OECD Economic Outlook



OECD

Volume 2004/1
No. 75, June

OECD ECONOMIC OUTLOOK

75

JUNE 2004

OECD

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Conventional signs

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

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Summary of projections

	2003	2004	2005	2003	2004			2005			Fourth quarter		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	2003	2004	2005
	Per cent												
Real GDP growth													
United States	3.1	4.7	3.7	4.1	4.6	4.3	3.8	3.9	3.6	3.6	4.3	4.2	3.6
Japan	2.7	3.0	2.8	6.4	1.7	2.2	2.5	2.7	2.8	3.0	3.6	2.3	2.9
Euro area	0.5	1.6	2.4	1.4	1.4	1.9	2.3	2.3	2.5	2.5	0.7	2.0	2.6
Total OECD	2.2	3.4	3.3	4.0	3.1	3.2	3.2	3.2	3.2	3.3	2.9	3.2	3.3
Inflation													
United States	1.7	1.7	1.6	1.5	2.1	2.0	1.3	1.3	1.8	1.5	1.6	1.7	1.6
Japan	-2.5	-1.8	-1.1	-4.4	-0.8	-1.4	-1.2	-1.1	-1.1	-1.0	-2.7	-1.1	-0.9
Euro area	2.0	1.7	1.7	1.6	1.5	1.6	1.8	1.8	1.6	1.7	2.0	1.7	1.7
Total OECD	2.0	1.7	1.6	1.1	2.1	1.8	1.6	1.6	1.6	1.5	1.6	1.8	1.6
Unemployment rate													
United States	6.0	5.5	5.2	5.9	5.6	5.6	5.5	5.4	5.3	5.3	5.9	5.4	5.1
Japan	5.3	5.0	4.6	5.1	5.0	5.0	4.9	4.9	4.8	4.7	5.1	4.9	4.3
Euro area	8.8	8.8	8.5	8.8	8.8	8.8	8.8	8.8	8.7	8.6	8.8	8.8	8.3
Total OECD	7.1	6.9	6.7	7.1	7.0	7.0	6.9	6.9	6.8	6.7	7.1	6.9	6.5
World trade growth	4.5	8.6	10.2	11.5	6.9	8.9	9.6	10.0	10.5	10.5	5.8	8.8	10.5
Current account balance													
United States	-4.9	-4.7	-4.8										
Japan	3.1	3.8	4.4										
Euro area	0.4	0.5	0.6										
Total OECD	-1.2	-1.0	-1.0										
Cyclically-adjusted fiscal balance													
United States	-4.2	-4.6	-3.9										
Japan	-7.5	-7.0	-7.0										
Euro area	-1.7	-1.6	-1.8										
Total OECD	-3.4	-3.5	-3.2										
Short-term interest rate													
United States	1.2	1.3	2.9	1.1	1.2	1.2	1.4	1.6	2.1	2.6	1.1	1.6	3.6
Japan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Euro area	2.3	1.7	1.8	2.2	2.1	1.7	1.5	1.5	1.5	1.5	2.2	1.5	2.3

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

Assumptions underlying the projections include:

- no change in actual and announced fiscal policies;
- unchanged exchange rates as from 14 April 2004; in particular 1$ = 108.50 yen and 0.836 euros;

The cut-off date for other information used in the compilation of the projections is 21 April 2004.

Source: OECD.

EDITORIAL: TOWARDS A SHARED RECOVERY

With the slump of business investment now well over, the world economy is experiencing a strong and sustainable recovery. Asia remains buoyant, with China close to overheating and Japan enjoying a much stronger and broader recovery than expected. In the United States, the economy has already been growing well above potential and other English-speaking countries, which took part only marginally in the past slowdown, are cruising ahead.

However, the recovery is still, to a large extent, bypassing continental Europe, where domestic demand and household expenditure remain surprisingly weak. Core continental European countries are still struggling to revive their economies, with Germany and Italy facing the most difficult challenges.

Looking further ahead, there are good reasons to expect a more evenly shared recovery. The world recovery has achieved enough of a momentum to start pulling European economies out of their domestic anaemia, provided a modicum of exchange-rate stability prevails in the months to come. Conversely, growth in the United States and China should moderate somewhat as monetary stimulus is progressively withdrawn by central banks. The partial narrowing of growth differentials across OECD regions would not be sufficient, however, for the existing current account imbalances to unwind.

Despite lingering worries, it seems likely that, in the United States, labour too will share in the recovery. With business profitability now well restored and employment at last picking up, real wages and labour income should accelerate markedly, thus providing a stronger underpinning to the recovery. As the spectre of a persistently jobless recovery recedes, controversies about the negative role of job offshoring should subside and take a less emotional turn. Although it brings pain and at times social dislocation in some parts of the economy, offshoring remains of smallish dimension in comparison with the global job turnover of the US economy and appropriate public policies can do a lot to ease the burden of those who lose their work through rapid economic change. The return to stronger job creation in the United States and the OECD at large should help contain pressures for more protectionist measures, thus providing a more favourable background for the advancement of the Doha round.

While becoming broader-based, the world recovery should also benefit from continued price stability. Despite recent increases in oil and commodity prices, inflationary pressures should remain relatively subdued over the next few quarters, against the background of the substantial economic slack that remains in many OECD regions. Where the recovery is more advanced, timely monetary tightening should help contain mild inflationary pressures.

Although this *Economic Outlook* depicts a relatively smooth scenario, a number of risks surround the latter. Chief amongst them is the risk of the world recovery remaining even more polarized than expected. Some OECD countries could well expand too fast for lack of appropriate withdrawal of policy stimulus while others might remain mired in a "low activity-low confidence" trap. Such cumulative divergences would in turn worsen current account imbalances and financial uncertainties.

In the United States, there is indeed a risk of macroeconomic policies – especially on the fiscal side – remaining expansionary for too long into the recovery, thus triggering an abrupt back-up in long-term interest rates, with negative consequences for investment world-wide. Financial turbulences could also be fuelled by a normalisation of the currently unsustainably low risk premia.

In continental Europe, consumer confidence remains weak, keeping precautionary saving up and demand down. This lack of confidence is driving a wedge between incomes and effective demand that may blunt the stimulus from the world recovery. Thus, the European recovery could be even less impressive than expected. Because of these lingering uncertainties about the strength of the recovery and in light of subdued inflationary pressures, there seems to be a case

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for a further loosening of monetary policy. By supporting economic activity at a crucial juncture, more accommodating monetary conditions would also facilitate the necessary consolidation of European public finances.

Persistent growth divergence and worsening current account imbalances could lead to further bumpy readjustments of exchange rates. A special chapter appended to this outlook suggests this could be costly for Japan and Europe at a time when macroeconomic policies have little margin for manoeuvre left to offset the negative consequences of further dollar depreciation. Hopefully, more decisive fiscal retrenchment in the United States and more robust domestic demand in Europe and Japan would bring about a less disruptive rebalancing of current accounts than one solely driven by exchange rates.

As mentioned several times already in previous *Economic Outlooks,* there is an urgent need for large continental European countries to better understand why they have been under-performing in comparison with other OECD economies and to take the necessary steps to overcome this deficiency.

Some of the shortcomings are only too well-known. For instance, fiscal authorities lost control during the last upswing. A desire to contain the rising tax burden coupled with difficulties to cut public spending accordingly led to an unintended worsening of structural deficits. Fiscal consolidation could perhaps be achieved in the future through an improved design and more pre-emptive implementation of the Stability and Growth Pact. But a lot will also depend on the capacity of national budgetary institutions to better manage and control public spending; indeed the bad fiscal outcomes of the past few years in large European countries stemmed more from a loss of control at the national level than from a putative inadequacy of the Stability Pact. More robust instruments will also be needed to better measure, in real time, the evolution of cyclically-adjusted deficits. A special chapter included in this *Outlook* shows how costly it has been for fiscal authorities to be unable to recognise that beyond the usual influence of the business cycle, booming asset prices also boosted the amount of short-lived tax receipts, with dire consequences for subsequent deficits.

Compared with the United Kingdom, Australia, Canada and some other countries outside the euro area, large continental European countries have experienced greater difficulty in supporting demand during the bad times. Beyond some clear differences in the stance of macroeconomic policies, this weakness may have stemmed from such structural factors as the fragility of German labour markets but also from a lack of flexibility of mortgage markets. In addition to being detrimental to long-term economic welfare, incomplete mortgage markets may have blunted the impact of monetary policy, as a special chapter of this *Outlook* strongly suggests. This lack of reactivity of mortgage and housing markets stands in stark contrast with the experience of other more resilient OECD countries, where housing markets bounced back at a time when the rest of the economy tended to slow down.

All in all, the global recovery seems now well engaged but it will take better structural and macroeconomic policies for it to truly extend worldwide and to re-establish a solid confidence climate among OECD households. As mentioned in previous editorials, policies to restore the long-term sustainability of public finances are still badly needed in many OECD countries, including the largest ones, to bring back such confidence.

4 May 2004



Jean-Philippe Cotis
Chief Economist

I. GENERAL ASSESSMENT OF THE MACROECONOMIC SITUATION

Overview: A more self-sustained but still vulnerable expansion

The expansion gains traction, but the euro area is lagging…

Globally, economic growth prospects have continued to improve and the recovery is broadening across regions and sectors. The US and UK expansions are retaining considerable momentum while in Japan a genuine recovery seems to be in train. Growth has firmed in many non-OECD economies across Asia, Eastern Europe and Latin America. In contrast, anaemic growth in the largest euro area countries – especially in Germany and Italy – has remained a cause for disappointment, even if activity is projected to strengthen gradually. So far, the global recovery has created fewer jobs than usual, but a pick-up in employment is expected. In the OECD area as a whole, the output gap should be much reduced by the end of the projection period, in late 2005. In some countries, positive output gaps are set to re-emerge, but in the euro area considerable slack would remain (Table I.1).

… and some risks and tensions remain

The recovery is unfolding against the backdrop of several tensions and vulnerabilities. Oil prices have risen markedly since last autumn and a significant further increase could restrain or postpone recoveries. But if they eased back towards $25 per barrel (the mid-point of the range targeted by OPEC in recent years), growth would receive a push. Risk premia in corporate and sovereign debt markets have narrowed to unusually low levels, supporting the recovery thus

Table I.1. **The expansion gathers pace**

	Average 1991-2000	2001	2002	2003	2004	2005	2003 Q4	2004 Q4	2005 Q4
	Per cent								
Real GDP growth[a]	2.7	1.0	1.7	2.2	3.4	3.3	2.9	3.2	3.3
United States	3.3	0.5	2.2	3.1	4.7	3.7	4.3	4.2	3.6
Japan	1.5	0.4	-0.3	2.7	3.0	2.8	3.6	2.3	2.9
Euro area	2.4	1.7	0.9	0.5	1.6	2.4	0.7	2.0	2.6
Output gap[b]	-0.5	-0.5	-1.4	-1.7	-0.9	-0.3			
Unemployment rate[c]	6.9	6.4	6.9	7.1	6.9	6.7	7.1	6.9	6.5
Inflation[d]	3.8	2.9	2.5	2.0	1.7	1.6	1.6	1.8	1.6
Fiscal balance[e]	-2.8	-1.1	-2.9	-3.7	-3.6	-3.1			

a) Year-on-year increase; last three columns show the increase over a year earlier.
b) Per cent of potential GDP.
c) Per cent of labour force.
d) GDP deflator. Year-on-year increase; last three columns show the increase over a year earlier.
e) Per cent of GDP.
Source: OECD.

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far but also highlighting the possibility of an adverse bond or equity market shock. Inflated housing prices remain a source of potential instability in some countries. Fiscal and external imbalances – especially although not exclusively in the case of the United States – are not projected to diminish much in the near term. Insofar as they put pressure on exchange rates and interest rates, disruptive adjustments cannot be ruled out.

Overall, macro stimulus should start to be withdrawn and structural reform accelerated

In a context of sustained low inflation and slack in resource utilisation, the US Federal Reserve has been able to remain patient before starting to reverse earlier rate cuts. In the euro area, some near-term easing might even be warranted. In contrast, a progressive withdrawal of monetary stimulus has begun in a few OECD countries. By the end of the projection period, most central banks should be in the process of steering policy rates towards more neutral levels. Where discretionary tax cuts or spending increases have contributed most to support activity during the downturn, fiscal policy should be squarely geared towards consolidation. Elsewhere, there is neither scope nor need for fiscal stimulus. Generally, precarious debt and deficit positions imply that embarking on a credible course of fiscal consolidation would help in bringing about a lasting and robust recovery, reducing the risk of a sharp back-up in long-term interest rates. Finally, to enhance potential growth as well as resilience in the face of adverse shocks, structural reforms ought to be stepped up, especially in the euro area and Japan. They would also facilitate the redeployment of resources entailed by globalisation, including international sourcing, and technological progress.

A two-speed recovery

Growth is uneven across OECD countries…

The global recovery is led by the United States (Figure I.1), as often in the past. More unusual is the fact that Japan and the United Kingdom are also spearheading the recovery. Activity has been weak in the major euro area economies, albeit less so in France than in Italy and Germany.

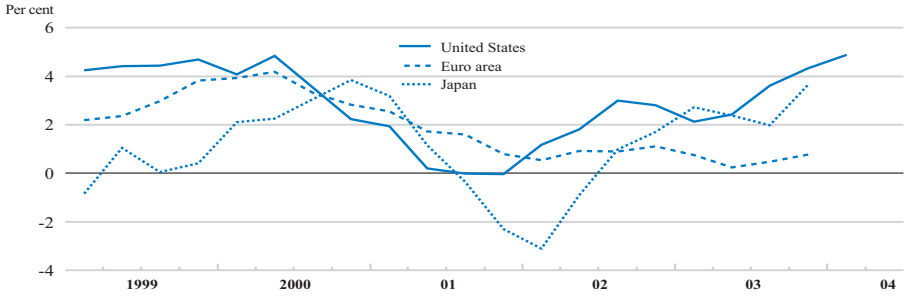
… but all benefit from a strong impulse coming from Asia

The relatively limited downward amplitude of the present cycle is partly related to the buoyancy of economic activity in Asia, and especially China, early in the recovery.[1] China's remarkable dynamism reflects the global recovery but even more the impact of trade and investment liberalisation in the context of accession to the World Trade Organisation. It also reflects domestic factors, including an extraordinarily high

1. The extent to which China's economic cycle buffers those in other regions can be assessed using a variety of measures. One is the correlation of output gaps (computed in this case as the difference between actual and trend real GDP) over the past two decades. It suggests that China's cycle is uncorrelated with that of the OECD area at large, and negatively correlated with that of the euro area. Alternatively, a concordance statistic can be compiled (following McDermott, C. and A. Scott, "Concordance in business cycles", *IMF Working Papers*, No. 00/37, 2000), which essentially describes the time spent in the same phase by two time series. It confirms that historically China's cycle has borne little resemblance to that in the OECD area and that it has tended to offset the euro area cycle. But these patterns may change over time, as China's integration in the world economy proceeds.

Figure I.1. **The euro area recovery is lagging**

Real GDP, year-on-year percentage change



Source: OECD.

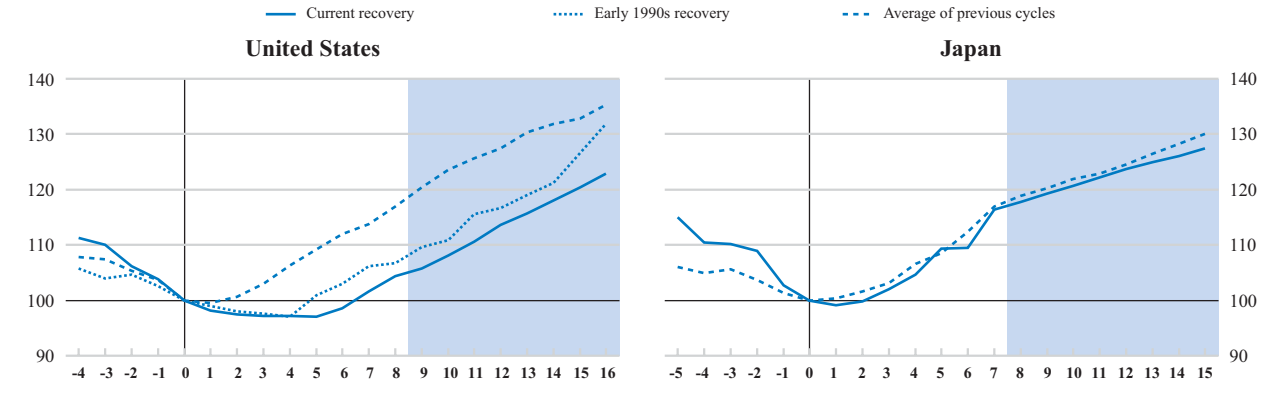
investment rate and the reallocation of jobs from the rural to the urban sector (Box I.1). Furthermore, the rapid expansion of intra-regional trade amongst Asian countries is strengthening their autonomous impetus to world trade and growth.

Investment is on the rise…

Business fixed investment has started to accelerate, led by the United States, where it was late in coming, partly as a consequence of over-investment in the late 1990s. In Japan, investment is rising at roughly the same pace as during earlier recoveries (Figure I.2). In France and Germany, but not yet in Italy, it has at last begun to pick up. Cross-country differences in the timing and strength of the pick-up in investment are related to the evolution of profitability, the extent of balance sheet adjustment accomplished to date, and the importance for the economy of the cycle in the high-tech sectors.

Figure I.2. **Investment is picking up**

Business fixed investment, index, cyclical trough = 100



Note: A cyclical trough is usually defined as a trough in the level of real GDP. For the United States the NBER chronology is used. The average of previous cycles includes major cycles from the 1960s to the 1980s for the United States and from the late 1970s to the 1990s for Japan. The last cyclical trough is 2001 Q4 for the United States and 2002 Q1 for Japan. The shaded area shows the projection period for the current cycle.
Source: OECD.

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Box I.1. China and the global recovery[1]

Is China pulling the global recovery? China's economy has expanded at an impressive pace throughout the global downturn. Despite the severe acute respiratory syndrome (SARS) epidemic, real GDP increased by over 9 per cent last year, and the OECD's central projection has growth slowing down only marginally in 2004-05. Measured at current prices, China's goods and services trade represented 5¼ per cent of world trade in 2003, but it may have accounted for as much as one quarter of the total growth in world trade in volume terms. Against this background, the question arises as to the extent to which China's dynamism is autonomously driving the global recovery and whether it can be expected to continue to play such a stimulative role.

Domestic demand is buoyant. In recent years, growth in China has been led by fixed investment, which was fuelled by government infrastructure spending, rapid credit expansion and a property market boom, and surged by 28 per cent in 2003. Consumption was also buoyant, retail sales being up by 9 per cent, spurred by strong demand for durable goods.[2] Fiscal policy has been expansionary, with a recorded deficit of around 2½ per cent of GDP plus accumulating contingent liabilities.

Liberalisation and opening-up also support China's expansion. While domestic factors have played an important role, China's take-off also reflects a catch-up process made possible by the opening-up and liberalisation of the economy, including accession to the World Trade Organisation (WTO) in 2001. Indeed, it is estimated that as much as one third of China's 9 per cent trend growth rate since the late 1970s reflects reform-induced multifactor productivity gains, even if the contribution of the latter has apparently tended to diminish over time.[3] Foreign direct investment inflows represent one tenth of total fixed capital formation, with a rising share of the inflows aimed at meeting local final demand rather than re-exports. Helped by real effective exchange rate depreciation, exports accelerated in 2003, rising by almost 35 per cent, over half of which were sales by affiliates of foreign enterprises.

China's imports are rising rapidly. At the same time, imports have been rising even faster, and the net contribution of foreign trade to growth was negligible in 2003. In the process, China has become the third largest trading nation in the world, on par with Japan.[4] Given that China imports mostly from other Asian countries, its direct contribution to growth is largest in that region. In the case of Japan, exports to China accounted for some two thirds of the increase in exports in 2003, with sales of capital goods and parts and IT-related products rising fastest and representing close to two thirds of total exports to China. The strong growth of Chinese imports also provided a significant boost to exports from Korea and Australia, as well as many of the smaller Asian economies and the United States.[5] China also contributes to global growth via terms-of-trade effects, enabling firms in OECD countries to reduce costs and increasing their competitiveness and profitability.[6] On account of its trade with China, Japan in particular enjoys direct terms-of-trade gains which in 2003 represented ½ per cent of GDP, plus some indirect terms-of-trade gains (insofar as China's soaring demand for Japanese capital goods pushes up the price of the latter in third markets, and as China's surging supply of labour-intensive goods depresses the price of Japan's imports of similar goods from other countries).[7]

Is China's dynamism sustainable? In the short run, the most likely scenario is for a soft landing. While some overheating symptoms have been visible – notably the acceleration of investment (which represents an unusually high share of GDP and was already booming), energy input shortages and overcapacity in several industrial sectors – measures have been taken to slow credit growth, in particular via a hike in banks' required reserve ratio and restrictions on real estate lending. No change in the exchange rate peg to the US dollar is foreseen for the time being. Over the longer run, China's contribution to the global expansion hinges on how successfully it continues to reform. Potential output growth may be of the order of 7 to 8 per cent, but only provided that progress continues on the structural front, in particular restructuring of the bloated state-owned enterprises and banks, and strengthening of social safety nets to facilitate this restructuring and to cushion the strains of rural to urban migration.

1. In this box, China stands for the China's People Republic, Mainland.
2. Both the investment and retail sales growth data are in nominal terms, but inflation is in the low single digits. See Chapter III, "Developments in selected non-member economies".
3. According to Heytens, P. and H. Zebregs, "How fast can China grow?", *in* Tseng, W. and M. Rodlauer (eds), *China: Competing in the Global Economy*, IMF, 2003. They also estimate that capital accumulation has accounted for 5 percentage points and labour force growth for 1 percentage point of trend growth. They document, however, that the rate of multifactor productivity growth has slowed significantly, consistent with other studies (*e.g.* Zheng, J. and A. Hu, "An empirical analysis of provincial productivity in China (1979-2001)", *mimeo*, March 2004).
4. At current US dollar prices.
5. The increase in exports to China represented one fifth of the total rise in US merchandise exports in 2003.
6. See also the Section on offshoring in the main text below. Several studies have attempted to quantify the impact of China on world trade and more generally (*e.g.* Wang, Z., "The impact of China's WTO accession on patterns of world trade", *Journal of Policy Modeling*, Vol. 25, No. 1, 2003). However, the trade elasticities built into the models used for that purpose have often not kept up with the rapid changes in trade patterns, nor do the models capture some important aspects of China's WTO membership, notably the liberalisation of trade in services and of foreign investment.
7. The calculation of the direct terms-of-trade gain uses 1990 as a benchmark. It updates the estimate presented in Kwan, C., "The rise of China as a win-win game for Japan: immense income transferred from China through the terms-of-trade effect", *China in Transition Series*, Research Institute of Economy, Trade and Industry, Tokyo, 29 August 2003. China's soaring demand for raw materials, however, indirectly imparts an adverse terms-of-trade effect on Japan.

Box I.1. China and the global recovery *(cont.)*

China opens up

Per cent (unless noted)

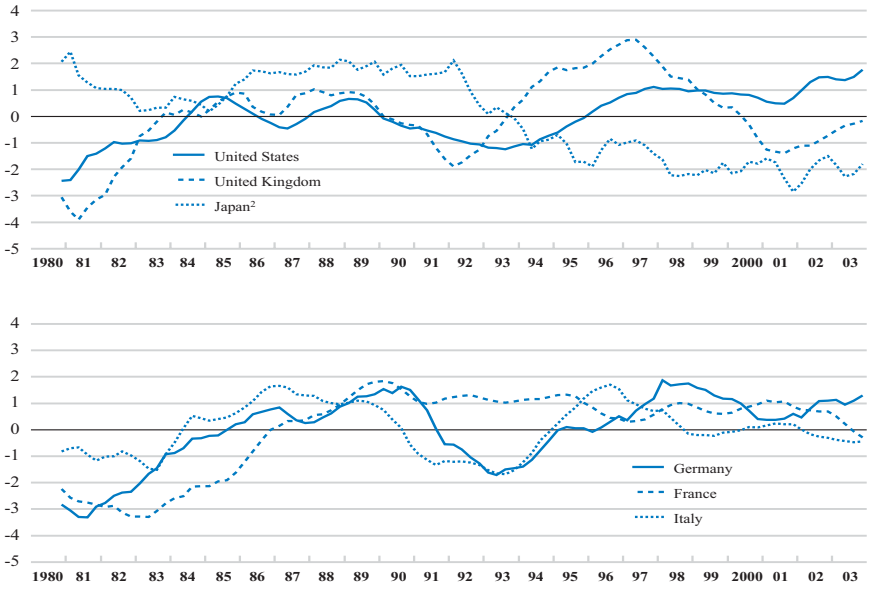
	1980	1990	2000	2001	2002	2003[a]
Foreign trade[b]						
Export growth (goods and services, at current $ prices)	..	..	27	7	22	35
Import growth (goods and services, at current $ prices)	..	..	32	8	21	44
Share in world exports	1	2	4	4	5	6
Share in major export markets						
Japan	3	5	15	17	18	20
United States	1	3	9	9	11	13
EU15 (excluding intra-EU trade)	1	2	6	7	8	..
Sources of imports						
Asia	35	53	55	53	56	58
o/w Japan	27	14	18	18	18	18
Korea	0	0	10	10	10	10
United States	20	12	10	11	9	8
EU15	16	17	14	15	13	13
Exports to China (share of total exports)						
Japan	4	2	6	8	10	12
Korea	0	0	11	12	15	16
United States	2	1	2	3	3	4
EU15 (excluding intra-EU trade)	1	1	3	3	3	4
Tariffs						
Unweighted, all products[c]	56	44	16	15	12	11
Weighted, all products[d]	..	41	..	9	6	..
Foreign investment						
Inward FDI ($ billions)	0	3	41	47	53	54
As a share of gross fixed capital formation	0	4	10	11	10	8
Origin (share)						
Japan			7	9	8	9
Korea			4	5	5	8
United States			11	9	10	8
EU15			11	9	7	8
OECD area			35	35	33	..
Dynamic Asia[e]			51	48	47	..
of which Hong Kong, China[f]			38	36	34	34

a) Preliminary or based on data for the first three quarters.
b) Unless noted, data are for merchandise trade at current dollar prices.
c) Observations for 1982 and 1991 instead of 1980 and 1990 respectively.
d) Observation for 1992 instead of 1990.
e) Hong Kong, China; Chinese Taipei; Indonesia; Malaysia; the Philippines; Singapore; Thailand.
f) Includes a significant share of round-tripping.
Source : International Monetary Fund; United Nations Conference on Trade and Development; World Trade Organisation; OECD; National Bureau of Statistics and Ministry of Commerce of the People's Republic of China; US Census Bureau and Bureau of Economic Analysis; Japan Customs; Rumbaugh, T. and N. Blancher, "China: international trade and WTO accession", *IMF Working Papers* , No. 04/36, 2004.

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Figure I.3. **Profits are not yet on the mend everywhere**

Gross operating surplus, per cent of GDP[1]



1. Four-quarter moving average of deviation from the average of the period.
2. Gross operating surplus for Japan for 2003 Q2 to 2003 Q4 has been projected by the OECD, using information on operating profits released by the Japanese Ministry of Finance.

Source: OECD.

… helped by recovering profits…

In the United States, the profit share, as measured by the gross operating surplus, has surged to a historical high thanks to sizeable productivity gains and wage moderation (Figure I.3).[2] Profits have increased by more than two-thirds from their 2001 trough, the level of corporate indebtedness has been substantially reduced, and aggregate investment is currently being financed entirely out of retained earnings. Aided by external demand, profits are also rising in Japan, where corporate debt has been brought down from about 150 per cent of GDP in the mid-1990s to 130 per cent of GDP in 2003 and the number of bankruptcies has declined. In the United Kingdom as well, the profit share has increased, but does not yet exceed its historical average, possibly accounting for a more subdued investment pick-up. Profitability has not yet turned around in France and Italy, and balance sheet adjustment is less advanced, which may be inhibiting business investment. In Germany, labour shedding and wage moderation account for a rising profit share, and investment is only belatedly picking up.

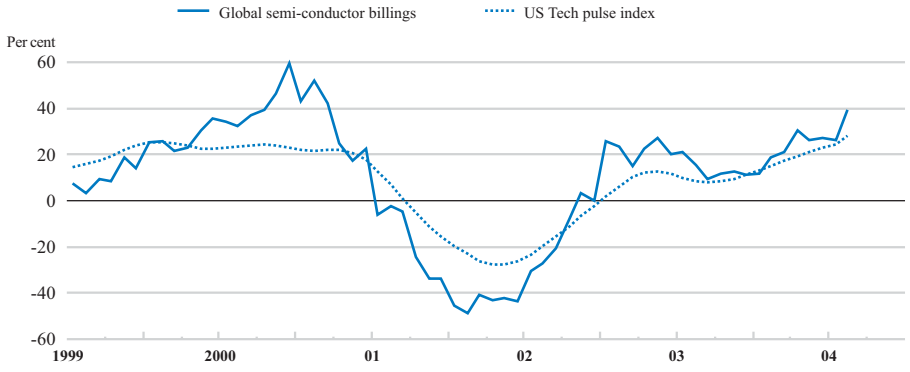
… and a revival in the high-tech sectors

The global investment revival is to a large extent being driven by high-tech spending, as reflected in a steep rise in the US "tech-pulse" index[3] and in international billings of semi-conductors (Figure I.4). Indeed, US business fixed investment would have continued to decline in 2003 had it not been for the buoyancy of investment in computer equipment and software. The rebound in high-tech demand is

2. The gross operating surplus is less cyclical than corporate profits, as it also includes a number of more stable items, such as rental income.
3. This is a coincident indicator, compiled monthly by the Federal Reserve Bank of New York. The high-tech sector's contribution to economic growth far exceeds its relatively small share in GDP, see Hobijn, B., K. Stiroh, and A. Antoniades, "Taking the pulse of the tech sector: a coincident index of high-tech activity", *Current Issues*, Vol. 9, No. 10, 2003.

Figure I.4. **The IT sector is again on a roll**

12-month growth rate, in current $ prices



Source: Federal Reserve Bank of New York and Semiconductor Industry Association.

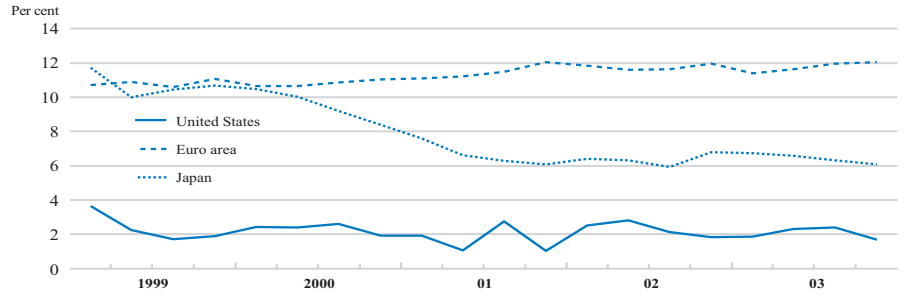
partly related to the fact that the average life span of information technology (IT) capital is much shorter than in other sectors.[4] In the US case, it also reflects temporary tax incentives. Much of Asia's dynamism is linked to the IT cycle, with Japan benefiting from rising demand for digital home appliances. In the euro area, the IT pull seems to have been less forceful, and business investment only began to rally in late 2003, following ten quarters of almost uninterrupted decline.

Consumption displays varying degrees of resilience

Sustained private consumption in the United States and the United Kingdom has contributed to the resilience of aggregate demand, in contrast to the euro area, where household saving rates remain high (Figure I.5). In Japan, which is ahead in the demographic transition, consumption is being supported by dissaving among the older generation, but remains weak due to slow income growth.[5] The relative resilience of consumption is partly related to housing market institutions. In a number of countries

Figure I.5. **Households save more in the euro area**

Household saving in per cent of disposable income



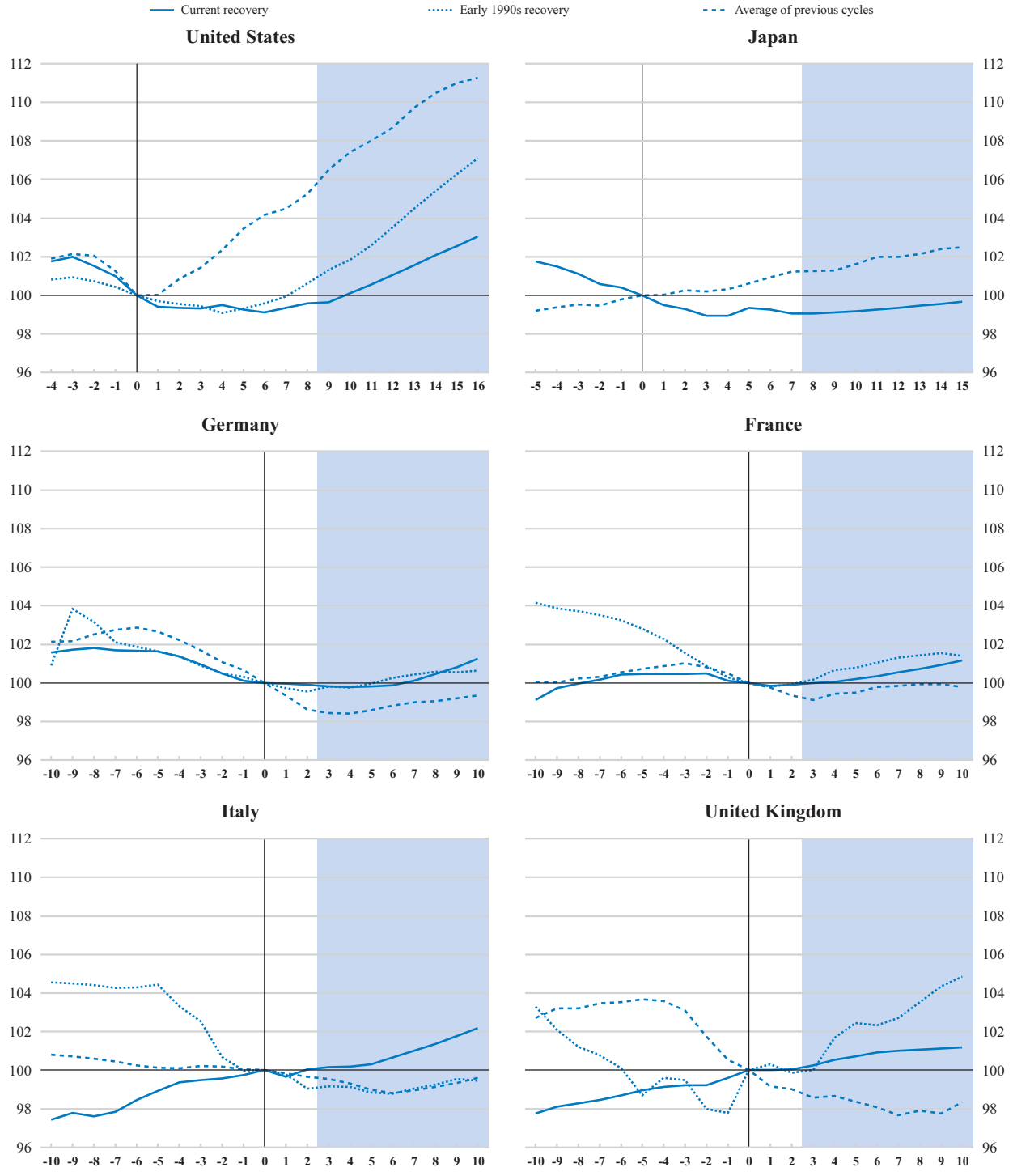
Source: OECD.

4. In the United States, these averages are two years for software and computers, five for communications equipment and nine for industrial equipment.
5. According to household survey data, the saving ratio is 27 per cent for working households but 26 per cent for those headed by retirees.

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Figure I.6. Employment performance differs across countries

Business sector employment, index, cyclical trough = 100



Note: A cyclical trough is usually defined as a trough in the level of real GDP. For the United States the NBER chronology is used. For the United Kingdom, the last cyclical trough reflects a minimum in the output gap. The average of previous cycles includes major cycles from the 1960s to the 1980s (late 1970s to 1990s for Japan). The last cyclical trough is 2001 Q4 for the United States, 2002 Q1 for Japan and 2003 Q2 for the European countries. The shaded area shows the projection period for the current cycle.

Source: OECD.

– including the United States, the United Kingdom, Australia, Spain and Denmark – housing market buoyancy, boosted by cheap finance, has helped support private consumption alongside residential construction. Indeed, house price increases have created substantial wealth gains to house owners. In addition, easy access to mortgage refinancing has allowed households to lock in and liquefy part of these gains.[6]

Labour markets are only slowly turning…

Unemployment has started to recede in the United States and Japan, whilst remaining at higher levels in the larger euro area countries. The fall in the US unemployment rate, to about 5½ per cent of the labour force in early 2004, is largely accounted for by the fact that participation rates declined more than in past cycles in response to the 2001 recession. The unemployment rate has decreased significantly in Japan, to 4¾ per cent of the labour force, also due partly to a falling participation rate. In the euro area as a whole, growth has been insufficient to make a dent in the unemployment rate, which remains at 8¾ per cent. Labour force participation, however, has continued to rise throughout the downturn, albeit at a more subdued rate.

… with more sluggish employment growth than in past cycles

As measured by payroll employment, and even taking into account the strengthening observed in recent months, performance has been particularly weak in the United States (Figure I.6).[7] In addition, the fact that a large fraction of the private-sector jobs created consists of temporary jobs has raised concerns. The rapid rise in non-wage labour costs – notably health-care and pension-benefit costs for permanent staff – is sometimes cited as one reason for the modest employment growth compared with previous recoveries; but it has been partly offset by lower increases in wages or in other components of employees' benefit package. Probably more importantly, firms may be reaping the latent productivity gains stemming from the investment undertaken in the late 1990s. Moreover, against the backdrop of geopolitical worries, uncertainty about timing and robustness of the recovery may have delayed hiring. In the euro area, job losses during the downturn were smaller than usual and, correspondingly, job creation in the early stages of the recovery is weaker. The United Kingdom stands out with relatively stronger overall employment growth, although this is largely based on public sector hiring.

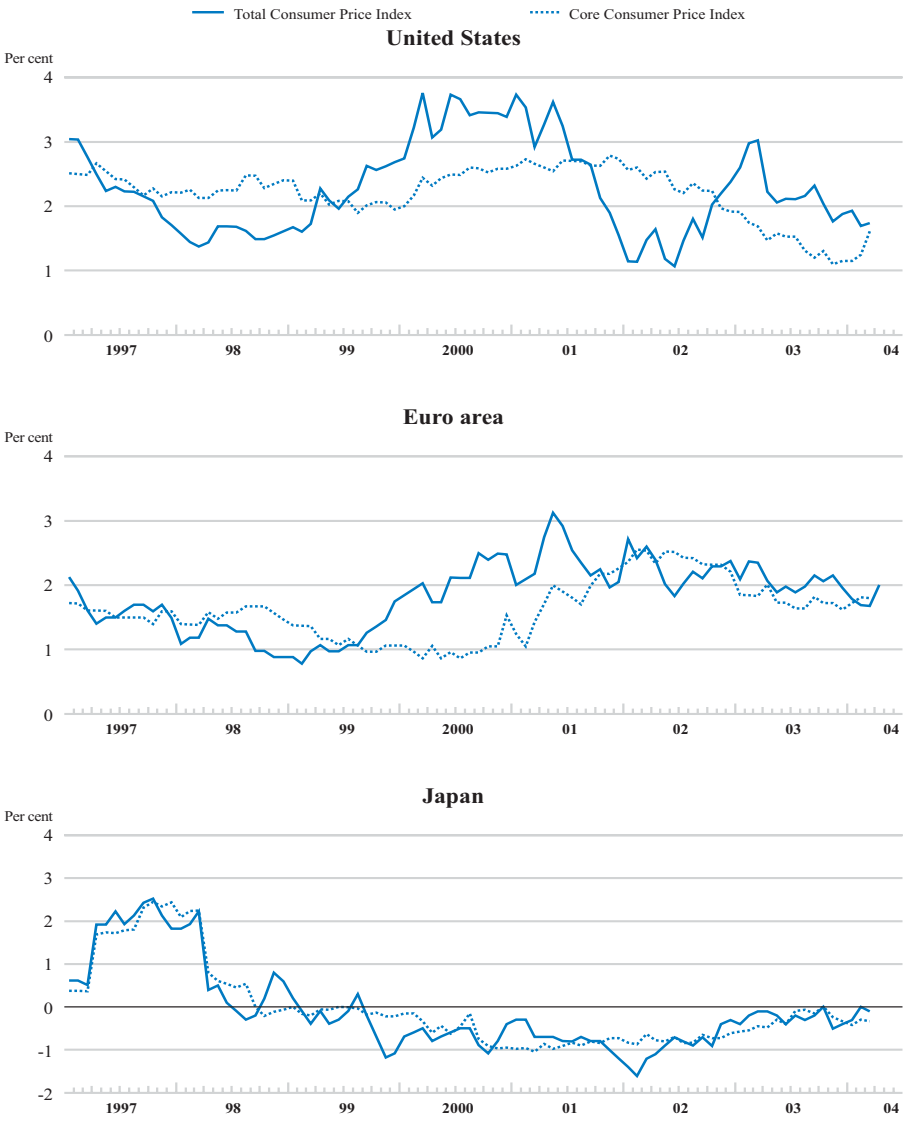
Inflation remains low…

With substantial slack prevailing in most OECD economies, inflation remains low virtually everywhere. In the United States, core annual consumer price inflation, which barely exceeded 1 per cent around the turn of the year, has recently picked up (Figure I.7). Rising energy costs and import prices, following the depreciation of the dollar, are putting pressure on headline inflation, but firms are absorbing some or most of these increases in costs in their profit margins, which remain ample.[8] In the euro area, inflation has remained stickier than would be suggested by a widening negative output gap and euro appreciation, with the headline measure staying in the vicinity of 2 per cent and the core one fractionally lower. One reason is that the disinflationary impact of currency appreciation has been offset by new rounds of indirect tax hikes and increases in administered prices. In Japan, both headline and core inflation have approached positive territory, although partly owing to transient factors.

6. See Chapter IV, "Housing markets, wealth and the business cycle".
7. The household survey measure, which shows more job creation (although still not much by historical standards) may be less reliable. The two measures of employment display a similar divergence in Canada, but there the headline measure is the one based on the household survey.
8. The pass-through of higher import prices into prices for final goods is lower than in past cycles, both in the United States and elsewhere (because of more systematic pricing to market and currency hedging, and more solidly anchored inflation expectations), but it is now starting to show through.

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Figure I.7. **Headline and core inflation are tame**



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

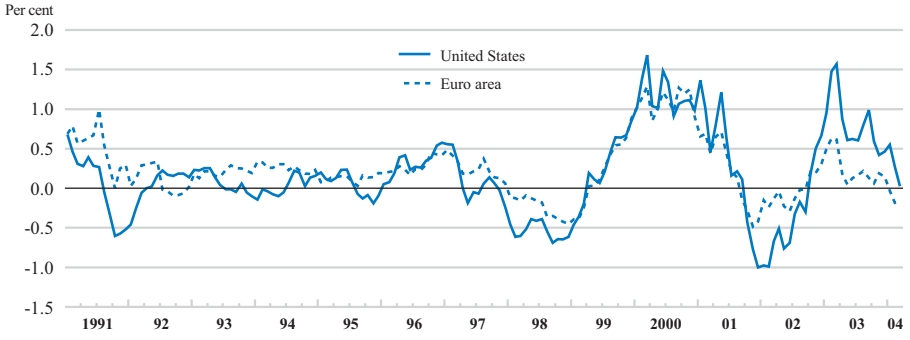
Moreover, the GDP deflator has continued to decline rapidly (although it is susceptible to downward bias, being based on current period weights).

… but higher oil and commodity prices are affecting spending power

A feature of the current recovery has been the persistence of high dollar oil prices and the broad-based steep rise in commodity prices. In recent months, the Brent crude price has fluctuated in a range of $29 to $34 per barrel, distinctly above the upper limit of the $22 to $28 target band established by the Organisation of the Petroleum Exporting Countries (OPEC) in 2000. The overall nonenergy commodity price index has risen by almost 50 per cent since the trough in late 2001. Particularly sharp increases have been observed for metal, ore, mineral and agricultural raw

Figure I.8. **High oil prices have taxed US consumers more**

Year-on-year percentage change[1]



1. Energy price increase multiplied by the share of energy in household consumption.
Source: OECD.

material prices, not least because of exceptionally strong demand in China.[9] The recent spike in oil prices has occurred in the context of strong demand, in particular from Asia and the United States (including the build-up of the strategic petroleum reserve), and of restrictions announced by OPEC.[10] Reflecting exchange rate movements and differences in energy taxation, the inflationary effects of higher oil prices vary across countries. In the United States, rising energy prices cut household purchasing power by about ½ percentage point on average in 2003 (Figure I.8). The effect in the euro area is smaller, as in local currency terms the rise in energy prices has been less pronounced.[11]

The outlook to 2005: broadening improvement

Immediate prospects are favourable

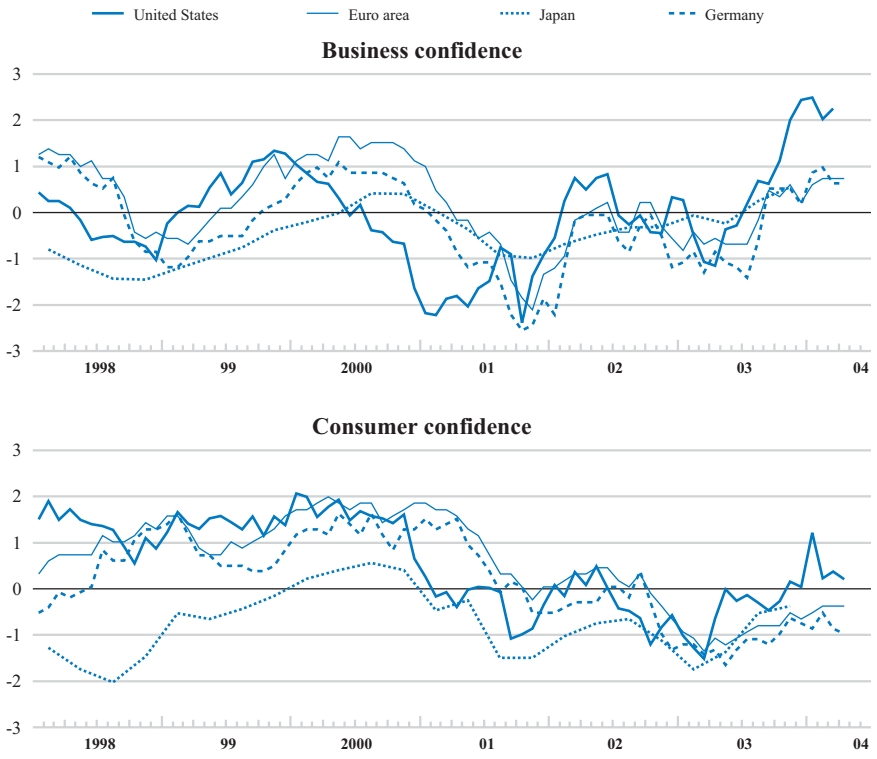
Business confidence has improved…

Notwithstanding recent fluctuations, business confidence has tended to firm across the major OECD regions over the past few quarters (Figure I.9). In the United States, it stands at levels historically associated with robust GDP growth. In Japan, the latest Tankan survey shows strengthening sentiment, including amongst smaller firms and in the service sector. In the euro area at large, business confidence has only just returned to its long-term average, and improvement has stalled. In Germany, business expectations are relatively upbeat.

9. Chinese steel consumption rose 25 per cent, iron ore imports grew 33 per cent and nickel imports more than doubled. China has also overtaken Japan to become the world's second largest oil importer.
10. In late March 2004, OPEC confirmed the previously announced 4 per cent cut in its overall production quota (effective 1 April).
11. In dollar terms, West Texas intermediate crude oil prices have increased by 37 per cent over the two years to end-April 2004 in the United States, while the price of Brent crude, which is the benchmark in most other countries, has risen by 30 per cent. In local currency terms, however, Brent crude prices have risen by 12 per cent in Japan and fallen by 2 per cent in the euro area.

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Figure I.9. **Confidence has strengthened**



Note: Business confidence: United States, overall purchasing manager index; Japan, business conditions future tendency; the euro area and Germany, business surveys future production tendency. Consumer confidence is the overall balance. Monthly data except for Japan (quarterly data).
All series have been normalised at the average for the period starting in 1985 and are presented in units of standard deviation.
Source: OECD, *Main Economic Indicators.*

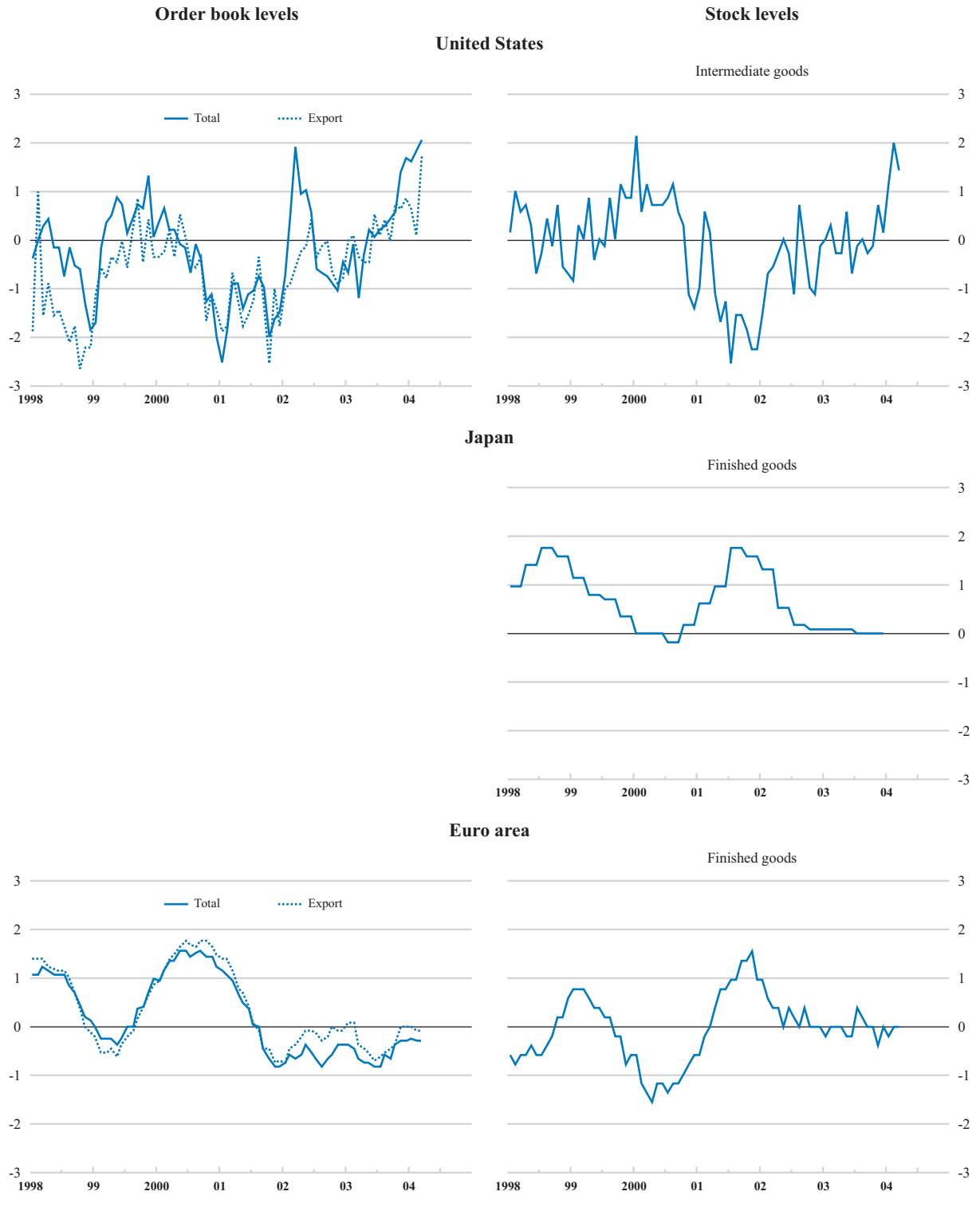
… whilst inventories are consistent with a pick-up in activity

As a further sign of business confidence, stocks of intermediary goods are being built up rapidly in the United States, in line with the accompanying surge in order books (Figure I.10). In Japan, inventories of finished goods have gradually declined to normal levels. In the euro area, they have recently dipped below normal, suggesting some restocking to come. But order books remain thin, with foreign orders still more buoyant than domestic ones, and have recently ceased to improve.

Consumer sentiment has followed, albeit hesitantly

Consumer confidence has fluctuated above its historical average in the United States, with some sensitivity to mixed news from the job market. It has started to inch up in Japan, paralleling the incipient turnaround in the labour market. In Europe, and notably in France, household confidence has risen, though for the euro area as a whole it remains below its long-term average, consistent with the persistence of substantial labour market slack. In Germany, the apparent disconnect between still buoyant business confidence on the one hand and morose household confidence and subdued spending on the other remains striking, while in Italy, consumer sentiment has weakened substantially thus far in 2004.

Figure I.10. **Order books and inventories foreshadow rising output**



Note: All series have been normalised at the average for the period starting in 1985 and are presented in units of standard deviation. Monthly data, seasonally-adjusted except Japan (quarterly, s.a.). For the United States an increase in stocks is consistent with stronger production plans in manufacturing. In the other panels a decline is a positive development for future production.
Source: OECD, *Main Economic Indicators.*

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Table I.2. **Conjunctural indicators show near-term strength**

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

	Outcomes			Outcomes / Estimates	
	2003 Q2	**2003 Q3**	**2003 Q4**	**2004 Q1**	**2004 Q2**
United States	0.8	2.0	1.0	1.0	1.1 *(0.6 – 1.7)*
Japan	0.9	0.6	1.6	0.8 *(0.3 – 1.2)*	0.9 *(0.4 – 1.4)*
Euro area	-0.1	0.4	0.3	0.5 *(0.2 – 0.8)*	0.5 *(0.1 – 0.9)*
United Kingdom	0.6	0.8	0.9	0.6	0.8 *(0.5 – 1.1)*
6 largest OECD countries	0.5	1.2	0.9	0.8 *(0.5 – 1.1)*	0.9 *(0.5 – 1.3)*

Note: Quarterly GDP data and estimates are seasonally and in some cases also working-day adjusted. Based on available GDP releases and conjunctural indicators published by 29 April 2004. In parentheses is the associated ± one standard error range, calculated using the errors made in similar forecasts in an out-of-sample exercise over 1998-2002.
Source : National statistical offices, Statistical Office of the European Communities (Eurostat) and OECD.

Robust growth is expected in the United States, Japan and the United Kingdom…

The OECD's indicator-based models for the US, Japanese and UK economies point to continued growth at above-potential pace over the first two quarters of this year, albeit with a significant slowdown in the case of Japan from an exceptionally rapid pace in late 2003 (Table I.2).[12] In the United States, the current momentum reflects the strength of industrial production, exports and personal consumption. For Japan, an improving labour market outlook coupled with strong activity in industry and services underpin the upswing. In the United Kingdom, growth is driven by buoyant retail sales and improving orders, while industrial production remains subdued.

… and a modest recovery for the euro area

The model-based estimates further suggest that a modest recovery is under way in the euro area. Domestic demand momentum is strongest in France, but should build up gradually in Germany and Italy. In Germany, the volatile nature of some of the key high-frequency indicators makes it difficult to reliably assess overall trends. For Italy, the estimated acceleration largely stems from a more buoyant international environment, although eroding competitiveness is reducing the impulse to growth provided by the external sector.

Policies and financial conditions are fairly supportive

Policy stimuli continue to come through…

Massive monetary and/or fiscal easing across the major OECD regions over the past three years has limited the depth of the downturn and continues to support the recovery. Given the lags associated with interest rate and tax cuts, plus new measures in several countries (see Box I.2), some overall policy stimulus is still coming through in 2004, especially in the United States. Short-term policy rates are at historical lows in the United States, Japan and the euro area, though in Europe monetary conditions have tightened somewhat, reflecting currency appreciation (Figure I.11). Until very recently at least, some central banks were still in the process of cutting their policy rates (Canada, Sweden). A few others have started to raise policy rates, and in most countries the projected recovery is consistent with gradual moves towards a more neutral stance beginning later this year or next. On the fiscal side,

12. The suite of models used in this context by the OECD is described in Box I.1, *OECD Economic Outlook*, No. 74, December 2003.

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

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

- For the United States, the projection incorporates the Administration's budget proposal for fiscal year (FY) 2005 and anticipates a further $50 billion budget request in FY 2005 for military operations and reconstruction in Iraq and Afghanistan. It also embodies the tax law changes included in the 2003 Jobs and Growth Tax Relief Reconciliation Act, and assumes that the personal income tax provisions scheduled to expire by the end of 2004 – the expanded 10 per cent tax bracket, marriage penalty relief, and higher child tax credit – will be extended.
- The projection for Japan incorporates spending cuts, concentrated on public investment, which is set to fall sharply for the second year in a row. On the revenue side, pension reform will increase contributions by individuals and employers every year from FY 2004 to FY 2016, and the direct and indirect tax bases will be broadened in 2004. No supplementary budgets are assumed to be implemented over the projection period.
- In the European Union, the projection for Germany assumes that a new fiscal consolidation package is phased in this year and next, with cuts in subsidies and tax expenditures as well as revenue-raising measures, including a tax amnesty with preferential taxation for repatriated assets that had been transferred abroad for the purpose of tax evasion. At the same time, substantial income tax reductions will become effective, partly brought forward into 2004 from 2005. For France, the 2004 budget calls for a ¾ percentage point reduction in the cyclically-adjusted deficit, but only part of this planned improvement is backed by explicitly announced measures. No further reduction in the cyclically-adjusted deficit is incorporated for 2005. In Italy, the one-off measures (real estate sales and tax amnesties) taken in 2003 are not fully compensated by new measures in the 2004 Budget Law. For the United Kingdom, the measures in Budget 2004 are incorporated.

Policy-controlled interest rates are set in line with the stated objectives of the relevant monetary authorities with respect to inflation and activity:

- In the United States, the federal funds target rate, which was last lowered to 1 per cent in June 2003, is assumed to increase gradually from mid-2004 to 3½ per cent at the end of the projection period, as some withdrawal of policy stimulus accompanies the progressively self-sustained expansion.
- In the euro area, the main refinancing rate, which was lowered by ½ percentage point in June 2003 to 2 per cent, is assumed to be further reduced by 50 basis points in spring 2004, against the backdrop of inflation falling below 2 per cent and weaker-than-expected economic activity. As the expansion becomes more firmly established in the course of 2005, a gradual move back to 2¼ per cent by late 2005 is assumed. Policy rates have already been raised in the United Kingdom and a further 175 basis point increase is built into the projection.
- In Japan, short-term interest rates are assumed to remain close to zero throughout the projection period, as the Bank of Japan has pledged to maintain its current expansionary policy stance until deflation is decisively eradicated.

The projections assume unchanged exchange rates from those prevailing on 14 April 2004, at one US dollar equals ¥ 108.5 and € 0.836. For Turkey, the exchange rate is assumed to depreciate in line with projected inflation.

Oil prices have become increasingly volatile and difficult to predict in the short term, as they respond not only to economic but also to geopolitical factors. The OECD has therefore adopted the practice of assuming unchanged oil prices as from a point in time. The economic factors influencing oil prices are described in more detail in the main text. The working hypothesis is that OECD oil import prices average $32 per barrel from the second quarter of 2004 onwards.

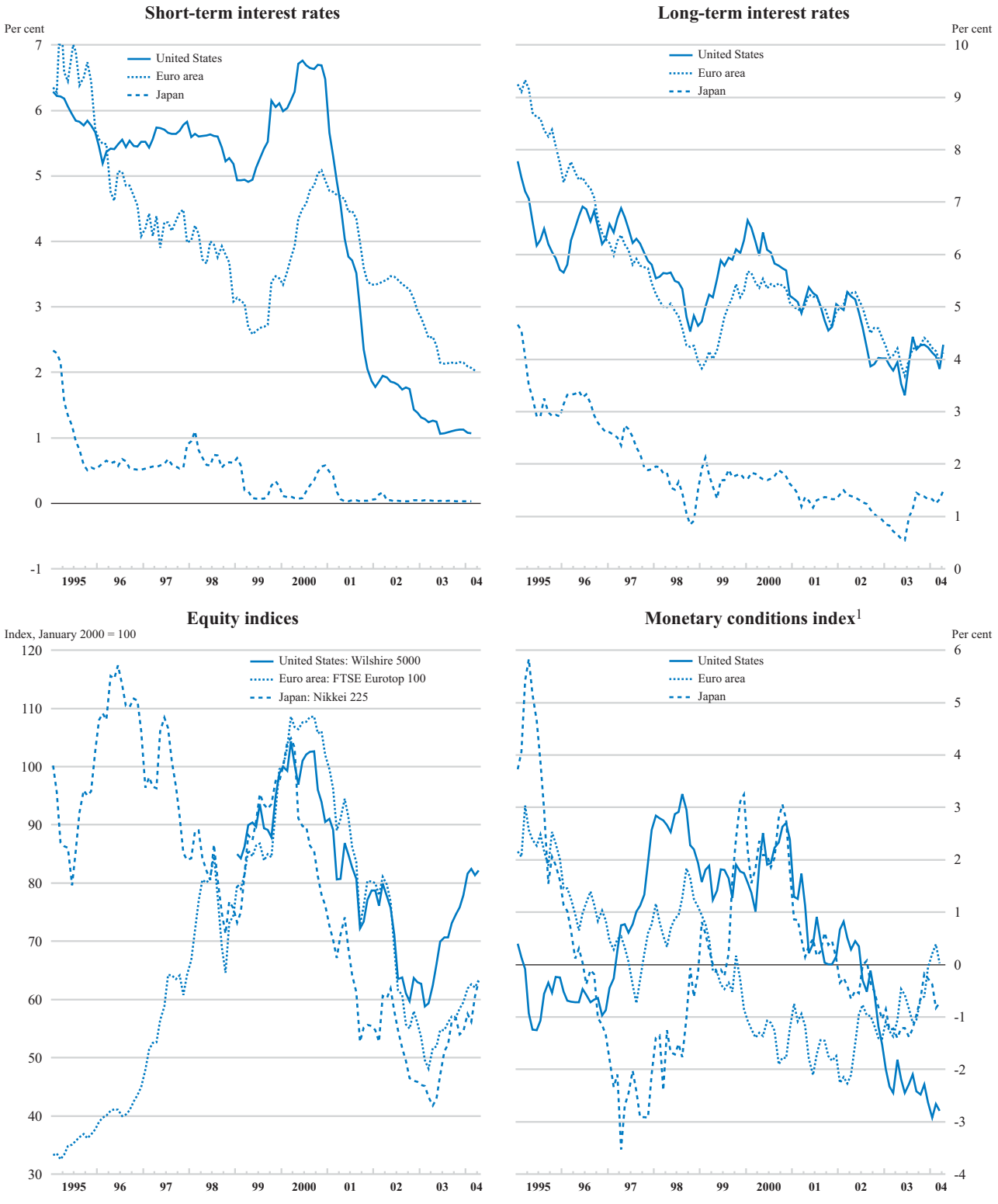
The cut-off date for information used in the projections is 21 April 2004.

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

fresh stimulus is being injected this year in the United States, as households receive tax refunds, and in the United Kingdom, with further programmed spending increases. In the euro area as a whole, support has been and is planned to be restricted to the operation of the automatic stabilisers, although in some countries tax cuts are coming into effect. In Japan, only a very limited dose of fiscal tightening is envisaged over the projection period.

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Figure I.11. **Financial market conditions are supportive**



1. In real terms, based on consumer price inflation.
Source: OECD and Datastream.

… and financial market conditions are helping growth take off…

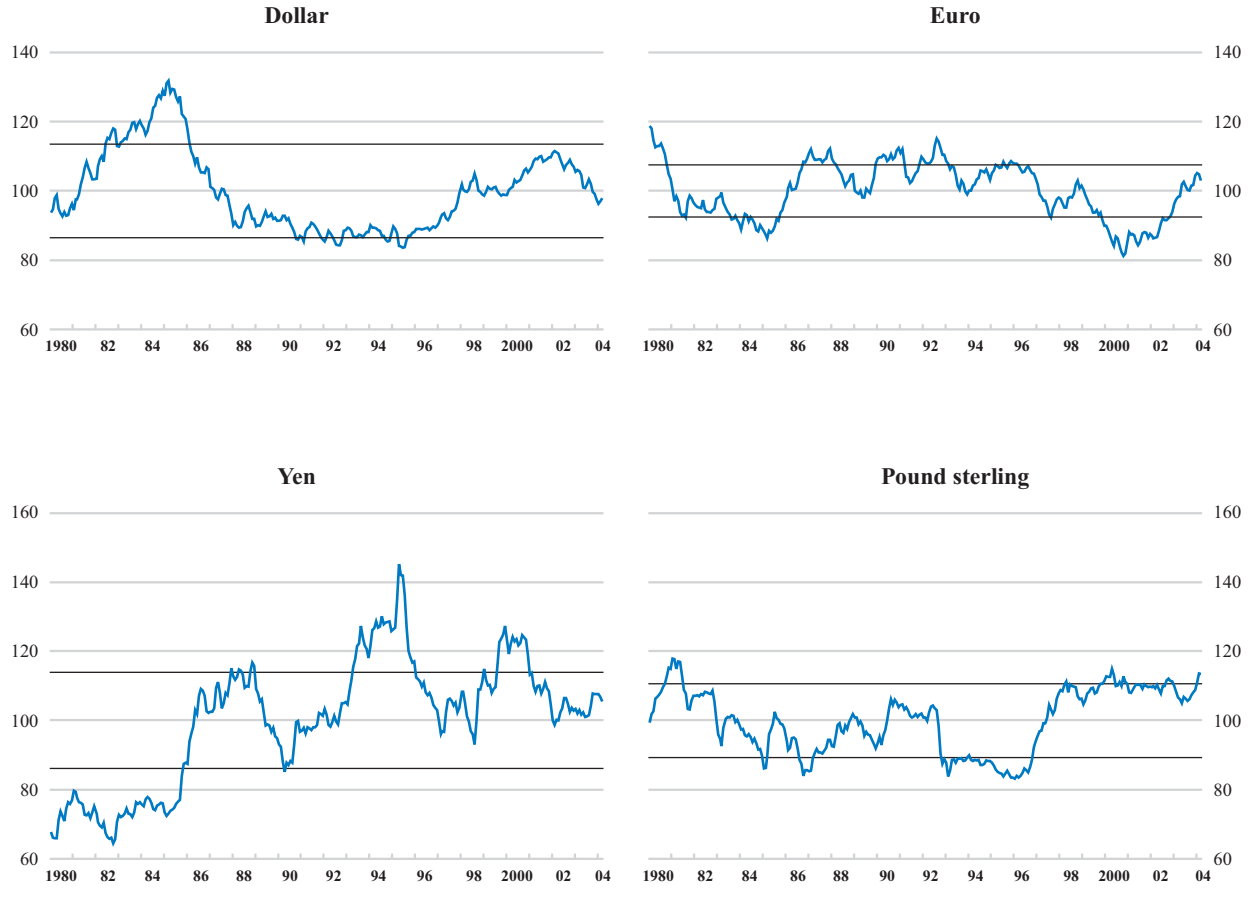
Conditions in financial markets are conducive to a broadening of the recovery (Figure I.11). Nominal and real long-term bond yields remain low by historical standards in most large OECD countries. Moreover, risk premia on corporate bonds in OECD countries, as well as emerging market debt, have declined considerably since 2002. Equity markets have staged a come-back, owing to brightening growth and profit prospects as well as unusually low nominal bond yields, even if they have weakened somewhat in recent months. Furthermore, measures of credit availability suggest that no major restraints are operating in the United States, where lending standards have eased and spreads on commercial loans have narrowed. In Japan, the financial environment has become less restrictive, except for firms with high credit risk. In the euro area, credit standards remain largely unchanged and banks' assessment of risk has changed little.

… whilst exchange rates have shifted somewhat

The dollar has depreciated substantially over the past two years (Figure I.12). The decline has been particularly pronounced against the euro as well as against the currencies of Canada, Australia and New Zealand. In contrast, the appreciation of the yen has been held in check by massive intervention (see below). The same holds for other Asian currencies, including the Chinese renminbi, even in cases where exchange rate pegging is not indispensable to sustain growth and may have perverse domestic consequences.

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

Indices[1]



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

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The expansion should broaden[13]

The output gap should close in the United States…

In the United States, household demand should be supported in the near term by low interest rates, tax rebate payments and the lagged impact of rising stock and housing market wealth, and then increasingly by the pick-up in employment and wage growth. Over the projection period, however, household consumption and residential investment should slow somewhat. Accelerated depreciation allowances, coupled with favourable cash flow and financial conditions should help investment growth broaden beyond the IT sector. Exports should be spurred by strengthening market growth and a weaker exchange rate. Real GDP, though decelerating from its pace in the second half of 2003, would still continue to grow above potential, running at an annualised pace of around 3¾ per cent in the course of the projection period, so that the output gap would close early next year.

… and Japan should enjoy a sustained recovery…

Japan is projected to experience its first sustained, if somewhat irregular, recovery since the 1980s, pulled by continuing double-digit export growth rates. Business investment is likely to slow from the unsustainable pace recorded in late 2003, but should remain a driver of the expansion. Private consumption is expected to respond only partially to declining unemployment. As a result, real GDP growth is projected to average 2½ per cent during 2004-05.

… but substantial margins of slack should endure in the euro area

The projection for the euro area is for a belated recovery. Activity should gradually accelerate in the course of this year and next, as the buoyancy of the international environment allows exports to rise at a rate of 6½ to 7½ per cent from mid-2004 onwards, and this eventually exerts sufficient traction on domestic demand. Investment demand is likely to firm and private consumption should pick up, supported by more substantial job creation. However, the output gap would only start to narrow in the second half of 2004, after five years of deterioration. It would still amount to 1½ per cent of GDP in late 2005, with significantly larger margins of slack in Germany and the Netherlands than in France and Italy, whilst in Spain output would rise to well above potential.

Elsewhere in the OECD, growth should be robust or improving

In the rest of Europe, robust economic growth should continue in the United Kingdom, supported by strong though moderating private consumption and a pick-up of investment. Among the new members of the European Union, growth is projected to gather momentum in the Czech Republic, Hungary, Poland and the Slovak Republic.[14] Turkey's recovery is expected to continue, on the back of improved confidence. Slower but strengthening growth is projected for the Nordic countries and in Switzerland. Outside Europe, Australia and Korea would enjoy rapid growth over the projection period, against the backdrop of regional buoyancy. Canada and Mexico would rebound, albeit less vigorously than in past US-led upturns. This partly reflects the lagged effects of substantial exchange rate appreciation in the case of Canada, and heightening competition from Asia in the case of Mexico.

13. The OECD projections are carried out on a working-day adjusted basis. In some countries, official forecasts of annual figures do not include any such adjustment. For Germany and Italy in particular, this makes for a marked difference over the projection period. Even when official forecasts do adjust for working days, the size of the adjustment may in some cases differ from that used by the OECD.
14. On the speed and modalities of convergence of these economies towards Western European per capita income levels, see Chapter VII, "Enhancing income convergence in central Europe after accession".

Growth is set to be strong outside the OECD region

Growth outside the OECD area should be more broadly based, geographically, than in 2003. Following measures to prevent overheating, growth in China is projected to slow to a more sustainable pace but would remain close to 8 per cent. Helped by rising commodity prices and with domestic demand strengthening, Latin America should start catching up, with real GDP growth projected to recover to 3½ per cent in Brazil by 2005. The expansion in Russia is expected to continue at a pace of around 7 per cent in 2004, driven by continuing strong increases in oil production and exports, but may slow somewhat in 2005. In all three regions, however, longer-term growth prospects will depend on progress with structural reform.[15]

Inflation trends are becoming more mixed

In the OECD area as a whole, inflation is projected to ease further to around 1½ per cent, the lowest level in over three decades. Inflation should edge up in the United States, as the output gap closes, labour productivity decelerates (Table I.3)

Table I.3. **Productivity growth rates should converge somewhat**

	2002	2003	2004	2005
	Per cent			
Labour productivity (business sector)				
United States	3.9	3.4	4.1	2.1
Japan	0.9	3.4	3.3	2.6
Euro area	0.5	0.4	1.2	1.4
Total OECD	2.2	2.2	2.8	2.1

Source: OECD.

and the lagged effect of exchange rate depreciation passes through. As slack is worked off in Japan, deflationary pressures should ease, even if GDP deflator growth remains in negative territory. By contrast, in the euro area, underlying disinflation should continue in 2004, as the large margins of economic slack outweigh "speed limit" effects, inertial forces and special factors such as administrative price hikes. Towards the end of the projection period, underlying inflation would start to inch up. Both headline and core harmonised consumer price inflation would remain well below 2 per cent over the entire projection period.

Unemployment should begin to decline as employment picks up

OECD-area-wide unemployment is estimated to have peaked in 2003, at over 37 million persons (about 7 per cent of labour force), which is 6 million above the level in 2000. In the course of this year and next, it is projected to decline by 2¼ million, to 6½ per cent of the labour force. The bulk of the decrease would be accounted for by falls in unemployment in the United States and Japan, with only limited improvement expected in Europe. Underlying movements in employment and labour force differ across OECD regions. In the United States, the pace of employment creation is expected to increase while remaining weaker than during the same phase of the business cycle a decade ago. In Japan, the projected drop in unemployment would mostly reflect further shrinkage of the labour force, with little net

15. See Chapter III, "Developments in selected non-member economies". Growth is also set to be strong in some other large non-OECD countries, notably in India.

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job creation. In the euro area, employment growth should eventually become strong enough to allow unemployment to decline somewhat in 2005.

World trade is accelerating but imbalances will persist

World trade has accelerated in recent months and seems set to grow at close to double digit rates over the projection horizon (Table I.4). The sustained dynamism of Asia and recovery in other non-OECD regions would continue to benefit activity in the OECD area, reinforcing the pick-up in intra-OECD trade. Within the OECD area, trade growth would be particularly strong in the Asia-Pacific region, including the United States, and more subdued in OECD Europe. The broad patterns of external imbalances would by and large remain unchanged from those foreseen in the previous *Economic Outlook*. The US current account deficit should stabilise just below 5 per cent of GDP, as base effects essentially offset the substantially more rapid growth of exports than of imports. The Japanese surplus would rise to 4½ per cent of GDP by end-2005, whereas the euro area surplus would hover around ¾ per cent of GDP over the projection period.

Table I.4. **World trade picks up but external imbalances persist**

	2002	2003	2004	2005
Goods and services trade volume	Percentage change over previous period			
World trade[a]	3.4	4.5	8.6	10.2
of which: OECD	2.0	2.8	7.3	8.5
NAFTA	0.9	2.4	8.3	8.8
OECD Asia-Pacific	7.6	8.6	11.6	10.9
OECD Europe	1.3	1.6	5.6	7.7
Non-OECD Asia	10.0	10.5	14.1	17.1
Non-OECD Other	3.3	6.6	8.3	9.5
OECD exports	1.6	2.2	7.5	8.9
OECD imports	2.4	3.4	7.0	8.2
Trade prices[b]				
OECD exports	2.0	11.5	5.0	-0.4
OECD imports	1.1	10.7	4.7	-0.4
Non-OECD exports	-0.4	6.8	5.0	1.4
Non-OECD imports	-0.5	6.2	5.0	1.3
Current account balances	Per cent of GDP			
United States	-4.6	-4.9	-4.7	-4.8
Japan	2.8	3.1	3.8	4.4
Euro area	0.9	0.4	0.5	0.6
OECD	-1.2	-1.2	-1.0	-1.0
	$ billion			
United States	-481	-542	-555	-597
Japan	113	135	175	208
Euro area	58	29	43	56
OECD	-306	-358	-334	-335
Non-OECD	180	231	225	198
World	-126	-128	-108	-137

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

Uncertainties, risks and tensions: how robust are the projected recoveries?

Economic risks seem to be fairly balanced

With the recovery seemingly firmly established, economic risks to the near-term projection appear to be fairly balanced and, in the absence of unforeseen severe shocks, would not seem to embrace extreme outcomes. However, several uncertainties surround the projected broadening of the recovery and, looking further ahead, some tensions are set to persist which may not subside smoothly.

Interest rates and risk premia may have fallen too far…

Nominal long-term government bond yields have fallen to historical lows, despite large fiscal deficits. Moreover, while narrowing risk premia on corporate bonds and equities may reflect improving fundamentals and, in the case of equity, expectations of robust earnings growth, they are also attributable to abundant liquidity fuelled by expansionary monetary policies (Figure I.13).[16] The associated wealth effects have been supporting consumption and investment and, given the usual lags, should continue to do so for some time. From a historical perspective, however, risk premia may have become too compressed, even if they are not at all-time historical lows.[17]

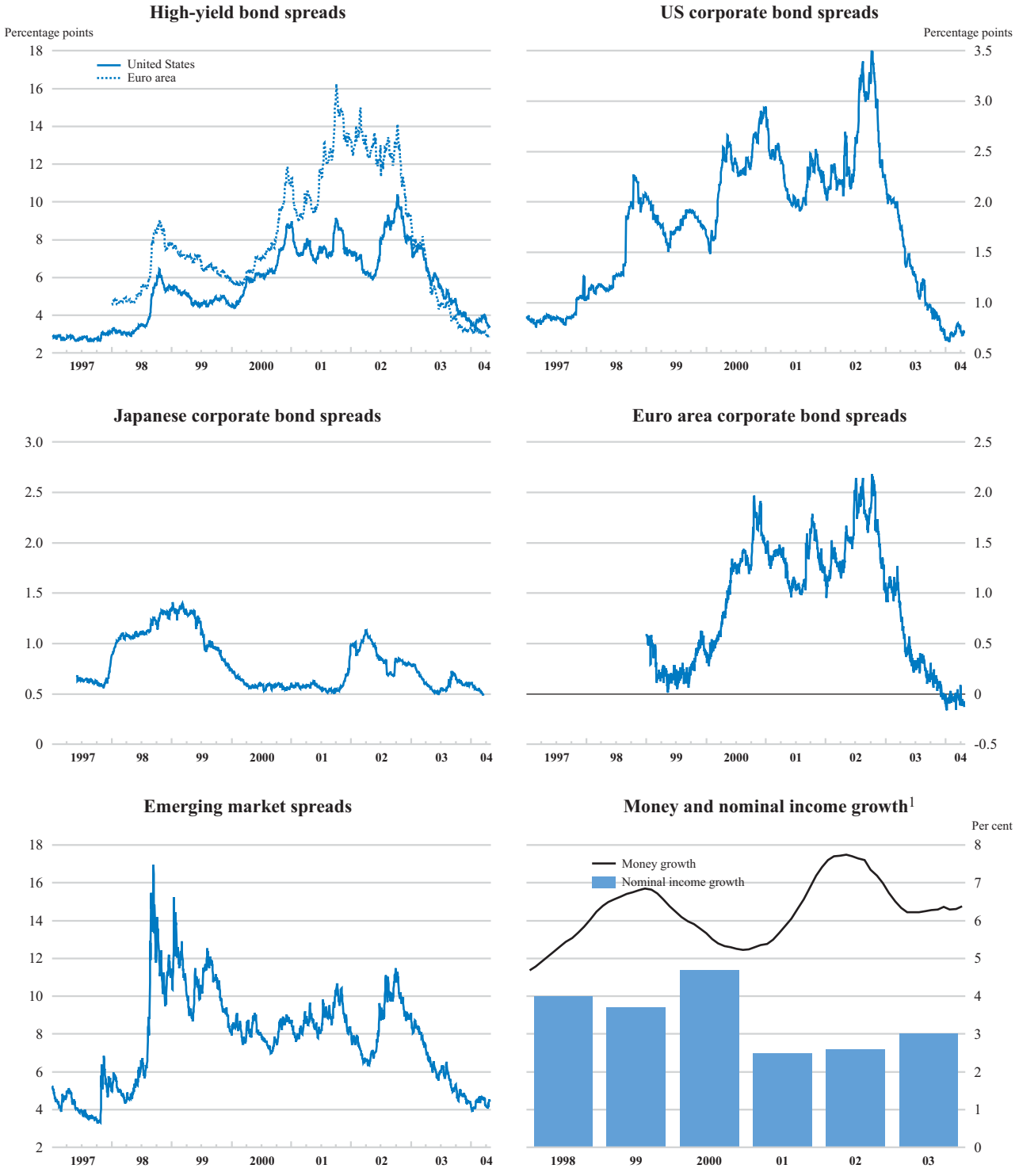
… and a return to more usual levels might dent the recovery

If risk premia were to revert more rapidly than implicitly assumed in the baseline projection to their historical averages, the ensuing increase in the cost of capital and decline in wealth would damp projected spending growth. On top of the risk of an unexpectedly swift normalisation of spreads, there is a possibility that long-term benchmark interest rates themselves would back up more abruptly than assumed, especially in the absence of credible fiscal consolidation. This would depress bond but also equity prices, offsetting the lagged effects of earlier increases in household wealth. Given that debt-to-income ratios have reached, or remain around historical highs,[18] and debt service ratios have not declined during the period of low interest rates, households may have become more vulnerable to an adverse interest rate shock. This is particularly so in a number of OECD country housing markets, where risk premia have thinned considerably and the wealth effects of rising house prices are supporting consumption, including in Australia, Spain and the United Kingdom.[19]

16. See Sløk, T. and M. Kennedy, "Factors driving risk premia", *OECD Economics Department Working Papers*, No. 385, 2004. Liquidity has decelerated more recently, but in level terms, it remains ample. For a discussion of how liquidity shocks spill over across currency areas, see Sousa, J. and A. Saghini, "Monetary policy shocks in the euro area and global liquidity spillovers", *ECB Working Paper Series*, No. 309, 2004.
17. In the case of US corporate bonds, for example, the spread between their yield and that of benchmark government bonds was about one percentage point below its 1997-2001 average in early 2004. Spreads on emerging-market debt were even lower relative to historical averages. To the extent, however, that macroeconomic volatility has durably declined over the past two decades, a permanently lower risk premium on equity may be warranted (see Lettau, M., S. Ludvigson and J. Wachter, "The declining equity premium: what role does macroeconomic risk play?", *NBER Working Papers*, No. 10270, 2004).
18. The US household financial obligations ratio (representing their interest, principal, rent, auto lease, insurance and property tax payments as a share of after-tax income) has fallen only marginally from its 18¾ per cent peak (reached in 2002), remaining above earlier peaks.
19. Evidence that the implied risk premium in the UK housing market declined substantially in recent years, as house prices and the ratio of house prices to rentals (net of owner-incurred costs) soared, is provided by Weeken, O. "Asset pricing and the housing market", *Bank of England Quarterly Bulletin*, spring 2004.

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Figure I.13. **Liquidity is ample and spreads are tight**

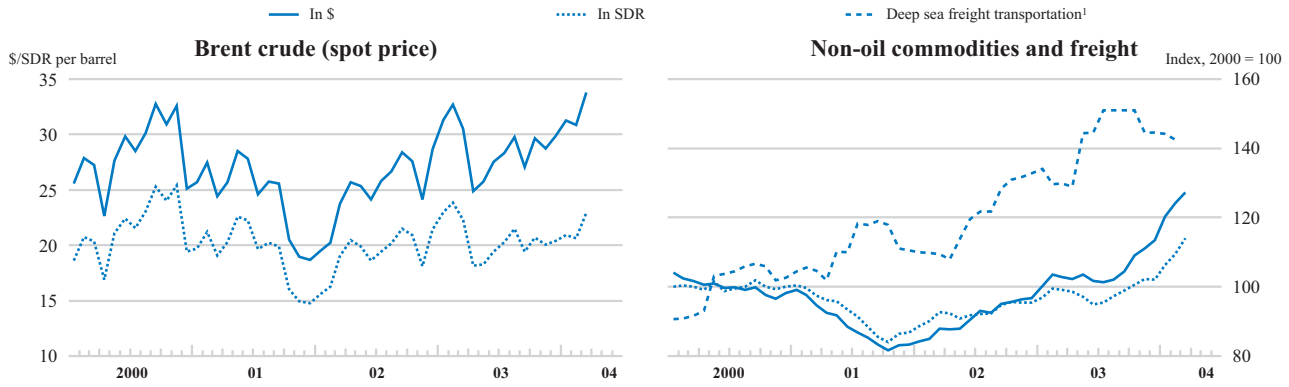


Note: The spreads are defined as corporate bond yields less yields on 10-year benchmark government bonds. The emerging market spread relates to United States government bond yields.

1. The line depicts the 12-month moving average of GDP-weighted broad money growth for the United States, the euro area and Japan, and the bars GDP-weighted nominal income growth for the same three regions.

Source: Federal Reserve Board, Datastream, Japanese Dealers Association and OECD.

Figure I.14. **Commodity and freight prices are rising rapidly**



1. US producer price index in $.
Source: OECD, *Main Economic Indicators*, International Energy Agency and US Bureau of Labour Statistics.

There are symptoms of resurging inflationary pressures

A further risk pertains to emerging inflationary symptoms. Even after controlling for the depreciation of the dollar, oil prices have risen significantly since last autumn, whilst commodity and freight prices have increased sharply (Figure I.14). The long-run inflation expectations implicit in inflation-indexed government bonds have moved up over the past year or so, to around 2½ per cent in the United States and slightly above 2 per cent in the euro area. Hence, to the extent that this proxy measure is accurate and consistent with the index targeted by central banks, inflation expectations are now marginally above the Federal Reserve and the Eurosystem's putative comfort zones.[20] On those grounds, there might be a risk that inflation would surprise on the upside. However, this is counterbalanced by the fact that labour market slack remains ample in most countries and on most estimates, acting to contain wage increases.

The US current account gap remains an underlying tension

One of the main sources of potential tension underlying the outlook, particularly beyond the near term, is the US current account deficit, which in 2003 approached 5 per cent of GDP, the highest level on record in the United States. In cyclically-adjusted terms, the imbalance is even larger, since current account balances normally tend to shrink during slowdowns. As underlined in several earlier editions of the *OECD Economic Outlook*, such a wide external gap cannot be sustained indefinitely, even if it may well persist for some time. Several factors may help contain and even gradually reduce the deficit. The first is effective exchange rate depreciation, which started in 2002, albeit mainly *vis-à-vis* the euro and virtually not at all *vis-à-vis* a number of Asian currencies.[21] The second would be fiscal consolidation in the United States, which would reduce absorption. It has not started yet but would be desirable per se, as discussed in the policy section below. A third factor would be a faster recovery in partner countries, but as the income elasticity of US imports is so much larger than that of exports, accelerated growth in the euro area, Japan and elsewhere would only marginally cut into the current account deficit. The asymmetry as

20. Breakeven inflation rates extracted from indexed-bond yields may be distorted for a variety of reasons, among which are time-varying inflation-risk and liquidity premia (see Sack, B., "Deriving inflation expectations from nominal and inflation-indexed Treasury yields", Board of Governors of the Federal Reserve System, *Finance and Economics Discussion Series*, No. 2000-33).
21. In March 2004, the real effective exchange rate of the dollar still stood some 17 per cent above its mid-1995 low, implying that its depreciation thus far has been well within the realm of historical experience.

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regards elasticities might lessen, however, in the event of faster-than-projected US supply-side improvements, notably in new economy services sectors.[22] None of these factors on its own is likely to bring the current account balance back to its long-run average. If combined, they might in principle go further in that direction, although the burden of adjustment would likely be shared to a large extent by partner countries, notably in the form of lower export growth. However, in practice, when and how smoothly this major imbalance will unwind is hard to foresee, and the risk that the adjustment process could involve disruptions cannot be neglected.

Macroeconomic policy challenges

The macroeconomic policy stance and mix should adjust

Fiscal consolidation is needed virtually everywhere, although at a pace conditioned by the robustness of national recoveries. Monetary policy considerations are more mixed, partly because limited inflationary tensions offer greater room for manoeuvre. Where the recovery is most advanced and robust, the withdrawal of monetary stimulus should start, but where it is lagging, monetary policy could provide more support for some time.

How fast should monetary policy return to neutrality?

Withdrawal of monetary stimulus should start soon in the United States…

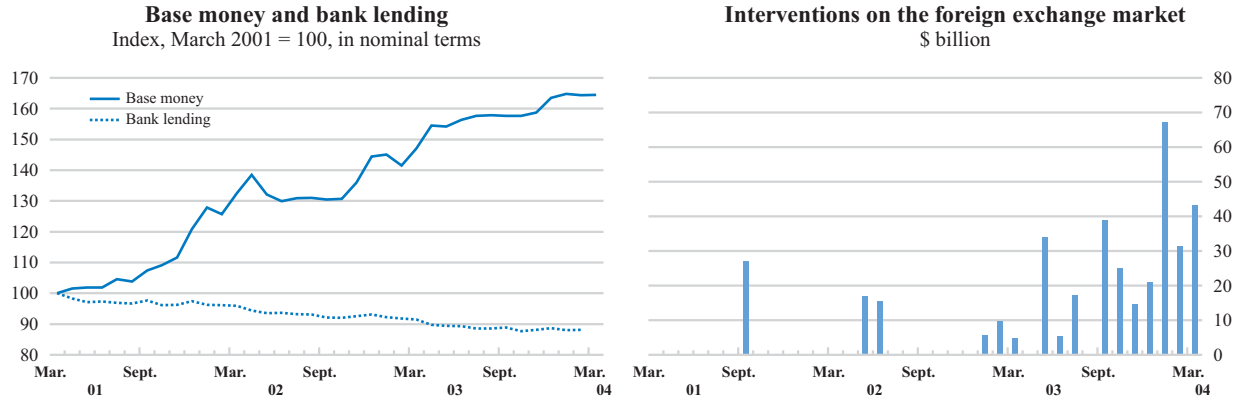
By the standards of past cycles, real short-term interest rates are low at this stage of the recovery in the United States. The Federal Reserve has maintained an extremely accommodative stance for an unusually long time, in a context where inflation as measured by the core personal consumption deflator has been at the low end of its desired range and where there was a perceived risk that it would drift into negative territory. As activity firmed in the second half of 2003 and the threat of deflation receded, emphasis shifted towards discouraging market expectations of a forthcoming hike in the fed funds rate. In the very near term, the magnitude of economic slack is such that the Federal Reserve is able to wait before starting to raise the targeted fed funds rate. But a gradual withdrawal of monetary stimulus, starting around mid-2004, would be consistent with the OECD projection of continued robust growth, which would see the output gap essentially closed by early 2005. On most measures, including by the standards of a Taylor rule and the current shape of the yield curve, the fed funds rate would need to rise 300 basis points or more in order to return to neutrality. Hence, it would seem appropriate to begin the normalisation process early enough to avoid steep increases with a potential to disrupt bond markets, should inflation back up faster than currently expected. To the extent that increases in the fed funds rate are already priced in by markets, the risk that adjustments in the policy interest rate would in and of themselves lead to disproportionately larger jumps in bond yields (as in the mid-1990s) may well be limited.

… but not in Japan

In Japan, core consumer price inflation has been inching towards positive territory. However, if the objective is to bring consumer price inflation up to, say, at least one per cent,[23] with a fair degree of confidence that it will not ease back, then OECD

22. For detailed quantifications, see Chapter V, "The challenges of narrowing the US current account deficit".
23. Some central bank officials have referred to core consumer price inflation of one to two per cent as a desirable level (see Iwata, K., "Recent economic and financial developments", *Bank of Japan Quarterly Bulletin*, February 2004). For further discussion on the lower bounds for inflation, see Mourougane, A. and H. Ibaragi, "Is there a change in the trade-off between output and inflation at low or stable inflation rates? Some evidence in the case of Japan", *OECD Economics Department Working Papers*, No. 379, 2004.

Figure I.15. **Massive foreign exchange intervention boosts base money but not bank lending**



Source: Bank of Japan and Japanese Ministry of Finance.

projections do not point to a decisive exit from deflation over the projection period. In addition, credit continues to contract. Against this backdrop, the Bank of Japan has continued to pursue "quantitative easing" by injecting additional liquidity. In January 2004, it raised the targeted level of banks' accounts at the central bank to ¥ 30 to 35 trillion, as against ¥ 15 to 20 trillion one year earlier. It also stepped up intervention in the foreign exchange market (Figure I.15), leading to accelerating reserve accumulation.[24] Measures were announced to encourage the use of its (small) domestic asset-backed securities purchasing scheme. Going forward, the policy interest rate is expected to remain essentially at zero through the end of 2005, although some "quantitative tightening" may become desirable earlier should the recovery be significantly stronger than projected. The transmission mechanism is still deficient, despite a reduction in the major banks' stock of officially recorded non-performing loans (NPLs), from a peak of 8½ per cent of total lending in March 2002 to 6½ per cent in September 2003. The policy objective remains to halve the NPL ratio by March 2005 from its peak level, which calls for a continuing effort. Another round of special inspections of banks' classification of large borrowers has recently been completed and legislation to facilitate public capital injections into banks is being prepared. It will be important, in that context, that the quality of loans be scrutinised rigorously and that where the government provides public funds, conditionality be strict enough to limit moral hazard risks.

In the euro area, an interest rate cut seems warranted…

In the euro area, the main policy rate has remained at 2 per cent since June 2003, even as the euro appreciated and headline harmonised consumer price inflation remained in the neighbourhood of the European Central Bank's "below but close to 2 per cent" definition of price stability. Core inflation is set to decline somewhat in the course of this year, as the output gap widens, and would be well below 2 per cent

24. Alongside non-OECD Asian countries (notably China), Korea has also been intervening on the foreign exchange market to stem the appreciation of its currency. The cost of funding Japan's interventions is minimal, while the interest on the purchased securities is significant, providing the government with a source of revenue which could amount to ¼ per cent of GDP in this fiscal year. However, unrealised losses attached to the Bank of Japan's holdings of foreign or domestic bonds are not reflected in the fiscal accounts.

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throughout 2005. In addition, some of the incoming information points to an unwelcome shift in the balance of risks to the outlook for growth. Accordingly, the projected recovery is underpinned by a 50 basis point cut in the policy rate in the very near term, with the withdrawal of monetary stimulus starting in mid-2005, later and more gradually than in the United States, consistent with the fact that the euro area cycle significantly lags the US one.

… while further hikes would seem in order in the United Kingdom

Facing limited slack and still rapid house price inflation, the Bank of England has raised its repo rate twice since November 2003, to 4 per cent. At the same time, consumer price inflation is running well below the new 2 per cent target, and sterling has appreciated substantially in effective terms. Consistent with projected above-potential growth, the repo rate is assumed to be increased in steps in the course of 2004-05. In the UK context, the buoyancy of house prices has contributed to the economy's resilience during the slowdown but it may also entail some future vulnerability, with a risk that the effects of monetary tightening may be overly abrupt. The interest rate cycle has also turned the corner in Australia, where a similar pattern of reduced slack and rising house prices prevails, and in New Zealand, where the output gap is positive.

Fiscal policy: the consolidation imperative

Fiscal positions have weakened substantially due to the slowdown…

Public finances have deteriorated considerably in the largest OECD countries since the onset of the downturn (Table I.5), contrasting starkly with developments in Canada, Spain and a number of smaller OECD economies, where underlying or even headline fiscal surpluses have been preserved. In part, the worsening has been cyclical,

Table I.5. **Fiscal deterioration is most pronounced in the United States**

	2001	2002	2003	2004	2005
	Per cent of GDP / Potential GDP				
United States					
Actual balance	-0.2	-3.3	-4.8	-4.7	-3.9
Cyclically-adjusted balance	0.2	-2.8	-4.2	-4.6	-3.9
Cyclically-adjusted primary balance	2.4	-0.9	-2.5	-2.8	-1.9
Japan[a]					
Actual balance	-6.1	-7.9	-8.0	-7.1	-6.6
Cyclically-adjusted balance	-5.6	-7.0	-7.5	-7.0	-7.0
Cyclically-adjusted primary balance	-4.2	-5.6	-5.9	-5.3	-5.1
Euro area					
Actual balance	-1.7	-2.3	-2.7	-2.8	-2.7
Cyclically-adjusted balance	-2.0	-2.1	-1.7	-1.6	-1.8
Cyclically-adjusted primary balance	1.5	1.2	1.3	1.3	1.3
OECD[b]					
Actual balance	-1.1	-2.9	-3.7	-3.6	-3.1
Cyclically-adjusted balance	-1.2	-2.8	-3.4	-3.5	-3.2
Cyclically-adjusted primary balance	1.2	-0.6	-1.4	-1.4	-1.1

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

a) Includes deferred tax payments on postal saving accounts amounting to 0.6 per cent of GDP in 2001 and 0.1 per cent in 2002.

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

Source: OECD.

— Table I.6. **Tax cuts and spending increases have weakened fiscal positions** —

Cyclically-adjusted, per cent of potential GDP

	Primary balance[a]	Tax revenue	Non-interest spending	Memorandum items	
				Net interest[b]	Public debt
	A. Change between 2000 and 2003				
Canada	-2.3	-2.0	-0.2	-1.3	-6.4
France	-1.8	-1.3	0.7	-0.1	5.9
Germany	-1.1	-1.8	-0.8	-0.2	4.2
Italy	-0.7	-1.2	0.5	-1.0	-3.7
Japan	-0.2	-0.7	1.9	0.2	23.3
United Kingdom	-4.4	-1.2	2.1	-0.6	-4.0
United States	-6.1	-4.6	1.5	-0.7	3.6
Euro area	-0.9	-1.4	-0.2	-0.5	0.8
Average	-3.3	-2.7	1.0	-0.6	4.6
	B. Change between 2003 and 2005				
Canada	-0.2	0.3	0.0	-0.3	-5.7
France	0.7	0.3	-0.7	0.2	1.5
Germany	0.5	-0.8	-1.2	0.0	2.5
Italy	-1.6	0.1	0.2	0.1	1.2
Japan	0.6	0.7	1.0	0.2	12.5
United Kingdom	-0.3	0.7	0.5	0.0	2.5
United States	0.4	0.6	0.4	0.2	3.0
Euro area	-0.1	-0.5	-0.8	0.0	0.9
Average	0.2	0.3	0.1	0.1	3.4

a) Excludes one-off revenues from the sale of mobile telephone licenses for France (2001-2002), Germany (2000), Italy (2000) and the United Kingdom (2000).
b) Not cyclically-adjusted.
Source: OECD.

but underlying positions were weak to begin with, especially in France and Germany, or have weakened to a worrying extent. Concomitantly, public debt ratios are now on the rise again in many cases.

… but also in cyclically-adjusted terms

In cyclically-adjusted terms, the primary fiscal balance worsened by over 6 per cent of GDP in the United States and by 4½ per cent of GDP in the United Kingdom between 2000 and 2003 (Table I.6). The weakening was less pronounced, though still significant, in France, Germany and Italy. Discretionary tax cuts account for a sizeable portion of the deterioration in several large countries, most prominently in the United States.[25] Insufficient spending restraint (in France, Italy and Japan) or outright decisions to boost public spending (in the United States and the United Kingdom) have also contributed substantially. Against this background, further fiscal stimulus is not desirable. On the contrary, there is an urgent need for governments to regain control over spending trends and to put them back on a more sustainable course. As the recovery firms, the pace of fiscal retrenchment should be stepped up.

25. The decline in cyclically-adjusted tax revenue shown in Table I.6 is not entirely discretionary. It also stems from the fall in the tax receipts associated with capital gains, especially in the United States (see Chapter VI, "Asset price cycles, 'one-off' factors and structural budget balances".

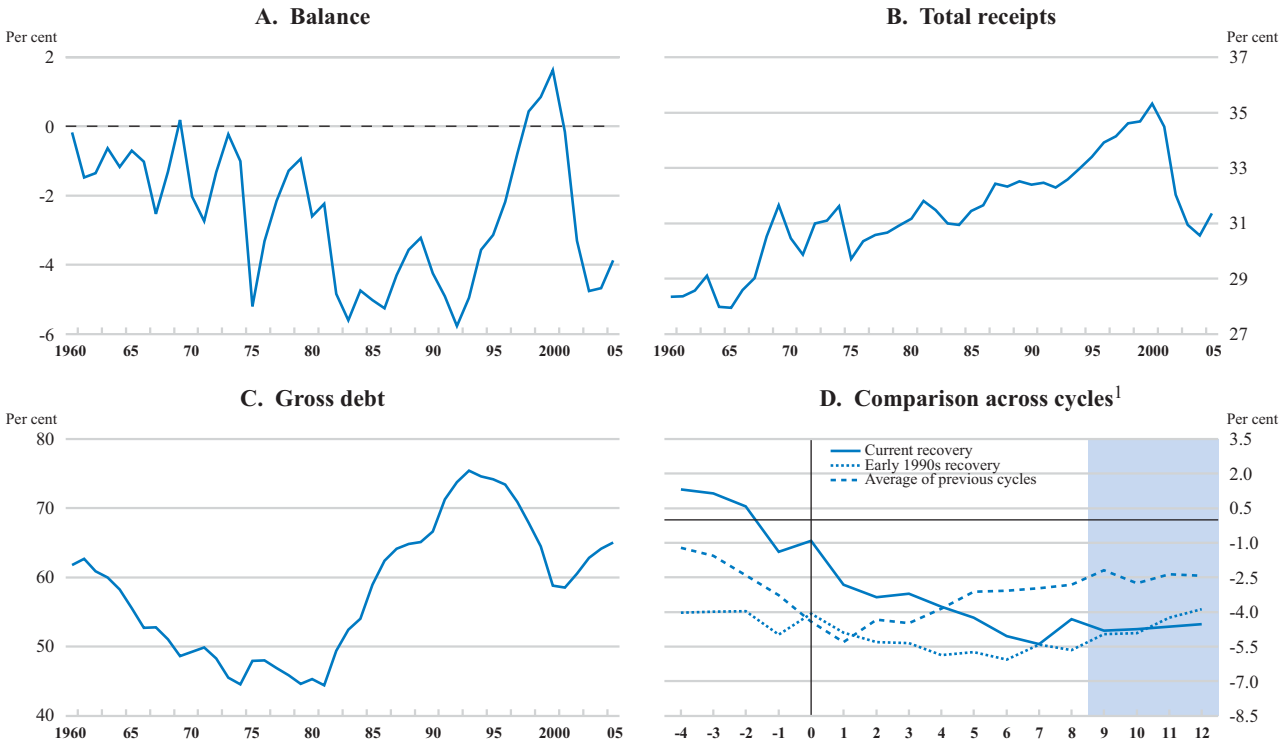
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More decisive fiscal adjustment is called for in the United States

Following the recession and several rounds of tax cuts, government revenue in the United States stands at its lowest level relative to GDP since the mid-1980s, and the fiscal deficit-to-GDP ratio is approaching the record levels witnessed in the early 1990s (Figure I.16). The fiscal gap was still widening during the second year of the recovery while it was improving at the same stage of the cycle in earlier recoveries. As a result, the gross public debt ratio is rising anew. The budget for fiscal year (FY) 2005 tabled by the Administration foresees a reduction of the federal government deficit from a planned level of 4½ per cent of GDP in FY 2004 to 1½ per cent of GDP by FY 2009, but it is premised on a series of assumptions which may prove too optimistic. In particular, discretionary spending is expected to slow sharply.[26] The budget proposal also envisages the creation of new savings and retirement accounts which, if implemented, would lift tax receipts in the short run but depress them over the longer run.[27] In any event, with the baby-boom generation starting to reach retirement age towards the end of the decade, a more ambitious fiscal target would be preferable (see Box I.3 below).

Figure I.16. **The US fiscal position is historically weak**

General government, per cent of GDP



1. The curves represent the evolution of the US fiscal balance over different cycles. The latest turning point (time = 0 in the chart) is 2001 Q4. The shaded area shows the projection period for the current cycle.

Source: OECD.

26. For further discussion, see *OECD Economic Survey, United States*, Paris, 2004.
27. See Antolín, P., A. de Serres and C. de la Maisonneuve, "Tax-favoured private pension plans in OECD countries: long-term budgetary implications and policy issues", *OECD Economics Department Working Papers*, forthcoming.

Deficits are large in a number of European countries…

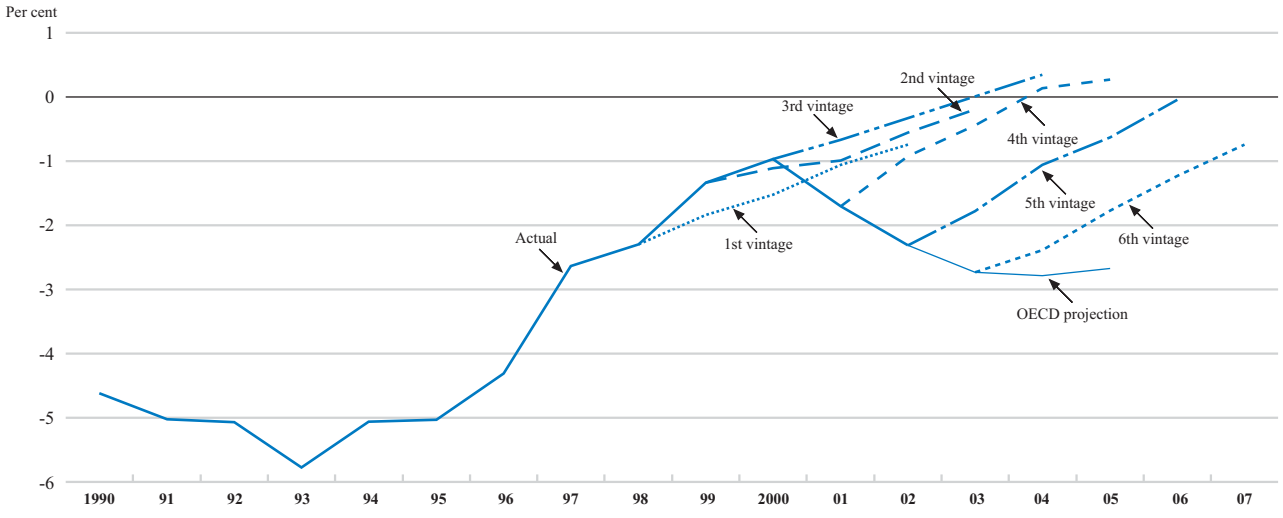
Overall, fiscal positions have continued to worsen in the euro area and the United Kingdom, with budget balances generally falling well short of the projections submitted to the European Commission by national governments in their annual medium-term programmes (Figure I.17). In 2003, the general government deficit was around 4 per cent of GDP in France and Germany. In 2004-05, revenues as a share of GDP are projected to decline further in some countries, including in Germany, as new tax cuts come into effect. On current policies, and despite some foreseen improvement in the cyclically-adjusted primary balance, deficits are projected to remain above 3 per cent of GDP in France and Germany in 2004-05, and to approach 4 per cent of GDP in Italy, as the effect of some non-recurrent measures wears off. In the Netherlands as well, the deficit is slated to remain close to 3 per cent of GDP, notwithstanding significant efforts to restrict public spending. The UK deficit would also remain around 3 per cent of GDP, with public spending rising as a share of GDP, albeit less rapidly than in the recent past. Deficits in the four OECD countries joining the European Union ranged from 3½ to 7¼ per cent of GDP in 2003, and are projected to considerably exceed 3 per cent of GDP over the next two years.

… and the pace of consolidation should be stepped up

The excessive deficit procedure of the Stability and Growth Pact, first initiated against Portugal and subsequently against Germany and France, was suspended by the Council of Finance Ministers in November 2003, a decision which the European Commission is challenging in court.[28] Against this backdrop, proposals are being discussed to strengthen fiscal discipline during cyclical upswings and to take countries'

Figure I.17. **Returning to balance is a moving target**[1]

General government balance in the euro area, per cent of GDP[2]



1. The various vintages of the Stability Programmes were released over the following periods: 1st 1998/99, 2nd 1999/2000, 3rd 2000/01, 4th 2001/02, 5th 2002/03, 6th 2003/04.
2. Excluding third-generation telephone licence proceeds.

Source: Statistical Office of the European Communities (Eurostat) and OECD.

28. In late April 2004, the European Commission recommended ending the excessive deficit procedure for Portugal, adopted reports on the budgetary situation in the Netherlands and the United Kingdom (following *prima facie* evidence of the existence of an excessive deficit), and recommended the issuance of an early warning to Italy.

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Box I.3. Can the large OECD countries hope to grow out of their deficits?

A major near-term improvement would require a substantial growth surprise. Over the projection period (2004-05), a more vigorous-than-expected recovery would of course improve fiscal positions, through the workings of the automatic stabilisers. But in France and even more so in Italy, despite a relatively high elasticity of the fiscal balance to GDP, it would take a substantial positive growth surprise to bring the deficit back below 3 per cent of GDP in 2005. Given that automatic stabilisers are less potent in the United States, growth would have to exceed the central projection by an even greater amount to generate the same decline in the deficit, and the US fiscal gap would remain wider than in the euro area given that it was larger to begin with. Hence, the starting point for any medium-run fiscal scenario is one of sizeable deficits in most OECD economies, including in the six largest ones.

Sustained higher trend growth would not bring budgets back to balance. A set of medium-run simulations was undertaken using the OECD's Interlink model to assess the fiscal impact of higher (or lower) than expected trend growth through to 2009. The annual growth rate of labour productivity and wages was assumed to be ½ per cent above (or, respectively, below) baseline.[1] The results show fiscal balances improving (deteriorating) by ¾ to 1 per cent of GDP in the six largest OECD economies by 2009.[2] In practice, the effect might be smaller, insofar as governments spend part of the extra revenue or save to offset shortfalls. Hence, a sustained pleasant surprise on productivity would not suffice to bring budgets into balance, even where deficits start off smaller. Moreover, unpleasant productivity surprises cannot be ruled out, notably in the euro area.[3]

Longer-run prospects are more dire still, given ageing populations. The fiscal pressures associated with ageing populations are set to intensify over the next few years, and even more so beyond.[4] Simulations extending two or more generations ahead almost universally suggest that on current policies deficits and debts are on an explosive path in most large OECD countries (as well as in many smaller ones), and that plausibly higher productivity growth than typically assumed in baseline scenarios would not suffice to restore sustainability:

– In the United States, which is affected somewhat later than the other large OECD countries by ageing, one recent OMB simulation has the federal budget deficit shrinking through the mid-2010s but then widening to exceed 12 per cent of GDP by mid-century, despite a fairly optimistic assumption that real GDP per hour would rise by 2¼ per cent *per annum* indefinitely[5]

1. Ancillary assumptions included fixed nominal exchange rates and real interest rates, unchanged real government spending compared with the baseline, and adjustments in private consumption such that the output gap remains unchanged.
2. In the United States, the Congressional Budget Office (CBO) has carried out like-minded simulations, with similar results (*The Budget and Economic Outlook: Fiscal Years 2004-2013*, Washington DC, January 2003). So has the US Office of Management and Budget (OMB), also with broadly similar results (*Analytical Perspectives, Budget of the United States Government, Fiscal Year 2005*, Washington DC, February 2004).
3. Some have argued that potential GDP growth in the euro area is closer to 1½ than to 2 per cent (see *e.g.* Gros, D., T. Mayer and A. Ubide, *The Nine Lives of the Stability Pact*, Centre for European Policy Studies, 2003).
4. See for example Dang, T.-T., P. Antolín and H. Oxley, "Fiscal implications of ageing: projections of age-related spending", *OECD Economics Department Working Papers*, No. 305, 2001.
5. This compares with an intermediate assumption of just over 1½ per cent used from 2012 onwards in the *2004 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, Washington DC, March 2004. The OMB's central projection extends through 2080, showing a deficit of over 30 per cent of GDP and a ratio of federal debt to GDP exceeding 400 per cent at that horizon.

indebtedness into account more explicitly.[29] Whatever the outcome of the ongoing discussions about the fiscal rules, the lack of ambition of some of the national medium-term programmes is a matter of concern: despite relatively favourable growth forecasts, these programmes do not foresee the return to a sound budgetary position by the end of their projection horizon. With ageing-related fiscal pressures now more imminent, a repeat of the policy errors of the last economic upswing – when buoyant cyclical conditions led to a weakening or even a reversal of consolidation efforts – would be even more costly than it has recently been. Moreover, past experience suggests that private

29. From a longer-run perspective, the quality of the fiscal mix also matters, although it is difficult to formalise into a rule. Indeed, across European countries, growth in real GDP per capita has been shown to be adversely affected by increases in government consumption and transfers but boosted by public investment, whilst distortionary taxation has hurt growth by deterring the accumulation of private physical capital (Romero de Avila Torrijos, D. and R. Strauch, "Public finances and long-term growth in Europe – Evidence from a panel data analysis", *ECB Working Paper Series*, No. 246, 2003). Similar findings obtain for a broader sample of OECD countries (OECD, *The Sources of Growth in OECD Countries*, Paris, 2003).

Box I.3. Can the large OECD countries hope to grow out of their deficits? *(cont.)*

coupled with assumptions on entitlement spending which may be on the low side.[6] Raising the projected productivity growth rate by ¼ percentage point limits the magnitude of the fiscal deterioration, but the deficit still reaches 8 per cent of GDP by 2050.[7]

– Simulations through 2050 have also been run for European countries, based principally on the projected increases in age-related spending presented in their stability or convergence programmes, and on the assumption that annual real GDP growth converges to 1¾ per cent by 2030 in most of them.[8] Despite the fact that the assumed starting point is significantly stronger than the OECD projects to be the case,[9] public debt ratios in France and Germany would end up by 2050 somewhere between 300 and 400 per cent of GDP. Assuming that trend growth would stabilise around 2 per cent would imply that debt ratios would rise somewhat more slowly, but they would still end up near or above 300 per cent of GDP. In fact, even in a very optimistic scenario, with trend growth reaching the 3 per cent objective spelled out by the European Council in Lisbon in 2000 and staying around that level, public debt ratios would rise at an increasing rate over the next few decades.

– In the case of Japan, fiscal sustainability problems are more conspicuous still, with a gross public debt ratio that in recent years has been increasing at a rate of about 7 percentage points of GDP per annum despite extremely low interest rates, and is set to approach 200 per cent of GDP by the beginning of the 2010s. Under such circumstances, long-run simulations point to further rapid increases in the debt ratio beyond that horizon.[10] Somewhat faster GDP growth would not reverse the underlying explosive debt dynamics (as long as inflation stays relatively low).[11]

6. The CBO for example projects higher social security and health care spending in its *Long-Term Budget Outlook*, Washington DC, December 2003 (in the intermediate scenario). The *2004 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, Washington DC, March 2004 also projects higher spending on Medicare than the OMB.
7. See OMB, *ibidem*. One problem is that while higher productivity boosts revenue, it also raises benefits for future retirees since over time it pushes up real wages.
8. See *Public Finances in EMU – 2003*, Brussels, European Commission, 2003.
9. The assumption is that countries would essentially have moved back close to balance or into surplus by 2005-06, in line with projections in their penultimate set of medium-term programmes.
10. See Atoda, N., S. Maekawa, A. Kawase, Y. Kitaura and S. Kimura, "Fiscal reforms and national burden in Japan: a simulation analysis of future fiscal conditions and generational public benefits and burdens", Economic and Social Research Institute, Tokyo, *Discussion Paper Series*, No. 72, 2003. Their baseline simulation assumes a one per cent annual growth rate for real GDP per capita beyond 2007, coupled with 1½ per cent annual inflation.
11. See Kaino, K., "Fiscal crisis simulation", Research Institute of Economy, Trade and Industry, Tokyo, *Discussion Papers*, No. 04-J-018, 2004, where alternative scenarios through 2040 are explored, based on trend real GDP growth rates of 1 per cent in the baseline and 1½ per cent in the more favourable case.

agents tend to offset part of the additional public dissaving, especially where public debt levels are already high or where fiscal rules require corrective action.[30] The benefits of sustained deficits in terms of higher demand and output are thus questionable. Against this background, the countries whose underlying fiscal position is currently not close to balance or in surplus should aim for consolidation, at a pace of at least ½ percentage point of GDP *per annum* initially, stepping up the tempo as recoveries mature. At the same time, they should push ahead with pension and health care reforms that contribute to restoring fiscal sustainability.

Fiscal adjustment will need to be accelerated in Japan…

In Japan, the recently approved budget for FY 2004 retains the target of lowering public spending as a share of GDP, via continued cutbacks in public works programmes, which are to offset increases in social security and debt service outlays. It also provides for some hikes in social security contributions.

30. This offset is in addition to the effect exerted via interest rates.

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The accompanying longer-run objective is gradually to reduce the primary fiscal deficit – which stood at 6¼ per cent of GDP in 2003 – so as to reach a surplus by the early 2010s. Meeting this target would necessitate a significant acceleration in fiscal adjustment, with efforts both on the spending and on the revenue side. With the gross public debt ratio set to reach a record 169 per cent of GDP in 2005, and with strong demographic pressures on public spending already being felt, restoring fiscal sustainability is even more urgent than elsewhere. The ongoing recovery should be used to push ahead with consolidation, in the context of a well-defined medium-term programme.

… but also more generally

Fiscal forecasts have repeatedly proved off the mark in recent years and, going forward, the central projections are sensitive to assumptions about potential output growth. But even in the more favourable scenarios, it is evident that OECD countries cannot hope to "grow" out of their current deficit positions (Box I.3). Achieving a sustainable fiscal stance requires a renewed commitment to budget-control mechanisms in the United States as well as in Europe and Japan, involving serious spending restraint and, in a number of cases, a broadening of the tax base and/or increases in tax rates.[31] More generally, the focus should be more explicitly on fiscal sustainability and on the need to take advantage of recoveries to speed up consolidation.

"Offshoring", jobs and structural policies

Service sector jobs are increasingly sourced abroad…

The rapid expansion of international trade in services has raised concerns regarding the "hollowing out" of the service sector in advanced OECD countries. Such worries are not new: blue-collar manufacturing jobs were seen to be migrating to Japan in the 1960s and 1970s, to South-East Asia and Latin America in the 1980s and 1990s, and to China more recently. Advances in information and communication technologies (ICT) now facilitate the "offshoring" (or international sourcing) of white-collar service-sector jobs,[32] most prominently from English-speaking OECD countries to India and China but also to countries such as Malaysia, the Philippines, Sri Lanka and South Africa, and from France and Germany to North Africa and Central Europe.[33] While anecdotal evidence abounds, no reliable data are available on the scale of the phenomenon. Some studies, however, suggest that several hundred thousand US jobs per year may be "offshored".[34] At a time when total employment is not picking up as rapidly as in

31. See "Fiscal Sustainability: The Contribution of fiscal rules", *OECD Economic Outlook*, No. 72, December 2002 and Joumard, I., P.M. Kongsrud, Y.S. Nam and R. Price, "Enhancing the effectiveness of public spending: Experience in OECD countries", *OECD Economics Department Working Papers*, No. 380, 2004.
32. This primarily concerns jobs in call centres, back-office operations, data entry and conversion tasks, routine insurance claim processing and medical transcription work, but also more unexpected ones – for example the remote monitoring of security cameras in US car parks by staff located in the Cape Verde islands in Africa – or higher skilled ones, such as the interpretation of computed tomography scans taken in US hospitals by radiologists in India.
33. Outsourcing also takes place within advanced OECD countries (partly accounting for measured "deindustrialisation"), or between them (the United Kingdom and Ireland, but also Canada and the United States, being among the more important destinations). US "insourcing" in particular tends to be concentrated in high-skill occupations and sectors.
34. A widely quoted report claims that by 2015, some 3.3 million US service-sector jobs will have migrated abroad (Forrester Research, *TechStrategy Brief*, November 2002). The 2001 ILO *Employment Report* ventures that over time 1 to 5 per cent of service-sector jobs in the United States and Western Europe may become contestable by low-wage economies. A higher estimate of 11 per cent of total US employment is put forth by Bardhan, A. and C. Kroll, "The new wave of outsourcing", Fisher Center for Real Estate and Urban Economics, Berkeley University, Fall 2003.

earlier recoveries, this has led to measures or proposals aimed at preventing or slowing down offshoring.[35]

… but the associated job movements remain small…

Over the long run, employment in manufacturing has indeed been on a declining trend in advanced OECD countries, as has agricultural employment, although mainly as a result of technological progress and shifts in demand towards services rather than of expanding international trade with non-OECD countries.[36] But at the same time, existing service sectors have expanded and new ones have emerged.[37] Total employment has thus risen at an average pace of 1.1 per cent *per annum* over the past three decades. In fact, in the United States, some 15 million jobs – more than one out of ten – disappear every year, whilst on average a slightly larger number are created.[38] Even though the rate of churning is lower in most other OECD economies, the size of the usual labour market flows dwarfs the number of job terminations associated with offshoring. Accordingly, only a tiny fraction of those who become unemployed in any given period lose their job due to outsourcing. Indeed, over the past three years, only one per cent of the extended layoffs in the United States have reportedly been related to relocations offshore.

… and overall more jobs are created than destroyed

In addition, offshoring itself entails the creation of new domestic jobs. Part of the additional income arising abroad flows back in the form of extra demand for goods and services or as repatriated earnings. Furthermore, the cost savings to domestic firms that are not passed on to consumers in the form of lower prices will be partly reinvested, generating new jobs, be it in the same sector or elsewhere. On one estimate, the globalisation of the production of information technology (IT) hardware for instance may have added as much as 0.3 percentage point to average real US GDP growth in the seven years to 2002.[39] The offshoring of IT software and services has the potential to provide a similar boost to growth in advanced OECD economies.[40] In terms of overall welfare, the process of offshoring is thus beneficial to both the source and the host country.[41] One striking aspect of IT offshoring in the United States is that it translates into a compositional shift towards higher-skill and

35. Some 30 US States are reportedly considering legislation restricting international outsourcing, for instance by limiting recourse to offshore contractors in state and local government procurement. A few have already gone ahead with such measures.
36. North-South trade explains less than one-fifth of deindustrialisation in the advanced economies according to Rowthorn, R. and R. Ramaswamy, "Growth, trade, and deindustrialization", *IMF Staff Papers*, Vol. 46, No. 1, 1999. In China as well, employment in manufacturing has declined substantially since the mid-1990s.
37. Evidence from the United Kingdom confirms this diagnosis: employment in the private service sectors exposed to international trade, which represents one third of total service-sector employment, increased over the past three years despite offshoring, at an average rate of over 1 per cent per annum, without any overall shift from those more to those less exposed (see the Trades Union Congress submission on global offshoring to the Department of Trade and Industry, 8 March 2004).
38. Based on the Business Establishment Dynamics Survey of the US Bureau of Labor Statistics, and correcting for the fact that as much as half of job terminations are temporary layoffs, seasonal closings or are otherwise reversed within a year.
39. According to Mann, C., "Globalization of IT services and white collar jobs: The next wave of productivity growth", *International Economics Brief*, December 2003.
40. See Global Insight, *The Comprehensive Impact of Offshore IT Software and Services Outsourcing on the US Economy and the IT Industry*, Lexington, MA, March 2004.
41. One study estimates that each dollar of US spending offshored to India generates a benefit of 33 cents in India, and a much larger one in the United States, where direct benefits amount to 67 cents (58 cents in savings accruing to US investors and consumers, 5 cents in extra imports of US goods and services, 4 cents in repatriated profits), and indirect benefits associated with the redeployment of US labour to at least 45 cents, implying a net gain of at least 12 cents for the US economy (Agraval, V. and D. Farrell, "Who wins in offshoring", *McKinsey Quarterly*, No. 4, 2003). Estimates produced by consultants or commercial research outfits should be taken with a grain of salt, however, insofar as some of these studies are sponsored by parties benefiting directly from offshoring.

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Table I.7. **Employment in the US IT sector moves out but also up**

	1999	2002	Per cent change between 1999 and 2002	Change in the share[a]
	million			
Qualification level				
High	3.435	3.512	2.3	3.9
Intermediate	1.652	1.411	-14.6	-2.8
Low	1.151	1.030	-10.5	-1.1
Total	6.237	5.953	-4.6	

a) Change in the share in total IT-related employment.
Source : US Bureau of Labor Statistics Occupational Employment Statistics survey data.

higher-wage occupations. While both lower-skill jobs (in data entry and the like) and some higher-skill ones (in computer programming and software development, for example) are being relocated overseas, the number of highly qualified IT jobs in the United States has increased over the past few years (see Table I.7).[42]

There are adjustment costs but…

Offshoring is thus a manifestation of international comparative advantage at work in sectors that were sheltered in the past but are becoming less so. Over the longer run, it raises living standards in all countries, as does labour-saving technical progress. But in the short run, job turnover associated with offshoring is not costless and may disproportionately affect certain regions, sectors and firms. Indeed, US experience shows that a sizeable minority of workers, concentrated among women and the low-skilled, do lose out when imports displace domestic production, even though a majority of the affected workers find new employment fairly rapidly.[43]

… they can be contained if labour markets are sufficiently flexible…

The size of the adjustment costs borne by those caught on the downside of the turbulence created by offshoring hinges on the smooth redeployment of the workforce across sectors and firms. This calls for a sufficient degree of labour market flexibility. In particular, employment protection arrangements should not inhibit hiring, tax and benefit systems should properly balance safety-net and incentive considerations, wages should reflect marginal productivity and pension rights should be readily transferable as workers change jobs. At the same time, housing markets should be sufficiently fluid, so that geographical mobility is not impeded. On these criteria, significant scope for progress remains in many OECD countries. This is particularly the case in continental Europe, notwithstanding recent progress, for instance in Germany, where unemployment benefit entitlements and employment protection were reformed, or in Italy, where under the aegis of the 2002 Pact between the government and some of the social partners, measures are being introduced to improve the functioning of labour markets. It is also the case elsewhere, for example in Korea, where employment in manufacturing has been shrinking over the past decade but labour laws and union contracts hamper adjustment.

42. For example, the number of moderately qualified data entry keyers and equipment assemblers has tumbled, with 276 000 jobs lost, but concomitantly the number of highly qualified computer software engineers, analysts and systems administrators has expanded rapidly, with a gain of 183 000 jobs. This occurred despite IT overinvestment in the late 1990s, post-millennium adjustment and the economy-wide downturn.
43. Based on what was observed in the 1980s and 1990s, see Kletzer, L., *Job Loss from Imports: Measuring the Cost*, Institute for International Economics, Washington DC, 2001. For cross-country analysis showing that international sourcing impacts labour demand in the same way as skill-biased technical change does, see Hanson, G. and R. Feenstra, "Global production and inequality: A survey of trade and wages," *NBER Working Paper Series*, No. 8372, 2001.

… the workforce is adaptable enough…

The reallocation of labour will also be facilitated if the workforce is adaptable, pointing to the crucial role of schooling and lifelong learning. Performance on this score varies considerably across OECD countries. Arguably, skill shortages in a number of high-value-added professions reflect deficiencies in the quantity or quality of educational supply, for example in Germany, where more operational independence for universities and more competition amongst them for resources would help. Also, in the United States, the near stagnation of real wages for lesser-skilled workers over the past two decades partly reflects inadequacies in the compulsory education system. Adult learning, which becomes increasingly important as workforces age, can in principle promote employability. Progress on the training front is palpable in some OECD countries, for example in Australia, where new options offered for part-time study have met considerable success. Even so, in many of them incentives and opportunities to acquire or sharpen IT and other transferable skills, but also basic literacy training, need to be substantially improved.

… and there are incentives to exploit comparative advantages

Exploiting international comparative advantage to the full also calls for a research and development (R&D)-friendly environment, for product markets where competition fosters innovation, and for a climate conducive to a high business birth-rate and to service-sector job creation. As regards R&D and innovation, many European countries lag behind best practice, although a few, such as Finland, do very well. Moreover, repeated failure to agree on an EU-wide patent contributes to holding back innovation in Europe. Administrative and regulatory burdens on firms may divert resources from their most productive uses, hamper market entry, stifle innovation and job creation, and more generally discourage entrepreneurship and investment.[44] Progress is being made on this front in European countries, but in many cases too incrementally. The creation of new high value-added service-sector jobs is inhibited in some countries, for instance in Korea, where the tax regime and other regulatory measures traditionally tend to favour manufacturing. The creation even of lower value-added jobs in the service sector is deterred by zoning regulations in some European countries.[45]

Protectionist measures should be resisted

In the United States, the Trade Adjustment Assistance programme assists displaced workers and there are proposals to extend it beyond manufacturing, to the service sector. Measures have also been tabled to help displaced workers more generally, including those who lost their job due to restructuring or automation, for example by improving the portability of pension and health benefits or enhancing training incentives. The extent to which such specific categories of workers can be identified and what kind of help they should receive is open to debate. But the initiatives that have been launched to discourage offshoring would keep prices higher than need be for consumers, including governments as purchasers of services. In addition, they may fail to preserve jobs beyond the very near term, leading instead to faster technical change, for instance in the form of accelerated substitution of automated responses to phone inquiries to outsourcing to call centres in India or Central Europe. In a context where trade policy frictions and tensions are already rife, it would be most unfortunate if countries resorted to ineffectual but harmful protectionist measures.

44. The extent to which this is the case depends on the type of regulation. Those that protect intellectual property rights (patents, copyrights) or investors (accounting standards) may under some conditions spur entry. For cross-country evidence, see Alesina, A., S. Ardagna, G. Nicoletti, F. Schiantarelli, "Regulation and investment", *NBER Working Papers*, No. 9560, March 2003 ; Nicoletti, G. and S. Scarpetta, "Regulation, productivity and growth: OECD evidence", *Economic Policy*, No. 36, 2003, and Klapper, L., L. Laeven and R. Rajan, "Business environment and firm entry: Evidence from international data", *NBER Working Papers*, No. 10380, 2004.
45. For instance in France, see Bertrand, M. and F. Kramaz, "Does entry regulation hinder job creation? Evidence from the French retail industry", *Quarterly Journal of Economics*, Vol. 117, No. 4, 2002.

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Appendix: The medium-term reference scenario

Area-wide, medium-term growth of around 2¾ per cent is projected

The medium-term reference scenario extends the current short-term projections to the end of 2009 (see Tables I.8 to I.10).[46] It is essentially driven by the supply side of economies. Growth in output for any country from 2006 onwards is assumed to reflect the growth of potential output and a closing of the output gap. Over the period, growth in potential for the OECD area as a whole is projected to slow marginally to 2½ per cent *per annum,* reflecting a decline in trend labour force growth

Table I.8. Medium-term reference scenario summary

Per cent

	Real GDP growth	Inflation rate[a]		Unemployment rate[b]		Current account balance[c]		Long-term interest rate	
	2006-2009	2005	2009	2005	2009	2005	2009	2005	2009
Australia	3.4	2.5	2.3	5.5	5.5	-4.5	-3.6	6.1	6.3
Austria	2.5	1.1	1.3	5.8	4.9	-0.3	-0.3	5.1	5.5
Belgium	2.3	1.4	1.4	8.0	6.9	3.5	3.4	4.6	5.4
Canada	3.0	1.6	1.9	7.1	7.1	2.3	2.7	5.3	5.5
Czech Republic	2.9	2.5	2.0	8.3	8.5	-5.9	-5.6	4.9	6.4
Denmark	2.2	1.8	2.0	5.8	4.8	2.8	2.2	4.8	5.7
Finland	1.9	2.0	1.9	8.3	8.0	6.9	6.1	4.7	5.5
France	2.5	1.3	1.3	9.6	8.8	1.2	1.3	4.7	5.5
Germany	2.3	0.6	1.3	8.5	7.2	3.5	4.1	4.6	5.4
Greece	3.3	3.3	2.7	8.4	9.0	-6.1	-5.6	4.7	5.5
Hungary	3.8	4.8	3.0	5.7	5.1	-7.6	-6.5	8.0	6.5
Iceland	2.0	3.0	2.8	2.8	3.1	-8.7	-5.6	8.7	6.0
Ireland	4.2	2.5	2.2	4.8	4.7	-0.2	0.4	4.7	5.5
Italy	2.0	2.3	2.0	8.5	8.5	-2.9	-2.8	4.8	5.6
Japan	0.9	-0.7	1.5	4.6	3.9	4.4	5.3	1.6	4.2
Korea	4.5	3.2	2.8	3.0	3.3	2.3	3.1	6.2	6.7
Mexico	4.2	3.2	3.2	3.1	2.4	-2.4	-3.1	8.0	8.1
Netherlands	2.5	1.0	1.3	5.1	3.5	2.6	2.4	4.7	5.5
New Zealand	2.9	1.6	2.1	4.9	5.4	-3.9	-3.6	6.0	6.1
Norway	1.8 [d]	1.8	2.5	4.2	3.6	13.0	13.4	4.7	6.2
Poland	4.2	2.1	2.0	19.2	15.0	-2.4	-2.2	6.0	5.6
Portugal	2.7	1.8	2.0	6.1	3.8	-5.0	-5.3	4.8	5.5
Slovak Republic	5.2	3.0	3.0	15.5	10.9	-2.9	-2.9	5.3	6.4
Spain	2.5	2.6	2.2	10.2	9.6	-3.4	-3.2	4.7	5.5
Sweden	2.3	1.7	2.0	5.4	4.5	5.8	5.1	5.3	5.9
Switzerland	1.5	0.6	0.8	3.4	2.6	11.6	11.1	3.3	3.8
Turkey	5.7	10.2	6.0	11.2	9.5	-3.0	-3.5	18.1	10.0
United Kingdom	2.3	1.8	2.0	4.8	5.0	-2.7	-2.8	5.6	5.6
United States	3.3	1.4	1.6	5.2	5.0	-4.8	-4.8	5.3	5.6
Euro area	2.4	1.5	1.6	8.5	7.7	0.6	0.8	4.7	5.5
Total of above OECD countries	2.8	1.4 [e]	1.8 [e]	6.7	6.0	-1.0	-0.9	4.8 [e]	5.5 [e]

Note: For further details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) Percentage change from the previous period in the private consumption deflator.

b) Per cent of labour force.

c) Per cent of nominal GDP.

d) Including oil sector.

e) Excluding Turkey.

Source: OECD.

46. Assumptions underlying the medium-term reference baseline are outlined in Box I.4.

which is partially offset by an acceleration in trend labour productivity. OECD-wide output is projected to be slightly below potential until 2005 and the assumed closing of output gaps over the medium term implies growth of slightly above potential in subsequent years, at around 2¾ per cent.

Unemployment falls, inflation remains moderate, but fiscal deficits endure

Area-wide unemployment falls gradually to a standard rate of around 6 per cent of the labour force while inflation is expected to pick up very modestly from 1½ per cent in 2005 to 1¾ per cent in 2009. This rise is mostly attributable to Japan, where inflation increases to around 1½ per cent by 2009, as the economy emerges from deflation. In other countries, inflation remains fairly stable around the projected 2005 level. Fiscal balances for the area as a whole improve only marginally, reflecting continuing large structural deficits for the United States, Japan and the major European economies.

Growth is robust in the United States…

US potential output is projected to grow at a pace of around 3¼ per cent over the medium term, with somewhat higher labour productivity growth than in the recent past being offset by declining growth in the working-age population and the labour force. With output at or around potential throughout the period, inflation is not expected to rise noticeably from its level projected in 2005. Both the headline and the cyclically-adjusted fiscal deficit remain close to 4 per cent of GDP, translating into a continuing deterioration in public debt, with general government gross financial liabilities rising to around 70 per cent of GDP by end 2009.

Box I.4. Assumptions underlying the medium-term reference scenario

The medium-term reference scenario is conditional on the following assumptions for the period beyond the short-term projection horizon:

- Gaps between actual and potential output are eliminated by 2009 in all OECD countries.
- Unemployment returns to its structural rate (the NAIRU) in all OECD countries by 2009.[1]
- Commodity prices and most exchange rates remain broadly unchanged in real terms.
- Monetary policies are directed at keeping inflation low, or bringing it down in line with medium-term objectives.
- Fiscal policies are assumed to remain broadly unchanged (*i.e.* the cyclically-adjusted primary budget balance is held approximately unchanged from one year to the next),[2] or to follow medium-term programmes where these are well-defined parts of the institutional framework for fiscal policy.

The main purpose of the medium-term reference scenario is to provide a basis for comparisons with other scenarios based on alternative assumptions and to provide insights on the possible build-up or unwinding of specific imbalances and tensions in the world economy over the medium term. The reference scenario does not embody a specific view about the timing of future cyclical events.

1. The concept and measurement of structural unemployment rates are discussed in more detail in Chapter V, "Revised OECD measures of structural unemployment", *OECD Economic Outlook*, No. 68, December 2000.
2. This implicitly assumes that the authorities take measures to offset underlying changes in primary structural balances.

… but more modest in Europe

In the euro area, potential output growth, at slightly below 2 per cent *per annum* beyond 2005, is much slower than in the United States, reflecting lower growth in both the working-age population and trend labour productivity. At the same time, the cyclical position in 2005 is much worse with a negative output gap of 1¾ per cent of GDP, implying a larger contribution to growth from the closure of the gap, so that GDP growth averages around 2½ per cent *per annum* over the period. Unemploy-

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Table I.9. Fiscal trends in the medium-term reference scenario

As a percentage of nominal GDP

	Financial balances[a]		Net financial liabilities[b]		Gross financial liabilities[c]		Gross public debt (Maastricht definition)[d]	
	2005	2009	2005	2009	2005	2009	2005	2009
Australia	0.5	0.4	1	-1	16	14	..	..
Austria	-1.9	-1.4	44	44	65	65	65	65
Belgium	-0.7	-0.1	88	78	98	89	94	84
Canada	1.3	1.3	29	19	70	60	..	..
Czech Republic	-8.1	-7.0	..	..	..	..	..	..
Denmark	1.1	1.6	2	-4	48	42	43	35
Finland	2.1	1.9	-34	-37	53	51	47	44
France	-3.6	-2.8	47	52	77	82	69	74
Germany	-3.1	-1.2	56	56	68	67	67	66
Greece	-2.9	-2.7	..	..	101	90	101	90
Hungary	-4.6	-3.7	..	..	..	..	..	..
Iceland	1.0	0.5	22	18	39	34	..	..
Ireland	-0.8	-0.9	..	..	30	26	30	26
Italy	-3.9	-2.9	94	92	117	115	106	104
Japan	-6.6	-6.3	91	109	169	187	..	..
Korea	5.0	5.4	-39	-49	21	25	..	..
Netherlands	-2.9	0.0	48	44	59	55	59	55
New Zealand	2.8	2.8	7	-5	33	26	..	..
Norway	11.5	11.0	-93	-118	34	32	..	..
Poland	-5.5	-4.9	..	..	..	..	..	..
Portugal	-3.2	-1.9	..	..	61	59	61	59
Slovak Republic	-3.7	-3.0	..	..	..	..	..	..
Spain	0.5	0.2	35	30	61	57	47	43
Sweden	0.6	0.6	3	0	60	58	51	48
Switzerland	-0.9	0.0	..	..	..	..	..	..
United Kingdom	-2.9	-2.6	36	40	54	58	42	47
United States	-3.9	-3.7	48	53	65	70	..	..
Euro area	-2.7	-1.6	54	53	78	77	72	71
Total of above OECD countries	-3.1	-2.7	49	52	79	83		

Note : For further details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) General government fiscal surplus (+) or deficit (-) as a percentage of GDP.

b) Includes all financial liabilities minus financial assets, as defined by the System of National Accounts (where data availability permits) and covers the general government sector, which is a consolidation of central, state and local government and social security.

c) Includes all financial liabilities, as defined by the System of National Accounts (where data availability permits) and covers the general government sector, which is a consolidation of central, state and local government and social security.

d) Debt ratios are based on debt figures for 2003, provided by Eurostat, and GDP figures from national authorities, projected forward in line with the OECD projections for GDP and general government financial liabilities.

Source: OECD.

ment falls by ½ percentage point to a structural rate of 7¾ per cent and inflation remains fairly subdued at around 1½ per cent *per annum*. Over the period, the fiscal deficit for the euro area as a whole shrinks from 2¾ per cent of GDP in 2005 to 1½ per cent of GDP in 2009. For most euro area economies, the reduction in the deficits mainly reflects the cyclical contribution from the closing of the gap.[47] Present policy settings imply a slight improvement of the primary structural balance for Germany, whereas significant structural deficits persist in France, Italy and Greece.

47. See Box I.4 and the main text for specific details of the underlying fiscal assumptions.

Table I.10. **Growth in potential GDP and its components**

Annual averages, percentage points

	Output gap	Potential GDP growth		Potential labour productivity growth (output per employee)		Potential employment growth		Components of potential employment[a]					
								Trend participation rate		*Working-age population*		*Structural unemployment*[b]	
	2005	1997-2005	2006-2009	1997-2005	2006-2009	1997-2005	2006-2009	1997-2005	2006-2009	1997-2005	2006-2009	1997-2005	2006-2009
Australia	0.3	3.7	3.5	1.9	2.2	1.7	1.3	0.1	0.0	1.4	1.3	0.2	0.0
Austria	-1.8	2.2	2.0	1.7	1.8	0.5	0.2	0.2	0.1	0.3	0.1	0.0	0.0
Belgium	-1.0	2.0	2.0	1.2	1.4	0.8	0.6	0.5	0.4	0.2	0.3	0.1	0.0
Canada	0.0	3.3	3.0	1.5	2.0	1.7	1.0	0.3	0.0	1.2	1.0	0.2	0.0
Denmark	-0.9	2.2	2.0	1.9	2.0	0.3	0.0	0.0	0.0	0.1	0.0	0.2	0.0
Finland	0.3	2.7	2.0	2.1	2.1	0.6	-0.1	0.0	-0.4	0.3	0.2	0.3	0.1
France	-1.8	2.2	2.0	1.4	1.9	0.7	0.1	0.2	-0.3	0.4	0.3	0.2	0.0
Germany	-2.7	1.5	1.6	1.2	1.5	0.3	0.0	0.4	0.2	-0.1	-0.2	0.0	0.0
Greece	1.3	3.2	3.7	2.9	3.3	0.3	0.3	0.3	0.2	0.0	0.0	0.0	0.2
Iceland	1.1	3.4	2.3	1.8	2.0	1.5	0.3	0.0	0.0	1.6	0.3	0.0	0.0
Ireland	0.5	6.8	4.3	3.6	2.9	3.0	1.4	0.6	0.3	1.7	0.9	0.7	0.2
Italy	-2.2	1.6	1.4	1.1	1.1	0.5	0.3	0.4	0.3	0.0	-0.1	0.2	0.1
Japan	1.5	1.3	1.3	1.3	1.5	0.0	-0.2	0.3	0.2	-0.2	-0.4	-0.1	0.0
Netherlands	-2.5	2.5	1.9	1.1	1.1	1.4	0.8	0.7	0.4	0.5	0.4	0.3	0.0
New Zealand	0.0	3.0	2.9	1.5	1.8	1.5	1.0	0.2	0.2	1.2	0.8	0.1	0.0
Norway[c]	0.7	2.8	2.4	1.9	1.9	0.9	0.4	0.1	0.0	0.6	0.4	0.1	0.0
Spain	0.7	2.8	2.7	1.0	0.9	1.8	1.7	1.0	1.2	0.6	0.3	0.2	0.3
Sweden	0.1	2.4	2.3	2.1	2.0	0.3	0.3	-0.4	-0.2	0.5	0.5	0.1	0.0
Switzerland	-0.8	1.4	1.3	0.7	0.8	0.7	0.5	0.1	0.1	0.6	0.3	0.0	0.0
United Kingdom	0.2	2.5	2.3	1.8	1.9	0.7	0.4	0.0	0.0	0.5	0.3	0.2	0.0
United States	0.2	3.4	3.3	2.1	2.5	1.2	0.8	-0.1	-0.2	1.3	1.0	0.0	0.0
Euro area	-1.8	2.1	1.9	1.3	1.5	0.7	0.4	0.4	0.2	0.2	0.1	0.1	0.1
Total OECD	-0.3	2.6	2.5	1.7	2.0	0.9	0.5	0.1	0.0	0.7	0.5	0.1	0.0

a) Percentage point contributions to potential employment growth.
b) Estimates of the structural rate of unemployment are based on the concepts and methods described in "Revised OECD measures of structural unemployment", *Economic Outlook,* No. 68, 2000.
c) Excluding oil sector.
Source: OECD.

The United Kingdom also remains in significant deficit over the period. The fiscal positions of the other smaller EU15 countries move steadily towards balance or remain in significant surplus.

Prices begin to rise again in Japan

Potential output growth in Japan is projected to remain broadly stable at 1¼ per cent, as the decline in labour force growth is largely offset by a rise in productivity growth. With Japan operating well above its estimated potential in 2005, GDP growth is projected to slow down substantially over the medium term to around 1 per cent *per annum*. The persistence of a positive gap (until it is closed, by assumption, in 2009) reinforces the adjustment of inflation back into positive territory. The public deficit is projected to improve somewhat, but it is still set to exceed 6 per cent of GDP in 2009, pushing the public sector debt ratio up to 187 per cent of GDP. The

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underlying structural fiscal improvement largely reflects hikes in social security contributions scheduled for each year between 2004 and 2009. However, with large and persistent structural fiscal deficits, public debt continues to accumulate at an unsustainable rate.

Wide current account imbalances persist

World trade is projected to increase at around 9 per cent *per annum*. This is slightly above the historical average of the 1990s, reflecting continuing robust growth in China and Dynamic Asia. At broadly unchanged real exchange rates and in the absence of major cyclical developments in the individual countries, there is little overall adjustment in the current external imbalances between regions. The euro area current account remains in surplus at around ¾ per cent of GDP. The US current account deficit remains at 4¾ per cent of GDP, reflecting the continued high level of the budget deficit, with the rise in private investment being offset by some increase in the household saving ratio. The Japanese current account surplus rises to over 5 per cent of GDP.

II. DEVELOPMENTS IN INDIVIDUAL OECD COUNTRIES

United States

The expansion is now firmly established across most sectors of the economy, helped by continued stimulus from fiscal and monetary policies. Increases in disposable income induced by tax refunds and wealth gains are providing ongoing support for consumption. The strong growth of productivity and profits bodes well for future investment and output. Further sustained weakness in the labour market would, however, pose a downward risk to household income and consumption.

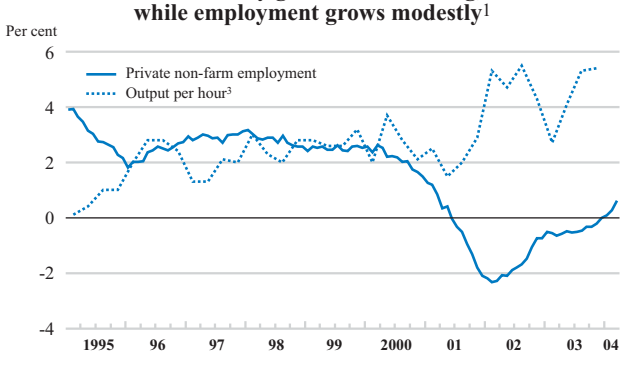
With inflation at the lower end of desirable levels, monetary policy has remained supportive, but interest rates will need to be raised as the slack in product and labour markets dissipates. Government finances have deteriorated substantially as a result of cyclical developments, tax cuts and higher spending, especially on defence and homeland security. The large deficits projected over the coming years underline the need to adjust both tax and spending levels with a view to balancing the budget so as to raise national saving and prepare for impending demographic pressures. This would also help to lessen the external imbalance.

Output is growing above potential…

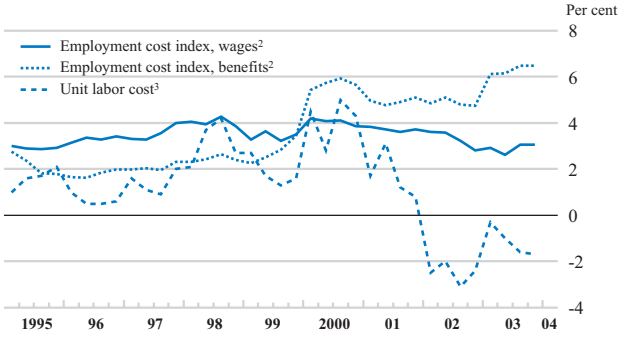
After surging in the third quarter of last year, real GDP growth appears to have settled at an annualised rate in excess of 4 per cent, somewhat above potential. Household spending continues to be robust, with rapid wealth gains probably contributing to the renewed decline in the saving rate. Long-term interest rates have very recently reversed their declines since last autumn, but growth in residential construction remains strong. Although investment in non-residential structures has yet to increase, spending on equipment and software has expanded rapidly since early 2003. Net exports contributed positively to GDP growth on balance in the second half of last year, and the current account deficit has narrowed of late, possibly in response to the decline of the dollar over the past two years.

United States

Productivity gains remain strong, while employment grows modestly[1]



Unit labour costs are still declining[1]



1. Year-on-year changes.
2. Private non-farm employees.
3. Non-farm business sector.

Source: Department of Labor.

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

Percentage changes from previous period

	2001	2002	2003	2004	2005
Employment[a]	-0.1	-1.2	0.0	0.9	1.8
Unemployment rate[b]	4.8	5.8	6.0	5.5	5.2
Employment cost index[c]	4.1	3.8	3.9	4.2	4.5
Compensation per employee[c]	2.6	2.1	3.0	4.3	4.8
Labour productivity[c]	0.7	3.9	3.4	4.1	2.1
Unit labour cost[c]	1.8	-1.7	-0.4	0.2	2.7
GDP deflator	2.4	1.5	1.7	1.7	1.6
Consumer price index	2.8	1.6	2.3	2.3	2.0
Private consumption deflator	2.0	1.4	1.8	1.9	1.4
Real household disposable income	1.8	3.8	2.6	3.8	3.9

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

… supported by expansionary policies…

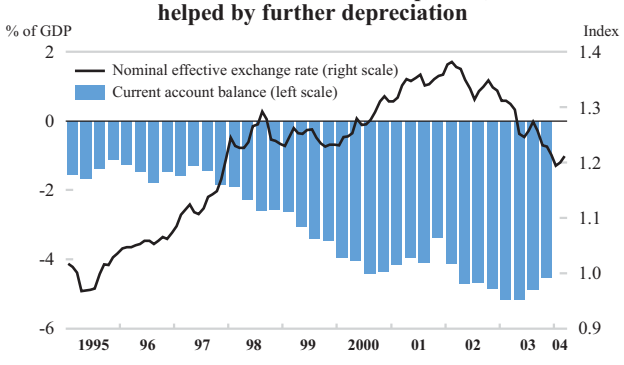
Expansionary federal fiscal policy is still supporting economic activity, although less so than during the second and third quarters of 2003. Federal government purchases remained little changed during the second half of last year, but are expected to have increased more rapidly during the first quarter. The retroactive nature of the Jobs and Growth Tax Relief Reconciliation Act of 2003 implies a further boost to household income during the first half of this year due to larger-than-normal income tax refunds.

… but employment has yet to gain strength

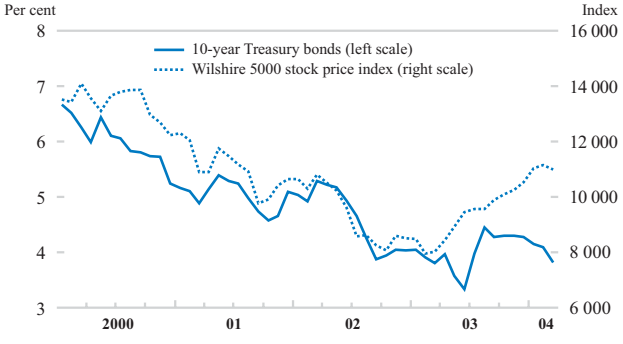
Until recently, employment growth remained very weak, and the drop in the unemployment rate since last summer mostly reflects a decline in labour force participation. The divergent developments in product and labour markets have implied rapid growth in productivity and corporate profits, providing strong fundamentals for business investment. At the same time, increases in labour income have been modest as wage rates have continued to decelerate, while non-wage labour costs, in particular for health insurance, have risen rapidly. With productivity gains outpacing labour

United States

The current account has improved, helped by further depreciation



Financial conditions continue to provide stimulus



Source: Board of Governors of the Federal Reserve System; Bureau of Economic Analysis; Datastream and Thomson Financial.

United States: **Financial indicators**

	2001	2002	2003	2004	2005
Household saving ratio[a]	1.7	2.3	2.1	2.0	2.6
General government financial balance[b]	-0.2	-3.3	-4.8	-4.7	-3.9
Current account balance[b]	-3.9	-4.6	-4.9	-4.7	-4.8
Short-term interest rate[c]	3.7	1.8	1.2	1.3	2.9
Long-term interest rate[d]	5.0	4.6	4.0	4.5	5.3

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

costs, unit labour costs have declined further. Despite recent increases in energy and other commodity prices, inflationary pressures remain modest.

Monetary stimulus will need to be withdrawn

The Federal Reserve has maintained its accommodative policy by keeping the federal funds rate at 1 per cent since June of last year. In an environment of very low inflation, impressive productivity gains and declining unit labour costs, the extent to which monetary policy has to act pre-emptively is reduced. Nonetheless, with the output gap projected to narrow steadily, a move toward a more neutral policy stance should begin during the second half of this year. Interest rate increases could initially remain modest, allowing continued stimulus, as the output gap is expected to close only in early 2005 and inflation to remain near current levels.

The fiscal deficit must be reduced over the medium term

On the spending side, the projection incorporates the Administration's budget proposal for fiscal year (FY) 2005 and anticipates a further $50 billion budget request in FY 2005 for military operations and reconstruction in Iraq and Afghanistan. Federal purchases of goods and services, which expanded by more than 12 per cent in FY 2003, are expected to decelerate to 8 per cent growth in FY 2004 and further in FY 2005. On the tax side, the projections embody the tax law changes included in the

United States: **Demand and output**

	2000	2001	2002	2003	2004	2005
	Current prices billion $	Percentage changes, volume				
Private consumption	6 739.4	2.5	3.4	3.1	3.8	3.2
Government consumption	1 417.1	2.8	3.6	3.9	2.5	1.9
Gross fixed investment	1 983.5	-2.2	-2.2	3.9	7.3	6.0
Public	304.6	2.6	5.2	1.5	3.7	3.5
Residential	446.9	0.3	4.9	7.5	6.1	1.9
Non-residential	1 232.1	-4.5	-7.2	3.0	9.1	8.9
Final domestic demand	10 140.0	1.6	2.4	3.4	4.2	3.5
Stockbuilding[a]	56.5	-0.9	0.4	-0.1	0.3	0.2
Total domestic demand	10 196.5	0.7	2.8	3.3	4.5	3.7
Exports of goods and services	1 096.3	-5.2	-2.4	2.0	10.4	10.6
Imports of goods and services	1 475.8	-2.6	3.3	4.0	7.4	8.1
Net exports [a]	- 379.5	-0.2	-0.7	-0.4	-0.1	-0.1
GDP at market prices	9 817.0	0.5	2.2	3.1	4.7	3.7

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

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United States: **External indicators**

	2001	2002	2003	2004	2005
			$ billion		
Goods and services exports	1 035.1	1 006.8	1 048.9	1 186	1 318
Goods and services imports	1 401.7	1 433.1	1 543.8	1 712	1 867
Foreign balance	- 366.6	- 426.3	- 494.9	- 526	- 549
Invisibles, net	- 27.2	- 54.6	- 46.9	- 29	- 48
Current account balance	- 393.7	- 480.9	- 541.8	- 555	- 597
			Percentage changes		
Goods and services export volumes	- 5.2	- 2.4	2.0	10.4	10.6
Goods and services import volumes	- 2.6	3.3	4.0	7.4	8.1
Export performance [a]	- 4.8	- 4.4	- 1.5	1.8	0.7
Terms of trade	2.1	0.7	- 1.4	- 0.8	- 0.4

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

Reconciliation Act and assume that the personal income tax provisions scheduled to expire by the end of 2004 – the expanded 10 per cent tax bracket, marriage penalty relief and higher child tax credit – will be extended. After declining by 2¾ per cent in FY 2003, federal revenues are projected to rise by 2 per cent in FY 2004 despite the higher personal income tax refunds. Nonetheless, the federal deficit will widen from 3¾ per cent of GDP in FY 2003 to almost 4¼ per cent in FY 2004 before declining to slightly above 3½ per cent of GDP in FY 2005. Revenues of state and local governments have recently improved, but their budgetary pressures are projected to ease only gradually, with their net borrowing declining from nearly 1 per cent of GDP in FY 2003 to ½ per cent of GDP in the current and next fiscal year. The general government deficit is projected to remain above 4 per cent in cyclically-adjusted terms, which contributes to the projected rise in long-term interest rates.

Growth is projected to remain robust…

Over the projection period, annual GDP growth should exceed its potential rate of about 3¼ per cent. An acceleration in worldwide demand and the depreciation of the dollar will probably limit the drag from net exports on GDP growth. Consumption expenditures are projected to grow more modestly during the second half of 2004, as the stimulus from income tax refunds fades, before picking up in 2005 in response to an improving employment situation and faster income increases. Business fixed investment is expected to advance rapidly, although the expiration of the partial expensing provisions at the end of 2004 is likely to reduce the growth of spending on equipment in early 2005. Residential investment, on the other hand, could weaken sharply as the rise in long-term interest rates progresses and pent-up demand is satisfied. Nonetheless, the momentum from consumption and investment should keep real GDP expanding at a rate of close to 4 per cent in 2005 even as federal purchases decelerate after the current round of spending increases has run its course.

… but there are substantial risks

There are substantial risks to the outlook. On the downside, if firms continue to exercise great caution in hiring and jobs growth weakens again, consumption may decelerate more than currently projected, slowing the pace of the expansion. Moreover, the high federal budget and current-account deficits increase the risk of a larger rise in long-term interest rates than projected. On the upside, the recent strong productivity performance may spark another cycle of optimism concerning business profits and household incomes, fuelling equity prices, business investment and household spending.

Japan

The economic expansion gained momentum in late 2003, thanks to an acceleration of business investment and exports and some strengthening of private consumption. The pick-up in world trade and steady increases in domestic demand, buoyed by some improvement in the labour market, are expected to help sustain growth near 3 per cent through 2005. Such growth would make this Japan's longest upturn since the 1980s and help bring deflation to an end. However, the economy faces significant headwinds from the continued fall in land prices and bank lending.

Monetary policy should continue the quantitative easing strategy until positive inflation is achieved on a sustained basis and the risk of deflation becomes negligible. While the expected decline in the budget deficit in 2004 and 2005 is welcome, a more ambitious medium-term approach is needed to reach the government's target of a primary budget surplus by the early 2010s. Progress in reducing the non-performing loan ratio of the major banks should be continued, accompanied by an acceleration of a broad structural reform programme to revitalise business activity.

Output growth picked up, thanks to business investment and exports…

Economic growth picked up to 6.4 per cent in the fourth quarter of 2003, the fastest rate of growth since 1990. In contrast to the past two upturns, the current expansion is being driven by private demand, without a large contribution from fiscal stimulus. A more favourable economic outlook has helped to boost the stock market by 50 per cent from its trough in April 2003, with foreign investors accounting for a significant share of the rise. The main driver of this expansion is business investment, which has been boosted by higher profitability – in part due to extensive corporate restructuring in recent years – and double-digit export growth. China is a key factor in the pick-up in exports, accounting for two-thirds of the rise in 2003. Although this expansion has been concentrated in key exporting industries, the most recent profit trends suggest that the recovery may be spreading to the service sector and to smaller companies. A more broad-based expansion is having a favourable impact on the labour market, with employment stabilising in early 2004, resulting in a positive impact on private consumption.

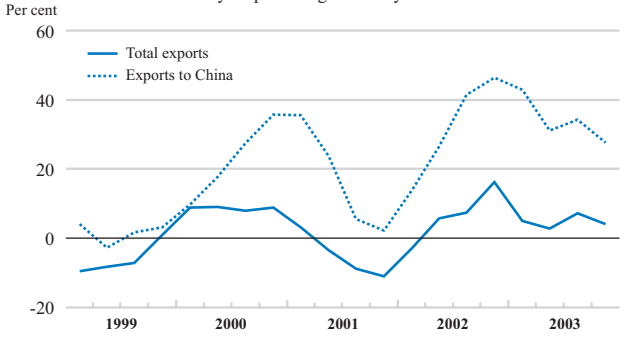
… but underlying weaknesses, notably deflation, continue

Output growth at an annual rate of 3¼ per cent since early 2002 has not been sufficient to overcome persistent weaknesses in the Japanese economy. Excluding special factors, such as a hike in medical costs and a higher price for rice, consumer

Japan

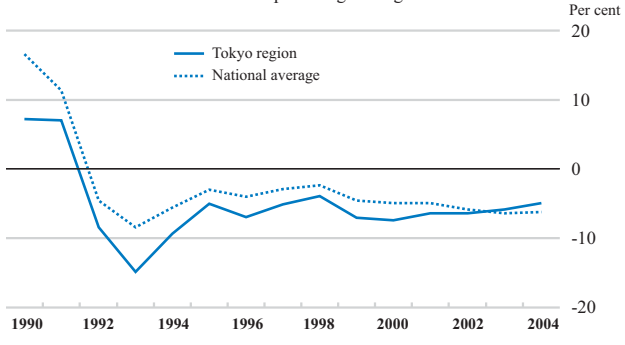
Export growth is led by China

Year-on-year per cent growth in yen values



Land prices continue to decline

Annual percentage change



Source: Ministry of Finance and Ministry of Land, Infrastructure and Transport.

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Japan: **Employment, income and inflation**

Percentage changes from previous period

	2001	2002	2003	2004	2005
Employment	-0.5	-1.3	-0.2	0.0	0.3
Unemployment rate[a]	5.0	5.4	5.3	5.0	4.6
Compensation of employees	-0.6	-2.9	-0.3	0.3	0.5
Unit labour cost	-1.0	-2.6	-2.9	-2.7	-2.2
Household disposable income	-3.0	-0.5	-0.1	0.3	0.7
GDP deflator	-1.5	-1.2	-2.5	-1.8	-1.1
Consumer price index	-0.7	-0.9	-0.3	-0.2	0.1
Private consumption deflator	-1.6	-1.3	-1.4	-1.2	-0.7

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

prices appear to be still falling at a rather stable rate of ½ per cent year-on-year. The decline in the deflator for private consumption has also been relatively stable. However, the fall in the GDP deflator intensified in the fourth quarter of 2003, reflecting a larger decline in the prices of investment goods. Land prices have also continued to fall, the January 2004 decline of 6 per cent over a year earlier being the thirteenth consecutive annual decline. Although Tokyo experienced a smaller fall, the pace of decline accelerated outside the three major urban areas. These falling land prices have had a negative impact on bank balance sheets since loans are often backed by real estate as collateral. Indeed, bank lending, excluding loan write-offs, fell by 5 per cent in 2003 – the sixth consecutive annual decline – even though loans to local governments and individuals increased.

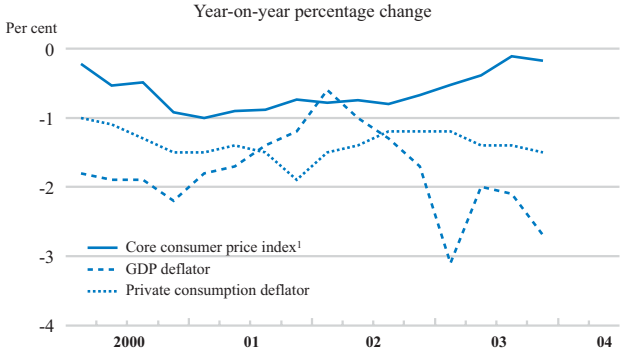
The impact of monetary easing is hindered by problems in the banks…

Monetary policy remains focused on ending deflation. The quantitative easing approach, now in its fourth year, was strengthened in January when the Bank of Japan raised the target range for current account balances at the central bank from ¥ 27-32 trillion to ¥ 30-35 trillion, the fourth such increase in the past year. This

Japan

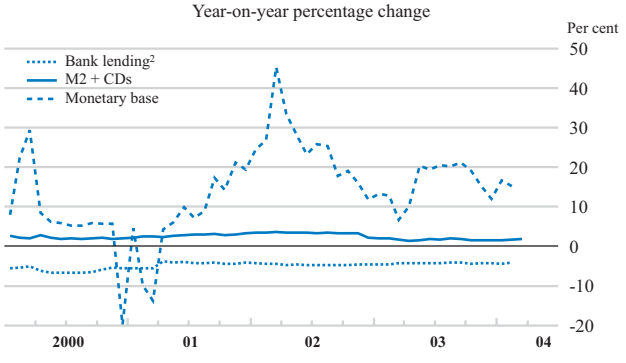
The deflation picture remains mixed

Year-on-year percentage change



Credit growth remains weak

Year-on-year percentage change



1. Includes publicly regulated prices which have risen significantly in 2003.
2. Excluding loan write-offs and related items and securitisation of loans, and adjusting for exchange rate changes.
Source: Bank of Japan.

Japan: **Financial indicators**

	2001	2002	2003	2004	2005
Household saving ratio[a]	6.6	6.4	6.4	6.4	6.4
General government financial balance[b]	-6.1	-7.9	-8.0	-7.1	-6.6
Current account balance[b]	2.1	2.8	3.1	3.8	4.4
Short-term interest rate[c]	0.1	0.1	0.0	0.0	0.0
Long-term interest rate[d]	1.3	1.3	1.1	1.4	1.7

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

policy has helped to keep long-term interest rates relatively low at around 130 basis points. Foreign exchange market intervention on an unprecedented scale, to slow upward pressure on the exchange rate, has also helped to keep monetary conditions relaxed. However, the effectiveness of monetary policy remains limited by the problems in the banking sector that are contributing to the decline in lending. A number of concerns remain, particularly regarding the quality of "deferred tax assets", which account for nearly half of the major banks' Tier I capital. Nevertheless, the major banks have made significant progress in cutting non-performing loans, keeping them on track to achieve the government's target of reducing such loans from 8.4 per cent of total lending in 2002 to the 4 per cent level by March 2005. Moreover, the major banks, which had recorded net operating losses in fiscal years 2001/02, reported profits in the first half of 2003.

… while the structural budget deficit is set to fall slightly in 2004

The impact of fiscal policy is projected to be slightly contractionary in 2004, reflecting both spending cuts and increased tax revenue. The decline in expenditure is concentrated in public investment, which is set to fall at a double-digit rate for the second consecutive year. This will be only partially offset by increased spending on

Japan: **Demand and output**

	2000	2001	2002	2003	2004	2005
	Current prices trillion ¥	Percentage changes, volume (1995 prices)				
Private consumption	285.8	1.7	0.9	1.1	1.7	1.5
Government consumption	84.0	3.0	2.4	1.2	2.0	2.3
Gross fixed investment	134.7	-1.1	-6.1	3.3	3.4	1.9
Public[a]	34.6	-4.0	-4.3	-10.5	-12.1	-6.4
Residential	20.3	-5.4	-4.1	-0.7	0.0	-1.0
Non-residential	79.9	1.1	-7.2	9.7	9.1	4.6
Final domestic demand	504.5	1.1	-0.8	1.7	2.2	1.8
Stockbuilding[b]	- 0.4	0.0	-0.2	0.3	0.0	0.1
Total domestic demand	504.1	1.2	-1.0	2.0	2.2	1.9
Exports of goods and services	55.3	-6.1	8.0	10.0	12.5	12.1
Imports of goods and services	47.9	0.1	1.9	4.9	6.9	7.2
Net exports[b]	7.3	-0.7	0.7	0.7	0.9	0.9
GDP at market prices	511.5	0.4	-0.3	2.7	3.0	2.8

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

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Japan: **External indicators**

	2001	2002	2003	2004	2005
			$ billion		
Goods and services exports	433.1	446.5	508.5	594	659
Goods and services imports	406.9	395.3	439.4	487	522
Foreign balance	26.2	51.2	69.1	107	137
Invisibles, net	61.5	61.4	66.0	68	70
Current account balance	87.7	112.5	135.1	175	208
			Percentage changes		
Goods and services export volumes	- 6.1	8.0	10.0	12.5	12.1
Goods and services import volumes	0.1	1.9	4.9	6.9	7.2
Export performance [a]	- 5.0	2.7	3.9	2.1	- 0.3
Terms of trade	- 1.5	0.2	- 2.4	0.2	- 0.9

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

social welfare. On the revenue side, pension reform will increase contributions. However, the impact on the general government deficit – estimated at 8 per cent of GDP in 2003 – will be modest.

The upturn is expected to continue through 2005…

Despite the impact of fiscal policy and the continued fall in land prices and bank lending, the expansion is projected to continue through 2005. The acceleration in world trade is expected to boost Japanese exports further and to help sustain business investment, although it may taper off next year. Improving conditions in the labour market – with the unemployment rate falling to about 4½ per cent – are projected to support the steady growth of private consumption. There is considerable uncertainty, however, as to when consumer prices, which began falling in 1998, will stabilise. With the output gap likely to close in 2005, inflation may turn positive during the year. The export-led nature of the recovery is projected to widen the current account surplus further, from 3 per cent of GDP in 2003 to as high as 4½ per cent of GDP by 2005.

… though there are a number of risks

A sustained expansion could be affected by various risks, both domestic and external. Financial strains could be associated with the continuous rise in public debt, which is projected to surpass 160 per cent of GDP this year. On the external side, a slowdown in world trade would weaken the upturn, while a significant rise in the currency could slow growth and worsen deflationary pressures. Over the longer term, failure to press ahead with structural reforms would limit Japan's growth potential.

Euro area

The economy is past the turning point, but the strong euro is weighting on the recovery. Growth is projected to firm from ½ per cent in 2003 to 1½ and 2½ per cent in 2004 and 2005. This pick-up is underpinned by the strong recovery in world trade, improving corporate balance sheets and a supportive stance of monetary policy. Further exchange rate appreciation and persistently poor household sentiment could hamper the recovery. The unemployment rate is expected to peak at 8¾ per cent in 2004. Inflation is likely to ease to about 1½ per cent in 2005.

With the output gap still widening and on the basis of these inflation projections some further monetary easing would be warranted. There is no leeway for fiscal policy to provide growth impetus in view of the need for fiscal consolidation in many countries. To raise resilience in response to adverse shocks and to stimulate economic growth on a sustainable basis, structural reforms are essential. These should focus on creating a truly integrated European market, increasing business dynamism and pushing ahead with labour market reforms.

The recovery has been fragile so far

Following a slight contraction in the first half of 2003, GDP expanded at close to 1½ per cent in the second half, with growth averaging ½ per cent for the year as a whole. The pick up in growth was driven by a rebound in net exports in the third quarter and a sharp turn-around in fixed investment and stock formation in the fourth quarter. Despite a continuing strong recovery in world markets real net exports fell again in the final quarter, and the contribution to growth from this source was negative for the year as a whole, indicating that the appreciation of the euro took its toll. Private consumption has been practically stagnant since the first quarter of the year. Indicators suggest that growth picked up slightly in the first quarter of 2004.

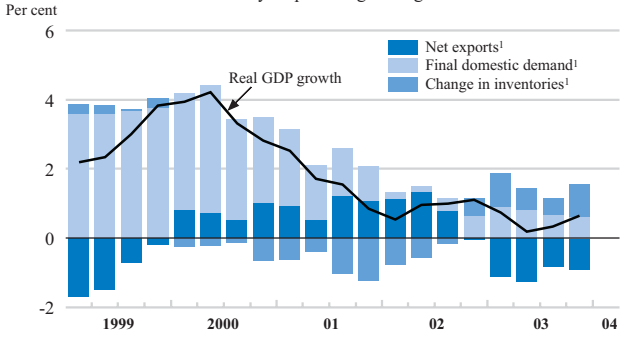
Labour markets held up well

While slack has been building up since 2001 this has not been reflected in major labour shedding, possibly because the downturn was initially expected to be short-lived amid high costs of firing and hiring. As a result, the unemployment rate has levelled off at 8¾ per cent – ¾ percentage point above its 8 per cent low in 2001 – at the expense of virtually stagnant labour productivity. However, hourly wage growth has been moderating throughout the year and, with the effective appreciation of the euro feeding through, core inflation has fallen below the 2 per cent mark – even though headline inflation picked-up recently due largely to base effects.

Euro area

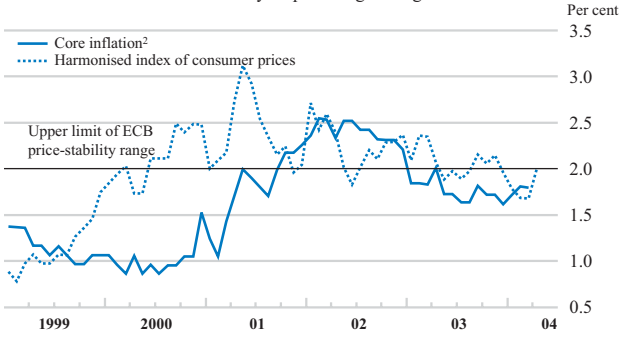
Growth is now slowly picking up again

Year-on-year percentage change



Core inflation is below the 2 per cent mark

Year-on-year percentage change



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

Source: Statistical Office of the European Communities (Eurostat).

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

Percentage changes from previous period

	2001	2002	2003	2004	2005
Employment	1.5	0.5	0.1	0.4	1.1
Unemployment rate [a]	8.0	8.4	8.8	8.8	8.5
Compensation per employee [b]	2.5	2.3	2.3	2.2	2.2
Labour productivity [b]	0.1	0.5	0.4	1.2	1.4
Unit labour cost [b]	2.4	1.8	1.8	1.0	0.8
Household disposable income	4.9	3.2	2.6	3.0	4.1
GDP deflator	2.4	2.6	2.0	1.7	1.7
Harmonised index of consumer price	2.4	2.3	2.1	1.7	1.4
Private consumption deflator	2.3	2.2	1.9	1.7	1.5

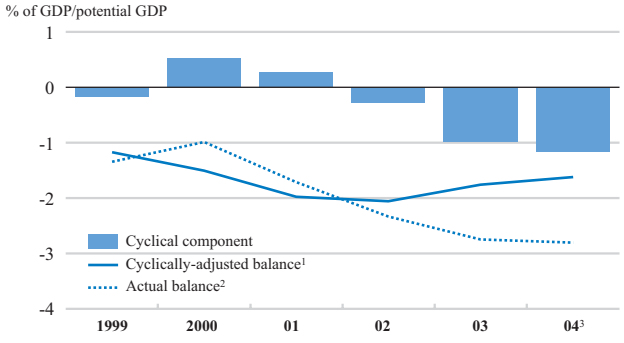
a) As a percentage of labour force.
b) In the business sector.
Source: OECD.

Consumer sentiment lags business expectations

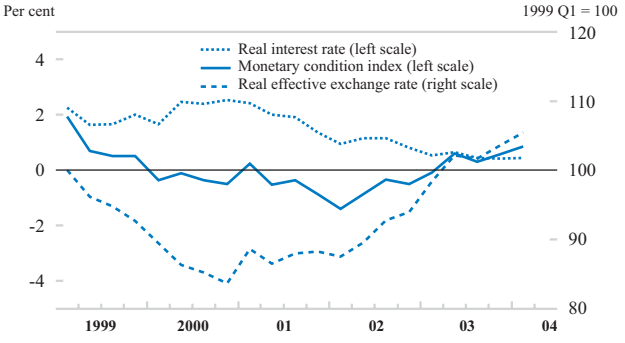
While the overall mood has improved with the incipient recovery, the conjunctural signals are still mixed. Business sentiment recovered in the course of 2003, supported by a surge in world trade, rising profitability and easier lending conditions; corporate balance sheets are generally in good shape. However, the indicators suggest business sentiment has peaked in the first quarter of 2004. By contrast, consumer confidence has picked up only little to date, reflecting continued concerns over job prospects and the outlook for pensions and health care in several countries. This seems to indicate that the impact of several of the shocks that have prompted the downturn since 2001 – including the stock market slump, accounting scandals and terrorist attacks – still weigh on consumer sentiment, not least because some of these shocks have been recurrent. Moreover, although low interest rates and easy lending conditions in mortgage markets have led to soaring house prices in some euro area countries (Ireland, the Netherlands and Spain), price increases and the ensuing wealth gains have been more moderate in countries where the withdrawal of housing equity is hampered by rigidities in mortgage markets (France, Germany, Italy and Belgium).

Euro area

The fiscal stance is pratically neutral



Monetary conditions have tightened



1. Per cent of potential GDP.
2. Actual balance excludes UMTS licence proceeds.
3. OECD projection.
Source: OECD.

Euro area: **Financial indicators**

	2001	2002	2003	2004	2005
Household saving ratio[a]	11.5	11.7	11.6	11.7	11.8
General government financial balance[b]	-1.7	-2.3	-2.7	-2.8	-2.7
Current account balance[b]	0.2	0.9	0.4	0.5	0.6
Short-term interest rate[c]	4.3	3.3	2.3	1.7	1.8
Long-term interest rate[d]	5.0	4.9	4.1	4.1	4.7

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

The stance of fiscal policy is set to be neutral

On 25 November 2003 the Council of Ministers (*Ecofin*) suspended the Excessive Deficit Procedure for Germany and France although they had been in breach of the 3 per cent of GDP reference value for the budget deficit enshrined in the Treaty since 2002. A ruling by the European Court of Justice – expected before the summer of 2004 – should bring clarity as to the next steps to be taken by the Council and the possible implications for fiscal policies going forward. On the basis of currently adopted policies and in the absence of additional measures, six countries (Germany, France, Italy, Greece, the Netherlands and Portugal) are projected to experience deficits above 3 per cent of GDP in 2004. Despite the recovery, deficits in the three largest countries would also surpass the 3 per cent limit in 2005. After a small tightening of around ¼ per cent of GDP in 2003, the stance of fiscal policy, as gauged by the area-average change in the cyclically-adjusted balance, is estimated to be broadly neutral over the projection period.

Monetary policy has remained easy but the euro has been strong

Monetary policy has remained easy, with the ECB refinancing rate maintained at 2 per cent since it was cut by 50 basis points in June 2003. However, the appreciation of the currency – by 20 per cent in effective terms since the start of 2002 – has taken back most of the resulting demand stimulus and monetary conditions are back at their 2001 level when the cycle of policy easing started. Moreover, with the recovery

Euro area: **Demand and output**

	2000	2001	2002	2003	2004	2005
	Current prices billion €	Percentage changes, volume (1999 prices)				
Private consumption	3 765.1	1.8	0.6	1.0	1.3	2.5
Government consumption	1 307.0	2.6	3.0	2.1	1.2	1.0
Gross fixed investment	1 419.9	0.0	-2.4	-0.8	2.0	4.1
Public	172.9	2.1	1.1	1.3	1.2	2.2
Residential	370.5	-2.5	-0.9	1.1	1.8	2.5
Non-residential	876.6	0.7	-3.7	-2.0	2.3	5.1
Final domestic demand	6 492.0	1.6	0.5	0.9	1.5	2.5
Stockbuilding[a]	25.8	-0.5	0.1	0.3	0.3	0.0
Total domestic demand	6 517.8	1.1	0.5	1.2	1.8	2.5
Net exports[a]	58.2	0.6	0.4	-0.7	-0.1	0.0
Error of estimate[a]	0.0	0.0	0.0	0.0	0.0	0.0
GDP at market prices	6 576.1	1.7	0.9	0.5	1.6	2.4

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

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Euro area: **External indicators**

	2001	2002	2003	2004	2005
			$ billion		
Foreign balance	102.6	169.5	169.3	191	211
Invisibles, net	- 92.1	- 111.3	- 140.1	- 148	- 155
Current account balance	10.5	58.3	29.2	43	56

Source: OECD.

proving more vulnerable than expected initially and inflation falling back firmly to below the 2 per cent mark over the projection period, the refinancing rate is assumed to be cut by another 50 basis points this spring, and to be maintained at 1½ per cent until the recovery is firm and inflationary pressures start rebuilding.

The recovery is set to gather steam

Against this backdrop, real GDP growth is projected to recover from ½ per cent in 2003 to a modest 1½ per cent in 2004, with a further pick-up to 2½ per cent in 2005, which is slightly above growth of potential output. Exports are being spurred by the rebound in world trade, even though the area is projected to lose market shares further in view of the strong currency. Accelerator mechanisms and restored profitability are projected to sustain the recent pick up in investment, while consumption is set to recover modestly. The unemployment rate is projected to stay at around 8¾ per cent in 2004 before easing slightly in 2005. With the output gap widening further in 2004 and the impact of euro appreciation feeding through, inflation is projected to fall to 1¾ per cent in 2004 and 1½ per cent in 2005.

Risks are two-sided

Risks surrounding the projection cut both ways and remain large. Global current-account imbalances may prompt further appreciation of the euro in effective terms, but the recovery in world trade may be somewhat stronger than projected. Whereas pent-up demand for consumer durables and improving job prospects could provide a stronger boost to consumption growth than factored into the projection, persistent ageing-related concerns and unwinding of forces related to rising house prices in some countries may more than offset these forces.

Germany

The economy is recovering from three years of stagnation during which domestic demand declined by about 2 per cent. Investment activity, in particular, firmed in the second half of 2003 and destocking slowed considerably. Growth is projected to pick up further in 2004, driven by strengthening exports. As the upswing broadens in 2005, GDP is likely to grow at around 2 per cent, which would be above potential. The general government deficit is likely to remain above 3½ per cent of GDP this year but to fall back to 3.1 per cent in 2005.

Significant progress has been made in structural reform. Legislated measures to be phased in comprise, inter alia, an easing of employment protection, a reform of unemployment-related benefits to improve job search incentives and some easing of requirements for setting up handicraft business. While steps have been taken to curb long-term expenditure increases, further expenditure reforms are required to reduce the structural deficit in a sustainable way.

Output contracted in 2003 but an upswing is under way

Output growth swung into negative territory in the first half of 2003, reflecting the weakness in domestic demand and a reduced growth contribution from exports. Private consumption continued to contract as consumer confidence remained subdued and falling employment reduced disposable income growth. Equipment investment receded for the third year in a row, reflecting low levels of capacity utilisation. Exports grew only moderately for the year as a whole but firmed in the second half. Domestic demand also strengthened towards the end of the year, and slowing destocking as well as rising imports suggest that an upswing is under way.

Forward indicators point to near-term growth

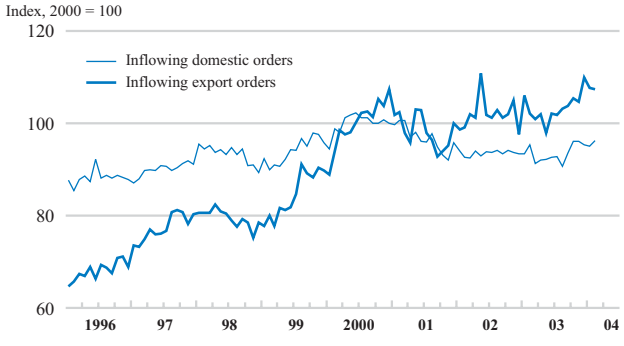
Current and forward-looking indicators point to positive growth in the first half of 2004. Incoming orders strengthened towards year-end 2003, with the main impetus coming from abroad. By the end of 2003 business confidence had improved to the highest level since 2000. A significant correction occurred at the beginning of 2004, however, reflecting more cautious export expectations. Consumer sentiment remains subdued. Industrial production firmed somewhat at the beginning of the year.

The fall in employment has not yet bottomed out

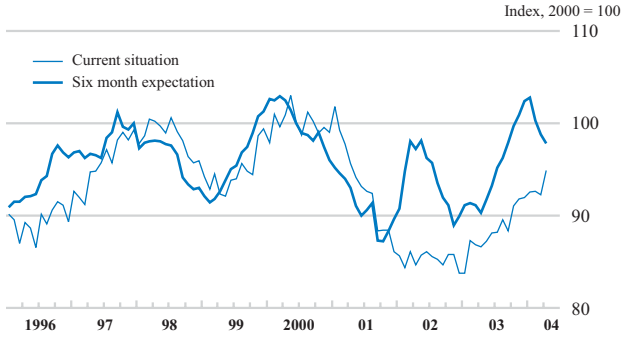
Employment declined throughout 2003 and into 2004, although at a reduced rate. Reduced taxation of earnings in small jobs with few hours worked and subsidies for self employment in small business triggered a significant increase in such

Germany

Export orders have increased[1]



Business expectations have fallen back[2]



1. Manufacturing, volume.
2. Manufacturing, construction, wholesale and retail trade.

Source: Deutsche Bundesbank and Ifo Institut für Wirtschaftsforschung.

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Germany: **Employment, income and inflation**

Percentage changes from previous period

	2001	2002	2003	2004	2005
Employment	0.4	-0.6	-1.1	-0.3	0.6
Unemployment rate [a]	7.4	8.1	8.7	8.8	8.5
Compensation of employees	2.0	0.8	0.2	0.8	2.1
Unit labour cost	1.1	0.6	0.3	-0.3	-0.1
Household disposable income	3.7	0.5	0.9	1.6	2.4
GDP deflator	1.3	1.6	1.0	0.8	0.8
Harmonised index of consumer price	1.9	1.3	1.0	1.1	0.6
Private consumption deflator	1.6	1.3	1.0	1.1	0.6

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

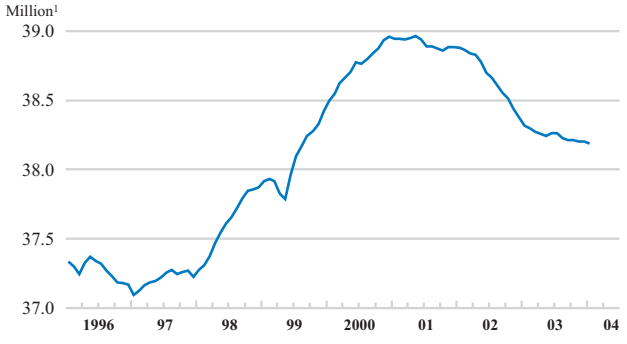
employment, partially offsetting the effect of labour shedding on employment. Moreover, stricter standards adopted by the Federal Labour Office in testing the readiness of the unemployed to accept jobs have led to a fall in the registered unemployment rate since autumn 2003. Negative wage drift has been unusually high in 2003, helping to confine unit labour costs, while wage settlements in major parts of the economy suggest that wage growth in 2004 will remain moderate. Working time flexibility has been increased; in the metal and engineering industry wage settlements allow for some extension of working time without additional wage premia.

Underlying inflation remains low

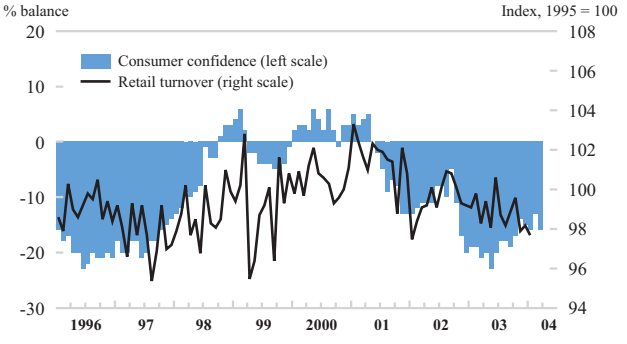
A significant increase in statutory co-payments for health care services pushed up consumer prices in the first months of 2004, with a corresponding decline in the price index for government consumption. Hikes in indirect taxes also added to higher prices. Even so, headline inflation, measured by the harmonised consumer price index, stood at 1.1 per cent year-on-year at the beginning of 2004, slightly less than a year earlier, and underlying inflation was around one per cent. Inflation edged up at the beginning of the second quarter on account of higher fuel prices. German exporters have gained competitiveness within the European Union owing to both relatively low inflation and a more favourable development of unit labour costs. These gains

Germany

Employment continues to decline



Consumer confidence remains low



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

Germany: **Financial indicators**

	2001	2002	2003	2004	2005
Household saving ratio[a]	10.3	10.6	10.8	11.1	11.0
General government financial balance[b]	-2.8[c]	-3.5	-3.9	-3.7	-3.1
Current account balance[b]	0.2	2.2	2.2	2.8	3.5
Short-term interest rate[d]	4.3	3.3	2.3	1.7	1.8
Long-term interest rate[e]	4.8	4.8	4.1	4.0	4.6

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

have partially offset the loss in competitiveness *vis-à-vis* major trading partners outside Europe associated with the appreciation of the euro. While banks have reduced non-performing loans and tightened their risk management, credit availability will not act as a brake on the economic upswing. Lower short-term interest rates would provide further support for the recovery.

The general government deficit has deteriorated…

With the negative output gap having opened up further, the general government deficit increased in 2003 by ½ percentage point to 3.9 per cent of GDP – overshooting substantially the deficit limit of the Stability and Growth Pact. While consolidation measures became effective on the spending and the revenues side of the budget, unexpected shortfalls in tax revenues reinforced the cyclical deterioration.

Germany: **Demand and output**

	2000	2001	2002	2003	2004	2005
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption	1 196.2	1.5	-1.0	-0.1	0.4	2.1
Government consumption	385.6	1.0	1.7	0.9	0.1	-0.2
Gross fixed investment	440.0	-3.9	-6.5	-2.9	1.3	2.5
Public	37.0	-2.5	-4.0	-8.6	-1.7	-1.7
Residential	140.2	-6.2	-5.7	-2.7	0.0	-0.6
Non-residential	262.8	-2.9	-7.2	-2.1	2.5	4.6
Final domestic demand	2 021.8	0.2	-1.7	-0.5	0.5	1.7
Stockbuilding[a]	0.7	-0.8	0.1	0.8	0.3	0.0
Total domestic demand	2 022.5	-0.7	-1.6	0.3	0.9	1.7
Exports of goods and services	686.1	6.1	3.4	1.1	5.2	7.3
Imports of goods and services	678.6	1.2	-1.6	2.5	5.2	6.9
Net exports[a]	7.5	1.7	1.7	-0.4	0.3	0.5
GDP at market prices	2 030.0	1.0	0.2	-0.1	1.1	2.1
Memorandum items						
Investment in machinery and equipment	199.8	-3.6	-7.6	-2.3	3.3	6.2
Construction investment	240.2	-4.8	-5.8	-3.4	-0.3	-0.7

Note: Economic activity in 2004 and 2005 is subject to unusually large changes in the number of working days. The OECD projections are adjusted for this effect so that, other things equal, GDP is lower for 2004 and higher for 2005 than in the unadjusted projections presented by the German authorities. However, in the view of the OECD the positive impact of a larger number of working days on unadjusted GDP growth in 2004 is much smaller than the official German estimate of almost 0.6 percentage points.
a) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
Source: OECD.

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Germany: **External indicators**

	2001	2002	2003	2004	2005
			$ billion		
Goods and services exports	655.3	716.7	860.9	963	1 032
Goods and services imports	618.4	630.8	758.2	839	889
Foreign balance	36.9	85.9	102.7	124	143
Invisibles, net	- 33.0	- 42.3	- 49.2	- 51	- 50
Current account balance	3.9	43.6	53.5	74	93
			Percentage changes		
Goods and services export volumes	6.1	3.4	1.1	5.2	7.3
Goods and services import volumes	1.2	- 1.6	2.5	5.2	6.9
Export performance [a]	4.1	0.4	- 3.0	- 2.2	- 1.8
Terms of trade	0.1	1.9	1.3	1.1	0.7

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

… and is likely to stay above three per cent of GDP in 2004 and 2005

A new fiscal consolidation package is being phased in this year and next, comprising *inter alia* cuts in subsidies and tax expenditures as well as revenue raising measures, including a tax amnesty with preferential taxation for repatriated assets which had been transferred abroad to evade tax. At the same time, substantial income tax reductions will become effective, partly brought forward into 2004 from 2005. With further reductions scheduled for next year income tax cuts amount to some one per cent of GDP. The overall deficit is likely to decline to 3.1 per cent of GDP in 2005, helped by strengthening economic activity. On balance, the OECD projects that the structural deficit will improve by 0.3 per cent of GDP both this year and in 2005, less than officially projected due to expected revenue shortfalls.

GDP will accelerate in 2004 as world trade strengthens

Economic recovery will be largely driven by exports, which are projected to accelerate in the course of 2004 and into next year as world trade growth expands more rapidly. Private consumption should firm as disposable incomes rise, supported by the phased income tax reductions, even if some share of the tax relief is expected to be saved. However, reductions in health care contribution rates, associated with the 2004 health care reform will not fully compensate households for co-payments for health care services. Scheduled increases in indirect taxes will also adversely affect the propensity to consume. Rising foreign and domestic demand and gradually improving profits should lead to strengthening investment in machinery and equipment. Construction investment is projected to remain in recession over the projection period. All in all, GDP is projected to grow by 1.1 per cent, working day adjusted,[1] in 2004 and, as the upswing broadens, at around two per cent in 2005, significantly above potential. No rapid turn-around is expected on the labour market, with employment starting to increase moderately only towards the end of 2004. With the negative output gap remaining large, underlying inflation will remain very low while headline inflation will continue to reflect increases in indirect taxes and administrative prices.

… but risks are significant

Risks to these central projections largely arise from the uncertainty surrounding the recovery of world trade and the euro exchange rate in a context where consumer and investor confidence remain volatile. Exposure to external risks will remain significant but will be reduced once reform measures improve the resilience of the economy.

1. See footnote in the Table “Demand and Output”.

France

GDP accelerated in the second half of 2003, reflecting strong government consumption and rising investment. Accelerating exports, which initiated the recovery, were offset by very rapid imports in the fourth quarter. Unemployment appears to have stabilised at just below 10 per cent of the labour force and employment is now growing. Meanwhile administrative price hikes have contributed to a pick-up in inflation. Overall, economic activity is projected to continue expanding, allowing the output gap to begin closing in 2005.

To achieve the fiscal consolidation planned for 2004 and 2005 (notably reducing the deficit below 3 per cent of GDP), substantial efforts beyond those so far announced will be required. A planned reform of the public health insurance system could contribute to a more rapid fiscal consolidation, but its impact on spending is likely to be felt principally over the longer term. Efforts to improve the functioning of labour markets should bolster employment growth and would also help to increase revenues and reduce public expenditure.

Output picked up in the second half of 2003

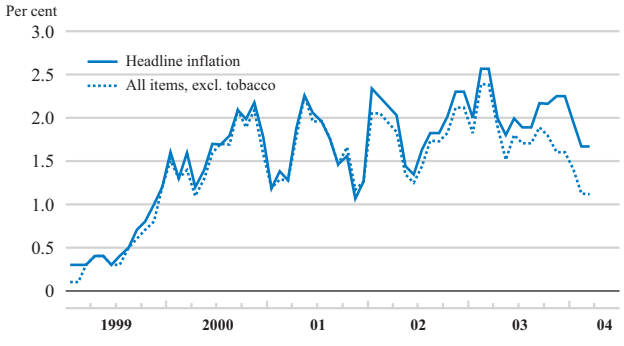
Economic activity expanded at a 2¾per cent pace (annual rate) during the final two quarters of 2003. The recovery was initially export-led, reflecting the resurgence in world trade. Nevertheless, world trade rose more rapidly and France continued to lose market share, principally because of the appreciation of the euro. Moreover, strong government consumption and strengthening investment activity translated into a pick-up in domestic demand and imports. For the moment, most of the increase in activity has been concentrated in the construction and transportation sectors, as well as in the areas of health, education and public administration.

Employment is edging up and inflation is moderating

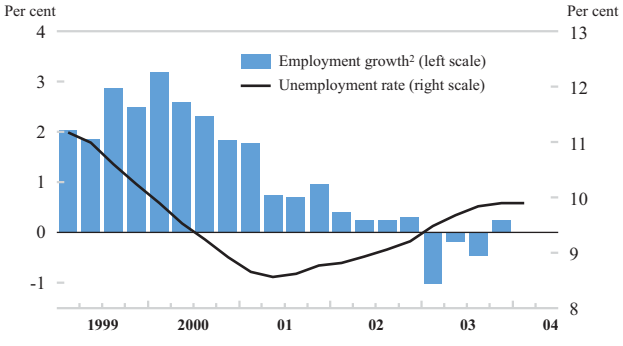
The standardised unemployment rate has been broadly stable since June 2003 at around 9.8 per cent while employment has shown signs of improvement, picking up by 0.25 per cent in the fourth quarter of 2003. Wage growth remains relatively moderate and unit labour costs have risen only slightly. Nevertheless, inflation picked up markedly in the fall of 2003, mainly as a result of a 20 per cent hike in tobacco prices. Since then, it has declined somewhat and was 1.7 per cent (year-over-year) in March 2004. Inflation excluding tobacco products was much more subdued, increasing 1.1 per cent over the same period and showing no signs of acceleration.

France

Inflation appears to be moderating[1]



The labour market has stabilised



1. Year-on-year percentage changes.
2. From previous period at annual rates.

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

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France: **Employment, income and inflation**

Percentage changes from previous period

	2001	2002	2003	2004	2005
Employment	1.5	0.5	-0.2	0.2	0.5
Unemployment rate [a]	8.7	9.0	9.7	9.9	9.6
Compensation of employees	4.9	3.6	2.4	2.8	3.4
Unit labour cost	2.8	2.5	1.8	0.8	0.8
Household disposable income	4.8	4.3	2.3	3.2	4.1
GDP deflator	1.7	2.4	1.4	1.6	1.6
Harmonised index of consumer price	1.8	1.9	2.2	1.9	1.3
Private consumption deflator	1.4	1.7	1.8	1.5	1.3

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

The 2004 budget calls for tighter fiscal policy

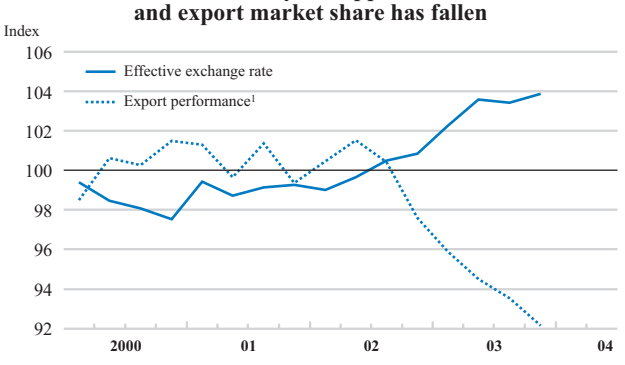
The authorities have pledged to bring the general government deficit down to 3.6 per cent of GDP in 2004 and 2.9 per cent in 2005. According to official estimates this would represent a tightening of fiscal policy on a cyclically-adjusted basis of 0.8 and 0.6 per cent of GDP in each year. About 0.1 percentage point of this improvement is to come from already implemented revenue measures, including increases to unemployment insurance contributions. A further significant saving is expected from efforts to restrain the rate of growth of state budgetary expenditures, and a hoped-for 0.2 per cent of GDP slowdown in the rate of growth of publicly financed healthcare costs in 2004. The overall result is also contingent on sub-national governments recording an aggregate budgetary surplus. For 2005, it is hoped that a planned reform of the healthcare system will generate further important savings. Excluding the yet unspecified savings from this reform, the OECD estimates that the public-sector deficit is likely to come in at around 3¾ per cent of GDP in each of 2004 and 2005.

Prospects appear uncertain…

High-frequency data and business confidence indicators suggest that growth should continue to pick up strength in the first half of 2004. However, the vigour of the recovery needs to be confirmed. Data for the first quarter of 2004 are, as yet,

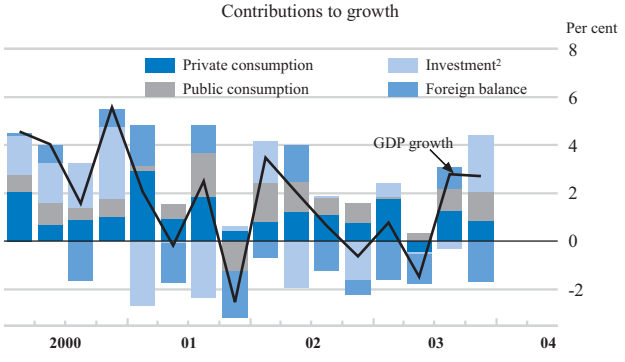
France

The currency has appreciated and export market share has fallen



Domestic demand has strengthened

Contributions to growth



1. Ratio of French exports to world imports weighted by French export shares, index 2002 = 100.
2. Including changes in stocks.
Source: National Institute for Statistics and Economic Studies (INSEE) and OECD.

France: **Financial indicators**

	2001	2002	2003	2004	2005
Household saving ratio[a]	11.5	12.1	11.1	11.1	11.4
General government financial balance[b]	-1.5	-3.3	-4.1	-3.8	-3.6
Current account balance[b]	1.6	1.9	1.0	0.7	1.2
Short-term interest rate[c]	4.3	3.3	2.3	1.7	1.8
Long-term interest rate[d]	4.9	4.9	4.1	4.1	4.7

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

partial, and somewhat contradictory. While industrial production expanded rapidly in February, it was weak in January and broadly stable for the most recent three months. Similarly, a sharp pick up in consumer demand for manufactures in January was followed by weak growth in February. Business surveys appear to point towards a strengthening recovery, although here too, there are question marks. Reflecting steps taken by many firms to improve their balance sheets, managers expect investment to increase by 5 per cent in 2004, significantly more than they expected just three months earlier. In addition, they anticipate that both their own sales and those of their sectors as a whole have improved in recent months. However, this globally positive picture is tempered somewhat by export order-books, which have recently shown signs of weakening, following several months of improvement.

… but growth should pick up to about 2½ per cent in 2005…

Overall, GDP is projected to increase by 2 per cent in 2004, reflecting a gradual strengthening of the recovery during the course of the year. For 2005, improved conditions should see output increasing by more than potential, implying a gradual closing of the output gap. Stronger consumer and private-sector investment demand are projected to compensate for public-sector restraint as the recovery gains strength. While the acceleration in world trade will work in favour of exports, this will be

France: **Demand and output**

	2000	2001	2002	2003	2004	2005
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption	773.9	2.8	1.8	1.7	1.7	2.5
Government consumption	330.2	2.9	4.6	2.5	2.5	1.2
Gross fixed investment	287.2	2.1	-1.8	0.1	2.8	4.2
General government	45.8	-0.2	1.8	5.8	1.6	2.0
Household	67.7	0.8	0.7	0.8	1.4	1.7
Other	173.8	3.1	-3.7	-1.6	3.7	5.8
Final domestic demand	1 391.3	2.7	1.7	1.6	2.1	2.5
Stockbuilding[a]	11.7	-0.6	-0.2	-0.2	0.4	0.1
Total domestic demand	1 403.0	2.0	1.5	1.3	2.5	2.6
Exports of goods and services	406.2	1.9	1.7	-2.5	3.9	7.8
Imports of goods and services	387.5	1.6	3.3	0.3	5.9	8.1
Net exports[a]	18.6	0.1	-0.4	-0.8	-0.5	-0.1
GDP at market prices	1 421.7	2.1	1.1	0.5	2.0	2.6

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

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France: **External indicators**

	2001	2002	2003	2004	2005
			$ billion		
Goods and services exports	370.4	390.5	455.8	508	540
Goods and services imports	348.7	363.3	435.2	487	508
Foreign balance	21.6	27.3	20.6	21	31
Invisibles, net	- 0.5	1.1	- 3.3	- 8	- 7
Current account balance	21.2	28.4	17.3	14	24
			Percentage changes		
Goods and services export volumes	1.9	1.7	- 2.5	3.9	7.8
Goods and services import volumes	1.6	3.3	0.3	5.9	8.1
Export performance [a]	0.2	- 0.4	- 6.0	- 3.0	- 0.8
Terms of trade	1.0	2.8	0.2	1.7	2.0

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

offset somewhat by the cumulative impact of the appreciation of the euro, which will also tend to support imports. These will be further stimulated by higher domestic demand, so that net exports are continuing to make a negative contribution to growth in 2004 before turning more neutral in 2005. Initially, the employment response to the upswing should remain muted, but as output accelerates significant hiring is expected and the unemployment rate should begin to fall, reaching 9.5 per cent towards the end of 2005. Reflecting persistent excess supply and high unemployment, as well as the dissipation of the impact of tobacco price hikes, inflation is projected to moderate during the course of 2004, reaching about 1.3 per cent towards the middle of 2005.

… although a weaker outturn is also possible

The expected firming of the recovery could fail to materialise if the recent slowing of industrial output in the rest of Europe persists, if business confidence fails to strengthen further or if high unemployment prevents consumer confidence and demand from improving in the coming months. Similarly, if the euro were to continue to appreciate, in contrast to the technical assumption of an unchanged exchange rate, export growth would be weaker. Inflation would then be likely to come in lower and unemployment higher.

Italy

Activity stagnated in late 2003 and the beginning of 2004, but stronger growth is expected from mid-2004 and into 2005 as world demand accelerates and uncertainties due to domestic corporate governance problems recede. Employment growth has moderated since mid-2003 but should pick up again as the recovery gathers momentum. Inflation should drop below 2 per cent during the first half of 2004, responding to a widening output gap, before rising again during the ensuing recovery.

The public-sector deficit was around 2½ per cent of GDP in 2003. On present policies, slow economic activity and high government spending – together with the ending of one-off measures – could push it to around 3 per cent of GDP in 2004 and 4 per cent in 2005. Further restrictive budgetary measures are thus needed. Faster inflation convergence towards the euro area would call for lower unit labour cost increases and more competition in product markets.

Real GDP stalled in the fourth quarter of 2003…

After a pick-up in the third quarter of 2003, economic activity stagnated in the fourth quarter. Consumption increased only moderately in the second half of 2003, partly because of a drop in consumers' confidence that perhaps resulted from the bond defaults of some big companies. Investment in machinery and equipment decreased substantially in 2003, as capacity utilisation was at relatively low levels, especially for exporting companies. The appreciation of the euro during the year exacerbated the declining trend in Italy's export market share, by significantly more than appears to have been the case in other major euro area countries.

… and activity has remained muted

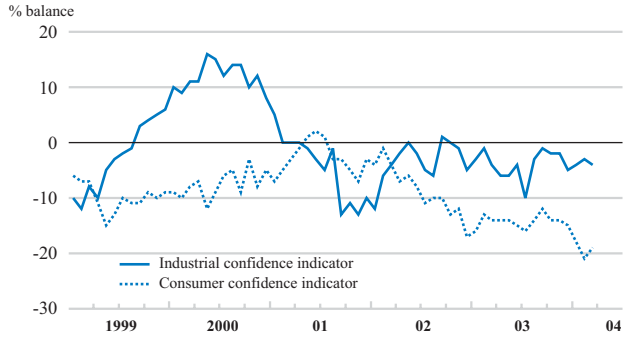
Economic activity is estimated to have remained almost flat in the first quarter of 2004 and is expected to grow at a muted pace in the second. Low levels of confidence will probably translate into a higher saving ratio, holding back the recovery of consumption. Vacillating business sentiment, together with a significant degree of spare capacity, may have offset any positive response of investment to higher exports in the first quarter of the year. On the other hand, construction investment is likely to have been more buoyant in part because of the acceleration of public works.

Labour cost pressures remain strong…

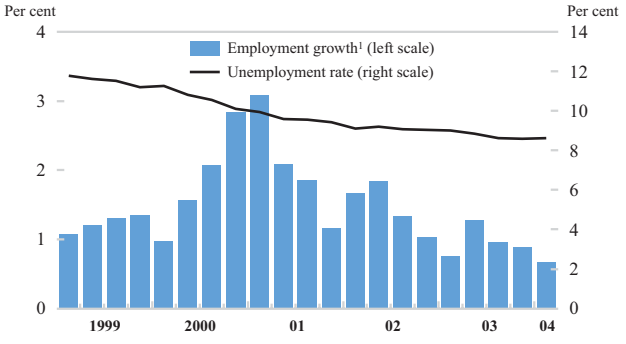
After some quarters of strong job creation induced by structural reforms, employment growth was more moderate as from mid-2003, especially in the South. The unemployment rate has levelled off at around 8½ per cent, with the South still posting a level as high as 17½ per cent. Since mid-2003, the implementation of old

Italy

Confidence is at low levels



The unemployment rate is levelling off



1. Year-on-year percentage changes.
Source: Statistical Office of the European Communities (Eurostat) and OECD.

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Italy: **Employment, income and inflation**

Percentage changes from previous period

	2001	2002	2003	2004	2005
Employment	2.0	1.5	1.0	0.5	1.3
Unemployment rate[a]	9.6	9.1	8.8	8.6	8.5
Compensation of employees	5.4	4.4	4.3	3.5	4.0
Unit labour cost	3.6	4.0	4.0	2.6	2.2
Household disposable income	5.0	3.8	2.5	3.5	4.9
GDP deflator	2.7	3.1	2.9	2.5	2.4
Harmonised index of consumer price	2.3	2.6	2.8	2.2	2.1
Private consumption deflator	2.7	3.1	2.5	2.3	2.3

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

contracts and the signing of new ones has pushed contractual wage growth to higher rates, notwithstanding stagnating productivity and activity. Thus, unit labour costs are increasing more rapidly than in the other major euro area countries.

… and the inflation differential with the euro area remains large

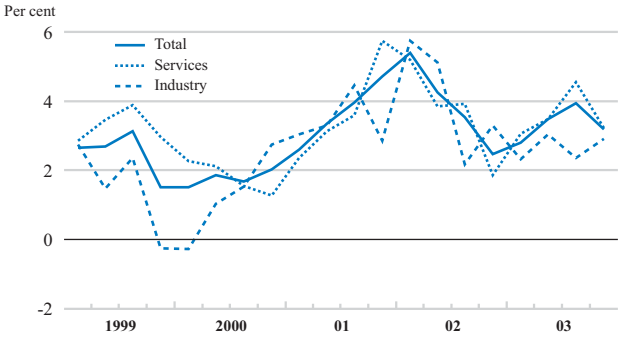
As a result, Italy's inflation differential with the euro area average remains large, both at the producer and at the consumer levels. A faster inflation decline is also hampered by increasing profit margins in sheltered sectors. Nonetheless, in the first half of 2004 prices are expected to decelerate further as a result of the high and widening negative output gap and the euro appreciation.

Public spending is rising fast

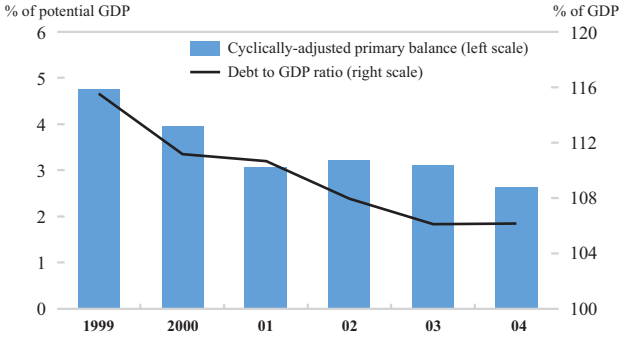
In 2003, the government budget deficit was around 2½ per cent of GDP, basically unchanged from the 2002 level, despite lower interest payments. The primary surplus decreased only slightly reflecting the offsetting effect of sluggish economic activity on the one hand and one-off operations – notably tax amnesties – on the other. At the same time, a rapid increase of social security contributions was mainly the consequence of the government's efforts to fight undeclared work, notably through the regularisation of illegal foreign workers. On the other hand, government spending rose rapidly, mainly following the renewal of contracts for part of public

Italy

Unit labour costs are rising rapidly[1]



The debt ratio has stopped falling[2]



1. Year-on-year percentage changes.
2. Data for 2004 are OECD projections.
Source: Italian Statistical Office and OECD.

Italy: **Financial indicators**

	2001	2002	2003	2004	2005
Household saving ratio[a]	15.8	16.0	15.0	15.1	15.3
General government financial balance [b,c,d]	-2.7	-2.4	-2.5	-3.1	-3.9
Current account balance[b]	-0.1	-0.8	-1.5	-2.0	-2.9
Short-term interest rate[e]	4.3	3.3	2.3	1.7	1.8
Long-term interest rate[f]	5.2	5.0	4.3	4.2	4.8

a) As a percentage of disposable income.
b) As a percentage of GDP.
c) Excludes the impact of swaps and forward rate transactions on interest payments. These operations are however included in the financial balance reported to the European Commission for purposes of the excessive deficit procedure.
d) The deficit of ANAS, the state road agency (around 0.2 per cent of GDP) is included in the projections, pending a decision by the statistical agencies.
e) 3-month interbank rate.
f) 10-year government bonds.
Source: OECD.

personnel, including in Ministries and in the education sector, and a bounce back in non-wage government consumption after the spending restrictions imposed in 2002.

The debt ratio continues to decline but from upwardly-revised levels

The public debt ratio declined by almost 2 percentage points in 2003 to reach 106 per cent, thanks to off-budget operations such as the sell-off of some of the Treasury's shares in a number of companies to *Cassa Depositi e Prestiti S.p.A.*, a joint-stock financial institution recently separated from the general government and now owned by the Treasury and bank foundations. However, the estimated level of the debt ratio was revised upward as from 1999 mainly because of an improved measurement of postal saving accounts held by the private sector, which is recorded as part of public debt. The upward revision for 2002 amounted to 1½ per cent of GDP.

Italy: **Demand and output**

	2000	2001	2002	2003	2004	2005
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption[a]	706.3	0.8	0.4	1.2	1.0	2.4
Government consumption	213.3	3.9	1.9	2.2	0.3	1.0
Gross fixed investment	231.4	1.6	1.3	-2.1	0.0	5.2
Machinery and equipment	136.3	0.8	-0.2	-4.9	-1.2	5.5
Construction	95.1	2.8	3.3	1.8	1.5	4.9
Residential	52.0	1.3	4.5	2.3	1.3	4.6
Non-residential	43.1	4.6	2.0	1.3	1.7	5.2
Final domestic demand	1 151.0	1.5	0.9	0.7	0.7	2.7
Stockbuilding[b]	5.0	-0.2	0.5	0.6	0.6	0.0
Total domestic demand	1 156.0	1.4	1.3	1.3	1.2	2.7
Exports of goods and services	330.0	1.6	-3.4	-3.9	2.4	5.7
Imports of goods and services	318.6	0.5	-0.2	-0.6	3.8	8.6
Net exports[b]	11.4	0.3	-0.9	-0.9	-0.4	-0.9
GDP at market prices	1 167.4	1.7	0.4	0.4	0.9	1.9

Note: Economic activity in 2004 and 2005 is subject to unusually large changes in the number of working days. The OECD projections are adjusted for this effect, so that, other things equal, GDP is lower for 2004 and higher for 2005 than in the unadjusted projections often presented by other forecasters. Applying the government's estimated adjustment factors, the OECD's projected growth rates of 0.9 and 1.9 for 2004 and 2005, respectively, would be equivalent to 1.1 and 1.7 per cent on an unadjusted basis.
a) Final consumption in the domestic market by households.
b) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
Source: OECD.

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Italy: **External indicators**

	2001	2002	2003	2004	2005
			$ billion		
Goods and services exports	310.0	321.6	373.6	411	430
Goods and services imports	294.2	310.1	365.7	405	436
Foreign balance	15.8	11.5	7.9	5	- 6
Invisibles, net	- 16.7	- 21.5	- 30.5	- 37	- 42
Current account balance	- 1.0	- 10.0	- 22.7	- 32	- 48
			Percentage changes		
Goods and services export volumes	1.6	- 3.4	- 3.9	2.4	5.7
Goods and services import volumes	0.5	- 0.2	- 0.6	3.8	8.6
Export performance [a]	- 0.2	- 5.9	- 8.0	- 4.9	- 3.1
Terms of trade	0.6	1.7	1.8	0.6	0.0

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

The deficit could reach 3 per cent of GDP in 2004

Because of only moderate GDP growth, a higher public spending baseline and the fading effects of one-off operations, the deficit ratio could be around 3 per cent in 2004, and slightly below that level if the statistical agencies decide to move the state road agency (ANAS) out of the general government. The debt ratio could stabilise instead of continuing to fall. In 2005, the termination of the remaining one-off operations could push the deficit ratio to around 4 per cent, unless further spending cuts and/or revenue-enhancing measures are implemented.

The recovery should strengthen from mid-2004

The economic recovery is expected to gather momentum from mid-2004. The expected resolution of corporate governance issues should restore confidence among households and companies. Consumption could then accelerate and investments respond more swiftly to renewed world demand. However, because of the unfavourable carryover from 2003 and slow activity at the beginning of 2004, growth for the whole year would be less than 1 per cent, working day adjusted.[1] Consumption is expected to accelerate further in 2005 because of higher real disposable income growth. Companies are projected to speed up investment as a response to rising exports. Nonetheless, because of the competitiveness losses resulting from the high real effective exchange rate, net exports are projected to contribute negatively to growth over the entire projection period. In 2005, GDP growth is projected to be close to 2 per cent. Employment growth should strengthen progressively but the unemployment rate is expected to decrease only slowly because of a rising labour supply. After bottoming out in mid-2004, inflation is expected to rise again as economic activity picks up.

Corporate governance issues represents a downward risk

There are upside and downside risks to the projections. Current uncertainties regarding corporate governance in Italy – if not tackled quickly – could widen the risk premia on corporate bonds or eventually lead to a credit crunch, halting the expected rise in investment. Moreover, falling government saving and the prospects of a rising government debt ratio could induce further precautionary saving in the private sector, thus slowing down the consumption recovery. On the other hand, steps towards more flexibility in the labour market could improve Italy's competitiveness, allowing it to benefit more fully from the current world recovery.

1. See note to the table "Demand and output".

United Kingdom

Robust growth will continue in 2004, leading to a closing of the output gap. With the housing market picking up again and the labour market strong, private consumption is likely to expand vigorously. Instability stemming from the housing market remains a risk. The recent appreciation of sterling will damp inflation in the short run, but underlying price pressures are building up.

A continuation of the recent gradual tightening of monetary policy should ensure that growth declines towards the trend rate by the end of 2005 and that inflation will not overshoot the 2 per cent target. The government deficit exceeded 3 per cent of GDP in 2003, and a slowdown in spending or a rise in taxation may be required to ensure that the "golden rule" can be comfortably met over the next cycle.

Growth is above trend

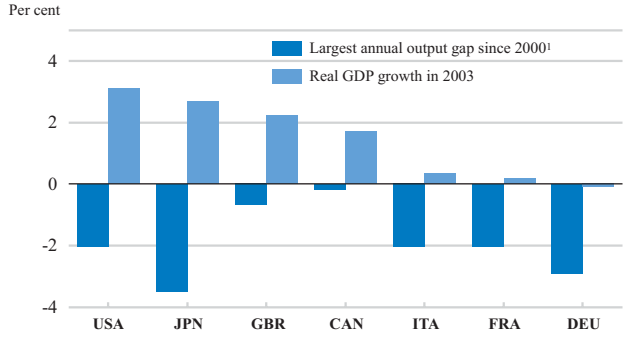
GDP grew by 2¼ per cent in 2003, accelerating in the third and fourth quarters to well above the trend growth rate of around 2½ per cent. The earlier and stronger recovery than in other major European economies, as well as the shallower downturn that preceded it, has been due to robust growth in domestic demand, especially in consumer expenditure which has grown at annualised rates of 4 per cent over the last three quarters of 2003. In contrast, the contribution of exports to the recovery has been weak, although the underlying growth in both export and import volumes was understated by about 3 percentage points in 2003 due to distortions related to the ending of fraudulent trade.

Inflationary pressures are still subdued

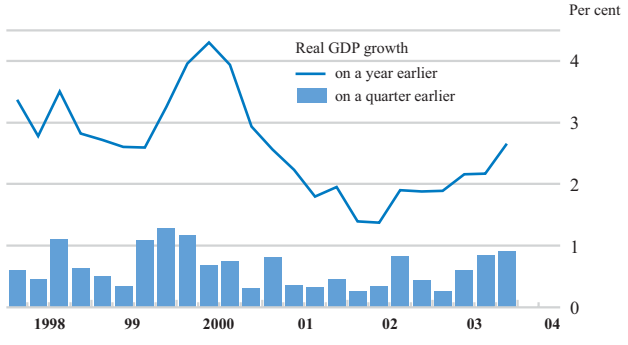
Despite above-trend growth and a fall in the unemployment rate to below its estimated structural rate of about 5 per cent, the annual inflation rate, as measured by the consumer price index, fell to 1.1 per cent in March. This is well below the new 2 per cent target adopted at the end of last year. Nevertheless, this may understate inflationary pressures because there are a few components of the index for which prices are falling substantially and which are damping the aggregate measure. The median rate of inflation across all categories of goods and services in the consumer price inflation basket, which currently may better reflect movements in the majority of items in the index, has clearly picked up over the last year. The rate of increase in average earnings

United Kingdom

The downturn has been relatively mild



Growth is strengthening



1. A negative ouput gap denotes output below potential output.
Source: National Statistics.

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

Percentage changes from previous period

	2001	2002	2003	2004	2005
Employment	0.8	0.7	0.9	0.8	0.7
Unemployment rate [a]	5.1	5.2	5.0	4.8	4.8
Compensation of employees	5.9	4.2	4.4	5.6	5.5
Unit labour cost	3.7	2.5	2.1	2.5	2.8
Household disposable income	7.0	3.0	3.8	4.7	5.0
GDP deflator	2.3	3.3	3.1	2.3	2.1
Harmonised index of consumer price [b]	1.2	1.3	1.4	1.4	1.9
Private consumption deflator	2.2	1.3	1.5	1.5	1.8

a) As a percentage of labour force.
b) The HICP is known as the Consumer Price Index in the United Kingdom.
Source: OECD.

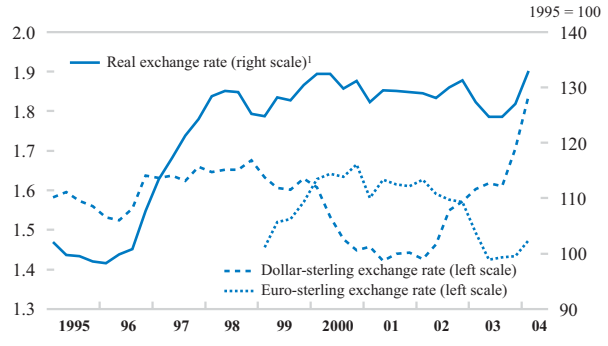
remained fairly stable at around 3½ per cent through 2003, although there has been a persistent positive differential of 1 to 2 percentage points in favour of the public over the private sector, with the former accounting for most of the recent employment growth. Since the end of 2003 there has been an increase in private sector earnings growth, which, while partly explained by an exceptional increase in financial-sector bonus payments, may also signal emerging wage pressures.

Monetary conditions have been tightened pre-emptively

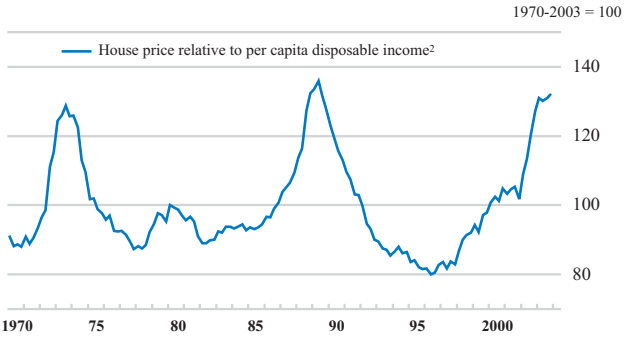
Following the first increase in nearly four years in November 2003, the Monetary Policy Committee of the Bank of England increased the repo rate by a further ¼ percentage point in February, emphasising a strategy of acting both gradually and pre-emptively. Monetary conditions have tightened further due to the appreciation of the effective exchange rate which rose nearly 6 per cent between the start of the year and the beginning of March, more than reversing the fall in the first half of 2003 and leaving the real exchange rate, measured in terms of relative consumer prices, at its highest level since the early 1980s.

United Kingdom

The exchange rate has recently appreciated



House prices are high relative to incomes



1. Based on relative consumer prices.
2. House prices from Office of the Deputy Prime Minister, seasonally-adjusted data by OECD.
Source: National Statistics and OECD.

United Kingdom: **Financial indicators**

	2001	2002	2003	2004	2005
Household saving ratio[a]	6.7	5.5	5.7	5.1	5.6
General government financial balance[b]	0.7	-1.6	-3.2	-2.9	-2.9
Current account balance[b]	-2.4	-1.7	-1.7	-2.3	-2.7
Short-term interest rate[c]	5.0	4.0	3.7	4.5	5.6
Long-term interest rate[d]	4.9	4.9	4.5	5.1	5.6

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

Some tightening of fiscal policy may be required

During the downturn the fiscal stance complemented monetary policy in being strongly supportive of activity, the general government financial balance, on a Maastricht basis, declining from a surplus of ¾ per cent of GDP in 2001 to a deficit of 3¼ per cent of GDP in 2003. In the absence of any explicit increase in tax rates, and with the output gap almost closed, revenue growth may not exceed by much the total planned increase in public expenditure of about ½ per cent of GDP over the next two years, implying that the deficit may only diminish slightly. The improvement in the current balance – of relevance to the government's "golden rule" that over the course of the cycle the public sector should only borrow to invest – will be somewhat greater because most of the increase in public spending relative to GDP will be on capital expenditure. Nevertheless, OECD projections are that the current deficit will not fall below 1 per cent of GDP over the next two years. This may be just sufficient to meet the golden rule over this cycle, which began in 1999, given past accumulated surpluses. However, it also suggests that, whenever the cycle is judged to end, further measures may be required to meet the rule over the next cycle. This fiscal outlook differs from the March budget projections which show greater

United Kingdom: **Demand and output**

	2000	2001	2002	2003	2004	2005
	Current prices billion £	Percentage changes, volume (2000 prices)				
Private consumption	626.5	3.1	3.4	2.5	3.8	2.5
Government consumption	177.8	1.7	2.5	1.8	2.0	1.9
Gross fixed investment	161.2	3.6	1.8	2.9	6.4	6.0
Public[a]	12.1	12.0	8.2	24.3	20.6	17.7
Private residential	36.8	0.9	13.2	4.5	6.9	4.4
Private non-residential	112.3	3.6	-2.6	-0.5	3.9	4.5
Final domestic demand	965.5	2.9	2.9	2.5	3.9	3.0
Stockbuilding[b]	5.3	-0.2	-0.2	0.0	0.2	0.1
Total domestic demand	970.8	2.7	2.8	2.5	4.1	3.1
Exports of goods and services	267.0	2.5	-0.4	-0.1	4.2	8.7
Imports of goods and services	286.6	4.5	4.0	0.9	7.5	9.3
Net exports[b]	- 19.6	-0.6	-1.3	-0.3	-1.2	-0.6
GDP at market prices	951.3	2.1	1.6	2.2	3.1	2.7

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

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United Kingdom: **External indicators**

	2001	2002	2003	2004	2005
			$ billion		
Goods and services exports	391.4	410.6	451.1	510	548
Goods and services imports	431.2	458.0	504.2	585	633
Foreign balance	- 39.8	- 47.4	- 53.0	- 74	- 86
Invisibles, net	5.9	20.9	22.3	26	26
Current account balance	- 33.8	- 26.5	- 30.7	- 49	- 59
			Percentage changes		
Goods and services export volumes	2.5	- 0.4	- 0.1	4.2	8.7
Goods and services import volumes	4.5	4.0	0.9	7.5	9.3
Export performance [a]	1.5	- 2.9	- 3.4	- 2.7	0.1
Terms of trade	- 0.7	3.1	0.8	0.6	- 0.5

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

buoyancy in the tax-to-GDP ratio, partly due to a stronger cyclical recovery based on a larger estimate of the output gap as well as a recovery in financial sector profits, so that current revenues and expenditures move back into balance.

Strong, but unbalanced, growth this year

Real consumer expenditure is likely to continue growing strongly into 2004. The housing market, which appears to have strengthened further in the first quarter of last year, continues to be an important supporting factor, particularly through mortgage equity withdrawal, which reached a record high of 8.3 per cent of disposable income in the fourth quarter of 2003. Nevertheless rising interest rates should moderate house price inflation and raise the saving ratio in 2005. The pick-up in business investment may be delayed as companies continue to divert funds into reducing pension fund deficits. Although export volumes will recover, they may not keep pace with the pick-up in world trade, given the appreciation of sterling. Growth of around 3 per cent in 2004 and 2½ per cent in 2005 will lead to a small positive output gap by the end of 2005.

Inflation will rise towards the 2 per cent target

Prospects for consumer price inflation will be determined by the outcome of conflicting forces: the ending of the downward effects of outlier items on aggregate inflation will push it upwards; so will demand pressures, as output progressively exceeds capacity; but a substantial fall in import prices due to the exchange rate appreciation will tend to lower it. The net effect may be a slight increase in inflation over the rest of this year. But as the effect of the appreciation wears off, demand pressures will push inflation up towards the 2 per cent target by the end of 2005.

Major risks stem from the housing market

The strength of recovery in continental Europe remains uncertain and downward surprises could worsen growth prospects and exacerbate the trade imbalance. An abrupt drop in house prices remains a domestic risk, although with underlying momentum in the economy so strong, prompt monetary easing could probably contain resulting macroeconomic instability.

Canada

The economy accelerated in the last quarter of 2003 as export volumes rebounded and inventories rose, but final domestic demand was weak. With lower import prices and the end of special factors, inflation has fallen below the central bank's target range. Going forward, the expected world trade recovery, together with a strengthening of internal demand, should help output growth return to above its potential rate later this year while inflation should remain subdued.

Given low inflation and doubts as to the strength of the rebound, the Bank of Canada has eased monetary policy three times this year. With planned budgetary restraint, the current policy mix appears appropriate, as long as vigilance is exercised over expenditure. However, the monetary stimulus will need to be withdrawn once robust economic growth is in place. Fiscal policy should continue to focus on maintaining the downward trend in the debt burden before ageing pressures accumulate.

Last year's appreciation of the exchange rate has dampened activity…

After a series of one-off negative shocks in the course of 2003, activity recovered in the last quarter of the year. However, inventory accumulation in cars and livestock (following the US ban on imports of Canadian beef) played a large part. Despite the impetus provided by the US recovery and higher receipts on the tourism account, imports increased faster than exports, and more recent trade flows suggest that the lagged effects of last year's sharp appreciation continue to depress the tradeables sector in early 2004. Specific factors also affected domestic demand towards the end of last year. Non-residential investment, especially transportation equipment, decelerated, while flat private consumption reflected weaker car purchases. In contrast, residential investment has been growing at a fast rate, spurred in particular by low mortgage rates and high consumer confidence.

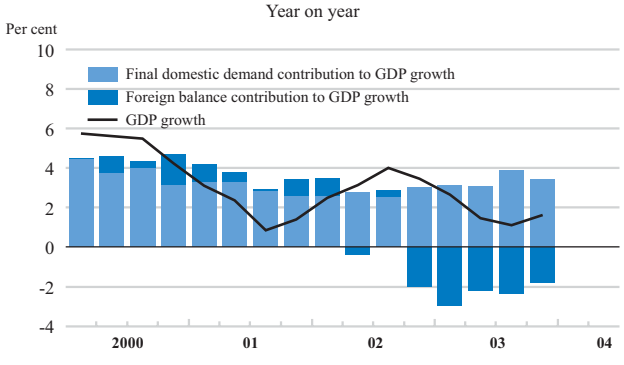
… while household income growth has slowed

Employment grew more strongly than output in 2003, but overall household disposable incomes expanded slowly, as increases in compensation per employee and in transfers were modest. Private consumption remained strong, except in the last quarter of 2003, and the household savings ratio fell to a historically low level. Fast growth in retail sales suggests that private consumption regained momentum in early 2004. Employment growth eased at the beginning of 2004, with weakness concentrated in part-time jobs. This, together with continued rise in the participation rate, has meant that the unemployment rate has fallen only slightly and wage

Canada

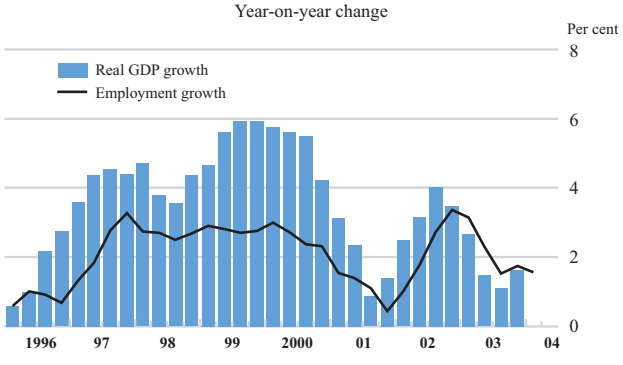
Net exports have dragged GDP growth down

Year on year



Growth has become more job intensive

Year-on-year change



Source: Statistics Canada.

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Canada: **Employment, income and inflation**

Percentage changes from previous period

	2001	2002	2003	2004	2005
Employment	1.1	2.2	2.2	1.7	1.5
Unemployment rate[a]	7.2	7.6	7.6	7.3	7.1
Compensation of employees	4.6	4.8	3.4	4.0	5.0
Unit labour cost	2.6	1.5	1.6	1.2	1.6
Household disposable income	4.4	4.7	2.8	3.7	4.9
GDP deflator	1.0	1.0	3.4	1.3	1.6
Consumer price index	2.5	2.2	2.8	1.1	1.7
Private consumption deflator	1.8	1.9	1.7	0.9	1.6

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

settlements have remained moderate. Core consumer price inflation has decelerated markedly over the past year, partly because of falling import prices. Low annual inflation rates in early 2004 also reflected the end of some special factors such as earlier marked increases in auto insurance premiums and lower prices for gasoline and fuel oil than a year ago.

Monetary policy is currently accommodative…

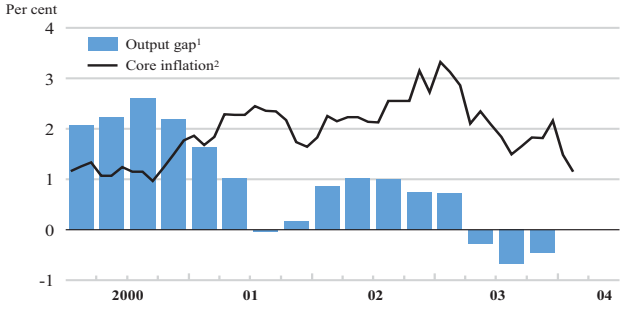
Against this background and with the absence of clear signs that activity was rebounding, the Bank of Canada lowered official interest rates in January, March and April 2004 by a total of 75 basis points to 2 per cent. With core inflation well below the mid-point of the target range, there is room to maintain the present monetary stimulus for the time being. But the Bank may need to start increasing rates toward their neutral level if, as expected, a robust expansion materialises during the year, narrowing the existing modest margin of spare capacity.

… and the fiscal policy stance remains neutral

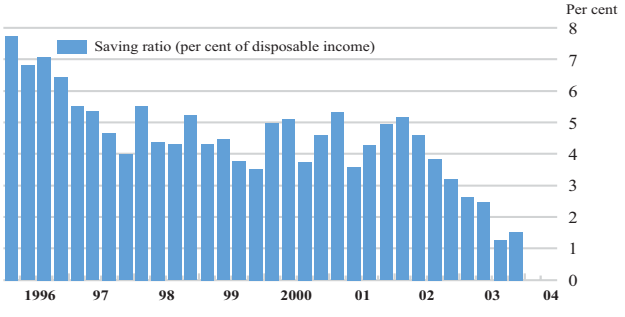
The March 2004 federal budget reflected the government's commitment to achieving balanced budgets or better and paying down public debt. It also introduced a long-term objective of lowering the ratio of federal debt to GDP to 25 per cent within 10 years, to help the economy to deal with ageing pressures. In addition, it

Canada

Inflation remains under control



The household saving ratio is at a historically low level



1. Per cent of potential GDP.
2. Year on year.
Source: Statistics Canada.

Canada: **Financial indicators**

	2001	2002	2003	2004	2005
Household saving ratio[a]	4.5	4.2	2.0	2.1	2.3
General government financial balance [b]	1.4	0.8	1.2	1.2	1.3
Current account balance[b]	2.4	2.0	2.1	2.2	2.3
Short-term interest rate[c]	4.0	2.6	3.0	2.1	2.9
Long-term interest rate[d]	5.5	5.3	4.8	4.7	5.3

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

incorporated some limited expenditure measures for a number of targeted priorities, including education and health. With the exception of an increase in the capital cost allowance rate for computer equipment and a full Goods and Services Tax rebate for municipalities, no new major tax reductions were announced. Still, a number of tax cuts for both corporations and households came into effect on January 2004, marking the final stage of the 2000 five-year tax reduction plan. Lower interest payments on debt along with a slight fall in the primary surplus would keep the general government surplus at about 1¼ per cent of GDP over the projection period.

Output is expected to grow slightly faster than potential in 2004-05…

Apart from a correction of the involuntary accumulation of inventories in the first quarter of 2004, GDP growth is expected to be above potential throughout the projection period, with the output gap being closed in mid-2005. A recovery of export demand should be one of the main drivers of the upswing, especially if the

Canada: **Demand and output**

	2000	2001	2002	2003	2004	2005
	Current prices billion CAD	Percentage changes, volume				
Private consumption	596.3	2.6	3.4	3.3	2.6	3.1
Government consumption	197.9	3.7	3.0	3.0	2.5	2.9
Gross fixed investment	207.4	4.3	1.3	4.9	6.3	4.9
Public[a]	24.4	10.3	11.8	5.8	4.6	4.5
Residential	48.5	10.3	14.2	7.5	5.7	0.8
Non-residential	134.5	1.0	-6.0	3.4	7.0	7.3
Final domestic demand	1 001.5	3.2	2.9	3.6	3.3	3.4
Stockbuilding[b]	12.1	-1.4	0.8	0.6	-0.2	0.0
Total domestic demand	1 013.6	1.4	3.8	4.2	3.2	3.4
Exports of goods and services	490.2	-3.1	-0.1	-2.1	6.6	7.1
Imports of goods and services	428.2	-5.0	0.6	4.0	8.2	7.9
Net exports[b]	61.9	0.6	-0.3	-2.3	-0.4	-0.1
Error of estimate[b]	0.0	0.0	0.1	-0.1	0.0	0.0
GDP at market prices	1 075.6	1.9	3.3	1.7	2.8	3.3

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

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Canada: **External indicators**

	2001	2002	2003	2004	2005
			$ billion		
Goods and services exports	311.5	302.2	328.6	356	384
Goods and services imports	270.6	270.1	293.1	319	346
Foreign balance	40.9	32.0	35.4	37	38
Invisibles, net	- 23.5	- 17.2	- 16.9	- 16	- 15
Current account balance	17.4	14.9	18.5	21	23
			Percentage changes		
Goods and services export volumes	- 3.1	- 0.1	- 2.1	6.6	7.1
Goods and services import volumes	- 5.0	0.6	4.0	8.2	7.9
Export performance [a]	- 1.2	- 3.4	- 6.1	- 1.1	- 1.4
Terms of trade	- 1.5	- 2.1	6.5	1.2	0.0

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

US economy continues to expand at a robust pace. Accordingly, the current account surplus could steadily widen. Private consumption should also rebound in 2004, boosted by the rise in real disposable incomes. Business investment may gradually pick up with strengthening domestic demand, rising capacity utilisation rates and ample profitability, whilst a slowdown in residential investment is foreseen. Inflation is projected to rise slightly in the second half of the year in line with a stabilisation of import prices, but it would remain below the centre of the target band. Employment growth should resume, albeit at a slower pace than in the last two years. The unemployment rate would decline slowly but steadily and reach a level close to the estimated level of structural unemployment by mid-2005.

… but there are both external and domestic risks to activity

The main downside risk to the projection is that a shallower rebound in world trade and/or more pronounced lagged effects of last year's currency appreciation may impede the export-led expansion. On the domestic side, household saving may increase at a faster pace than projected, depressing private consumption. By contrast, employment may be more buoyant and capacity pressures may emerge earlier than envisaged if, as experienced in the last few years, growth has become more labour intensive than in the mid-1990s.

Australia

The economy has rebounded strongly from its mid-2003 weakening, driven by private expenditure and an upturn in exports. Domestic demand may slow in 2004 and 2005, but the strengthening world economy and the breaking drought should boost exports and raise GDP growth, despite the strong Australian dollar. Although capacity utilisation is high and unemployment is at a record low, wage moderation, improved labour productivity and the currency appreciation should keep inflation under control.

The favourable economic outlook should permit a more neutral setting of monetary policy, to lock in price stability. Fiscal policy should remain geared to preserving a small budget surplus, which would help to maintain financial market confidence and keep long-term interest rates in check.

Above-average domestic spending growth has boosted output

Private consumption, housing construction and machinery and equipment investment performed strongly in the second half of 2003, against a background of supportive financial conditions, solid wage gains, a strong labour market, rising household assets and robust company profits. The global recovery and the breaking drought led to an upswing in export volumes, although export earnings were sapped by the appreciating Australian dollar. In spite of substantial terms-of-trade gains, soaring imports entailed a current account deficit of around 6 per cent of GDP in 2003. High consumer confidence and sanguine business expectations are consistent with strong economic activity in the first half of 2004.

Unemployment fell to a long-time low

Employment continued to grow vigorously, which reduced the unemployment rate to 5.6 per cent in late 2003, the lowest in 22 years and close to the estimated structural unemployment rate. The slowing of employment growth and a mild increase in unemployment in early 2004 are largely attributable to definitional changes in labour force statistics: the latest forward indicators point to further employment gains.

Monetary policy has begun to tighten

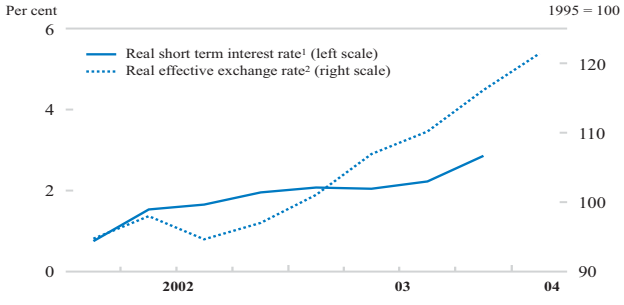
Actual and expected inflation remained under control in 2003 and in early 2004, helped by the exchange rate appreciation since mid-2002. With the case for an expansionary monetary policy disappearing after mid-year, the Reserve Bank raised the cash rate in two moves from 4¾ to 5¼ per cent in November and December 2003. But given the strength of domestic demand and firming labour market conditions, there is a risk of higher consumer price inflation once the effect of currency appreciation diminishes. Accordingly, the projection is based on a further gradual tightening of monetary policy, to bring the cash rate back to a "neutral" level of 5½ to 6 per cent in 2004 and 2005.

Fiscal policy aims at small budget surpluses over coming years

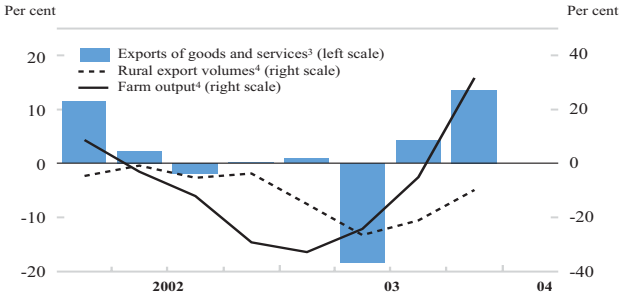
The latest data suggest that the Commonwealth budget will remain in surplus in fiscal year 2003-04, in spite of income tax cuts and increased spending for defence, domestic security, health and education. The projections are for a broadly neutral

Australia

Monetary conditions have tightened



Exports are recovering



1. 90-day bank accepted bill rate, deflated by core inflation.
2. Consumer price index based.
3. Volume growth at annual rate.
4. Year-on-year percentage change.

Source: OECD and Reserve Bank of Australia.

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Australia: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion AUD	Percentage changes, volume				
Private consumption	389.2	2.9	4.2	4.4	4.6	3.4
Government consumption	117.9	0.6	3.5	3.3	3.0	3.0
Gross fixed capital formation	148.7	-1.8	15.1	9.5	6.6	4.5
Final domestic demand	655.8	1.4	6.4	5.4	4.8	3.6
Stockbuilding [a]	3.5	-0.2	-0.3	1.1	0.1	0.3
Total domestic demand	659.3	1.3	6.1	6.5	4.8	3.8
Exports of goods and services	142.9	1.8	0.3	-2.3	5.7	8.3
Imports of goods and services	150.5	-4.2	11.9	11.4	10.8	9.0
Net exports [a]	- 7.6	1.4	-2.4	-3.1	-1.5	-0.7
Statistical discrepancy [a]	0.0	0.1	-0.2	-0.1	0.1	-0.4
GDP at market prices	651.6	2.7	3.4	3.3	3.8	3.5
GDP deflator	_	3.4	2.8	2.8	3.5	2.5
Memorandum items						
Consumer price index	_	4.4	3.0	2.8	2.0	2.5
Private consumption deflator	_	3.6	1.9	1.6	1.9	2.5
Unemployment rate	_	6.8	6.3	5.9	5.7	5.5
Household saving ratio [b]	_	2.5	-0.4	-2.0	-2.3	-2.3
General government financial balance [c]	_	-0.8	0.3	0.8	0.5	0.5
Current account balance [c]	_	-2.4	-4.3	-5.9	-5.2	-4.5

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

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

b) As a percentage of disposable income.

c) As a percentage of GDP.

Source: OECD.

fiscal policy stance and further small budget surpluses, which should bring net government debt down to 1 per cent of GDP in 2005.

Economic growth is likely to remain robust…

The projections are for accelerating growth this year and some slowing next. Domestic demand should lose some of its strength, mainly because of the expected cooling of the housing boom and less buoyant business investment. The projected downturn of the housing investment cycle is in line with declining lending to owner-occupiers and investors and a softening general sentiment about the property market. Business investment could weaken in response to rising credit costs and falling export prices. Conversely, employment gains, rapid increases in household wealth and few indications of financial stress (such as loan arrears and personal bankruptcy) should support household consumption. However, its growth may slow from its recent fast pace in response to rising credit costs and their effect on the high level of household debt as well as cooling house prices. Economic activity is expected to be boosted by stronger exports because of the global recovery and surging post-drought farm output. The strong Australian dollar will, nevertheless, entail a loss in export market shares, limiting the fall in the current external deficit to about 4½ per cent of GDP in 2005. Although the labour market should improve further, inflation is likely to remain within the Reserve Bank's 2 to 3 per cent target range, underpinned by currency appreciation, modest wage increases and strong productivity.

… though there are risks

There is an upside risk in the projection from more resilient residential investment. A further rise in the Australian dollar is a major downside risk for exports and GDP.

Austria

Output is expected to accelerate modestly, in line with the recovery in the euro area, which would not be enough for unemployment to fall significantly. The economy will benefit from a positive fiscal stimulus and strong growth in neighbouring accession countries. Tax reductions will raise the structural deficit in 2005, notwithstanding ongoing efforts to reduce public sector spending.

Further reductions in government outlays are necessary in view of relatively high debt levels and remaining ageing-related spending commitments. Further steps to improve incentives to work among older workers and women would help to offset the adverse longerterm economic effects of ageing.

Activity was weak in 2003 but has picked up recently

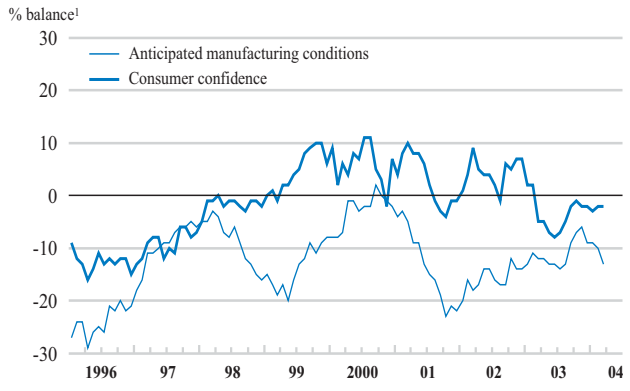
In line with sluggish activity in the euro area, economic growth remained weak throughout 2003, although an expansionary fiscal stance helped to keep growth above the euro area average. Exports were held back by stagnating activity in Germany, which absorbs about a third of Austrian exports, offsetting flourishing trade with eastern Europe and the Balkans. Consumer spending was damped by adverse labour market conditions, with the unemployment rate reaching historically high levels, although internationally comparable figures show that unemployment in Austria remains among the lowest in the OECD. Vacancies continued to fall and employment grew slightly, supported by subsidised part-time employment of older workers. Boosted by tax breaks, private investment grew in spite of low capacity utilisation. The inflation rate was among the lowest of the euro area member countries, reflecting relatively moderate wage settlements and a historically large output gap. Foreign as well as domestic orders in manufacturing rose in the fourth quarter, but receded somewhat in early 2004, pointing to an only modest pickup of production. Consumer confidence has shown signs of recovering from the very low levels recorded in 2003 but remains subdued.

External developments support growth…

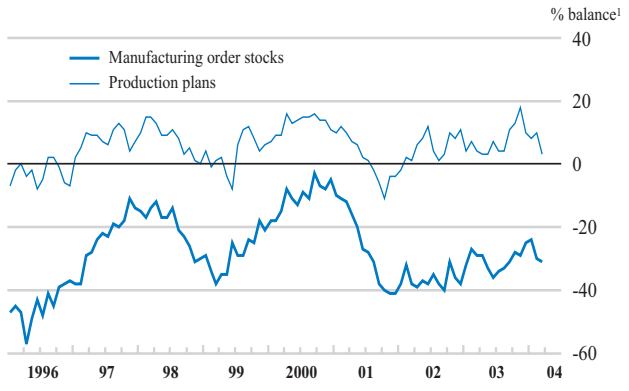
Accelerating world trade growth and the improved economic outlook for the euro area will boost exports, as will the removal of remaining non-trade tariff barriers *vis-à-vis* European Union accession countries and their favourable economic prospects. Low inflation rates in Austria in recent years have improved competitiveness relative to trading partners in the common currency area, although the recent euro appreciation will have adverse effects on exports outside the euro area.

Austria

Confidence was improving until recently



Production plans still indicate expansion



1. Seasonally adjusted balance of positive and negative replies.
Source: OECD, *Main Economic Indicators*.

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Austria: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption	117.4	1.4	0.8	1.3	1.3	2.7
Government consumption	39.7	-1.4	0.1	0.7	0.7	0.7
Gross fixed capital formation	49.7	-2.3	-2.8	4.3	3.3	4.4
Final domestic demand	206.8	0.0	-0.2	1.9	1.6	2.7
Stockbuilding [a]	1.0	-0.1	-0.1	0.1	-0.1	0.0
Total domestic demand	207.8	-0.1	-0.3	1.9	1.5	2.7
Exports of goods and services	103.9	7.5	3.7	1.0	4.7	6.8
Imports of goods and services	105.2	5.9	1.2	3.0	4.3	7.6
Net exports [a]	- 1.3	0.9	1.4	-1.0	0.3	-0.3
GDP at market prices	206.7	0.8	1.4	0.7	1.5	2.4
GDP deflator	_	2.1	1.4	2.0	1.6	1.1
Memorandum items						
Harmonised index of consumer price	_	2.3	1.7	1.3	1.2	1.1
Private consumption deflator	_	2.2	1.1	1.8	1.3	1.1
Unemployment rate [b]	_	4.8	5.5	5.7	5.9	5.8
Household saving ratio [c]	_	7.5	8.2	8.5	8.5	9.1
General government financial balance [d]	_	0.1	-0.4	-1.4	-1.3	-1.9
Current account balance [d]	_	-1.9	0.4	-0.6	-0.2	-0.3

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

… and deficit-financed tax cuts will boost domestic demand in 2005

The fiscal stance is likely to be broadly neutral this year, but will turn expansionary in 2005, when planned tax cuts will be offset only partially by expenditure restraint. As a result, the fiscal deficit is likely to rise to almost 2 per cent of GDP in 2005, with the structural deficit deteriorating significantly. Reductions in personal income tax rates, more generous child benefits and lower corporate taxes, phased in from 2004 onwards but mostly introduced in 2005, will amount to about 1.3 per cent of GDP, boosting disposable household income and corporate profitability. Lower pension outlays and continued cuts in public employment will reduce the share of public expenditure in GDP, while higher fuel and energy taxes will provide additional revenues, mitigating the effects of the tax cuts on the budget balance.

Growth will be insufficient to cut unemployment significantly

While low interest rates will keep monetary conditions reasonably favourable for growth, economic recovery is likely to proceed at only a moderate pace this year. Exports will lead the expansion, contributing to an improvement in the current account, while investment will provide further impetus in 2005. Consumption growth is expected to be modest, accelerating only in 2005. The mildness of the recovery will be reflected in persistent unemployment, which should fall slightly towards the end of the projection period. Inflation will remain low on account of output being below potential, wage growth being low and prices of imported goods declining.

Prospects depend on external developments and fiscal consolidation

While Austria has been systematically diversifying its trade links in recent years, a stalling recovery in Germany would dent business prospects, as would a further appreciation of the euro. Progress on achieving lasting spending reductions could improve confidence in the sustainability of the envisaged tax cuts.

Belgium

Economic growth picked up sharply in the second half of 2003 and should reach 2½ per cent by 2005 as the international economy recovers and business investment strengthens. Unemployment is likely to peak in 2004 and inflation to fall to below 1½ per cent in 2005, reflecting low increases in unit labour costs.

The government needs to slow the growth in primary expenditures so as to put public finances on a sustainable path and make room for the planned further labour income tax cuts. This should be complemented by social security reforms to increase work incentives, especially for older workers and the long-term unemployed.

Economic recovery is underway…

The recovery in export markets pushed economic growth up markedly in the second half of 2003, to an annualised quarterly rate of around 2.5 per cent. For 2003 as a whole, economic growth of 1.1 per cent was considerably higher than in Belgium's major trading partners, reflecting strength in private consumption expenditures and a larger contribution from stockbuilding. The decline in the household saving rate supported growth in consumption and reflected an adjustment to more normal levels following rises in the two preceding years. The number of businesses judging their stock levels to be too high fell sharply in the second half of 2003. Business investment turned around in 2003, supported by improving profitability and demand prospects and low interest rates. Capacity utilisation in manufacturing has been rising and both business and consumer confidence have improved significantly since mid-2003.

… with underlying inflation stable

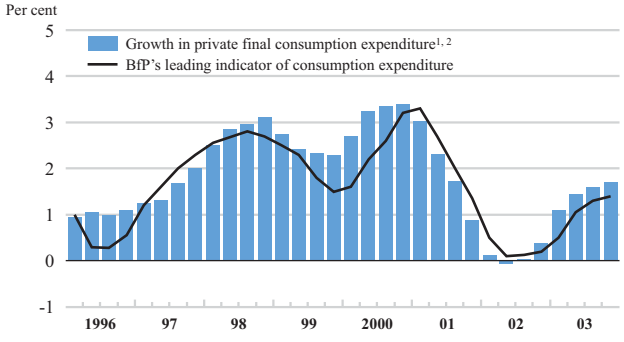
Wage increases slowed sharply in 2003, reflecting deteriorating labour market conditions and the lower wage accord for 2003-04 (an indicative norm of 5.4 per cent for hourly wages), with most of this increase delayed until 2004. While this slowdown has brought private-sector wage increases over the past three years back into line with those in the three neighbouring countries (Germany, France and the Netherlands), relative unit labour costs have, nevertheless, risen by 4 percentage points since 1996. Underlying inflation (including administrative prices) has been stable since early 2003 at around 1¾ per cent.

Non-recurring factors have offset the cyclical budget deterioration

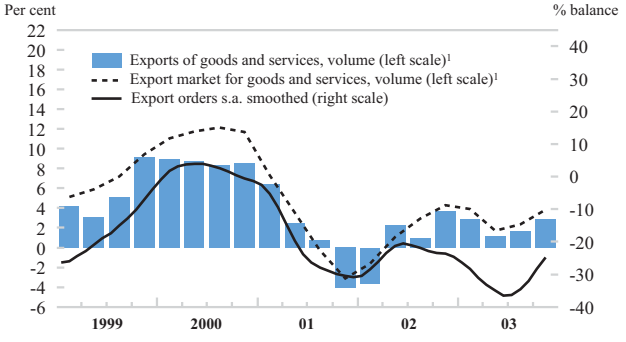
The budget surplus is estimated to have been 0.2 per cent of GDP in 2003, little changed from the previous year. Non-recurring factors – notably a € 5 billion (1.9 per cent of GDP) capital transfer from Belgacom in exchange for taking over its pension liabilities, less the bringing forward of € 1.3 billion in payments to the SNCB (railways) and

Belgium

Consumption expenditure has strengthened



Exports are recovering



1. Year-on-year percentage change.
2. Four-quarter moving average.

Source: National Accounts Institute; National Bank of Belgium; Federal Planning Bureau; and OECD.

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Belgium: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion €	Percentage changes, volume (2000 prices)				
Private consumption	134.1	0.9	0.4	1.7	1.7	2.2
Government consumption	52.3	2.5	1.9	2.8	1.6	1.6
Gross fixed capital formation	52.4	0.5	-2.1	1.1	2.8	4.8
Final domestic demand	238.8	1.2	0.2	1.8	1.9	2.6
Stockbuilding [a]	1.0	-0.7	0.8	0.7	0.0	0.0
Total domestic demand	239.8	0.5	1.0	2.5	1.9	2.6
Exports of goods and services	212.4	1.3	0.8	2.1	5.9	7.3
Imports of goods and services	204.5	1.1	1.1	3.8	5.9	7.4
Net exports [a]	7.9	0.2	-0.3	-1.4	0.1	0.1
GDP at market prices	247.7	0.7	0.7	1.1	2.0	2.6
GDP deflator	_	1.8	1.7	1.7	1.8	1.7
Memorandum items						
Harmonised index of consumer price	_	2.4	1.6	1.5	1.6	1.4
Private consumption deflator	_	2.5	1.7	1.8	1.7	1.4
Unemployment rate	_	6.7	7.3	8.1	8.3	8.0
Household saving ratio [b]	_	13.8	15.1	14.3	14.1	14.1
General government financial balance [c]	_	0.5	0.0	0.2	-0.2	-0.7
Current account balance [c]	_	3.7	5.3	3.1	3.1	3.5

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

La Poste scheduled for 2004 – contributed some 1.3 per cent of GDP to this outcome. The continuation of the personal income tax reform will lead to further revenue losses in 2004 but this should be more than offset by a tax amnesty, which is expected to yield a one-off increase in tax receipts of 0.3 per cent of GDP, and by increases in indirect taxes (0.2 per cent of GDP). In the context of continued efforts to stimulate employment growth, employers' social security contributions are being cut by a further 0.2 per cent of GDP in both 2004 and 2005. The last index-linked increase of 2 per cent in social benefits and public-sector wages was in mid-2003 and the next such increase is likely to be at the end of 2004. The budget deficit should be small (0.2 per cent of GDP) this year, rising to ¾ per cent of GDP in 2005 when most of the non-recurring factors finally drop out. Adjusting for non-recurring factors, the OECD estimates that the structural budget balance deteriorated by 0.6 per cent of GDP in 2003 and that this will be only partly reversed by 2005.

Growth should exceed the potential rate by 2005

The export-led recovery is projected to continue to build, despite the appreciation of the euro, lifting economic growth to 2½ per cent in 2005. This would be above the estimated potential rate of just over 2 per cent. Business investment should continue to recover over the forecast period. The unemployment rate is projected to gradually ease from its current peak of 8½ per cent to just below 8 per cent by the end of 2005. Underlying inflation should fall to 1.6 per cent in 2004, owing to the past appreciation of the euro and low growth in unit labour costs, and ease somewhat further in 2005. The main downward risks to these projections are that export growth could suffer from a further euro appreciation and weaker growth than projected in Belgium's main trading partners.

Czech Republic

Strong consumer spending underpinned a pick-up in growth to about 3 per cent in 2003. Growth is projected to rise progressively further to about 3½ per cent in 2005, due inter alia *to strong exports as capacity based on foreign direct investment comes on stream. Layoffs from the still-large number of domestic enterprises in need of restructuring will entail continuing net declines in employment this year, though it could stabilise in 2005 as new job creation picks up.*

The introduction of a legally binding multi-year budgetary framework focusing on output performance rather than financial inputs would help to achieve the intended fiscal consolidation. Monetary policy needs to stay vigilant and make sure that policy-related one-off price changes do not feed into inflationary expectations, by taking early action if necessary.

Growth has picked up and is becoming more broad-based

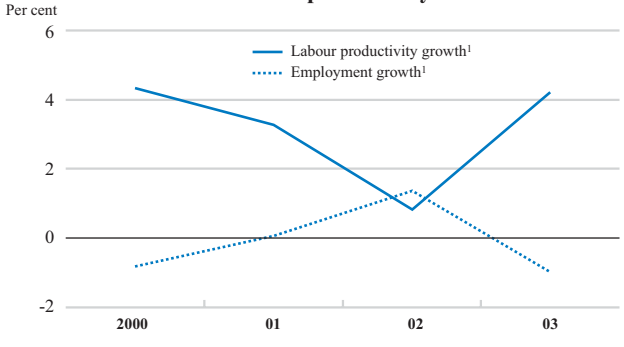
Private consumption grew strongly in 2003, boosted by large ongoing increases in wages, especially in the public sector, low inflation, low interest rates and a boom in consumer credit. However, consumption growth started to abate in the last quarter. On the other hand, investment picked up, fed by the recovery of exports, higher budgetary allocations for infrastructure, and modernisation of the financial sector in the wake of foreign take-overs. Ongoing enterprise and sectoral restructuring pushed layoffs above hiring so that employment fell throughout the year. The current account deficit started to narrow at the beginning of 2004 on the back of booming foreign trade, driven by a strong pick-up of export growth.

Fiscal consolidation is complicated by surprises and incomplete reform

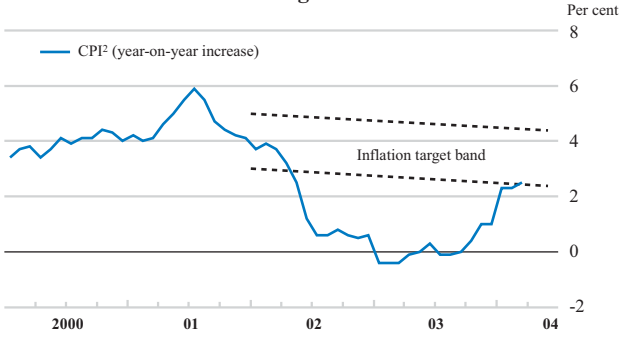
At about 4 per cent of GDP, the 2003 general government deficit on an adjusted Government Financial Statistics basis turned out to be about 2½ percentage points lower than expected because the state infrastructure fund was unable to spend budget allocations and there was a positive surprise on value-added tax (VAT) revenues. According to the July 2003 medium-term consolidation framework, the government aims to bring the general government deficit down to 4 per cent by 2006. Consolidation measures have been adopted for this year both on the expenditure and revenues sides, but are less than initially envisaged. In particular, revenue expectations have been reduced by the 3 percentage points decrease in the standard rate of VAT and the transfers introduced to compensate households for some VAT-related price increases arising from harmonisation with European Union legislation.

Czech Republic

Restructuring lowers employment and boosts productivity



Undershooting of inflation targets is coming to an end



1. Business sector, OECD estimates for 2002 to 2003.
2. Consumer price index.

Source: Czech National Bank and OECD.

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

	2000	2001	2002	2003	2004	2005
	Current prices billion CZK	Percentage changes, volume (1995 prices)				
Private consumption	1 074.1	3.6	4.0	5.4	3.3	3.2
Government consumption	388.3	5.3	5.7	0.0	0.2	0.1
Gross fixed capital formation	561.5	5.5	0.6	3.7	4.6	4.4
Final domestic demand	2 023.9	4.5	3.2	3.9	3.2	3.1
Stockbuilding [a]	27.2	0.7	0.3	0.3	0.0	0.0
Total domestic demand	2 051.1	5.1	3.4	4.1	3.1	3.0
Exports of goods and services	1 385.9	11.9	2.8	6.7	9.5	9.7
Imports of goods and services	1 452.2	13.6	4.3	7.6	8.8	8.6
Net exports [a]	- 66.3	-2.3	-1.7	-1.6	-0.4	0.0
GDP at market prices	1 984.8	3.1	2.0	2.9	3.1	3.4
GDP deflator	_	6.3	2.6	2.9	3.3	2.5
Memorandum items						
Consumer price index	_	4.8	1.8	0.1	3.0	2.5
Private consumption deflator	_	3.8	-0.1	0.1	3.0	2.5
Unemployment rate	_	8.2	7.3	7.8	8.3	8.3
General government financial balance [b,c]	_	-2.7	-3.9	-4.1	-5.2	-4.9
General government financial balance (ESA) [b,d]	_	-5.8	-7.1	-7.3	-8.4	-8.1
Current account balance [b]	_	-5.7	-6.5	-7.1	-6.2	-5.9

a) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
b) As a percentage of GDP.
c) Based on the IMF methodology for Government Financial Statistics (GFS) adjusted for losses of transformation institutions and financial operations.
d) The difference between GFS-adjusted and European Standard Accounts (ESA) figures cannot be split between one-off and permanent factors. For 2003 (for which ESA accounts are not available) and the projection, it is assumed that it is permanent and the GFS-adjusted profile is imposed.
Source: OECD.

Inflation and interest rates are likely to remain low

Fierce competition among big retail chains and the pass-through into domestic prices of exchange-rate appreciation in the first three quarters resulted in flat consumer prices in 2003. Inflation performance was thus 1½ percentage points below the lower bound of the target band. Changes in the VAT system and increases in a number of regulated prices should bring inflation back to the lower half of the target band in 2004, where it should remain in 2005 as the waning effect of this year's price hikes is offset by the expected closing of the output gap. Unless wage growth picks up more strongly than expected, monetary conditions could plausibly remain easy over the projection period, with nominal interest rates following the evolution of the euro zone, and real interest rates falling strongly in 2004.

Budget consolidation will contribute to a better balanced recovery

Consumption growth is likely to be damped by fiscal consolidation measures, notably cuts in central government employment and the containment of public wages, and by increased consumer prices. Export growth should be maintained in 2005, allowing investment spending to continue. Thus GDP growth will accelerate slightly to about 3½ per cent in 2005. Due to ongoing layoffs in the business sector, employment growth is unlikely to rebound before 2005, and no reduction is expected in the unemployment rate. The uncertainty regarding the capacity of the government to implement budget consolidation plans effectively remains the main negative risk to the projection.

Denmark

The economy virtually stagnated in 2003, reflecting weakness in both domestic demand and exports. Prospects look brighter for 2004 and 2005, when household spending should accelerate and exports pick up. Labour market pressures eased significantly last year, and collective wage negotiations in spring 2004 have delivered lower compensation increases than the previous rounds. Wage and price inflation should remain contained, as output is projected to stay below potential over the projection period.

On top of the tax cuts implemented at the beginning of 2004, the government recently announced further measures to boost activity. Although this extra easing is relatively small, it risks coinciding with new interest rate cuts and already accelerating output. Some of this stimulus will therefore need to be removed as the expansion gathers steam. Further initiatives to raise labour force participation would help to sustain the upturn and bring employment closer to the government's long-term target.

Increasing household spending signals recovery

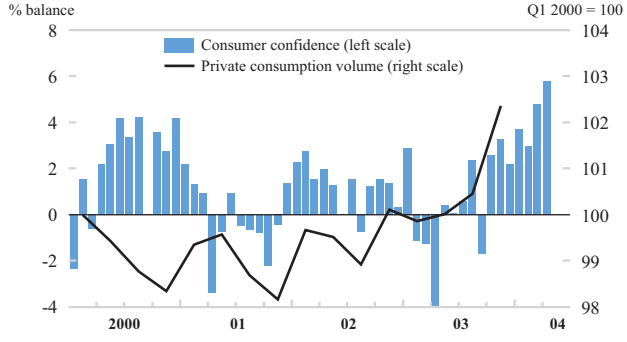
Activity slowed last year as businesses reduced investment and exports were restrained by a steady appreciation of the krone *vis-à-vis* non-euro currencies. However, private consumption picked up strongly in the fourth quarter, which also saw solid private sector investment and renewed growth in exports. The pick-up in household spending probably came in anticipation of the previously-announced tax cuts for 2004, and rising consumer confidence points to sustained high spending. The steady worsening of labour market conditions last year has brought the standardised unemployment rate up to 6 per cent, more than 1 percentage point above its estimated structural level, and the weak labour market has led to a moderation of wage increases in the private sector. Consumer price inflation has also fallen markedly recently, partly because of one-off factors and a reduction in excise duties, but also reflecting the lower underlying inflation, which has followed from the negative output gap.

Fiscal policy is boosting household income…

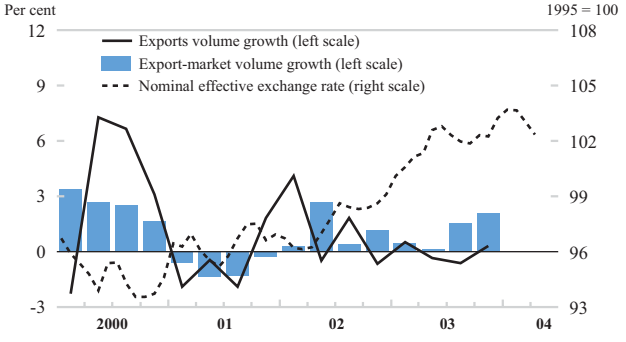
Despite indications that a recovery is getting under way, the government has recently proposed various measures to boost household incomes and consumption, including advancing to 2004 the additional tax cuts that were to be phased in over 2005-07 and suspending the compulsory Special Pension contributions this year and next. Other government proposals include bringing forward public investments to 2004 and further encouraging housing investment. Even so, a general government surplus of around 1 per cent of GDP is projected this year and next, which however implies a reduction of the primary structural surplus given projected growth in excess

Denmark

Private consumption has picked up



Exports have been restrained by a strong krone



Source: Statistics Denmark and OECD.

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Denmark: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion DKK	Percentage changes, volume (1995 prices)				
Private consumption	610.5	-0.2	0.6	1.1	3.4	3.1
Government consumption	323.3	2.7	2.1	0.5	0.8	0.6
Gross fixed capital formation	258.1	4.9	4.5	-0.4	4.0	4.3
Final domestic demand	1 191.9	1.8	2.0	0.6	2.9	2.8
Stockbuilding [a]	10.9	-0.7	0.0	-0.4	0.2	0.1
Total domestic demand	1 202.8	1.0	1.9	0.1	3.1	2.9
Exports of goods and services	564.0	4.4	4.8	0.3	3.0	6.8
Imports of goods and services	487.8	3.4	7.3	-0.4	5.8	7.7
Net exports [a]	76.2	0.6	-0.8	0.3	-1.1	-0.2
GDP at market prices	1 279.0	1.6	1.0	0.4	1.9	2.6
GDP deflator	_	2.1	1.6	2.1	2.1	2.3
Memorandum items						
Consumer price index	_	2.3	2.4	2.1	1.6	1.9
Private consumption deflator	_	2.5	2.1	1.8	1.7	1.8
Unemployment rate	_	4.3	4.6	5.6	6.0	5.8
Household saving ratio [b]	_	7.1	8.0	7.8	7.0	6.1
General government financial balance [c]	_	2.8	1.6	1.2	0.9	1.1
Current account balance [c]	_	3.1	2.0	3.0	2.6	2.8

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

of potential and sharp declines in interest payments. One risk to public finances is the prospect of amalgamations of local governments that could involve significant adjustment costs over coming years.

… along with an easing of monetary policy

Monetary conditions continue to follow euro area developments, with a cut in interest rates projected in the short term followed by a gradual tightening in 2005. European Central Bank interest rates, to which Danish interest rates are aligned, will probably be better suited for the Danish economy than previously expected, as the output gap has widened and now more closely resembles that of the euro area.

Growth should accelerate in 2004 and 2005…

With accommodative fiscal and monetary settings, output is projected to increase by around 2 per cent in 2004 and 2½ per cent in 2005. The growth of private consumption is likely to pick up in the second half of 2004 as households react to the fiscal package, and a rebound of exports due to recovering foreign demand may also add to increased activity this year. Developments in household spending and exports should continue to be strong in 2005, while business investment may provide further underpinning of growth. The unemployment rate is projected to fall back as the business sector starts to increase hiring during 2004, but wage and price increases should be moderate throughout the projection period as output remains below its potential level.

… although this is highly dependent on household behaviour

The main source of uncertainty is the reaction of households to the policy stimulus, especially the degree to which they turn to other tax-deductible pension schemes as substitutes for the Special Pension contributions. The strength of the European recovery and exchange rate developments constitute further risks to the outlook through their effect on exports.

Finland

Growth of about 2 per cent in 2003 was driven by consumption which has been stimulated by a substantial fiscal easing and low interest rates. A pick-up in world trade is likely to boost growth over the coming years, with output rising above potential in 2005 and unemployment edging down.

Recent tax cuts will sustain demand, but may ultimately make it more difficult to cope with the future fiscal implications of ageing. The room for further tax cuts is narrow and will require significant spending restraint by central government and municipalities. It is unlikely that cuts in labour taxes will be sufficient to achieve the government's goal of a substantial increase in employment, unless accompanied by other reforms.

Growth has been consumption-led

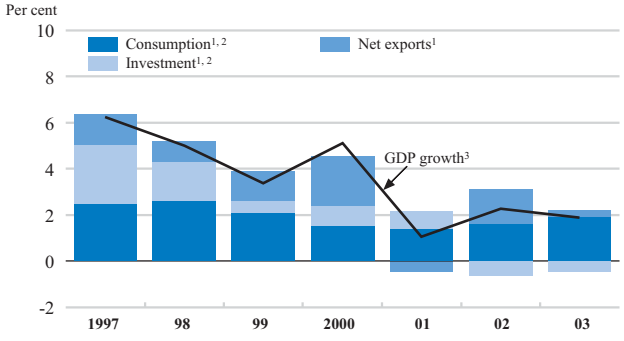
GDP growth of nearly 2 per cent in 2003 was well above the ½ per cent recorded for the euro area. Real private consumption grew by 3½ per cent, fuelled by tax cuts as well as low interest rates. Fixed investment fell, however, and export volumes, though erratic, were only slightly up year-over-year.

Tax cuts are sustaining consumption

Fiscal stimulus, as measured by the decline in the cyclically-adjusted budget surplus, has been an important factor sustaining growth since 2000. In 2003 the fiscal stimulus exceeded 1½ per cent of GDP, and was larger than for any other OECD country. Nevertheless, the general government surplus was still 2 per cent of GDP in 2003, although it is essentially due to pension fund surpluses, with the combined balance for the central government and municipalities moving into deficit. Income tax rates were cut by 1 percentage point at the beginning of 2004, following a similar reduction in 2003, and the earned income allowance for municipal income taxation was increased, which should raise incentives to work at low income levels. These measures, together with a cut in alcohol taxation by a third to counter cross-border trade, contribute to a further fiscal stimulus of ¾ per cent of GDP in 2004, and for 2005 the government has already proposed reductions in corporate taxation. While Finland has a lot of room left for fiscal manoeuvre with respect to the Maastricht criteria, the future costs of ageing and the government's own objective of balancing central government finances restrict the room for further tax cuts. With the ongoing

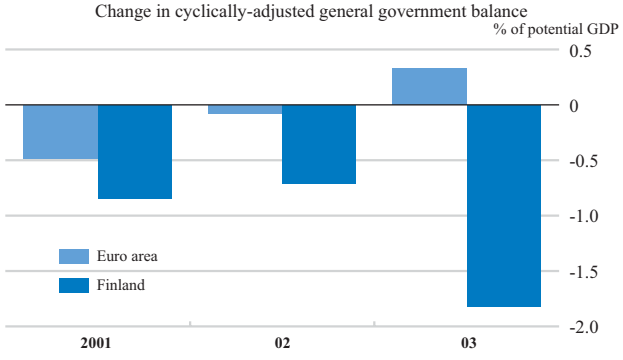
Finland

Consumption has sustained growth



The fiscal stance has been very expansionary

Change in cyclically-adjusted general government balance



1. Contribution to GDP growth.
2. Public and private.
3. GDP growth can deviate from the sum of the components shown because of stockbuilding and statistical discrepancy in the national accounts.

Source: OECD.

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Finland: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion €	Percentage changes, volume (2000 prices)				
Private consumption	64.4	1.8	1.5	3.6	3.0	2.7
Government consumption	26.9	2.4	3.8	0.7	1.4	1.4
Gross fixed capital formation	25.8	3.9	-3.1	-2.3	1.8	3.7
Final domestic demand	117.1	2.4	1.0	1.6	2.4	2.6
Stockbuilding [a, b]	1.0	-0.7	-0.2	0.1	0.0	0.0
Total domestic demand	118.1	1.7	1.3	1.8	1.7	2.6
Exports of goods and services	55.9	-0.8	5.1	1.3	4.6	9.2
Imports of goods and services	43.9	0.2	1.9	0.9	4.8	7.8
Net exports [a]	12.0	-0.4	1.5	0.3	0.4	1.4
GDP at market prices	130.1	1.1	2.3	1.9	2.5	3.7
GDP deflator	_	3.0	0.9	0.7	0.6	1.7
Memorandum items						
Harmonised index of consumer price	_	2.7	2.0	1.3	0.5	1.6
Private consumption deflator	_	3.5	3.1	1.7	0.8	2.0
Unemployment rate	_	9.1	9.1	9.1	8.9	8.3
General government financial balance [c]	_	5.2	4.3	2.1	1.6	2.1
Current account balance [c]	_	7.2	7.6	5.7	6.5	6.9

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

global recovery, there is no need for additional fiscal stimulus, and any further tax cuts will therefore need to be matched by spending restraint.

Export demand should drive the recovery

Output growth may increase to 2½ per cent in 2004 and almost 4 per cent in 2005, as the pick-up in world trade will strengthen export demand. Net exports are projected to add ½ and 1½ percentage points to GDP growth in 2004 and 2005, respectively, although there may be some loss in export market share because of the appreciation of the euro. Stimulated by tax cuts, consumption will continue to grow strongly in 2004, but should moderate in 2005. Business investment is expected to respond to rising demand and to recover gradually.

Structural measures are required to meet the employment target

With potential output rising by 2 per cent *per annum*, output is expected to exceed potential by around 1 per cent at the end of 2005. Nevertheless, the unemployment rate will remain above 8 per cent, while employment will only increase by about 30 000 between 2003 and 2005, suggesting that the government's target of an increase in employment by 100 000 between 2003 and 2007 is unlikely to be met without broader structural measures directed at the labour market. Consumer price inflation, which was already below the euro area average, was further reduced by ¾ percentage point in March as a consequence of the reduction in alcohol taxation. However, once the effect of indirect tax changes wanes, demand pressures should push inflation up to around 2 per cent by the end of 2005.

The strength of the upturn depends on exports

The strength of the upturn depends mainly on export demand. While the upturn in world trade appears to be on a firm footing, there is greater uncertainty about the strength of the recovery in the euro area. This, along with the effect of any further appreciation of the euro, is a risk to export demand and the durability of the upturn.

Greece

The economy continued to expand briskly in 2003, with robust domestic demand compensating for weak exports. Nevertheless, the general government deficit rose to 3 per cent of GDP. Activity is set to slow somewhat in the period ahead, as Olympic Games-related investment comes to an end, but growth will continue to outpace the euro area average. Inflation is likely to average around 3¼ per cent over the projection period and the large current account deficit is expected to narrow gradually.

Meeting the objectives of further fiscal consolidation and a lower public debt-to-GDP ratio will require much stricter control of public finances, for which the completion of pension and tax reforms and further improvements in administrative efficiency are indispensable first steps. Together with measures to strengthen labour market flexibility, enhanced competitiveness and innovation are also required to ensure non-inflationary growth and the convergence of incomes to European Union levels over the medium term.

Domestic activity has remained solid

GDP growth comfortably exceeded 4 per cent in 2003, led by a surge in domestic demand. Investment spending has remained buoyant on the back of low real interest rates and strong construction activity associated with the preparations for the 2004 Olympic Games and the implementation of the Third Community Support Framework Programme 2002-06. Consumer spending has also continued to grow briskly, underpinned by strong consumer credit, tax cuts, and rising employment. With foreign demand weak, net exports have made a negative contribution to growth. The current account – though narrowing significantly from the previous year – has remained high, at approximately 6½ per cent of GDP in 2003.

Unemployment and inflation edged down

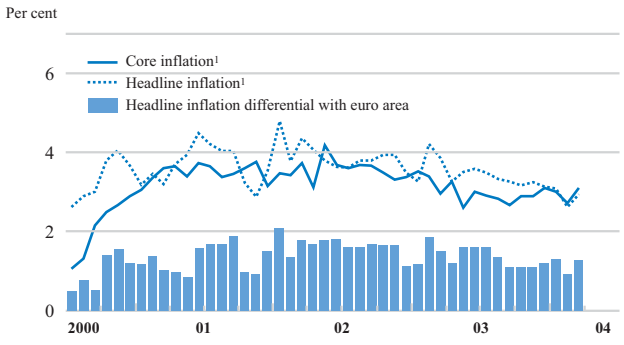
Labour market conditions improved further in 2003, with the unemployment rate falling to its estimated structural rate of around 9½ per cent. Owing to a large extent to the appreciation of the euro, core inflation declined to 3 per cent in 2003, from 3.6 per cent in 2002, decelerating further in early 2004. It has nevertheless remained significantly above the euro-area average, with the differential for 2003 standing at around 1¼ percentage points. Harmonised consumer price inflation has also trended downwards, falling to below 3 per cent in early 2004.

Monetary and fiscal policies are accommodative

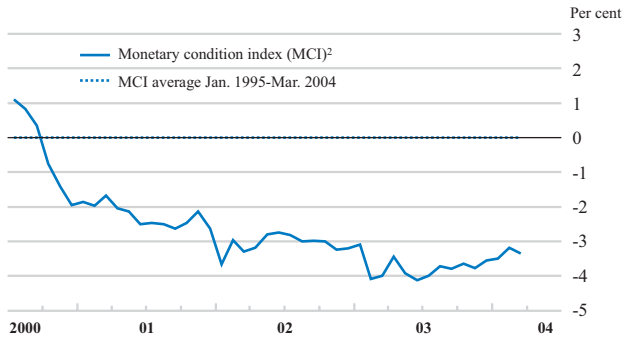
Monetary conditions have remained relaxed, despite the strong euro, as real short-term interest rates turned negative in 2003. A slowdown was recorded in the pace of credit expansion to households in the course of the year, although both

Greece

Inflation has edged down



Monetary conditions remain easy



1. Year-on-year percentage changes. Harmonised index of consumer prices. Core inflation excludes energy, food, alcohol and tobacco.
2. Weighted sum of the relative change in the real effective exchange rate and the absolute change in the short-term real interest rate compared with their average over the period.

Source: OECD and Bank of Greece.

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Greece: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption	83.9	2.8	2.8	4.0	3.8	3.2
Government consumption	19.1	-1.0	5.8	6.0	2.3	0.9
Gross fixed capital formation [a]	28.7	6.5	5.7	12.6	7.6	5.0
Final domestic demand	131.7	3.2	3.9	6.3	4.6	3.3
Stockbuilding [b,c]	0.4	-0.2	0.1	0.1	0.0	0.0
Total domestic demand	132.1	2.9	4.0	6.3	4.6	3.3
Exports of goods and services	31.1	-1.0	-7.7	1.6	5.9	7.9
Imports of goods and services	41.5	-3.4	-4.7	10.2	7.3	5.9
Net exports [b]	- 10.4	0.9	-0.4	-2.7	-1.1	-0.2
GDP at market prices	121.7	4.0	3.9	4.2	4.0	3.5
GDP deflator	_	3.5	3.9	3.6	3.8	3.6
Memorandum items	_					
Harmonised index of consumer price	_	3.7	3.9	3.4	3.3	3.2
Private consumption deflator	_	3.4	3.4	3.5	3.4	3.3
Unemployment rate	_	10.5	10.2	9.5	8.8	8.4
General government financial balance [d]	_	-1.4	-1.5 [e]	-3.0	-3.2	-2.9
Current account balance [f]	_	-8.1	-7.6	-6.5	-6.3	-6.1

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

consumer and housing loans were still growing by around 25 per cent in December 2003 (year-on-year). On the fiscal side, revised official estimates indicate a general government deficit of around 3 per cent of GDP for 2003, against a budgeted 0.9 per cent of GDP. This deviation largely reflects overruns in expenditure, including for the Olympic Games, as well as lower-than-programmed EU financing for public investment spending. The 2004 budget incorporates new tax-cutting measures and social benefit increases so that OECD projections are for a further fiscal easing this year, while the ending of the Olympic Games factor and higher structural funds inflows should reduce the underlying deficit in 2005.

Activity is set to slow but inflation risks remain

Economic activity is expected to lose some of its momentum over the projection period, as the Games-related investment comes to an end. The rate of expansion will continue to outpace the euro area average, however, with GDP growing at 4 per cent in 2004 and 3½ per cent in 2005. Easy monetary conditions, in conjunction with a faster implementation of the EU structural fund projects and further declines in unemployment, are expected to maintain domestic demand relatively robust in the post-Olympics period. Household debt ratios, though they have risen strongly in recent years, remain low by international comparison and have room to move up further in the adjustment to a post-European Monetary Union equilibrium. Consumption spending should be further boosted by the tax reduction and income support measures included in the 2004 budget. Despite ongoing losses in cost-competitiveness, exports are set to pick up significantly in response to the revival of world trade, virtually eliminating the drag from the external sector on output growth by 2005. Given growth above potential, the main uncertainty attached to the projections is whether inflation can be contained to around 3 per cent.

Hungary

Growth slowed somewhat in 2003, to just below 3 per cent, but is projected to pick up progressively this year and next on the back of rapid export and investment growth to about 3¾ per cent by 2005. Inflation has picked up since mid-2003 and further increase is expected up to the middle of this year, largely because of rises in regulated prices and value-added-tax rates.

The target date for entry into the Economic and Monetary Union has been postponed to 2010, following a disappointing budget deficit outcome for 2003. Improvements to budget processes and a stronger commitment to sustainable spending cuts – especially as 2006 is an election year – are needed to avoid a repeat of last year's overshoot and further delay in reaping the gains from euro-area membership.

Consumption remained buoyant, exports picked up and imports boomed

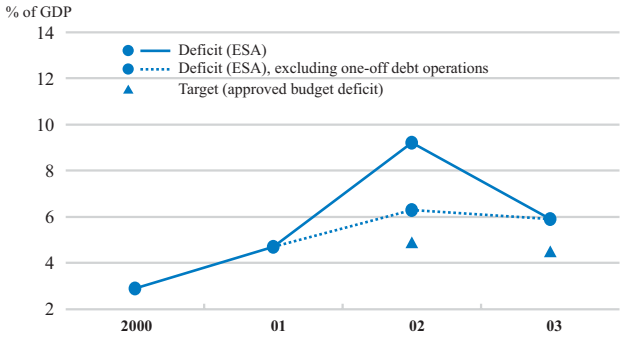
While year-on-year growth in 2003 was moderate, there were clear signs of a strengthening dynamism during the course of the year. Solid evidence of the expected pick-up in exports has emerged, with growth in the fourth quarter of 2003 of 17½ per cent (year-on-year) and even stronger growth in January and February of this year. This has been matched by strong increases in industrial-output from the second half of 2003, growth in the first quarter of 2004 was nearly 11 per cent (year-on-year). Buoyant household consumption helped fuel imports and continued throughout much of 2003. However, fourth-quarter data signalled a slowdown partly reflecting a fall-off in wage increases in mid-2003 due to the end of a series of large public-sector pay hikes.

Poor fiscal performance makes early euro-entry unlikely

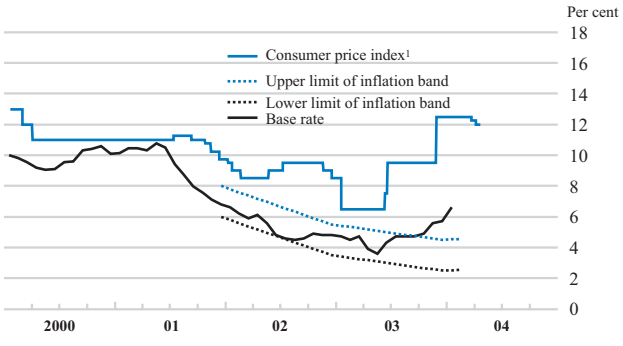
Early this year the budget deficit for 2003 was estimated to be just below 6 per cent, 1½ percentage points above target and implying an underlying deficit reduction of less than half a percentage point. Following the announcement of this disappointing outcome, the Minister of Finance was replaced and the calendar for meeting entry criteria into the European Economic and Monetary Union (EMU) by January 2008 was put under review. The deficit outcome also prompted a re-examination of the 2004 budget passed by Parliament in November. The target deficit is now 4.6 per cent, suggesting a similar deficit reduction to that planned for 2003. There is a welcome sign of determination to achieve this goal with the announcement of budget cuts equivalent to about 0.9 per cent of GDP.

Hungary

The deficit target has been missed again in 2003



Inflation and interest rates have risen



1. Year-on-year percentage change.
Source: Statistical Office of the European communities (Eurostat), Ministry of Finance, Central Statistical Office and National Bank of Hungary.

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Hungary: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion HUF	Percentage changes, volume (2000 prices)				
Private consumption	6 879.1	5.7	10.2	7.6	3.0	2.3
Government consumption	2 736.3	6.2	5.0	1.6	-2.0	1.6
Gross fixed capital formation	3 099.1	5.0	8.0	3.0	6.0	5.6
Final domestic demand	12 714.6	5.6	8.5	5.2	2.7	3.0
Stockbuilding [a]	971.8	-3.4	-2.9	0.3	0.9	0.3
Total domestic demand	13 686.4	1.9	5.4	5.5	3.5	3.2
Exports of goods and services	9 738.3	7.8	3.7	7.2	12.6	12.4
Imports of goods and services	10 252.5	5.1	6.2	10.3	12.2	11.1
Net exports [a]	- 514.2	1.9	-2.0	-2.8	-0.5	0.4
GDP at market prices	13 172.3	3.8	3.5	2.9	3.3	3.8
GDP deflator	_	8.6	8.9	7.8	5.8	5.0
Memorandum items						
Consumer price index	_	9.2	5.3	4.7	6.9	4.8
Private consumption deflator	_	8.2	3.7	6.0	6.9	4.8
Unemployment rate	_	5.8	5.9	5.9	5.9	5.7
General government financial balance [b,c]	_	-4.7	-9.3	-5.9	-5.2	-4.6
Current account balance [b]	_	-6.3	-7.1	-8.9	-8.5	-7.6

a) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
b) As a percentage of GDP.
c) ESA95 accounts provided by the Ministry of Finance for 2001-2003.
Source: OECD.

Inflation is rising and monetary policy has tightened substantially

In November 2003 the central bank increased its base rate from 9½ to 12½ per cent. At the time the bank was targeting a narrow band of HUN 250 to 260 per euro and the base-rate move was largely to counter market pressures for the forint to depreciate (the target band has since been abandoned). The base-rate change was also motivated by rising inflation prospects. By December 2003 inflation was 5.7 per cent and it has since risen further. Much of the anticipated increase this year is due to one-off hikes in regulated energy prices, value-added tax and excise duties. Though these impacts are temporary, monetary policy must still be active to achieve the target of 4 ± 1 per cent for December 2005 comfortably. Two small cuts brought the base rate to 12 per cent by end-April, suggesting a cautious approach by the central bank and a prolongation of real short-term interest rates which, at nearly 5 per cent, are far above levels observed in other accession countries.

Growth will become less consumption-driven and more broad-based

Consumption growth this year will be damped both by lower wage growth and by the increases in energy prices and indirect taxation. The re-emergence of relatively high real interest rates is also likely to play a role in restraining consumption growth, which is expected to slow from 7½ per cent in 2003 to 3 per cent in 2004. High real interest rates, together with cut-backs in housing-loan subsidies, are likely to continue to damp consumption growth in 2005. Offsetting this, export growth should pick up strongly this year and moderate only slightly in 2005, remaining above 12 per cent. This would be well above OECD estimates of export-market growth of 7 per cent this year and 8½ per cent in 2005. Investment is also likely to strengthen, driven by capacity expansion in export sectors.

Policy uncertainties contribute to negative risks

In the light of past performance, fiscal targets are ambitious and risk being missed again if expenditure restraint is not locked in by fiscal reforms. Uncertainty about the speed at which base rates will unwind adds to uncertainty about the future cost of borrowing and rates of return for investors, posing a risk to the investment projection.

Iceland

The economy expanded by 5 per cent through the year 2003 and is expected to keep growing at about that pace over the next two years as work on the major aluminium-related investment projects continues. The external account has moved into substantial deficit, but currency appreciation and productivity gains have kept inflation low so far.

As increasing capacity pressures are likely to be reflected in higher inflation, official interest rates will need to be raised soon. The appropriate timing and extent of such tightening will depend on how the exchange rate develops and whether the announced fiscal tightening actually materialises. This is uncertain, given the tendency to overspend budgeted amounts.

The recovery has gathered considerable momentum…

The upturn has relied exclusively on domestic demand, which expanded by 10 per cent through 2003. Consumer spending was bolstered by reviving real disposable income growth and pent-up demand for durable goods after two years of retrenchment. Capital formation was led by large investments in electric power generation (the first stage of the aluminium-related construction projects), but residential and government investment also expanded at double-digit rates. By contrast, exports contracted due to a lower fish catch and the high exchange rate. Combined with surging imports (mainly of motor vehicles and investment goods for the hydropower projects) and unfavourable terms-of-trade developments, this resulted in a sharp widening of the current account deficit, which was negligible in 2002, to 5½ per cent of GDP last year. At the same time, inflation has remained subdued, with the twelve-month consumer price increase running at 2¼ per cent most recently, as productivity gains have reduced unit labour cost growth and the renewed strengthening of the krona in recent months has weighed on import prices.

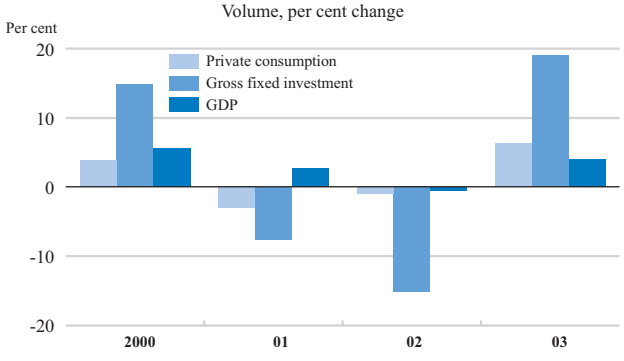
… requiring fiscal policy tightening…

Despite the stronger than expected economic upswing, the general government deficit turned out to be 1½ per cent of GDP in 2003, much larger than the broad budget balance initially envisaged. This reflected a loosening in the fiscal stance the cyclically-adjusted primary budget deficit rising by nearly 1 percentage point of GDP, stemming entirely from action on the expenditure side. As a result, the renewed upward trend in the public expenditure-to-GDP ratio observed since 1997 continued, lifting it to a new peak level of 48 per cent. The 2004 budget calls for a return to budget surpluses, to be achieved by expenditure restraint and, in particular, a sharp

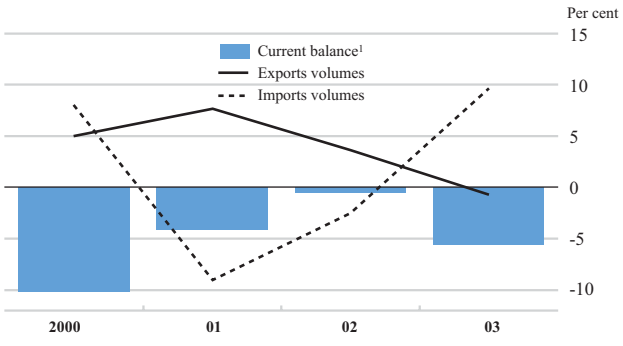
Iceland

Household and business demand are leading the upturn

Volume, per cent change



A substantial external deficit has re-emerged



1. As a percentage of GDP.
Source: Statistics Iceland.

© OECD 2004

Iceland: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion ISK	Percentage changes, volume (1990 prices)				
Private consumption	389.1	-3.0	-1.0	6.4	5.3	5.2
Government consumption	157.9	3.1	3.9	3.0	2.7	2.2
Gross fixed capital formation	159.4	-7.6	-15.1	19.0	10.7	10.7
Final domestic demand	706.4	-3.0	-3.2	8.2	5.9	5.9
Stockbuilding [a]	2.5	-0.9	0.4	-0.1	0.0	0.2
Total domestic demand	708.9	-3.7	-2.9	8.1	6.0	6.1
Exports of goods and services	231.6	7.7	3.6	-0.7	2.8	6.5
Imports of goods and services	278.6	-9.0	-2.5	9.7	8.4	9.5
Net exports [a]	- 47.0	6.7	2.3	-4.0	-2.3	-1.6
GDP at market prices	661.9	2.7	-0.6	4.0	3.8	4.8
GDP deflator	_	9.4	5.3	-0.4	2.6	3.9
Memorandum items						
Consumer price index	_	6.4	5.2	2.1	2.5	3.5
Private consumption deflator	_	8.1	3.7	0.5	1.3	3.0
Unemployment rate	_	2.3	3.3	3.3	3.1	2.8
General government financial balance [b]	_	0.2	-1.0	-1.4	0.2	1.0
Current account balance [b]	_	-4.1	-0.3	-5.6	-7.8	-8.7

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

reduction in public investment in order to prevent overheating in the construction sector. The realisation of these intentions is crucial to the conduct of monetary policy, which has been on hold since February 2003, when the central bank reduced its policy interest rate to the historically low level of 5.3 per cent.

… and an extended monetary policy horizon…

Given benign inflation outcomes up to the present, the monetary authorities have considered that a rise in official rates would be premature. They have stated, however, that the large-scale investments over the next few years imply that monetary decisions need to take into account a longer horizon than usual; this means that it would be appropriate for the central bank to raise its policy rate even with inflation currently below the official 2½ per cent target.

… to preserve economic stability

The economy is projected to continue to expand at the strong rate recorded recently, reflecting several broadly offsetting influences. Business investment will remain buoyant due mainly to the aluminium/hydropower projects. Household demand should stay robust in the near term before decelerating as a result of the assumed rise in interest rates starting in mid-2004. Government spending on goods and services is expected to slow markedly, due in particular to a pronounced reduction in public investment. At the same time, however, exports should pick up owing both to increasing fish catch quotas and rising market growth. As a result, and helped by a projected improvement in the terms of trade, the current account deficit is expected to widen more slowly. Inflation is projected to increase gradually as capacity pressures will be increasingly felt. The major risk to the outlook would seem to be less fiscal restraint than envisaged, which would bolster growth in the near term but necessitate a steeper rise in interest rates than assumed. An excessive current account deficit could have the same effect, as it might undermine the exchange rate, fuel inflation and trigger a wage/price spiral.

Ireland

GDP growth plummeted from almost 7 per cent in 2002 to 1½ per cent in 2003, but is set to recover to 3½ per cent in 2004 and 4½ per cent in 2005. With unemployment levelling off at 4¾ per cent and the appreciation of the euro feeding through, inflation is likely to remain subdued.

Foreign direct investment is unlikely to be as strong as in the past, which reduces potential growth in the future. Policy should aim to safeguard cost competitiveness. Competition and regulatory policies need to be strengthened in the sheltered sectors to prevent renewed inflationary pressure.

Output growth picked up in late 2003

GDP growth fell abruptly from 6.9 per cent in 2002 to 1½ per cent in 2003, but the economy is past the turning point. Gross national product (GNP), which excludes profits earned by foreign multinationals based in Ireland, held up slightly better. A sharp drop in retail sales at the beginning of 2003 was reversed in the remainder of the year and consumer sentiment has been recovering since. Industrial production picked up strongly since mid-2003, driven by high-technology industries. The ending of fraudulent trade led to a sharp fall in shipping to and from the United Kingdom and had a large negative effect on growth in exports and imports in 2003. But net trade was little affected and the underlying trend of external trade has been steeply upward since the summer. Credit growth for the private sector has also picked up.

Disinflation continues amid a resilient labour market

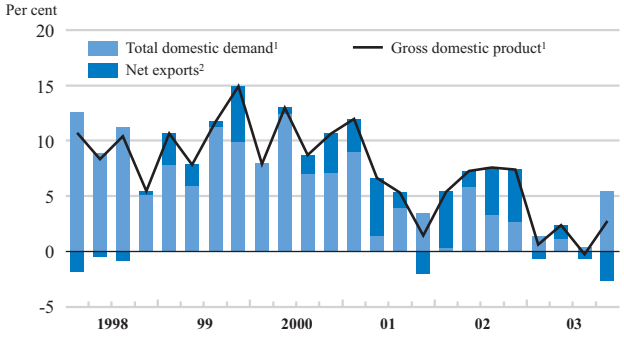
The unemployment rate, after rising unabated from its low of 3.9 per cent in 2001, peaked by mid-2003 and averaged 4.7 per cent for the year as a whole. Employment has been picking up since the summer, with growth in the health and construction sectors being particularly buoyant. Meanwhile, helped by falling import prices, inflation dropped to 2.2 per cent in February 2004, 3 percentage points below its high in 2000. Private wage growth – although still high compared with other euro-area countries – fell from almost 6 per cent in the 1999-2000 boom to 4 per cent in 2003.

Fundamentals remain strong

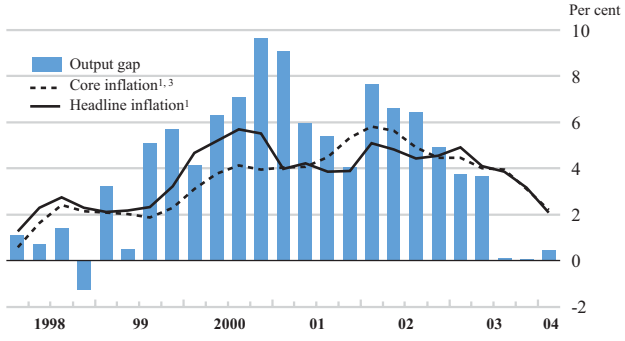
The forces that produced the cyclical boom in 1999-2000 – strong growth in information and communication technology (ICT) markets and a sharp depreciation of the trade-weighted euro – were reversed in 2001-03. Aside from these cyclical developments, Ireland still has a strong position in high-technology sectors, such as ICT, and a fast-growing skilled labour force. These factors should enable potential growth to

Ireland

Net exports have driven the slowdown



Disinflation is underway



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

Source: Statistical Office of the European Communities and OECD.

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Ireland: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption	48.8	5.2	2.6	1.9	3.5	4.0
Government consumption	14.3	11.6	9.0	2.1	3.0	3.9
Gross fixed capital formation	24.9	-0.1	1.8	-2.6	3.6	4.8
Final domestic demand	88.0	4.9	3.5	0.8	3.4	4.2
Stockbuilding [a]	0.8	-0.4	-0.5	1.0	0.1	0.2
Total domestic demand	88.8	4.4	3.0	2.1	3.5	4.4
Exports of goods and services	100.1	8.4	6.2	-5.9	5.5	7.7
Imports of goods and services	86.8	6.5	2.4	-5.7	6.0	8.1
Net exports [a]	13.3	3.0	4.6	-1.3	0.6	1.1
GDP at market prices	102.8	6.2	6.9	1.4	3.4	4.6
GDP deflator	_	5.1	5.4	0.6	1.7	2.4
Memorandum items						
Harmonised index of consumer price	_	4.0	4.7	4.0	1.8	2.3
Private consumption deflator	_	4.3	6.0	4.0	1.8	2.5
Unemployment rate	_	3.9	4.4	4.7	4.8	4.8
General government financial balance [b]	_	1.1	-0.1	0.2	-0.5	-0.8
Current account balance [b]	_	-0.7	-0.7	-2.0	-0.4	-0.2

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

stabilise at around 5 per cent *per annum* over the medium term, even if the "Celtic tiger" era of double digit growth rates spurred by foreign direct investment belongs to the past.

Policy is on balance neutral

As the economy cooled off, inflation fell and real interest rates increased. Hence with the euro having appreciated since 2002, monetary conditions have become less supportive. But real interest rates are still close to zero and with bottlenecks in residential construction persisting, the housing market is set to remain in excess demand. As a result, worries about a sharp correction in house prices are fading. Fiscal policy turns slightly expansionary, with the cyclically-adjusted deficit widening from ½ per cent of potential GDP in 2003 to 1 per cent in 2005. However, the government's fiscal targets include contingency provisions which, if unused, may improve the fiscal position. While public sector wages are projected to increase faster than private sector wages, its impact on the budget should be offset by slower public sector employment growth. With increasing infrastructure spending offset by a cap on current outlays, public expenditure growth may be contained.

Growth is set to recover

Real GDP growth is projected to rise from 1½ per cent in 2003 to 3½ and 4½ per cent in 2004 and 2005, respectively. World trade is the main engine of the recovery but domestic demand should follow suit. Business investment is projected to recover, along with the strengthening of the global economy and increased profit margins. Household spending should increase strongly further as disposable incomes rise, employment growth picks up and the unemployment rate levels off at 4¾ per cent. Inflation should remain subdued as growth in unit labour costs tapers off.

Exchange rate and interest rate risks persist

Given the considerable degree of openness of the Irish economy, a further appreciation of the euro or a reacceleration of wages could hamper the recovery. In addition, a hike in bond yields could lead to a downturn in the housing market and undermine consumer confidence.

Korea

Buoyant export growth, driven in large part by China, is leading a recovery from the 2003 downturn, despite still-sluggish domestic demand. A rebound in private consumption, which has declined following the end of the household credit boom, is expected to lift economic growth to the 5 to 6 per cent range in 2004 and 2005. The major risk to this export-led expansion would be a weakening in world trade growth before domestic demand revives.

The top policy priority is to make further progress in the reform agenda, notably in improving the functioning of the labour market, addressing the problems in the non-bank financial sector and enhancing transparency in the corporate sector. As the recovery accelerates, the extent to which the short-term policy interest rate would need to be raised from its current record-low level will depend on how the exchange rate evolves.

Despite an export-led upturn, consumption remains weak…

With exports to China rising at a nearly 50 per cent rate (year-on-year in dollar terms), growing external demand ended the recession that occurred in the first half of 2003. This prompted a turnaround in investment in machinery and equipment in the final quarter of 2003 and has helped to keep the unemployment rate relatively low – less than 3½ per cent at present – while wages rose 9 per cent in 2003. However, buoyant export growth has not been fully transmitted to domestic demand, which continued to fall in late 2003, primarily due to weak private consumption. The run-up in household debt – from 56 per cent of GDP in 1998 to 74 per cent in 2002 – resulted in a period of retrenchment. Moreover, consumer confidence is still weak.

… due in part to problems in the credit card companies

Private consumption has also been negatively affected by the problems in the credit card sector. With delinquency rates rising from 5 to 14 per cent since 2000, the credit card companies face serious liquidity and solvency problems, resulting in a one-third decline in their lending to households since mid-2002. To ease their problems, the government organised collective financial support for the credit card companies from financial institutions. It has rescued the largest company, fearing that its collapse would lead to systemic risks. In addition, the investment trust companies have also faced liquidity problems, primarily due to adverse developments in the corporate sector. Despite the weaknesses in the non-bank financial sector, the banks remain relatively healthy.

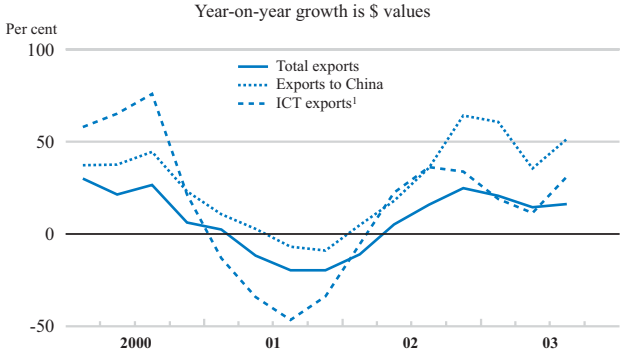
Easy monetary conditions are supporting economic activity…

Tax measures, including a temporary cut in excise taxes on cars and some consumer durables, have been introduced to stimulate consumption. In addition, the government reduced the corporate income tax rate for start-up companies hiring

Korea

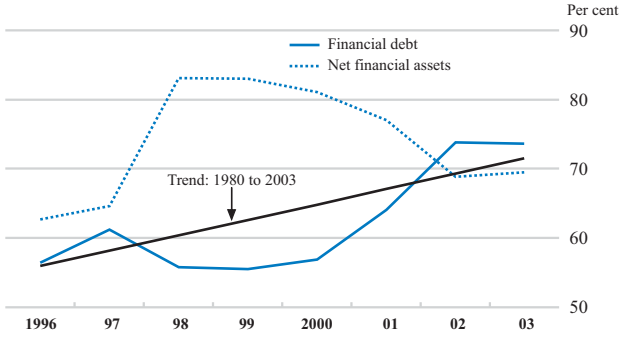
Export growth is driven by China

Year-on-year growth is $ values



The household debt ratio is back to its long-term trend

Per cent of GDP



1. Information and communication technology products, including semi-conductors.

Source: Bank of Korea and National Statistical Office.

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Korea: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices trillion KRW	Percentage changes, volume (2000 prices)				
Private consumption	312.1	4.9	7.9	-1.4	2.5	5.0
Government consumption	70.0	4.8	6.0	3.6	3.0	3.0
Gross fixed capital formation	179.9	-0.5	6.7	3.6	4.7	5.7
Final domestic demand	562.0	3.1	7.3	0.8	3.2	5.0
Stockbuilding [a]	- 0.2	0.1	-0.2	-0.7	0.0	0.0
Total domestic demand	561.8	3.2	7.1	0.0	3.3	5.0
Exports of goods and services	236.5	-2.7	13.1	15.7	18.0	14.0
Imports of goods and services	218.1	-4.4	15.3	9.5	14.0	13.5
Net exports [a]	18.4	0.5	-0.3	2.8	2.6	1.3
Statistical discrepancy [a]	- 1.3	0.1	0.4	0.3	0.0	0.0
GDP at market prices	578.9	3.8	6.9	3.1	5.6	5.9
GDP deflator	_	3.7	2.7	2.2	2.0	2.3
Memorandum items						
Consumer price index	_	4.1	2.8	3.5	3.2	3.2
Private consumption deflator	_	4.8	2.8	3.4	3.2	3.2
Unemployment rate	_	3.8	3.1	3.4	3.3	3.0
Household saving ratio [b]	_	7.7	6.8	10.6	11.0	9.3
Consolidated central government balance [c]	_	1.2	3.3	1.1	0.9	1.0
Current account balance [c]	_	1.7	1.0	2.0	2.2	2.3

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

additional workers. However, the overall stance of fiscal policy appears to be neutral in 2004, in the absence of a supplementary budget. On the other hand, the monetary authorities lowered the short-term policy interest rate in July 2003 to a record-low 3¾ per cent, near the 3.6 per cent rate of inflation in 2003. Monetary conditions have been further eased by the 6 per cent fall in the effective exchange rate during 2003, thanks in part to exchange market intervention. Upward pressure on real estate prices has been contained by a comprehensive policy package that includes a variety of measures to increase supply and restrain demand. during 2003, thanks in part to exchange market intervention. Upward pressure on real estate prices has been contained by a comprehensive policy package that includes a variety of measures to increase supply and restrain demand.

… and the expansion is expected to accelerate in 2004 and 2005

Achieving a full-fledged recovery will require a rebound in private consumption. The household debt overhang, which appeared to slow consumption growth in 2003, has been largely overcome, as the ratio of debt to disposable income is close to its long-run trend. With world trade picking up and business investment recovering, the elements necessary for a strong recovery thus appear to be in place. Consequently, output is projected to accelerate from 3 per cent in 2003 to 5 to 6 per cent in 2004 and 2005. With the unemployment rate already relatively low, the remaining slack in the economy will probably be used up quite rapidly, resulting in upward pressure on core inflation, which remains near the mid-point of the 2.5 to 3.5 per cent medium-term inflation target introduced at the beginning of 2004. Given the export-led nature of the upturn, the main risk relates to the possibility of a downturn in world trade occurring before domestic demand picks up. Such a risk is centred on China, which has become Korea's largest trading partner.

Luxembourg

The economic outlook started to improve in the second half of 2003, and growth should reach 3½ per cent by 2005 as world trade expands and financial markets gradually recover. Private consumption, business confidence and investment are also projected to pick up. However, the economic recovery will not be strong enough to stabilise the unemployment rate.

The government should review its spending programmes in line with more moderate medium-term growth prospects and use this opportunity to introduce measures to tackle structural unemployment.

The economy turned up in the middle of 2003

Economic growth is estimated to have reached 1¾ per cent in 2003. Activity picked up during the second half of the year in industry, commerce, residential construction and financial services, whereas other service sectors showed more mixed results. The economic turnaround was fuelled by a sharp expansion of world trade and a gradual recovery of financial markets after some further heavy losses incurred during the first months of 2003. Domestic demand held up relatively well, due to a continued expansionary fiscal policy stance and steady private consumption expenditure boosted by low interest rates. Employment growth continued to slow, albeit by less than expected, pushing the average unemployment rate up from 3 per cent in 2002 to 4 per cent by the end of 2003. Inflation as measured by the national consumer price index remained largely unchanged at 2.1 per cent in 2003, mainly because the unfavourable developments in oil prices were not completely offset by the appreciation of the euro. Underlying inflation came down by a further 0.2 percentage point to reach 2.1 per cent in 2003, reflecting the gradual easing in labour market conditions, but is still higher than the average in the euro area.

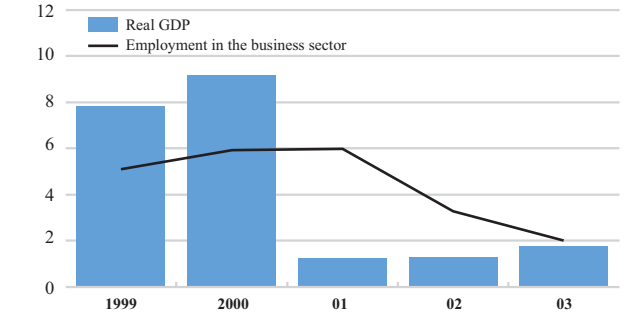
Labour-market adjustment is incomplete

Employment growth is likely to remain slow in the near future as firms use the economic recovery to restore labour productivity growth after three years of decline due to widespread labour hoarding, which was particularly strong in the financial sector until 2002. Significant downward adjustments in payrolls took place in 2003, which will continue and weigh on future employment prospects. In addition, average hours worked per employee have fallen during the downturn and will probably increase again during the recovery, also depressing employment growth.

Luxembourg

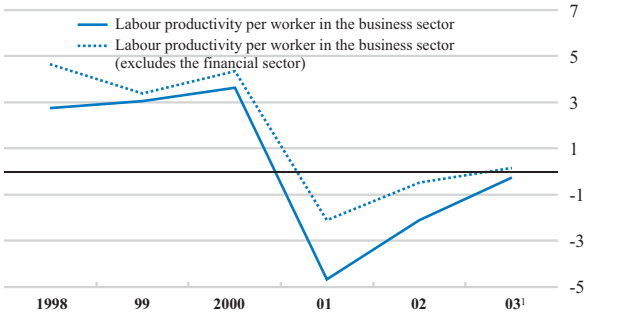
Employment growth has slowed

Percentage change



Labour hoarding has depressed productivity growth

Percentage change



1. Estimates.

Source: STATEC; Central Bank of Luxembourg and OECD.

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Luxembourg: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption	8.5	4.5	2.3	1.9	2.2	2.5
Government consumption	3.3	7.0	4.2	4.1	2.8	2.9
Gross fixed capital formation	4.4	10.1	-1.4	0.5	1.9	3.3
Final domestic demand	16.3	6.5	1.6	2.0	2.2	2.8
Stockbuilding [a]	0.6	-1.7	-2.0	0.0	0.0	0.0
Total domestic demand	16.8	4.2	-0.7	2.0	2.3	2.8
Exports of goods and services	32.2	2.6	-0.3	1.9	4.5	6.0
Imports of goods and services	27.7	4.8	-1.6	2.0	4.5	5.8
Net exports [a]	4.4	-2.3	1.6	0.1	0.7	1.2
GDP at market prices	21.3	1.2	1.3	1.7	2.6	3.6
GDP deflator	_	2.2	0.6	1.9	2.9	2.0
Memorandum items						
Harmonised index of consumer price	_	2.4	2.1	2.5	1.5	1.6
Private consumption deflator	_	3.3	2.3	2.0	1.8	1.6
Unemployment rate	_	2.6	3.0	3.8	4.3	4.5
General government financial balance [b]	_	6.3	2.7	-0.1	-1.8	-2.5

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

The government surplus has turned into a small deficit

Three successive years of low economic growth, in combination with a history of structurally high expenditure growth and tax reforms aimed at reducing the burden on households and firms, have left their mark on the general government budget, which turned from a surplus of 6 per cent in 2001 to a small deficit in 2003. The authorities do not expect the economic recovery and the consolidation measures to be sufficient to fully offset the lagged impacts of the 2002 corporate tax reform package and the economic slowdown, as well as the high costs of generous spending programmes on public health care and other social transfer schemes. Hence a further sharp deterioration of the government balance is expected for 2004, carrying over into 2005.

Growth should strengthen but job creation is likely to remain low

Luxembourg will benefit from the worldwide economic recovery and the gradual improvement of financial markets (reflected in higher asset prices and commissions as well as a larger number of transactions), resulting in a positive contribution from net exports. Stronger export performance and an improvement in the terms of trade will, in turn, stimulate private consumption and investment. Economic growth is projected to pick up to 3½ per cent in 2005, which is still below the trend rate. In contrast, domestic employment growth is expected to be weak, slowing to around 1½ per cent in 2004 before picking up in 2005. With cross-border workers accounting for 70 per cent of domestic employment growth, the increase in national (*i.e.* resident) employment will be too small to prevent unemployment from rising further, to 4½ per cent in 2005. On the other hand, labour productivity growth should turn around and become positive again. The main negative risks to these projections are that economic recovery of the euro area will be weaker than expected, and that financial markets would fail to recover fully.

Mexico

A recovery has taken root, led by the upturn in the US manufacturing sector. With the external environment expected to remain strong, investor confidence should improve and output growth could accelerate to above 4 per cent in 2005. Employment creation in the formal sector is lagging, but headline inflation has turned up, reflecting mostly erratic factors.

Faced with rising inflation expectations in early 2004, the tightening of the monetary policy stance was appropriate. On the fiscal front, the 2003 budget target was easily met, thanks to higher-than-projected oil revenues, and the 2004 budget maintains a firm stance. The public sector borrowing requirement is projected to come down to 2 per cent of GDP by 2005. A strong tax package is required to put public finances on a sounder footing and boost investor confidence.

The recovery has taken root

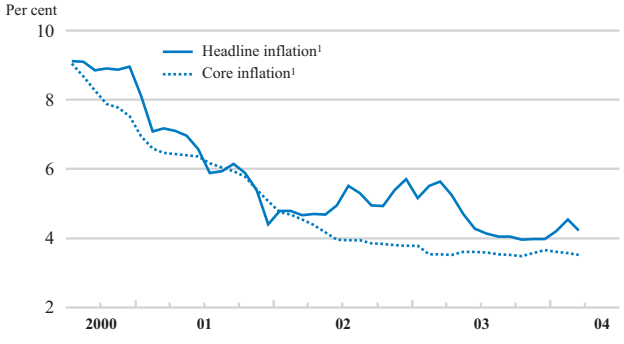
Real GDP growth strengthened in the course of 2003, underpinned by a resurgence of Mexico's manufacturing exports to the United States, and higher public spending. More recently, private consumption also picked up, despite still negligible employment gains in the formal sector. The current account deficit narrowed again, helped by terms-of-trade gains on account of oil prices. At $9 billion (some 1½ per cent of GDP), it was easily financed by net foreign direct investment. The peso depreciated against the US dollar in 2003 (by 10 per cent on average) regaining some ground in early 2004. After reaching a low of 4 per cent in late 2003, inflation as measured by the consumer price index turned up at the start of 2004, because of rising food and energy prices.

Inflation has picked up but monetary policy remains firm…

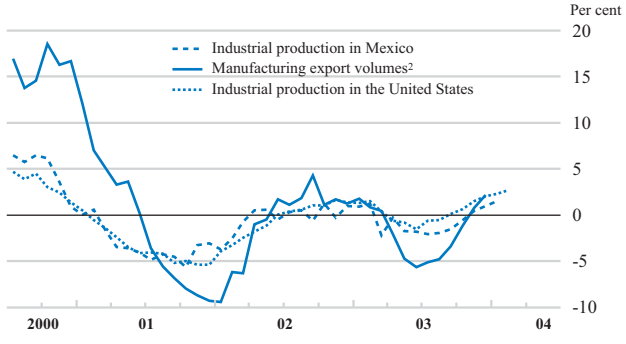
While core inflation has remained broadly unchanged at around 3½ per cent, inflation expectations rose in the first quarter of 2004, with a clear influence on recent wage negotiations. The monetary authorities responded by tightening the policy stance three times from February to April. As a result, short-term interest rates rose above 6 per cent, against 5 per cent during most of 2003. It is assumed that they will stay around this level in the months ahead, edging up in 2005, in line with US rates. A firm stance will continue to be required to bring consumer price inflation down and maintain it in line with the central bank target of 3 per cent plus or minus 1 per cent over the medium term.

Mexico

Disinflation has stalled



Stronger US industrial production is boosting exports



1. Year-on-year percentage change. Core inflation excludes food and other items with erratic developments.
2. At constant prices of 1993. Year-on-year percentage change. 3-month average.
Source: Bank of Mexico and OECD.

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Mexico: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion MXN	Percentage changes, volume (1993 prices)				
Private consumption	3 682.5	2.5	1.3	3.0	3.5	4.4
Government consumption	612.6	-2.0	0.1	2.5	2.5	2.0
Gross fixed capital formation	1 174.3	-5.6	-1.0	-0.4	5.0	6.0
Final domestic demand	5 469.5	0.3	0.7	2.3	3.7	4.5
Stockbuilding [a]	133.8	0.3	0.0	-1.7	0.0	0.0
Total domestic demand	5 603.3	0.6	0.7	0.5	3.6	4.4
Exports of goods and services	1 704.1	-3.8	1.5	1.1	7.6	8.1
Imports of goods and services	1 810.6	-1.6	1.4	-1.0	7.6	8.6
Net exports [a]	- 106.5	-0.7	0.0	0.7	-0.2	-0.4
GDP at market prices	5 496.8	-0.1	0.7	1.3	3.5	4.2
GDP deflator	_	5.9	6.9	6.5	5.2	3.8
Memorandum items						
Consumer price index	_	6.4	5.0	4.5	4.4	3.2
Private consumption deflator	_	7.2	5.4	5.0	4.8	3.2
Unemployment rate [b]	_	2.4	2.7	3.3	3.5	3.1
Current account balance [c]	_	-2.9	-2.2	-1.4	-2.0	-2.4

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

… and the aim is budget balance

The public sector borrowing requirement (PSBR) amounted to 2½ per cent of GDP in 2003, just below its 2002 level, in a context of still weak activity. Extra oil-related revenues and unexpected revenues from non-recurrent operations allowed much-needed increases in infrastructure investment and social spending as well as a rise in the primary surplus; transfers were also made to the oil stabilisation fund. The 2004 budget, which assumes that oil prices fall by close to $5 per barrel from the 2003 average level, foresees a budget deficit of the public sector (narrow definition) of 0.3 per cent of GDP, with a PSBR of 2.7 per cent of GDP. The budget is to be brought into broad balance by 2005, with the PSBR down to around 2 per cent of GDP by then. The pace of fiscal consolidation that is foreseen is achievable, though difficult given the large needs for essential spending, with great uncertainty attaching to projections of oil-related revenue.

Growth is expected to become more broadly based…

The continued momentum of the US manufacturing sector is expected to underpin the recovery of business investment and employment. In turn, stronger employment growth will contribute to brisker household consumption. As it becomes more broadly based, GDP should accelerate, to perhaps 4¼ per cent in 2005, still not enough to ensure much improvement in standards of living. The current account deficit is expected to widen somewhat as domestic demand picks up, but remain around 2½ per cent of GDP by 2005, mostly financed by foreign direct investment.

… but it depends on the pace of structural reform

The main factor holding back growth in the near term is the standstill on the reform agenda. A tax package that widens the tax base and reduces distortions, while increasing revenue, is a priority in order to finance basic public spending on a predictable basis. Such a step would boost investor confidence, both domestic and foreign, as would reforms in the electricity sector and labour market.

Netherlands

The economy has finally emerged from recession and GDP growth began to pick up at the end of 2003. It should reach almost 1 per cent in 2004 and about 2 per cent in 2005, reflecting a revival in international trade and the end of a three-year fall in business investment. With much slack in the economy and an agreement to keep wage increases low, inflation should fall to less than 1 per cent in 2005.

The government needs to strengthen work incentives by pushing ahead with planned social security reforms and should aim to raise productivity growth by strengthening entrepreneurship and competition, improving human capital and fostering innovation and research.

GDP growth has turned around but is still hesitant

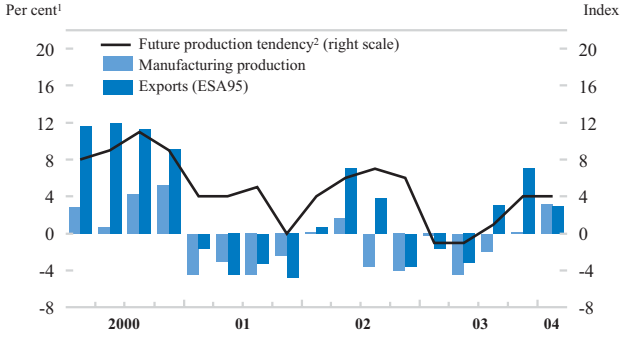
After declining in the first half of 2003 and stagnating in the third quarter, GDP posted a moderate increase in the fourth quarter (1.7 per cent annualised quarter-on-quarter growth rate). Exports bounced back, benefiting from accelerating world trade and the associated pick-up in re-exporting activities. Imports grew even more strongly, reflecting a turnaround in stock-building. Final domestic demand, however, was still lacklustre, since households further reduced their consumption expenditure, faced by declines in employment, slowing wage increases and steep increases in pension fund contributions. The decline in business fixed investment has come to a halt, but with low capacity utilisation and ongoing balance sheet restructuring, companies appear to be waiting for the recovery to strengthen before expanding their production capacity. In the first quarter of 2004 GDP probably grew at a rate below potential. While manufacturing bounced back strongly in January, retail sales and passenger car registrations merely slowed their decline. Business expectations have steadily improved since mid-2003 and consumers' opinions about the future tendency have also brightened somewhat. With the unemployment rate on the rise, wage and price inflation have continued to decelerate. Consumer price inflation was 1.2 per cent in early 2004.

The fiscal stance is restrictive

The fiscal balance has deteriorated markedly over recent years, the larger part being cyclical. The consolidation packages decided over the past two years helped to limit the deficit to 3.2 per cent of GDP in 2003. The cumulative effect of the packages on the budget balance is estimated at ¾ per cent of GDP in 2003, rising to 1½ per cent in 2004 and 2¼ per cent in 2005. Apart from base-broadening measures and some specific tax increases, the main part of the consolidation effort lies on the expenditure side. Wages in the public sector and social transfers are to be frozen in 2004 and 2005, subsidies cut, and access to disability benefits tightened. Savings are also expected from health care reform

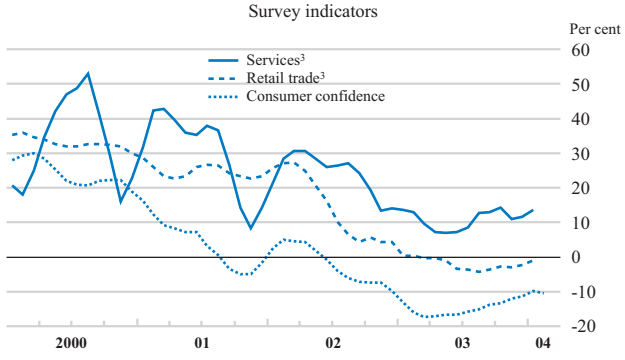
Netherlands

The recovery is led by exports



The downturn in services has bottomed out

Survey indicators



1. Quarter-on-quarter change at annual rate. First quarter 2004: projection.
2. Manufacturing.
3. Future demand tendency.

Source: Statistical Office of the European Communities (Eurostat); Statistics Netherlands (BS) and OECD.

© OECD 2004

Netherlands: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion €	Percentage changes, volume				
Private consumption	200.6	1.4	0.8	-1.2	0.4	1.7
Government consumption	91.3	4.2	3.8	2.7	-0.4	0.3
Gross fixed capital formation	89.0	-0.1	-4.5	-3.2	0.0	2.8
Final domestic demand	380.9	1.7	0.3	-0.7	0.1	1.6
Stockbuilding [a]	0.4	-0.1	-0.3	0.2	0.3	0.2
Total domestic demand	381.3	1.7	0.0	-0.4	0.4	1.8
Exports of goods and services	271.4	1.7	0.1	0.1	4.4	6.9
Imports of goods and services	250.4	2.4	-0.2	0.6	4.4	6.8
Net exports [a]	21.0	-0.4	0.2	-0.4	0.3	0.5
GDP at market prices	402.3	1.2	0.2	-0.7	0.9	2.1
GDP deflator	_	5.4	3.4	2.8	1.3	0.8
Memorandum items						
Harmonised index of consumer price	_	5.1	3.9	2.2	1.2	0.8
Private consumption deflator	_	4.7	3.1	2.0	1.5	1.0
Unemployment rate	_	2.0	2.3	3.5	5.0	5.1
Household saving ratio [b]	_	9.0	8.6	11.2	12.5	12.0
General government financial balance [c]	_	0.0	-1.6	-3.2	-3.1	-2.9
Current account balance [c]	_	2.1	1.4	1.5	2.6	2.6

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

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

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

c) As a percentage of GDP.

Source: OECD.

(smaller basic package, co-payments on prescriptions), which should reduce government consumption by about ¼ per cent of GDP and boost private consumption by the same amount. In April the government announced an additional short-term consolidation package of ½ per cent of GDP in 2004. This should help to keep the deficit close to the 3 per cent ceiling of the Maastricht Treaty, mainly through bringing revenues forward and postponing expenditure.

The export-led recovery should gain momentum…

Economic growth is expected to gain momentum during the second half of 2004 as activity in the euro area picks up. The negative effects of the euro appreciation will fade while cost competitiveness should be gradually restored by the freeze on contractual wage rates in 2004-05 agreed by the social partners, so that exports should gain further strength in the course of 2005. With the expected cut in short-term interest rates, falling unit-labour costs, brighter sales perspectives and a growing need for replacing obsolete equipment, business investment should turn up during the second half of 2004. Private consumption, however, will remain subdued in 2004 owing to slow growth in disposable income, but will stop falling as balance-sheet restructuring is well advanced and gains in the terms of trade are supporting household purchasing power. In 2005, significant employment gains and less precautionary saving should help private consumption to recover, thereby broadening the recovery. A persistent negative output gap, a cyclical pick-up in productivity and declining import prices underpin the prospect of inflation falling through 2005.

… but is subject to external risks

The main risks to these projections relate to the exchange rate, where further euro appreciation would undermine the unfolding export recovery, and to long-term interest rates rising significantly, which would depress consumption expenditure by highly-geared households.

New Zealand

The pace of activity is cooling as net migration inflows ease, house prices level off and the effects of the exchange rate appreciation spread from the export sector to the economy at large. Together, these factors will reduce pressures on stretched resources and close the output gap, bringing growth onto a more sustainable medium-term path.

With the economy likely to head towards a soft landing, the current "wait and see" stance of monetary policy is appropriate, as is the broadly neutral stance of fiscal policy. With potential growth slowing because of weaker population growth, the policy initiatives currently being developed should aim at encouraging greater labour force participation, thus providing a helpful boost to medium-term growth prospects.

Domestic activity has boomed…

Domestic demand surged in the second half of 2003, with expenditure on GDP expanding by 3 per cent for the year as a whole, and the strong momentum has continued into the early months of 2004. This has been fuelled by net migration inflows, rapidly rising house prices and a residential investment boom. Private consumption growth has outstripped increases in disposable incomes, as households have adjusted upwards their spending plans to reflect increased wealth. With the economy continuing to operate above potential, unemployment at historically low levels and labour shortages increasing, businesses have been expanding productive capacity at a rapid rate. Lower prices for imported capital goods have made such investments more affordable.

… but the export sector has suffered

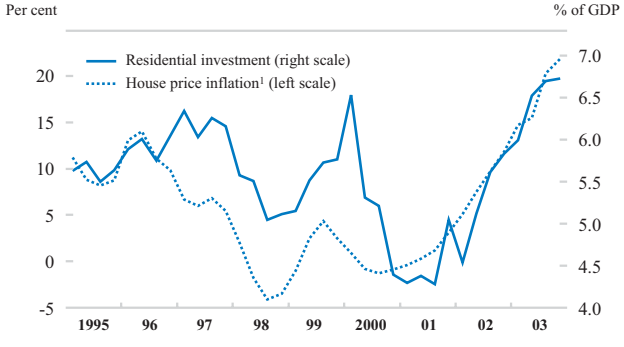
The experience of the tradeables sector stands in sharp contrast to the dynamism of domestic demand. Despite a strong rebound in dairy exports in the last quarter of 2003, losses in competitiveness from the exchange-rate appreciation continue to hit the tradeables sector hard, although the erosion of export earnings has been cushioned by hedging arrangements, and the broader economic impact has been attenuated by improving terms of trade. Domestically-generated inflation has reached around 4½ per cent *per annum*, but falling import prices have kept the annual overall consumer price inflation rate down to around 1½ per cent. Real wage increases have broadly kept pace with productivity gains, a surprisingly modest outcome given reported labour market pressures.

Exogenous forces and policy restraint are slowing the economy…

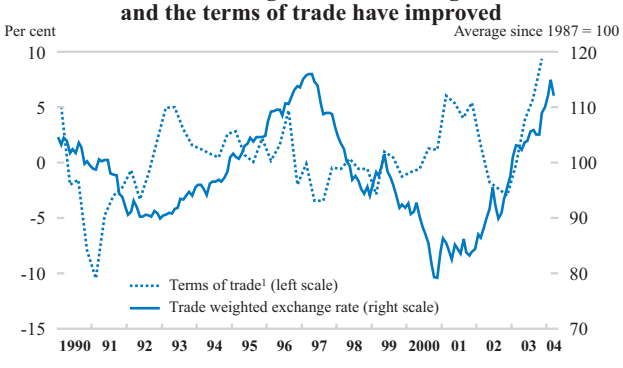
Net migration inflows have peaked and population growth is slowing. This will help to take some of the steam out of the economy, by reducing consumption spending and the demand for housing, although it will also mean a slower expansion of the labour supply. Buoyancy will also be tempered by the lagged flow-through of weak

New Zealand

The housing sector has been booming



The exchange rate remains high and the terms of trade have improved



1. Year-on-year change.
Source: Reserve Bank of New Zealand and Statistics New Zealand.

© OECD 2004

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

	2000	2001	2002	2003	2004	2005
	Current prices billion NZD	Percentage changes, volume				
Private consumption	67.8	2.2	4.2	5.2	4.0	1.9
Government consumption	20.2	4.2	2.6	2.6	6.0	2.6
Gross fixed capital formation	22.2	-0.5	8.9	13.7	7.3	1.6
Final domestic demand	110.1	2.0	4.8	6.4	5.1	2.0
Stockbuilding [a]	0.8	0.3	0.2	-0.3	0.2	0.0
Total domestic demand	110.9	2.3	5.1	6.1	5.4	1.9
Exports of goods and services	39.6	2.4	5.8	1.1	6.7	8.6
Imports of goods and services	38.2	1.6	8.8	10.1	11.7	6.6
Net exports [a]	1.4	0.3	-0.8	-2.8	-1.8	0.4
GDP (expenditure) at market prices	112.2	2.6	4.3	3.0	3.3	2.5
GDP deflator	_	4.7	0.6	2.0	3.0	1.8
Memorandum items						
GDP (production)	_	2.5	4.3	3.5	3.2	2.5
Consumer price index	_	2.6	2.7	1.8	2.1	2.4
Private consumption deflator	_	2.1	2.0	0.5	1.2	1.6
Unemployment rate	_	5.3	5.2	4.7	4.7	4.9
General government financial balance [b]	_	2.0	2.9	3.1	2.9	2.8
Current account balance [b]	_	-2.6	-3.7	-4.5	-4.6	-3.9

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

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

b) As a percentage of GDP.

Source: OECD.

export earnings to the rest of the economy. Overall, these factors should play a large role in bringing the economy back to a more sustainable growth path. In addition, the Reserve Bank raised interest rates by ¼ per cent at the end of January, thereby shifting towards a more neutral monetary stance. Monetary policy judgements will depend crucially on the pace at which domestic pressures unwind, and the Bank is assumed to keep interest rates steady over the projection period. Overall expenditure restraint has allowed the general government cyclically-adjusted primary surplus to rise to around 2¼ per cent of GDP in 2003. It is projected to remain steady in 2004 and 2005, even as the government puts in place infrastructure spending and additional measures for low-income families, within the envelope already indicated for the May budget.

… and a soft landing is within reach

Prospects point to a soft landing, with activity decelerating as the current year progresses, and GDP growth of 2½ per cent in 2005. Households are expected to boost their savings rate as house prices level off, while residential investment shrinks. The outlook should brighten for exporters who will benefit from strengthening foreign markets, especially around the Pacific Rim. Overall, GDP is projected to grow more slowly than its potential rate, and the output gap will gradually close, allowing the economy to proceed on a steadier track, without inflationary pressure. But the potential growth rate is also projected to moderate as a result of a slower expansion of the labour supply.

Risks are associated with net migration and the housing market

The main risks surround the orderly unwinding of excess domestic demand. The risks of a full-blown housing market bubble have diminished, but not entirely disappeared. A sharper slowdown in net migration could, however, feed through into a substantial decline in residential construction and fears of falling house prices. With the savings rate already low and indebtedness high, this could lead households to retrench.

Norway

The recovery has gained momentum, fuelled by historically low real interest rates and the acceleration of world demand. Growth for mainland Norway is expected to rebound to around 3¾ per cent during 2004, before falling back toward trend in 2005. Unemployment is likely to decline, albeit slowly, while inflation should eventually rise in response to the weaker exchange rate and the closing of the output gap.

Fiscal credibility would be improved via stricter adherence to the fiscal guidelines. The latter would be aided by the planned pension reform and by efforts to control rapidly rising expenditures for sick leave and disability. Along with reforms to strengthen competition in sheltered sectors, such steps would also enhance long-run potential growth.

Growth was robust during the latter half of 2003

Mainland GDP expanded at an annual rate of 4 per cent in the second half of 2003, bringing growth for the year to ¾ per cent. Demand indicators for the early months of 2004 suggest continued strong growth, though employment growth has remained weak. Private consumption has accelerated in response to lower interest rates and exports began to recover toward end-year, in line with rising world demand and currency depreciation. An upswing in oil investment (nearly 40 per cent of business investment) has provided further support to the economy. Non-oil investment, on the other hand, has declined sharply in response to falling profitability in the exposed sector and overcapacity in the office market. Business employment and the participation rate have fallen, reflecting the traditional labour market response to the cycle, and the unemployment rate rose to 4½ per cent.

Monetary policy is very accommodating

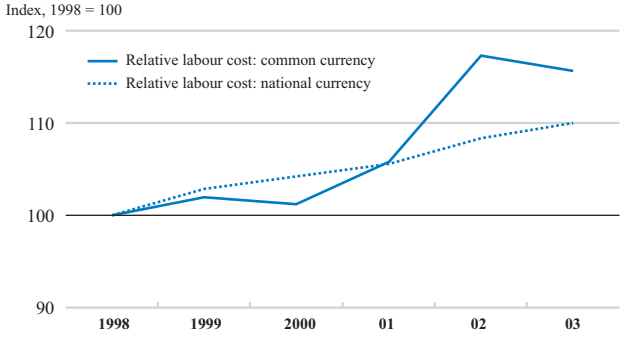
Policy interest rates have been reduced by a total of 5¼ percentage points since end-2002, and the real exchange rate has depreciated back to its historical average level. Nevertheless, core inflation was near zero in the early months of 2004, well under the 1½ per cent lower band of the 2½ per cent inflation target. This reflects strong price declines in recently liberalised sectors (*e.g.* airlines and communications), declining house rents, a shift in demand to low price countries (notably China), as well as an evidently slow pass-through of exchange rate depreciation into import prices. Hence, policy interest rates may remain low for some time and be raised only slowly.

Fiscal policy is also supportive

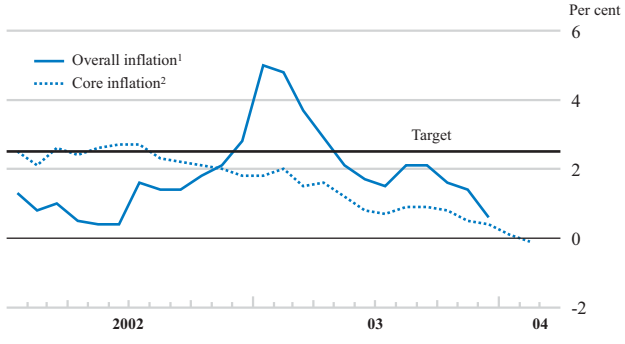
The non-oil structural budget deficit has expanded by over ½ per cent of GDP per year in both 2003 and 2004, providing further support to the recovery, although also implying that the fiscal policy guidelines (that the non-oil structural deficit should over time not

Norway

Labour costs are high



Inflation is undershooting



1. Measured by consumer price index, year-on-year changes.
2. Measured by consumer price index adjusted for tax changes and excluding energy products, year-on-year changes.

Source: Statistics Norway.

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Norway: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion NOK	Percentage changes, volume (2001 prices)				
Private consumption	625.5	1.8	3.6	3.7	4.5	3.2
Government consumption	281.1	5.8	3.1	1.3	1.8	1.9
Gross fixed capital formation	272.8	-0.7	-3.4	-2.5	1.7	2.7
Final domestic demand	1 179.4	2.2	1.9	1.8	3.3	2.8
Stockbuilding [a]	35.0	-1.2	0.4	-0.7	0.0	0.0
Total domestic demand	1 214.4	0.8	2.4	0.9	3.2	2.7
Exports of goods and services	686.0	5.0	0.1	0.1	3.5	4.2
Imports of goods and services	431.3	0.9	2.3	1.8	4.1	5.1
Net exports [a]	254.6	2.0	-0.6	-0.5	0.4	0.4
GDP at market prices	1 469.1	2.7	1.4	0.3	3.1	2.7
GDP deflator	_	1.1	-1.6	2.9	2.4	2.6
Memorandum items						
Mainland GDP at market prices [b]	_	2.1	1.7	0.7	3.7	3.1
Consumer price index	_	3.0	1.3	2.5	0.5	2.0
Private consumption deflator	_	2.3	0.8	2.4	0.9	1.8
Unemployment rate	_	3.6	3.9	4.5	4.4	4.2
Household saving ratio [c]	_	4.5	9.0	7.5	6.1	5.2
General government financial balance [d]	_	13.7	10.1	9.0	10.4	11.5
Current account balance [d]	_	15.5	12.9	13.0	12.8	13.0

a) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
b) GDP excluding oil and shipping.
c) As a percentage of disposable income.
d) As a percentage of GDP (does not include latest historical updates by Statistics Norway).
Source: OECD.

exceed the real return on the Petroleum Fund) have been overshot by some 1 percentage point of GDP in each year. The government's objective to move back within the guidelines will require a modest fiscal tightening over the coming years. However, in the absence of specific measures, the OECD projections foresee further overshooting in 2005.

A strong continuing recovery is projected…

Mainland GDP growth is expected to continue at a rate of 3¾ per cent in 2004, slowing to around 3 per cent in 2005. With consumer confidence steadily rising and purchasing power bolstered by historically low inflation, private consumption should remain a main motor of the recovery. Since a very high proportion of mortgage loans are in floating rate terms, lower interest rates raise disposable income. Business confidence is strengthening in response to recovering demand and easy monetary conditions. However, the profitability of business is weak because of high labour costs, so that a period of cost cutting may be needed before fixed investment demand responds more vigorously. Employment growth is thus likely to be modest going forward, but productivity growth will be strong. The external sector should continue to recover, although export market share losses may remain significant because of the cumulative deterioration in international competitiveness. The negative output gap is expected to disappear and turn positive by the end of this year. Together with the effect of a weaker exchange rate, this should allow inflation to rise, and eventually reach its target range by the end of the projection period.

… with risks of overheating

Overheating could arise in 2005 if consumption and housing investment were to grow significantly more rapidly than projected, given low real interest rates and booming house prices. If wages were then to respond monetary policy would need to tighten, perhaps sharply, exposing indebted households and jeopardising the ongoing recovery of investment. Another risk is of greater than assumed fiscal slippage, especially in light of the 2005 elections, which could put renewed upward pressure on the exchange rate, again harming business prospects.

Poland

GDP increased by 3.7 per cent in 2003, driven by strong export growth following the depreciation of the zloty. A projected rebound in investment activity due to improved profitability and European Union accession should permit growth to reach around 4½ per cent in both 2004 and 2005. Unemployment is expected to begin falling towards the end of 2004 as employment starts to expand, while the still large output gap should keep inflation pressures in check.

Following the sharp relaxation of fiscal policy in 2004 and the rapid build up of public debt, the planned public expenditure reform needs to be implemented and even reinforced if medium-term fiscal sustainability is to be preserved. Such a tightening of fiscal policy could also serve to reduce inflationary pressures, opening the way for a further reduction in interest rates.

The recovery has strengthened

Economic activity continued to accelerate during the second half of 2003, with real GDP increasing at a 4.7 per cent (year-over-year) pace in the fourth quarter. A 15 per cent rise in exports during the second half of the year, bolstered both by a 12 per cent real effective depreciation and by capacity increases following the coming on-line of past investments, was the main force behind the pick up in growth. Household consumption continued to expand at moderate rates. Although investment levels were down for the year, indications are that a pick up is underway. Indeed, recent industrial production and business confidence indicators suggest even stronger growth in the first quarter of 2004.

Employment has stopped falling and inflation remains low

Employment declined by 1.2 per cent in 2003. However, there was net job creation in the fourth quarter and the standardised unemployment rate has stabilised at around 19 per cent. Despite labour market weakness, wages in the enterprise sector have accelerated and were up 7 per cent over the 12 months ending March 2004. While inflation has picked up lately, this mainly reflects a reversal in the past downward trend of food prices. Very strong productivity growth has meant that unit labour costs have been falling and for the moment there is little evidence of an inflationary pass through into consumer prices from the depreciation of the currency. In early 2004, both March headline and February core inflation, at 1.7 and 1.1 per cent (year-over-year) remain well below the central bank's official target of 2.5 ± 1 per cent.

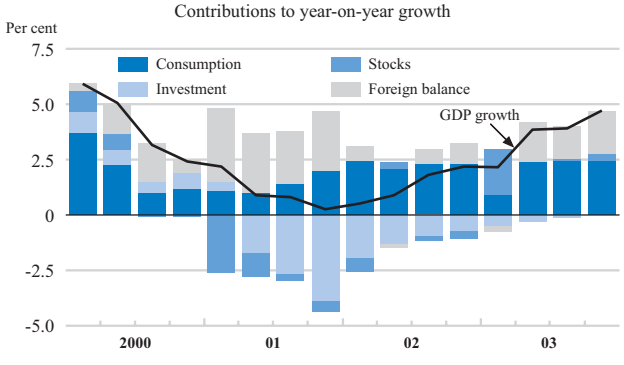
Fiscal policy eased substantially in 2004

A sharp loosening of fiscal policy in 2004 has further skewed the mix of macroeconomic policy. The general government deficit is now expected to rise to 5.7 per cent of GDP in 2004, reflecting, among other things, corporate income tax cuts and permanent costs associated with European Union (EU) membership. A medium-term

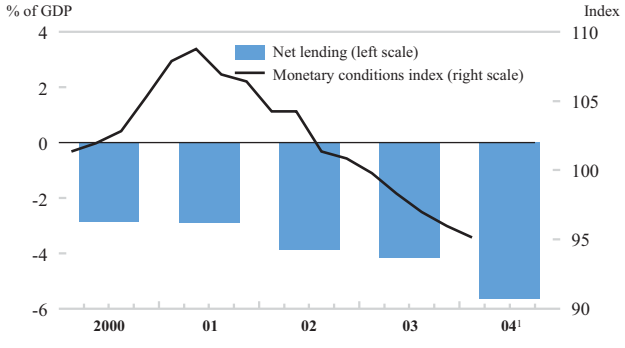
Poland

The sources of growth have broadened

Contributions to year-on-year growth



Fiscal and monetary conditions have eased



1. Ministry of Finance estimate.
Source: OECD.

© OECD 2004

Poland: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion PLZ	Percentage changes, volume				
Private consumption	462.3	2.0	3.4	3.1	3.7	4.3
Government consumption	130.3	0.6	0.6	0.4	0.3	-2.1
Gross fixed capital formation	170.4	-8.8	-5.8	-0.9	5.7	7.5
Final domestic demand	763.1	-0.5	1.1	1.9	3.5	3.8
Stockbuilding [a]	8.1	-1.2	-0.2	0.6	0.0	0.1
Total domestic demand	771.2	-1.6	0.9	2.4	3.4	3.9
Exports of goods and services	201.5	3.1	4.8	13.0	13.8	10.3
Imports of goods and services	248.9	-5.3	2.6	7.9	9.6	8.6
Net exports [a]	- 47.3	2.7	0.5	1.4	1.2	0.6
Statistical discrepancy [a]	0.0	-0.1	-0.1	-0.1	0.0	0.0
GDP at market prices	723.9	1.0	1.4	3.7	4.7	4.5
GDP deflator	_	4.0	1.2	0.7	1.2	1.4
Memorandum items						
Consumer price index	_	5.5	1.9	0.8	1.8	2.4
Private consumption deflator	_	4.7	1.6	0.7	2.2	2.1
Unemployment rate	_	18.2	19.9	19.6	19.7	19.2
General government financial balance [b]	_	-2.9	-3.9	-4.2	-5.7	-5.5
Current account balance [b]	_	-2.9	-2.6	-2.0	-2.5	-2.4

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

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

b) As a percentage of GDP.

Source: OECD.

plan that proposes spending cuts, mainly beginning in 2005, would, if implemented, help restore internal equilibrium. However, given the very relaxed fiscal stance, strong growth and the loosening of monetary conditions following a 22 per cent effective depreciation of the zloty since 2001 Q1, the National Bank of Poland indicates that it may raise already-high interest rates in the future so as to forestall a possible upsurge in inflation.

The basis of recovery should broaden…

Real GDP is projected to continue growing rapidly, expanding by 4.7 per cent in 2004. Export growth, fed by the international recovery and the depreciation of the currency, should remain strong. Simultaneously, improved profitability, increased capacity utilisation and EU accession are expected to boost investment markedly, thereby broadening the basis of the recovery. The pick-up in private consumption growth is projected to be less strong, principally because deep-seated structural problems are expected to limit employment growth. The overall acceleration in domestic demand should be reflected in strengthening imports, a deterioration in the current account and a reduction in the contribution of the external sector to overall growth in 2005. A tendency for wages to accelerate and the progressive closing of the still-large output gap may be reflected in a moderate increase in inflation.

… but there is a risk of supply bottlenecks and inflation

The main risk pertaining to this projection concerns the reaction of domestic demand to the simultaneous loosening of fiscal policy and more relaxed monetary conditions at a time when output is already expanding rapidly. Even stronger domestic demand could spawn faster wage growth and production bottlenecks, resulting in a more rapid pick up in inflation – forcing a tightening of monetary policy. Such an outturn would likely imply reduced profitability, lower employment growth, slower investment and eventually weaker overall growth.

Portugal

After the sharp 2003 recession, a gradual export-led recovery is expected to get under way in 2004. The pace of growth is likely to remain among the weakest in the OECD in 2004, and the negative output gap would remain among the highest in 2005. Against this background and with the unemployment rate still high, the inflation differential vis-à-vis *the euro area is expected to remain quite narrow.*

Despite continuing consolidation efforts, the fiscal deficit is likely to exceed the 2.8 per cent target in 2004, unless additional measures are taken. Structural measures to contain public spending could have visible effects starting in 2005, but implementation should be stepped up and further action will be needed to contain spending pressure over the medium term.

The low point of the cycle was reached in the second half of 2003

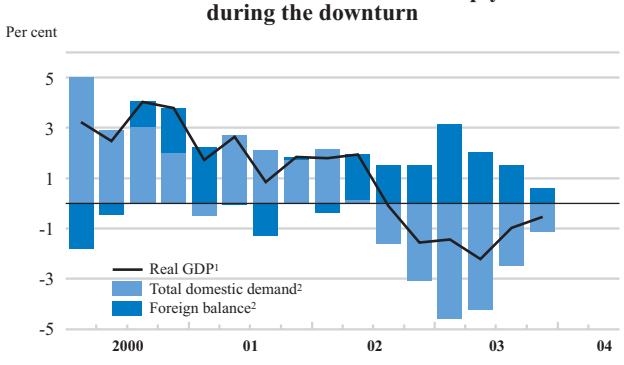
Portugal was in recession in 2003, GDP contracting by 1.3 per cent with falls in all domestic demand components. While the low point of the cycle seems to have been reached in the second half of 2003, most recent short-term indicators point to the recovery being rather tentative. In particular, confidence indicators stopped improving in early 2004. Nevertheless, several of the imbalances that built up during the previous upturn have been unwound. The current account deficit narrowed by 1½ percentage points of GDP in 2003, reaching its lowest level since 1997, reflecting both a contraction in imports and a moderate acceleration of exports in line with external markets. With employment contracting and nominal wages decelerating, inflation has slowed and unit labour costs have stabilised. By early 2004, the inflation differential with the euro area had decreased to ¼ percentage point.

Fiscal consolidation was supplemented by one-off measures in 2003…

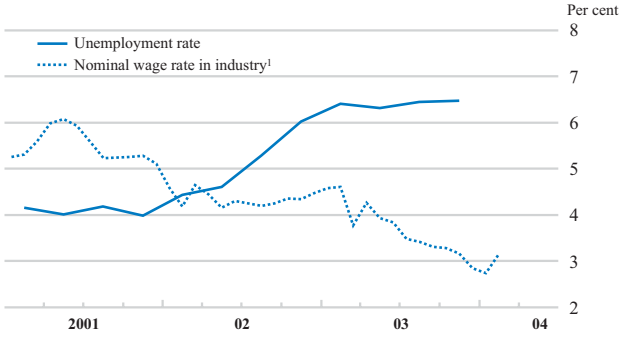
In 2003, the contraction in activity hindered the further reduction of the fiscal deficit. Current expenditure remained under control, as a result of the continued freeze on public sector hiring and wages and the immediate impact of health sector reform measures. However, with weaker than projected activity, tax revenues and social contributions were much lower than budgeted and the authorities had again to rely on one-off measures (amounting to 2¼ percentage points of GDP, against 1½ percentage points of GDP in 2002) to keep the deficit below 3 per cent. Adjusting the deficit numbers for both the strong cyclical deterioration and the impact of these one-off measures results in an estimate of the underlying consolidation effort of about 0.3 percentage point of GDP.[1]

Portugal

Domestic demand contracted sharply during the downturn



Labour market slack has reduced wage pressures



1. Year-on-year percentage changes.
2. Contributions to annual per cent change in real GDP. Percentage points.
Source: OECD and Ministry of Finance.

1. More precisely, the underlying consolidation effort is measured by the change in the underlying deficit, defined as cyclically-adjusted net lending minus one-off measures (4.1 per cent of GDP in 2002 and 3.8 per cent of GDP in 2003).

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Portugal: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption	71.6	1.2	0.5	-0.8	1.5	2.4
Government consumption	23.7	3.3	2.7	-0.6	-1.0	-0.6
Gross fixed capital formation	32.4	0.7	-5.2	-9.6	1.8	6.2
Final domestic demand	127.7	1.4	-0.5	-2.9	1.1	2.7
Stockbuilding[a]	0.8	0.0	0.0	0.0	0.0	0.1
Total domestic demand	128.5	1.4	-0.5	-2.9	1.2	2.8
Exports of goods and services	36.4	2.0	2.6	3.9	5.2	6.4
Imports of goods and services	49.4	1.0	-0.5	-1.0	5.2	6.5
Net exports[a]	- 13.0	0.2	1.1	1.8	-0.4	-0.6
GDP at market prices	115.5	1.8	0.5	-1.3	0.8	2.4
GDP deflator	_	4.4	4.7	2.3	2.2	1.7
Memorandum items						
Harmonised index of consumer price	_	4.4	3.7	3.3	2.0	1.7
Private consumption deflator	_	3.9	3.6	3.4	1.9	1.8
Unemployment rate	_	4.1	5.1	6.4	6.6	6.1
Household saving ratio[b]	_	11.5	12.4	12.5	12.3	11.8
General government financial balance[c]	_	-4.4	-2.7	-2.9	-3.8	-3.2
Current account balance[c]	_	-9.5	-6.7	-5.1	-4.6	-5.0

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

… and fiscal restraint is continuing

The authorities are targeting a 2.8 per cent of GDP deficit for 2004. Most expenditure freezes have been extended. On the revenue side, a corporate tax rate cut (the impact of which would mostly be felt in 2005) and tax breaks for investment were approved, but the budget projections also incorporate improved tax compliance, as well as revenues amounting to 0.8 per cent of GDP from real estate sales. The OECD projections assume some slippage in current expenditure and a slower improvement in tax collection. As a result, the deficit could be about 1 percentage point of GDP higher than indicated by the authorities, unless additional measures are taken. The underlying consolidation effort could, however, be more important than in 2003. By 2005, the impact on public spending of on-going reforms in the public administration and education should become clearly visible, helping to bring the deficit close to 3 per cent of GDP, with less recourse to one-off measures. Besides forceful implementation of already approved reforms, there is a need to launch additional reforms, especially regarding pensions, to further reduce spending pressure over the medium term.

Portugal's upturn lags the recovery in Europe

A gradual recovery in activity is expected from the start of 2004, driven by external demand. Private domestic demand will pick up only with a lag, given the current levels of indebtedness of private agents and weak confidence indicators. The negative output gap would thus remain large. Unemployment is not expected to start declining before mid-2004. In this context, the inflation differential *vis-à-vis* the euro area should remain at around current levels, despite temporary rises following the Euro 2004 football championships and several public service price readjustments. The recovery is very dependent on the pace of the upturn in Europe and the degree to which it translates into demand for Portuguese exports. In this context, it is important that wage moderation should continue, so as not to weigh on competitiveness. On the other hand, private investment, and to a lesser extent private consumption, could recover faster than expected once confidence returns.

Slovak Republic

Strong GDP growth is being led by exports, but is now expected to broaden. Headline inflation will remain high during 2004, as a result of a final step of administered price increases towards cost-recovery levels, but should decelerate significantly thereafter. Unemployment, although falling, will remain above 15 per cent.

The recent reduction of policy rates by the central bank, in the context of ongoing fiscal consolidation, has helped to balance the policy mix. The ambitious reforms under way with respect to taxes, labour markets, public services, and social assistance have the potential to foster strong medium term growth and employment.

Output growth is export-driven

The strong GDP growth of more than 4 per cent in 2003 was almost entirely driven by exports. Domestic demand contracted, due to continuing weak aggregate investment and the loss of consumer purchasing power as administrative prices were increased. The marked increases in exports led to a reduction in the current account deficit from 8 per cent to 1 per cent of GDP. Foreign sales of machinery and vehicles, mostly by foreign-owned firms, rose particularly strongly and now account for almost half of all exports.

Unemployment and inflation remain high

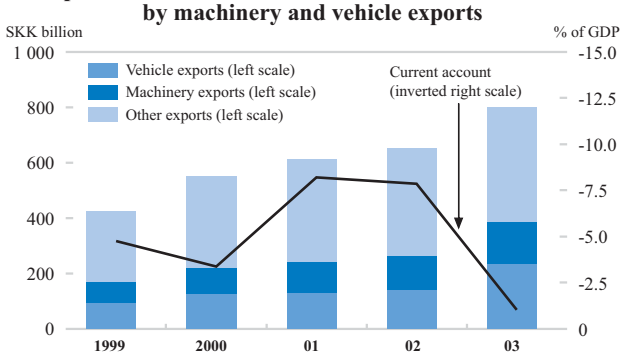
The high headline inflation rate is expected to drop only slightly in 2004, as the final step of administrated price adjustments was undertaken at the beginning of the year and food prices will be higher after accession to the European Union (EU), following the adoption of the Common Agricultural Policy. However, if regulated prices are excluded, inflation is converging towards EU levels. The unemployment rate is declining, but remains high. Moreover, the national average hides strong regional differences, with the area around Bratislava experiencing near full employment, while joblessness is pervasive in the east of the country. The unemployment rate among the Roma population continues to be extremely high.

Monetary easing has started

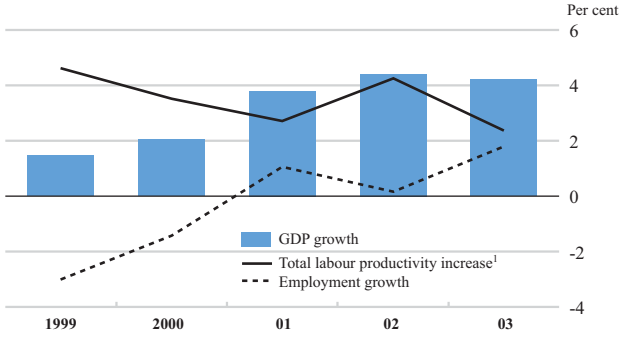
The central bank has started to lower its relatively high policy rates gradually, in the context of substantial short-term capital inflows which are creating pressure on the koruna, as well as low core inflation, persistently high unemployment and fiscal consolidation. The basic refinancing rate was cut by 25 basis points each in September and December 2003 and by 50 basis points each in March and April 2004. This monetary easing should help to contain foreign portfolio investment and reduce the need for the central bank to sterilise excess liquidity. In 2003, the losses to the central bank due to koruna appreciation and sterilisation amounted to 2½ per cent of GDP.

Slovak Republic

Improvements in the current account have been driven by machinery and vehicle exports



Growth is becoming more job-rich



1. OECD estimates for 2003.
Source: National Bank of Slovakia and OECD.

© OECD 2004

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

	2000	2001	2002	2003	2004	2005
	Current prices billion SKK	Percentage changes, volume (1995 prices)				
Private consumption	528.0	4.7	5.3	-0.4	2.0	4.2
Government consumption	184.8	4.6	4.7	2.9	1.5	1.2
Gross fixed capital formation	242.3	13.9	-0.9	-1.2	6.0	8.4
Final domestic demand	955.1	7.1	3.5	0.0	3.0	4.7
Stockbuilding [a]	1.9	0.4	0.8	-2.3	-0.2	0.0
Total domestic demand	957.0	7.4	4.2	-2.2	2.7	4.7
Exports of goods and services	661.5	6.3	5.5	22.6	14.0	10.9
Imports of goods and services	684.4	11.0	5.2	13.8	12.6	11.1
Net exports [a]	- 22.9	-3.7	0.0	6.4	1.6	0.3
GDP at market prices	934.1	3.8	4.4	4.2	4.3	4.8
GDP deflator	_	4.2	4.0	4.7	3.8	2.9
Memorandum items						
Consumer price index	_	7.3	3.1	8.6	7.6	3.0
Private consumption deflator	_	5.9	2.5	7.7	6.6	3.0
Unemployment rate	_	19.3	18.6	17.4	16.6	15.5
General government financial balance [b]	_	-6.7	-7.2	-3.6	-4.0	-3.7
Current account balance [b]	_	-8.2	-7.9	-1.0	-1.7	-2.9

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

Fiscal consolidation targets were achieved

The government reduced its budget deficit significantly to 3.6 per cent of GDP during 2003, well below the targeted 5 per cent. This remarkable fiscal performance was mainly due to broad-based expenditure cuts, while exceptional savings were due to delays in the implementation of projects co-financed with the European Union. The diversion of revenues from the pay-as-you-go to the new funded pension system will temporarily increase the fiscal deficit, but the government is committed to continue its consolidation efforts and to reach the Maastricht level of 3 per cent by 2007. However, the fiscal costs of the ongoing pension reforms might turn out to be higher in 2005 than currently budgeted and uncertainties also remain concerning the impact of the recent tax reform on fiscal revenues.

Structural reforms are helping to attract foreign investment

Ambitious reforms of taxes, labour markets, public services, and social assistance were launched at the beginning of 2004 with the aim of stimulating labour supply and demand and boosting economic activity. Low direct tax rates and labour costs, a favourable business environment and an advantageous geographical location have increasingly lured foreign direct investment (FDI). In early 2004, a third multinational car producer decided to establish a manufacturing plant in the country, which is scheduled to start production in 2006. This investment is expected to trigger substantial follow-up FDI by equipment suppliers.

Strong growth should continue, depending on successful fiscal reform

Output is projected to accelerate to about 4¼ per cent in 2004 and almost 5 per cent in 2005. Growth is driven primarily by investment and production for export. The current account deficit is expected to widen temporarily, as a result of a projected increase in machinery and equipment imports following greenfield-FDI. Marked disinflation should start after the end of administrative price adjustments in 2005. Modest increases of employment are foreseen over the medium term and real wage growth is projected to increase in line with labour productivity. The main downside risks relate to the political conditions for implementation of the fiscal consolidation programme, which is conditioned on continuing support from independent members of parliament and the successful completion of the ongoing fiscal decentralisation of public administration and services.

Spain

Output accelerated during the second half of 2003, driven by buoyant domestic demand. Inflation has drifted down in recent months partly due to the appreciation of the euro, while the inflation differential with the euro area has fallen to ½ percentage point. Activity should continue to firm over the projection period and should grow above potential despite the negative drag of the external sector.

With monetary conditions likely to remain relaxed and the output gap closing, the authorities should avoid any fiscal stimulus. This would imply a widening budget surplus over the projection period because of positive cyclical effects. Labour market reforms should aim at increasing wage flexibility, which would also boost productivity performance.

Consumption and construction have sustained activity

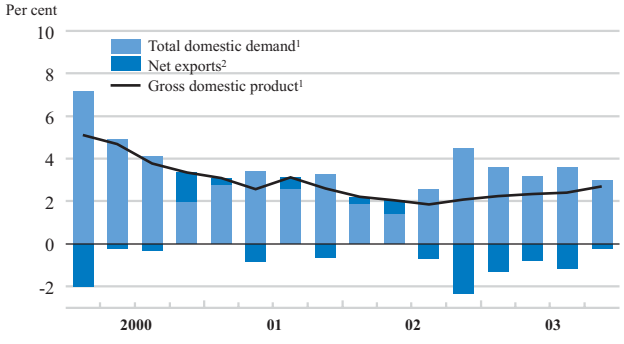
GDP growth accelerated at the end of 2003, supported by private consumption, which rebounded in the fourth quarter, and by vigorous public consumption and construction demand. Overall, domestic demand grew by 3¼ per cent over the year, although equipment investment, which had started to recover at the beginning of 2003 after three years of declining or very weak growth, receded again in the second half. Exports improved during the second half, but imports increased much more rapidly due to the appreciation of the euro. For the year as a whole, GDP grew at about 2½ per cent. Employment growth was strong, but the unemployment rate declined only marginally due to the rapid expansion of the labour force, which continues to be pushed up by immigration and the rise of female participation. Activity indicators for the beginning of 2004 suggest a pick-up in some sectors, with car sales booming and cement and electricity consumption rising vigorously, but industrial production remains weak.

Inflation has slowed

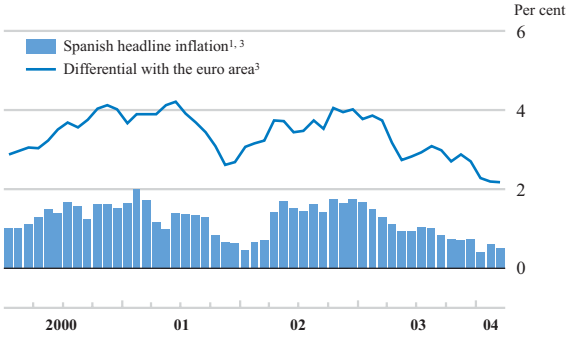
Both headline and underlying inflation have receded to around 2 per cent, partly due to the moderating effect of the euro appreciation. The inflation differential with the euro area has also fallen and was ½ percentage point in March. Wages and unit labour costs accelerated in 2003, partly due to the activation of catch-up clauses for inflation, which are expected to have a smaller effect in 2004.

Spain

Activity is strengthening



The inflation differential has diminished



1. Year-on-year percentage changes.
2. Contribution to GDP growth.
3. Harmonised index of consumer prices.

Source: Statistical Office of the European Communities and OECD.

© OECD 2004

Spain: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption	359.3	2.8	2.6	3.0	3.3	3.6
Government consumption	107.2	3.6	4.4	4.6	4.3	3.6
Gross fixed capital formation	154.5	3.3	1.0	3.0	4.0	5.0
Final domestic demand	621.1	3.1	2.6	3.3	3.7	4.0
Stockbuilding [a]	2.3	-0.1	0.0	0.0	0.1	-0.1
Total domestic demand	623.4	3.0	2.6	3.3	3.7	3.9
Exports of goods and services	183.7	3.6	0.0	4.0	5.0	7.2
Imports of goods and services	197.3	4.0	1.8	6.7	7.5	8.2
Net exports [a]	- 13.6	-0.2	-0.6	-1.0	-1.0	-0.7
GDP at market prices	609.7	2.8	2.0	2.4	2.9	3.3
GDP deflator	_	4.2	4.4	4.2	3.5	3.2
Memorandum items						
Harmonised index of consumer price	_	2.8	3.6	3.1	2.3	2.6
Private consumption deflator	_	3.3	3.5	3.1	2.4	2.6
Unemployment rate [b]	_	10.5	11.4	11.3	10.9	10.2
Household saving ratio [c]	_	10.3	10.6	11.6	11.6	11.3
General government financial balance [d]	_	-0.4	-0.1	0.3	0.3	0.5
Current account balance [d]	_	-2.8	-2.4	-3.0	-3.3	-3.4

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

The budget surplus could rise and monetary conditions remain loose

The government account showed a surplus of ¼ per cent of GDP in 2003, which was better than projected. The target of balancing the budget in 2004 seems feasible despite the 2003 personal income tax reform which will also have some effect on receipts this year. Indeed, given the progressive improvement of activity, the general government balance should be in surplus again in 2004 and 2005 if the government maintains budgeted spending and allows the automatic stabilisers to play. This would leave the structural balance in a small and roughly stable surplus. Meanwhile, despite the appreciation of the euro, monetary conditions remain loose as real short-term interest rates are negative.

Activity should gain momentum, but risks persist

Private consumption is expected to strengthen further, driven by solid employment growth. Construction investment should also remain strong, as house prices continue to rise rapidly. The improvement of the international climate should lead to rising exports, pulling demand for equipment investment. However, the euro appreciation will affect net exports in 2004, though its negative contribution to growth is expected to fade in 2005. Overall, GDP growth could accelerate to 3 per cent in 2004, and 3¼ per cent in 2005. Inflation is expected to stabilise in 2004 and rise slightly next year, while unemployment should continue to fall. There are negative risks associated with the international environment, since demand from European countries could be lower than projected. It is also possible that the recent bombings in Madrid could affect consumer sentiment or the tourism sector, although such an impact is likely to be minor. However, in the immediate future house prices could rise further and raise private consumption, although this could increase the risk of a sudden and sharp fall in the medium term.

Sweden

A steady upswing is taking place. Output growth has picked up to its potential rate, driven by household spending and a recovery in exports. External demand is projected to continue to provide stimulus and will be aided by a rebound in business investment. Inflation is below target, although there is a small risk that this year's wage negotiations may put upward pressure on prices.

Fiscal expansion is not warranted; rather, further increases in the structural surplus would be appropriate in order to prepare for looming age-related spending pressures. The Riksbank should also remain cautious, despite the recent surprisingly weak inflation outcomes, maintaining the focus on prospects over a two year horizon and gradually withdrawing monetary stimulus in anticipation of the closing of the output gap in 2005. Reductions in working hours should be avoided.

Exports and consumption have been supporting activity

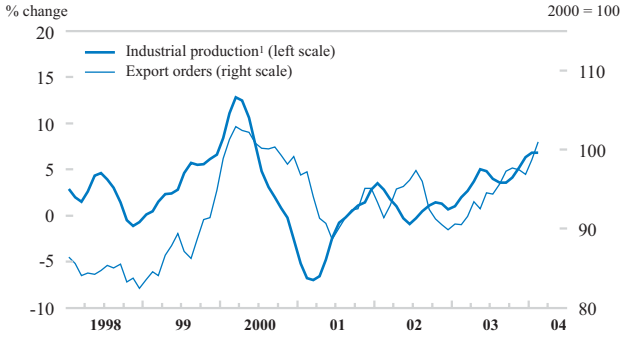
The economy has been gradually gaining momentum since the middle of 2002. Activity was expanding at close to its potential rate of 2 per cent *per annum* by the end of last year, driven by a recovery in both consumption and exports. The improvement in household spending is largely due to the tax cuts in 2002, while the healthy export performance reflects the global economic recovery, a rebound in the telecommunications sector and Sweden's success in diversifying its export markets. However, the economic upswing has yet to eliminate the slack in the economy. It has also not fed through to the labour market. The unemployment rate is continuing to rise, partly due to a genuine fall in employment but partly also to people coming off government-funded labour market schemes. The remaining surplus capacity has helped drive down inflation, with the consumer price index falling slightly in the year to March 2004. Inflation trends are being masked by declining electricity prices (which are unwinding from their upward blip last year), but the measures of core inflation which are not affected by this one-off factor are also running under 1 per cent *per annum*, clearly below the *Riksbank*'s inflation target.

Steady growth should continue

The expansion is expected to continue, driven by a recovery in business investment and accelerating foreign trade. Investment has already begun to turn upwards, and a combination of low interest rates, rising capacity utilisation and increased profitability should ensure this trend is sustained. Export growth is projected to pick up from the second half of this year and throughout 2005 as the recovery in Sweden's trading partners gathers pace. Government spending, by contrast, will restrain activity. A large number of local governments were in deficit in 2002 and 2003, which under the balanced budget rules requires offsetting surpluses in the following two years. Some have already announced or implemented tax hikes, employment cutbacks and postponement of their investment programmes. Nonetheless, without further fiscal tightening the

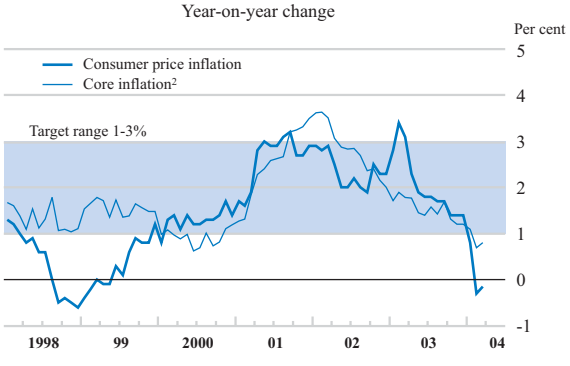
Sweden

Activity is picking up



Inflation is low and falling

Year-on-year change



1. Year-on-year.
2. Consumer price index excluding mortgage interest, indirect taxes and energy.

Source: Statistics Sweden.

© OECD 2004

Sweden: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion SEK	Percentage changes, volume				
Private consumption	1 078.4	0.4	1.4	2.0	2.5	2.5
Government consumption	583.4	0.9	3.2	0.7	1.3	0.3
Gross fixed capital formation	389.0	-1.0	-3.0	-2.0	1.1	6.0
Final domestic demand	2 050.8	0.3	1.1	0.9	1.9	2.5
Stockbuilding [a]	16.5	-0.4	-0.2	0.2	0.5	0.0
Total domestic demand	2 067.3	-0.2	0.9	1.1	2.4	2.4
Exports of goods and services	1 012.1	0.2	1.2	5.9	5.7	8.5
Imports of goods and services	884.4	-2.5	-1.9	5.4	6.0	8.2
Net exports [a]	127.7	1.1	1.3	0.6	0.3	0.8
GDP at market prices	2 195.0	0.9	2.1	1.6	2.5	2.8
GDP deflator	_	2.3	1.4	2.3	1.4	1.9
Memorandum items						
Consumer price index	_	2.4	2.2	1.9	0.5	1.6
Private consumption deflator	_	2.4	1.8	2.5	0.9	1.7
Unemployment rate [b]	_	4.0	4.0	4.9	5.8	5.4
Household saving ratio [c]	_	8.3	9.7	8.0	7.5	6.7
General government financial balance [d,e]	_	2.9	-0.3	0.5	0.2	0.6
Current account balance [d]	_	3.9	4.1	6.3	6.3	5.8

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

The projections are not adjusted for the number of working days in each year. The Ministry of Finance estimates that the unusually high number of working days in 2004 could add around 1/2 percentage point to GDP growth this year.

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

general government surplus is projected to fall well short of the government's target of 2 per cent of GDP in cyclically-adjusted terms. With local governments and private firms both in a cost-cutting mood, there is little prospect of any immediate improvement in the employment situation, which is projected to remain lacklustre until early next year. That in turn would tend to dampen private consumption, but it is assumed that the saving ratio will continue to fall from its unusually high level in 2002, thereby allowing consumption to grow a little more rapidly than disposable incomes.

Monetary policy must be forward looking

The central bank cut interest rates in February and April this year in response to inflation being below target. With interest rates at current levels and the trade-weighted krona close to its long-run average, monetary policy is providing significant stimulus. However, the central bank should avoid overreacting to current developments: instead, it should set interest rates in anticipation of the continuing upswing and ensure that they are returned to neutral levels before the output gap is eliminated in 2005.

Wage settlements are leading to reductions in working hours

Collective wage agreements for 85 per cent of the private sector and the entire government sector will be renegotiated this year. Settlements so far have been relatively modest, given the weak labour market and low inflation, although many central agreements can be bargained up at the local level. Moreover, some of the increase in compensation has been taken in the form of reduced hours rather than in cash. However, the social partners and parliament need to recognise that lowering working hours will make it harder to finance future age-related public spending and thereby jeopardise the long-term sustainability of the welfare state.

Switzerland

The recovery, which began in the second half of 2003, seems more robust in Switzerland than in the euro area. With the strengthening of the external environment, the upturn is likely to continue, with output expanding by 1¾ per cent in 2004 and 2¼ per cent in 2005, which is above potential growth. This firming in activity should be accompanied by a gradual decline in unemployment without generating inflationary pressures.

In the absence of price pressures, the authorities should maintain easy monetary conditions for some time until the recovery is firmly established, even if some tightening will eventually be necessary. The fiscal tightening as from 2005 is warranted to consolidate the public finances. In the medium term, the main challenge is to strengthen potential growth and productivity which, first and foremost, requires ambitious reforms in the product markets.

The upturn is becoming more broadly-based

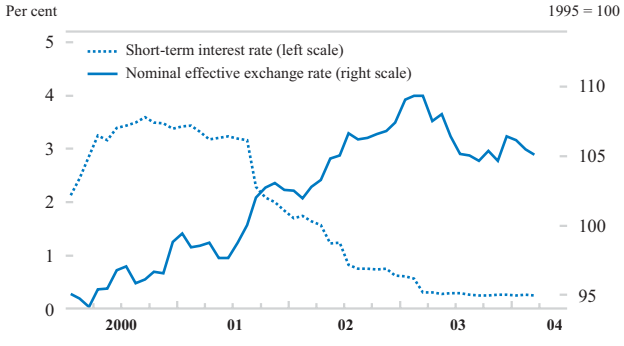
Although GDP declined by ½ per cent in 2003 as a whole, activity picked up in the second half, reaching an annual growth rate of nearly 2 per cent. All final domestic demand components revived, stimulated by an easy monetary and fiscal stance, while exports benefited from a more dynamic external environment and a favourable exchange rate. Recent indicators suggest that the gradual improvement in activity, which is reflected in higher industrial capacity utilisation at the beginning of 2004, should continue. Indeed, exports and retail sales have continued to pick up, while household confidence, though still low, has improved. The deterioration of the labour market came to an end in the second half of 2003, while the registered unemployment rate, which was 3.9 per cent in March 2004, has stopped rising. However, inflation has remained very low, the consumer price index declining by 0.1 per cent in March 2004 on a year on basis.

Monetary conditions remain very easy

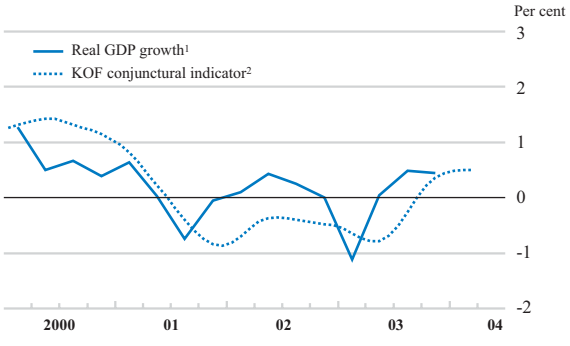
The Swiss National Bank (SNB) has kept the three-month LIBOR at ¼ per cent since March 2003, while its declared intention of preventing any undesirable appreciation of the franc served to weaken the effective exchange rate in spring 2003 and then to stabilise it as of the summer, despite the fall of the dollar. In the absence of inflationary pressures, the SNB indicated that it would maintain an expansionary policy until the upturn is firmly established. In the projections, short rates remain

Switzerland

Monetary conditions are very easy



The recovery should firm up



1. Percentage changes over the previous quarter.
2. The KOF conjunctural barometer is a leading indicator of future GDP growth, with an average lead of 6 to 9 months.

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

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Switzerland: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices billion CHF	Percentage changes, volume (2000 prices)				
Private consumption	249.6	2.0	0.7	0.8	1.6	1.9
Government consumption	46.2	4.0	0.8	0.7	0.3	0.5
Gross fixed capital formation	94.6	-3.1	-4.8	-0.5	3.4	3.7
Final domestic demand	390.4	1.0	-0.6	0.5	1.8	2.1
Stockbuilding [a]	0.2	0.1	-0.1	-0.5	-0.1	0.1
Total domestic demand	390.5	1.1	-0.6	0.0	1.7	2.2
Exports of goods and services	189.8	0.2	-0.5	-1.5	6.2	6.3
Imports of goods and services	165.8	2.2	-3.1	-0.1	6.2	6.5
Net exports [a]	24.0	-0.8	1.0	-0.6	0.3	0.3
GDP at market prices	415.9	1.0	0.2	-0.5	1.8	2.3
GDP deflator	_	0.6	1.0	1.2	1.2	0.7
Memorandum items						
Consumer price index	_	1.0	0.6	0.6	0.2	0.6
Private consumption deflator	_	0.5	1.1	1.1	0.3	0.6
Unemployment rate	_	2.5	3.1	4.0	3.8	3.4
General government financial balance [b]	_	0.8	-0.5	-1.2	-1.6	-0.9
Current account balance [b]	_	8.5	8.5	10.2	11.3	11.6

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

unchanged until the last quarter of 2004 and are then gradually raised to about 1¾ per cent by the end of 2005.

A fiscal tightening will not take place before 2005

The general government deficit, measured on a national accounts basis, reached 1¼ per cent of GDP in 2003, which was one percentage point above the initial target. The overshoot mostly affected the federal accounts, which suffered from a sharp fall in receipts as a result of weak activity and the downturn in financial markets. The deficit is likely to widen further in 2004 and exceed 1½ per cent of GDP. Fiscal policy will remain expansionary mainly as a result of the lowering of unemployment insurance contributions. Measures to eliminate the federal structural deficit will only be brought in gradually between 2005 and 2007, under a programme that will focus on cutting expenditure. If confirmed by a referendum in the spring, a 0.8 per cent increase in value-added tax will also be implemented next year to reduce the deficit in the invalidity pension system.

The recovery will probably firm up

With policy remaining expansionary in 2004 and an improving international environment, the recovery should firm and growth could reach 1¾ per cent this year. Export growth, bolstered by improved external competitiveness, is likely to remain robust and to stimulate investment. Private consumption should also pick up, thanks to improving labour market conditions. All in all, output should accelerate in 2005 despite macroeconomic policy becoming gradually more restrictive. With import prices falling and the persistence of a large and negative, although narrowing, output gap, inflation could decline again in 2004. It should remain below ¾ per cent in 2005, despite a price level effect of the planned rise in the value added tax rate of between ¼ and ½ percentage point. However, the recovery would suffer if foreign demand were less robust or the franc were to appreciate as a result of heightened geopolitical uncertainty.

Turkey

Growth was robust in 2003 and should continue above 5 per cent in 2004 and 2005. It is driven by exports and by improved consumer and business confidence, stemming from successful macroeconomic stabilisation which has reduced real interest rates.

The government should sustain the recovery by sticking to rigorous fiscal and monetary policies so as to ensure macroeconomic stability. They should also act to develop and fully exploit the potential of the economy by enforcing and strengthening structural reforms in financial, labour and infrastructure markets as well as in the government sector.

The economy continues to grow at a fast pace

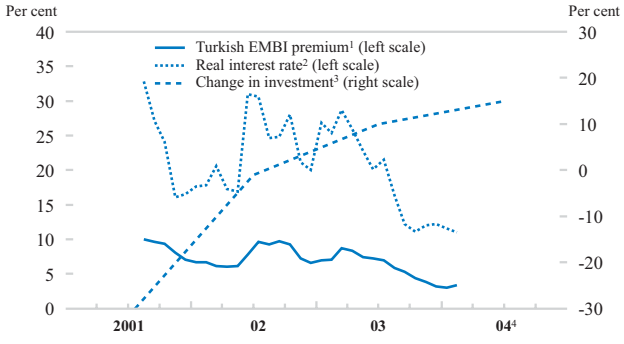
GDP growth remained strong in the second half of 2003 and approached 6 per cent for the year. Export growth fuelled confidence and induced robust private consumption and investment. Cuts in government consumption and investment and the net negative contribution of trade due to growing imports did not hinder the recovery. The current account deficit widened to almost 3 per cent of GDP, but was easily financed by short-term capital inflows, government borrowing abroad and reverse currency substitution. However, the small share of foreign direct investment inflows hints at a structural weakness in external financing.

Successful stabilisation underpins improving expectations…

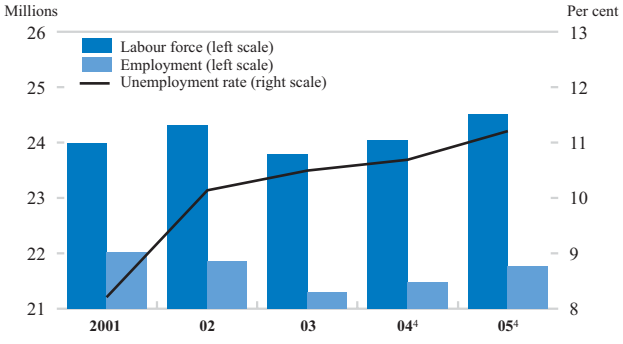
Helped by currency appreciation, end-of-year inflation undershot the 20 per cent target in 2003, strengthening the credibility of monetary policy. Headline inflation targets of 12 per cent in 2004 and 8 per cent in 2005 appear within reach. The central bank is pursuing a tight policy in spite of the currency appreciation and cut policy rates to only 22 per cent in March 2004, or 10 per cent in real terms. Fiscal objectives were nearly attained with a primary budget surplus above 6 per cent of GDP, and the government is determined to achieve the same performance in 2004. Yet strong increases in the minimum wage and in pensions in December caused some overspending in the first two months of the year and required an early fiscal adjustment package. Fuel, alcohol and tobacco excises were increased and all discretionary spending for 2004, including infrastructure investment, was cut by 13 per cent. This type of fiscal adjustment, while not fully satisfactory in quality, signals the strong

Turkey

The risk premium is falling and investment is picking up



Job growth is too low to stem unemployment



1. Interest rate differential between US dollar Turkish government bonds and US treasury rate.
2. Treasury auction rate discounted by inflation expectations.
3. Real annual per cent change.
4. OECD projections.

Source: J.P. Morgan and OECD.

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Turkey: **Demand, output and prices**

	2000	2001	2002	2003	2004	2005
	Current prices trillion TRL	Percentage changes, volume (1987 prices)				
Private consumption	89 098	-9.2	2.1	6.6	5.1	4.8
Government consumption	17 539	-8.5	5.4	-2.4	-1.1	0.3
Gross fixed capital formation	27 848	-31.5	-1.1	10.0	14.9	12.0
Final domestic demand	134 485	-15.1	1.7	6.5	6.7	6.1
Stockbuilding [a]	2 685	-4.0	7.1	3.0	0.5	0.6
Total domestic demand	137 170	-18.5	9.3	9.3	6.7	6.2
Exports of goods and services	29 959	7.4	11.1	16.0	10.3	8.5
Imports of goods and services	39 285	-24.8	15.8	27.1	14.2	11.2
Net exports [a]	-9 326	12.4	-0.9	-3.1	-1.5	-1.2
Statistical discrepancy [a]	-3 261	0.0	0.1	0.0	0.1	0.2
GDP at market prices	124 583	-7.5	7.9	5.8	5.2	5.2
GDP deflator	_	54.8	44.1	22.5	13.8	9.6
Memorandum items						
Consumer price index	_	54.4	45.0	25.3	13.7	9.8
Private consumption deflator	_	58.8	40.6	21.8	13.4	10.2
Unemployment rate	_	8.2	10.1	10.5	10.7	11.2
Current account balance [b]	_	2.5	-0.8	-2.9	-3.1	-3.0

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

commitment of the government to achieving its fiscal target. As a consequence Turkish risk premia in international markets declined, as did domestic real interest rates. Supported by lower real interest rates and rising profits and real wages, business investment and consumption are gaining strength, although last year's pace of consumer borrowing may not be sustained.

… but unemployment remains an issue and requires action

Employment declined in 2003 following public and private sector restructurings which, together with three years of decline in real wages, helped preserve competitiveness in spite of strong currency appreciation. Aggregate unemployment remained stable at around 10 per cent but this was helped by a temporary shrinkage in the labour force. In urban areas the unemployment rate approached 15 per cent and unemployment of educated youth rose above 30 per cent at the end of 2003. With a trend increase in the labour force of at least 1.8 per cent per year, further reforms are needed to strengthen job-creation. The Turkish economy traditionally responds to labour market imbalances by increasing the share of undeclared employment (by definition exempt from high labour taxes and strict labour regulations), but this has now gone beyond limits as more than half of total employment is unregistered. Hence, thorough labour market and labour tax reforms are needed to unify the labour market and stimulate formal employment.

Ongoing structural reforms are expected to stimulate growth

Prospects for continued robust growth are based on the assumption that the government will continue to implement its ambitious structural reform agenda. The redesign of fiscal institutions – which has already begun – should be swiftly put into place in order to improve both the short-term sustainability of fiscal balances and to make tax and public expenditure patterns supportive of social equity and growth. Better quality public services are needed, requiring a reallocation of spending. Full implementation of banking, infrastructure and privatisation reforms would make the

business environment more attractive for domestic and international investors, with positive impacts on growth and employment.

The positive outlook is conditional on preserving confidence

GDP is expected to remain growing at rates somewhat above 5 per cent. Nonetheless, this is lower than the pace needed to match labour force growth and curb unemployment. The outlook is subject to upside and downside risks. If the authorities succeed in fully enforcing the macroeconomic and structural reforms, additional growth could ensue as a result of FDI inflows, in particular if a positive signal from the European Union concerning the opening of accession negotiations is provided before the end of 2004. In contrast, if sentiment weakens for either domestic or international reasons, the recent appreciation and lower interest rates may be reversed, pushing the economy onto a less favourable economic path.

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III. DEVELOPMENTS IN SELECTED NON-MEMBER ECONOMIES

Growth in non-OECD Asian economies picked up at the end of 2003. As a result, the region recorded slightly faster growth last year than in 2002, despite the impact of the Severe Acute Respiratory Syndrome epidemic. Concerns about over-investment have been prominent in China, while elsewhere in the region financial markets have focused on incipient inflationary pressures. The projection period is likely to see slower growth in China, where the authorities appear to be targeting a growth rate of 7 per cent per annum, though this target is likely to be exceeded.

In South America, the expansion that began in 2003 is gaining strength. Area-wide GDP growth is likely to surpass 3 per cent in 2004. This acceleration is being underpinned by favourable international conditions, including high commodity prices and a reduction in sovereign risk premia. Moreover, the region's growth prospects will be boosted by the strengthening of domestic demand in the largest economies. Inflation pressures are likely to remain subdued. The current account surplus is set to shrink, despite continuing strong export performance, with imports rising in response to the resumption of growth.

Growth in South-eastern Europe and the Newly Independent States rose to almost 7 per cent in 2003, from just under 5 per cent in 2002. Growth in the region as a whole will probably remain close to 7 per cent again in 2004, driven largely – as in 2003 – by rising oil production in the Newly Independent States and by services growth. Growth is expected to moderate towards the end of this year and will be somewhat slower in 2005 than in 2004. Inflation continued to fall across the region in 2003, although disinflation was more pronounced in South-eastern Europe, partly as a result of a slowdown in growth.

A strong recovery in Dynamic Asia may lead to inflationary pressures

A strong pick-up in economic activity started in the Asian region in mid-2003, following the end of the Severe Acute Respiratory Syndrome epidemic and a fall in the effective exchange rate of local currencies. Export volumes were strong throughout the region, leaving output growth nonetheless somewhat lower than in the previous year. By the beginning of 2004, the deflationary pressures that had been evident in Hong Kong, China and Chinese Taipei had abated. Indeed, the pace of the upturn – driven by continued export strength resulting from the linkage of a number of currencies to a weakening dollar – seems likely to boost the domestic inflation rate this year and next. This latter development movement is likely to result in some erosion of export market shares in 2005, as well as an increase in import penetration, which may produce a deceleration of growth rates in 2005. Overall, after a slight increase this year, the current account surplus of this area is likely to fall to around $80 billion in 2005, from an estimated $100 billion in 2003.

South America's recovery is gathering pace

After a mild recovery in 2003, South America's economic growth is projected to accelerate in 2004. Argentina's brisk recovery is set to continue this year, albeit at a slower pace, and is boosting government net revenues. This should facilitate debt restructuring negotiations with private lenders. After stagnating in 2003, the Brazilian economy is expected to rebound in 2004. The outlook for Chile is improving further, favoured by strengthening domestic demand and high copper prices.

Growth in the NIS accelerated in 2003, while SEE growth slowed

Real GDP growth in the Newly Independent States (NIS) accelerated markedly in 2003, averaging around 7.5 per cent in both the Baltic States and the Commonwealth of Independent States (CIS). Russia's 7.3 per cent growth was driven by oil and related sectors and by services. Growth in the oil producing countries of the NIS,

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in turn, contributed to stronger growth in the region's non-oil economies, which benefited from strengthening import demand from both households and industry in the exporting states. NIS growth is expected to moderate gradually over the forecast period but will probably remain above 5 per cent in 2005. In South-eastern Europe (SEE), by contrast, growth slowed from around 4.5 per cent in 2001-02 to an estimated 4.0 per cent in 2003. Despite slower growth, the current account deficit for SEE rose substantially, from around $4 billion in 2002 to somewhat over $7 billion last year. SEE growth should pick up slightly this year and next as a result of some acceleration of growth in the European Union (EU), but the rapidly increasing external imbalances of some countries in the zone may necessitate some fiscal tightening or exchange-rate adjustments.

China

Growth in 2003 was exceptionally strong

Economic activity surged in 2003, with real GDP growth reaching 9 per cent. Demand was driven by fixed investment and exports, but the impact on output was restrained by the exceptional pace at which imports grew. Business investment emerged as a new growth driver, especially in industries such as automobiles, iron, steel, textiles and the high-tech sectors. Increases in investment growth in these sectors more than offset slower growth in outlays on government infrastructure and real estate. Following its rapid rise, investment amounted to 47 per cent of GDP in 2003, prompting concerns that the capital stock was rising too rapidly in a number of sectors. However, the pace of expansion in the investment goods sector has not been such as to result in marked inflationary pressures for the economy as a whole, the consumer price index rising by just 1 per cent in 2003, after a period of falling prices. Temporary supply problems boosted agricultural sector prices at the beginning of 2004, bringing the annual inflation rate to 2 per cent in February.

Monetary and fiscal policies have been tightened…

In response to concerns about the growth of excess capacity in certain industries, monetary policy has been tightened to some extent. The central bank raised the ceiling on some of its policy rates in March 2004, although leaving its key one year lending rate unchanged. Reserve ratios for poorly capitalised banks were increased in March 2004, following an increase applied to all banks in August 2003. The latest increase will mostly affect local authority-owned institutions. In addition, restrictions have been introduced on lending to certain industries. The tightening comes at a time when the growth of bank lending has started to slacken. During 2003 as a whole, bank lending grew by 21 per cent, reflecting high liquidity in the banking system though the increase in foreign exchange reserves of over $110 billion in 2003 was

Table III.1. **Projections for China**[a]

	2002	2003	2004	2005
Real GDP growth	8.0	9.1	8.3	7.8
Inflation (CPI)	-0.8	1.2	3.0	2.0
Fiscal balance (per cent of GDP)	-3.0	-2.9	-2.5	-2.5
Current account balance ($ billion)	35.4	29.6	20.3	26.3
Current account balance (per cent of GDP)	2.9	2.1	1.3	1.5

a) The figures given for GDP and inflation are percentage changes from the previous year. Inflation refers to the consumer price index.

Source: Figures for 2002-03 from national sources. Figures for 2004-05 are OECD estimates and projections.

largely sterilised by the sale of central bank bills to commercial banks. In order to reduce the need for such sales to offset the impact of increases in foreign exchange reserves, and to lessen pressure for a more flexible exchange rate, the government has eased restrictions on certain forms of capital outflow and may consider restrictions on some forms of capital inflow. Fiscal policy has also been tightened with more pronounced constraints on public spending being introduced.

… but growth is expected to moderate only slightly

Economic growth is expected to slow somewhat from the second half of 2004 and in 2005 but will nevertheless continue at relatively strong rates. Indicators of economic activity since the beginning of the year suggest that a stabilisation of growth may have started in the industrial sector, with strong investment demand being balanced by some weakening of export demand. A further slowdown in demand growth is likely as result of the recent tightening of the macroeconomic stance, including the reduction in the refund rate for value-added tax on exports from January 2004. Private consumption growth, on the other hand, is expected to continue to gain momentum, bringing continued rapid import growth. While a gradual easing of growth is the most likely outcome of the policy tightening, there is a risk that if the investment boom continues unabated the pressure on resources could rise, bringing a squeeze on profitability as input prices accelerate and output prices remain weak. Such a development might presage a more abrupt ending to the expansion than projected.

Financial reforms are top priority to maintain a rapid development

In the longer-term, sustaining growth will require reforms in the financial sector. The government is taking steps to improve the allocation of capital in the economy. The restructuring of the banking system has started with a $95 billion capital injection for the four major state-owned banks, the second tranche of which has been announced but has not yet taken place. This injection will allow the banks to restore their capital ratios following earlier write-offs of some of their non-performing loans, perhaps as a prelude to a sale of minority holdings in some of these banks. Improved risk assessment and the use of commercial lending criteria will be needed to avoid the emergence of new non-performing loans. In addition, more needs to be done to develop the corporate bond market in order to widen the sources of funds available on market-related terms.

Brazil

Domestic demand is overtaking net exports as the engine of growth

After a slow start, the economy gathered momentum in the second half of 2003, driven by a recovery in domestic demand. Forward-looking indicators, including retail sales and business confidence, confirm that the recovery is under way. The rise in commodity prices has helped boost agricultural production. Job creation gathered strength in the formal sector, and the unemployment rate fell gradually in the second half. The current account posted a large surplus on the back of the unprecedented trade performance. Export growth was facilitated by the world recovery, coupled with higher commodity prices and greater market penetration.

Monetary conditions have eased

Continued disinflation since the middle of 2003 – underpinned by stabilisation of foreign exchange markets and wage moderation – has paved the way for gradual monetary easing. The base interest rate has been cut by over 1 000 basis points since May 2003. Sovereign risk premia have fallen to their lowest level since 1997.

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Table III.2. **Projections for Brazil**[a]

	2002	2003	2004	2005
Real GDP growth	1.9	-0.2	3.3	3.5
Inflation (CPI)	12.5	9.3	6.5	5.5
Fiscal balance (per cent of GDP)	-4.6	-5.2	-3.0	-2.5
Primary fiscal balance (per cent of GDP)	3.9	4.4	4.3	4.3
Current account balance ($ billion)	-7.7	4.1	1.0	-2.5
Current account balance (per cent of GDP)	-1.7	0.8	0.2	-0.4

a) Real GDP growth and inflation are defined in percentage change from the previous period. Inflation refers to the end-year consumer price index (IPCA).

Source: Figures for 2002-03 are from national sources. Figures for 2004-05 are OECD estimates and projections.

Fiscal policy remains cautious…

Fiscal management remains cautious at all levels of government, the relevant performance criteria under the International Monetary Fund programme having been met in 2003. Contributing factors have been robust revenue performance, despite the economic slowdown, and continued expenditure restraint, particularly at the central government level. The net public debt ratio rose by 3 per cent of GDP in 2003 to about 58 per cent. Nevertheless, favourable market conditions have facilitated debt management through the reduction of the public sector's foreign exchange exposure and the lengthening of maturities. The share of foreign exchange-indexed securities in public debt (adjusted for foreign exchange swaps) is now below 20 per cent and stands at its lowest level since 1999. The primary surplus of the consolidated public sector is projected to be maintained in 2004 and 2005 at 4¼ per cent of GDP.

… and structural reforms have advanced

Several key structural reforms have been approved in late 2003 and early 2004, including an overhaul of public-sector social security entitlements and changes in the regulatory framework for the electricity sector. Other reforms concerning public-private partnerships, upgrading of bankruptcy legislation, and the regulatory framework for the water and sanitation sectors are likely to be approved by Congress in the course of this year.

GDP growth is expected to accelerate…

Real GDP is expected to grow by more than 3 per cent in both 2004 and 2005. Better job prospects, coupled with low inflation, should contribute to improve consumer sentiment and boost private consumption. Continued strong export performance, supported by the world recovery, will provide a further impetus to growth. Imports are likely to rise, fuelled by the recovery in domestic demand, and the current account is projected to post a small surplus in 2004. On the back of on-going disinflation, further monetary easing is expected in the course of 2004, albeit at a slower pace. Although the inflation target was missed in 2003, it is likely to be met this year. Improvements in public debt indicators, including a further reduction in foreign exchange exposure will continue to be a priority in 2004.

… but uncertainties remain

There are downside risks to the projections. On the external side, monetary tightening in the United States could worsen market conditions for emerging markets. The main domestic risk is a slowdown in the pace of structural reform in the run-up to municipal elections in October 2004. Concern over the increased government role in the new regulatory frameworks for the infrastructure sectors may discourage much-needed private investment in support of growth and undermine confidence in the reform process at large.

The Russian Federation

Growth is surging, driven by oil, oil-related sectors and services

Real GDP growth rose to 7.3 per cent in 2003, driven by strongly rising household consumption and a sharp acceleration in fixed investment. Industrial growth of 7 per cent, though driven as usual by oil, was somewhat more broad-based than in previous years. Industrial restructuring continued, as witnessed by the fact that labour productivity in the industrial sector rose by over 13 per cent. The strong current account and sharp falls in net private capital outflows generated upward pressure on the exchange rate. As the authorities remain determined to slow the rate of real exchange-rate appreciation, the Central Bank of Russia has been compelled to buy up ever more foreign exchange.

Monetary policy is characterised by a tension between conflicting goals

In the absence of adequate tools for large-scale sterilisation these foreign exchange inflows have led to an extremely loose monetary stance, with low or even negative real interest rates. Inflation nevertheless fell from 15 to 12 per cent in 2003, remaining within the government's target range for the first time since the crisis. Core inflation, however, began to rise in 2003, driven by the large acceleration in monetary growth. The overall reduction in the inflation rate was largely due to a sharp fall in the rate of increase of regulated prices in the run up to the elections. Inflation in early 2004 also remained surprisingly high, given the cut in the value-added tax (VAT) from 20 to 18 per cent and the abolition of the sales tax (which had been levied at 5 per cent in most regions) on 1 January 2004.

Fiscal policy is expected to remain prudent…

The fiscal stance remains relatively prudent. Indeed, the finance ministry has already indicated that this year's budget surplus will again be larger than planned. However, there is growing pressure to relax fiscal policy, and even to accept a modest budget deficit, in the interests of bolder tax reform. This temptation should be resisted. It is critical that the budget be kept in balance on average over the oil-price cycle. At current oil prices, that implies running surpluses. In any case, with a consumption boom under way, cutting VAT is hardly an urgent priority. A stronger case can be made for cutting the Unified Social Tax and so reducing labour costs. This could be financed by increasing the tax burden on resource extraction industries in order to facilitate economic diversification.

Table III.3. **Projections for the Russian Federation**[a]

	2002	2003	2004	2005
Real GDP growth	4.7	7.3	7.0	5.8
Inflation	15.1	12.0	11.0	10.0
Fiscal balance (per cent of GDP)[b]	1.4	1.3	1.0	0.5
Primary fiscal balance (per cent of GDP)[c]	3.9	3.4	3.5	2.5
Current account balance ($ billion)	29.1	35.9	50.0	46.0
Current account balance (per cent of GDP)	8.4	8.3	8.5	6.5

a) The figures given for GDP are percentage changes from previous year. Inflation refers to the end-of-year consumer price index.

b) Consolidated budget (including federal, regional and municipal budgets, excluding off-budget funds).

c) Federal Budget.

Source: Figures for 2002-03 are figures from national sources. Figures for 2004-05 are OECD projections.

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… and structural reforms to accelerate

The new cabinet is committed to continuing with an ambitious structural reform agenda and is likely to step up the pace of reform. Members of the government have already begun to raise such sensitive but important questions as increasing the pension age, which will be critical if Russia is to ensure the fiscal sustainability of the pension system while maintaining pensions at satisfactory levels over the long term. To their credit, the authorities managed to press ahead with a number of structural reforms through the electoral cycle, securing passage of bills on deposit insurance and currency liberalisation in late 2003, introducing a major overhaul of the framework for banking regulation and continuing the implementation of complex reforms to the pensions system and the power sector.

Reform progress nevertheless remains uneven…

While the government's broad structural reform agenda is to be commended, there are some significant gaps. It is still not clear whether reform of the gas sector, which has been repeatedly postponed, will now proceed. Continued delay would threaten long-term prospects for gas production and exports and could result in slower growth overall in the medium term. Housing and municipal utilities constitute a second area of concern; a modest start has been made but there is still little clarity as to how reforms are to proceed or how fast. Steps to facilitate the development of mortgage lending are welcome but far from sufficient. Finally, although administrative reform has been much discussed in recent months, the authorities have yet to articulate clear plans for increasing the efficiency of, and reducing the corruption within, Russia's cumbersome state administration.

Growth will remain strong in 2004 but is expected to moderate in 2005

Growth is expected to continue to be rapid in 2004, but will probably moderate throughout the year and revert to trend in 2005. Increases in oil production and market services will continue to be the main drivers. Despite the consumption boom and attendant rapid import growth, the current account surplus will remain large, thanks to oil export growth and projected favourable terms of trade. Continued pressure on the exchange rate will probably require the authorities to accept a somewhat faster real and nominal appreciation of the rouble in order to keep inflation on a downward trajectory.

IV. HOUSING MARKETS, WEALTH AND THE BUSINESS CYCLE

Introduction

Housing markets are important for responses to shocks and monetary impulses

OECD economies have exhibited different degrees of resilience over the recent cyclical downturn, in the sense that some were better than others at weathering and recovering from a set of common shocks. In some measure, differences in resilience seem to be related to the performance of housing markets. In particular, house price buoyancy in some countries appears to have boosted private consumption and residential construction and thereby helped to offset weaknesses elsewhere. It appears that institutional set-ups in housing and mortgage markets play an important role not just for overall economic efficiency and real incomes but also for the propagation of shocks. Hence, structures which enhance longer-term economic performance may also lead to better short-term outcomes. Moreover, while structural reforms should be undertaken primarily for longer-term efficiency reasons, they may also have important implications for macroeconomic policy effectiveness. Thus, housing market institutions seem to influence the speed and magnitude with which monetary policy responses to shocks are transmitted through economies. This chapter aims to shed light on some of these linkages.[1]

The chapter starts with an examination of stylised facts, addressing questions such as: how closely associated are house prices and output over the cycle? What role do mortgage debt and housing wealth play in linking house prices to demand and activity? It then investigates how institutions affect the cyclical behaviour of house prices, and thus household demand, across countries. In this process special attention is paid to the characteristics of the mortgage market which may facilitate or impede the influence of housing wealth on household expenditure. The analysis thus focuses on an important aspect of the transmission mechanism of monetary policy and the overall responsiveness of the housing market to shocks. This chapter concludes with an investigation of some of the macroeconomic and structural policy factors behind house-price variability which may sometimes lead to speculative housing market bubbles, with the aim of identifying the conditions in which the benefits of housing market flexibility for macro-economic resilience and stability are best achieved.

The main conclusions from this work are:

Lags between house-price and output cycles differ across countries…

– Real house price movements, which have differed markedly across countries, tend to lag cyclical peaks and troughs – but in ways that differ not only across countries but also from one cycle to another.[2]

1. Housing markets can also have important implications for economic resilience *via* their effect on labour mobility. However, these aspects are not examined in this chapter.
2. Throughout this chapter, references to real house prices indicate nominal house prices deflated using the private consumption deflator.

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… as do the strength and timing of wealth effects on consumption

– Feed-through from house prices to activity occurs largely through wealth channels affecting personal consumption; there are important differences in the strength of such wealth influences on consumption buoyancy, depending on the facility to take on mortgage debt and on the extent of housing equity withdrawal.

… and the cyclical behaviour of residential investment

– The behaviour of residential construction over the business cycle also shows important differences, with the volume response at turning points both stronger and more rapid in some countries than in others.

Differences in institutional features of housing and mortgage markets significantly influence the strength of wealth effects on consumption:

Institutions help explain consumption behaviour…

– Mortgage market characteristics, and in particular their degree of "completeness", strengthen the transmission of housing wealth changes to buoyancy in consumption. Lower transaction costs and higher owner-occupation rates may also assist this transmission process.

… and hence monetary policy effectiveness…

– The effects of monetary policy on activity, as measured by the impact of policy-determined interest rate changes on housing market interest rates and thence to house prices and wealth, differs considerably among OECD economies This may also be related to institutional factors, such as the type of mortgage interest regime that predominates (particularly floating or fixed rate), the costs of refinancing and the extent to which the mortgage market is flexible in its response to changes in housing demand.

… but supply-side rigidities and distortions can be a source of instability

– While economic resilience may be enhanced by removing mortgage market rigidities and facilitating a stronger monetary policy response via housing wealth channels, partial and/or ill-timed reforms can cause imbalances to emerge, in the form of housing price bubbles. More generally, resilience is strengthened and potential instability reduced to the extent that distortions are avoided (such as, for example, a non-neutral housing tax structure or unnecessarily restrictive zoning regulations), that monetary policy is effective in controlling inflation, and that prudential controls are in place to ensure the solidity of financial institutions faced with variations in house prices.

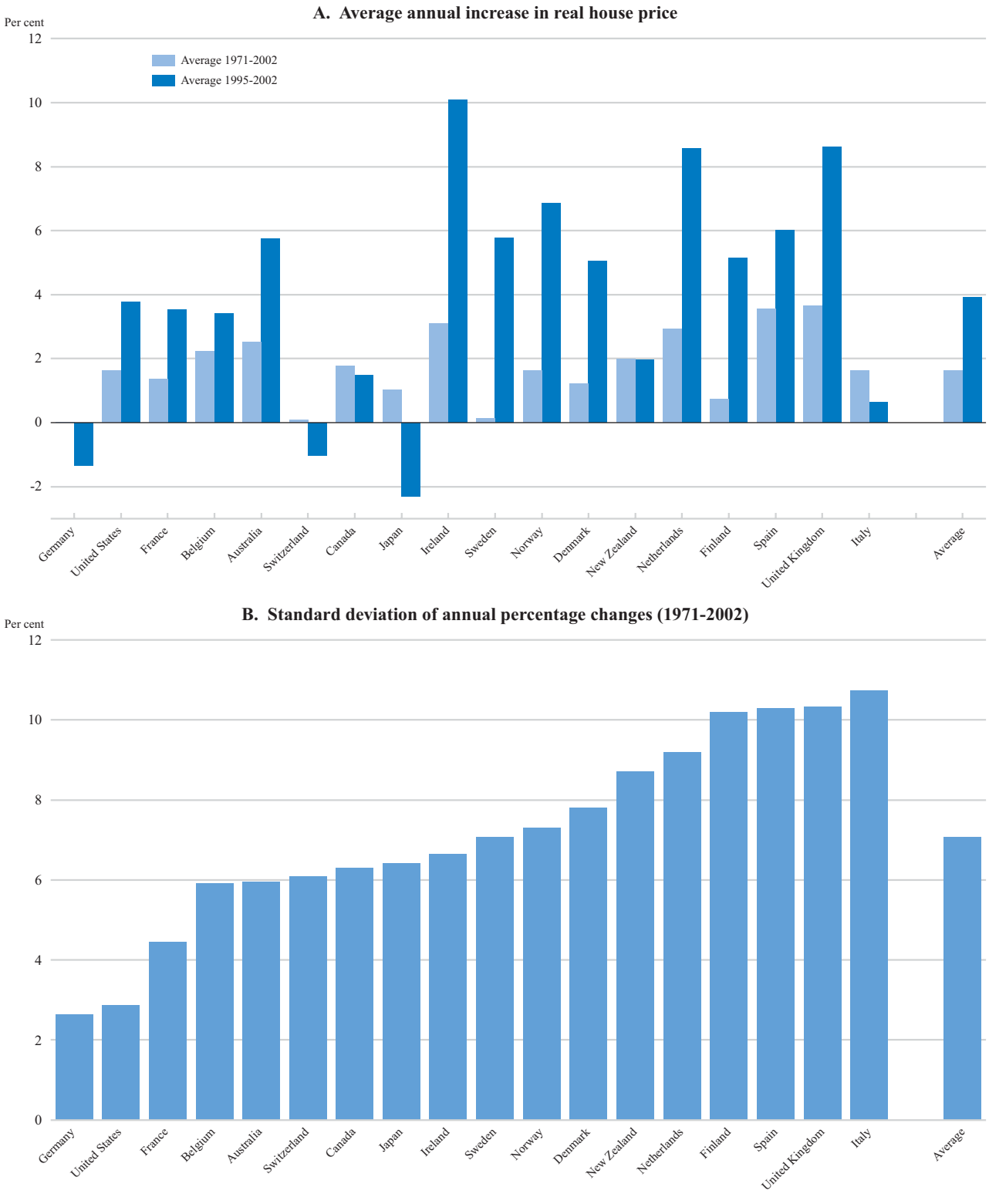
House prices, housing wealth and the cycle in OECD countries: some stylised facts

House price trends and variability differ

House prices display widely different trends across countries…

Since the mid-1990s residential property prices have recorded widely differing rates of increase in real terms among OECD countries (Figure IV.1, panel A). In general, most of the countries that have registered the most significant recent run-up in real house prices have also shown a marked longer-term rising trend. Germany, Japan and Switzerland stand out as countries where real house prices have shown a decline since the mid-1990s, and their level is now not far from where it was in 1970.

Figure IV.1. **Real house prices: average annual increase and variability**



Source: Bank for International Settlements and Quotable Value New Zealand.

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Neither the cross-country differences in long-term price trends nor the recent acceleration in some countries can be attributed to demographic factors.[3]

… as well as differing variability

Differences in average rates of real house price growth have been accompanied by marked differences in their variability (Figure IV.1, panel B). The standard deviation of real house price changes over the whole 1970-2002 period is particularly high in some of the countries that have experienced the largest trend price increases (the Netherlands, Spain and the United Kingdom), suggesting that secular and cyclical movement may have a common root. By contrast, price variability is much lower in Germany and the United States, where, however, regional house prices tend to show greater variation than the country average.

House price movements lag the cycle…

In all countries, residential property markets tend to track the business cycle, with a tendency for real house price turning points to lag business cycle peaks and troughs. On many occasions house prices continued to decline in real terms for a few years after output had picked up. Conversely, prices often continue rising during the early part of a cyclical downturn. This seems to indicate that prices in residential property markets tend to adjust to cyclical conditions more gradually than equity markets.[4]

… becoming more counter-cyclical in the recent cycle…

The lags between house prices and the business cycle differ across countries (Table IV.1). Moreover, they have differed from cycle to cycle. During the recent downturn, in several countries – notably the United States, the United Kingdom, Australia, Ireland and Spain – house prices not only continued to rise, but actually accelerated after the output turning point.[5]

… in association with resilient housing investment

In contrast to house prices, the volume of residential investment has widely tended to turn around rather early in cyclical upswings and downturns, the major euro-area economies and the Netherlands being the main exceptions to this pattern. Again, the recent downturn seems to have been unusual in that, with the same exceptions, housing investment as well as house prices remained buoyant through the brief cyclical downswing and into the following recovery (Figure IV.2).

3. Average population growth since 1990 has been little different or slower than in the previous ten years in most countries covered in Figure 1, the main exception being Ireland. Moreover, in virtually all of them there was a strong deceleration in the growth of the population in the 25-34 year age group, the one more likely to form new families and add to demand for housing, even though the effect of this on housing demand was probably offset by the decline in average family size. The only countries where house price movements appear to be strongly correlated with population growth are Luxembourg and New Zealand, mainly reflecting changes in net migration. Across countries, however, no correlation seems to exist between the size of the house price acceleration and the change in population growth rates between the 1980s and the 1990s.
4. In a recent analysis of equity and house price cycles in a group of OECD countries over the past 30 years, Borio and McGuire (2004) find that: *a)* although not all equity price peaks are followed by one in house prices, the occurrence of the former significantly increases the probability that the latter will occur; *b)* in general, house price peaks tend to follow major equity market peaks by at least one year, and on average two years; *c)* the cumulative house price decline following a peak is usually larger, the larger has been the preceding rise, and will be larger if significant financial imbalances had accumulated during the boom.
5. See *OECD Economic Outlook,* No. 74, page 20.

— Table IV.1. **Intensity and timing of correlations between real house prices and the business cycle** —

	Timing of maximum correlation		
	Output gap contemporaneous or lagged < 1 year	**Output gap lagged 1-2 years**	**Output gap lagged 3-4 years**
Intensity of correlation			
Strong	Denmark, Finland, Ireland, United Kingdom	Spain	
Average	Japan	Canada, France, Sweden	Australia, Germany, Switzerland
Weak	New Zealand	Norway, United States	Belgium, Italy, Netherlands

Note: Correlations are between de-trended real-house price levels and the output gap. They are calculated for the period 1970-2002, based on semi-annual data. Countries are ranked according to the value of the maximum correlations and of the lags at which these are found. The intensity of correlation is indicated as strong if the maximum correlation coefficient is above .65, average if between .50 and .65, weak if below .50.

Source: OECD.

Links between house prices, household wealth and consumption

House prices affect consumption via wealth channels…

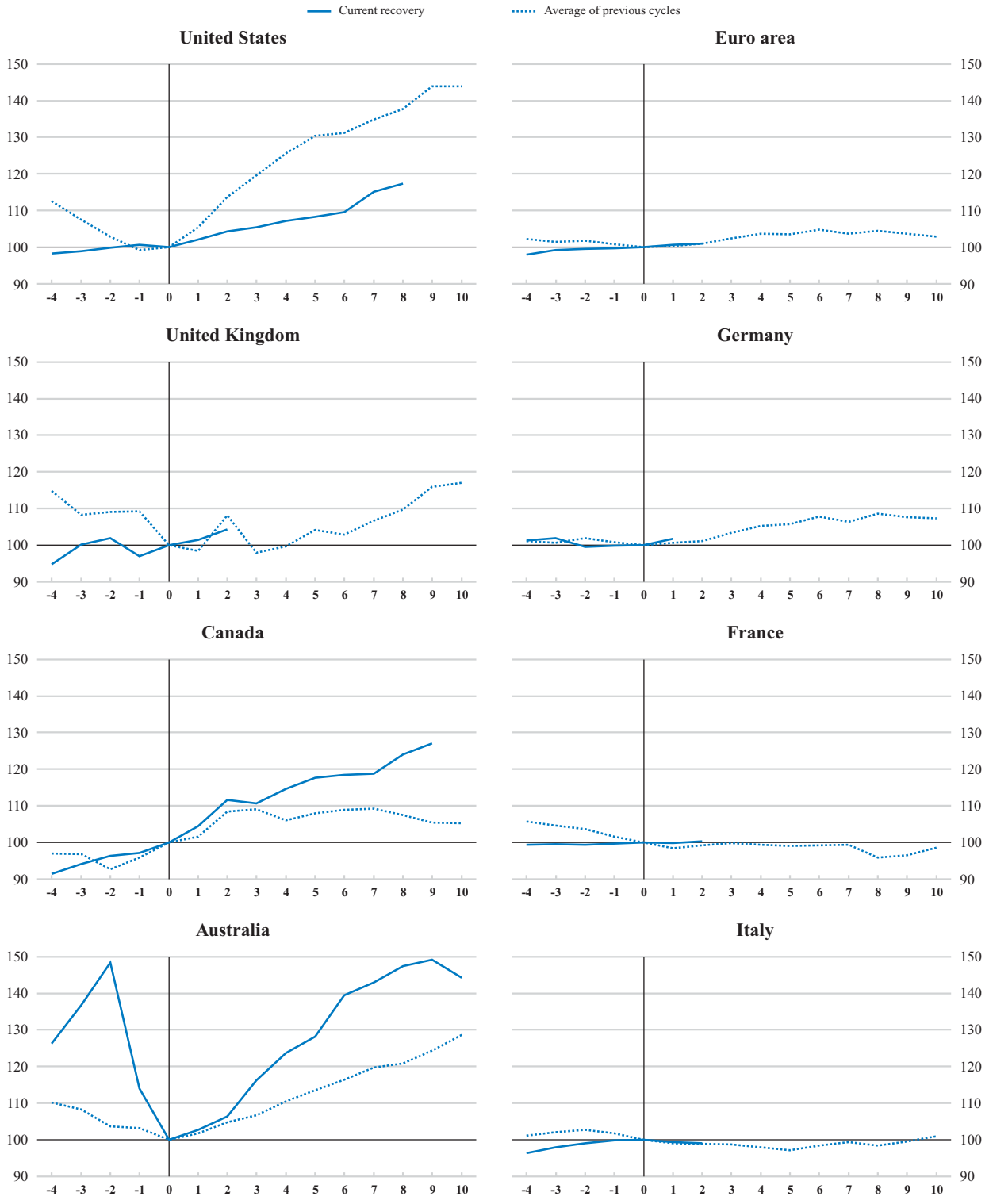
Changes in house prices and private consumption are correlated in most countries – on average for all countries over the entire period the correlation of annual consumption growth with simultaneous changes in real house prices is 0.57 – but to widely varying degrees (Figure IV.3). The channel by which house prices affect consumer behaviour would seem to run primarily via changes in the value of the household sector's housing wealth, which help determine movements in household saving ratios (Box IV.1). Indeed, OECD research confirms the existence of significant housing wealth effects on consumption in the United States, United Kingdom, Canada, the Netherlands and Australia.[6] In France, Germany and Italy, despite a rapid increase in the value of household assets since 1995, the results suggest that the consumption response to changes in wealth remains limited. The estimated long-run marginal propensity to consume out of housing wealth is in the range of between 0.05 and 0.08 for the first group of above-mentioned countries, while it is negligible in Japan and Italy and statistically insignificant in France and Germany (Table IV.2).

6. A detailed description of the methodology and results of this research can be found in Catte *et al.* (2004).

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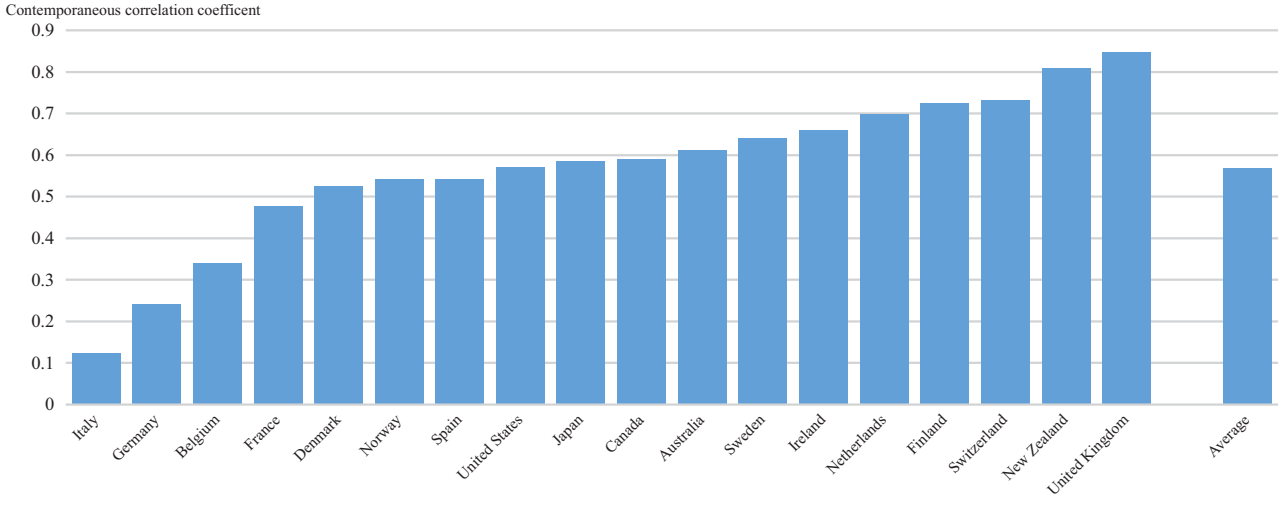
Figure IV.2. **The cyclical behaviour of housing investment**

Index, cyclical trough = 100



Note: The last cyclical trough is 2000 Q4 for Australia, 2001 Q3 for Canada, 2001 Q4 for the United States and 2003 Q2 for the European countries.
Source: OECD.

Figure IV.3. **Correlation of private consumption growth with real house price changes**



Notes: Contemporaneous correlation coefficients are calculated from annual data, 1971 to 2002.
Source: Bank for International Settlements and Quotable Value New Zealand and OECD.

Box IV.1. Do house price increases add to net wealth?

Households own housing assets but also consume the housing services deriving from them. Hence, for a given housing stock, when house prices rise, the resulting capital gain to the house-owner is partly or fully offset by the higher discounted value of future rents.[1] Unlike a rise in equity prices, which may reflect an increase in the economy's expected productive potential, and thus of future income, higher house prices may simply reflect increased scarcity owing to higher demand, with no net change in national wealth.

However, even if aggregate wealth is unchanged, house price increases usually affect the relative positions of specific groups of people – for example, of current home-owners *vis-à-vis* would-be home buyers. These wealth transfers can have macro-economic effects if these categories' propensities to spend differ, as they would be expected to. Furthermore, a change in the relative price of housing can induce consumers to substitute towards non-housing expenditure.

The value of housing property can also affect household expenditure by improving access to credit for liquidity-constrained households. Uncollateralized consumer credit is usually expensive, and may be simply not available to many households. Housing assets constitute the most important form of collateral available to them, also because they are less concentrated among certain segments of the population than financial assets. While an increase in house prices raises the value of collateral available to otherwise credit-constrained households, the strength of this effect on consumption will depend heavily on the extent to which mortgage markets allow households to borrow against such collateral.

1. The extent of the offset depends on the effective time horizon of the owners, that is, on whether they intend to sell their housing assets during their lifetime or pass it on to their offspring. If current wealth holders fully internalize the welfare of the future generations, so that their economic planning horizon is effectively infinite, the expected cost of future imputed rents fully offsets the value of housing assets (a conclusion that has some analogy with the Ricardian equivalence proposition on the effects of government debt).

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Table IV.2. **Short-term and long-term impact of housing wealth on consumption**

Estimated short-term and long-term marginal propensities to consume out of housing wealth

	Short term	Long term
Australia	0.02	0.07
Canada	0.03	0.06
France	..	..
Germany	..	..
Italy	..	0.01
Japan	0.01	0.01
Netherlands	0.02	0.08
Spain	0.01	0.02
United Kingdom	0.08	0.07
United States	..	0.05

Note: See Catte *et al.* (2004) for the methodology.
Source: OECD.

… which differ in speed of adjustment

The speed of adjustment of consumption to the desired level appears to be relatively slow in general, suggesting that short-run price variations have a limited impact, but that sustained movements in housing wealth can be expected to have a noticeable effect on consumption for some time after the house-price-rise event. The United Kingdom appears to be an exception to slowness of response, insofar as changes in housing wealth have a large short-term effect on consumption behaviour which slightly "overshoots" the long-run effect.[7]

Mortgage debt and equity release have instrumental roles

The mortgage market appears to play a pivotal role…

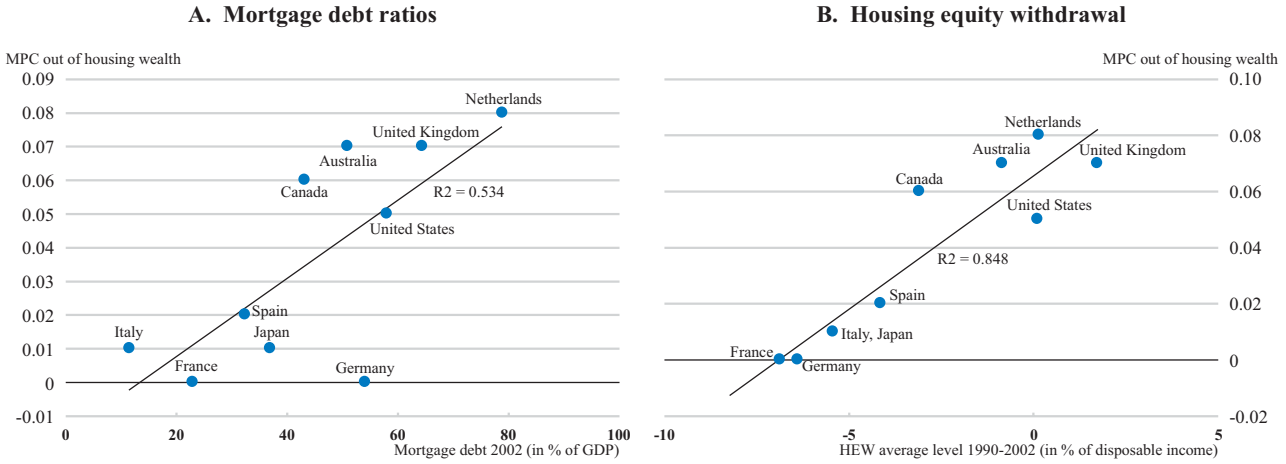
The size of the long-run marginal propensity to consume out of housing wealth appears to be positively correlated with mortgage debt ratios across countries, suggesting that the mortgage market is pivotal in translating house price shocks into spending responses (Figure IV.4, panel A). The size of the household sector's residential mortgage debt shows large cross-country differences, with ratios to GDP currently above 60 per cent in Denmark, the Netherlands and the United Kingdom and below 25 per cent in France, Italy and Greece. These ratios have risen very substantially over the past decade, particularly where house prices have risen most (Table IV.3).

… housing equity withdrawal being the main mechanism

The influence of the housing market on consumption – as well as the rapidity of this response – depends on the extent to which housing wealth can be accessed and, in particular, the extent to which homeowners are able to borrow against housing wealth through mortgage equity withdrawal: *i.e.* the increment to their mortgage debt less the amount used for residential investment. Indeed, the size of housing equity withdrawal is closely correlated with the impact of housing wealth on consumption

7. Econometric analysis by both the UK Treasury and the Bank of England, as well as similar work done in OECD (2004a), confirms that changes in housing wealth have a relatively large short-run impact on consumption behaviour which overshoots the longer-term effect.

Figure IV.4. Marginal propensities to consume out of housing wealth and mortgage market indicators



Note: MPC is for marginal propensity to consume; HEW is for housing equity withdrawal.
Source: European Mortgage Federation, United States Federal Reserve Board, Japan Statistics, United Kingdom Office for National Statistics, Bank of Canada, Bank of France, Statistics Canada, Bank of the Netherlands, Bank of Spain, European Central Bank, Reserve Bank of Australia and OECD.

Table IV.3. Mortgage and housing market indicators

	Residential mortgage debt in % of GDP		Loan-to-value ratios (%)		Typical loan term	Share of owner-occupied housing (%)		
	1992	2002	typical	maximum	(years)	1980[a]	1990[a]	2002[a]
Australia	24.2	50.8	65	..	25	71	72	70
Austria	..	..	60	80	20-30	52	55	56
Belgium	19.9	27.9	83	100	20	59	67	71
Canada	42.7	43.1	75	..	25	62	63	66
Denmark	63.9	74.3	80	80	30	52	52	51
Finland	37.2	31.8	75	80	15-18	61	67	58
France	21.0	22.8	67	100	15	47	54	55
Germany	38.7	54.0	67	80	25-30	41	39	42
Greece	4.0	13.9	75	80	15	75	76	83
Ireland	20.5	36.5	66	90	20	76	79	77
Italy	6.3	11.4	55	80	15	59	68	80
Japan	25.3	36.8	80	..	25-30	60	61	60
Luxembourg	23.9[b]	17.5	..	80	20-25	60	64	70
Netherlands	40.0	78.8	90	115	30	42	45	53
New Zealand	32.6	56.2	..	..	..	..	73	65
Norway	47.9	50.2	..	80	15-20	74	78	77
Portugal	12.8	49.3	83	90	15	52	67	64
Spain	11.9	32.3	70	100	15	73	78	85
Sweden	37.5	40.4	77	80	< 30	58	56	61
United Kingdom	55.5	64.3	69	110	25	58	65	69
United States	45.3	58.0	78	..	30	65	64	68

a) Approximate dates.
b) 1994
Source: European Mortgage Federation, Mercer Oliver Wyman (2003), ECB (2003), Contact Group (2002), Noguchi and Poterba (1994), Australian Bureau of Statistics, Reserve Bank of Australia, Bank of Canada, Canada Mortgage and Housing Corporation, Japan Statistics Bureau, Bank of Japan, Statistics New Zealand, Reserve Bank of New Zealand, UK Office for National Statistics, US Department of Housing and Urban Development, US Federal Reserve and US Mortgage Bankers Association.

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(Figure IV.4, panel B), as well as with the level of mortgage debt across countries.[8] And if housing equity withdrawal is included as an additional explanatory variable in consumption/housing wealth equations it tends to be significantly positive, among the major economies, for the United Kingdom, Canada and the United States, which have large mortgage markets. No effect is observed for France, Italy, Germany and Japan, where mortgage markets are smaller. Where the housing equity withdrawal variable is significant, it seems to capture most of the impact of housing wealth on consumption, suggesting that such impact is channelled to a large extent through greater access to liquidity.[9] This is consistent with the fact that in the countries where housing equity withdrawal plays an important role (Australia, Canada, the Netherlands, the United Kingdom and the United States) it is also strongly correlated with house prices.[10]

Structural factors behind the differences in housing-market behaviour

Structural factors may explain differences in cyclical resilience

Two salient features emerge from the "stylized fact" analysis above. First, the relationship of house prices to the cycle appears to run not just *via* housing investment but through wealth and mortgage-debt channels affecting consumption. And there are important differences in the strength of these influences that may explain some of the international differences in respect of resilience to cyclical movements. Second, and on the other hand, house price movements are correlated with the output cycle, with lags that vary both from one cycle to another and between countries, and which determine the degree to which house price movements are pro- or counter-cyclical. This section examines the factors which help to determine these two phenomena and draws some policy implications from them.

The importance of mortgage institutions for the link between interest rates, house prices and consumption

Institutional factors may explain differences in wealth effects

Institutional or structural policy parameters can help explain observed cross-country differences in marginal propensities to consume out of housing wealth and the associated mortgage-market behaviour. In particular, consumption responses to changes in housing wealth can be expected to be higher, *ceteris paribus*, in countries where:

- Financial markets provide easy access to mortgage financing and to financial products that facilitate equity withdrawal.
- There are low housing transaction costs and housing wealth is exempted from capital gains taxes, both of which would encourage owners to perceive housing assets as more liquid.

8. The cross-country correlation coefficient between 1990-2002 average levels of housing equity withdrawal (as a per cent of disposable income) and average levels of mortgage debt over the same period (in per cent of GDP) is 0.64.
9. In fact, when housing equity withdrawal is included among the explanatory variables, the effect of housing wealth is no longer statistically significant [see Catte *et al.* (2004)].
10. See Catte *et al.* (2004) for more detailed cross-country analysis of housing equity withdrawal and real house prices.

– There is a high rate of owner-occupation, which implies a wider distribution of housing wealth.

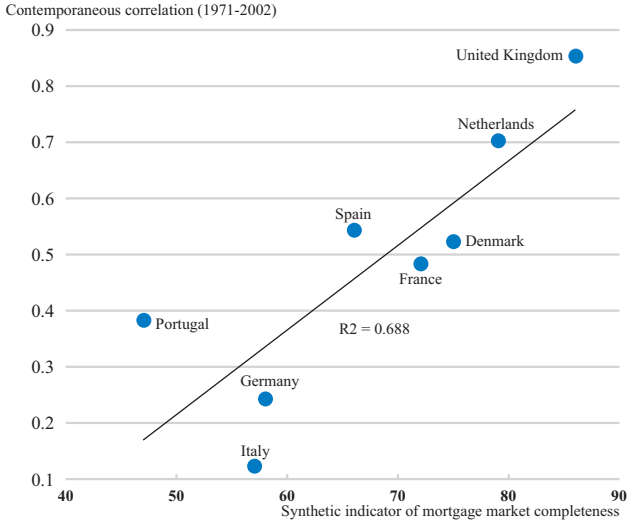
Importance of mortgage market "completeness"

House price effects on consumption vary with mortgage market completeness…

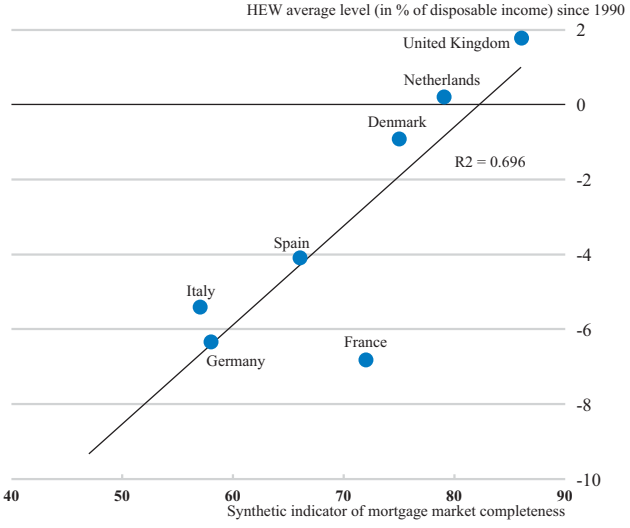
The close relationship of mortgage market "completeness" with real house price/consumption correlations (Figure IV.5, panel A) and housing equity withdrawal (panel B) confirm the crucial role played by the provision of liquidity in connection with housing assets (see Table IV.4 for some of the components of the completeness index). In general, less regulated and more competitive mortgage markets can be expected to offer a greater variety of mortgage products, to be able to serve a broader range of borrowers and to apply lower mortgage interest rate spreads. A systematic cross-country comparison along these dimensions is available only for a group of eight European countries.[11] Among these, Denmark, the Netherlands and the United Kingdom appear to have the most complete mortgage markets in terms of the range of products offered, such as second mortgages and equity release products, as well as a choice between alternative interest rate adjustment and repayment structures. They are also able to cover a broader range of potential borrowers, including for example younger or older households, and borrowers unable to certify their income. Some of these product or borrower coverage options exist also in the traditionally less sophisticated markets such as Italy and Germany, but they are less common, having been introduced more recently.

Figure IV.5. **Effects of mortgage market completeness**

A. On consumption sensitivity to changes in real house prices



B. On housing equity withdrawal



Note: HEW is for housing equity withdrawal.
The synthetic indicator of mortgage market completeness is presented in Table IV.4 (for additional information see Mercer, Oliver, Wyman, 2003). For Portugal, the contemporaneous correlation between consumption and real house price change is calculated over the period 1989-2001, due to limited data availability.
Source: Mercer, Oliver, Wyman (2003), United States Federal Reserve Board, Japan Statistics, United Kingdom Office for National Statistics, Bank of Canada, Bank of France, Statistics Canada, Bank of the Netherlands, Bank of Spain, European Central Bank, Reserve Bank of Australia and OECD.

11. See Mercer Oliver Wyman (2003). The countries covered are: Denmark, France, Germany, Italy, the Netherlands, Portugal, Spain and the United Kingdom.

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Table IV.4. **Mortgage market completeness: range of mortgage products available and of borrowers served in eight European countries**

	Denmark	France	Germany	Italy	Netherlands	Portugal	Spain	United Kingdom
a) LTV ratios								
Typical	80	67	67	55	90	83	70	69
Maximum	80	100	80	80	115	90	100	110
b) Variety of mortgage products								
Rate structure								
Variable	**	**	**	**	**	**	**	**
Variable (referenced)	**	**	-	**	**	**	**	**
Discounted	-	**	-	*	-	-	**	**
Capped	**	**	*	*	**	-	*	**
Range of fixed terms								
2-5	**	**	**	**	**	*	*	**
5-10	**	**	**	**	**	*	*	*
10-20	**	**	**	*	**	-	*	*
20+	**	*	*	*	*	-	*	-
Repayment structures								
Amortising	**	**	**	**	**	**	**	**
Interest only	*	**	**	*	**	-	-	**
Flexible	*	**	-	*	**	-	*	**
Fee-free redemption[a]	**	-	-	-	-	-	-	*
Full yield maintenance fee	**	*	**	*	**	*	*	*
c) Range of borrower types and mortgage purposes								
Borrower type								
Young household (<30)	**	*	**	*	*	**	**	**
Older household (>50)	**	*	*	*	**	*	*	**
Low equity	-	**	*	-	*	*	*	**
Self-certify income	-	-	-	-	*	-	*	*
Previously bankrupt	*	-	-	-	-	-	-	*
Credit impaired	*	*	-	*	*	-	*	**
Self employed	**	*	**	**	*	**	**	**
Government sponsored	*	**	*	*	*	**	*	*
Purpose of loan								
Second mortgage	**	*	**	**	**	**	**	**
Overseas holiday homes	**	**	*	**	*	-	-	**
Rental	**	**	**	**	**	**	**	**
Equity release	**	-	*	**	**	-	*	**
Shared ownership	**	*	*	*	*	**	-	**
Mortgage market completeness index[b]	75	72	58	57	79	47	66	86

Note: Readily available means that products are actively marketed with high public awareness; Limited availability means that only a small subset of lenders provide this product, often with additional conditions; No availability means that no lenders surveyed offered the product. See Mercer Oliver Wyman (2003) for further details on the sample and criteria of the survey.

Key: ** Readily available * Limited availability - No availability

a) On fixed-rate products only.

b) See Mercer Oliver Wyman (2003) for details on the calculation of the index. In addition to the criteria covered in this table, the index also takes into account the mortgage product distribution channel and the quality of information and advice offered to customers.

Source: Mercer Oliver Wyman (2003).

… while mortgage type and conditions matter

The composition of mortgages as between fixed-rate and variable-rate is potentially important here, since mortgage rates can react differently depending on what is happening to the yield curve.[12] The short-term interest rate has a stronger impact in countries where variable-rate mortgages prevail, while the long-term rate is relevant

12. Not surprisingly, in countries with mostly fixed-rate mortgages the pass-through to rates on new loans depends on whether the change in short rates is accompanied by a shift in long rates (de Bondt *et al.*, 2003).

in those with mostly fixed-rate mortgages. In the latter case it may be costly to refinance. In France, for example, fixed rate mortgages have typically been available for a term of 15 years, but refinancing penalties amount to up to six months interest or 3 per cent of the balance that is being prepaid. That makes refinancing unattractive when interest rate declines are small. In Germany, rates on mortgages are typically fixed for ten years, and it is very difficult to refinance. The Italian market is a hybrid of fixed and floating rates. By contrast, in Denmark and the United States, where most loans are also fixed-rate, penalty-free prepayment options are common, as mortgage lending is largely funded through callable mortgage-backed securities. In the United Kingdom, mortgage rates are usually variable and interest rate changes feed through rapidly to changes in monthly service payments.

Differences in interest rate spreads have subsided…

On the other hand, cross-country differences in mortgage rate spreads over market rates for the relevant maturity, which are proximate indicators of efficiency, are not large, having narrowed significantly over the past ten years. Once fees are taken into account and adjustment is made for credit risk and for the value of prepayment options, spreads vary within a relatively narrow range (70-135 basis points) among the countries considered in Table IV.4.[13] The remaining differences reflect mostly product structure and operating and funding costs, plus some distorting influences such as cross-subsidisation with other products and the presence in some countries of government-owned lenders with low cost of capital. Spreads are highest in Italy, which also has the highest operating costs. In Denmark and Germany, the existence of well-developed markets for mortgage-backed securities has contributed to contain funding costs for fixed-rate loans.

… but mortgage terms and innovation differ…

Two key indicators of mortgage market ability to provide access to financing are typical or maximum loan-to-value (LTV) ratios and mortgage terms (Table IV.3). Not surprisingly, across countries both are correlated with the size of mortgage debt.[14] In fact, high LTV ratios allow borrowers to take out more debt, and longer repayment terms are then needed to keep debt service-to-income ratios affordable. Even if housing loans are taken solely for house purchase, this adds to the household sector's liquidity. Maximum LTV ratios above 100 per cent exist in the Netherlands and the United Kingdom, although they are typically lower. Typical LTV ratios are particularly low in Italy. Equity withdrawal is further facilitated where mortgage products specifically designed for this purpose are widely marketed, as is the case particularly in Australia, the Netherlands, the United Kingdom and the United States, but also in several Nordic countries. By contrast, such products are either not offered or not widely marketed in France, Belgium and in Southern European countries.

… partly reflecting legal and regulatory systems

The above differences are likely to reflect the lender's perception of the risk connected to mortgage loans. An important element in this regard is the legal protection of collateral. The administrative costs and the time required to realise the collateral's value in the event of default differs considerably across countries (Table IV.5). In Belgium, France, Portugal and especially Italy the length of legal procedures is probably a key factor discouraging banks from making larger loans relative to the value of the property and from lending to higher-risk borrowers. In a number of OECD

13. An earlier study by Diamond and Lea (1992) covering four of the eight countries considered in the Mercer Oliver Wyman (2003) study (Denmark, France, Germany and the United Kingdom) found adjusted spreads ranging between 120 and 276 basis points.
14. Among the countries reported in Table IV.3, the correlation coefficient of mortgage ratios with typical LTV ratios is 0.48; with typical mortgage terms it is 0.74.

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— Table IV.5. **Time required and cost of mortgage enforcement procedures** —

	Usual time required[a] (months)	Administrative costs[b] (in per cent)
Austria	6	..
Belgium	18	18.70
Denmark	6	..
Finland	2-3	2.5
France	15-25	7
Germany	12	4.2
Greece	3	16
Ireland	11-14	8.6-10.6
Italy	60-84	..
Netherlands	6	3
Portugal	18-30	8
Spain	7-9	17
Sweden	4-6	5
United Kingdom	8-12	2.6-7
United States	8.4	11.5

a) Total time from the writ of execution (in the countries where the mortgage must be given executory power by a court) to the distribution of the proceeds to creditors.

b) Costs usually include both fixed and variable components. Here they are calculated for a property value of € 100 000. They do not include lost interest during the procedure.

Sources: For EU countries: European Mortgage Federation (2002); for the United States: Department of Housing and Urban Development (1996).

countries there are also regulatory ceilings to LTV ratios, and in most of them a loan's LTV ratio influences its weighting for the purpose of capital adequacy requirements, so that high-LTV loans are more costly to fund. Regulatory limits are particularly binding in Germany, being combined with a mandatory loan valuation method that implies an additional discount of 20 to 25 per cent relative to market prices.[15]

Disparities in mortgage market efficiency are still significant

Though mortgage markets have been evolving rapidly in most OECD countries, including those where they were least developed, differences are still considerable as regards the range of potential borrowers reached and the variety of needs covered. If mortgage debt ratios can be taken as a summary indicator of market size, their dispersion has actually increased from 1992 to 2002. Thus, it seems possible to distinguish between a group of countries where mortgage markets provide ample access to liquidity (Australia, Canada, the Netherlands, the United Kingdom, the United States and Nordic countries) and others where this is still limited (particularly Italy and France). The picture is more mixed for Germany – where basic mortgages with long repayment terms are very affordable but product range is limited and LTV ratios are low – and for Spain, where the market seems to have been developing very rapidly.

Influence of owner-occupied housing

Owner-occupation rates reflect a variety of structural factors

Potentially amplifying the importance of mortgage-market structure is the extent of owner occupation. Housing tenancy structures differ considerably across OECD countries. Broadly speaking, the share of owner-occupied housing is very

15. See Contact Group on Asset Prices (2002). In Germany, loans with LTV ratios above the 60 per cent ceiling are also ineligible for inclusion in mortgage-backed securities (or can be included, up to an LTV of 80 per cent, but the portion of the loan above 60 per cent is not recognised for collateral purposes).

high in Southern European countries, relatively low in Austria, Germany, the Netherlands and in some Nordic countries and around two-thirds in most other countries (Table IV.3). In part, these differences reflect tax incentives (discussed below). They also reflect differences in access to mortgage financing. Access to mortgage markets seems to allow households to achieve home-ownership earlier: in the Netherlands and in the United Kingdom households in the 25-29 age group are more likely to be homeowners, relative to the national average, than in France, Germany, Italy or Spain. In practice, however, some of the countries with the highest owner-occupation rates – such as Italy and Spain – are among those that have, or had until recently, the least developed mortgage markets. This suggests that other mechanisms for providing access to home-ownership are available in these countries, like for example inter-generational wealth transfers. Thus, while owner-occupation may be a necessary condition for a housing wealth channel to open up, it is not a sufficient one, and the cross-country correspondence between owner-occupation and the sensitivity of consumption to real house prices is weak.

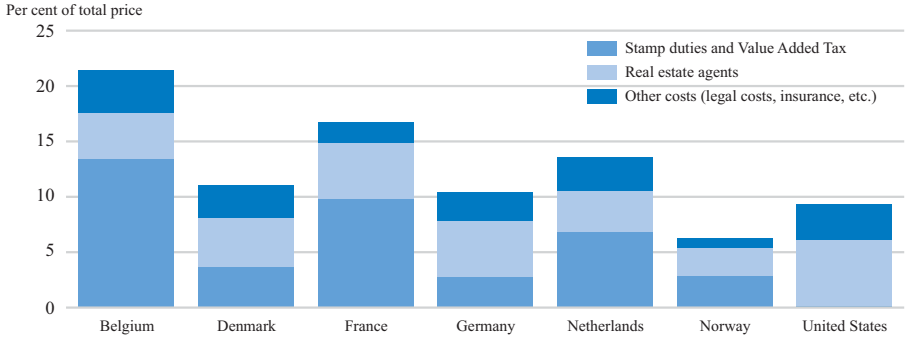
Housing transaction costs and the taxation of housing capital gains

Transaction costs could affect house-price/consumption links…

Housing transaction costs also differ considerably across countries. Taxes, such as stamp duties are one component.[16] In addition, the fees to be paid to intermediaries can be set directly by regulations or be influenced by regulations on entry into the market for real estate services. Estimates of housing transaction costs are available from several sources, but are often not comparable and cover only a limited number of countries. Data from the Danish Ministry of Business, shown in Figure IV.6, indicate that such costs are generally higher in continental European countries than in Nordic countries. Data from other sources indicate that transaction costs are among the lowest in the United Kingdom.[17] The connection between housing transaction costs and the strength of the house-price/consumption correlation is difficult to

Figure IV.6. **Housing transaction costs**

Transaction costs for sales of medium sized houses



Source: Denmark, Ministry of Business, "Boligrapport" 1997.

16. See Catte *et al.* (2004) for cross-country comparison of the taxation of residential property.
17. For example, MacLennan *et al.* (1999) present 1993 data from Woolwich Building Society according to which transaction costs are very high in France and Spain; lower, but still substantial, in Germany, Italy and the United States; and much lower in the United Kingdom. However, they are not fully comparable with the data presented in Figure IV.6, both for the definitions used and the time to which they refer. Data published in *The Economist*, 3 September 1998 (referring to non-tax transaction costs only) yield a broadly similar ranking of countries.

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demonstrate from this small sample. But the presumption is that higher costs operate to impede the housing sector/consumption transmission mechanism by making housing assets less liquid.

… as may capital gains taxation

The taxation of capital gains on housing assets can be seen as having similar effects to transaction costs if the tax is levied when the gains are realised, as is usually the case. However, while most OECD countries apply capital gains taxes to residential property, a majority exempt owner-occupied dwellings that are the owner's main residence.[18] In the few countries where gains are taxed but no exemption exists for principal owners, such as Norway, Sweden and Austria, this tax may be perceived as a significant additional transaction cost.[19]

The determinants of house price variability

The effects of monetary policy on house prices differ across countries

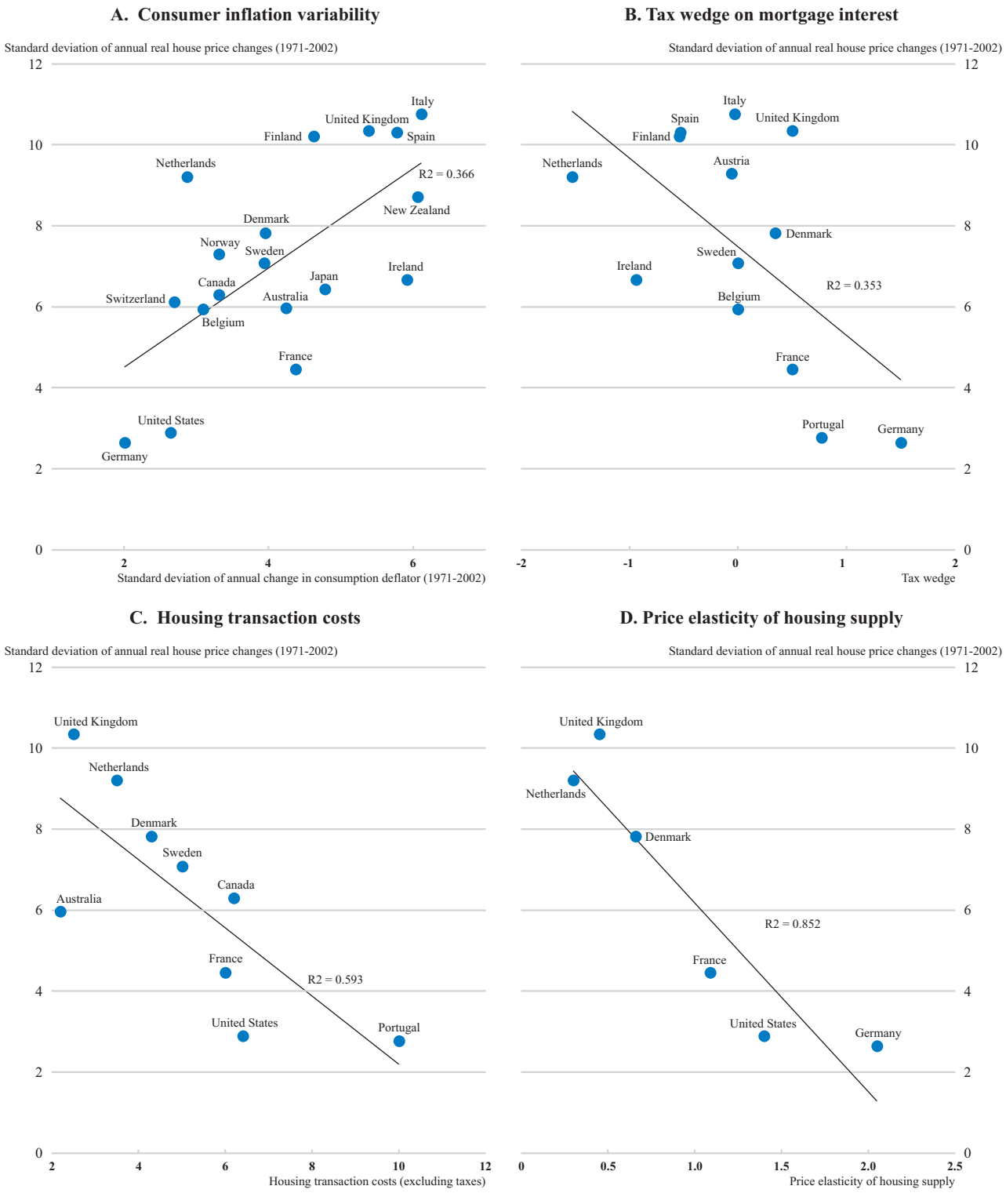
The implications of the above for the transmission of monetary policy are of particular interest. Changes in policy-determined interest rates can influence household expenditure both through "income effects" on borrowers, operating *via* changes in interest payments on outstanding housing loans, and through "wealth effects", which arise from associated movements in real house prices and hence from changes in housing equity. The "wealth channel" in this case would involve an initial link in which interest rates impact on real house prices, as changes in the relative cost of housing services lead to shifts in demand for housing. House prices do, indeed, appear to be affected by interest rate changes for individual countries.[20] However, the statistical relationship between interest rates and house price movements that is evident for individual countries is widely differing in speed and strength.[21] It is probable *a priori* that such differences operate through the same mortgage-market channels that determine the strength of housing wealth effects on spending, such as the costs of refinancing and the flexibility of the mortgage market in response to changes in housing demand. But crosscountry variations in the link between monetary policy and house prices may also reflect such factors as differences in the elasticity of housing supply, inflation expectations and housing tax regimes.

House price variability may also reflect structural rigidities…

While the transmission of monetary policy impulses to aggregate demand via housing wealth and income effects may be a factor in economic resilience, in some cases the variability of house prices may also be a function of rigidities or distortions in the housing market. The variability of house prices is likely to be higher if the supply of housing is price inelastic (Figure IV.7, panel D) and if the demand for housing is subject to large shocks. The housing stock is given in the short run, while its long-run elasticity with respect to relative price changes is likely to depend mainly on the natural or policy-induced scarcity of urban land. For example, several studies have

18. In some countries, such as Austria, Belgium, Finland and Germany, this exemption has been available only if the property is held for a minimum number of years (*e.g.* five to ten years), a provision that is intended to encourage long-term, non-speculative investment in housing.
19. In Spain and Portugal, capital gains on housing are exempt from the tax if the proceeds are reinvested (see Catte *et al.*, 2004).
20. Borio and McGuire (2004), find that interest rate movements can affect the relationship between house prices and the business cycle. The house price downturn in response to output cycles tends to be delayed and the subsequent price decline to be smaller when interest rates rise less than usual or decline after an equity market peak.
21. Tsatsaronis and Zhu (2004) find that the impact of interest rates on house prices is both stronger and more rapid in countries with more developed mortgage markets (Australia, Ireland, the Netherlands, the United Kingdom and the United States, as well as Nordic countries and Japan) as compared with most continental European countries. See also Sutton (2002).

Figure IV.7. **Real house prices variability and selected explanatory variables**



Note: In panel B, the tax wedge is defined as the difference between the after-tax and the pre-tax real interest rate on mortgage loans. It also incorporates the effect of property taxes. Thus, a low or negative tax wedge indicates a more favorable tax treatment of mortgage interest.
Source: Bank for International Settlements, Quotable Value New Zealand, the Economist, Swank, Kakes and Tieman (2002), Van den Noord (2004) and OECD.

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found that in the United Kingdom cumbersome local zoning regulations and a slow authorisation process are among the reasons for the rigidity of housing supply, and an important factor underlying both the trend rise of house prices in that country and their high variability.[22] Similar factors affect house price dynamics in Luxembourg, the Netherlands and Spain (OECD, 2003a, 2003b and 2004b).

… or inflation shocks, which may trigger speculative behaviour…

The literature on the factors affecting house prices has emphasised that one important determinant of house price variation is inflation expectations, changes in which affect the relative returns on alternative investments. Indeed, across countries house price variability appears to be correlated with inflation variability (Figure IV.7, panel A), although the relevance of this result is much reduced in a low-inflation environment.[23] However, the scope for speculative behaviour is increased by several features of housing and mortgage markets which have been characterised as favouring economic resilience above. For example, mortgage markets characterised by high loan-to-value ratios make it easier for investors to take leveraged positions, while low transaction costs and the exemption of housing assets from capital gains taxation could increase the expected net profits from speculative housing investments.

… and be exacerbated by tax wedges on mortgage interest

Among the structural factors that have been identified as a potential source of house price variability, negative tax wedges resulting from the tax deductibility of mortgage interest appear to be correlated with house price variability, at least among European Union countries (Figure IV.7, panel B).[24] This would seem to confirm that tax incentives can make some housing markets more prone to cycles by lowering the cost of leveraging the financing of housing investment. Some correlation exists also between house price variability and a low level of housing transaction costs, although reliable data on these are available for too few countries for the relationship to be regarded as robust (Figure IV.7, panel C).[25]

Housing market efficiency and resilience to shocks

Supply-side efficiency reinforces resilience…

In sum, the benefits to resilience from liberalising housing and mortgage markets and reducing housing transaction costs would appear to be enhanced where supply-side conditions are favourable. From the above evidence it would seem that policies which create a low and stable inflation environment, which enhance the efficiency of the housing market via a neutral tax structure, and which encourage housing supply responsiveness by avoiding unnecessarily restrictive zoning regulations can act to ensure that asset price movements in the housing market are based on solid fundamentals.

… but partial and ill-phased reforms can create instability…

While removing regulatory and tax-induced distortions to housing and mortgage markets can be expected to yield both long-run benefits in terms of efficient resource allocation and greater resilience to shocks, the sequencing of structural reforms is also important. Inappropriate sequencing can generate macroeconomic instability in the short run and lead to the accumulation of imbalances, whose subsequent

22. See OECD (2004a), Barker (2003) and Bramley (1993).
23. These variabilities are calculated over a relatively long period (1970-2002) so that the results reflect to a large extent the past history of macroeconomic instability in a number of countries.
24. The tax wedges shown on the figure also take into account property taxes on housing (van den Noord, 2004).
25. Transaction costs have two effects of opposite sign: on the one hand they tend to make housing demand price inelastic, which tends to exacerbate house price movements; on the other hand, they also make demand less reactive to price expectations, thus reducing the scope for speculative bubbles.

re-absorption may require a lengthy and costly adjustment process. For example, during the 1980s in several Nordic countries financial market deregulation took place in a context still characterised by large tax subsidies to mortgage borrowing and inadequate prudential supervision. This gave rise to a pronounced house price cycle fuelled by over-lending, and eventually led to costly bank bailouts and a protracted period of balance sheet consolidation in both the household and the financial sector.

… and speculative behaviour needs to be guarded against

Even in the absence of ill-timed policy reforms, the possibility that speculative bubbles may emerge in the housing market cannot be ruled out and needs to be guarded against. Some of the special characteristics of the housing market that set it apart from other asset markets – a prevalence of small investors; the absence of derivatives and short-selling; the heterogeneity and indivisibility of the traded asset, and low transaction frequency – tend to create some degree of inertia in price movements and to exacerbate informational problems. They may also make it easier for prices to be driven by expectations that depart from fundamentals. Several studies have documented a tendency of house price expectations to be of the extrapolative kind.[26] For these reasons, supervisory authorities must continue to ensure that the prudential framework is also resilient, by discouraging excessive risk-taking on the part of lenders and monitoring the possible emergence of financial fragilities in balance sheets in situations where asset prices may be subject to large corrections.

26. Most of the empirical literature on housing market efficiency (see Cho, 1996, for a survey) finds that both house prices and excess returns exhibit positive serial correlation in the short run. Consistent with this, Muellbauer and Murphy (1997) find that, for the United Kingdom, lagged house price changes are a significant explanatory variable for the current level of house prices. And Case and Shiller (2003) report the results of surveys conducted in 1988 and in 2003 among home buyers in four US cities, which seem to indicate that large expected long-term capital gains and low perceived risk play an important role in decisions to buy a house at times of rising prices.

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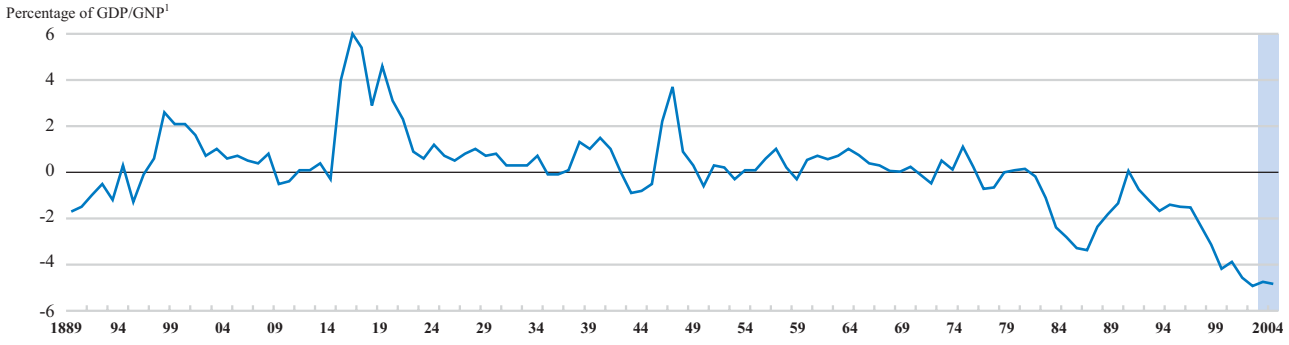
V. THE CHALLENGES OF NARROWING THE US CURRENT ACCOUNT DEFICIT

Introduction

The pattern of current account imbalances may not be sustainable…

The US current account deficit has recently reached its highest level ever recorded (Figure V.1) and OECD projections suggest that it will remain high over the next few years. The counterparts to this deficit are spread across several countries and regions (Figure V.2), with significant surpluses (as a percentage of GDP) in a number of Asian countries and in some European countries.

Figure V.1. **The US current account in historical perspective**



1. GNP before 1929.
Source: OECD, US Bureau of Economic Analysis; and for the pre-1946 period Bureau of the Census: Historical Statistics of the United States, Washington DC, 1975.

… and eventual adjustment will have world-wide repercussions

If, or when, a narrowing in these global current account imbalances occurs, it will have implications not only within the United States, but also for other countries, with specific effects depending on how adjustment is achieved. Three mechanisms for bringing about such adjustment are considered below: changes in exchange rates, national saving rates, and non-price export competitiveness. Based partly on simulations conducted using the OECD's INTERLINK model, this chapter discusses the likely implications of narrowing the US current account deficit through each of these forces.

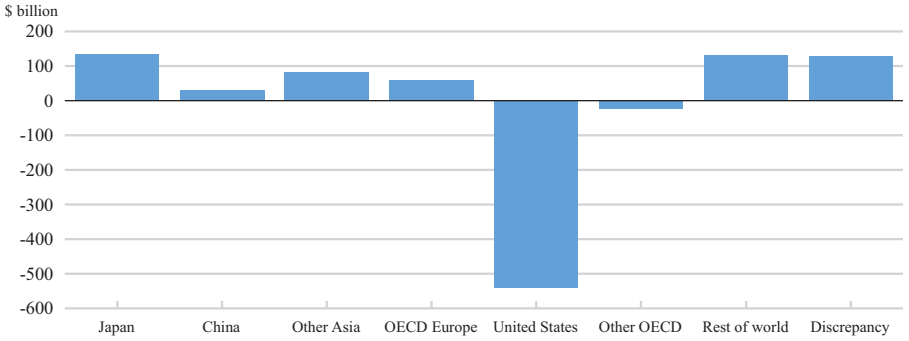
Some key conclusions from this analysis are as follows:

Even a modest narrowing would require large changes…

– When any one channel for narrowing the US deficit is considered alone, it seems that a relatively large change in the relevant economic variable would be required to achieve a modest reduction of the deficit. For example, model simulations suggest that in order to produce an improvement in the trade

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Figure V.2. **Global current account balances in 2003**



Notes: Other Asia includes Chinese Taipei, Hong Kong, Indonesia, Korea, Malaysia, the Philippines, Singapore and Thailand. The statistical discrepancy reflects errors, omissions and asymmetries in balance of payments statistics on current account as well as the exclusion of data for international organizations and a limited number of countries.
Source: OECD.

balance of 2 percentage points of GDP over a six-year horizon, shocks of around the following magnitudes would be required:

… to exchange rates…

- a 20-25 per cent nominal effective depreciation in the dollar, or

… fiscal policy…

- a swing in the fiscal position of some 6 per cent of GDP, or

… or competitiveness

- an improvement in the non-price competitiveness of US producers, corresponding to an approximate 2 percentage point increase in its share of world imports.

It would also tend to damp growth outside the United States…

– A narrowing of the deficit also poses significant risks to growth in US trading partners – not least in Japan, given the limits that the authorities face with respect to using monetary or fiscal policy to offset any contractionary pressures.

… although the extent would depend on Asian exchange rate flexibility

– The impact of dollar depreciation on these trading-partner economies depends importantly on the flexibility of exchange rates in the Asian region. If the renminbi and other currencies remain tied (either formally or informally) to the dollar as it falls, then the costs to Japan and other OECD economies will be greater than if the dollar is permitted to fall against all other currencies.

Too much domestic contraction could be risky

– If adjustment were to occur through tightening US fiscal conditions, the appropriate monetary policy response, *ceteris paribus,* would be to lower short-term interest rates. However, current starting points suggest a greater-than-normal risk of short-term interest rates being pushed close to the zero nominal interest rate bound. Such a risk would, however, be mitigated if the fiscal consolidation were to occur in conjunction with dollar depreciation, provided the latter had an inflationary effect.

Improved export competitiveness would be preferable

– An autonomous gain in non-price export competitiveness *via* structural change on the supply side of the economy would represent a benign outcome for the United States, and the least costly for other OECD countries.

– More generally, it seems difficult to imagine a scenario that would significantly narrow the US current account deficit without imposing some costs on the rest of the world.

There is no simple metric of sustainability…

Of course, it is also natural to ask whether such changes are necessary. Is it not possible for the present level of the US current account deficit to persist at current levels? And if not, then by how much would it need to shrink? In this chapter, the implications of a 2 per cent of GDP narrowing of the trade deficit are discussed. Whether this would be necessary or sufficient is more difficult to discern as there is no simple metric of sustainability.[1]

… which would depend on the attractiveness of non-US assets…

Essentially, the question of sustainability can be analysed from two perspectives. First, from the perspective of global investors, a deficit of this magnitude for a large economy like the United States absorbs a significant proportion of total world savings and implies an increasing share of dollar assets in foreign investors' portfolios. While the United States remains an attractive investment destination in many respects, it is uncertain for how long foreigners will continue to accumulate debt and equity claims against US residents at the recent pace. Clearly, the answer will depend on a variety of factors including the share of dollar assets in total portfolios that potential investors consider appropriate. This will in part depend on the relative attractiveness of other investment destinations. Thus, it is possible that further structural reform in US trading partners may result in a larger range of attractive investment opportunities. Several Asian central banks have been another important source of demand for US dollar assets, as reflected in the run-up of official reserves, and there are also questions about how long this trend will continue.

… and the riskiness of the US economy

Second, from the perspective of the United States as the borrower, the current account deficits add to the stock of outstanding debt and increase future funding requirements. In turn, this increases the perceived riskiness of the United States as an investment destination. However, it is not clear at what point the run-up in debt would be judged to be unsustainable. At present, US net foreign liabilities are equal to around 25 per cent of GDP, which is relatively low by comparison with many other OECD countries. If the current account deficit were to remain at 5 per cent of GDP each year, with nominal GDP growing at an annual rate of 5 per cent in the baseline, net foreign liabilities would steadily rise, eventually stabilising at around 100 per cent of GDP in the long run. If instead the current account deficit were to narrow from 5 per cent to 3 per cent of GDP, net foreign liabilities would stabilise at around 60 per cent of GDP. Of course, the results of such calculations are very dependent on the assumption for GDP growth, and still do not answer the question of what level of current account deficit, or net international investment position, would be sustainable.

The adjustment may be postponed but that would also carry risks

At present, there is little evidence of stress in funding the current account deficit; interest rates in the United States remain relatively low, demand for new US debt securities is quite strong and exchange rate changes have been orderly to date. Yet, ongoing signs of trade protectionism suggest that there may be unforeseen costs of continued significant imbalances and corresponding benefits of adjustment.[2] However, in the absence of significant changes in key economic determinants of the current account, such as those assumed in the simulations discussed in this chapter, the adjustment process may be drawn out, and could be driven by a gradual decoupling

1. For example, see Greenspan (2003, 2004), as well as Mann (1999, 2002) who provides further discussion of the concept of sustainability.
2. Any new protectionist initiatives are particularly dangerous in the context of wide current account imbalances, at which time the flexibility of the global economy becomes even more important (Greenspan, 2003, 2004).

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of domestic incomes and demand from production in the wake of a steadily rising share of value added accruing to foreign investors.

Background to the simulations

The simulations assess a range of adjustment channels…

In the past, large current account deficits have been typically unwound through a combination of real exchange rate depreciation and fiscal consolidation. Thus, these channels were chosen as two of the three forces for current account adjustment that are considered in the simulations. The third channel, an autonomous improvement in the non-price competitiveness of exports, is intended to capture the role of supply-side determinants of US export market share. Although the specific policies that might influence non-price competitiveness are less clear-cut than for the first two channels, it provides a useful framework for considering some of the additional determinants of US trade performance that are not captured in the first two channels and thereby also for assessing the possibility that adjustment may occur without recourse to the first two channels.

… each designed to improve the US trade balance by 2 per cent of GDP

In the case of each channel, simulations were overlaid on the OECD's December 2003 medium-term baseline[3] to achieve an improvement in the trade balance of around 2 per cent of GDP after six years. The impact on the current account balance differs between the simulations depending on the path of interest rates and the implications for debt-servicing payments that accrue to non-residents.[4] The implications of each scenario for key economic variables in the United States, Japan and the euro area are summarized in tables throughout this chapter.[5] The simulation results are not intended to represent projections but rather to provide a framework for tracing through cross-country linkages.

Channel 1: The role of exchange rate depreciation

Exchange rate changes are an important adjustment mechanism…

Exchange rate changes have long been perceived as perhaps the key mechanism for achieving current account adjustment. In economies with floating exchange rates, the process is typically driven by market participants. As foreign investors become less willing to fund the increasing shortfall between total saving and total investment at existing exchange rates, there is downward pressure on the currency. In the United

3. See Downes *et al*. (2003). Note that this baseline differs from the medium-term baseline published in this edition of the *Economic Outlook*. For many economies the two baselines do not differ markedly. However, for Japan, the more recent baseline incorporates stronger growth, significantly higher inflation, and positive short-term interest rates from 2006 onwards.
4. In the simulations, a simplified rule of thumb was used, that one third of the rise in US government debt servicing accrues to non-residents. On that basis, if a shock (such as exchange-rate depreciation) requires higher domestic interest rates, the US current account deficit will improve by significantly less than the trade balance. However, another effect, not captured here, is the fact that dollar depreciation would raise the dollar-denominated return on US foreign-currency assets. This effect would improve the investment income balance, mitigating the impact of higher debt-servicing costs.
5. The results of the simulations are also discussed in Brook *et al.* (2004).

States, this has happened to some extent since the dollar peaked in February 2002, although pressure has been mitigated by the significant capital flows from Asian central banks, motivated, in part, by a desire to prevent significant exchange rate movements relative to the dollar.

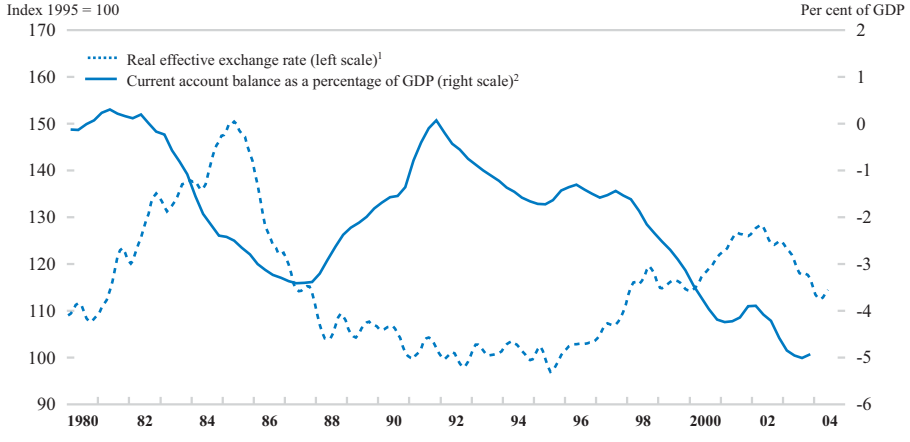
… although experiences differ across countries

Historically, the observed bilateral relationship between countries' exchange rate and their current account balance has differed considerably. In some cases, large exchange rate depreciations have been associated with a significant reversal of current account deficits. For example, after the real effective exchange rate of Canada fell by around 25 per cent over the 1990s, the Canadian current account balance swung from a persistent deficit to a surplus of around 2 per cent. Similarly, as the real effective exchange rate of Sweden fell by over 20 per cent after 1992, the current account balance swung from a deficit of more than 3 per cent of GDP to a surplus of around 4 per cent. Over the same period, however, both countries underwent substantial fiscal consolidation that may also have affected the external balance. In other cases, large exchange rate changes have not been accompanied by much adjustment. For example, in economies where inflation expectations have been poorly anchored, persistent real exchange rate depreciation has proved difficult to achieve, with nominal exchange rate depreciation being offset by higher inflation relative to that in trading partners.[6]

A dollar depreciation would tend to improve the US current account…

In the United States, the observed historical relationship between the exchange rate of the dollar and the current account balance is negative (Figure V.3). The causal relationships driving this feature of the data are multiple, however. For example, relative buoyancy of US domestic demand may at times have been associated with both a large deficit and substantial capital inflows. But direct links from the exchange rate to the external balance probably also played a role. There are, however, a number of factors, that limit the extent of current account improvement in response to exchange rate

Figure V.3. **Real effective exchange rate and the current account balance in the United States**



1. Real effective exchange rate calculations include projections for late 2003 and early 2004.
2. Net lending by foreigners is the negative of the current account balance. Data are smoothed using a 4-quarter moving average.

Source: OECD and the US Bureau of Economic Analysis.

6. For example, although the Italian lira fell by almost 20 per cent over the 1980s and 1990s, neither the real effective exchange rate nor the current account balance had any real trend.

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depreciation. First, the link between the two involves a delay. Second there is evidence that pricing to market is significant. Indeed, evidence suggests that exchange-rate pass-through into import prices is relatively low compared with other OECD countries.[7]

… but would be partly offset by reduced demand in US trading partners

Third, since any dollar depreciation will be mirrored by exchange rate appreciation elsewhere, there will be a contractionary impact on the economies of US trading partners creating a negative feedback effect on demand for US exports. In current circumstances, this effect is likely to be particularly strong for economies such as Japan that are limited in the extent to which they can offset the negative demand shock with more stimulatory monetary or fiscal policy.[8]

… and by the effects of higher US interest rates…

Finally, depending on the extent to which a fall in the dollar pushes up inflation, monetary policy will have to respond, and interest rates would rise.[9] Higher interest payments on foreign-held debt would then suggest that the improvement in the current account deficit would be less than that in the trade balance.

… as illustrated by model simulations

These factors are illustrated by two exchange rate scenarios which evaluate the impact of a 22.5 per cent nominal depreciation in the effective dollar exchange rate – sufficient in the INTERLINK model to achieve an improvement of 2 per cent of GDP in the US trade balance over six years.[10] In one scenario this depreciation is made up of a 30 per cent decline relative to other OECD exchange rates, and no change relative to exchange rates in the non-Japan Asia region. In the other, the dollar depreciation is spread more evenly: around 22 per cent against all currencies. Table V.1 summarises

– Table V.1. **Implied effective exchange rates in dollar depreciation scenarios** –

Effective exchange rates (percentage appreciation)

	from $ peak (Feb 2002) to 3 Nov 2003	from $ peak (Feb 2002) to 16 Apr 2004	OECD exchange rates adjust [a]	All exchange rates adjust [a]
Dollar	-10.1	-11.6	-22.5	-22.5
Yen	10.9	12.3	22.0	5.5
Euro	16.3	18.9	11.0	4.0

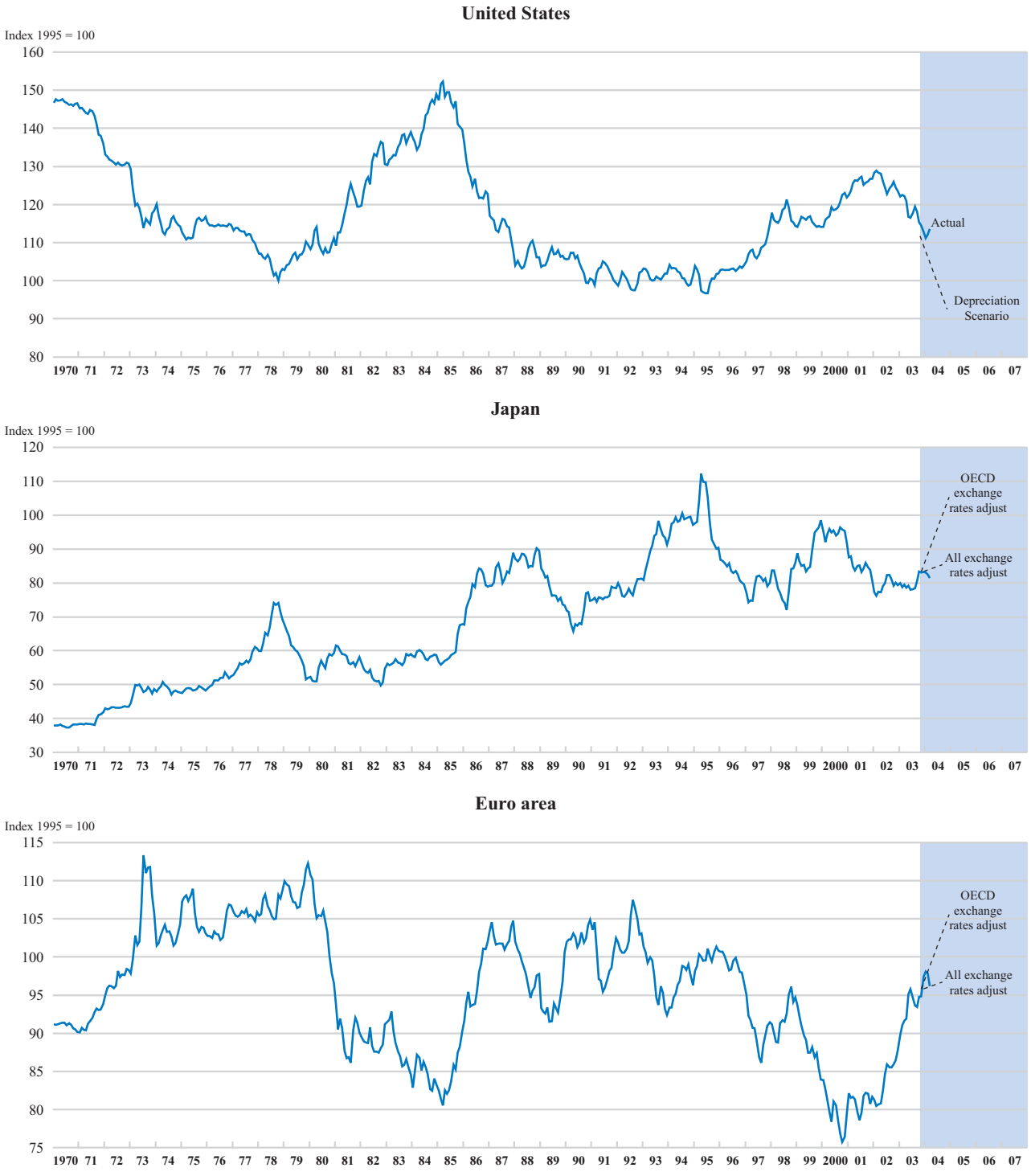
Note: The cut-off date for exchange rate movements for the baseline was 3 November 2003 (published in the *OECD Economic Outlook,* No. 74, December 2003).

a) Both scenarios involve a 22½ per cent effective dollar depreciation. In the first scenario (inflexible non-OECD Asia exchange rates) this is achieved through a 30 per cent dollar depreciation relative to OECD currencies, and in the second scenario (full exchange-rate flexibility), the 22½ per cent depreciation is spread evenly across all currencies.

Source : OECD.

7. This is true for both short- and long-term pass-through elasticities (Campa and Goldberg, 2002).
8. The Japanese authorities have been using quantitative targets to ease monetary policy beyond the level suggested by zero interest rates, but this channel is not captured in the simulations. Thus, the simulations also do not capture any possible impact on the yen from quantitative easing.
9. Higher short-term policy interest rates would tend to push up bond yields also, and this could be expected to have a downward impact on US house prices and share prices. However, such asset price effects are not explicitly taken into account in these simulations.
10. The depreciation is assumed to occur over the first year of the projection horizon. The scenarios should be viewed as primarily illustrative for a number of reasons. First, the depreciation is simply imposed in a clinical fashion, without regard to any specific event, or series of events, which may prompt the depreciation and which would have additional impacts of their own. Second, it is (unrealistically) assumed that the dollar moves equally against all currencies. Another simplification is the assumption of no wealth effects outside of the United States, related to capital losses on bond portfolios (foreign holders of dolalr denominated securities being hit by exchange rate valuation changes in addition to lower bond prices).

Figure V.4. **Real effective exchange rates and scenarios**



Note: Calculations of the real effective exchange rate (based on relative CPI inflation) include projections for 2004. The effective euro area exchange rate prior to 1999 is synthetic.

Note that these figures combine the assumed "nominal" exchange rate shocks from the two Scenarios with the historical path of the "real" effective exchange rate. However, movements in the real effective exchange rates over the projection period would differ depending on relative inflation differentials. For example, the extent of real dollar depreciation would be somewhat eroded by higher inflation in the United States relative to that in other countries.

Source: OECD.

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the implication of each shock for the effective exchange rates of the main OECD regions. Adding the first column to the third or fourth column provides the implied *total* depreciation or appreciation, since the peak in the dollar in February 2002.

The simulated fall in the dollar is large but not unprecedented…

While large, the extent of dollar depreciation assumed is not unprecedented. For example, between 1985 and 1988 the effective US exchange rate fell by 32 per cent, with a very gradual further decline after that taking the total depreciation to 36 per cent by 1995, a decline broadly similar to the shock imposed in the simulated dollar depreciation (Figure V.4).[11] However, whereas the depreciation in the 1980s pushed the dollar back to previous lows, a drop of this magnitude from the peak of the exchange rate cycle in February 2002 would take it to new record lows, although this could be consistent with the trend deterioration in the current account balance. Other researchers, using very different models, similarly conclude that the exchange rate changes required for a significant improvement in the US current account position could be substantial.[12]

… and requires higher interest rates to offset inflationary pressures

The economic impact of the two shocks is very similar for the United States, reflecting that the same magnitude of effective depreciation occurs in both cases. In the short term, the sharp dollar depreciation pushes US inflation up to around 3 per cent, although a 300 basis point tightening of monetary policy ensures that inflation gradually declines back towards baseline, with long-term inflation expectations stable. The US trade balance slowly improves, with corresponding deteriorations in the trade balances of other regions (Table V.2).

The shock is contractionary for US trading partners…

The corresponding exchange rate appreciation would also be dramatic for the yen and euro, although on an effective basis they would not breach historical peaks. The impact of any dollar depreciation would depend on two opposing factors: the exposure of the economy to the United States and (in the case where other key exchange rates in Asia are inflexible) to non-Japan Asia; and on the scope that policymakers have to adjust interest rates in response to the contractionary impact of the exchange rate change.

… especially those most exposed to the United States and non-Japan Asia…

On both counts, Japan would be hit harder than the euro area, though the recent tendency for deflation to abate and OECD projections of positive inflation in Japan suggest that the simulations, based on a baseline where deflation continues until 2009, could be unduly negative. If the counterpart to dollar depreciation is confined to the OECD currencies, this would imply about a 22 per cent appreciation in the effective yen exchange rate. However, if all Asian currencies were also to appreciate against the dollar, the effective yen appreciation would be just 6 per cent. Indeed, the simulations suggest that the impact on growth in Japan would be particularly pronounced in the situation where Japan loses competitiveness relative to other Asian economies.

11. Note that Figure V.4 combines the assumed *nominal* effective exchange rate change from the scenario with historical data for the *real* effective change rate. However, movements in the *real* effective exchange rates over the projection period would differ depending on domestic inflation rates relative to inflation rates in trading partners. For example, the extent of real dollar depreciation would be somewhat eroded by higher inflation in the US relative to that in non-OECD countries.
12. See, for example, Obstfeld and Rogoff (2000).

Table V.2. **Dollar depreciation scenarios: key results**

	Average 2004-09			End point (2009): scenario relative to baseline	
	Medium-term baseline	*OECD exchange rates adjust*[a]	*All exchange rates adjust*[a]	*OECD exchange rates adjust*[a]	*All exchange rates adjust*[a]
United States					
Real GDP (growth/ level)[b]	3.3	3.3	3.3	-0.5	-0.3
Prices (inflation/ price level)[b]	1.3	2.6	2.2	7.6	5.1
Trade balance[c]	-4.7	-3.4	-3.4	2.0	1.9
Current account balance[c]	-5.1	-4.2	-4.3	1.4	1.3
Short-term interest rates[d]	3.9	6.9	6.9	3.0	3.0
Japan					
Real GDP (growth/ level)[b]	1.6	1.3	1.4	-2.1	-1.4
Prices (inflation/ price level)[b]	-0.2	-1.2	-0.5	-5.7	-1.7
Trade balance[c]	2.6	1.6	2.7	-1.8	-0.6
Current account balance[c]	5.0	3.6	4.7	-2.0	-0.8
Short-term interest rates[d]	0.0	0.0	0.0	0.0	0.0
Euro area					
Real GDP (growth/ level)[b]	2.3	2.3	2.3	-0.2	-0.1
Prices (inflation/ price level)[b]	1.6	1.4	1.5	-1.2	-0.6
Trade balance[c]	2.5	1.1	1.7	-2.2	-1.6
Current account balance[c]	1.0	0.1	0.7	-1.5	-1.0
Short-term interest rates[d]	3.6	2.1	3.1	-1.5	-0.5

a) Both scenarios involve a 22.5 per cent effective dollar depreciation. In the first scenario this is achieved through 30 per cent depreciation relative to OECD currencies, whereas in the second scenario the 22.5 per cent depreciation is spread evenly across all currencies.
b) Numbers in first three columns are annual rates of change; numbers in last two columns show the *level* in 2009 relative to baseline. Prices refer to the consumption deflator.
c) In per cent of GDP.
d) Per cent.
Source : Downes *et al.* (2003) and OECD.

… although an easing of monetary policy can be used to maintain demand

In the euro area, the impact is milder than in Japan for two reasons. First, the euro area is less exposed to the United States and non-Japan Asia. In fact the effective euro exchange rate appreciates by only 11 per cent in the first scenario and by just 4 per cent in the second. Second, the euro area monetary authorities have the room to cut policy rates sufficiently to offset the contractionary impulse in both scenarios.

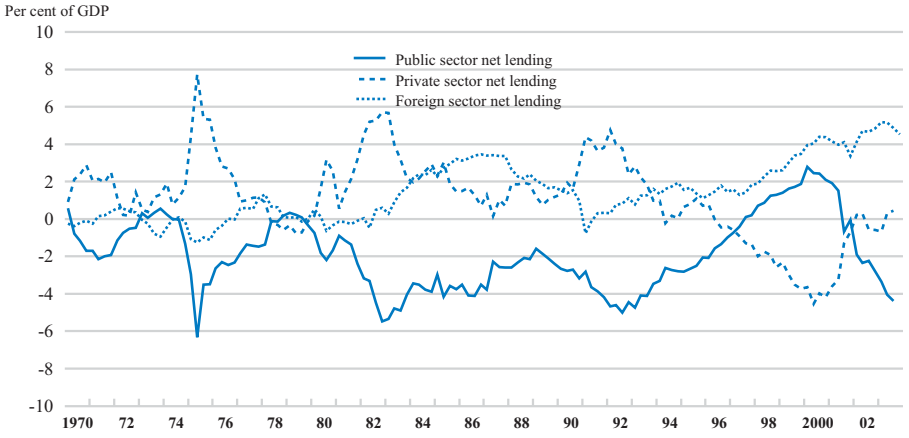
Channel 2: Higher national savings *via* fiscal consolidation

Fiscal policy effects would be partly offset…

Based on national accounting identities, the current account deficit is equal to the shortfall of national saving relative to domestic investment. Thus, an increase in the national savings rate, *ceteris paribus*, would be reflected in a narrowing of the external deficit. The specific impact on the current account deficit of an increase in net government saving (a fiscal consolidation), however, depends on the extent to which increases in government saving are offset by declines in private saving. There are a number of channels *via* which this offset may occur. For instance, there is

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Figure V.5. **Negative correlation between public and private saving rates in the United States**



Note: Net lending by foreigners is the negative of the current account balance.
Source: BEA NIPA tables.

ex post financial "crowding in" from lower real interest rates. Since a large fiscal consolidation has negative effects on activity and inflation, a significant drop in short-term interest rates would normally be required to stabilise output and inflation, all else equal. This in turn would prompt a decline in the private saving ratio or boost private investment, offsetting some of the gain in public saving.

… even where Ricardian equivalence does not hold…

Other factors could also lead private saving to move in the opposite direction from public saving, such that fiscal consolidation does not reduce the external deficit one for one. These may include *ex ante* declines in private saving related to gains in confidence or "Ricardian equivalence" effects associated with the fiscal consolidation.[13] Although the conditions for full Ricardian Equivalence are unlikely to be realised in practice, there is still evidence that private saving moves to at least offset a significant part of changes in public saving.[14] This negative relationship between private and public saving is easily visible in the data (Figure V.5).

… so the simulation required a large change in fiscal policy…

For these reasons, a relatively large improvement in fiscal positions is normally required to achieve a noticeable effect on the current account balance. This is illustrated by the fiscal consolidation simulation, which assumes a 6 percentage point improvement in the fiscal deficit, relative to baseline, phased in gradually over the six-year horizon.[15] As with the other scenarios, this shock improves the trade balance by 2 percentage points of GDP.

13. Ricardian equivalence refers to the situation where an increase (reduction) in public savings is fully offset by lower (higher) private sector savings, due to economic agents discounting the lower (higher) taxes which will be needed to pay for government borrowing, thus leaving net private sector wealth unchanged.
14. For evidence, see de Mello *et al.* (2004), and de Serres and Pelgrin (2003). In the work reported by de Mello *et al.*, a correlation of -0.6 is found between changes in private saving and the cyclically-adjusted budget balance in the United States. They also find that fiscal actions are subject to diminishing returns in the sense that the larger the fiscal impulse, the larger the private saving offset. Similarly, de Serres and Pelgrin also find that private-sector savings rates respond significantly to changes in public-sector savings, although again the degree of offset is estimated to be considerably less than unity.
15. In the simulation the fiscal balance was assumed to improve from a deficit of almost 5 per cent of GDP in 2003 to a surplus of 1.7 per cent of GDP after six years. In the baseline, the deficit was expected to narrow only slightly to 4.2 per cent of GDP by 2009.

Table V.3. **Episodes of large fiscal consolidation and interest rate levels**

	Government cyclically-adjusted balances (as a percentage of GDP)			Short-term interest rate	
	At start of period	Change over 6 years	Total change	At start of period	Maximum fall in interest rate over 6-year period[a]
Australia (1992-1999)	-4.7	5.1	6.1	6.5	1.5
Austria (1995-2001)	-5.2	4.8	5.0	4.6	1.6
Belgium (1992-2002)	-8.5	8.0	9.0	9.4	6.4
Canada (1992-2000)	-7.0	7.7	9.3	6.6	3.0
Greece (1990-1999)	-15.7	10.0	15.1	23.0	14.1
Ireland (1990-2000)	-4.3	4.8	6.8	11.3	8.3
Italy (1990-2000)	-12.4	6.1	10.4	12.2	9.3
Netherlands (1990-2000)	-7.6	5.4	6.5	8.7	5.7
New Zealand (1986-1995)	-8.4	8.5	10.8	19.1	3.5
Norway (1993-2000)	-6.6	5.1	6.5	7.3	12.8
Portugal (1991-1997)	-9.4	5.7	5.7	17.7	12.0
Spain (1995-2002)	-4.9	5.2	5.2	9.4	6.4
Sweden (1994-1998)	-7.0	9.0	10.3	7.4	3.3
United Kingdom (1993-1999)	-5.8	6.9	6.9	5.9	0.5
United States (1992-2000)	-5.3	5.1	6.2	3.8	0.5
United States Fiscal Scenario (2003-2009)	**4.9**	**6.6**	**6.6**	**1.1**	**1.1**

Note: For each country, the period of analysis (in parentheses) was selected on the basis of the most recent episode of fiscal consolidation defined as the years over which changes in the cyclically-adjusted budget balance remained positive.

a) The maximum fall in the short-term interest rate is calculated as the difference between the interest rate at the start of the period and the lowest interest rate over the following 6 years (using annual frequency data).

Source : OECD.

… although no larger than fiscal consolidations in other countries

The magnitude of fiscal consolidation assumed is large, although it does not take the fiscal balance into unchartered territory. Indeed, the experience of both the United States and other countries since the early 1990s suggests that consolidations of such a magnitude have not been particularly unusual (Table V.3). In some of the previous cases of large fiscal contractions, the consolidation was achieved over a slightly longer time period than the six-year horizon in this scenario, although there are still several examples of very large improvements in the fiscal position over a six-year horizon.

Higher public saving is almost fully offset by lower private saving

In the simulation the private-sector saving offset stems primarily from the monetary policy response. Since the fiscal shock is contractionary, it is assumed that short-term interest rates would be cut significantly, providing some offsetting stimulus to domestic demand. Also, given the reduction in the future supply of US bonds, portfolio allocation factors would likely reduce long-term interest rates by more than short-term rates.[16] Thus, although household disposable income falls by around 10 per cent relative to baseline, consumption only falls by about 7 per cent, with a drop in the private saving rate of nearly 4 per cent of disposable income. With corporations in a similar position, the total private saving rate falls by close to 4 percentage points of GDP, relative to baseline, offsetting almost two-thirds of the increase,

16. It is also possible that a credible fiscal consolidation could result in lower risk premia on long-term interest rates.

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Table V.4. **Fiscal consolidation scenarios: key results**

	Average 2004-09			End point (2009): scenario relative to baseline	
	Medium-term baseline	Fiscal scenario only[a]	Fiscal plus exchange rate[b]	Fiscal scenario only[a]	Fiscal plus exchange rate[b]
United States					
Real GDP (growth/ level)[c]	3.3	2.6	2.8	-4.5	-3.2
Prices (inflation/ price level)[b]	1.3	1.6	1.8	1.5	3.1
Government net lending[d]	-4.7	-0.9	-1.7	5.9	4.2
Primary government net lending[d]	-2.6	0.2	-0.4	4.4	3.1
Private saving[d]	14.2	11.6	12.7	-3.8	-1.9
Private investment[d]	16.1	16.0	16.1	-0.4	-0.3
Trade balance[d]	-4.7	-3.7	-3.4	2.1	2.1
Current account balance[d]	-5.1	-3.8	-3.6	2.6	2.5
Short-term interest rates[e]	3.9	0.0	1.3	-5.4	-3.0
Japan					
Real GDP (growth/ level)[c]	1.6	1.3	1.2	-2.0	-2.2
Prices (inflation/ price level)[b]	-0.2	-0.7	-1.1	-2.7	-5.0
Trade balance[c]	2.6	2.2	1.9	-1.3	-1.8
Current account balance[d]	5.0	4.5	4.0	-1.3	-2.0
Short-term interest rates[e]	0.0	0.0	0.0	0.0	0.0
Euro area					
Real GDP (growth/ level)[c]	2.3	2.2	2.2	-0.4	-0.5
Prices (inflation/ price level)[b]	1.6	1.7	1.5	1.0	-0.4
Trade balance[d]	2.5	1.9	1.4	-1.4	-1.9
Current account balance[d]	1.0	0.3	0.0	-1.5	-1.8
Short-term interest rates[e]	3.6	2.5	1.7	-1.5	-2.3

a) The "fiscal only" scenario involves an increase in direct and indirect tax revenues of 3 and 1.5 per cent of nominal GDP respectively; and a cut in public expenditures of 1.5 per cent of real GDP.

b) The "fiscal plus exchange rate" scenario involves a 15 per cent dollar depreciation relative to OECD country exchange rates; an increase in direct tax revenues of 2 per cent of nominal GDP; and a cut in public expenditures of 2 per cent of real GDP. Prices refer to the consumption deflator.

c) Numbers in first three columns are annual rates of change; numbers in last two columns show the *level* in 2009 relative to baseline.

d) In per cent of GDP.

e) Per cent.

Source : Downes *et al.* (2003) and OECD.

relative to baseline, in public saving (Table V.4). In terms of saving and investment balances, therefore, most of the improvement in the current account balance is achieved *via* an increase in total saving, although a slight fall in total investment also plays a role. The significant negative correlation between public and private saving rates that has been observed historically persists.[17]

The low starting point for interest rates could pose a risk of deflation…

Importantly, because of the very low starting point for inflation and interest rates in the United States, there would also be a risk of deflation in response to such a large fiscal contraction, and this might impose limits on the extent to which fiscal policy can be tightened, even aside from political considerations. Of course, this

17. The degree of offset in private saving in response to the rise in public saving may differ according to the composition of changes to expenditure and taxes. In general, however, the experience of OECD economies suggests that fiscal restraint has an offsetting impact on private saving regardless of whether it is driven by expenditure cuts or tax increases (de Mello *et al.*, 2004).

problem would be mitigated to the extent that there is "crowding in" from the private sector or "Ricardian" type effects.[18] But if the private saving rate fully offsets the rise in the public saving rate, then there will be no improvement in the trade balance. It is interesting to note that other countries that have achieved large fiscal consolidations all started with significantly more room for easing monetary policy than the United States has at present. In practice, of course, the extent to which this room for monetary easing has been used has varied (see right-hand column in Table V.3) depending on the nature of the fiscal contraction and the extent to which other economic drivers offset any contractionary effects from fiscal policy.

… unless combined with a dollar depreciation…

Since these deflationary risks would most likely be mitigated if fiscal consolidation were to occur in conjunction with significant dollar depreciation, this makes up the second fiscal consolidation scenario. In this scenario the fiscal deficit is assumed to improve by 4 percentage points of GDP by 2009[19] (*versus* a 6 percentage point improvement in the scenario of fiscal consolidation alone), and the dollar to depreciate by 15 per cent relative to other OECD currencies.[20] In this situation, the required magnitude of depreciation and fiscal consolidation is less compared with a situation in which each of these was the sole driving factor. In addition, the expansionary impact of the depreciation offsets much of the contractionary impact of the fiscal tightening, obviating the need for a strong monetary policy response in either direction.

… although that would be more costly for US trading partners

For US trading partners, however, the combination scenario would imply not only a fall in US demand for their exports, but also additional effects from the exchange rate change. Thus, these economies would suffer more negative effects on output and net exports than in the case where the same improvement in the US trade balance was achieved through fiscal consolidation alone. For the euro area, the simulation results show that an assumed cut in interest rates helps to maintain domestic demand despite the fall in net exports. In Japan, if the baseline was one of continued deflation and zero interest rates, there would be no room for manoeuvre on monetary policy and the implications would be more severe, with lower growth rates and a worsening of deflation.

Channel 3: Increase in US export share *via* supply-side improvement

The elasticity asymmetry and the persistent deficit are due in part to…

An important explanation for the trend deterioration in the US trade deficit is their seemingly greater appetite for imports relative to foreigners' appetite for their exports. This feature shows up in the estimated income elasticities for imports of goods and services which are typically larger than the foreign income elasticities for exports of goods and services (Table V.5). As long as this elasticity asymmetry persists, the trade deficit will continue to deteriorate even if the economies of US trading partners are growing at the same pace as the economy. Indeed, this trend is a large

18. In the simulations, no additional allowance was made for confidence effects, or for "Ricardian" behaviour.
19. The fiscal contraction in the combined scenario is achieved by a cut in public expenditures and an increase in direct tax revenues, each equivalent to 2 percentage points of nominal GDP.
20. The less flexible exchange rates of the Asian region are assumed to remain tied to the US dollar. This exchange rate shock is therefore equivalent to a shock of half the magnitude imposed in the exchange rate depreciation scenario.

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Table V.5. **Selected estimates of income elasticities for the United States**

	Data period	Exports of:		Imports of:	
		Goods	Services	Goods	Services
Pain and van Welsum (2004)[a]	1987-2000		1.7		
Mann (2004)[b]	1976-2000		2.1		1.5
Wren-Lewis and Driver (1998)	1980-1995	1.21	1.95	2.36	1.72
Houthtakker and Magee (1969)	1951-1966	0.99		1.51	
		Exports of goods and services		**Imports of goods and services**	
Mann (2004)[c]	1976-2000	1.4		2.2	
Hooper, Johnson and Marquez (1998)	1960-1996	0.80		1.80	
Cline (1989)	1973-1987	1.70		2.44	
Memorandum item:					
Elasticities in OECD Interlink Model[d]		1.8		2.2	

a) This number is calculated as a weighted average of Pain and van Welsum's estimates of elasiticities for individual categories of services. Their estimates use total world trade in non-government services as the measure of foreign demand rather than foreign GDP (as used in the other studies). However, the number quoted in this table has been scaled up to reflect the relatively slower growth in world GDP *versus* world trade in services. Thus this number is comparable with the others in the table.

b) These numbers are calculated as a weighted average of Mann's (2004) estimates of the income elasticity of *Other personal services*, and the estimates by Stern *et al.* (2001) of income elasticities for the *Travel*, *Passenger fares* and *Other transportation* components of total services.

c) These numbers are a weighted average of Mann's income elasticities for services and Wren-Lewis and Driver's (1998) estimates of the income elasticities for goods.

d) Note that the export elasticity in the OECD model is normally quoted as 1.0, based on a weighted average of growth in foreign imports as the measure of foreign demand, rather than foreign GDP. However, the number quoted in this table has been adjusted for the effect of the denominator in order to ensure comparability with the other numbers in the table.

Source: OECD.

part of the reason why many other possible channels for improving the current account balance have so little apparent impact.

… US demographics…

There are at least four possible explanations for the elasticity asymmetry in the United States, several of which also suggest possible channels for reversing it and thereby the trend in the deficit. One explanation stresses the role of demographics. Younger populations tend to consume a relatively higher proportion of imports, and fewer domestic services such as health care, while immigrants tend to maintain their tastes for products from home.[21] Indeed, there is some evidence that when the age distribution of domestic residents and the proportion of immigrants are incorporated as explanatory variables, the income elasticity for US imports is reduced.[22]

… high export quality and variety from dynamic trading partners…

A second explanation stresses the role of supply factors in the exports of the United States' dynamic trading partners (*e.g.* in Asia). There is a tendency for countries with higher growth rates to produce a greater variety and quality of goods for export, which in turn increases the foreign demand for those countries' products (or, observationally equivalent, the elasticity of demand for imports from those countries).[23] This supply effect is sufficiently important that it might account for around

21. Immigrants also tend to contribute to the current account deficit by sending home remittances.
22. See Marquez (2002).
23. This was first documented by Krugman (1989).

half the magnitude of estimated income elasticities of US import demand. When the supply effect is subtracted, the "unbiased" income elasticity of US import demand is estimated to be less than one.[24]

… rising import penetration…

Third, there are a number of other factors that also help to explain the rise in US import penetration over time. These include the role of production relocation and vertical integration, and improvements in global and regional market access. Indeed, there is some evidence that when these additional factors are captured by a time trend, the income elasticity is estimated to be close to one.[25]

… and relatively less trade in services, where the United States has an advantage

The fourth explanation focuses on the composition of trade, and the differences in estimated elasticities across sectors. While the range of estimates reported in Table V.5 is wide, there is some evidence that the elasticity asymmetry is present only for trade in goods. For total services the effect is reversed, with estimates of the elasticity of demand for exports of services consistently higher than estimates of the elasticity of demand for imports of services.[26] The implication seems to be that the United States has more of a comparative advantage in the production of services (particularly new economy services),[27] than goods. If this is true then further liberalisation of trade in services, together with deeper investment in new economy services by US trading partners, would increase the size of this sector within US trade and thus narrow the overall asymmetry.

The future path for the US trade balance will depend on many factors…

In terms of import elasticities, the range of explanatory factors makes it difficult to extrapolate from future income growth to future import growth. For example, the first three explanations for the elasticity asymmetry (for trade in goods) suggest that to some extent the estimated coefficients may just be picking up other effects, such as the role of supply factors abroad. If so, then the future path of US imports may depend at least as much on the non-price competitiveness of the dynamic Asian economies, than on the growth of income in the United States.

… but a focus on trade in services, plus further productivity growth…

Despite posing difficulties in interpretation, these explanations suggest two main channels for narrowing or reversing the elasticity asymmetry. The first would involve the US economy continuing to build on its comparative advantage in the production of many "new-economy" services, where the elasticities are more favourable for the United States. The second would involve continued US out-performance in productivity growth, relative to most other OECD economies, resulting in a pick-up in the variety and quality of goods and services for export. Such outcomes would imply improved competitiveness for the United States and would reverse the recent decline in US export performance.

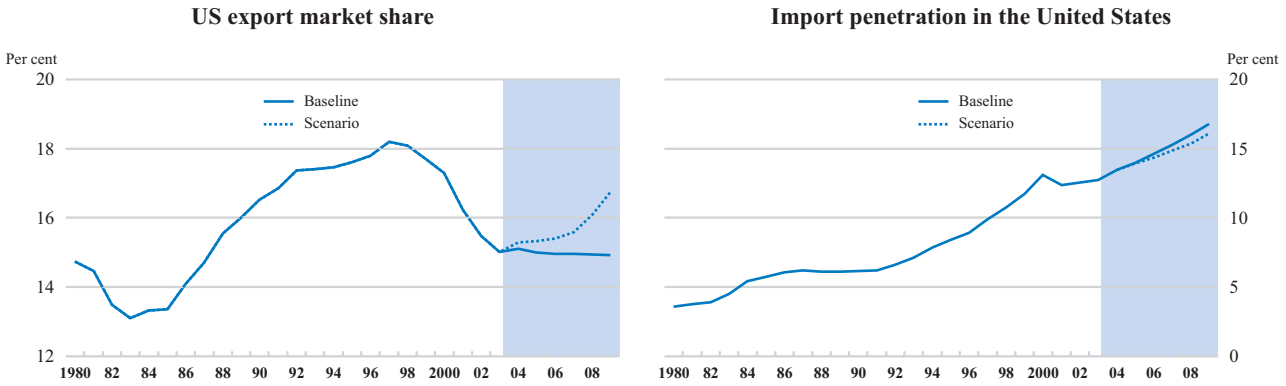
… could enable the United States to regain lost market share…

In the simulations, it was found that a 2 per cent of GDP improvement in the trade deficit, achieved solely through non-price-driven gains in market share, would require that the share of US goods in world imports increase by around 2 percentage points over the next six years. There would be as well a corresponding reduction in

24. Using a standard model of trade elasticities, Gagnon (2003) estimates a US income elasticity of demand for imports of 1.5. However, when the model is re-specified to exclude the supply effect the estimated elasticity drops to 0.75. Even accounting for the fact that Gagnon's initial estimate is at the low end of the range of estimates (see Table V.5 for others), this explanation has the potential to account for a large proportion of the asymmetry, if not all of it.
25. See, for example, Pain and van Welsum (2004) and Pain and Wakelin (1998).
26. See estimates in Table V.5 by Mann (2004) and Wren-Lewis and Driver (1998).
27. See Mann (2004). New economy services are those professional services (such as architecture, engineering and consulting) that information technology increasingly allows to be traded across borders.

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Figure V.6. **US market performance**



Notes: US export market share is calculated as total US exports (goods and services) as a per cent of total non-US world imports. Import penetration is calculated as total imports (goods and services) as a percentage of total expenditure.
Source: OECD.

the US import penetration ratio (Figure V.6). This shock would also be equivalent to a reversal of the asymmetry in elasticities of demand, with the new elasticities being phased in gradually over a six-year horizon.[28] The left-hand panel of Figure V.6 shows the extent of increase in US export market share. The fact that the new export market share would remain lower than it was in the mid-1990s may reflect the fact that the real exchange rate remains at a higher level in this scenario.

… and continue to perform well relative to other major economies

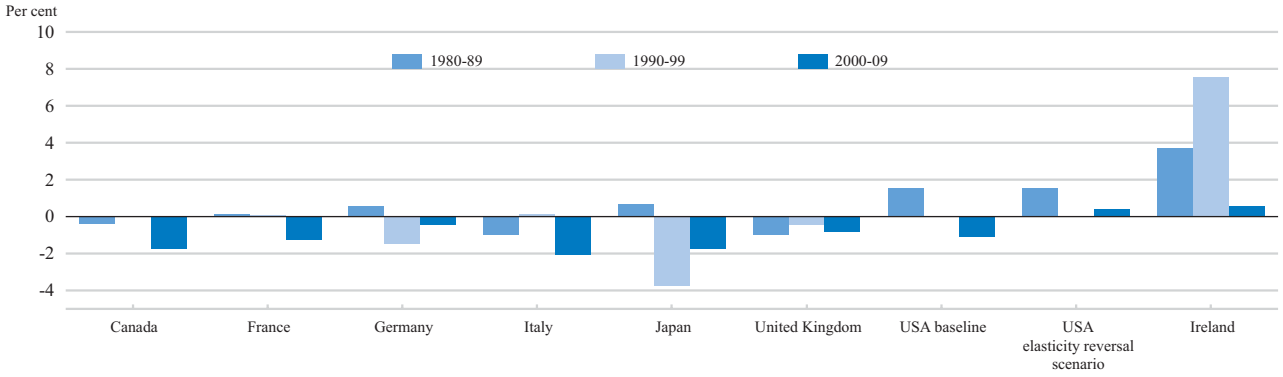
Although the United States has lost export market share over recent years, it has tended to perform quite well in this area relative to the other major seven economies. The United States experienced positive growth in market performance over the 1980s and remained static over the 1990s, as opposed to losses in market share over these two decades in other major economies. However, much faster growth in market performance is recorded for economies that are "catching up", such as Ireland (Figure V.7).[29] Thus, while the assumed recovery of US export market share would distinguish US performance relative to other similar economies, it would not be implausible in the context of strong growth in services exports and strong productivity growth driving continued innovation in both goods and services exports.

This scenario would be the least costly adjustment for other economies…

The boost to US net exports in this scenario is expansionary, leading policy rates to be tightened by up to 100 basis points. Although the export competitiveness of US trading partners is hurt, the impact of this is partially offset by increased demand from a stronger economy. In addition the simulations suggest that the ability to use monetary policy to bolster domestic demand (policy rates in the euro area are

28. The export elasticities in the OECD model relate export sales to market demand as calculated by a weighted measure of *import volumes* in US trading partners. Thus, the simulation was conducted by doubling the foreign demand elasticity of US exports (from 1.0 to 2.0) and halving the US income elasticity of imports (from 2.2 to 1.0). However, the export elasticities from the other studies quoted in Table V.5 use the slower-growing foreign GDP as the measure of market size instead. When scaled up to represent comparable numbers, the OECD simulation therefore implies a doubling of the foreign income elasticity of US exports (from 1.8 to 3.6).
29. The market performance index that is utilised to calculate the growth rates in Figure V.7 varies slightly from the measure of export market share that is illustrated in Figure V.6. Export market share is calculated as a percentage of (non-US) world imports whereas the export performance indices use a weighted average of imports in trading partners.

Figure V.7. **Growth in export market performance for G7 countries and Ireland**



Note: Export market performance is an index of exports relative to weighted import demand in trading partners.
Source: OECD.

assumed to be reduced by 50 basis points) could compensate for the fall in externally-led growth, although there would obviously still be a significant change in composition away from externally-led growth and towards domestic demand. Indeed, this is the least costly scenario for US trading partners (Table V.6).

But there are risks to this scenario, especially from trade protectionism

There are, however, a number of risks to this scenario. Importantly, further liberalisation of trade in new economy services, where the elasticities seem to be favourable for the United States, may be hindered by protectionist pressures. Indeed, efforts to restrict international outsourcing of low-skilled services may prompt international retaliation in the area of trade in new economy services. Another risk, from the perspective of the trade balance, is that deeper integration of new economy services could enable US trading partners to produce a greater variety and quality of goods for export. In other words, a new economy and accompanying "Krugman-type" elasticity effects in Europe or Japan could directly offset the assumed supply-side improvement in US export performance.[30]

Strong growth in US trading partners would only provide limited help

Of the possible scenarios not discussed here, there could also be some help from a rapid closing of negative output gaps in Japan and the euro area. However, this improvement would only be of limited magnitude. An acceleration of structural reform in these economies would result in more flexible and resilient economies which would allow them to better withstand shocks in the event of any disorderly adjustment to the current global imbalances. However, it would not provide much assistance to the US trade balance directly, since stronger productivity growth in US trading partners may prompt the production of more competitive export products from those countries. Even in the absence of such supply-side effects, the high US import elasticity would limit the extent of improvement to the trade balance.[31]

30. Although in Mann (2004) the combined impact of a narrowing in the elasticity asymmetry and higher productivity growth in US trade partners is considered, the possibility of "Krugman" effects in those countries is not analysed. Only the additional demand-side boost to US exports from higher trading partner growth is considered.
31. This result is supported by the final simulation in Brook *et al.* (2004), which suggests that stronger growth in US trading partners would make only a very small improvement to the external deficit.

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Table V.6. Elasticity reversal scenario: key results

	Average 2004-09		End point (2009): scenario relative to baseline
	Medium Term Baseline Scenario[a]	Elasticity reversal[b]	Elasticity reversal[b]
United States			
Real GDP (growth/ level)[c]	3.3	3.6	1.6
Prices (inflation/ price level)[c]	1.3	1.7	0.0
Government net lending[d]	-4.7	-4.7	5.9
Primary government net lending[d]	0.0	0.2	4.4
Trade balance[d]	-4.7	-3.9	1.8
Current account balance[d]	-5.1	-4.3	1.8
Short-term interest rates[e]	3.9	4.7	1.0
Japan			
Real GDP (growth/ level)[c]	1.6	1.4	-1.2
Prices (inflation/ price level)[c]	-0.2	-0.6	0.0
Trade balance[d]	2.6	2.2	-1.1
Current account balance[d]	5.0	4.6	-1.0
Short-term interest rates[e]	0.0	0.0	0.0
Euro area			
Real GDP (growth/ level)[c]	2.3	2.2	-0.7
Prices (inflation/ price level)[c]	1.6	1.6	0.0
Trade balance[d]	2.5	2.0	-1.0
Current account balance[d]	1.0	0.5	-0.9
Short-term interest rates[e]	3.6	3.1	-0.5

a) Downes *et al.* (2003).
b) Foreign demand elasticity of US exports raised from 1.0 to 2.0; income elasticity of US imports lowered from 2.2 to 1.
c) Numbers in first two columns are annual rates of change; numbers in last column show the level in 2009 relative to baseline. Prices refer to the consumption deflator.
d) In per cent of GDP.
e) Per cent.
Source: OECD.

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VI. ASSET PRICE CYCLES, "ONE-OFF" FACTORS AND STRUCTURAL BUDGET BALANCES

Introduction

Asset cycles significantly affect structural budget balances

This chapter considers two factors which may cause cyclically-adjusted budget balances to give a misleading picture of underlying fiscal trends. It first explores the implications of recent large asset-market related fluctuations in government revenues for the measurement of structural budget balances. And second, it reviews the impact of the increased recourse to stopgap "one-off" measures to control deficits. Traditional methods of calculating the cyclical components of budget balances correct government receipts and transfers for the cycle in economic activity, but do not adjust revenues for cycles in asset prices. Fluctuations in tax receipts related to asset prices may be seen as permanent where the fundamentals determining asset prices (such as profits, productivity growth and risk premia) seem to have undergone a structural change. Where they have not, the cyclically-adjusted balance may then give too favourable a "structural" picture by not recognising the temporary nature of tax buoyancy arising from higher asset prices (and the converse). "One-off" measures may also undermine the accuracy of the cyclically-adjusted measure as a structural budget indicator, requiring correction – as is the OECD procedure with respect to the proceeds of auctions of mobile phone licences, for example.

The chapter begins by reviewing recent developments in cyclically-adjusted budget balances, identifying the sources of revenue and expenditure change in the two major fiscal phases which have characterised OECD-area fiscal policy over the past decade: the period of fiscal consolidation from 1993 to 2000 and the subsequent relaxation during the 2001 to 2003 period. For a small set of OECD economies, "unwarranted" shifts in cyclically-adjusted fiscal stance are then identified, relative to a benchmark based on conventional elasticity estimates and announced tax policy changes. In the subsequent section, which covers a somewhat wider set of countries,[1] the impact of the asset price cycle on individual tax sources is assessed with particular emphasis on capital gains taxes. The final section looks at the impact of exceptional ("one-off") sources of budget change.

Revenue buoyancy increased temporarily in the late 1990s…

The results confirm that since the late 1990s revenues have been more buoyant than would have been warranted by the registered rate of nominal output growth and the impact of tax measures. The study suggests that from 1995 to 2000 the average contribution of "unwarranted" revenues to year-to-year changes in cyclically-adjusted

1. The set of countries examined has been chosen according to relevance and data availability. It comprises the United States, Japan, France, Italy, the United Kingdom, Canada, Australia, Denmark, Finland, Sweden and Switzerland.

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budget positions ranged from negligible to around ½ per cent of GDP, the main countries affected being the United States, the United Kingdom, France and some Nordic countries. On average, this revenue "excess" would seem to have been of the same magnitude as if output growth had been underestimated by around ½ per cent per annum over the period. Conversely, the subsequent decline in tax receipts has been sharper than could be warranted by output movements and tax measures, and in some cases the decline explains a significant part of the shift in cyclically-adjusted balances.

… and budget management may have been compromised

The "excess" revenue at the cyclical peak in 2000 was important enough, in some instances, to have led to misjudgments about the level of structural budget balances of the order of 1½ to 3 percentage points of GDP. Over-statements of the strength of the structural budget position, due to overconfidence about the permanence of tax receipts (coupled with over-optimistic growth projections) may have led governments to reduce taxes or defer spending cuts to an extent which compromised subsequent budget management. In the late 1990s, the momentum of fiscal adjustment was weakened and in a number of countries the opportunity was lost to bring budgets into surplus or at least close to balance during a period of relatively buoyant growth.

Asset-related swings in tax receipts have been a major factor…

Assets-related swings in revenues appear to have been a major factor in explaining "excess" revenues. And for those countries most affected, the quality of the cyclically-adjusted fiscal balance as a "structural" budget indicator could, in principle, be improved by making additional *ex post* corrections for fiscal movements linked to asset prices cycles. The adjustment explored below produces results which are, on occasions, quite different from the conventional cyclically-adjusted indicators. Nonetheless, *ex ante* difficulties in distinguishing temporary asset price movements from permanent ones make forward-looking adjustments difficult, while uneven fiscal data coverage between countries preclude an internationally consistent reassessment of the cyclical adjustment method.[2] Differences in tax regime also imply that the importance of making such an adjustment varies from one country to another.

… calling for the identification of temporary and irregular factors

Efforts are, nevertheless, being made at the national level to improve data and structural position measurement in the United States, France, the United Kingdom and several European countries, which involve the identification of temporary revenue swings.[3] These include also the effects of "one-off" factors, of which the chapter provides a non-exhaustive list. This is an area where further classification and cross-country estimation are needed. Adjusting for asset price effects and "one-off" measures should help to avoid the mistakes of overstating structural budget balances apparent during the past upturn.

2. Other sources of bias in assessing structural budget positions include measurement errors linked to the computation of output gaps, to fluctuations in tax elasticities and to the composition of income and demand. See Cotis *et al.* (2003), Gonzales-Minguez *et al.* (2003), Bouthevillain *et al.* (2001) and the Appendix.
3. For example, Kranendonk (2003) has recommended that the European Commission take account of the country-specific lag between the output gap and the cyclical component of the budget balance. This is relevant when taxes and unemployment benefits react with some delay to changes in economic growth.

Fiscal positions in OECD countries

Revenue and expenditure components of budget stance

Fiscal positions improved during the second half of the 1990s…

Fiscal positions improved remarkably during the 1995-2000 upturn, but have deteriorated sharply in the course of the downturn (Table VI.1).[4] The associated swings in the cyclically-adjusted deficit amounted to close to 3 per cent of potential GDP for the OECD area as a whole during the consolidation phase, followed by a

Table VI.1. **Decomposing the fiscal stance in selected OECD countries**

Change in percentage points of potential GDP

	Cyclically-adjusted current revenues		Cyclically-adjusted current expenditures		Net capital outlays		Cyclically-adjusted balance	
	1995 to 2000	2001 to 2003	1995 to 2000	2001 to 2003	1995 to 2000	2001 to 2003	1995 to 2000	2001 to 2003
Australia	1.5	0.9	-1.9	0.0	-0.4	-1.0	3.8	1.9
Austria	-0.6	-2.4	-2.6	-1.2	-0.5	-0.3	2.4	-0.8
Belgium	0.9	-0.2	-1.7	0.0	0.4	-1.6	2.3	1.3
Canada	1.0	-1.6	-5.7	-1.9	-0.3	0.2	7.0	0.1
Denmark	-0.6	-1.0	-4.1	-1.3	0.4	-0.4	3.2	0.7
Finland	0.9	-1.7	-3.7	0.7	-0.4	0.2	4.9	-2.5
France	2.0	-1.4	-0.3	0.5	-0.7	-0.5	2.9	-1.4
Germany	1.1	-0.4	0.0	-0.6	-0.2	-0.3	1.3	0.5
Greece	5.5	-0.9	-2.5	0.8	0.8	0.3	7.2	-2.0
Iceland	5.7	2.0	3.8	3.1	0.5	-0.6	1.5	-0.5
Ireland	-1.5	0.2	-6.7	0.8	1.6	-1.1	3.6	0.4
Italy	0.9	-1.3	-3.6	-1.1	-0.5	-1.5	5.0	1.3
Japan	-0.2	-1.8	3.2	1.2	-0.7	-1.1	-2.7	-1.9
Netherlands	0.3	-1.3	-3.2	-0.9	0.2	-0.4	3.3	0.0
New Zealand	-3.2	0.6	-0.7	-0.6	-1.3	0.3	-1.2	1.0
Norway[a]	1.2	-1.0	-1.2	0.8	0.0	0.1	2.4	-1.8
Portugal	3.6	1.1	2.7	-0.6	0.4	-1.8	0.4	3.5
Spain	1.7	0.5	-1.4	-0.4	-0.3	-0.2	3.4	1.1
Sweden	2.0	-1.2	-5.0	0.5	-1.5	0.1	8.6	-1.8
United Kingdom	1.9	-1.5	-2.3	1.0	-1.4	0.7	5.6	-3.2
United States	2.1	-3.5	-2.1	0.7	0.2	0.1	4.1	-4.3
Euro area	1.1	-0.9	-1.4	-0.5	-0.2	-0.6	2.7	0.2
Total OECD	1.4	-2.1	-1.3	0.3	-0.2	-0.3	2.9	-2.2

Note: Net capital outlays and cyclically-adjusted financial balances exlude one-off revenues from the sale of mobile telephone licenses. where reported revenues are substantial: i.e. Australia (2000-2001), Austria (2000), Belgium (2001), Denmark (2001), France (2001-2002), Germany (2000), Greece (2001), Ireland (2002), Italy (2000), Netherlands (2000), New Zealand (2001), Portugal (2000), Spain (2000) and the United Kingdom (2000). Such revenues are recorded as negative capital outlays for these countries.

a) Data for the cyclically-adjusted balance refer to mainland economy only, i.e. excluding revenues from the petroleum activities.

Source: OECD.

4. The sources of the tax revenue data used in this chapter are both from *OECD National Accounts* and *OECD Revenue Statistics*. They are not fully comparable due to a variety of general and country-specific factors.

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deterioration of over 2 per cent in the course of 2001-03. During the upturn, the nature and extent of discretionary action behind these shifts varied:

- In the United States, higher tax receipts made a contribution equal to that of expenditure restraint to the improvement in the cyclically-adjusted balance up to 2000. The United Kingdom, Spain, Norway and Australia experienced a similar pattern of fiscal "forces acting", higher effective tax rates and spending restraint both being used to consolidate.
- In France and Germany, the consolidation phase relied almost exclusively on tax receipts, current spending keeping pace with GDP growth, or nearly so, while in Portugal "excess" revenue buoyancy was almost used up in faster expenditure growth.
- For Italy, Canada and most of the smaller euro-area economies, the consolidation process of the 1990s was based heavily on expenditure restraint, revenue growth being maintained quite close to that of GDP.

… but have since deteriorated unexpectedly

In a majority of OECD countries, a prominent and widespread feature of the fiscal deterioration is the extent to which revenues have fallen beyond what might normally have been expected from the cyclical downturn. The United States has seen a particularly abrupt revenue shortfall, but there have also been substantial negative swings in Canada, France, the Netherlands, the United Kingdom and in some of the Nordic countries. In some economies, notably Belgium, Italy and Spain cyclically-adjusted balances have stabilised or even continued to improve slightly. However, this has in some cases been the result of measures which have only a "one-off", temporary effect.

Discretionary *versus* unplanned revenue shifts

Revenue buoyancy has been abnormal…

Table VI.2 provides an *ex post* measure of the extent to which movements in tax ratios have reflected autonomous (exogenous) forces not captured in traditional revenue-projection processes. Deviations from normal revenue behaviour are defined as "residual" changes in tax receipts, which cannot be explained by revenue growth deriving from the actual growth of GDP (measured according to conventional elasticities[5]) or identifiable discretionary fiscal policy measures[6] (see Appendix). Unfortunately, time series data on discretionary fiscal actions is not widely available, so this stage of the analysis was limited to three countries: the United States, France and Canada.

… for household income taxes…

Using this methodology, it emerges that the United States experienced autonomous increases in revenues from direct taxes on households (*i.e.* over and above what could have been expected from cyclical and announced discretionary factors) amounting to almost ½ per cent of potential GDP *per annum* in the late 1990s. This rose to over 1 per cent in 2000, but was followed, in 2002, by an undershoot of more than ¾ per cent of GDP. In France and Canada, the growth of direct household tax revenue consistently overshot projected values by an average of ½ and ¼ per cent of

5. See van den Noord (2000). The tax elasticities are based on OECD estimates and are assumed to have been constant over the observation period.
6. Estimates of discretionary policy change relate to federal government for Canada and to central governments for France and the United States. They are based on their officially projected impact provided at the time of enactment. These estimates have not been updated for later information such as actual incomes and taxpayer responses and thus represent only an approximation of the magnitude of the true discretionary policy changes. Part of the "unexplained" revenue may thus reflect a mis-estimation of discretionary measures. In most cases, however, the extent of the bias will be quite small, especially for income taxes where the effects of changing tax schedules and allowances can be quite accurately predicted.

Table VI.2. **Developments in direct tax ratios**

Per cent of potential GDP

	1995	1996	1997	1998	1999	2000	2001	2002	Sum over the periods 1995-00	Sum over the periods 2001-02	Annual average 1995-00	Annual average 2001-02
Direct taxes on households												
United States												
Actual	9.98	10.63	11.25	11.92	12.23	12.83	12.16	9.85				
Predicted	9.99	10.67	10.87	11.49	11.44	11.69	11.56	10.70				
Residual	-0.01	-0.04	0.38	0.43	0.79	1.14	0.60	-0.85	2.7	-0.3	0.4	-0.1
Discretionary measures	0.41	0.80	0.37	0.26	-0.25	-0.36	-0.76	-1.08	1.2	-1.8	0.2	-0.9
France												
Actual	6.26	6.51	6.83	9.05	9.29	9.45	9.31	8.87				
Predicted	6.13	5.66	6.32	8.77	8.57	8.82	9.04	8.88				
Residual	0.14	0.85	0.51	0.27	0.72	0.63	0.27	-0.01	3.1	0.3	0.5	0.1
Discretionary measures	-0.18	-0.48	-0.06	-0.27	-0.44	-0.46	-0.30	-0.23	0.4	-0.5	0.1	-0.3
Canada												
Actual	12.94	13.26	13.46	13.92	13.75	13.65	13.17	12.14				
Predicted	12.78	12.79	13.23	13.59	13.68	13.45	12.96	12.08				
Residual	0.17	0.46	0.23	0.33	0.07	0.21	0.21	0.05	1.5	0.3	0.2	0.1
Discretionary measures	0.00	0.05	-0.06	-0.20	-0.30	-0.44	-0.69	-1.06	-0.9	-1.8	-0.2	-0.9
Direct taxes on businesses												
United States												
Actual	2.83	2.86	2.88	2.78	2.75	2.65	1.88	1.74				
Predicted	2.80	3.50	3.12	2.87	2.88	2.67	2.29	2.06				
Residual	0.02	-0.65	-0.24	-0.09	-0.14	-0.02	-0.42	-0.32	-1.1	-0.7	-0.2	-0.4
Discretionary measures	0.09	0.51	0.10	0.10	0.03	0.03	-0.32	-0.01	0.9	-0.3	0.1	-0.2
France												
Actual	2.01	2.15	2.34	2.37	2.77	2.86	3.24	2.64				
Predicted	2.18	1.94	2.55	2.70	2.72	3.06	2.87	3.07				
Residual	-0.17	0.22	-0.20	-0.33	0.05	-0.20	0.38	-0.43	-0.6	-0.1	-0.1	0.0
Discretionary measures	0.13	0.03	0.21	0.13	0.27	0.00	-0.05	-0.17	0.8	-0.2	0.1	-0.1
Canada												
Actual	2.94	3.39	3.92	3.63	4.39	4.93	3.85	3.91				
Predicted	2.78	3.00	3.45	3.84	3.81	4.64	4.69	3.49				
Residual	0.15	0.40	0.47	-0.21	0.57	0.30	-0.84	0.42	1.7	-0.4	0.3	-0.2
Discretionary measures	0.00	0.06	0.05	-0.01	-0.03	-0.03	-0.07	-0.28	0.0	-0.3	0.0	-0.2
Total direct taxes												
United States												
Actual	12.81	13.49	14.13	14.70	14.98	15.48	14.04	11.59				
Predicted	12.79	14.17	13.99	14.36	14.32	14.36	13.85	12.76				
Residual	0.01	-0.69	0.14	0.34	0.65	1.12	0.18	-1.17	1.6	-1.0	0.3	-0.5
Discretionary measures	0.50	1.31	0.48	0.36	-0.22	-0.33	-1.08	-1.09	2.1	-2.2	0.4	-1.1
France												
Actual	8.27	8.66	9.17	11.42	12.06	12.31	12.55	11.51				
Predicted	8.31	7.60	8.87	11.47	11.29	11.88	11.91	11.95				
Residual	-0.03	1.07	0.31	-0.06	0.77	0.43	0.65	-0.44	2.5	0.2	0.4	0.1
Discretionary measures	-0.05	-0.44	0.15	-0.14	-0.17	-0.46	-0.35	-0.40	1.1	-0.7	0.2	-0.4
Canada												
Actual	15.88	16.65	17.38	17.55	18.14	18.58	17.02	16.05				
Predicted	15.56	15.79	16.68	17.43	17.49	18.09	17.65	15.57				
Residual	0.32	0.86	0.70	0.12	0.64	0.51	-0.63	0.47	3.2	-0.2	0.5	-0.1
Discretionary measures	0.00	0.12	-0.01	-0.21	-0.33	-0.47	-0.76	-1.34	-0.9	-2.1	-0.1	-1.0

Note: Residual revenues are computed as the difference between actual and predicted revenues. See the Appendix for a full description of the methodology.
Source: OECD.

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potential GDP per annum during the 1995-2000 period respectively, before returning closer to the predicted value during the downturn.[7]

… but not so for corporation taxes

On the other hand, corporate income tax revenues have been quite close to the values which would have been predicted given actual profit outturns, throughout the whole cycle, with a slight tendency to over-prediction. This may be indicative of the fact that movements in profits were less affected than personal incomes by asset price movements. Indeed, earnings/price ratios were falling during much of the stock market boom.

In aggregate, tax windfalls and shortfalls have been significant…

Aggregating both household and corporate taxes, the total autonomous direct tax growth windfall from one year to the next for the United States averaged ¼ per cent of potential GDP during the 1990s upturn, and the corresponding shortfall averaged ½ per cent of potential GDP in the subsequent downturn. France and Canada experienced a slightly larger average positive error in the upturn (close to ½ per cent of potential GDP) but appear to have been less affected in the downturn.

… and have been correlated with asset price movements

Since the calculations are based on actual outturns for GDP and the output gap, the implications are that exogenous factors were acting to push up the tax base, or that the tax elasticities changed. Figure VI.1 suggests that the source of the unexplained

Figure VI.1. **Residual revenues and the stock market**



Note: Equity price indexes are S&P 500 for the United States, CAC 40 for France and TSE 300 for Canada. See the Appendix for methodological details. Households revenues have been used for the United States (with a one year lag) and France while total revenues have been used for Canada.
Source: OECD.

7. The results for the United States and for Canada are in line with other studies. See Congressional Budget Office (2002) for the United States, King and McMorran (2002) and Kennedy and King (2003) for Canada.

residuals might be traced, at least in part, to asset price changes, as tax windfalls/shortfalls have been correlated to some extent with the asset price cycle.

Implications for the interpretation of the fiscal policy stance

Measurement implications are important…

Cyclical adjustment traditionally serves two major roles: as a measurement of "discretionary" fiscal stance and as an instrument of medium-term budget planning, based on various normative views about what the structural deficit should be for the budget to be sustainable.[8] The first focuses on changes in the cyclically-adjusted balance, the second on its level. The autonomous revenue shifts have implications for both interpretations.

… relating to discretionary policy responses…

In the United States, announced discretionary policy measures have generally amplified autonomous (residual) revenue shifts (Table VI.2), adding to receipts in the upturn, and lowering revenues in the downturn due to the tax cuts legislated in mid-2001 and to the stimulus package passed in March 2002. By contrast, in France, discretionary tax cuts offset more than a half of the autonomous rise in revenues during the upswing – a pro-cyclical response. The offset was more partial in Canada.

A similar picture emerges in Figure VI.2, which compares changes in the traditional cyclically-adjusted fiscal stance with cyclically-adjusted measures which exclude autonomous revenue shifts:

- For the United States, fiscal policy appears less deliberately restrictive between 1995 and 2000 and the subsequent fiscal loosening appears less important than calculated with the traditional fiscal indicator.
- For France, fiscal policy in 1999 appears less restrictive and the subsequent fiscal loosening between 2000 and 2002 is smaller than calculated with the traditional fiscal indicator, but to a lesser extent than for the United States.
- In Canada, the fiscal expansion in the late 1990s and the following consolidation period are roughly of similar magnitude when calculated with both indicators. However, the year-to-year pattern is different.

… and structural budget stance

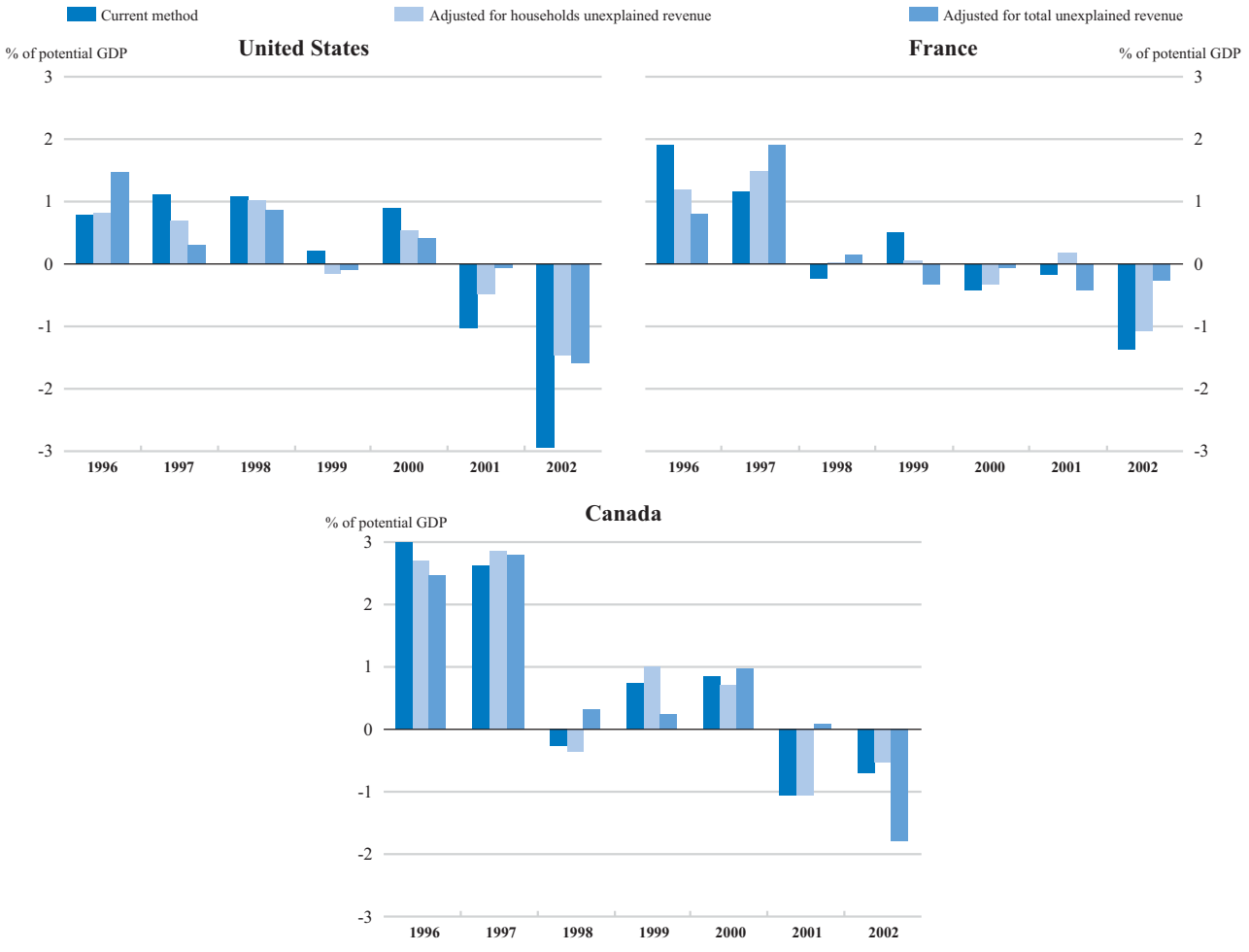
Perhaps the most important implication is for the calculation of the underlying *level* of the structural budget balance. In that case, it is the cumulative effect of the autonomous budget changes that matters (penultimate set of columns of Table VI.2). During the upturn, if the extra revenues had been treated as wholly cyclical, for the United States the "structural" surplus of near to 1¼ per cent of potential GDP in 2000 would have been reduced to a deficit of close to ¼ per cent of potential GDP. The French structural deficit of close to 1¾ per cent of potential GDP would actually have been negative to the amount of about 4¼ per cent. These calculations evidently presuppose that in the base year, 1994, the revenues associated with asset prices and similar effects were at a "normal" level.

8. See Price and Muller (1984) for a discussion of the origins of the OECD measure, its interpretation and usage. See Murchison and Robbins (2003) for a review of the limitations and interpretations of the cyclically-adjusted budget balance.

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Figure VI.2. **Change in different measures of the cyclically-adjusted balances**

Per cent of potential GDP



Source: US Congressional Budget Office, Canadian Ministry of Finance, French Ministry of Economics, Finance and Industry and OECD.

The effects of asset-price cycles on different revenue components

Taxes on assets may be the source of autonomous revenue fluctuation

This section looks at the impact of individual sources of tax revenue related to asset markets and their role as a source of autonomous fluctuations.[9] There are several avenues, of which the principal one investigated is capital gains taxes. Using a statistical approach, an attempt is made to adjust structural balances for the non-structural element of capital gains tax. The sample of countries analysed in this case is somewhat wider than in the previous section.

9. See also Eschenbach and Schuknecht (2002a).

Capital gains tax receipts have fluctuated

Surges in capital gains tax revenues have been significant…

The boom in stock markets in the late 1990s led to an extraordinary increase in capital gains tax collections (Figure VI.3). In the United States, taxes on household capital gains doubled between 1995 and 2000, reaching slightly over 1 per cent of GDP before falling to around ½ per cent of GDP in 2003. In Finland, taxes on capital gains rose from ½ per cent of GDP in 1998 to 1½ per cent of GDP in 2000 before falling back to the 1998 level in 2002. In Sweden, capital gains taxes also recorded large swings, from ¾ per cent of GDP in 1995 to 1¾ per cent of GDP in 2000 and back to ¾ per cent of GDP in 2002. Comparable fluctuations, although smaller, were recorded in the United Kingdom. In France, Italy and Australia, large increases were also registered, but data including the subsequent falls are not yet available. By contrast, in Japan, capital gains revenues have been on a declining trend throughout the 1990s. It is capital gains realisations that are taxed rather than capital gains accruals, and movements in realisations tend to lag movements in asset prices.[10]

… but they are not necessarily correlated with output cycles

The output and asset price cycles seem to have been only partly correlated since the early 1990s, at least as far as equity prices are concerned. The capital gains component of the tax base has thus not varied systematically with the cycle. Moreover, during periods of structural change, there will always be difficulties in separating permanent from temporary determinants of asset prices, and different tax treatment means that uncertainty as to capital gains tax revenue elasticities is rather large. Altering the cyclically-adjusted process to allow for variations in capital gains relative to other income would thus seem to be a relatively unpromising way forward.

Adjusting structural balances for capital gains revenue

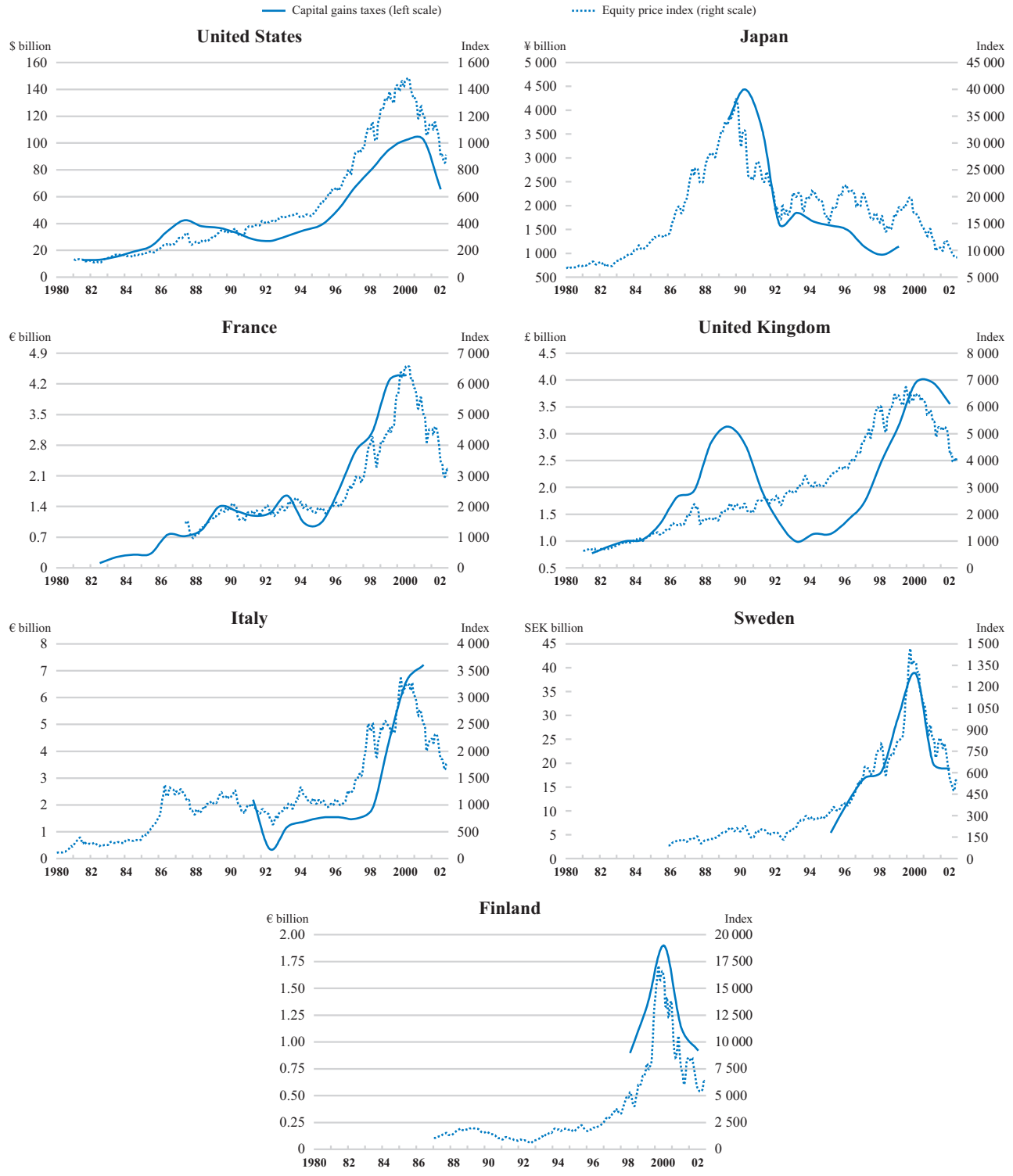
Adjustment may be made for capital gains tax revenues…

However, a partial correction for the asset price cycle can be made by separating capital gains tax revenues into trend and cyclical components.[11] At the limit, such revenues could be treated in the same way as debt interest payments, which are netted out to obtain a cyclically-adjusted primary balance, which is regularly published by the OECD.[12] But alternatively, where data permit, the adjustment can be achieved using a statistical approach, the underlying (structural) trend in capital gains revenue being isolated with the Hodrick-Prescott (HP) filter method.[13] The trend component

10. In both rising and falling markets, large amounts of accrued gains are available for realisation and taxation, awaiting taxpayers' decisions as to the selling of their assets. Indeed, after a bull market such as that of the 1990s, a sizeable amount of accrued gains remains to be realised and equity sales in a falling market can still result in taxable gains, albeit reduced. In the United States for example, realisations in 2000 increased by 16 per cent despite the fall in the Standard & Poor's 500 stock price index during that year (Congressional Budget Office, 2002).
11. The taxation of capital gains varies considerably among OECD countries. Such taxation may apply only in specified cases such as the sale of real estate and may be imposed by adding gains to ordinary income or *via* special taxes. Moreover, it is generally realisations that are taxed and these are not contemporaneous with movements in asset prices. See Girouard and Price (2004).
12. The cyclically-adjusted measure suffers from conceptual deficiencies with respect to the interpretation of interest payments and the impact of inflation. In a high-inflation environment it may be necessary to adjust the deficit for the "inflation tax" on government debt holders. See Price and Muller (1984).
13. See Richardson *et al.* (2000) for a critical discussion of filtering methods. For the purpose of filtering the time series, data have been extended to 2010 in order to mitigate potential bias at the end point. The extension of the data set for the United States comes from the Congressional Budget Office medium-term projections, while those for the United Kingdom have been constructed by replicating the growth path of the 1977 to 1995 period. For France, it has been assumed that revenues from the capital gains tax revert rapidly to their long-term average level after the 2000 peak.

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Figure VI.3. **Capital gains taxes**

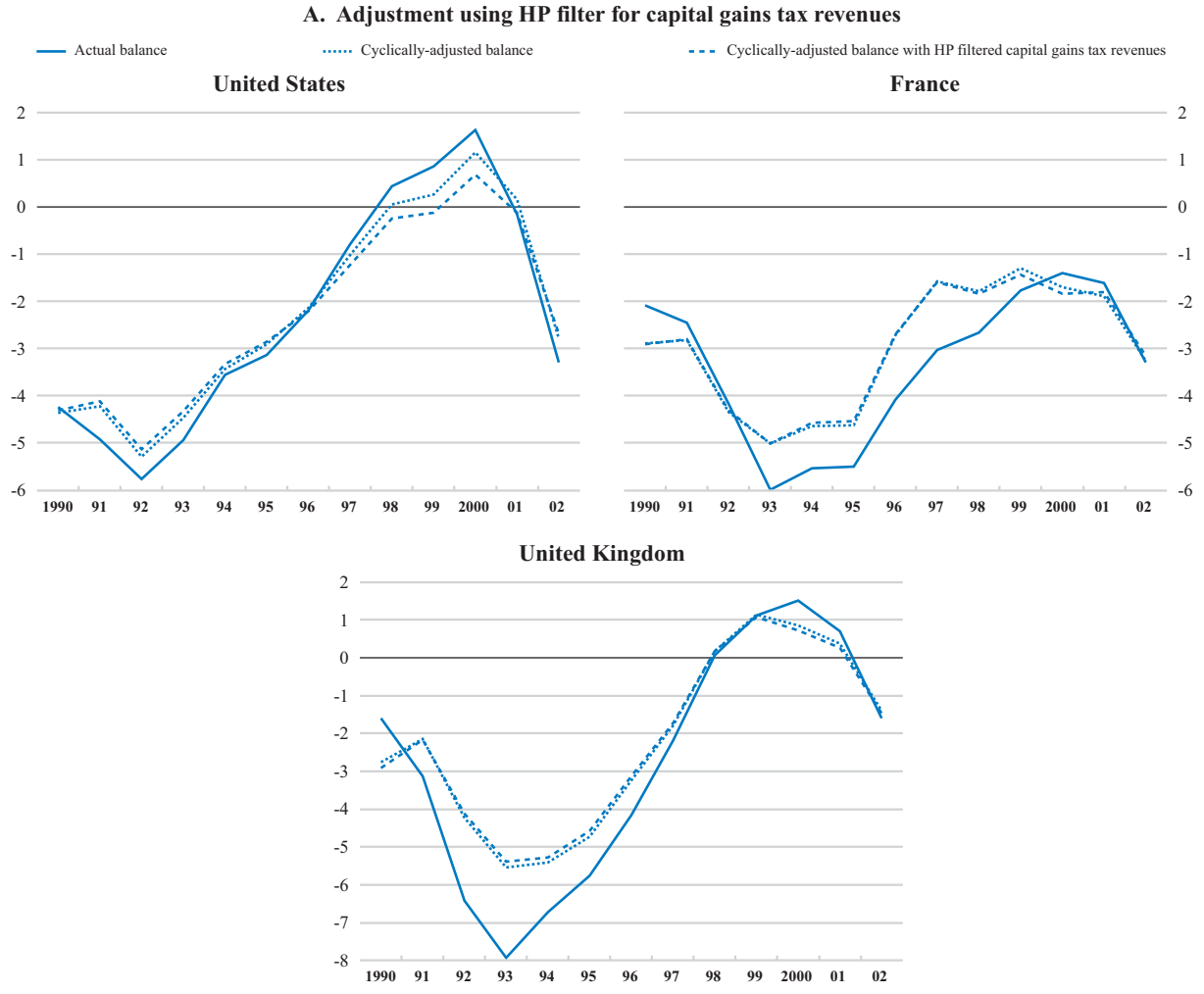


Note: Equity price indexes are S&P 500 for the United States, Nikkei 225 for Japan, CAC 40 for France, FTSE 100 for the United Kingdom, MIBTEL for Italy, OMX for Sweden and HEX general index for Finland.

Source: Datastream, US Congressional Budget Office, the Japanese Ministry of Finance, the French Ministry of Economics, Finance and Industry, HM Treasury in the United Kingdom, the Italian Ministry of Finance, the Swedish Ministry of Finance and the Finish Ministry of Finance.

Figure VI.4. **Fiscal balances adjusted for capital gains tax revenues**

Per cent of (potential) GDP[1]



Note: For France, capital gains tax revenues have been estimated for 2001-02. They are expected to revert rapidly to their long-term average level after the 2000 peak.
1. Actual balance excludes universal mobile telecommunication system licence proceeds and is in per cent of GDP; the cyclically-adjusted balance is in per cent of potential GDP.

Source: OECD.

can be interpreted as structural revenue, while the deviations from trend are attributable to the asset price cycle.

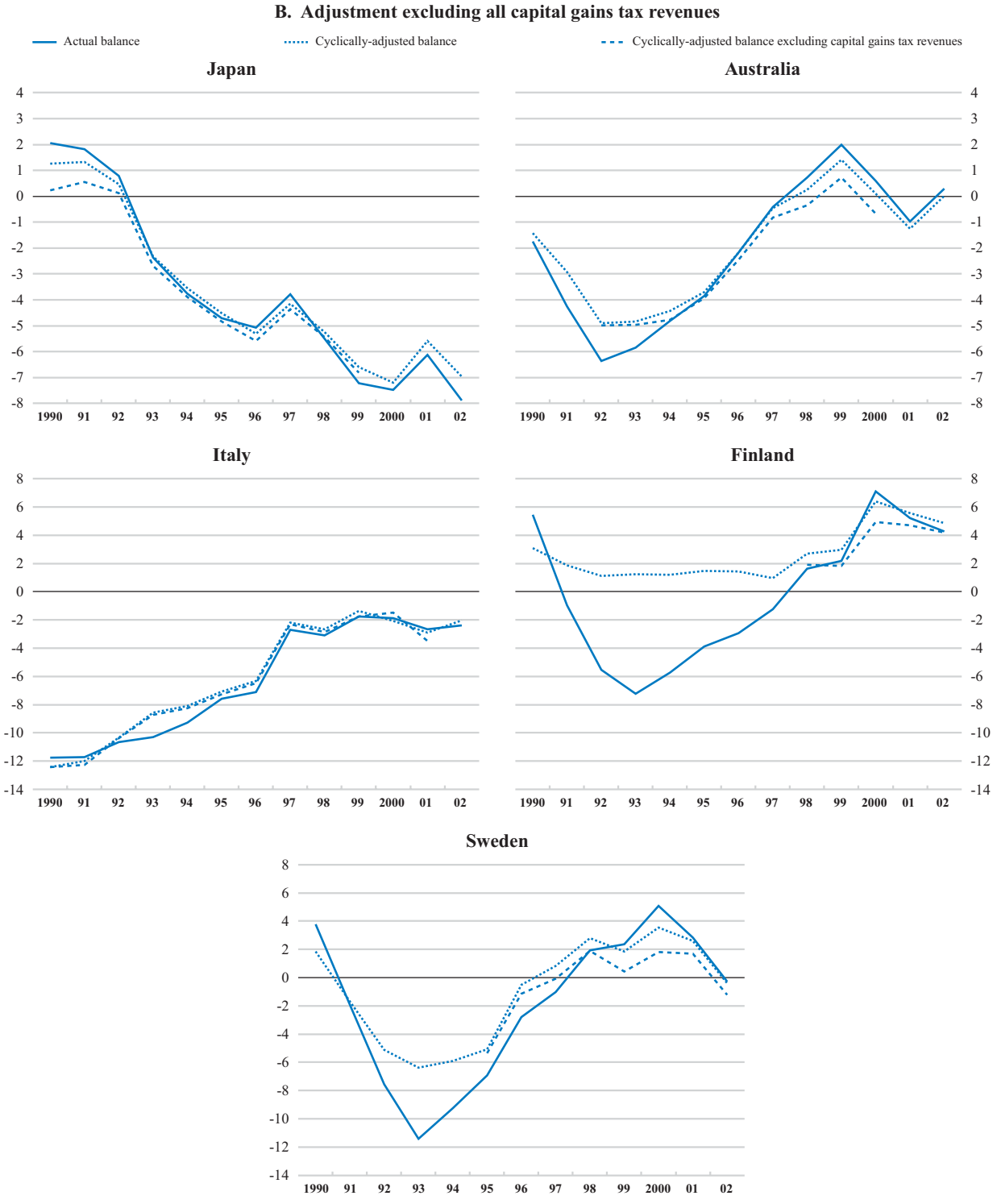
… by including only trend receipts…

Figure VI.4, panel A compares the traditional cyclically-adjusted balances with HP filtered capital gains tax revenues. The order of magnitude is smaller than the "excess" revenue adjustment implied by Table VI.2 – about one half for the United States and one fifth for France between 1997 and 2000 – reflecting the fact that capital gains tax revenues are only a part of the overall story. However, the additional correction would still have led to a reappraisal in the structural budget stance at the peak of the cycle. In the US case, the cyclically-adjusted budget would have been only marginally in surplus in 2000, while in France and in the United Kingdom, the deficit would have been only marginally lower between 1998 and 2000. In the recent

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Figure VI.4. **Fiscal balances adjusted for capital gains tax revenues** *(cont.)*

Per cent of (potential) GDP[1]



1. Actual balance excludes universal mobile telecommunication licence proceeds and is in per cent of GDP; the cyclically-adjusted balance is in per cent of potential GDP.
Source: OECD.

downturn, US fiscal policy appears to have been less deliberately expansionary than calculated with the traditional fiscal indicator. There is less of an effect in France and the United Kingdom.

… or by excluding all capital gains tax receipts

Figure VI.4, panel B, illustrates the effect of directly excluding capital gains tax revenues from the cyclically-adjusted balance in several OECD economies where data did not permit a statistical adjustment. With this methodology, the overall pattern of fiscal consolidation still holds during the late 1990s, given the level shift effect of excluding all the capital gains tax revenues. Nevertheless, losses of revenue after the 2000 peak are substantial for Sweden and Finland, where the effects are largest. The Finnish budget remained in substantial surplus under both measures, but in the Swedish case it is seen to have been in balance in 1999-2000, rather than in surplus. For Australia, the fiscal balance remained in deficit in the late 1990s when excluding capital gains tax revenues. For Italy and Japan, the effects of removing capital gains taxes on cyclically-adjusted balances are limited.

Capital gains tax receipts may be the most important single asset-price related revenue item, but a number of other avenues exist through which asset price fluctuations could affect the budget: stock options, tax revenues from defined-benefit private pension schemes, the impact of buoyant housing markets on transaction taxes, property taxes and inheritance taxes. These are generally less important quantitatively, but land and property transactions taxes can have a significant impact where prices are rising rapidly.

Stock options

Stock options have affected income tax revenues…

The strength of the stock market until 2000 encouraged firms to rely more heavily on performance-linked compensation and stock options became an important component of executive pay in some countries Estimates for the United States show that income from stock options rose from negligible amounts in the early 1990s to about 2 per cent of total wages and salaries in 2000.[14] This yielded individual income tax receipts of around ½ per cent of GDP, most of the income being concentrated among the highest earnings taxpayers and thus taxed at higher rates. Similarly, in the United Kingdom and Canada, the level of bonus payments in the form of stock options rose significantly at the end of the 1990s making up an increasing proportion of total earnings. Preliminary data suggest that income from stock options may have halved in 2001 and fallen even further in 2002.[15] In Finland, direct taxes from stock options increased from almost zero in 1998 to ½ per cent of GDP in 2000 before falling back to close to zero in 2002.[16]

… but there are offsetting corporation tax effects

In most OECD countries, gains from stock options are considered as labour income and are deductible from the corporate income tax (the main exceptions being Belgium, Canada, Germany and the Netherlands, where they are considered as capital income and are not a tax-deductible expense for companies).[17] Thus, for the United States, every dollar of option income realised by individuals generates an

14. Hall and Murphy (2003).
15. Saez and Veall (2003) and HM Treasury (2003).
16. See OECD (2003b).
17. Companies generally receive a corporate income tax allowance corresponding to the assessed personal income of the employee derived from the option, to ensure the symmetric treatment relative to alternative forms of compensation (van den Noord and Heady, 2001).

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offsetting dollar reduction in corporate profits. Given these offsetting effects on profits, changes in equity prices and income tend to generate much smaller changes in total taxable income and total tax revenue than capital gains. Depending on the marginal rates of tax paid by individuals and companies, these effects could neutralise one another, suggesting that any adjustment that attempts to correct for stock options is in fact likely to make little or no difference.[18]

Corporate pension plans

Tax revenues from pension plans are affected by asset price cycles

Tax revenues from defined-benefit pension plans, which were boosted by high investment returns in the late 1990s, are now affected by subsequent depressed returns. During the bullish capital market of the 1990s, many corporate sector defined benefit pension plans accumulated huge surpluses and several companies benefited from "funding holidays", during which it was possible to reduce or entirely avoid contributions. This situation led to additional tax revenues as contributions are generally tax deductible. However, with the downward correction of equity prices in 2000, pension plans suffered important falls in funding levels and contributions from both employers and employees had to rise to reduce part of the funding gap, thus lowering tax revenues.[19] The extent to which the replenishment of pension funds will diminish tax revenues is, however, difficult to quantify, and incorporating such a correction into the cyclically-adjusted budget is impracticable.

Property, transaction and inheritance taxes

Taxes on immovable property follow cycles in house prices

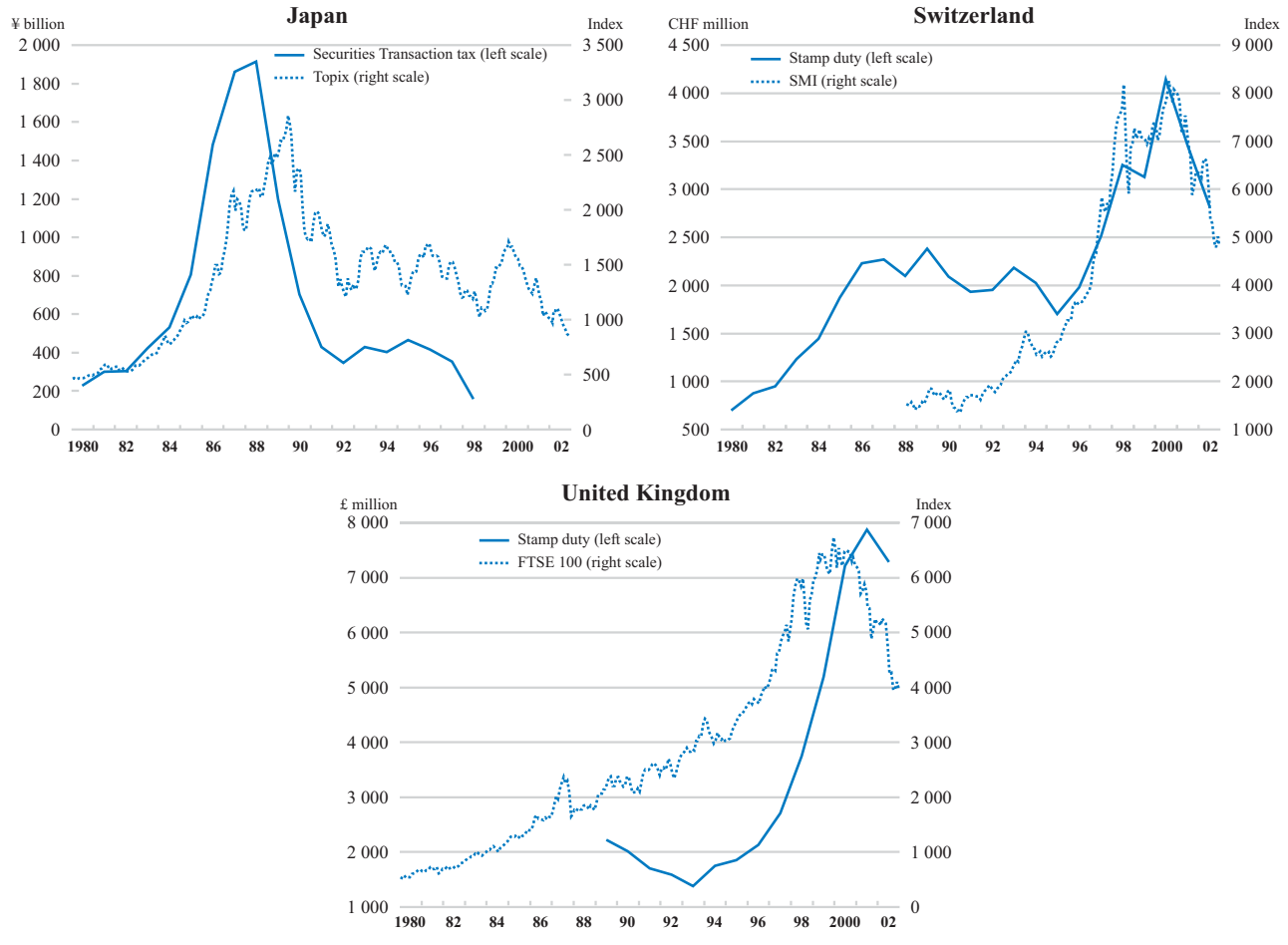
The administrative assessment of property values is often inaccurate, especially for owner-occupied housing, and property tax revenues follow housing market cycles only approximately, with a lag.[20] In the United States and Canada, these revenues are important and account for about 3 per cent of GDP. However, in European Union (EU) countries, tax on property as a share in GDP is small, with the notable exceptions of Luxembourg, the United Kingdom and France, and their fluctuations have only a minor impact on fiscal balances. In Japan, revenues from the taxation of property hardly moved during the boom period of the late 1980's, remaining at around 1½ per cent of GDP until 1991, reflecting significant administrative undervaluation of property. This gap between the market prices and the assessed value shrank as the market prices went down during the second half of the 1990s.

Revenues from transaction taxes are sensitive to asset price swings

Many governments draw revenues from transactions in assets, including taxes on the issue, transfer, purchase and sale of shares. In several countries, such tax revenues have followed movements in the stock market (Figure VI.5). As they represent a small share of GDP (about ¾ per cent of GDP for the OECD unweighted average),

18. However, these options may be exercised by employees of unprofitable firms, whose corporate tax liability is zero, yielding a net tax revenue gain (Congressional Budget Office, 2002).
19. For example, in Canada, the value of assets in employers pension plans was down 11½ per cent at the end of 2002 and contributions more than doubled in 2002, decreasing tax revenues. In the Netherlands, second-pillar pension contributions, which are tax deductible, are expected to rise by some 4 percentage points to cover the underfunding of pension funds, worsening the fiscal balance by a cumulative 1¼ per cent of GDP by 2007 (Van Ewijk and Van de Ven, 2003). In Denmark, a year when stock market developments are "normal" generates taxation from the returns on pension fund investments of around 1 per cent of GDP (Finansministeriet, 2002), but the fall in equity prices and a change in tax rates on the return on assets resulted in fall in revenue from 1¼ per cent of GDP in 1999 to virtually zero in 2001-03.
20. See Girouard and Price (2004).

Figure VI.5. **Taxes on financial and capital transactions**



Source: Datastream; OECD.

movements in transaction taxes generated small effects on fiscal balances. Countries experiencing the largest swings include Japan, where revenue from the transaction tax rose from close to zero in the early 1980s to ½ per cent of GDP at the peak of the stock market cycle before collapsing to almost zero following the bursting of the bubble (the transaction tax was abolished in fiscal year (FY) 1999). In the United Kingdom, revenues from the stamp duty increased from ¼ per cent of GDP in early 1990s to more than ¾ per cent in 2000 and 2001, owing to buoyant property and stock markets and, to a lesser extent, to past increases in tax rates. Revenues have flattened since, reflecting the offsetting impact of house and share price changes. In Switzerland, revenues from the stamp duty doubled between the mid-1990s and 2000 reflecting the large number of new stock emissions as well as buoyant trading volumes. These revenues have reverted to close to previous levels with the end of the stock market boom.

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Inheritance tax generates revenues from higher asset prices

The taxation of the transfer of wealth has undergone some fluctuations in revenue due to asset price cycles. However, these revenues are small (the OECD unweighted average tax accounts for ¼ per cent of GDP) and tend to be accrue over a long period, as a rise in share prices may not bring additional revenues rapidly as it must await death. In the United States, revenues from the income of estates, inheritance and gift taxes increased from $15 billion in 1990 to $37 billion or close to ½ per cent of GDP in 2000 before falling to ¼ per cent of GDP in 2003. While changes in the tax laws in recent years make it difficult to determine the sensitivity of the estate tax to the stock market, in all likelihood, some additional revenues collected with this tax stemmed from rising asset prices. In the United Kingdom, the inheritance tax revenue has been very stable since 1990 at around 2 per cent of GDP as the impact of lower share prices has been offset almost entirely by the effect of higher house prices.

In total, asset market swings made a major contribution to the revenue surprise

Normally, the overall contribution of the above components to government receipts is quite small, but at times when there are large asset price swings the contribution to the annual change in revenues can be large. For the United States, for example, the Congressional Budget Office estimates that the share of asset-related receipts in total revenues rose from 6½ per cent to 14 per cent between 1994 and 2000, but they accounted for two-thirds of the increase in the ratio of federal receipts to GDP over the same period, contributing in major part to the overall revenue surprise.[21] And of this, capital gains taxation accounted for about one third.

Dealing with exceptional sources of budget change

Other one-off revenue measures may embellish the budget figures…

The above analysis is based on the proposition that an accurate assessment of the underlying fiscal stance requires that short-term fluctuations apart from those associated with the cyclical output gap should also be netted out of the budget picture. This principle can be generalised to other "one-off" factors, such as sales of operating licences to telecommunications providers, securitisation operations, exceptional dividends, payments to government by corporations in the context of transferred pension obligations, and public real estate asset sales.[22] All of these expedients have been used, at times, temporarily to augment government revenues.

… and stock-flow adjustments may also reflect off-budget operations

At the same time, deficit and debt positions are affected by initiatives to move expenditure and loan operations off-budget, the impact becoming evident as *ad hoc* periodic adjustments are made to outstanding government debt. These may occur in connection with the revaluation of financial assets and liabilities (including those associated with privatisations and exchange rate changes), or the writing-off of loans and the exercise of government guarantees. In practice, adjustments are not made to the deficit for such "one-off" debt adjustments. However, large and persistent discrepancies between deficit flows and changes in outstanding debt should give cause for concern, especially if recorded deficits systematically understate debt rises.

21. Congressional Budget Office (2002).
22. See for example Milesi-Ferretti (2000) for a discussion of creative accounting and fiscal rules.

"One-off" revenue operations

UMTS licence proceeds significantly altered budget figures…

The treatment of "one-off" revenues associated with sales of Universal Mobile Telecommunications Systems (UMTS) licences has become an important issue for fiscal reporting and analysis since the amounts involved were substantial for some countries.[23] The OECD follows the internationally agreed approach where the allocation of the licence is treated as a sale of an asset when the licence is granted for a long term and when the transaction amount is known with certainty from the beginning. Under these conditions, the sale proceeds are recorded as negative investment on the expenditure side of the accounts and are reflected in a "one-off" improvement in the general government financial balance, equal to the total amount of the disposal and recorded at the time the licence is allocated.

… as have securitisation operations

In recent years, some EU countries governments have increasingly securitised financial or non-financial assets and revenue flows,[24] and the size of some of these operations has been large. In 2002, the Statistical Office of European Communities (Eurostat) released guidelines identifying the conditions under which the receipts from securitisations could be used to reduce the general government net borrowing.[25] The implementation of the new guidelines has been reflected in an upward adjustment of the fiscal deficit for Italy by about ¾ per cent of GDP in 2001 and the debt position for Austria and Greece (by 3½ per cent of GDP in 2000-01 for Greece).[26]

Other expedients used to reduce deficits include exceptional dividends…

Exceptional dividends, arising from sales by state-owned entities of assets or realised capital gains at the request of government, have been used to reduce general government net borrowing in several countries. However, the European System of Accounts (ESA95) rules imply that "one-off" payments from such transactions, should not be recorded as dividends. As a consequence, the Portuguese general government deficit for 2002 was revised up by Eurostat, to exclude the proceeds received by the government at the occasion of the liquidation of the industrial development fund of the European Free-Trade Agreement (EFTA). Similarly, the ESA95 rules imply that exceptional payments made to general governments by central banks, following transactions in reserve assets that are not part of the normal activity of monetary authorities, should have no impact on government net borrowing. In some EU countries, seignorage revenues from the euro cash changeover had been considerable. In Greece for example, the reclassification of the proceeds from coinage required by Eurostat has lowered government revenues by an amount equal to almost ½ per cent of GDP.[27]

… transfers of pension obligations…

By contrast, "one-off" compensation payments, registered to the government when pension obligations are transferred from corporations to the state, can be used to reduce financial deficits in some EU countries. These payments, which are recorded as government revenue at the time they occur, will be offset in the future by the payment of pension benefits for which the government becomes responsible.[28] In France, the 1997 deficit was reduced by a payment of ½ per cent of GDP for the

23. In 2000, UMTS revenues accounted for 2.5 per cent of GDP in Germany, 1.2 per cent of GDP in Italy, 0.7 per cent of GDP in the Netherlands and 2.4 per cent of GDP in the United Kingdom.
24. Securitisation is defined as an arrangement where the owner of an asset transfers the ownership to another unit, often called a Special Purpose Vehicle, which borrows to pay the seller, generally in the form of securities issued on its own account.
25. In particular, the price paid for the assets by the Special Vehicle to the government needs to be at least 80 per cent of the market price.
26. See Eurostat (2002a and 2002b).
27. See European Commission (2003).
28. See Eurostat (2004).

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Box VI.1. Country specific approaches to correct for asset-price effects

In the United States, the Congressional Budget Office calculates a structural budget balance (the so-called standardised-budget balance) which removes temporary factors not directly connected with changes in policy as well as the effects of the business cycle. Those factors include unusually large discrepancies between tax payments and liabilities, swings in collections of capitals gains taxes, changes in the inflation component of the government's net interest payments, temporary legislative changes in the timing of revenues, and outlays and receipts from the government sale of assets and from auctions of licences to use the electromagnetic spectrum. Removing those tax receipts avoids the misleading effects that can arise, for example, when a cut in the tax rate on capital gains temporarily encourages the realisation of taxable gains by enough to increase revenues. That rise in revenues causes the structural budget measure to indicate – incorrectly – that a tax cut implies budgetary restraint on the growth of real income in the short term.

In France, the concept of "structural effort" was proposed in the 2004 draft Budget to help capture the true discretionary component of fiscal policy.[1] It permits a decomposition of the structural balance into discretionary and non-discretionary components. The "structural effort" – or discretionary component – identifies a "structural spending effort", specified by the gap between public spending growth and potential growth, and a "structural receipt effort" defined as new tax measures. The decomposition illustrates that tax elasticities were temporarily above 1 between 1999 and 2001, helping to improve the structural balance without any new discretionary measures. Conversely, tax elasticities were below 1 in 2002 and 2003, contributing to a deterioration in the structural balance.

In the United Kingdom, the assumptions underlying the Treasury's economic projections include a growth path for share prices. In the 2002 Budget for example, the share prices assumption was that the FTSE All-Share index would rise in line with nominal GDP. However, share prices turned out to be 23 per cent lower than the Budget forecast for 2002-03 and 25 per cent lower for 2003-04. Outturns dependent on these assumptions can be separately identified and the decomposition of forecast errors permits a distinction to be made between fiscal developments related to the economic cycle and those which are not.

In Canada, a methodology for estimating an indicator of budgetary position has been developed addressing in particular, the problem of simultaneity between economic and fiscal variables.[2] Results indicated a larger cyclical component in absolute terms under the new methodology which corrects bias in estimates by using Generalised Method of Moments estimation.

In Switzerland, a method to filter out irregular revenue components has been proposed.[3] It is based on revenue ratios for which a normal or structural level is determined using "expert insight" rather than a purely mechanical approach. The structural part of expenditure is also determined taking into account the earmarked part of a number of federal taxes.

In Hungary, the central bank uses an analytical indicator for budget accounting which represents a transition between the statistical approaches of the IMF's Government Finance Statistics and the European Commissions' European Standard Accounts.[4] The main adjustments include: exclusion of "one-off" revenues and off-budget activities financed by *ex post* capital injections.

In Portugal, the methodology recently adopted by the central bank to estimate cyclically-adjusted balances captures the impact of different growth patterns on the revenues and expenditures.[5] The tax elasticities are related to proxies of the individual tax bases and not to overall output. Thus, the cyclical adjustment is not independent of the composition of GDP. The new methodology excludes the final withholding tax levied on most capital income categories received by households from the personal income tax revenues to be cyclically-adjusted. It also introduces an asymmetric lag on the cyclical component of the corporate income tax to take into account the effects on fiscal revenue of prepayments made by companies.

1. Duchène and Levy (2003).
2. Murchison and Robbins (2003).
3. Bodmer and Geier (2003).
4. Kiss and Szapary (2000).
5. Neves and Sarmento (2001).

partial takeover of pension liabilities by the government prior to France Telecom's privatisation. In Portugal, following the transfer of postal services pension fund, the deficit was reduced by ¾ per cent of GDP in 2003.

… and sales of non-financial assets

Sales of non-financial assets such as buildings or land can be treated as capital receipts in the national accounts and as such may have a positive impact on the net lending of the general government. In Italy, sales of public real estate assets amounted to about ½ per cent of GDP in 2002. In Belgium, the improvement in the

cyclically-adjusted balance was due, in part, to a sharp reduction in net government capital outlays between 2000 and 2002. Following the boom in local public investment, which had eroded the general government balance in 2000, public asset sales boosted it by ¼ per cent of GDP in 2002.[29]

Financial transactions and debt adjustments

Deficits of state-owned entities may be covered by capital injections…

Just as fiscal deficits may be understated by treating one-off "below-the-line" receipts as current revenues, they may also be reduced by treating capital injections into state-owned enterprises as "below-the-line" items when they really represent subsidies. In France, the fiscal deficit has been revised upwards by Eurostat to include the capital injection from the French State to the Railway System. The revision amounted cumulatively to close to ½ per cent of GDP between 1999 and 2002.[30] Chronic deficits of coal industry (*Charbonnage de France)* have also been covered through capital injections that were spuriously treated as financial transactions.

… and there may be large* ex post *revisions to deficits and debt

Imprecise recording of budgetary operations can lead to large *ex post* upward revisions in deficit and debt levels.[31] In Portugal, in recent years, there has regularly been a difference between the general government borrowing requirement and changes in the public debt, which have been larger than would have been implied by budget deficit flows. This difference has reflected off-budget operations, privatisations, or the absorption of unexpected debts and is estimated to have reached more than 2½ percentage points of GDP in 2002.[32] In Italy, Greece and Belgium, the behaviour of the stock of debt has also been negatively affected by stock-flow adjustments.[33]

Making adjustements for the impact of non-structural factors

Irregular revenue components are increasingly netted out…

Adjustment for the above influences has to proceed on an *ad hoc* and case-by-case basis and no systematic classification yet exists. As far as the OECD budget indicator is concerned, adjustments are made in important instances, such as UMTS licence receipts and the securitisation of financial or non-financial assets.[34] Most countries do not attempt to smooth the budget balance series for such influences. However, a number have begun to make adjustment for "one-off" revenue shifts as well as some asset-price effects (Box VI.1).

… but no single structural fiscal indicator fits all purposes

Thus far, such approaches are quite disparate, and the creation of a set of internationally consistent indicators which adjusts for all the factors listed in this chapter is prohibited by uneven fiscal data coverage between countries. However, the experience of the past cycle, when inaccurate estimates of the structural budget position gave misleading signals to policy-makers, emphasises the need for underlying budget measures to be more accurately assessed for temporary influences in the next upturn.

29. See OECD (2003c).
30. See INSEE (2003).
31. It should be noted that these flow-stock discrepancies apply to a notion of government debt which excludes public pension liabilities.
32. See OECD (2003d).
33. See European Commission (2003).
34. Other factors accounted for by the OECD but not discussed here include deferred tax payments on matured postal saving accounts in Japan, revenue from oil and gas activity on the continental shelf and the petroleum fund in Norway and tax amnesties introduced in several countries.

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Appendix: Measuring discretionary and autonomous fluctuations in tax revenue

This appendix presents the methodology used in Table VI.2 to measure the extent to which the abrupt revenue increases and declines over the 1995-2002 period have reacted to non-discretionary factors such as the boom and bust in the equity market.[35] It does so by identifying the change in revenues that cannot be explained by cyclical variations in output and discretionary fiscal policy measures alone. Two categories of tax are distinguished: direct taxes on businesses and direct taxes on households.

The calculations of residual revenue shifts are based on actual GDP outcomes and *ex post* estimates of the output gap, to remove the source of error due to "misforecasts" of output growth:

$$RR_{i,j} = R_{i,j} - PR_{i,j}$$

where: $PR_{i,j} = R_{i-1,j} * [1 + (bY_{i,j} - bY_{i-1,j}) * E_j / bY_{i-1,j}] + D_{i,j}$

with RR = residual revenue; R = actual revenue; PR = predicted revenue; bY = tax base; Y = national income; b = ratio of taxable to total national income; D = effect of discretionary measures; i = period; j = tax category; and E = elasticity of tax revenue with respect to tax base.

The tax elasticities are based on OECD estimates, with the individual elasticities assumed to be constant over the observation period (van den Noord, 2000). National estimates of discretionary policy change relate to federal government for Canada and to central government for France[36] and the United States and are based on their projected impact provided at the time of enactment. These estimates assume that discretionary measures will remain constant over the budget period at the level prevailing at the beginning of the period and thus represent only an approximation of the magnitude of the true discretionary policy changes. Tax bases for household direct tax comprise dependent wage income, self-employment income, property income and current transfers. The tax base for corporate income tax includes total economy output minus compensation of employees, self employment and indirect taxes plus subsidies.[37]

The above equation can be broken down one step further to expose more clearly measurement problems and to clearly identify changes due to built-in stabilisers *i.e.* changes in the output gap and changes in trend growth *i.e.* changes in potential output. If Y is decomposed into potential output and the output gap, the tax base can be re-written as:

$$bY = b(Y^* - Y) + bY^*$$

where $(Y^* - Y)$ is the output gap *(GAP)* and Y^* is potential output. The equation then becomes:

$$PR_{i,j} = R_{i-1,j} * [1 + (b(GAP_{i,j} - GAP_{i-1,j}) + b(Y^*_{i,j} - Y^*_{i-1,j})) * e_j / bGAP_{i-1,j} + bY^*_{i-1,j}] + D_{i,j}$$

35. See also Eschenbach and Schuknecht (2002b) for a similar methodology.
36. The French data for discretionary measures in 1998 have been adjusted by € 30 billion to take into account the tax switch reflecting the changes in the financing of the social security system.
37. Definition and measurement of tax bases corresponding to the different types of revenues are often inaccurate and the order of magnitude provided in this paper should therefore be interpreted with cautious. Methodological problems associated with the calculation of effective tax rates are spelled out extensively in Carey and Rabesona (2002).

Cyclically-adjusted revenues are calculated by setting the term $(GAP_{i,j} - GAP_{i-1,j})$ to zero. There are several possible sources of error linked to the computation of output gaps. Well-known measurement issues relate to the pro-cyclical bias of estimates of potential output, and hence of the output gap. Potential output may be overestimated and the cyclical component of revenue growth $(b(GAP_{i,j} - GAP_{i-1,j}))$ underestimated. At the same time, the nature of any change in the tax base with respect to income may be mis-interpreted as structural, when it actually derives from an underestimate of the cyclical tax elasticity: *i.e.* the "excess" revenues due to unforeseen tax buoyancy would appear as part of the cyclically-adjusted component of the deficit.

The calculations are rebased each year, so that the total error over any period is the sum of the annual residuals.

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VII. ENHANCING INCOME CONVERGENCE IN CENTRAL EUROPE AFTER EU ACCESSION

Introduction

Accession is raising hopes of better economic prospects

After nearly fifteen years of transition, the countries of Central Europe have entered the European Union on 1 May 2004. The present chapter examines the consequences of this event for the four acceding countries that are members of the OECD (Czech Republic, Hungary, Poland and Slovak Republic).[1] For these countries, accession follows multiyear efforts of economic stabilisation and structural transformation, which have brought them large benefits, even though there are significant differences among them.[2] Output has recovered from its sharp decline at the start of transition and now exceeds levels prevailing in 1989. Real GDP per capita has expanded over the past decade by 4 per cent annually on average in Poland, Hungary and the Slovak Republic, faster not only than in most advanced countries but also than in less-advanced OECD members (Table VII.1). In the Czech Republic, where GDP per capita is substantially

Table VII.1. **Various convergence speeds**

	GDP per capita at 1995 prices and PPPs ($)[a]		1995-2003 annual growth	
	1995	2003	Real GDP	Real per capita GDP[a]
Ireland	17 885	29 984	7.9	6.7
Poland	**7 529**	**10 460**	**4.0**	**4.2**
Hungary	**9 022**	**12 389**	**3.8**	**4.0**
Slovak Republic	**8 109**	**10 933**	**3.8**	**3.8**
Korea	11 451	15 387	4.5	3.8
Greece	12 983	16 791	3.7	3.3
Spain	15 750	19 652	3.3	2.8
Mexico	6 932	8 165	3.6	2.1
Portugal	13 159	15 445	2.5	2.0
OECD	19 962	23 254	2.7	1.9
Czech Republic	**12 016**	**13 971**	**1.8**	**1.9**
European Union	19 931	23 066	2.1	1.8
New Zealand	17 018	19 692	3.0	1.8
Turkey	5 480	6 066	3.2	1.3

a) GDP per capita data based on OECD Annual National Accounts. Where unavailable, data for 2003 are OECD estimates.

Source: OECD.

1. The four countries are hereafter referred to as "CEE4". This paper does not examine the prospects for the six other acceding countries, which are not members of the OECD. In this paper, European Union refers to pre-enlargement group of fifteen countries.
2. Recent developments in acceding countries are surveyed for instance in CEPR (2002), De Broeck and Koen (2000), EBRD (2003), European Commission (2001), Fidrmuc *et al.* (2002), Handler (2003), Martín *et al.* (2001) and in OECD *Economic Surveys*.

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higher than in the other CEE4, growth has been less robust in the late 1990s, but picked up pace lately. It is hoped that membership in the European Union (EU) will not only lock in the progress achieved so far, but will also speed up the convergence of GDP per capita to western European levels.

Speeding-up income convergence will require structural reforms…

The income gaps[3] that would have to be bridged to fulfil these hopes are large in comparison to those of prior EU entrants. The four countries have income gaps *vis-à-vis* the OECD ranging from 39 per cent (Czech Republic) to 55 per cent (Poland) in terms of purchasing power parity. At the speed of convergence recorded since the mid-1990s, it would take between 30 and 40 years to bridge half of the income gap, making full convergence a distant prospect under current circumstances (Table VII.2). Achieving speedier catch-up should not be beyond reach, however, provided that more effective policies are put into place. Past experience suggests indeed that despite their strong lead in income levels and a supposedly lower scope for rapid income gains, successful emerging economies such as Ireland, Korea or Spain have enjoyed comparatively high growth of GDP per capita relative to the CEE4 (Table VII.1). It would be unfair, however, to consider the recent decade as illustrative of the CEE4's growth potential. The growth of activity, which may have been depressed during the recent past by the tight monetary policies undertaken to achieve significant disinflation, could benefit in the future from a more favourable macroeconomic environment. As well, EU membership will help to spur growth thanks, *inter alia*, to the financial transfers from the structural funds, the removal of trade barriers in sensitive products and, possibly, participation in the euro area in due time.

Table VII.2. **Estimated half-life convergence**

	GDP per capita at 1995 PPP rate (EU = 100)		Years to reach half convergence
	1995	2003	
Hungary	45	54	29
Poland	38	45	37
Czech Rep.	60	61	..
Slovak Rep.	41	47	40

Note: The table shows the number of years necessary to bridge half of the GDP per capita gap *vis-à-vis* Western Europe at the speed recorded during 1995-2003. The number of years to reach half convergence is calculated as $N = Ln(2) * (T_{1995\text{-}2003} / (Ln(1 - (Y/POP)_{2003}) / (1 - (Y/POP)_{1995})))$ with N = numbers of years to bridge half of the income gap; T = number of years during the period reviewed; Y/POP = GDP per capita at PPP rate in the country vis-à-vis Western Europe.

Source: OECD

… particularly in three areas

While in the near term growth in the CEE4 is likely to accelerate beyond potential, in line with the European recovery, sustainably higher GDP increases will require further substantial progress in the area of structural reform. Indeed, past research (OECD, 2003a) clearly shows that the speed of convergence is highly responsive to structural and macroeconomic policies. Based on this research, this

3. Differences in GDP per capita are hereafter simply referred to as "income gap".

paper examines how convergence could be accelerated in the CEE4. The three findings of the paper are the following:

- Income convergence could be enhanced by adopting more job-friendly policies. The experience of prior entrants to the EU shows that successful catching-up involves both productivity and employment growth. In the CEE4, however, growth has until now been exclusively driven by labour productivity, with little or no contribution from labour utilisation. Employment rates have continuously declined and now are among the lowest in the OECD (except in the Czech Republic) while unemployment is at a record level in Poland and the Slovak Republic. While this may entail some degree of slack in the labour market, present levels of underemployment suggest that strong employment disincentives prevail in the tax and benefit systems. The countries could take advantage of a post-accession growth impetus to make labour market policies more job-friendly.
- Fast productivity growth will continue to matter for income convergence. While productivity has recently strongly increased, this may not last forever. A source of concern in this respect is the slow pace of capital accumulation, especially in Poland and Hungary, because investment is part of a scenario of convergence through increased productivity. Enhancing investment involves improving "framework" conditions, for which spurring product market competition is crucial. Progress has been made to foster competition in the run-up to accession, but the available evidence suggests that the business environment is not always transparent and that there is a need to level the playing field, especially in Poland. As well, public infrastructure in greater quantity and quality, especially for transportation networks, could well remove bottlenecks and stimulate productivity growth. Such reforms could also underpin a revival of foreign direct investment, which initially boosted business capital formation in these countries, but has tapered off recently.
- Over the longer term, the development of a knowledge economy will matter. Like other converging economies, the CEE4 have benefited from foreign technologies brought by exposure to trade and foreign direct investment. These technologies will however not always automatically spill over to domestic producers. International experience suggests that investment in human capital is particularly important to facilitate the transfer of foreign technologies. Higher research and development (R&D) spending also has a role to play, although policies to achieve this are not straightforward. This involves not only improving tertiary education but also aiming at achieving better results in lower levels of education.

Drawing on available labour resources

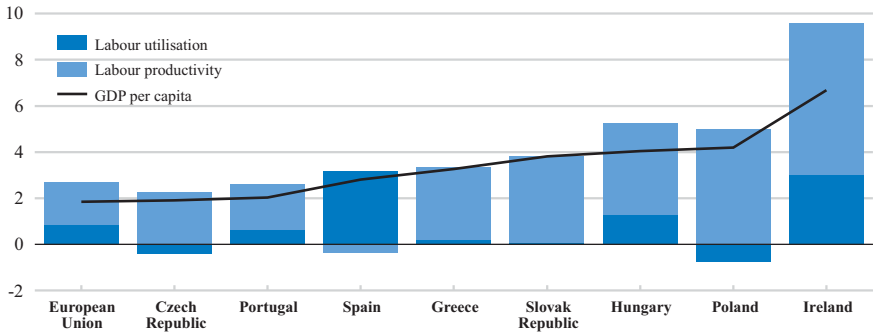
Fast convergence requires both productivity and employment growth

Over the past decade, growth in the CEE4 has almost exclusively been driven by productivity, while employment trends have generally been negative (Figure VII.1). This rather imbalanced pattern of growth has hindered the convergence towards higher income levels. The experience of prior entrants to the EU, notably Ireland and Spain, provides ample confirmation of the importance of job creation to economic convergence. As shown in Figure VII.2, Ireland went from a situation of below-average income level in 1986 to above-average income level in 2003 thanks to combined increases in productivity and employment. Spain has also moved closer to the

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Figure VII.1. **Sources of growth in EU catching-up countries**

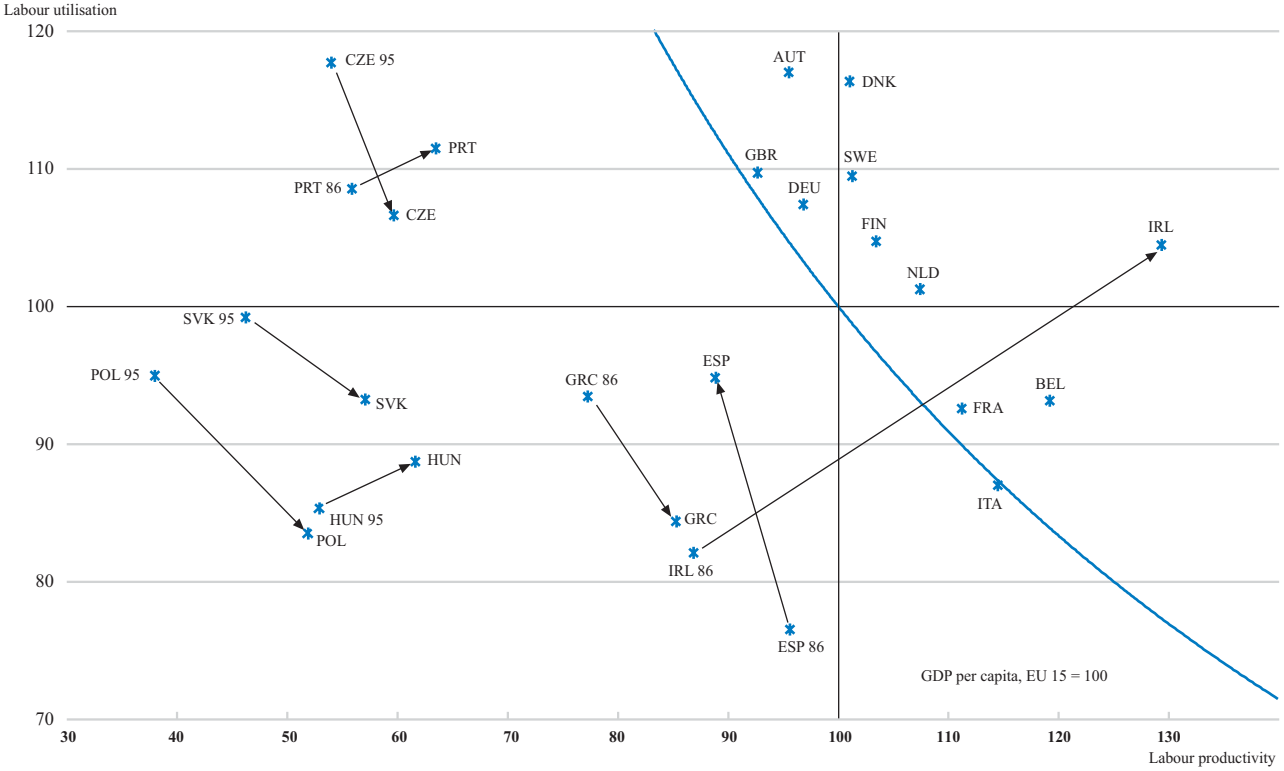
1995-2003



Note: This chart shows the decomposition of real GDP per capita growth during the period 1995-2003 between two components: the change in labour utilisation and the change in labour productivity. Labour utilisation is defined as the ratio of employment to population, and labour productivity is defined as the ratio of real GDP to total employment. For instance, for the Czech Republic, the chart shows that real GDP per capita grew by 1.9 per cent annually during 1995-2003.
Source: OECD.

Figure VII.2. **GDP per capita: Various convergence patterns, 2003**

Index, EU15 = 100



Note: This chart shows the decomposition of GDP per capita between its two components, which are labour utilisation (ratio of employment to population) and labour productivity (ratio of real GDP to employment). For instance, countries in the left upper corner of the chart combine a high degree of labour utilisation with a low lovel of productivity, while countries in the right lower corner combine a low degree of labour utilisation and a high level of productivity. All contributions are expressed in relation to the EU 15. The curved line depicts the combination of labour utilisation and productivity that produce the average GDP per capita of the EU 15 [(GDP/EMP) * (EMP/POP) = 100]. Countries to the right of the curve have a higher income per capita than the EU average, while countries to the left of the curve have a lower one. The chart also shows the change of positions between 1986 and 2003 (for Ireland, Greece, Portugal and Spain) and between 1995 and 2003 (four acceding countries).
Source: OECD.

average income level, although less rapidly than Ireland, with a pattern that has relied heavily on rising labour utilisation.

CEE4 countries have the weakest utilisation of labour in the OECD…

Although differences prevail across countries, labour market trends have generally been adverse in the CEE4. Employment rates in Poland, Hungary and the Slovak Republic stand between 51 and 58 per cent of the working age population, among the lowest in the OECD (Table VII.3). In Hungary, those without a job have withdrawn from the labour market, resulting in low participation rates, even though a moderate improvement has been emerging in recent years.[4] In Poland and the Slovak Republic, underemployment has been associated with OECD record unemployment rates of 17-20 per cent. Except for the Czech Republic, where employment levels have so far

Table VII.3. **Main structural indicators**

In per cent, unless otherwise indicated

	Czech Republic	Hungary	Poland	Slovak Republic	Highest OECD	Lowest OECD
Employment rate[a]	65.4	55.6	50.5	57.6	84.1	46.3
Unemployment rate[b]	7.8	5.9	19.6	17.4	19.6	3.3
Participation rate[a]	70.9	59.1	62.9	69.8	87.6	51.8
Working hours[c]	1 980.1	1 766.4	1 994.0	1 978.8	1 994.0	1 340.0
Labour income taxes						
Tax wedge, single worker[d]	43.8	45.7	42.9	41.4	54.5	14.1
Tax wedge, married worker[e]	30.5	41.3	32.3	30.6	42.1	7.4
Composite index of total infrastructure[f]	67.0	66.1	54.1	..	114.3	54.1
Product market regulatory indicator[g]	2.9	1.6	3.3	..	3.3	0.5
Foreign direct investment restriction indicator[h]	0.2	0.2	0.2	0.2	0.4	0.1
PISA Student performance indicator[i]	500.2	488.0	477.5	..	543.1	410.3
Average years schooling[j]	10.2	10.9	11.5	11.0	13.0	7.2
Education Attainment[k]						
primary , lower secondary	20.1	32.6	25.9	20.8	22.6	73.7
upper secondary	70.7	55.6	64.5	70.5	40.8	19.3
tertiary	9.1	11.8	9.5	8.7	36.6	7.0

a) Data for 2003, as a percentage of working age population (defined as 15-64). For Hungary, data refer to 2002. Both for the employment rate and the participation rate, the highest OECD refers to Switzerland, lowest to Turkey.
b) Data for 2003. Commonly used definitions (see the Economic Outlook Statistical Annex Table 14 for more information). Highest OECD refers to Poland, lowest to Mexico.
c) Data refer to 2002, annual working hours. Highest OECD refers to Poland, lowest to the Netherlands.
d) Data for 2003, based on 100% APW (average production worker earnings) without children, as % of labour costs. Highest OECD refers to Belgium, lowest to Korea.
e) Data refer to 2003, one earner at 100% APW with two children, as % of labour costs. Highest OECD refers to Turkey, lowest to Ireland.
f) Data refer to 2000. This indicator is indexed to US 1995 = 100. Highest OECD refers to Norway, lowest to Poland.
g) Data refer to 1998. The scale of indicators is 0-6, from least to most restrictive. Highest OECD refers to Poland, lowest to the United Kingdom.
h) Data refer to 1998-2000. The index ranges from 0 (least restrictive) to 1 (most restrictive). Includes limits of foreign ownership, restrictions on foreign personnel and operational freedom, screening requirements. Highest OECD refers to Iceland, lowest to the United Kingdom.
i) Performance is the average of mean scores on the reading, scientific and mathematical literacy scales (higher number means better performance). Highest OECD refers to Japan, lowest to Mexico.
j) Data for 2002. Highest and lowest refer to European Union countries only. Highest refers to Germany, lowest to Portugal.
k) Data for 2001. Education attainment rate for the total population. Highest OECD (based on tertiary level attainment) refers to Canada, lowest to Turkey.
Source: OECD.

4. A large transfer of labour resources to the unofficial economy is also reported, which would have the effect of depressing the participation rate reported in official statistics, although the magnitude of this shift is difficult to measure precisely (OECD, 2003b).

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remained high, the proportion of the labour force either unemployed or inactive is thus rather high, in particular for the youth and older workers.

… due to weak labour demand and labour supply

These trends reflect factors influencing both labour demand and labour supply. At the early stage of transition, the combination of over-employment in state-owned enterprises and the concentration of some of them in uneconomic activities made a significant shakeout inevitable. Faced with large job losses, substantial social benefit and early-retirement systems were put in place to ease the cost to individuals directly affected by sectoral restructuring. These out-of-work benefits are partly to blame for the low level of employment. By providing laid off workers with very high and in many instances permanent unearned incomes, they dramatically reduced their incentives to take up new work – effectively denying their labour services to potential employers elsewhere in the economy.

Employment of unskilled workers is hindered by high labour costs…

In addition, the financing of out-of-work benefits has necessitated raising labour taxes to levels that depress employment creation, especially for the low-skilled, not unlike what has been observed in some EU countries. Labour costs are driven up in the four countries by taxes on labour income (personal income tax and social security contributions) representing between 40 and 45 per cent of labour costs – among the highest in the OECD. In the central planning system, the tax system already relied on the taxation of labour income. At the start of transition, these already high labour taxes were further increased to finance welfare programmes introduced in an attempt to ease the social costs of transition.[5] The shrinkage of employment caused a decline in the taxable base, making even higher tax rates necessary to maintain the financial viability of the welfare systems.

… high minimum wages in relation to average wage…

Another factor that appears to have reduced the demand for low-skilled workers is the high level of statutory minimum wages, which currently stand at close to 40 per cent of average wages in the four countries. While this is not significantly different from levels prevailing in some EU countries, the minimum wage may have had a particularly detrimental impact in the CEE4, where low-skilled workers have been massively affected by the economic restructuring.

… employment protection rules…

In addition, the strictness of dismissal protection laws has increased the cost of labour and made employers reluctant to hire new workers. The dismissal of workers typically involves negotiations with the trade unions, considerable advance notices and payments of sizeable severance benefits. Rules concerning collective dismissals are stricter than for individual dismissals and limits have been placed on the use of more flexible work forms such as fixed-term contracts. In the Czech Republic, for instance, apart from the notice period for collective dismissals being three months, the employer is obliged to notify and co-operate with trade unions and the labour office following a dismissal. If the court decides that the employer could have retained the employee, a salary must be paid after dismissal until a suitable job is found. While the strictness of employment protection legislation may not differ fundamentally from that prevailing in the EU, there is a need to create job opportunities for large numbers of jobless persons. This calls for a particularly great degree of flexibility, especially in Poland and the Slovak Republic where unemployment is at record highs.

5. Feldmann (2004).

… and low regional mobility

Another negative factor affecting the functioning of labour markets is low regional labour mobility, which has contributed to a very high inter-regional dispersion in unemployment rates in all the CEE4. Economic restructuring should in principle involve a migration of workers from high-unemployment regions to more dynamic ones. Some highly industrialised regions have been particularly hit by the restructuring or liquidation of state enterprises during the transition and record above-average unemployment rates. In other regions, job creation has been dynamic thanks to, *inter alia,* foreign direct investments. The empirical evidence suggests, however, that the unemployed are unwilling or unable to change their place of residence and remain unemployed in their regions of origin. As a result, employers sometimes have difficulties hiring skilled workers in the more dynamic localities. This coexistence of high unemployment and hiring difficulties hinders the ability of economies to absorb shocks and to grow. This lack of mobility is caused by many factors, principle among which are the combination of the availability of significant social transfers and low-living costs in high-unemployment areas, and the rigidity of the housing market. Significant variation in living costs, combined with nationally defined transfer levels means that job-seekers are often better-off combining these revenues with non-market activities. Moreover, workers are often unable to change residence because neither rental accommodation nor vacant and affordable housing is available in fast-growing areas. While governments have spent large sums subsidising owner-occupied housing, little effort has been extended towards developing the rental market. Moreover, rent controls and excessive tenant protection have combined to limit private investment in the rental market. While some efforts have been made to liberalize these markets in all of these countries, these have thus far been limited in scope.[6]

Labour market reforms could stimulate growth

In sum, the factors explaining low employment in the CEE4 do not appear to be very different from those prevailing in several countries of the European Union, and the remedies are therefore similar. Making better use of the existing supply of labour would have positive effects on potential growth. If employment rates increased to the rather modest levels prevailing in the fifteen member states of the European Union, GDP per capita could increase by up to 7-10 percentage points in Hungary, Poland and the Slovak Republic.[7] In order to raise employment levels, the four countries are starting to reform their labour markets to reduce the dismissal advance notice, increase the diversity and flexibility of labour contracts and to jointly lower social security contributions and out-of-work benefits. In the current context of high unemployment or low participation, labour market reforms may prove difficult to implement but could nonetheless be facilitated by the likely improvement of growth prospects that CEE4 may enjoy over the next few years.

Keeping a strong momentum for productivity

Productivity growth could remain strong thanks to…

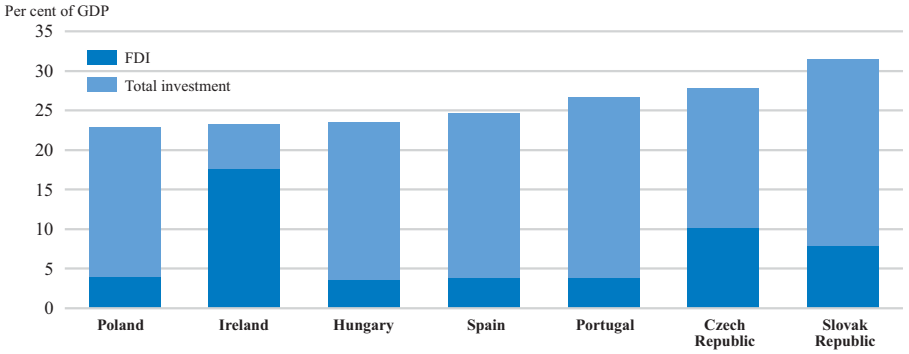
While productivity growth has been remarkably robust so far, it may have been boosted by temporary factors – such as the removal of low-skilled workers from the workforce – in addition to the underlying improvement of workers' individual efficiency. Establishing an environment propitious to sustained productivity growth will

6. CERGE-EI (2003).
7. This calculation is based on the assumption that raising employment rates does not lower productivity. If labour productivity were negatively affected, the impact on GDP per capita would be less significant.

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Figure VII.3. **FDI inflows and total investment**

Average 1998-2002



Source: OECD; United Nations Conference on Trade and Development.

therefore remain essential to stimulate growth of GDP per capita. Two issues are sources of concern in this respect: the low level of capital accumulation in some countries and the insufficient degree of competition on product markets.

… large investments, including from foreign investors…

Countries that are converging towards higher levels of income typically accumulate capital at a faster rate than others. High rates of investment help to stimulate technical progress and are part of a scenario to raise labour productivity during the convergence process. Post-communist countries also face the additional challenge of modernising the stock of capital inherited from the past. In this respect, the current levels of investment in Poland and, to a lesser extent, in Hungary, are relatively low, in part reflecting the tapering-off of foreign direct investment (FDI) (Figure VII.3). FDI inflows strongly contributed to capital accumulation at the early stage of transition, but these inflows have recently weakened markedly, especially in Poland. It appears that foreign investors anticipated the enlargement and took market positions in these countries well before the formal date of accession. Investors have taken the opportunity of large-scale privatisation to gain market shares in certain sectors (such as banking or retail trade) and have established export manufacturing platforms ready to take advantage of the abolition of tariff and non-tariff barriers.

… which would require eliminating hindrances to FDI…

Attracting a second wave of foreign direct investment is within reach. After having attracted industrial manufacturers, CEE4 countries could very well host investment specialised in the provision of international services.[8] Existing restrictions towards foreign investors may however be a hindrance to such inflows. The index of FDI restriction calculated by the OECD suggests that FDI restrictions were significant in Poland and the Slovak Republic in 1998-2000. The Czech Republic and Hungary appeared less restrictive, but without being as open to FDI as many EU member countries.[9] Generally, while the manufacturing and tourism sectors were open to foreign investment, most of the administrative obstacles were found in the areas of network industries, notably electricity, telecommunications and transport. Given their large capital accumulation needs, these countries would benefit from being as open as possible. Accession to the European Union involves eliminating many of the

8. The Czech Republic has for instance recently hosted investments in the sectors of accounting and international air shipments.
9. Golub (2003).

restrictions that previously hindered foreign direct investment. However EU membership leaves considerable room for manoeuvre to national governments. The way in which this room is (or is not) used could have a significant impact on whether Central European economies become more or less attractive to foreign investors.

… upgrading the public transportation infrastructure…

An important aspect of the accumulation of capital during the catching-up process is the upgrading of public transportation infrastructure. OECD research points to poor development of transportation infrastructure in some of the Central European countries, and especially in Poland. At present, both road and rail networks are seen as inadequate in most acceding countries. As business activities grow, transportation and communication infrastructure will become increasingly important. Insufficient infrastructural development could lead to bottlenecks and consequently to slower economic growth. Inadequate network infrastructure could be a particular deterrent to foreign investors, who might fear to be unable to import essential inputs and export finished products. Therefore, policies to promote investment in transportation infrastructure will be very important.

… enhancing competition…

Another key driver of productivity growth is the degree of competition prevailing in product markets and, more specifically, the capacity of firms to operate without facing undue government interventions. The role played by product market competition in the process of catching-up has been emphasised by recent research at the OECD. This work shows for instance that removing barriers to competition can reduce the productivity gap *versus* the leader by as much as 10 percentage points in laggard industries.[10] Assessing the present degree of market competition in the four acceding economies is complex because their competition policies and regulatory frameworks are in a state of flux. As part of their transition, these economies have to a large extent dismantled previous command-and-control regulations, but significant government interventions still exist in some sectors. The OECD regulatory indicators computed for 1998 suggested that there was still a large scope for catching-up with best-practice countries in this area. Admittedly, regulatory reform has progressed since then. In particular, explicit barriers to international trade (notably import tariffs) have been lowered from their high levels and size of the public sector has been reduced.

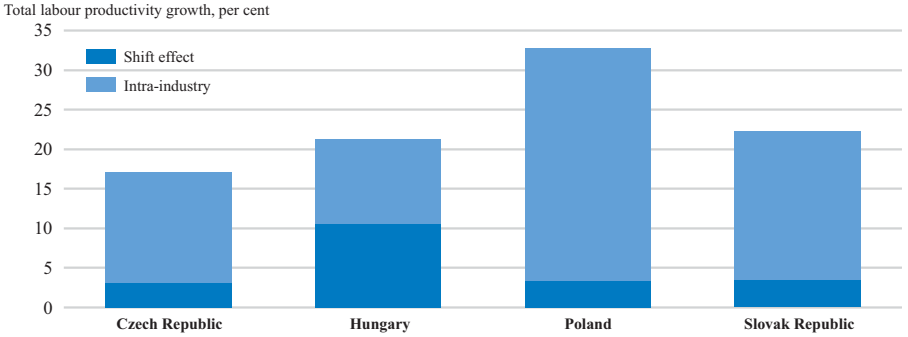
… and removing barriers to the reallocation of labour

Closing the overall productivity gaps involves not only increasing productivity within sectors or firms, but also reallocating jobs across sectors. Indeed, the long term process of economic development implies shifting labour resources towards activities producing higher value-added products and services. With this reallocation of labour, the structure of less-advanced economies becomes progressively more similar to that of developed economies. Recent empirical research suggests that productivity developments in the European Union *vis-à-vis* the United States has been positively influenced by this "shift effect" in the 1980s and 1990s.[11] The contribution of the shift effect, in principle, should be the largest at early stages of convergence. There are clear signs, however, that this reallocation of labour towards more productive activities has often been delayed in the CEE4 by various policies, such as prolonged subsidisation of declining industries (mining, heavy industries, etc.) and social security schemes allowing particular sectors – for instance agriculture – to benefit from exceptionally favourable treatment. Such barriers to exit have contributed to slow down productivity growth in various Central European countries. The most striking example is that of the Polish agricultural sector where farms still

10. OECD (2003a).
11. European Commission, (2003).

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Figure VII.4. **Decomposition of labour productivity growth 1994-2000**



Note: The chart shows the decomposition of productivity growth between intra-industry effect and the shift effect across industries. The first element is calculated as the sum of industry productivity growth rates, weighted by the initial output shares. The second element is the sum of changes in input shares, weighted by the relative productivity level. More specifically, the second element is calculated as:

$$\sum_i \frac{LP_{i,(t-1)}}{LP_{(t-1)}} \cdot \left(\frac{L_{i,t}}{L_t} - \frac{L_{i,(t-1)}}{L_{(t-1)}} \right)$$

with LP the level of productivity, L the level of employment and i the various sectors. In this chart, the economy is divided between six sectors using the International Standard of Industrial Classification nomenclature.

Source: OECD.

employ about one-fifth of the labour force but produce only 3 per cent of Poland's GDP. As shown by Figure VII.4, the contribution of the "shift effect" to productivity growth is smaller in Poland than in the other CEE4, although it could have been much more important in view of the larger size of the agricultural sector.

Building knowledge-based economies in the longer term

Catching-up is helped by the diffusion of technology

The diffusion of technology is an important ingredient of the convergence process.[12] Several interrelated channels are at work in catching-up economies to facilitate the absorption of technology. Exposure to international trade is one of such channel, because it creates technological linkages between suppliers and purchasers. Foreign direct investment also works in this direction, as technology is transferred from parent to subsidiary companies, and then from subsidiary companies to local suppliers.[13] Integration into the European Union can help the transfer of technology through various channels such as skilled labour migration, R&D or academic cooperation.

But technology diffusion is not automatic

The diffusion of technology is, however, not an automatic process. The absorption of technology transfers depends to a large extent on the appropriateness of local conditions. These include the degree of product market competition (discussed above) but also importantly the qualification of the labour force and the availability of a research community capable of transposing foreign technologies.

A well-functioning education system is important…

A well educated and versatile labour force is an important prerequisite of harnessing the benefits of technology. Workers that have followed a well-constructed general curriculum, that teaches them how to learn – rather than acquired specific

12. Acemoglu *et al.* (2002); Aghion and Cohen (2004).
13. OECD (2002).

skills – are better prepared to adapt to changing requirements in the job market. Thus, investment in general education and other aspects of human capital is paramount to maximise the benefits from technology spillovers. The CEE4 have high degrees of educational achievement as measured by the average years of education or enrolment rates among recent cohorts. Average years of schooling range between ten and eleven years – about the same as in the European Union and more than in Southern Europe. The education system traditionally put a lot of emphasis on primary and secondary education, and, as a result, between 65 and 70 per cent of the average population has attained an upper secondary level of education.[14] Indeed, according to recent research from the Programme for International Student Assessment (PISA), the overall literacy performances are close to the average of Member countries and above what would be expected given the levels of GDP per capita or spending per student in the CEE4.

… but education systems emphasise passive learning

Nevertheless, the secondary education system in Central Europe still places too much emphasis on imparting specific skills through passive learning and memorising, which does not prepare young people well for market-based economies where adaptability, flexibility and autonomy are important.[15] For instance, surveys of business employers in the Slovak Republic indicate that the public education system emphasised passive learning, which has resulted in poor managerial and language skills[16] of the school leavers as well as their inability to cope with real-life situations in the workplace.[17] While the share of general courses in most curricula has increased, the education system of the four countries traditionally emphasises vocational training, at the expense of general education. Workers who have completed vocational training have highly specialised skills but are ill-prepared for coping with the changing demands of a market economy.[18] Various policies are underway to reform the education systems and adapt them to the challenges of modern times.

University education has developed rapidly

Investment in university education is particularly important to train skilled workers and harness the benefits of new technologies. A study based on a cross-section of individuals during the years of communism and transition suggests that the structure of wages has changed considerably since the emergence of a market economy in the Czech Republic.[19] Individuals who have seen the largest remuneration increase are those with high school diplomas and university degrees. This higher rate of return to education stimulates enrolment in tertiary education in Central Europe, notably in Poland and Hungary, where the share of graduates with a tertiary education has risen fast.[20] By contrast, demand for tertiary education far exceeds supply in the Czech Republic, where the availability of classroom seats is limited by financial constraints.[21] The introduction of tuition fees in tertiary education, flanked by student loan arrangements,[22] could be one possible option to ease these financial constraints. Accession to the European Union should also help to improve access of students to

14. Apart from Hungary, which has a lesser degree of attainment.
15. CERGE-EI (2003).
16. Training in foreign languages varies across countries, however. The Czech Republic has a high proportion of students fluent in English and German.
17. OECD, (2004).
18. Feldmann (2004).
19. Münich (2003).
20. Feldmann (2004).
21. CERGE-EI (2003).
22. Schemes involving tuition fees subject to income-conditional repayments have a proven track record in a number of OECD countries.

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Table VII.4. **Production of technology and R&D spending**[a]

	Share of ICT manufacturing in total manufacturing value-added, 2000	R&D spending in % of GDP, 2000	Business R&D in % of GDP, 2000	R&D by foreign affiliates[a]
Poland	..	0.7	0.3	12.1
Spain	3.2	0.9	0.5	31.0
Slovak Republic	3.3	0.7	0.4	19.0
Czech Republic	4.2	1.3	0.8	7.7
Portugal	4.5	0.8	0.2	30.8
Germany	5.0	2.5	1.8	19.0
Canada	5.8	1.9	1.1	31.6
France	6.3	2.2	1.4	16.4
Netherlands	6.8	1.9	1.1	21.5
Hungary	9.3	0.8	0.4	78.5
United Kingdom	9.7	1.9	1.3	39.4
United States	12.8	2.8	2.1	15.0
Ireland	18.7	1.2	0.8	65.2
Finland	21.7	3.4	2.4	14.2

Note: National sources adjusted to OECD definitions; coverage may however differ across countries.
a) In per cent of business sector R&D spending, various years.
Source: OECD.

the universities of the existing Member states. The rationale for such arrangements is that this is an area in which private returns exceed social returns.[23]

Low R&D spending levels hinder the absorption of technologies

R&D intensity is also an important factor of technology diffusion. Although catching-up economies are distant from the technology frontier, their research institutions can nevertheless play an important role in monitoring, absorbing and adapting new technology. Recognising this important role, it is worrisome that the levels of R&D spending in the four acceding countries are among the lowest in the OECD (Table VII.4). Public research centres, such as scientific academies or branch laboratories, were deprived of resources at the start of the transition process and some research institutions have become commercial ventures. In the enterprise sector, research centres have often been sharply downsized after privatisation. Foreign investors have generally brought technologies from abroad rather than developing them locally. Thus, it will be important to find a new impetus to establish an environment propitious to the development of national R&D capabilities.

Convergence towards higher income level can be enhanced by appropriate structural policies

In sum, while convergence towards higher levels of income appears to be a distant prospect for the CEE4 under current circumstances, this is not a predetermined outcome. The experience of prior entrants suggests that much leeway is available within the framework of the European Union to undertake pro-growth policies. The most promising prospect in this respect appears to reside with employment creation, which has been so far lacking and led to a rather imbalanced pattern of growth. The causes of this employment underperformance are similar to those that have been observed in other OECD member countries, including in the European Union, and

23. Blöndal *et al.* (2002).

the remedies are therefore also similar. Bringing down labour taxes, easing employment protection legislation and reducing out-of-work benefits would make important contributions. While present circumstances in the budgetary sphere and the labour market situation may not be ideal for such reforms, a renewed growth impetus could provide the right opportunity. While employment matters, strong productivity growth will continue to be an essential ingredient of the catching-up process. Essential to this are reforms that underpin a stronger degree of competition, including greater transparency in competition rules. Boosting the pace of capital accumulation will depend significantly on FDI. Creating more auspicious conditions for a second wave of investment – more tilted towards services – could therefore be important, as well as upgrading transportation infrastructure. Over the longer term, building knowledge economies would become increasingly crucial to sustain a fast convergence. This points to the need of investment in knowledge capital, both in tertiary and lower levels of education, and in creating adequate conditions for R&D activities.

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Statistical Annex

This annex contains data on some main economic series which are intended to provide a background to the recent economic developments in the OECD area described in the main body of this report. Data for 2002-2005 are OECD estimates and projections. The data on some of the tables have been adjusted to internationally agreed concepts and definitions in order to make them more comparable as between countries, as well as consistent with historical data shown in other OECD publications. Regional totals and sub-totals are based on those countries in the table for which data are shown. Aggregate measures contained in the Annex, except the series for the euro area (see below), are computed on the basis of 2000 GDP weights expressed in 2000 purchasing power parities (see following page for weights). Aggregate measures for external trade and payments statistics, on the other hand, are based on current year exchange for values and base-year exchange rates for volumes.

The OECD projection methods and underlying statistical concepts and sources are described in detail in documentation that can be downloaded from the OECD Internet site:

- *OECD Economic Outlook* Sources and Methods (*www.oecd.org/eco/sources-and-methods*).
- *OECD Economic Outlook* Database Inventory (*www.oecd.org/pdf/M00024000/M00024521.pdf*).
- The construction of macroeconomic series of the euro area (*www.oecd.org/pdf/M00017000/M00017861.pdf*).

NOTE ON NEW FORECASTING FREQUENCIES
AND THE STATISTICAL TREATMENT OF GERMANY, THE CZECH REPUBLIC,
HUNGARY, POLAND, THE SLOVAK REPUBLIC
AND THE EURO AREA AGGREGATE

- The OECD projections are carried out on a working-day basis. In some countries, official forecasts of annual figures do not include any such adjustment. For Germany and Italy in particular, this makes for a marked difference over the projection period. Even when official forecasts do adjust for working days, the size of the adjustment may in some cases differ from that used by the OECD.
- OECD is now making quarterly projections on a seasonal and working day-adjusted basis for selected key variables. This implies that differences between adjusted and unadjusted annual data may occur, though these in general are quite small.
- Data up to end-1990 are for western Germany only; unless otherwise indicated, they are for the whole of Germany from 1991 onwards. In tables showing percentage changes from the previous year, data refer to the whole of Germany from 1992 onwards. When data are available for western Germany only, a special mention is made in a footnote to the table.
- For the Czech Republic, Hungary, Poland and the Slovak Republic data are available from 1993 onwards. In tables showing percentage changes from the previous year, the Czech Republic, Hungary, Poland and the Slovak Republic are included from 1994 onwards.
- Greece has entered the euro area on 1 January 2001. In order to ensure comparability of the euro area data over time, Greece has been included in the calculation of the euro area throughout.

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Country classification

	OECD
Seven major OECD countries	Canada, France, Germany, Italy, Japan, United Kingdom and United States.
European Union	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom.
Euro area	Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.
	Non-OECD
Africa and the Middle East	Africa and the following countries (Middle East): Bahrain, Cyprus, Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates and Yemen.
Dynamic Asian Economies (DAEs)	Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; the Philippines; Singapore and Thailand.
Other Asia	Non-OECD Asia and Oceania, excluding China, the DAEs and the Middle East.
Latin America	Central and South America.
Central and Eastern Europe	Albania, Bulgaria, Romania, the Newly Independent States of the former Soviet Union, and the Baltic States.

Weighting scheme for aggregate measures

Per cent

Australia	1.82	Mexico	3.29
Austria	0.83	Netherlands	1.59
Belgium	0.98	New Zealand	0.29
Canada	3.28	Norway	0.60
Czech Republic	0.52	Poland	1.46
Denmark	0.56	Portugal	0.65
Finland	0.49	Slovak Republic	0.21
France	5.68	Spain	3.00
Germany	7.56	Sweden	0.87
Greece	0.65	Switzerland	0.79
Hungary	0.45	Turkey	1.68
Iceland	0.03	United Kingdom	5.50
Ireland	0.39	United States	36.36
Italy	5.28	Total OECD	100.00
Japan	12.17	*Memorandum items:*	
Korea	2.93	Euro area	27.19
Luxembourg	0.08		

Note: Based on 2000 GDP and purchasing power parities (PPPs).

Irrevocable euro conversion rates

National currency unit per euro

Austria	13.7603	Ireland	0.787564
Belgium	40.3399	Italy	1 936.27
Finland	5.94573	Luxembourg	40.3399
France	6.55957	Netherlands	2.20371
Germany	1.95583	Portugal	200.482
Greece	340.750	Spain	166.386

Source: European Central Bank.

National accounts reporting systems and base-years

Many countries are changing from the SNA68/ESA79 methodology for the national accounts data.
In the present edition of the OECD Economic Outlook, *the status of national accounts in the OECD countries is as follows :*

	Expenditure accounts	Household accounts	Government accounts	Use of chain weighted price indices	Benchmark/ base year
Australia	SNA93 (1959)	SNA93 (1959)	SNA93 (1959)	YES	2001/2002
Austria	ESA95 (1988)	ESA95 (1995)	ESA95 (1976)	NO	1995
Belgium	ESA95 (1970)	ESA95 (1995)	ESA95 (1970)	NO	2000
Canada	SNA93 (1955)	SNA93 (1955)	SNA93 (1981)	YES	1997
Czech Republic	SNA93 (1994)	SNA93 (1994)	SNA93 (1992)	NO	1995
Denmark	ESA95 (1988)	ESA95 (1988)	ESA95 (1971)	NO	1995
Finland	ESA95 (1995)	ESA95 (1995)	ESA95 (1995)	NO	2000
France	ESA95 (1978)	ESA95 (1978)	ESA95 (1978)	NO	1995
Germany[b]	ESA95 (1960)	ESA95 (1970)	ESA95 (1980)	NO	1995
Greece	ESA95 (1960)	Not available	ESA95 (1960)	YES	1995
Hungary	SNA93 (1995)	SNA93 (1995)	SNA93 (1991)	NO	2000
Iceland	SNA93 (1970)	Not available	SNA93 (1990)	NO	1990
Ireland	ESA95 (1990)	ESA95 (1990)	ESA95 (1990)	NO	1995
Italy	ESA95 (1982)	ESA95 (1980)	ESA95 (1980)	NO	1995
Japan	SNA93 (1980q1)[c]	SNA93 (1990)[c]	SNA93 (1990)[c]	NO	1995
Korea	SNA93 (1995)	SNA93 (1975)	SNA93 (1975)	NO	2000[a]
Luxembourg	ESA95 (1970)	Not available	ESA95(1990)	NO	1995
Mexico	SNA93 (1980)	Not available	Not available	NO	1993
Netherlands	ESA95 (1977)	ESA95 (1980)	ESA95 (1969)	YES	1995
New Zealand	SNA93 (1987)	SNA93 (1987)	SNA93 (1976)	YES	1995/96
Norway	SNA93 (1978)	SNA93 (1978)	SNA93 (1978)	NO	2001[a]
Poland	SNA93 (1991)	SNA93 (1991)	SNA93 (1995)	YES	1995
Portugal	ESA95 (1995)	ESA95(1995)	ESA95 (1977)	NO	1995
Slovak Republic	SNA93 (1993)	SNA93 (1994)	SNA93 (1993)	NO	1995
Spain	ESA95 (1995)	ESA95 (1995)	ESA95 (1995)	NO	1995
Sweden	ESA95 (1980)	ESA95 (1993)	ESA95 (1993)	YES	2000[a]
Switzerland	SNA93 (1960)	SNA93 (1990)	SNA93 (1990)	YES	2000[a]
Turkey	SNA68	SNA68	SNA68	NO	1987
United Kingdom	ESA95 (1987)	ESA95 (1987)	ESA95 (1987)	YES	2000
United-States	NIPA (SNA93) (1960q1)	NIPA (SNA93) (1960q1)	NIPA (SNA93) (1960q1)	YES	2000[a]

a) SNA: System of National Accounts. ESA: European Standardised Accounts. NIPA: National Income and Product Accounts. GFS: Government Financial Statistics. The numbers in brackets indicate the starting year for the time series.
b) Data prior to 1991 refer to the new SNA93/ESA95 accounts for western Germany data..
c) Spliced to SNA68.

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Annex Table 1. **Real GDP**

Percentage change from previous year

	Average 1979-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	3.3	1.4	-0.7	2.3	3.8	4.7	3.9	4.0	3.6	5.4	4.2	3.3	2.7	3.4	3.3	3.8	3.5	4.4	3.1	3.9
Austria	2.1	4.7	3.3	2.3	0.4	2.6	1.6	2.0	1.6	3.9	2.7	3.4	0.8	1.4	0.7	1.5	2.4	0.6	2.3	2.4
Belgium	2.2	3.1	1.8	1.3	-0.7	3.3	2.3	0.9	3.7	2.1	3.2	3.7	0.7	0.7	1.1	2.0	2.6	1.3	2.0	2.9
Canada	2.9	0.2	-2.1	0.9	2.3	4.8	2.8	1.6	4.2	4.1	5.5	5.3	1.9	3.3	1.7	2.8	3.3	1.6	3.2	3.3
Czech Republic	..	..	..	..	..	2.6	5.9	4.3	-0.8	-1.0	0.5	3.3	3.1	2.0	2.9	3.1	3.4	..	..	..
Denmark	1.4	1.0	1.1	0.6	0.0	5.5	2.8	2.5	3.0	2.5	2.6	2.8	1.6	1.0	0.4	1.9	2.6	1.0	2.5	2.5
Finland	3.6	-0.3	-6.4	-3.8	-1.2	3.9	3.4	3.9	6.3	5.0	3.4	5.1	1.1	2.3	1.9	2.5	3.7	1.6	2.9	3.9
France	2.2	2.6	1.0	1.3	-1.0	1.9	1.8	1.0	1.9	3.6	3.2	4.2	2.1	1.1	0.5	2.0	2.6	1.2	2.1	2.7
Germany	1.9	5.7	5.1	1.8	-1.1	2.4	1.8	0.8	1.5	1.7	1.9	3.1	1.0	0.2	-0.1	1.1	2.1	0.0	1.6	2.4
Greece	0.8	0.0	3.1	0.7	-1.6	2.0	2.1	2.4	3.6	3.4	3.4	4.4	4.0	3.9	4.2	4.0	3.5	4.5	4.4	3.8
Hungary	..	..	..	..	..	2.9	1.5	1.3	4.6	4.9	4.2	5.2	3.8	3.5	2.9	3.3	3.8	..	..	..
Iceland	3.2	1.2	-0.3	-3.3	0.9	4.1	0.1	5.1	4.6	5.6	4.2	5.6	2.7	-0.6	4.0	3.8	4.8	4.9	5.1	5.3
Ireland	3.1	8.5	1.9	3.3	2.7	5.8	9.9	8.1	11.1	8.7	11.3	10.0	6.2	6.9	1.4	3.4	4.6	0.4	5.3	4.7
Italy	2.4	1.9	1.4	0.7	-0.9	2.3	3.0	1.0	2.0	1.7	1.7	3.2	1.7	0.4	0.4	0.9	1.9	0.1	1.3	2.0
Japan	3.7	5.2	3.4	1.0	0.2	1.1	1.9	3.4	1.9	-1.1	0.1	2.8	0.4	-0.3	2.7	3.0	2.8	3.6	2.3	2.9
Korea	7.4	9.1	9.6	5.7	5.2	8.1	9.1	6.9	4.7	-6.7	9.4	8.5	3.8	6.9	3.1	5.6	5.9	4.1	4.3	7.2
Luxembourg	4.5	5.3	8.6	1.8	4.2	3.8	1.4	3.3	8.3	6.9	7.8	9.1	1.2	1.3	1.7	2.6	3.6	..	..	..
Mexico	2.1	5.1	4.2	3.6	2.0	4.5	-6.2	5.1	6.8	4.9	3.7	6.6	-0.1	0.7	1.3	3.5	4.2	2.0	3.8	4.2
Netherlands	2.0	4.1	2.4	1.5	0.7	2.9	3.0	3.0	3.8	4.3	4.0	3.5	1.2	0.2	-0.7	0.9	2.1	-0.4	1.3	2.5
New Zealand	2.5	0.5	-1.9	0.8	4.7	6.2	3.9	3.5	3.2	-0.6	4.7	3.7	2.6	4.3	3.0	3.3	2.5	3.1	2.8	2.5
Norway	2.7	2.1	3.6	3.3	2.7	5.3	4.4	5.3	5.2	2.6	2.1	2.8	2.7	1.4	0.3	3.1	2.7	0.5	3.2	2.5
Poland	..	..	..	..	..	5.3	7.0	6.0	6.8	4.8	4.1	4.0	1.0	1.4	3.7	4.7	4.5	..	..	..
Portugal	3.3	4.0	4.4	1.1	-2.0	1.0	4.3	3.5	4.0	4.6	3.8	3.4	1.8	0.5	-1.3	0.8	2.4	-0.5	2.1	2.7
Slovak Republic	..	..	..	..	..	6.2	5.8	6.1	4.6	4.2	1.5	2.0	3.8	4.4	4.2	4.3	4.8	..	..	..
Spain	2.7	3.8	2.5	0.9	-1.0	2.4	2.8	2.4	4.0	4.3	4.2	4.2	2.8	2.0	2.4	2.9	3.3	2.7	3.1	3.4
Sweden	2.2	1.0	-1.1	-1.3	-2.0	4.2	4.1	1.3	2.4	3.6	4.6	4.3	0.9	2.1	1.6	2.5	2.8	2.4	3.2	2.3
Switzerland	2.1	3.7	-0.8	0.0	-0.2	1.1	0.4	0.5	1.9	2.8	1.3	3.7	1.0	0.2	-0.5	1.8	2.3	-0.1	2.0	2.6
Turkey	4.0	9.3	0.9	6.0	8.0	-5.5	7.2	7.0	7.5	3.1	-4.7	7.4	-7.5	7.9	5.8	5.2	5.2	..	..	..
United Kingdom	2.3	0.8	-1.4	0.2	2.3	4.4	2.8	2.7	3.3	3.1	2.8	3.8	2.1	1.6	2.2	3.1	2.7	2.7	2.8	2.7
United States	3.0	1.9	-0.2	3.3	2.7	4.0	2.5	3.7	4.5	4.2	4.4	3.7	0.5	2.2	3.1	4.7	3.7	4.3	4.2	3.6
Euro area	2.2	3.6	2.5	1.2	-0.9	2.4	2.3	1.4	2.4	2.8	2.8	3.7	1.7	0.9	0.5	1.6	2.4	0.7	2.0	2.6
Total OECD	3.0	3.1	1.3	2.1	1.3	3.3	2.5	3.1	3.6	2.7	3.3	3.9	1.0	1.7	2.2	3.4	3.3	2.9	3.2	3.3

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

These numbers are working-day adjusted and hence may differ from the basis used for official projections. The differences are particularly marked for certain countries -- see the notes to the "Demand and Output" table in the country notes for Germany and Italy.

Source: OECD.

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Annex Table 2. **Nominal GDP**

Percentage change from previous year

	Average 1979-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	11.7	6.4	1.6	3.7	5.1	5.6	5.5	5.1	5.4	5.8	4.9	7.7	6.2	6.3	6.2	7.4	6.1	7.7	6.2	6.5
Austria	5.9	8.2	7.2	6.0	3.4	5.4	4.2	3.3	2.5	4.5	3.4	4.9	2.8	2.7	2.7	3.1	3.5	2.8	3.3	3.7
Belgium	6.7	6.0	4.7	4.8	3.3	5.5	3.6	2.0	5.2	3.8	4.6	5.0	2.5	2.4	2.8	3.8	4.3	3.3	4.3	3.7
Canada	8.9	3.4	0.8	2.2	3.8	6.0	5.1	3.3	5.5	3.7	7.4	9.5	3.0	4.3	5.2	4.1	5.0	4.0	4.7	5.0
Czech Republic	..	..	..	..	..	13.9	16.8	13.5	7.2	9.5	3.4	4.3	9.6	4.6	5.9	6.5	5.9	..	..	..
Denmark	8.2	4.7	3.9	3.5	1.4	7.3	4.6	5.1	5.2	3.5	4.5	5.9	3.6	2.7	2.6	4.0	4.9	3.1	4.4	5.1
Finland	11.3	6.0	-4.6	-2.4	1.3	5.8	8.4	3.5	8.5	8.7	3.2	8.5	4.1	3.2	2.6	3.1	5.5	2.4	3.3	6.2
France	9.4	5.6	4.0	3.3	1.5	3.7	3.6	2.5	3.2	4.4	3.7	5.0	3.8	3.6	2.0	3.5	4.2	2.5	3.7	4.3
Germany	4.9	9.1	8.8	6.9	2.5	5.0	3.9	1.8	2.2	2.8	2.4	2.8	2.3	1.8	0.9	1.9	3.0	1.0	2.4	3.2
Greece	20.3	20.7	23.5	15.6	12.6	13.4	12.1	9.9	10.7	8.8	6.5	8.0	7.7	7.9	8.0	7.9	7.3	8.6	7.6	7.1
Hungary	..	..	..	..	..	23.0	27.4	22.8	23.9	18.1	12.9	15.6	12.7	12.7	11.0	9.3	9.0	..	..	..
Iceland	40.8	18.2	8.2	-0.1	3.1	6.2	3.0	7.3	8.0	10.8	7.1	8.6	12.3	4.7	3.6	6.5	8.9	5.5	8.7	8.4
Ireland	12.0	7.7	3.8	6.2	8.0	7.5	13.2	10.3	15.6	15.6	15.5	14.7	11.6	12.7	2.0	5.2	7.2	1.0	6.5	7.5
Italy	14.6	10.3	9.1	5.3	3.0	5.9	8.1	6.4	4.5	4.5	3.3	5.4	4.4	3.4	3.3	3.4	4.3	3.1	3.9	4.5
Japan	6.3	7.7	6.4	2.6	0.8	1.2	1.4	2.6	2.1	-1.2	-1.4	0.8	-1.1	-1.5	0.1	1.2	1.7	0.8	1.1	1.9
Korea	16.9	21.4	20.9	13.7	13.0	16.5	17.0	12.5	9.1	-1.3	9.2	9.6	7.6	9.9	5.3	7.7	8.3	6.2	6.4	9.8
Luxembourg	9.4	8.0	10.6	5.6	10.4	7.5	3.8	5.4	11.2	9.8	10.2	13.4	3.4	1.9	3.7	5.6	5.6	..	..	..
Mexico	66.3	34.6	28.5	18.6	11.6	13.3	29.3	37.5	25.7	21.0	19.5	19.5	5.8	7.7	7.9	8.9	8.1	6.3	8.9	7.8
Netherlands	4.3	6.4	5.3	3.9	2.5	5.2	5.1	4.2	5.9	6.1	5.6	7.5	6.7	3.6	2.1	2.2	3.0	1.8	2.3	3.3
New Zealand	13.9	3.8	-1.4	2.3	7.8	7.3	6.4	6.0	3.5	0.9	4.6	6.2	7.4	5.0	5.1	6.4	4.3	7.1	6.2	3.8
Norway	10.0	5.9	5.9	2.7	5.1	5.2	7.3	9.5	8.2	1.9	8.9	19.1	3.9	-0.3	3.2	5.6	5.3	3.2	5.6	5.6
Poland	..	..	..	..	..	44.5	36.9	25.7	21.6	16.9	10.7	10.9	5.1	2.6	4.4	5.9	5.9	..	..	..
Portugal	22.0	17.6	14.9	12.7	5.2	8.3	7.9	6.7	7.9	8.5	7.0	7.0	6.3	5.2	1.0	3.1	4.1	1.2	3.7	4.5
Slovak Republic	..	..	..	..	..	20.5	16.3	10.7	11.6	9.6	8.0	10.7	8.1	8.6	9.1	8.3	7.8	..	..	..
Spain	13.0	11.4	9.7	7.7	3.5	6.4	7.8	6.0	6.4	6.8	7.1	7.8	7.1	6.6	6.7	6.4	6.6	7.0	6.2	6.6
Sweden	10.5	9.9	7.8	-0.2	1.0	6.6	7.6	2.5	4.0	4.4	5.3	5.7	3.3	3.6	3.9	3.9	4.8	4.2	4.6	4.2
Switzerland	5.8	8.2	4.8	2.2	2.1	2.6	1.2	0.5	1.8	2.5	2.0	4.5	1.7	1.2	0.7	3.1	3.0	2.2	2.5	3.2
Turkey	54.9	72.9	60.3	73.5	81.3	95.2	100.7	90.3	95.2	81.1	48.2	60.9	43.2	55.6	29.6	19.7	15.3	..	..	..
United Kingdom	10.0	8.4	5.2	4.2	5.2	6.1	5.6	6.1	6.2	6.0	5.2	5.2	4.5	5.0	5.4	5.5	4.9	5.6	5.1	5.1
United States	7.9	5.8	3.3	5.7	5.0	6.2	4.6	5.7	6.2	5.3	6.0	5.9	2.9	3.8	4.8	6.4	5.3	6.0	5.9	5.3
Euro area	9.1	8.6	7.4	5.6	2.7	5.2	5.2	3.5	4.0	4.6	3.9	5.1	4.1	3.5	2.5	3.3	4.2	2.7	3.7	4.3
European Union	9.3	8.6	7.0	5.2	3.1	5.4	5.3	4.0	4.4	4.8	4.1	5.2	4.1	3.7	3.0	3.7	4.3	3.2	3.9	4.5
Total OECD	11.0	9.3	7.0	6.4	5.5	7.6	7.5	7.3	7.2	5.8	5.7	6.7	3.9	4.2	4.2	5.1	4.9	4.5	5.0	4.9
Memorandum item																				
OECD *less* high inflation countries [a]	8.6	7.5	5.5	5.0	3.9	5.6	4.9	4.8	5.1	4.0	4.4	5.3	3.1	3.3	3.6	4.7	4.6	4.2	4.5	4.7

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence there are breaks in many national series. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*. Working-day adjusted -- see note to Table on Real GDP.

a) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

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

Percentage change from previous year

	Average 1979-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	3.2	2.7	0.6	2.5	1.6	3.7	4.7	3.2	4.0	4.5	4.9	3.1	2.9	4.2	4.4	4.6	3.4	5.6	3.4	3.5
Austria	2.3	4.5	2.5	3.0	0.8	2.4	2.6	3.2	1.7	2.7	2.4	3.3	1.4	0.8	1.3	1.3	2.7	-0.1	2.4	2.8
Belgium	1.9	3.2	3.0	1.7	-0.3	2.4	1.0	1.1	2.0	3.1	2.3	3.4	0.9	0.4	1.7	1.7	2.2	1.5	2.1	2.3
Canada	2.8	1.2	-1.6	1.5	1.8	3.0	2.1	2.6	4.6	2.8	3.8	4.0	2.6	3.4	3.3	2.6	3.1	2.8	2.9	3.1
Czech Republic	..	..	..	..	..	4.5	5.9	7.9	2.4	-1.6	1.7	2.5	3.6	4.0	5.4	3.3	3.2	..	..	..
Denmark	0.8	0.1	1.6	1.9	0.5	6.5	1.2	2.5	2.9	2.3	0.7	-0.7	-0.2	0.6	1.1	3.4	3.1	2.2	3.0	2.9
Finland	3.8	-1.1	-3.8	-4.0	-3.8	2.5	4.1	3.7	3.4	4.3	3.5	3.1	1.8	1.5	3.6	3.0	2.7	2.9	3.2	2.5
France	1.9	2.7	0.7	0.8	-0.2	0.9	1.3	1.3	0.2	3.6	3.5	2.9	2.8	1.8	1.7	1.7	2.5	1.6	2.0	2.6
Germany	1.8	4.1	4.6	2.3	0.2	1.1	2.3	0.9	0.7	1.7	3.6	2.2	1.5	-1.0	-0.1	0.4	2.1	-0.8	1.7	2.2
Greece	1.9	2.6	2.9	2.3	-0.8	1.9	2.5	2.4	2.7	3.5	2.5	2.0	2.8	2.8	4.0	3.8	3.2	..	..	..
Hungary	..	..	..	..	..	0.2	-7.1	-4.3	1.9	4.8	5.4	3.8	5.7	10.2	7.6	3.0	2.3	..	..	..
Iceland	3.0	0.5	0.8	-3.1	-4.7	2.9	2.2	5.4	5.5	10.1	7.3	3.8	-3.0	-1.0	6.4	5.3	5.2	6.5	6.1	5.1
Ireland	1.8	1.4	1.8	2.9	2.9	4.4	3.6	6.5	7.1	7.3	9.6	8.5	5.2	2.6	1.9	3.5	4.0	2.3	3.9	4.2
Italy	3.1	2.2	2.9	1.9	-3.6	1.5	1.7	1.3	3.2	3.2	2.6	2.8	0.8	0.4	1.2	1.0	2.4	0.3	1.9	2.5
Japan	3.4	4.6	2.9	2.6	1.4	2.7	1.8	2.5	0.9	-0.1	0.2	1.0	1.7	0.9	1.1	1.7	1.5	2.1	1.2	1.7
Korea	6.9	9.6	8.0	5.5	5.6	8.2	9.5	6.8	3.3	-13.4	11.5	8.4	4.9	7.9	-1.4	2.5	5.0	-2.4	4.6	5.2
Luxembourg	2.8	3.8	7.0	-2.3	2.1	4.0	1.8	4.4	3.9	6.6	2.6	4.6	4.5	2.3	1.9	2.2	2.5	..	..	..
Mexico	1.9	6.4	4.7	4.7	1.5	4.6	-9.5	2.2	6.5	5.4	4.3	8.2	2.5	1.3	3.0	3.5	4.4	3.2	4.4	4.3
Netherlands	0.8	3.8	2.7	0.5	0.3	1.4	2.9	4.0	3.0	4.8	4.7	3.5	1.4	0.8	-1.2	0.4	1.7	-2.1	1.6	2.3
New Zealand	2.1	0.1	-1.3	0.1	2.8	5.8	4.0	5.1	2.4	2.0	4.0	2.0	2.2	4.2	5.2	4.0	1.9	5.1	2.7	1.6
Norway	1.9	0.7	2.3	2.2	2.4	3.3	3.7	6.5	3.2	2.7	3.3	3.9	1.8	3.6	3.7	4.5	3.2	4.0	4.2	2.6
Poland	..	..	..	..	..	3.9	3.7	8.5	6.9	4.8	5.2	2.8	2.0	3.4	3.1	3.7	4.3	..	..	..
Portugal	2.6	6.4	4.2	4.7	1.1	1.0	0.6	3.0	3.3	5.0	5.1	2.9	1.2	0.5	-0.8	1.5	2.4	0.8	1.8	2.6
Slovak Republic	..	..	..	..	..	1.0	5.4	7.9	5.5	6.5	3.2	-0.8	4.7	5.3	-0.4	2.0	4.2	..	..	..
Spain	2.1	3.5	2.9	2.2	-1.9	1.1	1.7	2.2	3.2	4.4	4.7	4.0	2.8	2.6	3.0	3.3	3.6	3.0	3.5	3.7
Sweden	1.7	-0.4	1.1	-1.3	-3.5	1.9	1.0	1.6	2.7	3.0	3.8	5.0	0.4	1.4	2.0	2.5	2.5	2.1	2.4	2.5
Switzerland	1.7	1.2	1.7	0.4	-0.6	1.0	0.7	1.0	1.5	2.4	2.3	2.5	2.0	0.7	0.8	1.6	1.9	1.7	1.4	2.0
Turkey	2.4	13.1	2.7	3.2	8.6	-5.4	4.8	8.5	8.4	0.6	-2.6	6.2	-9.2	2.1	6.6	5.1	4.8	..	..	..
United Kingdom	3.4	1.0	-1.5	0.5	2.9	3.1	1.6	3.6	3.6	3.9	4.4	4.6	3.1	3.4	2.5	3.8	2.5	2.5	3.6	2.1
United States	3.3	2.0	0.2	3.3	3.3	3.7	2.7	3.4	3.8	5.0	5.1	4.7	2.5	3.4	3.1	3.8	3.2	4.0	3.3	3.2
Euro area	2.1	3.1	2.7	1.7	-0.9	1.3	1.9	1.6	1.6	3.1	3.5	2.9	1.8	0.6	1.0	1.3	2.5	0.6	2.1	2.6
Total OECD	3.0	3.1	1.5	2.5	1.7	2.9	2.1	3.0	3.0	3.0	3.9	3.8	2.1	2.4	2.2	2.8	2.9	2.6	2.8	2.9

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD.

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

Percentage change from previous year

	Average 1979-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	3.8	3.7	3.0	0.4	0.3	3.1	4.0	2.9	2.6	3.5	2.2	4.8	0.6	3.5	3.3	3.0	3.0	2.6	2.7	3.1
Austria	1.6	2.3	3.2	3.5	3.7	3.0	1.3	1.2	-1.5	2.8	3.0	-0.1	-1.4	0.1	0.7	0.7	0.7	0.4	0.6	0.7
Belgium	1.3	-0.4	3.6	1.6	-0.3	1.6	1.5	2.2	0.4	1.1	3.5	2.7	2.5	1.9	2.8	1.6	1.6	2.6	1.6	1.6
Canada	2.4	3.5	2.9	1.0	0.0	-1.2	-0.6	-1.2	-1.0	3.2	2.1	2.6	3.7	3.0	3.0	2.5	2.9	2.4	3.0	2.8
Czech Republic	..	..	..	..	..	-3.3	-4.3	3.6	-4.4	-4.4	2.3	-1.0	5.3	5.7	0.0	0.2	0.1	..	..	..
Denmark	1.2	-0.2	0.6	0.8	4.1	3.0	2.1	3.4	0.8	3.1	2.0	0.9	2.7	2.1	0.5	0.8	0.6	0.0	1.2	0.3
Finland	3.3	4.2	1.9	-2.5	-4.2	0.8	2.0	2.6	2.9	2.0	1.4	0.0	2.4	3.8	0.7	1.4	1.4	0.7	1.4	1.5
France	2.7	2.5	2.6	3.6	4.3	0.5	0.0	2.2	2.1	-0.1	1.5	3.0	2.9	4.6	2.5	2.5	1.2	2.6	1.5	1.2
Germany	1.5	3.1	1.9	5.0	0.1	2.4	1.5	1.8	0.3	1.9	0.8	1.0	1.0	1.7	0.9	0.1	-0.2	1.3	-0.4	0.0
Greece	1.3	0.6	-1.5	-3.0	2.6	-1.1	5.6	0.9	3.0	1.7	2.1	2.2	-1.0	5.8	6.0	2.3	0.9	..	..	..
Hungary	..	..	..	..	..	-7.4	-5.7	-1.9	3.1	2.8	1.7	1.4	6.2	5.0	1.6	-2.0	1.6	..	..	..
Iceland	4.9	4.4	3.1	-0.7	2.3	4.0	1.8	1.2	2.5	3.4	4.9	4.4	3.1	3.9	3.0	2.7	2.2	2.1	2.5	1.9
Ireland	0.2	5.4	2.7	3.0	0.1	4.1	3.9	3.5	5.8	5.6	7.6	7.5	11.6	9.0	2.1	3.0	3.9	2.1	3.8	4.3
Italy	2.9	2.5	1.7	0.6	-0.2	-0.9	-2.2	1.0	0.2	0.2	1.3	1.7	3.9	1.9	2.2	0.3	1.0	2.1	0.0	1.4
Japan	3.6	3.2	4.1	2.5	3.0	3.2	4.3	2.9	1.0	2.0	4.6	4.9	3.0	2.4	1.2	2.0	2.3	1.3	2.3	2.3
Korea	5.1	7.5	7.3	6.0	4.8	1.8	0.9	7.9	2.7	2.3	2.9	1.6	4.8	6.0	3.6	3.0	3.0	3.5	2.9	3.0
Luxembourg	4.0	6.7	4.0	3.2	5.2	1.0	4.8	5.6	3.0	1.3	7.3	4.8	7.0	4.2	4.1	2.8	2.9	..	..	..
Mexico	3.3	3.3	5.4	1.9	2.4	2.9	-1.3	-0.7	2.9	2.3	4.7	2.4	-2.0	0.1	2.5	2.5	2.0	2.6	0.8	2.6
Netherlands	2.8	2.2	2.9	2.9	1.6	1.5	1.5	-0.4	3.2	3.6	2.5	2.0	4.2	3.8	2.7	-0.4	0.3	2.8	-2.1	1.3
New Zealand	1.5	1.6	-0.6	1.1	1.3	0.8	4.8	2.1	7.7	-1.8	7.6	-1.9	4.2	2.6	2.6	6.0	2.6	4.8	4.0	3.5
Norway	2.7	5.3	5.4	5.6	2.7	1.5	1.5	3.1	2.5	3.3	3.2	1.3	5.8	3.1	1.3	1.8	1.9	1.9	1.6	1.8
Poland	..	..	..	..	..	1.2	4.8	2.3	3.3	2.0	1.8	1.3	0.6	0.6	0.4	0.3	-2.1	..	..	..
Portugal	5.3	4.2	9.6	-0.9	-0.2	4.3	1.0	3.4	2.2	4.1	5.6	4.1	3.3	2.7	-0.6	-1.0	-0.6	-1.6	-0.4	-0.7
Slovak Republic	..	..	..	..	..	-10.7	3.6	17.2	-5.4	12.5	-7.1	1.6	4.6	4.7	2.9	1.5	1.2	..	..	..
Spain	4.8	6.3	6.0	3.5	2.7	0.5	2.4	1.3	2.9	3.7	4.2	5.1	3.6	4.4	4.6	4.3	3.6	4.8	4.0	3.5
Sweden	1.7	2.5	3.4	1.7	0.1	-0.8	-0.4	0.6	-0.9	3.4	1.7	-1.2	0.9	3.2	0.7	1.3	0.3	0.3	2.1	-0.5
Switzerland	2.8	5.4	4.3	1.7	-0.7	2.0	1.0	0.9	-0.1	-0.9	0.3	2.4	4.0	0.8	0.7	0.3	0.5	0.8	-0.2	0.7
Turkey	5.8	8.0	3.7	3.6	8.6	-5.5	6.8	8.6	4.1	7.8	6.5	7.1	-8.5	5.4	-2.4	-1.1	0.3	..	..	..
United Kingdom	0.8	2.2	3.0	0.7	-0.7	1.0	1.4	0.7	-0.3	1.3	3.2	1.9	1.7	2.5	1.8	2.0	1.9	3.2	0.9	2.5
United States	2.8	2.5	1.3	0.5	-0.3	0.3	0.2	0.4	1.8	1.6	3.1	1.8	2.8	3.6	3.9	2.5	1.9	2.2	2.8	1.6
Euro area	2.4	2.9	2.6	3.0	1.4	1.2	0.7	1.7	1.3	1.4	1.8	2.2	2.6	3.0	2.1	1.2	1.0	2.2	0.7	1.1
Total OECD	2.9	3.1	2.6	1.7	1.0	1.0	1.1	1.5	1.5	1.9	2.9	2.4	2.4	3.2	2.6	2.0	1.7	2.1	1.8	1.7

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD.

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

Percentage change from previous year

	Average 1979-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	5.1	-7.6	-8.3	1.4	5.3	11.4	2.2	4.2	9.4	8.2	6.4	0.9	-1.8	15.1	9.5	6.6	4.5	7.4	3.2	5.5
Austria	1.6	6.2	6.6	0.6	-0.9	4.6	1.3	2.2	2.0	3.9	2.1	6.2	-2.3	-2.8	4.3	3.3	4.4	6.5	4.9	4.0
Belgium	2.7	8.0	-3.9	0.6	-1.7	0.0	3.6	-0.2	8.0	3.6	4.5	3.5	0.5	-2.1	1.1	2.8	4.8	0.2	6.7	4.0
Canada	4.9	-3.9	-5.4	-2.7	-2.0	7.5	-2.1	4.4	15.2	2.4	7.3	5.5	4.3	1.3	4.9	6.3	4.9	7.1	5.6	4.4
Czech Republic	..	..	..	..	..	3.8	19.8	8.2	-2.9	0.7	-1.0	5.3	5.5	0.6	3.7	4.6	4.4	..	..	..
Denmark	0.8	-2.1	-3.3	-2.0	-4.0	7.6	11.6	4.0	10.9	10.1	1.5	6.9	4.9	4.5	-0.4	4.0	4.3	2.9	2.8	4.3
Finland	4.9	-4.6	-18.5	-16.4	-15.2	-3.6	11.2	6.7	13.8	8.4	2.5	4.1	3.9	-3.1	-2.3	1.8	3.7	-0.7	2.4	4.2
France	2.6	3.2	-1.5	-1.8	-6.6	1.6	2.2	-0.1	-0.2	7.2	8.3	8.4	2.1	-1.8	0.1	2.8	4.2	1.5	3.5	4.4
Germany	1.0	7.7	5.2	3.4	-4.5	4.1	-0.6	-0.7	1.0	2.3	3.8	3.2	-3.9	-6.5	-2.9	1.3	2.5	-1.1	1.2	3.1
Greece	-3.0	4.5	4.2	-3.5	-4.0	-3.1	4.1	8.4	6.8	10.6	11.0	8.0	6.5	5.7	12.6	7.6	5.0	..	..	..
Hungary	..	..	..	..	..	12.5	-4.3	6.7	9.2	13.3	5.9	6.7	5.0	8.0	3.0	6.0	5.6	..	..	..
Iceland	1.8	3.0	1.8	-11.1	-10.7	0.6	-1.1	25.7	10.0	32.8	-3.0	14.8	-7.6	-15.1	19.0	10.7	10.7	33.7	-1.4	20.0
Ireland	-0.9	13.4	-7.0	0.0	-5.1	11.8	15.3	16.8	18.9	14.8	14.4	6.6	-0.1	1.8	-2.6	3.6	4.8	-0.2	4.1	5.2
Italy	1.8	3.8	1.1	-1.7	-10.9	0.3	6.2	3.4	2.1	3.8	5.1	7.3	1.6	1.3	-2.1	0.0	5.2	-7.8	3.4	5.5
Japan	4.1	7.9	2.3	-2.4	-2.8	-1.5	0.8	6.4	0.9	-3.9	-0.9	2.7	-1.1	-6.1	3.3	3.4	1.9	5.9	0.8	2.3
Korea	8.2	26.2	13.3	-0.4	5.9	10.7	11.8	8.6	-2.3	-22.5	8.0	12.1	-0.5	6.7	3.6	4.7	5.7	2.4	4.4	6.4
Luxembourg	4.8	3.4	15.8	-15.1	20.6	0.0	-1.5	3.8	12.7	11.8	14.6	-3.5	10.1	-1.4	0.5	1.9	3.3	..	..	..
Mexico	-1.0	13.1	11.0	10.8	-2.5	8.4	-29.0	16.4	21.0	10.3	7.7	11.4	-5.6	-1.0	-0.4	5.0	6.0	0.8	7.2	5.7
Netherlands	1.9	2.6	0.3	0.7	-3.2	2.1	4.1	6.3	6.6	4.2	7.8	1.4	-0.1	-4.5	-3.2	0.0	2.8	-0.1	1.3	3.2
New Zealand	4.2	-0.8	-18.3	0.2	14.5	15.3	12.2	7.8	0.6	-5.2	4.4	7.2	-0.5	8.9	13.7	7.3	1.6	12.8	4.0	1.4
Norway	0.3	-10.8	-3.0	-1.1	6.5	5.3	3.9	10.3	15.5	13.1	-5.6	-3.6	-0.7	-3.4	-2.5	1.7	2.7	-5.9	5.9	2.2
Poland	..	..	..	..	..	9.2	16.6	19.7	21.7	14.2	6.8	2.7	-8.8	-5.8	-0.9	5.7	7.5	..	..	..
Portugal	3.0	7.6	3.3	4.5	-5.5	2.7	6.6	5.7	13.9	11.5	6.4	3.8	0.7	-5.2	-9.6	1.8	6.2	-6.1	5.3	6.9
Slovak Republic	..	..	..	..	..	-2.5	0.6	29.1	15.0	11.0	-19.6	-7.2	13.9	-0.9	-1.2	6.0	8.4	..	..	..
Spain	4.7	6.4	1.7	-4.1	-8.9	1.9	7.7	2.1	5.0	10.0	8.8	5.7	3.3	1.0	3.0	4.0	5.0	2.5	4.5	5.3
Sweden	4.2	0.2	-8.5	-11.3	-14.6	6.6	9.9	4.5	-0.3	7.8	8.2	5.7	-1.0	-3.0	-2.0	1.1	6.0	-1.7	5.5	6.1
Switzerland	4.1	3.8	-2.2	-8.0	-3.0	6.6	4.4	-1.7	2.1	6.6	1.2	4.4	-3.1	-4.8	-0.5	3.4	3.7	2.1	3.3	3.8
Turkey	6.6	15.9	0.4	6.4	26.4	-16.0	9.1	14.1	14.8	-3.9	-15.7	16.9	-31.5	-1.1	10.0	14.9	12.0	..	..	..
United Kingdom	4.1	-2.6	-8.2	-0.9	0.3	4.7	3.1	5.7	6.8	12.7	1.6	3.6	3.6	1.8	2.9	6.4	6.0	3.7	5.3	6.5
United States	2.9	-0.4	-5.0	4.9	6.0	7.4	5.8	8.2	8.1	9.2	8.3	6.1	-2.2	-2.2	3.9	7.3	6.0	7.1	6.4	5.4
Euro area	2.0	5.0	1.1	-0.3	-6.3	2.4	2.6	1.3	2.7	5.1	5.9	5.3	0.0	-2.4	-0.8	2.0	4.1	-0.8	3.1	4.4
Total OECD	3.2	3.2	-1.5	1.3	0.5	4.8	3.1	6.3	6.3	5.2	5.3	5.6	-1.5	-1.7	2.4	5.1	5.0	4.1	4.5	4.9

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD.

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

Percentage change from previous year

	Average 1979-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	6.9	-7.6	-11.3	-2.1	2.4	11.7	7.6	10.3	8.0	7.0	6.1	-0.9	0.6	14.4	10.6	8.5	6.4	9.0	4.8	6.7
Austria	3.0	13.2	6.1	-3.1	-4.4	3.7	-2.1	4.0	10.6	7.6	4.7	12.2	2.0	-2.8	5.6	4.7	5.2	9.0	6.0	4.6
Belgium	6.6	9.7	-3.3	-1.4	-4.6	-2.5	5.2	3.9	7.9	5.2	2.5	4.6	2.5	-2.7	1.8	3.0	4.0	0.1	6.0	3.5
Canada	6.1	-2.6	-3.3	-7.8	-1.4	9.4	4.8	4.4	22.6	5.3	7.2	6.0	1.0	-6.0	3.4	7.0	7.3	6.9	7.7	6.8
Denmark	4.5	2.2	-1.4	-4.2	-8.3	7.6	13.9	2.7	13.7	13.5	1.9	6.6	6.9	4.2	-2.1	4.0	5.0	3.1	1.2	6.1
Finland	6.9	-7.4	-23.5	-19.0	-18.0	-5.0	26.9	6.5	8.2	13.0	0.9	6.8	9.7	-7.1	-8.7	-0.8	3.7	-6.3	2.0	4.5
France	4.2	5.6	-1.0	-2.6	-8.0	0.7	3.4	-0.2	1.0	10.2	9.2	9.7	3.1	-3.7	-1.6	3.7	5.8	0.8	4.9	5.9
Germany	0.9	9.0	6.0	-1.0	-9.1	0.8	1.1	-0.6	2.9	3.6	4.6	7.7	-2.9	-7.2	-2.1	2.5	4.6	-1.3	4.4	4.8
Greece	-1.3	6.6	5.2	0.7	1.1	0.9	2.9	14.7	5.4	12.0	16.7	9.4	8.5	6.2	14.0	8.9	5.9	..	..	..
Iceland	1.1	6.9	4.2	-17.8	-25.4	1.8	11.9	52.0	19.2	45.6	-5.1	14.9	-15.1	-22.6	23.9	22.5	16.5	51.5	3.6	29.4
Ireland	0.6	15.8	-11.9	-3.2	-5.4	7.5	17.7	17.4	21.7	18.7	13.9	-0.4	-3.8	-1.6	-14.7	4.6	8.1	-13.1	5.4	8.8
Italy	2.1	5.5	0.1	-2.3	-14.3	5.1	10.7	3.5	3.7	4.0	6.1	8.8	0.6	-0.1	-4.7	-1.9	5.9	-13.2	2.9	6.4
Japan	7.3	10.1	4.3	-7.1	-10.3	-5.7	2.7	4.7	11.3	-2.0	-4.0	9.6	1.1	-7.2	9.7	9.1	4.6	14.0	5.0	4.2
Korea	8.4	17.8	13.6	0.5	4.7	14.8	13.8	8.6	-3.4	-28.7	13.8	18.6	-5.3	5.3	3.1	6.0	6.5	1.1	5.8	6.7
Mexico	..	19.6	22.6	22.8	-5.6	-0.4	-38.9	45.8	34.1	18.3	8.8	10.0	-4.3	-3.7	-3.5	3.2	7.0	-6.1	9.0	6.3
Netherlands	3.1	4.8	2.0	-3.2	-5.1	-0.4	5.5	7.0	9.7	5.2	9.9	1.0	-1.9	-6.5	-3.9	0.0	3.0	-0.3	1.1	3.7
New Zealand	6.7	-5.1	-18.9	8.2	23.1	17.0	15.0	7.2	-6.5	-5.6	-1.7	17.7	0.6	7.9	15.1	10.4	3.2	15.2	5.3	2.5
Norway	0.2	-10.0	-3.3	-0.7	12.5	2.7	2.1	13.5	15.8	15.3	-8.6	-4.1	-4.1	-4.5	-3.2	1.2	2.6	-9.4	7.1	2.0
Spain	4.7	3.9	3.7	-1.0	-13.5	3.5	12.4	3.6	6.4	9.1	9.7	7.9	3.8	-0.9	2.0	3.5	4.8	3.0	3.3	5.9
Sweden	6.9	-2.7	-16.1	-15.9	-9.5	22.2	23.2	8.0	4.8	9.5	8.5	8.2	-2.9	-7.0	-2.7	1.7	7.0	-0.8	7.0	6.9
Switzerland	4.4	11.0	-2.1	-11.3	-4.5	5.1	8.6	1.3	3.1	9.5	1.2	5.0	-1.8	-5.4	-0.9	4.2	4.6	2.2	4.2	4.6
United Kingdom	6.5	4.4	-5.2	-2.2	-5.4	5.4	9.0	10.1	11.1	20.6	2.2	4.8	3.6	-2.6	-0.5	3.9	4.5	0.7	2.6	5.9
United States	3.1	0.5	-5.4	3.2	8.7	9.2	10.5	9.3	12.1	11.1	9.2	8.7	-4.5	-7.2	3.0	9.1	8.9	7.4	8.9	8.2
Euro area	2.6	6.2	1.3	-2.1	-9.5	1.6	4.8	1.8	4.6	6.7	6.9	7.7	0.7	-3.7	-2.0	2.3	5.1	-2.4	4.2	5.5
Total OECD	4.1	4.5	-0.8	-0.2	-1.1	4.9	6.0	7.7	10.2	7.4	6.2	8.3	-1.5	-4.8	2.0	6.3	6.7	4.2	6.4	6.5

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. Some countries, United States, Canada and France use hedonic price indices to deflate current-price values of investment in certain information and communication technology products such as computers. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex. National account data do not always have a sectoral breakdown of investment expenditures, and for some countries data are estimated by the OECD. See also *OECD Economic Outlook* Sources and Methods, *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD.

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

Percentage change from previous year

	Average 1979-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	2.4	-10.8	-5.7	11.4	12.8	12.1	-7.6	-10.6	15.3	14.9	5.2	3.3	-10.0	24.3	7.7	3.8	-1.0	6.0	-1.8	1.8
Austria	1.0	-8.2	9.4	10.7	4.3	7.7	13.1	2.4	-1.7	-2.5	-2.5	-5.2	-10.5	-6.2	1.6	0.8	3.1	1.2	4.0	2.6
Belgium	-0.6	8.3	-9.0	4.9	1.8	5.5	4.3	-8.2	10.4	0.2	5.7	0.9	-0.6	-1.6	1.3	2.5	3.0	2.5	2.7	3.2
Canada	3.9	-10.5	-14.8	7.1	-3.4	4.1	-14.8	9.6	8.2	-3.5	3.6	5.2	10.3	14.2	7.5	5.7	0.8	7.9	2.1	0.3
Denmark	-3.7	-11.3	-10.1	0.1	6.3	8.9	8.5	5.8	7.1	4.2	-1.0	7.7	-5.3	10.5	7.8	4.9	0.9	9.4	2.9	-0.2
Finland	2.5	-5.9	-16.5	-17.8	-8.8	-6.0	-4.6	5.8	25.1	7.0	8.2	3.4	-10.6	2.1	7.7	7.6	5.8	8.6	6.7	5.2
France	-0.3	-1.7	-6.9	-3.7	-5.2	4.4	2.1	0.4	0.9	3.8	7.0	3.4	0.8	0.7	0.8	1.4	1.7	0.9	1.7	1.7
Germany	3.2	7.6	7.4	10.8	4.7	12.0	0.4	-0.2	0.4	0.3	1.6	-2.6	-6.2	-5.7	-2.7	0.0	-0.6	-0.2	-2.2	0.1
Greece	-5.8	5.5	-0.3	-15.6	-10.5	-11.3	2.6	-1.2	6.6	8.8	3.8	-4.3	4.8	8.8	5.0	3.8	2.6	..	..	..
Iceland	0.7	-0.6	-3.7	-3.4	-5.2	4.1	-8.7	7.1	-9.3	1.3	0.3	15.2	17.8	5.2	13.3	4.0	3.6	11.4	2.8	3.6
Ireland	-0.7	4.7	0.7	8.0	-11.9	24.0	14.0	18.2	16.4	6.5	11.4	17.4	-6.1	6.2	20.0	3.0	1.0	24.8	3.7	0.8
Italy	0.2	3.5	3.3	1.2	-1.5	-2.2	0.0	-1.6	-2.8	-0.7	1.9	5.5	1.3	4.5	2.3	1.3	4.6	0.1	3.2	5.1
Japan	1.9	4.9	-5.4	-5.9	1.1	7.2	-4.7	11.9	-12.0	-14.3	0.1	0.6	-5.4	-4.1	-0.7	0.0	-1.0	0.8	-0.8	-1.5
Korea	7.8	60.1	10.8	-7.3	11.2	-1.7	8.3	2.8	-4.9	-13.4	-6.1	-9.3	12.9	11.4	4.1	-0.7	3.0	5.8	-2.0	6.2
Mexico	2.8	4.4	7.6	2.9	5.2	4.0	-7.9	2.5	4.4	3.4	2.9	6.4	-10.6	-4.9	-12.5	3.4	6.4	-0.9	6.0	6.8
Netherlands	0.9	-3.2	-4.7	6.9	1.2	7.6	1.3	3.9	5.3	1.4	4.2	-0.3	0.8	-3.7	-1.8	2.1	3.9	-2.2	6.0	3.1
New Zealand	4.2	2.4	-15.5	3.8	17.1	13.1	3.3	5.9	6.8	-14.3	9.2	0.5	-11.9	18.9	20.7	4.3	-2.0	13.2	2.3	-1.8
Norway	-0.7	-17.8	-15.2	-9.2	-0.8	24.5	10.6	2.9	12.1	7.8	3.0	5.6	8.2	-2.3	-4.3	3.0	3.8	-1.7	4.4	2.9
Spain	1.2	6.4	-3.7	-4.0	-4.1	0.4	7.1	9.3	3.0	10.2	9.9	7.4	0.9	3.9	5.4	5.5	6.1	2.6	6.4	5.4
Sweden	1.3	7.2	-2.4	-11.6	-33.5	-34.1	-23.9	8.9	-11.5	-0.6	10.8	10.0	4.2	5.7	4.9	6.6	5.4	9.0	5.1	4.6
Switzerland	4.1	-16.3	-6.5	-2.0	2.5	12.3	-2.0	-8.7	-0.1	2.8	-5.5	-2.7	-4.0	0.5	1.0	1.8	2.1	1.7	1.9	2.2
United Kingdom	2.2	-17.4	-16.4	-1.4	9.0	1.9	-3.8	8.2	4.5	-4.3	0.3	-0.5	0.9	13.2	4.5	6.9	4.4	2.3	5.2	3.6
United States	0.7	-8.6	-9.6	13.8	8.2	9.6	-3.2	8.0	1.9	7.6	6.0	0.8	0.3	4.9	7.5	6.1	1.9	9.5	2.9	1.0
Euro area	0.9	2.9	0.1	2.9	0.1	6.3	1.8	0.6	1.3	1.9	3.8	1.2	-2.5	-0.9	1.1	1.8	2.5	1.4	2.1	2.6
Total OECD	1.9	-1.7	-5.6	5.4	4.2	7.0	-2.3	5.6	0.4	1.3	3.7	1.0	-1.0	3.1	3.6	3.7	1.9	5.0	2.2	1.7

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD.

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

Percentage change from previous year

	Average 1979-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	3.7	-0.6	-2.0	2.5	2.9	4.9	4.4	3.1	3.2	6.9	5.2	2.1	1.3	6.1	6.5	4.8	3.8	6.5	3.6	4.1
Austria	1.8	4.5	3.2	2.1	0.7	3.2	3.0	1.9	1.4	3.0	3.1	2.7	-0.1	-0.3	1.9	1.5	2.7	1.6	2.6	2.7
Belgium	1.8	3.2	1.8	1.8	-0.9	2.1	2.3	0.9	2.8	3.2	2.4	3.5	0.5	1.0	2.5	1.9	2.6	3.1	0.1	3.3
Canada	3.2	-0.5	-1.9	0.3	1.4	3.4	1.8	1.3	6.2	2.5	4.3	4.8	1.4	3.8	4.2	3.2	3.4	3.5	3.4	3.3
Czech Republic	..	..	..	..	..	6.2	8.4	7.3	-0.7	-2.4	0.3	4.0	5.1	3.4	4.1	3.1	3.0	..	..	..
Denmark	0.9	-0.7	-0.1	0.9	-0.3	7.0	4.2	2.2	4.9	4.0	0.1	2.4	1.0	1.9	0.1	3.1	2.9	1.9	3.0	2.4
Finland	3.9	-1.7	-8.4	-6.0	-5.8	3.5	4.2	2.5	5.9	5.3	1.6	3.6	1.7	1.3	1.8	1.7	2.6	-1.1	6.4	2.6
France	2.3	2.7	0.5	0.6	-1.7	1.9	1.7	0.7	0.7	4.2	3.7	4.5	2.0	1.5	1.3	2.5	2.6	2.1	2.4	2.8
Germany	1.5	4.7	4.4	2.4	-1.0	2.3	1.7	0.3	0.7	2.2	2.7	2.0	-0.7	-1.6	0.3	0.9	1.7	0.3	1.2	1.9
Greece	1.2	2.2	3.5	-0.5	-1.0	1.1	3.5	3.3	3.5	4.5	3.8	3.8	2.9	4.0	6.3	4.6	3.3	..	..	..
Hungary	..	..	..	..	..	1.9	-3.5	0.6	4.0	8.2	4.1	5.3	1.9	5.4	5.5	3.5	3.2	..	..	..
Iceland	3.0	1.5	2.3	-4.5	-3.8	2.2	2.2	7.1	5.7	13.5	4.3	6.8	-3.7	-2.9	8.1	6.0	6.1	10.6	4.5	7.8
Ireland	0.8	6.3	0.1	-0.2	1.1	5.6	7.3	7.9	10.0	9.3	8.7	8.5	4.4	3.0	2.1	3.5	4.4	2.6	3.9	4.9
Italy	2.8	2.7	2.1	0.8	-5.1	1.7	2.0	0.8	2.7	3.1	3.2	2.4	1.4	1.3	1.3	1.2	2.7	0.3	1.9	2.9
Japan	3.6	5.3	3.0	0.6	0.2	1.3	2.5	3.9	0.9	-1.5	0.2	2.4	1.2	-1.0	2.0	2.2	1.9	2.8	1.5	2.0
Korea	7.0	15.1	9.5	3.6	6.0	7.7	9.3	8.1	0.2	-17.5	13.7	8.5	3.2	7.1	0.0	3.3	5.0	-1.2	5.9	5.0
Luxembourg	4.0	4.5	8.5	-4.3	5.5	2.4	1.0	5.0	6.6	7.3	6.3	5.0	4.2	-0.7	2.0	2.3	2.8	..	..	..
Mexico	1.6	7.0	5.7	6.0	1.1	5.6	-14.0	5.6	9.6	6.1	4.3	8.3	0.6	0.7	0.5	3.6	4.4	1.1	4.3	4.5
Netherlands	1.5	3.1	2.0	1.3	-1.7	2.3	3.6	2.8	3.9	4.8	4.3	2.6	1.7	0.0	-0.4	0.4	1.8	0.0	0.8	2.4
New Zealand	2.5	0.2	-6.2	2.0	4.8	7.1	5.4	4.7	2.6	-0.6	5.8	1.8	2.3	5.1	6.1	5.4	1.9	7.2	3.1	1.9
Norway	1.7	0.3	1.5	2.1	3.2	4.3	4.8	3.9	6.6	5.7	0.3	2.4	0.8	2.4	0.9	3.2	2.7	0.5	4.0	2.2
Poland	..	..	..	..	..	4.1	7.3	8.3	10.1	6.2	4.8	2.8	-1.6	0.9	2.4	3.4	3.9	..	..	..
Portugal	3.2	5.3	6.1	3.4	-2.1	1.5	4.1	3.0	5.1	6.7	5.9	2.9	1.4	-0.5	-2.9	1.2	2.8	-1.1	2.3	3.0
Slovak Republic	..	..	..	..	..	-4.5	9.9	18.2	3.7	7.2	-6.3	0.1	7.4	4.2	-2.2	2.7	4.7	..	..	..
Spain	3.1	4.6	3.0	1.0	-3.3	1.5	3.1	1.9	3.5	5.7	5.6	4.5	3.0	2.6	3.3	3.7	3.9	2.9	3.4	4.0
Sweden	2.3	0.7	-1.4	-1.3	-4.6	3.0	2.2	0.9	1.2	4.3	3.4	3.8	-0.2	0.9	1.1	2.4	2.4	1.0	2.7	2.2
Switzerland	2.3	2.4	1.0	-1.5	-1.1	2.3	1.6	0.4	1.4	2.9	1.8	3.0	1.1	-0.6	0.0	1.7	2.2	1.2	1.7	2.3
Turkey	3.8	14.6	-0.6	5.6	14.2	-12.5	11.4	7.6	9.0	0.6	-3.7	9.8	-18.5	9.3	9.3	6.7	6.2	..	..	..
United Kingdom	2.8	0.0	-2.1	0.8	2.0	3.5	1.7	3.0	3.6	4.9	3.8	3.8	2.7	2.8	2.5	4.1	3.1	2.5	3.7	3.0
United States	3.1	1.4	-0.8	3.4	3.2	4.4	2.4	3.8	4.8	5.3	5.3	4.4	0.7	2.8	3.3	4.5	3.7	4.2	4.0	3.5
Euro area	2.2	3.5	2.3	1.2	-2.1	2.1	2.1	1.0	1.9	3.5	3.4	3.1	1.1	0.5	1.2	1.8	2.5	1.3	1.9	2.7
Total OECD	3.0	3.1	0.9	2.1	1.2	3.2	2.2	3.2	3.5	3.1	4.0	4.0	0.7	1.9	2.5	3.3	3.2	2.9	3.1	3.2

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD.

Annex Table 9. **Foreign balance contributions to changes in real GDP**

As a per cent of real GDP in the previous period, seasonally adjusted at annual rates

	Average 1979-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	-0.2	1.9	2.3	-0.2	0.7	-0.7	-0.5	0.5	0.3	-1.3	-1.0	0.6	1.4	-2.4	-3.1	-1.5	-0.7	-1.8	-0.7	-0.6
Austria	0.3	0.4	-0.1	0.1	-0.1	-0.8	-0.9	0.1	0.0	1.0	-0.2	0.8	0.9	1.4	-1.0	0.3	-0.3	1.1	-0.3	-0.3
Belgium	0.3	-0.1	0.0	-0.5	0.2	1.2	0.1	0.0	1.0	-1.0	0.8	0.4	0.2	-0.3	-1.4	0.1	0.1	-5.5	0.1	0.2
Canada	-0.3	0.7	-0.2	0.7	1.0	1.6	1.1	0.4	-1.7	1.7	1.5	0.7	0.6	-0.3	-2.3	-0.4	-0.1	-1.0	-0.2	0.1
Czech Republic	..	..	..	..	..	-3.6	-2.7	-3.4	0.0	1.6	0.1	-1.0	-2.3	-1.7	-1.6	-0.4	0.0	5.9	0.3	-0.8
Denmark	0.5	1.7	1.2	-0.2	0.3	-1.0	-1.2	0.4	-1.7	-1.4	2.6	0.5	0.6	-0.8	0.3	-1.1	-0.2	-4.0	-0.6	0.7
Finland	-0.5	0.4	1.6	2.0	3.6	0.8	0.7	0.2	1.4	0.9	1.3	2.2	-0.4	1.5	0.3	0.4	1.4	-0.1	1.4	1.5
France	-0.1	-0.1	0.5	0.7	0.7	0.0	0.1	0.4	1.2	-0.5	-0.4	-0.2	0.1	-0.4	-0.8	-0.5	-0.1	-1.7	-0.1	-0.1
Germany	0.4	1.3	-5.2	-0.6	0.0	0.1	0.1	0.5	0.9	-0.4	-0.8	1.1	1.7	1.7	-0.4	0.3	0.5	-2.9	0.5	0.7
Greece	-0.3	-2.3	-0.7	1.3	-0.6	0.9	-1.6	-1.1	-0.1	-1.6	-0.8	0.4	0.9	-0.4	-2.7	-1.1	-0.2	-4.9	0.3	-0.3
Hungary	..	..	..	..	..	0.9	5.2	0.8	0.5	-3.4	0.0	-0.3	1.9	-2.0	-2.8	-0.5	0.4	18.4	-0.2	0.7
Iceland	0.2	-0.3	-3.8	1.4	4.8	2.1	-2.0	-1.8	-0.8	-7.8	-0.4	-1.6	6.7	2.3	-4.0	-2.3	-1.6	-1.0	-0.7	-4.1
Ireland	1.0	1.9	1.8	3.4	1.8	1.0	3.9	1.2	2.5	-0.4	4.2	2.3	3.0	4.6	-1.3	0.6	1.1	-1.2	1.3	0.8
Italy	-0.3	-0.8	-0.8	-0.1	4.4	0.6	1.0	0.2	-0.6	-1.2	-1.4	0.8	0.3	-0.9	-0.9	-0.4	-0.9	-0.7	-0.7	-0.9
Japan	0.1	0.0	0.4	0.4	0.1	-0.2	-0.5	-0.4	1.0	0.3	-0.1	0.5	-0.7	0.7	0.7	0.9	0.9	1.5	1.0	0.9
Korea	-0.1	-2.4	-2.6	0.7	0.5	-2.5	-1.4	-1.7	4.2	11.4	-2.9	0.2	0.5	-0.3	2.8	2.6	1.3	11.7	-0.8	2.9
Luxembourg	0.7	0.8	0.5	5.7	0.1	1.7	0.8	-1.1	2.5	0.5	2.0	4.7	-2.3	1.6	0.1	0.7	1.2	0.4	1.2	1.2
Mexico	0.2	-1.9	-1.6	-2.6	0.8	-1.4	8.5	-0.3	-2.5	-1.1	-0.5	-1.8	-0.7	0.0	0.7	-0.2	-0.4	1.9	-0.4	-0.5
Netherlands	0.4	0.9	0.5	0.2	2.2	0.7	-0.3	0.4	0.2	-0.2	-0.1	1.1	-0.4	0.2	-0.4	0.3	0.5	-1.7	1.0	-0.2
New Zealand	-0.1	0.3	3.9	-0.9	0.0	-0.5	-1.3	-1.1	0.5	0.1	-1.1	2.0	0.3	-0.8	-2.8	-1.8	0.4	0.2	0.1	0.4
Norway	0.8	2.5	2.3	1.5	0.1	1.9	0.6	2.0	0.0	-2.2	1.8	1.0	2.0	-0.6	-0.5	0.4	0.4	2.8	0.2	1.0
Poland	..	..	..	..	..	0.5	0.5	-2.9	-1.5	-1.7	-1.0	0.8	2.7	0.5	1.4	1.2	0.6	4.2	-0.4	0.7
Portugal	0.3	-1.4	-1.8	-2.4	0.2	-0.6	-0.1	0.3	-1.5	-2.6	-2.6	0.1	0.2	1.1	1.8	-0.4	-0.6	2.7	-0.7	-0.5
Slovak Republic	..	..	..	..	..	10.9	-3.5	-11.6	0.6	-3.5	8.4	1.9	-3.7	0.0	6.4	1.6	0.3	26.1	26.0	28.9
Spain	-0.3	-0.9	-0.6	-0.1	2.4	0.9	-0.3	0.5	0.6	-1.3	-1.4	-0.4	-0.2	-0.6	-1.0	-1.0	-0.7	-2.2	-0.5	-0.8
Sweden	-0.1	0.3	0.9	0.2	2.9	0.8	1.6	0.4	1.0	-0.5	1.3	0.7	1.1	1.3	0.6	0.3	0.8	-2.2	1.5	0.3
Switzerland	-0.1	-0.1	0.2	2.2	0.5	-1.5	-1.2	0.2	1.3	-1.1	1.0	1.5	-0.8	1.0	-0.6	0.3	0.3	0.2	0.1	0.6
Turkey	0.1	-5.4	1.8	-0.3	-6.2	8.6	-4.7	-0.6	-1.9	2.6	-0.9	-3.0	12.4	-0.9	-3.1	-1.5	-1.2	-14.7	0.2	-2.5
United Kingdom	-0.4	0.9	0.9	-0.5	0.2	0.7	0.8	-0.2	-0.3	-1.7	-1.0	-0.1	-0.6	-1.3	-0.3	-1.2	-0.6	-1.9	-0.5	-0.6
United States	0.0	0.4	0.6	0.0	-0.5	-0.4	0.1	-0.1	-0.3	-1.1	-1.0	-0.9	-0.2	-0.7	-0.4	-0.1	-0.1	-0.4	-0.1	-0.1
Euro area	0.0	0.1	-1.5	0.0	1.2	0.3	0.2	0.4	0.6	-0.6	-0.6	0.6	0.6	0.4	-0.7	-0.1	0.0	-1.8	0.1	0.0
Total OECD	0.0	0.1	-0.1	0.0	0.2	0.0	0.3	-0.1	0.1	-0.3	-0.6	-0.1	0.3	-0.2	-0.3	0.0	0.1	-0.3	0.1	0.2

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD.

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Annex Table 10. **Output gaps**

Deviations of actual GDP from potential GDP as a per cent of potential GDP

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	-0.9	0.2	0.8	1.2	-1.2	-4.6	-4.7	-3.3	-1.3	-0.5	0.0	0.1	1.8	2.2	1.7	1.0	1.0	0.6	0.6	0.3
Austria	-2.2	-2.4	-1.1	0.7	2.6	2.9	2.2	0.0	0.2	-0.2	-0.2	-0.1	1.4	1.7	2.5	0.8	-0.2	-1.6	-2.1	-1.8
Belgium	-2.9	-2.1	0.5	1.8	2.5	1.7	0.6	-2.3	-1.5	-1.2	-2.4	-0.7	-0.5	0.7	2.3	0.9	-0.5	-1.4	-1.5	-1.0
Canada	-0.1	1.6	3.9	3.7	1.3	-3.0	-4.1	-3.8	-1.4	-1.2	-2.4	-1.6	-1.2	0.7	2.3	0.7	0.9	-0.2	-0.3	0.0
Denmark	3.4	1.8	1.0	-0.3	-0.9	-1.3	-2.1	-3.6	-0.3	0.0	0.4	1.1	1.3	1.7	2.2	1.4	0.4	-1.3	-1.4	-0.9
Finland	-0.3	1.5	4.0	6.6	3.9	-4.0	-8.7	-10.9	-8.8	-7.3	-6.0	-3.2	-1.6	-1.2	1.2	-0.6	-1.0	-1.4	-1.1	0.3
France	-3.6	-3.0	-0.8	1.3	2.0	0.9	0.4	-2.3	-2.0	-2.0	-3.1	-3.4	-2.1	-1.1	0.7	0.7	-0.1	-1.8	-2.1	-1.8
Germany	0.6	0.6	2.4	3.1	5.8	2.0	1.3	-1.8	-1.3	-0.9	-1.6	-1.7	-1.3	-0.8	0.7	0.0	-1.3	-2.9	-3.3	-2.7
Greece	-1.3	-4.4	-1.3	1.3	-0.3	0.5	-0.9	-4.2	-4.1	-4.0	-4.0	-2.9	-2.9	-2.8	-2.1	-1.0	-0.1	0.9	1.3	1.3
Iceland	0.5	5.8	2.2	0.1	-0.2	-2.6	-7.4	-7.7	-4.9	-5.8	-2.7	-0.5	1.6	2.3	4.1	3.2	0.1	0.8	0.6	1.1
Ireland	-4.3	-3.4	-1.7	0.4	3.9	0.5	-1.8	-4.4	-4.7	-2.3	-1.8	1.0	0.5	3.7	6.8	6.1	6.4	1.9	0.6	0.5
Italy	-2.0	-1.4	0.6	1.4	1.2	0.5	-0.7	-3.2	-2.3	-1.0	-1.5	-1.1	-0.9	-0.9	0.5	0.5	-0.8	-2.0	-2.7	-2.2
Japan	-2.1	-2.2	0.5	1.8	3.7	3.5	1.6	-0.3	-0.9	-0.8	1.0	1.5	-1.1	-2.5	-1.0	-2.0	-3.5	-1.8	0.0	1.5
Netherlands	-0.3	-1.0	-0.7	1.5	2.9	2.4	1.1	-0.6	-0.2	0.2	0.5	1.0	2.0	3.1	3.7	2.3	0.3	-2.1	-2.9	-2.5
New Zealand	2.8	1.8	-0.2	-0.6	-2.5	-5.7	-6.0	-2.8	0.4	1.2	1.5	0.3	-2.5	-1.0	0.6	0.5	1.3	0.9	0.6	0.0
Norway [a]	2.6	1.7	-1.6	-4.7	-4.7	-3.7	-2.9	-2.2	-1.3	-0.6	0.3	1.8	2.8	2.4	1.7	0.9	-0.1	-1.5	-0.1	0.7
Portugal	-8.3	-4.8	-0.6	2.6	3.5	4.7	2.6	-2.1	-3.6	-1.9	-0.7	0.4	2.0	2.6	2.8	1.5	-0.6	-3.6	-4.2	-3.5
Spain	-3.2	-1.1	1.2	2.5	3.0	2.5	0.3	-3.5	-3.7	-3.9	-4.4	-3.3	-1.8	-0.5	0.6	0.4	-0.3	-0.5	-0.1	0.7
Sweden	1.5	3.0	3.8	4.2	2.8	-0.3	-3.2	-6.2	-4.3	-2.5	-3.1	-2.6	-1.3	0.7	2.3	0.4	0.2	-0.4	-0.3	0.1
Switzerland	2.6	1.3	2.2	4.3	4.1	0.8	-0.8	-1.8	-1.7	-2.0	-2.5	-1.4	0.4	0.0	1.8	1.2	-0.2	-2.1	-1.7	-0.8
United Kingdom	-1.0	1.5	4.2	4.1	2.3	-1.8	-3.9	-4.2	-2.4	-1.9	-1.7	-0.8	-0.2	0.0	1.3	0.6	-0.4	-0.7	-0.1	0.2
United States	-0.6	-0.3	0.8	1.5	0.4	-2.4	-1.6	-1.6	-0.4	-0.8	-0.2	0.8	1.5	2.4	1.9	-1.2	-2.0	-2.0	-0.3	0.2
Euro area	-1.5	-1.0	0.9	2.3	3.4	1.5	0.4	-2.5	-2.0	-1.6	-2.2	-1.9	-1.1	-0.4	1.1	0.6	-0.5	-2.0	-2.3	-1.8
Total OECD	-1.0	-0.5	1.2	2.0	1.9	-0.4	-0.9	-2.0	-1.2	-1.1	-0.8	-0.1	0.1	0.6	1.2	-0.5	-1.4	-1.7	-0.9	-0.3

Note: Potential output for all countries except Portugal is calculated using the "production function method" described in Giorno et al, "Potential Output, Output Gaps, and Structural Budget Balances", *OECD Economic Studies,* No. 24, 1995/I. Using this methodology, two broad changes have been made to the calculation of potential output since the last *OECD Economic Outlook.* First, the "smoothing parameters" applied in the calculations have been standardised across the OECD countries. Second, as was previously the case for the major seven economies only, the calculations now incorporate trend working hours for other Member economies also, excepting Austria and Portugal where the data span is insufficient. Potential output for Portugal is calculated using a Hodrick-Prescott filter of actual output. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

a) Mainland Norway.

Source: OECD.

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

Percentage change from previous period

	Average 1976-86	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	8.5	6.1	6.5	8.1	7.6	2.8	4.3	2.6	2.3	2.7	5.6	4.0	3.6	2.8	2.8	4.1	3.9	3.2	3.9	3.8
Austria	6.7	4.1	4.2	4.5	5.2	6.0	5.5	4.3	3.7	4.0	1.0	2.9	1.7	1.5	2.7	2.3	2.4	1.9	1.9	2.3
Belgium	7.3	2.6	2.6	5.2	6.9	7.1	5.1	4.2	3.8	1.7	1.5	2.7	1.0	3.7	1.9	3.6	4.4	1.7	2.9	2.0
Canada	7.4	6.4	7.6	5.6	4.3	4.9	3.2	2.3	0.5	2.3	2.9	5.9	2.9	3.1	4.8	2.2	2.7	1.5	2.5	3.6
Czech Republic	..	..	..	..	..	..	..	..	27.1	19.1	18.1	4.5	9.3	4.4	6.4	6.7	6.7	6.8	6.8	6.0
Denmark	8.8	7.4	11.3	4.7	4.1	4.0	4.3	2.5	3.2	3.4	2.9	3.8	4.1	3.0	3.7	3.4	1.8	3.9	3.5	3.4
Finland	10.3	8.1	9.6	10.7	9.0	4.8	1.7	1.1	4.6	4.0	2.3	2.3	5.0	2.3	4.2	5.2	1.3	3.5	3.6	3.9
France	10.8	4.6	4.3	4.0	3.8	3.9	3.7	1.9	0.7	1.4	1.7	1.6	0.6	2.1	1.8	3.0	2.5	2.6	2.8	2.9
Germany	4.8	3.0	2.8	2.8	4.7	5.7	10.4	3.6	3.0	3.3	1.0	0.7	0.9	1.0	2.2	1.8	1.5	1.6	1.3	1.6
Greece	20.5	10.7	20.5	22.6	16.3	16.3	12.7	8.7	11.8	11.8	11.2	11.3	4.7	6.9	5.4	5.4	6.8	5.7	6.1	6.0
Hungary	..	..	..	..	..	..	..	..	..	23.6	21.5	18.7	11.2	1.9	16.9	14.7	11.9	10.9	9.3	8.3
Iceland	44.7	45.8	26.1	13.4	16.1	15.6	0.6	-4.1	3.8	5.3	8.1	5.7	8.9	9.0	10.4	7.5	5.9	3.7	4.8	7.0
Ireland	13.6	6.1	5.2	6.8	1.9	3.2	7.8	4.9	1.7	2.8	1.8	6.0	0.7	5.7	5.4	5.8	4.3	3.9	4.0	4.9
Italy	15.6	7.3	7.3	8.8	8.3	9.0	6.2	5.2	3.1	4.8	4.8	3.2	-0.8	2.5	2.9	2.8	2.2	3.3	3.0	2.9
Japan	5.2	1.9	3.0	3.8	3.7	4.6	0.8	0.6	1.4	1.0	0.2	1.5	-0.8	-1.2	0.3	-1.1	-2.2	-0.3	0.3	0.4
Korea	17.3	10.2	17.5	10.0	16.3	16.2	11.2	12.1	11.3	15.4	11.0	3.1	2.5	1.6	3.4	6.9	10.5	8.9	6.1	7.1
Luxembourg	5.8	2.1	3.8	8.5	3.1	5.6	6.5	5.5	4.1	0.9	1.1	1.9	2.1	4.6	5.3	3.6	2.7	2.2	2.5	3.0
Mexico	..	..	..	27.0	27.8	29.9	24.0	15.2	11.4	17.7	23.0	21.5	17.5	13.5	11.5	9.3	5.2	5.0	4.6	4.4
Netherlands	4.7	1.5	1.3	0.9	3.3	4.5	4.3	3.1	2.8	1.4	1.7	2.1	3.6	2.4	4.9	5.5	4.7	3.7	2.3	0.1
New Zealand	12.6	9.4	12.0	6.7	1.7	0.5	1.6	2.3	1.8	-0.2	2.0	1.7	2.0	1.2	3.2	0.9	2.7	3.2	3.9	3.5
Norway	9.0	9.2	8.6	4.5	5.1	5.3	4.4	2.7	3.1	3.2	2.6	2.5	7.6	6.2	4.7	6.3	5.7	4.3	3.8	4.2
Poland	..	..	..	..	..	..	..	..	45.9	23.2	29.6	20.7	14.8	14.7	9.8	12.6	4.0	3.0	4.5	4.9
Portugal	19.9	13.8	9.9	12.8	17.4	18.6	16.0	7.1	5.9	6.7	9.0	3.8	4.3	4.0	6.9	5.2	3.8	3.1	2.2	2.5
Spain	16.7	6.5	7.2	7.3	10.0	10.3	10.4	8.3	4.0	3.5	5.5	3.5	2.5	2.5	3.9	4.4	4.2	4.8	4.3	4.2
Sweden	9.5	7.6	8.1	12.3	9.7	6.2	3.2	8.5	7.2	2.4	6.4	4.6	3.6	0.9	7.6	4.5	2.2	2.0	2.8	4.0
Switzerland	4.9	3.2	3.6	4.6	5.4	6.6	4.3	3.0	3.1	2.3	0.3	3.1	0.2	2.1	2.7	2.9	2.0	1.7	1.3	1.4
Turkey	34.6	44.4	62.8	159.4	94.6	129.4	60.8	72.3	72.2	87.7	65.1	68.3	72.7	56.1	43.1	43.6	32.0	30.5	20.5	14.1
United Kingdom	11.0	4.8	6.6	9.1	10.0	8.6	4.8	4.3	4.4	3.2	2.5	3.9	5.9	4.7	6.2	5.0	2.8	4.3	5.2	4.7
United States	6.8	4.3	4.7	3.2	4.6	4.0	6.2	2.0	1.8	2.3	3.0	4.0	5.4	4.5	6.8	2.6	2.1	3.0	4.3	4.8
Euro area	8.0	5.0	4.6	4.9	6.1	6.6	8.1	5.3	3.2	3.7	1.8	1.6	0.9	1.3	2.4	2.5	2.3	2.3	2.2	2.2
Total OECD	8.1	5.3	6.3	8.1	8.0	8.5	7.5	4.9	4.9	5.4	4.8	5.0	4.9	4.0	5.3	3.6	2.7	3.2	3.5	3.7
Memorandum item																				
OECD *less* high inflation countries[a]	7.6	4.6	5.2	4.7	5.7	5.5	5.9	3.3	2.8	3.1	2.6	3.0	3.1	2.6	4.3	2.5	2.0	2.6	3.2	3.4

Note: The business sector is in the OECD terminology defined as total economy less the public sector. Hence business sector employees are defined as total employees less public sector employees. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

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Annex Table 12. **Labour productivity in the business sector**

Percentage change from previous period

	Average 1976-86	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	1.4	3.1	0.8	-0.4	-0.2	1.6	3.5	4.1	1.6	-0.3	2.9	3.1	4.0	2.1	0.1	1.9	1.5	0.9	2.2	1.8
Austria	2.5	1.9	3.3	3.5	3.6	2.2	2.4	1.2	3.2	2.0	3.0	1.9	3.3	1.4	3.1	0.0	1.8	0.5	1.4	1.6
Belgium	2.3	1.9	3.1	1.8	2.0	1.2	1.4	-0.2	3.8	1.7	0.4	3.0	0.4	2.1	1.9	-1.1	1.4	1.7	1.8	1.7
Canada	0.9	1.6	2.0	0.5	-0.5	-0.2	2.1	1.8	3.1	0.8	0.7	1.8	1.5	3.0	3.0	0.8	1.4	-0.3	1.4	2.0
Czech Republic	..	..	..	..	..	..	..	..	1.1	6.2	4.3	-0.3	1.3	2.7	4.3	3.3	0.8	4.2	4.0	3.6
Denmark	1.2	0.3	-0.4	2.0	0.5	2.1	1.3	3.2	7.7	0.5	1.8	1.7	2.8	2.1	3.1	1.7	0.9	1.8	2.3	2.5
Finland	3.3	4.7	4.6	4.7	0.0	-0.6	4.6	6.1	6.9	1.7	3.2	3.3	3.1	0.7	3.2	-0.6	1.8	2.9	3.1	2.8
France	2.5	2.2	3.8	3.0	2.0	1.1	2.5	0.6	2.1	1.1	0.6	1.5	2.2	1.2	1.5	0.2	0.4	0.4	2.0	2.2
Germany	1.4	0.2	2.6	2.3	2.8	2.4	4.6	0.2	2.7	1.5	1.1	1.6	0.8	0.8	1.0	0.4	0.8	1.0	1.4	1.6
Greece	0.5	-2.4	2.8	3.9	-1.5	6.4	-0.9	-2.7	0.1	1.4	3.1	4.8	-0.9	3.8	5.2	4.9	4.2	2.0	2.4	2.3
Hungary	..	..	..	..	..	..	..	..	..	-2.4	1.4	4.7	9.2	0.5	3.5	3.7	4.5	1.6	2.1	2.5
Iceland	2.4	3.2	3.4	2.3	1.7	-0.2	-3.6	1.0	4.0	-3.2	5.9	5.3	1.4	0.4	4.0	1.2	1.2	2.6	1.7	1.9
Ireland	3.5	4.7	6.4	6.8	4.5	2.5	3.2	1.3	2.7	5.3	4.3	7.9	-1.8	5.1	5.6	3.7	5.9	0.0	2.1	3.2
Italy	2.3	2.8	3.4	3.0	1.0	0.7	1.6	2.5	3.9	3.3	0.7	1.7	0.7	1.1	1.5	0.0	-1.1	-0.1	0.4	0.7
Japan	2.6	2.9	5.3	3.5	3.6	1.6	-0.1	0.0	1.1	1.7	2.9	0.9	-0.8	0.6	3.2	0.8	0.9	3.4	3.3	2.6
Korea	5.7	6.6	8.1	1.3	6.5	7.0	4.1	4.3	5.1	6.4	5.0	3.2	-0.7	8.2	4.2	1.9	4.3	3.4	4.1	4.9
Luxembourg	..	..	..	..	..	4.9	-0.9	2.7	1.3	-1.4	0.6	5.6	2.7	3.1	3.6	-4.7	-2.1	-0.2	1.2	2.0
Mexico	..	..	..	1.3	2.3	1.5	-0.3	-2.0	1.2	-6.5	0.9	0.5	1.5	2.6	7.5	-0.3	-0.8	-0.1	1.3	1.5
Netherlands	1.6	0.0	1.4	3.1	1.8	1.0	0.3	0.7	3.5	1.7	0.4	0.5	1.5	1.8	1.8	-0.1	0.0	-0.2	2.7	1.2
New Zealand	0.7	0.0	3.4	4.2	-1.1	-0.9	-0.3	2.8	1.0	-1.6	0.2	1.6	0.4	2.7	2.6	0.0	1.5	1.3	1.6	1.5
Norway	1.7	-0.4	-0.5	2.0	3.0	4.9	3.5	4.0	2.3	1.1	1.7	2.0	2.3	3.3	2.2	2.2	1.8	1.9	3.8	2.7
Poland	..	..	..	..	..	..	..	..	9.3	4.5	5.3	6.1	3.9	9.2	6.7	3.6	5.1	5.5	4.1	3.3
Portugal	2.1	4.3	5.3	4.8	1.9	1.5	0.5	-0.2	1.2	5.7	3.6	2.0	2.5	2.8	1.5	0.3	0.4	-0.7	0.5	0.9
Spain	3.0	0.8	1.8	1.4	0.0	1.6	2.8	2.1	3.2	1.0	1.5	1.1	0.1	0.6	0.7	0.6	0.6	0.8	0.8	1.2
Sweden	1.7	3.0	1.5	1.5	0.1	0.5	4.2	5.2	6.3	2.5	2.5	4.5	2.3	2.7	1.1	-1.3	2.5	2.6	3.2	2.1
Switzerland	0.6	-1.8	0.6	1.8	-1.1	-3.0	0.2	0.8	1.8	0.5	0.5	2.1	1.7	0.1	2.5	-0.6	-0.3	-0.5	1.3	1.5
United Kingdom	2.4	1.5	-0.2	-0.9	0.2	1.6	2.5	2.7	3.1	1.1	1.0	0.9	1.9	1.4	2.9	1.4	0.9	1.5	2.5	2.2
United States	1.1	0.7	1.1	1.3	0.7	0.7	4.0	0.9	1.3	0.3	2.0	2.4	2.1	2.8	2.2	0.7	3.9	3.4	4.1	2.1
Euro area	2.0	1.6	3.0	2.8	1.8	1.6	2.6	1.1	3.0	1.8	1.0	1.7	0.8	0.8	1.4	0.1	0.5	0.4	1.2	1.4
Total OECD	1.9	1.7	2.3	1.8	1.6	1.2	2.7	1.3	2.0	1.0	1.9	2.0	1.3	2.0	2.6	0.6	2.2	2.2	2.8	2.1
Memorandum item																				
OECD *less* high inflation countries [a]	1.8	1.6	2.3	1.9	1.5	1.3	2.8	1.2	2.2	1.2	1.8	1.9	1.3	2.0	2.2	0.7	2.1	2.2	2.2	2.2

Note: The business sector is in the OECD terminology defined as total economy less the public sector. Hence business sector employees are defined as total employees less public sector employees. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

Annex Table 13. **Unemployment rates: commonly used definitions**

Per cent of labour force

	2000 Unemployment thousands	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	616	6.7	9.1	10.4	10.7	9.4	8.3	8.2	8.3	7.8	7.0	6.3	6.8	6.3	5.9	5.7	5.5	5.6	5.7	5.4
Austria	198	4.1	4.5	4.7	5.4	5.3	5.3	5.6	5.7	5.7	5.3	4.7	4.8	5.5	5.7	5.9	5.8	5.8	5.9	5.7
Belgium	305	6.6	6.4	7.1	8.6	9.8	9.7	9.5	9.2	9.3	8.6	6.9	6.7	7.3	8.1	8.3	8.0	8.3	8.2	7.9
Canada	1 091	8.1	10.3	11.2	11.4	10.3	9.4	9.6	9.1	8.3	7.6	6.8	7.2	7.6	7.6	7.3	7.1	7.5	7.2	7.0
Czech Republic	454	..	..	..	4.3	4.3	4.1	3.9	4.8	6.5	8.8	8.9	8.2	7.3	7.8	8.3	8.3	..	..	..
Denmark	126	7.2	7.9	8.6	9.6	7.7	6.8	6.3	5.3	4.9	4.8	4.4	4.3	4.6	5.6	6.0	5.8	6.0	5.9	5.7
Finland	254	3.2	6.6	11.7	16.4	16.6	15.4	14.6	12.7	11.4	10.3	9.8	9.1	9.1	9.1	8.9	8.3	9.1	8.7	8.0
France	2 504	8.8	9.4	10.3	11.6	12.0	11.4	12.0	12.1	11.5	10.7	9.4	8.7	9.0	9.7	9.9	9.6	9.9	9.8	9.5
Germany	3 065	4.5	5.3	6.2	7.5	8.0	7.7	8.4	9.2	8.7	8.0	7.3	7.4	8.1	8.7	8.8	8.5	8.7	8.8	8.3
Greece	495	7.0	7.7	8.7	9.7	9.6	9.1	9.8	9.8	11.1	11.9	11.2	10.5	10.2	9.5	8.8	8.4	..	..	..
Hungary	264	..	..	..	12.1	11.0	10.4	10.1	8.9	7.9	7.1	6.5	5.8	5.9	5.9	5.9	5.7	..	..	..
Iceland	4	2.5	2.5	4.2	5.0	5.1	4.7	3.7	3.9	2.7	2.0	2.3	2.3	3.3	3.3	3.1	2.8	3.2	2.6	3.0
Ireland	76	12.8	14.4	15.1	15.7	14.7	12.2	11.7	10.4	7.6	5.6	4.3	3.9	4.4	4.7	4.8	4.8	4.7	4.8	4.8
Italy	2 495	9.1	8.6	8.8	10.2	11.2	11.7	11.7	11.8	11.9	11.5	10.7	9.6	9.1	8.8	8.6	8.5	8.6	8.6	8.4
Japan	3 200	2.1	2.1	2.2	2.5	2.9	3.2	3.4	3.4	4.1	4.7	4.7	5.0	5.4	5.3	5.0	4.6	5.1	4.9	4.3
Korea	913	2.4	2.4	2.5	2.9	2.5	2.1	2.0	2.6	7.0	6.3	4.1	3.8	3.1	3.4	3.3	3.0	3.6	3.2	2.9
Luxembourg	5	1.3	1.4	1.6	2.1	2.7	3.0	3.3	3.6	3.1	2.9	2.6	2.6	3.0	3.8	4.3	4.5	4.0	4.6	4.4
Mexico[a]	433	2.8	2.6	2.8	3.4	3.7	6.2	5.4	3.7	3.2	2.5	2.2	2.4	2.7	3.3	3.5	3.1	3.7	3.4	2.9
Netherlands	187	6.0	5.4	5.4	6.6	7.6	7.1	6.6	5.5	4.2	3.2	2.6	2.0	2.3	3.5	5.0	5.1	3.9	5.4	5.2
New Zealand	113	7.8	10.3	10.3	9.5	8.1	6.3	6.1	6.6	7.5	6.8	6.0	5.3	5.2	4.7	4.7	4.9	4.6	4.9	4.9
Norway	81	5.2	5.5	5.9	6.0	5.4	4.9	4.8	4.0	3.2	3.2	3.4	3.6	3.9	4.5	4.4	4.2	4.6	4.3	4.1
Poland	2 785	..	..	..	14.0	14.4	13.3	12.3	11.2	10.6	13.9	16.1	18.2	19.9	19.6	19.7	19.2	..	..	..
Portugal	206	4.9	4.3	4.1	5.5	6.9	7.2	7.3	6.8	5.0	4.4	4.0	4.1	5.1	6.4	6.6	6.1	6.5	6.5	5.8
Slovak Republic	485	..	..	..	12.2	13.7	13.1	11.3	11.9	12.6	16.4	18.8	19.3	18.6	17.4	16.6	15.5	..	..	..
Spain[b]	1 905	11.6	11.8	13.0	16.6	18.4	18.1	17.5	16.6	15.0	12.8	11.0	10.5	11.4	11.3	10.9	10.2	11.2	10.7	9.8
Sweden	204	1.7	3.0	5.3	8.2	8.0	7.7	8.0	8.0	6.5	5.6	4.7	4.0	4.0	4.9	5.8	5.4	5.5	5.7	5.4
Switzerland	106	0.5	1.9	2.9	3.8	3.7	3.3	3.8	4.0	3.4	2.9	2.5	2.5	3.1	4.0	3.8	3.4	4.1	3.7	3.3
Turkey[c]	1 497	7.8	8.0	8.3	8.7	8.4	7.5	6.5	6.7	6.7	7.5	6.3	8.2	10.1	10.5	10.7	11.2	..	..	..
United Kingdom	1 611	6.0	8.4	10.3	10.7	9.8	8.8	8.2	7.1	6.3	6.1	5.5	5.1	5.2	5.0	4.8	4.8	4.9	4.7	4.8
United States	5 686	5.6	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.0	5.5	5.2	5.9	5.4	5.1
Euro area	11 694	7.4	7.5	8.3	9.9	10.7	10.5	10.7	10.8	10.2	9.4	8.4	8.0	8.4	8.8	8.8	8.5	8.8	8.8	8.3
Total OECD	31 361	5.5	6.3	6.9	7.7	7.5	7.2	7.1	6.8	6.7	6.6	6.1	6.4	6.9	7.1	6.9	6.7	7.1	6.9	6.5

Note: Labour market data are subject to differences in definitions across countries and to many series breaks, though the latter are often of a minor nature. For information about definitions, sources, data coverage, break in series and rebasings, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) Data based on the National Survey of Urban Employment; see *OECD Economic Outlook* Sources and Methods.

b) Spanish data on unemployment are revised since 1976 using the methodology to be applied by the LFS as from 2002. Revisions are OECD calculations based on information from INE in Spain.

c) The figures incorporate important revisions to Turkish data; see *OECD Economic Outlook* Sources and Methods.

Source: OECD.

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Annex Table 14. **Standardised unemployment rates**[a]

Per cent of civilian labour force

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Australia	8.3	7.9	7.9	7.0	6.0	6.7	9.3	10.5	10.6	9.5	8.2	8.2	8.3	7.7	6.9	6.3	6.8	6.4	6.1
Austria	..	..	..	..	..	..	..	..	4.0	3.8	3.9	4.4	4.4	4.5	4.0	3.7	3.6	4.3	4.4
Belgium	10.1	10.0	9.8	8.8	7.4	6.6	6.4	7.1	8.6	9.8	9.7	9.5	9.2	9.3	8.6	6.9	6.7	7.3	8.1
Canada	10.7	9.6	8.8	7.8	7.5	8.1	10.3	11.2	11.4	10.4	9.4	9.6	9.1	8.3	7.6	6.8	7.2	7.7	7.6
Czech Republic	..	..	..	..	..	..	..	..	4.4	4.3	4.1	3.9	4.8	6.4	8.6	8.7	8.0	7.3	7.8
Denmark	6.6	5.0	5.0	5.7	6.8	7.2	7.9	8.6	9.6	7.7	6.8	6.3	5.3	4.9	4.8	4.4	4.3	4.6	5.6
Finland	6.0	6.7	4.9	4.2	3.1	3.2	6.7	11.6	16.4	16.8	15.2	14.6	12.7	11.3	10.2	9.8	9.1	9.1	9.0
France	9.8	9.9	10.1	9.6	9.1	8.6	9.1	10.0	11.3	11.8	11.4	11.9	11.8	11.4	10.7	9.3	8.5	8.8	9.4
Germany[b]	7.2	6.5	6.3	6.2	5.6	4.8	4.2	6.4	7.7	8.2	8.0	8.7	9.7	9.1	8.4	7.8	7.8	8.6	9.3
Greece	7.0	6.6	6.6	6.9	6.7	6.3	6.9	7.8	8.6	8.9	9.1	9.7	9.6	11.0	11.8	11.0	10.4	10.0	..
Hungary	..	..	..	..	..	..	..	9.9	12.1	11.0	10.4	9.6	9.0	8.4	6.9	6.3	5.6	5.6	5.8
Ireland	16.8	16.8	16.6	16.2	14.7	13.4	14.7	15.4	15.6	14.3	12.3	11.7	9.9	7.5	5.6	4.3	3.9	4.3	4.6
Italy	8.1	8.9	9.6	9.7	9.7	8.9	8.5	8.7	10.1	11.0	11.5	11.5	11.6	11.7	11.3	10.4	9.4	9.0	8.6
Japan	2.6	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2.5	2.9	3.1	3.4	3.4	4.1	4.7	4.7	5.0	5.4	5.3
Korea	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	4.4	4.0	3.3	3.6
Luxembourg	2.9	2.5	2.5	2.0	1.8	1.6	1.6	2.1	2.6	3.2	2.9	2.9	2.7	2.7	2.4	2.3	2.1	2.8	3.7
Netherlands	7.9	7.8	7.7	7.2	6.6	5.9	5.5	5.3	6.2	6.8	6.6	6.0	4.9	3.8	3.2	2.9	2.5	2.7	3.8
New Zealand	4.2	4.0	4.1	5.6	7.1	7.8	10.3	10.3	9.5	8.1	6.3	6.1	6.6	7.5	6.8	6.0	5.3	5.2	4.7
Norway	2.6	2.0	2.1	3.2	5.4	5.8	6.0	6.6	6.6	6.0	5.5	4.8	4.0	3.2	3.2	3.4	3.6	3.9	4.5
Poland	..	..	..	..	..	..	..	..	14.0	14.4	13.3	12.3	10.9	10.2	13.4	16.4	18.5	19.8	19.2
Portugal	9.2	8.8	7.2	5.8	5.2	4.8	4.2	4.3	5.6	6.9	7.3	7.3	6.8	5.2	4.5	4.1	4.1	5.1	6.4
Slovak Republic	..	..	..	..	..	..	..	..	..	13.7	13.1	11.3	11.9	12.6	16.8	18.7	19.4	18.7	17.1
Spain	17.7	17.4	16.7	15.8	13.9	13.1	13.2	14.9	18.6	19.8	18.8	18.1	17.0	15.2	12.8	11.3	10.6	11.3	11.3
Sweden	2.9	2.7	2.2	1.8	1.5	1.7	3.1	5.6	9.1	9.4	8.8	9.6	9.9	8.2	6.7	5.6	4.9	4.9	5.6
Switzerland	..	..	..	..	..	..	1.9	3.0	3.9	3.9	3.5	3.9	4.2	3.6	3.0	2.7	2.6	3.2	4.1
United Kingdom	11.2	11.2	10.3	8.5	7.1	6.9	8.6	9.8	10.0	9.2	8.5	8.0	6.9	6.2	5.9	5.4	5.0	5.1	5.0
United States	7.2	7.0	6.2	5.5	5.3	5.6	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.7	5.8	6.0
Euro area	..	..	..	..	..	..	7.9	8.6	10.2	10.8	10.6	10.8	10.8	10.2	9.4	8.5	8.0	8.4	8.8
Total OECD	..	..	..	..	..	..	..	..	..	7.7	7.3	7.2	7.0	6.9	6.7	6.3	6.5	7.0	7.1

Note: In so far as possible, the data have been adjusted to ensure comparability over time and to conform to the guidelines of the International Labour Office. All series are benchmarked to labour-force-survey-based estimates. In countries with annual surveys, monthly estimates are obtained by interpolation/extrapolation and by incorporating trends in administrative data, where available. The annual figures are then calculated by averaging the monthly estimates (for both unemployed and the labour force). For countries with monthly or quarterly surveys, the annual estimates are obtained by averaging the monthly or quarterly estimates, respectively. For several countries, he adjustment procedure used is similar to that of the Bureau of Labor Statistics, U.S. Department of Labor. For EU countries, the procedures are similar to those used in deriving the Comparable Unemployment Rates (CURs) of the Statistical Office of the European Communities. Minor differences may appear mainly because of various methods of calculating and applying adjustment factors, and because EU estimates are based on the civilian labour force.

a) See technical notes in OECD *Quarterly Labour Force Statistics.*

b) Prior to 1993 data refers to Western Germany.

Source: OECD.

Annex Table 15. **Labour force, employment and unemployment**

Millions

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Labour force																			
Major seven countries	299.8	303.9	308.0	312.2	322.9	325.2	326.3	328.8	330.4	333.3	337.4	339.9	342.7	347.1	349.1	350.8	352.9	353.9	356.9
Total of smaller countries[a]	99.3	114.9	117.3	119.3	122.1	123.3	152.5	154.9	157.0	159.6	161.5	163.4	165.5	167.2	169.4	171.4	172.1	174.2	176.5
Euro area	117.9	119.1	119.9	121.4	130.8	130.7	130.6	131.3	131.9	132.9	134.1	135.9	137.4	139.1	140.5	141.8	142.6	143.3	144.4
Total OECD[a]	399.1	418.7	425.3	431.5	445.0	448.5	478.8	483.7	487.5	492.9	498.9	503.4	508.3	514.4	518.5	522.2	525.0	528.1	533.3
Employment																			
Major seven countries	279.9	285.7	290.9	295.1	302.6	302.5	302.8	305.8	308.4	310.9	315.4	318.5	321.9	327.5	328.5	328.0	329.4	331.4	335.1
Total of smaller countries[a]	92.0	107.5	110.3	112.5	114.6	115.0	139.3	141.4	143.8	146.9	149.3	150.9	152.8	155.5	157.0	158.0	158.2	160.1	162.6
Euro area	107.0	108.6	110.2	112.4	121.0	119.8	117.7	117.3	118.1	118.6	119.6	122.0	124.5	127.4	129.3	129.9	130.1	130.7	132.2
Total OECD[a]	371.9	393.1	401.2	407.6	417.2	417.5	442.1	447.2	452.2	457.8	464.7	469.4	474.7	483.0	485.6	486.0	487.7	491.5	497.7
Unemployment																			
Major seven countries	19.9	18.2	17.1	17.0	20.3	22.7	23.5	23.0	22.0	22.4	22.0	21.4	20.8	19.7	20.6	22.8	23.5	22.5	21.8
Total of smaller countries[a]	7.3	7.4	7.0	6.9	7.5	8.3	13.2	13.5	13.2	12.7	12.2	12.5	12.7	11.7	12.4	13.4	13.8	14.1	13.9
Euro area	10.9	10.5	9.7	9.0	9.9	10.9	13.0	14.0	13.8	14.3	14.5	13.9	12.9	11.7	11.2	11.9	12.5	12.6	12.3
Total OECD[a]	27.2	25.6	24.1	23.9	27.8	31.0	36.7	36.5	35.2	35.1	34.2	33.9	33.5	31.4	33.0	36.1	37.3	36.7	35.7

a) The aggregate measures include Mexico as of 1987. There is a potential bias in the aggregates thereafter because of the limited coverage of the Mexican National Survey of Urban Employment.
Source: OECD.

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Annex Table 16. **GDP deflators**

Percentage change from previous year

	Average 1979-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	8.1	4.9	2.3	1.3	1.2	0.9	1.5	2.3	1.7	0.3	0.7	4.3	3.4	2.8	2.8	3.5	2.5	3.2	3.0	2.5
Austria	3.7	3.3	3.8	3.6	2.9	2.7	2.5	1.3	0.9	0.5	0.7	1.4	2.1	1.4	2.0	1.6	1.1	2.2	1.0	1.2
Belgium	4.4	2.8	2.9	3.4	4.0	2.1	1.3	1.2	1.4	1.7	1.4	1.2	1.8	1.7	1.7	1.8	1.7	2.0	2.2	0.8
Canada	5.8	3.2	3.0	1.3	1.4	1.1	2.3	1.6	1.2	-0.4	1.7	4.0	1.0	1.0	3.4	1.3	1.6	2.3	1.5	1.7
Czech Republic	..	..	..	..	..	11.0	10.2	8.8	8.0	10.6	3.0	1.1	6.3	2.6	2.9	3.3	2.5	..	..	..
Denmark	6.7	3.7	2.8	2.9	1.4	1.7	1.8	2.5	2.2	1.0	1.8	3.0	2.1	1.6	2.1	2.1	2.3	2.1	1.9	2.6
Finland	7.4	6.4	1.9	1.4	2.6	1.8	4.8	-0.3	2.1	3.5	-0.2	3.2	3.0	0.9	0.7	0.6	1.7	0.7	0.4	2.2
France	7.0	2.9	3.0	2.0	2.4	1.8	1.7	1.4	1.3	0.8	0.4	0.7	1.7	2.4	1.4	1.6	1.6	1.3	1.6	1.6
Germany	3.0	3.2	3.5	5.0	3.7	2.5	2.0	1.0	0.7	1.1	0.5	-0.3	1.3	1.6	1.0	0.8	0.8	1.0	0.8	0.8
Greece	19.4	20.7	19.8	14.8	14.4	11.2	9.8	7.4	6.8	5.2	3.0	3.4	3.5	3.9	3.6	3.8	3.6	4.0	3.0	3.2
Hungary	..	..	..	..	..	19.5	25.6	21.2	18.5	12.6	8.4	9.9	8.6	8.9	7.8	5.8	5.0	..	..	..
Iceland	36.5	16.9	8.5	3.3	2.1	2.0	2.8	2.1	3.3	4.9	2.8	2.8	9.4	5.3	-0.4	2.6	3.9	0.6	3.5	2.9
Ireland	8.6	-0.7	1.8	2.8	5.2	1.7	3.0	2.1	4.0	6.4	3.8	4.3	5.1	5.4	0.6	1.7	2.4	0.5	1.2	2.7
Italy	11.9	8.2	7.6	4.5	3.9	3.5	5.0	5.3	2.4	2.7	1.6	2.2	2.7	3.1	2.9	2.5	2.4	3.0	2.5	2.5
Japan	2.5	2.4	2.9	1.6	0.5	0.1	-0.5	-0.8	0.3	-0.1	-1.5	-2.0	-1.5	-1.2	-2.5	-1.8	-1.1	-2.7	-1.1	-0.9
Korea	8.9	11.3	10.3	7.5	7.4	7.8	7.3	5.2	4.2	5.8	-0.2	1.0	3.7	2.7	2.2	2.0	2.3	2.1	2.0	2.5
Luxembourg	4.6	2.5	1.8	3.7	6.0	3.5	2.3	2.0	2.7	2.7	2.2	3.9	2.2	0.6	1.9	2.9	2.0	..	..	..
Mexico	62.8	28.1	23.3	14.4	9.5	8.5	37.9	30.7	17.7	15.4	15.2	12.1	5.9	6.9	6.5	5.2	3.8	4.3	5.0	3.4
Netherlands	2.3	2.2	2.9	2.3	1.9	2.3	2.0	1.2	2.0	1.7	1.6	3.9	5.4	3.4	2.8	1.3	0.8	2.2	0.9	0.8
New Zealand	11.0	3.3	0.5	1.4	3.0	1.1	2.4	2.5	0.3	1.5	-0.1	2.4	4.7	0.6	2.0	3.0	1.8	3.9	3.3	1.3
Norway	7.1	3.8	2.2	-0.6	2.3	-0.1	2.9	4.1	2.9	-0.7	6.6	15.9	1.1	-1.6	2.9	2.4	2.6	2.7	2.3	3.0
Poland	..	..	..	..	..	37.2	28.0	18.6	13.9	11.6	6.4	6.7	4.0	1.2	0.7	1.2	1.4	..	..	..
Portugal	18.1	13.1	10.1	11.4	7.4	7.3	3.4	3.0	3.8	3.8	3.1	3.5	4.4	4.7	2.3	2.2	1.7	1.7	1.6	1.7
Slovak Republic	..	..	..	..	..	13.4	9.9	4.3	6.7	5.2	6.5	8.5	4.2	4.0	4.7	3.8	2.9	..	..	..
Spain	10.0	7.3	6.9	6.7	4.5	3.9	4.9	3.5	2.3	2.4	2.8	3.5	4.2	4.4	4.2	3.5	3.2	4.2	3.1	3.1
Sweden	8.1	8.8	9.0	1.1	3.0	2.3	3.4	1.2	1.6	0.8	0.7	1.3	2.3	1.4	2.3	1.4	1.9	1.8	1.4	1.9
Switzerland	3.5	4.3	5.7	2.2	2.4	1.5	0.8	-0.1	-0.1	-0.3	0.7	0.8	0.6	1.0	1.2	1.2	0.7	2.4	0.6	0.6
Turkey	48.9	58.3	58.8	63.7	67.8	106.5	87.2	77.8	81.5	75.7	55.6	49.9	54.8	44.1	22.5	13.8	9.6	..	..	..
United Kingdom	7.5	7.6	6.6	4.0	2.8	1.6	2.6	3.4	2.9	2.8	2.3	1.4	2.3	3.3	3.1	2.3	2.1	2.8	2.2	2.4
United States	4.7	3.9	3.5	2.3	2.3	2.1	2.0	1.9	1.7	1.1	1.4	2.2	2.4	1.5	1.7	1.7	1.6	1.6	1.7	1.6
Euro area	6.8	4.9	4.8	4.4	3.6	2.8	2.9	2.1	1.6	1.7	1.1	1.4	2.4	2.6	2.0	1.7	1.7	2.0	1.7	1.7
Total OECD	8.4	6.2	5.8	4.4	4.5	4.7	5.3	4.4	3.8	3.3	2.5	2.8	3.0	2.5	2.0	1.7	1.6	1.6	1.8	1.6
Memorandum item																				
OECD *less* high inflation countries [a]	5.5	4.5	4.2	3.0	2.7	2.2	2.2	1.9	1.6	1.3	1.0	1.5	1.9	1.6	1.4	1.3	1.4	1.3	1.4	1.4

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence there are breaks in many national series. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

Annex Table 17. **Private consumption deflators**

Percentage change from previous year

	Average 1979-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	8.2	6.4	4.4	2.2	2.2	1.2	2.3	1.9	1.6	1.3	1.0	3.4	3.6	1.9	1.6	1.9	2.5	1.1	2.3	2.6
Austria	3.7	3.3	3.5	3.9	3.5	2.8	2.0	1.9	1.5	0.5	0.8	1.4	2.2	1.1	1.8	1.3	1.1	1.9	1.1	1.1
Belgium	4.6	2.8	2.8	1.9	2.5	2.3	2.1	2.1	1.8	0.9	1.2	2.3	2.5	1.7	1.8	1.7	1.4	1.9	1.7	1.2
Canada	6.3	4.2	5.0	1.7	2.3	1.1	1.3	1.6	1.6	1.2	1.7	2.2	1.8	1.9	1.7	0.9	1.6	0.9	1.3	1.7
Czech Republic	..	..	..	..	..	10.6	9.2	8.1	7.4	9.1	3.7	2.8	3.8	-0.1	0.1	3.0	2.5	..	..	..
Denmark	6.5	2.9	2.8	1.9	2.0	3.0	1.9	2.1	2.2	1.3	2.4	2.6	2.5	2.1	1.8	1.7	1.8	1.0	2.3	1.6
Finland	6.7	6.0	5.8	3.6	4.6	0.9	0.8	1.6	1.9	2.0	1.2	3.6	3.5	3.1	1.7	0.8	2.0	1.4	0.9	2.3
France	7.4	3.1	3.5	2.5	2.5	2.2	2.0	1.9	1.4	0.6	0.2	1.2	1.4	1.7	1.8	1.5	1.3	1.7	1.4	1.3
Germany	2.8	2.6	3.8	4.4	3.9	2.6	1.9	1.7	2.0	1.1	0.3	1.5	1.6	1.3	1.0	1.1	0.6	1.1	0.8	0.6
Greece	19.3	19.8	19.7	15.7	14.1	11.0	9.0	8.2	5.6	4.5	2.3	3.3	3.4	3.4	3.5	3.4	3.3	..	..	..
Hungary	..	..	..	..	..	19.7	27.0	23.8	18.0	13.7	10.4	10.9	8.2	3.7	6.0	6.9	4.8	..	..	..
Iceland	37.6	16.7	8.9	3.5	3.6	1.4	1.9	2.4	-0.2	0.9	2.6	4.4	8.1	3.7	0.5	1.3	3.0	1.5	2.0	3.4
Ireland	8.8	2.1	2.7	3.0	2.2	2.7	2.8	2.6	2.9	3.8	3.1	4.1	4.3	6.0	4.0	1.8	2.5	2.3	2.2	2.4
Italy	11.4	6.4	7.0	5.5	5.5	4.9	6.0	4.4	2.2	2.1	2.1	2.9	2.7	3.1	2.5	2.3	2.3	2.4	2.1	2.4
Japan	2.6	2.8	2.7	1.6	1.0	0.5	-0.3	-0.1	1.0	-0.1	-0.7	-1.3	-1.6	-1.3	-1.4	-1.2	-0.7	-1.5	-1.0	-0.4
Korea	7.9	10.6	12.1	8.8	8.1	9.6	6.9	6.0	6.1	6.7	3.3	4.7	4.8	2.8	3.4	3.2	3.2	3.4	2.7	3.4
Luxembourg	5.2	3.6	3.4	4.2	4.0	2.6	2.0	1.4	1.4	1.1	1.5	2.6	3.3	2.3	2.0	1.8	1.6	..	..	..
Mexico	63.8	27.8	24.3	15.4	10.1	7.6	34.0	30.7	16.5	20.5	14.0	10.4	7.2	5.4	5.0	4.8	3.2	4.5	4.0	3.1
Netherlands	2.8	2.1	3.3	3.2	2.1	2.9	1.4	1.9	2.0	1.7	1.8	3.3	4.7	3.1	2.0	1.5	1.0	1.7	1.2	1.0
New Zealand	11.7	5.6	2.2	1.1	1.2	1.2	2.6	2.2	1.9	2.0	0.3	2.1	2.1	2.0	0.5	1.2	1.6	0.3	1.8	1.2
Norway	7.9	4.7	3.8	2.5	2.4	1.2	2.4	1.4	2.3	2.5	2.0	3.0	2.3	0.8	2.4	0.9	1.8	1.6	1.2	2.0
Poland	..	..	..	..	..	37.9	27.2	19.4	14.5	11.2	6.5	9.0	4.7	1.6	0.7	2.2	2.1	..	..	..
Portugal	18.2	11.6	11.8	9.2	6.9	5.6	4.3	3.7	2.9	2.8	2.1	3.3	3.9	3.6	3.4	1.9	1.8	2.7	2.2	1.8
Slovak Republic	..	..	..	..	..	13.4	9.2	5.0	6.0	5.8	8.6	10.8	5.9	2.5	7.7	6.6	3.0	..	..	..
Spain	10.1	6.6	6.4	6.6	5.3	4.9	4.8	3.5	2.6	2.2	2.4	3.1	3.3	3.5	3.1	2.4	2.6	3.0	2.5	2.6
Sweden	8.4	9.7	10.4	2.1	6.3	2.7	2.8	1.3	1.9	0.8	1.2	1.1	2.4	1.8	2.5	0.9	1.7	2.4	0.9	1.7
Switzerland	3.3	5.2	5.8	3.8	3.1	0.5	1.6	0.6	0.7	-0.4	0.3	0.6	0.5	1.1	1.1	0.3	0.6	0.8	0.4	0.6
Turkey	49.4	59.8	60.7	65.6	65.9	108.9	92.4	67.8	82.1	83.0	59.0	50.0	58.8	40.6	21.8	13.4	10.2	..	..	..
United Kingdom	7.0	7.5	7.8	4.9	3.5	2.1	3.4	3.4	2.5	2.6	1.7	1.1	2.2	1.3	1.5	1.5	1.8	1.7	1.6	1.9
United States	5.0	4.6	3.6	2.9	2.3	2.1	2.1	2.2	1.7	0.9	1.7	2.5	2.0	1.4	1.8	1.9	1.4	1.5	2.0	1.4
Euro area	6.9	4.5	5.1	4.6	4.1	3.3	3.0	2.5	2.1	1.4	1.1	2.1	2.3	2.2	1.9	1.7	1.5	1.9	1.5	1.5
Total OECD	8.6	6.5	6.2	4.9	4.9	5.0	5.4	4.5	4.0	3.5	2.7	3.1	3.0	2.1	1.9	1.7	1.5	1.6	1.8	1.5
Memorandum item																				
OECD *less* high inflation countries [a]	5.7	4.7	4.6	3.4	3.1	2.5	2.3	2.2	1.9	1.3	1.2	1.9	1.8	1.3	1.5	1.4	1.3	1.3	1.4	1.4

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence there are breaks in many national series. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

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Annex Table 18. **Consumer price indices**

Percentage change from previous year

	Average 1979-89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	8.4	7.3	3.2	1.0	1.8	1.9	4.6	2.6	0.3	0.9	1.5	4.5	4.4	3.0	2.8	2.0	2.5	2.4	2.2	2.5
Austria	3.8	3.3	3.1	3.4	3.2	2.7	1.6	1.8	1.2	0.8	0.5	2.0	2.3	1.7	1.3	1.2	1.1	1.2	1.1	1.1
Belgium	4.9	3.4	4.2	2.2	2.5	2.4	1.3	1.8	1.5	0.9	1.1	2.7	2.4	1.6	1.5	1.6	1.4	1.6	1.5	1.4
Canada	6.5	4.8	5.6	1.5	1.9	0.2	2.2	1.6	1.6	1.0	1.7	2.7	2.5	2.2	2.8	1.1	1.7	1.7	1.4	1.8
Czech Republic	..	..	..	..	..	10.0	9.1	8.8	8.5	10.7	2.1	3.9	4.8	1.8	0.1	3.0	2.5	0.8	3.7	3.0
Denmark	6.9	2.6	2.4	2.1	1.3	2.0	2.1	2.1	2.2	1.8	2.5	2.9	2.3	2.4	2.1	1.6	1.9	1.5	2.3	1.7
Finland	7.1	6.1	4.6	3.2	3.3	1.6	0.4	1.1	1.2	1.4	1.3	3.0	2.7	2.0	1.3	0.5	1.6	1.1	0.5	1.9
France	7.3	3.2	3.4	2.5	2.2	1.7	1.8	2.1	1.3	0.7	0.6	1.8	1.8	1.9	2.2	1.9	1.3	2.4	1.4	1.3
Germany	2.9	2.7	4.1	5.1	4.4	2.7	1.7	1.2	1.5	0.6	0.6	1.4	1.9	1.3	1.0	1.1	0.6	1.2	0.8	0.6
Greece	19.4	20.4	19.5	15.9	14.4	10.9	8.9	7.9	5.4	4.5	2.1	2.9	3.7	3.9	3.4	3.3	3.2	3.2	3.4	2.9
Hungary	..	..	..	..	..	18.9	28.3	23.5	18.3	14.2	10.0	9.8	9.2	5.3	4.7	6.9	4.8	5.4	7.6	3.8
Iceland [a]	38.1	15.5	6.8	4.0	4.1	1.6	1.7	2.3	1.8	1.7	3.2	5.1	6.4	5.2	2.1	2.5	3.5	2.5	2.5	4.1
Ireland	9.2	3.3	3.2	3.1	1.4	2.3	2.5	2.2	1.2	2.1	2.5	5.3	4.0	4.7	4.0	1.8	2.3	3.2	1.9	2.5
Italy	11.1	6.5	6.2	5.0	4.5	4.2	5.4	4.0	1.9	2.0	1.7	2.6	2.3	2.6	2.8	2.2	2.1	2.7	1.9	2.2
Japan	2.5	3.1	3.2	1.7	1.3	0.7	-0.1	0.1	1.7	0.7	-0.3	-0.7	-0.7	-0.9	-0.3	-0.2	0.1	-0.3	-0.1	0.2
Korea	6.0	8.5	9.3	6.2	4.8	6.3	4.5	4.9	4.4	7.5	0.8	2.3	4.1	2.8	3.5	3.2	3.2	3.6	2.9	3.4
Luxembourg	4.7	3.3	3.1	3.2	3.6	2.2	1.9	1.2	1.4	1.0	1.0	3.8	2.4	2.1	2.5	1.5	1.6	2.1	1.4	1.6
Mexico	65.1	26.7	22.7	15.5	9.8	7.0	35.0	34.4	20.6	15.9	16.6	9.5	6.4	5.0	4.5	4.4	3.2	4.0	4.0	3.2
Netherlands	2.8	2.5	3.2	2.8	1.6	2.1	1.4	1.4	1.9	1.8	2.0	2.3	5.1	3.9	2.2	1.2	0.8	1.9	1.4	0.8
New Zealand	11.8	6.1	2.6	1.0	1.3	1.7	3.8	2.3	1.2	1.3	-0.1	2.6	2.6	2.7	1.8	2.1	2.4	1.6	2.3	2.3
Norway	8.3	4.1	3.4	2.3	2.3	1.4	2.4	1.2	2.6	2.3	2.3	3.1	3.0	1.3	2.5	0.5	2.0	1.2	1.4	2.2
Poland	..	..	..	..	..	33.2	28.3	19.9	14.9	11.6	7.3	10.1	5.5	1.9	0.8	1.8	2.4	1.5	2.2	2.8
Portugal	17.5	13.4	11.4	8.9	5.9	5.0	4.0	2.9	1.9	2.2	2.2	2.8	4.4	3.7	3.3	2.0	1.7	2.5	1.8	1.7
Slovak Republic	..	..	..	..	..	13.4	9.8	5.8	6.1	6.7	10.6	12.0	7.3	3.1	8.6	7.6	3.0	9.6	6.8	2.0
Spain	10.2	6.7	5.9	5.9	4.9	4.6	4.6	3.6	1.9	1.8	2.2	3.5	2.8	3.6	3.1	2.3	2.6	2.7	2.2	2.8
Sweden	7.9	10.4	9.4	2.4	4.7	2.2	2.5	0.5	0.7	-0.3	0.5	0.9	2.4	2.2	1.9	0.5	1.6	1.3	0.8	1.7
Switzerland	3.3	5.4	5.9	4.0	3.3	0.9	1.8	0.8	0.5	0.0	0.8	1.6	1.0	0.6	0.6	0.2	0.6	0.5	0.2	0.5
Turkey [b]	48.0	60.3	66.0	70.1	66.1	105.2	89.1	80.4	85.7	84.6	64.9	54.9	54.4	45.0	25.3	13.7	9.8	19.4	12.9	8.5
United Kingdom [c]	7.4	13.4	7.5	4.2	2.5	2.0	2.7	2.5	1.8	1.6	1.3	0.8	1.2	1.3	1.4	1.4	1.9	1.3	1.5	2.1
United States [d]	5.5	5.4	4.2	3.0	3.0	2.6	2.8	2.9	2.3	1.5	2.2	3.4	2.8	1.6	2.3	2.3	2.0	1.9	2.6	2.0
Euro area	7.0	4.6	5.0	4.6	4.0	3.2	2.9	2.4	1.7	1.2	1.2	2.1	2.4	2.3	2.1	1.7	1.4	2.0	1.4	1.4

Note: Consumer price index. For the euro area countries, the euro area aggregate and the United Kingdom: harmonised index of consumer prices (HICP).

a) Excluding rent, but including imputed rent.

b) Until 1981: Istanbul index (154 items); from 1982, Turkish index.

c) Known as the CPI in the United Kingdom.

d) The methodology for calculating the Consumer Price Index has changed considerably over the past years, lowering measured inflation substantially.

Source: OECD.

Annex Table 19. **Oil and other primary commodity markets**

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Oil market conditions[a]																		
(in million barrels per day)																		
Demand																		
OECD[b]	40.6	41.2	41.5	41.9	42.9	43.2	44.4	44.9	45.9	46.7	46.8	47.7	47.7	47.7	47.8	48.5	48.8	..
of which: North America	20.8	21.0	20.7	20.5	20.8	21.1	21.7	21.6	22.2	22.7	23.1	23.8	24.0	23.9	24.2	24.6	24.9	..
Europe[c]	13.4	13.5	13.6	14.0	14.2	14.2	14.3	14.6	14.9	15.0	15.3	15.2	15.1	15.3	15.1	15.2	15.4	..
Pacific	6.4	6.7	7.2	7.5	7.9	8.0	8.4	8.7	8.8	9.0	8.4	8.7	8.6	8.6	8.5	8.6	8.5	..
Non-OECD[d]	24.2	24.5	24.5	24.8	24.4	24.6	24.0	24.7	25.6	26.8	27.0	27.7	28.4	28.8	29.2	30.1	31.5	..
Total	64.8	65.8	66.0	66.7	67.2	67.8	68.4	69.6	71.5	73.5	73.8	75.4	76.2	76.5	77.0	78.6	80.3	..
Supply																		
OECD[b]	19.6	18.9	19.0	19.5	19.8	20.0	20.8	21.1	21.7	22.1	21.9	21.4	21.9	21.8	21.9	21.7	21.7	..
OPEC total	21.8	23.8	25.1	25.3	26.5	26.9	27.4	27.6	28.4	29.9	30.8	29.4	30.8	30.1	28.5	30.5	..	..
Former USSR	12.5	12.2	11.5	10.4	8.9	7.9	7.2	7.1	7.1	7.2	7.3	7.5	7.9	8.6	9.4	10.3	11.0	..
Other non-OECD[d]	10.8	11.2	11.4	11.6	12.1	12.6	13.4	14.5	15.1	15.4	15.8	16.0	16.2	16.2	16.8	17.0	..	..
Total	64.8	66.1	66.9	66.8	67.2	67.5	68.8	70.4	72.3	74.6	75.7	74.3	76.8	76.7	76.6	79.4	..	..
Trade																		
OECD net imports[b]	20.8	22.5	22.8	22.4	23.1	23.5	23.8	23.4	24.2	24.9	25.3	25.5	26.0	26.2	25.6	27.1	27.1	..
Former USSR net exports	3.6	3.5	3.1	2.2	2.0	2.0	2.7	2.8	3.1	3.4	3.6	3.9	4.3	4.9	5.9	6.8	7.6	..
Other non-OECD net exports[d]	17.2	19.0	19.7	20.2	21.1	21.4	21.1	20.6	21.1	21.5	21.7	21.6	21.7	21.3	19.7	20.3	19.5	..
Prices[e]																		
Brent crude oil import price																		
(cif, $ per bl)	14.9	18.2	23.7	20.0	19.3	17.0	15.8	17.0	20.7	19.1	12.7	17.9	28.4	24.5	25.0	28.8	32.0	32.0
Prices of other primary commodities[e]																		
($ indices)																		
Food and tropical beverages	93	88	79	74	72	73	98	100	99	104	91	74	67	61	67	73	76	79
of which: Food	135	131	116	113	119	120	129	137	161	143	118	100	100	97	108	118	157	167
Tropical beverages	158	145	132	121	109	111	176	176	150	183	158	121	100	87	98	103	108	116
Agricultural raw materials	114	117	127	111	112	107	123	142	119	113	97	94	100	86	85	104	120	132
Minerals, ores and metals	137	130	120	106	102	89	103	121	108	110	93	89	100	92	90	102	147	170
Total	130	127	124	111	109	103	125	140	125	126	107	97	100	89	91	105	131	146

a) Based on data published in in varoius issues of International Energy Agency, Oil Market Report and Annual Statistical Supplement, August 2003.
b) Excluding Czech Republic, Hungary, Korea, Mexico and Poland.
c) European Union countries and Iceland, Norway, Switzerland and Turkey.
d) Including Czech Republic, Hungary, Korea, Mexico and Poland.
e) Indices through 2003 are based on data compiled by International Energy Agency for oil and by Hamburg Institute for Economic Research for the prices of other primary commodities; OECD estimates and projections for 2004 and 2005.
Source: OECD.

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Annex Table 20. **Employment rates, participation rates and labour force**

	Employment rates						Labour force participation rates						Labour force					
	Average 1982-84	Average 1992-94	2002	2003	2004	2005	Average 1982-84	Average 1992-94	2002	2003	2004	2005	Average 1982-91	Average 1992-01	2002	2003	2004	2005
	Per cent						*Per cent*						*Percentage change*					
Australia	63.9	66.2	71.0	71.6	71.8	72.0	69.9	73.7	75.8	76.1	76.2	76.2	2.3	1.5	1.5	1.9	1.6	1.5
Austria	74.7	74.2	74.4	74.3	74.4	75.0	77.1	78.2	78.7	78.8	79.1	79.6	0.7	0.3	0.5	0.5	0.5	0.8
Belgium	55.7	57.9	61.8	61.5	61.4	61.8	62.2	63.3	66.7	66.9	67.0	67.2	0.2	0.8	0.4	0.4	0.5	0.7
Canada	65.1	67.8	72.6	73.3	73.7	74.0	73.5	76.2	78.6	79.4	79.5	79.6	1.7	1.4	2.7	2.2	1.3	1.3
Czech Republic	..	69.3	65.9	65.4	65.0	64.9	..	72.4	71.1	70.9	70.9	70.8	..	0.1	0.0	-0.1	0.0	0.0
Denmark	72.2	73.7	76.6	75.8	75.8	76.1	78.5	80.7	80.2	80.3	80.6	80.7	1.0	-0.1	0.7	0.2	0.4	0.2
Finland	72.1	61.9	68.0	67.6	67.6	68.2	76.2	72.7	74.8	74.4	74.1	74.4	0.1	0.5	0.1	-0.4	-0.2	0.7
France	61.3	59.4	63.8	63.4	63.2	63.3	67.2	66.9	70.2	70.2	70.1	70.0	0.5	0.8	0.9	0.6	0.3	0.3
Germany	64.0	67.7	69.9	69.2	69.1	69.7	68.0	73.0	76.1	75.9	75.8	76.1	4.0	0.4	0.1	-0.4	-0.2	0.3
Greece	57.4	55.5	57.1	58.6	59.7	60.6	61.9	61.2	63.6	64.8	65.5	66.2	0.6	0.9	-0.3	1.4	0.9	0.9
Hungary	..	53.1	55.1	..	..	..	..	60.1	58.5	..	..	..	..	-0.1	0.2	1.3	1.1	1.1
Iceland	83.4	81.0	83.4	83.2	83.3	83.9	84.9	85.1	86.2	86.1	85.9	86.3	1.3	1.4	-0.4	1.6	1.8	2.7
Ireland	54.0	53.1	66.9	66.6	67.0	67.3	63.0	62.6	70.0	69.9	70.3	70.7	0.5	3.1	1.9	1.5	1.5	1.6
Italy	55.5	52.6	55.7	56.3	56.6	57.4	60.1	58.5	61.3	61.7	61.9	62.7	0.6	0.3	0.9	0.6	0.3	1.2
Japan	70.6	74.1	73.4	73.4	73.6	74.1	72.5	76.0	77.5	77.5	77.5	77.7	1.3	0.3	-0.9	-0.3	-0.3	-0.1
Korea	56.6	62.4	65.1	64.7	65.3	65.4	59.0	64.1	67.1	66.9	67.5	67.5	2.7	1.6	2.0	0.2	1.6	0.9
Luxembourg	59.6	60.3	64.1	64.4	64.3	64.4	60.6	61.6	66.0	67.0	67.2	67.4	1.0	1.6	2.1	1.9	1.3	1.2
Mexico	..	52.7	54.1	53.6	53.6	53.9	..	54.6	55.6	55.5	55.6	55.7	..	2.6	1.7	1.9	2.3	2.2
Netherlands	51.4	56.4	65.5	64.8	64.0	64.5	57.2	60.3	67.0	67.2	67.4	67.9	1.2	1.7	1.4	0.6	0.7	1.3
New Zealand	71.3	65.1	72.4	72.6	..	..	74.6	71.8	76.4	76.1	..	..	0.7	1.8	2.8	1.8	1.8	1.3
Norway	74.2	72.3	77.4	76.6	76.5	76.9	76.5	76.7	80.5	80.2	80.1	80.2	0.7	1.2	0.7	-0.1	0.4	0.8
Poland	..	58.5	51.4	50.5	50.6	51.0	..	68.2	64.2	62.9	63.0	63.1	..	0.2	-0.9	-1.6	0.8	0.5
Portugal	63.4	69.4	72.3	71.2	70.9	71.4	69.1	73.4	76.2	76.0	75.9	76.1	1.4	0.8	1.3	0.5	0.5	0.9
Slovak Republic	..	63.2	56.6	57.6	58.2	59.0	..	72.6	69.6	69.8	69.8	69.8	..	1.1	-0.7	0.3	0.0	0.0
Spain	48.4	48.4	59.9	61.2	62.7	64.1	56.3	57.6	67.6	69.0	70.3	71.4	1.3	2.1	3.0	2.6	2.3	2.0
Sweden	78.7	72.4	73.4	72.8	72.0	72.0	81.3	78.0	76.5	76.5	76.4	76.2	0.4	-0.1	0.1	0.7	0.6	0.6
Switzerland	77.5	84.5	84.8	84.1	84.1	84.4	78.1	87.5	87.6	87.6	87.5	87.4	2.2	0.3	1.2	0.9	0.5	0.6
Turkey	61.1	53.6	48.3	46.3	45.9	45.4	65.9	58.5	53.8	51.8	51.3	51.1	2.1	1.1	1.4	-2.2	1.1	2.0
United Kingdom	64.9	68.2	72.2	72.4	72.6	72.7	73.1	76.0	76.1	76.2	76.2	76.3	0.7	0.3	0.8	0.7	0.6	0.7
United States	65.4	71.5	71.0	..	..	..	71.9	76.7	75.3	..	..	..	1.5	1.3	0.8	1.1	0.5	1.4
Euro area	58.7	59.3	63.9	63.9	64.0	64.7	64.0	65.7	69.7	70.0	70.2	70.7	1.6	0.8	0.9	0.6	0.5	0.8
Total OECD	62.9	64.9	66.1	64.2	64.3	64.6	68.0	70.1	71.0	69.5	69.5	69.6	2.0	1.6	0.7	0.5	0.6	1.0

Note: Employment rates are calculated as the ratio of total employment to the population of working age. The working age population concept used here and in the labour force participation rate is defined as all persons of the age 15 to 64 years (16 to 65 years for Spain). This definition does not correspond to the commonly-used working age population concepts for the United States (16 years and above), Hungary and New Zealand (15 years and above). Hence for these countries no projections are available. For information about sources and definitions, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

Annex Table 21. **Potential GDP, employment and capital stock**

Percentage change from previous period

	Potential GDP						Employment						Capital stock					
	Average 1982-91	Average 1992-01	2002	2003	2004	2005	Average 1982-91	Average 1992-01	2002	2003	2004	2005	Average 1982-91	Average 1992-01	2002	2003	2004	2005
Australia	3.5	3.3	3.4	3.8	3.8	3.8	2.0	2.0	2.0	2.4	1.8	1.7	4.3	3.4	3.8	4.3	4.8	4.6
Austria	2.3	2.3	2.4	2.1	2.0	2.1	0.5	0.3	-0.2	0.3	0.3	0.9	4.0	4.1	4.2	4.3	4.3	4.4
Belgium	2.1	2.1	2.1	2.0	2.1	2.1	0.6	0.8	-0.3	-0.4	0.3	1.0	3.0	2.7	2.6	2.6	2.6	2.7
Canada	2.5	3.1	3.1	2.8	2.9	3.0	1.8	1.9	2.2	2.2	1.7	1.5	2.7	2.4	2.0	2.1	2.6	3.3
Czech Republic	..	..	..	..	..	..	..	-0.5	1.0	-0.7	-0.5	0.0	..	..	..	..	..	..
Denmark	1.6	2.2	2.1	2.1	2.0	2.1	1.0	0.4	0.4	-1.0	0.0	0.4	3.4	3.3	4.0	3.6	3.6	3.6
Finland	2.5	2.4	2.7	2.4	2.1	2.2	0.0	0.8	0.2	-0.3	0.0	1.4	3.1	0.7	1.1	0.7	0.7	0.8
France	2.0	2.1	1.9	2.3	2.2	2.3	0.3	1.0	0.5	-0.2	0.2	0.5	4.5	3.2	2.5	2.2	2.3	2.5
Germany	3.9	1.6	1.5	1.5	1.5	1.5	3.9	0.3	-0.6	-1.1	-0.3	0.6	4.3	2.1	1.6	1.4	1.3	1.2
Greece	1.2	2.6	2.9	3.1	3.5	3.5	0.4	0.7	0.1	2.2	1.7	1.4	2.0	3.5	3.9	4.5	5.0	5.0
Hungary	..	2.9	3.7	3.8	3.8	3.8	..	0.7	0.1	1.3	1.1	1.3	..	..	..	..	..	..
Iceland	2.8	2.4	2.5	3.3	4.0	4.3	1.1	1.7	-1.5	1.5	2.1	3.0	2.8	2.8	1.6	3.3	4.9	5.9
Ireland	3.7	7.2	6.6	5.9	4.8	4.7	0.1	4.6	1.4	1.2	1.4	1.6	2.4	4.0	4.4	3.1	3.1	3.4
Italy	2.4	1.6	1.6	1.7	1.5	1.3	0.4	0.2	1.5	1.0	0.5	1.3	3.1	2.9	3.2	2.7	2.5	2.6
Japan	3.7	1.6	1.1	0.9	1.2	1.2	1.4	0.0	-1.3	-0.2	0.0	0.3	6.5	3.7	2.7	3.1	3.6	3.5
Korea	..	..	..	..	..	..	2.9	1.4	2.8	-0.1	1.7	1.2	..	..	..	..	..	..
Luxembourg	..	..	..	..	..	..	0.9	1.5	1.7	1.0	0.7	1.0	..	..	..	..	..	..
Mexico	..	..	..	..	..	..	3.7	2.7	1.4	1.3	2.0	2.6	..	..	..	..	..	..
Netherlands	2.1	2.8	2.3	1.7	1.7	1.7	1.6	2.0	1.1	-0.6	-0.9	1.2	2.2	2.7	2.3	1.9	1.8	1.9
New Zealand	1.7	2.7	3.6	3.9	3.5	3.1	-0.1	2.4	2.9	2.4	1.8	1.1	3.2	2.4	3.6	4.4	4.7	4.4
Norway	2.1	3.0	2.7	2.1	2.3	2.3	0.4	1.4	0.4	-0.8	0.5	1.0	1.1	2.1	1.0	0.1	0.0	0.4
Poland	..	..	..	..	..	..	..	-0.4	-3.0	-1.2	0.7	1.1	..	..	..	..	..	..
Portugal	2.8	2.8	2.6	1.8	1.5	1.6	1.9	0.8	0.3	-0.9	0.3	1.4	..	..	..	..	..	..
Slovak Republic	..	..	..	..	..	..	..	0.1	0.2	1.8	1.0	1.3	..	..	..	..	..	..
Spain	2.6	2.9	2.7	2.7	2.5	2.5	1.4	2.5	2.0	2.7	2.8	2.8	3.7	3.8	3.5	3.2	3.0	3.0
Sweden	1.9	2.2	2.3	2.2	2.3	2.4	0.5	0.1	0.1	-0.2	-0.4	0.9	3.2	2.9	2.6	2.1	2.0	2.2
Switzerland	2.1	1.2	1.5	1.5	1.4	1.4	2.0	0.4	0.6	-0.1	0.7	1.1	2.7	2.6	2.3	2.2	2.3	2.5
Turkey	..	..	..	..	..	..	2.0	1.1	-0.8	-2.6	0.8	1.4	..	..	..	..	..	..
United Kingdom	2.1	2.5	2.7	2.5	2.5	2.4	1.0	0.9	0.7	0.9	0.8	0.7	2.9	3.8	3.8	3.5	3.6	3.6
United States	3.0	3.3	2.9	3.2	2.9	3.2	1.9	1.6	-0.3	0.9	1.0	1.7	2.7	3.2	1.3	1.4	2.0	2.5
Euro area	2.7	2.0	2.0	2.0	1.9	1.9	1.6	0.8	0.5	0.1	0.4	1.1	..	..	..	..	..	..
Total OECD	2.9	2.6	2.4	2.4	2.3	2.5	1.8	1.1	0.1	0.3	0.8	1.3	3.6	3.1	2.1	2.1	2.5	2.7

Note: Potential output is estimated using a Cobb-Douglas production function approach. For information about definitions, sources and data coverage, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

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Annex Table 22. **Structural unemployment, wage shares and unit labor costs**

	Structural unemployment rate						Wage shares in the business sector						Unit labour costs in the business sector					
	Average 1982-84	Average 1992-94	2002	2003	2004	2005	Average 1982-84	Average 1992-94	2002	2003	2004	2005	Average 1982-91	Average 1992-01	2002	2003	2004	2005
	Per cent						*Per cent of business GDP*						*Percentage change*					
Australia	6.1	7.2	5.8	5.6	5.5	5.5	45.0	43.5	45.1	45.2	44.8	44.7	5.0	1.2	2.4	2.3	1.7	2.0
Austria	2.8	5.1	4.9	5.0	5.0	5.0	56.9	54.3	53.2	52.8	52.4	52.4	2.3	0.5	0.6	1.4	0.6	0.7
Belgium	6.8	8.6	6.9	6.9	6.9	6.9	49.4	51.2	50.9	50.0	49.9	49.5	3.4	1.3	3.0	-0.1	1.0	0.3
Canada	8.8	8.9	7.1	7.1	7.1	7.1	44.6	46.8	48.9	47.9	47.9	48.0	4.0	1.1	1.3	1.8	1.1	1.5
Czech Republic	..	..	..	..	..	..	..	43.3	46.8	46.4	46.3	46.6	..	6.3	5.8	2.5	2.7	2.3
Denmark	5.7	7.8	4.9	4.9	4.9	4.9	38.3	40.8	39.4	39.3	39.1	38.8	5.4	0.6	1.0	2.1	1.2	0.9
Finland	3.9	9.1	8.4	8.3	8.3	8.2	48.2	42.0	40.9	41.1	41.1	41.1	5.7	0.4	-0.4	0.6	0.5	1.1
France	5.7	10.2	9.2	9.1	9.0	8.9	51.5	44.2	41.9	41.9	41.7	41.5	2.9	0.4	1.8	1.6	0.8	0.7
Germany	4.6	6.6	7.3	7.3	7.3	7.2	52.9	52.3	52.3	52.2	51.9	51.8	1.6	0.8	0.6	0.6	-0.1	0.0
Greece	5.2	8.7	9.7	9.6	9.6	9.6	55.1	45.8	43.4	43.2	43.2	43.1	16.6	6.2	2.5	3.6	3.6	3.6
Hungary	..	..	..	..	..	..	..	48.6	40.9	41.8	42.9	43.3	..	9.8	7.1	9.2	7.1	5.7
Iceland	0.6	2.1	3.5	3.4	3.4	3.2	46.9	50.3	52.4	53.3	53.6	54.8	27.9	3.7	4.7	1.1	3.1	5.0
Ireland	13.1	13.9	5.9	5.7	5.5	5.3	57.7	50.8	37.0	38.4	38.5	38.4	2.0	0.1	-1.5	3.9	1.8	1.7
Italy	7.2	9.6	9.0	8.9	8.8	8.7	54.9	50.4	47.2	47.2	47.2	47.3	7.2	1.4	3.3	3.4	2.6	2.1
Japan	2.2	2.5	3.9	3.9	3.9	3.9	66.8	59.7	55.8	55.5	55.2	54.9	0.3	-0.9	-3.1	-3.6	-2.9	-2.1
Korea	..	..	..	..	..	..	73.7	66.3	62.7	64.5	64.7	64.8	4.8	3.1	5.9	5.2	1.9	2.1
Luxembourg	..	..	..	..	..	..	..	47.5	47.9	47.9	47.3	47.2	..	1.7	4.9	1.9	1.3	1.4
Mexico	..	..	..	..	..	..	..	43.4	36.7	36.3	35.6	35.3	26.4	14.9	6.0	5.1	3.3	2.8
Netherlands	6.4	6.5	3.7	3.6	3.5	3.5	46.0	46.8	46.9	47.1	46.4	45.7	0.5	1.7	4.7	4.0	-0.4	-1.1
New Zealand	3.0	7.8	5.4	5.4	5.4	5.4	46.2	44.2	41.4	41.4	41.0	41.0	6.5	0.6	1.2	1.9	2.2	1.9
Norway	2.2	5.2	3.6	3.6	3.6	3.6	40.3	36.7	34.3	34.3	34.1	34.1	5.4	1.9	3.9	2.3	0.0	1.5
Poland	..	..	..	..	..	..	..	50.9	47.4	46.2	46.2	46.8	..	11.5	-1.1	-2.4	0.4	1.6
Portugal	6.0	4.5	3.8	3.8	3.8	3.8	59.8	51.9	49.1	50.2	50.5	50.9	14.1	3.7	3.4	3.8	1.7	1.6
Slovak Republic	..	..	..	..	..	..	..	38.2	36.4	35.9	36.4	36.6	..	5.7	2.4	2.6	3.6	1.7
Spain	9.8	13.3	11.3	11.0	10.7	10.5	52.8	49.4	47.9	47.8	47.8	47.7	7.4	3.0	3.6	3.9	3.5	2.9
Sweden	2.1	4.7	4.6	4.5	4.5	4.5	39.1	39.1	44.6	43.4	43.0	43.2	6.6	2.1	-0.3	-0.6	-0.4	1.8
Switzerland	0.5	2.3	2.5	2.5	2.5	2.5	50.8	53.3	57.0	57.4	56.9	56.9	4.4	1.1	2.3	2.2	0.0	-0.1
Turkey	..	..	..	..	..	..	42.0	70.0	40.6	40.2	41.4	42.0	60.3	62.0	21.1	19.8	15.6	10.0
United Kingdom	6.1	7.1	5.3	5.2	5.1	5.1	50.7	55.9	59.9	59.8	60.0	60.1	5.9	2.6	1.9	2.8	2.6	2.4
United States	5.8	5.3	5.1	5.1	5.1	5.0	50.4	49.0	49.8	48.8	48.4	49.1	2.6	1.9	-1.7	-0.4	0.2	2.7
Euro area	6.2	8.7	8.1	8.1	8.0	7.9	53.5	50.5	48.3	48.2	48.0	47.8	4.0	1.2	1.8	1.8	1.0	0.8
Total OECD	5.4	6.2	5.9	5.9	5.9	5.8	53.4	51.4	50.1	49.6	49.4	49.6	5.0	3.0	0.5	0.9	0.7	1.6

Note: The structural unemployment rate corresponds to "NAIRU". For more information about sources and definitions, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*
Source: OECD.

Annex Table 23. **Household saving rates**

Per cent of disposable household income

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Net savings																				
Australia	10.3	8.2	7.0	8.7	9.3	6.2	5.7	5.0	5.8	4.9	5.8	3.9	1.9	1.5	2.9	2.5	-0.4	-2.0	-2.3	-2.3
Austria	12.3	13.9	11.9	12.8	14.0	14.9	12.0	10.9	11.8	11.7	9.9	7.4	8.4	8.3	8.4	7.5	8.2	8.5	8.5	9.1
Canada	13.4	11.9	12.3	13.0	13.0	13.3	13.0	11.9	9.5	9.2	7.0	4.9	4.9	4.0	4.6	4.5	4.2	2.0	2.1	2.3
Finland	1.7	3.1	-1.0	-1.4	1.8	7.1	10.0	7.8	1.9	4.8	0.4	2.2	0.4	1.5	-1.4	-1.2	-0.2	0.3	1.2	1.0
France	8.1	6.4	6.9	7.2	7.8	8.7	9.7	10.4	9.8	11.2	10.0	11.3	10.8	10.4	11.0	11.5	12.1	11.1	11.1	11.4
Germany	12.8	12.9	13.2	12.7	13.9	13.1	13.0	12.3	11.6	11.2	10.8	10.4	10.3	9.8	9.8	10.3	10.6	10.8	11.1	11.0
Japan	16.3	13.9	13.0	13.1	13.9	15.0	14.2	13.7	12.6	11.9	9.8	10.0	11.0	10.7	9.5	6.6	6.4	6.4	6.4	6.4
Korea	20.0	23.1	25.1	23.6	22.0	24.0	22.8	20.6	19.4	16.8	15.9	15.4	23.0	16.0	11.0	7.7	6.8	10.6	11.0	9.3
Netherlands	14.8	13.5	13.4	15.2	17.5	13.8	16.1	13.5	14.3	14.4	13.0	13.4	12.9	9.6	6.8	9.0	8.6	11.2	12.5	12.0
New Zealand	0.7	4.0	3.3	2.9	0.7	2.1	0.8	-0.2	-3.1	-3.8	-2.5	-4.1	-4.1	-5.0	-3.9	-4.9	-5.5	-6.5	-6.5	-5.6
Norway	-4.7	-4.6	-1.2	1.1	2.2	2.9	5.0	6.1	5.2	4.6	2.2	2.8	5.8	5.5	5.2	4.5	9.0	7.5	6.1	5.2
United States	8.2	7.0	7.3	7.1	7.0	7.3	7.7	5.8	4.8	4.6	4.0	3.6	4.3	2.4	2.3	1.7	2.3	2.1	2.0	2.6
Gross savings																				
Belgium	16.5	15.0	15.2	14.9	17.1	17.2	18.3	19.4	19.4	18.6	16.8	15.6	14.4	14.1	13.1	13.8	15.1	14.3	14.1	14.1
Denmark	..	..	7.4	8.4	11.2	10.8	9.7	8.3	4.2	6.9	5.6	3.6	5.0	1.4	4.5	7.1	8.0	7.8	7.0	6.1
Italy	28.9	28.4	27.7	27.4	27.8	26.8	25.5	25.1	23.6	22.5	23.3	20.2	17.2	15.2	14.6	15.8	16.0	15.0	15.1	15.3
Portugal	..	..	..	..	..	..	..	..	..	13.6	11.8	10.3	9.9	8.6	10.9	11.5	12.4	12.5	12.3	11.8
Spain	12.1	10.6	11.0	10.2	12.3	13.4	11.9	14.4	11.9	16.2	14.2	13.4	12.2	11.1	10.8	10.3	10.6	11.6	11.6	11.3
Sweden	3.6	-1.0	-3.0	-2.9	1.6	5.0	9.5	11.6	10.2	9.0	6.6	4.1	3.1	2.0	2.9	8.3	9.7	8.0	7.5	6.7
Switzerland	-1.5	0.2	2.7	4.1	9.6	10.0	10.7	11.2	11.1	11.6	11.3	10.5	10.7	10.0	11.7	11.6	11.6	11.6	11.6	11.5
United Kingdom	8.0	6.4	4.9	6.7	8.0	10.2	11.6	10.8	9.3	10.0	9.3	9.6	6.4	5.3	5.5	6.7	5.5	5.7	5.1	5.6

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Countries differ in the way household disposable income is reported (in particular whether private pension benefits less pension contributions are included in disposable income or not), but the calculation of household saving is adjusted for this difference. Most countries are reporting household saving on a net basis (i.e. excluding consumption of fixed capital by households and unincorporated businesses). In most countries the households saving include saving by non-profit institutions (in some cases referred to as personal saving). Other countries (Czech Republic, Finland, France, Japan and New Zealand) report saving of households only.

Source: OECD.

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Annex Table 24. **Gross national saving**

Per cent of nominal GDP

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Australia	18.8	19.4	21.3	22.6	21.7	18.1	16.2	17.2	18.6	17.5	17.8	18.9	19.0	18.6	19.1	19.0	19.7	19.0	..
Austria	23.1	23.2	23.3	23.9	24.4	25.0	24.8	23.9	22.4	22.3	21.6	21.4	21.3	21.8	21.2	22.0	21.7	22.9	22.4
Belgium	17.9	19.0	19.8	22.5	23.6	23.9	23.1	23.5	24.6	25.9	25.8	24.6	25.7	25.7	26.1	25.7	24.5	24.7	23.7
Canada	20.2	18.8	20.0	20.8	20.1	17.6	14.9	13.6	14.2	16.5	18.6	19.1	19.9	19.4	21.0	24.1	22.8	22.3	..
Czech Republic	..	..	..	..	..	..	..	27.9	28.1	27.3	29.9	27.4	26.1	27.8	25.4	24.4	..	..	..
Denmark	17.4	18.3	18.6	19.2	19.5	20.7	20.0	20.3	19.2	19.1	20.4	20.4	21.2	20.8	21.5	22.5	23.6	22.9	22.7
Finland	24.4	23.8	23.7	26.2	26.1	24.8	17.1	14.4	15.5	18.8	22.2	21.1	24.5	25.8	25.8	27.8	27.5	26.4	24.2
France	18.1	19.4	19.6	20.8	21.6	21.5	20.9	20.5	19.0	19.2	19.5	19.2	20.4	21.4	22.3	22.4	22.0	20.9	..
Germany	23.1	24.6	23.8	24.9	26.1	26.1	23.3	23.1	21.9	21.9	21.8	21.3	21.4	21.5	20.8	20.6	20.2	21.1	20.4
Greece	22.6	22.4	18.9	21.3	19.0	19.1	20.7	20.0	18.5	19.4	18.0	17.4	17.9	17.8	16.8	17.6	17.8	18.8	19.5
Iceland	15.9	19.0	16.6	16.3	16.2	17.4	16.8	16.6	18.2	18.4	17.7	17.9	18.5	17.9	15.6	14.3	17.9	18.4	15.8
Ireland	13.5	13.4	14.5	14.7	15.0	18.0	17.7	15.6	17.7	18.0	20.8	22.3	24.2	25.9	24.7	25.2	22.8	20.5	..
Italy	22.6	22.4	21.9	21.8	21.0	20.7	19.6	18.3	19.2	19.7	21.6	21.9	21.6	21.2	20.7	20.0	20.0	19.7	18.4
Japan	32.0	32.1	32.3	33.5	33.6	33.8	34.5	33.7	32.3	30.4	29.5	29.8	30.1	29.1	27.9	27.8	26.4	25.7	..
Korea	30.6	34.6	38.4	40.7	37.6	37.6	37.4	36.5	36.2	35.6	35.4	33.7	33.3	33.7	32.6	32.2	30.1	29.1	..
Mexico	25.8	19.1	24.5	21.3	20.3	20.3	18.7	16.6	15.1	14.8	19.3	22.4	24.0	20.5	20.5	20.7	18.0	..	..
Netherlands	23.9	24.2	23.9	25.6	27.2	26.1	25.4	24.5	24.6	26.2	27.4	26.7	27.9	25.2	26.6	27.1	25.2	22.6	..
New Zealand	18.6	18.9	18.0	18.6	17.8	16.2	13.0	13.9	16.6	17.3	17.2	16.2	15.8	15.4	14.0	15.4	18.2	..	..
Norway	31.1	25.4	25.6	25.0	26.0	25.7	24.7	23.7	23.8	24.8	26.4	28.4	30.1	27.3	29.1	36.5	35.0	32.3	30.8
Portugal	8.7	10.6	11.9	11.6	12.4	11.1	8.6	8.0	5.0	4.1	4.7	3.8	3.7	4.3	3.1	0.6	0.4	0.7	..
Spain	21.9	22.9	22.6	23.5	22.9	22.9	22.3	20.5	20.5	20.0	22.3	22.0	22.5	22.4	22.5	22.5	22.6	22.8	..
Sweden	20.6	21.4	21.7	22.4	23.1	21.6	18.5	15.7	14.0	17.7	20.7	20.2	20.5	21.3	21.7	22.6	22.1	21.8	21.6
Switzerland	31.8	31.4	31.1	33.2	34.0	33.7	31.6	29.1	30.0	29.6	29.9	29.4	31.3	32.3	33.1	34.9	31.5	..	..
Turkey	20.7	23.9	24.3	28.9	26.4	21.5	17.7	18.5	18.7	18.9	20.1	22.6	21.6	20.6	13.7	15.2	12.6	18.7	..
United Kingdom	18.1	17.2	17.3	17.2	17.1	16.2	15.3	14.0	13.9	15.5	15.7	15.8	16.9	17.7	15.5	15.4	15.3	14.9	14.7
United States	17.2	15.4	15.9	17.2	16.7	15.9	16.1	15.1	15.0	15.8	16.4	16.7	17.6	18.3	17.9	18.0	16.1	14.6	..

Note: Based on SNA93 or ESA95 except for Switzerland and Turkey that report on SNA68 basis.
Source: OECD.

Annex Table 25. **General government total outlays**

Per cent of nominal GDP

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	40.3	38.9	36.3	35.5	36.2	37.8	39.6	39.7	39.1	39.1	38.2	37.1	36.8	35.7	35.6	37.1	36.3	36.4	36.2	36.2
Austria	55.8	56.1	55.2	53.6	53.1	54.2	54.9	57.9	57.4	57.1	56.6	53.9	54.0	54.0	52.3	51.6	51.3	51.2	50.5	50.2
Belgium	58.9	57.0	55.1	53.4	53.4	54.4	54.7	55.7	53.4	52.9	53.0	51.4	50.7	50.1	49.4	49.5	50.5	51.4	49.9	50.0
Canada	47.5	46.1	45.4	45.8	48.8	52.3	53.3	52.2	49.7	48.5	46.6	44.3	44.4	42.5	41.0	41.4	40.6	40.1	40.1	39.9
Czech Republic [a]	..	..	..	..	..	..	48.0	69.9	50.4	57.2	45.5	45.0	46.0	45.9	46.1	47.3	49.9	50.8	50.6	50.2
Denmark	53.3	55.0	57.2	57.3	57.0	57.8	59.0	61.7	61.6	60.3	59.8	58.0	57.6	56.3	54.9	55.3	55.8	56.1	55.7	54.7
Finland	47.9	48.5	47.0	45.2	48.6	57.7	63.0	64.2	62.9	59.6	59.7	56.4	52.8	52.1	49.1	49.2	50.1	50.6	50.9	50.2
France	52.7	51.9	51.4	50.4	50.7	51.5	53.0	55.3	54.9	55.1	55.4	54.9	53.7	53.5	52.5	52.5	53.4	54.5	53.8	53.4
Germany [b]	45.4	45.8	45.3	44.0	44.5	47.1	48.1	49.3	49.0	49.4	50.3	49.3	48.8	48.7	45.7	48.3	48.5	48.9	48.2	47.1
Greece	45.2	45.1	44.0	45.4	50.2	46.7	49.4	52.0	49.9	51.0	49.2	47.8	47.8	47.6	49.9	47.8	46.8	47.2	47.4	47.1
Hungary	..	..	..	..	..	56.7	60.3	59.8	63.4	56.9	53.9	51.8	52.8	50.0	48.0	48.5	53.4	50.1	50.6	49.9
Iceland	40.6	37.5	42.6	45.2	42.4	43.8	44.7	44.6	44.4	43.8	43.3	41.7	42.4	43.5	43.2	44.1	46.2	47.9	46.5	45.3
Ireland	53.7	52.1	48.6	42.2	43.3	44.9	45.3	45.1	44.4	41.5	39.6	37.2	35.0	34.6	32.1	33.8	33.3	35.2	35.8	35.8
Italy	51.4	50.8	51.5	52.8	54.4	55.5	56.7	57.7	54.5	53.4	53.2	51.1	49.9	48.9	46.9	48.7	48.0	48.9	48.7	49.0
Japan [c]	31.0	31.5	30.9	30.2	31.7	31.5	32.5	34.2	34.8	35.8	36.3	35.1	36.1	37.7	38.2	37.7	38.2	37.7	36.9	36.6
Korea	18.0	17.1	17.1	18.0	18.5	19.6	20.7	20.2	19.8	19.5	20.5	21.2	23.5	22.5	22.0	24.0	22.2	24.3	24.2	23.9
Luxembourg	..	..	..	..	43.2	44.4	46.0	45.7	44.5	45.5	45.6	43.3	42.0	41.3	38.5	39.1	44.3	46.9	46.6	47.2
Netherlands [d]	56.9	58.4	56.6	54.5	54.8	54.8	55.8	56.0	53.6	51.4	49.6	48.2	47.2	46.9	45.3	46.6	47.5	48.9	47.7	46.9
New Zealand	..	53.6	52.7	52.0	53.3	51.5	49.5	46.0	43.0	41.9	41.0	41.6	42.9	41.4	40.2	39.0	38.6	38.5	38.7	38.5
Norway	48.3	50.5	52.6	52.2	52.8	54.9	56.3	55.1	54.1	51.6	49.2	47.3	49.7	48.3	43.4	44.8	47.6	48.4	47.6	47.6
Poland	..	..	..	..	..	49.9	51.4	50.8	46.1	49.4	48.7	48.1	46.4	46.1	44.5	45.3	45.9	46.2	46.6	46.0
Portugal	41.3	40.0	38.5	38.8	42.1	45.1	46.2	47.8	46.0	45.0	45.8	44.8	44.1	45.3	45.2	46.3	46.1	47.9	47.0	46.2
Slovak Republic	..	..	..	..	..	..	..	..	57.8	54.1	61.5	65.0	61.9	59.2	63.6	54.3	49.5	46.6	44.7	43.4
Spain	42.6	41.0	40.9	42.2	43.4	44.9	45.9	49.4	47.3	45.0	43.7	41.8	41.4	40.2	40.0	39.6	39.9	39.5	39.3	39.1
Sweden	63.3	59.5	59.9	59.8	60.7	62.7	67.6	72.9	70.9	67.6	65.2	62.9	60.7	60.3	57.3	57.0	58.2	58.2	58.3	57.9
United Kingdom	45.6	43.6	41.1	40.5	42.2	44.0	45.7	45.7	45.0	44.6	42.7	41.0	39.8	39.2	37.0	40.3	40.9	42.6	42.6	43.3
United States [e]	36.9	36.7	35.9	35.7	36.6	37.4	38.1	37.5	36.6	36.5	36.1	34.9	34.2	33.8	33.7	34.6	35.3	35.7	35.2	35.2
Euro area	49.3	48.9	48.5	47.9	48.7	50.1	51.3	53.0	51.8	51.4	51.5	50.2	49.3	48.9	47.1	48.1	48.3	49.0	48.4	47.9
Total OECD	40.5	40.2	39.5	39.2	40.1	41.4	42.5	43.1	42.1	42.1	41.7	40.5	40.1	39.8	39.0	39.9	40.3	40.7	40.3	40.1

Note: Total outlays are defined as current outlays plus capital outlays. Data refer to the general government sector, which is a consolidation of accounts for the central, state and local governments plus social security. One-off revenues from the sale of mobile telephone licenses are recorded as negative capital outlays for countries listed in the note to Table 27. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) The data for 1993 and 1995 reflect large scale privatisation of public enterprises. From 2003 onwards the projections are based on the GFS data profile.

b) The 1995 outlays are net of the debt taken on this year from the Inherited Debt funds.

c) The 1998 outlays would be 5.3 percentage points of GDP higher if account were taken of the assumption by the central government of the debt of the Japan Railway Settlement Corporation and the National Forest Special Account. The 2000 outlays include capital transfers to the Deposit Insurance Company.

c) The 1995 outlays would be 4.9 percentage points of GDP higher if capital transfers to a housing agency offering rentals to low income people were taken into account.

e) These data include outlays net of operating surpluses of public enterprises.

Source: OECD.

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Annex Table 26. **General government total tax and non-tax receipts**

Per cent of nominal GDP

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	35.8	36.4	35.5	34.9	34.5	33.6	33.2	33.9	34.3	35.2	36.0	36.7	37.6	37.7	36.4	36.3	36.6	37.2	36.7	36.7
Austria	51.9	51.6	51.7	50.5	50.6	51.2	52.9	53.7	52.4	51.9	52.6	51.9	51.5	51.6	50.6	51.7	50.9	49.7	49.2	48.3
Belgium	48.8	49.0	47.7	45.7	46.6	46.9	46.6	48.3	48.3	48.5	49.2	49.5	50.0	49.6	49.5	50.0	50.5	51.6	49.7	49.3
Canada	40.4	40.6	41.0	41.2	42.9	43.9	44.2	43.5	43.0	43.2	43.8	44.5	44.5	44.1	44.1	42.8	41.4	41.3	41.3	41.2
Czech Republic [a]	..	..	..	..	..	..	45.7	46.9	47.0	44.9	43.6	42.6	41.4	42.2	42.0	41.5	42.8	43.5	42.2	42.2
Denmark	56.6	57.5	58.7	57.6	56.0	55.4	56.8	58.9	59.1	58.0	58.8	58.3	58.7	59.5	57.4	58.2	57.4	57.3	56.5	55.8
Finland	51.9	50.1	52.3	52.1	54.0	56.7	57.5	56.9	57.2	55.7	56.8	55.2	54.5	54.3	56.1	54.4	54.4	52.7	52.5	52.2
France	49.5	49.9	49.0	48.6	48.6	49.1	48.8	49.3	49.4	49.6	51.3	51.8	51.1	51.7	51.1	50.9	50.2	50.4	50.0	49.8
Germany	44.3	44.0	43.3	44.1	42.5	44.1	45.5	46.2	46.6	46.1	46.9	46.6	46.6	47.3	47.1	45.5	45.0	45.0	44.5	44.1
Greece	35.6	35.5	32.4	31.8	34.5	35.6	37.2	38.6	40.7	40.9	41.7	43.7	45.3	45.8	47.8	46.4	45.3	44.2	44.2	44.2
Hungary	..	..	..	..	..	53.7	53.2	53.2	52.3	49.3	48.1	44.6	44.7	44.4	44.9	43.8	44.1	44.2	45.4	45.3
Iceland	36.5	36.6	40.6	40.6	39.1	40.8	41.9	40.0	39.6	40.7	41.7	41.7	42.9	46.1	45.7	44.3	45.2	46.5	46.6	46.3
Ireland	43.4	44.0	44.3	40.5	40.5	42.0	42.3	42.4	42.4	39.4	39.5	38.6	37.2	36.9	36.5	35.0	33.1	35.4	35.3	35.0
Italy	39.2	39.1	40.2	41.1	42.6	43.8	46.1	47.4	45.2	45.8	46.1	48.4	46.8	47.1	46.2	46.0	45.6	46.4	45.5	45.1
Japan [b]	30.3	31.9	32.0	32.0	33.8	33.3	33.2	31.9	31.0	31.1	31.2	31.3	30.6	30.5	30.7	31.6	30.3	29.8	29.8	30.0
Korea	19.5	19.6	20.5	21.3	21.8	21.3	22.1	22.5	22.7	23.4	24.0	24.5	25.2	25.3	27.5	28.3	28.2	29.0	29.0	29.0
Luxembourg	..	..	..	..	48.0	45.6	46.2	47.3	47.3	47.6	47.5	46.5	45.1	45.0	44.8	45.4	47.0	46.8	44.8	44.6
Netherlands	52.4	53.2	52.4	49.5	49.4	52.2	51.6	53.2	50.1	47.3	47.8	47.1	46.4	47.6	47.5	46.6	45.9	45.6	44.6	44.0
New Zealand	..	51.0	48.8	48.3	48.9	47.7	46.3	44.7	45.4	44.9	43.9	43.5	43.2	42.0	41.7	41.0	41.4	41.6	41.6	41.3
Norway	54.1	55.1	55.3	54.0	55.4	55.0	54.4	53.7	54.4	55.0	55.6	55.1	53.2	54.4	58.4	58.5	57.7	57.4	58.0	59.1
Poland	..	..	..	..	..	41.2	44.8	46.6	42.9	47.1	45.7	45.3	44.0	44.4	41.7	42.4	42.0	42.0	40.9	40.6
Portugal	33.4	32.8	34.8	35.7	35.5	37.5	41.5	39.7	38.3	39.6	41.0	41.2	41.0	42.4	42.3	41.8	43.4	45.0	43.2	43.0
Slovak Republic	..	..	..	..	..	..	..	..	51.7	53.3	54.1	58.8	56.7	51.3	50.1	47.7	42.3	42.9	40.7	39.6
Spain	36.6	38.0	37.8	39.6	39.5	40.3	42.3	42.4	40.8	38.4	38.8	38.6	38.3	39.0	39.1	39.2	39.9	39.9	39.7	39.6
Sweden	62.0	63.4	62.8	64.6	64.4	60.8	60.0	61.5	61.6	60.7	62.4	61.9	62.6	62.6	62.4	59.9	58.0	58.7	58.5	58.5
United Kingdom	42.9	41.8	41.6	41.3	40.7	40.9	39.3	37.7	38.2	38.9	38.5	38.8	39.9	40.3	40.9	41.0	39.3	39.3	39.8	40.4
United States [c]	31.7	32.4	32.3	32.5	32.4	32.5	32.3	32.6	33.0	33.4	33.9	34.2	34.6	34.7	35.3	34.5	32.0	30.9	30.6	31.4
Euro area	44.3	44.4	44.0	44.2	44.1	45.1	46.3	47.2	46.7	46.4	47.2	47.5	47.0	47.6	47.2	46.5	46.0	46.2	45.6	45.2
Total OECD	36.5	37.0	36.9	37.0	37.2	37.6	37.9	38.1	38.0	38.2	38.6	38.9	38.9	39.1	39.3	38.8	37.4	37.0	36.7	36.9

Note: Data refer to the general government sector, which is a consolidation for central, state and local governments plus social security. Non-tax receipts consist of property income (including dividends and other transfers from public enterprises), fees, charges, sales, fines, capital tranfers received by the general government, etc. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) The data for 1993 and 1995 reflect large scale privatisation of public enterprises. From 2003 onwards the projections are based on the GFS data profile.

b) Includes deferred tax payments on postal savings accounts in 2000, 2001 and 2002.

c) Excludes the operating surpluses of public enterprises.

Source: OECD.

Annex Table 27. **General government financial balances**

Surplus (+) or deficit (-) as a per cent of nominal GDP

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	-4.6	-2.6	-0.9	-0.6	-1.7	-4.2	-6.4	-5.8	-4.8	-3.9	-2.2	-0.4	0.7	2.0	0.8	-0.8	0.3	0.8	0.5	0.5
Austria	-4.0	-4.5	-3.5	-3.1	-2.4	-3.0	-2.0	-4.2	-5.0	-5.3	-4.0	-2.0	-2.5	-2.4	-1.7	0.1	-0.4	-1.4	-1.3	-1.9
Belgium	-10.1	-7.9	-7.3	-7.7	-6.8	-7.5	-8.1	-7.4	-5.1	-4.4	-3.8	-2.0	-0.7	-0.5	0.1	0.5	0.0	0.2	-0.2	-0.7
Canada	-7.1	-5.4	-4.3	-4.6	-5.9	-8.4	-9.1	-8.7	-6.7	-5.3	-2.8	0.2	0.1	1.6	3.0	1.4	0.8	1.2	1.2	1.3
Czech Republic [a]	..	..	..	..	..	..	-2.3	-23.0	-3.4	-12.3	-1.9	-2.4	-4.7	-3.7	-4.0	-5.8	-7.1	-7.3	-8.4	-8.1
Denmark	3.3	2.5	1.5	0.3	-1.0	-2.4	-2.2	-2.9	-2.4	-2.3	-1.0	0.4	1.1	3.2	2.5	2.8	1.6	1.2	0.9	1.1
Finland	4.0	1.6	5.3	6.9	5.5	-1.0	-5.5	-7.2	-5.7	-3.9	-2.9	-1.3	1.6	2.2	7.1	5.2	4.3	2.1	1.6	2.1
France	-3.2	-2.0	-2.5	-1.8	-2.1	-2.4	-4.2	-6.0	-5.5	-5.5	-4.1	-3.0	-2.7	-1.8	-1.4	-1.5	-3.3	-4.1	-3.8	-3.6
Germany	-1.1	-1.8	-2.0	0.1	-2.0	-2.9	-2.6	-3.1	-2.4	-3.3	-3.4	-2.7	-2.2	-1.5	1.3	-2.8	-3.5	-3.9	-3.7	-3.1
Greece	-9.6	-9.6	-11.6	-13.6	-15.7	-11.0	-12.2	-13.4	-9.3	-10.2	-7.4	-4.0	-2.5	-1.8	-2.0	-1.4	-1.5	-3.0	-3.2	-2.9
Hungary	..	..	..	..	..	-3.0	-7.1	-6.6	-11.0	-7.6	-5.9	-7.2	-8.0	-5.6	-3.0	-4.7	-9.3	-5.9	-5.2	-4.6
Iceland	-4.1	-0.9	-2.1	-4.6	-3.3	-3.0	-2.9	-4.6	-4.8	-3.0	-1.6	0.0	0.5	2.6	2.5	0.2	-1.0	-1.4	0.2	1.0
Ireland	-10.2	-8.2	-4.3	-1.7	-2.8	-2.9	-3.0	-2.7	-2.0	-2.1	-0.1	1.4	2.3	2.3	4.4	1.1	-0.1	0.2	-0.5	-0.8
Italy	-12.2	-11.8	-11.3	-11.7	-11.8	-11.7	-10.7	-10.3	-9.3	-7.6	-7.1	-2.7	-3.1	-1.8	-0.7	-2.7	-2.4	-2.5	-3.1	-3.9
Japan [b]	-0.7	0.3	1.1	1.8	2.1	1.8	0.8	-2.4	-3.8	-4.7	-5.1	-3.8	-5.5	-7.2	-7.5	-6.1	-7.9	-8.0	-7.1	-6.6
Korea	1.5	2.6	3.4	3.3	3.4	1.7	1.3	2.3	2.9	4.0	3.5	3.4	1.8	2.8	5.6	4.3	6.0	4.7	4.7	5.0
Luxembourg	..	..	..	..	4.8	1.2	0.2	1.5	2.7	2.1	1.9	3.2	3.2	3.7	6.3	6.3	2.7	-0.1	-1.8	-2.5
Netherlands	-4.5	-5.3	-4.2	-5.0	-5.3	-2.7	-4.2	-2.8	-3.5	-4.2	-1.8	-1.1	-0.8	0.7	2.2	0.0	-1.6	-3.2	-3.1	-2.9
New Zealand	..	-2.6	-4.0	-3.7	-4.3	-3.8	-3.3	-1.3	2.5	3.0	2.9	1.9	0.3	0.7	1.5	2.0	2.9	3.1	2.9	2.8
Norway	5.9	4.6	2.6	1.8	2.6	0.1	-1.9	-1.5	0.3	3.4	6.5	7.8	3.6	6.1	15.0	13.7	10.1	9.0	10.4	11.5
Poland	..	..	..	..	..	-8.7	-6.6	-4.2	-3.3	-2.3	-3.0	-2.8	-2.4	-1.7	-2.9	-2.9	-3.9	-4.2	-5.7	-5.5
Portugal	-7.9	-7.2	-3.8	-3.1	-6.6	-7.6	-4.8	-8.1	-7.7	-5.5	-4.8	-3.6	-3.2	-2.9	-2.9	-4.4	-2.7	-2.9	-3.8	-3.2
Slovak Republic	..	..	..	..	..	..	..	..	-6.1	-0.9	-7.4	-6.2	-5.2	-7.8	-13.5	-6.7	-7.2	-3.6	-4.0	-3.7
Spain	-6.0	-3.1	-3.1	-2.6	-3.9	-4.6	-3.7	-7.0	-6.5	-6.6	-5.0	-3.2	-3.0	-1.2	-0.9	-0.4	-0.1	0.3	0.3	0.5
Sweden	-1.3	3.8	2.9	4.8	3.8	-1.9	-7.6	-11.4	-9.3	-6.9	-2.8	-1.0	1.9	2.3	5.1	2.9	-0.3	0.5	0.2	0.6
Switzerland	..	..	..	..	0.6	-1.1	-2.4	-2.7	-1.9	-1.2	-1.4	-2.4	-1.5	0.0	2.3	0.8	-0.5	-1.2	-1.6	-0.9
United Kingdom	-2.6	-1.8	0.5	0.8	-1.6	-3.1	-6.4	-7.9	-6.7	-5.8	-4.2	-2.2	0.1	1.1	3.9	0.7	-1.6	-3.2	-2.9	-2.9
United States [c]	-5.2	-4.3	-3.6	-3.2	-4.2	-4.9	-5.8	-4.9	-3.6	-3.1	-2.2	-0.8	0.4	0.9	1.6	-0.2	-3.3	-4.8	-4.7	-3.9
Euro area	-4.9	-4.6	-4.4	-3.7	-4.6	-5.0	-5.1	-5.8	-5.1	-5.0	-4.3	-2.6	-2.3	-1.3	0.1	-1.7	-2.3	-2.7	-2.8	-2.7
Total OECD	-4.1	-3.2	-2.6	-2.1	-2.9	-3.8	-4.6	-5.0	-4.2	-3.9	-3.1	-1.6	-1.2	-0.7	0.3	-1.1	-2.9	-3.7	-3.6	-3.1
Memorandum items																				
General government financial balances excluding social security																				
United States	-5.4	-4.8	-4.4	-4.2	-5.3	-5.8	-6.6	-5.6	-4.4	-3.9	-3.1	-1.9	-0.8	-0.6	0.1	-1.8	-4.9	-6.1	-6.0	-5.4
Japan [d]	-3.6	-2.5	-2.0	-1.4	-1.4	-0.9	-1.7	-4.6	-5.7	-6.6	-6.8	-5.6	-6.9	-8.3	-8.0	-6.2	-8.0	-8.0	-7.1	-6.6

Note: Financial balances include one-off revenues from the sale of the mobile telephone licenses. These revenues are substantial in a number of countries including Australia (2000-2001), Austria (2000), Belgium (2001), Denmark (2001), France (2001-2002), Germany (2000), Greece (2001), Ireland (2002), Italy (2000), Netherlands (2000), New Zealand (2001), Portugal (2000), Spain (2000) and the United Kingdom (2000). Finally, being on a national account basis, the government financial balance may differ from the numbers reported to the European Commission under the Excessive Deficit Procedure for some EU countries. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

a) The data for 1993 and 1995 reflect large scale privatisation of public enterprises. From 2003 onwards the projections are based on the GFS data profile.

b) Deferred tax payments on postal savings accounts are included in 2000, 2001 and 2002. The 2000 outlays include capital transfers to the Deposit Insurance Company.

c) The general government sector includes public enterprises.

d) From 1991 onwards data are based on SNA93 and thus exclude private pension funds.

Source: OECD.

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Annex Table 28. **Cyclically-adjusted general government balances**

Surplus (+) or deficit (-) as a per cent of potential GDP

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	-4.3	-2.6	-1.1	-0.9	-1.4	-2.9	-4.9	-4.8	-4.4	-3.7	-2.2	-0.5	0.2	1.4	0.1	-1.2	0.0	0.6	0.4	0.4
Austria	-3.3	-3.7	-3.2	-3.3	-3.2	-3.8	-2.6	-4.2	-5.0	-5.2	-3.9	-2.0	-2.9	-2.9	-2.8	-0.1	-0.3	-1.0	-0.7	-1.4
Belgium	-8.0	-6.4	-7.7	-8.9	-8.5	-8.6	-8.5	-5.8	-4.1	-3.6	-2.3	-1.5	-0.4	-0.9	-1.3	-0.2	0.4	1.1	0.8	-0.1
Canada	-7.1	-6.1	-6.0	-6.2	-6.5	-6.9	-7.0	-6.8	-6.0	-4.8	-1.8	0.9	0.6	1.3	2.2	1.1	0.4	1.3	1.4	1.3
Denmark	0.8	1.1	0.7	0.5	-0.3	-1.4	-0.6	0.0	-2.2	-2.3	-1.3	-0.5	0.1	1.9	0.9	1.5	1.3	2.2	1.9	1.8
Finland	4.2	0.7	2.9	3.1	3.1	1.9	1.1	1.2	1.2	1.5	1.4	1.0	2.7	3.0	6.4	5.6	4.8	3.0	2.3	1.9
France	-1.7	-0.8	-2.2	-2.3	-2.9	-2.8	-4.3	-5.0	-4.6	-4.6	-2.7	-1.6	-1.8	-1.3	-1.7	-1.9	-3.2	-3.3	-2.9	-2.9
Germany	-1.4	-2.1	-3.2	-1.4	-4.7	-3.5	-3.2	-2.2	-1.7	-2.8	-2.6	-1.8	-1.6	-1.1	-1.6	-2.8	-2.8	-2.3	-2.0	-1.7
Greece	-9.1	-7.7	-11.0	-14.1	-15.6	-11.3	-11.8	-11.4	-7.4	-8.2	-5.6	-2.8	-1.2	-0.5	-1.0	-1.4	-1.5	-3.4	-3.8	-3.5
Iceland	-4.3	-2.9	-2.9	-4.7	-3.2	-1.9	0.2	-1.4	-2.8	-0.7	-0.6	0.2	-0.1	1.7	0.8	-1.2	-1.0	-1.7	-0.1	0.5
Ireland	-8.1	-6.6	-3.5	-1.8	-4.3	-3.0	-2.2	-0.9	-0.1	-1.2	0.5	1.1	2.1	1.1	2.4	-0.8	-2.4	-0.4	-0.7	-0.9
Italy	-11.2	-11.1	-11.6	-12.4	-12.4	-12.0	-10.3	-8.6	-8.1	-7.1	-6.3	-2.2	-2.7	-1.4	-2.1	-2.9	-2.1	-1.6	-1.9	-2.9
Japan[a]	-0.2	0.8	1.0	1.4	1.3	1.3	0.5	-2.3	-3.6	-4.5	-5.3	-4.2	-5.2	-6.6	-7.2	-5.6	-7.0	-7.5	-7.0	-7.0
Netherlands	-4.3	-4.4	-3.6	-6.2	-7.7	-4.7	-5.2	-2.4	-3.3	-4.3	-2.2	-1.9	-2.2	-1.5	-1.0	-1.7	-1.8	-1.7	-1.1	-1.1
New Zealand	..	-3.7	-3.9	-3.3	-2.8	-0.5	0.2	0.3	2.2	2.4	2.2	1.7	1.6	1.2	1.2	1.7	2.3	2.7	2.6	2.8
Norway[b]	1.1	0.4	1.2	0.8	-0.6	-4.1	-6.3	-6.5	-5.2	-2.1	-1.9	-1.4	-2.5	-1.2	0.4	0.7	-1.0	-1.1	-0.9	-0.4
Portugal	-5.1	-5.7	-3.6	-3.9	-7.8	-9.4	-5.7	-7.2	-6.3	-4.8	-4.5	-3.7	-3.9	-3.9	-4.3	-5.0	-2.5	-1.5	-2.1	-1.9
Spain	-4.8	-2.6	-3.6	-3.6	-5.1	-5.6	-3.8	-5.4	-4.8	-4.9	-3.1	-1.8	-2.3	-1.0	-1.5	-0.6	0.0	0.5	0.4	0.2
Sweden	-2.4	1.8	0.4	2.0	1.9	-1.7	-5.1	-6.4	-5.9	-5.1	-0.5	0.8	2.8	1.9	3.6	2.6	-0.4	0.7	0.4	0.5
United Kingdom	-2.1	-2.6	-1.6	-1.2	-2.8	-2.1	-4.2	-5.5	-5.4	-4.7	-3.2	-1.8	0.2	1.1	0.9	0.4	-1.4	-2.9	-2.9	-3.0
United States	-5.1	-4.2	-3.8	-3.6	-4.4	-4.2	-5.3	-4.5	-3.4	-2.9	-2.1	-1.0	0.0	0.3	1.2	0.2	-2.8	-4.2	-4.6	-3.9
Euro area	-4.2	-4.1	-4.9	-4.9	-6.3	-5.8	-5.3	-4.5	-4.0	-4.2	-3.2	-1.7	-1.8	-1.1	-1.5	-2.0	-2.1	-1.7	-1.6	-1.8
Total OECD	-3.9	-3.3	-3.3	-3.1	-4.0	-3.8	-4.4	-4.3	-3.9	-3.7	-2.9	-1.6	-1.2	-1.0	-0.8	-1.2	-2.8	-3.4	-3.5	-3.2

Note: Cyclically-adjusted balances exclude one-off revenues from the sale of mobile telephone licenses for those countries listed in the note to Table 27. For details on the methodology used for estimating the cyclical component of government balances see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

a) Includes deferred tax payments on postal savings accounts in 2000, 2001 and 2002. The 2000 outlays include capital transfers to the Deposit Insurance Company.

b) As a percentage of mainland potential GDP. The financial balances shown exclude net revenues from petroleum activities.

Source: OECD.

Annex Table 29. **General government primary balances**

Surplus (+) or deficit (-) as a per cent of nominal GDP

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	-0.3	1.5	3.0	3.3	1.7	-1.1	-2.7	-2.7	-0.6	0.2	1.2	2.4	3.0	4.2	2.9	1.1	2.0	2.3	1.9	1.7
Austria	-1.0	-1.3	-0.2	0.1	0.9	0.4	1.5	-0.6	-1.5	-1.6	-0.1	1.5	0.8	0.7	1.4	3.0	2.4	1.2	1.3	0.6
Belgium	0.6	2.2	2.6	3.2	4.4	3.3	2.6	3.2	4.1	4.5	4.7	5.7	6.6	6.2	6.6	6.7	5.8	5.5	4.6	3.9
Canada	-3.0	-1.3	-0.1	0.1	-0.7	-3.2	-4.1	-3.7	-1.7	0.3	2.5	4.9	5.0	6.0	6.4	4.4	3.4	3.2	3.2	3.1
Denmark	8.4	7.5	5.8	4.3	2.8	1.6	1.0	0.6	0.9	0.9	1.9	3.3	3.6	5.7	4.6	4.6	3.1	2.4	1.9	1.9
Finland	2.9	0.7	4.4	5.7	3.7	-2.9	-7.5	-7.6	-4.6	-3.0	-1.5	0.7	3.4	3.8	8.1	5.9	4.5	2.3	1.6	2.0
France	-1.0	0.2	-0.3	0.4	0.3	0.1	-1.4	-3.0	-2.4	-2.2	-0.6	0.2	0.5	1.2	1.5	1.3	-0.4	-1.3	-1.0	-0.5
Germany	1.4	0.7	0.4	2.4	0.3	-0.6	0.1	-0.3	0.4	-0.1	-0.2	0.5	1.0	1.6	4.3	0.0	-0.8	-1.1	-1.0	-0.3
Greece	-4.5	-3.1	-4.4	-6.3	-5.9	-1.7	-1.0	-1.1	4.2	2.0	4.0	4.2	5.8	5.6	5.1	5.0	4.1	2.1	1.9	2.1
Iceland	-4.0	-1.0	-1.3	-3.8	-2.0	-1.7	-1.8	-3.2	-3.4	-1.3	0.0	1.3	1.9	4.0	3.5	1.1	-0.9	-1.5	0.0	0.6
Ireland	-3.3	-1.2	2.2	4.5	3.4	2.8	2.2	2.1	2.6	1.9	3.1	4.0	4.6	3.7	5.2	1.2	0.0	0.3	-0.4	-0.7
Italy	-3.9	-4.2	-3.3	-2.7	-1.8	-0.4	1.5	2.3	1.7	3.3	3.8	6.1	4.7	4.4	5.3	3.3	2.9	2.3	1.5	0.9
Japan	1.4	2.3	2.8	3.3	3.3	2.9	1.9	-1.2	-2.5	-3.4	-3.7	-2.5	-4.1	-5.8	-6.0	-4.7	-6.4	-6.3	-5.3	-4.8
Korea	1.7	2.7	3.4	3.1	3.0	1.3	0.9	2.0	2.6	3.6	2.9	2.6	0.6	1.8	4.6	3.6	5.1	3.7	4.2	4.6
Luxembourg	..	..	..	..	2.6	-0.9	-1.7	0.0	1.5	0.9	1.0	2.4	2.2	3.0	5.4	4.9	1.6	-1.3	-2.9	-3.5
Netherlands	-0.1	-0.7	0.3	-1.0	-1.3	1.6	0.3	1.6	0.9	0.6	2.9	3.3	3.4	4.5	5.4	2.5	0.8	-0.9	-1.0	-0.7
New Zealand	..	1.4	-0.6	0.0	-0.1	-0.7	-0.5	1.2	3.9	4.4	3.7	2.5	0.7	0.7	1.6	1.9	2.6	2.7	2.5	2.3
Norway	3.6	1.7	-0.8	-1.6	-0.9	-3.6	-5.3	-4.3	-2.0	1.0	4.2	5.6	1.4	3.7	12.4	10.5	6.5	4.5	5.7	6.5
Portugal	0.4	0.3	2.9	3.1	2.0	1.2	3.8	-0.3	-1.1	0.8	0.6	0.7	0.3	0.4	0.4	-1.2	0.3	0.1	-0.9	-0.3
Slovak Republic	..	..	..	..	..	..	..	..	-2.7	1.5	-4.9	-4.0	-2.8	-4.5	-9.4	-2.7	-3.3	0.2	-0.4	-0.2
Spain	-3.1	-0.6	-0.4	0.2	-0.8	-1.2	0.0	-2.3	-1.9	-1.8	0.0	1.2	0.9	2.2	2.2	2.4	2.5	2.6	2.6	3.0
Sweden	0.9	5.6	3.9	5.4	4.0	-1.7	-7.2	-11.8	-8.5	-5.5	-1.2	1.0	3.3	3.7	5.9	3.6	0.6	0.4	-0.2	0.3
Switzerland	..	..	..	..	1.0	-0.7	-1.8	-2.1	-1.3	-0.5	-0.6	-1.6	-0.7	0.9	2.9	1.5	0.1	-0.5	-0.8	-0.2
United Kingdom	0.8	1.5	3.4	3.5	1.0	-0.9	-4.2	-5.5	-4.1	-2.8	-1.2	0.8	2.9	3.4	6.0	2.5	-0.1	-1.7	-1.4	-1.4
United States	-2.4	-1.2	-0.5	0.1	-0.8	-1.3	-2.2	-1.5	-0.2	0.4	1.2	2.4	3.5	3.6	4.1	2.1	-1.3	-3.0	-2.9	-1.9
Euro area	-0.9	-0.6	-0.4	0.4	-0.1	-0.2	0.1	-0.5	-0.1	0.0	0.9	2.0	2.1	2.5	3.7	1.8	0.9	0.3	0.3	0.5
Total OECD	-1.0	-0.1	0.5	1.0	0.3	-0.4	-1.1	-1.5	-0.8	-0.3	0.4	1.6	1.9	2.0	2.9	1.3	-0.7	-1.7	-1.5	-1.0

Note: The primary balance is the difference between the financial balance and net interest payments. For more details see footnotes of Annex Tables 27 and 31 and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* .

Source: OECD.

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Annex Table 30. **Cyclically-adjusted general government primary balances**

Surplus (+) or deficit (-) as a per cent of potential GDP

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	-0.1	1.5	2.8	3.0	2.0	0.1	-1.4	-1.8	-0.3	0.4	1.2	2.4	2.5	3.6	2.2	0.6	1.8	2.2	1.7	1.6
Austria	-0.4	-0.6	0.1	-0.1	0.2	-0.3	0.9	-0.6	-1.5	-1.5	-0.1	1.5	0.4	0.3	0.3	2.8	2.4	1.6	1.8	1.1
Belgium	2.4	3.5	2.3	2.2	3.1	2.4	2.3	4.5	5.0	5.2	6.1	6.1	6.9	5.8	5.3	6.1	6.1	6.3	5.4	4.5
Canada	-3.0	-1.9	-1.5	-1.3	-1.2	-1.9	-2.2	-2.0	-1.1	0.8	3.4	5.5	5.4	5.8	5.6	4.2	3.1	3.3	3.3	3.1
Denmark	6.0	6.2	5.1	4.6	3.4	2.5	2.6	3.4	1.1	0.8	1.6	2.4	2.6	4.4	3.0	3.3	2.8	3.4	3.0	2.6
Finland	3.1	-0.2	2.0	1.8	1.3	0.0	-0.7	0.9	2.2	2.3	2.8	2.8	4.4	4.5	7.5	6.2	5.1	3.2	2.3	1.8
France	0.4	1.4	0.0	-0.1	-0.4	-0.3	-1.6	-2.1	-1.6	-1.4	0.6	1.6	1.3	1.6	1.2	1.0	-0.4	-0.6	-0.1	0.2
Germany	1.1	0.4	-0.7	1.0	-2.3	-1.2	-0.5	0.6	1.1	0.3	0.6	1.3	1.7	2.0	1.4	0.0	-0.2	0.3	0.7	1.0
Greece	-4.0	-1.5	-4.0	-6.8	-5.8	-1.8	-0.7	0.3	5.5	3.4	5.4	5.2	6.8	6.7	5.9	4.9	4.1	1.7	1.3	1.6
Iceland	-4.1	-3.0	-2.2	-3.9	-2.0	-0.7	1.2	-0.1	-1.4	0.9	1.0	1.5	1.3	3.1	1.9	-0.2	-1.0	-1.8	-0.3	0.1
Ireland	-1.5	0.1	2.8	4.4	2.1	2.6	2.9	3.7	4.3	2.7	3.7	3.7	4.5	2.6	3.3	-0.7	-2.2	-0.3	-0.6	-0.9
Italy	-3.1	-3.6	-3.5	-3.3	-2.4	-0.6	1.8	3.6	2.7	3.7	4.4	6.5	5.1	4.7	3.9	3.1	3.2	3.1	2.6	1.8
Japan [a]	1.8	2.7	2.7	3.0	2.6	2.4	1.6	-1.1	-2.4	-3.2	-4.0	-2.8	-3.8	-5.2	-5.7	-4.2	-5.6	-5.9	-5.3	-5.1
Netherlands	0.1	0.1	0.9	-2.1	-3.6	-0.3	-0.6	2.1	1.1	0.4	2.5	2.6	2.1	2.4	2.2	1.0	0.6	0.6	1.0	1.0
New Zealand	..	0.4	-0.5	0.3	1.3	2.5	2.9	2.7	3.6	3.8	3.0	2.3	2.0	1.2	1.4	1.6	1.9	2.3	2.2	2.3
Norway [b]	-1.6	-2.9	-2.6	-2.9	-4.6	-8.3	-10.3	-9.8	-7.8	-4.8	-4.7	-4.1	-5.1	-4.1	-3.2	-3.5	-5.4	-6.6	-7.0	-7.0
Portugal	2.6	1.5	3.0	2.4	1.0	-0.2	3.0	0.3	0.1	1.4	0.8	0.5	-0.4	-0.5	-1.0	-1.7	0.5	1.4	0.7	0.9
Spain	-2.0	-0.2	-0.8	-0.7	-2.0	-2.2	-0.1	-0.8	-0.4	-0.2	1.7	2.4	1.6	2.3	1.6	2.3	2.6	2.7	2.6	2.8
Sweden	-0.2	3.6	1.4	2.6	2.1	-1.5	-4.8	-6.7	-5.1	-3.6	1.1	2.8	4.2	3.3	4.4	3.4	0.5	0.6	0.0	0.2
United Kingdom	1.3	0.7	1.4	1.6	-0.1	0.1	-2.1	-3.2	-2.8	-1.8	-0.4	1.2	3.0	3.4	3.0	2.1	0.1	-1.3	-1.3	-1.5
United States	-2.2	-1.2	-0.7	-0.3	-0.9	-0.7	-1.8	-1.1	-0.1	0.6	1.3	2.3	3.2	3.0	3.7	2.4	-0.9	-2.5	-2.8	-1.9
Euro area	-0.2	-0.2	-0.9	-0.6	-1.7	-0.9	-0.1	0.7	0.9	0.7	1.9	2.9	2.6	2.7	2.2	1.5	1.2	1.3	1.3	1.3
Total OECD	-0.7	-0.1	-0.1	0.2	-0.5	-0.4	-0.9	-0.8	-0.4	-0.1	0.7	1.8	2.0	1.9	1.9	1.2	-0.6	-1.4	-1.4	-1.1

Note: The cyclically-adjusted primary balance is the difference between the cyclically adjusted balance and net interest payments. It excludes one-off revenues from the sale of mobile telephone licenses. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* for details on the methodology used for estimating the cyclical component of government balances.

a) Includes deferred tax payments on postal savings accounts in 2000, 2001 and 2002. The 2000 outlays include capital transfers to the Deposit Insurance Company.

b) As a percentage of mainland potential GDP. The financial balances shown exclude net revenues from petroleum activities.

Source: OECD.

Annex Table 31. **General government net debt interest payments**

Per cent of nominal GDP

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	4.2	4.1	3.8	3.9	3.5	3.1	3.7	3.2	4.2	4.1	3.4	2.8	2.2	2.2	2.1	1.9	1.7	1.5	1.3	1.2
Austria	3.0	3.1	3.3	3.2	3.3	3.4	3.5	3.6	3.5	3.7	3.8	3.5	3.3	3.1	3.1	2.9	2.8	2.6	2.6	2.6
Belgium	10.7	10.1	9.9	10.9	11.3	10.8	10.8	10.6	9.2	8.9	8.5	7.7	7.3	6.7	6.5	6.2	5.8	5.3	4.8	4.7
Canada	4.1	4.2	4.3	4.7	5.2	5.1	5.1	5.0	5.0	5.6	5.3	4.7	4.9	4.4	3.3	3.0	2.7	2.1	1.9	1.8
Denmark	5.1	5.0	4.3	4.0	3.8	4.0	3.2	3.5	3.3	3.1	2.9	2.9	2.5	2.4	2.1	1.8	1.6	1.2	1.0	0.9
Finland	-1.0	-0.9	-0.9	-1.2	-1.7	-1.9	-1.9	-0.3	1.1	0.9	1.5	1.9	1.7	1.6	1.1	0.7	0.2	0.2	0.1	-0.1
France	2.2	2.2	2.1	2.2	2.4	2.6	2.7	3.0	3.1	3.3	3.4	3.3	3.2	3.0	2.9	2.9	2.8	2.8	2.9	3.1
Germany [a]	2.5	2.5	2.5	2.3	2.2	2.3	2.7	2.8	2.8	3.2	3.2	3.2	3.3	3.1	2.9	2.8	2.7	2.7	2.7	2.8
Greece	5.1	6.5	7.2	7.3	9.8	9.4	11.2	12.2	13.5	12.1	11.5	8.2	8.2	7.4	7.1	6.4	5.6	5.1	5.1	5.0
Iceland	0.1	-0.1	0.7	0.8	1.3	1.2	1.0	1.4	1.4	1.7	1.6	1.3	1.4	1.3	1.0	1.0	0.1	-0.1	-0.2	-0.4
Ireland	6.9	6.9	6.5	6.2	6.2	5.7	5.2	4.8	4.5	4.0	3.2	2.6	2.4	1.5	0.8	0.1	0.1	0.1	0.1	0.1
Italy	8.3	7.6	8.0	9.0	9.9	11.3	12.2	12.6	11.0	10.9	10.9	8.8	7.8	6.2	6.0	5.9	5.3	4.8	4.7	4.8
Japan [b]	2.1	1.9	1.7	1.5	1.3	1.1	1.1	1.2	1.2	1.3	1.3	1.3	1.4	1.5	1.5	1.4	1.5	1.6	1.8	1.8
Korea	0.1	0.1	0.0	-0.2	-0.3	-0.4	-0.4	-0.4	-0.3	-0.3	-0.6	-0.8	-1.2	-1.0	-1.0	-0.8	-1.0	-0.9	-0.6	-0.4
Luxembourg	..	..	..	..	-2.2	-2.0	-1.9	-1.6	-1.3	-1.1	-0.9	-0.8	-0.9	-0.7	-0.9	-1.3	-1.1	-1.2	-1.1	-1.0
Netherlands	4.4	4.5	4.5	4.0	4.0	4.3	4.5	4.5	4.4	4.7	4.7	4.4	4.2	3.8	3.2	2.6	2.4	2.3	2.1	2.1
New Zealand	..	4.0	3.3	3.7	4.2	3.2	2.8	2.5	1.4	1.4	0.8	0.6	0.4	0.1	0.1	-0.1	-0.3	-0.4	-0.3	-0.5
Norway	-2.3	-2.9	-3.5	-3.4	-3.5	-3.7	-3.4	-2.8	-2.2	-2.4	-2.3	-2.2	-2.2	-2.4	-2.6	-3.2	-3.5	-4.4	-4.7	-5.0
Portugal	8.3	7.5	6.6	6.1	8.6	8.8	8.5	7.7	6.6	6.3	5.4	4.2	3.5	3.2	3.3	3.2	3.0	3.0	2.9	2.9
Slovak Republic	..	..	..	..	..	..	..	..	3.4	2.3	2.5	2.2	2.4	3.4	4.1	4.0	3.9	3.8	3.6	3.5
Spain	2.9	2.5	2.8	2.9	3.1	3.3	3.7	4.7	4.6	4.9	5.0	4.4	4.0	3.3	3.1	2.8	2.5	2.2	2.2	2.5
Sweden	2.2	1.7	1.0	0.6	0.2	0.2	0.4	-0.4	0.8	1.4	1.6	2.0	1.4	1.4	0.8	0.8	0.9	-0.1	-0.3	-0.3
Switzerland	..	..	..	..	0.4	0.4	0.6	0.6	0.7	0.8	0.7	0.8	0.8	0.9	0.5	0.7	0.7	0.7	0.7	0.7
United Kingdom	3.4	3.3	2.9	2.7	2.6	2.3	2.2	2.4	2.6	2.9	2.9	3.0	2.8	2.3	2.1	1.8	1.5	1.5	1.5	1.5
United States	2.8	3.1	3.1	3.3	3.4	3.6	3.5	3.4	3.4	3.6	3.4	3.2	3.1	2.7	2.5	2.2	2.0	1.8	1.8	2.0
Euro area	4.1	3.9	4.0	4.2	4.5	4.8	5.2	5.3	5.0	5.0	5.2	4.6	4.4	3.9	3.6	3.5	3.2	3.1	3.0	3.2
Total OECD	3.1	3.1	3.1	3.2	3.2	3.4	3.4	3.4	3.4	3.5	3.5	3.2	3.1	2.7	2.5	2.3	2.1	2.0	2.0	2.1

Note: In the case of Ireland and New Zealand where net interest payments are not available, net property income paid is used as a proxy. For Denmark, net interest payments include dividends received. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) Includes interest payments on the debt of the Inherited Debt Funds from 1995 onwards.

b) Includes interest payments on the debt of the Japan Railway settlement Corporation and the National Forest Special Account from 1998 onwards.

Source: OECD.

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Annex Table 32. **General government gross financial liabilities**

Per cent of nominal GDP

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	..	..	27.5	25.0	23.1	23.9	28.7	32.2	42.6	44.6	41.4	39.6	34.1	28.4	25.2	22.1	20.7	18.2	17.2	16.3
Austria	53.6	57.5	58.9	58.1	57.2	57.5	57.2	61.8	64.7	69.2	69.1	64.7	63.7	67.5	67.0	67.1	66.6	64.9	64.8	65.3
Belgium	124.2	128.7	129.1	125.7	129.5	131.2	140.3	145.4	142.1	139.5	136.6	130.5	125.1	120.5	115.1	113.6	110.8	105.1	101.6	98.4
Canada	71.0	71.5	71.1	72.3	74.5	82.1	89.9	96.9	98.2	100.8	100.3	96.2	93.9	89.5	82.0	81.0	77.8	75.6	73.1	69.9
Denmark	76.8	73.3	71.8	70.0	70.8	71.8	76.0	90.1	83.6	79.5	76.8	73.4	70.7	61.1	54.3	53.8	54.5	50.1	49.0	47.8
Finland	19.7	20.3	19.1	16.9	16.6	25.1	45.2	58.3	61.0	65.8	66.5	64.8	61.4	55.9	53.2	51.3	50.8	51.6	52.3	53.3
France	38.8	40.1	40.0	39.9	39.5	40.3	44.7	51.6	55.3	62.9	66.5	68.2	70.3	66.2	65.2	64.5	67.0	71.1	74.3	76.9
Germany [a]	40.7	41.8	42.3	40.9	41.5	38.8	41.8	47.4	47.9	57.1	60.3	61.8	63.2	61.6	60.9	60.5	62.8	65.1	66.9	67.7
Greece	47.7	53.0	62.7	65.7	79.6	82.2	87.8	110.1	107.9	108.7	111.3	108.2	105.8	105.2	106.2	106.9	104.7	103.0	102.6	101.3
Iceland	30.6	28.2	31.6	37.3	37.0	39.2	47.3	54.4	57.0	60.4	57.7	54.4	49.3	44.6	42.0	46.6	44.1	41.3	39.2	38.7
Ireland	110.7	111.9	108.3	99.0	94.3	95.6	92.6	95.2	89.7	81.9	73.3	64.6	53.8	48.6	38.4	36.2	32.3	32.8	31.5	30.0
Italy	92.7	97.3	99.5	102.5	111.6	115.5	125.0	126.9	133.3	132.4	134.2	131.2	131.2	125.0	120.4	118.0	117.2	116.7	116.8	116.9
Japan [b]	75.8	76.4	74.1	70.8	68.6	64.8	68.7	74.9	79.7	87.1	93.9	100.3	112.2	125.7	134.1	142.3	149.4	157.3	163.4	168.6
Korea	13.9	12.2	9.4	8.8	7.8	6.8	6.5	5.5	5.8	6.0	5.8	8.5	13.9	17.0	17.4	21.8	20.5	20.1	20.5	21.3
Luxembourg	..	..	..	..	5.4	4.6	5.5	6.8	6.3	6.7	7.2	6.8	6.3	6.0	5.5	5.5	5.7	4.9	5.1	5.1
Netherlands	71.0	73.2	76.1	76.0	76.9	76.8	77.9	79.3	76.4	77.2	75.2	69.9	66.8	63.1	55.9	52.9	52.6	54.8	57.3	58.7
New Zealand	..	..	..	..	..	..	..	70.8	62.7	56.9	50.8	50.1	49.8	47.4	45.1	42.6	40.0	37.3	34.7	32.7
Norway	40.7	33.7	32.8	32.8	29.3	27.5	32.2	40.5	36.9	34.4	30.7	27.5	26.2	26.8	30.0	29.2	35.7	34.4	33.9	34.4
Poland	..	..	..	..	..	..	..	..	..	..	..	45.6	41.8	41.9	38.9	40.3	46.1	51.3	55.3	60.1
Portugal	54.0	60.8	61.0	59.0	58.3	60.7	54.4	59.1	62.1	64.3	62.9	59.1	55.0	54.3	53.3	55.6	58.1	60.1	60.6	61.1
Slovak Republic	..	..	..	..	..	..	..	26.6	23.5	21.1	25.4	28.1	28.6	40.9	43.9	42.8	37.4	42.9	44.8	46.3
Spain	49.8	49.0	45.3	46.9	48.8	49.9	52.4	63.5	68.2	73.8	81.4	80.8	81.4	75.6	72.3	68.2	66.9	65.0	63.3	61.5
Sweden	70.3	62.5	56.1	51.0	46.8	55.5	74.0	79.0	83.5	82.2	84.7	82.8	81.2	71.6	64.2	63.2	62.1	61.5	61.2	60.4
United Kingdom	58.5	60.1	54.1	47.8	43.4	43.5	48.5	58.0	55.6	60.5	60.0	60.8	61.0	55.8	55.5	50.3	50.0	51.6	52.7	54.0
United States	62.4	64.1	64.8	65.1	66.6	71.3	73.7	75.4	74.6	74.2	73.4	70.9	67.9	64.5	58.8	58.5	60.5	62.8	64.1	65.0
Euro area	56.5	58.5	59.2	59.4	61.8	62.2	65.6	70.6	72.6	77.6	81.6	81.3	81.5	78.0	75.5	74.1	74.9	76.2	77.3	77.9
Total OECD	61.0	62.3	61.2	60.4	61.1	63.0	66.4	70.3	71.3	74.0	75.6	74.8	75.1	73.9	71.6	71.9	73.7	76.0	77.7	78.9

Note: Gross debt data are not always comparable across countries due to a different definition or treatment of debt components. Notably, they include the funded portion of government employee pension liabilities for some OECD countries, including Australia and the United States. The debt position of these countries is thus overstated relative to countries that have large unfunded liabilities for such pensions which according to ESA95/SNA93 are not counted in the debt figures, but rather as a memorandum item to the debt. General government financial liabilities presented here are defined according to ESA95/SNA93 for all countries with the exception of Austria, Greece, Ireland, Luxembourg, Netherlands and Portugal where debt measures follow the definition of debt applied under the Maastricht Treaty. Maastricht debt for European Union countries is shown in Annex Table 60. For more details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) Includes the debt of the Inherited Debt Fund from 1995 onwards.

b) Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

Source: OECD.

Annex Table 33. **General government net financial liabilities**

Per cent of nominal GDP

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	..	..	16.3	11.9	10.9	11.7	16.5	22.6	27.5	28.2	22.3	22.5	17.0	15.9	9.9	5.8	4.1	2.9	1.9	1.1
Austria	33.3	36.2	38.4	38.1	37.5	37.4	38.7	43.5	45.7	50.5	50.1	47.8	46.2	47.0	45.1	45.0	45.0	43.4	43.4	43.9
Belgium	116.0	120.2	120.6	117.2	116.7	117.9	125.0	129.0	127.0	126.3	123.8	118.9	113.2	108.0	102.7	100.3	98.4	94.2	90.7	87.5
Canada	39.7	39.3	38.2	41.1	43.3	50.0	58.5	64.4	67.4	69.3	67.5	63.5	60.8	53.5	44.9	40.6	38.0	34.9	32.3	29.4
Denmark	21.7	19.3	20.5	19.2	19.0	21.7	23.8	26.1	26.4	26.7	26.3	23.9	24.2	13.6	10.1	8.3	7.6	4.7	3.6	2.4
Finland[a]	-28.2	-28.0	-29.2	-33.4	-35.5	-34.2	-24.9	-16.1	-16.4	-3.8	-6.5	-7.4	-15.0	-51.5	-31.5	-32.5	-32.3	-33.6	-34.2	-34.5
France	12.5	13.3	15.1	15.7	17.5	18.8	20.4	27.1	28.3	38.9	42.6	43.3	41.7	33.6	34.8	37.4	39.4	42.7	45.0	46.9
Germany[b]	20.1	21.1	22.0	20.5	21.0	20.2	24.5	28.1	29.3	39.6	42.5	43.4	46.1	45.3	42.4	44.1	48.5	51.9	54.7	56.2
Iceland	9.0	8.2	9.9	17.9	19.4	20.2	27.1	35.4	38.5	40.5	40.3	38.3	31.8	24.1	23.9	26.0	25.1	24.8	24.2	22.1
Italy	81.3	85.5	87.6	90.4	81.0	85.7	94.2	102.0	107.1	105.1	106.8	102.9	104.0	99.2	94.9	93.6	94.0	93.5	93.6	93.7
Japan[c]	66.9	55.6	46.9	38.3	24.6	12.6	14.3	17.7	20.3	24.5	29.7	35.2	45.8	53.6	59.1	65.2	71.4	79.3	85.4	90.6
Korea	-7.8	-9.9	-13.1	-15.7	-16.3	-15.1	-14.5	-14.7	-14.4	-17.0	-18.1	-20.8	-22.5	-23.4	-25.6	-28.1	-31.6	-34.7	-37.0	-39.2
Netherlands	44.0	27.2	30.9	34.5	35.5	36.2	39.8	40.9	42.3	53.2	53.7	55.3	53.7	50.2	44.5	41.5	41.9	44.1	46.3	47.8
New Zealand	..	..	..	..	..	..	..	47.9	40.8	34.7	30.7	28.4	25.9	23.9	20.9	20.5	17.7	13.8	10.1	6.9
Norway	-41.2	-42.6	-42.7	-41.9	-41.7	-37.9	-35.6	-32.4	-31.0	-32.6	-36.5	-42.9	-46.9	-52.7	-60.6	-71.9	-72.5	-79.3	-85.4	-92.6
Spain	29.3	29.9	30.6	30.7	31.8	33.2	35.4	42.3	43.3	49.2	53.3	52.4	51.9	45.9	42.8	41.4	39.9	38.1	36.4	34.5
Sweden	12.4	6.3	0.2	-5.9	-7.8	-5.0	4.5	10.3	20.4	25.3	25.7	23.1	20.0	9.4	1.4	-2.9	4.8	4.1	3.8	3.1
United Kingdom	31.3	25.8	20.5	15.6	14.9	15.3	22.0	31.4	31.5	37.3	38.9	41.0	41.9	37.2	34.2	31.0	32.0	33.6	34.7	36.0
United States	45.3	47.4	48.6	48.7	49.9	53.5	56.8	58.8	59.2	58.9	58.3	56.2	52.5	47.9	43.0	41.8	43.8	46.3	47.6	48.5
Euro area	34.5	35.0	36.5	36.9	35.7	37.0	40.2	44.6	45.9	52.6	55.9	55.4	55.5	50.9	48.9	49.2	50.6	52.0	53.0	53.5
Total OECD	41.1	40.1	38.9	37.5	35.7	36.3	39.8	43.3	44.5	47.3	48.6	48.1	47.8	44.9	42.2	42.0	43.9	46.2	47.6	48.6

Note: Net debt measures are not always comparable across countries due to a different definition or treatment of debt (and asset) components. First, the treatment of government liabilities in respect of their employee pension plans may be different (see footnote to Annex Table 32). Second, while general government financial liabilities presented here for most countries are defined by ESA95/SNA93, for some EU countries, *i.e.* Austria, Greece, Ireland, Luxembourg, Netherlands and Portugal, debt measures follow the definition of debt applied under the Maastricht Treaty. Third, a range of items included as general government assets differs across countries. For example, equity participation is excluded from government assets in some countries, whereas foreign exchange, gold and SDR holdings are considered as assets of the government in the United States and the United Kingdom. For details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

a) From 1995 onwards housing corporation shares are no longer classified as financial assets.

b) Includes the debt of the Inherited Debt Fund from 1995 onwards.

c) Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

Source: OECD.

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Annex Table 34. **Short-term interest rates**

Per cent, per annum

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	17.6	14.5	10.2	6.5	5.2	5.7	7.7	7.2	5.4	5.0	5.0	6.2	4.9	4.7	4.9	5.7	5.9	5.3	5.8	6.1
Austria	7.5	9.0	9.5	9.5	7.0	5.1	4.6	3.4	3.5	3.6	3.0	4.4	4.3	3.3	2.3	1.7	1.8	2.2	1.5	2.3
Belgium	8.8	9.6	9.4	9.4	8.2	5.7	4.8	3.2	3.4	3.6	3.0	4.4	4.3	3.3	2.3	1.7	1.8	2.2	1.5	2.3
Canada	12.2	13.0	9.0	6.7	5.0	5.5	7.1	4.5	3.6	5.1	4.9	5.7	4.0	2.6	3.0	2.1	2.9	2.7	2.3	3.3
Czech Republic	..	..	..	..	13.1	9.1	10.9	12.0	15.9	14.3	6.9	5.4	5.2	3.5	2.3	1.6	2.0	2.1	1.5	2.5
Denmark	9.6	10.9	9.7	11.0	10.4	6.1	6.1	3.9	3.7	4.1	3.3	4.9	4.6	3.5	2.4	1.7	1.8	2.1	1.5	2.3
Finland	12.6	14.0	13.1	13.3	7.8	5.4	5.8	3.6	3.2	3.6	3.0	4.4	4.3	3.3	2.3	1.7	1.8	2.2	1.5	2.3
France	9.4	10.3	9.6	10.3	8.6	5.8	6.6	3.9	3.5	3.6	3.0	4.4	4.3	3.3	2.3	1.7	1.8	2.2	1.5	2.3
Germany	7.1	8.5	9.2	9.5	7.3	5.4	4.5	3.3	3.3	3.5	3.0	4.4	4.3	3.3	2.3	1.7	1.8	2.2	1.5	2.3
Greece	19.0	23.0	23.3	21.7	21.3	19.3	15.5	12.8	10.4	11.6	8.9	4.4	4.3	3.3	2.3	1.7	1.8	2.2	1.5	2.3
Hungary	..	..	..	..	17.2	26.9	32.0	24.0	20.1	18.0	14.7	11.0	10.8	8.9	8.2	10.4	9.3	10.4	9.7	8.8
Iceland	27.9	14.8	14.6	10.5	8.8	4.9	7.0	7.0	7.1	7.4	8.6	11.2	11.0	8.0	5.7	6.9	8.7	5.8	8.2	9.0
Ireland	10.0	11.3	10.4	14.3	9.1	5.9	6.2	5.4	6.1	5.4	3.0	4.4	4.3	3.3	2.3	1.7	1.8	2.2	1.5	2.3
Italy	12.6	12.2	12.2	14.0	10.2	8.5	10.5	8.8	6.9	5.0	3.0	4.4	4.3	3.3	2.3	1.7	1.8	2.2	1.5	2.3
Japan	5.4	7.7	7.4	4.5	3.0	2.2	1.2	0.6	0.6	0.7	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Korea	..	..	18.3	16.4	13.0	13.3	14.1	12.7	13.4	15.2	6.8	7.1	5.3	4.8	4.3	4.3	4.9	4.1	4.5	5.3
Luxembourg	8.8	9.6	9.4	9.4	8.2	5.7	4.8	3.2	3.4	3.6	3.0	4.4	4.3	3.3	2.3	1.7	1.8	2.2	1.5	2.3
Mexico	44.8	35.0	19.8	15.9	15.5	14.6	48.2	32.9	21.3	26.2	22.4	16.2	12.2	7.5	6.5	6.0	7.4	5.6	6.3	8.1
Netherlands	7.4	8.7	9.3	9.4	6.9	5.2	4.4	3.0	3.3	3.5	3.0	4.4	4.3	3.3	2.3	1.7	1.8	2.2	1.5	2.3
New Zealand	13.5	13.9	10.0	6.7	6.3	6.7	9.0	9.3	7.7	7.3	4.8	6.5	5.7	5.7	5.4	5.5	5.5	5.3	5.5	5.5
Norway	11.4	11.5	10.6	11.8	7.3	5.9	5.5	4.9	3.7	5.8	6.5	6.7	7.2	6.9	4.1	1.9	2.4	2.8	2.0	2.8
Poland	..	..	..	..	34.9	31.8	27.7	21.3	23.1	19.9	14.7	18.9	15.7	8.8	5.7	5.5	6.0	5.8	5.5	6.5
Portugal	14.9	16.9	17.7	16.1	12.5	11.1	9.8	7.4	5.7	4.3	3.0	4.4	4.3	3.3	2.3	1.7	1.8	2.2	1.5	2.3
Slovak Republic	..	..	..	..	13.1	9.1	8.2	11.5	20.2	18.1	14.8	8.2	7.5	7.5	5.9	4.3	3.5	5.7	3.7	4.0
Spain	15.0	15.2	13.2	13.3	11.7	8.0	9.4	7.5	5.4	4.2	3.0	4.4	4.3	3.3	2.3	1.7	1.8	2.2	1.5	2.3
Sweden	11.5	13.7	11.6	12.9	8.4	7.4	8.7	5.8	4.1	4.2	3.1	4.0	4.0	4.1	3.0	2.2	3.1	2.7	2.3	3.5
Switzerland	7.3	8.9	8.2	7.9	4.9	4.2	2.9	2.0	1.6	1.5	1.4	3.2	2.9	1.1	0.3	0.4	1.3	0.3	0.5	1.7
Turkey	..	51.9	109.6	97.8	90.3	150.6	136.3	143.6	119.2	115.7	96.6	37.0	70.2	64.2	44.0	22.5	16.2	33.2	20.0	16.1
United Kingdom	13.9	14.8	11.5	9.6	5.9	5.5	6.7	6.0	6.8	7.3	5.4	6.1	5.0	4.0	3.7	4.5	5.6	3.9	5.0	5.8
United States	9.3	8.2	5.9	3.8	3.2	4.7	6.0	5.4	5.7	5.5	5.4	6.5	3.7	1.8	1.2	1.3	2.9	1.1	1.6	3.6
Euro area	9.9	10.7	10.6	11.2	8.6	6.3	6.5	4.8	4.3	3.9	3.0	4.4	4.3	3.3	2.3	1.7	1.8	2.2	1.5	2.3

Note: Three-month money market rates where available, or rates on proximately similar financial instruments. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

Annex Table 35. **Long-term interest rates**

Per cent, per annum

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Fourth quarter 2003	Fourth quarter 2004	Fourth quarter 2005
Australia	13.4	13.2	10.7	9.2	7.3	9.0	9.2	8.2	6.9	5.5	6.1	6.3	5.6	5.8	5.4	5.9	6.1	5.8	6.0	6.2
Austria	7.1	8.7	8.5	8.1	6.7	7.0	7.1	6.3	5.7	4.7	4.7	5.6	5.1	5.0	4.2	4.6	5.1	4.4	4.7	5.3
Belgium	8.6	10.1	9.3	8.7	7.2	7.7	7.4	6.3	5.6	4.7	4.7	5.6	5.1	4.9	4.1	4.0	4.6	4.4	4.1	5.2
Canada	9.8	10.7	9.5	8.1	7.2	8.4	8.2	7.2	6.1	5.3	5.5	5.9	5.5	5.3	4.8	4.7	5.3	4.8	5.0	5.6
Denmark	9.7	10.6	9.3	9.0	7.3	7.8	8.3	7.2	6.3	5.0	4.9	5.7	5.1	5.1	4.3	4.2	4.9	4.5	4.3	5.4
Finland	12.1	13.2	11.7	12.0	8.8	9.0	8.8	7.1	6.0	4.8	4.7	5.5	5.0	5.0	4.1	4.1	4.7	4.3	4.1	5.2
France	8.8	9.9	9.0	8.6	6.8	7.2	7.5	6.3	5.6	4.6	4.6	5.4	4.9	4.9	4.1	4.1	4.7	4.3	4.1	5.2
Germany	7.1	8.7	8.5	7.9	6.5	6.9	6.9	6.2	5.7	4.6	4.5	5.3	4.8	4.8	4.1	4.0	4.6	4.3	4.0	5.2
Greece	..	..	..	..	..	..	..	..	9.8	8.5	6.3	6.1	5.3	5.0	4.3	4.1	4.7	4.4	4.1	5.3
Iceland	..	16.4	17.7	13.1	13.4	7.0	9.7	9.2	8.7	7.7	8.5	11.2	10.4	8.0	6.7	8.1	9.1	7.2	8.6	9.2
Ireland	9.2	10.3	9.4	9.3	7.6	8.0	8.2	7.2	6.3	4.7	4.8	5.5	5.0	5.0	4.1	4.1	4.7	4.4	4.2	5.3
Italy	12.8	13.5	13.3	13.3	11.2	10.5	12.2	9.4	6.9	4.9	4.7	5.6	5.2	5.0	4.3	4.2	4.8	4.5	4.2	5.3
Japan	5.1	7.0	6.3	5.3	4.3	4.4	3.4	3.1	2.4	1.5	1.7	1.7	1.3	1.3	1.1	1.4	1.7	1.6	1.5	1.8
Korea	14.2	15.1	16.5	15.1	12.1	12.3	12.4	10.9	11.7	12.8	8.7	8.5	6.7	6.5	5.0	5.4	6.2	5.1	5.8	6.5
Luxembourg	..	9.3	8.8	8.2	6.5	7.2	7.2	6.3	5.6	4.7	4.7	5.5	4.9	4.7	3.3	3.3	3.9	3.3	3.3	4.4
Mexico	44.8	34.9	19.7	16.1	15.6	13.8	39.9	34.4	22.4	24.8	24.1	16.9	13.8	8.5	7.4	6.8	8.0	6.4	7.1	8.7
Netherlands	7.2	8.9	8.7	8.1	6.4	6.9	6.9	6.2	5.6	4.6	4.6	5.4	5.0	4.9	4.1	4.0	4.7	4.3	4.1	5.2
New Zealand	12.8	12.4	10.1	8.4	6.9	7.6	7.8	7.9	7.2	6.3	6.4	6.9	6.4	6.5	5.9	6.0	6.0	6.1	6.0	6.0
Norway	10.8	10.7	10.0	9.6	6.9	7.4	7.4	6.8	5.9	5.4	5.5	6.2	6.2	6.4	5.0	4.2	4.7	4.9	4.3	5.0
Portugal	..	..	..	..	..	10.5	11.5	8.6	6.4	4.9	4.8	5.6	5.2	5.0	4.2	4.2	4.8	4.4	4.2	5.3
Slovak Republic	..	..	..	..	13.1	9.2	10.1	9.7	9.4	21.7	15.9	8.5	7.8	6.2	5.0	4.8	5.3	4.9	4.9	5.7
Spain	13.8	14.6	12.8	11.7	10.2	10.0	11.3	8.7	6.4	4.8	4.7	5.5	5.1	5.0	4.1	4.1	4.7	4.3	4.1	5.2
Sweden	11.2	13.2	10.7	10.0	8.5	9.5	10.2	8.0	6.6	5.0	5.0	5.4	5.1	5.3	4.6	4.5	5.3	4.9	4.6	5.6
Switzerland	5.2	6.4	6.2	6.4	4.6	5.0	4.5	4.0	3.4	3.0	3.0	3.9	3.4	3.2	2.7	2.9	3.3	2.9	3.0	3.3
Turkey	58.3	51.9	71.9	79.6	86.6	138.5	111.5	124.9	106.0	113.6	106.6	35.8	87.4	62.4	44.8	24.2	18.1	33.6	21.5	17.7
United Kingdom	10.2	11.8	10.1	9.1	7.5	8.2	8.2	7.8	7.1	5.5	5.1	5.3	4.9	4.9	4.5	5.1	5.6	4.9	5.2	6.0
United States	8.5	8.6	7.9	7.0	5.9	7.1	6.6	6.4	6.4	5.3	5.6	6.0	5.0	4.6	4.0	4.5	5.3	4.3	4.8	5.5
Euro area	..	10.9	10.3	9.8	7.9	8.0	8.4	7.1	5.9	4.7	4.6	5.4	5.0	4.9	4.1	4.1	4.7	4.4	4.1	5.2

Note: 10-year benchmark government bond yields where available or yield on proximately similar financial instruments (for Korea a 5-year bond is used). See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

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Annex Table 36. **Nominal exchange rates (*vis-à-vis* the US dollar)**

Average of daily rates

	Monetary unit	1993	1994	1995	1996	1997	1998	1999	1999	2000	2001	2002	Estimates and assumptions[a] 2003	2004	2005
Australia	*Dollar*	1.473	1.369	1.350	1.277	1.348	1.592	1.550	1.550	1.727	1.935	1.841	1.542	1.343	1.358
Austria	*Schilling*	11.63	11.42	10.08	10.58	12.20	12.38	12.91							
Belgium	*Franc*	34.55	33.46	29.50	30.98	35.76	36.30	37.86							
Canada	*Dollar*	1.290	1.366	1.372	1.364	1.385	1.483	1.486	1.486	1.485	1.548	1.570	1.400	1.338	1.346
Czech Republic	*Koruny*	29.15	28.79	26.54	27.15	31.70	32.28	34.59	34.59	38.64	38.02	32.73	28.13	26.72	26.880
Denmark	*Krone*	6.482	6.360	5.604	5.798	6.604	6.699	6.980	6.980	8.088	8.321	7.884	6.577	6.154	6.223
Finland	*Markka*	5.721	5.223	4.367	4.592	5.187	5.345	5.580							
France	*Franc*	5.662	5.552	4.991	5.116	5.837	5.899	6.157							
Germany	*Deutschemark*	1.653	1.623	1.433	1.505	1.734	1.759	1.836							
Greece	*Drachma*	229.1	242.2	231.6	240.7	272.9	295.3	305.7							
Hungary	*Forint*	91.9	105.1	125.7	152.6	186.6	214.3	237.1	237.1	282.3	286.5	257.4	224.3	208.2	208.6
Iceland	*Krona*	67.64	69.99	64.77	66.69	70.97	71.17	72.43	72.43	78.84	97.67	91.59	76.69	72.48	73.46
Ireland	*Pound*	0.683	0.670	0.624	0.625	0.660	0.703	0.739							
Italy	*Lira*	1572	1613	1629	1543	1703	1736	1817							
Japan	*Yen*	111.2	102.2	94.1	108.8	121.0	130.9	113.9	113.9	107.8	121.5	125.3	115.9	108.1	108.5
Korea	*Won*	802.4	804.3	771.4	804.4	950.5	1 400.5	1 186.7	1 186.7	1 130.6	1 290.4	1 251.0	1 191.0	1 156.0	1 151.3
Luxembourg	*Franc*	34.55	33.46	29.50	30.98	35.76	36.30	37.86							
Mexico	*Peso*	3.115	3.389	6.421	7.601	7.924	9.153	9.553	9.553	9.453	9.344	9.660	10.790	11.203	11.280
Netherlands	*Guilder*	1.857	1.820	1.605	1.686	1.951	1.983	2.068							
New Zealand	*Dollar*	1.851	1.687	1.524	1.454	1.513	1.869	1.892	1.892	2.205	2.382	2.163	1.724	1.538	1.559
Norway	*Krone*	7.094	7.057	6.337	6.457	7.072	7.545	7.797	7.797	8.797	8.993	7.986	7.078	6.931	6.942
Poland	*Zloty*	1.814	2.273	2.425	2.695	3.277	3.492	3.964	3.964	4.346	4.097	4.082	3.888	3.928	3.970
Portugal	*Escudo*	160.7	166.0	149.9	154.2	175.2	180.1	188.2							
Slovak Republic	*Koruna*	30.8	32.04	29.74	30.65	33.62	35.23	41.36	41.36	46.23	48.35	45.30	36.76	33.25	33.550
Spain	*Peseta*	127.2	134.0	124.7	126.7	146.4	149.4	156.2							
Sweden	*Krona*	7.785	7.716	7.134	6.707	7.635	7.947	8.262	8.262	9.161	10.338	9.721	8.078	7.595	7.680
Switzerland	*Franc*	1.477	1.367	1.182	1.236	1.450	1.450	1.503	1.503	1.688	1.687	1.557	1.345	1.287	1.298
Turkey	*Lira*	10 964	29 778	45 738	81 281	151 595	260 473	418 984	418 984	624 325	1 228 269	1 512 342	1 502 542	1 395 379	1 494 960
United Kingdom	*Pound*	0.666	0.653	0.634	0.641	0.611	0.604	0.618	0.618	0.661	0.694	0.667	0.612	0.554	0.559
United States	*Dollar*	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Euro area	*Euro*	..	..	..	..	..	..	0.939	0.939	1.086	1.118	1.062	0.886	0.828	0.837
	SDR	0.716	0.699	0.659	0.689	0.726	0.737	0.731	0.731	0.758	0.785	0.773	0.714	0.680	0.683

Note: No rate are shown for individual euro area countries after 1999.

a) On the technical assumption that exchange rates remain at their levels of 14 April 2004, except for Turkey, where exchange rates vary according to official exchange rate policy.

Source: OECD.

Annex Table 37. **Effective exchange rates**

Indices 1995 = 100, average of daily rates

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Estimates and assumptions[a] 2003	2004	2005
Australia	106.9	107.7	100.9	95.7	103.1	100.0	109.7	111.0	103.5	103.6	96.3	90.3	93.6	104.5	114.5	113.7
Austria	87.9	88.1	90.2	93.2	95.4	100.0	99.1	97.2	99.2	99.9	97.7	98.1	98.6	101.7	102.5	102.6
Belgium	85.2	86.1	88.7	90.7	94.7	100.0	98.4	94.5	96.8	96.3	92.5	93.6	95.2	99.9	100.7	100.5
Canada	113.2	116.5	110.7	105.6	100.8	100.0	101.9	102.2	97.4	97.1	98.0	95.1	93.6	103.6	107.2	106.7
Czech Republic	..	..	..	95.9	99.3	100.0	101.6	98.6	100.3	99.9	101.2	106.2	118.2	117.5	116.0	116.6
Denmark	86.5	86.0	88.7	92.9	95.1	100.0	99.1	96.8	99.3	98.7	94.8	96.4	97.6	101.9	102.8	102.6
Finland	99.9	97.0	85.2	76.7	87.0	100.0	97.6	95.4	98.2	101.1	96.6	98.6	100.3	105.4	106.4	106.1
France	86.4	85.9	89.6	93.3	96.1	100.0	100.4	97.7	100.0	99.3	95.7	96.6	98.0	102.5	103.4	103.3
Germany	79.4	80.1	84.0	88.6	93.0	100.0	98.6	95.2	98.7	98.6	94.3	95.5	97.1	102.8	104.1	104.1
Greece	133.8	120.8	113.7	106.0	101.2	100.0	98.4	96.6	93.9	94.6	88.4	89.1	90.7	94.5	95.1	95.0
Hungary	..	..	..	140.1	126.0	100.0	85.2	78.9	71.5	69.0	65.5	66.7	71.2	70.4	71.3	72.0
Iceland	110.4	110.9	110.5	104.0	99.6	100.0	99.5	101.7	104.5	106.3	107.4	91.0	93.2	98.0	98.1	97.7
Ireland	98.6	97.5	101.7	96.6	98.2	100.0	102.6	102.4	99.4	96.5	89.5	90.7	92.8	101.7	102.2	101.7
Italy	126.1	127.3	126.2	108.7	108.6	100.0	110.0	111.5	113.9	113.5	109.4	110.7	112.7	118.1	119.2	119.1
Japan	53.2	59.9	65.0	80.4	93.4	100.0	87.2	83.3	86.6	99.3	108.1	99.7	95.5	98.6	103.0	102.9
Korea	111.3	107.4	100.1	98.6	99.7	100.0	101.6	94.1	68.1	77.9	83.4	77.1	79.7	79.0	78.3	78.9
Luxembourg	91.0	91.6	93.5	94.1	96.8	100.0	98.9	96.7	97.7	97.5	94.9	95.4	96.5	99.7	100.5	100.4
Mexico	193.5	186.9	187.1	196.5	190.3	100.0	84.9	83.3	74.0	70.6	72.1	74.1	71.8	62.8	59.7	59.3
Netherlands	81.4	82.0	85.2	89.3	93.6	100.0	98.6	93.9	97.2	97.1	92.2	93.5	95.6	101.7	102.8	102.5
New Zealand	92.0	89.5	83.3	87.3	93.6	100.0	106.3	108.9	97.8	94.4	85.6	84.7	91.5	103.6	108.1	107.3
Norway	95.8	95.0	96.7	95.7	96.4	100.0	100.1	101.1	98.0	97.9	95.8	99.0	107.3	104.9	100.6	101.4
Poland	..	..	..	139.0	113.5	100.0	93.2	86.6	84.8	79.2	81.6	90.0	86.1	77.4	71.9	71.9
Portugal	93.3	95.8	101.3	97.8	96.9	100.0	99.6	98.3	98.2	97.7	95.4	96.3	97.2	99.8	100.1	100.0
Slovak Republic	..	..	..	97.9	96.7	100.0	100.9	105.6	106.6	100.6	102.3	99.8	100.1	105.7	110.0	110.1
Spain	117.0	118.4	117.1	104.6	99.7	100.0	101.0	96.9	98.1	97.3	94.3	95.4	96.8	100.4	101.0	100.9
Sweden	115.7	116.7	119.6	98.4	99.6	100.0	110.1	106.6	106.3	106.1	106.3	97.8	100.2	105.9	106.4	106.2
Switzerland	80.5	80.2	79.7	83.5	91.9	100.0	98.7	93.1	97.2	97.8	96.1	100.0	105.1	106.8	105.3	105.2
Turkey	1 546.9	1023.7	610.9	427.8	173.5	100.0	58.6	34.9	21.1	14.1	10.3	5.8	4.3	3.8	3.8	3.6
United Kingdom	109.0	111.1	108.4	100.2	103.4	100.0	102.3	119.2	127.0	127.5	130.9	129.6	131.1	126.4	132.7	132.8
United States	83.3	85.4	87.1	92.6	98.0	100.0	105.6	113.1	124.8	124.4	127.5	134.3	134.8	126.5	121.8	122.5
Euro area	81.1	81.6	86.9	86.0	92.0	100.0	102.0	95.5	100.7	99.0	90.1	92.4	95.5	106.9	109.2	108.9

Note: For details on the method of calculation, see the section on exchange rates and competitiveness indicators in *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*
a) On the technical assumption that exchange rates remain at their levels of 14 April 2004, except for Turkey, where exchange rates vary according to official exchange rate policy.
Source: OECD.

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Annex Table 38. **Export volumes of goods and services**
National accounts basis, percentage changes from previous year

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	4.3	12.2	3.5	2.9	8.5	13.1	5.4	8.0	9.0	5.0	10.6	11.5	-0.2	4.7	10.9	1.8	0.3	-2.3	5.7	8.3
Austria	-4.8	2.3	9.8	9.7	7.8	5.2	1.5	-1.4	5.6	3.0	5.2	12.4	8.1	8.5	13.4	7.5	3.7	1.0	4.7	6.8
Belgium	2.3	4.6	10.3	8.8	4.6	2.8	2.4	0.9	9.0	4.7	2.3	6.1	5.7	5.4	8.6	1.3	0.8	2.1	5.9	7.3
Canada	4.3	2.9	8.9	1.0	4.7	1.8	7.2	10.8	12.7	8.5	5.6	8.3	9.1	10.7	8.8	-3.1	-0.1	-2.1	6.6	7.1
Czech Republic	..	..	..	..	..	..	..	..	0.1	16.7	8.2	9.2	10.0	6.1	17.0	11.9	2.8	6.7	9.5	9.7
Denmark	0.4	4.3	11.2	4.2	6.2	6.1	-0.9	-1.5	7.0	3.1	4.3	4.1	4.3	12.2	13.4	4.4	4.8	0.3	3.0	6.8
Finland	1.4	2.9	3.1	3.0	1.5	-7.4	10.1	16.3	13.6	8.5	5.7	13.7	9.2	6.5	19.3	-0.8	5.1	1.3	4.6	9.2
France[a]	-0.8	2.7	8.6	10.6	4.9	5.4	5.2	-0.1	7.9	7.7	3.2	12.0	8.4	4.2	13.4	1.9	1.7	-2.5	3.9	7.8
Germany	-1.3	0.7	5.5	10.3	13.2	-7.3	-2.0	-5.4	7.7	6.0	5.3	11.4	6.4	5.1	14.4	6.1	3.4	1.1	5.2	7.3
Greece	16.8	6.0	-2.1	2.0	-3.5	4.1	10.0	-2.6	7.4	3.0	3.5	20.0	5.3	18.1	14.1	-1.0	-7.7	1.6	5.9	7.9
Hungary	..	..	..	..	..	..	..	..	13.7	13.4	8.4	26.4	16.7	13.1	21.8	7.8	3.7	7.2	12.6	12.4
Iceland	5.9	3.3	-3.6	2.9	-0.0	-7.2	-2.0	7.0	9.9	-2.1	9.8	5.8	2.1	4.0	5.0	7.7	3.6	-0.7	2.8	6.5
Ireland	2.9	13.7	9.0	10.3	8.7	5.7	13.9	9.7	15.1	20.0	12.2	17.4	21.1	15.2	20.6	8.4	6.2	-5.9	5.5	7.7
Italy	0.8	4.5	5.1	7.8	7.5	-1.4	7.3	9.0	9.8	12.6	0.6	6.4	3.4	0.1	9.7	1.6	-3.4	-3.9	2.4	5.7
Japan	-6.2	-0.8	5.3	9.3	6.7	4.1	3.9	-0.1	3.6	4.1	6.4	11.4	-2.4	1.5	12.4	-6.1	8.0	10.0	12.5	12.1
Korea	26.8	22.9	12.5	-4.2	4.0	11.1	11.4	11.4	15.8	24.7	12.3	21.5	12.8	14.5	19.2	-2.7	13.1	15.7	18.0	14.0
Luxembourg	3.0	3.3	11.1	12.6	5.6	9.2	2.7	4.8	7.7	4.6	5.8	14.8	14.1	14.8	16.8	2.6	-0.3	1.9	4.5	6.0
Mexico	4.5	9.5	5.8	5.7	5.3	5.1	5.0	8.1	17.8	30.2	18.2	10.7	12.1	12.4	16.4	-3.8	1.5	1.1	7.6	8.1
Netherlands	2.7	3.5	8.1	7.5	5.6	5.6	1.8	4.8	9.7	8.8	4.6	8.8	7.4	5.1	11.3	1.7	0.1	0.1	4.4	6.9
New Zealand	-0.4	5.6	6.1	-1.4	4.9	10.8	3.7	4.6	10.0	3.8	3.7	3.9	1.8	8.0	6.5	2.4	5.8	1.1	6.7	8.6
Norway	2.2	1.1	6.4	11.0	8.6	6.1	4.7	3.2	8.4	4.9	10.2	7.7	0.6	2.8	4.0	5.0	0.1	0.1	3.5	4.2
Poland	..	..	..	..	..	..	..	..	13.1	22.9	12.0	12.2	14.3	-2.6	23.2	3.1	4.8	13.0	13.8	10.3
Portugal	6.8	11.2	8.2	12.2	9.5	1.2	3.2	-3.3	8.4	8.8	7.1	7.1	9.1	2.9	7.8	2.0	2.6	3.9	5.2	6.4
Slovak Republic	..	..	..	..	..	..	..	..	14.8	4.5	-1.1	17.6	12.8	5.0	13.7	6.3	5.5	22.6	14.0	10.9
Spain	0.2	5.3	3.8	1.4	4.7	8.2	7.5	7.8	16.7	9.4	10.4	15.3	8.2	7.7	10.0	3.6	-0.0	4.0	5.0	7.2
Sweden	3.4	4.3	2.8	3.2	1.8	-1.9	2.2	8.3	14.1	11.5	3.7	13.8	8.6	7.4	11.5	0.2	1.2	5.9	5.7	8.5
Switzerland	-0.4	2.3	6.5	6.6	2.1	-1.3	3.1	1.3	1.9	0.5	3.6	11.1	3.9	6.5	12.2	0.2	-0.5	-1.5	6.2	6.3
Turkey	-5.1	26.4	18.4	-0.3	2.6	3.7	11.0	7.7	15.2	8.0	22.0	19.1	12.0	-7.0	19.2	7.4	11.1	16.0	10.3	8.5
United Kingdom	4.3	6.1	0.7	4.5	5.5	-0.1	4.3	4.4	9.2	9.3	8.6	8.4	2.8	4.3	9.4	2.5	-0.4	-0.1	4.2	8.7
United States[a]	7.7	10.8	16.0	11.5	9.0	6.6	6.9	3.2	8.7	10.1	8.4	11.9	2.4	4.3	8.7	-5.2	-2.4	2.0	10.4	10.6
Total OECD	1.6	4.7	7.8	7.9	7.3	2.4	4.3	4.6	8.9	8.8	6.7	11.0	5.1	5.4	11.7	-0.0	1.6	2.2	7.5	8.9

Note: Regional aggregates are calculated *inclusive* of intra-regional trade as the sum of volumes expressed in 2000 $.
a) Volume data use hedonic price deflators for certain components.
Source: OECD.

Annex Table 39. **Import volumes of goods and services**
National accounts basis, percentage changes from previous year

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	-3.3	2.7	17.1	20.6	-4.0	-2.4	7.1	4.2	14.3	7.9	8.3	10.5	6.0	9.3	7.5	-4.2	11.9	11.4	10.8	9.0
Austria	-6.0	4.8	9.3	8.0	6.9	5.8	1.4	-1.1	8.2	5.6	4.9	12.0	5.7	9.0	11.6	5.9	1.2	3.0	4.3	7.6
Belgium	3.9	6.8	10.7	10.0	4.8	2.8	3.1	0.5	7.4	4.8	2.4	4.8	7.3	4.5	8.4	1.1	1.1	3.8	5.9	7.4
Canada	7.2	5.3	13.5	5.9	2.0	2.5	4.7	7.4	8.0	5.7	5.1	14.2	5.1	7.8	8.0	-5.0	0.6	4.0	8.2	7.9
Czech Republic	..	..	..	..	..	..	..	..	7.4	21.2	13.4	8.1	6.6	5.4	17.0	13.6	4.3	7.6	8.8	8.6
Denmark	9.5	-3.1	8.3	4.1	1.2	3.0	-0.4	-2.7	12.3	7.5	3.5	10.0	8.9	5.5	13.5	3.4	7.3	-0.4	5.8	7.7
Finland	2.9	9.4	10.6	9.1	-0.6	-12.9	0.5	1.5	12.4	7.4	5.9	11.2	7.9	3.5	16.9	0.2	1.9	0.9	4.8	7.8
France[a]	6.5	7.6	8.6	8.4	5.5	2.4	1.7	-3.8	8.6	7.6	1.7	7.2	11.5	6.1	15.2	1.6	3.3	0.3	5.9	8.1
Germany	3.1	4.7	5.7	8.5	10.7	12.3	0.4	-5.4	7.4	5.8	3.3	8.4	8.6	8.1	11.0	1.2	-1.6	2.5	5.2	6.9
Greece	13.9	2.1	7.3	10.5	8.4	5.8	1.1	0.6	1.5	8.9	7.0	14.2	9.2	15.0	8.9	-3.4	-4.7	10.2	7.3	5.9
Hungary	..	..	..	..	..	..	..	..	8.8	-0.7	6.2	24.6	22.8	12.3	21.1	5.1	6.2	10.3	12.2	11.1
Iceland	0.9	23.3	-4.6	-10.3	1.0	4.1	-5.9	-7.7	4.2	4.0	16.7	8.5	23.4	4.2	8.0	-9.0	-2.5	9.7	8.4	9.5
Ireland	5.6	6.2	4.9	13.5	5.1	2.4	8.2	7.5	15.5	16.4	12.5	16.8	25.5	12.1	21.4	6.5	2.4	-5.7	6.0	8.1
Italy	4.0	12.2	5.9	8.9	11.5	2.3	7.4	-10.9	8.1	9.7	-0.3	10.1	8.9	5.6	7.1	0.5	-0.2	-0.6	3.8	8.6
Japan	1.6	13.6	18.5	16.9	7.8	-1.1	-0.7	-1.4	7.9	12.5	13.1	1.0	-6.6	3.3	9.2	0.1	1.9	4.9	6.9	7.2
Korea	18.6	19.8	13.8	17.2	13.9	19.2	5.2	6.2	21.6	22.3	14.2	3.4	-21.9	27.8	20.4	-4.4	15.3	9.5	14.0	13.5
Luxembourg	1.7	7.3	10.5	9.1	5.0	9.1	-3.1	5.2	6.7	4.2	7.6	13.9	15.3	14.6	14.8	4.8	-1.6	2.0	4.5	5.8
Mexico	-7.6	5.1	36.7	18.0	19.7	15.2	19.6	1.9	21.3	-15.0	22.9	22.7	16.6	14.1	21.5	-1.6	1.4	-1.0	7.6	8.6
Netherlands	4.2	3.7	6.4	7.7	3.8	4.9	1.5	0.3	9.4	10.5	4.4	9.5	8.5	5.8	10.5	2.4	-0.2	0.6	4.4	6.8
New Zealand	2.8	8.6	-0.9	13.5	3.6	-5.2	8.3	5.3	13.1	9.0	7.7	2.2	1.4	11.9	0.2	1.6	8.8	10.1	11.7	6.6
Norway	11.8	-6.5	-2.4	2.2	2.5	0.5	1.6	4.9	5.8	5.7	8.8	12.4	8.5	-1.8	2.7	0.9	2.3	1.8	4.1	5.1
Poland	..	..	..	..	..	..	..	..	11.3	24.2	28.0	21.4	18.5	1.0	15.6	-5.3	2.6	7.9	9.6	8.6
Portugal	16.9	23.1	18.0	5.9	14.5	7.2	10.7	-3.3	8.8	7.4	4.9	10.0	14.2	8.5	5.5	1.0	-0.5	-1.0	5.2	6.5
Slovak Republic	..	..	..	..	..	..	..	..	-4.7	11.6	19.7	14.2	16.5	-6.7	10.5	11.0	5.2	13.8	12.6	11.1
Spain	17.2	24.8	16.1	17.7	9.6	10.3	6.8	-5.2	11.4	11.1	8.0	13.2	13.2	12.6	10.6	4.0	1.8	6.7	7.5	8.2
Sweden	3.8	7.6	4.5	7.7	0.7	-4.9	1.5	-2.2	12.2	7.2	3.0	12.5	11.3	4.9	11.3	-2.5	-1.9	5.4	6.0	8.2
Switzerland	8.1	6.2	5.2	5.9	2.6	-1.9	-3.8	-0.1	7.7	4.3	3.2	8.3	7.5	4.3	9.5	2.2	-3.1	-0.1	6.2	6.5
Turkey	-3.5	23.0	-4.5	6.9	33.0	-5.2	10.9	35.8	-21.9	29.6	20.5	22.4	2.3	-3.7	25.4	-24.8	15.8	27.1	14.2	11.2
United Kingdom	6.9	7.9	12.8	7.4	0.5	-4.5	6.8	3.3	5.8	5.6	9.7	9.8	9.3	7.9	9.1	4.5	4.0	0.9	7.5	9.3
United States[a]	8.6	5.9	3.9	4.4	3.6	-0.6	6.9	8.7	11.9	8.0	8.7	13.6	11.6	11.5	13.1	-2.6	3.3	4.0	7.4	8.1
Total OECD	5.6	7.5	8.8	8.8	5.9	2.6	4.0	3.1	9.4	8.0	7.4	10.1	7.4	8.5	11.9	-0.3	2.4	3.4	7.0	8.2

Note: Regional aggregates are calculated *inclusive* of intra-regional trade as the sum of volumes expressed in 2000 $.
a) Volume data use hedonic price deflators for certain components.
Source: OECD.

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Annex Table 40. **Export prices of goods and services**

National accounts basis, percentage changes from previous year, national currency terms

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	1.2	3.8	8.0	6.0	1.1	-5.1	2.0	1.0	-4.0	5.9	-2.6	-0.1	2.4	-5.1	13.1	6.9	-2.1	-5.4	-4.2	1.4
Austria	0.5	-1.7	2.2	2.3	0.9	0.7	0.4	0.3	1.3	1.9	1.1	0.8	0.2	-0.1	2.3	-0.1	-0.5	-0.1	0.5	0.6
Belgium	-6.3	-3.3	3.8	6.9	-1.6	-0.8	-0.9	-1.5	1.3	1.4	1.9	4.7	-1.2	0.0	9.6	1.5	-0.9	-1.4	-0.4	0.4
Canada	-0.4	2.0	0.3	2.1	-0.7	-3.6	2.9	4.4	5.9	6.4	0.6	0.2	-0.3	1.1	6.2	1.5	-1.5	-1.0	-2.7	1.2
Czech Republic	..	..	..	..	..	..	..	..	5.2	6.4	2.7	5.7	3.5	0.5	2.7	-0.7	-6.3	0.6	1.1	0.8
Denmark	-5.4	-1.3	-0.8	6.8	0.7	1.7	2.5	-0.3	0.6	1.4	1.7	3.0	-2.6	-1.0	8.0	0.6	-2.7	0.3	-0.5	0.2
Finland	-3.6	1.7	4.9	5.7	0.4	-0.3	6.1	6.5	1.3	4.9	-0.4	-0.8	-1.0	-5.1	3.4	-2.5	-4.8	-3.2	-2.3	-1.1
France[a]	-3.6	-0.5	2.6	3.7	-1.3	-0.6	-1.7	-2.2	-0.1	0.7	1.6	2.0	-1.4	-1.4	2.3	-0.1	-1.7	0.0	0.4	-0.4
Germany	-1.2	-1.0	1.7	2.5	-0.2	1.3	1.0	0.7	1.0	2.0	0.1	1.2	0.2	-0.8	2.9	0.9	0.2	-0.7	-0.6	0.9
Greece	12.2	8.9	11.9	13.9	15.9	14.0	10.1	9.1	8.6	8.7	5.6	3.6	4.1	1.9	8.0	1.3	2.4	2.6	0.5	0.4
Hungary	..	..	..	..	..	..	..	..	18.5	33.7	23.1	11.5	13.7	3.8	9.1	2.9	-4.4	-0.1	2.4	1.5
Iceland	19.9	12.0	18.3	26.3	17.6	8.3	-1.3	4.3	5.6	4.6	-0.1	2.0	4.9	-0.1	4.0	21.5	-1.7	-7.2	1.0	2.0
Ireland	-6.3	0.5	5.6	7.3	-8.1	-0.3	-2.0	6.8	0.2	1.9	-0.3	1.2	2.8	2.4	5.8	4.1	1.1	-4.2	-2.7	0.9
Italy	-3.0	1.0	3.4	6.6	3.0	3.9	0.9	10.4	3.3	8.8	1.0	0.3	1.0	0.0	6.3	3.2	1.8	1.0	0.4	0.2
Japan	-12.2	-4.2	-1.8	3.3	1.7	-2.3	-2.5	-6.6	-3.1	-1.8	2.9	1.6	0.6	-8.4	-3.9	1.4	-1.7	-4.2	-3.0	-0.7
Korea	2.5	2.9	1.0	-0.3	5.0	2.4	3.2	1.0	1.4	1.7	-3.1	4.4	25.5	-19.6	-4.0	2.5	-9.6	-1.4	-2.1	-1.6
Luxembourg	-2.3	-2.1	2.0	4.3	0.1	1.2	1.8	5.7	3.1	1.5	1.5	4.0	2.7	2.7	7.9	2.2	-2.7	-0.7	1.1	1.0
Mexico	79.9	150.6	64.5	18.9	25.2	7.6	5.2	3.3	5.9	79.6	22.8	7.1	9.4	6.6	3.5	-2.5	3.4	13.2	6.8	4.0
Netherlands	-15.8	-5.0	0.2	4.0	-0.8	0.1	-2.0	-2.1	0.5	0.9	0.5	2.7	-1.4	-0.7	8.2	1.6	-0.8	-0.1	-0.6	-1.2
New Zealand	1.5	4.9	2.8	9.4	-0.2	-2.9	5.5	2.2	-2.7	-0.4	-2.6	-2.4	5.1	-0.2	15.2	7.6	-8.0	-7.6	-4.9	1.1
Norway	-19.2	1.8	0.6	10.7	3.0	-1.2	-7.0	2.0	-2.7	1.9	6.9	2.0	-7.9	10.7	35.7	-3.2	-10.2	3.1	5.4	1.6
Poland	..	..	..	..	..	..	..	..	31.7	19.6	7.6	13.9	13.2	5.9	1.7	1.3	4.8	5.8	0.6	3.3
Portugal	4.5	10.8	11.7	11.8	6.3	3.4	0.5	4.9	6.4	5.6	-1.7	2.6	0.8	0.2	5.4	1.9	0.9	-1.7	1.0	-0.0
Slovak Republic	..	..	..	..	..	..	..	..	10.7	8.4	4.0	-0.3	2.1	5.7	12.3	5.4	0.7	-3.3	-3.6	-2.0
Spain	-0.4	3.5	4.7	6.0	0.8	1.5	2.9	5.0	4.6	5.9	1.5	3.3	0.6	0.4	7.3	2.7	1.1	1.0	-0.1	0.3
Sweden	-1.5	2.6	5.1	6.5	1.8	1.6	-2.8	9.1	3.7	6.9	-4.6	-0.2	-1.3	-1.6	2.6	2.5	-1.9	-2.0	-2.3	-0.2
Switzerland	0.5	-0.7	1.6	5.8	1.9	3.3	1.6	1.7	-0.0	-0.1	-0.8	0.7	-0.4	-0.7	2.1	0.3	-0.4	1.1	-0.4	0.1
Turkey	28.8	30.8	74.9	53.2	38.2	61.0	62.5	59.9	164.8	73.0	69.0	87.0	60.1	52.1	39.9	86.9	21.4	4.7	-2.5	9.0
United Kingdom	-8.2	2.9	0.3	8.2	4.4	1.6	1.6	8.8	1.0	3.2	1.3	-4.0	-3.8	-0.6	2.2	-0.7	1.0	1.1	-1.6	-0.6
United States[a]	-1.5	2.5	5.2	1.7	0.7	1.3	-0.4	0.0	1.1	2.3	-1.3	-1.7	-2.3	-0.6	1.7	-0.4	-0.4	2.1	2.4	0.5
Total OECD	-1.9	3.7	4.5	4.8	1.9	1.2	0.7	0.5	2.4	5.2	1.6	1.5	0.9	-1.2	3.7	1.4	-0.7	0.2	-0.1	0.4

Note: Regional aggregates are calculated *inclusive* of intra-regional trade. They are calculated as the geometric averages of prices weighted by trade volumes expressed in 2000 $.
a) Certain components are estimated on a hedonic basis.
Source: OECD.

Annex Table 41. **Import prices of goods and services**

National accounts basis, percentage changes from previous year, national currency terms

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	9.9	3.0	-4.0	-1.4	4.1	1.3	4.2	5.7	-4.3	3.4	-6.6	-1.7	6.8	-4.5	7.3	5.8	-4.6	-9.1	-10.7	-2.0
Austria	-0.6	-2.0	2.3	3.3	0.6	1.2	0.3	0.8	1.2	0.5	2.1	1.8	0.1	-0.1	3.2	-0.3	-1.7	-0.8	0.3	0.2
Belgium	-9.8	-4.1	2.4	5.8	-1.3	-1.0	-2.4	-2.6	1.7	1.4	2.2	5.9	-2.1	0.8	11.8	1.6	-1.9	-1.8	-0.8	0.2
Canada	1.9	-1.2	-2.1	0.2	1.4	-1.6	4.4	6.4	6.6	3.4	-1.1	0.8	3.7	-0.2	2.1	3.0	0.6	-7.0	-3.9	1.2
Czech Republic	..	..	..	..	..	..	..	..	2.6	5.8	1.0	5.2	-1.4	1.2	5.5	-3.1	-7.9	-0.3	0.8	0.8
Denmark	-11.2	-1.6	-1.4	6.8	-0.6	2.8	-0.8	-0.5	0.7	1.2	-0.0	2.2	-2.5	-2.4	6.8	0.4	-3.1	-1.8	-1.3	-1.1
Finland	-7.0	-0.4	1.2	5.2	1.1	2.8	7.7	8.0	0.0	-0.0	0.9	0.9	-2.6	-2.0	7.0	-2.8	-2.8	0.6	-2.7	-0.2
France[a]	-12.8	-1.4	1.7	6.0	-1.6	-0.1	-3.1	-3.2	0.4	0.6	2.4	1.6	-2.8	-1.6	5.2	-1.1	-4.4	-0.1	-1.2	-2.3
Germany	-11.5	-4.8	1.8	5.3	-0.9	2.2	-1.2	-1.0	0.6	0.8	0.5	3.1	-2.0	-1.0	7.7	0.9	-1.7	-2.0	-1.6	0.2
Greece	8.0	6.9	9.2	14.7	13.7	12.3	12.3	7.4	5.6	7.5	5.0	2.8	3.8	1.7	9.3	1.6	0.6	1.1	-0.9	-0.5
Hungary	..	..	..	..	..	..	..	..	15.6	32.8	24.3	12.0	12.6	6.4	10.8	2.4	-5.3	0.2	2.3	1.5
Iceland	13.8	7.4	19.2	31.5	19.3	4.5	-0.8	8.9	5.5	3.4	2.9	-0.4	-0.7	0.7	6.8	21.2	-2.2	-3.0	0.0	1.0
Ireland	-10.2	1.3	6.4	6.2	-3.7	2.4	-1.2	4.5	2.4	3.8	-0.5	0.7	2.5	2.5	7.5	3.6	-0.9	-1.9	-1.4	0.3
Italy	-14.2	-1.7	4.8	6.9	-1.8	0.5	1.1	14.8	4.8	11.1	-2.9	1.4	-1.3	0.2	14.2	2.6	0.1	-0.8	-0.2	0.2
Japan	-30.6	-8.9	-3.9	5.6	7.3	-5.1	-5.1	-8.3	-4.5	-1.1	8.6	5.9	-3.0	-8.2	1.5	2.9	-1.9	-1.8	-3.2	0.2
Korea	-4.0	0.1	-1.5	-5.4	7.2	2.0	3.6	0.3	1.0	4.3	3.1	11.4	27.4	-16.7	5.7	5.9	-9.0	1.2	1.9	-1.4
Luxembourg	-1.7	-1.2	0.8	3.8	1.6	2.5	2.7	3.2	2.1	1.3	0.9	3.6	1.2	2.3	7.7	3.0	-2.0	-0.9	0.2	0.7
Mexico	135.0	131.5	68.4	14.9	16.2	9.1	4.3	3.7	5.3	95.2	21.2	3.6	12.2	3.3	0.1	-2.8	2.3	14.4	7.9	4.3
Netherlands	-16.7	-3.0	-0.2	4.6	-1.3	0.3	-1.1	-2.1	0.1	0.2	1.2	2.2	-1.5	0.5	8.3	0.5	-0.6	-1.0	-0.9	-1.1
New Zealand	-2.0	-4.9	-3.2	8.1	1.5	2.3	6.2	-1.4	-3.9	-1.8	-3.6	-0.5	5.5	0.6	14.8	2.4	-6.7	-11.7	-8.0	1.0
Norway	-1.7	6.9	4.4	7.0	1.2	-0.4	-1.8	1.5	0.9	0.8	1.0	0.3	1.4	-1.1	6.6	0.3	-6.7	1.9	4.3	0.8
Poland	..	..	..	..	..	..	..	..	27.0	18.0	10.4	15.7	10.8	7.1	7.7	1.3	5.2	6.9	3.2	4.6
Portugal	-6.8	9.5	11.7	10.6	4.1	1.0	-4.2	4.4	4.3	3.9	1.6	2.7	-1.2	-0.3	8.2	0.0	-2.0	-1.4	-0.7	0.3
Slovak Republic	..	..	..	..	..	..	..	..	12.3	7.3	7.2	0.3	-0.2	8.1	11.6	8.4	-0.2	-3.4	-1.7	-1.0
Spain	-16.2	-2.8	0.1	1.9	-2.8	-1.5	1.2	6.1	5.8	4.4	0.7	3.5	-0.3	0.7	9.7	0.5	-1.0	-0.3	-0.9	-0.1
Sweden	-6.8	3.8	4.1	5.7	3.3	0.3	-2.4	13.9	4.0	5.7	-4.2	0.8	-0.5	1.1	4.8	4.0	-0.0	-2.0	-1.4	0.4
Switzerland	-9.3	-3.6	4.1	8.4	-0.4	0.9	2.3	-1.8	-4.5	-2.4	-0.1	3.5	-1.8	-0.2	5.6	0.2	-4.1	-0.6	-1.6	-0.1
Turkey	28.8	33.1	79.0	66.7	28.4	60.2	63.1	48.9	163.3	85.0	80.4	74.1	62.5	48.2	50.6	89.2	31.7	1.9	-4.2	4.1
United Kingdom	-4.4	2.4	-0.9	6.5	3.3	0.3	-0.0	8.6	3.0	5.9	0.1	-7.1	-5.8	-1.2	3.1	-0.0	-2.1	0.3	-2.2	-0.1
United States[a]	0.1	6.1	4.8	2.2	2.8	-0.4	0.1	-0.9	0.9	2.7	-1.8	-3.6	-5.4	0.6	4.2	-2.5	-1.0	3.6	3.2	0.9
Total OECD	-5.1	3.2	4.2	4.9	2.4	0.7	0.4	0.1	2.7	5.8	1.9	1.4	-0.5	-0.7	6.0	1.0	-1.4	0.3	-0.1	0.3

Note: Regional aggregates are calculated *inclusive* of intra-regional trade. They are calculated as the geometric averages of prices weighted by trade volumes expressed in 2000 $.
a) Certain components are estimated on a hedonic basis.
Source: OECD.

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Annex Table 42. **Competitive positions: relative consumer prices**

Indices, 1995 = 100

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Australia	103.1	103.1	113.4	120.5	118.6	116.2	105.0	96.9	101.7	100.0	109.4	108.4	99.1	99.4	94.6	91.0	96.0	108.6
Austria	94.1	96.8	96.1	94.1	96.2	94.6	96.0	97.1	97.3	100.0	97.4	94.1	94.3	93.4	90.9	91.0	91.2	93.5
Belgium	93.6	96.6	94.0	92.0	95.8	94.7	95.4	95.3	96.8	100.0	97.6	92.8	93.5	92.1	88.4	89.1	90.1	93.9
Canada	111.4	114.0	120.7	125.7	125.4	129.1	119.3	111.2	102.2	100.0	100.1	99.4	93.8	93.0	93.5	90.6	89.8	100.0
Czech Republic	..	..	..	..	..	..	..	92.1	96.7	100.0	106.6	108.4	118.7	117.0	119.3	127.2	141.1	137.4
Denmark	94.5	98.8	98.2	95.5	99.2	95.5	96.1	96.9	96.6	100.0	98.5	95.9	98.0	98.1	94.5	95.9	97.4	101.7
Finland	115.1	117.6	121.1	126.9	130.2	124.3	107.4	89.8	93.2	100.0	94.2	90.6	91.7	91.6	87.6	88.8	89.5	92.6
France	99.5	100.7	98.4	95.6	98.9	95.8	97.1	98.2	98.0	100.0	99.4	95.3	96.0	94.0	89.6	89.4	90.5	94.6
Germany	89.9	93.1	90.6	87.3	89.9	88.7	92.7	95.8	96.4	100.0	96.0	91.3	92.2	90.1	84.5	84.4	84.9	88.7
Greece	84.4	85.7	87.5	87.4	91.7	93.0	95.5	96.2	96.9	100.0	102.8	103.4	102.1	102.8	96.1	97.0	99.5	104.9
Hungary	..	..	..	..	..	..	..	107.9	105.3	100.0	101.1	107.2	108.0	111.2	112.7	121.9	134.3	136.2
Iceland	110.6	116.8	123.7	115.9	112.7	115.1	115.1	108.4	101.5	100.0	99.3	100.9	103.2	106.2	110.1	97.0	102.9	108.6
Ireland	111.0	110.2	106.0	102.8	107.5	104.0	107.2	99.4	99.1	100.0	101.6	100.4	97.3	94.2	89.9	93.5	98.5	109.3
Italy	124.6	127.4	126.0	127.9	132.8	133.5	131.3	110.9	107.8	100.0	110.7	111.2	112.7	111.6	107.2	108.4	110.6	116.3
Japan	78.4	82.9	87.3	78.0	70.8	76.3	78.5	91.1	98.3	100.0	83.6	78.9	79.7	89.4	94.7	84.8	79.3	80.1
Korea	88.1	86.4	95.8	110.0	107.5	107.0	100.6	97.8	98.9	100.0	103.6	97.7	74.5	84.6	90.9	86.0	90.5	91.5
Luxembourg	95.7	96.7	95.2	93.6	96.5	95.6	96.5	96.4	97.6	100.0	97.7	94.7	95.0	94.3	92.5	93.0	94.1	97.3
Mexico	91.5	88.2	111.4	116.4	120.4	133.3	144.5	154.4	147.6	100.0	111.7	129.2	130.5	142.7	154.9	165.0	165.1	147.6
Netherlands	100.2	102.3	99.5	94.2	96.2	94.3	95.9	96.3	96.4	100.0	97.3	92.1	94.6	94.0	89.0	91.5	94.7	100.7
New Zealand	89.0	103.1	109.0	102.0	100.7	95.5	86.6	88.6	93.3	100.0	106.0	108.0	96.5	91.8	83.2	82.5	89.9	101.7
Norway	106.0	107.8	110.6	109.7	108.0	104.3	104.2	100.3	97.7	100.0	98.8	100.0	97.4	97.8	96.5	100.2	107.9	106.0
Poland	..	..	..	..	..	..	..	92.3	93.4	100.0	107.4	111.1	117.9	114.9	126.9	143.4	136.9	121.5
Portugal	82.4	80.3	80.6	82.9	87.3	92.9	101.2	98.1	96.6	100.0	99.9	98.6	99.4	99.5	97.3	99.8	102.0	105.7
Slovak Republic	..	..	..	..	..	..	..	98.9	97.8	100.0	99.8	105.4	107.6	107.1	118.1	119.5	120.9	136.1
Spain	95.8	97.5	102.4	108.3	114.9	116.3	115.9	103.2	98.6	100.0	101.6	97.1	98.0	97.8	95.8	97.8	100.1	104.6
Sweden	109.9	109.8	112.5	114.5	118.8	124.5	124.5	102.3	100.9	100.0	107.7	102.3	99.3	97.4	95.8	87.8	89.9	94.9
Switzerland	89.1	92.6	90.8	84.6	90.4	90.2	88.6	90.2	94.3	100.0	96.4	89.0	90.5	89.4	86.8	88.6	91.7	91.8
Turkey	111.5	103.2	99.0	106.9	119.6	121.8	117.1	125.6	92.2	100.0	101.0	108.0	118.9	125.6	140.5	114.7	124.7	134.8
United Kingdom	106.3	106.4	114.6	113.9	117.9	120.4	116.0	103.4	103.8	100.0	101.7	119.1	128.0	127.8	131.5	128.8	129.6	126.0
United States	125.8	114.1	106.3	106.1	104.0	102.1	99.9	101.3	101.5	100.0	103.1	108.4	117.0	115.4	118.9	125.8	125.9	118.3
Euro area	96.6	102.6	98.1	94.0	102.7	99.3	103.1	97.0	96.6	100.0	99.0	90.3	92.2	88.5	79.5	81.1	84.0	93.7

Note: Competitiveness-weighted relative consumer prices in dollar terms. Competitiveness weights take into account the structure of competition in both export and import markets of the manufacturing sector of 42 countries. An increase in the index indicates a real effective appreciation and a corresponding deterioration of the competitive position. For details on the method of calculation see Durand, M., C. Madaschi and F. Terribile (1998), "Trends in OECD Countries' International Competitiveness: The Influence of Emerging Market Economies", *OECD Economics Department Working Papers,* No. 195. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

Annex Table 43. **Competitive positions: relative unit labour costs**

Indices, 1995 = 100

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Australia	180.5	164.3	161.3	163.6	149.7	132.9	115.6	101.5	102.9	100.0	103.6	104.6	93.2	91.4	87.0	81.6	87.0	99.7
Austria	111.0	117.4	111.5	105.6	105.8	103.7	105.2	107.5	100.4	100.0	102.1	92.0	82.1	79.4	72.4	70.4	71.9	74.2
Belgium	93.1	96.2	93.6	91.7	97.5	97.2	97.3	96.5	96.9	100.0	94.7	87.7	89.3	90.1	85.2	87.2	90.4	94.3
Canada	102.2	109.2	117.8	121.8	125.0	128.4	117.5	105.1	97.8	100.0	105.9	106.2	101.6	101.9	101.5	101.8	103.8	116.5
Czech Republic	..	..	..	..	..	..	..	90.2	96.7	100.0	106.9	105.4	116.1	118.0	117.9	121.2	128.5	124.4
Denmark	81.9	89.7	94.9	89.1	97.3	93.3	95.6	100.4	96.0	100.0	103.8	98.4	103.6	103.9	99.2	101.6	103.0	108.4
Finland	127.7	125.9	129.8	136.1	143.0	137.2	107.5	82.0	86.7	100.0	94.1	89.0	91.3	91.9	83.3	87.4	86.3	90.6
France	109.4	108.4	104.0	100.4	106.7	102.0	100.0	101.5	100.5	100.0	99.7	94.3	90.5	87.6	82.1	80.7	81.5	85.4
Germany	77.6	83.5	83.1	80.4	82.9	83.5	89.7	91.4	92.4	100.0	97.5	92.6	94.8	96.1	93.4	94.5	94.1	97.9
Greece	88.1	85.0	93.7	99.7	106.2	97.7	94.2	88.2	92.1	100.0	102.7	105.8	101.2	103.1	98.4	98.4	101.0	107.9
Hungary	..	..	..	..	..	..	..	122.5	121.7	100.0	92.4	92.7	85.5	85.9	78.6	86.2	98.3	102.4
Iceland	89.1	109.1	118.6	105.0	101.3	110.3	110.9	101.2	99.3	100.0	99.0	104.3	113.2	125.4	136.2	117.7	124.9	135.9
Ireland	163.6	151.0	138.5	127.5	132.9	126.7	122.8	113.0	109.0	100.0	99.1	91.6	81.7	81.8	74.4	71.7	71.4	76.8
Italy	134.0	133.4	130.7	130.5	129.8	133.0	131.0	119.9	114.0	100.0	111.9	113.3	119.5	121.2	113.7	115.1	123.5	135.6
Japan	66.7	70.6	72.9	66.2	61.9	67.6	74.5	89.2	98.5	100.0	84.8	80.3	87.6	99.2	102.3	96.1	88.5	86.9
Korea	65.0	68.2	83.8	99.1	96.4	98.1	90.3	87.3	89.8	100.0	107.1	93.5	64.8	67.5	70.8	68.7	76.4	80.9
Luxembourg	121.8	123.2	111.8	105.7	106.6	104.3	104.1	103.1	101.5	100.0	96.0	92.5	92.7	89.0	88.3	92.3	91.3	92.9
Mexico	103.5	104.9	109.0	120.8	122.9	137.3	152.8	164.7	160.6	100.0	101.8	111.8	108.3	112.8	122.1	129.5	133.3	120.0
Netherlands	99.1	106.7	104.5	97.5	99.1	97.5	100.4	99.8	96.3	100.0	96.7	93.6	97.6	95.4	93.5	93.1	97.9	106.9
New Zealand	79.8	89.6	99.7	92.6	92.8	91.8	82.2	85.4	93.3	100.0	111.1	116.6	107.8	108.1	97.4	95.2	104.5	119.4
Norway	91.4	92.5	97.5	95.9	94.7	93.2	91.9	89.9	94.5	100.0	99.5	107.3	112.0	115.1	118.2	122.1	137.1	136.4
Poland	..	..	..	..	..	..	..	89.9	95.8	100.0	102.0	102.4	108.0	101.5	100.9	104.9	94.5	77.0
Portugal	87.4	83.6	86.9	94.6	89.7	91.7	100.6	91.5	95.0	100.0	91.4	92.6	94.5	97.1	97.8	100.4	102.9	106.2
Slovak Republic	..	..	..	..	..	..	..	83.1	96.8	100.0	109.7	119.1	123.9	120.6	120.4	116.3	118.4	127.2
Spain	82.9	84.1	89.4	96.4	108.5	109.6	112.4	102.4	99.2	100.0	104.4	103.1	106.1	106.1	106.3	109.1	112.3	116.8
Sweden	131.8	132.7	137.6	144.4	148.9	151.4	148.4	105.9	100.1	100.0	111.7	105.1	101.2	95.8	89.7	82.1	84.4	89.4
Switzerland	77.4	82.8	84.3	79.7	85.8	86.1	83.8	83.3	91.4	100.0	95.9	91.2	94.0	95.3	94.5	99.1	106.6	109.7
Turkey	97.1	88.4	80.7	122.1	173.2	190.4	171.9	171.3	111.5	100.0	100.2	112.5	125.8	147.6	169.1	121.2	118.5	122.7
United Kingdom	106.1	109.2	116.5	112.7	116.6	120.0	111.2	98.3	100.5	100.0	103.4	125.2	138.5	141.2	145.8	143.2	146.9	138.5
United States	148.5	125.5	116.2	117.4	114.2	111.9	107.8	106.6	105.6	100.0	101.1	106.2	115.4	114.1	118.9	123.0	119.4	111.8
Euro area	94.2	101.5	97.2	92.2	101.0	98.8	103.1	99.2	96.6	100.0	100.6	91.5	93.3	92.5	83.9	85.3	89.9	102.4

Note: Competitiveness-weighted relative unit labour costs in the manufactoring sector in dollar terms. Competitiveness weights take into account the structure of competition in both export and import markets of the manufacturing sector of 42 countries. An increase in the index indicates a real effective appreciation and a corresponding deterioration of the competitive position. For details on the method of calculation see Durand, M., C. Madaschi and F. Terribile (1998), "Trends in OECD Countries' International Competitiveness: The Influence of Emerging Market Economies", *OECD Economics Department Working Papers,* No. 195. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

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Annex Table 44. **Export performance for total goods and services**

Percentage changes from previous year

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	2.5	3.1	-6.6	-6.8	2.4	8.2	-0.3	2.0	-1.0	-5.8	1.7	3.5	2.2	-2.4	-1.1	1.8	-5.1	-8.3	-3.9	-2.8
Austria	-6.7	-2.7	3.2	2.1	2.4	2.7	3.4	-0.8	-1.8	-4.2	0.1	2.5	0.7	2.2	1.2	5.0	1.8	-3.3	-2.6	-2.0
Belgium	-1.0	-1.4	2.6	0.9	-0.7	-1.1	0.2	1.4	1.0	-2.9	-2.8	-3.3	-2.4	-1.5	-2.7	-0.5	-1.2	-0.7	-0.7	-1.0
Canada	-2.7	-2.9	3.6	-4.0	0.8	1.4	0.8	2.8	1.2	0.2	-2.7	-3.9	-0.7	0.2	-3.6	-1.2	-3.4	-6.1	-1.1	-1.4
Czech Republic	..	..	..	..	..	..	..	..	-6.1	8.0	1.3	-1.0	1.7	1.2	4.4	8.8	0.6	1.4	1.7	0.7
Denmark	-3.7	-1.3	4.5	-3.0	1.9	4.5	-2.3	-1.9	-1.7	-4.4	-1.6	-5.8	-3.6	5.7	2.1	3.7	3.2	-3.2	-3.5	-1.5
Finland	0.1	-1.8	-3.8	-3.9	-0.7	-7.1	14.9	14.0	5.1	0.2	-0.4	3.4	3.4	1.4	6.2	-3.1	1.5	-4.2	-3.7	-0.9
France	-3.2	-3.4	0.9	2.6	-0.3	1.3	2.3	-0.4	0.4	-0.1	-2.5	1.9	1.2	-2.6	2.6	0.2	-0.4	-6.0	-3.0	-0.8
Germany	-3.7	-5.2	-2.2	2.6	8.8	-8.1	-3.5	-7.1	-0.5	-2.3	-1.0	1.0	-0.6	-1.1	2.1	4.1	0.4	-3.0	-2.2	-1.8
Greece	15.0	0.9	-8.0	-4.4	-6.5	3.4	12.4	-4.5	0.0	-4.3	-2.6	9.0	-1.4	10.9	2.1	-2.4	-10.5	-2.7	-1.6	-0.9
Hungary	..	..	..	..	..	..	..	..	5.7	5.4	3.1	15.6	9.3	6.6	8.7	4.9	2.0	3.1	5.3	3.5
Iceland	0.8	-3.1	-11.7	-5.1	-4.6	-8.7	-4.1	6.7	1.4	-9.3	2.6	-2.8	-4.2	-2.6	-5.0	6.3	1.4	-3.6	-3.7	-1.6
Ireland	-1.6	6.4	0.5	2.2	3.7	3.2	9.8	8.5	6.3	11.2	5.4	7.1	13.5	7.2	8.5	7.3	3.6	-8.5	-1.4	-0.9
Italy	-1.3	-1.0	-2.4	0.2	3.1	-4.5	7.7	7.4	2.0	4.3	-5.3	-3.3	-3.1	-6.0	-2.1	-0.2	-5.9	-8.0	-4.9	-3.1
Japan	-10.4	-8.6	-4.2	1.5	0.6	-2.8	-4.1	-8.2	-7.4	-6.3	-1.0	0.1	-2.4	-6.3	-1.7	-5.0	2.7	3.9	2.1	-0.3
Korea	25.5	14.6	1.5	-11.8	-0.7	5.6	4.7	3.5	5.3	12.9	3.6	10.6	12.0	7.6	5.1	-3.2	7.4	7.5	6.5	1.1
Luxembourg	-1.4	-2.8	3.1	4.4	0.3	5.7	0.5	5.3	-0.6	-2.7	1.0	5.0	5.1	7.7	4.9	1.1	-1.7	-0.5	-1.7	-1.9
Mexico	-3.6	3.3	1.0	1.1	1.4	4.6	-1.9	-0.2	5.5	20.2	9.2	-2.5	1.2	2.0	3.4	-1.6	-1.2	-2.7	0.1	-0.1
Netherlands	-0.8	-2.7	0.1	-0.6	-0.3	1.4	-0.2	5.7	1.7	1.4	-0.4	-0.3	-0.1	-1.4	0.1	0.2	-1.5	-2.9	-2.1	-1.4
New Zealand	-2.2	-1.2	-5.2	-11.7	1.5	7.9	-1.9	-0.6	-1.0	-5.6	-4.5	-4.8	0.0	0.3	-4.3	3.4	-0.2	-5.2	-2.5	-1.6
Norway	-2.6	-4.9	-2.0	3.2	4.9	5.0	1.7	2.1	-0.3	-2.6	4.0	-2.2	-7.1	-3.9	-6.6	3.9	-2.1	-2.4	-3.1	-4.0
Poland	..	..	..	..	..	..	..	..	5.5	13.9	6.6	3.1	8.4	-6.9	9.5	-1.0	1.9	7.4	5.4	0.8
Portugal	1.7	3.3	-0.2	3.1	3.5	-3.7	-0.4	-1.9	0.1	1.1	1.5	-2.8	-0.1	-4.5	-2.6	-0.1	0.9	0.8	-1.3	-1.6
Slovak Republic	..	..	..	..	..	..	..	..	6.6	-4.6	-7.2	7.2	5.4	-0.3	0.2	1.2	2.7	16.3	5.7	1.7
Spain	-3.7	-1.6	-3.8	-5.3	-1.5	4.1	3.7	8.6	8.4	1.7	5.2	4.8	-0.3	1.7	-0.5	2.2	-1.3	1.9	-1.3	-1.1
Sweden	-0.7	0.3	-4.0	-3.6	-2.2	-3.9	0.5	6.5	5.3	3.3	-2.7	3.2	1.6	1.7	0.2	-1.2	-1.9	2.1	-1.5	-0.5
Switzerland	-3.0	-3.9	-1.2	-1.3	-3.8	-5.8	0.3	0.9	-5.8	-7.2	-2.0	1.1	-1.9	-0.4	0.5	-0.8	-2.6	-4.9	-0.8	-2.4
Turkey	-3.7	22.1	11.2	-6.7	0.5	2.1	17.5	7.0	8.2	0.9	15.5	9.7	7.2	-12.1	6.9	3.7	7.0	10.6	2.3	-0.8
United Kingdom	1.4	0.5	-5.9	-3.0	0.5	-3.9	1.7	2.8	0.5	0.7	2.5	-1.6	-4.3	-2.6	-2.2	1.5	-2.9	-3.4	-2.7	0.1
United States	4.5	3.6	3.1	2.7	3.0	0.6	0.5	-1.6	-1.5	2.6	0.2	0.3	-0.6	-1.6	-2.8	-4.8	-4.4	-1.5	1.8	0.7
Total OECD	-1.7	-1.6	-0.7	0.1	2.1	-1.3	0.5	-0.4	-0.3	0.4	-0.1	0.4	-0.3	-1.4	-0.3	-0.5	-1.2	-1.8	-0.4	-0.6
Memorandum items																				
China	..	..	..	..	..	9.3	10.8	9.6	22.9	0.6	10.5	18.8	6.3	1.8	15.6	11.3	16.8	20.3	13.4	13.0
Dynamic Asia[b]	..	..	..	..	..	5.4	5.6	2.3	1.9	1.5	-3.7	1.2	-1.4	-0.5	-4.3	-5.9	0.3	-4.5	-2.2	-2.1
Other Asia	..	..	..	..	..	6.5	5.6	4.0	1.0	4.2	1.1	2.6	4.8	2.9	5.7	6.2	7.4	5.6	2.9	1.4
Latin America	-7.1	1.9	4.9	1.9	3.2	-1.4	2.2	5.0	-5.3	-3.8	-0.8	-1.6	0.9	-2.6	-4.1	5.5	1.5	1.2	-1.4	-1.9
Africa & Middle-East	4.0	-2.1	-1.6	-0.2	-3.3	-5.0	3.8	2.9	-3.5	-7.4	-2.5	-2.3	0.6	-0.1	-4.1	0.7	-3.0	0.5	-2.5	-2.2
Central & East Europe	..	..	..	..	..	-10.9	-8.3	15.5	-7.8	-6.5	-4.3	-4.2	-2.8	4.5	-2.7	-0.2	4.4	2.3	1.2	-0.2

Note: Regional aggregates are calculated *inclusive* of intra-regional trade. Export performance is the ratio between export volumes and export markets for total goods and services. The calculation of export markets is based on a weighted average of import volumes in each exporting country's markets, with weights based on trade flows in 2000.

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

Source: OECD.

Annex Table 45. **Shares in world exports and imports**

Percentage, values for goods and services, national accounts basis

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
A. Exports																
Canada	3.5	3.5	3.4	3.6	3.6	3.5	3.6	3.6	3.8	4.1	4.2	4.1	3.8	3.6	3.4	3.3
France	6.1	6.1	6.2	5.6	5.5	5.6	5.4	5.2	5.6	5.3	4.8	4.9	4.9	5.0	4.9	4.7
Germany	12.1	10.8	10.7	9.4	9.3	9.6	9.1	8.5	9.2	8.9	8.1	8.6	9.0	9.4	9.2	9.0
Italy	5.1	5.0	5.1	4.7	4.6	4.7	4.8	4.5	4.6	4.3	3.9	4.1	4.0	4.1	3.9	3.7
Japan	7.5	8.0	8.0	8.4	8.2	7.7	6.9	6.7	6.2	6.4	6.5	5.7	5.6	5.5	5.7	5.7
United Kingdom	5.6	5.5	5.5	5.2	5.2	5.1	5.3	5.5	5.6	5.5	5.2	5.2	5.2	4.9	4.9	4.8
United States	13.0	13.8	13.7	13.9	13.6	12.9	13.1	13.9	14.1	14.1	14.0	13.6	12.6	11.4	11.4	11.5
Other OECD countries	23.8	24.0	24.0	24.1	24.5	25.4	25.4	24.9	26.1	26.0	25.3	26.0	26.3	27.1	26.9	26.3
Total OECD	76.7	76.6	76.5	74.9	74.6	74.5	73.6	72.8	75.2	74.5	71.9	72.2	71.4	71.1	70.4	69.1
Non-OECD Asia	10.3	11.6	12.5	13.7	14.6	14.9	15.2	16.0	14.7	15.1	16.2	16.0	16.9	16.9	17.6	18.8
Latin America	2.6	2.6	2.6	2.8	2.9	2.8	2.8	3.0	2.9	2.8	2.9	2.9	2.8	2.6	2.6	2.5
Other non-OECD countries	10.4	9.2	8.4	8.6	8.0	7.9	8.4	8.2	7.2	7.6	9.0	8.9	8.9	9.4	9.5	9.6
Non-OECD	23.3	23.4	23.5	25.1	25.4	25.5	26.4	27.2	24.8	25.5	28.1	27.8	28.6	28.9	29.6	30.9
B. Imports																
Canada	3.5	3.5	3.4	3.6	3.5	3.3	3.2	3.5	3.6	3.7	3.7	3.5	3.4	3.2	3.1	3.0
France	6.4	6.1	6.0	5.2	5.2	5.3	5.1	4.7	5.1	4.9	4.6	4.6	4.6	4.8	4.7	4.4
Germany	10.0	10.8	10.8	9.5	9.4	9.5	8.9	8.3	8.8	8.7	8.0	8.1	7.9	8.3	8.1	7.8
Italy	5.1	5.0	5.1	4.0	4.0	4.1	3.9	3.8	4.1	4.0	3.7	3.9	3.9	4.0	3.9	3.8
Japan	6.8	6.7	6.3	6.4	6.5	6.6	6.6	6.1	5.2	5.5	5.7	5.3	5.0	4.8	4.7	4.6
United Kingdom	6.2	5.8	5.7	5.5	5.4	5.3	5.4	5.6	5.9	5.9	5.5	5.7	5.8	5.5	5.6	5.5
United States	14.8	14.3	14.4	15.4	15.6	14.6	14.8	15.6	16.7	17.9	18.8	18.4	18.0	16.9	16.5	16.3
Other OECD countries	24.1	24.0	24.0	23.7	24.0	24.5	24.8	24.3	25.2	25.3	24.7	24.8	25.2	26.1	26.0	25.4
Total OECD	76.9	76.1	75.8	73.3	73.7	73.0	72.8	72.1	74.6	75.8	74.6	74.2	73.8	73.6	72.6	70.9
Non-OECD Asia	10.2	11.3	12.4	14.2	15.0	15.6	15.7	16.0	13.7	13.9	15.3	14.9	15.5	15.9	16.7	18.1
Latin America	2.0	2.3	2.6	3.0	3.1	3.2	3.1	3.5	3.6	3.0	2.9	3.0	2.5	2.2	2.2	2.2
Other non-OECD countries	10.9	10.3	9.3	9.4	8.2	8.2	8.3	8.4	8.0	7.3	7.2	7.9	8.2	8.3	8.5	8.8
Non-OECD	23.1	23.9	24.2	26.7	26.3	27.0	27.2	27.9	25.4	24.2	25.4	25.8	26.2	26.4	27.4	29.1

Note: Regional aggregates are calculated *inclusive* of intra-regional trade.
Source: OECD.

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Annex Table 46. **Geographical structure of world trade growth**

Average of export and import volumes

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
A. Trade growth by main regions (percentage changes from previous year)															
NAFTA[a]	3.2	7.2	6.5	11.1	8.3	8.9	12.8	7.9	8.9	11.5	-3.7	0.9	2.4	8.3	8.8
OECD Europe	1.8	3.0	-0.2	8.3	7.9	5.3	10.2	8.1	5.9	11.8	2.5	1.3	1.6	5.6	7.7
OECD Asia & Pacific[b]	3.9	3.2	1.6	8.6	10.6	10.3	7.6	-3.9	6.9	12.7	-3.0	7.6	8.6	11.6	10.9
Total OECD	2.5	4.2	1.9	9.1	8.4	7.1	10.6	6.3	6.9	11.8	-0.1	2.0	2.8	7.3	8.5
China	15.3	23.5	25.3	23.0	12.1	17.6	19.4	6.4	11.8	27.8	12.0	21.8	28.4	24.0	25.0
Non-OECD Asia excluding China	12.4	13.2	12.5	13.4	14.0	5.3	11.3	-5.7	5.3	13.0	-4.1	6.2	3.9	9.6	13.0
Latin America	11.0	14.3	16.1	8.9	10.5	5.2	16.4	7.1	-5.7	4.2	3.9	-4.8	2.8	6.7	8.2
Other non-OECD countries	-4.9	-4.5	7.2	-0.1	1.3	4.7	5.5	-0.5	5.3	9.5	5.6	6.2	7.8	8.8	9.9
Non-OECD	4.1	6.1	11.6	8.4	9.0	6.1	10.8	-1.4	4.6	12.6	1.7	7.1	8.9	11.8	14.1
World	2.9	4.7	4.6	8.9	8.6	6.8	10.6	4.1	6.3	12.0	0.4	3.4	4.5	8.6	10.2
B. Contribution to World Trade growth by main regions (percentage points)															
NAFTA[a]	0.6	1.4	1.3	2.3	1.7	1.8	2.7	1.7	2.0	2.6	-0.8	0.2	0.5	1.7	1.8
OECD Europe	0.8	1.3	-0.1	3.4	3.2	2.1	4.0	3.2	2.4	4.8	1.0	0.5	0.6	2.2	3.0
OECD Asia & Pacific[b]	0.4	0.4	0.2	0.9	1.1	1.1	0.8	-0.4	0.7	1.3	-0.3	0.7	0.9	1.2	1.2
Total OECD	1.8	3.0	1.4	6.5	6.0	5.0	7.6	4.5	5.1	8.7	-0.1	1.5	2.0	5.1	5.9
China	0.2	0.3	0.4	0.5	0.3	0.4	0.5	0.2	0.3	0.8	0.4	0.8	1.3	1.3	1.6
Non-OECD Asia excluding China	1.2	1.5	1.5	1.7	1.8	0.7	1.5	-0.8	0.7	1.6	-0.5	0.7	0.5	1.2	1.6
Latin America	0.3	0.4	0.5	0.3	0.3	0.2	0.5	0.2	-0.2	0.1	0.1	-0.1	0.1	0.2	0.2
Other non-OECD countries	-0.6	-0.5	0.8	-0.0	0.1	0.4	0.5	-0.0	0.4	0.8	0.5	0.5	0.7	0.8	0.9
Non-OECD	1.1	1.6	3.2	2.4	2.6	1.7	3.1	-0.4	1.2	3.3	0.5	1.9	2.5	3.4	4.3
World	2.9	4.7	4.6	8.9	8.6	6.8	10.6	4.1	6.3	12.0	0.4	3.4	4.5	8.6	10.2

Note: Regional aggregates are calculated *inclusive* of intra-regional trade as the sum of volumes expressed in 2000 $.
a) Canada, Mexico and United States.
b) Australia, Japan, Korea and New Zealand.
Source: OECD.

Annex Table 47. **Trade balances for goods and services**

$ billion, national accounts basis

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	-4.8	-2.1	-3.0	-7.7	-3.2	1.1	-0.9	-1.5	-4.5	-5.2	-0.7	1.5	-6.5	-10.7	-4.6	1.5	-5.6	-15.7	-15.2	-12.9
Austria	1.0	0.3	0.5	0.9	1.8	1.2	1.4	0.8	-0.8	-1.9	-2.6	-3.2	-1.2	-1.8	-1.2	0.6	4.5	3.9	5.1	4.8
Belgium	2.9	2.3	3.8	3.9	4.0	4.3	5.8	7.3	10.1	12.2	11.4	10.9	10.2	10.5	7.3	7.6	9.1	7.9	10.1	11.2
Canada	3.6	5.0	3.8	0.2	0.8	-3.4	-2.2	0.0	6.7	18.9	24.7	12.6	12.3	24.2	41.6	40.9	32.0	35.4	37.4	37.8
Czech Republic	..	..	..	..	..	..	..	-0.1	-1.1	-2.5	-3.7	-3.2	-0.7	-0.7	-1.7	-1.5	-1.7	-2.0	-1.7	-1.1
Denmark	-0.5	1.9	3.2	3.3	6.8	7.9	9.7	9.4	8.1	7.4	9.0	6.0	3.5	8.3	9.4	10.3	9.8	14.0	13.7	15.0
Finland	0.9	0.1	-0.8	-2.4	-2.3	-1.1	1.0	4.1	5.8	10.2	9.6	9.8	11.4	10.9	11.1	10.1	11.1	11.4	12.6	13.6
France	-1.6	-8.9	-8.1	-9.1	-11.8	-5.4	8.1	19.4	18.4	22.7	25.7	41.3	38.8	32.3	17.4	21.6	27.3	20.6	21.5	31.4
Germany	46.0	54.9	59.5	59.2	90.8	-3.9	-4.8	3.4	6.5	15.9	24.7	28.7	32.1	17.0	7.3	36.9	85.9	102.7	124.3	143.2
Greece	-2.8	-2.5	-3.7	-5.3	-8.3	-8.6	-8.2	-7.6	-6.3	-8.6	-9.9	-8.9	-10.2	-10.7	-9.7	-8.6	-9.1	-14.6	-16.5	-16.0
Hungary	..	..	..	..	..	..	..	-3.1	-2.4	-0.1	0.2	0.4	-0.7	-1.3	-1.8	-0.8	-1.6	-3.5	-4.1	-3.8
Iceland	0.1	-0.1	-0.1	0.1	0.1	-0.1	-0.0	0.2	0.3	0.3	0.0	0.0	-0.4	-0.4	-0.6	-0.1	0.2	-0.4	-0.6	-0.7
Ireland	0.3	1.4	2.3	2.1	2.2	2.4	4.1	5.3	5.4	7.6	8.5	10.0	9.7	12.7	12.2	15.4	22.8	22.0	22.3	24.1
Italy	8.3	3.6	0.6	-1.6	0.6	-0.2	-1.3	32.1	35.7	44.6	60.8	47.4	40.6	24.4	10.7	15.8	11.5	7.9	5.5	-6.1
Japan	79.7	72.8	64.4	45.5	28.5	56.2	82.2	97.0	96.5	74.8	23.4	47.4	72.4	69.4	68.0	26.2	51.2	69.1	106.9	137.2
Korea	6.0	10.4	14.2	5.6	-2.2	-8.2	-3.8	1.2	-3.6	-5.8	-19.2	-4.8	44.8	29.8	16.3	11.4	7.3	15.2	16.4	19.0
Luxembourg	0.2	-0.0	0.1	0.4	0.4	0.3	1.0	1.3	1.8	2.2	2.1	2.4	2.8	3.3	4.1	3.4	3.7	4.5	5.4	5.9
Mexico	5.2	10.8	2.5	-0.1	-2.9	-9.1	-18.3	-15.8	-20.3	7.6	6.9	-0.4	-9.0	-7.8	-11.3	-14.1	-12.1	-10.5	-13.7	-17.1
Netherlands	5.5	4.2	6.9	6.3	11.0	12.0	11.6	18.0	21.3	24.7	23.7	22.3	21.3	17.4	19.3	20.1	21.5	26.6	30.8	32.1
New Zealand	-0.4	0.2	1.5	0.2	0.1	1.3	0.8	1.2	1.1	0.7	0.3	0.2	0.2	-0.5	0.6	1.6	0.9	0.2	-0.0	0.5
Norway	-2.6	-2.0	-0.5	3.6	7.7	9.5	8.8	7.7	7.7	9.2	14.3	13.1	2.8	11.8	28.8	29.0	26.4	30.3	34.1	36.0
Poland	..	..	..	..	..	..	..	0.8	2.1	3.0	-2.2	-6.1	-8.3	-9.9	-10.9	-6.8	-6.4	-5.2	-4.9	-5.1
Portugal	-0.5	-2.0	-4.0	-3.1	-4.7	-5.8	-7.3	-6.0	-6.2	-6.7	-7.4	-8.2	-9.9	-11.9	-12.0	-10.8	-8.9	-8.4	-8.5	-9.3
Slovak Republic	..	..	..	..	..	..	..	-0.6	0.9	0.5	-2.2	-2.0	-2.4	-0.9	-0.5	-1.7	-1.7	-0.5	-0.8	-1.3
Spain	4.3	-0.4	-4.8	-13.6	-17.5	-17.8	-17.4	-4.0	-0.8	-1.0	3.1	5.6	0.3	-7.4	-12.7	-9.7	-9.8	-15.1	-21.1	-24.0
Sweden	4.5	3.3	3.3	1.3	1.2	4.2	4.5	7.3	9.7	16.8	17.8	17.9	15.6	15.5	13.9	13.8	15.6	20.0	20.3	21.2
Switzerland	2.7	2.8	2.4	1.3	3.2	5.5	10.9	14.3	15.0	16.2	15.5	14.6	13.2	14.9	14.3	12.4	20.2	23.6	27.7	29.2
Turkey	-1.6	-1.8	0.8	-1.6	-6.4	-4.1	-4.7	-10.2	0.5	-7.3	-11.4	-11.0	-7.4	-6.3	-15.0	3.0	-2.7	-7.9	-10.6	-9.6
United Kingdom	-4.7	-8.3	-30.4	-34.6	-25.2	-10.9	-13.3	-9.8	-7.3	-5.6	-5.3	1.7	-14.1	-25.8	-29.5	-39.8	-47.4	-53.0	-74.4	-85.7
United States	-132.7	-145.2	-110.4	-88.2	-78.0	-27.5	-33.3	-65.0	-93.6	-91.4	-96.3	-101.6	-160.0	-260.5	-379.5	-366.6	-426.3	-494.9	-526.5	-548.5
Euro area	64.3	52.9	52.3	37.5	66.3	-22.8	-5.8	74.1	90.8	121.8	149.8	158.1	145.9	96.6	53.8	102.6	169.5	169.3	191.4	211.0
Total OECD	18.8	0.5	4.0	-33.6	-3.0	-0.6	34.6	107.1	106.6	159.3	121.0	144.4	101.3	-54.4	-208.6	-178.6	-172.3	-216.5	-204.7	-178.9

Source: OECD.

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Annex Table 48. **Investment income, net**

$ billion

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	-4.9	-5.8	-8.6	-10.4	-13.2	-12.2	-10.1	-8.1	-12.4	-14.0	-15.2	-13.8	-11.4	-11.6	-10.9	-10.3	-11.5	-14.6	-16.3	-15.4
Austria	-0.7	-0.8	-0.9	-0.9	-0.9	-1.4	-1.4	-1.5	-1.7	-2.4	-0.9	-1.5	-2.0	-2.9	-2.5	-3.1	-2.1	-3.3	-4.0	-4.0
Belgium[a]	1.5	1.8	2.1	4.0	4.8	5.7	6.4	6.9	7.4	7.3	6.8	6.3	6.9	6.6	5.9	5.2	6.4	6.9	6.8	7.2
Canada	-14.0	-17.1	-17.5	-20.5	-19.4	-17.4	-17.5	-20.8	-18.9	-22.7	-21.5	-20.9	-20.0	-22.6	-21.4	-24.1	-17.5	-16.7	-16.1	-14.9
Czech Republic	..	..	..	..	..	..	..	-0.1	-0.0	-0.1	-0.7	-0.8	-1.1	-1.3	-1.4	-2.2	-3.8	-4.6	-5.0	-5.3
Denmark	-3.5	-4.1	-3.7	-3.8	-5.1	-5.1	-4.9	-3.8	-3.8	-3.8	-3.7	-3.4	-2.8	-2.5	-4.1	-3.0	-3.5	-3.8	-3.5	-3.7
Finland	-1.3	-1.6	-1.7	-2.7	-3.7	-4.7	-5.5	-4.9	-4.4	-4.4	-3.7	-2.5	-3.1	-2.4	-1.8	-0.9	-0.5	-1.0	0.3	0.5
France	-1.7	-1.7	-1.0	-0.3	-1.6	-3.3	-6.0	-6.6	-6.0	-8.4	-1.9	7.4	9.1	18.9	13.8	14.8	12.0	13.7	12.2	12.3
Germany	5.3	5.2	9.4	14.3	20.6	20.3	21.8	16.6	2.9	0.1	1.2	-1.5	-7.6	-10.3	-2.5	-9.5	-15.7	-14.0	-11.9	-10.3
Greece	-1.5	-1.7	-1.8	-1.9	-2.0	-2.0	-2.4	-1.7	-1.4	-1.8	-2.1	-1.7	-1.6	-0.7	-0.9	-1.8	-2.0	-2.9	-3.5	-3.7
Hungary	..	..	..	..	..	..	..	-1.5	-1.9	-1.7	-2.0	-2.7	-3.0	-2.9	-2.6	-2.9	-3.6	-4.4	-4.9	-5.1
Iceland	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2	-0.3	-0.3
Ireland	-2.6	-3.1	-3.9	-4.3	-5.0	-4.6	-5.6	-5.3	-5.4	-7.3	-8.2	-9.7	-10.5	-13.7	-13.5	-16.4	-24.5	-25.7	-23.1	-24.3
Italy	-4.2	-4.9	-5.5	-7.2	-14.6	-17.5	-21.9	-17.4	-16.9	-15.9	-15.2	-10.3	-11.2	-11.1	-11.9	-10.4	-14.5	-21.5	-28.2	-34.0
Japan	9.3	16.3	20.6	22.9	22.7	26.0	35.7	40.7	40.4	44.1	53.4	58.1	54.7	57.8	60.3	69.1	65.8	71.6	75.9	78.6
Korea	-2.3	-1.6	-1.3	-0.6	-0.1	-0.2	-0.4	-0.4	-0.5	-1.3	-1.8	-2.5	-5.6	-5.2	-2.4	-1.2	0.4	0.6	0.8	1.0
Luxembourg	..	..	..	..	..	..	..	..	..	1.6	1.3	0.5	0.2	-0.5	-1.3	-1.6	-2.4	-3.0	-3.1	-3.3
Mexico	-7.5	-6.8	-7.3	-8.3	-8.7	-8.6	-9.6	-11.4	-13.0	-13.3	-14.0	-12.8	-13.3	-12.9	-14.8	-14.0	-12.4	-12.7	-14.3	-15.3
Netherlands	-0.2	1.4	1.2	2.9	-0.6	0.4	-1.0	0.9	3.7	7.3	3.5	7.0	-2.7	3.6	-1.6	-3.5	-8.8	-10.1	-6.1	-6.7
New Zealand	-1.5	-2.0	-2.1	-1.9	-1.6	-2.5	-2.5	-2.9	-3.4	-4.0	-4.7	-4.9	-2.6	-3.1	-3.2	-3.0	-3.2	-3.9	-4.3	-4.3
Norway	-1.3	-1.4	-2.5	-2.8	-3.4	-3.9	-2.8	-2.7	-2.2	-1.8	-1.9	-1.6	-1.2	-1.9	-1.6	-1.1	0.7	1.5	-0.7	-0.9
Poland[b]	..	..	..	..	..	..	..	-3.4	-2.6	-2.0	-1.1	-1.1	-1.2	-1.0	-1.5	-1.4	-1.9	-3.1	-3.6	-4.5
Portugal	-1.0	-0.8	-0.8	-0.6	-0.1	0.2	0.6	0.2	-0.6	-0.0	-1.0	-1.5	-1.6	-1.8	-3.1	-3.0	-2.0	-2.4	-2.5	-2.5
Slovak Republic	..	..	..	..	..	..	..	-0.0	-0.1	-0.0	-0.0	-0.1	-0.2	-0.3	-0.3	-0.3	-0.5	-0.1	-0.4	-0.5
Spain	-1.8	-2.6	-3.3	-2.8	-3.5	-4.3	-5.8	-3.6	-7.8	-4.1	-6.1	-6.8	-7.5	-9.5	-8.3	-9.7	-9.9	-13.3	-14.4	-14.6
Sweden	-2.0	-1.6	-1.8	-2.3	-4.5	-6.4	-10.0	-8.8	-5.9	-5.5	-6.3	-4.9	-3.2	-2.0	-1.4	-1.4	-1.8	-0.8	-0.6	-1.0
Switzerland	5.8	6.8	8.9	8.1	8.8	8.8	8.3	9.1	7.9	11.9	12.6	16.2	17.6	20.2	21.9	14.8	10.1	16.0	17.0	17.2
Turkey	-1.9	-2.1	-2.5	-2.3	-2.5	-2.7	-2.6	-2.7	-3.3	-3.2	-2.9	-3.0	-3.0	-3.5	-4.0	-5.0	-4.6	-5.4	-5.5	-6.3
United Kingdom	2.5	1.4	1.3	-1.2	-5.1	-5.9	0.2	-0.3	5.1	3.3	1.8	6.4	21.4	-1.8	8.0	15.4	33.9	38.2	42.5	42.2
United States	15.5	14.3	18.7	19.8	28.5	24.1	23.3	24.3	17.1	25.0	24.5	20.7	6.9	17.1	19.6	10.7	-4.0	16.6	37.2	23.5
Euro area	-8.3	-8.7	-6.0	0.5	-6.7	-11.2	-20.7	-16.3	-30.1	-28.0	-26.4	-14.4	-31.6	-23.7	-27.4	-40.0	-64.0	-76.6	-77.4	-83.5
Total OECD	-14.3	-12.6	-4.0	-3.1	-10.5	-17.2	-13.7	-9.4	-27.8	-17.3	-10.0	14.3	0.4	-1.5	12.5	-0.1	-21.4	-2.5	20.6	1.6

Note: The classification of non-factor services and investment income is affected by the change in reporting system to the International Monetary Fund, *Fifth Balance of Payments Manual*.
a) Including Luxembourg until 1994.
b) Data in 1993 are OECD estimates.
Source: OECD.

Annex Table 49. **Total transfers, net**

$ billion

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	-0.2	0.0	0.0	0.2	0.4	0.1	-0.1	-0.1	-0.2	-0.1	0.1	-0.0	-0.3	-0.0	-0.0	0.0	-0.1	-0.2	-0.0	-0.0
Austria	-0.0	-0.1	-0.0	-0.1	-0.0	-0.1	-1.0	-1.0	-1.1	-1.7	-1.8	-1.7	-1.9	-2.0	-1.3	-1.2	-1.6	-1.6	-1.7	-1.7
Belgium[a]	-0.9	-1.4	-1.7	-1.8	-2.0	-2.1	-2.5	-2.6	-3.3	-4.2	-4.1	-3.7	-4.3	-4.6	-3.9	-4.1	-4.3	-6.6	-6.1	-6.0
Canada	-0.3	-0.9	-0.9	-1.0	-0.8	-1.1	-0.9	-0.6	-0.3	-0.1	0.5	0.5	0.6	0.5	0.8	1.1	0.9	0.4	0.3	0.3
Czech Republic	..	..	..	..	..	..	..	0.1	0.1	0.6	0.4	0.4	0.5	0.6	0.4	0.5	0.9	0.5	0.7	0.5
Denmark	-0.3	-0.2	-1.0	-1.2	-1.2	-1.6	-1.7	-1.7	-2.0	-2.4	-2.6	-1.8	-2.3	-2.7	-3.0	-2.4	-2.9	-3.7	-4.2	-4.6
Finland	-0.4	-0.5	-0.5	-0.8	-1.0	-1.0	-0.8	-0.5	-0.5	-0.5	-0.9	-0.7	-1.1	-1.0	-0.7	-0.7	-0.7	-1.1	-1.2	-1.1
France	-4.6	-5.4	-6.7	-7.7	-9.8	-9.3	-11.1	-8.2	-11.5	-5.9	-7.4	-12.8	-12.8	-13.7	-13.3	-14.6	-13.3	-18.9	-20.6	-20.3
Germany	-12.7	-16.5	-18.7	-18.5	-21.9	-35.4	-32.8	-33.3	-36.8	-38.7	-33.9	-30.5	-30.3	-26.7	-26.2	-24.6	-26.3	-32.5	-36.3	-37.1
Greece[b]	2.4	3.0	3.6	4.0	4.7	6.2	6.5	6.5	6.9	8.0	8.0	8.3	7.9	4.1	3.4	3.5	3.6	4.3	4.8	4.8
Hungary	..	..	..	..	..	..	..	0.8	0.9	0.2	-0.0	0.2	0.2	0.4	0.4	0.4	0.5	0.7	0.7	0.9
Iceland	0.0	0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	0.0	-0.0	0.0	0.0
Ireland	1.3	1.3	1.4	1.5	2.4	2.6	2.1	1.9	1.7	1.8	2.2	2.0	1.5	1.3	0.9	0.3	0.8	0.7	-0.1	-0.1
Italy	-1.8	-1.3	-2.3	-3.9	-4.0	-7.6	-7.8	-7.3	-7.2	-4.2	-6.6	-4.2	-7.4	-5.4	-4.3	-5.8	-5.5	-9.3	-9.1	-8.4
Japan	-1.7	-3.2	-3.4	-3.1	-4.8	-12.0	-3.8	-5.1	-6.1	-7.7	-9.0	-8.8	-8.8	-12.1	-9.8	-7.9	-4.9	-7.4	-7.4	-8.3
Korea	1.4	1.8	2.3	1.1	1.1	0.8	1.1	1.2	1.3	0.2	-0.0	0.7	3.4	1.9	0.7	-0.4	-1.6	-2.8	-2.3	-3.2
Luxembourg	..	..	..	..	..	..	..	..	..	-0.6	-0.6	-0.5	-0.4	-0.6	-0.5	-0.5	-0.7	-0.6	-0.6	-0.6
Mexico	1.6	1.9	2.3	2.6	3.8	3.0	3.4	3.6	3.8	4.0	4.4	5.3	6.0	6.3	7.1	9.2	10.3	13.8	15.0	16.0
Netherlands	-1.7	-2.0	-1.9	-1.9	-2.9	-4.1	-4.3	-4.5	-5.3	-6.4	-6.8	-6.1	-7.2	-6.4	-6.2	-6.7	-6.4	-8.0	-8.9	-9.7
New Zealand	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.6	0.3	0.3	0.2	0.2	0.1	0.1	0.2	0.1	0.1
Norway	-0.8	-1.0	-1.0	-1.0	-1.2	-1.2	-1.5	-1.3	-1.7	-2.1	-1.5	-1.4	-1.5	-1.4	-1.4	-1.6	-2.4	-3.1	-2.7	-2.5
Poland[c]	..	..	..	..	..	..	..	0.9	1.3	1.0	1.7	2.0	2.9	2.2	2.4	2.9	3.3	4.2	3.5	4.5
Portugal[b]	2.9	3.8	4.3	4.6	5.5	6.0	7.8	6.7	5.4	7.2	4.4	3.8	4.1	3.9	3.4	3.4	2.8	3.4	4.7	4.7
Slovak Republic	..	..	..	..	..	..	..	0.1	0.1	0.1	0.2	0.2	0.4	0.2	0.1	0.2	0.2	0.2	0.5	0.5
Spain	1.1	2.6	4.5	4.6	2.7	2.7	2.1	1.3	1.3	4.7	2.4	2.8	3.3	3.0	1.4	1.6	2.3	0.7	2.4	2.5
Sweden	-1.2	-1.3	-1.4	-1.8	-1.9	-2.0	-1.3	-1.3	-1.3	-2.6	-2.0	-2.4	-2.6	-2.7	-2.6	-2.5	-2.9	-2.1	-2.4	-2.3
Switzerland	-1.1	-1.5	-1.7	-1.7	-2.3	-2.6	-3.0	-2.7	-3.4	-4.2	-4.0	-3.4	-3.7	-4.1	-2.9	-4.0	-4.2	-3.9	-4.8	-4.8
Turkey	1.9	2.4	2.2	3.5	4.5	5.1	4.1	3.8	3.1	4.5	4.4	4.9	5.7	5.2	5.2	3.8	3.5	3.6	4.3	3.7
United Kingdom	-3.1	-5.9	-6.3	-7.3	-8.8	-2.2	-9.9	-7.9	-8.2	-11.9	-7.4	-9.7	-13.9	-11.9	-14.7	-9.5	-13.0	-15.9	-15.4	-14.5
United States	-24.1	-23.3	-25.3	-26.2	-26.7	10.7	-33.2	-37.1	-37.6	-35.2	-38.9	-41.3	-48.4	-46.8	-55.7	-46.6	-58.9	-68.3	-69.6	-74.7
Euro area	-14.3	-16.3	-17.9	-20.0	-26.2	-42.3	-41.9	-41.1	-50.3	-40.6	-45.1	-43.3	-48.5	-48.1	-47.2	-49.5	-49.3	-69.3	-72.6	-72.9
Total OECD	-42.0	-47.2	-51.9	-55.6	-63.7	-45.0	-88.5	-88.3	-100.3	-96.1	-98.3	-97.8	-110.0	-112.4	-120.1	-106.3	-120.5	-153.0	-156.3	-161.4

a) Including Luxembourg until 1994.
b) Breaks between 1998 and 1999 for Greece and between 1995 and 1996 for Portugal, reflecting change in methodology to the International Monetary Fund, *Fifth Balance of Payments Manual* (capital transfers from European Union are excluded from the current account).
c) Data in 1993 are OECD estimates.
Source: OECD.

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Annex Table 50. **Current account balances**

$ billion

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	-9.8	-8.0	-11.6	-17.9	-15.9	-11.0	-11.1	-9.7	-17.1	-19.3	-15.8	-12.4	-18.1	-22.3	-15.5	-8.7	-17.2	-30.4	-32.8	-29.5
Austria	0.3	-0.2	-0.3	0.3	1.2	-0.0	-0.7	-1.4	-3.4	-6.2	-5.3	-6.5	-5.2	-6.4	-4.8	-3.7	0.7	-1.6	-0.5	-0.9
Belgium[a]	4.4	4.1	5.2	5.1	6.2	7.2	9.9	13.0	14.2	15.3	13.8	13.8	13.3	12.9	9.0	8.5	12.9	9.4	10.5	12.1
Canada	-11.2	-13.5	-14.9	-21.8	-19.8	-22.4	-21.1	-21.7	-13.0	-4.4	3.4	-8.2	-7.7	1.7	20.6	17.4	14.9	18.5	21.0	22.6
Czech Republic	..	..	..	..	..	..	..	0.5	-0.8	-1.4	-4.1	-3.6	-1.3	-1.5	-2.7	-3.3	-4.5	-6.2	-5.9	-5.9
Denmark	-4.5	-3.0	-1.6	-1.7	0.6	1.2	3.2	3.9	2.3	1.2	2.7	0.7	-1.6	3.1	2.3	4.9	3.5	6.4	6.0	6.7
Finland	-0.7	-1.7	-2.8	-5.7	-6.9	-6.9	-5.2	-1.2	1.1	5.4	5.0	6.6	7.4	7.2	8.9	8.7	10.1	9.2	11.6	13.0
France	2.4	-4.5	-4.6	-4.6	-9.8	-5.7	4.8	9.6	7.4	11.0	20.8	37.8	39.3	41.3	17.2	21.2	28.4	17.3	13.8	24.0
Germany	38.8	43.8	50.7	55.4	44.6	-22.0	-19.0	-13.9	-29.3	-27.0	-13.7	-9.4	-12.3	-21.9	-22.9	3.9	43.6	53.5	73.7	93.5
Greece[b]	-2.2	-1.8	-1.6	-3.4	-4.7	-2.7	-3.6	-2.0	-1.4	-4.6	-6.4	-5.3	-3.8	-7.7	-9.9	-9.5	-10.1	-11.2	-12.6	-12.9
Hungary	..	..	..	..	..	..	..	-3.9	-4.6	-1.6	-1.7	-2.0	-3.4	-3.8	-4.0	-3.2	-4.7	-7.3	-8.3	-8.0
Iceland	0.0	-0.2	-0.2	-0.1	-0.1	-0.3	-0.2	0.0	0.1	0.1	-0.1	-0.1	-0.6	-0.6	-0.8	-0.3	-0.0	-0.6	-0.9	-1.1
Ireland	-0.9	-0.1	-0.0	-0.6	-0.4	0.3	0.6	1.8	1.5	1.7	2.0	1.9	0.7	0.3	-0.3	-0.7	-1.0	-3.0	-0.7	-0.3
Italy	2.2	-2.5	-7.6	-11.8	-16.5	-23.5	-28.8	7.5	12.6	24.8	39.7	33.3	22.8	8.0	-6.1	-1.0	-10.0	-22.7	-31.8	-47.9
Japan	85.4	84.1	79.2	63.3	44.1	68.3	112.6	131.9	130.4	111.1	65.8	96.8	118.9	114.8	119.5	87.7	112.5	135.1	175.4	207.5
Korea	4.7	10.1	14.5	5.4	-2.0	-8.3	-3.9	1.0	-3.9	-8.5	-23.0	-8.2	40.4	24.5	12.2	8.0	5.4	12.3	14.9	16.8
Luxembourg	..	..	..	..	..	..	..	..	..	2.5	2.3	1.9	1.8	1.8	2.7	1.8	1.7	2.7	3.0	3.3
Mexico	-1.3	4.3	-2.3	-5.7	-7.6	-14.5	-24.4	-23.4	-29.6	-1.4	-2.6	-7.5	-16.1	-13.9	-17.8	-18.3	-14.0	-8.9	-13.2	-16.6
Netherlands	4.3	4.2	7.1	9.4	8.1	7.5	6.8	13.2	17.3	25.8	21.5	25.1	13.0	15.7	7.6	8.1	5.8	7.9	14.8	14.8
New Zealand	-1.8	-1.7	-0.4	-1.6	-1.4	-1.1	-1.6	-1.7	-2.0	-3.1	-3.9	-4.4	-2.2	-3.5	-2.5	-1.3	-2.2	-3.5	-4.2	-3.7
Norway	-4.7	-4.4	-4.0	-0.2	3.1	4.2	4.2	3.4	3.8	5.3	11.0	10.1	0.0	8.3	24.8	26.3	24.8	28.8	30.7	32.7
Poland[c]	..	..	..	..	..	..	..	-4.6	1.0	0.9	-3.3	-5.7	-6.9	-12.5	-10.0	-5.4	-5.0	-4.1	-5.5	-5.6
Portugal[b]	1.2	0.4	-1.0	0.2	-0.2	-0.7	-0.3	0.3	-2.3	-0.2	-4.2	-6.1	-7.8	-9.7	-11.6	-10.4	-8.1	-7.5	-7.5	-8.3
Slovak Republic	..	..	..	..	..	..	..	-0.6	0.7	0.5	-1.9	-1.8	-2.0	-1.0	-0.7	-1.7	-1.9	-0.3	-0.7	-1.2
Spain	3.9	-0.2	-3.7	-10.9	-18.1	-19.9	-21.6	-5.7	-6.4	0.8	0.4	2.5	-3.0	-13.9	-19.4	-16.4	-15.8	-24.8	-31.3	-34.4
Sweden	0.0	-0.0	-0.6	-3.1	-6.3	-4.7	-7.4	-2.7	2.4	8.5	9.7	10.3	9.7	10.7	9.4	8.5	9.9	19.0	20.9	20.2
Switzerland	7.0	7.6	9.1	7.1	8.8	10.7	15.3	19.2	17.3	21.3	22.0	25.5	25.9	30.3	31.7	21.2	23.5	32.9	38.9	40.8
Turkey	-1.5	-0.8	1.6	0.9	-2.6	0.2	-1.0	-6.4	2.6	-2.3	-2.4	-2.6	2.0	-1.3	-9.8	3.4	-1.5	-6.8	-9.5	-10.0
United Kingdom	-5.3	-12.7	-35.4	-43.1	-39.1	-19.0	-22.9	-17.9	-10.3	-14.3	-10.9	-1.6	-6.6	-39.6	-36.2	-33.8	-26.5	-30.7	-48.6	-59.4
United States	-147.2	-160.7	-121.2	-99.5	-79.0	3.7	-48.0	-82.0	-117.7	-105.2	-117.2	-127.7	-204.7	-290.8	-411.5	-393.7	-480.9	-541.8	-555.0	-596.8
Euro area	53.5	41.5	41.5	33.3	3.5	-66.3	-57.1	21.4	11.4	49.5	75.9	95.6	66.0	27.4	-29.7	10.5	58.3	29.2	43.0	55.9
Total OECD	-36.6	-57.4	-46.2	-84.7	-113.7	-59.2	-63.5	6.8	-26.9	36.8	3.2	53.0	-8.3	-169.9	-320.8	-281.9	-305.7	-358.4	-333.8	-334.7

Note: The balance-of-payments data in this table are based on the concepts and definition of the International Monetary Fund, *Fifth Balance of Payments Manual*.
a) Including Luxembourg until 1994.
b) Breaks between 1998 and 1999 for Greece and between 1995 and 1996 for Portugal, reflecting change in methodology to the International Monetary Fund, *Fifth Balance of Payments Manual* (capital transfers from European Union are excluded from the current account).
c) Data in 1993 are OECD estimates.
Source: OECD.

Annex Table 51. **Current account balances as a percentage of GDP**

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	-5.7	-3.9	-4.4	-6.1	-5.2	-3.5	-3.7	-3.3	-5.1	-5.4	-3.9	-3.1	-5.0	-5.7	-4.1	-2.4	-4.3	-5.9	-5.2	-4.5
Austria	0.3	-0.2	-0.2	0.2	0.7	0.0	-0.3	-0.8	-1.7	-2.6	-2.3	-3.1	-2.5	-3.1	-2.5	-1.9	0.4	-0.6	-0.2	-0.3
Belgium[a]	3.8	2.8	3.3	3.2	3.1	3.6	4.4	6.0	6.0	5.6	5.1	5.6	5.3	5.1	3.9	3.7	5.3	3.1	3.1	3.5
Canada	-3.0	-3.2	-3.0	-3.9	-3.4	-3.7	-3.6	-3.9	-2.3	-0.8	0.5	-1.3	-1.2	0.3	2.9	2.4	2.0	2.1	2.2	2.3
Czech Republic	..	..	..	..	..	..	..	1.3	-1.9	-2.6	-7.1	-6.7	-2.2	-2.7	-5.3	-5.7	-6.5	-7.1	-6.2	-5.9
Denmark	-5.3	-2.8	-1.4	-1.6	0.4	0.9	2.1	2.8	1.5	0.7	1.5	0.4	-0.9	1.8	1.5	3.1	2.0	3.0	2.6	2.8
Finland	-1.1	-1.9	-2.6	-4.9	-5.0	-5.5	-4.8	-1.4	1.1	4.2	3.9	5.4	5.7	5.6	7.4	7.2	7.6	5.7	6.5	6.9
France	0.3	-0.5	-0.5	-0.5	-0.8	-0.4	0.4	0.8	0.5	0.7	1.3	2.7	2.7	2.9	1.3	1.6	1.9	1.0	0.7	1.2
Germany	4.2	3.9	4.1	4.6	2.9	-1.2	-1.0	-0.7	-1.4	-1.1	-0.6	-0.4	-0.6	-1.0	-1.2	0.2	2.2	2.2	2.8	3.5
Greece[b]	-4.5	-3.1	-2.4	-5.0	-5.6	-2.8	-3.6	-2.2	-1.4	-3.9	-5.2	-4.4	-3.1	-6.2	-8.7	-8.1	-7.6	-6.5	-6.3	-6.1
Hungary	..	..	..	..	..	..	..	-10.0	-10.9	-3.4	-3.9	-4.4	-7.2	-7.8	-8.7	-6.3	-7.1	-8.9	-8.5	-7.6
Iceland	0.4	-3.4	-3.7	-2.0	-2.1	-4.1	-2.4	0.7	2.0	0.8	-1.8	-1.7	-6.9	-7.0	-10.2	-4.1	-0.3	-5.6	-7.8	-8.7
Ireland	-3.2	-0.3	-0.1	-1.6	-0.8	0.7	1.0	3.7	2.7	2.6	2.8	2.4	0.8	0.3	-0.4	-0.7	-0.7	-2.0	-0.4	-0.2
Italy	0.3	-0.3	-0.9	-1.4	-1.5	-2.0	-2.3	0.8	1.2	2.3	3.2	2.8	1.9	0.7	-0.6	-0.1	-0.8	-1.5	-2.0	-2.9
Japan	4.2	3.5	2.7	2.1	1.5	2.0	3.0	3.0	2.7	2.1	1.4	2.3	3.0	2.6	2.5	2.1	2.8	3.1	3.8	4.4
Korea	4.2	7.2	7.6	2.3	-0.8	-2.7	-1.2	0.3	-0.9	-1.6	-4.1	-1.3	11.8	5.5	2.4	1.7	1.0	2.0	2.2	2.3
Luxembourg	..	..	..	..	..	..	..	..	..	13.9	12.7	11.0	9.4	8.9	13.7	9.0	8.2	9.9	10.1	10.6
Mexico	-0.7	2.8	-1.3	-2.6	-2.9	-4.6	-6.7	-5.8	-7.0	-0.5	-0.8	-1.9	-3.8	-2.9	-3.1	-2.9	-2.2	-1.4	-2.0	-2.4
Netherlands	2.4	1.8	2.9	3.9	2.7	2.4	2.1	4.1	5.0	6.2	5.2	6.6	3.3	3.9	2.1	2.1	1.4	1.5	2.6	2.6
New Zealand	-6.3	-4.8	-0.9	-3.7	-3.1	-2.7	-4.1	-3.8	-3.9	-5.1	-5.9	-6.5	-4.0	-6.2	-4.8	-2.6	-3.7	-4.5	-4.6	-3.9
Norway	-6.2	-4.8	-4.1	-0.1	2.5	3.6	3.3	2.9	3.0	3.6	6.9	6.4	0.0	5.3	14.9	15.5	12.9	13.0	12.8	13.0
Poland[c]	..	..	..	..	..	..	..	-4.9	0.9	0.6	-2.2	-3.8	-4.1	-7.6	-6.0	-2.9	-2.6	-2.0	-2.5	-2.4
Portugal[b]	3.3	1.0	-2.0	0.3	-0.3	-0.8	-0.2	0.4	-2.4	-0.1	-3.8	-5.7	-6.9	-8.5	-10.9	-9.5	-6.7	-5.1	-4.6	-5.0
Slovak Republic	..	..	..	..	..	..	..	-4.3	4.7	2.7	-9.4	-8.6	-9.0	-4.7	-3.4	-8.2	-7.9	-1.0	-1.7	-2.9
Spain	1.6	-0.0	-1.0	-2.8	-3.5	-3.6	-3.6	-1.1	-1.3	0.1	0.1	0.5	-0.5	-2.3	-3.4	-2.8	-2.4	-3.0	-3.3	-3.4
Sweden	0.0	-0.0	-0.3	-1.5	-2.6	-1.9	-2.8	-1.3	1.1	3.4	3.6	4.2	3.9	4.2	3.9	3.9	4.1	6.3	6.3	5.8
Switzerland	4.8	4.2	4.7	3.8	3.7	4.5	6.1	7.9	6.4	6.7	7.3	9.7	9.7	11.5	12.8	8.5	8.5	10.2	11.3	11.6
Turkey	-1.8	-0.9	2.1	0.9	-1.7	0.2	-0.6	-3.5	2.7	-1.6	-1.3	-1.3	1.2	-1.0	-4.9	2.5	-0.8	-2.9	-3.1	-3.0
United Kingdom	-0.9	-1.8	-4.2	-5.1	-4.0	-1.8	-2.1	-1.9	-1.0	-1.3	-0.9	-0.1	-0.5	-2.7	-2.5	-2.4	-1.7	-1.7	-2.3	-2.7
United States	-3.3	-3.4	-2.4	-1.8	-1.4	0.1	-0.8	-1.2	-1.7	-1.4	-1.5	-1.5	-2.3	-3.1	-4.2	-3.9	-4.6	-4.9	-4.7	-4.8
Euro area	1.7	1.1	1.0	0.8	0.1	-1.1	-0.9	0.4	0.2	0.7	1.1	1.5	1.0	0.4	-0.5	0.2	0.9	0.4	0.5	0.6
Total OECD	-0.3	-0.4	-0.3	-0.5	-0.6	-0.3	-0.3	0.0	-0.1	0.2	0.0	0.2	-0.0	-0.7	-1.3	-1.1	-1.2	-1.2	-1.0	-1.0

a) Including Luxembourg until 1994.
b) Breaks between 1998 and 1999 for Greece and between 1995 and 1996 for Portugal, reflecting change in methodology to the International Monetary Fund, *Fifth Balance of Payments Manual* (capital transfers from European Union are excluded from the current account).
c) Data in 1993 are OECD estimates.
Source: OECD.

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Annex Table 52. **Structure of current account balances of major world regions**

$ billion

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	200
Goods and services trade balance[a]																
OECD	-3	-1	35	107	107	159	121	144	101	-54	-209	-179	-172	-216	-205	-17
Non-OECD *of which:*	14	-28	-34	-62	-25	-64	-26	-17	-14	105	213	150	196	239	247	22
Non-OECD Asia *of which:*	6	10	3	-19	-12	-31	-20	18	78	90	75	80	112	101	102	8
China	11	12	5	-11	8	12	18	43	44	31	29	28	37	20	13	1
Dynamic Asia[b]	9	9	10	5	-3	-19	-8	0	59	79	68	67	88	100	104	8
Other Asia	-14	-11	-12	-12	-16	-24	-29	-25	-24	-20	-23	-15	-13	-19	-15	-1
Latin America	26	13	3	-6	-7	-19	-17	-33	-45	-14	-3	-7	21	37	40	3
Africa & Middle-East	2	-50	-37	-34	-11	-14	8	5	-43	6	92	48	36	68	75	7
Central & East Europe	-20	-1	-4	-3	6	1	2	-7	-4	24	48	29	26	32	30	2
World[c]	11	-28	0	45	82	96	95	128	87	51	4	-29	24	22	42	4
Investment income, net																
OECD	-11	-17	-14	-9	-28	-17	-10	14	0	-1	12	-0	-21	-3	21	
Non-OECD *of which:*	-38	-33	-38	-45	-44	-58	-67	-69	-78	-81	-90	-85	-88	-91	-103	-10
Non-OECD Asia *of which:*	-7	-9	-9	-11	-9	-20	-22	-19	-25	-24	-28	-26	-24	-18	-19	-1
China	1	1	0	-1	-1	-12	-12	-11	-17	-14	-15	-19	-15	-7	-8	-8
Dynamic Asia[b]	-3	-4	-4	-4	-3	-2	-4	-1	-1	-3	-6	0	-1	-1	-0	
Other Asia	-5	-6	-6	-6	-6	-6	-6	-7	-8	-7	-8	-7	-8	-10	-10	-1
Latin America	-26	-23	-21	-23	-24	-28	-29	-34	-37	-39	-39	-41	-39	-42	-52	-5
Africa & Middle-East	0	2	-2	-5	-8	-6	-8	-6	-3	-7	-12	-10	-15	-17	-19	-2
Central & East Europe	-5	-3	-6	-5	-2	-5	-7	-11	-14	-10	-11	-8	-10	-14	-14	-1
World[c]	-49	-50	-52	-55	-71	-75	-77	-55	-78	-82	-78	-85	-109	-94	-83	-10
Total transfers, net																
OECD	-64	-45	-89	-88	-100	-96	-98	-98	-110	-112	-120	-106	-120	-153	-156	-16
Non-OECD *of which:*	11	-2	32	34	32	36	42	47	39	45	50	54	71	83	82	8
Non-OECD Asia *of which:*	7	11	12	17	22	22	26	31	23	27	32	34	43	50	49	4
China	0	1	1	1	0	1	2	5	4	5	6	8	13	17	15	1
Dynamic Asia[b]	0	1	1	6	7	5	5	2	-0	1	2	1	1	1	1	
Other Asia	7	9	10	11	15	16	19	23	19	22	24	25	29	33	33	3
Latin America	5	7	8	7	9	11	10	10	11	13	13	14	17	19	21	2
Africa & Middle-East	-5	-26	6	3	-1	-1	1	2	1	-0	-1	0	3	5	3	-
Central & East Europe	3	7	5	5	3	4	4	4	4	5	6	6	8	9	9	
World[c]	-53	-47	-57	-55	-68	-60	-56	-51	-71	-67	-70	-52	-49	-70	-75	-8
Current account balance																
OECD	-114	-59	-64	7	-27	37	3	53	-8	-170	-321	-282	-306	-358	-334	-33
Non-OECD *of which:*	-13	-62	-41	-74	-36	-85	-51	-40	-53	69	172	120	180	231	225	19
Non-OECD Asia *of which:*	6	11	6	-13	1	-29	-16	29	76	93	78	88	131	133	132	12
China	12	13	6	-12	7	2	7	37	31	21	21	17	35	30	20	2
Dynamic Asia[b]	6	6	7	6	1	-16	-7	1	58	77	64	68	88	100	105	8
Other Asia	-12	-7	-8	-8	-7	-14	-16	-9	-13	-6	-6	3	8	4	7	1
Latin America	5	-3	-10	-22	-22	-36	-36	-57	-72	-41	-28	-33	0	14	9	
Africa & Middle-East	-3	-73	-32	-36	-21	-21	1	1	-44	-1	79	38	24	56	59	5
Central & East Europe	-21	3	-4	-3	6	-0	-0	-13	-14	18	43	27	24	27	25	1
World[c]	-127	-121	-105	-67	-63	-49	-48	13	-62	-100	-148	-162	-126	-128	-108	-13

Note: Historical data for the OECD area are aggregates of reported balance-of-payments data of each individual country. Because of various statistical problems as well as a large number of non-reporters among non-OECD countries, trade and current account balances estimated on the basis of these countries' own balance-of-payments records may differ from corresponding estimates shown in this table.

a) National accounts basis for OECD countries and balance-of-payments basis for the non-OECD regions.

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

c) Reflects statistical errors and asymmetries. Given the very large gross flows of world balance-of-payments transactions, statistical errors and asymmetries easily give rise to world totals (balances) that are significantly different from zero.

Source: OECD.

Annex Table 53. **Export market growth in goods and services**

Percentage changes from previous year

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	200
Australia	6.0	4.5	5.7	5.9	10.2	11.5	8.7	7.7	-2.4	7.2	12.2	-0.1	5.7	6.6	10.0	11.
Austria	5.3	2.4	-1.8	-0.7	7.6	7.6	5.2	9.7	7.3	6.2	12.0	2.4	1.8	4.4	7.5	8.
Belgium	5.3	4.0	2.2	-0.5	7.9	7.9	5.3	9.7	8.3	6.9	11.7	1.8	2.0	2.8	6.6	8.
Canada	3.8	0.4	6.3	7.8	11.4	8.3	8.6	12.7	9.9	10.4	12.9	-1.9	3.4	4.2	7.7	8.
Czech Republic	..	..	..	..	6.7	8.0	6.8	10.3	8.1	4.8	12.1	2.8	2.1	5.2	7.7	8.
Denmark	4.2	1.6	1.4	0.4	8.8	7.8	6.0	10.5	8.1	6.2	11.1	0.7	1.5	3.6	6.7	8.
Finland	2.2	-0.3	-4.2	2.1	8.1	8.3	6.1	9.9	5.5	5.0	12.3	2.4	3.6	5.8	8.6	10.
France	5.2	4.1	2.8	0.3	7.5	7.7	5.9	9.9	7.0	7.0	10.5	1.7	2.1	3.7	7.0	8.
Germany	4.1	0.9	1.6	1.8	8.2	8.5	6.4	10.3	7.1	6.2	12.1	1.9	3.1	4.2	7.6	9.
Greece	3.2	0.7	-2.1	2.0	7.3	7.6	6.3	10.2	6.8	6.6	11.7	1.4	3.1	4.4	7.6	8.
Hungary	..	..	..	..	7.6	7.6	5.1	9.4	6.8	6.1	12.1	2.8	1.7	4.0	6.9	8.
Iceland	4.8	1.7	2.2	0.2	8.4	8.0	7.0	8.9	6.6	6.8	10.5	1.3	2.2	3.0	6.8	8.
Ireland	4.9	2.4	3.7	1.1	8.3	7.9	6.5	9.7	6.7	7.4	11.2	1.0	2.5	2.9	7.0	8.
Italy	4.3	3.2	-0.3	1.5	7.6	8.0	6.2	10.0	6.7	6.4	12.0	1.8	2.6	4.4	7.6	9.
Japan	6.0	7.2	8.4	8.8	11.8	11.0	7.5	11.3	-0.0	8.3	14.3	-1.2	5.1	5.9	10.2	12.
Korea	4.8	5.3	6.4	7.6	10.0	10.5	8.4	9.9	0.8	6.5	13.4	0.5	5.3	7.6	10.8	12.
Luxembourg	5.2	3.3	2.2	-0.5	8.3	7.5	4.8	9.2	8.5	6.5	11.3	1.5	1.4	2.3	6.3	8.
Mexico	3.8	0.5	7.0	8.3	11.6	8.3	8.3	13.5	10.8	10.2	12.6	-2.3	2.7	3.9	7.4	8.
Netherlands	5.9	4.2	2.0	-0.8	7.8	7.2	5.0	9.1	7.5	6.6	11.2	1.4	1.6	3.1	6.6	8.
New Zealand	3.4	2.7	5.8	5.2	11.1	10.0	8.6	9.2	1.7	7.7	11.3	-1.1	6.0	6.7	9.4	10.
Norway	3.5	1.1	2.9	1.1	8.8	7.7	6.0	10.2	8.3	7.0	11.4	1.1	2.2	2.6	6.9	8.
Poland	..	..	..	..	7.2	7.8	5.0	8.8	5.5	4.6	12.5	4.2	2.9	5.2	7.9	9.
Portugal	5.8	5.1	3.7	-1.4	8.2	7.7	5.5	10.2	9.3	7.7	10.7	2.1	1.6	3.2	6.6	8.
Slovak Republic	..	..	..	..	7.6	9.6	6.5	9.7	7.0	5.4	13.4	5.0	2.8	5.4	7.8	9.
Spain	6.3	3.9	3.6	-0.7	7.6	7.6	4.9	10.0	8.5	6.0	10.6	1.4	1.3	2.1	6.4	8.
Sweden	4.0	2.1	1.6	1.7	8.3	8.0	6.6	10.3	6.9	5.5	11.2	1.5	3.1	3.7	7.3	9.
Switzerland	6.2	4.8	2.8	0.4	8.3	8.3	5.7	9.9	6.0	6.9	11.6	0.9	2.2	3.6	7.1	8.
Turkey	2.0	1.5	-5.5	0.6	6.5	7.1	5.6	8.6	4.5	5.8	11.5	3.6	3.9	4.9	7.9	9.
United Kingdom	4.9	4.0	2.5	1.5	8.7	8.5	6.0	10.2	7.4	7.1	11.9	1.0	2.5	3.4	7.1	8.
United States	5.8	6.0	6.4	4.9	10.3	7.3	8.1	11.6	3.1	6.0	11.8	-0.5	2.1	3.6	8.4	9.
Total OECD	5.0	3.8	3.8	5.6	9.2	8.3	6.8	10.6	5.5	6.9	12.1	0.5	2.8	4.1	8.0	9.
Memorandum items																
China	6.6	5.1	4.5	5.9	10.5	11.4	7.9	9.1	-2.5	6.3	13.0	-1.3	3.9	4.1	8.5	10.
Dynamic Asia[b]	5.3	6.1	7.9	8.5	11.2	11.4	8.4	9.6	-0.6	7.5	14.3	0.2	6.3	8.2	11.5	13.
Other Asia	4.4	4.0	4.3	4.6	9.2	9.4	7.7	9.3	2.9	7.4	12.0	0.4	4.7	5.6	8.9	10.
Latin America	4.5	4.6	6.7	6.9	10.6	9.6	7.2	12.8	7.1	4.5	10.5	-0.0	0.7	3.8	7.8	9.
Africa & Middle-East	5.6	5.2	4.4	2.9	8.8	10.2	7.7	8.4	1.6	7.6	11.9	0.6	4.8	5.8	8.8	10.
Central & East Europe	-0.1	-4.8	-14.3	3.3	6.0	9.0	6.7	8.8	2.7	2.5	14.4	5.1	6.3	8.9	10.7	11.

Note: Regional aggregates are calculated *inclusive* of intra-regional trade. The calculation of export markets is based on a weighted average of import volumes in each exporting country's market, with weights based on goods and services trade flows in 2000.

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

Source: OECD.

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Annex Table 54. **Import penetration**

Goods and services import volume as a percentage of total final expenditure, constant prices

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	11.5	11.3	12.6	14.3	13.7	13.3	13.9	14.0	15.1	15.6	16.2	17.1	17.2	17.8	18.5	17.5	18.6	19.8	20.9	21.8
Austria	22.9	23.5	24.5	25.1	25.5	26.0	25.9	25.6	26.6	27.3	27.9	29.9	30.3	31.5	33.2	34.3	34.3	34.8	35.3	36.5
Belgium	35.4	36.3	37.7	39.1	39.5	39.7	40.2	40.5	41.4	42.0	42.3	42.6	43.8	44.1	45.2	45.3	45.4	46.1	47.0	48.2
Canada	19.3	19.5	20.7	21.3	21.6	22.4	23.0	23.8	24.4	24.9	25.5	27.3	27.5	27.9	28.4	27.0	26.5	26.9	28.0	28.9
Czech Republic	..	..	..	..	..	..	..	32.8	33.8	36.9	38.8	40.9	42.7	43.9	46.9	49.4	49.9	51.0	52.4	53.6
Denmark	21.0	20.5	21.6	22.2	22.3	22.6	22.4	22.0	23.1	23.9	24.1	25.3	26.4	27.0	29.0	29.3	30.6	30.4	31.2	32.3
Finland	17.5	18.3	19.1	19.6	19.7	18.7	19.4	20.0	21.2	21.7	22.2	22.9	23.2	23.3	25.2	25.1	24.9	24.7	25.2	26.0
France	13.9	14.5	15.0	15.5	15.9	16.1	16.1	15.8	16.6	17.4	17.5	18.2	19.4	19.8	21.5	21.4	21.7	21.7	22.3	23.3
Germany	17.2	17.7	17.9	18.6	19.3	18.8	18.6	17.9	18.7	19.2	19.6	20.7	21.8	22.8	24.1	24.2	23.8	24.3	25.0	25.9
Greece	15.2	15.8	16.2	17.1	18.2	18.6	18.7	19.0	18.9	20.0	20.7	22.3	23.3	25.3	26.0	24.6	23.1	24.1	24.7	25.1
Hungary	..	..	..	..	..	..	..	29.3	30.5	30.0	31.0	34.9	38.5	40.3	43.8	44.1	44.7	46.4	48.5	50.2
Iceland	25.2	27.7	26.8	24.7	24.6	25.7	25.1	23.5	23.5	24.2	26.2	26.8	30.0	30.0	30.5	28.0	27.6	28.7	29.5	30.5
Ireland	32.0	32.7	32.9	34.6	33.9	34.0	35.1	36.1	38.1	39.3	40.2	41.4	45.1	45.1	47.7	47.6	46.5	44.9	45.6	46.4
Italy	14.1	15.2	15.4	16.2	17.4	17.5	18.5	16.9	17.7	18.7	18.5	19.6	20.7	21.4	22.0	21.8	21.7	21.5	22.0	23.1
Japan	4.9	5.3	5.8	6.4	6.6	6.3	6.2	6.1	6.5	7.2	7.8	7.7	7.3	7.5	8.0	7.9	8.1	8.3	8.6	8.9
Korea	15.5	16.7	17.2	18.6	18.6	20.2	20.4	20.2	22.6	24.7	25.9	25.7	22.6	25.3	27.3	25.8	27.3	28.6	30.1	31.6
Luxembourg	47.8	48.5	49.1	49.0	48.9	49.1	47.9	47.9	48.6	49.2	50.2	51.4	53.3	54.9	56.2	57.0	56.4	56.4	56.9	57.4
Mexico	7.7	8.0	10.4	11.7	13.1	14.3	16.1	16.1	18.2	16.8	19.1	21.3	23.1	24.9	27.4	27.1	27.2	26.8	27.5	28.4
Netherlands	29.0	29.3	30.1	30.7	30.6	31.2	31.2	31.1	32.4	34.0	34.3	35.5	36.4	36.8	38.3	38.6	38.5	38.8	39.7	40.8
New Zealand	16.9	17.8	17.3	19.0	19.5	19.0	20.1	20.2	21.2	22.0	22.7	22.6	22.9	24.1	23.4	23.3	24.0	25.2	26.7	27.4
Norway	22.7	21.3	20.9	21.0	20.9	20.4	20.2	20.5	20.5	20.7	21.2	22.3	23.3	22.6	22.5	22.3	22.4	22.7	22.8	23.3
Poland	..	..	..	..	..	..	..	14.9	15.7	17.7	20.8	22.8	25.1	24.5	26.5	25.2	25.4	26.1	26.9	27.6
Portugal	17.5	19.7	21.2	21.1	22.8	23.3	25.0	24.7	26.1	26.7	27.0	28.1	29.9	30.8	31.3	31.1	30.9	31.0	31.9	32.7
Slovak Republic	..	..	..	..	..	..	..	37.1	34.6	35.8	38.6	40.7	43.4	41.4	43.3	45.0	45.2	47.4	49.3	50.8
Spain	10.3	11.9	13.0	14.4	15.1	16.0	16.8	16.2	17.4	18.6	19.4	20.7	22.1	23.5	24.6	24.8	24.7	25.5	26.3	27.2
Sweden	20.4	21.1	21.4	22.2	22.2	21.4	21.9	21.8	23.2	23.8	24.1	25.9	27.3	27.4	28.7	28.0	27.2	28.0	28.6	29.6
Switzerland	22.6	23.4	23.6	24.0	24.1	23.5	22.7	22.8	24.0	24.7	25.2	26.2	27.3	27.6	28.6	29.0	28.2	28.4	29.2	30.0
Turkey	13.6	15.1	14.3	15.1	17.8	16.8	17.6	21.1	18.0	21.0	23.0	25.4	25.2	25.4	28.5	24.5	25.8	29.5	31.2	32.4
United Kingdom	15.3	15.7	16.7	17.4	17.3	16.8	17.7	17.9	18.1	18.5	19.5	20.5	21.4	22.3	23.2	23.6	24.0	23.7	24.5	25.7
United States	7.5	7.7	7.7	7.7	7.9	7.8	8.1	8.5	9.1	9.6	10.0	10.7	11.4	12.1	13.1	12.7	12.8	12.9	13.2	13.7
Total OECD	11.4	11.8	12.2	12.7	13.0	13.1	13.3	13.4	14.1	14.8	15.3	16.1	16.8	17.5	18.6	18.4	18.6	18.7	19.3	20.0

Note: Regional aggregate is calculated *inclusive* of intra-regional trade as the sum of import volumes expressed in 2000 $ divided by the sum of total final expenditure expressed in 2000 $.
Source: OECD.

Annex Table 55. **Quarterly demand and output projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2003	2004	2005	2004	2005					Fourth quarter[a]		
				Q2	Q3	Q4	Q1	Q2	Q3	Q4	2003	2004	2005
Private consumption													
Canada	3.3	2.6	3.1	2.9	3.4	3.0	3.1	3.2	3.0	3.0	2.8	2.9	3.1
France	1.7	1.7	2.5	1.9	2.1	2.4	2.5	2.6	2.7	2.8	1.6	2.0	2.6
Germany	-0.1	0.4	2.1	1.8	2.0	2.1	2.1	2.2	2.2	2.3	-0.8	1.7	2.2
Italy	1.2	1.0	2.4	2.2	2.2	2.3	2.4	2.5	2.6	2.6	0.3	1.9	2.5
Japan	1.1	1.7	1.5	1.1	1.2	1.4	1.6	1.7	1.7	1.7	2.1	1.2	1.7
United Kingdom	2.5	3.8	2.5	4.5	3.2	2.4	2.3	2.2	2.0	1.8	2.5	3.6	2.1
United States	3.1	3.8	3.2	3.5	3.0	3.0	3.2	3.2	3.2	3.2	4.0	3.3	3.2
Euro area	1.0	1.3	2.5	2.2	2.3	2.3	2.5	2.6	2.7	2.8	0.6	2.1	2.6
Total OECD	2.2	2.8	2.9	2.9	2.7	2.7	2.9	2.9	3.0	3.0	2.6	2.8	2.9
Public consumption													
Canada	3.0	2.5	2.9	3.2	3.2	2.8	2.8	2.8	2.8	2.8	2.4	3.0	2.8
France	2.5	2.5	1.2	1.6	1.4	1.1	1.2	1.2	1.2	1.2	2.6	1.5	1.2
Germany	0.9	0.1	-0.2	-0.4	-0.5	-0.5	-0.1	0.0	0.0	0.1	1.3	-0.4	0.0
Italy	2.2	0.3	1.0	0.1	0.1	0.5	1.4	1.4	1.4	1.4	2.1	0.0	1.4
Japan	1.2	2.0	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	1.3	2.3	2.3
United Kingdom	1.8	2.0	1.9	1.0	1.2	1.2	1.6	2.8	2.8	2.8	3.2	0.9	2.5
United States	3.9	2.5	1.9	3.4	2.9	1.7	1.6	1.6	1.6	1.6	2.2	2.8	1.6
Euro area	2.1	1.2	1.0	0.7	0.6	0.7	1.1	1.2	1.1	1.2	2.2	0.7	1.1
Total OECD	2.6	2.0	1.7	2.0	1.9	1.5	1.5	1.6	1.7	1.8	2.1	1.8	1.7
Business investment													
Canada	3.4	7.0	7.3	8.0	7.8	7.8	7.4	7.4	6.1	6.1	6.9	7.7	6.8
France	-1.6	3.7	5.8	4.5	5.5	5.7	6.1	5.9	5.9	5.8	0.8	4.9	5.9
Germany	-2.1	2.5	4.6	4.5	4.5	4.3	4.6	4.8	5.0	5.1	-1.3	4.4	4.8
Italy	-4.7	-1.9	5.9	3.8	4.7	5.8	6.0	6.7	6.6	6.1	-13.2	2.9	6.4
Japan	9.7	9.1	4.6	5.0	5.0	5.0	5.0	4.0	4.0	4.0	14.0	5.0	4.2
United Kingdom	-0.5	3.9	4.5	2.4	2.8	3.2	4.1	5.7	6.6	7.4	0.7	2.6	5.9
United States	3.0	9.1	8.9	8.9	9.4	11.5	7.5	8.4	8.4	8.4	7.4	8.9	8.2
Euro area	-2.0	2.3	5.1	4.3	4.7	4.6	5.3	5.5	5.6	5.5	-2.4	4.2	5.5
Total OECD	2.0	6.3	6.6	6.4	6.7	7.4	6.2	6.6	6.6	6.6	4.1	6.3	6.5
Total investment													
Canada	4.9	6.3	4.9	5.9	5.5	5.2	4.8	4.8	4.0	4.0	7.1	5.6	4.4
France	0.1	2.8	4.2	3.2	3.9	4.2	4.4	4.3	4.4	4.4	1.5	3.5	4.4
Germany	-2.9	1.3	2.5	0.9	1.4	2.0	2.8	3.0	3.2	3.4	-1.1	1.2	3.1
Italy	-2.1	0.0	5.2	4.1	4.6	5.1	5.2	5.8	5.7	5.5	-7.8	3.4	5.5
Japan	3.3	3.4	1.9	0.9	1.1	1.4	2.1	2.5	2.4	2.4	5.9	0.8	2.3
United Kingdom	2.9	6.4	6.0	5.5	5.5	5.7	5.6	6.4	6.8	7.3	3.7	5.3	6.5
United States	3.9	7.3	6.0	6.4	6.6	7.7	5.3	5.7	5.4	5.3	7.1	6.4	5.4
Euro area	-0.8	2.0	4.1	3.1	3.6	3.8	4.2	4.3	4.5	4.5	-0.8	3.1	4.4
Total OECD	2.4	5.1	5.0	4.6	4.9	5.4	4.7	5.0	5.0	4.9	4.1	4.5	4.9

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) Year-on -year growth rates in per cent.

Source: OECD.

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Annex Table 55. **Quarterly demand and output projections *(cont'd)***

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2003	2004	2005	2004	2005					Fourth quarter[a]		
				Q2	Q3	Q4	Q1	Q2	Q3	Q4	2003	2004	2005
Total domestic demand													
Canada	4.2	3.2	3.4	3.5	3.7	3.4	3.4	3.4	3.2	3.1	3.5	3.4	3.3
France	1.3	2.5	2.6	2.4	2.4	2.5	2.7	2.7	2.8	2.9	2.1	2.4	2.8
Germany	0.3	0.9	1.7	1.3	1.4	1.6	1.8	1.9	1.9	2.1	0.3	1.2	1.9
Italy	1.3	1.2	2.7	2.2	2.3	2.6	2.7	2.9	3.0	2.9	0.3	1.9	2.9
Japan	2.0	2.2	1.9	1.5	1.7	1.8	1.9	2.1	2.1	2.0	2.8	1.5	2.0
United Kingdom	2.5	4.1	3.1	4.4	3.4	2.9	2.9	3.1	3.1	3.0	2.5	3.7	3.0
United States	3.3	4.5	3.7	4.2	3.8	3.8	3.5	3.6	3.5	3.5	4.2	4.0	3.5
Euro area	1.2	1.8	2.5	1.9	2.1	2.3	2.6	2.7	2.8	2.8	1.3	1.9	2.7
Total OECD	2.5	3.3	3.2	3.2	3.1	3.1	3.1	3.2	3.2	3.2	2.9	3.1	3.2
Export of goods and services													
Canada	-2.1	6.6	7.1	7.4	7.7	7.4	7.1	6.8	6.6	6.6	0.5	7.4	6.8
France	-2.5	3.9	7.8	6.0	8.0	7.5	8.0	8.0	8.1	8.0	-1.6	6.1	8.0
Germany	1.1	5.2	7.3	6.1	6.8	7.2	7.3	7.5	7.9	8.0	0.9	6.3	7.7
Italy	-3.9	2.4	5.7	2.5	6.0	5.9	5.9	5.8	5.9	5.8	-3.8	4.6	5.8
Japan	10.0	12.5	12.1	11.0	11.9	12.9	12.3	12.0	11.8	11.5	11.2	11.4	11.9
United Kingdom	-0.1	4.2	8.7	5.4	8.7	9.1	8.9	9.1	9.1	8.9	3.3	6.8	9.0
United States	2.0	10.4	10.6	12.0	11.5	11.0	10.5	10.0	10.0	10.0	6.4	9.8	10.1
Total OECD[b]	2.9	8.5	9.4	8.8	9.4	9.5	9.6	9.4	9.5	9.5	5.6	8.3	9.5
Import of goods and services													
Canada	4.0	8.2	7.9	9.1	8.7	8.5	8.0	7.4	6.8	6.6	5.4	8.5	7.2
France	0.3	5.9	8.1	7.9	7.0	8.0	8.2	8.3	8.4	8.5	1.7	7.2	8.3
Germany	2.5	5.2	6.9	6.0	6.5	6.7	6.9	7.2	7.2	7.2	2.0	6.1	7.1
Italy	-0.6	3.8	8.6	6.6	7.6	8.4	8.7	9.5	9.3	8.8	-3.0	6.6	9.1
Japan	4.9	6.9	7.2	7.0	7.0	7.0	7.4	7.4	7.3	7.3	4.2	7.0	7.3
United Kingdom	0.9	7.5	9.3	10.0	10.0	9.1	8.9	9.3	9.3	9.1	2.5	9.1	9.1
United States	4.0	7.4	8.1	9.0	9.0	8.5	8.0	7.5	7.5	7.5	4.5	7.1	7.6
Total OECD[b]	3.9	7.2	8.1	7.8	8.0	8.0	8.3	8.2	8.2	8.1	4.6	7.1	8.2
GDP													
Canada	1.7	2.8	3.3	3.2	3.6	3.2	3.2	3.3	3.2	3.3	1.6	3.2	3.3
France	0.5	2.0	2.6	1.9	2.7	2.4	2.6	2.6	2.7	2.7	1.2	2.1	2.7
Germany	-0.1	1.1	2.1	1.5	1.7	2.0	2.2	2.3	2.5	2.6	0.0	1.6	2.4
Italy	0.4	0.9	1.9	1.1	1.9	1.9	1.9	1.9	2.0	2.0	0.1	1.3	2.0
Japan	2.7	3.0	2.8	2.2	2.5	2.7	2.8	3.0	2.9	2.8	3.6	2.3	2.9
United Kingdom	2.2	3.1	2.7	3.0	2.7	2.5	2.6	2.8	2.6	2.6	2.7	2.8	2.7
United States	3.1	4.7	3.7	4.3	3.8	3.9	3.6	3.6	3.6	3.6	4.3	4.2	3.6
Euro area	0.5	1.6	2.4	1.9	2.3	2.3	2.5	2.5	2.7	2.8	0.7	2.0	2.6
Total OECD	2.2	3.4	3.3	3.2	3.2	3.2	3.2	3.3	3.3	3.4	2.9	3.2	3.3

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) Year-on -year growth rates in per cent.

b) Includes intra-regional trade.

Source: OECD.

Annex Table 56. **Quarterly price, cost and unemployment projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2003	2004	2005	2004	2005					Fourth quarter[a]		
				Q2	Q3	Q4	Q1	Q2	Q3	Q4	2003	2004	2005
Consumer price index													
Canada	2.8	1.1	1.7	0.3	1.4	1.8	2.6	0.9	1.8	1.8	1.7	1.4	1.8
France	2.2	1.9	1.3	1.2	1.6	1.2	1.2	1.3	1.3	1.3	2.4	1.4	1.3
Germany	1.0	1.1	0.6	0.6	0.4	0.4	1.0	0.5	0.5	0.5	1.2	0.8	0.6
Italy	2.8	2.2	2.1	1.8	1.9	1.9	2.1	2.3	2.2	2.3	2.7	1.9	2.2
Japan	-0.3	-0.2	0.1	-0.1	-0.1	0.0	0.1	0.2	0.2	0.2	-0.3	-0.1	0.2
United Kingdom	1.4	1.4	1.9	1.4	1.6	1.8	1.8	2.0	2.2	2.4	1.3	1.5	2.1
United States	2.3	2.3	2.0	2.8	2.0	2.0	2.0	2.0	2.1	2.0	1.9	2.6	2.0
Euro area	2.1	1.7	1.4	1.3	1.4	1.3	1.5	1.4	1.4	1.4	2.0	1.4	1.4
GDP deflator													
Canada	3.4	1.3	1.6	1.4	1.5	1.7	1.7	1.7	1.7	1.7	2.3	1.5	1.7
France	1.4	1.6	1.6	1.2	1.9	1.6	1.6	1.6	1.6	1.6	1.3	1.6	1.6
Germany	1.0	0.8	0.8	1.0	0.7	0.8	0.8	0.9	0.8	0.6	1.0	0.8	0.8
Italy	2.9	2.5	2.4	2.5	2.4	2.2	2.2	2.4	2.6	2.6	3.0	2.5	2.5
Japan	-2.5	-1.8	-1.1	-1.4	-1.2	-1.1	-1.1	-1.0	-0.9	-0.7	-2.7	-1.1	-0.9
United Kingdom	3.1	2.3	2.1	1.7	1.8	1.9	2.1	2.4	2.4	2.6	2.8	2.2	2.4
United States	1.7	1.7	1.6	2.0	1.3	1.3	1.8	1.5	1.6	1.6	1.6	1.7	1.6
Euro area	2.0	1.7	1.7	1.6	1.8	1.8	1.6	1.7	1.7	1.7	2.0	1.7	1.7
Total OECD	2.0	1.7	1.6	1.8	1.6	1.6	1.6	1.5	1.6	1.7	1.6	1.8	1.6
Unit labour cost (total economy)													
Canada	1.6	1.2	1.6	1.4	1.5	1.5	1.8	1.8	1.6	1.6	0.5	1.6	1.7
France	1.8	0.8	0.8	1.1	0.5	0.9	0.8	0.9	0.9	1.0	1.3	0.9	0.9
Germany	0.3	-0.3	-0.1	0.3	0.5	0.2	-0.6	-0.3	-0.1	0.3	-0.3	0.5	-0.1
Italy	4.0	2.6	2.2	2.9	2.4	2.0	1.9	2.1	2.3	2.4	3.6	3.0	2.2
Japan	-2.9	-2.7	-2.2	-1.7	-1.9	-2.1	-2.2	-2.4	-2.5	-2.4	-3.2	-1.8	-2.4
United Kingdom	2.1	2.5	2.8	2.4	4.2	3.0	1.8	2.4	4.1	2.3	2.1	3.3	2.6
United States	-0.1	0.4	2.6	1.4	1.8	2.0	3.6	2.7	2.7	2.7	-0.6	1.7	2.9
Euro area	2.0	1.0	1.0	1.3	1.0	1.0	0.8	1.0	1.1	1.2	1.6	1.3	1.0
Total OECD	1.2	0.8	1.6	1.3	1.5	1.6	1.7	1.6	1.6	1.5	0.6	1.5	1.6
	Per cent of labour force												
Unemployment													
Canada	7.6	7.3	7.1	7.4	7.3	7.2	7.2	7.1	7.1	7.0	7.5	7.2	7.0
France	9.7	9.9	9.6	9.9	9.8	9.8	9.7	9.7	9.6	9.5	9.9	9.8	9.5
Germany	8.7	8.8	8.5	8.8	8.8	8.8	8.7	8.5	8.4	8.3	8.7	8.8	8.3
Italy	8.8	8.6	8.5	8.6	8.6	8.6	8.5	8.5	8.5	8.4	8.6	8.6	8.4
Japan	5.3	5.0	4.6	5.0	4.9	4.9	4.8	4.7	4.5	4.3	5.1	4.9	4.3
United Kingdom	5.0	4.8	4.8	4.8	4.7	4.7	4.7	4.7	4.8	4.8	4.9	4.7	4.8
United States	6.0	5.5	5.2	5.6	5.5	5.4	5.3	5.3	5.2	5.1	5.9	5.4	5.1
Euro area	8.8	8.8	8.5	8.8	8.8	8.8	8.7	8.6	8.5	8.3	8.8	8.8	8.3
Total OECD	7.1	6.9	6.7	7.0	6.9	6.9	6.8	6.7	6.6	6.5	7.1	6.9	6.5

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) Year-on -year growth rates in per cent.

Source: OECD.

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Annex Table 57. **Contributions to changes in real GDP in OECD countries**

As a per cent of real GDP in the previous period, seasonally adjusted at annual rates

	2002	2003	2004	2005
Australia				
Final domestic demand	6.4	5.5	5.0	3.8
Stockbuilding	-0.3	1.1	0.1	0.3
Net exports	-2.4	-3.1	-1.5	-0.7
GDP	3.4	3.3	3.8	3.5
Austria				
Final domestic demand	-0.2	1.8	1.6	2.7
Stockbuilding	-0.1	0.1	-0.1	0.0
Net exports	1.4	-1.0	0.3	-0.3
GDP	1.4	0.7	1.5	2.4
Belgium				
Final domestic demand	0.2	1.8	1.9	2.5
Stockbuilding	0.8	0.7	0.0	0.0
Net exports	-0.3	-1.4	0.1	0.1
GDP	0.7	1.1	2.0	2.6
Canada				
Final domestic demand	2.7	3.4	3.2	3.3
Stockbuilding	0.8	0.6	-0.2	0.0
Net exports	-0.3	-2.3	-0.4	-0.1
GDP	3.3	1.7	2.8	3.3
Czech Republic				
Final domestic demand	3.4	4.3	3.5	3.4
Stockbuilding	0.3	0.3	0.0	0.0
Net exports	-1.7	-1.6	-0.4	0.0
GDP	2.0	2.9	3.1	3.4
Denmark				
Final domestic demand	1.9	0.5	2.8	2.7
Stockbuilding	0.0	-0.4	0.2	0.1
Net exports	-0.8	0.3	-1.1	-0.2
GDP	1.0	0.4	1.9	2.6
Finland				
Final domestic demand	0.9	1.5	2.1	2.3
Stockbuilding	0.2	0.2	-0.6	0.0
Net exports	1.5	0.3	0.4	1.4
GDP	2.3	1.9	2.5	3.7
France				
Final domestic demand	1.7	1.5	2.1	2.5
Stockbuilding	-0.2	-0.2	0.4	0.1
Net exports	-0.4	-0.8	-0.5	-0.1
GDP	1.1	0.5	2.0	2.6
Germany				
Final domestic demand	-1.6	-0.5	0.5	1.6
Stockbuilding	0.1	0.8	0.3	0.0
Net exports	1.7	-0.4	0.3	0.5
GDP	0.2	-0.1	1.1	2.1
Greece				
Final domestic demand	4.2	6.8	5.0	3.7
Stockbuilding	0.1	0.1	0.0	0.0
Net exports	-0.4	-2.7	-1.1	-0.2
GDP	3.9	4.2	4.0	3.5
Hungary				
Final domestic demand	8.4	5.4	2.8	3.1
Stockbuilding	-2.9	0.3	0.9	0.3
Net exports	-2.0	-2.8	-0.5	0.4
GDP	3.5	2.9	3.3	3.8
Iceland				
Final domestic demand	-3.2	8.1	6.1	6.1
Stockbuilding	0.4	-0.1	0.0	0.2
Net exports	2.3	-4.0	-2.3	-1.6
GDP	-0.6	4.0	3.8	4.8
Ireland				
Final domestic demand	2.9	0.7	2.8	3.3
Stockbuilding	-0.5	1.0	0.1	0.2
Net exports	4.6	-1.3	0.6	1.1
GDP	6.9	1.4	3.4	4.6
Italy				
Final domestic demand	0.9	0.7	0.7	2.7
Stockbuilding	0.5	0.6	0.6	0.0
Net exports	-0.9	-0.9	-0.4	-0.9
GDP	0.4	0.4	0.9	1.9
Japan				
Final domestic demand	-0.8	1.6	2.1	1.7
Stockbuilding	-0.2	0.3	0.0	0.1
Net exports	0.7	0.7	0.9	0.9
GDP	-0.3	2.7	3.0	2.8
Korea				
Final domestic demand	7.1	0.7	3.1	4.6
Stockbuilding	-0.2	-0.7	0.0	0.0
Net exports	-0.3	2.8	2.6	1.3
GDP	6.9	3.1	5.6	5.9

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Totals may not add up due to rounding and/or statistical discrepancy.

Source: OECD.

Annex Table 57. **Contributions to changes in real GDP in OECD countries *(cont'd)***

As a per cent of real GDP in the previous period

	2002	2003	2004	2005
Luxembourg				
Final domestic demand	1.4	1.7	1.9	2.4
Stockbuilding	-2.0	0.0	0.0	0.0
Net exports	1.6	0.1	0.7	1.2
GDP	1.3	1.7	2.6	3.6
Mexico				
Final domestic demand	0.7	2.3	3.7	4.5
Stockbuilding	0.0	-1.7	0.0	0.0
Net exports	0.0	0.7	-0.2	-0.4
GDP	0.7	1.3	3.5	4.2
Netherlands				
Final domestic demand	0.3	-0.6	0.1	1.5
Stockbuilding	-0.3	0.2	0.3	0.2
Net exports	0.2	-0.4	0.3	0.5
GDP	0.2	-0.7	0.9	2.1
New Zealand				
Final domestic demand	4.7	6.3	5.1	2.0
Stockbuilding	0.2	-0.3	0.2	0.0
Net exports	-0.8	-2.8	-1.8	0.4
GDP	4.3	3.0	3.3	2.5
Norway				
Final domestic demand	1.6	1.5	2.7	2.3
Stockbuilding	0.4	-0.7	0.0	0.0
Net exports	-0.6	-0.5	0.4	0.4
GDP	1.4	0.3	3.1	2.7
Poland				
Final domestic demand	1.1	1.9	3.5	3.8
Stockbuilding	-0.2	0.6	0.0	0.1
Net exports	0.5	1.4	1.2	0.6
GDP	1.4	3.7	4.7	4.5
Portugal				
Final domestic demand	-0.6	-3.1	1.2	2.9
Stockbuilding	0.0	0.0	0.0	0.1
Net exports	1.1	1.8	-0.4	-0.6
GDP	0.5	-1.3	0.8	2.4
Slovak Republic				
Final domestic demand	3.6	0.1	2.9	4.5
Stockbuilding	0.8	-2.3	-0.2	0.0
Net exports	0.0	6.4	1.6	0.3
GDP	4.4	4.2	4.3	4.8
Spain				
Final domestic demand	2.6	3.3	3.8	4.1
Stockbuilding	0.0	0.0	0.1	-0.1
Net exports	-0.6	-1.0	-1.0	-0.7
GDP	2.0	2.4	2.9	3.3
Sweden				
Final domestic demand	1.0	0.8	1.7	2.2
Stockbuilding	-0.2	0.2	0.5	0.0
Net exports	1.3	0.6	0.3	0.8
GDP	2.1	1.6	2.5	2.8
Switzerland				
Final domestic demand	-0.5	0.5	1.7	2.0
Stockbuilding	-0.1	-0.5	-0.1	0.1
Net exports	1.0	-0.6	0.3	0.3
GDP	0.2	-0.5	1.8	2.3
Turkey				
Final domestic demand	1.6	5.9	6.1	5.7
Stockbuilding	7.1	3.0	0.5	0.6
Net exports	-0.9	-3.1	-1.5	-1.2
GDP	7.9	5.8	5.2	5.2
United Kingdom				
Final domestic demand	3.0	2.6	4.1	3.1
Stockbuilding	-0.2	0.0	0.2	0.1
Net exports	-1.3	-0.3	-1.2	-0.6
GDP	1.6	2.2	3.1	2.7
United States				
Final domestic demand	2.5	3.5	4.4	3.6
Stockbuilding	0.4	-0.1	0.3	0.2
Net exports	-0.7	-0.4	-0.1	-0.1
GDP	2.2	3.1	4.7	3.7
Euro area				
Final domestic demand	0.5	0.9	1.4	2.4
Stockbuilding	0.1	0.3	0.3	0.0
Net exports	0.4	-0.7	-0.1	0.0
GDP	0.9	0.5	1.6	2.4
Total OECD				
Final domestic demand	1.7	2.4	3.2	3.1
Stockbuilding	0.3	0.1	0.2	0.1
Net exports	-0.2	-0.3	0.0	0.1
GDP	1.7	2.2	3.4	3.3

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Totals may not add up due to rounding and/or statistical discrepancy.

Source: OECD.

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Annex Table 58. **Household wealth and indebtedness**[a]

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Canada												
Net wealth	440.6	457.2	476.2	483.7	498.3	508.5	505.4	514.4	505.5	506.3	509.7	511.9
Net financial wealth	194.9	204.2	214.2	225.7	236.0	245.0	240.5	247.6	243.6	237.6	231.9	223.8
Non-financial assets	245.6	252.9	262.0	258.0	262.2	263.5	265.0	266.8	262.0	268.7	277.8	288.1
Financial assets	291.6	303.8	317.3	329.1	342.9	354.5	352.4	361.6	356.3	352.5	347.2	342.9
of which: Equities	52.2	58.4	63.6	66.3	74.8	84.9	92.0	92.5	94.2	98.4	94.6	93.9
Liabilities	96.7	99.5	103.1	103.4	106.8	109.6	112.0	114.0	112.7	114.9	115.3	119.1
of which: Mortgages	64.6	66.5	68.5	68.8	70.8	71.6	71.8	71.8	69.7	69.8	70.3	72.5
France												
Net wealth	510.4	516.0	494.8	507.7	533.7	557.6	578.0	643.9	630.2	616.1	605.6	..
Net financial wealth	173.1	188.9	166.5	195.0	220.2	241.6	262.2	310.5	282.6	255.2	225.6	..
Non-financial assets	337.3	327.1	328.4	312.7	313.5	316.0	315.8	333.4	347.6	361.0	380.1	..
Financial assets	253.4	271.4	251.1	262.9	288.9	310.8	336.0	385.8	359.2	336.7	308.4	..
of which: Equities	115.6	126.2	95.0	89.6	104.5	117.1	137.6	177.6	155.7	129.8	100.7	..
Liabilities	80.3	82.6	84.6	67.9	68.7	69.2	73.8	75.3	76.6	81.7	81.8	..
of which: Long-term loans	53.0	54.7	53.7	51.6	52.2	52.6	52.9	55.0	55.2	55.6	56.9	..
Germany												
Net wealth	530.8	547.5	553.3	563.1	570.8	579.3	585.4	591.0	583.9	568.5	495.3	..
Net financial wealth	124.1	133.7	130.3	135.6	140.5	149.2	155.2	165.8	162.9	159.0	155.0	..
Non-financial assets	341.4	347.4	356.2	360.6	362.3	360.8	360.3	355.5	351.0	340.4	340.3	..
Financial assets	209.9	224.7	227.3	236.2	245.2	256.8	266.2	280.0	277.3	270.9	267.2	..
of which: Equities	30.8	37.8	40.7	42.3	46.8	55.1	53.0	74.6	74.8	67.8	53.8	..
Liabilities	85.7	91.0	97.0	100.6	104.8	107.6	111.0	114.2	114.4	112.0	112.1	..
of which: Mortgages	50.3	53.8	58.0	61.0	64.5	67.1	68.5	71.9	72.5	72.1	73.0	..
Italy												
Net wealth	723.8	762.4	708.2	699.3	699.6	693.3	713.2	736.7	748.3	714.2	..	..
Net financial wealth	207.0	229.2	224.1	224.0	231.3	239.7	266.4	293.9	294.6	251.7	..	..
Non-financial assets	516.7	533.2	484.2	475.3	468.3	453.6	446.9	442.8	453.7	462.5	..	..
Financial assets	237.7	261.0	256.0	254.6	263.3	268.0	296.7	327.7	329.8	287.0	..	..
of which: Equities	47.9	54.4	49.3	46.5	50.9	72.2	108.3	153.0	147.4	102.5	..	..
Liabilities	30.6	31.8	31.9	30.6	32.0	28.2	30.3	33.8	35.3	35.3	..	..
of which: Medium and long-term loans	14.4	14.9	15.2	18.6	19.1	19.3	21.2	24.3	25.7	26.0	..	..
Japan												
Net wealth	789.6	772.3	768.7	757.0	767.0	758.7	740.4	768.9	764.2	764.3	753.1	..
Net financial wealth	253.5	263.1	280.3	288.9	302.4	306.8	303.3	339.2	343.0	354.4	361.4	..
Non-financial assets	536.1	509.2	488.4	468.1	464.6	451.9	437.1	429.8	421.2	410.0	391.7	..
Financial assets	380.8	395.2	412.2	426.1	436.3	441.1	437.1	473.2	478.4	491.9	497.2	..
of which: Equities	35.7	36.9	45.5	44.7	40.0	35.9	25.4	47.5	41.4	37.6	41.7	..
Liabilities	127.3	132.1	131.9	137.2	133.9	134.3	133.8	134.1	135.5	137.6	135.8	..
of which: Mortgages	51.6	53.8	56.0	58.6	60.2	54.3	55.0	57.8	59.5	62.1	..	..
United Kingdom												
Net wealth	546.6	582.9	543.9	555.8	570.6	618.1	666.5	750.2	733.4	670.9	668.2	..
Net financial wealth	234.1	278.7	257.1	285.6	291.7	336.8	353.4	408.3	370.2	306.7	250.4	274.8
Non-financial assets	312.5	304.2	286.8	270.2	278.9	281.3	313.0	341.9	363.2	364.1	426.6	..
Financial assets	343.5	385.2	364.7	392.2	396.5	441.6	461.9	520.0	483.5	423.7	379.3	414.3
of which: Equities	61.1	73.6	70.2	76.2	75.8	91.5	91.9	120.4	108.7	76.8	56.6	67.6
Liabilities	109.4	106.5	107.5	106.6	104.9	104.8	108.5	111.7	113.3	116.8	128.9	139.4
of which: Mortgages	79.1	78.2	79.5	78.1	77.4	76.2	78.6	80.9	81.8	84.3	92.9	102.4
United States												
Net wealth	482.1	491.5	480.8	510.7	530.1	566.2	584.0	631.6	583.2	552.7	506.1	540.7
Net financial wealth	275.1	285.0	277.8	306.3	327.9	363.3	378.6	419.9	368.1	329.0	274.9	299.3
Non-financial assets	207.0	206.5	203.0	204.4	202.2	202.9	205.3	211.7	215.1	223.6	231.2	241.4
Financial assets	362.2	374.8	369.8	400.2	423.7	460.4	477.2	522.6	471.9	437.2	387.0	418.1
of which: Equities	75.3	85.5	79.2	97.9	111.9	137.0	148.0	181.7	146.1	121.2	90.9	109.6
Liabilities	87.2	89.8	92.0	94.0	95.8	97.2	98.5	102.7	103.8	108.1	112.2	118.8
of which: Mortgages	62.3	63.7	63.9	63.7	64.6	65.3	66.5	69.2	69.8	74.0	79.1	84.8

a) Assets and liabilities are amounts outstanding at the end of the period, in per cent of nominal disposable income. Vertical lines between columns indicate breaks in the series due to changes in the definitions or accounting systems. Figures after the most recent breaks in the series are based on the UN System of National Accounts 1993 (SNA 93) and, more specifically, for European Union countries, on the corresponding European System of Accounts 1995 (ESA 95).

Households include non-profit institutions serving households. Net wealth is defined as non-financial and financial assets minus liabilities; net financial wealth is financial assets minus liabilities. Non-financial assets include stock of durable goods and dwellings, at replacement cost and at market value, respectively. Financial assets comprise currency and deposits, securities other than shares, loans, shares and other equity, insurance technical reserves; and other accounts receivable/payable. Not included are assets with regard to social security pension insurance schemes. Equities comprise shares and other equity, including quoted, unquoted and mutual fund shares. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Sources: Canada: Statistics Canada, *National Balance Sheet Accounts.* France: INSEE, *Rapport sur les Comptes de la Nation* and *25 ans de Comptes de Patrimoine* (1969-1993) Banque de France, *Flow of Funds Accounts.* Germany: Deutsche Bundesbank, *Monthly Report* and *Financial accounts for Germany 1991 to 1999,* Special Statistical Publication, 2000. Italy: Banca d'Italia, *Supplements to the Statistical Bulletin*; Ando, A., L.Guiso, I.Visco (eds.), *Saving and the Accumulation of Wealth,* Cambridge University Press, 1994; OECD, *Financial Accounts of OECD countries*. Japan: Economic Planning Agency, Government of Japan, *Annual Report on National Accounts.* United Kingdom: Office for National Statistics, *United Kingdom National Accounts,* and *Financial Statistics.* United States: Federal Reserve Statistical Release, *Flow of Funds Accounts* of the United States.

Annex Table 59. **Central government financial balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Canada	-5.5	-4.6	-3.9	-2.0	0.7	0.8	0.9	1.8	1.2	1.0	0.7	0.5	0.6
France	-4.9	-4.9	-4.2	-3.7	-2.8	-3.0	-2.5	-2.4	-2.3	-3.8	-4.0	-3.7	-3.6
Germany	-1.9	-1.2	-1.4	-2.2	-1.6	-1.8	-1.6	1.4	-1.4	-1.6	-1.8	-1.6	-1.4
Italy	-9.8	-9.1	-7.7	-6.9	-2.7	-2.5	-1.5	-1.1	-2.8	-2.5	-2.6	-3.3	-4.0
Japan[a]	-3.6	-4.3	-4.4	-4.4	-3.9	-5.5	-7.7	-6.7	-6.2	-7.3	-7.3	-7.2	-7.1
United Kingdom	-8.1	-6.7	-5.5	-4.6	-2.2	0.3	1.2	4.1	0.9	-1.3	-3.1	-2.8	-2.8
United States	-4.4	-3.1	-2.7	-1.9	-0.6	0.5	1.1	1.9	0.4	-2.5	-4.0	-4.3	-3.4
excluding social security	-5.1	-4.0	-3.5	-2.8	-1.6	-0.7	-0.4	0.4	-1.2	-4.0	-5.4	-5.6	-4.9
Total of above countries	-4.7	-4.0	-3.6	-3.0	-1.6	-1.1	-1.0	0.1	-1.2	-3.0	-3.9	-4.1	-3.6

Note: Central government financial balances include one-off revenues from the sale of mobile telephone licenses.

a) Data are only available for fiscal years beginning April 1 of the year shown. The 1998 deficit would rise by 5.3 percentage points of GDP if account were taken of the assumption by the central government of the debt of the Japan Railway Settlement Corporation and the National Forest Special Account.

Source: OECD.

Annex Table 60. **Maastricht definition of general government gross public debt**

As a percentage of nominal GDP

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Austria	61.8	64.7	69.2	69.1	64.7	63.7	67.5	67.0	67.1	66.6	64.9	64.8	65.3
Belgium	137.8	135.7	133.9	130.5	124.8	119.5	114.8	109.1	108.1	105.8	100.8	97.3	94.1
Denmark	81.0	75.7	70.9	66.9	63.2	59.2	55.8	50.1	47.8	47.2	44.8	43.8	42.5
Finland	55.9	58.0	57.1	57.1	54.1	48.6	47.0	44.6	43.9	42.6	45.3	45.9	46.9
France	45.3	48.4	54.5	57.1	59.3	59.5	58.5	57.1	56.8	58.6	62.9	66.0	68.7
Germany	46.9	49.3	57.0	59.8	61.0	60.9	61.2	60.2	59.4	60.8	64.2	65.9	66.7
Greece	110.1	107.9	108.7	111.3	108.2	105.8	105.2	106.2	106.9	104.7	103.0	102.6	101.3
Ireland	95.2	89.7	81.9	73.3	64.6	53.8	48.6	38.4	36.2	32.3	32.8	31.5	30.0
Italy	118.8	124.8	124.2	123.2	120.5	116.8	115.5	111.1	110.7	108.0	106.1	106.1	106.2
Luxembourg	6.8	6.3	6.7	7.2	6.8	6.3	6.0	5.5	5.5	5.7	4.9	5.1	5.1
Netherlands	79.3	76.4	77.2	75.2	69.9	66.8	63.1	55.9	52.9	52.6	54.8	57.3	58.7
Portugal	59.1	62.1	64.3	62.9	59.1	55.0	54.3	53.3	55.6	58.1	60.1	60.6	61.1
Spain	58.4	61.1	63.9	68.1	66.6	64.6	63.1	61.2	57.5	54.6	50.8	49.2	47.3
Sweden	..	73.9	73.7	73.5	70.6	68.1	62.7	52.8	54.4	52.6	51.9	51.5	50.8
United Kingdom	45.4	48.5	51.8	52.2	50.8	47.6	45.0	42.1	38.9	38.5	39.9	41.1	42.3
Euro area	67.8	70.0	74.4	76.6	74.9	73.8	72.9	70.4	69.4	69.2	70.4	71.5	72.0

Note: For the period 1993-2003, gross debt figures are provided by Eurostat, the Statistical Office of the European Communities, while GDP figures are provided by National Authorities. The 2004 to 2005 debt ratios are projected forward in line with the OECD projections for general government gross financial liabilities and GDP. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

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Annex Table 61. **Monetary and credit aggregates: recent trends**

Annualised percentage change, seasonally adjusted

		Annual change (to 4th quarter)					Latest twelve months	
		1999	2000	2001	2002	2003		
Canada	M2	3.8	7.3	5.7	6.0	5.3	5.8	(Mar. 2004)
	BL[a]	6.0	7.3	5.2	4.9	4.6	5.0	(Feb. 2004)
Japan	M2+CD	3.1	2.0	3.1	2.9	1.5	1.7	(Feb. 2004)
	BL[a]	-0.6	2.5	-1.4	-3.1	-0.5	1.8	(Feb. 2004)
United Kingdom	M0	9.8	6.6	7.7	6.9	7.5	6.8	(Feb. 2004)
	M4	3.5	8.9	7.7	5.9	5.7	7.2	(Mar. 2004)
	BL[a]	9.1	14.2	10.0	8.8	7.8	12.4	(Feb. 2004)
United States	M2	6.3	6.1	10.2	6.8	5.3	4.5	(Mar. 2004)
	M3	7.7	9.3	12.7	6.4	4.5	4.5	(Mar. 2004)
	BL[a]	4.5	12.1	2.5	5.0	5.9	7.0	(Mar. 2004)
Euro area	M2	6.6	4.0	8.3	6.5	7.1	6.9	(Feb. 2004)
	M3	5.0	4.5	10.5	6.7	7.3	6.3	(Mar. 2004)
	BL[a]	6.6	5.9	7.2	3.8	5.6	5.2	(Feb. 2004)

a) Commercial bank lending.
Source: OECD.

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OECD PUBLICATIONS, 2, rue André-Pascal, 75775 PARIS CEDEX 16
PRINTED IN FRANCE
(12 2004 75 1 P) ISBN 92-64-01613-9 – No. 53393 2004
ISSN 0474-5574