OECD ECONOMIC OUTLOOK

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD Economic Outlook

provides a periodic assessment of economic trends, prospects and policies in OECD countries. It appears twice a year, in June and December.

Each number contains an overall analysis of the latest economic trends and short-term projections. This survey is the joint work of members of the Secretariat of the Economics Department. The journal also occasionally contains special studies by members of the Department or other parts of the Organisation designed to assist the interpretation of economic trends. Reference statistics are included. The French version of the OECD Economic Outlook *is entitled* **Perspectives économiques de l'OCDE.**

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In this publication, 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. In this issue only, aggregate measures for total OECD do not include Mexico.

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CONVENTIONAL SIGNS

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

Summary of projections[a]

Seasonally adjusted at annual rates

	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
	Percentage changes from previous period								
Real total domestic demand									
United States	3.8	4.4	3.0	3.3	4.3	4.7	4.1	2.8	2.4
Japan	0.4	1.5	3.4	1.4	0.4	1.3	3.3	3.5	3.3
Germany	–1.4	1.0	2.2	–3.9	1.6	0.4	1.7	1.5	3.9
OECD Europe	–1.2	1.1	2.6	–2.5	0.8	0.9	1.9	2.6	3.4
Total OECD	1.1	2.6	3.0	0.6	2.1	2.5	3.1	2.9	3.0
Real GDP									
United States	3.0	4.0	3.0	2.3	3.7	4.2	3.8	2.8	2.4
Japan	0.1	0.8	2.7	0.9	–0.5	0.8	2.1	2.9	2.9
Germany	–1.3	1.8	2.6	–3.5	2.5	1.3	2.0	2.0	4.3
OECD Europe	–0.2	1.9	2.8	–0.8	1.5	1.7	2.5	2.8	3.3
Total OECD	1.2	2.6	2.9	0.9	2.1	2.6	3.0	2.9	3.0
	Per cent								
Inflation[b]									
United States	2.5	2.1	2.8	3.2	1.7	2.1	2.3	2.9	3.1
Japan	1.0	0.8	0.8	0.6	1.3	0.4	1.0	0.8	0.8
Germany	3.9	2.8	2.0	4.1	2.7	3.2	2.2	2.0	1.9
OECD Europe (excluding Turkey)	3.6	2.9	2.4	3.8	3.0	3.0	2.4	2.5	2.4
Total OECD (excluding Turkey)	2.6	2.1	2.3	2.9	2.1	2.1	2.1	2.3	2.4
Total OECD	3.4	3.5	3.3	3.9	2.4	4.3	3.4	3.3	3.1
	Per cent of labour force								
Unemployment									
United States[c]	6.8	6.3	5.8	7.0	6.6	6.5	6.2	5.9	5.7
Japan	2.5	2.9	2.8	2.4	2.6	2.9	2.9	2.8	2.8
Germany	8.9	10.0	10.0	8.5	9.2	9.9	10.2	10.1	9.9
OECD Europe	10.7	11.7	11.8	10.3	11.1	11.6	11.9	11.8	11.7
Total OECD	8.2	8.5	8.3	8.1	8.3	8.5	8.5	8.4	8.2
	Per cent of GDP								
Current balances									
United States	–1.7	–2.1	–2.1	–1.6	–1.8	–2.0	–2.2	–2.2	–2.1
Japan	3.1	2.8	2.5	3.3	2.9	2.9	2.7	2.6	2.4
Germany	–1.1	–0.7	–0.2	–0.8	–1.4	–0.8	–0.5	–0.3	–0.1
OECD Europe	0.3	0.7	1.0	0.1	0.5	0.6	0.8	0.9	1.0
Total OECD	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
	Per cent								
Short-term interest rates[d]									
United States	3.0	4.2	5.5	3.0	3.0	3.7	4.7	5.4	5.6
Japan	2.9	2.3	2.7	3.3	2.6	2.2	2.3	2.5	2.8
Germany	7.3	5.1	4.3	8.0	6.6	5.6	4.6	4.3	4.3
Major 4 European countries[e]	8.1	5.8	5.2	9.0	7.3	6.1	5.5	5.2	5.1
	Percentage changes from previous period								
World trade[f]	3.3	6.7	7.2	2.0	6.4	6.7	7.1	7.2	7.4

a) Assumptions underlying the projections include:
- no change in actual and announced policies,
- unchanged exchange rates from 10 May 1994; in particular $1 = Y 103.18, DM 1.66;
- dollar price (OECD fob imports) for internationally traded oil of $13.2 per barrel for 1994 I, and constant in real terms thereafter;
- the cut-off date for other information used in the compilation of the projections was 16 May 1994.

Figures for "Total OECD" do not include Mexico.

b) GDP deflator, percentage changes from previous period.

c) Unemployment data for the United States refer to the old survey until end-1993 and the new survey thereafter.

d) United States: 3-month Treasury bills; Japan: 3-6 month CD; Germany, France, Italy, United Kingdom: 3-month interbank rates.

e) Unweighted average of Germany, France, Italy and the United Kingdom.

f) Arithmetic average of the growth rates of world import volumes and world export volumes.

Introduction

The outlook

Economic growth in the OECD area as a whole is steadily gathering strength. OECD activity could expand by over 2½ per cent in 1994 and close to 3 per cent in 1995. Where recoveries are well established (North America, the United Kingdom, Australia and New Zealand), output continues growing at a healthy pace, and unemployment is falling. Recovery is becoming apparent in an increasing number of continental European countries. For continental Europe as a whole, however, the pick-up of domestic demand is modest; and, despite a significant boost from net exports, GDP growth is unlikely to be sufficient to reduce the unemployment rate until 1995. In Japan, recent indicators are encouraging. Domestic demand should strengthen progressively this year and could expand relatively rapidly next; output growth in Japan will nonetheless probably remain weak because of a continued decline in net exports due to the appreciation of the yen. Inflation is projected to remain low, declining somewhat in Europe and picking up slightly in North America.

Recovery must be sustained; this is not the time for any relaxation of policy effort. Attention should be concentrated on ensuring that the longer-term setting of policy is aimed effectively at achieving fundamental economic and social goals.

A growth-oriented approach to longer-term policy setting

OECD economies must expand more rapidly than over the past two decades if they are again to become high-employment societies with steadily-rising national living standards. The challenge is to raise economies' capacity to grow, *i.e.* their "supply potential". Individual aspirations for high living standards and agreed social needs are such that there is no basic secular deficiency of demand in OECD countries, even though there may be periods in which effective demand is cyclically weak. However, growth-inhibiting rigidities have increased considerably over the past two decades or so, making the OECD recovery more inflation-prone. The ways in which most OECD countries sought to extend and deepen social protection have played an important role in this respect. Increasing inflexibility has weakened the pace at which output potential and overall living standards could rise, making it increasingly difficult to achieve social goals, and contributing significantly to rising unemployment.

Faster growth of output and productivity economy-wide, as well as high employment, would provide the economic basis for improved social cohesion. Achievement of these goals requires appropriate macroeconomic and structural policies. A common element in both sets of policies is the provision of a framework in which economic agents have the greatest possible scope and incentive – and also the ability – to innovate, adapt and work.

Experience over the post-war period shows that macroeconomic policy has an asymmetric influence. While bad macroeconomic policy always results in bad economic performance, good macroeconomic policy does not, by itself, guarantee good overall economic performance. It must be combined with structural policy reforms if fundamental goals of a sustained expansion of living standards with much lower unemployment are to be achieved.

The key elements of "good" macroeconomic policy are:

- *Improving public finances.* Budget deficits have weighed increasingly adversely on economic performance by pre-empting national saving, raising interest rates through the build-up of public debt and impeding private-sector investment. Continuing efforts towards fiscal consolidation should set the stage for sound public finances consistent with better overall economic performance over the longer term. The greater scrutiny of public expenditure, aimed at improving its quality, will also support better performance. As economies recover, it is important to take the crucial lesson from recent history and avoid the temptation to relax the commitment to an *underlying* improvement in public finances as deficits fall in response to strengthening activity.
- *Keeping inflation under control.* Most OECD countries have achieved low inflation or effective price stability. It is essential to build on this to establish firmly the credibility of policy geared to maintaining price stability over the longer term. With inflation uncertainty eliminated, investors and consumers can take decisions in a context of clear relative price signals. This will contribute to the efficient allocation of resources.
- *Ensuring coherence of fiscal and monetary policies.* It is particularly important to avoid a situation in which monetary policy, aiming at the objective of underpinning price stability, is overburdened because of an inconsistent fiscal-policy setting. Moreover, even with coherent, appropriately set macroeconomic policies, patience is typically required because it takes time to unwind imbalances. Trying to force the pace, *via* macroeconomic stimulus beyond the adaptive capacity of the economy, would only be counterproductive.
- *Achieving consistency of policies and the exchange-rate regime.* Within essentially fixed exchange-rate systems, appropriate macroeconomic policies must be supported by structural policies. These should aim to ensure that wage and price adjustments provide sufficient flexibility in responding to shocks to make commitments to fixed exchange rates credible and viable. Where exchange rates are floating, currency movements resulting from divergent monetary policy actions that are appropriate domestically should be accepted, so long as they remain within reasonable limits.
- *Supporting macroeconomic policy with a further liberalisation of the multilateral trading system.* Governments must be seen to be engaging in co-operative efforts to ensure that the implementation of macroeconomic policies does not lead to tensions, not only in the exchange markets but also in trade matters, to avoid undermining business and consumer confidence. It is particularly important that the Marrakesh agreement, which concluded the Uruguay Round negotiations, be implemented fully and rapidly.

Actions to reduce unemployment significantly have been reviewed extensively by the OECD Secretariat in carrying out the mandate received from Ministers in 1992 to examine the reasons for and the remedies to the disappointing progress in dealing with unemployment. A synthesis of this work, presented to Ministers and published under the title "The OECD Jobs Study", is presented immediately following this introduction. Although the structural-reform recommendations focus on unemployment, many of them would help to improve economic performance more generally.

Macroeconomic policy requirements in the current situation

During the recent downturn, general government budget positions weakened by the equivalent of 3 per cent of GDP on average in the OECD area. While the deterioration was partly due to the recession, a third to a half appears to have been structural. OECD governments recognise the need for action to restore balance to public finances, and most countries have embarked on medium-term programmes to reduce deficits. There has been a steady tightening of fiscal stance throughout the OECD area since last year, the notable exception being Japan, and budget positions should improve as recoveries become established in more countries.

There are no grounds for complacency. If the recovery is sustained at an average annual growth rate of 2½ to 3 per cent over the remainder of the decade, implementation of present plans is likely to narrow general government deficits significantly, perhaps to between 1 and 2 per cent of GDP in 2000. However, this would be sufficient only to stabilise gross public debt relative to GDP during the period to the end of the century, and in most countries at very high levels: some 70 to 75 per cent for the OECD as a whole, compared with below 60 per cent in the late 1980s. Furthermore, were there significant slippage in implementing consolidation programmes, or were growth not sustained, the situation could be substantially worse. Only slightly lower growth – by half a percentage point per year – could lead to debt levels in 2000 averaging close to 85 per cent of GDP.

With the room for manoeuvre on fiscal policy severely circumscribed, monetary easing has been the motor of OECD economic recovery – although a series of fiscal stimuli have also been adopted by Japan. Short-term interest rates fell significantly from the peaks in the late 1980s or early 1990s to more recent troughs (or most recent observations): by 6 to 7 percentage points in the United States and Japan; by around 5 to 10 percentage points in most continental European countries; and by around 10 percentage points or more in the United Kingdom, Canada, Australia, Finland and New Zealand. Peak-to-trough falls in long-term interest rates, although smaller, have also been substantial.

More recently, however, long-term interest rates have risen across countries. This started in the United States in October last year, in Japan in early January, and followed in most other countries from the end of January. Policy implications depend on the relative importance attached to different causes of these developments:

- Insofar as the rise in long-term interest rates reflects an improvement in long-run growth expectations and higher expected returns on business investment over time, it may have no special implications for policy.
- Insofar as it reflects an increase in inflation expectations or a slippage in the pace of fiscal consolidation and the prospect of higher public debt relative to

national and global saving, a firmer hand on the relevant policy lever – monetary or fiscal – is called for.

- Insofar as it reflects the perception of higher risks involved in long-term financial investments associated with greater uncertainty about the future course of domestic or external policies, there may be a need to articulate policy intentions more effectively in order to stabilise the expectations of domestic and international investors in bond markets.
- Insofar as the earlier declines and recent increases in bond yields reflect short-run erratic and reversible factors and have been taken by corporate and other borrowers as such, this would not affect economic activity, and hence would not require policy response. To the extent that the earlier decline in long-term interest rates had begun to be built into real economic decisions by prospective borrowers, the reversal could inhibit recovery and thus could call for a relatively easier stance of monetary policy (*i.e.* less rapid tightening or greater easing than earlier envisaged), if this could be achieved without additional upward pressure on long-term rates.

These considerations, together with the implications of different cyclical positions among major countries, point to differing policy requirements.

- The United States, where recovery is relatively strong and the margin of spare capacity is possibly the least of all OECD countries, has already begun to move to the more "neutral" monetary policy stance necessary to guard against inflation pressures that would otherwise threaten sustained recovery. Continuing efforts to convince the markets of the monetary authorities' readiness to adjust the monetary policy stance as necessary to keep inflation under control could contribute to the stability of market conditions and help to sustain non-inflationary growth.
- In other countries where recoveries are under way, margins of spare capacity are larger than in the United States, but the forces which have led to tighter monetary conditions there are likely to come increasingly into play.
- In countries where activity is still weak, easy monetary conditions should be maintained. Further cuts in short-term interest rates could be envisaged, depending on how weak recovery is likely to be, how inflation prospects are viewed and whether it is judged that action on short-term interest rates can be taken without increasing the pressure on long-term interest rates.

In all countries, insofar as real long-term interest rates are considered to be too high, the solution is more likely to be found in more ambitious reduction of budget deficits.

13 June 1994

THE OECD JOBS STUDY

At the meeting of the OECD Council at Ministerial Level in May 1992, the Ministers invited the Secretary-General to initiate a comprehensive research effort on the reasons for and the remedies to the disappointing progress in reducing unemployment. In response to this mandate, the OECD Secretariat has examined a number of broad areas: macroeconomic policy; trade; technology; wage formation; labour adjustment; education and training; benefit systems and taxation. This work will be published in September under the title "The OECD Jobs Study: Evidence and Explanations". The note which follows is a brief summary of the Policy Report based on this work which the Secretary-General presented to the Ministers at their meeting in June and which is provided as a supplement to this issue of the Economic Outlook.

Nature and dimensions of unemployment

Unemployment in the OECD area of 35 million, some 8½ per cent of the labour force, represents an enormous waste of human resources, reflects an important degree of inefficiency in economic systems, and involves a disturbing degree of social distress. The measured unemployment rate ranges from about 2¾ per cent in Japan and around 6 per cent in the United States to an average of around 11½ per cent in OECD Europe. And these figures do not include "discouraged workers" and those part-time workers who would prefer to work full time.

Unemployment has a cyclical component, which diminishes when economic growth picks up; and a structural component, which typically is not reduced by economic growth. The exact proportion of each is uncertain, but varies significantly across countries:

- In the *United States,* the cyclical element in unemployment is declining rapidly; structural unemployment, at around 6 per cent of the labour force, seems to have changed little over the past decade.
- In the *European Community, Canada* and *Oceania* (*Australia and New Zealand*), the level of structural unemployment has risen over time, to perhaps 7 to 10 per cent of the labour force, and currently significant cyclical unemployment is superimposed upon it.
- In members of the *European Free Trade Association,* unemployment remained rather low for many years, rarely rising above 2 per cent and with relatively little cyclical variation, but recently has risen to over 7 per cent, with some of the rise probably being structural.
- In *Japan,* there is low structural unemployment, of around 2 per cent, but cyclical unemployment is now growing.

The burden of high and persistent unemployment is shared unevenly among labour force groups. In almost all OECD countries, the young and the unskilled experience very high rates of unemployment. The growing numbers of long-term unemployed, especially in Europe, have become a major concern because of the social hardship and demotivation resulting from prolonged joblessness.

Needed structural and macroeconomic action

The policy problem has both macroeconomic and structural dimensions (elaborated below in the section on recommendations). Also important are the various interactions between structural and macroeconomic performance. Structural reforms will bear full fruit only in a stable macroeconomic environment, in which private sector participants can be more confident about medium-term prospects and can thereby adjust more easily to changing circumstances. And macroeconomic policy has more chance of succeeding in supporting the desired level of demand without giving rise to inflation if structural conditions and policies prevent rigidities, make economies both more innovative and adaptable, and allow resources to move to their most profitable uses.

Linked with these economic considerations is an important social dimension. An adequate degree of social protection is necessary to reassure workers, and encourage them to react positively to structural changes. At the same time, it is necessary to provide a decent minimum standard of living for those members of society who are unable to adjust.

Benefiting from structural change

Particular emphasis is placed on structural policies, because in today's globalised world the achievement of high employment with continual growth in productivity, and thereby living standards, involves adapting to, and benefiting from, continual structural change. Today the forces impelling structural change – including cheaper transport, the new information technologies, liberalised capital flows, strong competition, and an increasing mobility of people – are very strong. The potential gains from exploiting these developments are great. But their realisation depends upon a markedly enhanced capacity in OECD economies to adapt and to innovate. Hence considerable attention has to be paid to ensuring that policies do not hinder, and preferably foster, such structural change.

The process of structural change involves the continual squeezing out of low-productivity, low-wage jobs, and the emergence of higher productivity, higher wage jobs. The process is turbulent: 10-15 per cent of all jobs in an OECD economy are destroyed each year, while a broadly similar number are created.

New skills

One clear dimension to structural change has been, and continues to be, a systemic shift away from the employment of low- or narrowly-skilled labour, both in manufacturing and in services. This reflects both demand and supply-side factors, but the most important cause has apparently been technical progress, which is increasingly being reflected in a move towards a more knowledge-intensive economy. A sharp widening of wage differentials in the United States has preserved employment of some of the unskilled, but at the expense of an increase in in-work poverty; in Europe wage inflexibility has prevented the emergence of in-work poverty, but at the expense of high rates of unemployment of the low-skilled. Only the Japanese economy has handled the problems of this period of adjustment relatively well, although more recently it has been wrestling with substantial pressure for change.

Bolstering the ability of economies to create new jobs is one facet of the strategy to reduce unemployment. But a high-productivity, high-wage job strategy can work only with qualified people to fill the new jobs. People must have a solid education. Workers will have to acquire and later re-acquire skills through training. Active labour market policies, too, will help transform redundant qualifications into employable skills.

Many people will need help to fit the requirements of high-skill jobs. But some will be unable to meet these requirements and will be unemployed or take low-skill, low-wage jobs. The commitment to support them will be a valuable investment towards a more cohesive and caring society. As OECD economies progress, it becomes all the more important to hone the support policies and mechanisms so that they provide effective help to those who most need it.

A growing adjustment gap

While the need for a powerful capacity to innovate and to adapt has probably never been stronger, the capacity of OECD economies to adjust has been progressively diminished over the past two to three decades, often as the unintended and unexpected side effect of policies put in place to regulate markets and to provide social protection.

Thus, for example, entrepreneurship has been discouraged by a variety of red-tape regulations and controls. Firms have also been discouraged from hiring workers by: growing non-wage labour costs which drive a wedge between the worker's wage and what he or she costs the employer; minimum wages that are set too high relative to productivity levels, particularly for young people, weakening the incentive to hire them; employment protection legislation, enacted to protect those already in employment, that has operated perversely to discourage employers from taking on additional workers; and barriers to competition in product markets that have led producers to restrict output and employment and set prices artificially high.

In the areas of labour market and social policy, the levels and structure of benefit systems have variously: encouraged a disproportionate share of the labour force in some countries to become registered as disabled; and reduced work incentives for the unemployed and low-wage workers through the interaction of tax and benefit systems.

Thus a gap has been widening between the *need* to innovate and adapt and the *capacity* to do so. In the resulting environment of high and rising unemployment, pressures are growing to slow the process of change. But this can only be counterproductive: hindering change neutralises the mainspring of productivity growth and higher living standards, while weakening the capacity to create new jobs (see Box "What the Answer is *Not*").

WHAT THE ANSWER IS *NOT*

Regardless of the form that it takes – low-paid, low quality jobs or overt unemployment – the present unemployment problem in Member countries is serious. It brings with it unravelling of the social fabric, including a loss of authority of the democratic system; and it risks resulting in the disintegration of the international trading system.

Faced with this weakening of both national and international cohesion, it is scarcely surprising that pressures should surface in a number of countries for various types of "quick fixes". There is talk in some countries of legislated, across-the-board, work-sharing. And there are vocal calls in most OECD countries for action to soften or slow down the pace of adjustment through protectionism. Experience shows, however, that such quick fixes are inappropriate ways of dealing with many of the causes that underlie much of the present unemployment problem.

Legislated, across-the-board, work-sharing addresses the unemployment problem not by increasing the number of jobs through more economic activity but through rationing gainful work. Enforced work-sharing has never succeeded in cutting unemployment significantly, not least because of worker resistance to reduced income. This "cure" must be distinguished from voluntary negotiations between workers and firms over flexible working time arrangements, which can lower costs and lead to higher employment.

Protectionism reduces overall economic welfare; increases costs to consumers, often hurting most those with lowest incomes; penalises successful enterprises; harms exports; encourages tariff factories; harms developing countries' trade; and increases the pressures for international migration. It encourages domestic monopolies, while cutting the economy off from mainstream developments in the world outside. Producers, dependent on protection for their survival, ultimately become prepared to spend large sums to preserve its continuance. Lobbying, and even bribery and corruption, become more widespread.

Policy recommendations

Accordingly, the OECD's policy recommendations are designed to improve the ability of economies and of societies both to cope with, and benefit from, change, by:

- enhancing the ability to adjust and to adapt; and
- increasing the capacity to innovate and be creative.

Most OECD countries face broadly these basic policy needs and constraints; hence most of the recommendations apply to most countries. At the same time, differences in country circumstances and institutions mean that there will be differences in the priorities for individual countries.

The recommendations do not apply to governments alone. In many cases responsibility for action to improve employment performance lies most directly with employers, trade unions and individual workers.

The strategy for jobs contains a range of macroeconomic and structural policies: structural reforms will be more successful in a stable macroeconomic environment; in the absence of structural reforms, growth soon becomes stifled by inflation pressures.

The recommendations elaborate the following broad programme of action (for full details on all the recommendations, see Part III of the Policy Report):

Set appropriate macroeconomic policy

Macroeconomic policy has two roles in reducing unemployment: over the short term it limits cyclical fluctuations in output and employment; and over the longer term it should provide a framework, based on sound public finances and price stability, to ensure that growth of output and employment is sustainable, *inter alia* through adequate levels of saving and investment.

Enhance the creation and diffusion of technological know-how

Technological development is the main force determining growth in productivity, employment and living standards in the medium and long run. While labour-saving technical progress reduces the labour inputs necessary per unit of production and hence can displace jobs in the short-run, in particular in low-skilled occupations, the higher productivity associated with process innovations increases real incomes, while the creation of new products and services generates additional demand. Policies should accordingly be aimed at improving the ability of societies and economies to create, and make effective use of, new technologies which form a base for the expansion of high-productivity, high-wage employment.

Increase working-time flexibility

Increasing short-term and lifetime flexibility of working time in contracts voluntarily entered into by employers and workers would lead to higher employment. An important element in this process would be to foster the growth of voluntary part-time work. Govern-

ments have a role to play in this process by removing obstacles to, and facilitating, reductions in working time and by reviewing existing taxation and social security provisions which discriminate against part-time work.

Nurture an entrepreneurial climate

Broadly-based policies are needed to encourage vigorous enterprise creation in the private sector. Public policy should remove regulations and practices that impede entrepreneurship and ensure that industrial assistance does not unduly favour established large firms at the expense of new small firms. These actions need to be accompanied by public education campaigns to encourage entrepreneurship and to remove negative connotations linked to business failure. Programmes to foster entrepreneurship and small business should be integral parts of local development strategies.

Increase wage and labour cost flexibility

Wages have an important allocative role to play in labour markets by providing clear signals to workers and firms. At the same time, non-wage labour costs – employers' social security contributions, pay for time not worked etc. – which drive a wedge between what employers must pay to hire a worker and the value of his/her product have become a significant proportion of total labour costs in many countries over the last two decades. Where wage movements do not offset these growing non-wage labour costs, unemployment increases. Hence, there is a need in both the public and private sectors for policies to encourage greater wage flexibility and, in countries where the scope for increasing such flexibility is limited, to reduce non-wage labour costs. Actions on these fronts would involve changes in taxation, social policy, competition policy and collective bargaining.

Reform employment security provisions

Employment security provisions operate in two directions. These provisions recognise the reality of long-term reciprocal commitments between workers and firms, and encourage firms to retain and retrain workers who would otherwise be made redundant. However, if firms perceive that employment security provisions oblige them to keep workers who are no longer wanted, they become cautious in hiring, and "screen" applicants more carefully, to the particular detriment of job-seekers with labour market disadvantages. Policy must strike a balance between giving employers more freedom over hiring and firing decisions, and providing both sufficient employment security for workers and firms to be willing to invest in long-term training and protection for workers against unfair dismissal.

Extend and enhance active labour market policies

There is a general agreement on the need to shift the focus of labour market policies from the passive provision of income support to more active measures which assist re-employment. Public spending on labour market programmes in almost all countries is still dominated by passive measures. At the same time, it is important to enhance the effectiveness of active measures. Programmes should be targeted on specific client groups, or be designed to remedy specific labour market problems. It is also important to ensure a close interaction between active measures and unemployment and related benefit systems.

Improve labour force skills and competences

Extending and upgrading workers' skills and competences must be a life-long process if OECD economies are to foster the creation of high-skill, high-wage jobs. Education and training policies should be directed at furthering this goal, as well as at achieving other fundamental social and cultural objectives. This will require a major shift in policy in some countries and, in others, sustained development of existing policies, in particular those aimed at effective action to tackle three major problem areas: the quality of initial education, including early childhood education; the transition from school to work; and investment in work-related skills, especially for the least-qualified workers.

Reform unemployment and related benefit systems

Unemployment insurance and related benefit systems were originally designed to provide temporary income support to the unemployed during the process of finding a new job. With the growth of long-term and repeat unemployment, these systems have drifted towards quasi-permanent income support in many countries, lowering work incentives. To limit disincentive effects – while facilitating labour market adjustments and providing a necessary minimum level of protection – countries should legislate for only moderate levels of benefit, maintain effective checks on eligibility, and guarantee places on active programmes as a substitute for paying passive income support indefinitely. Possibilities should be explored for making the transition from income support to work more financially attractive, through lowered income tax and social security charges on low earnings and the provision of in-work benefits to low-paid workers, and limiting the extent to which benefit is reduced when beneficiaries take a part-time job.

OECD ECONOMIC OUTLOOK AND POLICIES

GENERAL ASSESSMENT OF THE MACROECONOMIC SITUATION

Recovery is becoming increasingly widespread throughout the OECD area. Output is projected to rise by 2½ per cent in 1994 and by nearly 3 per cent in 1995 and, while unemployment will remain very high, it should decline slightly next year. Virtually all the improvement in unemployment will take place in the United States, while in Europe it will remain close to 12 per cent of the labour force. Inflation will remain low nearly everywhere. Risks attached to this projection are mixed. On the positive side, steadily improving confidence could induce a greater strengthening of household spending, and healthy profits could result in more vigorous business investment. On the other hand, the rise in bond yields in most countries during the first half of 1994, unless reversed significantly, may put downward pressure on business spending and residential construction.

Most countries have recognised a need to improve their fiscal positions following the widespread deterioration of general government financial balances between 1989 and 1993, and many are taking action in 1994 or 1995 to achieve this. While the average deficit for the area as a whole is projected to fall during this period, this will not be enough to stabilise debt-to-GDP ratios. Against the background of the global rise in long-term interest rates, immediate monetary concerns differ across countries according to their cyclical situation: where recoveries are well established there is a need to ensure that the disinflation gains of recent years are not threatened, while in countries where activity remains weak and inflation is already low there is a need to nurture the emerging recovery.

RECENT DEVELOPMENTS AND ECONOMIC PROSPECTS

Overview

Recoveries are now firmly established in countries accounting for about half of area GDP – notably the United States – and they are becoming apparent in an increasing number of other countries. Output in the OECD area is likely to rise by 2½ per cent in 1994 and by nearly 3 per cent in 1995. This represents an upward revision to the OECD Secretariat's projections (Table 1), the first since 1991. Inflation is projected to remain subdued at around 2-2½ per cent on average (excluding Turkey). In the United States, the economy is rapidly approaching full capacity use, and inflation may pick up slightly in 1995. In contrast, large margins of spare capacity outside the United States should exert continued downward pressure on wages and prices in most countries. In Japan, given the negative contribution to growth from net exports in both 1994 and 1995, the recovery of output is contingent on the strength of domestic demand supported by fiscal stimulus and continued low interest rates. Recoveries are weak and in their early stages in most of continental Europe, and are importantly supported by net exports in the current phase. Output growth there is projected to strengthen steadily during the course of this year and 1995 as households reduce their saving rates and business investment rises. As activity gradually

Table 1. **Output projections compared**
Percentage changes from previous period

	1994	1995
United States		
Now	4.0	3.0
December 1993[a]	3.1	2.7
Japan		
Now	0.8	2.7
December 1993[a]	0.5	2.3
Germany		
Now	1.8	2.6
December 1993[a]	0.8	2.2
OECD Europe		
Now	1.9	2.8
December 1993[a]	1.5	2.6
Total OECD		
Now	2.6	2.9
December 1993[a]	2.1	2.7

a) OECD, *Economic Outlook* 54, Paris 1993.

gains momentum in Japan and Europe and slows in the United States, growth rates in the major regions of the OECD area are likely to converge during 1995, although the level of slack will still vary considerably.

As the recovery at the area-wide level is gathering pace only slowly, unemployment is unlikely to fall until 1995, when it should drop to 8¼ per cent of the labour force, still nearly 35 million people. In Europe, the unemployment rate is likely to remain close to 12 per cent. The desynchronisation of business cycles across the OECD area and the effects of exchange rate changes over the last two years, have been giving rise to sharp changes in the external outlook: a visible increase in the US deficit, a turnaround towards a declining surplus in Japan, and a swing in Europe from deficit to surplus.

There has been a perceptible change in mood since the second half of last year. This change has not been uniform across countries, and has perhaps been more tentative in Japan – which entered the recession later than any other major country – than elsewhere. However, the weakness of confidence, which has been so widespread during recent years, has been giving way to greater optimism throughout most of the OECD area (Table 2). This has been particularly evident in business sectors in Europe. Furthermore, in the United States concern about the upswing taking root has given way to growing preoccupation with the shrinking margin of spare capacity and the pace of aggregate demand growth consistent with keeping inflation low. In a number of other countries where recoveries have appeared hesitant, recent data and indicators appear to confirm their more broadly based character, and, where the recovery is in its early stages or has yet to begin, leading indicators are pointing to a strengthening of activity in the near term. There is now a widespread perception that the trough in economic activity has been passed in almost all countries.

The projections embody a significant tightening of monetary policy in the United States (some of which has already taken place) in the face of growing pressures on capacity; positive effects on demand in Japan from the fiscal package announced early in 1994 and continued monetary ease; and support for recovery in continental Europe from assumed declines in short-term interest rates beyond those that have already occurred (see Box on "Policy and Technical Assumptions Underlying the Projections"). In many countries, apart from Japan, fiscal consolidation is projected to restrain demand in the short run. Other features of the projections include:

- The recovery in Europe is importantly driven by a large net export stimulus (with large negative counterparts in the United States and Japan).

Table 2. **The changing mood**

	Business climate[a]	Consumer confidence[b]	Leading indicator[c]
United States			
Most recent[d]	117.3	99.4	124.5
Three months earlier	117.3	101.2	122.4
Six months earlier	108.8	88.8	119.1
Japan			
Most recent[d]	–50	85.0	129.8
Three months earlier	–51	80.5	126.8
Six months earlier	–40	85.4	126.1
Germany			
Most recent[d]	86.1	–22	115.6
Three months earlier	76.3	–29	113.5
Six months earlier	69.8	–30	111.7
EC			
Most recent[d]	–10	–21	117.7
Three months earlier	–17	–24	115.9
Six months earlier	–23	–25	113.7

a) Index 1985 = 100 for the United States; per cent balance for Japan and EC; weighted average of present and future (six months ahead) business situation for Germany, where a level of 100 is "normality".

b) Index 1985 = 100 for the United States and Japan; per cent balance for Germany and EC.

c) OECD trend restored index of leading indicators. Index 1985 = 100.

d) For the United States and the EC, April 1994 for business climate and consumer confidence and March for leading indicator; for Japan, first quarter 1994 for business climate and consumer confidence and March for leading indicator; for Germany, March for business climate and leading indicator and April for consumer confidence.

Sources: Economic Planning Agency, *Tankan Survey;* IFO; Eurostat; OECD, *Main Economic Indicators* and *Leading Economic Indicators.*

- Household saving rates in Japan and the major European countries are projected to decline, providing support for private consumption. In Japan, this reflects increasing willingness of households to spend income gains from the tax cuts which become effective from mid-1994 and are assumed in the projections to be continued in fiscal year 1995. In Europe, it is in response to lower interest rates and improving confidence.
- Business investment is expected to continue to be a major source of strength in North America. In Europe, it is projected to pick up in the second half of 1994 and to become an important force sustaining the recovery in 1995. In Japan, business investment may recover during 1995 but stock-adjustment processes will continue to limit any contribution to output growth from capital formation.
- De-stocking is projected to cease being a drag on output growth in many European countries.

POLICY AND TECHNICAL ASSUMPTIONS UNDERLYING THE PROJECTIONS

Fiscal policy assumptions are based on announced measures and stated policy intentions, where they are embodied in well-defined programmes. In particular, in Japan, the proposed income tax cuts are assumed to be extended to FY 1995.

Policy-controlled short-term interest rates are assumed to be set in line with the stated priorities of national monetary authorities with respect to inflation (and in some cases, to support recoveries). The link between objectives and instruments is uncertain and to a substantial extent endogenous to the projections themselves. In the United States, the assessment involves raising short-term interest rates further as the economy reaches full capacity utilisation; in Japan, it involves continued low nominal interest rates; in Germany, policy-controlled rates are assumed to fall somewhat further through 1994 as inflation pressures continue to ease; and for most other European countries, short-term interest rates reflect a commitment to a high degree of exchange-rate stability against the Deutschemark.

The most important technical assumptions and external factors which affect the projections may be summarised as follows:

i) The projections assume constant nominal exchange rates: those prevailing on 10 May 1994. The fixed exchange-rate assumption is modified for Greece and Turkey to allow for continuous exchange-rate depreciation, reflecting an interpretation of current "official" exchange-rate policies.

ii) The average dollar price (OECD fob imports) for internationally traded oil is estimated to be $13¼ per barrel on average for 1994 and $13½ for 1995 (remaining constant in real terms). This broadly corresponds to a Brent spot price of around $15 to $16 per barrel.

iii) World commodity prices are projected, after steep increases in the first half of 1994, to rise in line with prices of manufactured exports from the second half of 1994 onwards.

The cut-off date for information was 16 May 1994.

Demand and output

Economies that have achieved sustained recoveries

In those economies where sustained recoveries have been achieved, growth of output is likely to approach or to exceed potential rates in 1994 and to remain strong in 1995. In the United States, it is expected to reach 4 per cent in 1994 before declining to 3 per cent in 1995. The recovery there – now entering its fourth year – has become broadly based, led by high rates of business investment in response to growing pressures on productive capacity and a relative decline in investment goods prices. Buoyant disposable incomes, which have stimulated private consumption, and rising residential investment have also been sources of strength. Recoveries elsewhere in the OECD area should provide support for exports, but, since the strength of domestic demand will generate rapid growth of imports, the net foreign contribution to output growth is likely to remain negative both this year and next (Table 3). A number of forces will increasingly hold growth of domestic demand and activity in check, including higher short-term interest rates, continuing fiscal restraint, and the progressive completion of stock-adjustment processes in investment goods and consumer durables.

An increasing number of countries has joined the United States in enjoying a well-established recovery. Growth in these countries is projected to be above the

Table 3. **Contributions to growth of real GDP**

Change as a percentage of real GDP in the previous year

	1993	1994	1995
United States			
Final domestic demand [a]	3.7	4.3	3.1
Stockbuilding	0.2	0.2	–0.0
Net foreign contribution [b]	–0.9	–0.5	–0.1
GDP	3.0	4.0	3.0
Japan			
Final domestic demand [a]	0.5	1.6	3.3
Stockbuilding	–0.1	–0.1	0.1
Net foreign contribution [b]	–0.3	–0.7	–0.7
GDP	0.1	0.8	2.7
Germany			
Final domestic demand [a]	–0.8	0.8	2.0
Stockbuilding	–0.6	0.2	0.2
Net foreign contribution [b]	0.2	0.7	0.4
GDP	–1.3	1.8	2.6
OECD Europe			
Final domestic demand [a]	–0.7	1.1	2.3
Stockbuilding	–0.6	0.0	0.2
Net foreign contribution [b]	1.1	0.8	0.3
GDP	–0.2	1.9	2.8
Total OECD			
Final domestic demand [a]	1.3	2.5	2.8
Stockbuilding	0.2	0.3	0.2
Net foreign contribution [b]	–0.2	–0.2	–0.1
GDP	1.2	2.6	2.9

a) Final domestic demand comprises private and public consumption and total gross fixed investment.

b) The net foreign contribution is the change in exports of goods and services, less imports of goods and services as a percentage of GDP in the previous year.

average for the area as a whole during the two-year period 1994-95, and, in most cases, should be stronger next year than in 1994. In the United Kingdom, Australia and New Zealand, strengthening confidence and rising incomes are supporting private consumption and low interest rates are encouraging investment activity, while in Canada, Finland, Ireland, Norway and Sweden net exports are contributing importantly to the improved outlook. The turn-arounds in Sweden and Finland, which, until recently, have been among the weakest economies in the OECD area, have been particularly striking. In Denmark, an expansionary fiscal stance is contributing significantly to a recovery of demand.

Economies in which recoveries are in their early stages

The forces acting in the group of economies in which recoveries remain weak and in their early stages – Japan and much of continental Europe – are quite divergent. In Japan, the main sources of strength for domestic demand in 1994 appear to be increased public spending, notably in the form of infrastructure investment, and residential construction, which has responded strongly to low interest rates and the greater availability of subsidised public housing loans. Furthermore, the income tax cut announced as part of the February 1994 package should provide a boost to private consumption and increasingly operate to sustain demand in the second half of this year and in 1995. However, business investment has responded relatively slowly to lower interest rates and, although corporate balance sheets have improved, it remains weak. At the same time, net exports are projected to continue to act as a drag on the economy as the high level of the yen leads to large export-market share losses and increased import penetration in both 1994 and 1995. Consequently, the recovery of output is likely to be relatively weak, as growth should amount to less than 1 per cent in 1994 and to around to 2½ to 3 per cent in 1995.

In many continental European countries the recovery will depend on continuing strength of net exports. Final domestic demand has not yet responded significantly to the easier monetary conditions which now exist in most of the region, although housing construction has been strengthening in some cases. Fiscal policy is being tightened substantially in Germany, France and Italy and in some smaller countries, and the partial reversal of the falls in long-term interest rates which occurred during 1992 and 1993 will be a negative influence on housing and business investment. However, stockbuilding is now making positive contributions to growth after having been a source of weakness in many countries in 1993. Furthermore, falling household saving rates and improving confidence, as unemployment rates stabilise and order books lengthen, should provide some further support for demand and activity. In 1995, a recovery of business investment as profits improve should be another positive factor. Growth is projected to be positive this year in all continental European countries outside Scandinavia, although it is not likely to reach 2 per cent in any of them. In most cases, it should reach 2½ per cent in 1995.

Labour markets and inflation

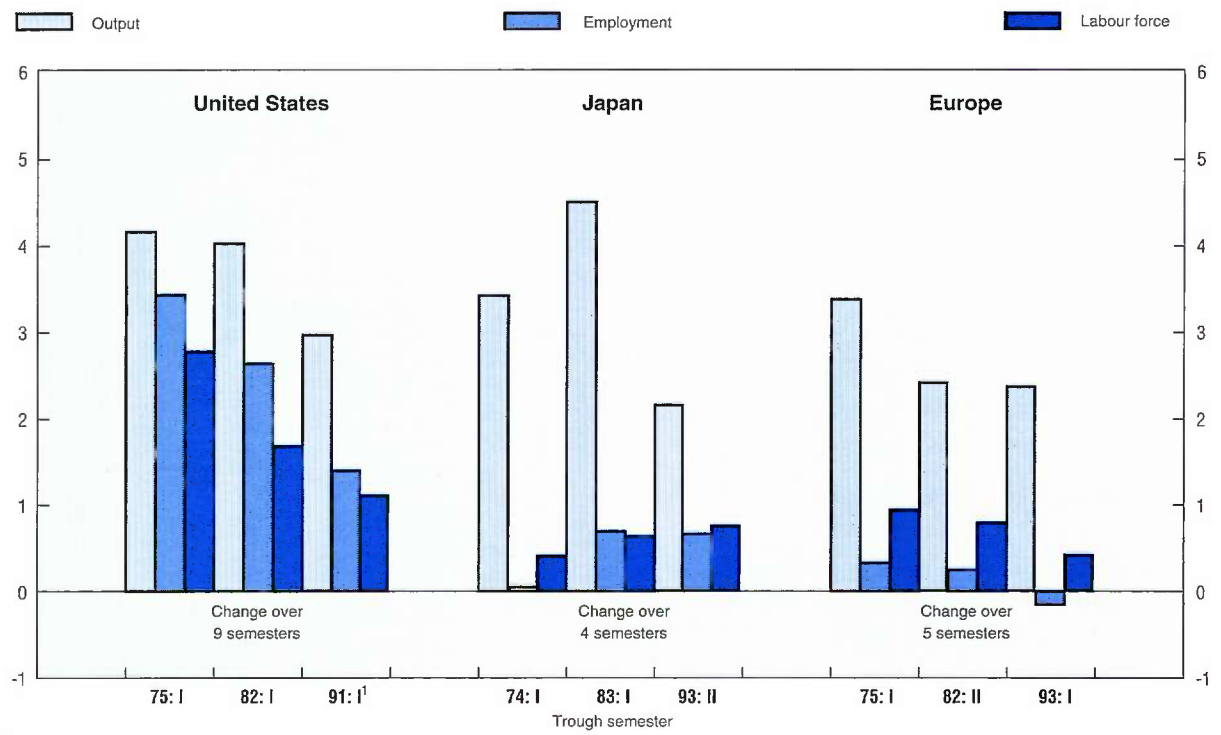
The recovery should cause area-wide unemployment to peak in 1994 at around 8½ per cent of the OECD labour force, or more than 35 million people, and to fall to around 8¼ per cent during 1995 (Table 4). Virtually all of the improvement is projected to take place in the United States. In Europe, the cyclical element of unemployment is significant, and although this is projected to decline somewhat in countries where recoveries are well-established, there is a risk that it could persist and gradu-

Table 4. **Labour markets and inflation**

	1993	1994	1995
	Per cent		
Employment growth			
United States[a]	1.5	3.2	1.8
Japan	0.2	0.3	0.9
Germany	–1.9	–1.8	–0.0
OECD Europe	–1.9	–0.8	0.6
Total OECD	–0.3	0.8	1.1
	Per cent of labour force		
Unemployment rate			
United States[a]	6.8	6.3	5.8
Japan	2.5	2.9	2.8
Germany	8.9	10.0	10.0
OECD Europe	10.7	11.7	11.8
Total OECD	8.2	8.5	8.3
	Millions		
Unemployment			
United States[a]	8.7	8.3	7.8
Japan	1.7	1.9	1.9
Germany	3.4	3.8	3.8
OECD Europe	20.4	22.4	22.6
Total OECD	33.5	35.3	34.7
	Per cent		
Inflation[b]			
United States	2.5	2.1	2.8
Japan	1.0	0.8	0.8
Germany	3.9	2.8	2.0
OECD Europe (*less* Turkey)	3.6	2.9	2.4
Total OECD (*less* Turkey)	2.6	2.1	2.3
Total OECD	3.4	3.5	3.3

a) Break in series as of January 1994.
b) GDP deflator, percentage change from previous period.

Figure 1. **Output, employment and labour force in recoveries**
Percentage change, at annual rates



1. A break in the employment and labour force series for the United States has been corrected for by assuming unchanged employment and labour force between December 1993 and January 1994.

ally become structural. In Japan, unemployment has been cushioned by pro-cyclical movements in the labour force and the reluctance of firms to lay people off, but as the economy recovers, these effects could work in reverse, so unemployment may fall only very slowly.

The reductions in unemployment which are projected to take place by 1995 are likely to show only minor differences from what would be expected on the basis of past experience. In the United States, the growth in the labour force has been unusually slow during the current upswing (Figure 1). Employment growth has also been slower than in the past, partly because the growth of output has been relatively weak, and partly because the growth of productivity has been slightly stronger. On balance, unemployment may fall slightly more slowly than in past recoveries. In Japan, differences in employment and labour force growth – and consequently also in unemployment developments – are projected to be small compared with earlier episodes, though both output and productivity growth are likely to be weaker than in prior upswings. In Europe, employment is projected to be weaker than in the past, while labour force growth is slightly lower than on previous occasions. Consequently, the rise in unemployment will be comparable to past experience in the early stages of recovery. Productivity and output growth are also broadly comparable to previous experience. However, this may understate the underlying improvement in productivity, since some shift toward more part-time work, much of it voluntary, appears to be taking place in some countries.

Inflation is projected to remain stable during 1994 and to rise slightly in 1995 for the OECD area as a whole (excluding Turkey where inflation is high and projected to rise further during 1994). The rise in 1995 is largely accounted for by a mild but perceptible upward drift in the United States, where price and wage pressures are likely to emerge in the course of 1994, and may become increasingly visible in 1995 as the margin of

spare capacity disappears. Moreover, price increases may be exacerbated by the recovery of oil and commodity prices, whose weakness until recently has been a restraining factor. Thus, as measured by the GDP deflator, inflation may pick up from around 2 per cent this year to about 3 per cent in 1995. In Canada, Australia and New Zealand, inflation may also rise slightly over the projection period, although it will remain low. In Japan, on the other hand, a broad degree of price stability is expected to prevail in both 1994 and 1995, and in most of Europe disinflation is projected to continue: large output and labour market gaps should damp wage growth throughout the projection period, and, as productivity strengthens for cyclical reasons, unit labour costs should grow only slowly. Excluding Turkey, inflation in Europe may drift down from about 3 per cent in 1994 to around 2½ per cent during 1995.

Financial markets and exchange rates

Movements in short-term interest rates continue to reflect diverging cyclical positions and perceived inflation threats in the three major regions. In the United States, the Federal Reserve has tightened monetary conditions on several occasions since it began to shift to a more "neutral" stance in February, and short-term interest rates have risen by around 1¼ percentage points since that time. They are assumed in the projections to rise further as the spare capacity in the economy is eliminated (Figure 2). In Japan, money market rates have been very low. They edged up in January, as the markets' earlier expectation of a further cut in the discount rate was not realised but more recently they have softened slightly. They are assumed to remain low in the projections. In Germany, improving inflation prospects and a satisfactory outcome of some contentious wage negotiations have allowed money market rates to resume the clear downward trend they have followed since September 1992, after a pause during the early part of this year. In the projections they are assumed to fall somewhat further during the course of 1994. The easing of monetary conditions in Germany has been reflected in similar moves by many other European countries, including France and most other participants in the European Exchange Rate Mechanism (ERM), and this is assumed to continue.

Since the beginning of the year, bond markets have often been turbulent and long-term interest rates have risen sharply nearly everywhere. Trough-to-peak movements have ranged from around ¾ to around 2½ percentage points (Table 5). The trough was reached earliest in the United States in the latter part of 1993, and then in Japan in early January, while the more generalised global upward movement in yields began around the end of that month. This general movement came in two broad phases. In the first phase, running from early February through to around the middle of March, movements in global bond markets were fairly closely correlated across countries in both timing and magnitude, with rises of 60-70 basis points occurring in each of the three largest OECD economies, and slightly larger rises elsewhere. In the second phase, there was some decoupling of bond market trends between the major regions. Japanese bond yields declined over April and May while there were further increases in yields in North America and Europe – although these increases were much less closely synchronised than they had been earlier. In the projections, long-term interest rates in the United States remain close to their recent levels of around 7 per cent and then decline marginally through next year as activity slows and inflation remains within reasonable bounds, while in Japan they rise gradually as the recovery gains momentum. German long-term interest rates are projected to drift down to around 6 per cent, with interest rate profiles for the other continental European countries assumed to reflect those in Germany.

Table 5. **Developments in long-term interest rates**

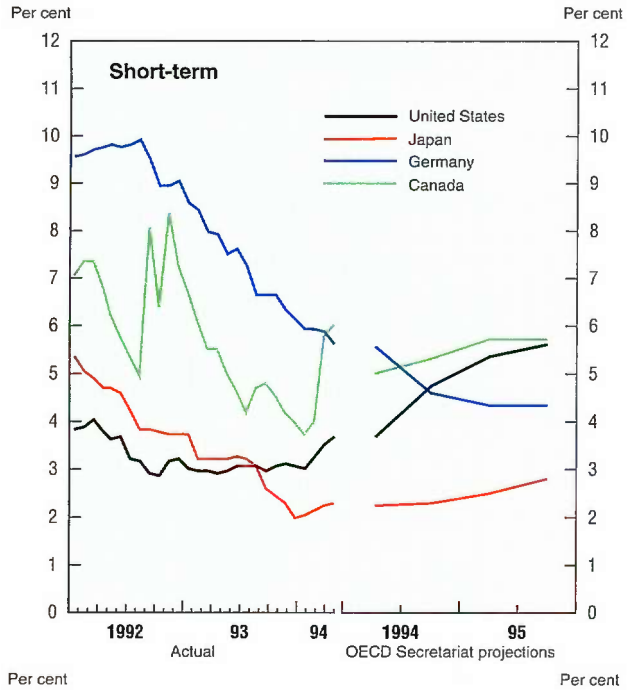
10-year benchmark government bond yields, per cent

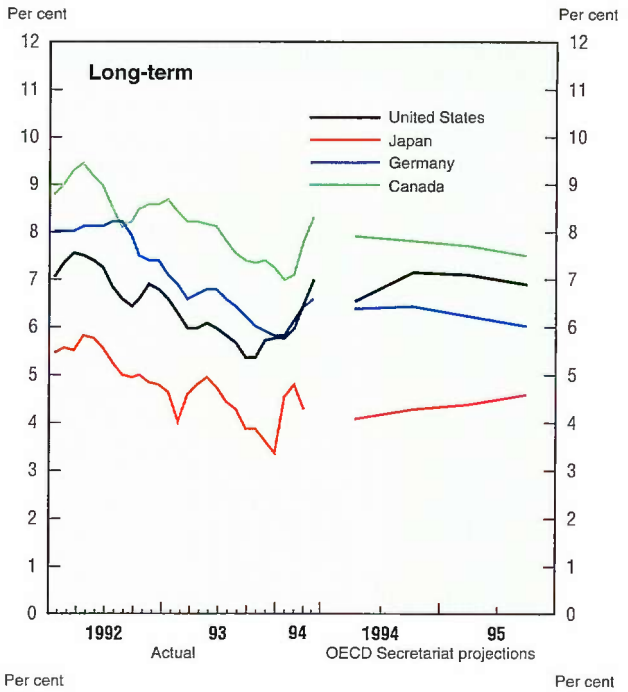
	Low point since mid-1993		End-Jan. 1994	25 May 1994	Increase since low point[a]
	(A)	Date		(B)	(B)-(A)
United States	5.2	15 October	5.6	7.2	2.0
Japan	3.0	10 January	3.5	3.7	0.8
Germany	5.5	3 January	5.7	6.9	1.4
France	5.6	12 January	5.7	7.1	1.5
Italy	8.3	3 February	8.4	9.5	1.2
United Kingdom	6.1	19 January	6.2	8.3	2.2
Canada	6.3	31 January	6.3	8.4	2.1
Australia	6.1	31 January	6.1	8.8	2.6
Belgium	6.3	3 January	6.5	7.7	1.3
Denmark	5.9	12 January	6.0	7.7	1.8
Netherlands	5.5	3 January	5.7	6.9	1.4
Spain	7.8	31 January	7.8	9.6	1.9
Sweden[b]	6.7	31 January	6.7	9.1	2.4

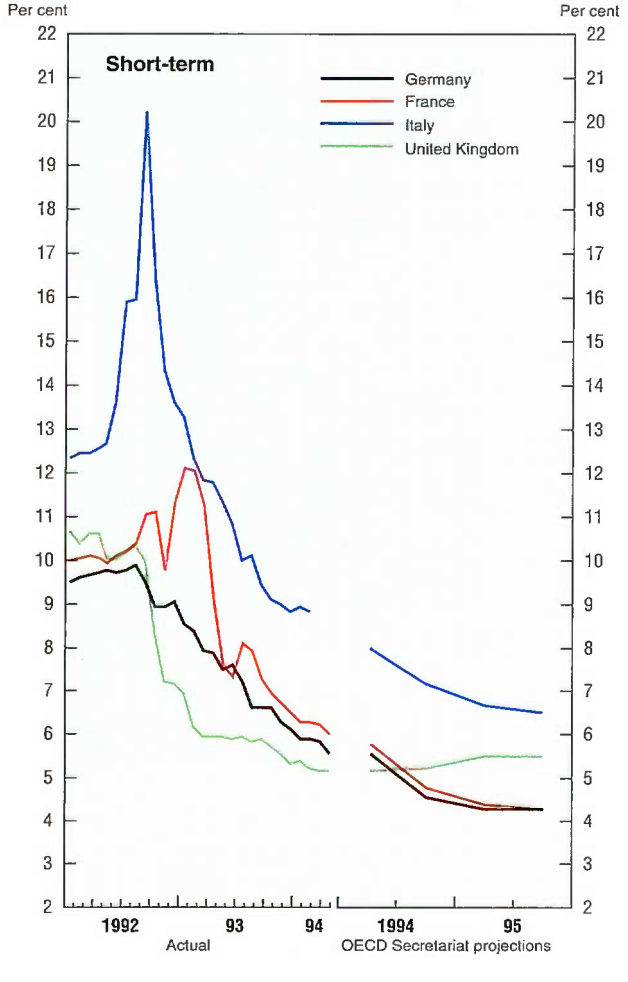
a) Percentage points; figures may not equal difference between columns (B) and (A) due to rounding.
b) 9-year government bonds.
Sources: Financial Times, Nikkei Shinbun, The Economist, Bank of Canada, Swedish Riksbank.

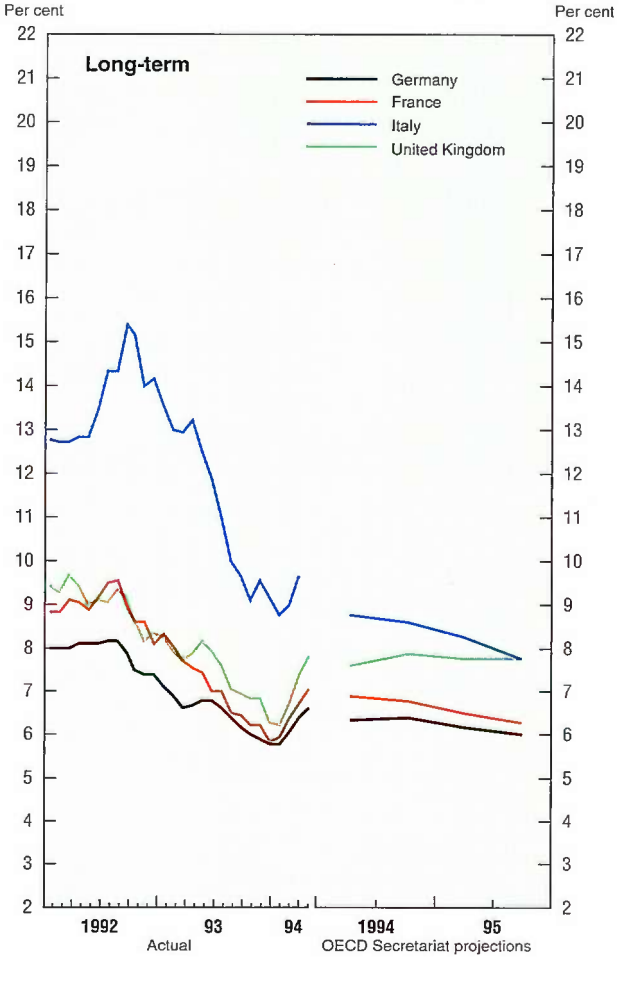
Despite the turbulence in financial markets since the beginning of the year, there was relative calm in foreign exchange markets until April, with the most significant feature being the continued strength of the yen and the European currencies *vis-à-vis* the dollar. In early May, however, downward pressure on the dollar against

Figure 2. **Interest rates**









these currencies became more acute. Concerted intervention by central banks, unequivocal statements by the United States authorities that they do not wish to see the dollar undervalued, and, subsequently, monetary policy adjustments in the United States and Germany checked and slightly reversed this development. Within Europe, pressures on exchange rates within the ERM that prevailed during 1992 and 1993 have largely dissipated, and these rates have remained relatively stable and close to their central parities. Projections are based on exchange rates prevailing on 10 May 1994, which imply an effective appreciation of around 8 per cent for the yen and an effective depreciation of 6 per cent for the Canadian dollar since the beginning of the year. Effective exchange rates of other major countries, including the United States, have changed little over this period.

External trade and current accounts

World trade growth slowed to around 3 per cent in 1993 as trade between OECD countries dropped by half a per cent (Table 6), principally as a result of significant measured falls in intra-European trade. The growth rates of OECD imports and exports, which were both in the 1 to 2 per cent range in 1993, are expected to recover to around 7 per cent by 1995. In contrast, non-OECD trade continued to rise at a rate of around 8 per cent in 1993 and is likely to maintain that pace this year and next. As in the past few years, the dynamism of non-OECD trade growth has been concentrated in the Asia-Pacific region, where both export and import growth are likely to remain buoyant, in the range of 10 to 11 per cent per annum. Intra-regional trade is growing rapidly in Asia and Latin America, and exports from OECD countries to these regions may not rise at the same rate as these regions' total imports. Growth of exports from central and eastern European countries in transition to market economies may recover following a slowdown in 1993 but import growth in some countries could be constrained by the availability of external finance.

The desynchronisation of economic activity across OECD regions, together with the effects of exchange-rate changes over the past two years, have been giving rise to sharp changes in the external outlook (Table 7): the United States' current deficit is projected to rise to more

Table 6. **Trade summary**

Percentage changes from previous period

	1992	1993	1994	1995
A. Merchandise trade volumes				
World trade[a]	5.0	3.3	6.7	7.2
of which:				
Manufactures	5.3	3.3	7.3	7.6
OECD exports	4.0	1.8	5.9	6.8
OECD imports	4.3	1.3	6.1	6.7
Non-OECD exports	4.5	7.3	8.9	8.4
Non-OECD imports	10.0	8.5	8.2	8.4
Memorandum items				
Intra-OECD trade[b]	3.2	–0.6	5.1	6.3
OECD exports to non-OECD	10.2	8.6	8.2	8.1
OECD imports from non-OECD	4.4	7.4	8.6	7.8
B. Trade prices *(average values in dollars)*				
OECD exports	2.2	–5.7	–0.0	2.3
OECD imports	0.5	–7.5	–1.0	2.3
of which:				
Energy	–7.3	–8.0	–14.2	0.7
Non-energy raw materials	1.7	–7.0	2.9	3.5
Memorandum item				
OECD terms of trade with rest of the world[c]	3.4	1.9	3.6	0.2

a) Arithmetic average of the growth rates of the world import volume and the world export volume.

b) This is a simple arithmetic average of the intra-OECD export and import volumes implied by the total OECD trade volumes and the estimated trade flows between OECD and the non-OECD areas. Historical figures are based on the 1991 structure of trade by value, deflated by total OECD export prices.

c) Ratio of OECD export prices to the non-OECD import prices from the non-OECD.

Table 7. **Trade and current account balances**

$ billion

	1992	1993	1994	1995
United States				
Trade balance	–96.1	–132.5	–153.5	–162.8
Non-factor services, net	56.4	55.7	55.5	58.3
Investment income, net	6.2	0.1	–8.7	–14.4
Transfers, net	–32.9	–32.5	–33.8	–34.7
Current balance	–66.4	–109.2	–140.6	–153.6
as per cent of GDP	–1.1	–1.7	–2.1	–2.1
Japan				
Trade balance	132.3	141.4	135.0	128.5
Non-factor services, net	–46.3	–45.2	–44.4	–51.3
Investment income, net	36.2	41.3	45.8	51.0
Transfers, net	–4.6	–6.2	–7.5	–8.1
Current balance	117.6	131.4	128.8	120.1
as per cent of GDP	3.2	3.1	2.8	2.5
Germany				
Trade balance	32.0	42.1	59.2	71.0
Non-factor services, net	–37.7	–41.3	–42.4	–45.1
Investment income, net	15.7	9.1	4.4	4.6
Transfers, net	–32.0	–31.3	–34.2	–34.7
Current balance	–22.0	–21.3	–13.0	–4.2
as per cent of GDP	–1.1	–1.1	–0.7	–0.2
OECD Europe				
Trade balance	–4.0	66.7	112.7	137.2
Non-factor services, net	20.4	21.6	24.5	24.0
Investment income, net	–24.4	–25.6	–30.1	–27.7
Transfers, net	–45.1	–42.0	–52.0	–56.4
Current balance	–53.1	20.7	55.1	77.1
as per cent of GDP	–0.7	0.3	0.7	1.0

than $150 billion in 1995; the Japanese external surplus peaked during 1993 at more than $130 billion and is projected to decline slightly to $120 billion by 1995; and the overall current balance in Europe is projected to swing from a deficit of around $55 billion in 1992 to a surplus approaching $80 billion in 1995 (see the chapter "The Desynchronisation of OECD Business Cycles" for more discussion of these developments).

RISKS AND UNCERTAINTIES IN THE CURRENT SITUATION

There are a number of important uncertainties in the current situation which could affect economic performance and the formulation of policy. One concerns the role of rising net exports as a driving force for recovery in Europe. The positive contributions to growth which Europe is receiving from net exports, which reflect gains in non-OECD markets as well as trade with other OECD regions, are projected to find counterparts in a rising external deficit in the United States and a smaller external surplus in Japan. If, for any reason, imports in the United States and Japan prove to be weaker than projected, or exports from these countries prove to be stronger, the prospects for a continuing boost to European activity from net exports would be thrown in doubt. Without this boost, the recovery could falter before domestic sources of growth assert themselves more strongly.

A second, related, uncertainty is the prospective evolution of household saving behaviour. In much of Europe, including all four major countries, falling household saving rates are projected to play an important role in supporting domestic demand both this year and next. In 1995, this is also true for Japan. There are several reasons for expecting a change in household saving behaviour: comparatively high saving in recent years has permitted households to build up a buffer of precautionary savings; the projected stabilisation and subsequent slight fall in unemployment may enhance household confidence; interest rates in most of Europe will be lower in the projection period than in the recent past, reducing the incentive to defer purchases of durable goods and to build up savings balances; and the falls in inflation which have taken place in recent years will allow households to preserve the real value of their financial assets by saving a smaller share of current income.

While household saving rates could fall even more than projected, it is also possible that the assumptions underlying these projections could turn out to be too optimistic. Model simulations suggest that if intended European saving rates were to be a half percentage point higher in the second half of 1994 and a full percentage point higher from 1995 onwards than currently projected, the short-term effect would be somewhat weaker output even if monetary policy were eased to keep inflation unchanged over the medium term (Table 8). The effects would be moderate and activity would gradually be crowded back in, as lower interest rates boosted consumption and investment while improved competitiveness led to increased market shares on both foreign and domestic markets. Nonetheless, the recovery would be delayed, particularly if a monetary policy response was slow, and an associated negative impact on confidence could adversely affect the situation further.

Table 8. **The effects of thriftier saving behaviour in Europe**[a]

	Percentage point change from baseline		
	1994	1995	1996-2000
German short-term interest rate	–0.3	–1.2	–1.2
German consumer price inflation	0.0	0.0	–0.0
European GDP growth	–0.1	–0.2	0.1
European share of private consumption in GDP	–0.1	–0.4	–0.5
European share of investment in GDP	0.0	0.1	0.2

a) The simulation, which has been performed using the OECD Secretariat's Interlink model concerns an *ex ante* rise in European household saving rates by ½ percentage point in the second half of 1994 and 1 percentage point thereafter. German short-term interest rates are set so as to maintain unchanged inflation in the medium term, and long-term rates are assumed to change by half of the change in short-term interest rates. Interest rates in other European countries are assumed to follow German interest rates, keeping intra-European exchange rates stable, and fiscal policy is assumed to be unchanged everywhere.

A third uncertainty relates to the share of profits in national income, which is comparatively high in historical terms in many countries, particularly in Europe (Table 9). High profit shares could affect the shape of the recovery because many enterprises, particularly in countries where balance sheets are relatively healthy, may feel little pressure to restore operating margins as demand increases. This may provide more scope for output to increase before inflation pressures emerge than in the past. With profits likely to improve further for cyclical reasons, both the incentive and the financial capacity to increase capital spending should be good, implying some upside risk to business investment and hence the outlook.

Some of the risks in the current situation also stem from financial market developments. A major positive force which has been contributing to the improvements in the European outlook is the decline in long-term interest

Table 9. **The share of non-wage income in business-sector value-added** [a]

	Average for the period		1993
	1970-79	1980-89	
United States	32.1	33.0	33.7
Japan	33.7	31.1	31.2
Germany[b]	33.9	33.7	36.8
OECD Europe[c]	31.4	33.1	36.0
OECD[c]	32.2	32.9	34.2

a) Difficulties in making an appropriate imputation for the labour income of the self-employed mean that great care is needed in interpreting cross-country differences in the level of capital income shares. For details, see the section on "Sources and Methods" in the Annex.

b) Averages concern western Germany; 1993 data concern the whole of Germany and the whole economy and exclude the employment adjustment for unpaid family workers for which data are not available.

c) Aggregates exclude Iceland, Portugal and Turkey.

Sources: OECD, *National Accounts* and OECD Secretariat estimates.

rates during 1993, whose effects are operating with a lag. Given that financing patterns in much of continental Europe appear to be such that both households and enterprises are relatively more dependent on financing at long-term rates than elsewhere, the question arises as to whether the reversal of a significant part of this decline threatens the recovery. If the recent rises in long-term rates have been related to portfolio adjustments by both domestic and international investors in response to revised expectations or increased uncertainty about the future course of monetary policies – rather than stronger financing demands of the private sector or higher inflation expectations which are shared by borrowers and lenders – there may be a risk in this regard. This would be the case to the extent that the improving outlook depends on prospective spending plans which have been based on the earlier declines in long rates.

A wider set of risks stem from continuing trade frictions. These have not abated with the signing of the new international trade agreement in Marrakesh, as demonstrated by present debates regarding whether the issue of workers' conditions should be integrated into the trade policy agenda. Indeed, attempts to achieve objectives in other areas of concern, such as social conditions, human rights, environmental protection, cruelty to animals and cultural independence have increasingly been focused on trade policy. While there may be legitimate worries associated with free trade in relation to each of these areas, it is of concern that narrow groups with vested interests to defend through protectionist measures may cloak themselves as defenders of these wider goals. Before invoking trade policy measures a crucial question to be answered is whether restrictions on trade are really the first-best way to deal with these other problems.

MACROECONOMIC POLICIES

As recoveries gather pace in a growing number of countries and evidence accumulates that they are beginning in most others, medium-term considerations will weigh increasingly in the design of macroeconomic policies. In particular, all OECD countries need to ensure that:

- public finances are managed so as to achieve budget positions which are both sustainable over the longer term and do not act as an undue drain on national saving; and
- the disinflation gains of recent years are sustained over the medium term.

Since both fiscal and monetary policies are important forces shaping the current economic situation, the need to nurture and sustain the recovery in some countries is affecting the implementation of these policies in the short term. Given the desynchronisation of business cycles across the OECD area, there are differences in immediate macroeconomic policy priorities across countries. Where recovery is well-established, *i.e.* outside continental Europe and Japan and, increasingly, in the Nordic countries, the main focus is on achieving continued non-inflationary growth while taking appropriate action to deal with fiscal imbalances. Where recovery is more tenuous and output gaps are large, as in many continental European countries, the overall policy stance is faced with the task of supporting the recovery while in many of these countries fiscal imbalances are so large as to leave no alternative to immediate consolidation. Finally, in Japan, where signs of recovery are still patchy, patience may be needed while establishing a medium-term framework for the unwinding of fiscal stimulus which has been provided in recent years.

Fiscal policy issues

Medium-term orientations for fiscal policy: the need for sustainable budget positions

A sustainable fiscal policy is difficult to define, but policies that imply ever-rising debt-to-GDP ratios are unlikely to qualify since, at some stage, the debt servicing burdens they imply are likely to become unacceptable to taxpayers, financial markets, or both. Accordingly, increased government saving which results in lower public indebtedness would enhance the sustainability of fiscal policies.

A definition of sustainability which stresses the stability of the debt-to-GDP ratio may be as operational as any that is available,[1] but its limitations must be borne

in mind. One is that it gives no consideration to the absolute level of the debt-to-GDP ratio. In theory, it is unclear whether the long-run gains from lowering the ratio that has been reached at a point in time exceed the costs of the higher taxes or reduced expenditures needed for this transition. In practice, however, if the debt-to-GDP ratio is high on a sustained basis, its acceptability to taxpayers and financial markets will often be tenuous. A high debt-to-GDP ratio can also be a source of instability, because of the potentially large adverse impact of any increases in real interest rates. Second, the debt-to-GDP ratio does not take account of contingent liabilities. In particular, public pension policies in many countries imply obligations to ageing populations that are accruing steadily but are not reflected in government indebtedness figures. There are large uncertainties in any attempt to value these obligations, but indicative calculations by the OECD Secretariat (Table 10) suggest that they are large in comparison to debt levels currently carried on balance sheets. These considerations underline the importance of an approach to budgetary policy that allows for unwelcome contingencies and is forward looking.

Budget prospects in OECD countries

General government budget positions have weakened in most OECD countries since 1989, and the area-wide deficit for 1993 reached 4¼ per cent of GDP (Table 11). In Europe, it was substantially higher, at 6¼ per cent of GDP. While a significant part of these deficits is cyclical, a large part appears to be structural. Most countries have recognised the need to correct this situation, many have announced their intention of doing so (see Table 14 in the appendix to this chapter), and some of these have now taken concrete measures to translate these intentions into reality.

In the United States, the federal budget deficit is now falling and the strength of the economy may cause this to occur more rapidly, for a time, than expected. However, on present plans the improvements are unlikely to continue beyond 1996 unless further action is taken to restrain the growth of social transfers. While reform of both health care and welfare systems is on the agenda, obtaining the agreement needed to pass legislation could involve decisions that would add to upward pressures on spending rather than reduce them. There is thus a clear risk of slippage in the underlying position over the medium term. In many European countries, stringent consolidation plans are in place, which are generally designed to make a credible effort to achieve the Maastricht targets. However, given the gradual nature of the projected recovery, there is likely to be rather slow progress in reining in deficits. Furthermore, there is a risk that concerns about the impact of fiscal restriction on the recovery, and hence the unemployment situation, will lead to slippage. Canada, too, envisages progress in fiscal consolidation at the federal level which, if carried through and supported by continued successful control efforts by the provinces, should help to reduce the current high risk premium built into Canadian interest rates. This would limit the effects of rising US interest rates on activity in Canada.

Among the major countries, the only exception to the trend towards fiscal consolidation is Japan, where the tax cuts and increased public works spending announced

Table 10. **Estimated net public pension liabilities**

Present value of current rights and future liabilities as of 1990

Per cent of 1990 GDP

	United States	Japan	Germany	France	Italy	Italy[a]	United Kingdom	Canada
Case A: Discounted at 4 per cent from 1990 to 2010 and at rates thereafter which decline to 3 per cent in 2050								
Accrued rights	113	162	157	216	259	242	156	121
Future rights *less* future contributions	–46	56	4	0	–25	–141	31	130
Total net liabilities	66	218	160	216	233	101	186	250
Case B: Discounted at 5½ per cent from 1990 to 2010 and at rates thereafter which decline to 4½ per cent in 2050								
Accrued rights	89	128	125	171	213	201	121	92
Future rights *less* future contributions	–74	–36	–63	–106	–99	–162	–65	–7
Total net liabilities	15	92	62	65	114	39	56	85
Memorandum item: Existing assets in public pension systems	23	18	0	0	0	0	0	8

a) Taking into account the announced increase in pension age by five years.

Sources: Van den Noord, Paul and Richard Herd, "Pension Liabilities in the Seven Major Countries", *OECD Economics Department Working Papers*, No. 142, Paris 1993, Tables 1, 2, 7 and 8; Statistics Canada, *National Balance Sheet Accounts, Annual Estimates, 1983-1992*, Ottawa, February 1994.

Table 11. **Government financial balances and gross debt**

Per cent of GDP

	1989	1993	1994	1995	MTRS[a] 2000
General government financial balances					
United States[b]	–1.5	–3.5	–2.6	–2.1	–1.7
Japan	2.5	0.3	–1.9	–1.7	0.1
Germany	0.1	–3.3	–2.9	–2.8	–1.5
OECD Europe[c]	–2.5	–6.3	–6.1	–5.2	–2.0
Total OECD[c]	–1.2	–4.2	–4.0	–3.3	–1.5
General government financial balances excluding social security					
United States[b, d, e]	–2.5	–4.3	–3.5	–3.1	–
Japan[d]	–0.8	–3.5	–5.7	–5.6	–
Central government financial balances					
United States (excluding social security)[b, e]	–3.4	–4.3	–3.6	–3.3	–
Japan[f]	–1.2	–2.6	–3.3	–3.2	–
General government gross debt[g]					
United States	53.2	63.9	64.2	64.1	62.6
Japan	70.6	74.7[h]	79.4	82.6	87.6
Germany	43.2	48.5	53.7	64.3	66.8
OECD Europe[c]	57.1	67.4	71.7	76.1	76.3
Total OECD[c]	57.6	67.4	70.2	72.4	72.6

a) Medium-term reference scenario. The figures in this column are OECD Secretariat estimates of the implications of successful implementation of medium-term fiscal plans in an environment of sustained recoveries with low inflation, as described in the appendix to this chapter.
b) Excludes deposit insurance outlays.
c) Regional and area-wide totals exclude Iceland, Luxembourg, New Zealand, Switzerland and Turkey.
d) OECD Secretariat estimates, derived from fiscal year data converted to a calendar year basis. The coverage of the social security systems is not the same in the United States and Japan.
e) Includes the surplus of state and local government pension schemes.
f) For the fiscal years beginning 1 April of the year shown.
g) Gross financial liabilities according to SNA concepts. It should be noted that this differs from the definition of debt applied under the Maastricht Treaty.
h) OECD Secretariat estimate.

in the February package will provide a significant stimulus during 1994. The February package in Japan is the fourth recourse to fiscal action to support activity during the past two years. The impact of these packages on the budget has been reinforced by cyclical weakness of the economy, with the result that the general government financial balance in 1994 will show a deficit of around 2 per cent of GDP, a decline of nearly 5 percentage points in three years. Leaving aside the social security surplus, the deficit will be around 5½ per cent of GDP both this year and next. Given the need to maintain a strong fiscal position in the medium term, these trends raise questions about the scope for further action along these lines. At the same time, the effect of the packages on domestic demand and activity have so far been largely offset by the negative impact of the problems of balance sheet adjustment and the high yen. The issue the government faces is how soon it will be able to move to restore a stronger fiscal position in the light of the weakness of the economy. The desirability of reforming the tax system to put less weight on direct taxes argues for making the income tax cuts permanent and funding them by raising indirect taxes. The implementation of such a tax increase should wait until it is clear that the recovery is well-established, but a strategy for ensuring that it happens at an appropriate time could be put in place now.

As a result of the general trend toward consolidation, fiscal policy, as measured by changes in structural budget balances (Table 12), will be a force acting negatively on demand and activity in most of the OECD region except for Japan in 1994 and nearly everywhere during 1995. However, monetary authorities can be expected to take this into account. In an environment in which recovery is taking hold in an increasing number of countries, the average deficit for the OECD area is projected to fall to around 3¼ per cent of GDP in 1995. While this represents an improvement in overall fiscal positions, it will not be enough to stabilise debt-to-GDP ratios, which will rise to around 70 per cent for the area as a whole during 1994 and somewhat further in 1995.

The short-term projections do not go beyond 1995. To facilitate the analysis of medium-term fiscal plans, the OECD Secretariat has therefore constructed a reference scenario, described in the appendix to this chapter, which extends the short-term projections to the year 2000. This scenario embodies the assumptions that recoveries in the OECD area are sustained, generating average growth rates in the 2½-3 per cent range from 1995, and that plans for medium-term budget consolidation are largely implemented successfully.[2] Under these conditions, general government budget deficits on average would continue to decline after 1995 until they fell to around 1½ per cent of GDP for the OECD area by 2000. This

Table 12. **Changes in cyclically-adjusted general government financial balances[a]**

Per cent of trend GDP

	1993	1994	1995
United States	+0.7	+0.4	+0.2
Japan	–0.1	–1.1	+0.5
Germany	+1.4	+0.8	+0.1
OECD Europe[b]	+0.3	+0.6	+0.7
Total OECD[b]	+0.4	+0.3	+0.5

a) OECD Secretariat estimates and projections. A positive sign indicates a move toward lower deficit or higher surplus.
b) Regional and area-wide totals exclude Iceland, Luxembourg, New Zealand, Switzerland and Turkey.

would be sufficient to stabilise gross public debt after 1995 somewhat above 70 per cent of GDP for the OECD area as a whole, and at more than 75 per cent in Europe. While this figure for Europe is substantially higher than the Maastricht target of 60 per cent, it should be noted that the Maastricht concept of gross debt differs from that used here and that in some cases these differences are significant (see Box on "General Government Gross Debt in the European Community"). For individual countries, the behaviour of gross debt-to-GDP ratios

GENERAL GOVERNMENT GROSS DEBT IN THE EUROPEAN COMMUNITY

The convergence criteria agreed by member countries of the European Community and set out in the Maastricht Treaty for assessing progress towards Economic and Monetary Union include general government gross debt. The key features of the debt definition to be applied under the Maastricht Treaty are the following:

- Government debt is consolidated, by eliminating those liabilities the corresponding financial assets of which are held by the general government sector.
- Debt is specified using European System of Integrated Economic Accounts (ESA) definitions as comprising currency and deposits, bills and short-term bonds, long-term bonds, other short-term loans and other medium- and long-term loans.
- Debt is valued at nominal value (face value). Index-linked debt is valued at its face value adjusted by the index-related capital uplift accrued to the end of the year.

Another definition of gross debt is used by the OECD Secretariat. It is based on the System of National Accounts (SNA) and is also consolidated, where data are available. However, it is a broader definition of gross debt and includes all gross financial liabilities, including, where data are available, liabilities such as trade credits extended to the government which are not included in the Maastricht definition. Some differences in valuation also arise as SNA provides for some liabilities to be valued at market value or at issue price plus imputed interest accrued.

Debt data consistent with the Maastricht definition are not yet available from member countries of the European Community. However, the European Commission has published estimates of consolidated general government gross debt at nominal value,[1] shown in the table below.

Measures of general government gross debt, 1993

Per cent of GDP

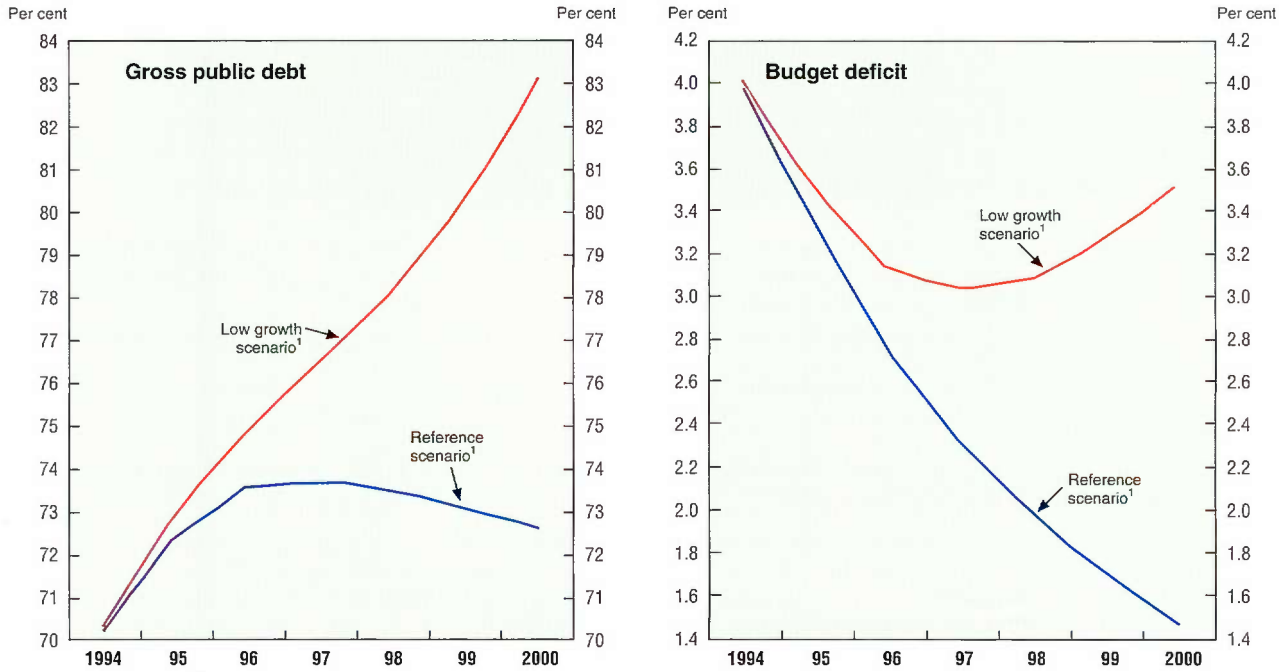
	European Commission	OECD
Belgium	138.4[a]	145.6[b]
Denmark	80.6[c]	66.1[b, d]
France	44.1	52.5
Germany	48.9	48.5
Greece	121.2[e]	106.1[b, d]
Ireland	99.0	90.5[b]
Italy	118.1	113.9[b]
Luxembourg	10.0[a, d]	..
Netherlands	81.4	79.0[b]
Portugal	66.4	67.5[b]
Spain	55.9	59.1[b, d]
United Kingdom	48.8[f]	46.5[b]
EC	65.9	67.7

a) Social Security debt not included.
b) OECD Secretariat estimates.
c) Deposits by the government at the central bank, securities, other than government securities, held by the general government sector and public debt on behalf of public enterprises amounted to 27.3 per cent of GDP in 1993.
d) Debt not consolidated within the general government sector.
e) Military debt and various balances outstanding with the banking sector are not included.
f) End of financial year (31 March 1994).

1. European Commission, European Economy, *Annual Economic Report for 1994*, No. 56, Brussels, 1994.

Figure 3. **Medium-term scenarios for government deficits and debt**

Per cent of total OECD GDP



1. See discussion in text and in the appendix to this chapter.

would vary widely, but for many countries – though by no means all – it would stabilise around 1995 levels or decline somewhat (for further details, see Table 16 in the appendix to this chapter).

The scenario suggests that, on plausible assumptions about the evolution of the economic environment, present fiscal plans will bring budget deficits down to levels which are generally sustainable, in the sense that they will halt the steady increase in public indebtedness that most countries have experienced. However, there are a number of grounds for regarding this prospect as a high risk option and for taking a more ambitious approach to fiscal consolidation as soon as recoveries are clearly under way.

First, while debt levels in the scenario stabilise relative to GDP in most countries, they do so at levels which are very high compared to recent experience: some 15 per cent of GDP higher than in 1989. Second, the scenario takes no account of the contingent liabilities associated with ageing populations alluded to above. Even in countries where large assets in social security funds are neglected in calculations that focus on gross debt (notably the United States, Japan and Canada), these are insufficient to meet the pension obligations already accrued.[3] Third, the medium-term plans which are embodied in the scenario in many countries are to a significant degree objectives rather than projections based on concrete decisions which have been announced and passed into law. Furthermore, spending pressures in social domains remain high, while in many countries there is resistance to tax increases. Consequently, there is a considerable risk of slippage and the scenario implicitly assumes that measures are taken to avoid this (see Box on "Budgetary Processes and Expenditure Control").

Finally, because debt levels are so high, the success which countries have in stabilising debt ratios on the basis of current fiscal plans will be highly dependent on growth rate assumptions embedded in the scenario. As these assumptions imply a long, sustained recovery, they could be too optimistic. If so, and no further corrective fiscal action is taken, a cumulative spiral of rising debt and deficits could occur which would lead debt-to-GDP ratios to return to rapidly rising trends. An alternative scenario in which growth after 1995 is half a percentage

BUDGETARY PROCESSES AND EXPENDITURE CONTROL

In order to resist pressures for more spending, most OECD countries have set themselves a global budget target of some kind, either as a ratio of the deficit or debt to GDP or as a rate of change, or as an absolute value. This is beneficial if the medium-term target clearly signals the direction of government policy, if the target is judged credible, and if it can be monitored. But it can be harmful if failure to meet the target results in a severe penalty from the financial markets, and counter-productive if it encourages a reduction in the transparency of fiscal practices. Building budget targets into law to make them more binding has had mixed success. Most countries that have attempted to do so have had to revise and re-specify their targets as time has gone by. Failure to meet targets seems to have been only partly due to economic conditions.

Most countries now use some degree of forward planning in their budget process, starting with a projection of the fiscal situation three to five years ahead based on the costing of existing policies – the "baseline". This baseline generally provides an indication of how much effort will be necessary to achieve a given consolidation target and can provide early warning signals. A shifting or unreliable baseline would make achieving fiscal goals more difficult, especially if the baseline keeps "slipping" and each new set of projections presents a worse fiscal outcome than the previous one.

A reliable baseline must distinguish between economic conditions that are cyclical from those that tend to be structural, at least in their effect on the budget. It is important to ensure that a cyclical spending increase resulting from an economic downturn does not get spent on other programs as the economy improves, resulting in cyclical deficits becoming structural. ("Offsetting savings" rules need to be tightly specified to avoid this.) Furthermore, price effects must be considered realistically. The cost of providing government services has generally risen faster than inflation, and assumptions about inflation also affect cash benefit rates. The baseline also depends on assumptions about the structural parameters affecting underlying trends in transfer payments (and some discretionary spending). Most entitlement expenditures are beyond the direct control of the budget process. If institutional arrangements or political realities prevent reconsideration of these entitlements, fiscal consolidation will be much more difficult to achieve, since greater savings will have to be found elsewhere.

For new policies, there is a high risk that once a policy or programme has been adopted, public expectations may make it difficult to cancel, even if costs become significantly higher than had been expected. There may be more risk that costs escalate if the decisions focus only on the broad parameters of the policy rather than specifying the details. Another source of risk arises when new policy costings rely heavily on assumptions. One way to deal with these risks would be to establish stricter rules for the costing of policy proposals, including a requirement to set out all assumptions and provide a sensitivity analysis of these assumptions. As a starting point, more systematic efforts to track whether proposed policy costings are subsequently realised could draw attention to areas where policy costing methods could be improved. Multi-year budgeting can reduce the scope and incentive to engage in back-loading of policies – adopting a policy that initially costs very little but has the capacity to grow rapidly in the future.

point per year lower than in the reference scenario suggests that the impact on the average debt-to-GDP ratio for the area would amount to an additional 10 percentage points by the year 2000 (Figure 3), although the effects on individual countries would vary widely.

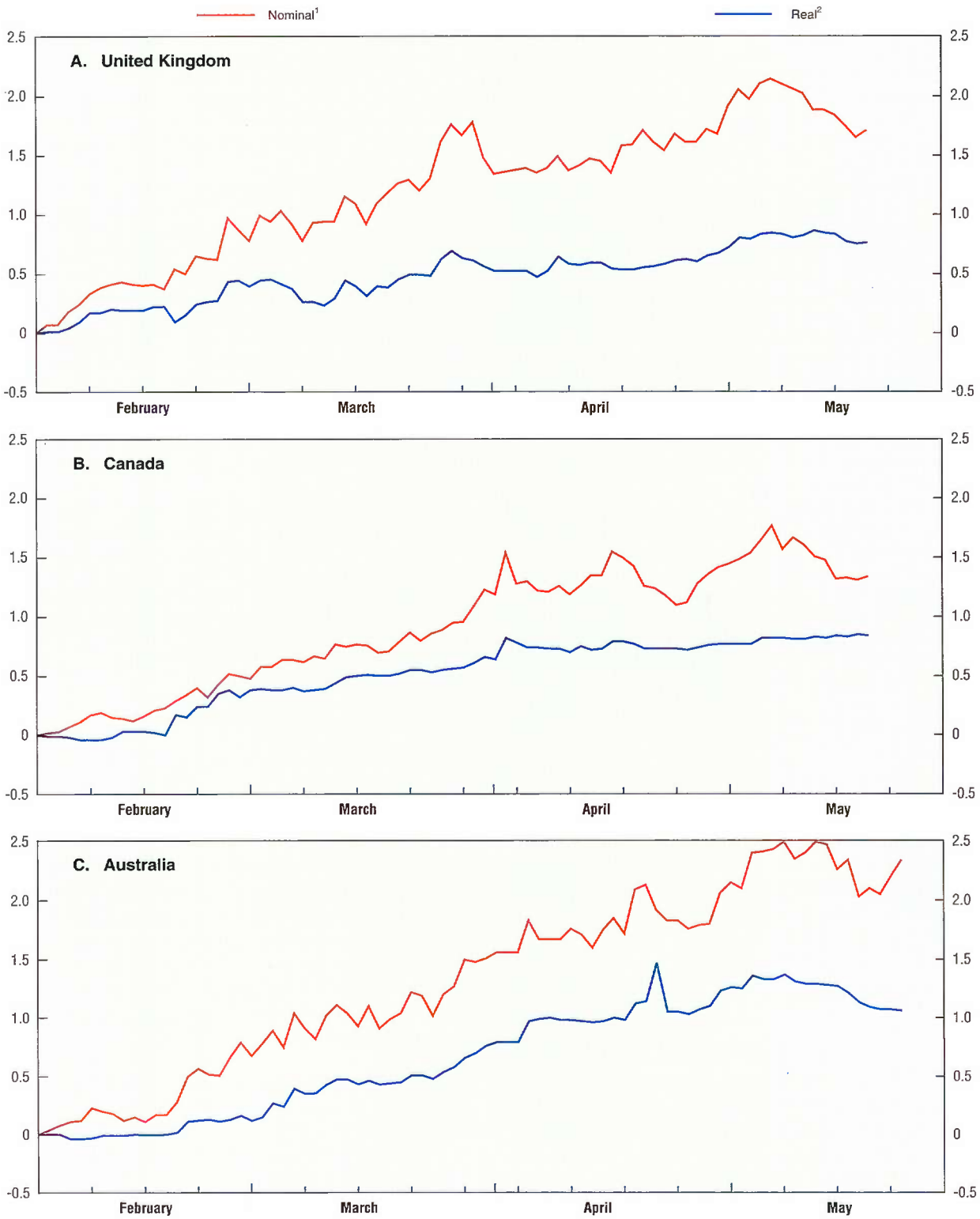
Monetary policy issues

For most of the past two decades, with inflation often high in most countries, "reduce inflation to low levels and keep it there" has provided adequate guidance to monetary authorities in defining medium-term objectives. At the present juncture, however, given the achievement of low inflation rates in most OECD countries, a clearer definition of longer-run inflation objectives would be useful. National authorities that have spelled out their inflation objectives in numerical terms have generally opted for low positive figures, often in the vicinity of 2 per cent or less, fairly close to what might be termed "practical price stability". With inflation now close to this range in many countries, the medium-term focus of policy is likely to shift from reducing inflation to locking in the reductions that have been achieved, and to establishing a track record of keeping inflation to satisfactorily low levels (the chapter "Inflation Objectives in the Medium to Longer Term" provides a broader discussion of these issues).

Against the background of the desynchronised business cycle, a medium-term objective of practical price stability implies different immediate policy concerns across countries: where recoveries are well established and output gaps are diminishing rapidly there is a need to ensure that the disinflation gains of recent years are not threatened, while in countries where the output gap is large and/or rising and where inflation is already low

Figure 4. **Real and nominal bond yields**

Percentage point change from 31 January 1994



1. Yield on government bonds of around 10 years maturity for United Kingdom and Australia; around 29 years for Canada.
2. Yield on government indexed-linked bonds of around 10 years maturity for United Kingdom and Australia; around 27 years for Canada.

there is a need to nurture the emerging recovery without rekindling inflation.

The global rise in long-term interest rates

The rise in long-term interest rates which has occurred in nearly all countries since the beginning of 1994 is an important development which must be taken into account in formulating monetary policy. It occurred at a time when expectations may have been emerging that a correction in global bond markets was overdue following the long "bull run" which began in 1992. Bond yields had fallen to relatively low levels in nominal terms (in Germany, close to record lows) and the United States market had already undergone a small upward correction in late 1993. At the same time, a number of key institutional players, including hedge funds and other investment vehicles, had reportedly built up large exposures to global bond markets during the strengthening market of the preceding year. Since many of these institutions were guided by operational procedures that required them to reduce exposures in a falling market, the existence of these exposures tended to reinforce selling pressures once the markets started to move.

Day-to-day developments were heavily influenced by a number of events and perceptions in financial markets which helped to initiate and to sustain the sharp movements which have occurred. Among the most important were:

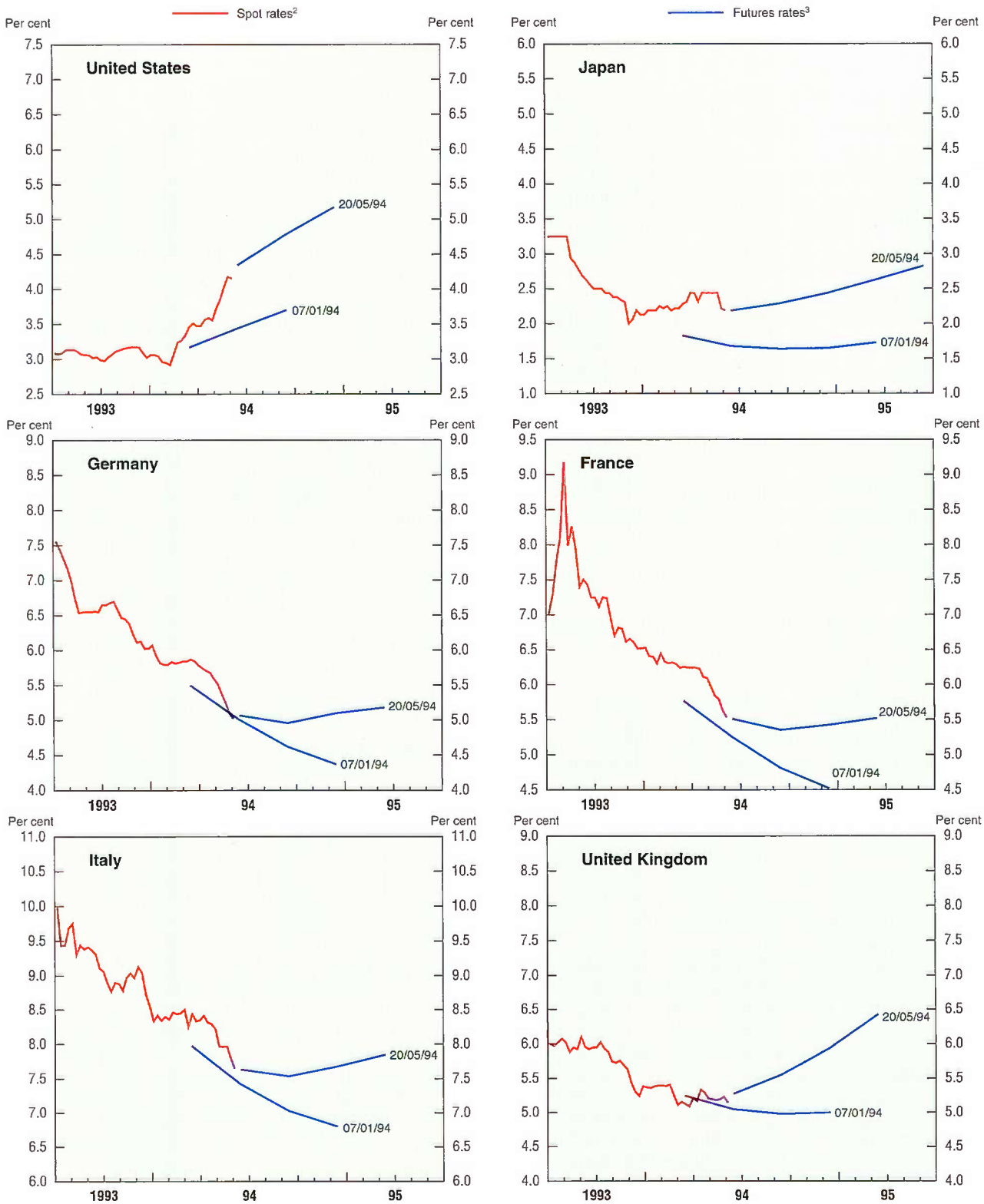
- the tightenings of US monetary policy, particularly the initial one on 4 February;
- the failure of the United States-Japan trade talks on 11 February, which gave sharp impetus to the downward pressure on the dollar-yen exchange rate;
- the release of US national accounts figures on 3 March, showing exceptionally strong growth in fourth quarter GDP, and adding to perceptions that inflation pressures would build up in the absence of measures to slow the economy down;
- the temporary pause in the decline of short-term interest rates in Germany during the early part of the year, whose impact on market expectations was reinforced by some contentious wage negotiations early in 1994 and a series of strong money supply figures;
- the general impression that prevailed in financial markets, prior to the 4 May concerted intervention in exchange markets to support the dollar, that the United States authorities favoured a weaker dollar to help correct trade imbalances;
- official statements in Germany which were widely interpreted as implying that short-term interest rates there would not come down further following the cuts in the discount and lombard rates on 11 May; and
- cancellations of public security tenders by the Bundesbank in late May, which were widely seen as a sign of lack of confidence in the market.

While the events described above go some way towards explaining the timing of the change in sentiment in global financial markets, there were a number of more fundamental macroeconomic factors at work. Increased long-term expectations of inflation appear to have played a significant role in the rise in bond yields in at least some countries. The evidence from indexed-bond markets in countries where these are available (the United Kingdom, Canada and Australia) suggests that rises in long-term expected inflation rates in the range of ½ to 1 percentage point have taken place in those countries in the period since February (Figure 4). In the United Kingdom, this shift amounted to a little over half the size of the total rise in nominal bond yields. In the United States, there is little sign of an increase in inflation at present but the rapidly narrowing output gap may be indicative of future inflation pressures, and concerns that inflation may increase have figured prominently in market commentaries. The combination of higher nominal bond yields with somewhat weaker exchange rates in these countries is also consistent with higher inflation expectations as a key factor. This apparent shift in expectations about inflation prospects may have been super-imposed on other forces working to raise bond yields across a broader range of countries.

There are also a number of other fundamental factors which may have put upward pressure on real bond yields over recent months:

- *Upward revisions to expectations about the behaviour of short-term interest rates.* These revisions have been reflected in significant upward adjustments to the profile of forward interest rates (Figure 5). Since these rates affect the holding cost of longer-term securities, these movements can explain part of the recent upward pressure on real bond yields.
- *Expectations of stronger economic growth.* With recoveries in the United States and several other countries stronger than had been expected last year, the Japanese recession a little shallower than expected, and recoveries beginning to take shape in continental Europe, growth prospects for the industrial countries as a whole have improved significantly. This improvement could be expected to be reflected in higher real yields on long-term securities.
- *Fiscal policies.* The fiscal expansion in Japan and concerns about fiscal slippage in some other

Figure 5. **Spot and futures three-month interest rates**[1]



1. Futures rates as of dates shown.
2. 3-month Treasury bill for the United States, 3-month Euroyen rate for Japan and 3-month national interbank rates for the other countries.
3. 3-month Treasury bill futures for the United States, 3-month PIBOR for France, and 3-month Eurocurrency for the other countries.

countries may have contributed to real yield increases in the countries affected, although the impact does not appear to have been large. In some countries, for example Italy and Sweden, poor fiscal situations appear to help explain relatively high differentials in long-term yields *vis-à-vis* Germany, but there do not appear to have been any new fiscal developments of a nature that would explain substantial changes in yields during recent months.

- *Increased financial risk premia.* Markets may be demanding higher real returns because the policy environment may be perceived to have become less certain. For example, in some countries which have recently experienced large reductions in inflation, the authorities' resolve to keep inflation at lower rates has not yet been tested in the upward part of the business cycle. Also, international financial markets may be perceived as having become potentially more volatile as a result of recent events, thus tending to reinforce other sources of upward pressure on real yields.

The relative calm that prevailed in foreign exchange markets during the earlier part of the episode was somewhat surprising. More recently there have been bouts of dollar weakness against the yen and many European currencies in somewhat unsettled market conditions. The generally bearish sentiment toward the US dollar appears to have accentuated pressure on bond markets in the United States by making these assets less attractive to foreign investors, who face the risk of capital losses if the dollar continues to decline.

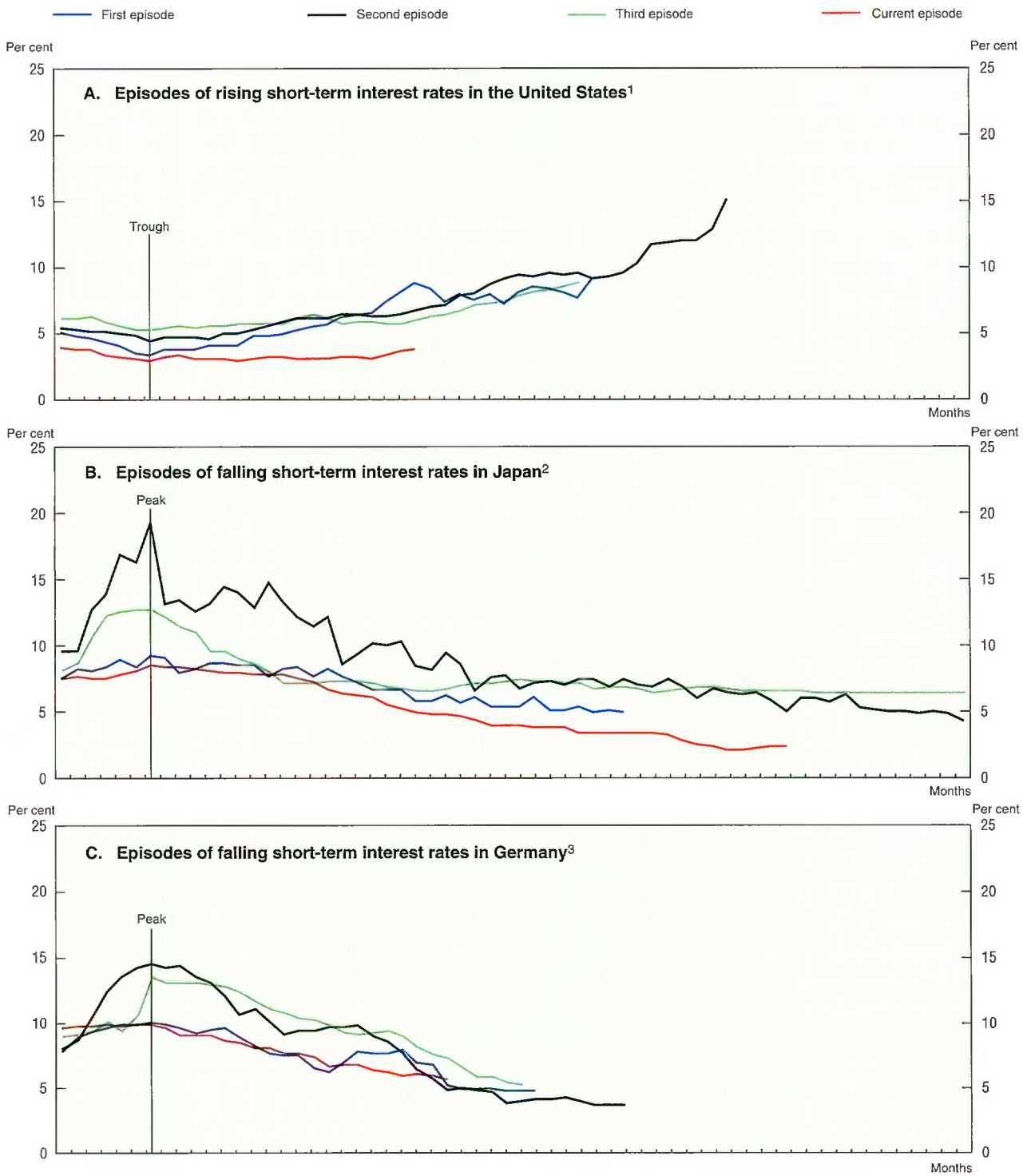
The policy implications of recent bond market developments depend on the interpretation of their causes and likely macroeconomic consequences. To the degree that higher bond yields reflect the improving economic outlook and there is no risk of inflation, they may not call for any policy adjustments. Insofar as they suggest an increase in inflation expectations or concerns about the pace of fiscal consolidation, they may call for more effective articulation of clear commitments to sound public finances and price stability and, where necessary, decisive corrective action. To the extent that they have been caused by increased financial risk premia or upward revisions to expectations about the behaviour of short-term interest rates they may represent a contractionary force that needs to be taken into account. In assessing the policy implications of the recent bond market behaviour, it is also important to keep in mind that asset markets including bond markets sometimes display exaggerated swings unrelated to fundamental factors. A careful balancing act is required to avoid both the risk of not acting to correct forces which will be destabilising and the risk of over-reacting to erratic and reversible short-run movements in bond markets.

Monetary policy in individual countries

In the United States, the need to overcome balance-sheet problems in the wake of heavy borrowing during the 1980s implied that monetary conditions were, in fact, tighter than suggested by low short-term interest rates and the strongly upward-sloping yield curve. However, since 1990 corporate indebtedness has fallen markedly, and debt service payments by even more. Household debt service payments have also fallen due to lower interest rates, despite some rebound in household indebtedness in 1993. Many home owners have been able to lock in low interest rates over the longer term by refinancing their mortgages at the low long-term rates prevailing until recently, which should limit their vulnerability to future rises in interest rates. While concern has been expressed that the financial situation of households remains relatively fragile, because savings have increasingly been placed in illiquid forms such as pension funds and life insurance reserves or more risky assets such as bond and equity mutual funds,[4] there is little doubt that it has improved in recent years.

Against this background, the issue which has been facing the monetary authorities, and which has lain behind the rises in short-term rates since the initial move in early February, is how rapidly short-term rates should be raised, and by how much, in order to slow the economy's expansion to a more sustainable pace. It is recognised that, even if there are very few visible indicators of upward pressure on inflation, timely adjustment of short-term interest rates would ultimately involve less tightening than if it were delayed until inflation pressures have actually emerged. Nevertheless, short-term market interest rates have remained low in the United States for much longer than has been the case during previous cyclical upswings (Figure 6). The half percentage point increases in the discount rate and the federal funds rates in May were substantial, but at some stage further rises may be necessary: even the monetary tightening embodied in the projections, with short-term rates rising to 5½ per cent next year, could allow a slight upward drift in inflation. At this stage, given the background of unsettled bond and foreign exchange markets, the immediate task facing the authorities is to stabilise market conditions by convincing market participants of their readiness to take action promptly when it becomes necessary to do so in order to keep inflation under control. This could be expected to be reflected favourably in long-term interest rates.

Figure 6. **Monetary policy episodes in the three major OECD countries**



1. 3-month Treasury bill rate. First episode: trough in February 1972; 2nd episode: trough in December 1976; 3rd episode: trough in October 1986; current episode: trough in October 1992.
2. 3-6 month CD rate. First episode: peak in February 1970; 2nd episode: peak in March 1974; 3rd episode: peak in July 1980; current episode: peak in September 1990.
3. 3-month interbank rate. First episode : peak in May 1970 ; 2nd episode: peak in August 1973; 3rd episode: peak in March 1981; current episode: peak in August 1992.
Source: OECD, *Main Economic Indicators.*

In the United Kingdom, Canada and some smaller economies where recoveries are also well-established, recessions were in most cases more severe than that in the United States. Consequently, the degree of slack which can safely be absorbed before inflation pressures re-emerge is more substantial, and the scope for reductions in cyclical unemployment would appear somewhat greater. While there may be no strong case for raising interest rates in the near future, the forces which have led to firmer monetary conditions in the United States will increasingly operate in these countries.

In Japan, faster growth of domestic demand is required to support activity against the background of continued declines in net export volumes, a widening output gap and virtual price stability. Although short-term money market rates have fallen to unprecedented levels in the current downturn, growth in the broad monetary aggregates and bank credit remains slow. While the cost of financing by blue-chip firms with direct access to money and capital markets has eased considerably, the financing terms of small and medium sized firms relying on bank credit have remained less relaxed, and the short-term real cost of their borrowing appears high relative to the cyclical situation.

Given the diminished scope for fiscal policy action (as noted above, the projections are based on an assumed extension of income tax cuts during 1995), the question arises as to whether some further easing of short-term money-market conditions would be appropriate, should indicators point to a weaker-than-projected course of recovery. While such monetary action might not have a significant direct impact on non-bank sectors' borrowing conditions, it might provide further support to banks' balance sheet adjustment. It could also contribute to some decline of the yen, whose high level remains a threat to recovery. However, there is great uncertainty about these positive effects. In any attempt to ease monetary conditions further, care would be needed not to lay the ground for a renewed speculative asset-market cycle.

The recovery in continental Europe is in its early stages and the business climate shows clear signs of improvement, but a stronger recovery based more firmly on domestic demand is essential for reversing rising unemployment. The falls in short-term interest rates in Germany since September 1992, at a pace which has not differed greatly from past episodes of monetary easing, have allowed monetary conditions to soften substantially throughout the region. These and the falls in long-term rates which accompanied them until February of this year have been positive forces. However, the rebound in long-term rates poses a risk which is difficult to assess, while the widespread fiscal tightening which is occurring across the region is a negative force operating on domestic demand that must be taken into account in the design of monetary policy. This tightening alone could allow the Bundesbank to achieve its inflation objectives with substantially lower interest rates for the foreseeable future than would otherwise be the case, although a modest negative impact would be involved in the short term. (See Table 13 for illustrative simulation results that suggest sustained fiscal tightening amounting to 1 per cent of GDP could allow interest rates to be permanently lower by 1½ to 2 percentage points.[5])

Table 13. **The effects of fiscal consolidation in Europe on monetary policy in Germany**[a]

	Percentage point change from baseline		
	1995	1996	1997-2000
German short-term interest rate	–1.6	–1.9	–1.9
German consumer price inflation	0.1	–0.1	–0.1
German GDP growth	–0.9	0.8	0.2
Rest-of-Europe GDP growth	–0.6	0.2	0.2

a) The simulation, which has been performed using the OECD Secretariat's Interlink model, concerns a maintained fiscal tightening in all European countries corresponding to 1 per cent of GDP from 1995 onwards, obtained through lower government expenditure. German short-term interest rates are set so as to maintain unchanged inflation in the medium term, and assuming that long-term interest rates change by half of the change in short-term rates. Interest rates in other European countries are assumed to follow German interest rates, keeping intra-European exchange rates stable.

The scope for further cuts in short-term interest rates in the region will depend on how firm the recovery is and how inflation prospects are viewed, with any action needing to be judged so as to avoid any additional upward pressure on long-term interest rates. More specifically:

- In Germany, there is a continued need for a pragmatic approach to monetary targeting, taking into account a wide range of indicators. As improved inflation prospects unfold, there may be scope for some further reduction in short-term interest rates without upward pressure on long-term interest rates. Such downward moves would help France and the other countries that maintain strong links with the Deutschemark to ease monetary conditions further. However, should the recovery in continental Europe prove weaker than projected, somewhat greater cuts in interest rates, in a way that would not create tensions in ERM currency relationships, could be envisaged.
- For Italy and some southern European countries the opportunity for, and the advisability of, further reducing interest rates will depend crucially

both on actual developments in the reduction of budget deficits and inflation, and convincing longer-term commitments to low inflation and fiscal consolidation.

APPENDIX: THE MEDIUM-TERM REFERENCE SCENARIO

Scope and key assumptions

The reference scenario comprises an internationally consistent set of projections for each of the OECD economies to the year 2000, constructed as an extension of the short-term projections. Such a scenario is not a forecast but one of many possible projections. Medium-term analyses are highly conditional and subject to wide margins of error. They necessarily incorporate a large dose of judgement concerning future policies, the scope for structural change and the path of trend developments in the OECD area.

An important feature of the reference scenario is that, for the most part, it embodies a steady adjustment towards stated medium-term fiscal and monetary policy goals, primarily those associated with inflation and the fiscal balance. It therefore serves to highlight areas and issues of particular uncertainty, where "normal" trend relationships indicate underlying pressures and imbalances which may be resolved only by policy action or structural change. It also provides a useful starting point for policy simulation and alternative scenario analyses.

The scenario is based on the assumptions that commodity prices and exchange rates will be broadly unchanged in real terms beyond the short-term projection horizon (*i.e.* from end-1995). For those countries participating in the ERM and their close trading partners in Europe, bilateral exchange rates are assumed to be fixed in nominal terms. Although no explicit assumption is made about the form and timing of European Monetary Union, a general convergence over the period of short- and long-term European interest rates is embodied in the baseline scenario. Beyond the horizon of the short-term projections, fiscal and monetary policy assumptions broadly follow stated medium-term policy objectives. A summary of these fiscal objectives is given in Table 14.

Broad features of the reference scenario

The following paragraphs describe the broad features of the reference scenario for the area as a whole and main geographic zones. Key movements in main macroeconomic aggregates are summarised in Table 15 and Figure 7.

Following the steady recovery of activity projected during 1994-95, real GDP for the OECD area grows in the scenario by an average 2¾ to 3 per cent per annum (with world trade growing at an average 6 to 7 per cent per annum). Such growth is somewhat higher than current estimates of OECD potential, of around 2½ per cent per annum, implying a gradual but significant closing of output gaps over the period in most countries. The pattern of these developments, however, varies across member countries and zones, in part reflecting the different near-term cyclical positions and margins of spare capacity.

For the United States, the pattern of strong near-term growth embodied in the short-term projections is followed by a significant slowdown in 1996 and 1997 with GDP growth stabilising thereafter at an average 2¼ per cent per annum, broadly in line with potential. The specific profile of medium-term growth reflects the strength of near-term growth and the stance of monetary policy, which is assumed to tighten through 1994-95 with the build-up of near-term inflationary pressure. For Japan and Europe, GDP is projected to grow robustly between 1996 and 2000, at average rates of 3¾ and 3 per cent respectively, somewhat faster than current estimates of potential. For the most part, the growth path for Europe is conditional on a combination of favourable factors influencing business investment and private consumption – notably improved confidence and lower real interest rates – and, to a lesser extent, the catch-up process within the German economy. The relatively robust path of domestic demand growth in Germany from the mid-1990s is dependent on rising capital expenditures, principally those associated with the transformation of the eastern Länder.

For the area as a whole, an important contribution to near-term recovery and medium-term growth is a resumption of growth in private investment, at annual rates of 5 to 6 per cent. Growth in real public expenditures is assumed to stay well below 1 per cent per annum, reflecting the programmes of fiscal consolidation currently in place in the majority of member countries. Budgetary restrictions and moderation of real wage claims tend to restrain growth in households' real disposable income. As the result, real growth in private consumption, at an average 2½ per cent per annum, remains below that of GDP, in spite of some gradual decline in household saving rates.

Labour productivity is assumed to grow at a rate broadly consistent with average growth of the last 10 to

Table 14. **Fiscal targets**

United States	Budgetary savings scheduled under the Omnibus Budget Reconciliation Act (OBRA93) would produce a fall in the federal budget deficit from $290 billion in FY 1992 to $180 billion by FY 1997/98. Approximately equal contributions are planned from increased taxation and reduced spending. These targets are based on 2½ per cent average economic growth.
Japan	The Government has no explicit targets, but has guidelines to reduce "construction bonds" for financing public works expenditure to 5 per cent of central government outlays by fiscal year 1995.
Germany	The medium-term consolidation strategy aims at cutting the federal deficit from DM 67 billion in 1993 to DM 46 billion in 1997, and limiting the annual rise of expenditure of the territorial authorities to 3 per cent per annum.
France	The Government intends to reduce the central government deficit to 2½ per cent of GDP in 1997 and to increase spending by the State (including debt servicing) by no more than the inflation rate, assuming an average annual rate of growth of real GDP of 2.8 per cent and revenues rising in line with GDP.
Italy	The new "Convergence Programme" drawn up in July 1993 targets a reduction in the State deficit (excluding proceeds from privatisation) from 9.7 per cent of GDP in 1993 to 5.8 per cent in 1996.
United Kingdom	The Government intends to bring the Public Sector Borrowing Requirement back to balance by the end of the century. This target assumes that real growth will be around 3 per cent per annum.
Canada	The Government intends to bring the federal deficit down to 3 per cent of GDP by FY 1996/97. The Spending Control Act ensures that over the next two years primary spending will gradually decline as a share of GDP.
Australia	The Government intends to lower the federal deficit to 1.2 per cent of GDP by FY 1996/97, with emphasis on tax increases.
Austria	The Government intends to reduce the federal deficit to 2½ per cent of GDP by 1994.
Belgium	The "Plan de Convergence" aims at putting fiscal consolidation on course, and targets the general government budget deficit at 3 per cent of GDP in 1996, while setting the debt to GDP ratio on a declining trend.
Denmark	The Government intends to achieve fiscal balance on a cyclically-adjusted basis by 1999.
Finland	The Government intends to stabilise central government debt at 70 per cent of GDP by 1997 and freeze real central government expenditure at 1991 levels.
Ireland	The Government intends to keep the exchequer borrowing requirement within 3 per cent of GNP and continue to reduce the debt to GNP ratio.
Netherlands	The Government intends to achieve a central government deficit of 3¾ per cent of Net National Income for 1994 and a maximum of 3¾ per cent for 1995 and 1996.
Norway	The Government's long-term programme aims at restricting growth in public expenditure to 2 per cent per year on average during 1994-97.
Portugal	The Government intends to reduce the deficit to 3.3 per cent of GDP, and reverse the upward trend in the public debt ratio, reducing it to 67 per cent by 1997.
Spain	The Government intends to achieve Maastricht deficit and debt targets for convergence by 1996.
Sweden	The Government intends to achieve a gradual return to structural budget balance by 1998.
Switzerland	The Federal Government aims for cyclically-adjusted budget balance.

15 years, generally in the range of 1½ to 2 per cent per annum, and area-wide employment is projected to grow by an average 1 per cent per annum. With the total OECD labour force growing only slightly less, the reduction in unemployment over the period is relatively modest, down by about 1 percentage point between 1994 and 2000, to an average 7½ per cent for the total OECD and 10½ per cent for OECD Europe. Although modest, these reductions are likely to be most significant in those countries experiencing the highest rates of unemployment at present. By the year 2000 there are four member countries with projected unemployment rates significantly in excess of 10 per cent, compared with nine such countries in the short-term projection for 1995.

Average OECD inflation, excluding Turkey, declines slightly from 2¼ per cent in 1995 to around 2 per cent by the year 2000. For Europe, the rate of inflation remains relatively stable from 1995 onwards, whilst for the United States there is upward pressure in the near term due to the strength of demand and activity. This development is progressively reversed from 1997 onwards as the effects of monetary tightening are felt. For Japan, a process of further disinflation continues, although the profile is distorted in 1996-97 when higher

Table 15. **Summary of the medium-term reference scenario**[a]

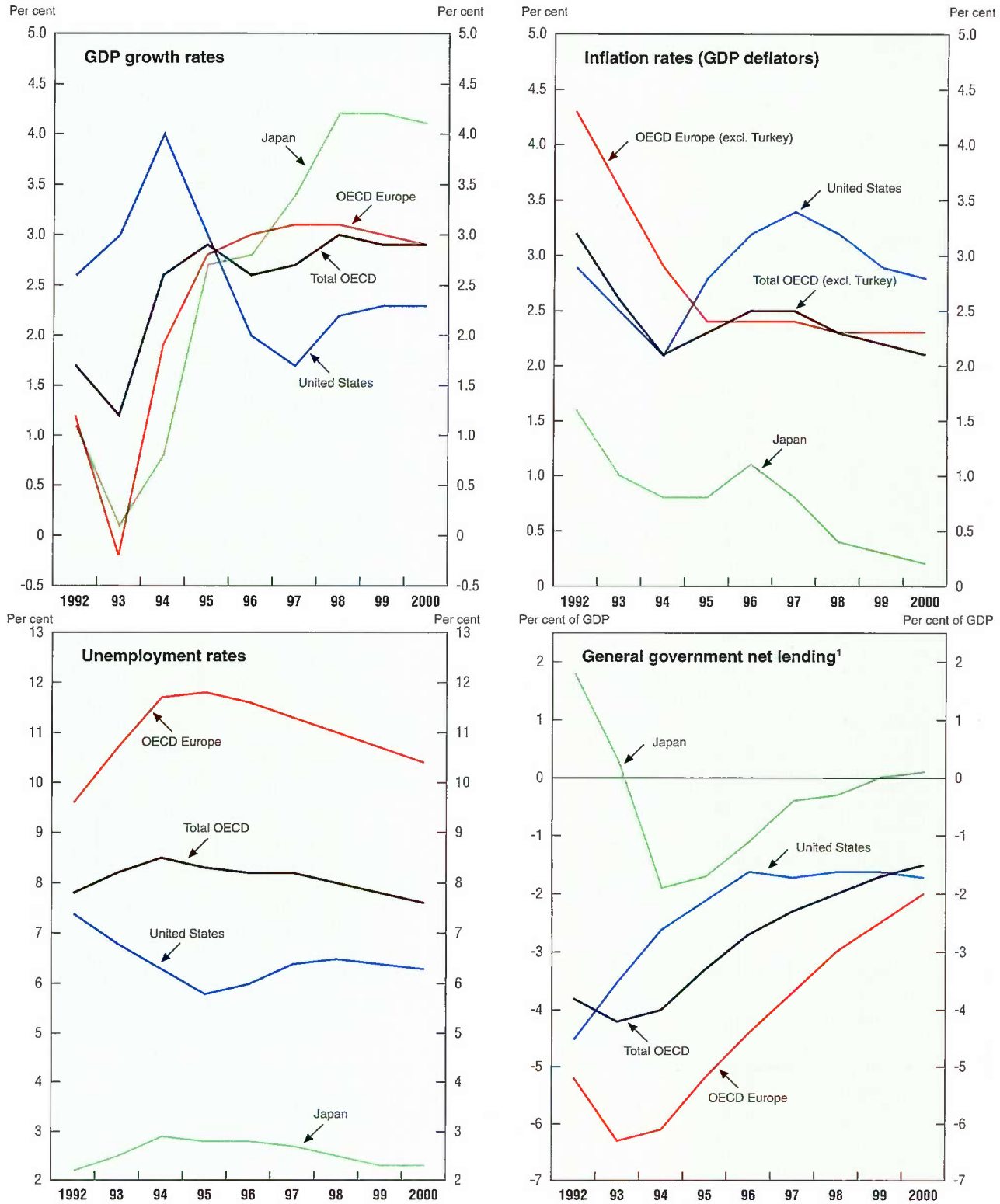
	1992	1993	1994	1995	1996	1997	1998	1999	2000
	Percentage changes from previous period								
Real GDP									
United States	2.6	3.0	4.0	3.0	2.0	1.7	2.2	2.3	2.3
Japan	1.1	0.1	0.8	2.7	2.8	3.4	4.2	4.2	4.1
Germany	2.1	–1.3	1.8	2.6	2.8	3.1	3.4	3.2	3.0
OECD Europe	1.1	–0.2	1.9	2.8	3.0	3.1	3.1	3.0	2.9
Total OECD	1.7	1.2	2.6	2.9	2.6	2.7	3.0	2.9	2.9
Inflation[b]									
United States	2.9	2.5	2.1	2.8	3.2	3.4	3.2	2.9	2.8
Japan	1.6	1.0	0.8	0.8	1.1	0.8	0.4	0.3	0.2
Germany	5.3	3.9	2.8	2.0	1.9	2.0	2.0	2.0	1.9
OECD Europe (excluding Turkey)	4.3	3.6	2.9	2.4	2.4	2.4	2.3	2.3	2.3
Total OECD (excluding Turkey)	3.2	2.6	2.1	2.3	2.5	2.5	2.3	2.2	2.1
Total OECD	3.9	3.4	3.5	3.3	3.3	3.3	3.0	2.8	2.6
	Per cent of labour force								
Unemployment									
United States	7.4	6.8	6.3	5.8	6.0	6.4	6.5	6.4	6.3
Japan	2.2	2.5	2.9	2.8	2.8	2.7	2.5	2.3	2.3
Germany	7.7	8.9	10.0	10.0	9.9	9.8	9.6	9.4	9.4
OECD Europe	9.6	10.7	11.7	11.8	11.6	11.3	11.0	10.7	10.4
Total OECD	7.8	8.2	8.5	8.3	8.2	8.2	8.0	7.8	7.6
	Per cent								
Short-term interest rates[c]									
United States	3.4	3.0	4.2	5.5	5.5	4.8	4.5	4.3	4.3
Japan	4.3	2.9	2.3	2.7	3.3	3.3	3.3	3.5	3.5
Germany	9.5	7.3	5.1	4.3	4.0	4.0	4.2	4.3	4.3
France	10.3	8.6	5.3	4.3	4.0	4.0	4.2	4.3	4.3
Major 4 European countries[d]	11.0	8.1	5.8	5.2	4.9	4.9	5.0	5.1	5.2
	Per cent of GDP								
Government budget balances[e]									
United States	–4.5	–3.5	–2.6	–2.1	–1.6	–1.7	–1.6	–1.6	–1.7
Japan	1.8	0.3	–1.9	–1.7	–1.1	–0.4	–0.3	0.0	0.1
Germany	–2.6	–3.3	–2.9	–2.8	–2.8	–2.4	–2.1	–1.8	–1.5
OECD Europe[f]	–5.2	–6.3	–6.1	–5.2	–4.4	–3.7	–3.0	–2.5	–2.0
Total OECD[f]	–3.8	–4.2	–4.0	–3.3	–2.7	–2.3	–2.0	–1.7	–1.5
Current balances									
United States	–1.1	–1.7	–2.1	–2.1	–2.1	–2.0	–2.0	–1.9	–1.9
Japan	3.2	3.1	2.8	2.5	2.3	2.1	2.0	1.9	1.8
Germany	–1.1	–1.1	–0.7	–0.2	–0.1	–0.1	0.0	0.0	–0.1
OECD Europe	–0.7	0.3	0.7	1.0	1.1	1.1	1.1	1.0	1.0
Total OECD	–0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	Percentage changes from previous period								
World trade[g]	5.0	3.3	6.7	7.2	6.9	7.0	7.3	7.2	7.1

a) The assumptions behind the medium-term scenario are discussed in the text.
b) GDP deflator.
c) United States: 3-month Treasury Bills; Japan: 3-6 month CD; Germany, France, Italy, United Kingdom: 3-month interbank rates.
d) Unweighted average of Germany, France, Italy and the United Kingdom.
e) General government financial balances as per cent of nominal GDP.
f) Regional and area-wide totals exclude Iceland, Luxembourg, New Zealand, Switzerland and Turkey.
g) Arithmetic average of the growth rates of world import and export volumes.

indirect taxes are assumed to come into effect to offset the budgetary cost of reductions in direct taxes.

Given the effects of sustained medium-term growth and active programmes of fiscal consolidation in most countries, major progress is made in budget deficit reduction. For the area as a whole, the ratio of general government net borrowing to GDP falls below 1½ per cent of GDP by the year 2000 and only two countries have fiscal deficits much in excess of 3 per cent of GDP, compared with eleven such countries in 1995. Such a pace of fiscal consolidation is sufficient to achieve a broad stabilisation of the ratio of government debt to GDP for the area as a whole, with some small improvements occurring from 1997 onwards. As reported in Table 16, the experience across individual member countries is, nonetheless, varied reflecting different speeds of

Figure 7. **Medium-term reference scenario**



1. Regional and area-wide totals exclude Iceland, Luxembourg, Switzerland, Turkey and New Zealand.
Source: OECD Secretariat.

Table 16. **Fiscal trends in the medium-term reference scenario**

As a percentage of nominal GDP

	General government financial balances[a]		General government gross debt[b]	
	1995	2000[c]	1995	2000[c]
United States	–2.1[d]	–1.7[d]	64.1	62.6
Japan	–1.7	0.1	82.6	87.6
Germany	–2.8	–1.5	64.3	66.8
France	–5.2	–1.9	60.6	65.3
Italy	–8.6	–3.4	120.7	114.9
United Kingdom	–4.3	0.2	52.3	46.9
Canada	–4.0	–1.8	95.4	91.0
Total of above countries	–3.1	–1.4	72.0	71.8
Australia	–3.4	–0.3	38.8[e]	39.9[e]
Austria[f]	–3.3	–2.1	59.1	56.4
Belgium	–4.7	–2.3	144.8	131.6
Denmark[f]	–3.2	1.0	69.6	64.5
Finland[f]	–5.5	–2.3	64.2	81.6
Greece[f]	–12.5	–7.2	112.4	122.1
Ireland	–2.6	–2.2	84.9	72.0
Netherlands	–3.7	–2.0	81.7	80.4
Norway[f]	–1.8	–2.3	50.4	63.1
Portugal	–6.6	–2.8	72.6	66.5
Spain[f]	–5.9	–2.9	67.4	71.0
Sweden	–9.5	–5.0	100.8	123.4
Total of above smaller countries	–5.2	–2.4	75.7	77.7
Total of above European countries	–5.2	–2.0	76.1	76.3
Total of above OECD countries	–3.3	–1.5	72.4	72.6

a) Fiscal surplus (+) or deficit (–). See Annex Table 28 for observations and projections before 1995.

b) Gross financial liabilities according to SNA definitions. It should be noted that this differs from the definition of debt applied under the Maastricht Treaty. See Annex Table 32 for observations and projections before 1995.

c) OECD Secretariat projections to 2000, assuming the successful implementation of the medium-term fiscal plans summarised in Table 14 in an environment of sustained recovery and low inflation.

d) Excludes deposit insurance outlays.

e) Refers to fiscal year data ending 30 June. Includes indebtedness of local government towards other levels of general government.

f) Debt figures do not exclude public-sector mutual indebtedness.

fiscal adjustment and different starting levels of public debt.

With regard to sectoral balances, the main counterpart to the general improvement in budget deficits is found in a fall in private sector saving and investment balances, reflecting relatively robust growth in investment and modest declines in households saving rates. Thus, there is no major change in external deficits at the aggregate OECD level. For Japan, the current account surplus declines by around ¾ per cent of GDP to below 2 per cent by 2000, with the main counterparts seen in corresponding small improvements in the current account positions of the other major seven economies.

Overall, the combination of fiscal consolidation and low inflation is compatible in most countries with a general reduction in nominal and real short- and long-term interest rates. These reductions are most significant within Europe, where fiscal consolidation is projected to progress the most.

NOTES

1. See Blanchard O. *et al.*, "The Sustainability of Fiscal Policy: New Answers to an Old Question". OECD *Economic Studies* No. 15, Autumn 1990.
2. The fiscal consolidation paths to the year 2000 incorporated in the medium-term reference scenario have been prepared by the OECD Secretariat, based on the consolidation plans announced by governments and summarised in Table 14 in the appendix to this chapter. It is generally assumed that the policy changes required to meet these plans will be made even where these have not been specified in detail by governments. However, it should be noted that for the United States, no allowance for health care reform has been made and for Japan, a rise in indirect taxation in 1996 and 1997 has been assumed, in order to offset the reductions in direct taxes that are incorporated in the short-term projections. For further details in the context of earlier analysis along similar lines, see Richardson, P., C. Giorno and S. Thurman, "Macroeconomic Performance and Fiscal Policy Adjustment in the Medium-Term", forthcoming Economics Department Working Paper, OECD, Paris, 1994; and Leibfritz, W., D. Roseveare and P. van den Noord, "Fiscal Policy, Government Debt and Economic Performance", Economics Department Working Paper No. 144, OECD, Paris, 1994.
3. In the medium-term reference scenario, changes in net and gross government debt are derived from general government financial balances. Financial assets – the difference between gross and net debt – are assumed to remain unchanged as a percentage of GDP.
4. See the remarks by Lawrence B. Lindsey, member of the Board of Governors of the US Federal Reserve System, to the Baltimore Chapter of the Commercial Finance Association, 7 March 1994.
5. If fiscal consolidation were confined to Germany, the interest rate reduction that would be possible would only be around 1 percentage point.

INFLATION OBJECTIVES IN THE MEDIUM TO LONGER TERM

The conduct of monetary policy involves making judgements about longer-run inflation goals against which current performance can be assessed. Since inflation generates costly economic distortions, there is a *prima facie* case that the appropriate longer-run objective is a zero rate – or something very close to it. Two broad sets of practical arguments exist for aiming at a rate somewhat higher than zero: first, there may be important rigidities which make it difficult or costly to sustain further inflation reductions when rates close to zero are reached; and second, some allowance may need to be made for possible measurement biases in standard price indexes such as the Consumer Price Index. The empirical evidence is inconclusive on the first point but, on the second point, suggests that measurement biases could be significant in relation to measured inflation in the range currently projected for most OECD countries.

Introduction

Given the uncertainties and lags involved in the transmission of the effects of monetary policy, the desirability of maintaining a medium-term orientation for monetary policy is widely recognised. An implication of this is that some notion of medium-term inflation objectives must play an important role in monetary policy formulation. For much of the past twenty-five years, with inflation clearly higher than desirable in many countries, the general goal of reducing inflation and keeping it low has probably provided adequate guidance in this regard. However, as inflation has come down to low levels in most countries and is projected in many to decline somewhat further despite some recovery of activity, a clearer definition of medium-term inflation objectives would be useful. In particular, the merits of pursuing policies of further disinflation in countries where inflation is low but still positive by amounts that exceed plausible estimates of any measurement bias, and the point at which inflation can be regarded as "sufficiently" low, both need to be assessed. A subsidiary, but related issue is how quickly countries that have not achieved their objectives should attempt to do so.

This chapter reviews some key issues involved in making such an assessment. It covers, first, the question of whether or not the optimal rate of inflation may be higher than zero; second, the costs of inflation and transitional issues involved with the costs of inflation reduction; and third, possible biases in the measurement of inflation which may need to be allowed for when formulating longer-run inflation goals.

The Optimal Rate of Inflation

There is strong evidence that high inflation imposes significant real costs by reducing the efficiency with which the pricing system allocates resources and by generating uncertainty. These costs, discussed in more detail in the next section, arise because institutional arrangements such as taxation and contracting systems generally do not fully adapt to inflation, and because high inflation is usually variable and unpredictable. The desirability of eliminating these costs suggests a *prima facie* case for aiming at zero inflation in the longer run, in the absence of other macroeconomic arguments for a higher rate.[1]

Leaving aside the issue of measurement biases (discussed below) the debate as to whether a higher than zero inflation rate is optimal has centred around the following.[2]

Downward rigidities in nominal wages and prices

In economies where there are significant downward nominal rigidities, there may be a case that inflation facilitates adjustment in relative prices and wages and therefore, up to a point, enhances economic efficiency; for example, a real wage reduction needed in response to some adverse shock might be easier to achieve when inflation is positive than when it is zero. The extent to which this argument justifies tolerating positive inflation depends on the practical importance of nominal rigidities for economic performance, as well as on the effectiveness of inflation in promoting relative wage and price flexibility compared with other means of pursuing the same goal. Empirical evidence in this area is not very conclusive, but suggests that moderate inflation does not have very much effect on the flexibility of real wages.[3] It should also be noted that downward nominal rigidities are probably at least partly a result of entrenched expectations of positive inflation. To the extent that such rigidities are important, they might be best tackled at source,

by aiming at price stability and promoting relative price and wage flexibility through structural policies.

A possible role for negative real interest rates

Positive inflation allows scope for monetary policy to impose negative short-term real interest rates, should circumstances arise where that is considered appropriate for demand management purposes. The likely usefulness of this policy option needs to be evaluated in the light of historical experience, taking into account that other instruments such as fiscal and exchange rate policy adjustments may also be available to deal with severe contractionary shocks that arise. Although a role for negative real interest rates cannot be ruled out, historical experiences of negative real interest rates have been relatively rare; the main example occurred in the mid- to late-1970s, a period which is usually regarded as one in which monetary policy failed to contain inflation.

Credibility of low and zero inflation objectives

An important consideration in the choice of a long-run inflation objective is the inflation rate at which credibility can most readily be established. Proponents of zero inflation argue that a zero objective would provide a clear, easily communicated goal that would promote credibility, whereas any positive figure would be considered by the public to be essentially arbitrary and would cast doubt on the authorities' anti-inflation resolve. On the other hand, there may be difficulties in establishing the credibility of a zero inflation objective if it is perceived to be too ambitious and there are no strong institutional mechanisms for enforcing it.

Benefits and Costs of Moving to Zero Inflation

Where longer-run inflation objectives have not been met, the immediate issues facing policy-makers concern the speed and timing of disinflation. Policy needs to take account of both the costs generated by continuing inflation, and the transitional costs likely to be involved in reducing it.

Costs of inflation

The most important costs of inflation are likely to arise from the fact that, in practice, institutional and contractual arrangements are not fully adapted to it.[4] Inflation, therefore, has the capacity to distort a wide variety of economic transactions, for example through interactions between inflation and taxation, the effects of inflation on uncertainty, and its effect on capital accumulation and growth. However, while there is a strong case that inflation in general imposes substantial real costs, the case that such costs remain important at very low inflation rates is less compelling; this is partly because of a lack of relevant historical experience by which macroeconomic: performances under low and zero inflation rates could be compared. A brief outline of the main costs of inflation is presented below, and some empirical estimates of the magnitudes are reported in Table 17.[5]

Most tax systems contain important components that are not fully indexed to inflation. The most important of the distortions arising from this are probably those affecting the measurement of capital income; these may have the effect of raising the cost of capital and may therefore retard investment, as well as distort its financing and composition. Examples include:

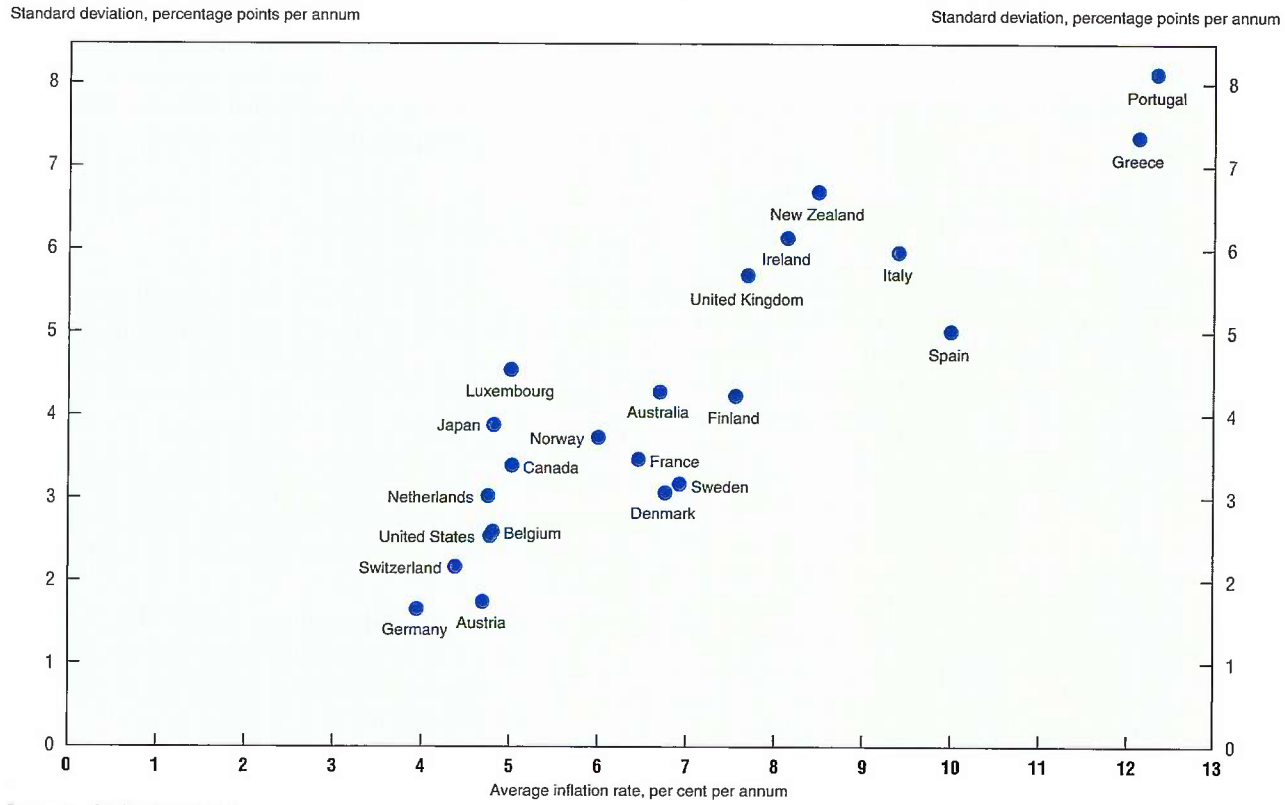
- use of historical cost valuations to calculate depreciation allowances, which understates the true cost of depreciation in the presence of infla-

Table 17. **Empirical estimates of the costs of inflation**

Study	Sources of inflation cost included	Country	Income or productivity gain per 10 percentage points of inflation reduction (per cent of GDP)
Fischer (1981)	Tax on money balances	United States	0.3
Fischer (1981)	Interaction of inflation and taxation	United States	2
Lucas (1981)	Tax on money balances	United States	0.9
Cooley and Hansen (1991)	Tax on money balances and interaction with income taxation	United States	0.6
Jarrett and Selody (1982)	All	Canada	3[a]
Black, Macklem and Poloz (1993)	Tax on money balances	Canada	2
Black, Macklem and Poloz (1993)	Interaction of inflation and taxation	Canada	8
McTaggart (1992)	All	Australia	2.5
Grimes (1991)	All	OECD	0.9[a]
Englander and Gurney (1994)	All	OECD	0.6[a]

a) Per cent per annum productivity growth.

Figure 8. **Standard deviation and mean of inflation rates**
22 OECD countries, 1960-93



Source: OECD Secretariat.

tion and, therefore, increases the rate of taxation on capital investment;
- non-indexation of capital gains in many tax systems, which also implies overstatement of capital income, and may encourage a "locking-in" of ownership of business assets subject to capital gains tax on realisation;
- valuation of business inventories at historical cost, thereby including the inflationary gains on inventories in taxable profits;
- measurement of interest flows on a nominal basis for tax purposes, which may distort financing decisions in favour of debt when inflation is high.

Another mechanism by which inflation may impose real costs is by generating price uncertainty. This has two aspects – the effect of high inflation on the predictability of the aggregate price level, and its effect on the variability of relative prices. These uncertainties are likely to have a number of negative effects on economic efficiency, for example by reducing the information content of the pricing system and by inhibiting long-term nominal contracting. Empirical evidence suggests that the first of these effects – that of high inflation on aggregate price uncertainty – is probably the most important. This effect is particularly striking in cross-country comparisons: countries with high average inflation over extended periods clearly tend to be those whose inflation rates are more variable (Figure 8).[6] One of the reasons for this relationship is that policies are likely to be less stable in situations of high inflation.

Negative effects of inflation on capital accumulation may reduce the rate of growth of output as well as its level. Two recent studies [7] have reported estimated reductions in productivity growth in the range of 0.05-0.10 percentage point for each additional percentage point of inflation. While these effects may not appear large in a short-term context, they would imply important gains over the longer-term from inflation reduction, if it

is true that the rate of productivity growth is permanently affected by inflation.

A variety of other distorting effects of inflation can be listed. These include the distortion of repayment schedules in long-term nominal debt contracts, the resources devoted to protecting against inflation, and the distributional effects of inflation when it is not fully anticipated.

Transitional costs of disinflation

The existence of transitional costs in reducing inflation raises important questions as to the appropriate speed and timing of inflation reduction when the rate is already relatively low and the gap between actual and desired inflation is small. Particularly relevant is the nature of the short-run trade-off involved in inflation reduction, and the extent to which the net benefits of disinflation might diminish as inflation moves down to very low rates. This has two aspects. First, as noted above, some of the costs of inflation are hard to detect at low single-digit rates, and it is possible that the marginal distortionary effects of inflation diminish in that range. Second, it is possible that short-run trade-offs between output and inflation become less favourable to further disinflation at low inflation rates, implying a rising output cost of inflation reduction as inflation approaches zero.[8]

If it is true that the output costs of reducing inflation rise as inflation is reduced to low single-digit rates, it suggests two important issues for policy. The first relates to the appropriate pace of further disinflation during the time period in which the trade-off cannot be changed by policy actions. Under such circumstances, it can be asked whether there may be a case for a relatively cautious or gradualist approach to inflation reduction, insofar as the inflation rate is already not too far above its desired range. However, the benefit of this approach – in terms of the smaller short-run loss of output and employment – has to be weighed against any damage that might be done to the authorities' credibility by being seen to tolerate inflation above the desired range for too long a period.

The second issue concerns policy actions to improve the terms of the trade-offs being faced. These terms will depend on structural characteristics of the economy and on the extent to which policy is successful in shifting inflation expectations during the disinflationary process. Output costs of disinflation will tend to be smaller in cases where markets are more flexible, and there are clearly a number of areas, for example in labour markets, where policy can bring about improvements in this regard. Mechanisms which help to reduce inflation expectations and enhance policy credibility can also have a role in reducing the costs of disinflation. Examples include the announcement of inflation targets, enhancement of central bank independence, and the use of ERM membership to ''import'' credibility from the Bundesbank in a number of European countries where inflation has historically been higher than German rates. Experience suggests that these mechanisms take time to be effective but can yield important benefits, in terms of reduced inflation expectations, over time.

Measurement Considerations

There are a number of respects in which consumer price indexes (CPIs) – usually the most important inflation indicators for policy purposes – do not exactly meet the requirements of a true cost of living index.[9] In net terms these probably imply upward biases in measured inflation rates, and the need to allow for such biases in the formulation of policy objectives is unlikely to be controversial, provided the likely size of the biases can be accurately assessed. The main sources of measurement error are:

- **Product substitution bias**: fixed-weight indexes such as the CPI overstate true increases in the cost of living because they do not fully allow for consumers' ability to reduce costs by substituting away from products whose relative prices are increasing.
- **Quality bias**: although statisticians attempt to adjust price indexes for the estimated effects of quality improvements, the measurement of quality can be subject to large errors, particularly in areas affected by the rapid introduction of new technology.[10]
- **New goods bias**: the introduction of new goods enhances living standards in ways that are usually not fully incorporated in standard price indexes.
- **Outlet substitution bias**: this arises through a tendency for consumers to substitute in favour of lower-cost retail outlets, so that a fixed-weighted average of prices charged by standard suppliers is likely to overstate the increase in average prices paid.

Available evidence as to the size of these biases, based on studies in the United States and Canada, is summarised in Table 18. Best guesses suggest total CPI measurement biases of up to half a percentage point in Canada and around one percentage point in the United States, but these estimates are subject to considerable uncertainty, and in some cases are based mainly on illustrative assumptions and educated guesswork. It is not necessarily the case that biases in other countries are of

Table 18. **Empirical estimates of bias in the CPI: United States and Canada**

Study	Sources of bias included	CPI components affected	Estimate of bias (percentage points per annum)
United States			
Lebow, Roberts and Stockton (1992)	All	Total	1.0
Bryan and Cecchetti (1993)	All	Total	Insignificant since 1981
Gordon (1992)	Quality	Consumer durables	1.5
Manser and MacDonald (1988)	Product substitution	Total	0.2
Reinsdorf (1993)	Outlet substitution	Gasoline, food	0.5, 2.0
Canada			
Crawford (1993)	All	Total	0.5 maximum
Fortin (1990)	All	Total	0.5 to 1.0

similar magnitude, since statistical procedures such as those dealing with quality adjustment vary from country to country.

Conclusions

This chapter is concerned with the formulation of policy objectives in circumstances where inflation has already been brought down to low single figures – the detrimental effects of inflation above that level are not in doubt. Within this context, the case for allowing some positive inflation, as conventionally measured, depends essentially on:

- the performance of economies at close to zero inflation and particularly the extent to which various nominal rigidities come into play; and
- evidence that consumer price indexes overstate inflation by economically significant amounts.

On the first of these issues, there is little conclusive empirical evidence, and ultimately an overall evaluation of them must be highly judgmental. On the second issue, there is evidence of some bias and ambiguity in the measurement of inflation, largely based on data from the United States and Canada. These do not appear to be large, but once inflation has come down to around 3 per cent they may be significant in comparison to the range of plausible candidates for medium-term inflation objectives.

To the extent that the arguments for higher-than-zero inflation are accepted, a good deal of judgement is required as to what they might imply in numerical terms. Most national authorities that have tried to define their longer-run objectives have done so in terms that emphasise the goal of price stability and put little weight on arguments for tolerating significantly positive rates. For example, the US Federal Reserve Chairman has defined the policy goal as "price levels sufficiently sta-

Table 19. **Inflation objectives: selected countries**[a]

Percentage rates

1. Countries with formal inflation targets		
United Kingdom	1 to 4	Goal is lower half of range by 1997
Canada	1 to 3	Target range through to 1998
Sweden	1 to 3	Target for 1995
Finland	2	Target for 1995
New Zealand	0 to 2	Current target range
2. Others		
Germany	Maximum of 2	Medium-term inflation goal
France	Maximum of 2	Medium-term inflation goal
Italy	2	Medium-term inflation goal by 1996
Switzerland	0 to 1	Medium-term inflation goal

a) The price indexes that these objectives refer to are as follows:
United Kingdom: Retail Price Index excluding mortgage interest payments;
Canada: The CPI is the official target, but an underlying CPI excluding food, energy, and temporary effects of indirect taxes is used as an operational objective;
Sweden: CPI;
Finland: CPI excluding indirect taxes, subsidies and housing capital costs;
New Zealand: CPI excluding indirect taxes;
Germany, France and Switzerland: Objectives are set out in conjunction with money growth, output and velocity assumptions, so implicitly refer to GDP deflators, although CPIs remain an important policy focus in each country;
Italy: Private consumption deflator.

ble so that expectations of change do not become major factors in economic decisions''.[11] Where national authorities have set medium-term inflation goals in numerical terms, these do involve small positive rates rather than an average of zero (Table 19), but this includes whatever allowances are made for measurement biases, and the specified ranges are close to what might be considered ''practical price stability''.

NOTES

1. Theoretical arguments that the optimal inflation rate may be negative have had little impact on the policy debate and are not discussed here.
2. These points are discussed by Summers (1991) in support of the case that the optimal inflation rate is positive. This case is disputed by proponents of zero inflation, for example Crow (1988).
3. See, for example, Crawford and Dupasquier (1993) and Lebow, Stockton and Wascher (1993).
4. Costs of fully anticipated inflation are essentially the efficiency losses associated with the inflation-tax on real money balances. These costs are usually estimated to be small at low inflation rates.
5. For a more detailed discussion, see Edey (1994).
6. Other evidence, for example, Ball and Cecchetti (1990), Evans (1991), suggests that this effect is also evident, though not as strong, at the individual country level.
7. See Grimes (1991) and Englander and Gurney (1994).
8. If hysteresis in labour markets is important, these ''short-run'' costs of inflation reduction could persist for considerable periods.
9. See Edey (1994) for a more detailed discussion of the choice of indicators and issues of measurement bias.
10. Quality measurement errors are usually argued to work in the direction of a net understatement of quality improvement. However, there is some evidence of biases in the other direction in some categories of goods, for example clothing.
11. Testimony to the House Committee on Banking, Finance and Urban Affairs, January 24, 1989.

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THE DESYNCHRONISATION OF OECD BUSINESS CYCLES

The most recent business cycle has been far more desynchronised across major OECD regions than previous cycles. There are several reasons for this, the most important of which appears to be the relative importance of country- or region-specific shocks in this episode rather than more global shocks that played a significant role in earlier cycles. Desynchronisation is having important implications for recovery in much of the area, notably Europe, where the strength of external demand has acted and is projected to continue to act as an important driving force for recovery.

Introduction

The downturn which the OECD area experienced at the beginning of the 1990s and the recovery which is now under way have been part of the third major business cycle in the past twenty years. While in many individual countries the downturn was at least as severe as the earlier recessions in 1974-75 and 1980-82, it differed at the global level from these previous cycles in that it was far shallower. Indeed, in both 1975 and 1982 there was essentially no area-wide GDP growth, whereas in the most recent cycle the annual growth rate never fell below the ¾ per cent rate of increase recorded in 1991. However, in the latest cycle the weakness of activity was more prolonged than in previous cycles. By the end of 1995 area-wide output could still be below its long-term trend; in previous recoveries trend output was reached relatively rapidly.

The difference in profile can be attributed to the lower synchronisation of recessions in individual countries over the course of the current business cycle. In the 1970s, the cyclical trough was reached in 1975 in each of Japan and the European and North American regions, and during 1982-83 troughs were only slightly more spread out[1] (Figure 9). In the latest cycle, the North American region reached a peak in 1989 and a trough in 1991, while Europe and Japan did not peak until 1990 and 1991, respectively, and are only projected to reach the cyclical trough in 1994. Within Europe, the United Kingdom business cycle has been less synchronised with those in the other major countries. While business cycles in continental Europe have moved more in parallel, the temporary divergence of cyclical conditions in Germany from those elsewhere around the time of unification is clearly apparent in Figure 9.

Why has this cycle been less synchronised?

Several factors have affected the degree of synchronisation of business cycles in different economies. First, business cycles in small open economies which have strong trade links with each other are likely to be more synchronised than is the case for larger, more closed economies. The exposure of each of the three main OECD regions to changing external demand conditions is relatively limited, so that while trade links are probably strong enough to lead to a considerable degree of synchronisation of business cycles *within* major regions, they do not appear sufficiently strong – by themselves – to synchronise cycles *across* major regions (Table 20).

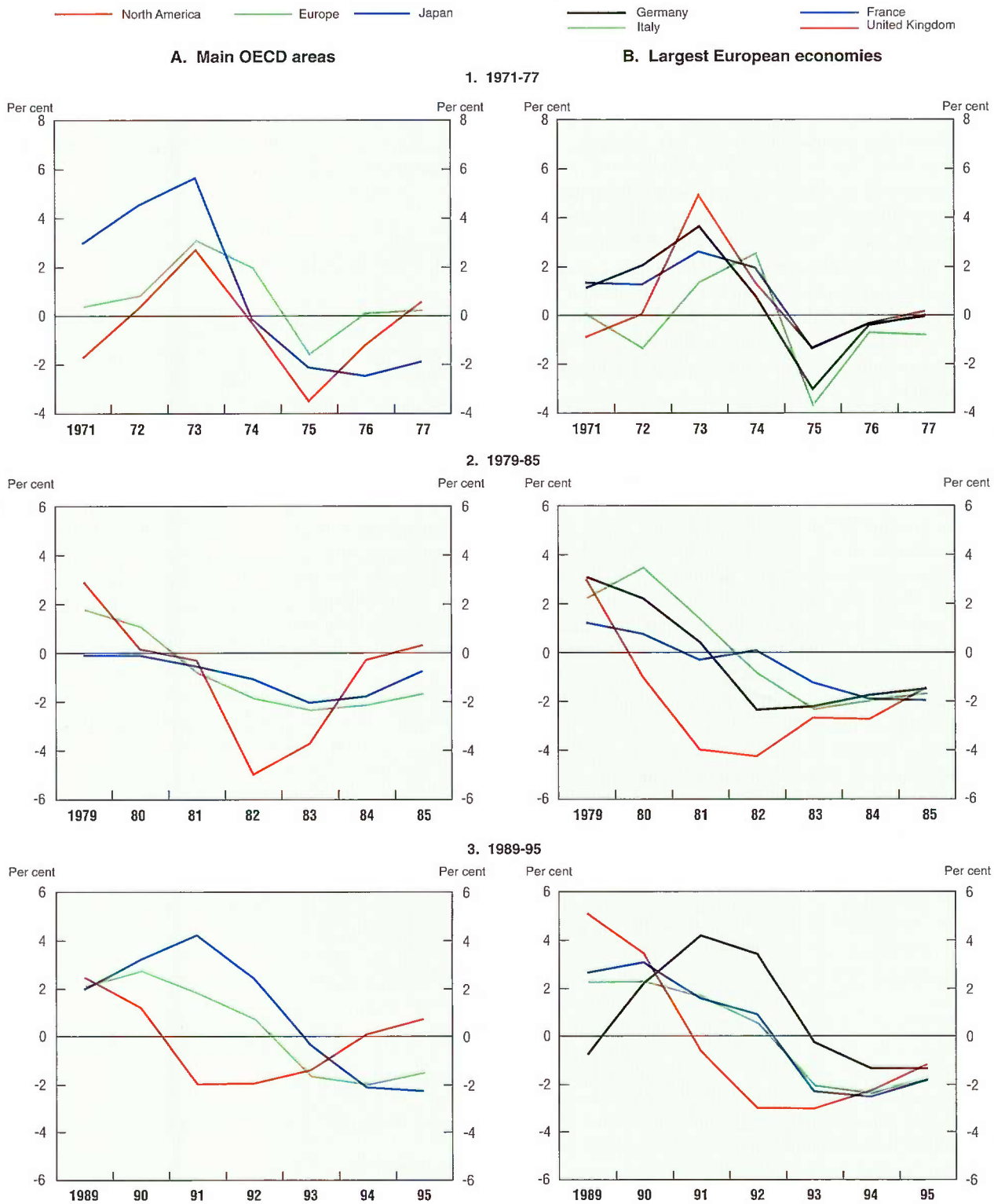
Table 20. **Shares of domestic and external demand in total demand, 1992**[a]

	Total domestic demand	Exports to			
		OECD N. America	OECD Europe	OECD Pacific	Non-OECD Regions
By region[b]					
OECD	96.0	..	..	..	4.0
OECD Europe	93.7	1.7	..	0.6	4.0
OECD North America	92.7	..	2.4	1.2	3.7
OECD Pacific[c]	90.4	2.8	2.1	..	4.6
By country[b]					
Japan	90.5	2.9	2.0	0.2	4.3
United States	90.5	1.9	2.5	1.2	3.9
Italy	83.4	1.3	11.2	0.4	3.7
United Kingdom	81.1	2.4	12.0	0.7	3.6
France	81.1	1.4	13.2	0.4	3.9
Germany	80.9	1.3	13.5	0.5	3.7
Canada	79.1	16.2	1.8	1.1	1.9

a) Total demand = total domestic demand + exports of goods and services.
b) Ranked by size of domestic demand share. Intra-regional trade has been netted out, using the share of intra-regional merchandise trade as a proxy measure for the share of total intra-regional trade.
c) Japan, Australia and New Zealand.
Sources: OECD, *National Accounts* and *Monthly Statistics of Foreign Trade.*

Figure 9. **Business cycles**

Deviation of real GDP from long-term trend, as a percentage of trend GDP[1]



1. Trend GDP is calculated using a Hodrick-Prescott filter on annual data, with a smoothing parameter value of 100, and incorporating projections from the medium-term reference scenario described in the appendix to the chapter "General Assessment of the Macroeconomic Situation".

Source: OECD Secretariat estimates.

Second, the extent to which domestic demand movements are correlated across countries depends on whether there are common pressures affecting all economies, and the extent to which countries adopt a common policy stance. In the early 1970s, OECD economies were all affected by large increases in real oil and commodity prices, while monetary policy was tightened more or less simultaneously across most of the OECD area. The second major oil price increase in 1979 again represented a common shock to all OECD economies.

Increasingly since the second oil price shock, however, more regional forces and divergent policy adjustments have worked to desynchronise business cycles in the area. The aggressive easing of fiscal policy in the United States during the early 1980s, at a time when fiscal consolidation was occurring in much of Europe and Japan (Table 21), stands out as a particularly important example, as it contributed to the widely different speeds with which the different regions recovered from the early 1980s downturn.

In the most recent cycle, country- or region-specific shocks have been more significant than global ones. Differences in the timing of national business cycles have reflected the differences in the timing of these shocks and of the policy responses to them. In the United States, firms and financial institutions experienced deteriorating balance sheet positions following rapid expansion in the early and mid-1980s, while reductions in defence spending contributed to the decline in domestic demand. In Japan, rapid asset price inflation contributed to strong domestic demand at the end of the decade, but the subsequent collapse in land and stock market prices generated a severe local shock. Countries in the European exchange-rate mechanism were affected first by the fiscal impulse associated with German unification, which occurred at a time when economies were already showing signs of overheating, and then by the subsequent tightening of monetary policy which was required to contain the inflationary consequences.

Table 21. **General government structural balances**[a]
Surplus (+) or deficit (-) as a percentage of trend GDP

	1981	1983	1986
United States	–0.9	–2.6	–3.6
Japan	–4.3	–3.1	–0.2
OECD Europe[b]	–5.2	–4.3	–3.7

a) OECD Secretariat estimates of the structural component of general government financial balances.
b) Excluding Iceland, Luxembourg, Switzerland, Turkey.

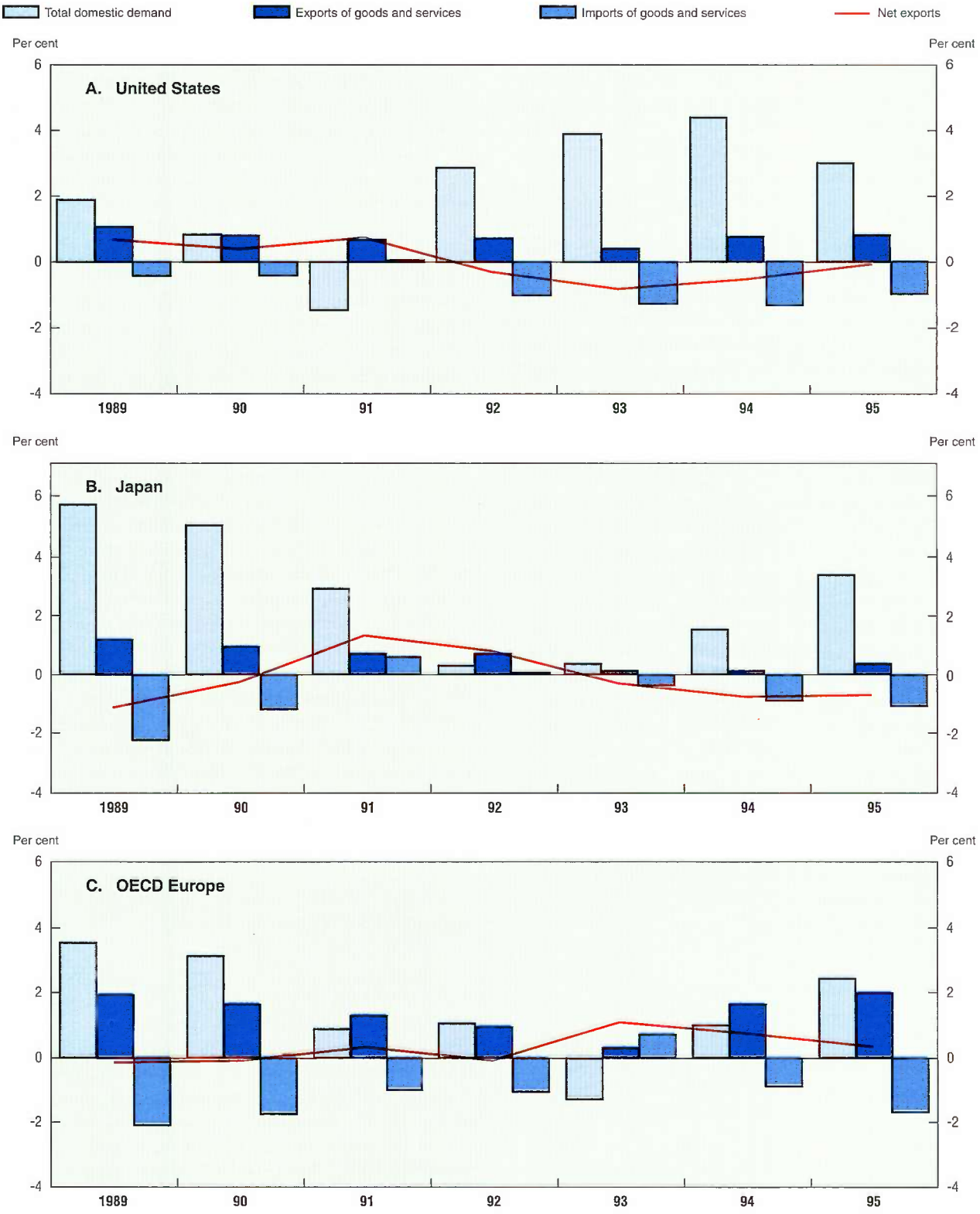
Third, the shift to an exchange rate regime in which the major currencies float against each other has been an important facilitator of desynchronisation. Fixed exchange-rate regimes constrain the use of monetary policy and hence entail a common monetary stance across countries, tending to promote the synchronisation of business cycles, while floating exchange rates allow greater scope for independent monetary policies. Increasingly during the 1960s, the requirement to maintain exchange-rate parities under the Bretton Woods system made it difficult for individual countries to avoid aligning their monetary policies with those of the United States. The excessively easy monetary conditions there during the early 1970s and the inflationary pressures they created contributed to the collapse of the system, but not before generating a high degree of business cycle synchronisation in the OECD area. While the regime of floating exchange rates which evolved subsequently has not directly acted to desynchronise business cycles, it has allowed greater divergence of monetary conditions across countries.

The cyclical divergence of the United Kingdom from the rest of Europe may also have been made possible by the floating exchange rate which has existed in that country for most of the period since 1972. Elsewhere in Europe, stability of exchange rates within the region has consistently been accorded a high priority and the exchange-rate mechanism created in 1979 continues to evolve from a system of fixed-but-adjustable parities towards a monetary union. This has contributed to an increasing convergence in monetary stance across participating countries, promoting synchronisation of their business cycles. While German reunification induced a temporary divergence of cyclical conditions in continental Europe, the maintenance of a common monetary stance in ERM participants has led to renewed convergence within the region.

Implications for the current recovery

In previous cycles, concurrent recessions across OECD economies have meant that external and domestic demand weakened together. In contrast, in the current cycle, external demand has often been counter-cyclical. Hence, in the United States, where activity slowed ahead of Europe and Japan, exports held up well during the early stages of the downturn while imports were sluggish, so that net exports moderated the recession during 1990-91 (Figure 10). However, as the economy has recovered, the opposite pattern has been apparent. The strength of domestic demand in the United States has been providing support for activity in weaker economies,

Figure 10. **Contributions to changes in real GDP growth[1], 1989-95**



1. Changes as a percentage of real GDP in previous year.
Source: OECD Secretariat, projections for 1994 and 1995.

EUROPEAN TRADE IN 1993

In 1993, official statistics show that Europe's trade and current account balances improved by some $70 billion (nearly 1 per cent of Europe's GDP), with virtually all of the improvement being located within the EC. But a major change to the system by which data on intra-EC trade (which accounts for over half of the foreign trade of European countries) are collected throws some doubt on the extent to which this good trade performance was genuine, especially as the new system encountered major teething problems when it was first introduced.

The official statistics indicate that: *i)* intra-EC trade plunged early in 1993 and recovered only gradually; *ii)* European import volumes fell sharply, those of exports less so; *iii)* recorded exports to non-European countries also rose sharply in value terms; and *iv)* there were marked differences between European countries in their trade performances.

Consideration of the economic forces at work and these statistics indicates that much – though probably not all – of the recorded improvement was genuine:

- the plunge into recession (real domestic demand in Europe shrank by 1.2 per cent in 1993) would normally result in a fall in total import volumes relative to those of exports. Recorded import volumes of goods and services (national accounts basis) fell by 2.7 per cent, and of goods alone by 3.3 per cent. These figures are in line with historical experience: the average elasticity of import volumes of goods and services with respect to domestic demand over the last ten years is about 2.5, and of goods alone is also 2.5. Thus, the recorded fall in imports of goods was about what would have been expected on the basis of historical experience;
- the abolition of customs formalities in the EC should have stimulated intra-EC trade, so the fall in import volumes should have been less than historical experience would suggest – but perhaps not much less, at least initially;
- on the export side, conflicting forces were at work. Recession in Europe would have entailed depressed exports to other European countries (the main export markets), but markets in North America, Latin America and particularly Asia, were buoyant. Furthermore, exchange-rate changes both within Europe and as between the ecu, the yen and the dollar resulted in improved competitiveness for most European countries. Hence Europe's overall export performance should have been better than usual – which was the case, as Europe as a whole made modest market-share gains, in contrast to previous experience of continued erosion of market shares.

Data for EC trade with non-EC countries, and between non-EC European countries and the rest of the world are available only in value terms, but they have the advantage of being comparable with those of previous years. They show that:

- Nordic countries' exports to the EC rose substantially, despite the recession in the EC, presumably reflecting improved competitiveness;
- Nordic countries' exports to non-European countries, and especially to Asia, rose even more strongly;
- EC countries' exports to Asia (especially) and the United States also rose strongly, especially the exports of countries whose currencies had depreciated or devalued against the ecu.

(continued on next page)

and since 1992, negative net export contributions to growth have moderated the pressures on United States' resources.

A similar pattern was evident during the early stages of the downturn in Japan, where rising exports and falling imports provided considerable support for activity when domestic demand slowed sharply during 1991 and 1992. The strong appreciation of the yen since 1992, however, has offset the counter-cyclical support which net exports had been providing. The gross export contribution to growth has weakened despite the recovery in North America and the strength of activity in much of Asia, while import growth has revived despite the weakness of domestic demand.

In Europe, where domestic demand has been very weak and is only projected to pick up slowly, support from net exports cushioned the recession during 1993 and is contributing importantly to recovery. A major change in the way intra-EC trade data is collected makes it difficult to interpret the information for individual EC countries that is available for 1993, especially given the size of shifts in trade flows which the data suggest have been occurring. However, both anecdotal evidence and examination of the data against the background of the divergence of business conditions in the world economy suggest that much of the recorded improvement for Europe as a whole is genuine (see Box on "European Trade in 1993").

(continued)

These data are thus consistent with the view that Europe's competitive position improved on average, mainly because of the effective appreciation of the yen. This seems to have allowed European producers to regain markets at home and abroad. Japan's exports to the rest of Asia increased only modestly, and its exports to Europe and the United States both fell. Within the overall European picture, the strongly varying trade performance of individual countries can plausibly be ascribed to differences in competitive position arising from exchange-rate changes within Europe.

The table below shows how disparate was the trade performance of European countries. The possibly flawed data for the EC indicate market share changes (total goods), ranging from a 15 per cent gain (Spain) to a 10 per cent loss (Germany). These are much wider differences than normal, but the exchange-rate changes within the EC have also been very large in the past two years, and the pattern of market share gains and losses reflects these changes, at least qualitatively.

One puzzle remains. Between 1992 and 1993, the estimated world trade surplus rose by $25 billion. Although small relative to global gross trade flows, this is a larger amount than could be expected in a year in which there were no major changes in oil prices, and when the yen appreciated. It may be that EC merchandise imports were indeed understated relative to merchandise exports by an amount equivalent to about a third of a percentage point of Europe's GDP. It is also possible (and this will be clearer as revised data become available) that imports by non-OECD countries in 1993 rose more strongly than current estimates suggest.

European trade in 1993

Percentage changes from 1992

	Europe total	EC	"Depreciating" countries[a]	"Appreciating" countries[b]
Imports of goods and services, volume	–2.7	–4.3	–2.1	–5.9
Imports of goods, volume	–3.3	–4.3	–2.6	–5.2
Domestic demand growth	–1.2	–1.7	–2.3	–1.4
Exports of goods and services, volume	1.3	0.7	7.2	–4.3
Exports of goods, volume	1.0	0.4	8.6	–3.0
Market growth, total goods	–0.5	–0.5	0.0	–0.6
Market performance, total goods	1.4	0.6	8.6	–2.4
Exports to DAEs[c], plus China (ecu values)	31.3	–	36.3	28.8[d]
Exports to OECD countries outside Europe (ecu values)	11.1	–	14.3	8.7[d]

a) United Kingdom, Italy, Spain, Sweden, Finland.
b) Germany, France, Netherlands, Austria, Denmark, Switzerland.
c) DAEs are the "Dynamic Asian Economies" (Hong Kong, Singapore, Korea, Taiwan, Thailand and Malaysia).
d) Excluding Denmark.

The pattern of negative net export contributions to growth in the United States and Japan and positive contributions in Europe has affected the evolution of external balances in the major regions (Table 22). The coincidence of recession in the United States during 1990-91 with strong growth elsewhere contributed to the improvement in the current account in the United States and to the deterioration elsewhere, especially in Europe.[2] However, after 1992, this movement reversed as the United States economy recovered, while Japan and Europe entered recession. In the United States, the negative net export contributions to growth have been reflected in a steadily increasing current account deficit which is projected to rise to more than 2 per cent of GDP during

Table 22. **The recent evolution of external balances in major regions**

Per cent of GDP

	1989	1990	1991	1992	1993	1994	1995
Current account balances							
United States	–1.9	–1.7	–0.1	–1.1	–1.7	–2.1	–2.1
Japan	2.0	1.2	2.2	3.2	3.1	2.8	2.5
Europe	–0.1	–0.4	–0.8	–0.7	0.3	0.7	1.0
External adjustment since 1985 in real terms[a]							
United States	1.5	1.9	2.6	2.3	1.4	0.8	0.7
Japan	–3.9	–4.0	–2.5	–1.6	–1.8	–2.6	–3.3
Europe	–3.0	–2.8	–2.4	–2.1	–0.6	0.4	0.9

a) Changes in real net exports of goods and services (national accounts basis) expressed as percentage of real GDP in the preceding year, cumulated from 1985.

1994 and 1995. In Japan, positive net export contributions during 1991-92 were reinforced by favourable terms-of-trade movements as the yen strengthened, resulting in a sharp increase in the external surplus to more than 3 per cent of GDP. The further appreciation of the yen since 1992, if sustained, can be expected to lead to a reduction in the Japanese current account balance in the medium term and, indeed, a modest decline to around 2½ per cent of GDP is projected for 1995. However, in the short term the weakness of domestic demand is limiting the speed with which this occurs. In Europe, the positive contributions that net exports are making to growth are projected to result in a marked shift in the region's external balance, amounting to around 1¾ per cent of GDP between 1992 and 1995, roughly providing the counterpart to the changes projected for the United States and Japan during that period.

NOTES

1. The dating of peaks and troughs has been based on the size of deviations of actual GDP from its long-term trend.
2. This tendency was compounded by payments in relation to the Gulf War.

DEVELOPMENTS IN INDIVIDUAL OECD COUNTRIES

UNITED STATES

Led by the interest-sensitive components of demand, the economy finished 1993 on a strong note, with real GDP expanding at a 7 per cent pace, the fastest since 1984. While activity in the early months of 1994 was restricted by cold weather and the California earthquake, it has showed signs of a rebound with the coming of spring, and capacity utilisation is close to its previous peak. Inflation has nevertheless remained on a gentle downward track. With stocks of housing and other household durables approaching desired levels and higher interest rates beginning to bite later in the year, growth should slow over the projection horizon. But it is likely to remain above its potential rate, reducing the unemployment rate below levels consistent with stable inflation and generating a modest acceleration in wages and prices.

Recent developments

GDP surged 7 per cent[1] in the fourth quarter of 1993, the strongest performance in a decade. Falling prices again boosted computer investment sharply – but low interest rates also contributed to extraordinary increases in all categories of fixed investment. Investment in non-computer equipment was the strongest since 1983, and even investment in non-residential structures picked up faster than any time since the construction boom of the mid-1980s. Personal income grew rapidly, fuelling 15 per cent growth in durables consumption. A transitory surge in aircraft exports and grain shipments that had been delayed by the summer floods helped merchandise exports jump 29 per cent. However, services exports again declined slightly, and the boom in investment and durables consumption pushed imports up almost as rapidly. The improvement in the overall goods and services balance was more than offset by a cyclical increase in net factor income payments to foreigners and a significant rise in official transfers, and the current account therefore deteriorated. For 1993 as a whole, the external deficit rose to 1.7 per cent of GDP, up from 1.1 per cent in 1992.

With all the national accounts data now available for 1993, several features stand out. First, US manufacturers gained export market share for the first time since 1990. Second, federal budget cuts led to the biggest

UNITED STATES
Demand and output

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1987 prices)

	1991 current prices billion $	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Private consumption	3 906.3	–0.4	2.6	3.3	3.8	2.8	2.6	4.1	4.0	3.1	2.7	2.6
Government consumption	1 099.3	1.5	–0.1	–0.7	–0.2	1.0	–2.6	1.2	–1.8	1.8	0.9	0.6
Private fixed investment	745.5	–7.7	6.2	11.0	11.3	6.3	11.1	12.6	11.8	9.2	5.9	4.3
Residential	189.6	–12.8	16.3	8.7	10.1	1.4	5.4	10.7	13.5	3.3	1.5	–0.5
Non-residential	555.9	–5.9	2.9	11.8	11.8	8.1	13.2	13.3	11.2	11.4	7.5	6.0
Final domestic demand	5 751.1	–1.2	2.5	3.7	4.2	3.0	2.9	4.9	4.1	3.8	2.9	2.5
* change in stockbuilding	–8.6[a]	–0.3	0.3	0.2	0.2	0	0.5	–0.5	0.5	0.2	–0.1	–0.1
Total domestic demand	5 742.6	–1.4	2.9	3.8	4.4	3.0	3.3	4.3	4.7	4.1	2.8	2.4
Exports of goods and services	601.5	6.4	6.4	3.5	7.2	7.6	1.8	5.3	7.5	8.5	7.4	7.0
Imports of goods and services	621.1	–0.5	8.7	10.3	10.5	7.3	10.5	10.3	11.1	9.5	6.8	6.2
* change in foreign balance	–19.6[a]	0.7	–0.3	–0.9	–0.5	–0.1	–1.1	–0.7	–0.6	–0.3	–0.1	0
GDP at market prices	5 722.9	–0.7	2.6	3.0	4.0	3.0	2.3	3.7	4.2	3.8	2.8	2.4
Industrial production	–	–1.9	2.4	4.1	5.4	3.4	4.8	3.7	6.9	4.2	3.2	2.9

* As a percentage of GDP in the previous period.
a) Actual amount.

UNITED STATES

Employment, income and inflation

Percentage changes from previous period, seasonally adjusted at annual rates

	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Employment[a,b]	–0.9	0.6	1.5	3.2	1.8	1.4	2.1	4.1	2.4	1.7	1.5
Unemployment rate[b]	6.7	7.4	6.8	6.3	5.8	7.0	6.6	6.5	6.2	5.9	5.7
Compensation of employees	3.2	5.3	5.3	6.2	5.9	5.4	4.8	6.8	6.5	5.8	5.7
Unit labour cost	3.9	2.6	2.2	2.2	2.9	3.1	1.1	2.5	2.6	2.9	3.2
Household disposable income	4.5	6.1	5.6	5.6	6.1	6.7	3.6	6.1	6.8	6.0	5.8
GDP deflator	3.9	2.9	2.5	2.1	2.8	3.2	1.7	2.1	2.3	2.9	3.1
Private consumption deflator	4.3	3.3	2.7	2.1	3.1	3.1	1.8	1.9	2.8	3.2	3.5

a) Household basis.
b) Break in series as of January 1994.

annual drop in real government purchases since the defence cut-backs after the Vietnam War, 20 years ago. Third, inventory accumulation has been strikingly weak in the current recovery, compared with the typical expansion: the inventory-sales ratio moved down 1.6 percentage points during 1993. Fourth, the personal saving rate has remained relatively low – about 4 per cent since last summer, even in the fourth quarter when income growth was particularly rapid. A rise in social insurance contribution rates and increased taxation of high-income households were key factors in holding down saving. Finally, although the unemployment rate moved down nearly a full percentage point during 1993, employment did not grow particularly rapidly relative to past expansions. Rather, labour force growth was surprisingly weak for an economic recovery; output increases for the year as a whole were not exceptional, and productivity gains were faster than might have been expected.

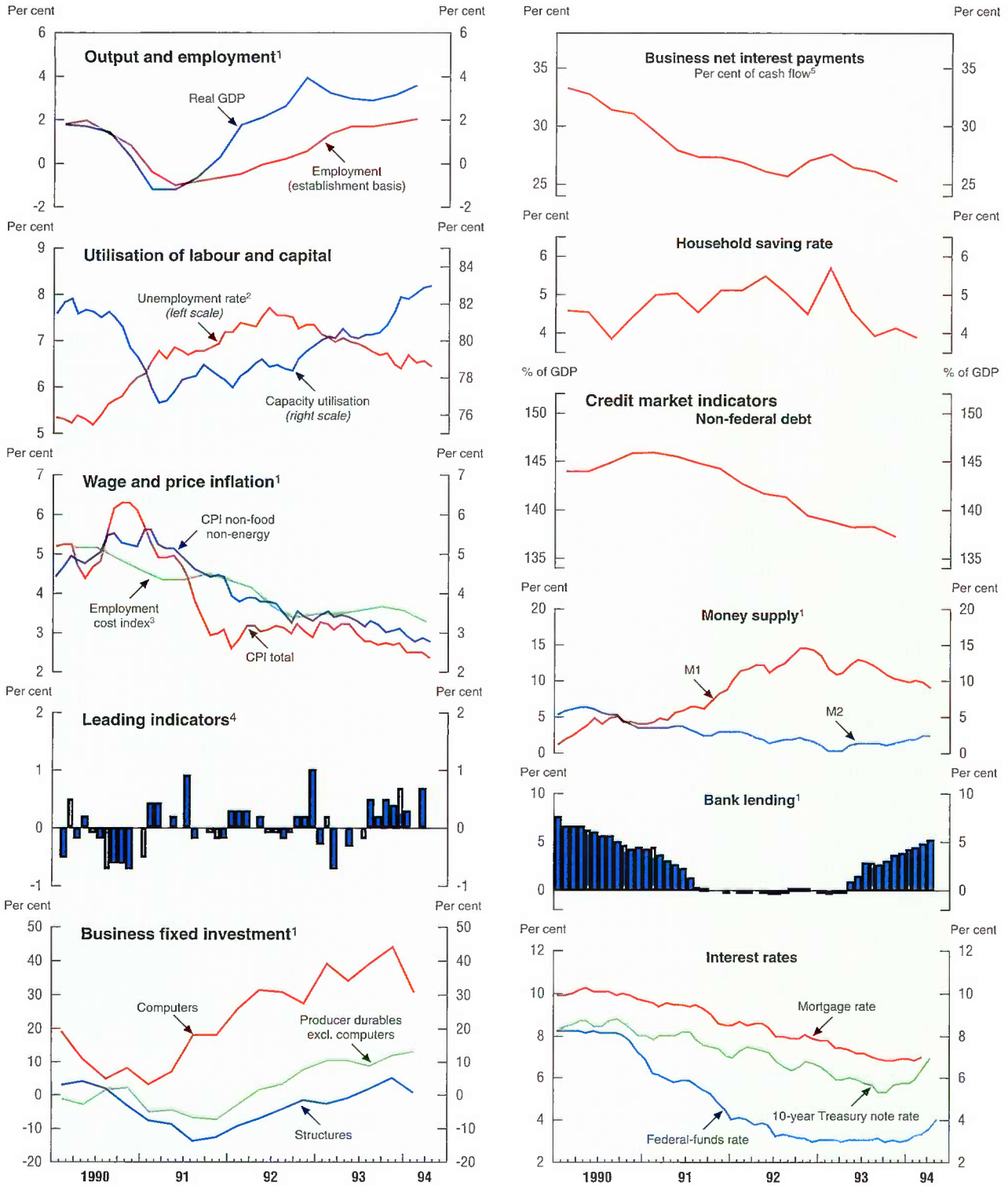
Despite continued strong underlying momentum, a variety of factors held real GDP growth to about 3 per cent in the first quarter of 1994. Most importantly, record-breaking cold weather held down activity in a variety of sectors, while the January earthquake in California did an estimated $30 billion in damage and considerably disrupted production. Significant weather-related declines occurred in both public and private construction. Defence cutbacks also led to an unusually steep decline in public consumption. Finally, bad weather also probably contributed to a substantial decline in merchandise exports in January. But by March, both exports and imports had recovered sharply. Manufacturing hourly productivity continued to boom in the first quarter, and the workweek remained exceptionally long. However, a sharp slowdown in productivity growth was noted in other sectors. Employment increased moderately in the first quarter before picking up steam in the spring,[2] while labour-force growth has remained sluggish. Even with the slowdown in GDP growth, capacity utilisation rose to 83.6 per cent by the end of the quarter – close to the previous cyclical peak of 84.8 per cent.

Wage pressures remained moderate during the first quarter, with growth in compensation per hour edging downward to 3¼ per cent from last year's 3½ per cent rate. Given the strong growth in productivity over the second half of last year, increases in unit labour costs have as yet shown no sign of creating any inflationary pressures. Boosted slightly by temporary factors, the GDP deflator rose at a 2.5 per cent rate in the first quarter, the same as in 1993 as a whole (which was the smallest annual increase in nearly 30 years). The increase in core consumer prices (excluding food and energy) slowed to a 2.9 per cent annual rate in the fourth quarter and 2.7 per cent in the first four months of this year, down from an average of 3.3 per cent in 1993.

Policies and other forces acting

The economy has clearly benefited from the environment of low interest rates. Favourable financial conditions have facilitated needed balance-sheet restructuring: businesses have cut the ratio of their overall liabilities relative to value added to the lowest level since 1983; households, having stabilised their net worth in relation to disposable income, have plainly been comfortable with the sustainability of their indebtedness ever since it reached a trough in late 1992; and banks have restored their profitability and capital.[3] Thus, bank lending terms and conditions have been steadily relaxed over the past year or so, and credit supply has strengthened. In addition, debt-service charges have been slashed, as old debt continues to be rolled over and mortgages refinanced at new lower rates. Also, base money growth has averaged about 10 per cent per annum for well over two years. Interest-sensitive components of domestic demand have thus boomed, with private fixed investment and con-

United States



1. Year-on-year percentage change.
2. Break in series. New basis as of January 1994.
3. Total compensation of private, non-farm workers.
4. One-month percentage change.
5. Defined as depreciation (book value) plus undistributed profits after capital consumption adjustment and before net interest payments.

Sources: Department of Commerce; Federal Reserve Board; Congressional Budget Office; OECD, *Main Economic Indicators.*

UNITED STATES
Financial indicators

	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Household saving ratio[a]	4.9	5.0	4.6	4.3	4.4	5.1	4.0	4.1	4.5	4.5	4.3
General government financial balance[b]	–3.4	–4.5	–3.5	–2.6	–2.1	–3.8	–3.2	–2.7	–2.4	–2.2	–1.9
Current balance[b]	–0.1	–1.1	–1.7	–2.1	–2.1	–1.6	–1.8	–2.0	–2.2	–2.2	–2.1
Short-term interest rate[c]	5.4	3.4	3.0	4.2	5.5	3.0	3.0	3.7	4.7	5.4	5.6
Long-term interest rate[d]	7.9	7.0	5.9	6.8	7.0	6.1	5.6	6.6	7.1	7.1	6.9

a) As a percentage of disposable income.
b) As a percentage of GDP.
c) 3-month Treasury bills.
d) 10-year government notes.

sumption of durables reaching their highest share of real GDP in history in the fourth quarter. These components, which comprise about one-quarter of GDP, represented nearly 87 per cent of all real expenditure growth during 1993, versus an average of 41 per cent in previous recoveries since 1961.

It was in this context that, despite continuing modest levels of underlying inflation, the Federal Reserve Board decided to rein in the stimulus provided by low interest rates in order to forestall a future destabilising build-up of inflation pressures and curb speculative behaviour. For the first time in five years, reserve conditions were tightened in February, and the federal funds rate was raised by a cumulated 1¼ percentage points. Long-term interest rates, which had already drifted up by about ½ percentage point in the autumn, shot up by another 1¼ percentage points by early May (also boosted by the strength of incoming data on employment and activity and stop-loss selling by a number of large investors). The rise in bond yields was somewhat reversed on the heels of the latest rate rise, which included a ½ percentage point increase in the discount rate.

While the Federal Reserve's ultimate goal is to achieve price stability, its shorter-term objective has been to move toward policy neutrality, leaving short-term rates clearly above zero in real terms (historical averages are close to 1½ per cent). Full employment appears likely to be reached sometime during 1994, and rates will probably have to rise further if economic growth is to be brought down to a sustainable pace. It appears that financial markets have likewise factored in significant additional rate increases both this year and next. Accordingly, the projections assume that short-term rates will reach the 5½ per cent range (more than 2½ percentage points above the recent trough[4]) by the end of 1995, with most of the increase occurring relatively early, given the substantial lag between policy adjustment and its impact on the real economy and inflation. Long-term rates are likely to rise much less, since most of the projected tightening has already been discounted, and they could even drift downward once activity begins to slacken in 1995.

For its part, federal fiscal policy has been governed by the Omnibus Budget Reconciliation Act of 1993 (OBRA93). Signed in August, this legislation was designed to cut a cumulated $500 billion from the federal budget deficit over the period to 1998, with approximately equal contributions from increased taxation and reduced spending. The overall rate of federal expenditure growth fell to 2½ per cent in 1993, the lowest rate since 1960, and, with revenues rising by more than 8 per cent, the deficit in FY 1993, at $255 billion, was about $30 billion below last summer's Administration estimates. Furthermore, despite a resumption in deposit insurance outlays, the decline in the deficit already in the first seven months of FY 1994 has been nearly double the full-year decline predicted by the Administration (see Table: Recent projections for the federal budget deficit), because of the unforeseen degree of strength of the economy. However, the state and local surplus (including social insurance funds which show a surplus of nearly $60 billion per year) continued to decline for most of last year, to below $2 billion (compared to a peak of $56 billion in 1985), owing in large part to a lack of spending discipline. With growing financial pressures and a cyclical improvement in revenues, some turnaround in state and local finances is projected to get under way this year but will be limited by steadily increasing demands on resources.

In February 1994 Congress approved an $11 billion supplementary spending bill (partly offset by $3.3 billion in cancelled budget authority), most of which was devoted to disaster relief for the California earthquake and therefore not subject to the pay-as-you-go rules of the 1990 Budget Enforcement Act. In March both houses narrowly defeated the latest attempt to revise the Constitution to require a balanced budget. But the

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Recent projections for the federal budget deficit

$ billion, fiscal years except as noted

	1993	1994	1995	1996	1997	1998	1999
Office of Management and Budget[a, b]	255	235	176	173	181	187	201
Congressional Budget Office[b]	255	223	171	166	182	180	204
Congressional Budget Office[c]	241	203	167	170	176	173	196
Department of Commerce[c]	235	188	146	n.a.	n.a.	n.a.	n.a.
Department of Commerce (calendar year)[c]	229	180	n.a.	n.a.	n.a.	n.a.	n.a.
OECD Secretariat (calendar year)[c]	227[d]	182	166	n.a.	n.a.	n.a.	n.a.
Blue Chip Economic Indicators[c] (calendar year)	227	163	147	n.a.	n.a.	n.a.	n.a.

a) Without health reform.
b) Budget basis.
c) National accounts basis.
d) Actual estimate as of 31 March.

most important fiscal legislation working its way through Congress concerns the FY 1995 budget. The Administration's proposals specified the details of about $25 billion in one-year gross expenditure cuts needed to meet the OBRA93 requirements and allow for new spending initiatives.[5] 115 programmes would be terminated and over 200 others (including public housing, mass transit subsidies and home heating subsidies for the poor) would be cut back. With outlays projected to continue to fall in real terms, the deficit would reach 2½ per cent of GDP, the lowest since 1989. Were the President's health reform to be passed, the 1995 deficit would be $11 billion lower still, owing to the early introduction of the proposed additional excise tax on tobacco. In May the Congress reached a budget deal which calls for a further $13 billion in unspecified spending cuts over five years, but less than $1 billion of that pertains to FY 1995.

The Administration maintains that its health reform would save $59 billion over its first five years, but analysis by the Congressional Budget Office resulted in a projected rise in the deficit of $74 billion due to 15 per cent higher costs for insurance and, therefore, higher subsidies for the poor and small business.[6] The issue has made little progress in the Congress thus far, with few important votes having been taken at the committee level. However, all relevant committees are now hard at work attempting to draft the relevant legislation. The main thrust of Congressional efforts would appear to be to pare back the President's plan in order to reduce costs.

Prospects

The current strength of underlying income and output growth owes much to low interest rates which have improved business and household finances, thereby providing the preconditions for the surge in spending. The investment-led boom is now generating employment and income sufficient to boost private demand in the first half of the year. However, several forces will slow growth beginning in the second half of 1994. Stocks of housing and autos have increased rapidly in recent quarters, and by the third quarter of this year they may have approached desired levels. Also, recent increases in interest rates will erode some of the business and household income gains. Nevertheless, real GDP is projected to grow by 4 per cent this year and 3 per cent in 1995, both well above potential rates.

The year-end surge in activity left the level of GDP very high at the start of 1994, relative to the second half of 1993. Recent indicators point to strong second-quarter economic activity following the first-quarter slowdown in growth resulting from bad weather and the earthquake in California. Most of the projected strength reflects the ongoing boom in fixed investment. However, equipment investment growth typically begins to slacken at about this point in the cycle; even with current capacity pressures and falling relative prices of equipment, by 1995 the expected pick-up in costs and deceleration in profits should reduce its growth from current double-digit rates. Spending on structures looks set to increase sharply over the rest of this year, after being held down by bad weather last winter, and several factors suggest continuing strength through early 1995. There is room for catch-up in the stock of stores and factories; as the excess supply of commercial offices dwindles, presently weak construction in this sector will no longer be a drag on growth; and major alterations in coal-fired power plants will soon be necessary to meet pollution control regulations. Housing construction is also growing robustly, despite the weather-related pause in starts earlier this year. New-home sales typically strengthen briefly when

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External indicators[a]

Seasonally adjusted at annual rates

	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
	$ billion									
Merchandise exports	440.1	456.8	493	535	449.1	464.4	482	504	524	545
Merchandise imports	536.3	589.2	646	698	576.5	601.9	630	662	686	709
Trade balance	–96.1	–132.5	–154	–163	–127.4	–137.5	–148	–159	–162	–164
Invisibles, net	29.7	23.2	13	9	28.2	18.2	16	10	9	9
Current balance	–66.4	–109.2	–141	–154	–99.2	–119.3	–132	–149	–153	–155
	Percentage change									
Merchandise export volumes[b]	6.6	4.2	7.8	7.7	1.0	7.6	7.5	8.4	7.4	7.3
Merchandise import volumes[b]	10.4	11.6	11.0	7.3	11.7	11.5	11.5	9.6	6.8	6.2
Export performance[c]	–0.2	–0.6	0.3	0.1	–3.1	0.4	0.1	0.6	0.0	–0.1
Terms of trade	0.3	1.3	1.1	0.2	3.6	0.9	1.9	–0.1	0.3	0.4

a) For further detail, see tables in the External Trade and Payments section of the Annex.
b) Derived from values and unit values on a national accounts basis. Certain adjustments to the balance of payments basis are therefore excluded, the most important being the omission of foreign trade of the Virgin Islands.
c) Ratio between the total of export volumes and export market of total goods.

buyers fear imminent increases in mortgage rates; ultimately, however, higher mortgage rates and a level of the housing stock closer to desired levels will herald the end of the residential investment boom, probably around mid-year.

Spending on consumer durables is being buoyed in the first semester by strong income growth and falling unemployment. Eventually, though, rising interest rates will erode cash flow and slow the pace of consumer borrowing: consumption growth will ease, and the saving rate is expected to recover over the period to end-1995.[7] State and local purchases are likely to be strong, as the California government spends on rebuilding from the earthquake, new prisons are built and environmental improvements are made. But federal purchases should continue to decline in the second half of the year, though by year end the defence-downsizing process should begin to slow. Export growth in the first semester seems likely to moderate following the fourth-quarter boom, while imports may rise sharply with the expansion in domestic demand. However, with recovery abroad and a slowdown in domestic demand growth, net exports should be less of a negative influence on output this year and especially in 1995. Nonetheless, with a worsening investment-income balance, the current-account deficit is expected to increase from 1.7 per cent of GDP last year to 2.1 per cent in 1995.

Productivity growth is projected to remain somewhat faster than trend in 1994; even so, the projected strength of activity will probably allow moderate employment growth and over a half percentage-point decline in the unemployment rate over the course of the year. Despite a steady deceleration in projected output growth to about 2½ per cent during the second half of 1995, the unemployment rate may continue to fall to around 5¾ per cent by end-1995, about ½ percentage point below the rate the OECD Secretariat considers to be consistent with stable inflation. Similarly, excess capacity in product markets may disappear this year. Thus, both wage and price inflation are likely to pick up. By late-1995 consumer price inflation is projected to be around 3½ per cent, a percentage point faster than early-1994 rates.

The principal risks associated with these projections result from the uncertainty surrounding the amount of excess capacity, if any, remaining in product and labour markets. Most observers are agreed that output growth will continue to exceed sustainable rates for the next few quarters at least, but there is no consensus whether or not this will lead to any overheating, few signs of which are as yet apparent. If the amount of slack is in fact greater than assumed here, there may be less need to raise short-term interest rates as much as projected by the OECD Secretariat. Then long-term interest rates may also be somewhat lower, and the slowdown in output growth and acceleration in inflation later this year and in 1995 may be less marked. On the other hand, if capacity is even more fully used or the underlying strength of activity is even more robust, the pick-up in inflation would tend to be even more pronounced, bringing about even greater increases in interest rates over the course of 1995.

NEW LABOUR MARKET DATA IN 1994

In January 1994 the US Bureau of Labor Statistics (BLS) made a comprehensive set of improvements to its Current Population Survey, also known as the household survey, from which the data on the labour force and unemployment are derived. The changes comprised a revision to the survey questionnaire as well as a switch to ''live'' data collection (direct computer input during the interview designed to reduce errors). In addition, new population benchmarks based on the 1990 Census results were introduced, raising the measured unemployment rate by 0.1 percentage point. The BLS estimates that, had the redesigned survey been in place, the unemployment rate would have been an average of over ½ percentage point higher than the official rate in the period September 1992 to December 1993. Overall, the January level of employment under the new survey was about 1.3 million (1.1 per cent) higher than it had been in December under the old one, while the upward shift in the labour force was about 1.8 million (1.4 per cent). The number of jobless was therefore nearly ½ million above December levels and the unemployment rate 0.3 percentage point higher, even though the ''true'' rate is believed to have declined by 0.1 to 0.3 percentage points in the month, depending on the series used. Finally, a further modification has been made to the definitions of discouraged workers and those working part-time for economic reasons: the former must have looked for work during the prior year and the latter must both want and be available to take a full-time job. On the new basis, the NAIRU (the unemployment rate consistent with stable inflation) is judged by the OECD Secretariat to be in the range of 6¼ to 6½ per cent.

NOTES

1. All growth rates are seasonally adjusted annual rates unless otherwise stated.
2. The text focuses mainly on the establishment employment data, since the household data were redefined in January (see Box). At 6.0 per cent, the latest (May) unemployment rate was below the OECD Secretariat's estimate of the rate consistent with stable inflation.
3. Indeed, by September 1993 fully 73.3 per cent of all domestic bank assets were in ''well-capitalised'' institutions and only 8.9 per cent in ''under-capitalised'' institutions, compared with 30.4 and 31.1 per cent, respectively, at the end of 1990.
4. Indeed, the mean increase in short rates in all eight cycles since 1955 has been 4.6 percentage points, with the median at 4.0 percentage points. Even excluding the three cycles during the inflationary period from 1970 to 1980, the mean rise was 3.1 percentage points.
5. Important new initiatives include education reforms and standards, a school-to-work transition programme, one-stop career shopping centres, expanded worker training, support for the information superhighway, community policing and funding for climate change and environmental programmes under the North American Free Trade Agreement.
6. However, national savings would begin in 1999 and reach 7 per cent of baseline spending or $150 billion per year by 2004.
7. Those facing higher federal tax rates resulting from last year's increase were allowed three years to pay the 1993 increase. Much of the consumption adjustment to the tax increase has probably occurred already, but some further drag on consumption growth may still be in the works.

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Although the economy remains very weak, there are signs that activity is bottoming out. Industrial production and retail sales rose in the first months of the year, while the well established upswing in housing starts continued. Growth prospects appear better for the second half of the year, in line with increasing private consumption and further growth in housing investment. With income tax cuts assumed to be extended beyond the current fiscal year, output growth should accelerate to around 2¾ per cent next year. It will, however, remain slower than the pick-up of domestic demand, against the background of a continued decline in net export volumes associated with the appreciation of the yen. Further progress in banks' balance sheet adjustment, supported by continued easy money market conditions, would contribute to generating the faster growth of money and credit needed for a long-lasting economic recovery.

Recent developments

In the second half of 1993, GDP fell by 0.5 per cent at a seasonally adjusted annual rate, only the second half-yearly fall in output in the past twenty years. The adjustment of the business sector to the over-investment of the bubble economy period continued, with a further decline in private non-residential investment, which is now 15 per cent below its peak level in 1991. Residential investment, on the other hand, was relatively buoyant, reflecting reduced house prices and increased availability of finance. Consumption also showed some signs of improvement in the fourth quarter of the year, especially among non-salaried households, while the strength of the housing market now appears to be resulting in increased purchases of certain durable goods. Export growth fell significantly, reflecting a substantial loss in international competitiveness due to the appreciation of the yen, while imports expanded rapidly despite the stagnation of domestic demand. Abstracting from the recent erratic movements in quarterly GDP, which increased in the third quarter only to fall back again in the fourth quarter, output was essentially stable, at its 1992 level, for the whole of 1993.

Labour market conditions weakened further in the second half of 1993. The unemployment rate rose to 2.9 per cent by December – up from 2.5 per cent in June. Employment has been broadly stable, with reductions in manufacturing being offset by increases in the non-tradable sectors. Labour costs have been contained by reducing overtime, bonuses and recruiting. Despite these developments, business profitability continued to deterio-

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Demand and output

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1985 prices)

	1991 current prices trillion Y	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Private consumption	255.1	2.2	1.7	1.1	2.1	3.6	1.6	1.0	2.3	2.7	3.8	3.9
Government consumption	41.2	1.6	2.2	3.2	2.6	2.2	3.6	3.4	2.5	2.2	2.2	2.2
Gross fixed investment	143.4	3.7	–0.8	–1.3	0.6	3.0	–0.4	–1.1	–0.7	4.7	2.8	1.8
Public[a]	30.3	4.7	14.6	15.9	9.5	0.8	23.0	7.6	9.0	12.5	–1.2	–5.7
Private residential	23.8	–8.2	–6.7	3.7	10.8	6.4	–3.8	24.2	7.0	6.5	6.5	6.0
Private non-residential	89.3	6.6	–4.0	–8.4	–6.0	3.1	–7.6	–10.0	–7.0	0.3	3.9	4.5
Final domestic demand	439.7	2.6	0.9	0.5	1.6	3.3	1.1	0.5	1.3	3.3	3.4	3.1
* change in stockbuilding	3.3[b]	0.3	–0.5	–0.1	–0.1	0.1	0.3	–0.2	–0.1	0	0.1	0.2
Total domestic demand	443.0	2.9	0.4	0.4	1.5	3.4	1.4	0.4	1.3	3.3	3.5	3.3
Exports of goods and services	46.8	5.2	5.2	1.0	1.1	2.7	1.2	–2.6	2.7	1.8	2.7	3.7
Imports of goods and services	38.5	–4.1	–0.4	3.2	6.6	7.5	4.5	3.8	6.2	10.0	7.0	6.0
* change in foreign balance	8.3[b]	1.3	0.8	–0.3	–0.7	–0.7	–0.4	–0.9	–0.5	–1.1	–0.6	–0.4
GDP at market prices	451.3	4.3	1.1	0.1	0.8	2.7	0.9	–0.5	0.8	2.1	2.9	2.9
Industrial production[c]	–	1.8	–6.1	–4.6	–0.2	3.1	–3.5	–5.2	–0.5	5.7	3.0	1.0

* As a percentage of GDP in the previous period.
a) Including public corporations.
b) Actual amount.
c) Mining and manufacturing.

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Employment, income and inflation

Percentage changes from previous period, seasonally adjusted at annual rates

	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Employment	1.9	1.1	0.2	0.3	0.9	0	0.5	0.1	0.6	1.0	1.0
Unemployment rate	2.1	2.2	2.5	2.9	2.8	2.4	2.6	2.9	2.9	2.8	2.8
Compensation of employees	7.8	4.1	2.3	1.4	3.3	2.1	1.4	1.0	2.2	3.6	4.0
Unit labour cost	3.4	2.9	2.2	0.6	0.6	1.1	2.0	0.2	0	0.7	1.0
Household disposable income	5.8	2.9	2.5	2.6	3.1	3.1	2.5	2.6	2.9	3.2	3.2
GDP deflator	2.0	1.6	1.0	0.8	0.8	0.6	1.3	0.4	1.0	0.8	0.8
Private consumption deflator	2.5	2.1	1.0	0.3	0.3	0.9	0.9	0	0.2	0.3	0.4

rate, though at a slower pace by the end of 1993. The rate of inflation, measured by the one year rise in the consumer price index (CPI), excluding perishable goods, fell to 0.9 per cent by the end of 1993, compared with 2.1 per cent a year earlier. At the same time, the prices of domestically manufactured goods continued to fall.

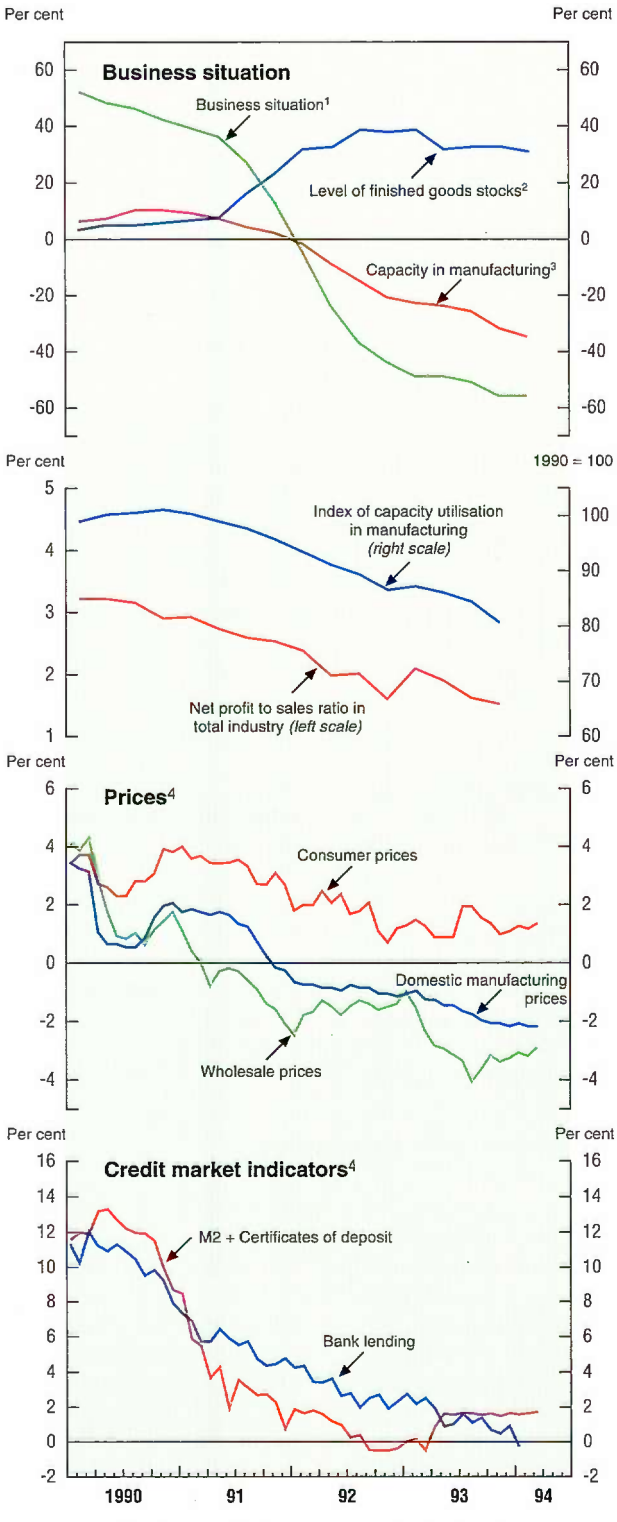
The government has had some success in offsetting the demand effects of the falls in private investment and exports that occurred during 1993. Public investment rose by 16 per cent in real terms and government consumption grew by 3 per cent, reflecting increased employment in public services. Following significant allocations of new funds to the government-owned Housing Loan Corporation, housing investment picked up by almost 4 per cent. In total, these three elements grew nearly 8 per cent in 1993. The increase in private consumption was only moderate as the growth of earnings slowed to less than 1 per cent, due to falls in bonuses – which account for almost one-third of pay – and hours worked. The buoyancy of policy-influenced demand components, together with some pick-up in consumption in the final quarter of the year, has ensured a progressive recovery of final domestic demand, which now appears to have bottomed-out at the end of 1992 or the beginning of 1993. However, as foreign producers were able to raise their penetration of Japanese markets, absorbing nearly all of the increase in demand in 1993, output did not increase. The current account surplus stabilised in yen terms and, at 3.1 per cent, fell slightly in relation to GDP for the first time since 1990, although with the appreciation of the yen, the dollar value of the surplus rose somewhat.

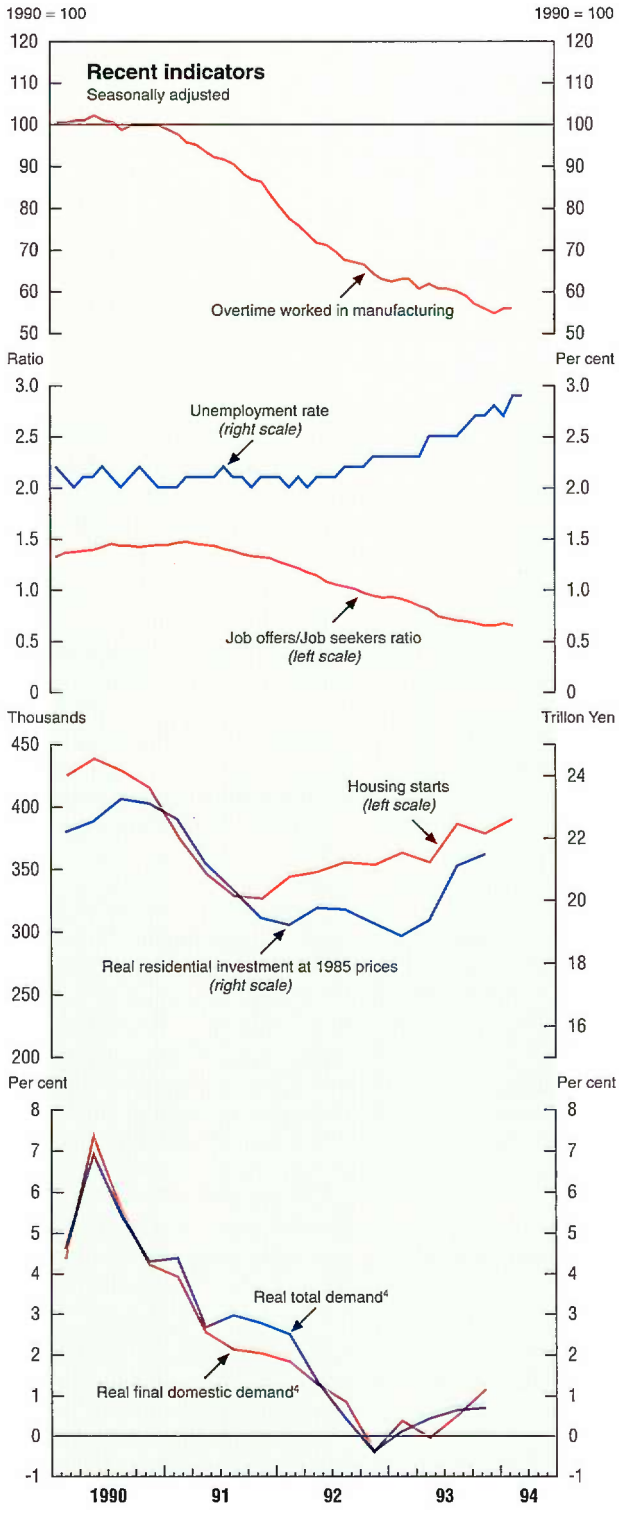
While showing a significant increase in activity during the first quarter of 1994, monthly indicators do not yet suggest that the recovery is well established. Industrial production was stable in January and February and then rose sharply in March, despite a marked reduction in stocks. Survey data suggest the possibility of a continued rise in output in the second quarter albeit at a more modest rate. Overtime and unemployment appear to have stabilised and, in January and February, household consumption was 2 per cent above the fourth quarter level but slipped back in March as consumers awaited tax reductions on cars. At the same time, export volumes grew once again and this strength continued at the beginning of the second quarter. Housing starts in January were also markedly above the level of the fourth quarter of 1993. This apparent buoyancy in many demand components can be partially discounted due to the increasing tendency of companies to sell at home and ship abroad just before the end of their financial year in March. Even so, indicators which are more forward-looking, such as orders for machinery, equipment and public investment, do suggest more strength in the economy later in the year. Business sentiment improved considerably in the first quarter reflecting expectations of higher corporate profits in the coming year; by the spring more than half of the presidents of major corporations thought that the economy showed signs of recovery. (None of the executives had held this view at the end of 1993.) Despite the continuation in January of the downward movement in the annual increase of the CPI (excluding food), the deceleration of the overall CPI came to a temporary halt, as the price of domestically-produced rice rose due to a poor harvest, before resuming in April.

Policies and other forces acting

Government policy has become more stimulative in 1994, building on its success in turning around the growth of domestic demand last year. An expansionary package, amounting to 3.2 per cent of GDP, was introduced in February containing measures to increase public investment spending, cut income tax, raise government land purchases and authorise further lending for housing and small enterprises (See Table). The direct impact of the package on income flows will be around 9 trillion yen in 1994, falling to about 6 trillion yen in 1995, so averaging 1½ per cent of GDP over the two year period. Only part of the impact on income flows will increase the general government deficit, the remainder being reflected in the financial deficit of public corporations (whose investment is projected to rise by a quarter point of GDP

Japan





1. Per cent of replies "good" minus per cent of replies "bad".
2. Per cent of replies "too high" minus per cent of replies "too low".
3. Per cent of firms with insufficient capacity minus per cent of firms with excessive capacity.
4. Year-on-year percentage change.

Sources: Bank of Japan, *Short-Term Economic Survey of Principal Entreprises in Japan;* EPA, *Japanese Economic Indicators.*

JAPAN
Financial indicators

	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Household saving ratio[a]	15.1	14.3	14.6	14.8	14.2	14.4	14.7	14.9	14.7	14.4	13.9
General government financial balance[b]	3.0	1.8	0.3	–1.9	–1.7	0.9	–0.2	–1.6	–2.2	–2.0	–1.5
Current balance[b]	2.2	3.2	3.1	2.8	2.5	3.3	2.9	2.9	2.7	2.6	2.4
Short-term interest rate[c]	7.2	4.3	2.9	2.3	2.7	3.3	2.6	2.2	2.3	2.5	2.8
Long-term interest rate[d]	6.4	5.3	4.3	4.2	4.5	4.6	3.9	4.1	4.3	4.4	4.6

a) As a percentage of disposable income.
b) As a percentage of GDP.
c) 3-6 month CD.
d) Central government bonds.

this year) and in the lending of government financial institutions. The draft budget for FY 1994, beginning in April, incorporates the tax cuts. The legislation implementing the 1994 tax cut commits the government to the prompt realisation of a programme of tax reform including a permanent and structural reduction in individual income taxation. It foresees an increase, from the initial FY 1993 budget, of about 2 per cent in current government expenditure and tax transfers, excluding debt service, and of 4 per cent in public works authorisations. However, since last year's budget was first introduced, there have been three supplementary budgets, including the February package, all of which have raised public works expenditure. As a result, authorisations for public works spending in 1994 are more than 30 per cent below those for the fiscal year which ended last March. But since spending on public works follows authorisations with a considerable delay, actual expenditure will continue to grow in 1994 and a drop in this category of expenditure will probably not materialise until 1995, depending on that year's budget.

A small part of the stimulative impact of the February package will be offset by the planned change in the social security system. An increase in benefits is to be financed by raising social security contributions next October from 14.5 to 16.5 per cent of basic salaries. This will be shared equally between employees and employers. The increase in contributions may be slightly more than that of benefits, with the result that the social security surplus is expected to rise by as much as 1 trillion yen, about 0.2 per cent of GDP. The overall effect of the February package, the 1994 budget, the rise in social security contributions and the assumed continuation of the same rate of income tax cuts into 1995 may move the overall government sector from a small surplus in 1993 to a deficit of 1¾ per cent of GDP in 1995, despite the assumption of a fall in public works expenditure during 1995. The central government is expected to be running a deficit of over 3 per cent of GDP and to be experiencing a significant build-up in its debt while local government deficits have also increased markedly bringing the overall government deficit (excluding social security) to nearly 6 per cent of GDP.

Monetary policy is also aiding the recovery. The Official Discount Rate (ODR) was lowered last September to 1.75 per cent, a post-1945 historic low. Since then the Bank of Japan has progressively edged down the rate of interest on day-to-day money until, after the latest reduction in May, the margin over the ODR was only ¼ percentage point. However, as there was little expectation in the markets that there would be a further cut in the discount rate, three-month market interest rates actually moved up somewhat in early 1994 before also easing slightly in May.

Although bond yields have risen by just under 1 percentage point since the beginning of the year,

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Fiscal elements of the February economic package
Fiscal year 1994

	Yen trillion	Per cent of GDP
Demand stimulation	9.8	2.0
Public works (excluding land)	3.7	0.8
Agricultural investment	0.2	0.0
Income tax reductions	3.8	0.8
Residents tax reduction	1.6	0.3
Corporate and auto-tax reduction	0.4	0.1
Land transactions	2.8	0.6
Advance land purchases by:	2.0	0.4
Local authorities	1.5	0.3
Urban development project	0.5	0.1
Normal land purchases	0.8	0.2
Lending programmes	2.7	0.6
Housing loan corporation	1.2	0.2
Small enterprise loans	1.5	0.3
Overall total	15.3	3.2

Source: Ministry of Finance.

reflecting concerns about a larger government deficit and the rise in yields abroad, real rates of interest remain fairly low, at slightly below 3 per cent. Despite this movement, the stock market rose 15 per cent in the first five months of the year, escaping the weakness of many other East Asian markets which have fallen sharply following the jump in US interest rates. The upward movement in bond yields, however, has resulted in an increase in the interest rate charged on loans from both long-term credit banks and from institutions financed by the government's "Fiscal Investment and Loan Programme". These increases may limit some private sector activity. On the other hand, the steepening of the yield curve should mean that the banks will be better placed to increase operating profits and reduce the under-provisioning of bad loans, thereby allowing them eventually to increase lending.

The government has made a number of proposals for liberalising the economy. The February economic package proposed regulatory changes to, *inter alia*, increase land supply, reduce construction costs and enhance restructuring of banks' balance sheets. At the end of March, the government introduced a three-point plan to further reform the economy and try to restart the framework talks with the US government. Its main features are:

- ensuring that domestic demand will lead the economy. This will be achieved through implementing the existing medium-term public investment plan and through an already foreseen reform of the tax system;
- bolstering market functions and improving access for foreign products and services. Four other areas are singled out for some deregulation: housing and building materials, telecommunications, market access and distribution, and finally finance;
- taking voluntary action to open markets in three areas (motor vehicles and parts, government procurement and insurance). Most car manufacturers have announced increases in their projected purchases of foreign components for 1994. On the other hand, the voluntary restraint agreement on car exports to the United States will be ended as it no longer represents a constraint on exporters.

A new government was formed in April. It intends that these measures, together with those announced in the February package, will form the essential part of a five-year deregulation plan which will be submitted to the Diet in June.

Prospects

Growth of output is projected to reach ¾ per cent in 1994 and about 2¾ per cent in 1995. Only in 1995 is output growth expected to be strong enough to bring a turn around in employment. Inflation may remain low both in 1994 and 1995, at below 1 per cent on average. The main force behind the projected turn-round of activity later this year is the fiscal stimulus. However, as the tax reductions mainly accrue to higher income groups, a high percentage may be saved: the projections are based on the assumption that only 60 per cent of the tax reduction will actually be spent. Even so, private consumption should account for most of the growth in demand, while residential investment is expected to retain its recent strength. Moreover, public investment programmes

JAPAN

External indicators[a]

Seasonally adjusted at annual rates

	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
	$ billion									
Merchandise exports	330.9	351.3	367	384	349.6	353.0	362	373	380	388
Merchandise imports	198.5	209.8	232	255	208.7	211.0	225	240	250	260
Trade balance	132.3	141.4	135	129	140.9	142.0	137	133	129	128
Invisibles, net	–14.8	–10.1	–6	–8	–7.7	–12.5	–6	–7	–6	–11
Current balance	117.5	131.4	129	120	133.2	129.5	131	126	123	117
	Percentage change									
Merchandise export volumes[b]	1.7	–1.9	1.2	2.8	–0.1	–6.3	4.4	2.6	2.6	3.5
Merchandise import volumes[b]	–0.6	3.7	9.4	7.6	6.2	4.9	11.3	10.0	7.1	6.3
Export performance[c]	–7.9	–8.9	–7.5	–5.1	–6.6	–14.6	–4.5	–5.8	–5.1	–4.3
Terms of trade	7.3	8.8	2.7	–0.4	8.4	14.0	–1.5	0.1	–0.6	–0.6

a) For further detail, see tables in the External Trade and Payments section of the Annex.
b) Customs basis.
c) Ratio between the total of export volumes and export market of total goods.

should continue to be strong in 1994, but have been assumed to fall off subsequently. On the other hand, corporate investment may start rising again by 1995, as profitability is expected to be recovering and expectations of a rise in capacity utilisation become more widespread. The strength of domestic demand is expected to be partly offset by large losses in export market share and growth in import penetration. By 1995, the current account surplus is expected to fall back to its 1992 level of around $120 billion (about 2.5 per cent of GDP).

There are some risks and uncertainties attached to these projections:

- On the positive side, the factors that boosted the saving ratio in 1993 are now being reversed: the outlook for employment, hours worked and income growth are improving. Moreover, the fall in house prices seems to be ending and consumers have reduced their indebtedness. Such factors might result in households lowering their rate of saving earlier than expected in the projections and spending a higher proportion of the tax cuts than currently envisaged.
- The principal negative risk comes from the business sector which, in the short-term, may increase the pace at which stocks are reduced relative to output, so delaying the recovery somewhat. Furthermore, there is some risk that, with capacity utilisation remaining low even in 1995, businesses may prefer to use their increased profits to reduce indebtedness rather build new plants and install new equipment. Competitiveness considerations may also induce manufacturing companies to invest further in low-cost locations elsewhere in Asia.

Another negative risk concerns the yen. If upward pressure on the exchange rate re-emerges despite fundamentals – such as the shrinking current account deficit and the widening negative interest-rate differential with the United States – the prospects for a self-sustained recovery would be weakened through the adverse impact of the appreciation on corporate profitability and investment.

GERMANY

While consumption is being restrained by rising unemployment and a squeeze on real incomes, there are indications that a gradual recovery is under way, based on a rebound in foreign orders. Output growth in 1994 will nevertheless be rather slow, the recovery of domestic demand being expected to gain momentum only in 1995, as better profitability leads to stronger investment demand and stabilisation of the labour market. With the slack in the economy remaining substantial, the rate of inflation is expected to fall below 2 per cent by early 1995. Improving prospects for inflation should allow policy-controlled interest rates to ease somewhat further without causing upward pressure on long-term rates, thereby supporting the upturn. While having a dampening short-term influence on aggregate demand, fiscal consolidation should improve medium-term growth prospects, by checking the rise in government indebtedness.

Recent developments

While falling by around 2 per cent in 1993 as a whole, output in western Germany rose slightly during the six months to September, before relapsing in the final quarter as renewed weakening of domestic demand outweighed a pick-up in exports. Private consumption declined by 1 per cent in volume terms, as households adapted their spending to their more constrained circumstances, and spending on capital goods also contracted, construction activity being impaired by relatively unfavourable weather in November and December.

Growth resumed in the first quarter of 1994. Merchandise exports, in particular, appear to have gained momentum, foreign manufacturing orders being 11 per cent higher than in the first quarter of 1993. This reflected a strengthening of foreign demand, but also a better competitive position: with the rise in wage costs levelling off and industry undertaking widespread rationalisation, the deterioration in German competitiveness seems also to have been arrested. Private consumption continued to be subdued, as slow nominal wage growth combined with higher taxes and cuts in social transfers to accentuate the squeeze in household disposable income; but spending appears to have been supported to some extent by lower household savings. Business fixed investment, on the other hand continued to be held back by substantial excess capacity, the still-unsatisfactory profit situation and high real interest rates.

In eastern Germany, GDP growth has re-accelerated since mid-1993, reaching an estimated year-over-year rate of 10½ per cent in the first quarter 1994. Construction activity continued to rise at double-digit annual rates, and both industrial output and private business investment gained strength over the past twelve months. Exports (including sales to western Germany) remained the weakest demand component, due to activity still

GERMANY

Demand and output

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1991 prices)

	1991 current prices billion DM	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Private consumption	1 607.7	2.3	0.1	–0.2	0.9	–2.2	2.1	–1.7	0.5	–0.2	3.8
Government consumption	552.1	3.8	–0.7	–0.1	0.1	–5.4	5.4	–2.3	–0.8	0.4	0.4
Gross fixed investment	651.9	4.2	–3.3	4.1	6.0	–5.5	0.4	5.1	5.7	6.1	6.3
Machinery and equipment	304.6	–1.9	–11.4	2.8	7.7	–15.8	–5.3	4.8	7.4	7.7	8.0
Construction	347.3	9.5	3.1	4.9	4.9	2.8	4.5	5.3	4.5	4.9	5.1
Final domestic demand	2 811.7	3.0	–0.8	0.8	2.0	–3.6	2.3	–0.3	1.4	1.4	3.7
* change in stockbuilding	6.7[a]	–0.3	–0.6	0.2	0.2	–0.3	–0.8	0.7	0.2	0.2	0.2
Total domestic demand	2 818.5	2.7	–1.4	1.0	2.2	–3.9	1.6	0.4	1.7	1.5	3.9
Exports of goods and services	712.3	0.1	–9.5	4.4	7.4	–15.5	–0.5	6.0	6.2	7.5	8.5
Imports of goods and services	715.0	2.6	–10.0	1.1	5.8	–16.5	–4.2	2.0	5.0	5.6	7.1
* change in foreign balance	–2.7[a]	–0.6	0.2	0.7	0.4	0.4	0.9	0.9	0.3	0.5	0.4
GDP at market prices	2 815.7	2.1	–1.3	1.8	2.6	–3.5	2.5	1.3	2.0	2.0	4.3

* As a percentage of GDP in the previous period.
a) Actual amount.

GERMANY

Employment, income and inflation

Percentage changes from previous period, seasonally adjusted at annual rates

	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Employment	–1.7	–1.9	–1.8	0	–2.2	–1.9	–2.0	–1.1	0.1	0.8
Unemployment rate	7.7	8.9	10.0	10.0	8.5	9.2	9.9	10.2	10.1	9.9
Compensation of employees	7.6	2.2	1.0	2.8	1.4	1.1	1.0	1.0	3.3	3.6
Unit labour cost	5.4	3.5	–0.7	0.2	5.1	–1.3	–0.3	–1.0	1.3	–0.6
Household disposable income	7.2	3.2	2.0	2.5	2.1	3.0	1.2	2.5	–0.2	8.3
GDP deflator	5.3	3.9	2.8	2.0	4.1	2.7	3.2	2.2	2.0	1.9
Private consumption deflator	4.7	4.0	3.1	1.9	4.9	3.1	3.6	2.2	1.8	1.6

being subdued in the west and to entrenched problems of competitiveness.

The fall in western German employment has continued virtually unabated. Firms in the export sector, in particular, have tried to stem losses in competitiveness following earlier high wage increases by raising productivity and cutting their work force. Thus, in spite of a slightly decreasing labour supply, unemployment rose by almost half a million over the twelve months to early 1994, to a rate of 8¼ per cent. In eastern Germany the labour market has stabilised as a result of the pick-up in activity; full-time employment has ceased falling year-on-year, and there has been a substantial reduction in the number of short-time workers, partly through retraining and other labour market programmes, and partly through discouragement or migration to western Germany. As a result, registered unemployment in eastern Germany has levelled off at some 1.15 million, corresponding to a rate of nearly 17 per cent.

With unemployment rising and the effective exchange rate remaining firm, overall cost pressures have eased. Even before spring wage contracts came into force, the year-on-year rise of per capita wages and salaries had slowed to somewhat above 3 per cent, with further declines in prospect. As a result, manufacturing unit labour costs have stabilised. Producer prices have also been on a declining trend for more than a year, but increases in rents, service prices and public charges have kept the consumer price index rising at an annual rate of over 3 per cent. Nevertheless, abstracting from the effect of the higher mineral oil tax, which came into effect 1 January 1994, the underlying rate of inflation has come down to around 2½ per cent.

Policies and other forces acting

From end-October 1993 the Bundesbank paused in its strategy of gradually easing monetary conditions, eventually cutting the discount rate by a ½ percentage point in mid-February. Thereafter, it continued with a steady lowering of the repurchase rate, following up in May with half-point cuts in the discount and the Lombard rates, to 4½ and 6 per cent, respectively. The earlier slow pace of interest rate reduction may have been prompted, in part, by the uncertain outcome of crucial wage negotiations. More recently, from early 1994, the growth of M3 has significantly exceeded the 4 to 6 per cent target range for the annual rate to the fourth quarter of 1994. Taking into account special factors which have been responsible for the monetary overshooting, the

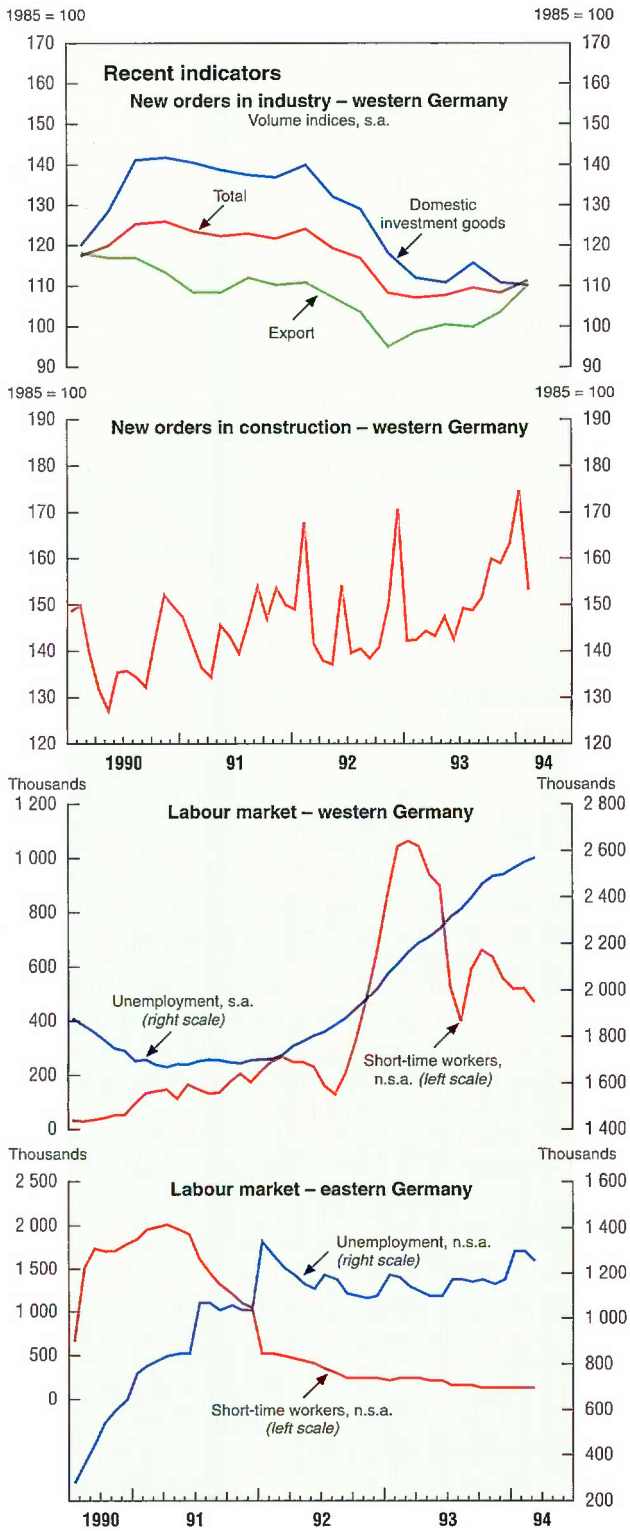
GERMANY

Financial indicators

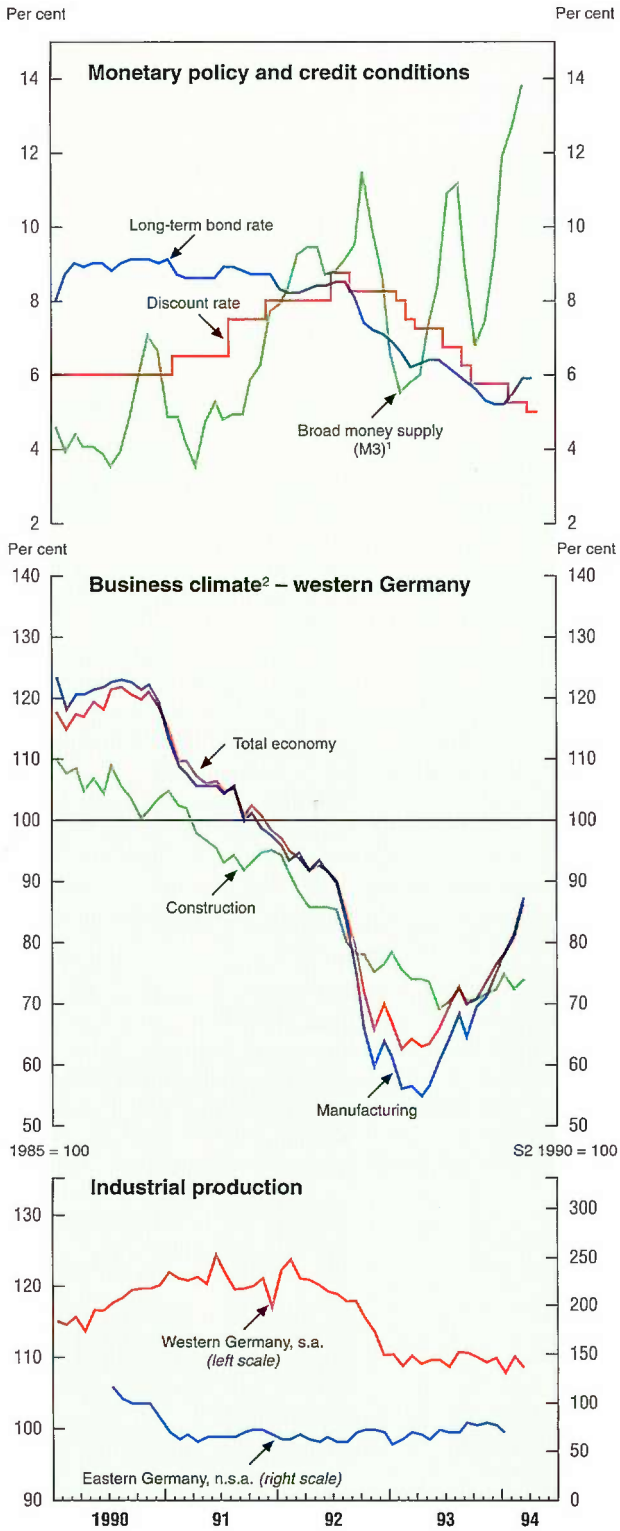
	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Household saving ratio[a]	12.9	12.1	11.3	11.1	12.6	11.7	11.4	11.3	10.5	11.7
General government financial balance[b]	–2.6	–3.3	–2.9	–2.8	–2.7	–3.9	–3.1	–2.8	–2.8	–2.9
Current balance[b]	–1.1	–1.1	–0.7	–0.2	–0.8	–1.4	–0.8	–0.5	–0.3	–0.1
Short-term interest rate[c]	9.5	7.3	5.1	4.3	8.0	6.6	5.6	4.6	4.3	4.3
Long-term interest rate[d]	7.9	6.5	6.4	6.1	6.8	6.2	6.4	6.4	6.2	6.0

a) As a percentage of disposable income.
b) As a percentage of GDP.
c) 3-month interbank rate.
d) Public sector bonds, 7-15 years.

Germany



1. Change over previous six months at annual rate. Western Germany only up to December 1990. All Germany from January 1991 onwards.



2. Weighted average of present and future (six months ahead) business situation. A level of 100 corresponds to "normality".

Sources: Deutsche Bundesbank; IFO; OECD, *Main Economic Indicators.*

GERMANY
Public sector financial balances

DM billion

	1990	1991	1992	1993	1994	1995
General government	–49.7	–90.9	–78.5	–101.8	–95.5	–96.7
Per cent of GDP	–2.0	–3.2	–2.6	–3.3	–2.9	–2.8
Territorial authorities	–94.4	–123.0	–116.1	–145.0	–153.3	–143.0
Federal government	–48.1	–53.2	–39.3	–66.9	–68.0	–71.0
State government west[a]	–19.4	–15.8	–16.2	–24.5	–28.0	–28.0
Local government west	–4.2	–5.5	–9.7	–11.0	–11.5	–11.0
State government east[a]	..	–13.4	–15.3	–22.0	–28.0	–16.0
Local government east	..	1.5	–7.4	–10.0	–10.5	–6.0
German unity fund	–20.0	–30.6	–22.4	–13.5	–3.0	2.0
Other funds[b]	–2.7	–6.0	–5.8	–2.9	–4.3	–13.0
Social security	20.4	24.8	4.4	12.2	17.5	15.5
National accounts and other adjustments[c]	24.3	7.3	33.2	–31.0	40.3	30.8
Memorandum items						
Treuhandanstalt	–4.3	–29.9	–30.5	–37.0[e]	–44.0	
Public enterprises[d]	–9.9	–17.5	–27.0	–31.0[e]		

a) 1991-93; West without Berlin; East including Berlin.
b) Credit fund, Economic Recovery Programme fund, financial equalisation fund, and inherited debt fund.
c) Lending operations, dividend paid by the Bundesbank and timing and data adjustments.
d) Post/Telecom and Railway Companies in the West and in the East.
e) Official estimates.
Sources: Ministry of Finance, *Finanzbericht 1994*; Deutsche Bundesbank, *Monthly Report*; Ministry of Finance submissions; OECD Secretariat projections.

Bundesbank has responded pragmatically, continuing to reduce short-term interest rates.

Improving prospects for inflation would appear to offer scope for a further modest relaxation of monetary conditions in the second half of 1994, taking three-months rates down from their present level of just over 5 per cent, to between 4 and 4½ per cent by year end. Long-term rates, having moved up to over 6 per cent in line with the international firming in bond yields, are unlikely to come down substantially, given prospective developments abroad. Thus, the yield curve is set to steepen which, indeed, would be normal during a period of recovery.

Largely due to the working of automatic stabilisers, the general government deficit widened in 1993 to around DM 102 billion or 3¼ per cent of GDP. The aim of fiscal policy is to stabilise the deficit in 1994 at around DM 100 billion and to reduce it gradually in subsequent years. Government current expenditure is planned to rise by no more than 3 per cent per annum in nominal terms and new revenues are being raised. Thus, at the beginning of 1994 the mineral oil tax was increased (the additional revenue being earmarked for the servicing of the railway debt, for which the federal government has assumed responsibility as the rail system has been privatised), as were contributions to the old-age insurance scheme. In 1995, the 7½ per cent "solidarity" income tax surcharge will be re-introduced mainly to finance transfers to the eastern German states. On the expenditure side, social transfers such as unemployment assistance have been trimmed in 1994 and the public sector wage bill will barely rise.

A restrictive fiscal stance will thus be maintained throughout the projection period. Between mid-1992, when tightening began, and 1995 the improvement in the cyclically-adjusted budget balance may amount to a cumulative 4 per cent of GDP. As the recovery gains momentum, the general government deficit may fall below 3 per cent of GDP in 1994 and 1995. Nevertheless, the public debt ratio will continue to rise, exceeding the critical level of 60 per cent of GDP by 1995, when credit obligations incurred by the Treuhandanstalt will be taken over by the federal government. By that time, public expenditure and revenue shares in GDP will be 5 percentage points higher than before reunification. Over the medium term, a sustained effort to privatise remaining state-controlled enterprises and to cut industrial subsidies would be needed if the tax burden were to be brought back to pre-unification levels.

Prospects

Over the coming months, export growth should accelerate further and remain the driving force of recovery throughout the projection period. Foreign markets, particularly in continental Europe, are likely to strengthen as they come out of recession, while cost-competitiveness in Germany is set to improve slightly. Major settlements in the 1994 spring round provided for

GERMANY
External indicators[a]

Seasonally adjusted at annual rates

	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
	$ billion									
Merchandise exports	405.7	348.3	362	399	350.6	346.1	351	372	389	409
Merchandise imports	373.7	306.2	302	328	315.1	297.2	296	309	321	335
Trade balance	32.0	42.1	59	71	35.4	48.9	56	63	68	74
Invisibles, net	–54.0	–63.5	–72	–75	–51.4	–75.6	–72	–73	–74	–76
Current balance	–22.0	–21.3	–13	–4	–15.9	–26.7	–16	–10	–6	–2
	Percentage change									
Merchandise export volumes[b]	2.1	–5.7	5.2	7.7	–13.2	6.5	4.1	5.9	7.9	9.0
Merchandise import volumes[b]	2.3	–9.6	1.4	5.8	–16.7	–1.8	1.4	4.5	5.7	7.4
Export performance[c]	–0.8	–6.3	–0.3	0.9	–11.0	0.3	–0.7	–0.1	1.0	1.7
Terms of trade	2.9	0.8	1.1	0.0	–0.7	0.5	1.5	1.1	–0.5	–0.1

a) For further detail, see tables in the External Trade and Payments section of the Annex.
b) Customs basis.
c) Ratio between the total of export volumes and export market of total goods.

wage increases in western Germany of 2 per cent or less, well below the current rate of consumer price inflation. Some firms in manufacturing have concluded agreements with their work forces providing for temporary substantial cuts in the work-week at (broadly) the same hourly wages. Overall wage trends are expected to lead to near stability in unit labour costs in manufacturing over the next two years, matching trends in the other major economies.

Overall, real GDP growth is expected to reach 1¾ per cent in 1994, accelerating to 2½ per cent in 1995, with west German growth attaining 1¼ per cent and 2 per cent, respectively. With output rising, capacity utilisation in manufacturing will increase. Profits should thus recover, in part because of recent rationalisation efforts. These factors should, in turn, work to reverse the decline in business fixed investment. Capital spending is expected to remain particularly buoyant in eastern Germany and to concentrate more on industrial machinery and equipment, following the strong pick-up in output growth during 1993. As wage growth decelerates and productivity converges towards western German levels, the stage could be set for an improvement in competitiveness in the eastern Länder.

The recovery in output will be reflected in the labour market only with a lag, as firms initially absorb

GERMANY
Projections for western and eastern Germany

Percentage changes from previous year, volume (1991 prices)

	Western Germany			Eastern Germany		
	1993	1994	1995	1993	1994	1995
Private consumption	–0.0	–0.4	0.9	1.5	0.9	1.0
Public consumption	–1.3	0.0	0.4	2.6	–0.6	–1.3
Gross fixed investment	–6.9	1.4	3.0	15.6	15.4	17.3
Final domestic demand	–1.8	0.1	1.3	5.7	4.9	5.9
* change in stocks	–0.7	0.1	0.1	0.6	1.8	0.9
Total domestic demand	–2.6	0.2	1.4	6.0	5.9	6.3
Exports of goods and services	–6.1	4.4	7.0	9.6	21.8	23.5
Imports of goods and services	–9.5	1.8	6.5	5.3	4.3	5.8
* change in foreign balance	0.6	1.0	0.7	–4.8	–2.4	–3.3
GDP at market prices	–1.9	1.2	2.0	7.1	9.1	8.8
Memorandum items						
GDP deflator	3.3	2.5	1.7	10.3	4.8	4.0
Private consumption deflator	3.4	2.8	1.5	7.9	5.1	4.0
Employment	–1.6	–1.7	0.1	–3.4	–1.9	–0.4
Unemployment rate (per cent of labour force)	7.3	8.4	8.4	15.8	16.8	16.9

* As a percentage of GDP of the previous year.

accumulated spare capacity. Thus, employment may continue declining throughout 1994 and pick up only towards mid-1995. By that time, registered unemployment may have peaked at a rate of 10 per cent of the labour force (about 8½ per cent in western Germany). With labour slack remaining significant, wage growth is likely to remain modest in 1995, allowing consumer price inflation to abate from a current annual rate of over 3 per cent to about 1¾ per cent before the end of 1995.

Private consumption may be a lagging component in the recovery of domestic demand. Under the impact of declining employment, wage moderation and cuts in social benefits, real disposable income is expected to fall by 1 per cent in 1994. The re-introduction of the 7.5 per cent "solidarity" income tax surcharge at the beginning of 1995 will constitute a further drag. Nevertheless, the decline in households' purchasing power will bottom out as inflation subsides. This should eventually boost consumer confidence and induce households to increase spending.

Since the recovery is projected to be export-led and domestic demand to remain weak for most of 1994, the real foreign balance should make a substantial contribution to the resumption of GDP growth. Allowing for the improvement in the terms of trade which has stemmed from the effective appreciation of the Deutschemark the current account deficit may shrink markedly, to less than DM 10 billion or about ¼ per cent of GDP in 1995.

While present projections are still for a gradual and somewhat uneven recovery, the balance of risks appears to have shifted somewhat. A downward risk still attaches to domestic demand, where falling real incomes and rising unemployment may induce consumers to higher (precautionary) saving. But recent leading indicators suggest both the possibility of greater export buoyancy and an unexpected resilience on the part of consumers. In this event, a stronger than expected pick-up in profits could encourage higher private investment, thereby underpinning both the recovery and the industrial restructuring process.

FRANCE

After falling sharply in the first six months of 1993, GDP rose somewhat in the second half, with a strong rise in net exports more than offsetting the negative output effect of the continued decline in domestic demand. The recovery is likely to have continued in the first half of 1994, largely due to a revival in domestic demand: residential investment was boosted by government incentives and lower mortgage interest rates and private consumption was supported by specific incentives to purchase new cars. While growth in disposable income will remain moderate in 1994, consumption should strengthen further as consumer sentiment improves. Business investment could also remain weak in 1994, but start to rise swiftly as soon as rates of capacity utilisation increase. Wage and price inflation should moderate further and the current account remain in sizeable surplus. Although the economic situation is improving, progress in lowering high unemployment and large budget deficits is likely to be slow. During 1993 the first steps towards putting the social security accounts on a sounder footing were taken and an ambitious multi-year deficit reduction plan for the State was adopted. However, concrete measures to achieve such deficit reductions are yet to be announced for 1995 and beyond.

Recent developments

Aggregate output declined by 0.9 per cent on average in 1993, but growth resumed during the year as strong export growth more than compensated for continuing depressed domestic demand in the second half of the year. Business confidence has improved sharply since late 1993, with the survey-based outlook for industrial production becoming positive for the first time since 1990, and manufacturing output rose strongly in the first months of 1994. Assessments of consumer confidence showed that these were also rising, but at a much less spectacular pace.

Preliminary estimates suggest that output rose by 0.9 per cent in the second half of 1993 and recent indicators show that the recovery has strengthened in early 1994. Total domestic demand fell further in the last six months of 1993, largely on account of another steep decline in inventories. As a result of tax increases, slowing wage growth and falling employment, real household income changed little. Even so, private consumption was the most dynamic domestic demand component as the saving ratio fell from the high level reached in the first half of 1993. Government measures to encourage new car purchases went into effect in early 1994, and these are likely to continue to have a positive effect in coming months. A series of government initiatives since mid-1993 has also provided support to the residential construction sector. In conjunction with falling mortgage rates, housing starts have recovered and housing investment could remain the strongest element of domestic demand in the immediate future. Business investment, after declining steeply since 1990, fell further in the sec-

FRANCE

Demand and output

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1980 prices)

	1991 current prices billion FF	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Private consumption	4 037.7	1.4	1.3	0.7	1.5	2.3	–0.7	2.0	1.2	1.4	2.4	2.8
Government consumption	1 255.9	2.6	3.0	0.5	1.0	0.5	–0.4	1.0	1.0	1.0	0.3	0.3
Gross fixed investment	1 424.1	–0.7	–2.5	–5.1	1.1	4.2	–8.4	–1.0	1.0	3.3	4.3	4.9
General government	231.1	5.8	3.5	2.9	2.2	2.1	3.8	1.3	2.5	2.5	2.0	2.0
Household	369.1	–3.8	–0.9	–3.6	4.5	4.0	–9.3	4.3	4.5	4.6	4.0	3.6
Other	823.9	–1.0	–5.1	–8.3	–0.9	5.0	–11.8	–4.2	–1.2	3.0	5.2	6.7
Final domestic demand	6 717.7	1.1	0.8	–0.6	1.3	2.3	–2.3	1.2	1.1	1.7	2.4	2.8
* change in stockbuilding	23.6[a]	–0.6	–0.6	–1.3	–0.1	0.4	–0.5	–2.6	0.8	0.5	0.4	0.4
Total domestic demand	6 741.2	0.6	0.2	–1.9	1.2	2.8	–2.8	–1.4	1.9	2.2	2.8	3.2
Exports of goods and services	1 533.9	3.8	6.7	0	5.2	6.6	–3.3	7.5	4.0	5.5	6.8	7.1
Imports of goods and services	1 511.4	2.8	2.7	–3.4	2.8	6.0	–5.9	–1.1	3.7	4.9	6.1	6.9
* change in foreign balance	22.7[a]	0.2	1.0	0.9	0.7	0.2	0.8	2.3	0.1	0.2	0.2	0.1
GDP at market prices	6 763.7	0.8	1.2	–0.9	1.8	2.9	–2.0	0.9	2.0	2.4	3.0	3.3
Industrial production[b]	–	–0.1	–1.1	–4.2	2.0	3.5	–6.8	0.4	2.4	3.0	3.5	3.8

* As a percentage of GDP in the previous period.
a) Actual amount.
b) Quarterly index.

FRANCE

Employment, income and inflation

Percentage changes from previous period, seasonally adjusted at annual rates

	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Employment	0.1	–0.8	–1.2	–0.4	0.6	–1.2	–1.3	–0.3	0.2	0.5	1.0
Unemployment rate	9.5	10.4	11.7	12.3	12.2	11.3	12.0	12.2	12.4	12.3	12.1
Compensation of employees	5.0	3.6	1.8	2.2	3.3	1.6	0.9	2.7	2.7	3.5	3.8
Unit labour cost	4.1	2.4	2.8	0.4	0.4	3.7	0	0.6	0.3	0.4	0.5
Household disposable income	5.3	4.7	3.1	2.5	3.2	3.2	2.0	2.6	2.8	3.2	3.5
GDP deflator	3.1	2.3	2.3	1.8	1.6	3.1	1.1	2.1	1.6	1.5	1.5
Private consumption deflator	3.2	2.4	2.1	1.7	1.4	2.3	1.9	1.7	1.5	1.4	1.3

ond half of 1993 and the latest investment survey projects little change in the volume of industrial investment for 1994. Thus, the rise in business confidence has not yet spilled over into investment plans.

After contracting sharply in the first half of 1993, both exports and imports recovered in the second. With exports outpacing imports by a large margin, the contribution of net exports to growth was sizeable. A recovery in foreign demand and a weaker effective exchange rate led to strong export growth. In combination with sizeable terms-of-trade gains, both the trade and current accounts recorded surpluses of close to $10 billion or nearly 1 per cent of GDP in 1993. Due to the changes in gathering intra-EC trade data in early 1993, however, foreign trade developments have to be interpreted with caution (see the Box in the chapter "The Desynchronisation of OECD Business Cycles").

Employment in the private sector, while still falling during the last six months of 1993, stabilised in the first quarter of 1994 and the rate of unemployment has remained at 12.2 per cent since November 1993, partly reflecting labour market policy measures. By early 1994, the rise of wages was down to about 2½ per cent (year-on-year) and consumer price inflation to 1.7 per cent by April 1994.

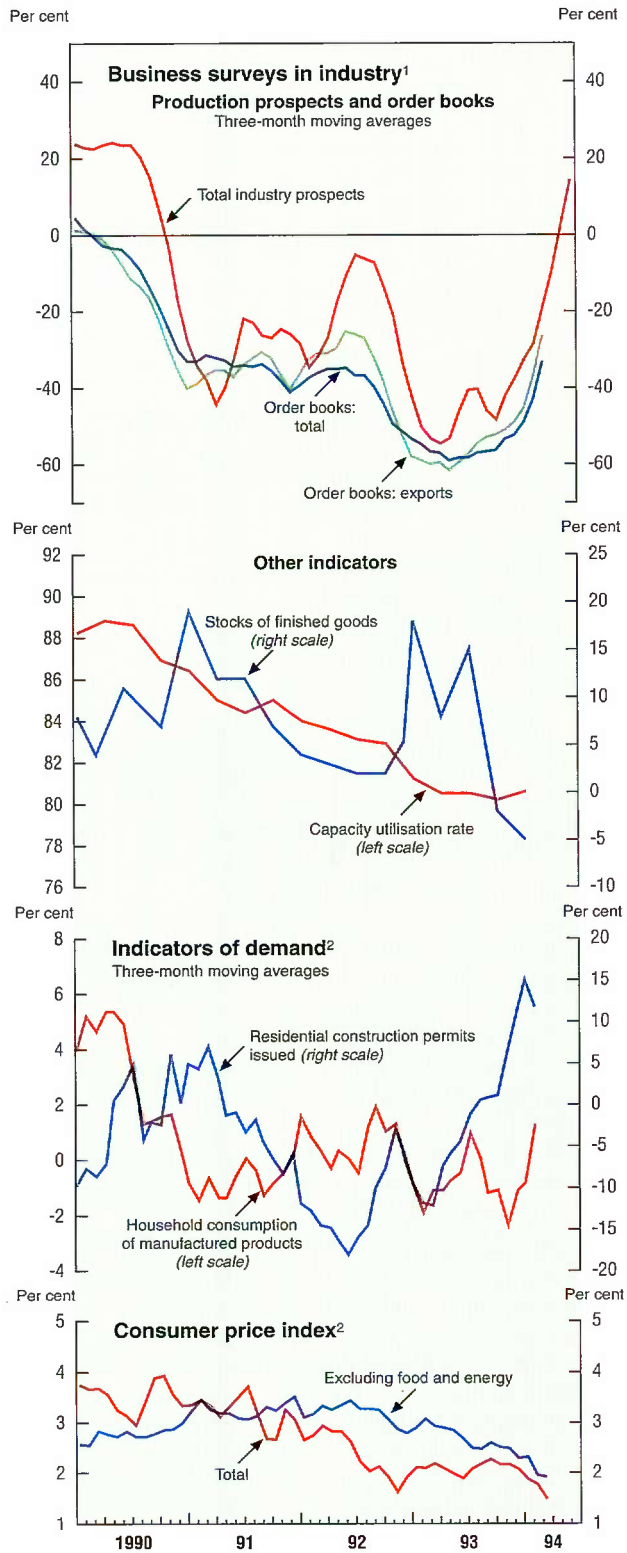
Policies and other forces acting

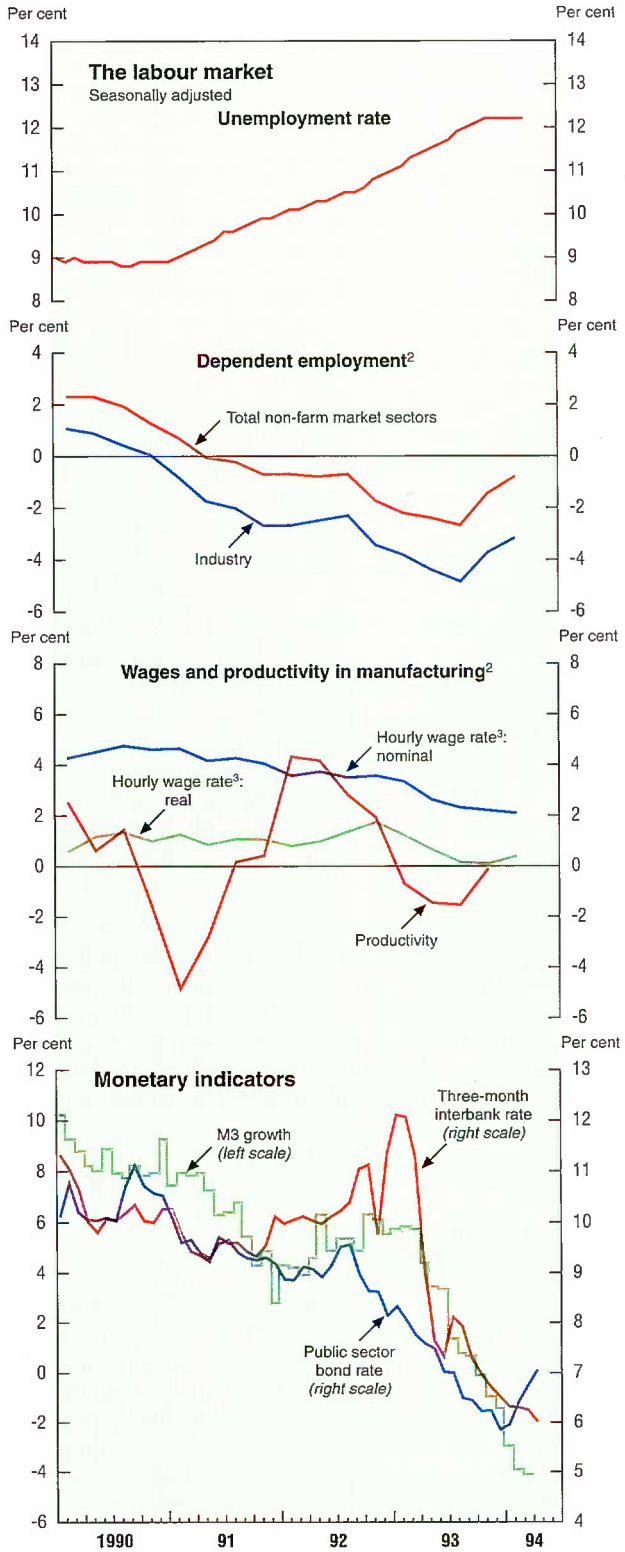
While private sector credit demand remained very weak over the last year, the growth in total indebtedness was close to 4 per cent, as public sector credit demand grew rapidly. However, the broad monetary aggregate, M3, fell during 1993 in contrast to a targeted growth of 4 to 6½ per cent. This has largely reflected weak nominal spending growth and portfolio shifts into non-monetary financial instruments. The Banque de France announced its new monetary policy objectives in January 1994. The ultimate goal is price stability, which is defined as a rate of inflation below 2 per cent in 1994, as well as in a medium-term perspective. In order to realise the inflation objective the monetary authorities will attempt to keep the franc's value stable in the context of the European Exchange Rate Mechanism (ERM) and to hold growth of money and total indebtedness at a medium-term rate of about 5 per cent per year.

The Banque de France has continued to ease monetary policy cautiously: it has cut back the intervention rate gradually to 5.4 per cent and the repurchase rate to 6.4 per cent. The call money rate has followed, with the differential against German rates narrowing to less than ¼ percentage point by early April 1994 but widening again subsequently. Long-term interest rates reached a low point in January 1994 at 5.6 per cent. In line with international developments, they rose sharply to above 7 per cent towards the end of May and the differential against German rates widened. The franc moved back into the earlier narrow ERM band *vis-à-vis* the Deutschemark in November 1993 and has remained close to the previous floor since then. Despite the sharp appreciation of the yen, the nominal effective exchange rate has risen since August 1993 and is once again close to the peak reached in April 1993. The projections assume a further gradual decline in short-term interest rates. With sustained credibility in the policy setting, they could fall in line with German interest rate developments to between 4 and 4½ per cent by 1995. The projections also assume some reversal of the rise in long-term rates from the high level reached in late May.

The State budget deficit for 1993 came in close to its revised target level of FF 315 billion, with both spending and revenues somewhat higher than budgeted. The general government deficit was nearly FF 100 billion higher than this (5.8 per cent of GDP), largely owing to the growing financial problems of the social security system. The 1994 Budget aims at a slight fall in the State deficit to just under FF 300 billion. Expenditure could be higher than budgeted because of the government incentives to purchase new cars, and a new subsidy for hiring young people. Outlays on a national accounts basis will also rise due to the debt take-over linked with the devaluation of the CFA franc. The general government deficit could increase somewhat as a per cent of GDP in 1994,

France





1. Balance between businessmen's optimistic (+) and pessimistic (–) answers.
2. Year-on-year percentage change.
3. In total industry.
Sources: INSEE, *Tendances de la conjoncture* ; OECD, *Financial Statistics*.

FRANCE

Financial indicators

	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Household saving ratio[a]	13.1	13.9	14.1	13.6	13.1	14.5	13.7	13.6	13.5	13.3	13.0
General government financial balance[b]	–2.2	–3.9	–5.8	–5.9	–5.2	–5.8	–5.8	–6.0	–5.8	–5.4	–5.0
Current balance[b]	–0.6	0.3	0.9	1.4	1.6	0.4	1.4	1.3	1.5	1.6	1.7
Short-term interest rate[c]	9.6	10.3	8.6	5.3	4.4	9.9	7.3	5.8	4.8	4.4	4.3
Long-term interest rate[d]	9.5	9.0	7.0	6.9	6.4	7.7	6.4	6.9	6.8	6.5	6.3

a) As a percentage of disposable income.
b) As a percentage of GDP.
c) 3-month interbank rate.
d) Public and semi-public sector bonds.

the improvement in the structural component being slightly outweighed by a further rise in the cyclical component. The fall in the cyclically-adjusted deficit is due mainly to expenditure restraint, social security reforms and tax increases during 1993, which more than counterbalance the budgetary effect of the 1994 income tax cuts. The government's multi-annual programme provides for a freeze in real expenditure and a gradual fall in the deficit. No measures have been announced yet, but the projections assume that additional expenditure cuts will be taken and taxes increased in 1995.

Implementation of the multi-annual labour market programme has been slowed, as the government withdrew the introduction of work contracts for young people, which would have allowed payments below the minimum wage under certain conditions. However, relative labour costs for young people will still fall, due to a new programme offering a subsidy of FF 1 000 per month when young people with no previous work experience are hired for at least 18 months. The subsidy will be doubled for jobs starting before October 1994. Hiring of 200 000 young people by October would imply a budgetary cost of FF 4 billion. The net effect on unemployment remains difficult to evaluate. The privatisation programme is proceeding, and may generate total receipts of some FF 400 billion over the next several years.

Prospects

Domestic demand is likely to have recorded positive growth in the first half of 1994, with housing demand growing most strongly due to lower mortgage rates and government incentives to invest in residential construction. While disposable income growth during 1994 will be limited by low real wage growth and tax increases, consumption may strengthen as brighter labour market conditions should lead to improved consumer confidence and a fall in the saving ratio. Business investment is likely to remain weak in 1994 as capacity utilisa-

FRANCE

External indicators[a]

Seasonally adjusted at annual rates

	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
					$ billion					
Merchandise exports	226.5	196.5	204	223	198.8	194.1	199	210	218	228
Merchandise imports	223.6	187.2	188	204	192.7	181.7	184	193	200	209
Trade balance	2.9	9.3	16	19	6.1	12.5	15	17	18	19
Invisibles, net	1.4	1.7	2	3	–1.3	4.7	2	3	3	4
Current balance	4.3	10.9	18	22	4.8	17.1	17	20	21	23
					Percentage change					
Merchandise export volumes[b]	5.2	–1.3	5.4	6.7	–5.4	7.6	4.1	5.8	7.0	7.2
Merchandise import volumes[b]	1.1	–3.5	3.7	6.1	–7.3	2.4	3.7	5.0	6.2	7.0
Export performance[c]	0.3	–0.7	0.3	0.2	–1.4	3.0	–0.7	–0.1	0.4	0.2
Terms of trade	1.0	3.1	1.6	–0.1	6.1	1.5	2.4	0.0	–0.1	0.0

a) For further detail, see tables in the External Trade and Payments section of the Annex.
b) Customs basis.
c) Ratio between the total of export volumes and export market of total goods.

tion appears to have reached exceptionally low levels in many sectors, but could pick up sharply as soon as cyclical slack starts to fall. Exports are expected to be a major source of strength, since foreign demand is projected to expand rapidly. As the recovery of imports proceeds at a slower pace, the foreign contribution to growth could remain significant, albeit diminishing towards the end of the projection period. The current account should remain in sizeable surplus.

As overall growth recovers, labour market conditions are likely to deteriorate only a little in 1994. However, recent labour market measures make projections of unemployment rates unusually uncertain. With growth strengthening in 1995 above potential rates of about 2½ per cent, total employment should start rising again and unemployment should decline. Wage and price inflation is likely to remain low or fall even further as slack in the labour and product markets remains sizeable.

Risks attached to the central projection are evenly balanced and seem smaller than six months ago. Activity in Europe has firmed and business confidence in France has risen significantly. In addition, government incentives to invest in housing and to buy new cars have already shown some effect. Uncertainties relate to inventory accumulation. Stocks fell rapidly during 1993 and stockbuilding could be stronger than projected. On the other hand, long-term interest rates are now higher than expected earlier and strengthening consumption growth hinges on a fall in the saving ratio. The latter depends crucially on consumer confidence, which is improving only slowly.

ITALY

The economy appears to have bottomed out in the closing months of 1993, as the plunge in domestic demand came to an end. A modest revival of private consumption spending is now in sight, setting the stage, with continued export buoyancy, for a resumption of output growth. Nevertheless, while real GDP growth should firm over the projection period, particularly as investment revives, the unemployment rate seems set to remain at its current record level of around 11½ per cent. In these circumstances, wage growth is likely to remain subdued, contributing to further disinflation gains.

Recent developments

Real GDP fell by 0.7 per cent in 1993, the first such drop since 1975, as both private consumption and, notably, gross fixed investment contracted. However, the recession bottomed out in the second half of 1993, as lower interest rates and a surprisingly good inflation performance cushioned the fall in both real private consumption and gross fixed investment. Combined with buoyant export growth, this allowed output to recover. In February 1994, industrial output was nearly 0.4 per cent higher than a year earlier and capacity utilisation in industry rose. Seasonally-adjusted data for industrial output, hours worked and electricity consumption also confirm that the economic trough has been passed.

In a drive to restore profitability, large industrial firms (employing 500 persons and more) cut employment by more than 5 per cent over the 12 months to December 1993, notably blue-collar jobs. Large service companies reduced employment by 1.6 per cent. As a result, the number of lay-offs financed by the Wage Supplementation Fund (CIG)[1] surged by 16 per cent. Within services, retail and wholesale trade suffered most from declines in employment, notably among the self-employed. Overall, employment losses pushed the rate of unemployment to 11.3 per cent in January 1994, almost 2 points above its level a year earlier.

Widening labour market slack and continued pay restraint in the public sector have reduced nominal wage growth. By March 1994, the 12-month rise in hourly contractual wages had fallen to 2.4 per cent, 1.8 points below the rise in consumer prices. Reinforced by counter-cyclical gains in productivity resulting from labour shedding, nominal wage moderation stabilised the level of unit labour costs in the second half of 1993. At the same time, after quickening in response to currency depreciation, the rise in producer and wholesale prices began to subside, dropping to the level of consumer price

ITALY

Demand and output

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1985 prices)

	1991 current prices trillion L	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Private consumption[a]	889.6	2.7	1.4	–2.1	0.7	1.7	–3.7	0.8	0.6	0.8	1.8	2.2
Government consumption	253.2	1.6	1.0	0.8	–0.1	0.2	0.8	0.4	–0.3	–0.2	0.3	0.4
Gross fixed investment	281.9	0.6	–2.0	–11.1	–0.6	5.0	–15.7	–4.3	–0.4	3.0	5.5	6.1
Machinery and equipment	134.0	–0.1	–1.9	–15.6	0.2	5.9	–22.8	–4.1	0.8	3.5	6.5	7.0
Construction	147.9	1.4	–2.1	–6.2	–1.3	4.2	–7.7	–4.5	–1.5	2.5	4.5	5.2
Residential	76.1	3.1	0.3	–0.8	0.8	3.4	–0.9	–0.8	0.5	3.0	3.5	3.5
Non-residential	71.8	–0.2	–4.6	–12.2	–3.9	5.2	–15.2	–8.8	–4.1	1.8	5.8	7.4
Final domestic demand	1 424.7	2.1	0.6	–3.5	0.3	2.1	–5.5	–0.3	0.3	1.0	2.3	2.7
* change in stockbuilding	10.2[b]	–0.1	0.3	–1.6	0.1	0.1	–2.7	0.3	0.1	0.1	0.1	0.1
Total domestic demand	1 434.9	1.9	0.8	–5.0	0.5	2.2	–7.9	0	0.3	1.1	2.4	2.8
Exports of goods and services	257.0	0.5	5.0	10.0	6.9	6.7	14.8	4.3	7.7	8.0	6.5	6.0
Imports of goods and services	262.5	3.4	4.6	–7.3	3.0	5.2	–13.9	3.2	3.0	3.0	5.5	6.8
* change in foreign balance	–5.5[b]	–0.8	–0.1	4.6	1.1	0.5	7.7	0.3	1.3	1.4	0.4	–0.1
GDP at market prices	1 429.5	1.2	0.7	–0.7	1.5	2.6	–0.7	0.3	1.6	2.5	2.7	2.6
Industrial production	–	–1.9	–0.6	–2.8	2.2	2.9	–1.4	–0.2	3.0	3.0	2.8	3.1

* As a percentage of GDP in the previous period.
a) Final consumption in the domestic market by households.
b) Actual amount.

ITALY

Employment, income and inflation

Percentage changes from previous period, seasonally adjusted at annual rates

	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Employment	0.9	–0.6	–4.8	–1.6	0.2	–5.8	–3.8	–1.2	0	0.2	0.3
Unemployment rate[a]	11.0	11.6	10.4	11.7	11.9	9.9	11.0	11.6	11.8	11.8	11.9
Compensation of employees	9.2	5.1	1.1	2.1	3.8	0.6	0.3	2.4	3.4	3.9	4.0
Unit labour cost	7.9	4.4	1.7	0.6	1.1	1.4	0	0.8	0.8	1.2	1.3
Household disposable income	9.5	7.7	2.1	3.4	3.1	–0.5	2.5	3.6	3.8	3.0	2.7
GDP deflator	7.7	4.5	4.4	3.4	2.9	5.0	4.1	3.4	2.7	3.0	2.8
Private consumption deflator	6.8	5.3	4.8	3.9	3.0	4.8	4.8	3.7	3.4	3.0	2.5

a) From the fourth quarter of 1992, data are based on new definitions and therefore not comparable with earlier figures.

inflation in the closing months of 1993. In April 1994, the 12-month rate of consumer price increases stood at 4 per cent, about 1 point below the rate prevailing prior to the autumn 1992 devaluation, despite an increase in indirect taxes and a surge in import prices.

Stronger price competitiveness resulting from the lira's fall helped to lift export volume growth (including services) to 10 per cent in 1993, while imports slumped under the weight of sharply reduced domestic demand. Exports to countries outside the EC were particularly strong, especially sales of textiles and machinery and equipment. Outweighing the effects of worsened terms of trade, buoyant net exports shifted the current account balance into surplus to the extent of 1.3 per cent of GDP, the best performance since 1978. The capital account also swung back into surplus in 1993, permitting the Bank of Italy to recoup part of its previous large losses in international reserves.

Policies and other forces acting

Cuts in primary spending[2] and proceeds from one-off measures cut the Government borrowing requirement to L 153.5 trillion in 1993 (9.9 per cent of GDP) from L 158.7 trillion in 1992, with a primary surplus of 1.7 per cent of GDP.[3] In spite of the unexpected fall in real GDP, the budget outturn almost matched the original deficit target, the overshoot amounting to only L 0.4 trillion, the smallest slippage in many years. Cyclical revenue shortfalls were offset by additional measures of fiscal restraint taken in May 1993 and by unanticipated savings on interest payments. On a cyclically-adjusted basis, the general government budget deficit is estimated to have contracted by 1 percentage point. Even so, public debt continued to surge, reaching 115 per cent of GDP, a level almost twice as high as the average of the other six major countries. Privatisation proceeds from sales of three major public banks and other enterprises totalled L 10 trillion (0.7 per cent of GDP) over the six months to March 1994.

In line with the 1993 stabilisation programme, the 1994 Budget targets a cut in the borrowing requirement to L 144.2 trillion (8.7 per cent of GDP), corresponding to a primary surplus of 1.9 per cent of GDP. The consolidation measures rely predominantly upon economies in primary spending, notably in the areas of public consumption, health and pensions. However, preliminary indicators foreshadow a rise in the deficit to nearly L160 trillion for the year, largely driven by transfer over-

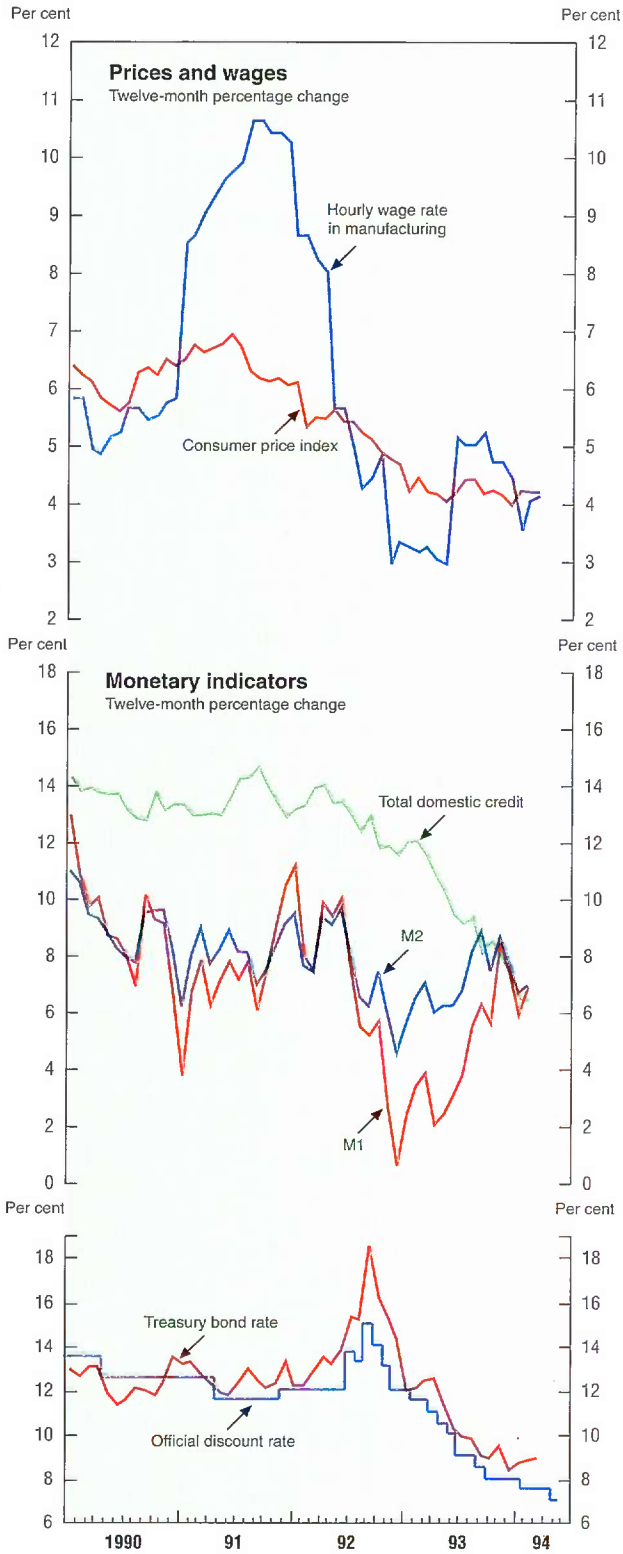
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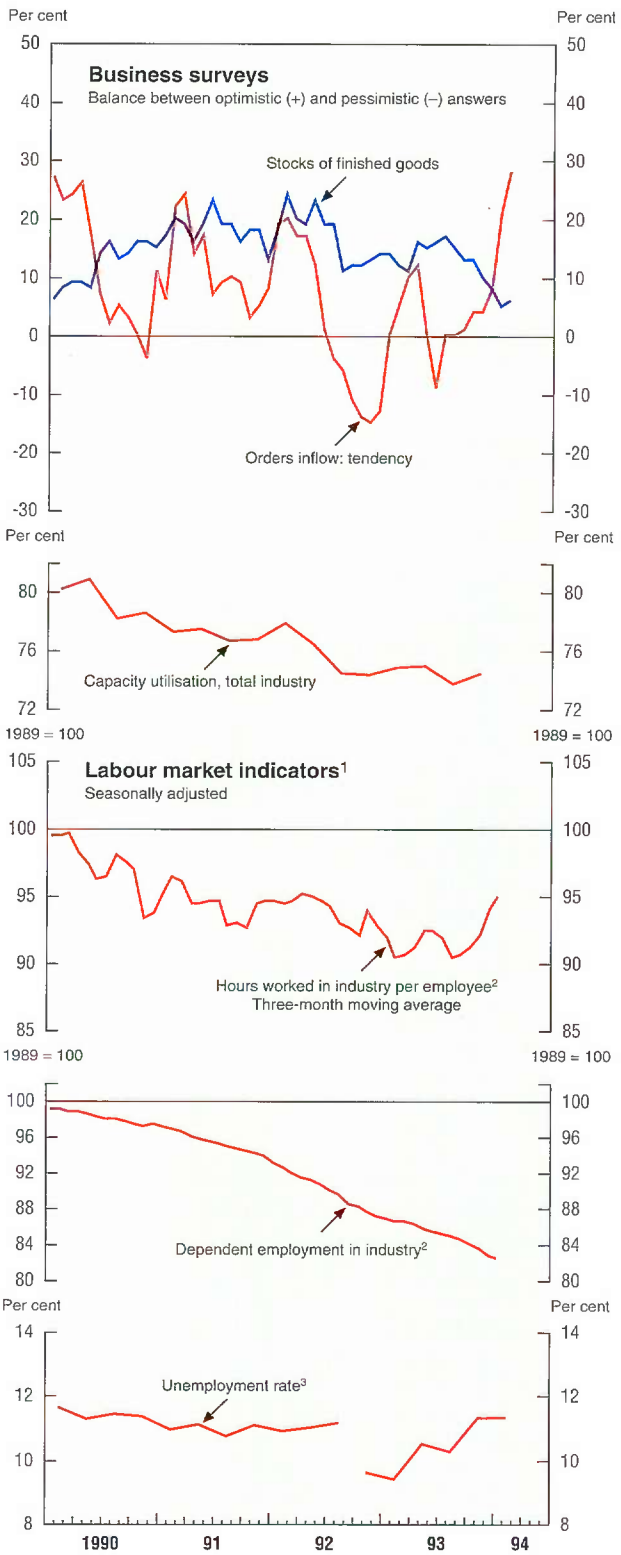
Financial indicators

	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Household saving ratio[a]	18.2	18.8	18.9	18.0	16.7	19.4	18.4	18.1	17.9	17.2	16.3
General government financial balance[b]	–10.2	–9.5	–9.5	–9.7	–8.6	–9.3	–9.7	–9.8	–9.6	–9.0	–8.2
Current balance[b]	–1.9	–2.2	1.3	2.0	2.5	0.6	1.9	1.9	2.1	2.3	2.7
Short-term interest rate[c]	12.0	14.4	10.7	7.6	6.6	11.9	9.4	8.0	7.2	6.7	6.5
Long-term interest rate[d]	13.1	13.7	11.3	8.7	8.0	12.9	9.8	8.8	8.6	8.3	7.8

a) As a percentage of disposable income.
b) As a percentage of GDP.
c) 3-month interbank rate.
d) Treasury bonds.

Italy





1. Break in series in 1991 and Q4 1992.
2. In large enterprises.
3. Not seasonally adjusted from Q4 1992.

Sources: Bank of Italy; OECD, *Main Economic Indicators.*

ITALY

External indicators[a]

Seasonally adjusted at annual rates

	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
	$ billion									
Merchandise exports	177.6	171.5	187	211	168.1	175.0	180	194	205	217
Merchandise imports	175.1	137.4	143	158	142.9	132.0	137	150	155	160
Trade balance	2.5	34.1	44	53	25.2	43.0	43	44	50	56
Invisibles, net	–29.0	–21.6	–24	–27	–19.3	–24.0	–25	–23	–26	–27
Current balance	–26.6	12.4	20	27	5.9	19.0	19	21	24	29
	Percentage change									
Merchandise export volumes[b]	3.6	9.4	8.9	8.0	12.5	11.0	8.7	7.4	8.1	8.4
Merchandise import volumes[b]	3.3	–12.4	4.4	5.0	–16.8	–6.0	8.1	8.3	4.0	4.0
Export performance[c]	–0.4	9.8	4.0	1.1	17.4	6.2	4.2	1.5	1.0	0.8
Terms of trade	1.5	–1.1	–0.5	–0.4	–3.7	4.4	–2.0	–2.0	0.2	0.2

a) For further detail, see tables in the External Trade and Payments section of the Annex.
b) Customs basis.
c) Ratio between the total of export volumes and export market of total goods.

runs and revenue shortfalls caused by a weaker economic situation than assumed in the Budget.

In order to push interest rates down to levels more consonant with the weak state of the economy, the Bank of Italy reduced the discount rate to 7 per cent in May 1994, the twelfth reduction since the exit of the lira from the ERM in September 1992. However, the short-term differential over German money market rates has hardly changed, remaining large at 2¾ per cent even after the March elections. The long-term interest rate differential, on the other hand, continued to narrow and at 2½ points in May was less than half as large as in September 1992. Expectations of long-run inflation convergence have been enhanced by the Labour Accord of July 1993,[4] which provides for greater flexibility in wage bargaining.

Prospects

Given the current state of uncertainty, the OECD Secretariat projections embody a slower pace of fiscal consolidation than envisaged by the 1994 Budget and the 1993 medium-term stabilisation programme. Deficit overruns of L 15 to 20 trillion are projected for 1994 and 1995, mainly reflecting delays in enacting planned cuts in transfer payments, notably in the domain of health and pensions. As a result, the government borrowing requirement is projected to rise marginally this year to 9.7 per cent of GDP, before easing to 8.6 per cent in 1995. This progress toward budget consolidation, though modest, is assumed to allow some further easing of monetary conditions, with the risk premium attaching to Italian interest rates diminishing somewhat.

Forward-looking indicators point to a gradual revival of overall activity, with domestic orders and production prospects showing signs of recovery and foreign orders exhibiting continued buoyancy. Consumer confidence strengthened considerably in April 1994, and as the fall in real disposable income slows, private consumption should recover somewhat, picking up momentum in 1995 as the saving ratio falls. Along with continued export buoyancy, rising profitability and lower interest rates, stronger domestic sales are likely to stimulate gross fixed investment. In this setting, output growth is expected to revive gradually from the trough in 1993, rising to around 1½ per cent in 1994 and firming to 2½ per cent in 1995.

Given that the projected upturn is rather modest, the rate of unemployment is expected to remain in the region of 11½ to 12 per cent. This should serve to hold nominal wage growth to historically low levels. In this environment, consumer price inflation should continue to ease, falling to 2½ per cent in the second half of 1995. Reduced inflation differentials *vis-à-vis* Italy's main trading partners should maintain past gains in external competitiveness, helping, with stronger export market growth, to push the trade surplus to a new high of around 5 per cent of GDP, notwithstanding weaker terms of trade. The current account surplus could then rise to 2½ per cent of GDP in 1995.

The principal risk attaching to the projections concerns fiscal policy. Failure to take decisive action to limit the 1994 deficit overrun would threaten to destabilise market sentiment, with possible adverse effects on interest rates. A related risk attaches to private consumption, where job insecurity could lead to larger precautionary savings than allowed for in the projections. On the other hand, business fixed investment could recover more rapidly than expected, with beneficial effects on personal income and consumer confidence.

NOTES

1. The Wage Supplementation Fund (Cassa Integrazione Guadagni) pays compensation of "temporarily" laid-off workers and salaried employees.
2. In 1992, the government obtained special powers from Parliament to cut primary spending in four major areas: public employment, pensions, health care and local authorities' finance.
3. The state budget deficit has been redefined to exclude deficits of autonomous companies, the legal status of which were changed to those of joint-stock companies in 1992, *i.e.* state monopolies for salt and tobacco (MS), state telephone service (ASST) and state railways (FS). The state sector includes the central government, remaining autonomous companies, and other state agencies.
4. The Labour Accord of July 1993 lays out a new framework for industrial relations and wage bargaining. The wage indexation scheme, *scala mobile*, was abolished in July 1992.

UNITED KINGDOM

Economic recovery strengthened in the course of 1993, and by the first quarter of 1994 real GDP was 2.6 per cent up on a year earlier. Private consumption, led by consumer durables, remained buoyant during the second half of 1993 and the household savings ratio fell further. Business investment has begun to pick up and, given rising levels of capacity utilisation and improved corporate financial positions, should continue to expand. Employment growth resumed in early 1993 and unemployment started falling, both developments occurring earlier than in past cycles. By end-1993, wage settlements and average earnings growth had dropped to 25-30 year lows, though earnings growth has, not surprisingly, picked up a little in the early months of 1994. Inflation in the retail price index excluding mortgage payments fell during 1993, despite the sharp drop in sterling's effective rate in late 1992, and in April 1994 reached its lowest rate since 1967. Sustained output growth, low inflation, modestly declining unemployment and a small current account deficit are projected for the coming two years.

Recent developments

The profile of current economic recovery has so far been strongly influenced by adjustment of household balance-sheet positions. Given extremely high indebtedness at the outset of recession – the highest since the Great Depression – the significant falls in interest rates since late 1990 substantially reduced debt-service payments. Gross interest payments declined from a 1990 peak of around 15 per cent of household disposable income to some 8 per cent by mid-1993. Led by buoyant demand for new cars and household durables, private consumption picked up strongly, reaching an annual rate of 4 per cent in the second half of 1993, and consumer borrowing rose again. The growth in retail sales strengthened in the three months to March 1994, and continuing strong new car sales and housing starts suggest that the impact of higher taxation on households may be reflected more in lower savings.

Business investment had until recently been the missing ingredient in this recovery. Although investment was cut back sharply, it has remained higher as a proportion of GDP during this economic cycle than in the 1980s, reflecting stronger trend profitability and on-going investment by the newly privatised firms and the energy sector. Business investment started to contribute to recovery during the course of 1993, and investment intentions are now responding to improved cash-flow and balance sheet positions, and to rising capacity utilisation. Public investment in transport and social infrastructure was a

UNITED KINGDOM

Demand and output

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1990 prices)

	1991 current prices billion £	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Private consumption	365.1	–2.2	0	2.5	2.8	3.0	1.9	4.0	2.3	2.7	3.1	3.2
Government consumption	124.2	2.5	0.7	–0.5	1.4	1.7	0	0.5	1.6	1.8	1.6	1.5
Gross fixed investment	96.5	–9.8	–1.6	0.8	4.0	5.3	0.2	2.2	4.2	5.3	5.2	5.5
Public[a]	15.9	–5.9	9.8	1.6	–4.1	1.8	14.6	–27.7	7.1	3.4	1.4	1.2
Private residential	14.5	–15.7	5.2	–1.0	3.9	6.3	–5.0	0.3	4.5	6.5	6.3	6.3
Private non-residential	66.1	–9.5	–5.9	1.0	6.4	6.0	–2.7	13.7	3.4	5.5	6.0	6.5
Final domestic demand	585.8	–2.7	–0.2	1.6	2.7	3.1	1.2	2.9	2.5	3.0	3.2	3.3
* change in stockbuilding	–5.1[b]	–0.7	0.5	0.4	0.6	0.3	0	0.7	0.6	0.4	0.2	0.2
Total domestic demand	580.7	–3.3	0.4	2.0	3.3	3.4	1.2	3.7	3.0	3.3	3.4	3.5
Exports of goods and services	134.1	–0.9	3.0	3.1	5.7	6.9	4.1	1.8	6.9	7.3	6.8	6.6
Imports of goods and services	140.8	–5.4	6.3	3.5	7.0	7.3	1.5	6.2	7.2	7.3	7.2	7.2
* change in foreign balance	–6.6[b]	1.2	–0.9	–0.2	–0.5	–0.3	0.6	–1.2	–0.3	–0.2	–0.3	–0.4
* compromise adjustment	–0.5[b]	–0.1	–0.1	0	0	0	0.1	0	0	0	0	0
GDP at market prices[c]	573.6	–2.2	–0.6	1.9	2.8	3.2	1.9	2.5	2.8	3.2	3.1	3.2
Industrial production[d]	–	–5.3	–0.8	1.7	2.8	3.9	2.6	0.5	3.6	3.7	3.9	3.9

* As a percentage of GDP in the previous period.
a) Including nationalised industries and public corporations.
b) Actual amount.
c) Data for GDP in the past are based on a compromise estimate which is the average of the expenditure, output and income estimates of GDP. The compromise adjustment is the difference between compromise GDP and the expenditure estimate of GDP.
d) Manufacturing production.

UNITED KINGDOM

Employment, income and inflation

Percentage changes from previous period, seasonally adjusted at annual rates

	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Employment	–3.2	–2.7	–1.3	1.2	1.4	–0.9	0.9	1.2	1.3	1.4	1.4
Unemployment rate	8.3	10.0	10.3	9.6	8.9	10.5	10.2	9.7	9.4	9.0	8.7
Compensation of employees	5.1	4.0	2.7	4.5	5.1	3.0	3.5	4.8	4.8	5.2	5.3
Unit labour cost	7.5	4.6	0.8	1.6	1.9	1.1	0.9	1.9	1.5	2.0	2.0
Household disposable income	6.8	7.4	5.1	4.0	4.7	5.6	2.6	4.6	4.1	4.7	5.1
GDP deflator	6.5	4.4	3.4	3.2	2.5	3.5	4.0	3.1	2.5	2.5	2.6
Private consumption deflator	7.4	4.8	3.5	2.9	2.9	4.0	2.8	3.0	2.8	2.8	3.0

major source of strength in 1992 and 1993, though it will be scaled back in the coming years.

A notable feature of the current business cycle is that the drop in unemployment occurred at a much earlier stage in the recovery – several years earlier compared with the cycle in the early 1980s. Unemployment started to fall in January 1993, and registered unemployment was down by some 280 thousand by April 1994. To some extent, this can be attributed to modest real wage outcomes and more flexible employment practices, a dividend of structural policies pursued so far. Real wages had increased throughout the 1990-92 recession (due in part to strong disinflation in goods markets), but were flat in 1993.

To date, job creation has been more than accounted for by growth in (largely voluntary) part-time employment. Full-time job equivalents have barely changed. To some extent, this pattern reflects the continuing downsizing and cost-cutting in manufacturing and construction, where full-time male jobs dominate, and is one reason why long-term unemployment has hit adult males hard. By contrast, steady service sector output growth has boosted part-time work (typically by females), notably in the retailing and hotel and catering sectors. In the event, the modest pick-up in employment indicates that underlying labour market conditions are firming slowly, albeit from an uneven base, and that hiring decisions have quickened.

The economy has been on a strong disinflationary path due to the large output gap and keen competition, especially in the retail sector. Inflation and inflation expectations fell markedly during the past year. By April 1994, the 12-month rate of increase in the retail price index excluding mortgage payment (RPIX) was down to 2.3 per cent (''headline'' retail price inflation was 2.6 per cent) and might have been even lower without higher indirect taxes. The growth in economy-wide average earnings picked up to 4 per cent in the 12 months to March, as the economy strengthened. This outcome partly reflected the confluence of weak commodity and oil prices and an unanticipated fall in total unit labour costs due to labour shakeout in late 1992, despite steadily rising output. These factors absorbed the initial price level effects of sterling depreciation.

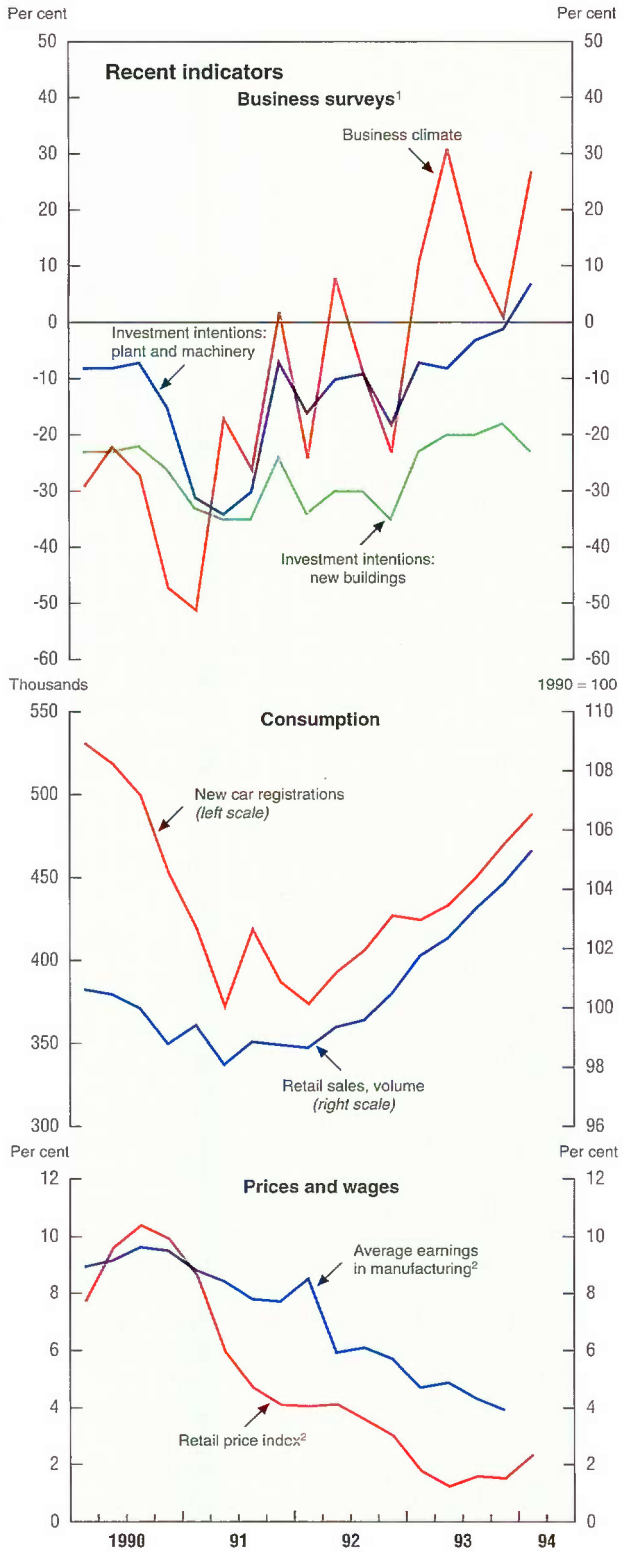
Disinflationary pressures ensured that sterling's large nominal depreciation resulted in a big improvement in international competitiveness. It appears that UK export performance in manufactures improved in 1993. Real net exports made a large contribution to the recovery in the first half of 1993, which was subsequently reversed in the second half of the year. Given uncertainty concerning the measurement of intra-EC trade, however, recent trade prices and volume data should be treated with caution. The current account deficit deteriorated very little, as the ''J-curve'' effects typically associated with depreciation were surprisingly absent according to the most recent trade data.

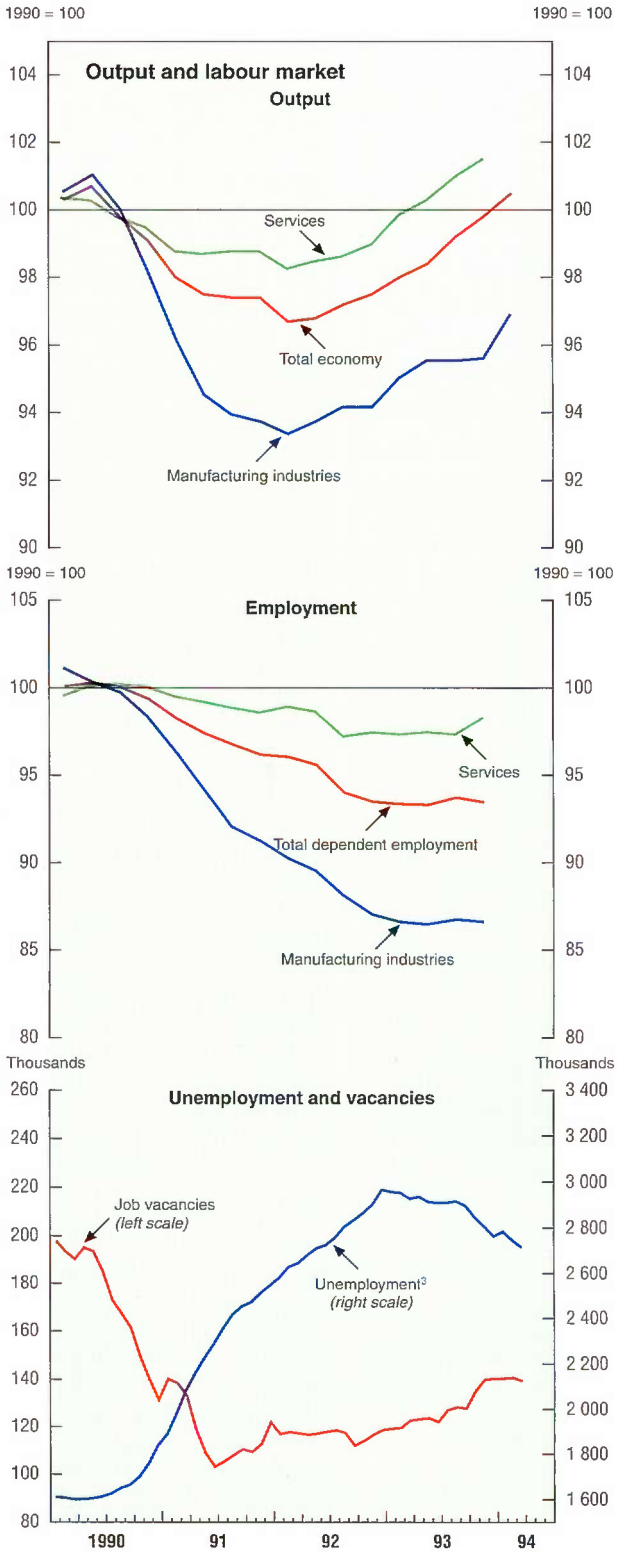
Policies and other forces acting

The substantial easing in monetary policy since 1990 should continue to support the economic recovery, especially in view of still high private sector debt levels. Since sterling left the European Exchange Rate Mechanism (ERM) its effective rate has dropped by some 12 to 15 per cent, and base lending rates are now down to 5¼ per cent. Although short-term prospects for keeping underlying inflation (RPIX) near the mid-point of the government's 1 to 4 per cent target band are good, monetary policy is assumed to move progressively towards neutrality, implying a gradual increase in short-term interest rates. The recent sharp rise in UK long-term interest rates and heightened bond market volatility may exert a mildly restraining influence on private investment.

The March 1993 budget announced substantial tax increases, but deferred them until April 1994 (Fiscal years begin 1 April) in view of the hesitant nature of the recovery at that time. As the strength of recovery became clearer, the November 1993 budget raised taxes further (mainly on households), and non-cyclical spending excluding debt service was cut substantially (partly by freezing government running costs in FY 1994/95). The

United Kingdom





1. Balance between positive and negative answers.
2. Change over four quarters.
3. Claimants aged 18 and over.

Sources: Department of Employment, *Employment Gazette;* OECD, *Main Economic Indicators.*

UNITED KINGDOM

Financial indicators

	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Household saving ratio[a]	10.1	12.3	11.5	9.9	8.8	12.4	10.6	10.3	9.6	9.1	8.6
General government financial balance[b]	–2.7	–6.4	–7.7	–6.4	–4.3	–8.1	–7.3	–6.8	–5.9	–4.7	–3.8
Current balance[b]	–1.3	–1.4	–1.7	–2.1	–2.3	–2.1	–1.4	–2.1	–2.2	–2.3	–2.4
Short-term interest rate[c]	11.5	9.6	5.9	5.2	5.5	6.2	5.7	5.2	5.2	5.5	5.5
Long-term interest rate[d]	10.1	9.1	7.5	7.8	7.8	8.0	6.9	7.6	7.9	7.8	7.8

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

Public Sector Borrowing Requirement is now projected to be reduced from an outturn of £45.9 billion in FY 1993/94 to £21 billion (2¾ per cent of GDP) in FY 1996/97, assuming average real GDP growth of 2¾ per cent over the next three years. Public sector finances would now appear to be on a sustainable medium-term path, with gross public debt officially projected to peak at 51 per cent of GDP in 1997 and to decline relative to GDP thereafter. Together, the two 1993 budgets represent the sharpest fiscal tightening since the early 1980s and should favour a more balanced economic recovery.

Prospects

Real output appears to have continued to expand at a moderate pace in early 1994. Private consumption growth is projected to slow temporarily in the face of higher taxation in the second quarter of 1994 but to pick up thereafter, bolstered by rising employment and a further fall in the household saving rates against the background of a mild rise in house prices and household wealth. Private investment and a swing in the inventory cycle should also start to support a more broadly based recovery, as company balance-sheet positions and cash flow continue to improve. The real foreign balance may make a small negative contribution to growth in 1994 despite strong export order books, but may play a more neutral role in 1995 as export markets in Europe recover. All in all, real GDP is projected to grow by 2¾ per cent in 1994 and by 3¼ per cent in 1995. The unemployment rate is projected to decline slowly, to perhaps below 9 per cent by end 1995. The short-run inflation outlook is benign, although "underlying inflation" may now be close to its cyclical low. The current account deficit, albeit widening slightly, may remain at around 2 to 2½ per cent of GDP in the coming two years.

The risks surrounding this projection appear evenly balanced over the short term. The main uncertainty attaching to the outlook is the degree of spare capacity in the economy and its implications for inflation as the economy recovers. Although the effects of wide-

UNITED KINGDOM

External indicators[a]

Seasonally adjusted at annual rates

	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
	$ billion									
Merchandise exports	187.9	181.4	195	215	180.2	182.6	189	200	210	220
Merchandise imports	211.4	202.0	220	244	200.1	203.9	214	226	238	250
Trade balance	–23.5	–20.5	–25	–29	–19.8	–21.3	–24	–26	–28	–30
Invisibles, net	8.4	4.1	4	4	0.8	7.5	4	4	4	4
Current balance	–15.1	–16.4	–21	–25	–19.1	–13.8	–20	–23	–24	–26
	Percentage change									
Merchandise export volumes[b]	3.6	4.1	5.0	7.0	5.0	–1.5	7.3	7.4	6.9	6.6
Merchandise import volumes[b]	6.2	3.6	7.0	7.2	1.9	6.4	7.2	7.2	7.2	7.2
Export performance[c]	–1.4	2.4	–0.4	0.3	5.8	–6.2	1.9	1.1	0.2	–0.5
Terms of trade	0.6	1.5	0.5	–0.1	2.0	7.1	–2.2	–0.6	0.0	0.3

a) For further detail, see tables in the External Trade and Payments section of the Annex.
b) Customs basis.
c) Ratio between the total of export volumes and export market of total goods.

ranging microeconomic reforms and the expected moderate pace of recovery make a rekindling of inflation unlikely in the next two years, it is unclear whether the apparent fall in the "natural" rate of unemployment in the second half of the 1980s has continued in the 1990s. The acid test for the new monetary policy arrangements will come once forecasts of inflation stand above the mid-point of the government's target band and the authorities are then required to take pre-emptive action to keep inflation in check.

CANADA

Following a slowdown in mid-1993, economic activity regained momentum, against the background of robust growth in the United States the marked strengthening of international competitiveness, and the further easing of monetary conditions until early 1994. The recovery of output seems set to continue at a robust pace, with domestic spending increasingly supplementing exports as a source of demand. However, concerns about the high public debt along with the recent tightening of US monetary policy have made the Canadian economy vulnerable to financial-market disturbances, as evidenced by renewed exchange-rate weakness and subsequent upward pressures on interest rates despite a favourable inflation performance. Even if temporary, such pressures could affect confidence and hold back activity in interest-sensitive sectors of the economy.

Recent developments

The recovery strengthened in the fourth quarter of 1993, with real GDP growing at an annual rate of 3.8 per cent, led by continued buoyancy in exports and business investment. Markedly improved competitiveness, resulting from both subdued inflation and a lower exchange rate, enabled Canadian exporters to benefit from strong demand in the United States. Rising profitability and restructuring efforts of Canadian businesses appear to be the major factors behind the ongoing strength in machinery and equipment investment. In addition, business construction showed its first broadly-based gain since the beginning of the upturn. By contrast, household spending remained sluggish compared with past recoveries, reflecting weak growth in disposable income associated with increases in personal income taxation at the provincial level. More recently, there have been signs that household demand is gaining momentum: with consumer confidence picking up, retail sales (and in particular new auto sales) have increased significantly in early 1994.

Despite the stronger rise in output, employment has shown relatively modest growth, in the 1 to 1½ per cent range on a year-to-year basis, reflecting continued employer efforts to cut costs. The resulting substantial productivity gains, combined with weak wage growth in a context of high unemployment (at around 11 per cent), led to a decline in unit labour costs during 1993. This has largely offset the upward pressure on prices arising from the depreciation of the Canadian dollar, keeping overall inflation low. The increase in the consumer price index – 0.2 per cent in the twelve months to April 1994 – understates inflation trends, however, as it reflects a sharp

CANADA

Demand and output

Percentage changes from previous period, seasonally adjusted at annual rates, volume (1986 prices)

	1991 current prices billion C$	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Private consumption	410.3	–2.0	1.1	1.6	2.6	3.6	1.9	1.7	2.6	3.5	3.6	3.6
Government consumption	142.9	2.1	0.2	–0.1	–0.1	0.5	0.2	–1.4	0.5	0	0.5	1.0
Gross fixed investment	133.5	–2.0	–1.3	0.7	5.5	7.3	–2.5	6.8	4.1	6.9	7.6	7.2
Public[a]	16.4	5.0	4.0	2.3	4.7	9.5	–0.9	2.9	4.0	8.0	10.0	10.0
Private residential	40.7	–12.3	6.3	–3.8	3.1	6.8	–8.6	0.3	2.6	7.1	7.0	6.3
Private non-residential	76.4	1.3	–5.4	2.3	6.6	7.0	–0.1	10.6	4.8	6.5	7.3	7.0
Final domestic demand	686.8	–1.2	0.4	1.1	2.7	3.8	0.6	2.1	2.5	3.5	3.9	3.9
* change in stockbuilding	–0.9[b]	0.4	–0.5	0.7	0.3	0.1	2.1	0	0.6	0.2	0.1	0.1
Total domestic demand	685.9	–0.7	0	1.7	3.0	3.9	2.7	2.1	3.1	3.7	4.0	4.0
Exports of goods and services	165.1	0.8	7.9	9.6	9.8	8.7	8.9	9.6	9.9	9.7	8.6	7.9
Imports of goods and services	172.2	2.7	4.9	7.6	7.5	7.5	8.7	6.9	7.4	8.1	7.5	7.0
* change in foreign balance	–7.1[b]	–0.6	0.8	0.5	0.7	0.4	–0.1	0.8	0.8	0.5	0.4	0.3
* change in error of estimate	–2.9[b]	–0.3	0	0.1	0	0	0.3	–0.2	0	0	0	0
GDP at market prices	675.9	–1.7	0.7	2.4	3.7	4.3	3.0	2.8	3.9	4.2	4.4	4.3
Industrial production	–	–3.7	0.4	4.8	4.5	5.1	6.1	3.9	4.5	5.0	5.2	5.1

* As a percentage of GDP in the previous period.
a) Excluding nationalised industries and public corporations.
b) Actual amount.

CANADA

Employment, income and inflation

Percentage changes from previous period, seasonally adjusted at annual rates

	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Employment	–1.8	–0.8	1.2	1.9	2.7	1.7	1.1	2.0	2.6	2.7	2.8
Unemployment rate	10.3	11.3	11.2	10.8	10.2	11.2	11.2	11.0	10.7	10.4	10.1
Compensation of employees	2.3	3.0	2.6	3.4	5.0	2.8	1.7	3.7	4.6	5.0	5.3
Unit labour cost	4.1	2.3	0.2	–0.3	0.6	–0.1	–1.0	–0.2	0.4	0.6	0.9
Household disposable income	3.1	2.8	3.0	3.2	5.2	4.4	–0.6	4.3	4.7	5.4	5.3
GDP deflator	2.5	1.1	0.8	0.6	1.9	0.5	0.8	0	1.6	2.0	2.1
Private consumption deflator	4.7	1.1	1.5	0.7	2.1	1.1	1.9	–0.5	2.1	2.0	2.1

reduction in tobacco taxes designed to curb the growth in cigarette smuggling across Canada's border with the United States. Abstracting from this, underlying consumer price inflation is of the order of 1½ per cent, which is still at the lower end of the current official target range. With import prices rising markedly, Canada's terms of trade have tended to deteriorate. Along with buoyant import volume growth (in particular of machinery and equipment), this has moderated the decline in the current-account deficit, which reached about 3½ per cent of GDP in the fourth quarter of 1993.

Policies and other forces acting

The general-government deficit amounted to 6¾ per cent of GDP in 1993. This was 0.2 percentage points higher than in 1992, largely due to cyclical factors, the structural component of the deficit being estimated to have remained broadly stable at just under 3½ per cent of GDP. Contrary to the preceding years, the deterioration in the fiscal position reflected developments at the federal level: the federal government deficit increased to 4¼ per cent of GDP (on a national accounts basis), while provinces' budget consolidation efforts began to curb their deficits. The February 1994 federal Budget – the first presented by the newly-elected Government – implies a slight tightening of the fiscal stance in the near term, followed by greater restraint over the next two years. The net impact of revenue-raising initiatives is minimal, with measures to broaden the tax base offset by lower unemployment-insurance contributions and tobacco taxes. On the spending side, restriction on civil service wages is extended and further cuts in unemployment benefits and defence spending have been announced. Despite additional infrastructure investment, the expenditure ceilings set out in the previous Government's Spending Control Act are respected, but no extension of the Act beyond the fiscal year 1995/96 is envisaged. The authorities are committed to reduce the federal deficit – on a public-accounts basis – from an estimated 6.4 per cent of GDP in the fiscal year ending in March 1994 to 3 per cent by 1996/97; this target implies a federal government deficit of some 2 per cent of GDP on a national accounts basis.

In December 1993, the new Government and the Bank of Canada agreed to maintain the objective of holding inflation inside the range of 1 to 3 per cent from 1995 to 1998. With price increases coming in at the lower end of the target range, monetary conditions continued to ease until early February 1994, with short-term interest rates falling to 3¾ per cent. The subsequent rise in US interest rates led to a firming of Canadian money

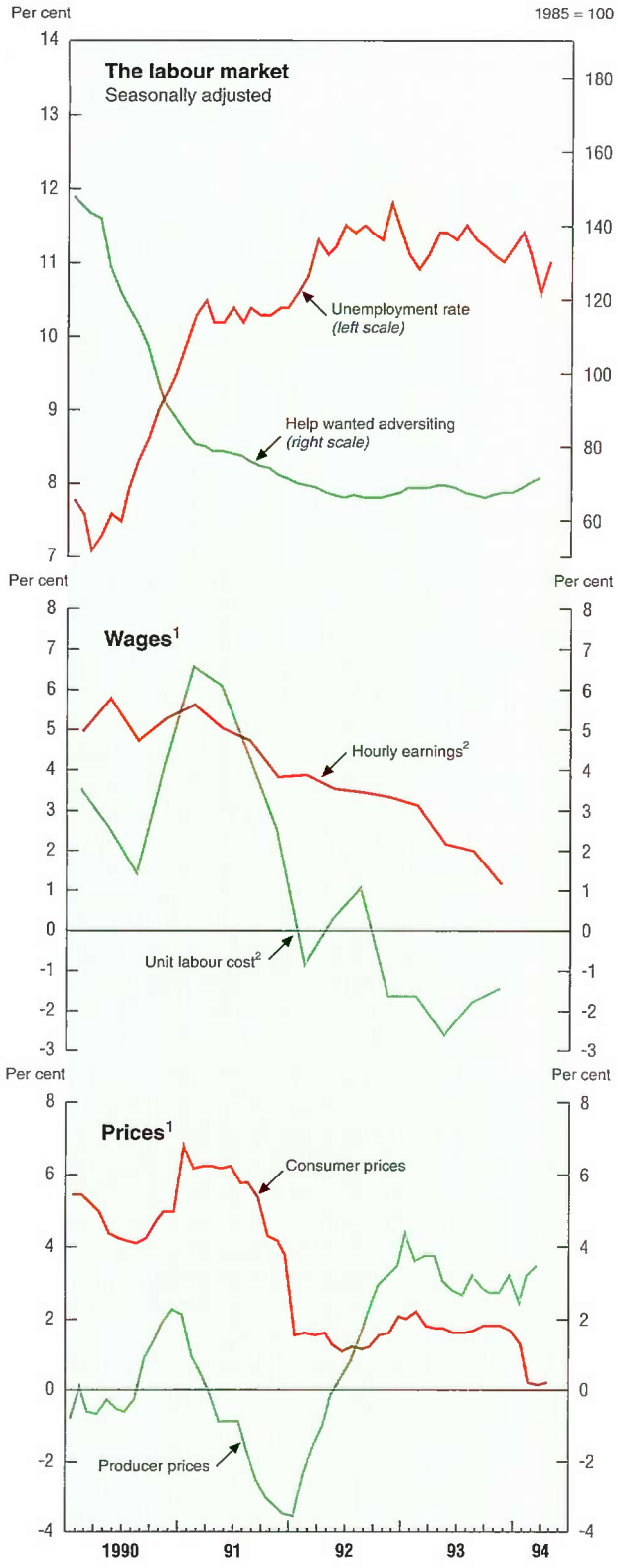
CANADA

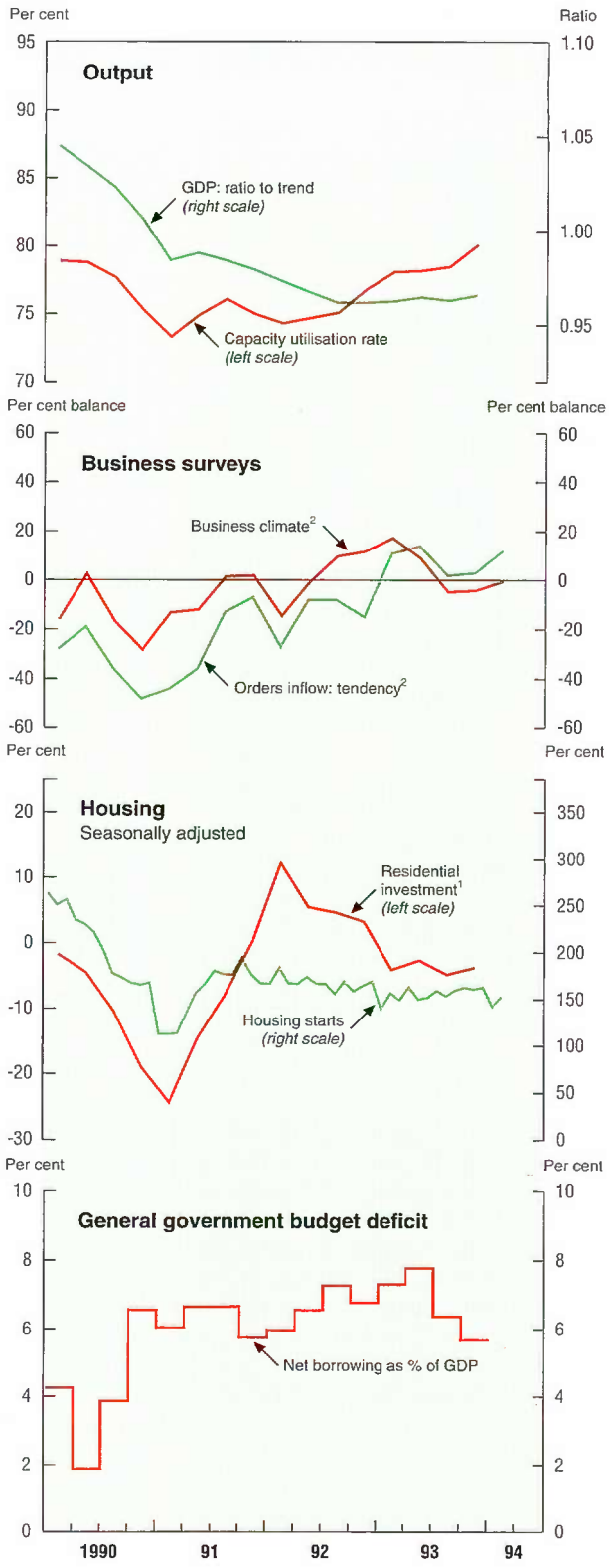
Financial indicators

	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
Household saving ratio[a]	10.3	10.8	10.6	10.4	10.0	11.5	9.7	10.6	10.2	10.1	9.9
General government financial balance[b]	–6.3	–6.6	–6.8	–5.5	–4.0	–7.5	–6.0	–5.8	–5.1	–4.4	–3.6
Current balance[b]	–4.3	–4.0	–3.5	–3.2	–2.8	–3.7	–3.4	–3.3	–3.2	–3.0	–2.7
Short-term interest rate[c]	9.0	6.7	5.0	5.1	5.7	5.6	4.4	5.0	5.3	5.7	5.7
Long-term interest rate[d]	9.8	8.8	7.9	7.9	7.6	8.3	7.5	7.9	7.8	7.7	7.5

a) As a percentage of disposable income.
b) As a percentage of GDP.
c) 90-day finance company paper.
d) Long-term federal government bonds.

Canada





1. Year-on-year percentage change.
2. Manufacturing.

Sources: CANSIM, Statistics Canada; OECD, *Main Economic Indicators*.

CANADA

External indicators[a]

Seasonally adjusted at annual rates

	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
	$ billion									
Merchandise exports	133.4	144.0	155	172	142.3	145.7	151	159	168	177
Merchandise imports	125.1	134.1	143	156	132.0	136.3	140	146	153	160
Trade balance	8.3	9.9	12	16	10.3	9.4	11	13	15	17
Invisibles, net	–31.2	–29.4	–29	–32	–30.8	–28.0	–29	–30	–31	–33
Current balance	–22.9	–19.5	–18	–16	–20.5	–18.6	–18	–17	–17	–16
	Percentage change									
Merchandise export volumes[b]	8.6	10.2	9.8	8.8	9.5	9.5	10.0	9.7	8.7	8.1
Merchandise import volumes[b]	6.4	10.3	8.7	7.5	10.7	11.2	7.8	8.2	7.5	6.9
Export performance[c]	–1.0	–0.2	0.2	1.5	–1.1	–0.1	0.1	0.9	1.8	1.6
Terms of trade	0.2	0.9	–0.1	0.6	0.8	–0.1	–0.1	–0.2	0.8	0.9

a) For further detail, see tables in the External Trade and Payments section of the Annex.
b) Customs basis.
c) Ratio between the total of export volumes and export market of total goods.

market conditions and some weakening of the Canadian dollar. For a while interest-rate differentials *vis-à-vis* the United States remained narrow. Recently, however, financial-market concerns over Canada's heavy public debt and the future of the federation resurfaced so that, with downward pressure on the currency intensifying, short-term interest rates rose sharply from mid-March, reaching 6½ per cent in early May. Despite some easing since then, Canadian short-term rates still exceed their US counterparts by about 150 basis points. Long-term interest rate differentials, which had narrowed markedly from October 1993 to January 1994 to a low of 70 basis points, have also widened significantly, to about 110 basis points at the time of writing.

Prospects

Economic growth is projected to strengthen further, reaching 3¾ per cent in 1994 and 4¼ per cent in 1995. Strong export growth seems set to continue both because Canada's export markets are expected to expand rapidly and because the marked improvement in international competitiveness – about 20 per cent since 1991 in terms of relative unit labour costs in a common currency – should allow Canadian exporters to gain market share. Business investment should remain buoyant, fuelled by rising profits and strong export demand, and household expenditure is also expected to gather momentum, as employment growth boosts disposable incomes and rising consumer confidence leads to some fall in the saving ratio. More generally, the significant fall in interest rates over the last few years should support domestic spending. Despite the projected pick-up in employment, the decline in unemployment is likely to be gradual, as labour-force participation is expected to recover following its pronounced cyclical fall. With persistent labour-market slack, wage increases are projected to remain moderate, implying little growth in unit labour costs. Nevertheless, inflation is likely to rise somewhat, reflecting the effects of earlier exchange-rate depreciation, but should remain in the middle of the official target range. The current-account deficit is projected to continue to narrow gradually, as a rising invisible deficit partly offsets the widening trade surplus.

The strength of activity will be determined by how quickly buoyant export demand can be translated into increased domestic employment and incomes. Given still high unemployment, consumer confidence may take time to recover, damping household spending. Confidence could also be adversely affected by a recurrence of financial-market disturbances. Indeed, foreign-investor concerns about the fiscal and political situation could limit the scope for a narrowing of interest-rate differentials between Canada and the United States – a central feature of the above projections – thereby moderating the momentum of the recovery.

AUSTRALIA

Economic recovery consolidated in 1993 after two years of weak growth, while employment began to grow rapidly in the second half of the year. Activity and employment have been supported in recent years by accommodating macroeconomic policies. Although unemployment has fallen, it remains high. Wide margins of spare capacity are thus limiting wage and price pressures. Output growth is projected to rise to 4 to 4½ per cent while inflation remains subdued. The current account deficit is projected to widen slightly to a little over 4 per cent of GDP.

Recent developments. The economic recovery strengthened in the second half of 1993, with quarterly GDP[1] growth surging to 1.7 per cent in the December quarter, of which 0.7 percentage point was attributable to stockbuilding. GDP in the December quarter was some 4 per cent higher than a year earlier. Business investment remained conspicuously absent from the recovery – it was flat over the quarter and 4 per cent lower than a year earlier. Employment growth picked up strongly since mid-1993, averaging 3.5 per cent (s.a.a.r.) in the second half of 1993. It has mainly been in services and evenly divided between full-time and part-time work. Despite a small rise in the participation rate, the unemployment rate began falling in late 1993, reaching 10.1 per cent in April 1994, compared with around 11 per cent for most of 1993.

Average weekly ordinary time earnings of full-time employees rose by 3.1 per cent in the year to February, only slightly up on the annual increases earlier in the fiscal year. Combined with strong productivity growth, this wage moderation has underpinned continued low inflation. The consumer price index (CPI) rose by only 0.4 per cent in the March quarter 1994 and was 1.4 per cent higher than a year earlier. Given low domestic inflation, the large nominal exchange rate depreciation which occurred over the two years to the second semester of 1993 – 17 per cent in effective terms – translated into a strong increase in international competitiveness. Together with buoyant demand in many of Australia's trading partners, this has contributed to solid export growth, especially in manufactures and services, and has held the current account deficit to between 3½ and 4 per cent of GDP. The exchange rate has since appreciated by

AUSTRALIA

Demand, output and prices

Percentage changes, volume (1989/90 prices)

	1991 current prices billion A$	1991	1992	1993	1994	1995
Private consumption	236.4	0.9	3.4	2.4	3.9	4.0
Government consumption	69.5	2.7	1.9	0.8	3.9	3.0
Gross fixed capital formation	77.7	–10.3	–0.5	1.0	5.6	6.2
Final domestic demand	383.6	–1.4	2.3	1.9	4.2	4.3
* change in stockbuilding	–2.5[a]	–0.9	0.4	0.6	–0.2	0.4
Total domestic demand	381.1	–2.3	2.8	2.5	4.0	4.7
Exports of goods and services	67.2	12.9	4.9	6.7	7.0	7.2
Imports of goods and services	65.7	–2.6	7.2	4.5	7.2	9.1
* change in foreign balance	1.5[a]	2.6	–0.3	0.5	0.1	–0.2
* change in statistical discrepancy	0.4[a]	–1.3	–0.2	1.1	0	0
GDP at market prices[b]	383.0	–1.0	2.1	4.1	4.0	4.3
GDP implicit price deflator[b]	–	1.9	1.3	1.3	1.8	2.3
Memorandum items						
GDP average measure[c]	–	–0.7	2.1	3.4	4.0	4.3
Private consumption deflator	–	3.6	1.7	1.9	1.8	2.5
Industrial production	–	–2.4	0.2	6.4	6.4	4.2
Unemployment rate	–	9.5	10.7	10.9	10.0	9.2
Household saving ratio[d]	–	6.5	5.4	4.2	3.6	2.7
General government financial balance[e]	–	–2.6	–3.9	–5.0	–4.3	–3.4
Current balance[e]	–	–3.4	–3.7	–3.8	–3.9	–4.3

* As a percentage of GDP in the previous period.
a) Actual amount.
b) The income measure of GDP.
c) Average measure of the expenditure, production and income measures of GDP.
d) As a percentage of disposable income.
e) As a percentage of GDP.

around 8½ per cent, reversing some of the previous gains in international competitiveness.

Policies and other forces acting. The extent of the strengthening in the economy over the last year has enabled the Government to accelerate the Commonwealth (federal) budget deficit reduction schedule while addressing priority areas such as unemployment, particularly the long-term unemployed. The Government committed an additional A$6.5 billion over four years from FY 1994/95[2] to enhance labour market efficiency and growth potential. The Government has revised down its estimate of the Commonwealth budget deficit for FY 1993/94 from A$16.0 billion in last year's budget to A$13.6 billion (3.2 per cent of GDP or 3.7 per cent of GDP excluding privatisation proceeds). The deficit is expected to fall further to A$11.7 billion in FY 1994/95 (2.5 per cent of GDP) and approach balance in FY 1997/98. Medium-term fiscal projections in the FY 1994/95 Budget show the general government deficit falling from 3.7 per cent of GDP in FY 1993/94 to around 1.0 per cent of GDP in FY 1997/98.

Fiscal policy has been highly counter-cyclical in recent years. On a calendar year basis, the general government balance (excluding privatisation proceeds) deteriorated from a small surplus in 1990 to an estimated deficit of 5 per cent of GDP in 1993. The OECD Secretariat estimates that approximately two-thirds of that deterioration reflected non-cyclical factors. The general government budget deficit is projected to decline to around 2.7 per cent of GDP in 1995, with the OECD Secretariat estimating that non-cyclical factors would contribute around one quarter of the deficit reduction.

Monetary policy settings have been unchanged since July 1993, when short-term cash rates were cut to 4.75 per cent. Despite stronger than expected growth, inflation remains low, and the inflation outlook is favourable. However, it is expected that monetary policy settings will need to be tightened at some stage during the upswing; it is assumed in the projections that the cash rate will begin to rise in the second half of this year. Largely reflecting the world-wide rise in bond yields in recent months, long-term Government bond rates have increased substantially from a low of 6.3 per cent in January to 8.8 per cent in May.

Prospects. Output growth is projected to accelerate to around 4½ per cent over the coming two years, with growth in private consumption expenditure picking up to 4 per cent. The long awaited recovery in business investment is projected to arrive, with its growth rising to 11 per cent in 1995. Investment in plant and machinery is projected to be particularly strong due to levels of capacity utilisation in the manufacturing sector that are high for the stage of the cycle and rising, and to strong business confidence and profits. Although total employment is projected to expand at around 2½ per cent per year, the unemployment rate is only projected to fall to around 9 per cent, reflecting high growth in the workforce. Underlying inflation is projected to pick up slightly to 2½ per cent in 1995, still within the Reserve Bank's 2-3 per cent "comfort zone" for inflation. The contribution of continued strong growth in exports to GDP growth is projected to be largely offset by an acceleration in import growth. The current account deficit is likely to deteriorate somewhat to around 4¼ per cent of GDP in 1995.

A possible downside risk is that the projected recovery in business investment may be undermined by recent increases in long-term real interest rates. The major upside risk is that improving labour market conditions could boost growth further, especially if the terms of trade strengthen markedly.

NOTES

1. All references are to the average measure of GDP, known as GDP(A). GDP(A) is the average of the expenditure, income and production measures of GDP.
2. Fiscal year begins 1 July.

AUSTRIA

Relatively buoyant domestic demand has made for a rather mild recession, with GDP receding slightly in the first half of 1993 but stabilising in the second half. Driven by higher exports and supported by tax cuts, output growth resumed in early 1994, and is projected to accelerate towards its medium-term trend in 1995. Wage moderation is helping to contain the rise in unemployment, while also leading to a continued improvement in inflation performance. Residual inflation inertia in the sheltered sectors may be reduced by intensified competition resulting from prospective EC membership. Despite recent slippage, the stance of fiscal policy remains mildly expansionary, making for a further rise in the general government deficit.

AUSTRIA

Demand, output and prices

Percentage changes, volume (1983 prices)

	1991 current prices billion Sch	1991	1992	1993	1994	1995
Private consumption	1 064.1	2.9	1.8	0.8	1.6	2.5
Government consumption	349.6	3.1	2.4	2.0	2.0	1.0
Gross fixed capital formation	483.3	5.1	2.7	–2.0	1.5	3.2
Final domestic demand	1 897.0	3.5	2.1	0.3	1.6	2.4
* change in stockbuilding	8.1[a]	–0.4	–0.4	0.3	0.3	0.4
Total domestic demand	1 905.1	3.1	1.7	0.6	1.9	2.8
Exports of goods and services	770.4	5.6	2.8	–1.7	2.7	6.4
Imports of goods and services	753.0	6.3	2.8	0.2	2.8	6.3
* change in foreign balance	17.4[a]	–0.4	0	–0.9	–0.1	–0.1
GDP at market prices	1 922.5	2.7	1.6	–0.3	1.8	2.7
GDP implicit price deflator	–	3.9	4.2	3.9	2.7	2.2
Memorandum items						
Private consumption deflator	–	3.5	3.8	3.6	2.7	2.1
Industrial production	–	1.7	–1.0	–1.7	2.0	4.5
Unemployment rate	–	3.5	3.6	4.2	4.5	4.6
Household saving ratio[b]	–	13.4	12.0	11.5	12.0	12.0
General government financial balance[c]	–	–2.5	–2.0	–2.8	–4.0	–3.3
Current balance[c]	–	0	–0.1	–0.5	–0.6	–0.6

* As a percentage of GDP in the previous period.
a) Actual amount.
b) As a percentage of disposable income.
c) As a percentage of GDP.

Recent developments. Aggregate demand and output remained broadly flat in the second half of 1993, at a level slightly higher than a year earlier. Exports were depressed by persistent stagnation in crucial foreign markets and losses in competitiveness caused by an increase in the effective exchange rate of the schilling. Manufacturing industry and tourism were particularly hard hit, the overall fall in private investment being concentrated on these two sectors. In other, more sheltered areas, activity was more resistant to recessionary forces, as profits were squeezed less and employment stability prevented consumer spending on services from weakening significantly. Even so, the growth of private household demand slackened, with real disposable incomes stagnating and consumers reluctant to make substantial inroads into savings.

Employment reacted only modestly to output weakness, falling about ¼ per cent year-on-year, as cuts in industry were largely offset by job gains in services. Wage moderation also contributed towards employment stability, which implied a levelling-off in productivity growth. Moreover, labour force growth slowed, partly as a reaction to fewer job opportunities, thereby limiting the rise in unemployment, which reached a rate of 4¼ per cent of the labour force. Inflation, though decelerating, has remained at an annual rate of over 3 per cent, due to higher public charges and service prices, notably in sectors where demand has stayed lively and competition among suppliers is weak. Benefiting from exchange-rate induced terms-of-trade gains and the fall in domestic demand for goods of high import content, the trade deficit has narrowed; however, in 1993 this was more than offset by lower net receipts from tourism, yielding a small current account deficit.

Policies and other forces acting. As required by the exchange rate link to the Deutschemark, which remains one of the cornerstones of economic policy, interest rates have closely followed German rates. However, the National Bank has used the room for manœuvre created by good fundamentals and the acquired credibility of the "hard currency" policy to undercut German rates slightly, even if this "negative gap" has narrowed in recent months. Following the Bundesbank's rate reduction, in mid-May, the Austrian discount and the Lombard rates were lowered to 4½ and 5½ per cent, respectively. Meanwhile, as elsewhere, long-term bond yields have moved up to slightly above 6 per cent. As a result, the previously inverted yield-curve has returned to a more normal profile.

Mainly due to the effect of automatic stabilisers, public finances worsened considerably in 1993. The general government deficit widened by more than 1 percentage point to over 3 per cent of GDP, while the central government deficit reached almost Sch 100 billion, or 4.7 per cent of GDP, thereby substantially overshooting the target implied by the medium-term consolidation pro-

gramme. The federal budget for 1994 provides for a lower deficit of Sch 81 billion (3.7 per cent of GDP), the decline being mainly due to receipts from asset sales and a drawing-down of reserves. In national accounts terms the underlying fiscal stance remains expansionary and the general government deficit is set to rise to nearly 4 per cent of GDP. Revenue losses from a general income tax cut and the abolition of two business taxes are only partly offset by an increase in the corporate and the payroll tax rates.

Prospects. With major foreign markets in western Europe recovering from the recession, and the negative impact of past strong wage growth and effective schilling appreciation fading, an export-led pick-up of activity appears to be under way. Indeed, foreign orders, merchandise exports and industrial output have all rebounded markedly in recent months. With business confidence improving, and profits and capacity utilisation returning to more normal levels, investment growth should resume, notably in industrial equipment. Given the scope for productivity increases, employment may be slower to pick up, although the unemployment rate should level off at about 4½ per cent. Despite slower wage growth, however, disposable incomes will be boosted by the income tax cuts and by decelerating inflation, which should decline towards a 2 per cent annual rate. Personal consumption should thus recover gradually and, as domestic demand picks up, the current account may weaken slightly, although the deficit should stay around ½ per cent of GDP. In all, GDP growth is projected to average 1¾ per cent in 1994, accelerating to its trend rate of 2¾ per cent in 1995.

The principal risks attach to foreign developments. Thus, export growth could slacken, undermining the improvement in profits and holding back investment longer than expected. On the other hand, the balance of recent information seems to suggest that export growth could well be underestimated. Moreover, imminent EC membership may provide a powerful incentive for adapting and modernising the capital stock.

BELGIUM

Real GDP fell by 1¼ per cent in 1993. The weakness of the real economy exacerbated long lasting problems of high unemployment and large government budget deficits; and following the crisis in the European Exchange Rate Mechanism, the exchange rate and interest rates also came temporarily under pressure. But financial markets, and the economy in general, responded very positively to the introduction, in November 1993, of a "global plan" to address the problems of unemployment, competitiveness, and the social security system. Economic growth is projected to resume in 1994 and to accelerate in 1995: combined with the global plan and a further decline in interest rates it should significantly reduce the budget deficit. Labour market conditions should slowly improve.

Recent developments. Real GDP fell by 1¼ per cent in 1993, a much weaker outcome than the European average. It reflected widespread weakness of domestic demand, partly mitigated by a large contribution of the foreign balance to GDP growth. However, the Belgian economy seems to be emerging from the cyclical downturn. Capacity utilisation in manufacturing edged up from a low of 74.6 per cent in the first half of 1993 to 77.1 per cent in March 1994; and car registrations rebounded in the first four months of 1994. The standardised unemployment rate has stabilised at around 9¾ per cent. Consumer-price inflation has decelerated from 3.8 per cent in 1993 to 2.3 per cent for the 12 months to March 1994, despite an increase in indirect taxes. Wage growth slowed in 1993 but, given the poor productivity performance typical of this phase of the cycle, unit labour costs continued to increase at a fairly rapid pace – an estimated 4½ per cent. The current-account surplus of the Belgium-Luxembourg Economic Union (BLEU) widened markedly – to nearly 5 per cent of GDP – partly as a result of strong investment income following a new period of rapid expansion in the Luxembourg banking sector.

Policies and other forces acting. Recent indicators have been encouraging. The National Bank leading indicators have rebounded sharply from their trough of mid-1993, reflecting improved conditions in practically all sectors of the economy. By March 1994, they had fully offset their steep decline of 1992-93. Confidence seems to have improved appreciably following the introduction of the "global plan" late in 1993 and the very positive reaction of financial markets. Early in 1994 the Belgian franc moved back above its DM central rate.

With downward pressure on the Belgian franc disappearing, the National Bank repeatedly reduced its official interest rates in the first five months of 1994. Interest differentials with Germany, despite the tension in international bond markets, have narrowed markedly compared with the summer of 1993, especially at the short end of the market. Interest rates are projected to continue to

BELGIUM

Demand, output and prices

Percentage changes, volume (1985 prices)

	1991 current prices billion BF	1991	1992	1993	1994	1995
Private consumption	4 227.9	3.1	2.9	–1.5	1.2	2.0
Government consumption	994.0	1.8	1.3	1.3	0.1	0.1
Gross fixed capital formation	1 302.7	–1.7	0.4	–7.4	0.8	4.0
Final domestic demand	6 524.7	1.9	2.2	–2.3	1.0	2.1
* change in stockbuilding	–8.5[a]	–0.2	0.2	0	0	0
Total domestic demand	6 516.2	1.7	2.4	–2.3	1.0	2.1
Exports of goods and services	4 846.6	2.5	1.6	–3.4	3.1	5.1
Imports of goods and services	4 657.4	2.4	2.7	–4.4	2.5	4.6
* change in foreign balance	189.2[a]	0.1	–1.1	1.0	0.5	0.5
GDP at market prices	6 705.4	1.8	1.4	–1.3	1.5	2.6
GDP implicit price deflator	–	2.7	3.4	2.8	2.4	2.2
Memorandum items						
Private consumption deflator	–	2.5	2.1	2.8	2.4	2.2
Industrial production	–	–2.0	0	–5.2	2.2	2.7
Unemployment rate	–	9.3	10.3	11.9	12.8	12.7
Household saving ratio[b]	–	20.9	21.3	22.9	21.9	21.0
General government financial balance[c]	–	–6.8	–7.3	–7.2	–5.8	–4.7
Current balance[d]	–	2.5	2.9	4.9	5.1	5.4

* As a percentage of GDP in the previous period.
a) Actual amount.
b) As a percentage of disposable income.
c) As a percentage of GDP. It includes the proceeds of privatisations and sales of other assets, the accounting treatment of which is currently being examined.
d) As a percentage of GDP. Balance for BLEU.

decline in 1994-95, although at a slower pace than recently: long-term interest differentials with Germany may narrow somewhat more.

Fiscal policy has been tightened. Cuts in social security contributions to promote employment and restore competitiveness (estimated by the Government to cost the budget an amount representing nearly ½ per cent of GDP) will be fully financed by increases in indirect taxes. Moreover, a reduction in social security expenditure (representing 1 per cent of GDP) combined with an increase in revenue (representing nearly ½ per cent of GDP) should allow the social security accounts to be balanced in 1996, and reduce the deficit of the general government to 3 per cent of GDP, as required by the Maastricht target. For 1994, the Government is aiming to cut the budget deficit to 5.7 per cent of GDP, from 7.2 per cent in 1993. To offset an expected tax shortfall and expenditure overshooting, it has decided to step up the 1994 programme of privatisation and sale of other assets – to some ¾ per cent of GDP. Including the proceeds of these operations, the OECD Secretariat expects the general government deficit to decline to 5.8 per cent of GDP in 1994 and to 4.7 per cent in 1995 as a result of the economic recovery, lower interest rates and the global plan.

Prospects. The outlook is for a moderate recovery led by consumption and exports. Thanks to the global plan – notably the reduction in employers' social security contributions – the international competitive position of Belgium is expected to stabilise, and exporting firms should progressively reduce their losses of market shares and thus better benefit from the acceleration of international trade. Hence exports (in volume) are projected to rebound markedly. The negative impact of tighter fiscal policy on disposable personal income and private consumption is expected to be more than offset by improved confidence and a decline in the household saving ratio. Gross fixed investment may grow only a little in 1994, but with improving sales prospects, rising rates of capacity utilisation, better profit margins and lower interest rates it is projected to recover markedly in 1995. Reflecting a stronger economy and support measures, employment may start growing again in 1995, although not sufficiently to lead to a substantial decline in the unemployment rate for the year as a whole. Persistent slack in the labour market, together with changes in the system of wage indexation[1] and a freeze of wages in real terms starting in 1995, should result in further disinflation. The BLEU current-account surplus, as a proportion of GDP, is projected to edge up, approaching 5½ per cent in 1995.

The projected recovery is dependent on the macroeconomic situation in surrounding countries and the growth in international trade; stronger developments abroad could lead to higher growth than projected. On

the domestic side, the main uncertainties relate to consumer behaviour and its longer-term reaction to the global plan and the improving economic environment. All considered, the risks seem to be about balanced.

NOTE

1. Tobacco, alcohol, petrol and diesel fuel have been removed from the relevant index.

DENMARK

A robust recovery in aggregate demand and output is already under way, the pick-up in activity in the second half of 1993 having been driven principally by a revival in consumer confidence. The recovery is expected to gather momentum in 1994 and 1995, with the unemployment rate, which stood at 12½ per cent in early 1994, falling by almost 2 percentage points over the projection period. Inflation will remain relatively low.

Recent developments. A strong recovery in domestic demand and exports boosted output growth in the second half of 1993, permitting GDP to grow by 1.2 per cent for the year as a whole. Private consumption grew by 7.4 per cent (s.a.a.r) in the second half of the year, with evidence of further increases in early 1994. Reflecting continued firming of consumer confidence retail sales registered year-on-year growth close to 5 per cent in the first two months of 1994 and car registrations surged by more than 60 per cent in the first quarter. At the same time, the slide in total gross fixed investment has moderated, with residential construction and investment in equipment showing signs of recovery in the second half of 1993. The pick-up in domestic demand translated into strong growth in imports but the expansion in exports was even more pronounced, pushing the current account surplus for 1993 to the record level of 4 per cent of GDP.

Labour shedding continued in 1993 and early 1994, albeit at a reduced rate, and the unemployment rate rose to a post-war record of 12.6 per cent in March. The growing slack in the labour market has put downward pressure on wage inflation, and industrial wages increased by only 2 to 2½ per cent in 1993. However, with consumer price inflation averaging 1½ per cent, real wages have remained on an upward trend.

Policies and other forces acting. The central bank remains committed to the stability of the krone while using any available room to reduce interest rates. Increased confidence in the currency following the widening of the ERM intervention band in August ini-

DENMARK

Demand, output and prices

Percentage changes, volume (1980 prices)

	1991 current prices billion DKr	1991	1992	1993	1994	1995
Private consumption	430.0	1.4	0.7	2.6	5.3	3.8
Government consumption	210.4	0	0.7	3.2	1.2	0.4
Gross fixed capital formation	136.0	–5.4	–8.2	–1.8	6.6	6.7
Final domestic demand	776.3	–0.3	–0.9	2.0	4.4	3.4
* change in stockbuilding	–2.5[a]	–0.3	0.2	–1.5	1.0	0.5
Total domestic demand	773.8	–0.5	–0.7	0.4	5.5	4.0
Exports of goods and services	309.2	7.7	3.7	–1.7	4.0	5.5
Imports of goods and services	255.6	4.9	–0.5	–4.2	8.0	7.2
* change in foreign balance	53.6[a]	1.5	1.9	0.8	–1.0	–0.2
GDP at market prices	827.4	1.0	1.2	1.2	4.0	3.5
GDP implicit price deflator	–	2.5	2.0	1.7	2.3	2.5
Memorandum items						
Private consumption deflator	–	2.2	2.1	1.5	2.0	2.6
Industrial production	–	2.8	1.5	–2.4	5.3	5.5
Unemployment rate	–	10.5	11.2	12.2	11.0	10.5
General government financial balance[b]	–	–2.1	–2.4	–4.5	–4.3	–3.2
Current balance[b]	–	1.7	3.3	3.9	2.6	2.5

* As a percentage of GDP in the previous period.
a) Actual amount.
b) As a percentage of GDP.

tially allowed interest rates to be reduced. However, the lowering of the discount rate to German levels in January left the krone weaker, which in turn prompted a more cautious response to subsequent German discount rate cuts. The gradual reduction of short- and long-term market rate differentials *vis-à-vis* Germany thus came to a halt in early 1994. Since then the premium on short rates has been around 0.5 percentage point, whereas the differential on bond yields increased in the second quarter.

The 1994 Budget comprises stimulatory measures amounting to DKr 11 billion (1.2 per cent of GDP) which are officially estimated to boost GDP growth by 1¼ percentage points in 1994. The general government budget deficit could, nevertheless, remain broadly unchanged at 4¼ per cent of GDP this year, falling to 3¼ per cent of GDP in 1995. The major part of the deficit is estimated to relate to cyclical factors. The fiscal stimulus comprises both public spending and revenue measures, spending increases of DKr 6¼ billion having been budgeted *inter alia* for labour-market initiatives, education, health and culture. On the income side the first stage of a five-year tax reform programme will involve a net loss of revenue of some DKr 4.6 billion, while shifting the tax burden away from personal income towards payrolls, pollution and business. The structural budget position in 1995 is set to be broadly unchanged, an improvement of the structural primary balance being largely offset by higher interest payments.

New public paid-leave schemes, being effective from the beginning of 1994, give employed and unemployed persons the opportunity to withdraw temporarily from the labour force. They have proved very popular, with more than 40 000 (1.4 per cent of the labour force) persons already on leave by early May 1994. For the whole of 1994, the paid-leave schemes are projected to reduce registered unemployment by around 0.8 percentage point.

Prospects. Rapid real income growth should drive output growth to well above potential rates in both 1994 and 1995. Mainly reflecting the effect of fiscal measures real household disposable income is projected to grow by 4½ per cent in 1994 with a further stimulus to private consumption emanating from a declining household saving ratio. The recovery in both private consumption and foreign demand is expected to prompt an increase in business fixed investment, which should be reinforced by sharply lower credit costs. Moreover, notwithstanding increased exports in the wake of the recovery in the world economy, the growth contribution from the real foreign balance is likely to be negative, reflecting a demand-driven increase in imports. The pick-up in GDP growth to an annual rate of 4 per cent in 1994, followed by a 3½ per cent growth in 1995, is expected to lead to an increase in total employment for the first time since 1987, with unemployment being further reduced by the paid-leave schemes. Underlying price increases are likely to remain moderate, since the slack in the labour market, while diminishing, should ensure that the 1995 wage bargaining round results in moderate settlements.

The main uncertainties attaching to the projections relate to spending decisions of households in response to declining interest rates, an easing of liquidity constraints and rapid capital gains on the housing stock after heavy losses in previous years. The projection assumes a percentage point decrease in the household saving ratio in 1994, followed by an additional 2 percentage points in 1995, which could prove to be conservative. A further risk relates to the labour market and the popularity of the paid-leave schemes. The number of temporary withdrawals from the labour market could be higher than assumed, and the tightening of the labour market therefore more pronounced, resulting in a deficient supply response and higher-than-projected inflation.

FINLAND

With continued rapid growth of exports and a bottoming-out of household demand, real GDP stopped falling around mid-1993, and this was reflected in a subsequent stabilisation of unemployment. An acceleration of output growth is expected for this year and next, as domestic demand gradually recovers and export growth remains strong. Despite rising imports, the surplus on the current account recorded since the second half of 1993 should widen significantly. Given the substantial slack in the economy, inflation is expected to remain subdued.

Recent developments. After a long period of decline, real GDP reached a trough in mid 1993 when it was 15 per cent below its peak of the first quarter of 1990. Economic activity edged up afterwards, as a result of continuing strong growth of exports and a deceleration of the fall in domestic demand. Indeed, household consumption of durables as well as residential investment seem to have recovered somewhat in the second half of 1993. This reflects considerable monetary easing and the levelling-off of the personal saving rate, ending a long period of balance-sheet consolidation by households.

FINLAND

Demand, output and prices

Percentage changes, volume (1990 prices)

	1991 current prices billion Mk	1991	1992	1993	1994	1995
Private consumption	274.7	–3.6	–5.1	–4.6	–0.6	5.0
Government consumption	118.7	2.5	–2.0	–5.8	–4.1	–2.5
Gross fixed capital formation	110.1	–20.3	–17.3	–18.0	0.1	9.1
Final domestic demand	503.5	–6.8	–7.2	–7.6	–1.4	3.9
* change in stockbuilding	–9.5[a]	–2.4	0.9	–0.6	0.2	0.2
Total domestic demand	494.0	–9.2	–6.4	–8.4	–1.1	4.3
Exports of goods and services	109.3	–6.6	10.0	17.0	11.0	7.1
Imports of goods and services	112.4	–11.7	1.1	0.1	4.0	8.0
* change in foreign balance	–3.1[a]	1.4	2.1	4.5	2.5	0.4
GDP at market prices	490.9	–7.1	–3.8	–2.6	1.9	4.7
GDP implicit price deflator	–	2.5	0.7	1.7	2.3	1.9
Memorandum items						
Private consumption deflator	–	5.6	4.2	3.7	1.5	2.0
Unemployment rate	–	7.6	13.1	17.9	18.5	17.7
General government financial balance[b]	–	–1.5	–4.9	–7.9	–5.6	–5.5
Current balance[b]	–	–5.5	–4.6	–1.2	3.0	3.7

* As a percentage of GDP in the previous period.
a) Actual amount.
b) As a percentage of GDP.

Enhanced confidence is also reflected in a rise in house prices since the second quarter of 1993. Following the surge in industrial exports, capacity utilisation in manufacturing rose during 1993, and may have reached a "normal" level by early 1994. By contrast, the private services sector is still sluggish. As a result, overall business investment continued to decline in the second half of 1993. Though imports have started to respond to slightly stronger economic activity, the boom in exports moved the current account into surplus from mid-1993.

Since June 1993 employment has been roughly stable, while seasonally adjusted unemployment stopped rising late in the year. Together with the slack in labour and product markets, sharply reduced rents (due to lower interest rates) and an appreciating currency have helped keep the average price level broadly unchanged. Consumer price inflation has steadily declined and was down to virtually zero in the first four months of 1994.

Policies and other forces acting. With the markka floating since September 1992, monetary conditions have progressively eased. Short-term rates dipped below German rates in December 1993, and reached a level of 4¾ per cent in March 1994. Long-term rates also fell, from an average of 12 per cent in 1992 to less than 6½ per cent in January 1994, before rebounding subsequently in reflection of international bond market developments. Despite short-term interest rate differentials becoming negative *vis-à-vis* leading European currencies, by April 1994 the markka had rebounded 11 per cent in effective terms from its trough thirteen months earlier, to a level 13 per cent below its pre-floating rate. While the central bank has occasionally intervened to prevent a too rapid appreciation, monetary policy continues to be geared towards assuring that consumer price inflation (excluding changes in indirect taxes and officially administered prices) converges to the announced target level of 2 per cent by 1995.

Budget consolidation remains the main focus of fiscal policy, with the objective of reducing real central government expenditure to its 1991 level by 1995. The general government deficit is officially projected to decline from 8 per cent in 1993 to 5.3 per cent in 1994, over 1 percentage point of which stems from the postponement of tax refunds to households, advancing part of the tax take for 1995 to 1994. Large cuts in government consumption and investment (by 2 per cent of GDP in 1994) should also contribute to the deficit reduction. In addition, the pick-up of activity is expected to improve government finances in 1994, and more so in 1995. The transition from a sales tax to a value-added tax at the beginning of June will probably raise consumer price inflation by about 1 per cent this year and next.

Banks' balance sheets have benefited considerably from the improved economic climate with a significant fall in operating losses in 1993. As a result, the provision of state funds to troubled banks declined markedly in 1993 compared with previous years. The risk of credit supply constraints hampering the recovery has thus been reduced.

Prospects. An acceleration of growth is expected over 1994-1995, supported by an increase in domestic demand in response to the easing of monetary conditions and the completion of private sector financial consolidation. Business investment – which in 1993 was 55 per cent below its 1989 peak – is expected to recover, helped by lower capital costs and sharply reduced spare capacity in the tradeables sector. Household expenditure should remain roughly flat during 1994, due to the high tax take (see above), but is projected to rise in 1995. By contrast, the net foreign contribution to economic growth is projected to fall substantially, as export growth rates are expected to taper off while imports respond to the pick-up in domestic demand. Nevertheless, with the terms of trade expected to improve markedly in 1994, the current account surplus should widen considerably. With the strengthening of economic activity, the unemployment rate is projected to fall gradually from a level of 19 per cent early this year to 17 per cent by the end of next year. This still represents very substantial slack in the labour market, so that inflation will remain low.

The main uncertainty attached to these projections relates to business investment, as the size of spare capacity outside manufacturing is difficult to gauge. Somewhat weaker investment developments are possible if unused capacity in non-manufacturing sectors is larger than considered in the projections. In addition, the expected recovery in consumer spending may be delayed by the sharp fluctuations in tax payments.

GREECE

The stagnation in GDP in 1993 contributed to a marked fall in consumer-price inflation and in the current external deficit. The recovery this year is projected to be weak and to strengthen only a little in 1995. Some small further progress in reducing inflation is expected. Reflecting failure to curb tax evasion and rein in spending, and also delays in privatisation, the general government deficit increased in 1993 to almost 13 per cent of GDP, and risks rising further this year in the absence of further measures with the public debt-to-GDP ratio approaching 125 per cent.

Recent developments. There was a small contraction in GDP in 1993, induced by high interest rates, the real fall in pensions and public sector wages and the swing from sharp rises in 1991-92 to a fall in government investment. Manufacturing production declined by 3 per cent (and by 8 per cent since 1989), but has recently recovered somewhat. Employment also fell in 1993, pushing the unemployment rate to 9¾ per cent. Reflecting a profit squeeze and the end of the impact of the mid-1992 indirect tax hike, the 12-month rise in consumer prices fell to 10.4 per cent in April 1994 from 16.2 per cent a year earlier. The fall in domestic demand for consumer durables with a high import content lowered the current external deficit to 1 per cent of GDP in 1993 from 2¾ per cent in 1991-92. This was more than covered by capital inflows from Greeks living abroad and foreign borrowing by the public sector, so that foreign exchange reserves rose by one-third to $8.7 billion.

Policies and other forces acting. Instead of the budgeted fall, the general government deficit rose to 12¾ per cent of GDP in 1993. Apart from the failure to implement budget measures, interest payments rose to 14½ per cent of GDP from 11½ per cent in the previous three years, when interest payments were partly capitalised. The 1994 Budget shows the deficit falling to 11 per cent of GDP. But including certain deferred interest payments not accounted for in the initial budget, and continued slippage in tax receipts, as suggested by significant shortfalls in VAT receipts early in 1994, the outturn is likely to exceed the budget target unless measures recently taken to improve tax compliance prove unusually successful and privatisation receipts stronger than now foreseen. Recently, "objective" criteria for evaluating taxable incomes of different professional categories have been introduced and the top marginal income tax rate was raised to 45 per cent. These will affect tax receipts in 1995, but, as the taxable income norms are low, the tax yield is likely to be small. Even so, these measures may help to bring about some reduction in the deficit next year.

Credit conditions for the private sector were again tight in 1993. Real interest rates paid by borrowers were about 15 per cent and credit growth to the private sector slowed to 12 per cent from 17 per cent in 1992. However, because of the budget deficit financing, the growth of money supply (M3) jumped to 15¼ per cent. The 1994 target growth of M3 is set at 8-11 per cent and of credit to the private sector at 11 per cent. In line with disinflation, interest rates were expected to fall, and did so during the first four months of the year. However, speculative pressures against the Drachma developed in the second half of May, leading the Government to advance the full liberalisation of capital movements (due 1 July) to improve confidence and necessitating very

GREECE

Demand, output and prices

Percentage changes, volume (1970 prices)

	1991 current prices billion Dr	1991	1992	1993	1994	1995
Private consumption	9 136.8	2.2	1.7	0.9	1.1	1.4
Government consumption	2 548.2	3.5	0	1.0	0.6	–0.1
Gross fixed capital formation[a]	2 380.7	–4.4	1.2	–0.7	–0.2	5.2
Final domestic demand	14 065.7	1.4	1.4	0.7	0.9	1.7
* change in stockbuilding	236.2[b]	1.8	0.3	0.1	–0.3	0.1
Total domestic demand	14 301.9	3.0	1.6	0.7	0.6	1.8
Exports of goods and services	2 905.6	16.4	8.0	1.8	5.1	7.1
Imports of goods and services	4 253.5	13.2	5.7	3.4	2.7	6.0
* change in foreign balance	–1 347.9[b]	–0.7	0	–0.9	0.4	–0.3
* change in error of estimate	–151.6[b]	0.7	–0.8	0	0	0
GDP at market prices	12 802.4	3.3	0.9	–0.1	1.0	1.6
GDP implicit price deflator	–	17.6	14.9	14.0	11.2	9.0
Memorandum items						
Private consumption deflator	–	18.5	14.6	14.0	10.8	9.0
Industrial production	–	–1.7	–1.5	–2.3	1.5	2.0
Unemployment rate	–	7.7	8.7	9.8	10.7	11.0
Household saving ratio[c]	–	18.4	15.7	15.8	17.0	16.8
General government financial balance[d]	–	–14.4	–11.0	–12.8	–13.8	–12.5
Current balance[d]	–	–2.2	–2.8	–1.0	–1.3	–1.6

* As a percentage of GDP in the previous period.
a) Excluding ships operating overseas.
b) Actual amount.
c) As a percentage of disposable income.
d) As a percentage of GDP.

sharp rises in short-term interest rates. At the time of writing it is unclear for how long such high rates will persist, and to what extent they will feed through into bank lending rates.

Prospects. Except for a sharp upturn in government investment, partly financed by EC structural funds, the growth of other domestic demand components is likely to be weak in 1994, limiting the growth of GDP to 1 per cent . High wage settlements (projected at 11½ per cent), wage drift and slow productivity growth would make for only a small deceleration in unit labour cost growth to 11½ per cent in 1994. But because of weak import price rises and a continuing profit squeeze, consumer-price inflation may stabilise below 11 per cent. The current external deficit is projected to increase somewhat this year, but should still remain considerably below its longer-term average, and continue to be financed by capital inflows of Greeks living abroad. GDP growth should accelerate in 1995, but again be much slower than in OECD Europe owing to the pervasive adverse effects of high budget deficits and inflation.

A key assumption of the projections is that confidence will be restored, influenced by falling inflation and the low current external deficit as well as by improved growth prospects in OECD Europe, and that the current financial pressures prove short-lived. However, in a context of high budget deficits and debt/GDP ratios, confidence also depends on the progress made in fiscal consolidation and in implementing structural reforms. Delays in these two fields would affect adversely GDP growth, inflation expectations and the balance of payments.

ICELAND

Despite reduced cod quotas, the fish catch rose about 4 per cent in 1993, and GDP edged upward. However, low fish prices reduced national income, and the unemployment rate rose to 4.3 per cent for the year. Economic slack held the consumer price increase to 4 per cent, despite the two recent devaluations totalling 12 per cent. Lower quotas may lead to some fall in GDP this year and, together with restructuring, to a rise in unemployment to about 6 per cent of the labour force. Continuing sluggishness of activity and a value-added tax reduction on food should cut inflation to about 1¼ per cent. If quotas are kept unchanged next year, GDP may edge up.

ICELAND

Demand, output and prices

Percentage changes, volume (1990 prices)

	1991 current prices billion IKr	1991	1992	1993	1994	1995
Private consumption	236.3	5.1	–4.7	–4.5	–0.1	1.4
Government consumption	76.9	3.2	–1.0	2.0	–0.4	1.0
Gross fixed capital formation	72.7	2.1	–11.2	–11.6	–3.5	3.4
Final domestic demand	385.9	4.1	–5.2	–4.4	–0.7	1.6
* change in stockbuilding	1.2[a]	0.8	–0.3	0.3	–0.2	0
Total domestic demand	387.1	5.0	–5.5	–4.2	–0.9	1.6
Exports of goods and services	127.2	–5.7	–1.7	6.1	0.1	2.3
Imports of goods and services	130.3	5.6	–7.8	–8.6	–0.6	3.3
* change in foreign balance	–3.1[a]	–3.9	2.2	5.0	0.2	–0.2
GDP at market prices	384.1	1.0	–3.4	0.8	–0.6	1.4
GDP implicit price deflator	–	7.3	3.4	2.8	1.6	1.4
Memorandum items						
Private consumption deflator	–	5.3	4.9	4.9	1.3	0.7
Unemployment rate	–	1.4	3.0	4.3	6.0	6.2
Current balance[b]	–	–4.7	–3.1	0.1	0.3	0.2

* As a percentage of GDP in the previous period.
a) Actual amount.
b) As a percentage of GDP.

Recent developments. In June 1993 the government announced that fishable stocks of mature cod were dangerously low, and thus catch quotas were reduced for the fifth time in six years. Over the past year, the fisheries industry has compensated for this reduction in domestic quotas by increased fishing abroad and exploiting loopholes in the quota system: the total 1993 fish catch actually rose 4 per cent. The surprising strength of export production helped to boost GDP by 0.8 per cent for the year and to erase the current-account deficit.

Currency depreciation, combined with low world prices for fish and aluminium, led to a 5 per cent drop in the terms of trade last year. The resulting decline in real national income, along with a broadening of the tax base, sharply reduced private consumption. The weakness of household demand, together with overcapacity in the fisheries, induced a collapse in business investment as well. Production weakness contributed to a rise in the unemployment rate from 3.0 to 4.3 per cent. Slack demand, along with the 1993/94 wage freeze, limited the rise in consumer prices to 4 per cent, despite cumulative currency depreciation of about 12 per cent.

Policies and other forces acting. The stock of juvenile cod has picked up for the second straight year, but fishable stocks of mature cod have fallen to record lows, and the fisheries minister has indicated that there is no justification for increasing quotas in 1994/95 . With continued low cod quotas and weakening employment, the government had little scope to reduce the planned budget deficit for 1994. Some reduction has been set for public consumption and investment; however, Treasury receipts will fall with the 1 January reductions in corporation tax and in the value-added tax on food products. The government expects cyclical weakness to hold the Treasury deficit to near 2½ per cent of GDP, as in 1993. The authorities have successfully brought short-term interest rates nearer European levels: long-term rates may edge down further as the government demonstrates its commitment to exchange-rate stability and to avoiding pre-election fiscal concessions like those which occurred in 1991.

Prospects. The reduction in cod quotas may cause overall export production to stagnate this year. However, the catch of other species thus far in 1994 has been remarkably strong, bolstering the current account and overall economic activity. GDP is projected to fall by about ½ per cent, driving the registered unemployment rate to a record 6 per cent. Weakness of activity is expected to reduce price inflation to 1¼ per cent, and the premium of domestic over foreign interest rates is expected to narrow further. No more than a small decline in the cod catch is expected for the coming fisheries year: with activity recovering outside of cod fishing, GDP is projected to edge upward in 1995.

IRELAND

The Irish economy resisted the European recession well in 1993, helped by continued growth of exports and a revival of domestic demand later in the year. As a result, the unemployment rate stabilised albeit at a very high level. Economic activity is likely to accelerate in 1994 and 1995, with domestic demand benefiting from easier monetary conditions and a lower income tax burden. Export growth should remain strong as overseas markets recover, resulting in a continued large current account surplus. Even though unemployment is set to fall somewhat, the restraining influence of the central pay agreement should prevent any significant pickup in inflation from its current low level, provided that it is strictly adhered to in the event of faster than anticipated growth.

Recent trends. Although the Irish economy slowed somewhat in 1993, it continued to be one of the fastest growing in Europe. Good export performance, aided by a lower effective exchange rate has been the main reason behind this favourable outcome. The strength of exports was reflected in a level of industrial production which was 5½ per cent higher than in the previous year. The beneficial effects on domestic demand of the fall in interest rates, following the devaluation of the currency in January 1993, began to be felt in the second half of the year. Markedly lower mortgage rates improved households' liquidity and so helped retail sales to increase and car sales to stabilise. Housing starts have also shown renewed strength, sufficient to generate some increase in residential investment for the year as a whole. With growth gaining momentum, employment continued to increase and, aided by a pick-up in emigration, unemployment stabilised from the first quarter of 1993 onwards before declining at the beginning of 1994. Inflation, as measured by the consumer price index (CPI) excluding mortgage interest rates, fell to under 2 per cent for the whole of 1993 but, reflecting lagged effects of the devaluation of the Irish pound, it rose in the second half of the year, reaching a temporary peak of 3.5 per cent in the first quarter of 1994.

Policies and other forces acting. Interest rates declined further in the second half of 1993, somewhat faster than the falling trend of German rates as the temporary risk premium *vis-à-vis* German rates, that had emerged prior to the devaluation of the Irish pound at the beginning of the year, was eliminated. The money supply grew strongly in the second half of 1993, though somewhat less rapidly than in the first half as the accumulation of official reserves moderated, while bank lending increased only slightly. In the first half of this year, long-term interest rates rose sharply with the differential relative to German bonds widened to almost 1¾ points.

IRELAND

Demand, output and prices

Percentage changes, volume (1985 prices)

	1991 current prices million Ir£	1991	1992	1993	1994	1995
Private consumption	16 187	1.6	2.9	2.0	4.0	3.8
Government consumption	4 457	2.4	2.2	2.0	3.0	2.6
Gross fixed capital formation	4 686	–7.3	–1.9	0.5	3.3	4.2
Final domestic demand	25 330	–0.1	1.9	1.8	3.8	3.7
* change in stockbuilding	615 [a]	–0.2	–2.8	–0.3	–0.3	0.1
Total domestic demand	25 945	–0.2	–1.2	1.4	3.4	3.8
Exports of goods and services	16 893	5.2	12.9	4.2	5.7	6.6
Imports of goods and services	15 072	1.3	5.4	3.6	5.3	6.2
* change in foreign balance	1 821 [a]	2.9	6.0	1.1	1.2	1.3
GDP at market prices	27 765	2.6	4.9	2.3	4.1	4.5
GDP implicit price deflator	–	0.9	1.1	2.5	1.9	2.1
Memorandum items						
Private consumption deflator	–	2.2	2.6	1.9	2.5	2.5
Industrial production	–	3.2	9.2	5.4	6.3	7.3
Unemployment rate	–	15.6	16.3	16.6	15.7	15.4
Household saving ratio [b]	–	11.9	12.6	14.8	14.3	14.5
General government financial balance [c]	–	–1.4	–2.6	–2.5	–2.4	–2.6
Current balance [c]	–	3.4	5.3	5.7	5.5	5.7

* As a percentage of GDP in the previous period.
a) Actual amount.
b) As a percentage of disposable income.
c) As a percentage of GDP.

The 1994 budget allows a slight increase in the general government deficit compared to 1993. The deficit will remain within the Maastricht criterion of 3 per cent of GDP, however, and should permit a resumption in the decline of the debt-to-GDP ratio, interrupted last year by the impact of the devaluation of the Irish pound on the foreign currency component of the national debt. Nevertheless, the budget is more expansionary than the small projected increase in the deficit would suggest, as it occurs despite substantial one-off receipts from a tax amnesty, which are unlikely to be reflected in reduced household consumption. These receipts will mainly be used to reduce previously incurred debts of health authorities and public corporations, avoiding an increase in on-going expenditures. At the same time, the real value of tax allowances and thresholds has been raised, and a one per cent levy on income abolished, thereby increasing household disposable income despite a reduction in mortgage tax relief and a rise in property taxation. Spending on social programmes has been increased, though the earnings-related component of unemployment benefit has been abolished and such benefits taxed for the first time, so contributing to increased labour market flexibility. The cost of these measures is largely offset by a reduction in debt-service payments. As government receipts return to a more normal level in 1995, the budget deficit is projected to rise slightly to 2¾ per cent of GDP despite the underlying buoyancy of tax revenues.

Prospects. Economic growth is projected to accelerate significantly in 1994. The reduction in the tax burden should generate a particularly marked increase in private consumption, even though the growth in real wages is projected to slacken as a result of the new multi-year central wage agreement which provides for pay increases of 2 per cent in its first year rising to 3½ per cent in its third and final year. The first stages of the recovery should bring an improvement in labour productivity permitting a marked reduction in the growth of unit labour costs and an increase in profitability. Together with a more favourable external environment, this should allow exports to increase further, resulting in a continued large current account surplus. With corporate profits rising, private sector investment is projected to be buoyant and should more than compensate for any slowdown in EC-financed public investment. Employment is expected to increase as activity rebounds. But as the labour force is expected to continue to expand rapidly, unemployment may fall only slightly. A slack labour market should help keep inflation under control, though some upward movement is projected for 1995 in view of the projected strength of demand in the goods market. The increase in inflation – as measured by the CPI – is likely to be greater than the upward movement in the GDP deflator as the beneficial impact on the former of the falls in mortgage rates is gradually eroded.

There are upside risks to these projections. On the one hand, the good performance of multinational export-oriented companies in overseas markets seen in 1993 could continue rather than attenuate as assumed in the projections. Moreover, improved consumer confidence could lead to a savings rate below its current high level and closer to that recorded at the end of the 1980s. Should the economy become more buoyant, as a result there may be some risk of higher inflation through increased wage pressure.

LUXEMBOURG

Despite a further expansion of the financial sector, real GDP growth slowed to a mere ¼ per cent in 1993. While economic activity is projected to strengthen in 1994-95, the upturn is likely to be gradual. Unemployment, although still very low by international standards, is expected to rise further, on a yearly basis, before edging down in 1995. Consumer price inflation may abate.

Recent developments. Economic growth slowed to a mere ¼ per cent in 1993, with quite divergent sectoral developments. The steel industry recovered, reaching an annual growth rate of 4 per cent. But total industrial production declined as non-metal production fell by 3.5 per cent. Orders in industry improved moderately in early 1994 but industrial capacity utilisation remained low. On the other hand, activity in the service sector, in particular in the banking sector, continued to grow rapidly in 1993. Domestic demand was underpinned by a few large government-supported investment projects in the steel industry and the launch of a satellite, but consumer confidence deteriorated. Exports of goods, in particular non-metal products, declined sharply owing to sluggish external demand and an erosion in competitiveness as a result of a poor productivity performance and strong wage growth: compensation per employee increased by 6.3 per cent in 1993. Consumer-price inflation accelerated in 1993, mainly on account of increases in indirect taxes, but it fell back to 2.3 per cent on a twelve-month basis in March 1994. Despite the economic

LUXEMBOURG

Demand, output and prices

Percentage changes, volume (1985 prices)

	1991 current prices billion LF	1991	1992	1993	1994	1995
Private consumption	182.6	6.5	1.7	0.2	1.7	2.6
Government consumption	54.4	3.8	3.5	2.2	3.0	3.2
Gross fixed capital formation	92.4	9.8	–2.1	4.0	–2.0	–0.5
Final domestic demand	329.4	7.0	0.9	1.5	0.9	1.9
* change in stockbuilding	7.7[a]	1.2	–0.3	–0.2	0	0.3
Total domestic demand	337.1	8.0	0.5	1.3	0.9	2.1
Exports of goods and services	300.6	3.6	1.3	–3.5	2.8	4.1
Imports of goods and services	318.9	8.1	0.2	–2.4	2.1	3.6
* change in foreign balance	–18.3[a]	–5.1	1.2	–1.0	0.6	0.4
GDP at market prices	318.8	3.1	1.8	0.3	1.5	2.6
GDP implicit price deflator	–	3.0	4.5	2.2	2.8	2.7
Memorandum items						
Private consumption deflator	–	2.9	2.8	3.5	2.8	2.5
Industrial production	–	0.5	–0.5	–0.8	1.7	2.4
Unemployment rate	–	1.4	1.6	2.1	2.7	2.5

* As a percentage of GDP in the previous period.
a) Actual amount.

slowdown, domestic employment kept growing in 1993, as job creation in the service sector – and the banking sector in particular – more than offset a fall in industrial employment. However, new vacancies were mainly filled by foreigners, and unemployment increased to 2.1 per cent of the active labour force.

Policies and other forces acting. The international competitive position is expected to remain weak, given the strong recovery of the Belgian and Luxembourg franc and the rigid wage formation process. The steel industry may suffer from the continuing global over-capacity and the financial sector may lose some of its recent buoyancy as the large inflows of funds from Germany recorded in 1992 and 1993 are expected to abate or reverse. In the 1994 Budget, the Government announced some fiscal measures to limit central government expenditure growth to 6.8 per cent. Budget savings are concentrated on public investment, which may fall by 9 per cent in 1994. Large tax claims on the financial sector are expected to boost tax revenues in 1994, and net general government lending may deteriorate only slightly to 2¼ per cent of GDP. Overall, fiscal policy may no longer underpin domestic demand as strongly as in recent years.

Prospects. GDP growth is projected to strengthen moderately in 1994 and pick up further in 1995. Private consumption is expected to rebound, reflecting continued strong wage growth and the healthy financial position of households, but investment may decline as a result of less buoyant public investment and the completion of large investment projects in 1993. While domestic demand growth is projected to decelerate overall in 1994 and hence to depress imports, exports should benefit from the pick up in world trade, so that the contribution of the foreign balance to GDP growth is expected to become positive. Non-metal industrial employment may fall again in 1994, resulting in a further rise in unemployment to 2.7 per cent. Better growth prospects for 1995 may have only a limited impact on the labour market, and the unemployment rate may merely edge down. The increase in the private consumption deflator should abate from 3½ per cent in 1993 to 2½ per cent in 1995.

MEXICO

Economic activity weakened during 1993 and inflation fell below 10 per cent for the first time in 20 years. Good export performance resulted in a narrowing of the current external deficit, while strong net capital inflows were recorded (amounting to more than 8 per cent of GDP). Signs of a recovery became manifest at the end of the year after the ratification by all parties of the North American Free Trade Agreement. The pick up in activity remained hesitant in the first months of 1994, as political uncertainties

in a context of financial market turbulence depressed confidence. However, economic growth is expected to gather momentum in the second half of the year and to strengthen in 1995, driven both by domestic demand and exports.

Recent developments. Domestic demand declined somewhat in 1993, as private consumption stagnated and investment growth weakened markedly. Important factors were high real interest rates, resulting from faster than anticipated disinflation, a more cautious lending policy on the part of banks and uncertainties about the ratification of the North American Free Trade Agreement (NAFTA) by the United States Congress. However, export growth picked up while import volumes stagnated, resulting in a modest rise in real output. Employment declined slightly, reflecting the downturn and on-going rationalization efforts as firms sought to improve their competitive positions. In manufacturing, labour productivity rose by around 5 per cent, in line with the trend of the past few years. The deceleration in activity together with a real appreciation of the peso[1] helped to damp inflation. By December 1993, the year-on-year consumer price rise had come down to 8 per cent, 4 percentage points less than the December 1992 rate and only slightly above the Government's target. Despite a narrowing in the trade deficit, the current account deficit remained large, at some $23 billion, or 6½ per cent of GDP, financed relatively easily by strong net capital inflows (8½ per cent of GDP).

The index of manufacturing production suggests that the pick up in activity recorded in November and December 1993 continued in the first quarter of 1994. Non-oil export earnings were robust, but imports surged, to some extent reflecting temporary factors, *i.e.* the postponement of purchases by importers in order to benefit from lower tariffs in 1994 after the entry into force of NAFTA on 1 January.

Policies and other forces acting. In 1993, the primary surplus of the public sector narrowed to 3¾ per cent of GDP, some 2 percentage points down on 1992, as a result both of lower non-tax revenues and higher expenditure, in the area of education in particular. The overall financial surplus narrowed by less (moving from 1½ to ¾ per cent of GDP), as a decrease in the public debt and lower interest rates reduced interest payments. The budget approved for 1994 projects a further decline to near balance. Announced measures include: a front-loading of expenditure, with a 10½ per cent real increase in funds allocated to social development (which accounts for about half of non-interest public expenditure) and infrastructure investment; tax cuts for households and business; and reduced prices for some government services. Increased allocations to regional development are again expected for 1995, in order to address some of the problems which contributed to the Chiapas uprising in January this year.

The Social Pact renewed last October may give a moderate stimulus to activity in 1994: minimum wage earners have had their incomes raised by 7 to 11 per cent on average through a tax credit. In addition, it was agreed that wages would increase by the expected rate of inflation plus productivity gains; in this context, minimum wages were increased by 7 per cent in January 1994,

MEXICO
Demand, output and prices

Percentage changes

	1991	1992	1993	1994	1995
Total domestic demand[a]	5.3	5.9	–0.4	2.3	3.5
GDP[a]	3.6	2.6	0.4	2.0	3.3
Consumer price index	22.7	15.5	9.7	6.7	6.3
Memorandum items					
Trade balance					
$ billion	–7.3	–15.9	–13.5	–15.0	–15.5
per cent of GDP	–2.5	–4.8	–3.7	–4.2	–4.0
Current account balance					
$ billion	–14.9	–24.8	–23.4	–25.0	–26.3
per cent of GDP	–5.2	–7.5	–6.5	–7.0	–7.0
Public sector financial balance[b]	–1.5	1.6	0.7	0.0[c]	..

a) At constant 1980 prices.
b) Non financial public sector; balance expressed as a percentage of GDP.
c) November 1993 budget projection.

THE MEXICAN ECONOMY IN PERSPECTIVE

Mexico became the twenty-fifth Member country of the OECD in May. Its economy ranks as the ninth largest in the OECD area in terms of its GDP, coming below Spain and above the Netherlands. Its population is the third largest among OECD countries. In terms of *per capita* output, Mexico is at the lower end of OECD countries (between Greece and Turkey).

The output and employment structures of the Mexican economy differ in some respects from those which are typical of most OECD countries. The shares of agriculture, construction and commerce in total output are well above the corresponding OECD average, while those of financial and community services are below. Labour productivity is lower on average than in other OECD countries, especially so in agriculture and construction which, in Mexico, absorb an unusually large share of employment (agriculture accounts for 27 per cent of employment in Mexico, against an OECD average of 6 per cent). On the other hand, manufacturing accounts for a relatively small share of employment in comparison to other OECD countries, although the sector's share in output is comparable.

There are other important differences in the structure and evolution of the Mexican labour market. In particular, the so-called informal sector is large, estimated to account for about a quarter of total employment and 10 per cent of GDP. This sector is made up of small-scale activities, often temporary and poorly remunerated, that are concentrated in sectors such as commerce, restaurants and personal services; its estimated size does not, however, include illegal activities or the underground economy.

The shares of government expenditure and revenue in GDP are low in Mexico compared with other OECD countries (around 25 per cent in Mexico, against an OECD average of some 40 per cent). After a steep decline in recent years, as a result of large-scale privatisation and sustained fiscal consolidation efforts, the net public debt-to-GDP ratio was around 30 per cent in 1992, also below the OECD average.

The Mexican economy, as it stands today, some 12 years after the debt crisis began, is the result of a fundamental transformation brought about by economic policies that included rigorous macroeconomic stabilisation programmes and wide-ranging structural reform. The strategy became more and more comprehensive over time and, by the end of the 1980's the economic situation had improved and confidence had been largely restored.

The Mexican economy in perspective, 1992

	Mexico (rank among OECD countries)		24 other OECD countries		
			Maximum	Minimum	Average
Size					
Area (million square km)	1.97	(4)	9.97	.003	1.34
Population (million)	84.5	(3)	255.6	0.3	36.2
Labour force (million)	31.2[a]	(4)	128.6	0.1	17.6
GDP ($ billion)	329	(9)	5 920	7	765
Structure (per cent)					
Employed/population	36.8[a]	(24)	54.3	31.9	43.9
Agricultural employees/total employees	26.8[a]	(2)	43.9	2.2	6.8
Net public debt/GDP[b]	29.6	(9)	123.4	–17.2	36.2
Government expenditure/GDP[c]	23.5	(20)	67.3	32.2	41.2
Government current receipts/GDP[c]	26.2	(20)	60.2	30.6	37.3
Gross fixed investment/GDP	20.8	(8)	30.8	13.0	19.4
Performance					
Average inflation (1989-92)[d]	21.1	(24)[e]	64.9	2.6	5.1
Real GDP growth (1989-92)[d]	3.6	(6)	5.5	–1.5	2.1
GDP per civilian employed ($'000s)[f]	19.5	(23)	48.3	10.7	40.7
GDP per capita ($'000s)[f]	7.2	(24)	22.2	3.5	17.7

a) Data based on National Employment Survey of 1991.
b) Nine OECD countries are not included in the comparison.
c) Public sector under budgetary control for Mexico, general government for other OECD countries; five OECD countries are not included in the comparison.
d) Average annual percentage change.
e) Mexico had the second highest average inflation rate in the OECD area over the period.
f) Data refers to 1991 at purchasing power parity exchange rates.
Sources: INEGI; Banco de Mexico, *Informe Annual*, 1994; OECD, *Economic Outlook 54*; OECD Secretariat.

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Continuous efforts at fiscal consolidation brought the public sector financial balance from a deficit of about 17 per cent of GDP in 1982 to a small surplus in 1992. The strengthened fiscal position and development of the domestic public debt market increasingly allowed the authorities to maintain control over monetary expansion. By the end of 1987, major imbalances had been corrected, but inflation continued unabated. Against a background of tight fiscal and monetary policies and continuing structural reforms, a tripartite pact (the "Pacto") involving the Government, business and labour was introduced, to build a consensus around the authorities' disinflation strategy. Further support was provided by using the exchange rate as a nominal anchor. The reduction of the external debt which began with the Brady Plan in 1989 helped bring the external debt-to-GDP ratio down from 62 per cent in 1986 to 20 per cent at the end of 1992 and enhanced credibility in the government's policy. This in turn induced the return of flight capital and inflows of new foreign capital. Against this background, real GDP growth averaged 3 ½ per cent per year over the period 1988 to 1992 resulting in a *per capita* increase of around 1½ per cent per year, compared to 1 per cent for the OECD average. At the same time, inflation (measured by the CPI) came down from over 110 per cent on average in 1988 to around 10 per cent in 1993.

The macroeconomic stabilisation process was complemented and supported by structural policy measures which increased in scope and importance over time. With the aim of strengthening the role of market forces while limiting the role of the State, the authorities pursued the following main lines of action:

- redefining the role of the State through an extensive privatisation programme, mostly completed by 1992, although most activities of PEMEX in the oil and gas area remain in the public sector;
- extensive trade policy reform, implemented since 1985 (when Mexico joined the GATT), which has made the economy much more open to international competition and technology transfers. This has been reinforced by the foreign investment law of December 1993, which removed previous ceilings on foreign capital ownership and further opened the economy to foreign investment (only the oil sector and some financial activities are still protected);
- financial market deregulation pursued since 1988 and complemented by recent initiatives to develop the internationalisation of financial markets;
- a major tax reform implemented in 1987, to bring tax rates down to internationally competitive levels while widening the tax base and to remove disincentives to foreign trade;
- policy changes aimed at enhancing competition on the goods and services markets and lifting price controls;
- the land tenure reform in 1992 (which gave full land-ownership to communal or "ejido" farmers), deregulation of the use of land in 1993, and an income support programme in the agricultural sector (PROCAMPO) to replace most of the system of guaranteed prices to farmers at the start of 1994; and
- constitutional reform and new legislation passed in 1993, which have made the central bank independent as of April 1994, underlining the government's commitment to price stability.

while contractual salaries are being allowed to rise by 5 per cent plus productivity gains as agreed at the firm level.[2] Finally, earnings below twice the minimum wage level have been exempted from federal income tax.

The central bank continued its policy of partially sterilizing the monetary impact of capital inflows in 1993, in order to avoid inflationary pressures. The monetary base expanded by 8.7 per cent, while net international reserves rose by $6 billion. The nominal rate for the 3-month Treasury bills (Cetes) came down gradually until the ratification of NAFTA by the United States Congress in November, and then, in an environment of reduced credit demand and stability of the peso, it fell sharply to 9 per cent by the end of February 1994. Since then, interest rates have begun to rise again. Increasing investors' uncertainties during an election year have been reflected in speculative attacks against the currency, leading the authorities to intervene in its support on the foreign exchange market and, against the background of rising interest rates in the United States, to let interest rates rise to maintain the peso in its exchange rate band.[3] By mid-May, the 3-month Cete rate had risen to about 18 per cent. While some exchange rate volatility is possible, the high level of foreign reserves and the readiness of the United States and Canadian authorities to assist should allow Mexican authorities to maintain the peso in the band. Projections are based on the technical assumption that, starting from its level in the second week of May, the peso will remain broadly unchanged in real terms to the end of 1995, while interest rates are assumed to come down during the course of 1994.

Prospects. The recovery in activity is expected to gather momentum during 1994, underpinned by strong export growth as improved supply conditions allow exporting manufacturers to benefit from the expansion of demand in the United States. Private consumption and investment should pick up in the latter part of the year as confidence improves, and output may increase by 3 to

3½ per cent in 1995. Maintaining the peso in the intervention band should help to lower inflation further. Because of lower oil prices this year and higher import volumes, the trade deficit may widen somewhat in 1994; it could stabilise in 1995 as export performance becomes increasingly favourable. The current-account deficit may continue to widen in 1994-95 to around 7 per cent of GDP, reflecting higher interest and dividend payments.

NOTES

1. A new currency unit was introduced in Mexico in June 1992. It was equivalent to 1 000 "old" pesos and was still called the peso. However, for clarification purpose and during a transitory period, the nex currency is often called the "new peso".
2. The increases on account of productivity gains which were included in wage settlements concluded in the first four months of 1994 amounted to around 2 per cent on average.
3. The peso is permitted to fluctuate against the dollar within a band whose lower limit shifts by 0.0004 new pesos per day (equivalent to a 4.6 per cent depreciation over a year), while the upper limit remains fixed. From December 1992 to December 1993, the peso appreciated slightly (by 0.3 per cent), but it started to fall in February this year. By the end of March it had reached its floor where it remained for about a month. In May, however, the exchange rate rose, drifting towards the interior of the band; the average of daily rates in the second week of May was around 3.32 new pesos to the dollar.

NETHERLANDS

The economy is emerging from a relatively shallow downturn and it is heading towards a gradual recovery, essentially export-driven. In view of progress achieved in reducing the budget deficit despite the weak economy and the rise in unemployment, fiscal policy has been eased slightly. The upturn may be insufficient to reduce unemployment significantly, although there may be further progress towards wage moderation.

Recent developments. The downturn has been shallow, compared both with previous ones and with developments in surrounding countries. This has primarily reflected the pattern of specialisation of the Dutch economy, marked by a comparatively large share of industrial food production and services which are less sensitive to cyclical variations. In 1993, growth was entirely accounted for by an improvement in the foreign balance which more than offset a decline in total domestic demand. Economic activity has shown some recovery in early 1994, especially in the housing sector; and car registrations rebounded sharply in the first four months of the year. However, the standardised unemployment rate has continued to rise steeply, reflecting a pronounced shake-out after a period of labour hoarding and a large increase in the labour force. Despite some progress towards wage moderation, unit labour costs continued to increase fairly rapidly in 1993 and profits were squeezed. Consumer-price inflation decelerated to 2.6 per cent, but it edged up to 2.9 per cent for the 12 months to March 1994. The current-account surplus, as a proportion of GDP, widened to an estimated 2¾ per cent in 1993.

Policies and other forces acting. Economic policy may, on balance, have a moderately expansionary impact on activity in 1994-95. Monetary conditions are projected to ease further, as short-term interest rates continue to decline in line with German rates. Long rates may also decline again, following their upsurge in the early months of 1994, but this decline may be very slow. On the fiscal side, largely due to better tax collection and an underestimation of receipts, there was a tax windfall of ¾ per cent of GDP in 1993, and the general government budget deficit declined more than expected – to 2.9 per cent of GDP from 3.5 per cent in 1992. The central government deficit was 3.6 per cent of net national income (NNI), compared with the Coalition Accord target of 3¾ per cent. In view of progress achieved despite the economic downturn and rapidly rising unemployment, the Government has revised upward the target for the central government deficit in 1994 – from 3¼ per cent of NNI to 3¾ per cent, which is also considered as the maximum level for 1995. In addition to introducing a medium-term public investment programme to improve the infrastructure – the so-called "investment impulse" – the Government has announced substantial reductions in taxes and social security contributions in 1994 and 1995. Hence, the OECD Secretariat is projecting an increase in the general government deficit to 3.9 per cent of GDP for 1994 before the downward trend resumes in 1995.

Prospects. The recovery is expected to be gradual. The leading indicators, and in particular the industrial investment surveys for 1994, are still weak, and the degree of capacity utilisation – although not low com-

NETHERLANDS

Demand, output and prices

Percentage changes, volume (1990 prices)

	1991 current prices billion Gld	1991	1992	1993	1994	1995
Private consumption	323.0	3.0	2.1	0.8	1.0	2.0
Government consumption	77.9	1.3	1.3	–0.4	0.5	0.5
Gross fixed capital formation	110.8	0.4	1.1	–2.8	0.3	4.0
Final domestic demand	511.8	2.2	1.7	–0.2	0.8	2.2
* change in stockbuilding	3.5[a]	–0.6	–0.3	–0.3	0.1	0.2
Total domestic demand	515.2	1.5	1.4	–0.5	0.9	2.4
Exports of goods and services	294.4	5.5	2.4	0.4	3.6	5.4
Imports of goods and services	267.8	4.6	2.6	–0.9	2.8	4.8
* change in foreign balance	26.6[a]	0.7	0.1	0.6	0.6	0.6
GDP at market prices	541.9	2.1	1.4	0.2	1.4	2.8
GDP implicit price deflator	–	2.8	2.5	1.6	2.0	2.1
Memorandum items						
Private consumption deflator	–	3.4	3.0	2.1	2.1	2.0
Industrial production	–	–0.9	0.2	–1.5	2.7	3.8
Unemployment rate	–	7.0	6.7	8.1	9.8	9.5
Household saving ratio[b]	–	1.1	2.4	1.6	1.2	1.2
General government financial balance[c]	–	–2.4	–3.5	–2.9	–3.9	–3.7
Current balance[c]	–	2.6	2.1	2.8	3.3	3.5

* As a percentage of GDP in the previous period.
a) Actual amount.
b) As a percentage of disposable income, excluding mandatory saving through occupational pension schemes.
c) As a percentage of GDP.

pared with previous cycles – has remained broadly unchanged in early 1994 at a little over 80 per cent. GDP growth is thus projected to pick up only moderately in 1994, before accelerating in 1995. The driving force of the upturn is strengthening world trade and, at a later stage, a recovery in domestic investment. The growth of exports (in volume) is expected to accelerate markedly, but imports are also expected to rebound strongly, reflecting a recovery of domestic demand and the high import content of exports. Hence, ex-post, the positive contribution of the foreign balance to GDP growth may remain unchanged. Business investment may decline again in 1994, but less markedly than in 1993, as firms have almost fully adjusted to the lower level of demand. An improved sales outlook, better profit margins as a result of restructuring and wage moderation, and declining interest rates should lead to a rebound of business investment in 1995. In addition, housebuilding in the unsubsidised sector can be expected to benefit from the improving economic climate, remaining regional shortages and lower mortgage rates; the effect of recent deregulation on the construction of social dwellings is, however, difficult to assess. Public investment is expected to be fairly buoyant, partly as a result of the "investment impulse", which will lead to the construction of new roads and waterways. Private consumption will be underpinned by the reduction in taxes and social security contributions. The projected recovery may not prevent the yearly unemployment rate from rising further in 1994, though it should begin to edge down in 1995. Slack labour-market conditions should help ensure wage moderation as agreed by the social partners, and limit the growth of the private consumption deflator to 2 per cent. The current-account surplus, projected to rise somewhat in 1994, could widen further in 1995 to 3½ per cent of GDP.

The risks attaching to this projection seem to be about balanced. On the downside, there is the possibility that the recent steep increase in long-term interest rates and further weakness in international stock and bond markets might sap confidence and result in weaker than expected consumption and investment. On the other hand, if the recent turbulence in financial markets were to prove short-lived, the prospect of a more rapid decline in interest rates in Europe could result in a stronger rebound in private fixed investment than projected.

NEW ZEALAND

The recovery in economic activity remained strong throughout the second half of 1993, driven primarily by rising consumption and investment activity. Import growth eased somewhat, while export volumes regained strength. Employment creation continued, along with productivity gains, and inflation remained low. Substantial progress was made in reducing the budget deficit, which is now roughly in balance. Economic expansion is projected to be sustained in 1994 and 1995, albeit at more modest rates, reflecting both domestic expenditure and export growth.

Recent developments. The economic recovery both broadened and gained considerable momentum in the course of 1993, with real GDP growth reaching 4.8 per cent for the year as a whole. The increase in activity has been largely investment-led, although consumption also proved robust. Investment was promoted by the declining cost of capital, rising corporate profitability and high capacity utilisation. These factors have underpinned record levels of business confidence going into 1994 and promoted further capacity expansion. Private consumption has benefited from income growth and stronger consumer confidence, supported by improved labour market conditions (see below). Rising consumption and investment made for strong import growth throughout 1993 (although it has subsided more recently), with the declining net foreign balance acting to slow the upswing. However, in contrast to previous recoveries, the current account has not acted to constrain the continuing expansion of activity; this reflects an improved competitive position and a significant trade surplus.

The labour market has continued to respond positively to the strength of economic activity. Initially this was reflected in a strong rise in hours worked, before resulting in a 3 per cent annualised increase in employment in the second half of 1993. Improved employment prospects have prompted a modest rise in labour force participation which, when combined with a growing working age population, led to a 1.2 per cent increase in the labour force during 1993. Nonetheless, seasonally adjusted unemployment declined to 9.2 per cent, compared with its peak of 10.8 per cent in March 1992. Subdued consumer price inflation of 1.4 per cent and continued high unemployment kept wage growth at around 1 per cent in 1993.

Policies and other forces acting. Improvements in the budget position, which began in fiscal year (FY) 1992/93 (ending in June), gained pace in the second half of 1993, culminating in a small surplus for the nine months to March 1994. These trends are expected to be maintained for the remainder of FY 1993/94 , implying a

NEW ZEALAND

Demand, output and prices

Percentage changes, volume (1982/83 prices)

	1991 current prices million NZ$	1991	1992	1993	1994	1995
Private consumption	47 264	–1.2	0.4	3.0	3.1	2.5
Government consumption	12 299	–1.0	–0.8	–0.4	0.5	1.0
Gross fixed capital formation	12 227	–15.9	3.6	16.2	6.7	5.7
Final domestic demand	71 789	–4.9	1.0	5.5	3.6	3.1
* change in stockbuilding[a]	339[b]	–2.4	1.8	1.1	0	0.1
Total domestic demand	72 128	–7.1	2.7	6.4	3.6	3.2
Exports of goods and services	21 010	6.8	0.1	4.5	5.5	5.0
Imports of goods and services	19 755	–4.8	7.6	8.3	4.5	4.0
* change in foreign balance	1 255[b]	4.4	–3.2	–2.2	–0.1	0
GDP (expenditure) at market prices	73 383	–3.3	–0.4	4.8	3.9	3.5
GDP implicit price deflator	–	2.5	2.4	2.2	1.1	1.7
Memorandum items						
GDP (production)[c]	–	–2.2	1.9	4.6	3.9	3.5
Private consumption deflator	–	3.2	1.0	1.4	1.0	1.8
Unemployment rate	–	10.3	10.3	9.2	8.7	8.1
Current balance[d]	–	–1.3	–2.2	–2.1	–1.2	–0.5

* As a percentage of GDP in the previous period.
a) Including statistical discrepancy and valuation adjustment.
b) Actual amount.
c) Considered as a more reliable indicator of total economic activity by the New Zealand Department of Statistics.
d) As a percentage of GDP.

roughly balanced budget. Cyclical factors have played a major role, with faster-than-expected growth leading to a rapid decline in the deficit. Tax receipts – especially payments from businesses – have been buoyant, reflecting both increased employment and corporate profits, and an end to the business tax refunds resulting from losses accumulated during the 1991 recession. Expenditure controls have remained firm, with significant gains being made in containing the costs of social services and in reducing debt servicing expenditure. The budget is projected to move into growing surplus, based both on improved revenue trends on the back of economic expansion and on a declining expenditure-to-GDP ratio.

Short- and long-term interest rates reached a trough in early 1994, around 2 percentage points below their 1992 average, before rising somewhat more recently in line with international developments. The declining trend was made possible by continued low domestic inflation consistent with the monetary policy objectives, a firming exchange rate, and lower international interest rates. Given the strength of the current recovery, some inflation pressures are emerging, however, as evidenced by an expansion in profit margins, rising skill shortages and rapid increases in asset prices – in the past all leading indicators of a resurgence of inflation. However, high unemployment, a more flexible labour market, continued fiscal restraint, and the current monetary policy framework designed to maintain consumer price increases between zero and 2 per cent should this time prevent a significant acceleration in inflation.

Prospects. The New Zealand economy is projected to remain one of the fastest growing in the OECD area, within a stable inflation environment. Underlying this profile is ongoing private consumption growth, robust residential and business investment activity, and a resurgence in export volumes. However, with imports continuing to expand, the net external contribution is likely to be broadly neutral. Private consumption is expected to grow broadly in line with personal income, in the range of 2½ per cent per annum, the latter being driven by increased hours worked as well as growth in non-wage incomes. Although easing somewhat, the current recovery in business investment is expected to be sustained, supported by high capacity utilisation rates, improved business profitability and export market growth. Employment levels are projected to rise, leading to a decline in unemployment to around 8 per cent by 1995, despite continued productivity and labour force growth. Further gains in international competitiveness, along with export market growth, are also projected to generate continuing strong exports. Import penetration should ease, damped by some substitution towards domestic production. When combined with an improving invisibles position and a modest rise in the terms of trade, the current account deficit is expected to move towards balance.

Some risks to these projections include a faster-than-expected rise in labour-force participation moderating the expected decline in the unemployment rate, and a stronger increase in household savings reducing the higher growth foreseen for consumption in the short run. On the other hand, the current rapid expansion in activity could also lead to a deterioration in the current account and/or inflation pressures. The still high net external debt continues to leave the economy exposed to any adverse exogenous shocks and interest rate and exchange rate developments.

NORWAY

Mainland economic activity has picked up markedly as from the second half of 1993, spurred by increased consumer demand in a context of easier monetary conditions. The modest recovery of non-oil exports late in 1993 should gain momentum with the projected strengthening of world trade, while mainland business investment, which so far has been sluggish, should provide a further boost to the recovery. Some improvement of the labour market situation is expected, which may contribute to higher wage pressure. However, domestic inflation should remain low. The current account surplus is projected to remain stable, as the rapidly-expanding volume of oil exports broadly offsets the drop in oil prices.

Recent trends. Mainland real GDP grew rapidly in the second half of 1993 – by 5 per cent at a seasonally-adjusted annual rate – supported by rising household demand and stronger non-energy exports. Production of new platforms for the oil sector also contributed. By contrast, business investment has remained sluggish, due essentially to a low level of capacity utilisation. Recent indicators point to a strengthening of consumer confidence, as reflected in booming car sales and housing starts. The latest industrial survey from February 1994 suggests some improvement in business sentiment as well.

Consumer price inflation remained stable at around 2 per cent in the period from early 1992 to the autumn of

NORWAY

Demand, output and prices

Percentage changes, volume (based on previous year prices)

	1991 current prices billion NKr	1991	1992	1993	1994	1995
Private consumption	349.7	0	1.8	1.6	3.8	3.7
Government consumption	147.5	2.6	4.4	1.7	3.2	1.0
Gross fixed capital formation	127.1	1.7	4.5	14.9	0.9[a]	2.9[a]
Final domestic demand	624.2	0.9	3.0	4.6	3.0	2.9
* change in stockbuilding	2.0[b]	–1.2	–1.1	–1.4	0[a]	0[a]
Total domestic demand	626.3	–0.6	1.7	2.9	3.0	3.0
Exports of goods and services	307.5	6.1	6.2	1.8	6.6	5.0
Imports of goods and services	247.1	1.7	2.8	3.3	4.0	5.5
* change in foreign balance	60.4[b]	2.8	2.6	–0.1	2.5	1.0
GDP at market prices	686.7	1.6	3.4	2.2	4.3	2.9
GDP implicit price deflator	–	2.4	–1.0	2.0	0	2.0
Memorandum items						
Mainland GDP at market prices[c]	–	–0.6	2.1	1.9	2.8	3.1
Mainland GDP deflator[c]	–	3.6	1.6	1.8	2.0	2.1
Exports of energy	–	12.6	12.6	5.1	11.0	3.0
Private consumption deflator	–	4.1	2.6	1.9	1.4	1.8
Unemployment rate	–	5.5	5.9	6.0	5.6	5.2
Household saving ratio[d]	–	2.6	5.3	5.2	4.6	4.5
General government financial balance[e]	–	–0.2	–2.3	–2.7	–2.6	–1.8
Current balance[e]	–	4.8	2.5	2.3	2.2	2.9

* As a percentage of GDP in the previous period.
a) For the period 1993-95, gross fixed capital formation includes platforms under construction, while the figures on stockbuilding exclude platforms in progress.
b) Actual amount.
c) GDP excluding oil and shipping.
d) As a percentage of disposable income.
e) As a percentage of GDP.

1993, and recently dropped a little further – mainly reflecting lower housing costs after the fall in interest rates. Moderate wage claims have contributed to this good performance, with hourly earnings increasing at the same rate observed since mid-1992 (2½ to 3 per cent year-to-year). These developments mirror the slack in product and labour markets, even though unemployment (including persons on active labour market measures) has been declining since the summer of 1993, and now stands at 7¾ per cent.

Policies and other forces acting. Since the floating of the krone in December 1992, there has been a significant easing in monetary conditions, with short and long-term interest rates declining to German levels. At the same time, the exchange rate fell by only 4 per cent in trade weighted terms up to April 1994. While money-market interest rates are likely to stabilise, credit conditions should ease further as the lower funding costs have not yet been fully reflected in bank lending rates. Moreover, the significant improvement of banks' balance sheets in the course of 1993 has markedly reduced the risk of credit constraints choking off the ongoing recovery.

In contrast to previous years, the 1994 National Budget implied a tightening of fiscal policy. Adjusted for the cycle and oil revenues, the Budget projected a reduction of the primary deficit (*i.e.* the deficit net of debt interest payments) on the order of ½ per cent of GDP, with the actual deficit remaining unchanged from 1993 at 3 per cent of GDP. The revised National Budget introduced in May includes some further tightening to compensate for a weaker oil price. This, together with output growth stronger than initially projected, should keep the budget deficit below the original estimate.

Prospects. Combined with the maintenance of easy monetary conditions, the pick-up of world trade should sustain mainland economic activity at growth rates of 2¾ and 3 per cent in 1994 and 1995 respectively. With capacity utilisation gradually increasing, a modest rebound of business investment is envisaged, despite a decline in off-shore capital formation. As a result, private sector employment, after a fall of 14 per cent in the period 1987-93, should begin to increase. Only modest reductions in unemployment are expected, however, as improved employment prospects may draw more people into the labour force. Inflation should thus remain low, despite some expected acceleration of wage growth towards the end of the projection period. The current account surplus should remain broadly stable, as a rapid expansion of oil exports roughly offsets the impact of a weaker oil price.

The main uncertainty attached to the projections concerns mainland business investment. Indeed, with prices and volumes for the bulk of manufacturing exports and concomitant levels of corporate profitability tending to be volatile, investment behaviour is difficult to predict.

PORTUGAL

Real GDP declined by ½ per cent in 1993, the worst growth outcome in nine years. Unemployment rose and, reflecting the flexible labour market, nominal wage growth abated strongly, reducing consumer-price inflation despite the devaluation of the escudo. However, inflation remains well above the EC average and preventing the escudo sliding within the enlarged bands of the European Exchange Rate Mechanism (ERM) has necessitated high interest rates. Conjunctural indicators nevertheless portend a gradual recovery of real GDP growth in 1994 based upon stronger exports, which should, in turn, support higher private consumption and investment.

Recent developments. Real GDP fell in 1993 as gross fixed asset formation shrank in response to stagnating exports and lower profitability and the rise in consumer spending was damped by slower real wage growth. A steep fall in employment raised the unemployment rate to 6.2 per cent in the fourth quarter of 1993, 1.7 point higher than a year earlier. The weakening of the labour market, in turn, sharply reduced nominal wage growth, allowing consumer-price inflation to ease to 6.5 per cent in 1993 – within the official 5 to 7 per cent target range. In March 1994, the 12-month increase of consumer prices stood at 6.0 per cent, nearly 1½ points lower than a year earlier. On the external side, rising net receipts from tourism shifted the current account into surplus.

The recession was particularly severe in industry, where output plunged by around 5 per cent in 1993, bringing capacity utilisation down considerably. However, the most recent survey of business confidence shows signs of greater optimism based upon improved export prospects.

Policies and other forces acting. The Government borrowing requirement jumped to 7.8 per cent of GDP in

PORTUGAL

Demand, output and prices

Percentage changes, volume (1985 prices)

	1991 current prices billion Esc	1991	1992	1993	1994	1995
Private consumption	6 273.8	5.2	3.7	0.5	1.8	2.7
Government consumption	1 765.9	3.0	1.4	0.4	1.0	1.2
Gross fixed capital formation	2 574.9	2.4	5.4	–4.7	3.5	4.8
Final domestic demand	10 614.6	4.2	3.8	–0.8	2.1	3.0
* change in stockbuilding	231.2[a]	0	1.1	–0.2	0	0.1
Total domestic demand	10 845.8	4.1	4.7	–0.9	2.0	3.0
Exports of goods and services	3 166.3	1.1	6.1	0	4.5	8.5
Imports of goods and services	4 098.7	4.9	11.1	–0.9	4.8	7.6
* change in foreign balance	–932.4[a]	–2.7	–4.5	0.7	–1.3	–1.4
GDP at market prices	9 913.4	2.1	1.1	–0.5	1.2	2.3
GDP implicit price deflator	–	14.1	13.5	6.4	5.6	4.6
Memorandum items						
Private consumption deflator	–	11.1	9.8	6.7	5.7	4.4
Industrial production[b]	–	–0.1	–2.6	–4.0	1.7	3.1
Unemployment rate	–	4.1	4.2	5.5	6.4	6.9
Household saving ratio[c]	–	23.0	21.2	21.3	21.0	20.6
General government financial balance[d]	–	–6.0	–4.7	–7.8	–7.5	–6.6
Current balance[d]	–	–1.0	–0.2	1.4	2.2	2.1

* As a percentage of GDP in the previous period.
a) Actual amount.
b) Industrial production index.
c) As a percentage of disposable income.
d) As a percentage of GDP.

1993, implying a deficit overrun of as much as 3.5 per cent of GDP. Although the weakness of activity played a part, non-cyclical forces, including increased tax evasion, exploitation of tax loopholes and once-and-for-all losses in VAT revenues probably accounted for nearly two thirds of this slippage. In addition, the government scaled back the portion of privatisation proceeds earmarked for debt redemption. The 1994 budget is based upon a return to fiscal restraint, targeting a reduction in the budget deficit to around 7 per cent of GDP. The achievement of this aim is dependent upon the effectiveness of efforts to reduce tax evasion: tax revenues have indeed shown a tendency to recover in the first half of 1994.

Monetary policy continues to be geared towards bringing inflation and interest rates down to EC levels, using the stability of the nominal exchange rate as the key intermediate target. Between August 1993 and March 1994, market expectations of the escudo sliding within the enlarged ERM bands were held in check by a firm monetary stance, which by early 1994 resulted in lower risk premia on domestic interest rates. However, market sentiment remains highly volatile, as evidenced by the sudden attack on the Portuguese currency in early April.

Prospects. A strong pick-up in export growth and a related strengthening in gross fixed investment are projected to re-start economic growth in 1994, with a gradual firming in domestic demand expected as consumer confidence improves. Moreover, prospects of stronger investment growth have also brightened with the adoption in February by EC Ministers of the new Country Support Framework (CSF), governing the flow of EC structural funds to Portugal over the five years to 1999. Despite a resumption of employment gains in 1995, the unemployment rate is likely to climb to 7 per cent, restraining nominal wage growth further. Together with procyclical gains in productivity, wage moderation should keep consumer-price inflation on a downward track, with a fall to the 5½ to 6 per cent range projected for 1994. While this would still be above the official 4 to 5½ per cent target range, inflation is expected to fall to around 4½ per cent in the following year.

Assisted by the return to fiscal restraint and growing labour market slack, the stance of monetary policy is expected to become less restrictive, but – with the risk premium on domestic interest rates being slow to narrow – nominal interest rates are projected to remain around 10 per cent. While weakening terms of trade are expected to enlarge the trade deficit, the current account surplus is projected to widen to around 2 per cent of GDP in 1995, thanks to a further strengthening of the invisibles balance.

The major risk attached to the projections concerns fiscal policy, 1995 being an election year. Stabilisation policies have become less credible with the huge deficit overrun in 1993. Implementing the 1994 budget plan and translating medium-term objectives into concrete measures are thus essential if confidence is to be restored and room created for continued interest rate declines. Insufficient efforts to re-balance the policy mix would make markets more apprehensive about the authorities' commitment to the EC convergence process. On the other hand, a strong recovery in government revenues and a faster pace of disinflation could leave room for interest rates to fall more than expected, thereby supporting the recovery.

SPAIN

The domestic-demand led downturn ended in mid-1993 and recovery – though still weak – has begun. Inflation fell to below 5 per cent in 1993 and the current external deficit to ¾ per cent of GDP. Supported by the 20 per cent depreciation of the peseta since 1992, rapidly rising net exports will again be the main support to GDP growth, projected at 1¼ per cent for 1994. Helped by rising business confidence following the recent far-reaching labour market reforms and higher profits, GDP growth is projected to accelerate in 1995, to a rate of 2¾ per cent, though the unemployment rate is unlikely to decline significantly from the very high rate of 24½ per cent expected in 1994.

Recent developments. The cyclical downturn in private investment and a sharp drop in private consumption, reflecting a strong rise in precautionary savings influenced by rising unemployment, led to a 3.6 per cent fall in domestic demand in 1993. However, growing slack and the peseta devaluation boosted net export growth substantially, thereby limiting the fall in GDP to 1 per cent. Reinforced by a further steep rise in compensation per employee, labour dishoarding continued in 1993, so that private dependent employment fell by 5 per cent, pushing the unemployment rate up by 4 percentage points to 24.2 per cent in the first quarter of 1994. The 12-month rise in consumer prices slowed to 4.9 per cent in April 1994, and core inflation to 4.4 per cent from

SPAIN

Demand, output and prices

Percentage changes, volume (1986 prices)

	1991 current prices billion Ptas	1991	1992	1993	1994	1995
Private consumption	34 213.0	2.9	2.1	–2.3	0.7	2.7
Government consumption	8 808.4	5.4	3.8	1.6	–0.2	0.5
Gross fixed capital formation	13 126.2	1.7	–3.9	–10.3	–2.1	5.0
Final domestic demand	56 147.5	3.0	0.9	–3.5	0	2.9
* change in stockbuilding	401.0[a]	–0.2	0.2	–0.1	0	0.1
Total domestic demand	56 548.5	2.8	1.1	–3.6	0	2.9
Exports of goods and services	9 409.4	7.9	6.7	8.8	9.9	8.9
Imports of goods and services	11 137.3	9.0	6.6	–3.2	4.5	9.1
* change in foreign balance	–1 727.9[a]	–0.8	–0.4	2.9	1.1	–0.3
GDP at market prices	54 820.6	2.2	0.8	–1.0	1.2	2.7
GDP implicit price deflator	–	7.0	6.5	4.5	3.8	3.3
Memorandum items						
Private consumption deflator	–	6.3	6.4	5.1	4.5	3.4
Industrial production	–	–0.3	–1.7	–3.3	2.6	3.6
Unemployment rate	–	16.3	18.4	22.7	24.5	24.4
Household saving ratio[b]	–	6.9	5.2	7.4	6.3	5.3
General government financial balance[c]	–	–4.9	–4.5	–7.2	–7.1	–5.9
Current balance[c]	–	–3.2	–3.2	–0.8	–0.5	–0.8

* As a percentage of GDP in the previous period.
a) Actual amount.
b) As a percentage of disposable income.
c) As a percentage of GDP.

6 per cent a year earlier. This result was achieved despite high wage increases (5.7 per cent on average in 1993) and the rise in import prices following the depreciation of the peseta, as these elements were outweighed by a sharp growth in business sector productivity and a compression of profit margins. The limited pass-through of the depreciation to import prices coupled with the surge in net export volumes reduced the trade deficit by almost 40 per cent. This, together with higher tourism receipts, reduced the current balance of payments deficit to ¾ per cent of GDP in 1993, one-fourth of the 1989-92 average level.

Policies and other forces acting. Cyclical factors, high interest rates partly reflecting efforts to defend the peseta in European Exchange Rate Mechanism (ERM) crisis, deferred payments from earlier years and tax evasion pushed the general government deficit to a record 7¼ per cent of GDP in 1993. Fiscal policy has been tightened in 1994: public servants' wages have been frozen, government employment is planned to be reduced for the second year running and cuts in non-wage consumption are being made. But implementation difficulties suggest that, as in the past, the savings from these measures may fall short of targets. Such slippage, together with a further rise in the cyclical component of the budget deficit, suggests that the actual deficit in 1994 may be broadly unchanged from 1993 at just over 7 per cent of GDP. The projections assume that additional fiscal measures will be taken to bring the deficit to less than 6 per cent of GDP in 1995, making for a cumulative fall of 2.4 percentage points in the structural deficit in 1994-95.

Facilitated by the May 1993 devaluation of the peseta and the August 1993 widening of the ERM bands, interest rates have fallen considerably in the last twelve months from the high levels prevailing early in 1993. The 12-month Treasury bill rate stood at 7.7 per cent in May 1994, down from 12.5 per cent a year earlier. The annual rate of growth of bank credit to the private sector, after falling to 1.8 per cent in the 12 months to end-1993, accelerated somewhat to 3.5 per cent during the first four months of 1994, suggesting economic recovery though at a slow pace. Because of the high budget deficit, the growth of the wide monetary aggregate (ALP) has been considerably stronger, though it decelerated from 8.6 per cent on a 12-month basis at end-1993 to 6.9 per cent in April 1994. A wide target-range of 3-7 per cent for ALP has been fixed for 1994. On balance, monetary policy is likely to be somewhat easier this year than last.

In addition to a better balanced policy mix for 1994 – tighter fiscal policy and easier monetary policy – the Government recently introduced far-reaching labour market reforms, which will substantially increase labour market flexibility and serve as a boost to business confi-

dence in the immediate future. Positive employment consequences from these measures may, however, take somewhat longer to come through.

Prospects. Domestic demand is projected to stagnate in 1994, with a small rise in private consumption (reflecting a drop in the saving rate from the 1993 peak) and a pick up in government infrastructure investment being broadly offset by a further fall, though at a decelerating rate, in private investment. Underpinned by growing slack and the effects of the depreciation, net export volumes should again rise rapidly, so that GDP growth may reach 1¼ per cent in 1994. A small fall in employment is projected, and this, coupled with a rising trend in the participation rate, points to a further small rise in the unemployment rate on average in 1994.

The decelerating trend in wage settlements underpinned by labour market slack and structural reforms, together with strong productivity growth (though less than in 1993), and moderate growth in import prices as depreciation effects subside are expected to reduce the 12-month rise in consumer prices to 3¾ per cent at end-1994, while permitting some profit recovery. Steep rises in net export volumes and in tourism receipts are projected to bring the current external account close to balance in 1994.

Lower inflation, rising profits, a sound balance of payments and increased labour market flexibility will boost confidence, laying the ground for accelerated growth in 1995. Private investment, encouraged additionally by falling interest rates and an improved outlook in the OECD area generally, is likely to rise markedly. Overall GDP may grow by 2¾ per cent and be associated with a small net employment creation after three years of decline. The unemployment rate, however, is likely to fall only marginally because labour force growth will still be only slightly slower than employment growth. Wage de-escalation is expected to continue, with the inflation differential *vis-à-vis* the EC average falling to less than 1 per cent. The current balance of payments deficit is projected to remain low and to be more than covered by long-term private investment.

Additional measures to reduce the budget deficit and smooth implementation of labour market reforms are key assumptions of the projections; failure in these areas could undermine confidence, disturb the good climate for wage moderation and reduce the scope for interest rate reductions, making for an upside risk for inflation and a downside one for growth.

SWEDEN

With exports surging and domestic demand stabilising, a recovery in output is under way. It is expected to gather momentum in 1994 and 1995, with a pick-up in domestic demand more than offsetting slowing export growth. Employment expansion is likely to be modest, however, with little inroad being made into current high levels of unemployment. Underlying inflation should thus remain low.

Recent developments. Exports have surged since mid-1993 as a result of improvements in international competitiveness, primarily due to the 20 per cent effective depreciation of the krona after it was floated in late 1992. Strong export performance has boosted industrial production, which increased by 9 per cent in the year to March, taking capacity utilisation in manufacturing above its pre-recession levels. Nevertheless, and notwithstanding a modest pick-up in output in the latter part of 1993, GDP fell by 2 per cent for the year as a whole, because of very weak domestic demand. Devaluation-induced price increases outstripped modest gains in nominal household incomes, and translated into an unprecedented decline in private consumption for 1993 as a whole. The deterioration in the asset position of households and increased after-tax borrowing costs also led to a steepening decline of residential investment in the course of 1993, while ample spare capacity and high interest rates kept overall business investment on a downward trend.

Growing slack in the labour market, with 12¾ per cent of the labour force either unemployed or engaged in government labour market schemes, pushed down wage increases to 3¼ per cent in 1993, as measured by hourly earnings in manufacturing. With unit labour costs falling and the price-raising effects of the depreciation and indirect-tax hikes waning, the 12-month growth in the CPI has been below the 2 per cent mark since January. Despite adverse terms-of-trade movements, the turnaround in the trade volumes was instrumental in bringing the current account into balance.

Policies and other forces acting. The deterioration in public finances has continued unabated, the general-government deficit reaching 13 per cent of GDP in 1993. In addition to cyclical factors, the increase of 5½ per cent

SWEDEN

Demand, output and prices

Percentage changes, volume (1985 prices)

	1991 current prices billion SKr	1991	1992	1993	1994	1995
Private consumption	771.3	1.1	–1.9	–3.8	0.7	2.0
Government consumption	394.4	3.2	–0.6	–0.7	–1.5	–1.0
Gross fixed capital formation	280.4	–8.4	–11.0	–16.3	–3.6	6.8
Final domestic demand	1 446.1	–0.4	–3.4	–5.2	–0.7	1.9
* change in stockbuilding	–21.2[a]	–1.7	1.3	0.3	0.3	0.3
Total domestic demand	1 424.9	–2.1	–2.2	–5.0	–0.3	2.2
Exports of goods and services	404.2	–2.4	2.2	7.2	11.5	7.0
Imports of goods and services	381.8	–5.0	1.3	–0.4	4.5	6.0
* change in foreign balance	22.4[a]	1.0	0.3	2.9	3.0	0.8
GDP at market prices	1 447.3	–1.1	–1.9	–2.1	2.7	2.9
GDP implicit price deflator	–	7.6	1.4	2.8	1.7	3.0
Memorandum items						
Private consumption deflator	–	10.1	2.6	6.1	2.4	3.3
Industrial production	–	–5.6	–4.0	2.5	8.0	6.5
Unemployment rate[b]	–	2.9	5.3	8.2	8.0	7.8
Household saving ratio[c]	–	3.0	7.4	7.3	7.3	6.4
General government financial balance[d]	–	–1.1	–7.4	–12.9	–10.7	–9.5
Current balance[d]	–	–1.4	–2.1	–0.2	2.8	4.0

* As a percentage of GDP in the previous period.
a) Actual amount.
b) Based on monthly Labour Force Surveys.
c) As a percentage of disposable income.
d) As a percentage of GDP.

of GDP in the deficit in 1993 reflected both transitory elements related to the banking crisis and longer-run structural elements. The projected reduction in the non-cyclical part of the budget deficit in 1994 will result mainly from the elimination of the transitory component. No further structural reduction is foreseen in 1995, although as a result of cyclical improvement, the general government deficit could fall to 9.5 per cent of GDP. The revised 1994/95 Budget, presented in April, has increased the target for medium-term deficit reduction from SKr 80 billion to SKr 100 billion (equivalent to around 7.0 per cent of GDP) with the consolidation process being implemented faster than earlier envisaged. However, concrete proposals for improving public finances over the coming five years will be presented only in January 1995.

Since the autumn of 1993 the central bank has been cautious in relaxing the stance of monetary policy, in order not to jeopardise its medium-term inflation target of 2 per cent. While consumer-price inflation is currently running at under 2 per cent, expectations of inflation in the medium-term (as detected in surveys and implicit in the yield curve) are somewhat higher. The marginal lending rate of the central bank was lowered in two steps of ¼ percentage point each in January and February, and an additional cut of ¼ percentage point to 7 per cent took place in May. This has permitted 3-month interest rates to decrease by 40 basis points since October, but long rates have risen by ½ percentage point over the same period, as domestic yields followed the increase in international yields. In addition, the interest rate differential has risen in the wake of a more unsettled political situation. Projected inflation should allow some room for short rates to come down, but bond rates may stay high given the rapid accumulation of public debt.

Prospects. The outlook is for GDP to grow somewhat faster than potential over the projection period. The nascent recovery of private consumption is expected to strengthen in response to rising household income and a declining household saving ratio in 1995 as consumer confidence improves. Residential construction is likely to show another year of sharp decline in 1994, but capacity pressures in export sectors should lead to a recovery of business investment. Although the rate of growth of exports is likely to come down from recent levels, export performance is set to remain good.

The increase in activity may suffice to create new jobs only in 1995. Nevertheless, the unemployment rate could fall modestly throughout the projection period, as employment movements are partly offset by changes in labour supply. The continuing slack in the labour market should prevent any upturn in underlying inflation. Even

though the pick-up in domestic demand may be accompanied by rapid import growth, the current account could move into a surplus of close to 4 per cent of GDP in 1995.

There are two major risks associated with the short-term outlook. First, while consumer confidence could well respond more positively to the improving employment situation, households might also increase saving should property prices continue to fall. Second, and more critically, market sentiment is very sensitive to the pace of fiscal consolidation, implying that policy credibility could be lost if the required reduction of the budget deficit is postponed. This highlights the importance of making the medium-term fiscal strategy more credible.

SWITZERLAND

During the summer of 1993, the Swiss economy was emerging from the longest but – in terms of output – not the deepest recession since the war. In spite of the relative mildness of the downturn, both unemployment and government deficits hit unprecedented levels. Inflation has been brought down to the Swiss National Bank's objective and is set to fall further. Most indicators suggest a progressive economic recovery this year and next.

Recent developments. Output growth of about ¾ per cent (s.a.a.r.) in the second half of 1993 was broadly based. In line with improving consumer confidence from the middle of 1993, private consumption picked up in the second half-year despite falling real labour incomes. Machinery and equipment investment proved particularly buoyant (growing 8¼ per cent s.a.a.r. in the second semester), after a steep decline in the previous two years. As a result, imports increased, and the real foreign balance made a negative contribution to growth for the first time since the beginning of the recession. Even so, the current external surplus rose further, to a record 8 per cent of GDP. Total employment fell (by 2¾ per cent) in 1993 for the third year in a row. The unemployment rate rose to 5 per cent (s.a.) in the third quarter of 1993 and has since broadly stabilised at that level. The 12-month rate of consumer price inflation, after hovering at around 3½ per cent during 15 consecutive months despite the widening output gap and growing labour market slack, fell sharply in November 1993, mainly as a result of decelerating housing rents (which are linked to mortgage interest rates). It continued to

SWITZERLAND

Demand, output and prices

Percentage changes, volume (1980 prices)

	1991 current prices billion SF	1991	1992	1993	1994	1995
Private consumption	190.5	1.5	–0.2	–0.8	1.0	1.8
Government consumption	46.6	1.5	0.5	–0.4	1.0	1.3
Gross fixed capital formation	84.8	–2.5	–5.0	–4.3	2.4	4.7
Final domestic demand	321.9	0.4	–1.4	–1.7	1.4	2.5
* change in stockbuilding	4.5[a]	–0.9	–1.7	0.3	0.5	0.7
Total domestic demand	326.5	–0.5	–3.0	–1.4	1.9	3.1
Exports of goods and services	116.7	–0.7	3.4	0.8	3.5	5.0
Imports of goods and services	112.1	–1.7	–3.8	–1.2	4.2	6.2
* change in foreign balance	4.6[a]	0.5	3.2	0.9	–0.4	–0.7
GDP at market prices	331.1	0	–0.1	–0.6	1.5	2.5
GDP implicit price deflator	–	5.5	2.6	2.5	1.8	2.8
Memorandum items						
Private consumption deflator	–	5.7	4.1	2.9	1.0	2.5
Industrial production	–	0.5	–0.7	–1.0	1.8	3.1
Unemployment rate	–	1.1	2.5	4.5	4.5	3.8
Current balance[b]	–	4.6	6.2	8.0	7.3	6.8

* As a percentage of GDP in the previous period.
a) Actual amount.
b) As a percentage of GDP.

decline thereafter, to 0.4 per cent in May 1994, the lowest rate in more than seven years.

Policies and other forces acting. The decline in short-term interest rates, which had begun in the middle of 1992, continued during 1993, albeit at a much slower pace, bringing the three-month Euro-Swiss franc rate to about 4 per cent in the first four months of 1994. The negative Swiss franc-Deutschemark short-term interest rate differential narrowed in the course of 1993 and early 1994, contributing to the marked appreciation of the franc. With the monetary base well below the Swiss National Bank's target path, and in view of other indicators suggesting relatively tight monetary conditions, short-term interest rates are assumed in the OECD Secretariat projections to decline in line with those in Germany.

The federal government's budget deficit increased to SF 7.8 billion in 1993, exceeding the budget projection by SF 4.7 billion. The Government estimates that a little less than half of this deficit is structural. The finances of the cantons have also deteriorated, so that the general government deficit is now estimated to have increased to SF 15½ billion in 1993, an unprecedented 4½ per cent of GDP. Mainly as a result of discretionary measures, including the introduction of a value-added tax in 1995 (with a standard rate of 6.5 per cent), the general government deficit is projected to edge downward by a cumulative ¾ per cent of GDP over the coming two years.

Prospects. Output is projected to recover gradually. With a further fall in employment and modest real wage gains, private consumption is likely to remain relatively weak this year, but it should gather strength in 1995 as consumer confidence improves further. In spite of low industrial capacity utilisation, machinery and equipment investment is likely to continue to grow, reflecting on-going efforts to modernise productive capacity, declining interest rates and lower prices of imported investment goods. The fall in short-term interest rates combined with rising demand should also induce a progressive build-up in inventories. Construction activity may pick up in 1994, but subdued household incomes and the high stock of unused office space will continue to act as a brake on total construction investment.

Exports are likely to strengthen, reflecting more buoyant growth of export markets. The detrimental effect of exchange rate appreciation on price competitiveness should be partly offset by favourable unit labour cost developments and price concessions by Swiss producers. As import demand picks up on the back of strengthening domestic demand, the real foreign balance is projected to deteriorate, making a negative contribution to growth this year and next. However, with further improvements in the terms of trade and continued buoyancy of net investment income, the current external surplus is expected to decline only slightly, to 7¼ per cent of GDP in 1994 and 6¾ per cent in 1995.

The labour market may start improving during 1994, as rising capacity utilisation calls for increased employment. Given the existing slack in the economy and the recent exchange rate appreciation, consumer price inflation is set to slow again in 1994. Underlying inflation will probably remain very low in 1995, but the replacement of the present retail tax on goods by a general value-added tax at the beginning of 1995 could raise recorded CPI inflation temporarily to 2½ per cent in 1995.

Risks to the projection are evenly balanced. Improvement in consumer confidence, and hence in private consumption expenditure, might be underestimated. On the other hand, business investment decisions remain subject to uncertainty related to the role Switzerland will play in the process of European integration.

TURKEY

Strong output growth in 1992 and 1993, led by domestic demand, brought about a widening current account deficit and rising foreign indebtedness. Inflationary pressures intensified, partly in response to the further increase in public sector deficits to unprecedented levels. The situation since the turn of the year has become unsustainable, manifested by downratings of international creditworthiness, repeated turmoil in financial markets and drastic depreciation of the Turkish lira.

Recent developments. Real GNP growth averaged 6¾ per cent in 1993, driven by booming domestic demand. Strong real wage increases, easier access to consumer credit and the lira's real effective appreciation boosted private consumption. Government consumption was strong due to accelerated military spending, but public investment stagnated. Reflecting the buoyant business climate, private investment surged (growing by 20 per cent), in spite of the very high real cost of borrowing. Merchandise imports soared (up by about 36 per cent in volume) in response to the vigorous expansion of domes-

TURKEY

Demand, output and prices

Percentage changes, volume (1982 prices)

	1991 current prices billion TL	1991	1992	1993	1994	1995
Private consumption	278 100	1.8	8.9	14.0	0.4	2.2
Government consumption	72 360	2.5	6.2	7.6	2.2	2.0
Gross fixed capital formation	102 710	0.1	3.6	11.8	–5.5	0.8
Final domestic demand	453 170	1.5	7.6	13.0	–0.5	1.9
* change in stockbuilding	–1 542[a]	–3.9	0.8	2.8	–3.9	0.5
Total domestic demand	451 628	–2.2	8.3	15.4	–3.8	2.4
Exports of goods and services	117 198	7.5	3.3	8.6	13.0	12.0
Imports of goods and services	116 126	–1.6	10.8	32.1	–1.5	6.0
* change in foreign balance	1 072[a]	2.9	–2.9	–9.5	4.9	1.6
GNP at market prices	452 700	0.6	5.8	6.8	0.6	4.3
GNP implicit price deflator	–	56.8	62.5	59.0	108.0	75.0
Memorandum items						
Private consumption deflator	–	51.7	56.2	51.9	106.0	82.0
Manufacturing production	–	1.8	4.2	9.2	1.5	6.0
Unemployment rate	–	7.7	7.9	8.7	12.6	14.0
Current balance[b]	–	0.2	–0.8	–5.5	–2.3	–2.5

* As a percentage of GNP in the previous period.
a) Actual amount.
b) As a percentage of GNP.

tic demand, but merchandise exports grew relatively modestly, at about 5 to 6 per cent. The trade deficit rose to some 12 per cent of GNP and the current external deficit to about 5½ per cent of GNP.

Inflation slowed somewhat in the first half of 1993, reflecting abundant supply of moderately priced foreign goods and controls on public sector prices and tariffs, but it re-accelerated from the early summer, with a rise in VAT rates pushing up prices further towards the end of the year. Altogether, annual consumer price inflation averaged 66 per cent in 1993, compared with 70 per cent in 1992. After the steep fall in the exchange rate in the early months of 1994 and steep rises in administered prices, inflation accelerated, sharply, to a 12-month increase of 107 per cent in April.

Policies and other forces acting. The stance of monetary and fiscal policy in 1993, as in the past several years, was much more expansionary than initially planned. Public sector financial imbalances worsened further despite buoyant growth, with the public sector borrowing requirement (PSBR) rising to over 16 per cent of GNP, exceeding the official target by 7 percentage points. Main factors behind this were high debt interest payments, insufficient adjustment of prices of State economic enterprises (SEEs) to increased costs and a large increase in the public sector wage bill. Tax revenues grew broadly in line with projections, but missed their target in relation to GNP (which was higher than expected). Privatisation proceeds fell far short of budget projections. In November 1993, the government increased VAT rates for several items, and in December a tax reform law was approved by the Parliament. However, the full revenue effects of the latter will not come before 1995.

Monetary policy aimed at maintaining orderly conditions in financial markets. The central bank, however, was again obliged to finance the PSBR, and hence fiscal slippage induced rapid growth in the monetary aggregates. Net Treasury borrowing more than doubled, putting upward pressure on interest rates. One year bond rates rose from about 78 per cent in late 1992 to around 90 per cent by the end of 1993.

The Government's attempts to reduce interest rates, a new withholding tax on several financial transactions and the lowering of Turkey's credit rating by international agencies triggered a run on the Turkish lira in mid-January 1994. The authorities reacted by cancelling the withholding tax and raising official interest rates. But the exchange rate continued to decline and by the end of March was around 35 per cent below its value at the beginning of 1994 (down by some 15 per cent in real terms). The liquidity squeeze raised call money rates temporarily to 1 000 per cent.

Just after the local elections at the end of March, the government announced an austerity programme on 5 April 1994. Prices of goods and services produced by SEEs were immediately raised from 50 to 110 per cent, and the government prepared a draft bill for a temporary

wealth tax applying only in 1994. The new programme also envisages accelerated closure and privatisation of SEEs, a decrease in public sector real wages and other unspecified public expenditure cuts. Reserve and liquidity requirements were eased in order to reduce the cost of bank intermediation. After the announcement of the package the Turkish lira depreciated further by about 35 per cent, to some 60 per cent below the level at the beginning of the year.

The projections assume that the government's programme will be implemented quickly and followed by further steps towards fiscal discipline. The PSBR/GNP ratio appears, however, unlikely to decline in 1994, as the near term effects of the programme will be largely offset by higher debt interest payments and a cyclical revenue shortfall. Along with the assumed normalisation of financial market conditions, interest rates may decline from their current peak levels, though still remaining high.

Prospects. Recent events in financial markets and the government's response to them will probably halt economic expansion and raise inflation in the short term. Higher inflation, public sector wage restraint and labour shedding are likely to erode real household incomes and depress private consumption. Private investment is also likely to fall, reflecting the poor business climate and prohibitive costs of credit and imported equipment. As the effects of recent financial market turmoil peter out, investment growth could resume and private consumption rise mildly in 1995. GNP growth could recover to about 4½ per cent in 1995. Due to weak domestic demand and the drastic real depreciation, import volumes are likely to contract in 1994. Merchandise exports should benefit from growing markets and improved price competitiveness. However, recent trends suggest a weakening in tourism earnings. The current external deficit may come down to some 2½ per cent of GNP in 1994 and 1995.

There are strong normative elements in these projections. Full implementation of the Government's austerity package might be held up by special interest groups. This could prolong the current period of financial market volatility and general economic uncertainty and result in lower output and yet higher inflation.

DEVELOPMENTS IN SELECTED NON-OECD COUNTRIES

Most countries in transition to market economies outside the Newly Independent States of the former Soviet Union (NIS) have made visible progress towards output recovery, although this progress is still painfully slow according to official statistics. The universal under-recording of private-sector activity, which is likely to be growing fast in most countries, means that the actual turning point may have already been reached in 1993 not only in Poland but also in Hungary and the Czech Republic. Output also rose in Estonia and Latvia. Inflation is generally declining but remains high by OECD standards almost everywhere. The country with the lowest inflation – the Czech Republic – has the healthiest public finances, while most countries are still struggling with the fiscal consequences of the ending of direct state control over economic activity. The legacy of this can also be seen in the financial sector which is characterised almost everywhere by under-capitalised banks, bad debts, inter-enterprise arrears and difficulties in providing finance to new private enterprise. In the NIS, attention is generally focused on Russia where sustained efforts will be necessary to implement a stabilisation plan and to carry out further structural reforms. In most other former Soviet republics, similar difficulties are compounded further by terms-of-trade declines and losses of fiscal and monetary subsidies that were entailed by the breakup of the union and rouble zone.

Economic growth continued to be strong in Asia and South and Central America during the recession in the OECD area. It accelerated in 1993 and should remain brisk this year and next. Except in the two largest countries in these regions, China and Brazil, each of which experienced strong domestic demand growth, inflation was kept under tight rein, mainly as a result of the restrictive economic policies implemented in recent years. In both Asia and South and Central America, foreign trade continues to be very buoyant, chiefly on account of the rapid growth of intra-regional trade.

CENTRAL AND EASTERN EUROPEAN COUNTRIES AND THE NEWLY INDEPENDENT STATES OF THE FORMER SOVIET UNION

Recent developments

The GDP decline continued to decelerate in 1993 in most countries outside the NIS. Recovery is clearly evident in Poland, where preliminary figures show output growth of 4 per cent (Table 23). However, while various estimates suggest that the share of GDP generated in the private sector may by now exceed 50 per cent in a number of countries of Central and Eastern Europe (excluding the former Soviet Union), an undetermined, but probably substantial, portion of this activity is not recorded in the national accounts. If growth of unrecorded output were fully taken into account it is probable that the Czech Republic and Hungary would have recorded growth in 1993.

In all countries the structure of output has shifted away from industry towards the service sector. Nevertheless, GDP recovery in Poland coincided with recovery in industrial production, and in Hungary rising industrial production and services would have been enough to give a slight rise in recorded GDP in 1993 had it not been for a continuing fall in agricultural output. On the other hand, industrial output in the Czech Republic continued to decline throughout 1993.

The role of external trade in 1993 varied strikingly across countries, as some appeared to be suffering the effects of an appreciating real exchange rate. Hungary in particular recorded a drop in export revenue, while import growth continued strongly. By contrast, Czech

Table 23. **Output**

Percentage change over previous year

	1992	1993	1994	1995
Bulgaria	–7.1	–4.0	0	0
Czech Republic	–6.6	–0.3	2	5
Hungary	–5.0	–1.0	1	2
Poland	2.6	4.0	4	3
Romania	–15.4	1.0	0	1
Russia	–19.0	–12.0	–10	–2
Slovak Republic	–7.0	–4.1	0	2

Sources: National sources; OECD Secretariat estimates and projections.

exports, other than to Slovakia, grew strongly, despite the fixed nominal exchange rate. Slow growth in Polish exports may be partly influenced by measurement error: cross-border trade with Germany is thought to be significantly underestimated. Russia's reported balance of trade improved markedly in 1993, but official figures, particularly for imports, are subject to dispute, and are at odds with the data of trading partners. Trade relations within the NIS are dominated by the price of energy. Since the breakup of the union Russia has increased the prices it charges to energy-importing republics towards world market levels, thereby drastically worsening their terms of trade. Frequently, debts that have built up as a result have been renegotiated or partially cancelled.

Unrecorded activity creates more serious problems than statistical quirks – it cannot easily be taxed, and indeed tax avoidance or evasion is a principal reason for its growth. Tax rates are relatively high in most transition countries since even the most market-oriented have not repudiated the tradition of relatively generous state provision in certain areas. Thus, for example, social security contributions paid by employee and employer together amount to 36 per cent of gross wages in the Czech Republic, the country with the smallest budgetary problems and lowest unemployment; the corresponding figure is over 60 per cent in Hungary. Most countries are tackling this problem by widening the tax base – most importantly by introducing a value-added tax (VAT) to increase the coverage of indirect taxes – and reducing the dependence of the budget on company taxation, which is often taxing profits that may be inflated by still-flawed accounting conventions.

Budget deficits remain high almost everywhere (Table 24). Only the Czech Republic is in a comfortable position, since the government has resisted the temptation to spend the gains to the budget resulting from separation from Slovakia. Pressure on budgets will persist for some years, since there are many candidates for increased public expenditure, from education and health to physical infrastructure projects.

Table 24. **General government budget balances**

Percentage of GDP

	1992	1993	1994	1995
Bulgaria[a]	–5.7	–11.0	–8	–6
Czech Republic	0.0	0.0	0	–2
Hungary[b]	–7.0	–6.0	–8	–6
Poland[a, b]	–6.0	–2.8	–4	–4
Romania (state budget)	–5.5	–2.0	–4	–3
Slovak Republic	–3.0	–6.8	–5	–5

a) Cash basis; excludes accrued interest on foreign debt.
b) State budget excluding local authorities.
Sources: National sources; OECD Secretariat estimates and projections.

Table 25. **Inflation**

Percentage change in average level of consumer prices over previous year

	1992	1993	1994	1995
Bulgaria[a]	80	64	75	40
Czech Republic	11	21	11	10
Hungary	23	22	19	17
Poland	43	37	30	25
Romania	210	295	170	80
Russia	1 500	900	450	150
Slovak Republic	10	23	16	15
Ukraine	1 400	3 500		

a) December-on-December.
Sources: National sources; OECD Secretariat estimates and projections.

Inflation rates in many of these countries rose in 1993 (Table 25). But apparent increases in the Czech and Slovak Republics in 1993 were due to the introduction of a VAT, and in Hungary increases in VAT rates prevented any fall in inflation. In Romania, too, VAT changes and the removal of many price controls contributed significantly to the acceleration. Despite these special factors, it does seem that reductions in underlying inflation beyond those already achieved will be much more gradual than in the past. In Poland wage controls have been relaxed and the reaction of wage bargainers in a period of output growth is difficult to predict; in Slovakia the effects of devaluation and the introduction of an import surcharge have yet to feed through fully into prices. Very high rates of inflation in the NIS reflect the lack of fiscal and monetary control, while a hard-currency regime and supporting monetary policy adopted in Estonia – made possible by a sizeable stabilisation fund of foreign currency and gold reserves – brought inflation down to a rate of about 30 per cent.

Bankruptcies and financial discipline

In centrally planned economies, the financial system was of minor importance and reform has therefore had to cover all its aspects, from the development of an efficient means of settling payments through to issues in corporate governance. While in most of the NIS the banking system has yet to develop an effective payments transmission mechanism, in other transition countries this is now well established and attention is focusing on wider issues. One of these is bankruptcy.

The importance of bankruptcy law is not always appreciated. In transition countries there is sometimes confusion between two different ideas. One is the process

of an enterprise becoming non-viable and unable to service its debts, *i.e.* bankrupt. The other is the process by which the creditors of such an enterprise are induced to accept a reorganisation of its debts and the enterprise itself is restructured to separate viable from non-viable parts, if possible. Bankruptcy law is necessary to make this latter process as effective a compromise as possible between the rights of creditors and the desire to protect employment and wealth-creating activity. Furthermore, only through bankruptcy law do creditors have an effective way of forcing enterprises to pay at least some of their debts, and thus the law imposes the "hard budget constraint" required to stimulate enterprise reform in both private and public sectors. Establishing effective bankruptcy procedures therefore represents a core element of the transformation process.

Explicit legal provisions for bankruptcy are in place in Poland (implemented in its current form in 1990), Hungary (implemented in early 1992) and the Czech and Slovak Republics (April and June 1993, respectively); in Russia, legislation was also introduced in April 1993.[1] In the Czech and Slovak Republics full implementation of the law (first passed in 1991, with subsequent modifications in each republic) was delayed partly for fear of setting off a chain reaction that might disrupt healthy companies. The 1992 Hungarian law was designed to counteract the opposite problem: to encourage restructuring, enterprises in payments arrears were obliged to file for bankruptcy themselves. The resulting wave of bankruptcy proceedings threatened to overwhelm the commercial courts.

Each country has adopted procedures adapted to particular aspects of the situation. In Poland state-owned enterprises (SOEs) are subject to separate provisions, and private creditors are able to take action only through application to the government; this is partly because of the unclear nature of ownership that developed in SOEs in Poland during the 1980s. In the Czech Republic, to-be-privatised SOEs are protected against bankruptcy actions. In general, all the legislation takes care to provide a period of protection for the enterprise to avoid potential chain reaction effects. This is often referred to as a "Chapter 11" provision, referring to practice in the United States, but in transition countries the period of protection is invariably short – usually three months. This may turn out to be unrealistic, since commercial courts are likely to be overloaded with bankruptcy cases: court schedules, rather than the law itself, tend to determine the length of time enterprises operate under protection.

These delays have led to convergence in provisions for out-of-court settlement or debt reorganisation. The Slovak amendment to the original Czechoslovak federal legislation provided for such procedures, for example, as does the Russian legislation. Revisions to the Hungarian laws also move further in that direction, as well as shifting the obligation to initiate proceedings away from the debtor.

The feared chain reaction effects have not materialised so far. Nor have bankruptcy proceedings themselves been responsible for rapid increases in unemployment. Large increases in unemployment in most of Central and Eastern Europe occurred before the introduction of bankruptcy legislation, and certainly without its use. State-directed liquidations and reorganisations of SOEs were already producing a considerable shake-out of employment in 1990-92. Coupled with the increasing frequency of debt reorganisations that by-pass formal bankruptcy procedures, this is a warning against judging the degree of enterprise adjustment by the number of bankruptcy actions.

It has frequently been stressed that it is the behaviour induced by the "soft budget constraint" mentality that ultimately gives rise to the need for sharp adjustment and resulting unemployment, not the introduction of bankruptcy legislation itself. This view is now fairly widely accepted in Poland, Hungary and the Czech and Slovak Republics. In most other transition countries, however, the necessary arm's-length relationships between enterprises and the banking sector or the state budget are not well-established, privatisation has not advanced very far, and frequent resort to *ad hoc* palliatives maintains high levels of uncertainty. In Russia, even though privatisation has advanced rapidly, traditional enterprise relationships remain largely intact and credit extension continues to bear little relation to market criteria.

Experience in OECD countries is far from a foolproof guide as to how to deal with the exceptional circumstances in transition countries. General economic arguments concerning financial discipline and bankruptcy played a significant role in the initial formulation of transition country bankruptcy procedures. Experience has begun to lead to modifications and this process will no doubt continue, particularly in regard to measures needed to minimise the burden on inexperienced and overloaded courts while retaining the "credible threat" needed to sustain financial discipline in the enterprise sector.

Prospects

By 1995 recorded GDP is expected to be growing in most transition countries outside the NIS. Recovery in Bulgaria and Romania is particularly uncertain, although

Table 26. **Unemployment**

Percentage of labour force, end year

	1992	1993	1994	1995
Bulgaria	15.2	16.3	17	17
Czech Republic	2.6	3.5	5	7
Hungary	12.3	12.2	11	11
Poland	13.6	15.7	16	15
Romania	8.4	10.2	13	15
Slovak Republic	10.4	14.4	16	16
Russia[a]	1.3	1.4		

a) "Out of employment" – includes both total registered unemployed plus those unemployed who do not meet the requirements of official unemployment but are nevertheless registered as job-seekers at employment exchanges – as a percentage of labour force.

Sources: National sources; OECD Secretariat estimates and projections.

in Bulgaria the substantial devaluation may give exports an added boost, as well as combining with the introduction of VAT to cause a pause in the reduction of inflation. Unemployment rates generally are consistent with the trough of the recession having been reached, and although small rises may occur in some countries (particularly in the Czech and Slovak Republics, where enterprise adjustments may encourage a further shake-out of "hidden" unemployment), there may be falls in others (Table 26).

Exports are expected to remain an important engine of growth, since penetration in most western markets continues to increase, although often at rates constrained by non-tariff barriers (Table 27). The current account position remains delicate in some countries, and after their deteriorations in 1993 financing constraints will probably require some strengthening in balances in most countries (Table 28). The main exceptions are the Czech Republic, which is running a surplus and where capital inflows have recently been posing problems for monetary control, and Russia, which faces a terms-of-trade loss from falling world oil prices and where an agreement with the IMF should allow some move into current account deficit.

Table 27. **Trade flows**[a]

Central and Eastern Europe and the NIS	1992	1993	1994	1995
Goods export volumes (percentage change)	–16.6	4.6	5.1	6.4
Goods import volumes (percentage change)	–17.1	6.9	2.9	5.7
Exports ($ billion)	116	117	122	132
Imports ($ billion)	113	115	119	129
Current balance ($ billion)	–5.7	–8.4	–9.2	–8.4

a) Excludes intra–NIS trade and trade between the Czech Republic and the Slovak Republic.

Sources: National sources; OECD Secretariat estimates and projections.

Table 28. **Current balances**

$ billion

	1992	1993	1994	1995
Bulgaria	–0.7	–1.4	–1.1	–1.1
Czech Republic	0.1	0.6	0.3	0.0
Hungary	0.3	–3.3	–3.0	–2.5
Poland	–0.3	–2.3	–2.4	–2.2
Romania	–1.5	–1.3	–1.3	–1.2
Slovak Republic	0.2	–0.7	–0.3	0.0
NIS	–4.0	0.2	–1.0	–1.0

Sources: National sources; OECD Secretariat estimates and projections.

DYNAMIC ASIAN ECONOMIES AND CHINA

Recent developments and forces shaping activity

The trend towards slower growth in the Dynamic Asian Economies (DAEs), in evidence since 1987, was reversed in 1993. Their GDP expanded by about 6½ per cent (Table 29), well above the figure for the OECD as a whole, and higher even than in OECD countries that were experiencing a recovery. Several forces shaped this development, which was still continuing at the beginning of 1994. The traditional dynamism of the foreign trade of these countries was reinforced by three main factors: very strong domestic demand growth in China as well as in the DAEs themselves; the recovery in the United States and other English-speaking countries; and an improvement in competitiveness resulting from the appreciation of the yen. This factor was particularly marked in the case of Korea, whose car, steel and telecommunications equipment manufacturers were able to win large market shares in the developing Asian economies, and especially in China, whose imports from Korea almost doubled in 1993.

Domestic demand in the DAEs remained very buoyant in 1993, in part because of expansionary economic policies, especially monetary policies. In Korea, where the upswing was led by a revival of business investment, monetary policy was eased after the ban, in August 1993, on bank accounts held in fictitious names. This reform enabled banks to know who they were lending to, and thus to reduce their risks, and was a prelude to an almost complete freeing of bank lending rates at

Table 29. **Dynamic Asian Economies: key economic indicators**[a]

	1992	1993	1994	1995
DAEs Total				
GDP/GNP	5.8	6.4	6.9	6.9
Consumer prices	5.5	4.4	5.5	5.5
Trade balance	0.9	2.0	2.2	1.1
Current-account balance	–0.1	4.2	3.9	3.3
Korea				
GNP	5.0	5.6	7.0	7.0
Consumer prices	6.2	5.0	6.5	6.5
Trade balance	–2.2	2.1	2.2	2.0
Current-account balance	–4.6	0.5	–0.2	0.0
Taiwan				
GNP	6.0	5.9	6.0	6.5
Consumer prices	4.5	2.9	3.5	4.0
Trade balance	12.8	11.4	10.5	10.0
Current-account balance	8.2	5.8	5.6	5.3
Hong Kong				
GDP	5.3	5.5	5.5	5.0
Consumer prices	9.4	8.6	9.0	8.5
Trade balance	–3.9	–3.8	–4.1	–4.7
Current-account balance	1.7	4.1	4.0	3.5
Singapore				
GDP	5.8	9.9	8.0	7.0
Consumer prices	2.3	2.4	4.0	3.0
Trade balance	–5.0	–7.3	–6.0	–6.0
Current-account balance	2.9	1.2	1.8	1.7
Thailand				
GDP	7.4	7.8	8.2	8.2
Consumer prices	4.1	3.3	4.5	4.5
Trade balance	–4.2	–5.4	–5.7	–5.7
Current-account balance	–6.7	–7.7	–8.0	–8.0
Malaysia				
GDP	7.8	8.5	8.4	8.0
Consumer prices	4.7	3.6	4.2	4.0
Trade balance	3.4	5.0	5.3	5.5
Current-account balance	–1.6	0.3	0.7	0.8

a) The figures given for GDP/GNP and consumer prices are percentage changes from previous period. Trade and current-account balances are in $ billion. Current-account estimates for Hong Kong correspond to net exports of goods and services on a national account basis and therefore exclude investment income and transfers. The trade balance corresponds to net exports of goods on a national accounts basis.

Sources: IMF, *International Financial Statistics*; The Central Bank of China (Taiwan), *Financial Statistics: Taiwan District, The Republic of China*; Hong Kong Census and Statistics Department, *Monthly Digest of Statistics*; OECD Secretariat estimates and projections.

end-1993. Interest rates fell further at the beginning of this year but capital inflows remained high during the first quarter. The exchange rate against the dollar remained stable, as capital inflows have been sterilised. Monetary policy was also eased during the second quarter of 1993 in Taiwan. In Hong Kong, real interest rates remained negative and the 1994 budget provides for both a small tax cut and increased expenditure. The pick-up in activity in Singapore, which was fuelled by a steep increase in electronics exports to the United States and Japan, was also boosted by a considerable expansion of financial services following the lowering of taxes on financial transactions. In Thailand (whose agricultural exports suffered from a poor harvest) and Malaysia, growth was sustained by the rapid growth of investment, especially in infrastructure, and of household consumption, spurred by the steep increase in incomes.

China's real GDP growth was 13 per cent in 1993 for the second year running. Fuelled by domestic demand (investment doubled between 1991 and 1993), this growth limited the resources available for exports, and led to a surge in imports, up by nearly 30 per cent by value in 1993. The economic austerity programme implemented in July 1993 immediately reined in growth and inflation. However, it also resulted in a rapid drying-up of liquidity in State enterprises and the agricultural sector, prompting the authorities to ease the programme from October 1993, as a result of which growth and inflation quickened again.

Foreign direct investment (FDI) inflows continued to be substantial in 1993, even though they fell in a few countries (Taiwan, Malaysia and Thailand). They boosted further the steep growth of investment in practically all non-OECD Asian countries and especially China. The yen's appreciation encouraged investment from Japan, though less so than during the previous phase of appreciation from 1987 to 1989. As in 1992, FDI flows from Japan, Hong Kong and Taiwan were concentrated on countries with the lowest labour costs, and especially China.[2]

Although output growth in the DAEs in 1993 was close to its estimated potential rate of 6 to 7 per cent, inflation as measured by consumer prices fell on average by one percentage point between 1992 and 1993 (to about 4½ per cent). However, this trend was reversed during 1993 or early this year in several countries (Korea, Taiwan, Thailand and Hong Kong) as output accelerated and the appreciation of the yen pushed up import prices. In China, inflation, as measured by the rise in consumer prices in the large cities, was 20 per cent at the end of the first quarter in 1994.

Prospects and main risks

Growth rates in the DAEs could rise further in 1994 to nearly 7 per cent in real terms, close to potential, and continue at this rate in 1995. The main forces driving growth last year should continue to operate or even strengthen. As recovery gets under way in Japan and Europe, export market growth for the countries in the

area could rise to around 8 per cent, permitting their export volumes to rise again by 10 per cent or so (on the technical assumption of unchanged exchange rates).

On the domestic front, a number of recent trends should persist. Both private and public infrastructure investment will continue to rise in several countries (Korea, Taiwan, Singapore, Thailand and Malaysia) for different reasons: improved profits, gradual elimination of spare capacity and a budget providing for a steep increase in infrastructure spending in Korea; implementation of infrastructure development policies (Malaysia, Thailand and Hong Kong); and increased foreign direct investment inflows, especially into the most competitive countries. The trend towards increasing intra-regional investment flows could continue, insofar as a number of subsidiaries of foreign companies in the most advanced economies like Singapore and Hong Kong seem to be investing in the most cost-competitive countries such as Malaysia, Thailand and Vietnam. Some countries are also taking steps to attract foreign capital and investment, for example the partial deregulation of the banking system and the elimination of infrastructure bottlenecks in Thailand, or the raising last March of the ceiling on foreign investment by 50 per cent in Taiwan. On current or announced policy settings, macroeconomic policies should also have an overall stimulative effect throughout the DAEs.

High GDP growth rates will likely translate into high growth of manufacturing imports into the DAEs in 1994 and 1995, perhaps around 10-11 per cent, as in 1993, boosting intra-area trade, which represents nearly 20 per cent of the DAEs' exports, even further. The area's current balance, which improved sharply in 1993 may remain virtually unchanged, albeit with marked differences between individual countries. The current balance of Thailand, for example, where raw materials still account for a large share of exports and capital goods imports have surged as a result of the rapid expansion of infrastructure, could continue to post a deficit of around $8 billion. Conversely, Hong Kong and Taiwan are expected to continue to record large current account surpluses in 1994 and 1995.

The main risks surrounding these forecasts relate to the outlook for inflation, which have quickened again in most of the DAEs and China. The prospect of growth accelerating to virtually its potential rate, and the generally high degree of capacity utilisation, coupled with specific circumstances such as a shortage of agricultural produce in Korea, a steep rise in rents in Hong Kong, and the levying of a 4 per cent tax on sales of goods and services in Singapore, will help to reinforce the upward trend of prices in 1994-95. If inflation were to accelerate, it is likely that macroeconomic policies would be tightened in a number of countries.

A particular risk for China in 1994 is that the policies implemented at the beginning of this year as part of a programme of structural reforms are likely to heighten inflationary pressures in the short term. Among other measures, the reform of the exchange rate system, which was aimed at establishing yuan convertibility, was followed by a devaluation of about 45 per cent of the ''official exchange rate''. However, since only a third of chinese imports were denominated in ''official yuan'', the mechanical impact of the devaluation on total import value may only be around 15 per cent. A value-added tax designed to increase central government revenue as from 1994 was implemented as part of the reform of the tax system. On the other hand, while the imposition of price freezes on a number of basic consumption goods had little impact on inflation, recent strict controls on non-infrastructure investment – especially construction – may prove more effective in reining back inflation pressures emanating from the demand side. Against this background, and in view of the recent upturn in activity, it is likely that, although slowing somewhat in 1994, GDP growth and inflation will remain above the official targets of 9 and 10 per cent, respectively.

SOUTH AND CENTRAL AMERICA

Recent developments and forces shaping activity

Economic activity accelerated in 1993 in South and Central America, to a rate around 5 per cent (Table 30), some 4 points faster than in the OECD area. Despite some convergence, there remained substantial differences in growth rates as between countries in the area.

In Argentina and Chile, growth slowed sharply from the high rates recorded in 1992. The stance of macroeconomic policy remained restrictive in both countries in 1993, markedly so in Argentina where, in addition, restructuring in privatised enterprises entailed a steep increase in unemployment which depressed domestic demand. Investment continued to expand briskly, however. The slowdown in activity in Chile was attributable mainly to external factors, especially the deterioration in the terms of trade following the collapse of copper prices. In Brazil and Peru, on the other hand, where output had fallen in 1992, positive growth rates of 4 to 5 per cent were recorded in 1993. The cyclical turnaround in late 1992 in Brazil stemmed from an upturn in domestic demand, prompted by a sharp fall in real

Table 30. **South and Central America: key economic indicators**[a]

	1992	1993	1994	1995
South and Central America				
GDP	2.0	5.3	3.8	4.2
Trade balance	4.7	–2.6	–2.6	–1.2
Current-account balance	–6.7	–17.8	–19.8	–20.2
Argentina				
GDP	8.6	6.5	5.3	4.7
Consumer prices	24.9	10.6	6.8	6.0
Trade balance	–2.6	–3.1	–3.5	–3.0
Current-account balance	–8.3	–8.3	–9.0	–9.5
Brazil				
GDP	–0.9	5.0	3.3	3.8
Consumer prices Dec./Dec.	1150	2490	1500	800
Trade balance	15.5	13.0	12.5	13.0
Current-account balance	6.3	–0.2	–1.0	–2.0
Chile				
GDP	10.4	6.3	5.0	6.7
Consumer prices	15.4	12.5	11.3	10.0
Trade balance	0.7	–1.0	–1.2	–1.0
Current-account balance	–0.6	–2.0	–2.5	–2.5
Memorandum item:				
Latin America[b]				
GDP	2.1	4.0	3.5	4.0
Trade balance	–11.2	–16.1	–17.6	–16.7
Current-account balance	–31.5	–41.2	–44.8	–46.5

a) The figures given for GDP and consumer prices are percentage changes from previous period. Trade and current-account balances are in $ billion.
b) Including Mexico. As of *Economic Outlook* No. 56, Mexico will be included in the OECD area aggregates.
Sources: IMF, *International Financial Statistics*; World Bank, *World Tables*; OECD Secretariat estimates and projections.

interest rates and a big increase in private consumption fostered by the flight from cash. Exports grew rapidly owing to the depreciation of the cruzeiro which partly counterbalanced the rise in domestic costs.

Inflation performance was very uneven. In Argentina and Chile the combination of macroeconomic stabilisation policies and, especially in Argentina, an overvalued exchange rate, resulted in inflation rates coming down close to 10 per cent in 1993. Inflation pressures remained strong in Colombia and Peru. Brazil was an extreme case, where the year-on-year rise in consumer prices more than doubled between 1992 and 1993, reaching almost 2 500 per cent in December. This acceleration reflected renewed inflationary expectations triggered by the repeated lack of stringency of government policy against a background of political uncertainty.

Private capital inflows to South and Central America again increased in 1993, attracted by high real rates of return, compared with those obtainable in the United States in particular, and by renewed investor confidence in the medium-term growth outlook. This confirmed the trend which began in the early 1990s, and caused most currencies to appreciate in real terms.

Prospects and main risks

The international environment is likely to be more favourable for South and Central American countries in 1994-95 than it was in 1993: commodity prices, particularly those of coffee and copper, have picked up in recent months; export markets should be buoyant and, lastly, the efforts made in the last few years to restructure and improve supply-side conditions could prove increasingly beneficial to the export sectors.

In those countries which have made the most significant progress with regard to disinflation, economic policy can be expected to play a less restrictive role in 1994 and 1995. In Argentina, the tax cuts and increase in social benefits expected in 1994 should have the effect of reducing the government financial surplus, which was equal to 2 per cent of GDP in 1993, and of giving something of a stimulus to activity. Although reducing inflation remains one of the main targets of economic policy (consumer prices could rise by less than 7 per cent in 1994), interest rates could stay at their present low level between now and end-1995. However, a sharp increase in unemployment is likely to depress private consumption. One of the doubts surrounding the economic outlook is how Argentinian exports are going to develop. This is partly because it is uncertain whether the improvement in supply-side conditions in the last few years will be sufficient to offset the effects of the real appreciation of the peso, which has been pegged to the dollar since 1991. There is also uncertainty as to how much benefit Argentina will derive from trade liberalisation in the region. All in all, growth could continue to slow gradually until 1995, when it would be down to between 4 and 5 per cent – a rate consistent with continuing disinflation, but which could prove too slow to bring about a significant decrease in unemployment.

In Chile, fiscal policy is set to ease in 1994, with the public sector financial surplus coming down from 2 per cent of GDP in 1993 to near balance, as social spending is boosted. Monetary policy is likely to remain restrictive, continuing to maintain short-term interest rates above 6½ per cent in real terms. In this context, economic activity should slow down further this year, but accelerate in 1995, as new export capacity comes on stream and inflationary pressures ease. The current account deficit could widen slightly to nearly $2½ billion by 1995 (almost 5 per cent of GDP).

It is in Brazil that economic prospects are the least certain because of the very high inflation. Economic policy was tightened towards the end of 1993 and a three-stage stabilisation plan was announced. Interest rates started rising in the last months of 1993, and real rates on government bonds were around an annual 35 per cent rate in March-April 1994, more than twice the 1993 average. Steps were also taken by the central bank to limit capital inflows and control the growth of the money supply. The first stage of the new plan is a balanced budget announced for 1994 (a deficit of 5 per cent of GDP had been projected in the absence of policy measures). Despite the approval of a consolidation package, implementation may be difficult in an election year, and slippage may occur as the elections approach. The second stage of the programme imposed a unique price reference, the "Unidade Real de Valor" (URV), for measuring inflation. The third stage – to come into effect in July 1994 – is the introduction of a new currency unit (the "real"). Despite uncertainties concerning the details of the various measures, it is assumed that the plan will be implemented during the course of 1994 and that it will have a substantial impact on economic performance. Even if fiscal policy is loosened prior to the presidential elections, the restrictive monetary policy stance should damp GDP growth slightly, but it is likely to remain in the 3 to 4 per cent range both this year and next. Inflation may come down during this period, but progress in this respect will be slow due to the large degree of indexation of the economy. The current external account, which moved from a surplus of close to 1½ per cent of GDP in 1992 to balance in 1993 under the impact of higher interest and dividend payments, could worsen slightly in 1994-95.

NOTES

1. Dates given here correspond to the earliest effective implementation of bankruptcy laws. In some countries legislation was in operation earlier but was of little practical impact. Provision for governments to close down state-owned enterprises in financial difficulty – which exists in most countries – is of limited use on its own since it gives *creditors* no means of enforcing discipline on borrowers.
2. Whereas during the first half of 1992, 17 per cent of direct investment by Japan went to south-east Asia and 2.4 per cent to China, during the first half of 1993 the figures were 10.3 and 5.4 per cent, respectively.

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. (A complete list of Annex tables and figures is given beginning on page iv.) It also contains a section describing the OECD Secretariat's projection methods and underlying statistical concepts and sources. Figures for 1994-95 are OECD Secretariat projections. The data in 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 in each table are based on those countries in the table for which data are available. Aggregate measures contained in the Annex are computed on the basis of 1991 GDP weights expressed in 1991 purchasing power parities (see following page for weights). Aggregate measures for trade and payments statistics on the other hand, are based on current (or constant) year exchange rates.

NOTE ON STATISTICAL TREATMENT OF GERMANY AND MEXICO

In this publication, 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. In this issue only, aggregate measures for total OECD do not include Mexico.

COUNTRY CLASSIFICATION

	OECD
Seven major OECD countries	The United States, Japan, Germany, France, Italy, the United Kingdom and Canada
Other OECD	All other OECD countries, excluding Mexico
	Non-OECD
OPEC[a]	Algeria, Bahrain, Gabon, Indonesia, Iran, Iraq, Kuwait, the Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela
Asian newly industrialising economies (NIEs)	Hong Kong, Korea, Singapore and Taiwan
Non-OPEC developing countries	
Other Asia	Non-OECD Asia and the Middle East, excluding OPEC countries and the NIEs
Other Africa	Africa, excluding OPEC countries
Other Latin America	Latin America, including Mexico and excluding OPEC countries
Central and Eastern European countries	Albania, Bulgaria, the Czech Republic, the Slovak Republic, Hungary, Poland, Romania, the Newly Independent States of the former Soviet Union, and the Baltic States

a) Historical statistics for OPEC include Ecuador up to and including 1992. Ecuador is included in Other Latin America beginning in 1993.

WEIGHTING SCHEME FOR AGGREGATE MEASURES

Current weights

Per cent

United States	37.65	Australia	1.85
Japan	15.47	Austria	0.89
Germany	8.84	Belgium	1.13
France	6.83	Denmark	0.59
Italy	6.42	Finland	0.51
United Kingdom	5.94	Greece	0.52
Canada	3.46	Iceland	0.03
		Ireland	0.27
Total of above		Luxembourg	0.05
countries	84.62	Netherlands	1.63
		New Zealand	0.31
Total of smaller		Norway	0.47
countries	15.38	Portugal	0.59
		Spain	3.26
OECD Europe	41.26	Sweden	0.96
		Switzerland	0.98
EC	36.09	Turkey	1.33
Total OECD	100.00		

Note: Based on 1991 purchasing power parities (PPPs). The benchmark year for the PPPs is 1990.

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Annex Table 1. **Real GDP**

Percentage changes from previous period

	Average 1967-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	1995
United States	2.6	4.5	4.8	2.5	–0.5	1.8	–2.2	3.9	6.2	3.2	2.9	3.1	3.9	2.5	1.2	–0.7	2.6	3.0	4.0	3.0
Japan	6.8	4.7	4.9	5.5	3.6	3.6	3.2	2.7	4.3	5.0	2.6	4.1	6.2	4.7	4.8	4.3	1.1	0.1	0.8	2.7
Germany	3.8	2.8	3.0	4.2	1.0	0.1	–0.9	1.8	2.8	2.0	2.3	1.5	3.7	3.6	5.7	4.5	2.1	–1.3	1.8	2.6
France	4.3	3.2	3.4	3.2	1.6	1.2	2.5	0.7	1.3	1.9	2.5	2.3	4.5	4.3	2.5	0.8	1.2	–0.9	1.8	2.9
Italy	4.3	3.4	3.6	5.8	4.1	0.6	0.2	1.0	2.7	2.6	2.9	3.1	4.1	2.9	2.1	1.2	0.7	–0.7	1.5	2.6
United Kingdom	2.4	2.4	3.5	2.8	–2.2	–1.3	1.7	3.7	2.3	3.8	4.3	4.8	5.0	2.2	0.4	–2.2	–0.6	1.9	2.8	3.2
Canada	5.1	3.6	4.6	3.9	1.5	3.7	–3.2	3.2	6.3	4.7	3.3	4.2	5.0	2.4	–0.2	–1.7	0.7	2.4	3.7	4.3
Total of above countries	3.9	4.0	4.3	3.6	0.9	1.7	–0.3	2.9	4.6	3.3	2.9	3.2	4.5	3.2	2.4	0.8	1.7	1.3	2.7	2.9
Austria	4.5	4.5	0.1	4.7	2.9	–0.3	1.1	2.0	1.4	2.5	1.2	1.7	4.1	3.8	4.2	2.7	1.6	–0.3	1.8	2.7
Belgium	4.5	0.5	2.7	2.1	4.3	–1.0	1.5	0.4	2.2	0.8	1.4	2.0	5.0	3.6	3.2	1.8	1.4	–1.3	1.5	2.6
Denmark	3.2	1.6	1.5	3.5	–0.4	–0.9	3.0	2.5	4.4	4.3	3.6	0.3	1.2	0.6	1.4	1.0	1.2	1.2	4.0	3.5
Finland	4.5	0.1	2.2	7.3	5.3	1.6	3.6	3.0	3.1	3.3	2.4	4.1	4.9	5.7	0	–7.1	–3.8	–2.6	1.9	4.7
Greece	6.3	3.4	6.7	3.7	1.8	0.1	0.4	0.4	2.8	3.1	1.6	–0.5	4.5	3.5	–1.1	3.3	0.9	–0.1	1.0	1.6
Iceland	4.8	8.9	7.0	5.5	7.0	4.3	2.0	–2.0	4.1	3.6	6.5	8.8	–0.3	0.2	0.5	1.0	–3.4	0.8	–0.6	1.4
Ireland	4.6	8.2	7.2	3.1	3.1	3.3	2.3	–0.2	4.4	3.1	–0.4	4.6	4.2	6.5	9.0	2.6	4.9	2.3	4.1	4.5
Luxembourg	3.7	1.6	4.1	2.3	0.8	–0.6	1.1	3.0	6.2	2.9	4.8	2.9	5.7	6.7	3.2	3.1	1.8	0.3	1.5	2.6
Netherlands	4.4	2.3	2.5	2.4	0.9	–0.7	–1.4	1.4	3.1	2.6	2.7	1.2	2.6	4.7	4.1	2.1	1.4	0.2	1.4	2.8
Norway	4.3	3.6	4.7	5.1	4.2	0.9	0.3	4.6	5.7	5.3	4.2	2.1	–0.5	0.6	1.7	1.6	3.4	2.2	4.3	2.9
Portugal	5.5	5.6	2.8	5.6	4.6	1.6	2.1	–0.2	–1.9	2.8	4.1	5.3	3.9	5.2	4.4	2.1	1.1	–0.5	1.2	2.3
Spain	5.5	2.8	1.5	0	1.3	–0.2	1.6	2.2	1.5	2.6	3.2	5.6	5.2	4.7	3.6	2.2	0.8	–1.0	1.2	2.7
Sweden	3.2	–1.6	1.8	3.8	1.7	0	1.0	1.8	4.0	1.9	2.3	3.1	2.3	2.4	1.4	–1.1	–1.9	–2.1	2.7	2.9
Switzerland	2.2	2.4	0.6	2.4	4.4	1.4	–0.9	1.0	1.8	3.7	2.9	2.0	2.9	3.9	2.3	0	–0.1	–0.6	1.5	2.5
Turkey[a]	6.8	3.9	2.9	–0.4	–1.1	4.1	4.5	3.3	5.9	5.1	8.1	7.5	3.6	2.1	9.1	0.6	5.8	6.8	0.6	4.3
Total of smaller European countries	4.8	2.6	2.3	2.3	2.0	0.5	1.3	1.8	2.7	3.0	3.2	3.5	3.7	3.8	3.6	1.2	1.2	0.2	1.7	2.9
Australia	4.6	0.7	4.0	4.0	2.5	3.4	–0.1	0.7	7.5	4.6	2.0	4.6	4.3	4.7	1.4	–1.0	2.1	4.1	4.0	4.3
New Zealand	3.3	–1.3	–6.4	1.5	0.4	4.7	3.4	1.1	8.7	1.1	0.7	–1.7	3.0	–1.0	0.7	–3.3	–0.4	4.8	3.9	3.5
Total of smaller countries	4.7	2.3	2.3	2.5	2.1	0.9	1.2	1.7	3.4	3.1	3.0	3.6	3.8	3.8	3.3	0.9	1.3	0.8	2.0	3.1
Total OECD	4.0	3.7	4.0	3.5	1.1	1.5	0	2.7	4.4	3.3	2.9	3.3	4.4	3.3	2.5	0.8	1.7	1.2	2.6	2.9
OECD Europe	4.1	2.8	3.0	3.5	1.5	0.3	1.0	1.8	2.4	2.7	3.0	3.0	4.1	3.5	3.2	1.3	1.1	–0.2	1.9	2.8
EC	4.0	2.9	3.1	3.5	1.3	0.1	0.8	1.7	2.3	2.5	2.9	2.9	4.2	3.5	3.0	1.5	1.0	–0.4	1.9	2.8
Total OECD *less* the United States	4.8	3.3	3.5	4.0	2.0	1.4	1.2	2.0	3.3	3.4	2.9	3.4	4.7	3.7	3.3	1.8	1.1	0.2	1.8	2.9

a) GNP.

Annex Table 2. **Nominal GDP**

Percentage changes from previous period

	Average 1967-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	9.0	11.6	13.1	11.5	8.8	11.9	3.9	8.1	10.9	6.9	5.7	6.4	7.9	7.1	5.6	3.2	5.5	5.6	6.1	5.8
Japan	15.8	11.4	10.1	8.4	8.4	7.4	4.9	4.1	6.7	6.6	4.4	4.1	6.6	6.7	7.2	6.3	2.8	1.1	1.5	3.6
Germany	9.6	6.7	7.4	8.2	6.0	4.3	3.5	5.1	4.9	4.1	5.6	3.4	5.3	6.1	9.0	8.7	7.5	2.6	4.6	4.6
France	12.9	12.8	13.8	13.7	13.2	12.7	14.6	10.5	8.9	7.7	7.9	5.3	7.5	7.4	5.7	3.9	3.5	1.4	3.6	4.5
Italy	15.2	22.6	18.3	22.2	25.1	19.7	17.5	16.2	14.6	11.7	11.0	9.3	11.0	9.3	9.9	8.9	5.2	3.7	5.0	5.6
United Kingdom	13.5	16.6	15.4	17.6	16.9	10.0	9.5	9.1	7.0	9.7	7.7	10.0	11.3	9.4	6.8	4.1	3.8	5.4	6.1	5.7
Canada	12.5	10.1	10.9	14.3	12.2	14.9	5.2	8.4	9.6	7.5	5.8	9.1	9.8	7.4	3.1	0.7	1.9	3.2	4.3	6.3
Total of above countries	11.6	12.3	12.5	12.1	10.8	11.0	6.4	8.0	9.3	7.2	6.2	6.2	7.9	7.3	6.6	4.8	4.8	3.9	4.8	5.2
Austria	10.9	9.9	5.8	9.0	8.3	6.2	7.3	6.0	6.3	5.6	5.5	4.1	5.7	6.8	7.7	6.7	5.9	3.6	4.6	5.0
Belgium	11.7	8.0	7.3	6.7	8.2	3.7	8.7	6.0	7.5	7.0	5.3	4.3	6.8	8.4	6.4	4.5	4.8	1.5	4.0	4.9
Denmark	12.8	11.2	11.5	11.4	7.8	9.1	13.9	10.4	10.3	8.8	8.4	5.0	4.6	4.8	4.1	3.5	3.2	2.9	6.4	6.1
Finland	15.8	10.2	10.7	16.3	15.6	13.2	12.4	11.5	12.1	8.9	7.0	9.0	12.3	12.1	5.9	–4.8	–3.1	–0.9	4.3	6.7
Greece	16.2	16.8	20.5	23.0	19.7	19.8	25.6	19.6	23.6	21.3	19.5	13.7	20.7	16.5	19.6	21.4	16.0	13.9	12.3	10.7
Iceland	31.0	44.6	56.3	48.5	63.1	56.2	56.6	72.7	32.9	36.2	32.5	30.9	23.0	20.6	14.9	8.4	–0.2	3.6	1.0	2.8
Ireland	17.5	22.6	18.5	17.2	18.2	21.3	17.9	10.4	11.0	8.5	6.1	7.0	7.5	11.3	7.2	3.6	6.0	4.8	6.1	6.7
Luxembourg	12.0	2.8	9.4	8.8	8.8	6.6	12.1	10.0	10.9	6.0	8.8	1.9	9.9	13.1	6.2	6.1	6.4	2.5	4.4	5.3
Netherlands	12.7	9.1	8.0	6.4	6.6	4.8	4.5	3.3	5.1	4.5	2.9	0.7	3.8	6.0	6.5	5.0	3.9	1.8	3.5	5.0
Norway	12.4	12.2	11.2	12.0	19.4	15.0	10.5	11.0	12.5	10.6	2.7	9.4	3.9	6.5	6.3	4.0	2.4	4.3	4.3	5.0
Portugal	15.3	33.5	25.8	26.2	26.5	19.5	23.3	24.5	22.2	25.2	25.4	17.1	16.0	18.8	19.3	16.6	14.7	5.9	6.9	7.0
Spain	16.5	26.9	22.4	17.0	14.9	12.4	15.7	14.2	13.3	10.5	14.6	11.8	11.1	12.2	11.3	9.4	7.4	3.4	5.0	6.0
Sweden	11.0	8.8	11.5	12.1	14.9	9.5	9.3	12.0	12.0	8.7	9.3	8.1	8.9	10.6	10.3	6.4	–0.5	0.6	4.4	6.0
Switzerland	8.2	2.7	4.0	4.5	7.4	8.5	6.1	4.0	4.6	6.9	6.8	4.7	5.4	8.2	8.1	5.4	2.5	2.0	3.3	5.4
Turkey[a]	23.2	29.3	47.8	70.4	101.7	47.7	33.3	32.2	59.0	51.3	41.6	48.7	71.9	69.2	68.7	57.7	71.9	69.9	109.2	82.5
Total of smaller European countries	14.6	17.0	17.3	18.6	21.8	14.2	14.2	12.8	15.7	13.8	13.0	11.9	15.0	16.0	15.4	12.3	12.0	9.8	15.4	13.6
Australia	14.5	10.1	11.3	13.7	13.8	13.6	10.9	8.8	14.2	11.2	9.3	12.4	13.0	12.3	6.1	0.9	3.5	5.4	5.9	6.7
New Zealand	13.0	15.5	7.9	17.5	16.2	22.0	14.8	8.9	13.9	15.1	19.8	12.9	9.5	7.8	4.2	–0.8	2.0	7.1	5.0	5.2
Total of smaller countries	14.5	16.1	16.4	18.0	20.7	14.3	13.8	12.3	15.5	13.5	12.7	12.0	14.7	15.4	14.0	10.6	10.8	9.3	14.0	12.6
Total OECD	12.0	12.9	13.1	13.0	12.3	11.5	7.6	8.6	10.3	8.2	7.2	7.1	9.0	8.6	7.7	5.7	5.7	4.7	6.2	6.3
Total OECD *less* Turkey	11.9	12.7	12.6	12.3	11.1	11.0	7.2	8.3	9.6	7.6	6.7	6.5	8.1	7.7	6.9	5.0	4.8	3.8	4.8	5.3
OECD Europe	13.2	15.0	14.6	16.1	16.9	12.2	11.9	10.8	10.9	9.9	9.6	8.4	10.6	10.5	10.4	8.4	7.4	5.3	8.2	7.8
OECD Europe *less* Turkey	12.9	14.5	13.5	14.2	14.1	11.0	11.2	10.1	9.3	8.5	8.5	7.0	8.5	8.5	8.4	6.7	5.3	3.1	4.8	5.3
EC	13.0	15.2	14.0	14.7	14.3	11.1	11.4	10.3	9.3	8.5	8.6	7.0	8.7	8.5	8.4	7.0	5.6	3.3	4.9	5.3
Total OECD *less* the United States	13.9	13.7	13.1	14.0	14.4	11.2	9.8	9.0	9.9	9.0	8.1	7.5	9.6	9.4	9.0	7.2	5.8	4.1	6.2	6.6

a) GNP.

Annex Table 3. **Real private consumption expenditure**

Percentage changes from previous period

	Average 1967-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	1995
United States	3.5	4.0	4.1	2.4	–0.1	1.2	1.1	4.6	4.8	4.4	3.6	2.8	3.6	1.9	1.5	–0.4	2.6	3.3	3.8	2.8
Japan	6.4	4.1	5.4	6.5	1.1	1.6	4.4	3.4	2.7	3.4	3.4	4.2	5.2	4.3	3.9	2.2	1.7	1.1	2.1	3.6
Germany	4.6	4.5	3.7	3.3	1.2	–0.6	–1.3	1.5	1.8	1.7	3.5	3.4	2.7	2.8	5.2	4.5	2.3	0.1	–0.2	0.9
France	4.3	2.7	3.7	3.0	1.2	2.1	3.5	0.9	1.1	2.4	3.9	2.9	3.3	3.1	2.7	1.4	1.3	0.7	1.5	2.3
Italy	4.6	4.0	3.2	7.1	5.7	1.5	1.2	0.7	2.0	3.0	3.7	4.2	4.2	3.5	2.5	2.7	1.4	–2.1	0.7	1.7
United Kingdom	2.2	–0.3	5.3	4.3	0	0.1	1.0	4.5	2.0	3.8	6.8	5.3	7.5	3.2	0.6	–2.2	0	2.5	2.8	3.0
Canada	5.5	3.2	3.4	2.9	2.2	2.3	–2.6	3.4	4.6	5.2	4.4	4.4	4.5	3.4	1.0	–2.0	1.1	1.6	2.6	3.6
Total of above countries	4.3	3.7	4.3	3.8	0.9	1.2	1.5	3.4	3.4	3.7	3.8	3.5	4.1	2.8	2.4	0.7	1.9	1.8	2.5	2.6
Austria	4.4	5.4	–1.5	4.4	1.5	0.3	1.2	5.0	–0.1	2.4	1.8	3.1	3.6	3.5	3.6	2.9	1.8	0.8	1.6	2.5
Belgium	4.6	2.4	2.3	4.8	2.0	–1.1	1.3	–1.6	1.2	1.9	2.3	3.0	2.9	3.6	2.6	3.1	2.9	–1.5	1.2	2.0
Denmark	2.9	1.1	0.7	1.4	–3.7	–2.3	1.4	2.6	3.4	5.0	5.7	–1.5	–1.0	–0.4	0	1.4	0.7	2.6	5.3	3.8
Finland	4.5	–1.2	2.5	5.5	2.0	1.2	4.7	2.6	2.7	3.2	4.0	5.2	5.1	4.3	0	–3.6	–5.1	–4.6	–0.6	5.0
Greece	5.9	4.6	5.7	2.6	0.2	2.0	3.9	0.3	1.7	3.9	0.7	1.2	3.6	4.5	2.3	2.2	1.7	0.9	1.1	1.4
Iceland	4.6	12.9	9.0	2.8	4.4	6.4	5.1	–5.8	3.8	4.4	7.2	16.6	–4.3	–4.2	–0.4	5.1	–4.7	–4.5	–0.1	1.4
Ireland	3.9	6.8	9.0	4.4	0.4	1.7	–7.1	0.9	2.0	4.6	2.0	3.1	4.8	6.4	2.0	1.6	2.9	2.0	4.0	3.8
Luxembourg	5.0	2.3	2.9	3.5	2.8	1.7	0.4	0.5	1.4	2.7	3.4	5.0	3.9	3.9	4.0	6.5	1.7	0.2	1.7	2.6
Netherlands	5.0	4.6	4.3	3.0	0	–2.5	–1.2	0.8	0.9	2.4	2.6	2.7	0.8	3.5	4.2	3.0	2.1	0.8	1.0	2.0
Norway	4.1	6.9	–1.2	3.2	2.3	1.1	1.8	1.5	2.7	9.9	5.6	–1.0	–2.8	–2.8	2.8	0	1.8	1.6	3.8	3.7
Portugal	8.3	0.6	–2.0	0	3.7	2.9	2.4	–1.4	–2.9	0.7	5.6	5.4	6.6	3.3	5.3	5.2	3.7	0.5	1.8	2.7
Spain	5.7	1.5	0.9	1.3	0.6	–1.3	–0.1	0.3	–0.2	3.5	3.3	5.8	4.9	5.7	3.6	2.9	2.1	–2.3	0.7	2.7
Sweden	3.1	–1.1	–0.7	2.4	–0.9	–0.5	0.6	–2.4	1.4	2.7	4.9	4.8	2.6	1.4	–0.1	1.1	–1.9	–3.8	0.7	2.0
Switzerland	2.9	3.0	2.1	1.1	2.6	0.5	0	1.7	1.6	1.4	2.8	2.1	2.1	2.2	1.5	1.5	–0.2	–0.8	1.0	1.8
Turkey	6.9	6.7	–3.9	–3.1	–5.2	0.6	4.2	5.0	6.8	1.2	11.5	6.5	2.8	3.9	10.6	1.8	8.9	14.0	0.4	2.2
Total of smaller European countries	5.0	3.0	1.0	1.9	0.2	–0.4	0.9	1.0	1.4	2.9	4.1	3.9	3.0	3.5	3.5	2.2	2.1	0.6	1.2	2.5
Australia	4.6	1.3	3.4	2.9	3.4	4.3	2.7	1.4	3.0	5.1	1.1	2.4	3.9	5.7	2.7	0.9	3.4	2.4	3.9	4.0
New Zealand	3.5	–3.3	–0.7	1.8	0.3	2.3	0.9	0.7	6.2	0.1	4.0	2.5	2.0	1.5	–0.6	–1.2	0.4	3.0	3.1	2.5
Total of smaller countries	4.9	2.6	1.3	2.1	0.6	0.2	1.1	1.1	1.7	3.1	3.8	3.7	3.1	3.8	3.3	2.0	2.2	0.9	1.6	2.7
Total OECD	4.4	3.5	3.8	3.5	0.9	1.0	1.4	3.1	3.2	3.6	3.8	3.5	4.0	3.0	2.6	0.9	2.0	1.7	2.4	2.7
OECD Europe	4.3	2.9	3.0	3.6	1.4	0.4	0.9	1.6	1.6	2.7	4.3	3.9	3.8	3.3	3.1	2.0	1.6	0.4	1.1	2.1
EC	4.3	2.8	3.5	3.9	1.7	0.3	0.8	1.4	1.4	2.7	4.1	3.9	4.0	3.4	3.0	2.1	1.5	0.1	1.1	2.0
Total OECD *less* the United States	4.9	3.2	3.6	4.2	1.4	0.9	1.7	2.1	2.1	3.1	4.0	3.9	4.2	3.6	3.2	1.8	1.6	0.7	1.5	2.6

Annex Table 4. **Real public consumption expenditure**

Percentage changes from previous period

	Average 1967-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	–0.1	0.7	1.9	1.8	2.2	1.3	1.5	2.8	3.1	6.1	5.2	3.0	0.6	2.0	3.1	1.5	–0.1	–0.7	–0.2	1.0
Japan	5.0	4.1	5.1	4.3	3.3	4.8	2.0	3.0	2.7	1.7	4.5	0.4	2.2	2.0	1.9	1.6	2.2	3.2	2.6	2.2
Germany	3.7	1.3	3.9	3.4	2.6	1.8	–0.9	0.2	2.5	2.1	2.5	1.5	2.1	–1.6	2.2	0.3	3.8	–0.7	–0.1	0.1
France	3.8	2.4	5.1	3.0	2.5	3.1	3.7	2.1	1.1	2.3	1.7	2.8	3.4	0.5	2.1	2.6	3.0	0.5	1.0	0.5
Italy	3.6	2.8	3.5	3.0	2.1	2.3	2.6	3.4	2.3	3.4	2.6	3.4	2.8	0.8	1.2	1.6	1.0	0.8	–0.1	0.2
United Kingdom	2.3	–1.7	2.2	1.9	1.7	0.3	0.9	2.1	0.8	–0.1	1.6	1.0	0.7	1.4	2.5	2.5	0.7	–0.5	1.4	1.7
Canada	5.2	4.6	1.7	0.6	2.8	2.5	2.4	1.4	1.2	3.2	1.6	1.7	4.1	4.0	3.4	2.1	0.2	–0.1	–0.1	0.5
Total of above countries	2.2	1.7	3.1	2.6	2.4	2.2	1.6	2.5	2.5	3.8	3.9	2.2	1.6	1.5	2.5	1.6	1.1	0.3	0.6	1.1
Austria	3.7	3.3	3.3	3.0	2.7	2.2	2.3	2.2	0.2	1.9	1.7	0.4	0.3	0.8	1.2	3.1	2.4	2.0	2.0	1.0
Belgium	4.6	2.3	6.0	2.5	1.5	0.3	–1.4	0.1	0.2	2.4	1.7	0.3	–1.0	0	1.0	1.8	1.3	1.3	0.1	0.1
Denmark	4.8	2.4	6.2	5.9	4.3	2.6	3.1	0	–0.4	2.5	0.5	2.5	0.9	–0.6	–0.4	0	0.7	3.2	1.2	0.4
Finland	5.7	4.2	4.1	3.8	4.2	4.3	3.5	3.7	2.8	5.2	3.1	4.3	2.3	2.3	3.8	2.5	–2.0	–5.8	–4.1	–2.5
Greece	6.8	6.5	3.5	5.8	0.2	6.8	2.3	2.7	3.0	3.2	–0.8	0.8	5.8	2.8	1.3	3.5	0	1.0	0.6	–0.1
Iceland	7.9	2.2	7.1	5.5	6.1	7.3	6.0	4.9	0.5	6.4	6.8	6.5	4.6	2.9	4.2	3.2	–1.0	2.0	–0.4	1.0
Ireland	6.5	2.0	8.2	4.6	7.1	0.3	3.2	–0.4	–0.7	1.8	2.6	–4.8	–5.0	–1.0	5.7	2.4	2.2	2.0	3.0	2.6
Luxembourg	3.7	2.9	1.8	2.2	3.1	1.4	1.5	1.9	2.2	2.0	3.1	2.7	3.8	1.9	3.2	3.8	3.5	2.2	3.0	3.2
Netherlands	3.2	3.4	3.9	2.8	0.6	2.0	0.6	1.2	–0.7	1.2	3.6	2.6	1.4	1.5	1.6	1.3	1.3	–0.4	0.5	0.5
Norway	5.5	4.9	5.4	3.6	5.4	6.1	3.9	4.7	2.4	3.3	2.2	4.0	0.5	2.6	2.1	2.6	4.4	1.7	3.2	1.0
Portugal	8.1	3.4	4.4	6.4	8.0	5.5	3.7	3.8	0.2	6.4	7.2	4.9	5.3	2.8	1.5	3.0	1.4	0.4	1.0	1.2
Spain	5.5	3.9	5.4	4.2	4.2	3.5	5.3	3.9	2.4	5.5	5.4	8.9	4.0	8.3	5.6	5.4	3.8	1.6	–0.2	0.5
Sweden	4.4	3.0	3.2	4.8	2.3	2.3	1.0	0.8	2.3	2.4	1.4	1.1	0.7	2.1	2.6	3.2	–0.6	–0.7	–1.5	–1.0
Switzerland	3.5	0.4	2.0	1.6	0.9	2.5	1.1	3.9	1.2	3.3	3.7	1.8	4.3	4.1	4.7	1.5	0.5	–0.4	1.0	1.3
Turkey	8.3	3.2	9.9	1.7	8.8	0.9	2.0	1.7	2.1	3.0	6.6	3.8	1.8	4.4	15.2	2.5	6.2	7.6	2.2	2.0
Total of smaller European countries	5.2	3.3	5.1	3.6	3.6	2.8	2.5	2.4	1.3	3.5	3.7	3.8	2.2	3.6	4.3	3.0	2.2	1.4	0.5	0.6
Australia	5.2	2.2	5.1	1.0	4.1	3.5	–0.4	5.3	4.6	5.1	4.7	2.1	3.4	2.5	4.7	2.7	1.9	0.8	3.9	3.0
New Zealand	3.4	3.2	4.0	0.8	–0.3	2.0	0.5	1.4	4.4	0.2	3.0	–1.0	2.0	–0.6	1.2	–1.0	–0.8	–0.4	0.5	1.0
Total of smaller countries	5.2	3.1	5.1	3.2	3.6	2.8	2.1	2.7	1.8	3.6	3.8	3.5	2.3	3.4	4.3	2.9	2.1	1.3	0.9	0.9
Total OECD	2.7	1.9	3.4	2.7	2.6	2.3	1.7	2.5	2.4	3.8	3.9	2.4	1.7	1.8	2.8	1.8	1.3	0.4	0.6	1.0
OECD Europe	4.0	1.9	4.2	3.1	2.7	2.2	1.8	2.0	1.6	2.4	2.6	2.7	2.3	1.3	2.8	2.1	2.3	0.4	0.5	0.6
EC	3.8	1.8	4.0	3.1	2.5	2.1	1.8	1.9	1.6	2.4	2.5	2.7	2.3	1.0	2.3	2.0	2.3	0.2	0.5	0.5
Total OECD *less* the United States	4.3	2.6	4.3	3.2	2.9	2.9	1.8	2.3	2.0	2.4	3.1	2.0	2.4	1.6	2.6	2.0	2.1	1.1	1.1	1.0

Annex Table 5. **Real total gross fixed capital formation**

Percentage changes from previous period

	Average 1967-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	3.0	14.3	10.8	4.6	–8.1	0.6	–8.0	6.6	15.9	5.0	0.4	–0.5	4.2	0.1	–1.8	–7.7	6.2	11.0	11.3	6.3
Japan	8.3	2.8	7.8	6.2	0	2.4	–0.1	–1.0	4.7	5.3	4.8	9.6	11.9	9.3	8.8	3.7	–0.8	–1.3	0.6	3.0
Germany	2.1	3.6	4.1	6.7	2.2	–5.0	–5.4	3.1	0.1	–0.5	3.3	1.8	4.4	6.3	8.5	6.1	4.2	–3.3	4.1	6.0
France	4.4	–1.8	2.1	3.1	2.6	–1.9	–1.4	–3.6	–2.6	3.2	4.5	4.8	9.6	7.9	2.8	–0.7	–2.5	–5.1	1.1	4.2
Italy	2.5	1.7	0.6	5.4	8.5	–3.1	–4.7	–0.6	3.6	0.6	2.2	5.0	6.9	4.3	3.8	0.6	–2.0	–11.1	–0.6	5.0
United Kingdom	1.5	–1.8	3.0	2.8	–5.4	–9.6	5.4	5.0	8.9	4.2	2.6	10.2	13.5	5.5	–3.4	–9.8	–1.6	0.8	4.0	5.3
Canada	5.0	2.1	3.1	8.5	10.1	11.8	–11.0	–0.3	2.0	9.3	6.0	10.8	10.3	6.1	–3.5	–2.0	–1.3	0.7	5.5	7.3
Total of above countries	3.9	7.2	7.2	5.1	–2.5	–0.3	–4.7	3.1	8.8	4.2	2.3	3.7	7.2	4.0	1.8	–2.9	2.5	3.1	6.1	5.4
Austria	5.2	5.1	–4.1	3.5	3.0	–1.4	–8.2	–0.6	2.1	5.0	3.7	3.1	6.0	6.2	5.7	5.1	2.7	–2.0	1.5	3.2
Belgium	3.3	0	2.8	–2.7	4.6	–16.1	–1.7	–4.4	1.7	0.7	4.4	5.6	15.4	13.4	8.5	–1.7	0.4	–7.4	0.8	4.0
Denmark	2.9	–2.4	1.1	–0.4	–12.6	–19.2	7.1	1.9	12.9	12.6	17.1	–3.8	–6.6	1.0	–1.7	–5.4	–8.2	–1.8	6.6	6.7
Finland	4.4	–3.5	–6.9	3.0	10.4	2.2	4.4	4.1	–2.1	2.9	–0.4	4.9	9.8	14.8	–4.1	–20.3	–17.3	–18.0	0.1	9.1
Greece	6.3	7.8	6.0	8.8	–6.5	–7.5	–1.9	–1.3	–5.7	5.2	–6.2	–5.1	8.9	10.2	9.3	–4.4	1.2	–0.7	–0.2	5.2
Iceland	4.2	12.0	–3.2	0.2	14.2	1.0	–0.5	–12.3	9.2	2.0	–1.2	19.0	–0.6	–8.3	2.8	2.1	–11.2	–11.6	–3.5	3.4
Ireland	6.9	4.8	18.3	14.5	–3.7	7.3	–3.3	–9.0	–2.7	–7.8	–1.8	–2.3	–1.6	13.6	12.6	–7.3	–1.9	0.5	3.3	4.2
Luxembourg	2.7	–0.1	1.1	3.8	12.7	–7.4	–0.5	–11.8	0.1	–9.5	31.2	14.7	14.1	8.9	2.5	9.8	–2.1	4.0	–2.0	–0.5
Netherlands	1.0	9.7	2.5	–1.7	–0.9	–10.4	–4.1	2.0	5.3	6.7	6.9	0.9	4.5	4.9	1.6	0.4	1.1	–2.8	0.3	4.0
Norway	6.5	3.6	–18.5	–5.0	–1.5	17.9	–11.0	5.8	10.9	–13.9	23.9	–2.1	1.6	–3.9	–26.8	1.7	4.5	14.9	0.9	2.9
Portugal	3.0	12.0	6.2	–1.3	8.5	5.5	2.3	–7.1	–17.4	–3.5	10.9	15.1	15.0	5.6	5.9	2.4	5.4	–4.7	3.5	4.8
Spain	5.3	–0.9	–2.7	–4.4	0.7	–2.5	2.1	–2.4	–6.9	6.1	9.9	14.0	13.9	13.6	7.1	1.7	–3.9	–10.3	–2.1	5.0
Sweden	1.8	–2.9	–6.8	4.5	3.5	–6.0	–0.5	1.9	6.9	6.3	1.0	7.9	6.0	11.7	0.7	–8.4	–11.0	–16.3	–3.6	6.8
Switzerland	0.9	1.4	5.6	5.1	9.8	2.7	–2.6	4.1	4.1	5.3	7.9	7.4	6.9	5.8	2.6	–2.5	–5.0	–4.3	2.4	4.7
Turkey	12.2	3.9	–10.0	–3.6	–10.0	1.7	3.5	3.0	0.5	16.8	11.0	5.6	–1.0	–1.0	13.2	0.1	3.6	11.8	–5.5	0.8
Total of smaller European countries	4.6	2.5	–1.5	–0.4	0.5	–3.5	–0.5	–0.2	–0.1	5.3	7.6	6.4	7.7	8.1	4.3	–1.2	–2.1	–4.4	–0.4	4.5
Australia	3.6	–1.3	2.9	4.0	5.4	9.0	–3.2	–8.4	9.9	9.5	–2.5	2.8	8.7	8.8	–7.9	–10.3	–0.5	1.0	5.6	6.2
New Zealand	4.1	–11.1	–7.7	–7.7	1.1	11.4	13.8	–3.0	11.3	5.0	–2.5	2.5	–0.9	7.6	1.5	–15.9	3.6	16.2	6.7	5.7
Total of smaller countries	4.5	1.7	–1.1	0	1.1	–1.7	–0.6	–1.2	1.4	5.8	6.2	5.9	7.7	8.2	2.8	–2.6	–1.8	–3.4	0.5	4.7
Total OECD	4.0	6.4	5.9	4.3	–2.0	–0.6	–4.0	2.4	7.6	4.4	2.9	4.0	7.3	4.6	2.0	–2.9	1.9	2.1	5.2	5.3
OECD Europe	3.3	1.2	1.2	3.0	1.6	–4.4	–1.4	0.6	1.4	2.9	4.6	5.6	8.1	6.7	3.7	–0.6	–0.7	–4.6	1.4	5.0
EC	2.9	1.2	2.3	3.3	1.7	–5.2	–1.4	0.3	1.2	2.4	4.2	5.6	8.6	7.0	3.9	–0.3	–0.4	–5.0	1.8	5.1
Total OECD *less* the United States	4.6	1.5	3.0	4.1	1.8	–1.3	–1.6	–0.1	2.6	4.1	4.5	6.8	9.1	7.4	4.2	0	–0.8	–3.2	1.6	4.7

Annex Table 6. **Real gross private non-residential fixed capital formation**

Percentage changes from previous period

	Average 1970-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	2.3	10.8	13.3	8.7	–2.4	3.9	–4.6	–3.0	16.5	6.4	–4.1	–0.5	6.6	1.7	1.2	–5.9	2.9	11.8	11.8	8.1
Japan	0.6	–0.4	4.5	12.9	7.9	3.8	1.3	1.7	11.7	12.1	4.4	6.7	14.8	16.6	11.4	6.6	–4.0	–8.4	–6.0	3.1
Germany[a]	–1.0	6.3	5.5	7.5	2.8	–3.9	–4.7	4.5	–0.4	5.0	4.3	3.8	5.6	7.4	10.1	7.5	–1.8	–12.2	0.8	3.7
France	2.9	–0.1	1.0	2.6	4.2	–2.5	0	–4.1	–2.1	4.4	6.6	6.0	9.6	8.6	4.7	–1.0	–5.1	–8.3	–0.9	5.0
Italy	1.5	3.0	1.8	7.0	9.7	–8.4	–8.9	–6.6	4.3	0	4.0	9.1	9.5	4.7	2.3	–2.9	–4.2	–20.6	–2.9	6.9
United Kingdom	1.2	6.1	7.9	2.8	–4.3	–5.8	7.7	–0.6	14.3	13.2	0.5	17.3	17.8	6.2	–3.3	–9.5	–5.9	1.0	6.4	6.0
Canada	6.2	3.4	4.0	14.9	15.3	13.0	–11.4	–6.4	1.7	8.7	4.2	9.7	15.8	6.2	–2.6	1.3	–5.4	2.3	6.6	7.0
Total of above countries	1.7	6.2	8.3	8.6	2.1	1.4	–2.9	–1.7	10.7	7.3	0.4	4.2	9.7	6.3	3.8	–1.6	–1.0	0.5	4.7	6.2
Austria	5.6	8.4	–4.6	4.7	4.6	–2.7	–10.2	–0.9	4.1	8.6	3.7	5.8	7.3	8.8	8.3	3.1	–0.2	–4.0	0.9	3.2
Belgium	2.6	–0.6	3.6	1.9	6.9	–5.9	1.6	–4.9	6.8	2.3	6.9	8.1	14.8	15.3	8.7	–3.1	–3.1	–10.9	0.9	4.5
Denmark	3.9	0.8	1.3	–2.0	–9.6	–16.5	19.9	2.7	12.1	18.9	18.8	–5.4	–7.3	5.8	2.6	–4.1	–12.1	–3.6	7.5	8.3
Finland	3.6	–9.1	–13.9	6.6	15.5	5.0	2.5	6.8	–1.7	6.3	3.6	5.2	8.5	19.1	–6.4	–24.2	–21.0	–22.3	–0.1	12.0
Greece	3.2	5.9	5.7	14.1	1.0	–4.2	0.2	–8.4	–6.6	7.2	–11.4	–4.1	12.4	13.8	11.2	–5.9	2.8	1.6	–2.1	4.4
Iceland	..	..	–1.2	–3.9	12.4	3.4	0.9	–11.1	15.2	20.6	7.4	20.8	–8.5	–21.3	8.1	0.1	–12.8	–29.4	–3.0	4.0
Ireland	5.6	1.6	19.8	14.9	–3.0	12.0	–3.5	–10.6	–3.2	–13.4	–1.4	2.9	7.3	14.7	14.9	–11.5	–4.9	–2.4	3.0	3.9
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Netherlands	–1.1	14.9	5.0	1.1	–4.4	–12.6	–2.4	5.4	5.1	13.2	11.6	0.2	1.6	7.8	2.4	4.4	–0.8	–4.4	–1.5	4.7
Norway	10.6	3.5	–26.8	–6.3	–1.9	27.5	–15.5	7.3	15.5	–19.4	29.5	–5.4	1.9	–1.6	–32.7	5.7	7.2	25.8	–1.0	1.7
Portugal	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Spain	5.5	–3.1	1.3	–1.2	1.4	–5.5	–2.1	–0.3	–10.6	0.1	14.0	21.1	13.9	13.5	3.7	2.4	–1.7	–14.8	–3.6	6.1
Sweden	5.5	–5.8	–17.2	7.3	8.7	–6.8	1.6	3.9	7.7	12.2	2.7	8.8	5.0	14.4	–0.9	–13.9	–15.6	–16.5	5.0	12.0
Switzerland	–1.1	7.8	10.0	5.1	10.8	2.4	–3.6	3.4	4.1	10.6	13.3	10.8	8.9	5.2	3.3	–3.6	–8.5	–7.8	3.3	6.4
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total of smaller European countries	3.6	2.1	–0.4	2.4	2.6	–4.0	–1.4	0.8	0.5	5.4	10.0	8.7	8.3	11.0	2.5	–1.9	–4.3	–8.6	–0.1	6.1
Australia	0.7	1.2	9.5	3.6	5.1	16.5	2.1	–9.7	5.0	13.6	–1.4	4.7	6.7	12.0	–7.2	–15.0	–5.0	–2.0	5.8	11.1
New Zealand	3.5	–10.9	–6.8	0.3	11.6	12.8	9.8	–11.4	27.8	3.3	–5.5	14.5	–2.1	14.6	–1.8	–13.6	6.9	19.9	8.5	7.0
Total of smaller countries	3.2	1.7	0.8	2.5	3.2	–0.8	–0.6	–0.9	1.8	6.4	8.0	8.3	7.9	11.2	1.1	–3.9	–4.2	–7.0	0.9	6.8
Total OECD	1.9	5.6	7.2	7.7	2.2	1.1	–2.6	–1.6	9.5	7.1	1.5	4.7	9.4	7.0	3.5	–1.9	–1.4	–0.6	4.1	6.3
OECD Europe	1.8	3.4	2.7	4.3	3.1	–4.7	–1.7	–0.7	2.6	5.4	5.7	8.6	9.6	8.0	3.6	–1.1	–4.1	–9.8	0.5	5.5
EC	1.5	3.6	3.9	4.3	2.5	–5.5	–1.4	–1.2	2.3	5.3	5.3	8.8	10.0	7.9	4.2	–0.5	–3.7	–10.1	0.3	5.3
Total OECD *less* the United States	1.7	2.3	3.4	7.1	5.1	–0.7	–1.3	–0.8	5.1	7.6	5.0	8.1	11.2	10.3	4.9	0.6	–4.1	–8.4	–0.6	5.2

a) Western Germany.

Annex Table 7. **Real gross private residential fixed capital formation**

Percentage changes from previous period

	Average 1970-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	1995
United States	5.6	21.3	6.3	–3.3	–20.5	–8.1	–18.1	40.4	14.4	1.3	12.0	–0.4	–1.1	–3.8	–9.2	–12.8	16.3	8.7	10.1	1.4
Japan	5.9	0.5	5.6	–0.9	–9.2	–2.3	–0.7	–5.9	–2.1	2.6	7.8	22.6	11.9	0.5	4.7	–8.2	–6.7	3.7	10.8	6.4
Germany[a]	0.5	3.6	2.7	6.9	2.3	–5.0	–4.9	5.7	2.0	–9.9	–0.6	–1.2	3.7	4.9	8.5	4.3	7.1	3.4	4.5	4.0
France	3.9	–1.2	6.2	4.0	–0.3	–3.1	–6.3	–2.6	–4.4	–2.1	1.3	3.3	7.1	7.1	0.3	–3.8	–0.9	–3.6	4.5	4.0
Italy	–2.6	0	–0.3	2.9	4.7	–0.1	–4.4	4.4	–0.5	–2.8	–2.1	–2.4	1.3	2.4	2.8	3.1	0.3	–0.8	0.8	3.4
United Kingdom	2.5	–0.8	6.7	9.0	–5.5	–10.8	6.5	7.4	6.7	–2.7	12.0	7.6	18.6	–7.6	–16.0	–15.7	5.2	–1.0	3.9	6.3
Canada	9.0	1.2	1.1	–1.0	–5.4	6.6	–16.3	17.0	0.5	9.8	13.3	16.4	2.8	4.8	–8.9	–12.3	6.3	–3.8	3.1	6.8
Total of above countries	4.3	9.9	5.1	0.2	–10.9	–5.3	–9.8	18.9	6.4	–0.1	8.1	5.2	4.1	–0.7	–3.7	–8.5	7.3	4.3	7.8	3.5
Austria	4.5	0.8	–4.9	3.7	4.8	2.0	–1.8	–1.7	–1.0	–1.5	2.4	1.8	8.4	–0.6	1.4	11.6	12.2	2.4	2.8	4.1
Belgium	5.9	0.8	6.2	–14.4	1.1	–43.5	–4.7	–1.9	–2.4	5.3	2.2	4.8	24.9	18.6	10.8	–0.6	12.5	–2.8	–1.1	3.3
Denmark	2.4	–9.5	0.9	–0.8	–16.8	–25.7	–8.5	11.5	20.3	–2.1	21.3	–3.2	–9.4	–8.9	–13.7	–11.8	–4.1	–3.1	3.8	6.2
Finland	3.3	5.0	1.3	–1.5	4.7	–2.5	5.9	–0.3	–2.7	–3.0	–8.0	1.1	15.4	18.9	–5.7	–20.7	–16.1	–14.4	1.9	8.0
Greece	6.1	21.1	14.0	4.7	–13.8	–22.7	–5.8	4.6	–19.7	–0.5	14.6	3.4	2.9	5.5	13.6	–15.4	–10.7	–1.4	–0.8	2.3
Iceland	11.1	6.5	9.4	6.6	5.4	–9.8	9.4	–9.1	10.4	–13.6	–13.8	14.2	14.8	2.8	–0.6	–5.0	–3.3	–7.0	–1.5	3.1
Ireland	10.3	10.2	21.9	17.3	–16.9	0.2	–5.5	–4.8	6.7	–1.8	4.2	2.2	–7.2	13.8	4.2	–2.1	2.5	3.5	2.5	3.5
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Netherlands	–0.8	16.8	1.5	–5.0	4.7	–9.6	–5.6	–0.4	4.5	–0.4	3.7	1.9	11.3	0.7	–2.5	–8.8	4.3	0.8	1.3	2.5
Norway	5.6	2.9	9.1	2.4	–2.3	1.1	8.0	0.8	–1.4	4.2	9.6	4.0	–3.8	–17.0	–17.1	–27.3	–12.6	–7.2	20.0	15.0
Portugal	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Spain	2.4	–2.0	–6.0	–7.6	–2.0	–0.8	–2.0	–5.5	–5.4	6.5	2.1	6.3	11.4	3.3	6.6	–3.3	–5.4	–6.0	–2.9	4.4
Sweden	–3.4	–2.4	14.1	1.8	–6.0	–5.3	–2.5	–0.7	10.7	–2.7	–2.2	8.8	8.4	4.8	7.2	–2.4	–6.4	–28.3	–30.0	–5.0
Switzerland	–5.3	7.6	12.8	12.1	17.4	2.5	–6.1	6.2	7.2	3.3	1.5	4.4	3.6	5.7	–1.0	–7.0	–3.6	–3.0	1.0	2.5
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total of smaller European countries	1.8	3.5	2.7	–2.2	–0.2	–8.6	–3.0	–0.8	0.5	2.1	3.4	4.2	9.2	4.0	2.3	–5.7	–1.5	–5.5	–1.9	3.6
Australia	5.1	–4.4	–3.9	9.2	11.8	2.3	–13.4	–9.6	21.2	2.0	–8.7	1.2	22.0	2.6	–12.3	–4.9	9.5	7.7	5.9	–1.0
New Zealand	7.3	–21.0	–20.1	–3.5	–1.9	6.3	7.2	2.2	16.1	–1.1	–6.2	–1.5	5.3	12.8	4.0	–17.0	6.3	14.9	6.5	5.0
Total of smaller countries	2.4	1.9	1.3	–0.7	1.4	–6.7	–4.2	–1.9	3.7	2.0	1.5	3.6	10.9	4.0	0.3	–5.8	0.2	–3.2	–0.6	3.0
Total OECD	4.1	8.8	4.6	0.1	–9.2	–5.5	–9.0	16.1	6.0	0.2	7.2	4.9	5.1	–0.1	–3.1	–8.2	6.3	3.3	6.6	3.5
OECD Europe	1.3	1.5	3.4	3.4	0.3	–5.8	–2.7	2.4	0.7	–2.8	2.6	2.3	7.8	2.7	0.5	–3.3	1.8	–1.8	1.9	4.1
EC	1.4	1.4	3.1	3.3	–0.2	–6.3	–3.0	2.5	0.4	–3.0	2.8	2.1	7.9	2.7	0.7	–3.0	2.3	–0.9	2.6	4.2
Total OECD *less* the United States	3.1	0.9	3.5	2.2	–2.1	–3.8	–3.3	0.7	0.7	–0.5	4.2	8.3	9.0	2.3	0.7	–5.2	0.1	–0.1	4.4	4.7

a) Western Germany.

Annex Table 8. **Real total domestic demand**

Percentage changes from previous period

	Average 1970-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	2.6	5.1	4.8	2.0	–1.6	2.0	–1.4	5.2	7.8	3.6	3.0	2.7	3.0	1.8	0.8	–1.4	2.9	3.8	4.4	3.0
Japan	4.2	3.9	5.7	6.6	0.7	2.1	2.7	1.8	3.6	4.1	3.7	5.1	7.6	5.8	5.0	2.9	0.4	0.4	1.5	3.4
Germany	2.5	2.7	3.6	5.3	0.6	–2.3	–2.2	2.4	1.9	1.0	3.3	2.4	3.6	2.9	5.2	3.6	2.7	–1.4	1.0	2.2
France	3.6	1.8	2.8	3.8	1.6	–0.1	3.5	–0.7	0.4	2.5	4.5	3.3	4.7	3.9	2.8	0.6	0.2	–1.9	1.2	2.8
Italy	3.0	1.9	2.9	6.5	6.5	–1.1	0.6	0.2	3.5	2.8	3.0	4.2	4.4	2.8	2.5	1.9	0.8	–5.0	0.5	2.2
United Kingdom	2.3	–0.2	3.9	3.6	–3.1	–1.5	2.4	5.1	2.8	2.9	4.9	5.3	7.9	2.9	–0.6	–3.3	0.4	2.0	3.3	3.4
Canada	6.0	3.0	2.6	4.5	2.4	4.4	–5.4	3.6	4.7	5.3	4.2	5.3	5.5	4.3	–0.7	–0.7	0	1.7	3.0	3.9
Total of above countries	3.1	3.7	4.4	3.9	0	1.0	–0.1	3.3	5.0	3.3	3.5	3.6	4.6	3.1	2.1	0.2	1.7	1.3	2.8	3.0
Austria	4.4	5.1	–2.0	4.9	3.3	–2.2	–1.1	2.8	2.7	2.2	1.8	2.6	4.3	3.2	4.2	3.1	1.7	0.6	1.9	2.8
Belgium	4.0	2.3	3.0	3.8	2.0	–4.7	0.7	–2.5	2.3	0.5	2.8	3.8	4.5	4.9	3.3	1.7	2.4	–2.3	1.0	2.1
Denmark	2.6	0.4	1.1	2.7	–4.3	–4.1	3.5	1.4	5.1	5.4	6.1	–2.2	–1.2	0.5	–1.0	–0.5	–0.7	0.4	5.5	4.0
Finland	3.1	–0.9	–0.4	9.2	5.6	–0.4	4.3	2.3	2.0	2.9	2.2	5.2	6.6	7.6	–1.3	–9.2	–6.4	–8.4	–1.1	4.3
Greece	5.0	4.1	5.9	4.7	–0.9	–0.9	1.7	0.4	0.2	5.2	–0.9	–1.0	6.6	4.1	1.6	3.0	1.6	0.7	0.6	1.8
Iceland	7.4	13.0	3.0	4.0	7.1	5.7	5.0	–8.5	6.4	3.0	4.7	15.9	–0.9	–4.5	0.9	5.0	–5.5	–4.2	–0.9	1.6
Ireland	3.8	7.5	9.5	7.0	–1.7	2.8	–2.7	–2.2	1.1	1.2	1.2	0	1.5	7.8	6.7	–0.2	–1.2	1.4	3.4	3.8
Luxembourg	3.2	–2.6	8.0	–0.6	6.1	1.2	1.1	–0.6	2.5	0.1	8.0	4.2	6.8	5.7	5.1	8.0	0.5	1.3	0.9	2.1
Netherlands	2.4	5.2	3.9	1.8	–0.1	–4.7	–1.0	1.5	1.8	3.4	3.8	1.4	1.8	4.6	3.4	1.5	1.4	–0.5	0.9	2.4
Norway	5.5	3.5	–6.1	3.7	4.7	0.9	2.0	1.1	6.0	4.7	8.0	–1.3	–3.1	–2.9	–0.9	–0.6	1.7	2.9	3.0	3.0
Portugal	5.1	8.2	0.7	2.6	6.1	3.4	2.2	–5.7	–6.7	0.9	8.3	10.4	7.4	4.3	5.4	4.1	4.7	–0.9	2.0	3.0
Spain	5.4	0.5	–0.1	0.9	1.5	–2.1	1.5	0.5	–1.0	3.4	5.4	8.1	7.0	7.8	4.7	2.8	1.1	–3.6	0	2.9
Sweden	2.4	–3.1	–2.2	5.5	1.9	–2.5	0.3	–1.2	3.5	4.1	2.6	4.1	3.0	3.9	0.9	–2.1	–2.2	–5.0	–0.3	2.2
Switzerland	0.5	2.2	3.1	4.1	5.2	–0.8	–0.9	2.3	2.2	2.5	5.6	3.6	2.8	4.1	2.3	–0.5	–3.0	–1.4	1.9	3.1
Turkey	8.9	4.5	–5.4	–2.2	–1.2	1.6	2.8	4.7	5.2	4.4	11.6	5.4	0.5	2.3	16.3	–2.2	8.3	15.4	–3.8	2.4
Total of smaller European countries	4.3	2.5	0.4	2.6	1.6	–1.7	1.0	0.7	1.6	3.2	5.0	4.3	3.9	4.7	4.4	0.8	1.2	–0.2	0.6	2.7
Australia	3.8	0.5	3.6	3.6	3.3	5.6	–0.1	–1.0	6.7	5.6	0.1	2.5	5.8	6.8	–0.8	–2.3	2.8	2.5	4.0	4.7
New Zealand	4.2	–1.1	–8.2	4.7	–1.1	4.4	4.9	–3.0	11.8	–0.7	1.8	1.3	0.6	5.3	–0.2	–7.1	2.7	6.4	3.6	3.2
Total of smaller countries	4.3	2.2	0.6	2.8	1.7	–0.7	0.9	0.4	2.4	3.4	4.3	4.0	4.0	4.9	3.7	0.2	1.5	0.2	1.0	3.0
Total OECD	3.3	3.5	3.8	3.7	0.2	0.8	0.1	2.9	4.6	3.3	3.6	3.6	4.5	3.4	2.4	0.2	1.7	1.1	2.6	3.0
OECD Europe	3.3	1.9	2.3	4.1	1.5	–1.4	0.9	1.4	1.9	2.5	4.2	3.9	4.6	3.6	3.2	0.9	1.2	–1.2	1.1	2.6
EC	3.2	1.9	3.0	4.2	1.3	–1.6	0.9	1.3	1.7	2.4	4.0	3.9	4.9	3.7	2.9	1.2	1.2	–1.7	1.3	2.6
Total OECD *less* the United States	3.7	2.4	3.2	4.8	1.4	0	1.0	1.5	2.7	3.2	4.0	4.2	5.4	4.3	3.3	1.2	1.0	–0.5	1.4	2.9

Annex Table 9. **Real exports of goods and services**

Percentage changes from previous period

	Average 1970-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	7.3	1.4	9.5	8.6	9.2	1.7	–9.0	–3.6	6.9	1.2	6.6	10.5	15.8	11.9	8.2	6.4	6.4	3.5	7.2	7.6
Japan	10.7	11.7	–0.3	4.3	17.0	12.5	0.9	4.8	14.8	5.4	–4.9	0.1	7.0	9.0	7.3	5.2	5.2	1.0	1.1	2.7
Germany	6.2	3.9	2.9	4.3	5.2	7.2	3.9	–0.8	8.2	7.6	–0.6	0.4	5.5	10.2	10.4	13.7	0.1	–9.5	4.4	7.4
France	7.9	7.4	5.9	7.5	2.7	3.7	–1.7	3.7	7.0	1.9	–1.4	3.1	8.1	10.2	5.4	3.8	6.7	0	5.2	6.6
Italy	6.6	9.8	8.7	8.3	–8.8	7.9	–2.4	2.3	8.5	3.2	2.5	4.7	5.4	8.8	7.0	0.5	5.0	10.0	6.9	6.7
United Kingdom	5.6	6.9	1.9	3.8	–0.2	–0.7	0.8	1.8	6.5	6.0	4.5	5.8	0.5	4.7	5.1	–0.9	3.0	3.1	5.7	6.9
Canada	4.2	8.9	13.6	5.0	2.7	4.4	–2.2	6.4	17.7	6.0	4.5	3.5	9.5	0.8	4.4	0.8	7.9	9.6	9.8	8.7
Total of above countries	7.6	5.4	6.3	6.8	7.4	4.8	–3.8	0	9.0	3.3	2.6	5.9	10.4	9.9	7.6	5.5	5.3	2.1	5.6	6.5
Austria	6.9	4.2	7.3	11.7	5.2	4.9	2.7	3.2	6.1	6.9	–2.7	2.4	9.0	10.3	8.1	5.6	2.8	–1.7	2.7	6.4
Belgium	6.4	2.2	2.3	7.0	2.5	2.5	1.3	2.8	5.5	1.1	5.5	6.5	8.5	7.3	4.2	2.5	1.6	–3.4	3.1	5.1
Denmark	4.1	4.1	1.2	8.4	5.2	8.2	2.5	4.9	3.5	5.0	0	5.1	7.8	4.2	6.9	7.7	3.7	–1.7	4.0	5.5
Finland	3.1	15.7	8.9	8.8	8.4	4.9	–1.1	2.5	5.4	1.2	1.2	2.7	3.7	1.3	1.4	–6.6	10.0	17.0	11.0	7.1
Greece	14.2	1.8	16.4	6.7	6.9	–5.9	–7.2	8.0	16.9	1.3	14.0	15.9	9.1	1.3	0.9	16.4	8.0	1.8	5.1	7.1
Iceland	4.7	8.9	15.2	6.3	2.7	3.3	–8.9	10.5	2.5	11.0	5.9	3.8	–3.4	2.6	–0.1	–5.7	–1.7	6.1	0.1	2.3
Ireland	5.8	14.0	12.3	6.5	6.4	2.0	5.5	10.5	16.6	6.6	2.9	13.7	8.9	10.3	8.9	5.2	12.9	4.2	5.7	6.6
Luxembourg	3.2	4.2	2.7	9.7	–1.4	–4.8	–0.3	5.3	18.0	9.5	3.2	6.5	7.5	6.9	2.6	3.6	1.3	–3.5	2.8	4.1
Netherlands	7.0	–1.8	3.3	7.4	1.5	1.5	–0.1	3.5	7.3	5.3	1.8	3.6	9.0	6.6	5.3	5.5	2.4	0.4	3.6	5.4
Norway	6.4	3.6	12.2	2.6	2.1	1.4	–0.1	7.6	8.2	6.9	1.6	1.2	5.5	10.7	8.1	6.1	6.2	1.8	6.6	5.0
Portugal	0.2	5.9	9.1	33.0	2.2	–4.4	4.7	13.6	11.6	6.7	6.8	8.6	10.2	13.3	9.5	1.1	6.1	0	4.5	8.5
Spain	6.9	12.1	10.7	5.6	2.3	8.2	5.0	10.0	11.7	2.7	1.9	6.3	5.1	3.0	3.2	7.9	6.7	8.8	9.9	8.9
Sweden	4.1	1.5	7.8	6.1	–0.5	2.0	5.7	9.9	6.9	1.2	3.4	4.2	2.8	3.1	1.9	–2.4	2.2	7.2	11.5	7.0
Switzerland	3.6	9.6	3.6	2.4	5.1	4.8	–2.9	1.1	6.3	8.3	0.4	1.7	5.8	5.0	3.0	–0.7	3.4	0.8	3.5	5.0
Turkey	6.9	–18.4	3.5	4.4	–5.5	47.0	26.5	6.1	20.4	11.3	1.2	24.3	16.3	11.3	8.4	7.5	3.3	8.6	13.0	12.0
Total of smaller European countries	6.1	3.8	7.1	7.5	2.2	8.2	4.5	6.5	9.9	4.8	2.4	7.3	7.7	6.1	4.9	4.9	4.7	4.1	7.1	7.3
Australia	4.7	0.9	3.3	11.8	–1.6	–4.1	9.5	–4.8	16.1	10.9	4.4	11.7	3.0	3.4	8.0	12.9	4.9	6.7	7.0	7.2
New Zealand	4.3	1.1	1.5	6.5	3.8	3.7	1.2	7.5	5.4	8.3	–0.4	3.3	5.3	–3.2	7.7	6.8	0.1	4.5	5.5	5.0
Total of smaller countries	5.9	3.4	6.5	8.0	1.8	6.6	5.0	5.2	10.6	5.6	2.6	7.7	7.1	5.6	5.3	5.9	4.6	4.4	7.1	7.3
Total OECD	7.3	5.1	6.3	7.0	6.5	5.1	–2.5	0.8	9.3	3.7	2.6	6.2	9.9	9.2	7.2	5.6	5.2	2.5	5.8	6.6
OECD Europe	6.4	5.8	5.5	6.4	0.8	5.9	1.7	3.2	8.4	4.8	1.5	4.5	5.9	7.8	6.4	5.0	3.8	1.3	6.0	7.1
EC	6.6	6.7	5.4	6.5	0.7	4.6	0.8	2.9	8.1	4.5	1.5	4.0	5.6	7.9	6.6	5.4	3.8	0.7	5.7	7.0
Total OECD *less* the United States	7.3	7.3	4.4	6.0	4.9	7.2	1.5	3.6	10.7	5.2	0.1	3.6	6.3	7.6	6.6	5.0	4.4	1.9	5.0	6.1

Annex Table 10. **Real imports of goods and services**

Percentage changes from previous period

	Average 1970-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	4.6	10.0	9.2	1.3	–4.7	4.9	0	12.5	25.0	6.3	6.6	4.6	3.7	3.8	3.6	–0.5	8.7	10.3	10.5	7.3
Japan	7.1	4.1	6.9	12.9	–7.8	0.4	–2.5	–3.0	10.4	–1.4	2.4	7.8	18.7	17.6	8.6	–4.1	–0.4	3.2	6.6	7.5
Germany	5.3	3.4	5.5	9.2	3.6	–3.1	–1.1	1.4	5.2	4.5	2.7	4.2	5.1	8.3	9.4	12.1	2.6	–10.0	1.1	5.8
France	7.2	0.1	3.0	10.1	2.5	–2.1	2.6	–2.7	2.7	4.5	7.1	7.7	8.6	8.1	6.1	2.8	2.7	–3.4	2.8	6.0
Italy	4.2	1.7	4.8	11.7	2.9	–1.2	–0.3	–1.4	12.3	3.9	2.9	9.1	6.8	7.6	8.0	3.4	4.6	–7.3	3.0	5.2
United Kingdom	4.3	1.6	4.2	9.6	–3.6	–2.8	4.9	6.6	9.9	2.6	6.9	7.8	12.6	7.4	0.5	–5.4	6.3	3.5	7.0	7.3
Canada	8.7	1.7	7.4	11.4	4.9	8.5	–15.2	9.0	17.1	8.7	7.6	7.0	13.8	6.3	1.7	2.7	4.9	7.6	7.5	7.5
Total of above countries	5.4	5.9	7.2	6.7	–2.8	1.9	–0.7	5.7	16.2	4.2	5.3	6.1	8.3	7.8	5.3	0.4	5.3	3.8	7.2	6.9
Austria	7.9	6.2	0.1	11.7	6.2	–0.8	–3.3	5.5	9.9	6.2	–1.2	4.7	9.4	8.5	7.8	6.3	2.8	0.2	2.8	6.3
Belgium	6.6	4.8	2.6	9.0	–0.4	–3.0	0.1	–1.3	5.8	0.7	7.6	8.8	8.0	8.8	4.1	2.4	2.7	–4.4	2.5	4.6
Denmark	3.4	0	0.1	5.0	–6.8	–1.7	3.8	1.8	5.5	8.1	6.8	–2.0	1.5	4.5	1.2	4.9	–0.5	–4.2	8.0	7.2
Finland	3.7	–1.5	–3.7	18.4	8.3	–4.7	2.5	3.0	1.0	6.8	2.6	9.2	11.1	8.9	–0.6	–11.7	1.1	0.1	4.0	8.0
Greece	8.6	8.0	7.2	7.2	–8.0	3.6	7.0	6.6	0.2	12.8	3.8	16.5	8.1	10.8	12.0	13.2	5.7	3.4	2.7	6.0
Iceland	6.9	20.6	3.6	2.5	3.0	7.1	–0.6	–9.7	9.1	9.4	1.0	23.3	–4.6	–10.3	1.0	5.6	–7.8	–8.6	–0.6	3.3
Ireland	5.2	13.3	15.7	13.9	–4.5	1.7	–3.1	4.7	9.9	3.2	5.6	6.2	4.9	12.7	5.5	1.3	5.4	3.6	5.3	6.2
Luxembourg	3.3	–0.4	7.0	6.4	3.9	–2.9	–0.3	1.2	13.9	7.0	6.1	7.8	8.5	6.1	4.3	8.1	0.2	–2.4	2.1	3.6
Netherlands	4.5	2.9	6.3	6.0	–0.4	–5.9	1.0	3.9	5.0	6.5	3.5	4.2	7.6	6.7	4.2	4.6	2.6	–0.9	2.8	4.8
Norway	7.3	3.4	–13.1	–0.7	3.3	1.5	3.7	0	9.5	5.9	9.9	–7.3	–1.7	0.9	2.2	1.7	2.8	3.3	4.0	5.5
Portugal	3.7	12.0	0.2	12.6	6.9	2.3	3.9	–6.1	–4.4	1.4	16.9	20.0	16.1	9.1	10.1	4.9	11.1	–0.9	4.8	7.6
Spain	9.8	–5.5	–1.0	11.4	3.3	–4.2	4.8	–0.3	–1.8	7.9	14.4	20.1	14.4	17.3	7.8	9.0	6.6	–3.2	4.5	9.1
Sweden	3.8	–3.8	–5.5	11.6	0.4	–5.8	3.4	0.8	5.4	7.8	4.4	7.1	4.9	7.4	0.7	–5.0	1.3	–0.4	4.5	6.0
Switzerland	2.8	9.3	10.9	6.8	7.2	–1.3	–2.6	4.4	7.1	5.1	7.1	5.5	5.3	5.4	2.9	–1.7	–3.8	–1.2	4.2	6.2
Turkey	12.8	–3.9	–31.4	–7.9	–4.6	16.5	13.4	12.7	15.5	7.8	16.1	12.8	3.6	12.4	32.0	–1.6	10.8	32.1	–1.5	6.0
Total of smaller European countries	7.0	1.1	–1.9	7.7	1.3	–0.8	3.3	2.6	4.5	6.5	8.8	10.5	8.5	10.3	8.0	3.4	4.2	1.9	3.4	6.7
Australia	5.8	–0.1	3.5	2.1	5.1	9.7	5.4	–10.6	20.5	5.3	–4.5	2.3	15.7	20.4	–3.8	–2.6	7.2	4.5	7.2	9.1
New Zealand	5.5	1.5	–6.1	17.4	–1.6	3.1	6.4	–6.4	15.8	1.7	3.1	12.2	–1.7	14.7	3.6	–4.8	7.6	8.3	4.5	4.0
Total of smaller countries	6.9	0.9	–1.4	7.2	1.7	0.5	3.6	0.8	6.7	6.2	7.1	9.6	9.2	11.6	6.5	2.5	4.6	2.4	3.9	6.9
Total OECD	5.7	5.1	5.9	6.8	–2.1	1.7	0	4.9	14.7	4.5	5.6	6.6	8.4	8.4	5.5	0.8	5.2	3.6	6.7	6.9
OECD Europe	5.9	1.6	2.4	9.3	1.5	–1.8	1.9	1.4	6.4	4.8	6.1	8.1	8.2	8.7	6.9	3.8	4.0	–2.7	3.3	6.2
EC	5.7	1.6	4.0	9.9	1.4	–2.5	1.7	0.8	6.0	4.5	5.9	8.3	8.6	8.8	6.4	4.5	4.1	–4.3	3.4	6.2
Total OECD *less* the United States	6.3	2.1	3.8	10.2	–0.5	–0.3	0	0.3	8.5	3.4	4.9	7.8	11.3	11.1	6.7	1.5	3.0	–0.4	4.5	6.7

Annex Table 11. **Compensation per employee in the business sector**

Percentage changes from previous period

	Average 1970-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	7.5	7.3	8.2	8.7	9.3	9.1	6.8	4.9	4.7	3.5	3.8	4.1	5.1	3.2	4.8	4.0	5.4	3.9	4.2	3.9
Japan	16.8	10.2	7.5	6.0	5.8	6.8	4.2	2.4	4.2	3.4	2.8	2.9	3.2	4.0	5.3	4.4	1.8	0.5	0.4	2.2
Germany[a]	9.8	6.8	5.7	6.1	6.9	4.8	4.8	3.9	3.8	3.1	3.7	3.3	3.2	3.0	4.2	4.7	9.9	4.5	3.1	2.8
France	14.1	12.1	12.2	13.2	15.2	14.6	13.8	10.3	8.3	4.6	4.2	4.1	4.4	4.2	4.9	4.6	3.6	2.2	2.0	2.0
Italy	18.3	20.4	15.6	19.5	20.2	20.5	16.6	15.9	11.9	10.4	7.0	7.7	7.8	9.3	8.5	8.6	6.1	3.7	3.4	4.1
United Kingdom	16.8	11.1	13.7	16.6	19.1	13.2	8.9	7.9	6.1	8.6	8.4	6.3	8.1	8.6	10.0	7.6	5.8	4.7	3.7	3.9
Canada	11.2	9.7	4.9	7.1	9.4	12.4	10.6	4.8	5.5	5.9	3.3	6.4	6.5	5.3	4.0	4.7	4.1	2.6	1.9	2.8
Total of above countries	11.6	9.6	9.0	9.6	10.4	10.0	7.8	5.8	5.5	4.5	4.2	4.3	5.0	4.4	5.5	4.8	5.1	3.2	3.0	3.3
Austria	12.5	9.5	8.2	6.7	7.9	7.8	5.6	5.7	5.4	5.3	7.5	4.3	3.2	4.9	3.8	6.3	4.8	5.1	3.2	3.7
Belgium	15.3	9.5	7.8	6.5	10.0	5.8	8.7	7.5	7.7	4.4	6.3	1.6	3.0	2.3	8.0	7.8	6.1	4.0	2.4	2.6
Denmark	13.6	10.7	9.7	10.5	11.1	8.7	11.2	9.0	6.0	4.8	5.1	7.2	3.5	4.5	5.4	4.9	3.1	2.8	3.5	3.6
Finland	20.5	9.8	6.5	11.9	14.0	14.2	9.0	9.3	10.1	10.4	7.6	8.0	9.8	10.5	9.4	3.8	4.9	1.8	2.9	2.6
Greece	16.6	21.4	22.4	21.6	14.6	20.4	26.4	21.4	18.1	22.4	12.8	9.4	16.7	16.7	17.7	14.7	12.1	13.7	12.7	9.0
Ireland	19.3	16.4	16.1	18.7	20.0	17.4	14.0	13.9	11.6	9.8	5.2	6.0	7.1	6.4	4.5	3.8	5.5	5.3	5.4	4.8
Netherlands	13.7	8.7	7.2	6.1	6.0	4.1	6.5	3.9	0.3	1.7	2.6	1.4	1.1	0.7	3.1	4.5	4.4	3.2	2.3	2.0
Norway	13.0	10.4	7.5	4.4	12.7	9.4	11.4	7.6	7.4	7.0	10.3	9.5	7.3	4.6	5.3	4.8	3.4	1.0	2.8	3.0
Portugal	25.7	20.3	18.8	20.3	20.1	20.2	19.1	20.4	21.0	17.9	18.0	17.8	7.2	10.4	17.2	15.4	13.7	7.3	5.6	4.7
Spain	19.4	26.8	24.9	18.1	15.8	16.3	15.5	15.5	9.7	8.0	9.3	6.7	6.3	5.7	8.2	8.5	8.9	7.4	4.6	3.5
Sweden	12.8	10.5	11.4	8.3	14.7	10.5	5.5	8.0	9.8	8.4	8.3	7.4	8.1	12.6	9.5	6.6	2.5	2.0	3.1	2.6
Switzerland	10.5	2.5	5.0	4.8	5.8	5.6	6.1	3.4	2.8	3.5	4.8	5.1	4.9	5.5	6.2	7.6	5.2	2.3	2.0	2.5
Australia	15.5	12.0	8.2	7.8	9.6	13.3	17.9	5.2	9.2	5.7	7.5	6.7	6.8	6.9	6.8	3.3	3.6	6.2	3.2	4.0
New Zealand	14.3	13.8	12.8	15.1	17.8	21.5	9.9	3.3	3.8	12.1	19.1	12.6	11.5	6.2	–2.5	1.0	3.6	2.6	2.3	2.3
Total of above smaller countries	16.0	14.6	13.1	11.2	12.0	11.8	12.1	9.5	8.1	7.2	8.0	6.3	5.9	6.1	7.3	6.8	6.1	5.1	3.7	3.4
Total of above European countries	14.9	13.1	12.1	12.8	13.9	12.3	10.9	9.5	7.5	6.6	6.3	5.4	5.6	6.0	7.0	6.6	6.6	4.1	3.3	3.2
Total of above OECD countries	12.2	10.3	9.6	9.9	10.7	10.2	8.4	6.3	5.9	4.9	4.7	4.6	5.1	4.6	5.7	5.1	5.2	3.4	3.1	3.3

a) Up to and including 1991, data concern western Germany; subsequent data concern total Germany and total economy.

Annex Table 12. **Unit labour costs in the business sector**

Percentage changes from previous period

	Average 1970-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	6.3	6.7	8.5	10.1	10.9	8.1	7.8	1.4	2.8	3.0	2.5	3.7	4.2	3.1	4.9	3.8	2.4	2.3	2.5	2.8
Japan	12.3	6.5	3.5	1.5	3.1	4.1	2.0	1.4	0.3	–1.0	0.9	–0.4	–1.4	1.2	2.2	1.6	1.6	0.5	–0.3	0.2
Germany[a]	6.0	3.6	3.1	3.1	7.6	4.6	4.5	0.1	0.8	1.6	2.6	2.4	–0.1	0.7	1.3	2.8	5.8	3.8	–0.5	0.3
France	10.1	8.9	8.3	9.1	13.2	12.0	10.5	8.7	5.3	2.7	1.4	1.9	0.4	1.1	3.3	3.7	1.1	1.5	–0.7	–0.5
Italy	15.0	17.2	11.6	14.0	17.4	19.7	17.0	15.5	9.0	8.3	4.5	4.5	4.2	6.0	7.1	8.2	4.1	1.2	0.2	1.1
United Kingdom	13.9	7.9	11.1	14.6	20.6	9.8	4.1	2.5	5.9	5.0	3.6	3.3	6.3	9.3	9.9	6.7	3.3	0.8	1.8	1.9
Canada	8.1	7.3	3.8	7.9	11.4	11.0	9.9	1.4	1.3	3.4	2.8	4.9	4.7	4.8	4.9	4.2	2.2	1.2	0.1	1.2
Total of above countries	9.0	7.4	7.3	8.3	10.5	8.4	7.1	3.0	3.0	2.7	2.4	2.7	2.6	3.1	4.5	3.8	2.7	1.8	1.1	1.5
Austria	7.2	5.6	9.2	2.3	5.2	8.8	5.7	1.9	3.7	2.2	7.2	2.9	–1.2	1.5	1.9	5.0	5.4	4.4	1.1	1.2
Belgium	10.6	8.3	4.3	4.7	4.4	4.5	5.0	5.7	4.7	4.0	5.4	0.1	–0.7	0.3	5.9	6.1	4.0	4.0	0	0.5
Denmark	9.8	8.5	8.3	5.8	8.7	7.1	7.2	6.2	3.5	3.8	4.4	6.6	0.2	1.6	1.4	2.0	0.6	0.2	0	0.9
Finland	16.0	7.4	2.6	5.5	10.9	13.7	5.9	5.9	6.7	6.2	3.9	3.4	4.4	4.3	8.7	5.8	0.2	–3.2	0	–0.8
Greece	10.9	18.1	14.6	18.2	14.1	27.2	24.7	22.3	15.1	19.6	11.2	9.8	13.4	12.7	20.6	7.9	12.8	12.8	10.6	7.1
Ireland	14.4	9.8	9.7	18.6	16.7	11.8	12.9	10.9	4.1	2.7	6.2	1.5	2.8	–0.5	–0.7	0.9	0.5	3.7	2.9	1.4
Netherlands	9.1	6.0	5.1	4.7	5.8	3.1	5.0	–0.1	–3.1	0.6	1.9	2.2	0.1	–2.2	1.3	3.9	3.9	2.7	–0.4	–0.4
Norway	10.8	9.9	16.4	0.1	10.2	8.7	10.9	4.6	4.9	2.5	11.4	11.1	9.0	3.2	1.9	4.2	0.4	–1.7	1.0	1.2
Portugal	22.3	14.0	14.9	14.8	17.0	18.7	16.3	25.8	23.5	13.7	12.7	14.6	5.6	6.8	14.4	16.5	3.0	5.3	3.2	2.3
Spain	13.9	22.1	20.7	15.9	10.4	12.8	11.9	11.3	5.8	3.9	8.0	3.9	3.7	4.9	7.0	6.1	5.5	3.5	2.0	1.6
Sweden	10.2	12.4	8.7	4.7	14.2	10.3	3.7	5.9	5.1	7.3	6.4	5.0	7.0	11.5	9.0	6.0	0.2	–2.5	–0.9	0.7
Switzerland	8.9	0.4	5.4	3.3	3.5	6.6	7.8	2.2	1.9	1.6	3.1	4.1	2.9	2.4	5.0	7.5	2.6	–0.3	–0.2	0.5
Australia	12.8	12.0	3.6	4.8	10.0	11.5	17.9	1.8	3.6	4.4	9.4	3.9	6.2	7.4	7.1	2.2	0.6	0.9	1.4	2.3
New Zealand	12.3	17.7	20.2	15.0	17.3	16.3	7.1	0.8	–2.1	15.5	17.2	16.3	4.1	4.1	–1.3	3.9	4.9	–0.3	0.1	0.5
Total of above smaller countries	11.9	12.2	10.6	8.4	9.4	10.5	10.2	6.8	4.7	4.8	7.1	4.6	3.6	4.1	6.1	5.5	3.5	2.3	1.2	1.3
Total of above European countries	11.1	9.9	9.1	9.4	12.6	10.8	8.9	6.8	5.0	4.3	4.0	3.4	2.7	3.8	5.4	5.4	3.8	2.2	0.4	0.8
Total of above OECD countries	9.4	8.1	7.8	8.3	10.4	8.7	7.6	3.6	3.2	3.0	3.1	3.0	2.8	3.2	4.7	4.1	2.8	1.9	1.1	1.5

a) Up to and including 1991, data concern western Germany; subsequent data concern total Germany and total economy.

Annex Table 13. **GDP deflators**

Percentage changes from previous period

	Average 1967-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	6.3	6.8	7.9	8.7	9.4	10.0	6.2	4.1	4.5	3.6	2.7	3.2	3.9	4.5	4.3	3.9	2.9	2.5	2.1	2.8
Japan	8.6	6.4	5.0	2.7	4.6	3.7	1.7	1.4	2.3	1.6	1.8	0	0.4	1.9	2.2	2.0	1.6	1.0	0.8	0.8
Germany	5.5	3.7	4.3	3.8	5.0	4.2	4.5	3.2	2.1	2.1	3.2	1.9	1.5	2.4	3.1	3.9	5.3	3.9	2.8	2.0
France	8.2	9.3	10.1	10.1	11.4	11.4	11.8	9.7	7.5	5.8	5.2	3.0	2.8	3.0	3.1	3.1	2.3	2.3	1.8	1.6
Italy	10.5	18.6	14.1	15.5	20.2	19.0	17.2	15.1	11.6	8.9	7.9	6.0	6.6	6.2	7.6	7.7	4.5	4.4	3.4	2.9
United Kingdom	11.0	13.9	11.6	14.4	19.5	11.4	7.6	5.2	4.6	5.7	3.3	5.0	6.0	7.1	6.4	6.5	4.4	3.4	3.2	2.5
Canada	7.0	6.2	6.0	10.0	10.6	10.8	8.7	5.0	3.1	2.6	2.4	4.7	4.6	4.8	3.3	2.5	1.1	0.8	0.6	1.9
Total of above countries	7.5	8.0	7.8	8.2	9.8	9.2	6.7	4.9	4.6	3.8	3.2	2.9	3.3	4.0	4.1	3.9	3.0	2.5	2.0	2.2
Austria	6.2	5.1	5.7	4.1	5.2	6.5	6.2	3.9	4.9	3.1	4.3	2.4	1.6	2.9	3.3	3.9	4.2	3.9	2.7	2.2
Belgium	7.0	7.5	4.4	4.5	3.8	4.7	7.1	5.6	5.2	6.1	3.9	2.3	1.8	4.6	3.1	2.7	3.4	2.8	2.4	2.2
Denmark	9.4	9.4	9.9	7.6	8.2	10.1	10.6	7.6	5.7	4.3	4.6	4.7	3.4	4.2	2.7	2.5	2.0	1.7	2.3	2.5
Finland	11.0	10.1	8.3	8.5	9.8	11.4	8.5	8.3	8.8	5.4	4.5	4.7	7.0	6.1	5.9	2.5	0.7	1.7	2.3	1.9
Greece	9.5	13.0	12.9	18.6	17.7	19.7	25.1	19.1	20.3	17.6	17.6	14.3	15.6	12.5	20.9	17.6	14.9	14.0	11.2	9.0
Iceland	25.1	32.8	46.1	40.8	52.4	49.7	53.5	76.2	27.6	31.4	24.4	20.3	23.4	20.4	14.3	7.3	3.4	2.8	1.6	1.4
Ireland	12.4	13.3	10.5	13.7	14.7	17.4	15.2	10.7	6.4	5.2	6.5	2.3	3.1	4.6	–1.7	0.9	1.1	2.5	1.9	2.1
Luxembourg	7.9	1.2	5.1	6.4	7.9	7.2	10.8	6.8	4.4	3.0	3.8	–1.0	4.0	6.0	3.0	3.0	4.5	2.2	2.8	2.7
Netherlands	8.0	6.7	5.4	3.9	5.6	5.6	6.0	1.9	1.8	1.8	0.2	–0.5	1.2	1.2	2.3	2.8	2.5	1.6	2.0	2.1
Norway	7.8	8.3	6.3	6.6	14.6	14.0	10.2	6.1	6.4	5.0	–1.4	7.2	4.4	5.9	4.5	2.4	–1.0	2.0	0	2.0
Portugal	9.4	26.4	22.3	19.4	20.9	17.6	20.7	24.7	24.5	21.8	20.4	11.3	11.6	13.0	14.3	14.1	13.5	6.4	5.6	4.6
Spain	10.5	23.4	20.6	16.9	13.4	12.6	13.9	11.8	11.6	7.7	11.1	5.9	5.6	7.1	7.4	7.0	6.5	4.5	3.8	3.3
Sweden	7.6	10.5	9.5	7.9	13.0	9.5	8.3	10.0	7.6	6.6	6.9	4.8	6.5	8.0	8.9	7.6	1.4	2.8	1.7	3.0
Switzerland	5.8	0.3	3.4	2.0	2.9	6.9	7.1	3.0	2.8	3.1	3.8	2.6	2.4	4.2	5.7	5.5	2.6	2.5	1.8	2.8
Turkey[a]	15.3	24.5	43.7	71.1	103.9	41.9	27.6	27.9	50.2	43.9	31.0	38.4	65.9	65.8	54.6	56.8	62.5	59.0	108.0	75.0
Total of smaller European countries	9.4	14.0	14.7	16.1	19.6	13.5	12.7	10.8	12.6	10.4	9.4	7.9	10.9	11.9	11.1	10.9	10.4	9.3	13.6	10.3
Australia	9.5	9.3	7.1	9.3	11.0	9.9	11.1	8.1	6.2	6.3	7.2	7.5	8.3	7.3	4.7	1.9	1.3	1.3	1.8	2.3
New Zealand	9.5	17.1	15.3	15.7	15.8	16.6	11.1	7.7	4.8	13.9	19.0	14.9	6.4	8.9	3.5	2.5	2.4	2.2	1.1	1.7
Total of smaller countries	9.4	13.5	13.8	15.3	18.5	13.1	12.4	10.4	11.7	10.0	9.3	8.0	10.5	11.3	10.2	9.7	9.1	8.2	12.0	9.1
Total OECD	7.8	8.9	8.8	9.3	11.2	9.8	7.6	5.8	5.7	4.7	4.1	3.7	4.4	5.1	5.0	4.8	3.9	3.4	3.5	3.3
Total OECD *less* Turkey	7.7	8.6	8.3	8.5	9.9	9.4	7.3	5.5	5.1	4.2	3.8	3.2	3.6	4.3	4.4	4.1	3.2	2.6	2.1	2.3
OECD Europe	8.8	11.8	11.3	12.2	15.3	11.8	10.8	8.9	8.3	7.0	6.3	5.1	6.3	6.9	6.9	7.0	6.2	5.4	6.3	4.8
OECD Europe *less* Turkey	8.6	11.4	10.2	10.3	12.4	10.8	10.3	8.3	6.9	5.8	5.5	4.0	4.3	4.9	5.3	5.3	4.3	3.6	2.9	2.4
EC	8.7	11.9	10.5	10.8	12.7	11.0	10.5	8.5	7.0	5.9	5.6	4.0	4.3	4.8	5.2	5.4	4.5	3.7	3.0	2.4
Total OECD *less* the United States	8.7	10.1	9.3	9.7	12.3	9.7	8.4	6.8	6.4	5.4	5.0	3.9	4.8	5.5	5.5	5.3	4.6	3.9	4.4	3.6

a) GNP.

Annex Table 14. **Private consumption deflators**

Percentage changes from previous period

	Average 1967-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	5.7	6.9	7.3	8.9	10.4	8.9	5.8	4.8	4.0	3.9	3.1	4.2	4.2	4.9	5.1	4.3	3.3	2.7	2.1	3.1
Japan	9.1	7.4	4.5	3.6	7.5	4.5	2.7	2.0	2.5	2.2	0.4	0.2	–0.1	1.8	2.6	2.5	2.1	1.0	0.3	0.3
Germany	4.6	3.3	2.6	4.2	5.8	6.2	5.1	3.2	2.5	1.8	–0.6	0.5	1.3	2.9	2.7	3.7	4.7	4.0	3.1	1.9
France	8.1	9.4	9.1	10.7	13.3	13.0	11.6	9.7	7.7	5.7	2.7	3.2	2.6	3.4	2.8	3.2	2.4	2.1	1.7	1.4
Italy	10.0	17.6	13.3	14.7	20.4	18.0	17.1	14.9	12.0	9.0	6.3	5.3	5.7	6.3	6.2	6.8	5.3	4.8	3.9	3.0
United Kingdom	10.6	14.7	9.5	13.6	16.2	11.2	8.7	4.8	5.0	5.3	4.0	4.3	5.0	5.9	5.5	7.4	4.8	3.5	2.9	2.9
Canada	5.9	7.4	7.6	8.5	10.0	11.2	10.2	6.3	3.9	3.7	3.8	4.0	3.8	4.7	4.4	4.7	1.1	1.5	0.7	2.1
Total of above countries	7.1	8.2	7.1	8.3	10.8	9.1	6.9	5.3	4.5	4.0	2.6	3.1	3.2	4.2	4.3	4.2	3.3	2.6	2.0	2.3
Austria	5.9	5.6	4.2	4.5	6.4	7.6	6.0	3.4	5.6	3.3	1.9	1.0	1.4	2.7	3.1	3.5	3.8	3.6	2.7	2.1
Belgium	6.4	7.2	4.2	3.9	6.4	8.7	7.8	7.1	5.7	6.0	0.7	1.9	1.6	3.4	3.6	2.5	2.1	2.8	2.4	2.2
Denmark	9.0	10.6	9.2	10.4	10.7	12.0	10.3	6.7	6.4	4.3	2.9	4.6	4.0	4.3	2.7	2.2	2.1	1.5	2.0	2.6
Finland	10.0	11.9	8.0	7.7	11.2	11.9	9.3	8.7	7.4	6.1	3.1	3.6	4.6	5.0	6.0	5.6	4.2	3.7	1.5	2.0
Greece	8.6	11.9	12.8	16.5	21.9	22.6	20.7	18.1	17.9	18.2	22.3	15.7	14.2	14.7	19.3	18.5	14.6	14.0	10.8	9.0
Iceland	24.2	27.6	43.3	46.3	55.6	50.8	52.2	82.6	31.6	32.6	19.8	15.9	25.9	23.2	16.2	5.3	4.9	4.9	1.3	0.7
Ireland	12.1	14.1	8.0	14.9	18.6	19.7	14.9	9.2	7.4	5.0	4.6	2.6	2.9	3.6	1.6	2.2	2.6	1.9	2.5	2.5
Luxembourg	5.9	5.7	3.4	4.9	7.5	8.6	10.6	8.3	6.5	4.3	1.3	1.7	2.7	3.6	3.6	2.9	2.8	3.5	2.8	2.5
Netherlands	7.4	6.1	4.5	4.3	6.9	6.3	5.3	2.8	2.1	2.2	0.3	0.2	0.5	1.2	2.2	3.4	3.0	2.1	2.1	2.0
Norway	7.4	8.6	7.8	5.1	10.0	13.4	11.0	8.4	6.4	5.9	7.7	7.9	6.2	4.3	4.8	4.1	2.6	1.9	1.4	1.8
Portugal	8.6	27.3	21.3	25.2	21.6	20.2	20.2	26.0	28.4	19.3	13.8	10.1	10.0	12.1	12.6	11.1	9.8	6.7	5.7	4.4
Spain	10.1	23.7	19.1	16.5	15.7	14.6	14.6	12.6	11.9	7.1	9.4	5.7	5.0	6.6	6.5	6.3	6.4	5.1	4.5	3.4
Sweden	7.1	10.7	11.6	7.9	13.8	12.3	10.6	11.3	7.7	7.0	4.7	5.3	5.9	6.8	9.7	10.1	2.6	6.1	2.4	3.3
Switzerland	5.7	1.2	0.7	4.5	4.5	6.6	5.5	2.6	3.3	3.7	0.3	1.5	2.3	3.5	5.3	5.7	4.1	2.9	1.0	2.5
Turkey	15.7	20.7	53.6	76.2	118.4	49.9	30.9	31.7	50.4	45.4	21.2	35.1	62.4	63.3	46.7	51.7	56.2	51.9	106.0	82.0
Total of smaller European countries	9.0	13.9	14.9	17.0	22.6	15.9	13.0	11.7	13.0	10.5	7.2	7.5	10.1	11.2	10.1	10.5	10.0	9.1	13.6	11.0
Australia	9.0	10.4	8.5	9.4	10.4	9.2	10.4	9.3	6.4	6.9	8.5	7.9	7.0	6.6	6.0	3.6	1.7	1.9	1.8	2.5
New Zealand	8.4	16.2	12.2	14.0	17.9	14.7	15.3	7.2	6.5	16.7	12.8	12.8	8.4	6.5	7.2	3.2	1.0	1.4	1.0	1.8
Total of smaller countries	9.0	13.5	14.1	16.0	21.0	15.0	12.8	11.3	12.0	10.2	7.5	7.6	9.7	10.5	9.6	9.6	8.8	8.1	11.9	9.8
Total OECD	7.4	9.1	8.2	9.5	12.4	10.0	7.8	6.3	5.7	5.0	3.3	3.8	4.2	5.2	5.1	5.1	4.2	3.5	3.5	3.4
Total OECD *less* Turkey	7.3	8.9	7.6	8.6	11.0	9.5	7.5	5.9	5.1	4.4	3.1	3.4	3.4	4.4	4.6	4.4	3.5	2.8	2.1	2.4
OECD Europe	8.4	11.7	10.4	12.5	16.3	13.1	11.2	9.1	8.6	6.9	4.2	4.5	5.6	6.7	6.1	6.9	6.1	5.4	6.3	5.0
OECD Europe *less* Turkey	8.1	11.4	9.0	10.3	12.9	11.8	10.5	8.4	7.2	5.6	3.7	3.5	3.7	4.7	4.7	5.3	4.4	3.8	3.0	2.5
EC	8.2	11.8	9.2	10.8	13.3	12.0	10.7	8.5	7.4	5.7	3.7	3.5	3.7	4.8	4.6	5.3	4.5	3.8	3.1	2.5
Total OECD *less* the United States	8.4	10.4	8.7	9.9	13.6	10.7	9.0	7.2	6.8	5.6	3.4	3.5	4.2	5.3	5.1	5.5	4.7	4.0	4.4	3.6

Annex Table 15. **Consumer prices**[a]

Percentage changes from previous period

	Average 1970-74	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
United States	6.2	9.1	5.7	6.5	7.6	11.3	13.5	10.3	6.1	3.2	4.3	3.5	1.9	3.7	4.1	4.8	5.4	4.2	3.0	3.0
Japan	11.3	11.8	9.4	8.2	4.2	3.7	7.8	4.9	2.7	1.9	2.2	2.0	0.6	0.1	0.7	2.3	3.1	3.3	1.7	1.3
Germany[b]	6.2	5.9	4.6	3.7	2.7	4.1	5.5	6.3	5.3	3.3	2.4	2.2	–0.1	0.2	1.3	2.8	2.7	3.5	4.0	4.1
France	8.1	11.8	9.6	9.4	9.1	10.8	13.6	13.4	11.8	9.6	7.4	5.8	2.7	3.1	2.7	3.6	3.4	3.2	2.4	2.1
Italy[c]	10.0	17.2	16.5	18.1	12.4	15.7	21.1	18.7	16.3	15.0	10.6	8.6	6.1	4.6	5.0	6.6	6.1	6.5	5.3	4.2
United Kingdom	10.4	24.2	16.5	15.8	8.3	13.4	18.0	11.9	8.6	4.6	5.0	6.1	3.4	4.1	4.9	7.8	9.5	5.9	3.7	1.6
Canada	6.5	10.7	7.5	8.0	8.9	9.1	10.2	12.4	10.8	5.8	4.3	4.0	4.2	4.4	4.0	5.0	4.8	5.6	1.5	1.8
Total of above countries	7.7	11.3	8.2	8.4	7.3	9.9	12.7	10.3	7.2	4.7	4.7	4.0	2.1	2.9	3.4	4.5	5.0	4.3	3.0	2.7
Austria	7.0	8.4	7.3	5.5	3.6	3.7	6.3	6.8	5.4	3.3	5.7	3.2	1.7	1.4	1.9	2.6	3.3	3.3	4.0	3.6
Belgium	7.3	12.8	9.2	7.1	4.5	4.5	6.7	7.1	8.7	7.7	6.3	4.9	1.3	1.6	1.2	3.1	3.4	3.2	2.4	2.8
Denmark	9.2	9.6	9.0	11.1	10.0	9.6	12.3	11.7	10.1	6.9	6.3	4.7	3.6	4.0	4.6	4.8	2.7	2.4	2.1	1.3
Finland	10.2	17.9	14.4	12.6	7.8	7.5	11.6	12.0	9.6	8.3	7.1	5.9	2.9	4.1	5.1	6.6	6.1	4.3	2.9	2.2
Greece	12.0	13.6	13.0	12.4	12.6	19.1	24.7	24.5	21.0	20.2	18.5	19.3	23.0	16.4	13.5	13.7	20.4	19.5	15.9	14.4
Iceland[d]	19.1	49.1	35.6	26.3	43.8	47.8	58.8	50.6	50.0	85.2	28.9	32.5	21.2	17.8	25.7	20.8	15.9	6.8	3.7	4.1
Ireland	11.4	20.9	18.0	13.6	7.7	13.2	18.3	20.4	17.1	10.5	8.6	5.5	3.8	3.1	2.1	4.1	3.3	3.2	3.1	1.4
Luxembourg	6.4	10.7	9.8	6.7	3.1	4.5	6.3	8.1	9.4	8.7	5.6	4.1	0.3	–0.1	1.4	3.4	3.7	3.1	3.2	3.6
Netherlands	8.2	10.2	8.8	6.4	4.1	4.2	6.5	6.7	5.9	2.7	3.3	2.3	0.1	–0.7	0.7	1.1	2.5	3.7	3.2	2.6
Norway	7.6	11.7	9.1	9.1	8.1	4.8	10.9	13.7	11.3	8.4	6.3	5.7	7.2	8.7	6.7	4.6	4.1	3.4	2.3	2.3
Portugal	14.2	20.4	19.3	27.2	22.5	23.9	16.6	20.0	22.4	25.5	28.8	19.6	11.8	9.4	9.7	12.6	13.4	11.4	8.9	6.5
Spain	10.9	17.0	17.6	24.5	19.8	15.7	15.6	14.5	14.4	12.2	11.3	8.8	8.8	5.2	4.8	6.8	6.7	5.9	5.9	4.6
Sweden	7.5	9.8	10.2	11.4	10.0	7.2	13.7	12.1	8.6	8.9	8.0	7.4	4.2	4.2	5.8	6.4	10.5	9.3	2.3	4.6
Switzerland	7.9	6.7	1.7	1.3	1.1	3.6	4.0	6.5	5.6	3.0	2.9	3.4	0.8	1.4	1.9	3.2	5.4	5.8	4.0	3.3
Turkey[e]	14.7	19.5	17.1	27.1	45.3	58.7	110.2	36.6	29.7	31.4	48.4	45.0	34.6	38.9	75.4	63.3	60.3	66.0	70.1	66.1
Total of European countries	8.9	14.1	11.7	12.3	9.6	11.6	15.6	12.9	11.1	9.0	8.2	7.1	4.5	4.3	5.6	6.9	7.3	6.9	6.2	5.4
Australia	9.1	15.1	13.5	12.3	7.9	9.1	9.8	10.1	11.2	10.1	3.9	6.7	9.1	8.5	7.3	7.5	7.3	3.2	1.0	1.8
New Zealand	9.1	14.7	16.9	14.4	12.0	13.7	17.2	15.4	16.2	7.3	6.2	15.4	13.3	15.7	6.4	5.7	6.1	2.6	1.0	1.3
Total OECD	8.0	11.7	8.9	9.3	8.1	10.4	13.5	10.8	8.0	5.6	5.6	4.9	3.0	3.6	4.3	5.4	5.8	5.2	4.0	3.6
OECD Europe *less* Turkey	8.8	14.0	11.6	12.0	8.8	10.3	13.3	12.2	10.6	8.4	7.1	6.0	3.7	3.3	3.7	5.2	5.7	5.1	4.2	3.4
EC	8.9	14.4	12.0	12.5	9.1	10.9	13.7	12.4	10.9	8.6	7.2	6.1	3.7	3.3	3.6	5.3	5.7	5.1	4.3	3.3
Total OECD *less* Turkey	7.9	11.6	8.8	9.1	7.8	9.9	12.6	10.5	7.8	5.4	5.2	4.4	2.7	3.2	3.5	4.7	5.2	4.5	3.2	2.8

a) Aggregates were computed using the previous year's consumer expenditure expressed in private consumption purchasing power parities.
b) Western Germany.
c) Index for households of wage and salary earners.
d) Excluding rent.
e) Until 1981: Istambul index (154 items); from 1982, Turkish index.

Annex Table 16. **Oil and other primary commodity markets**

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
Oil market conditions[a] (in million barrels per day)																		
Demand																		
OECD	42.1	42.2	39.0	36.8	35.0	34.4	35.1	34.7	35.7	36.4	37.5	37.9	38.0	38.2	38.8	39.1	39.6	..
of which: North America	21.3	20.9	19.4	18.5	17.6	17.2	17.7	17.6	18.1	18.5	19.2	19.3	18.9	18.6	18.9	19.1	19.6	..
Europe	14.6	15.0	13.9	12.9	12.3	12.1	12.1	12.0	12.5	12.6	12.8	12.8	13.0	13.4	13.6	13.7	13.7	..
Pacific	6.2	6.3	5.7	5.4	5.1	5.1	5.3	5.1	5.2	5.3	5.6	5.8	6.1	6.2	6.3	6.3	6.3	..
Non-OECD	22.2	23.3	23.7	24.1	24.4	24.7	24.9	25.5	26.1	26.9	27.5	28.2	28.4	28.6	28.2	28.0	28.2	..
Total	64.3	65.5	62.7	60.9	59.4	59.1	60.0	60.2	61.8	63.2	65.0	66.1	66.4	66.8	67.0	67.1	67.8	..
Supply																		
OECD	14.3	14.9	15.0	15.1	15.4	16.0	16.7	17.1	16.9	16.8	16.7	15.9	15.9	16.3	16.6	16.8	17.4	..
Total OPEC	30.4	31.5	27.6	23.6	19.9	18.6	18.8	17.6	19.9	19.7	21.8	23.8	24.8	25.0	26.2	26.9	..	..
Former USSR	11.4	11.7	12.1	12.3	12.3	12.4	12.3	12.0	12.4	12.5	12.5	12.2	11.5	10.4	9.0	7.8	6.9	..
Other non-OECD	7.9	8.7	9.4	9.6	10.6	11.1	11.9	12.6	12.9	13.4	13.8	14.2	14.8	15.2	15.4	16.0	..	..
Total	64.0	66.8	64.1	60.6	58.2	58.1	59.7	59.2	62.0	62.4	64.8	66.1	67.0	66.9	67.2	67.5	..	..
Trade																		
OECD net imports	27.5	28.0	24.5	21.6	19.1	18.0	18.6	17.4	19.2	19.8	20.7	22.1	22.4	21.9	22.2	22.4	22.2	..
Former USSR net exports	3.0	3.0	3.2	3.2	3.2	3.2	3.2	2.9	3.4	3.6	3.6	3.4	3.0	2.1	2.1	2.2	2.0	..
Other non-OECD net exports	24.5	25.6	22.2	18.2	15.2	14.2	14.9	13.7	15.6	15.1	17.0	18.6	19.7	19.9	20.3	20.5	..	..
Prices																		
OECD crude oil import price (cif, $ per bl)[b]	14.2	20.0	32.7	36.4	33.8	29.9	29.0	27.6	14.9	18.0	14.9	17.5	22.2	19.3	18.5	16.4	14.3	14.5
Prices of other primary commodities[c] (dollar index, 1991 = 100)																		
Food and tropical beverages	124	135	177	144	110	117	115	99	110	97	117	116	106	100	96	95	97	99
of which: Food	97	110	168	136	95	101	92	76	78	84	109	113	105	100	99	99	109	111
Tropical beverages	214	221	207	170	161	169	193	176	218	142	143	124	108	100	85	92	105	107
Agricultural raw materials	82	96	106	92	80	85	85	79	79	92	101	100	106	100	97	95	104	107
Minerals, ores and metals	73	97	107	90	78	84	78	75	71	84	123	123	111	100	96	82	81	83
Total	98	113	145	119	93	100	96	85	88	90	114	114	107	100	97	94	101	103
Memorandum item																		
Export prices of OECD manufactures (dollar index)	60	68	75	71	69	67	65	65	78	88	93	92	101	100	103	97	98	100

a) Based on data published in IEA, *Oil Market Report*, May 1994; *Annual Statistical Supplement*, September 1993.
b) By technical assumption, prices are set to rise at the same rate as OECD manufactured export prices as of 1994 II.
c) Indices through 1993 are based on data compiled by UNCTAD; OECD Secretariat estimates and projections for 1994 and 1995.

Annex Table 17. **Labour force**[a]

Percentage changes from previous period

	1991 Labour force (thousands)	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	1995
United States[b]	125 312	2.9	3.3	2.7	1.9	1.6	1.4	1.2	1.8	1.7	2.1	1.7	1.5	1.8	0.8	0.4	1.3	0.8	2.6	1.3
Japan	65 030	1.4	1.5	1.2	1.0	1.0	1.2	2.0	0.7	0.6	1.0	1.1	1.3	1.7	1.8	1.9	1.2	0.6	0.7	0.8
Germany	39 047	0	0.6	1.2	1.5	1.3	0.9	0.2	0.2	0.8	1.0	0.7	0.8	0.7	2.1	2.0	–0.6	–0.6	–0.5	–0.1
France	24 955	1.3	0.7	0.8	0.5	0.7	0.9	–0.1	0.6	1.1	0.5	0.5	0.4	0.7	0.5	0.8	0.3	0.2	0.3	0.5
Italy	24 063	1.4	0.4	1.5	1.2	1.2	0.4	1.2	0.5	0.5	1.7	0.8	1.2	0.1	1.1	0.4	0	–6.1	–0.2	0.4
United Kingdom	28 323	0.4	0.6	0.9	0.6	–0.3	–0.4	0.7	2.4	1.3	0.5	0.7	0.9	0.5	0.1	–0.6	–0.9	–0.9	0.3	0.6
Canada	13 756	2.9	3.7	3.1	3.1	2.8	0.3	1.5	1.7	1.7	1.7	2.1	2.0	1.7	1.3	0.6	0.3	1.1	1.5	2.0
Total of above countries	320 486	1.8	1.9	1.8	1.4	1.2	1.0	1.1	1.3	1.2	1.4	1.2	1.3	1.3	1.1	0.8	0.6	–0.1	1.2	0.9
Austria	3 596	1.3	1.3	1.2	0.4	1.2	2.1	–0.4	0.2	–0.2	0.9	1.3	0.1	0.5	2.2	2.0	2.2	–0.1	0.4	0.6
Belgium	4 210	0.5	0.7	1.2	0.3	0.6	0.6	0.4	–0.1	–0.5	–0.1	0.1	0.3	0.4	0.8	0.7	0.6	0.6	0.3	0.5
Denmark	2 815	2.0	2.0	0	0.4	1.0	1.2	1.0	1.3	1.4	1.3	0.8	0.2	0.2	–0.7	–0.7	0.7	0.6	–0.2	0.4
Finland	2 533	0.1	0	1.1	1.8	1.3	1.5	0.6	0.7	0.8	0.1	–0.6	–0.3	0.5	–0.1	–0.9	–1.2	–0.7	–0.1	0.3
Greece	3 933	0.6	0.6	1.1	2.3	6.6	1.0	3.4	0.7	0.6	–0.1	–0.1	2.0	0.2	0.8	–1.7	2.6	0.5	0.3	0.3
Iceland	136	0.1	3.0	1.0	3.2	4.9	3.0	1.2	1.7	3.2	2.8	5.6	–2.6	–0.6	0	6.1	–5.1	0.2	–0.2	0.2
Ireland	1 345	1.6	1.8	2.0	1.1	2.0	1.9	0.8	0	–0.4	0.5	0.8	–0.7	–1.4	1.7	2.4	1.4	1.4	0.9	1.2
Luxembourg	168	0	–0.1	0.7	0.5	0.7	0	–0.1	0.6	0.6	1.0	1.5	1.2	1.4	1.5	1.6	0.4	0.1	0.2	0.2
Netherlands	7 011	0.1	0.9	1.5	2.0	1.3	0.7	1.2	0.5	0.1	1.6	1.3	2.5	1.1	2.4	2.0	1.7	2.3	1.4	1.0
Norway	2 126	1.7	1.9	1.2	0.2	1.8	1.1	0.9	1.0	1.7	2.9	2.0	0.6	–1.3	–0.6	–0.7	0.2	0	0.6	1.1
Portugal	4 803	2.1	0.6	1.5	2.0	0.1	–0.2	4.3	0.7	–0.3	0.1	1.0	1.1	1.5	1.8	2.4	–6.4	–0.6	0.2	0.8
Spain	15 073	–0.1	0.2	0.1	0	0.2	1.2	1.1	0.6	0.8	1.7	2.4	1.6	1.3	1.4	0.4	0.5	1.1	1.2	0.9
Sweden	4 552	0.4	0.8	1.4	1.3	0.2	0.5	0.4	0.4	0.8	–0.8	1.2	1.1	1.3	1.1	–0.5	–1.8	–2.3	–0.9	0.6
Switzerland	3 599	0.1	0.9	1.1	2.2	2.3	0.7	0.5	1.2	1.8	1.2	1.1	1.1	1.0	1.3	0.5	–0.8	–0.8	–0.5	0
Turkey[c]	19 967	4.5	1.4	0.2	0.6	–0.2	0.9	1.8	1.4	1.2	2.7	2.8	1.6	2.0	1.4	0.1	1.1	1.8	1.8	1.8
Total of smaller European countries	75 868	1.5	0.9	0.7	0.9	0.9	0.9	1.4	0.8	0.7	1.4	1.7	1.3	1.1	1.3	0.4	0.3	0.8	0.9	1.0
Australia	8 586	1.8	1.1	1.1	2.8	1.7	1.5	1.3	1.8	2.7	3.5	2.2	2.6	3.7	2.5	0.9	0.9	–0.2	1.3	1.7
New Zealand	1 628	1.7	0.5	1.6	0.7	1.6	1.0	0.7	1.9	2.5	0	0.9	–1.6	–1.0	1.6	1.4	0.4	0.8	1.0	1.0
Total of smaller countries	86 082	1.6	0.9	0.8	1.1	1.0	1.0	1.3	0.9	0.9	1.5	1.7	1.3	1.3	1.4	0.5	0.4	0.7	0.9	1.1
Total OECD	406 568	1.7	1.7	1.6	1.4	1.1	1.0	1.1	1.2	1.1	1.4	1.3	1.3	1.3	1.1	0.7	0.6	0.1	1.2	0.9
OECD Europe	192 256	1.1	0.7	0.9	1.0	0.8	0.6	0.8	0.9	0.8	1.1	1.1	1.0	0.7	1.1	0.6	–0.1	–0.7	0.3	0.6
EC	155 747	0.7	0.6	1.0	1.0	0.8	0.5	0.8	0.8	0.8	0.9	0.8	1.0	0.6	1.1	0.7	–0.2	–1.0	0.2	0.4
Total OECD *less* the United States	281 257	1.2	1.0	1.1	1.1	1.0	0.8	1.1	0.9	0.9	1.2	1.1	1.2	1.1	1.3	0.9	0.2	–0.3	0.5	0.8
Memorandum items (millions)																				
North America	–	109.5	113.1	116.2	118.5	120.6	122.2	123.6	125.8	128.0	130.6	132.9	134.9	137.4	138.5	139.1	140.8	142.0	145.6	147.5
OECD Europe	–	163.2	164.4	165.9	167.5	168.8	169.9	171.3	172.8	174.2	176.1	178.0	179.8	181.1	183.1	192.3	192.1	190.8	191.3	192.5
EC	–	131.8	132.6	133.9	135.2	136.3	137.1	138.1	139.3	140.4	141.7	142.9	144.3	145.1	146.6	155.7	155.4	153.9	154.1	154.8
Total OECD	–	335.1	340.8	346.1	350.8	354.8	358.3	362.4	366.7	370.8	376.2	381.1	386.0	391.1	395.5	406.6	408.9	409.2	414.0	417.7

a) For sources and definitions, see "Sources and Methods".
b) Break in series as of January 1994.
c) The figures incorporate important revisions to Turkish data; see "Sources and Methods".

Annex Table 18. **Labour force participation rates**[a]

	Average 1968-77	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
United States[b]	66.3	70.0	70.7	71.0	71.2	71.5	71.6	72.2	72.7	73.5	74.1	74.7	75.6	75.8	75.6	75.9	75.9
Japan	71.4	71.5	71.8	71.8	72.1	72.3	73.0	72.7	72.5	72.4	72.5	72.7	73.3	74.2	75.2	75.9	75.9
Germany	68.7	67.9	68.1	68.3	68.1	67.8	67.3	67.0	67.4	68.0	68.4	68.7	68.6	69.0	71.5	70.5	69.6
France	67.8	68.4	68.4	68.1	67.6	67.3	66.4	66.2	66.4	66.5	66.5	66.4	66.2	66.3	66.5	66.5	66.4
Italy	57.8	58.3	58.7	59.3	59.6	59.0	58.9	58.3	58.1	59.0	59.4	59.5	59.8	61.3	61.5	61.4	57.7
United Kingdom	73.0	74.0	74.2	74.2	73.5	72.9	72.9	73.9	74.7	74.8	75.2	75.8	76.0	76.0	75.5	75.0	74.4
Canada	65.7	69.5	70.4	71.3	72.1	71.5	71.9	72.5	73.2	73.9	74.8	75.5	76.0	76.1	75.6	71.6	71.8
Total of above countries	67.5	69.2	69.6	69.8	69.9	69.8	69.9	70.1	70.4	70.9	71.3	71.7	72.2	72.6	73.0	72.9	72.4
Austria	67.7	67.2	67.6	67.3	67.1	67.7	66.8	66.3	65.8	66.2	66.9	66.8	67.0	67.7	68.2	69.3	69.1
Belgium	62.3	62.4	62.8	63.0	63.3	63.0	62.8	62.3	62.0	61.8	61.8	61.8	62.1	62.6	63.1	63.4	63.8
Denmark	75.7	79.8	79.3	79.2	79.4	79.9	80.3	81.1	81.9	82.6	82.9	82.8	82.8	81.9	81.0	81.3	81.6
Finland	71.6	74.0	74.5	75.5	76.0	76.5	76.5	76.5	76.9	76.8	76.3	76.1	76.5	76.1	75.0	73.9	73.3
Greece	57.3	55.5	55.4	55.9	58.7	58.7	59.9	59.8	59.6	59.1	58.7	59.5	59.2	58.9	57.2	58.6	58.8
Iceland	70.8	73.6	73.1	74.3	76.7	77.6	77.3	77.6	79.3	80.8	84.0	80.1	78.6	78.0	81.6	77.2	77.0
Ireland	64.1	62.3	62.4	62.3	62.6	63.0	62.7	62.0	61.3	61.4	61.6	61.0	60.3	61.2	61.8	62.5	63.2
Luxembourg	..	61.2	61.7	61.5	61.4	61.2	60.6	60.7	60.7	60.8	61.5	61.8	62.4	62.8	62.8	..	..
Netherlands	67.8	64.4	64.5	64.8	64.8	64.5	64.5	64.1	63.4	63.9	64.1	65.2	65.5	66.7	67.6	68.4	69.9
Norway	69.8	75.1	75.6	75.3	76.1	76.4	76.5	76.7	77.5	79.2	80.3	80.1	78.7	78.0	77.1	76.9	76.8
Portugal	65.0	68.6	68.8	68.6	68.1	67.5	69.9	69.9	69.4	69.2	69.5	70.0	71.7	72.2	73.4	68.5	67.8
Spain	59.9	57.6	57.0	56.3	56.0	56.0	55.8	55.5	55.4	55.8	56.6	57.0	57.3	57.6	57.4	57.4	57.7
Sweden	75.8	79.3	80.1	80.8	80.6	80.7	80.9	81.0	81.6	80.9	81.7	82.3	82.9	84.6	83.8	82.0	79.9
Switzerland	76.1	73.6	73.7	74.4	75.1	74.7	74.4	74.7	75.5	75.8	76.0	76.2	77.6	78.0	77.4	76.1	75.4
Turkey[c]	72.2	71.3	69.2	68.2	65.8	64.1	62.9	61.6	60.2	60.9	60.9	60.1	59.6	58.9	57.5	56.6	56.9
Total of smaller European countries	66.8	66.4	65.9	65.6	65.2	64.7	64.5	64.0	63.5	63.9	64.1	64.2	64.2	64.3	63.7	63.4	63.5
Australia	69.6	70.0	69.7	70.5	70.4	70.1	69.8	69.9	70.6	71.7	71.9	72.4	73.7	74.4	74.3	74.2	73.2
New Zealand	73.7	74.5	75.4	75.1	75.6	75.3	74.2	74.3	75.5	75.2	74.9	73.2	72.2	72.7	72.9	72.7	73.1
Total of smaller countries	67.2	66.9	66.4	66.2	65.8	65.4	65.1	64.7	64.3	64.7	65.0	65.0	65.2	65.3	64.8	64.5	64.5
Total OECD	67.5	68.6	68.9	69.0	69.0	68.8	68.8	68.8	69.0	69.4	69.8	70.1	70.5	70.9	71.1	70.9	70.6
OECD Europe	66.8	66.8	66.7	66.7	66.4	65.9	65.6	65.3	65.3	65.7	66.0	66.1	66.2	66.5	66.8	66.4	65.7
EC	65.7	65.6	65.7	65.7	65.6	65.2	65.0	64.9	65.0	65.4	65.7	66.0	66.2	66.6	67.3	67.0	66.2
Total OECD *less* the United States	67.9	68.1	68.1	68.2	68.0	67.7	67.6	67.4	67.4	67.7	68.0	68.2	68.4	68.9	69.2	68.9	68.4

a) For sources and definitions, see "Sources and Methods".
b) Break in series as of January 1994.
c) The figures incorporate important revisions to Turkish data; see "Sources and Methods".

Annex Table 19. **Employment**[a]

Percentage changes from previous period

	1991 Employment (thousands)	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	1995
United States[b]	116 869	3.7	4.4	2.9	0.5	1.1	–0.9	1.3	4.1	2.0	2.3	2.6	2.3	2.0	0.5	–0.9	0.6	1.5	3.2	1.8
Japan	63 670	1.3	1.3	1.3	1.0	0.8	1.0	1.7	0.6	0.7	0.8	1.0	1.7	2.0	2.0	1.9	1.1	0.2	0.3	0.9
Germany	36 446	0.1	0.8	1.7	1.6	–0.1	–1.2	–1.4	0.2	0.7	1.4	0.7	0.8	1.5	2.8	2.8	–1.7	–1.9	–1.8	0
France	22 594	0.8	0.4	0.1	0.1	–0.6	0.2	–0.3	–0.9	0.5	0.3	0.4	1.0	1.4	1.0	0.1	–0.8	–1.2	–0.4	0.6
Italy	21 410	0.9	0.3	1.0	1.3	0.2	–0.3	0.2	0.4	0.4	0.5	–0.2	1.1	0.1	1.8	0.9	–0.6	–4.8	–1.6	0.2
United Kingdom	25 977	0.1	0.8	1.3	–1.0	–3.4	–1.9	–0.2	2.2	1.1	0.3	2.3	3.3	2.7	0.3	–3.2	–2.7	–1.3	1.2	1.4
Canada	12 339	1.8	3.5	4.1	3.0	2.7	–3.5	0.5	2.4	2.6	2.8	2.9	3.2	2.0	0.7	–1.8	–0.8	1.2	1.9	2.7
Total of above countries	299 304	1.9	2.3	1.9	0.7	0.3	–0.6	0.7	2.0	1.3	1.4	1.7	1.9	1.8	1.2	0	–0.1	–0.1	1.2	1.2
Austria	3 471	1.4	0.9	1.2	0.7	0.6	1.2	–1.0	0.1	0	1.4	0.6	0.3	1.0	2.1	1.7	2.1	–0.7	0.1	0.5
Belgium	3 819	–0.4	0.1	0.9	–0.1	–1.9	–1.3	–1.0	–0.2	0.6	0.7	0.5	1.5	1.6	1.4	0.1	–0.4	–1.3	–0.7	0.6
Denmark	2 519	0.8	1.0	1.2	–0.5	–1.3	0.4	0.3	1.7	2.5	2.6	0.9	–0.6	–0.6	–1.0	–1.8	–0.1	–0.6	1.2	0.9
Finland	2 340	–2.0	–1.4	2.5	3.2	1.1	1.0	0.6	1.0	1.0	–0.3	–0.3	0.3	1.6	–0.1	–5.2	–7.1	–6.1	–0.9	1.3
Greece	3 632	0.8	0.4	1.1	1.4	5.2	–0.8	1.1	0.3	1.0	0.3	–0.1	1.7	0.4	1.2	–2.3	1.5	–0.8	–0.7	–0.1
Iceland	134	0.3	2.9	1.0	3.3	4.8	2.6	0.9	1.5	3.6	3.1	5.8	–2.8	–1.6	–0.1	6.5	–6.7	–1.1	–2.0	0
Ireland	1 135	1.8	2.5	3.2	1.0	–0.9	0.2	–2.1	–1.8	–2.5	0.5	0.6	0.3	–0.1	3.9	0.3	0.5	1.1	2.0	1.5
Luxembourg	196	–0.2	–0.3	0.8	0.5	0.4	–0.3	–0.5	0.5	0.7	1.2	1.3	1.3	1.5	1.6	1.4	0.2	–0.4	–0.5	0.4
Netherlands	6 521	0.2	0.9	1.4	1.2	–1.1	–2.1	–1.3	0.5	1.3	2.5	1.6	2.9	2.0	3.3	2.6	2.0	0.8	–0.5	1.3
Norway	2 009	2.0	1.6	1.1	0.5	1.5	0.4	0.1	1.3	2.3	3.5	1.9	–0.6	–3.0	–1.0	–1.0	–0.3	0	1.0	1.5
Portugal[c]	4 606	0.6	–0.2	1.2	2.2	0.5	–0.1	4.0	–0.1	–0.4	0.1	2.6	2.6	2.2	2.2	3.0	–6.4	–2.0	–0.7	0.2
Spain	12 609	–0.7	–1.7	–1.7	–3.0	–3.0	–1.3	–1.1	–1.8	–0.9	2.2	3.1	2.9	4.1	2.6	0.2	–1.9	–4.3	–1.1	1.0
Sweden	4 430	0.2	0.4	1.5	1.3	–0.2	–0.1	0.1	0.7	1.0	–0.7	1.6	1.4	1.5	0.9	–1.7	–4.1	–5.3	–0.7	0.9
Switzerland	3 559	0.4	1.0	1.1	2.3	2.3	0.5	0	1.0	1.9	1.4	1.2	1.2	1.1	1.3	–0.1	–2.2	–2.8	–0.5	0.8
Turkey[d]	18 420	3.3	1.4	1.5	1.3	0.9	1.1	1.0	1.5	1.7	1.9	2.3	1.5	1.9	2.0	0.3	1.0	0.9	–2.5	0.1
Total of smaller European countries	69 371	0.9	0.3	0.8	0.4	–0.1	–0.1	0.1	0.3	0.8	1.5	1.8	1.6	1.8	1.8	0.2	–0.8	–1.4	–1.0	0.7
Australia	7 771	0.9	0.3	1.4	2.9	2.0	0	–1.8	2.9	3.5	3.6	2.2	3.7	4.8	1.6	–1.8	–0.5	–0.4	2.3	2.7
New Zealand	1 461	1.5	–0.6	1.4	–0.1	0.7	0.9	–1.0	2.7	3.5	–0.4	0.8	–3.1	–2.6	0.9	–1.4	0.4	2.0	1.6	1.6
Total of smaller countries	78 603	0.9	0.3	0.9	0.6	0.1	–0.1	–0.1	0.6	1.1	1.6	1.8	1.7	2.0	1.8	–0.1	–0.7	–1.2	–0.6	0.9
Total OECD	377 908	1.7	1.8	1.7	0.7	0.3	–0.5	0.5	1.7	1.3	1.5	1.7	1.9	1.9	1.3	0	–0.2	–0.3	0.8	1.1
OECD Europe	175 798	0.6	0.5	0.9	0.4	–0.6	–0.6	–0.2	0.4	0.7	1.0	1.2	1.6	1.6	1.6	0.2	–1.2	–1.9	–0.8	0.6
EC	141 434	0.3	0.4	0.8	0.2	–1.0	–0.9	–0.4	0.2	0.6	0.9	1.1	1.7	1.7	1.7	0.3	–1.4	–2.1	–0.7	0.6
Total OECD *less* the United States	261 039	0.8	0.8	1.2	0.8	–0.1	–0.3	0.2	0.6	0.9	1.1	1.3	1.7	1.8	1.7	0.4	–0.6	–1.1	–0.3	0.8
Memorandum items (millions)																				
North America	–	101.7	106.0	109.2	110.0	111.4	110.2	111.5	115.9	118.4	121.1	124.3	127.2	129.8	130.5	129.2	129.8	131.7	135.7	138.3
OECD Europe	–	154.4	155.2	156.6	157.3	156.3	155.4	155.1	155.7	156.9	158.4	160.4	163.0	165.6	168.3	175.8	173.6	170.3	168.9	169.8
EC	–	124.9	125.4	126.4	126.7	125.4	124.2	123.7	124.0	124.7	125.8	127.3	129.5	131.6	133.8	141.4	139.4	136.5	135.6	136.3
Total OECD	–	317.0	322.8	328.3	330.5	331.5	329.9	331.7	337.4	341.7	346.7	352.5	359.3	366.0	370.7	377.9	377.0	375.7	378.7	383.0

a) For sources and definitions, see "Sources and Methods".
b) Break in series as of January 1994.
c) Break in series in 1992.
d) The figures incorporate important revisions to Turkish data; see "Sources and Methods".

Annex Table 20. **Unemployment rates: commonly used definitions**[a]

	1991 Unemployment (thousands)	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States[b]	8 443	7.0	6.1	5.8	7.2	7.6	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.3	5.5	6.7	7.4	6.8	6.3	5.8
Japan	1 360	2.0	2.2	2.1	2.0	2.2	2.3	2.7	2.7	2.6	2.8	2.9	2.5	2.3	2.1	2.1	2.2	2.5	2.9	2.8
Germany	2 602	3.8	3.7	3.2	3.2	4.5	6.4	7.9	7.9	8.0	7.7	7.6	7.6	6.9	6.2	6.7	7.7	8.9	10.0	10.0
France	2 361	4.9	5.2	5.9	6.3	7.4	8.1	8.3	9.7	10.3	10.4	10.5	10.0	9.4	8.9	9.5	10.4	11.7	12.3	12.2
Italy[c]	2 654	7.2	7.3	7.8	7.7	8.5	9.2	10.0	10.1	10.2	11.2	12.1	12.1	12.1	11.5	11.0	11.6	10.4	11.7	11.9
United Kingdom	2 346	5.2	4.9	4.5	6.1	9.1	10.4	11.2	11.4	11.6	11.7	10.3	8.2	6.2	5.9	8.3	10.0	10.3	9.6	8.9
Canada	1 417	8.1	8.3	7.4	7.5	7.6	11.0	11.8	11.2	10.5	9.5	8.8	7.8	7.5	8.1	10.3	11.3	11.2	10.8	10.2
Total of above countries	21 182	5.3	5.0	4.9	5.6	6.4	7.8	8.2	7.5	7.4	7.4	7.0	6.3	5.8	5.8	6.6	7.3	7.3	7.4	7.1
Austria	125	1.4	1.8	1.8	1.6	2.2	3.1	3.7	3.8	3.6	3.1	3.8	3.6	3.1	3.2	3.5	3.6	4.2	4.5	4.6
Belgium	391	6.7	7.2	7.5	7.9	10.2	11.9	13.2	13.2	12.3	11.6	11.3	10.3	9.3	8.7	9.3	10.3	11.9	12.8	12.7
Denmark	296	6.4	7.3	6.2	7.0	9.2	9.8	10.4	10.1	9.0	7.8	7.8	8.6	9.3	9.6	10.5	11.2	12.2	11.0	10.5
Finland	193	5.9	7.3	6.0	4.7	4.9	5.4	5.4	5.2	5.0	5.4	5.1	4.5	3.5	3.5	7.6	13.1	17.9	18.5	17.7
Greece	301	1.7	1.8	1.9	2.8	4.0	5.8	7.8	8.1	7.8	7.4	7.4	7.6	7.4	7.0	7.7	8.7	9.8	10.7	11.0
Iceland	2	0.3	0.4	0.4	0.3	0.4	0.7	1.0	1.3	0.9	0.6	0.5	0.6	1.6	1.8	1.4	3.0	4.3	6.0	6.2
Ireland	210	8.8	8.2	7.1	7.3	9.9	11.4	14.0	15.5	17.4	17.4	17.5	16.7	15.6	13.9	15.6	16.3	16.6	15.7	15.4
Luxembourg	2	0.5	0.8	0.7	0.7	1.0	1.3	1.6	1.7	1.7	1.5	1.7	1.6	1.4	1.3	1.4	1.6	2.1	2.7	2.5
Netherlands	490	3.8	3.8	3.9	4.6	6.8	9.4	11.7	11.7	10.5	9.8	9.5	9.1	8.3	7.5	7.0	6.7	8.1	9.8	9.5
Norway	116	1.4	1.8	1.9	1.7	2.0	2.7	3.4	3.2	2.6	2.0	2.1	3.2	4.9	5.2	5.5	5.9	6.0	5.6	5.2
Portugal	198	7.1	7.9	8.2	8.0	7.7	7.5	7.8	8.6	8.7	8.6	7.1	5.7	5.0	4.7	4.1	4.2	5.5	6.4	6.9
Spain	2 464	5.2	7.0	8.6	11.5	14.3	16.4	18.2	20.1	21.5	21.0	20.5	19.5	17.3	16.3	16.3	18.4	22.7	24.5	24.4
Sweden	122	1.8	2.2	2.1	2.0	2.5	3.2	3.5	3.1	2.9	2.7	2.1	1.8	1.5	1.7	2.9	5.3	8.2	8.0	7.8
Switzerland	39	0.4	0.3	0.3	0.2	0.2	0.4	0.9	1.1	0.9	0.8	0.7	0.6	0.5	0.5	1.1	2.5	4.5	4.5	3.8
Turkey[d]	1 547	9.8	9.8	8.6	8.1	7.1	7.0	7.7	7.6	7.1	7.9	8.3	8.4	8.5	8.0	7.7	7.9	8.7	12.6	14.0
Total of smaller European countries	6 496	5.6	6.2	6.2	6.7	7.5	8.5	9.6	10.0	9.9	9.8	9.7	9.4	8.8	8.3	8.6	9.6	11.5	13.2	13.5
Australia	815	5.6	6.4	6.1	6.0	5.7	7.1	9.9	8.9	8.1	8.0	8.0	7.1	6.1	7.0	9.5	10.7	10.9	10.0	9.2
New Zealand	167	0.6	1.7	1.9	2.7	3.5	3.6	5.3	4.5	3.5	4.0	4.1	5.6	7.1	7.8	10.3	10.3	9.2	8.7	8.1
Total of smaller countries	7 479	5.5	6.2	6.1	6.5	7.3	8.3	9.6	9.8	9.6	9.5	9.5	9.1	8.5	8.2	8.7	9.7	11.4	12.8	12.9
Total OECD	28 660	5.4	5.3	5.2	5.8	6.6	7.9	8.5	8.0	7.9	7.8	7.5	6.9	6.4	6.3	7.0	7.8	8.2	8.5	8.3
OECD Europe	16 458	5.4	5.6	5.6	6.1	7.4	8.5	9.5	9.9	10.0	10.0	9.9	9.3	8.6	8.1	8.6	9.6	10.7	11.7	11.8
EC	14 314	5.2	5.4	5.6	6.3	8.0	9.4	10.4	10.9	11.1	11.2	10.9	10.3	9.3	8.7	9.2	10.3	11.3	12.0	11.9
Total OECD *less* the United States	20 218	4.7	4.9	4.8	5.2	6.1	7.1	8.0	8.2	8.2	8.2	8.1	7.6	7.0	6.6	7.2	8.0	8.8	9.5	9.5
Memorandum items (millions)																				
North America	–	7.8	7.1	7.0	8.5	9.2	12.0	12.1	9.9	9.6	9.5	8.6	7.7	7.5	8.0	9.9	10.9	10.3	9.9	9.2
OECD Europe	–	8.8	9.2	9.3	10.2	12.5	14.4	16.2	17.1	17.3	17.7	17.6	16.8	15.5	14.8	16.5	18.5	20.4	22.4	22.6
EC	–	6.8	7.2	7.5	8.5	10.9	12.8	14.4	15.2	15.6	15.8	15.6	14.8	13.5	12.8	14.3	16.0	17.4	18.6	18.4
Total OECD	–	18.0	18.0	17.8	20.3	23.4	28.4	30.7	29.3	29.2	29.5	28.6	26.7	25.1	24.8	28.7	31.9	33.5	35.3	34.7

a) For sources and definitions, see "Sources and Methods".
b) Break in series as of January 1994.
c) Break in series in 1991 and 1992.
d) The figures incorporate important revisions to Turkish data; see "Sources and Methods".

Annex Table 21. **Standardised unemployment rates**

Per cent of total labour force

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
United States	5.5	8.3	7.6	6.9	6.0	5.8	7.0	7.5	9.5	9.5	7.4	7.1	6.9	6.1	5.4	5.2	5.4	6.6	7.3	6.7
Japan	1.4	1.9	2.0	2.0	2.2	2.1	2.0	2.2	2.4	2.6	2.7	2.6	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2.5
Germany[a]	1.6	3.6	3.7	3.6	3.5	3.2	2.9	4.2	5.9	7.7 |	7.1	7.1	6.4	6.2	6.2	5.6	4.8	4.2[b]	4.6[b]	5.8[b]
France[a]	2.8	4.0	4.4	4.9	5.2	5.8	6.2	7.4	8.1 |	8.3	9.7	10.2	10.4	10.5	10.0	9.4	8.9	9.4	10.4	11.6
Italy	5.3	5.8	6.6	7.0	7.1	7.6	7.5	7.8	8.4	8.8	9.4	9.6	10.5	10.9	11.0	10.9	10.3	9.9	10.5 |	10.2
United Kingdom[a]	2.9	4.3	5.6	6.0	5.9	5.0	6.4	9.8	11.3	12.4 |	11.7	11.2	11.2	10.3	8.6	7.2	7.0	8.8	10.0	10.3
Canada	5.3	6.9	7.1	8.0	8.3	7.4	7.4	7.5	10.9	11.8	11.2	10.4	9.5	8.8	7.7	7.5	8.1	10.2	11.2	11.1
Major seven countries	3.7	5.4	5.4	5.4	5.1	4.9	5.5	6.3	7.7 |	8.1 |	7.3	7.2	7.1	6.7	6.1	5.7	5.6	6.3	6.9	6.9
Belgium[a]	3.0	5.0	6.4	7.4	7.9	8.2	8.8	10.8	12.6 |	12.1	12.1	11.3	11.2	11.0	9.7	8.0	7.2	7.2	7.9	9.1
Finland	1.7	2.2	3.8	5.8	7.2	5.9	4.6	4.8 |	5.3	5.4	5.2	5.0	5.3	5.0	4.5	3.4	3.4	7.5	13.0	17.7
Ireland	..	..	..	..	..	..	..	..	..	14.0	15.5	17.0	17.0	16.7 |	16.2	14.7	13.3	14.7	15.5	15.8
Netherlands[a]	2.7	5.2	5.5	5.3	5.3	5.4	6.0	8.5	11.4 |	12.0	11.8	10.6	9.9	9.6 |	9.1	8.3	7.5	7.0	6.7	8.3
Norway	1.5	2.3	1.7	1.4	1.8	2.0 |	1.6	2.0	2.6	3.4	3.1	2.6	2.0	2.1	3.2	4.9	5.2	5.5	5.9	6.0
Portugal	..	..	..	..	..	..	..	..	..	7.8	8.4	8.5	8.4	7.0	5.7	5.0	4.6	4.1	4.1	5.5
Spain	2.6	3.6	4.5	5.1	6.8	8.4	11.1	13.8	15.6	17.0	19.7	21.1	20.8	20.1	19.1	16.9	15.9	16.0	18.1	22.4
Sweden	2.0	1.6	1.6	1.8	2.2	2.1	2.0	2.5	3.2	3.5	3.1	2.8	2.7 |	1.9	1.6	1.4	1.5	2.7	4.8 |	8.2
Australia	2.6	4.8	4.7	5.6	6.2	6.2	6.0	5.7	7.1	9.9	8.9	8.2	8.0	8.0	7.2	6.1	6.9	9.5	10.7	10.8
New Zealand	..	..	..	..	..	..	..	..	..	..	..	..	4.0	4.1	5.6	7.1	7.7	10.2	10.3	9.5
Total OECD	3.5	5.2	5.3	5.3	5.2	5.1	5.7	6.6	8.1 |	8.5 |	8.0	7.8	7.7	7.3	6.7	6.2	6.1	6.8	7.5	7.8
Memorandum item:																				
EC[c]	3.0	4.3	5.0	5.4	5.6	5.7	6.4	8.1	9.4 |	10.3 |	10.7	10.9	10.8	10.6	9.9	9.0	8.4	8.7	9.5	10.6

a) Series based on EC Labour Force Surveys: see corresponding notes in *Quarterly Labour Force Statistics*.
b) Western Germany.
c) EC: only countries shown – Germany, France, Italy, United Kingdom, Belgium, Ireland, Netherlands, Portugal and Spain – are included in the area total.
Note: These unemployment rates are based on the ILO/OECD Guidelines. The unemployed are defined as persons of working age who are without work, available for work and actively seeking employment; unemployment is expressed as a percentage of total labour force including all members of the armed forces. Break is marked by (I). The data above are averages of quarterly or monthly figures. For a detailed description of the sources and methods used, see *Standardized Unemployment Rates, Sources and Methods* (OECD, 1985).

Annex Table 22. **Capital income shares in the business sector**[a]

	Average 1970-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	1995
United States	31.7	33.1	33.2	32.8	31.7	32.4	31.2	32.8	33.6	33.8	33.9	33.5	33.3	34.1	33.5	33.1	33.5	33.7	33.3	33.2
Japan	35.3	29.0	30.3	30.4	30.9	30.3	29.8	29.6	30.3	31.7	32.0	31.6	32.3	32.3	32.0	31.8	30.9	31.2	31.7	32.0
Germany[b]	34.1	33.3	33.7	33.5	31.3	30.9	31.2	33.2	34.0	34.5	35.1	34.6	35.6	36.3	37.1	37.0	36.7	36.8	38.8	39.9
France[c]	32.1	29.2	29.8	29.6	27.9	27.6	27.8	28.6	29.9	32.0	35.0	35.6	36.9	38.1	37.8	37.7	38.2	38.2	39.4	40.4
Italy[d]	30.4	33.8	34.9	35.5	36.0	35.3	35.4	34.5	36.4	36.6	38.6	38.4	38.9	38.3	37.4	36.6	36.7	38.4	40.6	41.3
United Kingdom[c]	29.3	32.0	32.8	31.6	29.7	29.4	31.2	32.8	32.5	32.8	31.5	32.2	31.9	30.6	29.2	28.1	28.5	30.6	31.5	31.1
Canada[d]	34.4	34.4	36.0	37.6	37.9	36.5	35.2	38.0	39.2	38.5	37.5	37.4	37.0	36.5	35.2	33.5	32.2	31.7	31.6	32.2
Total of above countries	32.5	32.1	32.7	32.5	31.7	31.7	31.2	32.2	33.1	33.7	34.1	33.9	34.1	34.5	34.0	33.6	33.6	34.0	34.4	34.7
Austria[d]	32.8	32.2	30.2	31.3	31.4	29.5	30.0	31.2	31.5	35.8	35.0	34.6	36.4	36.7	37.2	36.7	35.4	35.1	35.4	35.9
Belgium	33.9	28.7	28.7	28.9	27.7	27.5	29.0	29.5	30.4	31.9	31.4	32.3	34.3	36.5	34.7	32.3	31.3	29.6	30.8	31.9
Denmark	31.8	29.9	30.1	29.8	28.5	30.2	33.0	34.3	35.6	35.8	34.9	32.5	33.7	35.5	36.7	37.1	38.0	38.9	39.5	40.7
Finland[d]	26.8	26.2	29.5	31.3	30.4	28.7	30.1	29.7	29.9	28.4	28.2	28.4	29.1	29.9	27.7	24.6	24.8	28.9	31.5	32.8
Greece	40.2	35.0	32.6	31.2	33.7	29.0	25.2	24.6	27.3	26.1	30.1	31.0	31.9	32.1	28.6	34.6	34.1	35.2	35.5	36.0
Ireland	21.8	24.1	25.3	22.3	18.5	21.4	23.2	23.1	23.8	25.7	24.8	27.0	27.2	28.1	27.6	26.8	27.0	25.5	24.8	25.1
Netherlands[d]	30.0	30.0	29.9	29.7	29.7	32.0	33.5	35.0	38.4	39.2	37.9	38.0	38.5	40.6	40.9	40.0	38.4	37.6	38.8	39.6
Norway[e]	21.4	21.8	20.7	23.8	23.3	23.4	22.7	23.3	23.9	23.6	23.6	22.8	23.4	24.9	25.6	25.6	26.1	28.9	29.7	30.1
Spain	32.1	30.2	30.8	30.9	32.5	31.7	33.2	32.7	36.2	37.8	38.4	39.1	40.2	40.9	40.8	40.9	40.8	42.2	42.8	43.5
Sweden	29.6	23.1	24.7	27.4	26.4	25.9	29.6	31.8	33.1	32.3	31.8	31.2	31.5	29.5	27.4	28.6	31.1	35.7	37.2	38.4
Switzerland[c]	27.3	23.0	21.6	20.7	20.1	20.2	19.8	20.1	20.7	21.8	22.1	21.2	20.7	22.2	22.6	21.4	20.9	22.7	24.1	26.0
Australia	32.7	29.7	31.9	34.2	34.1	33.0	28.4	32.5	34.1	34.8	34.6	36.6	38.2	38.0	36.6	36.1	36.5	36.4	36.6	36.6
New Zealand[d]	35.0	33.3	31.3	31.4	28.8	29.1	31.8	35.6	39.4	38.8	40.1	34.8	36.5	39.1	41.4	40.7	39.6	41.6	42.4	43.4
Total of above smaller countries	31.2	28.7	29.1	29.6	29.6	29.3	29.7	30.8	32.8	33.7	33.7	33.9	34.9	35.8	35.2	34.9	34.8	35.6	36.5	37.2
Total of above European countries	31.5	31.0	31.5	31.5	30.5	30.2	30.9	31.7	33.0	33.8	34.6	34.7	35.4	35.8	35.4	35.0	35.0	36.0	37.4	38.1
Total of above OECD countries	32.3	31.6	32.2	32.1	31.4	31.3	31.0	32.0	33.1	33.7	34.0	33.9	34.2	34.7	34.2	33.8	33.7	34.2	34.7	35.0

a) Difficulties in making an appropriate imputation for the labour income of the self-employed mean that great care is needed in interpreting cross-country differences in the level of capital income shares. For details, see "Sources and Methods".

b) Up to and including 1990, data concern western Germany; yearly data from 1991 concern the whole of Germany and the whole economy and exclude the employment adjustment for unpaid family workers for which data are not available.

c) Excluding the employment adjustment for unpaid family workers for which data are not available.

d) Excluding the employment adjustment for unpaid family workers prior to 1975 for Canada, 1977 for Italy and Finland, 1985 for Austria, 1986 for New Zealand and 1987 for the Netherlands.

e) Mainland business sector (i.e excluding shipping as well as crude petroleum and gas extraction).

Sources: OECD, *National Accounts* and OECD Secretariat estimates.

Annex Table 23. **Rates of return on capital in the business sector**[a]

	Average 1970-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	1995
United States	15.8	15.6	15.8	15.3	13.9	13.6	12.5	13.8	15.2	15.6	15.7	15.9	16.2	16.8	16.6	16.4	17.4	18.3	18.8	19.2
Japan	19.4	14.0	14.9	14.5	14.3	13.8	13.4	13.3	13.8	14.5	14.7	14.5	15.0	15.2	14.9	14.8	14.0	13.8	13.9	14.0
Germany[b]	13.7	12.9	13.1	12.9	11.6	11.0	10.8	11.5	11.9	12.0	12.5	12.3	12.8	13.1	13.7	13.7	13.5	13.0	13.8	14.1
France[c]	13.3	11.3	11.5	11.4	10.3	10.0	10.0	10.1	10.6	11.4	12.9	13.1	13.9	14.7	14.6	14.3	14.5	14.2	14.6	15.3
Italy[d]	11.4	11.8	12.3	12.9	12.9	12.0	11.9	11.6	12.4	12.4	13.6	13.7	13.9	13.7	13.1	12.8	12.4	12.3	12.7	13.0
United Kingdom[c]	10.3	10.1	10.3	9.6	8.6	8.3	9.1	10.0	10.1	10.4	9.9	10.5	10.6	10.1	9.7	9.4	10.1	11.2	11.9	12.0
Canada[d]	13.9	14.2	14.9	16.0	16.7	15.9	14.2	16.2	17.6	17.7	17.5	18.2	18.7	18.2	17.0	16.5	16.0	16.2	16.1	16.7
Total of above countries	15.2	13.9	14.3	14.0	13.1	12.7	12.1	12.9	13.8	14.2	14.5	14.6	15.0	15.3	15.1	14.9	15.2	15.6	16.0	16.4
Austria[d]	13.3	12.1	10.8	11.2	10.9	9.8	9.6	10.0	10.0	11.3	11.1	10.8	11.4	11.5	11.7	11.5	11.2	10.9	10.9	11.1
Belgium	13.2	11.0	11.0	10.9	10.5	9.9	10.3	10.4	10.9	11.6	11.6	12.1	13.2	14.1	13.3	12.3	11.8	10.7	11.1	11.7
Denmark	10.9	9.3	9.2	9.0	8.1	8.1	9.1	9.5	10.2	10.3	10.1	9.2	9.6	10.0	10.3	10.2	10.4	10.4	10.8	11.4
Finland[d]	9.2	7.4	8.4	9.5	9.3	8.7	9.1	9.1	9.2	8.7	8.6	8.6	8.9	9.3	8.2	6.6	6.4	7.2	8.4	9.4
Greece	29.3	19.3	17.4	15.9	16.5	13.5	11.7	10.3	11.4	10.7	11.6	11.5	12.5	12.3	11.5	14.1	14.2	15.0	15.2	15.4
Ireland	8.3	8.0	8.6	7.5	5.9	6.8	7.5	7.4	7.7	8.4	8.3	9.6	9.6	9.9	10.4	9.8	9.9	9.3	9.3	9.6
Netherlands[d]	13.9	14.2	14.0	13.7	13.4	14.2	14.8	15.5	17.4	18.0	17.5	16.8	17.1	18.4	18.9	18.5	17.3	16.8	17.2	17.5
Norway[e]	8.0	7.5	6.1	7.1	6.8	6.7	6.1	6.2	6.6	6.3	6.5	6.1	6.0	6.1	6.3	6.2	6.2	6.8	7.0	7.1
Spain	19.3	16.1	16.4	16.0	15.5	14.1	14.9	14.0	15.5	15.8	17.1	18.1	18.9	19.5	19.5	19.4	19.3	19.0	18.9	19.3
Sweden	11.7	7.6	8.1	9.2	8.8	8.4	9.5	10.0	10.9	10.6	10.7	10.5	10.7	10.1	9.3	10.1	11.2	12.6	13.5	14.2
Switzerland[c]	12.0	9.4	9.0	9.0	8.6	8.5	8.3	8.4	8.8	9.2	9.7	9.3	8.9	9.3	9.7	9.0	8.6	9.9	10.7	11.5
Australia	12.5	10.1	10.6	11.4	11.1	10.8	8.8	9.7	11.0	11.1	10.5	11.2	12.3	13.0	12.3	11.7	12.0	12.0	12.4	12.8
New Zealand[d]	14.7	11.9	10.2	10.8	9.4	9.7	10.5	11.7	13.2	12.8	14.1	12.3	13.9	15.5	16.3	15.5	14.9	16.1	16.5	17.0
Total of above smaller countries	14.6	12.2	12.1	12.2	11.8	11.2	11.3	11.3	12.4	12.6	12.9	13.1	13.7	14.2	14.1	13.8	13.6	13.7	14.0	14.5
Total of above European countries	13.1	11.9	12.0	12.0	11.2	10.7	10.8	11.1	11.7	12.0	12.6	12.7	13.2	13.4	13.3	13.1	13.1	13.1	13.6	14.0
Total of above OECD countries	15.2	13.7	14.0	13.8	12.9	12.5	12.0	12.7	13.6	14.0	14.3	14.4	14.8	15.2	15.0	14.7	15.0	15.3	15.7	16.1

a) Difficulties in making an appropriate imputation for the labour income of the self-employed and in deriving a consistent measure of the capital stock across countries mean that great care is needed in interpreting cross-country differences in the levels of rates of return. For details see "Sources and Methods".
b) Western Germany.
c) Excluding the adjustment to employment for unpaid family workers for which data are not available.
d) Excluding the adjustment to employment for unpaid family workers prior to 1975 for Canada, 1977 for Italy and Finland, 1985 for Austria, 1986 for New Zealand and 1987 for the Netherlands.
e) Mainland business sector (i.e excluding shipping as well as crude petroleum and gas extraction).

Sources: OECD, *National Accounts* and OECD Secretariat estimates.

Annex Table 24. **Household saving rates: national definitions**

Percentage of disposable household income

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	7.6	6.5	7.1	7.2	8.1	9.1	8.9	6.9	8.3	6.6	6.2	4.5	4.5	4.1	4.3	4.9	5.0	4.6	4.3	4.4
Japan	23.2	21.8	20.8	18.2	17.9	18.4	16.7	16.1	15.8	15.6	16.1	14.7	14.3	14.6	14.1	15.1	14.3	14.6	14.8	14.2
Germany	13.3	12.2	12.1	12.7	12.8	13.6	12.7	10.9	11.4	11.4	12.3	12.6	12.8	12.4	13.9	12.8	12.9	12.1	11.3	11.1
France[a]	18.2	18.7	20.4	18.8	17.6	18.0	17.3	15.9	14.5	14.0	12.9	10.8	11.0	11.7	12.5	13.1	13.9	14.1	13.6	13.1
Italy[a]	27.3	25.5	25.9	25.0	21.9	20.8	19.3	22.3	20.6	18.9	18.2	17.7	16.7	16.6	18.4	18.2	18.8	18.9	18.0	16.7
United Kingdom[a]	10.8	9.2	10.9	12.1	13.4	12.6	11.3	9.7	11.1	10.7	8.7	7.1	5.7	7.2	8.6	10.1	12.3	11.5	9.9	8.8
Canada	11.8	11.4	12.6	13.2	13.6	15.4	18.2	14.8	15.0	13.3	10.7	9.2	9.7	10.4	9.9	10.3	10.8	10.6	10.4	10.0
Austria	10.4	8.0	11.3	11.2	10.4	8.1	10.3	8.3	8.2	8.3	10.9	12.4	11.5	12.6	13.7	13.4	12.0	11.5	12.0	12.0
Belgium	21.1	19.0	19.3	18.0	19.6	19.8	17.1	18.0	16.7	14.3	16.3	14.6	15.7	17.6	18.4	20.9	21.3	22.9	21.9	21.0
Denmark	7.8	6.1	6.8	7.2	8.0	12.3	18.7	17.2	16.7	12.4	4.8	3.2	8.0	12.3	15.7	16.0	15.7	15.8	15.1	13.2
Finland	3.0	2.4	3.7	3.9	5.4	4.5	5.2	5.8	4.5	3.8	2.5	2.9	–1.2	–0.6	0.4	5.1	5.9	6.0	4.3	5.1
Greece	19.8	19.9	20.4	21.6	20.6	21.6	19.7	18.8	20.6	21.4	17.9	16.6	20.5	19.6	20.3	18.4	15.7	15.8	17.0	16.8
Iceland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ireland	..	17.1	17.3	15.2	13.0	14.2	17.3	15.7	15.4	13.1	11.5	11.2	9.3	7.3	9.5	11.9	12.6	14.8	14.3	14.5
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Netherlands	5.0	3.8	3.1	2.7	1.8	2.8	4.8	1.8	0.5	–0.2	1.4	1.4	1.8	4.0	5.9	1.1	2.4	1.6	1.2	1.2
Norway	6.2	4.7	8.4	4.6	3.4	4.5	3.8	4.3	5.2	–2.7	–6.1	–6.2	–2.4	0.9	0.9	2.6	5.3	5.2	4.6	4.5
Portugal	17.9	20.0	25.0	28.1	28.5	28.3	28.4	26.7	27.7	28.7	26.3	25.6	22.3	22.4	23.3	23.0	21.2	21.3	21.0	20.6
Spain	9.6	9.1	10.3	8.8	6.9	7.7	8.7	8.1	7.1	7.0	7.2	4.2	5.6	3.9	5.9	6.9	5.2	7.4	6.3	5.3
Sweden	2.4	4.1	4.5	2.9	6.7	5.1	1.7	2.4	2.1	2.3	1.3	–2.8	–4.8	–4.9	–0.6	3.0	7.4	7.3	7.3	6.4
Switzerland	5.5	3.9	4.6	3.7	3.3	4.6	6.2	5.8	5.8	5.7	7.0	8.4	9.9	10.9	12.2	13.0	13.1	13.2	13.1	12.8
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Australia	11.1	11.9	11.9	11.2	10.1	9.4	8.3	8.3	9.3	7.5	7.4	5.8	6.5	7.1	8.0	6.5	5.4	4.2	3.6	2.7
New Zealand	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..

a) Gross saving.

Annex Table 25. **Gross national saving as a percentage of GDP**

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
United States	18.7	19.6	21.2	21.3	19.8	20.8	18.5	17.1	19.0	17.6	16.1	16.1	16.6	16.6	15.6	15.4	14.5
Japan	32.6	32.0	32.3	31.5	31.1	31.5	30.6	29.8	30.8	31.7	32.0	32.6	33.9	34.3	34.6	35.1	33.9
Germany[a]	22.4	21.7	22.6	22.8	21.7	20.3	20.2	21.2	21.7	22.0	23.8	23.5	24.3	25.7	25.0	23.1	22.7
France	24.5	24.4	24.6	24.6	23.6	21.1	19.7	19.1	19.0	18.9	20.1	20.0	21.1	21.8	21.4	20.7	19.7
Italy	25.7	26.0	26.3	26.3	24.7	22.5	22.0	22.2	22.3	21.6	21.4	20.8	20.8	20.0	19.6	18.6	17.2
United Kingdom	15.2	18.5	18.4	19.0	17.7	16.7	16.7	17.1	16.8	17.6	16.0	15.9	15.5	15.5	14.7	13.5	12.8
Canada	22.8	20.9	21.1	23.1	22.9	22.6	19.5	18.8	20.2	19.6	18.1	19.0	20.6	19.4	16.5	14.4	13.6
Austria	25.0	24.3	25.3	25.7	25.8	24.3	24.0	22.6	23.5	23.2	23.8	23.8	24.6	25.2	26.3	25.6	24.9
Belgium	22.5	20.8	20.6	18.6	17.5	14.1	13.7	14.7	15.8	15.2	17.2	17.5	19.7	21.5	21.4	21.1	20.9
Denmark	19.1	18.9	18.8	16.6	14.9	12.4	12.1	13.4	15.1	14.9	16.1	16.1	16.6	16.9	17.8	17.4	18.2
Finland	23.9	22.9	23.2	25.2	26.0	24.9	23.3	22.8	23.8	22.8	22.2	22.1	24.0	24.8	23.0	15.1	12.0
Greece	24.4	24.5	26.3	28.3	29.1	24.6	16.7	16.8	15.4	13.1	14.5	14.5	17.3	15.8	13.8	15.3	15.5
Iceland	25.0	25.6	24.5	23.2	23.5	21.0	18.3	17.7	17.0	15.6	17.8	16.1	16.1	16.6	16.1	14.4	13.8
Ireland	20.1	22.5	22.2	19.6	16.1	13.6	17.2	16.9	16.9	16.0	15.9	17.7	17.3	19.2	21.6	23.7	21.9
Luxembourg	44.3	42.1	44.6	43.8	44.2	45.8	59.3	63.8	63.8	64.1	62.2	55.1	57.8	61.6	62.5	59.4	60.2
Netherlands	23.9	22.8	21.4	20.7	20.5	21.0	21.6	22.0	23.7	24.3	24.4	22.6	24.2	26.1	26.0	24.7	24.0
Norway	25.2	22.3	23.4	25.3	29.6	29.4	27.7	28.3	31.0	29.6	23.0	23.4	22.7	24.6	24.1	23.6	20.8
Portugal	15.3	19.7	24.8	27.8	26.9	22.4	20.6	20.0	18.8	21.0	24.7	27.1	25.3	26.8	26.6	25.4	25.3
Spain	23.0	23.2	23.9	22.8	20.8	19.2	19.6	19.7	20.9	20.6	21.6	21.6	22.6	21.9	21.8	21.0	19.1
Sweden	20.8	17.8	17.6	17.8	17.8	15.6	14.2	16.1	17.9	17.5	18.1	18.2	18.8	19.3	17.9	16.0	14.1
Switzerland	26.8	26.5	27.0	26.6	26.7	28.4	28.1	27.9	28.9	29.8	31.1	31.7	32.8	33.7	33.1	31.6	29.7
Turkey	18.8	14.6	13.9	14.2	12.2	19.2	17.8	14.5	15.3	19.8	22.6	23.7	26.3	24.1	23.1	21.2	15.8
Australia	22.6	20.7	21.5	21.9	21.4	20.3	17.2	19.4	19.2	18.6	19.2	20.7	22.7	21.1	18.6	16.8	16.2
New Zealand	23.1	21.0	19.5	20.1	18.6	20.7	19.3	20.6	20.4	17.9	20.3	19.2	18.3	16.9	16.3	16.2	19.4
Total OECD	22.6	22.7	23.5	23.6	22.5	22.3	20.9	20.4	21.4	21.1	20.7	20.8	21.6	21.7	21.0	20.5	19.4
OECD Europe	22.3	22.4	22.7	22.8	21.7	20.3	19.8	19.9	20.3	20.5	21.1	20.9	21.6	22.0	21.5	20.3	19.1
EC	22.2	22.6	23.0	23.0	21.7	19.9	19.5	19.8	20.1	20.1	20.7	20.5	21.1	21.5	21.0	19.9	19.1

a) Western Germany.

Annex Table 26. **General government total outlays**[a]

As a percentage of nominal GDP

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States[b]	30.0	29.9	31.8	32.1	33.9	33.9	32.6	33.2	33.7	33.4	32.5	32.4	33.3	34.1	35.1	34.4	33.8	33.6
Japan	30.0	31.1	32.0	32.8	33.0	33.3	32.3	31.6	32.0	32.2	31.6	30.9	31.7	31.4	32.2	34.0	35.5	35.9
Germany	47.3	47.2	47.9	48.7	49.0	47.8	47.4	47.0	46.4	46.7	46.3	44.8	45.7	48.5	49.0	50.0	50.1	50.5
France	44.6	45.0	46.1	48.6	50.3	51.4	51.9	52.2	51.3	50.9	50.0	49.1	49.8	50.6	52.1	54.9	55.3	54.5
Italy	42.4	41.6	41.9	45.9	47.6	48.7	49.3	50.9	50.7	50.2	50.3	51.3	53.2	53.5	53.6	56.2	56.0	56.1
United Kingdom	41.4	40.9	43.0	44.2	44.5	44.7	45.1	44.0	42.4	40.7	37.9	37.5	39.9	40.8	43.3	43.5	42.7	41.6
Canada	38.7	37.3	38.8	39.8	44.8	45.3	44.9	45.3	44.6	43.5	42.5	43.1	45.8	49.1	49.9	49.6	48.8	47.5
Total of above countries	35.0	35.0	36.4	37.4	38.8	39.0	38.3	38.4	38.4	38.1	37.2	36.9	38.1	39.0	40.0	40.5	40.5	40.3
Australia	32.7	31.7	31.6	31.6	33.0	35.4	35.7	36.5	37.3	35.2	33.6	32.8	34.5	36.7	37.6	38.6	37.9	37.0
Austria	49.0	48.2	48.1	49.5	50.1	50.4	50.0	50.9	51.6	51.9	50.2	49.0	48.6	49.7	50.5	51.7	52.3	51.9
Belgium[c]	55.9	57.7	58.6	63.8	63.8	63.9	62.6	62.3	61.6	59.8	57.2	55.4	55.5	56.8	57.5	58.4	57.1	55.6
Denmark	50.7	53.2	56.2	59.8	61.2	61.6	60.4	59.3	55.7	57.3	59.4	59.6	58.6	59.2	60.7	62.3	62.2	61.0
Finland	39.9	38.4	38.1	39.0	40.8	42.4	42.0	43.8	44.7	45.0	44.0	42.0	45.4	53.9	58.3	61.5	60.0	58.0
Greece	31.6	32.9	33.1	39.1	39.7	41.7	44.4	48.3	47.6	47.6	47.5	49.4	53.3	50.8	50.6	52.7	53.9	54.0
Ireland	42.8	45.1	48.9	50.4	53.2	53.2	51.4	52.5	52.3	50.4	47.1	40.5	41.0	42.1	43.7	44.2	44.0	44.0
Netherlands	51.6	53.3	55.2	57.1	59.1	59.7	58.1	56.5	56.1	57.7	56.3	53.8	54.0	54.3	55.2	55.8	55.3	53.1
Norway	50.9	49.5	47.5	47.1	47.5	47.6	45.5	44.8	48.9	50.4	52.4	53.5	53.8	55.4	57.4	57.1	56.8	55.6
Portugal	36.4	36.2	25.9	43.9	43.0	47.9	44.4	43.4	44.0	43.5	43.5	41.7	42.9	49.7	52.2	52.8	52.3	53.1
Spain	29.0	30.1	32.2	34.9	36.6	37.7	38.1	41.1	40.7	39.6	39.5	40.9	41.8	43.5	44.6	46.9	47.3	46.6
Sweden	58.6	60.0	60.1	62.6	64.8	64.5	62.0	63.4	61.6	57.8	58.1	58.3	59.1	61.3	67.2	71.3	66.6	64.1
Total of above smaller countries	41.5	42.2	42.7	45.7	47.0	48.1	47.4	48.4	48.2	47.5	46.8	46.3	47.2	49.0	50.6	52.2	51.6	50.6
Total of above European countries	43.8	44.0	44.9	47.4	48.4	48.8	48.8	49.1	48.4	47.9	47.1	46.6	47.8	49.2	50.5	52.1	51.9	51.4
Total of above OECD countries	35.9	36.0	37.2	38.5	39.9	40.2	39.5	39.7	39.7	39.4	38.5	38.2	39.3	40.3	41.4	42.0	41.9	41.6

a) Current outlays plus net capital outlays.
b) Excludes deposit insurance outlays.
c) Includes proceeds of privatisations and sales of other assets (BF 32.2 billion in 1993 and BF 57.0 billion in 1994).

Annex Table 27. **General government current receipts**[a]

As a percentage of nominal GDP

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	30.2	30.3	30.5	31.1	30.5	29.9	29.7	30.1	30.2	31.0	30.5	30.9	30.8	30.7	30.6	30.9	31.3	31.5
Japan	24.5	26.3	27.6	29.0	29.4	29.6	30.2	30.8	31.0	32.6	33.1	33.4	34.6	34.4	34.0	34.3	33.6	34.2
Germany	44.8	44.6	45.0	45.0	45.7	45.3	45.5	45.8	45.0	44.8	44.1	44.9	43.6	45.3	46.4	46.7	47.1	47.7
France	42.5	44.1	46.1	46.7	47.6	48.2	49.2	49.3	48.6	49.0	48.3	47.8	48.3	48.4	48.2	49.0	49.4	49.3
Italy	31.9	31.5	33.3	34.4	36.2	38.0	37.7	38.3	39.1	39.2	39.6	41.4	42.2	43.3	44.0	46.7	46.3	47.5
United Kingdom	37.0	37.7	39.6	41.6	42.1	41.4	41.3	41.2	40.0	39.3	38.9	38.5	38.7	38.1	37.0	35.8	36.3	37.3
Canada	35.5	35.3	36.1	38.3	38.8	38.4	38.5	38.5	39.2	39.7	40.0	40.3	41.7	42.8	43.3	42.8	43.4	43.5
Total of above countries	32.4	32.9	33.7	34.6	34.8	34.6	34.7	35.1	35.1	35.7	35.4	35.8	36.1	36.3	36.3	36.7	36.8	37.2
Australia	29.9	29.4	30.1	31.1	32.6	31.4	32.7	33.8	34.6	35.3	34.9	34.2	35.2	34.1	33.7	33.6	33.6	33.6
Austria	46.2	45.8	46.4	47.8	46.7	46.4	47.5	48.5	48.0	47.6	47.1	46.2	46.5	47.3	48.5	48.8	48.4	48.6
Belgium	49.2	50.2	49.3	50.3	52.4	52.0	53.0	53.2	52.2	52.3	50.4	48.9	49.6	50.0	50.2	51.2	51.3	50.8
Denmark	50.4	51.5	52.9	52.9	52.0	54.4	56.3	57.3	59.1	59.7	60.0	59.1	57.1	57.1	58.3	57.7	57.9	57.8
Finland	43.9	41.4	41.0	42.6	42.8	43.1	45.0	46.8	48.2	46.1	48.1	48.3	50.7	52.5	53.3	53.7	54.5	52.5
Greece	29.9	30.4	30.2	28.8	32.0	33.2	34.3	34.3	35.1	36.0	33.8	32.8	35.2	36.4	39.6	39.8	40.1	41.5
Ireland	34.2	34.8	37.5	38.1	40.6	42.5	42.7	42.3	42.3	42.5	43.3	39.5	39.5	40.7	41.2	41.7	41.7	41.3
Netherlands	49.1	49.7	51.3	52.0	52.5	53.8	52.3	52.6	52.6	52.6	52.1	49.1	49.0	51.9	51.7	52.9	51.4	49.3
Norway	50.8	50.8	53.2	51.8	51.9	51.8	53.0	55.1	54.7	55.1	55.0	54.9	56.3	55.2	55.0	54.4	54.2	53.8
Portugal	29.5	30.0	31.4	33.3	35.4	37.7	37.3	36.0	37.6	36.2	38.1	38.7	37.6	43.6	47.5	45.0	44.8	46.5
Spain	27.0	28.3	29.9	31.2	31.2	33.1	32.8	34.2	34.7	36.4	36.3	38.1	37.9	38.6	40.1	39.8	40.1	40.7
Sweden	58.2	57.1	56.1	57.4	57.8	59.5	59.0	59.5	60.4	62.1	61.6	63.7	63.3	60.2	59.8	58.3	55.9	54.6
Total of above smaller countries	39.0	39.3	40.2	41.1	41.8	42.6	42.9	43.7	44.2	44.7	44.5	44.3	44.5	45.1	45.9	45.8	45.6	45.4
Total of above European countries	39.8	40.2	41.5	42.4	43.2	43.8	44.0	44.4	44.1	44.2	43.9	44.2	44.2	44.9	45.3	45.8	45.9	46.3
Total of above OECD countries	33.3	33.8	34.6	35.5	35.7	35.7	35.8	36.2	36.3	36.9	36.6	36.9	37.2	37.4	37.6	37.9	38.0	38.3

a) Current receipts exclude capital receipts.

Annex Table 28. **General government financial balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States[a]	0.1	0.4	–1.3	–1.0	–3.4	–4.1	–2.9	–3.1	–3.4	–2.5	–2.0	–1.5	–2.5	–3.4	–4.5	–3.5	–2.6	–2.1
Japan	–5.5	–4.7	–4.4	–3.8	–3.6	–3.6	–2.1	–0.8	–0.9	0.5	1.5	2.5	2.9	3.0	1.8	0.3	–1.9	–1.7
Germany	–2.4	–2.6	–2.9	–3.7	–3.3	–2.6	–1.9	–1.2	–1.3	–1.9	–2.2	0.1	–2.1	–3.2	–2.6	–3.3	–2.9	–2.8
France	–2.1	–0.8	0.0	–1.9	–2.8	–3.2	–2.8	–2.9	–2.7	–1.9	–1.7	–1.3	–1.6	–2.2	–3.9	–5.8	–5.9	–5.2
Italy	–10.4	–10.2	–8.6	–11.6	–11.3	–10.7	–11.6	–12.6	–11.6	–11.0	–10.7	–9.9	–10.9	–10.2	–9.5	–9.5	–9.7	–8.6
United Kingdom	–4.4	–3.3	–3.4	–2.6	–2.5	–3.3	–3.9	–2.8	–2.4	–1.4	1.0	0.9	–1.2	–2.7	–6.4	–7.7	–6.4	–4.3
Canada	–3.2	–2.0	–2.8	–1.5	–5.9	–6.9	–6.5	–6.8	–5.4	–3.8	–2.5	–2.9	–4.1	–6.3	–6.6	–6.8	–5.5	–4.0
Total of above countries	–2.6	–2.1	–2.7	–2.8	–4.0	–4.3	–3.5	–3.3	–3.3	–2.4	–1.8	–1.1	–2.0	–2.7	–3.7	–3.9	–3.7	–3.1
Australia	–2.7	–2.2	–1.5	–0.6	–0.4	–4.0	–3.0	–2.7	–2.7	0.0	1.3	1.4	0.7	–2.6	–3.9	–5.0	–4.3	–3.4
Austria	–2.8	–2.4	–1.7	–1.8	–3.4	–4.0	–2.6	–2.5	–3.7	–4.3	–3.0	–2.8	–2.1	–2.5	–2.0	–2.8	–4.0	–3.3
Belgium[b]	–6.8	–7.5	–9.3	–13.5	–11.5	–11.9	–9.6	–9.1	–9.4	–7.5	–6.8	–6.5	–5.9	–6.8	–7.3	–7.2	–5.8	–4.7
Denmark	–0.4	–1.7	–3.3	–6.9	–9.1	–7.2	–4.1	–2.0	3.4	2.4	0.6	–0.5	–1.5	–2.1	–2.4	–4.5	–4.3	–3.2
Finland	4.0	3.0	2.9	3.6	2.0	0.6	3.0	3.0	3.5	1.1	4.1	6.3	5.4	–1.5	–4.9	–7.9	–5.6	–5.5
Greece	–1.7	–2.5	–2.9	–10.2	–7.7	–8.6	–10.1	–14.0	–12.5	–11.7	–13.7	–16.6	–18.1	–14.4	–11.0	–12.8	–13.8	–12.5
Ireland	–8.6	–10.2	–11.4	–12.3	–12.6	–10.7	–8.8	–10.1	–10.0	–7.8	–3.8	–1.0	–1.5	–1.4	–2.6	–2.5	–2.4	–2.6
Netherlands	–2.5	–3.6	–3.9	–5.1	–6.6	–5.9	–5.9	–3.9	–3.5	–5.1	–4.2	–4.7	–5.0	–2.4	–3.5	–2.9	–3.9	–3.7
Norway	–0.1	1.3	5.7	4.7	4.4	4.2	7.5	10.2	5.8	4.7	2.6	1.4	2.5	–0.2	–2.3	–2.7	–2.6	–1.8
Portugal	–6.9	–6.3	5.5	–10.6	–7.6	–10.1	–7.1	–7.4	–6.4	–7.3	–5.4	–3.1	–5.3	–6.0	–4.7	–7.8	–7.5	–6.6
Spain	–2.0	–1.8	–2.2	–3.7	–5.4	–4.6	–5.2	–6.9	–6.0	–3.1	–3.3	–2.8	–3.9	–4.9	–4.5	–7.2	–7.1	–5.9
Sweden	–0.5	–2.9	–4.0	–5.3	–7.0	–5.0	–2.9	–3.8	–1.3	4.2	3.5	5.4	4.2	–1.1	–7.4	–12.9	–10.7	–9.5
Total of above smaller countries	–2.5	–2.8	–2.5	–4.6	–5.2	–5.5	–4.5	–4.7	–4.1	–2.8	–2.3	–2.1	–2.7	–3.9	–4.6	–6.3	–6.1	–5.2
Total of above European countries	–4.0	–3.7	–3.3	–5.0	–5.2	–5.0	–4.8	–4.7	–4.3	–3.7	–3.2	–2.5	–3.7	–4.4	–5.2	–6.3	–6.1	–5.2
Total of above OECD countries	–2.6	–2.2	–2.7	–3.0	–4.2	–4.5	–3.6	–3.5	–3.4	–2.5	–1.9	–1.2	–2.1	–2.9	–3.8	–4.2	–4.0	–3.3
General government financial balances excluding social security																		
United States[a,c,d]	0.3	0.5	–1.2	–0.8	–3.3	–4.1	–3.0	–3.4	–3.8	–3.0	–2.9	–2.5	–3.5	–4.4	–5.3	–4.3	–3.5	–3.1
Japan[c]	–7.9	–7.3	–7.0	–6.6	–6.3	–6.3	–4.8	–3.9	–3.9	–2.3	–1.6	–0.8	–0.6	–0.8	–2.0	–3.5	–5.7	–5.6

a) Excludes deposit insurance outlays.
b) Includes proceeds of privatisations and sales of other assets (BF 32.2 billion in 1993 and BF 57.0 billion in 1994).
c) OECD Secretariat estimates, derived from fiscal year data converted to a calendar year basis. The coverage of the social security systems is not the same in the United States and Japan.
d) Includes the surplus of state and local government pension schemes.

Annex Table 29. **General government structural balances**[a]

Surplus (+) or deficit (-) as a percentage of trend GDP

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	1995
United States[b]	–1.0	–0.8	–1.6	–0.9	–1.8	–2.7	–2.6	–3.1	–3.6	–2.8	–2.8	–2.3	–3.1	–3.6	–4.0	–3.3	–2.9	–2.6
Japan[c]	–5.6	–5.6	–5.1	–4.3	–3.6	–3.1	–1.6	–0.6	–0.2	1.3	1.5	2.2	2.3	2.4	2.0	1.9	0.8	1.3
Germany[c]	–3.3	–4.6	–4.3	–4.1	–2.2	–1.2	–0.9	–0.1	–0.3	–0.6	–1.6	0.0	–3.6	–5.2	–4.5	–3.1	–2.3	–2.2
France	–2.7	–1.9	–0.8	–2.2	–3.1	–2.6	–1.6	–1.4	–1.3	–0.3	–1.0	–1.5	–1.8	–1.6	–2.7	–2.9	–2.5	–2.0
Italy	–10.4	–11.0	–9.6	–11.9	–10.8	–9.5	–10.5	–11.5	–10.8	–10.5	–11.0	–10.5	–11.4	–10.1	–8.5	–6.9	–6.6	–5.6
United Kingdom	–6.3	–6.2	–4.8	–1.9	–1.0	–2.3	–2.8	–2.3	–3.0	–3.2	–2.0	–2.1	–3.2	–2.3	–4.3	–5.3	–4.3	–2.6
Canada	–4.1	–2.9	–3.0	–2.0	–3.5	–4.5	–5.5	–6.7	–5.5	–4.4	–4.1	–4.3	–4.1	–4.0	–3.3	–3.4	–2.6	–1.9
Total of above countries	–3.4	–3.4	–3.3	–2.9	–3.0	–3.2	–2.9	–3.0	–3.0	–2.3	–2.4	–1.9	–2.7	–2.9	–3.2	–2.7	–2.5	–2.0
Australia	–2.9	–2.7	–1.9	–1.1	0.1	–2.5	–3.0	–3.6	–2.9	–0.2	1.0	0.8	0.6	–1.3	–2.0	–3.5	–3.4	–3.2
Austria	–3.1	–4.0	–3.7	–2.4	–3.5	–3.9	–2.0	–2.1	–2.7	–3.0	–2.7	–2.9	–2.9	–3.1	–1.9	–1.4	–2.3	–1.9
Belgium[d]	–7.5	–8.4	–11.7	–14.0	–11.6	–11.0	–8.8	–7.6	–7.5	–5.7	–6.8	–7.5	–7.7	–8.5	–8.6	–6.5	–4.9	–4.2
Denmark	–1.0	–3.4	–3.4	–4.9	–7.4	–5.6	–3.7	–2.8	1.8	1.8	0.5	0.3	–0.3	–0.2	0.0	–1.5	–2.5	–2.4
Finland	5.8	2.8	1.3	2.8	0.9	–0.4	2.1	2.0	2.5	–0.7	1.1	1.5	0.7	–1.6	–2.1	–2.9	–1.3	–3.5
Greece	–2.3	–3.2	–3.6	–10.3	–7.3	–7.6	–9.5	–14.1	–12.5	–10.6	–14.1	–17.9	–17.9	–15.1	–11.3	–12.2	–12.7	–11.3
Ireland	–8.9	–10.8	–12.3	–13.7	–14.0	–10.4	–9.6	–10.4	–7.7	–5.9	–2.1	–0.6	–3.4	–2.7	–4.4	–3.4	–3.3	–3.8
Netherlands	–3.9	–5.7	–5.9	–6.0	–5.3	–4.1	–4.6	–2.9	–2.9	–3.8	–3.1	–5.0	–6.5	–4.0	–4.5	–2.8	–3.3	–3.5
Norway[e]	–1.4	–2.1	–1.6	–2.4	–2.6	–4.3	–2.5	–1.6	–0.3	–1.1	–0.7	–2.2	–3.0	–4.7	–6.6	–7.3	–7.2	–7.1
Portugal	–7.1	–7.4	4.1	–12.4	–9.0	–10.1	–4.9	–5.0	–4.4	–6.3	–4.9	–3.4	–6.4	–6.9	–4.6	–6.1	–4.8	–3.5
Spain	–2.8	–2.3	–2.8	–3.8	–5.8	–4.5	–4.3	–5.8	–4.9	–3.2	–4.3	–4.7	–6.2	–6.8	–5.3	–5.9	–4.9	–3.6
Sweden	0.0	–4.7	–5.8	–5.7	–6.9	–5.0	–4.7	–5.8	–3.7	0.8	–0.4	0.8	–0.3	–3.7	–7.5	–10.1	–9.1	–9.2
Total of above smaller countries	–3.0	–3.9	–3.9	–5.3	–5.4	–5.1	–4.4	–4.8	–3.9	–2.8	–3.0	–3.5	–4.5	–5.0	–4.8	–5.2	–4.7	–4.3
Total of above European countries	–4.8	–5.3	–4.6	–5.3	–4.8	–4.3	–4.0	–4.0	–3.7	–3.4	–3.7	–3.5	–5.0	–5.0	–5.0	–4.7	–4.1	–3.4
Total of above OECD countries	–3.4	–3.5	–3.4	–3.2	–3.3	–3.4	–3.1	–3.2	–3.2	–2.4	–2.4	–2.1	–3.0	–3.2	–3.4	–3.0	–2.8	–2.3

a) OECD Secretariat estimates of the structural component of general government financial balances. The estimates are surrounded by large margins of error, reflecting uncertainty as to the present size and future growth of trend output, and the degree to which elimination of the output gap would translate into enhanced tax revenues and reduced expenditure. For a discussion of the current methodology, see the section on fiscal policy in "Sources and Methods".

b) Excludes deposit insurance outlays. Receipts relating to Operation Desert Storm, amounting to 0.6 per cent of GDP in 1991, are excluded.

c) Excludes expenditure related to Operation Desert Storm in 1991 amounting to 0.2 per cent of GDP for Japan and 0.4 per cent of GDP for Germany.

d) Includes proceeds of privatisations and sales of other assets (BF 32.2 billion in 1993 and BF 57.0 billion in 1994).

e) As a percentage of mainland GDP. The financial balances shown exclude revenues from oil production, amounting to 7.5 per cent of mainland GDP in 1993 and projected to amount to 5.5 per cent of mainland GDP in 1994 and 1995.

Annex Table 30. **General government primary balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States[a]	1.2	1.5	–0.1	0.5	–1.8	–2.4	–0.9	–1.0	–1.4	–0.5	–0.1	0.5	–0.4	–1.1	–2.3	–1.6	–0.5	0.1
Japan[b,c]	–4.9	–3.9	–3.4	–2.5	–2.1	–2.0	–0.3	0.9	0.7	1.7	2.5	3.4	3.5	3.3	2.1	0.6	–1.5	–1.3
Germany[b]	–1.5	–1.5	–1.6	–2.1	–1.3	–0.3	0.4	1.1	1.0	0.5	0.2	2.3	0.0	–1.0	0.4	–0.1	0.9	2.1
France	–1.5	0.0	0.8	–0.7	–1.6	–1.4	–0.9	–0.8	–0.6	0.3	0.5	0.9	0.8	0.4	–1.1	–2.7	–2.6	–1.8
Italy	–6.0	–5.8	–3.9	–6.1	–4.8	–3.7	–4.1	–5.2	–3.8	–3.6	–3.1	–1.5	–1.8	–0.5	1.4	2.0	0.4	1.0
United Kingdom	–1.8	–0.5	–0.3	0.7	0.7	–0.2	–0.5	0.5	0.7	1.7	3.6	3.3	1.1	–0.6	–4.3	–5.5	–3.9	–1.8
Canada	–1.5	–0.3	–0.9	0.9	–3.0	–4.0	–2.9	–2.8	–1.2	0.4	1.8	1.9	1.2	–1.0	–1.6	–1.7	–0.4	0.7
Total of above countries	–1.3	–0.7	–1.1	–0.9	–1.9	–2.0	–1.0	–0.7	–0.8	0.0	0.6	1.4	0.5	–0.1	–0.9	–1.1	–0.9	–0.1
Australia[b]	–2.1	–1.5	–0.6	0.4	0.5	–2.8	–1.4	–0.8	–0.6	2.2	3.1	3.2	2.5	–0.9	–2.4	–3.7	–3.0	–2.2
Austria	–1.1	–0.6	0.0	0.2	–1.1	–1.7	0.2	0.4	–0.8	–1.2	0.2	0.3	1.0	0.9	1.5	0.9	–0.4	0.2
Belgium[b,c,d]	–2.9	–3.1	–3.9	–6.2	–2.9	–3.2	–0.4	0.8	1.1	2.4	2.7	3.3	4.2	2.9	2.7	2.9	3.4	3.9
Denmark[e]	–0.8	–1.2	–2.8	–5.1	–6.5	–2.9	1.7	4.1	8.5	6.9	4.8	3.3	1.8	1.4	0.0	–1.7	–1.5	–0.3
Finland	2.9	2.0	1.9	2.5	0.9	–0.4	2.1	2.1	2.4	0.2	3.2	5.1	3.6	–3.4	–6.9	–8.1	–4.7	–3.5
Greece[b,c]	0.0	–0.4	–0.5	–7.0	–5.0	–4.8	–5.5	–8.6	–6.7	–4.5	–5.9	–8.3	–6.1	–2.8	–0.6	0.3	0.3	1.7
Ireland[c]	–5.8	–6.9	–7.8	–7.7	–7.1	–5.1	–2.8	–3.5	–3.3	–1.1	2.6	5.1	4.7	4.3	3.1	2.5	1.8	1.2
Netherlands	–0.3	–1.4	–1.4	–2.0	–2.8	–1.7	–1.4	0.8	1.2	–0.2	0.7	–0.3	–0.6	2.2	1.1	1.7	0.8	1.0
Norway	–0.3	1.3	5.9	4.6	4.0	3.9	6.4	8.7	3.8	2.1	–1.0	–1.0	0.9	–1.8	–3.7	–3.5	–2.5	–1.3
Portugal	–4.2	–3.4	8.6	–5.3	–2.3	–4.0	1.2	1.9	3.3	1.5	2.3	4.1	2.8	2.3	4.3	–0.2	–1.2	–0.9
Spain[b]	–1.9	–1.6	–1.9	–3.3	–5.0	–3.8	–3.8	–4.2	–2.7	–0.3	–0.3	0.3	–0.8	–1.2	–0.5	–2.5	–1.8	–0.6
Sweden	–1.7	–4.1	–4.4	–4.9	–5.4	–3.1	–0.5	–0.8	1.0	6.0	4.5	5.7	4.3	–1.0	–7.4	–12.4	–9.0	–7.1
Total of above smaller countries	–1.6	–1.7	–1.1	–2.6	–2.9	–2.8	–1.3	–0.8	–0.1	1.1	1.3	1.5	1.1	0.0	–0.7	–2.1	–1.6	–0.7
Total of above European countries	–2.3	–1.9	–1.2	–2.4	–2.2	–1.8	–1.2	–0.9	–0.4	0.0	0.5	1.3	0.3	–0.3	–0.6	–1.5	–1.2	–0.1
Total of above OECD countries	–1.3	–0.8	–1.1	–1.1	–2.0	–2.1	–1.0	–0.7	–0.7	0.2	0.7	1.4	0.6	–0.1	–0.9	–1.2	–1.0	–0.2

a) Excludes deposit insurance outlays.
b) OECD Secretariat estimates.
c) Where net interest payments are not available net property income paid is used instead.
d) Includes proceeds of privatisations and sales of other assets (BF 32.2 billion in 1993 and BF 57.0 billion in 1994).
e) The primary balance excludes not only net interest payments, but also dividends received.

Annex Table 31. **General government net debt interest payments**

As a percentage of total expenditure[a]

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	1995
United States	3.7	3.6	3.7	4.7	4.9	5.1	6.1	6.2	5.9	5.9	6.0	6.1	6.3	6.7	6.2	5.7	6.2	6.4
Japan[b,c]	2.0	2.7	3.3	4.0	4.4	5.0	5.5	5.5	5.1	3.9	3.3	2.8	1.7	1.0	0.9	0.8	1.0	1.2
Germany[b]	1.9	2.3	2.7	3.2	4.0	4.8	4.9	4.9	5.0	5.1	5.1	4.9	4.6	4.6	6.1	6.4	7.7	9.8
France	1.4	1.8	1.8	2.5	2.4	3.4	3.6	3.9	4.1	4.2	4.2	4.5	4.8	5.0	5.5	5.7	6.0	6.2
Italy	10.5	10.5	11.1	11.9	13.8	14.3	15.2	14.5	15.3	14.7	15.2	16.4	17.1	18.1	20.4	20.4	18.0	17.1
United Kingdom	6.2	6.7	7.1	7.5	7.2	6.9	7.4	7.6	7.4	7.5	7.0	6.4	5.8	5.2	4.8	5.0	5.7	5.9
Canada	4.2	4.6	4.9	5.9	6.5	6.5	7.9	8.9	9.4	9.7	10.1	11.1	11.7	10.8	10.1	10.3	10.3	9.9
Total of above countries	3.7	3.9	4.2	5.0	5.4	5.8	6.5	6.6	6.5	6.3	6.2	6.3	6.2	6.2	6.3	6.1	6.4	6.7
Australia[b]	2.0	2.4	2.9	2.9	2.8	3.3	4.5	5.3	5.9	6.2	5.4	5.7	5.2	4.8	4.0	3.3	3.4	3.4
Austria	3.4	3.7	3.6	3.9	4.6	4.6	5.5	5.6	5.6	5.9	6.4	6.4	6.5	6.7	6.9	7.2	6.9	6.8
Belgium[b,c]	6.8	7.7	9.2	11.4	13.4	13.7	14.7	15.9	17.1	16.6	16.5	17.6	18.1	17.1	17.4	17.2	16.3	15.5
Denmark[d]	–0.9	0.9	0.9	3.0	4.2	7.1	9.7	10.4	9.2	7.8	7.1	6.4	5.7	5.9	3.9	4.6	4.6	4.8
Finland	–2.7	–2.6	–2.6	–2.8	–2.6	–2.3	–2.2	–2.1	–2.3	–2.0	–2.1	–3.0	–3.9	–3.6	–3.5	–0.3	1.4	3.5
Greece[b,c]	5.4	6.5	7.3	8.4	6.6	8.9	10.4	11.2	12.1	15.1	16.5	16.8	22.5	22.8	20.5	25.0	26.3	26.4
Ireland[c]	6.5	7.4	7.4	9.0	10.5	10.5	11.7	12.6	12.9	13.4	13.5	15.2	15.1	13.7	13.1	11.4	9.4	8.8
Netherlands	4.1	4.0	4.6	5.5	6.4	7.1	7.6	8.3	8.4	8.6	8.7	8.2	8.1	8.5	8.3	8.4	8.5	9.0
Norway	–0.5	0.1	0.4	–0.4	–0.8	–0.7	–2.3	–3.3	–4.2	–5.2	–6.9	–4.6	–2.9	–2.9	–2.4	–1.5	0.2	1.0
Portugal	7.4	7.9	11.9	12.2	12.3	12.8	18.5	21.5	22.0	20.1	17.9	17.1	19.0	16.9	17.2	14.4	12.0	10.8
Spain[b]	0.5	0.7	1.0	1.0	1.1	1.9	3.9	6.6	8.1	7.2	7.6	7.6	7.5	8.5	8.8	10.0	11.1	11.4
Sweden	–2.2	–1.8	–0.7	0.5	2.4	2.9	3.9	4.7	3.6	3.0	1.6	0.6	0.2	0.2	–0.1	0.7	2.5	3.8
Total of above smaller countries	2.2	2.6	3.3	3.8	4.3	5.1	6.4	7.7	8.2	7.9	7.7	7.7	8.0	8.0	7.8	8.3	8.7	8.9
Total of above European countries	4.0	4.4	4.8	5.4	6.0	6.6	7.3	7.7	8.0	7.8	7.8	7.9	8.0	8.1	8.8	9.1	9.3	9.8
Total of above OECD countries	3.5	3.8	4.1	4.9	5.3	5.7	6.5	6.8	6.7	6.5	6.4	6.5	6.4	6.5	6.5	6.4	6.7	7.0

a) Current outlays plus net capital outlays.
b) OECD Secretariat estimates.
c) Where net interest payments are not available, net property income paid is used instead.
d) Net interest payments including dividends received are used.

Annex Table 32. **Gross public debt**[a]

As a percentage of nominal GDP

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	39.2	37.2	37.7	37.0	41.0	43.6	44.9	48.1	51.0	52.0	52.7	53.2	55.4	58.9	62.0	63.9	64.2	64.1
Japan	41.9	47.0	52.0	56.8	60.9	66.6	67.9	68.7	72.3	74.9	72.9	70.6	69.8	67.7	71.1	74.7[b]	79.4	82.6
Germany	30.1	30.8	32.8	36.5	39.6	41.1	41.7	42.5	42.5	43.8	44.4	43.2	44.0	41.7	44.4	48.5	53.7	64.3
France	31.0	31.4	30.9	30.1	34.2	35.3	37.1	38.6	39.3	40.7	40.6	40.6	40.2	41.2	45.5	52.5	57.2	60.6
Italy	62.4	61.5	59.0	61.1	66.4	72.0	77.4	84.3	88.2	92.6	94.8	97.9	100.5	103.8	108.3[b]	113.9	118.3	120.7
United Kingdom	58.6	54.9	54.1	54.3	52.9	52.9	54.4	52.7	51.1	48.6	42.2	36.7	34.6	35.4	40.6[b]	46.5	50.5	52.3
Canada	46.6	43.8	44.6	45.2	50.3	55.7	59.4	64.9	68.8	69.6	69.2	69.8	72.5	80.0	87.5	92.3	95.2	95.4
Total of above countries	41.6	41.3	42.4	43.4	47.1	50.2	51.9	54.3	56.7	58.1	57.8	57.3	58.4	59.9	63.5	67.1	69.7	72.0
Australia[d]	..	..	..	..	..	..	..	..	..	31.1	27.3	27.0	25.4	26.1[e]	29.5	33.9	36.5	38.8
Austria[c]	33.9	36.0	37.2	39.3	41.6	46.0	47.9	49.6	53.8	57.3	57.6	56.9	56.3	56.9	56.1	57.0	58.5	59.1
Belgium	70.4	75.2	81.6	95.5	104.7	116.0	121.8	126.0	130.7	135.7	136.8	134.2	134.4	137.6	140.2[b]	145.6	146.3	144.8
Denmark[c]	21.9	27.0	33.5	43.7	53.0	61.6	65.9	64.1	58.3	55.9	58.0	58.5	59.7	60.9[b]	62.4	66.1	68.5	69.6
Finland[c]	13.5	14.4	14.1	14.4	16.9	18.6	17.8	18.9	20.5	20.9	19.6	17.4	16.6	25.3	44.0	51.7[b]	58.0	64.2
Greece[c]	29.4	27.6	27.7	32.8	36.1	41.2	49.5	57.9	58.6	64.5	71.1	76.0	89.0	96.3	104.7[b]	106.1	109.5	112.4
Ireland	65.7	71.0	72.5	77.2	83.0	97.0	101.3	104.3	116.0	117.1	113.0	103.5	96.8	96.6	92.2	90.5[b]	87.7	84.9
Netherlands	40.2	42.0	45.1	49.5	54.6	60.9	65.0	68.4	69.9	73.5	76.2	76.3	76.5	76.4	77.1[b]	79.0	80.9	81.7
Norway[c]	60.0	62.9	52.2	47.4	42.2	38.8	38.7	40.7	51.1	42.7	42.5	42.7	39.2	38.5	41.3[b]	44.8	48.0	50.4
Portugal	37.6	25.7	37.5	47.3	50.7	56.5	63.0	66.5	64.3	72.4	75.2	71.7	66.6	67.5	63.3	67.5[b]	70.6	72.6
Spain[c]	14.4	16.5	18.3	24.0	30.4	38.7	45.4	50.8	51.8	51.2	47.4	48.7	48.7	50.0	53.2	59.1[b]	64.2	67.4
Sweden	34.5	39.6	44.3	52.1	61.7	65.5	67.0	67.6	67.1	59.1	53.5	48.4	44.4	53.4	70.1	83.0[b]	92.9	100.8
Total of above smaller countries	32.9	34.4	36.5	41.3	46.4	52.2	56.3	59.5	60.7	61.3	60.2	59.6	59.1	61.2	65.1	69.8	73.4	75.7
Total of above European countries	41.0	41.0	41.6	44.3	47.9	51.3	54.1	56.5	57.5	58.6	57.9	57.1	57.2	58.0	62.0	67.4	71.7	76.1
Total of above OECD countries	40.4	40.4	41.6	43.2	47.1	50.5	52.5	55.0	57.3	58.5	58.1	57.6	58.4	60.1	63.7	67.4	70.2	72.4

a) Refers to general government debt. It should be noted that the definition of debt applied under the Maastricht Treaty differs from the National Accounts definitions used by the OECD.
b) OECD Secretariat estimates starting from this year.
c) Does not exclude public sector mutual indebtedness.
d) Debt data refer to fiscal years ending 30 June. Include indebtedness of local government towards other levels of general government.
e) OECD Secretariat estimate.

Annex Table 33. **Net public debt**[a]

As a percentage of nominal GDP

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	21.3	19.1	18.8	18.8	21.5	23.9	25.1	27.0	29.3	30.6	30.6	30.1	32.6	34.2	37.4	39.3	39.6	39.5
Japan[c]	11.3	14.9	17.3	20.6	23.1	26.0	27.1	26.7	26.4	21.5	17.9	14.9	9.6	5.4	5.6	5.3[b]	7.1	8.5
Germany[c]	9.4	11.6	12.8	16.1	18.8	20.5	21.3	21.8	22.1	23.2	24.2	22.7	23.1	23.0	27.1[b]	31.8	36.9	47.5
France[c]	13.1	13.8	14.3	14.2	17.8	20.0	21.1	22.9	25.5	24.5	24.7	25.0	25.1	27.1	30.3	35.7[b]	40.4	43.8
Italy	57.4	56.0	53.9	57.2	63.7	69.2	74.8	81.9	86.0	90.5	92.9	96.0	99.0	102.5	106.9[b]	112.6	117.0	119.4
United Kingdom	52.3	47.8	47.0	46.3	45.4	45.5	47.1	45.8	44.7	42.0	35.3	30.0	28.4	30.0[b]	35.3	41.2	45.2	47.0
Canada	11.6	13.1	13.5	11.8	17.9	24.3	28.7	34.9	38.7	39.1	37.9	39.8	43.4	49.6	57.1	61.9	64.8	64.9
Total of above countries	22.2	21.8	22.0	23.1	26.0	28.7	30.3	32.0	33.5	33.4	32.5	31.6	32.0	32.7	35.9	38.6	40.7	42.7
Australia[d]	..	..	..	..	..	..	..	..	..	19.1	16.6	12.2	11.5	12.2[e]	15.6	20.0	22.7	24.9
Belgium	58.2	63.4	70.8	85.5	94.7	106.0	111.0	114.6	119.5	124.1	125.2	123.0	122.9	125.3	126.9[b]	132.3	133.0	131.5
Denmark	–2.2	1.8	7.3	16.6	26.4	33.3	36.8	34.4	28.5	25.6	26.8	26.1	26.6	27.8[b]	29.3	33.0	35.3	36.5
Finland[c]	–26.5	–23.4	–23.6	–23.6	–21.6	–20.5	–20.4	–21.5	–22.6	–22.0	–24.0	–27.9	–30.7	–28.9	–24.9[b]	–17.2	–11.0	–4.8
Netherlands[c]	19.7	21.5	24.5	26.9	30.8	35.9	39.2	42.3	45.5	51.0	54.0	55.8	56.8	56.3	57.7[b]	59.6	61.5	62.2
Norway[c]	6.7	9.8	0.4	–2.2	–4.7	–8.4	–12.5	–16.0	–21.1	–21.4	–21.3	–20.5	–21.7	–21.0	–18.2[b]	–14.7	–11.5	–9.1
Spain	3.5	5.8	6.1	9.2	13.0	17.9	22.5	27.6	30.2	31.0	31.4	30.8	31.6	34.3	36.4	42.3[b]	47.4	50.6
Sweden	–25.3	–19.8	–11.6	–3.3	6.4	12.7	15.2	15.6	14.2	7.8	1.4	–4.8	–5.0	–2.3	6.8	19.6[b]	29.5	37.4
Total of above smaller countries[f]	14.1	16.7	18.4	22.2	26.0	31.1	34.2	36.8	38.5	39.5	39.4	37.9	38.4	40.0	42.3	47.1	50.7	53.0
Total of above European countries[f]	26.1	26.5	27.0	29.4	33.0	36.2	38.7	40.9	42.5	43.3	43.0	42.2	42.7	44.0	47.7	52.9	57.3	61.6
Total of above OECD countries[f]	21.2	21.1	21.6	23.0	26.0	29.0	30.8	32.6	34.2	34.2	33.4	32.4	32.8	33.6	36.7	39.7	42.0	43.9

a) Refers to general government debt.
b) OECD Secretariat estimates starting from this year.
c) Financial assets exclude shares and holdings on public corporations.
d) Debt data refer to fiscal years ending 30 June.
e) OECD Secretariat estimate.
f) Including gross financial liabilities for Austria, Greece and Ireland.

Annex Table 34. **Short- and long-term interest rates**[a]

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	1995
Short-term rates																
United States	11.4	14.0	10.6	8.6	9.5	7.5	6.0	5.8	6.7	8.1	7.5	5.4	3.4	3.0	4.2	5.5
Japan	10.9	7.4	7.0	6.7	6.5	6.6	5.1	4.2	4.5	5.4	7.7	7.2	4.3	2.9	2.3	2.7
Germany	9.5	12.1	8.9	5.8	6.0	5.4	4.6	4.0	4.3	7.1	8.5	9.2	9.5	7.3	5.1	4.3
France	12.2	15.3	14.6	12.5	11.7	9.9	7.7	8.3	7.9	9.4	10.3	9.6	10.3	8.6	5.3	4.4
Italy	17.1	19.3	19.9	18.3	17.3	15.3	13.4	11.3	10.8	12.6	12.1	12.0	14.4	10.7	7.6	6.6
United Kingdom	16.6	13.9	12.3	10.1	9.9	12.2	10.9	9.7	10.3	13.9	14.8	11.5	9.6	5.9	5.2	5.5
Canada	13.2	18.3	14.4	9.5	11.2	9.6	9.2	8.4	9.6	12.2	13.0	9.0	6.7	5.0	5.1	5.7
Austria	10.3	11.4	8.8	5.4	6.5	6.2	5.3	4.3	4.6	7.5	8.5	9.1	9.3	7.2	5.0	4.3
Belgium	14.0	15.3	14.0	10.4	11.4	9.5	8.1	7.1	6.7	8.8	9.6	9.4	9.4	8.1	5.5	4.5
Denmark	17.6	15.2	16.8	12.7	11.7	10.2	9.1	10.1	8.5	9.8	10.8	9.7	11.5	10.3	5.8	4.8
Finland	12.3	11.5	11.8	14.6	16.5	13.5	12.7	10.0	10.0	12.6	14.0	13.1	13.3	7.8	5.0	5.0
Ireland	15.8	15.8	17.0	13.6	13.1	11.8	11.8	10.7	7.8	9.7	11.0	10.1	10.3	7.5	5.6	4.6
Netherlands	10.8	11.7	8.5	5.7	6.2	6.4	5.7	5.4	4.8	7.4	8.7	9.3	9.4	7.0	5.0	4.3
Norway	..	12.3	15.6	12.5	12.6	12.0	15.0	14.3	13.2	11.3	11.4	10.6	14.5	7.7	5.1	5.2
Spain	16.5	16.2	16.3	20.0	14.9	12.2	11.7	15.8	11.7	15.0	15.2	13.2	13.3	11.7	8.5	7.4
Sweden	..	15.3	13.3	11.4	11.9	14.2	9.8	9.4	10.1	11.5	13.7	11.6	12.9	8.4	6.6	5.9
Switzerland	5.0	8.2	4.4	3.3	3.8	4.4	3.6	3.2	2.6	6.4	8.3	7.6	7.2	4.3	3.5	2.8
Australia	12.2	15.1	16.6	12.2	12.2	16.2	16.4	13.5	12.9	17.7	14.4	10.1	6.5	5.2	4.9	5.8
New Zealand	14.4	15.3	17.0	13.1	15.0	23.3	19.1	21.1	15.4	13.5	13.9	10.0	6.7	6.3	5.5	5.9
Long-term rates																
United States	11.5	13.9	13.0	11.1	12.4	10.6	7.7	8.4	8.8	8.5	8.6	7.9	7.0	5.9	6.8	7.0
Japan	8.9	8.4	8.3	7.8	7.3	6.5	5.1	5.0	4.8	5.2	7.0	6.4	5.3	4.3	4.2	4.5
Germany	8.5	10.1	8.9	8.1	8.0	7.0	6.2	6.2	6.5	7.0	8.8	8.5	7.9	6.5	6.4	6.1
France	13.8	16.3	16.0	14.4	13.4	11.9	9.1	10.2	9.2	9.2	10.4	9.5	9.0	7.0	6.9	6.4
Italy	15.3	19.4	20.2	18.3	15.6	13.7	11.5	10.6	10.9	12.8	13.5	13.1	13.7	11.3	8.7	8.0
United Kingdom	13.9	14.9	13.1	11.3	11.3	11.1	10.1	9.6	9.7	10.2	11.8	10.1	9.1	7.5	7.8	7.8
Canada	12.5	15.0	14.4	11.8	12.7	11.1	9.5	9.9	10.2	9.9	10.8	9.8	8.8	7.9	7.9	7.6
Austria	9.3	10.6	9.9	8.2	8.0	7.8	7.3	6.9	6.7	7.1	8.7	8.6	8.3	6.6	6.4	6.1
Belgium	11.9	13.4	13.4	11.9	12.2	11.0	8.6	8.2	8.0	8.6	10.1	9.3	8.7	7.2	7.1	6.6
Denmark	20.0	20.1	21.4	15.1	14.5	11.6	10.1	11.3	9.6	9.8	10.6	9.3	8.9	7.2	7.0	6.6
Finland	10.4	11.0	11.0	10.8	11.1	10.7	11.7	11.2	10.6	12.0	13.3	12.6	13.8	8.4	7.8	7.6
Ireland	15.4	17.3	17.1	13.9	14.6	12.6	11.1	11.3	9.5	8.9	10.1	9.2	9.1	7.7	7.5	7.3
Netherlands	10.2	11.5	9.9	8.2	8.1	7.3	6.4	6.4	6.2	7.2	9.0	8.8	8.1	6.4	6.4	6.1
Norway	10.3	12.3	13.2	12.9	12.2	12.6	13.3	13.3	12.9	10.8	10.7	10.0	9.6	6.9	5.8	6.0
Spain	16.0	15.8	16.0	16.9	16.5	13.4	11.4	12.8	11.7	13.8	14.6	12.8	12.6	10.1	8.3	7.8
Sweden	11.7	13.5	13.0	12.3	12.3	13.0	10.3	11.4	11.2	11.3	13.6	10.9	10.4	8.6	7.5	7.5
Switzerland	4.8	5.6	4.8	4.4	4.5	4.7	4.2	4.0	4.0	5.2	6.5	6.2	6.4	4.6	4.4	4.1
Australia	11.6	14.0	15.3	14.1	13.6	13.9	13.4	13.2	12.1	13.4	13.2	10.7	9.2	7.3	8.1	8.5
New Zealand	13.3	12.8	12.9	12.2	12.6	17.6	16.7	15.7	13.1	12.8	12.5	9.9	8.4	6.7	6.0	6.1

a) For sources and definitions, see "Sources and Methods".

Annex Table 35. **Nominal exchange rates (*vis-à-vis* the US dollar)**

Average of daily rates

	Monetary unit	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections[a] 1994	1995
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	1.000
Japan	*Yen*	220.6	249.1	237.5	237.6	238.6	168.5	144.6	128.2	138.0	144.8	134.5	126.7	111.2	104.3	103.2
Germany	*Deutschemark*	2.259	2.427	2.553	2.846	2.944	2.172	1.797	1.756	1.880	1.616	1.659	1.562	1.653	1.682	1.664
France	*Franc*	5.434	6.572	7.621	8.739	8.984	6.927	6.009	5.956	6.380	5.446	5.641	5.294	5.662	5.763	5.718
Italy	*Lira*	1137	1353	1519	1757	1909	1491	1297	1302	1372	1198	1241	1232	1572	1618	1592
United Kingdom	*Pound*	0.498	0.573	0.660	0.752	0.779	0.682	0.612	0.562	0.611	0.563	0.567	0.570	0.666	0.671	0.671
Canada	*Dollar*	1.199	1.233	1.232	1.295	1.366	1.389	1.326	1.231	1.184	1.167	1.146	1.209	1.290	1.370	1.378
Austria	*Schilling*	15.92	17.06	17.97	20.01	20.69	15.27	12.64	12.34	13.23	11.37	11.67	10.99	11.63	11.83	11.70
Belgium-Luxembourg	*Franc*	37.14	45.70	51.13	57.76	59.43	44.69	37.34	36.77	39.40	33.42	34.16	32.15	34.56	34.72	34.35
Denmark	*Krone*	7.12	8.33	9.14	10.36	10.59	8.09	6.84	6.73	7.31	6.19	6.40	6.04	6.48	6.57	6.51
Finland	*Markka*	4.304	4.813	5.565	6.003	6.196	5.070	4.396	4.186	4.288	3.822	4.043	4.486	5.721	5.459	5.401
Greece	*Drachma*	55.3	66.7	87.9	112.7	138.1	139.5	135.2	141.6	162.1	158.2	182.1	190.5	229.1	251.2	268.4
Iceland	*Krona*	7.21	12.30	24.85	31.73	41.54	41.10	38.68	43.03	56.68	58.36	59.10	57.62	67.64	71.68	71.23
Ireland	*Pound*	0.622	0.704	0.805	0.923	0.946	0.747	0.672	0.657	0.706	0.605	0.622	0.588	0.683	0.693	0.689
Netherlands	*Guilder*	2.495	2.670	2.854	3.209	3.322	2.450	2.026	1.977	2.121	1.821	1.870	1.758	1.857	1.891	1.874
Norway	*Krone*	5.732	6.451	7.296	8.160	8.594	7.392	6.737	6.517	6.903	6.258	6.482	6.214	7.092	7.292	7.223
Portugal	*Escudo*	61.5	79.4	110.8	146.4	169.9	148.2	140.8	143.9	157.1	142.3	144.4	134.8	160.7	173.0	172.2
Spain	*Peseta*	92.3	109.8	143.5	160.8	170.1	140.0	123.5	116.5	118.4	101.9	103.9	102.4	127.2	138.1	137.0
Sweden	*Krona*	5.060	6.282	7.667	8.273	8.602	7.124	6.340	6.129	6.446	5.918	6.045	5.824	7.785	7.788	7.694
Switzerland	*Franc*	1.966	2.030	2.099	2.350	2.457	1.798	1.491	1.463	1.635	1.389	1.434	1.406	1.477	1.433	1.425
Turkey	*Lira*	110	161	224	363	520	669	855	1419	2120	2606	4169	6861	10966	32000	58240
Australia	*Dollar*	0.869	0.986	1.109	1.141	1.432	1.496	1.429	1.281	1.265	1.282	1.284	1.362	1.473	1.390	1.381
New Zealand	*Dollar*	1.153	1.332	1.496	1.767	2.026	1.917	1.695	1.529	1.674	1.678	1.729	1.860	1.851	1.734	1.722
Singapore	*Dollar*	2.113	2.140	2.113	2.133	2.200	2.177	2.106	2.013	1.949	1.812	1.727	1.628	1.615	1.562	1.552
Taiwan	*Dollar*	36.99	38.95	40.07	39.60	39.85	37.84	31.92	28.57	26.28	26.63	26.55	25.02	26.35	26.64	26.75
Korea	*Won*	681.0	731.1	775.7	806.0	870.0	881.0	825.0	730.3	669.2	708.0	733.2	780.0	802.4	806.7	805.5
Hong Kong	*Dollar*	5.589	6.070	7.265	7.818	7.791	7.804	7.795	7.806	7.799	7.789	7.770	7.739	7.735	7.726	7.725
	ECU	0.898	1.024	1.125	1.272	1.322	1.019	0.867	0.846	0.908	0.788	0.809	0.773	0.854	0.869	0.864
	SDR	0.848	0.906	0.936	0.975	0.986	0.853	0.774	0.742	0.780	0.738	0.731	0.710	0.716	0.711	0.708

a) On the technical assumption that exchange rates remain at their levels of 10 May 1994, except for Greece and Turkey where exchange rates vary according to official exchange rate policy.

Annex Table 36. **Effective exchange rates**[a]

Indices 1991 = 100, average of daily rates

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections[b] 1994	1995
United States	115.0	126.9	133.0	140.2	144.0	121.2	104.6	99.6	103.5	100.5	100.0	97.3	98.3	98.5	98.2
Japan	62.4	59.2	65.4	67.9	69.9	91.1	97.2	106.6	102.5	95.1	100.0	106.1	126.0	134.7	135.8
Germany	72.0	75.9	80.1	79.8	81.2	90.1	94.1	94.5	93.2	99.5	100.0	104.3	107.0	107.3	108.5
France	108.9	100.3	94.0	91.5	93.3	97.7	96.9	96.1	95.4	100.2	100.0	102.8	104.8	104.9	105.2
Italy	116.7	109.6	106.4	102.3	97.5	100.4	99.1	96.7	97.4	100.8	100.0	97.2	81.8	81.0	82.1
United Kingdom	122.7	117.9	110.4	105.8	106.2	99.7	95.7	101.7	99.1	97.9	100.0	96.5	87.7	88.1	87.8
Canada	98.7	98.6	100.5	96.9	92.7	86.7	86.6	92.8	97.9	98.3	100.0	93.4	88.4	83.1	82.4
Austria	83.2	85.6	87.7	88.0	90.5	95.4	95.6	96.4	96.0	100.8	100.0	101.4	102.5	102.4	102.9
Belgium-Luxembourg	94.8	86.7	84.9	83.4	85.5	92.8	95.0	94.6	94.1	101.7	100.0	100.8	100.6	101.9	102.5
Denmark	94.2	90.6	91.3	88.1	88.4	94.5	96.7	96.1	93.7	100.9	100.0	102.8	103.3	103.0	103.5
Finland	97.7	98.8	93.8	95.0	96.4	94.4	94.1	96.0	99.8	101.9	100.0	87.2	74.8	79.2	79.5
Greece	329.2	300.4	249.7	214.7	186.1	144.7	129.1	125.9	118.0	110.4	100.0	92.0	82.0	76.1	70.9
Iceland	895.8	594.6	329.1	271.1	208.7	172.6	158.9	136.3	111.4	100.2	100.0	98.8	93.4	88.8	88.8
Ireland	104.8	102.6	98.8	93.2	92.5	98.7	96.6	94.9	94.4	100.0	100.0	103.0	95.5	94.9	95.0
Netherlands	76.5	80.8	82.9	81.7	83.0	91.2	94.4	94.1	94.3	100.6	100.0	102.1	103.8	103.5	104.0
Norway	113.7	112.9	112.2	111.2	109.2	103.2	96.5	99.7	101.5	101.3	100.0	99.1	98.0	96.1	96.5
Portugal	234.1	204.9	164.9	133.9	121.6	112.2	104.2	101.0	99.7	98.1	100.0	103.1	98.2	93.3	93.1
Spain	112.4	104.4	86.4	85.6	84.7	83.0	82.1	88.0	93.1	102.6	100.0	97.2	85.4	79.7	79.9
Sweden	125.7	113.0	100.1	102.2	102.2	101.0	98.0	98.2	99.4	98.8	100.0	101.0	80.9	81.6	82.2
Switzerland	81.4	87.0	91.6	90.9	91.5	97.2	100.1	98.9	94.0	101.4	100.0	97.0	97.9	102.5	102.5
Turkey	4 166.1	3 202.3	2 441.6	1 663.0	1 255.2	779.8	498.3	294.5	207.5	156.2	100.0	59.3	40.0	15.2	7.6
Australia	168.0	158.5	146.2	149.1	120.8	97.4	91.8	100.0	103.9	99.7	100.0	92.7	85.8	89.7	89.9
New Zealand	153.1	142.9	134.7	118.1	107.7	97.2	101.6	109.2	105.4	101.3	100.0	92.9	96.1	100.5	100.7
Singapore	85.8	92.2	98.1	102.2	101.0	89.4	85.3	86.2	91.9	95.5	100.0	103.2	103.1	106.4	106.9
Taiwan	77.4	79.0	79.8	83.5	84.9	79.0	87.3	93.7	104.5	100.5	100.0	102.7	95.9	94.5	93.9
Korea	119.8	120.5	117.6	117.9	110.8	96.2	93.9	101.3	112.1	102.8	100.0	90.9	86.5	85.7	85.7
Hong Kong	151.6	151.7	132.9	128.1	131.4	115.0	104.9	100.9	104.0	100.1	100.0	98.1	98.5	98.6	98.4

a) For the details on the method of calculation, see the section on effective exchange rates in "Sources and Methods".
b) On the technical assumption that exchange rates remain at their levels of 10 May 1994, except for Greece and Turkey where exchange rates vary according to official exchange rate policy.

Annex Table 37. **Export volumes**

Customs basis, percentage changes from previous period

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States[a]	3.0	0.0	10.4	11.2	10.0	–1.7	–10.7	–4.3	6.2	1.6	4.2	10.0	19.3	11.8	7.3	7.5	6.6	4.2	7.8	7.7
Japan	22.0	9.5	–1.0	–0.9	18.5	10.7	–2.3	8.4	15.4	5.0	–0.5	0.4	4.3	4.3	5.2	2.4	1.7	–1.9	1.2	2.8
Germany	18.8	4.0	3.3	5.0	1.7	6.7	3.3	0.2	8.7	5.9	1.5	2.7	6.4	7.9	1.4	–2.3	2.1	–5.7	5.2	7.7
France	8.8	6.5	4.9	8.3	3.3	3.9	–2.8	3.6	7.0	2.4	–1.1	3.7	9.0	9.1	5.3	3.9	5.2	–1.3	5.4	6.7
Italy	11.3	7.9	9.3	8.7	–7.0	4.2	1.0	4.3	5.0	6.2	1.8	3.1	8.6	5.5	2.6	0.8	3.6	9.4	8.9	8.0
United Kingdom	8.9	8.8	2.7	3.4	1.1	–1.2	3.3	2.1	8.5	5.8	4.0	5.5	2.5	4.3	6.7	1.4	3.6	4.1	5.0	7.0
Canada	10.9	9.4	10.2	1.8	–0.3	3.4	–0.5	7.4	18.6	6.4	3.8	3.6	9.3	1.2	5.1	0.9	8.6	10.2	9.8	8.8
Total of above countries	12.1	5.6	5.2	5.8	5.0	3.8	–1.9	2.2	9.5	4.6	1.7	4.1	8.7	7.1	4.6	2.3	4.1	1.3	5.9	6.9
Austria	15.6	3.6	10.0	12.4	4.7	4.9	1.7	4.3	9.4	9.6	1.1	2.1	7.6	15.2	11.1	7.2	3.5	–2.7	4.3	7.5
Belgium-Luxembourg	12.5	2.2	3.6	6.0	0.0	0.5	1.6	4.0	5.4	4.2	4.2	6.2	7.5	8.1	3.1	4.0	0.0	–3.2	3.0	6.0
Denmark	2.4	4.0	2.4	9.6	9.0	7.0	2.0	7.6	5.4	4.6	1.4	2.4	5.0	7.5	5.9	7.5	4.6	–1.3	4.3	5.5
Finland	17.2	10.3	7.0	10.1	9.7	2.5	–2.9	4.0	9.7	0.9	0.4	1.6	3.3	–0.1	2.9	–9.1	9.0	17.2	11.3	7.1
Greece	13.3	–1.1	15.8	5.9	9.8	–15.9	2.5	9.7	22.1	0.8	16.9	10.9	–32.9	39.1	–3.0	13.8	9.5	–2.6	2.8	5.8
Iceland[b]	33.6	9.7	13.9	10.1	5.2	4.2	–17.1	14.6	–1.3	13.8	16.3	15.7	–7.5	0.0	5.3	4.9	–0.8	4.4	1.1	1.9
Ireland	4.3	18.2	11.7	8.2	7.2	1.1	5.8	12.0	17.9	5.3	2.8	18.1	8.7	9.2	7.7	6.8	11.4	4.8	5.9	6.6
Netherlands	11.5	–1.6	2.9	10.0	1.0	0.6	–0.6	4.4	7.4	5.9	4.3	2.7	9.2	6.3	4.5	5.1	2.4	0.3	3.4	5.4
Norway	15.8	–3.9	23.7	5.5	5.5	–1.7	–0.8	12.5	9.1	3.5	1.8	13.9	4.6	15.0	6.7	6.6	8.0	5.4	8.6	5.0
Portugal	4.3	4.1	9.9	26.3	6.9	–2.5	11.8	19.1	14.5	10.6	7.8	11.7	9.4	20.5	12.6	0.7	6.5	–0.9	6.0	10.4
Spain	25.3	13.0	15.1	11.1	0.3	10.0	7.2	9.3	16.8	3.4	–3.2	8.0	6.9	4.2	12.8	11.8	5.6	15.9	8.7	9.9
Sweden	3.4	–3.1	6.6	8.9	1.3	1.1	4.2	12.3	7.8	3.2	3.1	2.9	3.3	2.8	0.3	–2.5	1.2	10.0	11.6	7.0
Switzerland	11.4	12.2	3.1	4.2	4.5	2.6	–5.0	–0.5	7.9	7.8	0.0	1.7	7.4	7.8	3.4	–2.6	3.5	1.1	3.3	5.0
Turkey[b]	39.5	–22.5	17.0	–11.6	15.0	80.9	29.0	5.0	29.1	14.5	–20.9	21.7	5.4	0.8	0.7	10.7	7.3	5.5	9.9	7.4
Total of smaller European countries	11.7	3.0	6.3	8.2	3.0	2.5	1.3	6.1	9.1	5.2	2.0	5.3	6.1	7.7	5.1	3.8	3.7	3.0	5.8	6.6
Australia	11.3	0.8	0.7	13.0	–0.2	–5.8	9.6	–5.9	16.4	11.4	3.7	10.8	–0.4	4.3	7.7	15.2	4.8	5.7	6.9	7.6
New Zealand	17.7	2.7	2.0	7.2	5.1	1.2	3.1	5.3	4.7	10.7	–1.7	2.7	4.2	–3.1	6.0	10.5	2.2	5.0	5.9	5.1
Total of smaller countries	11.7	2.8	5.9	8.4	2.8	2.0	1.7	5.4	9.4	5.6	2.1	5.6	5.7	7.3	5.2	4.6	3.7	3.2	5.8	6.6
Total OECD	12.0	4.9	5.3	6.4	4.4	3.4	–1.0	3.0	9.5	4.9	1.8	4.5	7.9	7.2	4.8	2.9	4.0	1.8	5.9	6.8
OECD Europe	12.8	5.0	5.2	6.8	1.2	3.6	1.5	3.4	8.2	5.2	1.7	4.2	6.4	7.3	4.0	1.6	3.4	1.0	5.8	7.1
EC	13.0	5.2	4.7	6.7	0.7	3.6	1.7	3.0	8.0	5.1	1.9	4.1	6.6	7.3	4.0	1.8	3.3	0.4	5.5	7.2
Total OECD *less* the United States	13.9	5.8	4.5	5.5	3.4	4.4	0.9	4.3	10.0	5.4	1.5	3.6	6.1	6.3	4.3	2.0	3.5	1.3	5.5	6.6

a) Derived from values and unit values on a national accounts basis.
b) OECD Secretariat estimates.

Annex Table 38. **Import volumes**

Customs basis, percentage changes from previous period

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States[a]	22.7	11.4	9.9	1.4	–5.3	4.4	–1.2	13.8	25.2	5.9	8.6	4.2	4.0	4.4	2.4	0.5	10.4	11.6	11.0	7.3
Japan	8.3	3.2	6.2	11.1	–5.9	–2.4	–0.7	1.2	10.8	0.5	9.7	9.0	16.7	7.9	5.0	3.9	–0.6	3.7	9.4	7.6
Germany	20.6	2.4	6.4	7.6	0.3	–4.7	0.6	4.0	5.3	4.6	5.2	5.2	6.3	7.1	9.9	9.3	2.3	–9.6	1.4	5.8
France	18.0	–0.6	3.7	10.6	2.4	–4.1	2.9	–2.7	2.6	4.6	7.4	7.7	9.0	8.0	5.8	3.0	1.1	–3.5	3.7	6.1
Italy	15.1	–0.8	5.1	13.7	4.7	–8.4	–0.1	1.0	7.4	8.5	2.8	10.2	3.8	9.6	4.1	2.9	3.3	–12.4	4.4	5.0
United Kingdom	7.1	1.8	6.7	8.2	–4.8	–3.9	5.8	8.8	10.6	3.6	7.2	7.1	13.7	7.9	1.3	–2.8	6.2	3.6	7.0	7.2
Canada	7.6	0.9	3.8	9.3	–4.4	1.4	–16.4	11.0	19.7	10.4	7.6	6.3	14.2	5.4	–0.1	2.6	6.4	10.3	8.7	7.5
Total of above countries	16.0	3.7	6.6	7.5	–2.0	–2.0	–0.4	5.9	12.8	5.2	7.1	6.3	8.2	6.7	4.4	2.9	4.8	1.5	7.1	6.8
Austria	22.9	9.9	–2.2	10.7	7.7	–4.0	–0.8	7.9	8.4	5.4	5.2	5.3	7.8	10.6	11.2	3.0	3.1	–1.1	2.8	6.6
Belgium-Luxembourg	12.7	4.6	2.5	6.0	2.6	–3.7	1.7	–1.4	6.1	4.4	6.9	6.9	6.2	6.8	5.2	4.1	1.0	–1.8	2.2	5.0
Denmark	15.9	–1.2	–0.3	4.9	–6.9	–2.4	2.3	3.0	3.9	8.0	6.7	–1.8	–1.8	2.4	2.9	5.2	3.7	–2.4	8.0	7.0
Finland	–5.6	–7.2	–4.4	19.1	12.4	–6.3	1.3	3.3	–0.1	5.8	5.5	9.0	9.0	10.6	–4.0	–16.9	–2.1	–1.3	3.9	8.2
Greece	7.5	6.0	5.2	9.0	–7.6	–1.2	15.0	4.6	0.9	15.4	3.2	17.9	–23.0	33.0	13.9	11.0	6.3	–0.4	6.0	6.4
Iceland[b]	–3.9	19.4	–1.7	2.3	7.0	8.9	–2.5	–9.4	4.5	11.0	9.2	25.7	–8.0	–12.0	6.9	10.4	4.0	–14.1	–1.9	3.5
Ireland	18.2	11.8	13.6	13.7	–5.0	1.6	–4.4	3.5	9.2	3.4	0.6	10.3	6.5	10.9	7.1	0.7	5.2	6.5	5.6	6.1
Netherlands	9.8	2.4	6.0	6.6	–1.3	–6.1	1.0	4.5	5.4	7.2	3.9	5.3	8.0	6.9	4.8	4.7	1.6	–1.0	2.8	4.7
Norway	10.9	7.6	–11.1	4.8	11.2	–3.8	3.5	–3.4	13.5	11.6	14.6	–2.2	–9.3	–5.8	10.3	2.5	3.4	0.6	4.5	5.4
Portugal	16.7	12.8	–1.9	7.1	11.9	6.9	5.9	–10.4	–5.5	6.7	19.3	27.9	22.2	8.3	15.8	6.0	12.1	2.6	5.2	8.0
Spain	13.7	–2.6	–3.4	15.7	4.7	–4.4	3.7	–0.8	–0.9	7.2	18.2	26.8	18.4	16.6	9.8	11.7	9.0	–2.2	3.5	9.2
Sweden	5.4	–6.5	–10.8	19.1	1.6	–5.0	4.9	2.1	4.1	9.5	3.9	6.9	4.8	7.0	0.7	–6.0	0.2	5.1	5.1	6.1
Switzerland	13.5	10.1	9.7	7.8	8.3	–4.9	–2.2	5.9	8.5	3.8	8.5	6.0	4.5	7.0	1.9	–1.4	–5.1	–0.9	5.3	6.2
Turkey[b]	9.7	6.0	–30.2	–8.6	22.5	22.6	2.0	11.8	23.0	8.0	–7.7	15.3	–4.1	8.9	28.9	–2.2	11.1	36.0	–5.8	5.5
Total of smaller European countries	11.3	3.0	0.7	8.8	2.8	–3.7	1.6	2.3	5.6	6.6	6.8	8.2	5.9	8.3	6.2	3.0	2.7	0.4	3.5	6.2
Australia	12.8	1.9	4.2	3.0	7.1	10.6	4.9	–12.5	22.0	7.1	–4.3	1.0	16.4	20.3	–4.8	–1.5	9.0	6.5	7.8	9.4
New Zealand	2.5	–3.7	–8.6	18.1	–2.3	2.9	6.3	–6.7	19.9	0.0	–1.5	10.3	–7.7	21.4	7.7	–9.4	10.5	7.9	4.1	4.3
Total of smaller countries	11.2	2.9	0.7	8.6	3.0	–3.0	1.9	1.3	6.6	6.5	6.0	7.9	6.2	9.1	5.5	2.6	3.1	0.8	3.7	6.4
Total OECD	14.5	3.5	4.8	7.8	–0.6	–2.3	0.3	4.5	11.0	5.6	6.8	6.8	7.6	7.4	4.7	2.8	4.3	1.3	6.1	6.7
OECD Europe	14.0	1.8	3.5	9.2	1.5	–4.5	1.9	2.5	5.9	5.7	6.2	7.6	7.1	8.1	6.0	3.6	2.8	–3.3	3.6	6.1
EC	14.8	1.6	4.8	9.0	0.5	–4.7	2.1	2.2	5.6	5.5	6.2	7.9	7.9	8.3	6.2	4.7	3.3	–4.3	3.7	6.1
Total OECD *less* the United States	12.9	1.9	3.7	9.3	0.5	–3.7	0.6	2.4	7.5	5.5	6.3	7.5	8.6	8.2	5.3	3.4	2.8	–1.5	4.7	6.5

a) Derived from values and unit values on a national accounts basis.
b) OECD Secretariat estimates.

Annex Table 39. **Export prices (average unit values)**

Percentage changes, national currency terms

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	4.3	5.0	6.4	13.9	11.7	7.7	0.7	0.8	2.5	–3.1	–2.4	3.5	6.0	2.0	0.0	–0.5	–1.2	–1.3	–0.4	0.8
Japan	–1.5	–0.6	–4.0	9.8	10.6	2.8	5.5	–6.6	0.1	–0.6	–15.4	–6.0	–2.5	6.9	4.2	–0.3	–0.1	–4.7	–2.9	0.5
Germany	–2.9	2.6	0.9	5.3	9.6	6.2	4.4	1.3	3.4	3.9	–3.3	–2.7	0.9	4.5	–1.1	–0.6	–0.6	–4.7	0.5	1.4
France	10.1	10.3	6.5	10.2	11.5	13.5	12.8	10.0	9.6	4.2	–3.5	–0.6	2.7	4.9	–1.9	–0.2	–2.8	–1.9	0.5	1.4
Italy	21.7	19.6	8.0	16.9	20.2	23.0	15.1	6.3	11.1	9.3	–4.3	0.3	2.1	9.6	2.4	2.7	0.8	10.4	3.1	2.8
United Kingdom	18.7	16.8	7.6	10.6	15.4	8.3	6.3	7.3	7.0	5.1	–10.6	3.9	0.4	9.6	3.7	–0.3	0.0	8.3	3.0	3.3
Canada	2.4	6.5	8.8	20.8	17.2	6.5	0.5	–0.1	3.7	0.5	–2.7	1.3	–0.2	1.5	–1.8	–4.2	2.0	5.0	4.2	2.7
Total of above countries	5.0	6.6	3.7	11.2	12.5	8.5	5.5	1.7	4.4	1.9	–6.1	–0.4	1.6	5.1	0.7	–0.4	–0.6	–0.4	0.4	1.5
Austria	0.3	2.5	–0.7	4.0	5.0	6.1	4.2	–0.4	3.7	2.7	–4.2	–2.1	4.0	–2.7	–2.3	–4.2	–1.6	–1.8	2.4	2.6
Belgium-Luxembourg	4.0	2.8	1.3	11.1	10.8	8.7	13.7	7.2	7.0	1.5	–6.9	–4.7	2.7	7.9	–3.1	–1.9	–1.4	0.3	0.7	1.5
Denmark	7.6	5.7	5.6	7.8	13.8	11.9	11.1	4.9	6.1	3.4	–4.3	–0.9	0.2	5.7	–1.5	–0.4	–1.8	–0.3	0.6	2.1
Finland	3.0	14.8	6.4	12.4	10.8	11.1	7.3	6.4	6.3	2.6	–2.2	2.1	4.9	7.7	–1.2	0.8	6.1	6.5	4.5	3.1
Greece	11.4	10.4	4.6	7.8	43.3	22.8	21.1	20.0	14.8	14.9	8.4	5.4	22.2	15.1	8.3	9.4	6.7	10.6	7.5	6.0
Iceland[a]	16.2	26.3	49.4	46.6	52.1	38.0	57.4	92.5	25.2	29.6	14.6	1.7	25.9	28.6	11.1	–4.7	–1.9	2.6	6.6	3.5
Ireland	23.1	15.2	5.6	9.0	10.6	14.5	12.4	8.5	9.0	4.1	–6.1	–3.4	5.5	8.8	–8.7	–2.0	–1.3	0.8	–0.3	1.6
Netherlands	6.2	3.0	–1.9	8.7	13.3	15.6	4.1	–0.3	5.9	1.3	–16.9	–6.1	0.4	5.1	–0.9	–0.8	–3.4	–2.6	0.8	2.0
Norway	2.2	6.7	5.8	16.8	30.6	15.3	7.3	3.7	9.4	5.1	–24.9	–3.5	0.0	12.3	3.6	–3.4	–8.5	1.2	–4.0	2.6
Portugal	7.0	35.4	24.3	31.2	23.4	13.6	15.3	29.0	30.7	15.7	3.3	8.4	10.4	5.8	2.9	0.2	–2.1	3.0	1.6	1.7
Spain	6.0	17.6	12.3	9.6	19.1	16.4	10.1	15.9	13.1	6.1	–4.3	2.4	4.6	4.8	–2.6	–1.4	0.5	4.8	1.8	0.9
Sweden	8.2	8.2	7.8	10.3	9.8	10.2	9.8	13.2	7.0	4.1	–1.3	3.0	5.0	6.2	2.0	0.4	–3.1	9.2	2.5	3.2
Switzerland	–0.6	1.6	–3.9	1.0	5.7	6.0	4.9	2.5	4.7	2.0	0.5	–1.0	2.2	5.6	1.3	2.3	0.9	0.1	0.2	1.5
Turkey[a]	10.6	30.2	50.1	76.7	123.7	29.4	38.1	32.0	56.0	40.1	52.3	43.3	80.0	48.0	36.2	50.7	69.6	55.6	122.1	66.6
Total of smaller European countries	5.4	7.2	3.9	10.3	14.7	12.1	9.3	6.9	8.5	3.9	–6.8	–1.2	4.2	6.8	–0.4	–0.1	–0.6	2.1	2.5	3.0
Australia	6.8	11.2	2.3	19.8	13.8	3.6	3.7	9.4	3.7	12.0	–0.7	4.2	10.3	5.8	–0.1	–7.0	2.2	1.7	–1.5	1.6
New Zealand	32.2	14.7	6.3	21.3	15.4	13.1	10.4	5.6	13.5	8.8	–2.3	5.9	6.3	13.1	–1.4	–4.2	8.2	1.5	1.9	2.8
Total of smaller countries	5.8	7.6	3.8	11.1	14.6	11.5	8.9	7.1	8.3	4.5	–6.4	–0.8	4.6	6.8	–0.4	–0.6	–0.3	2.0	2.2	2.9
Total OECD	5.2	6.9	3.8	11.2	13.1	9.3	6.4	3.1	5.4	2.6	–6.2	–0.5	2.4	5.6	0.4	–0.5	–0.5	0.3	0.9	1.9
OECD Europe	6.9	8.8	4.3	9.7	13.6	11.4	8.8	5.8	7.5	4.7	–5.7	–0.8	2.5	6.6	0.0	0.0	–0.7	1.3	1.8	2.4
EC	7.6	9.1	4.3	9.6	13.3	11.6	8.8	5.7	7.3	4.6	–6.1	–1.2	1.8	6.4	–0.4	–0.2	–1.0	0.7	1.3	1.9
Total OECD *less* the United States	5.4	7.2	3.2	10.6	13.3	9.6	7.6	3.5	6.0	3.7	–6.9	–1.3	1.7	6.3	0.5	–0.4	–0.3	0.6	1.2	2.1

a) OECD Secretariat estimates.

Annex Table 40. **Import prices (average unit values)**

Percentage changes, national currency terms

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	2.4	10.1	5.8	18.3	23.4	3.1	–5.3	–4.4	–1.4	–3.7	–0.7	7.5	4.9	2.7	2.5	–2.1	–1.5	–2.5	–1.5	0.5
Japan	3.5	–4.1	–17.6	30.0	40.4	0.7	4.6	–9.3	–2.8	–4.3	–36.6	–7.9	–5.4	11.8	11.4	–9.1	–6.9	–12.4	–5.5	0.9
Germany	–0.5	3.6	–2.9	11.3	17.0	13.8	0.6	–0.4	5.9	2.6	–16.0	–6.1	0.9	7.4	–2.6	2.1	–3.4	–5.5	–0.6	1.4
France	12.5	13.4	2.7	11.9	22.7	19.9	12.6	8.2	10.1	1.5	–14.3	–1.1	2.5	7.1	–2.1	–0.7	–3.8	–4.9	–1.0	1.5
Italy	26.4	16.9	6.6	18.9	27.6	32.3	12.4	3.6	12.9	7.5	–16.0	–1.6	7.5	6.4	–0.5	0.9	–0.7	11.6	3.6	3.2
United Kingdom	21.3	14.6	2.3	9.4	10.1	6.9	6.4	6.5	8.5	4.1	–5.8	2.5	–0.4	6.1	2.0	–3.0	–0.6	6.7	2.5	3.4
Canada	0.2	12.4	13.6	14.2	16.3	12.0	3.5	–1.3	4.6	1.7	0.0	–1.9	–1.9	–0.3	1.0	–2.9	1.9	4.0	4.4	2.2
Total of above countries	7.0	8.6	0.7	16.1	22.3	10.5	2.7	–0.6	4.0	0.3	–12.6	–0.3	1.7	5.8	1.4	–1.8	–2.4	–2.1	–0.5	1.5
Austria	2.6	3.7	0.7	5.3	8.9	10.2	0.2	–2.8	3.9	4.2	–10.0	–4.2	1.8	3.1	–2.9	3.3	–2.6	–3.7	1.2	2.5
Belgium-Luxembourg	5.8	1.9	1.8	10.3	13.8	13.8	13.3	7.4	7.7	–0.2	–13.2	–5.4	3.1	7.1	–1.8	–1.3	–3.2	–0.6	0.8	2.1
Denmark	8.6	7.6	2.6	13.4	21.4	16.7	9.5	3.2	8.1	2.5	–9.8	–4.2	2.5	7.1	–3.0	0.0	–3.0	–1.8	1.6	2.6
Finland	7.0	16.6	10.7	13.9	18.0	12.3	4.3	7.1	4.4	3.6	–9.7	–2.4	1.8	3.6	1.8	2.5	10.3	10.0	–2.4	2.7
Greece	10.5	5.9	7.2	22.6	34.5	16.8	24.0	17.0	21.1	18.4	14.5	–2.7	21.1	12.1	9.4	9.7	7.0	10.7	8.9	7.4
Iceland[a]	19.1	18.3	54.6	55.4	54.2	40.6	59.8	94.3	22.8	30.7	11.6	6.0	21.6	31.6	13.9	–3.5	–1.4	9.2	6.5	2.5
Ireland	16.2	18.4	5.7	14.2	18.4	19.4	8.1	4.4	10.7	2.5	–9.0	–3.7	4.6	8.6	–5.2	2.3	–2.5	0.5	–0.3	1.7
Netherlands	6.1	3.0	–2.3	11.6	14.9	14.9	1.0	0.1	5.8	0.9	–17.7	–5.0	–0.6	5.2	–2.0	–0.6	–2.5	–2.6	1.0	1.6
Norway	7.6	7.9	4.9	10.1	12.9	6.7	4.4	3.8	3.0	6.5	0.0	2.9	2.9	6.1	1.0	–1.6	–2.2	1.0	1.3	2.2
Portugal	12.4	29.4	23.1	34.4	28.0	19.8	17.0	34.3	35.4	7.1	–8.7	6.3	7.0	7.8	3.2	0.3	–5.0	3.9	2.0	2.5
Spain	10.5	18.8	9.5	2.6	36.4	29.0	12.8	21.3	11.9	2.1	–17.9	–3.2	–1.5	2.3	–3.4	–2.8	–3.1	5.7	3.3	2.1
Sweden	5.4	14.3	14.8	10.7	14.2	9.6	11.3	15.4	5.0	2.4	–8.7	3.4	4.0	5.4	1.8	–0.9	–4.0	10.8	2.1	2.3
Switzerland	–5.1	6.1	–10.5	6.7	11.9	7.2	–1.2	–0.7	4.2	4.3	–9.3	–3.6	4.9	8.1	–0.4	0.1	2.0	–1.9	–0.5	1.5
Turkey[a]	8.2	21.6	53.3	90.4	148.6	38.1	42.2	29.6	54.1	39.8	36.3	42.6	74.7	51.6	34.8	53.5	66.7	51.7	133.8	67.9
Total of smaller European countries	6.0	8.4	3.7	11.8	20.2	15.5	8.0	7.7	9.1	3.5	–11.2	–2.3	3.8	6.8	–0.4	0.8	–0.6	2.0	3.4	3.4
Australia	9.4	20.7	6.7	14.2	14.8	4.7	7.3	6.9	2.2	17.0	12.7	4.0	–2.9	–1.6	2.6	0.6	3.2	5.3	–1.8	1.1
New Zealand	22.8	10.2	3.6	12.9	29.2	14.1	11.6	8.4	13.6	10.8	–2.4	–4.4	–0.9	7.8	0.8	1.1	6.6	–1.0	1.0	3.0
Total of smaller countries	6.4	9.0	3.9	11.9	20.1	14.9	8.0	7.6	8.8	4.2	–10.1	–2.0	3.4	6.3	–0.3	0.8	–0.3	2.1	3.1	3.3
Total OECD	6.8	8.7	1.6	14.8	21.6	11.8	4.3	1.8	5.4	1.4	–11.9	–0.8	2.2	5.9	0.9	–1.1	–1.8	–0.9	0.6	2.1
OECD Europe	9.0	9.5	2.2	12.1	19.3	16.3	7.2	5.4	8.8	3.5	–12.6	–2.3	2.8	6.8	–0.9	0.4	–1.7	0.8	1.8	2.7
EC	10.2	9.6	1.9	12.0	19.3	17.2	7.5	5.3	9.1	3.0	–13.7	–2.9	2.1	6.5	–1.4	–0.1	–2.5	0.1	1.0	2.2
Total OECD *less* the United States	7.9	8.4	0.6	14.0	21.2	14.0	6.7	3.3	7.2	2.7	–14.5	–2.8	1.5	6.7	0.5	–0.8	–1.9	–0.5	1.1	2.4

a) OECD Secretariat estimates.

Annex Table 41. **Competitive positions: relative unit labour costs**[a]

Indices, 1991 = 100

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	1995
United States	122	122	114	119	124	131	142	146	156	160	132	112	105	106	103	100	94	92	90	89
Japan	92	100	115	97	86	90	78	86	86	85	117	120	123	108	95	100	113	141	151	151
Germany	80	84	87	89	90	83	86	87	85	83	92	102	102	99	103	100	106	111	107	107
France	111	104	105	107	111	110	106	105	106	108	110	109	104	99	102	100	100	104	105	104
Italy	96	95	91	91	89	88	89	95	93	90	91	91	90	94	99	100	96	80	80	82
United Kingdom	73	72	80	94	115	119	113	103	99	101	93	93	98	100	97	100	96	86	87	87
Canada	101	91	81	78	79	82	91	91	83	79	76	81	88	95	97	100	93	87	82	81
Austria	119	123	120	115	113	113	112	112	109	107	112	113	107	102	103	100	101	100	99	98
Belgium-Luxembourg	144	151	149	146	136	123	102	93	92	93	100	102	99	96	101	100	99	101	102	102
Denmark	103	102	104	103	89	84	82	83	83	85	94	104	102	98	103	100	101	101	100	100
Finland	114	107	91	91	90	95	98	95	98	97	94	92	95	99	104	100	78	65	68	68
Netherlands	133	134	132	129	121	109	112	111	100	97	105	110	107	99	101	100	104	106	103	101
Norway	105	110	105	97	99	103	106	106	104	103	104	105	110	105	103	100	100	96	94	95
Portugal	111	91	77	70	74	81	80	76	71	73	76	76	80	82	89	100	110	109	107	110
Spain	81	83	85	102	96	91	89	77	79	78	77	79	84	90	99	100	102	88	81	81
Sweden	123	120	111	104	103	104	90	81	83	87	86	87	91	95	97	100	95	75	75	76
Switzerland	77	71	84	80	71	71	78	86	84	83	90	94	96	91	99	100	98	99	104	103
Australia	130	116	107	100	100	113	121	115	121	100	85	84	94	103	103	100	90	81	85	86
New Zealand	113	119	118	119	116	117	115	112	96	92	92	104	115	104	101	100	88	92	97	97
Korea	70	74	75	83	72	65	71	72	67	68	57	62	74	102	100	100	94	96	99	103
Taiwan	67	70	60	67	74	79	81	75	87	82	74	83	94	107	104	100	102	98	97	96
Hong Kong	91	86	86	81	80	111	110	94	92	105	84	75	78	88	94	100	102	111	117	123
Singapore	85	81	78	78	77	83	99	109	115	119	88	80	82	89	94	100	104	109	115	119

a) In manufacturing, expressed in a common currency.

Annex Table 42. **Competitive positions: relative export prices**[a]

Indices, 1991 = 100

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	107	107	100	101	103	115	125	129	134	135	119	109	103	104	101	100	97	98	96	95
Japan	88	90	101	92	88	92	87	86	86	86	96	96	100	97	92	100	106	120	124	124
Germany	94	97	99	100	98	90	91	92	88	89	98	102	99	97	101	100	103	100	98	98
France	105	102	103	104	104	100	97	96	97	99	103	104	103	100	103	100	100	101	99	98
Italy	83	85	84	85	88	91	91	89	90	90	92	91	89	95	99	100	99	92	93	94
United Kingdom	84	88	94	101	112	111	104	101	98	100	95	97	102	99	100	100	97	96	99	100
Canada	121	114	108	105	106	105	102	104	102	99	95	98	102	104	101	100	96	96	94	95
Austria	119	121	118	115	112	109	110	109	107	105	109	111	114	104	106	100	100	103	106	107
Belgium-Luxembourg	104	106	107	109	108	100	96	96	95	94	98	98	98	100	103	100	102	103	103	104
Denmark	105	105	106	102	94	90	89	91	89	90	97	101	98	96	102	100	102	105	104	104
Finland	87	90	82	82	84	89	92	89	90	91	90	93	97	102	101	100	93	86	94	95
Netherlands	117	117	114	114	112	107	108	107	101	97	97	104	104	100	102	100	100	98	98	99
Norway	109	107	103	101	105	105	101	99	104	100	95	96	112	116	105	100	95	91	90	92
Portugal	114	113	106	107	110	112	108	104	103	106	104	102	102	98	99	100	102	98	94	93
Spain	88	84	80	85	84	76	78	74	76	78	85	88	91	91	96	100	103	97	90	89
Sweden	114	105	99	100	101	101	93	90	91	92	94	95	97	98	99	100	99	87	89	90
Switzerland	79	76	87	82	76	77	82	86	84	81	92	96	96	91	98	100	99	103	107	106
Australia	149	142	128	126	124	120	111	113	118	104	96	103	116	116	107	100	92	90	93	93
New Zealand	98	99	96	100	99	102	102	103	103	99	93	99	114	112	109	100	96	102	115	122
Korea	100	99	98	104	98	102	100	97	100	96	92	94	101	111	100	100	97	101	105	108
Taiwan	92	90	87	93	93	96	93	89	93	89	84	92	98	105	100	100	100	95	93	92
Hong Kong	144	142	131	127	126	124	121	112	119	118	108	104	100	102	98	100	99	104	106	106
Singapore	137	133	133	128	125	136	136	139	134	128	100	98	95	97	101	100	98	96	95	91

a) For manufactured goods, expressed in a common currency.

Annex Table 43. **Export performance for total goods**[a]

Percentage changes from previous period

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	–4.0	–3.9	4.7	3.3	5.2	–6.3	–6.9	–3.6	–2.7	–1.6	–0.2	4.8	7.3	2.5	2.2	0.1	–0.2	–0.6	0.3	0.1
Japan	8.6	0.0	–10.8	–4.4	13.7	3.7	–3.3	2.9	1.4	0.1	–6.3	–5.4	–5.5	–3.6	–0.1	–5.5	–7.9	–8.9	–7.5	–5.1
Germany	6.2	–1.1	–4.5	–1.8	–3.5	5.8	1.4	–1.9	1.2	1.5	–2.6	–3.3	–1.9	–0.7	–4.3	–4.6	–0.8	–6.3	–0.3	0.9
France	–2.1	1.9	–1.2	2.2	–2.2	2.3	–3.3	2.3	0.2	–0.6	–6.0	–3.1	0.1	0.8	–0.7	–1.0	0.3	–0.7	0.3	0.2
Italy	–0.6	2.0	1.5	3.9	–10.3	1.4	–1.1	3.6	–0.8	2.6	–3.9	–2.7	–0.4	–3.0	–4.5	–3.4	–0.4	9.8	4.0	1.1
United Kingdom	–3.7	2.6	–2.7	–3.6	–3.1	–4.2	2.0	0.5	1.0	2.4	–1.1	0.2	–3.7	–1.3	1.1	–2.3	–1.4	2.4	–0.4	0.3
Canada	–7.7	–0.9	–1.4	2.1	2.9	–0.4	0.3	–2.4	–1.1	1.0	–1.4	1.3	3.2	–4.4	1.8	–0.9	–1.0	–0.2	0.2	1.5
Total of above countries	0.7	–0.3	–2.3	0.0	0.8	0.4	–1.8	0.0	0.1	0.7	–3.2	–1.5	–0.3	–0.9	–0.8	–2.7	–1.8	–2.1	–0.9	–0.4
Austria	1.3	–1.0	–1.9	5.1	0.6	4.5	–0.1	0.9	2.8	4.8	–1.1	–3.2	–0.8	5.4	2.5	4.0	3.4	1.2	0.4	1.0
Belgium-Luxembourg	–0.7	–1.7	–2.4	–1.5	–4.0	1.1	–0.5	1.2	–1.1	–0.8	–1.4	–0.5	–1.8	–0.5	–3.5	–1.1	–3.3	–0.9	–1.3	–0.4
Denmark	–6.5	2.7	–0.9	1.3	6.8	7.3	–0.5	4.6	–0.7	–1.1	–2.7	–3.1	–0.8	0.1	0.5	4.1	1.3	–0.6	–0.3	–0.7
Finland	2.2	6.5	6.0	–2.3	8.1	0.4	–2.8	1.6	0.1	–3.4	–4.2	–3.5	–2.6	–7.5	–1.5	–10.8	7.0	18.9	5.8	0.4
Greece	–0.1	–5.0	8.4	–4.9	8.4	–16.5	–0.2	13.7	12.5	–3.5	16.6	5.7	–36.8	28.0	–10.9	9.0	10.5	5.9	–0.9	–0.3
Iceland	24.2	8.0	8.5	4.5	8.2	1.6	–19.9	12.1	–6.3	9.1	10.5	9.8	–11.8	–4.4	–0.1	1.1	–5.1	3.2	–3.3	–3.5
Ireland	–4.6	13.4	5.5	–1.3	6.4	–0.6	4.1	6.5	9.0	2.2	–1.6	8.8	–4.0	3.6	4.2	3.0	6.8	4.0	0.3	0.1
Netherlands	–0.6	–4.3	–2.3	2.5	–1.4	3.1	–1.6	2.6	2.3	2.1	0.3	–2.7	2.2	–0.9	–1.6	0.8	–0.9	3.1	–0.8	–0.7
Norway	9.0	1.9	22.3	–1.1	11.3	7.7	2.9	12.6	–0.5	1.0	–5.3	8.8	–0.2	8.5	2.7	4.6	4.7	4.1	3.3	–1.2
Portugal	–10.1	3.5	6.7	17.3	1.7	–2.4	11.1	14.9	7.6	5.8	0.3	3.3	–0.6	11.4	7.1	–2.6	3.0	2.7	1.9	3.5
Spain	8.6	7.3	10.5	5.1	–5.5	9.4	0.8	4.7	12.9	–2.7	–13.8	–0.3	–0.4	–1.2	2.0	1.5	–1.6	15.4	4.0	3.3
Sweden	–7.0	–0.4	2.7	1.5	–2.9	1.9	2.0	8.8	0.0	–1.8	–2.8	–2.2	–2.6	–4.4	–4.5	–4.7	–2.8	10.7	5.9	0.1
Switzerland	–8.8	4.9	2.2	–6.9	0.8	0.8	–5.6	–5.9	–3.9	5.1	–4.0	–4.8	–1.4	–0.9	–1.9	–8.3	0.5	1.5	–2.1	–1.9
Turkey	22.7	–26.0	7.5	–17.8	11.8	82.0	29.3	2.1	22.1	11.1	–24.6	14.5	–1.2	–7.1	–5.8	4.4	3.7	8.8	5.0	1.0
Total of smaller European countries	–1.0	0.8	2.1	0.1	0.2	3.4	–0.2	3.2	2.1	0.8	–3.3	–0.8	–1.4	0.0	–1.2	–0.7	0.2	4.6	1.0	0.1
Australia	0.1	–4.1	–3.0	4.7	–1.6	–8.3	9.5	–4.4	5.9	10.7	3.9	6.1	–6.7	–3.3	5.1	10.2	0.1	0.7	–0.4	–0.2
New Zealand	8.1	–1.0	–3.7	0.4	0.7	–4.7	2.6	6.4	–3.6	9.4	0.7	–1.3	–4.0	–12.6	4.1	6.8	–3.0	–1.2	–1.6	–2.3
Total of smaller countries	–0.8	0.4	1.7	0.3	0.1	2.6	0.3	2.8	2.1	1.5	–2.8	–0.4	–1.8	–0.4	–0.7	0.0	0.1	4.2	0.9	0.0
Total OECD	0.3	0.0	–1.3	0.0	0.7	1.1	–1.3	0.7	0.6	0.9	–3.1	–1.2	–0.7	–0.8	–0.8	–2.0	–1.3	–0.5	–0.5	–0.3
OPEC	2.4	9.5	–4.9	–2.4	–15.1	–12.7	–5.1	–9.2	–6.5	–0.1	12.8	–3.0	5.9	–3.6	1.5	6.5	1.3	–2.0	–1.0	–1.3
Asian NIEs	22.1	6.2	6.1	–0.2	6.8	2.4	4.0	7.4	3.9	–4.1	9.5	12.8	1.0	–5.7	–0.1	1.8	–2.8	2.0	1.3	1.4
Other Asia[b]	–3.4	–2.0	–0.2	4.2	2.1	1.4	7.9	0.8	–0.7	3.1	5.3	2.2	–1.1	4.9	1.5	6.2	5.1	4.8	2.8	1.4
Latin America[b,c]	–8.2	1.8	9.1	3.7	8.2	4.5	4.5	8.4	–0.3	–4.5	–8.8	–1.4	1.8	0.2	–4.5	0.5	–4.0	0.1	0.8	1.5
Africa[b]	–6.9	7.2	2.4	–0.1	31.5	–7.6	0.7	6.8	–3.3	–2.5	2.6	1.5	–4.4	–2.4	–0.2	1.2	–0.3	1.3	–0.2	–1.3
Central and Eastern Europe	–2.9	6.4	42.8	–3.4	–4.4	1.9	7.8	5.0	–0.5	–6.4	13.5	–0.9	2.3	–5.2	–5.9	–10.7	–17.9	5.7	0.6	–0.4
Total of non-OECD countries	1.5	6.0	2.7	–0.4	–2.2	–3.5	2.1	2.1	–0.9	–2.5	6.1	3.2	1.3	–2.5	–0.8	1.8	–1.9	1.9	1.1	0.7
World	0.6	1.5	–0.2	–0.1	0.0	–0.1	–0.4	1.1	0.2	0.1	–0.8	0.0	–0.2	–1.3	–0.8	–1.0	–1.5	0.2	0.0	0.0
OECD Europe	0.4	0.9	–0.8	–0.2	–2.7	2.8	0.0	1.4	1.2	1.2	–3.3	–1.9	–1.5	–0.6	–2.1	–2.3	–0.3	1.4	0.8	0.4
EC	0.8	0.5	–1.7	0.1	–3.6	2.5	0.0	1.2	1.3	1.1	–3.1	–2.0	–1.5	–0.5	–2.2	–2.1	–0.6	0.6	0.5	0.6
Total OECD *less* the United States	1.1	0.6	–2.3	–0.6	–0.2	2.6	–0.4	1.4	1.2	1.2	–3.5	–2.1	–1.9	–1.4	–1.4	–2.4	–1.5	–0.5	–0.6	–0.4

a) Export performance is the ratio between export volumes and export markets for total goods. The export volume concept employed is the sum of the exports of food, raw materials, energy and manufactures. 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 1991. The export market for total goods facing each country is calculated as the weighted sum of the individual export markets for food, raw materials, energy and manufactures, where the weights correspond to the commodity export structure of the exporting country in the previous year.
b) Not including OPEC countries.
c) Including Mexico.

Annex Table 44. **Shares in world trade**

Percentage, values for total goods

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
A. Exports																				
United States	12.7	11.5	11.6	11.5	11.6	12.5	12.1	11.9	12.2	11.9	11.0	10.6	11.8	12.4	11.7	12.3	12.2	12.8	12.8	12.7
Japan	7.3	7.6	7.9	6.4	6.7	8.0	7.9	8.5	9.2	9.5	10.3	9.6	9.7	9.2	8.5	9.2	9.3	10.1	9.9	9.4
Germany	11.9	11.8	12.2	11.6	10.7	10.0	10.7	10.6	10.1	10.7	12.8	13.1	12.6	12.3	12.6	11.7	11.9	10.3	10.0	10.1
France	6.1	6.0	6.3	6.2	5.9	5.5	5.4	5.4	5.2	5.4	6.0	6.1	6.0	5.9	6.3	6.2	6.4	5.9	5.7	5.7
Italy	4.0	4.2	4.4	4.5	4.0	4.0	4.2	4.2	4.0	4.2	4.8	4.8	4.7	4.7	5.0	4.9	4.9	4.7	4.8	4.9
United Kingdom	4.9	5.2	5.4	5.4	5.6	5.3	5.5	5.3	5.1	5.4	5.2	5.4	5.3	5.1	5.4	5.4	5.2	5.1	5.1	5.2
Canada	4.4	4.1	3.9	3.6	3.5	3.8	4.0	4.4	4.8	4.9	4.4	4.1	4.2	4.2	3.8	3.7	3.7	4.0	4.1	4.1
Other OECD countries	18.4	17.6	17.9	17.8	16.9	16.1	16.7	16.9	16.7	17.3	18.6	19.1	18.8	18.6	19.5	19.2	19.2	18.2	17.9	17.9
Non OECD Asia	7.5	7.6	7.9	8.1	8.3	9.2	9.8	10.6	11.5	11.3	11.5	12.7	13.4	13.6	13.1	14.3	14.8	16.5	17.6	18.0
Rest of the world	22.8	24.4	22.5	24.8	26.6	25.5	23.8	22.3	21.2	19.5	15.4	14.5	13.6	13.9	14.1	13.1	12.4	12.4	12.0	11.9
B. Imports																				
United States	13.6	14.6	14.3	13.6	12.9	14.0	14.0	15.7	18.3	18.5	18.2	17.5	16.6	16.4	15.0	14.5	14.8	16.5	16.9	16.7
Japan	6.5	6.2	5.9	6.4	6.7	6.8	6.7	6.6	6.7	6.4	5.7	5.8	6.2	6.4	6.3	6.2	5.7	6.1	6.3	6.3
Germany	9.7	9.8	9.9	10.2	9.8	8.7	8.7	8.8	8.4	8.6	9.4	9.6	9.2	9.1	9.9	10.5	10.4	8.6	8.0	7.9
France	7.1	6.7	6.6	6.9	7.1	6.4	6.5	6.1	5.7	5.8	6.3	6.7	6.5	6.5	6.9	6.7	6.5	5.7	5.4	5.3
Italy	4.4	4.2	4.2	4.5	4.8	4.4	4.4	4.2	4.2	4.5	4.5	4.8	4.7	4.7	4.9	4.8	4.7	3.7	3.6	3.6
United Kingdom	5.6	5.5	5.6	5.8	5.4	4.9	5.1	5.3	5.3	5.4	5.7	6.0	6.4	6.2	6.1	5.6	5.5	5.3	5.4	5.5
Canada	4.2	3.8	3.6	3.4	3.1	3.5	3.1	3.5	3.9	4.2	4.0	3.8	3.9	4.0	3.5	3.5	3.4	3.7	3.8	3.7
Other OECD countries	22.6	22.2	21.3	21.6	21.0	19.1	19.6	19.1	18.5	19.1	20.8	21.7	21.2	21.0	21.9	21.3	21.0	19.7	19.0	18.9
Non OECD Asia	7.7	8.0	8.6	8.9	9.3	10.2	10.4	11.3	11.4	11.8	11.1	11.7	12.9	13.5	13.2	14.7	15.7	17.8	18.9	19.4
Rest of the world	18.6	19.0	20.1	18.5	19.9	22.0	21.3	19.3	17.6	15.7	14.3	12.6	12.3	12.2	12.3	12.1	12.4	12.9	12.8	12.6

Annex Table 45. **Trade balances**

$ billion

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	–9.5	–31.1	–33.9	–27.6	–25.5	–28.0	–36.5	–67.1	–112.5	–122.2	–145.1	–159.6	–127.0	–115.2	–109.0	–73.8	–96.1	–132.5	–153.5	–162.8
Japan	9.9	17.3	24.6	1.8	2.1	20.0	18.1	31.5	44.3	56.0	92.8	96.4	95.0	76.9	63.5	103.0	132.3	141.4	135.0	128.5
Germany	16.5	19.6	24.9	17.1	10.2	17.4	26.1	22.3	23.1	28.8	56.1	70.5	79.9	77.9	72.4	23.8	32.0	42.1	59.2	71.0
France	–4.7	–2.8	0.7	–2.1	–13.0	–10.1	–15.5	–8.2	–4.1	–5.4	–2.8	–9.2	–8.5	–10.1	–12.9	–8.8	2.9	9.3	16.1	18.6
Italy	–4.2	–0.1	2.9	–1.0	–16.9	–11.7	–8.8	–2.4	–5.8	–6.2	4.2	–0.3	–1.2	–2.2	0.4	–0.7	2.5	34.1	43.8	53.3
United Kingdom	–7.1	–4.1	–3.1	–7.1	3.2	6.5	3.3	–2.3	–7.1	–4.3	–14.0	–18.9	–38.2	–40.4	–33.4	–18.1	–23.5	–20.5	–25.2	–28.7
Canada	1.9	3.2	4.2	4.2	8.0	6.4	14.8	14.8	16.0	12.6	7.7	9.0	8.1	6.0	8.7	5.2	8.3	9.9	11.9	16.0
Total of above countries	2.7	2.0	20.3	–14.6	–32.0	0.5	1.5	–11.5	–46.2	–40.7	–1.0	–12.2	8.2	–7.1	–10.3	30.5	58.3	83.8	87.2	96.0
Austria	–2.6	–3.8	–3.3	–4.3	–6.3	–4.5	–3.1	–3.4	–3.3	–2.6	–3.5	–4.2	–4.6	–5.0	–5.9	–7.6	–7.7	–6.7	–6.0	–6.2
Belgium-Luxembourg	–0.8	–2.4	–2.5	–4.1	–5.0	–4.1	–2.9	–1.2	–0.8	–0.2	1.1	0.8	1.9	1.1	0.8	0.5	2.4	3.5	4.8	5.7
Denmark	–2.9	–2.7	–2.3	–3.4	–2.0	–0.9	–0.8	0.2	–0.2	–0.7	–1.1	0.8	1.9	2.4	4.9	4.7	7.2	7.8	6.7	6.6
Finland	–0.7	0.4	1.1	0.4	–0.6	0.3	0.2	0.2	1.5	0.9	1.6	1.4	1.1	–0.2	0.7	2.4	3.9	6.4	10.3	11.4
Greece	–2.7	–3.2	–3.5	–5.0	–5.6	–5.4	–4.8	–4.3	–4.2	–5.1	–4.4	–5.5	–6.1	–7.4	–10.2	–10.1	–11.6	–10.6	–11.4	–12.3
Iceland	0.0	–0.1	0.0	0.0	0.0	0.0	–0.2	0.0	0.0	0.0	0.1	–0.1	0.0	0.1	0.1	0.0	0.0	0.2	0.2	0.2
Ireland	–0.6	–0.8	–1.1	–2.3	–2.2	–2.2	–1.1	–0.2	0.3	0.6	1.1	2.6	3.8	4.0	4.0	4.2	6.8	6.1	6.2	6.9
Netherlands	1.3	–0.2	–1.5	–1.4	–1.4	3.8	4.8	4.3	5.5	5.4	7.2	5.1	8.5	8.1	10.2	10.6	11.0	11.9	13.1	15.5
Norway	–3.5	–4.1	–0.5	0.1	1.9	3.0	2.4	4.4	5.2	4.7	–2.1	–0.7	–0.2	3.8	7.6	8.7	9.3	8.4	8.2	8.8
Portugal	–2.2	–2.0	–2.1	–2.6	–4.0	–5.2	–4.8	–3.0	–2.1	–1.5	–1.7	–3.6	–5.5	–4.9	–6.8	–7.9	–9.5	–6.8	–6.6	–7.1
Spain	–7.3	–6.1	–4.1	–5.7	–11.7	–10.0	–9.3	–7.6	–4.3	–4.2	–6.4	–12.8	–18.0	–24.6	–29.5	–30.8	–30.8	–16.1	–13.3	–15.3
Sweden	0.2	0.3	2.6	–0.7	–2.2	0.1	–0.4	1.9	3.4	2.3	5.1	4.5	4.8	4.0	3.4	5.8	6.7	7.1	11.5	13.7
Switzerland	0.6	0.2	0.6	–1.7	–5.0	–2.5	–1.3	–2.3	–2.3	–2.0	–2.0	–3.1	–3.2	–4.1	–3.2	–2.1	2.7	5.0	4.7	4.3
Turkey	–2.9	–3.8	–2.1	–2.6	–4.6	–3.9	–2.7	–3.0	–2.9	–3.0	–3.1	–3.2	–1.8	–4.2	–9.6	–7.3	–8.2	–14.5	–9.6	–9.5
Total of smaller European countries	–24.2	–28.1	–18.5	–33.2	–48.7	–31.4	–23.9	–14.0	–4.3	–5.3	–8.0	–18.0	–17.4	–26.8	–33.5	–29.0	–17.8	1.7	18.8	22.9
Australia	2.0	1.0	0.1	2.5	1.4	–2.2	–2.0	0.0	–0.8	–1.0	–1.8	0.3	–0.6	–3.4	0.4	3.5	1.5	–0.4	–0.4	–1.1
New Zealand	–0.3	0.0	0.5	0.4	0.3	0.2	–0.3	0.3	–0.5	0.0	0.1	0.6	2.1	1.0	0.9	2.1	1.7	1.7	2.2	2.5
Total of smaller countries	–22.4	–27.2	–17.9	–30.2	–47.0	–33.4	–26.2	–13.6	–5.7	–6.3	–9.7	–17.2	–15.8	–29.3	–32.2	–23.4	–14.6	3.0	20.6	24.3
Total OECD	–19.7	–25.2	2.4	–44.8	–79.0	–32.9	–24.7	–25.1	–51.8	–47.1	–10.7	–29.3	–7.6	–36.3	–42.6	7.1	43.7	86.8	107.8	120.3
OECD Europe	–23.7	–15.6	6.9	–26.2	–65.3	–29.2	–18.8	–4.6	1.7	7.6	35.6	24.0	14.7	–1.5	–7.1	–32.9	–4.0	66.7	112.7	137.2
EC	–14.7	–4.9	8.5	–17.6	–48.6	–21.8	–13.7	–2.4	0.2	7.2	39.4	29.5	18.5	4.1	–0.2	–32.6	–10.8	60.8	93.4	114.4
Total OECD *less* the United States	–10.2	5.9	36.3	–17.3	–53.5	–4.8	11.8	42.0	60.7	75.1	134.4	130.2	119.4	78.9	66.5	80.9	139.8	219.3	261.3	283.1

Annex Table 46. **Non-factor services, net**

$ billion

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	1995
United States	3.4	3.9	4.2	3.0	6.1	11.9	12.3	9.3	3.4	0.2	6.3	7.6	12.1	24.9	30.7	45.9	56.4	55.7	55.5	58.3
Japan	–5.7	–6.1	–8.3	–11.5	–12.2	–12.8	–11.6	–12.2	–12.0	–12.0	–14.4	–22.4	–32.3	–39.0	–45.5	–44.4	–46.3	–45.2	–44.4	–51.3
Germany	–6.4	–7.4	–8.9	–12.4	–13.0	–10.5	–9.1	–8.8	–6.5	–5.6	–8.3	–12.4	–16.4	–14.2	–20.4	–27.4	–37.7	–41.3	–42.4	–45.1
France	3.0	4.6	8.1	8.9	9.3	7.0	6.8	7.8	7.1	8.9	9.7	10.0	10.3	12.5	14.2	15.1	17.6	15.1	17.3	19.0
Italy	2.3	3.6	4.9	6.5	6.3	5.0	6.0	6.6	5.8	5.6	6.0	6.3	4.0	1.9	0.9	1.4	–2.3	2.1	1.5	–0.2
United Kingdom	4.0	5.3	7.1	8.3	8.5	7.6	5.3	5.8	5.6	8.2	9.1	10.2	7.0	5.5	6.8	6.5	7.1	7.7	9.0	9.9
Canada	–2.9	–3.3	–3.2	–2.6	–3.2	–3.2	–3.5	–3.8	–4.1	–4.1	–4.3	–5.3	–5.7	–7.8	–10.4	–11.3	–11.4	–10.5	–10.5	–12.0
Total of above countries	–2.3	0.5	3.9	0.1	1.8	5.0	6.2	4.7	–0.6	1.0	4.1	–5.9	–20.9	–16.2	–23.7	–14.2	–16.6	–16.4	–14.2	–21.5
Austria	1.8	2.1	3.1	3.6	5.2	3.7	4.3	4.1	3.5	2.9	4.4	5.0	5.3	6.3	8.1	9.3	9.8	7.9	7.2	7.7
Belgium-Luxembourg	1.1	2.0	1.8	1.7	1.5	1.3	1.9	2.1	1.7	1.7	2.8	3.1	3.1	3.1	4.2	4.8	5.5	6.3	6.0	6.0
Denmark	1.1	1.2	1.3	1.4	1.3	1.2	0.9	0.8	0.7	0.7	0.3	0.5	1.3	1.3	2.2	3.5	3.7	2.5	2.3	2.3
Finland	0.0	0.1	0.3	0.3	0.3	0.4	0.3	0.1	–0.2	–0.4	–0.6	–1.0	–1.5	–2.1	–3.0	–3.4	–2.7	–1.8	–1.4	–1.5
Greece	1.1	1.3	1.7	2.1	2.5	2.3	1.9	1.4	1.4	1.2	1.7	2.7	2.9	2.4	3.6	4.1	5.0	4.8	5.7	6.3
Iceland	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ireland	0.0	0.0	–0.1	–0.2	–0.4	–0.2	–0.1	–0.2	–0.2	–0.2	–0.5	–0.8	–1.2	–1.5	–1.3	–1.1	–1.6	–1.2	–1.2	–1.3
Netherlands	1.6	1.4	1.2	0.3	0.2	1.0	1.1	0.6	0.6	0.1	–0.9	–0.2	–0.7	0.8	2.2	0.4	0.5	0.5	0.9	0.9
Norway	0.5	0.2	0.1	1.1	1.6	1.4	0.7	–0.1	–0.2	0.0	–0.5	–1.1	–0.6	0.1	0.3	0.6	–1.2	–1.4	–1.5	–1.5
Portugal	0.1	0.1	0.3	0.5	0.6	0.5	0.2	0.4	0.5	0.8	0.9	1.2	1.0	1.2	1.4	1.1	0.9	1.2	0.5	0.3
Spain	2.4	3.5	5.1	6.1	6.0	5.9	5.8	6.3	7.6	7.6	11.2	12.9	13.3	12.0	12.2	12.9	13.2	11.6	11.7	12.5
Sweden	–0.9	–1.1	–0.9	0.2	0.5	0.2	–0.4	0.0	–0.1	–0.6	–1.3	–1.6	–2.2	–3.0	–3.1	–2.2	–2.8	–0.1	0.9	1.1
Switzerland	0.8	0.9	0.6	0.2	0.2	0.3	0.4	0.9	0.8	1.1	1.4	1.7	0.6	0.1	–0.5	0.0	0.5	1.6	2.0	1.9
Turkey	0.1	–0.2	0.2	0.3	0.1	0.8	0.9	0.8	0.9	1.3	1.3	1.8	3.3	3.4	4.2	4.4	4.8	6.0	6.0	5.8
Total of smaller European countries	9.7	11.5	14.7	17.7	19.7	18.7	17.9	17.3	17.2	16.2	20.4	24.1	24.6	24.1	30.5	34.5	35.6	38.0	39.2	40.5
Australia	–2.0	–2.1	–2.2	–2.3	–2.7	–3.0	–3.1	–2.7	–3.5	–3.5	–3.0	–2.8	–2.7	–4.8	–4.0	–3.2	–3.3	–2.3	–2.5	–3.0
New Zealand	–0.2	–0.4	–0.5	–0.6	–0.8	–0.8	–0.8	–0.5	–0.4	–0.4	–0.5	–0.5	–0.6	–0.8	–0.8	–0.9	–1.0	–0.7	–0.8	–0.8
Total of smaller countries	7.5	9.0	12.0	14.7	16.3	14.9	14.0	14.1	13.3	12.4	16.9	20.8	21.3	18.5	25.6	30.4	31.4	34.9	36.0	36.7
Total OECD	5.2	9.6	15.9	14.8	18.1	19.9	20.2	18.8	12.7	13.4	21.0	14.9	0.4	2.3	1.9	16.3	14.7	18.6	21.8	15.1
OECD Europe	12.7	17.6	25.9	28.9	30.8	27.9	26.8	28.6	29.2	33.2	36.8	38.2	29.6	29.7	32.0	30.2	20.4	21.6	24.5	24.0
EC	10.3	15.5	22.5	23.2	22.8	21.0	20.6	22.8	24.5	29.0	32.1	33.5	24.7	25.0	25.9	21.4	11.9	9.3	11.3	10.5
Total OECD *less* the United States	1.9	5.7	11.7	11.8	12.0	8.1	7.9	9.5	9.2	13.3	14.7	7.3	–11.7	–22.6	–28.7	–29.6	–41.7	–37.1	–33.7	–43.1

Annex Table 47. **Investment income, net**

$ billion

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	16.0	18.0	20.4	30.9	30.1	32.9	29.8	31.9	30.8	23.2	12.8	7.7	12.6	14.8	20.3	13.0	6.2	0.1	–8.7	–14.4
Japan	–0.2	0.1	0.9	2.0	0.9	–0.8	1.7	3.1	4.2	6.8	9.5	16.7	21.0	23.4	23.2	26.7	36.2	41.3	45.8	51.0
Germany	0.8	–0.6	2.0	1.1	2.0	0.5	–1.2	1.6	3.6	3.2	4.1	3.9	5.2	11.8	17.4	19.4	15.7	9.1	4.4	4.6
France	0.7	0.7	1.4	2.4	3.7	2.6	1.1	–0.5	–1.3	–1.2	–0.5	–0.4	0.1	0.5	–3.0	–5.1	–7.7	–7.5	–6.4	–5.8
Italy	–1.1	–1.1	–1.1	–0.5	–0.7	–3.2	–3.9	–3.9	–3.9	–4.0	–6.2	–6.6	–7.1	–8.3	–13.4	–16.1	–20.8	–17.0	–16.1	–16.8
United Kingdom	2.8	0.5	1.5	2.6	–0.4	2.5	2.5	4.3	5.8	2.9	6.8	6.1	7.9	5.5	2.9	0.6	10.1	4.1	3.5	3.3
Canada	–3.6	–4.3	–5.2	–6.1	–6.7	–9.5	–10.3	–9.4	–10.4	–10.5	–11.8	–12.4	–15.2	–18.2	–20.5	–19.1	–20.0	–19.1	–19.4	–20.7
Total of above countries	15.5	13.2	20.0	32.3	28.8	25.1	19.8	27.1	28.9	20.5	14.7	15.0	24.5	29.6	27.1	19.4	19.7	10.9	3.0	1.2
Austria	–0.2	–0.3	–0.5	–0.5	–0.5	–0.5	–0.4	–0.4	–0.4	–0.3	–0.7	–0.9	–0.9	–0.9	–1.0	–1.5	–1.2	–1.0	–1.3	–1.5
Belgium-Luxembourg	0.6	0.5	0.6	0.4	–0.1	–0.1	–0.2	–0.2	–0.1	–0.1	0.1	0.4	0.4	1.3	0.8	1.5	1.1	2.9	2.9	3.4
Denmark	–0.4	–0.5	–0.9	–1.3	–1.8	–2.0	–2.2	–2.0	–2.2	–2.6	–3.5	–4.1	–4.2	–4.4	–5.6	–5.6	–5.7	–4.7	–4.6	–4.2
Finland	–0.5	–0.6	–0.7	–0.7	–0.9	–1.1	–1.3	–1.2	–1.1	–1.1	–1.4	–1.6	–1.8	–2.7	–3.7	–4.6	–5.4	–5.0	–5.5	–5.5
Greece	–0.1	–0.1	–0.1	–0.2	–0.3	–0.6	–0.7	–0.8	–0.9	–1.1	–1.3	–1.4	–1.5	–1.5	–1.6	–1.7	–2.0	–1.5	–1.8	–2.0
Iceland	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.2	–0.1	–0.2	–0.2	–0.2	–0.2	–0.3	–0.3	–0.2	–0.2	–0.2	–0.2
Ireland	–0.1	–0.3	–0.5	–0.7	–0.8	–1.0	–1.5	–1.6	–1.9	–2.2	–2.8	–3.2	–4.2	–4.7	–5.3	–4.7	–5.5	–5.8	–5.8	–5.9
Netherlands	0.2	0.3	–0.2	–0.2	–0.3	–0.4	–0.1	0.2	–0.1	0.6	0.4	0.2	–0.7	1.3	0.8	1.0	0.1	1.3	1.7	1.9
Norway	–0.5	–0.9	–1.4	–1.8	–1.9	–1.8	–1.9	–1.7	–1.5	–1.0	–1.1	–1.2	–2.0	–2.5	–2.7	–2.6	–3.5	–3.2	–2.8	–2.3
Portugal	–0.1	–0.2	–0.3	–0.4	–0.6	–1.0	–1.3	–1.1	–1.2	–1.2	–1.0	–0.9	–0.9	–0.7	–0.2	0.1	0.6	–0.1	0.5	0.5
Spain	–0.5	–0.7	–1.0	–1.1	–1.5	–2.3	–2.3	–2.5	–2.4	–1.8	–2.0	–2.8	–3.5	–3.0	–3.8	–4.8	–6.6	–4.4	–6.3	–6.4
Sweden	–0.2	–0.5	–0.7	–0.8	–1.4	–2.2	–1.7	–1.8	–1.9	–2.0	–1.8	–1.6	–1.7	–2.2	–4.0	–5.0	–6.5	–5.6	–5.2	–4.5
Switzerland	2.6	3.1	4.1	5.0	5.3	6.0	6.0	6.2	6.7	6.8	8.5	10.5	13.3	12.7	14.8	15.3	14.8	14.7	15.1	16.0
Turkey	–0.3	–0.3	–0.4	–1.0	–1.1	–1.4	–1.5	–1.4	–1.4	–1.3	–1.6	–1.8	–2.0	–1.7	–1.8	–1.9	–1.6	–1.8	–2.3	–2.2
Total of smaller European countries	0.4	–0.7	–2.1	–3.5	–6.0	–8.5	–9.1	–8.4	–8.6	–7.4	–8.2	–8.6	–9.8	–9.5	–13.5	–14.9	–21.7	–14.3	–15.6	–13.0
Australia	–1.7	–1.7	–2.0	–2.5	–2.7	–2.9	–2.6	–3.3	–4.3	–4.7	–5.0	–6.0	–8.4	–11.4	–13.2	–12.4	–10.1	–8.5	–9.8	–10.9
New Zealand	–0.4	–0.4	–0.6	–0.5	–0.5	–0.6	–0.7	–0.9	–1.1	–1.3	–1.5	–2.0	–2.1	–1.9	–1.8	–2.5	–2.0	–2.4	–2.6	–2.5
Total of smaller countries	–1.7	–2.8	–4.7	–6.5	–9.2	–12.0	–12.5	–12.6	–14.0	–13.4	–14.7	–16.6	–20.3	–22.8	–28.6	–29.7	–33.8	–25.2	–28.0	–26.4
Total OECD	13.8	10.4	15.3	25.8	19.6	13.1	7.3	14.5	14.8	7.1	–0.1	–1.6	4.1	6.8	–1.6	–10.3	–14.1	–14.3	–24.9	–25.2
OECD Europe	3.7	–1.2	1.7	2.1	–1.4	–6.0	–10.6	–6.9	–4.4	–6.4	–4.0	–5.6	–3.8	0.0	–9.5	–16.1	–24.4	–25.6	–30.1	–27.7
EC	2.8	–1.6	1.4	2.0	–0.7	–4.9	–9.6	–6.4	–4.6	–7.4	–5.8	–8.8	–8.5	–2.3	–10.9	–15.5	–20.8	–23.5	–27.8	–27.5
Total OECD *less* the United States	–2.2	–7.5	–5.1	–5.0	–10.5	–19.8	–22.5	–17.4	–16.0	–16.1	–12.8	–9.3	–8.5	–8.0	–21.9	–23.3	–20.4	–14.4	–16.2	–10.8

Annex Table 48. **Current balances**

$ billion

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	–15.14	–0.29	2.32	5.03	–11.44	–43.62	–98.82	–121.73	–150.21	–167.31	–127.17	–101.62	–91.85	–8.30	–66.40	–109.24	–140.61	–153.61
Japan	16.54	–8.75	–10.75	4.77	6.85	20.80	35.00	49.17	85.84	87.01	79.63	57.16	35.76	72.90	117.55	131.35	128.80	120.14
Germany	8.90	–5.41	–13.83	–3.55	5.11	5.30	9.81	16.42	39.50	45.88	50.64	57.51	46.85	–19.44	–22.01	–21.32	–13.00	–4.20
France	7.00	5.19	–4.17	–4.72	–12.24	–4.80	–1.18	–0.33	1.84	–4.99	–4.84	–5.60	–15.32	–6.68	4.27	10.94	18.38	21.81
Italy	6.36	5.98	–9.71	–8.93	–5.66	1.72	–2.30	–3.59	2.44	–1.59	–5.86	–11.04	–14.84	–21.44	–26.57	12.43	19.99	26.83
United Kingdom	2.15	–0.96	6.61	13.56	8.12	5.35	1.97	2.87	–1.28	–8.15	–29.56	–36.82	–32.45	–13.50	–15.13	–16.41	–21.32	–24.66
Canada	–4.30	–4.15	–0.96	–5.12	2.28	2.49	2.08	–2.27	–8.20	–8.75	–12.58	–19.75	–22.24	–25.33	–22.90	–19.55	–17.53	–16.19
Total of the above countries	21.51	–8.40	–30.49	1.04	–6.98	–12.77	–53.42	–59.46	–30.05	–57.90	–49.73	–60.16	–94.07	–21.79	–31.20	–11.80	–25.29	–29.87
Austria	–0.69	–1.12	–1.65	–1.35	0.70	0.24	–0.20	–0.10	0.22	–0.20	–0.24	0.25	1.20	0.07	–0.15	–0.91	–1.20	–1.18
Belgium-Luxembourg	–0.84	–3.05	–4.94	–4.19	–2.41	–0.43	–0.04	0.69	3.10	2.77	3.53	3.55	3.70	4.80	6.48	10.13	10.99	12.33
Denmark	–1.41	–2.97	–2.45	–1.85	–2.25	–1.18	–1.63	–2.73	–4.49	–2.97	–1.24	–0.89	1.33	2.21	4.64	5.36	3.69	3.80
Finland	0.67	–0.15	–1.40	–0.51	–0.98	–1.13	–0.03	–0.77	–0.71	–1.72	–2.71	–5.80	–6.94	–6.68	–4.91	–0.97	2.72	3.62
Greece	–0.96	–1.88	–2.21	–2.41	–1.89	–1.88	–2.13	–3.28	–1.67	–1.22	–0.96	–2.56	–3.54	–1.58	–2.14	–0.75	–0.98	–1.28
Iceland	0.02	–0.02	–0.08	–0.15	–0.26	–0.05	–0.13	–0.11	0.02	–0.19	–0.22	–0.09	–0.14	–0.31	–0.20	0.00	0.02	0.01
Ireland	–0.84	–2.10	–2.13	–2.55	–1.86	–1.12	–1.00	–0.69	–0.84	–0.15	–0.01	–0.56	–0.01	1.51	2.65	2.64	2.61	2.88
Netherlands	–1.60	–2.28	–2.90	2.70	4.23	3.92	4.87	5.06	4.86	2.87	5.04	7.96	10.11	7.61	6.76	8.63	10.24	11.72
Norway	–2.09	–1.04	1.10	2.17	0.64	2.01	2.93	3.11	–4.52	–4.06	–3.88	0.24	3.85	5.11	2.86	2.45	2.31	3.23
Portugal	–0.44	–0.05	–1.07	–2.79	–3.15	–1.49	–0.58	0.35	1.16	0.44	–1.03	0.17	–0.18	–0.66	–0.21	1.01	1.62	1.69
Spain	1.57	1.13	–5.12	–4.82	–4.24	–2.54	2.04	2.74	3.93	–0.07	–3.69	–10.94	–16.87	–16.71	–18.35	–4.22	–2.54	–3.72
Sweden	–0.25	–2.39	–4.39	–2.92	–3.54	–0.83	0.55	–1.31	0.61	–0.12	–0.73	–3.29	–5.90	–3.35	–5.14	–0.40	5.43	8.44
Switzerland	4.41	2.41	–0.55	2.79	4.05	3.85	4.37	5.04	6.87	7.56	9.05	7.02	8.64	10.56	15.05	18.63	18.13	17.94
Turkey	–1.26	–1.41	–3.41	–1.92	–0.96	–1.83	–1.40	–1.01	–1.47	–0.81	1.59	0.96	–2.62	0.27	–0.94	–6.57	–2.05	–2.17
Total of the smaller European countries	–3.73	–14.92	–31.20	–17.79	–11.91	–2.46	7.60	6.98	7.06	2.12	4.51	–3.98	–7.37	2.85	6.40	35.03	50.99	57.33
Australia	–4.47	–2.58	–4.14	–8.33	–7.93	–5.98	–8.66	–8.71	–9.30	–7.53	–10.20	–17.71	–15.08	–10.24	–10.74	–10.88	–12.34	–14.70
New Zealand	–0.49	–0.69	–0.94	–1.15	–1.70	–0.98	–1.90	–1.61	–1.74	–1.75	–0.32	–1.31	–1.14	–0.55	–0.88	–0.89	–0.59	–0.23
Total of the smaller countries	–8.68	–18.19	–36.28	–27.27	–21.55	–9.42	–2.95	–3.34	–3.98	–7.15	–6.02	–23.00	–23.60	–7.94	–5.22	23.26	38.06	42.40
Total OECD	12.84	–26.59	–66.77	–26.23	–28.52	–22.18	–56.38	–62.80	–34.03	–65.05	–55.75	–83.16	–117.67	–29.73	–36.42	11.46	12.77	12.52
OECD Europe	20.69	–10.12	–52.30	–21.43	–16.59	5.11	15.91	22.35	49.56	33.27	14.90	0.07	–23.12	–58.21	–53.05	20.66	55.05	77.11
EC	19.89	–6.41	–41.91	–19.55	–16.23	2.87	9.83	17.51	48.55	32.81	12.04	0.78	–21.22	–63.88	–59.62	8.43	29.70	47.20
Total OECD *less* the United States	27.98	–26.30	–69.08	–31.26	–17.08	–21.44	42.44	58.93	116.17	102.26	71.42	18.46	–25.82	–21.43	29.98	120.70	153.39	166.13

Note: The balance-of-payments data in this table are derived from OECD countries' submissions and publications. They are based on the concepts and definitions of the IMF *Balance of Payments Manual.*

Annex Table 49. **Current balances as a percentage of GDP**

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
United States	0.2	–0.7	–0.7	0.0	0.1	0.2	–0.4	–1.3	–2.6	–3.0	–3.5	–3.7	–2.6	–1.9	–1.7	–0.1	–1.1	–1.7	–2.1	–2.1
Japan	0.7	1.6	1.7	–0.9	–1.0	0.4	0.6	1.8	2.8	3.6	4.3	3.6	2.7	2.0	1.2	2.2	3.2	3.1	2.8	2.5
Germany	0.8	0.8	1.4	–0.7	–1.7	–0.5	0.8	0.8	1.6	2.6	4.4	4.1	4.2	4.9	3.2	–1.1	–1.1	–1.1	–0.7	–0.2
France	–1.0	–0.1	1.4	0.9	–0.6	–0.8	–2.2	–0.9	–0.2	–0.1	0.2	–0.6	–0.5	–0.6	–1.3	–0.6	0.3	0.9	1.4	1.6
Italy	–1.2	1.1	2.1	1.6	–2.2	–2.1	–1.4	0.4	–0.6	–0.9	0.4	–0.2	–0.7	–1.3	–1.4	–1.9	–2.2	1.3	2.0	2.5
United Kingdom	–0.8	–0.1	0.7	–0.2	1.2	2.5	1.7	1.2	0.4	0.6	–0.2	–1.2	–3.5	–4.4	–3.4	–1.3	–1.4	–1.7	–2.1	–2.3
Canada	–2.1	–2.0	–2.0	–1.8	–0.4	–1.7	0.8	0.8	0.6	–0.7	–2.3	–2.1	–2.6	–3.6	–3.9	–4.3	–4.0	–3.5	–3.2	–2.8
Total of the above countries	0.0	0.0	0.4	–0.1	–0.5	0.0	–0.1	–0.2	–0.7	–0.8	–0.3	–0.5	–0.4	–0.5	–0.7	–0.1	–0.2	–0.1	–0.1	–0.2
Austria	–2.7	–4.5	–1.2	–1.6	–2.1	–2.0	1.1	0.3	–0.3	–0.2	0.3	–0.2	–0.2	0.2	0.7	0.0	–0.1	–0.5	–0.6	–0.6
Belgium-Luxembourg	0.6	–0.7	–0.9	–2.8	–4.2	–4.4	–2.7	–0.5	–0.1	0.9	2.8	2.0	2.3	2.3	1.9	2.5	2.9	4.9	5.1	5.4
Denmark	–4.8	–3.7	–2.5	–4.5	–3.7	–3.2	–4.0	–2.1	–3.0	–4.7	–5.5	–2.9	–1.1	–0.8	1.0	1.7	3.3	3.9	2.6	2.5
Finland	–3.7	–0.3	1.9	–0.3	–2.7	–1.0	–2.0	–2.3	–0.1	–1.4	–1.0	–1.9	–2.6	–5.1	–5.1	–5.5	–4.6	–1.2	3.0	3.7
Greece	–4.1	–4.1	–3.0	–4.9	–5.5	–6.5	–5.0	–5.4	–6.3	–9.8	–4.2	–2.6	–1.8	–4.7	–5.3	–2.2	–2.8	–1.0	–1.3	–1.6
Iceland	–1.7	–2.5	0.9	–0.8	–2.3	–4.4	–8.3	–2.2	–4.7	–3.9	0.5	–3.6	–3.7	–1.5	–2.2	–4.7	–3.1	0.1	0.3	0.2
Ireland	–5.0	–5.1	–6.3	–12.5	–10.7	–13.5	–9.4	–5.8	–5.5	–3.5	–3.2	–0.5	0.0	–1.6	0.0	3.4	5.3	5.7	5.5	5.7
Netherlands	2.7	0.5	–1.2	–1.4	–1.7	1.9	3.0	2.9	3.8	3.9	2.8	1.3	2.2	3.5	3.5	2.6	2.1	2.8	3.3	3.5
Norway	–11.9	–14.0	–5.2	–2.2	1.9	3.8	1.1	3.7	5.3	5.4	–6.5	–4.8	–4.3	0.3	3.5	4.8	2.5	2.3	2.2	2.9
Portugal	–8.4	–5.7	–2.4	–0.3	–4.3	–11.5	–13.3	–6.9	–3.0	1.6	3.9	1.2	–2.5	0.4	–0.3	–1.0	–0.2	1.4	2.2	2.1
Spain	–4.0	–1.4	1.0	0.6	–2.4	–2.6	–2.4	–1.6	1.3	1.6	1.7	0.0	–1.1	–2.9	–3.4	–3.2	–3.2	–0.8	–0.5	–0.8
Sweden	–2.1	–2.6	–0.3	–2.2	–3.5	–2.6	–3.6	–0.9	0.6	–1.4	0.5	–0.1	–0.4	–1.7	–2.6	–1.4	–2.1	–0.2	2.8	4.0
Switzerland	5.9	5.7	5.1	2.6	–0.5	3.0	4.2	4.0	4.8	5.4	5.0	4.4	4.9	4.0	3.8	4.6	6.2	8.0	7.3	6.8
Turkey[a]	–4.8	–6.4	–2.3	–2.6	–5.9	–3.1	–1.7	–3.5	–2.8	–1.9	–2.4	–1.2	2.6	1.2	–2.4	0.2	–0.8	–5.5	–2.3	–2.5
Total of the smaller European countries	–1.9	–2.1	–0.4	–1.4	–2.8	–1.8	–1.2	–0.3	0.8	0.7	0.6	0.1	0.3	–0.2	–0.3	0.1	0.3	1.6	2.3	2.4
Australia	–1.9	–3.0	–3.8	–2.0	–2.7	–4.8	–4.7	–3.7	–4.8	–5.4	–5.5	–3.8	–4.1	–6.3	–5.1	–3.4	–3.7	–3.8	–3.9	–4.3
New Zealand	–7.0	–5.6	–2.9	–3.5	–4.4	–5.0	–7.3	–4.4	–8.7	–7.3	–6.2	–5.0	–0.7	–3.1	–2.6	–1.3	–2.2	–2.1	–1.2	–0.5
Total of the smaller countries	–2.0	–2.3	–0.9	–1.5	–2.8	–2.3	–1.9	–0.9	–0.3	–0.3	–0.3	–0.4	–0.3	–1.1	–0.9	–0.3	–0.2	0.9	1.5	1.5
Total OECD	–0.3	–0.4	0.2	–0.4	–0.9	–0.3	–0.4	–0.3	–0.7	–0.7	–0.3	–0.5	–0.4	–0.6	–0.7	–0.2	–0.2	0.1	0.1	0.1
OECD Europe	–0.9	–0.4	0.8	–0.3	–1.5	–0.7	–0.5	0.2	0.6	0.8	1.2	0.7	0.3	0.0	–0.3	–0.8	–0.7	0.3	0.7	1.0
EC	–0.6	0.0	0.9	–0.2	–1.3	–0.7	–0.6	0.1	0.4	0.7	1.4	0.8	0.3	0.0	–0.4	–1.0	–0.9	0.1	0.5	0.7
Total OECD *less* the United States	–0.7	–0.2	0.7	–0.6	–1.4	–0.6	–0.4	0.5	0.9	1.2	1.8	1.3	0.8	0.2	–0.2	–0.2	0.2	1.0	1.2	1.2

a) Percentage of GNP.

Annex Table 50. **Structure of current account balances of major world regions**[a]

$ billion

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projections 1994	Projections 1995
Trade balance																				
OECD	–20	–25	2	–45	–79	–33	–25	–25	–52	–47	–11	–29	–8	–36	–43	7	44	87	108	120
Non-OECD *of which:*	45	51	22	81	121	64	34	40	68	53	18	58	34	38	41	15	–5	–19	–29	–33
OPEC	68	64	50	118	175	127	67	46	55	55	8	27	17	41	73	41	40	44	36	37
Asian NIEs	–3	–2	–4	–8	–11	–11	–8	–3	4	9	19	26	22	19	7	3	2	2	3	1
Other Asia[b]	–7	–8	–14	–19	–26	–29	–25	–28	–24	–36	–29	–22	–29	–31	–25	–24	–26	–38	–41	–45
Latin America[b,c]	–5	0	–2	–6	–12	–11	3	20	27	23	13	16	23	20	15	3	–11	–16	–18	–17
Africa[b]	–4	–2	–5	–3	–5	–15	–13	–8	–8	–4	–3	–3	–7	–9	–10	–10	–13	–13	–12	–12
Central and Eastern Europe	–4	0	–3	–1	1	3	11	13	14	6	8	14	9	–3	–19	2	3	2	2	3
World[d]	26	26	24	36	42	31	9	15	16	6	7	28	26	1	–2	22	39	68	78	87
Services and private transfers, net																				
OECD	17	18	28	39	36	30	21	25	20	13	10	2	–7	–1	–14	–10	–19	–15	–26	–35
Non-OECD *of which:*	–36	–43	–50	–63	–82	–105	–108	–92	–93	–86	–69	–63	–68	–75	–81	–101	–92	–104	–110	–114
OPEC	–28	–37	–44	–51	–64	–71	–71	–62	–60	–53	–39	–40	–39	–44	–55	–70	–62	–68	–69	–72
Asian NIEs	3	3	4	3	2	4	6	5	3	2	4	5	6	5	7	7	7	9	9	9
Other Asia[b]	1	3	4	4	8	7	8	6	4	4	5	5	3	3	4	5	2	0	–2	–2
Latin America[b,c]	–8	–9	–11	–15	–22	–34	–40	–33	–34	–31	–29	–26	–30	–32	–31	–27	–24	–29	–31	–33
Africa[b]	–5	–5	–4	–5	–6	–8	–8	–7	–6	–7	–9	–7	–7	–7	–8	–6	–3	–3	–1	0
Central and Eastern Europe	1	2	2	1	–1	–2	–2	–1	0	–1	0	0	–1	0	2	–10	–13	–14	–16	–16
World[d]	–20	–24	–22	–24	–46	–75	–87	–66	–73	–73	–58	–61	–74	–76	–95	–112	–112	–119	–136	–149
Official transfers, net																				
OECD	–12	–14	–18	–21	–24	–23	–24	–22	–25	–28	–33	–38	–41	–46	–61	–27	–61	–61	–69	–73
Non-OECD *of which:*	4	4	2	5	4	6	7	8	9	13	14	16	15	16	14	–5	24	25	25	26
OPEC	–4	–4	–6	–6	–7	–6	–5	–5	–4	–3	–3	0	–1	–1	–8	–33	–2	–1	–1	–1
Asian NIEs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	–1	0	0	0	0
Other Asia[b]	4	5	5	7	7	8	7	7	7	9	9	8	8	8	9	10	9	9	9	9
Latin America[b,c]	0	0	0	1	1	1	1	1	1	2	1	2	2	2	3	4	4	4	3	3
Africa[b]	3	3	3	3	4	4	3	4	4	5	6	6	7	7	10	10	9	9	9	9
Central and Eastern Europe	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5	4	4	4	5
World[d]	–9	–10	–15	–16	–20	–17	–18	–15	–16	–15	–20	–22	–26	–30	–47	–32	–37	–36	–45	–47
Current balance																				
OECD	–15	–21	13	–27	–67	–26	–29	–22	–56	–63	–34	–65	–56	–83	–118	–30	–36	11	13	13
Non-OECD *of which:*	13	12	–26	23	44	–34	–67	–44	–17	–20	–37	10	–18	–21	–26	–91	–74	–99	–115	–121
OPEC	36	23	0	61	104	49	–10	–21	–9	–1	–33	–13	–24	–4	10	–62	–23	–25	–34	–36
Asian NIEs	0	1	–1	–5	–9	–7	–3	2	7	10	23	31	28	24	14	10	8	12	11	11
Other Asia[b]	–1	0	–6	–7	–10	–14	–10	–14	–13	–23	–15	–9	–18	–19	–12	–10	–15	–29	–34	–38
Latin America[b,c]	–13	–9	–13	–21	–33	–45	–36	–13	–6	–5	–14	–8	–5	–10	–13	–20	–31	–41	–45	–46
Africa[b]	–6	–4	–6	–5	–7	–19	–18	–10	–10	–5	–6	–4	–8	–9	–8	–5	–6	–6	–4	–3
Central and Eastern Europe	–2	2	–1	0	0	1	9	12	14	5	8	14	8	–3	–17	–3	–6	–8	–9	–8
World[d]	–2	–8	–13	–4	–23	–60	–96	–66	–73	–82	–71	–55	–74	–104	–144	–121	–110	–87	–102	–109

a) Historical data for the OECD area are aggregates of reported balance of payments data by each individual country. Because of various statistical problems as well as a large number of non-reporters among non-OECD countries, trade and current balances estimated on the basis of these countries' own balance of payments records may differ from corresponding estimates shown in this table.
b) Not including OPEC countries.
c) Including Mexico.
d) 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.

Annex Table 51. **Stocks of foreign assets and liabilities**

$ billion, end period

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
	Assets											
Major seven countries												
United States	899	999	1 069	1 098	1 167	1 308	1 430	1 591	1 752	1 822	1 906	1 913
Japan	208	227	271	340	437	726	1 070	1 468	1 770	1 857	2 005	2 034
Germany	244	249	238	239	336	495	657	682	856	1 092	1 138	1 168
France[a]	169	180	179	182	215	255	337	339	472	707	730	805
Italy	96	87	95	103	119	156	195	209	269	352	398	371
United Kingdom	623	667	700	716	853	1 058	1 295	1 397	1 534	1 738	1 764	1 777
Canada	69	74	79	87	89	100	118	144	162	180	192	181
Selected other OECD countries												
Belgium-Luxembourg	192	191	188	195	254	337	447	435	523	658	..	..
Denmark	15	15	17	18	30	38	53	59	68	94	107	..
Finland	10	11	11	14	18	21	30	32	36	47	46	42
Netherlands	114	136	132	132	169	215	247	281	329	393	..	..
Norway	17	18	17	20	28	32	41	38	41	48	47	46
Spain	41	34	32	39	43	54	75	83	99	132	161	..
Sweden	22	21	24	23	28	34	48	56	59	..	..	..
Australia[b]	11	16	20	19	19	27	40	59	67	73	73	..
Total of above countries	2 731	2 925	3 073	3 225	3 807	4 856	6 083	6 874	8 037	..	..	..
	Liabilities											
Major seven countries												
United States	630	740	832	945	1 114	1 391	1 591	1 838	2 145	2 217	2 363	2 525
Japan	198	203	235	267	308	547	831	1 178	1 478	1 530	1 623	1 522
Germany	221	223	210	201	289	405	496	480	594	744	811	887
France[a]	141	191	198	203	227	254	334	348	497	761	828	885
Italy	111	108	113	120	151	192	239	258	342	465	529	510
United Kingdom	568	602	625	629	753	916	1 184	1 285	1 446	1 744	1 761	1 748
Canada	179	180	192	198	212	234	270	309	347	379	411	403
Selected other OECD countries												
Belgium-Luxembourg	192	194	192	198	258	340	448	431	515	646	..	..
Denmark	33	34	36	39	58	75	99	104	114	143	153	..
Finland	19	20	21	24	28	34	48	53	63	84	90	89
Netherlands	92	108	102	101	137	182	229	236	282	339	..	..
Norway	32	32	29	29	35	43	57	59	62	66	62	57
Spain	59	54	53	56	59	69	95	110	139	203	253	..
Sweden	36	39	44	43	53	63	84	101	117	..	..	..
Australia[b]	52	54	64	68	76	93	130	170	188	202	216	..
Total of above countries	2 563	2 782	2 946	3 120	3 757	4 836	6 135	6 960	8 327	..	..	..

a) As from 1989 due to change in concept and definitions, the figures are not comparable with those of previous periods.
b) Fiscal year ending end-June.

Annex Table 52. **Semiannual demand and output projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	1993	1994	1995	1993		1994		1995	
				I	II	I	II	I	II
Private consumption									
United States	3.3	3.8	2.8	2.6	4.1	4.0	3.1	2.7	2.6
Japan	1.1	2.1	3.6	1.6	1.0	2.3	2.7	3.8	3.9
Germany	0.1	–0.2	0.9	–2.2	2.1	–1.7	0.5	–0.2	3.8
France	0.7	1.5	2.3	–0.7	2.0	1.2	1.4	2.4	2.8
Italy	–2.1	0.7	1.7	–3.7	0.8	0.6	0.8	1.8	2.2
United Kingdom	2.5	2.8	3.0	1.9	4.0	2.3	2.7	3.1	3.2
Canada	1.6	2.6	3.6	1.9	1.7	2.6	3.5	3.6	3.6
Major seven countries	1.8	2.5	2.6	1.1	2.8	2.4	2.4	2.6	3.0
OECD Europe	0.4	1.1	2.1	–0.8	1.8	0.6	1.5	1.9	3.0
EC	0.1	1.1	2.0	–1.3	1.6	0.7	1.5	1.8	2.9
Total OECD	1.7	2.4	2.7	1.0	2.6	2.3	2.4	2.6	3.0
Public consumption									
United States	–0.7	–0.2	1.0	–2.6	1.2	–1.8	1.8	0.9	0.6
Japan	3.2	2.6	2.2	3.6	3.4	2.5	2.2	2.2	2.2
Germany	–0.7	–0.1	0.1	–5.4	5.4	–2.3	–0.8	0.4	0.4
France	0.5	1.0	0.5	–0.4	1.0	1.0	1.0	0.3	0.3
Italy	0.8	–0.1	0.2	0.8	0.4	–0.3	–0.2	0.3	0.4
United Kingdom	–0.5	1.4	1.7	–0.0	0.5	1.6	1.8	1.6	1.5
Canada	–0.1	–0.1	0.5	0.2	–1.4	0.5	0.0	0.5	1.0
Major seven countries	0.3	0.6	1.1	–1.0	1.8	–0.4	1.3	1.0	0.9
OECD Europe	0.4	0.5	0.6	–0.7	1.9	–0.1	0.3	0.6	0.6
EC	0.2	0.5	0.5	–1.0	1.7	–0.1	0.3	0.6	0.6
Total OECD	0.4	0.6	1.0	–0.7	1.6	–0.2	1.2	1.0	0.9
Investment									
United States	11.0	11.3	6.3	11.1	12.6	11.8	9.2	5.9	4.3
Japan	–1.3	0.6	3.0	–0.4	–1.1	–0.7	4.7	2.8	1.8
Germany	–3.3	4.1	6.0	–5.5	0.4	5.1	5.7	6.1	6.3
France	–5.1	1.1	4.2	–8.4	–1.0	1.0	3.3	4.3	4.9
Italy	–11.1	–0.6	5.0	–15.7	–4.3	–0.4	3.0	5.5	6.1
United Kingdom	0.8	4.0	5.3	0.2	2.2	4.2	5.3	5.2	5.5
Canada	0.7	5.5	7.3	–2.5	6.8	4.1	6.9	7.6	7.2
Major seven countries	3.1	6.1	5.4	2.3	5.5	6.2	6.7	5.2	4.4
OECD Europe	–4.6	1.4	5.0	–6.6	–0.3	1.3	3.9	5.2	5.6
EC	–5.0	1.8	5.1	–7.3	–1.3	2.2	4.3	5.2	5.6
Total OECD	2.1	5.2	5.3	1.4	4.7	5.2	6.2	5.2	4.6
Total domestic demand									
United States	3.8	4.4	3.0	3.3	4.3	4.7	4.1	2.8	2.4
Japan	0.4	1.5	3.4	1.4	0.4	1.3	3.3	3.5	3.3
Germany	–1.4	1.0	2.2	–3.9	1.6	0.4	1.7	1.5	3.9
France	–1.9	1.2	2.8	–2.8	–1.4	1.9	2.2	2.8	3.2
Italy	–5.0	0.5	2.2	–7.9	0.0	0.3	1.1	2.4	2.8
United Kingdom	2.0	3.3	3.4	1.2	3.7	3.0	3.3	3.4	3.5
Canada	1.7	3.0	3.9	2.7	2.1	3.1	3.7	4.0	4.0
Major seven countries	1.3	2.8	3.0	0.7	2.4	2.9	3.2	2.9	3.0
OECD Europe	–1.2	1.1	2.6	–2.5	0.8	0.9	1.9	2.6	3.4
EC	–1.7	1.3	2.6	–3.3	0.5	1.4	2.1	2.5	3.3
Total OECD	1.1	2.6	3.0	0.6	2.1	2.5	3.1	2.9	3.0

Annex Table 52. *(cont'd)* **Semiannual demand and output projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	1993	1994	1995	1993		1994		1995	
				I	II	I	II	I	II
Exports of goods and services									
United States	3.5	7.2	7.6	1.8	5.3	7.5	8.5	7.4	7.0
Japan	1.0	1.1	2.7	1.2	–2.6	2.7	1.8	2.7	3.7
Germany	–9.5	4.4	7.4	–15.5	–0.5	6.0	6.2	7.5	8.5
France	–0.0	5.2	6.6	–3.3	7.5	4.0	5.5	6.8	7.1
Italy	10.0	6.9	6.7	14.8	4.3	7.7	8.0	6.5	6.0
United Kingdom	3.1	5.7	6.9	4.1	1.8	6.9	7.3	6.8	6.6
Canada	9.6	9.8	8.7	8.9	9.6	9.9	9.7	8.6	7.9
Major seven countries	2.1	5.6	6.5	0.9	3.3	6.3	6.7	6.4	6.5
OECD Europe	1.3	6.0	7.1	0.3	4.3	6.4	7.1	7.1	7.1
EC	0.7	5.7	7.0	–0.3	3.3	6.3	6.9	7.0	7.1
Total OECD	2.5	5.8	6.6	1.4	3.9	6.3	6.9	6.6	6.6
Imports of goods and services									
United States	10.3	10.5	7.3	10.5	10.3	11.1	9.5	6.8	6.2
Japan	3.2	6.6	7.5	4.5	3.8	6.2	10.0	7.0	6.0
Germany	–10.0	1.1	5.8	–16.5	–4.2	2.0	5.0	5.6	7.1
France	–3.4	2.8	6.0	–5.9	–1.1	3.7	4.9	6.1	6.9
Italy	–7.3	3.0	5.2	–13.9	3.2	3.0	3.0	5.5	6.8
United Kingdom	3.5	7.0	7.3	1.5	6.2	7.2	7.3	7.2	7.2
Canada	7.6	7.5	7.5	8.7	6.9	7.4	8.1	7.5	7.0
Major seven countries	3.8	7.2	6.9	2.7	5.7	7.6	8.0	6.6	6.5
OECD Europe	–2.7	3.3	6.2	–5.6	1.2	3.5	5.2	6.4	7.1
EC	–4.3	3.4	6.2	–8.4	0.1	4.1	5.4	6.3	7.0
Total OECD	3.6	6.7	6.9	2.7	5.4	7.0	7.7	6.7	6.6
GDP									
United States	3.0	4.0	3.0	2.3	3.7	4.2	3.8	2.8	2.4
Japan	0.1	0.8	2.7	0.9	–0.5	0.8	2.1	2.9	2.9
Germany	–1.3	1.8	2.6	–3.5	2.5	1.3	2.0	2.0	4.3
France	–0.9	1.8	2.9	–2.0	0.9	2.0	2.4	3.0	3.3
Italy	–0.7	1.5	2.6	–0.7	0.3	1.6	2.5	2.7	2.6
United Kingdom	1.9	2.8	3.2	1.9	2.5	2.8	3.2	3.1	3.2
Canada	2.4	3.7	4.3	3.0	2.8	3.9	4.2	4.4	4.3
Major seven countries	1.3	2.7	2.9	0.9	2.2	2.8	3.1	2.8	2.9
OECD Europe	–0.2	1.9	2.8	–0.8	1.5	1.7	2.5	2.8	3.3
EC	–0.4	1.9	2.8	–0.9	1.3	1.9	2.5	2.7	3.3
Total OECD	1.2	2.6	2.9	0.9	2.1	2.6	3.0	2.9	3.0
Nominal GDP									
United States	5.6	6.1	5.8	5.5	5.4	6.4	6.2	5.7	5.6
Japan	1.1	1.5	3.6	1.6	0.7	1.2	3.1	3.7	3.7
Germany	2.6	4.6	4.6	0.4	5.2	4.6	4.2	4.0	6.3
France	1.4	3.6	4.5	1.0	2.0	4.2	4.0	4.6	4.9
Italy	3.7	5.0	5.6	4.3	4.5	5.0	5.3	5.8	5.5
United Kingdom	5.4	6.1	5.7	5.4	6.6	6.1	5.8	5.7	5.8
Canada	3.2	4.3	6.3	3.5	3.5	3.9	5.9	6.4	6.5
Major seven countries	3.9	4.8	5.2	3.7	4.2	4.8	5.1	5.1	5.3
OECD Europe	5.3	8.2	7.8	5.5	5.3	10.0	8.1	7.8	7.7
OECD Europe *less* Turkey	3.1	4.8	5.3	2.7	4.5	4.9	5.0	5.2	5.7
EC	3.3	4.9	5.3	2.9	4.5	5.0	5.0	5.2	5.7
Total OECD	4.7	6.2	6.3	4.9	4.6	7.0	6.5	6.3	6.2
Total OECD *less* Turkey	3.8	4.8	5.3	3.7	4.2	4.9	5.2	5.3	5.4

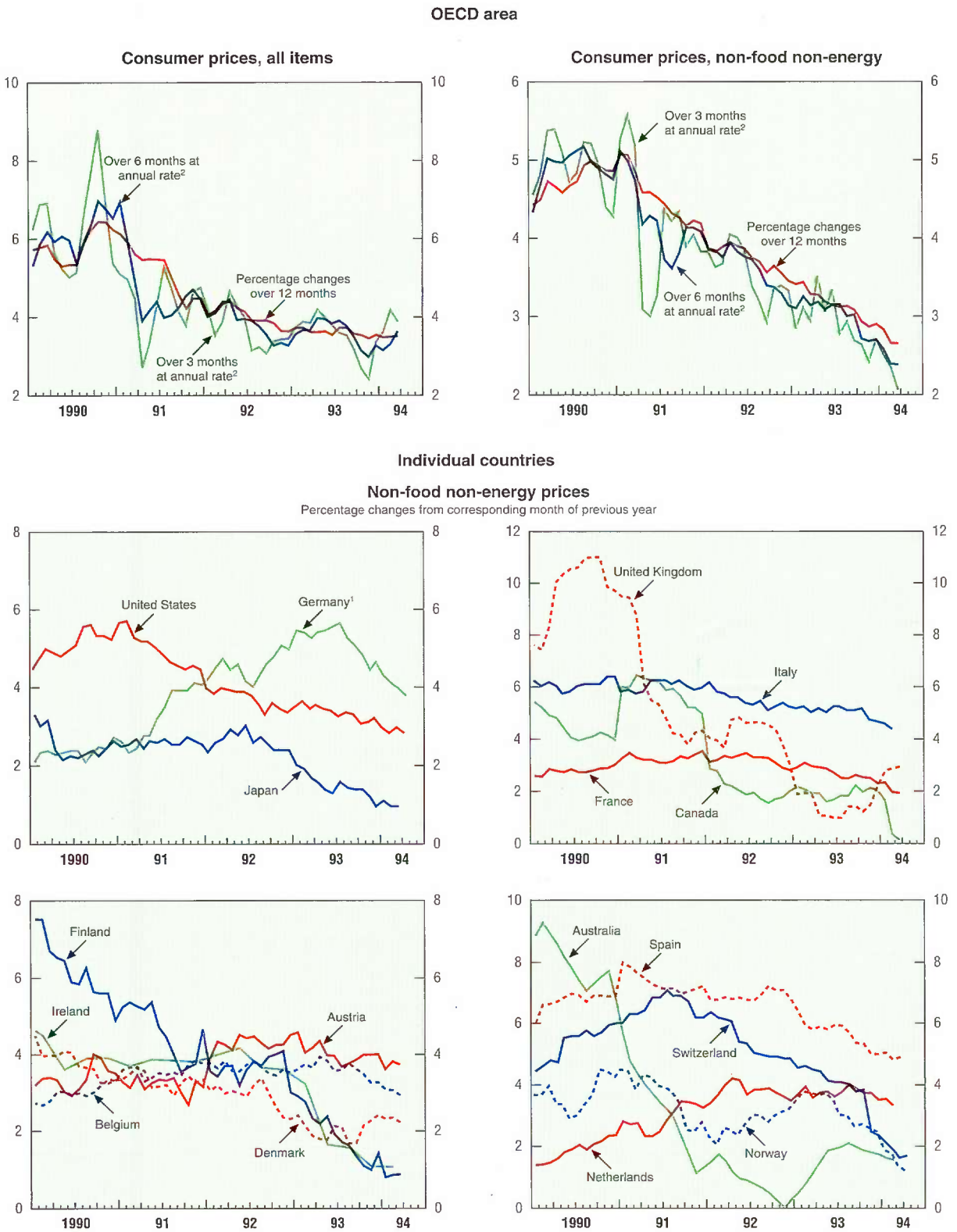
Annex Table 53. **Semiannual price, cost and unemployment projections**

Percentage changes from previous period, seasonally adjusted at annual rates

	1993	1994	1995	1993		1994		1995	
				I	II	I	II	I	II
Private consumption deflator									
United States	2.7	2.1	3.1	3.1	1.8	1.9	2.8	3.2	3.5
Japan	1.0	0.3	0.3	0.9	0.9	0.0	0.2	0.3	0.4
Germany	4.0	3.1	1.9	4.9	3.1	3.6	2.2	1.8	1.6
France	2.1	1.7	1.4	2.3	1.9	1.7	1.5	1.4	1.3
Italy	4.8	3.9	3.0	4.8	4.8	3.7	3.4	3.0	2.5
United Kingdom	3.5	2.9	2.9	4.0	2.8	3.0	2.8	2.8	3.0
Canada	1.5	0.7	2.1	1.1	1.9	–0.5	2.1	2.0	2.1
Major seven countries	2.6	2.0	2.3	2.9	2.1	1.8	2.2	2.3	2.4
OECD Europe	5.4	6.3	5.0	6.2	3.9	8.2	5.9	5.1	4.3
OECD Europe *less* Turkey	3.8	3.0	2.5	4.2	3.3	3.1	2.6	2.4	2.3
EC	3.8	3.1	2.5	4.2	3.3	3.3	2.7	2.4	2.3
Total OECD	3.5	3.5	3.4	4.0	2.5	4.1	3.6	3.5	3.3
Total OECD *less* Turkey	2.8	2.1	2.4	3.1	2.2	2.0	2.2	2.4	2.4
GDP deflator									
United States	2.5	2.1	2.8	3.2	1.7	2.1	2.3	2.9	3.1
Japan	1.0	0.8	0.8	0.6	1.3	0.4	1.0	0.8	0.8
Germany	3.9	2.8	2.0	4.1	2.7	3.2	2.2	2.0	1.9
France	2.3	1.8	1.6	3.1	1.1	2.1	1.6	1.5	1.5
Italy	4.4	3.4	2.9	5.0	4.1	3.4	2.7	3.0	2.8
United Kingdom	3.4	3.2	2.5	3.5	4.0	3.1	2.5	2.5	2.6
Canada	0.8	0.6	1.9	0.5	0.8	–0.0	1.6	2.0	2.1
Major seven countries	2.5	2.0	2.2	2.9	2.0	2.0	2.0	2.2	2.3
OECD Europe	5.4	6.3	4.8	6.1	3.7	8.3	5.6	4.8	4.2
OECD Europe *less* Turkey	3.6	2.9	2.4	3.8	3.0	3.0	2.4	2.5	2.4
EC	3.7	3.0	2.4	3.9	3.2	3.1	2.5	2.4	2.4
Total OECD	3.4	3.5	3.3	3.9	2.4	4.3	3.4	3.3	3.1
Total OECD *less* Turkey	2.6	2.1	2.3	2.9	2.1	2.1	2.1	2.3	2.4
Unit labour costs (total economy)									
United States	2.2	2.2	2.9	3.1	1.1	2.5	2.6	2.9	3.2
Japan	2.2	0.6	0.6	1.1	2.0	0.2	0.0	0.7	1.0
Germany	3.5	–0.7	0.2	5.1	–1.3	–0.3	–1.0	1.3	–0.6
France	2.8	0.4	0.4	3.7	0.0	0.6	0.3	0.4	0.5
Italy	1.7	0.6	1.1	1.4	–0.0	0.8	0.8	1.2	1.3
United Kingdom	0.8	1.6	1.9	1.1	0.9	1.9	1.5	2.0	2.0
Canada	0.2	–0.3	0.6	–0.1	–1.0	–0.2	0.4	0.6	0.9
Major seven countries	2.2	1.2	1.7	2.6	0.7	1.4	1.3	1.8	1.9
OECD Europe	4.5	3.1	3.0	5.4	2.5	3.5	3.1	3.3	2.5
OECD Europe *less* Turkey	2.5	0.7	1.0	2.8	0.3	0.9	0.6	1.3	0.9
EC	2.7	0.7	1.0	2.9	0.6	0.8	0.6	1.3	0.9
Total OECD	3.1	2.2	2.5	3.6	1.7	2.4	2.3	2.6	2.5
Total OECD *less* Turkey	2.2	1.2	1.7	2.5	0.8	1.4	1.3	1.8	1.8
	Per cent of labour force								
Unemployment									
United States[a]	6.8	6.3	5.8	7.0	6.6	6.5	6.2	5.9	5.7
Japan	2.5	2.9	2.8	2.4	2.6	2.9	2.9	2.8	2.8
Germany	8.9	10.0	10.0	8.5	9.2	9.9	10.2	10.1	9.9
France	11.7	12.3	12.2	11.3	12.0	12.2	12.4	12.3	12.1
Italy	10.4	11.7	11.9	9.9	11.0	11.6	11.8	11.8	11.9
United Kingdom	10.3	9.6	8.9	10.5	10.2	9.7	9.4	9.0	8.7
Canada	11.2	10.8	10.2	11.2	11.2	11.0	10.7	10.4	10.1
Major seven countries	7.3	7.4	7.1	7.3	7.3	7.4	7.3	7.1	7.0
OECD Europe	10.7	11.7	11.8	10.3	11.1	11.6	11.9	11.8	11.7
EC	11.3	12.0	11.9	11.0	11.6	12.0	12.1	12.0	11.8
Total OECD	8.2	8.5	8.3	8.1	8.3	8.5	8.5	8.4	8.2

a) Break in series as of January 1994.

Annex Figure 1. **Recent consumer-price developments**[1]



1. Data used for Germany concern western Germany.

2. Seasonally adjusted.

Annex Table 54. **Contributions to changes in real GDP in major OECD countries and country groups**

As a per cent of real GDP in the previous period, seasonally adjusted at annual rates

	1991	1992	1993	1994	1995	1993 I	1993 II	1994 I	1994 II	1995 I	1995 II
United States											
Final domestic demand	–1.2	2.6	3.7	4.3	3.1	2.9	4.8	4.2	3.9	2.9	2.6
Stockbuilding	–0.3	0.3	0.2	0.2	–0.0	0.5	–0.5	0.5	0.2	–0.1	–0.1
Net exports	0.7	–0.3	–0.9	–0.5	–0.1	–1.1	–0.7	–0.6	–0.3	–0.1	–0.0
GDP	–0.7	2.6	3.0	4.0	3.0	2.3	3.7	4.2	3.8	2.8	2.4
Japan											
Final domestic demand	2.7	0.9	0.5	1.6	3.3	1.1	0.5	1.3	3.3	3.3	3.1
Stockbuilding	0.3	–0.5	–0.1	–0.1	0.1	0.3	–0.2	–0.1	–0.0	0.1	0.2
Net exports	1.3	0.8	–0.3	–0.7	–0.7	–0.4	–0.9	–0.5	–1.1	–0.6	–0.4
GDP	4.3	1.1	0.1	0.8	2.7	0.9	–0.5	0.8	2.1	2.9	2.9
Germany											
Final domestic demand	3.8	3.0	–0.8	0.8	2.0	–3.7	2.4	–0.3	1.4	1.4	3.7
Stockbuilding	–0.4	–0.3	–0.6	0.2	0.2	–0.3	–0.8	0.7	0.2	0.2	0.2
Net exports	1.2	–0.6	0.2	0.7	0.4	0.4	0.9	0.9	0.3	0.5	0.4
GDP	4.5	2.1	–1.3	1.8	2.6	–3.5	2.5	1.3	2.0	2.0	4.3
France											
Final domestic demand	1.1	0.8	–0.6	1.3	2.3	–2.3	1.2	1.1	1.7	2.4	2.8
Stockbuilding	–0.6	–0.6	–1.3	–0.1	0.4	–0.5	–2.6	0.8	0.5	0.4	0.4
Net exports	0.2	1.0	0.9	0.7	0.2	0.8	2.3	0.1	0.2	0.2	0.1
GDP	0.8	1.2	–0.9	1.8	2.9	–2.0	0.9	2.0	2.4	3.0	3.3
Italy											
Final domestic demand	2.2	0.6	–3.7	0.3	2.0	–5.7	–0.3	0.3	1.0	2.2	2.6
Stockbuilding	–0.1	0.3	–1.6	0.1	0.1	–2.7	0.3	0.1	0.1	0.1	0.1
Net exports	–0.8	–0.1	4.6	1.1	0.5	7.7	0.3	1.3	1.4	0.4	–0.1
GDP	1.2	0.7	–0.7	1.5	2.6	–0.7	0.3	1.6	2.5	2.7	2.6
United Kingdom											
Final domestic demand	–2.8	–0.2	1.6	2.8	3.2	1.2	3.0	2.5	3.0	3.2	3.3
Stockbuilding	–0.7	0.5	0.4	0.6	0.3	–0.0	0.7	0.6	0.4	0.2	0.2
Net exports	1.2	–0.9	–0.2	–0.5	–0.3	0.6	–1.2	–0.3	–0.2	–0.3	–0.4
Compromise adjustment	–0.1	–0.1	0.0	0.0	–0.0	0.1	0.0	0.0	0.0	–0.0	0.0
GDP	–2.2	–0.6	1.9	2.8	3.2	1.9	2.5	2.8	3.2	3.1	3.2
Canada											
Final domestic demand	–1.2	0.4	1.1	2.7	3.8	0.6	2.1	2.5	3.5	3.8	3.9
Stockbuilding	0.4	–0.5	0.7	0.3	0.1	2.1	0.0	0.6	0.2	0.1	0.1
Net exports	–0.6	0.8	0.5	0.7	0.4	–0.1	0.8	0.8	0.5	0.4	0.3
Error of estimate	–0.3	–0.0	0.1	–0.0	0.0	0.3	–0.2	0.0	–0.0	0.0	0.0
GDP	–1.7	0.7	2.4	3.7	4.3	3.0	2.8	3.9	4.2	4.4	4.3
Total of above countries											
Final domestic demand	0.4	1.7	1.5	2.7	2.9	0.6	2.8	2.4	3.0	2.8	2.9
Stockbuilding	–0.3	–0.0	0.1	0.3	0.1	0.5	–0.3	0.6	0.3	0.1	0.1
Net exports	0.8	–0.0	–0.3	–0.3	–0.1	–0.3	–0.4	–0.2	–0.2	–0.1	–0.0
GDP	0.8	1.7	1.3	2.7	2.9	0.9	2.2	2.8	3.1	2.8	2.9

Note: Components may not add to GDP due to rounding.

Annex Table 55. **Contributions to changes in real GDP in other OECD countries**

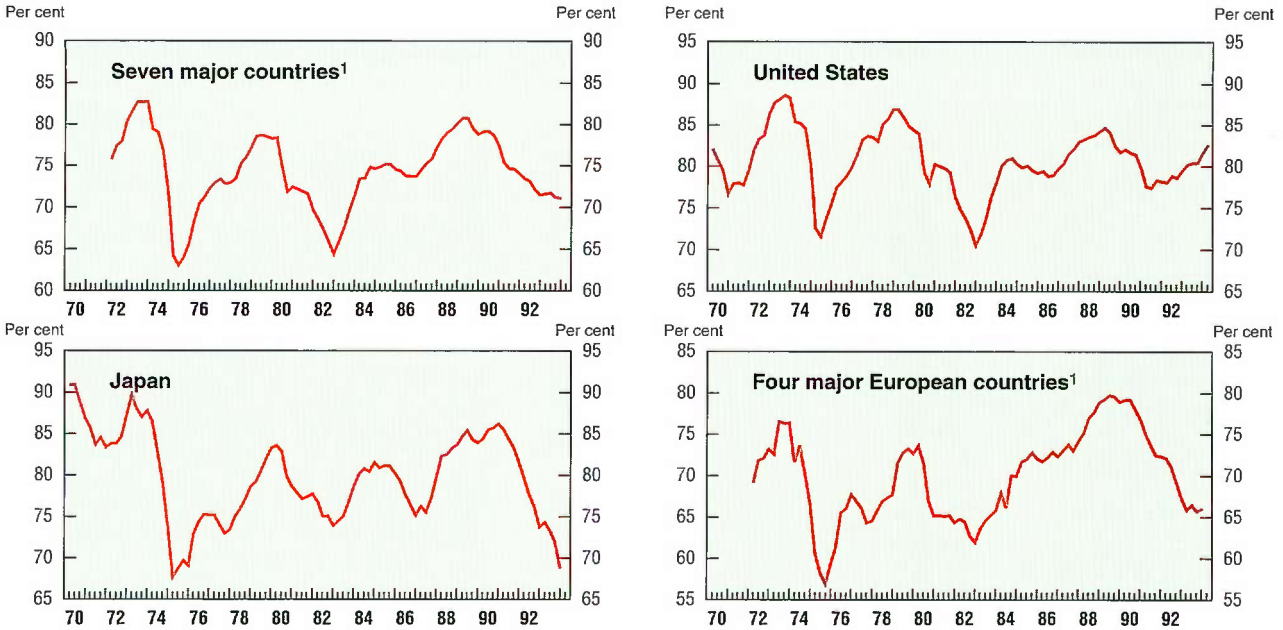
As a per cent of real GDP[a] in the previous period

	1992	1993	1994	1995
Australia				
Final domestic demand	2.3	1.8	4.1	4.1
Stockbuilding	0.4	0.6	–0.2	0.4
Net exports	–0.3	0.5	0.1	–0.2
GDP	2.1	4.1	4.0	4.3
Austria				
Final domestic demand	2.1	0.3	1.7	2.5
Stockbuilding	–0.4	0.3	0.3	0.4
Net exports	–0.0	–0.9	–0.1	–0.1
GDP	1.6	–0.3	1.8	2.7
Belgium				
Final domestic demand	2.2	–2.3	1.0	2.1
Stockbuilding	0.2	0.0	–0.0	0.0
Net exports	–1.1	1.0	0.5	0.5
GDP	1.4	–1.3	1.5	2.6
Denmark				
Final domestic demand	–0.8	1.8	4.0	3.2
Stockbuilding	0.2	–1.5	1.0	0.5
Net exports	1.9	0.8	–1.0	–0.2
GDP	1.2	1.2	4.0	3.5
Finland				
Final domestic demand	–7.3	–7.4	–1.2	3.5
Stockbuilding	0.9	–0.6	0.2	0.2
Net exports	2.1	4.5	2.5	0.4
GDP	–3.8	–2.6	1.9	4.7
Greece				
Final domestic demand	1.4	0.7	0.9	1.8
Stockbuilding	0.3	0.1	–0.3	0.1
Net exports	–0.0	–0.9	0.4	–0.3
GDP	0.9	–0.1	1.0	1.6
Iceland				
Final domestic demand	–5.3	–4.4	–0.7	1.5
Stockbuilding	–0.3	0.3	–0.2	0.0
Net exports	2.2	5.0	0.2	–0.2
GDP	–3.4	0.8	–0.6	1.4
Ireland				
Final domestic demand	1.7	1.5	3.2	3.1
Stockbuilding	–2.8	–0.3	–0.3	0.1
Net exports	6.0	1.1	1.2	1.3
GDP	4.9	2.3	4.1	4.5
Luxembourg				
Final domestic demand	0.9	1.5	0.9	1.9
Stockbuilding	–0.3	–0.2	0.0	0.3
Net exports	1.2	–1.0	0.6	0.4
GDP	1.8	0.3	1.5	2.6
Netherlands				
Final domestic demand	1.6	–0.1	0.7	2.0
Stockbuilding	–0.3	–0.3	0.1	0.2
Net exports	0.1	0.6	0.6	0.6
GDP	1.4	0.2	1.4	2.8
Norway				
Final domestic demand	2.7	4.1	2.9	2.9
Stockbuilding	–1.0	–1.5	0.0	0.0
Net exports	1.7	–0.4	1.4	–0.1
GDP	3.4	2.2	4.3	2.9
New Zealand				
Final domestic demand	1.0	5.9	3.9	3.4
Stockbuilding	1.8	1.1	0.0	0.1
Net exports	–3.2	–2.2	–0.1	0.0
GDP	–0.4	4.8	3.9	3.5
Portugal				
Final domestic demand	4.5	–1.0	2.5	3.6
Stockbuilding	1.1	–0.2	0.0	0.1
Net exports	–4.5	0.7	–1.3	–1.4
GDP	1.1	–0.5	1.2	2.3
Spain				
Final domestic demand	1.0	–3.7	–0.0	2.9
Stockbuilding	0.2	–0.1	0.0	0.1
Net exports	–0.4	2.9	1.1	–0.3
GDP	0.8	–1.0	1.2	2.7
Sweden				
Final domestic demand	–3.5	–5.3	–0.6	1.8
Stockbuilding	1.3	0.3	0.3	0.3
Net exports	0.3	2.9	3.0	0.8
GDP	–1.9	–2.1	2.7	2.9
Switzerland				
Final domestic demand	–1.5	–1.7	1.4	2.5
Stockbuilding	–1.7	0.3	0.5	0.7
Net exports	3.2	0.9	–0.4	–0.7
GDP	–0.1	–0.6	1.5	2.5
Turkey				
Final domestic demand	7.9	13.6	–0.5	2.1
Stockbuilding	0.8	2.8	–3.9	0.5
Net exports	–2.9	–9.5	4.9	1.6
GNP	5.8	6.8	0.6	4.3
Total of above countries				
Final domestic demand	1.3	0.1	1.2	2.7
Stockbuilding	0.0	–0.0	–0.4	0.2
Net exports	–0.0	0.7	1.1	0.3
GDP	1.3	0.8	2.0	3.1
OECD Europe				
Final domestic demand	1.2	–0.7	1.1	2.3
Stockbuilding	–0.1	–0.6	0.0	0.2
Net exports	–0.0	1.1	0.8	0.3
GDP	1.1	–0.2	1.9	2.8
Total OECD				
Final domestic demand	1.7	1.3	2.5	2.8
Stockbuilding	–0.0	0.2	0.3	0.2
Net exports	–0.0	–0.2	–0.2	–0.1
GDP	1.7	1.2	2.6	2.9

a) Per cent of real GNP for Turkey.

Note: Totals may not add-up due to statistical discrepancy.

Annex Figure 2. **Capacity utilisation in manufacturing**

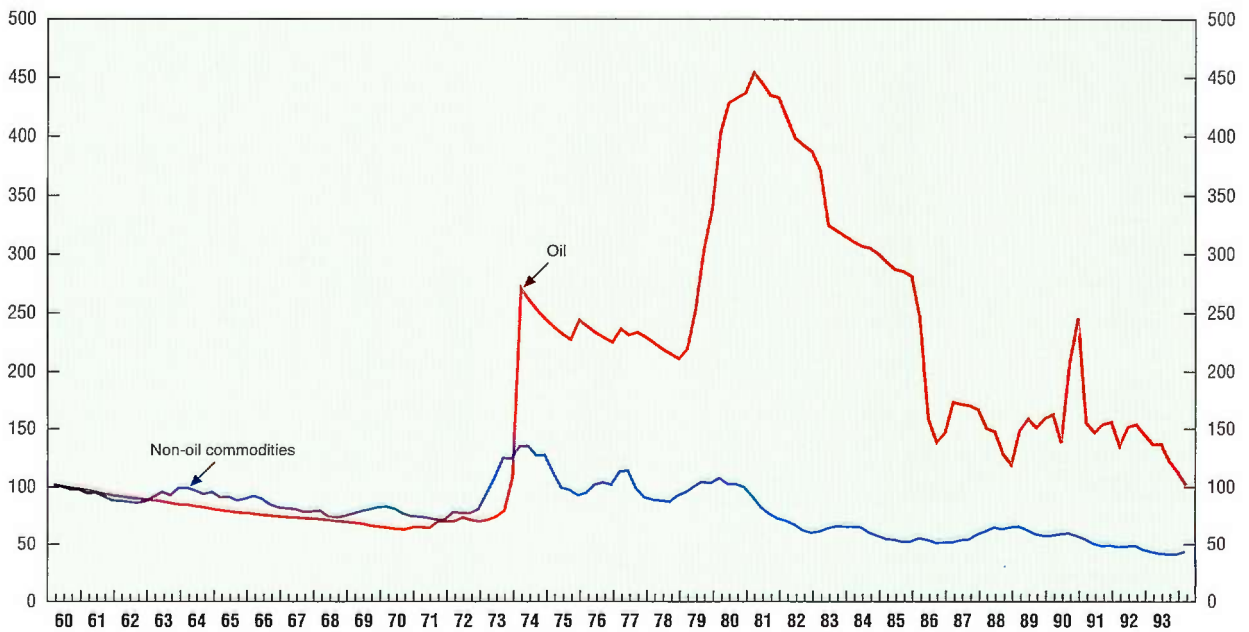


1. Data for Germany concern western Germany.

Note: Cross-country comparisons of capacity utilisation levels may be misleading owing to conceptual and methodological differences in the construction of the indices. For further details, see Methodological notes of *Main Economic Indicators* and *Sources and Methods*, No. 37 (Business Surveys), April 1983.

Annex Figure 3. **Real commodity prices**[1]

Index 1960 = 100



1. Deflated by the GDP deflator for the seven major countries (German data concern western Germany).

Annex Table 56. **Household saving, net wealth and indebtedness**[a]

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
United States													
Saving ratio	9.1	8.9	6.9	8.3	6.6	6.2	4.5	4.5	4.1	4.3	4.9	5.0	4.6
Net wealth	4.87	4.88	4.93	4.73	4.88	4.99	5.05	4.99	5.16	4.82	5.05	4.99	4.94
Net financial wealth	2.46	2.51	2.59	2.44	2.57	2.65	2.65	2.64	2.79	2.59	2.80	2.81	2.79
Real assets	2.41	2.37	2.34	2.30	2.31	2.34	2.40	2.35	2.37	2.22	2.25	2.19	2.15
Financial assets	3.20	3.23	3.34	3.19	3.38	3.51	3.55	3.56	3.74	3.54	3.74	3.75	3.74
Corporate equities	0.44	0.44	0.48	0.41	0.51	0.58	0.55	0.55	0.62	0.56	0.75	0.84	0.88
Liabilities	0.74	0.72	0.74	0.75	0.81	0.85	0.90	0.92	0.95	0.94	0.95	0.94	0.95
Home mortgages	0.48	0.46	0.47	0.47	0.50	0.53	0.59	0.61	0.64	0.65	0.66	0.67	0.67
Japan													
Saving ratio	18.4	16.7	16.1	15.8	15.6	16.1	14.7	14.3	14.6	14.1	15.1	14.3	14.6
Net wealth	5.28	5.38	5.43	5.50	5.61	6.34	7.54	7.95	8.71	8.55	7.84	..	..
Net financial wealth	1.31	1.36	1.47	1.57	1.65	1.83	2.01	2.22	2.52	2.23	2.24	2.29[p]	..
Real assets	3.97	4.02	3.96	3.93	3.96	4.51	5.53	5.73	6.19	6.32	5.60	..	..
Financial assets	2.10	2.18	2.31	2.44	2.53	2.75	3.02	3.30	3.63	3.39	3.39	3.41[p]	..
Corporate equities	0.23	0.21	0.24	0.27	0.30	0.42	0.52	0.70	0.90	0.58	0.55	..	..
Liabilities	0.79	0.82	0.85	0.88	0.89	0.92	1.01	1.07	1.11	1.16	1.15	1.12[p]	..
Home mortgages	0.32	0.34	0.35	0.35	0.36	0.37	0.40	0.43	0.46	0.48	0.48	..	..
Germany[b]													
Saving ratio	13.6	12.7	10.9	11.4	11.4	12.3	12.6	12.8	12.4	13.9	13.5	12.8	12.3
Net wealth	..	..	..	..	..	..	..	..	..	..	..	..	..
Net financial wealth	1.42	1.51	1.59	1.64	1.71	1.76	1.74	1.80	1.83	1.76	1.76	..	..
Real assets	..	..	..	..	..	..	..	..	..	..	..	..	..
Financial assets	1.56	1.67	1.75	1.80	1.88	1.92	1.91	1.97	2.01	1.94	1.94	..	..
Equities	0.06	0.06	0.08	0.08	0.12	0.13	0.09	0.11	0.13	0.11	0.11	..	..
Liabilities	0.15	0.15	0.16	0.16	0.16	0.17	0.17	0.17	0.18	0.18	0.18	..	..
Long-term bank credit	0.10	0.10	0.11	0.11	0.11	0.12	0.12	0.13	0.13	0.13	0.14	..	..
France													
Saving ratio	18.0	17.3	15.9	14.5	14.0	12.9	10.8	11.0	11.7	12.5	13.1	13.9	14.1
Net wealth	5.23	5.15	5.33	5.37	5.52	6.00	5.90	6.33	..	..	..	..	..
Net financial wealth	0.76	0.77	0.86	0.87	0.98	1.24	1.12	1.31	1.47	1.24	1.38	1.44	1.68
Real assets	3.12	3.03	3.04	2.99	2.92	2.87	2.94	2.91	..	..	..	..	..
Financial assets	1.36	1.35	1.44	1.50	1.62	1.88	1.85	2.12	2.31	2.07	2.16	2.19	2.46
Equities	0.19	0.17	0.25	0.32	0.43	0.66	0.60	0.85	1.03	0.83	0.91	0.92	1.11
Liabilities	0.59	0.58	0.58	0.63	0.63	0.64	0.73	0.81	0.83	0.84	0.78	0.75	0.78
Medium- and long-term credit	0.39	0.39	0.39	0.41	0.43	0.43	0.46	0.50	0.49	0.49	0.48	0.47	0.48
Italy[c]													
Saving ratio	20.8	19.3	22.3	20.6	18.9	18.2	17.7	16.7	16.6	18.4	18.2	18.8	18.9
Net wealth	5.01	5.49	5.11	5.14	5.19	5.19	5.39	5.47	5.69[p]	..	..	..	..
Net financial wealth	1.11	1.13	1.14	1.22	1.39	1.56	1.55	1.65	1.96	1.96	2.03	2.08	..
Real assets	3.90	4.36	3.97	3.92	3.80	3.63	3.83	3.82	3.73[p]	..	..	..	..
Financial assets	1.19	1.21	1.22	1.31	1.48	1.66	1.66	1.77	2.24	2.25	2.33	2.38	..
Equities	0.09	0.06	0.07	0.08	0.15	0.23	0.16	0.17	0.49	0.46	0.48	0.50	..
Liabilities	0.08	0.08	0.08	0.09	0.09	0.10	0.11	0.12	0.28	0.29	0.30	0.30	..
Medium- and long-term credit	0.06	0.06	0.05	0.06	0.06	0.07	0.08	0.09	0.13	0.14	0.14	0.14	..
United Kingdom													
Saving ratio	12.6	11.3	9.7	11.1	10.7	8.7	7.1	5.7	7.2	8.6	10.1	12.3	11.5
Net wealth	4.13	4.26	4.55	4.68	4.80	5.18	5.46	6.08	6.18	5.66	5.61	..	..
Net financial wealth	1.35	1.50	1.63	1.74	1.80	2.02	2.02	2.00	2.22	1.97	1.95	2.15	..
Real assets	2.78	2.77	2.93	2.92	2.99	3.15	3.44	4.09	3.98	3.69	3.45	..	..
Financial assets	1.97	2.17	2.37	2.54	2.65	2.93	3.01	3.07	3.33	3.13	3.12	3.27	..
Domestic equities	0.21	0.23	0.26	0.27	0.27	0.35	0.40	0.37	0.41	0.33	0.34	0.30	..
Liabilities	0.62	0.68	0.74	0.80	0.85	0.90	0.99	1.07	1.11	1.16	1.16	1.12	..
Mortgages	0.35	0.40	0.47	0.48	0.52	0.58	0.64	0.70	0.73	0.77	0.79	..	..
Canada													
Saving ratio	15.4	18.2	14.8	15.0	13.3	10.7	9.2	9.7	10.4	9.9	10.3	10.8	10.6
Net wealth	4.09	3.98	4.04	3.99	3.97	4.15	4.23	4.31	4.25	4.23	4.35	4.46	4.57
Net financial wealth	1.44	1.48	1.57	1.61	1.64	1.70	1.69	1.66	1.66	1.68	1.74	1.81	1.90
Real assets	2.65	2.51	2.46	2.38	2.34	2.45	2.54	2.65	2.59	2.55	2.61	2.64	2.67
Financial assets	2.26	2.21	2.33	2.34	2.39	2.51	2.57	2.58	2.59	2.63	2.72	2.81	2.92
Equities	0.52	0.51	0.53	0.53	0.55	0.59	0.61	0.59	0.56	0.55	0.57	0.60	0.68
Liabilities	0.81	0.74	0.76	0.73	0.76	0.81	0.88	0.92	0.93	0.96	0.98	1.00	1.02
Mortgages	0.50	0.45	0.47	0.45	0.46	0.50	0.55	0.57	0.59	0.61	0.64	0.67	0.68

a) Households and private unincorporated enterprises. The saving ratio is expressed in percentage, whereas the remaining variables are expressed as a simple ratio of household nominal disposable income. Assets and liabilities are year-end nominal values. Data for Germany exclude acquisition of real assets and associated liabilities; it is estimated that inclusion of household mortgages would increase the ratio of total liabilities to income to about 0.70 per cent in 1985.

b) Data refer to western Germany only.

c) Beginning in 1989, the financial accounts statistics for Italy are constructed with new sources and with a new methodology. They are, therefore, not comparable with the historical series.

p = preliminary estimate.

Sources: United States, Federal Reserve, *Balance Sheets for the U.S. Economy;* Japan, Economic Planning Agency, *Annual Report on National Accounts;* Germany, Deutsche Bundesbank, *Ergebnisse der gesamtwirtschaftlichen Finanzierungsrechnung der Deutschen Bundesbank;* France, INSEE, *Rapport sur les Comptes de la Nation;* Italy, Banca d'Italia, *Economic Bulletin* and *Relazione Annuale;* OECD, *Financial Accounts of OECD countries;* United Kingdom, Central Statistical Office, *United Kingdom National Accounts, Financial Statistics;* Canada, Statistics Canada, *National Balance Sheet Accounts.*

Annex Table 57. **Productivity in the business sector**

Percentage changes at annual rates

	Total factor productivity[a]			Labour productivity[b]			Capital productivity		
	1960[c]-73	1973-79	1979-92[d]	1960[c]-73	1973-79	1979-92[d]	1960[c]-73	1973-79	1979-92[d]
United States	1.6	–0.4	0.4	2.2	0	0.8	0.2	–1.3	–0.6
Japan	5.5	1.3	1.6	8.3	2.9	2.7	–2.8	–3.4	–1.7
Germany[e]	2.6	1.8	1.0	4.5	3.1	1.6	–1.4	–1.0	–0.4
France	3.9	1.7	1.4	5.4	3.0	2.3	0.9	–1.0	–0.5
Italy	4.4	2.1	1.1	6.3	2.9	1.8	0.4	0.3	–0.2
United Kingdom	2.6	0.6	1.6	3.9	1.5	2.2	–0.3	–1.6	0.1
Canada	2.0	0.8	0.1	2.8	1.5	1.2	0.6	–0.5	–2.1
Austria	3.3	1.2	0.8	5.8	3.2	1.9	–2.0	–3.1	–1.5
Belgium	3.8	1.4	1.4	5.2	2.7	2.2	0.6	–1.9	–0.8
Denmark	2.7	1.1	1.4	4.3	2.6	2.3	–1.0	–2.4	–0.9
Finland	3.3	1.8	1.9	4.9	3.2	3.0	–1.0	–2.3	–1.1
Greece	5.8	2.1	0.5	8.8	3.3	0.9	–8.8	–4.2	–1.8
Ireland	3.7	2.4	3.3	4.9	3.4	4.2	–0.8	–1.8	–0.1
Netherlands	3.4	1.8	0.9	4.8	2.8	1.4	0.6	–0.2	–0.1
Norway[f]	2.2	–1.6	0	3.7	–0.5	1.2	–0.1	–3.2	–1.9
Portugal	5.0	–0.4	1.0	7.5	0.5	1.7	–0.6	–2.5	–0.7
Spain	3.3	0.9	1.7	6.0	3.2	2.8	–3.6	–5.0	–1.1
Sweden	2.0	0.2	0.7	3.7	1.5	1.4	–2.3	–2.9	–1.2
Switzerland	2.0	–0.4	0.4	3.2	0.8	1.0	–1.4	–3.5	–1.3
Australia	2.3	1.0	0.6	3.4	2.3	1.3	0.2	–1.5	–0.6
New Zealand	0.8	–2.0	0.3	1.6	–1.3	1.3	–0.7	–3.2	–1.4
OECD Europe[g]	3.3	1.4	1.2	5.1	2.6	2.0	–0.7	–1.5	–0.5
OECD[g]	3.0	0.6	0.9	4.4	1.6	1.6	–0.6	–1.7	–0.8

a) TFP growth is equal to a weighted average of the growth in labour and capital productivity. The sample-period averages for capital and labour shares are used as weights.
b) Output per employed person.
c) Or earliest year available, i.e. 1961 for Finland, Greece, Ireland and Australia; 1962 for Japan, United Kingdom and New Zealand; 1963 for France; 1964 for Spain; 1965 for Sweden; 1966 for Canada and Norway and 1970 for Belgium and the Netherlands.
d) Or latest available year, i.e. 1991 for Italy, Austria, Belgium, Greece, Spain, Sweden and Switzerland; 1990 for Ireland, Norway and Portugal.
e) Western Germany.
f) Mainland business sector (i.e excluding shipping as well as crude petroleum and gas extraction).
g) Aggregates were calculated on the basis of 1991 GDP for the business sector expressed in 1991 purchasing power parities.

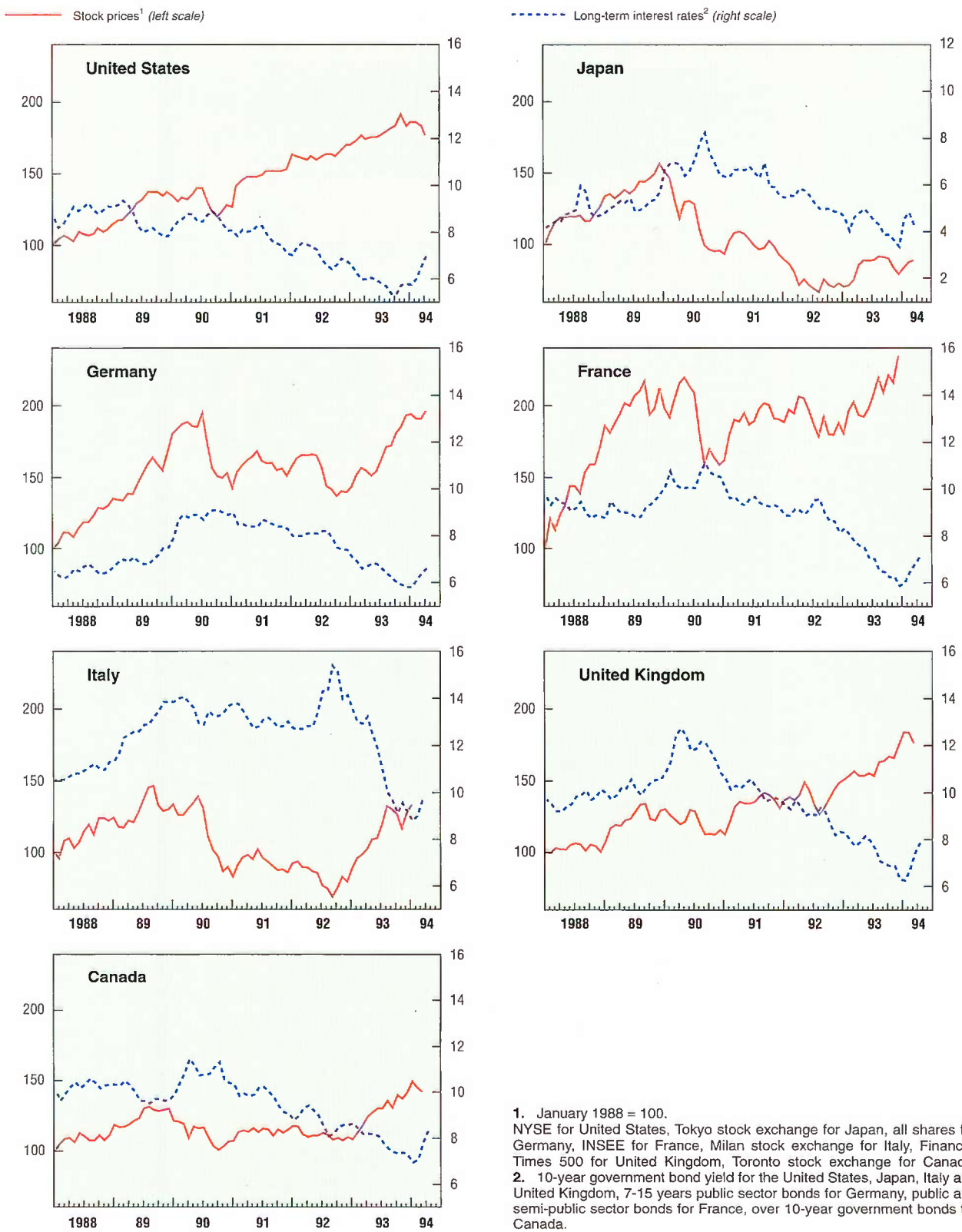
Annex Table 58. **Monetary and credit aggregates[a]: recent trends and targets**

Percentage changes, seasonally adjusted at annual rates

		Annual change (to 4th quarter)				Latest twelve months		From target base period	Current target or projection
		1990	1991	1992	1993				
United States	M2	4.0	2.9	1.9	1.3	2.3	(Apr. 1994)	2.2	1-5
	M3	1.7	1.2	0.5	0.5	1.3	(Apr. 1994)	0.5	0-4
	BC	4.5	–0.2	0.1	3.5	5.3	(Apr. 1994)		
Japan	M2+CD	10.0	2.1	–0.6	1.6	1.7	(Mar. 1994)	2.0	1-2
	BC	8.9	4.5	2.2	0.6	–0.3	(Jan. 1994)		
Germany	M3	5.3	5.2	9.4	7.4	11.4	(Apr. 1994)	15.8	4-6
	BC	8.9	10.7	8.2	7.9	7.8	(Mar. 1994)		
France	M3	8.3	3.9	6.0	–0.9	–3.8	(Mar. 1994)	–5.2	around 5
	BC	15.7	7.5	3.0	–3.1	–3.2	(Jan. 1994)		
Italy	M2	9.1	8.2	5.9	7.9	7.1	(Mar. 1994)	7.7	5-7
	BC	16.6	13.8	4.7	5.8	5.8	(Dec. 1993)		
United Kingdom	M0	3.3	2.8	2.7	5.4	5.5	(Mar. 1994)	5.8	0-4
	M4	13.7	5.9	4.0	4.9	6.0	(Mar. 1994)	5.9	3-9
	BC	9.5	6.0	–2.6	2.9	2.9	(Q4 1993)		
Canada	M2	8.6	5.1	3.9	3.4	3.3	(Mar. 1994)		
	BC	4.1	3.8	0.3		1.4	(Oct. 1993)		

a) BC = commercial banks credit to economy. For more details see "Sources and Methods".

Annex Figure 4. **Stock prices and long-term interest rates**



1. January 1988 = 100.
NYSE for United States, Tokyo stock exchange for Japan, all shares for Germany, INSEE for France, Milan stock exchange for Italy, Financial Times 500 for United Kingdom, Toronto stock exchange for Canada.
2. 10-year government bond yield for the United States, Japan, Italy and United Kingdom, 7-15 years public sector bonds for Germany, public and semi-public sector bonds for France, over 10-year government bonds for Canada.

Annex Table 59. **Export market growth and performance in manufactured goods**

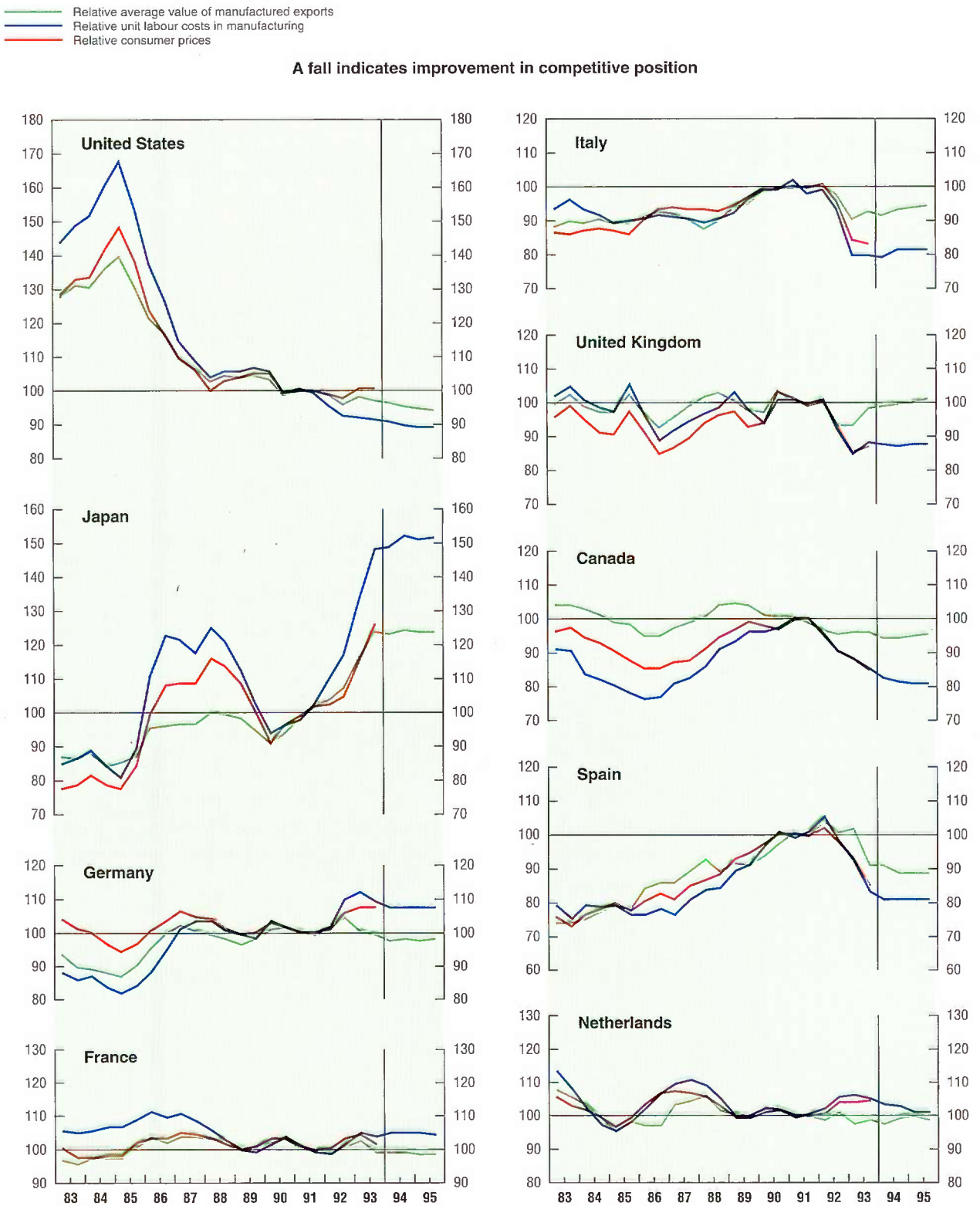
Percentage changes from previous year

	(1) Import volume				(2) Export market growth[a]				(3) Export volume				(4) Relative export performance[b]			
	1992	1993	1994	1995	1992	1993	1994	1995	1992	1993	1994	1995	1992	1993	1994	1995
United States	11.5	13.0	12.7	7.8	8.1	5.6	8.1	7.8	6.4	6.1	9.9	8.0	–1.6	0.4	1.8	0.2
Japan	–2.4	6.8	16.1	8.5	10.1	7.6	9.3	8.3	1.2	–2.1	1.1	2.8	–8.1	–9.0	–7.6	–5.1
Germany	0.2	–11.7	0.6	6.0	3.2	0.7	5.5	6.8	2.0	–6.1	5.0	8.1	–1.2	–6.7	–0.5	1.1
France	1.0	–4.8	3.9	6.2	5.1	–1.0	5.1	6.8	5.1	–3.2	5.1	7.0	0.0	–2.2	0.0	0.2
Italy	5.7	–14.9	5.2	5.1	3.7	–0.3	4.9	7.0	2.6	10.1	9.0	8.1	–1.0	10.4	3.9	1.1
United Kingdom	7.4	3.0	5.9	7.7	5.0	0.5	5.7	6.9	2.6	3.4	5.5	7.3	–2.3	2.9	–0.2	0.4
Canada	7.0	10.7	9.7	7.8	10.7	11.4	11.9	7.8	10.2	12.9	10.9	9.4	–0.5	1.3	–1.0	1.4
Total of the above countries	5.3	1.6	8.2	7.2	6.4	3.5	7.2	7.5	3.7	1.2	6.3	7.0	–2.6	–2.2	–0.8	–0.4
Austria	3.6	–1.3	2.9	6.7	0.3	–4.1	3.7	6.5	3.9	–4.4	3.2	7.6	3.6	–0.3	–0.5	1.0
Belgium-Luxembourg	0.6	–1.9	2.2	5.2	3.3	–2.7	4.5	6.7	–0.5	–3.7	3.0	6.2	–3.7	–1.0	–1.5	–0.4
Denmark	3.0	–3.5	6.8	7.0	2.2	–0.7	4.7	6.7	5.6	–0.8	4.0	5.3	3.4	–0.2	–0.6	–1.3
Finland	–11.6	1.4	4.0	8.5	2.8	0.8	5.4	7.0	7.9	17.0	11.6	7.3	4.9	16.1	5.9	0.3
Greece	6.0	–5.4	7.6	7.6	3.5	–3.3	4.2	6.6	18.1	0.2	3.1	7.3	14.1	3.6	–1.0	0.6
Iceland	4.9	–17.8	–2.3	3.3	0.4	–1.6	5.7	6.8	–21.3	–3.2	3.1	10.4	–21.7	–1.6	–2.5	3.3
Ireland	10.0	7.4	6.1	6.4	4.6	0.2	5.9	7.0	9.1	3.9	6.8	8.6	4.3	3.8	0.8	1.5
Netherlands	0.3	–2.0	2.8	4.8	3.0	–2.7	4.2	6.6	2.1	–1.1	3.3	6.1	–0.9	1.7	–0.9	–0.4
Norway	4.8	–1.0	4.2	5.9	4.0	1.4	5.8	6.9	3.1	3.9	6.0	7.5	–0.9	2.4	0.3	0.5
Portugal	12.6	1.7	5.7	8.5	3.2	–3.5	4.0	6.9	6.6	–0.3	6.5	11.4	3.3	3.2	2.4	4.2
Spain	5.6	–7.8	3.1	10.3	4.9	–2.2	4.8	6.6	4.7	12.0	10.3	10.7	–0.3	14.4	5.2	3.8
Sweden	–2.1	5.3	4.9	6.2	3.8	0.1	5.7	7.0	–0.2	11.4	11.8	7.2	–3.8	11.2	5.9	0.1
Switzerland	–5.8	–0.8	5.9	6.5	4.7	–0.8	5.7	7.1	5.0	0.6	3.5	5.0	0.4	1.4	–2.1	–1.9
Turkey	14.1	36.3	–7.9	5.7	3.5	–3.8	4.7	6.8	3.7	5.8	11.7	6.3	0.2	10.0	6.6	–0.5
Total of smaller European countries	1.6	–0.5	3.4	6.5	3.4	–1.8	4.8	6.8	3.1	2.2	5.9	7.1	–0.3	4.1	1.0	0.3
Australia	7.9	5.2	7.6	9.3	8.4	7.9	10.3	8.4	8.7	8.2	10.6	7.9	0.3	0.2	0.4	–0.5
New Zealand	12.6	6.1	4.7	4.8	7.8	6.9	10.0	9.0	9.6	3.4	7.7	7.0	1.7	–3.3	–2.1	–1.8
Total of smaller countries	2.1	–0.1	3.7	6.7	3.6	–1.3	5.1	6.9	3.4	2.5	6.1	7.1	–0.3	3.8	0.9	0.2
Total OECD	4.3	1.1	6.9	7.1	5.8	2.4	6.7	7.3	3.6	1.5	6.2	7.1	–2.1	–0.8	–0.5	–0.2
OPEC	11.6	2.5	2.3	6.0	7.8	5.5	9.0	8.1	29.6	6.2	6.2	4.4	20.2	0.7	–2.5	–3.5
Asian NIEs	13.6	11.2	11.6	10.5	9.3	7.7	10.0	8.4	7.0	10.1	11.5	10.2	–2.1	2.2	1.4	1.6
Other Asia	15.1	11.0	10.9	10.2	8.8	7.7	10.2	8.8	15.1	12.2	13.5	10.8	5.8	4.1	3.0	1.9
Latin America[c]	20.4	8.1	7.6	7.0	10.6	8.6	10.1	7.6	6.3	6.3	9.2	8.4	–3.9	–2.1	–0.9	0.8
Africa	10.8	5.0	2.4	3.8	5.1	–0.4	6.1	6.8	0.6	0.7	3.4	3.3	–4.3	1.1	–2.5	–3.2
Central and Eastern Europe	–18.1	6.8	2.7	6.3	1.3	–2.2	4.9	6.9	–17.7	4.8	5.9	5.8	–18.8	7.2	1.0	–1.0
Total of non-OECD countries	11.6	8.7	8.3	8.6	8.4	6.6	9.5	8.2	7.0	9.2	10.8	9.4	–1.2	2.5	1.2	1.1
World	6.3	3.3	7.4	7.5	6.3	3.3	7.3	7.5	4.3	3.2	7.3	7.6	–1.9	–0.1	0.0	0.1
OECD Europe	2.3	–4.5	3.4	6.4	3.8	–0.5	5.2	6.8	2.9	0.2	5.9	7.5	–0.8	0.8	0.7	0.6
EC	2.8	–5.8	3.4	6.4	3.9	–0.5	5.1	6.8	2.8	–0.5	5.7	7.7	–1.0	0.0	0.5	0.8
Total OECD *less* the United States	2.4	–2.3	5.0	6.8	5.3	1.7	6.4	7.2	3.1	0.6	5.4	6.9	–2.2	–1.1	–0.9	–0.3

a) The calculation of export markets is based on a weighted average of import volumes [panel (1) above] in each exporting country's markets, with weights based on manufacturing trade flows in 1991.
b) Relative export performance [panel (4) above] is derived for each country as the ratio of export volumes [panel (3) above] to export markets [panel (2) above].
c) Including Mexico.
Sources: Direction of Trade data - United Nations Statistical Office; OECD, *Foreign Trade By Commodities.*

Annex Figure 5. **Measures of relative competitive position**

Indices in US$ terms; 1991 = 100

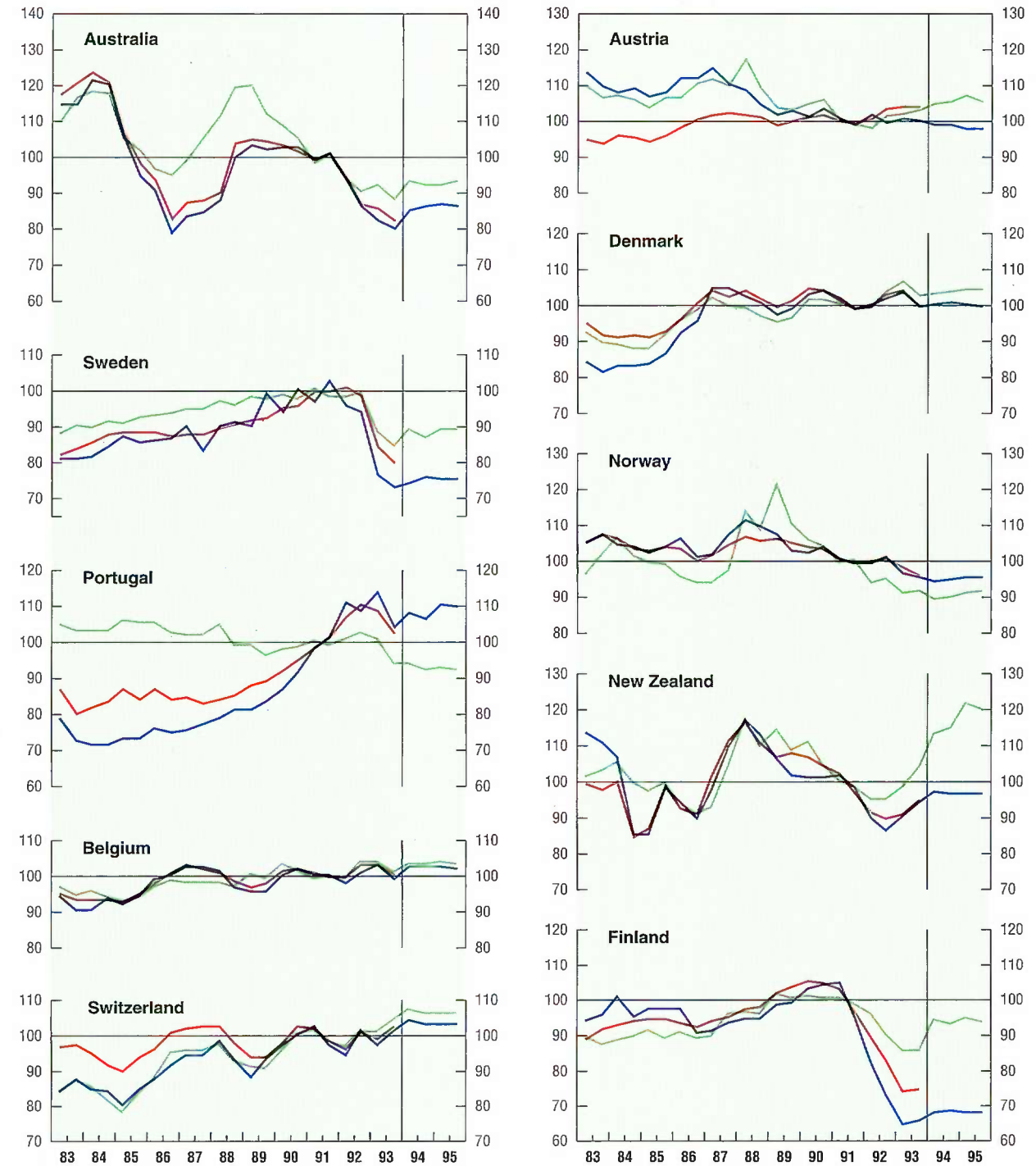


1. The vertical line indicates the end of the historical period and the beginning of the projection period.

Annex Figure 5 *(cont'd).* **Measures of relative competitive position**
Indices in US$ terms; 1991 = 100

Relative average value of manufactured exports
Relative unit labour costs in manufacturing
Relative consumer prices

A fall indicates improvement in competitive position



1. The vertical line indicates the end of the historical period and the beginning of the projection period.

Annex Table 60. **Geographical structure of OECD trade**

Percentage of nominal GDP

Area or country	Source/destination		Source of imports					Destination of exports				
			1962	1972	1982	1992	1993	1962	1972	1982	1992	1993
OECD	**OECD**		**6.14**	**8.16**	**10.41**	**10.95**	**..**	**5.84**	**7.98**	**10.11**	**10.82**	**..**
	of which:	Europe	3.93	5.37	6.85	7.58	..	4.08	5.44	7.12	7.76	..
		North America	1.77	2.00	2.46	2.13	..	1.33	2.01	2.26	2.33	..
		Other	0.44	0.79	1.10	1.24	..	0.43	0.52	0.74	0.72	..
	Non-OECD		**2.54**	**2.61**	**5.23**	**3.76**	**..**	**2.55**	**2.54**	**4.69**	**3.71**	**..**
	of which:	DAEs[a] + China	0.19	0.36	0.88	1.43	..	0.26	0.42	0.87	1.36	..
		OPEC	0.68	0.83	2.22	0.74	..	0.34	0.42	1.46	0.57	..
USA	**OECD**		**1.73**	**3.34**	**4.42**	**5.24**	**5.41**	**2.08**	**2.77**	**3.80**	**4.47**	**4.34**
	of which:	Europe	0.78	1.27	1.65	1.86	1.84	1.09	1.25	1.89	1.97	1.81
		North America	0.64	1.23	1.47	1.66	1.78	0.67	1.03	1.07	1.52	1.60
		Other	0.31	0.84	1.29	1.71	1.79	0.33	0.49	0.84	0.98	0.92
	Non-OECD		**1.12**	**1.26**	**3.32**	**3.74**	**3.89**	**1.69**	**1.34**	**2.93**	**3.09**	**3.11**
	of which:	DAEs[a] + China	0.08	0.33	0.87	1.75	1.84	0.11	0.22	0.67	1.09	1.14
		OPEC	0.26	0.22	0.99	0.56	0.53	0.18	0.23	0.73	0.37	0.33
Japan	**OECD**		**5.16**	**3.92**	**4.27**	**3.06**	**2.75**	**3.90**	**5.18**	**6.13**	**5.01**	**4.40**
	of which:	Europe	1.00	0.82	0.93	1.03	0.89	1.11	1.57	2.01	1.97	1.53
		North America	3.39	2.30	2.63	1.64	1.52	2.52	3.31	3.62	2.82	2.66
		Other	0.77	0.80	0.72	0.39	0.33	0.27	0.29	0.50	0.22	0.21
	Non-OECD		**4.09**	**3.78**	**7.81**	**3.28**	**3.01**	**4.16**	**4.22**	**6.58**	**4.24**	**4.10**
	of which:	DAEs[a] + China	0.84	0.73	1.61	1.52	1.48	1.29	1.67	2.39	2.81	2.81
		OPEC	1.12	1.50	4.45	1.06	0.89	0.52	0.61	2.00	0.52	0.40
Europe	**OECD**		**11.76**	**14.07**	**18.30**	**18.39**	**..**	**10.62**	**13.70**	**17.33**	**17.61**	**..**
	of which:	Europe	8.94	11.66	15.01	15.46	..	8.80	11.65	15.10	15.47	..
		North America	2.26	1.78	2.35	1.79	..	1.35	1.65	1.76	1.58	..
		Other	0.57	0.63	0.93	1.14	..	0.46	0.39	0.47	0.55	..
	Non-OECD		**4.40**	**3.95**	**6.66**	**4.03**	**..**	**3.63**	**3.44**	**5.96**	**3.92**	**..**
	of which:	DAEs[a] + China	0.24	0.28	0.63	1.10	..	0.26	0.27	0.48	0.81	..
		OPEC	1.20	1.38	2.87	0.77	..	0.56	0.61	2.15	0.76	..

a) DAEs are the Dynamic Asian Economies (Hong Kong, Singapore, Korea, Taiwan, Thailand and Malaysia).
Source: OECD Secretariat.

SOURCES AND METHODS

The analysis in the *Economic Outlook* and the projections on which it is based are the work of the OECD Economics Department. The following notes describe various technical aspects of the projection methods used, and underlying statistical concepts, sources and methods.

PROJECTION METHODS

While taking into account official and unofficial national macroeconomic projections for Member countries, the OECD *Economic Outlook* projections are based on the OECD Secretariat's independent assessment of the world economy. This draws on individual country, general economic and area analyses. Emphasis is placed on the role of international trade and financial linkages, to ensure that projections for each country are consistent with global developments.

The *Economic Outlook* projections are *specifically conditional* on technical assumptions about exchange rates, energy prices, and the choice of economic policies – fiscal, monetary and structural. The primary considerations involved in the choice of these assumptions are as follows:

- *Exchange rates* against the US dollar are generally *assumed* to remain constant over the projection period, at the level prevailing on a prespecified cut-off date, chosen in the course of the exercise, except for those countries with stated or *de facto* policies.
- The *price of crude oil* is set on the basis of a technical assumption described in the text.
- *Fiscal and monetary policy* assumptions for individual countries are generally based upon stated official policies, with public sector expenditure and revenue projections being based upon the most recent budgetary statements.

The OECD Secretariat's world macroeconomic model, INTERLINK [1], is used to help to ensure national and international consistency, though a considerable amount of country-specific expertise and judgement is brought to bear in the construction of the underlying individual country assessments.

A preliminary version of the *Economic Outlook* projections is presented to and discussed by the OECD Working Group on Short-Term Economic Prospects, where Member country delegates provide their analyses and detailed comments, drawing on national authority evidence and projections.

In presenting half-yearly demand, output and price projections, all estimates reported in the *Economic Outlook* are seasonally adjusted and shown in terms of percentage changes at annual rates. Further definitional notes relating to reporting conventions, in particular the measurement of semiannual rates of growth, are given below.

The domestic economy

Macroeconomic developments reflect a complex and *simultaneous* interaction of many economic variables and relationships. The following paragraphs describe those which are particularly important to OECD Secretariat projections. Although the specific details of domestic trends differ somewhat between individual OECD economies, the main features involved are broadly as outlined.

Domestic expenditure components

Two broad categories of domestic expenditure are distinguished, consumption and investment, subdivided into various private and public sector components. Depending on the country concerned, further disaggregation may also be involved. The projections of private consumption typically depend on real personal disposable income, with allowance made for the effects of changes in the rate of inflation, monetary and financial conditions, and also leading indicators of consumer confidence and retail sales. Particular attention is given to current trends in personal and business sector savings rates and asset holdings. Private investment is, for most countries, subdivided into business fixed investment, residential construction and stockbuilding. Business fixed investment is typically assessed in relation to non-financial variables (sales, output and capacity utilisation) and financial variables (cash flow and interest rates) but also gives weight to business survey information. Projections for residential construction take account of demographic trends, housing stocks, real income and financial conditions, and also draw on cyclical indicators for the construction sector. Projections of stockbuilding are usually made with reference to relevant stock-output and stock-sales ratios, taking account of recent trends, financial factors and specific supply-side influences.

Government non-wage expenditures, divided into non-wage consumption and investment, are treated as being exogenous policy assumptions, specified in either nominal or real terms. In a number of cases, an independent assessment is made of expected out-turns versus stated policy goals. Government wage expenditures may be set either in terms of nominal targets for the total wage bill or as the product of government employment and associated wage projections.

Methods involved in the analysis of external influences on output and real GDP, *i.e.* those coming from goods and services trade, are described below in the section concerning foreign trade.

Employment, wages and prices

Employment and other labour market trends are commonly assessed in relation to changes in the levels of actual and expected output. Important additional elements relate to labour

and factor productivity trends, capacity constraints and real factor costs. Unemployment rate projections are given by the combination of employment and labour supply projections, with the latter assessed judgmentally on the basis of demographic trends and participation rate assumptions.

Wage and earnings assessments take into account a number of key factors. Extensive use is made of the pattern of current wage settlement as a leading indicator, with pressure of demand in the labour market, productivity rates and the terms of trade also influencing the overall projection of real wages and compensation per employee. The projections of unit labour costs used in the assessment of prices and inflation take account of those for employment, productivity growth, wage rates and social contributions. Public sector wage projections are generally based on announced policies but may also be assumed to adjust in line with private sector wages.

The assessment of domestic prices and inflation trends depends crucially on unit costs, the levels of demand and supply potential – and hence spare capacity – and foreign prices. In making individual price projections, allowance is also made for a number of special factors affecting prices in individual countries – harvest yields, changes in taxes and subsidies and administered price regimes. The overall set of domestic expenditure deflators in conjunction with goods and services trade prices and corresponding real expenditure components are then combined to give projections of total domestic demand and output deflators. The specific treatment of trade prices is discussed in more detail in the section concerning foreign trade.

Sectoral accounts

Appropriation accounts for the household and government sectors are projected for the seven major OECD economies and some smaller countries. Both accounts are constructed by identifying the different sources of income and expenditures, savings and net lending.

Household income consists primarily of the wage compensation of employees, self-employment income, and transfers. Property and other income – essentially dividends and interest – are evaluated in the light of business income and debt interest flows. The sum of these elements is adjusted for direct taxes and transfers paid to give household disposable income. The latter is then split between household consumption and savings. Household taxes and transfers are typically projected on the basis of movements in the appropriate nominal bases and corresponding marginal tax and transfer rates. There is some variation in the detail of the treatment of transfers as between the larger and smaller economies. Social security receipts are projected on the basis of the unemployment rate, prices and wage compensation levels. Household net lending is obtained by subtracting housing investment from household savings.

For the United States a full disaggregation of revenues and expenditures is made as between State and Local and Federal accounts, with wage and non-wage expenditures also split between defence and non-defence spending. For the other major economies a relatively standardised total general government approach (described below) is adopted, while for some smaller economies there is a less detailed treatment of transfers, subsidies and property income. For a number of countries, specific allowance is also given to revenues and tax receipts from sectors of specific importance, for example, oil and gas.

The current receipts of the government sector are in general defined as the sum of direct taxes on household and business sectors, indirect taxes, social security, and other transfer receipts and interest-related property income. Indirect taxes are projected on the basis of weighted expenditures, combined with corresponding marginal tax elasticities. Business sector taxes are assessed on the basis of projected business income, making some allowance for the lags between accruals and payments. Social security and other transfer receipts are linked directly to the corresponding household sector payments, while property income is in general assumed to grow broadly in line with nominal GDP.

Current disbursements are made up of current consumption, transfer payments, subsidies and interest payments. For the major economies, interest payments are assessed on the basis of the stocks of outstanding debt, the rate of roll-over in the stock and the relevant interest rates. Government net lending is then derived as current savings, less nominal investment, capital consumption and other miscellaneous capital transactions. The stock of government net financial liabilities is finally obtained as the cumulation of net lending, subject to statistical discrepancies.

Domestic monetary policies

For the major economies, prevailing monetary policies are examined against a range of monetary indicators. Typically, assumptions are made about the choice and stance of policy, taking into account recent policy announcements with respect to the choice of monetary targets, associated target ranges and instruments, by national authorities. Increasingly, this involves a strong interdependent element, given for example the importance of interest rates, exchange rates, output and prices to international transmission mechanisms. Effectively this means that international financial linkages are increasingly important in the overall global assessment, and hence the assumptions for short- and long-term interest rates and/or monetary aggregates for virtually all OECD countries may hinge critically on the assessment of monetary policy in the three largest ones.

Further details of a wider range of statistical and methodological issues are described below in the Monetary Aggregates and Interest Rates section.

Foreign trade

Particular attention is given in the forecasting exercise to ensuring the consistency of international trade volume and price projections, trade representing a principal channel through which developments in one country affect other economies. Six categories of international trade are customarily distinguished: manufactures; energy; food; raw materials; non-factor services; and other services. Various adjustment and reconciliation procedures are involved in linking customs-basis foreign trade projections to the national-accounts basis projections for individual countries.

The projections for total goods trade are based on a split into the following specific SITC categories:

- food: 0 + 1
- raw materials: 2 + 4
- energy: 3
- manufactures: 5 + 6 + 7 + 8 + 9

Projections for these components are weighted together using moving weights based on 1991 trade flows. These are approximately comparable to figures published in the OECD's *Monthly Statistics of Foreign Trade* (Series "A"). The paragraphs below summarise how projections for these components are prepared. The structural specifications of equations used in the foreign trade projections are set out, for each country, in the OECD Secretariat's INTERLINK Reference Manual.

a) *Goods: volumes*

i) *Manufactures*

The initial projections of import volume growth for manufactured goods are derived from equations (in logarithm level form) in which the main explanatory variables are activity (demand) and lagged competitive position. The activity variable in the import equations is specified so that a distinction is made for most countries between the short-and long-term response of imports to a change in demand (*i.e.* demand is split into two components: a moving average, and the ratio of actual demand to this moving average). In addition, for some countries a lagged dependent variable is included in the specification. Export volume projections are based on export market growth, derived as weighted averages of the forecasts for imports of manufactured goods, with an allowance for the effects of competitive position. This is typically represented by relative prices.

Expenditure elasticities for imports are, in general, estimated in the range of 1.5 to 2.5, while most of the price elasticities (import prices relative to domestic prices) range from –0.4 to –0.9, the response being lagged over two to three years. For export volumes, price elasticities (export prices relative to competitors' prices) are typically taken to be in the range of –1.0 to –2.0, lagged over three years, while market growth elasticities for most countries are close to unity.

ii) *Energy*

International trade in energy is concentrated in oil, and the forecasting effort is focused accordingly. It is assumed that OPEC is the marginal supplier, with other producers setting prices relative to those of OPEC such that they are always able to sell their full capacity output.

The demand for oil is projected, in collaboration with the International Energy Agency, from relationships which link oil consumption to the real cost of imported oil. Judgmental adjustment is then made to reflect any unusual weather conditions and new developments in energy substitution.

With oil demand determined, net oil imports are obtained by subtracting expected domestic production and adjusting for any expected change in stocks. The movement in oil imports is then added to the projected movements of imports of other forms of energy.

iii) *Food and raw materials*

Import volumes of food are assumed to follow projected movements in real private consumption; import volumes of raw materials are assumed to follow movements in industrial production. While some allowance is made for the effects of large changes in competitiveness, trade volumes of food and raw materials are generally assumed to be relatively insensitive to changes in competitiveness over the projection period. Food and raw material exports are based on, *inter alia,* projected import volumes of other countries, with an allowance for factors affecting supply.

b) *Goods: unit values*

i) *Manufactures*

Projections for unit values of exports of manufactured goods are based initially on movements in unit labour costs, import prices, and competitors' export prices – the first two being subject to lags of up to one year. Some allowance is made for exceptionally high or low rates of capacity utilisation.

Import unit values are derived as weighted averages of foreign costs and domestic prices. The resulting import price projections are then modified to reflect time lags in the translation of exchange rate changes into import prices. In those countries where competitiveness has changed sharply, an allowance is made for price discrimination by foreign suppliers in the first half-year, partly reversed over the next two half-years. The export and import price equations have been estimated to ensure consistency at the world level. (For more details, see "Import and export price equations of manufactures", *OECD Economics and Statistics Department Working Papers,* No. 43, Richard Herd.)

ii) *Energy*

The customary technical assumption is that, in the near term, oil prices are determined by market conditions, including announced OPEC decisions, and thereafter follow prices of OECD exports of manufactured goods. Adjustments are made to reflect natural gas and coal contracts and thereby allow for the lag between the movements of other fossil fuels and oil prices.

iii) *Food and raw materials*

In general, food and raw material unit values (in dollars) are derived from projected movements of spot commodity prices. Current OECD Secretariat estimates suggest that about three-quarters of the change in spot industrial materials prices is passed through into OECD import unit values of raw materials within about six months.

Equations for OECD export unit values for food and raw materials utilise domestic cost pressure variables as well as world spot commodity prices as explanatory variables. In addition, food export unit value equations for EC countries are adjusted for the effects of the Common Agricultural Policy. Import unit values for food and raw materials are trade-weighted averages of partner-country export unit values.

c) *Services*

Projections of non-factor services are based on equations of broadly similar specification to those used for manufactures trade. Volumes of non-factor service debits depend both on projected movements of import-content-weighted real expenditure, and the price of import of services relative to domestic prices. Non-factor service credits depend on market growth for services and each country's export prices of services relative to those of its competitors. A service trade share matrix based on 1989 flows is used to calculate market growth and competitors' prices. Export prices of services for each country are assumed to move in line with its total expenditure price deflator. Service export prices for non-OECD zones are assumed to move with the average for the OECD area. Import prices are then calculated from export prices using the service trade share matrix. Import elasticities of non-factor services with respect to import-content-weighted expenditure components are around 1.2, with price elasticities of –0.7 to –0.8 lagged over 1½ years. Non-factor service export projections are based on market growth in partner countries, with market growth elasticities around unity and price elasticities of –0.4 to –0.5 lagged over 1½ years. Projections for investment income are based on equations that take account of external assets and liabilities and rates of return. Movements in external assets and liabilities are linked to capital outflows and current-account balances.

d) *Non-OECD*

Trade volumes and prices of the non-OECD area are projected on the basis of six country groupings (see Country Classification for details). Individual projections are made for some

important non-OECD countries. Import and export prices for each group reflect world prices weighted according to the commodity structure of trade. Export volumes for each group are projected largely on the basis of OECD demand, with some account taken of demand from other non-OECD groupings and, in some cases, changes in competitiveness. For groups with large external assets, import volumes are in line with assessment of development plans. For other groups, import volumes are projected taking account of export revenues, the level of external financing and import prices.

EFFECTIVE EXCHANGE RATES

The calculation of effective exchange rates uses a system of weights based on a double-weighting principle, which is also used to calculate price and cost competitiveness indicators. The effective exchange rates take account of both export and import competitiveness.

Twenty-three OECD Member countries (Belgium-Luxembourg is treated as one country and Mexico will only be incorporated in the analysis as from *Economic Outlook* 56) and four of the dynamic Asian economies (Hong Kong, Korea, Singapore and Taiwan) are included in the calculation of effective exchange rate. Twenty-nine markets are considered: the 23 OECD countries and the six non-OECD zones.

For each year, starting in 1970, a 27 × 29 (country × market) matrix has been constructed, based on ISIC data. Each diagonal element represents the production of manufactured goods (net of exports) of individual countries and each off-diagonal element represents the exports of manufactured goods from one country (row) to any other OECD country or non-OECD zones (column). This basic matrix is then used to compute a new intermediate matrix for each country which gives a measure of the relative importance of the other 26 competitors in the 29 markets. The obtained intermediate matrix is then weighted by the relative share of the 29 markets for the country involved. This gives a global weighting system for each year since 1970.

Geometric indices of effective exchange rates are then computed: indices of nominal exchange rates are weighted each year with the weighting matrix of the previous year. For 1970, the indices are weighted with the 1970 weighting matrix. This gives a set of effective exchange rates based on moving weights.

A fuller description of this methodology is given in "OECD's indicators of international trade and competitiveness", *OECD Economics Department Working Papers*, No. 120, Martine Durand, Jacques Simon and Colin Webb.

FISCAL POLICY

Government debt

The figures for gross public debt (Annex Table 32) refer to the debt and other liabilities (short- and long-term) of all of the institutions contained in the general government sector of the national accounts. This sector is the aggregate of the central and local government sectors and the social security sector. The gross data for the individual government sectors is consolidated where national sources permit such a consolidation. The figures for net debt (Annex Table 33) measure the gross debt of the general government sector less the financial assets held by the general government sector. Such assets may be cash, bank deposits, loans to the private sector, participations in private sector companies, holdings in public corporations or foreign exchange reserves (depending on the institutional structure of the country concerned, see footnote *c)* to Annex Table 33). If it has not been possible to consolidate the gross debt data, assets may include debt issued by one institution in the general government sector but held by another institution in the general government sector (see footnotes *c)* and *d)* to Annex Table 32 for the non-consolidated countries).

Cyclical and non-cyclical components of general government financial balances (Annex Table 29)

The budget balance can be decomposed into a cyclical and a non-cyclical, or structural, component. The decomposition is aimed at separating cyclical influences on the budget balances resulting from the divergence between actual and trend output (the output gap), from those which are non-cyclical. Changes in the latter can be seen as a cause rather than an effect of output fluctuations and may be interpreted as indicative of discretionary policy adjustments. It should be noted, however, that changes in resource revenues – as a result of oil price changes, for example – and in interest payments – as a result of past debt accumulation or changes in interest rates – are neither cyclical nor purely discretionary. Yet these changes are reflected in the evolution of the non-cyclical component of the budget balance (cyclically-adjusted balance).

The cyclically-adjusted balance is derived by (re-)calculating the items on the government appropriation account which would be obtained if output (GDP) were at its trend level. Denoting a cyclically-adjusted variable by an asterisk, revenues (T) and expenditures (G) are recalculated as follows:

$$T_t^* = T_t \, (GDP_t^*/GDP_t)^{\alpha} \quad \alpha > 0$$
$$G_t^* = G_t \, (GDP_t^*/GDP_t)^{\beta} \quad \beta < 0$$

where α and β are respectively the elasticity of current receipts and expenditure with respect to nominal output growth. The cyclical adjustment is carried out for the main revenue items separately (*i.e.* corporate taxes, personal income taxes, indirect taxes and social security contributions), and for the unemployment-related expenditure.

The cyclically-adjusted budget balances are reported in Annex Table 29 as a ratio of trend output at current prices. Trend output is defined by a regression of actual output and a time trend. The latter is split at points in time to take account of changes in the trend rate of output growth. It should be stressed that the estimated cyclically-adjusted budget balances are surrounded by large margins of uncertainty. This is due not only to the usual risks to the projection of actual output, but also reflects uncertainty as to the present size and future growth of trend output, and the degree to which elimination of the output gap would translate into enhanced tax revenues and reduced expenditures.

The primary balance (Annex Table 30) is obtained by netting net interest payments from the overall balance.

For a further discussion of these issues, see "Indicators of fiscal policy: a re-examination", *OECD Department of Economics and Statistics Working Papers*, No. 78, Jean-Claude Chouraqui, Robert P. Hagemann and Nicola Sartor.

MONETARY AGGREGATES AND INTEREST RATES

Monetary and credit aggregates (Annex Table 58)

M1 is the narrowly defined money supply, *i.e.* currency plus domestic demand deposits. M2, M2 + CD, M3 and M4 are broadly-defined money stocks, which add to M1 domestic savings deposits and other managed liabilities of banks and other financial institutions, and certificates of deposit (CD) in Japan, France and the United Kingdom. In the United Kingdom, M0 is currency in circulation with the public plus bankers' operational balances with the central bank. Monetary aggregates are obtained from national data sources.

Bank credit: United States: commercial banks loans; Japan: commercial banks loans and discount; Germany: bank credit to economy, excluding Central Bank, short-, medium- and long-term; France: bank credit to economy, total; Italy: commercial and saving banks, credit to private sector; United Kingdom: bank credit to industry and other sectors; Canada: chartered banks, credit to economy. Bank credit information is obtained from OECD, *Main Economic Indicators.*

Latest twelve-month changes are calculated from the most recent 3-month average relative to the corresponding 3-month average a year earlier. Changes from target base period are calculated as the latest monthly figure relative to the fourth quarter of the previous year, except for the United Kingdom and Japan which are changes over the previous twelve months. For the United States and Germany, targets are for Q4 to Q4 annual growth rates; for Japan, the figure is not a target but a projection for growth from Q1 to Q1; for France, the figure is a medium-term objective; for the United Kingdom, the current target or monitoring range is expressed in terms of changes over the previous 12 months.

Interest rates (Annex Table 34)

Projections are based on the technical assumptions of unchanged policies and exchange rates. The following interest rates are used.

Short-term rates: United States: 3-month Treasury bills; Japan: 3-6 month CD; Germany, France, Italy, United Kingdom: 3-month interbank rates; Canada: 90-day finance company paper; Austria: 3-month Vibor; Belgium: 3-month Treasury certificates; Denmark: 3-month interbank rate; Finland: 3-month Helibor; Ireland: 3-month Treasury bills; Netherlands: 3-month Aibor; Norway: 3-month Nibor; Spain: 3-month interbank loans; Sweden: 3-month Treasury discount notes; Switzerland: 3-month Euro-deposits; Australia: 90-day bank-accepted bills; New Zealand: 90-day bank bills.

Long-term rates: United States, Japan and United Kingdom: 10-year government bonds; Germany: 7-15 year public sector bonds; France: public and semi-public sector bonds; Italy: Treasury bonds; Canada: over 10-year long-term federal government bonds; Austria: public sector bonds (more than 1 year); Belgium: central government bonds (more than 5 years); Denmark: central government bonds (10 years); Finland: taxable public bonds (3-6 years); Ireland: 15-year government bonds; Netherlands: 5 longest-running issues of central government bonds; Norway: 6-10 year central government bonds; Spain: government bonds (more than 2 years); Sweden: 10-year government bonds; Switzerland: Confederation bonds; Australia: 10-year Commonwealth government bonds; New Zealand: 10-year government bonds.

Sources: OECD, *Main Economic Indicators* and *Financial Statistics.* Some series are not strictly comparable over time due to changes in definitions or in institutional arrangements. For further details, see OECD *Financial Statistics, Methodological Supplement,* 1991-92.

LABOUR FORCE DATA

This section outlines the sources and definitions of the data concerning labour markets. Where different series are available, those chosen are the ones which the OECD Economics Department finds most useful for policy analysis and forecasting, usually because they are the most commonly cited, and are frequently published. The data are not always consistent with the national authorities' definitions and those published in the OECD's quarterly and annual publication *Labour Force Statistics* (LFS). Exceptions are noted below.

For most countries the source of these data is a labour force survey of a sample of households in which both components of the unemployment rate (UNR), unemployment levels (UN) and labour force (LF), are measured simultaneously. For the remaining countries, one of the components of the identity LF = UN + ET (employment) is derived from the other two, which are generally estimated from different sources. The term "total" is used with reference to labour force and employment to indicate that all armed forces (conscripts as well as professional military) are included. In some countries (indicated below), employment and labour force include professional military, but exclude conscripts. "Civilian" labour force and employment data exclude all military personnel. Participation rates are calculated as the labour force divided by the total working-age population; where the count of the working-age population, the labour force, the employed and the unemployed is normally restricted to individuals 16 through 64 years of age. Unless otherwise specified, annual data refer to the average of either monthly or quarterly data; semiannual data shown for the seven largest countries are averages of monthly or quarterly seasonally-adjusted figures.

United States

Unemployment, civilian employment and civilian labour force are from the monthly *Current Population Survey* of persons aged 16 and over. The data are seasonally adjusted by the Bureau of Labor Statistics. All layoffs are included in unemployment. Starting in January 1994 the data are based on a new survey methodology, and are not directly comparable with data for previous years. For a full discussion of the implications of the change see the box in the country note for the United States.

Japan

Unemployment, employment and labour force (including national "self-defence" forces) are from the monthly Labour Force Survey of persons aged 15 and over. The data are seasonally adjusted by the OECD Secretariat.

Germany

Data on employment (GDP basis) and unemployment are based on national accounts statistics. The labour force (LF) is derived as the sum of total employment (dependent and self-employed) and unemployment. Seasonal adjustment is done by the OECD Secretariat. Up to 1991, data on employment and unemployment refer to western Germany only.

France

INSEE provides OECD with monthly data on seasonally adjusted unemployment rates and total unemployment levels corresponding to ILO guidelines. The unemployment rate is based on the results of the annual Labour Force Survey held in March, and converted to a monthly basis using end-of-month registrations. Labour force levels are calculated using the relationship LF = UN/UNR*100, and total employment (ET) is then obtained as a residual.

Italy

Employment, unemployment and labour force are from the quarterly Labour Force Survey of persons aged 14 and over. The definition of unemployment was revised in 1986 and in 1992 to be more in line with ILO and Eurostat guidelines. The employment figures from the quarterly Labour Force Survey differ from those in the national accounts source, *Conti Economici Trimestrali,* ISTAT. The latter are used for derived variables such as labour productivity and labour costs. A standard labour unit has been defined which measures the average volume of work carried out by a full-time worker.

United Kingdom

Seasonally-adjusted unemployment, total employment and total labour force (working population) are from the Department of Employment publication, *Employment Gazette.* The unemployment figures refer to claimants at Unemployment Benefit Offices. They exclude students seeking vacation work and those persons temporarily stopped from work. Employment data are based on quarterly surveys of employers and households. Self-employment is derived from the 1981 Census of Population and the Labour Force Surveys; it excludes unpaid family workers. Total employment equals the sum of employees, participants in work-related government training programmes, self-employment and the armed forces. The national unemployment rate refers to unemployed claimants aged 18 and over as a percentage of the total labour force.

Canada

Unemployment, civilian employment and civilian labour force are from the monthly Labour Force Survey of persons aged 15 and over. Unemployment also includes persons who, while not actively looking for work in the preceding four weeks, were available for work, but were on temporary layoff or had a new job to start in four weeks or less. The data are seasonally adjusted by the national authorities.

Australia

Unemployment, total employment and the total labour force are from the monthly household Labour Force Survey of persons aged 15 and over. Only persons laid-off for less than four weeks (because of bad weather or plant breakdown) are included among the employed; all other layoffs are considered as unemployed or out of the labour force. The national unemployment rate is calculated with reference to the civilian labour force.

Austria

Unemployment, total employment and total labour force are from the quarterly Labour Force Survey (microcensus) of persons aged 15 and over. The figures have been adjusted by the OECD Secretariat for breaks in the employment series at 1969/70, 1981/82 and 1983/84. The national unemployment rate refers to registered unemployment as a percentage of civilian employees from social insurance statistics plus the armed forces and the registered unemployed.

Belgium

Data on unemployment are based on administrative sources, complemented by surveys. They refer to end-of-June, and comprise fully unemployed persons entitled to benefits, other unemployed obliged to register and voluntarily registered persons. The mid-year estimate of the total labour force comprises domestic employment (including all armed forces), plus Belgian border workers working abroad, less foreign border workers working in Belgium, plus unemployment.

Denmark

Unemployment refers to the registered unemployed aged 16 to 66 years and includes the partially unemployed converted to full-time equivalents. Unemployment and total employment figures, corresponding to national accounts concepts, are compiled from the Danish Central Register of Labour Market Statistics (CRAM). Total labour force is then derived from the identity LF = ET + UN. The national rate refers to all registered unemployed expressed as a percentage of the CRAM estimate of total labour force. The *Economic Outlook* statistics differ from those published in LFS, which are based on the spring Labour Force Survey.

Finland

Unemployment, civilian employment and civilian labour force are from the monthly Labour Force Survey of persons aged 15 to 74. The labour force concept underlying the national unemployment rate includes the professional military but excludes conscripts. Unemployment figures exclude persons over the age of 56 receiving a preretirement unemployment pension and not actively seeking work.

Greece

Unemployment, total employment and total labour force are compiled from the annual Labour Force Survey. The figures are completed or revised in line with the latest census results. All data refer to the second quarter of each year.

Iceland

The unemployed are registrations. Civilian employment, expressed in person-years (that is, full-time equivalents), is compiled from accident insurance statistics. The labour force is derived from the identity LF = ET + UN.

Ireland

Unemployment, total employment and total labour force figures are derived from the annual Labour Force Survey and relate to mid-April of each year. The national unemployment rate refers to registered unemployed persons on the "Live Register", as a percentage of the mid-April total labour force.

Luxembourg

National employment excludes non-resident persons working in Luxembourg and includes nationals working over the

border and international civil servants. Data are those provided by the Administration de l'emploi and the national statistical agency (STATEC). Unemployment refers to those registered at the employment agencies and resident in Luxembourg. The labour force is derived from the identity LF = ET + UN.

Netherlands

Unemployment refers to the monthly standardised unemployed, excluding part-time unemployed (defined as persons seeking work for less than 20 hours per week), and the unemployed temporarily engaged in state-run unemployment relief programmes. There are breaks in the series at 1983, 1984 and 1989. Since the beginning of 1989 the official series is based on the monthly survey undertaken by the Central Bureau of Statistics. Estimates for 1987 and 1988, in line with the new measurement methods, have been made by the OECD Secretariat. Total employment is taken from the Labour Force Survey. The total labour force is then derived from the identity LF = ET + UN. The employment figures from the Labour Force Survey differ from those in the national accounts source. The latter, expressed in man-years, are used for derived variables such as labour productivity and labour costs.

New Zealand

Unemployment, civilian employment and civilian labour force are from the Quarterly Survey of Households. Prior data for total employment and unemployment have been chain-linked with the new series.

Norway

Data on unemployment, employment and labour force are taken from the Quarterly Labour Force Surveys of persons aged 16 to 74. The seasonally adjusted rate of unemployment is calculated by the OECD Secretariat on the basis of national aggregate statistics, and differs somewhat from the corresponding figure published by the Central Bureau of Statistics, Oslo, which is based on an aggregation of labour force statistics seasonally adjusted at the regional and occupational levels.

Portugal

Unemployment, civilian employment and civilian labour force are derived from the quarterly Labour Force Survey of persons aged 15 and over. There are breaks in the series in 1973/74, 1982/83 and 1991/92. The data shown refer to continental Portugal; the professional army is included, conscripts are excluded. Figures reported in the *Economic Outlook* adopt the narrow definition of unemployment which applies a one-month reference period for job search.

Spain

Unemployment, employment and labour force are from the quarterly Labour Force Survey of persons aged 16 and over. Permanent inmates at institutions, notably religious establishments, are excluded from the survey. Temporary inmates are included in their original household (approximately 1 per cent of inmates are missed by the survey) as are professional military. Prior to 1988, data exclude the provinces of Ceuta and Melilla.

Sweden

Unemployment is from the monthly Labour Force Survey of persons aged 16 to 64. There are breaks in the series in 1986 and 1993. Data for earlier years published in *Economic Outlook* have been revised accordingly. A further minor adjustment was made in January 1993. Employment is from the Labour Force Survey. The labour force is derived from the identity LF = ET + UN. Both the numerator and the denominator of the national unemployment rate and the Swedish labour force data published in LFS are based on the results of the Labour Force Survey.

Switzerland

Unemployment refers to the monthly registered unemployed, including the partially unemployed. Civilian employment figures, including permanent military personnel, are established using the census of enterprises, the census of population and the quarterly employment survey of enterprises. The labour force is derived from the identity LF = ET + UN.

Turkey

In 1989, the State Planning Organisation revised the labour market statistics from 1978 onwards. The new series on civilian employment, civilian labour force and unemployment are based on the provisional results of the 1988 Household Labour Force Survey and sectoral value-added and productivity statistics. Since 1988, labour market statistics are derived from the biannual household Labour Force Surveys. Annual figures refer to the results of the October surveys.

COST AND PRICE DATA

Average compensation (Annex Table 11)

Average compensation is calculated as wage and non-wage labour costs, as estimated in the national accounts, per employed person.

Capital income shares and rates of return on capital (Annex Tables 22 and 23)

The estimates of capital income are derived from OECD *National Accounts* statistics. They refer to income generated from production, and hence exclude inflation gains and losses accruing to enterprises from holdings of tangible and financial assets and liabilities. The difference between value-added calculated at factor cost (*i.e.* excluding net indirect taxes) and labour income – the gross operating surplus of enterprises – is taken as the measure of income from capital. A labour income component equal to average business-sector compensation has been imputed to self-employed persons after excluding from the latter unpaid family workers. For those countries where data on numbers of unpaid family workers are not available either for the whole or part of the period covered (see notes to the tables), the bias due to this inclusion is unlikely to be significant.

An adjustment to exclude the operating surplus of the housing sector has not been made owing to the paucity of data; however, estimates based on available data suggest that excluding this item might typically reduce capital income shares by around 6 percentage points, and the estimated rates of return on capital by around 3 percentage points.

The capital stock estimates which are used to compute the rates of return cover only assets included in non-residential gross fixed capital formation and hence exclude dwellings, inventories, monetary working capital, land and natural resources. The historical capital stock data are obtained from national sources whenever possible. For the projection period they have been extrapolated using the perpetual inventory method, which involves accumulating past investment and dropping out assets at the end of their service lives.

Evaluation of the capital stock is based on replacement cost. It should be noted that cross-country differences exist in respect to the assumed service lives of the different capital assets (structures and plant/equipment) and the deflation methods applied[2].

USE OF NATIONAL STATISTICS

National accounts

The figures shown in the country tables on Demand and Output follow, in general, the OECD *Standardised System*[3] definitions. One important deviation from the *Standardised System* is the line "public investment" which includes, whenever possible, fixed capital formation by both general government and government-owned and controlled enterprises. The latter's definition and coverage may vary as between countries.

a) *United States*

Official quarterly national accounts, published by the Bureau of Economic Analysis of the US Department of Commerce, are available through the first quarter of 1994. The appropriation account for households is based on OECD definitions and differs slightly from official US figures. Briefly, OECD disposable income equals US disposable income minus consumer interest payments and net foreign transfers. OECD Secretariat estimates of the savings ratio may thus differ by one- or two-tenths of a percentage point from estimates based on the official US definition. Government fixed investment expenditures (including those of government enterprises) are included in "government expenditure", and no allowance is made for depreciation of government fixed capital. The investment figures, therefore, refer to the private sector only.

b) *Japan*

Annual and quarterly national accounts are published by the Economic Planning Agency. Figures from the second quarter of 1993 to the fourth quarter of 1993 are preliminary estimates published by the Economic Planning Agency.

c) *Germany*

The historical figures for Germany are based on official data published by the Statistisches Bundesamt. Historical seasonally adjusted quarterly components of demand and GDP for western Germany are available through the fourth quarter of 1993. National accounts data, not seasonally adjusted, for eastern Germany are available from the second half of 1990 through the end of 1993. Seasonal adjustment for eastern German data is done by the OECD Secretariat.

d) *France*

Quarterly accounts based on the *Enlarged System of National Accounts* (ESNA) are available through the fourth quarter of 1993. Industrial production figures refer to the official quarterly index of industrial production and not to the value added in the industrial sector.

e) *Italy*

The definitions used are those of the OECD *System of National Accounts*. Half-yearly series, in constant prices, through the second half of 1993, are based on quarterly national accounts published by the *Istituto Centrale di Statistica* (ISTAT).

f) *United Kingdom*

National accounts data through the fourth quarter of 1993 are taken from *Economic Trends,* CSO. The three official estimates of GDP, output, expenditure and income are averaged to yield a "compromise" GDP estimate.

g) *Canada*

Official quarterly national accounts through the fourth quarter of 1993 are published by Statistics Canada. Over the projection period, the residual error is assumed to remain constant from the second half of 1993.

Current statistics

Unless otherwise stated, all the national statistics quoted in the *Economic Outlook* are taken from the *Main Economic Indicators* published monthly by the OECD Secretariat (MEI). Starting in September 1967, supplements to MEI have been published describing in detail the sources and methods of these statistics. The following notes are therefore confined to some methodological points of special importance for the understanding of the text.

Index of industrial production

The figures shown include, as far as possible, mining, manufacturing and public utilities (electricity, gas and water), but exclude construction. The exact coverage, the weighting system and the methods of calculation vary from country to country but the divergences are less important than in the case of the price and the wage indices[4]. With the exception of certain smaller countries, the indices are seasonally adjusted by national statistical offices using different methods usually derived from the US Bureau of the Census Method II.

Seasonal adjustment

Some of the series used have been seasonally adjusted, notably in the area of foreign trade but also in some cases for industrial production, unemployment and consumer prices. The method used is the X-11 variant of the US Bureau of the Census Method as programmed for computer use by the Agency. (Further details may be found in Technical Paper No. 15 of the Bureau of the Census.) Where appropriate, series are also corrected for calendar variations.

CALCULATION AND DEFINITION OF SEMIANNUAL GROWTH RATES

Although quarterly and higher frequency data are commonly shown in the *Economic Outlook* for some countries and variables, most of the data reported are either annual or semian-

nual and are presented in terms of percentage growth rates. The calculation and presentation of growth rate information, particularly that relating to semiannual series, is sometimes a source of confusion and the following paragraphs therefore provide specific clarification on the measurement principles involved.

Annual growth rates are commonly defined as the percentage change in a variable between two consecutive years. Similarly, semiannual growth rates can be calculated as the percentage changes between two consecutive half-years. It is often convenient, however, to convert such measures of semiannual growth into a form which is more readily comparable with annual growth figures, *i.e.* to express them at *annual rates.* Mathematically, this is done by squaring the semiannual growth factor (which is obtained by dividing the current value of a variable by its value in the preceding half year) and subtracting unity. In effect, the semiannual growth rate is *compounded* over two half-years to provide an indication of the annual rate of growth which would result from the continuation of the semiannual rate of growth over a one-year period.

In terms of simple algebra, if a variable has a value of X_t in one half-year and X_{t+1} in the next, the formula for the semiannual rate of growth for period t+1, expressed at an *annual rate,* is given by:

$$g(t+1) = [(X_{t+1}/X_t)^2 - 1.0] * 100.$$

For example, recent statistics for the Industrial Production index in the United Kingdom are as follows:

	1988		1989		1990	
	I	II	I	II	I	II
Industrial production (1985 = 100 basis)	111.7	116.4	118.8	119.0	119.9	116.7

Given the above formula, the growth between the first and second halves of 1989 expressed at an *annual rate,* is computed as $[(119.0/118.8)^2 - 1.0]*100$, or 0.3 per cent. Corresponding rates of growth for each of the years and half-years in question are, on a similar basis, as follows:

	1989	1990	1988		1989		1990	
			I	II	I	II	I	II
Industrial production (growth rates)	4.3	–0.5	5.2	8.6	4.2	0.3	1.5	–5.3

Such a numerical example helps illustrate the usefulness of semiannual growth rates in highlighting movements in an economic variable during the course of a year. It also demonstrates that annual growth rates for a specific year do not usually correspond to the average of the semiannual growth rates *during* that year. In the above example, the annual rate of growth for 1989, at 4.3 per cent, is higher than the average of the two semiannual rates of growth experienced during 1989, at 2.2 per cent. This is because year-on-year rates of growth are influenced by the levels of a variable achieved in both halves of the preceding year, whereas the average of the corresponding two semiannual rates are influenced only by the level achieved in the second half of the preceding year. This feature is known as a "carry over" effect.

There is however a useful rule of thumb which can be used to approximately convert semiannual rates of growth to corresponding year-on-year growth rates. Known as the "quarter-half-quarter" rule, this approximates the year-on-year growth rate by weighting together the semiannual growth rates for the second semester of the preceding year and those of the first and second semesters of the year in question, with weights of one quarter, one half and one quarter, respectively. Applying this rule to the above example gives annual rates of growth for 1989 and 1990 of 4.3 per cent (*i.e.* 8.6/4 + 4.2/2 + 0.3/4) and –0.5 per cent (*i.e.* 0.3/4 + 1.5/2 – 5.3/4), respectively, coinciding with the actual measured rates. In using this rule, it is important to bear in mind that some degree of approximation is involved, particularly where large variations in semiannual growth rates are concerned.

Other measures of growth rates are, of course, used in commenting and presenting economic statistics. Quarter-on-quarter growth rates are often referred to, which may in turn be expressed at annual rates, by raising the quarterly growth factor to the power four, subtracting unity and multiplying by 100. Analogous measures also exist for monthly rates of growth or inflation, expressed also at annual rates. In some countries, notably the United States, public interest may also focus on growth rates between the final quarters of successive years, commonly referred to as the growth rate *in* the year in question. In others, growth rates measured in relation to the corresponding month, quarter or semester of the previous year are also commonly used.

NOTES

1. Recent descriptions of the scope, structure and properties of the OECD Secretariat's INTERLINK model and the underlying empirical studies are given by Richardson (1988), OECD (1988), and associated *Economics Department Working Papers.*
2. A full description of the sources and methods for the capital stock data is contained in Keese *et al.* (1991).
3. For detailed definitions, see United Nations, *A System of National Accounts,* New York, 1968.
4. A quarterly supplement to *Main Economic Indicators* provides an internationally comparable selection of industrial output indices for branches and a number of categories.

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Keese, M., G. Salou and P. Richardson (1991), "The Measurement of Output and Factors of Production for the Business Sector in OECD Countries", *OECD Department of Economics and Statistics Working Papers,* No. 99.

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Richardson, P. (1988), "The Structure and Simulation Properties of OECD's INTERLINK Model", *OECD Economic Studies,* No. 10 (Spring).

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Economics Department, OECD

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- to issue full twice-yearly reviews of the economic situation and prospects of the OECD countries in the context of world economic trends;
- to analyse specific policy issues in a medium-term context for the OECD as a whole, and to a lesser extent for the non-OECD countries.

The documents prepared for these purposes, together with much of the Department's other economic work, appear in published form in the *OECD Economic Outlook, OECD Economic Surveys, OECD Economic Studies* and the Department's *Working Papers* series.

The Department maintains a world econometric model, INTERLINK, which plays an important role in the preparation of the policy analyses and twice-yearly projections. The availability of extensive cross-country data bases and good computer resources facilitates comparative empirical analysis, much of which is incorporated into the model.

The Department is made up of about 80 professional economists from a variety of backgrounds and Member countries. Most projects are carried out by small teams and last from four to eighteen months. Within the Department, ideas and points of view are widely discussed; there is a lively professional interchange, and all professional staff have the opportunity to contribute actively to the programme of work.

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