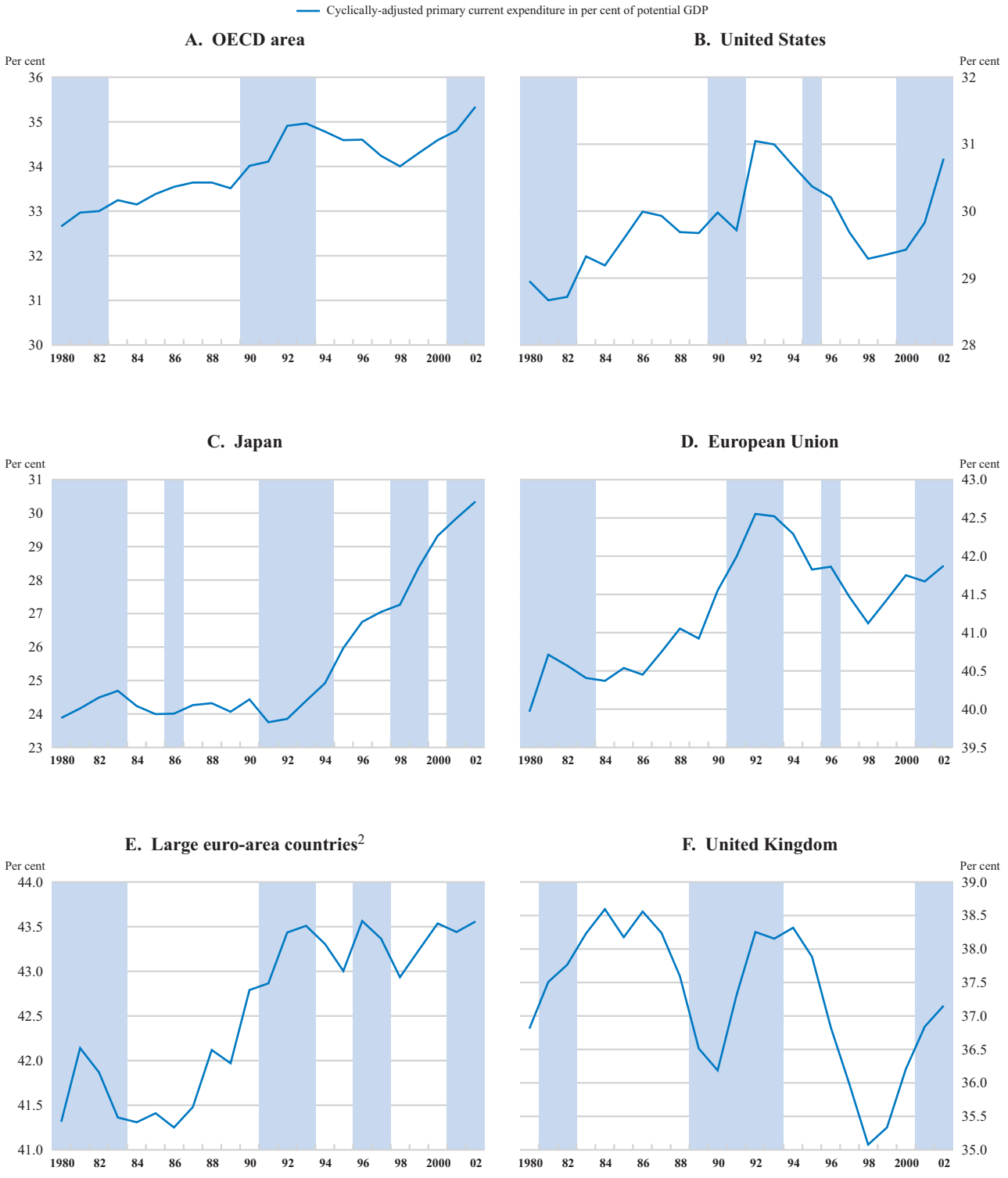
## Figure IV.4. **Expenditure over the cycle**[1]




1. The shaded areas identify cyclical downturns, defined as the years in which changes in the output gap relative to the previous year are non-positive.
2. France, Germany and Italy.

*Source:* OECD.

***Overall, fiscal stance is conditioned by longer-term considerations***

Overall, on the basis of the country experiences reported above, over the past two decades – a period spanning about two full business cycles – the stance of fiscal policy has been characterised by episodes of both counter- and pro-cyclicality. These appear to be dependent on sustainability considerations, particularly with respect to government indebtedness. Restoring longer-term sustainability seems to have played an important role in determining whether fiscal stance is output-stabilising in an immediate sense.

## Factors determining pro- or counter-cyclicality

***The effects of debt and institutions can be measured more formally***

This section tests more formally the extent to which counter- or pro-cyclicality, and asymmetries in fiscal stance between booms and downswings, have been affected by strategic, institutional and political-economy factors. These include high taxes, public sector size and expenditure rigidities, and indebtedness. They also embrace the type of fiscal rule adopted (if any), institutional factors such as the political composition of government, and electoral regimes and cycles. The methodology is described in the Appendix, and is based on regressing movements in the cyclically-adjusted primary balance – measuring discretionary action – on cyclical fluctuations in the primary balance. The intuition is that, if the estimated correlation is negative, built-in stabilisers are being offset by discretionary action, which is pro-cyclical. To test the extent to which fiscal policy responds to sustainability factors, the debt/GDP ratio is incorporated in the equation, while the influence of institutional factors can be gauged by dividing country samples and/or periods according to discrete characteristics. Being based on pooled cross-country and time-series analysis, using a sample of 21 OECD countries during 1980-2002, the aim of the exercise is to highlight OECD-wide trends, rather than individual country experiences.

***Counter-cylicality is normal in downturns…***

The results, presented in the Appendix and summarized in Table IV.1, are reported in terms of the sensitivity of fiscal stance to cyclical fluctuations in the budget balance (*i.e.* the percentage-point change in the cyclically-adjusted primary budget balance associated with a percentage-point change in the cyclical component of the primary budget balance), controlling in each case for the effects of debt on fiscal stance. An important initial finding is that discretionary shifts in fiscal stance tend to be asymmetrical over the cycle. They are counter-cyclical in downturns and there is evidence of pro-cyclicality in upturns, when a one percentage-point increase in the cyclical component of the primary balance is estimated to be accompanied by a relaxation of the cyclically-adjusted balance of about 0.2 percentage point of trend GDP.

***… after controlling for indebtedness***

While these results indicate a bias towards policy easing in both upswings and downturns, they also suggest the existence of a "sustainability motive" in fiscal policy associated with the need to control public indebtedness. Each percentage point increase in the debt/GDP ratio is estimated to lead to an average year-to-year increase in the cyclically-adjusted primary balance of about 0.06 per cent of GDP. The coefficient seems quite small, but movements in the debt/GDP ratio can be substantial – the experience of Ireland and Australia is that the debt/GDP ratio can

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Table IV.1. **Sensitivity of fiscal stance to the cycle**

*For each percentage-point movement in the cyclical component of the primary balance, the cyclically-adjusted primary balance changes by (in percentage points):* [a]

| | Sensitivity | Fiscal stance |
|---|---|---|
| Baseline | | |
| Upturns | -0.2 | Pro-cyclical |
| Downturns | 0.2 | Counter-cyclical |
| Fiscal rules: MT/SGP | | |
| Downturns before 1992 | -0.5 | Pro-cyclical |
| Downturns between 1992-98 | 0.2 | Counter-cyclical |
| Downturns after 1999 | 0.4 | Counter-cyclical |
| Tax cuts | | |
| Downturns following tax cuts in previous upswing | -0.2 | Pro-cyclical |
| Downturns without tax cut in previous upswing | 0.2 | Counter-cyclical |
| Expenditure rigidity | | |
| Downturns in countries/years with high public employment share | 0.3 | Counter-cyclical |
| Downturns in countries/years with low public employment share | -0.2 | Pro-cyclical |
| Downturns in countries/years with high public investment share | -0.2 | Pro-cyclical |
| Downturns in countries/years with low public investment share | 0.3 | Counter-cyclical |
| Political cohesion | | |
| Downturns in countries/years with government majority in the legislature | 0.1 | Counter-cyclical |
| Downturns in countries/years with government minority in the legislature | 0.4 | Counter-cyclical |
| Downturns in countries/years with high political fragmentation | 0.7 | Counter-cyclical |
| Downturns in countries/years with low political fragmentation | -0.5 | Pro-cyclical |
| Electoral systems and cycles | | |
| Downturns with an electoral regime based on proportional representation | 0.4 | Counter-cyclical |
| Downturns with an electoral regime based on plurality | -0.4 | Pro-cyclical |
| When election year coincides with a downturn | 0.3 | Counter-cyclical |
| Downturns not in an election year | 0.2 | Counter-cyclical |

*a)* Based on the estimated coefficients reported in Appendix Tables IV.1-3. The sensitivity parameters in downturns are reported relative to the estimated coefficients in upturns.

*Source:* OECD.

be reduced by 4-5 percentage points of GDP per annum, which implies a lower underlying cyclically-adjusted primary balance of about 0.3 percentage point of trend GDP.

***Pro-cyclicality may also be due to budget errors***

Before turning to the possible institutional and political economy sources of pro-cyclicality, it should be noted that fiscal stance may turn out to be pro-cyclical, even when it is not intended to be so. Budget forecasts and outturns may (and often do) differ, and revenue shortfalls and expenditure overruns are not uncommon during downturns, calling for remedial measures which may turn out to be pro-cyclical. Trend output, and consequently output gaps, may be measured erroneously, and standard procedures for calculating fiscal aggregates on a cyclically-adjusted basis may be deficient. Policymakers may therefore be unable, at the time, to distinguish bud-

getary changes of a structural nature from those which are driven by built-in stabilisers, and/or temporary, yet non-cyclical, fluctuations in revenue. In particular:

***Potential growth may be mis-estimated…***

– Potential output growth may be overestimated, implying a higher output gap, a higher cyclical component of the deficit (or a lower cyclical component of the surplus), and an overestimation of the strength of the cyclically-adjusted balance and revenue base in the longer term. This may provide grounds for tax cuts during upswings which may turn out to be unsustainable.

***… temporary factors may be perceived as structural…***

– Tax elasticities may be overstated, in part because standard procedures for calculating cyclically-adjusted fiscal aggregates do not take into account factors that affect tax buoyancy, but are related to financial, rather than output, cycles.[6] Movements in asset and housing prices are a case in point. The erroneous diagnosis of cyclical revenue increases as structural will inflate revenue forecasts, and subsequent shortfalls during downturns may only be remedied pro-cyclically.

***… and budgets may include informal safety margins***

– Budget-makers may resort to informal safety margins as a means to resist pressure for counter-cyclical activism, particularly during downturns. In the upturn, cyclical revenue gains may be underestimated to curb pressure for tax cuts at cyclical peaks. By the same token, in the downturn, a cyclical widening of the deficit may be overestimated to pre-empt calls for a fiscal stimulus. If these safety margins are unfilled, fiscal stance turns out to be less counter-cyclical than programmed.

## The role of medium-term fiscal rules

***If unadjusted for the cycle, fiscal rules may induce pro-cyclicality…***

Certain types of fiscal rule, particularly those requiring actual, rather than cyclically-adjusted, budgets to be in balance, automatically damp cyclical fluctuations in the budget balance. They restrict the ability of the government to let automatic stabilisers work freely and symmetrically in tandem with fluctuations in economic activity, leading to pro-cyclical budgeting.[7] Evidence for the United States, where the states have had a variety of balanced budget rules for a relatively long period, suggests that rules-induced pro-cyclicality cannot be ruled out, but it can be mitigated by accumulating "rainy day" funds in good times.[8] Whether the budget rule is accompanied by an expenditure rule is also important. A nominal cap on expenditure growth may act to prevent a pro-cyclical upward drift in spending during upturns, as noted above. Conversely, the sharing of the tax take with sub-national levels of government may result in pro-cyclicality, particularly if sub-national governments account for a

6. The OECD methodology for calculating cyclically-adjusted budget balances, most recently documented in Van den Noord (2000), does not take account of the effects of fluctuations in asset and real estate prices on tax buoyancy, which have been particularly pronounced since the 1990s.
7. It is difficult to construct a comprehensive taxonomy of fiscal rules, particularly of regulations on budget procedures and institutions, spanning a sufficiently long period, and to control for differences in the way compliance with these rules is monitored and enforced. Regardless of their main provisions and coverage, fiscal rules have only been introduced relatively recently in most countries, in the form of, sometimes quantitative, constraints on budget balances, borrowing, expenditure levels or rates of growth, and indebtedness.
8. Evidence provided by Sorensen *et al.* (2001) suggests that states that have relatively tight balanced-budget rules seem to have less pronounced swings in both revenue and expenditure over the cycle than states with less stringent fiscal rules. This is consistent with the evidence reported by Bohn and Inman (1996), which, although sensitive to the cyclical indicator used to gauge fiscal responsiveness, indicates that stringent fiscal rules encourage precautionary savings in good times, which can be used subsequently to finance counter-cyclical measures in bad times. By contrast, also using US state data, Alesina and Bayoumi (1996) argue that fiscal rules have indeed reduced flexibility in state-level fiscal policymaking without, however, having a bearing on the cyclicality of state fiscal policy.

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large share of total government spending and revenue, and are not allowed to run budget deficits.

***… but evidence from the EMU is inconclusive***

The fiscal framework embedded in the Maastricht Treaty (MT) and the Stability and Growth Pact (SGP) has been under close scrutiny on the grounds that it may have created a pro-cyclical bias in EMU-wide fiscal stance. Evidence that the MT/SGP has induced pro-cyclicality under EMU has been inconclusive.[9] However, the results summarised in Table IV.1 tend not to support the hypothesis of a pro-cyclical bias associated with the post-1992 period, both during 1992-98, corresponding to Phase II of EMU, when fiscal consolidation efforts were maximised to ensure qualification for Phase III, and thereafter. Indeed, discretionary shifts in fiscal stance, at least as far as the primary budget balance is concerned, seem to have become more counter-cyclical after 1992, and particularly from 1999 to 2002.[10] Looking forward, to the extent that the aggregate EMU structural budget deficit is brought down from its current level of 1¾ per cent of GDP towards balance, fiscal rules would increase the scope for discretionary counter-cyclicality, although the principal purpose of such rules is to allow the operation of built-in stabilisers around a neutral fiscal stance. It has, nevertheless, been argued that the deficit ceiling enshrined in the MT/SGP may induce pro-cyclicality in the candidate countries for EU accession, where structural imbalances are typically larger than in EU countries and economic activity is more volatile.[11]

## Reaction to high tax ratios

***Tax cuts may be ill-timed and hence hamper counter-cyclicality***

Ill-timed tax cuts may result in pro-cyclical retrenchment. The reaction of public opinion to high tax ratios in most OECD countries puts pressure on governments to cut taxes, particularly at cyclical peaks, when the revenue windfall is highest. These cuts have resulted in pro-cyclical retrenchment following revenue shortfalls in some instances during the recent downturn. Based on the evidence provided in Table IV.1, the OECD experience suggests that tax cuts implemented during the upturn tend to inhibit the discretionary fiscal loosening in the subsequent downswing which is apparent among the countries where no tax reductions were made in the upswing. Fiscal policy remains discernibly counter-cyclical in downturns provided that there had been no tax cuts during the previous upturn.

## Public expenditure rigidities

***Expenditure rigidity determines the cyclical profile of fiscal stance…***

Downward rigidities in public expenditure, as well as ceilings on expenditure growth, constrain budget action and help determine its cyclical profile. It is difficult to divert resources away from mandatory spending, such as the wage bill, welfare benefits and pensions. Indeed, the OECD experience summarised in Table IV.1 suggests that the cyclical rise in the budget deficit during downturns has tended to be

9. Comparison of the pre- and post-1992 period has become the conventional way to assess empirically the role played by the MT/SGP in shaping the responses of fiscal policy to the cycle in the EMU countries. For example, whereas Wyplosz (2002) reports some evidence of pro-cyclicality in the EMU countries after 1992, Gali and Perotti (2003) do not support the claim that the stabilisation role of fiscal policy has been impaired in the EMU countries by the MT/SGP, particularly in the latest downturn.
10. This covers a period when the 3 per cent of GDP ceiling was exceeded by three members of the EMU (France, Germany and Portugal).
11. See, for example, Coricelli and Ercolani (2002).

complemented by discretionary shifts in fiscal stance in countries where the government is a large employer, making fiscal discretion counter-cyclical.[12] By the same token, where needed, pro-cyclical action is harder to implement when mandatory outlays account for a relatively high share of spending. The benefits for short-term stability that arise from expenditure being inflexible in a downward direction have, however, to be set against the fact that there is no evidence of corresponding counter-cyclicality in upturns, with the risk of resultant longer-term "ratcheting up" effects on aggregate public spending.

***… public investment playing a short-term reflationary role***

A budget item that has been seen by policy-makers as adaptable for short-term stabilisation purposes is public investment. Where the level of public investment is low and infrastructure is deemed deficient (*e.g.* Japan, Portugal and other recipients of EMU structural funds, and the United Kingdom), investment projects may be initiated in downturns in a counter-cyclical manner. Based on the results summarised in Table IV.1, the OECD experience suggests that, in general, those countries having a counter-cyclical discretionary fiscal stance during downturns have a low share of capital outlays in public spending – and hence the potential to increase such spending. This does not seem to be the case with countries which already have relatively high public investment levels. Again, there is no evidence of counter-cyclical use of the instrument in upturns. While cuts and deferrals in capital programmes might be achieved within a short time horizon, the longer-term planning profile of public investment makes it a difficult instrument to manage for stabilisation purposes throughout the cycle. And may even make for pro-cyclicality in the upturn.

## Political cohesion: unified government versus fragmentation

***Fiscal consolidation in bad times requires political cohesion***

Achieving and maintaining fiscal discipline geared at longer-term policy sustainability, while allowing for short-term fluctuations in fiscal stance, poses considerable political-economy challenges. In particular, the legislative oversight to which fiscal policymaking is subject may also affect policy decisions. At the risk of oversimplifying complex political processes, governments that do not have a solid majority in the legislature may be unable to reach agreement on, or secure approval of, unpopular discretionary measures. Although no single indicator can be a certain gauge of political strength, on the basis of the results summarised in Table IV.1, the OECD experience suggests that minority governments tend to have a more counter-cyclical fiscal stance in downswings than their majority counterparts.[13] The OECD experience also suggests that, when governments are more politically fragmented, fiscal stance correlates more strongly with the business cycle-induced operation of built-in stabilisers, being on average more counter-cyclical.[14] Again, this may be because the decision-making process tends to make consolidation measures more

12. A similar conclusion applies when expenditure rigidity is proxied by the share of wages in current government spending. A possible explanation is that the government may have limited discretionary power over wage settlement in the public sector, because backward-looking formal or informal price indexation is pervasive in many countries, thereby strengthening real wage resistance to price shocks and making wage restraint harder to impose.
13. Although both coefficients are positively-signed and of similar magnitudes, in the case of low-majority governments, the coefficient is estimated less precisely and statistical significance is ensured at the 10 per cent level only.
14. There is some empirical evidence that changes in central government policies are less frequent and radical, the greater the number of players with a veto right over the enactment of government policies. See, for example, Tsebelis (1999). The findings reported in Table IV.1 remain valid if political fragmentation is replaced by an indicator identifying the number of veto players, with fiscal stance being more counter-cyclical in bad times, the higher the number of veto players.

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difficult and time-consuming, requiring more political give-and-take, when the government and its base in the legislature are politically fragmented.[15]

## Electoral regimes and cycles

***Electoral systems affect the size and composition of public spending…***

Reflecting the above, electoral regimes seem to have a bearing on the level and composition of government spending and deficits. Based on the evidence summarised in Table IV.1, fiscal policy tends to be more counter-cyclical during downturns in the OECD area in countries with electoral systems based on proportional representation (*i.e.* in which candidates are elected based on the share of votes received) than in regimes based on single-member constituencies, elected by "first-past-the-post" systems. This is consistent with a growing literature on how electoral institutions affect the sensitivity of fiscal stance to the business cycle. In parliamentary regimes with proportional representation, spending tends to be more counter-cyclical, persistent over time and asymmetrical over the cycle, reacting more strongly to negative, than positive, output shocks.[16] Other factors may contribute, but a possible explanation is that more proportional electoral systems are more likely to generate coalition governments, which tend to be more politically fragmented and possibly responsive to popular pressures.[17]

***… and pro-cyclical action is more prevalent after election years***

In the same vein, electoral cycles tend to be correlated with fiscal policy outcomes. Country experiences differ significantly and are not easy to generalise but, overall, OECD evidence, summarised in Table IV.1, suggests that discretionary fiscal action tends to be counter-cyclical during downturns which occur in election years. The experience of many countries suggests that pro-cyclical retrenchment tends to be more prevalent following elections, perhaps reflecting the fact that the benefits of fiscal consolidation, as of a reformist agenda in general, take some time to come through.

15. See, for instance, Lane (2003).
16. See Persson and Tabellini (2003), for further discussion. Primary spending, and in particular spending on transfers to individual and households, tends to rise more in response to macroeconomic shocks in countries with more proportional electoral systems (Milesi-Ferretti *et al.*, 2002).
17. Recent empirical research has shown that proportional representation is associated with a heavier tax burden and higher public spending, because it often leads to a larger number of parties in the legislature and consequently larger coalition governments and greater political fragmentation. See, for example, Austen-Smith (2000) and Perotti and Kantopoulos (2002).

# Appendix: Fiscal stance over the cycle: evidence from panel analysis

The extent to which fiscal stance has been pro- or counter-cyclical can be assessed by regressing changes in the cyclically-adjusted primary budget balance – as a measure of discretionary action – against changes in the cyclical component of the primary budget balance.[18] In particular:

$$\Delta B_{it}^{s} = a_0 + \gamma \Delta B_{it}^{c} + a_1 \Delta b_{it-1} + u_{it}, \qquad (1)$$

where $B_{it}^{s}$ is the cyclically-adjusted primary budget balance in country *i* at time *t*, $B_{it}^{c}$ is the cyclical component of the primary budget balance, $b_{it-1}$ is the lagged public debt stock (in per cent of GDP), $u_{it}$ is an error term, and $\Delta$ is the difference operator.[19]

The interpretation of equation (1) is that if the estimated coefficient $\gamma$ is negative, part of the cyclical fluctuations in the primary budget balance is offset by discretionary action, characterising pro-cyclical activism. A total offset is defined as $\gamma = -1$. This framework can also be used to test whether discretionary fiscal action has been asymmetrical over the cycle, to the extent that the estimated parameters differ between downturns and upturns. To this end, the cyclical component of the budget balance can enter equation (1) alone and interacted with a variable identifying business cycle downturns. Specifically:

$$\Delta B_{it}^{s} = a_0 + \gamma_0 \Delta B_{it}^{c} + D_{it}(\gamma_1 - \gamma_0)\Delta B_{it}^{c} + a_1 \Delta b_{it-1} + u_{it}, \qquad (2)$$

where $D_{it}$ is a dummy variable identifying cyclical downturns, which takes the value of "1" in downturns, when the output gap (actual minus potential) becomes more negative or less positive, or when it remains unchanged, and "0" when it moves in a positive direction.

In equation (2), the case where $\gamma_1 \neq \gamma_0$ denotes how asymmetrical fiscal stance is over the cycle. Also, if $\gamma_0$ is negative and less than 1 (*i.e.* discretionary action offsets some, but not all, of the cyclical fluctuation in the budget balance in the upturn, suggesting some pro-cyclicality) and $\gamma_1$ is positive, then there is counter-cyclicality in downturns, indicating an asymmetry of fiscal stance over the cycle.

Appendix Table IV.1 (baseline model) reports regression results for a panel of 21 OECD countries in the period 1980-2002, including all EU countries (except Luxembourg), Australia, Canada, Iceland, Japan, New Zealand, Norway, and the United States. Country selection was contingent on data availability. The baseline results suggest that, on average during upturns, a 1 percentage-point increase in the cyclical component of the primary budget balance is associated with a reduction in

18. Consistent with the usual practice by the OECD, as well as the empirical literature, discretionary action is measured by changes in the cyclically-adjusted primary budget balance.
19. Different methodologies can be used to evaluate the extent of fiscal pro- and counter-cyclicality. The traditional approach consists of regressing the recorded (or cyclically-adjusted) budget balance on the output gap to estimate the sensitivity of fiscal stance to the business cycle. The idea is that, as the output gap increases, so do revenues, and expenditures fall, reducing the budget deficit. Instead, the regressions reported below estimate directly the extent to which discretionary measures offset or exacerbate the business cycle-induced fluctuations in the budget balance. Recent research, particularly Wyplosz (2002), Milesi Ferretti, Perotti, and Rostagno (2002), Persson and Tabellini (2003), and Gali and Perotti (2003), has shed light on the links between institutions and the sensitivity of fiscal policy to the business cycle.

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Appendix Table IV.1. **Fiscal stance over the cycle: baseline results, fiscal rules, and tax cuts**

*Dep. Var.: Cyclically-adjusted primary budget balance* [a]

| | Baseline | Fiscal rules | Tax cuts in upturn |
|---|---|---|---|
| Cyclical component of budget balance | -0.24 * | -0.51 ** | -0.22 * |
| | (0.126) | (0.223) | (0.126) |
| Cyclical component in downturn[b] | 0.43 ** | | |
| | (0.184) | | |
| Cyclical component in downturn (before 1992) | | 0.43 | |
| | | (0.363) | |
| Cyclical component in downturn (between 1992-98) | | 0.70 * | |
| | | (0.379) | |
| Cyclical component in downturn (after 1999) | | 0.94 ** | |
| | | (0.457) | |
| Cyclical component in downturn (no tax cuts) | | | 0.44 ** |
| | | | (0.185) |
| Cyclical component in downturn (following tax cuts) | | | 0.13 |
| | | | (0.368) |
| Lagged debt stock | 0.06 *** | 0.06 *** | 0.07 *** |
| | (0.020) | (0.011) | (0.020) |
| No. of observations | 384 | 209 | 384 |
| Sargan test (overidentification, *p* -value) | 0.21 | 0.98 | 0.23 |
| First-order autocorrelation (*p* -value) | 0.00 | 0.00 | 0.00 |
| Second-order autocorrelation (*p* -value) | 0.27 | 0.02 | 0.27 |

*a)* All models are estimated using the Arellano-Bond GMM estimator and include a common intercept and the lagged dependent variable (not reported). Standard errors are reported in parentheses. Statistical significance at the 1, 5, and 10 per cent levels is denoted by respectively (***), (**), and (*). The sample period is 1980-2002.

*b)* The downturn indicator is defined as a dummy variable taking value 1 for the years in which the change in the output gap relative to the previous year is non-positive and 0, otherwise.

*Source:* OECD.

the cyclically-adjusted primary balance by approximately 0.2 percentage point.[20] It also appears that, controlling for indebtedness, fiscal stance is counter-cyclical in downturns, suggesting a bias over the cycle. In downturns, the sensitivity of the cyclical component of the budget balance is 0.2 (–0.24 + 0.43). Moreover, rising indebtedness is associated with a strengthening of cyclically-adjusted balances, indicating that longer-term sustainability is a key determinant of the fiscal policy stance over the cycle. Each percentage-point increase in the public debt in relation to GDP in the previous year increases the cyclically-adjusted component of the budget balance in the current year by about 0.06 percentage point.[21]

20. The Arellano-Bond GMM estimator is used to take into account the likely joint endogeneity of the regressors (which are instrumented by their lagged values), heteroscedasticity in the data, and serial correlation of the error terms (because fiscal aggregates and budget institutions tend to be persistent over time). Other estimators, including pooled OLS and fixed and random effects, were also experimented with to test the robustness of the regression results.

21. Ancillary estimations (not reported) suggest that these findings are reasonably robust to: *(i)* different definitions of cyclical downturns; *(ii)* the exclusion of relatively small variations in the cyclically-adjusted primary balance, which may reflect forecast errors, rather than discretionary measures; and *(iii)* the exclusion of relatively small fluctuations in the output gap, which may not prompt counter-cyclical discretionary action.

## Analysing the role of institutions and political economy factors

The analysis can be extended to shed light on whether the sensitivity of fiscal stance to the cycle is affected by institutions and political economy factors, particularly during downturns. To this end, equation (2) can be extended as follows:

$$\Delta B_{it}^{s} = a_0 + \gamma_0 \Delta B_{it}^{c} + D_{it}(\gamma_1 - \gamma_0)\Delta B_{it}^{c}(1 - I_{it}) + \ldots$$
$$\ldots + D_{it}(\gamma_2 - \gamma_0)\Delta B_{it}^{c} I_{it} + a_1 \Delta b_{it-1} + u_{it}\,, \qquad (3)$$

where $I_{it}$ identifies a particular institution.

According to this equation, if $\gamma_2 \neq \gamma_1$ institutions affect the stance of fiscal policy over the cycle, and counter-cyclicality in the downturn is maintained in the presence of institution $I_{it}$ if $\gamma_2 - \gamma_0 > 0$.

Appendix Table IV.2. **Fiscal stance over the cycle: expenditure rigidity and political cohesion**

*Dep. Var.: Cyclically-adjusted primary budget balance* [a]

| | Public employment | Public investment | Majority in legislature | Political fragmentation |
|---|---|---|---|---|
| Cyclical component of budget balance | -0.22 * | -0.23 * | -0.41 ** | -0.46 *** |
| | (0.126) | (0.126) | (0.164) | (0.161) |
| Cyclical component in downturn (high public employment) [b] | 0.50 *** | | | |
| | (0.186) | | | |
| Cyclical component in downturn (low public employment) | 0.00 | | | |
| | (0.302) | | | |
| Cyclical component in downturn (high public investment) | | 0.23 | | |
| | | (0.232) | | |
| Cyclical component in downturn (low public investment) | | 0.54 *** | | |
| | | (0.196) | | |
| Cyclical component in downturn (majority) | | | 0.53 * | |
| | | | (0.288) | |
| Cyclical component in downturn (minority) | | | 0.81 ** | |
| | | | (0.336) | |
| Cyclical component in downturn (high fragmentation) | | | | 1.12 *** |
| | | | | (0.305) |
| Cyclical component in downturn (low fragmentation) | | | | 0.23 |
| | | | | (0.296) |
| Lagged debt stock | 0.07 *** | 0.07 *** | 0.06 ** | 0.07 *** |
| | (0.020) | (0.020) | (0.024) | (0.024) |
| No. of observations | 384 | 384 | 279 | 279 |
| Sargan test (overidentification, *p*-value) | 0.19 | 0.20 | 0.23 | 0.19 |
| First-order autocorrelation (*p*-value) | 0.00 | 0.00 | 0.00 | 0.00 |
| Second-order autocorrelation (*p*-value) | 0.31 | 0.31 | 0.11 | 0.09 |

*a)* All models are estimated using the Arellano-Bond GMM estimator and include a common intercept and the lagged dependent variable (not reported). Standard errors are reported in parentheses. Statistical significance at the 1, 5, and 10 percent levels is denoted by respectively (***), (**), and (*). The sample period is 1980-2002.

*b)* The downturn indicator is defined as a dummy variable taking value 1 for the years in which the change in the output gap relative to the previous year is non-positive and 0, otherwise.

*Source:* OECD.

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Appendix Table IV.3. **Fiscal stance over the cycle electoral systems and cycles**

*Dep. Var.: Cyclically-adjusted primary budget balance* [a]

| | Electoral system | Electoral cycle |
|---|---|---|
| Cyclical component of budget balance | -0.41 * | -0.41 ** |
| | (0.229) | (0.165) |
| Cyclical component in downturn (proportional representation)[b] | 0.77 ** | |
| | (0.355) | |
| Cyclical component in downturn (plurality) | -0.32 | |
| | (0.404) | |
| Cyclical component in downturn (election year) | | 0.68 ** |
| | | (0.291) |
| Cyclical component in downturn (not election year) | | 0.56 * |
| | | (0.305) |
| Lagged debt stock | 0.06 ** | 0.05 ** |
| | (0.025) | (0.024) |
| No. of observations | 264 | 279 |
| Sargan test (overidentification, *p* -value) | 0.17 | 0.23 |
| First-order autocorrelation (*p* -value) | 0.00 | 0.00 |
| Second-order autocorrelation (*p* -value) | 0.06 | 0.11 |

*a)* All models are estimated using the Arellano-Bond GMM estimator and include a common intercept and the lagged dependent variable (not reported). Standard errors are reported in parentheses. Statistical significance at the 1, 5, and 10 percent levels is denoted by respectively (***), (**), and (*). The sample period is 1980-2002.

*b)* The downturn indicator is defined as a dummy variable taking value 1 for the years in which the change in the output gap relative to the previous year is non-positive and 0, otherwise.

*Source:* OECD.

This procedure can be used to test for a variety of institutional and political economy factors. The main findings, which are summarised in Table IV.1 and discussed in greater detail in the main text, are presented in Appendix Tables IV.1-3. To the extent that institutional and political economy factors can be quantified, the indicators used in the regressions are as follows:

– **Fiscal rules.** To identify the pre- and post-MT/SGP periods in the EMU countries that have adopted the single currency, the periods before 1992 (prior to MT/SGP), between 1992-98 (Phase II of EMU), and after 1999 (corresponding to the launching of the single currency) are analysed separately.

– **Tax cuts during upswings.** The "following tax cuts" indicator takes the value of "1" if the ratio of current revenue to GDP had fallen at time *t-1* relative to the previous period, provided that time *t-1* is an upturn, and "0" otherwise.

– **Expenditure rigidities.** Two proxies for expenditure rigidity are used: the share of public employment in total employment and the ratio of public investment to current government spending. The "high public employment" ("low public employment") indicator takes the value of "1" when the ratio of public employment to total employment is greater than or equal to (less than)

16.6 (sample median), and "0" otherwise. The "high public investment" ("low public investment") indicator takes the value of "1" when the ratio of fixed capital outlays to current government spending is higher than or equal to (less than) 6.9 (sample median), and "0" otherwise.

– **Political cohesion.** The indicators are based on the World Bank's Political Institutions database. The "majority" ("minority") indicator takes the value of "1" when the fraction of seats in the legislature held by the government exceeds (is below) 50 per cent and "0" otherwise. The "high fragmentation" ("low fragmentation") indicator takes the value of "1" when the probability that two deputies picked at random from among the government parties will be of different parties exceeds (is below) 50 per cent, and "0" otherwise.

– **Electoral systems and cycles.** These indicators are also based on the World Bank's Political Institutions database. The "plurality" ("proportional representation") indicator takes the value of "1" if legislators are elected using a "winner-takes-all"/"first past the post" rule (if candidates are elected based on the percentage of votes received by their party), and "0" otherwise. The "election year" indicator is constructed based on a variable available from the World Bank Political Institutions database identifying the number of years left in the current Chief Executive's term in office. The indicator was redefined to take the value of "1" if the original variable had value "0," and "0" otherwise.

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# V. FISCAL RELATIONS ACROSS LEVELS OF GOVERNMENT

## Introduction

*Fiscal relations between levels of government are under increasing scrutiny…*

OECD economies face the common challenge of raising public sector efficiency, and fiscal relations between central and sub-national governments are coming under increasing scrutiny in this regard. While there are apparent advantages to decentralisation, the choice between central and local provision is not clear-cut and devolution has not proceeded evenly in the OECD area over the past two decades. Decentralisation can make governments more accountable, allowing a better matching of public services to local preferences and needs. It may introduce competition across jurisdictions, thus boosting efficiency in the public sector. But it can also create co-ordination problems and may not deliver efficiency gains in activities where small-scale operation increases provision costs or in cases where the benefits and costs of an activity are felt outside the supplying jurisdiction. Moreover, nationwide policy objectives, notably those related to equity and macroeconomic stabilisation, may be more difficult to achieve with greater sub-national autonomy.

*… raising similar broad issues across countries*

Institutional diversity – often rooted in history – makes general conclusions about best practice in intergovernmental fiscal relations difficult to draw, but a review of country experiences in this area shows that the broad issues are similar across countries.[1] These include: *i)* on the spending side, the distributional and efficiency issues raised by sub-national provision of public goods and services; *ii*) the options for financing sub-national spending, via own taxes or grants, so as to create incentives for cost-efficient provision; and *iii*) the institutional arrangements for ensuring that developments in sub-national finances are compatible with national policy objectives. At the core of the debate in these areas are the incentive structures that can, and should, be put in place to ensure that responding to local preferences is consistent with more general objectives of equitable and cost-effective service delivery, as well as overall fiscal discipline.

Based on these sets of issues, this chapter first reviews the relative importance of central and sub-national governments in the OECD area – as evidenced by aggregate revenue and expenditure indicators – and assesses the forces promoting, or militating against, greater decentralisation in intergovernmental relations. It then focuses, in turn, on the practical issues determining the assignment of spending responsibilities to different layers of government, on the choice between different sources of finance to sub-national jurisdictions, and on the institutional arrangements required to achieve consistency between decentralisation and overall macro-economic policy aims.

1. The review of country experiences reported in this chapter is not exhaustive. It focuses predominantly on the issues that have surfaced in recent *OECD Economic Surveys*, including in-depth chapters on public spending and tax systems.

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***Some common lessons emerge***

The chapter shows that the vertical structure of government varies considerably among OECD member countries, and that economic efficiency and equity principles are often secondary to historical and political considerations. It is thus not easy to replicate the incentive structures of one country in another. Nevertheless, country experiences, although diverse, help to highlight overall tendencies and common policy lessons and challenges. In particular:

- The sub-national share of spending has been rising faster than the corresponding revenue share, with an increasing volume of intergovernmental grants making up the difference. These trends do not necessarily reflect greater local autonomy, as central governments increasingly impose norms, minimum quality standards, and fiscal rules to ensure national conformity.
- The assignment of spending responsibilities to sub-national jurisdictions necessitates a continuing assessment of spillover and scale-economy problems, which result from the fact that political boundaries are not necessarily economically efficient. Various co-operation and joint-provision expedients are being adopted, but the problems have yet to be fully overcome.
- Matching revenue resources to spending responsibilities is one the most intractable issues of intra-governmental fiscal relations. With own-tax resources likely to remain limited, the design of intergovernmental grants and transfers is critical for efficient sub-national service delivery. Better alignment of policy objectives between donors and recipients remains the main challenge in the design of intergovernmental grant systems.
- There is scope for improving sub-national fiscal discipline, with fiscal rules having an important role to play. But many of the problems of reconciling sub-national fiscal autonomy with national (or supranational) co-ordination have yet to be solved.

## Recent trends and forces shaping fiscal relations across government levels

***The role of sub-national governments varies across countries***

There are significant differences across countries in the sub-national share of government spending and revenue – the most conventional yardstick for measuring fiscal decentralisation. Moreover, the importance of sub-national governments is not linked to whether a country has a unitary or federal government. Sub-national governments already account for a higher share of general government expenditure in some unitary countries, particular the Nordic and continental European countries, than in constitutionally-defined federations, such as the United States and Germany (Table V.1).

***The sub-national share in public spending is generally rising…***

Recent trends point to a rising sub-national spending share.[2] In many countries, these trends reflect, at least in part, the re-assignment of certain functions to sub-national governments. This has applied, for example, to health care and non-university education in Italy, Mexico, and Spain; to labour market policies in Canada; to the

2. For further discussion, see also Joumard and Kongsrud (2003).

Table V.1. **Selected decentralisation indicators**

| | Sub-national spending[a] | | | | Sub-national revenue[b] | | | | Sub-national discretion to set taxes[c] |
|---|---|---|---|---|---|---|---|---|---|
| | Per cent of general government spending | | Per cent of GDP | | Per cent of general government revenue | | Per cent of GDP | | |
| | 1985[d] | 2001[e] | 1985[d] | 2001[e] | 1985[d] | 2001[e] | 1985[d] | 2001[e] | 1995 |
| **Federal countries** | | | | | | | | | |
| Austria | 28.4 | 28.5 | 15.5 | 14.5 | 24.6 | 21.4 | 12.1 | 10.8 | 9.5 |
| Belgium | 31.8 | 34.0 | 16.6 | 16.6 | 11.4 | 11.3 | 5.5 | 5.6 | 57.9 |
| Canada[f] | 54.5 | 56.5 | 25.0 | 23.3 | 50.4 | 49.9 | 19.4 | 21.0 | 100.0 |
| Germany | 37.6 | 36.1 | 17.2 | 17.0 | 31.9 | 32.4 | 13.7 | 14.3 | 12.8 |
| United States | 32.6 | 40.0 | 12.0 | 14.2 | 37.6 | 40.4 | 11.9 | 13.0 | .. |
| **Unitary countries** | | | | | | | | | |
| Denmark | 53.7 | 57.8 | 32.2 | 31.8 | 32.3 | 34.6 | 18.7 | 20.0 | 95.1 |
| Finland | 30.6 | 35.5 | 17.8 | 17.0 | 24.8 | 24.7 | 13.5 | 13.2 | 89.0 |
| France | 16.1 | 18.6 | 8.7 | 9.9 | 11.6 | 13.1 | 5.9 | 6.8 | .. |
| Greece | 4.0 | 5.0 | 2.0 | 2.4 | 3.7 | 3.7 | 1.5 | 1.8 | .. |
| Ireland[f] | 30.2 | 29.5 | 11.8 | 8.2 | 6.4 | 5.3 | 2.0 | 1.5 | .. |
| Italy | 25.6 | 29.7 | 13.4 | 14.2 | 10.7 | 17.6 | 4.3 | 8.0 | .. |
| Japan | 46.0 | 40.7 | 14.4 | 15.2 | 26.8 | 26.0 | 8.9 | 7.8 | 90.3 |
| Luxembourg | 14.2 | 12.8 | 6.0 | 4.9 | 8.0 | 7.4 | 3.8 | 3.2 | .. |
| Netherlands | 32.6 | 34.2 | 19.1 | 15.9 | 11.4 | 11.1 | 6.0 | 5.2 | 100.0 |
| Norway[g] | 34.6 | 38.8 | 22.1 | 22.7 | 22.5 | 20.3 | 13.9 | 13.5 | 3.3 |
| Portugal | 10.3 | 12.8 | 4.6 | 5.7 | 7.6 | 8.3 | 3.0 | 3.5 | 31.5 |
| Spain | 25.0 | 32.2 | 11.4 | 13.0 | 17.0 | 20.3 | 6.6 | 8.2 | 66.6 |
| Sweden | 36.7 | 43.4 | 26.6 | 24.8 | 34.3 | 32.0 | 20.9 | 19.7 | 100.0 |
| United Kingdom | 22.2 | 25.9 | 9.9 | 10.9 | 10.5 | 7.6 | 4.5 | 3.6 | 100.0 |
| **Average**[h] | 29.8 | 32.2 | 15.1 | 14.9 | 20.2 | 20.4 | 9.3 | 9.5 | .. |

*a)* Excludes transfers to other levels of government.
*b)* Excludes transfers from other levels of government and includes revenues from shared taxes.
*c)* Percentage of total taxes for which sub-national governments have full discretion to set statutory rates, bases or both. A value of 100 indicates full discretion.
*d)* Or earliest year available: 1986, for Ireland; 1987, for the Netherlands and the United Kingdom; 1990, for Japan and Luxembourg; 1991, for Germany; 1993, for Sweden; and 1995, for Austria, Belgium, Denmark, Finland, Greece, Portugal and Spain.
*e)* Or latest year available: 1996, for Ireland; 1997, for Canada; 1999, for Portugal; and 2000, for Japan, Luxembourg, Norway and the United Kingdom.
*f)* Based on SNA68 accounts.
*g)* The shares are defined in per cent of mainland GDP and revenue excludes income from petroleum activities.
*h)* Unweighted average of the federal and unitary countries.
*Sources:* OECD; OECD, Taxing Powers of State and Local government, 1999; OECD National accounts database; Statistics Norway.

management of some welfare programs in Korea, and to primary education in Hungary. Outlays on education, health care, and social security, taken together, account for the largest share of sub-national spending in many countries, especially in the middle-tier jurisdictions of federal countries (Figure V.1). Territorial and administrative reforms, particularly in the Central European countries, have also contributed to the devolution of expenditure functions to sub-national jurisdictions. This is the case in the Czech Republic, for example, where hospital ownership is being devolved to the regional governments, and in Poland, where the 1999 public administration reform was accompanied by a significant devolution of expenditure responsibilities from the centre to sub-national governments in the areas of education, roads and health care.[3]

3. OECD (2003) and OECD (2002a).

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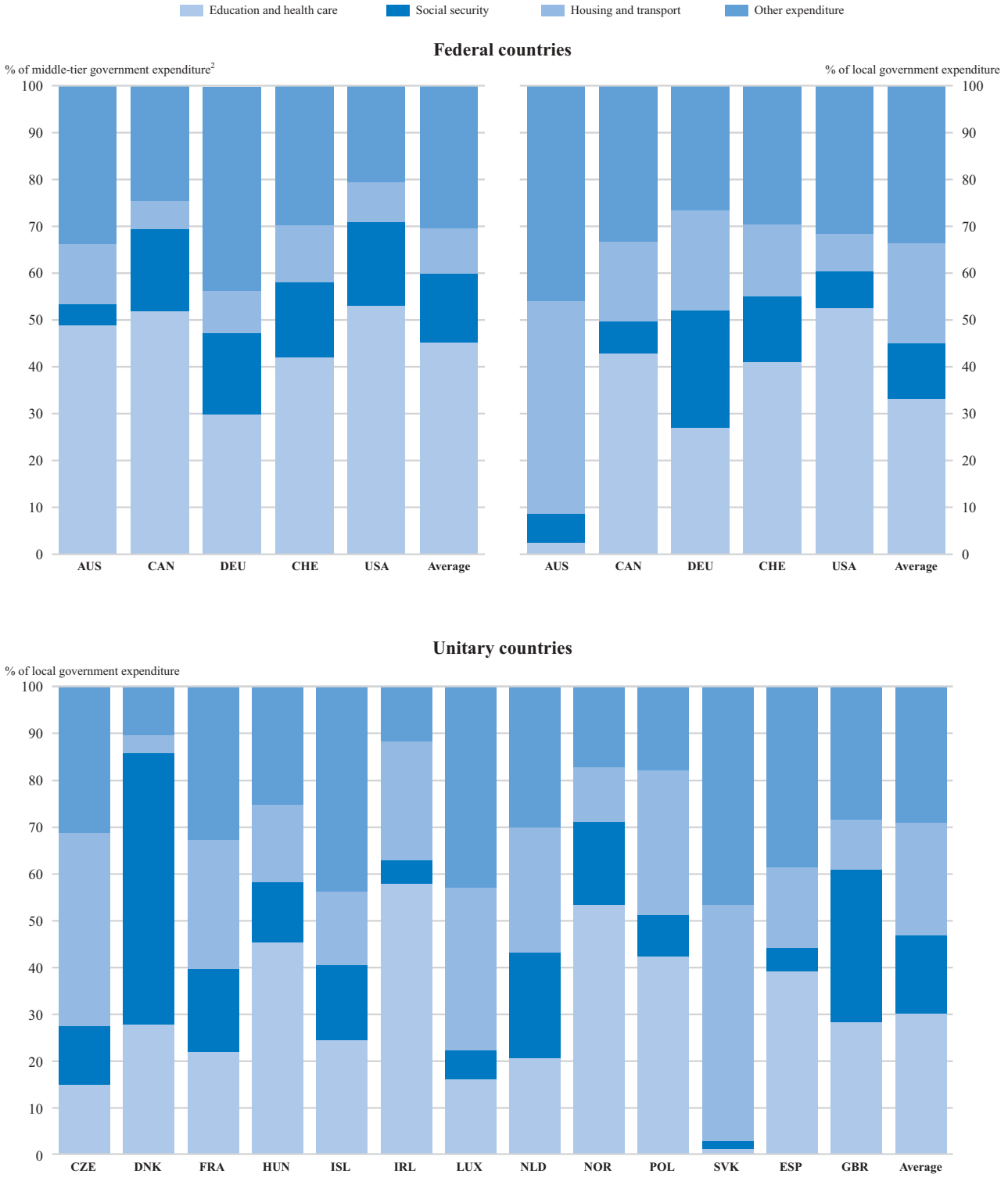
## Figure V.1. Sub-national expenditure composition: functional classification

*1995-2001[1] averages*




1. Or latest year available.
2. States, provinces or regions.

*Source:* IMF, *Government Finance Statistics Yearbook*, 2002.

***… while trends in sub-national own-revenue shares differ***

While the sub-national share of general government revenue (excluding intergovernmental grants) has risen only slightly on average over time, there is no unique pattern across countries. In some cases, sub-national revenue shares have increased markedly, reflecting a process of state, regional or local devolution (United States, Spain, Italy, and Denmark). In others, the share has fallen gradually, particularly in countries where sub-national governments rely more heavily on taxing relatively mobile bases, such as personal income (*e.g.* Austria, Norway, and Sweden). Though some sub-national governments are now enjoying greater autonomy in tax policy (Belgium, Mexico, and Spain), and some have seen a simultaneous rise in revenue and spending shares, others have had their tax powers curtailed (France and Germany). Sub-national revenue capacity has also been constrained in some countries because cascading taxes on retail sales and enterprise turnover – tax bases traditionally assigned to sub-national layers of government – have been replaced by value-added-type taxes, which are most often collected by the centre (Australia and Switzerland). Non-tax revenues vary considerably in importance (Figure V.2), the experience with user charges differing significantly from country to country.

***Autonomy is not well reflected in spending and revenue shares***

Quantitative indicators of decentralisation may be misleading as to the degree of responsibility enjoyed by sub-national jurisdictions, since their shares in general government expenditure and revenue are not necessarily matched by autonomy or discretionary powers in tax, expenditure and regulatory matters. The centre is often solely responsible for designing policies and setting standards, with the sub-national governments acting as its agents in service delivery and program implementation. Intergovernmental grants and transfers remain an important source of finance for sub-national provision, and in some countries these are predominantly conditional (*i.e.* earmarked for particular spending purposes with conditions attached to the use of funds). A case in point is non-tertiary education in many countries (*e.g.* Italy, Mexico, and Norway), where sub-national governments are responsible for service delivery and the central government sets curricula as well as wages, and also trains teachers. Standards are set predominantly by the centre in the case of health care, although sub-national jurisdictions are becoming important providers in many countries.

***Sub-national budgets will face future spending pressures***

Looking forward, intergovernmental fiscal relations are likely to be affected by the fiscal consolidation needed in many countries, particularly in the face of demographic trends.[4] Population ageing is exerting upward pressure on spending which may affect sub-national governments more adversely than the centre, as in Canada, for example, where the provision of health and age-related care is assigned to regional and local jurisdictions. This is also the case in Norway, where the central government's commitment to raising the supply and quality of elderly care and kindergarten facilities, which are municipal responsibilities, reinforces existing pressures on public spending at the sub-national level.[5] More generally, faced with mounting spending pressures, higher levels of government may attempt to off-load some of their expenditure responsibilities to lower levels of government. Current arrangements with respect to revenue raising responsibilities and the volume and design of intergovernmental transfers may prove inadequate in light of these prospective developments.[6]

4. See OECD (2001a), for estimates of the fiscal consequences of ageing, including pension and health care costs.
5. OECD (2002b).
6. See Tanzi (1999), for further discussion on pressures for reforming intergovernmental fiscal relations over the medium term.

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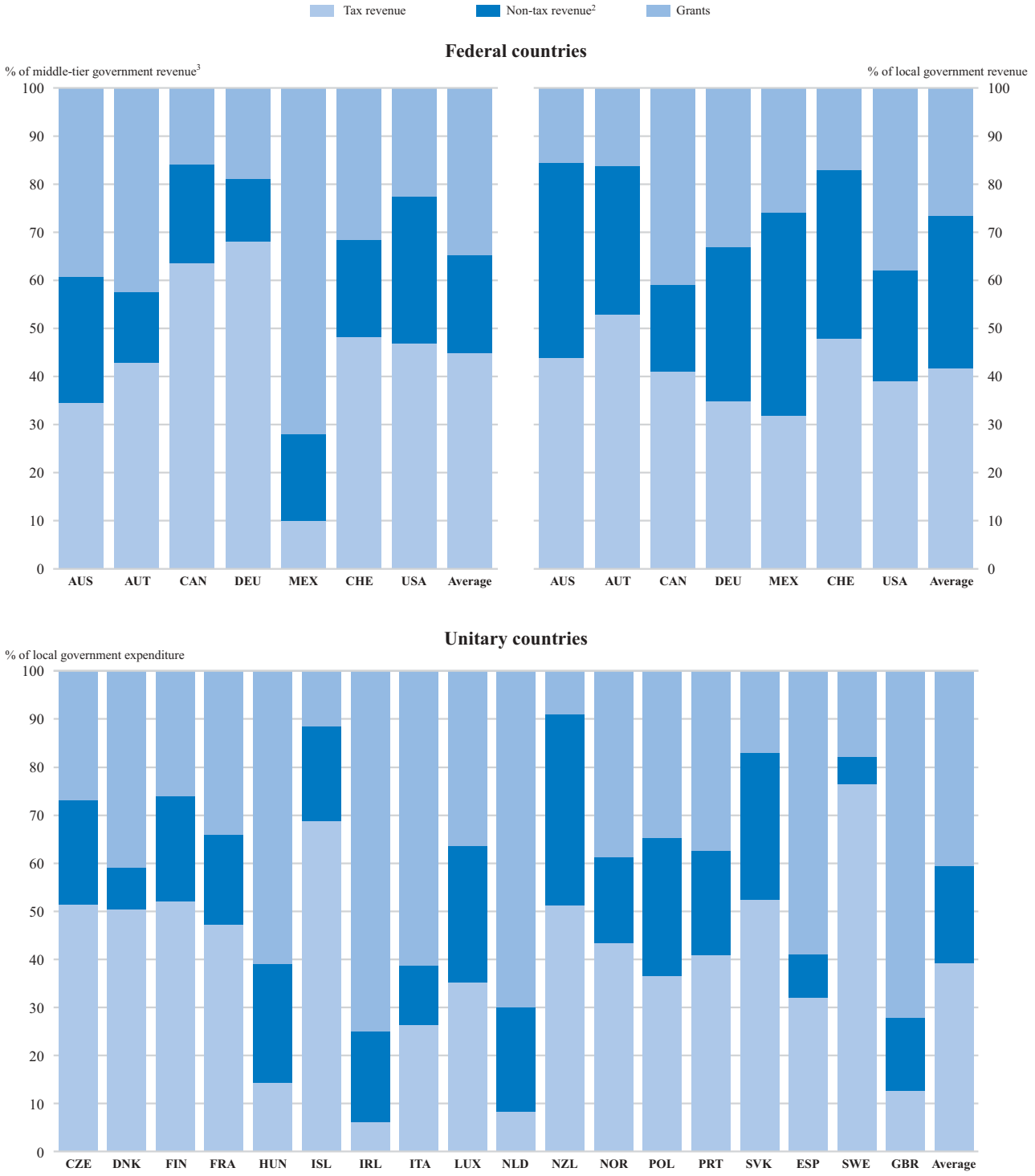
## Figure V.2. Sub-national revenue composition

*1995-2000[1] averages*




1. Or latest year available.
2. Non-tax revenue includes operating surpluses of public entreprises controlled by sub-national governments, property income, fees, sales and fines, contributions to government employee pension funds and capital revenues.
3. States, provinces or regions.

*Source:* OECD, *Revenue Statistics*, 1965-2002.

## Defining the extent of sub-national autonomy

***Sub-national fiscal autonomy depends on complex trade-offs…***

Expenditure, revenue and borrowing competencies can be assigned to a lower level of government on a scale which declines from complete devolution (full sub-national autonomy) to delegation, where the sub-national government retains little autonomy in policymaking and service delivery, and therefore acts as an agent of the centre.[7] Decisions on how much autonomy should be allocated to sub-national governments are based predominantly on two sets of considerations.

- The political boundaries of sub-national jurisdictions may not be economically efficient. Since the benefits of public goods and services cannot easily be circumscribed to a limited geographical area, the supplying jurisdiction may be too small to achieve low provision costs. For example, in several countries, health care facilities have been closed in small jurisdictions in search of greater cost effectiveness (*e.g.* Canada, Finland, France, and Italy).
- Decentralisation brings government closer to the people, but it also creates an information gap between the centre and the sub-national jurisdictions entrusted with fiscal powers, which can cause problems where policy objectives differ between layers of government, as they often do. For example, sub-national jurisdictions may not be willing to share the burden of fiscal consolidation with the higher levels of government. The benefits of decentralisation, in terms of better responding to local preferences, thus have to be balanced against equity and stabilisation objectives, which are determined nationally.

***… and on appropriate contracts and incentives***

In practice, because of the complex trade-offs involved, the assignment of fiscal competencies among different levels of government is not clear-cut and depends on the institutions that can be put in place to overcome co-ordination problems. The main challenges in this respect are the design of an appropriate contractual framework for service delivery between different layers of government, and among different jurisdictions within the same layer, as well as the monitoring and enforcement of these contracts. Country experience suggests that creating the correct incentives poses significant problems of design.[8] For example, conditional grants and transfers schemes – possibly the most common forms of contract to be written among different layers of government – drive a wedge between the benefits and costs of provision, and consequently strengthen the incentives facing sub-national providers to supply more of the service in question.

7. Because intergovernmental fiscal relations are complex and multi-dimensional, a comprehensive taxonomy of fiscal, political, and administrative arrangements among different layers of government is subject to considerable debate. See Bird (2000), for a distinction between deconcentration, delegation, and devolution as different forms of decentralisation.
8. The governance problems involved here may be seen in terms of "principal-agent" considerations, where what matters is the response of different layers of government to incentives for efficient, cost-effective service delivery in the face of inter-jurisdictional competition and decentralised information and authority (Persson and Tabellini, 1996; Seabright, 1996; Qian and Weingast, 1997; Oates, 1999). These are: *first*, contracts are often hard to write because it is difficult to clearly define the benefits and beneficiaries of specific programs. *Second*, it is hard to monitor compliance because policy objectives may not be quantifiable and may depend on factors that are beyond the policymaker's control. *Third*, contracts may fail to strengthen incentives because they may not be easily enforceable.

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***Similar principles apply to supranational fiscal institutions***

Incentive and enforcement problems apply, though in somewhat different form, whether central authority derives from a federal system or from nation states, as under the principle of "subsidiarity" adopted by the European Union. The European Union's Stability and Growth Pact is an example of the "upward devolution" of fiscal powers to a supranational instance where a decentralised fiscal set-up might put strains on monetary union. Under the subsidiarity principle, powers or tasks rest with the sub-units unless a central unit is more effective in achieving certain specified goals. In the case of the European Union, its own budget is too small to allow for the pursuit of union-wide macroeconomic stabilisation objectives, so that the stabilisation function has to be left to the member states, subject to centrally-imposed parameters, which are supposed to ensure a collectively beneficial fiscal outcome.

## The assignment of expenditure responsibilities

***Economies of scale inhibit cost-effectiveness in smaller jurisdictions…***

The decentralisation of expenditure functions to sub-national governments is constrained by the ability of smaller jurisdictions to make the most of economies of scale in service delivery. In education, smaller jurisdictions tend to have higher teacher-student ratios, without having a discernible impact on education performance. In some Central European countries (Poland and the Czech Republic), excess capacity remains in the education and health care sectors, putting an additional burden both on sub-national budgets and on the central government, via inter-governmental grants. Public procurement is another case in point. It may be less cost-effective in smaller jurisdictions, due to higher information and transaction costs, and sub-national governments seldom rely on competitive tendering for public procurement (*e.g.* Denmark, Norway, Japan, and Switzerland).

***… while territorial spillovers may lead to under-provision***

The other major constraints governing the allocation of spending powers are territorial spillovers, by which the inhabitants of adjacent jurisdictions can benefit from spending in another. Such externality effects are relevant in the provision of health care, education, and social assistance services, and may result in the under-provision of services or stretch local budgets beyond their means. The provision of infrastructure and health care in large metropolitan areas that straddle local government boundaries is a case in point. In general, externality problems make it difficult for sub-national jurisdictions to play an active role in income distribution and welfare policies. Local authorities acting in isolation may find it difficult to finance welfare programs without raising considerations of horizontal inequity. In several countries, they nevertheless enjoy considerable autonomy to set benefit levels and/or eligibility parameters (*e.g.* Denmark, the Netherlands, Norway, Spain, Sweden, Switzerland, and the United States). In the United States, where the population is very mobile, the welfare benefits provided by the states are set at a relatively low level to avoid the in-migration of potential claimants or at different levels for state residents compared with migrants from beyond state borders.

***There are options for mitigating perverse incentives***

There are options for overcoming economies of scale and externality effects, without resorting to excessive micro-management of sub-national service delivery by the centre. Smaller jurisdictions have been amalgamated in many countries (*e.g.* Belgium, Canada, Iceland, the Netherlands, and Sweden), although political resistance may be considerable, as evidenced by the Canadian experience. In some

countries, higher layers of government have provided financial incentives to encourage amalgamations (*e.g.* Finland, Japan, and Norway). An important caveat is that amalgamations and the redrawing of internal borders may fail to match optimal size in all areas, since the minimum efficient size can differ – as between, waste disposal and hospital care, for example. That said, cost-effectiveness can be enhanced through horizontal co-ordination, particularly purchaser/provider split arrangements and the joint provision of services. Examples of horizontal co-ordination are numerous. In Brazil, local government consortia, particularly among neighbouring municipalities, have been established in the area of hospital administration. Joint service supply organisations are encouraged by the central government in Hungary. Cross-boundary compensation for provision costs is available for hospital care in Denmark and Sweden, where patients are allowed to choose treatment outside the jurisdiction in which they reside. Municipalities in Norway frequently co-operate in such sectors as waste disposal, water supply, and energy (through the joint ownership of power plants), but less so in core spending domains such as primary education and elderly care, partly reflecting the absence of appropriate compensation schemes between jurisdictions.

***The central government may still impose norms***

To prevent conflict or inequalities, the centre can impose norms, in terms of standards, prices and coverage of services, and eligibility criteria, to ensure adequate service delivery by sub-national providers. In this vein, the central government sets school curricula in Denmark, Spain, and Mexico, and public wage policies in Germany, Italy, Norway, and Portugal. Alternatively, to achieve a greater degree of sub-national autonomy, functions may be transferred to a higher level of government, as in the case of Switzerland, where active labour market policies are now assigned to the cantons, with central government supervision and financial support, rather than the local authorities. In Ireland, the management of sewerage facilities will be transferred from the towns to the counties in 2004.

# Financing sub-national service delivery

## Extent of local tax autonomy

***Financing arrangements need to be consistent with spending assignments***

Financing arrangements need to be taken into consideration in the assignment of expenditure functions among different layers of government. A common constraint applying to the decentralisation of revenue sources is that the tax bases that are in principle best suited for management by sub-national jurisdictions – *i.e.* those that are relatively immobile, evenly distributed geographically, and that generate relatively stable revenue over the cycle – are few, and their yield seldom sufficient to finance sub-national spending.[9] In any case, the mix of sub-national tax revenue varies significantly in the OECD area (Figure V.3). Property taxes, which are an attractive revenue source for local governments, because the base is relatively immobile, have problems (in terms of keeping property valuations up to date, for example), contributing to their relatively small role in many countries.

9. See Bird (1992), Inman and Rubinfeld (1996, 1997), and McLure (1997), for further discussions on the assignment of revenue sources among the different layers of government.

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## Figure V.3. **Sub-national tax revenue composition**

*1995-2001 averages*[1]


1. 1998-2001 average for the Slovak Republic.
2. States, provinces or regions.

*Source:* OECD, *Revenue Statistics,* 1965-2002.

***Income taxes are often important sources of sub-national revenue***

Personal and corporate income taxes are important sources of sub-national revenue in many countries, particularly the Nordic and Central European countries, Belgium, Canada, Japan, Spain, Switzerland, and the United States, although these taxes are most efficiently managed centrally. Sub-national governments are often allowed to "piggyback" on the personal income tax levied by the centre, as in the United States, by imposing a surcharge on the federal income tax (or rebates, as in Belgium). Sub-national jurisdictions are free to set their own flat personal income tax rates in Denmark and Sweden, with no mechanism in place to deal with the ensuing spillover effects. This autonomy has contributed to high rates of personal income tax, which have distorted labour supply decisions. In the case of the corporate income tax, the mobility and cyclical volatility of the tax base makes it less suitable for local revenue-raising, but largely due to historical reasons, these revenues account for a substantial share of sub-national receipts in some countries (Canada, Czech Republic, Finland, Germany, Japan, Switzerland, Turkey, and the United States).[10]

***Tax competition may be beneficial but in practice is not exploited…***

Arguments for sub-national tax autonomy include the ensuing benefits of tax competition, which may help to offset tendencies for excessive public spending and taxation.[11] When sub-national expenditure is financed predominantly with resources mobilised locally, sub-national jurisdictions face stronger incentives to evaluate the benefits of an increase in spending against the costs of incremental taxation.[12] However, powers to determine sub-national tax rates appear not to be widely exploited. Autonomy in income and property taxation has not led to significant variations in tax rates among the sub-national jurisdictions in countries such as Finland, Korea, and Norway. In some cases this may be due to the fact that local tax autonomy is negated by the central government, which reduces transfers and grants when sub-national governments cut their own tax rates.[13]

***… and may erode the tax base***

Tax competition can also be predatory, leading to an erosion of the tax base. This is predominantly the case when sub-national governments are free to set tax bases, rather than rates. Examples are numerous. Competition among the US states and Canadian provinces to attract business and households, through for example tax credits for enterprise relocation, has resulted in the erosion of some tax bases and to an increased complexity of the tax system, hence raising transaction costs. In Brazil, autonomy granted to the states to give tax credits, deferrals, and exemptions from value-added tax has resulted in considerable erosion of this otherwise buoyant tax base. Autonomy to set retail sales tax rates, as well as regulations and legal provisions, can also distort trading patterns, and hence the distribution of the tax base. Where there is no withholding tax on extra-jurisdictional sales, this has encouraged inter-state trade in the United States.

10. The harmonisation of corporate income tax legislation among the Swiss cantons has led to a reduction in the corporate tax burden since 2001, at the expense of personal income taxpayers. In Finland, sub-national governments do not have autonomy to set corporate income tax rates, but have competed to attract businesses through higher spending on facilities that are reported to enhance their locational advantages to investors (OECD, 2002c).
11. The argument that people "vote with their feet" has been invoked, since Tiebout's seminal work, as a natural limitation on the ability of sub-national governments to tax. For example, some Canadian provinces, notably Alberta and Ontario, have actively pursued a strategy of fiscal competition by lowering the top marginal tax rates (OECD, 2002d).
12. The experience of Canada suggests that fiscal consolidation has been inversely related to provincial reliance on transfers from the federal government (OECD, 2001b).
13. Where local autonomy does exist, some countries have attempted to keep a cap on the sub-national tax burden, by offsetting sub-national tax hikes through reductions in grants and transfers from the centre. A "tax on taxes" mechanism was in place in Sweden during 1996-2000. In Germany, tax competition among the *Länder* has been restricted to expedients which allow the lenient application of corporation tax provisions (OECD, 1998).

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## Efficiency implications of grants and equalisation schemes

***Incentives for service delivery differ with the type of grant***

Grant and revenue equalisation arrangements have strong incentive effects on service delivery. Grants and transfers can be of different types, depending on the autonomy enjoyed by the recipient jurisdiction in the use of funds.[14] When no conditions are imposed on resource allocation, grants are referred to as non-categorical, general-purpose or block grants, which allow local preferences to be respected. This is the case, for instance, when revenues collected by the centre are shared with sub-national governments – often based on a pre-determined formula (*e.g.* German equalisation grants) or on a derivation basis – to close the gap between their expenditures and revenue capacity. At the other end of the spectrum there are categorical or specific-purpose grants, which involve some type of conditionality, such as, for example, the earmarking of transferred funds to finance specific spending programs and the requirement that the recipient jurisdiction matches at least in part the funds transferred to them by increasing their own spending on selected programs. These grants allow the central government to impose its own policy objectives on its sub-national counterparts and may help to mitigate the incentives for under-provision arising from externality effects and economies of scale.

***Conditional grants may not be cost-effective…***

Conditional or earmarked grants are often based on *ex post* input costs, typically wages, and may result in poor cost-effectiveness in service delivery. Furthermore, matching and earmarked grants can sometimes exceed the level at which spillover effects can be expected to be avoided (Korea and the United States), or may entail high administrative costs (Germany, Switzerland, and the United Kingdom). Non-matching earmarked grants may also encourage the recipient jurisdiction to overspend.

***… and current arrangements are being redesigned***

In recognition of these caveats, grant and transfer arrangements have been redesigned in many countries. Earmarked grants have been replaced by general-purpose grants in some cases (Canada, Finland, Iceland, and Sweden) and/or countries have reduced matching rates (Japan). Conditionality has also been refined. Explicit performance criteria have been introduced to strengthen the incentive structure in grant and transfer systems and to place greater emphasis on outcomes in many countries (*e.g.* Australia, Brazil, Canada, and the United Kingdom).

***Poverty traps need to be avoided in the design of equalisation schemes***

Income redistribution is a key objective of grant and transfer systems. However, the equalisation of fiscal resources among sub-national jurisdictions can act to lock in existing income differentials (a form of poverty trap), by reducing sub-national government incentives to introduce growth-promoting policies. To mitigate disincentive effects, some countries, such as Italy, have reduced the equalisation component of transfer and grant arrangements, thus creating incentives for poorer jurisdictions to boost their own revenue capacity and tax effort. Partial equalisation schemes are also in place in the Nordic countries. In the case of Spain, equalisation rates have been frozen over time so as to reduce the equalisation component of transfer systems as sub-national jurisdictions grow. In all cases, reforms involve some compromise with equity objectives.

14. See, for example, Bahl and Linn (1992), and McLure (1998), for more information.

## Macroeconomic management in a decentralised setup

***Decentralisation may affect macroeconomic fiscal management***

Decentralisation poses several challenges for macroeconomic fiscal management, most notably that of securing fiscal discipline. Sub-national jurisdictions can be assisted by the central government when in financial distress, and may not face strong incentives for fiscal rectitude. Expectations of financial assistance, as well as outright bailouts, have created disincentives for prudent fiscal management and have been at the root of several episodes of general government deficit slippage (Germany, Italy, Mexico, Norway, and Sweden).[15] Overlapping responsibilities, open-ended grants and weak accountability can create an upward bias in sub-national spending, with consequences for the overall budget position. Conversely, central governments may transfer spending functions without taking full account of their costs, and these "unfunded mandates" may force sub-national authorities to raise taxes to prevent deficits in their own accounts.

***Strategies for ensuring fiscal discipline vary…***

To address the risks of a loose fiscal stance, countries have relied on a wide array of instruments (see Appendix). Administrative controls are in place in some countries (Greece and Turkey), and in others (Ireland, Japan, Korea, and the United Kingdom) sub-national borrowing is subject to central government approval. In Mexico, the states and municipalities, including their decentralised agencies and public enterprises, are prohibited from borrowing abroad and can only borrow domestically to finance investment outlays up to the ceilings set by their respective legislatures.[16] At the other extreme in terms of local autonomy, in a limited number of federal countries, sub-national jurisdictions may have their own balanced budget laws, as the US states. In this case, fiscal discipline is maintained by market forces.

***… with an increased emphasis on fiscal rules***

In between, and as a general trend, administrative or legislative controls are being superseded in many countries by more comprehensive fiscal rules.[17] These rules can take the form of ceilings on the overall budget balance (Austria, Belgium, Finland, Sweden, and Spain) or the operating balance (France, New Zealand, and Norway), which allows borrowing for investment purposes. In Germany, the "golden rule", according to which budgeted deficits must not exceed investment spending, is applicable to most *Länder* as well as the federal government.[18] In some countries, including Brazil, Hungary, Poland, and Portugal, ceilings have been introduced on the public debt and/or debt service outlays. Sanctions for non-compliance, which may be of different types, are instrumental to boost credibility in fiscal rules.[19] But flexibility is also important. For example, escape clauses allow for deviations from fiscal targets under exceptional circumstances in many countries (*e.g.* Austria,

15. Since McKinnon's (1997) seminal work, the introduction of hard budget constraints at the sub-national level has been regarded as a pre-condition for "market-preserving federalism".
16. IMF (2002).
17. See OECD (2002e), for further discussion.
18. OECD (2002f).
19. The central government may withhold grants and transfers to non-compliant jurisdictions (Brazil, Denmark, and more recently Portugal), which may be banned from borrowing (Belgium and Brazil). In Austria, they are required to pay fines, and sanctions arising from non-compliance with the Stability and Growth Pact are distributed across domestic governments (OECD, 2001c). In Brazil, institutional sanctions are complemented by penalties that can be imposed on public officials, including those at the municipal level (IMF, 2001). In Canada, some provinces require the Cabinet to take a cut in salary if the fiscal targets are not met, and call for referenda before taxes can be increased (OECD, 2001b).

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Brazil, Italy, and Poland) and some Canadian provinces, in addition to the European Union's Stability and Growth Pact.

***But co-operative arrangements are also possible***

Rules imposed by the centre have played an important role in enhancing fiscal discipline at the sub-national level in Brazil, Finland, New Zealand, and Portugal. They can also be negotiated under a more co-operative approach, as in the case of Australia, Belgium, Denmark, Germany, and Iceland, whereby fiscal targets are determined among sub-national jurisdictions and with the central government. The negotiation of the Stability and Growth Pact in the European Union, which is currently under some strain, is another example of a co-operative arrangement for macroeconomic fiscal management, where incentives for compliance have been strengthened through explicit sanctions.[20] Fiscal consolidation efforts, which are ongoing in many countries, have also called for greater co-ordination across different levels of government to ensure consistency between national and sub-national budget outcomes.[21]

***Pro-cyclical fiscal stance may be a problem***

The fiscal stance of sub-national jurisdictions can be intrinsically pro-cyclical (United States and Switzerland), where balanced-budget rules apply too rigidly, although the empirical evidence on this is mixed.[22] In some countries, including Norway and Finland, the central government has attempted to offset tendencies for pro-cyclicality by adjusting grants and transfers in light of cyclical developments in local government revenues.

***Markets may have a limited role in sub-national fiscal discipline***

The role of markets in reinforcing the sub-national rectitude imposed by fiscal rules, appears to be limited, because the conditions for effective market-based discipline are rarely fulfilled in practice. In countries that have traditionally relied on the market for fiscal discipline at sub-national level, such as Canada and the United States, the self-improved fiscal rules limiting policy discretion have actually resulted from the need to boost credit ratings.[23] Elsewhere, however, the central government often guarantees sub-national loans and bails out sub-national jurisdictions in financial distress, especially those that are deemed to be "too big to fail". Correspondingly, prudential regulations on investors' exposure to sub-national government debt are often weak, and information disclosure requirements tend to be more lenient on sub-national governments than on the central government and corporations.[24] Notwithstanding these limitations, a number of countries are beginning to place greater reliance on financial markets to discipline sub-national budget behaviour by removing restrictions on sub-national borrowing (*e.g.* the Czech Republic, Hungary, Finland, New Zealand, and Norway and Mexico more recently).

20. See Buti, Franco, and Ongena (1998), for more information.
21. Germany's Domestic Stability Pact, signed in 2002, is an example, as well as Austria's, but neither arrangement has strong penalties for non-compliance (OECD, 2002g).
22. See the discussion in Chapter IV "Fiscal stance over the cycle: the role of debt, institutions, and budget constraints".
23. See Poterba (1994, 1996), for more information.
24. See OECD (2001d), for a review of best practices in budget transparency.

# Appendix: Summary of sub-national fiscal frameworks

| Country | Fiscal framework | Enforcement mechanisms |
|---|---|---|
| Australia | **Co-operative approach.** Federal and state borrowing is co-ordinated by the Loan Council. Most states have adopted some sort of balanced-budget rule. | **Market discipline.** State borrowing is not guaranteed by the central government.<br>**Peer pressure.** The states are required to explain overruns in the borrowing allocations set by the Loan Council. |
| Austria | **Co-operative approach.** A Domestic Stability Pact requires the municipalities (taken together) to balance their budgets, and sets a surplus target for the *Länder* (taken together).<br>**Borrowing.** No restrictions on borrowing by the *Länder*. Municipal borrowing is regulated by the *Länder*. | **Peer pressure and financial sanctions.** Non-compliance fines are reimbursed if compliance is restored within one year, or allocated across the complying jurisdictions, otherwise.<br>**Escape clause:** in the event of a serious economic slowdown. |
| Belgium | **Co-operative approach.** Targets for the headline balance and expenditure growth are set for the different levels of government.<br>**Borrowing.** Regions and communities can borrow subject to central government approval. | **Peer pressure and administrative sanctions.** The federal government can cap regional government borrowing for two years. The regions monitor municipal finances and can impose expenditure cuts and/or tax increases. |
| Brazil | **Fiscal rule.** Fiscal Responsibility legislation sets ceilings on debt and debt service obligations and requires annual targets for revenues, expenditures, the primary balance, and indebtedness at all levels of government.<br>**Borrowing.** Sub-national governments are free to borrow if in compliance with fiscal responsibility legislation. | **Sanctions.** Contracts or administrative decisions that are in breach of fiscal responsibility legislation are nullified, while individuals responsible for violations are subject to fines and governors and mayors may also risk impeachment and imprisonment.<br>**Escape clauses:** in the event of a severe recession and/or natural disasters. |
| Canada | **No formal co-ordination.** Most sub-national governments have balanced-budget rules.<br>**Borrowing.** No restriction on provincial and territorial borrowing. Municipal borrowing is subject to a golden rule. | **Market discipline and administrative sanctions in some provinces.** The federal government does not guarantee sub-national debts.<br>**Escape clauses.** In most provinces, surpluses can be carried over to finance a deficit in a subsequent year. Legislation in many provinces builds in exemptions for special events. |
| Czech Republic | **No formal co-ordination.**<br>**Borrowing.** No restrictions. | **Market discipline.** Sub-national debt is not guaranteed by the central government. |
| Denmark | **Co-operative approach.** Formal co-operation between the central government and the Local Government Association. Sub-national governments face a balanced-budget constraint but have substantial taxing rights.<br>**Borrowing.** Long-term borrowing is allowed up to a ceiling. Municipalities face a golden rule. | **Peer pressure and financial sanctions.** The agreement between the central government and the Local Government Association is not legally binding. In the event of violation of the tax freeze, all additional net tax revenues will be confiscated through a reduction in block grants. |
| Finland | **Fiscal rule.** Municipalities face a balanced-budget constraint over the medium term.<br>**Borrowing.** No explicit restrictions on local borrowing, which is not guaranteed by the state. | **No sanctions** |
| France | **Fiscal rule.** Local governments are not allowed to run an operating deficit.<br>**Borrowing.** Local governments are allowed to borrow subject to a golden rule. | **Administrative sanctions.** If in breach of the deficit constraint, corrective measures are proposed to the non-compliant jurisdiction by the Regional Court of Accounts. |
| Germany | **Co-operative approach.** A Domestic Stability Pact is in place.<br>**Borrowing.** Most of the *Länder* face a golden rule. Municipal borrowing (subject to a golden rule) requires regional government approval. | **Peer pressure.** The Financial Planning Council monitors fiscal developments at all levels of government and makes recommendations for restoring fiscal discipline in the event of non-compliance. |
| Greece | **Limited fiscal autonomy at the sub-national level.**<br>**Borrowing.** Local government borrowing requires ministerial approval. | |
| Hungary | **Borrowing.** The municipalities can borrow subject to a golden rule and ceilings. | **Market discipline.** Sub-national debt is not guaranteed by the central government. |
| Iceland | **Co-operative approach** through inter-governmental consultations.<br>**Borrowing.** No restrictions. | **Administrative sanctions.** A municipality in default can be put under the direct administration of the Ministry of Social Affairs. |
| Ireland | **Limited fiscal autonomy at the sub-national level,** and balanced-budget constraint.<br>**Borrowing.** Subject to ministerial approval. | **Administrative sanctions.** Non-complying authorities can be removed from office and replaced by a commissioner appointed by the central government. |

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| Country | Fiscal framework | Enforcement mechanisms |
|---|---|---|
| Italy | **Fiscal rule.** A Domestic Stability Pact sets ceilings on expenditure and the primary deficit of sub-national governments.<br>**Borrowing.** Regional and local authorities face a golden rule. | **Peer pressure and financial sanctions.** The Pact requires inter-governmental consultations. European sanctions will be shared.<br>**Escape clauses:** in the event of unexpected events. |
| Japan | **Limited fiscal autonomy at the sub-national level.**<br>**Borrowing.** Guidelines for borrowing are set in the annual Local Government Fiscal Plan. | **Administrative sanctions.** The Ministry of Home Affairs takes control of the local government if borrowing limits are exceeded. |
| Korea | **Limited fiscal autonomy at the sub-national level,** and balanced-budget constraint.<br>**Borrowing.** Central government approval is required. | |
| Luxembourg | **Limited fiscal autonomy at the sub-national level.** Municipalities are not allowed to run an operating deficit.<br>**Borrowing.** Loans exceeding a certain threshold are subject to ministerial approval. | **Administrative sanctions.** The Grand Duke can annul local government regulatory acts that are contrary to the law or the public interest. |
| Mexico | **Administrative controls have gradually been eliminated.**<br>**Borrowing.** Golden rule for domestic borrowing. | **Market discipline.** Sub-national debt is not guaranteed by the central government. |
| Netherlands | **Co-operative approach** through inter-governmental consultations. Balanced-budget (on accrual basis) rule at sub-national level.<br>**Borrowing.** No restrictions. | **Administrative sanctions.** Central authorities can assist municipalities in distress if they give up their financial autonomy. |
| New Zealand | **Fiscal rule.** Local governments are not allowed to run operating deficits.<br>**Borrowing.** No restrictions. | **Market discipline.** Sub-national loans are not guaranteed by the central government. |
| Norway | **Fiscal rule.** Counties and municipalities are not allowed to run operating deficits. *Ex post* deficits can be carried over for up to two years.<br>**Borrowing.** No restrictions. | **Administrative sanctions.** Borrowing and long-term contracts (*e.g.* tenancy agreement) are not allowed while in breach of the deficit provisions. |
| Poland | **Fiscal rule.** Sub-national governments are subject to specific limits on indebtedness, debt service outlays, and spending. | **Administrative sanctions** vary according to the level of indebtedness.<br>**Escape clauses.** The procedure could be bypassed in the case of an emergency. |
| Slovak Republic | **Fiscal rule.** Sub-national governments are not allowed to run current budget deficits.<br>**Borrowing.** Subject to a golden rule and ministerial approval, if above a threshold. | **Administrative sanctions.** Municipalities in default can be placed under central government administration.<br>**Market discipline.** Sub-national debt is not guaranteed by the central government. |
| Spain | **Fiscal rule.** All levels of government face a balanced-budget constraint.<br>**Borrowing.** Subject to a golden rule and ministerial approval depending on the debt service burden. | **Administrative sanctions.** A fiscal consolidation plan is required for non-complying jurisdictions.<br>**Financial sanctions.** European sanctions are shared with non-complying jurisdictions. |
| Sweden | **Fiscal rule.** Balanced-budget rule with two-year carry-over for local governments.<br>**Borrowing.** No restrictions. | No sanctions. |
| Switzerland | **No formal co-ordination.**<br>**Borrowing.** Sub-national borrowing is subject to a golden rule and popular referenda. | Sub-national fiscal policy is subjected to **social control** through referenda. |
| Turkey | **Limited fiscal autonomy at the sub-national level.**<br>**Borrowing.** Loans exceeding certain thresholds are subject to central government approval. | |
| United Kingdom | **Limited fiscal autonomy at the sub-national level.**<br>**Borrowing.** Subject to central government approval. | |
| United States | **No formal co-ordination.** Most states have balanced-budget constraints.<br>**Borrowing.** No restrictions. | **Market discipline.** The federal government does not guarantee sub-national loans. |

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# VI. ENHANCING THE COST EFFECTIVENESS OF PUBLIC SPENDING

## Introduction

***Curbing the growth in public spending and raising its effectiveness…***

Public spending rose steadily as a share of GDP in the three decades to the mid-1990s, but this trend has since abated. The spending pressures stemming from the continued expansion of social programmes have been partly compensated by transient or one-off factors. Pressures on public spending, however, appear likely to intensify, in particular as a consequence of ageing populations. Since most OECD economies have very little scope for raising taxation or debt to finance higher spending, reforms to curb the growth in public spending while raising its cost effectiveness are now required. This process will involve difficult choices as to the allocation of resources, the more so that public spending programmes also have important roles to play in pursuing economic growth and equity objectives. This paper presents a reform strategy for progress in this direction, based on detailed country reviews for over two-thirds OECD countries.[1] Three main areas for action are identified: the budget process; management practices and the use of market mechanisms in the delivery of public services.

***… require reforms to the budget process…***

To enhance the efficiency of the *budget process*, and as a means of ensuring fiscal sustainability, many countries have introduced or strengthened fiscal rules, either through limits on expenditure or through tax, budget balance or debt ceilings. Effective use of such rules requires that they be accompanied by budget principles conducive to an efficient allocation of funds across spending programmes. In particular, there is a need to extend planning horizons, while reducing budget fragmentation (for example, by incorporating tax expenditure in the budget framework, controlling extra-budgetary funds and monitoring contingent liabilities such as those stemming from loan guarantees and from public pension schemes) and increasing the focus on public spending outcomes.

***… public management practices…***

The reform of *management practices* has embraced a trend towards a results-oriented management approach in several OECD countries, whereby policy-makers define output or outcome objectives while managers decide on how best to reach them. Implementation difficulties have, however, been important in this area. In particular, identifying good performance indicators and designing appropriate incentive

1. This chapter draws extensively on OECD individual country Economic Surveys, in particular on in-depth public expenditure chapters prepared for 21 OECD countries. For many of these chapters, a revised version is freely available on the OECD website. Although other sources of information have been used, country references in this chapter largely reflect this non-exhaustive coverage. A more detailed synthesis of these individual country chapters and information available elsewhere is provided in Joumard *et al*. (2003).

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mechanisms to encourage public entities to reach the desired outcomes are critical to the success of these new public management approaches.

***… and greater use of market signals***

*Market signals* have a strong role to play in enhancing the effectiveness of public spending. On the supply side, competitive pressures can be strengthened to create incentives for providers of public-funded goods to improve cost-efficiency while better responding to the citizens' needs. Several instruments can be used in this respect: benchmarking; subcontracting combined with open and transparent tendering; and giving users the choice among alternative providers, through the use of voucher schemes for instance. The demand for publicly-funded services can, however, be spurred by the provision of higher quality and more diversified services and the absence of appropriate price signals to users. Avoiding an adverse effect on the public purse may require introducing or raising user charges to contain excessive demands for several publicly-funded services. In exploiting the role of market signals, a trade-off between efficiency and equity objectives may emerge, either because user fees deny some population groups access to public services or because compensation mechanisms for providers create an incentive to concentrate on the most lucrative segments of the market (to "cream-skim").

## Rising demands on public spending programmes

***In cyclically-adjusted terms, the public spending ratio has been steady…***

Having risen steadily over several decades, the public spending to GDP ratio in the OECD area has declined mildly since its peak in 1993, to stand at slightly over 40 per cent in 2002 (Figure VI.1). This profile has largely been shared across OECD countries, Korea and Japan being the main exceptions. There is, however, little scope for complacency, since the decline in the public spending to GDP ratio largely reflects the prolonged economic and employment boom over the second half of the 1990s, which triggered a decline in transfers to households. In cyclically-adjusted terms, general government primary outlays have remained broadly constant since the mid-1990s in the OECD area at large. Moreover, the steadiness of the cyclically-adjusted ratio largely reflects the influence of several one-off or transient factors which have temporarily offset more persistent underlying pressures on public spending.

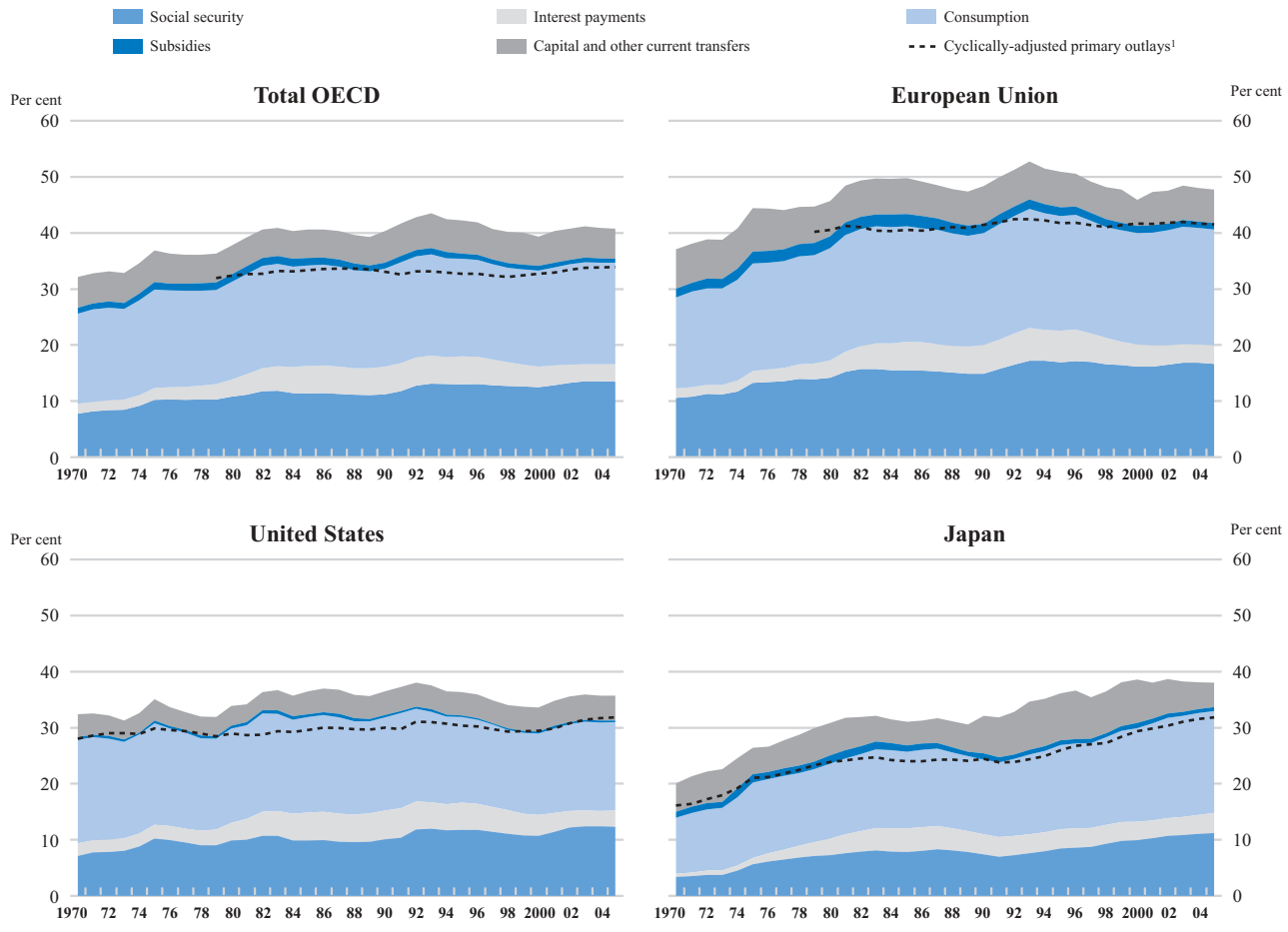
***… largely due to transient factors***

The principal downward forces, which have now abated or been reversed, include:

- The disinflation process of the early 1990s, which was gradually reflected in lower nominal and real interest rates and contributed to a reduction in debt servicing costs.
- Privatisation operations, whose proceeds were partly used to reduce public debt and thus also contributed to falling debt servicing costs.
- The "peace dividend", which was reflected in a steady fall in defence spending up to the late 1990s but has been partly reversed since then.
- *Ad hoc* spending freezes (*e.g.* cuts to capital outlays, public sector wage freeze), which by their nature are usually only temporary in their effect, in particular when they are followed by a subsequent "catch-up" round.

Figure VI.1. **Trends in general government outlays**

*As a percentage of GDP*




*Note:* From 2003 onwards data are based on OECD estimates and projections.
1. Expressed as a percentage of potential GDP.
*Source:* OECD.

***Demands on social programmes have not abated***

Meanwhile, public spending on pensions, poverty alleviation programmes, education and health care have continued on a clear upward trend over the past two decades in virtually all OECD countries. Population ageing has already been reflected in an increase in spending on old-age cash benefits and services for the elderly and disabled, as well as on health care services. In the health care sector, technological changes and increased demands for access to new forms of health care have created additional pressures on expenditure. In the education sector, spending has also continued on an upward trend in most OECD countries despite a significant decline in the size of the school-age population in several of them (Greece, Japan, Poland and Spain). In parallel, early retirement, disability and unemployment programmes have often been used as a means of premature, and usually permanent, exit from the labour force (including Finland, France, Germany, Italy, Norway and Poland). Schemes to fight poverty have also been introduced or made more generous in several countries (France, Japan, Korea, Mexico and Portugal) although others have cut in benefit rates and tightened eligibility criteria (New Zealand and Sweden).

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***Cross-country differences in spending levels should not be overestimated***

Marked differences are apparent in the public spending-to-GDP ratio among OECD countries, with Nordic and most continental European countries being above the OECD average, while Australia, Korea, Japan, New Zealand and the United States are below. However, several factors should be taken into account in drawing cross-country comparisons (Box VI.1). The organisation of the welfare system is of particular importance. Adjusting for tax breaks for social purposes ("tax expenditures"), for the taxation of social benefits and for the reliance on private insurance schemes (some of which are mandatory) leads to a convergence in the amount of resources allocated to social protection across countries (Figure VI.2).

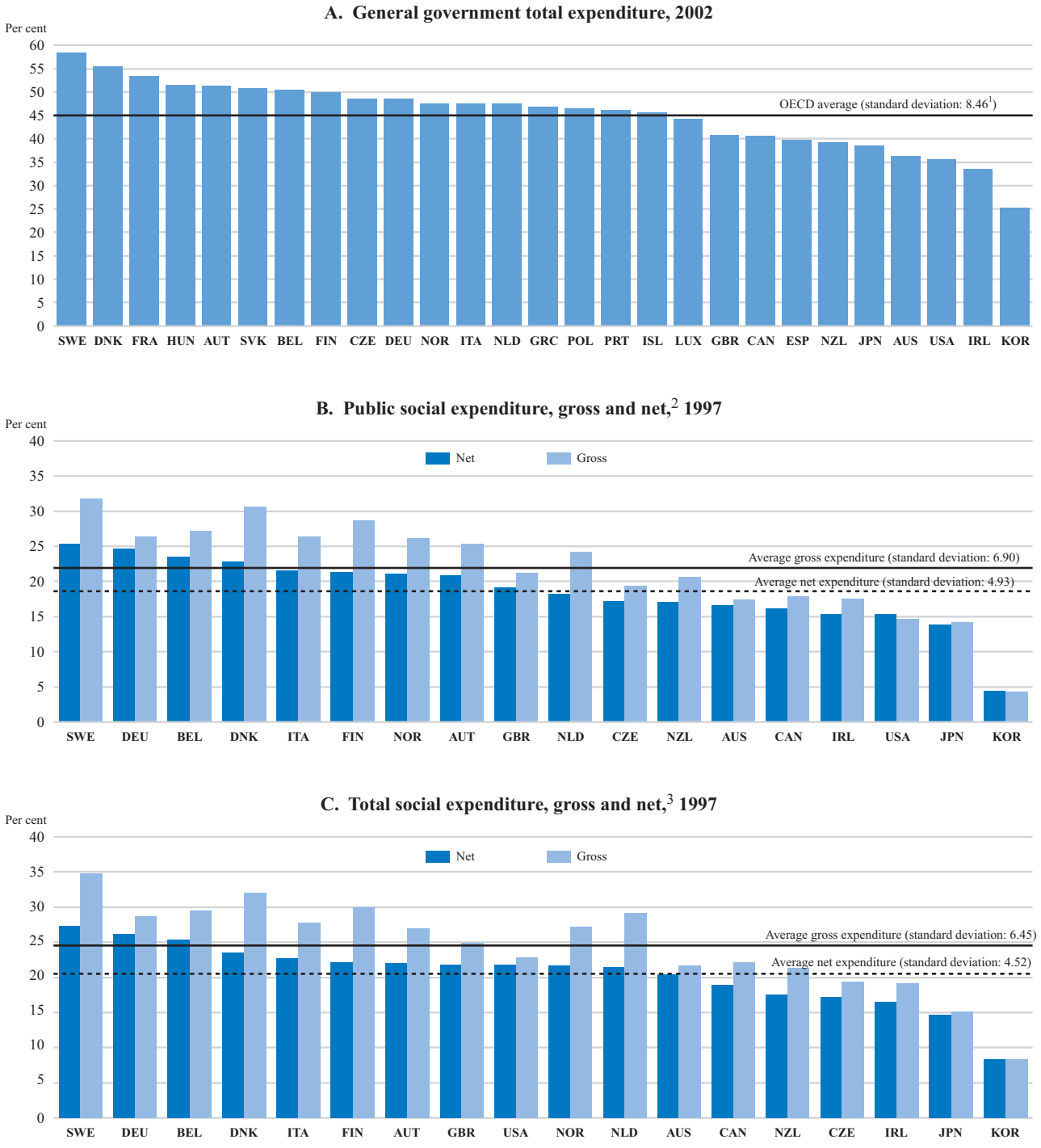
## Box VI.1. Public spending measurement issues in drawing cross-country comparisons

It is difficult to draw solid cross-country comparisons, either with respect to the level or the composition of public spending. Particular issues to be taken into account include:

- The extent to which countries rely on *tax expenditures* as opposed to direct expenditure. Tax expenditures are substantial in some countries. As an illustration, in the United States, income tax expenditures amounted to about 8 per cent of GDP at the federal level in 2002. In Denmark and Norway, total tax expenditures amounted to about 5 per cent of GDP. Fully adjusting data for this factor is, however, difficult since there is no consistent information on the amount of tax expenditure across countries, largely reflecting the absence of an agreed operational framework for measuring tax expenditures.
- The *taxation of social benefits*. In some OECD countries, transfers are subject to broadly the same tax treatment as wage income (Italy and the Nordic countries), while in others they are predominantly untaxed (Mexico; Austria, Germany and Portugal for unemployment cash benefits; Germany and Portugal for sickness benefits). For a given amount of net social transfers paid by the public sector and received by households, the level of public outlays will be higher in the first group of countries. Differences in levels of indirect taxes often add to those resulting from income taxes, with the proportion of benefit income which comes back to the government indirectly through taxes on consumption being much larger in European countries than in Australia, Canada, Japan, Korea and the United States.[1]
- The reliance on (mandatory and/or voluntary) *private insurance schemes* for pensions, unemployment, and/or health care system. In particular, the earnings-related elements of the pension system, which are a feature of public pension systems in a large number of countries are almost entirely organised as private pension funds in Denmark, although they are largely mandatory by nature (being embodied in collective agreements). Benefits associated with mandatory contributions to privately-owned and managed insurance funds are also important in Korea (mainly sickness benefits) and Switzerland (health care insurance). On the other hand, benefits associated with voluntary contributions to social security funds (amounting to 1.2 per cent of GDP in Germany in 2000) are counted as public expenditure.
- Financing projects through *public-private partnerships* as opposed to conventional public investment. Several countries are increasingly relying on public-private partnerships (PPPs) to finance investment projects. As far as public finance data are concerned, conventional public investment is reflected in public accounts statistics as and when projects are undertaken, whereas in the case of PPPs the cost is spread over a much longer period, in particular when the service of infrastructure utilities are purchased by the government (a feature of the Private Finance Initiative in the United Kingdom). Thus, there will be a transitory decline in public expenditure in periods when reliance on PPPs is increasing.
- *The use of guarantees on loans* as a substitute for direct capital transfers or subsidies. Guarantees issued by state-owned enterprises (as in the Czech Republic and Poland) are not reflected in general government expenditure in the year they are extended although they may enter as a "below-the-line" item as the government assumes full responsibility for the debt in the future. In Poland, however, these guarantees and expected calls upon them are recognised in the national definition of public debt, which is subject to a ceiling specified in the Constitution.

1. Adema (2001) provides estimates for net public social expenditures, adjusting for the impact of the taxation of social benefits and tax allowances for social purposes as well as for indirect taxes.

Figure VI.2. **Comparing public spending-to-GDP ratios across OECD countries**




1. The standard deviation is calculated using only the data for countries shown in Panel B and C.
2. Net public social expenditure is equal to gross public social expenditure, less direct taxes and social contributions paid out of public cash benefits and indirect taxes on private consumption financed by net cash transfers, plus tax breaks for social purposes (not including pensions).
3. Total social expenditure is made of public social expenditure and private programmes which serve a social purpose and contain an element of inter-personal redistribution.

*Source:* OECD; Adema (2001).

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***Pressures on public spending are likely to intensify***

Ageing will have severe fiscal consequences in virtually all OECD countries while public investment is scheduled to rise in several of them. Recent OECD projections, though highly uncertain, suggest that the progressive ageing of the population will, *ceteris paribus*, result in an average expenditure increase of 7 per cent of GDP over the period 2000-50 (OECD, 2001a). In addition, efforts to develop public infrastructure are a national priority in those countries where there is currently a perceived deficiency (Germany in the New Länder, Hungary, Ireland, Italy in the Mezzogiorno, Mexico, Poland and the United Kingdom) and this could be another source of public spending growth. Meanwhile, pressures on the revenue side limit what can be financed through taxes and put further emphasis on the value-for-money of public spending programmes. Such pressures are intensified by internationalisation, with the corresponding enhanced mobility of tax bases, and by the detrimental impact of taxes on economic behaviour of consumers, workers and producers, and thus on economic growth (OECD, 2001b).

## Making the budget process more responsive to priorities

***Fiscal rules have been adopted to control public spending growth…***

OECD countries have taken several initiatives in reforming the budget process so as to contain the growth in spending. Many OECD countries have either adopted some form of fiscal rules, or tightened existing ones, since the early 1990s putting direct constraints on public spending via expenditure caps or indirect ones via deficit and/or tax ceilings (OECD, 2002). A complementary approach has been to implement a top-down strategy, whereby Parliament makes a binding political decision as to the level of total expenditure and ceilings for broad expenditure areas at an early stage in the budgetary process.

***… but their effectiveness depends on the quality of economic assumptions***

Biased economic assumptions can result in fiscal slippages and sub-optimal resource allocation. Overly optimistic economic assumptions have hindered progress in fiscal consolidation and have often required subsequent *ad hoc* adjustments. Conservative assumptions as to the rate of economic growth or of revenues may also have adverse effects, with positive revenue "surprises" being used to boost spending demands, sometimes permanently. Recognising that economic forecasting deserves greater scrutiny and a higher degree of independence, measures to improve forecast reliability have been taken in several OECD countries (*e.g.* Austria, Canada, Germany, Hungary, the Netherlands and United States). But further progress in this direction is needed in others (including France, Hungary, Korea, Portugal and the United Kingdom).

***The budget process should encompass a longer-term perspective***

Anchoring the budget process in a medium-term perspective can contribute significantly to a more efficient allocation of spending and hence to fiscal sustainability. Efforts to control the growth of public spending over too-short a budget horizon may have adverse allocative effects. Failure to look far enough ahead entails the risk that adjustments will be made without accounting properly for the economy's position in the cycle, that spending whose benefits take time to materialise will be squeezed (in particular investment) and that structural reforms to control spending will not be promoted. To avoid these potential pitfalls, some countries have shifted the emphasis to cyclically-adjusted fiscal rules (Switzerland and European Union (EU) countries within the context of the Stability and Growth Pact). By permitting deficits during

recessions, while requiring that surpluses be achieved during upswings, such rules may help to avoid *ad hoc* and sub-optimal spending adjustment. Estimating the economy's cyclical position and cyclically-adjusted budget balances is based on an element of judgement, however, and this introduces a possible source of bias.[2] Moreover, allowance for the business cycle in itself may come at the expense of transparency, which is essential for the credibility of the fiscal framework.

***Medium-term budgeting takes various forms***

Strategies to raise awareness of longer-term trade-offs implicit in the annual budget process, and thus promote fiscal discipline and reallocation, have also been implemented. Several countries have opted to present regularly medium-term budget projections (Canada, New Zealand, Poland and EU countries in the context of the Stability or Convergence Programmes) or information on medium-term budget impacts for any new spending initiative to the Parliament (Czech Republic and Switzerland). Furthermore, a number of OECD countries now present longer-term budget projections and/or generational accounts (Australia, Norway, New Zealand, the United States and EU countries). Some have also introduced mechanisms to provide greater certainty about future entitlements and avoid arbitrary short-term spending adjustments. These include multi-year budgeting (Canada, Netherlands, Sweden and United Kingdom) and multi-year plans for specific expenditure programmes in particular public investment (including Czech Republic, Denmark, Ireland, Japan, Korea and Norway).

***Enforcing fiscal targets is also a political economy issue***

Although fiscal rules approaches and/or multi-year budgeting procedures have been strengthened, they have not been proof against deteriorations in financial positions or lack of political willingness to enforce them. In the euro area, the Stability Programmes did not prevented some countries from easing fiscal policy during the upswing in the late 1990s while some countries have breached the deficit ceiling of 3 per cent of GDP. They are now subject to an enhanced surveillance procedure, but are still allowed a long time span before complying with the deficit ceiling. In the United States, the *Budget Enforcement Act* in place up to 2002 was an effective means of spending control, but could sometimes be circumvented by designating funds as emergency spending or by using advance appropriations to spread budget authority over more than one year. Moreover, the impact of fiscal rules can be blunted by creative accounting approaches and/or by channelling expenditure through the tax system or relying on off-budgetary funds, public-private partnerships and loan guarantees to implement policies which would otherwise appear more directly in the budget and fiscal accounts.

***The budget process should be less fragmented…***

Improving the transparency of spending decisions, underscoring both current and future costs, is a necessity for supporting an effective allocation of public funds towards national priorities. Although they may have some merits, tax expenditures, off-budgetary funds, public-private partnerships and loan guarantees are often subject to less scrutiny and can be more difficult to terminate. They may thus hamper an efficient control on public spending and an optimal allocation of resources across competing demands. To mitigate these potential drawbacks, budget papers should provide information on tax expenditures on a regular basis (Denmark, Poland and Switzerland), on extra-budgetary funds (Czech Republic, Hungary, Korea and Poland), as well as on contingent liabilities associated with loan guarantees (Czech Republic, Hungary, Japan and Poland). A wider use of accrual accounting, as a complement to current cash accounting used in most OECD countries, would also help to make the true cost of government activities more transparent.

2. For a fuller discussion, see Chapter IV.

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***… with a clearer focus on overall priorities and programme outcomes***

Efforts to restrain the growth of public spending have often been accompanied by initiatives to strengthen the focus on overall priorities in the budget process and make them more visible. Pre-budget reports, or reports presenting the policy platform for the government's term in office, have been introduced (including Canada, Finland, France, Hungary, Ireland, Italy, New Zealand, Norway, Sweden and the United Kingdom). To further facilitate strategic prioritisation, many countries have given greater emphasis to programme results (Kristensen *et al.*, 2002). While Australia, Canada, the Netherlands, New Zealand and the United Kingdom have been front-runners in this area, budget papers have been restructured according to programmes defined by objectives in a majority of OECD countries, and the number of budget lines has been, or is being, reduced. Over three-quarters of OECD countries now include information on performance and targets in their core budget documents, or in separate documents accompanying the budget. In this context, sunset clauses, which provide an opportunity to ensure regular reviews of the costs and benefits of spending programmes, could play a more important role in some countries (including Czech Republic, France, Korea, New Zealand and Poland).

## Implementing public management approaches geared towards outcomes

***New public management approaches have attractive features***

With a view to improving public spending outcomes, many countries have reassessed public sector management practices. The main focus has shifted from the amount of resources used by a programme or ministry to the services delivered or outcomes achieved. This has entailed clarifying desired or targeted results for governmental and public bodies, with heightened emphasis on user-orientation, while entrusting the managers of spending agencies with more flexibility in their day-to-day operations. In particular, constraints on the timing of spending appropriations have been somewhat relaxed through carry-over provisions in a large number of countries and the line-item budgeting and management approach has been gradually abandoned, with managers now receiving a single appropriation for all their operating costs in many OECD countries (Australia, Canada, Denmark, Finland, Iceland, Netherlands, New Zealand, Norway and Sweden). Partial evidence suggests that this has allowed public bodies to respond better to user needs, while improving cost-efficiency (*e.g.* by helping to avoid end-year spending splurges).

***Successful implementation requires identifying "good" targets…***

The success of performance-oriented management approaches for both public bodies depends critically on the existence of well-defined performance targets and effective performance evaluations. Country experiences, however, suggest that identifying good performance indicators is not an easy task, with countries frequently undergoing a learning-by-error process. If they are too numerous, performance targets carry the risk of blurring priorities. Easily quantifiable targets also often come at the expense of those that are important but cannot be easily measured. In this context, the need to strengthen performance evaluations by independent auditors and to compare actual performance with targets has been identified for several countries (France, Hungary, Iceland, Japan, Korea, Poland, Switzerland and the United Kingdom).

***… and designing appropriate incentives…***

Designing appropriate incentives to encourage public entities to reach their performance targets has become an issue in several countries. The lack of a reward and sanction system has been considered as a problem in certain countries (including Finland and the United Kingdom). For specific services, there is an increasing recourse to activity-based funding which directly acts as a reward and sanction system. This entails that providers of publicly-funded services are compensated according to their performances, often measured by the volume of activities, with prospective payment systems and fee-for-services in the health care sector as examples. In the education sector also, several countries have made institutions' resources conditional on the number of students or degrees passed (*e.g.* universities in Denmark, Norway, New Zealand and Switzerland). One major difficulty, however, lies in defining what should happen if the approved performance or activity level is not achieved. In the case of essential goods and services, it is doubtful whether poor performers could be sanctioned, especially if there is no alternative supplier, as this could lead to further cut backs in service provisions.

***… while avoiding a hike in public spending***

Relaxing input controls in favour of results-based financing may spur efficiency gains but may also put spending control at risk. In the presence of pent-up demand (*e.g.* waiting lists for health care services) and productivity reserves, the surge in public spending may only be temporary. But, in the longer-run, there are several necessary conditions for results-based financing to deliver efficiency gains while controlling total spending. This includes, in particular, setting appropriate prices for publicly-funded goods in order to contain excessive demand pressures, while ensuring adequate and fair competition across providers. Even under such circumstances, designing payment systems that limit incentives to oversupply has been difficult, in particular in the health care sector where providers are typically better informed than patients and insurers about the true need and scope for medical treatment. Setting an overall envelope for a given publicly funded service and allowing providers to compete for market shares within this envelope – as implemented in the hospital sector in Austria and for research activities in Norwegian universities – could mitigate the risk of a supply-induced rise in demand.

***Reforming human resource policies is becoming more urgent…***

With labour being the main input to public services, implementing a results-oriented management approach has made personnel management reform in the public sector more pressing. In several countries, a significant proportion of public employees will soon reach the retirement age (Figure VI.3) – a more acute problem in Canada, Denmark, Finland, Ireland, New Zealand, Portugal and Sweden – and serious skill or personnel shortages have already been a cause of concern. Until recently, job security, reduced working hours and more generous pension provisions have often been part of the attraction of the public sector as an employer. But, by locking workers into life-long public sector employment, these practices have contributed to make public spending behaviour asymmetric, with public employment adjusting upwards when a new demand emerges but failing to adjust downwards when demand wanes. The retirement of a significant share of employees should be taken as an opportunity to reconsider the overall need for labour, and the nature of both job contracts and compensation in the public sector, so as to better adjust the workforce to changing needs in the future.

***… through more flexible job status…***

To address these issues and complement changed approaches to public management for public bodies, many countries have introduced a new flexibility and performance orientation into human resource management systems. Life-long contracts are used less frequently, and have even been abolished, in a number of countries (Canada, Denmark, Finland, Iceland, Italy, New Zealand, Portugal and Switzerland).

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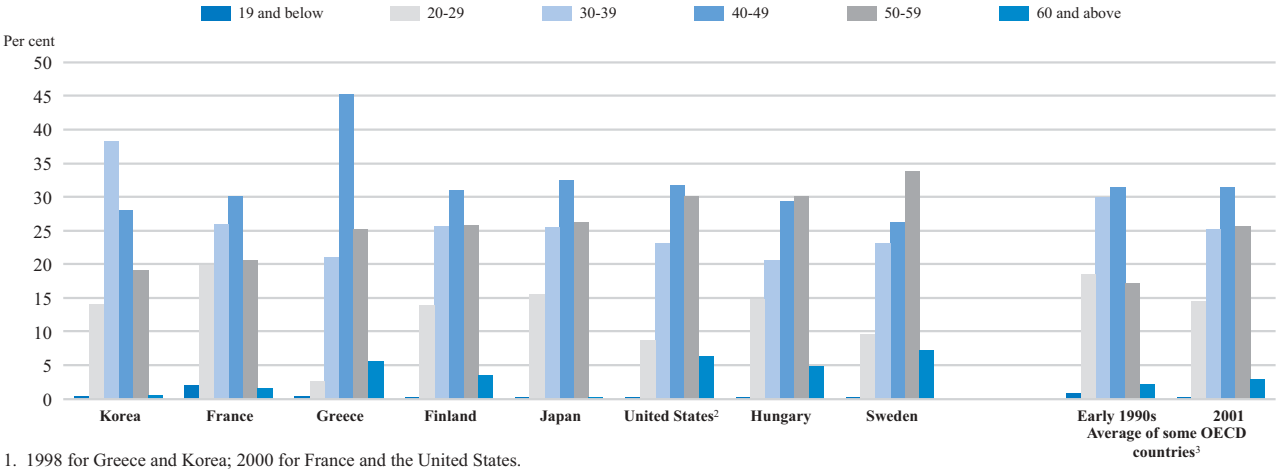
Figure VI.3. **Age structure of public employees in selected OECD countries**

*2001*[1]




1. 1998 for Greece and Korea; 2000 for France and the United States.
2. Age groups are slightly different from those shown for the other countries: less than 31, 31-40, 41-49, 50-59 and 60 and above.
3. Australia, Finland, Hungary, Japan, Netherlands and Switzerland.

*Source:* OECD, *Public Management Service,* 2002.

Reducing barriers to mobility within the public sector so as to avoid duplication and understaffing should, however, be considered in several countries (Greece, Italy, Mexico and Portugal). Measures to encourage the mobility of staff between public and private sectors also need to be considered (*e.g.* by facilitating the portability of pension rights between public and private employers).

***… and compensation schemes***

To enhance the attractiveness of the public sector as an employer in sectors and regions characterised by serious labour shortages, several measures have been introduced. These include enhanced training opportunities (Czech Republic and Italy) and more flexible working time (Germany, Italy, Portugal and Switzerland). Pay arrangements are often being reviewed, with automatic seniority bonuses and fringe benefits being reconsidered (Canada, Finland, Ireland, Mexico and Switzerland) and public sector wages adjusted to reflect market conditions better (including Finland and Ireland). To improve motivation, elements of incentive-based promotion and pay have been strengthened in many countries (Canada, Denmark, Iceland, Ireland, Italy, Mexico, New Zealand, Switzerland and United Kingdom).

***Performance-related pay raises challenges***

Performance-related pay schemes for public sector employees have raised intricate challenges. The efficiency gains from performance-related pay schemes remain problematic, in particular when individual performance is difficult to measure. When wage gains are spread over a large proportion of staff, these may be seen as "quasi-normal" pay supplement, reducing incentives to outperform. On the other hand, restricted to a small group of high-performers, rewards may result in a majority of dissatisfied "losers" who could be demotivated. In practice, managers often appear unwilling to differentiate among their subordinates and most employees tend to receive similar, lenient, rating. Country experiences further suggest that implementing performance-related pay systems can contribute to wage pressures in the public sector and fail to deliver efficiency gains if it is not accompanied by adjustment in employment levels (Czech Republic and Iceland). Mitigating these potential adverse effects would argue for applying performance-related pay rather selectively in the

public sector, targeting those activities where performance can be more easily measured (as, for example, with hospital employees, where outputs can be identified through the use of a case-mix system).

## Extending market signals to enhance the effectiveness of public spending programmes

***On the supply side, more competitive pressures can be imposed…***

Raising competitive pressures on providers of publicly-funded goods can promote cost-efficiency and responsiveness to evolving customer preferences. In this respect, various instruments have been used in OECD member countries, including benchmarking, competitive tendering for public procurement and promoting user choice among alternative suppliers. The choice of instruments, and their effectiveness, depends on several factors. If permanent contracts for public employees predominate, outsourcing and user choice may not be financially attractive options, at least in the short run. Likewise in a decentralised setting, the presence of very small government units and large geographical distances between them may not permit efficient market solutions because transaction costs may be high (with respect to competitive tendering, for example), so that competition may fail to develop or scale economies may be difficult to achieve. In both cases, allowing comparisons on quality and costs to be made across providers of similar services could provide a promising avenue.

***… through benchmarking,…***

Benchmarking can help identify both best practices and inefficiencies, and thus be an effective means of exerting competitive pressures. Several countries have recently developed benchmark indicators for selected services, particularly for hospital care and/or education (including Czech Republic, Finland, France, Hungary, Iceland, Japan and Portugal). In some decentralised countries, there has also been a conscious effort to provide local citizens with information on the coverage and costs of public services across jurisdictions (Norway and Sweden), leading to pressures on local administrations to raise the cost-effectiveness of their spending programmes. Reaping the full benefits of benchmarking requires improving the quality of the information system and/or disseminating more widely the results of spending evaluations (a requirement acknowledged in the case of Canada, Finland, Iceland, Sweden and Switzerland). Difficulties in setting up a reward and sanction system may, however, limit the degree to which competitive pressures actually deliver cost-efficiency gains.

***… outsourcing and competitive tendering***

OECD countries have tended to rely increasingly on sub-contracting and competitive tendering to obtain a more cost-effective provision of services (Lundsgaard, 2003). Legislation and procedures on public procurement have been simplified and standardised in a number of countries while information technology has been used more intensively, thus reducing some of the costs associated with outsourcing and tendering. There are, however, still significant regulatory impediments to a wider use of competitive outsourcing which need to be reconsidered. Public procurement policies have sometimes been used to protect local and/or small enterprises (Czech Republic and Japan). Tendering rules do not apply to large segments of the public sector in a number of countries (Hungary and Poland). Tax rules, and in particular VAT regulations, may also create a competitive bias in favour of in-house production (*e.g.* Finland and Norway). Furthermore, in highly decentralised countries, a

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lack of professional experience among subnational government staff, including the absence of proper cost-accounting, may hamper the diffusion of outsourcing, calling for greater co-operation across subnational government and possibly technical help from the central government (Denmark, Finland and Norway).

***Greater user choice can also strengthen competition…***

Promoting user choice among alternative providers of publicly-funded services can strengthen competitive pressures, trigger innovation and result in services which respond better to citizens' needs. A number of OECD countries have recently taken measures in this direction, in particular in the health care sector (Czech Republic, Hungary, Poland and Sweden), in job placement or training services (Australia, Denmark and Netherlands) and in the education sector (Sweden and the United Kingdom). In most cases, implicit voucher models, whereby money follows the user, have been implemented, allowing providers to adjust to the level of demand. Restraints on the choice of service providers persist, however, in many countries and need to be overcome. They include: zoning restrictions; restrictions on market entry for private providers; discriminatory financial arrangements (funding arrangements for public providers may not properly reflect the number of users and/or be more favourable than for private providers), and restricted disclosure of performance information.

***… but it carries risks***

Despite commendable features, promoting user choice may aggravate two risks. *First*, it could lead to sub-groups of population carrying more risks or higher costs not being properly provided for ("cream-skimming"). This issue has arisen in particular in the health care sector where public hospitals may assume the role of agent of last resort, taking care of the more costly patients (France and the United States), or where public health insurance schemes have been left with the most unhealthy segments of the population (Czech Republic and Germany). Risk-adjustment systems can mitigate this danger, with implicit voucher schemes accounting for the characteristics of the user (Netherlands in the education sector; Australia for labour market assistance for the long-term unemployed). Risk-adjustment systems have also been implemented for health insurance schemes, though their success in avoiding cream-skimming has been rather limited (Docteur and Oxley, 2003). *Second*, allowing for more user choice, if accompanied by services which better respond to the users' needs, may spur demand for publicly-funded services, and thus raise overall budget costs.

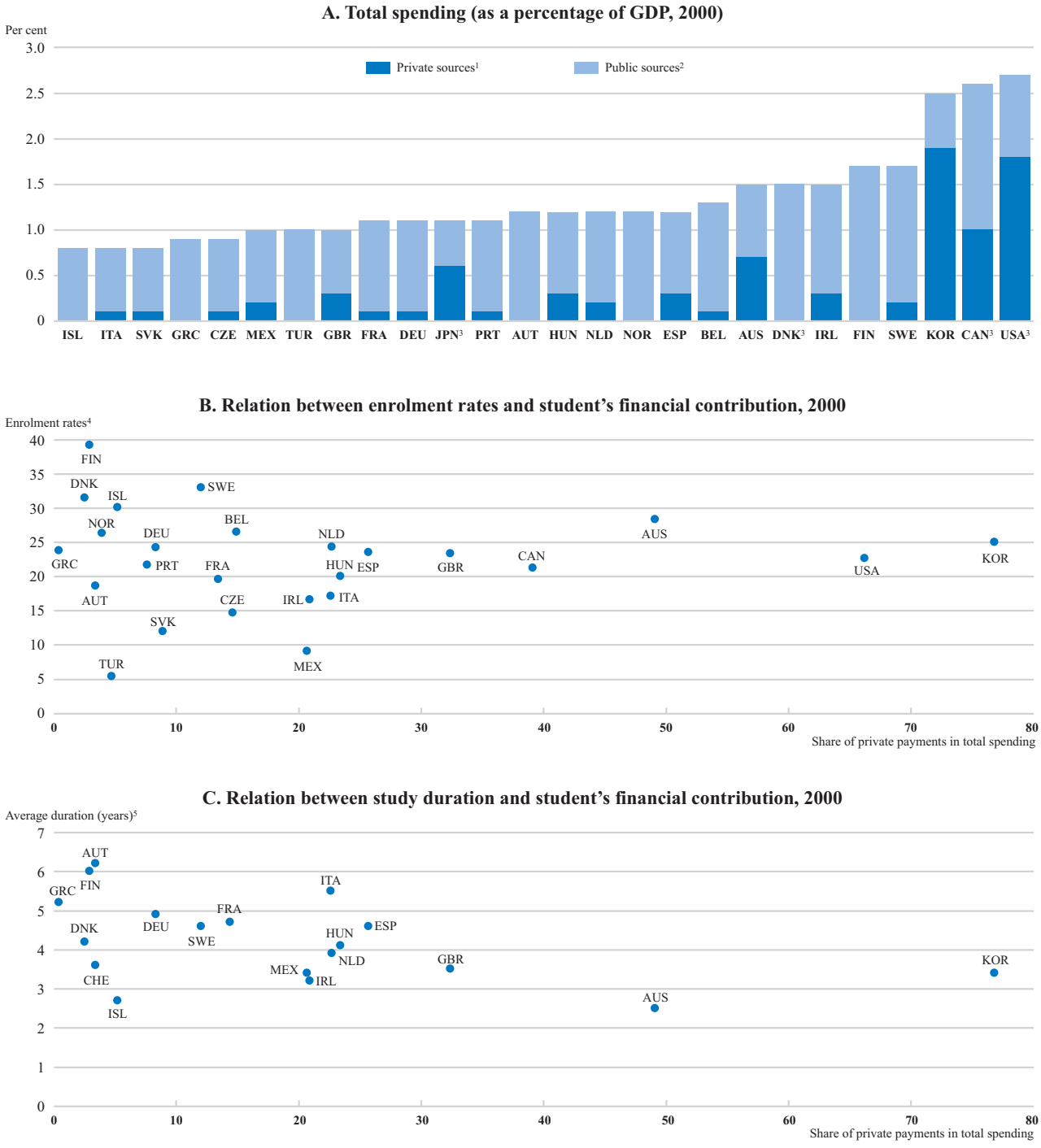
***User charges may help to contain excessive demand…***

Country evidence suggests that demand for some publicly-funded goods reflects and adjusts to cost-sharing. As an illustration, tuition fees in the tertiary education are low and sometimes accompanied by generous student support through grants and subsidised loans in several countries (in particular the Nordic countries, Austria and Switzerland). This is often accompanied by not just high enrolment rates but also long study duration (Figure VI.4), and sometimes involves queuing or access restrictions (Greece and Sweden). A similar picture arises for elderly care, with relatively low user charges in the Nordic countries leading to both higher public spending on elderly care and a high share of population in specialised institutions or receiving formal help at home.

***… but adverse effects on welfare and equity objectives need to be avoided***

Enhanced reliance on user fees can have adverse effects on welfare and equity objectives. In the health care sector, the impact of a given change in co-payments on demand is estimated to be larger when co-payments are near zero, while it weakens when cost-sharing is already high. With out-of-pocket payments already accounting for over 15 per cent of total health expenditure in a majority of countries, containing demand would imply raising charges significantly, with potentially adverse health outcome and serious equity effects. To mitigate these effects in the health and other

Figure VI.4. **Tertiary education: public and private spending, enrolment rates and study duration**




1. Excluding public subsidies attributable for educational institutions except in the case of Austria, Denmark, Greece, Iceland, Poland, Portugal and the Slovak Republic.
2. Including public subsidies to households attributable for educational institutions (except for countries listed in note 1) and direct expenditure on educational institutions from international sources.
3. Post-secondary non-tertiary included in tertiary education.
4. Enrolment rates are defined as the percentage of students aged 20-29 in the population of 20-29 year-olds.
5. In the case of Denmark, France, Korea, Mexico, Netherlands, Spain and Switzerland, data concern the academic year 1995. In the case of Hungary, Iceland, Italy and Switzerland, data apply to public institutions only.

*Source: Education at a Glance,* OECD 2003.

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sectors, countries have adopted various strategies, including: "stop-loss" provisions (which provide full or higher reimbursement rates above a given ceilings); means-testing approaches; and a two-tier system which guarantees access to core services at low cost in the case of "reserved" providers (usually public). None of these strategies have proved to be a panacea, particularly where they create unemployment and poverty traps.

***User fees may not always conflict with equity objectives***

Raising user fees need not always create a conflict between efficiency and equity objectives, the tertiary education sector being a core example. With the rate of admission to tertiary education being highly correlated with family socio-economic background in most countries, low tuition fees (often combined with generous student support programmes) tend to benefit well-off families most. Thus, increased user fees should have only muted distributional effects. Where private returns to tertiary education are high, increased user fees would improve incentives to complete studies in a more expeditious manner but should not result in a significant decline in the overall participation in higher education (Blöndal *et al.*, 2002). Capital market imperfections, and in particular the difficulty for students from low-income families to obtain a loan from commercial banks, may, however, warrant some public intervention, such as loan and fee regimes with elements of means-testing.

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Fiscal sustainability: the contribution of fiscal rules
Increasing employment: the role of later retirement
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Making work pay
Public debt management at the cross-roads
Cross-country patterns of product market regulation

# Statistical Annex

This annex contains data on some main economic series which are intended to provide a background to the recent economic developments in the OECD area described in the main body of this report. Data for 2003 to 2005 are OECD estimates and projections. The data on some of the tables have been adjusted to internationally agreed concepts and definitions in order to make them more comparable as between countries, as well as consistent with historical data shown in other OECD publications. Regional totals and sub totals are based on those countries in the table for which data are shown. Aggregate measures contained in the Annex, except the series for the euro area (see below), are computed on the basis of 1995 GDP weights expressed in 1995 purchasing power parities (see following page for weights). Aggregate measures for external trade and payments statistics, on the other hand, are based on current year exchange for values and base year exchange rates for volumes.

The OECD projection methods and underlying statistical concepts and sources are described in detail in documentation that can be downloaded from the OECD Internet site:

- *OECD Economic Outlook* Sources and Methods (*www.oecd.org/eco/sources-and-methods*).
- *OECD Economic Outlook* Database Inventory (*www.oecd.org/pdf/M00024000/M00024521.pdf*).
- The construction of macroeconomic series of the euro area (*www.oecd.org/pdf/M00017000/M00017861.pdf*).

NOTE ON QUARTERLY PROJECTIONS
AND THE STATISTICAL TREATMENT OF GERMANY, THE CZECH REPUBLIC,
HUNGARY, POLAND, THE SLOVAK REPUBLIC
AND THE EURO AREA AGGREGATE

- OECD is now making quarterly projections for selected key variables. For France and Germany expenditure components of GDP are reported with a working-day-adjustment for annual data. For all countries the quarterly seasonally adjusted national accounts data reported below are set to sum to the equivalent annual figures. For more details see the *Economic Outlook Database Inventory*.
- Data up to end 1990 are for western Germany only; unless otherwise indicated, they are for the whole of Germany from 1991 onwards. In tables showing percentage changes from the previous year, data refer to the whole of Germany from 1992 onwards. When data are available for western Germany only, a special mention is made in a footnote to the table.
- For the Czech Republic, Hungary, Poland and the Slovak Republic data are available from 1993 onwards. In tables showing percentage changes from the previous year, the Czech Republic, Hungary, Poland and the Slovak Republic are included from 1994 onwards.
- Greece has entered the euro area on 1 January 2001. In order to ensure comparability of the euro area data over time, Greeace has been included in the calculation of the eura area throughout.

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## Country classification

| | |
|---|---|
| | ***OECD*** |
| Seven major OECD countries | Canada, France, Germany, Italy, Japan, United Kingdom and United States. |
| European Union | Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom. |
| Euro area | Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. |
| | ***Non-OECD*** |
| Africa and the Middle East | Africa and the following countries (Middle East): Bahrain, Cyprus, Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates and Yemen. |
| Dynamic Asian Economies (DAEs) | Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; the Philippines; Singapore and Thailand. |
| Other Asia | Non-OECD Asia and Oceania, excluding China, the DAEs and the Middle East. |
| Latin America | Central and South America. |
| Central and Eastern Europe | Albania, Bulgaria, Romania, the Newly Independent States of the former Soviet Union, and the Baltic States. |

## Weighting scheme for aggregate measures

*Per cent*

| | | | |
|---|---|---|---|
| Australia | 1.80 | Mexico | 2.96 |
| Austria | 0.82 | Netherlands | 1.56 |
| Belgium | 1.06 | New Zealand | 0.30 |
| Canada | 3.26 | Norway | 0.49 |
| Czech Republic | 0.61 | Poland | 1.29 |
| Denmark | 0.57 | Portugal | 0.65 |
| Finland | 0.46 | Slovak Republic | 0.23 |
| France | 5.71 | Spain | 2.84 |
| Germany | 8.31 | Sweden | 0.87 |
| Greece | 0.64 | Switzerland | 0.86 |
| Hungary | 0.44 | Turkey | 1.65 |
| Iceland | 0.03 | United Kingdom | 5.23 |
| Ireland | 0.31 | United States | 35.16 |
| Italy | 5.48 | Total OECD | 100.00 |
| Japan | 13.95 | *Memorandum items:* | |
| Korea | 2.45 | European Union | 34.54 |
| Luxembourg | 0.07 | Euro area | 27.88 |

*Note:* Based on 1995 GDP and purchasing power parities (PPPs).

## Irrevocable euro conversion rates

*National currency unit per euro*

| | | | |
|---|---|---|---|
| Austria | 13.7603 | Ireland | 0.787564 |
| Belgium | 40.3399 | Italy | 1 936.27 |
| Finland | 5.94573 | Luxembourg | 40.3399 |
| France | 6.55957 | Netherlands | 2.20371 |
| Germany | 1.95583 | Portugal | 200.482 |
| Greece | 340.750 | Spain | 166.386 |

*Source:* European Central Bank.

## National accounts reporting systems and base-years

*Many countries are changing from the SNA68/ESA79 methodology for the national accounts data.*
*In the present edition of the* OECD Economic Outlook, *the status of national accounts in the OECD countries is as follows :*

| | Expenditure accounts | Household accounts | Government accounts | Use of chain weighted price indices | Benchmark/ base year |
|---|---|---|---|---|---|
| Australia | SNA93 (1959) | SNA93 (1959) | SNA93 (1959) | YES | 2001/2002[a] |
| Austria | ESA95 (1988) | ESA95 (1995) | ESA95 (1976) | NO | 1995 |
| Belgium | ESA95 (1970) | ESA95 (1995) | ESA95 (1970) | NO | 2000[a] |
| Canada | SNA93 (1955) | SNA93 (1955) | SNA93 (1981) | YES | 1997 |
| Czech Republic | SNA93 (1994) | SNA93 (1994) | SNA93 (1992) | NO | 1995 |
| Denmark | ESA95 (1988) | ESA95 (1988) | ESA95 (1971) | NO | 1995 |
| Finland | ESA95 (1995) | ESA95 (1995) | ESA95 (1995) | NO | 2000 |
| France | ESA95 (1978) | ESA95 (1978) | ESA95 (1978) | NO | 1995 |
| Germany[b] | ESA95 (1960) | ESA95 (1970) | ESA95 (1980) | NO | 1995 |
| Greece | ESA95 (1960) | Not available | ESA95 (1960) | YES | 1995 |
| Hungary | SNA93 (1995) | SNA93 (1995) | SNA93 (1991) | NO | 2000[a] |
| Iceland | SNA93 (1970) | Not available | SNA93 (1990) | NO | 1990 |
| Ireland | ESA95 (1990) | ESA95 (1990) | ESA95 (1990) | NO | 1995 |
| Italy | ESA95 (1982) | ESA95 (1980) | ESA95 (1980) | NO | 1995 |
| Japan | SNA93 (1980q1)[c] | SNA93 (1990)[c] | SNA93 (1990)[c] | NO | 1995 |
| Korea | SNA93 (1970) | SNA93 (1975) | SNA93 (1975) | NO | 1995 |
| Luxembourg | ESA95 (1970) | Not available | ESA95(1990) | NO | 1995 |
| Mexico | SNA93 (1980) | Not available | Not available | NO | 1993 |
| Netherlands | ESA95 (1977) | ESA95 (1980) | ESA95 (1969) | YES | 1995 |
| New Zealand | SNA93 (1987) | SNA93 (1986) | SNA93 (1986) | YES | 1995/96 |
| Norway | SNA93 (1978) | SNA93 (1978) | SNA93 (1978) | NO | 2000 |
| Poland | SNA93 (1991) | SNA93 (1991) | SNA93 (1991) | YES | 1995 |
| Portugal | ESA95 (1995) | ESA95(1995) | ESA95 (1977) | NO | 1995 |
| Slovak Republic | SNA93 (1993) | SNA93 (1995) | SNA93 (1994) | NO | 1995 |
| Spain | ESA95 (1995) | ESA95 (1995) | ESA95 (1995) | NO | 1995 |
| Sweden | ESA95 (1980) | ESA95 (1993) | ESA95 (1980) | YES | 1995 |
| Switzerland | SNA68 | SNA68 | Not available | NO | 1990 |
| Turkey | SNA68 | SNA68 | SNA68 | NO | 1987 |
| United Kingdom | ESA95 (1987) | ESA95 (1987) | ESA95 (1987) | YES | 2000[a] |
| United-States | NIPA (SNA93) (1959q1) | NIPA (SNA93) (1959q1) | NIPA (SNA93) (1960q1) | YES | 1996 |

*a)* SNA: System of National Accounts. ESA: European Standardised Accounts. NIPA: National Income and Product Accounts. GFS: Government Financial Statistics. The numbers in brackets indicate the starting year for the time series.
*b)* Data prior to 1991 refer to the new SNA93/ESA95 accounts for western Germany data..
*c)* Spliced to SNA68.

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# Annex Tables



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**Interest Rates and Exchange Rates**



**External Trade and Payments**



**Other Background Data**

Annex Table 1. **Real GDP**

Percentage change from previous year

| | Average 1979-89 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 3.3 | 1.4 | -0.7 | 2.3 | 3.8 | 4.7 | 3.9 | 4.1 | 3.7 | 5.4 | 4.4 | 3.0 | 2.7 | 3.3 | 2.4 | 3.7 | 4.0 | 2.6 | 4.3 | 3.5 |
| Austria | 2.1 | 4.7 | 3.3 | 2.3 | 0.4 | 2.6 | 1.6 | 2.0 | 1.6 | 3.9 | 2.7 | 3.4 | 0.8 | 1.4 | 0.8 | 1.6 | 2.4 | 0.6 | 2.1 | 2.5 |
| Belgium | 2.2 | 3.1 | 1.8 | 1.3 | -0.7 | 3.3 | 2.3 | 0.9 | 3.7 | 2.1 | 3.2 | 3.7 | 0.7 | 0.7 | 0.7 | 1.9 | 2.8 | 0.0 | 2.8 | 3.2 |
| Canada | 2.9 | 0.2 | -2.1 | 0.9 | 2.3 | 4.8 | 2.8 | 1.6 | 4.2 | 4.1 | 5.5 | 5.3 | 1.9 | 3.3 | 1.8 | 2.8 | 3.2 | 1.7 | 3.3 | 3.2 |
| Czech Republic | .. | .. | .. | .. | .. | 2.6 | 5.9 | 4.3 | -0.8 | -1.0 | 0.5 | 3.3 | 3.1 | 2.0 | 2.5 | 2.9 | 3.2 | .. | .. | .. |
| Denmark | 1.4 | 1.0 | 1.1 | 0.6 | 0.0 | 5.5 | 2.8 | 2.5 | 3.0 | 2.5 | 2.6 | 2.9 | 1.4 | 2.1 | 0.5 | 2.4 | 2.8 | 1.3 | 2.6 | 2.8 |
| Finland | 3.6 | -0.3 | -6.4 | -3.8 | -1.2 | 3.9 | 3.4 | 3.9 | 6.3 | 5.0 | 3.4 | 5.1 | 1.2 | 2.2 | 1.0 | 3.4 | 3.8 | 0.6 | 4.2 | 3.5 |
| France | 2.2 | 2.6 | 1.0 | 1.3 | -1.0 | 1.9 | 1.8 | 1.0 | 1.9 | 3.6 | 3.2 | 4.2 | 2.1 | 1.3 | 0.1 | 1.7 | 2.4 | 0.4 | 2.2 | 2.5 |
| Germany | 1.9 | 5.7 | 5.1 | 1.9 | -1.1 | 2.4 | 1.8 | 0.8 | 1.5 | 1.7 | 1.9 | 3.1 | 1.0 | 0.2 | 0.0 | 1.4 | 2.3 | 0.2 | 1.8 | 2.5 |
| Greece | 0.8 | 0.0 | 3.1 | 0.7 | -1.6 | 2.0 | 2.1 | 2.4 | 3.6 | 3.4 | 3.4 | 4.4 | 4.0 | 3.8 | 4.0 | 4.1 | 3.6 | 3.9 | 4.9 | 3.5 |
| Hungary | .. | .. | .. | .. | .. | 2.9 | 1.5 | 1.3 | 4.6 | 4.9 | 4.2 | 5.2 | 3.8 | 3.3 | 2.9 | 3.3 | 3.8 | .. | .. | .. |
| Iceland | 3.2 | 1.2 | -0.7 | -3.3 | 0.9 | 4.1 | 0.1 | 5.1 | 4.6 | 5.6 | 4.0 | 5.6 | 3.1 | -0.2 | 1.9 | 3.7 | 5.6 | 0.2 | 7.7 | 4.2 |
| Ireland | 3.1 | 8.5 | 1.9 | 3.3 | 2.7 | 5.8 | 9.9 | 8.1 | 11.1 | 8.6 | 11.3 | 10.1 | 6.2 | 6.9 | 1.8 | 3.6 | 4.8 | 2.2 | 3.4 | 5.9 |
| Italy | 2.4 | 1.9 | 1.4 | 0.7 | -0.9 | 2.3 | 3.0 | 1.0 | 2.0 | 1.7 | 1.7 | 3.3 | 1.7 | 0.4 | 0.5 | 1.6 | 2.1 | 0.5 | 2.0 | 2.1 |
| Japan | 3.9 | 5.2 | 3.3 | 1.0 | 0.3 | 1.0 | 1.9 | 3.4 | 1.8 | -1.1 | 0.1 | 2.8 | 0.4 | 0.2 | 2.7 | 1.8 | 1.8 | 2.4 | 1.6 | 1.9 |
| Korea | 7.5 | 9.0 | 9.2 | 5.4 | 5.5 | 8.3 | 8.9 | 6.8 | 5.0 | -6.7 | 10.9 | 9.3 | 3.1 | 6.3 | 2.7 | 4.7 | 5.5 | 1.9 | 6.0 | 5.4 |
| Luxembourg | 4.5 | 5.3 | 8.6 | 1.8 | 4.2 | 3.8 | 1.4 | 3.3 | 8.3 | 6.9 | 7.8 | 9.1 | 1.2 | 1.3 | 1.2 | 2.0 | 2.9 | .. | .. | .. |
| Mexico | 2.1 | 5.1 | 4.2 | 3.6 | 2.0 | 4.5 | -6.2 | 5.1 | 6.8 | 4.9 | 3.7 | 6.6 | -0.3 | 0.9 | 1.5 | 3.6 | 4.2 | 2.4 | 3.6 | 4.4 |
| Netherlands | 2.0 | 4.1 | 2.4 | 1.5 | 0.7 | 2.9 | 3.0 | 3.0 | 3.8 | 4.3 | 4.0 | 3.5 | 1.2 | 0.2 | -0.5 | 1.0 | 2.0 | 0.1 | 1.1 | 2.4 |
| New Zealand | 2.5 | 0.5 | -1.9 | 0.8 | 4.7 | 6.2 | 3.9 | 3.5 | 3.1 | -0.6 | 4.7 | 3.7 | 2.2 | 4.2 | 2.7 | 3.1 | 2.9 | 3.1 | 2.5 | 3.3 |
| Norway | 2.9 | 2.0 | 3.6 | 3.3 | 2.7 | 5.3 | 4.4 | 5.3 | 5.2 | 2.6 | 2.1 | 2.8 | 1.9 | 1.0 | 0.6 | 2.8 | 2.0 | 3.0 | 1.0 | 3.0 |
| Poland | .. | .. | .. | .. | .. | 5.3 | 7.0 | 6.0 | 6.8 | 4.8 | 4.1 | 4.0 | 1.0 | 1.4 | 3.3 | 3.5 | 4.5 | .. | .. | .. |
| Portugal | 3.3 | 4.0 | 4.4 | 1.1 | -2.0 | 1.0 | 4.3 | 3.5 | 4.0 | 4.6 | 3.8 | 3.4 | 1.7 | 0.4 | -0.8 | 1.5 | 2.6 | 0.7 | 2.1 | 2.8 |
| Slovak Republic | .. | .. | .. | .. | .. | 5.2 | 6.5 | 5.8 | 5.6 | 4.0 | 1.3 | 2.2 | 3.3 | 4.4 | 3.9 | 4.2 | 4.4 | .. | .. | .. |
| Spain | 2.7 | 3.8 | 2.5 | 0.9 | -1.0 | 2.4 | 2.8 | 2.4 | 4.0 | 4.3 | 4.2 | 4.2 | 2.8 | 2.0 | 2.3 | 2.9 | 3.1 | 2.4 | 3.1 | 3.1 |
| Sweden | 2.2 | 1.1 | -1.1 | -1.7 | -1.8 | 4.2 | 4.0 | 1.3 | 2.4 | 3.6 | 4.6 | 4.4 | 1.1 | 1.9 | 1.5 | 2.3 | 2.7 | 1.8 | 2.8 | 2.7 |
| Switzerland | 2.1 | 3.7 | -0.8 | -0.1 | -0.5 | 0.5 | 0.5 | 0.3 | 1.7 | 2.4 | 1.5 | 3.2 | 0.9 | 0.2 | -0.5 | 1.2 | 1.8 | -0.4 | 1.1 | 2.1 |
| Turkey | 4.0 | 9.3 | 0.9 | 6.0 | 8.0 | -5.5 | 7.2 | 7.0 | 7.5 | 3.1 | -4.7 | 7.4 | -7.5 | 7.8 | 5.0 | 4.9 | 5.4 | .. | .. | .. |
| United Kingdom | 2.3 | 0.8 | -1.4 | 0.2 | 2.3 | 4.4 | 2.8 | 2.7 | 3.3 | 3.1 | 2.8 | 3.8 | 2.1 | 1.7 | 1.9 | 2.7 | 2.9 | 2.0 | 2.8 | 3.0 |
| United States | 3.0 | 1.8 | -0.5 | 3.1 | 2.7 | 4.0 | 2.7 | 3.6 | 4.4 | 4.3 | 4.1 | 3.8 | 0.3 | 2.4 | 2.9 | 4.2 | 3.8 | 3.8 | 4.1 | 3.6 |
| Euro area | 2.2 | 3.6 | 2.5 | 1.3 | -0.9 | 2.4 | 2.3 | 1.4 | 2.4 | 2.8 | 2.8 | 3.7 | 1.7 | 0.9 | 0.5 | 1.8 | 2.5 | 0.6 | 2.2 | 2.6 |
| European Union | 2.2 | 3.1 | 1.9 | 1.0 | -0.4 | 2.8 | 2.5 | 1.7 | 2.6 | 2.9 | 2.8 | 3.7 | 1.7 | 1.1 | 0.7 | 1.9 | 2.5 | 0.9 | 2.3 | 2.7 |
| Total OECD | 3.0 | 3.1 | 1.3 | 2.0 | 1.4 | 3.2 | 2.6 | 3.0 | 3.5 | 2.7 | 3.1 | 3.9 | 0.9 | 1.8 | 2.0 | 3.0 | 3.1 | 2.4 | 3.1 | 3.1 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

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Annex Table 2. **Nominal GDP**

Percentage change from previous year

| | Average 1979-89 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 11.8 | 6.4 | 1.6 | 3.7 | 5.1 | 5.6 | 5.5 | 5.1 | 5.4 | 5.7 | 5.2 | 7.4 | 5.8 | 6.2 | 5.3 | 6.1 | 6.4 | 5.5 | 6.3 | 6.3 |
| Austria | 5.9 | 8.2 | 7.2 | 6.0 | 3.4 | 5.4 | 4.2 | 3.3 | 2.5 | 4.5 | 3.4 | 4.9 | 2.8 | 2.7 | 2.6 | 2.6 | 3.5 | 2.4 | 3.1 | 3.8 |
| Belgium | 6.7 | 6.0 | 4.7 | 4.8 | 3.3 | 5.5 | 3.6 | 2.0 | 5.2 | 3.8 | 4.6 | 5.0 | 2.5 | 2.4 | 3.3 | 3.5 | 4.2 | 4.5 | 2.1 | 6.3 |
| Canada | 8.9 | 3.4 | 0.8 | 2.2 | 3.8 | 6.0 | 5.1 | 3.3 | 5.5 | 3.7 | 7.4 | 9.5 | 3.0 | 4.3 | 5.4 | 4.4 | 5.1 | 4.3 | 5.1 | 5.2 |
| Czech Republic | .. | .. | .. | .. | .. | 13.9 | 16.8 | 13.5 | 7.2 | 9.5 | 3.4 | 4.3 | 9.6 | 4.6 | 4.8 | 5.2 | 5.1 | .. | .. | .. |
| Denmark | 8.2 | 4.7 | 3.9 | 3.5 | 1.4 | 7.3 | 4.6 | 5.1 | 5.2 | 3.5 | 4.5 | 6.0 | 3.5 | 3.0 | 2.3 | 4.3 | 5.0 | 3.1 | 4.6 | 5.2 |
| Finland | 11.3 | 6.0 | -4.6 | -2.4 | 1.3 | 5.8 | 8.4 | 3.5 | 8.5 | 8.7 | 3.2 | 8.5 | 3.9 | 3.3 | 1.4 | 4.5 | 5.5 | 0.8 | 6.3 | 4.5 |
| France | 9.4 | 5.6 | 4.0 | 3.3 | 1.5 | 3.7 | 3.6 | 2.5 | 3.2 | 4.5 | 3.7 | 5.0 | 3.8 | 3.2 | 1.6 | 3.0 | 3.3 | 1.8 | 3.4 | 3.4 |
| Germany | 4.9 | 9.1 | 8.8 | 7.0 | 2.5 | 5.0 | 3.9 | 1.8 | 2.2 | 2.8 | 2.4 | 2.8 | 2.3 | 1.8 | 0.9 | 2.7 | 3.2 | 1.3 | 3.0 | 3.6 |
| Greece | 20.3 | 20.7 | 23.5 | 15.6 | 12.6 | 13.4 | 12.1 | 9.9 | 10.7 | 8.8 | 6.5 | 8.0 | 7.7 | 7.9 | 7.7 | 7.8 | 7.0 | 7.6 | 7.8 | 6.9 |
| Hungary | .. | .. | .. | .. | .. | 23.0 | 27.4 | 22.8 | 23.9 | 18.1 | 12.9 | 15.6 | 12.7 | 14.3 | 9.5 | 9.2 | 8.1 | .. | .. | .. |
| Iceland | 40.8 | 18.2 | 8.2 | -0.1 | 3.1 | 6.2 | 3.0 | 7.3 | 8.0 | 10.7 | 7.1 | 8.7 | 13.3 | 3.8 | 2.9 | 8.3 | 10.3 | 5.9 | 7.5 | 12.7 |
| Ireland | 12.0 | 7.7 | 3.8 | 6.2 | 8.0 | 7.5 | 13.2 | 10.3 | 15.6 | 15.5 | 15.6 | 14.8 | 11.6 | 12.7 | 3.5 | 8.0 | 8.5 | 5.1 | 6.3 | 9.9 |
| Italy | 14.6 | 10.3 | 9.1 | 5.3 | 3.0 | 5.9 | 8.1 | 6.4 | 4.5 | 4.5 | 3.2 | 5.4 | 4.5 | 3.1 | 3.2 | 3.6 | 4.4 | 3.5 | 3.6 | 4.8 |
| Japan | 6.2 | 7.7 | 6.3 | 2.6 | 0.8 | 1.1 | 1.4 | 2.6 | 2.2 | -1.2 | -1.4 | 0.9 | -1.2 | -1.5 | 0.1 | 0.4 | 1.0 | 0.8 | 0.2 | 1.3 |
| Korea | 16.9 | 20.6 | 21.1 | 13.5 | 12.9 | 16.5 | 16.7 | 10.9 | 8.3 | -2.0 | 8.6 | 8.1 | 5.7 | 8.1 | 4.1 | 5.8 | 6.5 | 1.4 | 9.3 | 4.8 |
| Luxembourg | 9.4 | 8.0 | 10.6 | 5.6 | 10.4 | 7.5 | 3.8 | 5.4 | 11.2 | 9.8 | 10.2 | 13.4 | 3.4 | 1.9 | 2.8 | 5.0 | 5.6 | .. | .. | .. |
| Mexico | 66.3 | 34.6 | 28.5 | 18.6 | 11.6 | 13.3 | 29.3 | 37.5 | 25.7 | 21.0 | 19.5 | 19.5 | 6.1 | 5.5 | 6.8 | 7.0 | 7.6 | 3.6 | 8.7 | 7.4 |
| Netherlands | 4.3 | 6.4 | 5.3 | 3.9 | 2.5 | 5.2 | 5.1 | 4.2 | 5.9 | 6.1 | 5.6 | 7.5 | 6.7 | 3.6 | 2.2 | 1.8 | 3.2 | 1.8 | 2.0 | 3.6 |
| New Zealand | 13.9 | 3.8 | -1.4 | 2.3 | 7.8 | 7.3 | 6.4 | 6.0 | 3.5 | 0.9 | 4.6 | 6.3 | 7.0 | 4.4 | 3.9 | 5.7 | 5.8 | 6.5 | 5.1 | 6.2 |
| Norway | 10.0 | 5.9 | 5.9 | 2.7 | 5.1 | 5.2 | 7.3 | 9.5 | 8.2 | 1.9 | 8.9 | 19.1 | 3.9 | -0.4 | 2.6 | 5.3 | 5.3 | 3.5 | 4.5 | 6.4 |
| Poland | .. | .. | .. | .. | .. | 44.5 | 36.9 | 25.9 | 21.8 | 17.2 | 11.1 | 16.0 | 5.2 | 2.9 | 3.7 | 4.5 | 5.1 | .. | .. | .. |
| Portugal | 22.0 | 17.6 | 14.9 | 12.7 | 5.2 | 8.3 | 7.9 | 6.7 | 7.9 | 8.5 | 7.0 | 7.0 | 6.6 | 5.0 | 1.8 | 3.9 | 4.8 | 2.3 | 4.2 | 5.0 |
| Slovak Republic | .. | .. | .. | .. | .. | 19.6 | 17.0 | 10.5 | 12.7 | 9.4 | 7.8 | 8.7 | 8.9 | 8.5 | 9.3 | 10.1 | 7.9 | .. | .. | .. |
| Spain | 13.0 | 11.4 | 9.7 | 7.7 | 3.5 | 6.4 | 7.8 | 6.0 | 6.4 | 6.8 | 7.1 | 7.8 | 7.1 | 6.6 | 6.0 | 6.3 | 6.3 | 5.3 | 6.8 | 5.9 |
| Sweden | 10.5 | 10.0 | 6.1 | -0.8 | 0.8 | 6.6 | 7.6 | 2.5 | 4.0 | 4.4 | 5.3 | 5.7 | 3.2 | 3.2 | 3.5 | 4.5 | 5.6 | 3.9 | 5.2 | 5.9 |
| Switzerland | 5.8 | 8.2 | 5.2 | 2.6 | 2.2 | 2.2 | 1.6 | 0.7 | 1.5 | 2.3 | 2.2 | 4.4 | 2.0 | 0.8 | -0.6 | 1.0 | 2.1 | -0.8 | 2.1 | 1.9 |
| Turkey | 54.9 | 72.9 | 60.3 | 73.5 | 81.3 | 95.2 | 100.7 | 90.3 | 95.2 | 81.1 | 48.2 | 60.9 | 43.2 | 54.7 | 30.7 | 19.9 | 17.1 | .. | .. | .. |
| United Kingdom | 10.0 | 8.4 | 5.2 | 4.2 | 5.2 | 6.1 | 5.6 | 6.1 | 6.2 | 6.0 | 5.2 | 5.2 | 4.5 | 5.0 | 4.8 | 4.9 | 5.5 | 4.4 | 5.3 | 5.6 |
| United States | 7.9 | 5.7 | 3.2 | 5.6 | 5.1 | 6.2 | 4.9 | 5.6 | 6.5 | 5.6 | 5.6 | 5.9 | 2.6 | 3.6 | 4.6 | 5.5 | 5.0 | 5.4 | 5.2 | 4.9 |
| Euro area | 9.1 | 8.6 | 7.4 | 5.7 | 2.7 | 5.2 | 5.2 | 3.6 | 4.0 | 4.6 | 3.9 | 5.1 | 4.1 | 3.4 | 2.4 | 3.5 | 4.1 | 2.6 | 3.8 | 4.3 |
| European Union | 9.7 | 8.8 | 7.3 | 5.4 | 3.2 | 5.6 | 5.6 | 4.2 | 4.5 | 4.9 | 4.2 | 5.2 | 4.2 | 3.6 | 2.8 | 3.8 | 4.3 | 3.0 | 4.0 | 4.6 |
| Total OECD | 11.4 | 9.4 | 7.1 | 6.6 | 5.4 | 7.9 | 7.9 | 7.4 | 7.4 | 6.0 | 5.5 | 6.7 | 3.8 | 3.9 | 3.8 | 4.4 | 4.6 | 4.0 | 4.6 | 4.6 |
| *Memorandum item* | | | | | | | | | | | | | | | | | | | | |
| OECD *less* high inflation countries [a] | 8.7 | 7.5 | 5.5 | 5.1 | 3.9 | 5.5 | 5.1 | 4.8 | 5.1 | 4.0 | 4.1 | 5.2 | 2.9 | 3.0 | 3.3 | 4.1 | 4.2 | 3.6 | 4.1 | 4.3 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence there are breaks in many national series. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

*Source:* OECD.

Annex Table 3. **Real private consumption expenditure**

Percentage change from previous year

| | Average 1979-89 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 3.2 | 2.7 | 0.6 | 2.5 | 1.6 | 3.7 | 4.7 | 3.2 | 4.0 | 4.5 | 4.9 | 3.2 | 3.0 | 4.1 | 3.8 | 3.6 | 3.1 | 4.3 | 3.2 | 3.1 |
| Austria | 2.3 | 4.5 | 2.5 | 3.0 | 0.8 | 2.4 | 2.6 | 3.2 | 1.7 | 2.7 | 2.4 | 3.3 | 1.4 | 0.8 | 1.3 | 1.7 | 2.3 | 1.3 | 1.9 | 2.4 |
| Belgium | 1.9 | 3.2 | 3.0 | 1.7 | -0.3 | 2.4 | 1.0 | 1.1 | 2.0 | 3.1 | 2.3 | 3.4 | 0.9 | 0.4 | 1.8 | 1.8 | 2.1 | 2.0 | 1.8 | 2.2 |
| Canada | 2.8 | 1.2 | -1.6 | 1.5 | 1.8 | 3.0 | 2.1 | 2.6 | 4.6 | 2.8 | 3.8 | 4.0 | 2.6 | 3.4 | 3.4 | 3.1 | 3.0 | 3.3 | 3.1 | 3.0 |
| Czech Republic | .. | .. | .. | .. | .. | 5.3 | 5.9 | 7.9 | 2.4 | -1.6 | 1.7 | 2.5 | 3.6 | 4.0 | 4.8 | 3.1 | 3.2 | .. | .. | .. |
| Denmark | 0.8 | 0.1 | 1.6 | 1.9 | 0.5 | 6.5 | 1.2 | 2.5 | 2.9 | 2.3 | 0.7 | -1.9 | 0.4 | 1.9 | 0.8 | 2.3 | 2.2 | 0.9 | 2.6 | 2.0 |
| Finland | 3.8 | -1.1 | -3.8 | -4.0 | -3.8 | 2.5 | 4.1 | 3.7 | 3.4 | 4.3 | 3.5 | 3.1 | 2.0 | 1.5 | 3.2 | 2.9 | 2.8 | 2.4 | 3.6 | 2.5 |
| France | 1.9 | 2.7 | 0.7 | 0.7 | -0.2 | 0.9 | 1.3 | 1.3 | 0.2 | 3.6 | 3.5 | 2.9 | 2.8 | 1.5 | 1.6 | 1.6 | 2.2 | 1.4 | 1.9 | 2.3 |
| Germany | 1.8 | 4.1 | 4.6 | 2.3 | 0.2 | 1.1 | 2.3 | 0.9 | 0.7 | 1.7 | 3.6 | 2.2 | 1.5 | -1.0 | 0.7 | 1.2 | 2.2 | 0.8 | 1.7 | 2.5 |
| Greece | 1.9 | 2.6 | 2.9 | 2.3 | -0.8 | 1.9 | 2.5 | 2.4 | 2.7 | 3.5 | 2.5 | 2.0 | 2.8 | 2.8 | 3.2 | 3.4 | 3.2 | .. | .. | .. |
| Hungary | .. | .. | .. | .. | .. | 0.2 | -7.1 | -4.3 | 1.9 | 4.8 | 5.4 | 3.8 | 5.7 | 10.0 | 8.0 | 2.0 | 3.6 | .. | .. | .. |
| Iceland | 3.0 | 0.5 | 0.8 | -3.1 | -4.7 | 2.9 | 2.2 | 5.4 | 5.5 | 10.1 | 7.3 | 4.0 | -3.0 | -1.1 | 3.6 | 3.7 | 5.2 | -0.6 | 12.3 | 0.0 |
| Ireland | 1.8 | 1.4 | 1.8 | 2.9 | 2.9 | 4.4 | 3.6 | 6.5 | 7.1 | 7.3 | 8.3 | 10.0 | 4.8 | 2.7 | 1.8 | 3.2 | 4.3 | 2.1 | 3.4 | 4.9 |
| Italy | 3.1 | 2.2 | 2.9 | 1.9 | -3.6 | 1.5 | 1.7 | 1.3 | 3.2 | 3.2 | 2.6 | 2.7 | 1.1 | 0.4 | 1.9 | 1.7 | 2.1 | 1.3 | 2.0 | 1.9 |
| Japan | 3.3 | 4.5 | 2.9 | 2.6 | 1.4 | 2.7 | 1.8 | 2.4 | 0.9 | -0.1 | 0.2 | 1.0 | 1.7 | 1.3 | 1.1 | 1.1 | 1.1 | 0.9 | 1.3 | 1.0 |
| Korea | 6.9 | 9.6 | 8.0 | 5.5 | 5.6 | 8.2 | 9.6 | 7.1 | 3.5 | -11.7 | 11.0 | 7.9 | 4.7 | 6.8 | -0.9 | 2.5 | 3.8 | -0.2 | 1.7 | 5.4 |
| Luxembourg | 2.8 | 3.8 | 7.0 | -2.3 | 2.1 | 4.0 | 1.8 | 4.4 | 3.9 | 6.6 | 2.6 | 4.6 | 4.5 | 2.3 | 1.6 | 1.9 | 2.4 | .. | .. | .. |
| Mexico | 1.9 | 6.4 | 4.7 | 4.7 | 1.5 | 4.6 | -9.5 | 2.2 | 6.5 | 5.4 | 4.3 | 8.2 | 2.7 | 1.2 | 2.8 | 3.6 | 4.4 | 4.0 | 3.6 | 4.8 |
| Netherlands | 0.8 | 3.8 | 2.7 | 0.5 | 0.3 | 1.4 | 2.9 | 4.0 | 3.0 | 4.8 | 4.7 | 3.5 | 1.4 | 0.8 | -1.1 | -0.1 | 1.9 | -1.6 | 0.5 | 2.6 |
| New Zealand | 2.1 | 0.1 | -1.3 | 0.1 | 2.8 | 5.8 | 4.0 | 5.1 | 2.4 | 2.0 | 3.9 | 2.0 | 2.2 | 3.8 | 4.2 | 3.5 | 3.2 | 3.8 | 3.1 | 3.3 |
| Norway | 1.9 | 0.7 | 2.3 | 2.2 | 2.4 | 3.3 | 3.7 | 6.5 | 3.2 | 2.7 | 3.3 | 3.9 | 2.6 | 3.6 | 3.2 | 4.0 | 3.0 | 3.9 | 2.6 | 3.5 |
| Poland | .. | .. | .. | .. | .. | 3.9 | 3.7 | 8.6 | 6.9 | 4.8 | 5.2 | 2.8 | 2.0 | 3.3 | 2.8 | 3.2 | 4.0 | .. | .. | .. |
| Portugal | 2.6 | 6.4 | 4.2 | 4.7 | 1.1 | 1.0 | 0.6 | 3.0 | 3.3 | 5.0 | 5.1 | 2.9 | 1.3 | 0.6 | -1.0 | 1.2 | 2.4 | 0.0 | 1.7 | 2.6 |
| Slovak Republic | .. | .. | .. | .. | .. | 1.5 | 4.0 | 8.8 | 5.7 | 6.3 | 3.3 | -1.8 | 3.9 | 5.3 | 0.5 | 2.1 | 4.2 | .. | .. | .. |
| Spain | 2.1 | 3.5 | 2.9 | 2.2 | -1.9 | 1.1 | 1.7 | 2.2 | 3.2 | 4.4 | 4.7 | 4.0 | 2.8 | 2.6 | 3.4 | 3.5 | 3.4 | 3.9 | 3.5 | 3.4 |
| Sweden | 1.6 | -0.4 | 1.0 | -1.3 | -3.0 | 1.9 | 1.1 | 1.6 | 2.7 | 3.0 | 3.8 | 4.9 | 0.2 | 1.3 | 1.7 | 2.5 | 2.6 | 1.9 | 2.5 | 2.5 |
| Switzerland | 1.6 | 1.2 | 1.6 | 0.1 | -0.9 | 1.0 | 0.6 | 0.7 | 1.4 | 2.3 | 2.2 | 2.0 | 2.1 | 0.7 | 0.4 | 1.2 | 1.8 | 0.5 | 1.7 | 1.8 |
| Turkey | 2.4 | 13.1 | 2.7 | 3.2 | 8.6 | -5.4 | 4.8 | 8.5 | 8.4 | 0.6 | -2.6 | 6.2 | -9.2 | 2.0 | 4.7 | 4.4 | 4.3 | .. | .. | .. |
| United Kingdom | 3.4 | 1.0 | -1.5 | 0.5 | 2.9 | 3.1 | 1.7 | 3.6 | 3.6 | 3.9 | 4.4 | 4.6 | 3.1 | 3.6 | 2.4 | 2.4 | 2.2 | 1.9 | 2.2 | 2.2 |
| United States | 3.2 | 1.8 | -0.2 | 2.9 | 3.4 | 3.8 | 3.0 | 3.2 | 3.6 | 4.8 | 4.9 | 4.3 | 2.5 | 3.1 | 3.1 | 3.4 | 3.4 | 3.5 | 3.3 | 3.5 |
| Euro area | 2.1 | 3.2 | 2.7 | 1.7 | -0.9 | 1.3 | 1.9 | 1.6 | 1.6 | 3.1 | 3.5 | 2.9 | 1.9 | 0.6 | 1.4 | 1.7 | 2.4 | 1.3 | 2.0 | 2.5 |
| European Union | 2.3 | 2.7 | 2.1 | 1.5 | -0.3 | 1.7 | 1.9 | 2.0 | 2.1 | 3.2 | 3.6 | 3.1 | 2.0 | 1.1 | 1.6 | 1.8 | 2.3 | 1.4 | 2.1 | 2.4 |
| Total OECD | 2.9 | 3.0 | 1.5 | 2.4 | 1.7 | 2.8 | 2.2 | 2.9 | 2.9 | 3.0 | 3.7 | 3.6 | 2.1 | 2.2 | 2.2 | 2.5 | 2.7 | 2.4 | 2.5 | 2.9 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

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Annex Table 4. **Real public consumption expenditure**

Percentage change from previous year

| | Average 1979-89 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 3.7 | 3.7 | 3.1 | 0.5 | 0.3 | 3.1 | 4.0 | 2.9 | 2.6 | 3.4 | 2.9 | 5.8 | 1.6 | 4.0 | 3.0 | 3.5 | 3.3 | 2.3 | 3.4 | 3.1 |
| Austria | 1.6 | 2.3 | 3.2 | 3.5 | 3.7 | 3.0 | 1.3 | 1.2 | -1.5 | 2.8 | 3.0 | -0.1 | -1.4 | 0.1 | -0.4 | -0.3 | -0.2 | -0.1 | -0.8 | -0.1 |
| Belgium | 1.3 | -0.4 | 3.6 | 1.6 | -0.3 | 1.6 | 1.5 | 2.2 | 0.4 | 1.1 | 3.5 | 2.7 | 2.5 | 1.9 | 1.9 | 1.9 | 1.6 | 2.2 | 1.2 | 2.0 |
| Canada | 2.4 | 3.5 | 2.9 | 1.0 | 0.0 | -1.2 | -0.6 | -1.2 | -1.0 | 3.2 | 2.1 | 2.6 | 3.7 | 3.0 | 3.1 | 3.4 | 3.2 | 3.2 | 3.3 | 3.1 |
| Czech Republic | .. | .. | .. | .. | .. | -2.4 | -4.3 | 3.6 | -4.4 | -4.4 | 2.3 | -1.0 | 5.3 | 5.7 | 1.6 | 0.1 | -0.5 | .. | .. | .. |
| Denmark | 1.2 | -0.2 | 0.6 | 0.8 | 4.1 | 3.0 | 2.1 | 3.4 | 0.8 | 3.1 | 2.0 | 1.1 | 2.1 | 2.1 | 1.1 | 0.7 | 0.6 | 0.3 | 1.2 | 0.3 |
| Finland | 3.3 | 4.2 | 1.9 | -2.5 | -4.2 | 0.8 | 2.0 | 2.6 | 2.9 | 2.0 | 1.4 | 0.0 | 2.2 | 4.0 | 1.5 | 1.9 | 1.5 | 2.3 | 0.9 | 1.5 |
| France | 2.7 | 2.5 | 2.6 | 3.6 | 4.3 | 0.5 | 0.0 | 2.2 | 2.1 | -0.1 | 1.5 | 3.0 | 2.9 | 4.1 | 2.0 | 1.5 | 1.7 | 1.5 | 1.5 | 1.8 |
| Germany | 1.5 | 3.1 | 1.9 | 5.0 | 0.1 | 2.4 | 1.5 | 1.8 | 0.3 | 1.9 | 0.8 | 1.0 | 1.0 | 1.7 | 0.8 | 0.1 | -0.4 | 1.3 | -0.5 | -0.4 |
| Greece | 1.3 | 0.6 | -1.5 | -3.0 | 2.6 | -1.1 | 5.6 | 0.9 | 3.0 | 1.7 | 2.1 | 2.2 | -1.0 | 5.1 | 0.9 | 1.1 | 0.8 | .. | .. | .. |
| Hungary | .. | .. | .. | .. | .. | -7.4 | -5.7 | -1.9 | 3.1 | 2.8 | 1.7 | 1.4 | 4.3 | 2.2 | 2.0 | 0.5 | 0.1 | .. | .. | .. |
| Iceland | 4.9 | 4.4 | 3.1 | -0.7 | 2.3 | 4.0 | 1.8 | 1.2 | 2.5 | 3.4 | 4.9 | 4.4 | 3.1 | 4.1 | 3.5 | 2.5 | 2.0 | 1.1 | 4.0 | 0.6 |
| Ireland | 0.2 | 5.4 | 2.7 | 3.0 | 0.1 | 4.1 | 3.9 | 3.5 | 5.8 | 5.3 | 12.3 | 2.3 | 13.5 | 8.8 | 3.5 | 2.1 | 1.9 | 4.2 | 1.2 | 2.2 |
| Italy | 2.9 | 2.5 | 1.7 | 0.6 | -0.2 | -0.9 | -2.2 | 1.0 | 0.2 | 0.2 | 1.3 | 1.6 | 3.6 | 1.7 | 1.3 | 0.8 | 1.0 | 1.2 | 1.0 | 1.0 |
| Japan | 3.8 | 2.6 | 3.4 | 2.6 | 3.2 | 2.7 | 4.2 | 2.9 | 1.0 | 2.1 | 4.4 | 4.7 | 2.5 | 2.3 | 1.6 | 2.0 | 1.8 | 2.4 | 1.4 | 2.0 |
| Korea | 5.2 | 7.4 | 7.2 | 5.9 | 4.6 | 1.9 | 0.8 | 8.2 | 1.5 | -0.4 | 1.3 | 0.1 | 1.3 | 2.9 | 3.6 | 1.9 | 2.0 | 3.4 | 4.5 | 0.4 |
| Luxembourg | 4.0 | 6.7 | 4.0 | 3.2 | 5.2 | 1.0 | 4.8 | 5.6 | 3.0 | 1.3 | 7.3 | 4.8 | 7.0 | 4.2 | 3.9 | 2.5 | 2.9 | .. | .. | .. |
| Mexico | 3.3 | 3.3 | 5.4 | 1.9 | 2.4 | 2.9 | -1.3 | -0.7 | 2.9 | 2.3 | 4.7 | 2.0 | -1.2 | -1.3 | 2.1 | 2.3 | 2.2 | 2.3 | 1.1 | 3.0 |
| Netherlands | 2.1 | 2.2 | 2.9 | 2.9 | 1.6 | 1.5 | 1.5 | -0.4 | 3.2 | 3.6 | 2.5 | 2.0 | 4.2 | 3.8 | 1.0 | 0.0 | 1.0 | -0.8 | 1.0 | 1.0 |
| New Zealand | 1.5 | 1.6 | -0.6 | 1.1 | 1.3 | 0.8 | 4.8 | 2.1 | 7.6 | -1.8 | 7.6 | -1.9 | 3.5 | 4.7 | 3.8 | 3.3 | 2.6 | 4.3 | 2.7 | 2.7 |
| Norway | 2.7 | 5.3 | 5.4 | 5.6 | 2.7 | 1.5 | 1.5 | 3.1 | 2.5 | 3.3 | 3.2 | 1.3 | 2.7 | 3.2 | 1.0 | 2.0 | 2.0 | 0.9 | 3.0 | 1.4 |
| Poland | .. | .. | .. | .. | .. | 1.2 | 4.8 | 2.0 | 3.1 | 1.4 | 1.0 | 1.1 | 0.6 | 1.2 | 0.4 | 1.2 | 1.3 | .. | .. | .. |
| Portugal | 5.3 | 4.2 | 9.6 | -0.9 | -0.2 | 4.3 | 1.0 | 3.4 | 2.2 | 4.1 | 5.6 | 4.1 | 3.4 | 2.8 | -1.0 | -1.0 | -0.9 | -1.5 | -0.9 | -0.9 |
| Slovak Republic | .. | .. | .. | .. | .. | -10.1 | 2.1 | 17.4 | -4.5 | 11.5 | -7.7 | 1.3 | 5.1 | 4.0 | -0.6 | 1.2 | 1.2 | .. | .. | .. |
| Spain | 4.8 | 6.3 | 6.0 | 3.5 | 2.7 | 0.5 | 2.4 | 1.3 | 2.9 | 3.7 | 4.2 | 5.1 | 3.6 | 4.4 | 3.5 | 3.5 | 3.2 | 3.2 | 3.5 | 3.1 |
| Sweden | 1.7 | 2.5 | 3.4 | 0.2 | -0.1 | -0.8 | -0.4 | 0.7 | -0.9 | 3.4 | 1.7 | -1.1 | 0.9 | 2.1 | 0.7 | 0.7 | 0.7 | -0.2 | 0.2 | 1.1 |
| Switzerland | 2.8 | 5.4 | 3.5 | 0.7 | -0.1 | 2.0 | -0.1 | 2.0 | 0.0 | 1.3 | 1.2 | 2.1 | 2.4 | 1.9 | 0.9 | 0.4 | 0.4 | 0.0 | 0.7 | 0.3 |
| Turkey | 5.8 | 8.0 | 3.7 | 3.6 | 8.6 | -5.5 | 6.8 | 8.6 | 4.1 | 7.8 | 6.5 | 7.1 | -8.5 | 5.4 | -1.9 | 1.0 | 1.1 | .. | .. | .. |
| United Kingdom | 0.8 | 2.2 | 3.0 | 0.7 | -0.7 | 1.0 | 1.4 | 0.7 | -0.3 | 1.3 | 3.2 | 1.9 | 1.7 | 2.4 | 3.4 | 1.7 | 2.4 | 3.9 | 2.0 | 2.4 |
| United States | 2.7 | 2.6 | 1.4 | 0.4 | -0.3 | 0.2 | 0.0 | 0.6 | 1.8 | 1.4 | 2.9 | 2.9 | 3.8 | 4.4 | 3.7 | 2.9 | 2.5 | 3.2 | 2.8 | 2.4 |
| Euro area | 2.4 | 2.9 | 2.6 | 3.0 | 1.4 | 1.2 | 0.7 | 1.7 | 1.3 | 1.4 | 1.8 | 2.1 | 2.5 | 2.8 | 1.5 | 1.0 | 1.0 | 1.3 | 0.9 | 1.0 |
| European Union | 2.2 | 2.8 | 2.7 | 2.5 | 1.0 | 1.1 | 0.8 | 1.5 | 1.0 | 1.6 | 2.1 | 2.0 | 2.3 | 2.7 | 1.7 | 1.1 | 1.1 | 1.6 | 1.1 | 1.1 |
| Total OECD | 2.8 | 3.0 | 2.6 | 1.8 | 1.1 | 0.8 | 1.0 | 1.6 | 1.4 | 1.7 | 2.8 | 2.8 | 2.6 | 3.2 | 2.5 | 2.0 | 1.8 | 2.4 | 1.8 | 1.9 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

Annex Table 5. **Real total gross fixed capital formation**

Percentage change from previous year

| | Average 1979-89 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 5.0 | -7.6 | -8.3 | 1.4 | 5.3 | 11.5 | 2.2 | 4.2 | 9.4 | 8.3 | 6.9 | -0.4 | -1.7 | 13.6 | 7.5 | 3.6 | 4.5 | 1.5 | 4.2 | 4.1 |
| Austria | 1.6 | 6.2 | 6.6 | 0.6 | -0.9 | 4.6 | 1.3 | 2.2 | 2.0 | 3.9 | 2.1 | 6.2 | -2.3 | -2.8 | 2.6 | 3.7 | 5.6 | 4.2 | 5.1 | 5.7 |
| Belgium | 2.7 | 8.0 | -3.9 | 0.6 | -1.7 | 0.0 | 3.6 | -0.2 | 8.0 | 3.6 | 4.5 | 3.5 | 0.5 | -2.2 | 0.3 | 2.9 | 4.7 | 2.2 | 3.2 | 5.7 |
| Canada | 4.9 | -3.9 | -5.4 | -2.7 | -2.0 | 7.5 | -2.1 | 4.4 | 15.2 | 2.4 | 7.3 | 5.5 | 4.3 | 1.3 | 3.3 | 4.9 | 4.6 | 4.3 | 5.3 | 4.2 |
| Czech Republic | .. | .. | .. | .. | .. | 17.1 | 19.8 | 8.2 | -2.9 | 0.7 | -1.0 | 5.3 | 5.5 | 0.6 | -0.4 | 3.6 | 4.3 | .. | .. | .. |
| Denmark | 0.8 | -2.1 | -3.3 | -2.0 | -4.0 | 7.6 | 11.6 | 4.0 | 10.9 | 10.1 | 1.5 | 8.8 | 1.9 | 0.3 | -4.2 | 2.3 | 5.4 | -5.5 | 5.7 | 4.9 |
| Finland | 4.9 | -4.6 | -18.5 | -16.4 | -15.2 | -3.6 | 11.2 | 6.7 | 13.8 | 8.4 | 2.5 | 4.1 | 4.3 | -4.0 | -3.7 | 3.4 | 3.6 | -2.6 | 5.0 | 3.2 |
| France | 2.6 | 3.2 | -1.5 | -1.8 | -6.6 | 1.6 | 2.2 | -0.1 | -0.2 | 7.2 | 8.3 | 8.4 | 2.1 | -1.4 | -1.1 | 1.6 | 3.7 | 0.2 | 2.8 | 3.9 |
| Germany | 1.0 | 7.7 | 5.2 | 3.7 | -4.5 | 4.1 | -0.6 | -0.7 | 0.9 | 2.3 | 3.8 | 3.2 | -3.9 | -6.5 | -2.1 | 1.4 | 3.2 | -1.4 | 2.7 | 3.4 |
| Greece | -3.0 | 4.5 | 4.2 | -3.5 | -4.0 | -3.1 | 4.1 | 8.4 | 6.8 | 10.6 | 11.0 | 8.0 | 6.5 | 5.7 | 8.5 | 7.2 | 4.5 | .. | .. | .. |
| Hungary | .. | .. | .. | .. | .. | 12.5 | -4.3 | 6.7 | 9.2 | 13.3 | 5.9 | 6.7 | 3.5 | 5.8 | 3.0 | 5.6 | 7.6 | .. | .. | .. |
| Iceland | 1.8 | 3.0 | -0.1 | -11.1 | -10.7 | 0.6 | -1.1 | 25.7 | 10.0 | 33.4 | -3.7 | 14.8 | -6.3 | -13.0 | 7.8 | 8.4 | 16.0 | 11.3 | 7.0 | 21.5 |
| Ireland | -0.9 | 13.4 | -7.0 | 0.0 | -5.1 | 11.8 | 15.3 | 16.8 | 18.9 | 15.7 | 14.5 | 6.8 | 0.1 | 1.7 | -8.2 | 3.4 | 5.1 | -6.7 | 2.7 | 6.2 |
| Italy | 1.8 | 3.8 | 1.1 | -1.7 | -10.9 | 0.3 | 6.2 | 3.4 | 2.1 | 3.8 | 5.0 | 7.5 | 2.4 | 0.7 | -2.1 | 2.3 | 3.8 | -5.8 | 3.5 | 4.0 |
| Japan | 4.3 | 8.1 | 2.3 | -2.4 | -2.8 | -1.5 | 0.7 | 6.4 | 0.9 | -3.9 | -0.9 | 2.9 | -1.2 | -4.7 | 4.4 | 0.2 | 0.0 | 4.9 | -1.6 | 0.6 |
| Korea | 8.2 | 25.9 | 13.3 | -0.7 | 6.3 | 10.7 | 11.9 | 7.3 | -2.2 | -21.2 | 3.7 | 11.4 | -1.8 | 4.8 | 2.5 | 3.6 | 6.7 | -3.0 | 7.2 | 5.9 |
| Luxembourg | 4.8 | 3.4 | 15.8 | -15.1 | 20.6 | 0.0 | -1.5 | 3.8 | 12.7 | 11.8 | 14.6 | -3.5 | 10.1 | -1.4 | 0.5 | 1.9 | 2.5 | .. | .. | .. |
| Mexico | -1.0 | 13.1 | 11.0 | 10.8 | -2.5 | 8.4 | -29.0 | 16.4 | 21.0 | 10.3 | 7.7 | 11.4 | -5.8 | -1.3 | -1.2 | 4.8 | 6.3 | 0.0 | 7.4 | 5.8 |
| Netherlands | 1.8 | 2.6 | 0.3 | 0.7 | -3.2 | 2.1 | 4.1 | 6.3 | 6.6 | 4.2 | 7.8 | 1.4 | -0.1 | -4.5 | -1.7 | 1.7 | 3.3 | 3.5 | 0.9 | 4.0 |
| New Zealand | 4.2 | -0.8 | -18.3 | 0.2 | 14.5 | 15.3 | 12.2 | 7.8 | 0.6 | -5.1 | 4.3 | 7.4 | -1.8 | 8.1 | 12.7 | 6.0 | 2.4 | 11.0 | 2.0 | 3.6 |
| Norway | 0.3 | -10.8 | -3.0 | -1.1 | 6.5 | 5.3 | 3.9 | 10.3 | 15.5 | 13.1 | -5.6 | -3.6 | -4.2 | -3.6 | 1.9 | 3.7 | -0.5 | 5.0 | -4.8 | 4.8 |
| Poland | .. | .. | .. | .. | .. | 9.2 | 16.6 | 19.7 | 21.7 | 14.2 | 6.8 | 2.7 | -8.8 | -6.8 | 1.1 | 5.0 | 6.5 | .. | .. | .. |
| Portugal | 3.0 | 7.6 | 3.3 | 4.5 | -5.5 | 2.7 | 6.6 | 5.7 | 13.9 | 11.5 | 6.4 | 3.8 | 0.1 | -5.3 | -9.0 | 1.9 | 6.0 | -3.8 | 4.0 | 6.5 |
| Slovak Republic | .. | .. | .. | .. | .. | -2.5 | 1.8 | 30.9 | 14.3 | 11.0 | -18.5 | 1.2 | 9.6 | -0.9 | 0.7 | 6.0 | 8.5 | .. | .. | .. |
| Spain | 4.7 | 6.5 | 1.7 | -4.1 | -8.9 | 1.9 | 7.7 | 2.1 | 5.0 | 10.0 | 8.8 | 5.7 | 3.3 | 1.0 | 2.8 | 4.0 | 4.7 | 2.2 | 4.6 | 4.9 |
| Sweden | 4.2 | 0.2 | -8.6 | -11.6 | -15.0 | 6.6 | 9.9 | 4.5 | -0.3 | 7.8 | 8.2 | 6.6 | 0.8 | -2.5 | 0.4 | 2.7 | 6.1 | 1.9 | 5.5 | 6.6 |
| Switzerland | 4.1 | 3.8 | -2.9 | -6.6 | -2.7 | 6.5 | 1.8 | -2.4 | 1.5 | 4.5 | 2.7 | 5.8 | -3.3 | -4.1 | -2.1 | 0.6 | 3.0 | -1.4 | 1.9 | 3.3 |
| Turkey | 6.6 | 15.9 | 0.4 | 6.4 | 26.4 | -16.0 | 9.1 | 14.1 | 14.8 | -3.9 | -15.7 | 16.9 | -31.5 | -0.8 | 9.8 | 14.0 | 18.0 | .. | .. | .. |
| United Kingdom | 4.1 | -2.6 | -8.2 | -0.9 | 0.3 | 4.7 | 3.1 | 5.7 | 6.8 | 12.7 | 1.6 | 3.6 | 3.6 | 1.8 | 2.9 | 4.9 | 6.4 | 2.7 | 5.2 | 7.2 |
| United States | 2.9 | -0.2 | -5.4 | 5.4 | 5.9 | 7.4 | 5.5 | 8.4 | 8.8 | 10.3 | 7.9 | 5.5 | -2.6 | -1.7 | 3.7 | 7.2 | 5.3 | 6.2 | 6.8 | 4.4 |
| Euro area | 2.0 | 5.0 | 1.1 | -0.2 | -6.3 | 2.4 | 2.6 | 1.3 | 2.7 | 5.1 | 5.9 | 5.3 | 0.1 | -2.4 | -1.0 | 2.3 | 3.9 | -0.5 | 3.1 | 4.2 |
| European Union | 2.4 | 3.8 | -0.4 | -0.6 | -5.6 | 2.7 | 3.6 | 2.4 | 3.5 | 6.5 | 5.3 | 5.3 | 0.8 | -1.8 | -0.5 | 2.7 | 4.3 | -0.3 | 3.6 | 4.6 |
| Total OECD | 3.2 | 3.5 | -1.5 | 1.7 | 0.3 | 4.4 | 3.2 | 6.3 | 6.3 | 5.7 | 5.0 | 5.4 | -1.5 | -1.6 | 2.2 | 4.3 | 4.4 | 3.2 | 4.2 | 4.5 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

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Annex Table 6. **Real gross private non-residential fixed capital formation**

Percentage change from previous year

| | Average 1979-89 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 6.9 | -7.6 | -11.3 | -2.1 | 2.3 | 11.9 | 7.7 | 10.4 | 8.0 | 7.3 | 6.6 | -3.0 | 1.5 | 12.4 | 9.4 | 6.5 | 5.8 | 5.5 | 4.7 | 6.2 |
| Austria | 3.0 | 13.2 | 6.1 | -3.1 | -4.4 | 3.7 | -2.2 | 4.0 | 10.7 | 7.6 | 4.6 | 12.2 | 2.0 | -2.6 | 4.2 | 4.6 | 6.4 | 6.6 | 6.0 | 6.6 |
| Belgium | 6.6 | 9.7 | -3.3 | -1.4 | -4.6 | -2.5 | 5.2 | 3.9 | 7.9 | 5.2 | 2.5 | 4.6 | 2.5 | -2.2 | 0.0 | 3.0 | 4.0 | 0.3 | 3.6 | 3.9 |
| Canada | 6.1 | -2.6 | -3.3 | -7.8 | -1.4 | 9.4 | 4.8 | 4.4 | 22.6 | 5.3 | 7.2 | 6.0 | 1.0 | -6.0 | 1.3 | 5.7 | 7.0 | 3.8 | 7.3 | 6.3 |
| Denmark | 3.7 | 2.2 | -1.4 | -4.2 | -8.3 | 7.6 | 13.9 | 2.7 | 13.7 | 13.5 | 1.9 | 8.9 | 4.8 | -0.7 | -7.0 | 2.3 | 7.0 | -8.9 | 6.5 | 7.0 |
| Finland | 6.9 | -7.4 | -23.5 | -19.0 | -18.0 | -5.0 | 26.9 | 6.5 | 8.2 | 13.0 | 0.9 | 6.8 | 10.3 | -9.0 | -7.3 | 5.3 | 5.1 | -1.9 | 6.2 | 4.5 |
| France | 4.2 | 5.6 | -1.0 | -2.6 | -8.1 | 0.7 | 3.4 | -0.2 | 1.0 | 10.2 | 9.2 | 9.7 | 3.1 | -2.3 | -2.2 | 2.0 | 5.5 | -0.6 | 4.2 | 5.7 |
| Germany | 0.9 | 9.0 | 6.0 | -0.6 | -9.1 | 0.8 | 1.2 | -0.6 | 2.9 | 3.6 | 4.6 | 7.7 | -2.9 | -7.2 | -1.7 | 3.2 | 5.5 | -2.9 | 8.9 | 2.8 |
| Greece | -1.3 | 6.6 | 5.2 | 0.7 | 1.1 | 0.9 | 2.9 | 14.7 | 5.4 | 12.0 | 16.7 | 9.4 | 8.6 | 6.1 | 8.4 | 8.1 | 5.2 | .. | .. | .. |
| Iceland | 1.1 | 6.8 | -0.2 | -18.0 | -25.9 | 1.8 | 12.5 | 53.1 | 19.5 | 46.9 | -5.8 | 14.9 | -13.4 | -20.5 | 13.0 | 15.2 | 26.0 | 17.1 | 15.1 | 32.6 |
| Ireland | 0.6 | 18.9 | -11.7 | -2.5 | -5.7 | 8.2 | 17.3 | 17.6 | 22.3 | 21.1 | 14.6 | 1.4 | -1.9 | -0.9 | -16.0 | 4.9 | 7.3 | -12.3 | 3.0 | 9.3 |
| Italy | 2.1 | 5.5 | 0.1 | -2.3 | -14.3 | 5.1 | 10.7 | 3.5 | 3.7 | 4.0 | 6.1 | 9.1 | 1.7 | 0.2 | -4.8 | 1.4 | 4.1 | -10.8 | 3.3 | 4.4 |
| Japan | 8.0 | 10.4 | 4.1 | -7.1 | -11.2 | -6.3 | 2.7 | 4.7 | 11.7 | -2.0 | -3.8 | 9.6 | 1.0 | -4.7 | 10.3 | 3.5 | 1.5 | 8.4 | 2.2 | 1.5 |
| Korea | 8.5 | 16.7 | 13.4 | 0.1 | 5.3 | 15.1 | 14.1 | 7.3 | -3.0 | -29.2 | 11.4 | 18.0 | -7.5 | 3.7 | 1.7 | 3.5 | 7.3 | -6.1 | 7.7 | 6.5 |
| Mexico | .. | 19.6 | 22.6 | 22.8 | -5.6 | -0.4 | -38.9 | 45.8 | 34.0 | 18.3 | 8.8 | 10.0 | -4.3 | -3.7 | -1.5 | 6.0 | 6.9 | -0.4 | 7.8 | 6.2 |
| Netherlands | 2.8 | 4.8 | 2.0 | -3.2 | -5.1 | -0.4 | 5.5 | 7.0 | 9.7 | 5.2 | 9.9 | 1.0 | -1.9 | -6.5 | -3.9 | 1.3 | 3.4 | 0.4 | 2.0 | 4.0 |
| New Zealand | 6.7 | -5.1 | -18.9 | 8.2 | 23.1 | 17.0 | 15.0 | 7.2 | -6.5 | -5.5 | -1.6 | 17.5 | 1.9 | 5.2 | 11.1 | 15.0 | 6.3 | 11.0 | 12.2 | 4.8 |
| Norway | 0.2 | -10.1 | -3.4 | -0.8 | 12.5 | 2.8 | 2.1 | 13.4 | 15.8 | 15.2 | -8.6 | -4.0 | -7.8 | -4.3 | 4.4 | 4.6 | -1.8 | 8.8 | -10.5 | 8.6 |
| Spain | 4.7 | 3.9 | 3.7 | -1.0 | -13.5 | 3.5 | 12.4 | 3.6 | 6.4 | 9.1 | 9.7 | 7.9 | 3.8 | -1.0 | 2.0 | 3.5 | 4.8 | 3.0 | 3.3 | 5.9 |
| Sweden | 6.4 | -2.0 | -15.0 | -15.9 | -12.3 | 18.3 | 21.3 | 8.0 | 4.3 | 9.2 | 8.5 | 9.5 | -0.1 | -6.3 | 0.3 | 2.6 | 6.9 | 2.3 | 6.8 | 6.9 |
| Switzerland | 4.4 | 6.3 | -2.6 | -10.6 | -5.9 | 2.0 | 4.9 | 2.3 | 4.3 | 9.0 | 1.3 | 5.3 | -4.3 | -5.1 | -3.6 | 0.2 | 4.3 | -3.0 | 2.4 | 4.7 |
| United Kingdom | 6.5 | 4.4 | -5.2 | -2.2 | -5.4 | 5.4 | 9.0 | 10.1 | 11.1 | 20.6 | 2.2 | 4.8 | 3.6 | -3.5 | 1.5 | 2.7 | 4.5 | 2.7 | 2.7 | 5.9 |
| United States | 3.2 | 0.7 | -4.9 | 3.4 | 8.4 | 8.9 | 9.8 | 10.0 | 12.2 | 12.5 | 8.1 | 7.8 | -5.2 | -5.7 | 2.3 | 9.7 | 7.9 | 5.5 | 10.4 | 6.4 |
| Euro area | 2.6 | 6.2 | 1.3 | -2.0 | -9.5 | 1.6 | 4.8 | 1.8 | 4.5 | 6.6 | 6.9 | 7.7 | 0.9 | -3.4 | -2.1 | 2.7 | 5.1 | -2.2 | 5.0 | 4.7 |
| European Union | 3.5 | 6.0 | 0.1 | -2.4 | -9.1 | 2.9 | 6.7 | 3.6 | 5.4 | 8.9 | 6.2 | 7.6 | 1.4 | -3.4 | -1.4 | 2.7 | 5.0 | -1.7 | 5.0 | 4.8 |
| Total OECD | 4.3 | 4.7 | -0.6 | -0.3 | -1.7 | 4.4 | 6.0 | 7.8 | 10.2 | 7.8 | 5.5 | 8.0 | -1.6 | -4.0 | 2.1 | 5.7 | 5.7 | 2.8 | 6.7 | 5.1 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. Some countries, United States, Canada and France use hedonic price indices to deflate current-price values of investment in certain information and communication technology products such as computers. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex. National account data do not always have a sectoral breakdown of investment expenditures, and for some countries data are estimated by the OECD. See also *OECD Economic Outlook* Sources and Methods, *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

Annex Table 7. **Real gross private residential fixed capital formation**

Percentage change from previous year

| | Average 1979-89 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 2.4 | -10.8 | -5.7 | 11.4 | 12.8 | 12.1 | -7.6 | -10.6 | 15.3 | 14.9 | 5.1 | 3.6 | -10.2 | 24.7 | 3.1 | -5.2 | 0.9 | -6.0 | -3.8 | 3.0 |
| Austria | 1.0 | -8.2 | 9.4 | 10.7 | 4.3 | 7.7 | 13.1 | 2.4 | -1.7 | -2.5 | -2.5 | -5.2 | -10.5 | -6.2 | -1.1 | 1.7 | 3.1 | -0.5 | 2.7 | 3.2 |
| Belgium | -0.6 | 8.3 | -9.0 | 4.9 | 1.8 | 5.5 | 4.3 | -8.2 | 10.4 | 0.2 | 5.7 | 0.9 | -0.6 | -3.3 | 1.1 | 1.5 | 2.0 | 2.8 | 1.2 | 2.3 |
| Canada | 3.9 | -10.5 | -14.8 | 7.1 | -3.4 | 4.1 | -14.8 | 9.6 | 8.2 | -3.5 | 3.6 | 5.2 | 10.3 | 14.2 | 5.9 | 2.9 | -0.1 | 3.7 | 1.6 | 0.1 |
| Denmark | -2.6 | -11.3 | -10.1 | 0.1 | 6.3 | 8.9 | 8.5 | 5.8 | 7.1 | 4.2 | -1.0 | 9.8 | -14.2 | 6.6 | 7.1 | 2.7 | 1.9 | 8.5 | 2.5 | 1.4 |
| Finland | 2.5 | -5.9 | -16.5 | -17.8 | -8.8 | -6.0 | -4.6 | 5.8 | 25.1 | 7.0 | 8.2 | 3.4 | -10.6 | 2.3 | 5.4 | 2.5 | 2.3 | 3.5 | 2.8 | 2.1 |
| France | -0.3 | -1.7 | -6.9 | -3.7 | -5.2 | 4.4 | 2.1 | 0.5 | 0.9 | 3.8 | 7.0 | 3.4 | 0.8 | 0.8 | 1.1 | 1.5 | 1.4 | 1.6 | 1.3 | 1.4 |
| Germany | 3.2 | 7.6 | 7.4 | 10.8 | 4.7 | 12.0 | 0.4 | -0.2 | 0.4 | 0.3 | 1.6 | -2.6 | -6.2 | -5.7 | -3.7 | -0.5 | 0.2 | -4.1 | 1.0 | 0.5 |
| Greece | -5.8 | 5.5 | -0.3 | -15.6 | -10.5 | -11.3 | 2.6 | -1.2 | 6.6 | 8.8 | 3.8 | -4.3 | 4.8 | 8.8 | 4.9 | 3.9 | 3.4 | .. | .. | .. |
| Iceland | 0.7 | -0.6 | -3.7 | -3.4 | -5.2 | 4.1 | -8.7 | 7.1 | -9.3 | 1.3 | 0.3 | 15.2 | 17.8 | 5.2 | 1.1 | 4.3 | 2.6 | 4.4 | 0.5 | 3.6 |
| Ireland | -0.1 | -0.6 | 1.1 | 8.1 | -11.7 | 23.6 | 14.9 | 18.4 | 16.1 | 5.8 | 11.3 | 15.5 | -6.1 | 6.0 | 1.9 | 1.3 | 2.6 | -0.9 | 2.6 | 2.5 |
| Italy | 0.2 | 3.5 | 3.3 | 1.2 | -1.5 | -2.2 | 0.0 | -1.6 | -2.8 | -0.7 | 1.9 | 5.5 | 1.6 | 0.9 | 1.8 | 3.0 | 2.4 | 2.6 | 2.6 | 2.4 |
| Japan | 2.0 | 3.6 | -5.4 | -5.8 | 1.1 | 7.2 | -4.7 | 11.8 | -12.0 | -14.3 | 0.2 | 0.7 | -5.4 | -4.8 | -1.9 | -1.4 | -2.0 | -1.3 | -2.0 | -2.0 |
| Korea | 7.8 | 60.1 | 10.8 | -7.3 | 11.2 | -1.7 | 8.3 | 1.5 | -6.3 | -7.9 | -16.5 | -10.0 | 11.5 | 14.5 | 2.9 | 2.5 | 6.0 | 0.2 | 7.6 | 4.8 |
| Mexico | 2.8 | 4.4 | 7.6 | 2.9 | 5.2 | 4.0 | -7.9 | 2.5 | 4.5 | 3.4 | 2.9 | 5.2 | -4.8 | 0.0 | -11.1 | 4.7 | 6.4 | -0.6 | 6.0 | 6.8 |
| Netherlands | 0.9 | -3.2 | -4.7 | 6.9 | 1.2 | 7.6 | 1.3 | 3.9 | 5.3 | 1.4 | 4.2 | -0.3 | 0.8 | -3.7 | 1.0 | 3.8 | 3.0 | 4.8 | 2.6 | 3.5 |
| New Zealand | 4.2 | 2.4 | -15.5 | 3.8 | 17.1 | 13.1 | 3.3 | 5.8 | 6.8 | -14.2 | 9.3 | 0.2 | -9.8 | 20.4 | 20.0 | -4.8 | -5.1 | 14.7 | -13.7 | 1.3 |
| Norway | -0.7 | -17.8 | -15.2 | -9.2 | -0.8 | 24.5 | 10.6 | 2.9 | 12.1 | 7.8 | 3.0 | 5.6 | 3.7 | -4.2 | -5.0 | 1.8 | 2.5 | -0.9 | 1.9 | 2.7 |
| Spain | 1.2 | 6.4 | -3.7 | -4.0 | -4.1 | 0.4 | 7.1 | 9.3 | 3.0 | 10.2 | 9.9 | 7.4 | 0.9 | 4.2 | 4.3 | 5.0 | 4.9 | -1.8 | 8.9 | 1.4 |
| Sweden | 1.3 | 7.2 | -2.4 | -11.6 | -33.5 | -34.1 | -23.9 | 8.9 | -11.5 | -0.6 | 10.8 | 10.0 | 3.6 | 10.4 | -0.2 | 5.0 | 9.0 | 0.5 | 9.2 | 8.6 |
| Switzerland | 4.1 | -3.4 | -7.7 | -1.6 | 5.8 | 19.3 | 0.0 | -10.2 | -4.0 | -0.6 | 0.8 | 2.5 | -4.7 | 1.2 | 0.4 | 1.6 | 1.3 | 0.5 | 1.9 | 1.1 |
| United Kingdom | 2.2 | -17.4 | -16.4 | -1.4 | 9.0 | 1.9 | -3.8 | 8.2 | 4.5 | -4.3 | 0.3 | -0.5 | 0.9 | 16.1 | 1.0 | 4.9 | 4.3 | -3.6 | 5.0 | 3.6 |
| United States | 0.4 | -8.6 | -12.8 | 16.3 | 7.3 | 9.7 | -3.6 | 7.4 | 2.0 | 8.0 | 6.7 | 1.1 | 0.3 | 3.9 | 8.5 | 5.3 | 1.9 | 10.0 | 2.7 | 1.5 |
| Euro area | 0.9 | 2.9 | 0.1 | 2.9 | 0.1 | 6.3 | 1.8 | 0.6 | 1.3 | 1.9 | 3.8 | 1.2 | -2.4 | -1.4 | 0.1 | 1.8 | 1.9 | -0.3 | 2.7 | 1.6 |
| European Union | 1.3 | -0.2 | -2.6 | 1.6 | 0.1 | 3.6 | 0.6 | 2.3 | 1.7 | 1.2 | 3.6 | 1.8 | -1.4 | 1.9 | 0.4 | 2.4 | 2.4 | -0.4 | 3.0 | 2.1 |
| Total OECD | 1.8 | -1.7 | -6.8 | 6.1 | 3.6 | 6.7 | -2.4 | 5.5 | 0.2 | 1.3 | 3.7 | 1.4 | -0.9 | 2.8 | 3.1 | 2.8 | 1.6 | 3.4 | 2.1 | 1.4 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

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Annex Table 8. **Real total domestic demand**

Percentage change from previous year

| | Average 1979-89 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 3.7 | -0.6 | -2.0 | 2.5 | 3.0 | 4.9 | 4.4 | 3.1 | 3.2 | 6.9 | 5.4 | 2.0 | 1.6 | 5.8 | 5.3 | 3.6 | 3.9 | 4.1 | 3.9 | 3.5 |
| Austria | 1.9 | 4.5 | 3.2 | 2.1 | 0.7 | 3.2 | 3.0 | 1.9 | 1.4 | 3.0 | 3.1 | 2.7 | -0.1 | -0.3 | 0.7 | 2.1 | 2.6 | 1.3 | 2.3 | 2.7 |
| Belgium | 1.8 | 3.2 | 1.8 | 1.8 | -0.9 | 2.1 | 2.2 | 0.9 | 2.8 | 3.2 | 2.4 | 3.4 | 0.5 | 1.0 | 1.7 | 2.0 | 2.5 | 1.0 | 1.9 | 3.1 |
| Canada | 3.2 | -0.5 | -1.9 | 0.3 | 1.4 | 3.4 | 1.8 | 1.3 | 6.2 | 2.5 | 4.3 | 4.8 | 1.4 | 3.8 | 4.1 | 3.1 | 3.3 | 3.2 | 3.5 | 3.2 |
| Czech Republic | .. | .. | .. | .. | .. | 6.3 | 8.4 | 7.3 | -0.7 | -2.4 | 0.3 | 4.0 | 5.1 | 3.4 | 3.5 | 3.0 | 3.3 | .. | .. | .. |
| Denmark | 0.9 | -0.7 | -0.1 | 0.9 | -0.3 | 7.0 | 4.2 | 2.2 | 4.9 | 4.0 | 0.1 | 1.9 | 0.9 | 1.2 | -0.1 | 1.9 | 2.5 | 0.4 | 2.5 | 2.5 |
| Finland | 3.9 | -1.7 | -8.4 | -6.0 | -5.8 | 3.5 | 4.2 | 2.5 | 5.9 | 5.3 | 1.6 | 3.6 | 1.8 | 1.4 | 2.1 | 2.1 | 2.7 | 0.2 | 3.2 | 2.4 |
| France | 2.3 | 2.7 | 0.5 | 0.6 | -1.7 | 2.0 | 1.7 | 0.7 | 0.7 | 4.2 | 3.7 | 4.5 | 2.0 | 1.1 | 1.1 | 1.7 | 2.4 | 1.5 | 2.1 | 2.5 |
| Germany | 1.5 | 4.7 | 4.4 | 2.5 | -1.0 | 2.3 | 1.7 | 0.3 | 0.7 | 2.2 | 2.7 | 2.0 | -0.7 | -1.6 | 0.8 | 1.2 | 2.0 | 0.9 | 1.6 | 2.2 |
| Greece | 1.2 | 2.2 | 3.5 | -0.5 | -1.0 | 1.1 | 3.5 | 3.3 | 3.5 | 4.5 | 3.8 | 3.8 | 2.9 | 3.9 | 4.1 | 4.0 | 3.3 | .. | .. | .. |
| Hungary | .. | .. | .. | .. | .. | 1.9 | -3.5 | 0.6 | 4.0 | 8.2 | 4.1 | 5.3 | 1.9 | 5.1 | 5.7 | 2.6 | 3.9 | .. | .. | .. |
| Iceland | 3.0 | 1.5 | 1.9 | -4.5 | -3.7 | 2.2 | 2.2 | 7.0 | 5.7 | 13.5 | 4.1 | 6.8 | -3.4 | -2.4 | 4.7 | 4.3 | 6.9 | 2.8 | 9.0 | 5.2 |
| Ireland | 0.8 | 6.5 | 0.1 | -0.5 | 1.1 | 5.6 | 7.4 | 7.9 | 10.1 | 9.4 | 8.7 | 8.6 | 4.4 | 2.9 | 1.4 | 2.1 | 4.4 | 0.9 | 3.3 | 5.0 |
| Italy | 2.8 | 2.7 | 2.1 | 0.8 | -5.1 | 1.7 | 2.0 | 0.8 | 2.7 | 3.1 | 3.2 | 2.4 | 1.7 | 1.1 | 1.7 | 1.8 | 2.2 | 1.4 | 2.1 | 2.2 |
| Japan | 3.7 | 5.2 | 2.9 | 0.6 | 0.2 | 1.2 | 2.5 | 3.9 | 0.9 | -1.5 | 0.2 | 2.4 | 1.1 | -0.5 | 2.3 | 1.1 | 1.1 | 2.1 | 0.8 | 1.2 |
| Korea | 6.9 | 12.8 | 10.4 | 3.2 | 4.6 | 9.6 | 9.3 | 7.8 | -0.8 | -19.8 | 14.7 | 8.1 | 2.2 | 5.7 | 0.4 | 2.8 | 4.6 | -0.4 | 5.0 | 4.7 |
| Luxembourg | 4.0 | 4.5 | 8.5 | -4.3 | 5.5 | 2.4 | 1.0 | 5.0 | 6.6 | 7.3 | 6.3 | 5.0 | 4.2 | -0.7 | 1.8 | 2.0 | 2.6 | .. | .. | .. |
| Mexico | 1.6 | 7.0 | 5.7 | 6.0 | 1.1 | 5.6 | -14.0 | 5.6 | 9.6 | 6.1 | 4.3 | 8.3 | 0.4 | 1.0 | 1.0 | 3.9 | 4.5 | 2.0 | 4.0 | 4.7 |
| Netherlands | 1.4 | 3.1 | 2.0 | 1.3 | -1.7 | 2.3 | 3.6 | 2.8 | 3.9 | 4.8 | 4.3 | 2.6 | 1.7 | 0.0 | -0.6 | 0.4 | 2.2 | -0.4 | 0.9 | 2.7 |
| New Zealand | 2.5 | 0.2 | -6.2 | 2.0 | 4.8 | 7.1 | 5.4 | 4.6 | 2.6 | -0.6 | 5.8 | 1.9 | 1.9 | 5.0 | 4.9 | 4.2 | 3.0 | 5.5 | 2.6 | 3.4 |
| Norway | 1.7 | 0.2 | 1.5 | 2.1 | 3.2 | 4.3 | 4.8 | 4.0 | 6.6 | 5.7 | 0.3 | 2.4 | 0.4 | 2.1 | 2.0 | 3.5 | 2.0 | 3.2 | 1.1 | 3.2 |
| Poland | .. | .. | .. | .. | .. | 4.2 | 7.4 | 8.7 | 10.3 | 6.4 | 4.8 | 2.8 | -1.6 | 1.0 | 2.6 | 3.2 | 4.0 | .. | .. | .. |
| Portugal | 3.2 | 5.3 | 6.1 | 3.4 | -2.1 | 1.5 | 4.1 | 3.0 | 5.1 | 6.7 | 5.9 | 2.9 | 1.3 | -0.5 | -3.0 | 0.9 | 2.6 | -0.9 | 1.7 | 2.9 |
| Slovak Republic | .. | .. | .. | .. | .. | -4.5 | 10.3 | 17.9 | 3.8 | 6.9 | -6.2 | 0.0 | 7.2 | 4.0 | 0.3 | 3.0 | 4.8 | .. | .. | .. |
| Spain | 3.1 | 4.6 | 3.0 | 1.0 | -3.3 | 1.5 | 3.1 | 1.9 | 3.5 | 5.7 | 5.6 | 4.5 | 3.0 | 2.6 | 3.3 | 3.7 | 3.7 | 3.3 | 3.7 | 3.8 |
| Sweden | 2.0 | 0.7 | -1.6 | -1.9 | -4.6 | 3.1 | 2.3 | 0.9 | 1.2 | 4.3 | 3.5 | 4.1 | 0.0 | 0.6 | 1.3 | 2.1 | 2.7 | 0.7 | 2.4 | 2.9 |
| Switzerland | 2.4 | 3.9 | -1.0 | -2.4 | -1.0 | 2.5 | 1.9 | 0.1 | 0.8 | 3.5 | 2.5 | 2.5 | 0.7 | -1.2 | -1.4 | 1.3 | 2.0 | -0.8 | 1.9 | 1.9 |
| Turkey | 3.8 | 14.6 | -0.6 | 5.6 | 14.2 | -12.5 | 11.4 | 7.6 | 9.0 | 0.6 | -3.7 | 9.8 | -18.5 | 9.2 | 6.4 | 5.6 | 5.8 | .. | .. | .. |
| United Kingdom | 2.9 | 0.0 | -2.1 | 0.8 | 2.1 | 3.5 | 1.7 | 3.0 | 3.6 | 4.9 | 3.8 | 3.8 | 2.7 | 2.9 | 2.4 | 3.0 | 3.1 | 2.0 | 3.0 | 3.3 |
| United States | 3.0 | 1.4 | -1.1 | 3.1 | 3.3 | 4.4 | 2.5 | 3.7 | 4.7 | 5.4 | 5.0 | 4.4 | 0.4 | 3.0 | 3.1 | 4.3 | 3.8 | 3.7 | 4.1 | 3.6 |
| Euro area | 2.2 | 3.5 | 2.3 | 1.2 | -2.1 | 2.1 | 2.1 | 1.0 | 1.9 | 3.5 | 3.4 | 3.1 | 1.1 | 0.4 | 1.2 | 1.8 | 2.4 | 1.3 | 2.1 | 2.6 |
| European Union | 2.3 | 2.9 | 1.6 | 1.1 | -1.6 | 2.4 | 2.2 | 1.4 | 2.3 | 3.9 | 3.5 | 3.2 | 1.3 | 0.8 | 1.4 | 2.0 | 2.5 | 1.4 | 2.2 | 2.7 |
| Total OECD | 2.9 | 3.0 | 0.9 | 2.0 | 1.1 | 3.1 | 2.4 | 3.1 | 3.4 | 3.1 | 3.8 | 3.9 | 0.6 | 1.9 | 2.4 | 2.9 | 3.0 | 2.5 | 3.0 | 3.0 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

Annex Table 9. **Real exports of goods and services**

Percentage change from previous year

| | Average 1979-89 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 4.8 | 8.5 | 13.1 | 5.4 | 8.0 | 9.0 | 5.0 | 10.6 | 11.5 | -0.2 | 4.6 | 10.8 | 1.4 | -0.1 | -2.7 | 7.1 | 9.1 | -2.5 | 10.6 | 8.1 |
| Austria | 4.5 | 7.8 | 5.2 | 1.5 | -1.4 | 5.6 | 3.0 | 5.2 | 12.4 | 8.1 | 8.5 | 13.4 | 7.5 | 3.7 | 0.1 | 3.7 | 6.8 | 0.5 | 6.2 | 6.9 |
| Belgium | 4.2 | 4.6 | 2.8 | 2.4 | 0.9 | 9.0 | 4.7 | 2.3 | 6.1 | 5.7 | 5.4 | 8.6 | 1.3 | 0.8 | -1.3 | 4.7 | 6.9 | -2.0 | 7.2 | 6.9 |
| Canada | 4.9 | 4.7 | 1.8 | 7.2 | 10.8 | 12.7 | 8.5 | 5.6 | 8.3 | 9.1 | 10.7 | 8.8 | -3.1 | -0.1 | -1.8 | 5.0 | 6.6 | -0.2 | 6.7 | 6.2 |
| Czech Republic | .. | .. | .. | .. | .. | 0.2 | 16.7 | 8.2 | 9.2 | 10.0 | 6.1 | 17.0 | 11.9 | 2.8 | 6.2 | 9.2 | 9.5 | .. | .. | .. |
| Denmark | 5.0 | 6.2 | 6.1 | -0.9 | -1.5 | 7.0 | 2.9 | 4.3 | 4.1 | 4.3 | 12.3 | 13.0 | 3.0 | 5.8 | 1.9 | 6.1 | 7.0 | 3.8 | 7.1 | 6.8 |
| Finland | 3.2 | 1.5 | -7.4 | 10.1 | 16.3 | 13.6 | 8.5 | 5.7 | 13.7 | 9.2 | 6.5 | 19.3 | -0.8 | 4.9 | 1.8 | 8.6 | 9.9 | 3.2 | 9.4 | 9.7 |
| France | 4.1 | 4.8 | 5.5 | 5.3 | -0.1 | 7.9 | 7.7 | 3.2 | 12.0 | 8.3 | 4.2 | 13.4 | 1.8 | 1.3 | -2.2 | 4.6 | 7.1 | -1.9 | 6.6 | 7.4 |
| Germany | 4.6 | 13.2 | 12.9 | -2.0 | -5.4 | 7.7 | 6.0 | 5.3 | 11.4 | 6.4 | 5.1 | 14.4 | 6.1 | 3.4 | 0.3 | 4.6 | 7.2 | -0.6 | 6.4 | 7.6 |
| Greece | 2.8 | -3.5 | 4.1 | 10.0 | -2.6 | 7.4 | 3.0 | 3.5 | 20.0 | 5.3 | 18.1 | 14.1 | -1.1 | -7.7 | 1.1 | 6.6 | 7.5 | 2.4 | 6.1 | 8.5 |
| Hungary | .. | .. | .. | .. | .. | 13.7 | 13.4 | 8.4 | 26.4 | 16.7 | 13.1 | 21.8 | 8.8 | 3.8 | 4.3 | 7.2 | 9.0 | .. | .. | .. |
| Iceland | 2.8 | 0.0 | -7.2 | -2.0 | 7.0 | 9.9 | -2.1 | 9.8 | 5.8 | 2.0 | 4.0 | 5.0 | 7.7 | 3.7 | 0.0 | 4.8 | 5.0 | 1.6 | 4.7 | 5.8 |
| Ireland | 8.3 | 8.7 | 5.7 | 13.9 | 9.7 | 15.1 | 20.0 | 12.2 | 17.4 | 21.0 | 15.2 | 20.6 | 8.3 | 6.2 | -6.9 | 4.0 | 7.4 | 1.2 | 4.7 | 8.5 |
| Italy | 2.8 | 7.5 | -1.4 | 7.3 | 9.0 | 9.8 | 12.6 | 0.6 | 6.4 | 3.4 | 0.1 | 11.7 | 1.1 | -1.0 | -2.6 | 4.9 | 5.6 | -3.2 | 5.4 | 5.5 |
| Japan | 6.1 | 7.0 | 4.1 | 3.9 | -0.1 | 3.5 | 4.1 | 6.5 | 11.3 | -2.3 | 1.5 | 12.3 | -6.0 | 8.1 | 7.5 | 9.5 | 9.8 | 5.3 | 10.3 | 9.7 |
| Korea | 11.3 | 4.1 | 11.2 | 11.3 | 11.3 | 16.1 | 24.6 | 11.2 | 21.4 | 14.1 | 15.8 | 20.5 | 0.7 | 14.9 | 13.8 | 13.1 | 12.2 | 10.0 | 13.1 | 11.6 |
| Luxembourg | 5.3 | 5.6 | 9.2 | 2.7 | 4.8 | 7.7 | 4.6 | 5.8 | 14.8 | 14.1 | 14.8 | 16.8 | 2.6 | -0.3 | 1.2 | 3.9 | 5.9 | .. | .. | .. |
| Mexico | 7.9 | 5.3 | 5.1 | 5.0 | 8.1 | 17.8 | 30.2 | 18.2 | 10.7 | 12.1 | 12.4 | 16.4 | -3.6 | 1.4 | -0.3 | 6.5 | 7.8 | 1.4 | 7.7 | 7.9 |
| Netherlands | 4.2 | 5.6 | 5.6 | 1.8 | 4.8 | 9.7 | 8.8 | 4.6 | 8.8 | 7.4 | 5.1 | 11.3 | 1.7 | 0.1 | -0.5 | 2.6 | 5.2 | -0.7 | 4.0 | 5.7 |
| New Zealand | 4.2 | 4.9 | 10.8 | 3.7 | 4.6 | 10.0 | 3.8 | 3.7 | 3.9 | 1.8 | 8.0 | 6.5 | 2.4 | 5.8 | 1.2 | 3.5 | 6.7 | -1.7 | 6.5 | 6.5 |
| Norway | 4.9 | 8.6 | 6.1 | 4.7 | 3.2 | 8.4 | 4.9 | 10.2 | 7.7 | 0.6 | 2.8 | 4.0 | 4.1 | -0.5 | -0.8 | 2.2 | 3.2 | 1.8 | 1.7 | 4.1 |
| Poland | .. | .. | .. | .. | .. | 13.1 | 22.9 | 12.0 | 12.2 | 14.3 | -2.6 | 23.2 | 3.1 | 4.8 | 9.8 | 10.5 | 11.5 | .. | .. | .. |
| Portugal | 7.1 | 9.5 | 1.2 | 3.2 | -3.3 | 8.4 | 8.8 | 7.1 | 7.1 | 9.1 | 2.9 | 7.8 | 1.8 | 2.1 | 3.3 | 5.1 | 6.6 | 4.4 | 6.7 | 6.5 |
| Slovak Republic | .. | .. | .. | .. | .. | 12.2 | 4.8 | -1.3 | 19.0 | 13.2 | 5.2 | 13.8 | 6.5 | 5.9 | 19.8 | 9.3 | 9.0 | .. | .. | .. |
| Spain | 5.1 | 4.7 | 8.3 | 7.5 | 7.8 | 16.7 | 9.4 | 10.4 | 15.3 | 8.2 | 7.7 | 10.0 | 3.6 | 0.0 | 4.1 | 5.2 | 7.2 | 0.9 | 7.1 | 7.2 |
| Sweden | 4.0 | 1.8 | -1.9 | 2.2 | 8.3 | 14.1 | 11.5 | 3.7 | 13.8 | 8.6 | 7.4 | 11.3 | -0.8 | 0.4 | 5.0 | 5.0 | 6.6 | 7.9 | 7.4 | 6.2 |
| Switzerland | 3.5 | 2.6 | -0.7 | 3.1 | 1.0 | 2.7 | 2.8 | 2.4 | 8.4 | 5.4 | 5.1 | 10.1 | 0.0 | -0.4 | -0.5 | 3.8 | 5.9 | 0.6 | 3.9 | 7.1 |
| Turkey | 15.2 | 2.6 | 3.7 | 11.0 | 7.7 | 15.2 | 8.0 | 22.0 | 19.1 | 12.0 | -7.0 | 19.2 | 7.4 | 11.0 | 11.2 | 10.9 | 11.2 | .. | .. | .. |
| United Kingdom | 2.9 | 5.5 | -0.1 | 4.3 | 4.4 | 9.2 | 9.3 | 8.6 | 8.4 | 2.8 | 4.3 | 9.4 | 2.5 | -0.9 | -0.9 | 6.5 | 8.0 | 3.5 | 8.2 | 7.8 |
| United States | 5.8 | 8.7 | 6.5 | 6.2 | 3.3 | 8.9 | 10.3 | 8.2 | 12.3 | 2.1 | 3.4 | 9.7 | -5.4 | -1.6 | 1.4 | 8.5 | 8.7 | 3.8 | 9.3 | 8.2 |
| Total OECD | 5.6 | 7.4 | 5.5 | 5.1 | 3.1 | 9.0 | 9.6 | 7.4 | 11.6 | 4.1 | 4.3 | 11.8 | -1.5 | 1.6 | 2.1 | 7.3 | 8.3 | 2.8 | 8.4 | 8.1 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

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Annex Table 10. **Real imports of goods and services**

Percentage change from previous year

| | Average 1979-89 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 6.9 | -4.0 | -2.4 | 7.1 | 4.2 | 14.3 | 7.9 | 8.3 | 10.5 | 6.0 | 9.2 | 7.1 | -4.1 | 12.0 | 9.4 | 6.8 | 7.7 | 4.2 | 7.6 | 7.7 |
| Austria | 3.4 | 6.9 | 5.8 | 1.4 | -1.1 | 8.2 | 5.6 | 4.9 | 12.0 | 5.7 | 9.0 | 11.6 | 5.9 | 1.2 | 1.0 | 3.8 | 7.4 | 1.5 | 6.1 | 7.5 |
| Belgium | 3.5 | 4.8 | 2.8 | 3.2 | 0.5 | 7.3 | 4.7 | 2.4 | 4.9 | 7.3 | 4.5 | 8.4 | 1.1 | 1.1 | -0.2 | 4.9 | 6.7 | -1.0 | 6.1 | 7.0 |
| Canada | 6.3 | 2.0 | 2.5 | 4.7 | 7.4 | 8.0 | 5.7 | 5.1 | 14.2 | 5.1 | 7.8 | 8.0 | -5.0 | 0.6 | 3.8 | 6.2 | 7.3 | 3.6 | 7.8 | 6.6 |
| Czech Republic | .. | .. | .. | .. | .. | 7.6 | 21.2 | 13.4 | 8.1 | 6.6 | 5.4 | 17.0 | 13.6 | 4.3 | 6.9 | 8.6 | 8.9 | .. | .. | .. |
| Denmark | 3.3 | 1.2 | 3.0 | -0.4 | -2.7 | 12.3 | 7.3 | 3.5 | 10.0 | 8.9 | 5.5 | 11.3 | 1.9 | 4.2 | 0.8 | 5.5 | 7.2 | 2.2 | 7.7 | 6.8 |
| Finland | 5.1 | -0.6 | -12.9 | 0.5 | 1.5 | 12.4 | 7.4 | 5.9 | 11.2 | 7.9 | 3.5 | 16.9 | 0.2 | 1.3 | 0.9 | 8.1 | 9.0 | 4.4 | 8.6 | 9.0 |
| France | 4.7 | 5.5 | 2.4 | 1.7 | -3.8 | 8.6 | 7.6 | 1.6 | 7.3 | 11.6 | 6.2 | 15.3 | 1.4 | 0.8 | 1.2 | 5.0 | 7.2 | 2.1 | 6.3 | 7.5 |
| Germany | 3.2 | 10.7 | 12.2 | 0.4 | -5.4 | 7.4 | 5.8 | 3.3 | 8.4 | 8.6 | 8.1 | 11.0 | 1.2 | -1.6 | 2.9 | 4.4 | 7.1 | 1.4 | 6.5 | 7.3 |
| Greece | 5.1 | 8.4 | 5.8 | 1.1 | 0.6 | 1.5 | 8.9 | 7.0 | 14.2 | 9.2 | 15.0 | 8.9 | -3.4 | -4.7 | 2.4 | 5.7 | 5.3 | 4.2 | 3.9 | 6.3 |
| Hungary | .. | .. | .. | .. | .. | 8.8 | -0.7 | 6.2 | 24.6 | 22.8 | 12.3 | 21.1 | 6.1 | 6.1 | 7.7 | 6.0 | 8.9 | .. | .. | .. |
| Iceland | 2.3 | 1.0 | 4.1 | -5.9 | -7.7 | 4.2 | 4.0 | 16.7 | 8.5 | 23.4 | 4.2 | 8.0 | -9.0 | -2.3 | 6.5 | 7.1 | 8.5 | 7.7 | 8.0 | 8.2 |
| Ireland | 4.1 | 5.1 | 2.4 | 8.2 | 7.5 | 15.5 | 16.4 | 12.5 | 16.8 | 25.5 | 12.1 | 21.3 | 6.5 | 2.3 | -9.7 | 2.6 | 7.7 | -2.1 | 5.0 | 8.4 |
| Italy | 5.0 | 11.5 | 2.3 | 7.4 | -10.9 | 8.1 | 9.7 | -0.3 | 10.1 | 8.9 | 5.6 | 8.9 | 1.0 | 1.5 | 1.6 | 5.5 | 5.8 | 0.0 | 5.7 | 5.7 |
| Japan | 4.2 | 7.0 | -1.1 | -0.7 | -1.4 | 7.8 | 12.8 | 13.2 | 1.2 | -6.8 | 3.0 | 9.4 | 0.1 | 2.0 | 4.5 | 5.2 | 5.1 | 3.4 | 4.8 | 5.2 |
| Korea | 9.0 | 13.9 | 19.2 | 5.3 | 6.2 | 21.6 | 22.4 | 14.2 | 3.2 | -22.1 | 28.8 | 20.0 | -3.0 | 16.4 | 13.2 | 13.5 | 13.9 | 11.7 | 13.3 | 14.2 |
| Luxembourg | 5.0 | 5.0 | 9.1 | -3.1 | 5.2 | 6.7 | 4.2 | 7.6 | 13.9 | 15.3 | 14.6 | 14.8 | 4.8 | -1.6 | 1.6 | 4.1 | 6.0 | .. | .. | .. |
| Mexico | 2.7 | 19.7 | 15.2 | 19.6 | 1.9 | 21.3 | -15.0 | 22.9 | 22.7 | 16.6 | 14.1 | 21.5 | -1.5 | 1.6 | -1.7 | 7.2 | 8.4 | 0.2 | 8.5 | 8.5 |
| Netherlands | 3.2 | 3.8 | 4.9 | 1.5 | 0.3 | 9.4 | 10.5 | 4.4 | 9.5 | 8.5 | 5.8 | 10.5 | 2.4 | -0.2 | -0.5 | 1.8 | 5.7 | -1.7 | 4.1 | 6.5 |
| New Zealand | 4.0 | 3.6 | -5.2 | 8.3 | 5.3 | 13.1 | 9.0 | 7.7 | 2.2 | 1.4 | 11.9 | 0.2 | 1.6 | 8.8 | 9.1 | 7.1 | 6.7 | 7.3 | 6.7 | 6.7 |
| Norway | 2.5 | 2.5 | 0.5 | 1.6 | 4.9 | 5.8 | 5.7 | 8.8 | 12.4 | 8.5 | -1.8 | 2.7 | 0.9 | 1.7 | 2.5 | 4.0 | 3.9 | 3.5 | 2.5 | 5.2 |
| Poland | .. | .. | .. | .. | .. | 11.3 | 24.2 | 28.0 | 21.4 | 18.5 | 1.0 | 15.6 | -5.4 | 2.6 | 7.3 | 9.0 | 9.5 | .. | .. | .. |
| Portugal | 6.4 | 14.5 | 7.2 | 10.7 | -3.3 | 8.8 | 7.4 | 4.9 | 10.0 | 14.2 | 8.5 | 5.5 | 0.9 | -0.4 | -3.0 | 3.1 | 6.1 | -0.2 | 5.0 | 6.4 |
| Slovak Republic | .. | .. | .. | .. | .. | -5.4 | 11.5 | 19.8 | 13.8 | 16.9 | -6.3 | 10.2 | 11.7 | 5.3 | 14.7 | 8.0 | 9.5 | .. | .. | .. |
| Spain | 8.1 | 9.6 | 10.3 | 6.8 | -5.2 | 11.4 | 11.1 | 8.0 | 13.3 | 13.2 | 12.6 | 10.6 | 4.0 | 1.8 | 7.1 | 7.6 | 8.3 | 3.7 | 8.5 | 8.6 |
| Sweden | 3.7 | 0.7 | -4.9 | 1.5 | -2.2 | 12.2 | 7.2 | 3.0 | 12.5 | 11.3 | 4.9 | 11.5 | -3.5 | -2.7 | 5.2 | 4.8 | 6.9 | 6.1 | 6.7 | 6.9 |
| Switzerland | 4.5 | 3.0 | -1.4 | -3.7 | -0.5 | 8.9 | 6.9 | 1.9 | 6.1 | 8.3 | 7.4 | 8.4 | -0.3 | -3.5 | -2.4 | 4.4 | 6.5 | -0.3 | 6.0 | 7.1 |
| Turkey | 12.6 | 33.0 | -5.2 | 10.9 | 35.8 | -21.9 | 29.6 | 20.5 | 22.4 | 2.3 | -3.7 | 25.4 | -24.8 | 15.7 | 16.6 | 13.3 | 12.6 | .. | .. | .. |
| United Kingdom | 5.1 | 0.5 | -4.5 | 6.8 | 3.3 | 5.8 | 5.6 | 9.7 | 9.8 | 9.3 | 7.9 | 9.1 | 4.5 | 3.6 | 1.1 | 7.0 | 8.0 | 3.0 | 8.1 | 8.1 |
| United States | 5.8 | 3.8 | -0.5 | 6.6 | 9.1 | 12.0 | 8.2 | 8.6 | 13.7 | 11.8 | 10.9 | 13.2 | -2.9 | 3.7 | 3.6 | 7.3 | 7.1 | 2.9 | 7.7 | 6.8 |
| Total OECD | 5.5 | 6.5 | 2.0 | 4.8 | 3.0 | 9.8 | 8.8 | 8.6 | 10.6 | 7.4 | 8.5 | 12.2 | -1.0 | 2.9 | 3.6 | 6.5 | 7.1 | 3.0 | 7.3 | 7.0 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

Annex Table 11. **Output gaps**

Deviations of actual GDP from potential GDP as a per cent of potential GDP

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | -1.5 | -0.3 | 0.2 | 0.6 | -1.7 | -5.1 | -5.2 | -3.8 | -1.8 | -1.1 | -0.5 | -0.4 | 1.3 | 1.9 | 1.2 | 0.4 | 0.3 | -1.0 | -1.1 | -0.7 |
| Austria | -2.6 | -2.8 | -1.4 | 0.4 | 2.3 | 2.6 | 2.0 | -0.2 | 0.0 | -0.4 | -0.3 | -0.3 | 1.3 | 1.6 | 2.5 | 0.8 | -0.1 | -1.4 | -1.9 | -1.5 |
| Belgium | -3.0 | -2.1 | 0.5 | 1.8 | 2.5 | 1.7 | 0.6 | -2.3 | -1.5 | -1.2 | -2.3 | -0.7 | -0.4 | 0.8 | 2.5 | 0.8 | -0.8 | -1.9 | -2.1 | -1.4 |
| Canada | -0.1 | 1.6 | 3.9 | 3.7 | 1.3 | -2.9 | -4.1 | -3.8 | -1.4 | -1.2 | -2.3 | -1.6 | -1.3 | 0.6 | 2.2 | 0.5 | 0.7 | -0.4 | -0.5 | -0.3 |
| Denmark | 3.4 | 1.8 | 1.0 | -0.2 | -0.8 | -1.2 | -2.0 | -3.5 | -0.3 | 0.0 | 0.3 | 0.9 | 1.0 | 1.3 | 1.7 | 0.6 | 0.4 | -1.2 | -1.0 | -0.4 |
| Finland | -0.5 | 1.4 | 3.8 | 6.1 | 3.5 | -4.3 | -9.1 | -11.2 | -9.0 | -7.3 | -5.8 | -2.9 | -1.2 | -1.0 | 1.2 | -0.5 | -1.0 | -2.6 | -1.5 | -0.3 |
| France | -3.9 | -3.2 | -1.0 | 1.1 | 1.7 | 0.7 | 0.1 | -2.5 | -2.3 | -2.4 | -3.5 | -3.8 | -2.5 | -1.5 | 0.5 | 0.3 | -0.4 | -2.4 | -2.8 | -2.6 |
| Germany | 1.0 | 0.8 | 2.3 | 2.9 | 5.4 | 2.3 | 1.3 | -1.9 | -1.4 | -1.1 | -1.8 | -2.0 | -1.6 | -1.1 | 0.3 | -0.4 | -1.7 | -3.3 | -3.5 | -2.9 |
| Greece | -1.1 | -4.2 | -1.1 | 1.4 | -0.1 | 0.6 | -0.8 | -4.1 | -4.0 | -3.9 | -3.9 | -2.8 | -2.8 | -2.6 | -1.7 | -0.6 | 0.0 | 0.8 | 1.3 | 1.3 |
| Iceland | 0.7 | 6.0 | 2.4 | 0.3 | 0.0 | -2.8 | -7.6 | -7.8 | -5.1 | -5.9 | -2.8 | -0.5 | 1.6 | 2.2 | 4.1 | 3.8 | 1.1 | 0.0 | 0.2 | 1.1 |
| Ireland | -4.6 | -3.5 | -1.7 | 0.4 | 3.9 | 0.5 | -1.8 | -4.4 | -4.7 | -2.3 | -1.8 | 1.0 | 0.5 | 3.7 | 6.8 | 6.1 | 6.4 | 2.9 | 1.2 | 1.3 |
| Italy | -2.0 | -1.3 | 0.7 | 1.5 | 1.3 | 0.6 | -0.6 | -3.2 | -2.3 | -1.0 | -1.5 | -1.1 | -0.9 | -0.9 | 0.5 | 0.5 | -0.9 | -1.8 | -1.7 | -1.0 |
| Japan | -2.1 | -1.8 | 0.7 | 1.9 | 3.7 | 3.4 | 1.5 | -0.3 | -0.9 | -0.9 | 0.9 | 1.5 | -1.2 | -2.5 | -1.1 | -2.2 | -3.2 | -1.9 | -1.5 | -1.0 |
| Netherlands | -0.8 | -1.2 | -0.9 | 1.2 | 2.7 | 2.3 | 1.0 | -0.7 | -0.3 | 0.2 | 0.5 | 1.0 | 2.0 | 3.1 | 3.7 | 2.4 | 0.3 | -1.6 | -2.8 | -2.4 |
| New Zealand | 2.7 | 1.7 | -0.3 | -0.6 | -2.4 | -5.5 | -5.8 | -2.6 | 0.5 | 1.2 | 1.5 | 0.3 | -2.5 | -1.1 | 0.4 | 0.4 | 1.1 | 0.6 | 0.4 | 0.0 |
| Norway [a] | 3.5 | 2.2 | -1.1 | -4.1 | -4.3 | -3.4 | -2.7 | -2.1 | -1.2 | -0.5 | 0.5 | 2.0 | 3.0 | 2.8 | 2.5 | 1.7 | 0.7 | -0.7 | -0.1 | 0.0 |
| Portugal | -8.3 | -4.8 | -0.6 | 2.7 | 3.5 | 4.7 | 2.6 | -2.2 | -3.7 | -2.0 | -0.8 | 0.3 | 1.8 | 2.4 | 2.5 | 1.1 | -1.1 | -3.4 | -3.5 | -2.7 |
| Spain | -3.2 | -1.1 | 1.2 | 2.5 | 3.0 | 2.5 | 0.3 | -3.5 | -3.7 | -3.9 | -4.5 | -3.3 | -1.8 | -0.5 | 0.5 | 0.3 | -0.4 | -0.8 | -0.6 | -0.1 |
| Sweden | 2.6 | 3.9 | 4.6 | 5.0 | 3.6 | 0.3 | -3.3 | -6.2 | -4.3 | -2.6 | -3.3 | -2.8 | -1.4 | 0.7 | 2.3 | 0.6 | 0.3 | -0.5 | -0.4 | 0.1 |
| Switzerland | 3.8 | 2.4 | 3.3 | 5.4 | 4.4 | 1.2 | -0.5 | -1.8 | -2.1 | -2.2 | -2.6 | -1.6 | 0.0 | -0.3 | 1.1 | 0.6 | -0.5 | -2.2 | -2.0 | -1.4 |
| United Kingdom | -0.5 | 2.0 | 4.7 | 4.5 | 2.7 | -1.4 | -3.5 | -3.8 | -2.0 | -1.6 | -1.5 | -0.6 | -0.1 | 0.0 | 1.2 | 0.5 | -0.5 | -1.1 | -0.9 | -0.4 |
| United States | -0.7 | -0.4 | 0.9 | 1.7 | 0.5 | -2.5 | -1.9 | -1.8 | -0.5 | -0.6 | -0.1 | 0.9 | 1.8 | 2.5 | 2.2 | -1.0 | -1.3 | -1.5 | -0.3 | 0.4 |
| Euro area | -1.5 | -1.0 | 0.8 | 2.2 | 3.2 | 1.6 | 0.4 | -2.5 | -2.1 | -1.7 | -2.3 | -2.0 | -1.3 | -0.6 | 0.9 | 0.3 | -0.8 | -2.2 | -2.4 | -1.9 |
| European Union | -1.4 | -0.6 | 1.3 | 2.4 | 2.9 | 1.0 | -0.4 | -2.9 | -2.2 | -1.7 | -2.2 | -1.8 | -1.0 | -0.4 | 0.9 | 0.4 | -0.7 | -2.0 | -2.1 | -1.5 |
| Total OECD | -1.1 | -0.5 | 1.1 | 2.0 | 1.9 | -0.3 | -0.9 | -2.1 | -1.3 | -1.1 | -0.8 | -0.2 | 0.1 | 0.5 | 1.2 | -0.5 | -1.2 | -1.7 | -1.2 | -0.6 |

*Note:* Potential output for all countries except Portugal is calculated using the "production function method" described in Giorno et al, "Potential Output, Output Gaps, and Structural Budget Balances", *OECD Economic Studies*, No. 24, 1995/I. Using this methodology, two broad changes have been made to the calculation of potential output since the last *OECD Economic Outlook.* First, the "smoothing parameters" applied in the calculations have been standardised across the OECD countries. Second, as was previously the case for the major seven economies only, the calculations now incorporate trend working hours for other Member economies also, excepting Austria and Portugal where the data span is insufficient. Potential output for Portugal is calculated using a Hodrick-Prescott filter of actual output. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* Mainland Norway.

*Source:* OECD.

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Annex Table 12. **Compensation per employee in the business sector**

Percentage change from previous period

| | Average 1976-86 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 8.5 | 6.1 | 6.5 | 8.1 | 7.6 | 2.8 | 4.3 | 2.6 | 2.2 | 2.7 | 5.6 | 4.0 | 3.6 | 2.9 | 2.9 | 4.2 | 3.9 | 3.5 | 3.7 | 3.8 |
| Austria | 6.7 | 4.1 | 4.2 | 4.5 | 5.2 | 6.0 | 5.5 | 4.3 | 3.7 | 4.0 | 1.0 | 2.9 | 1.7 | 1.5 | 2.9 | 2.4 | 2.2 | 2.2 | 1.7 | 2.2 |
| Belgium | 7.3 | 2.6 | 2.6 | 5.2 | 6.9 | 7.1 | 5.1 | 4.2 | 3.8 | 1.7 | 1.5 | 2.7 | 1.0 | 3.7 | 1.9 | 3.6 | 4.4 | 1.6 | 2.0 | 1.7 |
| Canada | 7.4 | 6.4 | 7.6 | 5.6 | 4.3 | 4.9 | 3.2 | 2.3 | 0.5 | 2.3 | 2.9 | 5.9 | 2.9 | 3.0 | 4.8 | 2.2 | 2.7 | 2.3 | 3.2 | 3.6 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | .. | 26.6 | 18.6 | 16.5 | 4.5 | 9.4 | 4.4 | 6.4 | 6.9 | 6.7 | 6.9 | 6.2 | 6.1 |
| Denmark | 8.8 | 7.4 | 11.3 | 4.7 | 4.1 | 4.0 | 4.3 | 2.5 | 3.2 | 3.4 | 2.9 | 3.8 | 4.1 | 3.0 | 3.7 | 5.1 | 4.5 | 3.9 | 3.6 | 3.9 |
| Finland | 10.3 | 8.1 | 9.6 | 10.7 | 9.0 | 4.8 | 1.6 | 1.1 | 4.6 | 4.0 | 2.3 | 2.3 | 5.0 | 2.3 | 4.2 | 5.3 | 1.9 | 3.8 | 3.3 | 4.2 |
| France | 11.3 | 4.6 | 4.3 | 4.0 | 3.8 | 3.9 | 3.7 | 1.9 | 0.7 | 1.4 | 1.6 | 1.6 | 0.7 | 1.9 | 1.9 | 2.9 | 2.6 | 2.7 | 2.5 | 2.4 |
| Germany | 4.8 | 3.0 | 2.8 | 2.8 | 4.7 | 5.7 | 10.4 | 3.6 | 3.0 | 3.3 | 1.0 | 0.7 | 0.9 | 1.0 | 2.2 | 1.8 | 1.5 | 2.5 | 1.8 | 1.8 |
| Greece | 20.5 | 10.7 | 20.5 | 22.6 | 16.3 | 16.3 | 12.7 | 8.7 | 11.7 | 11.8 | 11.3 | 11.3 | 4.7 | 6.9 | 5.4 | 5.3 | 7.2 | 5.7 | 5.9 | 6.0 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | .. | .. | 23.6 | 21.5 | 18.7 | 11.2 | 1.9 | 17.0 | 14.7 | 12.9 | 9.2 | 8.7 | 6.7 |
| Iceland | 44.7 | 45.8 | 26.1 | 13.4 | 16.1 | 15.6 | 0.6 | -4.1 | 3.8 | 5.3 | 8.1 | 5.7 | 8.7 | 8.9 | 10.7 | 7.8 | 5.6 | 4.8 | 6.0 | 7.0 |
| Ireland | 13.6 | 6.1 | 5.3 | 6.8 | 3.3 | 3.2 | 7.8 | 4.9 | 1.7 | 2.8 | 1.8 | 6.0 | 0.7 | 5.7 | 5.4 | 5.8 | 4.3 | 4.1 | 4.5 | 4.9 |
| Italy | 15.6 | 7.3 | 7.3 | 8.8 | 8.4 | 9.0 | 6.2 | 5.2 | 3.1 | 4.8 | 4.8 | 3.2 | -0.8 | 2.5 | 2.9 | 2.7 | 2.5 | 2.0 | 2.4 | 2.9 |
| Japan | 5.2 | 2.0 | 3.0 | 3.8 | 3.7 | 4.4 | 0.7 | 0.5 | 1.3 | 1.1 | 0.2 | 1.5 | -0.8 | -1.1 | 0.4 | -0.9 | -1.7 | 0.5 | 0.4 | 0.5 |
| Korea | 17.3 | 10.2 | 17.5 | 10.0 | 16.3 | 16.2 | 11.2 | 12.1 | 11.3 | 15.4 | 11.1 | 3.1 | 2.5 | 1.6 | 3.4 | 6.9 | 9.5 | 8.6 | 4.0 | 5.9 |
| Luxembourg | 5.8 | 2.1 | 3.8 | 8.5 | 3.1 | 5.6 | 6.5 | 5.5 | 4.1 | 0.9 | 1.1 | 1.9 | 2.1 | 4.6 | 5.3 | 3.6 | 2.6 | 2.6 | 2.1 | 2.6 |
| Mexico | .. | .. | .. | 26.9 | 27.8 | 30.0 | 24.1 | 15.2 | 11.4 | 17.7 | 22.9 | 21.6 | 17.5 | 13.5 | 11.5 | 9.3 | 5.2 | 5.0 | 4.5 | 4.4 |
| Netherlands | 4.7 | 1.5 | 1.3 | 0.9 | 3.3 | 4.5 | 4.3 | 3.1 | 2.8 | 1.4 | 1.7 | 2.1 | 3.6 | 2.4 | 4.9 | 5.5 | 4.7 | 4.3 | 2.3 | 1.3 |
| New Zealand | 12.7 | 8.9 | 11.6 | 6.6 | 1.7 | 0.1 | 1.7 | 2.5 | 1.7 | 0.0 | 2.0 | 1.7 | 1.6 | 1.2 | 3.2 | 0.9 | 2.7 | 3.9 | 4.3 | 4.3 |
| Norway | 9.0 | 9.2 | 8.6 | 4.5 | 5.1 | 4.4 | 4.6 | 2.8 | 3.1 | 3.2 | 2.9 | 2.5 | 7.4 | 6.3 | 4.3 | 7.1 | 5.8 | 4.5 | 4.5 | 4.5 |
| Poland | .. | .. | .. | .. | .. | .. | .. | .. | 45.0 | 30.8 | 29.3 | 20.5 | 15.2 | 14.2 | 7.1 | 10.9 | 5.4 | 3.2 | 2.4 | 2.7 |
| Portugal | 19.8 | 13.8 | 9.9 | 12.8 | 17.4 | 18.6 | 16.0 | 7.1 | 5.9 | 6.7 | 9.0 | 3.8 | 4.3 | 3.4 | 7.0 | 5.2 | 3.8 | 3.1 | 2.5 | 2.0 |
| Spain | 16.7 | 6.5 | 7.2 | 7.3 | 10.0 | 10.4 | 10.4 | 8.3 | 3.9 | 3.5 | 5.5 | 3.5 | 2.5 | 2.6 | 4.3 | 4.5 | 4.2 | 3.6 | 3.5 | 3.5 |
| Sweden | 9.5 | 7.6 | 8.1 | 12.3 | 9.7 | 6.2 | 3.2 | 8.5 | 7.2 | 2.3 | 6.4 | 4.4 | 3.6 | 0.7 | 6.9 | 5.2 | 4.1 | 3.0 | 3.4 | 3.7 |
| Switzerland | 4.9 | 3.3 | 3.6 | 4.6 | 5.2 | 6.5 | 4.7 | 2.0 | 3.0 | 2.8 | 0.7 | 4.1 | 0.6 | 1.6 | 3.4 | 2.8 | 2.0 | 1.4 | 0.8 | 0.7 |
| Turkey | 34.6 | 44.4 | 62.8 | 159.4 | 94.6 | 134.6 | 61.2 | 72.7 | 72.9 | 87.5 | 65.5 | 68.5 | 72.9 | 59.1 | 40.2 | 41.6 | 28.4 | 23.4 | 13.1 | 10.5 |
| United Kingdom | 11.1 | 4.7 | 6.6 | 9.0 | 10.0 | 8.7 | 4.9 | 4.3 | 4.6 | 3.3 | 3.3 | 4.2 | 5.9 | 4.8 | 6.3 | 5.1 | 3.1 | 3.7 | 3.9 | 4.4 |
| United States | 6.8 | 4.5 | 4.8 | 3.2 | 4.9 | 3.9 | 5.7 | 2.8 | 2.3 | 1.9 | 2.5 | 3.2 | 5.0 | 4.3 | 6.5 | 2.5 | 2.5 | 2.4 | 3.2 | 3.2 |
| Euro area | 8.0 | 5.0 | 4.6 | 4.9 | 6.1 | 6.6 | 8.1 | 5.3 | 3.2 | 3.7 | 1.8 | 1.6 | 1.0 | 1.2 | 2.4 | 2.5 | 2.3 | 2.5 | 2.1 | 2.2 |
| European Union | 10.6 | 5.1 | 5.6 | 6.3 | 7.0 | 7.2 | 7.0 | 4.3 | 3.3 | 3.3 | 3.0 | 2.6 | 2.0 | 2.5 | 3.5 | 3.4 | 2.8 | 2.9 | 2.7 | 2.8 |
| Total OECD | 8.8 | 5.3 | 6.3 | 8.1 | 8.0 | 8.5 | 6.9 | 4.8 | 4.8 | 5.1 | 4.8 | 4.8 | 4.6 | 4.1 | 5.2 | 3.5 | 2.9 | 3.0 | 2.9 | 2.9 |
| *Memorandum item* | | | | | | | | | | | | | | | | | | | | |
| OECD *less* high inflation countries [a] | 8.3 | 4.6 | 5.3 | 4.8 | 5.8 | 5.5 | 5.4 | 3.2 | 2.9 | 2.8 | 2.7 | 2.9 | 2.8 | 2.7 | 4.3 | 2.5 | 2.3 | 2.5 | 2.7 | 2.8 |

*Note:* The business sector is in the OECD terminology defined as total economy less the public sector. Hence business sector employees are defined as total employees less public sector employees. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

*Source:* OECD.

Annex Table 13. **Labour productivity in the business sector**

Percentage change from previous period

| | Average 1976-86 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 1.4 | 3.1 | 0.8 | -0.4 | -0.2 | 1.6 | 3.5 | 4.1 | 1.6 | -0.3 | 3.0 | 3.1 | 4.1 | 2.3 | -0.1 | 1.9 | 1.4 | 0.0 | 2.2 | 2.2 |
| Austria | 2.5 | 1.9 | 3.3 | 3.5 | 3.6 | 2.2 | 2.4 | 1.2 | 3.2 | 2.0 | 3.0 | 1.9 | 3.3 | 1.4 | 3.1 | 0.0 | 2.0 | 0.8 | 1.4 | 1.7 |
| Belgium | 2.3 | 1.9 | 3.1 | 1.8 | 2.0 | 1.2 | 1.4 | -0.2 | 3.8 | 1.7 | 0.4 | 3.0 | 0.4 | 2.1 | 1.9 | -1.0 | 1.3 | 0.9 | 1.8 | 2.1 |
| Canada | 0.9 | 1.6 | 2.0 | 0.5 | -0.5 | -0.2 | 2.1 | 1.8 | 3.1 | 0.8 | 0.7 | 1.8 | 1.5 | 3.0 | 3.0 | 0.8 | 1.4 | 0.0 | 1.8 | 2.0 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | .. | 1.5 | 5.4 | 4.4 | -0.5 | 0.4 | 3.0 | 4.4 | 3.2 | 0.8 | 2.8 | 2.9 | 2.5 |
| Denmark | 1.2 | 0.3 | -0.4 | 2.0 | 0.5 | 2.1 | 1.3 | 3.2 | 7.7 | 0.5 | 1.8 | 1.7 | 2.8 | 2.1 | 3.2 | 1.6 | 1.8 | 1.6 | 2.5 | 2.8 |
| Finland | 3.3 | 4.7 | 4.6 | 4.7 | 0.0 | -0.6 | 4.6 | 6.1 | 6.9 | 1.7 | 3.2 | 3.3 | 3.1 | 0.7 | 3.2 | -0.3 | 2.4 | 1.5 | 3.7 | 4.0 |
| France | 2.5 | 2.2 | 3.8 | 2.9 | 2.0 | 1.1 | 2.5 | 0.6 | 2.1 | 1.1 | 0.6 | 1.5 | 2.3 | 1.2 | 1.6 | 0.1 | 0.7 | 0.0 | 1.7 | 2.2 |
| Germany | 1.5 | 0.2 | 2.6 | 2.3 | 2.8 | 2.4 | 4.3 | 0.2 | 2.7 | 1.5 | 1.1 | 1.6 | 0.8 | 0.8 | 1.0 | 0.4 | 0.8 | 1.7 | 2.0 | 1.7 |
| Greece | 0.5 | -2.4 | 2.8 | 3.9 | -1.5 | 6.4 | -0.9 | -2.7 | 0.1 | 1.4 | 3.1 | 4.8 | -0.9 | 3.8 | 5.2 | 4.9 | 4.1 | 3.5 | 3.4 | 3.2 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | .. | .. | -2.5 | 1.4 | 4.7 | 9.4 | 0.5 | 3.5 | 3.7 | 4.2 | 3.2 | 3.4 | 3.4 |
| Iceland | 2.4 | 3.2 | 3.4 | 2.3 | 1.7 | -0.7 | -3.6 | 1.0 | 4.0 | -3.2 | 5.9 | 5.3 | 1.4 | 0.2 | 4.0 | 1.5 | 1.7 | 0.3 | 1.9 | 2.1 |
| Ireland | 3.5 | 4.8 | 6.5 | 6.9 | 4.4 | 2.5 | 3.3 | 1.3 | 2.7 | 5.3 | 4.3 | 7.9 | -1.8 | 5.1 | 5.6 | 3.7 | 6.0 | 0.9 | 2.4 | 3.6 |
| Italy | 2.3 | 2.8 | 3.4 | 3.0 | 1.0 | 0.7 | 1.6 | 2.5 | 3.9 | 3.3 | 0.7 | 1.7 | 0.7 | 1.1 | 1.6 | 0.0 | -0.8 | -0.5 | 0.8 | 1.0 |
| Japan | 2.8 | 3.6 | 5.1 | 3.5 | 3.6 | 1.5 | -0.1 | 0.1 | 1.0 | 1.7 | 3.0 | 0.9 | -0.8 | 0.6 | 3.2 | 0.8 | 1.5 | 2.8 | 1.5 | 1.8 |
| Korea | 5.7 | 5.9 | 7.9 | 2.1 | 6.4 | 6.6 | 3.8 | 4.6 | 5.3 | 6.3 | 4.8 | 3.6 | -0.7 | 9.8 | 5.1 | 1.2 | 3.7 | 2.9 | 3.8 | 3.7 |
| Luxembourg | .. | .. | .. | .. | .. | 4.9 | -0.9 | 2.7 | 1.3 | -1.4 | 0.6 | 5.6 | 2.7 | 3.1 | 3.6 | -4.7 | -2.1 | -1.0 | 0.7 | 1.2 |
| Mexico | .. | .. | .. | 1.3 | 2.3 | 1.5 | -0.3 | -2.0 | 1.2 | -6.5 | 0.9 | 0.5 | 1.5 | 2.6 | 7.5 | -1.5 | -0.6 | 0.1 | 1.2 | 1.6 |
| Netherlands | 1.6 | 0.0 | 1.4 | 3.1 | 1.8 | 1.0 | 0.3 | 0.7 | 3.5 | 1.7 | 0.4 | 0.5 | 1.5 | 1.8 | 1.8 | -0.1 | 0.0 | 0.2 | 1.2 | 0.4 |
| New Zealand | 0.7 | 0.0 | 3.4 | 4.2 | -1.1 | -0.9 | -0.2 | 2.8 | 1.0 | -1.6 | 0.1 | 1.6 | 0.4 | 2.7 | 2.6 | 0.1 | 1.5 | 1.6 | 2.6 | 2.4 |
| Norway | 2.0 | -0.7 | -0.2 | 2.3 | 2.9 | 4.7 | 3.5 | 4.0 | 2.2 | 1.1 | 1.7 | 1.9 | 2.4 | 3.3 | 2.3 | 1.6 | 1.5 | 1.5 | 3.1 | 2.3 |
| Poland | .. | .. | .. | .. | .. | .. | .. | .. | 9.1 | 6.9 | 5.5 | 6.1 | 4.0 | 9.3 | 4.2 | 3.1 | 5.6 | 4.8 | 3.1 | 3.3 |
| Portugal | 2.1 | 4.3 | 5.3 | 4.8 | 1.9 | 1.5 | 0.5 | -0.2 | 1.2 | 5.7 | 3.6 | 2.2 | 2.2 | 2.3 | 1.9 | 0.2 | 0.0 | -0.1 | 0.6 | 1.1 |
| Spain | 3.0 | 0.8 | 1.8 | 1.4 | 0.0 | 1.6 | 2.8 | 2.1 | 3.2 | 1.0 | 1.5 | 1.1 | 0.1 | 0.7 | 0.9 | 0.6 | 0.9 | 1.0 | 0.9 | 1.2 |
| Sweden | 1.7 | 2.7 | 1.4 | 1.4 | 0.1 | 0.5 | 3.5 | 6.1 | 5.9 | 2.3 | 2.4 | 4.3 | 2.2 | 2.6 | 0.8 | -1.0 | 2.3 | 2.0 | 2.4 | 2.4 |
| Switzerland | 0.6 | -1.8 | 0.6 | 1.9 | -1.9 | -3.1 | 0.1 | 0.4 | 1.1 | 0.7 | 0.2 | 1.9 | 1.4 | 0.1 | 2.0 | -0.7 | 0.0 | 0.3 | 1.3 | 1.2 |
| United Kingdom | 2.5 | 1.5 | -0.2 | -0.9 | 0.2 | 1.6 | 2.5 | 2.6 | 3.2 | 1.2 | 1.1 | 1.0 | 2.0 | 1.5 | 3.0 | 1.5 | 1.0 | 1.2 | 2.5 | 2.6 |
| United States | 1.0 | 0.7 | 1.1 | 1.2 | 0.6 | 0.4 | 3.7 | 0.9 | 1.3 | 0.4 | 1.8 | 2.2 | 2.2 | 2.4 | 2.3 | 0.4 | 4.2 | 3.1 | 2.9 | 1.6 |
| Euro area | 2.1 | 1.6 | 3.0 | 2.9 | 1.8 | 1.5 | 2.6 | 1.1 | 3.0 | 1.8 | 1.0 | 1.7 | 0.8 | 0.7 | 1.5 | 0.1 | 0.5 | 0.6 | 1.4 | 1.6 |
| European Union | 2.2 | 1.5 | 2.5 | 2.1 | 1.4 | 1.6 | 2.6 | 1.4 | 3.1 | 1.8 | 1.2 | 1.7 | 1.3 | 1.3 | 1.8 | 0.4 | 0.7 | 0.8 | 1.7 | 1.8 |
| Total OECD | 1.9 | 1.7 | 2.4 | 1.8 | 1.6 | 1.1 | 2.6 | 1.3 | 1.9 | 1.2 | 1.9 | 2.0 | 1.4 | 1.9 | 2.7 | 0.4 | 2.2 | 2.0 | 2.2 | 1.8 |
| *Memorandum item* | | | | | | | | | | | | | | | | | | | | |
| OECD *less* high inflation countries [a] | 1.8 | 1.6 | 2.4 | 1.9 | 1.4 | 1.1 | 2.6 | 1.2 | 2.1 | 1.3 | 1.8 | 1.8 | 1.4 | 2.0 | 2.3 | 0.6 | 2.3 | 2.2 | 2.2 | 2.2 |

*Note:* The business sector is in the OECD terminology defined as total economy less the public sector. Hence business sector employees are defined as total employees less public sector employees. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

*Source:* OECD.

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Annex Table 14. **Unemployment rates: commonly used definitions**

Per cent of labour force

| | 2000 Unemployment thousands | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 616 | 6.7 | 9.1 | 10.4 | 10.7 | 9.4 | 8.3 | 8.2 | 8.3 | 7.8 | 7.0 | 6.3 | 6.8 | 6.3 | 6.0 | 5.9 | 5.7 | 6.0 | 5.8 | 5.5 |
| Austria | 198 | 4.1 | 4.5 | 4.7 | 5.4 | 5.3 | 5.3 | 5.6 | 5.7 | 5.7 | 5.3 | 4.7 | 4.8 | 5.3 | 5.5 | 5.5 | 5.2 | 5.5 | 5.5 | 4.9 |
| Belgium | 305 | 6.6 | 6.4 | 7.1 | 8.6 | 9.8 | 9.7 | 9.5 | 9.2 | 9.3 | 8.6 | 6.9 | 6.7 | 7.3 | 8.2 | 8.5 | 8.2 | 8.6 | 8.4 | 7.9 |
| Canada | 1 091 | 8.1 | 10.3 | 11.2 | 11.4 | 10.3 | 9.4 | 9.6 | 9.1 | 8.3 | 7.6 | 6.8 | 7.2 | 7.6 | 7.8 | 7.8 | 7.4 | 8.0 | 7.5 | 7.3 |
| Czech Republic | 455 | .. | .. | .. | 4.3 | 4.4 | 4.1 | 3.9 | 4.8 | 6.5 | 8.8 | 8.9 | 8.2 | 7.3 | 7.5 | 7.5 | 7.3 | .. | .. | .. |
| Denmark | 126 | 7.2 | 7.9 | 8.6 | 9.6 | 7.7 | 6.8 | 6.3 | 5.3 | 4.9 | 4.8 | 4.4 | 4.3 | 4.5 | 5.5 | 5.3 | 5.0 | 5.6 | 5.2 | 5.0 |
| Finland | 254 | 3.2 | 6.6 | 11.7 | 16.4 | 16.6 | 15.4 | 14.6 | 12.7 | 11.4 | 10.3 | 9.8 | 9.1 | 9.1 | 9.2 | 9.0 | 8.5 | 9.5 | 8.7 | 8.4 |
| France | 2 504 | 8.9 | 9.4 | 10.4 | 11.7 | 12.0 | 11.4 | 12.0 | 12.1 | 11.5 | 10.7 | 9.4 | 8.7 | 9.0 | 9.6 | 9.8 | 9.7 | 9.7 | 9.8 | 9.7 |
| Germany | 3 065 | 4.5 | 5.3 | 6.2 | 7.5 | 8.0 | 7.7 | 8.4 | 9.2 | 8.7 | 8.0 | 7.3 | 7.4 | 8.1 | 8.9 | 9.1 | 8.8 | 9.0 | 9.1 | 8.5 |
| Greece | 494 | 7.0 | 7.7 | 8.7 | 9.7 | 9.6 | 9.1 | 9.8 | 9.8 | 11.1 | 11.9 | 11.1 | 10.4 | 10.0 | 9.3 | 8.9 | 8.8 | .. | .. | .. |
| Hungary | 264 | .. | .. | .. | 12.1 | 11.0 | 10.4 | 10.1 | 8.9 | 7.9 | 7.1 | 6.5 | 5.8 | 5.9 | 5.9 | 5.6 | 5.2 | .. | .. | .. |
| Iceland | 4 | 2.5 | 2.5 | 4.2 | 5.0 | 5.1 | 4.7 | 3.7 | 3.9 | 2.7 | 2.0 | 2.3 | 2.3 | 3.3 | 3.3 | 3.3 | 2.8 | 3.2 | 3.2 | 2.5 |
| Ireland | 76 | 12.8 | 14.4 | 15.1 | 15.7 | 14.7 | 12.2 | 11.7 | 10.4 | 7.6 | 5.6 | 4.3 | 3.9 | 4.4 | 4.8 | 5.0 | 5.0 | 4.9 | 5.1 | 4.9 |
| Italy | 2 495 | 9.1 | 8.6 | 8.8 | 10.2 | 11.2 | 11.7 | 11.7 | 11.8 | 11.9 | 11.5 | 10.7 | 9.6 | 9.1 | 8.9 | 8.9 | 8.8 | 9.0 | 8.8 | 8.8 |
| Japan | 3 201 | 2.1 | 2.1 | 2.2 | 2.5 | 2.9 | 3.2 | 3.4 | 3.4 | 4.1 | 4.7 | 4.7 | 5.0 | 5.4 | 5.3 | 5.2 | 5.0 | 5.3 | 5.2 | 4.9 |
| Korea | 913 | 2.4 | 2.4 | 2.5 | 2.9 | 2.5 | 2.1 | 2.0 | 2.6 | 7.0 | 6.3 | 4.1 | 3.8 | 3.1 | 3.4 | 3.3 | 3.0 | 3.6 | 3.2 | 2.8 |
| Luxembourg | 5 | 1.3 | 1.4 | 1.6 | 2.1 | 2.7 | 3.0 | 3.3 | 3.6 | 3.1 | 2.9 | 2.6 | 2.6 | 3.0 | 3.8 | 4.2 | 4.4 | 4.1 | 4.3 | 4.4 |
| Mexico[a] | 434 | 2.8 | 2.6 | 2.8 | 3.4 | 3.7 | 6.2 | 5.5 | 3.7 | 3.2 | 2.5 | 2.2 | 2.4 | 2.7 | 3.0 | 3.0 | 2.8 | 3.3 | 2.8 | 2.7 |
| Netherlands | 187 | 6.0 | 5.4 | 5.4 | 6.6 | 7.6 | 7.1 | 6.6 | 5.5 | 4.2 | 3.2 | 2.6 | 2.0 | 2.3 | 3.7 | 5.2 | 5.2 | 4.5 | 5.4 | 5.1 |
| New Zealand | 113 | 7.8 | 10.3 | 10.3 | 9.5 | 8.1 | 6.3 | 6.1 | 6.6 | 7.5 | 6.8 | 6.0 | 5.3 | 5.2 | 4.8 | 5.0 | 5.1 | 4.9 | 5.0 | 5.1 |
| Norway | 81 | 5.2 | 5.5 | 5.9 | 6.0 | 5.4 | 4.9 | 4.8 | 4.0 | 3.1 | 3.2 | 3.4 | 3.5 | 4.0 | 4.5 | 4.7 | 4.5 | 4.7 | 4.7 | 4.4 |
| Poland | 2 785 | .. | .. | .. | 14.0 | 14.4 | 13.3 | 12.3 | 11.2 | 10.6 | 13.9 | 16.1 | 18.2 | 19.9 | 19.3 | 19.2 | 18.5 | .. | .. | .. |
| Portugal | 209 | 4.9 | 4.3 | 4.1 | 5.5 | 6.9 | 7.2 | 7.3 | 6.7 | 5.0 | 4.4 | 4.0 | 4.1 | 5.1 | 6.4 | 6.5 | 6.0 | 6.5 | 6.3 | 5.7 |
| Slovak Republic | 485 | .. | .. | .. | 12.2 | 13.7 | 13.1 | 11.3 | 11.9 | 12.6 | 16.4 | 18.8 | 19.3 | 18.6 | 17.6 | 16.9 | 16.5 | .. | .. | .. |
| Spain[b] | 1 905 | 11.6 | 11.8 | 13.0 | 16.6 | 18.4 | 18.1 | 17.5 | 16.6 | 15.0 | 12.8 | 11.0 | 10.5 | 11.4 | 11.4 | 11.0 | 10.6 | 11.4 | 10.9 | 10.5 |
| Sweden | 204 | 1.7 | 3.0 | 5.3 | 8.2 | 8.0 | 7.7 | 8.0 | 8.0 | 6.5 | 5.6 | 4.7 | 4.0 | 4.0 | 4.8 | 4.7 | 4.4 | 4.9 | 4.5 | 4.4 |
| Switzerland | 106 | 0.5 | 1.9 | 2.9 | 3.8 | 3.7 | 3.3 | 3.8 | 4.0 | 3.4 | 2.9 | 2.5 | 2.5 | 3.1 | 3.9 | 3.9 | 3.6 | 4.1 | 3.8 | 3.5 |
| Turkey[c] | 1 449 | 7.8 | 7.9 | 8.1 | 8.5 | 8.2 | 7.3 | 6.4 | 6.6 | 6.7 | 7.5 | 6.6 | 8.5 | 10.3 | 10.2 | 9.9 | 9.6 | .. | .. | .. |
| United Kingdom | 1 586 | 5.5 | 7.9 | 9.8 | 10.2 | 9.4 | 8.5 | 8.0 | 6.9 | 6.2 | 6.0 | 5.5 | 5.1 | 5.2 | 5.0 | 4.9 | 4.8 | 5.0 | 4.8 | 4.7 |
| United States | 5 689 | 5.6 | 6.8 | 7.5 | 6.9 | 6.1 | 5.6 | 5.4 | 4.9 | 4.5 | 4.2 | 4.0 | 4.8 | 5.8 | 6.1 | 5.9 | 5.2 | 6.2 | 5.6 | 5.0 |
| Euro area | 11 695 | 7.4 | 7.6 | 8.4 | 10.0 | 10.7 | 10.5 | 10.7 | 10.8 | 10.2 | 9.4 | 8.4 | 8.0 | 8.4 | 8.8 | 9.0 | 8.7 | 9.0 | 8.9 | 8.6 |
| European Union | 13 611 | 6.9 | 7.5 | 8.5 | 10.0 | 10.3 | 10.0 | 10.1 | 10.0 | 9.4 | 8.7 | 7.8 | 7.3 | 7.7 | 8.0 | 8.1 | 7.9 | 8.2 | 8.1 | 7.8 |
| Total OECD | 31 295 | 5.5 | 6.2 | 6.9 | 7.6 | 7.5 | 7.2 | 7.1 | 6.8 | 6.7 | 6.6 | 6.1 | 6.4 | 6.9 | 7.1 | 7.0 | 6.7 | 7.2 | 7.0 | 6.4 |

*Note:* Labour market data are subject to differences in definitions across countries and to many series breaks, though the latter are often of a minor nature. For information about definitions, sources, data coverage, break in series and rebasings, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* Data based on the National Survey of Urban Employment; see *OECD Economic Outlook* Sources and Methods.

*b)* Spanish data on unemployment are revised since 1976 using the methodology to be applied by the LFS as from 2002. Revisions are OECD calculations based on information from INE in Spain.

*c)* The figures incorporate important revisions to Turkish data; see *OECD Economic Outlook* Sources and Methods.

*Source:* OECD.

Annex Table 15. **Standardised unemployment rates**[a]

Per cent of civilian labour force

| | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 9.0 | 8.3 | 7.9 | 7.9 | 7.0 | 6.0 | 6.7 | 9.3 | 10.5 | 10.6 | 9.5 | 8.2 | 8.2 | 8.3 | 7.7 | 7.0 | 6.3 | 6.7 | 6.3 |
| Austria | .. | .. | .. | .. | .. | .. | .. | .. | .. | 4.0 | 3.8 | 3.9 | 4.4 | 4.4 | 4.5 | 4.0 | 3.7 | 3.6 | 4.3 |
| Belgium | 10.8 | 10.1 | 10.0 | 9.8 | 8.8 | 7.4 | 6.6 | 6.4 | 7.1 | 8.6 | 9.8 | 9.7 | 9.5 | 9.2 | 9.3 | 8.6 | 6.9 | 6.7 | 7.3 |
| Canada | 11.3 | 10.7 | 9.6 | 8.8 | 7.8 | 7.5 | 8.1 | 10.3 | 11.2 | 11.4 | 10.4 | 9.4 | 9.6 | 9.1 | 8.3 | 7.6 | 6.8 | 7.2 | 7.7 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | .. | .. | 4.4 | 4.3 | 4.1 | 3.9 | 4.8 | 6.4 | 8.6 | 8.7 | 8.0 | 7.3 |
| Denmark | 7.9 | 6.6 | 5.0 | 5.0 | 5.7 | 6.8 | 7.2 | 7.9 | 8.6 | 9.6 | 7.7 | 6.8 | 6.3 | 5.3 | 4.9 | 4.8 | 4.4 | 4.3 | 4.6 |
| Finland | 5.9 | 6.0 | 6.7 | 4.9 | 4.2 | 3.1 | 3.2 | 6.7 | 11.6 | 16.4 | 16.8 | 15.2 | 14.6 | 12.7 | 11.3 | 10.2 | 9.8 | 9.1 | 9.1 |
| France | 9.4 | 9.8 | 9.9 | 10.1 | 9.6 | 9.1 | 8.6 | 9.1 | 10.0 | 11.3 | 11.8 | 11.4 | 11.9 | 11.8 | 11.4 | 10.7 | 9.3 | 8.5 | 8.8 |
| Germany[b] | 7.1 | 7.2 | 6.5 | 6.3 | 6.2 | 5.6 | 4.8 | 4.2 | 6.4 | 7.7 | 8.2 | 8.0 | 8.7 | 9.7 | 9.1 | 8.4 | 7.8 | 7.8 | 8.6 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | .. | 9.9 | 12.1 | 11.0 | 10.4 | 9.6 | 9.0 | 8.4 | 6.9 | 6.3 | 5.6 | 5.6 |
| Ireland | 15.5 | 16.8 | 16.8 | 16.6 | 16.2 | 14.7 | 13.4 | 14.7 | 15.4 | 15.6 | 14.3 | 12.3 | 11.7 | 9.9 | 7.5 | 5.6 | 4.3 | 3.9 | 4.3 |
| Italy | 7.9 | 8.1 | 8.9 | 9.6 | 9.7 | 9.7 | 8.9 | 8.5 | 8.7 | 10.1 | 11.0 | 11.5 | 11.5 | 11.6 | 11.7 | 11.3 | 10.4 | 9.4 | 9.0 |
| Japan | 2.7 | 2.6 | 2.8 | 2.8 | 2.5 | 2.3 | 2.1 | 2.1 | 2.2 | 2.5 | 2.9 | 3.1 | 3.4 | 3.4 | 4.1 | 4.7 | 4.7 | 5.0 | 5.4 |
| Luxembourg | 3.0 | 2.9 | 2.5 | 2.5 | 2.0 | 1.8 | 1.6 | 1.6 | 2.1 | 2.6 | 3.2 | 2.9 | 2.9 | 2.7 | 2.7 | 2.4 | 2.3 | 2.1 | 2.8 |
| Netherlands | 8.9 | 7.9 | 7.8 | 7.7 | 7.2 | 6.6 | 5.9 | 5.5 | 5.3 | 6.2 | 6.8 | 6.6 | 6.0 | 4.9 | 3.8 | 3.2 | 2.9 | 2.5 | 2.7 |
| New Zealand | 5.7 | 4.2 | 4.0 | 4.1 | 5.6 | 7.1 | 7.8 | 10.3 | 10.3 | 9.5 | 8.1 | 6.3 | 6.1 | 6.6 | 7.5 | 6.8 | 6.0 | 5.3 | 5.2 |
| Norway | 3.2 | 2.6 | 2.0 | 2.1 | 3.2 | 5.4 | 5.7 | 6.0 | 6.5 | 6.5 | 5.9 | 5.4 | 4.8 | 4.0 | 3.2 | 3.2 | 3.4 | 3.6 | 3.9 |
| Poland | .. | .. | .. | .. | .. | .. | .. | .. | .. | 14.0 | 14.4 | 13.3 | 12.3 | 10.9 | 10.2 | 13.4 | 16.4 | 18.5 | 19.8 |
| Portugal | 8.9 | 9.2 | 8.8 | 7.2 | 5.8 | 5.2 | 4.8 | 4.2 | 4.3 | 5.6 | 6.9 | 7.3 | 7.3 | 6.8 | 5.2 | 4.5 | 4.1 | 4.1 | 5.1 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | 13.7 | 13.1 | 11.3 | 11.9 | 12.6 | 16.8 | 18.7 | 19.4 | 18.7 |
| Spain | 16.5 | 17.7 | 17.4 | 16.7 | 15.8 | 13.9 | 13.1 | 13.2 | 14.9 | 18.6 | 19.8 | 18.8 | 18.1 | 17.0 | 15.2 | 12.8 | 11.3 | 10.6 | 11.3 |
| Sweden | 3.3 | 2.9 | 2.7 | 2.2 | 1.8 | 1.5 | 1.7 | 3.1 | 5.6 | 9.1 | 9.4 | 8.8 | 9.6 | 9.9 | 8.2 | 6.7 | 5.6 | 4.9 | 4.9 |
| Switzerland | .. | .. | .. | .. | .. | .. | .. | 1.9 | 3.0 | 3.9 | 3.9 | 3.5 | 3.9 | 4.2 | 3.6 | 3.0 | 2.7 | 2.6 | 3.2 |
| United Kingdom | 10.9 | 11.2 | 11.2 | 10.3 | 8.5 | 7.1 | 6.9 | 8.6 | 9.8 | 10.0 | 9.2 | 8.5 | 8.0 | 6.9 | 6.2 | 5.9 | 5.4 | 5.0 | 5.1 |
| United States | 7.5 | 7.2 | 7.0 | 6.2 | 5.5 | 5.3 | 5.6 | 6.8 | 7.5 | 6.9 | 6.1 | 5.6 | 5.4 | 4.9 | 4.5 | 4.2 | 4.0 | 4.7 | 5.8 |
| Euro area | .. | .. | .. | .. | .. | .. | .. | 7.9 | 8.6 | 10.2 | 10.8 | 10.6 | 10.8 | 10.8 | 10.2 | 9.4 | 8.5 | 8.0 | 8.4 |
| European Union | .. | .. | .. | .. | .. | .. | .. | 7.9 | 8.7 | 10.1 | 10.5 | 10.1 | 10.2 | 10.0 | 9.4 | 8.7 | 7.8 | 7.4 | 7.7 |
| Total OECD | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | 7.7 | 7.3 | 7.2 | 7.0 | 6.9 | 6.7 | 6.3 | 6.5 | 7.0 |

*Note:* In so far as possible, the data have been adjusted to ensure comparability over time and to conform to the guidelines of the International Labour Office. All series are benchmarked to labour-force-survey-based estimates. In countries with annual surveys, monthly estimates are obtained by interpolation/extrapolation and by incorporating trends in administrative data, where available. The annual figures are then calculated by averaging the monthly estimates (for both unemployed and the labour force). For countries with monthly or quarterly surveys, the annual estimates are obtained by averaging the monthly or quarterly estimates, respectively. For several countries, the adjustment procedure used is similar to that of the Bureau of Labor Statistics, U.S. Department of Labor. For EU countries, the procedures are similar to those used in deriving the Comparable Unemployment Rates (CURs) of the Statistical Office of the European Communities. Minor differences may appear mainly because of various methods of calculating and applying adjustment factors, and because EU estimates are based on the civilian labour force.

*a)* See technical notes in OECD *Quarterly Labour Force Statistics.*

*b)* Prior to 1993 data refers to Western Germany.

*Source:* OECD.

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Annex Table 16. **Labour force, employment and unemployment**

Millions

| | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Labour force** | | | | | | | | | | | | | | | | | | | |
| Major seven countries | 299.7 | 303.7 | 307.8 | 312.0 | 322.7 | 325.0 | 326.2 | 328.6 | 330.2 | 333.1 | 337.2 | 339.7 | 342.6 | 347.0 | 348.9 | 350.5 | 352.7 | 355.1 | 358.1 |
| Total of smaller countries[a] | 112.7 | 114.9 | 117.3 | 119.3 | 121.8 | 122.8 | 151.9 | 154.2 | 156.2 | 158.7 | 160.5 | 162.4 | 164.8 | 165.6 | 167.8 | 171.0 | 172.4 | 174.4 | 176.5 |
| European Union | 152.9 | 154.6 | 155.6 | 157.2 | 166.5 | 166.4 | 166.0 | 166.5 | 167.1 | 168.2 | 169.5 | 171.3 | 173.3 | 175.1 | 176.7 | 178.2 | 179.1 | 180.1 | 181.4 |
| Euro area | 117.9 | 119.1 | 119.9 | 121.4 | 130.8 | 130.8 | 130.6 | 131.3 | 131.8 | 132.9 | 134.1 | 135.8 | 137.4 | 139.1 | 140.5 | 141.7 | 142.4 | 143.3 | 144.4 |
| Total OECD[a] | 412.3 | 418.5 | 425.1 | 431.3 | 444.5 | 447.8 | 478.1 | 482.8 | 486.5 | 491.8 | 497.7 | 502.1 | 507.4 | 512.6 | 516.8 | 521.6 | 525.1 | 529.5 | 534.7 |
| **Employment** | | | | | | | | | | | | | | | | | | | |
| Major seven countries | 279.9 | 285.6 | 290.9 | 295.1 | 302.5 | 302.5 | 302.8 | 305.8 | 308.3 | 310.8 | 315.3 | 318.3 | 321.8 | 327.3 | 328.3 | 327.8 | 329.0 | 331.5 | 335.7 |
| Total of smaller countries[a] | 104.8 | 107.4 | 110.3 | 112.5 | 114.3 | 114.6 | 138.8 | 140.8 | 143.1 | 146.1 | 148.5 | 150.0 | 152.2 | 154.0 | 155.5 | 157.6 | 158.7 | 160.6 | 163.2 |
| European Union | 139.0 | 141.7 | 144.0 | 146.3 | 154.0 | 152.2 | 149.5 | 149.3 | 150.4 | 151.2 | 152.6 | 155.3 | 158.3 | 161.5 | 163.7 | 164.5 | 164.7 | 165.5 | 167.0 |
| Euro area | 107.0 | 108.6 | 110.2 | 112.4 | 121.0 | 119.8 | 117.6 | 117.3 | 118.0 | 118.6 | 119.6 | 122.0 | 124.5 | 127.4 | 129.3 | 129.9 | 129.8 | 130.4 | 131.8 |
| Total OECD[a] | 384.7 | 393.1 | 401.2 | 407.6 | 416.9 | 417.0 | 441.6 | 446.6 | 451.4 | 456.9 | 463.7 | 468.4 | 474.0 | 481.3 | 483.8 | 485.4 | 487.7 | 492.1 | 498.9 |
| **Unemployment** | | | | | | | | | | | | | | | | | | | |
| Major seven countries | 19.8 | 18.1 | 16.9 | 16.9 | 20.2 | 22.5 | 23.4 | 22.8 | 21.9 | 22.3 | 21.9 | 21.4 | 20.8 | 19.6 | 20.6 | 22.8 | 23.7 | 23.6 | 22.4 |
| Total of smaller countries[a] | 7.8 | 7.4 | 7.0 | 6.9 | 7.4 | 8.3 | 13.1 | 13.4 | 13.1 | 12.6 | 12.1 | 12.4 | 12.6 | 11.7 | 12.3 | 13.4 | 13.7 | 13.7 | 13.3 |
| European Union | 13.9 | 12.9 | 11.6 | 10.9 | 12.5 | 14.2 | 16.5 | 17.2 | 16.7 | 17.0 | 16.9 | 16.0 | 15.0 | 13.6 | 13.0 | 13.7 | 14.4 | 14.6 | 14.4 |
| Euro area | 10.9 | 10.5 | 9.7 | 9.0 | 9.9 | 10.9 | 13.0 | 14.0 | 13.8 | 14.3 | 14.5 | 13.9 | 12.9 | 11.7 | 11.2 | 11.8 | 12.5 | 12.8 | 12.6 |
| Total OECD[a] | 27.6 | 25.5 | 23.9 | 23.7 | 27.6 | 30.8 | 36.5 | 36.2 | 35.0 | 34.9 | 34.0 | 33.8 | 33.4 | 31.3 | 32.9 | 36.1 | 37.4 | 37.3 | 35.8 |

*a)* The aggregate measures include Mexico as of 1987. There is a potential bias in the aggregates thereafter because of the limited coverage of the Mexican National Survey of Urban Employment.
*Source:* OECD.

Annex Table 17. **GDP deflators**

Percentage change from previous year

| | Average 1979-89 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 8.2 | 4.9 | 2.3 | 1.3 | 1.2 | 0.9 | 1.6 | 2.3 | 1.7 | 0.3 | 0.8 | 4.3 | 3.1 | 2.8 | 2.8 | 2.4 | 2.3 | 2.9 | 1.8 | 2.8 |
| Austria | 3.7 | 3.3 | 3.8 | 3.6 | 2.9 | 2.7 | 2.5 | 1.3 | 0.9 | 0.5 | 0.7 | 1.4 | 2.1 | 1.4 | 1.8 | 1.0 | 1.1 | 1.7 | 0.9 | 1.2 |
| Belgium | 4.4 | 2.8 | 2.9 | 3.4 | 4.0 | 2.1 | 1.3 | 1.2 | 1.4 | 1.7 | 1.4 | 1.2 | 1.8 | 1.7 | 2.5 | 1.6 | 1.4 | 4.4 | -0.7 | 3.0 |
| Canada | 5.8 | 3.2 | 3.0 | 1.3 | 1.4 | 1.1 | 2.3 | 1.6 | 1.2 | -0.4 | 1.7 | 4.0 | 1.0 | 1.0 | 3.5 | 1.6 | 1.8 | 2.5 | 1.7 | 1.9 |
| Czech Republic | .. | .. | .. | .. | .. | 11.0 | 10.2 | 8.8 | 8.0 | 10.6 | 3.0 | 1.1 | 6.3 | 2.6 | 2.2 | 2.2 | 1.8 | .. | .. | .. |
| Denmark | 6.7 | 3.7 | 2.8 | 2.9 | 1.4 | 1.7 | 1.8 | 2.5 | 2.2 | 1.0 | 1.8 | 3.1 | 2.0 | 0.9 | 1.7 | 1.8 | 2.2 | 1.8 | 1.9 | 2.3 |
| Finland | 7.4 | 6.4 | 1.9 | 1.4 | 2.6 | 1.8 | 4.8 | -0.3 | 2.1 | 3.5 | -0.2 | 3.2 | 2.7 | 1.1 | 0.5 | 1.1 | 1.6 | 0.2 | 2.0 | 0.9 |
| France | 7.0 | 2.9 | 3.0 | 2.0 | 2.4 | 1.8 | 1.7 | 1.4 | 1.3 | 0.8 | 0.4 | 0.7 | 1.7 | 1.9 | 1.5 | 1.3 | 1.0 | 1.4 | 1.2 | 0.8 |
| Germany | 3.0 | 3.2 | 3.5 | 5.0 | 3.7 | 2.5 | 2.0 | 1.0 | 0.7 | 1.1 | 0.5 | -0.3 | 1.3 | 1.6 | 1.0 | 1.2 | 0.9 | 1.1 | 1.2 | 1.0 |
| Greece | 19.4 | 20.7 | 19.8 | 14.8 | 14.4 | 11.2 | 9.8 | 7.4 | 6.8 | 5.2 | 3.0 | 3.4 | 3.5 | 4.0 | 3.5 | 3.6 | 3.3 | 3.5 | 2.8 | 3.3 |
| Hungary | .. | .. | .. | .. | .. | 19.5 | 25.6 | 21.2 | 18.5 | 12.6 | 8.4 | 9.9 | 8.6 | 10.7 | 6.4 | 5.7 | 4.2 | .. | .. | .. |
| Iceland | 36.5 | 16.9 | 8.9 | 3.3 | 2.1 | 2.0 | 2.8 | 2.1 | 3.3 | 4.9 | 3.0 | 2.9 | 9.9 | 3.9 | 1.0 | 4.4 | 4.5 | 5.7 | -0.2 | 8.1 |
| Ireland | 8.6 | -0.7 | 1.8 | 2.8 | 5.2 | 1.7 | 3.0 | 2.1 | 4.0 | 6.3 | 3.9 | 4.3 | 5.1 | 5.4 | 1.7 | 4.2 | 3.4 | 2.8 | 2.7 | 3.7 |
| Italy | 11.9 | 8.2 | 7.6 | 4.5 | 3.9 | 3.5 | 5.0 | 5.3 | 2.4 | 2.7 | 1.6 | 2.1 | 2.7 | 2.7 | 2.7 | 2.0 | 2.2 | 3.0 | 1.6 | 2.6 |
| Japan | 2.3 | 2.4 | 2.9 | 1.6 | 0.5 | 0.1 | -0.5 | -0.8 | 0.3 | -0.1 | -1.5 | -1.9 | -1.6 | -1.7 | -2.5 | -1.3 | -0.8 | -1.6 | -1.3 | -0.6 |
| Korea | 8.8 | 10.7 | 10.9 | 7.6 | 7.1 | 7.7 | 7.1 | 3.9 | 3.1 | 5.1 | -2.0 | -1.1 | 2.5 | 1.7 | 1.3 | 1.0 | 1.0 | -0.5 | 3.1 | -0.5 |
| Luxembourg | 4.6 | 2.5 | 1.8 | 3.7 | 6.0 | 3.5 | 2.3 | 2.0 | 2.7 | 2.7 | 2.2 | 3.9 | 2.2 | 0.6 | 1.6 | 2.9 | 2.6 | .. | .. | .. |
| Mexico | 62.8 | 28.1 | 23.3 | 14.4 | 9.5 | 8.5 | 37.9 | 30.7 | 17.7 | 15.4 | 15.2 | 12.2 | 6.4 | 4.6 | 5.2 | 3.3 | 3.3 | 1.1 | 4.9 | 2.9 |
| Netherlands | 2.3 | 2.2 | 2.9 | 2.3 | 1.9 | 2.3 | 2.0 | 1.2 | 2.0 | 1.7 | 1.6 | 3.9 | 5.4 | 3.4 | 2.7 | 0.8 | 1.1 | 1.7 | 0.9 | 1.2 |
| New Zealand | 11.0 | 3.3 | 0.5 | 1.4 | 3.0 | 1.1 | 2.4 | 2.5 | 0.3 | 1.5 | -0.1 | 2.4 | 4.7 | 0.2 | 1.2 | 2.5 | 2.8 | 3.3 | 2.6 | 2.8 |
| Norway | 6.9 | 3.8 | 2.2 | -0.6 | 2.3 | -0.1 | 2.9 | 4.1 | 2.9 | -0.7 | 6.6 | 15.9 | 1.9 | -1.3 | 2.0 | 2.5 | 3.3 | 0.5 | 3.5 | 3.3 |
| Poland | .. | .. | .. | .. | .. | 37.2 | 28.0 | 18.7 | 14.0 | 11.8 | 6.8 | 11.5 | 4.2 | 1.4 | 0.4 | 0.9 | 0.6 | .. | .. | .. |
| Portugal | 18.1 | 13.1 | 10.1 | 11.4 | 7.4 | 7.3 | 3.4 | 3.0 | 3.8 | 3.8 | 3.1 | 3.5 | 4.9 | 4.6 | 2.6 | 2.3 | 2.1 | 1.6 | 2.0 | 2.2 |
| Slovak Republic | .. | .. | .. | .. | .. | 13.7 | 9.9 | 4.4 | 6.7 | 5.2 | 6.4 | 6.4 | 5.4 | 4.0 | 5.2 | 5.7 | 3.3 | .. | .. | .. |
| Spain | 10.0 | 7.3 | 6.9 | 6.7 | 4.5 | 3.9 | 4.9 | 3.5 | 2.3 | 2.4 | 2.8 | 3.5 | 4.2 | 4.4 | 3.7 | 3.3 | 3.1 | 2.9 | 3.7 | 2.7 |
| Sweden | 8.1 | 8.8 | 7.3 | 1.0 | 2.7 | 2.3 | 3.4 | 1.2 | 1.5 | 0.8 | 0.7 | 1.3 | 2.0 | 1.3 | 2.0 | 2.2 | 2.8 | 2.0 | 2.3 | 3.1 |
| Switzerland | 3.6 | 4.3 | 6.0 | 2.7 | 2.7 | 1.6 | 1.1 | 0.4 | -0.2 | 0.0 | 0.7 | 1.2 | 1.1 | 0.6 | -0.1 | -0.1 | 0.3 | -0.4 | 1.1 | -0.2 |
| Turkey | 48.9 | 58.3 | 58.8 | 63.7 | 67.8 | 106.5 | 87.2 | 77.8 | 81.5 | 75.7 | 55.6 | 49.9 | 54.8 | 43.5 | 24.5 | 14.3 | 11.2 | .. | .. | .. |
| United Kingdom | 7.5 | 7.6 | 6.6 | 4.0 | 2.8 | 1.6 | 2.6 | 3.4 | 2.9 | 2.8 | 2.3 | 1.4 | 2.3 | 3.2 | 2.8 | 2.2 | 2.5 | 2.4 | 2.4 | 2.5 |
| United States | 4.8 | 3.9 | 3.6 | 2.4 | 2.4 | 2.1 | 2.2 | 1.9 | 1.9 | 1.2 | 1.4 | 2.1 | 2.4 | 1.1 | 1.6 | 1.2 | 1.2 | 1.6 | 1.1 | 1.2 |
| Euro area | 6.8 | 4.9 | 4.8 | 4.3 | 3.6 | 2.8 | 2.9 | 2.1 | 1.6 | 1.7 | 1.1 | 1.3 | 2.4 | 2.4 | 1.9 | 1.7 | 1.6 | 1.9 | 1.5 | 1.7 |
| European Union | 7.3 | 5.6 | 5.3 | 4.3 | 3.6 | 2.7 | 3.0 | 2.5 | 1.9 | 1.9 | 1.3 | 1.4 | 2.4 | 2.5 | 2.1 | 1.8 | 1.7 | 2.0 | 1.7 | 1.8 |
| Total OECD | 8.2 | 6.1 | 5.8 | 4.4 | 3.9 | 4.6 | 5.2 | 4.3 | 3.7 | 3.2 | 2.3 | 2.6 | 2.9 | 2.1 | 1.8 | 1.4 | 1.4 | 1.5 | 1.4 | 1.4 |
| *Memorandum item* | | | | | | | | | | | | | | | | | | | | |
| OECD *less* high inflation countries [a] | 5.6 | 4.5 | 4.3 | 3.1 | 2.6 | 2.2 | 2.3 | 1.8 | 1.7 | 1.4 | 0.9 | 1.4 | 1.8 | 1.3 | 1.3 | 1.1 | 1.2 | 1.3 | 1.1 | 1.2 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence there are breaks in many national series. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

*Source:* OECD.

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Annex Table 18. **Private consumption deflators**

Percentage change from previous year

| | Average 1979-89 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 8.2 | 6.4 | 4.4 | 2.2 | 2.2 | 1.2 | 2.3 | 1.9 | 1.6 | 1.3 | 1.0 | 3.3 | 3.5 | 2.2 | 2.2 | 2.1 | 2.5 | 1.8 | 2.4 | 2.5 |
| Austria | 3.7 | 3.3 | 3.5 | 3.9 | 3.5 | 2.8 | 2.0 | 1.9 | 1.5 | 0.5 | 0.8 | 1.4 | 2.2 | 1.1 | 1.2 | 0.9 | 1.1 | 1.0 | 0.9 | 1.2 |
| Belgium | 4.6 | 2.8 | 2.8 | 1.9 | 2.5 | 2.3 | 2.1 | 2.1 | 1.8 | 0.9 | 1.2 | 2.3 | 2.5 | 1.7 | 1.7 | 1.4 | 1.4 | 1.8 | 1.3 | 1.5 |
| Canada | 6.3 | 4.2 | 5.0 | 1.7 | 2.3 | 1.1 | 1.3 | 1.6 | 1.6 | 1.2 | 1.7 | 2.2 | 1.8 | 1.9 | 1.8 | 1.5 | 2.0 | 1.2 | 1.8 | 2.1 |
| Czech Republic | .. | .. | .. | .. | .. | 10.7 | 9.2 | 8.0 | 7.5 | 9.1 | 3.7 | 2.8 | 3.8 | -0.1 | -0.2 | 1.8 | 1.4 | .. | .. | .. |
| Denmark | 6.5 | 2.9 | 2.8 | 1.9 | 2.0 | 3.0 | 1.9 | 2.1 | 2.2 | 1.3 | 2.4 | 3.5 | 2.6 | 2.4 | 1.9 | 1.5 | 1.9 | 1.6 | 1.8 | 1.9 |
| Finland | 6.7 | 6.0 | 5.8 | 3.6 | 4.6 | 0.9 | 0.8 | 1.6 | 1.9 | 2.0 | 1.2 | 3.6 | 3.4 | 3.0 | 0.9 | 1.2 | 1.7 | 2.3 | 0.3 | 1.9 |
| France | 7.4 | 3.1 | 3.5 | 2.5 | 2.5 | 2.2 | 2.0 | 1.9 | 1.4 | 0.6 | 0.2 | 1.2 | 1.4 | 1.8 | 1.7 | 1.5 | 0.9 | 1.7 | 1.4 | 0.8 |
| Germany | 2.8 | 2.6 | 3.8 | 4.4 | 3.9 | 2.6 | 1.9 | 1.7 | 2.0 | 1.1 | 0.3 | 1.5 | 1.6 | 1.3 | 0.9 | 0.8 | 0.7 | 0.8 | 0.8 | 0.9 |
| Greece | 19.3 | 19.8 | 19.7 | 15.7 | 14.1 | 11.0 | 9.0 | 8.2 | 5.6 | 4.5 | 2.3 | 3.3 | 3.4 | 3.6 | 3.4 | 3.5 | 3.4 | .. | .. | .. |
| Hungary | .. | .. | .. | .. | .. | 19.7 | 27.2 | 23.8 | 18.0 | 13.7 | 10.4 | 10.9 | 8.2 | 5.0 | 4.6 | 6.5 | 4.5 | .. | .. | .. |
| Iceland | 37.6 | 16.7 | 8.9 | 3.5 | 3.6 | 1.4 | 1.9 | 2.4 | -0.2 | 0.9 | 2.6 | 4.5 | 8.1 | 3.6 | 1.8 | 2.6 | 3.6 | 4.5 | 1.4 | 4.9 |
| Ireland | 8.8 | 2.1 | 2.7 | 3.0 | 2.2 | 2.7 | 2.8 | 2.6 | 2.9 | 3.5 | 3.5 | 4.9 | 5.5 | 6.1 | 2.5 | 3.1 | 3.0 | 1.9 | 2.6 | 3.3 |
| Italy | 11.4 | 6.4 | 7.0 | 5.5 | 5.5 | 4.9 | 6.0 | 4.4 | 2.2 | 2.1 | 2.1 | 2.9 | 2.7 | 3.0 | 2.9 | 2.0 | 2.0 | 2.7 | 1.9 | 2.1 |
| Japan | 2.6 | 2.6 | 2.7 | 1.6 | 1.0 | 0.5 | -0.3 | -0.1 | 1.0 | -0.1 | -0.7 | -1.2 | -1.5 | -1.5 | -1.4 | -0.6 | -0.4 | -1.1 | -0.5 | -0.3 |
| Korea | 7.8 | 10.6 | 12.1 | 8.9 | 8.0 | 9.7 | 7.0 | 5.7 | 5.4 | 7.9 | 0.6 | 2.2 | 4.1 | 3.0 | 3.6 | 2.9 | 3.3 | 1.8 | 5.2 | 1.7 |
| Luxembourg | 5.2 | 3.6 | 3.4 | 4.2 | 4.0 | 2.6 | 2.0 | 1.4 | 1.4 | 1.1 | 1.5 | 2.6 | 3.3 | 2.3 | 2.0 | 1.8 | 1.6 | .. | .. | .. |
| Mexico | 63.8 | 27.8 | 24.3 | 15.4 | 10.1 | 7.6 | 34.0 | 30.7 | 16.5 | 20.5 | 14.0 | 10.3 | 7.2 | 4.8 | 4.6 | 3.4 | 3.1 | 3.1 | 3.4 | 2.9 |
| Netherlands | 3.2 | 2.1 | 3.3 | 3.2 | 2.1 | 2.9 | 1.4 | 1.9 | 2.0 | 1.7 | 1.8 | 3.3 | 4.7 | 3.1 | 2.1 | 1.4 | 1.0 | 1.7 | 1.1 | 1.0 |
| New Zealand | 11.7 | 5.6 | 2.2 | 1.1 | 1.2 | 1.2 | 2.6 | 2.2 | 1.9 | 2.0 | 0.3 | 2.1 | 2.1 | 1.5 | 0.6 | 2.0 | 2.3 | 1.2 | 2.0 | 2.3 |
| Norway | 7.9 | 4.7 | 3.8 | 2.5 | 2.4 | 1.2 | 2.4 | 1.4 | 2.3 | 2.5 | 2.0 | 3.0 | 2.4 | 0.7 | 2.0 | 1.1 | 2.3 | 1.0 | 1.9 | 2.5 |
| Poland | .. | .. | .. | .. | .. | 37.9 | 27.2 | 20.0 | 14.7 | 11.5 | 7.0 | 11.5 | 5.0 | 1.8 | 0.8 | 1.9 | 1.4 | .. | .. | .. |
| Portugal | 18.2 | 11.6 | 11.8 | 9.2 | 6.9 | 5.6 | 4.3 | 3.7 | 2.9 | 2.8 | 2.1 | 3.3 | 4.4 | 3.7 | 3.6 | 2.1 | 1.8 | 3.3 | 1.9 | 1.8 |
| Slovak Republic | .. | .. | .. | .. | .. | 14.1 | 9.2 | 4.9 | 6.2 | 5.8 | 8.7 | 10.5 | 5.6 | 2.4 | 8.6 | 7.9 | 4.0 | .. | .. | .. |
| Spain | 10.1 | 6.6 | 6.4 | 6.6 | 5.3 | 4.9 | 4.8 | 3.5 | 2.6 | 2.2 | 2.4 | 3.2 | 3.3 | 3.5 | 3.0 | 2.8 | 2.9 | 2.6 | 2.7 | 3.1 |
| Sweden | 8.4 | 9.8 | 10.5 | 2.1 | 5.8 | 2.7 | 2.8 | 1.3 | 1.9 | 0.8 | 1.1 | 1.2 | 2.1 | 2.0 | 2.2 | 1.4 | 2.0 | 1.9 | 2.0 | 2.0 |
| Switzerland | 3.3 | 5.2 | 6.0 | 4.2 | 3.4 | 1.1 | 1.7 | 1.1 | 0.6 | -0.2 | 0.3 | 1.0 | 0.7 | 0.8 | 0.7 | 0.3 | 0.2 | 0.4 | 0.4 | 0.1 |
| Turkey | 49.4 | 59.8 | 60.7 | 65.6 | 65.9 | 108.9 | 92.4 | 67.8 | 82.1 | 83.0 | 59.0 | 50.0 | 58.8 | 40.4 | 26.5 | 16.9 | 11.3 | .. | .. | .. |
| United Kingdom | 7.0 | 7.5 | 7.8 | 4.9 | 3.5 | 2.1 | 3.4 | 3.4 | 2.5 | 2.6 | 1.7 | 1.1 | 2.2 | 1.3 | 1.2 | 1.7 | 2.3 | 1.3 | 1.9 | 2.4 |
| United States | 5.1 | 4.6 | 3.8 | 3.1 | 2.4 | 2.0 | 2.3 | 2.1 | 1.9 | 1.1 | 1.6 | 2.5 | 2.0 | 1.4 | 1.9 | 1.3 | 1.2 | 1.8 | 1.1 | 1.3 |
| Euro area | 6.9 | 4.4 | 5.1 | 4.6 | 4.1 | 3.3 | 3.0 | 2.5 | 2.1 | 1.4 | 1.1 | 2.1 | 2.3 | 2.3 | 1.9 | 1.6 | 1.4 | 1.8 | 1.5 | 1.5 |
| European Union | 7.3 | 5.1 | 5.7 | 4.5 | 4.1 | 3.2 | 3.2 | 2.7 | 2.1 | 1.6 | 1.2 | 2.0 | 2.3 | 2.1 | 1.8 | 1.6 | 1.6 | 1.7 | 1.6 | 1.6 |
| Total OECD | 8.4 | 6.3 | 6.2 | 4.9 | 4.2 | 4.9 | 5.2 | 4.4 | 4.0 | 3.4 | 2.6 | 3.0 | 2.9 | 2.1 | 1.9 | 1.5 | 1.5 | 1.7 | 1.5 | 1.5 |
| *Memorandum item* | | | | | | | | | | | | | | | | | | | | |
| OECD *less* high inflation countries [a] | 5.7 | 4.7 | 4.6 | 3.5 | 3.0 | 2.5 | 2.4 | 2.1 | 2.0 | 1.3 | 1.1 | 1.8 | 1.7 | 1.3 | 1.4 | 1.2 | 1.2 | 1.3 | 1.2 | 1.2 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence there are breaks in many national series. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

*Source:* OECD.

Annex Table 19. **Consumer prices indices**

Percentage change from previous year

| | Average 1979-89 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 8.4 | 7.3 | 3.2 | 1.0 | 1.8 | 1.9 | 4.6 | 2.6 | 0.3 | 0.9 | 1.5 | 4.5 | 4.4 | 3.0 | 2.8 | 2.0 | 2.3 | 2.4 | 2.1 | 2.5 |
| Austria | 3.8 | 3.3 | 3.1 | 3.4 | 3.2 | 2.7 | 1.6 | 1.8 | 1.2 | 0.8 | 0.5 | 2.0 | 2.3 | 1.7 | 1.3 | 1.0 | 1.1 | 1.1 | 0.9 | 1.2 |
| Belgium | 4.9 | 3.4 | 4.2 | 2.2 | 2.5 | 2.4 | 1.3 | 1.8 | 1.5 | 0.9 | 1.1 | 2.7 | 2.4 | 1.6 | 1.5 | 1.4 | 1.4 | 1.5 | 1.4 | 1.4 |
| Canada | 6.5 | 4.8 | 5.6 | 1.5 | 1.9 | 0.2 | 2.2 | 1.6 | 1.6 | 1.0 | 1.7 | 2.7 | 2.5 | 2.2 | 2.8 | 1.4 | 2.1 | 1.9 | 1.7 | 2.2 |
| Czech Republic | .. | .. | .. | .. | .. | 10.0 | 9.1 | 8.8 | 8.5 | 10.7 | 2.1 | 3.9 | 4.8 | 1.8 | 0.7 | 2.6 | 2.4 | 2.4 | 2.6 | 2.2 |
| Denmark | 6.9 | 2.6 | 2.4 | 2.1 | 1.3 | 2.0 | 2.1 | 2.1 | 2.2 | 1.8 | 2.5 | 2.9 | 2.3 | 2.4 | 2.0 | 1.6 | 2.0 | 1.2 | 2.7 | 1.4 |
| Finland | 7.1 | 6.1 | 4.6 | 3.2 | 3.3 | 1.6 | 0.4 | 1.1 | 1.2 | 1.4 | 1.3 | 3.0 | 2.7 | 2.0 | 1.3 | 0.4 | 1.8 | 1.0 | 0.7 | 1.9 |
| France | 7.3 | 3.2 | 3.4 | 2.5 | 2.2 | 1.7 | 1.8 | 2.1 | 1.3 | 0.7 | 0.6 | 1.8 | 1.8 | 1.9 | 2.0 | 1.4 | 0.9 | 1.9 | 1.2 | 0.8 |
| Germany | 2.9 | 2.7 | 4.1 | 5.1 | 4.4 | 2.7 | 1.7 | 1.2 | 1.5 | 0.6 | 0.6 | 1.4 | 1.9 | 1.3 | 0.9 | 0.8 | 0.7 | 0.7 | 0.8 | 0.9 |
| Greece | 19.4 | 20.4 | 19.5 | 15.9 | 14.4 | 10.9 | 8.9 | 7.9 | 5.4 | 4.5 | 2.1 | 2.9 | 3.7 | 3.9 | 3.5 | 3.6 | 3.5 | 3.5 | 3.3 | 3.7 |
| Hungary | .. | .. | .. | .. | .. | 18.9 | 28.3 | 23.5 | 18.3 | 14.2 | 10.0 | 9.8 | 9.2 | 5.3 | 4.6 | 6.5 | 4.5 | 5.0 | 7.7 | 2.8 |
| Iceland [a] | 38.1 | 15.5 | 6.8 | 4.0 | 4.1 | 1.6 | 1.7 | 2.3 | 1.8 | 1.7 | 3.2 | 5.1 | 6.4 | 5.2 | 2.0 | 2.6 | 3.6 | 2.3 | 2.8 | 4.1 |
| Ireland | 9.2 | 3.3 | 3.2 | 3.1 | 1.4 | 2.3 | 2.5 | 2.2 | 1.2 | 2.1 | 2.5 | 5.3 | 4.0 | 4.7 | 4.1 | 2.8 | 3.1 | 3.5 | 3.0 | 3.3 |
| Italy | 11.1 | 6.5 | 6.2 | 5.0 | 4.5 | 4.2 | 5.4 | 4.0 | 1.9 | 2.0 | 1.7 | 2.6 | 2.3 | 2.6 | 2.8 | 2.0 | 1.9 | 2.6 | 1.8 | 2.0 |
| Japan | 2.5 | 3.1 | 3.2 | 1.7 | 1.3 | 0.7 | -0.1 | 0.1 | 1.7 | 0.7 | -0.3 | -0.7 | -0.7 | -0.9 | -0.2 | -0.2 | -0.2 | -0.1 | -0.3 | -0.2 |
| Korea | 8.1 | 8.5 | 9.3 | 6.2 | 4.8 | 6.3 | 4.5 | 4.9 | 4.4 | 7.5 | 0.8 | 2.3 | 4.1 | 2.8 | 3.5 | 2.7 | 3.0 | 3.1 | 3.0 | 2.9 |
| Luxembourg | 4.7 | 3.3 | 3.1 | 3.2 | 3.6 | 2.2 | 1.9 | 1.2 | 1.4 | 1.0 | 1.0 | 3.8 | 2.4 | 2.1 | 2.5 | 1.9 | 1.6 | 1.8 | 1.7 | 1.6 |
| Mexico | 65.1 | 26.7 | 22.7 | 15.5 | 9.8 | 7.0 | 35.0 | 34.4 | 20.6 | 15.9 | 16.6 | 9.5 | 6.4 | 5.0 | 4.5 | 3.4 | 3.1 | 3.6 | 3.3 | 3.0 |
| Netherlands | 2.8 | 2.5 | 3.2 | 2.8 | 1.6 | 2.1 | 1.4 | 1.4 | 1.9 | 1.8 | 2.0 | 2.3 | 5.1 | 3.9 | 2.3 | 1.2 | 1.1 | 2.2 | 1.1 | 1.1 |
| New Zealand | 11.8 | 6.1 | 2.6 | 1.0 | 1.3 | 1.7 | 3.8 | 2.3 | 1.2 | 1.3 | -0.1 | 2.6 | 2.6 | 2.7 | 1.7 | 1.9 | 2.3 | 1.3 | 2.1 | 2.4 |
| Norway | 8.3 | 4.1 | 3.4 | 2.3 | 2.3 | 1.4 | 2.4 | 1.2 | 2.6 | 2.3 | 2.3 | 3.1 | 3.0 | 1.3 | 2.5 | 1.2 | 2.5 | 1.3 | 2.4 | 2.5 |
| Poland | .. | .. | .. | .. | .. | 33.2 | 28.3 | 19.9 | 14.9 | 11.6 | 7.3 | 10.1 | 5.5 | 1.9 | 0.8 | 1.9 | 1.4 | 1.5 | 1.7 | 1.4 |
| Portugal | 17.5 | 13.4 | 11.4 | 8.9 | 5.9 | 5.0 | 4.0 | 2.9 | 1.9 | 2.2 | 2.2 | 2.8 | 4.4 | 3.7 | 3.3 | 2.1 | 1.8 | 2.5 | 1.9 | 1.8 |
| Slovak Republic | .. | .. | .. | .. | .. | 13.4 | 9.8 | 5.8 | 6.1 | 6.7 | 10.6 | 12.0 | 7.3 | 3.1 | 8.6 | 7.9 | 4.0 | 8.8 | 8.0 | 3.9 |
| Spain | 10.2 | 6.7 | 5.9 | 5.9 | 4.9 | 4.6 | 4.6 | 3.6 | 1.9 | 1.8 | 2.2 | 3.5 | 2.8 | 3.6 | 3.2 | 2.8 | 2.9 | 2.8 | 2.7 | 3.0 |
| Sweden | 7.9 | 10.4 | 9.7 | 2.6 | 4.7 | 2.4 | 2.9 | 0.8 | 0.9 | 0.4 | 0.3 | 1.3 | 2.6 | 2.4 | 2.1 | 1.4 | 2.2 | 1.8 | 2.1 | 2.2 |
| Switzerland | 3.3 | 5.4 | 5.9 | 4.0 | 3.3 | 0.9 | 1.8 | 0.8 | 0.5 | 0.0 | 0.8 | 1.6 | 1.0 | 0.6 | 0.6 | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 |
| Turkey [b] | 48.0 | 60.3 | 66.0 | 70.1 | 66.1 | 105.2 | 89.1 | 80.4 | 85.7 | 84.6 | 64.9 | 54.9 | 54.4 | 45.0 | 24.5 | 15.9 | 10.2 | 16.8 | 10.9 | 8.8 |
| United Kingdom | 6.9 | 8.1 | 6.8 | 4.7 | 3.0 | 2.4 | 2.8 | 2.9 | 2.8 | 2.7 | 2.3 | 2.1 | 2.1 | 2.2 | 2.8 | 2.6 | 2.7 | 2.8 | 2.6 | 2.7 |
| United States [c] | 5.5 | 5.4 | 4.2 | 3.0 | 3.0 | 2.6 | 2.8 | 2.9 | 2.3 | 1.5 | 2.2 | 3.4 | 2.8 | 1.6 | 2.3 | 1.7 | 1.8 | 2.2 | 1.7 | 1.9 |
| Euro area | 7.0 | 4.6 | 5.0 | 4.6 | 4.0 | 3.2 | 2.9 | 2.4 | 1.7 | 1.2 | 1.2 | 2.2 | 2.4 | 2.3 | 2.0 | 1.5 | 1.4 | 1.8 | 1.4 | 1.5 |

*Note:* Consumer price index. For the euro area countries and the euro area aggregate: harmonised index of consumer prices (HICP) and United Kingdom: retail price index excluding mortgage payments (RPIX).

*a)* Excluding rent, but including imputed rent.

*b)* Until 1981: Istanbul index (154 items); from 1982, Turkish index.

*c)* The methodology for calculating the Consumer Price Index has changed considerably over the past years, lowering measured inflation substantially.

*Source:* OECD.

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Annex Table 20. **Oil and other primary commodity markets**

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Oil market conditions**[a] | | | | | | | | | | | | | | | | | | |
| (in million barrels per day) | | | | | | | | | | | | | | | | | | |
| **Demand** | | | | | | | | | | | | | | | | | | |
| OECD[b] | 40.6 | 41.2 | 41.5 | 41.9 | 42.9 | 43.2 | 44.4 | 44.9 | 45.9 | 46.7 | 46.8 | 47.7 | 47.7 | 47.7 | 47.7 | 48.3 | 48.6 | .. |
| of which: North America | 20.8 | 21.0 | 20.7 | 20.5 | 20.8 | 21.1 | 21.7 | 21.6 | 22.2 | 22.7 | 23.1 | 23.8 | 24.0 | 23.9 | 24.2 | 24.5 | 24.8 | .. |
| Europe[c] | 13.4 | 13.5 | 13.6 | 14.0 | 14.2 | 14.2 | 14.3 | 14.6 | 14.9 | 15.0 | 15.3 | 15.2 | 15.1 | 15.3 | 15.1 | 15.2 | 15.3 | .. |
| Pacific | 6.4 | 6.7 | 7.2 | 7.5 | 7.9 | 8.0 | 8.4 | 8.7 | 8.8 | 9.0 | 8.4 | 8.7 | 8.6 | 8.6 | 8.5 | 8.6 | 8.5 | .. |
| Non-OECD[d] | 24.2 | 24.5 | 24.5 | 24.8 | 24.4 | 24.6 | 24.0 | 24.7 | 25.6 | 26.8 | 27.0 | 27.7 | 28.4 | 28.8 | 29.5 | 30.2 | 31.0 | .. |
| Total | 64.8 | 65.8 | 66.0 | 66.7 | 67.2 | 67.8 | 68.4 | 69.6 | 71.5 | 73.5 | 73.8 | 75.4 | 76.2 | 76.5 | 77.3 | 78.6 | 79.6 | .. |
| **Supply** | | | | | | | | | | | | | | | | | | |
| OECD[b] | 19.6 | 18.9 | 19.0 | 19.5 | 19.8 | 20.0 | 20.8 | 21.1 | 21.7 | 22.1 | 21.9 | 21.4 | 21.9 | 21.8 | 22.0 | 21.9 | 22.1 | .. |
| OPEC total | 21.8 | 23.8 | 25.1 | 25.3 | 26.5 | 26.9 | 27.4 | 27.6 | 28.4 | 29.9 | 30.8 | 29.4 | 30.8 | 30.1 | 28.6 | .. | .. | .. |
| Former USSR | 12.5 | 12.2 | 11.5 | 10.4 | 8.9 | 7.9 | 7.2 | 7.1 | 7.1 | 7.2 | 7.3 | 7.5 | 7.9 | 8.6 | 9.4 | 10.3 | 11.1 | .. |
| Other non-OECD[a] | 10.8 | 11.2 | 11.4 | 11.6 | 12.1 | 12.6 | 13.4 | 14.5 | 15.1 | 15.4 | 15.8 | 16.0 | 16.2 | 16.2 | 16.7 | .. | .. | .. |
| Total | 64.8 | 66.1 | 66.9 | 66.8 | 67.2 | 67.5 | 68.8 | 70.4 | 72.3 | 74.6 | 75.7 | 74.3 | 76.8 | 76.7 | 76.6 | .. | .. | .. |
| **Trade** | | | | | | | | | | | | | | | | | | |
| OECD net imports[b] | 20.8 | 22.5 | 22.8 | 22.4 | 23.1 | 23.5 | 23.8 | 23.4 | 24.2 | 24.9 | 25.3 | 25.5 | 26.0 | 26.2 | 25.5 | 26.9 | 26.5 | .. |
| Former USSR net exports | 3.6 | 3.5 | 3.1 | 2.2 | 2.0 | 2.0 | 2.7 | 2.8 | 3.1 | 3.4 | 3.6 | 3.9 | 4.3 | 4.9 | 5.6 | 6.4 | 7.1 | .. |
| Other non-OECD net exports[a] | 17.2 | 19.0 | 19.7 | 20.2 | 21.1 | 21.4 | 21.1 | 20.6 | 21.1 | 21.5 | 21.7 | 21.6 | 21.7 | 21.3 | 19.9 | 20.5 | 19.4 | .. |
| **Prices**[e] | | | | | | | | | | | | | | | | | | |
| OECD crude oil import price | | | | | | | | | | | | | | | | | | |
| (cif, $ per bl) | 14.9 | 17.5 | 22.3 | 19.3 | 18.4 | 16.4 | 15.6 | 17.2 | 20.5 | 19.1 | 12.6 | 17.3 | 28.0 | 23.6 | 24.1 | 28.2 | 27.0 | 27.0 |
| **Prices of other primary commodities**[e] | | | | | | | | | | | | | | | | | | |
| ($ indices) | | | | | | | | | | | | | | | | | | |
| Food and tropical beverages | 93 | 88 | 79 | 74 | 72 | 73 | 98 | 100 | 99 | 104 | 91 | 74 | 67 | 61 | 67 | 73 | 76 | 79 |
| *of which:* Food | 99 | 96 | 85 | 83 | 87 | 88 | 95 | 100 | 118 | 104 | 91 | 77 | 73 | 70 | 80 | 88 | 94 | 96 |
| Tropical beverages | 90 | 82 | 75 | 68 | 62 | 63 | 100 | 100 | 86 | 103 | 91 | 72 | 62 | 55 | 58 | 61 | 62 | 65 |
| Agricultural raw materials | 80 | 82 | 90 | 78 | 79 | 75 | 86 | 100 | 86 | 83 | 71 | 71 | 74 | 67 | 64 | 77 | 85 | 91 |
| Minerals, ores and metals | 112 | 107 | 99 | 88 | 85 | 74 | 85 | 100 | 90 | 91 | 78 | 74 | 84 | 77 | 75 | 84 | 96 | 101 |
| Total | 94 | 92 | 90 | 80 | 79 | 74 | 89 | 100 | 90 | 91 | 78 | 73 | 75 | 69 | 68 | 78 | 86 | 91 |

*a)* Based on data published in in varoius issues of International Energy Agency, Oil Market Report and Annual Statistical Supplement, August 2003.
*b)* Excluding Czech Republic, Hungary, Korea, Mexico and Poland.
*c)* European Union countries and Iceland, Norway, Switzerland and Turkey.
*d)* Including Czech Republic, Hungary, Korea, Mexico and Poland.
*e)* Indices through 2002 are based on data compiled by International Energy Agency for oil and by Hamburg Institute for Economic Research for the prices of other primary commodities; OECD estimates and projections for 2003 to 2005.
*Source:* OECD.

Annex Table 21. **Employment rates, participation rates and labour force**

| | Employment rates | | | | | | Labour force participation rates | | | | | | Labour force | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Average 1982-84 | Average 1992-94 | 2002 | 2003 | 2004 | 2005 | Average 1982-84 | Average 1992-94 | 2002 | 2003 | 2004 | 2005 | Average 1982-91 | Average 1992-01 | 2002 | 2003 | 2004 | 2005 |
| | *Per cent* | | | | | | *Per cent* | | | | | | *Percentage change* | | | | | |
| Australia | 63.9 | 66.2 | 71.0 | 71.6 | 71.6 | 71.8 | 69.9 | 73.7 | 75.8 | 76.1 | 76.1 | 76.2 | 2.3 | 1.5 | 1.5 | 1.9 | 1.5 | 1.6 |
| Austria | 74.7 | 74.2 | 74.3 | 74.0 | 74.0 | 74.4 | 77.1 | 78.2 | 78.5 | 78.3 | 78.3 | 78.5 | 0.7 | 0.3 | 0.2 | 0.3 | 0.3 | 0.5 |
| Belgium | 55.7 | 57.9 | 61.8 | 61.6 | 61.5 | 61.8 | 62.2 | 63.3 | 66.7 | 67.1 | 67.2 | 67.4 | 0.2 | 0.8 | 0.4 | 0.8 | 0.6 | 0.6 |
| Canada | 65.1 | 67.8 | 72.6 | 73.2 | 73.2 | 73.5 | 73.5 | 76.2 | 78.6 | 79.4 | 79.4 | 79.4 | 1.7 | 1.4 | 2.7 | 2.1 | 1.2 | 1.0 |
| Czech Republic | .. | 69.3 | 65.9 | 65.8 | 65.8 | 66.1 | .. | 72.4 | 71.1 | 71.1 | 71.1 | 71.3 | .. | 0.1 | 0.0 | 0.1 | 0.1 | 0.4 |
| Denmark | 72.2 | 73.7 | 76.8 | 76.3 | 76.4 | 76.6 | 78.5 | 80.7 | 80.4 | 80.7 | 80.6 | 80.7 | 1.0 | -0.1 | 0.8 | 0.6 | 0.0 | 0.2 |
| Finland | 72.2 | 61.9 | 67.9 | 67.8 | 67.9 | 68.0 | 76.2 | 72.8 | 74.8 | 74.7 | 74.6 | 74.2 | 0.1 | 0.5 | 0.1 | 0.1 | -0.1 | -0.1 |
| France | 61.3 | 59.4 | 63.7 | 63.4 | 63.2 | 63.2 | 67.2 | 67.0 | 70.1 | 70.1 | 70.0 | 70.0 | 0.5 | 0.7 | 0.8 | 0.5 | 0.4 | 0.4 |
| Germany | 64.0 | 67.7 | 69.9 | 68.9 | 68.7 | 69.3 | 68.0 | 73.0 | 76.1 | 75.6 | 75.6 | 76.0 | 4.0 | 0.4 | 0.1 | -0.7 | -0.2 | 0.3 |
| Greece | 57.5 | 55.6 | 57.3 | 57.9 | 58.5 | 59.0 | 62.0 | 61.3 | 63.7 | 63.9 | 64.2 | 64.7 | 0.6 | 0.9 | -0.4 | 0.1 | 0.4 | 0.5 |
| Hungary | .. | 53.1 | .. | .. | .. | .. | .. | 60.1 | .. | .. | .. | .. | .. | -0.1 | 0.2 | 0.0 | -0.1 | 0.0 |
| Iceland | 83.4 | 81.0 | 83.4 | 83.2 | 83.1 | 83.5 | 84.9 | 85.1 | 86.2 | 86.1 | 85.9 | 85.9 | 1.3 | 1.4 | -0.4 | 1.6 | 1.8 | 3.0 |
| Ireland | 54.0 | 53.1 | 66.9 | 66.8 | 66.7 | 66.9 | 63.0 | 62.6 | 70.0 | 70.1 | 70.1 | 70.4 | 0.5 | 3.1 | 1.9 | 1.3 | 1.5 | 1.5 |
| Italy | 55.5 | 52.6 | 55.7 | 56.5 | 57.2 | 58.0 | 60.1 | 58.5 | 61.3 | 62.0 | 62.7 | 63.6 | 0.6 | 0.3 | 0.9 | 0.8 | 1.0 | 1.2 |
| Japan | 70.6 | 74.1 | 73.4 | 73.5 | 74.0 | 74.3 | 72.5 | 76.0 | 77.5 | 77.7 | 78.0 | 78.2 | 1.3 | 0.3 | -0.9 | -0.1 | 0.1 | -0.2 |
| Korea | 56.6 | 62.4 | 65.1 | 64.1 | 64.2 | 64.8 | 59.0 | 64.1 | 67.1 | 66.4 | 66.4 | 66.7 | 2.7 | 1.6 | 2.1 | 0.3 | 1.0 | 1.5 |
| Luxembourg | 59.6 | 60.3 | 64.1 | 64.4 | 64.2 | 64.0 | 60.6 | 61.6 | 66.0 | 67.0 | 67.0 | 66.9 | 1.0 | 1.6 | 2.1 | 1.9 | 1.0 | 0.8 |
| Mexico | .. | 52.7 | 54.0 | 53.8 | 53.9 | 54.1 | .. | 54.6 | 55.6 | 55.5 | 55.6 | 55.7 | .. | 2.6 | 1.7 | 1.9 | 2.2 | 2.2 |
| Netherlands | 51.4 | 56.4 | 65.5 | 64.6 | 64.3 | 64.8 | 57.2 | 60.3 | 67.0 | 67.1 | 67.8 | 68.4 | 1.2 | 1.7 | 1.4 | 0.5 | 1.4 | 1.4 |
| New Zealand | 71.3 | 65.1 | 72.4 | .. | .. | .. | 74.6 | 71.8 | 76.4 | .. | .. | .. | 0.7 | 1.8 | 2.8 | 1.4 | 1.1 | 0.9 |
| Norway | 74.2 | 72.3 | 77.2 | 76.6 | 76.5 | 76.4 | 76.5 | 76.7 | 80.4 | 80.2 | 80.2 | 80.0 | 0.7 | 1.2 | 0.6 | -0.1 | 0.6 | 0.3 |
| Poland | .. | 58.5 | 51.4 | 50.6 | 50.7 | 51.1 | .. | 68.2 | 64.2 | 62.8 | 62.7 | 62.7 | .. | 0.2 | -0.9 | -1.7 | 0.4 | 0.5 |
| Portugal | 63.2 | 69.1 | 72.3 | 71.4 | 71.7 | 72.5 | 68.9 | 73.1 | 76.2 | 76.3 | 76.7 | 77.1 | 1.4 | 0.8 | 1.3 | 0.6 | 0.9 | 1.0 |
| Slovak Republic | .. | 63.2 | 56.6 | 57.3 | 57.8 | 58.5 | .. | 72.6 | 69.6 | 69.6 | 69.6 | 70.0 | .. | 1.1 | -0.7 | 0.0 | 0.0 | 0.6 |
| Spain | 48.4 | 48.4 | 59.9 | 61.2 | 62.4 | 63.6 | 56.3 | 57.6 | 67.6 | 69.0 | 70.1 | 71.1 | 1.3 | 2.1 | 3.0 | 2.6 | 2.1 | 1.9 |
| Sweden | 78.7 | 72.4 | 73.4 | 73.0 | 72.7 | 72.6 | 81.3 | 78.0 | 76.5 | 76.6 | 76.3 | 76.0 | 0.4 | -0.1 | 0.1 | 0.8 | 0.2 | 0.4 |
| Switzerland | 77.5 | 84.5 | 84.7 | 83.3 | 82.8 | 82.9 | 78.1 | 87.5 | 87.3 | 86.6 | 86.2 | 86.0 | 2.2 | 0.3 | 1.0 | -0.1 | 0.2 | 0.5 |
| Turkey | 61.1 | 52.4 | 47.1 | 46.8 | 46.4 | 46.1 | 65.9 | 57.2 | 52.5 | 52.0 | 51.5 | 51.0 | 2.0 | 0.6 | 6.9 | 1.6 | 1.3 | 1.5 |
| United Kingdom | 64.9 | 68.1 | 71.7 | 71.9 | 71.9 | 71.9 | 72.6 | 75.5 | 75.6 | 75.7 | 75.6 | 75.5 | 0.7 | 0.3 | 0.8 | 0.7 | 0.3 | 0.4 |
| United States | 65.4 | 71.5 | 71.0 | .. | .. | .. | 71.9 | 76.7 | 75.3 | .. | .. | .. | 1.5 | 1.3 | 0.8 | 1.1 | 1.2 | 1.6 |
| Euro area | 58.7 | 59.3 | 63.9 | 63.8 | 64.0 | 64.6 | 64.0 | 65.7 | 69.7 | 70.0 | 70.3 | 70.7 | 1.6 | 0.8 | 0.9 | 0.5 | 0.6 | 0.8 |
| European Union | 60.4 | 61.2 | 65.5 | 65.4 | 65.6 | 66.1 | 66.1 | 67.7 | 70.9 | 71.2 | 71.4 | 71.7 | 0.9 | 0.7 | 0.8 | 0.5 | 0.6 | 0.7 |
| Total OECD | 62.8 | 64.9 | 66.1 | 64.1 | 64.2 | 64.5 | 67.9 | 70.0 | 71.0 | 69.4 | 69.4 | 69.5 | 1.4 | 0.9 | 0.9 | 0.7 | 0.8 | 1.0 |

*Note:* Employment rates are calculated as the ratio of total employment to the population of working age. The working age population concept used here and in the labour force participation rate is defined as all persons of the age 15 to 64 years (16 to 65 years for Spain). This definition does not correspond to the commonly-used working age population concepts for the United States (16 years and above), Hungary and New Zealand (15 years and above). Hence for these countries no projections are available. For information about sources and definitions, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

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Annex Table 22. **Potential GDP, employment and capital stock**

Percentage change from previous period

| | Potential GDP | | | | | | Employment | | | | | | Capital stock | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Average 1982-91 | Average 1992-01 | 2002 | 2003 | 2004 | 2005 | Average 1982-91 | Average 1992-01 | 2002 | 2003 | 2004 | 2005 | Average 1982-91 | Average 1992-01 | 2002 | 2003 | 2004 | 2005 |
| Australia | 3.5 | 3.3 | 3.4 | 3.7 | 3.7 | 3.6 | 2.0 | 2.0 | 2.0 | 2.3 | 1.6 | 1.9 | 4.3 | 3.4 | 3.8 | 4.0 | 4.3 | 4.3 |
| Austria | 2.3 | 2.2 | 2.3 | 2.1 | 2.1 | 2.0 | 0.5 | 0.3 | -0.4 | 0.1 | 0.3 | 0.8 | 4.0 | 4.1 | 4.0 | 4.2 | 4.2 | 4.4 |
| Belgium | 2.1 | 2.1 | 2.3 | 1.9 | 2.0 | 2.0 | 0.6 | 0.8 | -0.3 | -0.2 | 0.3 | 0.9 | 3.0 | 2.7 | 2.6 | 2.5 | 2.5 | 2.6 |
| Canada | 2.5 | 3.1 | 3.1 | 2.9 | 2.9 | 3.0 | 1.8 | 1.9 | 2.2 | 2.0 | 1.2 | 1.5 | 2.7 | 2.4 | 2.0 | 1.9 | 2.3 | 3.0 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | -0.5 | 1.0 | -0.1 | 0.1 | 0.6 | .. | .. | .. | .. | .. | .. |
| Denmark | 1.6 | 2.3 | 2.2 | 2.2 | 2.2 | 2.1 | 1.0 | 0.4 | 0.7 | -0.5 | 0.3 | 0.4 | 3.2 | 3.2 | 3.7 | 3.1 | 2.9 | 3.0 |
| Finland | 2.5 | 2.4 | 2.8 | 2.5 | 2.3 | 2.5 | 0.0 | 0.8 | 0.2 | -0.1 | 0.2 | 0.5 | 2.9 | 0.6 | 1.2 | 0.7 | 1.0 | 1.2 |
| France | 2.0 | 2.1 | 1.9 | 2.2 | 2.1 | 2.1 | 0.3 | 1.0 | 0.4 | -0.1 | 0.2 | 0.4 | 4.5 | 3.2 | 2.6 | 2.2 | 2.2 | 2.4 |
| Germany | 3.9 | 1.6 | 1.5 | 1.6 | 1.6 | 1.7 | 3.9 | 0.3 | -0.6 | -1.5 | -0.4 | 0.6 | 4.3 | 2.1 | 1.6 | 1.4 | 1.5 | 1.7 |
| Greece | 1.2 | 2.6 | 3.1 | 3.3 | 3.5 | 3.5 | 0.4 | 0.7 | 0.1 | 0.8 | 0.9 | 0.6 | 2.0 | 3.5 | 3.9 | 4.5 | 5.0 | 5.0 |
| Hungary | .. | 2.9 | 3.7 | 3.8 | 3.8 | 3.8 | .. | 0.7 | 0.1 | 0.0 | 0.1 | 0.6 | .. | .. | .. | .. | .. | .. |
| Iceland | 2.8 | 2.3 | 2.4 | 3.0 | 3.5 | 4.6 | 1.1 | 1.7 | -1.5 | 1.5 | 1.9 | 3.5 | 2.8 | 2.8 | 1.8 | 2.6 | 3.6 | 5.4 |
| Ireland | 3.6 | 7.2 | 6.6 | 5.2 | 5.3 | 4.7 | 0.1 | 4.6 | 1.4 | 0.9 | 1.3 | 1.5 | 2.4 | 4.1 | 4.6 | 3.1 | 3.1 | 3.3 |
| Italy | 2.4 | 1.6 | 1.8 | 1.5 | 1.5 | 1.4 | 0.4 | 0.2 | 1.5 | 1.0 | 1.0 | 1.3 | 3.1 | 2.9 | 3.2 | 2.7 | 2.7 | 2.7 |
| Japan | 3.8 | 1.6 | 1.2 | 1.3 | 1.3 | 1.3 | 1.4 | 0.0 | -1.3 | -0.1 | 0.2 | 0.0 | 6.5 | 3.7 | 2.9 | 3.4 | 3.4 | 3.1 |
| Korea | .. | .. | .. | .. | .. | .. | 2.9 | 1.4 | 2.8 | 0.0 | 1.1 | 1.9 | .. | .. | .. | .. | .. | .. |
| Luxembourg | .. | .. | .. | .. | .. | .. | 0.9 | 1.5 | 1.6 | 1.0 | 0.6 | 0.7 | .. | .. | .. | .. | .. | .. |
| Mexico | .. | .. | .. | .. | .. | .. | 3.7 | 2.7 | 1.4 | 1.5 | 2.3 | 2.4 | .. | .. | .. | .. | .. | .. |
| Netherlands | 2.1 | 2.8 | 2.3 | 1.4 | 2.2 | 1.6 | 1.6 | 2.0 | 1.1 | -0.9 | -0.1 | 1.3 | 2.2 | 2.7 | 2.3 | 2.0 | 1.9 | 2.0 |
| New Zealand | 1.7 | 2.8 | 3.6 | 3.8 | 3.5 | 3.3 | -0.1 | 2.4 | 2.9 | 1.8 | 0.9 | 0.8 | 3.2 | 2.4 | 3.3 | 3.8 | 4.6 | 4.5 |
| Norway | 2.2 | 2.8 | 2.2 | 1.8 | 2.1 | 2.0 | 0.4 | 1.4 | 0.2 | -0.6 | 0.4 | 0.5 | 1.1 | 2.0 | 0.4 | 0.0 | 0.0 | 0.3 |
| Poland | .. | .. | .. | .. | .. | .. | .. | -0.4 | -3.0 | -1.0 | 0.6 | 1.3 | .. | .. | .. | .. | .. | .. |
| Portugal | 2.8 | 2.8 | 2.6 | 1.6 | 1.6 | 1.8 | 1.9 | 0.8 | 0.3 | -0.8 | 0.8 | 1.5 | .. | .. | .. | .. | .. | .. |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | 0.1 | 0.2 | 1.2 | 0.9 | 1.1 | .. | .. | .. | .. | .. | .. |
| Spain | 2.6 | 2.9 | 2.8 | 2.7 | 2.7 | 2.6 | 1.4 | 2.5 | 2.0 | 2.6 | 2.5 | 2.3 | 3.7 | 3.9 | 3.5 | 3.2 | 3.0 | 3.0 |
| Sweden | 2.0 | 2.2 | 2.2 | 2.3 | 2.2 | 2.2 | 0.5 | 0.1 | 0.1 | -0.1 | 0.3 | 0.7 | 2.9 | 2.4 | 2.4 | 2.2 | 2.1 | 2.3 |
| Switzerland | 2.3 | 1.0 | 1.2 | 1.3 | 1.0 | 1.2 | 2.0 | 0.4 | 0.4 | -0.9 | 0.2 | 0.8 | 2.8 | 2.3 | 2.0 | 1.8 | 1.8 | 2.0 |
| Turkey | .. | .. | .. | .. | .. | .. | 1.8 | 0.5 | 4.7 | 1.8 | 1.6 | 1.9 | .. | .. | .. | .. | .. | .. |
| United Kingdom | 2.1 | 2.6 | 2.7 | 2.5 | 2.5 | 2.4 | 1.0 | 0.8 | 0.7 | 0.9 | 0.5 | 0.6 | 2.9 | 3.8 | 3.7 | 3.6 | 3.6 | 3.6 |
| United States | 2.9 | 3.2 | 2.8 | 3.0 | 3.0 | 3.1 | 1.9 | 1.6 | -0.3 | 0.8 | 1.4 | 2.2 | 2.7 | 3.2 | 1.4 | 1.4 | 2.0 | 2.4 |
| Euro area | 2.8 | 2.1 | 2.0 | 1.9 | 2.0 | 1.9 | 1.6 | 0.8 | 0.5 | 0.0 | 0.5 | 1.0 | .. | .. | .. | .. | .. | .. |
| European Union | 2.6 | 2.2 | 2.1 | 2.0 | 2.0 | 2.0 | 1.5 | 0.8 | 0.5 | 0.1 | 0.5 | 0.9 | 3.6 | 3.0 | 2.7 | 2.5 | 2.5 | 2.6 |
| Total OECD | 2.9 | 2.5 | 2.3 | 2.4 | 2.4 | 2.4 | 1.7 | 1.1 | 0.3 | 0.5 | 0.9 | 1.4 | 3.6 | 3.1 | 2.2 | 2.2 | 2.5 | 2.6 |

*Note:* Potential output is estimated using a Cobb-Douglas production function approach. For information about definitions, sources and data coverage, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

Annex Table 23. **Structural unemployment, wage shares and unit labor costs**

| | Structural unemployment rate | | | | | | Wage shares in the business sector | | | | | | Unit labour costs in the business sector | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Average 1982-84 | Average 1992-94 | 2002 | 2003 | 2004 | 2005 | Average 1982-84 | Average 1992-94 | 2002 | 2003 | 2004 | 2005 | Average 1982-91 | Average 1992-01 | 2002 | 2003 | 2004 | 2005 |
| | *Per cent* | | | | | | *Per cent of business GDP* | | | | | | *Percentage change* | | | | | |
| Australia | 6.1 | 7.2 | 5.8 | 5.6 | 5.5 | 5.5 | 45.1 | 43.5 | 45.5 | 46.0 | 45.8 | 45.6 | 5.0 | 1.2 | 2.5 | 3.4 | 1.5 | 1.6 |
| Austria | 2.8 | 5.1 | 4.9 | 5.0 | 5.0 | 5.0 | 56.9 | 54.3 | 53.2 | 52.9 | 52.7 | 52.6 | 2.3 | 0.6 | 0.3 | 1.4 | 0.3 | 0.4 |
| Belgium | 6.8 | 8.6 | 6.9 | 6.9 | 6.9 | 6.9 | 49.4 | 51.2 | 51.0 | 50.1 | 49.5 | 48.8 | 3.4 | 1.3 | 3.0 | 0.7 | 0.2 | -0.4 |
| Canada | 8.8 | 8.9 | 7.1 | 7.1 | 7.1 | 7.1 | 44.6 | 46.8 | 48.9 | 48.2 | 48.3 | 48.3 | 4.0 | 1.1 | 1.3 | 2.3 | 1.4 | 1.6 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | 46.2 | 48.2 | 48.6 | 49.3 | 50.1 | .. | 6.3 | 5.8 | 4.0 | 3.2 | 3.5 |
| Denmark | 5.7 | 7.8 | 4.9 | 4.9 | 4.9 | 4.9 | 38.3 | 40.8 | 41.0 | 41.0 | 40.8 | 40.6 | 5.4 | 0.8 | 2.6 | 2.3 | 1.1 | 1.1 |
| Finland | 3.9 | 9.1 | 8.4 | 8.3 | 8.3 | 8.2 | 48.2 | 42.0 | 40.9 | 41.5 | 40.9 | 40.5 | 5.7 | 0.4 | -0.4 | 2.2 | -0.4 | 0.2 |
| France | 5.7 | 10.2 | 9.2 | 9.1 | 9.0 | 8.9 | 51.5 | 44.2 | 42.1 | 42.4 | 42.3 | 42.1 | 2.9 | 0.4 | 1.7 | 2.4 | 0.8 | 0.2 |
| Germany | 4.6 | 6.6 | 7.3 | 7.3 | 7.3 | 7.3 | 53.0 | 52.3 | 52.3 | 52.4 | 52.0 | 51.8 | 1.7 | 0.8 | 0.6 | 0.9 | -0.2 | 0.0 |
| Greece | 5.2 | 8.7 | 9.7 | 9.6 | 9.6 | 9.6 | 55.1 | 45.8 | 43.4 | 43.0 | 42.7 | 42.5 | 16.6 | 6.2 | 3.0 | 2.1 | 2.4 | 2.7 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | 48.6 | 40.8 | 40.7 | 41.1 | 41.1 | .. | 9.8 | 8.3 | 5.8 | 5.1 | 3.1 |
| Iceland | 0.6 | 2.1 | 3.5 | 3.4 | 3.4 | 3.2 | 46.9 | 50.3 | 52.7 | 54.5 | 54.8 | 55.6 | 28.0 | 3.7 | 3.9 | 4.5 | 4.1 | 4.7 |
| Ireland | 13.1 | 13.9 | 5.9 | 5.7 | 5.5 | 5.3 | 56.3 | 50.8 | 37.0 | 37.7 | 37.1 | 36.5 | 2.2 | 0.1 | -1.6 | 3.1 | 2.0 | 1.3 |
| Italy | 7.2 | 9.6 | 9.0 | 8.9 | 8.8 | 8.7 | 54.9 | 50.4 | 47.3 | 47.0 | 47.0 | 46.9 | 7.2 | 1.4 | 3.3 | 2.5 | 1.6 | 1.9 |
| Japan | 2.2 | 2.5 | 3.9 | 3.9 | 3.9 | 3.9 | 66.1 | 59.6 | 56.2 | 56.3 | 56.6 | 56.3 | 0.2 | -0.9 | -3.1 | -2.3 | -1.1 | -1.3 |
| Korea | .. | .. | .. | .. | .. | .. | 77.8 | 70.2 | 72.2 | 75.3 | 75.1 | 76.4 | 4.9 | 2.8 | 5.7 | 5.5 | 0.2 | 2.2 |
| Luxembourg | .. | .. | .. | .. | .. | .. | .. | 47.5 | 47.7 | 48.2 | 47.5 | 46.9 | .. | 1.7 | 4.8 | 2.4 | 1.3 | 1.4 |
| Mexico | .. | .. | .. | .. | .. | .. | .. | 43.4 | 37.8 | 37.7 | 37.8 | 37.7 | 26.4 | 15.1 | 5.9 | 4.9 | 3.3 | 2.8 |
| Netherlands | 6.4 | 6.5 | 3.7 | 3.6 | 3.5 | 3.5 | 46.0 | 46.8 | 46.9 | 47.4 | 47.7 | 47.7 | 0.4 | 1.7 | 4.7 | 4.1 | 1.2 | 0.8 |
| New Zealand | 3.0 | 7.8 | 5.4 | 5.4 | 5.4 | 5.4 | 46.2 | 44.2 | 41.8 | 42.4 | 42.2 | 42.0 | 6.5 | 0.6 | 1.2 | 2.2 | 1.7 | 1.9 |
| Norway | 2.2 | 5.2 | 3.6 | 3.6 | 3.6 | 3.6 | 40.3 | 36.7 | 34.5 | 34.5 | 34.3 | 33.9 | 5.1 | 2.0 | 4.3 | 2.9 | 1.3 | 2.1 |
| Poland | .. | .. | .. | .. | .. | .. | .. | 52.2 | 47.3 | 46.7 | 46.1 | 45.9 | .. | 11.8 | -0.1 | -1.4 | -0.6 | -0.6 |
| Portugal | 6.0 | 4.5 | 3.8 | 3.8 | 3.8 | 3.8 | 59.3 | 51.5 | 48.6 | 48.7 | 48.8 | 48.6 | 14.1 | 3.6 | 3.8 | 3.2 | 1.8 | 0.9 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | 37.7 | 35.2 | 34.9 | 34.9 | 36.1 | .. | 5.5 | 3.8 | 3.9 | 4.2 | 5.3 |
| Spain | 9.8 | 13.3 | 11.3 | 11.0 | 10.7 | 10.5 | 52.8 | 49.4 | 48.0 | 47.3 | 47.0 | 46.6 | 7.4 | 3.0 | 3.3 | 2.6 | 2.6 | 2.3 |
| Sweden | 2.1 | 4.7 | 4.6 | 4.5 | 4.5 | 4.5 | 38.3 | 39.0 | 45.3 | 45.1 | 44.6 | 44.2 | 6.7 | 2.1 | 1.7 | 1.0 | 0.9 | 1.2 |
| Switzerland | 0.5 | 2.3 | 2.5 | 2.5 | 2.5 | 2.5 | 49.8 | 51.7 | 56.7 | 57.3 | 57.3 | 57.1 | 4.4 | 1.5 | 1.9 | 1.1 | -0.5 | -0.5 |
| Turkey | .. | .. | .. | .. | .. | .. | 42.0 | 70.2 | 39.3 | 38.0 | 36.6 | 35.3 | 60.4 | 60.9 | 25.1 | 19.8 | 9.7 | 6.9 |
| United Kingdom | 6.1 | 7.1 | 5.3 | 5.2 | 5.1 | 5.1 | 49.9 | 55.0 | 59.9 | 59.5 | 59.0 | 58.5 | 5.9 | 2.7 | 2.1 | 2.5 | 1.3 | 1.7 |
| United States | 5.8 | 5.3 | 5.1 | 5.1 | 5.1 | 5.0 | 50.6 | 49.7 | 49.6 | 48.6 | 48.4 | 48.7 | 2.8 | 1.8 | -1.7 | -0.6 | 0.3 | 1.6 |
| Euro area | 6.2 | 8.7 | 8.1 | 8.1 | 8.0 | 7.9 | 53.5 | 50.4 | 48.4 | 48.3 | 48.0 | 47.8 | 4.0 | 1.2 | 1.8 | 1.9 | 0.7 | 0.6 |
| European Union | 6.0 | 8.4 | 7.6 | 7.5 | 7.4 | 7.3 | 51.7 | 49.8 | 49.4 | 49.4 | 49.1 | 48.8 | 4.7 | 1.5 | 2.1 | 2.0 | 1.0 | 1.0 |
| Total OECD | 5.3 | 6.2 | 5.9 | 5.9 | 5.9 | 5.8 | 53.5 | 51.5 | 50.3 | 49.9 | 49.8 | 49.8 | 5.0 | 2.9 | 0.6 | 1.0 | 0.7 | 1.1 |

*Note:* The structural unemployment rate corresponds to "NAIRU". For more information about sources and definitions, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*
*Source:* OECD.

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Annex Table 24. **Household saving rates**

Per cent of disposable household income

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net savings** | | | | | | | | | | | | | | | | | | | | |
| Australia | 10.2 | 8.2 | 6.9 | 8.7 | 9.3 | 6.2 | 5.7 | 5.0 | 5.8 | 4.8 | 5.8 | 3.9 | 1.9 | 1.7 | 3.4 | 3.2 | 0.6 | -1.1 | -0.7 | -0.7 |
| Austria | 12.3 | 13.9 | 11.9 | 12.8 | 14.0 | 14.9 | 12.0 | 10.9 | 11.8 | 11.7 | 9.9 | 7.4 | 8.4 | 8.5 | 8.3 | 7.4 | 7.6 | 7.9 | 7.9 | 8.6 |
| Canada | 13.4 | 11.9 | 12.3 | 13.0 | 13.0 | 13.3 | 13.0 | 11.9 | 9.5 | 9.2 | 7.0 | 4.9 | 4.9 | 4.0 | 4.6 | 4.5 | 4.2 | 2.5 | 2.9 | 2.9 |
| Finland | 1.7 | 3.1 | -1.0 | -1.4 | 1.8 | 7.1 | 10.0 | 7.8 | 1.9 | 4.8 | 0.4 | 2.2 | 0.4 | 1.5 | -1.4 | -1.2 | -1.4 | -1.5 | -0.6 | -0.2 |
| France | 8.1 | 6.4 | 6.8 | 7.2 | 7.8 | 8.7 | 9.7 | 10.4 | 9.8 | 11.2 | 10.0 | 11.3 | 10.8 | 10.4 | 11.0 | 11.5 | 12.0 | 11.4 | 11.4 | 11.2 |
| Germany | 12.7 | 12.9 | 13.4 | 12.6 | 13.7 | 13.1 | 13.0 | 12.3 | 11.6 | 11.2 | 10.8 | 10.4 | 10.3 | 9.8 | 9.8 | 10.3 | 10.6 | 10.7 | 10.9 | 11.4 |
| Ireland | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Japan | 16.5 | 14.0 | 13.2 | 13.3 | 14.0 | 14.6 | 13.9 | 13.5 | 12.3 | 11.9 | 9.8 | 9.8 | 11.2 | 11.1 | 9.8 | 6.9 | 5.9 | 6.6 | 6.6 | 6.6 |
| Korea | 20.0 | 23.1 | 25.1 | 23.6 | 22.0 | 24.0 | 22.8 | 20.6 | 19.4 | 16.8 | 15.9 | 15.4 | 23.0 | 16.0 | 11.5 | 7.7 | 7.6 | 8.2 | 7.6 | 7.7 |
| Netherlands | 15.5 | 13.5 | 13.4 | 15.2 | 17.5 | 13.8 | 16.1 | 13.5 | 14.3 | 14.4 | 13.0 | 13.4 | 12.9 | 9.6 | 6.8 | 9.0 | 8.6 | 8.9 | 9.3 | 9.1 |
| New Zealand | 0.4 | 4.0 | 3.3 | 2.9 | 0.7 | 2.1 | 0.8 | -0.2 | -3.1 | -3.8 | -2.5 | -4.1 | -4.2 | -5.1 | -4.1 | -4.2 | -5.2 | -5.0 | -5.5 | -5.9 |
| Norway | -5.5 | -5.5 | -2.0 | 0.4 | 1.5 | 2.9 | 5.0 | 6.1 | 5.2 | 4.6 | 2.2 | 2.8 | 5.8 | 5.5 | 4.5 | 3.7 | 6.9 | 5.0 | 5.3 | 5.4 |
| United States | 8.2 | 7.3 | 7.8 | 7.5 | 7.8 | 8.3 | 8.7 | 7.1 | 6.1 | 5.6 | 4.8 | 4.2 | 4.7 | 2.6 | 2.8 | 2.3 | 3.7 | 3.4 | 3.8 | 4.2 |
| **Gross savings** | | | | | | | | | | | | | | | | | | | | |
| Belgium | 16.7 | 15.2 | 15.4 | 15.0 | 17.3 | 17.4 | 18.4 | 19.5 | 19.5 | 18.8 | 17.0 | 15.6 | 14.5 | 14.0 | 13.2 | 13.3 | 14.4 | 13.6 | 12.9 | 12.9 |
| Denmark | .. | .. | 7.4 | 8.4 | 11.2 | 10.8 | 9.7 | 8.3 | 4.2 | 6.9 | 5.6 | 3.6 | 5.0 | 1.4 | 4.8 | 7.0 | 7.2 | 8.3 | 8.0 | 6.7 |
| Italy | 28.9 | 28.4 | 27.7 | 27.4 | 27.8 | 26.8 | 25.5 | 25.1 | 23.6 | 22.5 | 23.3 | 20.2 | 17.2 | 15.2 | 14.4 | 15.4 | 15.9 | 15.1 | 14.1 | 13.7 |
| Portugal | .. | .. | .. | .. | .. | .. | .. | .. | .. | 13.6 | 11.8 | 10.3 | 9.9 | 8.6 | 10.9 | 10.9 | 12.1 | 13.1 | 13.2 | 12.4 |
| Spain | 12.1 | 10.6 | 11.0 | 10.2 | 12.3 | 13.4 | 11.9 | 14.4 | 11.9 | 16.2 | 14.2 | 13.3 | 12.2 | 11.2 | 10.8 | 10.1 | 10.6 | 10.8 | 10.4 | 9.9 |
| Sweden | 1.9 | -2.6 | -4.5 | -4.4 | 0.0 | 3.5 | 8.0 | 10.7 | 11.1 | 8.3 | 7.1 | 4.9 | 2.5 | 3.3 | 2.4 | 5.2 | 8.2 | 8.2 | 6.5 | 5.7 |
| Switzerland | 2.3 | 4.0 | 6.4 | 7.7 | 8.7 | 9.9 | 10.1 | 10.8 | 9.1 | 9.4 | 8.7 | 10.1 | 8.6 | 8.9 | 8.3 | 9.1 | 9.7 | 10.0 | 9.8 | 9.5 |
| United Kingdom | 8.0 | 6.4 | 4.9 | 6.6 | 8.0 | 10.2 | 11.6 | 10.8 | 9.3 | 10.0 | 9.3 | 9.6 | 6.4 | 5.3 | 5.5 | 6.7 | 5.3 | 4.8 | 4.2 | 4.3 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Countries differ in the way household disposable income is reported (in particular whether private pension benefits less pension contributions are included in disposable income or not), but the calculation of household saving is adjusted for this difference. Most countries are reporting household saving on a net basis (i.e. excluding consumption of fixed capital by households and unincorporated businesses). In most countries the households saving include saving by non-profit institutions (in some cases referred to as personal saving). Other countries (Czech Republic, Finland, France, Japan and New Zealand) report saving of households only.

*Source:* OECD.

Annex Table 25. **Gross national saving**

Per cent of nominal GDP

| | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 20.0 | 18.9 | 19.4 | 21.3 | 22.6 | 21.7 | 18.1 | 16.2 | 17.2 | 18.6 | 17.5 | 17.8 | 18.9 | 19.0 | 18.6 | 19.3 | 18.7 | 19.1 | .. |
| Austria | 23.2 | 23.1 | 23.2 | 23.3 | 23.9 | 24.4 | 25.0 | 24.8 | 23.9 | 22.4 | 22.3 | 21.6 | 21.4 | 21.3 | 21.8 | 21.2 | 22.0 | 21.7 | 22.9 |
| Belgium | 17.8 | 17.9 | 19.0 | 19.8 | 22.5 | 23.6 | 23.9 | 23.1 | 23.5 | 24.6 | 25.9 | 25.8 | 24.6 | 25.7 | 25.7 | 26.1 | 25.7 | 24.5 | 24.1 |
| Canada | 20.8 | 20.2 | 18.8 | 20.0 | 20.8 | 20.1 | 17.6 | 14.9 | 13.6 | 14.2 | 16.5 | 18.6 | 19.1 | 19.9 | 19.4 | 21.0 | 24.1 | 22.8 | 22.3 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | .. | 27.9 | 28.1 | 27.3 | 29.9 | 27.4 | 26.1 | 27.8 | 25.4 | 24.4 | .. | .. |
| Denmark | 17.1 | 17.4 | 18.3 | 18.6 | 19.2 | 19.5 | 20.7 | 20.0 | 20.3 | 19.2 | 19.1 | 20.4 | 20.4 | 21.2 | 20.8 | 21.5 | 22.8 | 23.5 | 22.8 |
| Finland | 25.4 | 24.4 | 23.8 | 23.7 | 26.2 | 26.1 | 24.8 | 17.1 | 14.4 | 15.5 | 18.8 | 22.2 | 21.1 | 24.5 | 25.8 | 25.8 | 27.8 | 27.3 | 26.4 |
| France | 18.3 | 18.1 | 19.4 | 19.6 | 20.8 | 21.6 | 21.5 | 20.9 | 20.5 | 19.0 | 19.2 | 19.5 | 19.2 | 20.4 | 21.4 | 22.3 | 22.4 | 22.0 | 20.9 |
| Germany | 22.6 | 23.1 | 24.6 | 23.8 | 24.9 | 26.1 | 26.1 | 23.3 | 23.1 | 21.9 | 21.9 | 21.8 | 21.3 | 21.4 | 21.5 | 20.8 | 20.6 | 20.2 | 21.1 |
| Greece | 23.0 | 22.6 | 22.4 | 18.9 | 21.3 | 19.0 | 19.1 | 20.7 | 20.0 | 18.5 | 19.4 | 18.0 | 17.4 | 17.9 | 17.8 | 16.8 | 17.6 | 18.3 | 18.2 |
| Iceland | 17.7 | 15.9 | 19.0 | 16.6 | 16.3 | 16.3 | 17.4 | 16.8 | 16.7 | 18.3 | 18.5 | 17.7 | 17.9 | 18.6 | 17.9 | 15.6 | 14.3 | 18.0 | 18.8 |
| Ireland | 14.1 | 13.5 | 13.4 | 14.5 | 14.7 | 15.0 | 18.0 | 17.7 | 15.6 | 17.7 | 18.0 | 20.8 | 22.3 | 24.2 | 25.9 | 24.7 | 25.2 | 22.8 | 20.5 |
| Italy | 23.1 | 22.6 | 22.4 | 21.9 | 21.8 | 21.0 | 20.7 | 19.6 | 18.3 | 19.2 | 19.7 | 21.6 | 21.9 | 21.6 | 21.2 | 20.7 | 20.0 | 20.0 | 19.7 |
| Japan | 31.2 | 32.0 | 32.2 | 32.8 | 33.6 | 33.6 | 33.6 | 34.4 | 33.6 | 32.1 | 30.3 | 29.4 | 29.7 | 29.9 | 29.0 | 27.8 | 27.7 | 26.4 | .. |
| Korea | 30.6 | 30.6 | 34.6 | 38.4 | 40.7 | 37.6 | 37.6 | 37.4 | 36.5 | 36.2 | 35.6 | 35.4 | 33.7 | 33.3 | 33.7 | 32.6 | 32.2 | 30.1 | 29.1 |
| Mexico | 25.7 | 25.8 | 19.1 | 24.5 | 21.3 | 20.3 | 20.3 | 18.7 | 16.6 | 15.1 | 14.8 | 19.3 | 22.4 | 24.0 | 20.5 | 20.5 | 20.7 | 18.0 | .. |
| Netherlands | 25.0 | 23.9 | 24.2 | 23.9 | 25.6 | 27.2 | 26.1 | 25.4 | 24.5 | 24.6 | 26.2 | 27.4 | 26.7 | 27.9 | 25.2 | 26.6 | 27.1 | 25.2 | 22.6 |
| New Zealand | 19.1 | 18.6 | 18.9 | 18.0 | 18.6 | 17.8 | 16.2 | 13.0 | 13.9 | 16.6 | 17.3 | 17.2 | 16.2 | 15.8 | 15.4 | 14.0 | 15.4 | 18.2 | .. |
| Norway | 32.0 | 31.1 | 25.4 | 25.6 | 25.0 | 26.0 | 25.7 | 24.7 | 23.7 | 23.8 | 24.8 | 26.4 | 28.4 | 30.1 | 27.3 | 29.1 | 36.5 | 35.1 | 32.1 |
| Portugal | 7.5 | 8.7 | 10.6 | 11.9 | 11.6 | 12.4 | 11.1 | 8.6 | 8.0 | 5.0 | 4.1 | 4.7 | 3.8 | 3.7 | 4.3 | 3.1 | 0.6 | 0.8 | 0.9 |
| Spain | 21.2 | 21.9 | 22.9 | 22.6 | 23.5 | 22.9 | 22.9 | 22.3 | 20.5 | 20.5 | 20.0 | 22.3 | 22.0 | 22.5 | 22.4 | 22.5 | 22.5 | 22.6 | 22.8 |
| Sweden | 18.3 | 18.0 | 18.4 | 18.4 | 18.8 | 19.2 | 18.2 | 16.6 | 15.0 | 14.0 | 17.7 | 20.7 | 20.2 | 20.5 | 21.3 | 21.7 | 22.6 | 22.1 | 21.2 |
| Switzerland | 30.0 | 30.4 | 30.0 | 29.8 | 31.8 | 32.5 | 32.3 | 30.2 | 28.4 | 28.9 | 27.9 | 28.5 | 27.9 | 30.3 | 30.7 | 31.4 | 33.6 | 29.5 | .. |
| Turkey | 16.3 | 20.7 | 23.9 | 24.3 | 28.9 | 26.4 | 21.5 | 17.7 | 18.5 | 18.7 | 18.9 | 20.1 | 22.6 | 21.6 | 20.6 | 13.7 | 15.2 | 12.6 | .. |
| United Kingdom | 18.2 | 18.2 | 17.3 | 17.3 | 17.2 | 17.1 | 16.2 | 15.3 | 14.0 | 13.9 | 15.5 | 15.7 | 15.6 | 16.9 | 17.6 | 15.5 | 15.3 | 15.4 | 15.1 |
| United States | 18.5 | 17.2 | 15.4 | 15.9 | 17.2 | 16.7 | 15.9 | 16.1 | 15.1 | 15.0 | 15.8 | 16.4 | 16.7 | 17.6 | 18.3 | 17.9 | 18.0 | 16.1 | 14.6 |
| European Union | 20.6 | 20.6 | 21.2 | 20.9 | 21.7 | 22.0 | 21.7 | 20.5 | 19.6 | 19.1 | 19.7 | 20.4 | 20.2 | 20.7 | 20.9 | 20.5 | 20.4 | 20.1 | 19.9 |
| Total OECD | 21.9 | 21.5 | 21.0 | 21.5 | 22.4 | 22.2 | 21.6 | 21.0 | 20.1 | 19.8 | 20.0 | 20.7 | 20.8 | 21.5 | 21.5 | 21.0 | 21.1 | 19.9 | 17.9 |

*Note:* Based on SNA93 or ESA95 except for Switzerland and Turkey that report on SNA68 basis.
*Source:* OECD.

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Annex Table 26. **General government total outlays**

Per cent of nominal GDP

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 37.6 | 37.9 | 38.6 | 37.2 | 36.3 | 38.4 | 40.3 | 40.2 | 39.4 | 39.7 | 39.0 | 37.5 | 37.1 | 35.9 | 36.3 | 37.1 | 36.3 | 36.2 | 35.7 | 35.2 |
| Austria | 55.8 | 56.1 | 55.2 | 53.6 | 53.1 | 54.2 | 54.9 | 57.9 | 57.4 | 57.3 | 56.8 | 54.1 | 54.2 | 54.2 | 52.4 | 51.8 | 51.3 | 51.6 | 51.0 | 50.6 |
| Belgium | 58.9 | 57.0 | 55.1 | 53.4 | 53.4 | 54.4 | 54.7 | 55.6 | 53.3 | 52.8 | 53.0 | 51.4 | 50.7 | 50.1 | 49.4 | 49.5 | 50.5 | 49.7 | 49.7 | 49.3 |
| Canada | 47.5 | 46.1 | 45.4 | 45.8 | 48.8 | 52.3 | 53.3 | 52.2 | 49.7 | 48.5 | 46.6 | 44.3 | 44.4 | 42.5 | 41.0 | 41.4 | 40.6 | 40.1 | 40.1 | 39.9 |
| Czech Republic [a] | .. | .. | .. | .. | .. | .. | 38.0 | 43.1 | 44.8 | 43.9 | 42.3 | 41.7 | 40.5 | 42.2 | 43.4 | 42.5 | 44.4 | 47.1 | 46.1 | 45.4 |
| Denmark | 53.3 | 55.0 | 57.2 | 57.3 | 57.0 | 57.8 | 59.0 | 61.7 | 61.6 | 60.3 | 59.8 | 58.0 | 57.6 | 56.3 | 54.7 | 55.3 | 55.5 | 56.6 | 56.4 | 55.8 |
| Finland | 47.9 | 48.5 | 47.0 | 45.2 | 48.6 | 57.7 | 63.0 | 64.2 | 62.9 | 59.6 | 59.7 | 56.4 | 52.8 | 52.1 | 49.0 | 49.1 | 50.0 | 51.0 | 50.8 | 50.4 |
| France | 52.7 | 51.9 | 51.4 | 50.4 | 50.7 | 51.5 | 53.0 | 55.3 | 54.9 | 55.0 | 55.4 | 54.9 | 53.7 | 53.5 | 52.5 | 52.5 | 53.4 | 54.4 | 54.1 | 53.6 |
| Germany [b] | 45.4 | 45.8 | 45.4 | 44.0 | 44.4 | 47.1 | 48.1 | 49.3 | 49.0 | 49.4 | 50.3 | 49.3 | 48.8 | 48.7 | 45.7 | 48.3 | 48.5 | 49.4 | 48.6 | 47.6 |
| Greece | 45.2 | 45.1 | 44.0 | 45.4 | 50.2 | 46.7 | 49.4 | 52.0 | 49.9 | 50.0 | 48.2 | 47.8 | 47.4 | 47.5 | 49.7 | 47.6 | 46.8 | 46.7 | 46.6 | 46.2 |
| Hungary | .. | .. | .. | .. | .. | 56.7 | 60.3 | 59.8 | 63.4 | 56.9 | 53.9 | 51.8 | 52.8 | 50.0 | 48.0 | 48.5 | 51.6 | 48.4 | 48.2 | 46.9 |
| Iceland | 40.6 | 37.5 | 42.6 | 45.2 | 42.4 | 43.7 | 44.7 | 44.6 | 44.4 | 43.7 | 43.3 | 41.7 | 42.4 | 43.3 | 42.8 | 42.8 | 45.5 | 46.5 | 44.5 | 42.9 |
| Ireland | 53.9 | 51.4 | 48.7 | 42.5 | 43.2 | 44.8 | 45.2 | 45.1 | 44.3 | 41.5 | 39.6 | 37.1 | 35.0 | 34.6 | 32.0 | 34.1 | 33.5 | 35.2 | 35.1 | 34.9 |
| Italy | 51.4 | 50.8 | 51.5 | 52.8 | 54.4 | 55.5 | 56.7 | 57.7 | 54.5 | 53.4 | 53.2 | 51.1 | 49.9 | 48.9 | 46.8 | 48.5 | 47.7 | 48.5 | 47.9 | 48.5 |
| Japan [c] | 31.2 | 31.7 | 31.1 | 30.5 | 32.1 | 31.8 | 32.8 | 34.7 | 35.2 | 36.1 | 36.6 | 35.4 | 36.5 | 38.1 | 38.6 | 38.0 | 38.7 | 38.3 | 38.1 | 38.1 |
| Korea | 18.8 | 17.8 | 17.9 | 18.9 | 19.5 | 20.7 | 21.9 | 21.3 | 20.9 | 20.6 | 22.0 | 22.9 | 25.6 | 24.6 | 24.4 | 27.1 | 25.3 | 29.1 | 28.9 | 28.9 |
| Luxembourg | .. | .. | .. | .. | 43.2 | 44.5 | 46.0 | 45.7 | 44.5 | 45.5 | 45.6 | 43.3 | 42.0 | 41.3 | 38.5 | 39.1 | 44.2 | 46.6 | 46.3 | 46.4 |
| Netherlands [d] | 56.9 | 58.4 | 56.6 | 54.5 | 54.8 | 54.8 | 55.8 | 56.0 | 53.6 | 51.4 | 49.6 | 48.2 | 47.2 | 46.9 | 45.3 | 46.6 | 47.5 | 48.6 | 48.2 | 47.8 |
| New Zealand | .. | 53.6 | 52.7 | 52.0 | 53.3 | 51.5 | 49.5 | 46.0 | 43.0 | 41.9 | 41.0 | 41.6 | 42.9 | 41.4 | 40.2 | 39.1 | 39.2 | 39.8 | 39.9 | 39.9 |
| Norway | 48.3 | 50.5 | 52.6 | 52.2 | 52.8 | 54.9 | 56.3 | 55.1 | 54.1 | 51.6 | 49.2 | 47.3 | 49.7 | 48.3 | 43.4 | 44.8 | 47.7 | 48.4 | 48.7 | 49.4 |
| Poland | .. | .. | .. | .. | .. | 53.4 | 54.9 | 54.3 | 49.4 | 47.2 | 46.2 | 45.6 | 43.8 | 43.4 | 45.3 | 46.2 | 46.5 | 46.8 | 47.2 | 47.2 |
| Portugal | 41.3 | 40.0 | 38.5 | 38.8 | 42.1 | 45.1 | 46.2 | 47.8 | 46.0 | 45.0 | 45.8 | 44.8 | 44.1 | 45.3 | 45.2 | 46.3 | 46.1 | 46.8 | 46.1 | 45.1 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | .. | 59.0 | 54.8 | 62.5 | 65.4 | 62.4 | 59.7 | 65.4 | 55.5 | 50.8 | 47.6 | 45.2 | 44.0 |
| Spain | 42.6 | 41.0 | 40.9 | 42.2 | 43.4 | 44.9 | 45.9 | 49.4 | 47.3 | 45.0 | 43.7 | 41.8 | 41.4 | 40.2 | 39.8 | 39.4 | 39.7 | 39.3 | 39.1 | 38.9 |
| Sweden | 62.0 | 58.3 | 58.6 | 58.6 | 59.4 | 62.3 | 67.5 | 73.0 | 70.9 | 67.6 | 65.2 | 63.1 | 60.7 | 60.2 | 57.4 | 57.1 | 58.4 | 59.0 | 58.6 | 57.5 |
| United Kingdom | 45.6 | 43.6 | 41.1 | 40.5 | 42.2 | 44.0 | 45.7 | 45.7 | 45.0 | 44.6 | 42.7 | 41.0 | 39.8 | 39.2 | 37.0 | 40.3 | 40.8 | 42.8 | 43.0 | 43.4 |
| United States [e] | 37.0 | 36.7 | 35.8 | 35.6 | 36.5 | 37.2 | 38.0 | 37.5 | 36.5 | 36.4 | 35.9 | 34.8 | 34.0 | 33.7 | 33.6 | 34.7 | 35.5 | 35.9 | 35.7 | 35.7 |
| Euro area | 49.2 | 48.9 | 48.5 | 47.9 | 48.7 | 50.1 | 51.3 | 53.0 | 51.8 | 51.4 | 51.5 | 50.2 | 49.3 | 48.9 | 47.0 | 48.1 | 48.2 | 48.9 | 48.4 | 47.9 |
| European Union | 49.2 | 48.5 | 47.8 | 47.4 | 48.3 | 49.9 | 51.3 | 52.7 | 51.5 | 50.9 | 50.5 | 49.1 | 48.2 | 47.7 | 45.9 | 47.3 | 47.5 | 48.4 | 48.0 | 47.7 |
| Total OECD | 40.6 | 40.3 | 39.6 | 39.3 | 40.3 | 41.7 | 42.7 | 43.3 | 42.4 | 42.1 | 41.8 | 40.6 | 40.2 | 40.0 | 39.3 | 40.3 | 40.7 | 41.2 | 40.9 | 40.8 |

*Note:* Total outlays are defined as current outlays plus capital outlays. Data refer to the general government sector, which is a consolidation of accounts for the central, state and local governments plus social security. One-off revenues from the sale of mobile telephone licenses are recorded as negative capital outlays for countries listed in the note to Table 28. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* Data are based on the IMF methodology used for the Government Finance Statistics adjusted for losses of transformation institutions and financial operations.

*b)* The 1995 outlays are net of the debt taken on this year from the Inherited Debt funds.

*c)* The 1998 outlays would be 5.2 percentage points of GDP higher if account were taken of the assumption by the central government of the debt of the Japan Railway Settlement Corporation and the National Forest Special Account. The 2000 outlays include capital transfers to the Deposit Insurance Company.

*c)* The 1995 outlays would be 4.9 percentage points of GDP higher if capital transfers to a housing agency offering rentals to low income people were taken into account.

*e)* These data include outlays net of operating surpluses of public enterprises.

*Source:* OECD.

Annex Table 27. **General government total tax and non-tax receipts**

Per cent of nominal GDP

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 36.7 | 37.5 | 36.2 | 35.2 | 34.8 | 34.2 | 33.9 | 34.4 | 34.6 | 35.9 | 36.8 | 37.1 | 37.9 | 37.8 | 36.9 | 37.0 | 37.4 | 37.0 | 36.2 | 35.7 |
| Austria | 51.9 | 51.6 | 51.7 | 50.5 | 50.6 | 51.2 | 52.9 | 53.7 | 52.4 | 52.0 | 52.8 | 52.1 | 51.7 | 51.8 | 50.8 | 51.9 | 51.0 | 50.4 | 49.9 | 48.9 |
| Belgium | 48.8 | 49.0 | 47.7 | 45.7 | 46.6 | 46.9 | 46.6 | 48.3 | 48.3 | 48.5 | 49.2 | 49.5 | 50.0 | 49.6 | 49.5 | 50.0 | 50.5 | 49.9 | 49.7 | 48.8 |
| Canada | 40.4 | 40.6 | 41.0 | 41.2 | 42.9 | 43.9 | 44.2 | 43.5 | 43.0 | 43.2 | 43.8 | 44.5 | 44.5 | 44.1 | 44.1 | 42.8 | 41.4 | 41.2 | 40.9 | 40.8 |
| Czech Republic [a] | .. | .. | .. | .. | .. | .. | 43.0 | 43.5 | 43.5 | 42.8 | 41.3 | 40.3 | 39.2 | 39.9 | 40.0 | 39.7 | 40.5 | 40.5 | 40.4 | 40.3 |
| Denmark | 56.6 | 57.5 | 58.7 | 57.6 | 56.0 | 55.4 | 56.8 | 58.9 | 59.1 | 58.0 | 58.8 | 58.3 | 58.7 | 59.5 | 57.2 | 58.0 | 57.5 | 57.4 | 57.3 | 57.2 |
| Finland | 51.9 | 50.1 | 52.3 | 52.1 | 54.0 | 56.7 | 57.5 | 56.9 | 57.2 | 55.7 | 56.7 | 55.1 | 54.4 | 54.2 | 56.1 | 54.3 | 54.2 | 53.6 | 52.7 | 52.4 |
| France | 49.5 | 49.9 | 48.9 | 48.6 | 48.6 | 49.1 | 48.8 | 49.3 | 49.4 | 49.5 | 51.3 | 51.8 | 51.1 | 51.7 | 51.1 | 50.9 | 50.3 | 50.4 | 50.4 | 50.2 |
| Germany | 44.2 | 44.0 | 43.4 | 44.1 | 42.5 | 44.2 | 45.5 | 46.2 | 46.6 | 46.1 | 46.9 | 46.6 | 46.6 | 47.3 | 47.1 | 45.5 | 45.0 | 45.3 | 44.9 | 44.1 |
| Greece | 35.6 | 35.5 | 32.4 | 31.8 | 34.5 | 35.6 | 37.2 | 38.6 | 40.7 | 39.9 | 40.8 | 43.7 | 44.9 | 45.7 | 47.7 | 46.2 | 45.2 | 45.1 | 45.1 | 44.8 |
| Hungary | .. | .. | .. | .. | .. | 53.7 | 53.2 | 53.2 | 52.3 | 49.3 | 48.1 | 44.6 | 44.7 | 44.4 | 44.9 | 43.8 | 42.3 | 43.1 | 43.9 | 43.6 |
| Iceland | 36.5 | 36.7 | 40.6 | 40.6 | 39.1 | 40.8 | 41.9 | 40.0 | 39.6 | 40.7 | 41.6 | 41.7 | 42.9 | 45.7 | 45.3 | 43.1 | 44.6 | 45.5 | 44.7 | 43.7 |
| Ireland | 43.7 | 43.3 | 44.4 | 40.8 | 40.4 | 42.0 | 42.3 | 42.3 | 42.3 | 39.4 | 39.4 | 38.6 | 37.2 | 36.8 | 36.5 | 35.0 | 33.3 | 34.2 | 33.8 | 33.5 |
| Italy | 39.2 | 39.1 | 40.2 | 41.1 | 42.6 | 43.8 | 46.1 | 47.4 | 45.2 | 45.8 | 46.1 | 48.4 | 46.8 | 47.1 | 46.2 | 45.8 | 45.2 | 45.8 | 45.0 | 44.6 |
| Japan [b] | 30.6 | 32.0 | 32.2 | 32.3 | 34.2 | 33.7 | 33.6 | 32.2 | 31.4 | 31.4 | 31.6 | 31.6 | 31.0 | 30.9 | 31.1 | 31.9 | 31.5 | 30.9 | 31.2 | 31.2 |
| Korea | 20.4 | 20.4 | 21.5 | 22.4 | 23.0 | 22.5 | 23.3 | 23.8 | 24.0 | 24.8 | 25.8 | 26.5 | 27.5 | 27.7 | 30.5 | 32.0 | 32.6 | 32.6 | 32.9 | 33.4 |
| Luxembourg | .. | .. | .. | .. | 48.1 | 45.6 | 46.2 | 47.3 | 47.3 | 47.6 | 47.5 | 46.5 | 45.1 | 44.8 | 44.9 | 45.3 | 46.7 | 46.3 | 44.5 | 43.7 |
| Netherlands | 52.4 | 53.2 | 52.4 | 49.5 | 49.4 | 52.2 | 51.6 | 53.2 | 50.1 | 47.3 | 47.8 | 47.1 | 46.4 | 47.6 | 47.5 | 46.6 | 45.9 | 46.2 | 45.7 | 45.9 |
| New Zealand | .. | 51.0 | 48.8 | 48.3 | 48.9 | 47.7 | 46.3 | 44.7 | 45.4 | 44.9 | 43.9 | 43.5 | 43.2 | 42.0 | 41.7 | 41.1 | 41.8 | 42.5 | 42.1 | 41.9 |
| Norway | 54.1 | 55.1 | 55.3 | 54.0 | 55.4 | 55.0 | 54.4 | 53.7 | 54.4 | 55.0 | 55.6 | 55.1 | 53.2 | 54.4 | 58.4 | 58.5 | 58.6 | 58.2 | 58.3 | 57.8 |
| Poland | .. | .. | .. | .. | .. | 44.1 | 47.9 | 49.8 | 45.9 | 44.8 | 43.3 | 42.8 | 41.5 | 41.4 | 42.8 | 43.2 | 42.8 | 42.6 | 42.2 | 42.3 |
| Portugal | 33.4 | 32.8 | 34.8 | 35.7 | 35.5 | 37.5 | 41.5 | 39.7 | 38.3 | 39.6 | 41.0 | 41.2 | 41.0 | 42.4 | 42.3 | 42.0 | 43.3 | 43.9 | 43.1 | 42.8 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | .. | 52.7 | 54.0 | 55.0 | 59.2 | 57.1 | 51.9 | 51.5 | 48.7 | 43.6 | 42.5 | 41.0 | 40.5 |
| Spain | 36.6 | 38.0 | 37.8 | 39.6 | 39.5 | 40.3 | 42.3 | 42.4 | 40.8 | 38.4 | 38.8 | 38.6 | 38.3 | 39.0 | 39.0 | 39.1 | 39.8 | 39.4 | 39.3 | 39.2 |
| Sweden | 60.7 | 62.1 | 61.5 | 63.3 | 63.1 | 60.4 | 59.9 | 61.4 | 60.4 | 60.2 | 62.3 | 61.3 | 62.9 | 61.6 | 60.8 | 61.6 | 59.5 | 59.3 | 59.2 | 58.5 |
| United Kingdom | 42.9 | 41.8 | 41.6 | 41.3 | 40.7 | 40.9 | 39.3 | 37.7 | 38.2 | 38.9 | 38.5 | 38.8 | 39.9 | 40.3 | 40.9 | 41.0 | 39.3 | 39.9 | 40.0 | 40.1 |
| United States [c] | 31.7 | 32.4 | 32.2 | 32.4 | 32.1 | 32.2 | 32.2 | 32.5 | 32.9 | 33.3 | 33.7 | 33.9 | 34.3 | 34.4 | 35.1 | 34.3 | 32.1 | 31.0 | 30.6 | 30.8 |
| Euro area | 44.3 | 44.4 | 44.0 | 44.1 | 44.1 | 45.1 | 46.3 | 47.2 | 46.7 | 46.4 | 47.2 | 47.5 | 47.0 | 47.6 | 47.2 | 46.4 | 46.0 | 46.1 | 45.7 | 45.2 |
| European Union | 44.5 | 44.5 | 44.3 | 44.4 | 44.3 | 45.2 | 45.9 | 46.3 | 45.8 | 45.5 | 46.2 | 46.6 | 46.4 | 46.9 | 46.6 | 46.2 | 45.5 | 45.8 | 45.5 | 45.1 |
| Total OECD | 36.5 | 37.1 | 37.0 | 37.1 | 37.3 | 37.8 | 38.2 | 38.3 | 38.1 | 38.2 | 38.6 | 38.9 | 38.8 | 39.0 | 39.3 | 38.9 | 37.8 | 37.4 | 37.1 | 37.1 |

*Note:* Data refer to the general government sector, which is a consolidation for central, state and local governments plus social security. Non-tax receipts consist of property income (including dividends and other transfers from public enterprises), fees, charges, sales, fines, capital tranfers received by the general government, etc. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* Data are based on the IMF methodology used for the Government Finance Statistics.

*b)* Includes deferred tax payments on postal savings accounts in 2000, 2001 and 2002.

*c)* Excludes the operating surpluses of public enterprises.

*Source:* OECD.

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Annex Table 28. **General government financial balances**

Surplus (+) or deficit (-) as a per cent of nominal GDP

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | -0.9 | -0.4 | -2.3 | -2.0 | -1.5 | -4.3 | -6.4 | -5.8 | -4.8 | -3.9 | -2.2 | -0.4 | 0.7 | 1.9 | 0.6 | 0.0 | 1.1 | 0.8 | 0.5 | 0.5 |
| Austria | -4.0 | -4.5 | -3.5 | -3.1 | -2.4 | -3.0 | -2.0 | -4.2 | -5.0 | -5.3 | -4.0 | -2.0 | -2.5 | -2.4 | -1.6 | 0.1 | -0.4 | -1.3 | -1.2 | -1.8 |
| Belgium | -10.1 | -7.9 | -7.3 | -7.7 | -6.8 | -7.5 | -8.1 | -7.3 | -5.0 | -4.3 | -3.8 | -2.0 | -0.7 | -0.4 | 0.1 | 0.5 | 0.0 | 0.2 | 0.0 | -0.5 |
| Canada | -7.1 | -5.4 | -4.3 | -4.6 | -5.9 | -8.4 | -9.1 | -8.7 | -6.7 | -5.3 | -2.8 | 0.2 | 0.1 | 1.6 | 3.0 | 1.4 | 0.8 | 1.0 | 0.7 | 0.8 |
| Czech Republic [a] | .. | .. | .. | .. | .. | .. | 5.0 | 0.4 | -1.2 | -1.1 | -1.0 | -1.4 | -1.4 | -2.4 | -3.4 | -2.7 | -3.9 | -6.6 | -5.7 | -5.1 |
| Denmark | 3.3 | 2.5 | 1.5 | 0.3 | -1.0 | -2.4 | -2.2 | -2.9 | -2.4 | -2.3 | -1.0 | 0.4 | 1.1 | 3.2 | 2.5 | 2.8 | 2.0 | 0.8 | 1.0 | 1.5 |
| Finland | 4.0 | 1.6 | 5.3 | 6.9 | 5.5 | -1.0 | -5.5 | -7.2 | -5.7 | -3.9 | -2.9 | -1.3 | 1.6 | 2.2 | 7.1 | 5.2 | 4.2 | 2.6 | 1.9 | 2.0 |
| France | -3.2 | -2.0 | -2.5 | -1.8 | -2.1 | -2.4 | -4.2 | -6.0 | -5.5 | -5.5 | -4.1 | -3.0 | -2.7 | -1.8 | -1.4 | -1.5 | -3.1 | -4.0 | -3.7 | -3.5 |
| Germany | -1.1 | -1.8 | -2.0 | 0.1 | -2.0 | -3.0 | -2.6 | -3.1 | -2.4 | -3.3 | -3.4 | -2.7 | -2.2 | -1.5 | 1.3 | -2.8 | -3.5 | -4.1 | -3.7 | -3.5 |
| Greece | -9.6 | -9.6 | -11.6 | -13.6 | -15.7 | -11.0 | -12.2 | -13.4 | -9.3 | -10.2 | -7.4 | -4.0 | -2.5 | -1.8 | -2.0 | -1.4 | -1.5 | -1.6 | -1.6 | -1.5 |
| Hungary | .. | .. | .. | .. | .. | -3.0 | -7.1 | -6.6 | -11.0 | -7.6 | -5.9 | -7.2 | -8.0 | -5.6 | -3.0 | -4.7 | -9.2 | -5.2 | -4.3 | -3.3 |
| Iceland | -4.1 | -0.9 | -2.0 | -4.6 | -3.3 | -3.0 | -2.9 | -4.6 | -4.8 | -3.0 | -1.6 | 0.0 | 0.5 | 2.4 | 2.5 | 0.3 | -1.0 | -1.0 | 0.2 | 0.8 |
| Ireland | -10.2 | -8.2 | -4.2 | -1.7 | -2.8 | -2.9 | -3.0 | -2.7 | -2.0 | -2.1 | -0.1 | 1.4 | 2.3 | 2.3 | 4.4 | 0.9 | -0.2 | -1.0 | -1.3 | -1.3 |
| Italy | -12.2 | -11.8 | -11.3 | -11.7 | -11.8 | -11.7 | -10.7 | -10.3 | -9.3 | -7.6 | -7.1 | -2.7 | -3.1 | -1.8 | -0.7 | -2.7 | -2.5 | -2.7 | -2.9 | -3.9 |
| Japan [b] | -0.7 | 0.3 | 1.1 | 1.8 | 2.0 | 1.8 | 0.8 | -2.4 | -3.7 | -4.7 | -5.0 | -3.8 | -5.5 | -7.2 | -7.4 | -6.1 | -7.1 | -7.4 | -6.8 | -6.9 |
| Korea | 1.6 | 2.7 | 3.6 | 3.5 | 3.5 | 1.8 | 1.4 | 2.5 | 3.1 | 4.2 | 3.8 | 3.6 | 1.9 | 3.1 | 6.2 | 4.9 | 7.3 | 3.5 | 4.0 | 4.5 |
| Luxembourg | .. | .. | .. | .. | 4.9 | 1.1 | 0.2 | 1.5 | 2.7 | 2.1 | 1.9 | 3.2 | 3.2 | 3.5 | 6.4 | 6.2 | 2.4 | -0.3 | -1.8 | -2.6 |
| Netherlands | -4.5 | -5.3 | -4.2 | -5.0 | -5.3 | -2.7 | -4.2 | -2.8 | -3.5 | -4.2 | -1.8 | -1.1 | -0.8 | 0.7 | 2.2 | 0.0 | -1.6 | -2.4 | -2.5 | -1.8 |
| New Zealand | -6.7 | -2.6 | -4.0 | -3.7 | -4.3 | -3.8 | -3.3 | -1.3 | 2.5 | 3.0 | 2.9 | 1.9 | 0.3 | 0.6 | 1.5 | 2.0 | 2.7 | 2.6 | 2.2 | 2.0 |
| Norway | 5.9 | 4.6 | 2.6 | 1.8 | 2.6 | 0.1 | -1.9 | -1.5 | 0.3 | 3.4 | 6.5 | 7.8 | 3.6 | 6.1 | 15.0 | 13.7 | 10.9 | 9.8 | 9.7 | 8.4 |
| Poland | .. | .. | .. | .. | .. | -9.4 | -7.1 | -4.5 | -3.5 | -2.5 | -2.9 | -2.8 | -2.3 | -2.0 | -2.5 | -3.0 | -3.7 | -4.2 | -5.0 | -4.8 |
| Portugal | -7.9 | -7.2 | -3.8 | -3.1 | -6.6 | -7.6 | -4.8 | -8.1 | -7.7 | -5.5 | -4.8 | -3.6 | -3.2 | -2.9 | -2.9 | -4.3 | -2.7 | -2.9 | -3.0 | -2.3 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | .. | -6.3 | -0.9 | -7.5 | -6.2 | -5.3 | -7.9 | -13.9 | -6.8 | -7.2 | -5.1 | -4.1 | -3.5 |
| Spain | -6.0 | -3.1 | -3.1 | -2.6 | -3.9 | -4.6 | -3.7 | -7.0 | -6.5 | -6.6 | -5.0 | -3.2 | -3.0 | -1.2 | -0.8 | -0.3 | 0.1 | 0.1 | 0.2 | 0.3 |
| Sweden | -1.3 | 3.8 | 2.9 | 4.7 | 3.7 | -1.9 | -7.6 | -11.6 | -10.5 | -7.4 | -2.9 | -1.7 | 2.3 | 1.3 | 3.4 | 4.6 | 1.1 | 0.2 | 0.5 | 1.0 |
| United Kingdom | -2.6 | -1.8 | 0.5 | 0.8 | -1.6 | -3.1 | -6.4 | -7.9 | -6.7 | -5.8 | -4.2 | -2.2 | 0.1 | 1.1 | 3.9 | 0.7 | -1.5 | -2.9 | -2.9 | -3.2 |
| United States [c] | -5.3 | -4.3 | -3.6 | -3.2 | -4.3 | -5.0 | -5.9 | -5.0 | -3.6 | -3.1 | -2.2 | -0.9 | 0.3 | 0.7 | 1.4 | -0.5 | -3.4 | -4.9 | -5.1 | -4.9 |
| Euro area | -4.9 | -4.6 | -4.4 | -3.7 | -4.6 | -5.0 | -5.1 | -5.8 | -5.1 | -5.0 | -4.3 | -2.6 | -2.3 | -1.3 | 0.1 | -1.7 | -2.3 | -2.7 | -2.6 | -2.7 |
| European Union | -4.7 | -4.0 | -3.6 | -2.9 | -4.1 | -4.7 | -5.4 | -6.4 | -5.6 | -5.4 | -4.3 | -2.5 | -1.8 | -0.8 | 0.7 | -1.1 | -2.0 | -2.7 | -2.6 | -2.7 |
| Total OECD | -4.1 | -3.2 | -2.7 | -2.2 | -3.0 | -3.8 | -4.6 | -5.0 | -4.3 | -4.0 | -3.2 | -1.8 | -1.4 | -1.0 | 0.0 | -1.3 | -2.9 | -3.8 | -3.8 | -3.7 |
| *Memorandum items* | | | | | | | | | | | | | | | | | | | | |
| **General government financial balances excluding social security** | | | | | | | | | | | | | | | | | | | | |
| United States | -5.4 | -4.8 | -4.4 | -4.2 | -5.4 | -5.9 | -6.7 | -5.7 | -4.5 | -3.9 | -3.1 | -2.0 | -0.9 | -0.7 | -0.1 | -2.1 | -5.0 | -6.6 | -6.9 | -6.8 |
| Japan [d] | -3.5 | -2.5 | -2.0 | -1.4 | -1.4 | -0.8 | -1.7 | -4.7 | -5.7 | -6.6 | -6.8 | -5.5 | -6.8 | -8.2 | -7.9 | -6.2 | -7.2 | -7.4 | -6.8 | -6.8 |

*Note:* Financial balances include one-off revenues from the sale of the mobile telephone licenses. These revenues are substantial in a number of countries including Australia (2000-2001), Austria (2000), Belgium (2001), Denmark (2001), France (2001-2002), Germany (2000), Greece (2001), Ireland (2002), Italy (2000), Netherlands (2000), New Zealand (2001), Portugal (2000), Spain (2000) and the United Kingdom (2000). Finally, being on a national account basis, the government financial balance may differ from the numbers reported to the European Commission under the Excessive Deficit Procedure for some EU countries and for some years. See OECD *Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

*a)* Data are based on the IMF methodology used for the Government Finance Statistics adjusted for losses of transformation institutions and financial operations.
*b)* Deferred tax payments on postal savings accounts are included in 2000, 2001 and 2002. The 2000 outlays include capital transfers to the Deposit Insurance Company.
*c)* The general government sector includes public enterprises.
*d)* From 1991 onwards data are based on SNA93 and thus exclude private pension funds.

*Source:* OECD.

Annex Table 29. **Cyclically-adjusted general government balances**

Surplus (+) or deficit (-) as a per cent of potential GDP

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | -0.5 | -0.3 | -2.4 | -2.1 | -1.1 | -2.8 | -4.7 | -4.7 | -4.3 | -3.5 | -2.0 | -0.3 | 0.4 | 1.4 | 0.3 | -0.2 | 1.0 | 1.1 | 0.7 | 0.7 |
| Austria | -3.2 | -3.6 | -3.1 | -3.2 | -3.1 | -3.8 | -2.6 | -4.2 | -5.0 | -5.1 | -3.9 | -1.9 | -2.9 | -2.9 | -2.8 | -0.1 | -0.3 | -0.9 | -0.6 | -1.3 |
| Belgium | -8.0 | -6.4 | -7.7 | -8.8 | -8.5 | -8.6 | -8.5 | -5.8 | -4.0 | -3.5 | -2.3 | -1.5 | -0.5 | -0.9 | -1.4 | -0.2 | 0.5 | 1.4 | 1.3 | 0.3 |
| Canada | -7.1 | -6.1 | -6.0 | -6.2 | -6.5 | -6.9 | -7.0 | -6.8 | -6.0 | -4.8 | -1.8 | 0.9 | 0.6 | 1.4 | 2.2 | 1.2 | 0.5 | 1.1 | 0.6 | 0.7 |
| Denmark | 0.8 | 1.1 | 0.7 | 0.5 | -0.4 | -1.5 | -0.6 | 0.0 | -2.2 | -2.3 | -1.2 | -0.4 | 0.3 | 2.2 | 1.2 | 2.1 | 1.6 | 1.7 | 1.7 | 1.8 |
| Finland | 4.2 | 0.8 | 3.0 | 3.4 | 3.3 | 2.1 | 1.4 | 1.5 | 1.3 | 1.5 | 1.3 | 0.7 | 2.4 | 2.8 | 6.4 | 5.5 | 4.8 | 4.2 | 2.9 | 2.2 |
| France | -1.6 | -0.7 | -2.1 | -2.2 | -2.8 | -2.7 | -4.2 | -4.9 | -4.5 | -4.5 | -2.6 | -1.4 | -1.6 | -1.2 | -1.6 | -1.7 | -3.0 | -2.9 | -2.5 | -2.4 |
| Germany | -1.6 | -2.2 | -3.1 | -1.3 | -4.5 | -3.7 | -3.2 | -2.1 | -1.7 | -2.8 | -2.5 | -1.7 | -1.4 | -0.9 | -1.4 | -2.6 | -2.6 | -2.3 | -1.9 | -2.1 |
| Greece | -9.1 | -7.7 | -11.1 | -14.2 | -15.7 | -11.3 | -11.9 | -11.4 | -7.4 | -8.3 | -5.7 | -2.8 | -1.2 | -0.6 | -1.2 | -1.7 | -1.5 | -2.0 | -2.1 | -2.0 |
| Iceland | -4.3 | -2.9 | -3.0 | -4.7 | -3.3 | -1.8 | 0.3 | -1.3 | -2.7 | -0.6 | -0.5 | 0.2 | -0.1 | 1.5 | 0.8 | -1.2 | -1.5 | -1.0 | 0.1 | 0.3 |
| Ireland | -8.0 | -6.5 | -3.5 | -1.8 | -4.3 | -3.0 | -2.2 | -0.9 | -0.1 | -1.2 | 0.5 | 1.1 | 2.1 | 1.1 | 2.4 | -1.0 | -2.4 | -1.9 | -1.7 | -1.8 |
| Italy | -11.3 | -11.2 | -11.6 | -12.5 | -12.4 | -12.0 | -10.3 | -8.6 | -8.1 | -7.1 | -6.3 | -2.2 | -2.7 | -1.3 | -2.1 | -2.9 | -2.1 | -1.8 | -2.1 | -3.4 |
| Japan [a] | -0.2 | 0.7 | 0.9 | 1.4 | 1.2 | 1.4 | 0.5 | -2.4 | -3.5 | -4.5 | -5.3 | -4.1 | -5.2 | -6.5 | -7.1 | -5.5 | -6.3 | -6.9 | -6.5 | -6.6 |
| Netherlands | -3.9 | -4.2 | -3.4 | -6.0 | -7.6 | -4.5 | -5.0 | -2.2 | -3.2 | -4.3 | -2.2 | -1.9 | -2.2 | -1.5 | -1.1 | -1.7 | -1.8 | -1.2 | -0.5 | -0.2 |
| New Zealand | -8.4 | -3.6 | -3.8 | -3.3 | -2.8 | -0.6 | 0.1 | 0.2 | 2.2 | 2.4 | 2.1 | 1.7 | 1.6 | 1.2 | 1.3 | 1.7 | 2.1 | 2.3 | 2.0 | 2.0 |
| Norway [b] | 0.6 | 0.2 | 0.9 | 0.5 | -0.9 | -4.3 | -6.5 | -6.6 | -5.2 | -2.1 | -2.0 | -1.5 | -2.6 | -1.5 | -0.1 | -0.3 | -1.3 | -1.6 | -1.7 | -2.3 |
| Portugal | -5.1 | -5.7 | -3.6 | -3.9 | -7.8 | -9.4 | -5.7 | -7.2 | -6.3 | -4.7 | -4.5 | -3.7 | -3.8 | -3.8 | -4.2 | -4.7 | -2.3 | -1.6 | -1.7 | -1.3 |
| Spain | -4.7 | -2.6 | -3.6 | -3.6 | -5.1 | -5.6 | -3.8 | -5.4 | -4.8 | -4.9 | -3.1 | -1.8 | -2.3 | -1.0 | -1.3 | -0.4 | 0.2 | 0.5 | 0.4 | 0.3 |
| Sweden | -3.1 | 1.2 | -0.2 | 1.4 | 1.2 | -2.1 | -5.0 | -6.6 | -7.0 | -5.5 | -0.5 | 0.2 | 3.2 | 0.9 | 1.9 | 4.1 | 0.8 | 0.6 | 0.8 | 0.9 |
| United Kingdom | -2.4 | -2.9 | -1.9 | -1.4 | -3.0 | -2.4 | -4.4 | -5.7 | -5.6 | -4.9 | -3.4 | -1.9 | 0.1 | 1.1 | 0.9 | 0.5 | -1.3 | -2.3 | -2.5 | -3.0 |
| United States | -5.0 | -4.2 | -3.9 | -3.7 | -4.5 | -4.3 | -5.3 | -4.4 | -3.5 | -2.9 | -2.2 | -1.2 | -0.2 | 0.1 | 0.9 | -0.2 | -3.0 | -4.5 | -5.1 | -5.0 |
| Euro area | -4.2 | -4.1 | -4.8 | -4.8 | -6.2 | -5.8 | -5.3 | -4.4 | -4.0 | -4.2 | -3.1 | -1.6 | -1.7 | -1.0 | -1.4 | -1.9 | -1.9 | -1.7 | -1.5 | -1.8 |
| European Union | -4.1 | -3.8 | -4.3 | -4.1 | -5.5 | -5.1 | -5.1 | -4.9 | -4.5 | -4.5 | -3.3 | -1.7 | -1.3 | -0.7 | -1.0 | -1.3 | -1.7 | -1.7 | -1.5 | -1.9 |
| Total OECD | -3.9 | -3.3 | -3.3 | -3.1 | -3.9 | -3.8 | -4.4 | -4.4 | -4.0 | -3.8 | -3.0 | -1.7 | -1.4 | -1.2 | -1.1 | -1.4 | -2.8 | -3.4 | -3.6 | -3.7 |

*Note:* Cyclically-adjusted balances exclude one-off revenues from the sale of mobile telephone licenses for those countries listed in the note to Table 28. For details on the methodology used for estimating the cyclical component of government balances see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

*a)* Includes deferred tax payments on postal savings accounts in 2000, 2001 and 2002. The 2000 outlays include capital transfers to the Deposit Insurance Company.

*b)* As a percentage of mainland potential GDP. The financial balances shown exclude revenues from petroleum activities.

*Source:* OECD.

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Annex Table 30. **General government primary balances**

Surplus (+) or deficit (-) as a per cent of nominal GDP

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 3.3 | 3.7 | 1.5 | 1.9 | 2.0 | -1.2 | -2.7 | -2.7 | -0.6 | 0.2 | 1.2 | 2.4 | 3.0 | 4.0 | 2.7 | 1.9 | 2.9 | 2.6 | 2.2 | 2.2 |
| Austria | -1.0 | -1.3 | -0.2 | 0.1 | 0.9 | 0.4 | 1.5 | -0.6 | -1.5 | -1.6 | -0.1 | 1.5 | 0.8 | 0.7 | 1.3 | 2.9 | 2.4 | 1.5 | 1.6 | 0.9 |
| Belgium | 0.6 | 2.2 | 2.6 | 3.2 | 4.4 | 3.3 | 2.7 | 3.3 | 4.2 | 4.5 | 4.7 | 5.7 | 6.5 | 6.2 | 6.6 | 6.7 | 5.7 | 5.5 | 4.9 | 4.1 |
| Canada | -3.0 | -1.3 | -0.1 | 0.1 | -0.7 | -3.2 | -4.1 | -3.7 | -1.7 | 0.3 | 2.5 | 4.9 | 4.8 | 5.8 | 6.2 | 4.2 | 3.3 | 3.3 | 2.9 | 2.9 |
| Denmark | 8.4 | 7.5 | 5.8 | 4.3 | 2.8 | 1.6 | 1.0 | 0.6 | 0.9 | 0.9 | 1.9 | 3.3 | 3.6 | 5.7 | 4.5 | 4.6 | 3.6 | 2.2 | 2.3 | 2.7 |
| Finland | 2.9 | 0.7 | 4.4 | 5.7 | 3.7 | -2.9 | -7.5 | -7.6 | -4.6 | -3.0 | -1.5 | 0.7 | 3.4 | 3.8 | 8.1 | 5.9 | 4.4 | 2.8 | 2.1 | 2.2 |
| France | -1.0 | 0.2 | -0.3 | 0.4 | 0.3 | 0.1 | -1.4 | -3.0 | -2.4 | -2.2 | -0.6 | 0.2 | 0.5 | 1.2 | 1.5 | 1.3 | -0.3 | -1.1 | -0.9 | -0.6 |
| Germany | 1.4 | 0.7 | 0.4 | 2.4 | 0.3 | -0.6 | 0.1 | -0.3 | 0.4 | -0.1 | -0.2 | 0.5 | 1.0 | 1.6 | 4.3 | 0.0 | -0.9 | -1.4 | -1.0 | -0.8 |
| Greece | -4.2 | -2.8 | -4.2 | -6.1 | -5.7 | -1.4 | -0.7 | -0.8 | 4.7 | 1.6 | 3.6 | 5.6 | 6.1 | 6.4 | 5.8 | 5.6 | 4.8 | 3.6 | 3.4 | 3.5 |
| Iceland | -3.9 | -0.9 | -1.3 | -3.8 | -2.0 | -1.7 | -1.8 | -3.2 | -3.4 | -1.3 | 0.0 | 1.3 | 1.9 | 3.7 | 3.5 | 1.5 | 0.2 | 0.2 | 1.3 | 1.8 |
| Ireland | -3.4 | -0.5 | 2.1 | 4.3 | 3.4 | 2.8 | 2.2 | 2.1 | 2.6 | 1.9 | 3.1 | 4.0 | 4.6 | 3.7 | 5.3 | 1.1 | -0.1 | -0.8 | -1.1 | -1.3 |
| Italy | -3.9 | -4.2 | -3.3 | -2.7 | -1.8 | -0.4 | 1.5 | 2.3 | 1.7 | 3.3 | 3.8 | 6.1 | 4.7 | 4.4 | 5.3 | 3.3 | 2.9 | 2.2 | 1.8 | 0.9 |
| Japan | 1.4 | 2.3 | 2.7 | 3.3 | 3.3 | 2.9 | 1.9 | -1.3 | -2.5 | -3.4 | -3.7 | -2.5 | -4.1 | -5.7 | -6.0 | -4.7 | -5.6 | -5.7 | -5.0 | -5.1 |
| Korea | 1.7 | 2.8 | 3.6 | 3.3 | 3.2 | 1.4 | 1.0 | 2.1 | 2.7 | 3.8 | 3.1 | 2.8 | 0.6 | 2.0 | 5.1 | 4.0 | 6.1 | 2.4 | 2.8 | 3.3 |
| Luxembourg | .. | .. | .. | .. | 2.7 | -0.9 | -1.7 | 0.0 | 1.5 | 0.9 | 1.0 | 2.4 | 2.2 | 2.8 | 5.4 | 4.8 | 1.4 | -1.5 | -2.9 | -3.6 |
| Netherlands | -0.1 | -0.7 | 0.3 | -1.0 | -1.3 | 1.6 | 0.3 | 1.6 | 0.9 | 0.6 | 2.9 | 3.3 | 3.4 | 4.5 | 5.4 | 2.5 | 0.8 | -0.2 | -0.3 | 0.3 |
| New Zealand | -2.4 | 1.5 | -0.6 | 0.0 | -0.1 | -0.7 | -0.5 | 1.2 | 3.9 | 4.4 | 3.7 | 2.5 | 0.7 | 0.7 | 1.6 | 1.9 | 2.3 | 2.3 | 1.8 | 1.6 |
| Norway | 3.6 | 1.7 | -0.8 | -1.6 | -0.9 | -3.6 | -5.3 | -4.3 | -2.0 | 1.0 | 4.2 | 5.6 | 1.4 | 3.7 | 12.4 | 10.5 | 7.4 | 5.2 | 4.9 | 3.7 |
| Portugal | 0.4 | 0.3 | 2.9 | 3.1 | 2.0 | 1.2 | 3.8 | -0.3 | -1.1 | 0.8 | 0.6 | 0.7 | 0.3 | 0.4 | 0.4 | -1.1 | 0.3 | 0.2 | 0.0 | 0.7 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | .. | -2.8 | 1.5 | -5.0 | -4.0 | -2.9 | -4.5 | -9.7 | -2.7 | -3.4 | -1.6 | -1.0 | -0.6 |
| Spain | -3.1 | -0.6 | -0.4 | 0.2 | -0.8 | -1.2 | 0.0 | -2.3 | -1.9 | -1.8 | 0.0 | 1.2 | 0.9 | 2.2 | 2.3 | 2.5 | 2.6 | 1.9 | 2.0 | 2.4 |
| Sweden | 0.9 | 5.5 | 3.9 | 5.3 | 3.9 | -1.7 | -7.2 | -12.0 | -9.7 | -6.0 | -1.3 | 0.2 | 3.6 | 2.7 | 4.2 | 5.3 | 1.9 | 0.5 | 0.8 | 1.4 |
| United Kingdom | 0.8 | 1.5 | 3.4 | 3.5 | 1.0 | -0.9 | -4.2 | -5.5 | -4.1 | -2.8 | -1.2 | 0.8 | 2.9 | 3.4 | 6.0 | 2.5 | 0.0 | -1.3 | -1.4 | -1.7 |
| United States | -2.0 | -1.0 | -0.3 | 0.2 | -0.8 | -1.3 | -2.2 | -1.4 | -0.2 | 0.6 | 1.3 | 2.4 | 3.5 | 3.6 | 4.1 | 1.9 | -1.4 | -3.2 | -3.4 | -3.1 |
| Euro area | -0.9 | -0.6 | -0.4 | 0.4 | -0.1 | -0.2 | 0.1 | -0.5 | -0.1 | 0.0 | 0.9 | 2.0 | 2.1 | 2.5 | 3.8 | 1.8 | 1.0 | 0.3 | 0.3 | 0.4 |
| European Union | -0.5 | -0.1 | 0.3 | 1.1 | 0.2 | -0.3 | -0.7 | -1.5 | -0.9 | -0.4 | 0.6 | 1.9 | 2.3 | 2.8 | 4.1 | 2.1 | 0.9 | 0.1 | 0.2 | 0.1 |
| Total OECD | -0.7 | 0.0 | 0.5 | 1.1 | 0.3 | -0.3 | -1.0 | -1.4 | -0.7 | -0.3 | 0.4 | 1.6 | 1.8 | 1.9 | 2.6 | 1.1 | -0.7 | -1.7 | -1.7 | -1.6 |

*Note:* The primary balance is the difference between the financial balance and net interest payments. For more details see footnotes of Annex Tables 28 and 32 and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* .

*Source:* OECD.

Annex Table 31. **Cyclically-adjusted general government primary balances**

Surplus (+) or deficit (-) as a per cent of potential GDP

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 3.7 | 3.7 | 1.5 | 1.8 | 2.4 | 0.1 | -1.3 | -1.6 | -0.2 | 0.5 | 1.4 | 2.5 | 2.7 | 3.6 | 2.4 | 1.8 | 2.8 | 2.9 | 2.5 | 2.4 |
| Austria | -0.3 | -0.5 | 0.2 | 0.0 | 0.3 | -0.3 | 1.0 | -0.5 | -1.5 | -1.5 | 0.0 | 1.6 | 0.4 | 0.3 | 0.3 | 2.7 | 2.4 | 1.8 | 2.1 | 1.3 |
| Belgium | 2.4 | 3.5 | 2.3 | 2.2 | 3.1 | 2.4 | 2.3 | 4.6 | 5.0 | 5.2 | 6.0 | 6.1 | 6.7 | 5.8 | 5.2 | 6.1 | 6.2 | 6.5 | 6.1 | 4.9 |
| Canada | -3.0 | -1.9 | -1.5 | -1.3 | -1.2 | -1.9 | -2.2 | -2.0 | -1.1 | 0.7 | 3.4 | 5.5 | 5.3 | 5.6 | 5.4 | 4.0 | 3.0 | 3.3 | 2.8 | 2.8 |
| Denmark | 6.0 | 6.2 | 5.1 | 4.5 | 3.4 | 2.4 | 2.5 | 3.3 | 1.1 | 0.9 | 1.7 | 2.6 | 2.9 | 4.7 | 3.3 | 3.9 | 3.2 | 3.1 | 3.1 | 3.0 |
| Finland | 3.2 | -0.1 | 2.1 | 2.1 | 1.5 | 0.2 | -0.4 | 1.2 | 2.3 | 2.3 | 2.7 | 2.6 | 4.1 | 4.4 | 7.4 | 6.2 | 5.1 | 4.4 | 3.1 | 2.4 |
| France | 0.5 | 1.4 | 0.1 | 0.0 | -0.3 | -0.1 | -1.5 | -2.0 | -1.5 | -1.3 | 0.7 | 1.7 | 1.5 | 1.8 | 1.3 | 1.1 | -0.2 | -0.2 | 0.2 | 0.4 |
| Germany | 0.9 | 0.3 | -0.6 | 1.1 | -2.1 | -1.3 | -0.5 | 0.6 | 1.1 | 0.4 | 0.7 | 1.5 | 1.8 | 2.2 | 1.6 | 0.2 | 0.0 | 0.3 | 0.7 | 0.6 |
| Greece | -3.8 | -1.2 | -3.8 | -6.6 | -5.7 | -1.6 | -0.5 | 0.7 | 5.9 | 3.0 | 5.0 | 6.5 | 7.1 | 7.4 | 6.5 | 5.3 | 4.8 | 3.3 | 2.9 | 3.0 |
| Iceland | -4.2 | -3.0 | -2.2 | -3.9 | -2.0 | -0.6 | 1.3 | 0.0 | -1.4 | 1.0 | 1.0 | 1.5 | 1.3 | 2.9 | 1.9 | 0.0 | -0.3 | 0.2 | 1.2 | 1.3 |
| Ireland | -1.4 | 0.8 | 2.7 | 4.2 | 2.1 | 2.6 | 2.8 | 3.7 | 4.2 | 2.7 | 3.6 | 3.7 | 4.5 | 2.6 | 3.3 | -0.9 | -2.2 | -1.7 | -1.5 | -1.7 |
| Italy | -3.2 | -3.7 | -3.5 | -3.4 | -2.4 | -0.6 | 1.7 | 3.6 | 2.7 | 3.7 | 4.4 | 6.5 | 5.1 | 4.8 | 3.9 | 3.1 | 3.2 | 3.0 | 2.5 | 1.3 |
| Japan [a] | 1.8 | 2.6 | 2.6 | 2.9 | 2.5 | 2.5 | 1.6 | -1.2 | -2.3 | -3.2 | -3.9 | -2.8 | -3.8 | -5.1 | -5.7 | -4.1 | -4.8 | -5.3 | -4.7 | -4.8 |
| Netherlands | 0.5 | 0.3 | 1.1 | -1.9 | -3.4 | -0.1 | -0.5 | 2.2 | 1.1 | 0.4 | 2.5 | 2.6 | 2.1 | 2.4 | 2.2 | 1.0 | 0.6 | 0.9 | 1.7 | 1.9 |
| New Zealand | -3.9 | 0.5 | -0.4 | 0.4 | 1.3 | 2.4 | 2.8 | 2.6 | 3.6 | 3.8 | 3.0 | 2.3 | 2.0 | 1.3 | 1.4 | 1.6 | 1.8 | 2.0 | 1.7 | 1.6 |
| Norway [b] | -2.1 | -3.2 | -2.9 | -3.3 | -4.8 | -8.5 | -10.4 | -9.9 | -7.9 | -4.9 | -4.8 | -4.2 | -5.3 | -4.4 | -3.7 | -4.6 | -5.7 | -7.2 | -7.8 | -8.3 |
| Portugal | 2.5 | 1.5 | 3.0 | 2.4 | 1.0 | -0.2 | 3.0 | 0.4 | 0.1 | 1.4 | 0.9 | 0.6 | -0.3 | -0.5 | -0.9 | -1.5 | 0.7 | 1.4 | 1.3 | 1.7 |
| Spain | -2.0 | -0.2 | -0.8 | -0.7 | -2.0 | -2.2 | -0.1 | -0.8 | -0.4 | -0.2 | 1.7 | 2.4 | 1.6 | 2.4 | 1.7 | 2.4 | 2.8 | 2.2 | 2.2 | 2.4 |
| Sweden | -0.9 | 2.9 | 0.8 | 2.0 | 1.5 | -1.9 | -4.7 | -7.0 | -6.3 | -4.0 | 1.0 | 2.2 | 4.6 | 2.3 | 2.8 | 4.9 | 1.7 | 0.8 | 1.1 | 1.3 |
| United Kingdom | 1.0 | 0.5 | 1.2 | 1.4 | -0.3 | -0.1 | -2.3 | -3.4 | -3.0 | -2.0 | -0.5 | 1.1 | 3.0 | 3.4 | 3.1 | 2.2 | 0.2 | -0.8 | -0.9 | -1.5 |
| United States | -1.8 | -0.9 | -0.6 | -0.2 | -0.9 | -0.6 | -1.7 | -0.9 | 0.0 | 0.7 | 1.3 | 2.1 | 3.0 | 3.0 | 3.6 | 2.1 | -1.1 | -2.8 | -3.4 | -3.2 |
| Euro area | -0.2 | -0.2 | -0.8 | -0.5 | -1.6 | -0.9 | -0.1 | 0.7 | 0.9 | 0.8 | 1.9 | 3.0 | 2.7 | 2.8 | 2.3 | 1.6 | 1.3 | 1.3 | 1.5 | 1.2 |
| European Union | 0.0 | 0.1 | -0.3 | 0.0 | -1.1 | -0.6 | -0.4 | 0.0 | 0.2 | 0.3 | 1.6 | 2.7 | 2.8 | 2.9 | 2.4 | 1.9 | 1.2 | 1.1 | 1.1 | 0.8 |
| Total OECD | -0.5 | 0.1 | 0.0 | 0.3 | -0.4 | -0.2 | -0.7 | -0.7 | -0.4 | -0.1 | 0.7 | 1.7 | 1.9 | 1.8 | 1.7 | 1.1 | -0.6 | -1.4 | -1.5 | -1.6 |

*Note:* The cyclically-adjusted primary balance is the difference between the cyclically adjusted balance and net interest payments. It excludes one-off revenues from the sale of mobile telephone licenses. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* for details on the methodology used for estimating the cyclical component of government balances.

*a)* Includes deferred tax payments on postal savings accounts in 2000, 2001 and 2002. The 2000 outlays include capital transfers to the Deposit Insurance Company.

*b)* As a percentage of mainland potential GDP. The financial balances shown exclude revenues from petroleum activities.

*Source:* OECD.

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Annex Table 32. **General government net debt interest payments**

Per cent of nominal GDP

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 4.2 | 4.1 | 3.8 | 3.9 | 3.5 | 3.1 | 3.7 | 3.2 | 4.2 | 4.1 | 3.4 | 2.8 | 2.2 | 2.2 | 2.1 | 1.9 | 1.8 | 1.8 | 1.8 | 1.7 |
| Austria | 3.0 | 3.1 | 3.3 | 3.2 | 3.3 | 3.4 | 3.5 | 3.6 | 3.5 | 3.7 | 3.8 | 3.5 | 3.3 | 3.1 | 3.0 | 2.8 | 2.8 | 2.7 | 2.7 | 2.7 |
| Belgium | 10.7 | 10.1 | 9.9 | 10.9 | 11.3 | 10.8 | 10.8 | 10.6 | 9.2 | 8.9 | 8.5 | 7.7 | 7.3 | 6.6 | 6.5 | 6.2 | 5.7 | 5.3 | 4.8 | 4.7 |
| Canada | 4.1 | 4.2 | 4.3 | 4.7 | 5.2 | 5.1 | 5.1 | 5.0 | 5.0 | 5.6 | 5.3 | 4.7 | 4.7 | 4.2 | 3.1 | 2.8 | 2.5 | 2.2 | 2.2 | 2.1 |
| Denmark | 5.1 | 5.0 | 4.3 | 4.0 | 3.8 | 4.0 | 3.2 | 3.5 | 3.3 | 3.1 | 2.9 | 2.9 | 2.5 | 2.4 | 2.1 | 1.8 | 1.6 | 1.4 | 1.3 | 1.3 |
| Finland | -1.0 | -0.9 | -0.9 | -1.2 | -1.7 | -1.9 | -1.9 | -0.3 | 1.1 | 0.9 | 1.5 | 1.9 | 1.7 | 1.6 | 1.1 | 0.7 | 0.2 | 0.2 | 0.2 | 0.2 |
| France | 2.2 | 2.2 | 2.1 | 2.2 | 2.4 | 2.6 | 2.7 | 3.0 | 3.1 | 3.3 | 3.4 | 3.3 | 3.2 | 3.0 | 2.9 | 2.9 | 2.8 | 2.8 | 2.8 | 2.8 |
| Germany [a] | 2.5 | 2.5 | 2.5 | 2.3 | 2.2 | 2.3 | 2.7 | 2.8 | 2.8 | 3.2 | 3.2 | 3.2 | 3.3 | 3.1 | 2.9 | 2.8 | 2.6 | 2.7 | 2.7 | 2.7 |
| Greece | 5.4 | 6.8 | 7.4 | 7.5 | 10.0 | 9.6 | 11.5 | 12.6 | 13.9 | 11.8 | 11.1 | 9.6 | 8.6 | 8.2 | 7.8 | 7.0 | 6.3 | 5.2 | 5.0 | 4.9 |
| Iceland | 0.1 | -0.1 | 0.7 | 0.8 | 1.3 | 1.2 | 1.0 | 1.4 | 1.4 | 1.7 | 1.6 | 1.3 | 1.4 | 1.3 | 1.0 | 1.2 | 1.2 | 1.2 | 1.1 | 1.0 |
| Ireland | 6.9 | 7.6 | 6.4 | 6.0 | 6.2 | 5.7 | 5.2 | 4.8 | 4.5 | 4.0 | 3.2 | 2.6 | 2.4 | 1.5 | 0.9 | 0.2 | 0.1 | 0.2 | 0.1 | 0.0 |
| Italy | 8.3 | 7.6 | 8.0 | 9.0 | 9.9 | 11.3 | 12.2 | 12.6 | 11.0 | 10.9 | 10.9 | 8.8 | 7.8 | 6.2 | 6.0 | 5.9 | 5.3 | 4.9 | 4.7 | 4.8 |
| Japan [b] | 2.0 | 1.9 | 1.7 | 1.5 | 1.3 | 1.1 | 1.1 | 1.2 | 1.2 | 1.3 | 1.3 | 1.3 | 1.4 | 1.5 | 1.5 | 1.4 | 1.5 | 1.7 | 1.8 | 1.8 |
| Korea | 0.1 | 0.1 | 0.0 | -0.2 | -0.4 | -0.5 | -0.5 | -0.4 | -0.4 | -0.4 | -0.6 | -0.9 | -1.3 | -1.1 | -1.1 | -0.8 | -1.2 | -1.1 | -1.1 | -1.2 |
| Luxembourg | .. | .. | .. | .. | -2.2 | -2.0 | -1.9 | -1.6 | -1.3 | -1.1 | -0.9 | -0.8 | -0.9 | -0.7 | -0.9 | -1.3 | -1.1 | -1.2 | -1.1 | -1.0 |
| Netherlands | 4.4 | 4.5 | 4.5 | 4.0 | 4.0 | 4.3 | 4.5 | 4.5 | 4.4 | 4.7 | 4.7 | 4.4 | 4.2 | 3.8 | 3.2 | 2.6 | 2.4 | 2.2 | 2.3 | 2.2 |
| New Zealand | 4.3 | 4.1 | 3.4 | 3.7 | 4.2 | 3.2 | 2.8 | 2.5 | 1.4 | 1.4 | 0.8 | 0.6 | 0.4 | 0.1 | 0.1 | -0.1 | -0.3 | -0.4 | -0.4 | -0.4 |
| Norway | -2.3 | -2.9 | -3.5 | -3.4 | -3.5 | -3.7 | -3.4 | -2.8 | -2.2 | -2.4 | -2.3 | -2.2 | -2.2 | -2.4 | -2.6 | -3.2 | -3.5 | -4.5 | -4.8 | -4.7 |
| Portugal | 8.3 | 7.5 | 6.6 | 6.1 | 8.6 | 8.8 | 8.5 | 7.7 | 6.6 | 6.3 | 5.4 | 4.2 | 3.5 | 3.2 | 3.3 | 3.2 | 3.0 | 3.1 | 3.1 | 3.1 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | .. | 3.5 | 2.4 | 2.5 | 2.2 | 2.4 | 3.4 | 4.2 | 4.1 | 3.8 | 3.5 | 3.2 | 2.9 |
| Spain | 2.9 | 2.5 | 2.8 | 2.9 | 3.1 | 3.3 | 3.7 | 4.7 | 4.6 | 4.9 | 5.0 | 4.4 | 4.0 | 3.3 | 3.1 | 2.8 | 2.6 | 1.8 | 1.8 | 2.0 |
| Sweden | 2.2 | 1.7 | 1.0 | 0.6 | 0.2 | 0.2 | 0.4 | -0.4 | 0.8 | 1.4 | 1.6 | 2.0 | 1.4 | 1.4 | 0.8 | 0.8 | 0.9 | 0.3 | 0.3 | 0.3 |
| United Kingdom | 3.4 | 3.3 | 2.9 | 2.7 | 2.6 | 2.3 | 2.2 | 2.4 | 2.6 | 2.9 | 2.9 | 3.0 | 2.8 | 2.3 | 2.1 | 1.8 | 1.5 | 1.6 | 1.6 | 1.6 |
| United States | 3.3 | 3.3 | 3.3 | 3.4 | 3.5 | 3.7 | 3.7 | 3.5 | 3.5 | 3.6 | 3.5 | 3.3 | 3.2 | 2.8 | 2.6 | 2.3 | 2.0 | 1.7 | 1.7 | 1.8 |
| Euro area | 4.1 | 3.9 | 4.0 | 4.2 | 4.5 | 4.8 | 5.2 | 5.3 | 5.0 | 5.0 | 5.2 | 4.7 | 4.4 | 3.9 | 3.6 | 3.5 | 3.2 | 3.1 | 3.0 | 3.0 |
| European Union | 4.1 | 3.9 | 3.9 | 4.0 | 4.2 | 4.4 | 4.7 | 5.0 | 4.8 | 4.9 | 4.9 | 4.4 | 4.1 | 3.6 | 3.4 | 3.2 | 3.0 | 2.8 | 2.7 | 2.8 |
| Total OECD | 3.3 | 3.3 | 3.2 | 3.3 | 3.4 | 3.5 | 3.6 | 3.6 | 3.5 | 3.7 | 3.6 | 3.3 | 3.1 | 2.8 | 2.6 | 2.4 | 2.2 | 2.0 | 2.0 | 2.1 |

*Note:* In the case of Ireland and New Zealand where net interest payments are not available, net property income paid is used as a proxy. For Denmark, net interest payments include dividends received. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* Includes interest payments on the debt of the Inherited Debt Funds from 1995 onwards.

*b)* Includes interest payments on the debt of the Japan Railway settlement Corporation and the National Forest Special Account from 1998 onwards.

*Source:* OECD.

Annex Table 33. **General government gross financial liabilities**

Per cent of nominal GDP

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | .. | .. | 26.2 | 23.9 | 23.4 | 26.5 | 30.7 | 37.6 | 43.5 | 43.1 | 40.4 | 36.8 | 31.2 | 26.8 | 23.5 | 21.5 | 19.4 | 18.4 | 17.7 | 17.1 |
| Austria | 53.6 | 57.5 | 58.9 | 58.1 | 57.2 | 57.5 | 57.2 | 61.8 | 64.7 | 69.2 | 69.1 | 64.7 | 63.7 | 67.5 | 67.0 | 67.1 | 66.7 | 66.8 | 66.9 | 67.1 |
| Belgium | 123.3 | 127.7 | 128.0 | 124.6 | 129.1 | 130.9 | 132.8 | 138.1 | 135.8 | 133.9 | 130.5 | 124.8 | 119.5 | 114.8 | 109.5 | 108.7 | 106.1 | 102.4 | 98.8 | 95.3 |
| Canada | 71.0 | 71.5 | 71.1 | 72.3 | 74.5 | 82.1 | 89.9 | 96.9 | 98.2 | 100.8 | 100.3 | 96.2 | 93.9 | 89.5 | 82.0 | 81.0 | 77.8 | 75.6 | 73.6 | 70.8 |
| Denmark | 76.8 | 73.3 | 71.8 | 70.0 | 70.8 | 71.8 | 76.0 | 90.1 | 83.6 | 79.5 | 76.8 | 73.4 | 70.7 | 61.1 | 54.3 | 53.8 | 51.7 | 50.7 | 49.5 | 47.9 |
| Finland | 19.7 | 20.3 | 19.1 | 16.9 | 16.6 | 25.1 | 45.2 | 58.3 | 61.0 | 65.8 | 66.5 | 64.8 | 61.1 | 56.2 | 53.5 | 51.8 | 53.6 | 52.6 | 53.2 | 51.1 |
| France | 38.8 | 40.1 | 40.0 | 39.9 | 39.5 | 40.3 | 44.7 | 51.6 | 55.3 | 62.9 | 66.5 | 68.2 | 70.4 | 66.2 | 65.2 | 64.5 | 67.0 | 69.5 | 72.0 | 74.0 |
| Germany [a] | 40.7 | 41.8 | 42.3 | 40.9 | 41.4 | 38.9 | 41.8 | 47.4 | 47.9 | 57.1 | 60.3 | 61.8 | 63.2 | 61.6 | 60.9 | 60.5 | 62.8 | 65.3 | 66.7 | 67.9 |
| Greece | 47.7 | 53.0 | 62.7 | 65.7 | 79.6 | 82.2 | 87.8 | 110.1 | 107.9 | 108.7 | 111.3 | 108.2 | 105.8 | 105.2 | 106.2 | 106.9 | 104.7 | 102.9 | 100.9 | 98.4 |
| Iceland | 30.6 | 28.2 | 31.6 | 37.3 | 37.0 | 39.2 | 47.2 | 54.3 | 56.9 | 60.4 | 57.7 | 54.4 | 49.3 | 44.6 | 41.9 | 46.1 | 44.1 | 41.5 | 39.3 | 38.8 |
| Ireland | 110.6 | 111.8 | 108.2 | 98.9 | 94.2 | 95.6 | 92.5 | 96.5 | 90.9 | 82.9 | 74.1 | 65.0 | 54.9 | 48.6 | 38.4 | 36.1 | 32.4 | 32.5 | 32.0 | 30.8 |
| Italy | 92.7 | 97.3 | 99.5 | 102.5 | 111.6 | 115.5 | 125.0 | 126.9 | 133.3 | 132.4 | 134.2 | 131.2 | 131.2 | 125.0 | 120.4 | 117.8 | 117.4 | 117.1 | 116.7 | 116.7 |
| Japan [b] | 75.1 | 75.5 | 73.4 | 70.4 | 68.3 | 64.5 | 68.4 | 74.3 | 79.3 | 86.6 | 93.9 | 99.9 | 111.2 | 124.9 | 133.1 | 141.5 | 147.3 | 154.6 | 161.2 | 167.2 |
| Korea | 14.5 | 12.7 | 9.9 | 9.2 | 8.2 | 7.2 | 6.9 | 5.9 | 6.1 | 6.3 | 6.3 | 9.2 | 15.2 | 18.7 | 19.3 | 18.2 | 15.5 | 16.0 | 16.9 | 17.9 |
| Luxembourg | .. | .. | .. | .. | 4.4 | 3.8 | 4.7 | 5.7 | 5.4 | 5.6 | 6.2 | 6.1 | 6.3 | 6.0 | 5.5 | 5.5 | 5.7 | 4.9 | 5.7 | 5.6 |
| Netherlands | 71.0 | 73.2 | 76.1 | 76.0 | 76.9 | 76.8 | 77.9 | 79.3 | 76.4 | 77.2 | 75.2 | 69.9 | 66.8 | 63.1 | 55.9 | 52.9 | 52.4 | 54.1 | 55.9 | 56.3 |
| New Zealand | .. | .. | .. | .. | .. | .. | .. | 70.8 | 62.7 | 56.9 | 50.8 | 50.1 | 49.8 | 47.4 | 45.1 | 42.8 | 40.5 | 38.4 | 36.6 | 35.1 |
| Norway | 40.7 | 33.7 | 32.8 | 32.8 | 29.3 | 27.5 | 32.2 | 40.5 | 36.9 | 34.4 | 30.7 | 27.5 | 26.2 | 26.8 | 30.0 | 27.3 | 26.0 | 23.7 | 24.4 | 28.7 |
| Poland | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | 48.7 | 44.5 | 44.4 | 39.3 | 40.2 | 42.8 | 45.4 | 48.5 | 51.0 |
| Portugal | 54.0 | 60.8 | 61.0 | 59.0 | 58.3 | 60.7 | 54.4 | 59.1 | 62.1 | 64.3 | 62.9 | 59.1 | 55.0 | 54.3 | 53.3 | 55.5 | 58.0 | 59.8 | 60.2 | 59.8 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | 27.0 | 23.9 | 21.4 | 25.8 | 28.3 | 28.9 | 41.3 | 45.1 | 43.6 | 38.2 | 43.8 | 44.9 | 46.4 |
| Spain | 49.8 | 49.0 | 45.3 | 46.9 | 48.8 | 49.9 | 52.4 | 63.5 | 68.2 | 73.8 | 81.4 | 80.8 | 81.4 | 75.6 | 72.3 | 68.2 | 65.6 | 63.3 | 60.9 | 58.6 |
| Sweden | 68.6 | 61.1 | 54.8 | 49.8 | 45.7 | 55.1 | 73.9 | 78.9 | 83.4 | 82.1 | 84.6 | 82.7 | 81.1 | 71.5 | 64.2 | 63.2 | 60.1 | 62.5 | 59.4 | 58.0 |
| United Kingdom | 58.5 | 60.0 | 54.0 | 47.7 | 43.4 | 43.5 | 48.5 | 58.0 | 55.6 | 60.5 | 60.0 | 60.8 | 61.0 | 55.8 | 55.6 | 50.4 | 52.0 | 53.5 | 55.0 | 56.4 |
| United States | 62.6 | 64.1 | 64.7 | 65.0 | 66.6 | 71.4 | 74.0 | 75.6 | 74.8 | 74.2 | 73.5 | 70.8 | 67.6 | 64.5 | 58.7 | 58.7 | 60.8 | 63.4 | 66.0 | 68.5 |
| Euro area | 56.4 | 58.5 | 59.1 | 59.3 | 61.7 | 62.2 | 65.4 | 70.3 | 72.4 | 77.4 | 81.4 | 81.1 | 81.3 | 77.8 | 75.3 | 73.9 | 74.7 | 75.7 | 76.3 | 76.6 |
| European Union | 58.7 | 60.4 | 59.7 | 58.6 | 59.8 | 60.2 | 65.0 | 71.6 | 73.2 | 77.8 | 79.7 | 79.1 | 79.2 | 75.1 | 72.9 | 70.9 | 71.6 | 72.6 | 73.2 | 73.6 |
| Total OECD | 61.9 | 63.1 | 62.0 | 61.2 | 62.0 | 63.7 | 67.4 | 71.7 | 72.9 | 75.5 | 77.0 | 76.1 | 76.6 | 75.8 | 73.6 | 74.0 | 75.8 | 78.2 | 80.3 | 82.2 |

*Note:* Gross debt data are not always comparable across countries due to a different definition or treatment of debt components. Notably, they include the funded portion of government employee pension liabilities for some OECD countries, including Australia and the United States. The debt position of these countries is thus overstated relative to countries that have large unfunded liabilities for such pensions which according to ESA95/SNA93 are not counted in the debt figures, but rather as a memorandum item to the debt. General government financial liabilities presented here are defined according to ESA95/SNA93 for all countries with the exception of Austria, Belgium, Greece, Ireland, Luxembourg, Netherlands and Portugal where debt measures follow the definition of debt applied under the Maastricht Treaty. Maastricht debt for European Union countries is shown in Annex Table 58. For more details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* Includes the debt of the Inherited Debt Fund from 1995 onwards.

*b)* Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

*Source:* OECD.

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Annex Table 34. **General government net financial liabilities**

Per cent of nominal GDP

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | .. | .. | 14.0 | 11.3 | 11.2 | 14.2 | 19.7 | 25.1 | 27.7 | 25.2 | 22.4 | 19.7 | 16.4 | 12.8 | 7.7 | 4.9 | 4.1 | 3.1 | 2.4 | 1.8 |
| Austria | 33.3 | 36.2 | 38.4 | 38.1 | 37.5 | 37.4 | 38.7 | 43.5 | 45.7 | 50.5 | 50.1 | 47.8 | 46.2 | 47.0 | 45.1 | 45.0 | 45.0 | 45.2 | 45.2 | 45.4 |
| Belgium | 113.5 | 117.7 | 118.2 | 115.1 | 116.8 | 118.1 | 119.4 | 123.9 | 123.1 | 123.2 | 120.6 | 115.8 | 110.3 | 105.5 | 100.6 | 98.3 | 96.4 | 92.7 | 89.1 | 85.6 |
| Canada | 39.7 | 39.3 | 38.2 | 41.1 | 43.3 | 50.0 | 58.5 | 64.4 | 67.4 | 69.3 | 67.5 | 63.5 | 60.8 | 53.5 | 44.9 | 40.6 | 38.0 | 35.0 | 32.8 | 30.4 |
| Denmark | 21.7 | 19.3 | 20.5 | 19.2 | 19.0 | 21.7 | 23.8 | 26.1 | 26.4 | 26.7 | 26.3 | 23.9 | 24.2 | 13.6 | 10.1 | 8.3 | 6.1 | 5.2 | 4.0 | 2.3 |
| Finland | -28.2 | -28.0 | -29.2 | -33.4 | -35.5 | -34.2 | -24.9 | -16.1 | -16.4 | -12.5 | -15.1 | -15.6 | -25.8 | -62.0 | -41.7 | -42.2 | -45.0 | -47.0 | -46.9 | -46.4 |
| France | 12.5 | 13.3 | 15.1 | 15.7 | 17.5 | 18.8 | 20.4 | 27.1 | 28.3 | 38.9 | 42.6 | 43.3 | 41.7 | 33.6 | 34.8 | 37.4 | 39.4 | 42.7 | 45.2 | 47.2 |
| Germany[a] | 20.1 | 21.1 | 22.0 | 20.5 | 21.0 | 20.2 | 24.5 | 28.1 | 29.3 | 39.6 | 42.5 | 43.4 | 46.1 | 45.3 | 42.4 | 44.1 | 48.5 | 52.1 | 54.5 | 56.4 |
| Iceland | 9.0 | 8.2 | 9.9 | 17.9 | 19.4 | 20.1 | 27.1 | 35.3 | 38.5 | 40.5 | 40.3 | 38.3 | 31.8 | 24.1 | 23.9 | 25.8 | 25.1 | 25.0 | 24.3 | 22.2 |
| Italy | 81.3 | 85.5 | 87.6 | 90.4 | 81.0 | 85.7 | 94.2 | 102.0 | 107.1 | 105.1 | 106.8 | 102.9 | 104.0 | 99.2 | 94.9 | 93.5 | 94.2 | 93.9 | 93.5 | 93.4 |
| Japan[b] | 67.1 | 55.7 | 47.1 | 38.6 | 24.8 | 12.7 | 14.5 | 17.9 | 20.5 | 24.8 | 30.5 | 35.3 | 46.2 | 52.8 | 58.6 | 63.7 | 71.8 | 79.1 | 85.7 | 91.7 |
| Korea | -8.2 | -10.3 | -13.7 | -16.5 | -17.2 | -15.9 | -15.3 | -15.5 | -15.2 | -18.0 | -19.4 | -22.5 | -24.5 | -25.6 | -28.4 | -31.8 | -36.7 | -38.8 | -40.7 | -42.7 |
| Netherlands | 44.0 | 27.2 | 30.9 | 34.5 | 35.5 | 36.2 | 39.8 | 40.9 | 42.3 | 53.2 | 53.7 | 55.3 | 53.7 | 50.2 | 44.5 | 41.5 | 41.7 | 43.2 | 44.9 | 45.4 |
| New Zealand | .. | .. | .. | .. | .. | .. | .. | 47.9 | 40.8 | 34.7 | 30.7 | 28.4 | 25.9 | 23.9 | 20.9 | 20.6 | 18.1 | 14.8 | 11.8 | 9.1 |
| Norway | -41.2 | -42.6 | -42.7 | -41.9 | -41.7 | -37.9 | -35.6 | -32.4 | -31.0 | -32.6 | -36.5 | -42.9 | -46.9 | -52.7 | -60.1 | -71.5 | -82.8 | -90.4 | -95.5 | -99.1 |
| Spain | 29.3 | 29.9 | 30.6 | 30.7 | 31.8 | 33.2 | 35.4 | 42.3 | 43.3 | 49.2 | 53.4 | 52.4 | 51.9 | 45.9 | 42.8 | 41.4 | 38.7 | 36.4 | 34.0 | 31.7 |
| Sweden | 12.1 | 6.2 | 0.2 | -5.8 | -7.6 | -4.9 | 4.5 | 10.3 | 20.4 | 25.2 | 25.7 | 23.1 | 19.9 | 9.4 | 1.4 | -3.1 | 3.7 | 2.5 | 1.9 | 0.7 |
| United Kingdom | 31.3 | 25.9 | 20.6 | 15.7 | 15.0 | 15.4 | 22.0 | 31.5 | 31.6 | 37.4 | 39.3 | 41.4 | 42.1 | 36.6 | 33.6 | 30.2 | 30.4 | 31.9 | 33.3 | 34.8 |
| United States | 45.4 | 47.4 | 48.5 | 48.7 | 49.9 | 53.6 | 57.0 | 59.0 | 59.4 | 58.9 | 58.3 | 56.1 | 52.3 | 47.8 | 42.9 | 42.2 | 44.4 | 46.9 | 49.5 | 52.0 |
| Euro area | 35.1 | 35.7 | 37.4 | 37.9 | 36.9 | 38.3 | 41.5 | 46.2 | 47.7 | 54.6 | 58.2 | 57.9 | 58.1 | 53.4 | 51.4 | 51.9 | 53.4 | 55.0 | 55.9 | 56.5 |
| European Union | 35.4 | 34.9 | 35.1 | 34.4 | 33.2 | 34.2 | 38.8 | 45.0 | 46.8 | 53.2 | 55.4 | 55.0 | 55.2 | 50.2 | 47.7 | 47.3 | 48.7 | 50.1 | 51.0 | 51.7 |
| Total OECD | 43.0 | 41.7 | 40.2 | 38.6 | 36.6 | 36.9 | 40.6 | 44.5 | 45.9 | 48.6 | 49.8 | 49.3 | 49.3 | 46.3 | 43.9 | 43.9 | 46.2 | 48.6 | 50.7 | 52.7 |

*Note:* Net debt measures are not always comparable across countries due to a different definition or treatment of debt (and asset) components. First, the treatment of government liabilities in respect of their employee pension plans may be different (see footnote to Annex Table 33). Second while general government financial liabilities presented here for most countries are defined by ESA95/SNA93, for some EU countries, i.e. Austria, Belgium, Greece, Ireland, Luxembourg, Netherlands and Portugal, debt measures follow the definition of debt applied under the Maastricht Treaty. Third, a range of items included as general government assets differs across countries. For example, equity participation is excluded from government assets in some countries, whereas foreign exchange, gold and SDR holdings are considered as assets of the government in the United States and the United Kingdom. For details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

*a)* Includes the debt of the Inherited Debt Fund from 1995 onwards.

*b)* Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

*Source:* OECD.

Annex Table 35. **Short-term interest rates**

Per cent, per annum

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 17.6 | 14.5 | 10.2 | 6.5 | 5.2 | 5.7 | 7.7 | 7.2 | 5.4 | 5.0 | 5.0 | 6.2 | 4.9 | 4.7 | 4.8 | 5.0 | 5.4 | 4.9 | 5.0 | 5.5 |
| Austria | 7.5 | 9.0 | 9.5 | 9.5 | 7.0 | 5.1 | 4.6 | 3.4 | 3.5 | 3.6 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 | 2.0 | 2.0 | 2.5 |
| Belgium | 8.8 | 9.6 | 9.4 | 9.4 | 8.2 | 5.7 | 4.8 | 3.2 | 3.4 | 3.6 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 | 2.0 | 2.0 | 2.5 |
| Canada | 12.1 | 12.7 | 8.8 | 6.6 | 5.0 | 5.5 | 7.1 | 4.4 | 3.5 | 5.0 | 4.9 | 5.8 | 4.0 | 2.6 | 2.9 | 3.1 | 4.1 | 2.7 | 3.5 | 4.4 |
| Czech Republic | .. | .. | .. | .. | 13.1 | 9.1 | 10.9 | 12.0 | 15.9 | 14.3 | 6.9 | 5.4 | 5.2 | 3.5 | 2.3 | 2.1 | 2.2 | 2.1 | 2.1 | 2.6 |
| Denmark | 9.6 | 10.9 | 9.7 | 11.0 | 10.4 | 6.1 | 6.1 | 3.9 | 3.7 | 4.1 | 3.3 | 4.9 | 4.6 | 3.5 | 2.4 | 2.2 | 2.3 | 2.2 | 2.2 | 2.7 |
| Finland | 12.6 | 14.0 | 13.1 | 13.3 | 7.8 | 5.4 | 5.8 | 3.6 | 3.2 | 3.6 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 | 2.0 | 2.0 | 2.5 |
| France | 9.4 | 10.3 | 9.6 | 10.3 | 8.6 | 5.8 | 6.6 | 3.9 | 3.5 | 3.6 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 | 2.0 | 2.0 | 2.5 |
| Germany | 7.1 | 8.5 | 9.2 | 9.5 | 7.3 | 5.4 | 4.5 | 3.3 | 3.3 | 3.5 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 | 2.0 | 2.0 | 2.5 |
| Greece | 19.0 | 23.0 | 23.3 | 21.7 | 21.3 | 19.3 | 15.5 | 12.8 | 10.4 | 11.6 | 8.9 | 4.4 | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 | 2.0 | 2.0 | 2.5 |
| Hungary | .. | .. | .. | .. | 17.2 | 26.9 | 32.0 | 24.0 | 20.1 | 18.0 | 14.7 | 11.0 | 10.8 | 8.9 | 8.0 | 8.6 | 7.6 | 9.5 | 7.8 | 7.5 |
| Iceland | 27.9 | 14.8 | 14.6 | 10.5 | 8.8 | 4.9 | 7.0 | 7.0 | 7.1 | 7.4 | 8.6 | 11.2 | 11.0 | 8.0 | 5.7 | 7.6 | 9.0 | 5.8 | 8.5 | 9.3 |
| Ireland | 10.0 | 11.3 | 10.4 | 14.3 | 9.1 | 5.9 | 6.2 | 5.4 | 6.1 | 5.4 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 | 2.0 | 2.0 | 2.5 |
| Italy | 12.6 | 12.2 | 12.2 | 14.0 | 10.2 | 8.5 | 10.5 | 8.8 | 6.9 | 5.0 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 | 2.0 | 2.0 | 2.5 |
| Japan | 5.4 | 7.7 | 7.4 | 4.5 | 3.0 | 2.2 | 1.2 | 0.6 | 0.6 | 0.7 | 0.2 | 0.2 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Korea | .. | .. | 18.3 | 16.4 | 13.0 | 13.3 | 14.1 | 12.7 | 13.4 | 15.2 | 6.8 | 7.1 | 5.3 | 4.8 | 4.3 | 4.2 | 5.0 | 4.0 | 4.3 | 5.4 |
| Luxembourg | 8.8 | 9.6 | 9.4 | 9.4 | 8.2 | 5.7 | 4.8 | 3.2 | 3.4 | 3.6 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 | 2.0 | 2.0 | 2.5 |
| Mexico | 44.6 | 35.0 | 19.8 | 15.9 | 15.5 | 14.5 | 47.8 | 32.9 | 21.3 | 26.1 | 22.4 | 16.2 | 12.2 | 7.5 | 6.5 | 6.1 | 7.1 | 5.6 | 6.5 | 7.5 |
| Netherlands | 7.4 | 8.7 | 9.3 | 9.4 | 6.9 | 5.2 | 4.4 | 3.0 | 3.3 | 3.5 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 | 2.0 | 2.0 | 2.5 |
| New Zealand | 13.5 | 13.9 | 10.0 | 6.7 | 6.3 | 6.7 | 9.0 | 9.3 | 7.7 | 7.3 | 4.8 | 6.5 | 5.7 | 5.7 | 5.4 | 5.4 | 5.8 | 5.3 | 5.5 | 5.8 |
| Norway | 11.4 | 11.5 | 10.6 | 11.8 | 7.3 | 5.9 | 5.5 | 4.9 | 3.7 | 5.8 | 6.5 | 6.7 | 7.2 | 6.9 | 4.2 | 3.4 | 4.6 | 2.8 | 4.0 | 5.0 |
| Poland | .. | .. | .. | .. | 34.9 | 31.8 | 27.7 | 21.3 | 23.1 | 19.9 | 14.7 | 18.9 | 15.7 | 8.8 | 5.6 | 5.7 | 6.8 | 5.3 | 6.0 | 7.2 |
| Portugal | 14.9 | 16.9 | 17.7 | 16.1 | 12.5 | 11.1 | 9.8 | 7.4 | 5.7 | 4.3 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 | 2.0 | 2.0 | 2.5 |
| Slovak Republic | .. | .. | .. | .. | 13.1 | 9.1 | 8.2 | 11.5 | 20.2 | 18.1 | 14.8 | 8.2 | 7.5 | 7.5 | 5.8 | 5.4 | 5.5 | 5.5 | 5.4 | 5.9 |
| Spain | 15.0 | 15.2 | 13.2 | 13.3 | 11.7 | 8.0 | 9.4 | 7.5 | 5.4 | 4.2 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 | 2.0 | 2.0 | 2.5 |
| Sweden | 11.5 | 13.7 | 11.6 | 12.9 | 8.4 | 7.4 | 8.7 | 5.8 | 4.1 | 4.2 | 3.1 | 4.0 | 4.1 | 4.1 | 3.0 | 3.1 | 4.1 | 2.7 | 3.7 | 4.2 |
| Switzerland | 7.3 | 8.9 | 8.2 | 7.9 | 4.9 | 4.2 | 2.9 | 2.0 | 1.6 | 1.5 | 1.4 | 3.2 | 2.9 | 1.1 | 0.3 | 0.3 | 0.8 | 0.3 | 0.3 | 1.2 |
| Turkey | .. | 51.9 | 109.6 | 97.8 | 90.3 | 150.6 | 136.3 | 143.6 | 119.2 | 115.7 | 96.6 | 37.0 | 70.2 | 64.2 | 44.0 | 29.5 | 20.5 | 33.2 | 26.5 | 18.4 |
| United Kingdom | 13.9 | 14.8 | 11.5 | 9.6 | 5.9 | 5.5 | 6.7 | 6.0 | 6.8 | 7.3 | 5.4 | 6.1 | 5.0 | 4.0 | 3.6 | 4.4 | 5.0 | 3.7 | 4.8 | 5.1 |
| United States | 9.3 | 8.2 | 5.9 | 3.8 | 3.2 | 4.7 | 6.0 | 5.4 | 5.7 | 5.5 | 5.4 | 6.5 | 3.7 | 1.8 | 1.2 | 1.5 | 2.7 | 1.1 | 1.9 | 3.4 |
| Euro area | 9.9 | 10.7 | 10.6 | 11.2 | 8.6 | 6.3 | 6.5 | 4.8 | 4.3 | 3.9 | 3.0 | 4.4 | 4.3 | 3.3 | 2.3 | 2.0 | 2.2 | 2.0 | 2.0 | 2.5 |

*Note:* Three-month money market rates where available, or rates on proximately similar financial instruments. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

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Annex Table 36. **Long-term interest rates**

Per cent, per annum

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Fourth quarter 2003 | Fourth quarter 2004 | Fourth quarter 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 13.4 | 13.2 | 10.7 | 9.2 | 7.3 | 9.0 | 9.2 | 8.2 | 6.9 | 5.5 | 6.1 | 6.3 | 5.6 | 5.8 | 5.3 | 5.7 | 6.1 | 5.4 | 5.9 | 6.2 |
| Austria | 7.1 | 8.7 | 8.5 | 8.1 | 6.7 | 7.0 | 7.1 | 6.3 | 5.7 | 4.7 | 4.7 | 5.6 | 5.1 | 5.0 | 4.1 | 4.5 | 5.1 | 4.4 | 4.7 | 5.3 |
| Belgium | 8.6 | 10.1 | 9.3 | 8.7 | 7.2 | 7.7 | 7.4 | 6.3 | 5.6 | 4.7 | 4.7 | 5.6 | 5.1 | 4.9 | 4.2 | 4.6 | 5.1 | 4.4 | 4.8 | 5.3 |
| Canada | 9.8 | 10.8 | 9.4 | 8.1 | 7.2 | 8.4 | 8.1 | 7.2 | 6.1 | 5.3 | 5.6 | 5.9 | 5.5 | 5.3 | 4.8 | 5.1 | 5.4 | 4.8 | 5.3 | 5.5 |
| Denmark | 9.7 | 10.6 | 9.3 | 9.0 | 7.3 | 7.8 | 8.3 | 7.2 | 6.3 | 5.0 | 4.9 | 5.7 | 5.1 | 5.1 | 4.2 | 4.5 | 5.1 | 4.2 | 4.8 | 5.3 |
| Finland | 12.1 | 13.2 | 11.7 | 12.0 | 8.8 | 9.0 | 8.8 | 7.1 | 6.0 | 4.8 | 4.7 | 5.5 | 5.0 | 5.0 | 4.2 | 4.6 | 5.1 | 4.4 | 4.8 | 5.3 |
| France | 8.8 | 9.9 | 9.0 | 8.6 | 6.8 | 7.2 | 7.5 | 6.3 | 5.6 | 4.6 | 4.6 | 5.4 | 4.9 | 4.9 | 4.1 | 4.6 | 5.1 | 4.4 | 4.7 | 5.3 |
| Germany | 7.1 | 8.7 | 8.5 | 7.9 | 6.5 | 6.9 | 6.9 | 6.2 | 5.7 | 4.6 | 4.5 | 5.3 | 4.8 | 4.8 | 4.1 | 4.5 | 5.0 | 4.3 | 4.7 | 5.2 |
| Greece | .. | .. | .. | .. | .. | .. | .. | .. | 9.8 | 8.5 | 6.3 | 6.1 | 5.3 | 5.0 | 4.3 | 4.6 | 5.1 | 4.5 | 4.8 | 5.3 |
| Iceland | .. | 16.4 | 17.7 | 13.1 | 13.4 | 7.0 | 9.7 | 9.2 | 8.7 | 7.7 | 8.5 | 11.2 | 10.4 | 8.0 | 6.5 | 7.5 | 8.5 | 6.6 | 8.0 | 8.7 |
| Ireland | 9.2 | 10.3 | 9.4 | 9.3 | 7.6 | 8.0 | 8.2 | 7.2 | 6.3 | 4.7 | 4.8 | 5.5 | 5.0 | 5.0 | 4.1 | 4.6 | 5.1 | 4.5 | 4.7 | 5.3 |
| Italy | 12.8 | 13.5 | 13.3 | 13.3 | 11.2 | 10.5 | 12.2 | 9.4 | 6.9 | 4.9 | 4.7 | 5.6 | 5.2 | 5.0 | 4.3 | 4.7 | 5.2 | 4.5 | 4.9 | 5.4 |
| Japan | 5.1 | 7.0 | 6.3 | 5.3 | 4.3 | 4.4 | 3.4 | 3.1 | 2.4 | 1.5 | 1.7 | 1.7 | 1.3 | 1.3 | 1.1 | 1.7 | 1.8 | 1.6 | 1.7 | 1.8 |
| Korea | 14.2 | 15.1 | 16.5 | 15.1 | 12.1 | 12.3 | 12.4 | 10.9 | 11.7 | 12.8 | 8.7 | 8.5 | 6.7 | 6.5 | 4.8 | 5.1 | 6.4 | 4.8 | 5.5 | 6.9 |
| Luxembourg | .. | 9.3 | 8.8 | 8.2 | 6.7 | 7.2 | 7.2 | 6.3 | 5.6 | 4.7 | 4.7 | 5.5 | 4.9 | 4.7 | 3.9 | 4.4 | 4.9 | 4.4 | 4.6 | 5.1 |
| Mexico | 44.6 | 34.8 | 19.7 | 16.1 | 15.5 | 13.8 | 39.8 | 34.4 | 22.5 | 24.8 | 24.1 | 16.9 | 13.8 | 8.5 | 7.4 | 7.2 | 8.1 | 6.7 | 7.7 | 8.6 |
| Netherlands | 7.2 | 8.9 | 8.7 | 8.1 | 6.4 | 6.9 | 6.9 | 6.2 | 5.6 | 4.6 | 4.6 | 5.4 | 5.0 | 4.9 | 4.1 | 4.5 | 4.9 | 4.4 | 4.6 | 5.1 |
| New Zealand | 12.8 | 12.4 | 10.1 | 8.4 | 6.9 | 7.6 | 7.8 | 7.9 | 7.2 | 6.3 | 6.4 | 6.9 | 6.4 | 6.5 | 5.8 | 5.9 | 6.4 | 5.8 | 6.1 | 6.4 |
| Norway | 10.8 | 10.7 | 10.0 | 9.6 | 6.9 | 7.4 | 7.4 | 6.8 | 5.9 | 5.4 | 5.5 | 6.3 | 6.2 | 6.1 | 5.7 | 5.7 | 6.0 | 5.7 | 5.8 | 6.1 |
| Portugal | .. | .. | .. | .. | .. | 10.5 | 11.5 | 8.6 | 6.4 | 4.9 | 4.8 | 5.6 | 5.2 | 5.0 | 4.2 | 4.6 | 5.1 | 4.4 | 4.7 | 5.3 |
| Slovak Republic | .. | .. | .. | .. | 13.1 | 9.2 | 10.1 | 9.7 | 9.4 | 21.7 | 15.9 | 8.5 | 7.8 | 6.2 | 4.7 | 4.9 | 5.2 | 4.7 | 5.0 | 5.4 |
| Spain | 13.8 | 14.6 | 12.8 | 11.7 | 10.2 | 10.0 | 11.3 | 8.7 | 6.4 | 4.8 | 4.7 | 5.5 | 5.1 | 5.0 | 4.1 | 4.4 | 4.9 | 4.3 | 4.6 | 5.1 |
| Sweden | 11.2 | 13.2 | 10.7 | 10.0 | 8.5 | 9.5 | 10.2 | 8.0 | 6.6 | 5.0 | 5.0 | 5.4 | 5.1 | 5.3 | 4.6 | 5.0 | 5.6 | 4.7 | 5.2 | 5.8 |
| Switzerland | 5.2 | 6.4 | 6.2 | 6.4 | 4.6 | 5.0 | 4.5 | 4.0 | 3.4 | 3.0 | 3.0 | 3.9 | 3.4 | 3.2 | 2.6 | 2.9 | 3.1 | 2.8 | 2.9 | 3.2 |
| Turkey | 58.3 | 51.9 | 71.9 | 79.6 | 86.6 | 138.5 | 111.5 | 124.9 | 106.0 | 113.6 | 106.6 | 35.8 | 87.4 | 62.4 | 44.8 | 29.8 | 21.1 | 33.6 | 27.3 | 18.7 |
| United Kingdom | 10.2 | 11.8 | 10.1 | 9.1 | 7.5 | 8.2 | 8.2 | 7.8 | 7.1 | 5.5 | 5.1 | 5.3 | 4.9 | 4.9 | 4.4 | 4.7 | 5.2 | 4.6 | 4.8 | 5.6 |
| United States | 8.5 | 8.6 | 7.9 | 7.0 | 5.9 | 7.1 | 6.6 | 6.4 | 6.4 | 5.3 | 5.6 | 6.0 | 5.0 | 4.6 | 4.0 | 4.6 | 5.3 | 4.3 | 4.9 | 5.5 |
| Euro area | .. | 10.9 | 10.3 | 9.8 | 7.9 | 8.0 | 8.4 | 7.1 | 5.9 | 4.7 | 4.6 | 5.4 | 5.0 | 4.9 | 4.2 | 4.5 | 5.1 | 4.4 | 4.7 | 5.3 |

*Note:* 10-year benchmark government bond yields where available or yield on proximately similar financial instruments (for Korea a 5-year bond is used). See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

Annex Table 37. **Nominal exchange rates (*vis-à-vis* the US dollar)**

Average of daily rates

| | Monetary unit | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 1999 | 2000 | 2001 | 2002 | Estimates and assumptions[a] 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | *Dollar* | 1.473 | 1.369 | 1.350 | 1.277 | 1.348 | 1.592 | 1.550 | 1.550 | 1.727 | 1.935 | 1.841 | 1.548 | 1.412 | 1.412 |
| Austria | *Schilling* | 11.63 | 11.42 | 10.08 | 10.58 | 12.20 | 12.38 | 12.91 | | | | | | | |
| Belgium | *Franc* | 34.55 | 33.46 | 29.50 | 30.98 | 35.76 | 36.30 | 37.86 | | | | | | | |
| Canada | *Dollar* | 1.290 | 1.366 | 1.372 | 1.364 | 1.385 | 1.483 | 1.486 | 1.486 | 1.485 | 1.548 | 1.570 | 1.404 | 1.333 | 1.333 |
| Czech Republic | *Koruny* | 29.15 | 28.79 | 26.54 | 27.15 | 31.70 | 32.28 | 34.59 | 34.59 | 38.64 | 38.02 | 32.73 | 28.34 | 27.64 | 27.640 |
| Denmark | *Krone* | 6.482 | 6.360 | 5.604 | 5.798 | 6.604 | 6.699 | 6.980 | 6.980 | 8.088 | 8.321 | 7.884 | 6.626 | 6.494 | 6.494 |
| Finland | *Markka* | 5.721 | 5.223 | 4.367 | 4.592 | 5.187 | 5.345 | 5.580 | | | | | | | |
| France | *Franc* | 5.662 | 5.552 | 4.991 | 5.116 | 5.837 | 5.899 | 6.157 | | | | | | | |
| Germany | *Deutschemark* | 1.653 | 1.623 | 1.433 | 1.505 | 1.734 | 1.759 | 1.836 | | | | | | | |
| Greece | *Drachma* | 229.1 | 242.2 | 231.6 | 240.7 | 272.9 | 295.3 | 305.7 | | | | | | | |
| Hungary | *Forint* | 91.9 | 105.1 | 125.7 | 152.6 | 186.6 | 214.3 | 237.1 | 237.1 | 282.3 | 286.5 | 257.4 | 225.3 | 224.9 | 224.9 |
| Iceland | *Krona* | 67.64 | 69.99 | 64.77 | 66.69 | 70.97 | 71.17 | 72.43 | 72.43 | 78.84 | 97.67 | 91.59 | 77.04 | 76.52 | 76.52 |
| Ireland | *Pound* | 0.683 | 0.670 | 0.624 | 0.625 | 0.660 | 0.703 | 0.739 | | | | | | | |
| Italy | *Lira* | 1572 | 1613 | 1629 | 1543 | 1703 | 1736 | 1817 | | | | | | | |
| Japan | *Yen* | 111.2 | 102.2 | 94.1 | 108.8 | 121.0 | 130.9 | 113.9 | 113.9 | 107.8 | 121.5 | 125.3 | 118.0 | 116.4 | 116.4 |
| Korea | *Won* | 802.4 | 804.3 | 771.4 | 804.4 | 950.5 | 1 400.5 | 1 186.7 | 1 186.7 | 1 130.6 | 1 290.4 | 1 251.0 | 1 190.5 | 1 185.6 | 1 185.6 |
| Luxembourg | *Franc* | 34.55 | 33.46 | 29.50 | 30.98 | 35.76 | 36.30 | 37.86 | | | | | | | |
| Mexico | *Peso* | 3.115 | 3.389 | 6.421 | 7.601 | 7.924 | 9.153 | 9.553 | 9.553 | 9.453 | 9.344 | 9.660 | 10.756 | 10.990 | 10.990 |
| Netherlands | *Guilder* | 1.857 | 1.820 | 1.605 | 1.686 | 1.951 | 1.983 | 2.068 | | | | | | | |
| New Zealand | *Dollar* | 1.851 | 1.687 | 1.524 | 1.454 | 1.513 | 1.869 | 1.892 | 1.892 | 2.205 | 2.382 | 2.163 | 1.734 | 1.630 | 1.630 |
| Norway | *Krone* | 7.094 | 7.057 | 6.337 | 6.457 | 7.072 | 7.545 | 7.797 | 7.797 | 8.797 | 8.993 | 7.986 | 7.118 | 7.099 | 7.099 |
| Poland | *Zloty* | 1.814 | 2.273 | 2.425 | 2.695 | 3.277 | 3.492 | 3.964 | 3.964 | 4.346 | 4.097 | 4.082 | 3.916 | 4.040 | 4.040 |
| Portugal | *Escudo* | 160.7 | 166.0 | 149.9 | 154.2 | 175.2 | 180.1 | 188.2 | | | | | | | |
| Slovak Republic | *Koruna* | 30.8 | 32.04 | 29.74 | 30.65 | 33.62 | 35.23 | 41.36 | 41.36 | 46.23 | 48.35 | 45.30 | 37.00 | 35.78 | 35.780 |
| Spain | *Peseta* | 127.2 | 134.0 | 124.7 | 126.7 | 146.4 | 149.4 | 156.2 | | | | | | | |
| Sweden | *Krona* | 7.785 | 7.716 | 7.134 | 6.707 | 7.635 | 7.947 | 8.262 | 8.262 | 9.161 | 10.338 | 9.721 | 8.146 | 7.911 | 7.911 |
| Switzerland | *Franc* | 1.477 | 1.367 | 1.182 | 1.236 | 1.450 | 1.450 | 1.503 | 1.503 | 1.688 | 1.687 | 1.557 | 1.356 | 1.362 | 1.362 |
| Turkey | *Lira* | 10 964 | 29 778 | 45 738 | 81 281 | 151 595 | 260 473 | 418 984 | 418 984 | 624 325 | 1 228 269 | 1 512 342 | 1 512 066 | 1 616 901 | 1 725 524 |
| United Kingdom | *Pound* | 0.666 | 0.653 | 0.634 | 0.641 | 0.611 | 0.604 | 0.618 | 0.618 | 0.661 | 0.694 | 0.667 | 0.615 | 0.597 | 0.597 |
| United States | *Dollar* | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| Euro area | *Euro* | .. | .. | .. | .. | .. | .. | 0.939 | 0.939 | 1.086 | 1.118 | 1.062 | 0.893 | 0.874 | 0.874 |
| | *SDR* | 0.716 | 0.699 | 0.659 | 0.689 | 0.726 | 0.737 | 0.731 | 0.731 | 0.758 | 0.785 | 0.773 | 0.716 | 0.698 | 0.698 |

*Note:* No rate are shown for individual euro area countries after 1999.

*a)* On the technical assumption that exchange rates remain at their levels of 3 November 2003, except for Turkey, where exchange rates vary according to official exchange rate policy.

*Source:* OECD.

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Annex Table 38. **Effective exchange rates**

Indices 1995 = 100, average of daily rates

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | Estimates and assumptions[a] 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 106.9 | 107.7 | 100.9 | 95.7 | 103.1 | 100.0 | 109.7 | 111.0 | 103.5 | 103.6 | 96.3 | 90.3 | 93.6 | 104.4 | 112.3 | 112.4 |
| Austria | 87.9 | 88.1 | 90.2 | 93.2 | 95.4 | 100.0 | 99.1 | 97.2 | 99.2 | 99.9 | 97.7 | 98.1 | 98.6 | 101.6 | 102.1 | 102.4 |
| Belgium | 85.2 | 86.1 | 88.7 | 90.7 | 94.7 | 100.0 | 98.4 | 94.5 | 96.8 | 96.3 | 92.5 | 93.6 | 95.2 | 99.6 | 99.5 | 99.6 |
| Canada | 113.2 | 116.5 | 110.7 | 105.6 | 100.8 | 100.0 | 101.9 | 102.2 | 97.4 | 97.1 | 98.0 | 95.1 | 93.6 | 103.4 | 108.4 | 108.4 |
| Czech Republic | .. | .. | .. | 95.9 | 99.3 | 100.0 | 101.6 | 98.6 | 100.3 | 99.9 | 101.2 | 106.2 | 118.2 | 117.3 | 118.2 | 118.3 |
| Denmark | 86.5 | 86.0 | 88.7 | 92.9 | 95.1 | 100.0 | 99.1 | 96.8 | 99.3 | 98.7 | 94.8 | 96.4 | 97.6 | 101.7 | 101.8 | 102.0 |
| Finland | 99.9 | 97.0 | 85.2 | 76.7 | 87.0 | 100.0 | 97.6 | 95.4 | 98.2 | 101.1 | 96.6 | 98.6 | 100.3 | 105.2 | 105.3 | 105.4 |
| France | 86.4 | 85.9 | 89.6 | 93.3 | 96.1 | 100.0 | 100.4 | 97.7 | 100.0 | 99.3 | 95.7 | 96.6 | 98.0 | 102.3 | 102.6 | 102.8 |
| Germany | 79.4 | 80.1 | 84.0 | 88.6 | 93.0 | 100.0 | 98.6 | 95.2 | 98.7 | 98.6 | 94.3 | 95.5 | 97.1 | 102.5 | 103.1 | 103.4 |
| Greece | 133.8 | 120.8 | 113.7 | 106.0 | 101.2 | 100.0 | 98.4 | 96.6 | 93.9 | 94.6 | 88.4 | 89.1 | 90.7 | 94.4 | 94.5 | 94.7 |
| Hungary | .. | .. | .. | 140.1 | 126.0 | 100.0 | 85.2 | 78.9 | 71.5 | 69.0 | 65.5 | 66.7 | 71.2 | 70.5 | 69.3 | 69.4 |
| Iceland | 110.4 | 110.9 | 110.5 | 104.0 | 99.6 | 100.0 | 99.5 | 101.7 | 104.5 | 106.3 | 107.4 | 91.0 | 93.2 | 98.1 | 96.9 | 97.0 |
| Ireland | 98.6 | 97.5 | 101.7 | 96.6 | 98.2 | 100.0 | 102.6 | 102.4 | 99.4 | 96.5 | 89.5 | 90.7 | 92.8 | 101.3 | 101.4 | 101.4 |
| Italy | 126.1 | 127.3 | 126.2 | 108.7 | 108.6 | 100.0 | 110.0 | 111.5 | 113.9 | 113.5 | 109.4 | 110.7 | 112.7 | 117.8 | 118.3 | 118.6 |
| Japan | 53.2 | 59.9 | 65.0 | 80.4 | 93.4 | 100.0 | 87.2 | 83.3 | 86.6 | 99.3 | 108.1 | 99.7 | 95.5 | 98.4 | 102.2 | 102.3 |
| Korea | 111.3 | 107.4 | 100.1 | 98.6 | 99.7 | 100.0 | 101.6 | 94.1 | 68.1 | 77.9 | 83.4 | 77.1 | 79.7 | 79.3 | 78.1 | 78.1 |
| Luxembourg | 91.0 | 91.6 | 93.5 | 94.1 | 96.8 | 100.0 | 98.9 | 96.7 | 97.7 | 97.5 | 94.9 | 95.4 | 96.5 | 99.6 | 99.7 | 99.8 |
| Mexico | 193.5 | 186.9 | 187.1 | 196.5 | 190.3 | 100.0 | 84.9 | 83.3 | 74.0 | 70.6 | 72.1 | 74.1 | 71.8 | 63.0 | 61.3 | 61.3 |
| Netherlands | 81.4 | 82.0 | 85.2 | 89.3 | 93.6 | 100.0 | 98.6 | 93.9 | 97.2 | 97.1 | 92.2 | 93.5 | 95.6 | 101.4 | 101.8 | 101.9 |
| New Zealand | 92.0 | 89.5 | 83.3 | 87.3 | 93.6 | 100.0 | 106.3 | 108.9 | 97.8 | 94.4 | 85.6 | 84.7 | 91.5 | 103.3 | 105.5 | 105.5 |
| Norway | 95.8 | 95.0 | 96.7 | 95.7 | 96.4 | 100.0 | 100.1 | 101.1 | 98.0 | 97.9 | 95.8 | 99.0 | 107.3 | 104.9 | 102.8 | 102.9 |
| Poland | .. | .. | .. | 139.0 | 113.5 | 100.0 | 93.2 | 86.6 | 84.8 | 79.2 | 81.6 | 90.0 | 86.1 | 77.4 | 73.5 | 73.6 |
| Portugal | 93.3 | 95.8 | 101.3 | 97.8 | 96.9 | 100.0 | 99.6 | 98.3 | 98.2 | 97.7 | 95.4 | 96.3 | 97.2 | 99.7 | 99.9 | 100.0 |
| Slovak Republic | .. | .. | .. | 97.9 | 96.7 | 100.0 | 100.9 | 105.6 | 106.6 | 100.6 | 102.3 | 99.8 | 100.1 | 105.7 | 107.3 | 107.4 |
| Spain | 117.0 | 118.4 | 117.1 | 104.6 | 99.7 | 100.0 | 101.0 | 96.9 | 98.1 | 97.3 | 94.3 | 95.4 | 96.8 | 100.2 | 100.3 | 100.4 |
| Sweden | 115.7 | 116.7 | 119.6 | 98.4 | 99.6 | 100.0 | 110.1 | 106.6 | 106.3 | 106.1 | 106.3 | 97.8 | 100.2 | 105.6 | 106.8 | 106.9 |
| Switzerland | 80.5 | 80.2 | 79.7 | 83.5 | 91.9 | 100.0 | 98.7 | 93.1 | 97.2 | 97.8 | 96.1 | 100.0 | 105.1 | 106.5 | 103.9 | 103.9 |
| Turkey | 1 546.9 | 1023.7 | 610.9 | 427.8 | 173.5 | 100.0 | 58.6 | 34.9 | 21.1 | 14.1 | 10.3 | 5.8 | 4.3 | 3.8 | 3.4 | 3.2 |
| United Kingdom | 109.0 | 111.1 | 108.4 | 100.2 | 103.4 | 100.0 | 102.3 | 119.2 | 127.0 | 127.5 | 130.9 | 129.6 | 131.1 | 126.5 | 128.1 | 128.2 |
| United States | 83.3 | 85.4 | 87.1 | 92.6 | 98.0 | 100.0 | 105.6 | 113.1 | 124.8 | 124.4 | 127.5 | 134.3 | 134.8 | 126.9 | 124.8 | 124.9 |
| Euro area | 81.1 | 81.6 | 86.9 | 86.0 | 92.0 | 100.0 | 102.0 | 95.5 | 100.7 | 99.0 | 90.1 | 92.4 | 95.5 | 106.4 | 107.6 | 108.1 |

*Note:* For details on the method of calculation, see the section on exchange rates and competitiveness indicators in *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* On the technical assumption that exchange rates remain at their levels of 3 November 2003, except for Turkey, where exchange rates vary according to official exchange rate policy.

*Source:* OECD.

Annex Table 39. **Export volumes of goods and services**

National accounts basis, percentage changes from previous year

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 4.3 | 12.2 | 3.5 | 2.9 | 8.5 | 13.1 | 5.4 | 8.0 | 9.0 | 5.0 | 10.6 | 11.5 | -0.2 | 4.6 | 10.8 | 1.4 | -0.1 | -2.7 | 7.1 | 9.1 |
| Austria | -4.8 | 2.3 | 9.8 | 9.7 | 7.8 | 5.2 | 1.5 | -1.4 | 5.6 | 3.0 | 5.2 | 12.4 | 8.1 | 8.5 | 13.4 | 7.5 | 3.7 | 0.1 | 3.7 | 6.8 |
| Belgium | 2.3 | 4.6 | 10.3 | 8.8 | 4.6 | 2.8 | 2.4 | 0.9 | 9.0 | 4.7 | 2.3 | 6.1 | 5.7 | 5.4 | 8.6 | 1.3 | 0.8 | -1.3 | 4.7 | 6.9 |
| Canada | 4.3 | 2.9 | 8.9 | 1.0 | 4.7 | 1.8 | 7.2 | 10.8 | 12.7 | 8.5 | 5.6 | 8.3 | 9.1 | 10.7 | 8.8 | -3.1 | -0.1 | -1.8 | 5.0 | 6.6 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | .. | 0.2 | 16.7 | 8.2 | 9.2 | 10.0 | 6.1 | 17.0 | 11.9 | 2.8 | 6.2 | 9.2 | 9.5 |
| Denmark | 0.4 | 4.3 | 11.2 | 4.2 | 6.2 | 6.1 | -0.9 | -1.5 | 7.0 | 2.9 | 4.3 | 4.1 | 4.3 | 12.3 | 13.0 | 3.0 | 5.8 | 1.9 | 6.1 | 7.0 |
| Finland | 1.4 | 2.9 | 3.1 | 3.0 | 1.5 | -7.4 | 10.1 | 16.3 | 13.6 | 8.5 | 5.7 | 13.7 | 9.2 | 6.5 | 19.3 | -0.8 | 4.9 | 1.8 | 8.6 | 9.9 |
| France[a] | -0.8 | 2.7 | 8.6 | 10.6 | 4.8 | 5.5 | 5.3 | -0.1 | 7.9 | 7.7 | 3.2 | 12.0 | 8.3 | 4.2 | 13.4 | 1.8 | 1.3 | -2.2 | 4.6 | 7.1 |
| Germany | -1.5 | 0.3 | 4.8 | 10.7 | 14.3 | 13.0 | -2.0 | -5.4 | 7.7 | 6.0 | 5.3 | 11.4 | 6.4 | 5.1 | 14.4 | 6.1 | 3.4 | 0.3 | 4.6 | 7.2 |
| Greece | 16.8 | 6.0 | -2.1 | 2.0 | -3.5 | 4.1 | 10.0 | -2.6 | 7.4 | 3.0 | 3.5 | 20.0 | 5.3 | 18.1 | 14.1 | -1.1 | -7.7 | 1.1 | 6.6 | 7.5 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | .. | 13.7 | 13.4 | 8.4 | 26.4 | 16.7 | 13.1 | 21.8 | 8.8 | 3.8 | 4.3 | 7.2 | 9.0 |
| Iceland | 5.9 | 3.3 | -3.6 | 2.9 | -0.0 | -7.2 | -2.0 | 7.0 | 9.9 | -2.1 | 9.8 | 5.8 | 2.0 | 4.0 | 5.0 | 7.7 | 3.7 | -0.0 | 4.8 | 5.0 |
| Ireland | 2.9 | 13.7 | 9.0 | 10.3 | 8.7 | 5.7 | 13.9 | 9.7 | 15.1 | 20.0 | 12.2 | 17.4 | 21.0 | 15.2 | 20.6 | 8.3 | 6.2 | -6.9 | 4.0 | 7.4 |
| Italy | 0.8 | 4.5 | 5.1 | 7.8 | 7.5 | -1.4 | 7.3 | 9.0 | 9.8 | 12.6 | 0.6 | 6.4 | 3.4 | 0.1 | 11.7 | 1.1 | -1.0 | -2.6 | 4.9 | 5.6 |
| Japan | -5.5 | -0.5 | 5.9 | 9.1 | 7.0 | 4.1 | 3.9 | -0.1 | 3.5 | 4.1 | 6.5 | 11.3 | -2.3 | 1.5 | 12.3 | -6.0 | 8.1 | 7.5 | 9.5 | 9.8 |
| Korea | 27.0 | 22.7 | 12.2 | -4.3 | 4.1 | 11.2 | 11.3 | 11.3 | 16.1 | 24.6 | 11.2 | 21.4 | 14.1 | 15.8 | 20.5 | 0.7 | 14.9 | 13.8 | 13.1 | 12.2 |
| Luxembourg | 3.0 | 3.3 | 11.1 | 12.6 | 5.6 | 9.2 | 2.7 | 4.8 | 7.7 | 4.6 | 5.8 | 14.8 | 14.1 | 14.8 | 16.8 | 2.6 | -0.3 | 1.2 | 3.9 | 5.9 |
| Mexico | 4.5 | 9.5 | 5.8 | 5.7 | 5.3 | 5.1 | 5.0 | 8.1 | 17.8 | 30.2 | 18.2 | 10.7 | 12.1 | 12.4 | 16.4 | -3.6 | 1.4 | -0.3 | 6.5 | 7.8 |
| Netherlands | 1.8 | 6.2 | 8.1 | 7.5 | 5.6 | 5.6 | 1.8 | 4.8 | 9.7 | 8.8 | 4.6 | 8.8 | 7.4 | 5.1 | 11.3 | 1.7 | 0.1 | -0.5 | 2.6 | 5.2 |
| New Zealand | -0.4 | 5.6 | 6.1 | -1.4 | 4.9 | 10.8 | 3.7 | 4.6 | 10.0 | 3.8 | 3.7 | 3.9 | 1.8 | 8.0 | 6.5 | 2.4 | 5.8 | 1.2 | 3.5 | 6.7 |
| Norway | 2.2 | 1.1 | 6.4 | 11.0 | 8.6 | 6.1 | 4.7 | 3.2 | 8.4 | 4.9 | 10.2 | 7.7 | 0.6 | 2.8 | 4.0 | 4.1 | -0.5 | -0.8 | 2.2 | 3.2 |
| Poland | .. | .. | .. | .. | .. | .. | .. | .. | 13.1 | 22.9 | 12.0 | 12.2 | 14.3 | -2.6 | 23.2 | 3.1 | 4.8 | 9.8 | 10.5 | 11.5 |
| Portugal | 6.8 | 11.2 | 8.2 | 12.2 | 9.5 | 1.2 | 3.2 | -3.3 | 8.4 | 8.8 | 7.1 | 7.1 | 9.1 | 2.9 | 7.8 | 1.8 | 2.1 | 3.3 | 5.1 | 6.6 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | .. | 12.2 | 4.8 | -1.3 | 19.0 | 13.2 | 5.2 | 13.8 | 6.5 | 5.9 | 19.8 | 9.3 | 9.0 |
| Spain | 0.2 | 5.3 | 3.8 | 1.4 | 4.7 | 8.3 | 7.5 | 7.8 | 16.7 | 9.4 | 10.4 | 15.3 | 8.2 | 7.7 | 10.0 | 3.6 | -0.0 | 4.1 | 5.2 | 7.2 |
| Sweden | 3.4 | 4.3 | 2.8 | 3.2 | 1.8 | -1.9 | 2.2 | 8.3 | 14.1 | 11.5 | 3.7 | 13.8 | 8.6 | 7.4 | 11.3 | -0.8 | 0.4 | 5.0 | 5.0 | 6.6 |
| Switzerland | 0.2 | 2.0 | 5.7 | 5.3 | 2.6 | -0.7 | 3.1 | 1.0 | 2.7 | 2.8 | 2.4 | 8.4 | 5.4 | 5.1 | 10.1 | -0.0 | -0.4 | -0.5 | 3.8 | 5.9 |
| Turkey | -5.1 | 26.4 | 18.4 | -0.3 | 2.6 | 3.7 | 11.0 | 7.7 | 15.2 | 8.0 | 22.0 | 19.1 | 12.0 | -7.0 | 19.2 | 7.4 | 11.0 | 11.2 | 10.9 | 11.2 |
| United Kingdom | 4.3 | 6.1 | 0.7 | 4.5 | 5.5 | -0.1 | 4.3 | 4.4 | 9.2 | 9.3 | 8.6 | 8.4 | 2.8 | 4.3 | 9.4 | 2.5 | -0.9 | -0.9 | 6.5 | 8.0 |
| United States[a] | 7.4 | 11.2 | 16.1 | 11.8 | 8.7 | 6.5 | 6.2 | 3.3 | 8.9 | 10.3 | 8.2 | 12.3 | 2.1 | 3.4 | 9.7 | -5.4 | -1.6 | 1.4 | 8.5 | 8.7 |
| Total OECD | 1.7 | 5.0 | 7.8 | 7.9 | 7.2 | 5.2 | 4.2 | 4.6 | 8.9 | 8.9 | 6.6 | 11.0 | 5.1 | 5.2 | 12.0 | 0.0 | 1.9 | 1.5 | 6.5 | 7.9 |

*Note:* Regional aggregates are calculated *inclusive* of intra-regional trade as the sum of volumes expressed in 2000 US$.
*a)* Volume data use hedonic price deflators for certain components.
*Source:* OECD.

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Annex Table 40. **Import volumes of goods and services**
National accounts basis, percentage changes from previous year

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | -3.3 | 2.7 | 17.1 | 20.6 | -4.0 | -2.4 | 7.1 | 4.2 | 14.3 | 7.9 | 8.3 | 10.5 | 6.0 | 9.2 | 7.1 | -4.1 | 12.0 | 9.4 | 6.8 | 7.7 |
| Austria | -6.0 | 4.8 | 9.3 | 8.0 | 6.9 | 5.8 | 1.4 | -1.1 | 8.2 | 5.6 | 4.9 | 12.0 | 5.7 | 9.0 | 11.6 | 5.9 | 1.2 | 1.0 | 3.8 | 7.4 |
| Belgium | 3.9 | 6.8 | 10.7 | 10.0 | 4.8 | 2.8 | 3.2 | 0.5 | 7.3 | 4.7 | 2.4 | 4.9 | 7.3 | 4.5 | 8.4 | 1.1 | 1.1 | -0.2 | 4.9 | 6.7 |
| Canada | 7.2 | 5.3 | 13.5 | 5.9 | 2.0 | 2.5 | 4.7 | 7.4 | 8.0 | 5.7 | 5.1 | 14.2 | 5.1 | 7.8 | 8.0 | -5.0 | 0.6 | 3.8 | 6.2 | 7.3 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | .. | 7.6 | 21.2 | 13.4 | 8.1 | 6.6 | 5.4 | 17.0 | 13.6 | 4.3 | 6.9 | 8.6 | 8.9 |
| Denmark | 9.5 | -3.1 | 8.3 | 4.1 | 1.2 | 3.0 | -0.4 | -2.7 | 12.3 | 7.3 | 3.5 | 10.0 | 8.9 | 5.5 | 11.3 | 1.9 | 4.2 | 0.8 | 5.5 | 7.2 |
| Finland | 2.9 | 9.4 | 10.6 | 9.1 | -0.6 | -12.9 | 0.5 | 1.5 | 12.4 | 7.4 | 5.9 | 11.2 | 7.9 | 3.5 | 16.9 | 0.2 | 1.3 | 0.9 | 8.1 | 9.0 |
| France[a] | 6.5 | 7.6 | 8.6 | 8.4 | 5.5 | 2.4 | 1.7 | -3.8 | 8.6 | 7.6 | 1.6 | 7.3 | 11.6 | 6.2 | 15.3 | 1.4 | 0.8 | 1.2 | 5.0 | 7.2 |
| Germany | 2.9 | 4.5 | 5.0 | 9.0 | 11.7 | 12.2 | 0.4 | -5.4 | 7.4 | 5.8 | 3.3 | 8.4 | 8.6 | 8.1 | 11.0 | 1.2 | -1.6 | 2.9 | 4.4 | 7.1 |
| Greece | 13.9 | 2.1 | 7.3 | 10.5 | 8.4 | 5.8 | 1.1 | 0.6 | 1.5 | 8.9 | 7.0 | 14.2 | 9.2 | 15.0 | 8.9 | -3.4 | -4.7 | 2.4 | 5.7 | 5.3 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | .. | 8.8 | -0.7 | 6.2 | 24.6 | 22.8 | 12.3 | 21.1 | 6.1 | 6.1 | 7.7 | 6.0 | 8.9 |
| Iceland | 0.9 | 23.3 | -4.6 | -10.3 | 1.0 | 4.1 | -5.9 | -7.7 | 4.2 | 4.0 | 16.7 | 8.5 | 23.4 | 4.2 | 8.0 | -9.0 | -2.3 | 6.5 | 7.1 | 8.5 |
| Ireland | 5.6 | 6.2 | 4.9 | 13.5 | 5.1 | 2.4 | 8.2 | 7.5 | 15.5 | 16.4 | 12.5 | 16.8 | 25.5 | 12.1 | 21.3 | 6.5 | 2.3 | -9.7 | 2.6 | 7.7 |
| Italy | 4.0 | 12.2 | 5.9 | 8.9 | 11.5 | 2.3 | 7.4 | -10.9 | 8.1 | 9.7 | -0.3 | 10.1 | 8.9 | 5.6 | 8.9 | 1.0 | 1.5 | 1.6 | 5.5 | 5.8 |
| Japan | 3.2 | 11.3 | 19.5 | 15.7 | 7.0 | -1.1 | -0.7 | -1.4 | 7.8 | 12.8 | 13.2 | 1.2 | -6.8 | 3.0 | 9.4 | 0.1 | 2.0 | 4.5 | 5.2 | 5.1 |
| Korea | 18.7 | 19.9 | 13.7 | 17.1 | 13.9 | 19.2 | 5.3 | 6.2 | 21.6 | 22.4 | 14.2 | 3.2 | -22.1 | 28.8 | 20.0 | -3.0 | 16.4 | 13.2 | 13.5 | 13.9 |
| Luxembourg | 1.7 | 7.3 | 10.5 | 9.1 | 5.0 | 9.1 | -3.1 | 5.2 | 6.7 | 4.2 | 7.6 | 13.9 | 15.3 | 14.6 | 14.8 | 4.8 | -1.6 | 1.6 | 4.1 | 6.0 |
| Mexico | -7.6 | 5.1 | 36.7 | 18.0 | 19.7 | 15.2 | 19.6 | 1.9 | 21.3 | -15.0 | 22.9 | 22.7 | 16.6 | 14.1 | 21.5 | -1.5 | 1.6 | -1.7 | 7.2 | 8.4 |
| Netherlands | 3.5 | 5.6 | 6.4 | 7.7 | 3.8 | 4.9 | 1.5 | 0.3 | 9.4 | 10.5 | 4.4 | 9.5 | 8.5 | 5.8 | 10.5 | 2.4 | -0.2 | -0.5 | 1.8 | 5.7 |
| New Zealand | 2.8 | 8.6 | -0.9 | 13.5 | 3.6 | -5.2 | 8.3 | 5.3 | 13.1 | 9.0 | 7.7 | 2.2 | 1.4 | 11.9 | 0.2 | 1.6 | 8.8 | 9.1 | 7.1 | 6.7 |
| Norway | 11.8 | -6.5 | -2.4 | 2.2 | 2.5 | 0.5 | 1.6 | 4.9 | 5.8 | 5.7 | 8.8 | 12.4 | 8.5 | -1.8 | 2.7 | 0.9 | 1.7 | 2.5 | 4.0 | 3.9 |
| Poland | .. | .. | .. | .. | .. | .. | .. | .. | 11.3 | 24.2 | 28.0 | 21.4 | 18.5 | 1.0 | 15.6 | -5.4 | 2.6 | 7.3 | 9.0 | 9.5 |
| Portugal | 16.9 | 23.1 | 18.0 | 5.9 | 14.5 | 7.2 | 10.7 | -3.3 | 8.8 | 7.4 | 4.9 | 10.0 | 14.2 | 8.5 | 5.5 | 0.9 | -0.4 | -3.0 | 3.1 | 6.1 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | .. | -5.4 | 11.5 | 19.8 | 13.8 | 16.9 | -6.3 | 10.2 | 11.7 | 5.3 | 14.7 | 8.0 | 9.5 |
| Spain | 17.2 | 24.8 | 16.1 | 17.7 | 9.6 | 10.3 | 6.8 | -5.2 | 11.4 | 11.1 | 8.0 | 13.3 | 13.2 | 12.6 | 10.6 | 4.0 | 1.8 | 7.1 | 7.6 | 8.3 |
| Sweden | 3.8 | 7.6 | 4.5 | 7.7 | 0.7 | -4.9 | 1.5 | -2.2 | 12.2 | 7.2 | 3.0 | 12.5 | 11.3 | 4.9 | 11.5 | -3.5 | -2.7 | 5.2 | 4.8 | 6.9 |
| Switzerland | 7.9 | 5.9 | 5.5 | 4.8 | 3.0 | -1.4 | -3.7 | -0.5 | 8.9 | 6.9 | 1.9 | 6.1 | 8.3 | 7.4 | 8.4 | -0.3 | -3.5 | -2.4 | 4.4 | 6.5 |
| Turkey | -3.5 | 23.0 | -4.5 | 6.9 | 33.0 | -5.2 | 10.9 | 35.8 | -21.9 | 29.6 | 20.5 | 22.4 | 2.3 | -3.7 | 25.4 | -24.8 | 15.7 | 16.6 | 13.3 | 12.6 |
| United Kingdom | 6.9 | 7.9 | 12.8 | 7.4 | 0.5 | -4.5 | 6.8 | 3.3 | 5.8 | 5.6 | 9.7 | 9.8 | 9.3 | 7.9 | 9.1 | 4.5 | 3.6 | 1.1 | 7.0 | 8.0 |
| United States[a] | 8.4 | 6.1 | 3.8 | 3.9 | 3.8 | -0.5 | 6.6 | 9.1 | 12.0 | 8.2 | 8.6 | 13.7 | 11.8 | 10.9 | 13.2 | -2.9 | 3.7 | 3.6 | 7.3 | 7.1 |
| Total OECD | 5.6 | 7.4 | 8.8 | 8.6 | 6.0 | 2.6 | 4.0 | 3.2 | 9.4 | 8.2 | 7.4 | 10.1 | 7.4 | 8.4 | 12.0 | -0.3 | 2.4 | 3.1 | 6.3 | 7.4 |

*Note:* Regional aggregates are calculated *inclusive* of intra-regional trade as the sum of volumes expressed in 2000 US$.
*a)* Volume data use hedonic price deflators for certain components.
*Source:* OECD.

Annex Table 41. **Export prices of goods and services**

Goods and services, percentage changes from previous year, national currency terms

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 1.2 | 3.8 | 8.0 | 6.0 | 1.1 | -5.1 | 2.0 | 1.0 | -4.0 | 6.0 | -2.6 | -0.1 | 2.4 | -5.0 | 13.1 | 7.0 | -2.2 | -5.8 | -5.3 | -0.5 |
| Austria | 0.5 | -1.7 | 2.2 | 2.3 | 0.9 | 0.7 | 0.4 | 0.3 | 1.3 | 1.9 | 1.1 | 0.8 | 0.2 | -0.1 | 2.3 | -0.1 | -0.5 | -0.5 | 1.0 | 1.8 |
| Belgium | -6.3 | -3.3 | 3.8 | 6.9 | -1.6 | -0.8 | -0.9 | -1.5 | 1.3 | 1.4 | 1.9 | 4.7 | -1.2 | 0.0 | 9.6 | 1.5 | -0.9 | -1.0 | -0.4 | 1.1 |
| Canada | -0.4 | 2.0 | 0.3 | 2.1 | -0.7 | -3.6 | 2.9 | 4.4 | 5.9 | 6.4 | 0.6 | 0.2 | -0.3 | 1.1 | 6.2 | 1.5 | -1.5 | -0.2 | -0.1 | 1.4 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | .. | 5.2 | 6.4 | 2.7 | 5.7 | 3.5 | 0.5 | 2.7 | -0.7 | -6.3 | 1.5 | 0.6 | 1.4 |
| Denmark | -5.4 | -1.3 | -0.8 | 6.8 | 0.7 | 1.7 | 2.5 | -0.3 | 0.6 | 1.4 | 1.7 | 3.0 | -2.6 | -1.0 | 9.2 | 2.2 | -2.9 | 0.3 | 2.0 | 1.8 |
| Finland | -3.6 | 1.7 | 4.9 | 5.7 | 0.4 | -0.3 | 6.1 | 6.5 | 1.3 | 4.9 | -0.4 | -0.8 | -1.0 | -5.1 | 3.4 | -2.5 | -4.7 | -3.1 | -0.4 | 1.5 |
| France[a] | -3.6 | -0.5 | 2.6 | 3.7 | -1.2 | -0.6 | -1.7 | -2.2 | -0.1 | 0.7 | 1.6 | 2.0 | -1.4 | -1.4 | 2.3 | -0.1 | -1.6 | -0.6 | -1.0 | 0.1 |
| Germany | -1.2 | -1.0 | 1.7 | 2.5 | -0.2 | 1.0 | 1.0 | 0.7 | 1.0 | 2.0 | 0.1 | 1.2 | 0.2 | -0.8 | 2.9 | 0.9 | 0.2 | -0.3 | 0.8 | 1.9 |
| Greece | 12.2 | 8.9 | 11.9 | 13.9 | 15.9 | 14.0 | 10.1 | 9.1 | 8.6 | 8.7 | 5.6 | 3.6 | 4.1 | 1.9 | 8.0 | 1.3 | 2.4 | 1.1 | 1.3 | 1.3 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | .. | 18.5 | 60.9 | 23.7 | 11.5 | 14.9 | 3.9 | 9.1 | 2.9 | -4.5 | 2.9 | 2.0 | 3.3 |
| Iceland | 19.9 | 12.0 | 18.3 | 26.3 | 17.6 | 8.4 | -1.3 | 4.3 | 5.6 | 4.6 | -0.1 | 2.0 | 4.9 | -0.1 | 4.0 | 21.5 | -1.7 | -5.0 | 4.0 | 3.8 |
| Ireland | -6.3 | 0.5 | 5.6 | 7.3 | -8.1 | -0.3 | -2.0 | 6.8 | 0.2 | 1.9 | -0.3 | 1.2 | 2.8 | 2.4 | 5.8 | 4.1 | 1.0 | -3.9 | 1.1 | 2.5 |
| Italy | -3.0 | 1.0 | 3.4 | 6.6 | 3.0 | 3.9 | 0.9 | 10.4 | 3.3 | 8.8 | 1.0 | 0.3 | 1.0 | 0.0 | 4.3 | 3.7 | -1.0 | -0.6 | 0.5 | 2.2 |
| Japan | -12.8 | -4.4 | -2.3 | 3.5 | 1.4 | -2.3 | -2.5 | -6.6 | -3.0 | -1.9 | 2.9 | 1.7 | 0.5 | -8.5 | -3.8 | 1.3 | -1.8 | -3.3 | -1.5 | -0.5 |
| Korea | 2.6 | 2.9 | 1.0 | -0.3 | 5.1 | 2.4 | 3.1 | 1.1 | 1.4 | 1.7 | -2.6 | 5.0 | 23.0 | -20.1 | -5.1 | -1.0 | -10.8 | -2.4 | -3.2 | -2.0 |
| Luxembourg | -2.3 | -2.1 | 2.0 | 4.3 | 0.1 | 1.2 | 1.8 | 5.7 | 3.1 | 1.5 | 1.5 | 4.0 | 2.7 | 2.7 | 7.9 | 2.2 | -2.7 | -1.4 | 1.3 | 1.6 |
| Mexico | 79.9 | 150.6 | 64.5 | 18.9 | 25.2 | 7.6 | 5.2 | 3.3 | 5.9 | 79.6 | 22.8 | 7.1 | 9.4 | 6.6 | 3.5 | -2.7 | 3.2 | 12.8 | 4.6 | 4.0 |
| Netherlands | -15.8 | -5.4 | 0.2 | 4.0 | -0.8 | 0.1 | -2.0 | -2.1 | 0.5 | 0.9 | 0.5 | 2.7 | -1.4 | -0.7 | 8.2 | 1.6 | -0.8 | -0.5 | -0.3 | 0.9 |
| New Zealand | 1.5 | 4.9 | 2.8 | 9.4 | -0.2 | -2.9 | 5.5 | 2.2 | -2.7 | -0.4 | -2.6 | -2.4 | 5.1 | -0.2 | 15.2 | 7.6 | -8.0 | -7.7 | -1.5 | 0.7 |
| Norway | -19.2 | 1.8 | 0.6 | 10.7 | 3.0 | -1.2 | -7.0 | 2.0 | -2.7 | 1.9 | 6.9 | 2.0 | -7.9 | 10.7 | 35.7 | -2.3 | -9.1 | 1.0 | 3.5 | 1.5 |
| Poland | .. | .. | .. | .. | .. | .. | .. | .. | 31.7 | 19.6 | 7.6 | 13.9 | 13.2 | 5.9 | 1.7 | 1.3 | 4.8 | 7.7 | 8.6 | 1.2 |
| Portugal | 4.5 | 10.8 | 11.7 | 11.8 | 6.3 | 3.4 | 0.5 | 4.9 | 6.4 | 5.6 | -1.7 | 2.6 | 0.8 | 0.2 | 5.4 | 2.3 | 0.2 | -2.0 | 0.3 | 1.1 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | .. | 12.1 | 8.4 | 3.9 | -0.2 | 2.0 | 5.6 | 12.4 | 5.4 | 0.7 | -5.0 | -4.5 | -3.5 |
| Spain | -0.4 | 3.5 | 4.7 | 6.0 | 0.8 | 1.5 | 2.9 | 5.0 | 4.6 | 5.9 | 1.5 | 3.3 | 0.6 | 0.4 | 7.3 | 2.7 | 1.1 | 0.5 | 0.8 | 1.7 |
| Sweden | -1.5 | 2.6 | 5.1 | 6.5 | 1.8 | 1.6 | -2.8 | 9.1 | 3.7 | 6.9 | -4.6 | -0.2 | -1.3 | -1.6 | 2.2 | 2.8 | -1.9 | -1.7 | -0.5 | 1.7 |
| Switzerland | 0.5 | -0.7 | 1.6 | 5.7 | 2.0 | 3.6 | 1.7 | 1.1 | -0.4 | -1.2 | 0.6 | 3.0 | -0.9 | 1.3 | 2.7 | 1.4 | -1.9 | -1.8 | -0.3 | 0.3 |
| Turkey | 28.8 | 30.8 | 74.9 | 53.2 | 38.2 | 61.0 | 62.5 | 59.9 | 164.8 | 73.0 | 69.0 | 87.0 | 60.1 | 52.1 | 39.9 | 86.9 | 19.0 | 7.7 | 7.3 | 9.4 |
| United Kingdom | -8.2 | 2.9 | 0.3 | 8.2 | 4.4 | 1.6 | 1.6 | 8.8 | 1.0 | 3.2 | 1.3 | -4.0 | -3.8 | -0.6 | 2.2 | -0.7 | 1.3 | 0.7 | -0.3 | 0.7 |
| United States[a] | -1.5 | 2.6 | 5.3 | 1.9 | 0.7 | 1.4 | -0.3 | 0.0 | 1.1 | 2.4 | -1.3 | -1.5 | -2.2 | -0.8 | 1.4 | -0.7 | -0.3 | 2.2 | 1.4 | 1.3 |
| Total OECD | -2.0 | 3.7 | 4.5 | 4.9 | 1.9 | 1.1 | 0.7 | 0.3 | 2.4 | 5.3 | 1.7 | 1.6 | 0.8 | -1.3 | 3.5 | 1.2 | -0.9 | 0.2 | 0.3 | 1.2 |

*Note:* Regional aggregates are calculated *inclusive* of intra-regional trade. They are calculated as the geometric averages of prices weighted by trade volumes expressed in 2000 US$.
*a)* Certain components are estimated on a hedonic basis.
*Source:* OECD.

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Annex Table 42. **Import prices of goods and services**

Goods and services, percentage changes from previous year, national currency terms

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 9.9 | 3.0 | -4.0 | -1.4 | 4.1 | 1.3 | 4.2 | 5.7 | -4.3 | 3.4 | -6.6 | -1.7 | 6.8 | -4.5 | 7.3 | 5.8 | -4.6 | -8.5 | -6.1 | -1.5 |
| Austria | -0.6 | -2.0 | 2.3 | 3.3 | 0.6 | 1.2 | 0.3 | 0.8 | 1.2 | 0.5 | 2.1 | 1.8 | 0.1 | -0.1 | 3.2 | -0.3 | -1.7 | 0.0 | 0.9 | 1.5 |
| Belgium | -9.8 | -4.1 | 2.4 | 5.8 | -1.3 | -1.0 | -2.4 | -2.6 | 1.7 | 1.4 | 2.2 | 5.9 | -2.1 | 0.8 | 11.8 | 1.5 | -1.9 | -2.6 | -0.7 | 1.1 |
| Canada | 1.9 | -1.2 | -2.1 | 0.2 | 1.4 | -1.6 | 4.4 | 6.4 | 6.6 | 3.4 | -1.1 | 0.8 | 3.7 | -0.2 | 2.1 | 3.0 | 0.6 | -6.1 | -0.9 | 1.6 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | .. | 2.7 | 5.8 | 1.0 | 5.2 | -1.4 | 1.2 | 5.5 | -3.1 | -7.9 | 1.1 | 0.5 | 1.3 |
| Denmark | -11.2 | -1.6 | -1.4 | 6.8 | -0.6 | 2.8 | -0.8 | -0.5 | 0.7 | 1.2 | -0.1 | 2.2 | -2.5 | -2.4 | 9.7 | 2.3 | -0.2 | -1.6 | 1.9 | 1.4 |
| Finland | -7.0 | -0.4 | 1.2 | 5.2 | 1.1 | 2.8 | 7.7 | 8.0 | 0.0 | -0.0 | 0.9 | 0.9 | -2.6 | -2.0 | 7.0 | -2.8 | -2.9 | 0.4 | 0.4 | 2.4 |
| France[a] | -12.8 | -1.4 | 1.7 | 6.0 | -1.6 | -0.1 | -3.2 | -3.2 | 0.3 | 0.6 | 2.4 | 1.6 | -2.8 | -1.5 | 5.2 | -1.1 | -3.0 | -0.4 | -1.5 | -0.4 |
| Germany | -11.5 | -4.8 | 1.8 | 5.3 | -0.9 | 2.3 | -1.2 | -1.0 | 0.6 | 0.8 | 0.5 | 3.1 | -2.0 | -1.0 | 7.7 | 0.9 | -1.7 | -2.1 | -0.7 | 1.5 |
| Greece | 8.0 | 6.9 | 9.2 | 14.7 | 13.7 | 12.3 | 12.3 | 7.4 | 5.6 | 7.5 | 5.0 | 2.8 | 3.8 | 1.7 | 9.3 | 1.6 | 0.6 | 0.9 | 1.2 | 1.4 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | .. | 15.6 | 53.8 | 25.4 | 12.0 | 13.9 | 6.4 | 10.8 | 2.4 | -5.3 | 3.5 | 2.5 | 3.3 |
| Iceland | 13.8 | 7.4 | 19.2 | 31.5 | 19.3 | 4.5 | -0.8 | 8.9 | 5.5 | 3.4 | 2.9 | -0.4 | -0.7 | 0.7 | 6.8 | 21.2 | -2.2 | -2.0 | 2.1 | 2.6 |
| Ireland | -10.2 | 1.3 | 6.4 | 6.2 | -3.7 | 2.4 | -1.2 | 4.5 | 2.4 | 3.8 | -0.5 | 0.7 | 2.5 | 2.6 | 7.5 | 3.6 | -0.9 | -2.0 | -0.3 | 2.0 |
| Italy | -14.2 | -1.7 | 4.8 | 6.9 | -1.8 | 0.5 | 1.1 | 14.8 | 4.8 | 11.1 | -2.9 | 1.4 | -1.3 | 0.2 | 12.4 | 2.0 | -2.4 | -1.1 | 0.7 | 2.4 |
| Japan | -31.6 | -7.1 | -4.6 | 6.7 | 8.1 | -5.1 | -5.1 | -8.3 | -4.3 | -1.3 | 8.5 | 5.7 | -2.7 | -7.9 | 1.3 | 3.0 | -1.9 | -1.5 | -1.4 | -0.3 |
| Korea | -4.1 | 0.2 | -1.6 | -5.4 | 7.3 | 1.9 | 3.5 | 0.3 | 1.0 | 4.3 | 3.0 | 11.6 | 27.6 | -17.5 | 6.0 | 4.3 | -10.3 | -1.5 | -2.5 | -0.6 |
| Luxembourg | -1.7 | -1.2 | 0.8 | 3.8 | 1.6 | 2.5 | 2.7 | 3.2 | 2.1 | 1.3 | 0.9 | 3.6 | 1.2 | 2.3 | 7.7 | 3.0 | -2.0 | -1.3 | 0.3 | 1.0 |
| Mexico | 135.0 | 131.5 | 68.4 | 14.9 | 16.2 | 9.1 | 4.3 | 3.7 | 5.3 | 95.2 | 21.2 | 3.6 | 12.2 | 3.3 | 0.1 | -3.0 | 2.1 | 13.8 | 5.8 | 4.4 |
| Netherlands | -16.6 | -3.1 | -0.2 | 4.6 | -1.3 | 0.3 | -1.1 | -2.1 | 0.1 | 0.2 | 1.2 | 2.2 | -1.5 | 0.5 | 8.3 | 0.5 | -0.6 | -1.4 | -0.5 | 0.9 |
| New Zealand | -2.0 | -4.9 | -3.2 | 8.1 | 1.5 | 2.3 | 6.2 | -1.4 | -3.9 | -1.8 | -3.6 | -0.5 | 5.5 | 0.6 | 14.8 | 2.4 | -6.7 | -10.0 | -1.6 | 0.5 |
| Norway | -1.7 | 6.9 | 4.4 | 7.0 | 1.2 | -0.4 | -1.8 | 1.5 | 0.9 | 0.8 | 1.0 | 0.3 | 1.4 | -1.1 | 6.6 | 0.0 | -6.2 | 0.9 | 3.2 | 1.2 |
| Poland | .. | .. | .. | .. | .. | .. | .. | .. | 27.0 | 18.0 | 10.4 | 15.7 | 10.8 | 7.1 | 7.7 | 1.3 | 5.2 | 10.3 | 9.2 | 3.2 |
| Portugal | -6.8 | 9.5 | 11.7 | 10.6 | 4.1 | 1.0 | -4.2 | 4.4 | 4.3 | 3.9 | 1.6 | 2.7 | -1.2 | -0.3 | 8.2 | 0.4 | -2.4 | -1.7 | -1.0 | 0.0 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | .. | 12.6 | 7.2 | 6.7 | 1.0 | -0.4 | 7.7 | 12.0 | 8.4 | -0.2 | -7.5 | -2.9 | -2.0 |
| Spain | -16.2 | -2.8 | 0.1 | 1.9 | -2.8 | -1.4 | 1.2 | 6.1 | 5.8 | 4.4 | 0.7 | 3.5 | -0.3 | 0.7 | 9.7 | 0.5 | -1.0 | -1.6 | 0.2 | 1.7 |
| Sweden | -6.8 | 3.8 | 4.1 | 5.7 | 3.3 | 0.3 | -2.4 | 13.9 | 4.0 | 5.7 | -4.2 | 0.8 | -0.5 | 1.1 | 4.5 | 4.6 | 0.4 | -1.5 | -1.7 | 0.7 |
| Switzerland | -9.3 | -3.6 | 4.0 | 8.4 | -0.4 | 0.6 | 2.6 | -2.0 | -4.8 | -3.3 | 0.4 | 4.6 | -3.8 | -1.3 | 5.9 | 1.0 | -2.6 | 0.2 | 1.9 | 0.3 |
| Turkey | 28.8 | 33.1 | 79.0 | 66.7 | 28.4 | 60.2 | 63.1 | 48.9 | 163.3 | 85.0 | 80.4 | 74.1 | 62.5 | 48.2 | 50.6 | 89.2 | 30.2 | 9.0 | 5.4 | 7.2 |
| United Kingdom | -4.4 | 2.4 | -0.9 | 6.5 | 3.3 | 0.3 | -0.0 | 8.6 | 3.0 | 5.9 | 0.1 | -7.1 | -5.8 | -1.2 | 3.1 | -0.0 | -2.0 | 0.1 | 0.5 | 0.8 |
| United States[a] | -0.0 | 5.9 | 4.9 | 2.5 | 2.6 | -0.5 | 0.2 | -0.9 | 1.0 | 2.7 | -1.8 | -3.6 | -5.4 | 0.1 | 4.5 | -2.9 | 0.3 | 3.9 | 1.4 | 1.5 |
| Total OECD | -5.2 | 3.3 | 4.1 | 5.1 | 2.4 | 0.7 | 0.4 | 0.0 | 2.7 | 5.9 | 1.9 | 1.4 | -0.5 | -0.9 | 6.0 | 0.9 | -1.1 | 0.4 | 0.3 | 1.2 |

*Note:* Regional aggregates are calculated *inclusive* of intra-regional trade. They are calculated as the geometric averages of prices weighted by trade volumes expressed in 2000 US$.
*a)* Certain components are estimated on a hedonic basis.
*Source:* OECD.

Annex Table 43. **Competitive positions: relative consumer prices**

Indices, 1995 = 100

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 103.1 | 103.1 | 113.4 | 120.5 | 118.6 | 116.2 | 105.0 | 96.9 | 101.7 | 100.0 | 109.4 | 108.4 | 99.1 | 99.4 | 94.6 | 91.0 | 96.0 | 107.2 |
| Austria | 94.1 | 96.8 | 96.1 | 94.1 | 96.2 | 94.6 | 96.0 | 97.1 | 97.3 | 100.0 | 97.4 | 94.1 | 94.3 | 93.4 | 90.9 | 91.0 | 91.2 | 93.3 |
| Belgium | 93.6 | 96.6 | 94.0 | 92.0 | 95.8 | 94.7 | 95.4 | 95.3 | 96.8 | 100.0 | 97.6 | 92.8 | 93.5 | 92.1 | 88.4 | 89.1 | 90.1 | 93.8 |
| Canada | 111.4 | 114.0 | 120.7 | 125.7 | 125.4 | 129.1 | 119.3 | 111.2 | 102.2 | 100.0 | 100.1 | 99.4 | 93.8 | 93.0 | 93.5 | 90.6 | 89.8 | 99.2 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | 92.1 | 96.7 | 100.0 | 106.6 | 108.4 | 118.7 | 117.0 | 119.3 | 127.2 | 141.1 | 137.0 |
| Denmark | 94.5 | 98.8 | 98.2 | 95.5 | 99.2 | 95.5 | 96.1 | 96.9 | 96.6 | 100.0 | 98.5 | 95.9 | 98.0 | 98.1 | 94.5 | 95.9 | 97.4 | 101.6 |
| Finland | 115.1 | 117.6 | 121.1 | 126.9 | 130.2 | 124.3 | 107.4 | 89.8 | 93.2 | 100.0 | 94.2 | 90.6 | 91.7 | 91.6 | 87.6 | 88.8 | 89.5 | 92.3 |
| France | 99.5 | 100.7 | 98.4 | 95.6 | 98.9 | 95.8 | 97.1 | 98.2 | 98.0 | 100.0 | 99.4 | 95.4 | 96.0 | 94.0 | 89.6 | 89.4 | 90.5 | 94.2 |
| Germany | 89.9 | 93.1 | 90.6 | 87.3 | 89.9 | 88.7 | 92.7 | 95.8 | 96.4 | 100.0 | 96.0 | 91.3 | 92.2 | 90.1 | 84.5 | 84.4 | 84.9 | 88.4 |
| Greece | 84.4 | 85.7 | 87.5 | 87.4 | 91.7 | 93.0 | 95.5 | 96.2 | 96.9 | 100.0 | 102.8 | 103.4 | 102.1 | 102.8 | 96.1 | 97.0 | 99.5 | 104.0 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | 107.9 | 105.3 | 100.0 | 101.1 | 107.2 | 108.0 | 111.2 | 112.7 | 121.9 | 134.3 | 136.9 |
| Iceland | 110.6 | 116.8 | 123.7 | 115.9 | 112.7 | 115.1 | 115.1 | 108.4 | 101.5 | 100.0 | 99.3 | 100.9 | 103.2 | 106.2 | 110.1 | 97.0 | 102.9 | 108.4 |
| Ireland | 111.0 | 110.2 | 106.0 | 102.8 | 107.5 | 104.0 | 107.2 | 99.4 | 99.1 | 100.0 | 101.6 | 100.4 | 97.3 | 94.2 | 89.9 | 93.5 | 98.5 | 109.1 |
| Italy | 124.6 | 127.4 | 126.0 | 127.9 | 132.8 | 133.5 | 131.3 | 110.9 | 107.8 | 100.0 | 110.7 | 111.2 | 112.7 | 111.6 | 107.2 | 108.4 | 110.6 | 116.1 |
| Japan | 78.4 | 82.9 | 87.3 | 78.0 | 70.8 | 76.3 | 78.5 | 91.1 | 98.3 | 100.0 | 83.6 | 78.9 | 79.7 | 89.4 | 94.7 | 84.8 | 79.3 | 79.1 |
| Korea | 88.2 | 86.4 | 95.8 | 110.0 | 107.5 | 107.0 | 100.6 | 97.8 | 98.9 | 100.0 | 103.6 | 97.7 | 74.5 | 84.6 | 90.9 | 86.0 | 90.5 | 92.1 |
| Luxembourg | 95.7 | 96.7 | 95.2 | 93.6 | 96.5 | 95.6 | 96.5 | 96.4 | 97.6 | 100.0 | 97.7 | 94.7 | 95.0 | 94.3 | 92.5 | 93.0 | 94.1 | 97.1 |
| Mexico | 91.5 | 88.2 | 111.4 | 116.4 | 120.4 | 133.3 | 144.5 | 154.4 | 147.6 | 100.0 | 111.7 | 129.2 | 130.5 | 142.7 | 154.9 | 165.0 | 165.1 | 148.5 |
| Netherlands | 100.2 | 102.3 | 99.5 | 94.2 | 96.2 | 94.3 | 95.9 | 96.3 | 96.4 | 100.0 | 97.3 | 92.1 | 94.6 | 94.0 | 89.0 | 91.5 | 94.7 | 100.3 |
| New Zealand | 89.0 | 103.1 | 109.0 | 102.0 | 100.7 | 95.5 | 86.6 | 88.6 | 93.3 | 100.0 | 106.0 | 108.0 | 96.5 | 91.8 | 83.2 | 82.5 | 89.9 | 101.3 |
| Norway | 106.0 | 107.8 | 110.6 | 109.7 | 108.0 | 104.3 | 104.2 | 100.3 | 97.7 | 100.0 | 98.8 | 100.0 | 97.4 | 97.8 | 96.5 | 100.2 | 107.9 | 105.8 |
| Poland | .. | .. | .. | .. | .. | .. | .. | 92.3 | 93.4 | 100.0 | 107.4 | 111.1 | 117.9 | 114.9 | 126.9 | 143.4 | 136.9 | 122.5 |
| Portugal | 82.4 | 80.3 | 80.6 | 82.9 | 87.3 | 92.9 | 101.2 | 98.1 | 96.6 | 100.0 | 99.9 | 98.6 | 99.4 | 99.5 | 97.3 | 99.8 | 102.0 | 105.6 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | 98.9 | 97.8 | 100.0 | 99.8 | 105.4 | 107.6 | 107.1 | 118.1 | 119.5 | 120.9 | 136.6 |
| Spain | 95.8 | 97.5 | 102.4 | 108.3 | 114.9 | 116.3 | 115.9 | 103.2 | 98.6 | 100.0 | 101.6 | 97.1 | 98.0 | 97.8 | 95.8 | 97.8 | 100.1 | 104.3 |
| Sweden | 109.9 | 109.8 | 112.5 | 114.5 | 118.8 | 124.5 | 124.5 | 102.3 | 100.9 | 100.0 | 107.7 | 102.3 | 99.3 | 97.4 | 95.8 | 87.8 | 89.9 | 94.1 |
| Switzerland | 89.1 | 92.6 | 90.8 | 84.6 | 90.4 | 90.2 | 88.6 | 90.2 | 94.3 | 100.0 | 96.4 | 89.0 | 90.5 | 89.4 | 86.8 | 88.6 | 91.7 | 91.4 |
| Turkey | 111.5 | 103.2 | 99.0 | 106.9 | 119.6 | 121.8 | 117.1 | 125.6 | 92.2 | 100.0 | 101.0 | 108.0 | 118.9 | 125.6 | 140.5 | 114.7 | 124.7 | 139.0 |
| United Kingdom | 106.3 | 106.4 | 114.6 | 113.9 | 117.9 | 120.4 | 116.0 | 103.4 | 103.8 | 100.0 | 101.7 | 119.1 | 128.0 | 127.8 | 131.5 | 128.8 | 129.6 | 124.9 |
| United States | 125.8 | 114.1 | 106.3 | 106.1 | 104.0 | 102.1 | 99.9 | 101.3 | 101.5 | 100.0 | 103.1 | 108.4 | 117.0 | 115.4 | 119.0 | 125.8 | 125.9 | 119.3 |
| Euro area | 96.6 | 102.6 | 98.1 | 94.0 | 102.7 | 99.3 | 103.1 | 97.0 | 96.6 | 100.0 | 99.0 | 90.3 | 92.2 | 88.5 | 79.5 | 81.1 | 83.9 | 93.0 |

*Note:* Competitiveness-weighted relative consumer prices in dollar terms. Competitiveness weights take into account the structure of competition in both export and import markets of the manufacturing sector of 42 countries. An increase in the index indicates a real effective appreciation and a corresponding deterioration of the competitive position. For details on the method of calculation see Durand, M., C. Madaschi and F. Terribile (1998), "Trends in OECD Countries' International Competitiveness: The Influence of Emerging Market Economies", *OECD Economics Department Working Papers*, No. 195. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

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Annex Table 44. **Competitive positions: relative unit labour costs**

Indices, 1995 = 100

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 180.8 | 164.6 | 161.5 | 163.9 | 149.9 | 133.1 | 115.8 | 101.4 | 102.8 | 100.0 | 103.6 | 104.6 | 93.3 | 91.1 | 86.6 | 81.5 | 86.0 | 98.8 |
| Austria | 109.3 | 115.7 | 109.8 | 104.0 | 104.2 | 102.1 | 103.6 | 105.8 | 98.8 | 100.0 | 102.0 | 91.9 | 82.0 | 79.1 | 72.0 | 70.5 | 71.7 | 73.6 |
| Belgium | 93.1 | 96.3 | 93.6 | 91.7 | 97.6 | 97.3 | 97.3 | 96.5 | 96.9 | 100.0 | 94.7 | 87.7 | 89.0 | 89.6 | 84.7 | 87.0 | 89.7 | 93.2 |
| Canada | 102.3 | 109.3 | 117.8 | 121.8 | 125.0 | 128.5 | 117.6 | 105.0 | 97.8 | 100.0 | 105.9 | 106.2 | 101.6 | 101.8 | 101.4 | 101.8 | 102.4 | 115.2 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | 90.2 | 98.1 | 100.0 | 107.1 | 104.8 | 115.1 | 116.6 | 115.7 | 119.2 | 125.6 | 122.6 |
| Denmark | 82.3 | 90.2 | 95.4 | 89.6 | 97.8 | 93.8 | 96.1 | 101.0 | 96.6 | 100.0 | 104.2 | 98.6 | 102.2 | 104.6 | 104.2 | 106.5 | 109.2 | 115.5 |
| Finland | 127.6 | 125.8 | 129.8 | 136.0 | 143.0 | 137.2 | 107.5 | 82.0 | 86.7 | 100.0 | 94.1 | 88.9 | 91.3 | 91.6 | 82.9 | 87.2 | 85.6 | 88.6 |
| France | 109.5 | 108.5 | 104.1 | 100.5 | 106.8 | 102.0 | 100.1 | 101.5 | 100.5 | 100.0 | 99.6 | 94.2 | 90.4 | 87.3 | 81.8 | 80.6 | 80.7 | 83.8 |
| Germany | 77.7 | 83.6 | 83.1 | 80.5 | 83.0 | 83.6 | 89.8 | 91.5 | 92.5 | 100.0 | 97.4 | 92.5 | 94.7 | 96.1 | 93.1 | 93.0 | 92.2 | 95.7 |
| Greece | 88.2 | 85.1 | 93.8 | 99.7 | 106.3 | 97.8 | 94.2 | 88.2 | 92.1 | 100.0 | 102.7 | 105.7 | 101.1 | 102.8 | 98.1 | 98.5 | 100.6 | 105.7 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | 122.7 | 122.1 | 100.0 | 92.4 | 92.6 | 85.4 | 85.5 | 78.2 | 86.3 | 97.9 | 101.9 |
| Iceland | 96.4 | 118.0 | 128.2 | 113.6 | 109.6 | 113.2 | 110.9 | 101.1 | 99.2 | 100.0 | 98.8 | 104.2 | 113.4 | 124.9 | 135.1 | 116.9 | 123.1 | 132.5 |
| Ireland | 163.8 | 151.1 | 138.6 | 127.6 | 133.0 | 126.8 | 122.9 | 113.0 | 109.0 | 100.0 | 99.1 | 91.6 | 81.8 | 81.6 | 74.1 | 71.9 | 75.1 | 84.4 |
| Italy | 134.1 | 133.5 | 130.9 | 130.6 | 129.9 | 133.1 | 131.1 | 120.0 | 114.1 | 100.0 | 111.8 | 113.3 | 119.2 | 120.7 | 113.1 | 115.0 | 122.7 | 130.9 |
| Japan | 65.7 | 69.5 | 71.8 | 65.2 | 60.9 | 66.6 | 73.4 | 89.1 | 98.5 | 100.0 | 84.8 | 80.3 | 87.1 | 97.9 | 101.1 | 95.9 | 87.2 | 86.8 |
| Korea | 65.2 | 68.4 | 84.0 | 99.4 | 96.7 | 98.4 | 90.6 | 87.3 | 89.8 | 100.0 | 107.1 | 93.5 | 65.0 | 67.4 | 71.0 | 69.2 | 76.1 | 78.3 |
| Luxembourg | 121.9 | 123.3 | 111.9 | 105.8 | 106.7 | 104.3 | 104.2 | 103.1 | 101.6 | 100.0 | 96.0 | 92.5 | 92.7 | 88.8 | 88.1 | 92.4 | 91.2 | 92.1 |
| Mexico | 103.5 | 105.0 | 109.1 | 120.9 | 123.0 | 137.4 | 153.0 | 164.7 | 160.6 | 100.0 | 101.8 | 111.8 | 108.3 | 112.8 | 122.0 | 129.5 | 131.4 | 119.3 |
| Netherlands | 99.1 | 106.8 | 104.5 | 97.5 | 99.1 | 97.6 | 100.4 | 99.8 | 96.3 | 100.0 | 96.7 | 93.5 | 97.7 | 95.1 | 93.2 | 93.2 | 97.3 | 104.9 |
| New Zealand | 80.0 | 89.8 | 99.9 | 92.8 | 93.0 | 92.0 | 82.3 | 85.3 | 93.3 | 100.0 | 111.1 | 116.6 | 107.9 | 107.9 | 97.0 | 95.1 | 103.7 | 116.8 |
| Norway | 94.1 | 95.3 | 100.4 | 98.7 | 97.5 | 95.5 | 93.4 | 90.4 | 94.0 | 100.0 | 101.2 | 107.5 | 109.7 | 117.3 | 120.9 | 127.9 | 144.4 | 145.3 |
| Poland | .. | .. | .. | .. | .. | .. | .. | 90.1 | 96.1 | 100.0 | 102.7 | 102.3 | 107.9 | 101.1 | 100.4 | 104.9 | 94.0 | 83.2 |
| Portugal | 87.4 | 83.7 | 86.9 | 94.6 | 89.8 | 91.7 | 100.6 | 91.6 | 95.0 | 100.0 | 91.3 | 92.6 | 94.4 | 96.8 | 97.5 | 100.3 | 102.1 | 104.4 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | 83.3 | 89.2 | 100.0 | 107.6 | 125.7 | 133.7 | 132.2 | 146.7 | 153.6 | 163.7 | 180.6 |
| Spain | 82.9 | 84.1 | 89.5 | 96.5 | 108.6 | 109.6 | 112.4 | 102.4 | 99.2 | 100.0 | 104.4 | 103.1 | 106.0 | 106.0 | 106.3 | 110.2 | 114.9 | 121.7 |
| Sweden | 131.6 | 132.5 | 137.4 | 144.2 | 148.7 | 151.2 | 148.3 | 105.9 | 100.1 | 100.0 | 111.6 | 105.0 | 101.3 | 95.4 | 89.0 | 81.7 | 83.4 | 87.9 |
| Switzerland | 76.6 | 81.9 | 83.4 | 78.9 | 84.9 | 85.3 | 83.5 | 82.7 | 91.2 | 100.0 | 96.5 | 92.5 | 95.9 | 96.2 | 95.9 | 100.7 | 107.5 | 108.7 |
| Turkey | 97.2 | 88.5 | 80.8 | 122.2 | 173.4 | 190.6 | 172.0 | 171.3 | 111.5 | 100.0 | 100.2 | 112.4 | 125.6 | 147.1 | 168.5 | 121.2 | 118.0 | 126.2 |
| United Kingdom | 106.2 | 109.3 | 116.6 | 112.7 | 116.7 | 120.0 | 111.3 | 98.3 | 100.5 | 100.0 | 103.4 | 125.2 | 138.3 | 140.6 | 144.9 | 142.7 | 145.7 | 138.3 |
| United States | 148.8 | 125.7 | 116.4 | 117.5 | 114.4 | 112.1 | 108.0 | 106.6 | 105.5 | 100.0 | 101.1 | 106.1 | 115.5 | 113.8 | 118.4 | 122.9 | 120.5 | 112.5 |
| Euro area | 94.2 | 101.6 | 97.2 | 92.2 | 101.0 | 98.8 | 103.1 | 99.1 | 96.6 | 100.0 | 100.5 | 91.3 | 93.1 | 92.0 | 83.1 | 84.5 | 88.6 | 99.4 |

*Note:* Competitiveness-weighted relative unit labour costs in the manufactoring sector in dollar terms. Competitiveness weights take into account the structure of competition in both export and import markets of the manufacturing sector of 42 countries. An increase in the index indicates a real effective appreciation and a corresponding deterioration of the competitive position. For details on the method of calculation see Durand, M., C. Madaschi and F. Terribile (1998), "Trends in OECD Countries' International Competitiveness: The Influence of Emerging Market Economies", *OECD Economics Department Working Papers*, No. 195. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Source:* OECD.

Annex Table 45. **Export performance for total goods and services**

Percentage changes from previous year

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 2.3 | 3.4 | -6.7 | -6.6 | 2.2 | 8.2 | -0.6 | 1.8 | -0.5 | -6.0 | 1.5 | 3.3 | 2.2 | -2.1 | -1.4 | 2.0 | -5.3 | -8.3 | -1.7 | -1.0 |
| Austria | -6.7 | -2.7 | 3.2 | 2.2 | 2.1 | 2.9 | 0.5 | -0.6 | -0.5 | -3.5 | 0.0 | 2.5 | 0.6 | 2.2 | 1.1 | 5.3 | 1.9 | -3.9 | -2.5 | -1.2 |
| Belgium | -0.9 | -1.6 | 2.6 | 0.9 | -0.9 | -1.0 | -0.4 | 1.2 | 1.6 | -2.9 | -2.9 | -3.4 | -2.5 | -1.3 | -2.9 | -0.2 | -0.7 | -3.9 | -1.0 | -0.6 |
| Canada | -2.6 | -3.0 | 3.7 | -3.7 | 0.6 | 1.4 | 0.8 | 2.5 | 1.3 | 0.1 | -2.7 | -4.0 | -0.8 | 0.7 | -3.7 | -1.0 | -3.6 | -5.4 | -2.2 | -0.8 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | .. | -4.5 | 9.2 | 1.3 | -1.1 | 1.7 | 1.2 | 4.3 | 9.0 | 0.8 | 1.2 | 2.5 | 1.1 |
| Denmark | -3.6 | -1.3 | 4.5 | -2.9 | 1.8 | 4.7 | -3.2 | -2.1 | -1.1 | -4.3 | -1.6 | -5.8 | -3.6 | 5.8 | 1.6 | 2.6 | 4.5 | -1.4 | 0.1 | -0.5 |
| Finland | 0.1 | -1.9 | -3.8 | -3.9 | -0.9 | -6.4 | 9.9 | 12.6 | 7.6 | 1.7 | -0.5 | 3.4 | 3.4 | 1.5 | 6.1 | -2.7 | 1.6 | -3.1 | 1.0 | 0.9 |
| France | -3.1 | -3.5 | 1.0 | 2.6 | -0.8 | 1.4 | 1.6 | -0.7 | 1.2 | -0.1 | -2.8 | 1.7 | 1.1 | -2.3 | 2.3 | 0.5 | -0.7 | -5.3 | -1.7 | -0.7 |
| Germany | -3.9 | -5.6 | -2.8 | 3.0 | 9.6 | 12.1 | -5.1 | -7.1 | 0.5 | -2.0 | -1.1 | 0.9 | -0.7 | -1.0 | 1.9 | 4.4 | 0.6 | -3.1 | -2.1 | -0.9 |
| Greece | 15.1 | 0.8 | -7.9 | -4.3 | -6.9 | 4.1 | 8.8 | -5.6 | 2.0 | -3.4 | -2.8 | 8.8 | -1.6 | 11.3 | 1.9 | -2.0 | -10.5 | -2.9 | -0.4 | -0.4 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | .. | 7.5 | 6.6 | 3.1 | 15.6 | 9.2 | 6.6 | 8.6 | 6.1 | 2.1 | 0.6 | 1.0 | 1.0 |
| Iceland | 0.7 | -3.0 | -11.8 | -4.9 | -4.6 | -8.6 | -4.6 | 6.6 | 1.8 | -9.3 | 2.6 | -2.9 | -4.3 | -2.5 | -5.0 | 6.6 | 1.7 | -2.7 | -1.0 | -2.1 |
| Ireland | -1.5 | 6.3 | 0.5 | 2.3 | 3.5 | 3.3 | 9.5 | 8.4 | 6.7 | 11.1 | 5.3 | 7.0 | 13.3 | 7.4 | 8.3 | 7.5 | 3.7 | -9.6 | -2.4 | -0.4 |
| Italy | -1.2 | -1.1 | -2.3 | 0.2 | 2.7 | -4.2 | 5.4 | 6.9 | 3.5 | 4.8 | -5.4 | -3.4 | -3.2 | -5.7 | -0.4 | -0.3 | -3.1 | -6.2 | -1.8 | -2.5 |
| Japan | -9.6 | -8.5 | -3.6 | 1.4 | 0.6 | -2.8 | -4.2 | -8.3 | -7.2 | -6.3 | -1.0 | -0.1 | -2.3 | -6.1 | -1.8 | -4.4 | 2.6 | 1.6 | -0.3 | -1.2 |
| Korea | 25.6 | 14.7 | 1.2 | -11.7 | -0.9 | 5.7 | 4.1 | 3.1 | 6.3 | 12.7 | 2.4 | 10.3 | 13.2 | 9.2 | 6.1 | 0.8 | 9.2 | 7.1 | 3.4 | 1.3 |
| Luxembourg | -1.3 | -2.9 | 3.1 | 4.5 | 0.2 | 5.9 | 0.1 | 5.2 | -0.3 | -2.7 | 1.0 | 5.0 | 5.1 | 7.7 | 4.9 | 1.3 | -1.3 | -0.7 | -1.5 | -1.3 |
| Mexico | -3.4 | 3.2 | 1.1 | 1.5 | 1.2 | 4.5 | -1.7 | -0.5 | 5.5 | 20.0 | 9.2 | -2.5 | 1.1 | 2.5 | 3.4 | -1.2 | -1.5 | -3.7 | -0.6 | 0.6 |
| Netherlands | -1.7 | -0.2 | 0.1 | -0.6 | -0.4 | 1.6 | -0.9 | 5.5 | 2.2 | 1.6 | -0.5 | -0.3 | -0.1 | -1.3 | -0.0 | 0.5 | -1.2 | -3.1 | -3.2 | -2.4 |
| New Zealand | -2.3 | -1.0 | -5.3 | -11.5 | 1.4 | 7.9 | -2.1 | -0.7 | -0.6 | -5.7 | -4.6 | -4.9 | -0.0 | 0.6 | -4.4 | 3.7 | -0.1 | -4.4 | -4.2 | -2.1 |
| Norway | -2.6 | -5.0 | -2.0 | 3.3 | 4.8 | 5.1 | 1.3 | 1.9 | -0.1 | -2.5 | 3.9 | -2.3 | -7.1 | -3.8 | -6.6 | 3.2 | -2.2 | -3.2 | -3.6 | -4.1 |
| Poland | .. | .. | .. | .. | .. | .. | .. | .. | 8.6 | 16.4 | 6.5 | 3.1 | 8.3 | -6.8 | 9.4 | -0.7 | 2.1 | 4.6 | 3.3 | 2.8 |
| Portugal | 1.8 | 3.2 | -0.2 | 3.1 | 3.2 | -3.6 | -0.5 | -2.0 | 0.5 | 0.9 | 1.4 | -2.9 | -0.2 | -4.3 | -2.8 | -0.1 | 0.9 | 0.1 | -0.9 | -0.9 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | .. | 6.4 | -2.9 | -7.4 | 8.4 | 5.8 | -0.2 | 0.2 | 1.5 | 3.1 | 14.2 | 2.2 | 0.6 |
| Spain | -3.6 | -1.7 | -3.8 | -5.3 | -1.7 | 4.2 | 3.2 | 8.5 | 8.9 | 1.6 | 5.1 | 4.7 | -0.4 | 1.8 | -0.8 | 2.4 | -1.0 | 2.2 | -0.5 | -0.2 |
| Sweden | -0.7 | 0.3 | -4.0 | -3.6 | -2.3 | -3.7 | -0.6 | 6.2 | 6.1 | 3.6 | -2.8 | 3.1 | 1.6 | 1.9 | 0.0 | -1.9 | -2.2 | 1.6 | -1.6 | -1.3 |
| Switzerland | -2.3 | -4.2 | -1.9 | -2.5 | -3.7 | -5.1 | -0.4 | 0.4 | -4.5 | -5.0 | -3.3 | -1.5 | -0.6 | -1.3 | -1.6 | -0.7 | -2.3 | -3.9 | -2.6 | -2.0 |
| Turkey | -3.5 | 22.0 | 11.5 | -6.8 | -0.2 | 3.0 | 12.0 | 5.2 | 11.8 | 2.3 | 14.9 | 9.2 | 6.9 | -11.5 | 6.4 | 4.4 | 7.2 | 6.2 | 3.5 | 2.5 |
| United Kingdom | 1.5 | 0.4 | -5.8 | -2.9 | 0.1 | -3.7 | 1.0 | 2.5 | 1.3 | 0.7 | 2.2 | -1.8 | -4.4 | -2.3 | -2.4 | 1.9 | -3.1 | -3.5 | 0.3 | 0.2 |
| United States | 4.1 | 4.1 | 3.1 | 3.1 | 2.6 | 0.6 | -0.5 | -1.6 | -0.9 | 2.7 | -0.1 | 0.5 | -0.9 | -2.4 | -2.0 | -4.7 | -3.4 | -1.9 | 1.0 | -0.2 |
| Total OECD | -1.6 | -1.4 | -0.7 | 0.2 | 1.8 | 1.5 | -0.4 | -0.6 | 0.4 | 0.6 | -0.3 | 0.2 | -0.4 | -1.4 | -0.2 | -0.2 | -0.8 | -2.2 | -0.6 | -0.6 |
| *Memorandum items* | | | | | | | | | | | | | | | | | | | | |
| China | .. | .. | .. | .. | .. | 9.4 | 10.0 | 9.2 | 23.8 | 0.6 | 10.3 | 18.6 | 6.3 | 2.1 | 15.4 | 12.0 | 16.8 | 8.7 | 4.5 | 8.7 |
| Dynamic Asia[b] | .. | .. | .. | .. | .. | 5.4 | 5.5 | 2.2 | 2.1 | 1.4 | -3.8 | 1.1 | -1.5 | -0.3 | -4.4 | -5.8 | 0.6 | 5.3 | 3.7 | 1.0 |
| Other Asia | .. | .. | .. | .. | .. | 6.6 | 4.9 | 3.6 | 1.9 | 4.1 | 0.8 | 2.3 | 4.6 | 3.5 | 5.4 | 6.2 | -0.5 | 2.1 | 1.0 | 0.0 |
| Latin America | -7.0 | 1.9 | 4.9 | 2.1 | 3.0 | -1.3 | 1.8 | 4.7 | -4.9 | -3.8 | -0.9 | -1.7 | 0.8 | -2.3 | -4.2 | 5.7 | 0.8 | 0.4 | -1.0 | -1.6 |
| Africa & Middle-East | 3.9 | -2.2 | -0.3 | -0.3 | 2.0 | -3.5 | 5.7 | 4.2 | -4.3 | -7.2 | -1.7 | -0.7 | 3.1 | -3.3 | -5.6 | 4.1 | -0.1 | -1.1 | -1.5 | -1.2 |
| Central & East Europe | .. | .. | .. | .. | .. | -9.6 | -17.7 | 13.3 | -2.8 | -2.8 | -4.5 | -4.4 | -2.9 | 4.7 | -2.9 | -0.1 | 4.4 | -0.8 | -0.4 | -1.0 |

*Note:* Regional aggregates are calculated *inclusive* of intra-regional trade. Export performance is the ratio between export volumes and export markets for total goods and services. The calculation of export markets is based on a weighted average of import volumes in each exporting country's markets, with weights based on trade flows in 2000.

*b)* Dynamic Asia includes Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.

*Source:* OECD.

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Annex Table 46. **Shares in World exports and imports**

Percentage, values for goods and services, national accounts basis

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **A. Exports** | | | | | | | | | | | | | | | | |
| Canada | 3.5 | 3.5 | 3.4 | 3.6 | 3.6 | 3.5 | 3.6 | 3.6 | 3.8 | 4.1 | 4.2 | 4.1 | 3.8 | 3.7 | 3.7 | 3.6 |
| France | 6.1 | 6.1 | 6.2 | 5.6 | 5.5 | 5.6 | 5.4 | 5.2 | 5.6 | 5.3 | 4.8 | 4.9 | 4.9 | 5.0 | 4.8 | 4.7 |
| Germany | 12.1 | 10.8 | 10.7 | 9.4 | 9.3 | 9.6 | 9.1 | 8.5 | 9.2 | 8.9 | 8.1 | 8.6 | 9.0 | 9.4 | 9.3 | 9.2 |
| Italy | 5.1 | 5.0 | 5.1 | 4.7 | 4.6 | 4.7 | 4.8 | 4.5 | 4.6 | 4.3 | 3.9 | 4.1 | 4.0 | 4.1 | 4.0 | 3.9 |
| Japan | 7.5 | 8.0 | 8.0 | 8.4 | 8.2 | 7.7 | 6.9 | 6.7 | 6.2 | 6.4 | 6.5 | 5.7 | 5.6 | 5.4 | 5.4 | 5.4 |
| United Kingdom | 5.6 | 5.5 | 5.5 | 5.2 | 5.2 | 5.1 | 5.3 | 5.5 | 5.6 | 5.5 | 5.2 | 5.2 | 5.1 | 4.9 | 4.9 | 4.8 |
| United States | 13.1 | 13.9 | 13.7 | 14.0 | 13.7 | 13.0 | 13.2 | 14.0 | 14.2 | 14.1 | 14.0 | 13.6 | 12.7 | 11.6 | 11.7 | 11.7 |
| Other OECD countries | 23.6 | 23.9 | 23.9 | 23.9 | 24.3 | 25.3 | 25.3 | 24.7 | 26.0 | 26.0 | 25.2 | 25.9 | 26.2 | 26.8 | 26.5 | 26.2 |
| Total OECD | 76.6 | 76.6 | 76.5 | 74.9 | 74.5 | 74.5 | 73.6 | 72.8 | 75.2 | 74.5 | 71.9 | 72.1 | 71.4 | 70.9 | 70.4 | 69.6 |
| Non-OECD Asia | 10.3 | 11.6 | 12.5 | 13.7 | 14.6 | 14.9 | 15.2 | 16.0 | 14.7 | 15.1 | 16.2 | 16.0 | 16.8 | 16.9 | 17.6 | 18.4 |
| Latin America | 2.6 | 2.6 | 2.6 | 2.8 | 2.9 | 2.8 | 2.8 | 3.0 | 2.9 | 2.8 | 2.9 | 2.9 | 2.8 | 2.6 | 2.7 | 2.6 |
| Other non-OECD countries | 10.4 | 9.2 | 8.4 | 8.6 | 8.0 | 7.9 | 8.4 | 8.2 | 7.2 | 7.6 | 9.0 | 9.0 | 9.1 | 9.6 | 9.4 | 9.3 |
| Total of non-OECD countries | 23.4 | 23.4 | 23.5 | 25.1 | 25.5 | 25.5 | 26.4 | 27.2 | 24.8 | 25.5 | 28.1 | 27.9 | 28.6 | 29.1 | 29.6 | 30.4 |
| **B. Imports** | | | | | | | | | | | | | | | | |
| Canada | 3.5 | 3.5 | 3.4 | 3.6 | 3.6 | 3.3 | 3.2 | 3.5 | 3.6 | 3.7 | 3.7 | 3.6 | 3.4 | 3.3 | 3.3 | 3.3 |
| France | 6.4 | 6.2 | 6.1 | 5.2 | 5.2 | 5.3 | 5.1 | 4.7 | 5.1 | 4.9 | 4.6 | 4.6 | 4.5 | 4.7 | 4.6 | 4.4 |
| Germany | 10.0 | 10.8 | 10.8 | 9.5 | 9.4 | 9.5 | 8.9 | 8.3 | 8.8 | 8.7 | 8.0 | 8.1 | 8.0 | 8.3 | 8.1 | 8.0 |
| Italy | 5.1 | 5.0 | 5.1 | 4.1 | 4.0 | 4.1 | 3.9 | 3.8 | 4.1 | 4.0 | 3.8 | 3.9 | 3.9 | 4.1 | 4.0 | 3.9 |
| Japan | 6.8 | 6.7 | 6.3 | 6.4 | 6.5 | 6.6 | 6.6 | 6.2 | 5.2 | 5.5 | 5.7 | 5.4 | 5.0 | 4.8 | 4.6 | 4.4 |
| United Kingdom | 6.2 | 5.8 | 5.7 | 5.5 | 5.5 | 5.3 | 5.4 | 5.6 | 5.9 | 5.9 | 5.5 | 5.7 | 5.8 | 5.5 | 5.6 | 5.5 |
| United States | 14.8 | 14.3 | 14.3 | 15.4 | 15.6 | 14.6 | 14.8 | 15.6 | 16.7 | 17.8 | 18.7 | 18.2 | 18.1 | 17.1 | 17.0 | 16.8 |
| Other OECD countries | 24.0 | 23.9 | 24.0 | 23.6 | 23.9 | 24.5 | 24.8 | 24.3 | 25.2 | 25.3 | 24.6 | 24.8 | 25.2 | 25.8 | 25.5 | 25.4 |
| Total OECD | 76.9 | 76.1 | 75.7 | 73.3 | 73.6 | 73.0 | 72.8 | 72.0 | 74.6 | 75.8 | 74.6 | 74.2 | 73.8 | 73.6 | 72.7 | 71.7 |
| Non-OECD Asia | 10.2 | 11.3 | 12.4 | 14.3 | 15.1 | 15.6 | 15.7 | 16.0 | 13.7 | 14.0 | 15.3 | 14.9 | 15.5 | 15.7 | 16.4 | 17.3 |
| Latin America | 2.0 | 2.3 | 2.6 | 3.0 | 3.1 | 3.2 | 3.1 | 3.5 | 3.6 | 3.0 | 2.9 | 3.0 | 2.5 | 2.3 | 2.3 | 2.3 |
| Other non-OECD countries | 10.9 | 10.3 | 9.3 | 9.5 | 8.2 | 8.2 | 8.3 | 8.4 | 8.0 | 7.3 | 7.2 | 7.8 | 8.2 | 8.5 | 8.6 | 8.8 |
| Total of non-OECD countries | 23.1 | 23.9 | 24.3 | 26.7 | 26.4 | 27.0 | 27.2 | 28.0 | 25.4 | 24.2 | 25.4 | 25.8 | 26.2 | 26.4 | 27.3 | 28.3 |

*Note:* Regional aggregates are calculated *inclusive* of intra-regional trade.
*Source:* OECD.

Annex Table 47. **Trade balances for goods and services**

$ billion, national accounts basis

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | -4.8 | -2.1 | -3.1 | -7.7 | -3.2 | 1.1 | -0.9 | -1.5 | -4.5 | -5.2 | -0.7 | 1.5 | -6.5 | -10.7 | -4.3 | 1.5 | -6.1 | -15.5 | -15.8 | -14.3 |
| Austria | 1.0 | 0.3 | 0.5 | 0.9 | 1.8 | 1.2 | 1.4 | 0.8 | -0.8 | -1.9 | -2.6 | -3.2 | -1.2 | -1.8 | -1.2 | 0.5 | 4.5 | 3.6 | 3.8 | 3.9 |
| Belgium | 2.9 | 2.3 | 3.8 | 3.9 | 4.0 | 4.3 | 5.8 | 7.3 | 10.1 | 12.2 | 11.4 | 10.9 | 10.2 | 10.5 | 7.3 | 7.6 | 9.1 | 11.8 | 12.6 | 14.2 |
| Canada | 3.6 | 5.0 | 3.8 | 0.2 | 0.8 | -3.4 | -2.2 | 0.0 | 6.7 | 18.9 | 24.7 | 12.6 | 12.3 | 24.2 | 41.6 | 40.9 | 32.0 | 36.9 | 39.6 | 39.9 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | -0.1 | -1.1 | -2.5 | -3.7 | -3.2 | -0.7 | -0.7 | -1.7 | -1.5 | -1.7 | -2.2 | -2.0 | -1.7 |
| Denmark | -0.5 | 1.9 | 3.2 | 3.3 | 6.8 | 7.9 | 9.7 | 9.4 | 8.1 | 7.4 | 9.0 | 6.0 | 3.5 | 8.3 | 9.4 | 10.3 | 10.3 | 14.9 | 17.1 | 18.8 |
| Finland | 0.9 | 0.1 | -0.8 | -2.4 | -2.3 | -1.1 | 1.0 | 4.1 | 5.8 | 10.2 | 9.6 | 9.8 | 11.4 | 10.9 | 11.1 | 10.1 | 11.3 | 12.0 | 13.0 | 14.5 |
| France | -1.6 | -8.9 | -8.2 | -9.1 | -12.1 | -5.7 | 8.1 | 19.3 | 18.3 | 22.7 | 25.9 | 41.4 | 38.7 | 32.1 | 16.9 | 21.7 | 30.1 | 19.5 | 21.0 | 24.6 |
| Germany | 45.9 | 54.8 | 59.5 | 59.2 | 90.9 | -3.9 | -4.8 | 3.4 | 6.5 | 15.9 | 24.7 | 28.7 | 32.1 | 17.0 | 7.3 | 36.9 | 85.9 | 95.9 | 116.6 | 131.3 |
| Greece | -2.8 | -2.5 | -3.7 | -5.3 | -8.3 | -8.6 | -8.2 | -7.6 | -6.3 | -8.6 | -9.9 | -8.9 | -10.2 | -10.7 | -9.7 | -8.6 | -9.1 | -11.5 | -12.2 | -12.2 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | -3.0 | -2.5 | -0.0 | 0.2 | 0.4 | -0.7 | -1.3 | -1.8 | -0.8 | -1.5 | -3.9 | -3.9 | -4.3 |
| Iceland | 0.1 | -0.1 | -0.1 | 0.1 | 0.1 | -0.1 | -0.0 | 0.2 | 0.3 | 0.3 | 0.0 | 0.0 | -0.4 | -0.4 | -0.6 | -0.1 | 0.2 | -0.2 | -0.2 | -0.3 |
| Ireland | 0.3 | 1.4 | 2.3 | 2.1 | 2.2 | 2.4 | 4.1 | 5.3 | 5.4 | 7.6 | 8.5 | 10.1 | 9.7 | 12.8 | 12.3 | 15.4 | 22.7 | 25.3 | 29.9 | 33.1 |
| Italy | 8.3 | 3.6 | 0.6 | -1.6 | 0.6 | -0.2 | -1.3 | 32.1 | 35.7 | 44.6 | 60.8 | 47.4 | 40.6 | 24.4 | 10.7 | 15.9 | 13.2 | 2.2 | -0.6 | -2.3 |
| Japan | 79.7 | 72.8 | 64.4 | 45.5 | 28.5 | 56.2 | 82.2 | 97.0 | 96.5 | 74.8 | 23.4 | 47.4 | 72.4 | 69.4 | 68.4 | 26.4 | 51.3 | 60.5 | 83.9 | 112.0 |
| Korea | 5.8 | 10.0 | 13.5 | 4.9 | -2.9 | -8.9 | -4.7 | 0.2 | -4.6 | -7.2 | -21.2 | -6.2 | 42.4 | 27.9 | 14.1 | 9.8 | 6.8 | 7.2 | 5.4 | -1.8 |
| Luxembourg | 0.2 | -0.0 | 0.1 | 0.4 | 0.4 | 0.3 | 1.0 | 1.3 | 1.8 | 2.2 | 2.1 | 2.4 | 2.8 | 3.3 | 4.1 | 3.4 | 3.7 | 4.2 | 4.8 | 5.3 |
| Mexico | 5.2 | 10.8 | 2.5 | -0.1 | -2.9 | -9.1 | -18.3 | -15.8 | -20.3 | 7.6 | 6.9 | -0.4 | -9.0 | -7.8 | -11.3 | -14.1 | -12.6 | -11.7 | -16.5 | -20.7 |
| Netherlands | 4.9 | 4.2 | 6.9 | 6.3 | 11.0 | 12.0 | 11.6 | 18.0 | 21.3 | 24.7 | 23.7 | 22.3 | 21.4 | 17.4 | 19.3 | 20.1 | 21.5 | 27.9 | 32.1 | 32.7 |
| New Zealand | -0.4 | 0.2 | 1.5 | 0.2 | 0.1 | 1.3 | 0.8 | 1.2 | 1.1 | 0.7 | 0.3 | 0.2 | 0.2 | -0.5 | 0.6 | 1.6 | 0.9 | -0.0 | -0.9 | -0.9 |
| Norway | -2.6 | -2.0 | -0.5 | 3.6 | 7.7 | 9.5 | 8.8 | 7.7 | 7.7 | 9.2 | 14.3 | 13.1 | 2.8 | 11.8 | 28.8 | 29.2 | 27.2 | 28.4 | 29.2 | 30.3 |
| Poland | .. | .. | .. | .. | .. | .. | .. | 0.8 | 2.1 | 3.0 | -2.2 | -6.1 | -8.3 | -9.9 | -10.9 | -6.8 | -6.4 | -7.9 | -8.5 | -9.7 |
| Portugal | -0.5 | -2.0 | -4.0 | -3.1 | -4.7 | -5.8 | -7.3 | -6.0 | -6.2 | -6.7 | -7.4 | -8.2 | -9.9 | -11.9 | -12.0 | -10.8 | -9.2 | -7.9 | -6.8 | -6.4 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | -0.6 | 0.7 | 0.3 | -2.3 | -2.0 | -2.3 | -0.9 | -0.5 | -1.7 | -1.7 | -0.5 | -0.7 | -1.3 |
| Spain | 4.3 | -0.4 | -4.8 | -13.6 | -17.5 | -17.8 | -17.4 | -4.0 | -0.8 | -1.0 | 3.1 | 5.6 | 0.3 | -7.4 | -12.7 | -9.7 | -9.7 | -13.8 | -19.3 | -24.2 |
| Sweden | 4.5 | 3.3 | 3.3 | 1.3 | 1.2 | 4.2 | 4.5 | 7.3 | 9.7 | 16.8 | 17.8 | 17.9 | 15.6 | 15.5 | 13.5 | 13.2 | 14.5 | 17.5 | 20.4 | 23.1 |
| Switzerland | 1.8 | 1.7 | 0.6 | -0.7 | 0.8 | 3.5 | 8.3 | 11.3 | 11.5 | 11.9 | 12.4 | 12.4 | 13.1 | 13.8 | 12.6 | 13.3 | 18.0 | 20.1 | 17.6 | 18.0 |
| Turkey | -1.6 | -1.8 | 0.8 | -1.6 | -6.4 | -4.1 | -4.7 | -10.2 | 0.5 | -7.3 | -11.4 | -11.0 | -7.4 | -6.3 | -15.0 | 3.0 | -3.1 | -7.8 | -8.9 | -9.6 |
| United Kingdom | -4.7 | -8.3 | -30.4 | -34.6 | -25.2 | -10.9 | -13.3 | -9.8 | -7.3 | -5.6 | -5.3 | 1.7 | -14.1 | -25.8 | -29.5 | -39.8 | -47.1 | -57.7 | -69.6 | -75.9 |
| United States | -131.9 | -142.3 | -106.3 | -80.7 | -71.5 | -20.7 | -27.9 | -60.5 | -87.1 | -84.2 | -89.0 | -89.4 | -151.7 | -249.9 | -365.5 | -348.9 | -423.6 | -496.5 | -526.5 | -555.8 |
| Euro area | 63.6 | 52.9 | 52.2 | 37.6 | 66.0 | -23.1 | -5.7 | 74.1 | 90.7 | 121.8 | 150.0 | 158.2 | 145.9 | 96.4 | 53.5 | 102.8 | 174.1 | 169.1 | 194.9 | 214.5 |
| European Union | 62.9 | 49.8 | 28.3 | 7.6 | 48.9 | -22.0 | -4.8 | 81.1 | 101.3 | 140.3 | 171.6 | 183.8 | 150.8 | 94.4 | 46.9 | 86.5 | 151.8 | 143.9 | 162.8 | 180.4 |
| Total OECD | 17.8 | 1.9 | 5.6 | -28.7 | 0.1 | 3.3 | 36.5 | 107.7 | 108.3 | 160.6 | 123.4 | 153.1 | 107.1 | -46.9 | -198.6 | -161.7 | -168.4 | -249.4 | -245.4 | -240.0 |

*Source:* OECD.

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Annex Table 48. **Investment income, net**
$ billion

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | -4.9 | -5.8 | -8.6 | -10.4 | -13.2 | -12.2 | -10.1 | -8.1 | -12.4 | -14.0 | -15.2 | -13.8 | -11.4 | -11.6 | -10.8 | -10.2 | -11.7 | -14.3 | -15.8 | -15.5 |
| Austria | -0.6 | -0.8 | -0.9 | -0.9 | -0.9 | -1.4 | -1.4 | -1.5 | -1.7 | -2.4 | -0.9 | -1.5 | -2.0 | -2.9 | -2.5 | -3.1 | -2.1 | -2.7 | -2.7 | -2.7 |
| Belgium[a] | 1.5 | 1.8 | 2.1 | 4.0 | 4.8 | 5.7 | 6.4 | 6.9 | 7.4 | 7.3 | 6.8 | 6.3 | 6.9 | 6.5 | 6.3 | 5.6 | 6.7 | 9.2 | 9.6 | 10.3 |
| Canada | -14.0 | -17.1 | -17.5 | -20.5 | -19.4 | -17.4 | -17.5 | -20.8 | -18.9 | -22.7 | -21.5 | -20.9 | -20.0 | -22.6 | -21.4 | -24.1 | -17.5 | -20.9 | -23.2 | -22.1 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | -0.1 | -0.0 | -0.1 | -0.7 | -0.8 | -1.1 | -1.3 | -1.4 | -2.2 | -3.8 | -4.4 | -5.2 | -5.5 |
| Denmark | -3.5 | -4.1 | -3.7 | -3.8 | -5.1 | -5.1 | -4.9 | -3.8 | -3.8 | -3.8 | -3.7 | -3.4 | -2.8 | -2.5 | -4.0 | -3.0 | -2.8 | -3.4 | -4.6 | -5.4 |
| Finland | -1.3 | -1.6 | -1.7 | -2.7 | -3.7 | -4.7 | -5.4 | -4.9 | -4.4 | -4.4 | -3.6 | -2.4 | -3.1 | -2.0 | -1.7 | -1.0 | -0.6 | -0.2 | 0.2 | 0.6 |
| France | -1.7 | -1.7 | -1.0 | -0.3 | -1.6 | -3.3 | -6.0 | -6.6 | -6.0 | -8.4 | -1.9 | 7.4 | 9.1 | 18.9 | 13.8 | 14.8 | 12.0 | 12.5 | 12.6 | 12.8 |
| Germany | 5.3 | 5.2 | 9.4 | 14.3 | 20.6 | 20.3 | 21.8 | 16.6 | 2.9 | 0.1 | 1.2 | -1.5 | -7.6 | -10.3 | -1.7 | -6.4 | 1.0 | -6.4 | -5.5 | -4.1 |
| Greece | -1.5 | -1.7 | -1.8 | -1.9 | -2.0 | -2.0 | -2.4 | -1.6 | -1.4 | -1.8 | -2.1 | -1.7 | -1.6 | -0.7 | -0.9 | -1.8 | -2.0 | -2.7 | -2.4 | -2.6 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | -1.2 | -1.4 | 0.1 | 0.0 | -1.3 | -1.8 | -1.6 | -1.4 | -1.3 | -1.6 | -1.8 | -1.8 | -1.8 |
| Iceland | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.1 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.3 | -0.3 | -0.2 | -0.2 | -0.2 | -0.2 |
| Ireland | -2.6 | -3.1 | -3.9 | -4.3 | -5.0 | -4.6 | -5.6 | -5.3 | -5.4 | -7.3 | -8.2 | -9.7 | -10.5 | -13.7 | -13.5 | -16.4 | -24.5 | -28.8 | -32.8 | -32.4 |
| Italy | -4.2 | -4.9 | -5.5 | -7.2 | -14.6 | -17.5 | -22.0 | -17.4 | -16.9 | -15.9 | -15.4 | -10.1 | -10.9 | -11.2 | -12.0 | -10.4 | -14.8 | -15.7 | -14.3 | -15.5 |
| Japan | 9.3 | 16.3 | 20.6 | 22.9 | 22.7 | 26.0 | 35.7 | 40.7 | 40.4 | 44.1 | 53.4 | 58.1 | 54.7 | 57.8 | 60.3 | 69.1 | 65.8 | 69.5 | 78.2 | 80.8 |
| Korea | -2.3 | -1.6 | -1.3 | -0.6 | -0.1 | -0.2 | -0.4 | -0.4 | -0.5 | -1.3 | -1.8 | -2.5 | -5.6 | -5.2 | -2.4 | -1.2 | 0.5 | 0.7 | 1.5 | 2.1 |
| Luxembourg | .. | .. | .. | .. | .. | .. | .. | .. | .. | 1.6 | 1.3 | 0.5 | 0.2 | -0.5 | -1.3 | -1.6 | -2.6 | -3.2 | -3.4 | -3.6 |
| Mexico | -7.5 | -6.8 | -7.3 | -8.3 | -8.7 | -8.6 | -9.6 | -11.4 | -13.0 | -13.3 | -14.0 | -12.8 | -13.3 | -12.9 | -14.8 | -13.9 | -12.3 | -12.1 | -12.8 | -13.1 |
| Netherlands | -0.2 | 1.4 | 1.2 | 2.9 | -0.6 | 0.4 | -1.0 | 0.9 | 3.7 | 7.3 | 3.5 | 7.0 | -2.7 | 3.6 | -1.6 | -3.5 | -8.8 | -10.1 | -5.7 | -6.4 |
| New Zealand | -1.5 | -2.0 | -2.1 | -1.9 | -1.6 | -2.5 | -2.5 | -2.9 | -3.4 | -4.0 | -4.7 | -4.9 | -2.6 | -3.1 | -3.2 | -3.0 | -3.2 | -4.0 | -3.8 | -3.8 |
| Norway | -1.3 | -1.4 | -2.5 | -2.8 | -3.4 | -4.0 | -2.8 | -2.8 | -2.2 | -1.9 | -1.9 | -1.7 | -1.2 | -1.9 | -1.7 | -0.9 | 0.5 | 1.7 | 2.1 | 2.1 |
| Poland[b] | .. | .. | .. | .. | .. | .. | .. | -3.4 | -2.6 | -2.0 | -1.1 | -1.1 | -1.2 | -1.0 | -1.5 | -1.4 | -1.8 | -1.3 | -2.4 | -2.5 |
| Portugal | -1.0 | -0.8 | -0.8 | -0.6 | -0.1 | 0.2 | 0.6 | 0.2 | -0.6 | -0.0 | -1.0 | -1.5 | -1.6 | -1.8 | -3.1 | -3.0 | -3.1 | -3.8 | -4.2 | -4.5 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | -0.0 | -0.1 | -0.0 | -0.0 | -0.1 | -0.2 | -0.3 | -0.4 | -0.3 | -0.5 | -0.4 | -0.5 | -0.4 |
| Spain | -1.8 | -2.6 | -3.3 | -2.8 | -3.5 | -4.3 | -5.8 | -3.6 | -7.8 | -4.1 | -6.1 | -6.8 | -7.5 | -9.5 | -8.3 | -9.8 | -9.8 | -12.2 | -12.9 | -13.6 |
| Sweden | -2.0 | -1.6 | -1.8 | -2.3 | -4.5 | -6.4 | -10.0 | -8.8 | -5.9 | -5.5 | -6.3 | -4.9 | -3.2 | -2.0 | -1.4 | -1.4 | -1.8 | -2.6 | -2.5 | -2.3 |
| Switzerland | 5.8 | 6.8 | 8.9 | 8.1 | 8.8 | 8.8 | 8.3 | 9.1 | 7.9 | 11.9 | 12.6 | 16.2 | 17.6 | 20.2 | 21.8 | 14.8 | 11.7 | 14.3 | 15.5 | 17.1 |
| Turkey | -1.9 | -2.1 | -2.5 | -2.3 | -2.5 | -2.7 | -2.6 | -2.7 | -3.3 | -3.2 | -2.9 | -3.0 | -3.0 | -3.5 | -4.0 | -5.0 | -4.5 | -6.3 | -6.7 | -6.9 |
| United Kingdom | 4.2 | 1.4 | 1.3 | -1.2 | -5.1 | -5.9 | 0.2 | -0.3 | 5.1 | 3.3 | 1.8 | 6.4 | 21.4 | 3.9 | 14.8 | 23.3 | 32.1 | 28.2 | 21.0 | 22.0 |
| United States | 15.5 | 14.3 | 18.7 | 19.8 | 28.5 | 24.1 | 23.3 | 24.3 | 17.1 | 25.0 | 24.5 | 20.7 | 6.9 | 17.1 | 19.6 | 10.7 | -4.0 | 6.6 | 5.7 | -1.4 |
| Euro area | -8.3 | -8.7 | -6.0 | 0.6 | -6.7 | -11.2 | -20.8 | -16.2 | -30.1 | -28.0 | -26.5 | -14.0 | -31.4 | -23.5 | -26.3 | -36.6 | -48.6 | -64.2 | -61.6 | -61.7 |
| European Union | -9.6 | -12.9 | -10.2 | -6.8 | -21.4 | -28.6 | -35.4 | -29.1 | -34.7 | -34.0 | -34.6 | -16.0 | -16.0 | -24.1 | -16.9 | -17.7 | -21.2 | -42.0 | -47.7 | -47.4 |
| Total OECD | -12.5 | -12.6 | -4.0 | -3.0 | -10.6 | -17.3 | -13.8 | -9.0 | -27.3 | -15.6 | -8.2 | 15.9 | 1.8 | 5.7 | 21.7 | 13.1 | -3.9 | -14.7 | -17.1 | -18.7 |

*Note:* The classification of non-factor services and investment income is affected by the change in reporting system to the International Monetary Fund, *Fifth Balance of Payments Manual*.
*a)* Including Luxembourg until 1994.
*b)* Data in 1993 are OECD estimates.
*Source:* OECD.

Annex Table 49. **Total transfers, net**

$ billion

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 1.2 | 1.3 | 1.6 | 1.7 | 2.3 | 1.9 | 1.6 | 1.5 | 1.7 | 1.8 | 1.9 | 1.7 | 1.4 | 1.7 | 1.9 | 1.6 | 1.6 | 1.7 | 1.8 | 1.8 |
| Austria | -0.0 | -0.1 | -0.0 | -0.1 | -0.0 | -0.1 | -1.0 | -1.0 | -1.1 | -1.7 | -1.8 | -1.7 | -1.9 | -2.0 | -1.3 | -1.2 | -1.6 | -1.5 | -1.8 | -1.9 |
| Belgium[a] | -0.9 | -1.4 | -1.7 | -1.8 | -2.0 | -2.1 | -2.5 | -2.6 | -3.3 | -4.2 | -4.1 | -3.7 | -4.3 | -4.6 | -3.9 | -3.9 | -4.2 | -5.7 | -4.7 | -4.7 |
| Canada | -0.3 | -0.9 | -0.9 | -1.0 | -0.8 | -1.1 | -0.9 | -0.6 | -0.3 | -0.1 | 0.5 | 0.5 | 0.6 | 0.5 | 0.8 | 1.1 | 0.9 | 0.7 | 1.0 | 1.1 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | 0.1 | 0.1 | 0.6 | 0.4 | 0.4 | 0.5 | 0.6 | 0.4 | 0.5 | 0.9 | 0.9 | 1.0 | 0.9 |
| Denmark | -0.3 | -0.2 | -1.0 | -1.2 | -1.2 | -1.6 | -1.7 | -1.7 | -2.0 | -2.4 | -2.6 | -1.8 | -2.3 | -2.7 | -3.0 | -2.4 | -2.6 | -3.3 | -3.8 | -4.2 |
| Finland | -0.4 | -0.5 | -0.5 | -0.7 | -1.0 | -1.0 | -0.8 | -0.4 | -0.5 | -0.4 | -0.9 | -0.7 | -1.0 | -1.0 | -0.7 | -0.7 | -0.7 | -0.8 | -0.9 | -0.9 |
| France | -4.6 | -5.4 | -6.7 | -7.7 | -9.8 | -9.3 | -11.1 | -8.2 | -11.5 | -5.9 | -7.4 | -12.8 | -12.8 | -13.7 | -13.3 | -14.6 | -13.3 | -13.4 | -13.2 | -13.2 |
| Germany | -12.7 | -16.5 | -18.7 | -18.5 | -21.9 | -35.4 | -32.8 | -33.3 | -36.8 | -38.7 | -33.9 | -30.5 | -30.3 | -26.7 | -26.2 | -24.6 | -25.0 | -32.6 | -33.6 | -34.9 |
| Greece | 2.4 | 3.0 | 3.6 | 4.0 | 4.7 | 6.2 | 6.5 | 6.5 | 6.9 | 8.0 | 8.0 | 8.3 | 8.0 | 6.6 | 5.6 | 5.7 | 5.0 | 6.1 | 5.8 | 5.9 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | 0.8 | 0.9 | 0.2 | 0.0 | 0.2 | 0.2 | 0.4 | 0.3 | 0.4 | 0.4 | 0.7 | 0.7 | 0.7 |
| Iceland | 0.0 | 0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ireland | 1.3 | 1.3 | 1.4 | 1.5 | 2.4 | 2.6 | 2.1 | 1.9 | 1.7 | 1.8 | 2.2 | 2.0 | 1.5 | 1.3 | 0.9 | 0.3 | 0.8 | 0.3 | 0.3 | 0.3 |
| Italy | -1.8 | -1.3 | -2.3 | -3.9 | -4.0 | -7.6 | -7.8 | -7.3 | -7.2 | -4.2 | -6.6 | -4.2 | -7.4 | -5.4 | -4.3 | -5.8 | -5.4 | -3.5 | -4.3 | -4.5 |
| Japan | -1.7 | -3.2 | -3.4 | -3.1 | -4.8 | -12.0 | -3.8 | -5.1 | -6.1 | -7.7 | -9.0 | -8.9 | -8.8 | -12.1 | -9.8 | -7.9 | -4.9 | -8.9 | -9.0 | -9.0 |
| Korea | 1.4 | 1.8 | 2.3 | 1.1 | 1.1 | 0.8 | 1.1 | 1.2 | 1.3 | 0.2 | -0.0 | 0.7 | 3.4 | 1.9 | 0.7 | -0.2 | -1.1 | -1.0 | -1.0 | -1.2 |
| Luxembourg | .. | .. | .. | .. | .. | .. | .. | .. | .. | -0.6 | -0.6 | -0.5 | -0.4 | -0.6 | -0.5 | -0.5 | -0.7 | -0.3 | -0.6 | -0.6 |
| Mexico | 1.6 | 1.9 | 2.3 | 2.6 | 3.8 | 3.0 | 3.4 | 3.6 | 3.8 | 4.0 | 4.4 | 5.3 | 6.0 | 6.3 | 7.1 | 9.2 | 10.3 | 11.2 | 11.5 | 12.0 |
| Netherlands | -1.7 | -2.0 | -1.9 | -1.9 | -2.9 | -4.1 | -4.3 | -4.5 | -5.3 | -6.4 | -6.8 | -6.1 | -7.2 | -6.4 | -6.3 | -6.7 | -6.4 | -7.3 | -8.4 | -9.3 |
| New Zealand | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.6 | 0.3 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 |
| Norway | -0.8 | -1.0 | -1.0 | -1.0 | -1.2 | -1.2 | -1.5 | -1.3 | -1.7 | -2.1 | -1.5 | -1.4 | -1.5 | -1.4 | -1.4 | -1.7 | -2.4 | -2.3 | -2.7 | -2.4 |
| Poland[b] | .. | .. | .. | .. | .. | .. | .. | 0.9 | 1.3 | 1.0 | 1.7 | 2.0 | 2.9 | 2.2 | 2.4 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |
| Portugal[c] | 2.9 | 3.8 | 4.3 | 4.6 | 5.5 | 6.0 | 7.8 | 6.7 | 5.4 | 7.2 | 4.4 | 3.8 | 4.1 | 3.9 | 3.4 | 3.4 | 3.6 | 3.9 | 4.3 | 4.4 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.4 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Spain | 1.1 | 2.6 | 4.5 | 4.6 | 2.7 | 2.7 | 2.1 | 1.3 | 1.3 | 4.7 | 2.4 | 2.8 | 3.3 | 3.0 | 1.4 | 1.6 | 2.3 | 2.6 | 2.6 | 2.6 |
| Sweden | -1.2 | -1.3 | -1.4 | -1.8 | -1.9 | -2.0 | -1.3 | -1.3 | -1.3 | -2.6 | -2.0 | -2.4 | -2.6 | -2.7 | -2.6 | -2.5 | -2.9 | -3.9 | -4.1 | -4.3 |
| Switzerland | -0.3 | -0.4 | -0.4 | -0.4 | -0.6 | -0.6 | -0.7 | -0.7 | -0.9 | -1.1 | -1.0 | -0.8 | -0.9 | -1.0 | -0.7 | -4.0 | -4.2 | -4.9 | -5.0 | -5.3 |
| Turkey | 1.9 | 2.4 | 2.2 | 3.5 | 4.5 | 5.1 | 4.1 | 3.8 | 3.1 | 4.5 | 4.4 | 4.9 | 5.7 | 5.2 | 5.2 | 3.8 | 3.5 | 3.3 | 3.6 | 3.8 |
| United Kingdom | -3.0 | -5.9 | -6.3 | -7.3 | -8.8 | -2.2 | -9.9 | -7.9 | -8.2 | -11.9 | -7.4 | -9.7 | -13.6 | -11.9 | -14.7 | -9.5 | -13.2 | -18.3 | -18.4 | -19.3 |
| United States | -24.1 | -23.3 | -25.3 | -26.2 | -26.7 | 10.7 | -33.2 | -37.1 | -37.6 | -35.2 | -38.9 | -41.3 | -48.4 | -46.8 | -55.7 | -46.6 | -58.9 | -61.7 | -55.0 | -55.0 |
| Euro area | -14.3 | -16.3 | -17.9 | -20.0 | -26.2 | -42.2 | -41.8 | -41.0 | -50.2 | -40.5 | -45.0 | -43.3 | -48.4 | -45.6 | -45.0 | -47.0 | -45.6 | -52.2 | -54.5 | -56.7 |
| European Union | -18.8 | -23.7 | -26.7 | -30.3 | -38.0 | -48.0 | -54.8 | -51.9 | -61.7 | -57.4 | -57.1 | -57.2 | -66.9 | -63.0 | -65.3 | -61.4 | -64.3 | -77.6 | -80.9 | -84.5 |
| Total OECD | -39.8 | -44.8 | -49.1 | -52.8 | -60.1 | -41.3 | -84.6 | -84.6 | -95.8 | -90.9 | -93.4 | -93.6 | -105.3 | -105.1 | -113.8 | -102.1 | -114.8 | -134.7 | -130.5 | -133.7 |

*a)* Including Luxembourg until 1994.
*b)* Data in 1993 are OECD estimates.
*c)* Break between 1995 and 1996, reflecting change in methodology to the International Monetary Fund, *Fifth Balance of Payments Manual* (capital transfers from European Union are excluded from the current account as from 1996).

*Source:* OECD.

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Annex Table 50. **Current account balances**

$ billion

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | -8.4 | -6.7 | -10.0 | -16.3 | -14.0 | -9.2 | -9.5 | -8.1 | -15.2 | -17.4 | -14.0 | -10.7 | -16.5 | -20.6 | -13.2 | -7.1 | -16.2 | -29.1 | -30.6 | -28.9 |
| Austria | 0.3 | -0.2 | -0.3 | 0.3 | 1.2 | -0.0 | -0.7 | -1.4 | -3.3 | -6.2 | -5.4 | -6.5 | -5.2 | -6.7 | -5.0 | -3.7 | 0.8 | -0.6 | -0.6 | -0.7 |
| Belgium[a] | 4.4 | 4.1 | 5.2 | 5.1 | 6.2 | 7.2 | 9.9 | 13.0 | 14.2 | 15.3 | 13.8 | 13.8 | 13.3 | 12.8 | 9.4 | 9.2 | 11.5 | 15.3 | 17.5 | 19.8 |
| Canada | -11.2 | -13.5 | -14.9 | -21.8 | -19.8 | -22.4 | -21.1 | -21.7 | -13.0 | -4.4 | 3.4 | -8.2 | -7.7 | 1.7 | 20.6 | 17.4 | 14.9 | 16.6 | 17.9 | 19.4 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | 0.5 | -0.8 | -1.4 | -4.1 | -3.6 | -1.3 | -1.5 | -2.7 | -3.3 | -4.6 | -5.9 | -6.3 | -6.4 |
| Denmark | -4.5 | -3.0 | -1.6 | -1.7 | 0.6 | 1.2 | 3.1 | 3.9 | 2.3 | 1.2 | 2.7 | 0.7 | -1.6 | 3.1 | 2.3 | 4.9 | 4.4 | 7.9 | 7.8 | 8.3 |
| Finland | -0.7 | -1.7 | -2.7 | -5.8 | -7.0 | -6.8 | -5.1 | -1.1 | 1.1 | 5.4 | 5.1 | 6.8 | 7.3 | 7.7 | 9.1 | 8.7 | 10.1 | 11.6 | 12.8 | 14.7 |
| France | 2.4 | -4.5 | -4.6 | -4.6 | -9.8 | -5.7 | 4.8 | 9.6 | 7.4 | 11.0 | 20.8 | 37.8 | 39.3 | 41.3 | 17.2 | 21.2 | 28.4 | 16.3 | 18.1 | 22.0 |
| Germany | 38.7 | 43.8 | 50.7 | 55.4 | 44.6 | -22.0 | -19.0 | -13.9 | -29.3 | -27.0 | -13.7 | -9.4 | -12.3 | -25.0 | -25.3 | 3.8 | 54.9 | 49.3 | 70.0 | 84.8 |
| Greece | -2.1 | -1.7 | -1.5 | -3.3 | -4.7 | -2.6 | -3.6 | -1.9 | -1.4 | -4.5 | -6.4 | -5.3 | -3.7 | -5.3 | -7.7 | -7.2 | -8.7 | -11.2 | -11.9 | -11.9 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | -3.5 | -4.0 | 0.3 | 0.3 | -0.7 | -2.2 | -2.4 | -2.9 | -1.7 | -2.7 | -4.9 | -4.9 | -5.3 |
| Iceland | 0.0 | -0.2 | -0.2 | -0.1 | -0.1 | -0.3 | -0.2 | 0.0 | 0.1 | 0.1 | -0.1 | -0.1 | -0.6 | -0.6 | -0.9 | -0.3 | -0.0 | -0.3 | -0.4 | -0.5 |
| Ireland | -0.9 | -0.1 | -0.0 | -0.6 | -0.4 | 0.3 | 0.6 | 1.8 | 1.5 | 1.7 | 2.0 | 1.9 | 0.7 | 0.3 | -0.3 | -0.7 | -1.0 | -2.5 | -2.4 | 1.0 |
| Italy | 2.2 | -2.5 | -7.0 | -11.2 | -16.8 | -24.3 | -30.2 | 7.9 | 12.5 | 25.0 | 39.1 | 33.7 | 23.0 | 8.1 | -5.8 | -0.7 | -7.2 | -17.5 | -19.2 | -22.3 |
| Japan | 85.4 | 84.1 | 79.2 | 63.3 | 44.1 | 68.3 | 112.6 | 131.9 | 130.4 | 111.1 | 65.8 | 96.8 | 119.0 | 114.8 | 119.5 | 87.7 | 112.5 | 122.9 | 155.0 | 185.6 |
| Korea | 4.7 | 10.0 | 14.5 | 5.3 | -2.0 | -8.3 | -4.0 | 1.0 | -3.9 | -8.5 | -22.8 | -9.4 | 39.8 | 24.5 | 12.2 | 8.3 | 6.0 | 8.0 | 7.0 | 0.2 |
| Luxembourg | .. | .. | .. | .. | .. | .. | .. | .. | .. | 2.5 | 2.3 | 1.9 | 1.8 | 1.8 | 2.7 | 1.8 | 1.5 | 2.0 | 2.1 | 2.4 |
| Mexico | -1.3 | 4.3 | -2.3 | -5.7 | -7.6 | -14.5 | -24.4 | -23.4 | -29.6 | -1.5 | -2.5 | -7.5 | -16.1 | -13.9 | -17.8 | -18.2 | -13.9 | -11.4 | -16.3 | -20.4 |
| Netherlands | 4.3 | 4.2 | 7.1 | 9.4 | 8.1 | 7.5 | 6.8 | 13.2 | 17.3 | 25.8 | 21.5 | 25.1 | 13.0 | 15.7 | 8.1 | 7.8 | 5.8 | 9.6 | 17.0 | 16.1 |
| New Zealand | -1.8 | -1.7 | -0.4 | -1.6 | -1.4 | -1.1 | -1.6 | -1.7 | -2.0 | -3.1 | -3.9 | -4.4 | -2.2 | -3.5 | -2.5 | -1.3 | -2.2 | -3.9 | -4.4 | -4.5 |
| Norway | -4.7 | -4.4 | -4.0 | -0.1 | 3.1 | 4.3 | 4.4 | 3.6 | 3.8 | 5.2 | 11.0 | 10.0 | 0.0 | 8.4 | 24.8 | 25.9 | 25.1 | 27.9 | 28.7 | 30.0 |
| Poland[b] | .. | .. | .. | .. | .. | .. | .. | -4.6 | 1.0 | 0.9 | -3.3 | -5.7 | -6.9 | -12.5 | -10.0 | -5.4 | -5.4 | -6.3 | -8.0 | -9.4 |
| Portugal[c] | 1.2 | 0.4 | -1.0 | 0.2 | -0.2 | -0.7 | -0.3 | 0.3 | -2.3 | -0.2 | -4.2 | -6.1 | -7.8 | -9.7 | -11.6 | -10.4 | -8.7 | -7.3 | -6.2 | -6.0 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | -0.6 | 0.8 | 0.5 | -2.0 | -1.8 | -2.0 | -1.0 | -0.7 | -1.7 | -1.9 | -0.7 | -1.0 | -1.6 |
| Spain | 3.9 | -0.2 | -3.7 | -10.9 | -18.1 | -19.9 | -21.6 | -5.7 | -6.4 | 0.8 | 0.4 | 2.5 | -3.0 | -13.9 | -19.4 | -16.4 | -15.8 | -29.5 | -35.9 | -41.5 |
| Sweden | 0.0 | -0.0 | -0.6 | -3.1 | -6.3 | -4.7 | -7.4 | -2.7 | 2.4 | 8.5 | 9.7 | 10.3 | 9.7 | 10.7 | 9.4 | 8.5 | 9.9 | 11.1 | 13.8 | 16.5 |
| Switzerland | 7.0 | 7.6 | 9.1 | 7.1 | 8.8 | 10.7 | 15.3 | 19.2 | 17.3 | 21.3 | 22.0 | 25.5 | 25.9 | 30.3 | 31.6 | 21.8 | 24.8 | 28.6 | 27.3 | 28.9 |
| Turkey | -1.5 | -0.8 | 1.6 | 0.9 | -2.6 | 0.3 | -1.0 | -6.4 | 2.6 | -2.3 | -2.4 | -2.6 | 2.0 | -1.3 | -9.8 | 3.4 | -1.5 | -7.6 | -9.0 | -9.7 |
| United Kingdom | -3.4 | -12.7 | -35.3 | -43.0 | -39.0 | -19.0 | -22.9 | -17.9 | -10.3 | -14.2 | -10.9 | -1.6 | -6.3 | -33.8 | -29.3 | -25.9 | -28.2 | -47.7 | -67.0 | -73.2 |
| United States | -147.2 | -160.7 | -121.2 | -99.5 | -79.0 | 3.7 | -48.0 | -82.0 | -117.7 | -105.2 | -117.2 | -127.7 | -204.7 | -290.8 | -411.5 | -393.7 | -480.9 | -548.6 | -575.8 | -612.2 |
| Euro area | 53.5 | 41.4 | 42.2 | 33.9 | 3.2 | -67.0 | -58.4 | 21.9 | 11.5 | 49.7 | 75.3 | 96.2 | 66.2 | 27.0 | -28.7 | 13.3 | 71.4 | 35.5 | 61.3 | 78.4 |
| European Union | 45.7 | 25.8 | 4.7 | -13.9 | -41.5 | -89.5 | -85.6 | 5.2 | 5.9 | 45.1 | 76.8 | 105.6 | 68.0 | 6.9 | -46.3 | 0.8 | 57.4 | 6.7 | 15.8 | 30.0 |
| Total OECD | -33.2 | -56.2 | -43.8 | -82.4 | -112.0 | -58.0 | -62.9 | 9.5 | -24.4 | 40.8 | 6.7 | 55.4 | -5.5 | -161.5 | -309.3 | -267.4 | -288.4 | -408.2 | -405.2 | -404.8 |

*Note:* The balance-of-payments data in this table are based on the concepts and definition of the International Monetary Fund, *Fifth Balance of Payments Manual*.
*a)* Including Luxembourg until 1994.
*b)* Data in 1993 are OECD estimates.
*c)* Break between 1995 and 1996, reflecting change in methodology to the International Monetary Fund, *Fifth Balance of Payments Manual* (capital transfers from European Union are excluded from the current account as from 1996).
*Source:* OECD.

Annex Table 51. **Current account balances as a percentage of GDP**

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | -4.9 | -3.3 | -3.8 | -5.6 | -4.6 | -3.0 | -3.1 | -2.7 | -4.5 | -4.8 | -3.5 | -2.7 | -4.5 | -5.3 | -3.4 | -2.0 | -4.0 | -5.8 | -5.3 | -4.7 |
| Austria | 0.3 | -0.2 | -0.2 | 0.2 | 0.7 | 0.0 | -0.4 | -0.8 | -1.6 | -2.6 | -2.3 | -3.2 | -2.5 | -3.2 | -2.6 | -2.0 | 0.4 | -0.2 | -0.2 | -0.3 |
| Belgium[a] | 3.8 | 2.8 | 3.3 | 3.2 | 3.1 | 3.6 | 4.4 | 6.0 | 6.0 | 5.6 | 5.1 | 5.6 | 5.3 | 5.1 | 4.1 | 4.0 | 4.7 | 5.1 | 5.5 | 6.0 |
| Canada | -3.0 | -3.2 | -3.0 | -3.9 | -3.4 | -3.7 | -3.6 | -3.9 | -2.3 | -0.8 | 0.5 | -1.3 | -1.2 | 0.3 | 2.9 | 2.4 | 2.0 | 1.9 | 1.9 | 1.9 |
| Czech Republic | .. | .. | .. | .. | .. | .. | .. | 1.3 | -1.9 | -2.6 | -7.1 | -6.7 | -2.2 | -2.7 | -5.3 | -5.7 | -6.5 | -6.9 | -6.9 | -6.7 |
| Denmark | -5.3 | -2.8 | -1.4 | -1.6 | 0.4 | 0.9 | 2.1 | 2.8 | 1.5 | 0.7 | 1.5 | 0.4 | -0.9 | 1.7 | 1.5 | 3.1 | 2.5 | 3.7 | 3.5 | 3.5 |
| Finland | -1.0 | -1.9 | -2.6 | -5.0 | -5.1 | -5.4 | -4.7 | -1.3 | 1.1 | 4.1 | 4.0 | 5.6 | 5.6 | 6.1 | 7.6 | 7.2 | 7.6 | 7.3 | 7.6 | 8.2 |
| France | 0.3 | -0.5 | -0.5 | -0.5 | -0.8 | -0.4 | 0.4 | 0.8 | 0.5 | 0.7 | 1.3 | 2.7 | 2.7 | 2.9 | 1.3 | 1.6 | 2.0 | 0.9 | 1.0 | 1.2 |
| Germany | 4.2 | 3.9 | 4.2 | 4.6 | 2.9 | -1.2 | -1.0 | -0.7 | -1.4 | -1.1 | -0.6 | -0.4 | -0.6 | -1.2 | -1.4 | 0.2 | 2.7 | 2.1 | 2.8 | 3.3 |
| Greece | -4.4 | -3.1 | -2.3 | -4.9 | -5.6 | -2.8 | -3.5 | -2.1 | -1.4 | -3.8 | -5.1 | -4.4 | -3.1 | -4.3 | -6.9 | -6.2 | -6.4 | -6.5 | -6.3 | -5.9 |
| Hungary | .. | .. | .. | .. | .. | .. | .. | -8.9 | -9.5 | 1.0 | 0.6 | -1.4 | -4.7 | -5.1 | -6.2 | -3.4 | -3.9 | -6.0 | -5.5 | -5.5 |
| Iceland | 0.5 | -3.3 | -3.7 | -1.9 | -2.1 | -4.1 | -2.4 | 0.7 | 2.0 | 0.8 | -1.8 | -1.7 | -6.9 | -7.0 | -10.3 | -4.0 | -0.1 | -3.3 | -3.4 | -4.4 |
| Ireland | -3.1 | -0.2 | -0.0 | -1.5 | -0.8 | 0.7 | 1.0 | 3.7 | 2.7 | 2.6 | 2.8 | 2.4 | 0.8 | 0.3 | -0.4 | -0.7 | -0.7 | -1.7 | -1.4 | 0.5 |
| Italy | 0.3 | -0.3 | -0.8 | -1.3 | -1.5 | -2.1 | -2.4 | 0.8 | 1.2 | 2.3 | 3.2 | 2.9 | 1.9 | 0.7 | -0.6 | -0.1 | -0.6 | -1.2 | -1.2 | -1.4 |
| Japan | 4.2 | 3.4 | 2.7 | 2.1 | 1.5 | 2.0 | 3.0 | 3.0 | 2.7 | 2.1 | 1.4 | 2.2 | 3.0 | 2.6 | 2.5 | 2.1 | 2.8 | 2.9 | 3.6 | 4.3 |
| Korea | 4.4 | 7.5 | 8.0 | 2.4 | -0.8 | -2.8 | -1.2 | 0.3 | -1.0 | -1.7 | -4.4 | -1.6 | 12.7 | 6.0 | 2.7 | 1.9 | 1.3 | 1.5 | 1.3 | 0.0 |
| Luxembourg | .. | .. | .. | .. | .. | .. | .. | .. | .. | 13.9 | 12.7 | 11.0 | 9.4 | 8.9 | 13.7 | 9.0 | 7.2 | 7.6 | 7.6 | 8.3 |
| Mexico | -0.7 | 2.8 | -1.3 | -2.6 | -2.9 | -4.6 | -6.7 | -5.8 | -7.0 | -0.5 | -0.8 | -1.9 | -3.8 | -2.9 | -3.1 | -2.9 | -2.2 | -1.9 | -2.5 | -3.0 |
| Netherlands | 2.4 | 1.8 | 2.9 | 3.9 | 2.7 | 2.4 | 2.1 | 4.1 | 5.0 | 6.2 | 5.2 | 6.6 | 3.3 | 3.9 | 2.2 | 2.0 | 1.4 | 1.9 | 3.2 | 2.9 |
| New Zealand | -6.3 | -4.8 | -0.9 | -3.7 | -3.1 | -2.7 | -4.1 | -3.8 | -3.9 | -5.1 | -5.9 | -6.5 | -4.0 | -6.2 | -4.8 | -2.6 | -3.7 | -5.2 | -5.2 | -5.0 |
| Norway | -6.2 | -4.8 | -4.1 | -0.1 | 2.5 | 3.7 | 3.5 | 3.0 | 3.0 | 3.5 | 6.9 | 6.3 | 0.0 | 5.3 | 15.0 | 15.3 | 13.2 | 12.7 | 12.4 | 12.3 |
| Poland[b] | .. | .. | .. | .. | .. | .. | .. | -5.2 | 1.0 | 0.7 | -2.3 | -4.0 | -4.4 | -8.1 | -6.1 | -2.9 | -2.8 | -3.1 | -3.9 | -4.3 |
| Portugal[c] | 3.3 | 1.0 | -2.0 | 0.3 | -0.3 | -0.8 | -0.2 | 0.4 | -2.4 | -0.1 | -3.8 | -5.7 | -6.9 | -8.5 | -10.9 | -9.4 | -7.1 | -4.9 | -4.0 | -3.7 |
| Slovak Republic | .. | .. | .. | .. | .. | .. | .. | -4.7 | 4.9 | 2.7 | -9.6 | -8.5 | -9.0 | -4.9 | -3.7 | -8.5 | -8.1 | -2.2 | -2.8 | -4.0 |
| Spain | 1.6 | -0.0 | -1.0 | -2.8 | -3.5 | -3.6 | -3.6 | -1.1 | -1.3 | 0.1 | 0.1 | 0.5 | -0.5 | -2.3 | -3.4 | -2.8 | -2.4 | -3.6 | -4.0 | -4.3 |
| Sweden | 0.0 | -0.0 | -0.3 | -1.5 | -2.5 | -1.8 | -2.8 | -1.3 | 1.1 | 3.4 | 3.6 | 4.2 | 3.9 | 4.2 | 3.9 | 3.9 | 4.1 | 3.7 | 4.3 | 4.9 |
| Switzerland | 5.0 | 4.4 | 4.9 | 3.9 | 3.8 | 4.6 | 6.3 | 8.1 | 6.6 | 6.9 | 7.4 | 9.9 | 9.9 | 11.7 | 13.1 | 8.9 | 9.3 | 9.4 | 8.9 | 9.2 |
| Turkey | -1.8 | -0.9 | 2.1 | 0.9 | -1.7 | 0.2 | -0.6 | -3.5 | 2.7 | -1.6 | -1.3 | -1.3 | 1.2 | -1.0 | -4.9 | 2.5 | -0.8 | -3.2 | -3.4 | -3.3 |
| United Kingdom | -0.6 | -1.8 | -4.2 | -5.1 | -4.0 | -1.8 | -2.1 | -1.9 | -1.0 | -1.3 | -0.9 | -0.1 | -0.4 | -2.3 | -2.1 | -1.8 | -1.8 | -2.7 | -3.5 | -3.6 |
| United States | -3.3 | -3.4 | -2.4 | -1.8 | -1.4 | 0.1 | -0.8 | -1.2 | -1.7 | -1.4 | -1.5 | -1.5 | -2.3 | -3.1 | -4.2 | -3.9 | -4.6 | -5.0 | -5.0 | -5.1 |
| Euro area | 1.7 | 1.1 | 1.0 | 0.8 | 0.1 | -1.2 | -0.9 | 0.4 | 0.2 | 0.7 | 1.1 | 1.5 | 1.0 | 0.4 | -0.5 | 0.2 | 1.1 | 0.4 | 0.7 | 0.9 |
| European Union | 1.2 | 0.5 | 0.1 | -0.3 | -0.6 | -1.2 | -1.1 | 0.1 | 0.1 | 0.5 | 0.9 | 1.3 | 0.8 | 0.1 | -0.6 | 0.0 | 0.7 | 0.1 | 0.1 | 0.3 |
| Total OECD | -0.3 | -0.4 | -0.3 | -0.5 | -0.6 | -0.3 | -0.3 | 0.0 | -0.1 | 0.2 | 0.0 | 0.2 | -0.0 | -0.6 | -1.2 | -1.1 | -1.1 | -1.4 | -1.3 | -1.3 |

*a)* Including Luxembourg until 1994.
*b)* Data in 1993 are OECD estimates.
*c)* Break between 1995 and 1996, reflecting change in methodology to the International Monetary Fund, *Fifth Balance of Payments Manual* (capital transfers from European Union are excluded from the current account as from 1996).
*Source:* OECD.

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Annex Table 52. **Structure of current account balances of major world regions**

$ billion

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Goods and services trade balance[a] | | | | | | | | | | | | | | | | |
| OECD | 0 | 3 | 37 | 108 | 108 | 161 | 123 | 153 | 107 | -47 | -199 | -162 | -168 | -249 | -245 | -240 |
| Non-OECD *of which:* | 15 | -27 | -34 | -62 | -25 | -64 | -26 | -17 | -15 | 105 | 213 | 159 | 202 | 236 | 229 | 215 |
| Non-OECD Asia *of which:* | 6 | 10 | 3 | -19 | -12 | -31 | -20 | 18 | 78 | 90 | 75 | 80 | 108 | 106 | 117 | 117 |
| China | 11 | 12 | 5 | -11 | 8 | 12 | 18 | 43 | 44 | 31 | 29 | 28 | 37 | 18 | 6 | 14 |
| Dynamic Asia[b] | 9 | 9 | 10 | 5 | -3 | -19 | -8 | 0 | 59 | 79 | 68 | 68 | 88 | 105 | 122 | 107 |
| Other Asia | -14 | -11 | -12 | -12 | -16 | -24 | -29 | -25 | -24 | -20 | -23 | -16 | -17 | -16 | -11 | -3 |
| Latin America | 26 | 13 | 3 | -6 | -7 | -19 | -17 | -33 | -45 | -14 | -3 | -7 | 22 | 33 | 37 | 37 |
| Africa & Middle-East | 2 | -49 | -36 | -34 | -11 | -14 | 8 | 5 | -43 | 6 | 93 | 55 | 43 | 66 | 54 | 48 |
| Central & East Europe | -20 | -1 | -4 | -3 | 6 | 1 | 2 | -7 | -4 | 24 | 48 | 30 | 28 | 31 | 21 | 12 |
| World[c] | 15 | -24 | 2 | 46 | 84 | 97 | 97 | 136 | 92 | 58 | 14 | -3 | 34 | -13 | -16 | -25 |
| Investment income, net | | | | | | | | | | | | | | | | |
| OECD | -11 | -17 | -14 | -9 | -27 | -16 | -8 | 16 | 2 | 6 | 22 | 13 | -4 | -15 | -17 | -19 |
| Non-OECD *of which:* | -38 | -34 | -39 | -45 | -44 | -58 | -67 | -70 | -78 | -81 | -91 | -87 | -83 | -84 | -88 | -86 |
| Non-OECD Asia *of which:* | -7 | -9 | -9 | -11 | -9 | -20 | -22 | -19 | -25 | -24 | -28 | -26 | -23 | -22 | -21 | -20 |
| China | 1 | 1 | 0 | -1 | -1 | -12 | -12 | -11 | -17 | -14 | -15 | -19 | -15 | -14 | -13 | -14 |
| Dynamic Asia[b] | -3 | -4 | -4 | -4 | -3 | -2 | -4 | -1 | -1 | -3 | -6 | 0 | -1 | -1 | -0 | 2 |
| Other Asia | -5 | -6 | -6 | -6 | -6 | -6 | -6 | -7 | -8 | -7 | -8 | -7 | -7 | -7 | -8 | -8 |
| Latin America | -26 | -23 | -21 | -23 | -24 | -28 | -29 | -34 | -37 | -39 | -39 | -41 | -38 | -39 | -43 | -43 |
| Africa & Middle-East | -0 | 2 | -2 | -5 | -8 | -6 | -8 | -6 | -3 | -8 | -13 | -12 | -12 | -13 | -13 | -13 |
| Central & East Europe | -5 | -3 | -6 | -5 | -2 | -5 | -7 | -11 | -14 | -10 | -11 | -8 | -10 | -10 | -11 | -10 |
| World[c] | -49 | -51 | -52 | -54 | -71 | -74 | -75 | -54 | -77 | -75 | -69 | -74 | -87 | -99 | -105 | -105 |
| Total transfers, net | | | | | | | | | | | | | | | | |
| OECD | -60 | -41 | -85 | -85 | -96 | -91 | -93 | -94 | -105 | -105 | -114 | -102 | -115 | -135 | -130 | -134 |
| Non-OECD *of which:* | 11 | -1 | 33 | 34 | 32 | 37 | 42 | 47 | 40 | 45 | 51 | 55 | 62 | 64 | 68 | 71 |
| Non-OECD Asia *of which:* | 7 | 11 | 12 | 17 | 22 | 22 | 26 | 31 | 23 | 27 | 32 | 34 | 37 | 38 | 41 | 41 |
| China | 0 | 1 | 1 | 1 | 0 | 1 | 2 | 5 | 4 | 5 | 6 | 8 | 13 | 13 | 16 | 16 |
| Dynamic Asia[b] | 0 | 1 | 1 | 6 | 7 | 5 | 5 | 2 | -0 | 1 | 2 | 1 | 1 | 1 | 1 | 1 |
| Other Asia | 7 | 9 | 10 | 11 | 15 | 16 | 19 | 23 | 19 | 22 | 24 | 24 | 24 | 24 | 24 | 24 |
| Latin America | 5 | 7 | 8 | 7 | 9 | 11 | 10 | 10 | 11 | 13 | 13 | 14 | 17 | 18 | 19 | 21 |
| Africa & Middle-East | -5 | -25 | 7 | 4 | -1 | -0 | 2 | 3 | 2 | 1 | -0 | 1 | 0 | 0 | 0 | 0 |
| Central & East Europe | 3 | 7 | 5 | 5 | 3 | 4 | 4 | 4 | 4 | 5 | 6 | 6 | 8 | 8 | 9 | 9 |
| World[c] | -50 | -42 | -52 | -51 | -63 | -54 | -51 | -46 | -66 | -60 | -63 | -47 | -53 | -71 | -62 | -62 |
| Current account balance | | | | | | | | | | | | | | | | |
| OECD | -112 | -58 | -63 | 9 | -24 | 41 | 7 | 55 | -6 | -161 | -309 | -267 | -288 | -408 | -405 | -405 |
| Non-OECD *of which:* | -13 | -62 | -40 | -73 | -36 | -85 | -51 | -39 | -53 | 69 | 172 | 127 | 181 | 216 | 210 | 200 |
| Non-OECD Asia *of which:* | 6 | 11 | 6 | -13 | 1 | -29 | -16 | 29 | 76 | 93 | 78 | 87 | 123 | 122 | 137 | 139 |
| China | 12 | 13 | 6 | -12 | 7 | 2 | 7 | 37 | 31 | 21 | 21 | 17 | 35 | 17 | 9 | 17 |
| Dynamic Asia[b] | 6 | 6 | 7 | 6 | 1 | -16 | -7 | 1 | 58 | 77 | 64 | 69 | 89 | 104 | 123 | 109 |
| Other Asia | -12 | -7 | -8 | -8 | -7 | -14 | -16 | -9 | -13 | -6 | -6 | 1 | -1 | 0 | 6 | 13 |
| Latin America | 5 | -3 | -10 | -22 | -22 | -36 | -36 | -57 | -72 | -41 | -28 | -33 | 1 | 12 | 12 | 15 |
| Africa & Middle-East | -3 | -73 | -31 | -36 | -21 | -20 | 2 | 2 | -44 | -1 | 79 | 44 | 32 | 53 | 41 | 35 |
| Central & East Europe | -21 | 3 | -4 | -3 | 6 | -0 | -0 | -13 | -14 | 18 | 43 | 28 | 26 | 28 | 19 | 11 |
| World[c] | -125 | -120 | -103 | -64 | -60 | -44 | -44 | 16 | -59 | -92 | -137 | -141 | -107 | -193 | -196 | -205 |

*Note:* Historical data for the OECD area are aggregates of reported balance-of-payments data of each individual country. Because of various statistical problems as well as a large number of non-reporters among non-OECD countries, trade and current account balances estimated on the basis of these countries' own balance-of-payments records may differ from corresponding estimates shown in this table.

*a)* National accounts basis for OECD countries and balance-of-payments basis for the non-OECD regions.

*b)* Dynamic Asia includes Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.

*c)* Reflects statistical errors and asymmetries. Given the very large gross flows of world balance-of-payments transactions, statistical errors and asymmetries easily give rise to world totals (balances) that are significantly different from zero.

*Source:* OECD.

Annex Table 53. **Quarterly demand and output projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

| | 2003 | 2004 | 2005 | 2004 | 2005 | | | | | Fourth quarter[a] | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2003 | 2004 | 2005 |
| **Private consumption** | | | | | | | | | | | | | |
| Canada | 3.4 | 3.1 | 3.0 | 3.1 | 3.1 | 3.1 | 3.1 | 3.0 | 3.0 | 3.0 | 3.3 | 3.1 | 3.0 |
| France | 1.6 | 1.6 | 2.2 | 1.8 | 2.0 | 2.1 | 2.2 | 2.2 | 2.3 | 2.4 | 1.4 | 1.9 | 2.3 |
| Germany | 0.7 | 1.2 | 2.2 | 1.6 | 1.8 | 1.8 | 2.4 | 2.5 | 2.6 | 2.6 | 0.8 | 1.7 | 2.5 |
| Italy | 1.9 | 1.7 | 2.1 | 2.0 | 2.3 | 2.2 | 2.1 | 2.0 | 1.8 | 1.8 | 1.3 | 2.0 | 1.9 |
| Japan | 1.1 | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 | 1.0 | 1.0 | 1.0 | 1.0 | 0.9 | 1.3 | 1.0 |
| United Kingdom | 2.4 | 2.4 | 2.2 | 2.2 | 2.1 | 2.1 | 2.2 | 2.2 | 2.2 | 2.2 | 1.9 | 2.2 | 2.2 |
| United States | 3.1 | 3.4 | 3.4 | 3.3 | 3.3 | 3.3 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.3 | 3.5 |
| Euro area | 1.4 | 1.7 | 2.4 | 2.0 | 2.2 | 2.2 | 2.4 | 2.5 | 2.5 | 2.6 | 1.3 | 2.0 | 2.5 |
| European Union | 1.6 | 1.8 | 2.3 | 2.0 | 2.2 | 2.2 | 2.3 | 2.4 | 2.5 | 2.5 | 1.4 | 2.1 | 2.4 |
| Total OECD | 2.2 | 2.5 | 2.7 | 2.4 | 2.5 | 2.6 | 2.8 | 2.9 | 2.9 | 3.0 | 2.4 | 2.5 | 2.9 |
| **Public consumption** | | | | | | | | | | | | | |
| Canada | 3.1 | 3.4 | 3.2 | 3.3 | 3.3 | 3.2 | 3.2 | 3.1 | 3.1 | 3.0 | 3.2 | 3.3 | 3.1 |
| France | 2.0 | 1.5 | 1.7 | 1.5 | 1.6 | 1.6 | 1.7 | 1.8 | 1.8 | 1.8 | 1.5 | 1.5 | 1.8 |
| Germany | 0.8 | 0.1 | -0.4 | -0.5 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 | 1.3 | -0.5 | -0.4 |
| Italy | 1.3 | 0.8 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.2 | 1.0 | 1.0 |
| Japan | 1.6 | 2.0 | 1.8 | 1.5 | 1.5 | 1.5 | 2.0 | 2.0 | 2.0 | 2.0 | 2.4 | 1.4 | 2.0 |
| United Kingdom | 3.4 | 1.7 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 3.9 | 2.0 | 2.4 |
| United States | 3.7 | 2.9 | 2.5 | 2.9 | 3.3 | 2.1 | 2.4 | 2.4 | 2.4 | 2.4 | 3.2 | 2.8 | 2.4 |
| Euro area | 1.5 | 1.0 | 1.0 | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.3 | 0.9 | 1.0 |
| European Union | 1.7 | 1.1 | 1.1 | 1.2 | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.6 | 1.1 | 1.1 |
| Total OECD | 2.5 | 2.0 | 1.8 | 1.9 | 2.0 | 1.7 | 1.8 | 1.9 | 1.9 | 1.9 | 2.4 | 1.8 | 1.9 |
| **Business investment** | | | | | | | | | | | | | |
| Canada | 1.3 | 5.7 | 7.0 | 8.0 | 7.8 | 7.5 | 7.3 | 6.8 | 5.7 | 5.3 | 3.8 | 7.3 | 6.3 |
| France | -2.2 | 2.0 | 5.5 | 4.0 | 5.5 | 5.5 | 5.5 | 5.6 | 5.7 | 6.0 | -0.6 | 4.2 | 5.7 |
| Germany | -1.7 | 3.2 | 5.5 | 9.6 | 9.8 | 9.4 | 4.3 | 2.9 | 2.3 | 1.7 | -2.9 | 8.9 | 2.8 |
| Italy | -4.8 | 1.4 | 4.1 | 3.2 | 3.7 | 4.0 | 4.1 | 4.2 | 4.5 | 4.9 | -10.8 | 3.3 | 4.4 |
| Japan | 10.3 | 3.5 | 1.5 | 3.0 | 1.5 | 1.0 | 1.5 | 1.5 | 1.5 | 1.5 | 8.4 | 2.2 | 1.5 |
| United Kingdom | 1.5 | 2.7 | 4.5 | 2.4 | 2.8 | 3.2 | 4.1 | 5.7 | 6.6 | 7.4 | 2.7 | 2.7 | 5.9 |
| United States | 2.3 | 9.7 | 7.9 | 9.8 | 9.8 | 12.2 | 5.6 | 5.6 | 7.2 | 7.2 | 5.5 | 10.4 | 6.4 |
| Euro area | -2.1 | 2.7 | 5.1 | 5.0 | 5.6 | 5.7 | 5.2 | 4.7 | 4.6 | 4.5 | -2.2 | 5.0 | 4.7 |
| European Union | -1.4 | 2.7 | 5.0 | 5.0 | 5.5 | 5.5 | 4.9 | 4.7 | 4.8 | 4.8 | -1.7 | 5.0 | 4.8 |
| Total OECD | 2.1 | 5.7 | 5.7 | 6.6 | 6.6 | 7.4 | 4.9 | 4.8 | 5.4 | 5.4 | 2.8 | 6.7 | 5.1 |
| **Total investment** | | | | | | | | | | | | | |
| Canada | 3.3 | 4.9 | 4.6 | 5.9 | 5.4 | 4.7 | 4.5 | 4.2 | 4.0 | 4.2 | 4.3 | 5.3 | 4.2 |
| France | -1.1 | 1.6 | 3.7 | 2.6 | 3.6 | 3.7 | 3.7 | 3.8 | 3.9 | 4.1 | 0.2 | 2.8 | 3.9 |
| Germany | -2.1 | 1.4 | 3.2 | 2.7 | 3.0 | 3.2 | 3.3 | 3.4 | 3.5 | 3.6 | -1.4 | 2.7 | 3.4 |
| Italy | -2.1 | 2.3 | 3.8 | 3.5 | 3.7 | 3.7 | 3.8 | 3.8 | 4.0 | 4.3 | -5.8 | 3.5 | 4.0 |
| Japan | 4.4 | 0.2 | 0.0 | -1.4 | -1.4 | -0.2 | 0.5 | 0.6 | 0.6 | 0.6 | 4.9 | -1.6 | 0.6 |
| United Kingdom | 2.9 | 4.9 | 6.4 | 5.2 | 5.4 | 5.6 | 6.0 | 7.2 | 7.5 | 8.1 | 2.7 | 5.2 | 7.2 |
| United States | 3.7 | 7.2 | 5.3 | 6.5 | 6.4 | 7.7 | 4.0 | 3.9 | 4.8 | 4.8 | 6.2 | 6.8 | 4.4 |
| Euro area | -1.0 | 2.3 | 3.9 | 3.1 | 3.5 | 3.5 | 4.2 | 4.2 | 4.2 | 4.2 | -0.5 | 3.1 | 4.2 |
| European Union | -0.5 | 2.7 | 4.3 | 3.5 | 3.9 | 3.9 | 4.4 | 4.6 | 4.7 | 4.8 | -0.3 | 3.6 | 4.6 |
| Total OECD | 2.2 | 4.3 | 4.4 | 3.9 | 4.2 | 5.2 | 4.1 | 4.3 | 4.7 | 4.9 | 3.2 | 4.2 | 4.5 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* Year-on -year growth rates in per cent.

*Source:* OECD.

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Annex Table 53. ***(cont'd)*** **Quarterly demand and output projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

| | 2003 | 2004 | 2005 | 2004 | 2005 | | | | | Fourth quarter[a] | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2003 | 2004 | 2005 |
| **Total domestic demand** | | | | | | | | | | | | | |
| Canada | 4.1 | 3.1 | 3.3 | 3.7 | 3.6 | 3.4 | 3.3 | 3.2 | 3.1 | 3.2 | 3.2 | 3.5 | 3.2 |
| France | 1.1 | 1.7 | 2.4 | 1.9 | 2.2 | 2.3 | 2.4 | 2.4 | 2.5 | 2.6 | 1.5 | 2.1 | 2.5 |
| Germany | 0.8 | 1.2 | 2.0 | 1.5 | 1.7 | 1.8 | 2.1 | 2.2 | 2.3 | 2.2 | 0.9 | 1.6 | 2.2 |
| Italy | 1.7 | 1.8 | 2.2 | 2.1 | 2.3 | 2.3 | 2.2 | 2.2 | 2.1 | 2.2 | 1.4 | 2.1 | 2.2 |
| Japan | 2.3 | 1.1 | 1.1 | 0.9 | 0.8 | 1.0 | 1.1 | 1.2 | 1.2 | 1.2 | 2.1 | 0.8 | 1.2 |
| United Kingdom | 2.4 | 3.0 | 3.1 | 3.1 | 2.9 | 2.9 | 3.1 | 3.3 | 3.3 | 3.5 | 2.0 | 3.0 | 3.3 |
| United States | 3.1 | 4.3 | 3.8 | 4.0 | 4.1 | 4.1 | 3.6 | 3.6 | 3.7 | 3.7 | 3.7 | 4.1 | 3.6 |
| Euro area | 1.2 | 1.8 | 2.4 | 2.0 | 2.2 | 2.2 | 2.5 | 2.6 | 2.6 | 2.6 | 1.3 | 2.1 | 2.6 |
| European Union | 1.4 | 2.0 | 2.5 | 2.2 | 2.3 | 2.3 | 2.6 | 2.7 | 2.7 | 2.8 | 1.4 | 2.2 | 2.7 |
| Total OECD | 2.4 | 2.9 | 3.0 | 2.9 | 3.1 | 3.2 | 2.9 | 2.9 | 3.1 | 3.2 | 2.5 | 3.0 | 3.0 |
| **Export of goods and services** | | | | | | | | | | | | | |
| Canada | -1.8 | 5.0 | 6.6 | 7.0 | 7.1 | 6.8 | 6.7 | 6.3 | 6.0 | 5.9 | -0.2 | 6.7 | 6.2 |
| France | -2.2 | 4.6 | 7.1 | 6.6 | 6.7 | 6.9 | 7.1 | 7.3 | 7.5 | 7.8 | -1.9 | 6.6 | 7.4 |
| Germany | 0.3 | 4.6 | 7.2 | 6.2 | 6.6 | 7.0 | 7.2 | 7.5 | 7.8 | 7.8 | -0.6 | 6.4 | 7.6 |
| Italy | -2.6 | 4.9 | 5.6 | 5.5 | 5.7 | 5.6 | 5.6 | 5.6 | 5.5 | 5.5 | -3.2 | 5.4 | 5.5 |
| Japan | 7.5 | 9.5 | 9.8 | 10.5 | 10.0 | 9.8 | 9.8 | 9.7 | 9.7 | 9.7 | 5.3 | 10.3 | 9.7 |
| United Kingdom | -0.9 | 6.5 | 8.0 | 8.2 | 8.5 | 8.2 | 7.8 | 7.8 | 7.8 | 7.9 | 3.5 | 8.2 | 7.8 |
| United States | 1.4 | 8.5 | 8.7 | 9.3 | 9.5 | 9.2 | 8.8 | 8.0 | 8.0 | 8.0 | 3.8 | 9.3 | 8.2 |
| Total OECD[b] | 2.1 | 7.3 | 8.3 | 8.5 | 8.5 | 8.4 | 8.3 | 8.1 | 8.1 | 8.1 | 2.8 | 8.4 | 8.1 |
| **Import of goods and services** | | | | | | | | | | | | | |
| Canada | 3.8 | 6.2 | 7.3 | 8.2 | 8.2 | 7.7 | 7.6 | 6.8 | 6.1 | 5.9 | 3.6 | 7.8 | 6.6 |
| France | 1.2 | 5.0 | 7.2 | 6.2 | 7.0 | 7.0 | 7.3 | 7.4 | 7.5 | 7.9 | 2.1 | 6.3 | 7.5 |
| Germany | 2.9 | 4.4 | 7.1 | 6.4 | 6.7 | 7.0 | 7.0 | 7.2 | 7.5 | 7.5 | 1.4 | 6.5 | 7.3 |
| Italy | 1.6 | 5.5 | 5.8 | 5.9 | 5.9 | 5.9 | 5.9 | 5.7 | 5.6 | 5.7 | 0.0 | 5.7 | 5.7 |
| Japan | 4.5 | 5.2 | 5.1 | 5.0 | 4.9 | 5.0 | 5.2 | 5.2 | 5.2 | 5.2 | 3.4 | 4.8 | 5.2 |
| United Kingdom | 1.1 | 7.0 | 8.0 | 8.4 | 8.0 | 7.7 | 7.9 | 8.1 | 8.1 | 8.3 | 3.0 | 8.1 | 8.1 |
| United States | 3.6 | 7.3 | 7.1 | 7.8 | 7.5 | 7.5 | 6.8 | 6.8 | 6.8 | 6.8 | 2.9 | 7.7 | 6.8 |
| Total OECD[b] | 3.6 | 6.5 | 7.1 | 7.4 | 7.3 | 7.3 | 7.1 | 7.0 | 7.0 | 7.1 | 3.0 | 7.3 | 7.0 |
| **GDP** | | | | | | | | | | | | | |
| Canada | 1.8 | 2.8 | 3.2 | 3.4 | 3.4 | 3.2 | 3.2 | 3.2 | 3.2 | 3.3 | 1.7 | 3.3 | 3.2 |
| France | 0.1 | 1.7 | 2.4 | 2.0 | 2.2 | 2.3 | 2.4 | 2.4 | 2.5 | 2.6 | 0.4 | 2.2 | 2.5 |
| Germany | 0.0 | 1.4 | 2.3 | 1.6 | 1.9 | 2.0 | 2.4 | 2.5 | 2.6 | 2.6 | 0.2 | 1.8 | 2.5 |
| Italy | 0.5 | 1.6 | 2.1 | 2.0 | 2.3 | 2.2 | 2.1 | 2.1 | 2.0 | 2.1 | 0.5 | 2.0 | 2.1 |
| Japan | 2.7 | 1.8 | 1.8 | 1.7 | 1.5 | 1.7 | 1.9 | 1.9 | 1.9 | 1.9 | 2.4 | 1.6 | 1.9 |
| United Kingdom | 1.9 | 2.7 | 2.9 | 2.8 | 2.8 | 2.8 | 2.9 | 3.0 | 3.0 | 3.1 | 2.0 | 2.8 | 3.0 |
| United States | 2.9 | 4.2 | 3.8 | 4.0 | 4.1 | 4.1 | 3.6 | 3.6 | 3.7 | 3.7 | 3.8 | 4.1 | 3.6 |
| Euro area | 0.5 | 1.8 | 2.5 | 2.1 | 2.3 | 2.3 | 2.5 | 2.6 | 2.7 | 2.7 | 0.6 | 2.2 | 2.6 |
| European Union | 0.7 | 1.9 | 2.5 | 2.2 | 2.4 | 2.4 | 2.6 | 2.7 | 2.7 | 2.7 | 0.9 | 2.3 | 2.7 |
| Total OECD | 2.0 | 3.0 | 3.1 | 3.0 | 3.2 | 3.3 | 3.0 | 3.1 | 3.2 | 3.3 | 2.4 | 3.1 | 3.1 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* Year-on -year growth rates in per cent.

*b)* Includes intra-regional trade.

*Source:* OECD.

Annex Table 54. **Quarterly price, cost and unemployment projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

| | 2003 | 2004 | 2005 | 2004 | 2005 | | | | | Fourth quarter[a] | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2003 | 2004 | 2005 |
| **Consumer price index** | | | | | | | | | | | | | |
| Canada | 2.8 | 1.4 | 2.1 | 1.6 | 1.8 | 2.0 | 2.2 | 2.2 | 2.2 | 2.2 | 1.9 | 1.7 | 2.2 |
| France | 2.0 | 1.4 | 0.9 | 1.8 | 1.8 | 0.6 | 0.6 | 0.7 | 0.8 | 0.9 | 1.9 | 1.2 | 0.8 |
| Germany | 0.9 | 0.8 | 0.7 | 0.5 | 0.6 | 0.6 | 0.6 | 0.7 | 0.9 | 1.2 | 0.7 | 0.8 | 0.9 |
| Italy | 2.8 | 2.0 | 1.9 | 3.1 | 1.2 | 2.2 | 0.9 | 3.2 | 1.5 | 2.6 | 2.6 | 1.8 | 2.0 |
| Japan | -0.2 | -0.2 | -0.2 | -0.4 | -0.3 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.1 | -0.3 | -0.2 |
| United Kingdom | 2.8 | 2.6 | 2.7 | 2.7 | 2.6 | 2.6 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| United States | 2.3 | 1.7 | 1.8 | 1.7 | 1.7 | 1.7 | 1.8 | 1.8 | 1.9 | 2.0 | 2.2 | 1.7 | 1.9 |
| Euro area | 2.0 | 1.5 | 1.4 | 1.7 | 1.4 | 1.3 | 1.1 | 1.6 | 1.4 | 1.7 | 1.8 | 1.4 | 1.5 |
| **GDP deflator** | | | | | | | | | | | | | |
| Canada | 3.5 | 1.6 | 1.8 | 1.7 | 1.8 | 1.8 | 1.8 | 1.9 | 1.9 | 2.0 | 2.5 | 1.7 | 1.9 |
| France | 1.5 | 1.3 | 1.0 | 1.6 | 1.5 | 0.8 | 0.8 | 0.8 | 0.9 | 0.9 | 1.4 | 1.2 | 0.8 |
| Germany | 1.0 | 1.2 | 0.9 | 1.3 | 0.8 | 0.8 | 0.8 | 0.9 | 1.1 | 1.2 | 1.1 | 1.2 | 1.0 |
| Italy | 2.7 | 2.0 | 2.2 | 1.5 | 1.6 | 1.8 | 2.2 | 2.6 | 2.8 | 2.9 | 3.0 | 1.6 | 2.6 |
| Japan | -2.5 | -1.3 | -0.8 | -1.5 | -1.0 | -0.9 | -0.7 | -0.6 | -0.5 | -0.4 | -1.6 | -1.3 | -0.6 |
| United Kingdom | 2.8 | 2.2 | 2.5 | 2.5 | 2.4 | 2.4 | 2.6 | 2.5 | 2.5 | 2.5 | 2.4 | 2.4 | 2.5 |
| United States | 1.6 | 1.2 | 1.2 | 1.0 | 1.0 | 1.0 | 1.5 | 1.2 | 1.2 | 1.2 | 1.6 | 1.1 | 1.2 |
| Euro area | 1.9 | 1.7 | 1.6 | 1.6 | 1.4 | 1.4 | 1.5 | 1.6 | 1.7 | 1.8 | 1.9 | 1.5 | 1.7 |
| European Union | 2.1 | 1.8 | 1.7 | 1.7 | 1.6 | 1.6 | 1.7 | 1.8 | 1.9 | 2.0 | 2.0 | 1.7 | 1.8 |
| Total OECD | 1.8 | 1.4 | 1.4 | 1.5 | 1.4 | 1.3 | 1.4 | 1.4 | 1.4 | 1.5 | 1.5 | 1.4 | 1.4 |
| **Unit labour cost (total economy)** | | | | | | | | | | | | | |
| Canada | 2.0 | 1.3 | 1.7 | 1.8 | 2.0 | 2.0 | 1.7 | 1.5 | 1.3 | 1.3 | 1.0 | 1.7 | 1.5 |
| France | 2.7 | 1.2 | 0.6 | 0.8 | 0.4 | 0.4 | 0.8 | 0.8 | 0.7 | 0.5 | 2.5 | 0.6 | 0.7 |
| Germany | 0.6 | -0.2 | 0.0 | -1.5 | -1.3 | -0.6 | 0.0 | 0.7 | 1.3 | 1.4 | 1.2 | -1.1 | 0.8 |
| Italy | 3.2 | 2.1 | 2.3 | -0.3 | 2.8 | 1.7 | 1.9 | 2.7 | 4.0 | 3.4 | 3.8 | 1.6 | 3.0 |
| Japan | -2.3 | -1.1 | -1.3 | -1.1 | -1.1 | -1.3 | -1.3 | -1.4 | -1.5 | -1.6 | -0.7 | -1.1 | -1.5 |
| United Kingdom | 2.2 | 1.5 | 2.1 | 1.5 | 1.9 | 2.0 | 2.2 | 2.1 | 2.4 | 2.4 | 2.2 | 1.7 | 2.3 |
| United States | -0.4 | 0.2 | 1.6 | 1.3 | 1.4 | 1.4 | 2.3 | 1.5 | 1.4 | 1.4 | -1.0 | 1.4 | 1.7 |
| Euro area | 2.1 | 1.0 | 1.0 | 0.3 | 0.8 | 0.8 | 0.9 | 1.1 | 1.4 | 1.3 | 2.2 | 0.7 | 1.2 |
| European Union | 2.2 | 1.2 | 1.3 | 0.4 | 1.0 | 1.0 | 1.2 | 1.5 | 1.8 | 1.7 | 2.4 | 0.8 | 1.6 |
| Total OECD | 1.1 | 0.8 | 1.2 | 0.9 | 1.2 | 1.2 | 1.4 | 1.3 | 1.3 | 1.1 | 1.1 | 1.1 | 1.3 |
| | Per cent of labour force | | | | | | | | | | | | |
| **Unemployment** | | | | | | | | | | | | | |
| Canada | 7.8 | 7.8 | 7.4 | 7.9 | 7.7 | 7.5 | 7.4 | 7.4 | 7.4 | 7.3 | 8.0 | 7.5 | 7.3 |
| France | 9.6 | 9.8 | 9.7 | 9.8 | 9.8 | 9.8 | 9.8 | 9.8 | 9.7 | 9.7 | 9.7 | 9.8 | 9.7 |
| Germany | 8.9 | 9.1 | 8.8 | 9.1 | 9.1 | 9.1 | 9.1 | 8.9 | 8.7 | 8.5 | 9.0 | 9.1 | 8.5 |
| Italy | 8.9 | 8.9 | 8.8 | 8.9 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 9.0 | 8.8 | 8.8 |
| Japan | 5.3 | 5.2 | 5.0 | 5.3 | 5.2 | 5.2 | 5.1 | 5.0 | 5.0 | 4.9 | 5.3 | 5.2 | 4.9 |
| United Kingdom | 5.0 | 4.9 | 4.8 | 4.9 | 4.9 | 4.8 | 4.8 | 4.8 | 4.8 | 4.7 | 5.0 | 4.8 | 4.7 |
| United States | 6.1 | 5.9 | 5.2 | 5.9 | 5.8 | 5.6 | 5.5 | 5.3 | 5.2 | 5.0 | 6.2 | 5.6 | 5.0 |
| Euro area | 8.8 | 9.0 | 8.7 | 9.0 | 8.9 | 8.9 | 8.9 | 8.8 | 8.7 | 8.6 | 9.0 | 8.9 | 8.6 |
| European Union | 8.0 | 8.1 | 7.9 | 8.1 | 8.1 | 8.1 | 8.0 | 8.0 | 7.9 | 7.8 | 8.2 | 8.1 | 7.8 |
| Total OECD | 7.1 | 7.0 | 6.7 | 7.1 | 7.0 | 7.0 | 6.9 | 6.8 | 6.6 | 6.4 | 7.2 | 7.0 | 6.4 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*a)* Year-on -year growth rates in per cent.

*Source:* OECD.

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Annex Table 55. **Contributions to changes in real GDP in OECD countries**

As a per cent of real GDP in the previous period, seasonally adjusted at annual rates

| | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| **Australia** | | | | |
| Final domestic demand | 6.1 | 4.6 | 3.8 | 3.6 |
| Stockbuilding | -0.3 | 0.8 | 0.0 | 0.4 |
| Net exports | -2.5 | -2.7 | -0.2 | -0.1 |
| GDP | 3.3 | 2.4 | 3.7 | 4.0 |
| **Austria** | | | | |
| Final domestic demand | -0.2 | 1.2 | 1.8 | 2.5 |
| Stockbuilding | -0.1 | -0.6 | 0.2 | 0.0 |
| Net exports | 1.4 | -0.5 | 0.0 | -0.1 |
| GDP | 1.4 | 0.8 | 1.6 | 2.4 |
| **Belgium** | | | | |
| Final domestic demand | 0.2 | 1.5 | 2.0 | 2.5 |
| Stockbuilding | 0.8 | 0.2 | 0.0 | 0.0 |
| Net exports | -0.3 | -1.0 | -0.1 | 0.3 |
| GDP | 0.7 | 0.7 | 1.9 | 2.8 |
| **Canada** | | | | |
| Final domestic demand | 2.7 | 3.2 | 3.3 | 3.3 |
| Stockbuilding | 0.8 | 0.7 | -0.4 | 0.0 |
| Net exports | -0.3 | -2.1 | -0.3 | -0.1 |
| GDP | 3.3 | 1.8 | 2.8 | 3.2 |
| **Czech Republic** | | | | |
| Final domestic demand | 3.4 | 2.8 | 3.0 | 3.1 |
| Stockbuilding | 0.3 | 1.0 | 0.4 | 0.5 |
| Net exports | -1.7 | -1.4 | -0.4 | -0.5 |
| GDP | 2.0 | 2.5 | 2.9 | 3.2 |
| **Denmark** | | | | |
| Final domestic demand | 1.5 | -0.3 | 1.7 | 2.4 |
| Stockbuilding | -0.3 | 0.3 | 0.0 | 0.0 |
| Net exports | 0.9 | 0.6 | 0.7 | 0.4 |
| GDP | 2.1 | 0.5 | 2.4 | 2.8 |
| **Finland** | | | | |
| Final domestic demand | 0.8 | 1.2 | 2.5 | 2.4 |
| Stockbuilding | 0.5 | 0.7 | -0.6 | 0.0 |
| Net exports | 1.6 | 0.5 | 1.1 | 1.4 |
| GDP | 2.2 | 1.0 | 3.4 | 3.8 |
| **France** | | | | |
| Final domestic demand | 1.4 | 1.1 | 1.6 | 2.3 |
| Stockbuilding | -0.3 | 0.0 | 0.2 | 0.0 |
| Net exports | 0.2 | -1.0 | -0.1 | 0.0 |
| GDP | 1.3 | 0.1 | 1.7 | 2.4 |
| **Germany** | | | | |
| Final domestic demand | -1.6 | 0.1 | 1.0 | 1.8 |
| Stockbuilding | 0.1 | 0.6 | 0.2 | 0.1 |
| Net exports | 1.7 | -0.8 | 0.2 | 0.4 |
| GDP | 0.2 | 0.0 | 1.4 | 2.3 |
| **Greece** | | | | |
| Final domestic demand | 4.1 | 4.5 | 4.3 | 3.5 |
| Stockbuilding | 0.1 | 0.0 | 0.0 | 0.0 |
| Net exports | -0.4 | -0.5 | -0.3 | 0.1 |
| GDP | 3.8 | 4.0 | 4.1 | 3.6 |
| **Hungary** | | | | |
| Final domestic demand | 7.2 | 5.7 | 2.7 | 4.1 |
| Stockbuilding | -1.9 | 0.2 | 0.1 | 0.1 |
| Net exports | -1.9 | -3.0 | 0.6 | -0.4 |
| GDP | 3.3 | 2.9 | 3.3 | 3.8 |
| **Iceland** | | | | |
| Final domestic demand | -2.8 | 4.4 | 4.5 | 7.0 |
| Stockbuilding | 0.4 | 0.3 | -0.1 | 0.1 |
| Net exports | 2.3 | -2.5 | -1.0 | -1.6 |
| GDP | -0.2 | 1.9 | 3.7 | 5.6 |
| **Ireland** | | | | |
| Final domestic demand | 2.9 | -0.2 | 2.4 | 3.2 |
| Stockbuilding | -0.5 | 1.3 | -0.7 | 0.3 |
| Net exports | 4.6 | 1.0 | 1.9 | 1.4 |
| GDP | 6.9 | 1.8 | 3.6 | 4.8 |
| **Italy** | | | | |
| Final domestic demand | 0.7 | 0.9 | 1.6 | 2.2 |
| Stockbuilding | 0.4 | 0.8 | 0.2 | 0.0 |
| Net exports | -0.7 | -1.2 | -0.2 | -0.1 |
| GDP | 0.4 | 0.5 | 1.6 | 2.1 |
| **Japan** | | | | |
| Final domestic demand | -0.2 | 2.0 | 1.0 | 0.9 |
| Stockbuilding | -0.4 | 0.2 | 0.1 | 0.1 |
| Net exports | 0.7 | 0.5 | 0.7 | 0.8 |
| GDP | 0.2 | 2.7 | 1.8 | 1.8 |
| **Korea** | | | | |
| Final domestic demand | 5.0 | 0.5 | 2.3 | 3.7 |
| Stockbuilding | -0.2 | -0.1 | 0.0 | 0.0 |
| Net exports | 2.0 | 2.6 | 2.4 | 1.8 |
| GDP | 6.3 | 2.7 | 4.7 | 5.5 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Totals may not add up due to rounding and/or statistical discrepancy.

*Source:* OECD.

Annex Table 55. ***(cont'd)*** **Contributions to changes in real GDP in OECD countries**

As a per cent of real GDP in the previous period

| | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| **Luxembourg** | | | | |
| Final domestic demand | 1.4 | 1.5 | 1.7 | 2.2 |
| Stockbuilding | -2.0 | 0.0 | 0.0 | 0.0 |
| Net exports | 1.6 | -0.3 | 0.3 | 0.7 |
| GDP | 1.3 | 1.2 | 2.0 | 2.9 |
| **Mexico** | | | | |
| Final domestic demand | 0.5 | 2.0 | 3.7 | 4.6 |
| Stockbuilding | 0.5 | -1.0 | 0.3 | 0.0 |
| Net exports | -0.1 | 0.5 | -0.4 | -0.5 |
| GDP | 0.9 | 1.5 | 3.6 | 4.2 |
| **Netherlands** | | | | |
| Final domestic demand | 0.3 | -0.7 | 0.3 | 1.8 |
| Stockbuilding | -0.3 | 0.1 | 0.1 | 0.2 |
| Net exports | 0.2 | 0.0 | 0.7 | 0.0 |
| GDP | 0.2 | -0.5 | 1.0 | 2.0 |
| **New Zealand** | | | | |
| Final domestic demand | 4.6 | 5.6 | 4.0 | 2.9 |
| Stockbuilding | 0.1 | -0.3 | 0.3 | 0.1 |
| Net exports | -0.8 | -2.5 | -1.3 | -0.2 |
| GDP | 4.2 | 2.7 | 3.1 | 2.9 |
| **Norway** | | | | |
| Final domestic demand | 1.5 | 1.9 | 2.8 | 1.7 |
| Stockbuilding | 0.2 | -0.3 | 0.1 | 0.0 |
| Net exports | -0.8 | -1.1 | -0.2 | 0.3 |
| GDP | 1.0 | 0.6 | 2.8 | 2.0 |
| **Poland** | | | | |
| Final domestic demand | 0.9 | 2.1 | 3.2 | 4.0 |
| Stockbuilding | 0.0 | 0.7 | 0.1 | 0.0 |
| Net exports | 0.6 | 0.7 | 0.3 | 0.5 |
| GDP | 1.4 | 3.3 | 3.5 | 4.5 |
| **Portugal** | | | | |
| Final domestic demand | -0.6 | -3.2 | 1.0 | 2.8 |
| Stockbuilding | 0.0 | -0.1 | 0.0 | 0.0 |
| Net exports | 0.9 | 2.5 | 0.5 | -0.2 |
| GDP | 0.4 | -0.8 | 1.5 | 2.6 |
| **Slovak Republic** | | | | |
| Final domestic demand | 3.3 | 0.3 | 3.0 | 4.7 |
| Stockbuilding | 0.8 | 0.0 | 0.0 | 0.0 |
| Net exports | 0.3 | 3.5 | 1.2 | -0.4 |
| GDP | 4.4 | 3.9 | 4.2 | 4.4 |
| **Spain** | | | | |
| Final domestic demand | 2.6 | 3.4 | 3.7 | 3.9 |
| Stockbuilding | 0.0 | 0.0 | 0.1 | 0.0 |
| Net exports | -0.6 | -1.1 | -1.0 | -0.7 |
| GDP | 2.0 | 2.3 | 2.9 | 3.1 |
| **Sweden** | | | | |
| Final domestic demand | 0.7 | 1.0 | 1.8 | 2.4 |
| Stockbuilding | -0.1 | 0.1 | 0.0 | 0.0 |
| Net exports | 1.3 | 0.5 | 0.6 | 0.7 |
| GDP | 1.9 | 1.5 | 2.3 | 2.7 |
| **Switzerland** | | | | |
| Final domestic demand | -0.3 | -0.1 | 0.9 | 1.9 |
| Stockbuilding | -0.9 | -1.2 | 0.4 | 0.0 |
| Net exports | 1.4 | 0.8 | -0.2 | -0.1 |
| GDP | 0.2 | -0.5 | 1.2 | 1.8 |
| **Turkey** | | | | |
| Final domestic demand | 1.7 | 4.7 | 5.6 | 6.7 |
| Stockbuilding | 7.0 | 1.4 | -0.2 | -1.0 |
| Net exports | -0.9 | -1.3 | -0.6 | -0.3 |
| GDP | 7.8 | 5.0 | 4.9 | 5.4 |
| **United Kingdom** | | | | |
| Final domestic demand | 3.1 | 2.8 | 2.8 | 3.1 |
| Stockbuilding | -0.2 | -0.3 | 0.3 | 0.2 |
| Net exports | -1.4 | -0.6 | -0.4 | -0.4 |
| GDP | 1.7 | 1.9 | 2.7 | 2.9 |
| **United States** | | | | |
| Final domestic demand | 2.5 | 3.4 | 4.2 | 3.8 |
| Stockbuilding | 0.7 | -0.2 | 0.3 | 0.2 |
| Net exports | -0.8 | -0.4 | -0.3 | -0.2 |
| GDP | 2.4 | 2.9 | 4.2 | 3.8 |
| **Euro area** | | | | |
| Final domestic demand | 0.4 | 0.9 | 1.6 | 2.3 |
| Stockbuilding | 0.0 | 0.3 | 0.1 | 0.0 |
| Net exports | 0.5 | -0.7 | 0.0 | 0.1 |
| GDP | 0.9 | 0.5 | 1.8 | 2.5 |
| **European Union** | | | | |
| Final domestic demand | 0.8 | 1.2 | 1.8 | 2.5 |
| Stockbuilding | 0.0 | 0.3 | 0.1 | 0.1 |
| Net exports | 0.2 | -0.7 | 0.0 | 0.0 |
| GDP | 1.1 | 0.7 | 1.9 | 2.5 |
| **Total OECD** | | | | |
| Final domestic demand | 1.6 | 2.3 | 2.8 | 2.9 |
| Stockbuilding | 0.3 | 0.1 | 0.2 | 0.1 |
| Net exports | -0.1 | -0.4 | 0.0 | 0.1 |
| GDP | 1.8 | 2.0 | 3.0 | 3.1 |

*Note:* The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Totals may not add up due to rounding and/or statistical discrepancy.

*Source:* OECD.

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Annex Table 56. **Household wealth and indebtedness**[a]

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Canada** | | | | | | | | | | | | |
| Net wealth | 427.5 | 440.6 | 457.2 | 476.2 | 483.7 | 498.3 | 508.5 | 505.4 | 514.0 | 506.7 | 507.4 | 511.6 |
| Net financial wealth | 187.6 | 194.9 | 204.2 | 214.2 | 225.7 | 236.0 | 245.0 | 240.5 | 247.4 | 244.1 | 238.1 | 232.8 |
| Non-financial assets | 239.8 | 245.6 | 252.9 | 262.0 | 258.0 | 262.2 | 263.5 | 265.0 | 266.6 | 262.6 | 269.3 | 278.9 |
| Financial assets | 281.4 | 291.6 | 303.8 | 317.3 | 329.1 | 342.9 | 354.5 | 352.4 | 361.4 | 357.1 | 353.2 | 348.5 |
| *of which:* Equities | 51.4 | 52.2 | 58.4 | 63.6 | 66.3 | 74.8 | 84.9 | 92.0 | 92.4 | 94.4 | 98.6 | 95.0 |
| Liabilities | 93.8 | 96.7 | 99.5 | 103.1 | 103.4 | 106.8 | 109.6 | 112.0 | 113.9 | 113.0 | 115.2 | 115.7 |
| *of which:* Mortgages | 61.6 | 64.6 | 66.5 | 68.5 | 68.8 | 70.8 | 71.6 | 71.8 | 71.7 | 69.8 | 69.9 | 70.6 |
| **France** | | | | | | | | | | | | |
| Net wealth | 527.2 | 510.4 | 515.9 | 494.8 | 507.6 | 533.6 | 557.6 | 577.8 | 656.0 | 629.3 | 613.6 | 586.3 |
| Net financial wealth | 170.3 | 173.1 | 188.9 | 166.5 | 195.0 | 220.2 | 241.6 | 262.2 | 310.5 | 282.6 | 255.1 | 226.4 |
| Non-financial assets | 356.9 | 337.3 | 327.0 | 328.3 | 312.6 | 313.4 | 315.9 | 315.6 | 345.6 | 346.7 | 358.6 | 360.0 |
| Financial assets | 251.3 | 253.4 | 271.4 | 251.1 | 262.9 | 288.9 | 310.8 | 336.0 | 385.8 | 359.2 | 336.7 | 308.4 |
| *of which:* Equities | 118.6 | 115.6 | 126.2 | 95.0 | 89.6 | 104.5 | 117.1 | 137.6 | 177.6 | 155.7 | 129.8 | 100.7 |
| Liabilities | 80.9 | 80.3 | 82.6 | 84.6 | 67.9 | 68.7 | 69.2 | 73.8 | 75.3 | 76.6 | 81.7 | 82.1 |
| *of which:* Long-term loans | 53.4 | 53.0 | 54.7 | 53.7 | 51.6 | 52.2 | 52.6 | 52.9 | 55.0 | 55.2 | 55.6 | 57.1 |
| **Germany** | | | | | | | | | | | | |
| Net wealth | 532.3 | 530.8 | 547.5 | 553.3 | 563.1 | 570.8 | 579.3 | 585.4 | 591.0 | 583.9 | 568.5 | 495.3 |
| Net financial wealth | 123.2 | 124.1 | 133.7 | 130.3 | 135.6 | 140.5 | 149.2 | 155.2 | 165.8 | 162.9 | 159.0 | 155.0 |
| Non-financial assets | 344.8 | 341.4 | 347.4 | 356.2 | 360.6 | 362.3 | 360.8 | 360.3 | 355.5 | 351.0 | 340.4 | 340.3 |
| Financial assets | 208.1 | 209.9 | 224.7 | 227.3 | 236.2 | 245.2 | 256.8 | 266.2 | 280.0 | 277.3 | 270.9 | 267.2 |
| *of which:* Equities | 30.4 | 30.8 | 37.8 | 40.7 | 42.3 | 46.8 | 55.1 | 53.0 | . | 74.8 | 67.8 | 53.8 |
| Liabilities | 84.9 | 85.7 | 91.0 | 97.0 | 100.6 | 104.8 | 107.6 | 111.0 | 114.2 | 114.4 | 112.0 | 112.1 |
| *of which:* Mortgages | 50.7 | 50.3 | 53.8 | 58.0 | 61.0 | 64.5 | 67.1 | 68.5 | 71.9 | 72.5 | 72.1 | 73.0 |
| **Italy** | | | | | | | | | | | | |
| Net wealth | 653.9 | 723.8 | 762.4 | 708.2 | 699.3 | 699.6 | 693.3 | 713.2 | 736.7 | 748.3 | 714.2 | .. |
| Net financial wealth | 202.4 | 207.0 | 229.2 | 224.1 | 224.0 | 231.3 | 239.7 | 266.4 | 293.9 | 294.6 | 251.7 | .. |
| Non-financial assets | 451.5 | 516.7 | 533.2 | 484.2 | 475.3 | 468.3 | 453.6 | 446.9 | 442.8 | 453.7 | 462.5 | .. |
| Financial assets | 232.2 | 237.7 | 261.0 | 256.0 | 254.6 | 263.3 | 268.0 | 296.7 | 327.7 | 329.8 | 287.0 | .. |
| *of which:* Equities | 47.9 | 47.9 | 54.4 | 49.3 | 46.5 | 50.9 | 72.2 | 108.3 | 153.0 | 147.4 | 102.5 | .. |
| Liabilities | 29.8 | 30.6 | 31.8 | 31.9 | 30.6 | 32.0 | 28.2 | 30.3 | 33.8 | 35.3 | 35.3 | .. |
| *of which:* Medium and long-term loans | 14.3 | 14.4 | 14.9 | 15.2 | 18.6 | 19.1 | 19.3 | 21.2 | 24.3 | 25.7 | 26.0 | .. |
| **Japan** | | | | | | | | | | | | |
| Net wealth | 867.3 | 794.4 | 774.8 | 772.5 | 757.1 | 767.5 | 759.9 | 739.8 | 765.8 | 762.3 | 753.1 | .. |
| Net financial wealth | 265.0 | 255.8 | 263.8 | 281.8 | 289.1 | 303.0 | 307.6 | 303.5 | 338.4 | 344.0 | 344.7 | 348.1 |
| Non-financial assets | 602.3 | 538.6 | 510.9 | 490.7 | 468.0 | 464.6 | 452.3 | 436.3 | 427.4 | 419.3 | 408.4 | .. |
| Financial assets | 395.9 | 384.1 | 396.2 | 414.2 | 426.2 | 436.9 | 442.0 | 437.1 | 471.9 | 477.7 | 483.5 | 487.9 |
| *of which:* Equities | 52.8 | 37.1 | 38.3 | 47.0 | 45.9 | 41.1 | 36.8 | 26.5 | 48.7 | 42.8 | 34.4 | 29.4 |
| Liabilities | 130.9 | 128.3 | 132.4 | 132.4 | 137.1 | 133.9 | 134.4 | 133.6 | 133.5 | 133.7 | 138.8 | 139.8 |
| *of which:* Mortgages | 50.8 | 51.8 | 53.9 | 56.2 | 58.5 | 60.2 | 54.4 | 54.9 | 57.5 | 59.3 | 61.9 | .. |
| **United Kingdom** | | | | | | | | | | | | |
| Net wealth | 580.6 | 547.3 | 582.7 | 544.0 | 555.9 | 572.5 | 619.8 | 670.6 | 751.5 | 748.8 | 682.3 | 676.4 |
| Net financial wealth | 220.0 | 234.5 | 278.7 | 257.3 | 281.3 | 286.9 | 342.2 | 355.4 | 408.8 | 377.5 | 314.4 | 243.4 |
| Non-financial assets | 360.7 | 312.9 | 304.1 | 286.8 | 270.2 | 279.9 | 282.1 | 315.0 | 342.5 | 370.9 | 370.2 | 431.9 |
| Financial assets | 333.4 | 343.9 | 385.1 | 364.7 | 387.8 | 392.0 | 447.2 | 464.4 | 520.6 | 493.1 | 433.1 | 374.1 |
| *of which:* Equities | 58.9 | 61.2 | 73.5 | 70.2 | 71.7 | 70.2 | 96.2 | 92.1 | 120.6 | 110.9 | 78.8 | 55.4 |
| Liabilities | 113.5 | 109.4 | 106.4 | 107.5 | 106.5 | 105.1 | 105.0 | 109.1 | 111.8 | 115.6 | 118.7 | 128.9 |
| *of which:* Mortgages | 80.6 | 79.1 | 78.2 | 79.5 | 78.1 | 77.6 | 76.4 | 79.1 | 81.0 | 83.5 | 85.7 | 94.0 |
| **United States** | | | | | | | | | | | | |
| Net wealth | 490.4 | 481.0 | 488.3 | 478.4 | 508.2 | 529.2 | 566.2 | 585.9 | 636.5 | 587.4 | 555.6 | 506.7 |
| Net financial wealth | 278.0 | 274.2 | 282.9 | 276.2 | 304.5 | 326.9 | 362.8 | 379.6 | 422.7 | 370.3 | 330.3 | 275.3 |
| Non-financial assets | 212.4 | 206.8 | 205.4 | 202.2 | 203.7 | 202.4 | 203.4 | 206.2 | 213.8 | 217.1 | 225.4 | 231.4 |
| Financial assets | 365.9 | 361.3 | 372.2 | 367.9 | 398.3 | 422.9 | 460.4 | 478.9 | 526.7 | 475.2 | 439.1 | 387.7 |
| *of which:* Equities | 69.7 | 75.2 | 85.1 | 79.0 | 97.7 | 112.2 | 137.4 | 149.0 | 183.6 | 147.6 | 122.5 | 91.5 |
| Liabilities | 87.9 | 87.1 | 89.3 | 91.7 | 93.7 | 96.0 | 97.7 | 99.3 | 104.0 | 104.9 | 108.9 | 112.4 |
| *of which:* Mortgages | 62.1 | 62.3 | 63.4 | 63.7 | 63.5 | 64.7 | 65.6 | 67.0 | 70.0 | 70.5 | 74.5 | 79.2 |

*a)* Assets and liabilities are amounts outstanding at the end of the period, in per cent of nominal disposable income. Vertical lines between columns indicate breaks in the series due to changes in the definitions or accounting systems. Figures after the most recent breaks in the series are based on the UN System of National Accounts 1993 (SNA 93) and, more specifically, for European Union countries, on the corresponding European System of Accounts 1995 (ESA 95).

Households include non-profit institutions serving households. Net wealth is defined as non-financial and financial assets minus liabilities; net financial wealth is financial assets minus liabilities. Non-financial assets include stock of durable goods and dwellings, at replacement cost and at market value, respectively. Financial assets comprise currency and deposits, securities other than shares, loans, shares and other equity, insurance technical reserves; and other accounts receivable/payable. Not included are assets with regard to social security pension insurance schemes. Equities comprise shares and other equity, including quoted, unquoted and mutual fund shares. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

*Sources:* Canada: Statistics Canada, *National Balance Sheet Accounts.* France: INSEE, *Rapport sur les Comptes de la Nation* and *25 ans de Comptes de Patrimoine* (1969-1993) Banque de France, *Flow of Funds Accounts.* Germany: Deutsche Bundesbank, *Monthly Report* and *Financial accounts for Germany 1991 to 1999,* Special Statistical Publication, 2000. Italy: Banca d'Italia, *Supplements to the Statistical Bulletin*; Ando, A., L.Guiso, I.Visco (eds.), *Saving and the Accumulation of Wealth,* Cambridge University Press, 1994; OECD, *Financial Accounts of OECD countries*. Japan: Economic Planning Agency, Government of Japan, *Annual Report on National Accounts.* United Kingdom: Office for National Statistics, *United Kingdom National Accounts,* and *Financial Statistics.* United States: Federal Reserve Statistical Release, *Flow of Funds Accounts* of the United States.

Annex Table 57. **Central government financial balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Canada | -5.5 | -4.6 | -3.9 | -2.0 | 0.7 | 0.8 | 0.8 | 1.7 | 1.0 | 1.0 | 0.1 | 0.1 | 0.2 |
| France | -4.9 | -4.9 | -4.2 | -3.7 | -2.8 | -3.0 | -2.5 | -2.4 | -2.3 | -3.8 | -3.8 | -3.7 | -3.4 |
| Germany | -1.9 | -1.2 | -1.4 | -2.2 | -1.6 | -1.8 | -1.6 | 1.4 | -1.4 | -1.6 | -1.8 | -1.6 | -1.5 |
| Italy | -9.8 | -9.1 | -7.7 | -6.9 | -2.7 | -2.5 | -1.5 | -1.1 | -2.8 | -2.5 | -2.7 | -3.0 | -3.9 |
| Japan[a] | -3.5 | -4.3 | -4.3 | -4.4 | -3.9 | -5.4 | -7.7 | -6.7 | -6.2 | -6.7 | -6.7 | -6.5 | -6.4 |
| United Kingdom | -8.1 | -6.7 | -5.5 | -4.6 | -2.2 | 0.3 | 1.2 | 4.1 | 0.9 | -1.3 | -2.8 | -2.8 | -3.1 |
| United States | -4.4 | -3.2 | -2.6 | -1.9 | -0.6 | 0.5 | 1.1 | 2.0 | 0.6 | -2.2 | -4.0 | -4.4 | -4.2 |
| excluding social security | -5.1 | -4.0 | -3.5 | -2.8 | -1.7 | -0.7 | -0.3 | 0.5 | -1.0 | -3.8 | -5.5 | -6.0 | -5.8 |
| Total of above countries | -4.7 | -4.0 | -3.5 | -3.0 | -1.7 | -1.3 | -1.2 | 0.0 | -1.3 | -2.9 | -3.9 | -4.0 | -3.9 |

*Note:* Central government financial balances include one-off revenues from the sale of mobile telephone licenses.

*a)* Data are only available for fiscal years beginning April 1 of the year shown. The 1998 deficit would rise by 5.2 percentage points of GDP if account were taken of the assumption by the central government of the debt of the Japan Railway Settlement Corporation and the National Forest Special Account.

*Source:* OECD.

Annex Table 58. **Maastricht definition of general government gross public debt**

As a percentage of nominal GDP

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Austria | 61.8 | 64.7 | 69.2 | 69.1 | 64.7 | 63.7 | 67.5 | 67.0 | 67.1 | 66.7 | 66.8 | 66.9 | 67.1 |
| Belgium | 138.1 | 135.8 | 133.9 | 130.5 | 124.8 | 119.5 | 114.8 | 109.5 | 108.7 | 106.1 | 102.4 | 98.8 | 95.3 |
| Denmark | 78.0 | 73.5 | 69.3 | 65.1 | 61.2 | 56.2 | 53.0 | 47.3 | 45.4 | 45.5 | 43.6 | 41.7 | 39.8 |
| Finland | 55.9 | 58.0 | 57.1 | 57.1 | 54.1 | 48.6 | 47.0 | 44.6 | 44.0 | 42.7 | 41.8 | 42.1 | 40.1 |
| France | 45.3 | 48.4 | 54.5 | 57.1 | 59.3 | 59.5 | 58.5 | 57.1 | 56.8 | 58.9 | 61.4 | 63.8 | 65.8 |
| Germany | 46.9 | 49.3 | 57.0 | 59.8 | 61.0 | 60.9 | 61.2 | 60.2 | 59.5 | 60.8 | 63.3 | 64.7 | 65.8 |
| Greece | 110.1 | 107.9 | 108.7 | 111.3 | 108.2 | 105.8 | 105.2 | 106.2 | 106.9 | 104.7 | 102.9 | 100.9 | 98.4 |
| Ireland | 96.5 | 90.9 | 82.9 | 74.1 | 65.0 | 54.9 | 48.6 | 38.4 | 36.1 | 32.4 | 32.5 | 32.0 | 30.8 |
| Italy | 118.2 | 123.8 | 123.1 | 122.2 | 120.2 | 116.3 | 115.0 | 110.5 | 109.5 | 106.7 | 106.4 | 106.0 | 105.9 |
| Luxembourg | 5.7 | 5.4 | 5.6 | 6.2 | 6.1 | 6.3 | 6.0 | 5.5 | 5.5 | 5.7 | 4.9 | 5.7 | 5.6 |
| Netherlands | 79.3 | 76.4 | 77.2 | 75.2 | 69.9 | 66.8 | 63.1 | 55.9 | 52.9 | 52.4 | 54.1 | 55.9 | 56.3 |
| Portugal | 59.1 | 62.1 | 64.3 | 62.9 | 59.1 | 55.0 | 54.3 | 53.3 | 55.5 | 58.0 | 59.8 | 60.2 | 59.8 |
| Spain | 58.4 | 61.1 | 63.9 | 68.1 | 66.6 | 64.6 | 63.1 | 60.5 | 56.8 | 53.8 | 51.5 | 49.1 | 46.8 |
| Sweden | .. | 73.8 | 73.6 | 73.5 | 70.5 | 68.0 | 62.7 | 52.8 | 54.4 | 52.7 | 52.1 | 51.6 | 50.9 |
| United Kingdom | 45.4 | 48.5 | 51.8 | 52.2 | 50.8 | 47.6 | 45.0 | 42.1 | 38.9 | 38.5 | 39.7 | 41.0 | 42.2 |

*Note:* Debt figures are based on ESA95 definitions. For the period 1993-2002, they are provided by Eurostat, the Statistical Office of the European Communities, while GDP figures are provided by National Authorities. The 2003 to 2004 debt ratios are projected forward in line with the OECD projections for general government gross financial liabilities and GDP.

*Source:* OECD.

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Annex Table 59. **Monetary and credit aggregates: recent trends**

*Annualised percentage change, seasonally adjusted*

| | | Annual change (to 4th quarter) | | | | | Latest twelve months | |
|---|---|---|---|---|---|---|---|---|
| | | 1998 | 1999 | 2000 | 2001 | 2002 | | |
| Canada | M2 | 0.6 | 3.8 | 7.2 | 5.7 | 6.0 | 6.2 | (Sep. 2003) |
| | BL[a] | 7.5 | 6.0 | 7.4 | 5.0 | 5.1 | 4.6 | (Sep. 2003) |
| Japan | M2+CD | 4.5 | 3.1 | 2.0 | 3.1 | 2.9 | 1.8 | (Sep. 2003) |
| | BL[a] | -1.0 | -0.6 | 2.5 | -1.4 | -3.1 | -2.4 | (Aug. 2003) |
| United Kingdom | M0 | 5.1 | 9.4 | 6.6 | 7.7 | 6.9 | 8.0 | (Nov. 2003) |
| | M4 | 8.8 | 3.6 | 8.7 | 7.5 | 5.7 | 9.7 | (Oct. 2003) |
| | BL[a] | 8.1 | 9.1 | 14.1 | 10.0 | 8.8 | 8.1 | (Sep. 2003) |
| United States | M2 | 8.5 | 6.3 | 6.1 | 10.2 | 6.8 | 6.1 | (Oct. 2003) |
| | M3 | 10.8 | 7.6 | 9.2 | 12.7 | 6.4 | 6.0 | (Oct. 2003) |
| | BL[a] | 9.8 | 4.5 | 12.1 | 2.5 | 5.1 | 6.3 | (Oct. 2003) |
| Euro area | M2 | 5.7 | 6.6 | 4.0 | 8.4 | 6.5 | 8.2 | (Oct. 2003) |
| | M3 | 4.9 | 5.2 | 4.6 | 10.5 | 7.6 | 8.0 | (Oct. 2003) |
| | BL[a] | 6.4 | 6.6 | 5.9 | 7.2 | 3.8 | 4.9 | (Sep. 2003) |

*a)* Commercial bank lending.
*Source:* OECD.

Annex Table 60. **Export market growth and performance in goods and services**

Percentage changes from previous year

| | Import volume | | | | Export market growth | | | | Export volume | | | | Export performance[a] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2002 | 2003 | 2004 | 2005 | 2002 | 2003 | 2004 | 2005 | 2002 | 2003 | 2004 | 2005 |
| Australia | 12.0 | 9.4 | 6.8 | 7.7 | 5.5 | 6.1 | 9.0 | 10.2 | -0.1 | -2.7 | 7.1 | 9.1 | -5.3 | -8.3 | -1.7 | -1.0 |
| Austria | 1.2 | 1.0 | 3.8 | 7.4 | 1.8 | 4.2 | 6.4 | 8.1 | 3.7 | 0.1 | 3.7 | 6.8 | 1.9 | -3.9 | -2.5 | -1.2 |
| Belgium | 1.1 | -0.2 | 4.9 | 6.7 | 1.5 | 2.7 | 5.8 | 7.6 | 0.8 | -1.3 | 4.7 | 6.9 | -0.7 | -3.9 | -1.0 | -0.6 |
| Canada | 0.6 | 3.8 | 6.2 | 7.3 | 3.7 | 3.8 | 7.4 | 7.5 | -0.1 | -1.8 | 5.0 | 6.6 | -3.6 | -5.4 | -2.2 | -0.8 |
| Czech Republic | 4.3 | 6.9 | 8.6 | 8.9 | 2.0 | 5.0 | 6.5 | 8.3 | 2.8 | 6.2 | 9.2 | 9.5 | 0.8 | 1.2 | 2.5 | 1.1 |
| Denmark | 4.2 | 0.8 | 5.5 | 7.2 | 1.2 | 3.3 | 6.1 | 7.5 | 5.8 | 1.9 | 6.1 | 7.0 | 4.5 | -1.4 | 0.1 | -0.5 |
| Finland | 1.3 | 0.9 | 8.1 | 9.0 | 3.3 | 5.1 | 7.5 | 8.8 | 4.9 | 1.8 | 8.6 | 9.9 | 1.6 | -3.1 | 1.0 | 0.9 |
| France | 0.8 | 1.2 | 5.0 | 7.2 | 2.0 | 3.2 | 6.4 | 7.8 | 1.3 | -2.2 | 4.6 | 7.1 | -0.7 | -5.3 | -1.7 | -0.7 |
| Germany | -1.6 | 2.9 | 4.4 | 7.1 | 2.8 | 3.5 | 6.8 | 8.2 | 3.4 | 0.3 | 4.6 | 7.2 | 0.6 | -3.1 | -2.1 | -0.9 |
| Greece | -4.7 | 2.4 | 5.7 | 5.3 | 3.1 | 4.1 | 7.0 | 7.9 | -7.7 | 1.1 | 6.6 | 7.5 | -10.5 | -2.9 | -0.4 | -0.4 |
| Hungary | 6.1 | 7.7 | 6.0 | 8.9 | 1.7 | 3.7 | 6.2 | 8.0 | 3.8 | 4.3 | 7.2 | 9.0 | 2.1 | 0.6 | 1.0 | 1.0 |
| Iceland | -2.3 | 6.5 | 7.1 | 8.5 | 1.9 | 2.8 | 5.9 | 7.2 | 3.7 | -0.0 | 4.8 | 5.0 | 1.7 | -2.7 | -1.0 | -2.1 |
| Ireland | 2.3 | -9.7 | 2.6 | 7.7 | 2.4 | 2.9 | 6.5 | 7.8 | 6.2 | -6.9 | 4.0 | 7.4 | 3.7 | -9.6 | -2.4 | -0.4 |
| Italy | 1.5 | 1.6 | 5.5 | 5.8 | 2.2 | 3.9 | 6.8 | 8.3 | -1.0 | -2.6 | 4.9 | 5.6 | -3.1 | -6.2 | -1.8 | -2.5 |
| Japan | 2.0 | 4.5 | 5.2 | 5.1 | 5.3 | 5.8 | 9.8 | 11.2 | 8.1 | 7.5 | 9.5 | 9.8 | 2.6 | 1.6 | -0.3 | -1.2 |
| Korea | 16.4 | 13.2 | 13.5 | 13.9 | 5.2 | 6.2 | 9.4 | 10.7 | 14.9 | 13.8 | 13.1 | 12.2 | 9.2 | 7.1 | 3.4 | 1.3 |
| Luxembourg | -1.6 | 1.6 | 4.1 | 6.0 | 1.0 | 2.0 | 5.5 | 7.3 | -0.3 | 1.2 | 3.9 | 5.9 | -1.3 | -0.7 | -1.5 | -1.3 |
| Mexico | 1.6 | -1.7 | 7.2 | 8.4 | 3.0 | 3.5 | 7.2 | 7.2 | 1.4 | -0.3 | 6.5 | 7.8 | -1.5 | -3.7 | -0.6 | 0.6 |
| Netherlands | -0.2 | -0.5 | 1.8 | 5.7 | 1.3 | 2.7 | 6.0 | 7.7 | 0.1 | -0.5 | 2.6 | 5.2 | -1.2 | -3.1 | -3.2 | -2.4 |
| New Zealand | 8.8 | 9.1 | 7.1 | 6.7 | 5.9 | 5.9 | 8.0 | 9.0 | 5.8 | 1.2 | 3.5 | 6.7 | -0.1 | -4.4 | -4.2 | -2.1 |
| Norway | 1.7 | 2.5 | 4.0 | 3.9 | 1.7 | 2.4 | 6.0 | 7.6 | -0.5 | -0.8 | 2.2 | 3.2 | -2.2 | -3.2 | -3.6 | -4.1 |
| Poland | 2.6 | 7.3 | 9.0 | 9.5 | 2.6 | 4.9 | 7.0 | 8.5 | 4.8 | 9.8 | 10.5 | 11.5 | 2.1 | 4.6 | 3.3 | 2.8 |
| Portugal | -0.4 | -3.0 | 3.1 | 6.1 | 1.3 | 3.2 | 6.0 | 7.5 | 2.1 | 3.3 | 5.1 | 6.6 | 0.9 | 0.1 | -0.9 | -0.9 |
| Slovak Republic | 5.3 | 14.7 | 8.0 | 9.5 | 2.7 | 4.9 | 7.0 | 8.4 | 5.9 | 19.8 | 9.3 | 9.0 | 3.1 | 14.2 | 2.2 | 0.6 |
| Spain | 1.8 | 7.1 | 7.6 | 8.3 | 1.0 | 1.9 | 5.7 | 7.4 | -0.0 | 4.1 | 5.2 | 7.2 | -1.0 | 2.2 | -0.5 | -0.2 |
| Sweden | -2.7 | 5.2 | 4.8 | 6.9 | 2.7 | 3.3 | 6.7 | 8.0 | 0.4 | 5.0 | 5.0 | 6.6 | -2.2 | 1.6 | -1.6 | -1.3 |
| Switzerland | -3.5 | -2.4 | 4.4 | 6.5 | 2.0 | 3.5 | 6.5 | 8.1 | -0.4 | -0.5 | 3.8 | 5.9 | -2.3 | -3.9 | -2.6 | -2.0 |
| Turkey | 15.7 | 16.6 | 13.3 | 12.6 | 3.5 | 4.7 | 7.2 | 8.4 | 11.0 | 11.2 | 10.9 | 11.2 | 7.2 | 6.2 | 3.5 | 2.5 |
| United Kingdom | 3.6 | 1.1 | 7.0 | 8.0 | 2.2 | 2.7 | 6.2 | 7.8 | -0.9 | -0.9 | 6.5 | 8.0 | -3.1 | -3.5 | 0.3 | 0.2 |
| United States | 3.7 | 3.6 | 7.3 | 7.1 | 1.9 | 3.3 | 7.4 | 8.9 | -1.6 | 1.4 | 8.5 | 8.7 | -3.4 | -1.9 | 1.0 | -0.2 |
| Total OECD | 2.4 | 3.1 | 6.3 | 7.4 | 2.7 | 3.7 | 7.2 | 8.6 | 1.9 | 1.5 | 6.5 | 7.9 | -0.8 | -2.2 | -0.6 | -0.6 |
| *Memorandum items* | | | | | | | | | | | | | | | | |
| China | 22.3 | 19.6 | 17.0 | 18.2 | 3.9 | 4.9 | 8.6 | 10.0 | 21.4 | 14.0 | 13.5 | 19.6 | 16.8 | 8.7 | 4.5 | 8.7 |
| Dynamic Asia[b] | 4.8 | 5.5 | 13.1 | 16.0 | 6.3 | 6.8 | 10.0 | 11.5 | 7.0 | 12.4 | 14.1 | 12.6 | 0.6 | 5.3 | 3.7 | 1.0 |
| Other Asia | 4.1 | 1.9 | 5.9 | 6.8 | 4.4 | 4.9 | 8.0 | 9.2 | 3.9 | 7.1 | 9.1 | 9.2 | -0.5 | 2.1 | 1.0 | 0.0 |
| Latin America | -13.5 | 0.5 | 7.1 | 7.6 | 0.5 | 3.4 | 7.1 | 7.8 | 1.3 | 3.8 | 6.0 | 6.0 | 0.8 | 0.4 | -1.0 | -1.6 |
| Africa & Middle-East | 4.6 | 4.7 | 5.9 | 8.0 | 4.5 | 5.2 | 7.9 | 9.2 | 4.4 | 4.1 | 6.3 | 7.8 | -0.1 | -1.1 | -1.5 | -1.2 |
| Central & East Europe | 12.8 | 13.8 | 13.6 | 12.7 | 6.1 | 7.6 | 9.3 | 10.1 | 10.7 | 6.7 | 8.8 | 9.0 | 4.4 | -0.8 | -0.4 | -1.0 |

*Note:* Regional aggregates are calculated *inclusive* of intra-regional trade. The calculation of export markets is based on a weighted average of import volumes in each exporting country's market, with weights based on goods and services trade flows in 2000.

*a)* Export performance is calculated as the percentage change in the ratio of export volumes to export markets.

*b)* Dynamic Asia includes Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.

*Source:* OECD.

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Annex Table 61. **Geographical structure of OECD trade**
Percentage of nominal GDP

| Area or country | Source/destination | | Source of imports | | | | | | Destination of exports | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1962 | 1972 | 1982 | 1992 | 2001 | 2002 | 1962 | 1972 | 1982 | 1992 | 2001 | 2002 |
| **OECD**[a] | **OECD** | | **6.17** | **8.20** | **10.66** | **11.22** | **13.48** | **13.20** | **5.89** | **8.08** | **10.31** | **11.01** | **13.60** | **13.36** |
| | *of which:* | European Union | 3.53 | 4.93 | 6.15 | 6.62 | 7.12 | 7.15 | 3.48 | 4.85 | 6.37 | 6.73 | 7.33 | 7.27 |
| | | United States | 1.24 | 1.27 | 1.65 | 1.66 | 2.19 | 2.00 | 0.88 | 1.38 | 1.67 | 1.84 | 3.01 | 2.91 |
| | | Other | 1.40 | 1.99 | 2.86 | 2.94 | 4.17 | 4.04 | 1.53 | 1.85 | 2.27 | 2.43 | 3.26 | 3.18 |
| | **Non-OECD** | | **2.24** | **2.35** | **4.59** | **3.07** | **4.77** | **4.76** | **2.24** | **2.22** | **4.13** | **2.97** | **3.53** | **3.59** |
| | *of which:* | DAEs + China[b] | 0.25 | 0.34 | 0.76 | 1.20 | 2.20 | 2.29 | 0.27 | 0.38 | 0.75 | 1.15 | 1.52 | 1.56 |
| | | OPEC | 0.58 | 0.80 | 2.12 | 0.71 | 0.88 | 0.78 | 0.28 | 0.40 | 1.40 | 0.54 | 0.45 | 0.46 |
| **United States** | **OECD** | | **1.80** | **3.45** | **4.94** | **5.76** | **7.56** | **7.31** | **2.22** | **2.93** | **4.22** | **5.09** | **5.30** | **4.84** |
| | *of which:* | European Union | 0.69 | 1.15 | 1.45 | 1.60 | 2.18 | 2.17 | 0.96 | 1.13 | 1.69 | 1.71 | 1.58 | 1.39 |
| | | Other | 1.11 | 2.30 | 3.49 | 4.16 | 5.38 | 5.14 | 1.26 | 1.80 | 2.53 | 3.38 | 3.72 | 3.45 |
| | **Non-OECD** | | **0.99** | **1.03** | **2.55** | **2.67** | **3.76** | **3.83** | **1.46** | **1.08** | **2.29** | **2.00** | **1.95** | **1.80** |
| | *of which:* | DAEs + China[b] | 0.14 | 0.30 | 0.72 | 1.45 | 2.07 | 2.20 | 0.12 | 0.18 | 0.54 | 0.83 | 0.91 | 0.88 |
| | | OPEC | 0.24 | 0.21 | 0.90 | 0.49 | 0.59 | 0.51 | 0.17 | 0.21 | 0.67 | 0.33 | 0.20 | 0.18 |
| **Japan** | **OECD** | | **5.36** | **4.15** | **4.65** | **3.30** | **3.76** | **3.73** | **4.13** | **5.60** | **6.58** | **5.41** | **5.66** | **5.91** |
| | *of which:* | European Union | 0.88 | 0.72 | 0.78 | 0.88 | 1.07 | 1.10 | 0.97 | 1.40 | 1.79 | 1.76 | 1.54 | 1.54 |
| | | United States | 2.93 | 1.92 | 2.18 | 1.37 | 1.51 | 1.45 | 2.27 | 2.91 | 3.28 | 2.52 | 2.90 | 2.98 |
| | | Other | 1.54 | 1.51 | 1.68 | 1.04 | 1.18 | 1.17 | 0.89 | 1.29 | 1.51 | 1.13 | 1.22 | 1.39 |
| | **Non-OECD** | | **3.78** | **3.57** | **7.25** | **2.82** | **4.60** | **4.73** | **3.85** | **3.82** | **5.94** | **3.51** | **3.99** | **4.53** |
| | *of which:* | DAEs + China[b] | 1.08 | 0.75 | 1.43 | 1.22 | 2.60 | 2.75 | 1.24 | 1.50 | 2.08 | 2.33 | 2.97 | 3.47 |
| | | OPEC | 1.09 | 1.48 | 4.38 | 1.02 | 1.35 | 1.32 | 0.51 | 0.60 | 1.95 | 0.49 | 0.38 | 0.42 |
| **European Union** | **OECD** | | **12.46** | **13.61** | **18.12** | **17.87** | **22.44** | **21.31** | **11.50** | **13.66** | **17.24** | **17.11** | **23.94** | **23.19** |
| | *of which:* | European Union | 8.48 | 10.34 | 13.33 | 13.61 | 16.09 | 15.52 | 8.20 | 10.30 | 13.46 | 13.59 | 17.54 | 16.91 |
| | | United States | 1.96 | 1.44 | 2.06 | 1.53 | 2.31 | 1.98 | 1.17 | 1.38 | 1.56 | 1.31 | 2.68 | 2.59 |
| | | Other | 2.02 | 1.83 | 2.74 | 2.73 | 4.04 | 3.82 | 2.13 | 1.98 | 2.22 | 2.21 | 3.72 | 3.68 |
| | **Non-OECD** | | **4.35** | **3.73** | **6.25** | **3.41** | **5.50** | **5.18** | **3.43** | **3.09** | **5.52** | **3.20** | **4.56** | **4.51** |
| | *of which:* | DAEs + China[b] | 0.31 | 0.28 | 0.57 | 0.94 | 1.90 | 1.81 | 0.30 | 0.25 | 0.44 | 0.65 | 1.13 | 1.07 |
| | | OPEC | 1.11 | 1.37 | 2.82 | 0.70 | 0.85 | 0.72 | 0.46 | 0.58 | 2.06 | 0.70 | 0.69 | 0.72 |

*a)* OECD includes Korea from 1988.
*b)* DAEs are the Dynamic Asian Economies (Chinese Taipei; Hong Kong, China; Malaysia; Philippines; Singapore and Thailand).
*Source:* OECD.

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