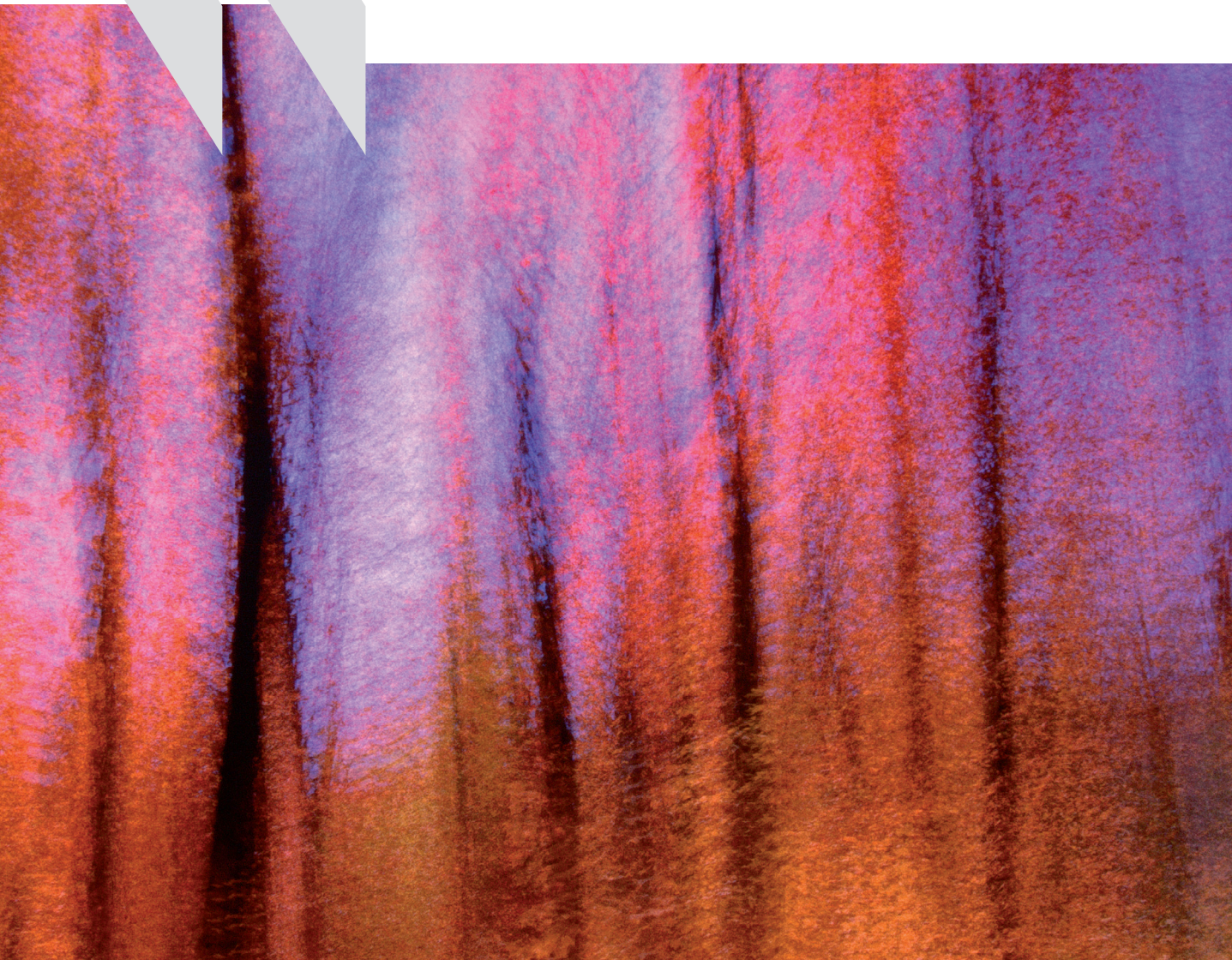
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Conventional signs

$	US dollar	.	Decimal point
¥	Japanese yen	I, II	Calendar half-years
£	Pound sterling	Q1, Q4	Calendar quarters
€	Euro	Billion	Thousand million
mb/d	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		

Summary of projections

	2009	2010	2011	2009	2010			2011						Q4 / Q4		
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011
								Per cent								
Real GDP growth																
United States	-2.4	3.2	3.2	2.2	5.6	3.2	3.4	2.8	2.7	3.1	3.4	3.5	3.7	0.1	3.0	3.4
Japan	-5.2	3.0	2.0	-0.5	3.8	5.2	2.2	1.7	1.9	2.0	2.2	2.3	2.4	-1.4	2.7	2.2
Euro area	-4.1	1.2	1.8	1.7	0.5	0.9	2.3	1.5	1.6	1.5	1.9	2.1	2.2	-2.1	1.5	1.9
Total OECD	-3.3	2.7	2.8	2.4	3.7	2.8	2.9	2.4	2.5	2.7	3.0	3.1	3.2	-0.6	2.7	3.0
Inflation[1]								year-on-year								
United States	0.2	1.6	1.0	-0.7	1.2	2.0	1.9	1.5	1.2	1.0	1.0	1.0	1.0			
Japan	-1.4	-0.7	-0.3	-2.3	-2.0	-1.1	-0.9	-0.5	-0.2	-0.4	-0.3	-0.3	-0.3			
Euro area	0.3	1.4	1.0	-0.4	0.4	1.1	1.5	1.6	1.3	1.1	1.0	0.9	0.9			
Total OECD	0.6	1.6	1.3	0.0	0.9	1.5	1.7	1.7	1.6	1.4	1.3	1.3	1.3			
Unemployment rate[2]																
United States	9.3	9.7	8.9	9.7	10.0	9.7	9.8	9.8	9.6	9.3	9.0	8.7	8.4			
Japan	5.1	4.9	4.7	5.4	5.2	5.0	4.9	4.9	4.8	4.8	4.8	4.7	4.7			
Euro area	9.4	10.1	10.1	9.6	9.8	9.9	10.1	10.2	10.2	10.2	10.2	10.0	9.9			
Total OECD	8.1	8.5	8.2	8.4	8.5	8.5	8.5	8.6	8.5	8.4	8.3	8.1	8.0			
World trade growth	-11.0	10.6	8.4	15.5	11.5	13.5	8.9	8.0	8.1	8.5	8.6	8.7	8.7	-2.8	9.6	8.6
Current account balance[3]																
United States	-2.9	-3.8	-4.0													
Japan	2.8	3.3	3.5													
Euro area	-0.3	0.3	0.8													
Total OECD	-0.7	-0.8	-0.7													
Fiscal balance[3]																
United States	-11.0	-10.7	-8.9													
Japan	-7.2	-7.6	-8.3													
Euro area	-6.3	-6.6	-5.7													
Total OECD	-7.9	-7.8	-6.7													
Short-term interest rate																
United States	0.9	0.5	2.4	0.7	0.4	0.4	0.3	0.4	0.8	1.3	1.9	2.8	3.7			
Japan	0.3	0.2	0.2	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2			
Euro area	1.2	0.7	1.9	0.9	0.7	0.7	0.6	0.5	1.1	1.6	1.8	2.1	2.3			

Note: Real GDP growth, inflation (measured by the increase in the consumer price index or private consumption deflator for total OECD) and world trade growth (the arithmetic average of world merchandise import and export volumes) are seasonally and working-day (except inflation) adjusted annual rates. The "fourth quarter" columns are expressed in year-on-year growth rates where appropriate and in levels otherwise. Interest rates are for the United States: 3-month eurodollar deposit; Japan: 3-month certificate of deposits; euro area: 3-month interbank rate.

The cut-off date for information used in the compilation of the projections is 18 May 2010.

1. USA; price index for personal consumption expenditure, Japan; consumer price index and the euro area; harmonised index of consumer prices.
2. Per cent of the labour force.
3. Per cent of GDP.

Source: OECD Economic Outlook 87 database.

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EDITORIAL
A STRENGTHENING RECOVERY, BUT ALSO NEW RISKS

Growth is picking up in the OECD area – at different speeds across regions – and at a faster pace than expected in the previous *Economic Outlook*. Strong growth in emerging-market economies is contributing significantly. However, risks to the global recovery could be higher now, given the speed and magnitude of capital inflows in emerging-market economies and instability in sovereign debt markets.

Keeping markets open has been a strong positive factor in the upturn. The rebound in trade, while incomplete, has been substantial and is proving to be a major force pulling the global economy out of recession. The ongoing recovery in activity could surprise on the upside, with a policy-driven expansion giving way to self-sustained growth. Fixed investment could bounce back more robustly and household consumption could recover more rapidly with household saving rates having risen more slowly than previously anticipated, especially in Europe. The spillover from growth in non-OECD Asia could be stronger than expected, especially in the United States and Japan. From this point of view, the overall economic environment is relatively auspicious.

As activity gathers momentum, global imbalances are beginning to widen again. However, in some emerging-market economies, notably China, strong domestic, policy-driven demand is keeping a large external surplus from rising to the levels seen prior to the crisis. This does not obviate the need to tackle global imbalances through appropriate policies. As discussed in this *Economic Outlook*, strong, sustainable and more balanced growth can be achieved through a combination of macroeconomic, exchange-rate and structural policies, while delivering fiscal consolidation. Identifying and implementing such a combination of policies is a major goal of international collaboration, most notably within the G20.

Progress in financial market reform will also require international collaboration. Internationally agreed rules and regulations will need to be established to strengthen the stability of the global financial system. Articulating more clearly the roles of monetary and prudential policies in dealing with future credit and asset-price developments is also a priority.

While activity is picking up, employment growth is still lagging. Over the two years through the first quarter of 2010, the ranks of the unemployed rose by over 16 million in the OECD area as a whole, employment fell by 2¼ per cent and many more workers were working shorter hours than before the crisis. But the surge in unemployment, while dramatic and notwithstanding the attendant human and social costs, has been smaller than initially anticipated. The OECD-wide unemployment rate may now have peaked at just over 8½ per cent. At the same time, the pick-up in activity, notably in Japan and in some European economies, will likely be met by increasing average hours worked per employed person and hourly labour productivity, rather than significant net job creation. Thus, prospects for strong employment growth in these countries appear weak. By contrast, firms in the United States have shed large numbers of employees during the downturn and may therefore have to rehire relatively strongly in the upturn.

Appropriate labour market and social policies can do much to promote a jobs-rich recovery. Social protection systems have played an important role as automatic stabilisers to cushion the impact of the recession on employment. Significant additional resources have been allocated to labour market and social programmes in the stimulus packages put in place during the downturn. As the recovery takes hold and countries face the challenge of fiscal consolidation, it is important to continue to make room in budgets for cost-effective labour market programmes that support those workers at greatest risk of becoming long-term unemployed and losing attachment to the labour market. Policies that promote reductions in unemployment through cuts in the effective labour supply, such as early retirement schemes or easing eligibility criteria for disability benefits, would exacerbate labour market imbalances and weaken long-term fiscal positions.

This otherwise moderately encouraging outlook could be jeopardised by significant risks. A first substantive risk is related to developments in sovereign debt markets. While originating in some euro-area economies, instability has spread to other euro-area members and sovereign debt markets in other parts of the world.

Overheating in emerging-market economies also poses a serious risk. A boom-bust scenario cannot be ruled out, requiring a much stronger tightening of monetary policy in some non-OECD countries, including China and India, to counter inflationary pressures and reduce the risk of asset-price bubbles. Growth would slow down as a consequence, with negative effects on other regions. Exchange-rate flexibility could alleviate some of the pressure on Chinese monetary policy and allow more scope for addressing domestic inflation.

These risks indicate that policy challenges are substantial and more demanding than appeared to be the case a few months ago.

Whilst bearing in mind these risks, monetary policy must be normalised. Support is already being removed in several countries. Exit strategies must take into account concomitant fiscal consolidation so as to facilitate it without putting undue pressure on interest rates. The outlook for inflation remains benign in the OECD area due to considerable economic slack, but inflationary expectations may become unanchored. As mentioned earlier, emerging-market economies are having to deal with inflationary pressures and to absorb sizeable capital inflows. Strong growth in those economies is pushing up energy and commodity prices, which in turn will lead to further inflation.

Exit from exceptional fiscal support must start now, or by 2011 at the latest, at a pace that is contingent on specific country conditions and the state of public finances. Many countries are facing very unfavourable government debt dynamics, as rising indebtedness raises risk premia, which adds to the debt burden while holding back growth, with further adverse consequences on debt sustainability. A related challenge is that several countries are having to embark on fiscal consolidation simultaneously. Given the magnitude and synchronicity of fiscal consolidation, international spillover effects could further bear down on the growth in demand in individual countries.

Prompt and massive response by euro-area governments and the European Central Bank have calmed financial market turbulence. But the region's underlying weaknesses are far from settled. Fiscal consolidation has been stepped up and front-loaded in some countries. But fundamental structural adjustment programmes will have to be implemented, as announcements alone may not be enough to secure credibility in consolidation strategies.

The sovereign debt crisis has highlighted the need for the euro area to strengthen significantly its institutional and operational architecture to dissipate doubts about the long-term viability of the monetary union. At a minimum, surveillance of domestic policies needs to be strengthened, taking on board broader competitiveness considerations. But these efforts alone may not be enough. Bolder measures need to be taken to ensure fiscal discipline, along a continuum that ranges from stronger

surveillance and more effective sanctions for non-compliance, to external auditing of national budgets, all the way to *de facto* fiscal union.

In all countries, there is a need for sustained and sustainable economic growth also in support of fiscal consolidation. This calls for an articulated strategy linking together – and exploiting synergies among – macroeconomic, financial and structural policies. Fiscal consolidation must be designed and implemented to support growth to the extent possible. Spending cuts must be made to preserve, and indeed increase the cost-effectiveness of growth-friendly programmes, including innovation and education. Revenue-raising measures, where needed, must focus on the instruments that are least harmful to growth, such as consumption and carbon taxes. Fiscal rules can help to enhance the credibility of fiscal consolidation. Growth-enhancing structural reforms must be part of consolidation strategies.

This differentiated, yet synchronised, pattern of normalisation across policy domains and countries underscores the importance of domestic policies in one area taking due account of policy settings in other domains and countries. It also raises the possibility of exchange-rate movements and exposure of vulnerabilities in the financial sector.

Labour and product market reforms need to be implemented to raise potential output, support innovation and prevent high unemployment from becoming entrenched. These reforms can yield concomitant dividends in terms of facilitating fiscal consolidation and reducing global imbalances on a durable basis. The development of social security and services in China and other Asian economies with large current-account surpluses fulfils an important social goal in its own right and would reduce the need for precautionary saving, thereby further promoting domestic demand. In other surplus countries, different types of structural reforms would unleash opportunities for investment, while pension reforms and the removal of tax incentives that encourage consumption would increase household saving in deficit countries.

In the autumn of 2008 the peak of the financial crisis led to unprecedented and coordinated policy responses that prevented the recession from becoming more severe and long lasting. Recent action taken by euro-area countries, also in coordination with other major economies, is of comparable dimension and momentum. Both have been welcome and necessary, and have been taken under the pressure of rapidly evolving circumstances. The fact that the second set of actions has been taken eighteen months after the first is a reminder that the period of significant financial instability that began in August 2007 is not yet over.

The scale and scope of these two episodes has also highlighted the fact that short-term policy responses are not without long-term consequences. Above all, rising indebtedness and widespread moral hazard will reduce room for policy action, if needed in future to cope with new emergencies. Dealing with such consequences, while returning to strong, sustainable and balanced growth, will require coordinated, decisive and sustained efforts at the international and country levels.

26 May 2010



Pier Carlo Padoan
Chief Economist and Deputy Secretary General

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Chapter 1

GENERAL ASSESSMENT OF THE MACROECONOMIC SITUATION

Overview

The recovery is strengthening albeit slowly and unevenly

The global recovery has become increasingly widespread over the past year, despite progressing at variable speeds across countries and regions. Global output growth is expected to be around 4¾ per cent this year and in 2011, above the growth rate experienced in the decade prior to the onset of the crisis (Table 1.1). In the non-OECD economies, especially in Asia, the recovery is likely to remain buoyant, with the strong macroeconomic policy response to the financial crisis being rolled back only gradually, and a limited direct exposure to the crisis itself and to the associated lingering effects. Sustaining and broadening the recovery is proving somewhat more challenging in many OECD economies, despite the favourable backdrop from strong external demand, the progressive, if fragile, normalisation of financial conditions and the effects of strong, albeit diminishing, macroeconomic policy stimulus. Headwinds stem from the legacies of the crisis, such as weak private and public balance sheets, high unemployment and the increasingly urgent need for fiscal consolidation. The annual rate of output growth in the OECD area is expected to be around 2¾ per cent over the year to the fourth quarter

Table 1.1. **A gradual recovery from widespread recession**

OECD area, unless noted otherwise

	Average 1997-2006	2007	2008	2009	2010	2011	2009 q4	2010 q4	2011 q4
	Per cent								
Real GDP growth[1]	2.8	2.8	0.5	-3.3	2.7	2.8	-0.6	2.7	3.0
United States	3.2	2.1	0.4	-2.4	3.2	3.2	0.1	3.0	3.4
Euro area	2.3	2.7	0.5	-4.1	1.2	1.8	-2.1	1.5	1.9
Japan	1.1	2.4	-1.2	-5.2	3.0	2.0	-1.4	2.7	2.2
Output gap[2]	0.2	1.4	-0.3	-5.1	-3.8	-2.6			
Unemployment rate[3]	6.5	5.6	6.0	8.1	8.5	8.2	8.5	8.5	8.0
Inflation[4]	2.8	2.3	3.2	0.6	1.6	1.3	0.9	1.6	1.3
Fiscal balance[5]	-2.1	-1.2	-3.3	-7.9	-7.8	-6.7			
Memorandum Items									
World real trade growth	7.1	7.3	3.2	-11.0	10.6	8.4	-2.8	9.6	8.6
World real GDP growth[6]	3.7	5.1	2.8	-0.9	4.6	4.5	1.5	4.7	4.8

1. Year-on-year increase; last three columns show the increase over a year earlier.
2. Per cent of potential GDP.
3. Per cent of labour force.
4. Private consumption deflator. Year-on-year increase; last 3 columns show the increase over a year earlier.
5. Per cent of GDP.
6. Moving nominal GDP weights, using purchasing power parities.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932305836

of 2010, and to strengthen a little further to 3 per cent over 2011. Growth should remain more robust in the United States, and Asia-Pacific countries with strong trade linkages to the non-OECD economies, than elsewhere.

Risks remain substantial on both sides

The risks around the projection remain substantial, despite the better-than-expected outcomes in the early stages of the recovery. Many risks are inter-related, with more favourable outcomes in one area helping to diminish downsides in others. On the upside, current growth impulses in the OECD area are relatively strong, boosted by temporary influences from stock-building and fiscal stimulus, and the momentum created could carry forward to a greater extent than anticipated. And the spill-over effects from continued buoyant growth in non-OECD Asia could be stronger for the OECD economies, especially the United States and Japan. However, there are also associated downside risks from such developments, with excessively strong growth in non-member economies adding to upward pressures on commodity prices, and possibly engendering an abrupt policy tightening. Nonetheless, the principal downside risk stems from the strengthened concerns about public-debt sustainability in some OECD countries. The associated solvency and liquidity risks have already disrupted some financial markets considerably, especially in Europe, with high and rising risk premia on high-risk countries and evidence of contagion, raising the prospect of more widespread instability if confidence were to weaken further due to a failure to produce and implement credible fiscal plans. To some extent related, another downside risk stems from the possibility that longer-term inflation expectations could become unanchored in the OECD economies, contrary to what is assumed in the central projection.

The unwinding of crisis-induced policies will be challenging

Monetary, fiscal, and financial authorities across the world responded to the crisis by providing extraordinary support to aggregate demand and the financial system. In many non-OECD economies and a handful of OECD economies, economic slack is disappearing rapidly and the required, marked monetary policy normalisation has already begun. Elsewhere, the exit from crisis-induced macroeconomic policies has yet to begin in earnest, with the exception of those economies having to undertake sharp fiscal consolidation as a result of market concerns about debt sustainability. The challenges arising from the need to normalise fiscal, monetary and financial policies over the medium term will be compounded by the synchronicity of fiscal consolidation needs across a large majority of OECD countries and many non-member economies. This differentiated yet synchronised pattern of normalisation across policies and countries heightens the importance of domestic policies in one domain taking due account of policy settings in other domains and countries. It also raises the possibility of exchange rate movements and the exposure of vulnerabilities in the financial sector.

Economic policy requirements are:

Against this background, the policy requirements at present and in the longer term are as follows:

… to ensure actively that fiscal credibility is maintained…

- In those countries that have not yet begun the consolidation process, public finances need to start being brought credibly onto a sound footing by next year at the latest. The pace of fiscal consolidation in those countries that have a choice should be sufficient to ensure continued credibility and avoid the risk of destabilising increases in long-term interest rates while, as far as possible, remaining commensurate with the subdued real recovery. With public debt burdens continuing to rise even after consolidation begins, it is essential that all countries have detailed medium-term fiscal consolidation plans setting out the actions to be taken in the years ahead. Plans need to be established where they are currently missing (*e.g.* Japan), made more detailed to strengthen their credibility (*e.g.* Germany, Italy) and made more ambitious where planned consolidation targets fail to stabilise public debt ratios (*e.g.* the United States) or do so only at very high levels. The present projections for 2011 include only concrete, known consolidation measures and, in many cases, seem to involve an insufficient degree of tightening, with consolidation needing to be accelerated to avoid destabilising debt dynamics. Moreover, inside the euro area, procedures need to be strengthened to prevent and address continued longer-term sovereign debt problems.

… to normalise policy rates at a pace contingent on the recovery….

- The process of unwinding some of the exceptional monetary policy measures has started and the exit strategies of monetary authorities are being clarified, though recent turbulence in euro area financial markets has resulted in the introduction or re-introduction of crisis measures. The challenge will be to implement exit strategies at a pace that is consistent with both short and long-term macroeconomic stability, and especially to ensure that inflation expectations remain anchored, without jeopardy to financial stability. The normalisation of policy interest rates should commence in most OECD economies in the course of this year, Japan being an exception, where continued deflation warrants keeping rates close to zero until 2012 or later. In some non-OECD countries, including China and India, further tightening of monetary policy is required to arrest inflationary pressures and reduce the risk of asset bubbles. Exchange rate appreciation could alleviate some of the pressure on Chinese monetary policy in the near term while greater exchange rate flexibility would allow the monetary authorities more scope to address domestic inflation pressures.

… to continue to strengthen the resilience of financial institutions and markets…

- The momentum needs to be reinforced to establish, under the auspices of the G20, internationally consistent rules and regulations for financial markets that strengthen the stability of the global financial system. Articulating more clearly the respective roles of monetary and prudential policies in dealing with future credit and asset price developments is also important.

... and implement structural reforms to raise potential output and narrow global imbalances

- Labour and product market reforms need to be implemented to raise potential output, support innovation and prevent high unemployment from becoming structural. The development of social security and services in China and other Asian economies fulfils an important social goal in its own right and would reduce the need for precautionary saving. In other countries with current account surpluses, different types of structural reforms would allow resources to flow from exposed to sheltered sectors, while in deficit countries, pension reforms and the removal of tax incentives to consume would increase saving. All in all, together with fiscal consolidation, reductions in policy-induced distortions to saving and investment decisions would strengthen growth and narrow global imbalances.

Forces acting on OECD economies

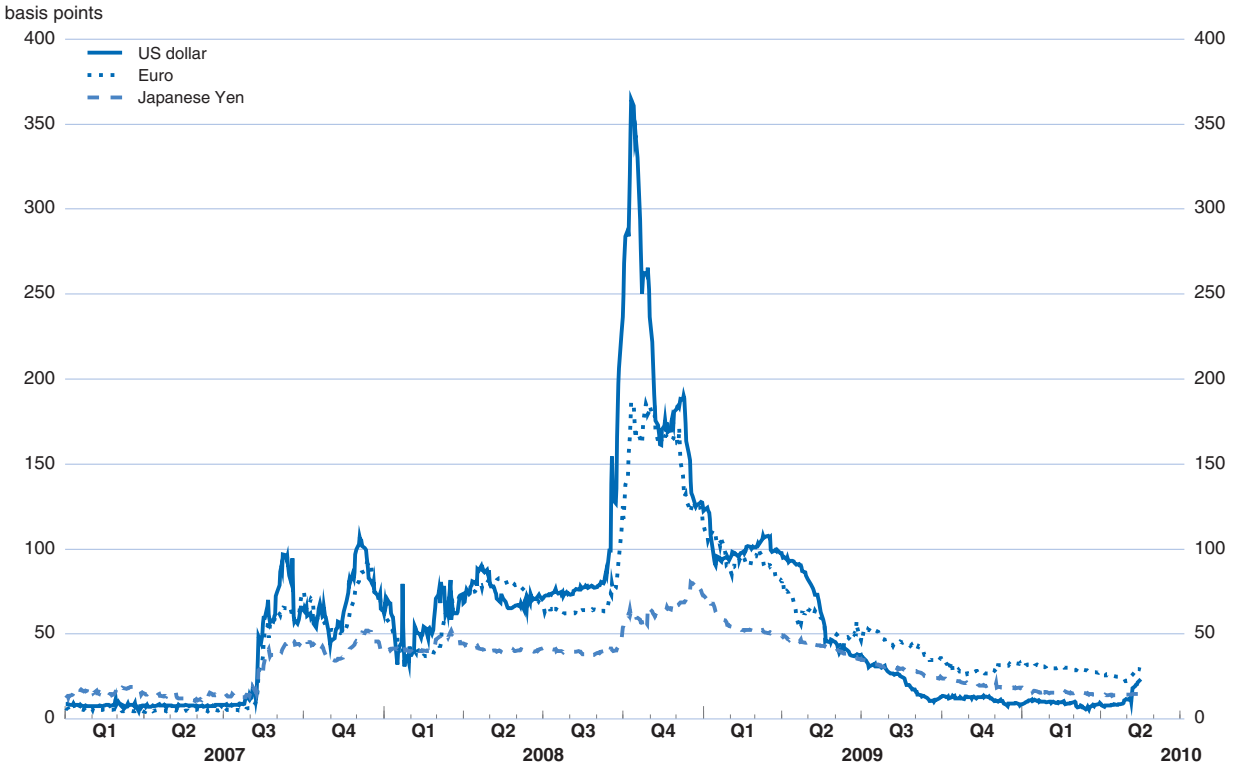
Financial market developments

Banks have strengthened their balance sheets...

Tensions increased in interbank markets in the first half of May as concerns intensified about fiscal sustainability in certain euro area countries (Figure 1.1). Even so, spreads between three-month interbank

Figure 1.1. **Money market spreads have remained low**

Three-month spreads, last observation: 17 May 2010



Note: Spread between three-month interbank rates (EURIBOR in the euro area, LIBOR in the United States and Japan) and overnight swap rates.

Source: Datastream and Bloomberg.

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and expected average overnight rates remained at low levels compared with the situation during the crisis). These narrow spreads, combined with near zero policy interest rates, imply that banks' borrowing costs have been very low in nominal terms and, outside Japan, negative in real terms. Audited accounts for 2009 show that, in the environment of low funding costs and reduced competition following the crisis, major banks earned large amounts of net income from interest margins and investment banking activities (Table 1.2). On the cost side, the major banks increased personnel compensation expenditure back to 2007 levels, despite reductions in the number of employees and despite high bank income resulting, to a large extent, from public policies. Banks have also taken large charge-offs and loan-loss provisions, but profits have, nonetheless, been sizable. As banks made relatively modest dividend payments and raised large amounts of equity from the markets, they increased their capital positions in 2009 and improved the quality of capital by converting some of their hybrid liabilities into equity. For a group of very large OECD banks that have published audited 2009 accounts, tangible common equity made up 3.3% of their tangible assets at the end of 2009 against 1.9% a year earlier.

Table 1.2. **Selected accounting indicators at top global banks**

Billion euros, except otherwise mentioned

	2007	2008	2009
Net interest revenue	184	237	257
Other operating income (mainly investment banking revenue)	271	108	287
Personnel compensation	170	155	173
Loan-loss provisions	48	103	145
Charge-offs[1]	29	52	85
Profits after tax	93	-2	61
Dividend payments[2]	36	31	10
Profits/equity (%)	12.2	-0.2	6.2

Note: The indicators cover the 15 banking groups that have reported audited accounts for 2009 among the 24 largest in the OECD area (BBVA, Banco Santander, Bank of America, Barclays, BNP Paribas, Citigroup, Crédit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Société Générale, Standard Chartered and UBS).

1. This indicator excludes BBVA, BNP Paribas, Crédit Agricole, Goldman Sachs, Société Générale, Standard Chartered and UBS for lack of data.
2. This indicator excludes BNP Paribas, Crédit Agricole, Credit Suisse and UBS for lack of data.

Source: Bankscope.

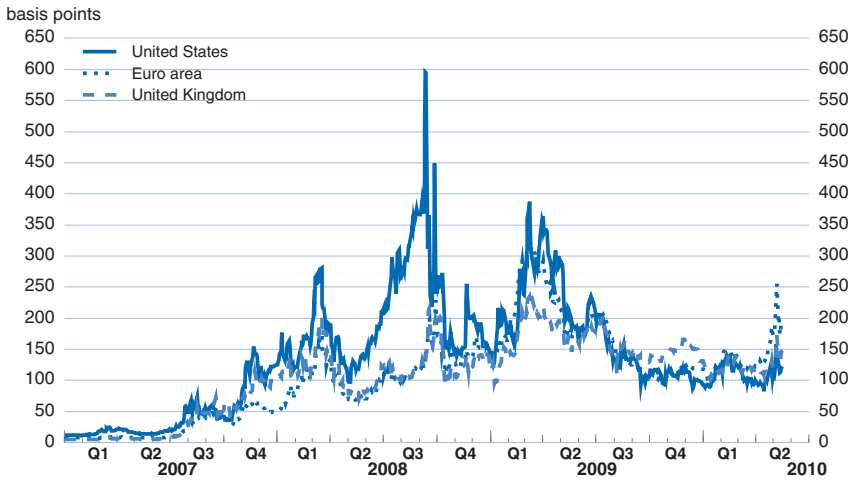
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... but still remain vulnerable

Banks nonetheless remain vulnerable, as is apparent from the fact that CDS spreads on their bonds remain well above pre-crisis levels and have proved sensitive to shocks from concerns about public finances and debt sustainability in Dubai and subsequently Greece and other euro area countries (Figure 1.2). First, banks are likely to continue to suffer continued losses from the lagged effects of the downturn, especially on commercial-property loans. Second, after an extended period of extremely low interest rates, some banks have accumulated considerable

Figure 1.2. **Bank credit default swap rates have backed up**

Last observation: 17 May 2010



Note: Banking sector 5-year credit default swap rates.

Source: Datastream.

StatLink http://dx.doi.org/10.1787/888932303727

exposure to interest-rate and roll-over risks as a result of borrowing nearly free short-term funds to purchase higher-yielding long-dated assets. Third, prices on bank assets may fall if and when central banks start selling assets purchased during the crisis or revert back to more normal collateral arrangements for the provision of liquidity. On the other hand, emergency measures announced on 9/10 May 2010 to address financial market turbulence in the euro area have diminished significantly the risks of losses on banks' holdings of Greek and southern European assets (Box 1.1).

Box 1.1. **Banking risks from Greece**

Fears about the ability of the Greek government to fulfil its obligations to bond holders mounted after the new government revealed, upon taking office in October 2009, that the public deficit had previously been grossly understated. The cost of insuring Greek sovereign bonds against credit losses rose as the country's initial fiscal consolidation plans failed to convince investors. In particular, the confirmation that the ECB planned to revert back to its normal rules for eligible collateral when the temporary relaxation of requirements expires at the end of 2010, with the implication that Greek sovereign bonds, if downgraded again by credit agencies, could not serve as collateral for borrowing from the ECB, was followed by a significant increase in bond yields. Although CDS spreads on Greek government bonds and bond yield differentials relative to Germany came down on the announcements in March of more demanding consolidation plans, a joint IMF-euro area standby facility and a new, more flexible ECB collateral framework, they rose again to exceptionally high levels in April and early May as concerns intensified about the long-term solvency of Greece beyond the horizon of the IMF-euro area package. They then fell sharply following the announcement of emergency measures on 9/10 May, but still remained elevated in mid-May.

Box 1.1. **Banking risks from Greece** *(cont.)*

Banks' holdings of Greek and southern European assets

	France	Germany	United States
Holdings of Greek assets:			
Amount ($bn)	78.8	45.0	16.6
Share in the total external claims of the banking sector (%)	2.1	1.4	0.7
Share in total banking sector assets (%)	0.8	0.5	0.1
Banking sector capital and reserves ($bn)	354.0	413.0	1 410.0
Holdings of Greek, Portuguese and Spanish assets:			
Amount ($bn)	334.9	330.4	79.3
Share in the total external claims of the banking sector (%)	9.1	10.1	3.2
Share in total banking sector assets (%)	3.6	3.7	0.6

Note: Figures for exposure to Greece and total external claims correspond to end December 2009 for BIS reporting banks; data on banking sector assets and capital and reserves refer to the latest available observation in *OECD Banking Statistics:* end-2008 for Germany and end-2007 for France and the United States.

Sources: BIS Locational and Consolidated Banking Statistics April 2010 and *OECD Banking Statistics 2009*

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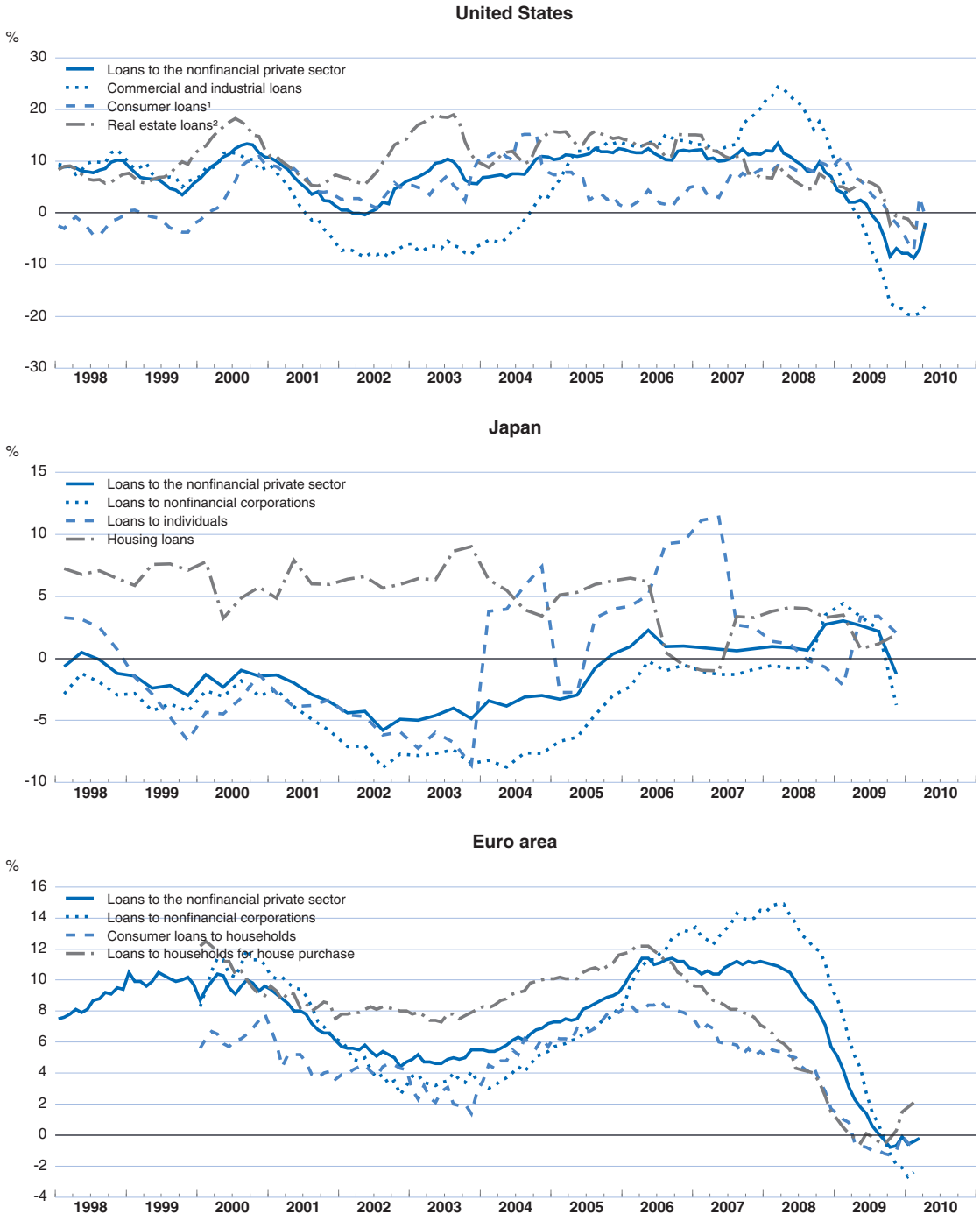
These developments had created concern that the possibility of a default in Greece could generate losses that might destabilise the banking sectors of creditor countries. Among OECD countries, France, Germany and the United States have the largest banking sector exposures to Greece (see Table). These exposures do not relate solely to government bonds but include other claims, which can represent significant amounts, such as in the case of France where the largest bank owns Greece's fifth largest lender. Greek-based assets held by French, German and especially US banks nonetheless amount to relatively small shares of their total external exposure and *a fortiori* of their total assets. A hypothetical loss on these assets would consume an amount of banking sector capital which would remain manageable. Concern has also been expressed about the risk of contagion. If, hypothetically, losses were to arise also on assets based in Portugal and Spain, two countries that are seen to share some – albeit certainly not all – of Greece's fundamental fiscal challenges, the impact on the capital of French and German banks could be more challenging. The risk of commercial banking sector losses has fallen since the announcement of the emergency measures on 9/10 May.

Bank lending activity is still very weak though lending conditions seem to be easing

With the recovery progressing, bank lending conditions appear to be easing. The net percentage of banks reporting tighter lending conditions, the level of which (but not its accumulated values) has been found to be a good predictor of US activity, has continued to decline for all categories of borrowers in the United States and the euro area. Nonetheless, bank lending activity remains very weak, although there are tentative signs of stabilisation in some categories of lending in recent months (Figure 1.3). So far, the downturn in credit to the non-financial private sector is not surprising given that the fall in activity, and especially investment, naturally reduces the demand for borrowed funds. A risk going forward is that a possible lack of credit availability might slow the recovery. In terms of prices, banks and other institutions in most countries have been passing part of the fall in their funding costs on to their clients in the form of lower lending rates.

Figure 1.3. **Bank lending remains weak**

Year-on-year growth rate



Note: Data refer to all commercial banks for the United States; to monetary financial institutions (MFIs) for the euro area; to all banks for Japan. Year-on-year growth rates are calculated from end-of-period stocks. For the euro area, these are adjusted for reclassifications, exchange rates variations and any other changes which do not arise from transactions.

1. United States data for April 2010 concerning consumer loans have been modified to take into account a change of concept.
2. The definition of real estate loans for the United States is broader than housing loans as it includes also loans related to commercial real estate. Moreover, both for the United States and for Japan, real estate / housing loans can include loans to the corporate sector.

Source: Thomson Financial.

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Markets for corporate bonds and equities have been buoyant…

Capital markets have strengthened since March 2009, but have been very sensitive to sovereign debt concerns in recent months, especially in Europe. Corporate bond markets are buoyant, although the fall in yields for all categories of borrowers came to a halt at the end of 2009 in the context of the Dubai and euro area bond turmoil. Large non-financial corporations have proved capable of raising ample funds from the bond markets, with issuance in the year to March being 59%, 21% and 26% above its ten-year average in the euro area, the United Kingdom and the United States, respectively. Equity has been an important source of funding for businesses: issuance in 2009 by non-financial businesses was 34%, 28% and 12% above its five-year average in the euro area, the United Kingdom and the United States, respectively.[1] Until recently, global equity markets were resilient to sovereign debt concerns in the euro area, but they fell as confidence sagged at the end of April 2010 and early May, led by prices of financial companies hit by concerns related to exposures to Greek debt instruments.

… but currencies have exhibited large movements recently

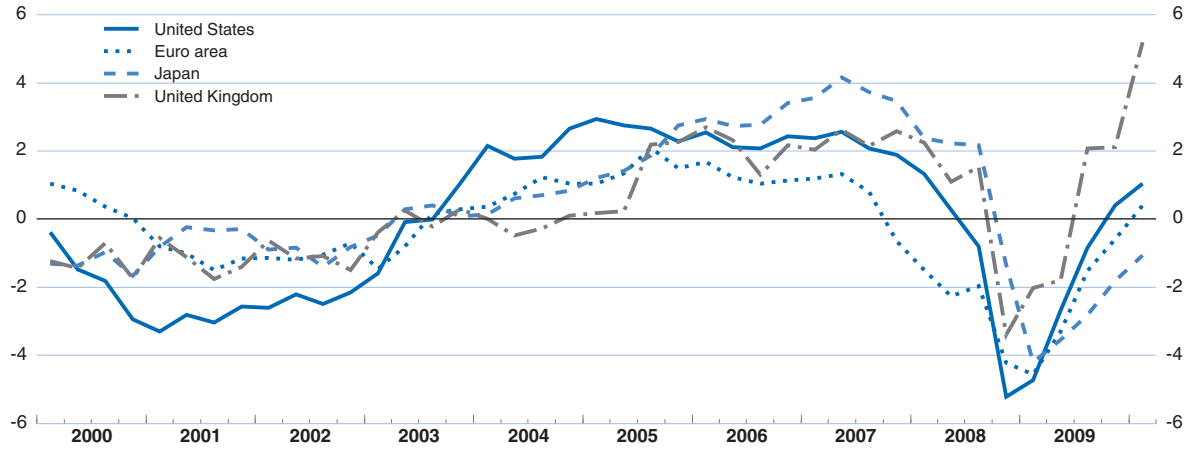
Concerns about public debt sustainability in Greece and some other euro area countries have also pushed down the euro exchange rate. From the start of the year to mid-May, the euro depreciated *vis-à-vis* the US dollar by about 13½ per cent, more than reversing the appreciation in 2009. In real effective terms, the decline in the euro exchange rate has also been significant, with a fall of close to 10% in the same period.

Overall, financial conditions have improved in OECD countries…

The OECD financial conditions indices (FCIs) provide estimates of the effect on activity from changes in real interest rates, bond spreads, credit conditions, real exchange rates and wealth[2] (Figure 1.4). The FCIs, which incorporate information up to end-April, have risen strongly across the OECD area, particularly in the United Kingdom where they have reached very high levels. Half of the upward revision in the euro area and the United Kingdom is due to effective exchange rate depreciation and the rest to domestic factors. Compared with the assumed path for FCIs underpinning the *OECD Economic Outlook No. 86* projections, the current levels of FCIs, if their effects were applied mechanically holding everything else constant, would translate into upward revisions to the projected level of activity over the coming four to six quarters of 0.6 to 1¼ per cent in the euro area and the United Kingdom, with the United States and Japan broadly unchanged.[3]

1. The historical average is taken over five rather than ten years to avoid the last year of the dotcom bubble. In the United States, where monthly information is available, equity issuance in the twelve months to February was 16% over its five-year average.
2. The FCIs use equity and house prices to approximate changes in wealth where and when financial accounts are not available.
3. These effects are based on relationships estimated on past history, before the financial crisis.

Figure 1.4. **Financial conditions indices have improved markedly**



Note: A unit decline in the index implies a tightening in financial conditions sufficient to produce an average reduction in the level of GDP by 1/2 to 1% after four to six quarters. See details in Guichard *et al.* (2009).

Source: Datastream; and OECD calculations.

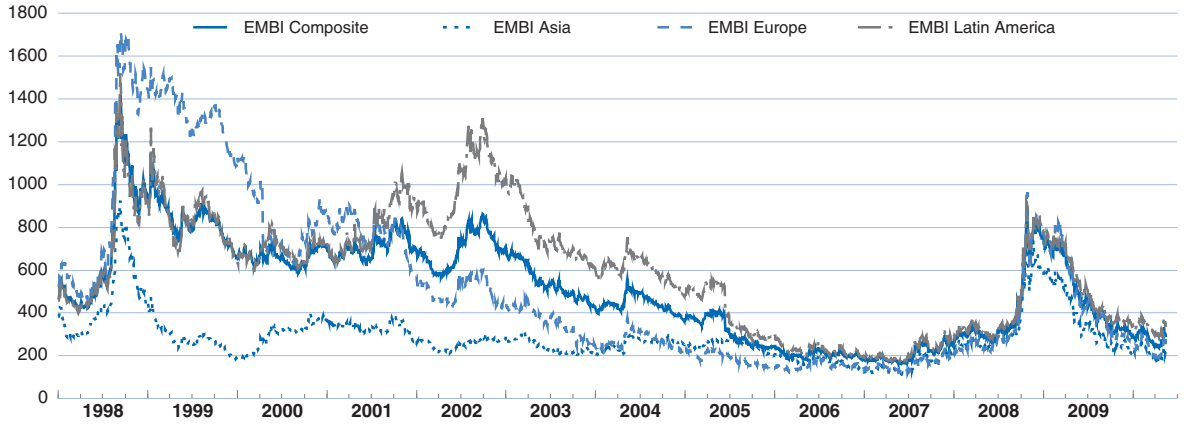
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... with emerging markets resilient to sovereign debt concerns in the euro area

Outside the OECD area, financial markets in emerging economies have proved relatively resilient to the bond turmoil episodes related to Dubai and the euro area. Bond spreads in emerging markets are still well below historical averages, although they increased somewhat at the end of April and the beginning of May (Figure 1.5). Outside China, stock markets have risen during the first half of the year, despite falling in January and February. These price developments have occurred as net capital movements into emerging markets have fluctuated between inflows and outflows since the end of November 2009. The relative resilience of emerging markets could suggest that the strong

Figure 1.5. **Emerging market bond spreads are low in historical comparison**

Last observation: 17 May 2010



1. Spreads show yield difference in basis points over US Treasury bonds.

Source: JP Morgan.

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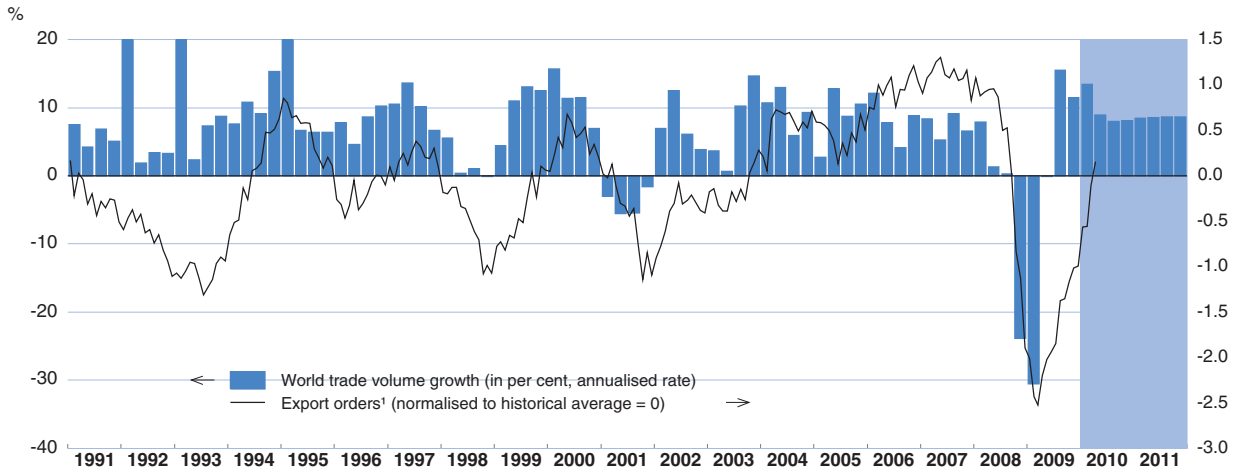
improvement of financial indicators observed through 2009 might be attributable not just to carry-trade strategies (where investors borrow short-term funds at very low rates in advanced countries to buy high-yielding instruments in developing countries) but also to fundamentals (including in some cases higher commodity prices). More recently, capital inflows have surged in several emerging markets, and the tendency for their currencies to appreciate has been moderated by foreign exchange intervention in some of them.

Other factors acting on OECD economies

World trade growth is robust

Global trade growth has strengthened markedly since mid-2009, with trade volumes rising at an annualised rate of over 10% in the latter half of last year and the first quarter of 2010 (Figure 1.6; Box 1.2). Even with this rebound, the volume of world trade remained around 5-6% below the pre-crisis peak at the end of the first quarter. Recent monthly trade and global indicators suggest that trade growth should remain robust for some time, and, even if it slows somewhat from the exceptionally rapid pace during the initial bounce-back from the recession lows, it could be somewhat stronger than in the current projections. Global export orders in the manufacturing sector have rebounded to pre-crisis levels, and coincident indicators of trade flows, such as air freight shipments and global information technology (IT) activity, continue to grow rapidly, regaining pre-crisis levels. Trade in the emerging economies has risen at twice the pace of that in the advanced economies, reflecting in part strong domestic demand growth as a result of policy stimulus as well as their relative specialisation in tradeables sectors and key role in global supply chains. These developments have helped support external demand in the OECD economies, although less than proportionately to world trade growth, given the increased intensity of trade amongst non-OECD economies.

Figure 1.6. **Global trade and export orders have bounced back**



1. Balance of respondents reporting an increase and a decrease in export orders.

Source: OECD, Main Economic Indicator database; OECD Economic Outlook 87 database; and OECD calculations.

StatLink http://dx.doi.org/10.1787/888932303803

Box 1.2. **The world trade rebound**

After an unprecedented collapse at the end of 2008, world trade has strongly rebounded starting in the second half of 2009 and is projected to reach pre-crisis levels before the end of 2010. As trade plays an important role in the current economic recovery, understanding the factors behind the collapse and the fast recovery is important to help assess the risks of the current trade projections.

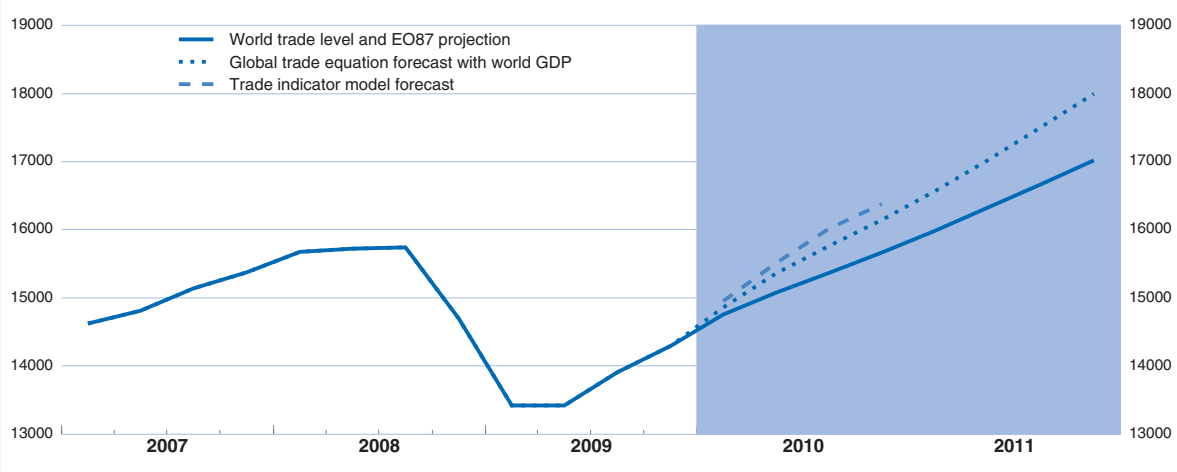
Recent OECD research (Cheung and Guichard, 2009) has investigated the drivers of the world trade collapse. The results suggest that the sharp drop in world demand explains most of the trade collapse at the end of 2008 and early 2009. However, tight credit conditions amplified the short term response which likely reflects two effects: first, the credit crunch has directly affected trade finance by reducing the availability and increasing the costs of trade credit, guarantees and insurance;[1] second, trade-intensive sectors are also among the most credit-sensitive sectors (*e.g.* motor vehicles and investment goods). Thus the financial crisis may have made the downturn particularly trade intensive.

The strong rebound in world trade starting in the second half of 2009 in turn appears to be driven by a reversal of the above factors. A strong recovery in output growth both in OECD and non-OECD countries accounts for most of the recovery. In addition, composition effects likely played a role, as an important part of this output recovery was driven by a rebound in demand for trade-intensive capital and durable goods. The considerable improvement in financial conditions might explain part of the pick-up in demand in these credit-sensitive sectors. Temporary factors, such as the normalisation of trade-intensive stockbuilding and fiscal stimulus programmes directed towards the durable consumption goods sector (*e.g.* car scrappage schemes), are additional factors underpinning the rebound. As the upturn in the inventory cycle starts to fade and many of the fiscal programmes either have been, or will start to be, phased out, this rebound is likely to moderate unless there is a strong pick-up in private final demand.

Going forward, world trade is projected to grow on average by 10½ per cent over the course of 2010, before moderating to about 8½ per cent in 2011 (see figure below).[2] Although the expansion is broad-based over the projection period, trade in the non-OECD countries is expected to accelerate most strongly. Two benchmark models point to possible upside risks to the current projections. An equation linking global trade to world GDP growth and financial conditions predicts higher growth of close to 13% in 2010 and 11½ per cent in 2011.[3] Moreover, several recent high-frequency indicators, such as world industrial production, export orders and shipping prices when combined in an indicator model, point to even faster growth of trade in 2010 of about 14%, with particular strength in the first half of the year.

World trade

Billions 2005 US dollars



Source: OECD Economic Outlook 87 database; and OECD calculations.

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1. See also IMF (2009) and Dorsey (2009).
2. These projections are based on a bottom-up approach that aggregates country-specific estimates of export and import volumes (Pain *et al.*, 2005).
3. Financial conditions are assumed to stay at the level of the last observation over the projection period. The same model based on OECD growth (not shown) predicts lower trade growth of about 9% in 2010 and 8% in 2011.

Growth is robust in the major non-OECD economies

The upturn in activity in the non-OECD economies remains buoyant, reflecting the impact of expansionary monetary policy and fiscal stimulus, and has broadened steadily over the past year despite the subdued growth of external demand from the OECD economies. Growth in non-OECD Asia has remained stronger than elsewhere, especially in China where GDP rose by an estimated annualised rate of over 15% in the first quarter of 2010, helped by the relative size and rapid implementation of the macroeconomic policy stimulus enacted there. Infrastructure expenditure has risen by almost 6% of GDP since the start of 2009 as a result of the two-year, investment-focused fiscal stimulus package, and private consumption has become increasingly buoyant, aided by strong wage and credit growth, although the first steps towards monetary policy normalisation have begun. This is also the case in India, but past reductions in policy rates and ongoing expansionary fiscal policies continue to support private domestic demand. Moreover, agricultural output should rebound from the weak drought-induced levels seen in late 2009. The upturn in activity in Russia and South Africa continues to lag that in non-OECD Asia, but has gained momentum, especially in Russia, helped by rising external demand and higher international commodity prices. Strong external commodity demand has also reinforced the already robust domestic demand growth in Brazil and Indonesia arising from past policy easing.

Household balance sheets are improving

Unusually for the early stages of a recovery, the growth of consumption has been relatively subdued in most OECD countries since mid-2009. Household saving rates have risen from pre-crisis levels as households adjusted to the weaker state of their balance sheets immediately after the crisis. Debt reduction is continuing, and this alongside the recovery in asset prices and more elevated saving rates is helping to rebuild balance sheets. It is likely that the process of balance-sheet repair will need to continue for some time, though its pace is uncertain. The increase in saving rates already experienced in the major economies is close to that which might be expected, given past relationships between saving and wealth. On the basis of the net financial asset position of households at the end of 2009, it would be reasonable to expect a sustained increase in the saving rate of roughly 2½ percentage points in the United States, ½ percentage point in Japan, and 1 percentage point in both the euro area and the United Kingdom from the levels immediately prior to the crisis.[4] Reflecting, in particular, asset price developments over the past year, these estimates are around ½ percentage point lower in the United States and Japan, ¼ percentage point lower in the euro area and 1¼ percentage point lower in the United Kingdom than equivalent estimates based on balance-sheet positions in mid-2009 (OECD, 2009). On this basis, and assuming that pre-crisis saving rates reflected wealth at that point, saving rates in the United States,

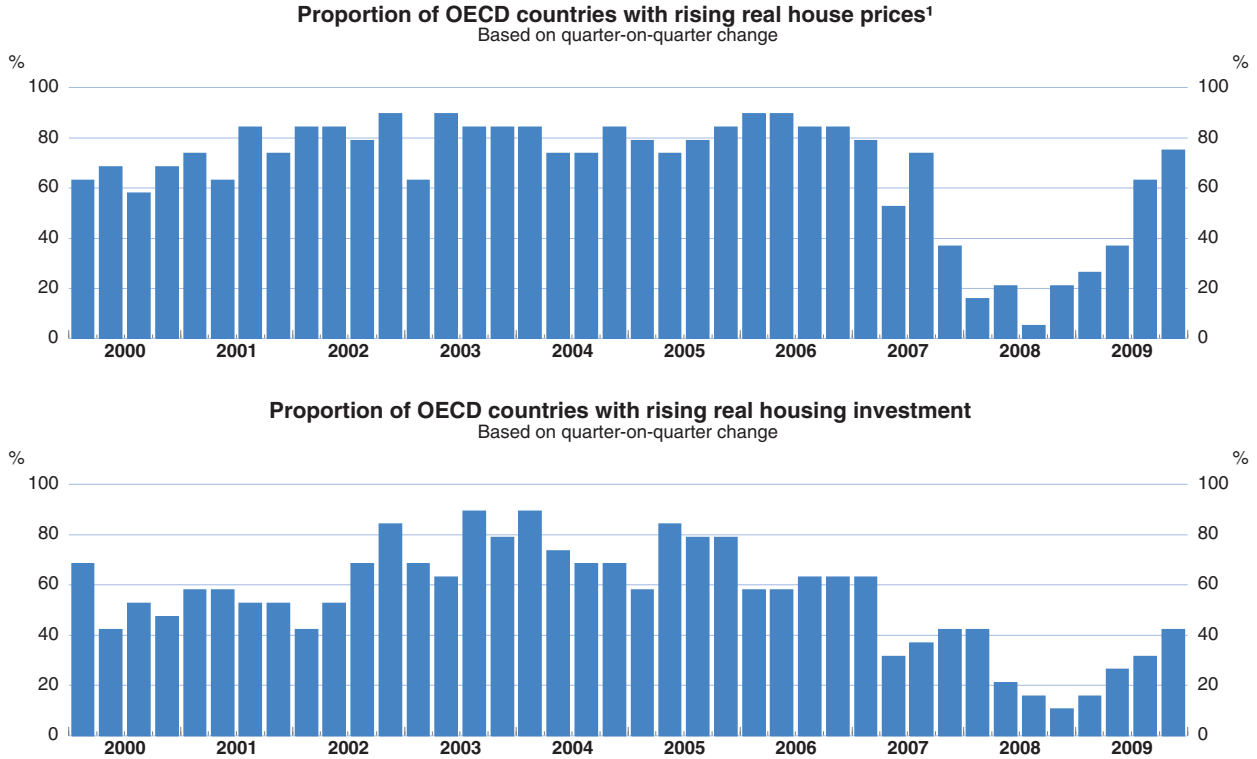
4. The basis for these calculations is described in OECD (2009, Box 1.1).

Japan and the euro area are now broadly consistent with the rates required to rebuild balance sheets over the medium term, while in the United Kingdom it is higher, implying faster balance-sheet repair. Tighter credit conditions and still fragile labour-market conditions are also serving to damp expenditure, although lower-than-expected unemployment rates have reduced the need for additional precautionary saving.

The housing market upturn is broadening…

Housing markets have continued to recover, with increasingly widespread growth in real house prices and a more moderate rebound in housing investment expenditures (Figure 1.7). The rise in house prices which, if sustainable, offers welcome support to household balance sheets, has been especially marked in Canada, Australia, Norway, Finland and Switzerland, where the annual rate of growth of real house prices has been positive since mid-2009. Outside the OECD, housing markets have also been buoyant recently, especially in parts of China, with attendant risks that a destabilising house price bubble might develop, fuelled by strong mortgage credit growth. Such concerns are limited at present in most OECD economies, given still weak credit developments and general economic slack. The volume of transactions has, nonetheless, clearly

Figure 1.7. **The housing market recovery is broadening**



1. House prices deflated by the private consumption deflator. Calculation based on 19 countries (19 available in 2009q3 and 16 available in 2009q4).

Source: OECD Economic Outlook 87 database; and various national sources, see Table A.1 in Girouard, N., M. Kennedy, P. van den Noord and C. André (2006), "Recent house price developments: the role of fundamentals", OECD Economics Department Working Papers, No. 475.

StatLink http://dx.doi.org/10.1787/888932303841

turned up since a year ago, though the improvement in sales in the United States has been noticeably irregular, reflecting the anticipated expiration and subsequent extension of the temporary tax credit for new homebuyers.

... but some downside risks remain

Although maintenance of low policy interest rates should provide further impetus to housing demand in OECD countries, considerable downside risks remain. In the United States, the number of foreclosures has continued to rise even as the economic cycle has turned up. Furthermore, house prices remain elevated relative to incomes and rents in many economies, with the exception of the largest three (Table 1.3). This in part reflects the present low interest rate environment, which underlines the downside risks for house prices if policy becomes less supportive.

Table 1.3. **Real house prices remain at historically high levels in some countries**

	Per cent annual rate of change				*Level relative to long-term average*[1]		
	2001-2007	2008	2009[2]	Latest quarter[3]	Price-to-rent ratio	Price-to-income ratio	Lastest available quarter
United States	4.6	-6.0	-4.2	-5.8	110	94	Q4 2009
Japan	-3.4	-2.0	-1.5	-1.2	66	63	Q3 2009
Germany	-2.5	-1.1	-1.1	-1.8	70	64	Q4 2009
France	9.5	-1.5	-7.0	-4.4	139	126	Q4 2009
Italy	5.4	-1.4	-3.1	-3.3	118	111	Q3 2009
United Kingdom	8.6	-3.8	-9.1	-1.7	142	143	Q4 2009
Canada	8.4	-2.8	3.9	18.0	193	138	Q4 2009
Australia	7.8	0.7	0.3	11.0	169	151	Q4 2009
Belgium	6.8	1.0	-0.3	1.4	161	149	Q4 2009
Denmark	7.9	-7.4	-14.1	-7.7	129	130	Q4 2009
Finland	5.8	-2.9	-1.4	9.3	154	106	Q4 2009
Ireland	7.2	-11.2	-16.0	-20.9	177	107	Q3 2009
Netherlands	2.4	0.8	-2.8	-4.7	141	148	Q4 2009
Norway	6.8	-4.6	-0.5	11.3	161	127	Q4 2009
New Zealand	11.6	-7.7	-4.1	4.1	144	159	Q4 2009
Spain	10.5	-3.4	-7.0	-6.7	162	143	Q4 2009
Sweden	7.6	0.3	-2.1	3.5	177	124	Q4 2009
Switzerland	1.7	0.4	5.3	6.7	89	92	Q4 2009
Euro area[4,5]	4.5	-1.6	-4.0	-3.6	119	108	
Total of above countries[5]	4.1	-3.7	-3.6	-2.7	114	101	

Note: House prices deflated by the Private Consumption Deflator.
1. Long-term average = 100, latest quarter available.
2. Average of available quarters where full year is not yet complete.
3. Increase over a year earlier to the latest available quarter.
4. Germany, France, Italy, Spain. Finland, Ireland and the Netherlands.
5. Using 2005 GDP weights.

Source: Girouard *et al.* (2006); and OECD.

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Housing investment is beginning to support growth

Housing investment has now begun to turn up in around a third of the OECD countries with available data. In others, notably Japan and most euro area economies, investment volumes are continuing to contract, but at a diminishing rate, thereby reducing the drag on activity growth. In the OECD as a whole, as of the fourth quarter of 2009, the ratio of housing investment to GDP had contracted by approximately 2 percentage points from its most recent peak prior to the crisis, and was below the average level of the past three decades. Provided the upturns in house prices and housing demand continue, investment levels should pick up further, although the upturn may be delayed in countries such as Spain, Ireland and Greece, where a large overhang of unsold properties remains, and activity and labour markets are relatively weak. Going forward, OECD-wide housing investment is expected to rise relative to GDP from the second quarter of 2010 onwards, led by strong growth in the United States, Canada, Australia and Japan.

Business investment has begun to recover…

The decline in business investment was exceptionally rapid during the recession. By the end of 2009, OECD-wide investment was around 3% of GDP below its pre-recession peak, and well below the average investment intensity of the previous three decades. Even though some decline in investment intensity might persist if the crisis results in a durable increase in risk premia, normal cyclical forces and the pick-up in trade have now started to lift business investment, especially in machinery and equipment. Corporate profitability has bounced back, particularly in the United States, external funding conditions have improved and there are comparatively few aggregate balance-sheet constraints for non-financial corporate businesses (Box 1.3). Investment intention surveys have begun to turn up and capital-goods orders and shipments in the OECD are continuing to strengthen, as are global shipments of semi-conductors, pointing to an ongoing strengthening in investment. In part this reflects strong demand from outside the OECD, but investment volumes have also already begun to rise in the United States, Japan, Korea and Australia. Nonetheless, the near-term recovery in investment may be damped by several factors, with capacity utilisation still close to historical lows in industrial sectors, vacancy rates remaining high in many commercial property markets and continued pressures on banks to rebuild their balance sheets. Still, there is considerable scope for business investment to increase as the recovery gains momentum.

… and restocking continues to support growth

The upturn in the inventory cycle has provided a sizable boost to growth in recent quarters (Figure 1.8), with firms steadily reducing the scale of their destocking. As a result, survey-based assessments that had previously indicated excessive stock levels are now approaching longer-term averages. In the near term, the inventory cycle could continue to support growth, with firms beginning to re-stock actively to bring inventory-sales ratios more closely into line with their longer-term trend. Nonetheless, the impetus to growth from such adjustments appears likely to fade gradually in the rest of this year.

Box 1.3. **Corporate balance sheets and business investment**

Business investment has plummeted through the course of the recession in the major economies, more rapidly than seen during past downturns, albeit not more strongly in relation to the decline in output.

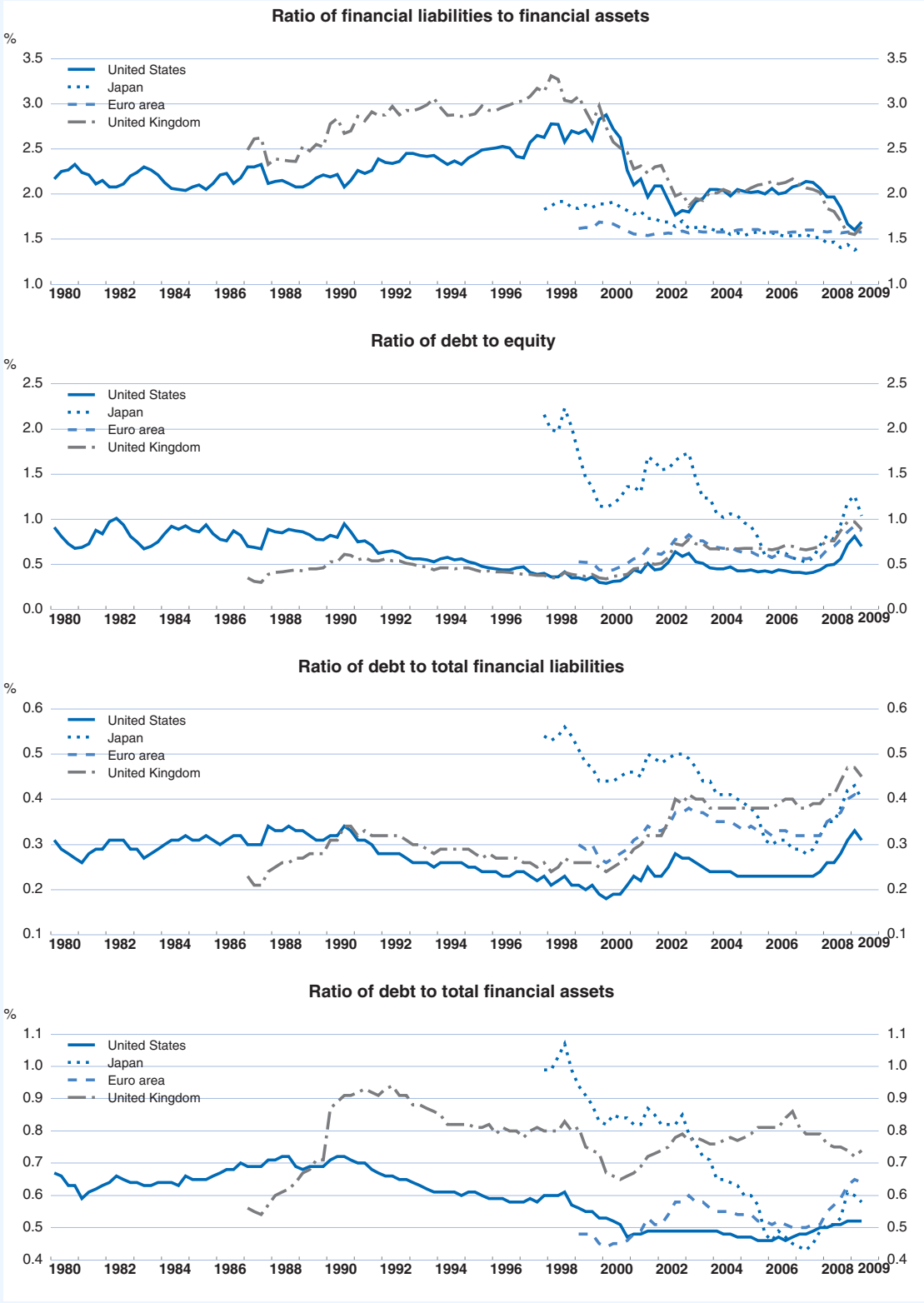
- In the United States, business investment fell from the peak in the second quarter of 2008 to the trough (the third quarter of 2009) by more than 20%. This compares with an average drop of slightly above 10% in previous major recessions.
- Japanese investment continued to decline sharply even after the trough in GDP in the first quarter of 2009, and dropped overall by almost 25% from the first quarter of 2008 to the trough in the third quarter of 2009.
- In the euro area, business investment plummeted by about 18% until the fourth quarter of 2009, and is projected to have fallen further until a trough in the first quarter of this year. Relative to the fall in GDP, the decline in investment in the current recession is more moderate than in earlier recessions.
- In the United Kingdom, the decline in business investment has been marked in relation to GDP compared with previous recessions. After having increased in the first quarter of 2008, investment has since dropped by more than 25%.

In past recessions it has often been the case that business investment has been sensitive to vulnerabilities in corporate balance sheets (IMF, 2003; Benito and Young, 2007). In the most recent recession, balance sheet pressures also appear to have been present in the non-financial corporate sector, at least by some metrics (see figure). Debt leverage has risen to historically high levels in many economies, whether expressed relative to the market value of equity or as a share of total financial liabilities.[1] However, this possibly exaggerates underlying pressures, since it reflects largely the sharp decline in equity prices, as can be seen when debt is expressed relative to total financial assets. By this metric, the upturn in leverage is less pronounced, although it remains more marked in Japan and the euro area, suggesting that balance sheet pressures could be continuing to hold back corporate investment in these economies. Total financial liabilities have remained low relative to total financial assets in all economies, as has the ratio of short-term loans to liquid assets (not shown).

Financial conditions have already begun to improve for many firms in recent months, and balance-sheet vulnerabilities should fade gradually. Both developments should help to stimulate investment, over and above the effects induced by the recovery in real activity. To gauge the effect that improved financial conditions and balance sheets might have on business investment, some simple back-of-the-envelope calculations can be done. These suggest that, all else equal, an improvement in credit conditions (a sub-component of the OECD financial conditions index) of the magnitude seen, on average, over the past year would, using representative effects estimated in empirical studies, raise investment over the medium term by around 2¾ per cent in the United States, 1¼ per cent in Japan, 2% in the euro area and 2½ per cent in the United Kingdom. Similarly, if the debt-to-equity ratio were to decline to the average level prevailing between 2002 and 2006, investment in the medium term could be boosted by around 3¾ per cent in the United States, and 2½ per cent in both the euro area and the United Kingdom.[2] There would be little effect in Japan, as the debt-to-equity ratio is not too different from the average over 2002-06. These effects are over and above the effects that the recovery in activity will have directly.

1. Debt is defined as bank loans plus non-equity securitites liabilities.
2. An average estimate of the semi-elasticity for credit conditions is taken from Guichard *et al.* (2009). The debt-to-equity elasticity is taken from Davis (2010).

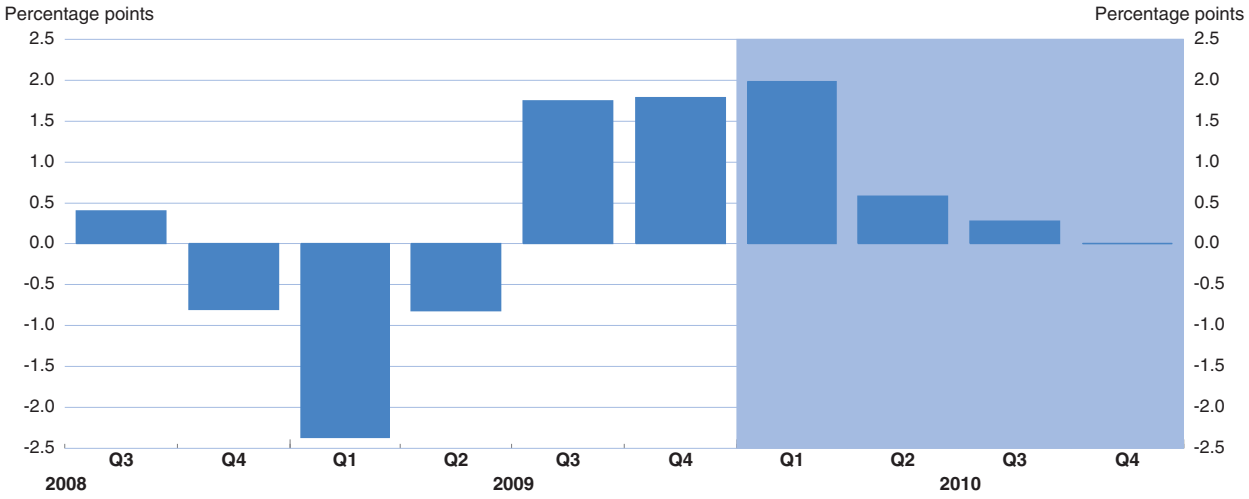
Box 1.3. **Corporate balance sheets and business investment** *(cont.)*



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Figure 1.8. **The upturn in the inventory cycle will soon fade**

Contribution to quarterly real OECD GDP growth at annualised rates



Source: OECD Economic Outlook 87 database.

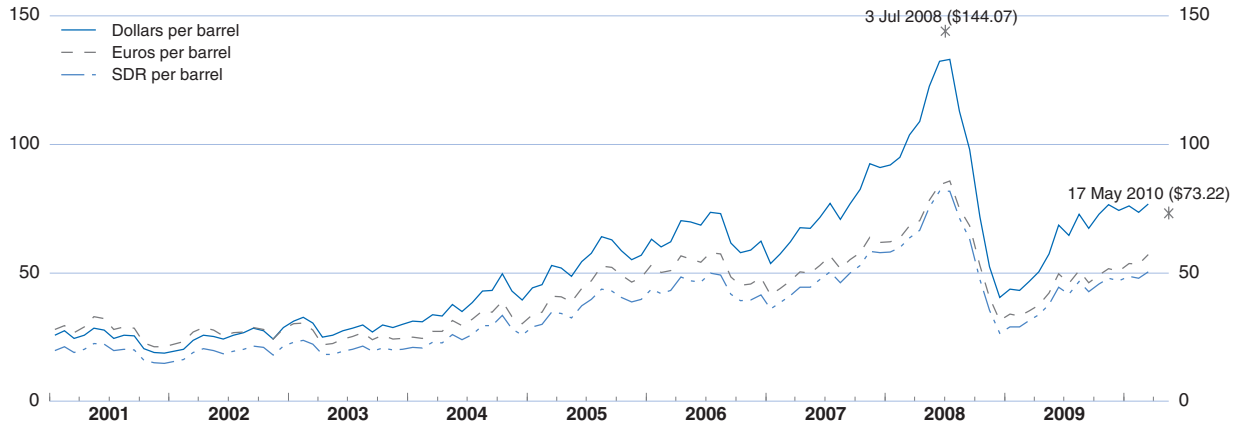
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Commodity prices have rebounded

Oil prices rebounded up until late April, in tandem with signs of strengthening in world economic activity (Figure 1.9), although they eased a little in the first half of May. Non-OECD Asia and Middle East countries account for most of the increase in oil demand observed in the course of 2009 and into 2010. OECD demand has continued to trend down. The projections presented here are based on the standard technical assumption that the Brent price stays close to its level before the cut-off for information, in this case $80 per barrel. Non-oil commodity prices have also strengthened since their 2009 lows, reaching levels close to those prevailing prior to the crisis. Prices of non-oil commodities are assumed to stabilise around their levels in mid-May.

Figure 1.9. **Oil prices have recovered**

Brent crude price



Source: Datastream; and IMF, Exchange Rates data.

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Growth prospects

Growth remained solid in the first quarter…

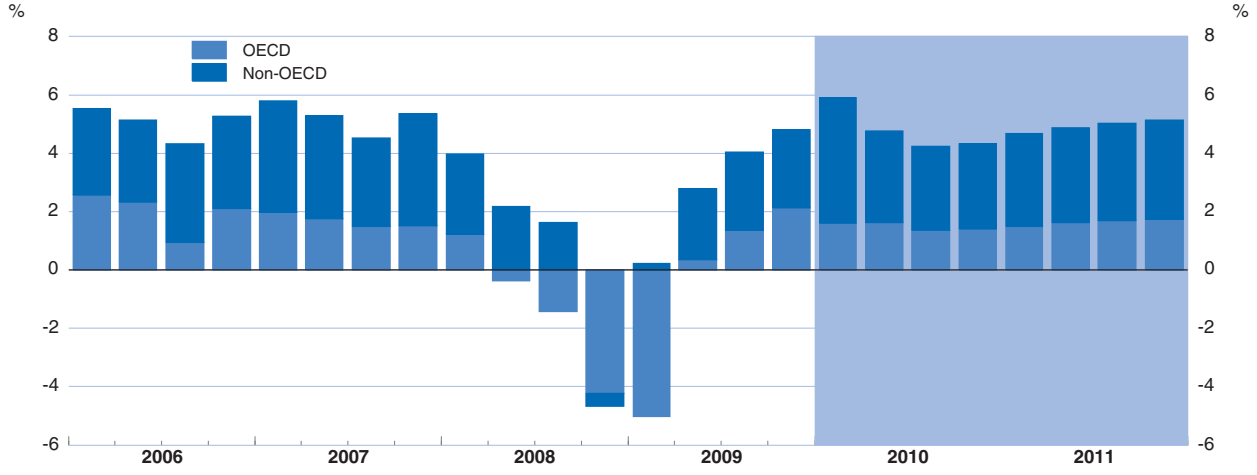
Output growth remained robust in the global economy in the first quarter of 2010, helped by an exceptionally rapid expansion in many non-OECD economies. However, growth eased somewhat in the OECD economy, although it remained above trend in the United States and, most probably, Japan. While there are signs that private consumption and investment are beginning to turn up in an increasing number of OECD countries, the underlying strength of the recovery in private domestic demand remains hard to gauge, with activity continuing to be supported by varying combinations of policy-induced demand and temporary cyclical factors, such as the bounce-back in world trade and the upturn in the inventory cycle.

… and is set to gradually gather pace…

Looking ahead, world GDP growth should remain buoyant (Figure 1.10), with the non-OECD economies continuing to account for the lion's share of global growth. GDP growth in the OECD economies is projected to continue to strengthen modestly over the next eighteen months, provided that policy stimulus is withdrawn in a gradual manner (Box 1.4), that non-policy elements of financial conditions remain at their current normalised levels, and that inflation expectations remain well-anchored. The upward momentum of the recovery is likely to be damped by the fading of temporary cyclical factors and fiscal support measures and the advent of fiscal consolidation in 2011, or more immediately in those countries where strong market pressure has already prompted consolidation. In addition, headwinds from balance-sheet pressures and subdued income growth seem likely to continue to weigh on private-sector activity for some time. Nonetheless, forward-looking business survey measures have continued to strengthen (Figure 1.11), and labour-

Figure 1.10. **Global growth will be led by the non-OECD economies**

Contribution to annualised quarterly world real GDP growth



Note: Calculated using moving nominal GDP weights, based on national GDP at purchasing power parities.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932303917

Box 1.4. **Policy and other assumptions underlying the projections**

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 it is deemed clear that they will be implemented in a shape close to that announced. The rapid pace of fiscal policy changes in May 2010 means that the assumptions on public finances underlying the projections may not capture all of the most recent policy initiatives. For the present projections, the implications are as follows:

- For the United States, fiscal projections are based on the Administration's 2011 budget plan adjusted to a national accounts basis and for weaker GDP growth. Non-defence discretionary outlays (15% of total outlays) are held constant in real terms in 2011. In these projections the funds disbursed under the Housing and Economic Recovery Act and the Troubled Asset Relief Program (TARP) have some impact on the government financial balance. Since the federal government purchased assets at prices higher than those available in the private market, the difference between purchase and estimated values has been recorded as capital transfers by the BEA.
- For Japan. the projections are based on the fiscal year (FY) 2010 budget plan, including changes in taxation. Spending and tax policies in FY 2011 are assumed to follow the manifesto of the current government. The pension contribution rate will continue to rise each year under the FY 2004 reform.
- For Germany, the two fiscal stimulus packages, as well as a scheduled increase in the tax deductibility of health and long-term care contributions and the Act to Accelerate Economic Growth (*Wachstumsbeschleunigungsgesetz*) introduced at the beginning of 2010, have been built into the projections. For France, the combination of the economic stimulus package, the VAT rate cut on restaurant meals, the elimination of the *Taxe professionnelle* (a tax on business) and the *Emprunt National* (a public loan to finance medium-term public investment) is assumed to induce a widening of the cyclically-adjusted general government deficit by over 2 percentage points of GDP between 2008 and 2010. Given the self-reversing aspects of some of the announced measures, the freezing of certain state expenditures and the postponement *sine die* of the carbon tax and the announced cuts in tax expenditure, the cyclically-adjusted general government deficit is expected to decrease by around ½ percentage point of GDP in 2011. In Italy, the 2010 budget embodied quite tight expenditure restraint, but little underlying fiscal consolidation. The projections here assume that equally low expenditure growth is maintained in 2011. The government's medium-term fiscal plans envisage underlying fiscal consolidation of between 0.5 and 1% of GDP for 2011, including reductions in expenditure on education and transfers to sub-national government, but these have yet to be enacted in legislation and are not taken into account in the projections.

Policy-controlled interest rates are set in line with the stated objectives of the relevant monetary authorities, conditional upon the OECD projections of activity and inflation, which may differ from those of the monetary authorities. The interest-rate profile is not to be interpreted as a projection of central bank intentions or market expectations thereof.

- In the United States, the target federal funds rate is assumed to remain constant at ¼ per cent until close to the end of 2010 as there is substantial slack in the economy. Subsequently, the rate is tightened, reaching 3¾ per cent by the end of 2011, after which the pace of normalization is assumed to slow to reach a neutral level by the time the output gap closes beyond the horizon of the short-term projections.
- In the euro area, the main policy rate is assumed to remain unchanged until close to the end of 2010, before rising to 2% by the end of the projection horizon.
- In Japan, the short-term policy interest rate is assumed to remain at 10 basis points for the entire projection horizon, as consumer prices continue to fall.

Box 1.4. **Policy and other assumptions underlying the projections** *(cont.)*

The projections assume unchanged exchange rates from those prevailing on 10 May 2010: $1 equals ¥93.28, € 0.78 (or equivalently, € 1 equals $1.28) and CNY 6.83.

Over the projection period, the price for a barrel of Brent crude is assumed to be at a level close to $80. Non-oil commodity prices are assumed to stabilise around current levels.

The cut-off date for information used in the projections is 12 May 2010. Details of assumptions for individual countries are provided in Chapter 2 ("Developments in individual OECD countries") and Chapter 3 ("Developments in selected non-member economies").

market indicators have stabilised earlier, and at more favourable levels, than previously expected. The key features of the economic outlook for major economies and world trade are as follows:

... in the United States...

- Growth has been robust in the United States in recent quarters, driven by policy stimulus, the upturn of the inventory cycle and a gradual recovery in private final demand. Growth is expected to remain buoyant in the second quarter of 2010, before easing back a little for a time as the inventory adjustment ends and policy normalisation gets underway. Improved financial conditions, strong corporate profit growth and the upturn in final demand will help private investment to strengthen further, although housing and commercial property investment will be damped somewhat by excess supply from still-high foreclosures and high vacancy rates. Private consumption growth will remain somewhat subdued, held back by ongoing balance-sheet adjustment and moderate income growth. Unemployment is projected to continue falling slowly, with the rate expected to decline to 8½ per cent by the end of 2011, with considerable labour market slack still left at that point.

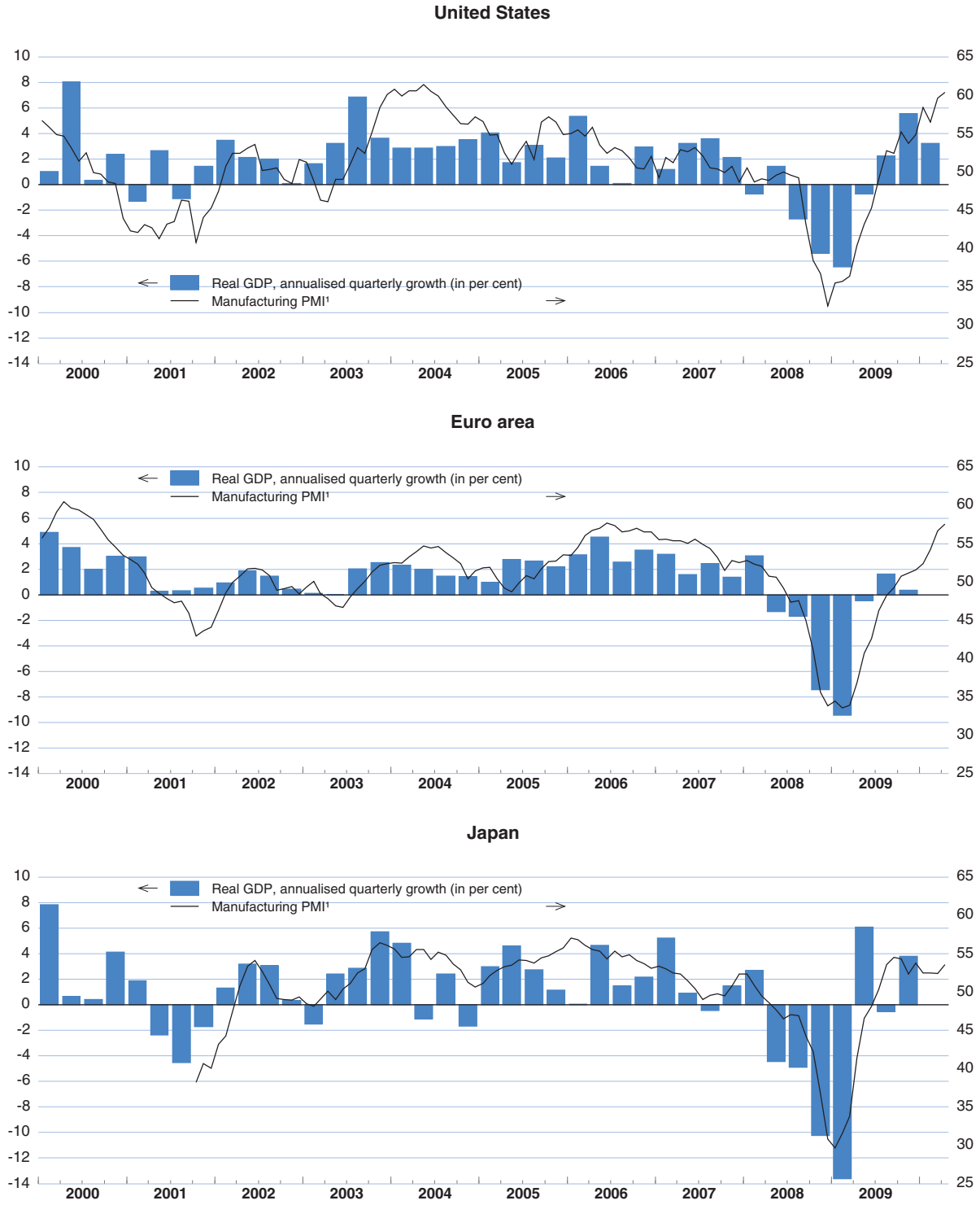
... Japan...

- Growth appears to have remained strong in the first quarter in Japan, helped by an upturn in the inventory cycle and continued vigorous external demand, especially from other Asian economies. The appreciation of the real exchange rate in recent months, and a pick-up in imports as private sector demand recovers, should, however, damp the contribution of net exports to growth. Business investment should continue to strengthen, helped by the recovery in corporate profits, while labour-market weakness will continue to bear down on private consumption. With the government having yet to present a medium-term strategy, the fiscal stance is taken to remain expansionary through 2011, with public consumption growth remaining high relative to most other OECD economies. The unemployment rate is expected to remain close to current levels throughout the projection period.

... and the euro area

- The recovery in the euro area has been more subdued than elsewhere, with unusually severe winter weather damping activity in the first quarter. On the assumption that recent financial turmoil will not

Figure 1.11. **Business confidence has rebounded**



1. Purchasing Managers' Index: summary composite index based on the seasonally adjusted diffusion indices for five of the manufacturing survey indicators.

Source: Markit Economics Limited; and OECD Economic Outlook 87 database.

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durably affect confidence, ongoing macroeconomic policy support and strong external demand should help activity to pick up through this year. Even so, private sector final demand is not expected to strengthen until 2011, held back by modest income growth, continued balance sheet adjustments by households and banks, and excess capacity in some sectors. Unemployment may peak only at the end of this year, before starting to edge down in 2011. The fiscal stance is expected to tighten by around ½ percentage point in 2011, with higher net debt interest payments offsetting partially the reduction in the underlying primary deficit. Notwithstanding the new emergency measures by the European Community and the ECB on 9/10 May to strengthen economic and financial stability in Europe and the subsequent announcements of additional near-term fiscal consolidation in some member states, concerns about debt sustainability, and associated liquidity and solvency risks seem likely to keep intra-area sovereign debt spreads elevated, with consequential adverse effects on private sector borrowing rates and activity.

Activity in the non-OECD area should remain buoyant...

- The Chinese economy is projected to continue to expand rapidly, with growth exceeding 11 per cent in 2010, before easing to just below 10 per cent in 2011 as the impact of policy stimulus begins to fade. Activity in India should also remain strong in the near term, helped by the expected rebound in agricultural output, before moderating to around trend rates as policy stimulus is removed. In Brazil, domestic demand is expected to grow vigorously until the latter half of 2010, but should moderate thereafter as policy stimulus is withdrawn, although some support will remain from strong public infrastructure spending next year. Growth is expected to have remained strong in Russia in the early part of this year, aided by the large rise in oil prices since early 2009, but should moderate gradually towards trend rates by 2011, with policy stimulus starting to be withdrawn.

... and so should world trade

- World trade growth is expected to remain robust over the next two years (Table 1.4), led by continued strong expansion in trade in the Asian economies, Russia and Brazil. Trade growth in OECD Europe remains comparatively sluggish, picking up more substantially only in 2011. As noted above, the global trade profile is somewhat weaker than that which would emerge from a model that related global trade to global GDP developments and, in the near term, from what would be implied by various high-frequency indicators.

Labour market conditions will improve only slowly

Considerable slack remains in national labour markets. In the OECD, over the two years to the first quarter of 2010, the numbers unemployed rose by over 16 million, employment fell by 2¼ per cent and many more workers were working shorter hours than before the crisis. But the rise in unemployment has been smaller than initially anticipated, and the unemployment rate in the OECD area may now have peaked at just over 8½ per cent. Nonetheless, there remains considerable scope in Japan and

Table 1.4. **World trade remains robust and imbalances will widen gradually**

	2007	2008	2009	2010	2011
Goods and services trade volume	Percentage change from previous period				
World trade[1]	7.3	3.2	-11.0	10.6	8.4
of which: OECD	5.5	1.2	-12.2	8.3	7.4
OECD America	4.7	0.3	-12.8	10.3	7.9
OECD Asia-Pacific	7.7	3.3	-13.2	12.4	9.5
OECD Europe	5.4	1.1	-11.8	6.5	6.7
China	17.1	6.5	-3.9	25.3	11.8
Other industrialised Asia[2]	6.9	7.3	-10.4	18.9	11.2
Russia	14.6	7.0	-17.2	18.1	8.4
Brazil	12.5	8.5	-11.0	11.7	8.5
Other oil producers	12.0	8.1	-5.3	5.3	8.3
Rest of the world	10.3	6.9	-10.5	1.7	8.4
OECD exports	6.3	1.9	-12.0	8.6	7.6
OECD imports	4.8	0.5	-12.5	7.9	7.2
Trade prices[3]					
OECD exports	8.4	9.1	-9.0	0.7	0.0
OECD imports	8.0	11.1	-11.1	1.9	0.1
Non-OECD exports	8.2	14.3	-14.4	9.3	1.5
Non-OECD imports	7.3	11.4	-9.0	6.0	1.6
Current account balances			Per cent of GDP		
United States	-5.2	-4.9	-2.9	-3.8	-4.0
Japan	4.9	3.3	2.8	3.3	3.5
Euro area	0.4	-0.8	-0.3	0.3	0.8
OECD	-1.3	-1.6	-0.7	-0.8	-0.7
China	10.6	9.4	6.1	2.8	3.4
			$ billion		
United States	-727	-706	-420	-560	-618
Japan	213	157	144	169	182
Euro area	54	-102	-38	32	101
OECD	-523	-702	-270	-338	-326
China	372	426	297	154	212
Other industrialised Asia[2]	152	90	125	87	81
Russia	77	102	49	106	92
Brazil	2	-28	-24	-55	-59
Other oil producers	364	495	64	343	367
Rest of the world	-128	-195	-77	-50	-80
Non-OECD	838	891	433	584	614
World	315	189	164	247	288

Note: Regional aggregates include intra-regional trade.
1. Growth rates of the arithmetic average of import volumes and export volumes.
2. Chinese Taipei; Hong Kong, China; Malaysia; Philippines; Singapore; Vietnam; Thailand; India and Indonesia.
3. Average unit values in dollars.
Source: OECD Economic Outlook 87 database.

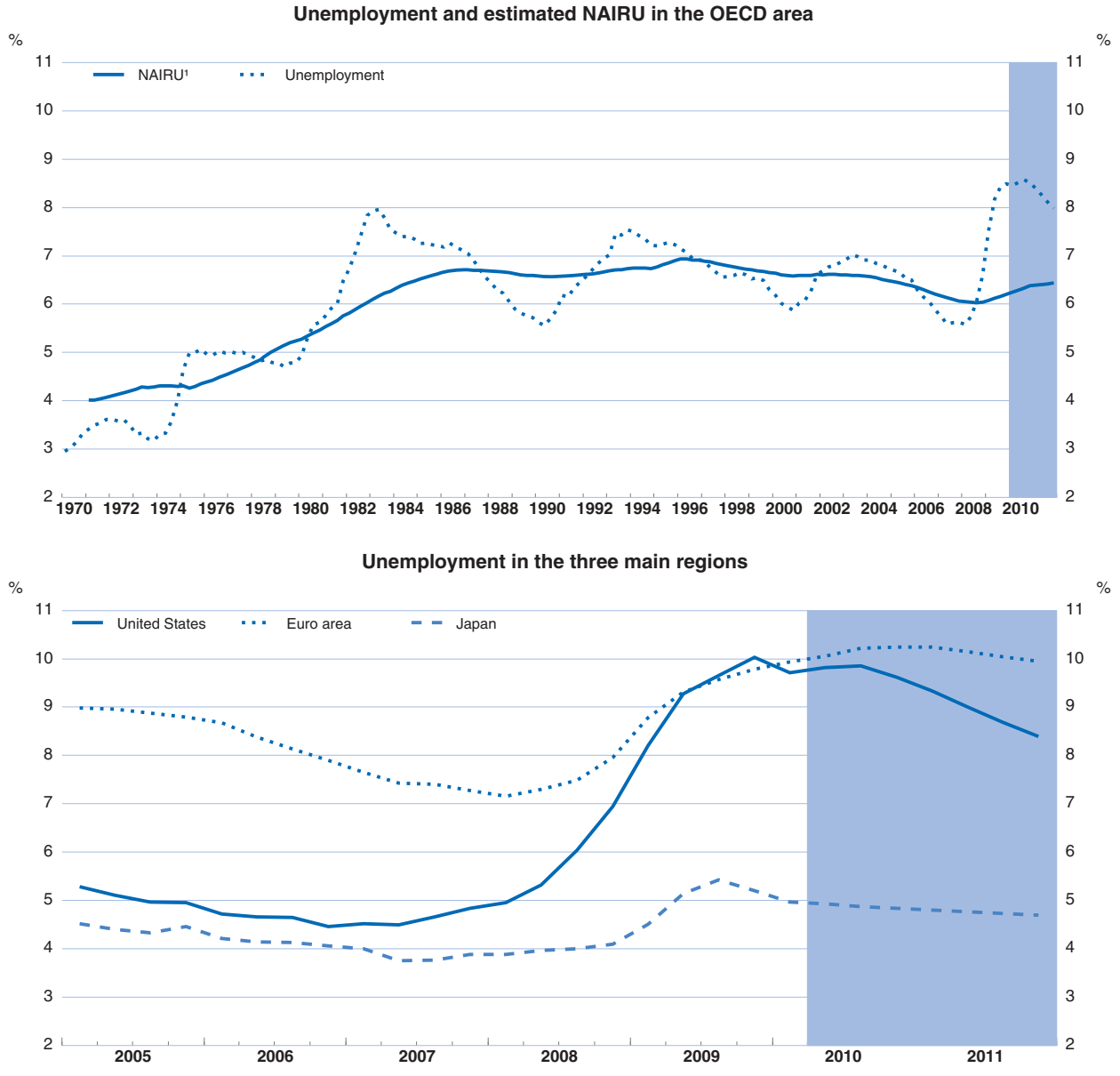
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some European economies to meet increases in output by raising cyclically-low working hours and productivity, rather than by expanding net job creation. Thus, with economic growth picking up only modestly, prospects for strong employment growth in these economies appear remote (as discussed in Chapter 5). By contrast, US firms have shed large amounts of labour during the downturn and may therefore have to increase their hiring relatively strongly in the upturn. With participation rates holding up somewhat better than in past downturns, declines in the

OECD-wide unemployment rate in the next eighteen months may be modest (Figure 1.12; Table 1.5). Indeed, some economies, notably in Europe, could even experience rising unemployment for a time, especially if the employment preserved through reduced average working hours proves to be unsustainable over the longer term. Even with somewhat stronger job creation through 2011, with employment projected to rise by around 1% that year, considerable labour-market slack will endure. Based

Figure 1.12. **Unemployment will come down only slowly in the OECD**

Percentage of labour force



1. NAIRU is based on OECD Secretariat estimates.

Source: OECD Economic Outlook 87 database.

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Table 1.5. **Labour market conditions will turn up slowly**

	2006	2007	2008	2009	2010	2011
	Percentage change from previous period, seasonally adjusted at annual rates					
Employment						
United States	1.9	1.1	-0.5	-3.8	0.0	2.0
Japan	0.4	0.5	-0.4	-1.6	0.0	0.0
Euro area	1.6	1.8	1.0	-1.8	-0.9	0.0
OECD	1.7	1.5	0.6	-1.8	0.2	1.0
Labour force						
United States	1.4	1.1	0.8	-0.1	0.5	1.0
Japan	0.1	0.2	-0.3	-0.5	-0.2	-0.2
Euro area	0.9	0.9	1.1	0.3	0.0	0.0
OECD	1.1	1.0	1.0	0.5	0.6	0.6
Unemployment rate	Per cent of labour force					
United States	4.6	4.6	5.8	9.3	9.7	8.9
Japan	4.1	3.8	4.0	5.1	4.9	4.7
Euro area	8.3	7.4	7.5	9.4	10.1	10.1
OECD	6.1	5.6	6.0	8.1	8.5	8.2

Source: OECD Economic Outlook 87 database.

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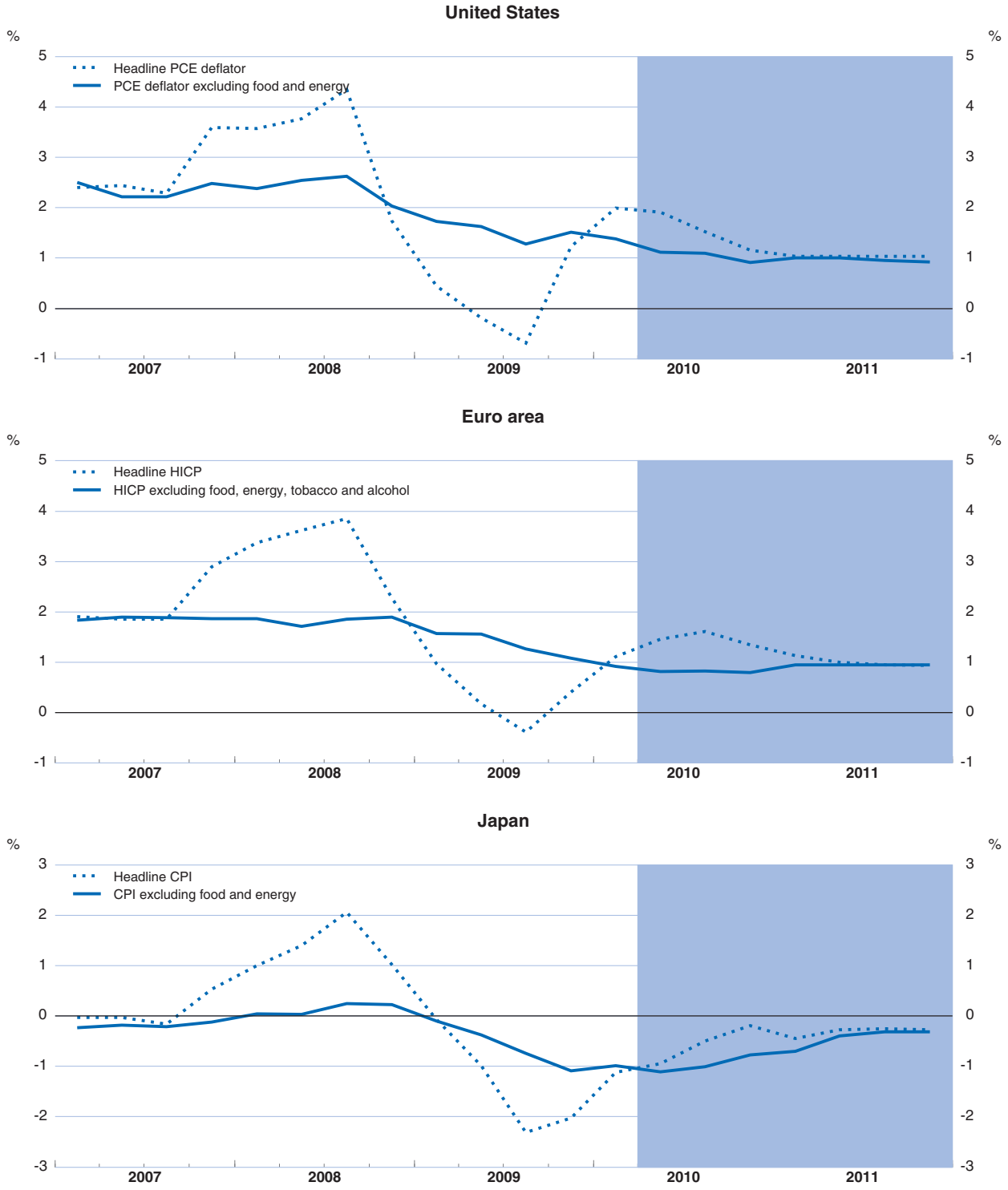
on past experience, there continues to be a risk that at least part of the rise in unemployment since the crisis began will prove long-lasting.

Downward pressures on core inflation have continued….

The upward pressures on headline inflation in recent months, resulting largely from higher global commodity prices, should be close to peaking in most major OECD economies under the assumption of no further changes in commodity prices (Figure 1.13). However, headline inflation is continuing to rise in a few economies, such as the United Kingdom, in part because of price level adjustment following indirect tax increases. Core inflation, abstracting from the direct effects of commodity price inflation, and statistical measures of underlying inflation have continued to moderate in most economies, albeit relatively slowly, reflecting the present high degree of economic slack. The annual rate of core inflation has edged down close to 1¼ per cent in the United States this year and has now slipped below 1% in the euro area. In Japan, the pace of deflation appears to have stabilised around an underlying rate of 1%. Labour-cost pressures are minimal, with unit labour costs having fallen especially sharply in the United States, helped by the surge in labour productivity growth, and in Japan. The comparatively modest downward drift of core inflation, given the large negative output gaps that are estimated to exist at present, may reflect the relative stability of inflation expectations, at least until recently, as well as possible asymmetries in the impact of economic slack at very low rates of inflation and high levels of slack. Another possibility is that output gaps are smaller than assumed in the current projections. Outside the OECD area, higher food costs have also added to inflation pressures in China and India, with some indications of wider inflation pressures in the latter economy. In

Figure 1.13. **Underlying inflation is set to remain subdued**

12-month percentage change



Note: PCE deflator refers to the deflator of personal consumption expenditures, HICP to the harmonised index of consumer prices and CPI to the consumer price index.

Source: OECD Economic Outlook 87 database.

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Brazil, a rapid reduction in spare capacity has pushed up headline inflation.

… and core inflation should remain subdued over the next two years

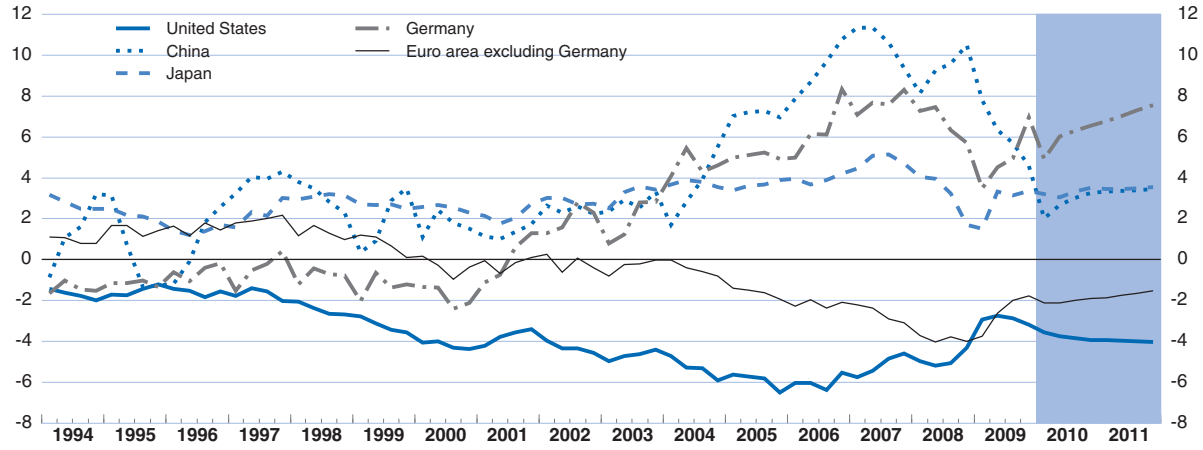
Ongoing economic slack, projected to diminish only slowly, seems likely to continue to damp inflationary pressures for some time to come, provided that longer-term inflation expectations do not become unanchored. Even so, only small further reductions in core inflation are anticipated, despite the size of the negative output gap at present. In the United States, the annual rate of core inflation is projected to drift down to average close to 1% in the latter half of this year and in 2011. Core inflation in the euro area is expected to remain at just under 1% throughout the next eighteen months. In Japan, deflation is expected to persist. Whilst the building up of deflationary pressures remains a possibility, the likelihood of such an outcome seems limited. At present, longer-term inflation expectations remain anchored at rates relatively close to explicit or implicit inflation objectives of the monetary authorities in Japan and the euro area, but are now somewhat above inflation objectives on some measures in the United Kingdom and the United States, raising a risk that inflation could surprise on the upside in these economies.

Global imbalances have begun to widen slowly…

The recession, and the associated decline in oil prices, helped to generate a considerable narrowing in global current account imbalances (Figure 1.14; Table 1.4). This period of adjustment has now ended in many OECD countries, with imbalances having already begun to widen somewhat as global trade, activity and commodity prices have picked up since mid-2009. In particular, the early stages of recovery have seen the external deficit of the United States widen by over ½ per cent of GDP, mainly reflecting terms-of-trade losses, while the trade surpluses of Japan and Germany have risen. Amongst the non-OECD economies, the trade

Figure 1.14. **Global imbalances will widen modestly**

Current account balance, in per cent of GDP



Source: OECD Economic Outlook 87 database.

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surplus of the major oil-producing economies has also risen, but the Chinese current account surplus declined to around 6% of GDP in 2009, well below the size of the surplus in 2007. The surplus appears to have declined further through 2009 and into 2010, and the monthly trade balance even moved temporarily into deficit in the early part of this year, on the back of strong import volume growth and a decline in the terms of trade, despite a recovery in export volume growth.

... and this appears likely to continue as the recovery progresses

The gradual impetus towards wider imbalances seems likely to continue through the course of 2010 and 2011 (Figure 1.14; Table 1.4). In particular, the relative strength of domestic demand in the United States is projected to further widen the US external deficit by around ¾ per cent of GDP by the end of next year. The German and, to a lesser extent, the Japanese surpluses are projected to increase, helped by the relative exposure of domestic exporters to the upturn in demand for capital goods, especially in fast-growing Asian markets and a pick-up in the income from assets held abroad by domestic residents. Moreover, the trade deficit of the rest of the euro area should continue to narrow, even though some internal imbalances are expected to persist (Box 1.5). The Chinese current account surplus is expected to rise by around ¾ per cent of GDP over the next eighteen months, as domestic demand growth begins to ease and net export volumes strengthen further. Overall, trade imbalances are set to move closer to their estimated underlying levels over the projection period.[5]

Risks remain substantial

Although the economic recovery has now been underway for a year, and is proving to be somewhat more robust than anticipated earlier, the short-term risks around the forecast remain considerable. The nature of the upside and downside risks are quite different. The principal upside risk is that the momentum of the recovery in all OECD economies turns out to be stronger than projected, helped along by the ongoing buoyancy of the non-OECD economies and the normalisation of financial conditions. The fuel for such a development could come from a faster bounce-back of business investment to more normal levels and from stronger growth in household consumption against the background of improved balance sheets and reduced uncertainty about labour market prospects. In contrast, downside risks are largely associated with the possibility of particular events that could check the recovery, in some cases quite significantly. In particular, new tail-risks have arisen from the growing concerns about longer-term debt sustainability in some countries and the associated widening in sovereign risk spreads. On either side, risks remain inter-related, with more favourable outcomes in one area of

5. The underlying balance estimates assume a closing of the output gap and an oil price of just under $80 per barrel. The estimates for 2011 are that the United States has a trade deficit of 4½ per cent of GDP, while Japan, the euro area and China have respective trade surpluses of 1.3, 0.5 and 5 per cent of GDP. See Cheung *et al.* (2010).

Box 1.5. **Addressing imbalances within the euro area**

The financial crisis and its aftermath have exposed many of the deep-seated problems resulting from the decade-long build-up of underlying imbalances in the euro area. Many euro area countries that have lost competitiveness over the past decade are now facing a need to tackle both a sizable structural fiscal deficit and a shortfall of private-sector saving, reflected in a still sizable external deficit.

Some diversity of economic performance, including current account balances is natural, also in a common currency area, reflecting different development levels and differences in structural factors, such as demographic developments. However, a striking characteristic of the first decade of the euro area, at least until recently, has been the extent to which such imbalances have been able to persist. Moreover, they have in some cases reflected policy settings which were not sustainable over the long term, combined with more protracted adjustment processes inside the monetary union (Hoeller et al, 2004). The challenge now is to ensure that policies are implemented which can help excessive imbalances to be unwound at the lowest possible cost.

This will not be easy, however, as cumulated shifts in underlying cost competitiveness since the start of monetary union and changes in domestic saving and investment patterns cannot be quickly reversed. At the same time, these will have to be the adjustment parameters in a situation where cross-country labour mobility is limited. The problems in Greece are the most visible and the most urgent that need to be tackled, not least to minimise the risks of financial contagion, but action is needed elsewhere as well. Fiscal consolidation will be part of the solution, with the needs for consolidation generally larger in the countries with external deficits. At the same time, tackling the imbalances effectively, and in a way that ensures that all countries do not try to improve price and cost competitiveness simultaneously, is likely to require structural reforms in all countries.

Adjustment may be facilitated by undertaking structural reforms that are, in any case, desirable to improve economic performance and living standards in the countries concerned. Possible measures include:

- *Greater price and wage flexibility*. Structural reforms to enhance wage and price flexibility, especially in countries that have lost price and cost competitiveness over the past decade, would speed up and strengthen competitiveness effects and help to ensure that necessary price adjustments take place at reasonably low unemployment rates. Measures to reduce the non-wage components of labour compensation could help to improve competitiveness by damping the growth of unit labour costs, although care is needed in the timing of their introduction to ensure that offsetting measures do not weaken domestic incomes excessively rapidly.
- *Changing private investment patterns*. Structural reforms in surplus countries could usefully be introduced to improve incentives to undertake domestic fixed capital investment and thus enhance growth prospects. For instance, the recent *OECD Economic Survey of Germany* (OECD, 2010a) suggests that Germany may be able to boost its investment rate, which is currently relatively low, by introducing policies to reduce regulatory barriers in sheltered sectors to encourage additional business investment, including from foreign investors, and generally shift resources towards currently less developed parts of the economy. In deficit countries, reforms should focus initially on strengthening tradable sectors, for example by taking steps to further reduce administrative burdens on business. In addition, distortions in non-tradable sectors that have resulted in excessive investment in the past decade should be eliminated.
- *Retirement reform in surplus and deficit countries*. High saving rates in surplus countries, related in part to demographic developments and reforms that have cut old-age replacement rates, could be lowered if the need for credible long-lasting fiscal consolidation was met, at least in part, by reforms to delay retirement. The corollary for deficit countries is that reforms to postpone retirement may be a particularly effective way of achieving medium-term consolidation without undue prejudice to near-term demand, although it would do less to tackle underlying saving and investment imbalances.

Box 1.5. **Addressing imbalances within the euro area** *(cont.)*

The process needed for external deficit countries to regain some of the foregone price and cost competitiveness over the past decade is likely to take some time. As a hypothetical illustration of the lengthy adjustments required for some countries to regain competitiveness, suppose that the annual rate of inflation in all euro area countries will be 2%, apart from in Greece, Portugal, Spain and Ireland, where the annual rate will be zero. Given the respective sizes of these economies, this would imply an area-wide inflation rate close to 1.6% per annum. Maintaining such differentials for five years, would change relative prices in these two groups by close to 10½ per cent, correcting much of the swing in real exchange rates since 1999 (see figure). However, an adjustment occurring through prolonged low inflation, or even some deflation, in deficit countries would tend to exacerbate the difficulties some of these countries face in dealing with their high and rising public debt burdens. And deflation could be difficult to achieve, given the high downward nominal wage rigidity in some countries, including Greece (ECB, 2009).

Intra-euro area competitiveness

Harmonised consumer prices relative to other euro area countries, 1993 = 1



Note: The indicators are calculated using a double-weighted trade matrix for 2000 covering the 13 countries that are currently members of both the euro area and the OECD. Results for Slovakia are not shown in the charts or discussed in the text because of the particular nature of the starting point of 1993, which in this country corresponds to the early stages of the transition to a market economy.

Source: OECD Economic Outlook 87 database; and OECD calculations.

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risk, and in one economy, leading to more favourable outcomes in others. At present, key risks include:

There is a marked downside risk of financial market contagion…

- Ongoing market concerns about public debt sustainability in particular countries, with associated rises in bond rates and risk premia, highlight the renewed risks of contagion in financial markets, as demonstrated by developments in the euro area in early May. In countries with high debt burdens and heavy short-term debt issuance, widening spreads on government debt could result in enforced fiscal contractions with strong negative demand effects or, at the limit and in cases where no outside assistance is forthcoming, in solvency problems. In countries not suffering from acute fiscal pressures, the consequence of higher bond spreads for activity would still be negative. To provide an order of magnitude, simulations on the OECD global macroeconomic model (Hervé *et al.*, 2010) indicate that the impact of a simultaneous 100 basis points increase in risk premiums in all countries would be to reduce output growth by around ½ a percentage point in both the first and second years of the increase in risk premiums. Near-term sovereign debt risks have dissipated in Europe since early May, but long-run concerns about debt sustainability remain, with associated downside risks for the projections.

… and from higher commodity price inflation

- There remains a risk that the strong recovery in non-OECD economies that have a relatively high demand for raw materials could place upward pressure on commodity prices. It is unlikely, however, that oil prices will be driven up to record levels similar to those seen in mid-2008, not least because OPEC appears unlikely to tighten oil supply again in the near future. The impact of higher oil prices would in any case be limited, provided any upward price adjustment remained modest. A 10% increase in oil prices would reduce activity in the major OECD economies by around 0.1 percentage point after a year, with inflation pushed up by 0.2 percentage point. Monetary policy would not need to respond to such a change given the present low inflation environment.

Inflation expectations could become unanchored

- A downside risk is that long-term inflation expectations become unanchored and drift upwards. If so, monetary policy accommodation would need to be reversed more quickly, damping demand growth at a time when fiscal consolidation is getting underway.

On the upside, non-OECD growth could be more robust

- Inherent growth dynamics in the non-OECD economies could be more robust than projected, even as these countries moderate their accommodative macroeconomic policies. Stronger demand growth in the emerging economies would help to support activity in the OECD economies. An increase of 2-3% in the level of domestic demand in the non-OECD economies would, under unchanged macro policies, raise output in the first year by around one quarter of a percentage point in the major OECD economies. Such a scenario could also impart

downside risks, however, given the associated possibility of a need for abrupt policy reversal in the non-OECD economies in response to inflation and asset price pressures.

Uncertainty remains about the impact of policy normalisation

More generally, economic developments in recent months have in some respects been surprisingly good. In particular, the fall in prices of many assets has been much smaller than earlier feared, and equity prices for non-financial companies have recovered to pre-crisis levels. However, there has been little deleveraging in the private sector as yet. This raises concern about a return to the pre-crisis situation with the associated fragilities, especially given the strong role of macroeconomic policy in bringing about such an outcome and the concomitant sensitivity to a normalisation of policies.

Policy responses and requirements

Policy decisions remain interlinked

The overall policy stance needs to reflect current and anticipated economic developments. Where the process has not already begun, consolidation of the public finances should start by next year at the latest, based on credible and well-articulated medium-term consolidation plans to restore fiscal soundness. The pace of consolidation in those countries that have a choice, should be sufficient to ensure continued credibility and to avoid damaging increases in long-term interest rates while, as far as possible, being commensurate with the pace of the recovery and the initially limited scope for monetary policy accommodation. Most central banks will need to have begun the normalisation of policy interest rates by the end of this year, with the pace of normalisation subsequently dependent on the outlook for inflation, including the behaviour of inflation expectations and the impact of prospective fiscal consolidation on macroeconomic conditions. These factors call for exit proceeding at different speeds across countries. The synchronous nature of the exit may place some limits on the pace of exit, especially as actions to tighten policies in one country will affect others. International coordination will be required when government interventions are rolled back in financial markets and new regulatory and supervisory arrangements are introduced.

Fiscal policy

Fiscal positions have deteriorated markedly

Fiscal positions have deteriorated markedly in the aftermath of the crisis, albeit less than previously expected. The OECD area-wide fiscal deficit is projected to stabilise at 7.8% of GDP in 2010, more than three quarters of which is estimated – with a large margin of error in current circumstances – to be structural (Table 1.6).[6] In 2011, fiscal balances are projected to improve by 1% of GDP on average, with roughly half of the

6. The structural component is based on potential output estimates, and output gap estimates, along the lines described in *OECD Economic Outlook*, No. 85. Given the uncertainties about the impact of the crisis on potential output levels, growth in the recent past and in the near future, estimates of structural and cyclical components of budget balances are particularly uncertain at present.

Table 1.6. **Fiscal positions will begin to improve in 2011**
Per cent of GDP/Potential GDP

	2007	2008	2009	2010	2011
United States					
Actual balance	-2.8	-6.5	-11.0	-10.7	-8.9
Underlying balance[2]	-3.3	-5.9	-8.5	-8.9	-8.1
Underlying primary balance[2]	-1.4	-4.2	-7.0	-7.1	-5.7
Gross financial liabilities	61.9	70.4	83.0	89.6	94.8
Japan					
Actual balance	-2.4	-2.1	-7.2	-7.6	-8.3
Underlying balance[2]	-3.5	-3.3	-5.7	-6.3	-6.8
Underlying primary balance[2]	-2.8	-2.4	-4.7	-5.0	-5.2
Gross financial liabilities	167.0	173.8	192.9	199.2	204.6
Euro area					
Actual balance	-0.6	-2.0	-6.3	-6.6	-5.7
Underlying balance[2]	-1.3	-1.8	-3.5	-4.1	-3.6
Underlying primary balance[2]	1.4	0.8	-1.1	-1.6	-0.9
Gross financial liabilities	71.0	75.8	86.3	92.4	96.7
OECD[1]					
Actual balance	-1.2	-3.3	-7.9	-7.8	-6.7
Underlying balance[2]	-2.3	-3.7	-6.1	-6.3	-5.8
Underlying primary balance[2]	-0.4	-2.0	-4.5	-4.5	-3.6
Gross financial liabilities	73.0	79.0	90.3	95.8	99.8

Note: Actual balances and liabilities are in per cent of nominal GDP. Underlying balances are in per cent of potential GDP. The underlying primary balance is the underlying balance excluding the impact of net debt interest payments.
1. Total OECD excludes Mexico and Turkey.
2. Fiscal balances adjusted for the cycle and for one-offs.
Source: OECD Economic Outlook 87 database.

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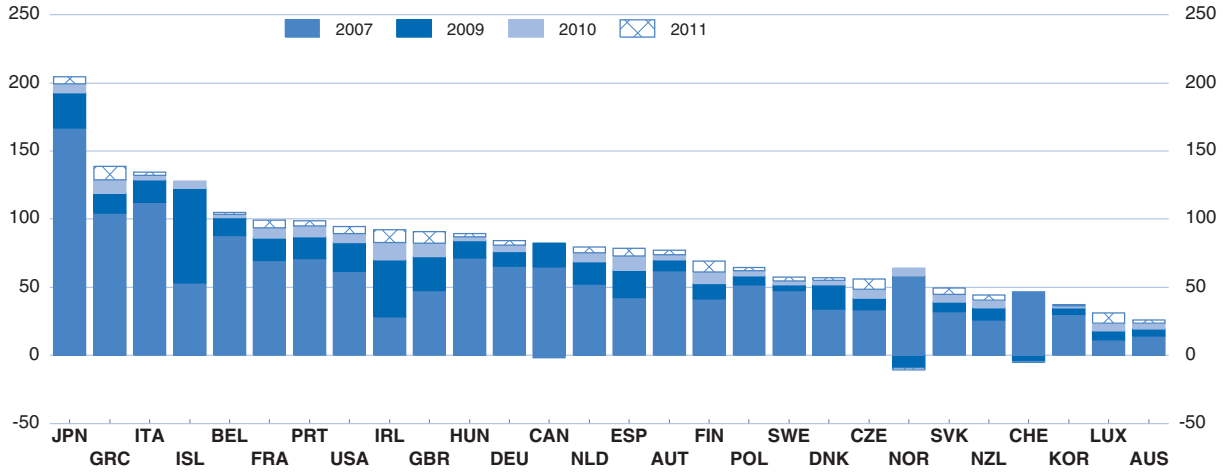
improvement accounted for by the cyclical upswing, and the remainder by improvements in underlying balances. The 2011 deficit projection is nearly 1 per cent of GDP below that in the previous *Economic Outlook*.

Consolidation is scheduled to begin in 2011…

Temporary parts of the fiscal stimulus programmes are set to be withdrawn in 2011 in most countries. Underlying balances are projected to improve more strongly, by 1% of GDP or more, in a few countries (Greece, Iceland, Portugal and Spain). Even so, underlying deficits remain deep across the OECD area, exceeding the 2007 pre-crisis level by 3½ per cent of GDP on average. In the euro area as a whole, a modest aggregate improvement is projected, although underlying balances could even deteriorate in a few countries (Italy, Finland, Ireland and Luxembourg). Indeed, reflecting the integration of only concrete policy measures in the current projections, structural balances for the euro area countries improve by about a third of the amount indicated by governments in their EU Stability Programmes issued in early 2010. For Japan, the expansionary stance in 2011 reflects the government's commitment to a variety of new spending programmes, with consolidation measures yet to be announced. Debt-to-GDP ratios will continue to rise across the OECD area, reaching just under 100% of GDP on average in 2011, almost 30 percentage points higher than in 2007 (Figure 1.15).

Figure 1.15. **Government debt heads higher**

Per cent of GDP



Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932304031

... but should be more ambitious in many countries

Against the background of the subdued recovery and the risks around it, the projected neutral fiscal stance is appropriate in most countries for this year. However, in the countries where evidence of a stronger-than-expected recovery is cumulating (as is the case in Canada, Korea and Norway), the authorities may wish to use scope for moving the start of consolidation into 2010. Countries at risk of losing confidence in financial markets also need to strengthen government finances more rapidly. In 2011, when, on current projections, the recovery will have gathered strength, the weak state of public finances calls for consolidation in most countries. The announcement of credible consolidation plans should allow retrenchment to progress at a measured pace initially so as not to undermine the recovery, though countries with strong growth and countries with high public deficits and debt should consolidate at a faster pace. In many cases, projected consolidation measures in 2011 seem to involve an insufficient degree of tightening; the further fiscal stimulus planned in a few countries is not warranted.

Weak public finances risk destabilising financial markets

Inadequate consolidation efforts in countries with high deficits and debt would risk adverse reactions in financial markets, with investors demanding high interest rates as compensation for higher default risk. Empirical studies indicate that interest rate reactions are more likely when public debt is high and that the risk premium increases with higher debt ratios. In general, the projections assume that when government indebtedness passes a threshold of 75% of GDP, long-term interest rates increase by 4 basis points for every additional percentage point increase in the debt-to-GDP ratio.[7] The link

7. An important exception is Japan which has seen a substantial increase in indebtedness over the last two decades with, so far, little obvious effect on interest rates probably because of the high proportion of debt which is financed domestically. The responsiveness of interest rates to debt is assumed to be only one-quarter that for other countries.

between the state of public finances and government bond yields has been vividly displayed in the turbulence surrounding Greece and, to a lesser extent, some other southern European economies in recent months. To resolve this crisis, Greece will have to implement agreed consolidation steps without delay to ensure the medium-term stability of public finances and to adhere to the conditions that have been set for receiving emergency loans. Both Spain and Portugal have also taken action to speed up consolidation.

Mechanisms to address fiscal crisis in the euro area need to be strengthened

Mounting concerns about public debt sustainability culminated in strong financial market turbulence in the euro area in early May, which led to the announcement of a series of co-ordinated measures between the EU member countries, the International Monetary Fund and the European Central Bank (Box 1.6). These have reduced the short-term risk of contagion in financial markets, but have addressed concerns about long-run solvency risks only insofar as it is known that lending will be subject to conditionality. Several important issues remain to be clarified,

Box 1.6. **The European support package**

Faced with rapidly rising turbulence in euro area financial markets stemming from concerns about the longer-term sustainability of sovereign debt positions, the European Community, the IMF and the ECB announced a package of support measures on May 9/10. These measures came on top of a series of already-agreed bilateral three-year loans to Greece, worth € 110 billion. There were two broad elements in the support package – additional financial support backed jointly by member governments and the IMF, for liquidity loans to governments at risk, and new actions by the ECB to help ensure financial stability in the euro area.

The European Community and the IMF announced the creation of a new European stabilisation mechanism, capable of providing up to € 500 billion of financial assistance over a three-year period, with up to € 250 billion of matching funding from the IMF. These funds, plus the loans for Greece are equivalent to close to 9½ per cent of euro area GDP. The interest rate charged on the new funds appears likely to be similar to that charged on the bilateral loans to Greece, at around 5%. The new stabilisation mechanism has two parts:

- The establishment of a new Special Purpose Vehicle (SPV), able to make loans to euro area states in need of assistance of up to € 440 billion, subject to strong conditionality. These loans are to be guaranteed by euro area member states (in proportion to their voting rights at the ECB). The SPV is due to last for 3 years and will raise funding on the markets, backed by government credit guarantees (€ 660 billion is just over 7¼ per cent of euro area GDP). It will likely take some time to put this measure, and the modalities under which it will operate, fully into place. In particular, technical work needs to be undertaken by the European Commission to set up the SPV, and the loan guarantees will need legislative approval by member states.
- A financial stabilisation mechanism providing loans or credit lines of up to € 60 billion, operated by the European Commission and available to help all EU member states in financial need. Funding for this facility is raised in the markets by the European Commission, using the EU budget as collateral, as with the existing medium-term balance-of-payments facility for non euro area member states, which has already been used to help Latvia, Hungary and Romania in the past two years. The additional € 60 billion funding is backed by all EU member states and is available subject to strong conditionality, and in the context of joint EU/IMF support.

Box 1.6. **The European support package** *(cont.)*

The ECB announced that it would:

- Begin to purchase private and government debt securities on the secondary markets (*i.e.* not directly from member governments), in those segments which are "dysfunctional". This would not amount to quantitative easing, as actions would be taken to sterilise all such purchases, preventing any direct impact on the monetary base.
- Re-activate measures to supply unlimited three- and six-month liquidity to banks. The three-month liquidity is to be provided using a fixed rate procedure, whereas the rate for the six-month liquidity operation will be fixed *ex post* at the average minimum bid rate of the main refinancing operations over the life (the six-month interval) of the operation.
- In addition to these measures, a range of bilateral currency swap arrangements with the US Federal Reserve was also announced, including with the ECB. This raises the availability of US dollar denominated funding for European financial institutions.

All in all, the three-year government loans and guarantees, together with the significant steps taken by the ECB, should solve current liquidity problems in the markets. They cover the likely funding needs of the most-exposed governments and should enable the financial institutions most exposed to the sovereign liabilities of those countries (and therefore most exposed to the possible risk of default) to obtain the near-term funding they require on adequate terms.

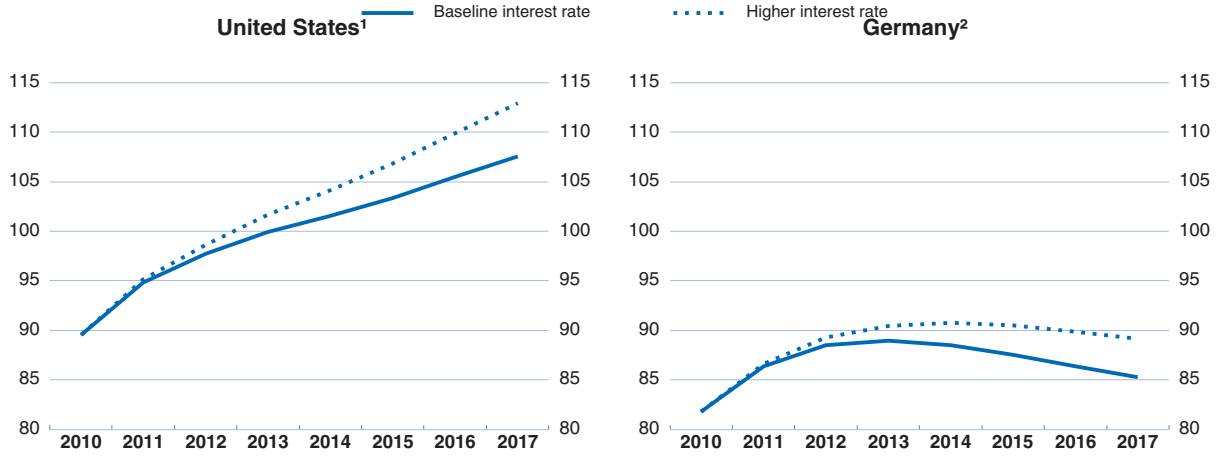
including the conditions under which countries will qualify for aid, the decision-making process required for that aid to be granted swiftly and in adequate amount, and what will happen if a request for aid is denied. Unless based on a clear and transparent process, the provision of support may be seen by financial markets as subject to significant political risk. The existence of additional support facilities for euro area countries also poses moral hazard problems which, if left unchecked, would weaken incentives to maintain sound fiscal positions. Enhanced surveillance and co-ordination of fiscal policies under the European Stability and Growth Pact could help to reduce this risk, though a much increased impact at the national level will be required for such a process to be effective. Options range from improved surveillance of national plans at one extreme of the spectrum to arrangements implying a fiscal union at the other extreme, with national budget autonomy combined with centrally-agreed rules, external audit of accounting and reporting rules and penalties in-between. More stringent and timely sanction mechanisms for cases of non-compliance with EU fiscal rules will be required, including higher penalties for excessive budget deficits. Spelling out more clearly the conditions under which support facilities will be available may also enhance the disciplining effect of financial markets.

Current fiscal plans might not suffice to stabilise debt-to-GDP ratios

Most OECD countries have announced medium-term consolidation targets. However, even if countries adhere to these plans, in contrast to frequent slippages in the past, current programmes in many OECD countries may not suffice to halt adverse debt dynamics, particularly if growth remains more subdued than assumed. For example, if GDP growth and interest rates evolve as assumed in the long-term scenario presented

in this *OECD Economic Outlook*, the President's medium-term budget proposal would not suffice to stabilise the US debt-to-GDP ratio without further amendment (Figure 1.16). Under similar assumptions, the deficit target in Germany implies that the debt ratio continues to rise for the next three years. However, it is scheduled to fall thereafter due to the recently introduced constitutional requirements. Nonetheless, a concrete consolidation strategy for meeting the target is not yet available and will need to be developed.

Figure 1.16. **Gross debt ratios under announced government consolidation plans**



Note: Baseline interest rates follow a long-term baseline scenario that is presented in *OECD Economic Outlook 87*. In the higher interest rate case, interest payments arising from financing needs from 2011 onward are based on interest rates that are set 100 basis points higher than the long-term equilibrium rates in the long-term scenario. In estimating the financing need arising from roll-over of maturing portions of the debt, the redemption schedule based on maturity distributions of marketable debt issued by the central government is applied to total general government debt. Up to 2011, growth and interest rate assumptions are taken from the projections in *Economic Outlook No. 87*. Thereafter, growth rates and gross asset ratios are based on the long-term scenario, with the exception of the United States, where the cyclical impact on fiscal balances under the government consolidation plan is based on national assumptions.

1. The consolidation path is based on changes in dollar values of fiscal balances (net of interest expenses) published in the President's Budget proposal as of 1 February 2010, as assessed by the Congressional Budget Office (CBO). Fiscal impacts of final health care legislation are also taken into consideration based on the CBO's assessment as of 20 March 2010.
2. The consolidation plan up to 2013 is based on the annual changes of cyclically-adjusted primary balances as per cent of GDP incorporated in the "German Stability Programme January 2010 Update". Beyond 2014, cyclically-adjusted primary balances are assumed to improve at equal steps, so that net lending reaches balance in 2020.

Source: OECD Economic Outlook 87 database; and OECD calculations.

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Consolidation needs are large to stabilise public debt ratios

A long-term scenario to 2025 has been used to assess the extent of consolidation needed to stabilise public debt ratios (see Chapter 4). The scenario assumes that from 2012 onwards there is a gradual and sustained improvement in the underlying primary balance by ½ per cent of GDP per year until the debt-to-GDP ratio stabilises. For several countries this assumption implies a degree of fiscal consolidation which is less ambitious than incorporated in current government plans and it would in general seem to be insufficient, but it serves as a baseline to discuss more ambitious policies and it provides an illustration of what is needed just to stabilise debt at often very high levels. Indeed, the stabilisation of the debt-to-GDP ratio would call for a tightening of underlying primary

balances of between 5 and 10% of GDP in the countries with the largest primary deficits (Ireland, Japan, Spain, Poland, Iceland, the United Kingdom and the United States) (Table 1.7). Even then, debt in the OECD area is projected to increase by a further 18 percentage points of GDP from 2012 onwards before it stabilises, exceeding 100% of GDP for about a third of the OECD countries. In particular, the increase in the debt ratio amounts to 25% of GDP or more for the United States, the Czech Republic, Finland, United Kingdom, Ireland and Poland.

Table 1.7. **Consolidation requirement to stabilise the debt-to-GDP ratio over the long-term horizon**

As per cent of potential GDP

	Underlying primary balance in 2010	Underlying primary balance required to stablise debt[1]	Required change in underlying primary balance	Projected Change in underlying primary balance in 2011	Requirement beyond 2011
	(A)	(B)	(C) = (B) - (A)	(D)	(C) - (D)
Australia	-1.8	0.1	1.9	1.0	0.9
Austria	-1.1	0.8	1.9	0.2	1.7
Belgium	1.9	0.9	-1.0	0.7	-1.6
Canada	-1.4	0.1	1.5	0.6	0.9
Czech Republic	-3.0	-0.4	2.6	0.0	2.6
Denmark	-0.5	0.2	0.7	0.3	0.4
Finland	-0.4	-0.4	0.0	-0.4	0.4
France	-3.2	1.7	4.9	0.7	4.2
Germany	-1.2	1.2	2.4	0.7	1.7
Greece	1.0	4.1	3.1	2.1	1.0
Hungary	2.1	2.5	0.4	0.0	0.4
Iceland	-2.6	2.4	5.0	3.0	2.0
Ireland	-4.7	1.6	6.3	0.1	6.2
Italy	1.8	3.2	1.4	0.0	1.4
Japan	-5.0	3.6	8.6	-0.2	8.8
Korea	0.4	-1.7	-2.1	-0.3	-1.8
Luxembourg	-2.2	0.1	2.3	-1.1	3.4
Netherlands	-2.0	0.8	2.9	0.7	2.1
New Zealand	-3.1	0.1	3.1	0.1	3.0
Norway	-4.0	0.6	4.7	0.4	4.3
Poland	-4.8	2.0	6.8	0.4	6.4
Portugal	-2.8	1.8	4.6	2.2	2.3
Slovak Republic	-3.3	1.4	4.7	1.2	3.5
Spain	-5.2	0.6	5.8	1.9	3.9
Sweden	1.7	-0.3	-2.0	1.2	-3.2
Switzerland	0.3	0.0	-0.4	0.1	-0.5
United Kingdom	-5.7	3.1	8.8	0.9	7.9
United States	-7.1	2.6	9.7	1.3	8.3

1. Underlying primary balance required in 2025, based on gradual but steady consolidation paths, to stabilise debt-to-GDP ratios over the long-term horizon, embodied in the long-term baseline scenario presented in *OECD Economic Outlook 87*. Debt stabilisation may take place at undesirably high levels.

Source: OECD calculations.

StatLink http://dx.doi.org/10.1787/888932305969

Consolidation should largely rely on spending restraint

Against this background, plans should be made – and published – for stabilisation and eventual reversal of debt levels so as to boost credibility. For medium-term plans to be credible, they need to be based on cautious assumptions, provide details about how and when consolidation is to be

achieved and include information on how contingencies will be addressed. Credible programmes can also trigger private sector responses that offset to some extent the contractionary impact of consolidation on GDP (Box 1.7). Past experience shows that consolidation based on expenditure cuts is more likely to succeed than consolidations relying on higher taxes (Guichard *et al*., 2007). To some extent this may be because restraints on

Box 1.7. **Will fiscal consolidation affect short-term growth?**

Traditionally, fiscal consolidation is considered to have a negative impact on economic activity, as reducing government spending or raising taxes, and associated multiplier effects, weigh on aggregate demand. However, the private sector's response to government action might be such that it offsets, at least partially, the contractionary impact. To what extent such offsets materialise depends on a range of factors, notably the size of government debt, the credibility of the consolidation programme, the type of instruments used to achieve the consolidation goals and financial market conditions. This box highlights a number of aspects that are relevant at present.

Consolidation may lead to lower interest rates as it reduces the burden of government securities on capital markets, and might stabilise or reduce inflationary expectations. Lower interest rates, by raising the relative returns of investment projects and durable consumption goods, can stimulate private investment and consumption. In a flexible exchange rate regime they might also cause a depreciation of the exchange rate, stimulating exports although this effect might be less relevant in the current situation, with simultaneous consolidation needs in most OECD countries. A positive wealth or liquidity effect on consumption might also arise, as lower long term interest rates tend to raise the price of assets (bonds, stocks and real estate).

Expectations play an important role in the transmission of fiscal policy measures to the private sector. In particular, consumers are likely to base their consumption decisions to some extent on expected future income streams (permanent income) rather than on current disposable incomes. In this context, if private agents anticipate that a tax increase or public spending cuts will take place in the future, they may already have adjusted their spending behaviour before the implementation of the tax increases and spending cuts, as their permanent income has been cut. In such cases, the implementation of the fiscal measures would have no effect on aggregate demand. While this proposition (a corollary to the "Ricardian Equivalence" proposition) in its pure form would apply only under rather strict assumptions that are hardly met in reality, it is found to be of some relevance for actual behaviour.

Recent OECD estimates assessing Ricardian equivalence, suggest that the public/private saving offset is on average across OECD countries around 40% (Röhn, 2010) and that this offset already materialises in the short term.[1] However, large variations across countries exist. Additionally, the evidence suggests that the offset becomes larger with increasing debt levels.[2] This is consistent with the notion that the level and growth rate of public debt may trigger discrete changes in private expectations giving rise to non-linear effects between fiscal policy and private responses.[3] For example, given high levels of debt, consolidation can signal a permanent regime shift of future fiscal retrenchment leading to expectations of permanently lower taxes and thus higher disposable income in the future. Also, with fiscal positions considered unsustainable at high debt levels, a large and credible consolidation programme can reduce the expected probability of default, reducing risk premia on government securities. This in turn, can imply falling interest rates more generally, with positive effects on economic activity. Given the current large and unsustainable debt levels in many OECD countries, the evidence therefore suggests that consolidation may trigger a positive private response leading to less adverse effects on short-term growth or even expansionary effects[4]. However, the credibility of the consolidation programme is a crucial prerequisite for private agents to anchor their expectations. The credibility can be enhanced by the size of the consolidation and/or the introduction of fiscal rules.

Box 1.7. **Will fiscal consolidation affect short-term growth?** *(cont.)*

Getting the financial sector in order is an important prerequisite for successful fiscal consolidations (Barrios *et al.*, 2010). The Ricardian offset of public saving is stronger the less credit-constrained private agents are (Röhn, 2010). Also, the extent of potential crowding-in of private investment and consumption depends on the need for private agents to repair their balance sheets. Against this background, the recent improvement in financial conditions in the OECD can be seen as a supportive factor for consolidation efforts.

1. These estimates are in line with other recent studies that estimate the short term offset to be between 0.1 and 0.5. However, most of these studies find a significantly higher offset in the long term (*e.g.* de Mello *et al.*, 2004). A possible caveat of the saving offset estimates is that they are derived under the assumption that private-public savings offsets are equal in fiscal expansions and contractions.
2. See also Nickel and Vansteenkiste (2008), Berben and Brosens (2007), and Nicoletti (1988, 1992).
3. See *e.g.* Giavazzi *et al.*, 2000; Blanchard, 1990; Sutherland, 1997; Perotti, 1999.
4. Indeed, several consolidation episodes in the past have been identified as expansionary such as Denmark 1983-1986 and Ireland 1987-1989 (*e.g.* European Commission, 2003).

spending demonstrate commitment, thereby bolstering the credibility of the consolidation strategy. To the extent that revenue increases are needed in the consolidation process, the scope to cut tax expenditures should be exploited, and taxes with the least distortionary impact on economic activity, such as recurrent taxes on immovable property and consumption taxes should be employed (Johansson *et al.*, 2008). Taxation of carbon emissions and the auctioning of emission permits could also raise revenues while addressing environmental concerns. Curbing public sector wages might also go some way to improve fiscal positions in the short term, although there is a risk that they might rebound at a later stage or that public sector pay might lose competitiveness relative to the private sector.

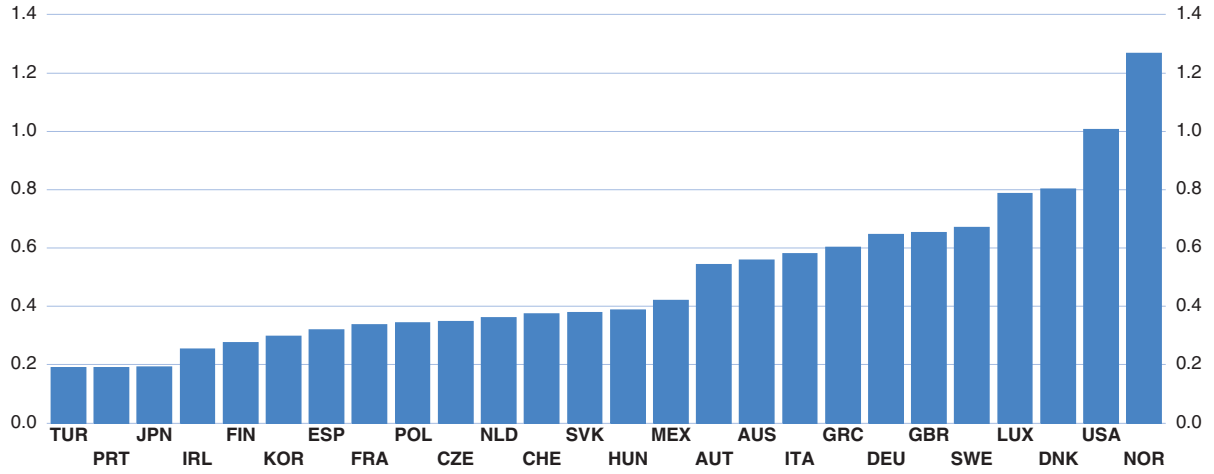
Scope to raise public sector efficiency should be exploited

Public spending reductions should also be designed to favour long-term growth. Hence, outcomes in growth-enhancing activities in areas like infrastructure, health care and education should be preserved to the extent possible given that these are also large spending items. Achieving this will be helped by exploiting the wide scope for greater efficiency within these spending categories. As recent OECD studies document, the budgetary impact of moving to international best practice in key public services can be sizeable. For the health care sector it has been estimated that on average across OECD countries potential efficiency gains from moving to best practice while leaving health outcomes unchanged could amount to 2% of GDP (Joumard *et al.*, 2008). In primary and secondary education moving to OECD best performance could on average generate efficiency gains between one quarter and more than 1% of GDP (Figure 1.17) (Sutherland *et al.*, 2007).

Fiscal rules and independent monitoring can help

Sustaining significant consolidation efforts over many years can be difficult, but there is some evidence that fiscal rules, in particular those that have expenditures as a focus in combination with deficit rules, can have a favourable impact on both the size of fiscal consolidation and the duration of the consolidation effort (Guichard *et al.*, 2007). In a similar vein, involving independent institutions in the monitoring of consolidation policies would

Figure 1.17. **Potential efficiency gains in primary and secondary education are large**
Per cent of GDP



Note: The numbers show potential resource savings at the national level from reducing teacher-student ratios while holding outputs constant. Implied input cuts were applied to compensation of all staff in primary, secondary and post-secondary non-tertiary education for the year 2002.

Source: Sutherland *et al.*, 2007.

StatLink http://dx.doi.org/10.1787/888932304069

be an option to strengthen the credibility of consolidation strategies by raising the political costs of deviating from plans.

Rebalancing debt maturities can help contain to debt servicing costs

It may also be possible to economise on debt-servicing costs, but there is often a trade-off with risk. Some countries, notably Germany and France, have recently shortened significantly maturities at issuance of government securities (Box 1.8). Although this reduces debt servicing

Box 1.8. **The maturity structure of government securities and refinancing (roll-over) risk**

Financing needs for governments arise from several different sources. In each period, governments must finance primary deficits and gross interest payable on the continuing stock of gross debt. In addition, governments need to cover financing needs associated with the turnover of the maturing portion of the debt.

Information for selected OECD countries provided by national authorities suggests that average remaining maturities of central government marketable debt lie between 6 and 7½ years for most countries, but are longer, about 13 years, for the United Kingdom (due to issuance of very long-dated gilts) and somewhat shorter, about 4½ years, for the United States (due to relatively large reliance on medium-term Treasury bills) (see first table below). Debt managers have responded differently to the crisis, as witnessed by the proportion of short-term and long-term instruments issued in 2009 compared to the mix of maturities issued pre-crisis during 2007 (see second table below). While France, Germany, Switzerland and, to a lesser extent, Japan significantly increased the portion of debt issuance with very short maturities (one year or less) at the expense of long term securities (10 years and more), the United States, Italy, United Kingdom, Canada and Sweden have reduced the share of short-term debt, with Italy and Sweden increasing the share of emissions with long-term securities (10 years and more). All in all, present maturity distributions imply that, for most countries, a substantial portion of the debt will mature in the near future, by the end of 2011, adding to financing pressures on governments and increasing sensitivity to changes in interest rates.

Box 1.8. **The maturity structure of government securities and refinancing (roll-over) risk** *(cont.)*

Distribution of remaining maturities of marketable central government securities

	United States	Japan	Germany	France	Italy	United Kingdom	Canada	Belgium	Netherlands	Sweden	Switzerland
	January 2010	March 2009	February 2010	December 2009	January 2010	January 2010	January 2010	January 2010	January 2010	February 2010	March 2010
Average remaining maturity (years)	4.7	6.3	6.5	6.9	6.9	13.0	6.2	5.7	5.5	7.5	7.0
Portion of the debt maturing within one year (%)	33	17	20	26	23	9	39	22	28	14	16
Portion of the debt maturing within two years (%)	45	28	35	36	35	14	49	32	38	20	25
Portion of the debt maturing within three years (%)	56	37	43	44	45	20	56	42	49	31	34
Portion of the debt maturing beyond ten years (%)	9	18	15	19	19	42	19	14	13	25	20

Source: OECD calculation based on national data.

StatLink http://dx.doi.org/10.1787/888932305988

Distribution of maturities at issuance of marketable central government securities

		Percent of the debt maturing in:			
		1 year or less	2 year or less	3 year or less	10 years or more
United States	2007	80.7	80.7	83.6	15.1
	2009	73.8	80.0	85.5	5.0
Japan	2007	21.9	40.5	40.5	37.6
	2009	25.8	47.0	47.0	32.5
Germany	2007	33.5	59.5	59.5	23.7
	2009	52.7	71.9	71.9	17.4
France	2007	63.9	66.1	70.3	18.3
	2009	75.4	77.7	81.4	9.9
Italy	2007	56.0	62.6	70.2	15.7
	2009	51.9	60.1	67.7	19.6
United Kingdom	2007	55.2	55.2	55.2	37.0
	2009	38.0	39.1	45.1	37.9
Canada	2007	90.2	91.7	93.7	4.9
	2009	80.3	86.7	89.1	5.5
Belgium	2007	70.2	70.2	70.3	13.9
	2009	70.2	72.7	79.1	8.2
Netherlands	2007	76.3	79.9	79.9	18.0
	2009	81.2	83.0	87.7	5.7
Sweden	2007	86.0	87.0	87.0	9.1
	2009	72.9	73.8	75.3	20.4
Switzerland	2007	85.9	85.9	85.9	14.1
	2009	91.9	91.9	91.9	2.9

Note: Data refer to all debt instruments issued during the year shown. The amount of debt issued is aggregated by length of maturity at issuance, with the proportions shown being calculated as a percentage of total issuance during the given year.
Source: OECD calculations based on national data.

StatLink http://dx.doi.org/10.1787/888932306007

costs in the short term, given low short-term interest rates, it makes government budgets more sensitive to a normalisation of the yield curve and can put upward pressure on short-term rates. Moreover, as long-term rates are likely to increase once the economic upswing is firming, it is worth considering whether to rebalance debt maturities towards longer maturities so as to lock in currently low interest rates for longer-term securities. An increase in interest rates on government securities across the maturity spectrum by one percentage point from 2011 onwards, relative to the long-term rate assumed in the OECD's long-term scenario, would be associated with significantly higher debt levels in the medium term, increasing debt servicing costs in 2017 by about 3% of GDP for Japan and about 1% for the other countries.

All in all, consolidation poses major challenges

All in all, fiscal consolidation will need to be carried out in a way that ensures that a lack of credibility of consolidation plans does not raise risk premia while, at the same time, preserving long-term growth. Higher risk premia and weak growth could frustrate consolidation efforts, possibly triggering a downward spiral leading to increasingly adverse debt dynamics. To preserve growth, the composition of spending cuts and revenue increases should be carefully selected while structural reforms to boost potential output should be implemented, as discussed later.

Monetary policy

Exit is gradually taking place…

Exit from the massive monetary policy stimulus injected during the crisis is taking place gradually outside the euro area. In the euro area, the process has been reversed by the steps taken to counter the sovereign debt scare. A number of special liquidity provision measures have been scaled down or withdrawn, or announcements to that effect have been made. Asset purchase programmes have been completed, or are scheduled to close in the near future in the the United States and have been paused in the United Kingdom since February. And in a few countries, the normalisation of policy interest rates has already commenced (Australia, Brazil, India, Israel, and Norway) or is expected to begin earlier than previously anticipated (Canada and Sweden). Monetary policy normalisation is also underway in China, which together with Brazil and India has increased bank reserve requirements among other measures.

Exit from extraordinary liquidity provision

… especially for bank liquidity provision…

As improvements in funding markets and greater confidence in counterparties have made it less costly for banks to use market sources of finance, some central bank liquidity facilities have already contracted. An exception to this pattern is the re-introduction of short-term liquidity facilities by the ECB on 10 May (see Box 1.6) The scaling down of the liquidity facilities should depend predominantly on the robustness of financial markets. An option is to retain the remaining measures on the books as long as financial markets are still fragile, while discouraging their use outside situations of stress by increasing access costs

progressively.[8] This may help to avoid the need to have to re-introduce support facilities in event of renewed stress, as was the case with the recent changes made by the ECB, with potential negative effects on confidence. A collateral framework for refinancing operations based on graded haircuts that reflect asset quality, as the ECB will start operating in 2011, may provide support for low-quality assets in periods of stress, while also protecting central banks' balance sheets. At the same time, however, changing the gradings could be a difficult process unless it is seen to be based on objective criteria. Abrupt termination of short-term liquidity facilities should be avoided because a sudden contraction of liquidity can give rise to volatility in bank overnight interest rates. In deciding on the scaling back of liquidity provision, account should also be taken of possible implications for longer-term asset markets, given that banks in some countries have used abundant low-cost liquidity to purchase higher-yielding longer-term assets, such as government bonds.

Exit from central banks' extraordinary asset holdings

... while programmes to purchase long-dated assets are terminated in many countries...

The large accumulation of long-dated assets by the monetary authorities in the United States, Japan and the United Kingdom, aimed at supporting particular segments of financial markets and/or increasing the money supply, has slowed down since the end of 2009 and is poised to finish in the course of the first half of 2010, as asset purchase programmes are terminated.[9] On the other hand, the ECB announced on 10 May that, in addition to its programme to purchase covered bonds, it would conduct additional interventions in the euro area public and private debt securities markets to ensure depth and liquidity in those components which are dysfunctional, sterilising the impact of such interventions on the money supply.

...depending on macroeconomic and financial conditions

The sale of private and public assets needs to be decided on the basis of the distortions such holdings entail, macroeconomic conditions and the functioning of the underlying asset markets. From a long-term perspective, there is a strong case to sell such assets to avoid misallocation of resources and reduced potential output.[10] However, in

8. In the United States and the euro area, access conditions to extraordinary and mid-term liquidity, respectively, have been tightened.
9. The purchase of agency debt and agency mortgage-backed securities ended at the end of March in the United States, together with part of the Term Asset-Backed Securities Loan Facility (TALF). Support for commercial mortgage-backed securities (CMBS) will continue until the end of June 2010. The Bank of England has already completed the implementation of the £200 billion asset purchase programme and the covered bond programme by the ECB should be fully accomplished by the end of the second quarter of 2010.
10. This is because long-term asset purchase programmes have artificially reduced the cost of government debt accumulation and the cost of home ownership, with a longer-term risk of over-investment in residential property if holdings are maintained for a long time. Indeed, central banks' purchases of government bonds in the United States and the United Kingdom may have reduced long-term interest rates by 50 basis points or more, and the purchase of asset-backed (mostly mortgage-backed) bonds in the United States could have cut mortgage rates by an additional 50 basis points. See Sack (2009) and Gagnon (2009).

the short run, higher yields on government and private bonds as a result of government divestiture of accumulated assets would discourage spending by households and businesses, and could translate into pressures on domestic currencies.[11] Moreover, sales could lead to the realisation of losses for central banks which might raise questions about their credibility and independence.[12]

The sale of long dated assets should be gradual

Given the macroeconomic outlook and the still fragile state of some of the relevant asset markets, these considerations suggest that asset sales should be limited in the near term and conducted at a slow pace when they begin. Such a strategy would only be viable and compatible with eventual increases in policy interest rates if central banks offset the impact of such asset holdings on liquidity. Central banks can drain liquidity by means of liability management tools, including reverse repurchase agreements, term deposits and issuance of central bank bills, the latter two being more practical as they are not necessarily tied to particular assets. As well, the remuneration of banks' deposits at the central bank allows the control of overnight rates in a situation of large excess reserves. However, whilst this latter option lowers banks' cost of holding reserves, and can therefore be expected to reduce the effect of liquidity on broad money growth, it does not fully remove the possibility that they may fuel an expansion in broad money, in contrast with liquidity-absorbing operations. Since retaining long-term assets for too long can have adverse implications for inflation, not least through effects on expectations, the authorities should also provide a clear road map on the offsetting and the eventual unwinding of long-term asset holdings so as to anchor long-term inflation expectations, which in some cases have drifted up recently.[13]

11. An additional factor having a bearing on the selling of assets is that it could destabilise the relevant markets, in particular securitised markets in the United States.
12. Retaining long-term assets to maturity would avoid abrupt large losses that would have to be realised if such assets were sold in an environment of higher long-term rates, while they were purchased at relatively high prices. As large-scale upfront losses could raise more acute questions about the independence of monetary authorities than losses smoothed over time, because of recapitalisation needs, retention could be preferable from the point of view of protecting central bank credibility as much as possible. This does not seem to be an issue for the Bank of England because the UK Treasury has agreed to compensate the Bank for any loss associated with the implementation of the Asset Purchase Programme.
13. Unconventional measures could destabilise inflation expectations if the huge accumulation of reserve balances results in a rapid increase in the aggregate money stock, aggregate demand and inflationary pressures. Alternatively, inflation expectations may drift upwards if economic agents perceive a greater risk that central banks' actions are constrained by their expanded balance sheets, which would prevent them from adjusting interest rates in a timely manner. See Cournède and Minegishi (2010).

Exit from very low policy rates

The exit from low policy rates should focus on expected inflation and macroeconomic conditions…

The start and pace of the normalisation of policy interest rates from the current close-to-zero rates in major OECD economies should depend on the outlook for inflation expectations, and therefore macroeconomic conditions in general. Hence, it should be differentiated across countries depending on their current slack, current inflation levels, and the expected strength of their recovery (which will be influenced by their fiscal policy settings): the bigger the current level of slack, the longer the delay in starting the exit and the slower the normalisation; the faster the expected recovery, the sooner and faster the increase in interest rates. Given the headwinds from continued balance-sheet adjustment and prospective fiscal consolidation, the exit should be gradual and focus on the emergence of underlying inflationary pressures. Low inflation means that policy interest rates should reach neutral levels only by the time output gaps are closed. Signs that inflation expectations begin to drift up, *e.g.* due to lack of credible medium-term fiscal consolidation plans, would be a reason to bring forward the exit. The normalisation will in a number of cases need to begin while some unconventional policy measures are still in place, using liquidity management tools to absorb reserves or to ensure that market rates can be increased despite high levels of excess reserves.

… and should commence in the current year…

Against this background, and given expectations concerning the short and medium-term strength of the recovery, the exit from extremely accommodative policy interest rates should proceed at different speeds for key central banks:

… in the United States…

- In the United States, where some long-term measures of inflation expectations have increased and the labour market has stabilised earlier than expected, the start of normalisation should not be delayed beyond the last quarter of 2010. Policy interest rates should be well above half-way to neutral by end-2011, but the path of convergence to full normalisation would have to accelerate if long-term inflation expectations were to drift up further.[14]

… Canada…

- In Canada, where domestic demand is projected to be strong and core inflation has remained surprisingly resistant to further declines emanating from economic slack, monetary authorities should start the normalisation process by mid-2010 and be only some 100 basis points below neutral by the end of 2011.

14. As a first step, creating room for overnight interest rates to increase, the US Federal Reserve has already increased the interest rate at which it provides liquidity under the discount window lending programme, to encourage depository institutions to rely on private funding markets for short-term credit. The authorities have increased the discount rate from 0.5% to 0.75% (effective from 19 February 2010), shortened the maximum maturity for primary credit loans from 28 days to overnight (effective from 18 March 2010), and raised the minimum bid rate for the Term Auction Facility (TAF) by 0.25%.

… the United Kingdom…

- In the United Kingdom, the authorities face the challenge of preserving credibility, with headline inflation and some measures of inflation expectations exceeding the targeted rate in the context of extremely expansionary monetary and fiscal policies. The reversal of the December 2008 VAT cut and higher fuel prices have contributed to the recent jump in inflation. Notwithstanding the temporary nature of these price developments, the gradual drift up of some measures of inflation expectations implies a need to increase interest rates earlier than previously thought and no later than the last quarter of 2010. The projected increase of core inflation to the Bank of England target warrants an increase of the policy rate to 3½ per cent by end-2011.

… and the euro area…

- In the euro area, and in the near term, the ECB should continue to prevent overnight rates from converging too soon to the higher key policy interest rate by ensuring sufficient amounts of liquidity. In the light of the weak economic recovery and consumer price inflation which is expected to remain subdued over the forecast horizon, convergence between policy and overnight rates should occur only towards the end of 2010, at the time when the main policy interest rate should be raised. The projected state of the economy, and also expectations beyond the projection period, do not warrant more than a 100 basis point increase by end-2011.

… but much later in Japan

- In Japan, in spite of a pick-up in economic activity towards end-2009, ongoing deflation calls for keeping policy interest rates close to zero until inflation is positive. This is not expected to be the case until 2012 at the earliest. In view of entrenched deflationary tendencies, the authorities need to explore alternative means to boost the economy, including by purchasing long-term government assets on a far larger scale than in the past.

In China and India the process of monetary normalisation should continue

- In China, the monetary authorities should tighten monetary policy further to rein in credit and money growth as a way to contain inflationary pressures. This may have the added advantage of moderating undue appreciation of property prices and associated credit developments.[15] Over the near term, a tightening of monetary conditions through exchange rate appreciation could assist monetary policy. Over the longer term, initiatives to permit the currency to float more freely would allow monetary policy to focus better on domestic objectives. In India, the process of interest rate normalisation should

15. Measures already taken include the strengthening of lending standards and capital requirements for commercial banks, tightening the conditions applicable to mortgages for the acquisition of second homes, banning loans for third home purchases in areas with excessive property price gains, and limiting outright the number of homes that can be purchased over a certain time period. Moreover, the monetary authorities have also increased the reserve requirements ratio twice since the beginning of the year, imposing higher requirements on individual banks with the fastest loan growth.

continue, to counter inflation risks associated with a solid recovery and surging food prices spilling over into more widespread inflation. In Brazil, the policy interest rate needs to rise further in the coming months to address growing inflation pressures.

Exit from ultra-low policy rates should take into account the pace of fiscal withdrawal

Though monetary policy should be independent of political interference, exit from the extremely accommodative monetary policy stance should take into account the pace of removal of fiscal stimuli insofar as the latter affects the prospect for activity and inflation. However, such an articulation between fiscal and monetary policies will only be feasible in the context of clear and fully credible consolidation programmes. The announcement of credible medium-term consolidation plans can also help to keep inflation expectations anchored in the face of large fiscal imbalances in the near term, providing the monetary authorities with the room to slow down the normalisation of interest rates.[16] In the absence of credible fiscal consolidation plans, monetary policy may need to be tightened so as to prevent a rise in inflation expectations.

Credit and asset price bubbles: a role for macro-prudential policy

Macro-prudential regulation and targeted instruments can help to tackle asset overvaluations

The recent stabilisation or recovery of many asset prices, in combination with the experience of credit-fuelled asset price booms in the run-up to the crisis, has increased the focus on how best to respond to such developments. Interest rate hikes aimed at leaning against excessive asset price and credit growth may need to be large to have a material impact. Macro-prudential regulation, and other targeted instruments that focus on lenders, discussed in more detail in Chapter 6, can in principle be more effective in tackling asset overvaluations in particular markets by acting as a brake on feedback loops between asset prices and credit supply. However, before a strong macro-prudential framework is in place, and even if the risk of credit-fuelled house price bubbles is still low in the OECD area, the authorities should stand ready to respond by accelerating the pace at which interest rates are raised if house price inflation and mortgage credit expansion were judged to become excessive, given the economic costs that arise eventually when such bubbles burst.[17] Once a proper macro-prudential framework is in place, changes in interest rates to address perceived asset and credit bubbles can best be seen as a last line of defence.

Financial policy

Exit is also underway for financial policy support…

Improvements in the functioning of financial markets have allowed authorities across the OECD to withdraw gradually some special support

16. Abnormally high long-term interest rates will put upward pressure on government debt service costs and headline deficits, potentially leading to a vicious cycle.
17. That real estate bubbles tend to have much higher economic costs than equity price bubbles is illustrated by the fact that the average output loss (with respect to trend) following a real estate burst is a cumulated 5% of GDP after five years, while it is nil in the case of equity price booms. This has been the outcome for a sample of 17 developed nations plus China since 1970, see Posen (2009).

measures for banks and other institutions. Government programmes to guarantee bank debt have expired as scheduled at the end of 2009 in the United Kingdom and the euro area, in March 2010 in Australia, where the termination date had been left unspecified by the authorities, and in April 2010 in Sweden. In the United States, the more restrictive emergency facility implemented since October 2009 also expired at the end of April 2010. However, special deposit guarantees introduced during the crisis in many countries remain in force.

... while some countries have taken action to tax banks and restrict their activities...

At the same time that financial support is being scaled back, recent initiatives at the national level to strengthen framework conditions in the financial sector have been directed to taxing banks and restricting their activities. A temporary tax on banks' bonuses has already been implemented in France and the United Kingdom to recoup part of the fiscal cost of rescuing the banking sector and to encourage banks to develop sustainable long-term remuneration policies and build up loss-absorbing capital.[18] The effectiveness of this measure has been reduced by the fact that banks have found ways of avoiding the tax penalty through offering loans to employees against deferred awards and by increasing basic salaries altogether. Some countries in the OECD area, including France, Germany and the United Kingdom, are evaluating the implementation of a bank tax, though the modalities still remain to be defined. Legislation for a temporary tax (a "responsibility fee") levied on the non-deposit liabilities of large banks has been proposed in the United States as a way to recover taxpayer losses from the bailout of the financial sector during the crisis and to encourage a healthier funding structure.[19] The authorities could, in principle, increase the size of the fee and make it permanent and progressive, which would reduce the benefits of becoming too big to fail. To keep banks that benefit from deposit insurance from taking undue investment risks, the US authorities have also proposed measures for banks, or financial institutions that contain a bank, to limit their ability to do proprietary trading.

... and a comprehensive regulatory reform is being discussed at the global level...

Together with actions by individual countries, a comprehensive regulatory reform is being discussed under the auspices of the G20 in recognition of the need for internationally co-ordinated rules to strengthen financial stability, in particular by reducing opportunities for

18. In France and the United Kingdom, banks that pay discretionary bonuses above a certain threshold (£25 000 in the United Kingdom and euro 27 500 in France) will pay an additional one-off bank payroll tax of 50% on these excess bonuses.
19. The 2008 law creating TARP required the Administration to put forward a proposal to recover any potential losses, currently estimated at $117 billion. The intention is to impose a 0.15% fee on total assets excluding core capital and FDIC-assessed deposits and insurance policy reserves. The fee would be applied on financial firms with more than $50 billion in consolidated assets and is expected to raise $117 billion over about 12 years, and $90 billion over the next 10 years. The authorities estimate that the 10 largest financial institutions will pay over 60% of the total receipts from the tax.

Table 1.8. **Assessing progress towards the implementation of financial regulatory reform**

	Progress to date and timeline for implementation
Strengthening global capital and liquidity	A consultative document on proposals to strengthen the capital and liquidity frameworks was released in December 2009 by the BIS, for comments by mid April 2010. These measures are intended to be introduced by end-2012, after conducting a thorough impact assessment and allowing for a sufficiently long period to ensure a smooth transition to the new standards.
Expanding oversight of the financial system	The FSB, the IMF and the BIS have developed at end-2009 guidance for national authorities to assess the systemic importance of financial institutions, markets and instruments. A set of high level principles that would be sufficiently flexible to be applied to a broad range of countries and circumstances, is still to be defined. Moreover, the FSB and the IMF have reached a consensus over information gaps that need to be filled, including data to better capture the build-up of risk in the financial sector, the degree of international financial network connections, and to monitor the vulnerability of domestic economies to shocks. The FSB and the IMF will issue a report by mid 2010 on the actions taken together with a plan and timetable for implementing recommendations.
Reducing moral hazard posed by systemically important institutions	The FSB, the BIS and the International Organisation of Securities Commission (IOSCO) are already working on a set of final proposals expected to be delivered in October 2010. Moreover, the Cross-border Bank Resolution Group of the Basel Committee released a report at end-2009 on specific actions to achieve an effective, rapid and orderly wind-down of large cross-border financial firms.
Implementing sound compensation practices	The FSB has issued Principles for Sound Compensation Practices and Implementation Standards in April and September 2009, respectively. The FSB is currently monitoring the steps being taken or planned by member jurisdictions.
Strengthening accounting standards	The IASB is seeking comments until mid-2010 on accounting standards for expected loss provisions. The IASB has already issued in November 2009 standards on the classification and measurement of financial assets, while the FASB is expected to seek comments on a proposed model for accounting for financial instruments in the first half of 2010. Discussions are being held between the IASB and the FASB in order to harmonise these standards by mid 2011.

Source: OECD.

regulatory arbitrage.[20] While many details are still to be determined, overall consensus has been reached on a broad set of principles (see Table 1.8 for progress and timelines):

... to strengthen global capital and liquidity regulations...

- Strengthening global capital and liquidity regulations, so that banks have larger buffers to cushion downturns.[21] An appealing option in this respect is to use contingent capital, *i.e.* a security that converts to

20. For evidence on the role of regulatory arbitrage in the excessive risk taking behaviour that contributed to the recent crisis, see for instance Valukas (2010).
21. This includes: *i*) raising the quality, consistency and transparency of the capital base; *ii*) improving the capital framework by strengthening the capital requirements for counterparty credit risk exposures arising from complex products; *iii*) introducing a leverage ratio to help contain the build-up of excessive leverage in the banking system; *iv*) introducing measures to promote the build-up of capital buffers in good times to be used in periods of stress, including more forward-looking provisioning rules; and *v*) improving global liquidity standards for internationally active banks.

common equity in troubled times and that instantaneously replenishes the core capital of the bank.[22]

... to expand oversight of the financial system...

- Expanding oversight of the financial system to include all systemically important activity which should be subject to appropriate supervisory oversight, and co-ordinated for internationally active firms, should help to contain the build up of systemic risk in the financial system.

... to reduce moral hazard posed by systemically important institutions...

- Reducing moral hazard posed by systemically important institutions and associated economic damage. Options for addressing the "too-big-to-fail" problem being discussed include: targeted capital, leverage, and liquidity requirements; improved supervisory approaches; simplification of firm structures; strengthened national and cross-border resolution frameworks, including the development of "living wills" for major cross-border firms; and changes to financial infrastructure that reduce contagion risks.

... to implement sound compensation practices...

- Implementing sound compensation practices at large financial institutions to ensure that financial firms structure their compensation schemes in a way that does not encourage excessive risk taking.

... and to strengthen accounting standards

- Strengthening accounting standards. The International and US Financial Accounting Standards Boards (IASB and FASB) have been considering approaches to improve and simplify accounting for financial instruments, provisioning and impairment recognition, and are converging in approaches to netting rules and the treatment of repos. While discussions are being held between the IASB and the FASB in order to harmonise these standards, progress has so far been sluggish and needs to be accelerated also in view of the mid-2011 deadline for convergence.

Taxing banks can help pay for a future financial crisis

In addition, the International Monetary Fund has proposed to tax banks across and outside the OECD in order to pay for the cost of future financial crises.[23] Bank taxes, the proposal goes, should be harmonised across countries to prevent regulatory arbitrage and should focus mainly on bank liabilities.[24] The tax could be flat for all institutions initially, but

22. Such an option has three advantages. First, both shareholders and subordinated debt holders would have a strong incentive to monitor and restrain risky bank behaviour. Second, there is no need to develop difficult surcharges for systemically important institutions, as riskier banks will be penalised through the market pricing of these securities. And, third, it would minimise the use of taxpayers' money to rescue financial institutions, as a systemic risk fund would be created within the financial system itself.
23. There seems to be room to tax banking sectors more heavily across the OECD, given that it is difficult to implement value added taxes on banks, and because the tax deductibility of households' interest payments constitutes an implicit subsidy for the banks given that their lending rates include a component reflecting earnings of bank employees and shareholders.
24. The objective would be for countries to raise taxes equivalent to between 2 to 4% of gross domestic product over the long term.

could later be adjusted to reflect systemic risk. Taxing abnormal bank profits should also assist authorities in providing extra resources to pay for future financial bailouts.

Momentum to implement reforms should be maintained

A succinct evaluation of many of the measures discussed or already implemented is contained in Table 1.9. Given the multitude of incentive problems and market failures affecting financial markets and

Table 1.9. **Assessing proposals to reform the financial sector**

	Excessive risk taking	Too big to fail	Systemic Risk	Other impacts
US Responsibility Fee	Deters excessive reliance on wholesale borrowing in favour of retail deposits, a more stable form of funding.	Contains banks' size (and moral hazard), because the fee is implemented on big institutions only. A progressive fee could greatly enhance this benefit.	As far as banks are leveraged from a wide number of institutions, reducing leverage will reduce contagion risk.	Provides tax revenues. The financial sector may be smaller than without the tax.
Separation of proprietary trading from essential bank services	Reduces excessive risk taking, by eliminating an implicit taxpayer guarantee for certain risky activities.	As some activities will be separated, some banks will become smaller, helping containing moral hazard.	Safer individual institutions should boost the safeness of the entire financial system. Though the system may become instable if funds move from one market segment to the other depending on macroeconomic conditions.	It increases the cost of funding for the activities that are separated, because they lose an implicit guarantee.
Size Limits	Banks that feel that they may be allowed to fail will be more cautious when engaging in risk taking activities.	It helps contain the too big to fail issue automatically by ensuring institutions do not exceed a given absolute size.	In principle, smaller institutions are less likely to put the entire system in danger. Though systemic risk may not be contained if a large number of small institutions take similar risky exposures at the same time.	
Contingent convertibles (CoCos)	Shareholders have an incentive to contain risk taking, because excessive risk taking can potentially dilute their stakes.	For contingent convertibles to help to prevent too-big-to-fail, they have to be implemented in a progressive way (for example, as an increasing share of long term debt based on size).	Provided that CoCos are compulsory, the system itself is better prepared to deal with common negative shocks.	It increases the cost of debt for financial institutions.
Progressive Capital Requirements		As the cost of capital increases for bigger institutions, it helps containing banks' size and moral hazard.	It contributes to reduce systemic risk as institutions internalise the externalities they create through higher capital requirements.	
Counter cyclical capital requirements	More stringent capital requirements (and higher risk weights) in the expansion phase would reduce risk taking in boom times.		The system becomes sounder because all institutions have more capital in advance of a downturn triggered by a common negative shock.	The bank capital channel of monetary policy transmission would be weaker.

Source: OECD.

Table 1.9. **Assessing proposals to reform the financial sector** *(cont.)*

	Excessive risk taking	Too big to fail	Systemic Risk	Other impacts
Dynamic loss provisioning	As resources are set aside, higher loss provisioning in the expansion phase would reduce risk taking in boom times.		As with counter cyclical capital requirements forward-looking provisioning should help increase buffers to deal with negative common shocks.	The bank capital channel of monetary policy transmission would be weaker.
Liquidity Ratios	It helps to contain excessive systemic risk taking as liquidity requirements increase with risk exposure.	Contains too big to fail if ratios are progressive with respect to size. This is another way to make systemically important institutions to internalise the risks they pose to the system.	Contains systemic risk because the system is better equipped to cope with liquidity shocks.	Liquidity requirements may artificially reduce the price of government securities and reduce bond market discipline.
Leverage Ratios	Can reduce the risk of excessive leverage building up in individual entities, and as such, excessive risk taking.	It does not resolve the too big to fail issue, as nothing prevents the institutions to grow bigger with more capital, unless it is made progressive with size.	As it can reduce the risk of excessive leverage building up in individual entities, it can also contain risk in the financial system as a whole.	
Living Wills		Pre-planned regimes can reduce moral hazard by unravelling banks' structural complexity, forcing them to simplify legal structures, and helping allowing an orderly wind-down of global financial institutions.	Contains systemic risk, by ensuring that in the event of failure contracts with counterparties are resolved in an orderly fashion.	
Compensation practices	By de-linking compensation from banks' short-term outcomes, sound compensation policies can help contain excessive risk-taking.		As it can reduce excessive risk-taking in individual entities, it can also contain risk in the financial system as a whole.	
Taxes on banks' bonuses and profits	The impact of taxing bankers' compensation and bank profits is not clear-cut. It can even boost risk-taking to compensate for the nominal loos in bankers' income induced by the tax.		The impact on systemic risk will depend upon the impact on individual institutions.	It may help to boost capital levels if compensation and dividend payments are more taxed than retained earnings.
Resolution authority	Incentives to take excessive risks are reduced, as far as in case of failure the owners are not made whole and top managers are ousted.	Reduces moral hazard for big institutions, by ensuring the owners and managers of big institutions will not be bailed out in case of failure.	It reduces systemic risk by ensuring an orderly unwinding of failed institutions.	

Source: OECD.

institutions, as well as the risk that individual measures may be circumvented, the eventual policy response will have to include a substantial number of the measures discussed. It is important that the

momentum to enact reforms at the global level be maintained even as economies recover, before a fading memory of the crisis complicates the political economy of the process. Implementation of regulatory changes should proceed at varying speeds for different reforms so as not to cut bank credit when it is most needed for the economic recovery.[25] In the near term, the authorities need to maintain pressure on banks to deal with bad assets notwithstanding favourable developments in financial markets, and to use current high margins – which owe much to policy support – to rebuild their capital buffers. To the extent that this does not take place, appropriate restrictions on dividends, share buy-backs and compensation may be useful, until bank capital has recovered sufficiently.

Competition policy should feature prominently in financial regulatory reform

The financial crisis has resulted in domestic financial markets becoming more concentrated and facing less competition from foreign players (Figure 1.18). The expectation of taxpayer backing for systemically important institutions has further impaired competition, because it has acted as a subsidy to big institutions.[26] Measures to address these issues would level the playing field with respect to smaller institutions and should act to compress mark-ups and reduce rents. Apart from those directed to deal with the too-big-to-fail issue (see above), measures that can help to boost competition in the banking sector include: the removal of segmentation across regions; the reduction of barriers to entry when regulation and supervision are sufficiently effective to permit it; more stringent exit and disciplining rules; and stronger and more independent supervisory or competition-enforcing bodies, including the granting of powers and a mandate to prevent mergers that are expected to result in increased systemic risk or distorted competition.[27]

Structural policies

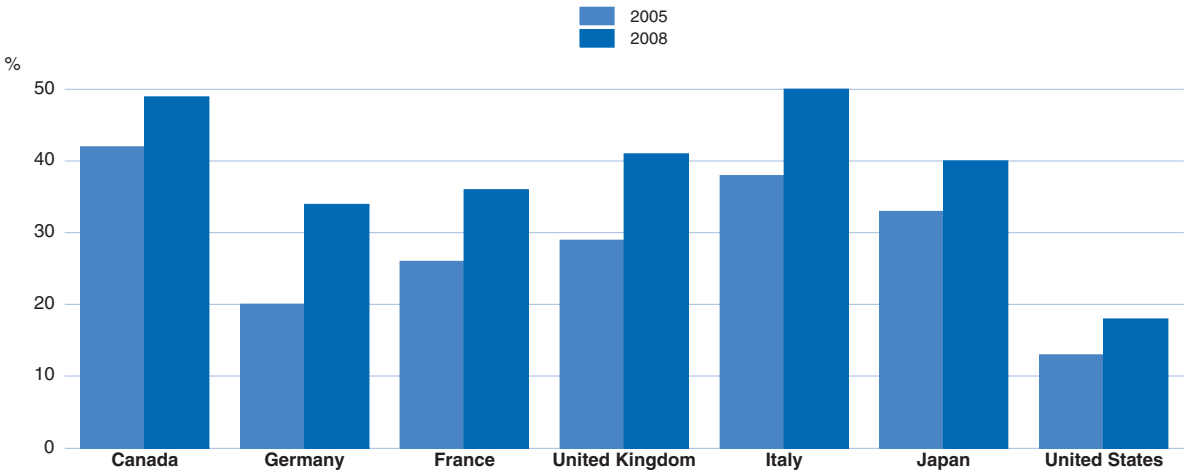
Potential output should be raised via…

Labour and product market reforms would help to raise potential output, offsetting some of the crisis-related cuts in sustainable output and help to strengthen governments' structural budget positions. Indeed, governments have often implemented ambitious reforms during past crises, with awareness of severe economic problems reducing resistance to changes in existing arrangements. However, the empirical evidence also suggests that the need for fiscal consolidation may act as an obstacle to reform, possibly because governments need to spend political capital

25. For example, while sound compensation practices should be implemented right away, more stringent capital requirements should be phased in smoothly, once the recovery is firmly rooted.
26. Concentration impairs bank competition according to a study based on data for 23 European and non-European countries in the period 1988-98, see Bikker and Haaf (2002).
27. See Saunders and Schumacher (2000) on removing segmentations, and Angelini and Cetorelli (2003) on reducing barriers to entry in the banking industry. The role of exit and disciplining rules and supervisory and competition-enforcing bodies in enhancing competition in the banking sector was analysed by Ahrend *et al.* (2009).

Figure 1.18. **Concentration in the financial system has risen**

Largest three institutions, share over total assets



Note: Includes clearing institutions and custody, commercial banks, cooperative banks, finance companies, governmental credit institutions (excluding Federal Reserve Banks), group finance banks, investment and trust corporations, investment banks, micro-financing institutions, other non-banking credit institutions, private banking and asset management companies, real estate and mortgage banks, savings banks and securities firms.

Source: OECD calculations based on Bankscope.

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on fiscal retrenchment or because reforms may involve up-front costs to pay-off the beneficiaries of the *status quo* (Høj *et al.*, 2006; Tompson and Dang, 2010). In this crisis, governments have so far not introduced major reforms in labour and product markets, concentrating their efforts on crisis accommodation in labour markets (see Chapter 5), as well as macroeconomic policy and reforms to financial regulation. However, with the risk of lower potential output post-crisis and the need to strengthen public finances, fundamental product and labour market reforms are needed now more than ever before. Indeed, their implementation would facilitate fiscal consolidation.

... labour market reforms and...

Notwithstanding labour market reforms over the past two decades in many OECD countries, there remains much to do, especially in continental European countries. As discussed in Chapter 5, there are a number of obstacles to labour demand in many of these countries, often alongside weak work incentives. Swift action in this area would help to strengthen job creation and make the recovery more job-rich. It would also raise long-term potential and thereby provide a much-needed boost to government finances, raising tax revenues while, at the same time reducing public spending on social benefits.

... product market reforms

Product market reforms would increase potential output by raising productivity and strengthening employment performance. Even if product market reforms have been extensive in some OECD countries since the late 1990s, statutory entry barriers and other competition-restraining regulations continue to hold back efficiency in many countries. OECD empirical analysis suggests that aligning national

regulatory stances on the least constraining one in the OECD area could increase productivity by well over 10% in low-income member countries with sizable gains also possible in the large continental European countries (see Arnold *et al*, 2009). Product market reforms, coupled with other innovation-enhancing measures set out in the OECD Innovation Strategy would also help to activate new sources of growth. Given that regulatory constraints on competition tend to be stronger in Brazil, China, India, Indonesia and South Africa than in the OECD area (OECD, 2010b), product market reforms in these countries may be particularly effective in raising their GDP per capita.

Trade barriers have not increased markedly…

Governments have generally kept their WTO commitments to open markets since the start of the recession, with the overall extent of new trade restrictions gradually declining. New import-restricting measures introduced by G20 governments from September 2009 until mid-February 2010 cover only some 0.4% of global imports (OECD-UNCTAD-WTO, 2010). Globally, there was also a decline in the recourse to potentially-legal trade remedy actions (anti-dumping, safeguards and countervailing duties) through 2009, although in the year as a whole there was considerably more usage of such measures than in 2008 (Bown, 2010). This reflected increased usage by developing economies; the number of new import-restricting trade remedy policies introduced by the United States, the European Union and Canada in 2009 was lower than in 2008, although still above the level of 2007. However, in the United States and Canada, the number of ongoing investigations rose from 2008. Going forward, it will be important to ensure that the scope of protectionist measures is not widened further during the early stages of the recovery, at a time when continued high unemployment and pressures from ongoing restructuring could influence policy decisions. Governments also need to ensure that existing trade-distorting measures are unwound promptly.

… but cross-border investment may be affected by greater state involvement in private companies

Regarding cross-border investment, potential constraints on investment flows in the G20 continue to be in place as a result of the stronger financial relationships that now exist between some governments and companies they have rescued (OECD-UNCTAD-WTO, 2010). Foreign direct investment flows remain subdued relative to their pre-crisis levels, though this is in part endogenous to the strength of the global economy and financial markets, and cross-border bank lending has continued to contract sharply (Figure 1.19).

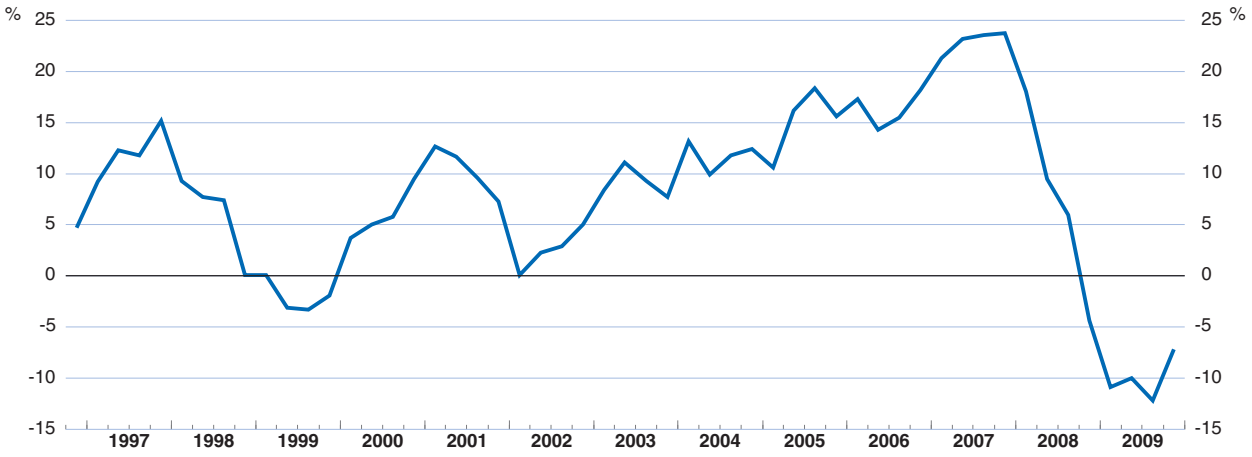
Policies for a strong, sustainable and balanced global economy

Ambitious medium-term fiscal consolidation is necessary for a strong and sustainable global economy

Currently announced policies will fail to create a strong, sustainable and balanced global economy. Medium-term fiscal programmes in some countries are currently not available (*e.g.* Japan), or not sufficient to stabilise debt-to-GDP ratios (*e.g.* the United States) or would stabilise the ratios at a level that would result in high long-term interest rates, thereby undermining long-term growth. Outside the OECD area, China does not

Figure 1.19. **Cross-border bank lending remains subdued**

Year-on-year change in foreign loans from BIS-reporting banks, adjusted for currency movements



Note: Data concerning 2009 q4 is provisional.

Source: BIS.

StatLink http://dx.doi.org/10.1787/888932304107

seem to be in need of consolidation, whereas India needs to address the large public deficit that will otherwise crowd-out productive investment. Stronger medium-term consolidation efforts are therefore necessary in many countries, with the stabilisation of public debt relative to GDP being a minimum requirement. Bringing debt ratios back to their pre-crisis levels by 2025 would strengthen the global economy in the longer term via lower interest rates and via the enhanced freedom it gives to deal with contingencies. However, it might involve weaker growth in the short term, especially since monetary policy will be able to provide only limited additional support over this period in many economies. On the other hand, provided that governments' medium-term consolidation plans are deemed fully credible, long-term interest rates might fall, providing support to the economy during the consolidation phase. Structural reforms would provide a boost to longer-term growth, thereby supporting fiscal consolidation.

Better balance in the global economy can be attained by adjustments to exchange rates …

Establishing sound public finances and a strong domestic economy are only steps towards a better balanced global economy. Beyond the short term, global imbalances are affected by fiscal consolidation around the world, but less so if it occurs simultaneously in many countries, as illustrated by the scenarios in Chapter 4. A different constellation of exchange rates could help to narrow current account imbalances durably, although only to a limited extent.

… but will have to rely mainly on structural reforms

Against this background, an important mechanism to achieve a better balanced global economy would be to narrow gaps between private saving and investment at the national level through implementing structural reforms that are already desirable on efficiency and/or welfare and equity grounds. In countries with a surplus on their current account,

including Japan and Germany, removing obstacles to investment in the sheltered part of the economy, such as regulations that reduce profitability and hence capital spending in service sectors, would help to reduce global imbalances. In deficit countries, including the United States, policy distortions that encourage current spending, such as tax deduction of interest payments, should be removed. In addition, reductions in private saving rates in China and other Asian countries as social-security and public health-care systems are further developed, thus reducing the precautionary motive for saving, will contribute to the reduction of global imbalances. China has embarked on reforms to increase spending on social and health-care programmes (OECD, 2010c), and strengthening reform efforts could contribute strongly to a better balanced global economy.

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Chapter 2

DEVELOPMENTS IN INDIVIDUAL MEMBER COUNTRIES

UNITED STATES

The economy continues the recovery that began in mid-2009, although net job creation has been positive only since the beginning of 2010. Corporate profits have turned up, particularly in the financial sector, but bank lending conditions have not fully normalised. The speed of the recovery is projected to remain moderate through 2011 as households continue to rebuild net worth and the unemployment rate declines slowly.

The Federal Reserve and the Administration should gradually withdraw policy stimulus as economic growth becomes self-sustaining. Gauging the appropriate timing will not be a simple task, but keeping the stimulus in place risks recreating some of the imbalances in the housing and financial markets that led to the financial crisis. The Administration needs to develop sustainable medium-term consolidation plans setting out in detail how improvements in public finances are to be achieved.

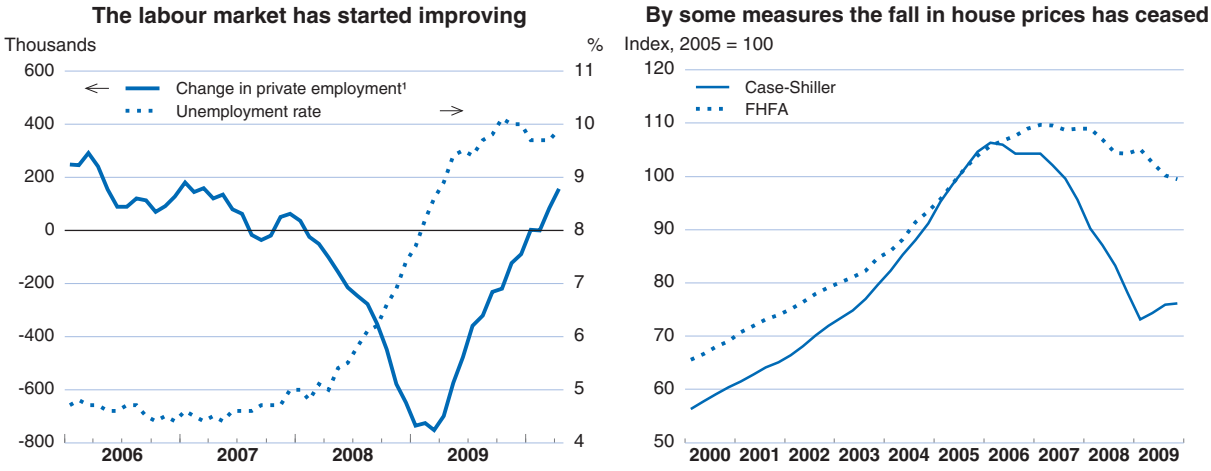
The economic recovery is well underway....

The economy continues to recover from arguably its most severe recession since the Great Depression of the 1930s. Buoyed by substantial economic stimulus and slowing inventory rundowns, real output has increased at an annual rate of 3¾ per cent since the middle of 2009. Industrial production and capacity utilisation have also trended upward since the middle of 2009. More recently, employment has begun growing, and a recovery in the stock market has helped return household wealth as a share of disposable income to about its long-run average.

... but the rebound will be weak by post-war standards

Despite these positive trends, output remains below its 2007 level, unemployment continues to be high, capacity utilisation lingers at a level lower than the troughs of the past two recessions, and household wealth is about 15% lower than its pre-recession peak. Growth over the next year and a half is projected to be weak by the standards of post-war recoveries. Some rebuilding of lost household net worth and sluggish wage growth

United States



1. Three-month moving average of one-month actual change of total private employment.

Source: OECD Economic Outlook 87 database; Bureau of Economic Analysis; Federal Housing Finance Agency and Datastream.

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

	2007	2008	2009	2010	2011
Employment[1]	0.9	-0.7	-4.2	-0.1	1.9
Unemployment rate[2]	4.6	5.8	9.3	9.7	8.9
Employment cost index	3.1	2.8	1.5	1.6	1.2
Compensation per employee[3]	4.0	2.6	0.4	2.5	1.8
Labour productivity	1.3	1.2	1.8	3.3	1.2
Unit labour cost	3.0	1.8	-0.8	-0.7	0.7
GDP deflator	2.9	2.1	1.2	0.8	1.2
Consumer price index	2.9	3.8	-0.3	1.9	1.1
Core PCE deflator[4]	2.4	2.4	1.5	1.1	1.0
PCE deflator[5]	2.7	3.3	0.2	1.6	1.0
Real household disposable income	2.2	0.5	0.9	1.5	3.1

1. Nonfarm employment, based on the Bureau of Labor Statistics (BLS) Establishment Survey.
2. As a percentage of labour force, based on the BLS Household Survey.
3. In the private sector.
4. Deflator for private consumption excluding food and energy.
5. Private consumption deflator. PCE stands for personal consumption expenditures.

Source: OECD Economic Outlook 87 database.

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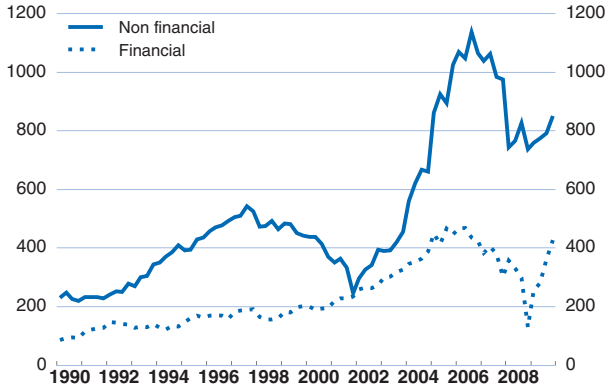
are likely to restrain consumption growth. With subdued demand growth, unemployment will remain a significant concern for some time.

Large businesses are recovering strongly, but smaller businesses remain credit constrained

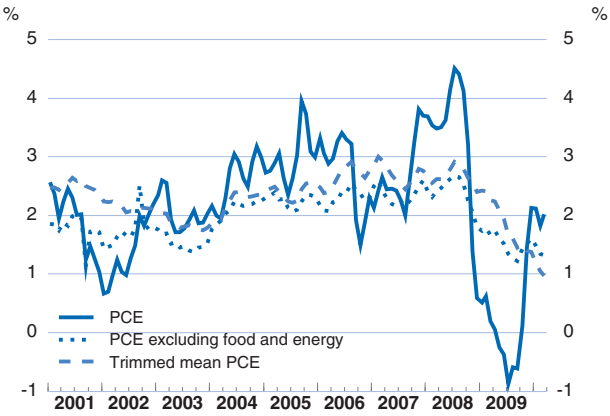
The financial industry continues to recover strongly from the financial crisis. High interest margins and improving market conditions have allowed the financial industry to continue writing off a substantial amount of nonperforming loans while increasing compensation and profits to near pre-recession highs. Non-financial corporate profits are also increasing at a

United States

Financial industry profits have rebounded[1]
Billions of US$



Core measures of inflation continue to trend down
Year-on-year change



1. Corporate profits before tax with inventory valuation adjustment.

Source: OECD Economic Outlook 87 database; Federal Reserve; United States Department of Commerce; Bureau of Economic Analysis and Datastream.

StatLink http://dx.doi.org/10.1787/888932304145

United States: **Financial indicators**

	2007	2008	2009	2010	2011
Household saving ratio[1]	1.7	2.7	4.3	3.4	3.6
General government financial balance[2]	-2.8	-6.5	-11.0	-10.7	-8.9
Current account balance[2]	-5.2	-4.9	-2.9	-3.8	-4.0
Short-term interest rate[3]	5.3	3.2	0.9	0.5	2.4
Long-term interest rate[4]	4.6	3.7	3.3	4.1	5.4

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. 3-month rate on euro-dollar deposits.
4. 10-year government bonds.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306045

noteworthy pace. Strong profit growth, combined with corporate bond yields that have fallen below their pre-crisis levels, should support business investment growth despite low capacity utilisation. While credit conditions appear to be improving, lending activity remains very weak and small businesses continue to report that obtaining finance is a significant problem.

While unemployment has peaked, the labour market will remain depressed for some time

Employment is growing again, but it will be a number of years before it returns to pre-recession levels. At around 10% since late 2009, unemployment has reached its highest level since the early 1980s, but it is projected to fall slowly as demand picks up. However, the risk that high

United States: **Demand and output**

	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
	Current prices $ billion	Percentage changes from previous year, volume (2005 prices)					
Private consumption	10 129.9	-0.6	2.6	2.7	1.0	3.0	2.8
Government consumption	2 386.9	1.8	1.5	1.0	1.3	1.5	0.7
Gross fixed investment	2 667.1	-14.5	2.0	8.8	-10.8	4.8	10.0
Public	496.4	1.9	-1.7	0.9	1.3	-1.1	0.6
Residential	477.2	-20.5	0.9	7.0	-12.6	1.7	8.7
Non-residential	1 693.6	-17.8	3.7	12.2	-14.1	7.9	13.5
Final domestic demand	15 183.9	-2.7	2.3	3.3	-1.0	3.0	3.6
Stockbuilding[1]	- 34.7	-0.7	1.2	0.1			
Total domestic demand	15 149.2	-3.4	3.5	3.4	-0.8	3.5	3.5
Exports of goods and services	1 831.1	-9.6	9.4	7.9	-0.7	5.8	9.0
Imports of goods and services	2 538.9	-13.9	10.0	8.4	-6.6	8.7	8.5
Net exports[1]	- 707.8	1.2	-0.3	-0.4			
GDP at market prices	14 441.4	-2.4	3.2	3.2	0.1	3.0	3.4

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).*
Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306064

United States: **External indicators**

	2007	2008	2009	2010	2011
			$ billion		
Goods and services exports	1 656.0	1 831.1	1 564.2	1 774	1 973
Goods and services imports	2 369.7	2 538.9	1 956.6	2 314	2 559
Foreign balance	- 713.8	- 707.8	- 392.4	- 540	- 586
Invisibles, net	- 12.8	1.7	- 27.5	- 20	- 32
Current account balance	- 726.6	- 706.1	- 419.9	- 560	- 618
			Percentage changes		
Goods and services export volumes	8.7	5.4	- 9.6	9.4	7.9
Goods and services import volumes	2.0	- 3.2	- 13.9	10.0	8.4
Export performance[1]	0.9	1.3	2.6	- 1.9	- 0.3
Terms of trade	- 0.2	- 5.2	5.6	- 3.6	1.0

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306083

long-term unemployment turns into a permanently higher level of unemployment will be a concern over the next couple of years. While this has not been a problem for the United States in the past, long-term unemployment currently far exceeds historical experience.

Real estate is slowly improving

Despite government policies that have helped to stabilise it, the housing market remains a weak element in the recovery. New home construction remains moribund. Loan delinquencies are elevated by historical standards and the high unemployment rate suggests that they are likely to increase further. At the end of 2009, about 25% of mortgaged homeowners owed more on their mortgages than the home was worth. However, housing prices appear to have stopped falling and housing affordability has improved significantly. While stocks of unsold new houses have shrunk considerably, the significant backlog of foreclosures will continue to be a drag on residential construction, housing prices and financial industry balance sheets for the next couple of years. As such, the recovery in residential investment is projected to be relatively weak by the standards of past recoveries. Related troubles in commercial real estate have yet to be fully realised and may take some time to fully develop. The smaller size of this market suggests that such problems should be significantly less severe for the broader economy although some smaller banks could be severely affected.

The fiscal position is poor

The recession exacerbated already weak budget positions at all levels of government. The general government budget deficit is projected to remain above 10% of GDP in 2010, and to fall to around 9% in 2011. Some improvement should naturally occur over the next couple of years as fiscal stimulus winds down and economic growth lowers unemployment and raises tax revenue. However, on the Administration's current plans, fiscal policy remains unsustainable, with public debt relative to GDP rising in the medium and long term.

The withdrawal of exceptional monetary support has started without incident

The Federal Reserve's winding down of liquidity programmes, which peaked at $1.5 trillion of credit extended in late-2008, as well as the ending of $1.75 trillion worth of purchases of mortgage backed securities (MBS), treasury securities, and agency securities, have occurred without causing any market turmoil. The Federal Reserve has laid out its broad strategy for using the interest rate on excess reserves, reverse repos, and sales of MBSs to prevent the doubling of its balance sheet since the middle of 2008 from stoking inflation. With substantial slack in the economy, and low (and falling) levels of inflation in recent months, very low inflation looks to be a greater near-term concern than higher inflation – unless inflation expectations were to become unanchored against the background of the continued extraordinarily loose macroeconomic policy settings.

The improvement in imbalances risks being undone

The recession led to improvements in a number of economic imbalances, but some of this progress is already starting to be undone. The household saving rate increased from 1¾ per cent of disposable income in 2007 to 4¼ per cent in 2009 as tax cuts increased disposable income and consumption fell. However, the saving rate has fallen in each of the past three quarters as consumption growth has resumed. Likewise, the US current account deficit fell from 6% of GDP in 2006 to 3% in 2009, but it is widening again as the government deficit, consumption and investment growth are all rising. In the absence of policy adjustment or market reaction, the recent winding down of economic imbalances, which had made a large contribution to the financial crisis, risks being undone.

Risks remain substantial on both sides

The turnaround in the economy over the past few quarters has largely been driven by fiscal and monetary stimulus combined with inventory adjustment. It is unclear if output growth is yet self-sustaining and how the economy will respond as the effect of the stimulus ebbs. Similarly, the large pool of unemployed workers may hold income growth quite low over the next couple of years, reducing consumption growth more than envisaged. However, improved consumer attitudes and a continued fall in household saving to the low rates seen before the recession could support a continuation of the rebound in consumption and business investment seen in the past few quarters while at the same time worsening longer-term imbalances.

JAPAN

The recovery from the global crisis remains on track, thanks to a strong rebound in exports and fiscal stimulus that has supported household income in the face of falling employment and wages. Output growth is projected to reach 3% in 2010 on a year-average basis, but to slow somewhat in the second half of the year and average 2% in 2011. Nevertheless, the unemployment rate is likely to stay above 4½ per cent through 2011 and deflation will persist, as production remains below capacity.

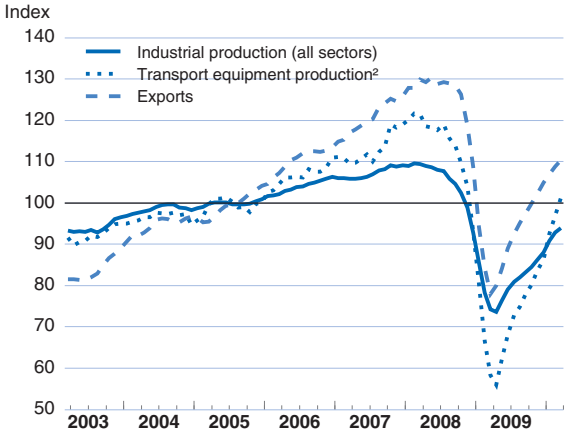
The Bank of Japan should fight deflation through a strong commitment to keep interest rates at their very low current levels and to implement quantitative measures effectively until underlying inflation is firmly positive. Given Japan's very high public debt, the government should scale back expenditure increases in FY 2011 and develop a credible and detailed medium-term fiscal consolidation programme, including tax reform, to bring the budget into balance. The Growth Strategy should focus on reforms that will boost productivity growth, particularly in the service sector, to improve living standards in the face of a shrinking working-age population.

Despite a recovery led by exports and fiscal stimulus…

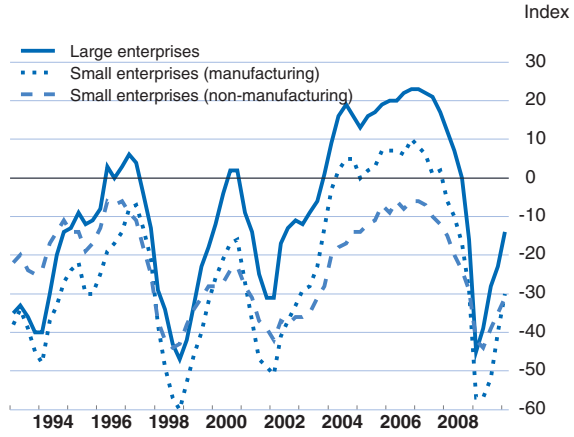
Japan's recovery from its worst recession of the post-war era has been driven by exports, which have increased at a 34% annual pace in volume terms since the first quarter of 2009, despite the significant appreciation of the yen. Export growth has benefited from strong demand from China, which accounts for a quarter of Japanese exports. Private consumption was buoyed by fiscal stimulus, which provided lump-sum payments to households and subsidies for some durable goods, including cars. In addition, the decline in employment was mitigated by wage subsidies to firms that retained their employees, thus preventing the unemployment rate from rising by an additional 1½ percentage point. As the economy has recovered, the number of bankruptcies has fallen and financial conditions have improved, with risk premiums for low-rated borrowers declining sharply. Business confidence

Japan

Exports and production continue to recover[1]



Business confidence is improving, but remains weak[3]



1. Data are three-month moving averages of seasonally-adjusted volume indices (2005=100).
2. Excluding ships and rolling stock.
3. Diffusion index of "favourable" minus "unfavourable" business conditions in the Tankan Survey. There is a discontinuity between the third and fourth quarters of 2003 due to data revisions.

Source: Ministry of Economy, Trade and Industry; Bank of Japan.

StatLink http://dx.doi.org/10.1787/888932304164

Japan: **Employment, income and inflation**

Percentage changes

	2007	2008	2009	2010	2011
Employment	0.5	-0.4	-1.6	0.0	0.0
Unemployment rate[1]	3.8	4.0	5.1	4.9	4.7
Compensation of employees	-0.6	0.7	-4.0	-0.5	1.1
Unit labour cost	-2.9	1.9	1.3	-3.4	-0.9
Household disposable income	-0.1	-0.2	-1.9	0.5	1.6
GDP deflator	-0.7	-0.8	-1.0	-2.1	-0.5
Consumer price index[2]	0.1	1.4	-1.4	-0.7	-0.3
Core consumer price index[3]	-0.2	0.1	-0.6	-1.0	-0.4
Private consumption deflator	-0.6	0.4	-2.2	-1.6	-0.5

1. As a percentage of labour force.
2. Calculated as the sum of the seasonally adjusted quarterly indices for each year.
3. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306102

continues to strengthen, although it remains weak by historical standards, especially among smaller enterprises. A gradual recovery in corporate profitability has prompted firms to expand their investment plans for 2010.

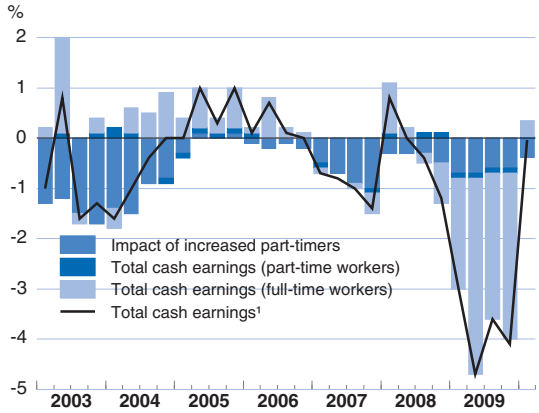
… wages are still falling and deflation is entrenched

However, the strong recovery has not been sufficient thus far to improve labour-market conditions much. Employment fell despite the subsidies and the unemployment rate – although down from its record high of 5.5% in mid-2009 – is still close to 5%. Weak labour-market conditions, resulting in declines in nominal wages of around 4% year-on-year through the end of 2009, have intensified deflationary pressures. By early 2010, the core consumer price index (excluding food and energy)

Japan

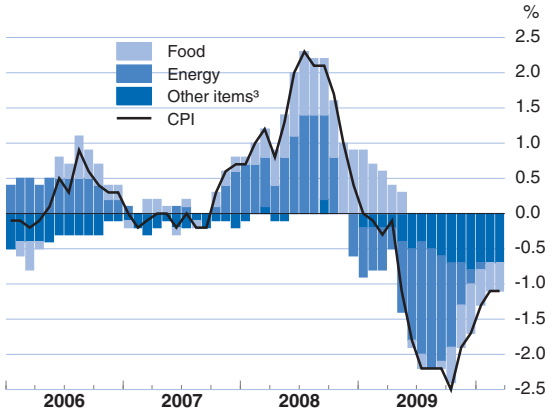
Wages have fallen sharply

Year-on-year percentage change



Core deflation has become entrenched²

Year-on-year percentage change in CPI



1. Total cash earnings of all workers, including bonuses.
2. The bars show contributions to the change in CPI.
3. Corresponds to the OECD measure of core inflation.

Source: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

StatLink http://dx.doi.org/10.1787/888932304183

Japan: **Financial indicators**

	2007	2008	2009	2010	2011
Household saving ratio[1]	2.4	2.3	2.3	2.4	3.2
General government financial balance[2]	-2.4	-2.1	-7.2	-7.6	-8.3
Current account balance[2]	4.9	3.3	2.8	3.3	3.5
Short-term interest rate[3]	0.7	0.7	0.3	0.2	0.2
Long-term interest rate[4]	1.7	1.5	1.3	1.5	2.2

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. 3-month CDs.
4. 10-year government bonds.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306121

was falling by around 1% (year-on-year), the fastest since 2001. Moreover, land prices in 2009 were down by 5%, with surveys indicating that a further decline is expected in coming quarters, implying a risk that balance-sheet adjustments could put pressure on the banking sector. The effect of falling land prices is compounded by the low level of equity prices, which are still about 25% below their pre-September 2008 levels.

The fiscal stance is set to remain expansionary, at least in 2010…

Fiscal stimulus, coupled with the automatic stabilisers, has helped to spark the recovery, but has also widened the budget deficit (excluding one-off factors) from 3% of GDP in 2007 to 9% in 2009. The new

Japan: **Demand and output**

	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
	Current prices ¥ trillion	Percentage changes from previous year, volume (2000 prices)					
Private consumption	291.8	-1.0	2.0	1.2	1.1	1.2	1.5
Government consumption	93.4	1.6	1.9	1.6	1.8	2.1	1.2
Gross fixed investment	117.8	-14.3	0.0	4.6	-12.0	3.9	5.2
Public[1]	19.7	6.0	-4.0	-5.2	6.8	-6.1	-4.0
Residential	16.4	-14.2	-5.0	9.8	-24.8	8.4	8.7
Non-residential	81.6	-19.3	2.3	6.5	-14.0	6.2	7.1
Final domestic demand	502.9	-3.6	1.6	2.0	-1.7	1.9	2.2
Stockbuilding[2]	1.5	-0.4	0.2	0.0			
Total domestic demand	504.4	-4.0	1.7	2.0	-3.4	2.5	2.2
Exports of goods and services	88.5	-24.0	17.8	7.8	-5.0	10.2	7.7
Imports of goods and services	87.8	-17.0	8.3	8.2	-15.5	8.9	8.1
Net exports[2]	0.7	-1.2	1.2	0.0			
GDP at market prices	505.1	-5.2	3.0	2.0	-1.4	2.7	2.2

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*
Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Including public corporations.
2. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306140

Japan: **External indicators**

	2007	2008	2009	2010	2011
			$ billion		
Goods and services exports	772.0	853.6	637.0	759	813
Goods and services imports	698.8	847.6	621.4	716	777
Foreign balance	73.2	6.1	15.6	43	36
Invisibles, net	139.6	151.3	128.4	126	146
Current account balance	212.8	157.4	144.0	169	182
			Percentage changes		
Goods and services export volumes	8.4	1.6	- 24.0	17.8	7.8
Goods and services import volumes	1.6	0.9	- 17.0	8.3	8.2
Export performance[1]	0.7	- 2.4	- 16.2	1.7	- 1.7
Terms of trade	- 4.5	- 9.3	10.8	- 4.9	- 0.9

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306159

administration, which took office in 2009 promising a number of new spending programmes, is implementing an expansionary budget for FY 2010. Central government spending, excluding interest payments, is set to increase by almost 4%. Consequently, the budget deficit (excluding one-off factors) is expected to remain around 9% of GDP in 2010 and 2011 in the absence of fiscal reform measures, boosting gross public debt, already the highest ever recorded in the OECD area, to 205% of GDP. Moreover, net debt, at 122% of GDP, would also be the highest among OECD countries after Greece. Although the government has ruled out any increase in the consumption tax during its term of up to four years, it promised to announce a medium-term framework for fiscal policy in June 2010 as part of its preparations for the FY 2011 budget.

… while the Bank of Japan scales back its crisis-driven measures

The Bank of Japan has left the policy interest rate unchanged at 0.1% since December 2008, while phasing out a number of crisis-driven measures to provide liquidity, including a scheme that lent short-term funds to banks. However, the Bank announced that it would double the total amount of its fixed-rate funds-supplying operation from 10 trillion yen to 20 trillion yen (4.2% of annual GDP) for the second quarter of 2010. Meanwhile, outright purchases of government bonds boosted the Bank's holdings by 14% in the year to March 2010, although these holdings remained 26% below their peak in late 2005, just prior to the end of the quantitative easing policy. Moreover, the Bank's total assets have shrunk by 21% since late 2005, indicating that quantitative measures remain relatively small. Greater use of quantitative measures by the central bank, notably larger outright purchases of government bonds, especially those with long-term maturities, may help by providing more liquidity to the market and promoting expectations of an end to deflation.

Economic growth is projected to reach 2% in 2011…

Output is projected to increase by 3% in 2010, although a full percentage point is due to carryover from the recovery in 2009. Export growth will moderate, as the appreciation of the yen by almost 20% in effective terms since the third quarter of 2008 may lead to market-share losses while raising imports. Nevertheless, buoyed by the recovery in world trade, exports will expand sufficiently to support a pick-up in business investment and some improvement in labour market conditions. Increased public social spending, including child allowances, free high school education and larger outlays for health and long-term care, will also sustain private consumption, even though a significant portion of the additional social spending is likely to be saved. The job-offer-to-applicant ratio remains around 0.5, reflecting labour hoarding during the downturn. The implication is that unemployment will remain high even in late 2011, keeping inflation in negative territory. Entrenched deflation acts as a drag on economic growth as it discourages business investment by raising the real interest rate and squeezing profit margins.

… with domestic and external risks mostly on the downside

Many of the risks to the outlook are linked to fiscal policy. There is uncertainty about what share of the additional transfers to households will be saved, which will influence the evolution of private consumption. A scaling back of fiscal stimulus in FY 2011 as part of the new medium-term fiscal plan could result in a temporary moderation in domestic demand growth. However, it would limit the very high public debt ratio, which has increased Japan's vulnerability to a rise in long-term interest rates. Given the export-led nature of Japan's expansion, growth will depend in part on the strength of the rebound in world trade and on exchange rate developments. A large and rapid appreciation of the yen could reduce export growth and discourage firms from investing and hiring in Japan.

EURO AREA

A gradual recovery is underway driven by economic policy stimulus, a rebound in world trade and improving financial conditions, although there has recently been significant financial market volatility. Difficulties in restoring competitiveness and sound public finances in some peripheral countries may complicate recovery. Persistently high unemployment in much of the euro area, and financial develeraging by indebted households and businesses will weigh on domestic demand. Substantial economic slack is likely to keep inflation low.

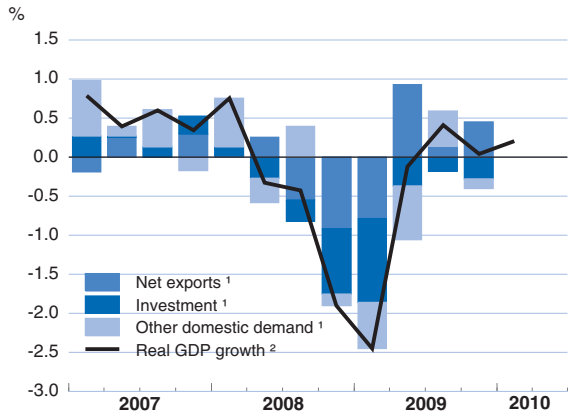
Weak price pressures and a persistent negative output gap argue for maintaining the very accommodative monetary policy stance until late 2010 and for liquidity support to be removed only gradually. More credible and transparent plans for fiscal consolidation should be spelled out to restore sustainability. To minimise moral hazard, the package of extraordinary measures adopted in early May should be accompanied by strict conditionality, enforcement and more effective fiscal surveillance. European financial regulatory and supervisory architecture needs to be strengthened to reduce risks of future crisis.

A gradual recovery is driven by trade and aided by public spending

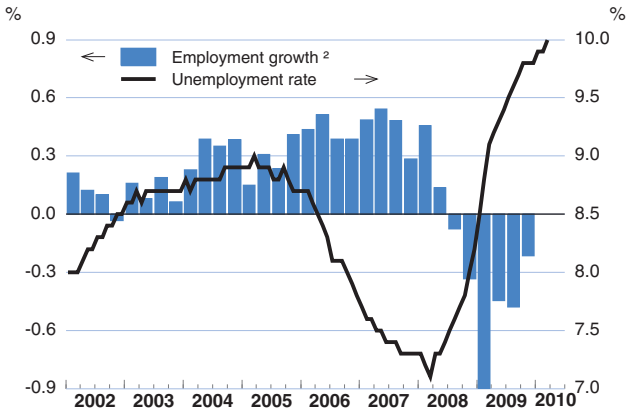
A moderate recovery is underway. The economy has been growing at an annualised rate averaging around 1% since the trough in the second quarter of 2009, driven by government consumption and stronger exports as world trade recovered. Private consumption stabilised as confidence improved, but investment continued to contract reflecting overcapacity in many sectors and uncertain growth prospects. Industrial production has picked up in recent months in the wake of the rebound in world trade, and competitiveness has been boosted by the depreciation of the euro. Business and consumer confidence recovered to their long-term averages but retail sales have remained broadly flat since the beginning of 2009.

Euro area

The economy is emerging from recession



The labour market is stabilising



1. Contribution to real GDP growth.
2. Quarter-on-quarter percentage change.

Source: Eurostat and OECD, OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932304202

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

Percentage changes

	2007	2008	2009	2010	2011
Employment	1.8	1.0	-1.8	-0.9	0.0
Unemployment rate[1]	7.4	7.5	9.4	10.1	10.1
Compensation per employee[2]	2.4	2.6	1.2	1.1	1.5
Labour productivity	0.9	-0.6	-2.3	2.1	1.7
Unit labour cost	1.7	3.6	4.0	-1.1	-0.6
Household disposable income	4.1	3.5	0.9	1.0	1.5
GDP deflator	2.4	2.2	1.0	0.5	0.8
Harmonised index of consumer prices	2.1	3.3	0.3	1.4	1.0
Core harmonised index of consumer prices[3]	2.0	2.4	1.4	0.8	0.9
Private consumption deflator	2.3	2.8	-0.1	1.4	1.0

Note: Covers the euro area countries that are members of the OECD.
1. As a percentage of labour force.
2. In the private sector.
3. Harmonised index of consumer prices excluding energy, food, drink and tobacco.
Source: OECD Economic Outlook 87 database.

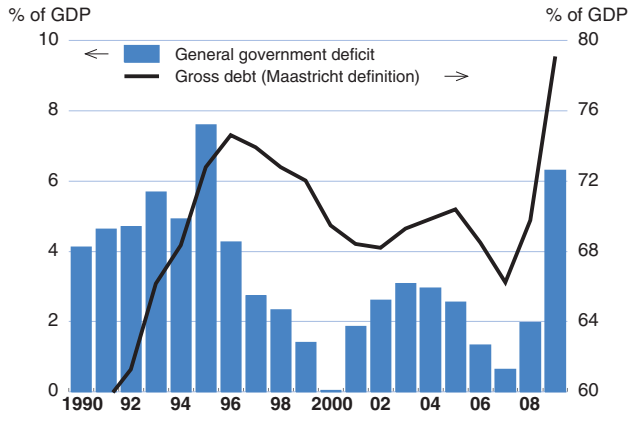
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Financial conditions improved gradually but risks remain

Financial conditions have gradually improved as policy rates remain low and confidence recovers, although fragilities have been exposed by the recent financial market volatility. While short interbank rates have remained at extremely low levels, reduction in lending rates for non–financial corporations and households only partly reflected the fall in banks' funding rates. High lending spreads compared with historical norms may in part reflect higher risk premia but competition may also have suffered as a result of the crisis. Credit growth has weakened further with bank credit to non–financial corporations continuing to contract, although issuance of corporate debt has been strong. Concerns about credit quality and the health of the European banking sector remain as

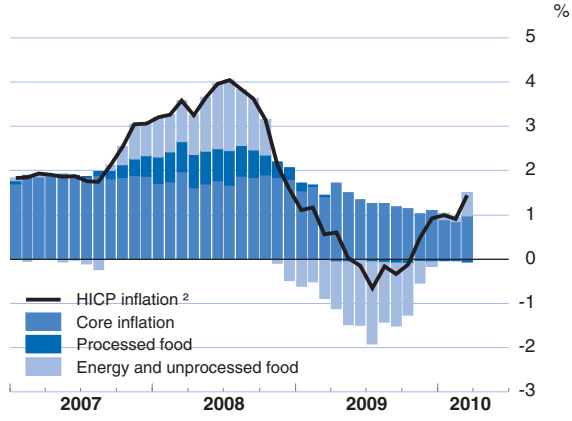
Euro area

The fiscal position has deteriorated



Inflationary pressures remain subdued

Contribution to inflation [1]



1. Represented by the harmonised consumer price index (HICP).
2. Year-on-year percentage change.

Source: OECD, OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932304221

Euro area: **Financial indicators**

	2007	2008	2009	2010	2011
Household saving ratio[1]	9.4	9.7	11.2	10.8	10.3
General government financial balance[2]	-0.6	-2.0	-6.3	-6.6	-5.7
Current account balance[2]	0.4	-0.8	-0.3	0.3	0.8
Short-term interest rate[3]	4.3	4.6	1.2	0.7	1.9
Long-term interest rate[4]	4.3	4.3	3.8	3.8	4.7

Note: Covers the euro area countries that are members of the OECD.
1. As a percentage of disposable income.
2. As a percentage of GDP.
3. 3-month interbank rate.
4. 10-year government bonds.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306197

European banks are unlikely to have cleaned their balance sheets of all toxic assets.

The labour market is stabilising

The unemployment rate has been broadly stable since September 2009, standing at 10% in March, aided by the nascent recovery and various government programmes. Employment appears to be stabilising and the cumulative fall in employment has been small relative to the drop in output when compared with previous recessions. This reflects extensive labour hoarding, to some extent facilitated by schemes in a number of countries to subsidise shorter working hours but also reflecting concerns about skill shortages, and suggests that employment growth may be limited as activity recovers.

Euro area: **Demand and output**

	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
	Current prices € billion	Percentage changes from previous year, volume (2009 prices)					
Private consumption	5 194.7	-1.0	0.1	1.0	-0.5	0.2	1.3
Government consumption	1 881.4	2.3	0.5	0.2	1.9	0.2	0.2
Gross fixed investment	1 985.0	-10.7	-2.2	2.2	-8.9	0.4	3.0
Public	242.9	5.2	-0.5	-6.1	5.6	-3.4	-6.0
Residential	536.8	-10.2	-4.7	0.5	-8.8	-1.7	1.2
Non-residential	1 327.8	-14.1	-1.4	5.1	-12.1	2.3	5.9
Final domestic demand	9 061.1	-2.4	-0.3	1.0	-1.8	0.3	1.4
Stockbuilding[1]	37.5	-0.9	0.6	0.0			
Total domestic demand	9 098.6	-3.3	0.3	1.1	-2.9	1.0	1.4
Net exports[1]	97.6	-0.8	0.9	0.7			
GDP at market prices	9 196.3	-4.1	1.2	1.8	-2.1	1.5	1.9

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.
Covers the euro area countries that are members of the OECD.
1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306216

Euro area: **External indicators**

	2007	2008	2009	2010	2011
			$ billion		
Foreign balance	195.6	145.2	170.1	196	262
Invisibles, net	- 141.8	- 247.0	- 208.3	- 165	- 161
Current account balance	53.8	- 101.7	- 38.2	32	101

Note: Covers the euro area countries that are members of the OECD.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306235

Inflationary pressures remain subdued

Core annual inflation has continued its moderation over the past 18 months to reach 0.8% in April, reflecting considerable economic slack. Headline annual inflation stood at 1.5% in April, sharply higher than six months previously as the effect of past falls in energy and food dropped out. Inflation expectations appear to remain well anchored.

The ECB started to purchase government debt securities

Monetary conditions have been accommodative over recent months supporting the recovery. The ECB's main refinancing rate has remained at 1% with overnight interbank rates at a lower level due to abundant liquidity in the interbank market. However, in response to strong pressures on sovereign bonds of some members and risk of contagion to other financial markets, the ECB reactivated measures to supply unlimited three- and six-month liquidity to banks and, in conjunction with other central banks, has re-introduced temporary liquidity swap lines with the Federal Reserve. The ECB also started to directly purchase government debt securities and announced purchases of private debt securities. To avoid inflationary pressures and anchor expectations, these purchases should be sterilised as planned.

Monetary conditions should remain accommodative

Current policy rates should be maintained until late 2010, given moderate core inflation, continued weakness of credit markets, expected withdrawal of fiscal stimulus, and considerable excess capacity in the economy. The main policy rate should be gradually increased thereafter, as the recovery gathers momentum. Risks of future financial turbulence need to be addressed by strengthening the European financial regulatory and supervisory architecture.

Substantial fiscal consolidation is required

Automatic stabilisers, fiscal stimulus and financial sector measures were crucial in ensuring the economic turnaround and recovery. However, the euro area budget deficit rose from 2% of GDP in 2008 to 6.3% in 2009 with public debt reaching 79% of GDP. Stability Programmes published in February 2010 suggest discretionary budgetary tightening in the euro area of more than 1% of GDP in 2011 and 2012. There is considerable variation across countries, with the sharpest consolidations planned in some of the euro area peripheral countries that face substantially increased funding costs and high debt levels. Consolidation plans have in many cases not been backed up by specific measures beyond 2010 and therefore have not been fully reflected in the current set of projections. National authorities

should set out credible and transparent plans to restore sound public finances, based primarily on expenditure reduction measures that historically have produced more sustainable consolidations.

It is essential to minimize moral hazard

The package of exceptional measures announced in early May helped to arrest contagion in financial markets arising from concerns about fiscal positions of several euro area members. However, strict enforcement of conditionality attached to the exceptional measures and strongly enhanced fiscal monitoring at the European level are essential to minimise moral hazard and to ensure longer-term solvency.

The recovery will gather strength going forward

GDP growth is projected to strengthen over the coming quarters as exports benefit from the rebound in world trade. Consumption is also likely to pick up further, aided by higher financial wealth, stabilisation of house prices and low real interest rates, though being offset somewhat by the weakness in the labour market and deleveraging by highly indebted households. Investment is likely to recover only gradually in the coming quarters, held back by remaining excess capacity, continued credit constraints and weak growth prospects. As more robust world growth boosts exports and financial conditions improve further, private non–residential investment should start to make a more substantial contribution to the overall recovery. However, in some countries the process may be held back by overcapacity in structurally weak industries.

The risks are broadly balanced

There is considerable uncertainty about the strength and pace of the recovery. The euro area economy remains sensitive to changes in financial conditions and developments in world demand, which can surprise on the upside. The pace of fiscal consolidation and its dampening effect on demand is a significant downside risk. The fiscal adjustment needs and difficulties in restoring competitiveness in some euro area countries may complicate recovery and monetary policy exit. Success with policy coordination at the European level is another uncertainty for orderly stabilisation of sovereign risks in some member countries.

GERMANY

The underlying growth momentum is intact, although negative one-offs affected the economy around the turn of the year. Growth is expected to pick up strongly from the second quarter onwards as the improvement in world trade continues and firms gradually raise their investment expenditures. The labour market continues to be exceptionally robust given the magnitude of the output contraction. Nevertheless, labour hoarding has left some enterprises with excess employment and some increase in layoffs and in unemployment is expected.

The budget balance is set to deteriorate markedly in 2010, primarily on account of lower revenues, not least influenced by measures reducing income taxes. The reformed constitutional fiscal rule requires consolidation to start in 2011. When implementing consolidation, priority should be given to reductions in outlays and tax expenditures. In other areas, policy should focus on growth-enhancing structural reforms. In some cases, such action would not only help to raise the growth potential but would also contribute to lowering external imbalances over the medium term, not least through increased private domestic investment.

Real GDP growth stalled through the turn of the year…

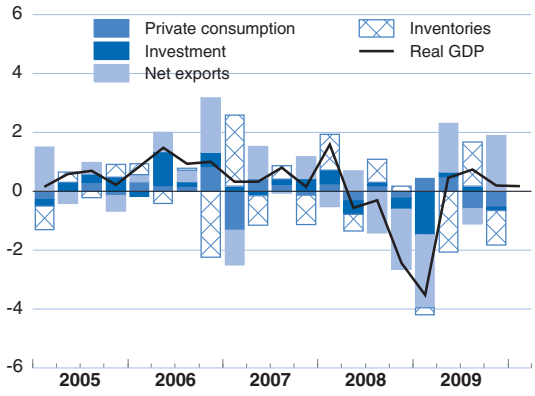
After two quarters of solid growth, economic activity slowed at the end of 2009 and remained weak in early 2010. This reflected temporary factors, such as a significantly negative contribution from stock-building in the fourth quarter and adverse weather conditions throughout the first quarter. Private consumption remained very weak as the end of the car scrapping scheme in the third quarter of last year was still depressing car sales. Strong import growth suggests that firms are starting to build up their inventory levels; survey evidence shows that firms no longer view them as being too high.

… but is expected to pick up going forward

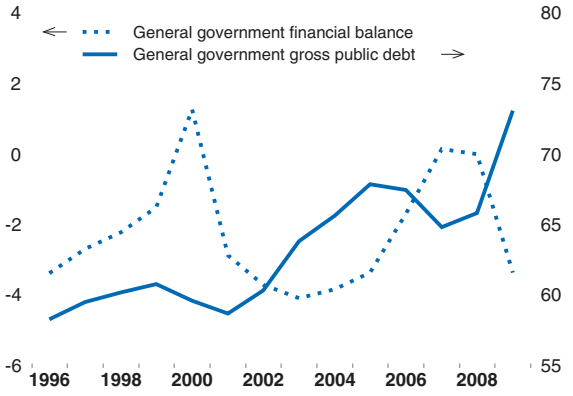
Notwithstanding the temporary weakness, the underlying growth momentum is intact and suggests solid growth going forward. Business confidence is back at the levels of mid-2008, mostly driven by a strong

Germany

Recovery has been weak
Contributions to quarterly growth, %



Government debt is mounting
% of GDP



Note: Gross debt is according to the Maastricht definition. The financial balance for 2000 includes a one-off revenue for the sale of mobile telephone licences.

Source: OECD Economic Outlook 87 database; OECD, National Accounts database.

StatLink http://dx.doi.org/10.1787/888932304240

Germany: **Employment, income and inflation**

Percentage changes

	2007	2008	2009	2010	2011
Employment	1.7	1.4	0.0	-0.4	-0.5
Unemployment rate[1]	8.3	7.2	7.4	7.6	8.0
Compensation of employees	2.7	3.7	0.0	-0.1	0.6
Unit labour cost	0.1	2.7	5.1	-2.0	-1.5
Household disposable income	1.6	2.7	0.4	1.0	1.0
GDP deflator	1.9	1.5	1.5	0.1	0.6
Harmonised index of consumer prices	2.3	2.8	0.2	1.3	1.0
Core harmonised index of consumer prices[2]	1.9	1.3	1.3	0.7	0.9
Private consumption deflator	1.8	2.1	0.1	1.5	1.0

1. As a percentage of labour force, based on national accounts.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306254

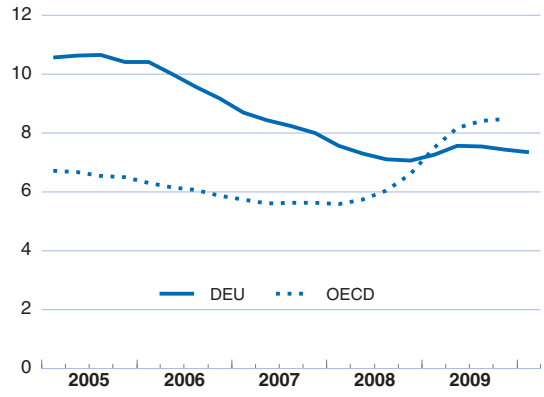
improvement in expectations. Manufacturing orders are steadily increasing, even though the level of orders relative to production capacity remains low. Growth in the second quarter is therefore projected to be very strong, only partly reflecting a rebound from the first quarter weakness caused by bad weather.

Labour market performance is robust

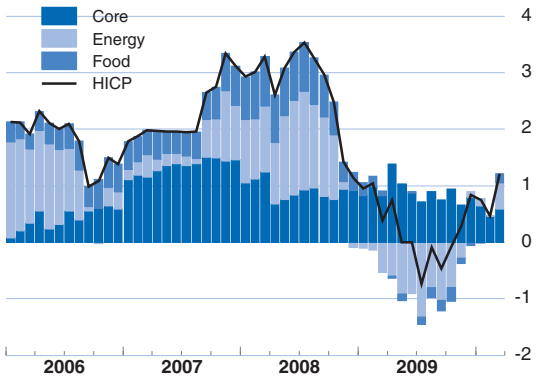
Unemployment developments continue to be much more favourable than in other countries and relative to Germany's past experience. The increase in the unemployment rate during the crisis by around ½ percentage point from its cyclical low at the end of 2008 was the smallest among OECD countries. One explanatory factor is that job losses in the manufacturing sector have been offset by employment increases in some other sectors of the economy which were less affected by the crisis.

Germany

Unemployment has barely risen
Unemployed/labour force, %



Headline inflation is rising again
Contributions to annual growth, %



Note: Core refers to the harmonised index of consumer prices (HICP) excluding food, energy, alcohol and tobacco.
Source: Eurostat; OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932304259

Germany: **Financial indicators**

	2007	2008	2009	2010	2011
Household saving ratio[1]	10.8	11.2	11.3	12.0	11.4
General government financial balance[2]	0.2	0.0	-3.3	-5.4	-4.5
Current account balance[2]	7.7	6.7	5.0	6.0	7.2
Short-term interest rate[3]	4.3	4.6	1.2	0.7	1.9
Long-term interest rate[4]	4.2	4.0	3.2	3.3	4.4

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. 3-month interbank rate.
4. 10-year government bonds.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306273

To a large extent, however, the employment expansion involved part-time jobs in the public and private services sectors. Within the manufacturing sector, increased flexibility in working time arrangements at the company level and, to a smaller extent, the subsidised short-time work scheme allowed firms to adjust labour input by reductions in hours worked. However, this was accompanied by a marked increase in unit labour costs.

Germany: **Demand and output**

	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
	Current prices € billion	Percentage changes from previous year, volume (2000 prices)					
Private consumption	1 408.4	0.3	-1.4	0.7	-0.4	-0.3	1.0
Government consumption	451.8	3.0	1.4	0.8	2.6	1.5	0.6
Gross fixed investment	472.9	-8.8	1.5	2.0	-6.9	2.5	2.4
Public	37.4	7.3	13.4	-14.1	14.7	7.0	-18.4
Residential	136.1	-0.6	0.9	0.8	1.8	0.8	0.8
Non-residential	299.4	-14.5	-0.1	5.6	-13.7	2.7	7.0
Final domestic demand	2 333.1	-1.0	-0.3	1.0	-1.1	0.6	1.1
Stockbuilding[1]	4.7	-0.9	1.1	-0.1			
Total domestic demand	2 337.8	-2.0	0.8	0.9	-3.0	2.2	1.1
Exports of goods and services	1 176.8	-14.2	10.0	8.8	-5.2	9.9	8.2
Imports of goods and services	1 022.2	-8.9	8.2	6.7	-7.3	11.0	6.8
Net exports[1]	154.6	-3.0	1.1	1.3			
GDP at market prices	2 492.3	-4.9	1.9	2.1	-2.2	2.2	2.1
Memorandum items							
GDP without working day adjustments	2 496.0	-4.9	2.0	2.1			
Investment in machinery and equipment	229.1	-17.4	1.4	3.6	-16.2	2.5	4.4
Construction investment	243.8	-0.6	1.5	0.9	1.8	2.5	0.9

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).*
Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306292

Unless firms continue to hoard labour, for example because fears of future skill shortages lead them to hold on to a larger workforce than currently necessary, some rise in unemployment seems likely. However, even after taking some upcoming deterioration of the labour market into account, the performance of the labour market during the crisis remains exceptional in comparison with past recessions.

The government budget balance is deteriorating

After increasing by more than 3 percentage points in 2009, the budget deficit will widen further this year to over 5% of GDP. This mainly reflects lower income tax revenues due to a continued fall in employment and changes to the income tax code at the beginning of 2010. The latter include higher child allowances, an increase in the basic tax allowance and increased deductibility of health insurance contributions as mandated by the German constitutional court. From 2011, the government will have to introduce consolidation measures as mandated by the newly enacted fiscal rule, which requires a continuous reduction in the structural deficit until 2016, at least for the federal government. In addition, the phasing out of the temporary fiscal stimulus measures will lower the structural deficit in 2011. When choosing options for consolidation going forward, priority should be given to expenditure cuts and reductions in tax expenditures, rather than tax increases.

The current account is expected to remain in surplus

The current account surplus, which was nearly 8% of GDP in 2007 and the largest in absolute terms in the OECD, decreased significantly during the crisis to 5% of GDP as exports fell somewhat more than imports and a significant widening of the government's net borrowing more than offset increases in private net lending. The main driving factor behind the build-up of the surplus since 2000 has been an increase in net lending by the corporate sector, reflecting in part a lack of domestic investment. An economic policy that is geared towards raising the attractiveness of investing in the German non-traded sector would not only raise potential growth but also contribute to lowering external imbalances over the medium term. To this end, priority should be given to structural reforms, in particular product market reform in the non-traded sector, improving the framework conditions for innovation and raising the supply of high-skilled labour, for example through reforms of the education system.

The recovery is likely to be export-driven

As in past upswings, the growth rebound will be mainly driven by the foreign trade contribution as Germany regains export market share lost during the crisis. As a result, Germany's current account surplus is projected to widen again. Stock-building is expected to significantly add to growth in 2010, while private consumption is projected to remain weak as the labour market deteriorates and households may save some of the additional income they receive through the cuts in taxation. Private investment is envisaged to follow the improvement in trade developments, but with a lag as capacity utilisation remains at low levels. Public investment will continue to contribute to growth in 2010 as infrastructure spending from the fiscal stimulus programmes will be

phased out only next year. In 2011, both private consumption and investment are expected to return to past positive growth trends. Two years of solid growth rates notwithstanding, a sizeable output gap will remain at end-2011. Price pressures will thus remain contained, with the annual inflation rate staying around 1%.

Risks are broadly balanced

The risks surrounding the projection relate foremost to developments in world trade, which can change growth in either direction. In addition, a deterioration of the situation in the banking sector may adversely impact credit availability and costs and thus investment growth. If the labour market proved more resilient than projected, households might save less and consume more.

FRANCE

The recovery is underway. Real GDP growth is projected to increase somewhat, averaging about 2% through both 2010 and 2011, led by business investment, exports and an end to destocking. The unemployment rate should peak soon before declining slowly in 2011, while price pressures will remain subdued with underlying inflation around 1% per year.

The stimulatory macroeconomic policies, which were appropriate to address the crisis, should be steadily unwound, and the government must design and transparently communicate a credible medium-term plan for significant fiscal consolidation. Reforms of public pensions, health care and public administration would signal the commitment to cut spending in a sustainable way, while raising long-term potential output. Action on taxes will also be needed, with a focus on broadening tax bases and increasing less distortionary taxes and those that correct for externalities, including property and environmental taxes.

Growth has picked up...

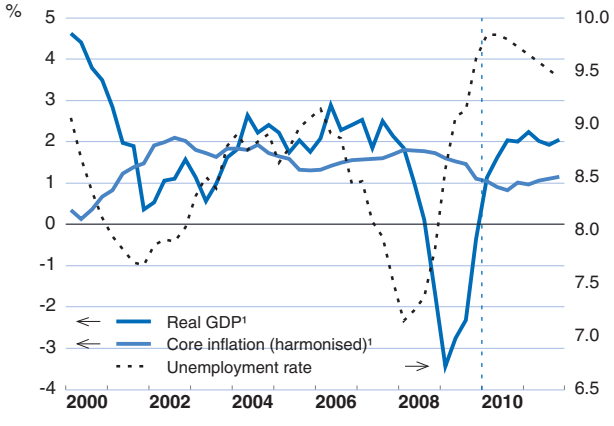
Real GDP posted relatively strong growth in the last quarter of 2009, driven by the slowdown in destocking and dynamic private consumption, while all components of investment remained in negative territory. However, the labour market has continued to deteriorate, with the unemployment rate reaching 9.7% (mainland) in the first quarter of 2010 against 8.6% one year before, but the upward trend has been moderating. Despite higher-than-expected tax revenues in the last quarter, the general government deficit rose sharply to 7.6% of GDP in 2009.

... but private consumption has become less supportive

With the progressive phasing out of the "cash-for-clunkers" scheme, private consumption has slowed down sharply since the beginning of 2010. Against this background, inventories and external demand have become the main sources of output growth. Although industrial

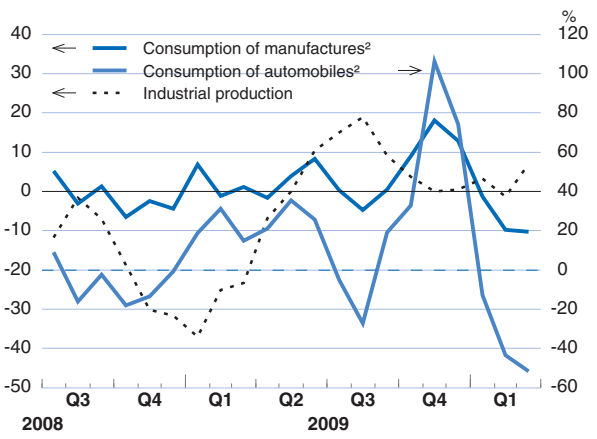
France

Unemployment should peak soon



Consumption of durables has fallen recently

Annualised quarterly growth rates



1. Year-on-year growth rates.
2. Private expenditure.

Source: INSEE; BdF; OECD, Main Economic Indicators and Economic Outlook No.87 databases.

StatLink http://dx.doi.org/10.1787/888932304278

France: **Employment, income and inflation**

Percentage changes

	2007	2008	2009	2010	2011
Employment	1.7	1.4	-0.7	-0.3	0.7
Unemployment rate[1]	8.0	7.4	9.1	9.8	9.5
Compensation of employees	4.2	3.2	0.1	1.1	1.9
Unit labour cost	1.9	2.9	2.6	-0.6	-0.2
Household disposable income	5.2	3.2	1.8	1.6	2.1
GDP deflator	2.5	2.5	0.8	0.7	1.0
Harmonised index of consumer prices	1.6	3.2	0.1	1.7	1.1
Core harmonised index of consumer prices[2]	1.6	1.8	1.4	0.9	1.1
Private consumption deflator	2.1	2.8	-0.1	1.1	1.1

1. As a percentage of labour force.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306311

production has been erratic, business confidence in the industrial sector has been steadily improving. Underlying inflation continues to edge down.

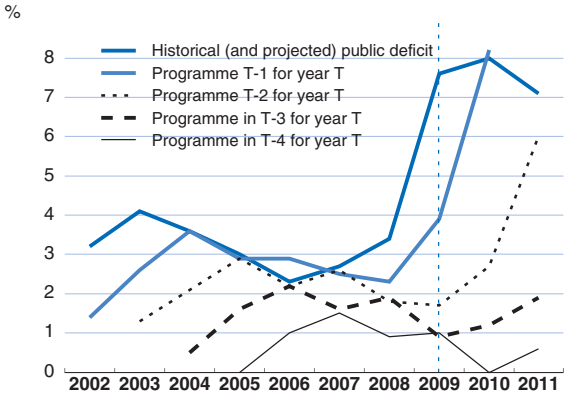
Macroeconomic policies have been accommodative...

Before the outbreak of the Greek crisis, the ongoing normalisation of financial markets enabled the euro-area monetary policy stimulus to be transmitted through more attractive credit conditions. After having stalled in 2009, credit to the non-financial private sector accelerated to grow at an annualised rate of more than 4% in the first quarter of 2010. This pick-up reflects the improved solvency of the financial sector due to recapitalisations, including by the government, which raised the average tier-one ratio of the five largest banks to 10.2% at the end of 2009,

France

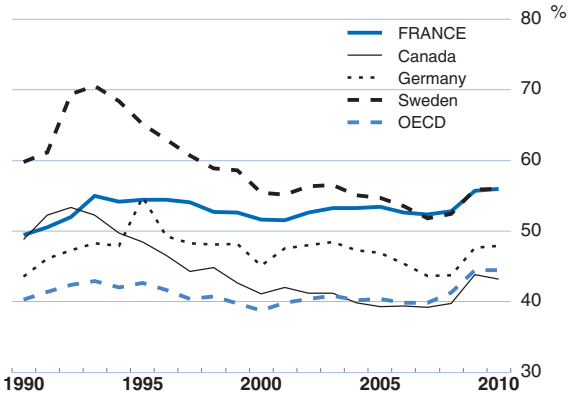
Stability programme goals have not been met[1]

As a percentage of GDP



Public spending is high

As a percentage of GDP



1. Taking the 2009 deficit as an example, the public deficit was 7.6% of GDP (Historical), while the stability programmes, for this deficit, foresaw 3.9% at the end of 2008 (T-1), 1.7% at end-2007 (T-2), 0.9% at end-2006 (T-3) and 1.0% at end-2005 (T-4).

Source: OECD, based on successive French stability programmes and Economic Outlook No. 87 database.

StatLink http://dx.doi.org/10.1787/888932304297

France: **Financial indicators**

	2007	2008	2009	2010	2011
Household saving ratio[1]	15.5	15.3	16.3	15.6	15.2
General government financial balance[2]	-2.7	-3.3	-7.6	-7.8	-6.9
Current account balance[2]	-1.0	-2.3	-2.2	-1.9	-1.9
Short-term interest rate[3]	4.3	4.6	1.2	0.7	1.9
Long-term interest rate[4]	4.3	4.2	3.6	3.6	4.7

1. As a percentage of disposable income (gross saving).
2. As a percentage of GDP.
3. 3-month interbank rate.
4. 10-year benchmark government bonds.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306330

compared with 8.0% two years before. According to the stress tests conducted by the Supervision Authority, French banks are prepared to face less favourable market conditions in 2010 as well as remaining uncertainties related to the valuation of asset-backed securities.

... and should continue to be so in the rest of 2010

Fiscal policy is expected to be broadly neutral in 2010, before turning restrictive in 2011. Some measures that were introduced in 2009 and increased the structural deficit permanently, such as the reduced VAT in the restaurant sector, will apply for the full year in 2010. The welcome elimination of the *taxe professionnelle*, a business tax that penalised

France: **Demand and output**

	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
	Current prices € billion	Percentage changes from previous year, volume (2000 prices)					
Private consumption	1 113.9	1.0	1.2	1.5	1.8	0.7	2.0
Government consumption	451.3	1.8	1.6	0.5	2.3	0.8	0.3
Gross fixed investment	426.9	-7.1	-1.6	4.0	-6.0	1.4	4.4
Public	62.4	-2.4	0.6	2.6	0.1	2.2	1.4
Residential	124.1	-7.8	-3.6	0.7	-6.7	-1.4	1.7
Non-residential	240.4	-7.9	-1.2	6.0	-7.2	2.7	6.7
Final domestic demand	1 992.1	-0.6	0.7	1.8	0.3	0.8	2.1
Stockbuilding[1]	5.2	-1.9	0.5	0.3			
Total domestic demand	1 997.3	-2.4	1.3	2.1	-1.1	1.5	2.1
Exports of goods and services	514.1	-10.9	7.8	7.2	-4.6	9.4	7.4
Imports of goods and services	563.5	-9.9	5.5	6.9	-5.9	6.9	7.2
Net exports[1]	- 49.4	0.0	0.4	0.0			
GDP at market prices	1 948.0	-2.5	1.7	2.1	-0.6	2.0	2.1

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).*
Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306349

investment, and accompanying measures will provide a fiscal stimulus of 0.6% of GDP in 2010, with about half of that being reversed in 2011. Additional spending in 2010 has been announced to subsidise employment, support SME financing and extend unemployment benefits. On the other hand, the gradual phasing out of the car scrapping scheme as well as self-reversing measures such as the temporary 2009 income tax cuts tend to reduce the underlying deficit. For 2011, the government announced that tax expenditures and central government spending would each be reduced by about 0.25% of GDP, and it remains committed to replacing at most half of retiring civil servants.

Fiscal consolidation has to be both credible and significant

Public finances have been steadily deteriorating over the past decades, leading to an already high pre-crisis level of public debt, and France has a poor track record in meeting the deficit targets in its stability programmes. Hence, a stronger fiscal framework is needed to rebuild credibility and ensure that fiscal policy is counter-cyclical, especially, in good times. The government has launched a series of discussions on the fiscal policy framework and the way to consolidate the public finances. Decisions should be taken around mid-year.

Reforms are needed in a number of areas

Given the high level of public spending, there would appear to be considerable room for savings. The forthcoming pension reform will be seen as an acid test of the government's capacity to restore fiscal sustainability. If properly designed and implemented, this reform will boost long-term potential output via increased labour force participation of older workers. Health care reform is also needed. Despite overall good performance of the health sector, efficiency can be improved in certain areas such as by reducing administrative costs. Savings can also be achieved by deepening the reform of the state, via reducing the large number of sub-national administrations and extending the General Public Policy Review to all feasible levels of public administration. Tax increases will also be needed, as reducing spending is unlikely to be enough to improve the budget balance sufficiently in the short to medium term. Systematically reviewing tax expenditures in order to eliminate the most questionable of them is the top priority. Consideration should also be given to increasing the least distortive taxes: on property and the VAT, especially on low-rated items. In this context, the step back on the previously announced new environmental taxes is regrettable.

Growth prospects are improving

Activity should pick up as destocking comes to an end, export markets gain momentum and business investment accelerates. Private consumption might remain sluggish in the short term, but it is expected to be more dynamic in 2011. Overall, real GDP growth should average around 2% per year over the projection period, and the unemployment rate should peak soon and then decline, albeit only slowly. The general government deficit is projected to deteriorate slightly in 2010 before narrowing somewhat to below 7% of GDP in 2011. With persistent slack, price pressures will probably remain subdued, with an underlying

inflation rate of around 1% throughout the projection. After an increase of more than 1 percentage point in 2009, the household saving rate should decrease steadily because of waning uncertainty, while the current account deficit is expected to be fairly stable at around 2¼ per cent of GDP.

Risks are broadly balanced

Considerable uncertainty surrounds the projection. A stronger-than-expected world economy would provide a boost, and an easing of financial-market turbulence may stimulate activity. However, changes in financial-sector regulation, prospective interest-rate increases and possible contagion from the Greek crisis all pose risks of uncertain magnitude.

ITALY

The recession in Italy, which had one of the largest peak-to-trough falls in output in the OECD area, ended in mid-2009. Although growth picked up to a 2% annual rate in the first quarter, the recovery is projected to proceed at a moderate pace for 2010 as a whole, strengthening a little in 2011. Government policy has helped to limit unemployment, which will nevertheless continue to rise slowly into 2011. Excess capacity will exert continuing downward pressure on inflation after a short-term increase due to resurgent energy prices.

Italy kept its budget deficit in line with plans in 2009, thus generating bond-market confidence and a relatively low risk premium. It is necessary to pursue substantial fiscal tightening in 2011, as the government has announced, which will require a high degree of spending restraint. Reliance on one-off measures should be avoided and attention should be paid to maintaining and improving efficiency.

The economy is gradually coming out of the recession

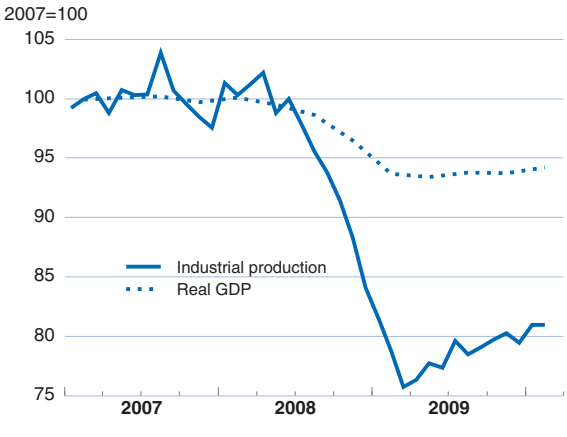
While the steep decline in economic activity ceased in mid-2009 the recovery has so far been hesitant, though prospects were boosted by a significant increase in GDP in the first quarter of 2010. The incipient upturn is partly technical, reflecting the turnaround of the inventory cycle. Improving financial conditions may help to stabilise business investment, although it remained weak in early 2010 as companies face cash-flow shortfalls and difficult access to external finance.

Unit costs have risen strongly, hindering the export recovery

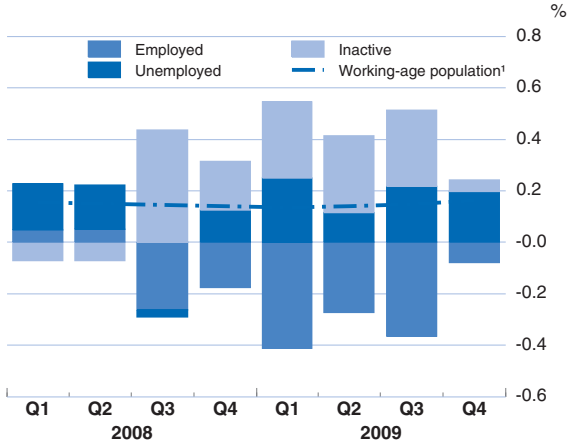
Exports have begun to increase, but at a slower pace than in many countries, and after a steeper fall. Having already lost price and cost competitiveness over the last decade, further increases in unit labour costs last year reinforce the difficulty Italy has in avoiding market share losses. Weak exports are also partly due to the nature of the goods Italy exports, with a specialisation in luxury consumer products, for example, and the fact that Italy traditionally exports relatively little to the fast growing non-OECD markets.

Italy

A recovery but no sharp upturn



Employment fell, unemployment and inactivity rose
Changes as a percentage of the working age population



Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932304316

Italy: **Employment, income and inflation**

Percentage changes

	2007	2008	2009	2010	2011
Employment[1]	1.3	0.3	-1.7	-0.7	0.4
Unemployment rate[1,2]	6.2	6.8	7.8	8.7	8.8
Compensation of employees	3.9	3.7	0.5	1.1	1.7
Unit labour cost	2.5	5.1	5.9	0.0	0.2
Household disposable income	3.0	2.8	-0.3	1.3	1.9
GDP deflator	2.6	2.8	2.1	1.0	0.8
Harmonised index of consumer prices	2.0	3.5	0.8	1.2	1.0
Core harmonised index of consumer prices[3]	1.8	2.2	1.6	1.1	0.9
Private consumption deflator	2.3	3.2	-0.1	1.2	1.0

1. Data for whole economy employment are from the national accounts. These data include an estimate made by Istat for employment in the underground economy. Total employment according to the national accounts is approximately 2 million, about 10%, higher than employment according to the labour force survey. The unemployment rate is calculated relative to labour force survey data.
2. As a percentage of labour force.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 87 database.

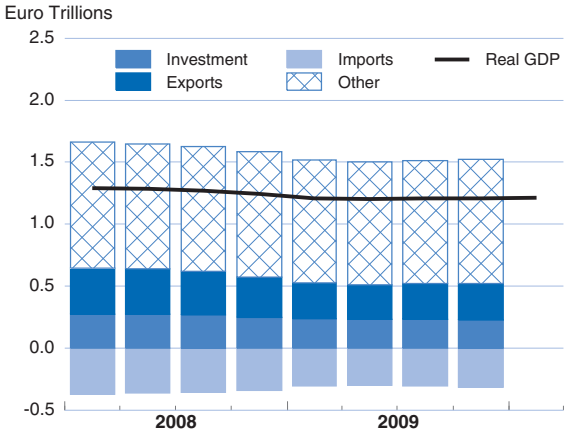
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Recorded unemployment has risen slowly, inflation shows some persistence

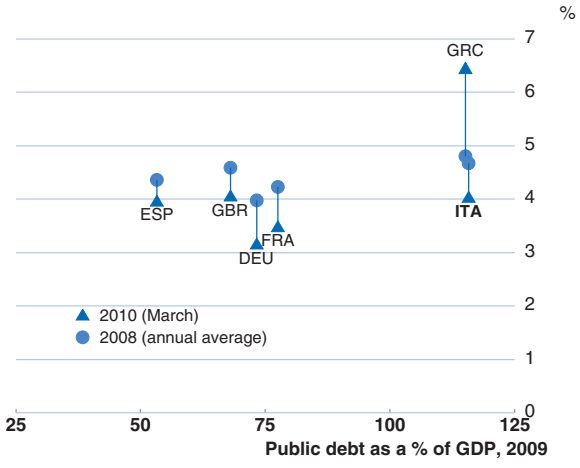
Employment has been falling steadily with no clear sign of slowing yet. Job losses have been concentrated among the self-employed and short-term contract workers, though eligibility for the short-time working scheme, previously restricted to workers in certain industries on permanent contracts, has been extended. By keeping effectively unemployed workers on company books, this scheme has avoided around 300 000 job losses, corresponding to a little over 1% of the labour force, limiting the rise in recorded unemployment. A smaller, but still substantial, number of people have left the labour market altogether. Consumer price inflation rose in early 2010, as in many countries, due

Italy

The falling share of investment and exports in GDP



Interest rates[1] on Italian public debt have been contained



1. Yield on 10-year government bonds.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932304335

Italy: **Financial indicators**

	2007	2008	2009	2010	2011
Household saving ratio[1]	8.2	8.6	8.4	7.7	7.5
General government financial balance[2]	-1.5	-2.7	-5.2	-5.2	-5.0
Current account balance[2]	-2.4	-3.5	-3.1	-3.6	-3.5
Short-term interest rate[3]	4.3	4.6	1.2	0.7	1.9
Long-term interest rate[4]	4.5	4.7	4.3	4.1	5.1

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. 3-month interbank rate.
4. 10-year government bonds.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306387

largely to energy prices; underlying inflation nevertheless remains subdued. Despite a high degree of slack in the economy, price and, especially, wage rigidity may prevent any further decline in inflation.

Budgetary discipline has been rewarded

There has been so far little spillover of the Greek debt problems onto interest rates on Italian government debt, although the spread between the yields on Italian and German government bonds widened somewhat in the first quarter of 2010. The relatively limited movement in yields on Italian debt is likely due in part to Italy keeping a low primary budget deficit, within planned levels, in 2009 and data showing that central

Italy: **Demand and output**

	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
	Current prices € billion	Percentage changes from previous year, volume (2000 prices)					
Private consumption	929.2	-1.7	0.8	1.1	-0.5	0.9	1.1
Government consumption	317.3	0.6	0.2	0.2	0.3	0.4	0.2
Gross fixed investment	324.8	-12.2	-0.5	3.8	-7.4	2.0	4.4
Machinery and equipment	157.5	-16.8	1.5	4.8	-8.6	3.0	5.2
Construction	167.3	-7.9	-2.1	2.9	-6.3	1.1	3.8
Residential	78.5	-9.3	-2.8	3.0	-8.9	2.5	2.7
Non-residential	88.8	-6.6	-1.5	2.9	-4.1	-0.1	4.6
Final domestic demand	1 571.3	-3.4	0.5	1.4	-1.7	1.0	1.5
Stockbuilding[1]	5.8	-0.5	0.7	0.0			
Total domestic demand	1 577.1	-3.9	1.1	1.4	-2.1	1.2	1.5
Exports of goods and services	451.8	-19.1	2.5	3.6	-11.4	3.1	3.8
Imports of goods and services	461.3	-14.8	2.7	3.0	-8.4	1.7	3.2
Net exports[1]	- 9.5	-1.2	-0.1	0.1			
GDP at market prices	1 567.6	-5.1	1.1	1.5	-2.9	1.5	1.6

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).*
Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306406

government borrowing up to April 2010 is significantly lower than a year earlier. It is also notable that private sector debt is relatively low and that public debt management in Italy has worked to lengthen overall maturity. The government succeeded in keeping overall spending growth in 2009 unusually low. It also benefited from "one-off" measures worth around 0.5% of GDP; income from the tax "shield" (receipts linked to a partial amnesty for people who have kept undeclared money abroad) was an additional bonus. Revenue in 2010 will benefit from a measure allowing some advance income tax payments to be made in 2010 instead of late 2009.

Consumer confidence declined in the first quarter, while business confidence has improved

The consumer confidence indicator improved rather strikingly during 2009, equalling its previous peak reached in early 2007, but then declined markedly in early 2010, though recovering in April. Falling real disposable income, especially for the self-employed, a large group in Italy, probably contributed to this. Business confidence has continued to improve, regaining on some measures rather more than half of its fall since peaking in mid-2007. This is despite declines in profitability and surveys that show credit conditions remaining tight, though no longer worsening, and bank lending to large firms still falling year-on-year.

Exports must turn up for the recovery to gather strength

The upturn is likely to depend initially on export prospects and the speed with which the inventory and investment cycles turn round. Exports will respond to the growth in world demand and the lower euro, but given Italy's competitiveness position and specialisation, it will continue to lose market share. Stockbuilding will contribute to growth this year and investment should grow in some sectors even if there is aggregate excess capacity. Investment recovery would be helped by an improvement in credit conditions. Italian banks were less affected by losses on financial assets than in many countries and they have succeeded in raising capital ratios fairly steadily. Banks thus expect credit conditions for companies (but not for non-mortgage lending to households) to improve this year.

Support from household spending will be weak

Contractual wages seem to be still increasing in real terms. Nonetheless, further falls in household real disposable income are likely in 2010, thus restraining the revival of consumer spending, which could also be adversely affected by the desire to build higher personal savings. House prices, still falling in late 2009, will not help, though the link with consumption spending in Italy is tenuous.

Fiscal consolidation will be difficult, improved planning may help

Strong fiscal tightening is not built into these projections as the necessary measures for the 2011 budget have yet to be legislated. On unchanged policies assumed here, quite low spending growth is projected for both 2010 and 2011, but revenues should also be quite weak. Achieving the reduction of the budget deficit projected in the government's updated EU stability programme requires more ambitious spending cuts. Some of these, such as in education and transfers to the regions, have been

announced already in outline, but may be difficult to translate into specific measures. Furthermore, it would be wise to make conservative assumptions as to the gains from improved tax collection. The government has stated that it will avoid increases in tax rates. The intention to move towards more detailed 3-year spending planning in the budget for 2011 would mark further progress in strengthening Italy's budget process. While perhaps making this year's budget negotiations particularly difficult, it should make implementation of agreed spending changes easier.

A continuing upturn seems assured, but not its strength

The projected recovery is weak, but broadly in line with growth performance over the decade prior to the recession. A sharper upturn is possible: successful penetration of new markets by Italian exporters, slowing or reversing the downward trend in market share, could bring this about. Equally, renewed pessimism on the part of households or firms could make even this scenario look somewhat optimistic.

UNITED KINGDOM

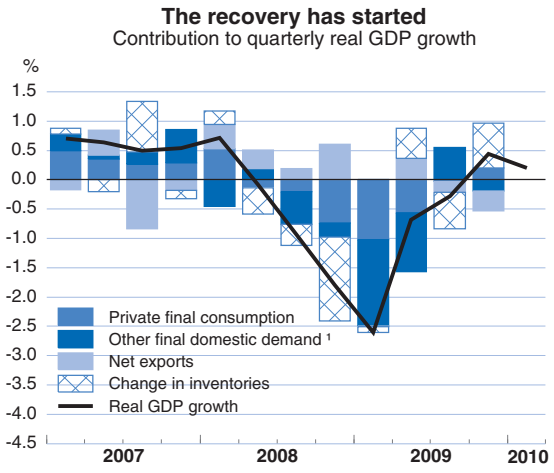
The recovery is gaining traction, supported by improving financial conditions, rebounding exports and a temporary surge in stockbuilding. High inflation and lingering effects from the credit crunch, together with necessary fiscal tightening, will nevertheless keep growth subdued in 2010. The recovery will gain momentum in 2011 when household consumption and business investment start to grow more robustly. The unemployment rate is set to peak in mid-2010 and fall slowly thereafter. Inflation is high, but is projected to fall below the 2% target, once the temporary effects of the increase in the VAT rate wane, due to significant economic slack.

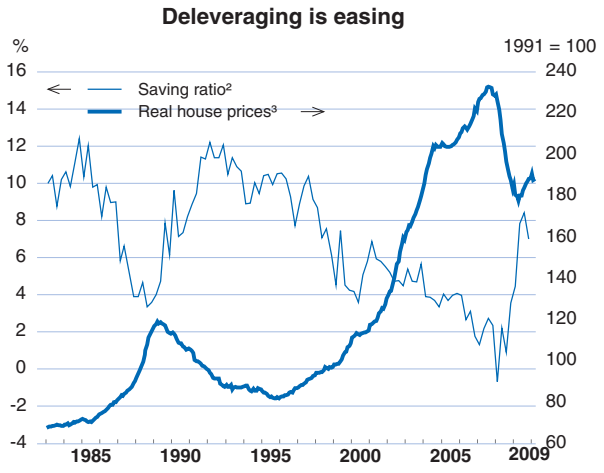
A weak fiscal position and the risk of significant increases in bond yields make further fiscal consolidation essential. The fragile state of the economy should be weighed against the need to maintain credibility when deciding the initial pace of consolidation, but a concrete and far-reaching consolidation plan needs to be announced upfront. While monetary policy should remain expansionary over the forecast period to support activity against the background of low levels of resource utilisation, the process of normalisation of interest rates needs to start soon in response to the expected gradual rise in underlying inflation.

The recovery gains traction, partly due to temporary factors

After the deepest recession since the 1930s, the economy started to grow in the fourth quarter of 2009 on the back of positive contributions from inventory adjustment, recovering exports, and growing household and government consumption. Deleveraging pressures on households have eased as house prices have stabilised and saving rates increased substantially during 2009. In the banking sector, deleveraging continues with substantial capital injections and a pick-up in earnings contributing to increasing the capital base. Still, while overall conditions in financial markets continue to improve, access to credit for small firms and households remains constrained. The unemployment rate started to stabilise in mid-2009 while employment continues to fall. Wage growth is subdued, but headline

United Kingdom





1. Consists of gross fixed capital investment, government consumption and statistical discrepancy.
2. Gross saving ratio of households and non-profit institutions serving households.
3. Average Nationwide and Halifax house price index deflated by consumer price index. Only Halifax before January 1991.

Source: OECD Economic Outlook 87 database, Nationwide and HBOS plc.

StatLink http://dx.doi.org/10.1787/888932304354

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

Percentage changes

	2007	2008	2009	2010	2011
Employment	0.7	0.7	-1.6	-0.5	0.2
Unemployment rate[1]	5.4	5.7	7.6	8.1	7.9
Compensation of employees	5.4	3.4	-0.5	1.1	2.2
Unit labour cost	2.8	2.8	4.6	-0.2	-0.3
Household disposable income	2.8	4.9	4.7	2.6	2.5
GDP deflator	2.9	3.0	1.4	2.4	1.2
Harmonised index of consumer prices[2]	2.3	3.6	2.2	3.0	1.5
Core harmonised index of consumer prices[3]	1.6	1.6	1.7	2.4	1.3
Private consumption deflator	2.9	3.0	1.3	3.1	1.5

1. As a percentage of labour force.
2. The HICP is known as the Consumer Price Index in the United Kingdom.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 87 database.

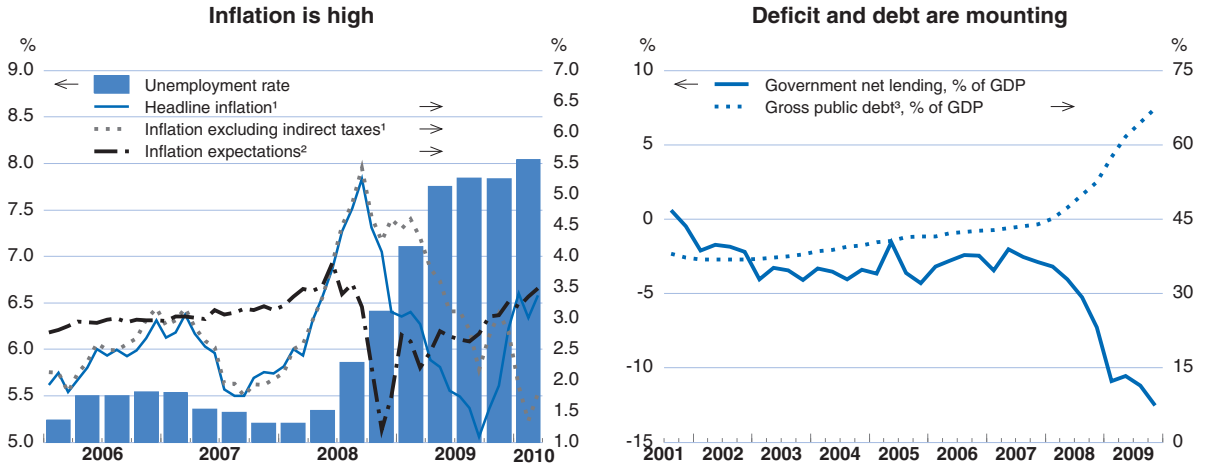
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inflation has risen to more than 3%, significantly above the Bank of England's 2% target, largely due to the increase in the VAT rate in January 2010. However, stripping out the effect of the VAT and other indirect taxes, inflation has been falling more or less continuously since mid-2008. Bond yields and inflation expectations have edged up since mid-2009, influenced by rising headline inflation and concerns regarding the fiscal outlook.

Fiscal consolidation has started, but return to sustainability calls for further measures

While fiscal policy supported activity in 2009, it will be a drag on activity from 2010 onwards. In addition to already implemented tax increases, fiscal policy assumptions include legislated future increases in social security contribution and indirect taxes as well as a projected

United Kingdom



1. Year-on-year percentage change.
2. Implied by yield differentials between 10-year government benchmark bonds and inflation-indexed bonds.
3. Maastricht definition.

Source: OECD Economic Outlook 87 database, Bank of England.

StatLink http://dx.doi.org/10.1787/888932304373

United Kingdom: **Financial indicators**

	2007	2008	2009	2010	2011
Household saving ratio[1]	2.2	1.5	7.0	6.4	5.4
General government financial balance[2]	-2.7	-4.9	-11.3	-11.5	-10.3
Current account balance[2]	-2.7	-1.5	-1.3	-1.6	-1.0
Short-term interest rate[3]	6.0	5.5	1.2	0.8	2.5
Long-term interest rate[4]	5.0	4.6	3.6	4.2	5.3

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. 3-month interbank rate.
4. 10-year government bonds.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306444

slowing in government consumption growth and falling government investment. Altogether the current planned fiscal contraction amounts to almost 2% of GDP between 2009 and 2011. Still, fiscal deficits are projected to remain above 10% of GDP in 2010-2011 and gross public debt is expected to surge to 86% of GDP in 2011. Return to fiscal sustainability requires further consolidation, which should be announced early and supported by a strong and credible medium-term fiscal framework. A fully articulated fiscal plan would help the recovery by damping worries about sustainability and containing increases in bond yields and inflation expectations. The new government has announced that the planned reduction in the structural fiscal deficit over the next five years should be accelerated and an emergency budget is to be published by end-June 2010.

United Kingdom: **Demand and output**

	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
	Current prices £ billion	Percentage changes from previous year, volume (2005 prices)					
Private consumption	928.5	-3.2	0.3	2.2	-2.2	1.0	2.6
Government consumption	313.6	2.2	2.1	0.8	2.2	1.1	0.8
Gross fixed investment	242.8	-14.9	-3.2	0.3	-14.0	-1.2	1.5
Public[1]	35.8	17.2	1.7	-14.4	18.2	-10.7	-12.5
Residential	60.0	-22.2	1.8	3.5	-8.2	1.5	4.0
Non-residential	147.0	-19.3	-6.6	4.2	-23.5	1.3	5.2
Final domestic demand	1 484.9	-4.1	0.1	1.6	-3.2	0.7	2.1
Stockbuilding[2]	1.7	-1.2	1.4	0.2			
Total domestic demand	1 486.6	-5.3	1.5	1.8	-2.7	1.9	2.1
Exports of goods and services	422.4	-10.6	6.6	8.0	-4.8	6.8	8.1
Imports of goods and services	460.6	-11.9	6.9	5.2	-3.8	5.4	5.8
Net exports[2]	- 38.2	0.7	-0.2	0.6			
GDP at market prices	1 448.4	-4.9	1.3	2.5	-3.1	2.2	2.6

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Including nationalised industries and public corporations.
2. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306463

United Kingdom: **External indicators**

	2007	2008	2009	2010	2011
			$ billion		
Goods and services exports	743.9	781.0	608.2	636	682
Goods and services imports	834.0	853.2	659.0	693	728
Foreign balance	- 90.1	- 72.1	- 50.8	- 57	- 46
Invisibles, net	14.8	32.3	22.1	23	22
Current account balance	- 75.3	- 39.8	- 28.7	- 34	- 23
			Percentage changes		
Goods and services export volumes	- 2.8	1.1	- 10.6	6.6	8.0
Goods and services import volumes	- 0.7	- 0.5	- 11.9	6.9	5.2
Export performance[1]	- 9.3	- 1.4	0.9	- 1.2	0.3
Terms of trade	1.1	1.1	- 0.8	- 0.3	- 0.5

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306482

Monetary policy should start to tighten during 2010

With the Bank of England's policy rate close to zero and quantitative easing amounting to £200 billion (14% of GDP), monetary policy remains highly expansionary. This is appropriate as the large output gap and falling unit labour costs are expected to underpin a slowdown in inflation to below the 2% target during 2011, provided that inflation expectations do not drift up. In response to the expected gradual rise in underlying inflationary pressure as the recovery gathers pace and to anchor inflation expectations, the normalisation of interest rates and the scaling back of quantitative easing should start during the second half of 2010. More rapid fiscal consolidation would leave room for a more gradual normalisation of monetary policy.

The recovery remains fragile and gains strength only in 2011

Further recovery in exports on the back of rising global demand and the weak exchange rate will continue to underpin recovery in 2010-11. As a consequence, the current account is expected to improve, though it will remain in deficit through 2011. The rebuilding of inventories will temporarily support growth during the first half of 2010. The upturn in household consumption towards end-2009 was largely temporary, reflecting the forthcoming VAT hike and the end of the car scrappage scheme, whereas slow income growth and high inflation will be a drag on consumption during 2010. Lacklustre consumption growth and waning support from inventory adjustment will temporarily slow growth during the latter part of 2010. In 2011, stronger household consumption and rising business and housing investment will entrench the recovery even though fiscal consolidation will continue.

The labour market is nearing the trough

Total hours worked have started to pick up and the labour market is expected to trough during the second part of 2010. The recovery will be slow as public employment is set to fall, and firms can initially meet rising demand through productivity gains and increases in working hours. As activity picks up during 2011, more substantial improvements in the

labour market are expected and unemployment should start to fall gradually from a peak of around 8%. Wage increases will remain subdued during the forecast period reflecting significant economic slack.

Improving financial conditions could herald a stronger recovery

Substantial risks surround these projections, but they appear broadly balanced. The normalisation of financial conditions could underpin a stronger rebound in household consumption which, together with an even swifter recovery in exports, could spur investment and raise growth further. Furthermore, the substantial improvement in banking sector health has also diminished the fiscal risks associated with the large stakes that the government had to take in the banking system during the crisis. While the improving health in the financial system is encouraging, these positive short-term developments should not hold back efforts to develop an improved macroprudential framework.

Policymakers face formidable challenges

The upside risks are balanced by substantial policy challenges related to the fiscal situation, the solving of which will bear on bond yields and inflation expectations. If bond yields rise faster than expected or inflation expectations stray further from Bank of England's target, fiscal and monetary policy may have to tighten faster to maintain credibility. As estimates of the loss of potential output during the crisis are highly uncertain, especially in the financial sector, the relatively high level of inflation could also reflect a smaller than predicted output gap. This means that the underlying fiscal position could be even worse and inflation pressures would build up quicker than expected, forcing swifter and more dramatic policy tightening.

CANADA

The economy is rebounding vigorously from the recession trough, helped by a recovering trade sector and policy measures. The pace of recovery is projected to moderate going forward as policy stimulus is withdrawn, inventory rebuilding runs its course and households deleverage. Unemployment should keep declining and inflation pressures stay muted, given remaining economic slack. The high rate of household indebtedness is a source of risk to the outlook.

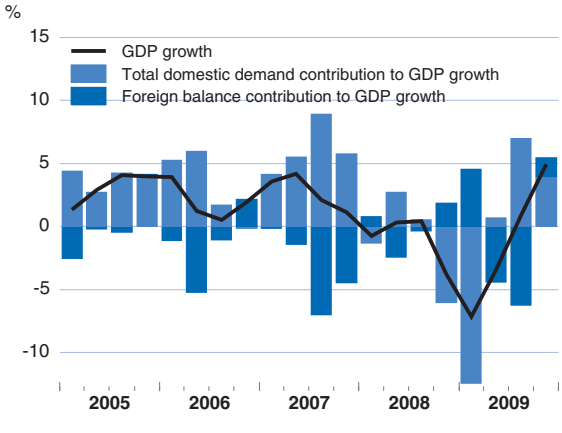
The Bank of Canada should start normalising its policy rate without delay and tighten gradually throughout the projection period. Governments should let remaining temporary stimulus measures expire to avoid overstimulating the economy as it recovers on its own. To build credibility, they should flesh out recently announced fiscal consolidation plans, focusing on spending reductions, and embark on the structural reforms these plans require.

The economy has rebounded strongly

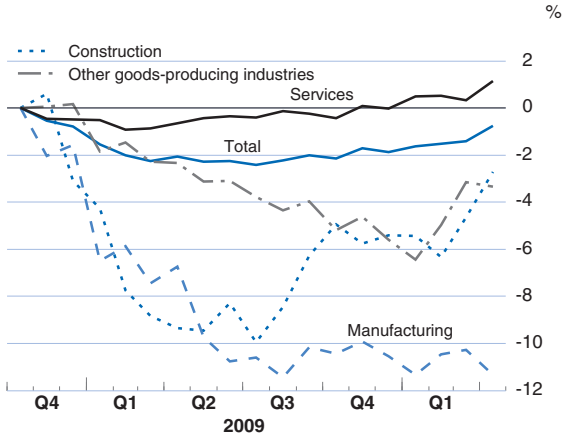
Real GDP rebounded at an impressive 5% annualised rate in the last quarter of 2009, with all demand components except non-residential investment and stockbuilding contributing to growth. The steady improvement in financial conditions, the rebound in US economic activity, aggressive domestic and foreign monetary and fiscal stimulus, improved confidence, rising equity prices, renewed strength in the housing market and strengthening terms of trade have all been factors supporting growth. Preliminary indicators suggest another outsized leap of 5.5% (a.r.) in the first quarter of 2010. While the labour market usually lags the economy somewhat, this time it has evolved coincidentally. Like output, employment has been rising at a good pace since the fourth quarter of 2009, bringing the unemployment rate down to 8.1% in April from a high of 8.7% in September 2009. Though economic conditions are improving, the level of excess capacity in the economy appears considerable, so price pressures are still weak, even if inflation expectations seem firmly anchored around the official 2% target. Headline

Canada

Real GDP is recovering
Percentage change at annual rates



The labour market is restructuring
Percentage change in employment from October 2008



Source: Statistics Canada; OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932304392

Canada: **Employment, income and inflation**

Percentage changes

	2007	2008	2009	2010	2011
Employment	2.3	1.5	-1.6	1.7	1.8
Unemployment rate[1]	6.0	6.2	8.3	7.9	7.2
Compensation of employees	5.6	4.9	0.1	4.5	4.3
Unit labour cost	3.0	4.4	2.8	0.9	1.0
Household disposable income	5.3	5.9	1.8	3.5	4.0
GDP deflator	3.2	3.9	-1.9	3.5	1.8
Consumer price index	2.1	2.4	0.3	1.6	1.7
Core consumer price index[2]	2.1	1.7	1.8	1.7	1.5
Private consumption deflator	1.6	1.7	0.4	1.6	1.6

1. As a percentage of labour force.
2. Consumer price index excluding the eight more volatile items.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306501

inflation has been below that rate, but the official core measure has been fairly sticky and closer to the target. Both measures have recently decelerated after having being boosted by temporary factors such as the Vancouver Olympics.

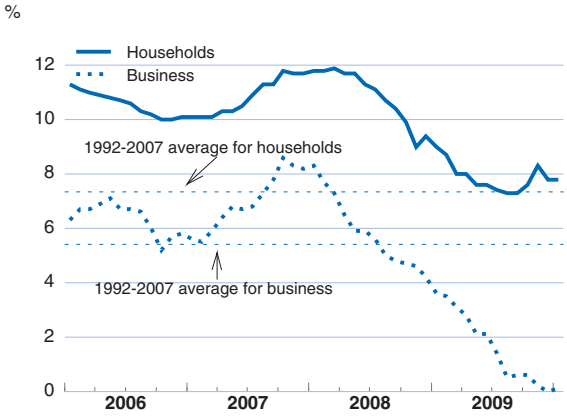
The recovery is in part driven by unsustainable trends

The recovery is being supported by a bounce back in foreign demand, which is projected to continue. However, other factors underlying the initial strength of the turnaround cannot be expected to persist. Private consumption has consistently surprised on the upside throughout the recession, but much of this can be attributed to easy monetary conditions and strong household credit growth. Contrary to most other OECD countries, Canadian households have continued to borrow throughout the recession, much of it in the form of mortgages. The ratio of household debt to disposable income has thus reached a record high, as have real

Canada

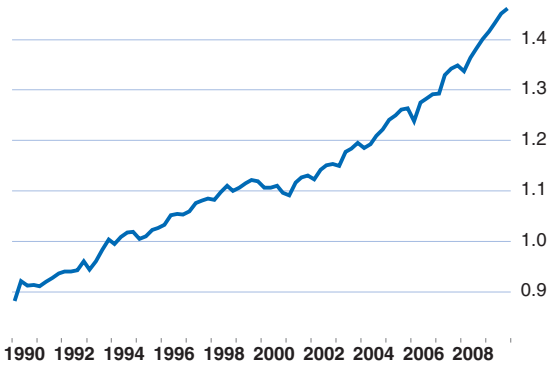
Credit growth to business is weak

Percentage change from previous year



Household indebtedness is worrisome

Debt-to-disposable income ratio



Source: Statistics Canada; Bank of Canada.

StatLink http://dx.doi.org/10.1787/888932304411

Canada: **Financial indicators**

	2007	2008	2009	2010	2011
Household saving ratio[1]	2.5	3.7	5.0	3.8	3.1
General government financial balance[2]	1.6	0.1	-5.1	-3.4	-2.1
Current account balance[2]	1.0	0.5	-2.7	-1.6	-1.6
Short-term interest rate[3]	4.6	3.5	0.8	0.9	2.9
Long-term interest rate[4]	4.3	3.6	3.2	3.8	4.6

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. 3-month deposit rate.
4. 10-year government bonds.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306520

house prices. Deleveraging is needed, and house prices may well decline as both monetary stimulus is withdrawn and new Harmonised Sales Taxes in Ontario and British Columbia as of July 2010 raise the price of transactions. Growth in consumer spending should moderate accordingly, and residential investment may sag. Finally, government investment was rising at a very strong pace at the beginning of the recovery as infrastructure projects got underway, but further significant increases are not expected.

Canada: **Demand and output**

	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
	Current prices CAD billion	Percentage changes from previous year, volume (2002 prices)					
Private consumption	891.2	0.2	3.3	3.2	1.9	3.2	3.2
Government consumption	313.7	3.0	4.6	2.1	4.4	3.4	2.0
Gross fixed investment	362.5	-10.1	4.7	3.7	-5.5	3.8	3.8
Public[1]	52.6	13.0	10.5	-2.4	16.9	4.2	-7.7
Residential	108.9	-7.4	12.7	4.2	4.4	7.0	5.0
Non-residential	201.0	-17.4	-2.2	5.8	-16.6	1.5	7.5
Final domestic demand	1 567.3	-1.7	3.8	3.0	0.7	3.4	3.1
Stockbuilding[2]	7.4	-1.1	1.0	0.3			
Total domestic demand	1 574.7	-2.8	4.9	3.3	-0.3	4.6	3.0
Exports of goods and services	562.2	-14.0	7.6	6.1	-7.5	6.6	6.8
Imports of goods and services	536.8	-13.4	11.4	6.4	-4.0	8.6	6.3
Net exports[2]	25.4	-0.4	-1.3	-0.1			
GDP at market prices	1 600.1	-2.7	3.6	3.2	-1.2	4.0	3.2

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*
Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Excluding nationalised industries and public corporations.
2. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306539

Canada: **External indicators**

	2007	2008	2009	2010	2011
			$ billion		
Goods and services exports	498.8	530.4	385.3	473	508
Goods and services imports	471.5	505.1	408.2	480	512
Foreign balance	27.3	25.3	- 22.9	- 7	- 4
Invisibles, net	- 13.0	- 16.0	- 13.8	- 19	- 23
Current account balance	14.3	9.2	- 36.7	- 26	- 27
			Percentage changes		
Goods and services export volumes	1.1	- 4.7	- 14.0	7.6	6.1
Goods and services import volumes	5.8	0.8	- 13.4	11.4	6.4
Export performance[1]	- 2.0	- 3.2	- 0.9	- 2.4	- 2.2
Terms of trade	3.1	4.6	- 9.2	8.1	1.1

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306558

Fiscal and monetary stimulus should be withdrawn

Governments should let temporary stimulus measures expire now that the recovery is well entrenched, and at the same time build credibility by providing more details on measures to be taken to eliminate deficits and implementing these measures as soon as possible. The general government deficit is projected to decline in 2010 and again in 2011, but achieving balance will take several more years. For its part, the Bank of Canada conducted its last emergency liquidity operations in April 2010. The Bank should start normalising its policy rate (now at 0.25%) without delay, with further normalisation proceeding at a moderate pace so that policy rates are only 100 basis points below neutral rates by end-2011. The Bank can afford to raise rates only gradually because the strong Canadian dollar and the coming withdrawal of fiscal stimulus will provide some effective tightening of economic conditions, and in view of weak consumer fundamentals, significant uncertainty around the outlook and the large amount of remaining slack.

The strength of the expansion will diminish

The currently very strong pace of growth is projected to ease over the course of 2010 before picking up again modestly in 2011. Exports will be restrained by the strength of the Canadian dollar, which recently breached parity with its US counterpart before easing back slightly. Business investment, a lagging expenditure component, will pick up some of the slack left by private consumption and government investment. With healthy corporate balance sheets, good profitability, low leverage ratios, high liquidity levels, attractive absolute borrowing costs and the lower price of imported machinery and equipment because of the strong currency and the recent elimination of all remaining trade tariffs on imported capital goods, there should be little holding back firms from modernising their capital stock. Positive growth contributions are also projected from inventory rebuilding in the next few quarters: contrary to many other OECD countries, the up leg of the inventory cycle had not yet started in Canada by the last quarter of 2009. The labour market will

continue to recover at a modest pace, taking the unemployment rate to 7% by the end of 2011. Core inflation is projected to remain sticky at around 1.6% throughout the projection period, although headline inflation will be temporarily boosted by provincial consumption tax increases at mid-2010 and in early 2011.

Uncertainties around the outlook go in both directions

There are both upside and downside risks around the outlook, associated with frothy house and stock prices and the counterpart need for household deleveraging. A significant share of households could come under debt-servicing strain as interest rates rise. Canada could also be affected on the foreign trade side, as the global recovery is somewhat uncertain and could surprise either way.

AUSTRALIA

After weathering the crisis well in 2009, the Australian economy is projected to experience strong growth in 2010 and 2011, above its trend rate. Activity might expand by as much as 3¼ per cent and 3½ per cent in these two years, driven by booming exports and domestic demand. The unemployment rate is expected to fall below 5% by the end of 2011, in a context of moderate inflation.

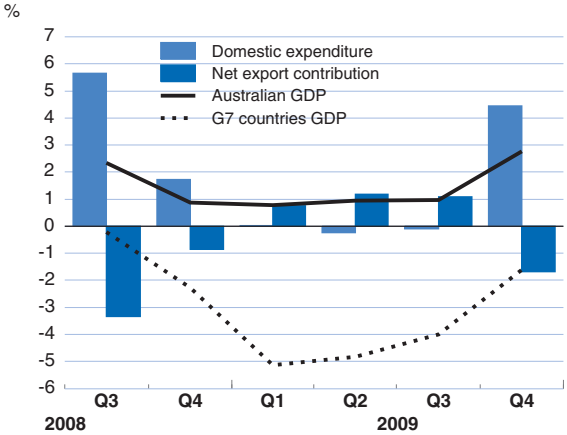
Managing the exit strategy from the crisis is less problematic in Australia than in most OECD countries. The current tightening of monetary and fiscal policy is welcome given the rebound in activity. To maintain robust and balanced growth in the medium term, the economy's supply capacity must be strengthened, including in the real estate sector where demand, bolstered by immigration, is expected to remain strong.

The recovery of the economy is well under way

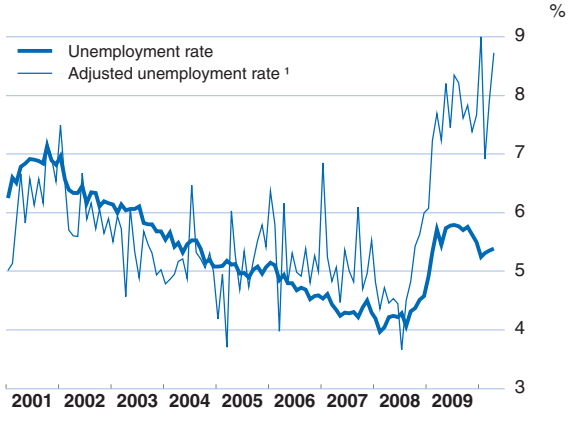
GDP grew by 2¾ per cent year-on-year in the last quarter of 2009, sustained by buoyant domestic demand driven by a sharp increase in consumption and public investment. This dynamism does not seem to have slackened at the beginning of 2010. The business climate and business confidence are strong. Firms have significantly expanded their investment plans, particularly in the mining sector, where strong demand from Asian countries has led to marked improvement in the terms of trade and higher profits. Conditions are also favourable in the real estate sector, where prices are rising rapidly. The unemployment rate fell to just under 5½ per cent in April 2010, which helped keep confidence among households at a high level. However, wage restraint is still favoured by the significant slack in the labour market because of the decline in the average number of hours worked. Core inflation continued to fall in the first quarter of 2010, to about 3%, while headline inflation rose to 2.9%, boosted by rising prices for energy and financial services.

Australia

Australia has weathered the crisis well
Year-on-Year growth rate, per cent



There is some slack in the labour market
Per cent



1. The adjusted unemployment rate takes into account the change in the number of hours worked. It is computed assuming that the people in the labour force would be willing to work the same number of monthly hours as, on average between January 2001 and October 2008.

Source: OECD, Economic Outlook 87 database and Australian Bureau of Statistics, cat. No. 6202.0.

StatLink http://dx.doi.org/10.1787/888932304430

Australia: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices AUD billion	Percentage changes, volume (2007/2008 prices)				
Private consumption	586.9	4.8	2.7	2.2	2.6	3.2
Government consumption	179.4	3.3	3.3	2.9	3.7	1.8
Gross fixed capital formation	287.8	9.7	9.7	-0.4	8.0	7.8
Final domestic demand	1 054.0	5.9	4.7	1.6	4.3	4.3
Stockbuilding[1]	0.1	0.8	-0.4	-0.5	0.7	0.0
Total domestic demand	1 054.1	6.7	4.3	1.0	5.0	4.4
Exports of goods and services	209.1	3.3	2.6	0.6	4.5	6.5
Imports of goods and services	221.3	12.2	11.1	-7.8	13.4	9.6
Net exports[1]	- 12.2	-1.7	-1.8	1.9	-1.9	-0.9
GDP at market prices	1 041.9	4.9	2.2	1.4	3.2	3.6
GDP deflator	_	4.0	6.5	0.3	4.6	3.7
Memorandum items						
Consumer price index	_	2.3	4.4	1.8	3.0	2.7
Private consumption deflator	_	3.2	3.8	3.0	2.7	2.7
Unemployment rate	_	4.4	4.2	5.5	5.2	4.9
Household saving ratio[2]	_	1.5	1.6	4.3	2.8	3.0
General government financial balance[3]	_	1.7	0.3	-3.9	-3.2	-2.4
Current account balance[3]	_	-6.1	-4.4	-4.1	-3.2	-2.8

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306577

Monetary policy is being tightened

Following the improvement in the economic and financial situation, the public guarantee provided to financial institutions for their borrowing on international markets during the crisis was ended in April 2010. The Reserve Bank of Australia tightened monetary conditions by raising its cash rate from 3.0% to 4.5% between October 2009 and May 2010. Following their recoveries in 2009, the stock market and the effective exchange rate have stabilised near their level of the last quarter of 2009. The OECD expects a continued tightening of monetary policy during the projection period.

The budget deficit is expected to decrease

The government deficit, which rose to nearly 4% of GDP in 2009, is expected to decrease in 2010 and 2011 as the recovery takes hold and the expiration of temporary stimulus measures curb the growth of public spending. According to the 2010/11 Budget, the authorities will limit the real growth of expenditure to less than 2% per year on average, until a 1 % of GDP surplus is reached. The new spending initiatives in the budget, which mainly concern health care, infrastructure, training and renewable energy, are offset by savings elsewhere. In view of the stronger economy and fiscal restraint, the government now expects to balance its budget by 2012/13, three years earlier than previously anticipated.

Expansion is projected to be strong in 2010 and 2011

Rising private demand, fuelled by investments and stockbuilding of firms, is expected to replace public demand as the main force driving the recovery in 2010 and 2011. Companies in the mining sector should benefit in particular from the dynamism of Asian markets and the significant pick-up in the terms of trade. These developments, coupled with the rise in real estate investments, are likely to improve the employment situation. However, the fall in unemployment may be slowed by the expected expansion in hours worked. Consumption is projected to pick up, in particular since households might benefit from a positive wealth effect linked to the increase in the prices of real estate and financial assets. With an output gap expected to remain negative throughout the projection period, inflation might level off at around 2¾ per cent in 2011.

The risks affecting this outlook must not be underestimated

Rising confidence and more favourable terms of trade might lead to more buoyant demand, requiring a more rapid tightening of monetary policy. However, there are also negative risks to the strength of the recovery of the OECD area and international financial market trends.

AUSTRIA

The recovery is expected to gather momentum in 2010 and 2011 as foreign demand firms and policies remain broadly supportive. Even so, unemployment and economic slack will persist throughout this period, which will keep inflation subdued.

Fiscal consolidation has been announced for 2011, but specific measures have yet to be spelled out. These should be designed to boost potential growth and to lower public spending via increasing efficiency. Achieving sustained budgetary savings calls for comprehensive fiscal and administrative reforms.

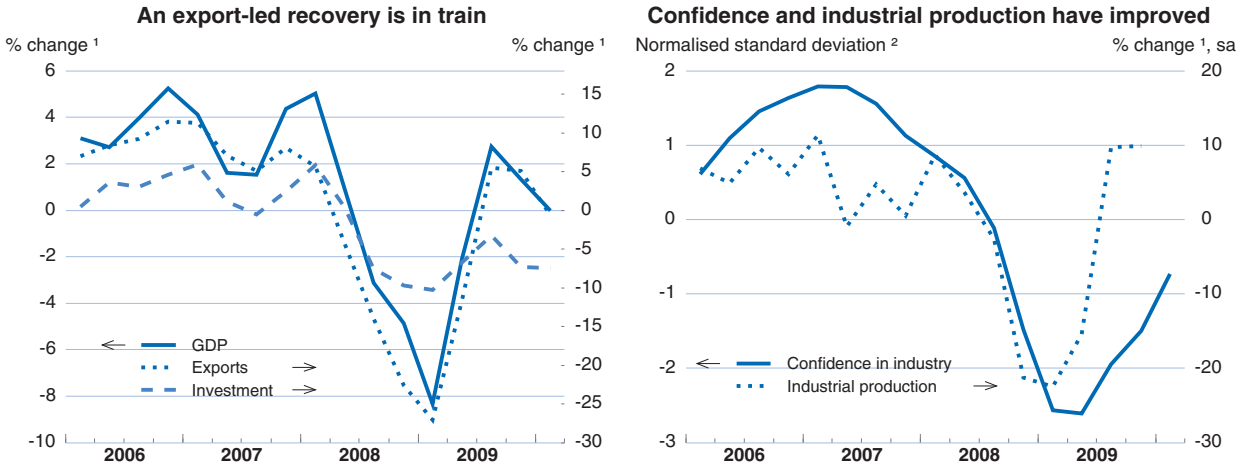
The recovery is in train

Economic growth turned positive in the second half of 2009, following four consecutive quarters of recession. The recovery was primarily driven by exports as global demand strengthened. Private consumption growth was weak but stable, and Austria stands out as one of the few euro area countries with positive private consumption growth in 2009. This reflected the balance of positive factors (personal income tax cuts, falling inflation and high wage settlements) and negative ones (higher unemployment and depressed confidence). Investment, in contrast, kept declining due to demand uncertainty and still tight financing conditions. More recently, improvements in business confidence and accelerating industrial production point to a continuation of the recovery, following a pause in early 2010 stemming partly from bad weather.

The labour market is recovering

The situation in the labour market has remained difficult but a turnaround seems to have occurred. In the last quarter of 2009, employment increased, following sharp falls in the first half of the year. This was driven by the service sector, whereas manufacturing jobs were still being shed. The unemployment rate has begun to decline, though it

Austria



1. Annualised quarterly rates.
2. Calculated as deviations from the mean which are expressed in standard deviations.

Source: OECD Economic Outlook 87 database and Eurostat.

StatLink http://dx.doi.org/10.1787/888932304449

Austria: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices € billion	Percentage changes, volume (2005 prices)				
Private consumption	138.9	0.8	0.5	0.8	1.1	1.6
Government consumption	47.4	2.0	3.0	1.0	1.3	0.5
Gross fixed capital formation	55.4	3.2	0.4	-7.5	-3.6	2.8
Final domestic demand	241.7	1.6	1.0	-1.1	0.1	1.6
Stockbuilding[1]	2.8	0.1	-0.1	-0.7	0.2	0.1
Total domestic demand	244.5	1.9	1.0	-1.5	0.5	1.7
Exports of goods and services	144.9	9.1	-0.3	-15.0	4.0	7.7
Imports of goods and services	133.5	6.8	-1.5	-13.1	1.5	6.8
Net exports[1]	11.4	1.6	0.6	-1.8	1.3	0.8
GDP at market prices	255.9	3.4	1.8	-3.4	1.4	2.3
GDP deflator	_	2.2	2.3	1.9	1.2	1.0
Memorandum items						
GDP without working day adjustments	256.3	3.5	2.0	-3.5	1.5	2.4
Harmonised index of consumer prices	_	2.2	3.2	0.4	1.4	1.0
Private consumption deflator	_	2.6	2.7	1.2	1.5	1.0
Unemployment rate[2]	_	4.4	3.8	4.8	4.9	5.0
Household saving ratio[3]	_	11.3	12.0	11.0	9.6	9.7
General government financial balance[4]	_	-0.5	-0.5	-3.4	-4.7	-4.6
Current account balance[4]	_	3.6	3.3	2.3	3.0	3.4

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).*

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. Based on Labour Force Survey data.
3. As a percentage of disposable income.
4. As a percentage of GDP.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306596

remains elevated. Working hours per employee, which had fallen substantially during the recession, seem to have stabilised recently, and the number of people in short-time working schemes fell roughly in half between mid-2009 and March 2010.

Inflation pressures remained subdued

Inflationary pressures have been subdued, even if headline inflation increased to 1.8% in March, due mainly to higher energy prices. In contrast, core inflation has been easing over the past year, pulled down by economic slack.

Financial markets are normalising

Austrian government bond spreads *vis-à-vis* Germany have narrowed, reverting to around pre-crisis levels. Equity prices have stabilised in recent months, at roughly half of their pre-recession peak. Total credit continued to shrink, reflecting both demand and supply factors, but credit to households expanded marginally. The rising costs of risk provisioning (mainly due to foreign operations) affected Austrian banks' profitability in 2009, although they enjoyed healthy operating profits.

Macroeconomic policies will be less stimulative

In 2010, domestic demand will still be supported by the fiscal policy stimulus imparted in 2008-09, and by an accommodating monetary policy stance. In 2011, however, both monetary and fiscal support is likely to lessen. The government plans fiscal consolidation to begin in 2011 to bring the budget deficit below 3% of GDP by 2013. Consolidation is meant to be based both on expenditure cuts and tax hikes, but specific measures have yet to be unveiled. Therefore, the OECD projection does not build them in and has the general government deficit staying high, at 4.6% of GDP, and public debt (Maastricht definition) rising to over 73% of GDP in 2011.

Stronger exports are set to boost growth

Stronger foreign demand and the recent real exchange rate depreciation are expected to boost exports, raising GDP growth in both 2010 and 2011. The strength of exports in the medium term, however, will crucially depend on the evolution of price competitiveness, which deteriorated in 2009. Low capacity utilisation is expected to keep business investment growth subdued in 2010. However, with the improving outlook and low real interest rates, investment should accelerate in 2011. Similarly, while private consumption growth will be restrained in 2010 due to still high unemployment and moderate nominal wage settlements, these factors are expected to abate in 2011, leading to stronger consumption growth. However, the projected rise in GDP will not be strong enough to improve the situation in the labour market and to narrow the output gap much. Consumer price inflation is therefore expected to remain subdued. The risks surrounding this outlook relate to the strength of the global recovery, and of domestic demand growth given the need to consolidate public finances.

BELGIUM

The recovery started in mid-2009, supported by fiscal and monetary easing and a rebound in world trade growth. A gradual pick-up in activity is expected. However, unemployment will continue to increase until early 2011, pushing up the already high level of structural unemployment.

Securing fiscal sustainability requires sustaining consolidation, preferably in the form of expenditure restraint at all levels of government, including measures to limit the growth of ageing costs. At the same time, labour market reforms, particularly to make wage formation more flexible and strenghten job search incentives, are necessary to increase the employment content of the recovery.

Economic activity is slowly accelerating

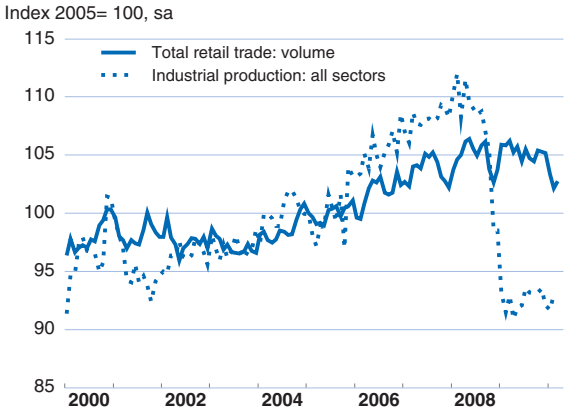
After an initially strong recovery in mid-2009 supported by expansionary monetary and fiscal policies and a sharp pick-up in exports, the expansion slowed as the pace of restocking decelerated. Consumer confidence and business sentiment have continued to improve, although both remain below pre-crisis levels. Retail sales and industrial production indicate a relatively modest pace of recovery in the near term. Employment stopped contracting towards end-2009 and the unemployment rate has stabilised at around 8% – 2¼ percentage points higher than its trough some 1½ years ago. Labour hoarding and an extensive use of reduced working time programmes have mitigated the rise in unemployment.

Headline inflation is temporarily picking up

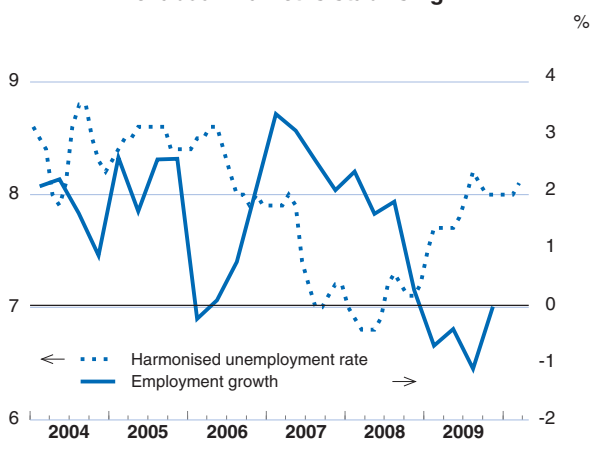
After a period of falling prices in 2009, rising energy prices subsequently increased headline inflation to around 1¾ per cent in early 2010. At the same time, core inflation continued to fall, reaching 1 per cent – one and a half percentage point lower than a year earlier. The 2009-10 wage agreements yielded modest real wage increases of up to ½ per cent over the two years and the effect on wage costs was offset through tax reductions to firms. In 2011, wage growth is

Belgium

Retail sales and manufacturing production are sagging



The labour market is stabilising



Source: OECD, *Main Economic Indicators*.

StatLink http://dx.doi.org/10.1787/888932304468

Belgium: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices € billion	Percentage changes, volume (2007 prices)				
Private consumption	163.5	1.6	1.0	-1.7	0.7	1.6
Government consumption	71.4	2.6	3.3	1.6	1.2	1.5
Gross fixed capital formation	67.1	5.7	3.8	-4.2	-0.2	3.5
Final domestic demand	301.9	2.7	2.2	-1.5	0.6	2.0
Stockbuilding[1]	5.0	0.2	-0.2	-1.0	-0.2	0.0
Total domestic demand	307.0	2.9	1.9	-2.5	0.4	2.0
Exports of goods and services	262.0	4.4	1.4	-12.6	5.8	5.6
Imports of goods and services	250.4	4.4	2.7	-12.8	4.5	5.8
Net exports[1]	11.6	0.2	-1.0	0.0	1.1	0.0
GDP at market prices	318.5	2.8	0.8	-3.0	1.4	1.9
GDP deflator	_	2.2	1.9	0.9	1.6	1.3
Memorandum items						
Harmonised index of consumer prices	_	1.8	4.5	0.0	1.8	1.4
Private consumption deflator	_	2.8	3.8	0.0	1.8	1.4
Unemployment rate	_	7.5	7.0	7.9	8.2	8.3
Household saving ratio[2]	_	11.2	11.5	15.0	13.4	13.1
General government financial balance[3]	_	-0.2	-1.2	-6.1	-4.9	-4.2
Current account balance[3]	_	1.6	-2.9	0.5	2.0	2.1

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).*

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306615

expected to remain modest, reflecting similar developments in Belgium's three main trading partners.

Fiscal sustainability needs to be vigorously pursued

The general government fiscal deficit widened to about 6% of GDP in 2009, reflecting fiscal stimulus of nearly ¾ per cent of GDP, the effects of the automatic stabilisers, and higher spending on wages and social security because of the lagged effects of the automatic indexation mechanism. As a result, spending as a share of GDP was 4 percentage points higher than the year before. Prior to its resignation, the government planned budget consolidation of ½ and 1% of GDP for 2010 and 2011, respectively, as part of a medium-term consolidation programme to balance the budget by 2015. Based on these plans and combined with the effects of faster growth and the non-repetition of some negative one-off revenue effects and measures in 2009, the budget deficit is projected to fall to 5% of GDP in 2010 and – assuming the implementation of additional measures – 4.2% in 2011. This consolidation is needed to put public finances on a path towards sustainability. Inter-governmental agreements stipulate that about two-thirds of the deficit reduction is to be achieved by the federal government and the social security system, and the remainder by communities and regions.

Growth prospects are improving

The pace of economic recovery should pick up further during 2010-11, on the back of still supportive monetary conditions and faster growth in world trade. However, only in early 2011 is employment growth expected to be strong enough to secure a reduction in the unemployment rate. The main downside risk to this projection is that the projected recovery may be too weak to prevent firms from reversing their labour hoarding. On the upside, a stronger-than-expected recovery in world trade would improve the export outlook.

CHILE

The earthquake and tsunami that hit Chile in late February interrupted the strong recovery that had started in the second half of 2009. Production in the most affected areas has been severely damaged. However, reflecting reconstruction efforts, economic growth is expected to rebound strongly in the second half of 2010, decelerating somewhat later on as the reconstruction boom gradually tapers off and policy tightens.

Given its favourable fiscal situation Chile is well placed to finance reconstruction efforts with a mix of debt issuance, sales of assets accumulated in copper funds and moderate increases in tax rates. The central bank should start to withdraw its monetary stimulus soon, as the recovery regains speed. The exact timing of interest rate increases will also depend on the extent to which Chile is spared from the financial market volatility observed in Europe in early May.

The earthquake hit Chile in the midst of a strong recovery

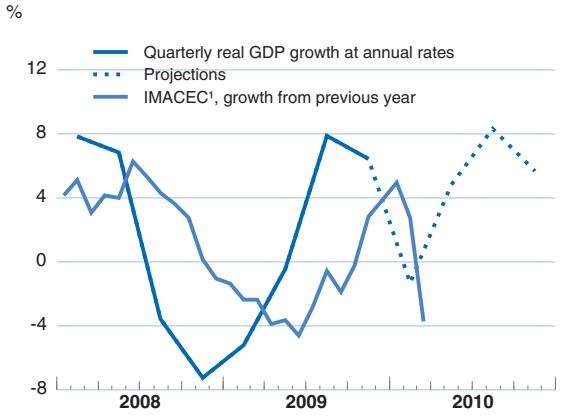
Output growth was running at rates of around 7% when an earthquake and tsunami hit Chile late in February. Unemployment was declining, after a sharp increase during the recession, while inflation, which had been negative through much of 2009, had returned to positive territory. The most affected regions correspond to roughly one-fourth of industrial and agricultural production. Output and exports stemming from these areas are likely to have taken a severe hit. However, reconstruction efforts should boost private and public investment in the second half of this year, as destroyed housing and transport infrastructure is rebuilt.

Chile is well placed to finance reconstruction

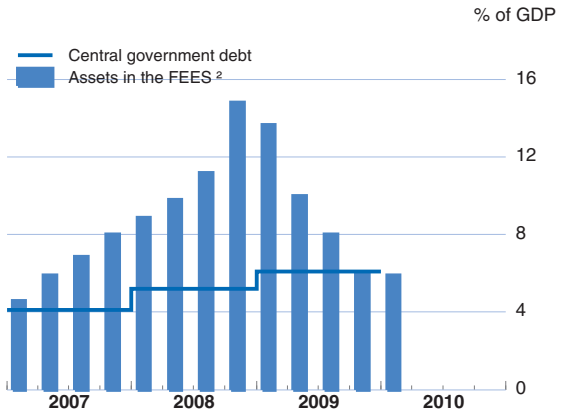
The reconstruction of damaged infrastructure could cost around USD 20 billion (around 10% of GDP), almost half of which would need to be financed by the government, according to official estimates. Given low public debt, considerable assets accumulated in the *Fondo de Estabilización*

Chile

The earthquake is likely to interrupt the recovery



Chile is well placed to finance reconstruction



1. Indicator Mensual de Actividad Económica, monthly indicator of economic activity.
2. Fondo de Estabilización Económico y Social (the copper wealth fund).

Source: Central Bank of Chile; Ministerio de Hacienda, Dirección de Presupuestos.

StatLink http://dx.doi.org/10.1787/888932304487

Chile: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices CLP billion	Percentage changes, volume (2003 prices)				
Private consumption	42 301.9	7.0	4.6	0.8	5.6	3.9
Government consumption	8 200.5	7.1	0.5	6.8	5.4	4.3
Gross fixed capital formation	14 805.2	11.2	18.6	-15.3	12.8	17.7
Final domestic demand	65 307.5	8.0	7.5	-2.8	7.3	7.3
Stockbuilding[1]	804.5	-0.4	0.2	-3.5	1.9	0.3
Total domestic demand	66 112.1	7.6	7.6	-5.9	9.2	7.6
Exports of goods and services	35 619.4	7.6	3.1	-5.6	3.9	7.0
Imports of goods and services	23 900.8	14.5	12.2	-14.5	16.4	11.9
Net exports[1]	11 718.5	-1.0	-2.6	3.4	-3.5	-1.2
GDP at market prices	77 830.6	4.6	3.7	-1.5	4.1	5.3
GDP deflator	_	5.5	0.3	4.2	8.0	4.8
Memorandum items						
Index of consumer prices	_	4.4	8.7	0.4	1.4	3.3
Private consumption deflator	_	3.6	7.7	2.9	0.4	3.3
Unemployment rate	_	7.2	7.8	9.7	9.4	8.9
Cenral government financial balance[2]	_	8.8	5.2	-4.4	-1.8	-1.6
Current account balance[2]	_	4.6	-1.9	2.8	0.2	-0.8

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306634

Economica y Social (FEES) and comparatively low tax rates, Chile is well placed to finance reconstruction efforts. Despite the costs of reconstruction, the budget deficit is expected to diminish gradually as revenues should increase strongly on the back of the recovery of domestic demand and a sharp rebound in copper prices. The government also plans to introduce some temporary tax increases. The decision to use a mix of tax increases, debt issuance and assets accumulated in the sovereign wealth funds to finance the costs of reconstruction will limit the upward pressure on the exchange rate that can arise from selling dollar-denominated assets accumulated in sovereign wealth funds to finance public spending. Given the cost of the reconstruction effort, the fiscal stance would remain expansionary until this task is largely completed.

The central bank should start raising rates, provided that market conditions remain favourable

Highly expansionary fiscal and monetary policies, disruptions of supply chains and the destruction of part of the capital stock are likely to cause inflation to increase further. The pace of price increases is expected to accelerate and return to the central bank's target of 3% towards the end of this year. Hence, the central bank may start raising rates soon to ensure a gradual return to neutral rates, assuming that Chile remains immune to the type of financial market volatility observed during early May. There are upside inflation risks, as the destruction of infrastructure and possible bottlenecks in the construction sector in the context of substantial reconstruction needs add an unusually high degree of uncertainty to inflation projections.

After a strong rebound, growth should decline somewhat

The strong rebound later in the year is expected to be fuelled by investment, mainly related to reconstruction. In addition to public reconstruction efforts, the government plans to provide subsidies to repair damaged housing. Unemployment, which may increase briefly due to the earthquake, is expected to resume its downward trend towards the second half of the year. High copper prices should boost export revenues, but also the profits of foreign mining companies and thus factor income transferred abroad. Imports should grow strongly in line with domestic demand. As a result, the current account surplus is expected to move into a deficit by 2011.

Risks to the outlook are on both sides

The recovery could be weaker than expected if the rebound of the world economy were weaker than expected, the negative impact of the earthquake on activity were stronger and longer lasting or if it took longer to initiate reconstruction than expected. Conversely, highly expansionary fiscal and monetary policies combined with a lower potential output could also lead to overheating with stronger growth and inflation.

CZECH REPUBLIC

Real GDP has been growing since the second half of last year, mainly due to a recovery in export markets. Domestic demand remains subdued as a result of high unemployment and fiscal tightening. A gradual recovery is projected for 2010 and 2011, with GDP growth of 2% and 3% respectively. Inflation is expected to rise gradually to about 2% by 2011, which is within the new official target.

The new government needs to put forward a concrete plan for fiscal consolidation. The recovery of growth will improve the fiscal balance only to a limited extent and putting fiscal policy on a sustainable basis therefore requires spending restraint, particularly on pensions, health care and welfare benefits, and institutional changes, to strengthen the fiscal policy framework and create mechanisms to facilitate a comprehensive approach to policy making.

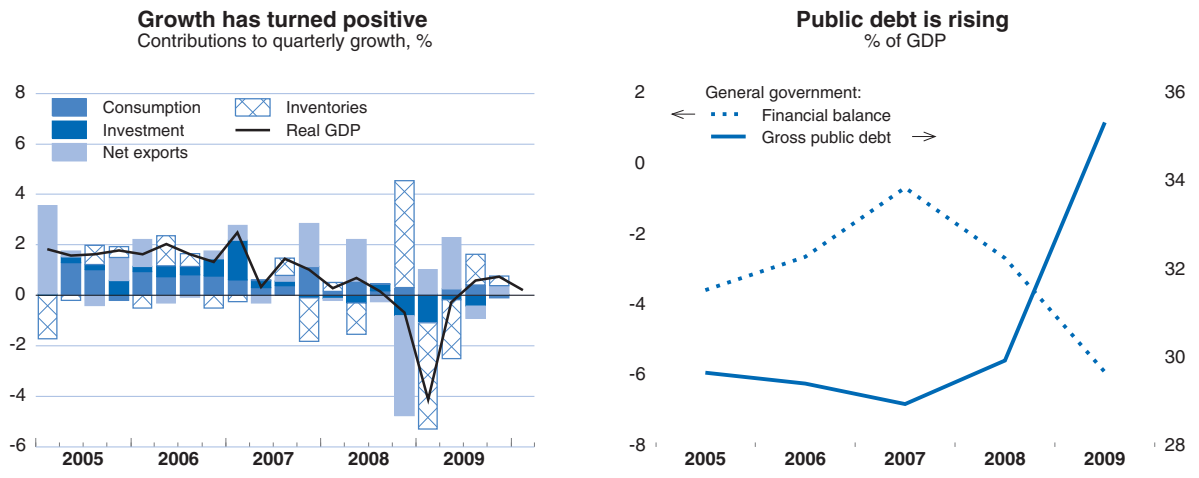
Latest indicators show a somewhat hesitant pick-up in activity

After a sizable fall of 4.1% last year, real GDP growth turned positive in the second half of 2009, driven by exports while private consumption remains subdued. Industrial production has recovered strongly and continues to be driven by automotive and manufactured metals production. The Czech Statistical Office's composite confidence indicator marked a negligible fall in March, before recovering again in April. The unemployment rate seems to have peaked and it decreased in both March and April.

Monetary policy remains easy and the banking sector appears resilient

Given weak inflationary pressures, the main monetary policy rate was cut in May to the historically low level of 0.75%. After a volatile period during the unfolding international financial crisis, the exchange rate has returned broadly to its trend path of real appreciation. Even though the rate of non-performing loans is on the rise, the banking sector continues to display resilience. It is well capitalised, is financed by local deposits, is not affected by toxic assets or foreign currency loans and continues to be profitable.

Czech Republic



Note: Gross debt is according to the Maastricht definition.

Source: OECD Economic Outlook 87 database; OECD, National Accounts database.

StatLink http://dx.doi.org/10.1787/888932304506

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

	2006	2007	2008	2009	2010	2011
	Current prices CZK billion	Percentage changes, volume (2000 prices)				
Private consumption	1 562.8	5.0	3.5	-0.1	-0.8	1.8
Government consumption	687.0	0.7	1.0	4.4	2.4	0.8
Gross fixed capital formation	796.3	10.8	-1.5	-8.3	0.6	4.5
Final domestic demand	3 046.1	5.5	1.6	-1.2	0.3	2.2
Stockbuilding[1]	69.5	-0.2	-0.5	-2.5	0.6	0.0
Total domestic demand	3 115.7	5.2	1.1	-3.8	0.9	2.2
Exports of goods and services	2 467.6	15.0	5.7	-9.9	6.0	7.1
Imports of goods and services	2 357.6	14.2	4.3	-9.9	4.8	6.5
Net exports[1]	110.0	1.1	1.3	-0.4	1.1	0.9
GDP at market prices	3 225.6	6.1	2.3	-4.1	2.0	3.0
GDP deflator	_	3.4	1.8	2.7	1.0	1.9
Memorandum items						
Consumer price index	_	3.0	6.3	1.0	1.8	2.0
Private consumption deflator	_	2.9	4.9	0.3	1.4	2.1
Unemployment rate	_	5.3	4.4	6.7	7.8	7.5
General government financial balance[2]	_	-0.7	-2.7	-5.9	-5.4	-5.7
Current account balance[2]	_	-3.2	-0.6	-1.0	0.1	-0.4

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).*

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306653

Fiscal consolidation began in 2010 already, but the outlook is uncertain

At 5.9% of GDP the general government deficit turned out somewhat lower than originally planned last year, largely due to one-off factors. The authorities withdrew their stimulus measures early on and legislated a limited consolidation package for 2010, which includes VAT and excise tax increases and one-year restraint in government expenditures. The need for further consolidation is generally accepted, but there is no consensus in the Czech Republic about how to achieve it. Bringing about the necessary improvement in the structural balance will require addressing large expenditure items such as social benefits, healthcare and pensions and achieving efficiency savings in government operations. Making the rules based fiscal policy framework more effective and strengthening expert advice and inter-ministerial coordination could help to improve fiscal discipline and commitment to consolidation, especially in the coming upturn.

Growth prospects should improve due to stronger recovery in world trade

The growth profile is expected to be fairly flat throughout 2010 as the recovery in the main export markets is likely to be only gradual. Growth will rise modestly in 2011 with improvements of the general economic environment and investment gaining strength. EU structural funds could also provide a welcome boost. The unemployment rate, which rose rapidly in 2009 is projected to be more or less stable this year and as growth improves should begin to fall slightly next year. However, the

ongoing adjustment in the labour market coupled with expected fiscal policy consolidation is likely to limit private consumption growth.

Developments abroad are crucial to growth prospects

The projection is subject to risks in major export markets, in particular the euro area. On the domestic side, the main downside risk lies in a possible weakening of private consumption in response to uncertainty about the composition of future fiscal consolidation.

DENMARK

The Danish economy has started to recover from the recession, but the upturn is expected to be muted. Policy stimulus will continue to support growth in 2010, and the recovery is projected to broaden in 2011.

Budget deficits are set to remain large by historical standards over the next two years, and the government should implement consolidation from 2011 to move back to a more sustainable position and contain upward pressure on long-term interest rates. The consolidation measures would need to be accompanied by structural reforms to increase the supply of labour.

A subdued recovery is under way

The Danish economy began to recover slowly from the recession in the second half of 2009. The upturn has so far been driven by government demand and private consumption, which has picked up on the back of strong fiscal and monetary stimulus. Exports have increased only modestly, owing to the erosion of competitiveness caused in previous years by relatively high wage inflation coupled with poor productivity growth and exchange rate appreciation. Going forward, business confidence in industry and services points to further expansion, but the construction sector is set to contract.

The labour market has been hit severely by the recession

Employment has plummeted and unemployment has increased sharply in the course of the recession, which has brought down wage growth and thus improved competitiveness. Employment is expected to decline further in 2010, but will pick up in 2011 as the recovery gains momentum.

Financial and housing markets have stabilised

Credit standards are no longer being tightened and bank lending to households and companies has stabilised. The housing market also shows signs of having bottomed out, with nominal house prices no longer

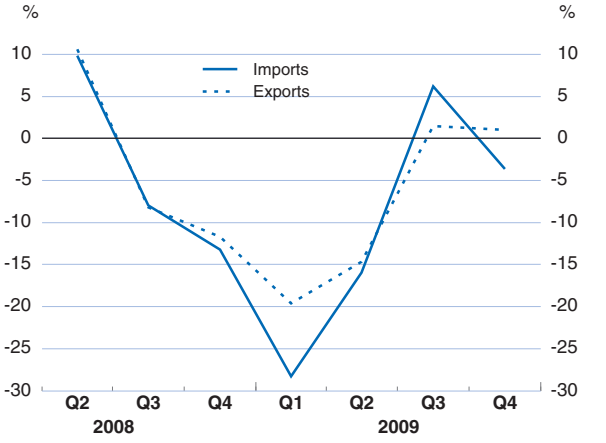
Denmark

Output is recovering slowly but the labour market is still deteriorating



Trade is picking up but remains weak

Quarter-on-quarter annualised percentage change



Source: OECD, Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932304525

Denmark: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices DKK billion	Percentage changes, volume (2000 prices)				
Private consumption	786.6	2.4	-0.2	-4.6	2.1	2.7
Government consumption	422.6	1.3	1.6	2.5	1.3	0.5
Gross fixed capital formation	353.4	2.8	-4.8	-12.0	-4.2	3.4
Final domestic demand	1 562.6	2.2	-0.8	-4.2	0.6	2.2
Stockbuilding[1]	17.3	-0.3	0.3	-2.0	0.9	0.0
Total domestic demand	1 579.8	1.9	-0.5	-6.3	1.2	2.2
Exports of goods and services	849.6	2.2	2.4	-10.4	2.4	4.9
Imports of goods and services	797.7	2.6	3.3	-13.2	2.5	5.4
Net exports[1]	51.9	-0.1	-0.4	1.2	0.0	-0.1
GDP at market prices	1 631.7	1.7	-0.9	-4.9	1.2	2.0
GDP deflator	_	1.9	3.6	0.4	2.0	1.8
Memorandum items						
Consumer price index	_	1.7	3.4	1.3	2.1	1.8
Private consumption deflator	_	2.0	3.2	1.3	2.0	1.7
Unemployment rate[2]	_	3.6	3.2	5.9	7.2	6.9
Household saving ratio[3]	_	-3.2	-2.4	3.2	4.9	3.5
General government financial balance[4]	_	4.8	3.4	-2.8	-5.5	-4.8
Current account balance[4]	_	1.5	2.2	4.0	3.2	2.7

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).*

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. The unemployment rate is based on the Labour Force Survey and differs from the registered unemployment rate.
3. As a percentage of disposable income, net of household consumption of fixed capital.
4. As a percentage of GDP.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306672

falling and housing turnover picking up. However, the stock of unsold houses remains large and the unwinding of fiscal and monetary stimulus may tend to hold housing demand down.

Monetary and fiscal policy remains expansionary

The Central Bank has continued to cut interest rates in the face of krone appreciation pressures caused by spreads in money market rates *vis-à-vis* the euro area. Fiscal policy will add to the stimulus stemming from low interest rates in 2010 through high government investment and the ongoing tax reform.

Fiscal consolidation should be complemented with structural reforms

The general government deficit is expected to shrink only moderately over the projection period. The pickup in growth, the deceleration in fixed capital investment at the local government level and the consolidation measures from 2011 onwards announced by the government in April 2010 will all help. However, against the backdrop of recurrent overshooting of public spending targets in past years, effective restraint, both at the central and at the local government levels, is important and will help contain upward pressure on long-term interest rates.

Furthermore, to complement the planned fiscal consolidation the government should consider reforms to boost labour supply.

The muted recovery is projected to continue

The economic recovery is projected to continue over 2010-11. Private consumption will remain an important driver, boosted by the strong monetary and fiscal stimulus in 2010 and by an improving labour market in 2011. The initial pick-up in exports is expected to be modest owing to past competitiveness losses. However, wage moderation and a cyclical productivity bounce should improve competitiveness and allow exports to accelerate eventually. Headline inflation is up in 2010 on the back of higher duties and energy prices, but the persistent large output gap will hold down inflation in 2011.

The main risks relate to the housing market and exports

Growth might be held back if the withdrawal of macroeconomic policy stimulus were to translate into falling house prices and more forced property sales. However, the pace of the recovery could also surprise on the upside if competitiveness improves faster than expected and allows the economy to benefit more from the rebound in world trade.

FINLAND

While Finland was hit hard by the collapse in world trade, growth resumed during the second half of 2009, albeit at a slow pace. With foreign demand recovering further in 2010 and confidence picking up, growth is projected to accelerate gradually. Unemployment is expected to keep increasing until the end of 2010, then recede slowly.

After many years of surpluses, public finances moved into a deficit in 2009, which is expected to widen to around 4% of GDP in 2010-11. As a rapidly ageing population will put further pressure on public finances, significant additional fiscal consolidation measures will be required to restore sound public finances.

The recession was severe but ended in mid-2009

After suffering one of the largest output contractions in the OECD area, growth resumed in the third quarter of 2009 on the back of recovering exports and rising household consumption. The recovery has been slow, however, as low capacity utilisation and uncertainty about the recovery continued to weigh on investment, while destocking continued. Going forward, improved export order books and business and consumer confidence, together with a need to rebuild stocks, heralds stronger growth.

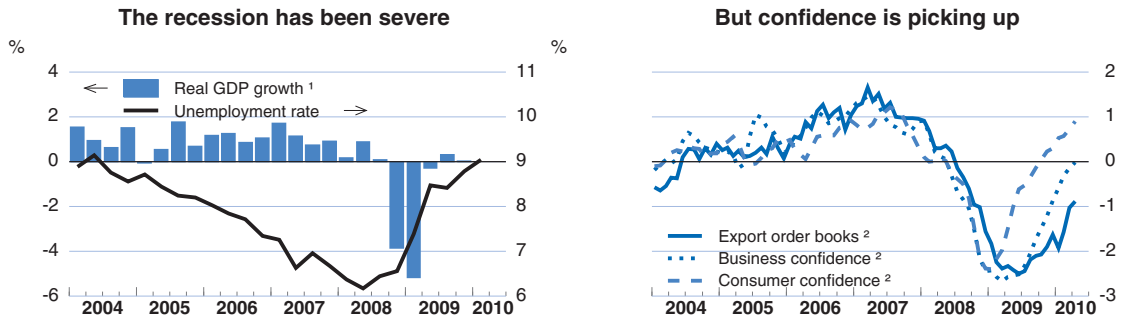
Unemployment continues to rise

The unemployment rate jumped from a low of just over 6% in early 2008 to close to 9% at the end of 2009, even though the fall in employment has been limited by subsidised temporary layoff programmes and reduced working hours programmes. Unemployment will continue to rise for a while, although at a slowing pace, as firms initially meet growing demand through productivity gains and increased work hours. Wage inflation decelerated in 2009 and is expected to remain subdued, lowering unit labour costs over 2010-11.

The recovery is likely to remain fairly slow

Finland will benefit from the strong rebound in world trade. However, the country's specialisation in capital goods, for which world demand tends to lag output, implies that exports will only gain momentum

Finland



1. Quarter-on-quarter percentage change.
2. The series are normalised at the average for the period starting in 1993 and are presented in units of standard deviation.

Source: OECD, Main Economic Indicators and OECD Economic Outlook 87 databases.

StatLink http://dx.doi.org/10.1787/888932304544

Finland: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	85.8	3.3	1.3	-1.8	1.2	1.5
Government consumption	36.8	1.0	2.4	0.8	-0.1	0.0
Gross fixed capital formation	33.3	10.6	-0.2	-13.4	-3.3	4.7
Final domestic demand	155.9	4.3	1.2	-3.8	0.0	1.7
Stockbuilding[1,2]	2.2	0.2	-0.6	-2.1	1.2	0.3
Total domestic demand	158.1	4.4	0.6	-6.1	1.3	2.0
Exports of goods and services	75.4	7.9	6.6	-24.4	4.8	5.7
Imports of goods and services	67.6	6.0	6.6	-22.3	4.0	4.6
Net exports[1]	7.8	1.5	0.6	-3.4	0.7	0.8
GDP at market prices	165.8	4.8	1.2	-7.8	1.7	2.5
GDP deflator	_	3.1	1.5	0.8	2.2	1.9
Memorandum items						
GDP without working day adjustments	_	4.9	1.2	-7.8	..	..
Harmonised index of consumer prices	_	1.6	3.9	1.6	1.7	1.4
Private consumption deflator	_	2.4	3.5	1.0	1.8	1.5
Unemployment rate	_	6.9	6.4	8.3	9.4	9.0
General government financial balance[3]	_	5.2	4.1	-2.4	-3.8	-3.8
Current account balance[3]	_	4.2	3.0	1.3	2.4	3.1

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. Including statistical discrepancy.
3. As a percentage of GDP.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306691

progressively. Very depressed stock-to-GDP levels and the improved economic outlook will lead to restocking, which will be a key source of growth in 2010. Household consumption is expected to recover modestly, though it will be held back by stagnating real incomes and high unemployment. Rising house prices, boosted by very low interest rates and tight supply, will support households' balance sheets and pave the way for a recovery in residential investment. As capacity utilisation in the manufacturing sector is still low, business investment is not expected to start expanding before the end of 2010. Unemployment is set to rise further in 2010, before starting to recede in 2011, partly as a consequence of a shrinking labour force. Headline inflation slowed considerably in 2009. With the output gap widening and unit labour costs decelerating, core inflation has also started to decline and is expected to remain moderate, even though a value-added tax (VAT) increase of one percentage point in July 2010 will push consumer prices up slightly.

Fiscal consolidation is essential

The sharp output contraction and fiscal stimulus resulted in a fiscal deficit in 2009 for the first time since 1997. Deficits are expected to widen further, owing to slow growth and a deteriorating labour market, to around 4% of GDP both in 2010 and 2011. Gross government debt (Maastricht definition) will rise to over 60% of GDP in 2011. In the longer run, the fiscal consolidation already legislated, including the VAT increase

in July 2010, is insufficient to restore fiscal sustainability. Plans to raise energy taxes in 2011 would reduce the deficit by around half a per cent of GDP relative to the current projection, but additional measures will still be needed. Finland will face considerable spending pressure from population ageing. Structural reforms to raise labour force participation, improve sustainability of the pension system and enhance public sector efficiency would improve medium-term growth prospects and, therefore, the fiscal outlook.

The main uncertainty relates to the strength of exports

Finland's dependence on exports and specialisation in capital goods with volatile demand makes it particularly vulnerable to international economic developments. Moreover, competitiveness had been eroding in recent years, casting doubt on the ability of exporters to take full advantage of rebounding global demand. On the other hand, a stronger demand for Finnish goods and a weaker euro would boost exports and output growth. The recession has accelerated the relative decline of forestry and manufacturing industries. The extent to which this decline will prove to be permanent is still very uncertain.

GREECE

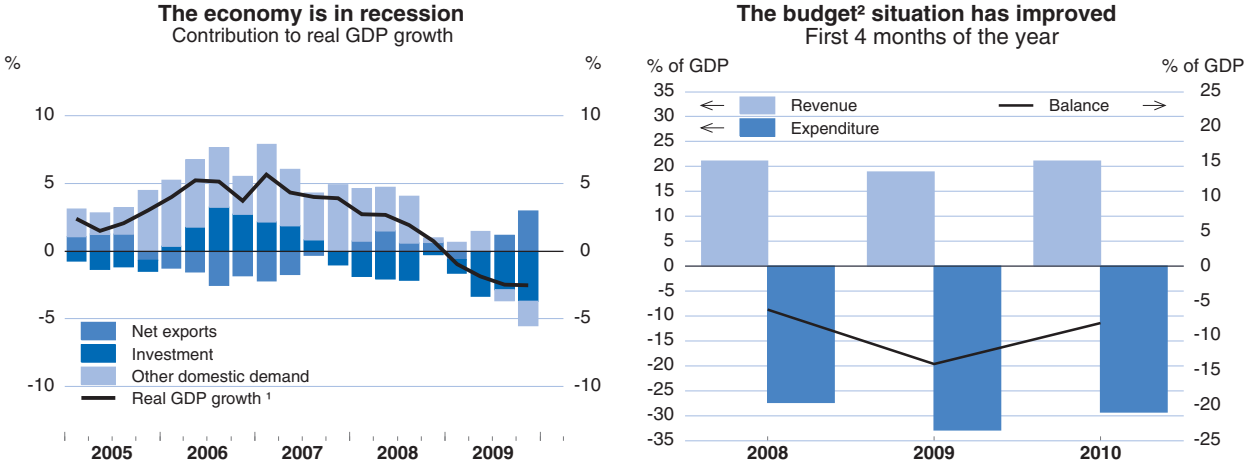
The Greek economy is in a protracted recession in the wake of the global crisis and as needed fiscal austerity takes hold. The rate of decline in real GDP is projected to diminish over the projection period, reflecting improvements in external demand. Economic slack and rising unemployment will keep inflation very low.

Deep and sustained fiscal consolidation, coupled with structural reforms, are key to restoring confidence and growth. The agreement in early May 2010 with the European Commission (EC), European Central Bank (ECB) and the International Monetary Fund (IMF) enhanced the credibility of fiscal adjustment, which should lower borrowing costs and stabilize the level of public debt. Success in reining in public expenditures, with reforms in pensions and improvements in public sector efficiency, are crucial to the success of the programme. Fiscal sustainability would benefit from higher trend output, which requires comprehensive structural reforms in product and labour markets that would also help adjustments in relative prices to restore competitiveness.

The economy is in recession

The contraction in activity, which started in 2009 in the wake of the world recession, continued in 2010. GDP declined by an annualised rate of around 3¼ per cent in the first quarter. Investment, especially in housing, plunged as financing conditions tightened and confidence weakened. Private consumption also contracted as the labour market weakened and credit slowed down. The unemployment rate rose to 12% in February. Rising spreads and refinancing costs are stretching bank balance sheets and bearing on credit growth. Core inflation remained tame in the face of increasing economic slack, although headline inflation climbed to 4.7% in April following indirect tax hikes and higher commodity prices. The inflation differential *vis-à-vis* the euro area average stood at around 2 percentage points in early 2010.

Greece



1. Year-on-year percentage change.
2. The central government budget as per cent of GDP, OECD calculations.

Source: OECD, Economic Outlook 87 database and General accounting office, Greece.

StatLink http://dx.doi.org/10.1787/888932304563

Greece: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	152.9	3.3	2.3	-1.8	-3.7	-3.6
Government consumption	34.3	8.4	0.6	9.6	-9.7	-6.3
Gross fixed capital formation	45.3	4.6	-7.4	-13.9	-12.5	-11.5
Final domestic demand	232.5	4.3	0.1	-2.5	-6.1	-5.3
Stockbuilding[1,2]	0.3	0.8	1.1	-0.1	-2.2	0.0
Total domestic demand	232.8	5.0	1.0	-2.5	-8.0	-5.3
Exports of goods and services	47.5	5.8	4.0	-18.1	3.3	5.9
Imports of goods and services	69.8	7.1	0.2	-14.1	-13.9	-6.6
Net exports[1]	- 22.3	-1.2	0.9	0.7	5.0	3.1
GDP at market prices	210.5	4.5	2.0	-2.0	-3.7	-2.5
GDP deflator	_	3.0	3.5	1.3	0.8	0.3
Memorandum items						
Harmonised index of consumer prices	_	3.0	4.2	1.3	3.0	0.3
Private consumption deflator	_	3.0	4.1	1.3	3.0	0.3
Unemployment rate	_	8.3	7.7	9.5	12.1	14.3
General government financial balance[3]	_	-5.4	-7.7	-13.5	-8.1	-7.1
Current account balance[4]	_	-14.4	-14.6	-11.2	-8.9	-6.7

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. Including statistical discrepancy.
3. National Accounts basis, as a percentage of GDP.
4. On settlement basis, as a percentage of GDP.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306710

Sustained fiscal consolidation is a key priority

A sizeable frontloaded fiscal adjustment is underway to bring the public deficit to below 3% of GDP in 2014 from an estimated 13½ per cent in 2009. More than half of the adjustment is set to take place in 2010 and 2011 based on a mix of revenue and expenditure measures. The measures for 2010 have been legislated and budget implementation has so far been on track. The OECD projects a general government deficit of 8.1% of GDP in 2010 – in line with the official target – on fiscal adjustment measures of around 7½ per cent of GDP. However, the structural improvement of the deficit is partially offset by the cyclical deterioration induced by weak activity and high interest payments. For 2011, a further reduction of the deficit to around 7% of GDP is assumed on the basis of measures agreed in early May 2010 with the EC, the ECB and the IMF in the context of the rescue package. The projections build upon the government's stated commitment to continued consolidation and the conditionality entailed in the policy package. In line with strict implementation of the deficit reduction programme over the coming years, it will be crucial that the government intensify efforts towards longer term fiscal consolidation through well-designed measures to eliminate the structural deficit. In this regard, the announced reforms of pensions and measures to improve the efficiency of the public sector are welcome. Adoption of the planned fiscal rules and the proposed independent parliamentary budget committee will also help to increase the credibility and sustainability of the fiscal adjustment effort.

Potential risks in the financial sector need to be monitored carefully

The financial package aiming at boosting liquidity in the banking system should help sustain credit to support activity as it picks up. However, bank supervision needs to monitor risks associated with deteriorating asset quality and rising non-performing loans as the economy weakens.

The rate of decline in activity will diminish over time

Economic activity is projected to contract further both in 2010 and 2011, by 3¾ per cent and 2½ per cent respectively, under the weight of the sizeable fiscal adjustment, tight credit conditions and weak sentiment. The decline in real GDP is expected to slow over the projection period, as uncertainty surrounding the government's fiscal consolidation plan is reduced and pro-growth structural reforms get underway. Faster absorption of the EU structural funds should also support the economy. The stimulating impact of these factors is likely to be reinforced by a pick-up in exports in shipping and tourism, as international demand strengthens and competitiveness improves with moderating unit labour costs. Unemployment will rise to around 14% by the end 2011. Economic slack and rising unemployment will keep inflation low going forward, falling below the euro area average in 2011. However, a return to more sustainable and positive growth will require frontloaded structural reforms in product and labour markets that remain among the most rigid in the OECD.

The balance of risks is on the downside

This projection is subject to very large risks. Strong social opposition to the austerity measures could jeopardise implementation of the fiscal programme. The weak economy and high spreads could affect the financial sector more than anticipated, and notwithstanding the support that has been provided. Slow implementation of overdue structural reforms in the public sector could hinder competitiveness, hold back growth and add to the sustainability risks in public finances. The external environment, including the pace of recovery in main trading partners, particularly in the Balkans, is also uncertain. On the other hand, domestic demand may be stronger than expected as the sizeable informal economy may be a source of resilience for consumption in the current situation, and to the extent private agents become convinced that the fiscal consolidation process is working and that fiscal collapse will be avoided.

HUNGARY

A weak recovery should take place during 2010 as solid growth in external demand more than offsets soft domestic demand. The recovery should gather pace in 2011 as the headwinds from ongoing weakness in the labour market and tight credit conditions ease. Inflation should decline significantly until the end of 2011 as the base effects from last year's indirect tax increases disappear and large negative unemployment and output gaps are expected to persist for some time.

The initial success in reining in public expenditure growth has boosted investor confidence, helped to support the currency and reduced spreads on government and corporate bonds. These factors, together with the outlook for low inflation, have allowed the central bank to cut its policy rate by six percentage points since the end of 2008. To maintain investor confidence, it is essential that the government continue fiscal consolidation in line with the newly adopted medium-term fiscal framework. Should local governments engage in over-spending during this election year offsetting measures would have to be taken.

Hungary is emerging from a deep recession

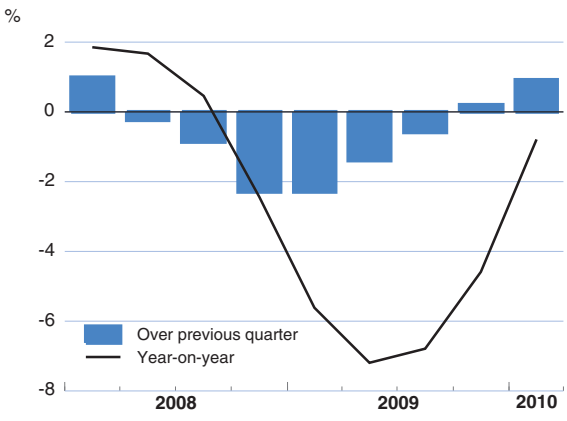
The contraction in economic activity eased during the course of 2009 as the rapid recovery in global trade boosted exports. As a result, the pace of the deterioration in private consumption slowed and destocking declined. After falling dramatically during the global downturn, industrial production has been increasing since September 2009. The volume of retail trade has also edged up in recent months. Nevertheless, output in the construction sector continued to decline at the beginning of 2010 and the unemployment rate reached a 15-year high of 11.4% in February.

The recovery will initially be weak but pick up in 2011

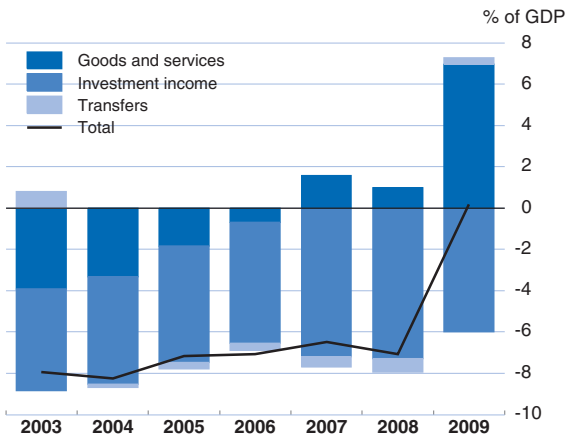
The initial recovery in activity, which seems to have started in the last quarter of 2009, is likely to be slow. Private consumption growth is likely to be held back in the near term by the high unemployment rate, the ongoing need for households to repair their balance sheets and still tight credit conditions. The outlook for the traded goods sector is favourable, with the global recovery boosting demand for exports and the lower level

Hungary

The recession is coming to an end[1]
Real GDP growth



The current account has improved



Source: OECD Economic Outlook 87 database and Eurostat.

StatLink http://dx.doi.org/10.1787/888932304582

Hungary: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices HUF billion	Percentage changes, volume (2000 prices)				
Private consumption	12 800.2	0.4	-0.5	-7.5	-3.1	2.0
Government consumption	5 423.2	-7.4	-0.8	-1.1	-0.4	0.0
Gross fixed capital formation	5 161.3	1.6	0.4	-6.5	-2.3	5.1
Final domestic demand	23 384.7	-1.2	-0.4	-5.9	-2.3	2.2
Stockbuilding[1]	711.3	0.0	1.1	-5.8	4.1	0.2
Total domestic demand	24 096.0	-1.2	0.7	-11.5	0.9	2.3
Exports of goods and services	18 329.7	16.2	5.6	-9.1	8.4	6.3
Imports of goods and services	18 494.9	13.3	5.7	-15.4	9.3	5.6
Net exports[1]	- 165.2	2.1	0.0	5.1	0.0	0.9
GDP at market prices	23 930.8	1.0	0.4	-5.7	1.2	3.1
GDP deflator	_	6.0	3.4	5.3	3.1	1.8
Memorandum items						
Consumer price index	_	8.0	6.0	4.2	4.5	2.3
Private consumption deflator	_	6.2	5.6	4.4	4.2	2.3
Unemployment rate	_	7.4	7.9	10.1	11.0	10.5
General government financial balance[2]	_	-4.9	-3.8	-3.9	-4.5	-4.3
Current account balance[2]	_	-6.5	-7.1	0.2	0.8	-0.4

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).*

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306729

of the currency enhancing competiveness. From the second half of the year, private investment should begin to pick up on the back of the strength in external demand and the gradual improvement of credit conditions in the banking sector. Although the recovery should gather pace in 2011, as the headwinds constraining growth in domestic demand ease, conditions in the labour market are likely to improve only slowly.

Inflationary pressures will remain weak

Headline CPI inflation was 5.9% in March 2010, well above the central bank's inflation target of 3%. However, the elevated levels of inflation are largely explained by last year's one off increases in the VAT and excise tax and short-term increases in some volatile items. Nevertheless, the pass-through of the tax increases into final prices has been less than anticipated as sharp cuts in social security contributions and the large slack in the economy have encouraged producers and retailers to absorb some of the increase into their margins. Inflation should decline significantly through 2010 and 2011 as the base effects from July's tax increases drop out and the large negative unemployment and output gaps constrain firms pricing power and reduce pressure on wages. Inflation is expected to be below the central bank's 3% inflation target by the end of 2011.

Continued fiscal discipline will be critical in maintaining investor confidence

Fiscal austerity measures, together with the IMF/EU support package and improvement in global risk appetite, have played a major role in boosting investor confidence in Hungary. This has helped to significantly reduce risk spreads on sovereign bonds, eased borrowing constraints in international markets and bolstered the exchange rate, the latter being crucial in improving the balance sheet of households indebted in foreign currencies. These factors, along with the subdued outlook for inflation, have also enabled the central bank to support the recovery by cutting short-term interest rates by more than six percentage points since the end of 2008. The yield on three-month government bills fell to its lowest level in seven years in April. To maintain investor confidence and provide scope for further monetary easing, the new government must continue to exert discipline over spending and build on the new medium-term fiscal framework. As 2010 is an election year, local government authorities may overspend. New fiscal measures may therefore be necessary to keep the deficit below 4% in 2010.

The risks to the outlook are broadly balanced

Hungary's recovery is heavily dependent on the pace of the global and European recovery as well as international investors' risk appetite and demand for Hungarian assets. There are significant uncertainties for both trading partner growth and financial conditions, with risks for either a better or worse outlook for Hungary. It is essential that election year considerations do not derail the well-devised consolidation plans. Both the central and local governments need to maintain a prudent fiscal policy to avoid renewed concerns by foreign investors.

ICELAND

Considerable progress has been made during the recession in reducing economic imbalances. This provides a strong foundation for the economic recovery, which is projected to get underway in the second half of 2010 despite major fiscal consolidation. The recovery is projected to be led by domestic demand, which should be boosted in 2011 by planned investment in large energy-related projects.

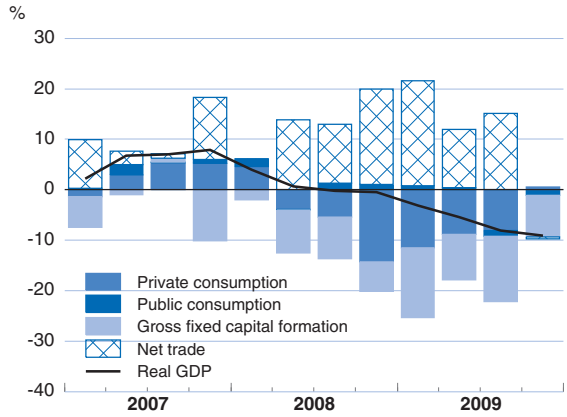
The government needs to remain on track for realising its fiscal consolidation goals, as it has to date. It should also strengthen the local-government fiscal framework this year, as planned. Monetary policy should continue to target currency stability. Capital controls should be liberalised once the medium-term fiscal consolidation plan is well underway, the banking sector has been put back on its feet, and there are adequate international reserves.

The economy remains mired in recession

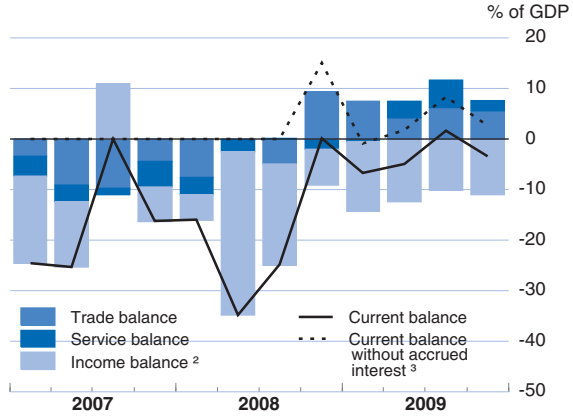
The deep recession following the collapse of the three main banks in October 2008 continued through late 2009, with the decline in GDP from a year earlier reaching 9% by the fourth quarter. Business investment remained very weak owing to depressed economic conditions, deleveraging and the end of large energy-intensive projects. Private consumption expenditure, on the other hand, appears to be stabilising, albeit at very low levels, following the large declines since 2008. The balance of foreign trade in goods and services has recorded substantial surpluses since the crisis struck, reflecting the collapse in domestic demand. Nevertheless, the current account has remained in deficit – 3.3% of GDP in 2009 – owing to large debt-interest payments. The decline in employment levels slowed considerably in the first quarter of 2010 and average working time stabilised, but unemployment nonetheless rose further, to 7.6%. Weak labour markets have depressed wage rates, which fell by 4.5% in the year to March. Annual inflation has stabilised in recent months at around 8%.

Iceland

A domestic demand driven recession [1]
Contribution to real GDP growth



The current account balance has improved



1. Data are not seasonally adjusted and are in year-on-year terms.
2. Includes net transfers.
3. Related to the winding-up proceedings of the failed deposit-taking institutions.

Source: Central Bank of Iceland and Statistics Iceland.

StatLink http://dx.doi.org/10.1787/888932304601

Iceland: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices ISK billion	Percentage changes, volume (2000 prices)				
Private consumption	679.9	5.6	-7.9	-14.6	0.2	1.4
Government consumption	285.4	4.1	4.6	-3.0	-3.0	-3.5
Gross fixed capital formation	397.6	-11.1	-21.0	-49.9	-13.3	21.2
Final domestic demand	1 362.9	0.4	-8.5	-20.2	-2.8	2.9
Stockbuilding[1]	13.5	-0.6	-0.4	0.1	0.0	0.2
Total domestic demand	1 376.4	-0.1	-8.8	-20.1	-2.2	3.1
Exports of goods and services	376.8	17.7	7.1	6.2	1.0	2.0
Imports of goods and services	584.6	-0.7	-18.2	-24.0	1.6	3.7
Net exports[1]	- 207.8	6.1	10.7	14.1	-0.2	-0.5
GDP at market prices	1 168.6	6.0	1.0	-6.5	-2.2	2.3
GDP deflator	_	5.7	11.9	8.6	8.8	3.9
Memorandum items						
Consumer price index	_	5.1	12.7	12.0	5.7	4.2
Private consumption deflator	_	4.6	14.0	14.9	5.0	4.2
Unemployment rate	_	2.3	3.0	7.2	8.7	8.4
General government financial balance[2]	_	5.4	-13.5	-9.1	-6.4	-2.7
Current account balance[2]	_	-16.3	-18.5	-3.3	-0.2	-1.8

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).*

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306748

Policies to correct economic imbalances are being implemented

Implementation of the programme in the IMF's Stand-By Arrangement (SBA) is on track. The 2010 budget provides for a large reduction in the primary budget deficit, from 6½ per cent of GDP to 2¾ per cent. Spending restraint accounts for a little more than one half of total consolidation measures. The government aims to achieve a primary budget surplus by 2011 and an overall surplus by 2013. Implementing the SBA is expected to result in government debt peaking this year and falling to 90% of GDP in gross terms and less than 65% of GDP in net terms by 2014. Monetary policy continues to be guided by the objective of maintaining currency stability. The exchange rate has appreciated since the beginning of the year but remains at highly competitive levels. The Central Bank of Iceland lowered its policy rate by 0.5 percentage point in May, but real rates remain high given the large amount of slack in the economy. Capital controls have been liberalised for new foreign-currency inward investments, but further liberalisation is on hold until there is greater certainty about the timing of external financing and more progress on restructuring of the financial sector. Recapitalisation of the main banks was completed in December 2009 and recapitalisation of savings banks is expected to be completed soon.

The economy should begin to recover in 2010

The economy is projected to continue contracting during the first half of 2010 but then to recover slowly as domestic demand turns around,

reaching annual growth of about 2% in 2011. Investment in energy-related projects is scheduled to expand significantly in 2011, providing support to the economy. The unemployment rate is projected to rise until mid-2010 but fall back gradually to about 8 per cent by the end of 2011 while inflation should decline to about 4% in 2011. Although the balance on foreign trade in goods and services is projected to remain in substantial surplus, large payments of interest on foreign debts will keep the current account in deficit.

De-leveraging could weight on the recovery

The main downside risks to the economic recovery arise from de-leveraging, which could result in private consumption and investment being weaker than projected, and from potential delays in the large energy-intensive investment projects. Upside risks are that there could be a stronger-than-projected response of exports to the highly competitive exchange rate and that inward foreign direct investment could be higher.

IRELAND

After a severe recession in 2009, the economy appears to be close to a turning point. The recovery will nevertheless be externally driven, as unwinding the imbalances created during the economic boom will continue to restrain consumption and investment for some time. This suggests that a broadly-based revival will take some time to emerge. By contrast, the contribution of exports to growth will be increased by the improvement of external competitiveness.

The 2010 budget is an important contribution to the process of stabilising public finances. In particular, the overall emphasis on reducing spending rather than increasing taxes is appropriate. There will be a need for ongoing monitoring and fiscal discipline. Ireland's deficit remains very high and it is now important that the government continue to hit its fiscal targets to ensure that confidence and credibility is maintained. The injection of public funds into the banking system is an important step in restoring the financial sector to health and getting credit flowing again.

The rate of economic contraction is slowing

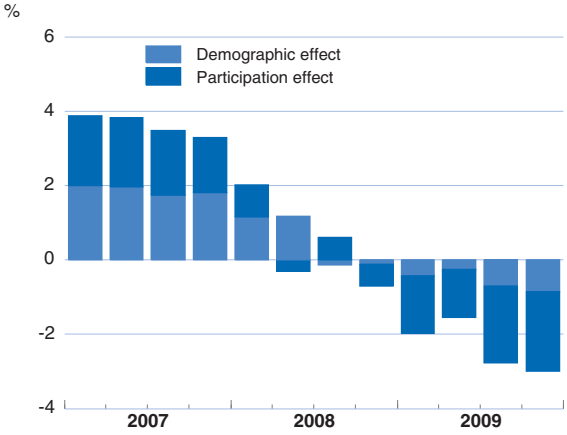
The pace of contraction has recently decelerated, and output may be stabilising after one of the most severe downturns in the OECD area. Recent confidence indicators and spending trends offer some encouragement that the Irish consumer has entered a period of greater stability. Survey-based information would also suggest that the rate of contraction in construction is easing, although the sector will continue to exert considerable downward pressure on domestic activity.

Employment and the labour force are contracting

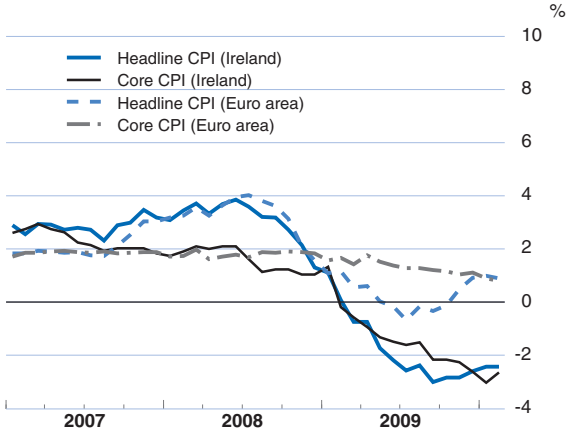
Employment contracted sharply in 2009, mainly driven by job losses among construction workers. Unemployment rose rapidly in 2009 but stabilised at 13.4% of the labour force in the first four months of 2010. There has been a substantial rise in long-term unemployment, which now accounts for one-third of total unemployment, compared with one-fifth a

Ireland

The labour force[1] is falling



Negative inflation persists, although at a slower rate[2]



1. Change in total labour force. The demographic effect is change in size of total working age population and the participation effect is change in participation rate (year-on-year % change).
2. Year-on-year % change.

Source: OECD Economic Outlook 87 database and Central Irish Statistics Office.

StatLink http://dx.doi.org/10.1787/888932304620

Ireland: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices € billion	Percentage changes, volume (2007 prices)				
Private consumption	81.3	5.6	-0.7	-7.2	-2.7	0.6
Government consumption	27.2	7.7	1.5	-1.8	-2.5	-0.6
Gross fixed capital formation	47.7	2.1	-15.6	-29.7	-19.2	-1.0
Final domestic demand	156.2	4.9	-4.7	-11.6	-5.7	0.1
Stockbuilding[1]	2.9	-0.8	0.1	-1.7	0.5	0.3
Total domestic demand	159.1	4.0	-4.5	-13.4	-5.1	0.5
Exports of goods and services	141.0	8.6	-1.0	-2.3	3.7	5.2
Imports of goods and services	123.5	5.7	-2.0	-9.3	-0.4	3.1
Net exports[1]	17.6	2.9	0.6	4.9	3.6	2.6
GDP at market prices	176.7	6.0	-3.0	-7.1	-0.7	3.0
GDP deflator	_	1.2	-1.2	-3.2	-2.5	0.2
Memorandum items						
Harmonised index of consumer prices	_	2.9	3.1	-1.7	-1.4	0.8
Private consumption deflator	_	3.5	2.7	-3.4	-1.4	0.8
Unemployment rate	_	4.6	6.0	11.7	13.7	13.0
General government financial balance[2]	_	0.1	-7.3	-14.3	-11.7	-10.8
Current account balance[2]	_	-5.3	-5.2	-2.9	-0.4	1.4

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)*.

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306767

year earlier. Ireland is now experiencing a decline in the labour force driven by falling participation and outward migration, which is likely to continue in the near term.

The housing market correction is continuing

House prices have continued to fall rapidly. At the end of the first quarter of 2010, prices had fallen by 34 % from their peak. The excess inventory of homes for sale, compared to what would be the normal stock at this point, stands at about 136 000 units, the equivalent to about four years of demand. Activity in the commercial sector also experienced a sharp fall in recent months.

Negative inflation persists, although at a lower pace

The pace of negative inflation has eased since late 2009 (–6.6% in October). Annual headline CPI inflation was –2.1% in April 2010, while HICP inflation (which excludes housing costs) was –2.5%. Negative inflation is expected to continue in 2010 due to continuing weak demand and the lagged effect of past exchange rate appreciation, but this will become less marked as the year progresses. Low, but positive inflation is projected in 2011.

The recovery will be weak

After further economic contraction at the beginning of 2010, modest growth is expected to begin in the second half of 2010. The 2010 recovery will be driven by exports, which should more than offset further declines

in domestic demand. The revival of consumption is expected to be sluggish due to high unemployment and falling real disposable incomes. Fiscal policy will necessarily remain tight for some time. While the savings ratio is expected to decline somewhat, it is likely to remain at relatively high levels.

The ongoing fiscal consolidation process is appropriate

The 2010 budget, which includes a tightening effort equivalent to 2.5% of GDP, represents a very important contribution to the process of stabilising public finances. In particular, the overall emphasis on reducing spending rather than increasing taxes is appropriate. It is important to rigorously implement the announced consolidation measures, avoiding the risk of expenditure overrun. The serious escalation of the public finance crisis in Greece impacted on conditions in bond markets generally, with Irish spreads at the beginning of May 2010 picking up to their highest levels since March 2009. Following on from the significant coordinated action taken at European level on 9 May, a substantial easing has come about in the spreads. Ireland's deficit remains very high and it is important that the government continues to hit its planned medium term Stability and Growth Pact consolidation path to ensure that confidence and credibility is maintained. For 2011, the projection only reflects the measures that the government has specified in some detail. That said, the Irish Government has indicated that it will take further steps in 2011 in order to bring the public deficit closer to a more sustainable level as part of the process to reduce the deficit below 3% of GDP by 2014, in line with its commitments under the Stability and Growth Pact. There will be a need for ongoing monitoring and fiscal discipline.

Risks surround the recovery

The government's medium-term fiscal strategy rests on an optimistic macroeconomic scenario after 2010, which, if it does not materialise, could threaten the pace of fiscal adjustment and consequently weigh on market confidence, posing a risk to the outlook. Ireland's tough approach to restoring the banking sector has the merit of being transparent and may finally restore financial health. But the full implications of this process for the public finances and finally the taxpayer remain unclear. Finally, there is the risk that the euro area countries and institutions do not succeed in addressing the current sovereign debt and bond crisis. The materialisation of this downside risk would have dramatic consequences for Ireland in terms of debt sustainability but also in terms of the growth outlook over the forecast horizon. On the positive side, however, the notable improvement in Ireland's price and cost competitiveness could allow growth to pick up more quickly than expected in the context of the ongoing global economic recovery.

KOREA

Korea has achieved one of the strongest recoveries among OECD countries, led by exports and expansionary fiscal policy. While the fiscal stimulus has been reversed, buoyant exports are projected to help boost output growth to 5¾ per cent in 2010, leading to a marked decline in unemployment.

With the recovery on track, the authorities should focus on achieving the deficit-reduction target in the medium-term fiscal plan, while the central bank should begin to withdraw monetary stimulus. Expanded assistance to small and medium-sized enterprises (SMEs) to overcome the crisis should be phased out, in part to avoid supporting non-viable firms. Structural reforms to enhance productivity, particularly in services, are needed to sustain growth over the medium term.

Korea's expansion has been led by exports and fiscal stimulus...

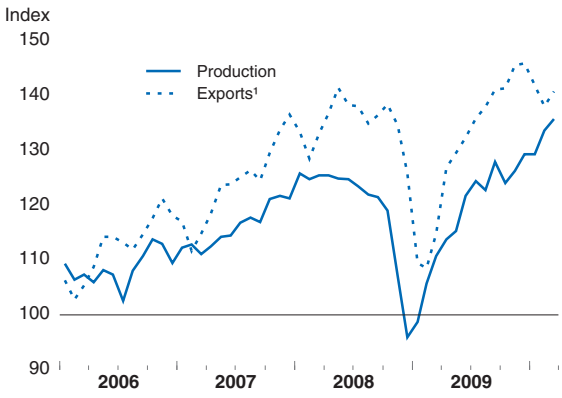
Following a sharp contraction in the fourth quarter of 2008, output bounced back quickly and was up 6% by the fourth quarter of 2009. The recovery was led by exports, reflecting the large depreciation of the won – by 25% in effective terms during the six months from August 2008 – and strong demand from China, which now accounts for almost one-third of Korean exports. Rising exports, accompanied by very strong fiscal stimulus, triggered a recovery in domestic demand. The stimulus included cuts in personal and corporate income taxes in 2009-10 and additional spending for public infrastructure projects and temporary public employment, thus supporting private consumption. By early 2010, private-sector employment, particularly in manufacturing, was picking up. Business confidence has reached its highest level since 2002 and the stock price index has rebounded by almost 65% since its 2009 trough, creating positive wealth effects.

... and an improvement in financial conditions

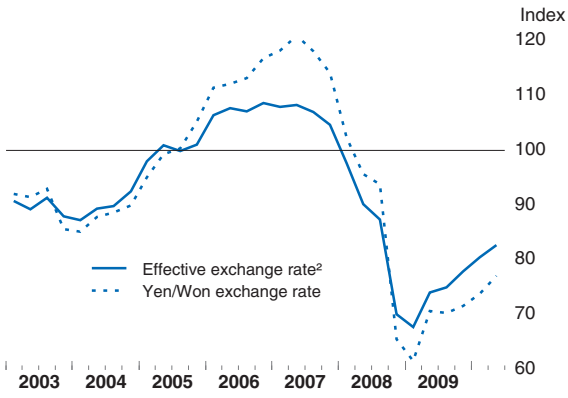
An improvement in financial conditions following the turbulence experienced in the wake of the global financial crisis also contributed to Korea's recovery. Recapitalisation of banks using public funds and the

Korea

Exports and production have surpassed their pre-crisis levels
Seasonally adjusted, 2005=100



The won has rebounded somewhat following a sharp decline
2005=100



1. Three-month moving average.
2. The effective rate *vis-à-vis* 41 trading partners.

Source: Bank of Korea; Korea National Statistical Office.

StatLink http://dx.doi.org/10.1787/888932304639

Korea: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices KRW trillion	Percentage changes, volume (2005 prices)				
Private consumption	494.9	5.1	1.3	0.2	3.8	4.0
Government consumption	131.9	5.4	4.3	5.0	3.4	2.3
Gross fixed capital formation	260.7	4.2	-1.9	-0.2	6.7	5.0
Final domestic demand	887.5	4.9	0.8	0.8	4.6	4.0
Stockbuilding[1]	8.7	-0.2	0.6	-4.6	2.2	0.0
Total domestic demand	896.1	4.7	1.4	-3.8	7.1	4.1
Exports of goods and services	360.6	12.6	6.6	-0.8	11.1	12.6
Imports of goods and services	348.0	11.7	4.4	-8.2	14.2	11.9
Net exports[1]	12.6	0.5	1.0	4.0	-1.0	0.7
GDP at market prices	908.7	5.1	2.3	0.2	5.8	4.7
GDP deflator	_	2.1	2.9	3.4	2.1	2.1
Memorandum items						
Consumer price index	_	2.5	4.7	2.8	3.0	3.2
Private consumption deflator	_	2.0	4.5	2.6	2.9	3.2
Unemployment rate	_	3.2	3.2	3.6	3.6	3.3
Household saving ratio[2]	_	2.9	2.9	3.6	3.5	3.8
General government financial balance[3]	_	4.7	3.0	0.0	1.0	0.8
Current account balance[3]	_	0.6	-0.5	5.2	1.7	1.6

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).*

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306786

purchase of non-performing assets by a public financial institution have strengthened the banking sector. Bank lending attitudes have returned to neutral and risk premia in the bond market have declined. Bankruptcies of SMEs have been limited by additional support, as the government doubled its financial assistance, sharply raised guarantees by public financial institutions for lending to SMEs and instructed banks to automatically roll over their loans to SMEs. The policy interest rate has been held at a record-low 2% for more than a year, helping to keep monetary conditions exceptionally relaxed. With the recovery progressing, the central bank should start removing monetary stimulus. Central government spending is slated to fall by 4% in 2010. Moreover, its annual growth in 2011 and beyond will need to be contained to 4% in nominal terms if Korea is to reach its target of reducing its consolidated central government budget deficit (excluding the social security surplus) from around 4% of GDP in 2009 to 0.5% in 2013 and keeping public debt below 40% of GDP.

Output growth is projected to pick up to 5¾ per cent in 2010…

Despite some drag from fiscal policy, the expansion is projected to remain on track, with output growth of 5¾ per cent in 2010, easing only slightly to 4¾ per cent in 2011. Although some of the competitiveness gain from the won's decline has been reversed over the past year, the ongoing

recovery in world trade will sustain double-digit export growth in 2010-11. Business investment will increase to expand capacity for industrial production, which is already 10% above its pre-crisis level. However, government investment will decline as public infrastructure projects in the fiscal stimulus programme are completed, while residential investment is likely to remain sluggish given the large stock of unsold homes and strict limits on mortgage lending. Employment growth is expected to pick up, bringing the unemployment rate down to its pre-crisis level of 3.2% by late 2011. This will contribute to faster wage gains and some pressure on inflation, which is currently slightly below the mid-point of the central banks' 2% to 4% inflation target. Stronger domestic demand will also narrow the current account surplus from 5.1% in 2009 to less than 2% in 2010-11.

... depending on developments in the world economy

The major risks for Korea, now the world's ninth-largest exporter, relate mainly to the global economic environment. To the extent that world trade growth departs from the vigorous expansion now projected for 2010-11, Korean output growth would be affected. Moreover, a large change in the value of the won would impact net exports. On the domestic side, there is uncertainty about the timing and pace of restructuring in the business sector, particularly among SMEs. In addition, the heavily-indebted household sector may use income gains to improve balance sheets rather than increase consumption, thereby slowing the recovery.

LUXEMBOURG

The economy has experienced a severe recession but recovery is underway, led by strong exports of financial services. Activity will continue to pick up and domestic demand will recover as confidence returns and employment growth increases.

The fiscal position has deteriorated as the result of fiscal stimulus measures, higher social spending and weakening revenues. Consolidation plans need to be implemented with an emphasis on containing current expenditure and strengthening budgetary institutions and processes. In addition, pension reform should be a priority.

A recovery is underway

Activity began to recover in the second half of 2009, ending four quarters of sharp contraction. Growth has been driven by a sharp pick up in net exports, particularly of financial services, following the recovery in equity prices and improved financial market conditions. Industrial production has also risen in recent months in the wake of a recovery in export demand.

Domestic demand remains weak

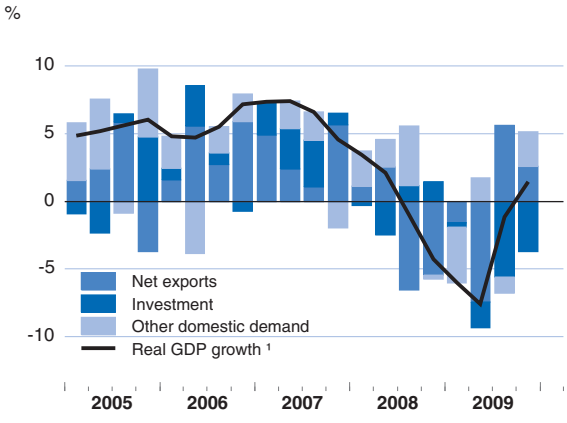
Domestic demand has remained weak, although it received support from a large fiscal stimulus package. Consumption contracted over the second half of 2009, while investment continued to fall up to the third quarter. Consumer confidence indicators have picked up in recent months. Growth of credit to households and non-financial business has slowed but the supply of credit does not appear to be acting as a significant constraint on lending.

Unemployment has risen

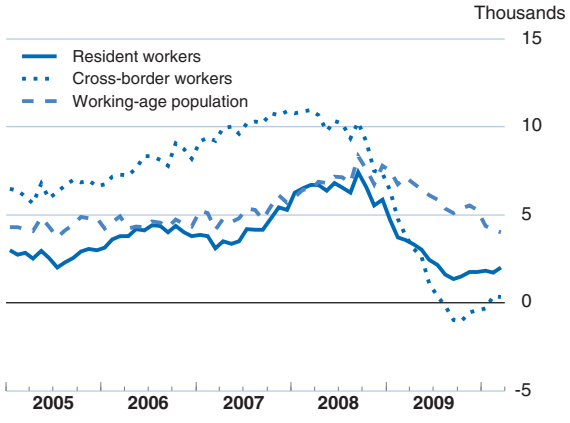
Unemployment has stabilised at close to 6% since June 2009, up from around 4.5% prior to the crisis, as employment growth has stalled. Almost 1% of workers were still on the short-time working scheme in January and the number of participants in active labour market measures

Luxembourg

A recovery is underway
Contribution to real GDP growth



Employment growth has stalled
Annual change in thousands



1. Year-on-year percentage change.

Source: OECD, Economic Outlook 87 database and Statec.

StatLink http://dx.doi.org/10.1787/888932304658

Luxembourg: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	11.3	2.8	3.9	-0.6	1.3	3.2
Government consumption	5.2	2.9	3.0	2.9	2.9	3.2
Gross fixed capital formation	6.5	12.6	-0.1	-14.9	0.4	2.4
Final domestic demand	23.0	5.6	2.5	-3.9	1.4	3.0
Stockbuilding[1]	0.4	-0.9	0.5	-0.5	0.1	-0.2
Total domestic demand	23.4	4.2	3.2	-4.7	1.6	2.7
Exports of goods and services	57.7	8.8	1.5	-7.6	7.0	3.5
Imports of goods and services	46.9	8.3	3.3	-9.2	7.6	3.4
Net exports[1]	10.7	3.6	-2.1	-0.2	1.5	1.4
GDP at market prices	34.2	6.5	0.0	-3.4	2.7	3.1
GDP deflator	_	3.0	5.0	-0.7	1.2	2.0
Memorandum items						
Harmonised index of consumer prices	_	2.7	4.1	0.0	3.0	1.9
Private consumption deflator	_	2.0	3.7	0.0	1.6	1.9
Unemployment rate	_	4.4	4.4	5.7	6.0	5.8
General government financial balance[2]	_	3.6	2.9	-0.7	-3.8	-4.9
Current account balance[2]	_	9.7	5.3	5.6	6.3	6.0

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

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306805

rose over the past year. There are tentative signs that employment is beginning to increase, particularly in the services sector.

Recovery will be driven by strength in the financial sector

The recovery is set to continue over the coming quarters. Stronger exports of financial and business services, linked to improved financial conditions, will lead the expansion. Domestic demand will gradually gain momentum from consumption as labour demand strengthens. Investment will eventually recover as production moves towards capacity. However, existing structural problems and the unwinding of labour hoarding will limit the growth of employment as the economy expands. In particular, use of the short-time working scheme is expected to wind down during 2010. As a result, the unemployment rate is likely to remain around its current level for some time. Over the forecast horizon, monetary conditions will begin to tighten and there will be no additional fiscal stimulus.

Headline inflation has increased

Headline inflation rose to 2.3% in March in year-on-year terms driven by higher energy prices. Underlying inflation has remained more moderate due to economic slack. However, inflationary pressures will increase as demand strengthens and as the result of the likely triggering of the automatic statutory wage indexation mechanism during the coming year.

The fiscal position is deteriorating

The general government balance has deteriorated from a surplus of 2.5% of GDP in 2008 to a deficit of 0.7% for 2009, against the background of a sound starting position of a low debt burden. The move into deficit is the result of a large stimulus package, together with lower revenues and higher social spending related to the crisis. The deficit will continue to widen unless consolidation measures are put in place, in part because revenue from corporate taxes will weaken in the years ahead as long and uncertain collection lags feed through the effects of lower bank profits. Furthermore, there are large future pensions costs, which will only partly be covered by reserves, and these increase the need to undertake near-term consolidation. Consolidation could be facilitated by strengthening Luxembourg's budgetary institutions and processes.

The main risks are associated with the narrow specialisation in certain financial activities

In the short term, the main risks relate to uncertainty about international financial conditions and the improvement in world trade, and there is a need to restore competitiveness. Further ahead, there is great uncertainty around the medium-term potential of the economy in the aftermath of the crisis given the narrow specialisation in certain financial activities and changes in the international regulatory environment.

MEXICO

The vigorous recovery in activity which started in the third quarter of 2009 is projected to continue in 2010 and 2011. After rebounding strongly, export growth is projected to gradually normalise. The inventory cycle should reach its end, while final domestic demand is expected to recover with a lag as the labour market further improves.

A prudent fiscal stance is advisable in view of the decline in oil production, which provides a significant proportion of fiscal revenues. With activity well below potential, inflation is projected to gradually recede despite a temporary uptick attributable to price increases for agricultural goods and hikes in indirect taxes and administered prices at the beginning of 2010. This gives monetary policy some leeway to remain accommodative and support the recovery.

Activity has rebounded but domestic demand remains weak

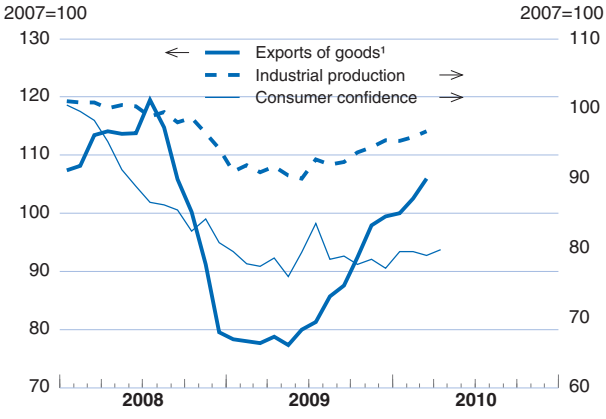
Economic activity accelerated strongly during the second half of 2009, helped by recovering foreign demand for Mexican exports and the re-building of inventories. The upturn in private consumption, however, has been sluggish, as unemployment remained elevated despite having declined in late 2009 and consumer confidence has been depressed. By contrast, strong exports reflected the recovery of industrial production in the United States, and helped the revival of industrial activity and business investment. Although remittances from Mexican workers in the United States continued to decline, the current account improved markedly thanks to rising oil prices and soaring export revenues; this contributed to an appreciation of the currency.

Monetary policy should remain supportive

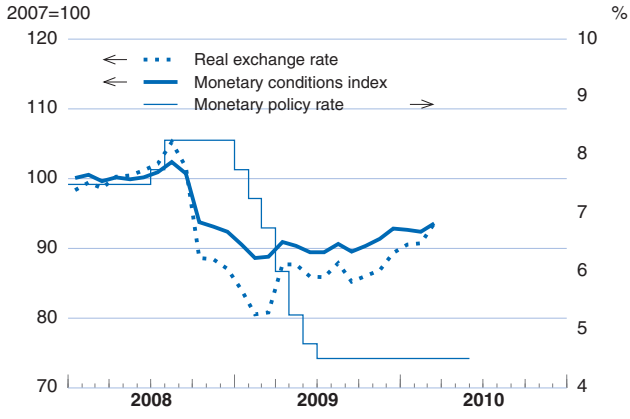
After slowing during the second half of 2009, inflation increased at the beginning of 2010 due to price increases for agricultural goods attributable to unfavourable weather conditions, hikes in administered prices (gasoline and energy) and a one percentage point increase in VAT. Headline inflation at 5% was well above the central bank's target (3% +/–1%)

Mexico

Strong external demand drives the recovery but consumer confidence remains depressed



The exchange rate appreciated until recently, tightening monetary conditions



1. Export data expressed in USD.

Source: OECD Economic Outlook 87 database; INEGI; Banco de Mexico.

StatLink http://dx.doi.org/10.1787/888932304677

Mexico: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices MXN billion	Percentage changes, volume (2003 prices)				
Private consumption	6 709.6	4.0	1.9	-6.2	3.0	4.0
Government consumption	1 076.9	3.1	0.9	2.3	2.3	2.4
Gross fixed capital formation	2 169.1	7.0	4.4	-10.1	4.3	6.8
Final domestic demand	9 955.6	4.5	2.3	-6.2	3.2	4.4
Stockbuilding[1]	544.5	-0.7	-0.1	-1.9	1.7	0.0
Total domestic demand	10 500.0	3.8	2.3	-7.9	5.0	4.4
Exports of goods and services	2 901.4	5.7	0.8	-15.2	15.0	7.8
Imports of goods and services	3 027.9	7.0	3.1	-18.5	15.9	9.0
Net exports[1]	- 126.5	-0.6	-0.8	1.7	-0.6	-0.6
GDP at market prices	10 373.5	3.3	1.5	-6.6	4.5	4.0
GDP deflator	_	4.4	6.7	4.3	4.0	4.7
Memorandum items						
Consumer price index	_	4.0	5.1	5.3	4.6	3.5
Private consumption deflator	_	4.8	5.1	8.4	2.2	3.8
Unemployment rate[2]	_	3.7	4.0	5.5	5.0	4.5
Public sector borrowing requirement[3,4]	_	-1.3	-1.3	-5.2	-2.4	-2.0
Current account balance[4]	_	-0.8	-1.5	-0.6	-0.7	-1.2

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. Based on National Employment Survey.
3. Central government and public enterprises.
4. As a percentage of GDP.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306824

in March but core inflation continued to decline and medium-term inflation expectations remained well anchored according to the central bank's survey of expectations. Given the large amount of slack in the economy and the ongoing fiscal consolidation, the central bank has room to maintain the policy rate at 4.5% for an extended period of time to support the recovery. Moreover, the tightening of monetary conditions resulting from the exchange rate appreciation, which was interrupted by the turmoil on world financial markets in May 2010, may resume if markets stabilise.

Fiscal consolidation is underway

The budget foresees cutting expenditure and increasing taxes (VAT, personal and corporate income taxes and excise taxes). The public sector borrowing requirement (a broad measure of the fiscal balance which includes PEMEX but excludes non-recurring revenues) is projected to improve in 2010 with the budgetary consolidation measures, the cyclical recovery in taxable incomes and the increase in oil prices. Fiscal consolidation is necessary to compensate for the structural decrease in oil-related revenues due to lower oil production, which has been falling since 2005. Oil production may now stabilise according to PEMEX own projections. Yet, without measures to continue reducing the dependence of the budget on oil revenues in the medium term, there is a risk of adverse market reactions. Should oil prices turn out to be higher than assumed in the budget, these short-term excess revenues should be saved

in the oil stabilisation fund, which would shield the budget against future declines in oil prices.

The recovery is projected to gain speed in 2010 and 2011

GDP is projected to grow at 4.5% in 2010, mainly driven by strong exports and private investment in the first half of the year, and by a pick-up in private consumption in the second half of the year, as unemployment comes down. Although export growth is expected to taper off in the second half of 2010 and in 2011, stronger domestic demand will sustain growth. The current account balance is projected to turn mildly negative because import growth should strengthen as domestic demand picks up. Inflation will remain well above target in 2010 but the large amount of unused production capacity should contain second-round effects from tax and administrative price hikes and inflation should gradually converge to the central bank target by the end of 2011.

Downside risks for growth, upside risks for inflation

A slower-than-expected recovery of domestic demand due, for instance, to persistently low consumer confidence or a weaker-than-expected US recovery would negatively impact Mexican growth prospects. Inflation may come down more slowly than projected if rigidities in the product markets slow the reaction of prices to the negative output gap to a larger extent than assumed here.

NETHERLANDS

The economy is recovering on the back of stronger world trade growth, fiscal stimulus and supportive euro-area monetary conditions. Domestic demand is expected to slowly gain pace, but will significantly contribute to growth only in 2011. Employment will bottom out, but expand only in 2011.

The mounting budget deficits, if left unchecked, would threaten fiscal sustainability. The new government should therefore pursue fiscal consolidation, as planned, from 2011, focusing on spending cuts and curbing age-related expenditure increases. Easing employment protection measures would help stimulate hiring during the recovery.

The recovery has been weak so far

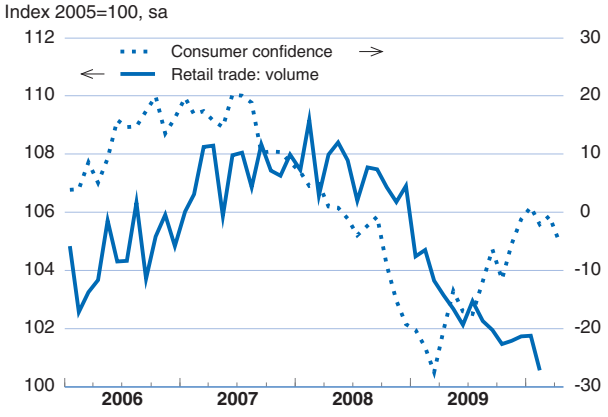
Economic growth is being driven by improvements in exports as world trade is regaining pace, and by discretionary fiscal stimulus. However, private domestic demand is still fragile. Investment was slashed throughout 2009 as capacity utilisation fell to historical lows and profitability plummeted. Labour hoarding and strong wage growth sustained household disposable income growth in 2009, but private consumption nevertheless contracted as saving increased sharply. Although business and consumer confidence have been recovering since early 2009, retail trade and industrial production remain subdued.

Labour hoarding has been prevalent

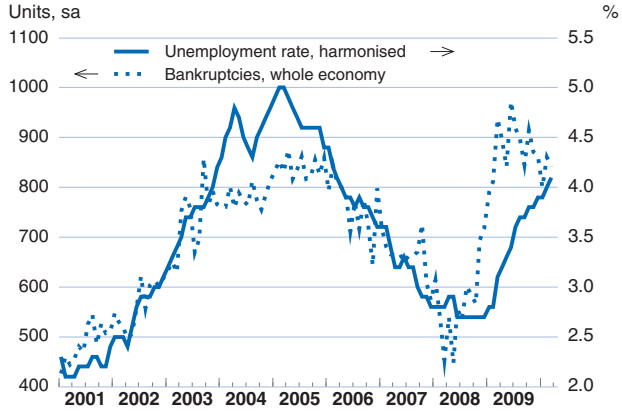
Labour hoarding was widespread during the recession, leading to only a small increase in unemployment. A very tight pre-crisis labour market and relatively strict employment protection legislation for permanent workers appear to have contained labour shedding. The reduced working time scheme contributed less than in other countries. Productivity growth resumed in the second half of 2009 as firms began to cut workforces and should remain strong as job-shedding is likely to continue throughout 2010. Unemployment should peak at the turn of the year. Labour force participation is likely to fall throughout 2010 as potential workers become discouraged, but should stabilise in early 2011.

Netherlands

The recovery in consumer confidence has not yet led to higher retail sales



Unemployment is increasing as bankruptcies remain high



Source: OECD, Main Economic Indicators database and CBS, Statistics Netherlands.

StatLink http://dx.doi.org/10.1787/888932304696

Netherlands: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	254.9	1.7	1.3	-2.5	0.5	1.3
Government consumption	135.4	3.7	2.0	3.2	1.1	0.5
Gross fixed capital formation	106.4	4.8	4.9	-13.0	-7.5	4.0
Final domestic demand	496.7	2.9	2.3	-3.3	-1.0	1.6
Stockbuilding[1]	1.7	-0.6	0.3	-0.7	1.1	0.0
Total domestic demand	498.4	2.3	2.7	-4.0	0.3	1.5
Exports of goods and services	393.5	6.7	2.7	-8.2	9.6	7.0
Imports of goods and services	351.7	5.1	3.7	-8.7	9.0	6.9
Net exports[1]	41.8	1.5	-0.4	-0.4	1.1	0.6
GDP at market prices	540.2	3.6	2.0	-4.0	1.2	2.0
GDP deflator	_	1.6	2.7	-0.3	0.5	1.4
Memorandum items						
Harmonised index of consumer prices	_	1.6	2.2	1.0	0.9	1.4
Private consumption deflator	_	1.6	2.1	-0.5	1.6	1.4
Unemployment rate	_	3.1	2.7	3.4	4.6	4.8
Household saving ratio[2]	_	8.1	6.8	10.0	9.2	8.6
General government financial balance[3]	_	0.2	0.7	-5.3	-6.4	-5.4
Current account balance[3]	_	8.7	4.8	5.4	5.3	5.9

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).*

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of disposable income, including savings in life insurance and pension schemes.
3. As a percentage of GDP.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306843

Inflation should remain moderate

Core inflation has been oscillating around 1¼ per cent since early 2009. This is slightly higher than the euro area average due to persistently strong wage growth. Conversely, headline inflation has fallen below the euro area average, as lags from energy price developments have been longer in the Netherlands. Headline inflation should rise somewhat in the second half of 2010, but eventually fall back to core inflation of about 1¼ per cent.

Fiscal consolidation should begin in 2011

The 2009 budget deficit reached 5.3% of GDP (compared with a small surplus the year before), largely due to the cyclical effect of automatic stabilisers, but also the discretionary fiscal stimulus, strong government wage expenditure growth, higher interest payments and lower natural gas revenues. The discretionary stimulus measures amounted to about 1¼ per cent of GDP and included lower social security contributions and taxes, relief for companies and public investment. In line with government plans, the discretionary stimulus will increase slightly in 2010. In total, the budget deficit for 2010 is set to be almost 6½ per cent of GDP, while public debt is expected to near 70% of GDP, some 20 percentage points higher than pre-crisis levels. To begin restoring fiscal sustainability, about 0.5% of GDP of the fiscal stimulus will be withdrawn in 2011, unless growth disappoints. In line with the current projections,

this should contribute to reducing the fiscal deficit to about 5½% of GDP in 2011. Nevertheless, the deficit will remain substantial and the new government will need to take further action to reduce it significantly in the medium term.

The recovery is set to strengthen throughout 2010-11

Export growth will remain an important determinant of the recovery in 2010, as the domestic economy only slowly gathers strength. Private consumption is likely to be subdued in the short term, as household disposable income growth slows in 2010 in line with a further contraction in employment and a deceleration in wage growth. A further damping effect may come from the suspension of pension indexation, as the pension funds struggle to restore funding levels after the crisis. On the other hand, increased productivity, higher capacity utilisation and favourable credit conditions should spur investment growth from the second half of 2010. Upside risks include stronger world trade growth while downside risks rest on private consumption growth failing to materialise if savings do not fall back.

NEW ZEALAND

The recovery gained momentum at end-2009, driven by domestic policy stimulus and rebounding external demand and commodity prices. The eventual bounceback of domestic demand may be weaker than in past recoveries, however, because of the overhang of private-sector indebtedness, sticky unemployment and lingering uncertainty that may hold back investment.

Though inflation remains subdued, long lags in monetary policy transmission call for the extreme policy stimulus to start to be withdrawn soon. In addition, the 2010-11 Budget should articulate consolidation measures to contain re-emerging macroeconomic imbalances. A desirable tax reform to encourage continued household deleveraging is being discussed.

The recovery has gained momentum…

The recovery gained speed at the end of 2009. Rising international dairy prices (New Zealand's main export) gave a good start to the agricultural season. By March, the overall NZ commodity price index had reached its previous 2008 peak, resulting from the strong global pick-up in demand, particularly among trading partners in the Asia-Pacific region. In addition, manufacturing rebounded, after seven straight quarters of decline. Residential construction also began to grow again in response to easy monetary and credit conditions and net immigration, while rapid government investment spending provided a direct policy boost.

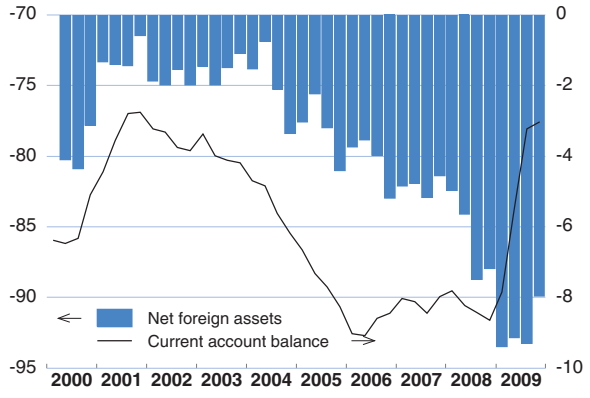
… but domestic drivers still look subdued

Notwithstanding the stronger-than-expected lift in export earnings, business spending has been weak. Credit to businesses is still falling, as firms continue to reduce debt. Likewise, households are cautious as their debt levels remain high. Unemployment increased to over 7% at end-2009, though it now appears to be receding. House prices, which rose earlier, have now stalled in conjunction with uncertainty over a likely reform of the housing tax regime. A serious drought has also emerged. Though

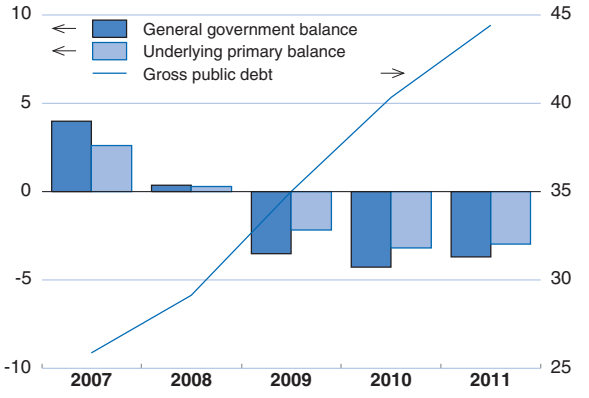
New Zealand

Source: Statistics New Zealand; OECD Economic Outlook 87 database.

The nation is becoming less indebted
Percentage of GDP



Fiscal consolidation is needed
Percentage of GDP



StatLink http://dx.doi.org/10.1787/888932304715

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

	2006	2007	2008	2009	2010	2011
	Current prices NZD billion	Percentage changes, volume (1995/1996 prices)				
Private consumption	99.1	3.9	-0.3	-0.6	2.2	2.4
Government consumption	30.5	4.4	4.8	1.4	2.1	2.1
Gross fixed capital formation	38.6	5.5	-3.6	-12.3	6.3	14.0
Final domestic demand	168.2	4.4	-0.1	-2.8	3.0	4.7
Stockbuilding[1]	0.0	0.1	0.0	-0.5	1.1	0.1
Total domestic demand	168.5	4.6	0.4	-5.1	5.4	4.8
Exports of goods and services	47.4	3.8	-1.4	0.0	4.3	5.6
Imports of goods and services	50.1	8.9	1.9	-14.9	14.7	9.0
Net exports[1]	- 2.7	-1.6	-1.0	4.9	-2.8	-0.9
GDP at market prices	165.8	3.1	-0.5	-0.5	2.5	3.9
GDP deflator	_	4.1	3.7	1.7	3.4	1.7
Memorandum items						
GDP (production)	_	2.8	-0.2	-1.6	2.5	3.9
Consumer price index	_	2.4	4.0	2.1	2.2	2.5
Core consumer price index[2]	_	2.1	2.2	2.2	1.8	2.5
Private consumption deflator	_	1.5	3.6	2.6	1.4	2.1
Unemployment rate	_	3.7	4.2	6.2	6.2	5.6
General government financial balance[3]	_	4.0	0.4	-3.5	-4.3	-3.7
Current account balance[3]	_	-8.0	-8.6	-3.0	-3.5	-6.0

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

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. Consumer price index excluding food and energy.
3. As a percentage of GDP.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306862

probably not as severe as the one in 2008, it may temporarily hold back agricultural production.

Monetary policy stimulus should start to be withdrawn

Although inflation pressures are expected to be muted, given substantial economic slack, the Reserve Bank should soon begin to remove stimulus and continue at a moderate pace so as not to jeopardise a still fragile recovery. Indeed, the Bank has confirmed its intention to begin raising rates soon (barring unexpected shocks to the economy), while also signalling a likely less aggressive degree of tightening than seen in previous cycles. Compared with previous recoveries, policy impacts may be enhanced by higher risk premia in borrowing costs and recent steepening of the yield curve. The projections assume a first Official Cash Rate hike of 25 basis points in June, followed by gradual and steady increases throughout the projection period. The Reserve Bank intends to "look through" one-time price impacts (adding up to nearly 1% over 2010-11) of the Emissions Trading Scheme that takes effect in July, as well as indirect tax increases, while being vigilant against any unwelcome wage response.

... and fiscal consolidation is required

The fiscal stimulus, as incorporated into the projections, consists mainly of accelerated infrastructure investments and previously programmed personal tax cuts, expected to cumulate to 3½ per cent of GDP over 2009-10 (following 2½ per cent in 2008). The December 2009 Budget Policy Statement signalled the government's intention to undertake a steady path of consolidation, beginning in 2010-11, in order to limit the rise in government debt and return it closer to 20% of GDP in the long run. Some tax reforms are expected in the May 2010 budget. A stringent baseline spending review has long been promised as well, and there are indications of a push to higher efficiency, for example a reorganisation in the health care sector.

Growth should pick up

Growth is projected to pick up by the second half of 2010 and continue at a solid pace in 2011 as firms begin to invest and hire, and continuing high net immigration sustains the residential building sector. Nevertheless, the recovery is expected to be less than typically buoyant. The current account deficit is projected to widen again to around 6% of GDP, as imports and income payments increase in typical cylical fashion and recent exchange-rate appreciation – over 20% in real effective terms since the start of 2009 – causes a large loss of market shares, though stronger cumulative terms-of-trade gains could limit the deterioration. Risks to growth seem broadly balanced. Investment could well be stronger, in particular this year, if uncertainty dissipates sufficiently. The global removal of policy stimulus and the impact on global demand of the increasing market focus on sovereign risk could, however, weigh on the upswing.

NORWAY

Norway's economic recovery began somewhat earlier than in most OECD countries and growth is projected to continue, but at a more modest pace than before the recession. Consumer spending and, somewhat later, investment growth is projected to pick up in 2010, while public spending will slow from its recent fast pace. By 2011, mainland GDP will be growing sufficiently fast to eliminate excess capacity in much of the economy.

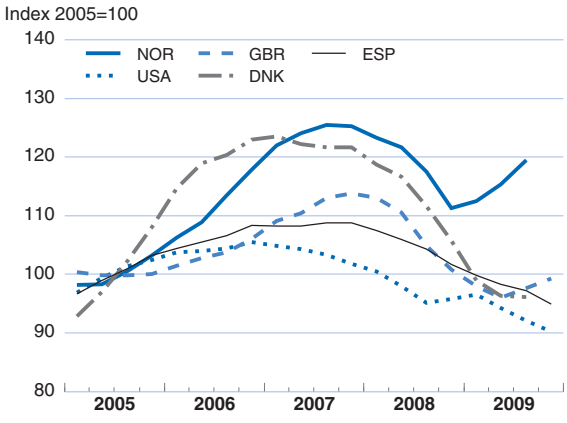
The central bank has wound down its special anti-crisis facilities and begun to raise policy interest rates. With the economic recovery becoming self-sustained and labour-market slack diminishing, policy interest rates will need to rise further to keep inflation pressures under control. The fiscal stimulus should be moderated soon as well, in line with the policy of fully saving petroleum wealth for future generations.

The recovery continues

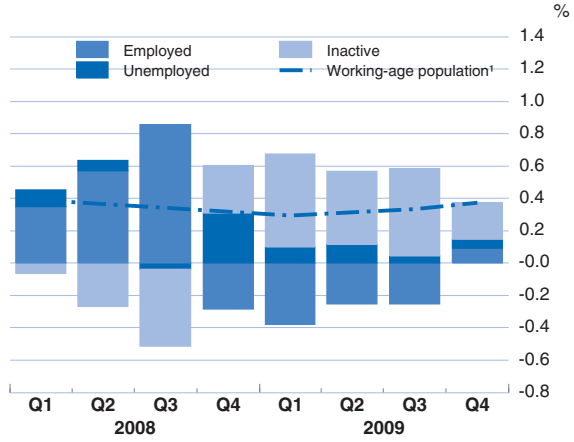
The recovery from Norway's relatively shallow recession is now quite well established. In the second half of 2009, strong growth in house prices, rising industrial production and consumer spending and rapidly improving confidence indicators all suggested a very strong bounce back. However, recent data have been more moderate. Although the 12-month inflation rate jumped over 3% in March and April, propelled notably by electricity prices, underlying inflation continued its slow decline, to just under 2%, suggesting that demand pressures are not yet too strong. Including significant special employment measures (which amount to nearly half a per cent of the labour force), the unemployment rate has remained low, and stable, at 3.7%, since late 2009, though overall numbers of inactive people have been increasing. The recovery in exports is not very pronounced; however, their relative resilience in the downturn was a significant factor in Norway's comparatively mild recession.

Norway

Housing prices continue to rise



Employment fell, unemployment and inactivity rose
Changes as a percentage of the working age population



1. Estimated data for 2009.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932304734

Norway: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices NOK billion	Percentage changes, volume (2007 prices)				
Private consumption	881.8	5.4	1.3	0.0	3.4	3.2
Government consumption	413.0	3.0	4.1	5.2	2.2	1.8
Gross fixed capital formation	424.2	12.5	1.4	-7.9	-2.0	2.7
Final domestic demand	1 718.9	6.6	1.9	-0.8	1.8	2.7
Stockbuilding[1]	51.0	-1.1	0.5	-1.7	-0.2	0.0
Total domestic demand	1 769.9	5.0	2.5	-3.0	1.6	2.8
Exports of goods and services	1 002.5	2.3	0.9	-4.3	1.0	2.6
Imports of goods and services	612.8	8.6	2.2	-9.7	2.1	5.7
Net exports[1]	389.7	-1.4	-0.3	0.8	-0.1	-0.3
GDP at market prices	2 159.6	2.7	1.8	-1.5	1.2	2.0
GDP deflator	_	2.4	10.0	-3.8	5.4	3.0
Memorandum items						
Mainland GDP at market prices[2]	_	5.6	2.2	-1.5	2.1	2.9
Consumer price index	_	0.7	3.8	2.2	2.5	1.9
Private consumption deflator	_	1.2	3.7	2.5	2.4	2.2
Unemployment rate	_	2.5	2.6	3.2	3.3	3.6
Household saving ratio[3]	_	1.5	3.3	7.3	5.1	5.1
General government financial balance[4]	_	17.7	19.1	9.7	9.7	10.9
Current account balance[4]	_	14.1	18.6	13.8	16.0	16.2

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

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. GDP excluding oil and shipping.
3. As a percentage of disposable income.
4. As a percentage of GDP.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306881

Policy remains expansionary, though monetary tightening has begun…

The central bank's special assistance to financial markets was terminated well before the end of 2009 and conventional monetary tightening began in October. Official interest rates remain very low, though – as usual – somewhat above those in most OECD countries. The moderation of house price growth towards the end of 2009 was one of several indicators that caused the central bank to revise down its assessment of inflationary pressure at the turn of the year. However, despite advice to mortgage lenders from the financial supervisor to curtail high-value mortgage lending, data for the first quarter of 2010 show a re-acceleration as prices rose more than 3% in the quarter.

… and fiscal action needs to follow

With a small additional fiscal stimulus in 2010 following a large expansion last year, macroeconomic policy is still strongly supportive. However, revised spring budget data revealed lower expenditure growth and better revenue in 2009 than earlier estimated. Hence, the fiscal stance in 2010 is not far out of line with the guideline which requires the non-petroleum structural deficit to average 4% of the value of the Government Pension Fund Global over the cycle. Nevertheless, there remains some risk that fiscal support may stimulate a return to excessive pre-crisis demand

growth. The use of the Fund to convert petroleum revenue into financial assets has protected the mainland economy from volatility and moderated upward pressure on the real exchange rate. Saving the bulk of oil-related revenue also provided the cushion needed to support the economy during the downturn without jeopardising the long-term fiscal objectives.

The pick-up in growth will reduce unused production capacity

Consumers are projected to reverse some of the increase in saving seen in 2009 and this, despite low investment in 2010, should support activity. The recovery will strengthen somewhat in 2011 as investment also picks up. The first key industrial settlement in the 2010 wage round presaged some moderation in wage growth this year, and the rate of price inflation should also remain moderate; although headline inflation jumped in March due to electricity prices, these are expected to subside and inflation should remain below the central bank's 2½ per cent medium-term objective. Unemployment will not rise much further and net job gains will begin to increase, resulting in some wage acceleration in 2011.

The character of the recovery is still uncertain

There is uncertainty over the economy's response to the return of normality in financial markets while macroeconomic policy settings are still expansionary. The fiscal stimulus should be reined in soon to give more room for monetary policy to react if other data coming in this year reveal that the reacceleration of house prices is a symptom of some more underlying inflationary pressure. If growth flags, the option of delaying monetary tightening remains.

POLAND

After recording the OECD's best growth performance in 2009, the economy has started to accelerate on the back of strength in exports, public consumption and stockbuilding. Real GDP growth is projected to rise strongly, mainly driven by infrastructure investments, linked to transfers of EU funds and the 2012 football championship, and private consumption.

While inflation is currently declining, it is projected to edge up in 2011, pointing to the need for an early start to the withdrawal of monetary stimulus, given the long lags before the effects are felt. Despite a general government deficit of around 7% of GDP in both 2009 and 2010, no specific fiscal consolidation measures have been announced to reach the 3% Maastricht ceiling. The authorities are hoping to keep public debt, according to a national definition, below the constitutional ceiling of 60% of GDP by relying on privatisation revenues and cyclical revenue gains, but it will be critical to quickly formulate concrete deficit-reduction measures.

Economic activity has started to accelerate

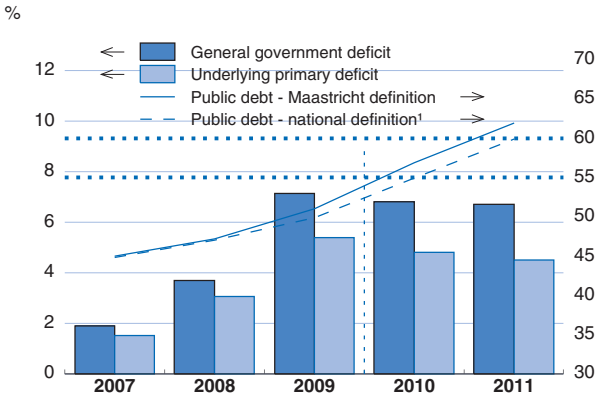
Real GDP growth, positive throughout 2009, has started to pick up, driven by exports, public consumption and the inventory cycle. Despite the harsh winter, industrial production, especially durable goods, rose in the first quarter of 2010, and retail sales were strong in March. Confidence indicators have strengthened in recent months and credit conditions have improved, especially for SMEs and households. Nevertheless, construction activity shrank in early 2010 due to the bad weather. Following a moderate rise in 2009, the harmonised unemployment rate had risen to about 9% in early 2010.

Credible fiscal consolidation should be announced without delay

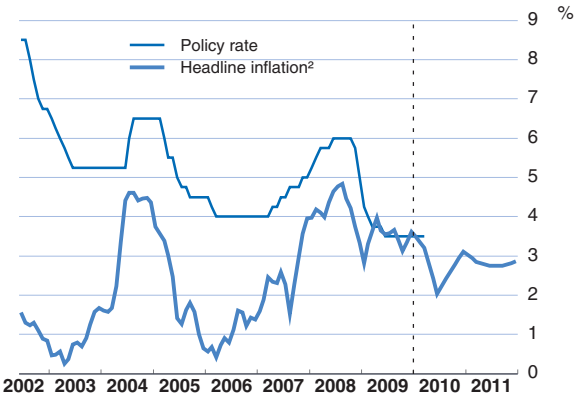
The general government deficit reached 7.1% of GDP in 2009. The government projects that the deficit will ease slightly to 6.9% of GDP in 2010, then to 5.9% in 2011 and 2.9% in 2012, implying a backloaded consolidation path. The two announced consolidation measures

Poland

Public finances should be consolidated
As a percentage of GDP



Monetary stimulus should be withdrawn
Monthly data



1. Calculated as the projected Maastricht debt minus 2 percentage points for 2010 and 2011.
2. Year-on-year growth rates.

Source: NBP; OECD, Economic Outlook No. 87 database.

StatLink http://dx.doi.org/10.1787/888932304753

Poland: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices PLN billion	Percentage changes, volume (2000 prices)				
Private consumption	662.3	4.9	5.9	2.2	0.9	2.8
Government consumption	193.7	3.7	7.5	1.9	2.1	2.3
Gross fixed capital formation	208.3	17.2	8.2	-0.4	2.5	11.1
Final domestic demand	1 064.3	7.1	6.7	1.6	1.5	4.5
Stockbuilding[1]	14.9	1.7	-1.1	-2.5	1.2	0.3
Total domestic demand	1 079.2	8.7	5.5	-0.9	2.6	4.8
Exports of goods and services	427.8	9.1	7.0	-9.6	5.9	6.8
Imports of goods and services	446.9	13.5	8.1	-13.5	5.6	8.9
Net exports[1]	- 19.2	-2.0	-0.7	2.1	0.1	-0.8
GDP at market prices	1 060.0	6.8	5.0	1.8	3.1	3.9
GDP deflator	_	4.0	3.0	3.6	2.8	2.8
Memorandum items						
Consumer price index	_	2.5	4.2	3.8	2.7	2.8
Private consumption deflator	_	2.4	4.2	2.7	3.2	2.7
Unemployment rate	_	9.6	7.1	8.2	8.9	8.6
General government financial balance[2,3]	_	-1.9	-3.7	-7.1	-6.9	-6.5
Current account balance[2]	_	-4.7	-5.0	-1.6	-1.6	-2.7

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)*.

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.
3. With private pension funds (OFE) classified outside the general government sector.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306900

in 2010 are an increase in excise duties to comply with EU regulations and central government wage moderation. The general government deficit is projected to remain above 6% of GDP in 2010-11 given that no concrete measures were presented in the government's convergence plan for 2010-12.

Public debt may remain below 60% of GDP, but risks are significant

The constitution stipulates that public debt, according to a domestic definition, cannot exceed 60% of GDP: going beyond 55% prompts stabilisation measures in the subsequent year, and exceeding 60% triggers immediate adjustment measures. In 2009, public debt remained below 50% of GDP owing to zloty appreciation (a quarter of public debt is denominated in foreign currency). It may remain below 55% in 2010 despite the high deficit because of expected privatisation revenues of 2% of GDP, debt shifted into the National Road Fund (which is excluded from the domestic definition of public debt) and recent currency appreciation. The risk of breaching the ceiling is significant, especially if economic growth is weaker than projected and if progress in privatisation is slower than planned. As public debt according to the Maastricht definition is projected to reach 60% of GDP in 2011, harmonising the domestic and Maastricht definitions would prevent confusion and motivate the needed consolidation.

Risk management in banking is improving

In February 2010, the Financial Supervision Authority released a new set of recommendations ("Recommendation T") to improve banks' risk-management practices, which might curb credit growth. Loan repayments may not exceed 50% of average salaries (and 65% of above-average salaries), with lower limits for those in foreign currency to handle potential currency fluctuations.

Growth may strengthen, unemployment decrease and inflation edge up

Growth is expected to pick up, driven mainly by fixed investments fuelled by EU funds, the preparations for the 2012 football championship and a gradual revival of private consumption. Unemployment is projected to start declining in the second half of 2010 and real wages to rise somewhat after falling in 2009. Unit labour costs in manufacturing are expected to decrease in 2010 and 2011 due to strong labour productivity growth. While headline inflation has been declining from its August 2009 peak of 3.7%, it is expected to rise again in 2011 as economic slack is taken up.

Large exchange-rate fluctuations is a risk

Large currency fluctuations represent a two-sided and fairly balanced risk to growth and inflation. A significant depreciation of the nominal exchange rate would spur exports and result in higher-than-projected inflation. By contrast, a strong nominal appreciation would penalise exports and lower inflation. Central bank intervention to counteract a strong nominal appreciation of the currency, so as to protect the tradeables sector, would be inconsistent with the inflation targeting framework – unless the inflation forecast (conditional on the exchange rate appreciation) were to undershoot the inflation target by a large margin – and would thus require sharper tightening later on.

PORTUGAL

Growth is expected to resume in 2010 but to remain sluggish throughout most of the projection period, reflecting necessary fiscal consolidation and deleveraging. As a consequence, unemployment is set to rise further in 2010, and inflation will remain low. External demand will support exports, but a worsening net investment income balance may prevent any significant narrowing of the current account deficit.

The government has recently made some welcome moves to bring forward fiscal consolidation in 2010 and set a more ambitious target for the budget deficit also in 2011. This is essential to foster investor confidence in fiscal sustainability and ensure access to external financing. In this context, moving towards a pluriannual budgeting framework supported by expenditure rules would enhance the credibility of the fiscal adjustment. Regaining external competitiveness remains the key to dynamic GDP growth and requires strict control of labour costs and productivity-enhancing structural reforms.

The recovery remains fragile

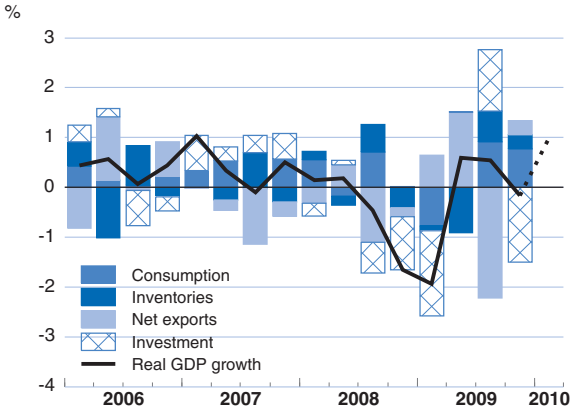
After two quarters of growth, GDP fell slightly in the final quarter of 2009, mainly due to a significant fall in investment. In the first quarter of 2010 output recovered briskly, seemingly driven to a large extent by a strong pick-up in exports. However, in a context of still subdued activity, unemployment reached 10.1% in the fourth quarter of 2009 and continues to increase. Headline inflation reemerged from negative territory, whereas core inflation has remained close to zero.

Macroeconomic imbalances weigh on growth

The contribution of internal demand to growth is set to be limited. Fiscal consolidation will constrain public consumption and household income growth. Private consumption is also hampered by high indebtedness, an already low saving rate and unfavourable labour market conditions. Ample spare capacity and expectations of weak demand

Portugal

A slow recovery is under way[1]



Regaining competitiveness is a key priority



1. Contribution to real GDP growth. Flash estimate for the first quarter of 2010.
2. Competitiveness indicator, relative unit labour costs in the manufacturing sector (weights are based on a basket of 49 countries).
3. Market share indicator (exports of goods and services relative to export market).

Source: OECD Economic Outlook 87 database and Eurostat.

StatLink http://dx.doi.org/10.1787/888932304772

Portugal: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	101.6	1.6	1.7	-0.8	1.5	0.1
Government consumption	32.1	0.0	1.1	3.5	-0.9	-1.0
Gross fixed capital formation	33.8	3.1	-0.7	-11.1	-5.4	1.1
Final domestic demand	167.5	1.7	1.1	-2.1	-0.2	0.0
Stockbuilding[1]	0.7	0.1	0.3	-0.4	0.3	0.0
Total domestic demand	168.2	1.7	1.3	-2.5	0.0	0.0
Exports of goods and services	48.2	7.8	-0.5	-11.6	5.3	5.3
Imports of goods and services	61.0	6.1	2.7	-9.2	1.9	2.3
Net exports[1]	- 12.8	0.0	-1.4	0.1	1.0	0.8
GDP at market prices	155.4	1.9	0.0	-2.7	1.0	0.8
GDP deflator	_	3.0	2.0	1.2	0.7	1.2
Memorandum items						
Harmonised index of consumer prices	_	2.4	2.7	-0.9	0.9	1.1
Private consumption deflator	_	2.7	2.6	-1.8	1.3	1.4
Unemployment rate	_	8.0	7.6	9.5	10.6	10.4
Household saving ratio[2]	_	6.1	6.4	8.8	6.9	6.4
General government financial balance[3,4]	_	-2.7	-2.9	-9.4	-7.4	-5.6
Current account balance[3]	_	-9.4	-12.0	-10.3	-10.2	-10.3

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.
4. Based on national accounts definition.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306919

continue to weigh on investment. Concerns about sovereign risk are weighing on credit conditions more generally. Despite a recovery in external demand, poor competitiveness undermines export growth: both the rise in labour costs during the crisis and weak productivity make it unlikely that Portugal will regain market share over the projection period.

Fiscal consolidation is required

The Government released in March fiscal consolidation plans to bring the deficit from 9.4% of GDP in 2009 to below 3% by 2013. Initial plans were considerably back loaded, as the projected weak recovery in 2010 was deemed to require the social and employment support components of the stimulus package to remain in force. The authorities announced in April that some 2011 consolidation measures were to be brought forward to 2010. In the context of heightened concerns about sovereign risk in May, the government has set more ambitious deficit targets (7.3% of GDP in 2010 and 4.6% in 2011). These are underpinned by additional consolidation measures, such as the earlier phasing out of all the anti-crisis stimulus measures, further expenditure restraint (*e.g.* in subsidies and capital expenditure) as well as a 1 percentage point increase in all VAT rates and hikes in personal and corporate direct taxes, all of which are incorporated in the OECD projections. Looking ahead, the government needs to adhere strictly to the new consolidation plan. Otherwise, fiscal sustainability and access to external financing will be jeopardised.

Pluriannual expenditure ceilings and performance budgeting would help making spending cuts more durable and minimising their social costs, whereas reducing tax expenditures is a major avenue for raising the efficiency of tax collection.

Export-led growth remains modest

Growth is projected to remain modest at 1.0% in 2010 and 0.8% in 2011, driven by export growth. The unemployment rate is expected to remain above 10%, though to decline somewhat in 2011. A large negative output gap goes hand in hand with low inflation, which is in any case needed to restore competitiveness. Despite strong export growth, oil-induced losses in the terms of trade and a worsening net investment income balance may prevent any significant improvement of the current account.

Financial investor confidence is still the main downside risk

If necessary fiscal consolidation measures are not implemented or if contagion from problems elsewhere should be prominent, the financing conditions for both the public and private sectors may deteriorate substantially, with potentially severe consequences for economic growth. Otherwise, the risks are broadly balanced and hinge on developments in euro area activity and international trade, since exports are set to be by far the most dynamic component of demand.

SLOVAK REPUBLIC

An export-led recovery is pulling the economy out of the recession, but weakness in private consumption is a drag on growth. Nevertheless, GDP is expected to grow by over 3½ per cent in 2010 and close to 4% in 2011. Unemployment is envisaged to peak in 2010 at around 14% before falling somewhat in 2011.

The budget deficit is projected to improve somewhat this year to around 6½ per cent GDP. The cyclical rise in spending on social benefits and the fall in tax revenues is expected to be more than offset by ambitious expenditure cuts planned by the government. It will be important that these consolidation measures are implemented as envisaged, which would contribute to strengthening the credibility of the fiscal framework. Over the medium term, further fiscal consolidation will be necessary to ensure the long-term sustainability of public finances and maintain confidence of investors and consumers.

The recovery continues but unemployment is very high

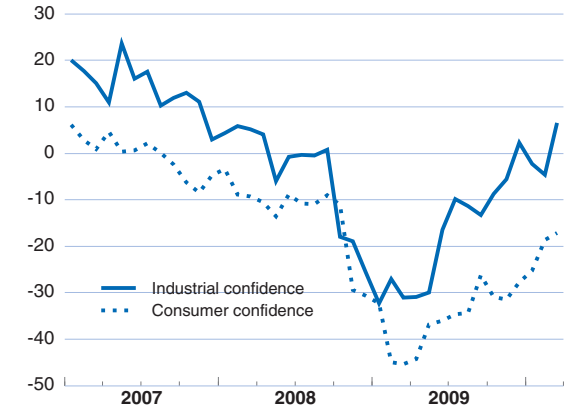
The recovery in economic activity continued forcefully in the fourth quarter of 2009, when the economy grew at a rate that was among the highest in the euro area. Growth was driven predominantly by exports, in particular of cars and flat screens. Private investment continued to decline, though at a diminishing rate. The labour market weakened further and the unemployment rate has risen to over 14%, up from 9% in mid-2008. The harmonised headline inflation was negative at the beginning of 2010, mostly due to decreasing food and energy prices, which are lagging developments in other euro area countries. However, core inflation has also eased substantially compared to mid-2009, falling to 2.1% in the first quarter of 2010.

The outlook is gradually improving

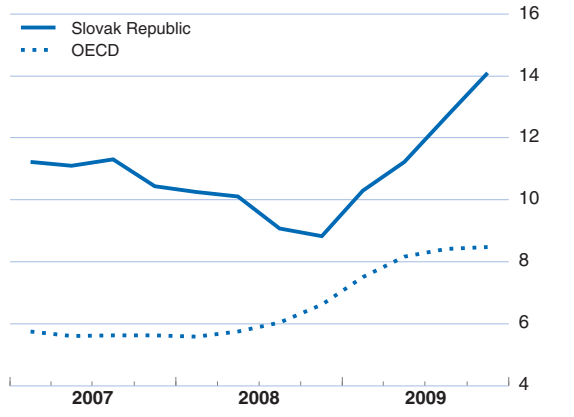
Monthly indicators suggest gradual improvement. Business and consumer confidence have been rising since the beginning of 2009. More recently, industrial production and export orders have started to improve. Unemployment, after the sharp increase in the second half of 2009,

Slovak Republic

Confidence indicators are rising



Unemployment has increased markedly



Source: OECD Economic Outlook 87 database and Eurostat.

StatLink http://dx.doi.org/10.1787/888932304791

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

	2006	2007	2008	2009	2010	2011
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	31.4	6.9	6.0	-0.7	1.5	3.1
Government consumption	10.4	0.1	5.3	2.8	-4.3	-0.5
Gross fixed capital formation	14.6	9.1	1.8	-10.5	2.1	8.0
Final domestic demand	56.4	6.2	4.8	-2.5	0.5	3.6
Stockbuilding[1]	0.8	0.3	1.3	-3.4	0.7	0.5
Total domestic demand	57.2	6.4	6.0	-5.8	1.2	4.1
Exports of goods and services	46.5	14.3	3.2	-16.5	13.6	11.7
Imports of goods and services	48.6	9.2	3.1	-17.6	10.1	12.1
Net exports[1]	- 2.2	3.9	0.1	1.3	2.4	-0.1
GDP at market prices	55.0	10.6	6.2	-4.7	3.6	3.9
GDP deflator	_	1.1	2.9	-1.2	0.3	0.9
Memorandum items						
Harmonised index of consumer prices	_	1.9	3.9	0.9	0.8	2.2
Private consumption deflator	_	2.6	4.5	1.0	-1.2	2.2
Unemployment rate	_	11.0	9.6	12.1	14.0	13.4
General government financial balance[2]	_	-1.9	-2.3	-6.8	-6.4	-5.3
Current account balance[2]	_	-5.3	-6.5	-1.3	-0.9	-3.0

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

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306938

appears to have levelled off, though at very high levels. However, retail sales continue to decline.

The fiscal deficit will be cut back in 2010 and especially 2011

The cyclical decline in tax revenues, the rise in spending on social benefits and the government's two fiscal stimulus packages (amounting to around 1.3% of GDP) pushed the budget deficit up by 4½ percentage points to 6.8% of GDP in 2009. These factors will continue to widen the budget balance in 2010, but the government intends to more than offset them by expenditure cuts (amounting to more than 1% of GDP). The deficit is thus projected to fall by around ½ percentage point in 2010, before improving more strongly in 2011. Going forward, the return of public finances to a sustainable path will require further consolidation, which will be only partially achieved by the automatic phase-out of the stimulus measures.

Growth is set to pick up gradually

In 2010, exports are expected to increase strongly due to an increase in demand by Slovakia's main trading partners. In addition, domestic demand is being supported by stronger gross fixed investment, aided by motorway construction financed through public-private partnership projects and several announced new major investments financed through FDI flows. Private consumption, by contrast, should be held back by rising unemployment and public consumption will be cut. In 2011, GDP growth

is projected to reach around 4%, as private consumption gradually strengthens, public consumption growth turns positive and exports strengthen further.

High unemployment will hold back wage growth

The unemployment rate is projected to stay at around 14% in the remainder of 2010, before gradually falling in 2011. As a result, wage growth should slow in 2010, thereby at least partially reversing the marked jump in unit labour costs recorded in early 2009. In consequence, annual core inflation is projected to ease to 2%.

Risks are broadly balanced

The main risks to the projection are roughly balanced and are influenced by the pace of recovery in Slovakia's major trading partners.

SPAIN

Output is projected to stabilise in 2010 and to edge up by 1% in 2011. The unemployment rate is projected to decline in 2011. Headline inflation will rise temporarily, reflecting higher oil prices and the increase in value added tax rates, but is set to fall to close to zero in 2011.

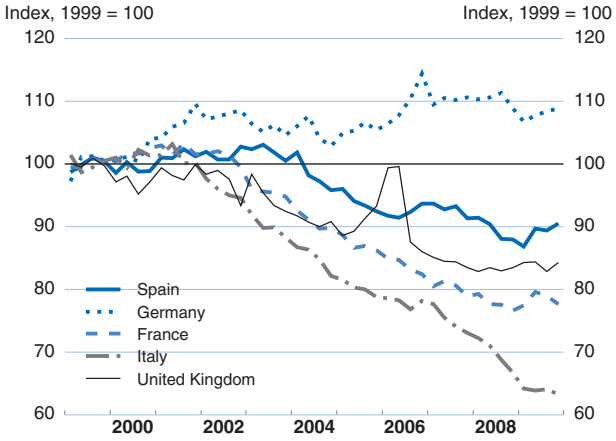
The government announced in May that it was stepping up fiscal consolidation measures in 2010 and 2011, which are projected to reduce the government deficit to 7% of GDP in 2011. This substantial budgetary consolidation should be implemented. Pension reform is also necessary to put public finances on a sustainable basis. To reduce very high unemployment, broad-based labour market reform is required.

Output is recovering slowly

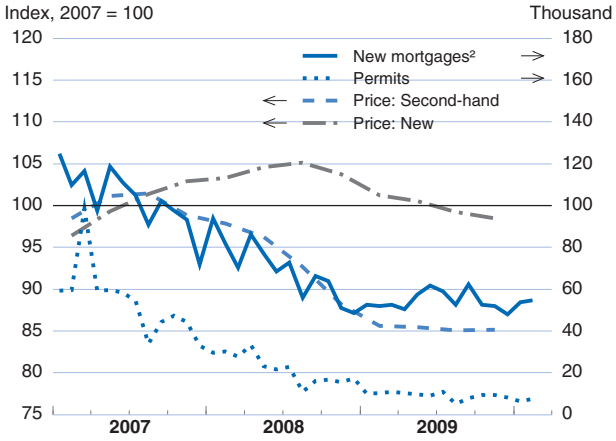
Real GDP grew, though only slightly, in the first quarter of 2010, after seven quarterly declines. Exports accelerated on the back of world trade growth and recent gains in market share, helping to lower the current account deficit to 4½ per cent. Nonetheless, industrial production, weighed down by the continued sharp contraction of residential construction, gained little momentum. The large excess supply of unsold new housing is being absorbed only slowly, as housing transactions remain close to the crisis trough, even though banks eased credit conditions. By contrast, retail sales have recovered markedly, although the private household saving rate, which reached about 19% in 2009, remains unusually high. Employment continued to fall, and the unemployment rate increased further in the first quarter of 2010. Higher oil prices pushed up CPI inflation, but weak domestic demand kept core inflation below the euro area average. In services, business expectations point to a rise in demand, and consumer confidence has improved. In manufacturing, confidence has recovered, as order inflows have risen close to pre-crisis levels and businesses plan to expand production markedly.

Spain

Export performance has improved[1]



The housing market remains depressed



1. Ratio between export volumes and export markets for total goods and services.
2. Urban dwellings.

Source: OECD Economic Outlook 87 database, Instituto Nacional de Estadística and Banco de España.

StatLink http://dx.doi.org/10.1787/888932304810

Spain: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	564.6	3.6	-0.6	-4.9	0.5	1.0
Government consumption	177.5	5.5	5.5	3.8	-0.8	-1.0
Gross fixed capital formation	301.2	4.6	-4.4	-15.3	-5.5	-1.5
Final domestic demand	1 043.3	4.2	-0.6	-6.1	-1.2	0.0
Stockbuilding[1]	3.8	-0.1	0.1	0.0	0.1	0.0
Total domestic demand	1 047.1	4.2	-0.5	-6.1	-1.1	0.0
Exports of goods and services	259.1	6.6	-1.0	-11.5	13.0	12.4
Imports of goods and services	321.9	8.0	-4.9	-17.9	8.2	8.4
Net exports[1]	- 62.8	-0.9	1.4	2.8	1.0	0.9
GDP at market prices	984.3	3.6	0.9	-3.6	-0.2	0.9
GDP deflator	_	3.3	2.5	0.2	0.0	0.3
Memorandum items						
Harmonised index of consumer prices	_	2.8	4.1	-0.3	1.4	0.6
Private consumption deflator	_	3.2	3.7	-0.6	1.9	0.6
Unemployment rate	_	8.3	11.3	18.0	19.1	18.2
Household saving ratio[2]	_	10.6	12.9	18.8	17.5	17.0
General government financial balance[3]	_	1.9	-4.1	-11.2	-9.4	-7.0
Current account balance[3]	_	-10.0	-9.7	-5.4	-4.1	-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).*

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306957

Budget consolidation is underway

Most of the temporary fiscal measures put in place in 2008 and 2009, mostly to stimulate the economy, are to be withdrawn in 2010, generating budgetary savings worth 2¼ per cent of GDP. The central government budget also foresees cuts in discretionary current spending (0.3% of GDP). Spending measures taken by regional governments include cuts in pharmaceutical prices paid by health insurance (0.2% of GDP). On the revenue side, the increase in the basic income tax allowance introduced in 2008 has been partially reversed. The standard VAT rate will rise from 16% to 18% and the reduced rate from 7% to 8% on 1 July 2010. Overall, these tax measures are expected to raise additional yearly revenues worth 1% of GDP, although the full effect on the budget balance will materialise only in 2011. Central and regional governments have agreed on the very ambitious target of replacing only 1 out of 10 retiring public sector employees every year from 2011 onwards (health and education services, as well as small municipalities are exempt from this objective). Further spending cuts, worth 1½ per cent of GDP, announced in May, include a pay cut of 5% for public sector workers in 2010, a nominal freeze of public sector wages and most pensions in 2011, reduced child benefits and additional cutbacks in public investment.

High debt of businesses and households is concentrated in housing

Non-performing loan ratios have continued to rise, albeit at a declining pace, and are still modest by historical standards. Delinquency ratios have risen more strongly for housing developers. Banks most affected by deteriorating loan portfolios appear not to have tightened lending. Within the non-financial business sector, firms' cash-flows have recovered to healthy levels and private sector indebtedness appears to be moderate in sectors not related to residential real estate. Household disposable income will continue to be supported by low mortgage rates, but it will be held back by modest employment and wage growth. Saving rates are expected to remain high, by historical standards, as households reduce their mortgage debt burden.

A slow recovery will keep unemployment high

GDP growth is expected to continue recovering slowly in 2010, driven by external demand, but held back by continued contraction of residential construction activity and a necessarily restrictive fiscal stance. Private consumption and investment will provide somewhat greater impetus in 2011, though both will remain quite weak. The unemployment rate is expected to fall in 2011. Inflation is projected to remain subdued.

Labour market outcomes are crucial for recovery

A failure to achieve sufficient fiscal consolidation will affect investor confidence. A slower improvement of the labour market would lead to a higher government deficit, damp consumer confidence and weaken banks' loan portfolios, raising the risk of more restrictive lending. On the other hand, recent legislation to remove barriers to the development of the rented housing market could raise demand, accelerating the adjustment of the housing market.

SWEDEN

The Swedish economy experienced a severe recession in 2008-09. Although activity is regaining momentum, economic slack is now substantial and unemployment will remain high for some time.

While policy interest rates are set to start rising fairly soon, the monetary stance ought to remain stimulative for some time. Fiscal policy is supportive of demand in 2010 and, together with specific measures to limit long-term unemployment, is mitigating the rise in unemployment. However, once the recovery becomes firmly established, fiscal discipline will be needed in order to reach the medium-term budgetary surplus target.

The contraction continued to the end of 2009

Real GDP declined in the fourth quarter of 2009, the sixth fall in seven quarters, with weakness in both exports and consumption. However, consumer and business confidence have generally improved in recent months and retail sales, despite their volatility, appear to have picked up since early 2009. The economic downturn has led to a significant deterioration of the labour market, with the unemployment rate now roughly 9%, though the decline in employment has been moderate considering the extent of the recession and private job cuts have mainly been in the export-exposed manufacturing sector. As job cuts have been relatively modest, firms are unlikely to hire much during the early stages of the recovery and so unemployment will remain high.

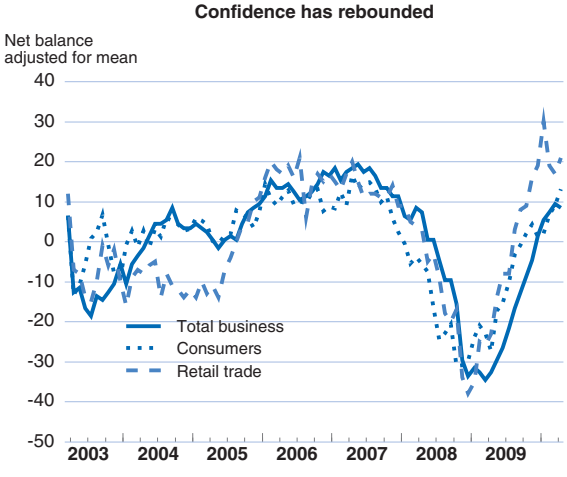
Financial conditions have generally been stable

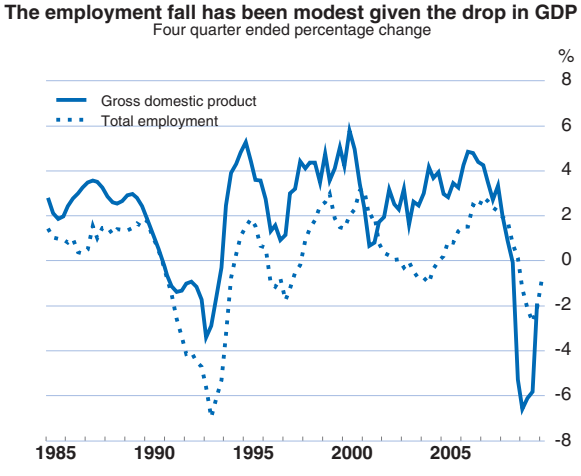
Money and bond markets have generally been fairly stable over recent months. Bank lending to households has started to inch up relative to a year earlier but credit to firms is still declining.

Monetary and fiscal policy are expansionary

Headline inflation (which includes mortgage interest rate costs) is expected to continue to rise, reflecting increases in interest rates. However core inflation is expected to decline over 2010-11, reflecting substantial spare capacity, moderate wage pressures (judging by recent

Sweden





Source: National Institute of Economic Research, OECD.

StatLink http://dx.doi.org/10.1787/888932304829

Sweden: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices SEK billion	Percentage changes, volume (2008 prices)				
Private consumption	1 389.3	3.8	-0.1	-0.8	1.2	2.9
Government consumption	765.3	0.8	1.2	1.3	0.4	0.6
Gross fixed capital formation	551.1	9.1	1.4	-16.0	3.6	5.9
Final domestic demand	2 705.7	4.0	0.6	-3.5	1.4	2.8
Stockbuilding[1]	0.4	0.7	-0.5	-1.4	0.3	0.0
Total domestic demand	2 706.1	4.7	0.0	-5.0	1.8	2.8
Exports of goods and services	1 504.8	5.9	1.2	-12.4	2.5	6.9
Imports of goods and services	1 266.4	9.3	2.5	-13.2	0.8	6.6
Net exports[1]	238.4	-1.0	-0.5	-0.5	0.8	0.6
GDP at market prices	2 944.5	3.5	-0.6	-5.1	1.6	3.2
GDP deflator	_	2.6	3.4	2.2	2.9	2.3
Memorandum items						
Consumer price index[2]	_	2.2	3.4	-0.3	1.4	2.0
Private consumption deflator	_	1.3	2.9	2.0	3.6	2.1
Unemployment rate[3]	_	6.1	6.2	8.3	8.8	8.7
Household saving ratio[4]	_	9.2	11.2	11.4	11.7	9.3
General government financial balance[5]	_	3.5	2.2	-1.1	-2.9	-1.7
Current account balance[5]	_	8.2	9.3	7.2	6.3	7.1

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).*

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. The consumer price index includes mortgage interest costs.
3. Historical data and projections are based on the definition of unemployment which covers 15 to 74 year olds and classifies job-seeking full-time students as unemployed.
4. As a percentage of disposable income.
5. As a percentage of GDP.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306976

wage agreements) and still well-anchored longer-term inflation expectations. Later this year, the central bank both ought to and expects to start raising the official interest rate from the current ¼ per cent. However, negative real interest rates will still be needed to support demand until well into next year. With financial conditions normalising, the central bank's recent moves to unwind unconventional monetary policy measures are timely. The budget's automatic stabilisers and discretionary measures, together with labour market programmes, will support demand and mitigate the rise in long-term unemployment, especially in 2010. These budget measures include tax cuts, increases in family benefits and the frontloading of some infrastructure spending. Looking forward, the improving economy and expenditure limits will assist the closing of the budget deficit.

GDP growth should pick up

The recovery will be supported by stronger consumption growth, amid low interest rates and expansionary fiscal policy in 2010. These will more than offset the drag from the weak labour market and high precautionary saving. Exports will also drive growth as foreign activity and demand pick up, as foreshadowed in improved orders. However, as

manufacturing and investment goods account for a significant portion of exports and capacity utilisation abroad is generally low, the recovery in exports is expected to be relatively modest. Low domestic capacity utilisation has reduced the need for new investment, which will rise rather moderately through the projection period despite the large declines last year.

Risks surround the pace of recovery

There are both upside and downside risks to growth. Swedish banks' exposure to Eastern Europe could impede recovery should conditions in that part of the world fail to improve. In contrast, growth could be stronger than expected if world demand increases more than anticipated or if the labour market were to continue to surprise on the upside.

SWITZERLAND

Growth is set to pick up gradually, reaching 1.8% in 2010 and 2.2% in 2011, driven initially by strong external demand and subsequently by domestic demand, notably private investment and consumption. Unemployment is projected to decline slowly in 2011 while inflation is projected to be less than 1%.

Fiscal consolidation measures at the federal level are planned for 2011 in order to adhere to the debt-brake rule. Monetary policy rates will have to rise gradually from the end of 2010 onwards. The risks stemming from a potential large bank failure should be further reduced, including by tightening capital requirements for the two big banks.

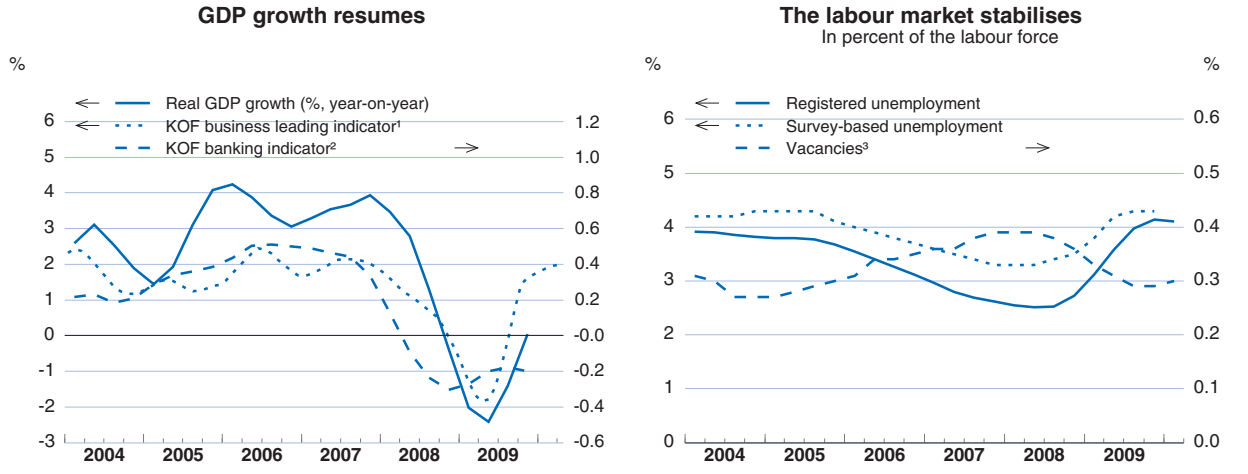
The economy is recovering

The forward looking KOF business indicator has continued to increase, suggesting continued GDP growth in the first quarter of 2010. The recovery has led to an appreciation of the Swiss franc against the euro which may in part explain the decline of export growth from very high rates achieved at the end of 2009. Furthermore, the KOF banking indicator remained at low levels, indicating still weak confidence in sales and employment in the financial services sector. The labour market is stabilising as the rise in unemployment has slowed and the number of short-time workers has decreased, although it remains at high levels.

Fiscal policy will turn slightly restrictive

The fiscal stance is expected to be expanding in 2010, in part reflecting the lagged effects of the recession on personal income tax revenues. For 2011, fiscal policy is expected to become slightly restrictive as fiscal stimulus measures of about 0.5% of GDP will be withdrawn and consolidation measures equivalent to about 0.3% of GDP are planned. Exposure of the public sector to potential losses from illiquid assets

Switzerland



1. Composite leading indicator of business cycle trends in manufacturing, private consumption, financial services, construction and EU export markets.
2. Composite indicator of business confidence in the banking sector.
3. First quarter of 2010 average of January and February monthly data.

Source: FSO: KOF institute; OECD, Economic Outlook 87 and Main Economic Indicators databases; SECO; SNB.

StatLink http://dx.doi.org/10.1787/888932304848

Switzerland: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices CHF billion	Percentage changes, volume (2000 prices)				
Private consumption	286.4	2.4	1.7	1.2	1.7	2.1
Government consumption	55.2	0.5	-0.1	2.5	-0.2	0.0
Gross fixed capital formation	104.4	5.2	0.4	-3.7	4.6	3.5
Final domestic demand	446.0	2.8	1.1	0.2	2.1	2.1
Stockbuilding[1]	4.0	-1.3	-0.7	1.3	-1.6	0.0
Total domestic demand	450.0	1.3	0.4	1.7	0.3	2.2
Exports of goods and services	257.5	9.5	2.9	-10.0	6.2	5.4
Imports of goods and services	217.0	6.0	0.4	-5.9	4.0	6.1
Net exports[1]	40.5	2.4	1.4	-3.0	1.5	0.2
GDP at market prices	490.5	3.6	1.8	-1.5	1.8	2.2
GDP deflator	_	2.5	2.2	0.3	0.4	0.7
Memorandum items						
Consumer price index	_	0.7	2.4	-0.5	0.9	0.8
Private consumption deflator	_	1.3	2.2	-0.3	0.7	0.8
Unemployment rate	_	3.6	3.5	4.4	4.6	4.5
General government financial balance[2]	_	1.6	2.5	0.7	-0.8	-0.5
Current account balance[2]	_	9.1	1.8	8.4	9.9	10.2

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306995

transferred from UBS to a dedicated fund has diminished and is estimated by the central bank to amount to about 4% of GDP.

Monetary policy remains expansionary

In view of lingering uncertainties concerning the global recovery and to minimise deflationary risk in the event of a renewed adverse external shock, the Swiss National Bank has announced it will continue its expansionary stance by keeping its policy rate (the 3 month LIBOR) close to 0.25% in the near future, and will counter an excessive appreciation of the Swiss franc against the euro. At the same time, the SNB has started to withdraw some extraordinary monetary policy measures that were introduced at the beginning of 2009. In particular, it has ceased purchasing Swiss bonds from non-bank private issuers and has issued Swiss franc bonds to absorb liquidity.

Growth is expected to lower unemployment

Real GDP is expected to accelerate reflecting the speed of recovery in trading partners and is projected to reach around 1.8% in 2010 and around 2.2% in 2011. This growth will allow unemployment to begin declining during 2011. As a result of the withdrawal of subsidised short-time work, the decrease in unemployment is projected to be slow, though. Due to the gradual decline in unemployment, sustained immigration and increasing labour income, growth rates for private consumption will be positive. The expansion of overall demand will spur investment activity. The government balance will move into a deficit of around 0.8% of GDP in 2010 and around 0.5% in 2011. The inflation rate is forecast to remain

low in 2010 and 2011, with deflationary pressures still a risk, as the 0.4 percentage point increase of the VAT in 2011 will not have a permanent impact on inflation and wage increases are expected to be moderate.

Financial services prospects and a strong franc are downside risks

Continued weak business confidence of financial intermediation firms could result in unexpected weakness in financial services. A further real appreciation of the Swiss franc could weaken exports. A more dynamic recovery in the euro area and a quick absorption of short-time workers into employment constitute upside risks.

TURKEY

The economy has rebounded sharply since the second quarter of 2009 thanks to good export performance. GDP is projected to expand by 6.8% in 2010 and 4.5% in 2011. However, job creation will not be strong enough to absorb the rapidly growing labour force and unemployment will rise further.

Prudent macroeconomic management helped to improve domestic and international confidence. Ongoing progress in fiscal transparency is expected to confirm this trend. Labour market reforms are needed to preserve competitiveness and foster sustainable employment growth.

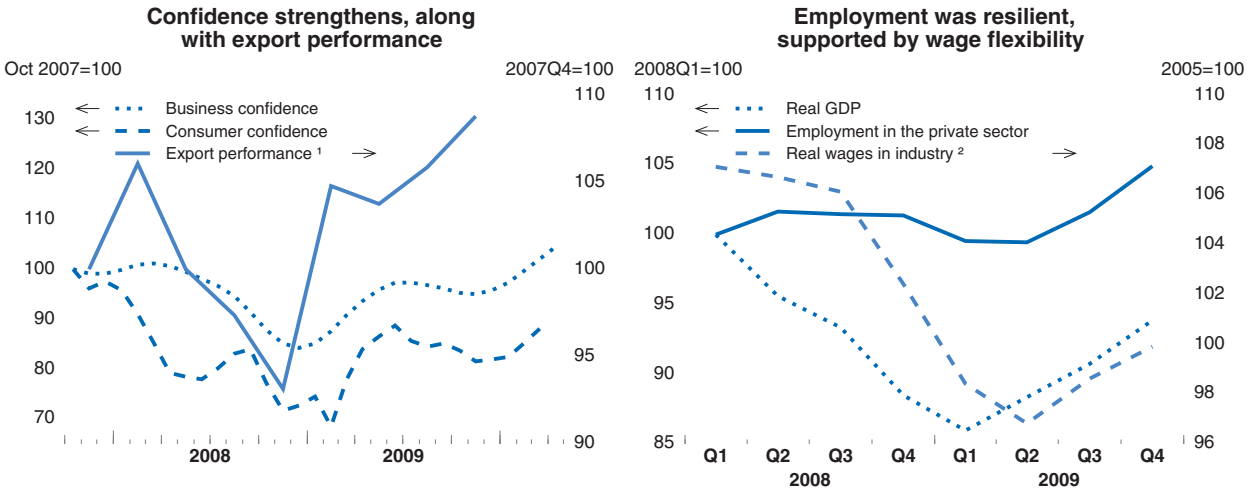
An export-led recovery is on track

GDP rebounded after the first quarter of 2009, driven by the resumption of export and private consumption growth. Restocking eased towards end-year, but its effect on GDP growth was offset by strong private investment and government consumption. Employment in both rural and urban areas grew despite the contraction of output in 2009, reflecting large-scale labour hoarding facilitated by nominal wage cuts. However, this was not enough to offset steady inflows of people to the labour market, driven by demographic factors and "second earner" effects, which lead to higher unemployment.

Price and current account pressures have emerged

Headline inflation increased between November 2009 and April 2010, due to sharp increases in energy prices, consumption taxes and food prices. In April, it stood at 10.2%, well above the end-year inflation target. In contrast, core inflation decelerated up to March, when it inched up. Headline inflation is expected to decelerate towards end-year, as temporary factors taper off. The current account deficit, which had narrowed to 2.2% of GDP in 2009, started to widen again as the economy gathered speed. It was easily financed, however, with the repatriation of Turkish funds abroad and foreign funding at improved terms.

Turkey



1. Export growth/export market growth.
2. Hourly wages in industry deflated by CPI. Three-quarter moving averages.

Source: OECD Economic Outlook 87 database, OECD Main Economic Indicators database, Turkstat and CBRT.

StatLink http://dx.doi.org/10.1787/888932304867

Turkey: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices TRY billion	Percentage changes, volume (1998 prices)				
Private consumption	534.8	5.5	-0.3	-2.4	5.7	5.8
Government consumption	93.5	6.5	1.7	7.3	2.1	2.8
Gross fixed capital formation	169.0	3.1	-6.2	-19.2	13.2	8.1
Final domestic demand	797.4	5.1	-1.3	-4.5	6.4	5.8
Stockbuilding[1]	- 1.8	0.6	0.3	-2.6	2.3	0.0
Total domestic demand	795.6	5.7	-1.0	-6.8	8.8	5.9
Exports of goods and services	171.9	7.3	2.7	-5.4	8.4	8.8
Imports of goods and services	209.2	10.7	-4.1	-14.6	16.8	13.6
Net exports[1]	- 37.2	-1.3	1.7	2.8	-2.1	-1.6
GDP at market prices	758.4	4.7	0.7	-4.9	6.8	4.5
GDP deflator	_	6.2	12.0	5.5	7.1	6.5
Memorandum items						
Consumer price index	_	8.8	10.4	6.3	9.5	6.6
Private consumption deflator	_	6.6	10.8	5.4	8.7	5.7
Unemployment rate	_	10.1	10.7	13.7	14.9	15.9
Current account balance[2]	_	-5.9	-5.5	-2.2	-4.5	-5.9

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).*

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307014

Prudent macroeconomic policy keeps confidence high

The fiscal position in cyclically-adjusted terms (which is evaluated through estimations in the absence of consolidated general government accounts) deteriorated only slightly in the course of 2009, although the headline deficit rose significantly as output fell. The 2010 budget foresees fiscal tightening in line with the Medium-Term Economic Programme announced in fall 2009. A fiscal rule was introduced in May 2010 to support fiscal consolidation. The central bank announced that policy rates will be kept low as long as slack persists in the economy, but a gradual withdrawal of liquidity is scheduled. As the economy gathers momentum, rates are expected to be hiked. International confidence in the macroeconomic policy framework has been solid. Turkey's risk premia, which had rapidly normalised after the global financial crisis, decreased further since fall 2009 and all rating agencies upgraded the sovereign credit rating. As of April, business confidence reached levels associated with expansion. Financing conditions kept improving, especially for large-size borrowers.

Competitiveness will affect the outlook

Export performance is central for cyclical developments in Turkey, despite the rather low export share in GDP. The EU market – the main export market for Turkey – remains weak, but exporters have been shifting to other markets (Asia, Russia, North Africa and Middle East). Capacity utilisation remains low, but investment can be expected to increase if export performance continues to be strong. Ongoing currency

appreciation despite high inflation is squeezing exporters' profit margins, but this is partly offset by wage moderation and enterprises' ability to innovate and improve delivery terms. Nonetheless, looking forward maintaining price competitiveness will be crucial for aggregate export performance.

Employment growth requires labour market reforms

Unemployment remains high despite the acceleration of growth and net job creation. Reducing the high unemployment rate (17% in urban areas and 27% for young urban workers) requires fundamental labour market reforms. The challenge is to preserve the high degree of flexibility of the labour market, which is now only possible by breaching existing rigid rules, by reforming regulations. Without new and more flexible labour market rules, it will be difficult to create jobs on a competitive and sustainable basis in modern, law abiding, financially transparent and more productive enterprises.

Growth is projected to remain strong

GDP is projected to grow by 6.8% in 2010 and 4.5% in 2011. If competitiveness and export strength are preserved, investment and growth may turn out stronger. However, if pre-electoral or macroeconomic uncertainties undermine confidence or if the competitiveness of the business sector falters, the recovery may be weaker.

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Chapter 3

DEVELOPMENTS IN SELECTED NON-MEMBER ECONOMIES

BRAZIL

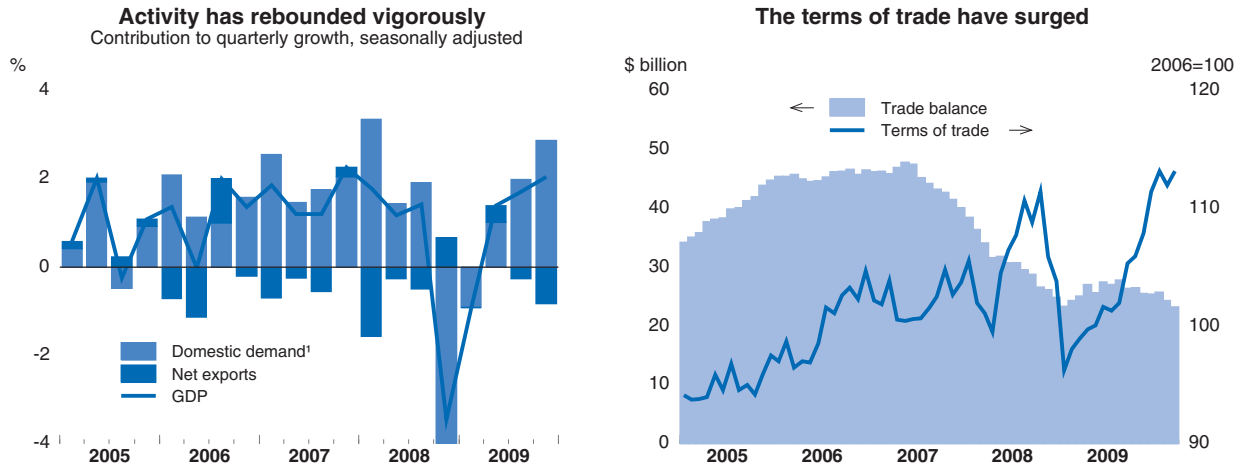
The Brazilian economy has been expanding at a brisk pace since mid-2009 on the back of booming domestic demand boosted by massive policy stimulus. As a result imports have surged. Domestic demand could slow somewhat in coming quarters given a tighter monetary stance. Subsequently, infrastructure investment will help lift growth anew. Inflation is projected to exceed the mid-point of the inflation target range this year and next.

Reserve requirements have been increased, and official interest rates have already been lifted. The remaining monetary stimulus injected during the global crisis should now be rapidly withdrawn. Temporary tax cuts for durable goods consumption have ended, but spending is likely to remain firm ahead of the October election. Withdrawal of fiscal stimulus as soon as possible would be advisable; the recent announcement of spending cuts to the 2010 Budget is a welcome move in this direction.

Activity has recovered briskly owing to solid domestic demand

Brazil has experienced a V-shaped rebound since the middle of 2009, and real GDP was already above its pre-crisis level by the end of the year. Expansionary monetary policy and fiscal stimulus have underpinned rising investment and private consumption, part of which has been manifest in surging imports. The economy has also benefited from the turnaround in the inventory cycle and from income gains resulting from high commodity export prices. Short-term indicators continue to point to strong domestic demand growth in the first half of 2010. Business confidence has kept on improving, and employment, retail sales and, more recently, industrial production have been growing at a fast pace. However, the significant currency appreciation during 2009 damped exports and offset somewhat the effect of higher external demand from Asia. Despite substantial terms-of-trade gains, the current account deficit has been deteriorating but has been financed through sizeable capital inflows.

Brazil



1. Includes stockbuilding and statistical discrepancy.

Source: Central Bank of Brazil, IBGE and FUNCEX.

StatLink http://dx.doi.org/10.1787/888932304886

Brazil: **Macroeconomic indicators**

	2007	2008	2009	2010	2011
Real GDP growth	6.1	5.1	-0.2	6.5	5.0
Inflation (CPI)	4.5	5.9	4.3	6.2	5.0
Fiscal balance (per cent of GDP)[1]	-2.7	-1.9	-3.3	-0.8	-0.9
Primary fiscal balance (per cent of GDP)[1]	3.4	3.5	2.1	3.3	3.3
Current account balance (per cent of GDP)	0.1	-1.7	-1.5	-2.8	-2.6

Note: Real GDP growth and inflation are defined in percentage change from the previous period. Inflation refers to the end-year consumer price index (IPCA).
1. Takes into account a capital injection (0.5% of GDP) in the Brazilian Sovereign Wealth Fund in 2008, which was treated as expenditure, and excludes Petrobras from the government accounts.
Source: OECD Economic Outlook 87 database.

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Labour markets are tightening

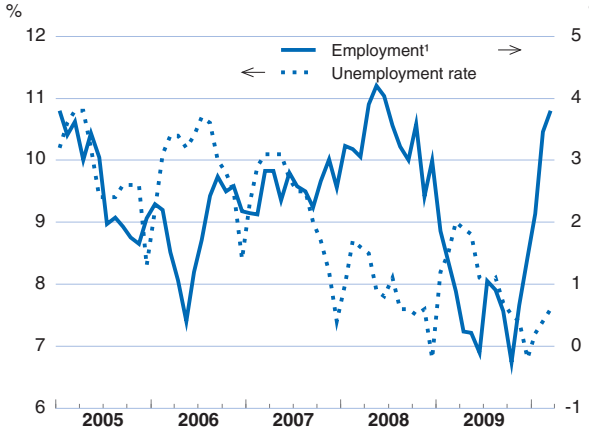
Labour markets have proven extremely resilient, including in the formal sector. The unemployment rate has fallen to levels not seen since 2002, as robust job creation in most sectors, especially construction and manufacturing, has more than offset the increase in the labour force. Productivity growth in the industrial sector has been picking up, and average earnings have accelerated markedly.

Financial conditions continue to improve

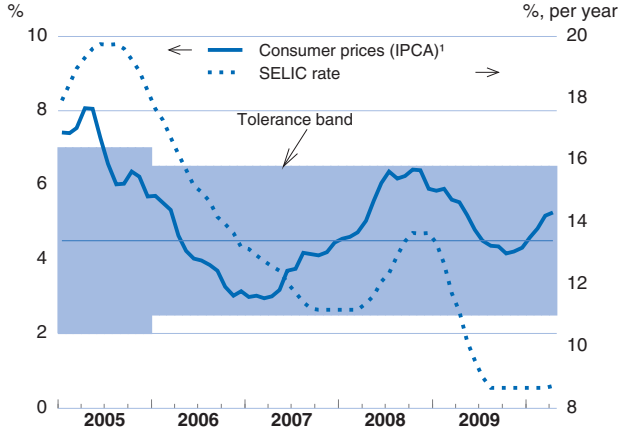
Financial markets have recovered well from the global crisis. The stock market has strengthened considerably. Bank credit has expanded in line with activity since the beginning of 2010, spurred by a strong acceleration in the number of new loans for both individuals and corporate borrowers. Default rates have come down for individuals but have barely moved for enterprises, and remain on average above their pre-crisis levels. Credit risks remain comfortably provisioned.

Brazil

Labour markets have tightened



Inflation is picking up



1. Year-on-year growth.
Source: Central Bank of Brazil and IBGE.

StatLink http://dx.doi.org/10.1787/888932304905

Brazil: **External indicators**

	2007	2008	2009	2010	2011
			$ billion		
Goods and services exports	183.1	227.4	178.1	185	201
Goods and services imports	162.7	224.3	180.0	210	231
Foreign balance	20.4	3.1	- 1.9	- 25	- 30
Invisibles, net	- 18.9	- 31.3	- 22.4	- 31	- 29
Current account balance	1.6	- 28.2	- 24.3	- 55	- 59
			Percentage changes		
Goods and services export volumes	6.3	- 0.8	- 10.3	3.8	7.7
Goods and services import volumes	19.8	18.0	- 11.5	18.7	9.0
Terms of trade	1.5	6.9	- 3.3	1.6	- 0.1

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307052

Inflationary pressures have mounted

The strong economic recovery has fuelled inflationary pressures. Statistical measures of the output gap suggest that economic slack had already vanished by the end of 2009, and surveys point to above-average utilisation rates in the manufacturing sector. Overall, most measures of inflation have been on the rise, influenced also by higher education fees and public transport fares. Headline measures of inflation have risen above the mid-point of the central bank inflation target range, though they remain within the tolerance band. Inflation expectations have edged up.

Monetary stimulus is gradually being removed

Monetary authorities are gradually tightening their stance using both conventional and non-conventional measures. The central bank has taken the first steps in normalising monetary conditions by raising reserve requirements back to pre-crisis levels. It also raised the policy rate by 75 basis points in April 2010 and is expected to increase it further in the coming months. This is needed to quell mounting inflationary pressures. However, steady increases in foreign-currency reserves, despite the 2009 re-imposition of a tax on capital inflows, indicates that the foreign trade channel for the transmission of the tightening process is not being allowed to function fully. This may generate higher domestic inflation if the real equilibrium exchange rate is rising, due, for example, to the oil discoveries.

Fiscal targets will be met, but stimulus should be entirely withdrawn

Fiscal outturns were stronger than expected in 2009, reflecting the cyclical upturn. The fiscal stimulus injected at end-2008 is being slowly withdrawn. Temporary tax rebates have been phased out, but in the run-up to the October election public spending is likely to remain firm. In particular, recurrent expenditure commitments, related public payrolls and social transfers are expected to ratchet up. Payments for the Growth Acceleration Programme (PAC) to finance infrastructure projects have picked up in the first quarter of 2010 and a new programme (PAC2) has been announced for 2011-14. The projections assume a somewhat slower

pace of investment spending than envisaged by the government. Thanks to hefty tax revenues, the consolidated primary surplus target of 3.3% of GDP is expected to be achieved both in 2010 and 2011. This will be enough to lead to a steady decline in public indebtedness. Nevertheless, recurrent spending will weigh on the budget over the longer term. The authorities should therefore withdraw discretionary stimulus introduced in response to the global downturn. The announcement of spending cuts amounting to a total of 1% of GDP in the 2010 Budget is a step in this direction. This will also avoid exacerbating inflationary pressures, which would otherwise need to be compensated by additional monetary policy hikes.

Activity is set to remain strong in the near term

Domestic demand is set to continue to grow vigorously in the first half of 2010. Improving labour and credit-market conditions should prop up private consumption. A recovery in investment is expected to be supported by a solid economic backdrop, sustained credit growth and increased capacity utilisation. Looking forward, the gradual withdrawal of the policy stimulus could lead to a temporary slowdown in private demand, but this effect should be more than offset by public infrastructure and energy development programmes in the course of 2011. Inflation is expected to remain above the mid-point of the inflation target range, but could diminish gradually. The current account deficit as a percentage of GDP is expected to remain broadly stable.

Risks are balanced

A stronger-than-expected recovery in global demand would give Brazilian exports an additional boost. On the other hand, lower-than-projected growth in domestic credit would reduce demand for investment and depress the short and longer-term growth outlook. Inflation could also remain persistently high, especially if the currency is prevented from appreciating and inflation expectations become unhinged, leading to second-round effects on wages and prices and, eventually, a need to engineer a more abrupt slowdown through tighter policies.

CHINA

China's vigorous expansion continued in early 2010. GDP growth is projected to exceed 11% this year before slowing to just under 10% in 2011, as the impact of the stimulus package diminishes. With the terms of trade deteriorating and domestic demand remaining strong, the current account surplus may continue to fall sharply in 2010, to around 2¾ per cent of GDP, and rebound only slightly in 2011. With food prices easing, inflationary pressures are likely to remain subdued.

Overheating has recently started to become more of a risk. Measures have been taken to cool the property market but it is important to continue to move towards a more neutral monetary policy stance. This would involve some increase in interest rates and, ideally, greater flexibility in the exchange rate regime in order to allow a gradual appreciation of the renminbi against a basket of currencies.

Government policy has rebalanced demand…

The impact of the fiscal stimulus and easing of monetary policy in late 2008 was felt strongly during 2009. From the second quarter, the pace of economic growth picked up markedly, averaging 11% through the end of the year. Investment soared and consumption was also buoyant, boosted by tax reductions and subsidies for consumer durables. As a result, demand for imports – especially those related to the construction boom – was strong. Thus, even though exports staged a rapid recovery, the economy underwent a marked rebalancing towards domestic demand.

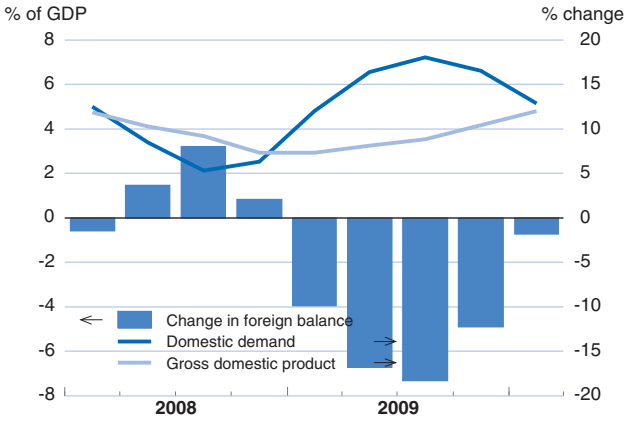
… boosting growth…

In the first quarter of 2010, the year-on-year growth of domestic demand appears to have fallen, reflecting a slacker pace of outlays on highways, mass-transit systems and high-speed trains. The fast pace of domestic activity in previous quarters has resulted, though, in other forms of investment, such as housing and outlays by foreign-owned companies, starting to rise again. Private consumption has also remained buoyant. Despite the slowdown, the growth of domestic demand remained rapid and exceeded that of GDP which rose 12%.

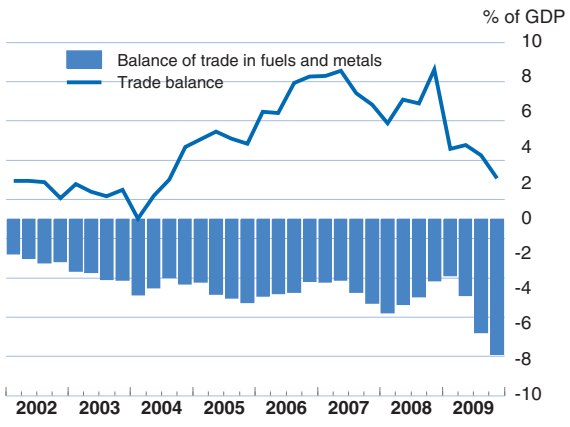
China

Domestic demand becomes the major source of growth

Four quarter change



The trade deficit in fuels and metals widens



Source: CEIC.

StatLink http://dx.doi.org/10.1787/888932304924

China: **Macroeconomic indicators**

	2007	2008	2009	2010	2011
Real GDP growth	14.2	9.6	8.7	11.1	9.7
GDP deflator (per cent change)	7.6	7.8	-1.8	2.4	2.4
Consumer price index (per cent change)	4.8	5.9	-0.7	2.5	2.5
Fiscal balance (per cent of GDP)[1]	1.9	1.0	-0.9	1.0	1.6
Current account balance (per cent of GDP)	10.6	9.4	6.1	2.8	3.4

Note: The figures given for GDP are percentage changes from the previous year.
1. Consolidated budget, social security and extra-budgetary accounts on a national accounts basis.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307071

... and reducing the current account surplus

In 2009, the current account surplus declined to just above 6% of GDP, a fall of over 3 percentage points, even though the rapid adjustment was partly muted by a recession-induced improvement in the terms of trade. The latter was reversed from mid-2009 onwards which, together with an increase in net import volumes of fuels, metals and ores, helped push the current account surplus down to 2% of GDP by the first quarter of 2010.

Inflation has risen but remains moderate

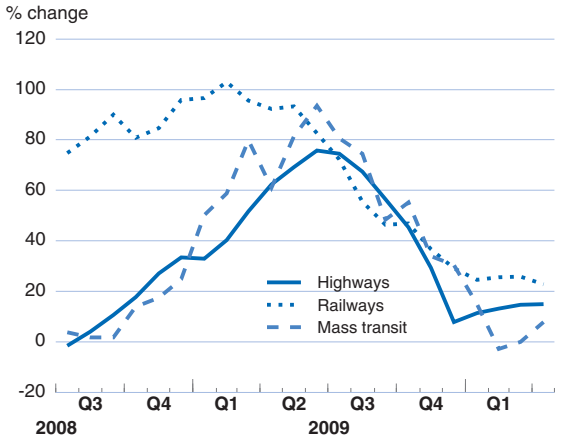
Rising import prices have fed through into non-food consumer prices, which rose by 1.3% in the year to April. Food prices also added to inflation during 2009, but by early 2010 were starting to fall. Overall headline inflation, as measured by the year-on-year increase in the consumer price index, reached 2.8% in April. Higher commodity prices also pushed up producer price inflation to nearly 7% in the year to April. However, so far, this has been largely absorbed by companies, so that the producer price of consumer goods was up by only 1.4%.

Fiscal policy is becoming more neutral...

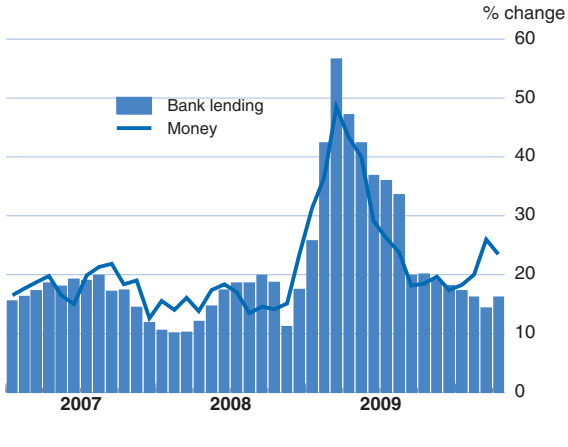
Following the introduction of the stimulus package in late 2008, the overall budget surplus declined markedly in 2009. Expenditure rose by

China

Growth of infrastructure investment eases
Six month change in a six month moving average, at an annual rate



Growth of bank lending normalises
Three month change at an annual rate



Source: CEIC.

StatLink http://dx.doi.org/10.1787/888932304943

China: **External indicators**

	2007	2008	2009	2010	2011
			$ billion		
Goods and services exports	1 342.2	1 581.7	1 333.3	1 625	1 844
Goods and services imports	1 034.7	1 232.8	1 113.2	1 555	1 724
Foreign balance	307.5	348.9	220.1	70	120
Net investment income and transfers	64.4	77.2	77.0	84	92
Current account balance	371.8	426.1	297.1	154	212
			Percentage changes		
Goods and services export volumes	19.8	8.5	- 10.1	22.7	13.5
Goods and services import volumes	13.8	3.9	4.7	28.4	9.9
Export performance[1]	12.7	4.8	2.8	9.2	3.8
Terms of trade	- 1.0	- 5.4	8.8	- 8.7	- 0.8

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307090

nearly 3% of GDP while tax revenue was weak. For 2010, the official presentation of the central and local government budget, which excludes the social security system, suggests a broadly unchanged budget deficit of 3% of GDP. Actual revenues are likely to substantially overshoot budget estimates. This will be partially offset by expenditure being above budgeted levels, due to the spending of cash balances that accumulated last year when not all authorised expenditure was made. Once the social security surplus is added to the national government deficit, government finances are projected to return to a small surplus in 2010.

... and restraints on credit have been introduced

Credit conditions broadly defined continued to be tightened during the first quarter of 2010. Bank reserve ratios for major banks were raised three times, by a total of one and a half percentage points to 17.0%, strict loan quotas were introduced and the sales of central bank bonds with a maturity of three years were resumed. As a result of these and earlier policy moves, since mid-2009, bank lending has slowed markedly, though it was still up 22% in the year to April 2010. Moreover, mortgage lending continued to rise rapidly despite increases in mortgage lending rates in early 2010. In April, the authorities raised the minimum down-payment ratio for the first property purchase by a household to 30%, increased interest rates for the second purchase and prohibited banks from financing the third purchase of a property by the same household in areas where prices have risen rapidly. The objective of this policy has been to restrain the growth of house prices, which rose 12.8% nationwide in the year to April, with faster increases in major metropolitan and holiday areas. In contrast, share prices have been trending downwards since November 2009, falling more than 20% from their peak values and price-earnings ratios are not high relative to historical averages.

The economy may be approaching a cyclical peak

The fiscal stimulus is set to diminish further during the second half of this year. As a result, the growth of capital formation is likely to ease substantially in the course of this year and next as projects are completed.

However, private sector investment outlays, both in the business and the residential sector, are likely to remain strong. In addition, there may be some pick-up in private consumption as nominal wages have accelerated and consumer confidence is high, stimulating purchases of major durable goods such as cars and furniture. Nonetheless, the growth of domestic demand is likely to ease during the second half of the year. Even so, it will still be sufficient for the rebalancing of the economy to continue, leading to a significant reduction in the current account surplus. Moreover, the very vigorous growth recorded in the past two quarters will push up year-average growth to just over 11% in 2010, thereby absorbing residual economic slack. Domestic demand is projected to decelerate further in 2011, resulting in GDP growth of just under 10% and a slight increase in the current account surplus. As a result of higher food prices, inflation may rise to 2.5% in 2010, before stabilising in 2011, as higher import prices feed through to the retail level.

Risks are tilted to the upside in the near term

There is a risk that the measures taken to cool the property market will not suffice, in which case residential investment might surge more than expected. Moreover, a failure to curb land prices could generate even more local authority investment. If so, the economy could overheat. In this case, if tightening measures were not taken rapidly, this would increase the risk that an overly marked policy-induced slowdown might be necessary in 2011.

INDIA

Following an uptick in growth in the first half of 2009, a sharp contraction in agricultural output caused by deficient monsoonal rainfall held back the momentum of the Indian economy. Nevertheless, the non-agricultural sector has continued to perform well and recent high-frequency indicators of activity and business sentiment suggest that this segment of the economy is growing robustly. With agricultural output expected to rebound sharply, economic growth should be strong in the near term before moderating to around trend rates.

The expected rebound in agricultural activity should help limit further increases in food prices, which have been a major contributor to recent high inflation. However, underlying inflationary pressures are likely to persist given the strong outlook for demand. Timely policy action to limit the scope for second-round price increases is therefore required. Monetary policy normalisation is also important in light of relatively modest fiscal consolidation.

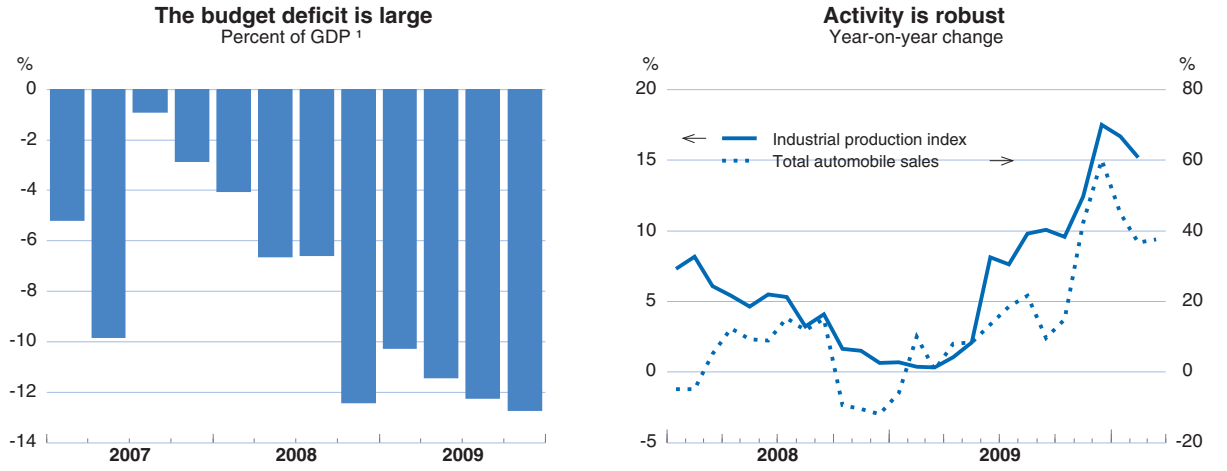
Growth slowed towards the end of 2009

Towards the end of 2009 growth slowed to a rate well below potential. This was primarily caused by a contraction in agricultural output, in the fourth quarter, reflecting delayed effects of deficient monsoonal rainfall. By contrast growth in the non-agricultural sector remained solid and became more broad-based. Exports also began to recover in the second half of 2009, in line with the recovery in world trade, and net exports contributed positively to growth in the fourth quarter.

Inflation pressures have mounted

Inflation surged in late 2009 and, despite moderating somewhat in recent months remains high, above the expectations of the Reserve Bank of India (RBI). Consumer prices rose 14.5% in the year to March, one of the highest increases recorded in recent years. Wholesale price inflation, which initially lagged the acceleration in consumer prices, has recently also been well above historical averages and was 9.6% in year-on-year

India



1. Gross fiscal balance for central and state governments.

Source: CEIC.

StatLink http://dx.doi.org/10.1787/888932304962

India: **Macroeconomic indicators**

	2007	2008	2009	2010	2011
Real GDP growth[1]	9.6	5.1	6.6	8.3	8.5
Inflation[2]	5.4	7.4	4.6	7.7	6.1
Consumer price index[3]	6.2	9.1	12.3	10.2	6.3
Wholesale price index (WPI)[4]	4.7	8.4	4.0	8.1	6.3
Short-term interest rate[5]	8.9	9.6	4.9	6.5	7.6
Long-term interest rate[6]	7.9	7.6	7.3	8.0	8.2
Fiscal balance (per cent of GDP)[7]	-4.2	-8.7	-11.8	-10.3	-9.5
Current account balance (per cent of GDP)	-1.3	-2.4	-3.0	-2.3	-2.8
Memorandum: calendar year basis					
Real GDP growth	9.9	6.2	5.6	8.2	8.5
Fiscal balance (per cent of GDP)[7]	-4.4	-7.3	-11.4	-10.8	-9.5

Note: Data refer to fiscal years starting in April.
1. GDP measured at market prices.
2. Percentage change in GDP deflator.
3. Percentage change in the industrial workers index.
4. Percentage change in the all commodities index.
5. Mumbai three-month offered rate.
6. 10-year government bond.
7. Gross fiscal balance for central and state governments.
Source: OECD Economic Outlook 87 database.

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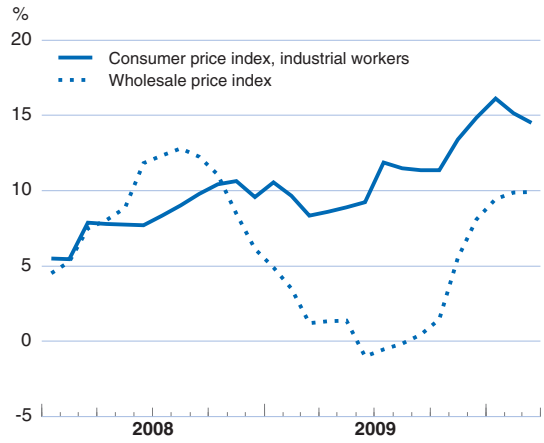
terms in April. Food price increases caused by the contraction in agricultural output explain much of the increase in inflation, particularly for consumer prices, where the weight of food is large. Nevertheless, inflation pressures appear to be broadening with prices for non-food items such as commodities and housing picking up.

Some fiscal consolidation is anticipated in 2010

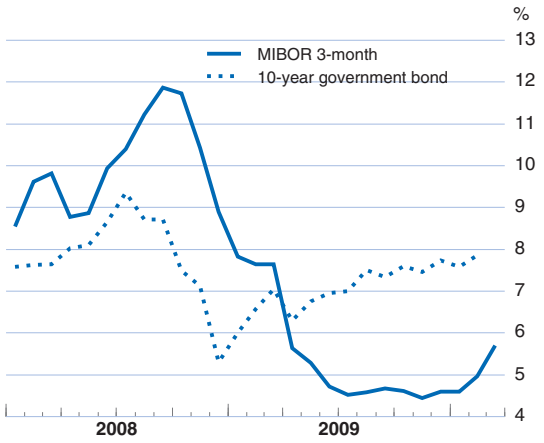
The recently presented central government budget for the 2010 fiscal year projects a relatively modest reduction in the large central government deficit to around 5.5% of GDP. The budget included some

India

Inflation remains high
Year-on-year change



Monetary policy tightening has begun



Source: CEIC.

StatLink http://dx.doi.org/10.1787/888932304981

India: **External indicators**

	2007	2008	2009	2010	2011
			$ billion		
Goods and services exports	253.3	287.3	266.4	325	377
Goods and services imports	303.4	353.6	338.9	405	478
Foreign balance	- 50.1	- 66.3	- 72.5	- 80	- 101
Net investment income and transfers	34.4	37.6	35.0	44	53
Current account balance	- 15.7	- 28.7	- 37.5	- 36	- 49
			Percentage changes		
Goods and services export volumes	5.2	19.3	- 9.7	13.1	11.2
Goods and services import volumes	10.0	23.0	- 6.4	10.4	13.1
Export performance[1]	- 2.2	23.2	- 6.9	0.1	1.5

Note: Data refer to fiscal years starting in April.
1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307128

timely, albeit partial, rollback of tax measures that had been introduced to support demand during the early stages of the slowdown, including the reversal of some excise duty cuts. However, the anticipated deficit reduction is largely underpinned by expected strong revenue growth, asset sales and some further modest tax measures, including a small increase in petrol and diesel excises. Modest fiscal consolidation is also anticipated at the sub-national level based on higher payments from the central government and revenue buoyancy. A welcome change in the latest central budget was a suspension of off-budget funding of oil and fertiliser subsidies. This move comes ahead of more significant reforms of the direct and indirect tax codes which have been pushed back to the start of the 2011 fiscal year.

Moves to normalise the monetary policy stance have begun

Since October 2009 the RBI has taken a number of small steps towards normalising monetary policy, beginning with increases in statutory liquidity ratios and the termination of special refinancing facilities introduced early in the downturn. In March 2010, the process of raising policy interest rates began with a 25 basis point increase, followed by a further 25 basis point hike and an increase in the reserve ratio requirement in April. However, policy rates are still very low by historical standards. With inflation remaining elevated and the recovery appearing to have taken root, there is a risk that price increases for inputs will flow through to second-round increases and that inflationary expectations will become destabilised. To mitigate this risk, sizeable further monetary tightening will be required through 2010 and into 2011.

Growth should bounce back in the near term

An expected bounce in agricultural output following the sharp contraction in the second half of 2009, combined with strength in the non-agricultural sector, are expected to underpin a sharp near-term pick-up in GDP growth. Available evidence suggests that the winter harvest will be good and an assumed return to normal monsoon rainfall will bolster the recovery. Activity in the non-agricultural sector should be strong,

supported by buoyant sentiment, ongoing improvements in the global economy and still accommodative monetary policy. With a strong outlook for domestic demand, imports are expected to grow vigorously in the near term before easing somewhat. Export growth is set to gather pace in line with a strengthening global economy and the current account deficit is expected to remain below 3% of GDP.

Inflation is likely to remain elevated

The expected rebound in agricultural production is likely to bring about a continued moderation of food inflation in the short run. However, given the relatively modest slowdown in the Indian economy during the global recession, excess capacity is limited and demand pressures are on the rise, providing opportunities for firms seeking higher profit margins to raise prices. Higher excise duties on petrol and diesel announced in the budget will also contribute to higher inflation at the margin. Taking these factors together, inflation is likely to remain stubbornly high.

Risks are mainly on the downside

With the domestic recovery appearing to be on course, the main downside risk concerns the outlook for inflation. If monsoonal rainfall is again deficient, food inflation would likely begin to rise anew. More generally, the strong state of domestic demand could lead to persistently higher inflation and an upward drift in inflationary expectations. This would necessitate a strong policy response from the RBI which would weigh heavily on sentiment and activity. With the budget deficit expected to remain large over the projection period, government borrowing requirements may also exert upward pressure on firms' borrowing costs. On the upside, a faster-than-anticipated recovery in the global economy would provide an additional boost to exports.

RUSSIAN FEDERATION

Aided by the large rise in oil prices since early 2009, the economic recovery is gaining momentum. Although some components of domestic demand have yet to rebound, they are projected to do so in the course of 2010 and into 2011. Inflation has declined strongly in the last year, but is likely to move back up slightly before stabilising. The current account surplus will widen in 2010 on account of strong export prices, but will narrow again in 2011 as the recovery in private domestic demand gathers strength and as the real appreciation of the rouble over the past year boosts import growth.

The unexpectedly strong recovery should be used to eliminate the fiscal deficit more quickly than previously planned. Windfall revenues should be saved and fiscal measures to support demand phased out more quickly. As the effects of the crisis fade, longer-term policy priorities should be brought to the fore.

Growth is accelerating

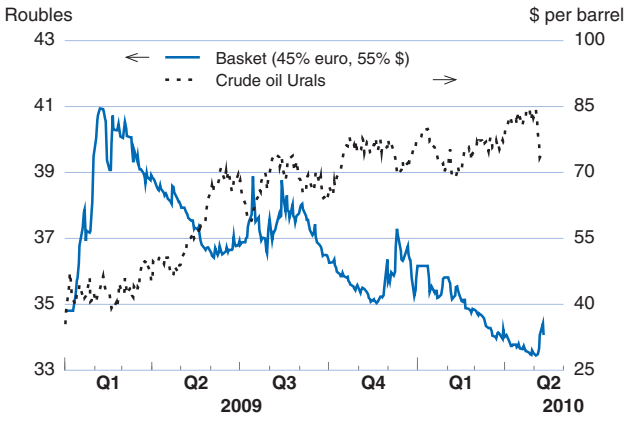
Most indicators point to growing strength through 2009, from a decline of about 6½ per cent in the first quarter to growth of about 2% in the fourth quarter. About a third of the 11% peak-to-trough decline in output was recovered in the second half of 2009, and most indicators point to continued robust growth in the first half of 2010. The initial impetus for the recovery was the rebound in global trade. Public consumption also made increasing contributions to output growth during 2009, and the fall in inventories slowed. The recovery has yet to spread to private consumption and gross fixed capital formation, however. Employment was surprisingly stable during the recession, but in February 2010 was still down slightly compared to a year earlier.

Inflation is bottoming out at near record lows

Inflation has moved down steadily on a year-on-year basis from early 2009, and at around 6% is near its lowest level of the 19-year transition period. One factor aiding disinflation has been the exchange rate; the rouble has appreciated in nominal terms by about 16% against

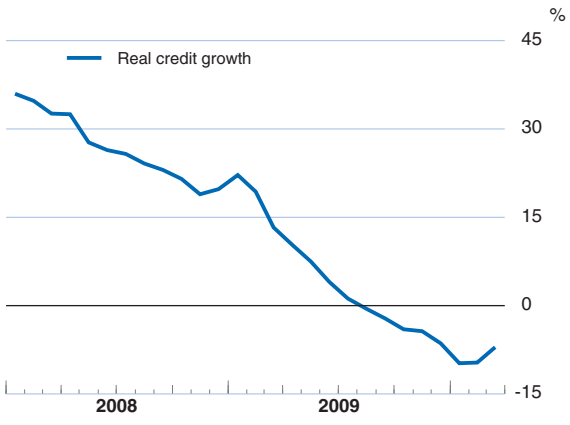
Russian Federation

Oil prices have underpinned rouble strength



Credit to the private sector has yet to rebound

Year-on-year percentage change



Source: Central Bank of Russia, Russian Federal Service for State Statistics and Datastream.

StatLink http://dx.doi.org/10.1787/888932305000

Russian Federation: **Macroeconomic indicators**

	2007	2008	2009	2010	2011
Real GDP growth	8.1	5.6	-7.9	5.5	5.1
Inflation (CPI), period average	9.0	14.1	11.7	6.5	7.1
Fiscal balance (per cent of GDP)[1]	6.0	4.8	-6.2	-5.1	-2.2
Current account balance (per cent of GDP)	5.9	6.0	3.8	7.0	5.3

1. Consolidated budget.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307147

the US dollar/euro basket since February 2009, with the rise in commodity prices underpinning sentiment. This appreciation has also largely offset the direct inflationary effect of rising oil prices. Interest rates have come down broadly in line with the moderation of inflation, with bank lending rates tracking changes in the central bank's repo rate since April 2009.

Several factors point to further strengthening of domestic demand

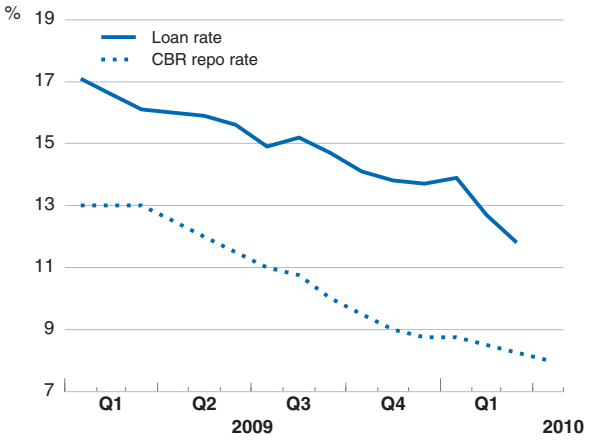
Growth momentum is building up, especially via the domestic demand effects of higher oil prices and rising private capital inflows. Real wages are also now increasing, and restocking is likely. Output growth in the first half of 2010 should therefore be strong. Year-on-year credit growth has continued to slow from the very high rates seen before the crisis, becoming sharply negative. However, interest rates have been falling for a year, confidence is returning and banks have been strengthening their balance sheets, setting the stage for a recovery in lending in the near term.

Policies should be geared to the cyclical upswing and the longer term

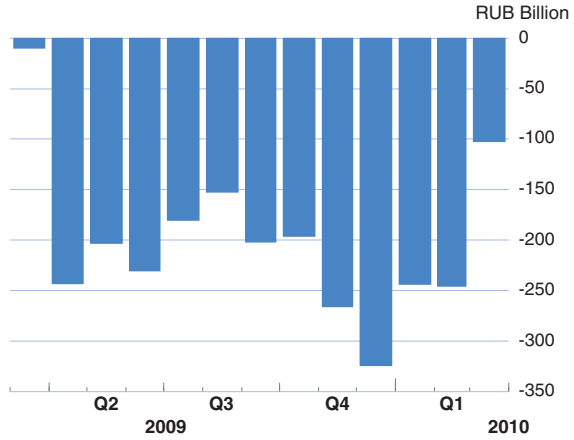
The fiscal deficit is shrinking sharply on account of stronger commodity prices and corporate profits, and some structural consolidation is budgeted in 2010 and 2011. This withdrawal of stimulus

Russian Federation

Loan rates have declined with the CBR's policy rates



The budget balance has begun to improve
Federal budget, 3-month moving average



Source: Central Bank of Russia, Federal Service for State Statistics and Economic Expert Group.

StatLink http://dx.doi.org/10.1787/888932305019

Russian Federation: **External indicators**

	2007	2008	2009	2010	2011
			$ billion		
Goods and services exports	393.4	523.0	344.1	464	488
Goods and services imports	281.5	368.6	251.9	315	360
Foreign balance	111.8	154.3	92.1	149	129
Invisibles, net	- 34.8	- 51.9	- 43.2	- 43	- 37
Current account balance	77.0	102.4	49.0	106	92
			Percentage changes		
Goods and services export volumes	6.3	0.5	- 4.7	13.2	4.3
Goods and services import volumes	26.5	15.0	- 30.4	25.3	13.8
Terms of trade	3.5	16.0	- 29.8	19.7	0.7

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307166

looks well-timed given that private demand seems likely to recover more strongly than previously expected. If oil prices and/or private capital inflows continue to strengthen, windfall revenues should be saved and extra consolidation efforts may be warranted to mitigate the risks of a new boom-and-bust cycle. In particular, demand-boosting measures designed in the context of the crisis, such as the incentives for new car purchases, could be withdrawn sooner than otherwise. Strong fiscal consolidation in the upswing would also help take the pressure off monetary policy, which is likely to be faced with a sharper tradeoff between managing capital inflows and bringing down inflation as a number of favourable factors for inflation fade. The government should also take advantage of strong sentiment to reinvigorate privatisation, including some divestment of public stakes in the largest banks, which have seen their dominance enhanced during the crisis. With the effects of the crisis fading, increasing attention should be paid to long-term policy challenges, such as strengthening competition and innovation.

Inflation will stabilise as the output gap narrows

Growth in the first half of 2010 is expected to have continued to benefit from rebound effects, but growth is thereafter projected to slow gradually as output converges on potential. The output gap should close towards the end of 2011. Annual average inflation will be lower in 2010 than 2009, although the year-on-year rate is projected to rise through the year to exceed 7% by December. Inflation is expected to be little changed in 2011. The pick-up in domestic demand, coming at the same time as the recovery in global trade volumes and combined with the strong real appreciation of the rouble over the past year, will push import volumes up strongly. Export volume growth will be more restrained, in part because oil exports, which account for about half of the total, cannot be greatly increased in the short run. The current account surplus will increase in 2010, boosted by the stronger terms of trade, and then fall back in 2011.

The emergence of a new boom-and-bust cycle is a risk

The main risk has shifted from a relapse into recession to a renewed boom driven by improving terms of trade and strong private capital inflows, along the lines of the immediate pre-crisis years. If oil prices and capital inflows continue to increase, avoiding excesses will be the main policy challenge. On the downside, a sharp fall of oil prices, such as might arise from renewed weakness among OECD economics, would, as ever, have large negative effects on growth and fiscal outcomes. Also, some risks remain in the banking sector, which is still absorbing the surge of non-performing loans engendered by the crisis. The likelihood is, however, that any emerging problems will be relatively isolated and will not hold back the recovery significantly.

ESTONIA

The economy left a long and deep recession at the end of 2009 on the back of the recovery of external demand. After shrinking 14% in 2009, GDP will accelerate throughout 2010 and 2011, with growth rates picking up to more than 4% in 2011. Although unemployment will remain high at least until 2011, inflation has come back much earlier than expected.

The general government deficit in 2009 came in safely below the 3% threshold and the government wants to achieve a balanced budget by 2013. Now that the country fulfils the economic criteria for membership of the euro area, the top policy priority should be to support the re-employment of job seekers in the export sector through structural reforms. Cyclical revenue increases should be saved. If euro adoption will take place in 2011 measures to keep changeover price increases to a minimum should be prepared soon.

The long-awaited turnaround was brought about by a recovery of exports

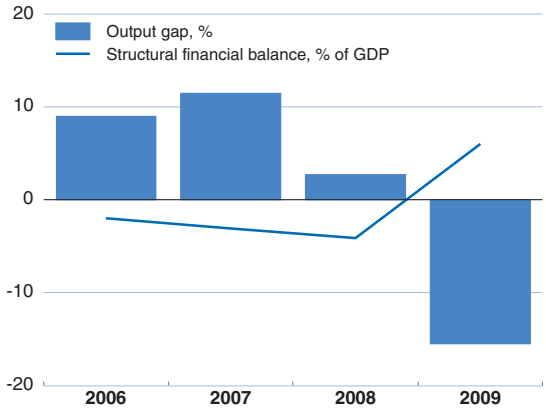
2009 ended with strong growth, partly because of advance purchases ahead of excise and VAT tax increases, but more importantly because of a recovery of Estonian export markets. Industrial production also recovered, while retail trade slumped at the beginning of 2010 as a reaction to tax increases. Labour market adjustment continues and unemployment is still rising. A negative surprise was the unexpectedly strong increase of inflation in March 2010, which threatens to undermine the purchasing power of consumers. Confidence improved dramatically for industrial producers, while construction companies still face difficult times after the bursting of a loan financed real estate boom.

The deficit was held in check in 2009, and public debt remains low

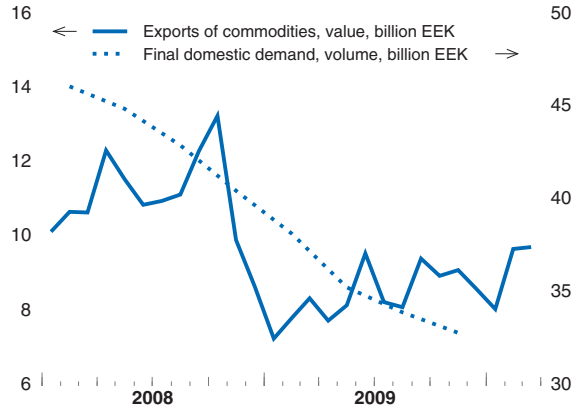
The 2009 budget came in much better than expected, boosted by VAT and excise tax on advance purchases ahead of rate increases at the beginning of 2010. All in all, fiscal measures of 9% of GDP were implemented to make sure that the 2009 general government deficit met

Estonia

A sharp fiscal contraction in the crisis



Exports are pulling the economy out of recession



Note: The output gap is estimated as actual minus trend (linear) real GDP as a percentage of trend real GDP. The structural balance is approximated as the general government total balance (as a per cent of GDP) minus the cyclical component, which is estimated to be related to the output gap with an elasticity of 0.5.

Source: OECD Economic Outlook 87 database; OECD, National Accounts database; Statistics Estonia.

StatLink http://dx.doi.org/10.1787/888932305038

Estonia: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices EEK billion	Percentage changes, volume (2000 prices)				
Private consumption	115.4	9.0	-4.7	-18.5	-7.0	2.5
Government consumption	33.9	3.7	4.1	-0.5	-1.5	1.0
Gross fixed capital formation	72.3	9.0	-12.1	-34.4	-5.9	9.8
Final domestic demand	221.6	8.2	-5.7	-19.6	-5.5	3.8
Stockbuilding[1]	9.8	2.3	-5.4	-4.2	0.6	0.0
Total domestic demand	231.4	9.9	-10.3	-23.7	-5.0	3.7
Exports of goods and services	165.9	0.0	-0.7	-11.2	3.9	9.6
Imports of goods and services	190.3	4.7	-8.7	-26.8	-1.2	8.6
Net exports[1]	- 24.4	-4.4	6.8	12.9	3.5	1.3
GDP at market prices	207.0	7.2	-3.6	-14.1	0.1	4.7
GDP deflator	_	10.2	6.7	-0.6	-0.5	1.2
Memorandum items						
Index of consumer prices	_	6.6	10.4	-0.1	1.5	1.9
Private consumption deflator	_	7.4	9.2	-0.8	1.2	1.9
General government financial balance[2]	_	2.6	-2.8	-1.7	-2.6	-2.5

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).*

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307185

euro entry criteria. This package had significant one-off elements, such as postponing contributions to the funded pension pillar and extra dividends from state-owned enterprises. Otherwise it was equally shared between raising revenues and reducing expenditure, in particular government wages. Structural EU funds are playing an increasing role in expanding active labour market policies and replacing government financing of infrastructure investments. The government debt-to-GDP ratio will increase, but remain near to one digit levels.

Growth is set to pick up rapidly

The recovery will gain strength with the better outlook for exports. Non-residential investment is set for strong growth, not the least because the ability to keep the budget deficit under control has strengthened confidence. For 2011, growth will be driven by higher exports and investment. Some recovery of private consumer spending is also expected, although high unemployment and high indebtedness will weigh on the Estonian consumer for some time. 2011 will therefore mainly see high growth of exports as well as investment and result in GDP growth of slightly below 5%.

The outlook for inflation is a concern in the run-up to euro adoption

The recent jump in inflation is mainly related to increases in energy prices, but is also a reminder for the government to be vigilant in what may be the run-up to euro adoption. Experiences from other small euro adopters provide evidence that there is a small, but significant price

increase of selected services prices associated with rounding effects from euro adoption.

Re-employment of job-seekers will be important for embarking a path with high trend growth

The high level of unemployment – around 15% – is a serious threat to sustainable growth. It is therefore welcome that EU funds have become available to finance active labour market programmes, which make it easier for job seekers to be re-employed. Further emphasis is necessary on improving the capacity of labour offices to provide the necessary placement services.

Risks are on the upside

Estonia was a very rapidly growing economy up to the point when it was hit by the international financial crisis. Now the recovery is in train, risks are predominantly on the upside: the labour force is well educated, entrepreneurial spirits are again awakening and the tax framework is favourable for economic activity. Given the large output gap, the ongoing international recovery and confidence effects from the increasing likelihood of euro entry, actual growth could exceed the projections by a large margin.

INDONESIA

Resilient domestic consumption continues to underpin GDP growth. Investment is picking up but is still hindered by high lending rates. With robust demand for its natural resources, the resulting significant currency appreciation has not prevented exports from recovering more rapidly than imports, supporting the trade and current account surpluses. Inflationary pressures remain tame. Activity is projected to accelerate further on the back of rising investment and improving credit conditions.

Interest rate cuts and the other measures enacted in response to the global crisis have restored ample liquidity to the interbank market. Low inflationary pressures may allow the central bank to delay hiking interest rates so as to support credit growth. The state budget is being revised to reflect higher oil prices and inappropriate increases in energy subsidies. Lacking a formal mechanism to adjust fuel and electricity prices, the budget will continue to be vulnerable to the vagaries of global energy prices.

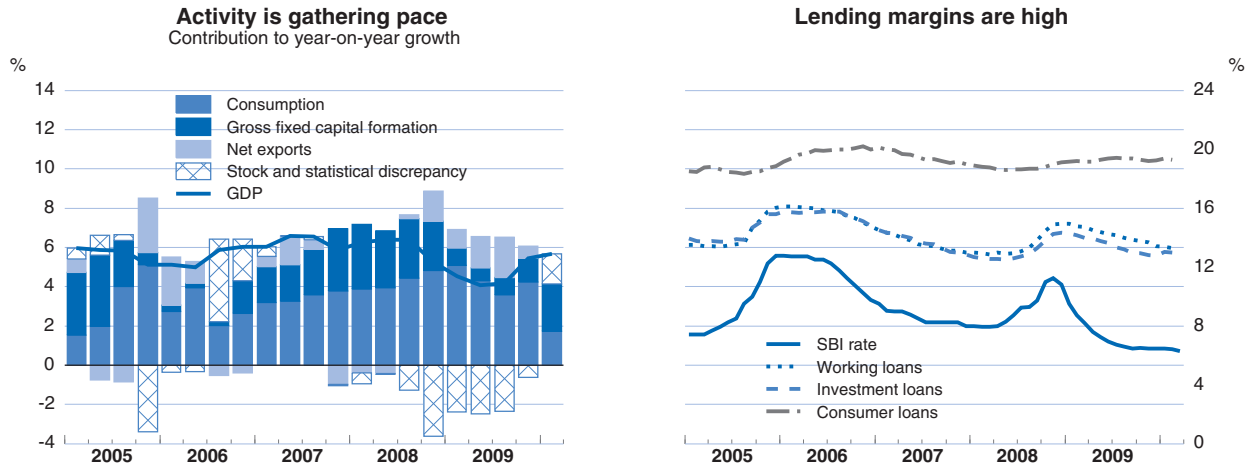
Activity is gaining momentum

GDP rose by 5.7% (year-on-year) in the first quarter of 2010 following 5.5% in the previous quarter. Domestic demand continues to be the main driver of growth, although investment growth, which is recovering, remains well below its pre-crisis rates. Foreign demand for resource-based commodities is underpinning robust export growth, offsetting the effect of currency appreciation. Foreign exchange reserves have risen by about $15 billion to $79 billion (around six months of imports and servicing of official external debt) since October 2009. Indonesia's government bond spreads continue to decline towards their mid-2007 record lows, consistent with improving risk perceptions, and two international credit rating agencies have upgraded their sovereign credit rating. Unemployment keeps declining. Business confidence indicators and retail sales expectations point to further improvements in activity in the coming months.

Lending rates remain high notwithstanding ample liquidity

The measures undertaken by Bank Indonesia (BI) in response to the global financial crisis have restored ample liquidity in the interbank market. The average interbank rate fell by 0.4 percentage point from

Indonesia



Source: OECD, *Main Economic Indicators*, Statistics Indonesia (BPS), Bank Indonesia.

StatLink http://dx.doi.org/10.1787/888932305057

Indonesia: **Macroeconomic indicators**

	2007	2008	2009	2010	2011
Real GDP growth	6.3	6.1	4.6	6.0	6.2
Inflation	6.5	10.4	4.0	4.4	5.7
Fiscal balance (per cent of GDP)	-1.2	-0.1	-1.6	-1.7	-1.3
Current account balance ($ billion)	10.5	0.1	10.6	1.6	-0.5
Current account balance (per cent of GDP)	2.4	0.0	1.9	0.2	-0.1

Note: Real GDP growth and inflation are defined in percentage change from the previous period.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307204

July 2009 to 6.2% in April 2010, within the lower part of the BI rate corridor. The decline in lending rates has not been commensurate with the policy rate cuts, however, curbing credit demand.

Subdued inflationary pressures have allowed BI to keep rates on hold

Headline and core inflation rates have fallen below the year-end target range of 4-6%. Low inflationary pressures are attributable to stable administered prices and marked currency appreciation. Survey-based expectations show only a moderate increment in expected inflation in the three to six months ahead. Consistent with this benign outlook, in May the central bank held its policy rate at 6.5%, after a cumulative 300 basis-point cut from December 2008 to August 2009. Strong activity and a waning effect of currency appreciation are likely to put upward pressure on inflation in the second half of the year, and monetary tightening will therefore be necessary to achieve the 2011 year-end inflation target.

The budget balance will be moderately negative

The government has revised the budget deficit up by around IDR32 trillion to 2.1% of GDP. The biggest change concerns energy subsidies, which will be hiked from 10% to around 13% of total expenditure (or 2.3% of GDP). The additional budget deficit is to be funded through the drawdown of the 2009 financing surplus. Because of implementation bottlenecks, especially concerning capital outlays, the fiscal balance is likely to be better than projected by the authorities.

Growth is likely to accelerate in the second half of the year

Activity is likely to gather additional momentum in the second half of 2010. Domestic demand should remain the main driver, supported by a recovery in credit extension and rising purchasing power. Investment is expected to pick up gradually as lending rates trend down in the short-to-medium term and risk aversion recedes. Import demand is poised to recover as economic activity accelerates, shrinking the current account surplus.

The main risks to the outlook come from internal sources

The return to pre-crisis growth rates will depend on the recovery in investment, which may be hindered by implementation bottlenecks in the public sector and a slower-than-expected improvement in credit conditions. A stronger pick-up in global demand would strengthen Indonesian exports.

*ISRAEL**

Recovery from Israel's relatively mild downturn is underway, and growth should be close to potential by the end of 2011. Annual inflation is set to fall in the near term, but market expectations point to a subsequent rise to within the upper half of the Bank of Israel (BoI)'s 1-3% target band.

With several rate increases already in hand, the case for currency purchases is weakening, and the BoI should look towards officially ending them. The achievement of fiscal targets for 2010 looks reasonably assured. The government should focus on achieving its deficit target for 2011, if necessary through smaller expenditure increases than those implied by its spending rule, or through delaying tax cuts.

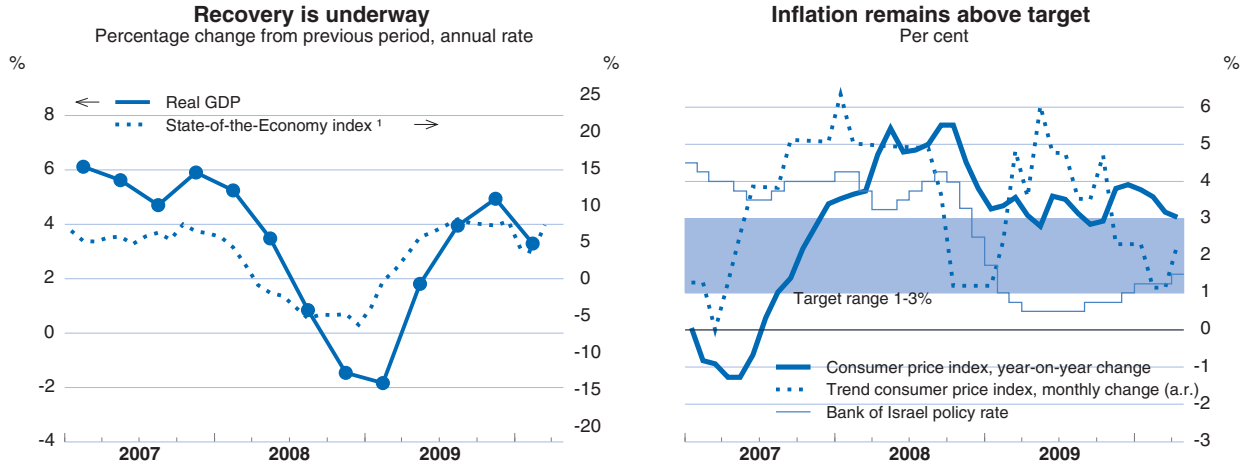
Economic growth has picked up considerably

Real GDP growth picked up significantly in the second half of 2009, notably with growth of around 5% in the fourth quarter (seasonally adjusted annualised rate). Labour market conditions also improved; the unemployment rate fell to 7.3% in the fourth quarter from its spring peak of 7.9%. However, GDP growth for the first quarter of 2010 has just been initially estimated at 3.3%, suggesting a dip in the pace of recovery.

Inflation is slowing, but market expectations point to an increase

Annual inflation remains above the BoI's target range of 1 to 3%. However, recent month-on-month outcomes have been low, influenced by slowing housing rental increases and a partial unwinding of a temporary VAT hike in January. Comparisons between indexed and non-indexed bond yields suggest expected annual inflation one year ahead of 2.7% with an average among private-sector forecasters of 2.2%. House prices have been increasing rapidly since the final quarter of 2008.

Israel



1. The State-of-the-Economy index is calculated by the Bank of Israel each month and comprises six indicators covering: industrial production, employment, revenues in service sectors, goods imports and exports, and services exports.

Source: Bank of Israel; CBS; OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932305076

* The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Israel: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices NIS billion	Percentage changes, volume (2005 prices)				
Private consumption	359.8	6.4	3.6	1.5	4.7	4.0
Government consumption	165.0	3.4	1.9	1.6	1.4	2.1
Gross fixed capital formation	111.7	15.0	4.5	-6.7	6.1	7.8
Final domestic demand	636.6	7.0	3.2	0.1	4.1	4.2
Stockbuilding[1]	10.7	-0.8	-0.6	-0.6	-0.9	0.1
Total domestic demand	647.3	6.2	2.8	-0.5	3.2	4.3
Exports of goods and services	276.6	9.3	5.2	-11.4	12.0	8.1
Imports of goods and services	273.8	11.8	2.3	-14.0	10.3	8.6
Net exports[1]	2.8	-1.0	1.2	1.2	0.8	0.0
GDP at market prices	650.1	5.2	4.0	0.7	3.8	4.2
GDP deflator	_	0.4	1.8	4.4	-0.1	2.6
Memorandum items						
Inflation (CPI), Average increase		0.5	4.6	3.3	1.7	2.6
Private consumption deflator		1.6	4.7	2.5	1.7	2.6
Unemployment rate		7.3	6.2	7.6	7.2	6.5
General government financial balance[2,3]		-1.5	-3.1	-5.8	-5.0	-4.7
Current account balance[2]		2.4	0.8	3.8	2.5	2.3

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.
3. Excluding Bank of Israel profits and the implicit costs of CPI-indexed government bonds.

Source: OECD Economic Outlook 87 database and Israel's Central Bureau of Statistics.

StatLink http://dx.doi.org/10.1787/888932307223

Normalisation of monetary policy continues

The BoI has terminated extraordinary measures taken in response to the global financial crisis and has also taken steps towards normalising its policy rate. In April 2010, it raised its official rate by 1 percentage point to 1.5%. The Bank has not rescinded its policy of discretionary exchange-market intervention, and foreign currency reserves, continue to increase. In light of the size of the accumulated foreign currency reserves, continuing normalisation of the policy rate and the prospect of intensified inflation concerns, the Bank should end its frequent exchange-market interventions.

The budget deficit rose only modestly on account of the crisis

The increase in the general government deficit during the crisis has been relatively small (from 3.1% of GDP in 2008 to 5.8% in 2009, according to a standardised OECD definition), reflecting the mild downturn and prudent fiscal policy. Indeed, the central government deficit outturn for 2009 was well below government expectations. This, and a more positive economic outlook, have prompted cancellation or early termination of some temporary measures meant to contain the deficit. For instance, it was originally intended not to reverse the VAT increase until January 2011. Changes to fiscal policy are also intended, including submission of a two-year budget and a revision to the spending-ceiling formula (such that the central government's real spending increase varies according to past debt outcomes). According to the Ministry of Finance the

latter change implies a ceiling of 2.6% annual real expenditure growth for the 2011-12 budget, rather than 1.7% according to the current formula.

A further pick-up in annual growth is expected

Real GDP is expected to grow by 3.8% in 2010 and by 4.2% in 2011, which is only modestly in excess of estimated potential rates. Year-on-year CPI inflation will be strongly influenced by base effects in 2010, with falls until the final quarter. However, by the final quarter of 2011, annual inflation is expected to be 2.7%, broadly in line with market expectations and well within the upper half of the BoI's target range. Taking these and other developments into account, the BoI is projected to raise its policy rate substantially by the end of 2011. Assuming expenditure increases according to the revised fiscal rule, the standardised general government deficit is projected to decline by 1.1 percentage points by 2011, reaching 4.7% of GDP. The government ought to focus on reaching its central government deficit target of 3% in 2011. To do so it is likely that spending increases, particularly for 2011, will have to be smaller than those implied by the proposed new spending ceiling and/or that the scheduled cuts in corporate and personal income tax will have to be delayed.

Risks are mainly from external demand and house prices

External risks to real GDP growth, largely via the demand for exports, have diminished and have become more balanced but nevertheless remain important. Although the recent surge in house prices can be partially explained by low interest rates, there is a possibility that a speculative bubble is being created whose momentum may outweigh the damping effect of further monetary tightening.

SLOVENIA

Recovery began in the second half of 2009, underpinned by a rebound in exports. The pace of growth should pick up gradually through 2010 and 2011 as the forces constraining domestic demand recede. Although the unemployment rate has stabilised in recent months, further increases are likely later in 2010 as government short-time work measures are phased out. Inflation is likely to remain moderate owing to the large slack in the economy.

The budget deficit was 5.5% of GDP in 2009 and is expected to reach 6% in 2010. From 2011, with the recovery firming, more effort will be necessary to restrain government expenditure growth and implement structural reforms to the pension and healthcare systems. The government agreed to a substantial increase in the minimum wage in 2010, which is likely to weaken competiveness and the economic recovery.

Export growth is leading a weak recovery

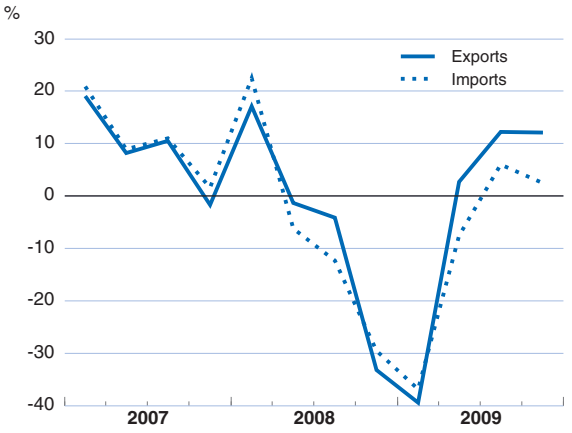
Exports rebounded strongly in the second half of 2009 and private investment also rose. But private consumption has remained weak and government consumption fell substantially in the last quarter of the year. Short-term indicators suggest that activity has grown only moderately in the first half of 2010, with both business sector confidence and retail trade only slightly above their late-2009 levels.

Domestic demand will recover, but the labour market may lag

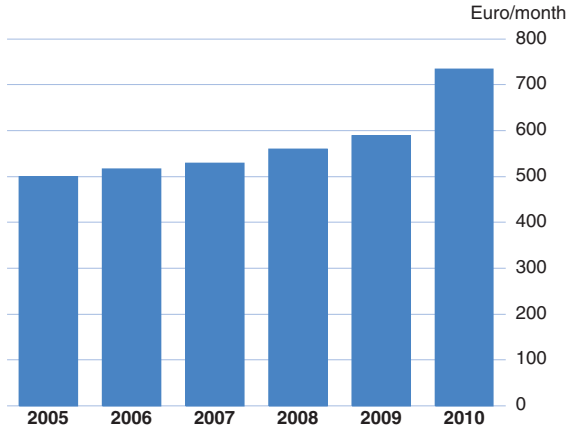
Growth in exports is likely to continue to outpace the rest of the economy in 2010 and will eventually trigger a sustained improvement in business investment and private consumption. The government raised the already high level of the minimum wage (around 50% of the median wage in 2008) by 23% in January 2010, which will push back the recovery in the labour market and undermine competiveness. Given the substantial slack in the labour market and the economy in general, inflation is likely to remain moderate over the next two years, though the recent minimum

Slovenia

Exports and imports are rebounding[1]



The recent minimum wage hike was steep[2]



1. Growth over previous quarter, seasonally adjusted annual rate.
2. Gross monthly wage.

Source: OECD Economic Outlook 87 database, Eurostat and Government of the Republic of Slovenia.

StatLink http://dx.doi.org/10.1787/888932305095

Slovenia: **Demand, output and prices**

	2006	2007	2008	2009	2010	2011
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption	16.4	6.7	1.7	-1.5	-0.3	1.9
Government consumption	5.8	0.6	6.1	3.1	0.5	0.3
Gross fixed capital formation	8.2	12.5	7.0	-21.6	2.7	5.2
Final domestic demand	30.5	7.1	4.0	-6.5	0.6	2.4
Stockbuilding[1]	0.7	1.8	-0.5	-3.5	0.7	0.2
Total domestic demand	31.2	8.5	3.5	-9.5	-1.1	2.6
Exports of goods and services	20.8	14.0	2.2	-16.6	7.7	6.4
Imports of goods and services	20.8	16.5	2.3	-18.8	5.2	6.8
Net exports[1]	0.0	-1.7	-0.1	2.1	1.5	-0.2
GDP at market prices	31.1	6.9	3.3	-8.1	1.4	2.4
GDP deflator	_	4.3	3.5	1.7	-1.0	1.5
Memorandum items						
Harmonised index of consumer prices	_	3.8	5.5	0.9	1.9	1.3
Private consumption deflator	_	4.0	5.7	-0.7	1.2	1.3
General government financial balance[2]	_	0.0	-1.7	-5.5	-6.0	-5.3

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).*

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

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307242

wage hike represents a threat to this outlook should it spill over into general wages.

Fiscal consolidation is needed in 2011

Slovenia entered the recession with its public finances in fairly good shape, allowing the government to support activity by substantially loosening fiscal policy. However, now that a recovery is underway, substantial fiscal consolidation will be necessary in 2011 and beyond. The government plans to restrain expenditure growth, though currently announced measures are unlikely to be adequate as significant reforms to the pension and health care systems will be necessary to put public finances on a sustainable footing, both in the short and longer term.

The pace of the recovery depends on the euro area

Uncertainty over the pace and sustainability of the recovery in the euro area is the key risk to the outlook given the openness of the Slovenian economy. In addition, if the recent minimum wage hike spills over to average wages, Slovenia could lose export market share, thereby jeopardising the recovery.

SOUTH AFRICA

Growth has resumed, and will receive a temporary boost from the World Cup in mid-2010. The projected growth rate of 5% in 2011 will be above potential, but a negative output gap will remain. The current account deficit is likely to widen, as imports will grow faster than exports, but not to pre-crisis levels.

The slowdown in inflation, the strength of the currency and the significant slack in the economy suggest that there may be room for an additional policy rate cut from the current level of 6.5%. Such a move should be weighed against still elevated inflation expectations, reflected in surprisingly high wage settlements in 2009. As the recovery gains strength, fiscal consolidation should advance at least in line with the plans outlined in the 2010/11 budget.

Activity has rebounded, but recovery is not yet well established

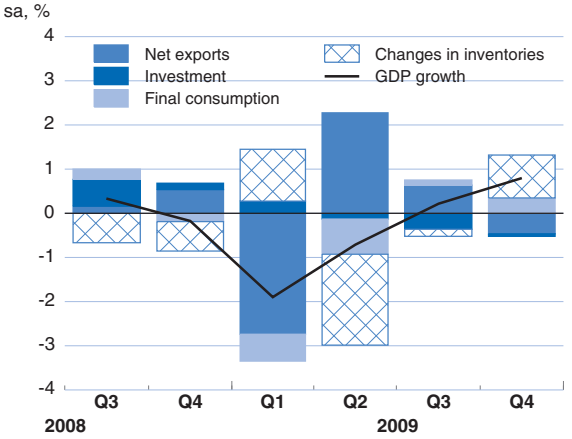
After three consecutive quarters of output decline, real GDP growth turned positive in the third quarter of 2009, and strengthened in the fourth quarter. Private consumption edged up after shrinking for five quarters in a row, and the pace of decline of inventories slowed. Gross fixed capital formation continued to fall in the fourth quarter, albeit less quickly, as public capital spending did not fully offset a continuing slump in private investment. Exports and imports rebounded strongly in the second half of the year from their depressed levels. Employment levels, which fell sharply during the recession, have not yet shown any clear sign of recovery, and credit to the private sector has continued to decline, even in nominal terms.

Inflation has fallen within the target band

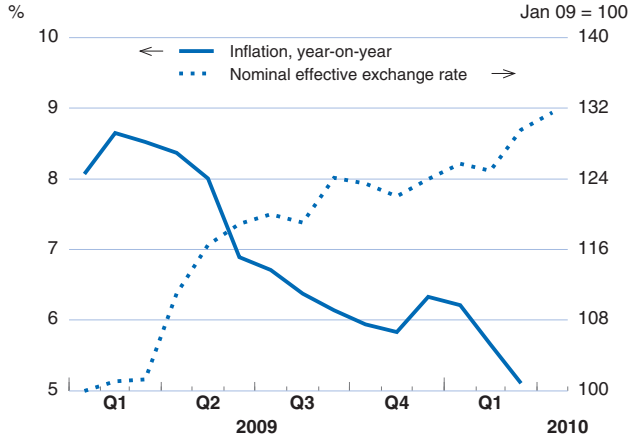
As portfolio inflows accelerated in the second half of 2009, the currency continued to strengthen, which contributed to a slowdown in consumer price inflation. Inflation had fallen within the target band of 3-6% in October 2009, after a prolonged period of overshooting the target, but was again temporarily pushed above the ceiling by unfavourable base effects in December, before reentering the target band in February. These

South Africa

Activity has rebounded
Contributions to growth over previous period



Rand strength contributed to a slowdown in inflation



Source: OECD Economic Outlook 87 database, South Africa Reserve Bank database and Statistics South Africa.

StatLink http://dx.doi.org/10.1787/888932305114

South Africa: **Macroeconomic indicators**

	2007	2008	2009	2010	2011
Real GDP growth	5.5	3.7	-1.8	3.3	5.0
Inflation	7.1	11.0	7.1	5.3	5.2
Fiscal balance (per cent of GDP)[1]	1.7	-1.0	-6.7	-6.1	-4.7
Current account balance ($ billion)	-20.5	-20.1	-11.2	-17.6	-22.0
Current account balance (per cent of GDP)	-7.2	-7.1	-4.0	-4.9	-5.5

1. Consolidated budget, Data refer to fiscal years starting in April.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307261

developments, combined with the fragile nature of the recovery, prompted the central bank to cut the repo rate by 50 basis points to 6.5% in March 2010, building on earlier cuts totalling 450 basis points between December 2008 and August 2009. Year-on-year inflation fell further to 5.1% in March, aided by recent declines in food prices.

Budget plans envisage gradual consolidation

Fiscal policy was moderately counter-cyclical during the downturn, allowing the full operation of the automatic stabilisers on the revenue side and increasing expenditure. This led to a deterioration in the headline consolidated budget balance of 5.7 percentage points of GDP in the 2009/10 fiscal year. The three-year projections outlined in the 2010/2011 budget foresee an improvement in the headline balance of 2.6 percentage points of GDP over the next three years, based on a cyclical recovery in revenues and expenditure restraint. Government revenues in the first quarter of 2010 exceeded official projections, suggesting that the headline budget balance may improve even faster than projected, if expenditure growth is contained. Any signs of faster improvement in public finances should lead to advancing the consolidation plan.

Domestic demand will drive growth

The rebound in exports will continue as the global outlook improves, but import growth, driven by the strong rand, will outpace that of exports, resulting in a widening current account deficit. Output growth in the tradables sector will be held back by a loss in competitiveness, but non-tradable sectors are expected to expand more rapidly. As fiscal consolidation progresses, the positive contribution from government consumption to growth will moderate. However, capital spending programmes of state-owned enterprises will continue to support domestic demand and, even more importantly, remove infrastructure bottlenecks which constrain potential growth.

Inflation will remain within the target band

The substantial output gap and the currency strength suggest that inflationary pressures will remain subdued. Nevertheless, inflation inertia in wage settlements is likely to keep inflation in the upper half of the band.

Risks to the outlook are balanced

Overly tight monetary conditions, while confidence remains fragile, may hold back the recovery. On the other hand, higher commodity prices and larger capital inflows may provide further impetus to domestic demand.

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Chapter 4

PROSPECTS FOR GROWTH AND IMBALANCES BEYOND THE SHORT TERM

Introduction and summary

Balanced growth must be restored after the crisis

While the worst potential outcomes from the economic crisis have been avoided, in large part due to prompt and massive world-wide policy stimulus, many countries will have to face up to severe macroeconomic imbalances during the recovery period and beyond. These include large output gaps, high unemployment, wide fiscal deficits and the need to exit from exceptionally loose monetary policy. In addition, while global current-account imbalances receded in the immediate aftermath of the crisis there are concerns that they will reappear with the recovery. These imbalances are not independent and addressing some of them could aggravate others, including those in other countries, and could also endanger the recovery.[1] This paper considers what combination of policies is likely to be most successful in delivering balanced global growth by means of examining a number of alternative stylised scenarios to 2025. Given the nature of the exercise, none of these scenarios should be considered as a forecast.

Policy options are illustrated by means of variant scenarios

To provide the basis for discussion, a highly stylised "baseline" scenario to 2025 is first constructed by extending the short-term projections described in Chapters 1 and 2 under the assumption of a minimal adjustment of policies. Simulations of the OECD's Global Model are then used to construct a number of alternative scenarios as a means of considering what combination of policies might best meet the objectives of strong, sustainable and balanced growth.[2] The main findings of the paper are as follows:

In the absence of policy action major imbalances are likely to emerge

- The baseline scenario implies the emergence of major imbalances which could sow the seeds of a future crisis. Although, by construction, government debt-to-GDP ratios are assumed to stabilise as a result of gradual consolidation measures, for many countries it is at greatly

1. Recognising such inter-dependencies, following the Pittsburgh summit the G20 have set up a framework to monitor real and financial imbalances and provide a mutual assessment of monetary, fiscal, exchange rate and financial policies in order to promote strong, sustainable and balanced growth.
2. The OECD's Global Model identifies the United States, euro area and Japan with the remainder of the OECD divided into two regions and, for the non-OECD, China is distinguished and the remainder of the non-OECD divided into three geographical regions. The model combines short-term Keynesian dynamics with a consistent long-run neo-classical supply-side. It also features stock-flow consistency, with explicit modelling of domestic and international assets, liabilities and associated income streams and so gives prominence to wealth and the role of asset prices in the transmission of international shocks. For further details see Hervé *et al.* (2010).

increased levels which is likely to imply higher long-term interest rates and dampen medium-term growth prospects. It will also leave many countries in a difficult position to cope with future shocks and the rising fiscal costs of ageing (which are not explicitly considered in the baseline). Current-account imbalances are also likely to re-emerge as cyclical effects wear off, with an increased risk of disorderly adjustments while many economies are still fragile.

Strong fiscal action is necessary, but not sufficient…

- Substantial fiscal consolidation could bring government debt-to-GDP ratios back to pre-crisis levels in most countries by the middle of the next decade and this would lower long-term interest rates and boost growth prospects. However, as it would happen simultaneously in many countries, in the short term it would also risk delaying the recovery and lead to a prolonged period of very low short-term interest rates. Moreover, there would be limited improvement in global current-account imbalances, partly because many OECD countries would be undertaking a similar degree of fiscal consolidation together.

… and needs to be accompanied by reforms to rebalance demand

- There is considerable scope for countries to undertake structural reforms to increase potential output and well-being (OECD, 2010a), and there are many such reforms that may also contribute to reducing international imbalances by reducing savings or increasing investment in surplus countries and *vice versa* in deficit countries. Such reforms could include the wider provision of social welfare and deepening of financial markets in China and non-OECD Asia, liberalisation of the sheltered sector in Japan and tax reforms to encourage saving in the United States. While contributing only modestly to the global current-account rebalancing, labour and product market reforms in the euro area would also help to boost growth and enhance adaptability and so cushion the effects of greater fiscal consolidation.

A combined package would foster strong and balanced global growth

- An illustrative combined package of measures implemented from 2011 onwards – involving fiscal consolidation in OECD countries, exchange-rate realignments and structural reforms in most regions of the world – would move much closer to the objectives of sustainable and globally balanced growth. The recovery in those OECD countries where fiscal consolidation needs are greatest would still be delayed (relative to the baseline scenario) because of the lags before structural reforms and exchange rate changes take effect, but GDP growth would remain positive in all major countries and continue to strengthen beyond 2012 so that output would catch up and exceed the baseline scenario after five years. The flipside of the delayed recovery is that growth would be more sustainable over the longer run, whereas sustainability in the baseline scenario is highly questionable given the build up in government debt and international imbalances. Over the longer term, OECD and global output would be 2-3% higher than in the baseline scenario, general government debt in most OECD countries would

return to pre-crisis levels and measures of global current-account imbalances would be further reduced relative to current levels.

A baseline scenario to 2025

Projections are underpinned by potential output estimates

A long-term scenario has been constructed by extending the short-term projections for OECD countries using a highly stylised framework (Box 4.1) underpinned by projections of potential output. For emerging economies, the baseline was constructed using both a growth convergence framework (Duval and de la Maisonneuve, 2009),[3] and an estimated Balassa-Samuelson effect to project changes in real exchange rates (Box 4.2).

Box 4.1. **Assumptions underlying the baseline scenario**

The baseline represents a stylised scenario that is conditional on the following assumptions for the period beyond the short-term projection horizon from 2012 onwards:

- The gap between actual and potential output is eliminated by 2015 in all OECD countries. Thereafter GDP grows in line with potential output.
- Unemployment returns to its estimated structural rate in all OECD countries by 2015. Historical estimates of the structural unemployment rate are based on Gianella *et al.* (2008), on which is imposed a post-crisis hysteresis effect. The structural unemployment rate is assumed to eventually return to pre-crisis levels but at a speed which differs across countries based on previous historical experience (Guichard and Rusticelli, 2010); for those countries with more flexible labour markets structural unemployment returns to pre-crisis levels by 2018 and for other countries by 2025.
- Oil and other commodity prices rise by 1% per annum in real terms after 2011.
- Exchange rates remain unchanged in nominal terms in OECD countries; for other countries an estimated Balassa-Samuelson effect (Frankel, 2006) has been used as a basis for assumed currency appreciation between 2011 and 2025.
- Monetary policy rates remain low and are directed at avoiding deflation and, towards 2015, are normalised in order to bring inflation in line with medium-term objectives. For Japan it is assumed that once the output gap has closed and inflation returns to 1% in 2015, the target rate of inflation for monetary policy will be fixed at 2%.
- The adverse effects on the level of potential output resulting from the crisis (through adjustments to capital, structural unemployment and labour force participation) have reached their peak by about 2013.
- After 2011, emerging economies show a slow convergence to US growth rates in per capita income (measured in purchasing power parity) (Duval and de la Maisonneuve, 2009). For the period 2015 to 2025, OECD countries experience a slow convergence to annual labour productivity growth of 1¾ per cent per annum.
- Growth of trade in emerging economies has been determined by country-specific equations, but these estimates have been adjusted based on recent work estimating the structural sources of current-account balances (Cheung *et al.*, 2010).

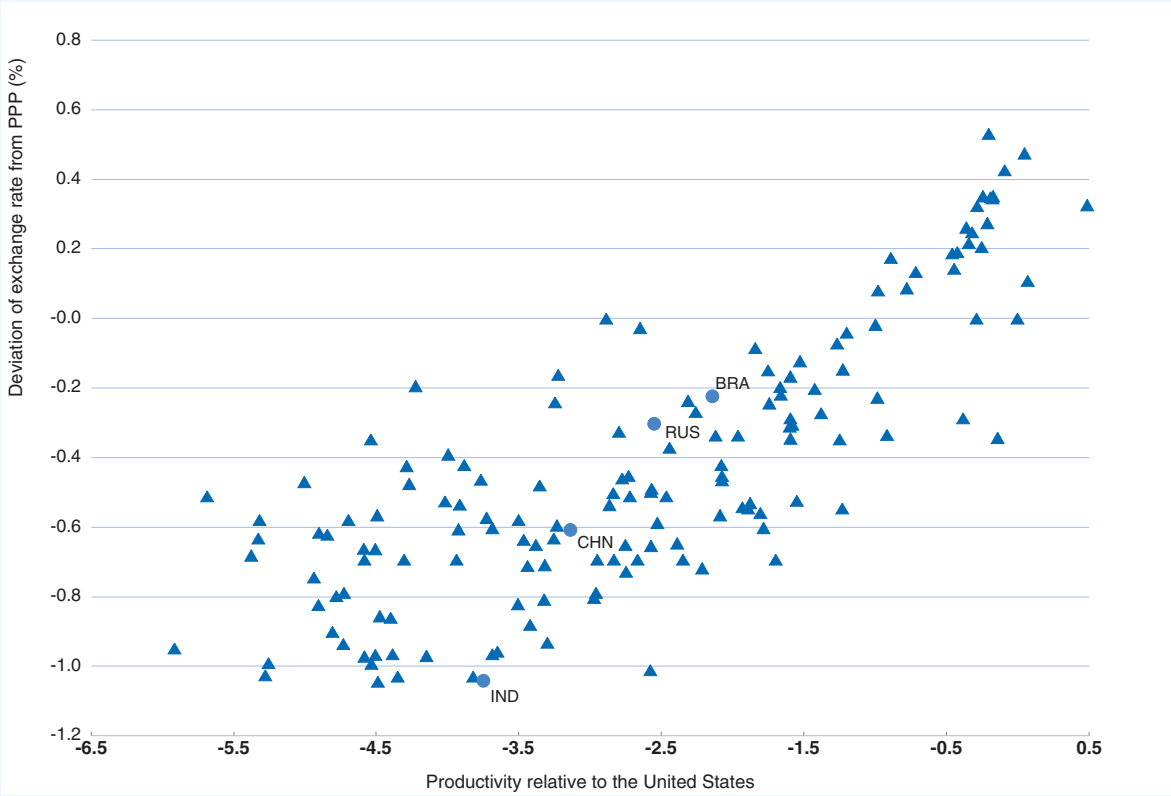
3. Duval and de la Maisonneuve (2009) develop and apply a simple "conditional growth" framework to make long-term GDP projections for the world economy, taking as a starting point recent empirical evidence about the importance of total factor productivity and human capital in explaining current cross-country disparities in GDP per capita levels. GDP per capita in each country depends on technology, investment in physical and human capital and the employment rate. As these vary across countries, conditional convergence implies that, in the long run, differences will remain in per capita income levels, but not in growth rates.

Box 4.2. **The Balassa-Samuelson effect and real exchange rate assumptions**

The Balassa-Samuelson effect arises because the growth of productivity differs among sectors, while wages tend to be less differentiated. Typically, productivity growth is faster in the traded goods sector than in the non-traded goods sector. To the extent that the faster productivity growth in the traded goods sector pushes up wages in all sectors, the prices of non-traded goods relative to those of traded goods will rise so leading to a rise in the overall price index. Given that the growth of productivity is typically faster in developing countries which are catching-up to developed countries, this effect implies that, other things being equal, the real exchange rate of the former will tend to rise over time. Rogoff (1996) estimated that for every 1% increase in a country's real per capita income (relative to the United States), the real exchange rate increases by about 0.3%.

While the Balassa-Samuleson effect describes changes in exchange rate over time it has also been used to try to estimate the extent to which a currency is under- or over-valued. An example using World Development Indicator data is provided in the figure below, which shows the relationship between the deviation of exchange rates per US dollar from Purchasing Power Parity rates and real income per capita for 2008. Such estimates suggest that the Chinese currency may be undervalued, although the extent of the undervaluation is highly controversial as estimates in the literature range from 60% undervaluation to slight overvaluation, with a median value of about 20% undervaluation (Cheung *et al.*, 2009).*

Productivity convergence and exchange rate appreciation



Note: Real exchange rate and real productivity are expressed in log terms. The real exchange rate is obtained by dividing the price level of GDP for each country by that of USA.

Source: World Development Indicator database (2009) and OECD calculations for 152 countries.

StatLink http://dx.doi.org/10.1787/888932305133

Box 4.2. **The Balassa-Samuelson effect and real exchange rate assumptions** *(cont.)*

For the purposes of the baseline scenario it is assumed that the renminbi gradually appreciates by about 30% against the dollar and other OECD currencies in real terms between 2011 and 2025, with approximately half of this appreciation occurring as a consequence of the assumed higher inflation rate in China compared to OECD countries and about half through nominal exchange rate appreciation. The implied real exchange rate appreciation of the renminbi against all currencies is about 20% to 2025, because the currencies of other non-OECD countries are also assumed to appreciate in real terms against OECD currencies at a rate consistent with overall real appreciation in line with the result by Rogoff, which for most non-OECD countries implies real appreciation by 1% or less per annum until 2025. About 10 percentage points of the overall real appreciation of the renminbi can be explained by the projected convergence in GDP per capita growth rates over this period and the effect this would have on the real exchange rate according to Rogoff's estimate referred to above. The remaining 10 percentage points appreciation would then represent a partial correction of any current undervaluation.

To gauge the effect of the uncertain assumptions in this area including the effect on external imbalances, the table presents the effects of a 10% appreciation of the renminbi against all other currencies on GDP, current-account positions and inflation based on the OECD Global Model. The results suggest that such exchange-rate realignment would have a moderate impact on current-account imbalances, compared to the baseline. It would reduce the Chinese surplus by 0.4% of GDP after five years while the US current balance would improve by 0.1% of GDP. The renminbi appreciation would also have the advantage of limiting inflation pressures in China in the short term.

The effect of a 10% appreciation of the Reminbi

	Year 1	Year 2	Year 5
Current balance (% of GDP)			
United States	0.0	0.1	0.1
Japan	0.1	0.1	0.2
Euro area	0.0	0.0	0.1
OECD total	0.0	0.0	0.1
China	-0.4	-0.3	-0.4
Non-OECD total	0.0	0.0	-0.1
Inflation[1] (% pts pa)			
United States	0.0	0.1	0.1
Japan	0.1	0.1	0.1
Euro area	0.1	0.1	0.1
OECD total	*0.0*	*0.0*	*0.0*
China	-2.3	-0.5	0.1

1. Inflation is measured by change in consumers expenditure deflator, except for China for which it is the GDP deflator.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307280

* Methods based on PPP and Balassa-Samuelson effects tend to over-estimate the misalignment compared to other methods, such as the Behaviour Exchange Rate Models (BEER) or flow models. There are also substantial differences among studies based on Balassa-Samuelson effects depending on the underlying data set for GDP per capita. See also Korhonen and Ritola (2009) who have collected data from 30 separate papers estimating the equilibrium level and possible misalignment of the renminbi.

Sources: Cheung, Y.W, M.D. Chinn and E. Fujii,(2009), "China's Current Account and Exchange Rate" NBER 14673. Frankel, J. (2006), "The Balassa-Samuelson Relationship and the Renminbi" *Harvard WP*, December. Korhonen, I. and M. Ritola (2009), "Renminbi misaligned – Results from meta-regressions", *BOFIT Discussion Papers 13/2009*, Bank of Finland, Institute for Economies in Transition. Rogoff, K. (1996), "The Purchasing Power Parity Puzzle", *Journal of Economic Literature*, 34(2), 647-668.

The starting point is severe macroeconomic imbalance

For OECD countries, the starting position (in 2011) is far from macroeconomic equilibrium, with large output gaps and fiscal balances which in many countries are far away from levels that would be consistent with stable government debt. Given the size and combination of these two imbalances, and the wish to consider scenarios in which debt levels are brought back to pre-crisis levels the time horizon of the baseline scenario has been extended (to 2025) compared with previous OECD baseline exercises. Most of the assumptions underlying the scenario tend to err on the optimistic side, including that: the crisis itself has no permanent adverse effect on the rate of growth of total factor productivity or potential output; output gaps are closed by 2015 as a result of sustained above-trend growth with output growing in line with potential thereafter; most countries do not experience deflation despite continued negative output gaps over this period, and eventually experience a smooth return to targeted inflation by 2015;[4] and countries are assumed to address the budget implications of ageing and trend health cost increases through compensatory or offsetting budget saving (see below).

Demographics imply a slowing potential growth

The scenario builds in a reduction in the level of potential output due to the crisis so that compared to OECD medium-term projections made prior to the crisis (*e.g.* OECD, 2008), the level of area-wide potential output is lowered by about 3%, with most of this reduction already having taken place by 2011 (Box 4.3). From 2012 onwards, the growth rate of OECD-wide potential output recovers to average about 1.9 per cent per annum (Table 4.1), but this is still below the average growth rate of 2.3 per cent per annum achieved over the seven years preceding the crisis. Most of this latter difference is due to slower growth both in participation rates and in the working-age population, mainly reflecting demographic trends rather than additional effects from the crisis.

Output is assumed to return to potential by 2015

Given the assumption that large negative output gaps close, and despite slower potential growth, area-wide GDP growth averages 2½ per cent per annum over the period 2012-15 (Table 4.2), compared with 2¼ per cent per annum over the period 2000-08. Unemployment is falling in all countries, with the area-wide unemployment rate down from 8½ per cent in 2010 to a rate of 6¼ per cent by 2015 and 5¾ per cent in 2025, reflecting both the recovery and the eventual reversal of hysteresis effects.

Fiscal consolidation is essential to prevent unstable debt dynamics

In 2011 fiscal deficits in many countries are large, with a substantial component which is not explained by the cycle (Table 4.3). In these circumstances, fiscal consolidation is inevitable for many countries, as is already recognised by many OECD governments which have announced plans for moving back towards more sustainable fiscal positions (see

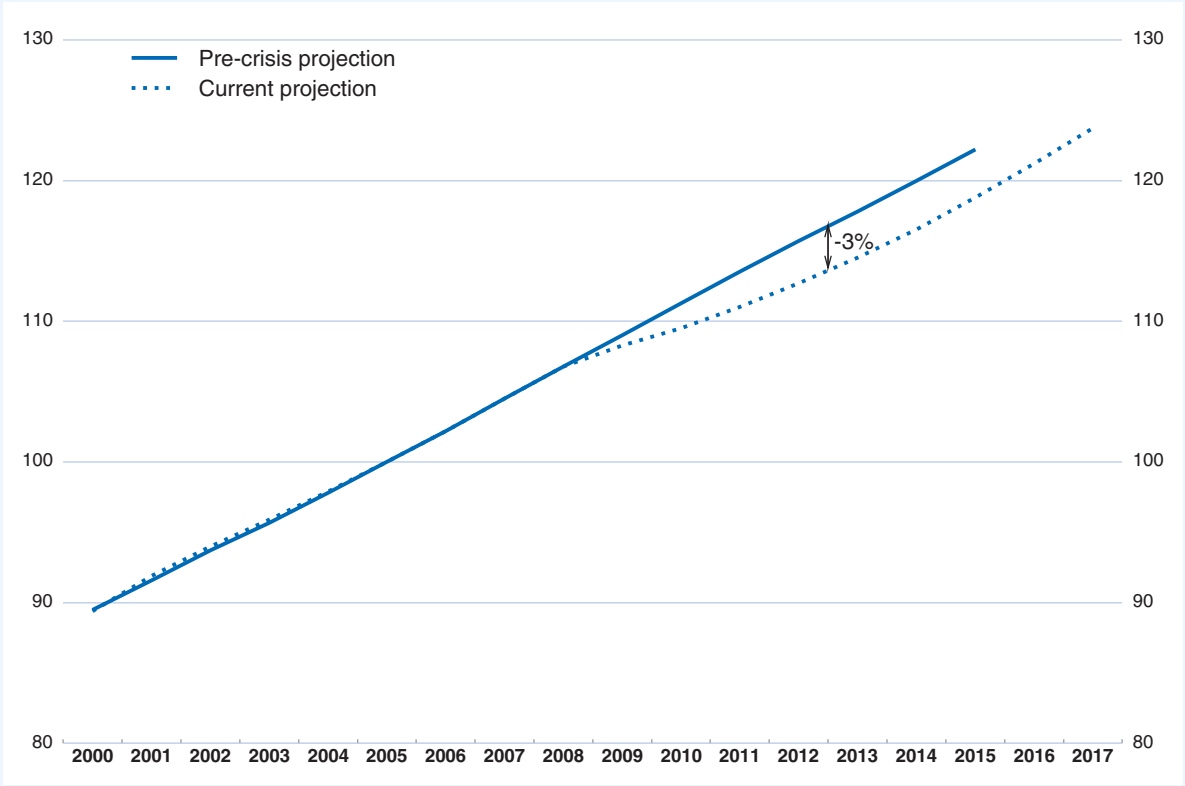
4. This is consistent with inflation expectations remaining fairly well anchored and with the operation of "speed-limit" effects. In principle, and given current extreme settings of macroeconomic policies a risk also exists of inflation expectations slipping upwards which would also result in a worse outcome than portrayed in the baseline scenario.

Box 4.3. **The effect of the crisis on potential output**

The economic crisis is likely to result in a permanent loss in the level of potential output in all OECD countries so that, even with the recovery continuing, GDP may never catch up to its pre-crisis expected trajectory. The extent of these losses is very uncertain, but current OECD estimates suggest a peak area-wide reduction in potential output of about 3% (see figure). However, estimates of the nature and scale of the adverse effects on potential output vary across OECD countries, in part due to different impacts of the crisis but also reflecting different institutional and policy settings, particularly in the labour market. These latter differences illustrate that policy responses to the crisis can either amplify or dampen the negative impact of the crisis on potential output.

Revisions to projections of OECD potential output following the crisis

Index 2005 = 100



Source: OECD calculations.

StatLink http://dx.doi.org/10.1787/888932305152

The main channels through which the crisis affects potential output are identified by using a production function approach, distinguishing effects on capital, labour (mainly through changes in labour force participation and unemployment, although for some countries changes in net-migration flows may also be important) and total factor productivity:

- On average across countries about 2 percentage points of the projected reduction in potential output is expected to come from a higher cost of capital which reduces the capital-labour ratio and hence productivity. Such a transmission mechanism seems to be borne out by previous major OECD banking crises, subsequent to which there has been a particularly marked fall in capital accumulation in comparison with other severe downturns (Haugh *et al.*, 2009a). The increased cost of capital, assumed equivalent to an increase in interest rates of 150 basis points, is based on a reversion of the real interest rates faced by the corporate sector to more normal levels from the unusually low levels experienced during the period of easy credit over much of 2000s.

Box 4.3. **The effect of the crisis on potential output** *(cont.)*

- Evidence of previous severe recessions in OECD countries suggests that sharp increases in unemployment following severe recessions are long-lasting and often not completely reversed in subsequent recoveries (OECD, 2009c). "Hysteresis" effects are likely to push up structural unemployment as workers that remain unemployed for a long period become less attractive to employers as a result of declining human capital, or as they reduce the intensity of their job search (Machin and Manning, 1999) and put less downward pressure on wages and inflation. The projections of structural unemployment are derived from country-specific equations linking the long-term unemployment rate to projections in the aggregate unemployment rate, with additional assumptions used to transform these projections of long-term unemployment into structural unemployment and take into account the effect of recent labour market reforms (for details see Guichard and Rusticelli, 2010). The peak increase in OECD-wide structural unemployment rate due to hysteresis effects resulting from the current crisis is estimated at ½ percentage point, although the effects vary widely across countries. Eventually the hysteresis-induced increase in structural unemployment is fully reversed, although the speed with which this occurs differs across countries, consistent with previous episodes (Guichard and Rusticelli, 2010). For those countries with less rigid markets structural unemployment is assumed to revert to pre-crisis levels by 2018, whereas for other countries pre-crisis levels are not reached until 2025.
- The effect of a prolonged period of slack in the labour market is estimated to reduce trend labour force participation, with the youngest and oldest workers normally being mostly affected. For a typical OECD country this could reduce potential output by up to 1 percentage point over the medium term. There is, however, considerable cross-country variation with larger adverse effects for countries with stricter job protection, lower incentives to continued work at older ages, and benefit generosity which declines more sharply with duration of unemployment. In addition, easier access to further education may mean a larger reduction in the participation rate of younger age groups. Moreover, the specific features of the recent crisis may lead participation rates of older workers to hold up better than normal.
- The magnitude and sign of the likely effect on total factor productivity (TFP) is more difficult to pin down, and so no systematic effects have been incorporated into current estimates of the effect of the crisis. There may be an adverse effect on TFP from lower R&D expenditures, but the magnitude of the effect could be offset by policy responses, by "cleansing effects" as low-efficiency activities are discontinued and resources shifted to more productive uses, and by possible increase in human capital accumulation.
- While labour migration has shown signs of clear falls in virtually all OECD countries during the course of the economic downturn, there are only a handful of OECD countries that have experienced migration flows large enough for changes as a result of the crisis to have a significant and lasting effect on potential output growth. Countries where net immigration had, prior to the onset of the recent crisis, made a significant contribution to labour force growth include the United States, Canada, Australia, New Zealand and some European countries, such as Ireland, Iceland and Spain. In a few countries, namely Spain, Ireland and Iceland, the magnitude of the response in net migration flows is likely to result in a permanent reduction in the labour force over the medium term relative to pre-crisis estimates. For other countries receiving substantial flows of migrants prior to the crisis, the effects are judged to be more limited in the medium term. Return migration has also gained importance in the European Union, as the economic conditions in some cases worsened more in the host countries than the home countries. For these countries evidence is, however, largely inconclusive, mainly reflecting data limitations. Still, in countries experiencing large net outflows of migrants prior to the crisis, outflows are expected to pick up again as labour market conditions improve.
- The crisis itself is not expected to affect potential growth in the longer term (beyond 2015), which is nevertheless expected to slow for unrelated reasons (mainly ageing populations).

Summing the estimated effects on capital, structural unemployment and labour force participation described above, suggests a peak reduction in the *level* of potential output for a typical OECD country of about 3% by about 2013. As the recovery proceeds some partial reversal of hysteresis effects in the labour market is expected so that by 2017 the reduction in the level of potential output for an average OECD country is less. Two countries for which the downward revisions to potential output in Economic *Outlook* projections exceed these estimates are Ireland and Spain. In both cases, additional downward revisions reflect the effect of reduced net migration flows as well as a (downward) reassessment of potential output prior to the crisis.

Table 4.1. **Potential output in the baseline scenario**

Annual averages, percentage points

	Output Gap	Potential GDP growth		Potential labour productivity growth (output per employee)		Potential employment growth		Components of potential employment[1]					
								Trend participation rate		*Working age population*		*Structural Unemployment*	
	2011	2010-2011	2012-2025	2010-2011	2012-2025	2010-2011	2012-2025	2010-2011	2012-2025	2010-2011	2012-2025	2010-2011	2012-2025
Australia	-1.7	3.2	2.9	1.5	1.7	1.6	1.2	0.1	-0.1	1.6	1.3	0.0	0.0
Austria	-2.7	1.5	2.0	0.7	1.6	0.8	0.4	0.5	0.4	0.4	0.0	0.0	0.0
Belgium	-6.7	1.8	1.6	1.3	1.5	0.5	0.1	-0.3	0.0	0.8	0.1	-0.1	0.0
Canada	-2.0	1.6	1.6	0.6	1.3	1.0	0.3	-0.1	0.0	1.2	0.2	0.0	0.0
Czech Republic	-3.7	2.8	2.0	3.0	2.6	-0.2	-0.6	-0.3	0.2	0.3	-0.9	-0.3	0.0
Denmark	-4.7	0.6	1.0	1.0	1.2	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	0.0
Finland	-6.6	0.8	2.0	1.7	2.4	-0.9	-0.4	-0.4	0.0	-0.3	-0.4	-0.2	0.0
France	-3.2	1.2	1.5	1.0	1.5	0.2	0.0	-0.2	0.0	0.6	0.0	-0.1	0.0
Germany	-3.6	1.2	1.3	0.9	1.6	0.2	-0.4	0.3	0.1	0.0	-0.5	0.0	0.0
Greece	-10.2	0.3	1.4	0.9	1.4	-0.6	0.0	0.0	0.1	0.2	-0.3	-0.8	0.1
Hungary	-4.0	1.0	1.7	1.5	2.1	-0.4	-0.4	-0.1	0.1	-0.1	-0.6	-0.2	0.0
Iceland	-4.1	-0.5	1.7	0.6	1.2	-1.1	0.6	-0.3	0.0	-0.6	0.5	-0.2	0.0
Ireland	-5.5	-0.9	2.7	0.2	1.5	-1.1	1.2	-1.2	-0.1	1.1	1.1	-0.9	0.2
Italy	-3.7	0.3	1.5	0.7	1.4	-0.3	0.1	-0.2	0.1	0.1	-0.1	-0.3	0.1
Japan	-2.1	0.8	0.9	1.3	1.8	-0.5	-0.9	0.1	0.0	-0.5	-0.9	0.0	0.0
Korea	-0.3	4.0	2.4	3.2	2.8	0.8	-0.4	0.1	0.0	0.7	-0.4	0.0	0.0
Luxembourg	-4.8	2.6	2.7	1.2	1.7	1.4	1.0	0.0	0.0	1.5	0.9	-0.1	0.0
Mexico	-1.9	1.9	2.2	0.3	1.2	1.6	1.0	0.0	0.0	1.7	1.0	0.0	0.0
Netherlands	-2.8	0.9	1.5	0.9	1.6	0.0	-0.1	0.0	0.2	0.2	-0.2	-0.2	0.0
New Zealand	-1.8	1.6	2.4	0.5	1.4	1.1	1.0	0.0	0.0	1.2	0.9	-0.1	0.0
Norway[2]	-3.0	2.0	2.8	1.5	2.4	0.5	0.4	-0.1	0.1	0.7	0.3	0.0	0.0
Poland	0.8	3.2	1.7	2.9	2.5	0.4	-0.8	-0.1	0.0	0.2	-0.8	0.3	0.0
Portugal	-2.5	0.2	1.4	0.6	1.3	-0.4	0.1	-0.2	0.0	0.1	0.1	-0.3	0.1
Slovak Republic	-3.3	3.6	2.6	3.9	3.2	-0.4	-0.6	-0.2	0.0	0.1	-0.6	-0.2	0.0
Spain	-4.3	-0.2	2.0	1.7	1.3	-2.0	0.6	-0.6	-0.1	-0.4	0.4	-1.1	0.3
Sweden	-6.0	1.8	1.6	1.7	1.8	0.1	-0.2	-0.6	-0.1	0.6	0.0	0.0	0.0
Switzerland	-2.0	2.0	1.8	0.9	1.5	1.1	0.3	0.1	-0.1	1.1	0.4	-0.1	0.0
Turkey	-7.2	3.6	3.4	2.2	2.2	1.3	1.2	0.0	0.0	1.7	1.1	-0.3	0.1
United Kingdom	-5.1	1.2	1.8	1.2	1.6	0.0	0.2	-0.2	0.0	0.4	0.2	-0.1	0.0
United States	-1.7	1.4	2.3	1.3	1.7	0.1	0.7	-0.6	-0.2	0.8	0.8	-0.1	0.0
Euro area	-3.9	0.8	1.5	1.1	1.5	-0.2	0.0	-0.1	0.0	0.2	-0.1	-0.3	0.1
OECD	-2.6	1.2	1.9	1.2	1.5	0.1	0.4	-0.2	0.0	0.6	0.3	-0.2	0.0

1. Percentage point contributions to potential employment growth.
2. Excluding oil sector

Source: OECD Economic Outlook 87 database.

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Figure 1.16 in the chapter on *General Assessment*). As a stylised assumption, a degree of future fiscal consolidation has been incorporated in the baseline scenario which is sufficient to stabilise the ratio of government debt to GDP over the medium term. However, the relatively modest pace of this consolidation (½ per cent of GDP per annum reduction in the underlying primary balance for as long as it takes to stabilise debt) is such that in most cases there is a further build-up in the

Table 4.2. **A macroeconomic summary of the baseline scenario**

	Real GDP growth		Inflation rate[1]		Unemployment rate		
	2012-15	2016-25	2011	2015	2011	2015	2025
Australia	3.4	2.9	2.7	2.5	4.9	5.1	5.1
Austria	2.5	2.1	1.0	2.0	5.0	4.4	4.3
Belgium	3.2	1.7	1.4	2.0	8.3	8.2	8.0
Canada	2.0	1.7	1.6	2.1	7.2	6.7	6.5
Chile	4.6	4.0	4.8	3.0			
Czech Republic	3.3	1.8	2.1	2.1	7.5	6.5	5.8
Denmark	1.9	1.2	1.7	2.0	6.9	4.7	4.4
Finland	3.4	2.2	1.5	2.0	9.0	7.8	7.4
France	2.1	1.5	1.1	2.0	9.5	8.5	8.2
Germany	2.3	1.2	1.0	2.0	8.0	8.2	8.2
Greece	3.3	1.7	0.3	2.0	14.3	11.1	8.9
Hungary	2.5	1.7	2.3	2.1	10.5	7.4	6.6
Iceland	2.5	1.8	4.2	2.0	8.4	3.8	2.8
Ireland	2.9	3.2	0.8	2.1	13.0	8.0	4.8
Italy	1.9	1.7	1.0	2.0	8.8	7.4	6.3
Japan	1.4	0.9	-0.5	2.1	4.7	4.2	4.1
Korea	3.7	1.9	3.2	2.0	3.3	3.5	3.5
Luxembourg	4.1	2.7	1.9	2.0	5.8	4.3	4.0
Mexico	2.7	2.1	3.8	3.2	4.5	3.3	3.2
Netherlands	1.9	1.7	1.4	2.0	4.8	4.0	3.5
New Zealand	2.6	2.5	2.1	2.1	5.6	4.3	4.0
Norway	3.4	2.8	2.2	2.1	3.6	3.5	3.3
Poland	2.2	1.4	2.7	2.1	8.6	10.0	10.1
Portugal	1.6	1.6	1.4	2.0	10.4	7.9	6.9
Slovak Republic	4.3	2.2	2.2	2.9	13.4	11.8	11.5
Spain	2.4	2.2	0.6	2.0	18.2	13.2	9.1
Sweden	2.4	1.9	2.1	2.0	8.7	7.3	7.2
Switzerland	2.3	1.8	0.8	2.0	4.5	3.9	3.7
Turkey	5.6	3.2	5.7	4.6	15.9	9.7	8.0
United Kingdom	2.8	2.0	1.5	2.1	7.9	5.8	5.3
United States	2.5	2.4	1.0	2.0	8.9	5.6	4.9
Euro Area	2.3	1.7	1.0	2.0	10.1	8.6	7.6
OECD	2.5	2.0	1.3	2.1	8.2	6.3	5.7
Brazil	4.8	4.0	5.1	4.5			
China	9.5	7.2	2.4	3.0			
India	7.7	6.7	6.2	5.0			
Indonesia	5.7	4.7	8.0	4.9			
South Africa	5.3	4.6	5.4	4.4			
Estonia	3.7	4.0	1.2	2.0			
Israel	3.7	3.3	2.6	4.0			
Russian Federation	4.5	3.7	9.0	4.0			
Slovenia	3.4	3.4	1.5	3.0			

1. For OECD countries, percentage change from the previous period in the private consumption deflator and for non-OECD countries, percentage change in the GDP deflator is reported.

Source: OECD Economic Outlook 87 database.

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Table 4.3. **Fiscal trends in the baseline assuming a stylised fiscal rule**[1]

As percentage of nominal GDP (unless otherwsie specified)

	Underlying fiscal balance	Number of years of consoli-dation[2]	Financial balances[3]			Net financial liabilities[4]			Gross financial liabilities[5]			Long term interest rate[6] (%)		
	2011		2007	2009	2025	2007	2009	2025	2007	2009	2025	2007	2009	2025
Australia	-2.1	1	1.7	-3.9	-1.3	-7	-4	14	14	19	37	6.0	5.0	6.6
Austria	-3.3	2	-0.5	-3.4	-2.0	31	37	50	62	70	83	4.3	3.7	5.1
Belgium	-0.7	0	-0.2	-6.1	0.6	73	81	49	88	101	69	4.3	3.8	5.9
Canada	-1.2	0	1.6	-5.1	-1.3	23	29	30	65	82	80	4.3	3.2	5.2
Czech Republic	-4.1	3	-0.7	-5.9	-3.7	-14	-1	43	34	42	88	4.3	4.8	5.3
Denmark	-1.4	1	4.8	-2.8	0.3	-4	-5	11	34	52	62	4.3	3.6	5.0
Finland	-0.7	1	5.2	-2.4	-0.2	-73	-63	-24	41	53	94	4.3	3.7	5.4
France	-4.9	8	-2.7	-7.6	-2.9	34	51	76	70	86	113	4.3	3.6	5.9
Germany	-2.9	3	0.2	-3.3	-2.0	43	48	57	65	76	86	4.2	3.2	5.2
Greece	-2.1	1	-5.4	-13.5	-4.2	72	87	105	104	119	137	4.5	5.2	7.4
Hungary	-2.2	1	-4.9	-3.9	-2.6	52	58	70	72	84	97	6.7	9.1	6.7
Iceland	-2.8	1	5.4	-9.1	0.5	-1	41	35	53	123	116	9.8	8.0	8.3
Ireland	-7.8	14	0.1	-14.3	-3.6	0	27	89	28	70	132	4.3	5.2	6.7
Italy	-3.0	1	-1.5	-5.2	-3.6	87	101	102	112	129	130	4.5	4.3	6.7
Japan	-6.8	14	-2.4	-7.2	-1.8	81	108	137	167	193	220	1.7	1.3	4.9
Korea	0.7	0	4.7	0.0	1.1	-33	-31	-32	30	35	32	5.4	5.2	5.0
Luxembourg	-2.3	9	3.6	-0.7	0.7	-44	-46	-12	11	18	53	4.4	3.8	5.2
Netherlands	-3.2	4	0.2	-5.3	-1.5	28	28	44	52	69	85	4.3	3.7	5.2
New Zealand	-2.7	5	4.0	-3.5	-0.1	-13	-8	9	26	35	53	6.3	5.5	5.7
Poland	-6.9	14	-1.9	-7.1	-4.1	17	22	80	52	58	112	5.5	6.1	6.4
Portugal	-4.4	4	-2.7	-9.4	-3.2	44	58	79	71	87	109	4.4	4.2	5.9
Slovak Republic	-3.9	6	-1.9	-6.8	-0.6	-1	12	30	32	39	56	4.5	4.7	5.4
Spain	-4.8	6	1.9	-11.2	-1.6	19	35	57	42	63	85	4.3	4.0	5.3
Sweden	1.2	0	3.5	-1.1	2.7	-25	-23	-31	47	52	42	4.2	3.3	4.8
Switzerland	0.2	0	1.6	0.7	-0.6	9	5	7	46	42	42	2.9	2.2	3.1
United Kingdom	-7.0	14	-2.7	-11.3	-3.8	29	44	99	47	72	128	5.0	3.6	7.1
United States	-8.1	14	-2.8	-11.0	-3.7	42	58	106	62	83	128	4.6	3.3	6.7
Euro Area	-3.6		-0.6	-6.3	-2.4	48	48	68	71	86	101	4.3	3.8	5.7
OECD	-5.8		-1.2	-7.9	-2.5	38	52	80	73	90	117	4.7	3.7	6.1

1. These fiscal projections are the consequence of applying a stylised fiscal consolidation rule and should not be interpreted as a forecast.
2. The number of years of fiscal consolidation is determined so as to stabilise the ratio of government debt to GDP, assuming that each year of consolidation is by ½ percent of GDP (see Box 4.3 for details).
3. General government fiscal surplus (+) or deficit (-) as a percentage of GDP.
4. 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 the social security sector.
5. 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 the social security sector. The definition of gross debt differs from the Maastricht definition used to assess EU fiscal positions.
6. Interest rate on 10-year government bonds.

Source: OECD Economic Outlook 87 database.

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government debt-to-GDP ratio before it does stabilise (Box 4.4).[5] The slow pace of consolidation and the high levels of debt reached may in practice

5. The fiscal rule targets the primary balance which will stabilise debt over the medium term given long-term trend growth and current long-term interest rates. In practice, achieving the target primary balance does not immediately stabilise debt because dynamics in the model have to fully unwind. For example, the implicit interest rate paid on existing government debt will be different from the current long-term bond rate used in the rule, but the former is assumed to converge on the latter. It is also noteworthy that a number of highly indebted countries require little further consolidation to stabilise debt, in part reflecting the arithmetic that for such countries the overall fiscal balance consistent with stable debt will be a substantial deficit. Of course, a higher level of debt also implies a greater risk from a range of shocks.

Box 4.4. **Fiscal policy assumptions used in the medium-term baseline scenario**

The fiscal consolidation path

The fiscal path that has been assumed in the baseline scenario from 2012 onwards is one in which there is gradual and sustained increase in the underlying fiscal primary balance sufficient to ensure that the ratio of government-debt-to-GDP is stable over the medium term. It should be noted that in many cases this assumption implies a degree of fiscal consolidation which is less ambitious than incorporated in current government plans. In some cases the stylized rule may also generate fiscal projections which conflict with legislated objectives for fiscal balances or debt, which for the sake of cross-country comparability are ignored for the purpose of this exercise.

The basis for the assumption can be derived from the government budget identity, whereby the change in the net government debt-to-GDP ratio (d) is explained by the primary deficit ratio (-pb) plus net interest rates payments on the previous period's debt, where i_t is the effective interest rate paid on net government debt, so that approximately:

$$\Delta d_t = - pb_t + (i_t - g_t)\, d_{t-1},$$

where g is the nominal GDP growth rate. Then to avoid an ever-increasing debt-to-GDP ratio (so that $\Delta d_t \leq 0$), and if the effective interest rate on debt exceeds the nominal growth rate, the required primary balance (pb^*) must be in surplus and by a magnitude which is approximately given by:

$$pb^*_t \geq (i_t - g_t)\, d_{t-1}$$

To operationalise this rule the rate of growth g is taken to be the nominal growth rate of potential output over the medium term and i as the long-term interest rate on government debt (towards which it is assumed the effective interest rate on debt will tend). Then for each year, starting with 2012, if the underlying primary balance (adjusted for cyclical effects) satisfies this condition it is held stable as a share of GDP. Otherwise, for each year that the underlying primary balance does not satisfy this condition the fiscal stance is tightened by raising the underlying primary balance by ½ per cent of GDP per annum, through a combination of a reduction in government spending and higher taxes, until the condition is satisfied.

The implied pattern of fiscal consolidation varies greatly across countries according to this rule: for some countries which are already running a primary surplus or which are running a primary deficit which is explained by cyclical factors, the rule does not require any consolidation (including Norway, Korea and Switzerland); other countries which start out with large underlying deficits as well as substantial debt require more than a decade of continuous consolidation (including the United States and Japan); but most OECD countries lie somewhere in between these extremes.

Other fiscal assumptions

There are no further losses to government balance sheets as a result of asset purchases or guarantees made in dealing with the financial crisis.

Effects on public budgets from population ageing and continued upward pressures on health spending are not explicitly included or, put differently, implicitly assumed to be offset by other budgetary measures.

not be sustainable but these assumptions are chosen to have a basis against which to explore more ambitious consolidation strategies. It should also be kept in mind that the assumption understates the extent of required reforms as additional pressures on public spending from ageing populations are already supposed to be met by compensatory or offsetting budgetary savings (Table 4.4).

Table 4.4. **Changes in ageing-related public spending for selected OECD countries**

Change 2010-25, in percentage points of GDP

	Health care	Long-term care	Pensions	Total
Austria	1.2	0.4	0.7	2.3
Australia	1.3	0.4	0.8	2.5
Belgium	1.0	0.4	2.7	4.1
Canada	1.4	0.5	0.6	2.5
Finland	1.3	0.6	2.7	4.6
France	1.1	0.3	0.4	1.8
Germany	1.1	0.6	0.8	2.5
Greece	1.2	1.0	3.2	5.4
Ireland	1.2	1.1	1.5	3.9
Italy	1.2	1.0	0.3	2.5
Japan	1.5	0.9	0.2	2.5
Luxembourg	1.0	0.9	3.5	5.5
Netherlands	1.3	0.5	1.9	3.7
New Zealand	1.4	0.5	2.4	4.2
Portugal	1.2	0.5	0.7	2.4
Spain	1.2	0.8	1.2	3.2
Sweden	1.1	0.2	-0.2	1.1
United Kingdom	1.1	0.5	0.5	2.0
United States	1.2	0.3	0.7	2.1

Note: OECD projections for increases in the costs of health and long-term care have been derived assuming unchanged policies and structural trends. The corresponding hypotheses are detailed in OECD (2006) under the heading "cost-pressure scenario". Projections of public pension spending are taken from EC Sustainability Report (2009) for EU countries, from Visco (2005) for Canada, Japan, Switzerland and the United States and Dang et al. (2001) for Australia, Korea and New Zealand.

Sources: OECD (2006), "Projecting OECD Health and Long-term Care Expenditures: What Are the Main Drivers?", OECD Economics Department Working Papers, No. 477, Paris ; Visco (2005), "Ageing and Pension System Reform: Implications for Financial Markets and Economic Policies", Financial Market Trends, November 2005 Supplement, OECD, Paris ; EC Sustainability Report (2009), Impact of Ageing Populations on Public Spending, European Commission, Brussels and Dang et al. (2001), "Fiscal Implications of Ageing: Projections of Age-Related Spending", OECD Economics Department Working Papers, No. 305, Paris.

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Slow fiscal consolidation implies a massive increase in debt…

OECD general government net and gross debt is projected to increase by about 30 percentage points of GDP by 2011 relative to pre-crisis levels and, under the assumptions set out above, by about a further 20 percentage points of GDP before it stabilises thereafter. The number of OECD countries with gross debt levels that exceed 100% of GDP would rise from three prior to the crisis to ten by the next decade. The change in net debt levels, as a percentage of GDP, is similar to that for gross debt, although the level of net debt is in general lower, particularly for Japan, Canada and the Nordic countries.[6] The magnitude of the area-wide increase in debt is partly a reflection of the magnitude of the increase in some of the largest countries; in particular the increase in debt by 2025 compared to pre-crisis levels for both the United States and Japan is greater than 50 percentage points of GDP, whereas the median increase across all OECD countries is about half that.

6. Net debt is in many respects the superior concept and underpins the fiscal rule described in Box 4.4. However, gross debt is more comparable across countries and represents what has to be financed through government debt issuance.

... which leads to higher long-term interest rates

One consequence of the increase in government debt is that there may be upward pressure on long-term interest rates. Although there is considerable uncertainty and controversy about the effect of fiscal imbalances on long-term interest rates (for surveys see OECD, 2009 and IMF, 2009), there is reason to believe that interest rates may now be more responsive to fiscal imbalances than suggested by the empirical literature. Indeed, one consequence of the crisis may be a permanent increase in risk aversion and hence risk premia.[7]

In addition, albeit possibly partly related, there is some evidence of non-linearities so that the responsiveness of interest rates may be greater at the higher post-crisis levels of indebtedness. For the purpose of the current exercise it is assumed that when gross government indebtedness passes a threshold of 75% of GDP then long-term interest rates increase by 4 basis points for every additional percentage point increase in the government debt-to-GDP ratio – a result which is consistent with the work of Laubach (2003) for the United States as well as more recent OECD work.[8] An important exception is Japan which has seen a substantial increase in indebtedness over the last two decades with little obvious effect so far on interest rates probably because of the high proportion of debt which is financed domestically rather than from overseas, so the responsiveness of interest rates to debt is assumed to be only one-quarter that for other countries.[9, 10] On this basis, the increase in government debt compared to pre-crisis levels could eventually add about 125 basis points to OECD long-term interest rates.

Current-account imbalances are set to re-emerge

Current-account imbalances declined sharply during the crisis (see the chapter on General Assessment, Figure 1.14). A part of this improvement is likely to persist, as asset price bubbles that were fuelling the deficits in the

7. Recent empirical work by Haugh *et al.* (2009b) suggest that euro area spreads are conditioned on a general measure of risk, which is proxied in the empirical work by the spread between US corporate bonds and US government bonds
8. Recent OECD empirical work suggests that over the period since the crisis there is a clearer impact of government debt on long-term interest rates which is greater at higher levels of indebtedness. Among the major OECD countries, but with the exception of Japan, panel threshold regressions suggest that since 2007 long-term interest rates relative to short–term rates are boosted by 0.04 basis points for each percentage point that general government debt exceeds 75% of GDP (Egert, 2010).
9. Debt dynamics in Japan, which already by a wide margin has the largest gross debt burden in the OECD, would obviously be highly sensitive to investor behaviour becoming more akin to that in other countries. It belongs in the assessment that Japan has been in deflation for a good part of the last decade and taking this into account the anomaly of Japanese bond yields is somewhat less pronounced.
10. For the sake of simplicity the assumptions adopted here are highly stylised. In practice, differences in the responsiveness of sovereign interest rates to fiscal imbalances are likely to depend on other country-specific factors. For example, Haugh *et al.* (2009b) find that among euro area countries, for a given worsening in the fiscal position, effects on interest rates may be larger in those countries with a poor fiscal track record, for those countries which start from a weaker fiscal position and for those countries which start from a higher tax-to-GDP ratio.

United States and in several European countries have burst, translating into higher savings rates and/or lower investment rates in those countries, and as measures are being taken to prevent their reappearance. Fiscal consolidation in the large current-account-deficit countries, to the extent it exceeds that in the surplus countries, should also help limit the increase in global imbalances, at least in the short run. Another part of the recent narrowing of imbalances, however, was of a temporary nature and has already started to reverse. This reversal reflects the rebound in commodity prices and also the recovery in demand in large-deficit countries. The further unwinding of cyclical effects is also likely to lead to some increase in global imbalances. In particular, as all economies return to full capacity both the US trade deficit and the Chinese trade surplus are likely to increase.[11] Thus, as the recovery continues and output gaps close, and in the absence of changes to policies that affect international imbalances, global current-account imbalances are set to continue to rise.[12]

Demographics and income convergence will not help

Recent empirical work (Cheung *et al.*, 2010a) suggests that demographic trends will tend to exacerbate global current-account imbalances in the medium run, particularly for both China and the United States, although there would be some offsetting effect to reduce the surplus in Japan. In addition, based on past historical trends, "catch-up" in per capita incomes in many emerging and developing economies, is not likely, in itself, to significantly reduce the scale of current-account imbalances in the absence of additional structural policy changes.

The baseline scenario implies persistent global imbalances…

On this basis, the baseline scenario foresees a widening of the US current-account deficit to about 4% of GDP by 2015 followed by a subsequent stabilisation, while the Chinese surplus would rise from about 4% in 2015 to about 5½ per cent of GDP in 2025 (Table 4.5). A recovery in oil and commodity prices would also bring about a rise in the current account surpluses of the main net oil-exporting countries. The net effect of the unwinding of cyclical factors and the effect of ageing populations imply a surplus in Japan of around 2-3% of GDP going into the next decade. The current-account balance of the euro area would stabilise at about 1% of GDP, although much bigger imbalances would remain within the area.

… and risks of disorderly adjustments

In summary, under the baseline scenario of mild fiscal consolidation and otherwise unchanged policies, no significant rebalancing of growth should be expected and the overall scale of global external imbalances

11. Recent OECD empirical work, which has further developed the estimation work reported in *Economic Outlook* No. 83 and 86, finds a robust inverse relationship between the non-oil trade balance (expressed as a percentage of GDP) and the *relative* output gap for the United States, Japan, euro area and China. The relative output gap measures the output gap in the country concerned relative to the output gap in a weighted average of trading partners. These measures suggest that the further unwinding of cyclical effects beyond 2011 balance could increase the Chinese current-account balance by about ½ percentage point of GDP and increase the US deficit by about ¼ of a percentage point.
12. See Blanchard and Milesi-Ferretti (2009) for an overview of the underlying distortions that may cause current-account imbalances.

Table 4.5. **A baseline scenario**

						Period averages		
	2008	2011	2015	2020	2025	2011-15	2016-20	2021-25
GDP growth (% pa)								
United States	0.4	3.2	2.8	2.4	2.3	2.7	2.5	2.3
Japan	-1.2	2.0	1.3	0.9	0.9	1.5	1.0	0.9
Euro area	0.5	1.8	2.5	1.7	1.5	2.2	1.7	1.6
OECD total	0.5	2.8	2.7	2.0	1.9	2.6	2.1	2.0
China	9.6	9.7	9.0	7.3	5.8	9.5	8.0	6.4
Other non-OECD Asia	5.1	7.6	6.2	5.8	5.1	6.7	5.9	5.4
Non-OECD total	6.6	7.0	4.7	4.4	4.0	5.5	4.5	4.2
World	2.8	4.5	3.4	3.0	2.9	3.7	3.1	3.0
Fiscal balance (% of GDP)								
United States	-6.5	-8.9	-7.7	-6.0	-3.7	-8.2	-6.7	-4.7
Japan	-2.1	-8.3	-5.7	-3.9	-1.8	-6.9	-4.6	-2.7
Euro area	-2.0	-5.7	-2.9	-2.3	-2.4	-4.2	-2.4	-2.3
OECD total	-3.2	-6.5	-4.7	-3.6	-2.5	-5.5	-4.0	-3.0
Gross government debt (% of GDP)								
United States	70	95	114	127	128	105	122	129
Japan	174	205	217	223	220	212	221	222
Euro area	76	97	102	101	101	100	102	101
OECD total	79	100	111	117	117	106	115	117
Current balance (% of GDP)								
United States	-4.9	-4.0	-4.1	-4.1	-4.2	-4.0	-4.1	-4.2
Japan	3.3	3.5	3.1	2.5	2.0	3.3	2.8	2.2
Euro area	-0.8	0.8	1.1	1.2	1.3	1.0	1.1	1.3
China	9.4	3.4	4.0	4.8	5.5	3.7	4.5	5.3
Other non-OECD Asia	2.7	1.9	1.7	1.6	1.5	1.8	1.6	1.5

Note: The baseline scenario extends the short-term projections described in chapters 1 and 2 under a set of stylised assumptions, including that output gaps are closed by 2015 and that there is a minimal degree of fiscal consolidation to ensure that an explosive path for government debt is avoided. For further details see text.
Source: OECD Economic Outlook 87 database.

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would edge slightly higher over the medium term albeit remaining below immediate pre-crisis levels (Figure 4.1). The risks of a disorderly unwinding of global current-account imbalances, including abrupt changes in exchange rates, would thus persist.

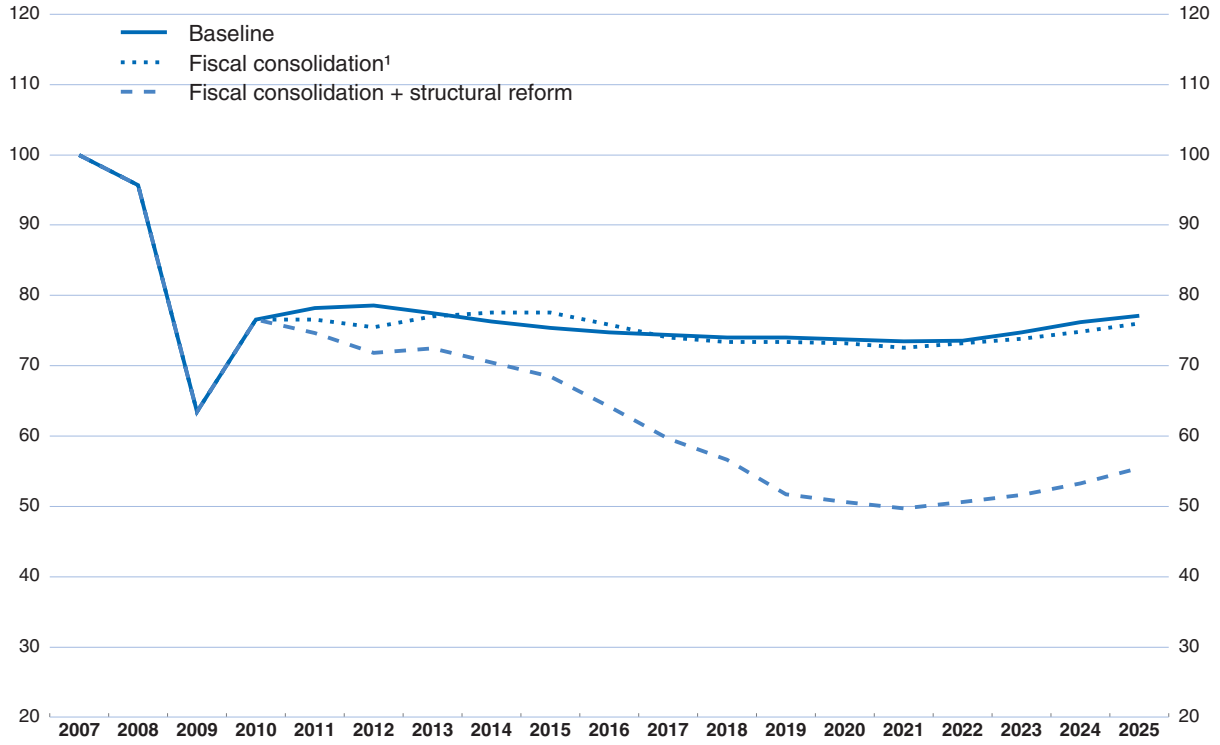
A policy scenario to reduce OECD fiscal indebtedness

Rising government indebtedness is a major concern

The build-up of government indebtedness in many OECD countries in the baseline scenario (Table 4.5), and the effect this may have on long-term interest rates is a cause for concern. Higher indebtedness is likely to constrain a government's ability to use fiscal policy to deal with future shocks (see Chapter 6) and to adjust to further fiscal costs of ageing. Higher interest rates on government debt, as well as substantially raising the costs of servicing debt for highly-indebted countries, are also likely to raise the interest rates paid by the corporate sector and so reduce business investment and hence potential growth, although this negative effect on potential output is not in the baseline scenario.

Figure 4.1. **Size of global imbalances**

Index 2007 = 100



1. Fiscal consolidation including exchange rate response.

Note: A summary measure of global current account imbalances is constructed as an absolute sum of the current balances in each of the main trading countries or regions expressed as a share of world GDP. This is then converted to an index so that the pre-crisis level of imbalances in 2007 is equal to 100.

Source: OECD calculations.

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An alternative scenario to reduce government debt to pre-crisis levels…

A variant policy scenario considered here is one in which there is sufficient fiscal consolidation across OECD countries to reduce government debt-to-GDP ratios in 2025 to the pre-crisis levels prevailing in each region (Table 4.6). Japan is an exception, where, because of the particularly large increase in government debt combined with limited or no scope to lower monetary policy rates in the short run, returning debt to pre-crisis levels even by 2025 would be extremely ambitious, so in the variant scenario considered here only half of the increase in debt is reversed by 2025. For all countries the additional consolidation begins in 2011 and is assumed to be initially focused on spending cuts, although it is later supported by tax increases.[13] Experience of previous fiscal

13. The fiscal consolidation is implemented in progressive steps, initially in the form of government spending cuts over five years, with the lower spending held as a stable share of GDP thereafter. The size of the initial step reductions in government spending are 1½, 1 and ¾ percentage points of GDP, for the United States, Japan and euro area, respectively. Beyond five years changes in taxes are used to target the required reduction in debt. It is assumed that fiscal consolidation measures do no harm to potential growth, which implies, for example, that spending cuts should avoid leading to inferior outcomes in areas such as infrastructure, innovation and education, and tax increases should avoid increasing labour costs; see Chapter 1 of OECD (2010a) for further discussion.

Table 4.6. **A fiscal consolidation scenario without exchange rate response**

						Difference from the baseline scenario			
	2008	2011	2015	2020	2025	2011	2015	2020	2025
GDP growth (% pa)									
United States	0.4	1.9	3.4	2.7	2.6	-1.3	0.7	0.3	0.2
Japan	-1.2	0.9	1.2	1.4	1.5	-1.1	-0.1	0.4	0.6
Euro area	0.5	1.1	3.2	1.7	1.7	-0.7	0.7	0.0	0.2
OECD total	0.5	1.8	3.1	2.2	2.2	-1.0	0.5	0.2	0.3
China	9.6	9.2	9.2	7.4	5.9	-0.5	0.2	0.1	0.1
Other non-OECD Asia	5.1	7.0	6.0	5.8	5.2	-0.6	-0.1	0.0	0.1
Non-OECD total	6.6	6.7	4.7	4.4	4.0	-0.4	0.0	0.0	0.0
World	2.8	3.7	3.8	3.2	3.1	-0.9	0.4	0.2	0.2
Fiscal balance (% of GDP)									
United States	-6.5	-7.4	-1.7	0.2	2.0	1.5	5.9	6.2	5.7
Japan	-2.1	-7.4	-3.5	-0.5	1.8	0.9	2.3	3.5	3.5
Euro area	-2.0	-5.0	-0.2	0.2	0.7	0.6	2.7	2.5	3.1
OECD total	-3.2	-5.6	-1.2	0.1	1.2	0.9	3.4	3.7	3.7
Gross government debt (% of GDP)									
United States	70	95	99	91	76	0	-14	-36	-53
Japan	174	206	216	213	191	1	-1	-10	-29
Euro area	76	97	95	86	77	0	-7	-15	-25
OECD total	79	101	107	100	88	1	-4	-16	-29
Current balance (% of GDP)									
United States	-4.9	-3.7	-4.0	-4.1	-4.2	0.3	0.1	0.0	0.0
Japan	3.3	3.8	4.3	3.8	2.7	0.3	1.2	1.2	0.7
Euro area	-0.8	1.1	0.4	1.2	1.4	0.2	-0.7	0.1	0.1
China	9.4	3.2	3.9	4.5	5.3	-0.2	-0.2	-0.3	-0.2
Other non-OECD Asia	2.7	1.3	1.6	1.4	1.2	-0.5	-0.1	-0.2	-0.3

Note: This scenario builds in additional fiscal consolidation from 2011 onwards, over and above that built into the baseline scenario, in order to bring government debt-to-GDP ratios back close to pre-crisis levels by 2025, except for Japan where debt is reduced by half that amount.The effects of the additional fiscal consolidation are evaluated using simulations of the OECD Global Model.

Source: OECD calculations.

StatLink http://dx.doi.org/10.1787/888932307394

consolidation episodes in OECD countries suggests they are more likely to be successful if focused on spending cuts rather than tax increases (Guichard *et al.*, 2007). This supports the optimistic assumption that much of the fall in long-term interest rates predicated on lower government indebtedness occurs immediately, which in turn builds on the assumption that the fiscal consolidation plans are credible in financial markets.[14] However, in this first alternative scenario, consolidation plans are not assumed to entail any reaction in the currency markets.

... suggests additional fiscal consolidation could delay the recovery...

The monetary policy response together with lower long-term interest rates provide an offset to the multiplier effects of lower public spending and higher taxes, however the longer lags before lower interest rates affect the

14. An alternative scenario in which the effect on long-term interest rates only materialises once falls in debt are actually realised, implying financial market scepticism about government fiscal consolidation plans, greatly extends the period over which GDP effects are negative.

economy implies that fiscal consolidation would delay the recovery. The effects on GDP would depend on the timing of consolidation measures. If financial markets were convinced about governments' fiscal consolidation plans, then measures might be back-loaded with the most severe tightening delayed until the recovery had gathered momentum. Alternatively, and especially for those countries with the largest fiscal imbalances, it is likely that an early demonstration of intent would be required to establish credibility. The stylised profile of consolidation implemented for the model simulations reported here imply that for all OECD economies the GDP growth rate would be lowered in 2011 and 2012, depending on the extent of the required consolidation, with beneficial effects from lower interest rates gaining the upper hand and leading to a boost in growth (relative to the baseline scenario) in 2013 and beyond.[15] Japan is particularly hard hit by the additional fiscal consolidation because the scope for easing monetary policy is constrained by the zero interest rate bound on policy rates and because long-term interest rates are less sensitive to any reduction in indebtedness. For the euro area in aggregate, where the amount of consolidation required to return debt to pre-crisis levels is less than for either the United States or Japan, the initial adverse effects on GDP would be commensurately less. However, it is likely that the recovery would be more seriously delayed in a number of euro area countries (including Portugal, Ireland, Spain and Greece) which would have to undergo substantial fiscal consolidation to reduce debt to pre-crisis levels and which would receive little support from a more accommodative monetary policy which is set to reflect area-wide conditions.

… although it would provide a boost to output over the medium term

Lower long-term interest rates would, however, boost medium-term growth and lead to gains in the level of OECD and global GDP. By 2025 the level of OECD and global GDP is about 2% higher than in the baseline, with the GDP growth rate in all major OECD countries higher (relative to the baseline scenario) over the period 2016-25. The fiscal consolidation scenario has only limited impact on external imbalances, in part because all OECD economies engage in consolidation.

Exchange rate responses could reduce imbalances

Fiscal consolidation in most OECD countries would be likely to generate some depreciation of OECD exchange rates *vis-à-vis* the non-OECD. For the purposes of a variant scenario, OECD currencies are assumed to fall by 10% immediately and by a further 10% over the following ten years in response to the announcement of the consolidation path. This has the effect of reducing the current account surpluses in China and other non-OECD Asian countries by about ½ percentage point of GDP, as well as reducing the US deficit by a similar amount relative to the "pure" fiscal consolidation scenario (Table 4.7).

… and strengthen OECD fiscal positions, but other imbalances would remain

Other imbalances could, however, emerge. Firstly, in order to compensate for tighter fiscal policy, monetary policy would be much looser so that short-term interest rates in most OECD countries would

15. Net gains to the overall level of GDP from additional fiscal consolidation undertaken in 2011 would not materialise until 2014 or 2015 for most OECD economies and for Japan it would take much longer.

Table 4.7. **A fiscal consolidation scenario with exchange-rate response**

						Difference from the baseline scenario			
	2008	2011	2015	2020	2025	2011	2015	2020	2025
GDP growth (% pa)									
United States	0.4	2.1	3.4	2.6	2.5	-1.1	0.6	0.2	0.2
Japan	-1.2	1.1	1.3	1.4	1.5	-0.9	-0.1	0.5	0.6
Euro area	0.5	1.4	3.0	1.7	1.6	-0.3	0.5	0.0	0.1
OECD total	0.5	2.1	3.1	2.2	2.2	-0.7	0.4	0.2	0.2
China	9.6	9.1	9.1	7.3	5.8	-0.6	0.1	0.0	0.0
Other non-OECD Asia	5.1	6.6	6.1	5.8	5.2	-1.0	0.0	0.0	0.1
Non-OECD total	6.6	6.4	4.6	4.4	4.0	-0.6	-0.1	0.0	0.0
World	2.8	3.8	3.7	3.2	3.1	-0.7	0.3	0.2	0.2
Fiscal balance (% of GDP)									
United States	-6.5	-7.4	-2.0	-0.2	1.7	1.5	5.7	5.8	5.4
Japan	-2.1	-7.4	-3.4	-0.5	1.7	1.0	2.3	3.4	3.4
Euro area	-2.0	-5.0	-0.5	-0.2	0.1	0.7	2.3	2.1	2.5
OECD total	-3.2	-5.6	-1.4	-0.1	0.9	0.9	3.3	3.5	3.4
Gross government debt (% of GDP)									
United States	70	94	98	89	74	-1	-15	-37	-54
Japan	174	205	213	208	185	1	-4	-15	-35
Euro area	76	96	95	86	78	0	-7	-15	-24
OECD total	79	100	106	98	86	0	-5	-18	-30
Current balance (% of GDP)									
United States	-4.9	-3.6	-3.6	-3.5	-3.5	0.4	0.5	0.6	0.7
Japan	3.3	4.0	4.6	4.3	3.5	0.5	1.5	1.8	1.5
Euro area	-0.8	1.1	0.7	1.4	1.7	0.3	-0.4	0.2	0.3
China	9.4	2.8	3.3	3.8	4.7	-0.6	-0.7	-1.1	-0.8
Other non-OECD Asia	2.7	1.5	1.3	1.0	0.7	-0.4	-0.4	-0.6	-0.8

Note: This scenario builds on the fiscal consolidation scenario summarised in Table 4.6 by assuming an adjustment of exchange rates. All non-OECD exchange rates are assumed to appreciate by 10% in 2011 and by an additional 1% per annum vis-a-vis OECD. The effects of the exchange-rate adjustment are evaluated using simulations of the OECD Global Model.

Source: OECD calculations.

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remain extremely low over much of the coming decade, leaving little scope for active monetary policy in case of negative shocks. Secondly, if the recovery in OECD countries is significantly delayed, then from a starting point of already low inflation the risk of deflation increases over the remainder of this decade for more countries than just Japan.

A policy scenario for healthy growth and lower imbalances

Global imbalances would not be resolved by OECD fiscal consolidation

In the fiscal consolidation scenarios considered above, global imbalances would remain substantial with the US current-account deficit remaining at around 4% of GDP and the Chinese surplus at around 5 per cent of GDP. Moreover, imbalances would widen elsewhere, notably in Japan, leaving the overall size of global external imbalances roughly unchanged from the baseline (Figure 4.1). This suggests that further policy measures would be required to address underlying savings imbalances and support medium-term growth in some regions.

Policies could increase absorption in China and the rest of Asia…

Policy actions, that are desirable in their own right, could help reduce such imbalances by removing domestic restrictions and distortions that limit absorption in the surplus countries and saving in the deficit countries. Previous and ongoing OECD work suggests that structural policy reforms can have an effect on saving, investment and current-account balances (see Box 4.5). Higher spending on social welfare in countries where provision is

Box 4.5. **The impact of structural policy reforms on current-account balances**

The primary goal of structural reforms is not to address global current-account imbalances, and their long-run impact on current accounts would be expected to be small in general since they boost both supply and demand. However, structural reforms can have more or less persistent side effects on current accounts, through their impact on the saving and investment behavior of private agents: [1]

- ***Improvements in the sophistication and depth of financial markets*** – if accompanied by strong prudential regulation – should, for example, foster investment by lifting credit constraints, reducing borrowing rates and/or enhancing financial market completeness. The impact on saving is more ambiguous. Easier access to credit should reduce saving, but the greater availability of saving instruments may increase it. Likewise, the higher expected returns may increase or reduce saving depending on which of the intertemporal substitution effect or the income and wealth effect dominates. Overall, insofar as the positive investment effect dominates any positive domestic saving effect, improvements in the sophistication and depth of financial markets would trigger a reduction in the current account balance, a net capital inflow and an appreciation of the real exchange rate. These effects would hold also if a greater supply of investor-friendly financial vehicles were to lead to a capital inflow, putting downward pressure on domestic interest rates and upward pressure on the exchange rate.
- ***The easing of competition-unfriendly product market regulation*** should stimulate investment through greater firm entry and lower adjustment costs (less red tape) for existing firms. However, to the extent that reforms are accompanied by the privatisation of public enterprises that have been heavy investors, investment may also fall. On the saving side, household saving will decline temporarily if stronger product market competition boosts expected future income growth and consumers attempt to frontload some of those benefits by raising consumption (the so-called permanent income effect). This latter effect is likely to be especially strong when financial markets are sufficiently developed and competitive to allow households to borrow against future income. This highlights the role of financial market reforms for magnifying the current account impact of product market reforms in some countries with current-account surpluses such as *e.g.* Japan or China. It is also the case that reforms in sheltered sectors, making investment and employment in these more attractive, is likely to have a stronger negative effect on the current accounts than reform in traded-goods sectors.
- ***More developed social security programmes*** reduce the need for precautionary saving as a means of preparing against emergencies such as unemployment, sickness or disability and are therefore likely to be associated with lower household saving. Moreover, the asset tests associated with means-tested social programmes could discourage asset holding (and thus saving) in order to qualify for benefits. Pension reforms – in particular unanticipated ones – are also likely to have a sizable effect on private saving given the importance of the precautionary motive (having sufficient income in retirement) in the saving decisions of many (especially older) households.
- ***Labour market reforms*** that reduce the level of employment protection should encourage households to save more for precautionary purposes.[2] The impact is likely to be smaller in countries with more generous social security systems (*e.g.* a higher level or longer duration of unemployment benefits) as this mitigates the size of the income loss due to unemployment. At the same time, by raising job turnover, lower employment protection should also lead to a better match between jobs and employees, thereby boosting productivity and, ultimately, investment. The net impact on the current account is therefore ambiguous in the medium term, after a positive short-term impact. Generous unemployment benefits which are available over long periods can lead to higher structural unemployment and may also tend to reduce precautionary savings.

Box 4.5. **The impact of structural policy reforms on current-account balances** *(cont.)*

- ***Tax reforms*** should also affect the investment and saving decisions of firms and households, not least via their impact on after-tax income, the after-tax rate of return on saving and via the tax deductibility of the expenses for fixed assets (depreciation allowances) and of interest expenses on loans. In deficit countries where the tax treatment of interest expenses on loans is particularly generous, such as in the United States, phasing out this special treatment could contribute to reduce global current-account imbalances.

Ultimately, the direction and size of the impact of structural policy reforms on saving, investment and the current account depend on their precise nature and are sometimes ambiguous and thus remain to a large extent an empirical issue. Previous OECD work suggests that financial market reforms have a positive impact on investment (*e.g.* Cheung *et al*., 2010; OECD, 2003; Pelgrin *et al*., 2002), and a negative impact on the current account position (*e.g.* Cheung *et al*., 2010; Kennedy and Sløk, 2005). Likewise, there is some tentative evidence that product market deregulation boosts investment (Alesina *et al*., 2005) and worsens the current account (Kennedy and Sløk, 2005), while changes in employment protection legislation have no significant effect (Kennedy and Sløk, 2005). Regarding taxation, OECD analysis suggests that corporate tax cuts and increases in depreciation allowances boost firm investment (Vartia, 2008; Schwellnus and Arnold, 2008).

There is also evidence that higher social spending reduces private saving. Following the approach of Baldacci *et al*. (2010) and Furceri and Mourougane (2010), new OECD estimates suggest that the effect of higher social spending on the GDP share of national saving is non-linear, implying larger marginal impacts in countries with lower levels of social spending. The results imply, for example, that a 1% of GDP increase in social spending would reduce the saving-to-GDP ratio by about ½ percentage point in the average OECD country, but by as much as 1 percentage point in China. As a result the simulated increase by 1¾ percentage points of GDP in social spending in China could reduce saving by about 1½-2% of GDP in the medium and long term.[3]

Forthcoming OECD work will reassess previous OECD evidence on the link between structural policies and current accounts along a number of dimensions. In particular, an ongoing study is investigating the impact on both aggregate and private saving and investment of reforms of the tax and benefit system as well as of financial, product, and labour market regulations.

1. To the extent that internal and external sources of financing are not perfectly substitutable, any impact on the saving decisions of private agents will also have repercussions on their investment behavior.
2. While the actual likelihood of unemployment should also increase, this effect is likely to be partly countered by a shorter duration of unemployment spells.
3. Pension and health care reforms are also found to have a significant impact on household saving in China. Feng et al. (2009) show that the pension reform for enterprise employees in China implemented in the late 1990s lowered pension wealth and raised household savings. Barnett and Brooks (2010) show that each Yuan increase in health spending leads to up to a two Yuan increase in urban household consumption.

Sources: Baldacci, E., G. Callegari, D. Coady, D. Ding, M Kumar, P. Tommasino and J. Woo, "Public Expenditures on Social Programs and Household Consumption in China", *IMF Working Papers* 10/69. Barnett, S. and R. Brooks (2010), "China: Does Government Health and Education Spending Boost Consumption?", *IMF Working Papers* 10/16. Feng, J., L. He and H. Sato (2009), "Public pension and household saving: Evidence from China"*Bank of Finland Discussion Paper.* Furceri, D. and A. Mourougane (2010), "The Influence of Age Structure on Saving and Social Spending", *ADBI Working Paper* (forthcoming). OECD (2003), *The Sources of Economic Growth in the OECD Countries*, OECD, Paris. Kennedy, M. and T. Sløk (2005), "Structural policy reforms and external imbalances", *OECD Economics Department Working Papers*, No. 415. Cheung, C., D. Fuceri and E. Rusticelli (2010), "Current-account balances: structural and cyclical determinants", forthcoming. Vartia, L. (2008), "Do corporate taxes reduce productivity and investment at the firm level? Cross-country evidence from the Amadeus dataset", *OECD Economics Department Working Papers*, No. 641. Schwellnus, C. and J. Arnold (2008), "How do taxes affect investment and productivity? An industry-level analysis of OECD countries", *OECD Economics Department Working Papers*, No. 656. Alesina, A., S. Ardagna, G. Nicoletti and F. Schiantarelli (2005), Regulation and investment, *Journal of the European Economic Association*, Vol. 3, pp. 791-825. Pelgrin, F., S. Schich and A. de Serres (2002), "Increases in business investment rates in OECD countries in the 1990s: How much can be explained by fundamentals", *OECD Economics Department Working Papers*, No. 327.

currently low could help reduce precautionary saving. This effect could be particularly important in China, where social protection programmes have improved tangibly, but coverage remains uneven across regions. Further reforms to reduce segmentation in social assistance and expand the provision of affordable health care and pension benefits could thus help

lower saving rates and a more generous social system would not have to be fully financed by taxation but could be partly financed by maintaining a less strict fiscal stance over the cycle (OECD, 2010b). Improving the business environment and the functioning of financial markets to expand access to consumer credit and reduce excessive corporate savings would also contribute to lowering the current-account surplus. In addition, if the renminbi was allowed to adjust flexibly the Chinese currency would likely appreciate, which would help rebalance growth away from exports towards domestic demand while reducing inflationary pressure. In some dynamic Asian economies with strong underlying fiscal positions, loosening fiscal stances to shift away from reserve accumulation strategies, as well as developing local financial markets would also help lower private savings and contribute to further reducing the overall current-account surplus. In surplus European countries, as well as in Japan, the easing of product market regulation in sheltered sectors could also boost investment, increase growth and lead to a shift of resources away from production of tradables. All these reforms would contribute to boosting growth and well-being in the referencing country, in addition to their helping rebalance current-account positions.

… and reduce it in the United States

Structural reforms would also help in deficit countries. In particular, in the United States, the improvement of financial sector regulation should foster household deleveraging over the medium term and could narrow the current-account deficit by further increasing the private savings rate. Also a tax reform including the elimination of distortionary tax incentives could support household saving (OECD, 2005). In particular, the mortgage interest deduction could be reduced and a value-added tax (VAT) introduced. The pricing of environmental externalities of fossil fuel use will also reduce the fuel intensity of the US economy and possibly fuel imports and the overall external deficit.

Structural reforms could support growth in Europe and Japan

In the euro area, where the crisis is expected to have a stronger and more durable effect on structural unemployment, reforms in the product and labour markets could boost potential growth and reduce structural unemployment. This should also help fiscal consolidation by reducing social expenditures. In Japan, where the priority is to durably reflate the economy, reforms that boost demand would be preferable. In particular, easing product market regulation and deepening financial markets could be helpful. It may also be the case that the current corporate sector saving surplus reflects structural impediments that could be reformed with the effect of boosting household income and possibly consumption.

A policy package including structural reforms…

A further scenario is considered in which it is assumed that a package of generic policy reforms, along the lines described in Box 4.5, is adopted in combination with OECD fiscal consolidation. The specific scenario considered here includes a combination of policy reforms to improve social safety nets, access of households to credit and reforms to the business and financial environment which is assumed to lower private and public saving by 3% of GDP in China and other non-OECD Asian economies. Reforms are

also assumed to increase private demand by 2% of GDP in Japan, while raising private saving by 1% of GDP in the United States. These changes are all assumed to be phased in over eight years beginning from 2011. It is assumed that exchange rates adjust additionally to the previous scenario of fiscal consolidation by a magnitude sufficient that the resulting change in net exports compensates for the change in domestic spending. Thus the renminbi is assumed to appreciate sufficiently, by 20% over two years, so that the impact of lower private savings on GDP is roughly compensated by lower net exports. Similarly the dollar is assumed to depreciate sufficiently, by 10%, so that the impact of higher private savings on GDP is roughly compensated by higher net exports. Finally, policy reforms in the euro area are assumed to gradually reduce structural unemployment by 2 percentage points over the next eight years to bring it more into line with the average across other OECD countries.[16]

Table 4.8. **A combined scenario of fiscal consolidation, exchange-rate realignment and structural reform**

						Difference from the baseline scenario			
	2008	2011	2015	2020	2025	2011	2015	2020	2025
GDP growth (% pa)									
United States	0.4	2.1	3.4	2.7	2.5	-1.1	0.6	0.3	0.2
Japan	-1.2	1.5	1.5	1.3	1.4	-0.5	0.2	0.3	0.5
Euro area	0.5	1.5	3.1	1.8	1.8	-0.2	0.5	0.2	0.3
OECD total	0.5	2.2	3.1	2.3	2.2	-0.6	0.4	0.3	0.3
China	9.6	9.4	9.1	7.2	5.7	-0.3	0.1	-0.2	-0.1
Other non-OECD Asia	5.1	7.0	6.6	5.7	5.2	-0.6	0.4	0.0	0.1
Non-OECD total	6.6	6.6	4.7	4.4	3.9	-0.4	0.0	-0.1	0.0
World	2.8	3.9	3.7	3.2	3.1	-0.6	0.3	0.2	0.2
Fiscal balance (% of GDP)									
United States	-6.5	-7.4	-2.0	0.0	1.8	1.5	5.7	6.1	5.5
Japan	-2.1	-7.3	-3.1	-0.2	1.9	1.0	2.6	3.7	3.6
Euro area	-2.0	-5.0	-0.5	0.1	0.5	0.7	2.3	2.4	2.9
OECD total	-3.2	-5.6	-1.3	0.1	1.1	1.0	3.3	3.7	3.6
Gross government debt (% of GDP)									
United States	70	94	99	91	75	0	-15	-36	-54
Japan	174	204	203	192	170	-1	-14	-31	-50
Euro area	76	96	94	85	76	0	-8	-16	-26
OECD total	79	100	104	96	83	0	-7	-21	-33
Current balance (% of GDP)									
United States	-4.9	-3.5	-2.8	-1.6	-1.0	0.5	1.3	2.5	3.2
Japan	3.3	3.9	4.8	4.0	2.9	0.4	1.7	1.5	0.9
Euro area	-0.8	1.2	0.7	1.2	1.8	0.3	-0.4	0.0	0.5
China	9.4	2.3	2.2	2.2	3.1	-1.0	-1.9	-2.6	-2.4
Other non-OECD Asia	2.7	1.5	0.7	0.0	-0.7	-0.4	-1.0	-1.6	-2.2

Note: This scenario builds on the fiscal consolidation plus exchange rate adjustment scenario summarised in Table 4.7 by assuming the implmentation of additional structural polices as described in the text. The effects of the structural policies are evaluated using simulations of the OECD Global Model.

Source: OECD calculations.

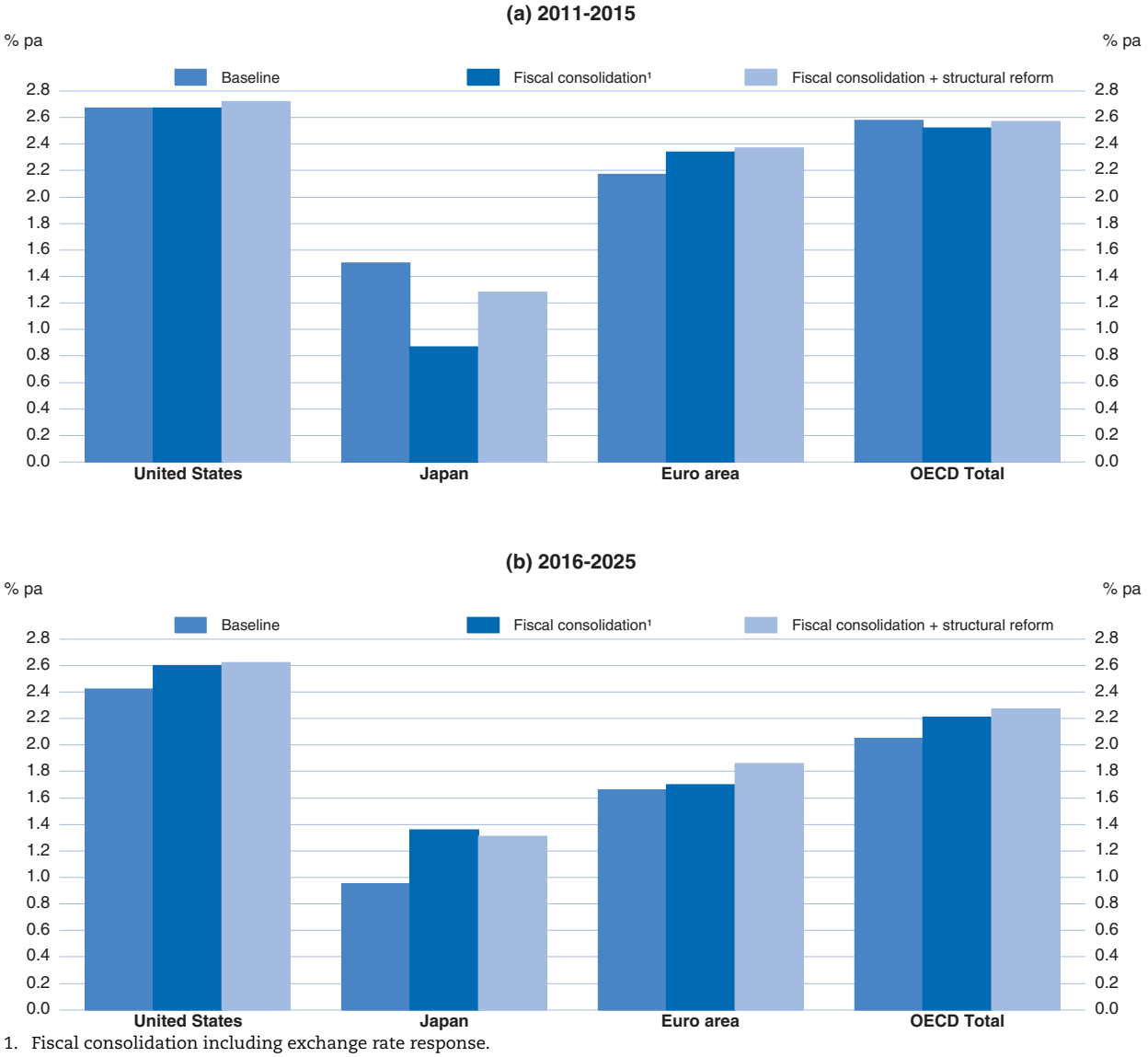
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16. Structural reforms are also required in individual euro area countries to help reduce current-account imbalances within the euro area, as discussed in Box 1.5 in Chapter 1.

… could promote strong and balanced global growth

In such a scenario, short-term interest rates would move substantially higher than in the baseline scenario. Japan would exit deflation more durably and achieve sufficient gains in nominal output growth to allow a further reduction in debt levels compared with the fiscal consolidation scenarios. Short-term inflation pressures would be better contained in China. Structural reforms would also boost growth in the euro area. In the longer term, current-account imbalances would be substantially lower and put on a declining path (Table 4.8). The combination of policies would lower the external deficit of the United States by 2½ percentage points of GDP relative to the scenario with fiscal consolidation and exchange rate adjustment, while reducing the surplus of China by more than

Figure 4.2. **A comparison of GDP growth across scenarios**



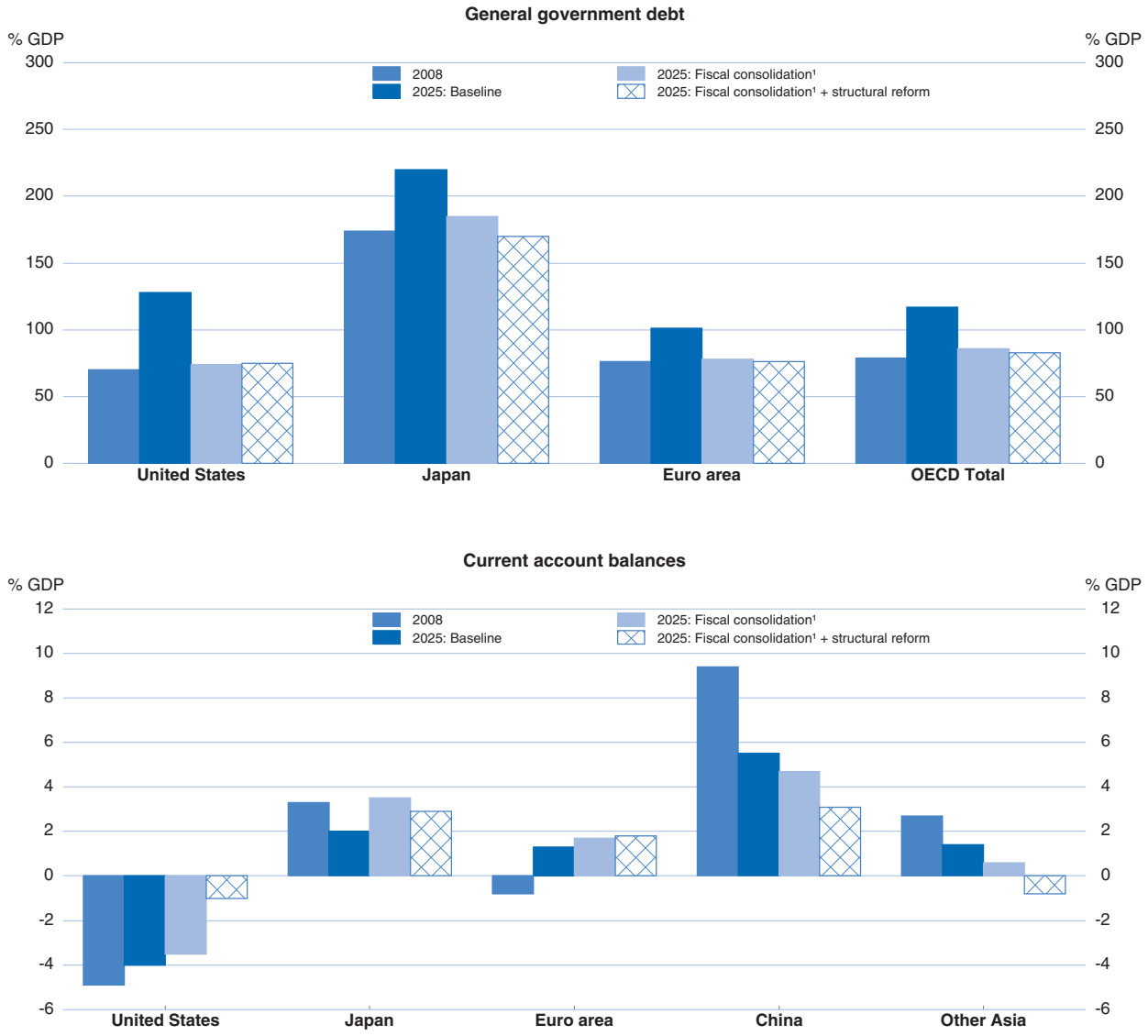
1. Fiscal consolidation including exchange rate response.

Source: OECD calculations.

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1½ percentage points of GDP. The combined scenario would raise the medium-term level of output and the growth rate of the OECD as compared with the baseline and the fiscal consolidation scenario (Figure 4.2), while returning government debt to pre-crisis levels. Furthermore, overall external imbalances would narrow substantially relative to the baseline over the medium term (Figures 4.1 and 4.3).

Figure 4.3. **A comparison of major imbalances across scenarios**



1. Fiscal consolidation including exchange rate response.

Source: OECD calculations.

StatLink http://dx.doi.org/10.1787/888932305209

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Chapter 5

RETURN TO WORK AFTER THE CRISIS

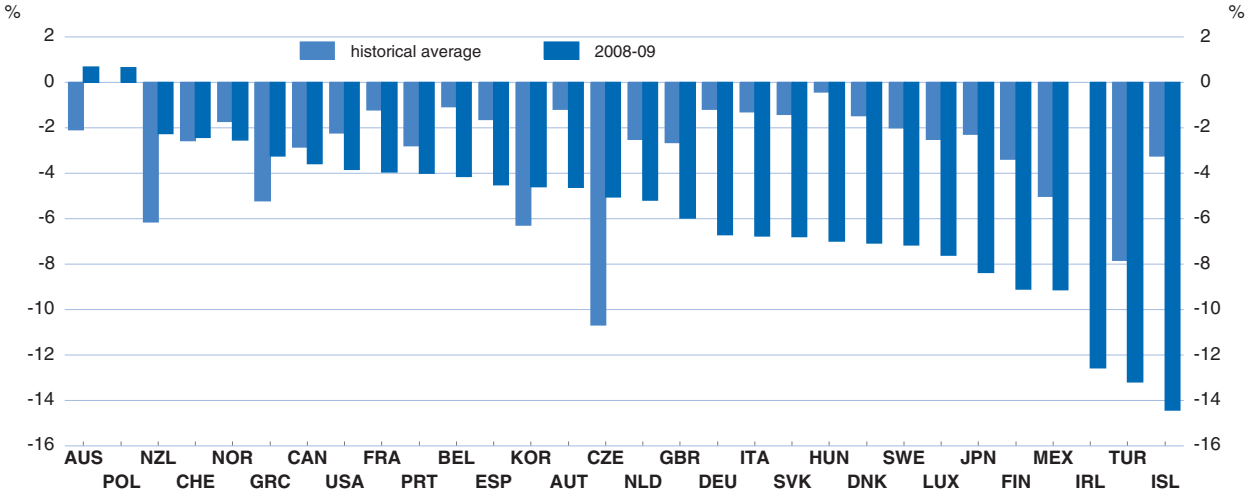
Introduction and main findings

OECD economies have suffered a massive negative shock

The recession that struck nearly all OECD economies during 2008 and 2009 was very deep by historical standards (Figure 5.1).[1] It had profound but very differentiated impacts on OECD labour markets. Most prominently, unemployment rose sharply in a number of countries but in others it has increased surprisingly little. This diverse range of individual country experiences is shaping the policy challenge that individual countries are facing in getting people back to work. Based on historical experience, the challenge is strong. Unemployment ultimately returned to pre-recession levels in only about two-thirds of past OECD recession

Figure 5.1. **The 2008-09 recession in historical comparison**

Percentage change in real GDP from peak to trough



Note: The number of recessions used to calculate the historical average varies across countries depending on data availability and the frequency of recessions. Recessions that occurred in the period from approximately 1960 until 2009 are included. Australia and Poland did not have a recession in the 2008-09 period but are shown for comparison purposes over the period 2008q3 to 2009q2. Ireland and Poland have no historical episodes available for comparison and Hungary and the Slovak Republic have only one episode available. Turning points are calculated using actual GDP data only. For Greece the period between 2008Q3 and 2009Q4 is shown because there is no trough in the most recent recession in the available data.

Source: OECD Economic Outlook 87 database; and various national sources for data on hours worked.

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1. Twenty-eight out of 30 OECD countries, the sole exceptions being Australia and Poland, suffered a recession. The recession was larger in 2008-09 than historical experience in 24 of the 28 countries. There is no single operational definition of a recession, but for the purpose of this paper recessions are defined to occur between local peaks and troughs of real GDP series in levels. A local peak (trough) occurs at time t when $y_t > (<) y_{t\pm k}$ where k = 1, 2. The turning points are further refined by the following requirement: the peaks and troughs must alternate, each cycle must have a minimum duration of five quarters and each phase (expansion, recession) must be at least two quarters long.

episodes, and even so it took on average about nine years, and typically longer after major recessions.

The immediate challenges are to reduce cyclical unemployment while preserving long-run growth

This chapter compares labour market adjustments to the recession across the OECD and then discusses how to promote a sustained job-rich recovery and prevent the emergence of long-lasting structural labour market problems (so-called hysteresis) in the wake of the crisis. The principal focus of the chapter is on the near-term challenges for labour market policies in bringing the unemployment rate back down towards its structural level, whilst minimising any deleterious, long-lasting effects from the crisis on the structural rate itself or on productivity. A pre-requisite for reducing current high levels of cyclical unemployment is for aggregate demand to recover; the appropriate macroeconomic policies to support the recovery in OECD countries are identified in Chapters 1 and 2. However, cross-country differences in structural labour and product market characteristics and the policies adopted will affect the speed and extent to which cyclical unemployment can be reduced in the coming years. Many of the labour market reforms that would help deal with these immediate challenges could, if implemented effectively, also have durable positive effects on GDP per capita levels, boosting potential output and reducing structural unemployment.

Key developments and risks include…

The main findings of this chapter regarding developments during the recession and key risks and uncertainties in the early stages of the recovery are as follows:

… labour input adjustment has differed across countries in size…

- Labour markets have adjusted to the recession in very different ways across the OECD, and this heterogeneity has been greater than in past recessions. Given the magnitude of output losses, most European countries and Japan have seen relatively small declines in labour input (total hours worked) and large drops in productivity, while in North America as well as Spain labour input fell sharply and productivity increased.

… as well as in composition….

- OECD countries also differed in how they adjusted labour input. Most continental European countries and Japan experienced stronger reductions in working time, and thus suffered a much lower drop in employment, than for example the United States and Spain. Labour force participation declined in about half of OECD countries but it increased in the other half, arithmetically either damping or amplifying the unemployment effects of employment declines.

… with the response of average hours differing widely

- Cross-country differences in the response of average hours worked reflect a number of features, including collective bargaining and policy settings. Stricter employment protection (EP), more flexible hours averaging rules, and in some cases collective bargaining agreements tend to encourage working-hours adjustment. But many countries, especially in Europe, have also encouraged employment retention by

introducing or scaling-up often generous short-time working schemes (STWs). New OECD analysis suggests that, where they have been most used, STWs may have dampened declines in employment of permanent workers by between 0.1% and 1.3%.

Employment preservation in the recession could raise the risk of a jobless recovery…

- Past experience suggests that the extent of employment preservation through labour hoarding during a recession provides only a rough indication of how job-rich or poor the recovery will be. However, in cases of extreme labour hoarding (as measured by a sharp fall in labour productivity) during a recession, the risk of a jobless recovery is likely to be higher, hinting at a larger risk at the current juncture in a number of European countries and Japan than in North America. Indeed if working hours and productivity per hour worked were to rise back to their normal trend levels, GDP could rise from its trough by over 8% without any increase in employment in Germany and Japan and by several per cent in most other European countries, as opposed to about 1½ per cent in the United States.

… though past structural reforms have reduced the risk of persistently higher unemployment

- Past structural reforms and the small magnitude of job losses since the onset of this recession in a number of OECD countries have reduced the risk that employment declines persist as seen in the crises of the 1970s and 1980s. Nonetheless, under current institutional settings and based on empirical evidence from past recessions, the current crisis could raise structural unemployment in the medium term by about ½ percentage point on average. However, there is wide cross-country variation around these estimates, as well as sizeable uncertainties, reflecting in part the peculiar features of this crisis.

Policy settings going forward will have to reflect…

Going forward, the lessons from past experience can help guide the mix of labour market and other structural policy settings needed to reduce cyclical unemployment whilst preserving long-term growth. The following are some of the key policies that would improve the functioning of the labour market coming out of the crisis:

… a starting point of higher spending

- As part of the fiscal stimulus packages, most OECD countries have devoted greater resources to labour market and social policy measures to cushion the negative effects of the crisis on workers and low-income households. While unemployment benefits have automatically stepped in to sustain the income of many job losers, several countries have extended their coverage and, in some cases, maximum duration to provide a better safety net. At the same time, many countries have introduced or scaled up measures to support labour demand and provided additional funding to active labour market policies (ALMPs).

Pressure to extend STWs should be resisted

- Under tight fiscal conditions, most OECD countries intend to maintain over the near term the resources they have devoted to labour market policy measures since the start of the crisis. Even so, the focus of policy interventions is often shifting to respond to the evolving conditions in

the labour market. In this context, STWs are scheduled to be phased out in most countries by the end of 2010. It will be important to resist political-economy pressures to extend such plans to minimise the risk of persistent declines in hours worked and to ensure that STWs do not hinder productivity-enhancing labour reallocation across the economy during the recovery.

Tight budgets favour a move towards temporary net hiring subsidies

- Many countries have also supported labour demand through different types of labour tax cuts, in particular reductions in social security contributions – sometimes targeted to disadvantaged groups of workers – and hiring subsidies. Fiscal constraints and growing dead-weight losses as the recovery proceeds counsel increased reliance on employment subsidies that target net employment increases. Temporary use of such schemes could help speed up the job recovery, but achieving high take-up rates requires addressing complex design issues.

Activation is an essential tool for getting people back into work

- ALMPs are an important ingredient for preventing unemployment hysteresis and maintaining labour market attachment. While ALMPs have been scaled up to provide support to the greater number of jobseekers, the mix of services provided also needs adjustment to ensure that different jobseekers receive the appropriate support. In this regard, it is essential to maintain core job-search assistance, while greater efforts may be needed to provide training opportunities or even subsidised work experience as a backstop to activation for the most hard-to-place unemployed.

Increased benefit generosity will require scaling back in some cases

- Where unemployment benefits were already high and/or long-lasting, recent extensions will need to be scaled back in the recovery to reduce the risk of unemployment hysteresis. By contrast, recent increases in coverage could be made permanent provided similar effective activation requirements are applied to the new recipients.

Structural reforms would encourage a more job-rich and equitable recovery

- Further structural reforms including reductions in anti-competitive product market regulations (PMRs) could also make the recovery more job-rich, especially if they take place in sectors with immediate job-creation potential such as retail trade and professional services. Likewise, some rebalancing of EP towards less strict protection for regular workers, but more protection for temporary workers, along with further reforms to make activation more effective, could enhance both labour market efficiency and – by reducing dualism – equity.

Governments should avoid relaxing access to early retirement, sickness and diability benefits

- Finally, efforts are needed to maintain or strengthen the labour market attachment of vulnerable groups that otherwise could be discouraged from participating in the labour force. Unlike in past recessions, the participation of older workers has increased in most countries so far in this crisis, reflecting in part large pension and housing wealth losses and past efforts to tighten access to *de facto* early retirement systems.

Governments should continue to resist the temptation to relax eligibility criteria to such schemes, and even consider tightening them as past experience points to a risk of over-use in the aftermath of recessions. Transferring the unemployed to long-term sickness or disability benefits should also be eschewed, as experience shows that this is a one-way street – the probability of a return to the labour market is extremely low.

Combined training and work programmes can help reduce the impact of the crisis on youth

- Young persons are likely to suffer large participation declines and scarring effects from the recession and therefore merit special attention. In this context, it is important to ensure that out-of-school youth who are encountering difficulty in the labour market can access appropriate active labour market programmes. For low-skilled youth jobseekers, whose chances of finding a job in the short-term are weak, governments should consider a combined training and work approach to enhance their human capital and maintain their labour market attachment.

Response of the labour market to the recession

How has labour input adjusted to the shock?

Hourly labour productivity fell in most countries

In most countries for which data are available, total hours worked were reduced less than output, meaning that productivity declined on an hourly basis during the 2008-09 recession (Figure 5.2). In general, productivity declines have also been larger, and – given the magnitude of output losses – labour input adjustment has been smaller during this downturn than in earlier ones.[2] Some notable exceptions were North America and Spain where labour input actually fell faster than output, translating into a productivity increase in this recession which was stronger than in previous episodes.[3]

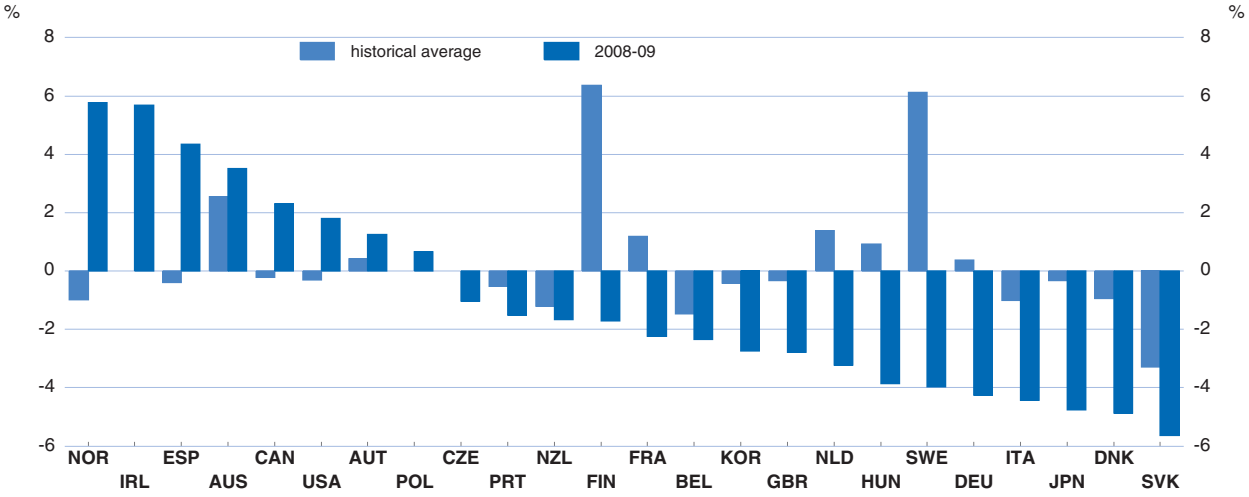
Hours took more of the adjustment in some countries this time around

OECD countries differed not only in how much, but also in how they adjusted labour input. In many European countries and Japan, adjustment mainly took place through cuts in working hours rather than through employment declines (Figure 5.3).[4] In Germany, extreme labour hoarding occurred as employment continued to rise during the recession, with the reduction in average hours accounting for more than 100% of the total net reduction in labour input. By contrast, in a few countries, including Spain and the United States, adjustment mainly took place at the extensive rather than at the intensive margin.

2. The historical experience is based on previous downturns whose number and characteristics vary across countries.
3. Due to varying lags between changes in activity and labour input across countries, the adjustment of labour input to the negative output shock may have been more advanced in some countries than others when GDP reached its trough.
4. See Table 5.A1 for further details on the definitions and sources of the hours worked series.

Figure 5.2. **Labour productivity in the 2008-09 recession in historical comparison**

Percentage change in hourly productivity from peak to trough

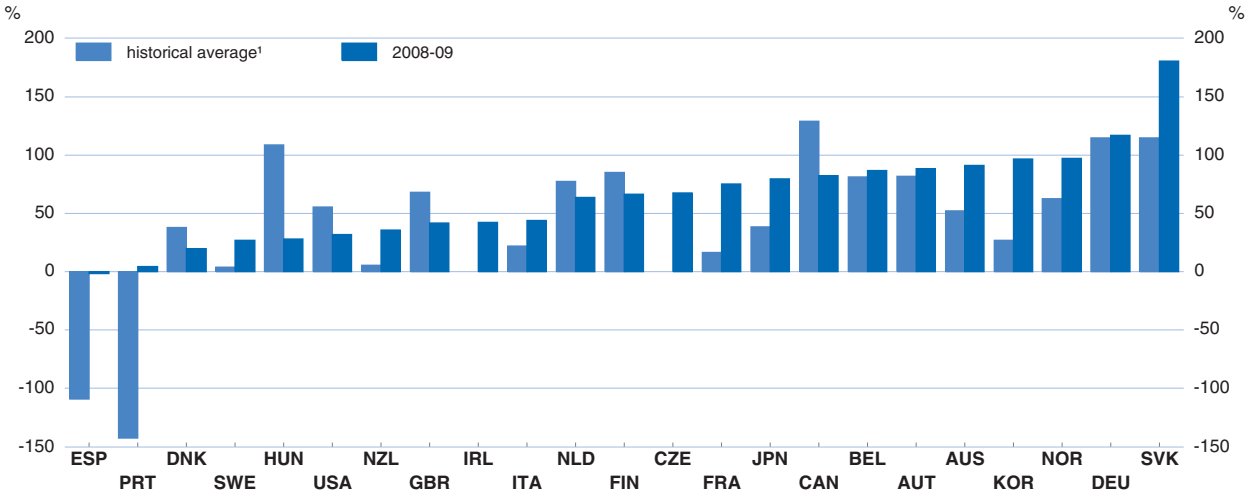


Note: Czech Republic, Ireland and Poland have no historical episodes available and Austria, Belgium, Hungary, Korea, the Netherlands, the Slovak Republic and Spain have only one historical episode available.

Source: OECD Economic Outlook 87 database; and various national sources for data on hours worked.

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Figure 5.3. **Contribution of average working time to labour input adjustment during recessions**



Note: The contribution is equal to the percentage of the total net change in labour input from the peak to trough in GDP due to average hours worked. A negative contribution arises when average hours worked rose during the recession.

1. The historical average is computed across previous recession episodes. For Austria, Belgium, Hungary, Korea, the Netherlands, the Slovak Republic and Spain, there is only one previous episode with declining labour input available for comparison. Czech Republic and Ireland have no historical episodes available.

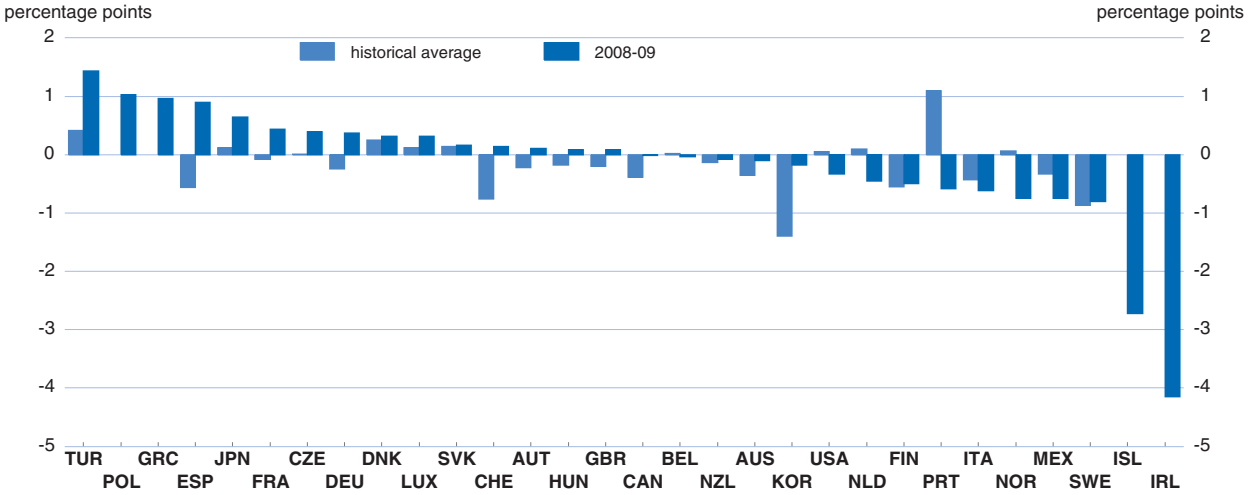
Source: OECD Economic Outlook 87 database; and various national sources for data on hours worked.

StatLink http://dx.doi.org/10.1787/888932305266

Different responses of labour force participation also contributed to…

The pattern of labour force participation changes showed wide variation across the OECD throughout the crisis, although the typical response has been milder than in past recession episodes, especially given the greater magnitude of the shock (Figure 5.4). In about half of the OECD countries, labour force participation has actually increased, possibly amplifying the short-term rise in unemployment in some of

Figure 5.4. **Change in the labour force participation rate in the 2008-09 recession**



Note: For Iceland, Ireland and Poland there are no historical episodes available for comparison and for the Czech Republic, Hungary, Korea, Turkey and the Slovak Republic there is only one episode available.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932305285

them. These jumps in participation may reflect partly the entry of second earners, particularly females, into the labour force following job losses by predominantly male primary earners, and partly older workers staying on longer in the labour force as the value of pension saving declined. By contrast, in other countries including in Iceland, Ireland, Norway, Sweden, and to a lesser degree in the United States, discouraged-worker effects appeared to have dominated and participation has fallen.

... highly variable impacts on unemployment

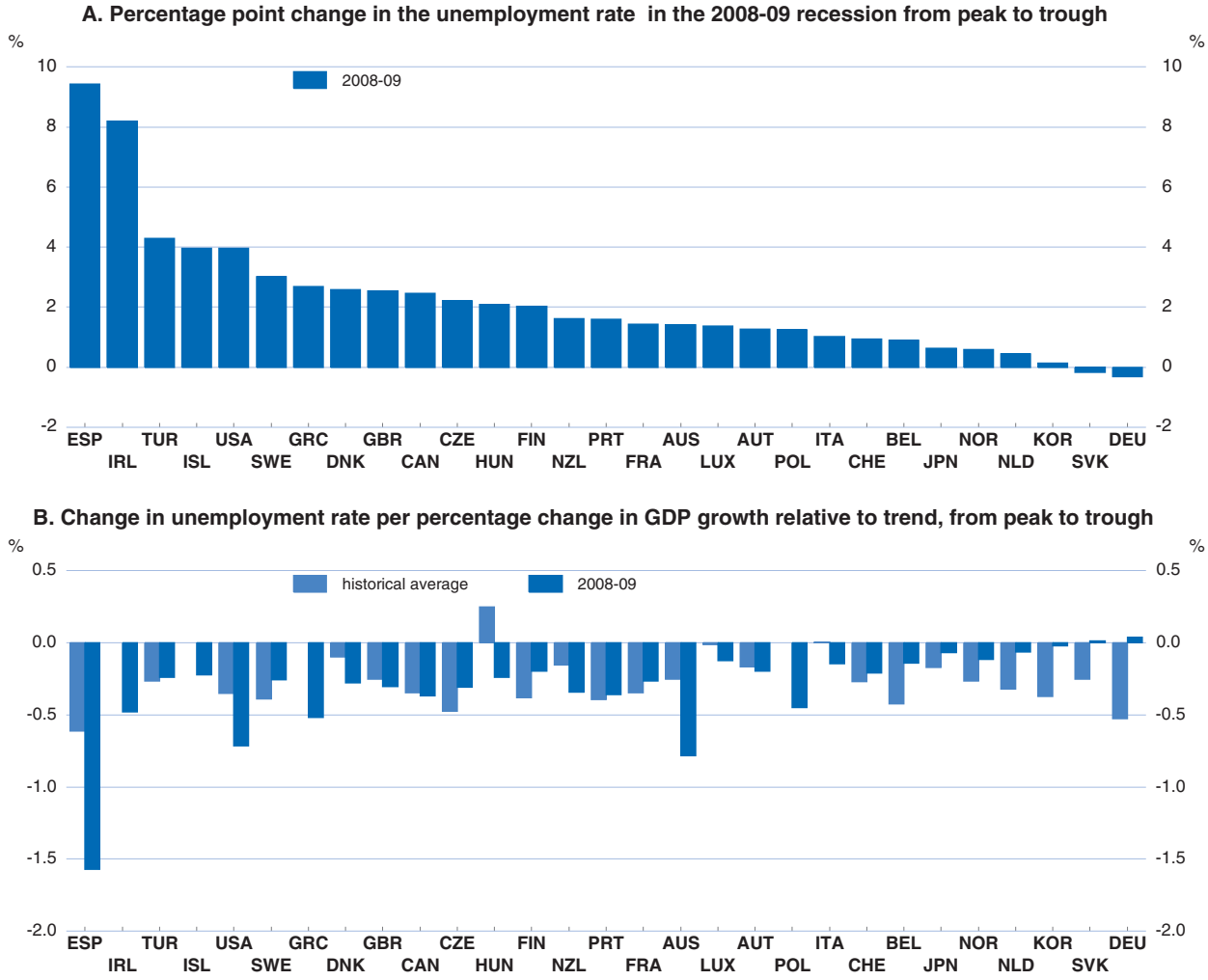
Reflecting the different adjustment patterns of labour input, hours and participation, unemployment has been far more sensitive to the magnitude of GDP losses in some OECD countries than in others (Figure 5.5). For example, although the decline in output in Spain and the United States during the recession was below-average, the rise in unemployment has been much higher than average, while in Germany, where output declined by more than in both these economies, the unemployment rate actually fell during the recession. More generally, the unemployment response in this episode was muted in many European countries, as well as in Japan. An overall summary of the various labour market impacts of the crisis across OECD countries is shown in Table 5.1.

Why did hours contribute differently across countries to labour input adjustment?

The response of hours partly reflects the duration of labour market adjustment...

Some of the current cross-country differences in the contribution of hours worked to labour input adjustment may simply reflect differences in the duration of labour adjustment. For example, driven by a decline in average hours, labour input began to decline in the United States in the autumn of 2007, perhaps a leading indicator of a weakening economy. In Germany, on the other hand, labour input only started declining a year

Figure 5.5. **Change in the unemployment rate in the 2008-09 recession in historical comparison**



Note: The calculation of averages implicitly assumes linearity in the effect of recessions on unemployment because past episodes include both mild and severe recessions. This figure shows only the immediate effect of the recession on unemployment. Due to lags between output and labour market changes, the eventual rise in unemployment may be higher in some countries. For Greece, Iceland, Ireland and Poland there are no historical episodes available for comparison and for the Czech Republic, Hungary, Korea, Turkey and the Slovak Republic there is only one episode available.

Source: OECD Economic Outlook 87 database.

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later.[5] With the passage of time, one might expect more resemblance across these contributions. Indeed, an examination of labour adjustment across 53 recession episodes in 20 OECD countries reveals that adjustments in average hours tend to make the greatest contribution to changes in overall labour input at the start of a downturn. As the

5. A comparison of peaks and troughs in labour input and GDP reveals that the decline in both series usually starts around the same quarter. In some cases the decline in GDP may lead labour input by a quarter or two. Perhaps more surprising is that a decline in labour input, usually due to a fall in hours, sometimes leads GDP recessions. In recovery phases, an increase in labour input almost always lags an increase in GDP.

Table 5.1. **Decomposition of the Recession's Impact on OECD Labour Markets**

Level at the recession trough, Peak = 100

	GDP Volume	Productivity per hour	Average hours worked	Participation rate	One minus Unemployment rate	Working Age Population
Australia	100.7	103.5	97.5	99.9	99.6	101.8
Austria	95.4	101.2	94.9	100.1	99.7	100.5
Belgium	95.9	97.6	98.4	100.0	100.1	100.8
Canada	96.4	102.3	95.2	100.0	98.5	101.7
Czech Republic	95.0			100.4	98.8	100.4
Denmark	92.9	95.1	99.5	100.3	98.4	100.5
Finland	90.9	98.3	94.9	99.5	99.0	100.2
France	96.1	97.8	98.7	100.4	99.6	100.5
Germany	93.3	95.8	97.0	100.4	101.3	99.7
Greece	96.8			101.0	98.3	99.8
Hungary	93.0	96.1	99.1	100.1	98.9	99.8
Ireland	87.4			95.9	92.8	101.4
Iceland	85.6			97.3	97.0	102.0
Italy	93.2	95.6	98.9	99.4	100.0	101.0
Japan	91.6	95.2	97.0	100.6	100.4	99.1
Korea	95.4	97.2	98.2	99.8	100.9	100.3
Luxembourg	92.4			100.3	99.6	101.6
Mexico	90.9			99.2		101.7
Netherlands	94.8	96.8	98.7	99.5	100.5	100.3
Norway	97.5	105.8	92.4	99.3	100.4	101.3
New Zealand	97.8	98.3	99.8	99.9	99.4	101.4
Poland	100.7	100.7	99.5	101.0	99.7	100.3
Portugal	96.0	98.5	99.9	99.4	99.4	100.0
Slovak Republic	93.2	94.4	97.8	100.2	101.2	100.6
Spain	95.5	104.3	100.1	100.9	91.6	101.2
Sweden	92.8	96.0	99.1	99.2	98.0	101.6
Switzerland	97.6			100.1	100.1	101.2
Turkey	86.8			101.4	96.7	101.7
United Kingdom	94.0	97.2	98.6	100.1	98.5	100.7
United States	96.2	101.8	98.2	99.7	97.0	100.9

Note: Index values show the level of the variables when GDP reached its trough during the recession.
Source: OECD calculations using OECD Economic Outlook Database 87; National Statistical Offices.

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recession progresses, the scope for further adjustments of working time diminishes, employers increasingly cut employment and the contribution of hours to adjustment of labour input typically falls (Figure 5.6).

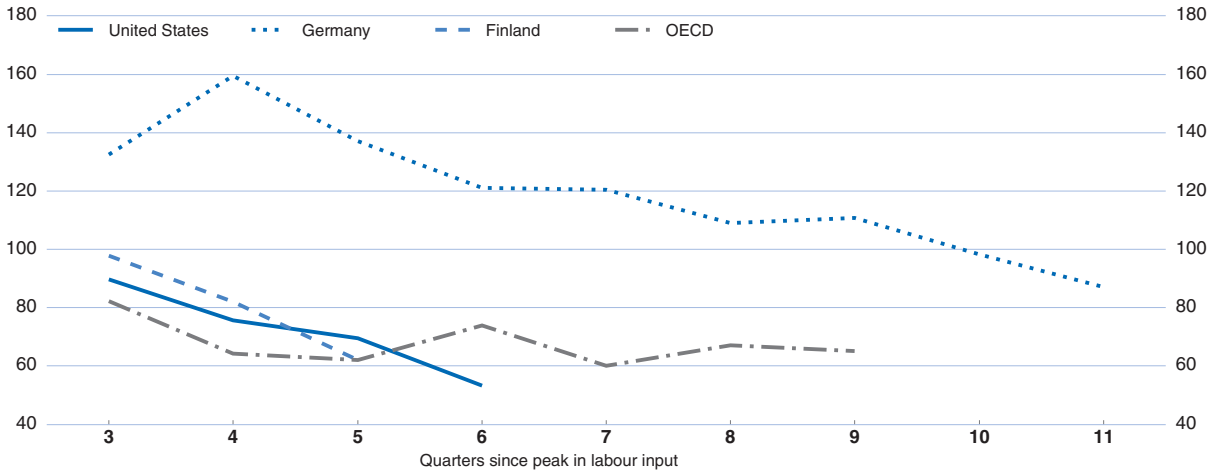
… the nature of the shock…

In some countries, the large contribution of employment to labour adjustment during the recession was likely exacerbated by particularly sharp adjustments in the construction sector, where employment is typically more responsive to output shocks than in other industries.[6] Indeed countries that faced a severe housing downturn (*e.g.* Spain and the United-States) seem to have experienced unusually large job losses compared with those that were

6. OECD analysis based on a sample of over 230 000 firms across ten European countries also suggests that a number of firm characteristics play a role in the degree of reliance on the extensive *versus* intensive margin of adjustment. In particular, firms that have less debt leverage, are smaller and/or are more technology-oriented and skill-intensive tend to hoard labour more.

Figure 5.6. **The contribution of hours worked to total labour input adjustment in the current and past recession episodes**

Share of net per cent change in labour input from the peak of labour input accounted for by hours adjustment, in per cent



Note: The length of adjustment shown varies across countries because labour input ceases to decline more quickly in some countries than others.

Source: OECD Economic Outlook 87 database; and various national sources for data on hours worked.

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primarily hit by the crisis through the financial and international trade channels (*e.g.* Australia, Austria, Germany), *ceteris paribus*.[7]

... as well as more structural factors...

Some of the cross-country differences in the magnitude of average hours adjustment are also structural. Simple panel regressions covering recession episodes since the early 1970s suggest that some countries including Austria, Germany and Norway rely significantly more on adjusting average hours during recessions, *ceteris paribus*.[8] In other countries, including New Zealand, Spain and the United States, employment tends to play a stronger role in adjusting labour input.[9] While cross-country differences were even larger than usual in this recession, the *average* contribution of hours across the OECD was in line with past recessions, although it was higher than during the early-1990s recessions.

... including labour market institutional arrangements

A number of labour market institutional arrangements appear to account for some of these cross-country differences in hours adjustment both in the past and during this crisis:

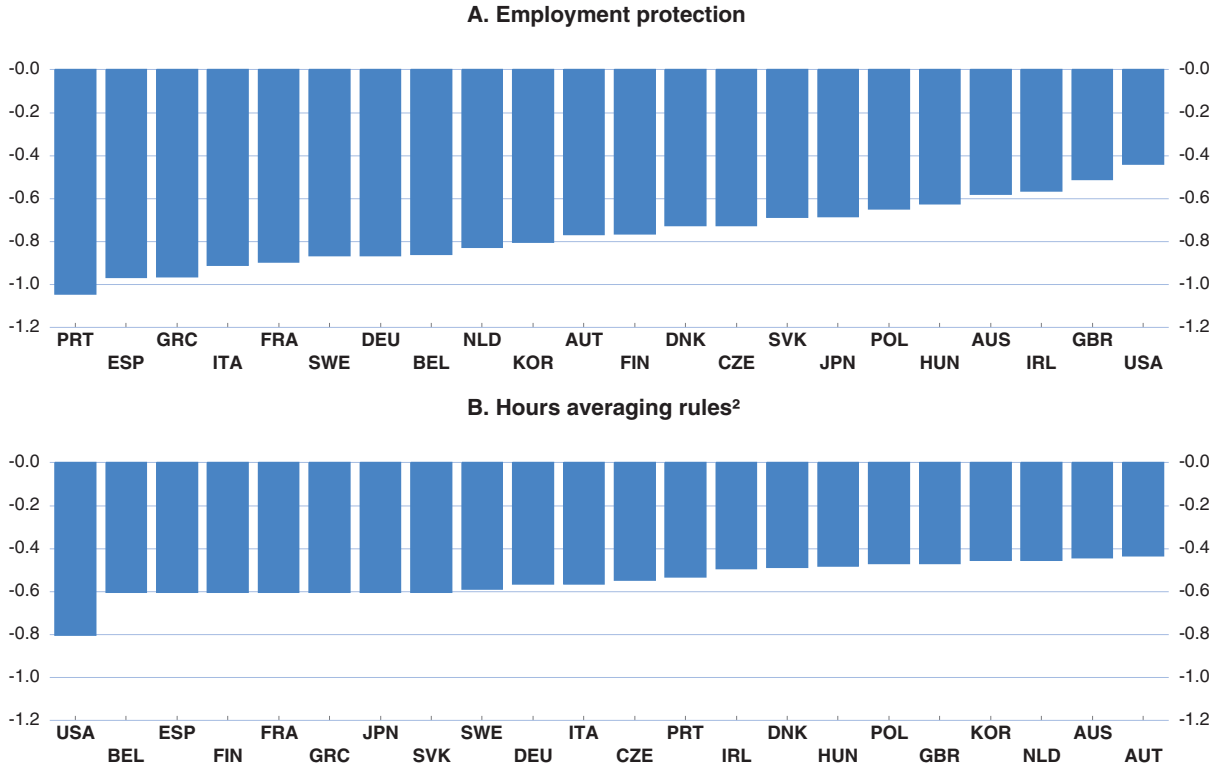
- Industry-level analysis reveals that tight employment protection (EP) legislation and more flexible hours-averaging rules increase the

7. Analysis of a sample of European countries shows that the cyclical component of employment in the construction sector is about two times more volatile than employment across all industries. See OECD (2010) for further details.
8. The panel regressions take the form $\theta_{ie} = \lambda_i + \lambda_e + \varepsilon_{ie}$, where θ_{ie} is the contribution of average hours to total labour input adjustment from the peak to the trough of GDP (*i.e.* during the recession), e denotes recession episodes, i denotes countries, λ_i is a country dummy and λ_e is a recession episode dummy (one for each of the periods 1970-75, 1976-85, 1986-95, 1996-2005 and 2005 onwards).
9. However, this is based on relatively few data points (recession episodes) for each country.

importance of average hours adjustment (Figure 5.7).[10, 11] When there is a shock to output, strict EP encourages employment preservation through labour hoarding in a number of continental European countries compared with their English-speaking counterparts.[12]

Figure 5.7. **The impact of employment protection and hours regulations on average hours worked**

Simulated effect of each country's policy settings on the effect of a ten percent decline in output on average hours worked, per cent[1]



Note: The chart shows for each country the contemporaneous impact of its policy stance in two areas (employment protection in Panel A, hours averaging rules in panel B) on the impact of a ten per cent negative output shock on average hours worked. For instance stricter employment protection legislation in Portugal is estimated to reduce average hours worked by 1%, compared with just over 0.4% in the United States. Although the size of these effects may not appear large, the overall elasticity of average hours to output is small so that the contribution of these policies to changes in hours worked is non-negligible.

1. Manufacturing sector only. Unbalanced panel for 22 countries (18 European and 4 non-European).
2. The flexibility of hours averaging rules is measured by the number of weeks during which usual hours can be averaged.

Source: OECD estimates based on EUKLEMS Database.

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10. Hours-averaging allows employers to vary the number of weekly hours worked over time provided the average number of weekly hours worked over a defined period of time stays within agreed limits.
11. This industry-level evidence covers 18 European and 4 non-European countries for the period 1980-2005. Panel regressions were estimated taking the basic form: $\Delta s_{ict} = \beta_1 s_{ict-1} + \beta_2 \Delta y_{ict} + \beta_3 s_{ict-1} P_c + \beta_4 \Delta y_{ict} P_c + \lambda_t + \lambda_{ic} + \varepsilon_{ict}$ where s is the log of average hours worked, P is the policy or institution, y is the log of output, λ_t and λ_{ic} are time and country-industry fixed effects and c, i and t denote country, industry and time, respectively. Estimation is for the manufacturing sector only. Policies were tested both separately and jointly in the equation, with consistent results across both exercises. For further details, see OECD (2010).
12. Hours-averaging rules encourage labour hoarding particularly in the United States, where standard hours can be averaged over two years. However, this was dominated by other factors during the recent recession including its nature and the lack of effective short-time working schemes (STWs).

- Empirical evidence also suggests that STWs have played a role in reducing average working hours (OECD, 2010). STWs have become an increasingly popular tool for preserving jobs, with three-quarters of OECD countries using such schemes during the recession, some for the first time (Box 5.1).
- Experience in Germany suggests that other institutional arrangements, including collective bargaining arrangements and company agreements negotiated by work councils, have played an important role in adjusting hours by arranging for hours bands and individual working-time accounts.

Box 5.1. **Are short-time working schemes a good way to reduce job losses and prevent unemployment hysteresis?**

Short-time working schemes (STWs) involve the government subsidising part of the foregone income of employees that have had their working hours reduced by a firm facing demand short-falls. The rationale for such schemes is to avoid "excessive" layoffs, *i.e.* cases where employers encountering temporary difficulties dismiss workers, even though the jobs in question would be viable in the long-run (OECD, 2009*d*). Although they are receiving much attention in this recession, STWs are only one among several institutions that can encourage hours over employment adjustment in response to output shocks. In Germany, where hours adjustment has played a major role in overall labour input changes during the recession, a recent study finds that the STW accounted for only 25% of the total reduction in average hours from 2008 to 2009 (IAB, 2009). Indeed, the main source of flexibility – accounting for approximately 40% of the recent reduction in hours – has been employer-initiated reductions in working time which can be implemented within existing collective agreements. In addition, German employers achieved reductions in average hours by reducing the volume of paid over-time work (20% of the total reduction) and encouraging employees to run down the positive balances in their individual working-time accounts (another 20%).[1] All such schemes have exhibited some automatic stabiliser properties for employment during this recession.

Experience in the United States also suggests that the design of the STW is important for how it will affect take-up rates and therefore hours adjustment. Although seventeen US states had STW programmes in place in 2009, the take-up rate was very low. The low take-up rate may reflect the relative generosity of the scheme (Van Audenrode, 1994; Vroman and Brutsentsev, 2009). By contrast to the system in European countries and Canada, STW payments in the US reduce a worker's entitlement to unemployment benefits dollar-for-dollar if they are subsequently laid-off, making workers reluctant to take up the STW.

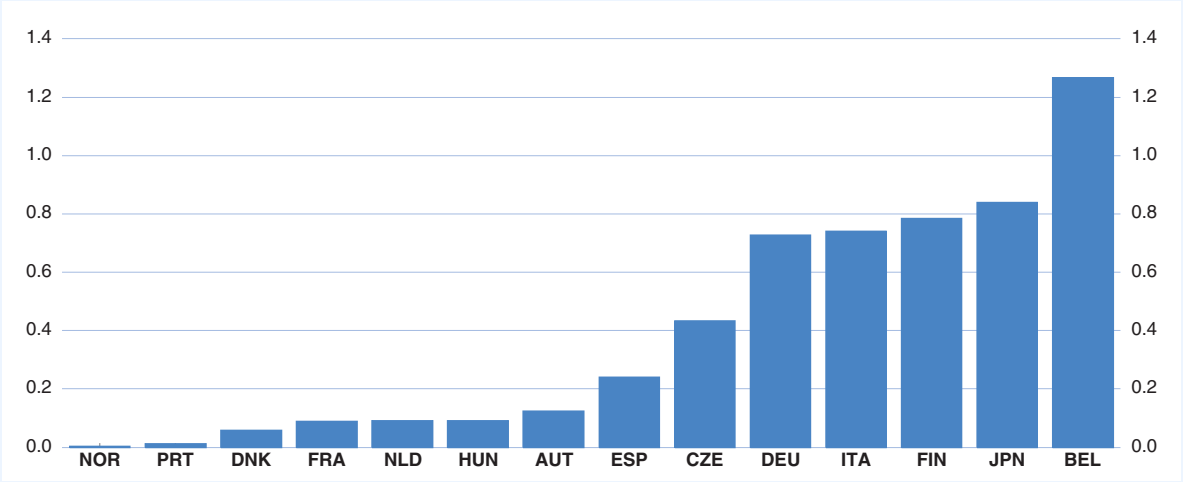
An industry-level panel analysis for European countries assessing the effect of the most recent recession on employment and average hours provides evidence that STWs do achieve some of their short-term goals (OECD, 2010).[2] In particular, STWs tend to reduce the employment sensitivity of *permanent* workers to output changes and increase the sensitivity of average hours. However, STWs do not appear to have reduced the sensitivity of *temporary* employment to output shocks, suggesting they primarily shelter so-called labour market insiders.

Estimates of the reduced sensitivity of employment to output under STWs, were used to calculate an estimate of the jobs saved by STWs during the recession (see figure). The largest proportions of permanent jobs saved were in Belgium. Finland and Italy. In the case of Belgium, taken at face value, the estimates suggest that STWs may have damped the fall in permanent employment by as much as 1.3% by the autumn of 2009, relative to a scenario where such schemes would not have been available.

Box 5.1. **Are short-time working schemes a good way to reduce job losses and prevent unemployment hysteresis?** *(cont.)*

Estimated country-specific effect of short-time work schemes on employment

Impact on employment of permanent workers, in per cent



Note: See footnote 2 for details on the empirical framework that underpins these estimates. The proportional impact of the crisis due to short-time working is calculated by multiplying the coefficient on the interaction term of the change in output, the crisis dummy and average take-up rate by the total change in output and the average national take-up rate during the crisis period.

Source: OECD estimates.

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A concern with STWs is that if kept too long during the recovery, they may lower medium-term productivity growth if they significantly impede the reallocation of labour from declining firms/sectors to growing firms/sectors.There is as yet no empirical work on the size of these effects. In Europe, STWs have been used in the past to assist firms facing structural declines in demand as opposed to short-run dips in sales.[3] In the former case, negative productivity effects of STW are likely to be larger because they send misleading signals to workers about the likelihood of retaining their jobs. This may inhibit them from voluntary mobility and engaging in additional training (Mosley and Kruppe, 1996). To minimise locking labour into failing firms and sectors, it is important to attach clear and credible time limits to STW measures and to design interventions in ways that encourage viable firms to self-select into them (OECD, 2009*d*). For example, the Netherlands introduced a requirement that half of STW subsidies be repaid if the employee is laid off within three months of the end of short-time work**.**

1. For further details of institutional arrangements and their effect on hours adjustment in Germany, see OECD (2010), *Employment Outlook*, forthcoming.
2. The following equation was estimated:

$$\Delta lnl_{ikt} = \alpha_0 + \alpha_1 \Delta lny_{ikt} + \alpha_2 \Delta lny_{ikt} * D_{kt}^{crisis} + \alpha_3 \Delta lny_{ikt} * D_{kt}^{crisis} * T_{kt}^{stw} + \propto_4 D_{kt}^{crisis} + \propto_5 T_{kt}^{stw} + \beta_{it} D_{it} + \gamma_k D_k + \varepsilon_{ikt}$$

where i refers to industry, k to country, l to the outcome variable which may refer to permanent employment, temporary employment, average hours worked or the average hourly wage, y to gross output, D_{kt}^{crisis} is a country-specific crisis dummy which equals one from the most recent peak in quarterly GDP to the end of the sample (2009Q3). T_{kt}^{stw} is the country-specific take-up rate averaged over the period of the crisis during which the STW operated. It lies between zero and one in countries with a STW and equals zero in countries without a scheme. D_{it} represents a full set of industry-by-time dummies and D_k a full set of country dummies. For further details of both methodology and results, see OECD (2010), *OECD Employment Outlook*, forthcoming.

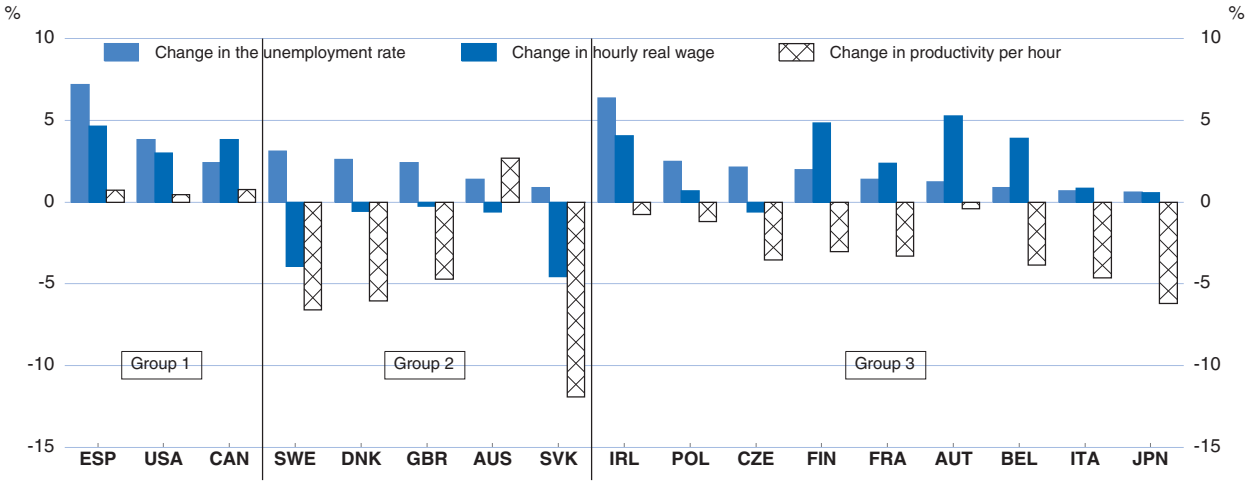
3. Prior to this recession both Belgium and France had a non-negligible proportion of employees participating in STWs which appears to be inconsistent with their use for cyclical adjustment purposes. Germany also used STWs for structural adjustment purposes in the coal and steel industries in the 1980s and then subsequently in the eastern states of Germany following reunification. Experience with this led to changes to restrict the duration of STWs. Italy also used STWs for structural adjustment purposes in the 1980s and eventually restricted the duration of STWs (Mosley, 1995).

How have real wages adjusted to the output shock?

Wage developments in the recession have varied significantly across countries

Real wage flexibility could speed up the job recovery going forward. Wide variations in real wage developments across OECD countries since the onset of the recession may be suggestive of different degrees of flexibility although they could also just reflect different adjustment lags (Figure 5.8). In a first group, which includes North America and Spain, real wages have increased significantly, despite a sizeable increase in unemployment. However, this may in part reflect sectoral and workforce composition effects rather than real wage rigidity, as the disproportionate dismissal of lower-paid, lower-productivity workers has raised the average wage.[13] In a second group, increases in the unemployment rate have been accompanied by a fall in average compensation per hour worked relative to previous trends, suggesting some downward wage flexibility. By contrast, in a third group that includes several European countries and Japan, wage growth actually rose in the recession relative to previous trends, with less evidence of a work-force composition effect as hourly productivity was declining.

Figure 5.8. **Changes in real wages and unemployment relative to trend during the 2008-09 recession**



Note: Changes in unemployment, productivity and wages are measured relative to trend.

Source: OECD Economic Outlook 87 database; and various national sources for data on hours worked.

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How has the recession affected different workforce groups?

Youth have been hit particularly hard in this recession…

As in past recessions, job losses have been relatively larger for some workforce groups than for others. On average for the OECD area, employment for youth fell by around 7%, nearly four times the declines in

13. For example, in Spain employment of workers with up to lower-secondary education fell by 10% in 2009, compared to a fall of around 1% in the employment of tertiary qualified workers. This is in contrast with the average OECD country, where employment declines have been larger for medium-skilled workers than for low-skilled ones (see Figure 5.9).

prime-age and overall employment (Figure 5.9, Panel A). The larger relative fall in youth employment is consistent with historical patterns but was even more pronounced on this occasion (Figure 5.9, Panel B). A relative decline of youth jobs typically coincided with a relative decline of workers under temporary contracts during this crisis.[14]

Figure 5.9. **The effect of the recession on workforce groups in the 2008-09 recession and historically**



Note: Shorter annual time series are used for some countries and workforce groups (see OECD (2009), Table 1.A3.1).

1. Unweighted averages for all the OECD countries excluding Switzerland for gender and age groups and only for the European countries for Education and work status.
2. Panel B shows the percentage standard deviation in the cyclical component of employment of each workforce group relative to the average percentage standard deviation in the cyclical component of employment across all workforce groups.

Source: OECD estimates based on the European Union Labour Force Survey (EULFS) and national sources for Panel A; and OECD estimates based on the European Union Labour Force Survey (EULFS) for gender and age and EUKLEMS Database for education in Panel B. See OECD (2009) Annex 1.A3 for further details on the sample coverage and the methodology.

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14. The dataset for the number of temporary employees includes European Union countries and Turkey only.

... while employment actually rose for older workers...

There have been a number of departures from historical group-specific employment patterns during this recession, however. In particular, the employment of older workers, which was about as cyclical as overall employment in past recessions, has actually increased so far in this recession. This novel development may reflect, at least in part, the lesser availability of early retirement options in national pension and social protection systems and, to a lesser extent, the labour supply responses to sometimes large losses in retirement savings (see Box 5.2).

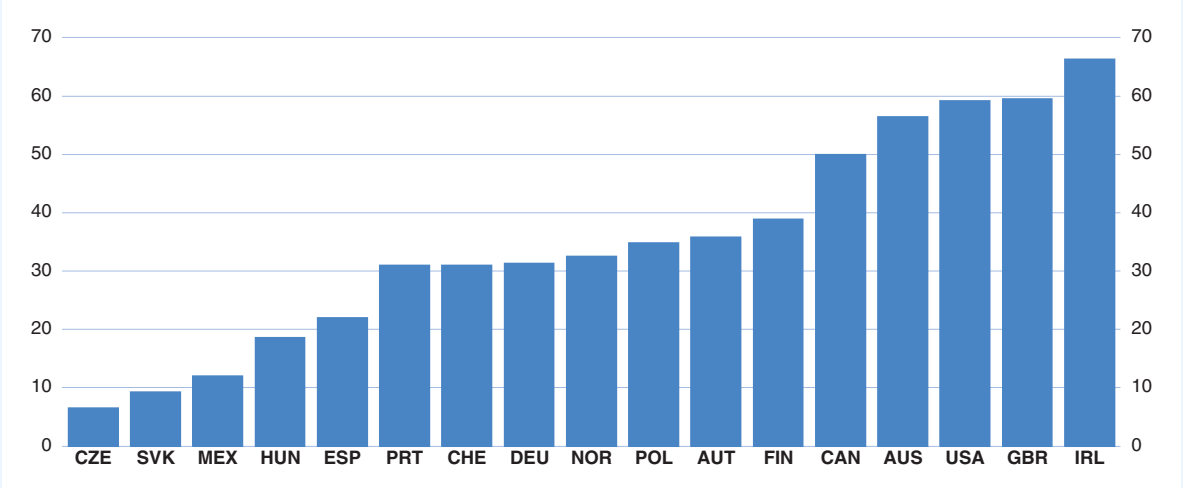
Box 5.2. **Pension wealth losses and the participation of older workers**

Older workers postponing their retirement to try to make up for pension wealth losses incurred during the recession may act as an offsetting effect on participation to that arising from weak labour market conditions and/or high retirement incentives embedded in social transfer programmes (Coile and Levine, 2009). Despite their rally over the past year, equity prices remain below their pre-recession peaks. This has led to large changes in the investment returns of pension funds across the OECD, especially in countries where equities make up a high proportion of the overall asset portfolio (see first figure). In addition, in some OECD countries including Ireland, New Zealand, Spain, the United Kingdom and the United States, housing is an important component of retirement savings, and house price declines have put further downward pressure on older workers wealth compared with their pre-crisis expectations (OECD, 2009).

The older workers that are most affected by the movements in asset prices are those that will derive a high share of their retirement income from capital in defined-contribution pension schemes with a heavy exposure to equities. An approximate guide to the reliance of older workers on capital income can be gained from current retirees' sources of income. In Australia, Canada, Denmark, the Netherlands, the United Kingdom and the United States, 30% or more of current retirement income was derived from capital (mainly private pensions) in the mid-2000s (see second figure). In Japan and many other continental European countries, the proportion of retirement income derived from capital is small, indicating that any participation offset effect from asset price falls will be negligible.

Pension funds' equity exposure in 2007

Percent of total portfolio



Note: See OECD (2009a) for further details on investment return. Equity exposure is shown for countries with available data.

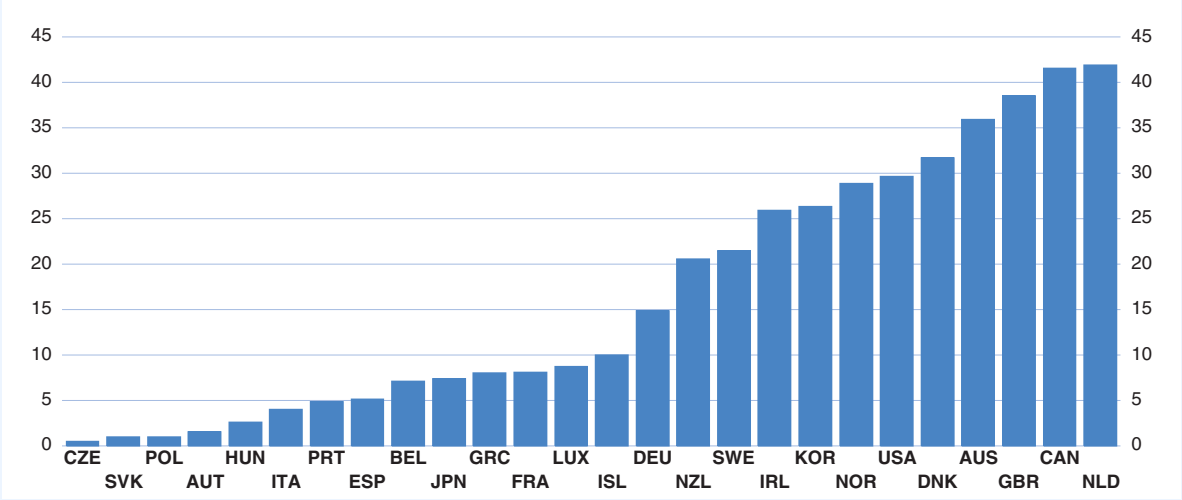
Source: OECD (2009a), *Pensions at a Glance*; and OECD (2009b), *Pension Markets in Focus*, October.

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Box 5.2. **Pension wealth losses and the participation of older workers** *(cont.)*

Current retirees' income derived from capital

Percentage of household disposable income, mid 2000s



Note: Includes income from all private savings, both private pensions as well as income from non-pension savings.

Source: OECD (2009a), *Pensions at a Glance*.

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Of the countries where capital income accounts for a high proportion of retirement income, older workers in Australia, the United Kingdom and the United States appear to be the most highly exposed to equity losses due to the greater prevalence of defined-contribution (as opposed to defined-benefit) schemes in these countries. The Australian defined-contribution pension scheme has been running for nearly 20 years so today's older workers have had time to build up substantial balances and around 60% of people use the default investment option where equities account for approximately 60% of the portfolio. In the United States, nearly 45% of 55-65 year olds hold more than 70% of their private pension assets in equities (OECD, 2009c). In the United Kingdom, voluntary private pensions are increasingly defined-contribution based and overall pensions have around a 50% exposure to equities. By contrast, in the Netherlands, private pensions are of the defined-benefit type and 80% of Canadian voluntary pensions were defined benefit in 2003 (OECD, 2009a).

Recent research suggests that the effect of wealth declines in increasing participation currently remains limited, even in the United States. This is partly because only a relatively small proportion of overall wealth of those currently close to retirement is directly exposed to equity price risk via direct contribution schemes and direct stock holdings (Gustman *et al.*, 2010). However, with the trend away from defined-benefit schemes towards schemes of the defined-contribution type in many OECD countries, the potential for asset price movements to affect older workers participation is growing over time.*

* Evidence from Australia suggests workers tend to exhibit passive behavior in allocating assets in defined-contribution schemes (OECD, 2009c). This may argue for countries to put in place voluntary opt-out or even mandatory asset reallocation mechanisms into their defined-contribution schemes that would automatically shift asset allocation away from riskier classes towards safer ones as workers approached retirement.

... and men and medium-skilled workers have been more affected than usual

Employment losses for men were disproportionately large in the 2008-09 recession, a clear break with the historic pattern where employment for men and women has been about equally affected by cyclical downturns. This probably reflects the sector composition of the negative shock to aggregate demand, especially that associated with the

unprecedentedly deep fall in world trade that began in late 2008 (Baldwin, 2009; Cheung and Guichard, 2009) and which particularly affected production workers in durables manufacturing, who tend to be males. The sharp contraction of construction activity in those countries where a housing bubble burst also likely reinforced the relative vulnerability of men to job loss. The sectoral profile of the recession may also help to explain why employment losses have been particularly large for medium-skilled workers. This broke with the historic pattern in which relative jobs losses declined monotonically with skill levels.[15]

Risks and uncertainties going forward

What will happen to cyclical unemployment and hours worked?

Labour hoarding might imply a job-less recovery

The experience of past recoveries is that it can take several years before strong job growth is achieved and cyclical unemployment is reduced, pointing to the risk of a "jobless recovery", especially if final demand recovers only slowly. Cuts in working hours and the declines in productivity seen since the onset of recession could slow down job growth in some countries. Past experience suggests that while most recessions entail a productivity decline followed by a productivity pick-up during the recovery, the extent of employment preservation provides only limited information on how job-rich or poor the recovery will be (Box 5.3). However, as noted in OECD (2010a), in cases of extreme labour hoarding during a recession, the risk of a jobless recovery tends to be higher. Indeed if cyclical changes over the recession in hours worked per employee and hourly labour productivity were to be reversed in the recovery, GDP could rise by over 8% without any increase in employment in Germany and Japan and by several per cent in most other European countries, as opposed to just about 1½ per cent in the United States – all else being equal, and leaving aside any negative impact that the crisis has had on potential output (Figure 5.10).[16]

What will happen to long-term unemployment and structural unemployment?

Past experience suggests that unemployment hysteresis is a risk…

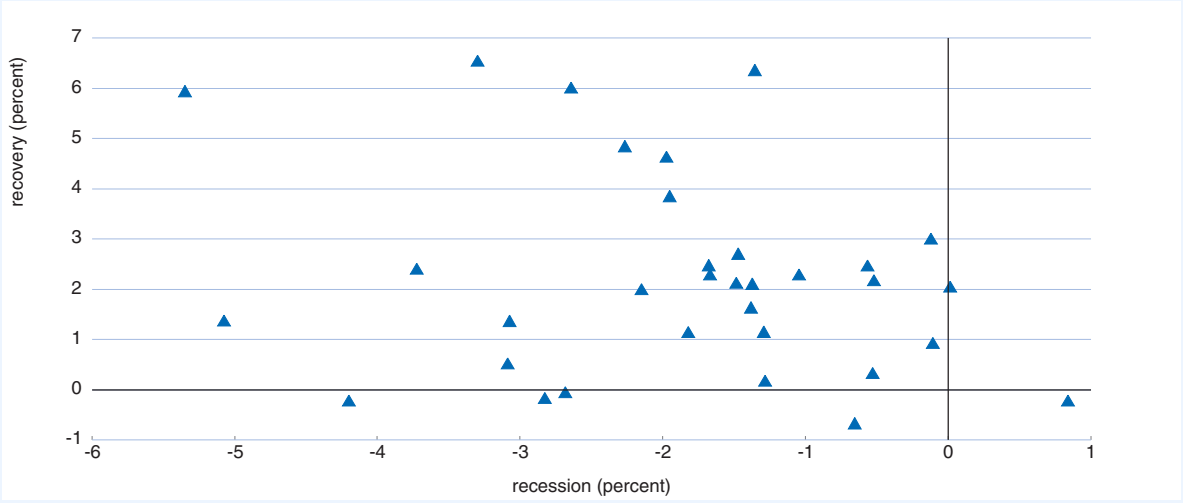
In the wake of past recessions, structural unemployment has tended to rise, reflecting in part hysteresis effects. In particular, many European countries exhibited a ratchet effect where each successive recession from the 1970s onwards resulted in a rise in the unemployment rate that was not fully reversed in subsequent recoveries even as output returned to potential. The magnitude of this structural unemployment increase was typically proportional to the severity of the recession, underlining the risk

15. There may also be a relationship between the strengthened (negative) association between age and employment losses and the relative improvement in how well low-skilled workers fared. In most OECD countries, the low-skilled share of the population – assessed in terms of educational attainment – is much lower for youth than for older cohorts.
16. See Chapter 4 for current OECD estimates of the effect of the crisis on potential output.

Box 5.3. **Does preserving more labour input during the recession imply weak labour demand later?**

A simple comparison of cyclical developments in hourly productivity during historical recession and recovery episodes across the OECD suggests that a fall in labour productivity during the recession is almost always followed by a cyclical pick-up in the recovery (see first figure). However, somewhat surprisingly, the strength of the productivity pick-up in the initial couple of years after the trough appears to bear no significant relationship with the magnitude of the productivity decline during the recession. Going forward, this tentatively suggests a given output recovery will not necessarily deliver larger increases in labour input (total hours worked) where hourly productivity declined less (or even increased) during the recession.

Changes in hourly productivity relative to trend in recessions and subsequent recoveries



Note: Percentage change in hourly productivity relative to trend. Recessions are defined as the period between the peak and trough in GDP. The recovery is the eight quarter period following the trough in GDP.

Source: OECD Economic Outlook 87 database; various national sources for data on hours worked; and OECD calculations.

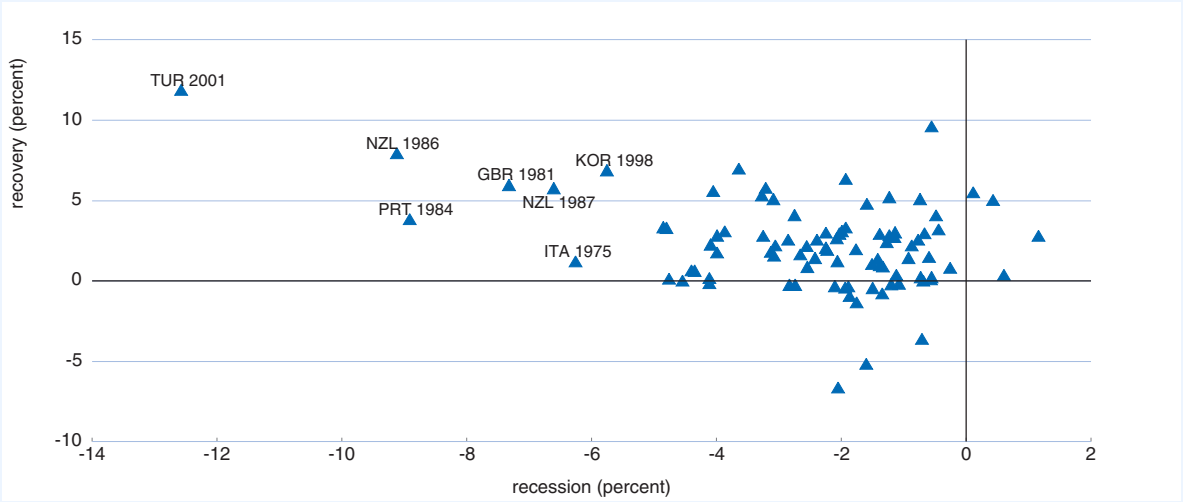
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This apparent lack of symmetry in hourly productivity during the recession and recovery could be due to average hours worked and employment developments or both. Further analysis suggests that this may be partially due to a lack of symmetry in average hours worked per employee (OECD, 2010*a*). Likewise, a comparison of cyclical productivity on a per employee basis suggests that for countries experiencing no or very small declines in productivity per employee during the recession (*e.g.* Spain and the United States in this episode), history provides only limited information as to whether the subsequent recovery is job-rich or not. This is because for smaller falls in labour productivity during the recession (below 4%), productivity dynamics in the recessions and subsequent recoveries are largely uncorrelated (see second figure).*

However, where productivity per employee has fallen faster, the risk of jobless recovery may be higher. In particular, countries that experienced sharp falls in labour productivity (*i.e.* those on the far left of the figure) generally recorded a strong pickup in labour productivity growth in the recovery period. In six out of seven historical episodes where the falls in cyclical labour productivity during the downturns exceeded 6%, cyclical labour productivity per employee was very strong in the subsequent recovery. The remaining episode involved a supply shock (the first 1970s oil shock) where the large fall in labour productivity was due in part to a structural decline in productivity and incomes rather than cyclical employment preservation through labour hoarding.

Box 5.3. **Does preserving more labour input during the recession imply weak labour demand later?** *(cont.)*

Cyclical labour productivity per employee in the recovery and the previous recession



Note: Cyclical labour productivity is the difference between actual and trend labour productivity where trend productivity is measured as the OECD measure of potential output for each country divided by trend employment. Recessions are defined as the period between the peak and trough in GDP. The recovery is the eight quarter period following the trough in GDP.

Source: OECD Economic Outlook 87 database; and OECD calculations.

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This conclusion is tempered by the limited number of episodes with a symmetric behaviour of productivity in the recession and recovery periods. However, these episodes are likely to be highly relevant to the current recession where many countries, including Denmark, Finland, Germany, Italy, Japan, Luxembourg, the Slovak Republic and Turkey, have experienced a similar sharp drop in labour productivity. These results tentatively suggest that countries, which have experienced stronger employment preservation through labour hoarding and greater falls in labour productivity in the recession may face a higher risk of a jobless recovery than others where there has been very little or no labour hoarding.

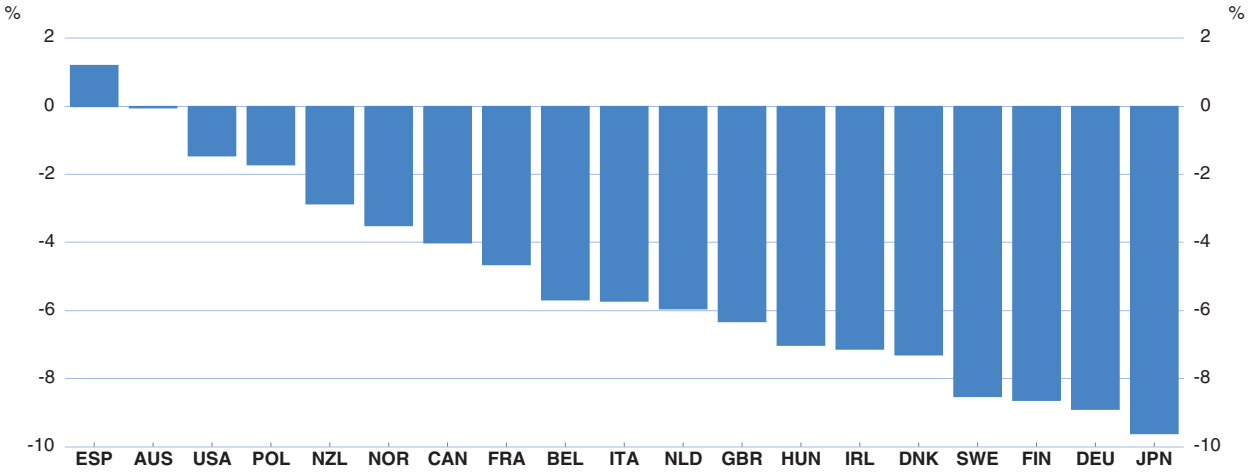
* A simple panel regression including time and country dummies explaining de-trended productivity growth in the recovery confirms that the coefficient on de-trended productivity growth in the recession is not significantly different from zero and is significantly different from –1 (perfect symmetry).

of hysteresis in the wake of the most recent episode (Figure 5.11). For most non-European economies, and in particular the United States, no such relationship appears to hold, or is much weaker. Real wage flexibility could help to contain the rise in structural unemployment in the years ahead, especially in those euro area countries that need to restore external cost competitiveness.

… although previous policy reforms may contain the risk…

The increase in long-term and structural unemployment following the current recession could be lower than in the past due to past reforms to enhance labour and product market flexibility (Furceri and Mourougane, 2009). For most European countries, where such reforms have been more wide-ranging, preliminary estimates suggest that the reforms could have reduced the share of any unemployment increase transmitted into long-term unemployment and on into structural

Figure 5.10. **Contribution to cyclical change in output during the recession from cyclical changes in average hours and hourly productivity**

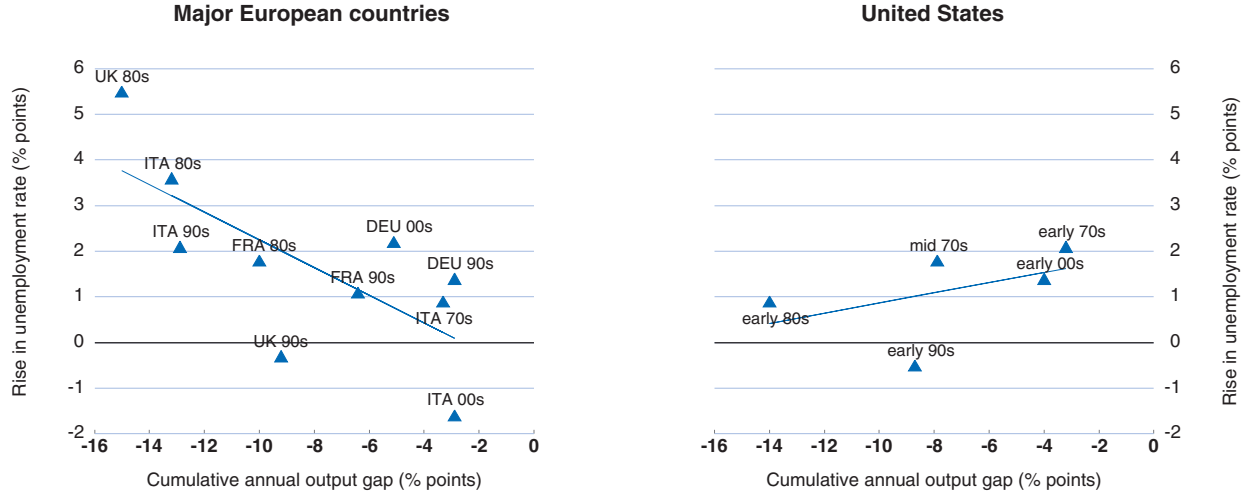


Note: Combined effect of cyclical changes in average hours worked and hourly labour productivity from the peak to trough in output in the recent recession. Cyclical changes are calculated by subtracting estimated structural changes in hours worked and hourly productivity from the actual changes. These calculations assume no further reductions to trend hourly productivity and average hours worked in the aftermath of the recession.

Source: OECD Economic Outlook 87 database; various national sources for data on hours worked; and OECD calculations.

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Figure 5.11. **Unemployment hysteresis has been stronger in Europe in the past**



Note: The scatter plot shows the increase in the unemployment rate from the quarter when the output gap was closest to zero prior to a severe downturn to the quarter when the output gap was again closest to zero following it. Only downturns where the cumulative output gap exceeds 2 percentage points are considered.

Source: OECD Economic Outlook 85 database; and OECD calculations.

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unemployment by up to one-quarter compared with the average share since the mid-1980s.[17]

17. OECD calculations of potential output incorporate an assumption that two-thirds of any increase in long-term unemployment translates into structural unemployment in continental Europe, but only one-third elsewhere (OECD, 2010a). This is broadly consistent with empirical evidence which suggests that the long-term unemployed have a weaker impact than the short-term unemployed on wage bargaining and that this difference is more marked in European than non-European countries, partly reflecting differences in institutional settings (Llaudes, 2005; Guichard and Rusticelli, 2010).

… as well as the limited rise in actual unemployment

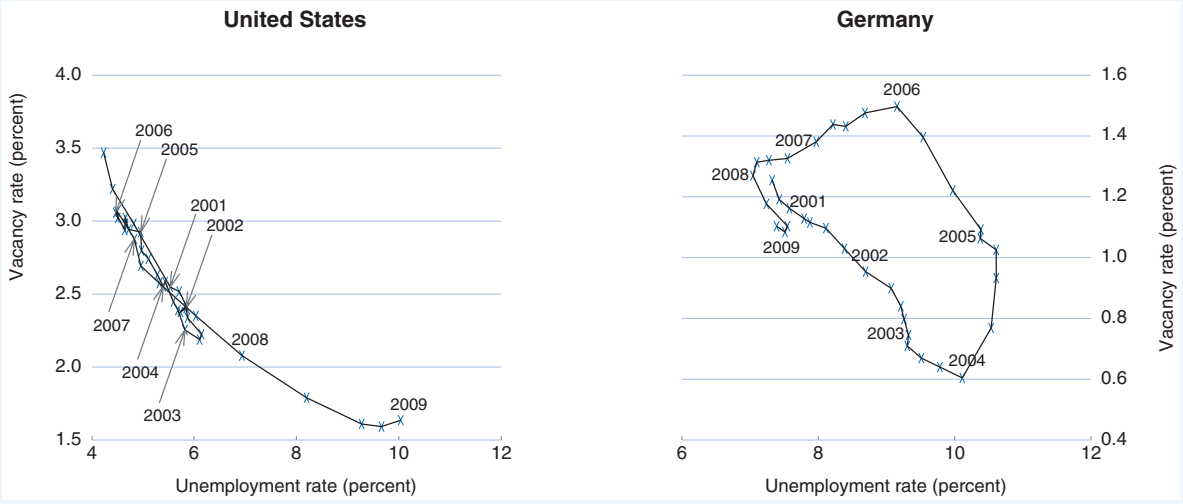
Unemployment developments since the start of this crisis also suggest that at least some continental European countries and Japan face less risk of unemployment hysteresis this time around. In particular, the increase in actual unemployed to date may be too small to create a longer-term structural unemployment problem in a number of countries including *e.g.* Austria, Germany, Japan and the Netherlands. Furthermore, matching of the unemployed with vacancies, as indicated by the Beveridge curve, also appears to have improved in these countries recently, consistent with a fall in the structural unemployment rate (Box 5.4). Estimates (Guichard and Rusticelli, 2010) that take account of both past reforms and recent unemployment changes suggest that overall structural unemployment could increase by over 3 percentage points in Spain and Ireland, between ¾ to 1 percentage points in Italy and the United Kingdom and around ½ percentage point in most continental

Box 5.4. **Job mismatch: An examination using Beveridge curves**

One preliminary way to assess whether structural unemployment has risen as a result of the recession is to look at whether the relationship between unemployment and vacancy rates – the so-called Beveridge curve – has shifted recently. A shift of the curve to the right would indicate that matching workers to vacant jobs is becoming more difficult, consistent with a higher structural unemployment rate. By contrast, a movement along the curve to the right would be consistent with a purely cyclical rise in unemployment. In the United States, the recession has led to a large movement along the Beveridge curve to the right with the vacancy rate falling and the unemployment rate rising (see figure). However, the position of the curve appears to be quite stable suggesting that the matching performance of the labour market has remained constant over the last decade and into the most recent recession. Other countries that exhibit a similarly stable Beveridge curve include Hungary, Norway and the United Kingdom.

Beveridge curves in selected OECD countries

2001q1-2009q4



Note: The fourth quarter of each year has a year label.

Source: OECD, Main Economic Indicators database; OECD Economic Outlook 87 database; and United States Bureau of Labour Statistics.

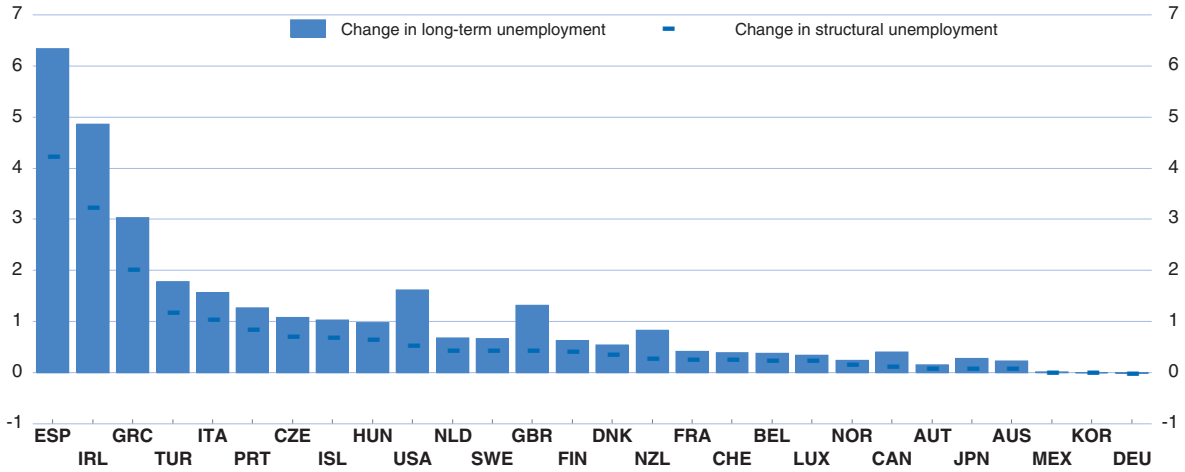
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Box 5.4. **Job mismatch: An examination using Beveridge curves** *(cont.)*

By contrast, job matching might have worsened in a number of other OECD countries. In some of these, including Switzerland, Luxembourg, Portugal and to a lesser degree Sweden, the rightward shift in the Beveridge curve observed since the early-2000s downturn seems to have continued during this recession. In other countries such as Germany, Japan, Austria and the Netherlands, the curve appeared to move rightwards from the early to mid-2000s before shifting left again from the mid-2000s to the late 2000s. The Hartz IV reforms may have contributed to the recent improvement in Germany. Countries that have experienced a worsening job matching process over the past decade and/or in the current recession may face greater difficulties in reducing unemployment than in previous episodes, raising the challenge for policies designed to tackle unemployment hysteresis discussed below.

European economies (Figure 5.12). There is considerable uncertainty about the size and cross-country dispersion of these estimates. If the rise in unemployment during the early stages of the recovery continues to be more muted than projected in the immediate aftermath of the recession, the effects on structural unemployment will be reduced accordingly.

Figure 5.12. **Projected increase in the long-term and structural unemployment rate**



Note: Structural unemployment is expected to fall in Slovak Republic and Poland as a result of past structural reforms. The change is calculated for the period 2007Q4-2012Q4.

Source: Guichard and Rusticelli (2010); OECD long-term scenario; and OECD Economic Outlook 87 database.

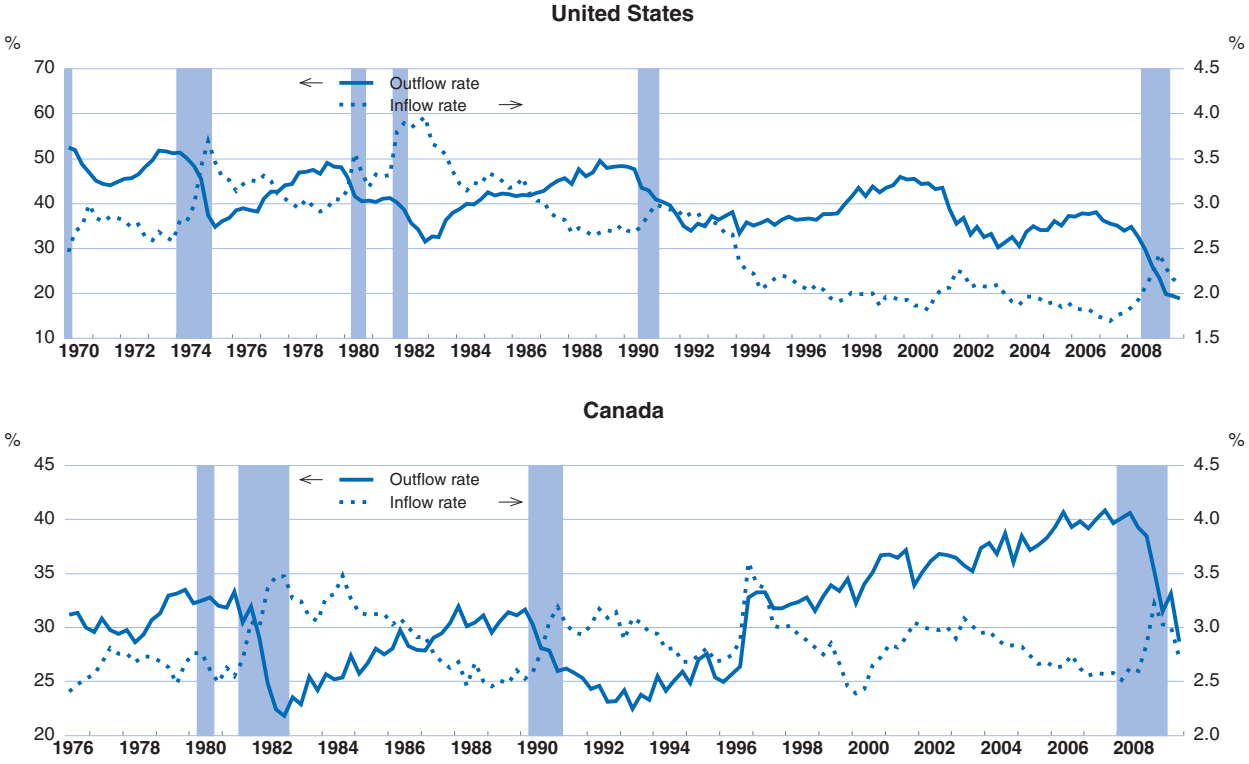
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... compared with more flexible economies

In the more flexible economies, increases in structural unemployment are estimated at under ¼ percentage point in Canada and Korea and 0.7 percentage points in the United States. Despite the large increases in unemployment in the United States, job matching does not seem to have worsened so far; the strong productivity performance during the recession raises the likelihood of a job-rich recovery, and favourable institutional arrangements have traditionally limited the risk of cyclical unemployment becoming structural. However, hysteresis effects could nonetheless be larger in this episode than in the past, due to the unusually large increase in unemployment combined with a long-term

trend towards a falling outflow rate (Elsby *et al.*, 2010), which has reached historically low levels recently and has boosted long-term unemployment to over 40% of total unemployment.[18] No similar downward trend in the outflow rate is apparent in Canada, for which comparable data are available (Figure 5.13).

Figure 5.13. **Unemployment dynamics over the business cycle in Canada and the United States**



Source: OECD Economic Outlook 86 database; and OECD estimates based on national Labour Force Surveys.

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What will happen to labour force participation?

This recession could also durably reduce labour force participation…

An examination of past episodes suggests that unlike mild downturns, severe recessions, particularly those of a long duration such as the current one, typically have long-lasting adverse consequences on trend labour force participation, largely reflecting so-called discouraged-worker effects.[19] Based on current institutional settings, the risk of decline may be largest in those European countries that have suffered a relatively large increase in unemployment, as well as in Japan and the United States.

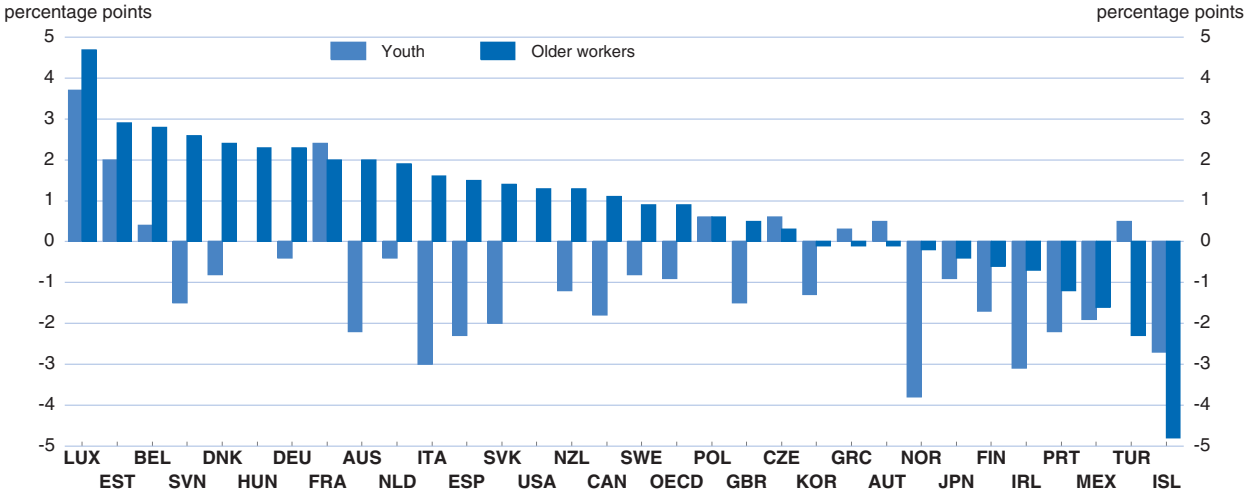
18. Over the period 1950 to 2010, the next highest peak of 25% was reached in the second quarter of 1983.
19. This is not straightforward *a priori* since the expected decline in labour force participation from discouraged-worker effects may be partially offset by the labour market entry of those previously outside the labour force – including secondary earners – to make up for the loss of family income (the so-called "added-worker" effect).

... although this time might be different

However, the policy reforms carried out in many OECD countries over the past two decades, especially across continental Europe, might also have reduced the risk of persistent declines in labour force participation. Relevant reforms in this regard include *inter alia* less strict EP for temporary workers, strengthened activation policies, including for social assistance recipients, as well as tightened eligibility criteria to, and reduced financial incentives embedded in, *de facto,* early retirement schemes (see Section 4 below). Furthermore, the unemployment response has been milder than expected in many European countries and Japan, thereby limiting the risk of worker discouragement. In addition, and as discussed above, in a number of (mainly English-speaking) OECD countries, older workers may seek to work longer in order to recoup some or all of the recent losses in their pension and housing wealth (Box 5.2). Indeed, somewhat unexpectedly, the participation rate of older workers has increased so far in this recession, the OECD average increasing by 0.9 percentage points between mid-2008 and mid-2009 (Figure 5.14). By contrast, although there are some notable exceptions, youth participation rates generally fell over the same period.

Figure 5.14. **Labour force participation rates for older and younger workers**

Change in percentage points between 2008q2 and 2009q2



Source: OECD estimates based on the European Union Labour Force Survey (EULFS) and national sources.

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Summing up: policy challenges ahead in OECD countries

The recession has created a cyclical unemployment problem in some countries...

Overall, the policy challenges posed by the aftermath of the 2008-09 recession vary significantly across the OECD (Table 5.2).[20] In Canada, as well as most OECD Pacific and some continental European countries such as Germany, Luxembourg and Norway, the risk of hysteresis effects

20. This discussion is confined to the potential long-term problems created by cyclical developments in the recession rather than being a full assessment of the structural labour market problems faced by OECD countries.

Table 5.2. **Potential vulnerability to an increase in structural unemployment varies by country**

Estimated relative sensitivity of structural unemployment to a cyclical increase in aggregate unemployment[2]	Change in unemployment rates from peak to latest available data[1]: No/small unemployment impact (*Less than a 1.5pp increase*)	Medium-small unemployment impact (*At least a 1.5pp increase but less than a 3pp increase*)	Large unemployment impact (*At least a 3pp increase*)
Low	Korea Mexico	Canada	Denmark Iceland New Zealand Sweden United States
Medium	Australia Germany Japan Luxembourg Norway	Austria Finland France United Kingdom	Hungary
High	Belgium Netherlands Switzerland	Greece Italy Portugal Turkey	Czech Republic Ireland Spain

Note : pp: Percentage-point.

1. Peak defined in terms of real quarterly GDP.
2. Based on OECD estimates of how the impact of recessions on structural unemployment is affected by cross-country differences in labour market institutions and policies (see Guichard and Rusticelli, 2010).

Source: OECD calculations based on OECD Economic Outlook 87 Database and Guichard and Rusticelli (2010).

appears low, at least at first glance, due to a small-to-moderate rise in actual unemployment and/or favourable institutional settings. However, hysteresis could become an issue if the stronger risk of a jobless recovery in these countries materialises. In the case of the United States, the possibility of non-linear effects arising from the large size of the shock and the marked rise in long-term unemployment caution against dismissing the risk of hysteresis despite favourable institutions.

… while in others the challenge is to prevent the effects of the recession becoming permanent

However, in a number of OECD countries including Southern, Central and Eastern European countries as well as Ireland and Turkey, the likelihood of potential structural labour problems arising from the recession appears to be higher because policy institutions that make the structural unemployment rate more sensitive to cyclical shocks are combined with generally moderate to large unemployment shocks. A third group of countries including Austria, Finland, France, Luxembourg and the United Kingdom faces moderate risks of unemployment hysteresis. Recent developments also suggest that some countries may need to focus more attention on certain groups at risk of labour force withdrawal including youth (Australia, Ireland, Italy, Norway and Spain) and older workers (Finland, Iceland, Mexico, Portugal and Turkey).[21]

21. The countries under brackets had strong falls in the labour force participation of youth and/or older workers in *both* absolute terms and relative to the participation of prime-age workers.

Labour market policy responses to the recession and policy options going forward[22]

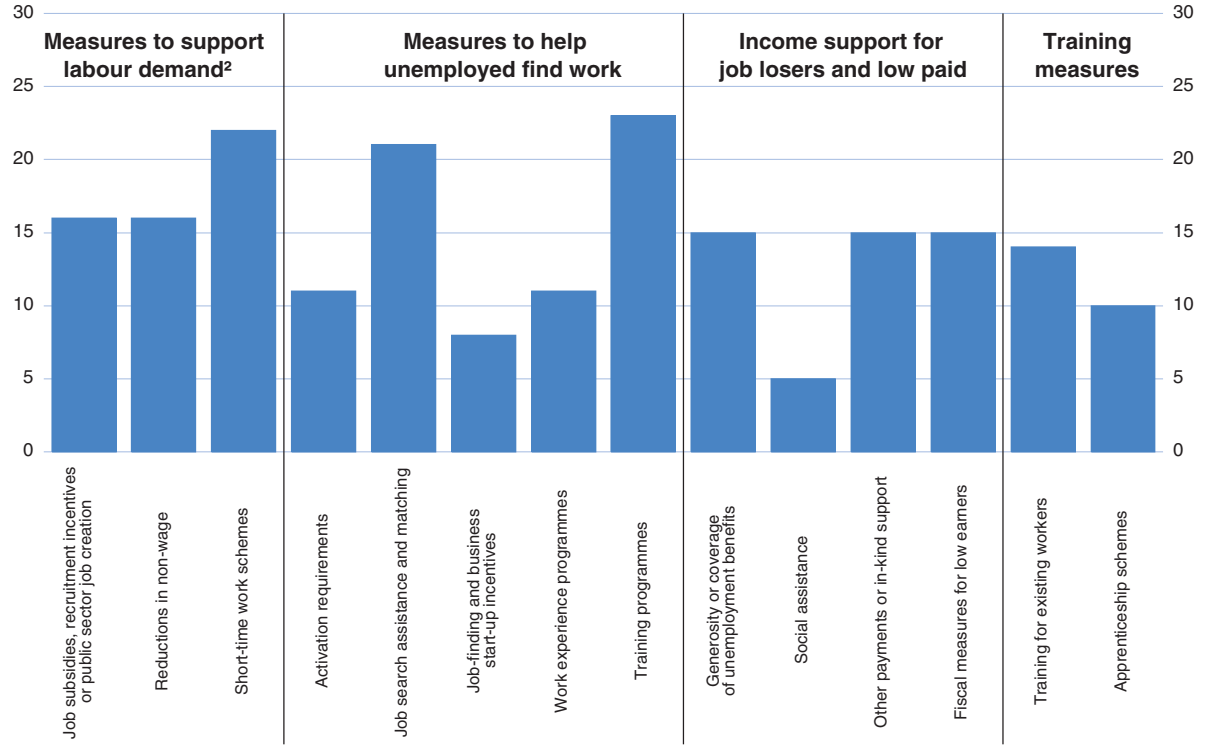
Policy responses and options to address growing unemployment

Most countries have introduced a range of measures to tackle growing unemployment

OECD countries have taken a broad range of labour market policy measures in response to the jobs crisis, particularly in the areas of labour taxes and job subsidies, short-time work schemes, ALMPs and unemployment benefits (OECD, 2009d) (Figure 5.15).[23] Going forward,

Figure 5.15. **Discretionary Changes in Labour Market Policy in Response to the Recession by mid 2009**

Number of OECD countries[1] that have taken different types of measures



Note: This measures the number of countries that made changes to their policy settings – scaling-up existing measures and/or introducing new ones – in these four areas since the onset of the recession.

1. Statistics based on 29 countries, Iceland being excluded.
2. Does not include measures to increase aggregate labour demand such as fiscal packages.

Source: OECD (2009d), Responses to 2009 OECD/EC questionnaire.

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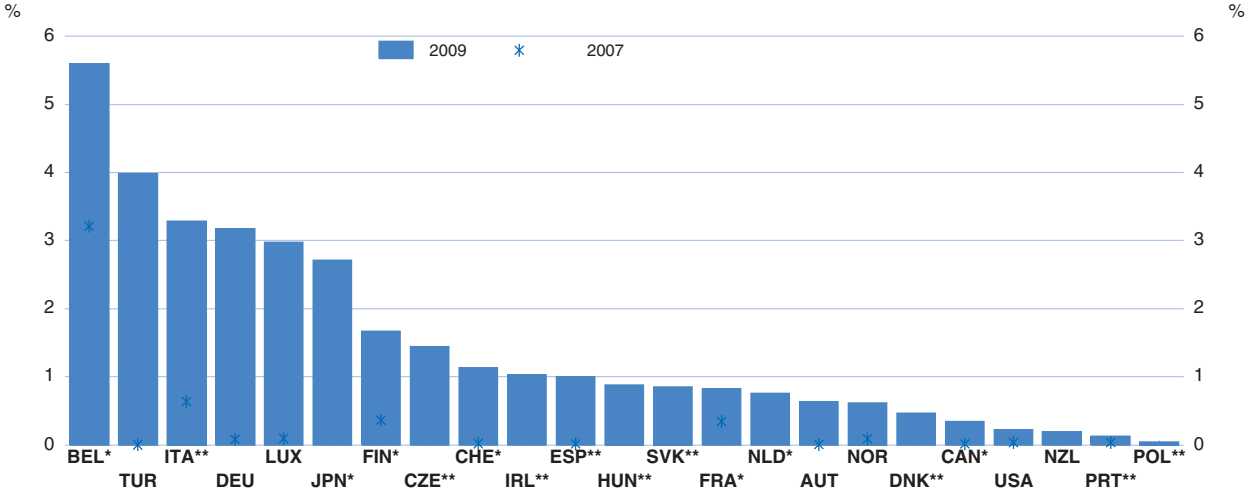
22. This section relies heavily on OECD (2010) which contains a more detailed discussion of these issues.
23. The detailed information on country policy responses comes from a joint questionnaire sent out by the OECD and the European Commission to all their members. The first survey covered measures taken in response to the recession up until mid 2009. Most measures were taken in late 2008 and early 2009. The latest information was collected in a second joint questionnaire in early 2010 and covers labour market policy plans for 2010.

difficult choices will have to be made if cyclical unemployment is to be reduced and damaging rises in structural unemployment prevented, reflecting the need to ensure the recovery of aggregate demand whilst pursuing sustained fiscal consolidation in a context of limited political capital. Recent information concerning 2010 shows that few countries have near-term intentions to cut back on the resources devoted to labour market policies (OECD, 2010). Indeed, half or more expect to put more resources into job-search assistance, some ALMPs and unemployment benefits, and a large minority will put more resources into job-subsidy schemes, public sector job creation and social assistance and other support programmes for job losers. By contrast, resources devoted to lower social security contributions and STW schemes are set to remain fairly constant or decline in several countries as these schemes are wound back and temporary measures expire.

Short-time work schemes have been helpful but must be phased out gradually

With the exceptions of Belgium, Finland and France, few employees were participating in short-time work or partial unemployment schemes prior to the onset of the recession.[24] Since the onset of the recession, many countries have introduced such schemes, or scaled them up by increasing replacement rates. Partly as a result, take-up rates have increased rapidly since 2007, and have been highest in Belgium, Germany, Italy, Japan and Turkey (Figure 5.16). Because they have contained job

Figure 5.16. **Annual average stock of employees participating in short-time work schemes as a percentage of all employees**



Note: Until 2009q3 for Austria and the Netherlands; August 2009 for Portugal and Spain; September 2009 for the Slovak Republic; and October 2009 for Luxembourg and New Zealand.

Source: Data on short-time workers are from the OECD-EC questionnaire, except in the following cases: * indicates that data are from national sources; ** indicates that data are OECD estimates based on OECD-EC questionnaire or national sources. Data on employees are from OECD Main Economic Indicators database.

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24. The use of short-time working schemes before the recession suggests that they have also been used for structural adjustment purposes rather than solely as short-term labour input management tools.

losses – although their contribution should not be over-estimated (see Box 5.1) – during the recession, STWs will *de facto* help contain unemployment hysteresis. However, to minimise the risk of hours declines becoming permanent and ensure that STWs do not impede efficiency-enhancing labour reallocation across firms and industries, it is important to attach clear and credible time limits to such measures despite the political economy pressures to extend them.[25] In that regard, it is good news that recent expansions of STWs are scheduled to be phased out by the end of 2010 in most countries. By contrast, Germany is currently considering extending to 2012 the crisis-related scaling-up of its STW.

The expansion of job subsidies…

Job subsidies to private employers have been introduced or expanded in many countries since the onset of the crisis. Subsidies have differed in terms of targeting (to specific groups or not). They have also differed in form, with choices having to be made about whether they take the form of labour tax cuts applied to all jobs (labelled here as stock subsidies), or of explicit subsidies either to new hires (gross hiring subsidies) or only to new hires associated with net job creation (net hiring or marginal subsidies). A number of countries reduced labour costs across-the-board mainly through general reductions in employer social security contributions (*e.g.* in Germany, Japan, Portugal and Hungary). By contrast, some countries targeted labour tax cuts at new hires (*e.g.* France, Spain, Ireland and Portugal), or introduced or scaled up gross hiring subsidies targeted at specific groups such as the long-term unemployed (Austria, Korea, Portugal, Sweden). Across-the-board labour tax cuts have been phased out and, on current plans, hiring subsidies are set to be phased out by early 2011 or earlier in many countries, with some exceptions where they are scheduled to continue longer, including Turkey.[26]

… needs to be cost-effective and temporary

Stock subsidies, for example an across-the-board cut in employer social security contributions, can assist in boosting employment,[27] but they are also expensive and involve large dead-weight losses because they subsidise jobs that would have existed without the subsidy. Gross hiring

25. It is also important to design the interventions in ways that encourage viable firms to self-select into them (*e.g.* firms in the Netherlands have to pay back 50% of the subsidy if they dismiss the workers within 3 months after the end of the short-time work period).
26. For further details of schedules for phasing-out measures and discussion of these issues, see OECD (2010) "The Policy Response to the Jobs Crisis in OECD countries: from the Recession to the Early Phase of the Recovery", Note Prepared by the Directorate for Employment, Labour and Social Affairs for the G20 Labour Ministerial in April 2010.
27. For further discussion of the issue of employment subsidies, see OECD (2010). In-work benefits are another possible measure to boost participation and employment of marginal groups in the labour force. However, they are not discussed here because their effects take time to materialise. More broadly, in the short run labour supply elasticities are likely to be lower than labour demand elasticities, making policies (such as hiring subsidies) that act on labour demand more effective job recovery measures.

subsidies, such as recently introduced in the United States, entail smaller dead-weight losses, and if targeted these can also be effective in bringing about a more equal distribution of unemployment across labour force groups. However, gross subsidies can be "gamed" by private firms through an increase in labour turnover. Net hiring subsidies, used in several countries including Hungary, Ireland, Portugal and Turkey, partly answer these concerns, and they are also more cost-effective and involve fewer deadweight losses than gross subsidies. At the same time, they tend to be more complex and have been difficult to administer in the past. At the current juncture, two considerations that support a move away from using stock and gross subsidies towards temporary net hiring subsidies to encourage a job-rich recovery are that many countries are under severe fiscal constraints and that deadweight loss will grow as recoveries become more established.[28]

Some recent increases in unemployment benefits could be rolled back

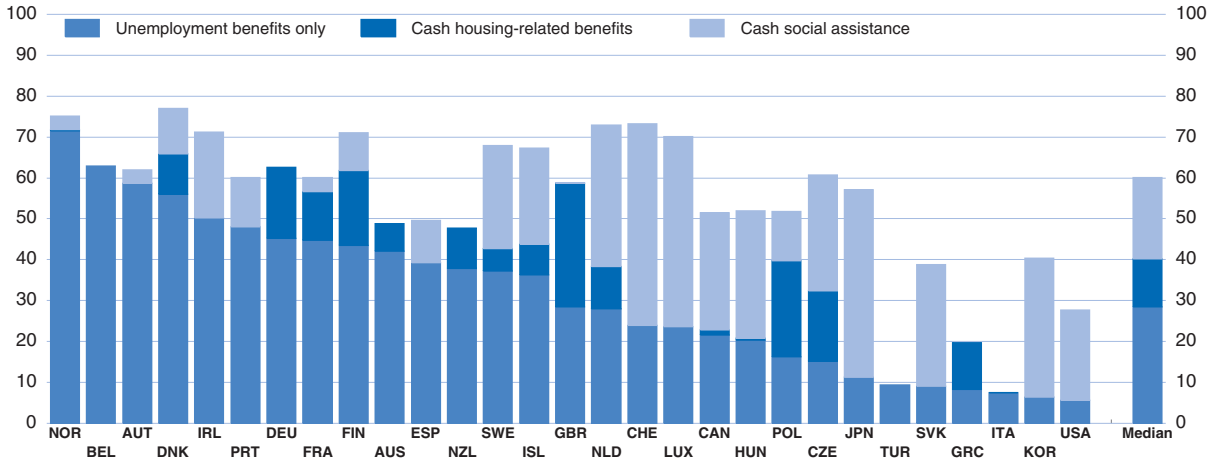
Along with strengthened activation requirements (see below), a number of OECD countries have increased the level and/or the duration of unemployment benefits to mitigate the impact of job losses on individual and family incomes.[29] High and long-lasting unemployment benefits have been found to weaken job-search activity (Lalive, 2008; Krueger and Mueller, 2010). They also tend to raise wage claims and to reduce real wage flexibility. Reflecting both factors, high and long-lasting unemployment benefits have been found to increase structural unemployment, and more tentatively to amplify hysteresis effects.[30] This may particularly be the case at a time when job losers who previously enjoyed high wages due to specific human capital and/or wage rents (*e.g.* in the car industry and manufacturing more broadly) have to seek lower-paid employment, while their benefits are tied to their past wages (Ljungvist and Sargent, 1998). Crisis-related measures in this area should therefore be reconsidered as the recovery strengthens and vacancy rates increase, especially in countries where benefits were high to start with (Figure 5.17). On current plans, most of the recent measures are due to come to an end during 2010 (Canada, United States). However, they are planned to last longer in Japan and to be permanent in Belgium and Turkey.

... while extensions in their coverage could be made permanent

About half of actions taken in the area of unemployment benefits have broadened eligibility criteria, expanding coverage among the working-age population, which in some cases (*e.g.* Spain, Japan) was weak because of substantial labour market dualism. Indeed non-standard workers, such as temporary or part-time workers, tend to have less access

28. While budgetary considerations might also suggest restricting eligibility to the unemployed, this could reduce the impact of the scheme by reducing the pool of potential candidates for employers and thereby take-up rates.
29. Austria, Belgium, Denmark, Greece, Poland and Turkey increased replacement rates. Canada, France, Japan, Portugal and Switzerland increased the duration of unemployment benefits. Finland and the United States did both. The Czech Republic and Poland permanently reduced the duration of benefits.
30. See Bassanini and Duval (2006); Blanchard and Wolfers (2000); Furceri and Mourougane (2009); Gianella, Koske, Rusticelli and Chatal (2008).

Figure 5.17. **Income support in OECD countries in 2007**
Average net replacement rates over a 5-year unemployment spell



Note: The average of the replacement rate in the first five years of unemployment is shown. See (2009d) for further details on how these averages are calculated. Housing-related benefits are those available to families living in rented accommodation with rent plus other housing costs (*e.g.* utility bills) assumed to equal 20 per cent of the average wage. In some countries, housing-related support is covered by social assistance payments instead. Social assistance in the United States also includes the value of a near-cash benefit (Food Stamps).Net replacement rates are evaluated for a prime-age worker (aged 40) with a "long" and uninterrupted employment record. They are averages over four different stylised family types (single and one-earner couples, with and without children) and two earning levels (67% and 100% of average full-time wages).

Source: OECD (2009d); and OECD tax-benefit models (*www.oecd.org/els/social/workincentives*).

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to unemployment benefits. These recent extensions of coverage could be made permanent insofar as the same activation requirements are applied strictly to both standard and non-standard workers, and provided they are not *ad hoc* and apply in a consistent manner across different categories of workers. On current plans, wider eligibility criteria will become permanent in Finland, Japan and Korea.

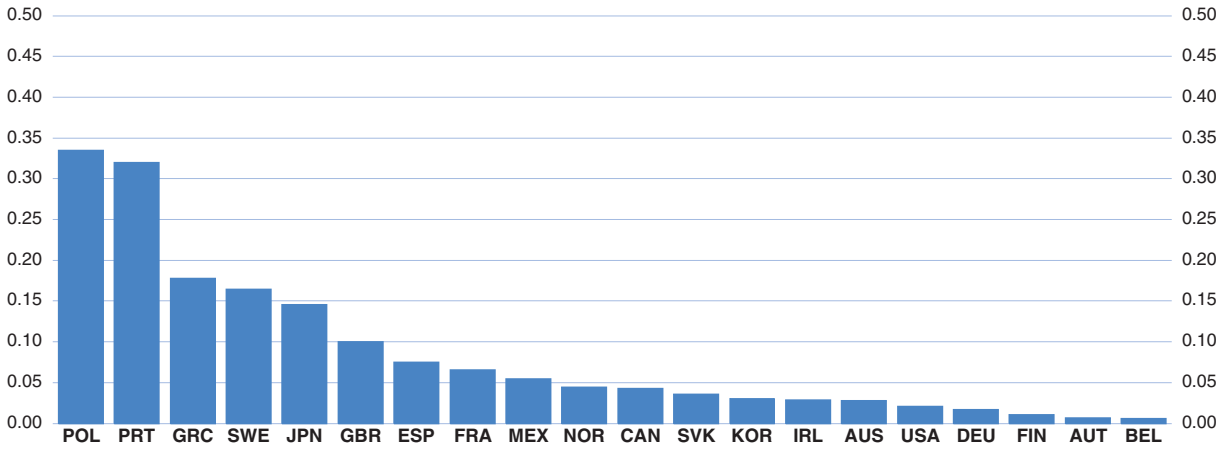
Recent increases in ALMP spending should in general be maintained for a while

Most countries responded to the surge in the number of jobseekers registered with Public Employment Services (PES) from 2008 to 2009 by increasing PES staff levels, with net increases of 10% or more over the past three years in Germany, Hungary, Japan, Mexico, Poland and Turkey.[31] Increased staffing mitigated the rise in the caseload compared with past crises but it did not prevent it altogether (*e.g.* the caseload rose by around 50% or more in the United Kingdom, Czech Republic, New Zealand and Mexico), with Germany and Japan being noticeable exceptions.[32] Most countries – particularly those with low initial spending – have also increased resources devoted to ALMP measures including training, work experience and business start-up incentives, or support for apprentices (Figure 5.18). Previous OECD analysis suggests that well-designed ALMP

31. Includes equivalent private-sector employment services providers in countries where PES activities are contracted out to private providers (*e.g.* Australia).
32. Growth in the caseload is proxied by the growth of the ratio of registered jobseekers (or registered unemployed in Poland and the Czech Republic) to total PES staff.

Figure 5.18. **Discretionary spending on active labour market programmes**

Average annual planned additional expenditure in response to the economic downturn, in per cent of GDP[1]



1. Average annual expenditure for 2008-10. Analysis limited to countries for which spending estimates could be obtained. Denmark and Switzerland are not shown because ALMP expenditure automatically rises with unemployment in these countries, greatly limiting the need for discretionary increases.

Source: OECD calculations based on the OECD Labour Market Programmes Database and responses to the 2009 OECD/EC questionnaire.

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expenditures can mitigate the adverse employment effects of high and long-lasting unemployment benefits, and damp hysteresis effects.[33] Therefore, even as they move to consolidate public budgets governments should as far as possible maintain the capacity to provide adequate case management and re-employment services for job seekers.[34] Unlike many labour-demand measures, recession-related ALMPs (*e.g.* job-search assistance and training) are currently due to continue well into 2011 in most countries.

… as well as the greater intensity of interventions by the PES and emphasis on job seeker responsibilities…

Governments have also made efforts to strengthen core activation measures such as job-search support and obligations or work-availability requirements, although not all such measures were taken explicitly in response to the crisis. In some countries, assessment and intake procedures for job-search assistance have been brought forward in the unemployment spell (Finland), even helping some workers into new jobs before they have lost their current job (United Kingdom). Immediate activation into training or work-experience places is being implemented for youth directly upon registering for social assistance (Netherlands, Denmark). Jobseekers are now denied benefits if, for no justified reason, they refuse to accept a suitable job (Poland) and they are required to look for jobs in wider geographical areas (Finland). Such measures should be maintained even in the present weak labour market conditions, as they

33. See Bassanini and Duval (2006); Duval and Vogel (2008).
34. A constraint in this regard is that it is difficult to rapidly expand job-search support and training services while maintaining quality. An increased use of private sector employment service providers may partly address this problem if service contracts are well designed in order to minimise gaming and encourage employment outcomes in line with public objectives (OECD, 2005).

strengthen the effectiveness and credibility of the "mutual obligations" principle that is the cornerstone of a well-functioning activation system (OECD, 2009d).

The ALMP mix could also be moved…

However, in the current context, an important part of improving activation is to calibrate the range and relative intensity of ALMPs to take account of the relative effectiveness of these policies when vacancies are limited and competition among job seekers is high. A priority is to ensure that job losers do not become disconnected from the labour market. To this end, core components of activation, such as a personal re-employment plan and regular meetings with case-managers and obligations to actively search for jobs, should be maintained for all job seekers, even if higher case-loads and capacity constraints mean reducing the intensity of this type of measure for some individuals. As employers are aware that the proportion of well-qualified job seekers in total unemployment is higher than in normal times (OECD, 2009*d*), and in an environment of relatively low job openings, the PES may have to focus temporarily on the most employable job seekers to avoid losing credibility.

… towards training…

For those harder-to-place job seekers, job-search assistance may have to be combined with training opportunities. In a number of European countries as well as in Australia and New Zealand, new training places provided during the crisis have focused more specifically at those at risk such as youths and older workers, or on sectors judged as having high potential job creation prospects (Australia, Austria, Belgium, Switzerland, United Kingdom). Indeed in a recession, the lower opportunity cost of time spent training tips the cost-benefit analysis more in favour of such programmes.[35] In addition, recessions may result in accelerated structural change, increasing the requirement for workers to shift occupations and therefore the need for training. At the same time, high costs for training and the risk of compromising quality counsel against a major expansion of training slots. Up-scaling existing programmes rather than creating them from scratch is likely to be the most effective way to quickly increase places (OECD, 2009d). Also, with previous experience in Europe showing that immigrants suffer disproportionally in recessions (OECD, 1999; 2003), integration programmes need to be maintained, and immigrants enabled to profit equally from ALMPs.

… while direct public job creation should be used only as a last resort option

A number of OECD countries have directly created jobs in the public sector during the crisis. In several cases, these measures are due to continue somewhat longer than other initiatives to support labour demand (until early 2012 in Japan and indefinitely in Mexico). Past experience with

35. Based on German data, Lechner and Wunsch (2009) find for example that the negative impact of undergoing training on job-search intensity is smaller, and the positive long-run employment effects are larger when unemployment is higher. Conversely, McVicar and Podivinsky (2007) find in the context of the UK New Deal for Young People that ALMPs are less effective when the local unemployment rate is higher.

public-sector job creation is not encouraging – these programmes are costly and tend to have very little success in helping unemployed people get permanent jobs in the open labour market. However, in a long and deep recession, where there are few vacancies relative to job seekers, they might provide a way of keeping harder-to-place job seekers connected to the labour market (Gregg and Layard, 2009), and in that respect they may be seen as a back stop to activation, provided they remain highly targeted and are unwound rapidly once hiring picks up.

The strength of the jobs recovery will also depend on the broader institutional frameworks…

More broadly, the strength of the jobs recovery will likely depend on the entire range of labour and product market institutions and the interactions between them. In the current recession, stringent EP and PMR may have dampened the initial labour market impact of the shock, but are also likely to delay the return to pre-recession unemployment levels going forward.[36] A rebalancing of employment protection legislation in current circumstances, focusing on lower protection for regular workers in countries in which such protection is extensive, whilst improving security for temporary workers in countries in which their protection is relatively weak, could, if combined with further reforms to make activation more effective, enhance both labour market efficiency and – by addressing dualism – equity.[37] In a number of OECD countries including most of continental Europe and Japan, reducing EP for regular contracts (at least for new hires) and/or PMR in industries with strong short-term job creation potential such as retailing and professional services could make the recovery more job-rich, while also boosting medium-run economic growth (Table 5.3).

… including policies that directly affect wage formation

Other policy and institutional reforms that directly affect wage formation could, where needed, facilitate real wage adjustment, thereby promoting job creation and a return of unemployment to pre-recession levels over the medium run. Possible measures may include for instance reconsidering administrative extensions of, and facilitating opt-out clauses from collective agreements, as well as containing increases in minimum wages where these are already high. However, given their

36. For some OECD empirical evidence, see Bassanini and Duval (2006) and Duval and Vogel (2008), Consistent with these findings and also with those of Blanchard and Wolfers (2000), Furceri and Mourougane (2009) find that stringent EPL and PMR amplify the impact of major downturns on structural unemployment. In the case of EPL, such an effect had long been identified as a possibility in economic theory (see *e.g.* Blanchard and Summers, 1986). Recent OECD work also suggests that overly stringent EP exacerbates the impact of recessions on long-term participation (OECD, 2010d), possibly by hampering job hiring in the recovery phase (OECD, 2004; Cazes and Nesporova, 2004).
37. One option that could both alleviate the political economy obstacles to permanent employment protection (EP) reform and magnify the short-term employment impact of reform may be to restrict permanent EP relaxation to *new* hires only. By cutting hiring costs while leaving firing costs unchanged, such a reform could deliver a temporary, so-called "honeymoon effect" on employment (Boeri and Garibaldi, 2007). However, two major drawbacks would include the possibility of a temporary increase (before a subsequent decline) in labour market dualism and reduced incentives to labour mobility for those workers with the "old" permanent contracts.

Table 5.3. **Policy reforms to reduce unemployment in the long run**

In the average OECD country, the unemployment rate can be reduced by 1 percentage point…
- by reducing the average unemployment benefit replacement rate by 8 percentage points
or
- by reducing the overall tax wedge on labour income by 3.5 percentage points
or
- through product market liberalisation of the same order of magnitude as that which has taken place in the average OECD country over the past ten years
or
- by raising spending on active labour market policies per unemployed worker (as a share of GDP per capita) to the Swedish level
… or by several percentage points through a combination of the above policy reforms

Note: Based on empirical analysis carried out in the context of the reassessment of the OECD Jobs Strategy (2007). These are average long-run effects; the short-term effect in the recovery period may differ substantially. Moreover, no account is made for interactions between policy measures, which implies that the impact of a given reform may vary significantly depending on the underlying institutional environment of each country.

Source: OECD(2007).

potential short-term deflationary effects, reforms in these areas may have to proceed carefully and wait until deflationary risks have clearly abated.

Policy options to alleviate labour market withdrawal of vulnerable groups

Action is needed to maintain the labour market ties of vulnerable groups

Policy reforms to tackle unemployment hysteresis could go a long way towards minimising worker discouragement and the risk of persistent declines in participation. Nevertheless, the magnitude of the shock in some countries, the risk of a jobless recovery in others, and available evidence from past recessions all suggest that traditionally vulnerable groups such as older workers, low-skilled youths or migrants could be at risk of permanent labour force withdrawal. A range of policies could help maintain their ties to the labour market.

Governments should not relax access to early retirement…

Governments need first to avoid succumbing to the temptation to open pathways to early retirement (Blöndal and Scarpetta, 1999; Casey *et al.*, 2004) that were used in the past to ease pressure on the labour market during downturns. Such actions could reduce labour force participation not only temporarily but also more durably if they became entrenched and led to permanent changes in retirement habits and norms. Damaging measures in this regard would include, for example, looser enforcement of job-search and health criteria in unemployment and disability benefit systems, respectively, which, along with the financial disincentives to continued work embedded into such schemes, have been found to have lowered effective retirement ages in the aftermath of past recessions (OECD, 2010d). So far in this recession, the good news is that governments have not given in to this temptation. For instance, while several OECD countries have raised the level and/or duration of unemployment benefits, no specific measures have been taken for older workers (OECD, 2010b).

... and even consider tightening it to deter over-use

The recession suggests that governments should go further and tighten eligibility criteria because previous experience shows that following a downturn, existing lax structural policy settings are exposed to pressure on a greater scale. In Finland, for example, although an early retirement scheme was in place years before the recession of the early 1990s, its generosity was largely exploited by both employers and workers during the course of the recession.

A pick-up in disability benefit recipiency also needs to be alleviated...

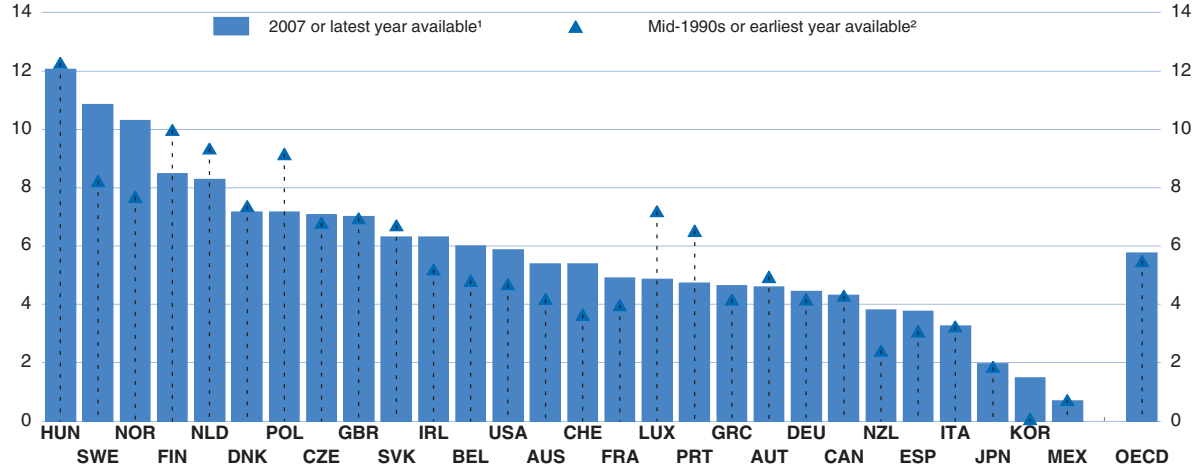
Tightening eligibility criteria to schemes that encourage labour market withdrawal has proved difficult, however. Even during a period of generally strong economic growth, more than half of OECD countries, including Sweden, Norway and all the English-speaking ones, saw a substantial increase in disability-benefit recipient rates over the past decade (Figure 5.19, OECD, 2009e). The shift to disability benefits is not confined to older workers, with the numbers of beneficiaries in the 20-34 age group doubling in some countries, increasingly due to difficult-to-verify mental health issues. Labour market weakness following the recession may well exacerbate these trends. For instance, available evidence for the Netherlands, the United Kingdom and the United States points to greater inflows to disability schemes in the wake of recessions (Nickell and van Ours, 2000; Autor and Duggan, 2003). Limiting new inflows into disability schemes is all the more important as the exit rate is extremely low. In most countries for which data are available, only 1-2% of all disability beneficiaries leave annually for reasons other than death or retirement.

... through gate-keeping and other structural policy measures

Strict health criteria have to be enforced to alleviate increases in disability benefit recipient rates going forward. Structural reforms should also be undertaken where needed, including a shift from an assessment of whether someone is incapable of work at all towards an appraisal of

Figure 5.19. **Disability benefit recipient rates are high and still increasing in many countries**

Disability benefit recipients in per cent of the population aged 20-64 in 28 OECD countries



Note: OECD refers to the unweighted average of the 27 countries.

1. 2004 for France; 2005 for Luxembourg; 2006 for Denmark, Italy, Japan, the Slovak Republic and the United States.
2. 1996 for Belgium and Canada; 1999 for the Netherlands; 2000 for Hungary and Italy; 2001 for Ireland; 2003 for Japan and 2004 for Poland; 1995 for all other countries.

Source: OECD (2009e). Data provided by national authorities.

StatLink http://dx.doi.org/10.1787/888932305684

how much work capacity people still retain or could recover with rehabilitation. It is also important to move from one-off medical assessments to a more comprehensive periodic review of work capacity. The increase in mental illness cases makes it important to ensure that assessments are suited for this specific type of claim, as well as to carry out regular reviews since such cases are often more curable or temporary in nature. Greater monitoring of long-term sickness leave, which experience shows is often a pathway to permanent disability benefits, is also important. Imposing obligations on new disability beneficiaries such as mandatory vocational rehabilitation should also be considered to reduce the probability of a permanent shift to benefits (OECD, 2009*e*).[38]

The "scarring" effects of this downturn on youths could be strong…

Youth unemployment is more responsive to the business cycle, and especially for youth lacking basic education, it may have "scarring" effects *i.e.* long-lasting effects on incomes and the risk of future unemployment (OECD, 2009*f*). On average, a spell of youth unemployment at entry in the labour market has been found to have more serious impacts on incomes than unemployment later in life (Ellwood, 1982; Arulampalam, 2001). Unemployment immediately after graduation from college is associated with substantial, permanent earnings losses (Oreopoulos *et al.*, 2008; Gartell, 2009). Also, recessions have been found to severely reduce youth labour force participation. This reflects in part increased education programme enrolments and attainments, and indeed past experience suggests that youth participation declines are more likely where there is easier access to post-secondary education. The welfare implications are not obvious, since higher levels of human capital might lead to increased total factor productivity and higher future levels of income.

… making it important to strengthen their labour market attachment

Governments should act to reduce the impact of the current recession on youth. In addition to extended job-search assistance for those that are job-ready and maintaining the mutual obligation for youth to actively search for work and accept suitable job offers, governments should consider putting greater emphasis on a combined training and work approach to help maintain labour market attachment, especially for those youth that are having major difficulties finding a job (Scarpetta *et al.*, 2010). Experience shows that work/training opportunities such as apprenticeships and internships facilitate labour market entry of youth (OECD, 2009f), although scaling up such schemes under short notice could be challenging. Strengthening the skills and labour market experience of low-skilled youths could be especially effective if combined with reducing the cost of employing them where it is high, and reducing the gap between EP for temporary and permanent contracts to smooth the transition of newcomers. Countries with strong apprenticeship systems and/or less-regulated labour markets – *e.g.* Germany and the United Kingdom, respectively – have the largest shares of youth that spend most of their time in employment (Quintini and Manfredi, 2009).

38. For further discussion of disability policies aimed at minimising labour force withdrawal, see OECD (2009*e*).

APPENDIX 5.A1

Table 5.A1. **Quarterly hours worked data sources**

	Provider	Frequency	Starts	Description
Australia	Australian Bureau of Statistics	Monthly	Jan-78	Aggregate weekly hours worked
Austria	Statistics Austria	Quarterly	Mar-94	Hours actually worked per quarter and per employee
Belgium	Eurostat	Quarterly	Mar-99	Average number of hours actually worked in the reference week
Canada	Statistics Canada	Monthly	Jan-76	Average actual hours
Denmark	Statistics Denmark	Quarterly	Mar-90	Aggregate hours worked seasonally adjusted
Finland	Statistics Finland	Quarterly	Mar-89	Actual hours worked monthly seasonally adjusted
France	Datastream	Quarterly	Mar-78	Aggregate actual hours worked (excl. agriculture)
Germany	Federal Statistics Office	Quarterly	Mar-70	Actual hours worked per employed person, 1970 -1990 West Germany, 1991-2009 Germany.
Hungary	Eurostat	Quarterly	Mar-99	Average number of hours actually worked in the reference week
Ireland	Eurostat	Quarterly	Jun-99	Average number of hours actually worked in the reference week
Italy	Eurostat	Quarterly	Mar-98	Average number of hours actually worked in the reference week
Japan	Statistics Japan	Monthly	Jan-68	Aggregate weekly hours of work (non-agricultural industries)
Korea	Datastream (National Statistical Office)	Monthly	Jul-82	Hours worked
Luxembourg	Eurostat	Quarterly	Mar-03	Average number of hours actually worked in the reference week
Netherlands	Eurostat	Quarterly	Mar-00	Average number of hours actually worked in the reference week
New Zealand	Statistics New Zealand	Quarterly	Mar-89	Total paid hours seasonally adjusted
Norway	Statistics Norway	Quarterly	Mar-96	Aggregate hours worked, National Accounts
Poland	Bank of Poland (1992-2006) Eurostat (2006-2009)	Quarterly	Jun-92	Average weekly hours
Portugal	National Statistics Institute 1992-1998/ Eurostat 1998-2009	Quarterly	Jun-92	Average number of hours actually worked in the reference week
Slovak Republic	Eurostat	Quarterly	Mar-98	Average number of hours actually worked in the reference week
Spain	National Statistics Institute 1987-1997/ Eurostat 1998-2009	Quarterly	Jun-87	Average number of hours actually worked in the reference week
Sweden	Statistics Sweden	Quarterly	Mar-93	Aggregate hours worked
United Kingdom	Office of National Statistics	Quarterly	Mar-71	Total actual weekly hours worked (millions) seasonally adjusted
United States	Bureau of Labour Statistics	Monthly	Jan-64	Average weekly hours of production and nonsupervisory workers on private nonfarm payrolls, seasonally adjusted

1. Unless otherwise noted, the series are seasonally adjusted in Eviews using X-12 ARIMA.
2. Where applicable, aggregate hours series are converted to average hours series per employee by dividing aggregate hours by total employment.
3. Total employment is sourced from the OECD Economic Outlook Database
4. Where applicable, the quarterly series is calculated by taking the average of hours worked in the 3 months of that quarter.
5. Unless otherwise noted, the hours worked series are the average of or the aggregate of hours worked by all employees
6. Where necessary, series are backcast using the growth rates of the earlier series.

Source: National authorities.

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Chapter 6

COUNTER-CYCLICAL ECONOMIC POLICY

Introduction and summary

The crisis has prompted a re-think of policy settings

The recent economic crisis has stretched policy frameworks in many OECD countries to breaking point. As economies begin to recover lessons are being drawn on how policies can better prevent the development of new large imbalances and asset price misalignments that were at the origin of the crisis. In addition, policies will have to be set so as to enhance the ability of economies to withstand large adverse shocks.[1]

Policy will need to be more prudent during upswings

An important lesson from the severity of the recent recession is that policy in various areas will have to be more prudent during upswings and to build in greater safety margins to be able to react to large adverse shocks. The main policy conclusions of the OECD's recent work on counter-cyclical economic policy are as follows:

- Policy decisions have to be made in an environment of uncertainty. As far as possible, they should be robust to erroneous information about the functioning of the economy, the nature of economic shocks or the effects of policy. Moreover, risk assessment tools, such as early warning systems, need to be developed further.
- The room for fiscal policy to react to a downturn is constrained by budget deficits and debt at the outset. In general, the poorer the fiscal position the less reactive governments have been and can be in their response to adverse shocks. Fiscal rules can help prepare for the next downturn by leading to swifter consolidation during the upturn. But inappropriate rules can be destabilising and lead to behaviour aimed at respecting the letter but not the spirit of the rule.
- The monetary and financial policy framework needs some re-thinking following the crisis to achieve a better articulation between economic and financial stability. Identifying asset price bubbles can be hard and containing them with monetary policy could entail large collateral damage to activity. However, there may be a case for leaning against the wind, if asset prices are driven by a credit boom and financial regulation is judged to be insufficiently robust.
- Financial policy needs to strengthen micro-prudential regulation, including by increasing capital and liquidity buffers so that financial institutions can withstand adverse shocks. Furthermore, regulatory interventions may need to target emerging credit-driven bubbles and

1. Recent work by the OECD Economics Department has examined how policies have interacted with the cycle over time and during the recent crisis and addresses the policy issues in greater depth (Sutherland *et al.*, 2010).

macro-prudential policies should address systemic weaknesses. As demonstrated by the financial crisis, this needs to take into account international financial linkages.

- Changes to structural policy settings, including in areas like taxation and housing, can improve the resilience of the economy to shocks and affect the degree of leverage households and firms take on.
- In a number of cases, more policy co-ordination would be desirable. The effective regulation of financial sectors would benefit from international co-ordination to ensure a level playing field and that possibilities for regulatory arbitrage are minimised. In response to large common shocks international co-ordination of fiscal and monetary policy responses may be appropriate.

The nature of the cycle

Macroeconomic policies have helped reduce volatility, but vulnerabilities emerged

Since the mid-1980s, business cycles have tended to become smaller in amplitude and longer during the expansionary phase with fewer recessions. Monetary and structural policies appear to have contributed to the "great moderation" (Figure 6.1), by better anchoring inflation expectations and by reducing rigidities that hindered economic adjustment to shocks. However, the reduction in macroeconomic volatility was accompanied by greater asset price volatility. The flip-side of the great moderation was greater risk-taking, which in combination with financial market innovations fuelled a considerable rise in private-sector debt, which proved to be a source of fragility in many countries (Figure 6.2).

The banking sector has become more pro-cyclical…

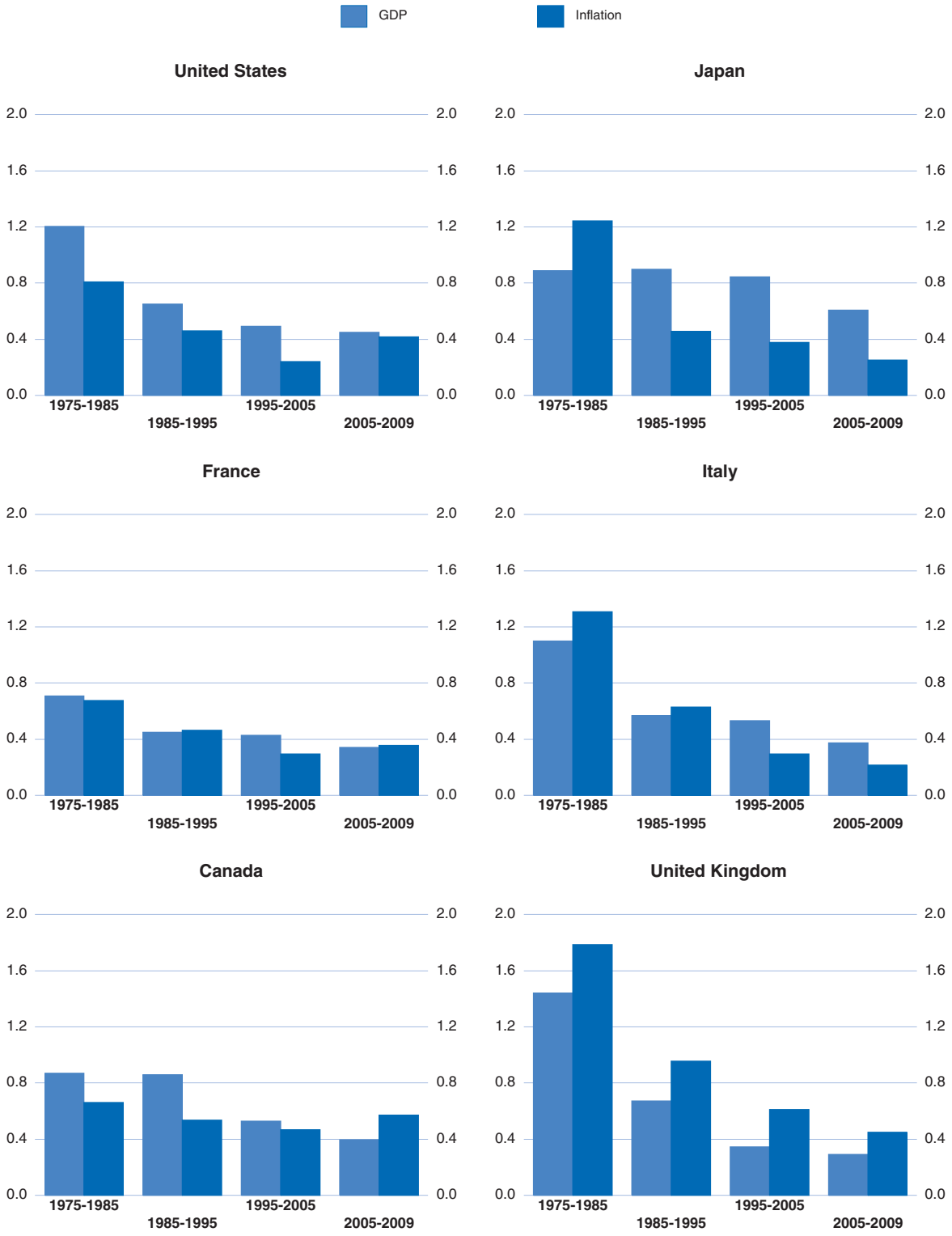
The banking system has become more pro-cyclical (Égert, 2010b). For example, the ratio of bank assets to GDP has moved ever more closely with the cycle since the late 1970s and this has been accompanied by a rising number of banking crises. Furthermore, banks have become increasingly leveraged (even if this was partially hidden from the regulators) and their financing structure has shifted away from deposits in many countries.

… for a number of reasons…

Pro-cyclical behaviour in credit supply can arise for a number of reasons: first, bank capital requirements, which are linked to the perceived riskiness of the assets, can induce pro-cyclicality if, for example, banks find it easier to adjust lending than capital to changing assessments of the riskiness of assets. Second, provisioning for bad loans can be pro-cyclical, as it often increases sharply during downturns. By depressing profits it can have an impact on banks' ability to lend. Developments on bank balance sheets have reinforced pro-cyclicality. For example, banks that hold many illiquid assets or are reliant on short-term funding may be prone to pronounced pro-cyclicality in lending, when liquidity dries up. Finally, other factors that can influence the pro-cyclicality of lending include risk assessment that is unduly pro-cyclical and remuneration policies that encourage excessive risk taking. To some

Figure 6.1. **The great moderation**

Period averages of 20-quarter rolling standard deviations of quarterly real GDP growth and quarterly inflation rate, as measured by the CPI

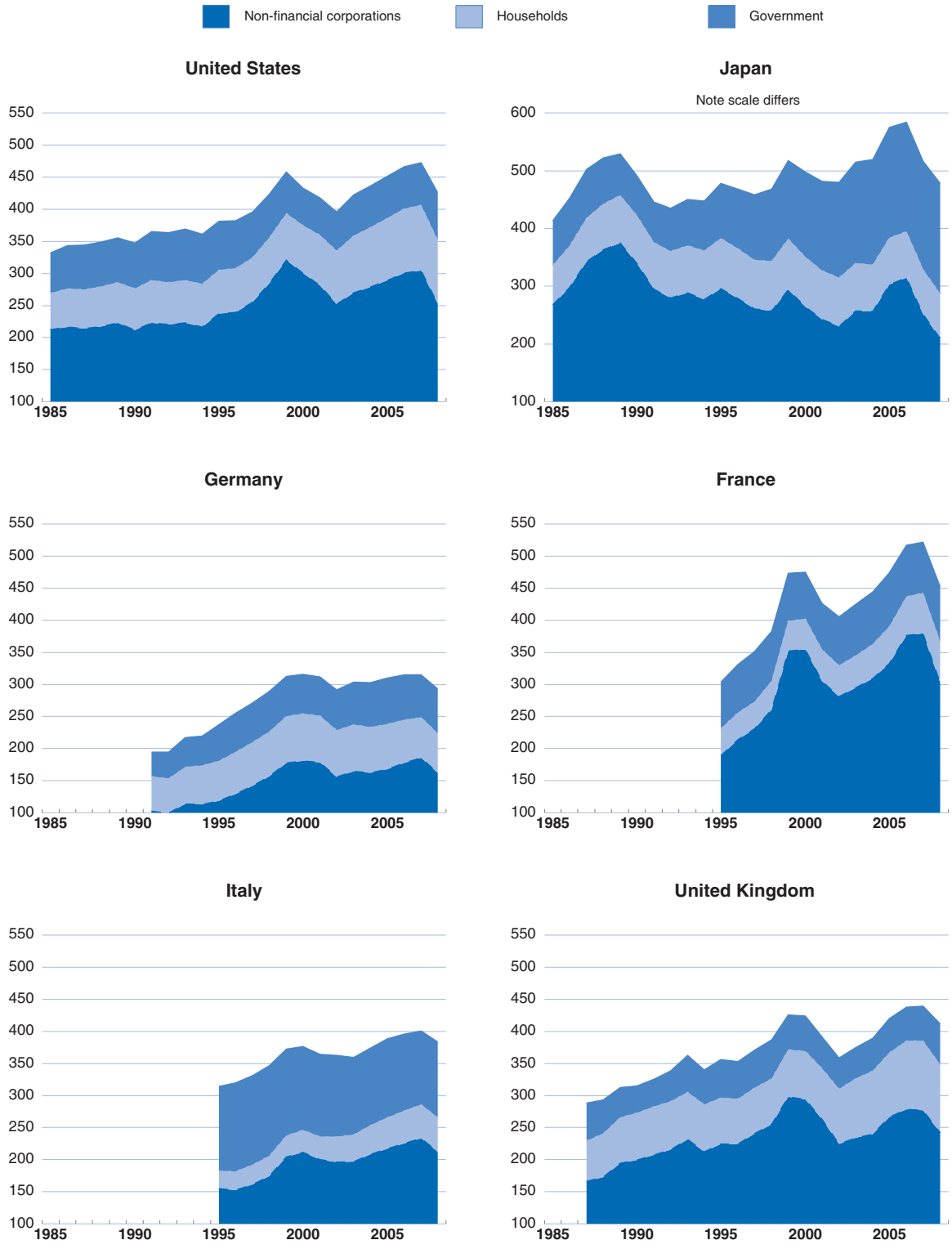


Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932305703

Figure 6.2. **Household, government and non-financial corporation liabilities**

Per cent of GDP



Source: OECD Annual National Accounts.

StatLink http://dx.doi.org/10.1787/888932305722

extent, these outcomes are features of the regulatory set-up, though a number of countries have attempted to address some of these problems. For example, in Spain bank regulators have attempted to reduce the cyclical nature of provisioning by introducing so-called "dynamic provisioning", which induces banks to make more provisions in good times to provide greater buffers to absorb losses in bad times.

... which can make the cycle more volatile

The pro-cyclicality of the banking sector can amplify cycles in the real economy and financial market instability can lead to severe downturns as demonstrated again by the recent economic and financial crisis. At the same time, the greater role for securities markets has created a new set of vulnerabilities as they have been prone to the drying-up of liquidity at times of tension.

Shocks originating in the financial sector can spread rapidly abroad

The financial shocks originating from the United States in 2007 and 2008 were transmitted remarkably quickly to the rest of the world. Financial market integration, operating through financial flows, credit losses and valuation changes, and trade openness were key elements of the rapid and strong transmission, magnified by intra-industry trade within subgroups of countries. Small open economies, in particular, are vulnerable to such shocks, as their trade openness is often a multiple of that of the large countries, while their financial markets often lack depth. Furthermore, a high degree of synchronisation can imply limits on an individual country's ability to stabilise the economy and may call for greater international policy co-ordination.

Smoothing the cycle

While there is a strong case for macroeconomic stabilisation, the desirable degree depends on a number of factors

Macroeconomic policy should contribute to stabilising output and inflation as households and firms may find it impossible on their own to cope with large fluctuations. In addition, large and protracted recessions can lower the productive capacity of the economy, by affecting the level of structural unemployment (see Chapter 5), thus strengthening the case for a vigorous policy response to cushion deep downturns. While there is a strong case for stabilisation, the desirable amount of stabilisation is more difficult to pin down. Factors influencing the desired degree of stabilisation include:

- Whether the shocks hitting the economy are predominantly supply or demand shocks. Macroeconomic policies that help stabilise the economy typically have a more straightforward role in dealing with aggregate demand shocks, but may hinder the necessary adjustment to a permanent supply shock.
- The nature of the economy, the kinds of disturbances to which it is exposed and its ability to withstand shocks also influence how much and which kind of stabilisation is appropriate. For example, small open economies are likely to be more exposed to external shocks and can face considerable difficulties in stabilising the economy (see below). In

this light, small open economies may put greater weight on policies that enhance the resilience of the economy.

- Unless carefully designed, stabilisation efforts may undermine so-called "instrument stability". Specifically, attempts to fine-tune the economy may require ever larger policy measures to offset the effects of past policy decisions. This can be important as it may undermine the credibility of policy.

Monetary policy is usually the primary tool to stabilise the economy,...

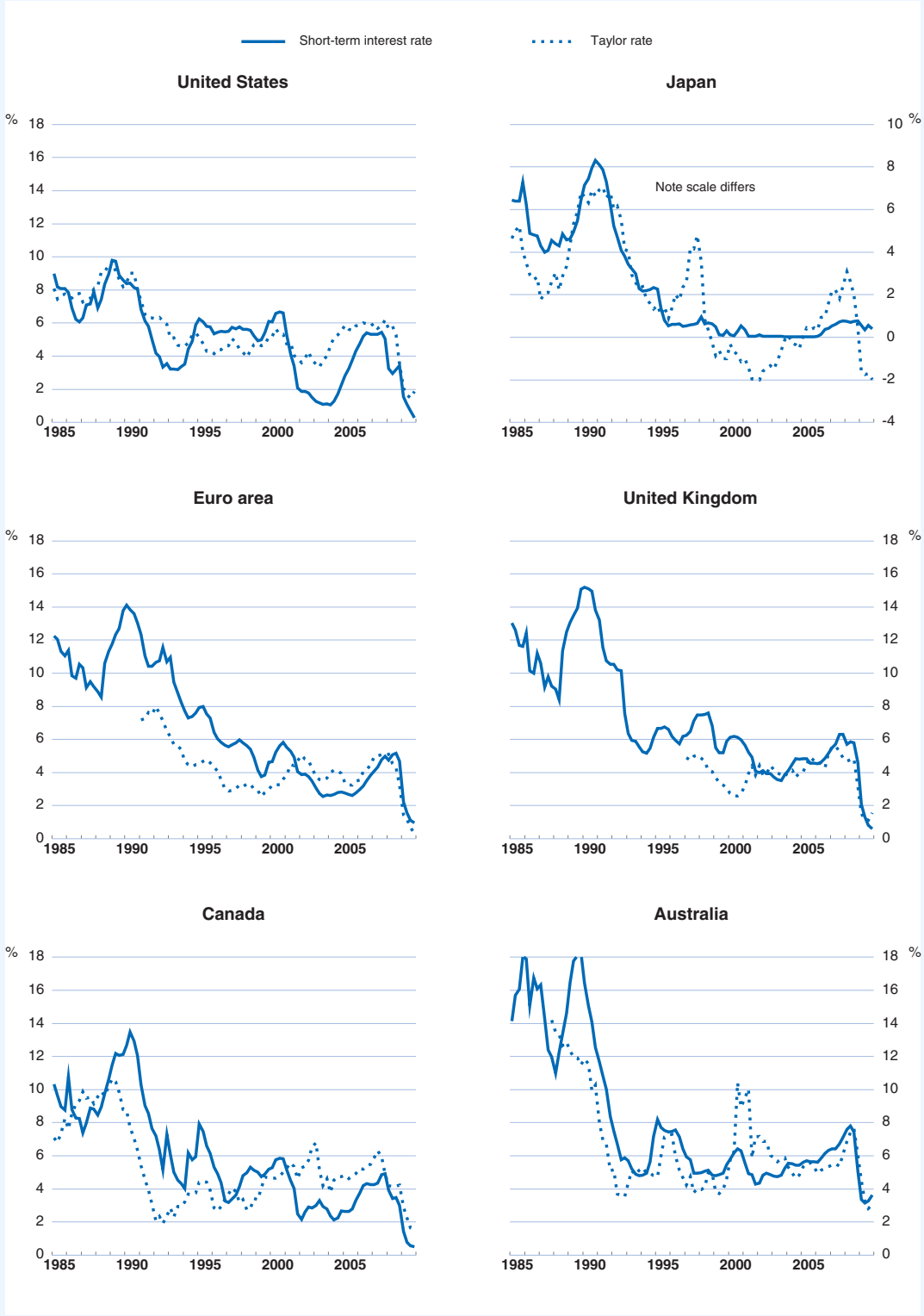
Monetary policy provides an important means of stabilising both inflation and output. Countries differ in the weight they give to stabilising inflation and output. In some countries, such as the United States, the central bank has an explicit mandate to target both inflation and output, whereas in others, such as the United Kingdom, the mandate establishes a specific target for inflation but not output. Despite differences in mandates, monetary policy has generally been very successful in bringing down inflation rates as well as their volatility. In very large part, this has arisen due to the successful anchoring of inflation expectations at low and stable rates. This success, however, needs to be qualified. First, in some countries, monetary policy during the 2000s appears to have changed, at least when judged by comparing the actual short-term interest rate with the one predicted by the deviations of inflation rates from the target and output developments (the Taylor rule) (Box 6.1). Second, in small open economies, where monetary policy changes may induce sudden, unwanted movements in the exchange rate, and the euro area countries, stabilisation by monetary policy alone may be insufficient,

Box 6.1. **Taylor rules**

The so-called Taylor rule provides a simple metric to assess the conduct of monetary policy. The rule provides a formula to calculate a benchmark short-term policy interest rate, based on deviations of the actual inflation rate from the inflation target and the output gap and an interest rate that is appropriate when the economy is in balance (the so-called "neutral" or equilibrium real interest rate). For example, if inflation moved above target or the output gap turned positive, the short-term interest rate implied by the Taylor rule would become higher. Empirical evidence tends to suggest that monetary policy that is consistent with Taylor rules can contribute to stabilisation. In OECD countries, monetary policy has largely responded to inflation and output developments as the Taylor rule would predict, but there have been some large and persistent deviations (Ahrend *et al.*, 2008). The monetary policy stance in the United States and Canada, for instance, was relatively loose in the early to mid-2000s (see Figure). Varying the importance given to deviations from actual inflation and the output gap in deciding the appropriate interest rate can account for some of the differences between short-term interest rates and the Taylor rate, but not all. Another part of the deviations reflect the fact that Taylor rules using *ex post* data do not capture accurately the factors influencing monetary policy decisions. In particular, the information available at the time of making the decision is different and evaluations of pressures on inflation and output are not necessarily incorporated in contemporaneous measures of inflation and the output gap (Bernanke, 2010). Indeed when the forward-looking nature of monetary policy is taken into consideration explicitly, empirical analysis of interest rates suggests that even in the US and Canadian cases the so-called "Taylor principle" holds, with interest rates reacting more than proportionally to changes in the inflation rate. This is often seen as consistent with inflation stabilisation (Sutherland, 2010).

Box 6.1. **Taylor rules** *(cont.)*

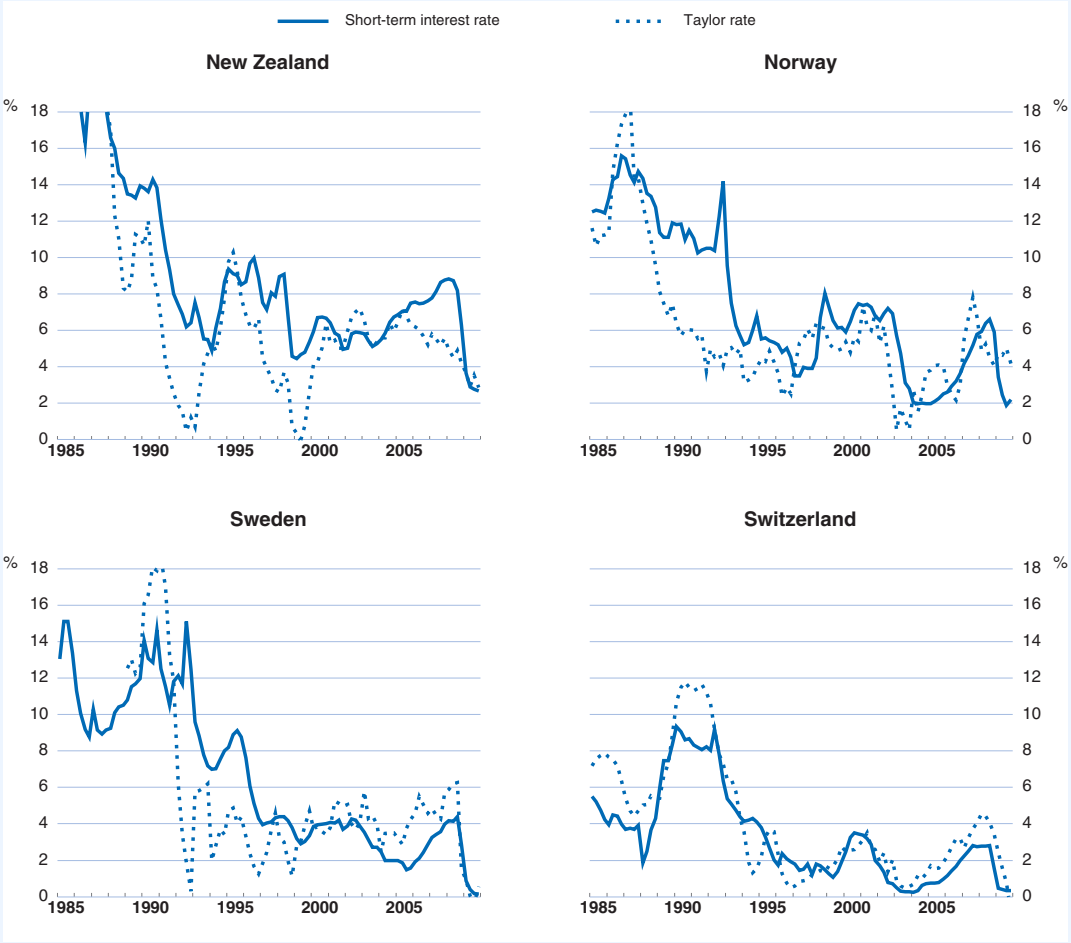
Taylor rules and actual short-term interest rates



StatLink http://dx.doi.org/10.1787/888932305741

Box 6.1. **Taylor rules** *(cont.)*

Taylor rules and actual short-term interest rates



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Note: The Taylor rule rate is a function of an equilibrium real short-term interest rate, the output gap and the gap between actual inflation and the implicit inflation target. The standard specification, used here, is given by: $r_T = \Pi + r^* + \lambda_1(\Pi - \Pi^*) + \lambda_2 GAP$, where r_T is the Taylor rule interest rate, Π the rate of inflation as measured by core CPI, Π^* the inflation target, r^* the equilibrium real interest rate, GAP the output gap and λ_1 and λ_2 are the weights given to inflation and output stabilisation, respectively. The weights are both assumed to equal 0.5. The assumptions for the price stability target and equilibrium real interest rates follow Ahrend *et al.* (2008). For Japan, the assumed price stability target is for inflation of 1.0% and the assumed equilibrium real interest rate is 1.2%. For the euro area, the assumed price stability target is for inflation of 1.9% and the assumed equilibrium real interest rate is 2.1%. For United Kingdom, the assumed price stability target is for inflation of 2.0% and the assumed equilibrium real interest rate is 3.0%. For Canada, the assumed price stability target is for inflation of 2.0% and the assumed equilibrium real interest rate is 2.75%. For Australia, the assumed price stability target is for inflation of 2.5% and the assumed equilibrium real interest rate is 2.85%. For New Zealand, the assumed price stability target is for inflation of 2.0% and the assumed equilibrium real interest rate is 3.0%. For Norway, the assumed price stability target is for inflation of 2.0% and the assumed equilibrium real interest rate is 2.4%. For Sweden, the assumed price stability target is for inflation of 2.0% and the assumed equilibrium real interest rate is 2.1%. For Switzerland, the assumed price stability target is for inflation of 1.0% and the assumed equilibrium real interest rate is 1.6%.

Source: OECD Economic Outlook 87 database.

potentially calling for additional support from fiscal policy. Indeed, in the euro area countries, the monetary policy impulse from the common monetary policy cannot be guaranteed to be aligned with an individual country's stabilisation requirements.

… while fiscal policy cushions shocks via the automatic stabilisers

Fiscal policy cushions shocks via the operation of the automatic stabilisers. For example, during a downturn unemployment benefits rise and tax revenues diminish. As a result, the size of the automatic stabilisers depends on a number of features of the tax and transfer system and is positively related to the size of government. While the automatic stabilisers have an important place in the policy arsenal they are difficult to optimise. Fiscal policy instruments that underpin the automatic stabilisers are usually designed in the first instance to cater for equity or efficiency objectives, with automatic stabilisation arising as a side-benefit. Adjusting them for the sake of stabilisation would need to be carefully balanced with the associated costs.

Discretionary fiscal policy should mainly be used, when faced with a large shock

When facing a large shock, fiscal policy can also help smooth activity through discretionary policy action, such as was the case with the fiscal packages introduced in most OECD countries during the recent crisis. This argument holds *a fortiori* in countries with weak automatic stabilisers and where leakage of a fiscal impulse through imports is limited, or when countries are hit simultaneously by a shock. Discretionary fiscal policy during a large and protracted shock may become more potent and can play a supporting role to monetary policy and the automatic stabilisers. In the absence of long-run solvency concerns, temporary discretionary fiscal policy responses to a large demand shock will boost aggregate demand, helping to narrow the output gap.[2] However, the ability of discretionary fiscal policy to affect economic activity depends on how private agents react (*e.g.* whether they save more as a result of a fiscal stimulus plan – see Box 1.6 in Chapter 1. New empirical work suggests that changes in current revenue are almost fully offset, whereas at least 50% of government spending is not offset. There is no offset for public investment, making it the most potent policy tool (Röhn, 2010). While the effectiveness of public investment is high there is a trade-off with how quickly it can be brought on stream. In particular, the complexities involved in large investment projects and the importance of contracts, which are time-consuming to negotiate, suggests that only "shovel ready" projects will meet both stabilisation needs and ensuring subsequent value for money. When long-run solvency concerns are more apparent, such as when government debt is high, the effectiveness of fiscal policy is reduced.[3]

2. The appropriate policy response to a supply shock is more difficult to determine than for a demand shock. First, a supply shock will also have implications for demand and the relative importance of the impact on the supply and demand side needs to be taken into account when reacting to the shock. With temporary supply shocks, where the supply shock element predominates, a monetary policy response is often appropriate. With a more permanent supply shock, however, macroeconomic policy should at most attempt to smooth the necessary adjustment. In practice, differentiating between supply and demand shocks is often difficult.
3. Results reported in Röhn (2010) suggest that the private saving offset becomes larger in EU countries when debt is greater than 75% of GDP.

Discretionary fiscal policy may be less effective in normal times

Discretionary fiscal policy operates by changing tax, benefit and spending policies and thereby creates greater uncertainties about the policy environment. They could have adverse effects on output over the medium term, though such effects would have to be set against the positive effects of stabilisation. At the same time, implementation may be slow and could result in a pro-cyclical rather than counter-cyclical fiscal impulse and political economy factors can hinder the withdrawal of stimulus. Furthermore, households and firms anticipating discretionary interventions could make the cycle more volatile. For example, firms and households may delay investment or car purchases as economies slow if they expect governments to grant support to investment or car purchases, such as "cash for clunkers". For all these reasons, discretionary fiscal policy has not usually been seen as the stabilisation instrument of choice. On the other hand, discretionary policy may play a useful role, when monetary policy changes induce unwanted movements in the exchange rate. Furthermore, in the euro area, fiscal policy is the only national macroeconomic stabilisation tool for individual countries. Looking at past experience, estimates of discretionary fiscal policy show pronounced counter-cyclicality only in some countries (Australia, Canada, Denmark and the United States), while policy has been generally pro-cyclical in Austria, Belgium, Hungary, the Netherlands, Poland, Portugal and the United Kingdom (Égert, 2010a).

Structural policies can influence leverage and resilience

While structural policies are not primarily set to strengthen the resilience of an economy, they can directly and through their interaction with macroeconomic policies influence how shocks affect the economy. For example, reforms to housing and tax policies offer potential means to damp volatility:

- Supply-side restrictions in the housing market, such as strict zoning regulations, may reduce the volatility of the construction sector but tend to increase house price volatility (van den Noord, 2005).
- Tax incentives supporting homeownership, in particular mortgage interest rate deductibility, tend to raise the leverage of households, making them more vulnerable to shocks. Property taxes that are linked to current house price valuations, on the other hand, have some potential to stabilise the housing market.
- Tax policy that favours debt over equity financing provides incentives for increased leverage of firms making them and banks or other creditors more vulnerable to shocks. Indeed, higher debt-equity ratios tend to be associated with greater post-crisis output declines and larger cumulative output losses (Davis and Stone, 2004).

In general, policies and institutions that reduce labour and product market frictions may sharpen the initial impact of a shock but also reduce its persistence. For example, less stringent employment protection legislation may mean a large adjustment initially, but by reducing barriers to reallocation can help speed the adjustment to a permanent shock. On

the other hand, some labour market policies that aim to keep people in employment, such as supporting short-term work, may limit the initial impact of a downturn by damping the decline in employment of permanent workers. However, such schemes can hinder adjustment thereafter, if they are maintained for too long (see Chapter 5).

Uncertainty complicates policy

Uncertainty is pervasive requiring caution…

Deciding the appropriate policy in the face of an economic disturbance is complicated by pervasive uncertainties. Uncertainties may concern the structure of the economy and the nature of the shocks hitting the economy as well as how policy choices affect the economy. In this context, exercising caution before committing to a policy may be beneficial, because waiting may reveal better or additional information (Brainard, 1967). That said, if the costs of delaying a decision, such as removing stimulus, are large relative to the benefits of inaction, changes to policy should be made much more rapidly than implied by the Brainard principle. More generally, the decision-making process should give less weight to information that is more uncertain. In addition, policies that are more easily reversible may be more appropriate in such circumstances.

… or greater prudence

While waiting for additional information before committing to a particular policy is one approach to dealing with uncertainty (the so-called Brainard principle), another is to assume the worst. In this approach, the choice of policy should consider the expected effect under different assumptions about shocks (*e.g.* the size and type of different shocks, such as commodity price hikes) and how the economy works (*e.g.* different types of models can capture different aspects of the economy better). The preferred policy may switch from the best choice when there is little uncertainty to policies that entail less welfare during normal times, but do reasonably well under catastrophic, but rare, events or if the economy works in a different manner than is anticipated.

Uncertainty arises due to measurement problems

Assessing the current state of the economy correctly and understanding the shocks hitting the economy and their propagation is a major source of uncertainty. A critical issue is the timeliness and accuracy of data, which are often only available with a considerable lag and subject to revision (Koske and Pain, 2008). The position of the economy in the cycle and the lags in observing the effect of shocks on the economy can interact to create considerable uncertainty. For example, measuring the output gap is a considerable challenge for several years after a major shock, such as that produced by the recent financial and economic crisis.

Uncertainty creates problems for monetary policy…

Uncertainties about the state of the economy are important for monetary policy. For example, in planning exit strategies from the current exceptionally supportive monetary stance, the nature of the uncertainty could influence the appropriate approach. If there is greater uncertainty about the size of the output gap than the rate at which it is closing

(*e.g.* growth is firmly expected to strengthen in the near future), monetary policy may begin to tighten gradually. On the other hand, if there is less uncertainty about the size of the output gap, but the prospects for growth are highly uncertain, monetary policy may delay the tightening, but tighten rapidly when growth picks up.

... and fiscal policy

Difficulties in measuring the true, underlying fiscal position can introduce uncertainty for fiscal policy. For example, the estimated size of the output gap determines the size of the cyclical adjustment of fiscal balances. Uncertainty about the output gap thereby carries over to the estimates of the underlying fiscal position. In addition, more accurate information on the influence of cyclical movements of asset prices on government revenues would give a better understanding of underlying fiscal positions. Conventional measures of cyclically-adjusted balances, by failing to take the impact of asset prices into account, painted too rosy a picture of underlying budget balances during the upswing prior to the economic and financial crisis.

Detecting and addressing asset price misalignments is a particular problem...

Current methods to detect asset price misalignments are still insufficiently robust to be a reliable guide for policy. Empirical attempts to identify emerging asset price misalignments are prone to sounding false alarms; and the ratio of false alarms to correct predictions can be high, implying costs if monetary authorities reacted systematically to such alarms.[4] Even in well-specified models, as many as one-third of all warnings can be false when predicting two-thirds of the unsustainable asset price booms correctly (Crespo Cuaresma, 2010). However, given the importance of accurate detection, devoting resources to developing robust risk assessment tools, such as additional early warning systems, is warranted.

... that creates challenges for monetary policy...

Without strong guidance about the likely direction of asset price movements, monetary policy should adopt a precautionary approach of guarding against an unnecessarily lax monetary policy stance that may stoke misalignments as well as being prepared to deal with the aftermath of a bubble bursting. That said, detecting large asset price misalignments is feasible (van den Noord, 2006) and this is particularly the case when exuberant credit growth is fuelling excessive asset price increases, a constellation that tends to incur higher economic costs when the bubble bursts. Thus, in light of the costs of the recent crisis, monetary policy may need to consider acting in such circumstances if micro and macro-prudential policies are insufficiently robust (see below). In particular, monetary policy should consider increasing interest rates and "leaning against the wind". The need to avoid destabilising the economy and to

4. Reacting to false alarms about turning points can imply large welfare costs as some misalignments correct themselves without any major repercussions for the economy. Furthermore, the warning can come too late so that a policy response could aggravate the downturn.

maintain the anchoring of inflation expectations nonetheless constrains such "leaning", which may be particularly circumscribed in small open economies.

... and may require a better articulation of the respective roles of financial regulators and monetary authorities

The recent financial crisis has made clear that lack of coordination between monetary and regulatory authorities has been one element that favoured the emergence of domestic imbalances and the build-up of macro-financial risks. When addressing this defect, a fundamental choice arises between expanding the mandate of central banks to include financial stability or assigning it to a different institution so that each agency has one objective and one main instrument. As economies are affected by multiple shocks, an advantage of a single institution is that it can set an optimal policy response by articulating a balance among several policy objectives and instruments, accounting for interdependencies among tools and reflecting the relative importance of different shocks. Having separate authorities each with its area of responsibility and its instrument, on the other hand, would offer greater accountability, because objectives and mandates are clearly assigned so that performance can be more easily monitored insofar as each authority's objective is not influenced too much by the instruments set by the other authority. If this set-up were to emerge as the preferred framework, a coordination mechanism between the central bank and the regulatory authorities would be needed to identify the build-up of systemic risks and in deciding the best response to mitigate them.

Uncertainty also arises in gauging how the economy will react to monetary policy...

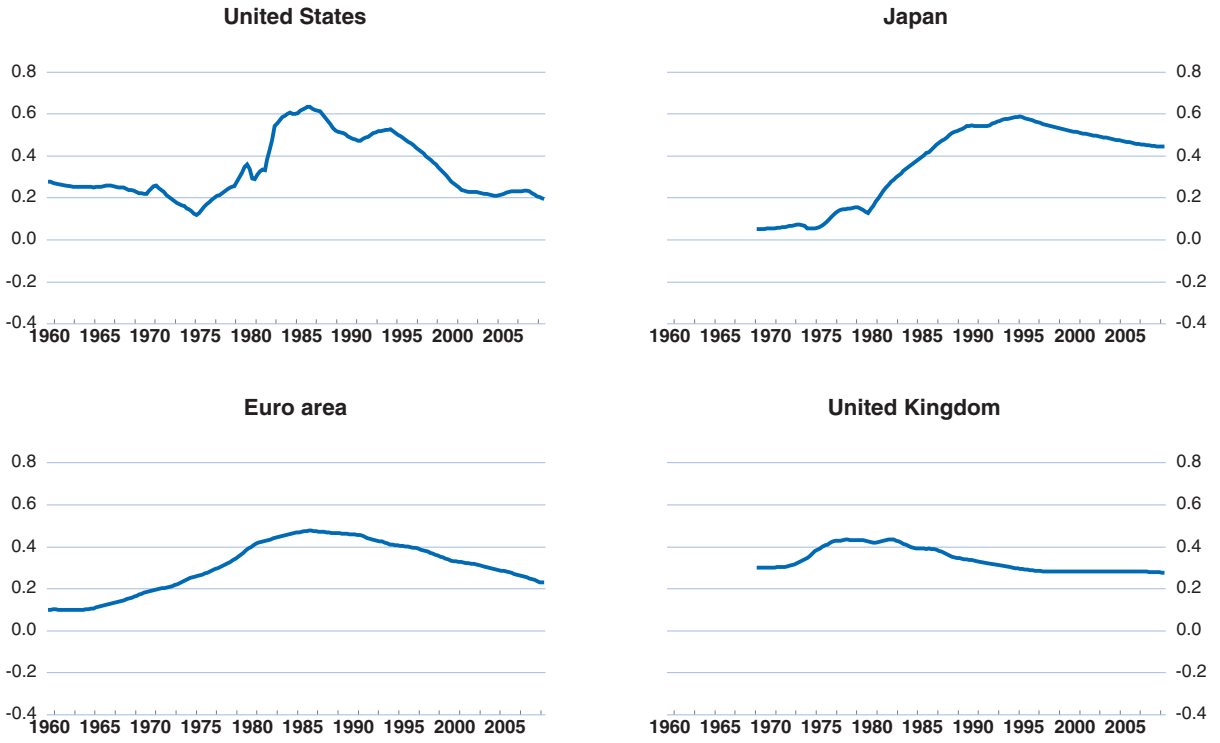
Uncertainty about how strongly monetary policy affected activity and inflation (the "transmission mechanism") and how other determinants of overall financial conditions were changing complicated monetary policy in the lead-up to the crisis. Financial market developments and greater international linkages have made monetary policy transmission more capricious, creating challenges in determining the strength and speed of the required monetary policy impulses. Indeed, the impact of changes of the short-term interest rate on long-term rates appears to have changed over time in some countries, particularly the United States (Figure 6.3). Judging the required monetary policy impulse is also complicated by movements in other determinants of financial market conditions such as long-term interest rates, credit conditions, exchange rate movements and asset-price related wealth effects which can offset or amplify the intended policy impulse. For instance, the mismatch between saving and investment opportunities at the global level have helped keep long-term interest rates low in countries with a low saving rate, while pushing up asset prices, so that, despite the monetary policy tightening before the economic crisis, financial conditions remained loose for some time.

... and fiscal policy

The impact of fiscal policy on the economy is also uncertain. Fiscal policy multipliers (the impact of fiscal stimulus on economic activity) can vary significantly not only reflecting the choice of fiscal instrument (*e.g.* spending or tax cuts) but also due to the state and openness of the

Figure 6.3. **Response of long-term to short-term interest rates**

Coefficient estimates



Note: The coefficients for the response of the long to the short rates are taken from time-varying estimates. These are updated estimates based on Cournède *et al.* (2008).

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932305760

economy. The size of multipliers can be greater if there is more slack in the economy and if the financial sector is impaired. When the financial sector is impaired the effect of fiscal policy may be greater as households may spend more of the fiscal stimulus than would be the case if households did not face borrowing constraints. As mentioned above, households may offset part of a fiscal policy change by their saving behaviour and such reactions may change in magnitude over time, reflecting, for example, the underlying fiscal situation. Moreover, if fiscal expansion drives up domestic interest rates, capital inflows may rise, leading to an appreciation of the exchange rate. In addition, spillover effects from fiscal policy in other economies can have considerable impacts, such that simultaneous fiscal impulses in several countries may have a larger impact than a fiscal stimulus in each country on its own.

Prudence and building in wider safety margins

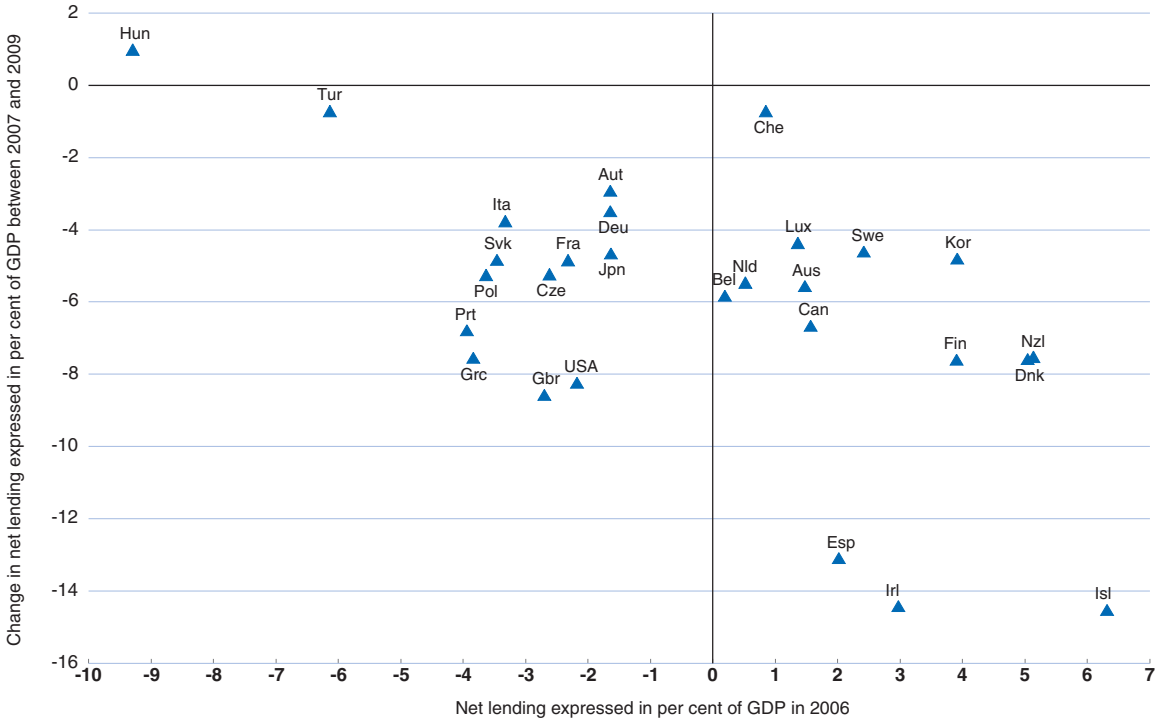
Recent experience suggests greater safety margins are needed

An important lesson from the severity of the recent recession is that policy in various areas will have to be more prudent during upswings and to build in greater safety margins to be able to react to large adverse shocks.

Fiscal policy was poorly prepared to deal with the crisis…

The use of discretionary fiscal policy is constrained in countries with weaker fiscal positions. For example, fiscal policy in countries running large deficits is typically less responsive in a downturn than in countries running small deficits or surpluses (Égert, 2010a). Against this background, cushions for fiscal policy were clearly too small before the recent crisis in many countries. As a result some countries, where the fiscal position was already in a bad shape, were forced into a pro-cyclical tightening during the crisis, while countries with a comfortable budget surplus could implement a larger fiscal stimulus as compared to countries with a relatively high deficit (Figure 6.4). These experiences raise the issue whether wider safety margins are needed.[5]

Figure 6.4. **Fiscal positions on the eve of the downturn and subsequent loosening**



Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932305779

… and needs to be strengthened

The framework for fiscal policy can be strengthened in various ways. First, well-designed fiscal rules can help fiscal policy being counter-cyclical during the expansion phase of the cycle, and thus allow a stronger

5. The issue of appropriate safety margins for fiscal policy has been analysed in the context of the Stability and Growth Pact requirements in the European Union. For example, Dalsgaard and de Serres (1999) estimated that governments maintaining budgets close to balance would have a 90% probability of being able to allow the automatic stabilisers to operate freely without breaching the 3% deficit limit when faced by shocks calibrated on historical experience. Codogno and Nucci (2008) re-examined the necessary safety margins and found that in countries where output gaps were very volatile larger safety margins would be needed.

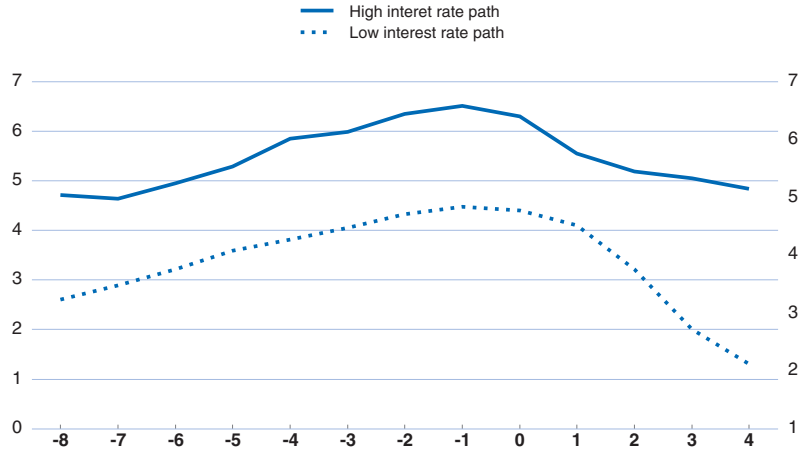
response to cope with large adverse shocks. For example, empirical evidence suggests that budget balance rules accompanied by spending rules are more effective in securing fiscal consolidation (Guichard *et al.*, 2007). But inappropriate fiscal rules can be destabilising, such as simple balanced-budget rules that force governments to cut spending when revenue falls during a downturn (as occurred in many US states), and fiscal rules may also lead to behaviour aimed at respecting the letter but not the spirit of the rule (Koen and van den Noord, 2005).

Monetary policy and the zero bound: there are pros and cons to raising the inflation target

Monetary policy can react forcefully to large adverse shocks when inflation expectations are well anchored and the room for manoeuvre is not constrained. Past experience suggests that short-term interest rates fall by around 3 percentage points in the four to five quarters following the start of a recession. During the crisis, the central banks that had been successful in anchoring inflation expectations at a low level were able to take vigorous action (Figure 6.5). However, there are limits to how far interest rates can fall. A large adverse shock can raise the spectre of deflation and cause the zero bound for interest rates to become binding. Positive inflation targets provide a safety margin to avoid this outcome. A survey of a number of studies that examined different inflation targets found that an inflation target of around 2% entails only a small risk of hitting the zero bound and a very small risk of tipping the economy into a deflationary spiral (Yates, 2004). Nonetheless, the crisis has shown that hitting the zero bound is not just a theoretical possibility. However, monetary policy did not become completely ineffective in the recent crisis; rather it relied on non-conventional tools albeit with greater uncertainty about their effects. While in principle recent events might call for a re-examination of the inflation target, for which a number of arguments can be made both for and against (Blanchard *et al.*, 2010),[6] the need to avoid destabilising inflation expectations at a moment of record government borrowing suggests not tampering for the time being.[7]

6. For example, higher inflation targets may be justified if the economy faces larger shocks than before. However, higher inflation rates may lead to efficiency losses and induce greater inflation volatility.
7. Targeting a price-level rather than an inflation rate could provide another way to reduce the risk of hitting the zero bound, at least theoretically. If the price level undershoots the target, higher inflation will be expected, lowering long-term real interest rates, thereby supporting activity and pushing up prices. This reduces the need for large shifts in policy rates and may reduce the probability of hitting the zero bound (Ambler, 2009 and Cournède and Moccero, 2009). However, successful price level targeting is predicated on a sufficient degree of forward-looking behaviour and the self-regulating capacity of price-level targeting hinges on a high degree of monetary policy credibility. At the same time, price-level targeting would entail a number of practical difficulties. A related possibility is Svensson's (2003) "foolproof" approach, which combines a commitment to a higher future price level, concrete action to show commitment to this price level and an exit strategy that specifies how to return to "normal".

Figure 6.5. **Short-term interest rates around the last turning point**



Note: The evolution of short-term interest rates just prior to and after the economy entered recession are displayed in the figure. The high and low interest rate paths are the upper and lower quintile of the observations for all OECD countries. During this downturn policy rates fell more quickly than the short-term interest rates displayed in the figure.

Source: OECD Economic Outlook 87 Database.

StatLink http://dx.doi.org/10.1787/888932305798

Stabilisation can be challenging in small, open economies

The difficulties facing stabilisation policy are more severe in small, open economies. Monetary policy that affects the exchange rate may be a potent stabilisation instrument, but at the price of leading to resource shifts between the open and sheltered sectors.[8] Exchange rate interventions can potentially offset some of these impacts, though such actions would need to rest on an assessment of misalignments, which are difficult to identify. As a result, when monetary policy changes induce unwanted exchange rate movements, stabilisation policy requires relatively more support from fiscal policy. However, the effectiveness of fiscal policy is also limited, not least because stimulus leaks abroad through higher imports. In this light, fiscal safety margins need to be significantly larger to assist stabilisation in a small, open economy.

Financial policies should aim to provide larger buffers,...

In the financial sector, policy settings need to be reconfigured to damp unnecessary volatility and ensure robust micro-prudential regulation. Indeed, the differing experiences of countries in the recent crisis suggest that robust micro-prudential regulation can help shield the financial sector from the worst effects, which has been the case in Canada, a country with low interest rates in the build-up to the crisis.[9] There are several ways to reduce the pro-cyclicality of the financial

8. For example, in New Zealand, monetary policy tightening largely due to concerns about asset price developments, particularly for housing, stimulated further capital inflows (OECD, 2009). As a result, long-term interest rates barely budged, damping the intended effect on domestic demand. In these conditions, the appreciation of the exchange rate hurt principally the tradeable sector, weakening the economy in advance of the financial crisis.
9. This is also arguably the case in Spain, where the large banks have withstood relatively well a substantial correction in house prices and downturn in the economy.

system. These include raising its shock-absorption capacity by aiming at higher, counter-cyclical and possibly contingent capital buffers and implementing a system of provisioning for bad loans that provides sufficient buffers during a downturn. It will also be important to deal with incentive problems embedded in the structure of financial institutions and remuneration systems and to deal with moral hazard problems for systemically important financial institutions that are deemed too important to fail. Recent international initiatives suggest ways to reduce the pro-cyclicality of the financial system by raising its shock absorption capacity and dealing with incentive problems.

... targeted interventions should be considered...

There are a number of instruments that have a strong and direct impact on credit growth and can target particularly vulnerable sectors. Credit booms are often characterised by a shift into riskier forms of lending.[10] In this light, risk weights attached to such lending categories could be changed when setting banks' required capital, while varying margin requirements could be an appropriate instrument for dealing with vulnerabilities building up in capital markets. Other potential tools include dynamic loan loss provisioning and capital surcharges on top of prevailing micro-prudential capital ratios.[11] Tools specific to housing include capping loan-to-value ratios in mortgage lending and loan servicing costs relative to income as well as limiting the use of exotic mortgage products. Though appealing in theory, all these potential measures have plenty of practical implementation difficulties. Relevant issues include which indicators to consider when setting these policy instruments and how to calibrate the response. Another issue is whether the measures should obey a simple rule, or whether more discretion should be allowed for.[12]

... and systemic risks need to be tackled

The financial crisis has highlighted that the current regulatory and supervisory focus on individual institutions may not sufficiently take into account systemic risks (Borio *et al.*, 2001). One of the factors contributing to the severity of the current crisis is how strongly financial sectors were exposed to systemic risk. In part this was due to financial institutions becoming highly leveraged and interconnected. Furthermore the international transmission of financial shocks has become arguably faster and the inter-linkages stronger (Trichet, 2009). In this context, international co-ordination in reforming prudential policies may be

10. Pro-cyclical credit market developments, which may support the development of large asset price misalignments, can arise due to changes in balance sheets. For example, healthier balance sheets of lenders offer greater collateral and lenders may then be more willing to grant credit. Healthier bank balance sheets may relax the constraints of capital adequacy requirements (which limit the amount of loans relative to bank capital), thereby allowing banks to extend more credit (Bernanke and Gertler, 1995; Bernanke and Blinder, 1988).
11. On capital surcharges see Bank of England (2009).
12. In this respect, given the complexity of the issue, it seems unavoidable that some judgment will be needed in setting policy tools in accordance with both macroeconomic and financial variables.

beneficial in ensuring that there is a level playing field and fewer opportunities for regulatory arbitrage.

Macro prudential oversight should focus on the building up of vulnerabilities…

Developing macro-prudential regulation to improve the robustness of financial institutions to shocks originating both domestically and abroad could be a useful complement. Adding an overarching layer of macro-prudential oversight to micro-prudential supervision of the financial system would provide a more comprehensive view of the building-up of vulnerabilities. Better macro-prudential oversight would draw different sets of policy makers together and foster a better dialogue between monetary policy makers, regulators and supervisors with a shared macro-prudential focus.

… such as credit-driven asset price booms

In such a framework, different elements could provide several lines of defence to credit and asset prices developments that are accompanied by increasing leverage. In the first line of defence, stronger micro-prudential regulation should help financial sectors reduce their exposure to unwarranted risks and withstand adverse shocks. Secondly, as macro-prudential alarms are raised more targeted interventions, such as limits on loan-to-value ratios in the housing market can help prevent credit growth and asset price developments from getting out of hand. Finally, when financial sector regulation proves insufficient to damp credit and asset price developments, a macro-prudential assessment may conclude that there is a role for monetary policy to lean against the wind.

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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 2010 to 2011 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. They are using weights that change each period, with the weights depending on the quantity considered. For details on aggregation see the OECD Economic Outlook Sources and Methods.

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 data series of the euro area" (*www.oecd.org/pdf/M00017000/M00017861.pdf*).

Corrigenda for the current and earlier issues, as applicable, can be found at *www.oecd.org/document/53/0,2340,en_2649_33733_37352309_1_1_1_1,00.html*.

NOTE ON NEW FORECASTING FREQUENCIES

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. In some countries, official forecasts of annual figures do not include working-day adjustment. 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. The cut-off date for information used in the compilation of the projections is 18 May 2010.

Country classification

	OECD
Euro area OECD countries	Euro area countries in December 2008 that are members of the OECD: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovak Republic and Spain.
	Non-OECD
Other industrialised Asia:	Dynamic Asia (Chinese Taipei; Hong Kong, China; Malaysia; Philippines; Singapore; Thailand and Vietnam) plus Indonesia and India.
Other producers:	Azerbaijan, Kazakhstan, Turkmenistan, Brunei, Timor-Leste, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, United Arab Emirates, Yemen, Ecuador, Trinidad and Tobago, Venezuela, Algeria, Angola, Chad, Rep of Congo., Equatorial Guinea, Gabon, Nigeria, Sudan.
Rest of the world	

Irrevocable euro conversion rates

National currency unit per euro

Austria	13.7603	Italy	1936.27
Belgium	40.3399	Luxembourg	40.3399
Finland	5.94573	Netherlands	2.20371
France	6.55957	Portugal	200.482
Germany	1.95583	Spain	166.386
Greece	340.750	Slovak Republic	30.126
Ireland	0.78756		

Source : European Central Bank.

National accounts reporting systems, base years and latest data updates

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	Benchmark/ base year
Australia	SNA08 (1959q3-2009q4)	SNA08 (1959q3-2009q4)	SNA08 (1959q3-2009q4)	2007/2008
Austria	ESA95 (1988q1-2010q1)	ESA95 (1995-2009)	ESA95 (1976-2009)	2005
Belgium	ESA95 (1995q1-2010q1)	ESA95 (1995-2008)	ESA95 (1985-2009)	2007
Canada	SNA93 (1961q1-2009q4)	SNA93 (1961q1-2009q4)	SNA93 (1961q1-2009q4)	2002
Chile	SNA93 (1995q1-2009q4)	..	..	2003
Czech Republic	ESA95 (1995q1-2009q4)	ESA95 (1995-2008)	ESA95 (1995-2009)	2000
Denmark	ESA95 (1990q1-2009q4)	ESA95 (1990-2008)	ESA95 (1990-2009)	2000
Finland	ESA95 (1990q1-2009q4)	ESA95 (1975-2009)	ESA95 (1975-2009)	2000
France	ESA95 (1949q1-2009q4)	ESA95 (1978q1-2009q4)	ESA95 (1978-2009)	2000
Germany[1]	ESA95 (1991q1-2009q4)	ESA95 (1991-2009)	ESA95 (1991-2009)	2000
Greece	ESA95 (2000-2009)	..	ESA95 (2000-2009)	2000
Hungary	ESA95 (1995q1-2009q4)	ESA95 (1995-2008)	ESA95 (1995-2009)	2000
Iceland	SNA93 (1997q1-2009q4)	..	SNA93 (1995-2009)	2000
Ireland	ESA95 (1997q1-2009q4)	ESA95 (2002-2008)	ESA95 (1990-2009)	2007
Italy	ESA95 (1980q1-2009q4)	ESA95 (1990-2008)	ESA95 (1980-2009)	2000
Japan	SNA93 (1980q1-2009q4)	SNA93 (1980-2008)	SNA93 (1980-2008)	2000
Korea	SNA93 (2000q1-2010q1)	SNA93 (2000-2009)	SNA93 (2000-2008)	2005
Luxembourg	ESA95 (1995q1-2009q4)	..	ESA95 (1990-2009)	2000
Mexico	SNA93 (2000q1-2009q4)	..	..	2003
Netherlands	ESA95 (1987q1-2009q4)	ESA95 (1990-2008)	ESA95 (1969-2009)	2000
New Zealand	SNA93 (1987q2-2009q4)	..	SNA93 (1986-2008)	1995/1996
Norway	SNA93 (1978q1-2009q4)	SNA93 (1978-2009)	SNA93 (1991-2009)	2007
Poland	ESA95 (1995q1-2009q4)	ESA95 (1995-2008)	ESA95 (1995-2009)	2000
Portugal	ESA95 (1995q1-2009q4)	ESA95 (1995-2009)	ESA95 (1995-2009)	2000
Slovak Republic	ESA95 (1997q1-2009q4)	ESA95 (1995q1-2008q4)	ESA95 (1993-2009)	2000
Spain	ESA95 (1995q1-2009q4)	ESA95 (2000-2009)	ESA95 (1995-2009)	2000
Sweden	ESA95 (1980q1-2009q4)	ESA95 (1993q1-2009q4)	ESA95 (1993-2009)	2008
Switzerland	SNA93 (1981q1-2009q4)	SNA93 (1990-2008)	SNA93 (1990-2008)	2000
Turkey	SNA93 (1998q1-2009q4)	..	..	1998
United Kingdom	ESA95 (1955q1-2009q4)	ESA95 (1987q1-2009q4)	ESA95 (1987q1-2009q4)	2005
United-States	NIPA (SNA93) (1947q1-2010q1)	NIPA (SNA93) (1947q1-2010q1)	NIPA (SNA93) (1947q1-2010q1)	2005

Note: 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 and the latest available historical data included in this Outlook database.

1. Data prior to 1991 refer to the new SNA93/ESA95 accounts for western Germany data.

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Annex Table 1. **Real GDP**

Percentage change from previous year

	Average 1985-95	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
Australia	3.0	4.0	3.9	5.2	4.3	3.4	2.6	3.8	3.5	3.2	3.5	2.4	4.9	2.2	1.4	3.2	3.6	2.8	3.5	3.7
Austria	2.4	2.0	2.2	3.9	3.7	3.1	0.8	1.6	0.9	2.6	2.9	3.4	3.4	1.8	-3.4	1.4	2.3	-1.7	1.8	2.4
Belgium	2.3	1.1	3.9	1.9	3.5	3.7	0.8	1.4	0.8	3.1	2.0	2.8	2.8	0.8	-3.0	1.4	1.9	-0.8	1.5	2.0
Canada	2.3	1.6	4.2	4.1	5.5	5.2	1.8	2.9	1.9	3.1	3.0	2.9	2.5	0.4	-2.7	3.6	3.2	-1.2	4.0	3.2
Chile	..	7.4	6.6	3.3	-0.7	4.5	3.3	2.2	4.0	6.0	5.6	4.6	4.6	3.7	-1.5	4.1	5.3	2.0	4.3	4.6
Czech Republic	..	4.2	-0.7	-0.7	1.2	3.9	2.4	1.8	3.6	4.3	6.4	7.0	6.1	2.3	-4.1	2.0	3.0	-3.1	2.1	3.7
Denmark	1.9	2.8	3.2	2.2	2.6	3.5	0.7	0.5	0.4	2.3	2.4	3.4	1.7	-0.9	-4.9	1.2	2.0	-3.0	2.1	2.0
Finland	1.4	3.6	5.9	4.8	4.0	5.3	2.1	1.8	2.1	4.1	3.1	4.4	4.8	1.2	-7.8	1.7	2.5	-5.1	2.0	3.8
France	2.2	1.0	2.2	3.5	3.2	4.1	1.8	1.1	1.1	2.3	1.9	2.4	2.3	0.3	-2.5	1.7	2.1	-0.6	2.0	2.1
Germany	2.7	1.0	1.9	1.8	1.9	3.5	1.4	0.0	-0.2	0.7	0.9	3.4	2.6	1.0	-4.9	1.9	2.1	-2.2	2.2	2.1
Greece	1.2	2.4	3.6	3.4	3.4	4.5	4.2	3.4	5.9	4.6	2.2	4.5	4.5	2.0	-2.0	-3.7	-2.5	-2.5	-4.5	-1.2
Hungary	..	0.9	4.5	5.1	4.1	4.9	4.3	4.4	4.2	4.6	3.7	4.1	1.0	0.4	-5.7	1.2	3.1	-4.1	2.7	3.5
Iceland	1.7	4.8	4.9	6.3	4.1	4.3	3.9	0.1	2.4	7.7	7.5	4.6	6.0	1.0	-6.5	-2.2	2.3	-7.0	-0.9	3.2
Ireland	4.7	8.1	11.5	8.4	10.7	9.4	5.8	6.5	4.4	4.6	6.2	5.4	6.0	-3.0	-7.1	-0.7	3.0	-5.0	2.3	3.2
Italy	2.2	1.0	1.9	1.3	1.4	3.9	1.7	0.5	0.1	1.4	0.8	2.1	1.4	-1.3	-5.1	1.1	1.5	-2.9	1.5	1.6
Japan	3.2	2.6	1.6	-2.0	-0.1	2.9	0.2	0.3	1.4	2.7	1.9	2.0	2.4	-1.2	-5.2	3.0	2.0	-1.4	2.7	2.2
Korea	9.1	7.2	5.8	-5.7	10.7	8.8	4.0	7.2	2.8	4.6	4.0	5.2	5.1	2.3	0.2	5.8	4.7	6.1	5.2	4.6
Luxembourg	5.7	1.5	5.9	6.5	8.4	8.4	2.5	4.1	1.5	4.4	5.4	5.6	6.5	0.0	-3.4	2.7	3.1	1.4	1.9	3.3
Mexico	1.7	5.5	7.2	5.0	3.6	6.0	-0.9	0.1	1.4	4.0	3.2	4.9	3.3	1.5	-6.6	4.5	4.0	-2.4	2.7	4.5
Netherlands	2.8	3.4	4.3	3.9	4.7	3.9	1.9	0.1	0.3	2.2	2.0	3.4	3.6	2.0	-4.0	1.2	2.0	-2.4	1.5	2.2
New Zealand	1.9	3.3	2.9	0.7	4.6	3.8	2.4	4.7	4.4	4.0	3.1	2.3	3.1	-0.5	-0.5	2.5	3.9	1.0	2.8	4.6
Norway	2.7	5.1	5.4	2.7	2.0	3.3	2.0	1.5	1.0	3.9	2.7	2.3	2.7	1.8	-1.5	1.2	2.0	-1.3	1.9	2.1
Poland	..	6.2	7.1	5.0	4.5	4.3	1.2	1.4	3.9	5.3	3.6	6.2	6.8	5.0	1.8	3.1	3.9	3.0	3.0	4.1
Portugal	3.7	3.6	4.2	4.9	3.8	3.9	2.0	0.8	-0.8	1.5	0.9	1.4	1.9	0.0	-2.7	1.0	0.8	-1.0	0.5	1.6
Slovak Republic	..	6.9	5.7	4.4	0.0	1.4	3.5	4.6	4.8	5.0	6.7	8.5	10.6	6.2	-4.7	3.6	3.9	-3.5	1.7	5.2
Spain	3.0	2.4	3.9	4.5	4.7	5.0	3.6	2.7	3.1	3.3	3.6	4.0	3.6	0.9	-3.6	-0.2	0.9	-3.1	0.5	1.3
Sweden	1.6	1.6	2.9	4.1	4.4	4.6	1.4	2.5	2.5	3.7	3.1	4.6	3.5	-0.6	-5.1	1.6	3.2	-1.9	3.2	3.3
Switzerland	1.5	0.6	2.1	2.6	1.3	3.6	1.2	0.4	-0.2	2.5	2.6	3.6	3.6	1.8	-1.5	1.8	2.2	0.0	1.8	2.4
Turkey	4.4	7.0	7.5	3.1	-3.4	6.8	-5.7	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.9	6.8	4.5	..	..	..
United Kingdom	2.5	2.9	3.3	3.6	3.5	3.9	2.5	2.1	2.8	3.0	2.2	2.9	2.6	0.5	-4.9	1.3	2.5	-3.1	2.2	2.6
United States	2.9	3.7	4.5	4.4	4.8	4.1	1.1	1.8	2.5	3.6	3.1	2.7	2.1	0.4	-2.4	3.2	3.2	0.1	3.0	3.4
Euro area	2.5	1.5	2.6	2.7	2.9	4.0	1.9	0.9	0.8	1.9	1.8	3.1	2.7	0.5	-4.1	1.2	1.8	-2.1	1.5	1.9
Total OECD	2.9	3.1	3.7	2.7	3.4	4.2	1.3	1.7	2.0	3.2	2.7	3.1	2.8	0.5	-3.3	2.7	2.8	-0.6	2.7	3.0

Note: The adoption of national accounts 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, most countries have shifted to chain-weighted price indices to calculate real GDP and expenditures components. For further information, see table "National Accounts Reporting Systems, base years and latest data updates" 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.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307470

Annex Table 2. **Nominal GDP**

Percentage change from previous year

	Average 1985-95	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
Australia	7.5	6.0	5.3	5.3	5.4	7.8	6.5	7.1	5.9	7.5	8.1	7.8	9.1	8.9	1.7	7.9	7.4	1.3	9.2	7.0
Austria	5.4	2.8	2.0	3.9	3.9	4.7	2.5	2.9	2.1	4.1	4.8	5.2	5.7	4.2	-1.6	2.6	3.3	0.2	2.6	3.6
Belgium	5.2	1.5	4.8	3.8	3.8	5.7	2.9	3.4	2.8	5.3	4.4	5.1	5.2	2.7	-2.1	3.0	3.3	0.1	3.5	3.3
Canada	5.3	3.3	5.5	3.7	7.4	9.6	2.9	4.0	5.2	6.4	6.4	5.5	5.8	4.4	-4.5	7.2	5.1	-0.7	7.3	4.5
Chile	..	10.2	11.2	5.3	1.7	9.3	7.3	6.5	10.0	14.0	13.5	17.6	10.3	4.0	2.6	12.4	10.4	10.4	11.2	9.0
Czech Republic	..	14.8	7.6	10.2	4.1	5.5	7.4	4.7	4.6	9.1	6.1	8.2	9.7	4.2	-1.5	3.0	4.9	-1.8	3.6	5.8
Denmark	4.6	4.9	5.3	3.4	4.3	6.6	3.2	2.8	2.0	4.7	5.4	5.6	3.7	2.7	-4.5	3.2	3.9	-2.1	3.7	4.1
Finland	5.4	3.2	7.8	8.8	4.7	8.2	5.1	3.1	1.5	4.8	3.3	5.6	8.1	2.7	-7.1	3.9	4.4	-6.1	5.7	6.0
France	4.9	2.7	3.2	4.5	3.3	5.5	3.8	3.5	3.0	3.9	4.0	4.9	4.8	2.8	-1.6	2.5	3.1	-0.5	3.0	3.2
Germany	5.6	1.5	2.1	2.4	2.2	2.8	2.6	1.4	0.9	1.7	1.6	3.9	4.6	2.5	-3.5	2.0	2.8	-1.2	2.3	2.7
Greece	17.0	9.9	10.7	8.7	6.6	8.0	7.4	7.0	10.1	7.8	5.1	7.7	7.6	5.6	-0.7	-3.0	-2.2	-0.7	-5.0	-1.4
Hungary	..	23.0	24.5	18.5	11.3	14.3	15.2	12.6	9.1	9.8	6.2	8.3	7.0	3.8	-0.8	4.4	4.9	1.4	3.9	5.4
Iceland	14.0	7.4	8.0	11.8	7.5	8.1	12.9	5.8	3.0	10.4	10.5	13.8	12.0	12.9	1.5	6.4	6.3	-0.9	-0.7	11.1
Ireland	7.9	10.5	15.7	15.6	15.1	15.9	11.6	11.4	7.3	6.7	8.7	9.1	7.3	-4.2	-10.0	-3.2	3.2	-10.2	1.4	3.7
Italy	8.2	5.8	4.6	3.9	3.2	5.9	4.8	3.7	3.2	4.0	2.9	4.0	4.0	1.4	-3.0	2.1	2.3	-1.6	2.7	2.5
Japan	4.3	2.0	2.1	-2.1	-1.4	1.1	-1.0	-1.3	-0.2	1.6	0.7	1.1	1.6	-2.0	-6.1	0.9	1.5	-4.2	1.6	1.9
Korea	16.9	12.5	9.8	-1.0	9.6	9.9	8.0	10.6	6.5	7.8	4.6	5.0	7.3	5.3	3.6	8.0	6.8	9.7	6.9	7.1
Luxembourg	8.5	4.5	4.0	6.1	14.2	10.6	2.6	6.3	7.7	6.3	10.3	12.8	9.7	5.0	-4.0	3.9	5.2	-0.6	1.3	6.0
Mexico	43.3	37.5	25.7	21.1	19.6	19.5	5.7	7.8	10.0	13.5	7.9	12.2	7.9	8.3	-2.5	8.6	8.8	3.3	6.9	9.7
Netherlands	4.3	4.7	7.0	5.9	6.5	8.2	7.1	3.9	2.5	3.0	4.5	5.2	5.3	4.8	-4.3	1.6	3.4	-4.4	3.1	3.4
New Zealand	7.2	6.0	3.5	1.5	5.0	6.4	6.7	5.9	6.1	8.1	5.4	4.7	7.3	3.1	1.2	6.0	5.7	1.0	7.5	6.2
Norway	5.5	9.5	8.3	1.9	8.8	19.4	3.8	-0.3	4.0	9.4	11.6	11.0	5.2	12.0	-5.3	6.7	5.0	-2.7	8.1	4.6
Poland	..	25.3	22.0	16.6	10.8	11.8	4.7	3.7	4.3	9.7	6.4	7.8	11.0	8.2	5.5	6.0	6.9	6.1	6.3	7.0
Portugal	14.5	6.3	8.2	8.8	7.2	7.1	5.8	4.7	2.3	4.0	3.5	4.2	4.9	2.1	-1.5	1.7	2.0	0.1	0.3	3.1
Slovak Republic	..	11.4	10.9	9.7	7.4	10.9	8.7	8.6	10.3	11.2	9.2	11.7	11.8	9.2	-5.8	3.9	4.9	-3.0	2.3	6.2
Spain	9.6	6.0	6.3	7.1	7.5	8.7	8.0	7.1	7.4	7.4	8.1	8.3	7.0	3.4	-3.4	-0.1	1.2	-3.3	0.7	1.5
Sweden	7.1	2.5	4.3	4.8	5.6	5.9	3.7	4.1	4.1	4.6	4.1	6.3	6.2	2.8	-3.1	4.5	5.5	-0.2	5.7	5.4
Switzerland	4.3	0.8	1.9	2.9	1.9	4.8	2.0	0.9	0.8	3.1	2.8	5.8	6.2	4.0	-1.2	2.2	2.9	0.2	2.5	3.1
Turkey	71.6	90.3	95.2	81.1	49.0	59.3	44.1	45.9	29.8	22.9	16.1	16.9	11.2	12.7	0.3	14.4	11.3	..	..	..
United Kingdom	7.3	6.6	6.2	5.9	5.6	5.1	4.6	5.3	6.0	5.5	4.2	5.7	5.5	3.5	-3.6	3.7	3.7	-1.8	3.8	3.9
United States	5.8	5.7	6.3	5.5	6.4	6.4	3.4	3.5	4.7	6.5	6.5	6.0	5.1	2.6	-1.3	4.1	4.4	0.7	4.2	4.7
Euro area	6.5	3.4	4.1	4.4	3.9	5.5	4.4	3.5	3.0	3.9	3.8	5.1	5.2	2.7	-3.1	1.7	2.6	-1.7	2.2	2.8
Total OECD	8.5	7.4	7.5	6.1	6.0	7.2	4.4	4.3	4.5	5.9	5.2	5.8	5.3	3.1	-2.2	3.9	4.2	0.0	4.1	4.4

Note: The adoption of national accounts 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. For further information, see table "National Accounts Reporting Systems, base years and latest data updates" 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 Annex table 1.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307489

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

Percentage change from previous year

	Average 1985-95	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
Australia	3.1	2.8	3.7	4.4	5.2	3.8	3.2	3.8	3.8	5.3	3.7	3.1	4.8	2.7	2.2	2.6	3.2	2.8	2.7	3.4
Austria	2.6	1.5	1.0	1.7	2.1	2.2	1.2	1.4	1.4	1.8	2.2	1.9	0.8	0.5	0.8	1.1	1.6	1.1	1.1	1.9
Belgium	2.0	1.8	2.0	2.6	2.0	2.8	1.2	0.5	0.7	1.5	1.2	1.8	1.6	1.0	-1.7	0.7	1.6	-0.9	1.2	1.7
Canada	2.3	2.6	4.6	2.8	3.8	4.0	2.3	3.6	3.0	3.3	3.7	4.1	4.6	3.0	0.2	3.3	3.2	1.9	3.2	3.2
Chile	..	9.4	6.6	4.7	-1.0	3.7	2.9	2.4	4.2	7.2	7.4	7.1	7.0	4.6	0.8	5.6	3.9	5.5	3.5	4.0
Czech Republic	..	8.9	2.2	-0.8	2.6	1.5	2.2	2.1	5.9	2.9	2.5	5.3	5.0	3.5	-0.1	-0.8	1.8	-1.0	0.0	2.9
Denmark	1.6	2.2	3.0	2.3	-0.4	0.2	0.1	1.5	1.0	4.7	3.8	3.6	2.4	-0.2	-4.6	2.1	2.7	-0.9	2.7	2.7
Finland	1.3	3.6	3.8	4.7	2.8	2.1	3.0	2.5	4.8	3.1	3.6	4.3	3.3	1.3	-1.8	1.2	1.5	0.3	0.7	2.0
France	1.9	1.6	0.4	3.9	3.5	3.7	2.5	2.3	2.1	2.3	2.5	2.6	2.4	1.0	1.0	1.2	1.5	1.8	0.7	2.0
Germany	3.0	1.3	0.9	1.4	2.9	2.5	1.9	-0.8	0.1	-0.2	0.4	1.4	-0.3	0.2	0.3	-1.4	0.7	-0.4	-0.3	1.0
Greece	2.5	2.3	2.7	3.5	2.5	2.0	5.0	4.7	3.3	3.6	4.6	5.3	3.3	2.3	-1.8	-3.7	-3.6	..	..	..
Hungary	..	-3.4	1.6	4.7	6.3	4.2	6.5	10.7	8.4	3.1	3.2	1.7	0.4	-0.5	-7.5	-3.1	2.0	-7.2	-0.4	2.9
Iceland	1.0	5.7	6.3	10.2	7.9	4.2	-2.8	-1.5	6.1	7.0	12.7	3.6	5.6	-7.9	-14.6	0.2	1.4	0.1	-1.5	2.9
Ireland	3.3	7.0	7.7	7.5	8.9	10.0	4.8	3.8	2.9	3.5	6.6	6.4	5.6	-0.7	-7.2	-2.7	0.6	-5.4	-2.8	2.1
Italy	2.2	1.0	3.2	3.5	2.6	2.3	0.7	0.2	1.0	0.8	1.2	1.3	1.1	-0.8	-1.7	0.8	1.1	-0.5	0.9	1.1
Japan	3.3	2.5	0.7	-0.9	1.0	0.7	1.6	1.1	0.4	1.6	1.3	1.5	1.6	-0.7	-1.0	2.0	1.2	1.1	1.2	1.5
Korea	8.7	7.3	4.0	-12.5	11.9	9.2	5.7	8.9	-0.4	0.3	4.6	4.7	5.1	1.3	0.2	3.8	4.0	5.8	3.2	4.3
Luxembourg	3.5	3.0	3.8	5.7	3.6	5.0	3.4	5.8	-5.3	2.2	2.6	2.7	2.8	3.9	-0.6	1.3	3.2	-1.2	3.1	3.2
Mexico	1.8	2.2	6.5	5.5	4.3	8.2	2.5	1.6	2.3	5.6	4.8	5.6	4.0	1.9	-6.2	3.0	4.0	-3.7	2.5	4.5
Netherlands	2.1	4.3	3.5	5.1	5.3	3.7	1.8	0.9	-0.2	1.0	1.0	-0.3	1.7	1.3	-2.5	0.5	1.3	-3.0	1.6	1.6
New Zealand	2.2	4.8	2.4	2.6	3.5	1.8	2.0	4.4	5.8	5.4	4.7	2.2	3.9	-0.3	-0.6	2.2	2.4	1.0	1.8	2.5
Norway	1.6	6.3	3.1	2.8	3.7	4.2	2.1	3.1	2.8	5.6	4.0	4.8	5.4	1.3	0.0	3.4	3.2	3.6	2.5	3.5
Poland	..	8.8	7.2	5.0	5.7	3.1	2.2	3.4	2.1	4.7	2.1	5.0	4.9	5.9	2.2	0.9	2.8	0.6	1.6	3.2
Portugal	3.9	3.2	3.7	5.0	5.3	3.7	1.3	1.3	-0.1	2.5	2.0	1.9	1.6	1.7	-0.8	1.5	0.1	0.2	0.1	0.6
Slovak Republic	..	9.3	7.3	6.6	0.3	2.2	5.5	5.7	1.7	4.6	6.5	5.9	6.9	6.0	-0.7	1.5	3.1	-1.2	0.9	4.0
Spain	2.9	2.3	3.2	4.8	5.3	5.0	3.4	2.8	2.9	4.2	4.2	3.8	3.6	-0.6	-4.9	0.5	1.0	-3.4	0.8	1.3
Sweden	1.3	1.8	2.9	3.2	3.9	5.4	0.8	2.6	2.3	2.6	2.8	2.9	3.8	-0.1	-0.8	1.2	2.9	1.4	2.5	3.1
Switzerland	1.5	1.1	1.4	2.2	2.3	2.4	2.3	0.1	0.9	1.6	1.7	1.6	2.4	1.7	1.2	1.7	2.1	1.8	1.6	2.3
Turkey	3.2	8.5	8.4	0.6	0.1	5.9	-6.6	4.7	10.2	11.0	7.9	4.6	5.5	-0.3	-2.4	5.7	5.8	..	..	..
United Kingdom	3.0	3.9	3.8	4.3	5.2	4.7	3.1	3.5	3.0	3.1	2.2	1.5	2.1	0.9	-3.2	0.3	2.2	-2.2	1.0	2.6
United States	3.0	3.5	3.7	5.2	5.5	5.1	2.7	2.7	2.8	3.5	3.4	2.9	2.7	-0.2	-0.6	2.6	2.7	1.0	3.0	2.8
Euro area	2.5	1.7	1.8	3.1	3.3	3.1	2.1	0.9	1.2	1.5	1.9	2.1	1.6	0.3	-1.0	0.1	1.0	-0.5	0.2	1.3
Total OECD	2.9	3.1	3.1	3.2	4.2	4.1	2.3	2.4	2.3	3.0	2.9	2.8	2.6	0.3	-1.1	1.9	2.3	0.6	2.0	2.6

Note: The adoption of national accounts 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, most countries have shifted to chain-weighted price indices to calculate real GDP and expenditures components. For further information, see table "National Accounts Reporting Systems, base years and latest data updates" 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 Annex table 1.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307508

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

Percentage change from previous year

	Average 1985-95	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
Australia	3.0	3.6	2.8	3.5	3.1	3.8	2.3	2.6	3.9	3.9	2.2	3.6	3.3	3.3	2.9	3.7	1.8	4.5	2.1	1.8
Austria	2.1	1.2	3.7	2.8	3.8	0.2	-0.6	0.7	1.2	1.0	1.7	2.5	2.0	3.0	1.0	1.3	0.5	0.5	0.1	1.2
Belgium	1.2	1.8	1.1	1.6	2.6	3.1	1.6	3.2	1.4	1.8	1.2	1.0	2.6	3.3	1.6	1.2	1.5	1.0	1.3	1.6
Canada	1.6	-1.2	-1.0	3.2	2.1	3.1	3.9	2.5	3.1	2.0	1.4	3.0	3.3	3.7	3.0	4.6	2.1	4.4	3.4	2.0
Chile	..	5.3	5.8	2.2	2.7	3.0	2.9	3.1	2.4	6.1	5.9	6.4	7.1	0.5	6.8	5.4	4.3	6.5	6.8	2.7
Czech Republic	..	1.5	3.0	-1.6	3.7	0.7	3.6	6.7	7.1	-3.5	2.9	1.2	0.7	1.0	4.4	2.4	0.8	5.2	0.3	1.1
Denmark	1.2	3.6	0.7	3.5	2.4	2.3	2.2	2.1	0.7	1.8	1.3	2.8	1.3	1.6	2.5	1.3	0.5	2.1	1.0	0.2
Finland	1.2	2.8	3.6	1.7	1.4	0.7	1.1	2.3	1.6	2.3	2.2	0.5	1.0	2.4	0.8	-0.1	0.0	-0.4	0.0	0.0
France	2.4	2.0	1.2	-0.6	1.4	2.0	1.1	1.9	2.0	2.2	1.3	1.3	1.5	1.1	1.8	1.6	0.5	2.3	0.8	0.3
Germany	1.7	2.1	0.5	1.8	1.2	1.4	0.5	1.5	0.4	-0.7	0.4	1.0	1.7	2.0	3.0	1.4	0.8	2.6	1.5	0.6
Greece	0.2	0.9	3.0	1.7	2.1	14.8	0.7	7.2	-0.9	3.5	1.1	-0.1	8.4	0.6	9.6	-9.7	-6.3	..	..	..
Hungary	..	-3.0	-0.1	-0.1	1.8	0.6	2.9	5.7	5.1	1.6	2.1	3.8	-7.4	-0.8	-1.1	-0.4	0.0	0.0	0.0	0.0
Iceland	3.6	1.0	2.6	4.2	4.4	3.8	4.7	5.3	1.8	2.2	3.5	4.0	4.1	4.6	-3.0	-3.0	-3.5	-6.1	-1.5	-4.4
Ireland	1.0	3.1	5.5	5.7	5.9	9.3	10.6	6.9	1.8	2.2	3.8	6.2	7.7	1.5	-1.8	-2.5	-0.6	-3.7	-1.5	-0.2
Italy	1.0	0.8	0.5	0.4	1.4	2.2	3.9	2.4	1.9	2.2	1.9	0.5	0.9	0.8	0.6	0.2	0.2	0.3	0.4	0.2
Japan	3.5	2.3	0.8	1.8	4.2	4.3	3.0	2.4	2.3	1.9	1.6	0.4	1.5	0.3	1.6	1.9	1.6	1.8	2.1	1.2
Korea	6.5	7.3	2.7	2.2	3.0	1.8	5.0	4.9	4.4	3.8	4.3	6.6	5.4	4.3	5.0	3.4	2.3	1.1	4.9	4.0
Luxembourg	5.3	6.5	3.2	1.6	8.3	4.7	6.1	4.6	4.1	4.5	3.3	2.8	2.9	3.0	2.9	2.9	3.2	1.8	3.3	3.1
Mexico	1.5	-0.2	2.6	2.5	4.5	2.6	-2.4	-0.2	1.0	-2.8	2.5	1.9	3.1	0.9	2.3	2.3	2.4	1.4	3.5	2.0
Netherlands	2.6	-0.7	2.5	2.5	2.8	2.0	4.6	3.3	2.9	-0.1	0.5	9.5	3.7	2.0	3.2	1.1	0.5	3.5	0.0	0.6
New Zealand	1.6	2.0	6.3	-0.3	6.8	-2.4	4.2	1.4	3.4	5.6	4.0	5.0	4.4	4.8	1.4	2.1	2.1	0.5	2.3	2.0
Norway	3.0	2.7	3.3	3.4	3.1	1.9	4.6	3.1	1.7	1.5	0.7	1.9	3.0	4.1	5.2	2.2	1.8	5.1	1.8	1.7
Poland	..	2.2	3.1	1.9	2.5	2.1	2.7	1.4	4.9	3.1	5.2	6.1	3.7	7.5	1.9	2.1	2.3	2.6	0.6	2.7
Portugal	4.3	3.8	2.0	6.2	4.1	3.5	3.3	2.6	0.2	2.6	3.2	-1.4	0.0	1.1	3.5	-0.9	-1.0	3.5	-2.6	-0.5
Slovak Republic	..	11.1	0.2	5.6	-7.3	4.6	5.4	3.0	4.3	-2.9	3.9	9.7	0.1	5.3	2.8	-4.3	-0.5	3.0	-7.1	2.5
Spain	4.7	1.3	2.5	3.5	4.0	5.3	3.9	4.5	4.8	6.3	5.5	4.6	5.5	5.5	3.8	-0.8	-1.0	0.8	-0.5	-1.2
Sweden	1.4	0.8	-0.6	3.6	1.5	-1.1	0.9	2.1	1.1	-0.9	0.2	2.0	0.8	1.2	1.3	0.4	0.6	0.6	0.8	0.5
Switzerland	2.7	1.6	0.4	-1.1	0.5	2.3	4.5	1.2	1.9	0.8	1.2	0.3	0.5	-0.1	2.5	-0.2	0.0	4.2	-3.3	1.3
Turkey	4.2	8.6	4.1	7.8	4.0	5.7	-1.1	5.8	-2.6	6.0	2.5	8.4	6.5	1.7	7.3	2.1	2.8	..	..	..
United Kingdom	1.0	0.7	-0.5	1.1	3.6	3.1	2.4	3.5	3.4	3.0	2.0	1.6	1.2	2.6	2.2	2.1	0.8	2.2	1.1	0.8
United States	1.5	0.4	1.7	1.8	2.8	1.8	3.7	4.5	2.2	1.4	0.6	1.0	1.4	3.0	1.8	1.5	1.0	1.3	1.5	0.7
Euro area	2.0	1.7	1.3	1.3	1.8	2.4	2.0	2.4	1.7	1.6	1.6	2.1	2.3	2.0	2.3	0.5	0.2	1.9	0.2	0.2
Total OECD	2.0	1.4	1.3	1.8	2.7	2.5	2.8	3.2	2.2	1.7	1.5	1.8	2.0	2.4	2.3	1.5	1.0	2.1	1.1	0.9

Note: The adoption of national accounts 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, most countries have shifted to chain-weighted price indices to calculate real GDP and expenditures components. For further information, see table "National Accounts Reporting Systems, base years and latest data updates" 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 Annex table 1.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307527

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

Percentage change from previous year

	Average 1985-95	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
Australia	2.8	6.0	9.3	6.4	4.6	2.0	-3.7	16.1	9.7	6.2	9.6	4.1	9.7	9.7	-0.4	8.0	7.8	3.5	6.2	8.7
Austria	3.6	4.2	0.2	3.1	1.7	4.8	-1.4	-4.1	3.3	1.9	2.9	0.7	3.2	0.4	-7.5	-3.6	2.8	-6.9	-0.6	3.4
Belgium	4.1	1.0	6.2	3.5	2.6	5.0	1.1	-4.5	0.1	7.5	7.7	2.7	5.7	3.8	-4.2	-0.2	3.5	-4.3	1.7	4.3
Canada	2.0	4.4	15.2	2.4	7.3	4.7	4.0	1.6	6.2	7.8	9.3	6.9	3.7	0.9	-10.1	4.7	3.7	-5.5	3.8	3.8
Chile	..	8.9	10.5	1.9	-18.2	8.9	4.3	1.5	5.7	10.0	23.9	2.3	11.2	18.6	-15.3	12.8	17.7	-12.0	26.5	5.9
Czech Republic	..	7.6	-5.7	-0.9	-3.3	5.1	6.6	5.1	0.4	3.9	1.8	6.0	10.8	-1.5	-8.3	0.6	4.5	-7.0	3.0	5.0
Denmark	2.6	5.8	10.3	8.1	-0.1	7.6	-1.4	0.1	-0.2	3.9	4.7	14.3	2.8	-4.8	-12.0	-4.2	3.4	-12.4	1.4	3.8
Finland	-1.4	9.2	10.5	11.2	3.3	6.4	2.8	-3.8	3.0	4.9	3.6	2.0	10.6	-0.2	-13.4	-3.3	4.7	-10.1	-1.0	7.0
France	2.4	0.6	0.4	7.2	8.1	7.5	2.3	-1.7	2.2	3.3	4.5	4.4	6.5	0.4	-7.1	-1.6	4.0	-6.0	1.4	4.4
Germany	3.4	-0.5	0.8	3.6	4.4	3.7	-3.4	-6.1	-0.3	-1.3	1.1	8.6	5.3	2.3	-8.8	1.5	2.0	-6.9	2.5	2.4
Greece	0.5	8.4	6.8	10.6	11.0	8.0	4.8	9.5	11.8	1.4	-4.5	9.8	4.6	-7.4	-13.9	-12.5	-11.5	..	..	..
Hungary	..	3.8	6.5	11.5	6.0	7.2	4.7	10.5	2.1	7.9	5.7	-3.6	1.6	0.4	-6.5	-2.3	5.1	-8.1	1.7	6.9
Iceland	-1.0	25.0	9.3	34.4	-4.1	11.8	-4.3	-14.0	11.1	28.1	35.7	22.4	-11.1	-21.0	-49.9	-13.3	21.2	-42.2	-13.7	29.3
Ireland	3.7	16.4	16.5	14.1	13.4	6.3	0.0	3.1	6.5	9.6	14.8	3.9	2.1	-15.6	-29.7	-19.2	-1.0	-28.1	-9.3	1.1
Italy	1.8	1.8	1.9	3.6	3.7	7.1	2.4	3.7	-0.9	1.5	1.4	3.1	1.3	-4.0	-12.2	-0.5	3.8	-7.4	2.0	4.4
Japan	4.0	4.6	-0.3	-7.2	-0.8	1.2	-0.9	-4.9	-0.5	1.4	3.1	0.5	-1.2	-2.6	-14.3	0.0	4.6	-12.0	3.9	5.2
Korea	13.5	8.2	-1.5	-22.0	8.7	12.3	0.3	7.1	4.4	2.1	1.9	3.4	4.2	-1.9	-0.2	6.7	5.0	8.8	5.4	4.4
Luxembourg	8.8	4.9	10.4	6.1	22.0	-4.7	8.8	5.5	6.3	2.7	2.5	4.7	12.6	-0.1	-14.9	0.4	2.4	-18.3	1.8	2.6
Mexico	0.4	16.3	21.1	10.5	7.7	11.4	-5.6	-0.7	0.4	8.0	7.4	9.9	7.0	4.4	-10.1	4.3	6.8	-8.1	6.2	7.2
Netherlands	2.8	8.5	8.5	6.8	8.7	0.6	0.2	-4.5	-1.5	-1.6	3.7	7.5	4.8	4.9	-13.0	-7.5	4.0	-15.3	-0.2	4.3
New Zealand	2.1	7.2	1.2	-3.4	6.8	8.4	-1.1	10.8	10.3	12.6	5.1	-1.1	5.5	-3.6	-12.3	6.3	14.0	-6.4	12.5	14.8
Norway	-0.2	10.2	15.8	13.6	-5.4	-3.5	-1.1	-1.1	0.2	10.2	13.3	11.7	12.5	1.4	-7.9	-2.0	2.7	-9.6	1.0	3.6
Poland	..	19.7	21.8	14.0	6.6	2.7	-9.7	-6.3	-0.1	6.4	6.5	14.9	17.2	8.2	-0.4	2.5	11.1	-0.8	6.0	12.4
Portugal	6.5	5.6	14.3	11.7	6.2	3.5	1.0	-3.5	-7.4	0.2	-0.9	-0.7	3.1	-0.7	-11.1	-5.4	1.1	-8.9	-2.7	1.3
Slovak Republic	..	30.1	14.0	9.4	-15.7	-9.6	13.0	0.2	-2.7	4.8	17.5	9.3	9.1	1.8	-10.5	2.1	8.0	-7.2	7.2	8.1
Spain	5.0	2.6	5.0	11.3	10.4	6.6	4.8	3.4	5.9	5.1	7.0	7.2	4.6	-4.4	-15.3	-5.5	-1.5	-12.9	-3.8	0.2
Sweden	0.6	4.8	0.8	8.6	8.4	6.0	0.6	-1.3	1.8	5.0	8.0	9.6	9.1	1.4	-16.0	3.6	5.9	-13.5	3.9	6.8
Switzerland	2.4	-1.7	2.1	6.4	1.5	4.2	-3.5	-0.5	-1.2	4.5	3.8	4.7	5.2	0.4	-3.7	4.6	3.5	1.3	2.8	3.9
Turkey	8.6	14.1	14.8	-3.9	-16.2	17.5	-30.0	14.7	14.2	28.4	17.4	13.3	3.1	-6.2	-19.2	13.2	8.1	..	..	..
United Kingdom	2.7	5.4	6.8	13.7	3.0	2.7	2.6	3.6	1.1	5.1	2.4	6.5	7.8	-3.5	-14.9	-3.2	0.3	-14.0	-1.2	1.5
United States	2.8	8.1	8.1	9.7	9.0	6.8	-1.0	-2.7	3.1	6.2	5.3	2.5	-1.2	-3.6	-14.5	2.0	8.8	-10.8	4.8	10.0
Euro area	2.9	1.7	2.7	5.8	5.9	5.3	0.6	-1.5	1.3	1.9	3.4	5.6	4.7	-0.9	-10.7	-2.2	2.2	-8.9	0.4	3.0
Total OECD	3.4	5.9	5.5	3.8	5.1	5.6	-0.9	-0.8	2.3	4.7	5.0	4.3	2.5	-1.5	-11.7	1.3	5.6	-8.5	3.6	6.2

Note: The adoption of national accounts 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, most countries have shifted to chain-weighted price indices to calculate real GDP and expenditures components. For further information, see table "National Accounts Reporting Systems, base years and latest data updates" 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 Annex table 1.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307546

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

Percentage change from previous year

	Average 1985-95	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
Australia	3.1	14.8	7.7	3.9	4.3	0.5	-1.5	13.7	14.4	7.5	15.0	7.4	12.2	10.7	0.6	5.5	9.8	1.2	5.7	11.7
Austria	4.0	6.7	6.7	6.4	3.8	9.9	2.0	-5.0	6.3	2.7	2.1	0.1	3.7	0.7	-8.1	-1.9	3.1	-7.9	1.8	3.7
Belgium	4.3	6.2	6.2	7.3	0.4	7.7	4.2	-4.8	-1.2	8.2	5.5	4.5	8.7	6.1	-6.4	-0.4	4.7	-6.0	2.2	5.9
Canada	2.9	4.4	22.6	5.3	7.2	4.7	0.2	-4.1	6.9	8.2	12.4	10.0	3.7	0.2	-17.4	-2.2	5.8	-16.6	1.5	7.5
Denmark	4.0	5.2	12.1	11.9	-1.5	6.7	-0.3	0.7	-3.0	-0.3	-0.2	16.3	3.4	-0.2	-14.3	-6.2	8.5	-17.4	0.6	14.9
Finland	-1.5	13.1	6.0	14.9	1.9	9.4	9.3	-8.2	-2.1	1.4	6.7	2.1	18.2	5.2	-17.2	-5.7	4.7	-15.5	-2.8	7.8
France	2.9	0.6	2.1	10.4	9.1	8.7	3.3	-3.0	1.2	3.8	3.1	5.6	7.5	2.6	-7.9	-1.2	6.0	-7.2	2.7	6.7
Germany	2.9	-0.2	2.8	6.0	5.8	7.9	-2.6	-7.0	0.7	0.7	4.3	10.2	8.9	3.0	-14.5	-0.1	5.6	-13.7	2.7	7.0
Greece	4.9	20.9	5.1	13.0	20.7	13.3	5.8	9.4	12.2	1.1	-2.8	-3.1	16.6	5.3	-13.3	-13.2	-12.4	..	..	..
Iceland	-2.8	49.2	17.6	46.2	-7.4	11.1	-11.3	-20.2	20.9	33.9	60.2	24.2	-22.1	-25.9	-54.2	6.3	31.3	-38.5	-6.5	36.0
Ireland	5.0	16.9	18.4	19.6	12.6	2.4	-9.2	0.7	5.8	14.4	17.5	4.4	19.6	-11.3	-37.3	-18.2	-2.4	-25.5	-19.5	2.7
Italy	3.1	1.5	3.4	4.0	4.1	8.4	2.0	4.5	-3.4	1.1	-0.3	3.3	2.0	-5.8	-17.6	1.6	5.5	-10.2	4.8	5.8
Japan	3.5	1.6	8.4	-6.5	-4.3	7.5	1.3	-5.2	4.4	5.6	9.2	2.3	2.6	0.1	-19.3	2.3	6.5	-14.0	6.2	7.1
Korea	14.0	8.1	-2.5	-28.1	13.8	18.8	-3.3	8.1	2.3	1.9	2.0	7.6	7.0	-0.2	-2.8	10.6	5.8	9.1	8.9	4.0
Netherlands	3.1	10.4	13.5	8.3	11.3	-2.0	-3.0	-7.6	-1.0	-2.7	2.2	9.7	5.3	7.0	-19.9	-11.5	5.6	-22.4	-2.4	6.0
New Zealand	4.1	6.5	-5.9	-1.1	7.0	19.4	-3.0	-1.0	13.0	13.6	8.1	-1.1	10.9	5.1	-15.9	0.4	17.9	-15.2	11.0	21.0
Norway	-0.5	13.1	16.1	16.0	-8.3	-3.9	-4.3	-1.9	-2.9	10.3	17.3	14.5	16.3	4.7	-7.4	-4.1	3.5	-12.1	1.3	4.7
Spain	6.6	3.9	6.5	11.4	11.7	7.9	3.2	1.2	5.3	6.8	7.7	7.8	3.8	-2.2	-17.8	-1.1	5.2	-14.9	3.7	5.5
Sweden	2.1	8.3	5.3	9.8	8.5	7.9	-1.0	-5.7	2.4	4.1	8.3	8.9	10.6	4.4	-18.9	4.5	6.7	-17.7	4.3	7.9
Switzerland	2.8	0.8	2.5	8.2	4.4	5.4	-2.3	-0.5	-4.4	4.7	6.4	7.6	8.2	0.5	-6.3	5.4	4.5	0.3	3.1	5.3
United Kingdom	3.3	10.4	10.0	19.3	4.1	4.4	1.5	1.2	-1.0	1.2	17.9	-6.9	11.9	1.1	-19.3	-6.6	4.2	-23.5	1.3	5.2
United States	3.3	9.3	12.1	12.0	10.4	9.8	-2.8	-7.9	0.9	6.0	6.7	7.9	6.2	1.6	-17.8	3.7	12.2	-14.1	7.9	13.5
Euro area	3.3	2.8	5.1	8.3	7.1	7.7	1.0	-2.5	0.6	2.7	3.6	6.3	6.6	0.7	-14.1	-1.4	5.1	-12.1	2.3	5.9
Total OECD	3.7	5.9	8.2	5.2	6.4	8.4	-0.7	-3.6	1.9	4.6	7.0	5.9	6.3	1.2	-15.3	1.8	8.0	-12.1	5.3	9.0

Note: The adoption of 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, most countries have shifted to chain-weighted price indices to calculate real GDP and expenditures components. For further information, see table "National Account Reporting Systems, base years and latest data updates" at the beginning of the Statistical Annex. Some countries (e.g. 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. 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 Annex table 1.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307565

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

Percentage change from previous year

	Average 1985-95	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
Australia	2.5	-9.6	16.3	12.0	5.7	1.3	-10.9	25.9	4.6	2.9	-3.5	-2.5	2.5	2.5	-4.4	7.9	7.7	0.7	7.3	7.5
Austria	4.2	3.1	-1.2	-3.0	-2.0	-4.9	-6.4	-5.1	-4.2	1.0	5.4	3.7	3.4	-1.5	-6.4	-10.1	2.1	-4.7	-8.6	2.7
Belgium	6.3	-7.3	7.5	-4.4	3.1	-1.1	-2.7	-5.5	3.4	8.1	10.9	3.4	-0.8	-1.6	-2.9	-1.6	0.9	-3.6	-0.1	1.0
Canada	-0.5	9.7	8.2	-3.6	3.6	5.2	10.5	14.1	5.4	7.5	3.3	2.1	2.8	-2.7	-7.4	12.7	4.2	4.4	7.0	5.0
Denmark	-0.7	6.7	9.7	1.9	4.3	10.3	-9.3	0.8	11.8	11.9	17.3	9.6	3.4	-14.2	-16.8	-9.3	1.7	-18.6	-3.2	3.5
Finland	-1.8	1.1	17.1	10.6	8.4	5.9	-9.4	-0.2	11.5	11.8	5.3	4.8	-0.1	-9.6	-12.5	1.0	5.3	-3.6	1.9	6.8
France	0.8	0.4	1.0	3.7	7.1	2.5	1.4	1.3	2.1	3.2	5.8	6.2	5.6	-1.2	-7.8	-3.6	0.7	-6.7	-1.4	1.7
Germany	5.6	-0.3	0.2	0.2	1.6	-1.8	-5.9	-6.0	-0.9	-3.6	-3.7	6.0	-1.4	-0.4	-0.6	0.9	0.8	1.8	0.8	0.8
Greece	-2.2	-1.2	6.6	8.8	3.8	-4.3	4.3	15.2	12.1	-0.9	-0.7	29.6	-8.6	-29.1	-21.7	-19.0	-18.2	..	..	..
Iceland	-0.4	7.1	-9.3	1.0	0.6	12.7	12.3	12.4	3.7	14.2	11.9	16.5	13.2	-21.9	-55.7	-44.2	0.8	-68.2	-5.9	3.5
Ireland	4.8	18.3	15.8	6.4	12.9	7.6	1.9	5.4	18.2	11.3	15.8	2.5	-15.2	-31.6	-35.9	-29.2	-1.8	-34.1	-9.7	0.0
Italy	0.8	-3.1	-2.4	-1.2	1.3	5.1	1.5	2.5	3.5	2.4	5.3	4.1	0.5	-3.1	-9.3	-2.8	3.0	-8.9	2.5	2.7
Japan	3.4	11.8	-12.1	-14.3	0.2	0.9	-5.3	-4.0	-1.0	1.9	-1.5	0.5	-9.6	-8.1	-14.2	-5.0	9.8	-24.8	8.4	8.7
Korea	14.9	2.8	-4.8	-13.4	-5.5	-9.6	12.5	11.2	8.6	3.6	2.4	-2.4	-3.0	-7.8	-6.5	-2.7	4.4	0.5	0.2	5.0
Netherlands	2.4	3.9	5.6	3.0	2.8	1.6	3.2	-6.5	-3.7	4.1	5.0	5.8	4.2	0.9	-13.8	-7.5	3.8	-16.0	0.1	5.3
New Zealand	3.3	5.2	6.8	-12.8	7.5	0.5	-11.7	21.3	19.8	4.6	-4.4	-2.5	5.0	-19.1	-19.3	14.4	18.6	0.6	18.7	17.0
Norway	-2.4	2.8	12.1	7.7	3.0	5.6	8.1	-0.7	1.9	16.3	10.8	4.1	2.9	-12.1	-18.9	-6.5	2.5	-18.3	1.1	3.2
Spain	2.4	12.3	2.2	10.9	11.4	10.3	7.5	7.0	9.3	5.9	6.1	6.2	3.0	-10.3	-24.5	-15.7	-4.3	-24.5	-10.7	-1.8
Sweden	-9.3	8.9	-8.1	5.4	13.3	14.8	7.4	11.3	4.3	12.4	11.9	15.5	8.0	-9.5	-24.3	3.6	7.1	-13.4	4.9	8.3
Switzerland	2.3	-8.7	-0.1	2.8	-5.5	-2.7	-4.1	-3.7	14.4	7.0	1.1	-1.6	-3.0	0.3	1.5	2.0	1.7	..	..	..
United Kingdom	1.1	5.5	7.2	5.2	2.0	1.0	0.4	6.2	0.5	11.9	-4.4	9.9	0.9	-22.9	-22.2	1.8	3.5	-8.2	1.5	4.0
United States	1.7	8.0	1.9	7.7	6.3	1.0	0.6	5.3	8.2	9.8	6.2	-7.3	-18.5	-22.9	-20.5	0.9	7.0	-12.6	1.7	8.7
Euro area	2.9	0.4	1.2	1.8	3.7	1.4	-1.0	-0.9	2.7	2.0	3.5	6.1	0.7	-5.0	-10.2	-4.7	0.5	-8.8	-1.7	1.2
Total OECD	2.5	5.0	0.0	1.3	4.0	1.2	-0.3	3.3	4.9	6.2	3.7	-0.5	-7.6	-12.4	-13.9	-1.2	4.0	-10.0	1.3	4.9

Note: The adoption of 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, most countries have shifted to chain-weighted price indices to calculate real GDP and expenditures components. For further information, see table "National Account Reporting Systems, base years and latest data updates" 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 Annex table 1.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307584

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

Percentage change from previous year

	Average 1985-95	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
Australia	3.0	3.6	3.3	6.3	4.8	2.5	1.5	5.8	6.2	4.9	5.1	2.9	6.7	4.3	1.0	5.0	4.4	4.4	3.8	4.7
Austria	2.5	2.0	0.8	2.6	3.1	1.9	0.2	-0.1	1.8	2.3	2.4	2.0	1.9	1.0	-1.5	0.5	1.7	-1.6	1.1	2.0
Belgium	2.8	1.0	3.1	2.4	2.1	3.9	-0.1	-0.1	0.8	3.0	2.9	2.5	2.9	1.9	-2.5	0.4	2.0	-2.1	1.4	2.3
Canada	2.2	1.3	6.1	2.5	4.2	4.7	1.3	3.2	4.5	4.1	4.9	4.3	4.3	2.4	-2.8	4.9	3.3	-0.3	4.6	3.0
Chile	..	7.3	7.1	3.7	-6.1	5.9	2.2	2.4	4.9	7.5	10.4	6.8	7.6	7.6	-5.9	9.2	7.6	1.2	10.4	4.4
Czech Republic	..	7.8	-1.0	-1.3	1.0	4.0	3.7	3.7	4.2	2.9	1.8	5.6	5.2	1.1	-3.8	0.9	2.2	-6.4	1.2	2.9
Denmark	1.7	2.5	4.7	3.7	-0.6	3.2	0.0	1.7	0.2	4.3	3.4	5.2	1.9	-0.5	-6.3	1.2	2.2	-4.5	2.4	2.1
Finland	0.8	2.8	5.7	5.8	1.7	3.6	2.0	1.1	3.6	3.7	4.5	2.6	4.4	0.6	-6.1	1.3	2.0	-6.4	4.1	2.4
France	2.2	0.7	1.0	4.2	3.7	4.5	1.7	1.1	1.8	2.9	2.7	2.7	3.1	0.6	-2.4	1.3	2.1	-1.1	1.5	2.1
Germany	2.9	0.4	0.9	2.2	2.6	2.4	-0.4	-2.0	0.6	-0.5	0.1	2.4	1.1	1.5	-2.0	0.8	0.9	-3.0	2.2	1.1
Greece	1.7	3.1	3.4	4.4	3.7	5.4	4.1	4.4	5.7	2.5	1.4	5.8	5.0	1.0	-2.5	-8.0	-5.3	..	..	..
Hungary	..	0.1	4.9	8.5	5.1	4.2	2.2	6.5	6.3	4.4	1.0	1.7	-1.2	0.7	-11.5	0.9	2.3	-8.7	2.2	2.9
Iceland	1.4	6.9	5.5	13.8	4.2	5.9	-2.1	-2.3	5.7	9.9	15.7	9.5	-0.1	-8.8	-20.1	-2.2	3.1	-11.7	-1.3	5.1
Ireland	3.7	7.8	10.1	9.6	8.3	9.6	4.1	4.3	4.0	4.4	8.5	6.0	4.0	-4.5	-13.4	-5.1	0.5	-11.4	-1.4	1.4
Italy	2.0	0.6	2.6	2.8	2.7	3.2	1.5	1.3	0.8	1.3	1.0	2.0	1.2	-1.4	-3.9	1.1	1.4	-2.1	1.2	1.5
Japan	3.5	3.2	0.5	-2.4	0.0	2.4	1.0	-0.4	0.8	1.9	1.7	1.2	1.3	-1.3	-4.0	1.7	2.0	-3.4	2.5	2.2
Korea	9.8	8.2	1.4	-16.9	14.6	9.5	3.7	7.9	1.5	1.5	3.8	4.9	4.7	1.4	-3.8	7.1	4.1	4.5	5.4	4.3
Luxembourg	4.6	4.7	6.0	6.3	8.0	4.5	4.5	2.6	0.5	3.3	5.2	2.2	4.2	3.2	-4.7	1.6	2.7	-1.7	0.6	3.1
Mexico	1.6	5.7	9.2	5.8	3.9	7.2	-0.4	0.1	0.8	3.9	3.7	5.6	3.8	2.3	-7.9	5.0	4.4	-4.0	3.5	4.8
Netherlands	2.4	3.9	4.5	5.1	4.9	2.7	2.3	-0.4	0.4	0.5	1.3	4.1	2.3	2.7	-4.0	0.3	1.5	-4.3	1.6	1.8
New Zealand	2.1	4.4	2.5	0.5	5.8	1.9	1.6	5.7	6.1	7.2	4.6	1.2	4.6	0.4	-5.1	5.4	4.8	-0.9	5.0	5.0
Norway	1.6	4.4	6.8	5.8	0.4	2.9	0.6	2.3	1.7	6.7	5.5	5.6	5.0	2.5	-3.0	1.6	2.8	-0.8	2.2	3.1
Poland	..	9.6	9.3	6.4	5.2	3.1	-1.3	1.0	2.8	6.2	2.5	7.3	8.7	5.5	-0.9	2.6	4.8	0.2	3.5	5.1
Portugal	4.6	3.6	5.5	7.0	5.7	3.3	1.7	0.0	-2.1	2.7	1.6	0.7	1.7	1.3	-2.5	0.0	0.0	-1.1	-0.9	0.5
Slovak Republic	..	17.1	6.1	4.7	-6.2	1.2	8.2	4.0	-0.7	5.8	8.6	6.6	6.4	6.0	-5.8	1.2	4.1	-6.3	3.2	4.8
Spain	3.7	2.1	3.4	6.2	6.4	5.3	3.8	3.2	3.8	4.8	5.1	5.2	4.2	-0.5	-6.1	-1.1	0.0	-5.0	-0.5	0.5
Sweden	1.3	1.1	1.6	4.6	3.5	4.0	0.4	1.5	2.1	1.8	3.0	4.1	4.7	0.0	-5.0	1.8	2.8	-1.1	2.3	3.0
Switzerland	1.9	0.6	0.6	3.7	0.2	2.2	2.0	0.1	0.5	1.9	1.8	1.4	1.3	0.4	1.7	0.3	2.2	0.7	1.1	2.6
Turkey	5.3	7.8	8.9	0.9	-1.9	7.8	-11.5	8.7	8.6	11.5	9.2	6.7	5.7	-1.0	-6.8	8.8	5.9	..	..	..
United Kingdom	2.5	3.1	3.5	5.1	4.6	3.9	2.9	3.2	2.9	3.5	2.1	2.4	3.0	0.1	-5.3	1.5	1.8	-2.7	1.9	2.1
United States	2.7	3.8	4.7	5.5	5.7	4.8	1.2	2.4	2.8	4.0	3.2	2.6	1.4	-0.7	-3.4	3.5	3.4	-0.8	3.5	3.5
Euro area	2.6	1.2	2.1	3.4	3.4	3.6	1.3	0.4	1.4	1.7	2.0	3.0	2.3	0.5	-3.3	0.3	1.1	-2.9	1.0	1.4
Total OECD	2.9	3.2	3.5	3.1	4.0	4.3	1.1	1.9	2.4	3.3	2.9	3.0	2.4	0.1	-3.7	2.7	2.7	-1.5	2.8	3.0

Note: The adoption of national accounts 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, most countries have shifted to chain-weighted price indices to calculate real GDP and expenditures components. For further information, see table "National Accounts Reporting Systems, base years and latest data updates" 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 Annex table 1.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307603

Annex Table 9. **Foreign balance contributions to changes in real GDP**

Per cent

	Average 1985-95	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter[1] 2009	2010	2011
Australia	0.4	1.0	1.0	-0.9	-0.2	1.1	1.2	-1.5	-2.0	-1.6	-1.0	-0.7	-1.7	-1.8	1.9	-1.9	-0.9	-5.0	-0.6	-1.3
Austria	-0.1	-0.7	1.4	1.3	0.5	1.3	0.7	1.5	-0.9	0.5	0.6	1.4	1.6	0.6	-1.8	1.3	0.8	2.5	0.9	0.4
Belgium	-0.2	0.0	0.9	-0.3	1.3	0.1	0.9	1.4	0.0	0.4	-0.9	0.4	0.2	-1.0	0.0	1.1	0.0	2.8	0.2	-0.1
Canada	0.1	0.3	-1.7	1.7	1.4	0.6	0.7	-0.1	-2.5	-0.9	-1.7	-1.3	-1.6	-1.9	-0.4	-1.3	-0.1	1.5	-0.2	0.4
Chile	..	0.2	-0.8	-0.5	4.7	-1.2	1.1	-0.2	-0.9	-1.1	-3.7	-1.4	-1.0	-2.6	3.4	-3.5	-1.2	-4.9	-3.6	1.2
Czech Republic	-3.3	-3.9	0.4	0.6	0.2	-0.1	-1.4	-2.0	-0.6	1.4	4.6	1.5	1.1	1.3	-0.4	1.1	0.9	1.4	0.8	1.3
Denmark	0.2	0.5	-1.3	-1.4	3.2	0.5	0.7	-1.1	0.2	-1.8	-0.8	-1.5	-0.1	-0.4	1.2	0.0	-0.1	2.1	-0.1	-0.1
Finland	0.4	-0.1	1.2	0.7	2.7	1.6	0.3	0.3	-1.9	0.9	-1.0	2.5	1.5	0.6	-3.4	0.7	0.8	11.7	-0.3	3.3
France	0.0	0.4	1.3	-0.5	-0.4	-0.3	0.1	0.0	-0.7	-0.6	-0.7	-0.3	-0.8	-0.3	0.0	0.4	0.0	-1.9	0.0	0.0
Germany	-0.1	0.6	0.9	-0.3	-0.6	1.1	1.8	2.0	-0.8	1.2	0.8	1.1	1.5	-0.5	-3.0	1.1	1.3	7.5	1.1	1.0
Greece	-0.6	-1.2	-0.4	-1.7	-1.1	-2.0	-0.4	-1.5	-0.4	1.8	0.7	-1.8	-1.2	0.9	0.7	5.0	3.1	..	..	..
Hungary	2.9	0.9	-0.5	-3.2	-0.9	0.6	1.8	-2.1	-2.1	0.3	2.5	2.2	2.1	0.0	5.1	0.0	0.9	-1.7	1.1	0.5
Iceland	0.1	-1.7	-0.8	-7.5	-0.3	-1.9	6.2	2.5	-3.2	-2.5	-9.1	-6.0	6.1	10.7	14.1	-0.2	-0.5	3.7	0.7	-1.4
Ireland	2.0	1.2	2.7	0.1	4.2	1.7	2.5	3.0	1.7	0.5	-1.4	-0.4	2.9	0.6	4.9	3.6	2.6	0.7	3.4	1.8
Italy	0.2	0.4	-0.6	-1.4	-1.2	0.8	0.2	-0.8	-0.8	0.1	-0.2	0.1	0.1	0.1	-1.2	-0.1	0.1	-2.2	0.1	0.1
Japan	-0.2	-0.5	1.0	0.4	-0.1	0.5	-0.8	0.7	0.7	0.8	0.3	0.8	1.1	0.1	-1.2	1.2	0.0	2.0	0.0	0.0
Korea	-0.4	-1.0	4.2	11.2	-2.1	-0.2	0.4	-0.5	1.3	3.1	0.4	0.3	0.5	1.0	4.0	-1.0	0.7	-2.2	0.8	0.1
Luxembourg	1.7	-2.2	1.2	1.3	1.7	4.8	-1.1	2.0	1.1	1.9	1.5	4.0	3.6	-2.1	-0.2	1.5	1.4	-2.0	1.4	1.1
Mexico	0.0	-0.1	-1.7	-0.8	-0.3	-1.3	-0.5	0.0	0.5	0.0	-0.6	-0.7	-0.6	-0.8	1.7	-0.6	-0.6	3.4	-0.4	-0.4
Netherlands	0.5	-0.2	0.0	-0.9	0.1	1.3	-0.2	0.5	-0.1	1.7	0.8	-0.3	1.5	-0.4	-0.4	1.1	0.6	2.5	0.5	0.6
New Zealand	-0.3	-1.0	0.5	0.1	-1.2	2.2	0.5	-0.9	-1.9	-2.7	-1.7	1.2	-1.6	-1.0	4.9	-2.8	-0.9	-7.2	-1.0	-0.3
Norway	1.2	1.0	-0.8	-2.6	1.6	0.6	1.5	-0.4	-0.5	-2.0	-2.0	-2.4	-1.4	-0.3	0.8	-0.1	-0.3	-1.8	-0.2	-0.5
Poland	0.3	-2.8	-2.3	-1.7	-1.1	0.9	2.6	0.5	1.0	-1.0	1.1	-1.1	-2.0	-0.7	2.1	0.1	-0.8	2.3	-0.6	-1.3
Portugal	-1.0	-0.2	-1.6	-2.6	-2.5	0.3	0.2	0.7	1.5	-1.4	-0.8	0.6	0.0	-1.4	0.1	1.0	0.8	1.1	0.4	1.0
Slovak Republic	3.8	-10.4	-1.2	-0.8	6.9	0.1	-4.9	0.3	5.5	-0.9	-2.1	1.6	3.9	0.1	1.3	2.4	-0.1	13.1	-0.9	0.4
Spain	-1.1	0.3	0.5	-1.7	-1.7	-0.4	-0.2	-0.6	-0.8	-1.7	-1.7	-1.4	-0.9	1.4	2.8	1.0	0.9	0.7	1.1	0.6
Sweden	0.4	0.6	1.3	-0.1	1.2	0.7	1.0	1.1	0.5	2.3	0.4	0.7	-1.0	-0.5	-0.5	0.8	0.6	-2.3	0.8	0.4
Switzerland	-0.2	0.0	1.4	-0.9	1.1	1.4	-0.7	0.4	-0.8	0.6	0.9	2.3	2.4	1.4	-3.0	1.5	0.2	2.8	0.4	0.0
Turkey	-0.2	0.2	-0.9	2.1	-1.5	-1.1	6.5	-3.0	-3.8	-2.4	-1.3	-0.3	-1.3	1.7	2.8	-2.1	-1.6	..	..	..
United Kingdom	0.0	-0.1	-0.2	-1.4	-1.0	-0.1	-0.5	-1.1	-0.1	-0.7	0.0	0.4	-0.6	0.5	0.7	-0.2	0.6	-1.3	0.8	0.1
United States	0.1	-0.1	-0.3	-1.2	-1.0	-0.8	-0.2	-0.7	-0.4	-0.6	-0.3	-0.1	0.6	1.2	1.2	-0.3	-0.4	0.3	-0.4	-0.3
Euro area	0.0	0.3	0.5	-0.6	-0.5	0.4	0.6	0.5	-0.5	0.2	-0.2	0.2	0.4	0.0	-0.8	0.9	0.7	2.1	0.7	0.6
Total OECD	0.0	-0.1	0.1	-0.3	-0.6	-0.1	0.2	-0.2	-0.4	-0.1	-0.2	0.1	0.3	0.4	0.5	0.0	0.0	0.8	0.0	0.0

Note: The adoption of national accounts 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, most countries have shifted to chain-weighted price indices to calculate real GDP and expenditures components. For further information, see table "National Accounts Reporting Systems, base years and latest data updates" 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 Annex table 1.

1. Contributions to per cent change from the previous quarter, seasonally adjusted at annual rates.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307622

Annex Table 10. **Output gaps**

Deviations of actual GDP from potential GDP as a per cent of potential GDP

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	-3.2	-2.1	-0.6	-0.7	-0.6	-0.6	0.7	1.1	0.7	-0.2	0.3	0.4	0.4	0.6	-0.3	1.1	-0.2	-2.1	-2.1	-1.7
Austria	1.1	-1.1	-1.6	-1.0	-1.0	-0.9	0.6	1.8	2.4	0.4	-0.5	-2.0	-1.7	-0.9	0.5	1.9	1.7	-3.4	-3.5	-2.7
Belgium	0.5	-2.5	-1.3	-1.0	-2.0	-0.4	-0.9	0.2	1.3	-0.3	-1.1	-2.0	-0.6	-0.6	-0.1	0.1	-1.5	-6.5	-6.9	-6.7
Canada	-4.6	-4.2	-1.8	-1.5	-2.7	-1.7	-1.1	0.9	2.4	0.8	1.0	0.3	0.7	0.9	0.9	1.0	-1.0	-5.3	-3.4	-2.0
Czech Republic	..	..	-1.4	1.8	3.8	1.2	-1.3	-2.0	-0.5	-0.6	-1.7	-1.8	-1.3	0.9	3.6	5.5	4.0	-3.1	-3.6	-3.7
Denmark	-2.0	-3.9	-0.7	-0.1	0.2	0.9	0.5	0.8	2.1	1.0	-0.3	-1.2	-0.4	0.2	1.7	2.1	-0.4	-6.5	-6.0	-4.7
Finland	-7.5	-8.7	-6.1	-4.3	-3.5	-0.9	0.0	0.1	1.8	0.1	-1.3	-2.3	-1.1	-0.9	0.5	2.1	0.4	-8.9	-8.0	-6.6
France	0.7	-1.7	-1.1	-0.6	-1.4	-1.1	0.1	0.8	2.0	1.0	-0.1	-0.9	-0.4	-0.3	0.3	0.7	-0.6	-4.5	-4.0	-3.2
Germany	1.4	-1.5	-0.5	-0.2	-0.8	-0.6	-0.4	-0.3	1.3	1.0	-0.3	-1.6	-1.8	-1.7	0.4	1.5	0.9	-5.2	-4.4	-3.6
Greece	0.2	-3.1	-2.9	-2.7	-2.6	-1.8	-1.5	-1.8	-1.6	-1.6	-2.2	-0.4	0.1	-1.3	0.2	1.2	0.0	-3.8	-8.0	-10.2
Hungary	..	..	..	-0.7	-2.5	-1.3	-0.1	-0.3	0.3	0.6	1.0	1.5	2.6	3.0	4.0	2.4	0.7	-6.1	-5.8	-4.0
Iceland	-4.9	-4.7	-2.6	-4.3	-2.0	-0.6	1.5	1.4	1.3	1.1	-2.1	-3.0	0.6	4.2	3.0	4.5	1.3	-5.1	-6.1	-4.1
Ireland	-1.8	-4.3	-4.5	-2.1	-1.4	1.7	1.6	3.5	4.5	2.9	2.9	2.1	1.8	2.8	3.1	4.2	-2.0	-9.2	-8.9	-5.5
Italy	-1.0	-3.4	-2.3	-0.8	-1.4	-1.0	-1.2	-1.4	0.6	0.8	-0.1	-1.1	-0.6	-0.4	1.0	1.6	-0.3	-5.5	-4.6	-3.7
Japan	2.1	0.1	-0.6	-0.3	1.0	1.4	-1.7	-2.9	-1.0	-2.0	-2.7	-2.5	-1.2	-0.3	0.7	2.2	0.1	-5.5	-3.1	-2.1
Luxembourg	2.9	2.1	1.1	-2.1	-5.2	-4.1	-2.7	0.4	3.6	1.5	1.5	-0.9	-0.6	0.8	2.3	5.1	1.3	-5.3	-5.5	-4.8
Mexico	1.5	0.6	2.7	-6.3	-4.0	-0.2	1.5	1.9	4.8	1.0	-1.6	-2.8	-1.3	-0.6	2.0	3.0	2.4	-6.1	-3.7	-1.9
Netherlands	0.3	-1.2	-1.0	-0.6	-0.1	0.9	1.4	2.6	3.2	2.1	-0.3	-1.9	-1.5	-1.2	0.2	1.5	1.5	-4.1	-3.8	-2.8
New Zealand	-5.0	-1.9	0.7	1.4	1.7	0.7	-2.0	-0.6	0.2	-0.1	1.4	1.9	2.6	2.6	0.5	0.8	-1.7	-4.8	-3.7	-1.8
Norway[1]	-2.3	-1.6	-0.7	-0.1	1.0	2.4	2.8	1.8	1.9	1.4	0.5	-0.7	1.0	1.7	1.6	1.8	-0.2	-3.8	-3.8	-3.0
Poland	..	..	..	-2.3	-1.2	0.8	0.6	0.6	0.9	-1.6	-3.1	-2.2	-0.2	-0.1	1.8	3.3	3.2	0.3	-0.1	0.8
Portugal	3.8	-1.3	-3.0	-1.8	-1.2	-0.1	1.4	2.1	3.1	2.6	1.3	-1.0	-0.9	-1.3	-0.9	0.1	-0.7	-3.9	-3.1	-2.5
Slovak Republic	..	..	-2.0	-0.8	1.7	3.4	4.0	0.4	-1.8	-2.0	-1.5	-1.6	-1.9	-1.0	1.5	5.9	6.5	-3.6	-4.0	-3.3
Spain	0.0	-3.5	-3.4	-3.3	-3.6	-2.5	-1.0	0.4	1.7	1.7	0.6	0.0	-0.2	-0.1	0.4	0.5	-1.2	-5.5	-5.3	-4.3
Sweden	-2.8	-5.8	-3.9	-1.9	-2.4	-1.8	-0.5	0.8	2.0	0.3	0.2	0.4	1.9	2.5	4.1	4.4	0.4	-7.1	-7.4	-6.0
Switzerland	0.1	-1.2	-1.2	-1.9	-2.2	-1.2	0.1	-0.4	1.3	0.5	-0.9	-2.8	-2.0	-1.0	0.9	2.2	1.5	-2.1	-2.2	-2.0
United Kingdom	-3.2	-2.8	-0.9	-0.4	-0.2	0.2	0.5	0.6	1.1	0.5	-0.1	0.3	1.0	0.9	1.5	1.8	0.1	-6.4	-6.2	-5.1
United States	-1.7	-1.8	-0.7	-1.2	-0.7	0.1	0.7	1.7	2.1	0.0	-0.8	-0.6	0.7	1.2	1.3	0.9	-1.2	-5.1	-3.2	-1.7
Euro area	0.5	-2.1	-1.4	-0.9	-1.3	-0.8	-0.3	0.2	1.6	1.1	-0.1	-1.1	-0.9	-0.8	0.5	1.3	0.0	-5.1	-4.7	-3.9
Total OECD	-0.7	-1.8	-0.9	-1.1	-0.8	-0.1	0.0	0.5	1.5	0.1	-0.7	-1.0	-0.1	0.3	1.1	1.4	-0.3	-5.1	-3.8	-2.6

Note: Potential output for countries where data availability permits follows the methodology outlined in Beffy, P.O., Olivaud, P., Richardson, P., and F. Sedillot (2006), "New OECD Methods for Supply-Side and Medium-Term Assessments: A Capital Services Approach", *OECD Economics Department Working Papers,* No. 482. Revisions to this method are discussed in Chapter 4 of *OECD Economic Outlook 85* "Beyond the crisis: medium-term challenges relating to potential output, employment and fiscal positions". In countries where extensive data are not available, more simplified methodologies are used.

1. Mainland Norway.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307641

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

Percentage change from previous period

	Average 1982-1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	6.0	2.4	3.1	3.4	5.6	4.6	2.8	3.7	3.4	4.9	3.3	4.1	6.3	5.0	6.2	6.2	5.2	1.6	2.7	4.7
Austria	4.8	4.0	3.5	1.6	1.3	1.0	2.7	1.7	2.4	1.9	2.1	2.3	0.6	2.2	3.0	3.1	3.5	2.1	1.4	2.0
Belgium	5.5	4.2	3.9	0.0	1.4	2.9	1.1	3.6	1.9	3.8	3.4	1.5	2.0	1.3	3.5	3.5	2.6	1.3	1.7	2.3
Canada	4.7	2.1	0.3	1.8	2.9	5.9	2.6	3.2	5.3	2.2	0.8	1.8	5.1	5.0	4.5	3.9	4.1	1.6	2.7	2.8
Chile	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Czech Republic	..	..	..	..	16.5	9.2	9.7	7.9	7.4	7.2	7.0	8.7	6.1	4.8	6.2	6.4	6.8	-1.8	3.3	2.6
Denmark	5.9	1.9	1.7	2.2	4.0	3.8	4.0	3.7	3.1	4.1	3.7	3.5	3.2	4.5	3.4	4.2	3.4	2.6	2.6	2.0
Finland	7.8	2.6	4.8	4.7	2.2	2.6	4.6	2.1	4.2	4.9	1.2	2.5	3.5	3.4	3.0	3.6	4.6	2.6	2.4	2.2
France	5.5	2.1	1.1	1.4	1.4	1.4	1.4	1.9	2.3	2.4	3.4	3.0	3.9	3.0	3.7	2.8	2.5	1.3	1.4	1.2
Germany	4.1	3.6	2.9	3.4	1.0	0.6	0.8	1.0	2.0	1.6	1.3	1.6	0.1	-0.1	1.3	1.1	2.1	-0.6	0.1	1.3
Greece	..	..	..	..	..	..	5.5	6.4	6.3	3.0	12.0	6.7	2.2	3.9	5.0	7.0	4.4	4.1	-0.3	-0.5
Hungary	..	..	..	24.4	21.5	20.3	12.1	1.9	15.7	9.2	10.8	7.5	13.1	7.1	5.2	7.3	5.8	4.3	3.4	4.9
Iceland	26.4	-3.7	3.7	4.9	5.1	3.8	9.4	8.5	9.8	5.8	7.6	0.7	12.3	9.9	13.3	5.5	5.3	0.3	4.6	4.2
Ireland	6.4	4.8	1.5	3.4	4.3	4.2	4.9	3.8	8.5	6.6	3.3	5.0	4.8	4.2	4.4	3.6	3.7	-2.5	-3.8	-0.9
Italy	8.9	4.3	4.4	5.4	4.2	3.6	-1.0	1.9	1.9	2.4	1.8	1.8	3.2	2.7	1.8	2.9	2.6	1.9	1.9	1.9
Japan	3.2	0.5	1.4	1.0	-0.1	1.2	-1.2	-1.6	0.1	-1.2	-2.1	-1.2	-0.9	0.0	0.4	-1.8	0.1	-3.0	-1.0	1.0
Korea	12.2	13.3	12.1	14.9	12.3	4.5	4.1	3.4	4.1	7.5	6.1	7.2	4.8	5.3	3.5	4.4	4.3	1.1	5.6	7.2
Luxembourg	5.2	5.5	4.1	0.5	1.0	2.0	1.4	4.7	6.0	3.4	2.4	0.5	3.1	4.6	3.4	3.7	2.1	1.0	3.1	2.5
Mexico	..	10.3	9.3	8.1	19.1	23.4	16.1	17.8	11.6	9.2	3.9	3.6	3.2	5.1	2.6	5.5	3.5	4.1	4.1	4.9
Netherlands	1.4	2.7	1.9	0.3	1.9	2.5	4.2	3.5	4.8	4.8	4.4	3.2	3.4	0.9	2.6	3.1	3.6	1.7	1.6	1.6
Norway	6.9	2.7	3.1	3.2	2.5	2.5	7.5	6.1	4.5	7.0	3.9	2.5	4.4	5.5	8.2	6.3	4.8	4.8	3.5	4.0
Poland	..	..	..	..	29.0	20.5	14.7	12.6	10.2	9.5	0.5	0.3	1.5	0.5	0.8	4.3	7.4	2.6	3.9	4.6
Portugal	16.5	7.2	6.0	6.8	7.2	6.7	2.4	2.3	4.0	2.9	2.8	5.3	1.6	3.3	1.7	4.1	2.8	4.2	0.8	1.3
Slovak Republic	..	..	..	..	11.8	18.6	9.6	7.1	15.7	4.6	7.8	8.5	10.0	12.0	6.6	10.0	5.6	3.6	3.1	4.9
Spain	9.5	8.3	4.0	3.5	5.2	3.6	1.3	1.9	2.9	4.1	3.5	2.7	1.8	2.8	2.4	3.5	5.5	3.0	1.5	1.1
Sweden	8.0	6.4	6.8	2.1	7.1	5.5	2.6	1.4	6.7	3.9	2.6	2.5	4.6	3.2	2.1	5.0	0.9	1.5	0.9	2.6
Switzerland	4.5	2.8	2.5	2.6	0.6	2.9	0.3	1.6	2.7	3.8	1.4	-0.5	-0.9	3.3	2.4	3.4	2.4	1.9	1.6	1.2
United Kingdom	7.4	2.3	3.4	2.6	2.2	4.0	7.2	4.6	5.8	4.8	2.9	4.6	3.3	3.0	3.3	5.3	2.2	0.9	2.2	2.2
United States	4.5	2.0	1.9	2.3	3.0	4.0	5.4	4.2	7.0	3.2	3.0	4.0	4.1	3.3	4.0	4.0	2.6	0.4	2.5	1.8
Euro area	6.2	1.8	2.5	3.4	1.9	2.4	1.3	1.8	2.6	2.5	2.3	2.4	1.7	1.4	2.2	2.4	2.6	1.2	1.1	1.5
Total OECD	5.5	3.6	3.5	3.6	5.2	5.5	4.5	4.1	5.1	3.5	2.4	2.9	2.9	2.8	2.9	3.3	2.9	0.8	2.0	2.4

Note: The private sector in the OECD terminology is defined as total economy less the public sector. Hence private sector employees are defined as total employees less public sector employees. For further information, see also *OECD Economic Outlook Sources and Methods (http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307660

Annex Table 12. **Labour productivity in the total economy**

Percentage change from previous period

	Average 1982-1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	1.1	3.3	1.6	-0.2	2.6	2.8	3.2	2.6	0.8	1.5	1.7	1.2	1.3	0.1	-0.1	2.1	0.0	1.1	0.8	1.6
Austria	2.0	0.8	1.8	2.6	1.6	1.5	2.9	2.2	2.1	0.1	1.7	0.9	1.2	1.4	1.9	1.6	0.1	-2.5	1.2	1.8
Belgium	1.8	-0.3	3.7	1.7	0.8	3.2	0.2	2.1	1.6	-0.6	1.5	0.8	2.2	0.6	1.6	1.2	-1.0	-2.6	1.7	1.7
Canada	1.1	1.8	2.7	1.0	0.7	2.1	1.5	2.9	2.7	0.6	0.5	-0.5	1.3	1.6	0.9	0.2	-1.1	-1.1	1.9	1.4
Chile	..	..	..	..	5.8	4.4	1.2	0.6	2.7	2.2	0.3	0.1	3.3	1.6	2.9	1.8	0.7	-0.9	1.5	2.4
Czech Republic	..	..	1.3	5.2	3.2	-0.9	0.8	4.8	4.1	2.0	1.3	5.0	4.0	5.3	5.0	3.4	1.1	-3.0	3.0	2.2
Denmark	1.8	1.4	3.8	2.3	1.9	1.8	0.7	1.7	3.0	-0.2	0.4	1.5	2.9	1.4	1.3	-1.2	-2.3	-1.3	3.6	1.7
Finland	2.7	5.4	5.1	2.2	2.1	2.4	2.9	1.5	3.2	0.8	0.8	2.1	3.6	1.7	2.6	2.6	-0.3	-5.0	4.1	3.2
France	2.0	0.4	2.0	1.4	0.7	1.8	2.0	1.2	1.4	0.0	0.4	1.0	2.2	1.4	1.4	0.9	-0.3	-1.2	2.1	1.4
Germany	2.0	0.5	2.8	1.7	1.3	1.9	0.6	0.5	1.6	0.9	0.6	0.7	0.3	1.0	2.7	0.9	-0.4	-4.9	2.3	2.6
Greece	0.8	-2.4	0.1	1.2	1.1	4.0	-1.0	3.1	3.0	4.3	1.2	3.5	3.7	0.9	2.6	3.1	0.9	-0.9	-1.0	0.0
Hungary	..	..	..	5.2	1.3	4.3	3.3	0.7	3.6	4.8	4.6	4.1	6.1	4.0	3.5	1.3	1.7	-2.2	2.2	2.5
Iceland	0.7	1.5	2.8	-2.9	4.8	4.9	2.1	0.4	2.3	2.2	1.6	2.3	8.2	4.1	-0.5	1.3	0.2	-0.5	1.4	1.4
Ireland	3.4	1.2	2.4	4.5	4.3	5.6	-0.2	3.9	4.7	2.6	4.8	2.5	1.2	1.2	1.0	2.2	-1.9	1.1	3.4	2.0
Italy	1.8	1.8	4.0	3.1	0.4	1.6	0.3	0.3	1.9	-0.3	-1.2	-1.4	0.9	0.2	0.1	0.1	-1.6	-3.5	1.8	1.1
Japan	2.9	0.0	0.8	1.8	2.2	0.5	-1.4	0.7	3.1	0.7	1.5	1.6	2.5	1.5	1.6	1.9	-0.8	-3.6	3.0	2.0
Korea	6.7	5.1	5.4	5.9	4.9	4.0	0.3	8.9	4.3	2.0	4.3	2.9	2.7	2.6	3.8	3.8	1.7	0.5	4.3	3.2
Luxembourg	3.5	2.4	1.2	-1.6	-1.0	2.8	1.9	3.3	2.7	-2.9	0.8	-0.3	2.1	2.5	1.9	2.0	-4.5	-4.3	1.8	1.5
Mexico	..	-1.6	1.2	-5.4	1.3	1.4	2.3	2.4	3.7	-1.2	-2.2	0.5	0.6	2.6	2.0	1.6	0.4	-7.0	1.8	2.3
Netherlands	0.5	0.9	2.3	0.8	1.1	1.1	1.3	2.1	1.7	-0.1	-0.4	0.8	3.1	1.5	1.4	1.2	0.5	-3.1	2.5	2.2
New Zealand	1.2	3.1	1.4	-0.2	0.8	1.5	0.6	2.7	1.8	0.0	1.5	1.5	0.8	0.2	-1.3	0.9	-0.8	-0.5	1.5	2.1
Norway	2.7	2.8	3.5	1.9	2.5	2.4	0.2	1.6	2.8	1.6	1.1	1.8	3.6	2.1	-0.9	-0.7	-1.4	-0.9	1.5	1.6
Poland	..	..	7.0	6.0	5.0	5.6	3.8	8.8	5.9	3.5	4.6	5.1	4.0	1.3	2.7	2.3	1.3	1.4	4.0	3.3
Portugal	1.6	0.0	1.1	4.9	3.1	2.3	2.3	2.4	1.6	0.2	0.1	-0.3	1.4	0.8	0.7	1.8	-0.6	0.1	2.4	0.7
Slovak Republic	..	..	..	4.0	4.8	6.8	4.9	2.6	3.4	2.9	4.5	3.7	5.3	5.2	6.1	8.3	3.3	-2.4	4.8	3.7
Spain	1.8	1.9	2.9	0.9	0.7	0.3	0.0	0.2	0.0	0.5	0.3	0.0	-0.3	-0.5	0.1	0.5	1.5	3.2	2.3	0.7
Sweden	1.7	3.3	4.9	2.5	2.5	4.3	2.4	2.2	2.1	-0.7	2.4	3.1	4.4	2.9	2.8	0.9	-1.5	-3.2	1.5	2.8
Switzerland	0.3	0.6	1.9	0.4	0.7	2.0	1.2	0.5	2.5	-0.5	-0.1	0.2	2.2	1.9	1.2	1.0	-0.2	-2.1	1.3	0.9
Turkey	3.1	13.5	-12.4	4.2	4.0	7.5	0.4	-4.5	9.0	-5.7	6.5	6.1	7.3	6.1	5.1	3.1	-1.5	-5.3	5.1	2.6
United Kingdom	1.9	3.2	3.5	1.8	1.9	1.5	2.6	2.1	2.7	1.6	1.3	1.8	1.9	1.1	1.9	1.9	-0.2	-3.4	1.8	2.2
United States	1.6	0.9	1.0	0.2	1.8	2.1	2.1	2.8	2.4	1.2	3.0	2.5	2.5	1.4	0.9	1.3	1.2	1.8	3.3	1.2
Euro area	1.9	-0.4	2.3	1.7	0.8	1.9	1.0	1.0	1.5	0.3	0.2	0.4	1.0	0.6	1.4	0.9	-0.6	-2.3	2.1	1.7
Total OECD	2.1	1.6	1.6	1.3	2.0	2.2	1.2	2.1	2.8	0.6	1.7	1.8	2.2	1.6	1.7	1.5	0.2	-1.5	2.7	1.9

Note: Labour productivity measured as GDP per person employed. For further information, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307679

Annex Table 13. **Unemployment rates: commonly used definitions**

Per cent of labour force

	2006 Unemployment thousands	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
Australia	516	8.2	8.2	7.7	6.9	6.2	6.7	6.3	5.9	5.4	5.0	4.8	4.4	4.2	5.5	5.2	4.9	5.6	5.1	4.8
Austria	195	4.2	4.3	4.3	3.8	3.5	3.7	4.0	4.3	4.9	5.2	4.7	4.4	3.8	4.8	4.9	5.0	4.8	5.0	4.9
Belgium	394	9.6	9.2	9.3	8.5	6.9	6.6	7.6	8.2	8.4	8.5	8.2	7.5	7.0	7.9	8.2	8.3	8.0	8.3	8.3
Canada	1 107	9.7	9.1	8.3	7.6	6.8	7.3	7.6	7.6	7.2	6.8	6.3	6.0	6.2	8.3	7.9	7.2	8.4	7.6	7.0
Chile	531	6.4	6.1	6.4	10.1	9.7	9.9	9.8	9.5	10.0	9.2	7.8	7.2	7.8	9.7	9.4	8.9	9.6	9.0	8.7
Czech Republic	371	3.9	4.8	6.5	8.8	8.9	8.2	7.3	7.8	8.3	7.9	7.2	5.3	4.4	6.7	7.8	7.5	7.4	8.0	7.2
Denmark	114	6.3	5.2	4.8	5.0	4.2	4.4	4.5	5.3	5.5	4.8	3.9	3.6	3.2	5.9	7.2	6.9	7.0	7.2	6.7
Finland	204	15.9	12.8	11.4	10.3	9.8	9.1	9.1	9.0	8.8	8.4	7.7	6.9	6.4	8.3	9.4	9.0	8.8	9.7	8.4
France	2 437	10.6	10.8	10.3	10.0	8.6	7.8	7.9	8.5	8.9	8.9	8.8	8.0	7.4	9.1	9.8	9.5	9.6	9.7	9.4
Germany	4 228	8.6	9.3	8.9	8.2	7.4	7.5	8.3	9.2	9.7	10.5	9.8	8.3	7.2	7.4	7.6	8.0	7.4	7.9	7.9
Greece	434	10.7	10.6	11.2	12.1	11.4	10.8	10.3	9.7	10.5	9.8	8.9	8.3	7.7	9.5	12.1	14.3	..	..	..
Hungary	317	10.1	8.9	7.9	7.1	6.5	5.8	5.9	5.9	6.2	7.3	7.5	7.4	7.9	10.1	11.0	10.5	10.7	10.9	10.2
Iceland	5	3.7	3.9	2.7	2.0	2.3	2.3	3.3	3.4	3.1	2.6	2.9	2.3	3.0	7.2	8.7	8.4	6.7	9.0	8.0
Ireland	93	11.9	10.7	7.6	5.6	4.3	3.9	4.4	4.7	4.5	4.3	4.4	4.6	6.0	11.7	13.7	13.0	12.6	13.7	12.8
Italy	1 671	11.4	11.4	11.5	11.1	10.2	9.2	8.8	8.6	8.1	7.8	6.8	6.2	6.8	7.8	8.7	8.8	8.3	8.9	8.7
Japan	2 752	3.4	3.4	4.1	4.7	4.7	5.0	5.4	5.3	4.7	4.4	4.1	3.8	4.0	5.1	4.9	4.7	5.2	4.8	4.7
Korea	827	2.0	2.6	7.0	6.6	4.4	4.0	3.3	3.6	3.7	3.7	3.5	3.2	3.2	3.6	3.6	3.3	3.5	3.4	3.2
Luxembourg	9	3.3	3.6	3.1	2.9	2.6	2.5	2.9	3.7	4.2	4.7	4.4	4.4	4.4	5.7	6.0	5.8	6.0	6.0	5.8
Mexico[1]	1 561	5.3	4.1	3.6	2.6	2.6	2.6	2.9	3.0	3.7	3.6	3.6	3.7	4.0	5.5	5.0	4.5	5.6	4.8	4.4
Netherlands	336	5.8	4.9	3.9	3.2	2.4	2.2	2.7	3.6	4.5	4.7	3.9	3.1	2.7	3.4	4.6	4.8	3.9	5.0	4.4
New Zealand	85	6.3	6.9	7.7	7.0	6.1	5.5	5.3	4.8	4.0	3.8	3.8	3.7	4.2	6.2	6.2	5.6	7.1	6.2	5.2
Norway	83	4.8	4.0	3.2	3.2	3.4	3.5	3.9	4.5	4.5	4.6	3.4	2.5	2.6	3.2	3.3	3.6	3.3	3.3	3.7
Poland	2 344	12.3	11.2	10.6	14.0	16.1	18.2	19.9	19.6	19.0	17.7	13.8	9.6	7.1	8.2	8.9	8.6	8.4	8.9	8.3
Portugal	428	7.3	6.7	5.0	4.4	4.0	4.0	5.0	6.3	6.7	7.7	7.7	8.0	7.6	9.5	10.6	10.4	10.1	10.8	10.3
Slovak Republic	353	11.3	11.9	12.6	16.4	18.8	19.3	18.6	17.5	18.1	16.2	13.3	11.0	9.6	12.1	14.0	13.4	14.1	13.8	13.1
Spain	1 837	17.5	16.3	14.6	12.2	10.8	10.1	11.0	11.0	10.5	9.2	8.5	8.3	11.3	18.0	19.1	18.2	18.9	18.9	17.7
Sweden	336	11.6	11.8	9.9	8.3	6.9	5.9	6.1	6.8	7.7	7.7	7.1	6.1	6.2	8.3	8.8	8.7	9.0	8.8	8.6
Switzerland	171	3.9	4.2	3.5	3.0	2.6	2.6	3.2	4.3	4.4	4.4	4.0	3.6	3.5	4.4	4.6	4.5	4.6	4.7	4.4
Turkey	2 328	7.1	7.3	7.3	8.1	6.9	8.7	10.7	10.8	10.6	10.4	10.0	10.1	10.7	13.7	14.9	15.9	..	..	..
United Kingdom	1 672	8.1	7.0	6.3	6.0	5.5	5.1	5.2	5.0	4.8	4.8	5.4	5.4	5.7	7.6	8.1	7.9	7.8	8.1	7.7
United States	6 993	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.0	5.5	5.1	4.6	4.6	5.8	9.3	9.7	8.9	10.0	9.6	8.4
Euro area	12 619	10.4	10.4	9.9	9.2	8.3	7.9	8.3	8.7	8.9	8.9	8.3	7.4	7.5	9.4	10.1	10.1	9.8	10.2	9.9
Total OECD	34 733	7.0	6.7	6.6	6.5	6.0	6.2	6.8	7.0	6.8	6.6	6.1	5.6	6.0	8.1	8.5	8.2	8.5	8.5	8.0

Note: Labour market data are subject to differences in definitions across countries and to many breaks in series, though the latter are often of a minor nature. For information about definitions, sources, data coverage, breaks in series and rebasings, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Based on National Employment Survey.

Source: OECD Economic Outlook 87 database.

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Annex Table 14. **Harmonised unemployment rates**

Per cent of civilian labour force

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Australia	9.3	10.5	10.6	9.5	8.2	8.2	8.3	7.7	6.9	6.3	6.8	6.4	5.9	5.4	5.0	4.8	4.4	4.2	5.6
Austria	..	..	4.0	3.8	3.9	4.3	4.4	4.5	3.9	3.6	3.6	4.2	4.3	4.9	5.2	4.8	4.4	3.8	4.8
Belgium	6.4	7.1	8.6	9.8	9.7	9.6	9.2	9.3	8.5	6.9	6.6	7.6	8.2	8.4	8.5	8.3	7.5	7.0	7.9
Canada	10.3	11.2	11.4	10.4	9.5	9.6	9.1	8.3	7.6	6.8	7.2	7.7	7.6	7.2	6.8	6.3	6.0	6.1	8.3
Chile	8.2	6.7	6.5	7.8	7.3	6.3	6.1	6.4	10.1	9.7	9.9	9.8	9.5	10.0	9.2	7.8	7.1	7.8	10.8
Czech Republic	4.4	2.8	4.4	4.3	4.1	3.9	4.8	6.4	8.6	8.7	8.0	7.3	7.8	8.3	8.0	7.2	5.3	4.4	6.7
Denmark	7.9	8.6	9.5	7.7	6.8	6.3	5.2	4.9	5.1	4.3	4.5	4.6	5.4	5.5	4.8	3.9	3.8	3.3	6.0
Finland	6.7	11.6	16.2	16.7	15.1	14.9	12.7	11.4	10.3	9.6	9.1	9.1	9.1	8.8	8.3	7.7	6.9	6.4	8.2
France	8.9	9.8	11.0	11.6	11.0	11.5	11.4	11.0	10.4	9.0	8.3	8.6	9.0	9.2	9.3	9.3	8.4	7.8	9.5
Germany[1]	4.2	6.3	7.6	8.2	8.0	8.7	9.4	9.1	8.3	7.5	7.6	8.4	9.3	9.8	10.6	9.8	8.4	7.3	7.5
Greece	6.9	7.8	8.6	8.9	9.1	9.7	9.6	11.0	12.0	11.3	10.7	10.3	9.8	10.5	9.9	8.9	8.3	7.7	9.5
Hungary	..	9.9	12.1	11.0	10.4	9.6	9.0	8.4	6.9	6.4	5.7	5.8	5.9	6.1	7.2	7.4	7.4	7.8	10.0
Iceland	2.5	4.3	5.3	5.3	4.9	3.7	3.9	2.7	2.0	2.3	2.3	3.3	3.4	3.1	2.6	2.9	2.3	3.0	7.2
Ireland	14.7	15.4	15.6	14.4	12.3	11.7	9.9	7.6	5.7	4.2	3.9	4.5	4.6	4.5	4.4	4.5	4.6	6.4	11.9
Italy	8.5	8.8	9.8	10.6	11.2	11.2	11.2	11.3	10.9	10.1	9.1	8.6	8.5	8.0	7.7	6.8	6.2	6.8	7.7
Japan	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	4.7	4.4	4.1	3.9	4.0	5.1
Korea	2.4	2.5	2.9	2.5	2.1	2.0	2.6	7.0	6.6	4.4	4.0	3.3	3.6	3.7	3.7	3.5	3.2	3.2	3.6
Luxembourg	1.6	2.1	2.6	3.2	2.9	2.9	2.7	2.7	2.4	2.2	1.9	2.6	3.8	5.0	4.6	4.6	4.2	4.9	5.4
Mexico	2.6	2.8	3.4	3.7	6.2	5.5	3.7	3.2	2.5	2.5	2.8	3.0	3.4	3.9	3.6	3.6	3.7	4.0	5.5
Netherlands	5.5	5.3	6.2	6.8	6.6	6.0	4.9	3.8	3.2	2.9	2.2	2.8	3.7	4.6	4.7	3.9	3.2	2.8	3.4
New Zealand	10.6	10.7	9.8	8.4	6.5	6.3	6.8	7.7	7.1	6.2	5.5	5.3	4.8	4.1	3.8	3.9	3.7	4.2	6.1
Norway	6.0	6.5	6.6	6.0	5.5	4.8	3.9	3.1	3.0	3.2	3.4	3.7	4.2	4.3	4.5	3.4	2.5	2.5	3.1
Poland	..	..	14.0	14.4	13.3	12.4	10.9	10.2	13.4	16.2	18.3	20.0	19.7	19.0	17.8	13.9	9.6	7.2	8.2
Portugal	4.2	4.1	5.5	6.8	7.2	7.2	6.7	5.0	4.5	4.0	4.1	5.1	6.4	6.8	7.7	7.8	8.1	7.7	9.6
Slovak Republic	..	..	..	13.7	13.1	11.3	11.8	12.6	16.4	18.8	19.3	18.7	17.6	18.2	16.3	13.4	11.2	9.5	12.0
Spain	13.0	14.7	18.4	19.5	18.4	17.8	16.7	15.0	12.5	11.1	10.4	11.1	11.1	10.6	9.2	8.5	8.3	11.4	18.0
Sweden	3.1	5.6	9.0	9.3	8.8	9.5	9.9	8.2	6.7	5.6	5.8	6.0	6.6	7.4	7.7	7.1	6.1	6.2	8.3
Switzerland	1.9	3.1	4.0	3.8	3.5	3.9	4.2	3.5	3.0	2.6	2.6	3.2	4.3	4.4	4.4	4.0	3.6	3.5	4.4
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..	9.2	8.7	8.8	9.7	12.6
United Kingdom	8.6	9.8	10.2	9.3	8.5	7.9	6.8	6.1	5.9	5.4	5.0	5.1	5.0	4.7	4.8	5.4	5.3	5.6	7.6
United States	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	5.5	5.1	4.6	4.6	5.8	9.3
Euro area	7.8	8.5	10.0	10.7	10.4	10.6	10.6	10.1	9.3	8.5	8.0	8.4	8.8	9.0	9.0	8.4	7.5	7.6	9.4
Total OECD[2]	6.8	7.4	7.8	7.7	7.3	7.2	6.9	6.8	6.7	6.2	6.5	7.1	7.3	7.0	6.8	6.2	5.8	6.1	8.3

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. Annual figures are calculated by averaging the monthly and/or quarterly estimates (for both unemployed and the labour force). Further information is available from OECD.stat *(http://stats.oecd.org/index.aspx),* see the metadata relating to the harmonised unemployment rate.

1. Prior to July 1991 data refers to Western Germany.
2. Chile not included.

Source: OCDE, Main Economic Indicators.

StatLink http://dx.doi.org/10.1787/888932307717

Annex Table 15. **Labour force, employment and unemployment**

Millions

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Labour force																			
Major seven countries	326.6	329.0	330.8	333.7	337.5	340.0	342.8	347.2	349.3	351.0	353.3	355.3	358.4	361.6	364.2	366.6	366.6	367.7	369.5
Total of smaller countries	170.9	177.2	179.8	182.3	185.3	187.6	189.6	191.7	194.0	197.2	198.8	202.7	205.6	208.9	211.9	215.3	218.0	220.4	222.3
Euro area	132.0	135.3	136.0	137.1	138.0	139.7	141.2	143.1	144.7	146.4	147.7	149.4	151.2	152.6	153.9	155.6	156.0	155.9	155.9
Total OECD	499.0	506.1	510.6	515.9	522.8	527.6	532.4	538.9	543.3	548.3	552.1	557.9	564.0	570.4	576.2	581.9	584.7	588.0	591.8
Employment																			
Major seven countries	303.6	306.4	309.1	311.7	315.9	318.9	322.2	327.8	328.9	328.6	330.0	332.8	336.3	340.7	344.5	345.1	337.3	337.1	340.3
Total of smaller countries	156.9	162.4	164.6	168.0	171.7	173.9	175.8	178.7	180.4	182.5	183.7	187.1	190.4	195.0	199.1	201.9	199.8	200.9	203.0
Euro area	119.3	121.1	122.0	122.8	123.7	125.9	128.2	131.3	133.3	134.3	134.8	136.1	137.7	139.9	142.5	144.0	141.4	140.1	140.2
Total OECD	462.1	468.8	473.6	479.7	487.7	492.8	498.0	506.6	509.3	511.1	513.7	519.9	526.8	535.7	543.6	547.0	537.1	537.9	543.3
Unemployment																			
Major seven countries	23.0	22.5	21.7	22.0	21.6	21.1	20.6	19.4	20.3	22.5	23.3	22.5	22.0	20.9	19.7	21.4	29.3	30.6	29.2
Total of smaller countries	13.9	14.8	15.3	14.2	13.5	13.8	13.8	13.0	13.6	14.7	15.1	15.6	15.2	13.9	12.8	13.4	18.3	19.5	19.3
Euro area	12.7	14.2	14.0	14.3	14.4	13.8	13.0	11.9	11.4	12.1	12.9	13.3	13.5	12.6	11.5	11.6	14.6	15.8	15.7
Total OECD	36.9	37.3	37.0	36.2	35.1	34.8	34.4	32.4	33.9	37.2	38.4	38.1	37.2	34.7	32.5	34.9	47.6	50.1	48.5

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307736

Annex Table 16. **GDP deflators**

Percentage change from previous year

	Average 1985-95	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
Australia	4.4	1.9	1.4	0.1	1.1	4.3	3.8	3.2	2.3	4.2	4.4	5.2	4.0	6.5	0.3	4.6	3.7	-1.4	5.6	3.1
Austria	2.9	0.8	-0.2	0.0	0.1	1.6	1.7	1.2	1.2	1.5	1.8	1.7	2.2	2.3	1.9	1.2	1.0	1.9	0.8	1.2
Belgium	2.8	0.4	0.8	1.8	0.3	2.0	2.1	2.0	2.0	2.2	2.4	2.2	2.2	1.9	0.9	1.6	1.3	0.9	1.9	1.3
Canada	2.9	1.6	1.2	-0.4	1.7	4.1	1.1	1.1	3.3	3.2	3.3	2.6	3.2	3.9	-1.9	3.5	1.8	0.5	3.2	1.2
Chile	..	2.6	4.3	2.0	2.5	4.6	3.8	4.2	5.9	7.5	7.6	12.4	5.5	0.3	4.2	8.0	4.8	8.2	6.6	4.2
Czech Republic	..	10.2	8.4	11.1	2.9	1.5	4.9	2.8	0.9	4.5	-0.3	1.1	3.4	1.8	2.7	1.0	1.9	1.4	1.5	2.0
Denmark	2.7	2.0	2.0	1.2	1.7	3.0	2.5	2.3	1.6	2.3	2.9	2.1	1.9	3.6	0.4	2.0	1.8	0.9	1.6	2.0
Finland	3.9	-0.4	1.8	3.9	0.7	2.7	2.9	1.3	-0.7	0.6	0.1	1.2	3.1	1.5	0.8	2.2	1.9	-1.1	3.6	2.1
France	2.6	1.6	1.0	0.9	0.0	1.4	2.0	2.4	1.9	1.6	2.0	2.4	2.5	2.5	0.8	0.7	1.0	0.1	1.0	1.2
Germany	2.8	0.5	0.3	0.6	0.3	-0.7	1.2	1.4	1.2	1.0	0.7	0.5	1.9	1.5	1.5	0.1	0.6	1.0	0.1	0.6
Greece	15.6	7.3	6.8	5.2	3.0	3.4	3.1	3.4	3.9	3.0	2.8	3.1	3.0	3.5	1.3	0.8	0.3	1.9	-0.6	-0.3
Hungary	..	22.0	19.1	12.7	6.9	9.0	10.4	7.9	4.7	5.0	2.4	4.0	6.0	3.4	5.3	3.1	1.8	5.7	1.2	1.9
Iceland	12.1	2.5	2.9	5.1	3.3	3.6	8.6	5.6	0.6	2.5	2.8	8.8	5.7	11.9	8.6	8.8	3.9	6.6	0.2	7.7
Ireland	3.1	2.3	3.8	6.6	4.1	5.9	5.5	4.6	2.8	2.0	2.4	3.5	1.2	-1.2	-3.2	-2.5	0.2	-5.4	-0.9	0.5
Italy	5.9	4.8	2.6	2.6	1.8	1.9	3.0	3.3	3.1	2.6	2.1	1.8	2.6	2.8	2.1	1.0	0.8	1.3	1.2	0.9
Japan	1.1	-0.6	0.5	0.0	-1.3	-1.7	-1.2	-1.5	-1.6	-1.1	-1.2	-0.9	-0.7	-0.8	-1.0	-2.1	-0.5	-2.9	-1.1	-0.3
Korea	7.1	5.0	3.9	5.0	-1.0	1.0	3.9	3.2	3.6	3.0	0.7	-0.1	2.1	2.9	3.4	2.1	2.1	3.4	1.6	2.4
Luxembourg	2.7	3.0	-1.9	-0.4	5.3	2.0	0.1	2.1	6.0	1.8	4.6	6.8	3.0	5.0	-0.7	1.2	2.0	-2.0	-0.6	2.6
Mexico	40.9	30.3	17.2	15.3	15.4	12.7	6.7	7.7	8.5	9.1	4.6	6.9	4.4	6.7	4.3	4.0	4.7	5.8	4.1	4.9
Netherlands	1.5	1.3	2.6	1.9	1.8	4.1	5.1	3.8	2.2	0.7	2.4	1.8	1.6	2.7	-0.3	0.5	1.4	-2.0	1.6	1.2
New Zealand	5.2	2.6	0.6	0.8	0.4	2.5	4.2	1.2	1.7	3.9	2.3	2.4	4.1	3.7	1.7	3.4	1.7	-0.1	4.6	1.5
Norway	2.7	4.2	2.8	-0.8	6.6	15.7	1.7	-1.8	3.0	5.3	8.7	8.5	2.4	10.0	-3.8	5.4	3.0	-1.4	6.1	2.4
Poland	..	17.9	13.9	11.1	6.0	7.3	3.5	2.2	0.4	4.1	2.6	1.5	4.0	3.0	3.6	2.8	2.8	3.0	3.1	2.9
Portugal	10.4	2.6	3.8	3.8	3.3	3.0	3.7	3.9	3.2	2.4	2.5	2.8	3.0	2.0	1.2	0.7	1.2	1.1	-0.2	1.4
Slovak Republic	..	4.2	4.9	5.1	7.4	9.4	5.0	3.9	5.3	5.9	2.4	2.9	1.1	2.9	-1.2	0.3	0.9	0.6	0.6	1.0
Spain	6.4	3.5	2.4	2.5	2.6	3.5	4.2	4.3	4.1	4.0	4.3	4.1	3.3	2.5	0.2	0.0	0.3	-0.2	0.2	0.2
Sweden	5.3	0.8	1.3	0.7	1.2	1.3	2.2	1.5	1.6	0.8	0.9	1.7	2.6	3.4	2.2	2.9	2.3	1.7	2.4	2.1
Switzerland	2.8	0.2	-0.1	0.3	0.6	1.1	0.8	0.5	1.0	0.6	0.1	2.1	2.5	2.2	0.3	0.4	0.7	0.1	0.7	0.6
Turkey	64.4	77.8	81.5	75.7	54.2	49.2	52.9	37.4	23.3	12.4	7.1	9.3	6.2	12.0	5.5	7.1	6.5	..	..	..
United Kingdom	4.7	3.6	2.8	2.2	2.1	1.2	2.1	3.1	3.1	2.5	2.0	2.8	2.9	3.0	1.4	2.4	1.2	1.4	1.6	1.3
United States	2.8	1.9	1.8	1.1	1.5	2.2	2.3	1.6	2.2	2.8	3.3	3.3	2.9	2.1	1.2	0.8	1.2	0.7	1.1	1.2
Euro area	4.0	1.9	1.4	1.6	1.0	1.4	2.4	2.6	2.2	1.9	1.9	2.0	2.4	2.2	1.0	0.5	0.8	0.4	0.7	0.8
Total OECD	6.2	4.6	4.1	3.5	2.7	3.0	3.3	2.6	2.5	2.6	2.4	2.6	2.5	2.5	1.2	1.1	1.4	0.6	1.4	1.4

Note: The adoption of national accounts 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. For further information, see table "National Accounts Reporting Systems, base years and latest data updates" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307755

Annex Table 17. **Private consumption deflators**

Percentage change from previous year

	Average 1985-95	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
Australia	4.7	2.2	1.4	1.2	0.9	3.1	3.6	3.1	1.9	1.3	1.9	3.4	3.2	3.8	3.0	2.7	2.7	2.4	2.8	2.7
Austria	2.4	1.7	1.5	0.6	1.0	2.0	1.7	0.6	1.6	2.1	2.6	2.1	2.6	2.7	1.2	1.5	1.0	1.5	1.2	1.0
Belgium	2.5	0.7	1.6	0.9	0.4	3.5	1.9	1.2	1.5	2.4	2.7	3.0	2.8	3.8	0.0	1.8	1.4	-0.3	2.8	1.2
Canada	3.2	1.6	1.6	1.2	1.7	2.2	1.8	2.0	1.6	1.5	1.7	1.4	1.6	1.7	0.4	1.6	1.6	0.6	1.7	1.5
Chile	..	..	4.5	3.4	2.3	4.7	4.6	3.2	3.2	0.5	3.7	2.5	3.6	7.7	2.9	0.4	3.3	-2.0	2.7	3.2
Czech Republic	..	7.6	9.0	8.9	1.9	3.1	3.9	1.2	-0.4	3.3	0.8	1.4	2.9	4.9	0.3	1.4	2.1	0.1	1.9	2.3
Denmark	2.5	1.6	2.0	1.4	1.9	2.7	2.3	1.7	1.3	1.3	1.5	1.9	2.0	3.2	1.3	2.0	1.7	1.1	2.2	1.8
Finland	3.7	0.5	1.7	2.0	1.4	4.2	2.5	2.1	-0.5	0.5	0.6	1.4	2.4	3.5	1.0	1.8	1.5	0.4	2.0	1.4
France	2.5	1.6	0.9	0.2	-0.5	2.3	1.7	1.0	1.9	1.9	1.8	2.1	2.1	2.8	-0.1	1.1	1.1	0.1	1.2	1.1
Germany	2.2	0.9	1.4	0.5	0.3	0.9	1.8	1.2	1.5	1.3	1.4	1.0	1.8	2.1	0.1	1.5	1.0	0.5	1.4	1.0
Greece	15.7	8.2	5.6	4.5	2.3	3.3	2.7	2.6	3.4	2.9	3.3	3.4	3.0	4.1	1.3	3.0	0.3	..	..	..
Hungary	..	22.2	18.7	13.9	9.9	9.6	8.0	3.8	4.0	4.5	3.8	3.4	6.2	5.6	4.4	4.2	2.3	5.7	3.0	2.1
Iceland	12.0	2.5	0.8	1.5	2.8	5.0	7.8	4.8	1.3	3.0	1.9	7.7	4.6	14.0	14.9	5.0	4.2	9.6	3.3	4.0
Ireland	3.0	2.6	2.6	3.7	2.6	6.9	4.4	5.4	4.1	1.8	1.8	2.4	3.5	2.7	-3.4	-1.4	0.8	-4.2	-0.5	1.3
Italy	5.9	4.1	2.2	1.8	1.8	3.4	2.6	2.9	2.8	2.6	2.3	2.7	2.3	3.2	-0.1	1.2	1.0	0.0	1.1	1.0
Japan	1.1	-0.1	1.2	0.1	-0.5	-1.1	-1.1	-1.4	-0.9	-0.7	-0.8	-0.2	-0.6	0.4	-2.2	-1.6	-0.5	-2.7	-0.7	-0.4
Korea	6.8	6.8	6.2	6.2	2.8	4.4	4.3	3.1	3.2	3.2	2.3	1.5	2.0	4.5	2.6	2.9	3.2	1.8	3.2	3.3
Luxembourg	2.7	1.3	1.4	1.7	2.5	4.0	2.0	0.5	2.2	2.4	2.8	2.2	2.0	3.7	0.0	1.6	1.9	-0.1	1.9	2.0
Mexico	41.7	30.9	16.6	20.4	14.0	10.3	7.1	5.3	7.1	6.5	3.3	3.5	4.8	5.1	8.4	2.2	3.8	5.8	4.3	3.6
Netherlands	1.9	2.0	2.3	2.0	1.9	3.8	4.5	3.0	2.4	1.0	2.1	2.2	1.6	2.1	-0.5	1.6	1.4	-0.3	1.2	1.3
New Zealand	5.1	2.5	1.8	1.9	0.7	2.2	2.2	2.0	0.8	1.5	2.2	3.1	1.5	3.6	2.6	1.4	2.1	1.3	2.2	1.9
Norway	4.2	1.3	2.4	2.5	2.0	2.9	2.2	1.4	3.0	0.7	1.1	1.9	1.2	3.7	2.5	2.4	2.2	0.3	3.4	2.2
Poland	..	18.6	14.7	10.5	6.1	10.0	3.8	3.3	0.4	3.0	2.1	1.2	2.4	4.2	2.7	3.2	2.7	3.4	3.0	2.8
Portugal	9.7	2.9	2.9	2.3	2.2	3.4	3.4	3.0	2.9	2.5	2.7	3.1	2.7	2.6	-1.8	1.3	1.4	-1.5	2.0	1.4
Slovak Republic	..	4.0	4.8	5.7	9.9	8.3	5.6	2.9	6.5	7.3	2.6	4.9	2.6	4.5	1.0	-1.2	2.2	-0.7	1.6	2.0
Spain	6.1	3.2	2.7	1.9	2.3	3.7	3.4	2.8	3.1	3.6	3.4	3.6	3.2	3.7	-0.6	1.9	0.6	0.3	0.9	0.4
Sweden	5.7	0.9	1.3	0.5	1.6	0.8	2.1	1.5	1.6	1.0	1.1	1.1	1.3	2.9	2.0	3.6	2.1	2.3	2.7	1.9
Switzerland	2.6	1.3	0.8	-0.1	0.4	0.8	0.7	0.9	0.4	0.8	0.5	1.3	1.3	2.2	-0.3	0.7	0.8	-0.4	0.9	0.8
Turkey	66.2	67.8	82.1	83.0	53.4	54.9	49.7	38.5	23.4	10.8	8.3	9.8	6.6	10.8	5.4	8.7	5.7	..	..	..
United Kingdom	4.8	3.5	2.5	2.4	1.2	1.1	2.0	1.5	1.9	1.8	2.4	2.7	2.9	3.0	1.3	3.1	1.5	2.1	2.1	1.5
United States	3.2	2.2	1.9	0.9	1.6	2.5	1.9	1.4	2.0	2.6	3.0	2.7	2.7	3.3	0.2	1.6	1.0	1.2	1.2	1.0
Euro area	3.8	2.1	1.8	1.1	0.9	2.5	2.3	1.8	2.1	2.0	2.1	2.2	2.3	2.8	-0.1	1.4	1.0	0.2	1.3	1.0
Total OECD	6.4	4.6	4.3	3.8	2.8	3.5	3.1	2.2	2.3	2.3	2.2	2.3	2.3	3.2	0.6	1.6	1.3	0.9	1.6	1.3

Note: The adoption of national accounts 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. For further information, see table "National Accounts Reporting Systems, base years and latest data updates" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307774

Annex Table 18. **Consumer price indices**

Percentage change from previous year

	Average 1985-95	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
Australia	5.2	2.6	0.3	0.9	1.5	4.5	4.4	3.0	2.8	2.3	2.7	3.5	2.3	4.4	1.8	3.0	2.7	2.1	3.0	2.7
Austria	..	1.8	1.2	0.8	0.5	2.0	2.3	1.7	1.3	2.0	2.1	1.7	2.2	3.2	0.4	1.4	1.0	0.6	1.2	1.0
Belgium	..	1.8	1.5	0.9	1.1	2.7	2.4	1.6	1.5	1.9	2.5	2.3	1.8	4.5	0.0	1.8	1.4	-0.2	2.0	1.3
Canada	3.3	1.6	1.6	1.0	1.7	2.7	2.5	2.3	2.8	1.9	2.2	2.0	2.1	2.4	0.3	1.6	1.7	0.8	1.8	1.6
Chile	16.6	7.4	6.1	5.1	3.3	3.8	3.6	2.5	2.8	1.1	3.1	3.4	4.4	8.7	0.4	1.4	3.3	-3.0	2.8	3.3
Czech Republic	..	8.8	8.5	10.7	2.1	3.9	4.7	1.8	0.1	2.8	1.9	2.6	3.0	6.3	1.0	1.8	2.0	0.4	3.1	2.1
Denmark	2.9	2.1	2.2	1.8	2.5	2.9	2.3	2.4	2.1	1.2	1.8	1.9	1.7	3.4	1.3	2.1	1.8	1.2	2.4	1.8
Finland	..	1.1	1.2	1.3	1.3	2.9	2.7	2.0	1.3	0.1	0.8	1.3	1.6	3.9	1.6	1.7	1.4	1.3	1.9	1.3
France	..	2.1	1.3	0.7	0.6	1.8	1.8	1.9	2.2	2.3	1.9	1.9	1.6	3.2	0.1	1.7	1.1	0.4	1.5	1.1
Germany	..	1.2	1.5	0.6	0.6	1.4	1.9	1.4	1.0	1.8	1.9	1.8	2.3	2.8	0.2	1.3	1.0	0.3	1.4	1.0
Greece	..	7.9	5.4	4.5	2.1	2.9	3.7	3.9	3.4	3.0	3.5	3.3	3.0	4.2	1.3	3.0	0.3	2.0	2.4	-0.7
Hungary	..	23.5	18.3	14.2	10.0	9.8	9.1	5.3	4.7	6.7	3.6	3.9	8.0	6.0	4.2	4.5	2.3	5.2	4.1	2.1
Iceland[1]	11.7	2.3	1.8	1.7	3.2	5.1	6.4	5.2	2.1	3.2	4.0	6.7	5.1	12.7	12.0	5.7	4.2	8.6	3.3	4.0
Ireland	..	2.2	1.3	2.1	2.5	5.3	4.0	4.7	4.0	2.3	2.2	2.7	2.9	3.1	-1.7	-1.4	0.8	-2.8	-0.6	1.6
Italy	..	4.0	1.9	2.0	1.7	2.6	2.3	2.6	2.8	2.3	2.2	2.2	2.0	3.5	0.8	1.2	1.0	0.7	1.0	1.0
Japan	1.3	0.0	1.7	0.7	-0.3	-0.5	-0.8	-0.9	-0.2	0.0	-0.6	0.2	0.1	1.4	-1.4	-0.7	-0.3	-2.0	-0.2	-0.3
Korea	5.8	4.9	4.4	7.5	0.8	2.3	4.1	2.7	3.6	3.6	2.8	2.2	2.5	4.7	2.8	3.0	3.2	2.4	3.2	3.3
Luxembourg	..	1.2	1.4	1.0	1.0	3.8	2.4	2.1	2.5	3.2	3.8	3.0	2.7	4.1	0.0	3.0	1.9	1.3	2.6	2.0
Mexico	41.2	34.4	20.6	15.9	16.6	9.5	6.4	5.0	4.5	4.7	4.0	3.6	4.0	5.1	5.3	4.6	3.5	4.0	4.4	3.6
Netherlands	..	1.4	1.9	1.8	2.0	2.3	5.1	3.9	2.2	1.4	1.5	1.7	1.6	2.2	1.0	0.9	1.4	0.6	1.4	1.3
New Zealand	5.7	2.3	1.2	1.3	-0.1	2.6	2.6	2.7	1.8	2.3	3.0	3.4	2.4	4.0	2.1	2.2	2.5	2.0	2.6	2.4
Norway	4.3	1.2	2.6	2.3	2.3	3.1	3.0	1.3	2.5	0.5	1.5	2.3	0.7	3.8	2.2	2.5	1.9	1.4	2.5	2.2
Poland	..	19.8	14.9	11.6	7.2	9.9	5.4	1.9	0.7	3.4	2.2	1.3	2.5	4.2	3.8	2.7	2.8	3.6	3.1	2.9
Portugal	..	2.9	1.9	2.2	2.2	2.8	4.4	3.7	3.3	2.5	2.1	3.0	2.4	2.7	-0.9	0.9	1.1	-0.8	1.3	1.1
Slovak Republic	..	5.8	6.0	6.7	10.4	12.2	7.2	3.5	8.4	7.5	2.8	4.3	1.9	3.9	0.9	0.8	2.2	0.0	1.6	2.0
Spain	..	3.6	1.9	1.8	2.2	3.5	2.8	3.6	3.1	3.1	3.4	3.6	2.8	4.1	-0.3	1.4	0.6	0.2	1.1	0.4
Sweden[2]	5.2	0.5	0.7	-0.3	0.5	0.9	2.4	2.2	1.9	0.4	0.5	1.4	2.2	3.4	-0.3	1.4	2.0	-0.4	1.6	2.6
Switzerland	2.8	0.8	0.5	0.0	0.8	1.6	1.0	0.6	0.6	0.8	1.2	1.1	0.7	2.4	-0.5	0.9	0.8	-0.2	0.7	0.8
Turkey	65.1	80.4	85.7	84.6	64.9	54.9	54.4	45.0	21.6	8.6	8.2	9.6	8.8	10.4	6.3	9.5	6.6	..	..	..
United Kingdom[3]	..	2.5	1.8	1.6	1.3	0.8	1.2	1.3	1.4	1.3	2.0	2.3	2.3	3.6	2.2	3.0	1.5	2.1	2.5	1.5
United States[4]	3.5	2.9	2.3	1.5	2.2	3.4	2.8	1.6	2.3	2.7	3.4	3.2	2.9	3.8	-0.3	1.9	1.1	1.5	1.2	1.1
Euro area	..	2.3	1.7	1.2	1.2	2.2	2.4	2.3	2.1	2.2	2.2	2.2	2.1	3.3	0.3	1.4	1.0	0.4	1.3	0.9

Note: For the euro area countries, the euro area aggregate and the United Kingdom: harmonised index of consumer prices (HICP).

1. Excluding rent, but including imputed rent.
2. The consumer price index includes mortgage interest costs.
3. Known as the CPI in the United Kingdom.
4. The methodology for calculating the Consumer Price Index has changed considerably over the past years, lowering measured inflation substantially.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307793

Annex Table 19. **Oil and other primary commodity markets**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Oil market conditions[1]	Million barrels per day																	
Demand																		
OECD	44.5	45.0	46.0	46.8	46.9	47.9	47.9	48.0	48.0	48.7	49.5	49.8	49.5	49.2	47.6	45.5	45.4	..
of which: North America	21.7	21.6	22.2	22.7	23.1	23.8	24.1	24.1	24.1	24.6	25.4	25.6	25.4	25.5	24.2	23.3	23.5	..
Europe	14.4	14.7	15.0	15.1	15.4	15.4	15.2	15.4	15.3	15.5	15.5	15.7	15.7	15.3	15.3	14.5	14.4	..
Pacific	8.4	8.6	8.8	8.9	8.4	8.7	8.7	8.5	8.5	8.6	8.5	8.6	8.5	8.4	8.1	7.7	7.6	..
Non-OECD	24.2	25.1	26.0	27.0	27.5	28.2	28.9	29.5	30.3	31.2	33.4	34.4	35.7	37.3	38.4	39.3	40.9	..
Total	68.7	70.1	72.0	73.8	74.4	76.1	76.8	77.5	78.2	79.9	82.8	84.2	85.3	86.5	86.0	84.8	86.4	..
Supply																		
OECD	20.8	21.1	21.7	22.1	21.9	21.5	21.9	21.8	21.9	21.6	21.3	20.4	20.1	19.9	19.3	19.4	19.4	..
OPEC total	24.2	24.9	25.5	26.9	27.8	26.4	27.8	27.1	25.6	27.4	29.5	30.6	30.7	30.3	35.6	33.3	..	..
Former USSR	7.3	7.1	7.1	7.2	7.3	7.4	8.0	8.6	9.5	10.4	11.4	11.8	12.2	12.8	12.8	13.3	13.6	..
Other non-OECD	16.7	17.5	18.2	18.6	19.0	19.3	19.6	19.8	20.3	20.6	21.4	22.0	22.5	22.7	18.6	18.8	..	..
Total	69.0	70.7	72.6	74.9	76.0	74.6	77.2	77.4	77.2	80.0	83.5	84.7	85.6	85.7	86.4	84.8	..	..
Trade																		
OECD net imports	23.9	23.5	24.3	25.0	25.4	25.7	26.2	26.5	25.8	27.3	28.4	29.7	29.7	29.1	28.6	26.1	26.2	..
Former USSR net exports	2.7	2.8	3.2	3.4	3.5	3.7	4.2	4.8	5.7	6.5	7.5	7.9	8.2	8.6	8.7	9.4	9.5	..
Other non-OECD net exports	21.2	20.7	21.1	21.7	21.9	22.0	22.0	21.7	20.2	20.8	20.9	21.8	21.5	20.5	19.9	16.7	16.7	..
Prices[2]	cif, $ per bl																	
Brent crude oil price	15.8	17.0	20.7	19.1	12.7	17.9	28.4	24.5	25.0	28.8	38.2	54.4	65.1	72.5	97.0	61.5	78.9	80.0
Prices of other primary commodities[2]	$ indices																	
Food and tropical beverages	115	120	126	126	106	86	80	75	84	91	101	100	111	140	188	162	160	159
Agricultural raw materials	104	122	102	98	84	82	87	74	74	90	99	100	112	135	130	108	145	147
Minerals, ores and metals	62	74	64	66	55	53	60	54	53	60	82	100	148	167	174	123	162	165
Total[3]	103	112	116	112	93	80	80	74	80	90	103	100	116	147	184	148	157	157

1. Based on data published in various issues of International Energy Agency, Oil Market Report.
2. Indices through 2009 are based on data compiled by the International Energy Agency for oil and by the Hamburg Institute of International Economics for the prices of other primary commodities; OECD estimates and projections for 2010 and 2011.
3. OECD calculations. The total price index for non-energy primary commodities is a weighted average of the individual HWWI non-oil commodities indices with the weights based on the commodities' share in total non-energy commodities world trade.

Source: OECD Economic Outlook 87 database.

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Annex Table 20. **Employment rates, participation rates and labour force**

	Employment rates						Labour force participation rates						Labour force					
	Average 1988-90	Average 1998-00	2008	2009	2010	2011	Average 1988-90	Average 1998-00	2008	2009	2010	2011	Average 1988-97	Average 1998-07	2008	2009	2010	2011
	Per cent						*Per cent*						*Percentage change*					
Australia	69.0	70.0	74.9	73.8	74.3	74.7	73.7	75.2	78.2	78.1	78.4	78.5	1.6	1.8	2.1	1.7	2.0	1.8
Austria	65.1	69.1	72.7	72.1	72.3	72.4	67.3	71.9	75.5	75.8	76.1	76.1	1.3	1.0	0.9	0.7	0.7	0.5
Belgium	58.3	61.0	64.3	63.5	62.8	62.5	63.1	66.5	69.1	68.9	68.4	68.2	0.4	0.9	1.4	0.5	0.1	0.4
Canada	71.4	71.0	75.5	73.5	73.8	74.3	77.4	76.8	80.4	80.1	80.1	80.0	1.0	1.8	1.6	0.7	1.2	1.0
Chile	52.0	54.6	58.0	56.9	58.0	59.7	56.8	59.8	63.0	63.0	64.0	65.5	2.3	2.1	3.7	1.4	2.2	2.3
Czech Republic	..	66.3	67.2	66.0	65.0	65.2	..	72.1	70.3	70.7	70.5	70.5	..	0.1	0.6	1.1	0.1	0.2
Denmark	77.0	77.1	81.5	78.4	76.7	77.1	82.4	80.9	84.3	83.3	82.6	82.8	0.0	0.6	1.0	-0.9	-0.9	0.0
Finland	73.0	65.9	71.3	69.0	67.9	67.6	76.5	73.6	76.2	75.2	74.9	74.3	-0.3	0.7	1.1	-0.9	-0.6	-1.4
France	61.8	62.0	64.0	63.0	62.3	62.5	67.4	68.6	69.1	69.3	69.1	69.0	0.4	0.7	0.7	1.1	0.4	0.4
Germany	68.2	68.8	74.2	74.3	74.2	73.8	71.9	74.9	80.0	80.3	80.3	80.2	0.8	0.4	0.2	0.2	-0.1	-0.1
Greece	55.8	57.5	63.0	62.4	60.5	58.9	60.5	65.0	68.3	69.0	68.9	68.8	0.9	0.9	0.4	0.9	0.1	0.0
Hungary	..	53.6	55.7	54.4	54.0	54.4	..	57.7	60.4	60.6	60.7	60.7	..	0.7	-0.7	0.0	0.1	0.0
Iceland	84.7	84.6	82.5	78.0	76.1	76.8	86.5	86.6	85.0	84.1	83.3	83.8	0.5	2.0	1.4	-1.7	-2.1	0.6
Ireland	53.9	64.6	69.4	62.5	59.3	59.2	63.3	68.6	73.8	70.9	68.7	68.1	1.7	3.3	1.0	-2.9	-2.1	0.3
Italy	54.3	52.9	59.1	57.8	57.2	57.4	60.3	59.4	63.4	62.7	62.7	63.0	-0.3	0.8	1.5	-0.6	0.3	0.5
Japan	71.6	74.7	77.6	77.1	77.6	77.9	73.3	78.2	80.8	81.2	81.6	81.8	1.1	-0.2	-0.3	-0.5	-0.2	-0.2
Korea	60.1	61.2	67.1	66.4	66.9	67.4	61.6	65.1	69.3	69.0	69.5	69.7	2.6	1.4	0.5	0.2	1.5	1.0
Luxembourg	60.8	62.0	65.5	64.9	64.7	64.8	61.7	63.9	68.5	68.8	68.8	68.8	1.1	2.3	3.2	2.7	1.5	0.9
Mexico	..	63.0	62.2	61.6	..	..	..	64.9	64.8	65.1	..	..	..	1.7	1.4	2.0	2.1	1.1
Netherlands	63.5	73.8	78.7	77.8	76.8	76.5	67.5	76.2	80.9	80.6	80.5	80.3	1.8	1.1	1.0	-0.2	0.1	0.0
New Zealand	70.4	70.4	77.0	75.4	..	..	75.7	75.7	80.4	80.3	..	..	1.3	2.0	1.2	1.0	1.0	1.0
Norway	75.4	78.2	79.9	78.4	77.5	77.4	78.9	80.9	82.0	80.9	80.2	80.3	0.5	0.8	3.4	-0.1	-0.1	0.7
Poland	..	57.1	58.3	58.4	57.7	58.0	..	66.1	62.7	63.5	63.4	63.4	..	-0.2	0.9	1.6	0.0	0.1
Portugal	67.3	71.0	72.4	70.3	69.2	69.3	71.1	74.3	78.4	77.8	77.4	77.3	1.0	1.1	0.2	-0.7	-0.2	-0.1
Slovak Republic	..	58.0	62.2	60.3	58.9	59.0	..	69.0	68.8	68.6	68.5	68.2	..	0.6	1.6	0.0	0.0	-0.5
Spain	50.7	55.4	65.8	61.1	60.0	60.3	58.4	63.3	74.2	74.5	74.1	73.7	1.2	3.4	3.0	0.8	-0.8	-0.9
Sweden	83.1	73.3	75.9	73.9	..	..	84.9	80.0	80.9	80.7	..	..	-0.1	0.8	1.2	0.2	0.6	0.3
Switzerland	80.9	81.1	82.3	81.9	81.5	81.6	81.4	83.7	85.3	85.6	85.4	85.4	1.1	1.0	1.7	1.5	0.8	1.0
Turkey	53.6	49.4	45.6	45.1	45.0	45.1	58.7	53.4	51.1	52.2	52.9	53.6	1.8	0.9	2.9	3.9	3.0	3.0
United Kingdom	71.2	71.2	72.3	70.8	70.2	70.1	77.0	75.6	76.6	76.7	76.4	76.0	0.0	0.9	1.1	0.5	0.0	0.0
United States	71.8	72.7	71.2	..	..	..	75.9	75.9	75.6	..	..	..	1.3	1.2	0.8	-0.1	0.5	1.0
Euro area	60.8	62.2	67.4	65.9	65.2	65.1	65.9	68.5	72.8	72.7	72.6	72.5	0.9	1.1	1.1	0.3	0.0	0.0
Total OECD	61.7	66.4	68.0	65.9	66.0	66.1	65.6	70.9	72.4	71.4	72.1	72.2	1.2	1.0	1.0	0.5	0.6	0.6

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 for the labour force participation rate is defined as all persons of the age 15 to 64 years (16 to 64 years for Spain). This definition does not correspond to the commonly-used working age population concepts for Mexico (15 years and above), the United States and New Zealand (16 years and above) and Sweden (15-74). 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 Economic Outlook 87 database.

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Annex Table 21. **Potential GDP, employment and capital stock**

Percentage change from previous period

	Potential GDP						Employment						Capital stock[1]					
	Average 1988-97	Average 1998-07	2008	2009	2010	2011	Average 1988-97	Average 1998-07	2008	2009	2010	2011	Average 1988-97	Average 1998-07	2008	2009	2010	2011
Australia	3.2	3.5	3.5	3.4	3.2	3.2	1.4	2.2	2.3	0.3	2.4	2.0	3.0	5.1	7.6	6.4	6.6	6.9
Austria	2.4	2.3	2.0	1.7	1.5	1.6	1.2	1.0	1.5	-0.3	0.6	0.5	2.9	2.5	1.1	0.2	0.0	0.3
Belgium	2.2	2.2	2.4	2.2	1.9	1.7	0.4	1.1	1.9	-0.4	-0.3	0.2	3.4	2.8	4.0	2.9	2.5	2.7
Canada	2.5	3.0	2.4	1.8	1.6	1.7	0.8	2.1	1.5	-1.6	1.7	1.8	4.6	4.9	5.2	2.9	2.4	2.3
Chile	..	..	..	..	..	..	2.8	2.0	2.9	-0.7	2.6	2.8	..	..	..	..	..	..
Czech Republic	..	3.3	3.8	2.9	2.5	3.0	..	0.2	1.6	-1.3	-1.0	0.5	..	..	..	..	..	..
Denmark	2.1	1.8	1.7	1.3	0.6	0.6	0.1	0.7	1.4	-3.6	-2.3	0.3	3.5	4.0	5.0	3.2	2.6	2.8
Finland	1.8	3.3	3.0	1.6	0.7	1.0	-1.3	1.3	1.6	-2.9	-1.9	-1.0	2.5	2.5	2.6	-1.9	-1.7	-0.5
France	1.9	2.2	1.6	1.5	1.2	1.3	0.2	1.0	1.4	-0.7	-0.3	0.7	2.8	3.5	3.3	2.2	1.8	2.3
Germany	2.3	1.3	1.6	1.2	1.0	1.3	0.5	0.5	1.4	0.0	-0.4	-0.5	2.9	2.0	2.3	0.6	0.7	0.9
Greece	1.9	3.8	3.2	1.9	0.7	-0.1	0.6	1.3	1.1	-1.1	-2.8	-2.5	2.6	5.2	4.7	1.9	0.0	-1.2
Hungary	..	3.6	2.0	1.1	0.8	1.2	..	0.7	-1.2	-2.3	-1.0	0.6	2.9	5.4	3.7	1.0	0.8	1.2
Iceland	1.8	4.1	4.1	-0.2	-1.2	0.2	0.2	2.0	0.7	-6.1	-3.6	0.9	..	..	..	..	..	..
Ireland	5.9	6.2	3.1	0.3	-1.1	-0.6	2.5	3.7	-0.5	-8.8	-4.2	1.1	2.9	7.1	3.7	-1.6	-3.3	-3.0
Italy	1.9	1.1	0.5	0.2	0.2	0.5	-0.4	1.4	0.8	-1.7	-0.7	0.4	3.1	3.2	2.7	1.3	1.2	1.5
Japan	2.4	1.1	0.9	0.4	0.5	1.0	1.0	-0.2	-0.4	-1.6	0.0	0.0	4.5	1.8	0.6	-1.1	-0.9	-0.4
Korea	..	..	..	..	..	..	2.6	1.8	0.6	-0.3	1.5	1.4	..	..	..	..	..	..
Luxembourg	5.2	4.3	3.8	3.4	2.8	2.5	0.9	2.1	3.2	1.3	1.1	1.1	..	..	..	..	..	..
Mexico	..	2.6	2.1	2.0	1.8	2.0	..	1.7	1.1	0.5	2.6	1.7	..	..	..	..	..	..
Netherlands	2.9	2.5	2.0	1.5	0.9	0.9	2.0	1.2	1.4	-0.9	-1.1	-0.2	3.3	3.2	3.0	0.8	-0.2	0.3
New Zealand	2.2	3.1	2.4	1.6	1.4	1.9	1.2	2.5	0.6	-1.1	0.9	1.8	3.1	5.1	4.5	1.8	2.0	3.5
Norway	2.2	3.4	4.3	2.3	2.1	2.0	0.4	0.9	3.3	-0.6	-0.3	0.4	1.1	2.3	0.7	-2.2	-0.7	-0.4
Poland	..	3.8	5.2	4.8	3.5	3.0	..	-0.1	3.7	0.4	-0.9	0.6	..	..	..	..	..	..
Portugal	3.1	1.9	0.8	0.5	0.2	0.2	0.9	0.7	0.6	-2.7	-1.4	0.1	3.8	3.5	1.3	0.3	-0.2	-0.1
Slovak Republic	..	4.7	5.5	5.4	4.0	3.1	..	0.8	3.2	-2.8	-2.2	0.2	..	..	..	..	..	..
Spain	2.9	3.6	2.6	0.7	-0.4	-0.1	1.0	4.2	-0.5	-6.8	-2.1	0.2	5.1	6.1	5.8	3.3	2.5	2.0
Sweden	1.9	2.8	3.3	2.5	1.9	1.7	-1.2	1.2	1.2	-2.0	0.1	0.4	3.5	3.9	3.8	1.0	0.9	1.4
Switzerland	1.5	1.8	2.5	2.1	2.0	2.0	0.7	0.9	1.8	0.6	0.5	1.1	3.9	3.1	3.4	2.5	2.7	2.9
Turkey	..	..	..	..	..	..	1.9	0.6	2.1	0.4	1.6	1.8	..	..	..	..	..	..
United Kingdom	2.4	2.7	2.2	1.7	1.2	1.3	0.2	1.0	0.7	-1.6	-0.5	0.2	4.3	4.7	4.5	2.0	1.3	1.0
United States	3.0	2.8	2.6	1.6	1.2	1.6	1.3	1.2	-0.5	-3.8	0.0	2.0	4.2	4.7	3.7	1.0	1.2	2.2
Euro area	2.2	2.0	1.7	1.2	0.8	0.9	0.6	1.4	1.0	-1.8	-0.9	0.0	..	..	..	..	..	..
Total OECD	2.6	2.4	2.2	1.5	1.1	1.4	1.1	1.1	0.6	-1.8	0.2	1.0	3.9	3.9	3.3	1.1	1.1	1.6

Note: Estimates of potential output are based on a production function approach outlined in Beffy et al. (2006), "New OECD methods for supply-side and medium term assessments: a new capital services approach", *OECD Economics Department Working Papers,* No 482. Revisions to this method are discussed in Chapter 4 of *OECD Economic Outlook 85,* "Beyond the crisis: medium-term challenges relating to potential output, employment and fiscal positions".

1. Total economy less housing.

Source: OECD Economic Outlook 87 database.

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Annex Table 22. **Structural unemployment and unit labor costs**

	Structural unemployment rate									Unit labour costs[1]								
	Average 1985-87	Average 1995-97	2005	2006	2007	2008	2009	2010	2011	Average 1985-94	Average 1995-04	2005	2006	2007	2008	2009	2010	2011
	Per cent									*Percentage change*								
Australia	7.5	7.6	5.3	5.2	5.1	5.1	5.1	5.2	5.2	4.1	2.2	4.3	5.8	4.2	5.3	0.5	2.2	3.3
Austria	3.3	3.7	4.3	4.3	4.3	4.3	4.3	4.3	4.3	3.4	0.0	0.8	1.3	1.6	3.4	5.0	0.2	-0.1
Belgium	7.8	8.2	8.0	8.0	7.9	7.9	7.9	8.0	8.1	2.7	1.4	1.3	1.9	2.3	4.1	4.3	-0.2	0.1
Canada	8.9	8.4	6.8	6.6	6.5	6.5	6.6	6.6	6.6	2.9	1.7	2.7	4.0	3.0	4.4	2.8	0.9	1.0
Czech Republic	..	..	..	..	..	..	..	..	..	..	5.1	0.4	0.9	3.1	5.3	1.4	-0.2	0.0
Denmark	6.2	6.1	4.6	4.5	4.4	4.3	4.3	4.4	4.5	2.7	2.4	2.4	2.3	5.2	6.6	4.8	-0.9	0.3
Finland	4.6	11.9	7.9	7.8	7.5	7.4	7.4	7.6	7.8	3.1	1.2	2.1	0.1	1.1	5.1	7.2	-2.4	-1.4
France	8.3	9.9	8.6	8.5	8.3	8.2	8.2	8.4	8.4	2.2	1.5	1.7	1.8	1.9	2.9	2.6	-0.6	-0.2
Germany	6.1	7.7	8.7	8.6	8.4	8.2	8.2	8.2	8.2	2.6	0.1	-1.5	-1.7	0.1	2.7	5.1	-2.0	-1.5
Greece	6.2	8.6	9.3	9.1	8.9	8.9	9.1	9.8	10.6	15.0	5.4	2.7	1.4	4.0	3.8	6.0	-4.6	-2.5
Hungary	..	..	..	..	..	..	..	..	..	..	10.7	4.1	2.5	6.0	5.1	4.3	0.7	2.2
Iceland	1.5	4.1	2.8	2.8	2.8	2.8	3.0	3.3	3.5	13.6	5.1	4.7	12.1	5.7	7.3	3.3	3.6	2.5
Ireland	15.3	10.9	4.8	4.7	4.7	4.9	6.0	7.2	7.7	2.3	2.6	5.7	4.3	1.3	5.2	-3.0	-6.6	-2.9
Italy	8.2	9.6	6.9	6.6	6.3	6.4	6.8	7.1	7.3	5.1	2.5	3.9	2.5	2.5	5.1	5.9	0.0	0.2
Japan	2.6	3.4	4.2	4.1	4.1	4.1	4.1	4.1	4.1	1.5	-1.6	-1.1	0.0	-2.9	1.9	1.3	-3.4	-0.9
Korea	..	..	..	..	..	..	..	..	..	8.8	2.5	3.2	0.7	1.7	3.3	3.0	0.9	3.4
Luxembourg	..	..	..	..	..	..	..	..	..	2.5	2.0	2.2	1.7	1.8	7.1	6.1	1.1	0.1
Mexico	..	..	..	..	..	..	..	..	..	42.5	13.0	4.1	3.2	3.9	5.2	7.9	1.0	3.0
Netherlands	7.2	5.5	3.7	3.6	3.6	3.5	3.5	3.7	3.9	1.3	2.6	-0.6	0.7	2.2	3.2	5.3	-1.0	-0.7
New Zealand	4.9	6.9	4.3	4.1	4.0	4.0	4.1	4.2	4.3	1.5	2.2	4.3	4.8	2.7	4.2	3.7	1.7	0.8
Norway	3.0	4.4	3.8	3.6	3.3	3.3	3.3	3.4	3.4	3.2	3.1	3.1	6.7	7.8	7.2	4.9	1.6	2.4
Poland	..	12.7	18.0	16.9	14.7	12.4	10.5	10.0	10.0	..	6.1	1.6	0.7	3.9	7.6	2.7	-0.1	1.5
Portugal	7.0	6.2	6.7	6.8	6.9	6.9	7.1	7.5	7.7	11.1	3.6	3.9	1.8	1.3	4.1	5.3	-1.3	0.7
Slovak Republic	..	..	..	..	..	..	..	..	..	..	4.7	3.4	1.5	-0.1	1.8	5.2	-3.0	0.4
Spain	12.8	13.8	9.7	9.1	8.9	9.5	11.1	12.5	12.9	7.3	3.2	3.7	3.7	4.1	4.4	0.6	-0.9	-0.9
Sweden	4.1	7.9	7.3	7.2	7.2	7.1	7.0	7.0	7.1	5.0	1.7	0.3	-0.7	3.9	3.6	5.0	-0.1	-0.2
Switzerland	1.1	3.1	3.7	3.7	3.7	3.7	3.7	3.8	3.9	3.4	0.5	1.1	0.6	1.6	3.4	4.5	0.9	0.5
United Kingdom	10.0	7.8	5.3	5.3	5.3	5.4	5.5	5.7	5.8	4.7	2.8	2.6	1.6	2.8	2.8	4.6	-0.2	-0.3
United States	6.6	5.6	5.0	5.0	4.9	4.9	5.1	5.2	5.3	2.7	2.0	2.1	3.1	3.0	1.8	-0.8	-0.7	0.7
Euro area	8.5	9.0	8.0	7.8	7.6	7.6	7.9	8.3	8.5	3.5	1.4	1.2	1.0	1.7	3.6	4.0	-1.1	-0.6
Total OECD	6.7	6.9	6.4	6.3	6.1	6.0	6.1	6.3	6.4	4.0	2.6	1.8	1.9	2.0	3.2	2.5	-0.7	0.5

Note: The structural unemployment rate corresponds to "NAIRU" and is estimated on the basis of the methods outlined in Richardson et al (2000). "The concept, policy use and measurement of structural unemployment", *OECD Economics Department Working Papers,* No 250. The most recent updates of the OECD's estimates are described in Gianella et al (2008) "What drives the NAIRU? Evidence from a panel of OECD countries", *OECD Economics Department Working Papers,* No. 649. Details on the methods used to project the NAIRUs can be found in the technical note "Adjustments to the OECD method of projecting the NAIRU" *(http://www.oecd.org/dataoecd/56/9/43098869.pdf).* For more information about sources and definitions, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Total economy.

Source: OECD Economic Outlook 87 database.

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Annex Table 23. **Household saving rates**

Per cent of disposable household income

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net savings																				
Australia	5.1	6.0	7.2	6.1	7.1	6.6	4.1	3.1	2.0	3.5	0.6	-0.5	-0.4	-0.2	1.3	1.5	1.6	4.3	2.8	3.0
Austria	11.8	12.1	12.1	11.8	9.3	7.7	8.5	9.8	9.2	8.0	8.0	9.1	9.3	9.7	10.8	11.3	12.0	11.0	9.6	9.7
Belgium	13.9	15.1	14.8	16.4	14.3	13.2	12.7	13.1	12.3	13.7	12.9	12.2	10.8	10.0	10.9	11.2	11.5	15.0	13.4	13.1
Canada	13.0	11.9	9.5	9.2	7.0	4.9	4.9	4.0	4.7	5.2	3.5	2.6	3.2	2.1	3.5	2.5	3.7	5.0	3.8	3.1
Czech Republic	..	6.4	1.2	10.0	6.1	6.0	4.1	3.4	3.3	2.2	3.0	2.4	0.5	3.2	4.8	6.3	5.8	2.6	3.1	3.7
Denmark	0.6	1.3	-2.7	0.2	-0.2	-2.8	-1.2	-5.6	-4.0	2.1	2.1	2.4	-1.3	-4.2	-2.3	-3.2	-2.4	3.2	4.9	3.5
Finland	9.3	7.3	1.4	4.1	0.7	2.5	0.6	2.4	0.5	0.3	0.5	1.4	2.7	0.9	-1.1	-0.9	-0.3	2.6	1.7	1.1
Germany	12.7	12.1	11.4	11.0	10.5	10.1	10.1	9.5	9.2	9.4	9.9	10.3	10.4	10.5	10.5	10.8	11.2	11.3	12.0	11.4
Hungary	..	..	..	14.4	15.6	14.2	13.5	9.9	8.9	8.5	6.4	4.3	6.8	6.1	7.5	4.6	3.0	3.7	5.3	7.6
Ireland	..	..	..	..	..	..	..	..	..	..	4.1	3.8	7.0	5.2	3.7	1.7	4.0	9.3	10.0	8.6
Italy	20.2	19.5	18.1	17.0	17.9	15.1	11.4	10.2	8.4	10.5	11.2	10.3	10.2	9.9	9.1	8.2	8.6	8.4	7.7	7.5
Japan	14.7	14.2	13.3	12.6	10.5	10.3	11.4	10.0	8.7	5.1	5.0	3.9	3.6	3.9	3.8	2.4	2.3	2.3	2.4	3.2
Korea	24.4	23.1	21.8	18.5	18.1	16.1	23.2	16.1	9.3	5.2	0.4	5.2	9.2	7.2	5.2	2.9	2.9	3.6	3.5	3.8
Netherlands	16.1	14.1	13.9	14.0	12.4	13.0	12.0	8.9	6.7	9.5	8.4	7.5	7.3	6.3	6.0	8.1	6.8	10.0	9.2	8.6
Norway	5.3	6.4	5.4	4.8	2.6	3.0	5.7	4.7	4.3	3.1	8.2	8.9	7.2	10.1	0.1	1.5	3.3	7.3	5.1	5.1
Poland	..	..	..	14.6	11.7	11.7	12.1	11.0	10.2	12.0	8.2	7.6	7.7	6.9	6.5	7.1	3.9	6.3	6.4	6.2
Slovak Republic	..	..	..	5.4	8.4	8.8	7.5	6.8	6.7	4.1	3.8	1.4	0.3	1.4	1.1	3.2	2.3	4.5	6.7	6.7
Sweden	12.4	9.4	8.1	8.3	6.3	3.4	2.8	2.8	4.3	9.0	8.4	7.8	6.4	6.2	7.2	9.2	11.2	11.4	11.7	9.3
Switzerland	13.1	13.0	12.4	12.7	10.9	10.7	10.7	10.8	11.7	11.9	10.7	9.4	9.0	10.1	11.4	12.7	12.8	15.3	15.0	14.7
United States	7.3	5.8	5.2	5.2	4.9	4.6	5.3	3.1	2.9	2.7	3.5	3.5	3.4	1.4	2.4	1.7	2.7	4.3	3.4	3.6
Gross savings																				
France	14.7	15.5	14.8	15.9	15.0	15.9	15.5	15.2	15.0	15.7	16.8	15.7	15.8	15.0	15.0	15.5	15.3	16.3	15.6	15.2
Portugal	..	..	..	13.1	11.9	10.8	10.5	9.8	10.2	10.9	10.6	10.5	9.7	9.2	8.1	6.1	6.4	8.8	6.9	6.4
Spain	13.2	15.5	13.1	17.5	17.4	16.0	14.4	12.7	11.1	11.1	11.4	12.0	11.3	11.3	11.1	10.6	12.9	18.8	17.5	17.0
United Kingdom	11.7	10.8	9.3	10.3	9.4	9.6	7.4	5.2	4.7	6.0	4.8	5.1	3.7	3.9	2.9	2.2	1.5	7.0	6.4	5.4

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 Accounts 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 report household saving on a net basis (i.e. excluding consumption of fixed capital by households and unincorporated businesses). In most countries household saving includes saving by non-profit institutions (in some cases referred to as personal saving). Other countries (Czech Republic, Finland, France and Japan) report saving of households only.

Source: OECD Economic Outlook 87 database.

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Annex Table 24. **Gross national saving**

Per cent of nominal GDP

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Australia	19.8	17.5	19.4	21.2	20.3	20.3	21.2	21.3	20.6	21.3	20.7	21.5	21.0	21.6	21.0	22.5	22.8	23.3	23.7	..
Austria	23.8	23.5	22.7	21.9	21.8	22.2	22.1	22.7	23.3	23.1	23.6	23.0	24.8	24.5	25.0	24.7	25.4	26.1	26.4	23.8
Belgium	23.6	22.8	23.2	24.3	25.5	25.4	24.4	25.7	25.6	26.3	26.7	25.4	25.0	24.9	25.3	25.0	25.8	26.7	24.2	22.6
Canada	17.3	14.7	13.4	14.0	16.2	18.3	18.8	19.6	19.1	20.7	23.6	22.2	21.2	21.4	23.0	23.9	24.5	23.9	23.7	..
Chile	..	..	..	..	..	..	22.3	22.2	21.1	20.4	20.0	19.9	20.0	20.0	22.2	23.4	24.9	25.1	23.2	..
Czech Republic	..	..	28.6	28.7	28.4	29.0	27.0	24.4	26.3	24.6	24.8	24.2	22.4	20.7	22.0	23.9	24.7	24.4	21.9	..
Denmark	20.3	19.5	20.0	19.1	19.3	20.4	20.5	21.4	20.7	21.7	22.6	23.5	22.9	23.1	23.4	25.2	25.7	24.5	24.1	21.6
Finland	23.7	16.3	13.7	14.8	18.1	21.7	20.7	23.8	24.8	26.4	28.5	28.9	27.7	24.5	26.3	25.3	25.9	27.1	25.0	18.4
France	20.8	20.2	19.6	18.3	18.7	19.1	18.7	19.9	21.0	21.8	21.6	21.3	19.8	19.1	19.0	18.5	19.3	19.9	18.9	..
Germany	25.3	22.6	22.3	21.2	20.9	21.0	20.5	20.7	20.9	20.3	20.2	19.5	19.4	19.5	22.0	22.1	24.3	26.3	25.8	21.9
Greece	10.7	10.7	10.9	10.9	11.0	11.3	11.4	11.2	11.3	11.3	11.3	11.8	9.6	12.2	12.4	9.3	8.9	7.6	7.1	5.0
Iceland	16.9	16.0	15.7	17.6	17.9	17.1	17.2	17.9	17.4	15.0	13.1	17.0	19.7	15.0	13.6	12.3	10.8	12.6	6.1	10.9
Ireland	17.8	17.4	15.4	17.5	17.8	20.4	21.7	23.4	25.0	23.9	23.9	21.9	20.7	23.1	23.6	23.6	24.6	21.6	16.9	11.1
Italy	20.8	20.0	19.1	19.7	19.9	22.0	22.2	22.2	21.6	21.1	20.6	20.9	20.8	19.8	20.3	19.5	19.6	20.1	18.0	15.8
Japan	33.2	33.9	33.2	31.9	30.1	29.3	29.7	29.8	28.8	27.2	27.5	25.8	25.2	25.4	25.8	26.8	26.9	27.0	..	..
Korea	37.1	37.1	36.3	36.2	35.7	35.5	34.6	34.7	36.5	34.3	32.9	31.0	30.4	31.8	34.0	32.0	30.8	30.8	30.9	..
Mexico	23.9	21.7	18.8	16.7	16.2	21.3	26.0	28.5	23.5	23.8	24.1	20.3	21.1	21.9	24.1	23.6	25.5	24.8	25.4	..
Netherlands	26.0	25.6	24.8	25.0	26.1	27.2	26.7	28.1	25.2	27.1	28.4	26.7	25.8	25.4	27.6	26.5	29.0	28.2	24.7	22.1
New Zealand	16.8	13.8	14.6	17.2	18.0	17.9	16.9	16.5	16.1	15.9	17.1	19.2	18.8	18.8	18.0	15.9	15.2	15.8	..	..
Norway	25.2	24.0	23.1	23.3	24.2	25.9	27.9	29.6	26.3	28.5	35.4	35.1	31.5	30.5	32.7	37.4	39.2	37.7	41.3	35.1
Poland	..	4.0	4.0	4.2	5.6	6.0	5.7	6.4	7.7	6.6	6.1	4.8	2.9	3.3	2.8	5.2	5.3	7.3	..	..
Portugal	25.4	22.5	21.5	19.0	18.2	20.2	19.5	19.3	19.8	18.9	17.0	16.7	16.7	16.4	15.3	12.8	11.7	12.4	10.2	8.5
Slovak Republic	..	..	..	23.8	26.4	26.8	24.6	25.1	24.2	23.8	23.5	22.5	21.7	18.3	19.8	20.4	19.8	22.7	21.3	17.0
Spain	22.2	21.6	20.0	20.0	19.5	21.7	21.5	22.2	22.4	22.4	22.3	22.0	22.9	23.4	22.4	22.0	22.0	21.0	19.7	..
Sweden	24.2	20.3	16.6	14.3	17.8	20.9	20.4	20.7	21.5	21.8	22.8	22.6	22.3	23.4	23.1	23.4	26.8	28.8	29.1	23.2
Switzerland	33.1	31.1	28.6	29.7	29.3	29.6	28.8	30.8	32.0	32.9	34.7	31.4	29.0	33.1	32.9	36.0	35.5	31.2	..	..
United Kingdom	16.4	15.4	14.3	14.0	15.7	15.9	16.1	17.1	18.0	15.7	15.0	15.4	15.3	15.1	15.0	14.4	14.2	15.6	15.4	..
United States	14.9	15.0	13.9	13.7	14.9	16.0	16.7	18.0	18.5	17.9	17.8	16.2	14.3	13.5	14.1	14.6	15.8	14.0	12.1	..

Note: Based on SNA93 or ESA95.

Source: National accounts of OECD countries database.

StatLink http://dx.doi.org/10.1787/888932307907

Annex Table 25. **General government total outlays**

Per cent of nominal GDP

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	37.5	37.0	37.1	36.9	36.1	35.1	34.4	34.4	34.8	35.3	34.7	34.1	34.6	34.0	33.5	33.3	33.9	32.3	34.8	34.3
Austria	53.5	56.3	56.1	56.2	56.0	53.7	54.0	53.7	52.2	51.6	51.0	51.6	54.1	50.2	49.6	48.7	49.0	51.7	51.9	51.6
Belgium	53.8	54.9	52.6	52.1	52.6	51.2	50.4	50.2	49.2	49.2	49.8	51.1	49.5	52.2	48.5	48.4	50.1	54.4	54.4	53.9
Canada	53.3	52.2	49.7	48.5	46.6	44.3	44.8	42.7	41.1	42.0	41.2	41.2	39.9	39.3	39.4	39.2	39.8	43.8	43.2	42.2
Czech Republic	..	..	..	54.5	42.6	43.2	43.2	42.3	41.8	44.3	46.3	47.3	45.2	45.0	43.7	42.4	42.9	46.1	46.5	45.9
Denmark	57.1	60.2	60.2	59.3	58.9	56.7	56.3	55.5	53.7	54.2	54.6	55.1	54.6	52.8	51.6	50.9	51.8	58.5	60.1	59.5
Finland	62.0	64.6	63.5	61.3	59.9	56.6	52.9	51.7	48.3	48.0	49.0	50.2	50.1	50.3	49.0	47.4	49.5	55.5	55.7	55.6
France	52.0	55.0	54.2	54.4	54.5	54.1	52.7	52.6	51.6	51.6	52.6	53.2	53.3	53.4	52.7	52.3	52.8	55.7	55.9	55.3
Germany	47.3	48.3	47.9	54.8	49.3	48.3	48.1	48.2	45.1	47.5	48.0	48.4	47.3	46.9	45.3	43.6	43.8	47.6	47.9	46.8
Greece	44.2	46.5	44.7	45.7	44.1	44.9	44.3	44.4	46.7	45.3	45.1	44.7	45.4	43.8	43.2	45.0	46.8	50.4	48.8	49.4
Hungary	59.1	58.6	62.7	54.9	50.3	49.1	50.2	48.5	46.8	46.8	50.7	49.1	48.6	49.8	51.6	49.4	49.1	49.2	48.2	48.1
Iceland	40.5	40.4	39.9	42.7	42.2	40.7	41.3	42.0	41.9	42.6	44.3	45.6	44.1	42.2	41.6	42.3	57.8	51.5	48.3	45.8
Ireland	44.8	44.6	43.9	41.1	39.1	36.7	34.5	34.1	31.3	33.2	33.5	33.2	33.5	34.0	34.4	36.6	42.0	48.4	46.9	45.2
Italy	55.4	56.4	53.5	52.5	52.5	50.2	49.3	48.2	46.1	48.0	47.4	48.3	47.8	48.1	48.7	47.9	48.8	51.9	51.6	51.3
Japan	32.7	34.5	35.0	36.0	36.7	35.7	42.5	38.6	39.0	38.6	38.8	38.4	37.0	38.4	36.2	35.9	37.1	41.5	40.8	41.6
Korea	21.7	21.4	20.8	20.5	21.4	22.0	24.3	23.4	22.4	23.9	23.6	28.9	26.1	26.6	27.7	28.7	30.4	32.3	30.4	30.6
Luxembourg	40.0	39.8	38.9	39.7	41.1	40.7	41.1	39.2	37.6	38.1	41.5	41.8	42.6	41.5	38.3	36.2	37.2	42.4	43.5	43.3
Netherlands	55.7	55.7	53.5	56.4	49.4	47.5	46.7	46.0	44.2	45.4	46.2	47.1	46.1	44.8	45.5	45.5	45.9	51.6	52.4	51.9
New Zealand	48.8	45.1	42.7	41.7	40.6	41.2	41.0	40.7	38.8	38.3	37.3	37.8	37.5	38.5	39.9	40.1	42.2	44.7	45.2	44.5
Norway	56.1	54.7	53.6	50.9	48.5	46.9	49.2	47.7	42.3	44.2	47.1	48.3	45.6	42.3	40.6	41.2	40.3	45.9	45.3	45.1
Poland	..	..	..	47.7	51.0	46.4	44.3	42.7	41.1	43.8	44.3	44.7	42.6	43.4	43.9	42.2	43.3	44.5	44.7	44.6
Portugal	44.5	46.1	44.3	43.4	44.1	43.2	42.8	43.2	43.1	44.4	44.3	45.5	46.5	47.6	46.3	45.8	46.1	51.0	51.0	49.9
Slovak Republic	..	..	..	48.6	53.7	49.0	45.8	48.1	52.2	44.5	45.1	40.2	37.7	38.0	36.9	34.4	34.8	40.8	39.7	38.7
Spain	45.4	49.0	46.7	44.4	43.2	41.6	41.1	39.9	39.1	38.6	38.9	38.4	38.9	38.4	38.4	39.2	41.1	45.9	45.7	44.1
Sweden	69.4	70.6	68.4	65.1	63.0	60.7	58.8	58.6	55.4	55.2	56.4	56.5	55.1	54.7	53.6	51.8	52.5	55.9	56.0	54.6
Switzerland	34.2	35.1	35.2	35.0	35.3	35.5	35.8	34.3	35.1	34.8	36.2	36.4	35.9	35.3	33.5	32.2	31.8	33.4	33.4	32.7
United Kingdom	45.2	45.3	44.6	44.1	42.2	40.6	39.5	38.8	36.6	39.9	40.9	42.4	43.1	44.0	44.1	44.2	47.5	51.4	52.5	52.1
United States[1]	38.6	38.1	37.1	37.1	36.6	35.4	34.6	34.2	33.9	35.0	35.9	36.3	36.0	36.2	36.0	36.8	38.8	41.5	41.6	40.9
Euro area	50.5	52.3	51.0	53.1	50.7	49.4	48.6	48.2	46.3	47.3	47.6	48.0	47.6	47.4	46.7	46.0	46.9	50.8	50.8	50.1
Total OECD	42.4	42.9	42.0	42.6	41.6	40.4	40.8	39.7	38.8	39.8	40.4	40.8	40.2	40.4	39.8	39.8	41.3	44.5	44.4	43.9

Note: Data refer to the general government sector, which is a consolidation of accounts for the central, state and local governments plus social security. Total outlays are defined as current outlays plus capital outlays. For more details, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

1. These data include outlays net of operating surpluses of public enterprises.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307926

Annex Table 26. **General government total tax and non-tax receipts**

Per cent of nominal GDP

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	32.1	32.7	32.9	33.6	34.1	34.6	35.7	35.9	35.3	34.9	35.5	35.5	35.7	35.4	35.0	35.0	34.2	28.4	31.6	31.9
Austria	51.5	51.9	51.2	50.4	51.9	51.8	51.5	51.3	50.3	51.5	50.2	50.0	49.6	48.5	47.9	48.2	48.5	48.2	47.2	47.0
Belgium	45.6	47.4	47.4	47.6	48.5	49.0	49.4	49.5	49.1	49.5	49.7	50.9	49.1	49.3	48.7	48.2	48.9	48.3	49.5	49.7
Canada	44.2	43.5	43.0	43.2	43.8	44.5	44.9	44.3	44.1	42.6	41.1	41.1	40.7	40.8	41.0	40.7	39.9	38.7	39.8	40.1
Czech Republic	..	..	..	41.0	39.3	39.4	38.2	38.6	38.1	38.7	39.5	40.7	42.2	41.4	41.1	41.8	40.2	40.2	41.1	40.2
Denmark	54.5	56.3	56.8	56.4	56.9	56.1	56.2	56.8	55.8	55.4	54.8	55.0	56.4	57.8	56.6	55.7	55.3	55.7	54.7	54.7
Finland	56.5	56.4	56.8	55.1	56.4	55.2	54.4	53.3	55.1	53.0	53.0	52.5	52.2	52.8	52.9	52.5	53.6	53.1	51.9	51.8
France	47.4	48.5	48.7	48.9	50.4	50.8	50.1	50.8	50.1	50.0	49.4	49.1	49.6	50.5	50.3	49.6	49.5	48.1	48.2	48.4
Germany	44.8	45.3	45.6	45.1	46.0	45.7	45.9	46.7	46.4	44.7	44.4	44.4	43.5	43.6	43.7	43.8	43.8	44.3	42.6	42.3
Greece	33.3	34.6	36.5	36.7	37.4	39.0	40.5	41.3	43.0	40.9	40.3	39.0	38.0	38.5	39.3	39.7	39.1	36.9	40.7	42.3
Hungary	50.9	51.1	50.1	46.3	45.7	43.1	42.3	43.1	43.8	42.8	41.9	41.9	42.2	42.0	42.3	44.5	45.4	45.3	43.7	43.7
Iceland	37.7	35.9	35.3	39.8	40.6	40.7	40.9	43.2	43.6	41.9	41.7	42.8	44.1	47.1	48.0	47.7	44.2	42.4	41.8	43.1
Ireland	41.9	41.9	41.9	39.1	39.0	38.1	36.8	36.7	36.1	34.2	33.2	33.6	34.9	35.5	37.4	36.7	34.8	34.1	35.1	34.4
Italy	45.0	46.3	44.4	45.1	45.5	47.6	46.2	46.5	45.3	44.9	44.4	44.7	44.2	43.8	45.3	46.4	46.2	46.7	46.5	46.3
Japan	33.3	32.0	31.2	31.2	31.6	31.7	31.3	31.2	31.4	32.2	30.8	30.5	30.9	31.7	34.5	33.5	35.0	34.4	33.2	33.3
Korea	22.7	23.2	23.1	24.1	24.6	25.0	25.7	25.7	27.9	28.3	28.7	29.4	28.8	30.0	31.7	33.3	33.4	32.4	31.4	31.4
Luxembourg	39.8	41.2	41.4	42.1	42.3	44.3	44.4	42.6	43.6	44.2	43.6	42.2	41.5	41.5	39.7	39.8	40.1	41.6	39.7	38.4
Netherlands	51.5	52.9	50.0	47.2	47.5	46.3	45.8	46.4	46.1	45.1	44.1	43.9	44.3	44.5	46.1	45.7	46.6	46.3	46.1	46.5
New Zealand	45.9	44.8	45.5	44.4	43.3	42.6	41.4	40.7	40.7	40.0	40.9	41.6	41.4	43.0	45.0	44.1	42.6	41.2	40.9	40.8
Norway	54.3	53.3	53.8	54.2	54.8	54.5	52.5	53.7	57.7	57.5	56.3	55.5	56.7	57.3	59.1	58.9	59.3	55.6	55.0	56.1
Poland	..	..	..	43.3	46.1	41.8	40.1	40.4	38.1	38.5	39.3	38.5	37.2	39.4	40.2	40.3	39.6	37.4	37.8	38.1
Portugal	40.4	38.6	37.1	38.4	39.7	39.7	39.4	40.5	40.2	40.1	41.4	42.5	43.1	41.6	42.3	43.2	43.2	41.6	43.6	44.3
Slovak Republic	..	..	..	45.2	43.8	42.6	40.5	40.7	39.9	38.0	36.9	37.4	35.3	35.2	33.5	32.5	32.5	34.0	33.3	33.4
Spain	41.4	41.7	40.0	38.0	38.4	38.2	37.8	38.4	38.1	38.0	38.4	38.2	38.5	39.4	40.4	41.1	37.0	34.7	36.3	37.1
Sweden	60.5	59.4	59.3	57.8	59.7	59.1	59.7	59.4	59.0	56.8	54.9	55.2	55.5	56.6	55.8	55.3	54.7	54.8	53.1	52.8
Switzerland	31.1	31.6	32.4	33.0	33.5	32.7	33.8	33.8	35.2	34.7	35.0	34.6	34.2	34.6	34.3	33.9	34.3	34.1	32.6	32.2
United Kingdom	38.7	37.3	37.8	38.2	38.0	38.4	39.4	39.8	40.3	40.6	39.0	38.7	39.6	40.8	41.4	41.4	42.5	40.2	41.0	41.7
United States[1]	32.8	33.0	33.4	33.8	34.3	34.6	34.9	34.9	35.4	34.4	31.9	31.3	31.6	33.0	33.8	34.0	32.3	30.5	30.9	32.0
Euro area	45.8	46.6	46.0	45.6	46.4	46.7	46.2	46.7	46.2	45.4	45.0	44.9	44.6	44.8	45.3	45.4	44.9	44.5	44.3	44.4
Total OECD	37.8	37.8	37.6	37.8	38.4	38.5	38.6	38.8	38.9	38.4	37.1	36.7	36.8	37.6	38.5	38.5	37.9	36.5	36.6	37.1

Note: Data refer to the general government sector, which is a consolidation of accounts 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. For more details, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Excludes the operating surpluses of public enterprises.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307945

Annex Table 27. **General government financial balances**

Surplus (+) or deficit (-) as a per cent of nominal GDP

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	-5.4	-4.2	-4.2	-3.4	-2.0	-0.5	1.3	1.5	0.5	-0.5	0.7	1.4	1.1	1.4	1.5	1.7	0.3	-3.9	-3.2	-2.4
Austria	-2.0	-4.4	-4.9	-5.9	-4.1	-2.0	-2.5	-2.4	-1.9	-0.2	-0.9	-1.6	-4.5	-1.8	-1.6	-0.5	-0.5	-3.4	-4.7	-4.6
Belgium	-8.2	-7.5	-5.2	-4.5	-4.0	-2.3	-1.0	-0.7	-0.1	0.4	-0.2	-0.2	-0.4	-2.8	0.2	-0.2	-1.2	-6.1	-4.9	-4.2
Canada	-9.1	-8.7	-6.7	-5.3	-2.8	0.2	0.1	1.6	2.9	0.7	-0.1	-0.1	0.9	1.5	1.6	1.6	0.1	-5.1	-3.4	-2.1
Czech Republic	..	..	..	-13.4	-3.3	-3.8	-5.0	-3.7	-3.7	-5.6	-6.8	-6.6	-2.9	-3.6	-2.6	-0.7	-2.7	-5.9	-5.4	-5.7
Denmark	-2.6	-3.9	-3.4	-2.9	-2.0	-0.6	-0.1	1.3	2.2	1.2	0.3	-0.1	1.9	5.0	5.0	4.8	3.4	-2.8	-5.5	-4.8
Finland	-5.4	-8.3	-6.7	-6.1	-3.5	-1.4	1.5	1.6	6.8	5.0	4.0	2.3	2.1	2.5	3.9	5.2	4.1	-2.4	-3.8	-3.8
France	-4.5	-6.4	-5.5	-5.5	-4.0	-3.3	-2.6	-1.8	-1.5	-1.6	-3.2	-4.1	-3.6	-3.0	-2.3	-2.7	-3.3	-7.6	-7.8	-6.9
Germany	-2.5	-3.0	-2.3	-9.7	-3.3	-2.6	-2.2	-1.5	1.3	-2.8	-3.6	-4.0	-3.8	-3.3	-1.6	0.2	0.0	-3.3	-5.4	-4.5
Greece	-10.9	-11.9	-8.3	-9.1	-6.6	-5.9	-3.8	-3.1	-3.7	-4.4	-4.8	-5.7	-7.4	-5.3	-3.8	-5.4	-7.7	-13.5	-8.1	-7.1
Hungary	-8.2	-7.5	-12.7	-8.6	-4.6	-6.0	-7.9	-5.4	-3.0	-4.1	-8.9	-7.1	-6.4	-7.9	-9.3	-4.9	-3.8	-3.9	-4.5	-4.3
Iceland	-2.8	-4.5	-4.7	-3.0	-1.6	0.0	-0.4	1.1	1.7	-0.7	-2.6	-2.8	0.0	4.9	6.3	5.4	-13.5	-9.1	-6.4	-2.7
Ireland	-2.9	-2.7	-2.0	-2.0	-0.1	1.4	2.3	2.6	4.8	0.9	-0.3	0.4	1.4	1.6	3.0	0.1	-7.3	-14.3	-11.7	-10.8
Italy	-10.4	-10.1	-9.1	-7.4	-7.0	-2.7	-3.1	-1.8	-0.9	-3.1	-3.0	-3.5	-3.6	-4.4	-3.3	-1.5	-2.7	-5.2	-5.2	-5.0
Japan	0.6	-2.5	-3.8	-4.7	-5.1	-4.0	-11.2	-7.4	-7.6	-6.3	-8.0	-7.9	-6.2	-6.7	-1.6	-2.4	-2.1	-7.2	-7.6	-8.3
Korea	1.0	1.7	2.3	3.5	3.2	3.0	1.3	2.4	5.4	4.3	5.1	0.5	2.7	3.4	3.9	4.7	3.0	0.0	1.0	0.8
Luxembourg	-0.2	1.5	2.5	2.4	1.2	3.7	3.4	3.4	6.0	6.1	2.1	0.5	-1.1	0.0	1.4	3.6	2.9	-0.7	-3.8	-4.9
Netherlands	-4.2	-2.8	-3.5	-9.2	-1.9	-1.2	-0.9	0.4	2.0	-0.3	-2.1	-3.2	-1.8	-0.3	0.5	0.2	0.7	-5.3	-6.4	-5.4
New Zealand	-3.0	-0.3	2.9	2.7	2.7	1.4	0.3	0.0	1.9	1.7	3.6	3.8	3.9	4.5	5.1	4.0	0.4	-3.5	-4.3	-3.7
Norway	-1.8	-1.4	0.3	3.2	6.3	7.6	3.3	6.0	15.4	13.3	9.2	7.3	11.1	15.1	18.5	17.7	19.1	9.7	9.7	10.9
Poland	..		..	-4.4	-4.9	-4.6	-4.3	-2.3	-3.0	-5.3	-5.0	-6.2	-5.4	-4.1	-3.6	-1.9	-3.7	-7.1	-6.9	-6.5
Portugal	-4.2	-7.5	-7.2	-5.0	-4.5	-3.5	-3.4	-2.8	-3.0	-4.3	-2.9	-3.0	-3.4	-6.1	-3.9	-2.7	-2.9	-9.4	-7.4	-5.6
Slovak Republic	..	..	..	-3.4	-9.9	-6.3	-5.3	-7.4	-12.3	-6.5	-8.2	-2.8	-2.4	-2.8	-3.5	-1.9	-2.3	-6.8	-6.4	-5.3
Spain	-4.0	-7.3	-6.8	-6.5	-4.9	-3.4	-3.2	-1.4	-1.0	-0.7	-0.5	-0.2	-0.4	1.0	2.0	1.9	-4.1	-11.2	-9.4	-7.0
Sweden	-8.9	-11.2	-9.1	-7.3	-3.3	-1.6	0.9	0.8	3.6	1.6	-1.5	-1.3	0.4	1.9	2.2	3.5	2.2	-1.1	-2.9	-1.7
Switzerland	-3.1	-3.5	-2.8	-2.0	-1.8	-2.8	-1.9	-0.5	0.1	-0.1	-1.2	-1.7	-1.8	-0.7	0.8	1.6	2.5	0.7	-0.8	-0.5
United Kingdom	-6.5	-8.0	-6.8	-5.8	-4.2	-2.2	-0.1	0.9	3.7	0.6	-2.0	-3.7	-3.6	-3.3	-2.7	-2.7	-4.9	-11.3	-11.5	-10.3
United States	-5.9	-5.1	-3.7	-3.3	-2.3	-0.9	0.3	0.7	1.5	-0.6	-4.0	-5.0	-4.4	-3.3	-2.2	-2.8	-6.5	-11.0	-10.7	-8.9
Euro area	-5.1	-5.9	-5.0	-7.5	-4.3	-2.7	-2.3	-1.4	0.0	-1.9	-2.6	-3.1	-3.0	-2.6	-1.4	-0.6	-2.0	-6.3	-6.6	-5.7
Total OECD	-4.6	-5.1	-4.4	-4.8	-3.3	-1.8	-2.1	-0.9	0.1	-1.4	-3.3	-4.0	-3.4	-2.7	-1.2	-1.2	-3.3	-7.9	-7.8	-6.7
Memorandum items																				
General government financial balances excluding social security																				
United States	-6.7	-5.8	-4.5	-4.1	-3.2	-1.9	-0.9	-0.7	-0.1	-2.2	-5.5	-6.3	-5.8	-4.6	-3.6	-4.2	-7.7	-11.9	-11.6	-9.9
Japan	-1.9	-4.8	-5.8	-6.7	-6.9	-5.8	-12.5	-8.5	-8.2	-6.5	-7.9	-8.0	-6.6	-7.0	-1.7	-2.2	-1.7	-6.7	-6.9	-7.5

Note: Financial balances include one-off factors, such as those resulting from the sale of the mobile telephone licenses, but exclude financial transactions, such as public capital injections into private banks. As data are on a national accounts basis (SNA93/ESA95), the government financial balances may differ from the numbers reported to the European Commission under the Excessive Deficit Procedure for some EU countries. For more details, see footnotes to Annex Tables 25 and 26 and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307964

Annex Table 28. **General government cyclically-adjusted balances**

Surplus (+) or deficit (-) as a per cent of potential GDP

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	-4.1	-3.3	-3.8	-3.1	-1.7	-0.2	1.2	1.2	0.1	-0.5	0.8	1.3	0.9	1.1	1.4	1.3	0.1	-3.3	-2.5	-1.9
Austria	-2.7	-4.0	-4.2	-5.3	-3.6	-1.4	-2.4	-3.1	-3.4	-0.8	-0.8	-0.9	-3.5	-1.1	-1.6	-1.1	-1.4	-2.4	-3.0	-3.1
Belgium	-8.6	-6.1	-4.2	-3.7	-2.8	-1.8	-0.3	-0.6	-1.0	0.0	0.2	0.8	0.0	-2.4	0.3	-0.4	-0.8	-2.8	-1.4	-0.8
Canada	-6.9	-6.5	-5.6	-4.6	-1.7	1.0	0.6	1.4	2.2	0.3	-0.4	-0.2	0.7	1.3	1.2	1.2	0.3	-3.2	-1.8	-1.2
Czech Republic	..	..	..	..	..	..	..	-2.9	-3.5	-5.4	-6.1	-5.9	-2.4	-3.9	-4.0	-2.7	-4.2	-4.6	-3.9	-4.3
Denmark	-1.3	-1.7	-2.3	-2.7	-2.0	-1.1	-0.6	0.8	1.1	0.1	0.1	0.5	2.4	5.1	4.3	3.6	2.9	0.1	-1.4	-1.4
Finland	-1.6	-3.5	-3.2	-3.6	-1.5	-0.8	1.6	1.5	6.3	4.9	4.5	3.3	2.7	2.9	3.7	4.4	3.7	1.1	-0.3	-0.9
France	-4.9	-5.8	-4.7	-5.1	-3.3	-2.6	-2.4	-2.0	-2.3	-2.4	-3.4	-3.8	-3.3	-2.7	-2.3	-3.0	-3.4	-5.7	-5.5	-5.0
Germany	-3.2	-2.4	-1.9	-9.5	-2.8	-2.1	-1.8	-1.3	-1.8	-3.4	-3.6	-3.3	-2.9	-2.3	-1.5	-0.4	-0.5	-1.4	-3.5	-3.0
Greece	-10.9	-10.6	-7.1	-7.9	-5.6	-5.1	-3.2	-2.3	-3.0	-4.2	-3.9	-5.5	-7.4	-4.8	-3.9	-5.9	-7.7	-11.7	-4.2	-2.1
Hungary	..	..	..	..	-3.6	-5.3	-7.7	-5.3	-3.2	-4.3	-9.3	-7.8	-7.5	-9.1	-11.0	-6.1	-4.2	-1.6	-1.7	-2.3
Iceland	-1.3	-2.6	-3.5	-1.5	-0.7	0.3	-0.8	0.5	1.2	-1.1	-2.0	-1.7	0.2	3.8	5.1	3.9	-14.6	-7.4	-4.0	-0.9
Ireland	-2.2	-0.9	0.1	-1.0	0.6	1.1	1.6	1.4	3.2	-0.4	-1.6	-0.4	0.7	0.6	1.9	-1.3	-6.6	-9.9	-7.3	-7.8
Italy	-10.0	-8.3	-7.5	-6.7	-6.2	-2.0	-2.3	-1.0	-2.0	-3.5	-3.0	-3.0	-3.1	-4.1	-3.7	-2.3	-2.7	-2.7	-2.3	-2.7
Japan	-0.2	-2.7	-3.7	-4.6	-5.4	-4.5	-10.6	-6.4	-7.1	-5.6	-7.0	-6.9	-5.7	-6.5	-1.8	-3.0	-2.3	-5.5	-6.4	-7.5
Luxembourg	-1.8	0.5	1.9	2.9	3.1	5.7	4.8	3.6	4.8	5.2	1.4	0.6	-0.7	-0.1	0.6	2.0	2.0	1.0	-1.2	-2.5
Netherlands	-5.1	-2.7	-2.9	-8.7	-1.7	-1.5	-1.6	-0.8	-0.5	-2.0	-2.8	-2.7	-0.9	0.5	0.8	-0.3	-0.2	-4.5	-4.2	-3.6
New Zealand	-0.8	0.6	2.7	2.2	2.1	1.2	1.2	0.3	1.8	1.7	3.2	3.2	2.9	3.6	4.9	3.6	1.0	-1.4	-2.5	-2.8
Norway[1]	-6.7	-6.8	-5.5	-2.2	-2.0	-1.4	-2.4	-0.8	1.2	0.1	-2.4	-4.4	-2.5	-1.3	1.1	3.6	2.5	-0.8	-0.9	-0.3
Poland	..	..	..	..	-4.3	-4.9	-4.5	-2.5	-3.3	-4.7	-3.9	-5.4	-5.3	-4.0	-4.3	-3.1	-4.9	-7.3	-6.9	-6.9
Portugal	-5.9	-7.1	-6.0	-4.2	-3.9	-3.4	-4.0	-3.8	-4.8	-5.6	-3.6	-2.6	-3.0	-5.4	-3.5	-2.6	-2.5	-7.4	-5.7	-4.2
Spain	-4.3	-5.8	-4.8	-4.6	-3.0	-2.0	-2.5	-1.5	-2.1	-1.5	-0.9	-0.2	-0.2	0.9	1.8	1.6	-3.5	-8.3	-6.2	-4.4
Sweden	-7.3	-7.5	-6.5	-6.0	-1.7	-0.4	1.3	0.5	2.6	1.2	-1.8	-1.5	-0.4	0.9	0.4	1.5	1.9	2.3	0.8	1.2
Switzerland	-3.0	-2.9	-2.2	-1.3	-1.0	-2.2	-1.9	-0.4	-0.5	-0.5	-1.0	-0.8	-1.0	-0.2	0.7	1.0	2.0	1.3	0.0	0.2
United Kingdom	-5.2	-6.6	-6.2	-5.6	-4.0	-2.3	-0.3	0.7	0.9	0.3	-2.0	-3.8	-4.0	-3.7	-3.3	-3.5	-5.1	-8.6	-8.1	-7.4
United States	-5.1	-4.4	-3.4	-2.9	-2.0	-0.9	0.0	0.1	0.7	-0.9	-3.7	-4.7	-4.5	-3.6	-2.6	-3.2	-6.1	-9.0	-9.0	-7.9
Euro area	-5.0	-4.6	-4.2	-7.1	-3.6	-2.3	-2.2	-1.5	-1.9	-2.4	-2.6	-2.5	-2.5	-2.2	-1.6	-1.3	-2.0	-3.6	-4.1	-3.6
Total OECD	-4.7	-4.5	-4.0	-4.6	-3.1	-1.9	-2.1	-1.2	-1.1	-1.9	-3.5	-3.9	-3.6	-3.1	-1.9	-2.1	-3.7	-6.4	-6.4	-5.8

Note: Cyclically-adjusted balances exclude one-off revenues from the sale of mobile telephone licenses. For more 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)*.

1. As a percentage of mainland potential GDP. The financial balances shown are adjusted to exclude net revenues from petroleum activities.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932307983

Annex Table 29. **General government underlying balances**

Surplus (+) or deficit (-) as a per cent of potential GDP

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	-4.1	-3.3	-3.9	-3.1	-1.7	-0.3	1.0	1.0	0.0	-0.1	1.0	1.1	1.1	1.3	1.5	1.4	0.3	-3.0	-2.7	-2.1
Austria	-2.8	-4.1	-4.4	-5.7	-3.8	-1.6	-2.2	-3.3	-3.4	-0.7	-1.1	-1.2	-0.4	-1.2	-1.7	-1.1	-1.6	-2.9	-3.3	-3.3
Belgium	-8.6	-5.9	-4.1	-3.8	-2.7	-1.6	0.0	-0.5	-0.8	-0.1	0.1	-0.6	-0.5	-0.4	-0.1	-0.5	-1.0	-2.6	-1.3	-0.7
Canada	-6.9	-6.7	-5.7	-4.6	-1.8	0.7	0.4	1.1	2.1	0.2	-0.4	-0.2	0.8	1.4	1.4	1.3	0.3	-3.1	-1.8	-1.2
Czech Republic	..	..	..	..	..	..	..	-4.3	-5.2	-4.2	-4.2	-5.0	-2.4	-3.3	-3.9	-2.8	-3.8	-4.9	-4.0	-4.1
Denmark	-1.1	-1.5	-2.0	-2.5	-1.8	-0.9	-0.3	1.0	1.2	0.3	0.0	0.5	2.1	4.8	4.0	3.4	3.2	0.1	-1.0	-1.4
Finland	-2.0	-2.9	-2.3	-1.7	-0.9	-1.4	1.1	1.5	5.9	4.7	4.3	2.9	2.5	2.8	3.6	4.4	3.7	1.3	-0.1	-0.7
France	-4.8	-5.3	-4.5	-4.5	-3.4	-3.0	-2.3	-1.8	-2.4	-2.4	-3.5	-4.1	-3.5	-3.3	-2.4	-3.0	-3.2	-5.4	-5.4	-4.9
Germany	-3.8	-3.1	-2.7	-3.7	-3.6	-2.8	-2.2	-1.6	-1.9	-3.2	-3.4	-3.0	-2.7	-2.1	-1.5	-0.4	-0.4	-1.3	-3.4	-2.9
Greece	-9.7	-8.9	-7.8	-8.5	-7.0	-5.1	-3.2	-1.4	-3.9	-3.7	-3.7	-5.6	-6.8	-5.0	-5.3	-6.0	-7.8	-11.6	-4.0	-2.1
Hungary	..	..	..	..	-4.8	-6.0	-6.5	-6.3	-3.6	-4.4	-7.9	-8.0	-8.1	-9.5	-11.0	-5.6	-3.9	-1.8	-2.0	-2.2
Iceland	-1.3	-3.0	-3.2	-1.8	-0.7	0.1	-1.4	0.0	0.6	-1.6	-2.8	-2.4	-0.6	2.8	3.9	2.5	-2.7	-8.9	-5.8	-2.8
Ireland	-2.5	-1.3	0.5	-0.8	0.5	0.8	1.4	2.8	3.0	-0.2	-1.7	-0.6	0.5	0.4	1.2	-2.0	-6.3	-8.7	-7.2	-7.7
Italy	-11.6	-8.6	-7.6	-6.1	-6.0	-2.7	-2.5	-0.9	-2.0	-3.1	-2.6	-3.8	-3.5	-3.8	-2.4	-1.9	-2.6	-3.0	-2.5	-3.0
Japan	-0.6	-2.9	-4.1	-4.9	-5.5	-4.9	-5.4	-6.7	-6.8	-6.2	-7.2	-6.7	-6.8	-5.3	-3.7	-3.5	-3.3	-5.7	-6.3	-6.8
Luxembourg	-1.4	0.5	2.2	3.0	3.1	5.7	4.6	3.5	4.8	3.6	1.5	0.7	-0.4	0.1	1.1	2.0	1.7	1.0	-1.1	-2.3
Netherlands	-5.7	-3.4	-3.5	-4.1	-2.7	-2.0	-2.1	-1.1	-0.6	-1.7	-2.7	-2.6	-1.1	0.2	0.2	-0.7	-0.4	-3.9	-3.7	-3.2
New Zealand	-2.0	-0.2	2.1	2.0	2.2	1.3	1.2	0.4	2.0	1.8	3.4	3.3	3.0	3.6	4.9	3.7	1.1	-1.2	-2.3	-2.7
Norway[1]	-6.3	-6.8	-5.5	-2.4	-2.4	-1.7	-2.7	-0.9	1.7	0.0	-2.4	-4.4	-2.7	-1.4	1.1	3.6	2.7	-0.8	-0.9	-0.2
Poland	..	..	..	..	-4.0	-5.0	-4.3	-2.8	-3.4	-4.7	-3.9	-4.9	-5.3	-4.1	-4.3	-3.3	-4.8	-7.3	-6.9	-6.9
Portugal	-5.9	-7.1	-6.2	-4.4	-3.9	-3.5	-3.3	-3.4	-4.2	-5.4	-5.0	-5.0	-4.7	-5.0	-3.1	-1.8	-2.5	-6.4	-6.0	-4.4
Spain	-4.6	-4.8	-4.5	-4.7	-3.6	-2.3	-2.4	-1.6	-1.6	-1.4	-0.8	-0.5	-0.1	0.6	1.5	1.5	-2.8	-7.9	-6.5	-4.8
Sweden	-4.3	-5.8	-6.3	-6.1	-2.2	-0.4	0.1	0.3	2.2	1.2	-1.7	-1.5	-0.5	1.1	0.5	1.6	1.8	2.4	0.8	1.2
Switzerland	-3.0	-2.9	-2.4	-1.5	-1.3	-2.7	-1.7	-0.8	0.8	-0.1	-0.4	-0.9	-1.1	-0.4	0.4	0.9	2.1	1.3	0.0	0.2
United Kingdom	-5.0	-6.3	-6.1	-5.2	-3.9	-2.2	-0.4	0.5	0.7	0.3	-2.2	-3.8	-4.2	-4.1	-3.4	-3.9	-5.2	-8.3	-7.4	-7.0
United States	-5.1	-4.3	-3.3	-3.0	-2.1	-1.0	-0.1	0.0	0.6	-1.0	-3.8	-4.7	-4.6	-3.6	-2.9	-3.3	-5.9	-8.5	-8.9	-8.1
Euro area	-5.4	-4.5	-4.4	-4.6	-3.9	-2.8	-2.3	-1.5	-1.9	-2.3	-2.5	-2.8	-2.6	-2.2	-1.5	-1.3	-1.8	-3.5	-4.1	-3.6
Total OECD	-4.8	-4.5	-4.1	-4.0	-3.3	-2.2	-1.6	-1.3	-1.1	-2.0	-3.5	-3.9	-3.8	-3.0	-2.2	-2.3	-3.7	-6.1	-6.3	-5.8

Note: The underlying balances are adjusted for the cycle and for one-offs. For more details, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. As a percentage of mainland potential GDP. The financial balances shown are adjusted to exclude net revenues from petroleum activities.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308002

Annex Table 30. **General government underlying primary balances**

Surplus (+) or deficit (-) as a per cent of potential GDP

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	-1.1	-0.9	-0.6	0.4	1.1	2.1	3.0	2.8	1.7	1.3	2.4	2.4	2.2	2.3	2.3	2.0	0.8	-2.2	-1.8	-0.8
Austria	0.1	-1.0	-1.5	-2.4	-0.4	1.5	0.9	-0.4	-0.5	2.0	1.4	1.1	1.8	1.0	0.5	0.9	0.5	-0.9	-1.1	-0.9
Belgium	1.8	4.1	4.6	4.5	5.1	5.7	6.9	6.0	5.6	5.9	5.5	4.3	4.0	3.7	3.7	3.1	2.5	0.7	1.9	2.6
Canada	-1.8	-1.5	-0.6	1.0	3.4	5.4	5.2	5.4	5.2	3.1	2.2	1.7	2.4	2.5	2.1	1.9	0.5	-2.2	-1.4	-0.8
Czech Republic	..	..	..	..	..	..	..	-3.8	-5.0	-3.8	-3.9	-4.5	-1.7	-2.6	-3.1	-2.1	-3.0	-4.0	-3.0	-2.9
Denmark	2.4	2.2	1.6	1.0	1.4	2.1	2.3	3.5	3.4	2.1	1.7	2.0	3.3	5.8	4.6	3.8	3.2	0.8	-0.5	-0.3
Finland	-3.9	-3.3	-1.3	-0.9	0.5	0.4	2.7	2.9	6.8	5.2	4.3	2.9	2.4	2.7	3.2	3.7	2.7	0.7	-0.4	-0.8
France	-2.3	-2.6	-1.6	-1.5	-0.2	0.1	0.7	1.0	0.3	0.4	-0.8	-1.5	-0.9	-0.9	0.0	-0.5	-0.6	-3.4	-3.2	-2.5
Germany	-1.2	-0.5	-0.1	-0.7	-0.7	0.1	0.7	1.1	0.9	-0.6	-0.9	-0.5	-0.3	0.2	0.9	2.1	1.9	0.9	-1.2	-0.5
Greece	0.1	1.6	3.7	2.0	2.8	2.9	4.1	5.1	2.7	2.2	1.4	-0.9	-2.2	-0.7	-1.1	-1.8	-3.5	-7.1	1.0	3.1
Hungary	..	..	..	..	2.4	1.0	-0.6	-0.4	1.0	-0.5	-4.3	-4.2	-4.0	-5.6	-7.2	-1.8	-0.2	2.1	2.1	2.1
Iceland	-0.2	-1.7	-1.8	-0.4	0.6	1.2	-0.3	0.9	1.3	-1.1	-2.5	-1.8	-0.3	2.4	3.2	1.6	-3.3	-6.5	-2.6	0.4
Ireland	3.8	4.5	5.8	4.0	4.5	4.3	4.5	5.0	4.8	1.0	-0.6	0.5	1.5	1.3	2.1	-1.1	-5.1	-7.0	-4.7	-4.7
Italy	-0.1	3.2	2.8	4.5	4.6	6.0	5.2	5.4	4.1	2.9	2.9	1.1	1.1	0.7	2.1	2.9	2.3	1.2	1.8	1.8
Japan	0.6	-1.7	-2.9	-3.6	-4.1	-3.6	-4.0	-5.3	-5.3	-4.8	-5.8	-5.4	-5.6	-4.4	-3.0	-2.8	-2.4	-4.7	-5.0	-5.2
Luxembourg	-3.8	-1.5	0.6	1.7	2.0	4.6	3.6	2.6	3.5	2.2	0.4	-0.1	-1.1	-0.6	0.3	0.9	0.5	-0.2	-2.2	-3.3
Netherlands	-1.3	1.0	0.6	0.3	1.7	2.2	1.9	2.5	2.3	0.7	-0.6	-0.6	0.8	2.0	1.9	0.9	1.1	-2.4	-2.0	-1.3
New Zealand	0.7	2.1	3.3	3.4	2.8	2.1	1.9	0.6	2.3	1.9	3.5	3.3	2.8	3.2	3.4	2.6	0.3	-2.1	-3.1	-2.9
Norway[1]	-9.7	-9.7	-7.7	-4.3	-4.4	-3.5	-4.0	-2.7	-0.6	-2.5	-5.0	-6.7	-5.2	-4.1	-2.0	-0.3	-1.8	-3.8	-4.0	-3.6
Poland	..	..	..	..	0.1	-1.2	-0.6	-0.4	-0.9	-2.0	-1.9	-2.5	-2.9	-2.0	-2.2	-1.5	-3.2	-5.3	-4.8	-4.4
Portugal	2.3	0.0	-0.3	1.3	1.0	0.4	0.0	-0.3	-1.1	-2.3	-2.0	-2.3	-2.0	-2.5	-0.4	1.0	0.5	-3.7	-2.8	-0.6
Spain	-1.2	-0.5	-0.3	-0.2	1.0	1.9	1.4	1.7	1.3	1.2	1.6	1.6	1.7	2.1	2.8	2.6	-1.7	-6.7	-5.2	-3.3
Sweden	-4.0	-5.0	-4.6	-3.7	0.5	2.6	2.8	2.8	4.4	2.9	0.4	-0.1	0.5	2.1	1.3	2.3	2.3	2.6	1.7	2.9
Switzerland	-2.3	-2.2	-1.6	-0.7	-0.6	-1.8	-0.7	0.2	1.8	0.8	0.6	0.1	-0.1	0.5	1.1	1.5	2.5	1.7	0.3	0.5
United Kingdom	-2.7	-4.0	-3.5	-2.2	-0.8	1.0	2.7	3.0	3.0	2.3	-0.4	-2.1	-2.5	-2.3	-1.7	-2.0	-3.3	-6.8	-5.7	-4.8
United States	-1.6	-1.0	0.0	0.5	1.3	2.2	3.0	2.8	3.1	1.2	-1.8	-2.9	-2.8	-1.7	-1.1	-1.4	-4.2	-7.0	-7.1	-5.7
Euro area	-0.8	0.3	0.2	0.3	1.0	1.6	1.8	2.1	1.6	1.1	0.6	0.1	0.2	0.4	1.0	1.4	0.8	-1.1	-1.6	-0.9
Total OECD	-1.1	-1.0	-0.6	-0.3	0.3	1.2	1.6	1.6	1.5	0.4	-1.2	-1.9	-1.8	-1.1	-0.4	-0.4	-2.0	-4.5	-4.5	-3.6

Note: Adjusted for the cycle and for one-offs, and excludes the impact of net interest payments. For more details, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. As a percentage of mainland potential GDP. The financial balances shown are adjusted to exclude net revenues from petroleum activities.

Source: OECD Economic Outlook 87 database.

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Annex Table 31. **General government net debt interest payments**

Per cent of nominal GDP

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	3.1	2.5	3.4	3.5	2.9	2.4	2.0	1.8	1.7	1.4	1.4	1.3	1.2	1.0	0.8	0.6	0.5	0.8	1.0	1.3
Austria	2.8	3.1	2.9	3.3	3.4	3.2	3.1	2.9	2.8	2.7	2.5	2.4	2.2	2.2	2.2	2.0	2.0	2.1	2.2	2.4
Belgium	10.4	10.3	8.8	8.4	8.0	7.3	7.0	6.5	6.3	6.1	5.4	5.0	4.6	4.1	3.8	3.7	3.6	3.5	3.4	3.5
Canada	5.3	5.3	5.2	5.7	5.3	4.8	4.8	4.3	3.1	2.9	2.6	1.8	1.6	1.0	0.7	0.6	0.2	0.9	0.4	0.4
Czech Republic	..	..	..	0.3	0.5	0.4	0.5	0.5	0.2	0.4	0.3	0.5	0.7	0.7	0.7	0.7	0.7	1.0	1.1	1.2
Denmark	3.6	3.9	3.6	3.5	3.2	2.9	2.7	2.5	2.1	1.8	1.7	1.5	1.3	0.9	0.6	0.4	0.0	0.7	0.5	1.2
Finland	-2.0	-0.4	1.0	0.8	1.4	1.8	1.6	1.4	0.9	0.5	0.0	-0.1	-0.1	-0.2	-0.4	-0.6	-1.0	-0.6	-0.4	-0.1
France	2.5	2.8	2.9	3.0	3.2	3.1	3.0	2.8	2.7	2.7	2.7	2.6	2.6	2.5	2.4	2.5	2.7	2.1	2.2	2.5
Germany	2.5	2.6	2.6	2.9	2.9	2.9	3.0	2.7	2.7	2.6	2.5	2.6	2.5	2.4	2.4	2.4	2.3	2.3	2.3	2.5
Greece	9.9	10.8	11.9	10.7	10.0	8.1	7.5	6.6	6.7	6.0	5.2	4.7	4.6	4.4	4.2	4.2	4.3	4.7	5.4	5.8
Hungary	3.9	3.7	5.8	8.0	7.4	7.1	5.9	5.9	4.6	3.9	3.6	3.7	4.0	3.8	3.7	3.7	3.7	4.1	4.3	4.4
Iceland	1.1	1.4	1.5	1.5	1.4	1.1	1.0	0.9	0.7	0.5	0.3	0.6	0.3	-0.4	-0.7	-0.9	-0.5	2.6	3.4	3.3
Ireland	6.5	6.1	5.6	4.9	4.1	3.4	3.1	2.1	1.7	1.1	1.0	1.1	1.0	0.9	0.8	0.9	1.2	1.9	2.7	3.3
Italy	11.7	12.1	10.6	10.7	10.8	8.8	7.8	6.4	6.1	6.0	5.4	5.0	4.7	4.5	4.4	4.7	4.9	4.4	4.6	4.9
Japan	1.2	1.2	1.2	1.3	1.3	1.3	1.5	1.5	1.5	1.4	1.4	1.3	1.2	0.8	0.6	0.6	0.9	1.0	1.3	1.6
Korea	-0.5	-0.5	-0.4	-0.6	-0.7	-0.9	-1.2	-1.0	-1.2	-0.9	-0.9	-0.8	-1.0	-1.0	-1.2	-1.5	-1.3	-0.9	-0.6	-0.6
Luxembourg	-2.3	-1.9	-1.6	-1.4	-1.1	-1.0	-1.0	-0.9	-1.2	-1.4	-1.1	-0.9	-0.8	-0.7	-0.7	-1.0	-1.2	-1.3	-1.2	-1.1
Netherlands	4.4	4.4	4.2	4.4	4.4	4.2	4.0	3.6	2.9	2.4	2.2	2.0	1.9	1.8	1.6	1.6	1.5	1.6	1.8	2.0
New Zealand	2.8	2.3	1.2	1.4	0.7	0.8	0.7	0.2	0.4	0.1	0.1	0.0	-0.3	-0.4	-1.5	-1.0	-0.9	-0.9	-0.8	-0.3
Norway	-2.9	-2.5	-1.9	-1.6	-1.6	-1.4	-1.1	-1.5	-1.7	-1.9	-2.1	-1.9	-2.0	-2.0	-2.2	-2.9	-3.2	-2.5	-2.4	-2.6
Poland	..	..	..	5.1	4.2	3.8	3.7	2.4	2.5	2.7	2.1	2.4	2.5	2.2	2.1	1.7	1.6	2.0	2.1	2.5
Portugal	7.9	7.2	6.1	5.8	5.0	3.9	3.2	3.0	3.1	3.0	2.9	2.8	2.7	2.6	2.8	2.9	3.0	2.9	3.3	3.9
Slovak Republic	..	..	..	1.3	1.6	1.8	2.1	2.9	3.1	3.1	3.0	1.7	1.4	1.1	0.9	1.0	0.9	1.0	1.4	1.8
Spain	3.4	4.5	4.4	4.7	4.7	4.2	3.8	3.3	2.9	2.6	2.4	2.1	1.8	1.6	1.3	1.1	1.1	1.3	1.4	1.6
Sweden	0.4	0.9	1.7	2.4	2.8	3.0	2.6	2.5	2.1	1.7	2.1	1.3	0.9	1.0	0.8	0.7	0.5	0.3	1.0	1.8
Switzerland	0.6	0.7	0.8	0.8	0.8	0.9	0.9	1.1	1.0	0.9	1.0	1.0	1.0	0.9	0.7	0.6	0.4	0.4	0.3	0.3
United Kingdom	2.4	2.4	2.6	3.1	3.1	3.2	3.0	2.5	2.4	2.0	1.7	1.7	1.7	1.8	1.8	1.9	1.9	1.7	1.9	2.3
United States	3.5	3.4	3.4	3.5	3.4	3.2	3.1	2.7	2.5	2.2	2.0	1.8	1.8	1.8	1.8	1.9	1.8	1.5	1.9	2.4
Euro area	4.6	4.9	4.7	4.9	4.9	4.4	4.2	3.7	3.5	3.3	3.1	3.0	2.8	2.7	2.6	2.6	2.6	2.5	2.6	2.8
Total OECD	3.5	3.5	3.4	3.6	3.5	3.2	3.1	2.7	2.5	2.3	2.1	2.0	1.8	1.8	1.7	1.7	1.6	1.6	1.8	2.1

Note: In the case of New Zealand where data on net interest payments are not available, net property income paid is used as a proxy. For Denmark, net interest payments include dividends received. For further information, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308040

Annex Table 32. **General government gross financial liabilities**

Per cent of nominal GDP

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	27.1	30.3	39.6	41.3	38.6	37.0	32.0	27.6	24.7	21.8	19.8	18.3	16.6	16.1	15.3	14.3	13.6	19.2	23.4	25.9
Austria	57.4	62.0	65.4	69.5	70.3	66.7	68.5	71.3	71.1	72.1	73.2	71.3	70.8	70.8	66.4	62.2	66.2	70.3	74.0	77.4
Belgium[1]	136.6	140.8	137.8	135.4	133.4	128.0	123.2	119.6	113.8	112.0	108.4	103.4	98.5	95.9	91.6	88.1	93.4	101.0	103.6	105.1
Canada	90.2	96.3	98.0	101.6	101.7	96.3	95.2	91.4	82.1	82.7	80.6	76.6	72.6	71.6	69.5	65.0	69.7	82.5	81.7	80.7
Czech Republic	..	..	..	..	..	..	..	..	..	..	32.8	34.7	34.5	34.3	33.9	33.6	36.3	42.1	48.4	55.8
Denmark	71.1	85.0	78.9	81.7	79.1	74.8	72.4	67.1	60.4	58.4	58.2	56.6	54.0	45.9	41.2	34.1	42.3	51.8	55.0	57.1
Finland	44.4	57.7	60.7	65.1	66.1	64.8	61.2	55.0	52.4	50.1	49.6	51.5	51.5	48.5	45.5	41.5	40.7	52.6	61.0	69.0
France	43.9	51.0	60.2	62.7	66.3	68.8	70.3	66.8	65.6	64.3	67.3	71.4	73.9	75.7	70.9	69.9	75.7	86.3	93.8	99.3
Germany[2]	40.9	46.2	46.5	55.7	58.8	60.3	62.2	61.5	60.4	59.7	62.1	65.3	68.7	71.1	69.2	65.3	68.8	76.2	80.9	84.2
Greece	..	..	..	101.1	103.1	100.0	97.7	101.1	114.9	117.7	117.2	112.0	114.3	114.0	108.3	104.3	104.6	119.0	129.1	138.6
Hungary	80.7	91.6	91.4	88.1	75.6	66.1	64.1	66.3	60.9	59.3	60.3	61.4	65.1	68.5	71.6	71.7	76.9	84.3	87.0	89.2
Iceland	..	..	..	..	..	..	77.3	73.6	72.9	75.0	72.0	71.0	64.5	52.6	57.4	53.3	96.2	122.7	128.1	128.0
Ireland	..	..	..	..	..	..	62.2	51.3	40.2	37.4	35.4	34.1	33.0	32.8	29.0	28.3	48.3	70.3	82.9	92.5
Italy	106.9	116.3	120.9	122.5	128.9	130.3	132.6	126.4	121.6	120.8	119.4	116.8	117.3	119.9	117.1	112.4	114.7	128.8	132.0	134.7
Japan[3]	67.6	73.9	79.0	86.2	93.8	100.5	113.2	127.0	135.4	143.7	152.3	158.0	165.5	175.3	172.1	167.0	173.8	192.9	199.2	204.6
Korea[4]	6.2	5.5	5.0	5.3	5.7	7.3	12.7	15.0	15.7	16.6	15.8	17.4	21.4	26.8	30.1	30.4	32.2	34.9	36.2	37.4
Luxembourg	..	..	..	9.5	10.1	10.2	11.2	10.0	9.2	8.2	8.4	7.9	8.6	7.6	11.5	11.4	17.1	18.2	23.6	30.9
Netherlands	91.9	96.5	86.7	89.6	88.1	82.2	80.8	71.6	63.9	59.4	60.3	61.9	62.2	61.1	54.9	52.1	65.8	68.6	75.1	79.4
New Zealand	..	..	56.8	50.7	44.4	41.8	41.7	39.1	37.0	35.1	33.1	31.0	28.3	27.0	26.7	25.8	29.1	35.0	40.3	44.4
Norway	32.4	40.8	37.3	40.9	36.6	32.1	30.3	31.0	34.2	33.0	40.6	50.2	52.7	49.1	60.5	58.6	56.1	49.2	54.6	53.3
Poland	..	..	..	51.6	51.4	48.3	43.8	46.6	45.4	43.8	55.0	55.3	54.6	54.7	55.1	51.7	54.5	58.4	61.9	64.7
Portugal	..	..	..	68.8	68.4	67.4	65.2	62.1	62.0	63.3	66.5	68.0	70.6	74.0	73.1	71.1	75.2	87.0	95.0	98.7
Slovak Republic	..	..	..	38.2	37.6	39.0	41.1	53.5	57.5	57.0	50.2	48.2	47.0	38.5	33.8	32.2	30.9	39.1	44.7	49.5
Spain	52.1	65.5	64.3	69.3	76.0	75.0	75.3	69.4	66.5	61.9	60.3	55.3	53.4	50.7	46.2	42.3	47.4	62.6	72.8	78.4
Sweden	73.4	78.2	82.5	81.1	84.4	83.0	82.0	73.2	64.3	62.7	60.2	59.3	59.2	59.9	52.8	47.4	46.7	51.8	54.6	57.4
Switzerland	38.4	42.9	45.5	47.7	50.1	52.1	54.8	51.9	52.4	51.2	57.2	57.0	57.9	56.4	50.3	46.5	42.4	41.6	41.6	41.2
United Kingdom	39.0	48.7	46.8	51.6	51.2	52.0	52.5	47.4	45.1	40.4	40.8	41.5	43.8	46.4	46.1	47.4	56.9	72.3	82.3	90.8
United States	70.2	71.8	71.0	70.6	69.8	67.4	64.1	60.4	54.5	54.4	56.8	60.1	61.1	61.4	60.9	61.9	70.4	83.0	89.6	94.8
Euro area	63.1	69.0	71.3	75.4	79.9	80.9	81.9	78.2	75.9	74.5	75.4	76.1	77.4	78.2	74.5	71.0	75.8	86.3	92.4	96.7
Total OECD	63.8	68.6	69.8	72.4	73.7	73.4	74.0	72.3	69.6	69.7	71.4	73.3	74.8	76.4	74.6	73.0	79.0	90.3	95.8	99.8

Note: Gross debt data are not always comparable across countries due to different definitions 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. Maastricht debt for European Union countries is shown in Annex Table 62. For more details, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Includes the debt of the Belgium National Railways Company (SNCB) from 2005 onwards.
2. Includes the debt of the Inherited Debt Fund from 1995 onwards.
3. Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.
4. Data on a consolidated basis (SNA68) are only available until 2005. The growth rates of government liabilities on a non-consolidated basis (SNA93) are used to estimate figures for 2006-09 on the basis of SNA68.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308059

Annex Table 33. **General government net financial liabilities**

Per cent of nominal GDP

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	15.3	20.8	25.0	25.6	20.4	20.6	15.7	14.5	8.6	6.2	4.4	2.3	0.2	-1.4	-4.7	-7.3	-7.6	-3.8	0.2	2.8
Austria	29.6	33.3	35.2	38.6	40.3	36.6	36.8	35.8	34.9	35.6	37.2	36.1	38.0	37.9	33.5	30.7	32.7	37.2	40.9	44.2
Belgium[1]	113.2	115.1	114.5	114.6	115.5	110.9	107.8	103.1	97.6	95.1	93.3	90.4	84.0	82.0	77.2	73.3	74.0	80.7	83.3	84.8
Canada	59.1	64.2	67.9	70.7	70.0	64.7	60.8	55.8	46.2	44.3	42.6	38.7	35.2	31.0	26.2	23.1	22.4	28.9	30.3	31.0
Czech Republic	..	..	..	..	..	..	..	..	..	..	-16.2	-7.5	-9.7	-11.4	-11.7	-14.4	-6.4	-0.6	4.8	10.3
Denmark	28.1	31.1	31.5	33.4	33.3	32.3	35.1	28.4	22.5	20.1	19.1	18.0	14.8	10.5	1.9	-3.8	-6.9	-5.1	0.5	5.3
Finland[2]	-24.5	-15.9	-16.3	-7.3	-6.7	-7.5	-14.6	-50.4	-31.1	-31.8	-31.4	-39.6	-46.7	-58.7	-69.4	-72.7	-52.6	-63.2	-57.0	-50.8
France	20.0	26.8	29.7	37.5	41.8	42.3	40.6	33.5	35.1	36.7	41.8	44.2	45.3	43.2	37.2	34.0	44.3	50.6	57.2	62.3
Germany[3]	15.1	18.5	19.3	30.3	33.2	33.0	36.7	35.2	34.4	36.7	40.8	43.5	47.5	49.8	47.9	42.9	45.0	48.3	52.7	55.8
Greece	..	..	..	81.0	81.4	76.8	72.6	70.2	88.7	92.9	94.7	87.2	87.8	84.9	78.2	72.2	77.7	87.0	97.8	107.1
Hungary	-47.2	-19.2	3.3	24.2	25.1	24.7	31.4	33.6	32.3	31.8	36.4	37.4	41.5	46.0	51.2	52.2	51.9	58.2	60.1	61.7
Iceland	..	..	..	..	..	..	42.6	35.9	37.5	29.2	28.5	30.7	27.7	13.6	7.9	-1.0	19.9	41.0	45.0	45.1
Ireland	..	..	..	..	..	..	42.2	27.3	16.4	13.0	14.0	11.5	8.7	6.5	1.4	-0.3	11.2	27.2	39.9	49.4
Italy	93.2	100.5	104.5	99.0	104.5	104.6	107.0	101.1	95.5	96.3	95.7	92.7	92.4	93.7	90.6	87.1	89.9	101.0	104.1	106.7
Japan[4]	13.8	17.1	19.6	23.8	29.2	34.8	46.2	53.8	60.4	66.3	72.6	76.5	82.7	84.6	84.3	81.5	94.9	108.3	114.9	121.5
Korea[5]	-14.3	-15.0	-15.6	-16.9	-18.5	-20.9	-22.3	-23.1	-25.9	-28.7	-30.2	-28.3	-28.4	-29.1	-29.8	-33.0	-30.4	-31.0	-29.7	-28.6
Luxembourg	..	..	..	-37.7	-41.0	-41.6	-46.8	-47.8	-50.7	-58.2	-55.5	-56.7	-52.2	-48.6	-44.4	-44.1	-44.9	-46.1	-40.5	-33.6
Netherlands	41.0	45.5	44.6	54.1	52.8	49.7	48.2	36.7	34.9	33.0	34.9	36.2	37.6	35.0	31.6	28.0	25.2	28.5	34.4	38.7
New Zealand	..	..	43.9	37.6	32.4	29.8	27.8	25.5	23.5	21.1	16.9	11.0	4.8	-1.5	-8.1	-13.1	-12.6	-8.1	-3.3	0.6
Norway	-35.1	-32.0	-30.6	-36.1	-41.1	-48.5	-52.1	-57.5	-67.4	-85.1	-80.6	-95.0	-104.4	-122.4	-136.3	-142.5	-124.8	-153.4	-153.4	-157.0
Poland	..	..	..	-15.0	-5.7	0.3	6.3	13.4	15.5	18.5	22.1	22.7	20.8	23.5	22.4	17.0	17.3	22.3	27.9	32.6
Portugal	..	..	..	25.1	27.3	32.1	33.3	30.9	28.5	30.5	34.6	37.2	42.1	45.0	44.0	44.1	47.8	57.9	64.3	68.6
Slovak Republic	..	..	..	-30.7	-18.2	-12.1	-3.7	1.2	12.4	10.8	1.7	1.8	6.9	5.0	6.5	-0.8	1.2	12.4	18.4	22.8
Spain	35.2	43.5	46.4	51.6	55.5	54.2	53.7	47.7	44.2	41.5	40.3	36.8	34.6	30.3	24.0	19.0	23.2	34.8	44.3	50.8
Sweden	4.6	10.5	20.7	25.6	26.6	24.6	22.0	12.4	5.5	-2.5	3.9	0.0	-3.6	-8.7	-20.0	-24.7	-18.3	-23.4	-19.6	-16.8
Switzerland	..	..	..	..	..	..	..	12.5	11.4	10.9	15.7	15.9	17.7	16.7	13.5	8.9	6.1	5.5	6.2	6.5
United Kingdom	6.7	17.4	19.7	26.3	27.9	30.6	32.6	29.0	26.8	23.2	23.7	23.9	25.9	27.1	27.7	28.8	32.8	43.5	53.5	61.9
United States	52.4	54.8	54.3	53.7	51.9	48.8	44.8	40.1	35.3	34.6	37.2	40.4	42.0	42.4	41.7	42.2	47.0	58.2	66.6	72.6
Euro area	39.0	42.8	44.3	49.5	53.6	53.6	54.3	48.8	47.8	48.6	50.9	50.9	51.9	51.1	46.8	42.6	47.0	53.8	59.5	63.6
Total OECD	36.2	40.5	41.8	44.3	44.3	43.6	44.1	40.9	38.4	38.4	40.2	41.6	42.8	42.6	40.4	38.4	43.3	51.5	57.7	62.4

Note: Net debt measures are not always comparable across countries due to different definitions or treatment of debt (and asset) components. First, the treatment of government liabilities with respect to their employee pension plans may be different (see note to Annex Table 32). Second, the range of items included as general government assets differs across countries. For example, equity holdings are excluded from government assets in some countries whereas foreign exchange, gold and SDR holdings are considered as assets 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).*

1. Includes the debt of the Belgium National Railways Company (SNCB) from 2005 onwards.
2. From 1995 onwards housing corporation shares are no longer classified as financial assets.
3. Includes the debt of the Inherited Debt Fund from 1995 onwards.
4. Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.
5. Data on a consolidated basis (SNA68) are only available until 2005. The growth rates of government liabilities on a non-consolidated basis (SNA93) are used to estimate figures for 2006-09 on the basis of SNA68.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308078

Annex Table 34. **Short-term interest rates**

Per cent, per annum

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
Australia	7.7	7.2	5.4	5.0	5.0	6.2	4.9	4.7	4.9	5.5	5.6	6.0	6.7	7.0	3.4	4.6	5.6	4.0	5.1	5.7
Austria	4.6	3.4	3.5	3.6																
Belgium	4.8	3.2	3.4	3.6																
Canada	7.0	4.5	3.6	5.1	4.9	5.7	4.0	2.6	3.0	2.4	2.8	4.1	4.6	3.5	0.8	0.9	2.9	0.5	1.6	3.6
Chile	..	..	..	16.4	11.0	10.8	7.2	3.9	2.8	1.8	3.5	4.8	5.2	7.3	1.7	1.1	4.1	0.5	2.5	5.0
Czech Republic	10.9	12.0	16.0	14.3	6.9	5.4	5.2	3.5	2.3	2.4	2.0	2.3	3.1	4.0	2.2	1.5	2.7	1.8	1.8	3.0
Denmark	6.1	3.9	3.7	4.1	3.3	4.9	4.6	3.5	2.4	2.1	2.2	3.1	4.3	4.9	1.8	0.9	2.0	1.0	1.2	2.4
Finland	5.8	3.6	3.2	3.6																
France	6.6	3.9	3.5	3.6																
Germany	4.5	3.3	3.3	3.5																
Greece	15.5	12.8	10.4	11.6	8.9	6.1														
Hungary	32.0	24.0	20.1	18.0	14.7	11.0	10.8	8.9	8.2	11.3	7.0	6.9	7.6	8.9	8.5	5.3	5.4	6.4	5.0	5.6
Iceland	7.0	7.0	7.1	7.5	9.3	11.2	12.0	9.0	5.3	6.3	9.4	12.4	14.3	15.8	11.3	7.9	6.8	8.6	7.5	6.5
Ireland	6.2	5.4	6.1	5.4																
Italy	10.5	8.8	6.9	5.0																
Japan	1.2	0.6	0.6	0.7	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.2	0.7	0.7	0.3	0.2	0.2	0.2	0.2	0.2
Korea	14.1	12.6	13.4	15.2	6.8	7.1	5.3	4.8	4.3	3.8	3.6	4.5	5.2	5.5	2.6	3.4	4.9	2.8	4.1	5.3
Luxembourg	4.8	3.2	3.4	3.6																
Mexico	48.2	32.9	21.3	26.2	22.4	16.2	12.2	7.4	6.5	7.1	9.3	7.3	7.4	7.9	5.5	4.9	6.3	4.6	5.3	6.7
Netherlands	4.4	3.0	3.3	3.5																
New Zealand	9.0	9.3	7.7	7.3	4.8	6.5	5.7	5.7	5.4	6.1	7.1	7.5	8.3	8.0	3.0	3.1	5.0	2.8	3.7	5.7
Norway	5.5	4.9	3.7	5.8	6.5	6.7	7.2	6.9	4.1	2.0	2.2	3.1	5.0	6.2	2.5	2.5	3.1	2.1	2.7	3.5
Poland	27.7	21.3	23.1	19.9	14.7	18.9	15.7	8.8	5.7	6.2	5.2	4.2	4.8	6.3	4.3	4.7	6.7	4.2	5.6	6.9
Portugal	9.8	7.4	5.7	4.3																
Slovak Republic	8.4	12.0	22.4	21.1	15.7	8.6	7.8	7.8	6.2	4.7	2.9	4.3	4.3	4.2						
Spain	9.4	7.5	5.4	4.2																
Sweden	8.7	5.8	4.1	4.2	3.1	4.0	4.0	4.1	3.0	2.1	1.7	2.3	3.6	3.9	0.4	0.4	1.8	0.2	0.7	2.5
Switzerland	2.9	2.0	1.6	1.5	1.4	3.2	2.9	1.1	0.3	0.5	0.8	1.6	2.6	2.5	0.4	0.3	1.1	0.3	0.5	1.5
Turkey	..	..	..	..	..	38.9	92.4	59.5	38.5	23.8	15.6	17.9	18.3	18.9	11.0	7.9	9.7	8.2	8.9	10.0
United Kingdom	6.7	6.0	6.8	7.3	5.4	6.1	5.0	4.0	3.7	4.6	4.7	4.8	6.0	5.5	1.2	0.8	2.5	0.6	1.1	3.5
United States	6.0	5.4	5.7	5.5	5.4	6.5	3.7	1.8	1.2	1.6	3.5	5.2	5.3	3.2	0.9	0.5	2.4	0.4	0.8	3.7
Euro area	6.8	5.1	4.4	4.0	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6	1.2	0.7	1.9	0.7	1.1	2.3

Note: Three-month money market rates where available, or rates on similar financial instruments. For further information, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*. Individual euro area countries are not shown after 1998 (2000 for Greece and 2008 for the Slovak Republic) since their short term interest rates are equal to the euro area rate.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308097

Annex Table 35. **Long-term interest rates**

Per cent, per annum

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
Australia	9.2	8.2	7.0	5.5	6.0	6.3	5.6	5.8	5.4	5.6	5.3	5.6	6.0	5.7	5.0	5.7	6.5	5.5	6.0	6.5
Austria	7.1	6.3	5.7	4.7	4.7	5.6	5.1	5.0	4.2	4.2	3.4	3.8	4.3	4.3	3.7	3.4	4.5	3.4	3.8	5.0
Belgium	7.4	6.3	5.6	4.7	4.7	5.6	5.1	4.9	4.1	4.1	3.4	3.8	4.3	4.4	3.8	3.5	4.5	3.6	3.8	4.9
Canada	8.2	7.2	6.1	5.3	5.5	5.9	5.5	5.3	4.8	4.6	4.1	4.2	4.3	3.6	3.2	3.8	4.6	3.4	4.1	4.9
Chile	..	..	..	..	..	..	..	..	..	..	6.0	6.1	6.1	7.0	5.7	6.5	6.6	6.2	6.6	6.6
Czech Republic	..	..	..	..	..	..	6.3	4.9	4.1	4.8	3.5	3.8	4.3	4.6	4.8	4.3	4.8	4.2	4.3	5.2
Denmark	8.3	7.2	6.3	5.0	4.9	5.7	5.1	5.1	4.3	4.3	3.4	3.8	4.3	4.3	3.6	3.6	4.7	3.6	3.9	5.1
Finland	8.8	7.1	6.0	4.8	4.7	5.5	5.0	5.0	4.1	4.1	3.4	3.8	4.3	4.3	3.7	3.4	4.5	3.5	3.7	5.0
France	7.5	6.3	5.6	4.6	4.6	5.4	4.9	4.9	4.1	4.1	3.4	3.8	4.3	4.2	3.6	3.6	4.7	3.5	3.9	5.1
Germany	6.9	6.2	5.7	4.6	4.5	5.3	4.8	4.8	4.1	4.0	3.4	3.8	4.2	4.0	3.2	3.3	4.4	3.2	3.6	4.8
Greece	..	..	9.8	8.5	6.3	6.1	5.3	5.1	4.3	4.3	3.6	4.1	4.5	4.8	5.2	7.3	6.9	5.0	7.4	6.7
Hungary	..	..	..	..	..	8.6	7.9	7.1	6.8	8.3	6.6	7.1	6.7	8.2	9.1	7.3	7.4	7.5	7.2	7.4
Iceland	9.7	9.2	8.7	7.7	8.5	11.2	10.4	8.0	6.7	7.5	7.7	9.3	9.8	11.1	8.0	6.1	6.4	7.5	5.9	6.8
Ireland	8.2	7.2	6.3	4.7	4.8	5.5	5.0	5.0	4.1	4.1	3.3	3.8	4.3	4.6	5.2	4.9	5.7	4.9	5.3	6.0
Italy	12.2	9.4	6.9	4.9	4.7	5.6	5.2	5.0	4.3	4.3	3.6	4.0	4.5	4.7	4.3	4.1	5.1	4.1	4.4	5.5
Japan	3.4	3.1	2.4	1.5	1.7	1.7	1.3	1.3	1.0	1.5	1.4	1.7	1.7	1.5	1.3	1.5	2.2	1.3	1.7	2.5
Korea	12.4	10.9	11.7	12.8	8.7	8.5	6.9	6.6	5.0	4.7	5.0	5.2	5.4	5.6	5.2	5.4	6.0	5.4	5.6	6.3
Luxembourg	7.2	6.3	5.6	4.7	4.7	5.5	4.9	4.7	3.3	2.8	2.4	3.3	4.4	4.7	3.8	3.6	4.7	3.7	3.9	5.2
Mexico	39.9	34.4	22.4	24.8	24.1	16.9	13.8	8.5	7.4	7.7	9.3	7.5	7.6	8.1	5.8	5.6	7.4	5.2	6.2	8.0
Netherlands	6.9	6.2	5.6	4.6	4.6	5.4	5.0	4.9	4.1	4.1	3.4	3.8	4.3	4.2	3.7	3.5	4.5	3.5	3.8	4.9
New Zealand	7.8	7.9	7.2	6.3	6.4	6.9	6.4	6.5	5.9	6.1	5.9	5.8	6.3	6.1	5.5	6.0	6.4	5.9	6.1	6.7
Norway	7.4	6.8	5.9	5.4	5.5	6.2	6.2	6.4	5.0	4.4	3.7	4.1	4.8	4.5	4.0	3.9	4.1	4.0	4.0	4.3
Portugal	11.5	8.6	6.4	4.9	4.8	5.6	5.2	5.0	4.2	4.1	3.4	3.9	4.4	4.5	4.2	4.7	5.2	3.9	4.8	5.4
Slovak Republic	..	9.7	9.4	21.7	16.2	9.8	8.0	6.9	5.0	5.0	3.5	4.4	4.5	4.7	4.7	4.2	5.2	4.2	4.4	5.6
Spain	11.3	8.7	6.4	4.8	4.7	5.5	5.1	5.0	4.1	4.1	3.4	3.8	4.3	4.4	4.0	4.0	4.8	3.8	4.3	5.1
Sweden	10.2	8.0	6.6	5.0	5.0	5.4	5.1	5.3	4.6	4.4	3.4	3.7	4.2	3.9	3.3	3.2	4.4	3.3	3.4	4.9
Switzerland	4.5	4.0	3.4	3.0	3.0	3.9	3.4	3.2	2.7	2.7	2.1	2.5	2.9	2.9	2.2	2.3	3.4	2.1	2.7	3.8
Turkey	..	..	..	..	..	37.7	99.6	63.5	44.1	24.9	16.2	18.0	18.3	19.2	11.7	9.0	10.3	8.5	9.5	10.6
United Kingdom	8.2	7.8	7.1	5.6	5.1	5.3	4.9	4.9	4.5	4.9	4.4	4.5	5.0	4.6	3.6	4.2	5.3	3.7	4.5	5.7
United States	6.6	6.4	6.4	5.3	5.6	6.0	5.0	4.6	4.0	4.3	4.3	4.8	4.6	3.7	3.3	4.1	5.4	3.5	4.6	5.8
Euro area	8.4	7.1	6.0	4.8	4.7	5.4	5.0	4.9	4.1	4.1	3.4	3.8	4.3	4.3	3.8	3.8	4.7	3.6	4.1	5.1

Note: 10-year benchmark government bond yields where available or yield on similar financial instruments (for Korea a 5-year bond is used). For further information, see also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 87 database.

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Annex Table 36. **Nominal exchange rates (*vis-à-vis* the US dollar)**

Average of daily rates

	Monetary unit	1999	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Estimates and assumptions[1] 2010	2011
Australia	*Dollar*	1.550	1.550	1.727	1.935	1.841	1.542	1.359	1.313	1.328	1.195	1.198	1.282	1.107	1.111
Austria	*Schilling*	12.91													
Belgium	*Franc*	37.86													
Canada	*Dollar*	1.486	1.486	1.485	1.548	1.570	1.400	1.301	1.212	1.134	1.074	1.068	1.141	1.027	1.025
Chile	*Peso*	508.8	508.8	539.5	634.9	688.9	691.4	609.5	559.8	530.3	522.5	523.5	558.9	524.9	527.8
Czech Republic	*Koruny*	34.59	34.59	38.64	38.02	32.73	28.13	25.69	23.95	22.59	20.29	17.08	19.05	19.53	19.929
Denmark	*Krone*	6.980	6.980	8.088	8.321	7.884	6.577	5.988	5.996	5.943	5.443	5.099	5.359	5.677	5.806
Finland	*Markka*	5.580													
France	*Franc*	6.156													
Germany	*Deutschemark*	1.836													
Greece	*Drachma*	305.7	305.7												
Hungary	*Forint*	237.1	237.1	282.3	286.5	257.9	224.3	202.6	199.5	210.4	183.6	172.5	202.1	206.9	212.8
Iceland	*Krona*	72.43	72.43	78.84	97.67	91.59	76.69	70.19	62.88	69.90	64.07	88.00	123.66	126.69	126.33
Ireland	*Pound*	0.739													
Italy	*Lira*	1817													
Japan	*Yen*	113.9	113.9	107.8	121.5	125.3	115.9	108.1	110.1	116.4	117.8	103.4	93.6	92.6	93.3
Korea	*Won*	1 186.7	1 186.7	1 130.6	1 290.4	1 251.0	1 191.0	1 145.2	1 024.2	954.7	929.5	1 100.9	1 274.9	1 133.2	1 131.8
Luxembourg	*Franc*	37.86													
Mexico	*Peso*	9.553	9.553	9.453	9.344	9.660	10.790	11.281	10.890	10.903	10.929	11.153	13.504	12.561	12.518
Netherlands	*Guilder*	2.068													
New Zealand	*Dollar*	1.892	1.892	2.205	2.382	2.163	1.724	1.509	1.421	1.542	1.361	1.425	1.600	1.393	1.385
Norway	*Krone*	7.797	7.797	8.797	8.993	7.986	7.078	6.739	6.441	6.415	5.858	5.648	6.290	6.052	6.143
Poland	*Zloty*	3.964	3.964	4.346	4.097	4.082	3.888	3.651	3.234	3.103	2.765	2.410	3.119	3.050	3.133
Portugal	*Escudo*	188.2													
Slovak Republic	*Koruna*	1.373	1.373	1.535	1.605	1.504	1.220	1.070	1.030	0.984	0.819	0.709			
Spain	*Peseta*	156.2													
Sweden	*Krona*	8.262	8.262	9.161	10.338	9.721	8.078	7.346	7.472	7.373	6.758	6.597	7.653	7.398	7.501
Switzerland	*Franc*	1.503	1.503	1.688	1.687	1.557	1.345	1.243	1.246	1.253	1.200	1.084	1.086	1.093	1.109
Turkey	*Lira*	0.419	0.419	0.624	1.228	1.512	1.503	1.426	1.341	1.430	1.300	1.299	1.547	1.507	1.512
United Kingdom	*Pound*	0.618	0.618	0.661	0.694	0.667	0.612	0.546	0.550	0.543	0.500	0.546	0.641	0.663	0.673
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	1.087	1.119	1.063	0.887	0.806	0.806	0.798	0.731	0.684	0.720	0.763	0.780
	SDR	0.731	0.731	0.758	0.785	0.773	0.714	0.675	0.677	0.680	0.653	0.633	0.649	0.662	0.668

1. On the technical assumption that exchange rates remain at their levels of 10 May 2010.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308135

Annex Table 37. **Effective exchange rates**

Indices 2005 = 100, average of daily rates

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Estimates and assumptions[1] 2010	2011
Australia	94.8	95.9	89.2	89.5	83.2	78.0	81.0	90.4	97.5	100.0	98.7	104.9	102.9	98.4	111.2	111.4
Austria	96.8	94.9	96.9	97.3	95.1	95.5	96.3	99.7	100.7	100.0	100.1	100.8	101.4	102.4	100.1	99.6
Belgium	96.5	92.4	94.7	94.4	90.6	91.8	93.7	98.7	100.4	100.0	100.2	101.6	103.7	104.7	101.6	100.9
Canada	86.9	87.1	82.9	82.7	83.5	81.0	79.8	88.1	93.5	100.0	106.6	111.4	110.8	105.0	116.0	116.5
Chile	..	119.3	115.3	107.5	104.7	93.6	91.5	86.6	94.4	100.0	103.7	100.9	98.9	95.6	100.9	100.9
Czech Republic	81.0	78.5	79.7	79.2	80.2	84.3	93.9	93.8	94.1	100.0	105.0	107.4	119.8	114.8	115.8	115.7
Denmark	96.3	94.0	96.5	95.8	91.9	93.6	95.1	99.5	100.9	100.0	99.9	101.2	103.2	105.8	101.9	101.2
Finland	90.4	88.5	91.4	93.9	89.7	91.6	93.6	98.9	100.7	100.0	99.9	101.6	103.8	106.1	101.4	100.5
France	96.5	93.7	96.1	95.5	91.9	92.9	94.5	99.0	100.5	100.0	100.1	101.5	103.3	104.0	101.2	100.6
Germany	94.6	91.2	94.6	94.5	90.4	91.6	93.4	99.1	101.1	100.0	100.1	101.6	103.1	104.6	100.8	100.0
Greece	103.1	101.3	98.1	98.3	91.7	92.6	94.6	99.2	100.9	100.0	100.0	101.3	103.2	104.1	101.0	100.3
Hungary	117.7	109.0	98.6	94.9	89.9	91.6	98.0	97.5	99.4	100.0	93.7	99.2	99.6	90.6	90.9	89.8
Iceland	89.5	91.8	94.3	95.5	96.4	82.2	84.9	89.0	89.9	100.0	89.7	90.7	65.8	47.7	47.9	48.8
Ireland	98.7	98.6	96.0	93.3	86.9	88.0	90.2	98.0	100.2	100.0	100.2	102.6	108.0	110.1	106.1	105.1
Italy	91.8	92.9	94.9	94.7	91.2	92.5	94.4	99.2	100.8	100.0	100.1	101.5	103.0	104.1	100.8	100.1
Japan	87.7	83.6	86.5	99.4	108.2	99.9	95.9	99.0	103.1	100.0	92.6	87.6	97.9	111.7	110.8	110.3
Korea	115.5	106.5	76.8	88.3	94.6	87.5	90.5	89.9	89.8	100.0	107.5	107.0	86.4	73.7	82.1	82.6
Luxembourg	99.9	97.0	97.7	97.5	94.7	95.2	96.2	99.5	100.6	100.0	100.2	101.6	102.8	102.3	100.6	100.1
Mexico	139.5	136.9	121.6	116.1	118.6	122.1	118.5	103.4	97.2	100.0	99.3	97.3	94.7	78.9	84.2	84.7
Netherlands	95.2	90.4	93.6	93.4	88.5	89.8	92.0	98.3	100.7	100.0	100.1	102.0	104.0	104.7	100.8	99.8
New Zealand	91.7	93.7	84.0	81.1	73.6	72.6	78.7	89.5	95.5	100.0	92.4	98.9	92.5	85.0	92.7	93.7
Norway	94.8	95.5	92.6	92.4	90.4	93.4	101.4	99.2	95.8	100.0	99.5	101.0	101.0	97.9	103.4	103.4
Poland	110.3	102.3	100.3	93.4	96.2	106.1	101.6	91.4	89.5	100.0	103.1	106.8	116.3	95.6	100.9	100.0
Portugal	99.5	98.1	98.0	97.5	95.1	96.1	97.1	99.8	100.5	100.0	100.0	100.8	102.0	102.7	100.7	100.3
Slovak Republic	93.1	97.1	96.4	89.2	90.7	88.5	89.0	94.0	98.1	100.0	103.1	113.6	122.6	131.2	127.5	127.1
Spain	98.7	94.6	96.1	95.6	92.6	93.7	95.5	99.4	100.5	100.0	100.2	101.3	103.0	103.9	101.4	100.8
Sweden	104.5	101.1	101.0	100.8	101.0	92.9	95.2	100.8	102.5	100.0	100.4	101.6	99.6	91.5	96.6	96.6
Switzerland	92.3	86.9	91.2	92.0	90.3	93.9	98.8	100.4	100.8	100.0	98.6	96.1	101.7	107.5	109.6	109.6
Turkey	1534.1	909.3	548.6	361.9	263.3	148.3	110.5	97.4	95.0	100.0	93.2	95.3	91.4	81.4	85.1	86.1
United Kingdom	78.5	91.3	97.3	97.8	100.3	99.4	100.9	97.0	101.5	100.0	100.6	102.4	89.6	79.6	78.4	78.3
United States	89.4	95.7	105.6	105.4	107.9	113.7	114.3	107.5	102.6	100.0	98.4	94.1	90.8	96.1	93.4	93.8
Euro area	91.4	85.6	90.6	89.8	81.7	83.8	87.3	97.9	101.5	100.0	100.2	103.4	107.2	109.7	102.4	100.8

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).*

1. On the technical assumption that exchange rates remain at their levels of 10 May 2010.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308154

Annex Table 38. **Export volumes of goods and services**

National accounts basis, percentage changes from previous year

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	5.7	8.3	9.0	5.0	10.5	11.6	-0.1	4.7	10.7	2.2	0.4	-2.2	4.0	2.4	3.4	3.3	2.6	0.6	4.5	6.5
Austria	1.0	-1.8	6.0	7.2	2.2	12.1	8.5	6.4	13.0	6.5	3.5	1.8	9.8	7.8	7.7	9.1	-0.3	-15.0	4.0	7.7
Belgium	3.7	-0.4	8.3	5.0	3.5	10.2	4.8	4.3	11.9	1.1	2.7	0.8	6.4	4.8	5.0	4.4	1.4	-12.6	5.8	5.6
Canada	7.2	10.8	12.7	8.5	5.6	8.3	9.1	10.7	8.9	-3.0	1.2	-2.3	5.0	1.9	0.8	1.1	-4.7	-14.0	7.6	6.1
Chile	..	..	..	..	11.8	11.2	5.2	7.3	5.1	7.2	1.6	6.5	13.3	4.3	5.1	7.6	3.1	-5.6	3.9	7.0
Czech Republic	..	..	0.2	16.7	5.7	8.4	10.4	5.0	17.3	11.2	2.0	7.2	20.3	11.8	16.2	15.0	5.7	-9.9	6.0	7.1
Denmark	0.5	1.0	8.4	3.1	4.2	4.9	4.1	11.6	12.7	3.1	4.1	-1.0	2.8	8.0	9.0	2.2	2.4	-10.4	2.4	4.9
Finland	10.0	16.3	13.4	8.6	5.8	14.0	9.4	10.9	17.3	1.7	3.3	-1.8	8.1	7.0	12.2	7.9	6.6	-24.4	4.8	5.7
France[1]	5.8	0.5	8.3	8.3	3.4	13.1	8.4	4.3	13.0	2.5	1.4	-1.2	3.7	3.4	5.0	2.5	-0.6	-10.9	7.8	7.2
Germany	-2.0	-4.8	8.1	6.6	6.2	11.8	7.4	5.6	14.1	6.8	4.3	2.4	9.3	8.0	13.4	7.8	2.4	-14.2	10.0	8.8
Greece	10.0	-2.6	7.4	3.0	3.5	20.0	5.3	18.1	14.1	0.0	-8.4	2.9	17.4	2.4	5.3	5.8	4.0	-18.1	3.3	5.9
Hungary	..	..	..	..	11.1	20.9	16.5	11.1	19.7	8.1	3.9	6.2	15.0	11.3	18.6	16.2	5.6	-9.1	8.4	6.3
Iceland	-2.0	6.5	9.3	-2.3	9.9	5.6	2.5	4.0	4.2	7.4	3.8	1.6	8.4	7.5	-4.6	17.7	7.1	6.2	1.0	2.0
Ireland	13.9	9.7	15.1	20.0	12.5	17.6	23.1	15.6	20.2	8.7	5.2	0.5	7.5	5.2	5.1	8.6	-1.0	-2.3	3.7	5.2
Italy	6.4	8.7	10.6	12.7	0.6	5.7	1.7	-0.6	13.0	2.2	-2.8	-1.5	3.6	2.0	6.5	3.9	-3.9	-19.1	2.5	3.6
Japan	4.4	0.4	3.9	4.2	5.9	11.1	-2.7	1.9	12.7	-6.9	7.5	9.2	13.9	7.0	9.7	8.4	1.6	-24.0	17.8	7.8
Korea	13.9	7.9	16.4	24.7	11.6	19.8	12.9	14.4	18.1	-3.4	12.1	14.5	19.7	7.8	11.4	12.6	6.6	-0.8	11.1	12.6
Luxembourg	2.7	4.8	7.7	4.6	2.3	11.4	11.2	14.2	12.6	4.5	2.1	6.8	11.1	4.5	13.3	8.8	1.5	-7.6	7.0	3.5
Mexico	5.0	8.1	17.7	30.2	18.2	10.6	12.3	12.3	16.3	-3.5	1.4	2.7	11.5	6.6	11.0	5.7	0.8	-15.2	15.0	7.8
Netherlands	2.9	4.0	8.7	9.2	4.4	10.9	6.8	8.7	13.5	1.9	0.9	1.5	7.9	6.0	7.3	6.7	2.7	-8.2	9.6	7.0
New Zealand	3.8	4.8	9.9	3.8	3.8	3.9	1.5	7.9	7.0	3.3	6.4	2.3	6.2	-0.5	1.7	3.8	-1.4	0.0	4.3	5.6
Norway	4.8	3.1	8.4	5.0	10.0	7.8	0.7	2.8	3.2	4.3	-0.3	-0.2	1.1	1.1	0.0	2.3	0.9	-4.3	1.0	2.6
Poland	..	..	..	..	12.8	12.2	14.4	-2.4	23.1	3.1	4.8	14.2	14.0	7.9	14.6	9.1	7.0	-9.6	5.9	6.8
Portugal	3.2	-3.3	8.4	8.8	5.7	6.1	8.5	3.0	8.4	1.8	1.5	3.9	4.0	2.0	8.7	7.8	-0.5	-11.6	5.3	5.3
Slovak Republic	..	..	14.8	4.5	-1.4	10.0	21.0	12.2	8.9	6.9	5.2	15.9	7.4	10.0	21.0	14.3	3.2	-16.5	13.6	11.7
Spain	7.5	7.8	16.7	9.4	10.3	15.0	8.0	7.5	10.2	4.2	2.0	3.7	4.2	2.5	6.7	6.6	-1.0	-11.5	13.0	12.4
Sweden	2.0	8.3	13.1	11.7	4.5	14.1	8.8	6.8	11.9	0.8	1.3	4.4	10.0	6.6	9.4	5.9	1.2	-12.4	2.5	6.9
Switzerland	3.3	1.4	1.9	0.6	3.7	11.2	4.3	6.5	12.5	0.5	-0.1	-0.5	7.9	7.8	10.3	9.5	2.9	-10.0	6.2	5.4
Turkey	11.0	7.7	15.2	8.0	22.0	19.1	12.0	-10.7	16.0	3.9	6.9	6.9	11.2	7.9	6.6	7.3	2.7	-5.4	8.4	8.8
United Kingdom	4.2	4.5	9.2	9.4	8.8	8.1	3.1	3.7	9.1	3.0	1.0	1.8	5.0	7.9	11.3	-2.8	1.1	-10.6	6.6	8.0
United States[1]	6.9	3.3	8.7	10.1	8.3	11.9	2.3	4.4	8.6	-5.6	-2.0	1.6	9.5	6.7	9.0	8.7	5.4	-9.6	9.4	7.9
Total OECD	4.5	3.0	9.0	9.0	6.6	11.1	5.4	5.5	11.9	0.6	1.8	2.3	8.3	5.9	8.8	6.3	1.9	-12.0	8.6	7.6

Note: Regional aggregates are calculated inclusive of intra-regional trade as the sum of volumes expressed in 2005 $.

1. Volume data use hedonic price deflators for certain components.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308173

Annex Table 39. **Import volumes of goods and services**

National accounts basis, percentage changes from previous year

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	6.9	4.7	14.1	8.3	8.0	10.4	6.7	8.4	7.4	-4.6	11.2	10.6	15.1	8.6	7.2	12.2	11.1	-7.8	13.4	9.6
Austria	1.2	-3.6	8.8	6.5	4.1	7.8	5.1	5.1	10.2	5.2	0.4	4.0	9.4	7.0	5.5	6.8	-1.5	-13.1	1.5	6.8
Belgium	4.1	-0.4	7.3	4.7	3.6	9.3	5.6	2.6	12.4	0.0	0.9	0.8	6.2	6.5	4.7	4.4	2.7	-12.8	4.5	5.8
Canada	4.7	7.4	8.1	5.7	5.1	14.2	5.1	7.8	8.1	-5.1	1.7	4.1	8.0	7.1	4.7	5.8	0.8	-13.4	11.4	6.4
Chile	..	..	..	..	11.8	13.2	6.7	-9.5	10.1	4.1	2.3	9.7	18.4	17.2	10.6	14.5	12.2	-14.5	16.4	11.9
Czech Republic	..	..	7.8	21.2	12.2	6.9	8.4	4.6	17.1	12.7	4.9	8.0	17.5	5.2	14.7	14.2	4.3	-9.9	4.8	6.5
Denmark	0.1	-1.1	12.8	7.2	3.3	9.5	8.5	3.5	13.0	1.9	7.5	-1.6	7.7	11.1	13.4	2.6	3.3	-13.2	2.5	5.4
Finland	0.6	1.3	13.0	8.2	7.2	11.9	8.7	4.2	16.7	1.3	3.2	3.2	7.4	11.4	7.9	6.0	6.6	-22.3	4.0	4.6
France[1]	1.5	-3.1	8.7	7.3	1.9	8.1	11.6	6.3	15.5	2.3	1.6	1.3	6.4	6.3	5.9	5.4	0.6	-9.9	5.5	6.9
Germany	1.7	-4.5	8.3	6.8	3.7	8.3	9.0	8.3	10.7	1.5	-1.4	5.3	6.5	6.9	12.2	5.0	3.9	-8.9	8.2	6.7
Greece	1.1	0.6	1.5	8.9	7.0	14.2	9.2	15.0	15.1	1.2	-1.3	3.0	5.2	-0.3	9.1	7.1	0.2	-14.1	-13.9	-6.6
Hungary	..	..	..	..	9.1	22.3	22.9	12.3	18.0	5.3	6.8	9.3	13.7	7.0	14.8	13.3	5.7	-15.4	9.3	5.6
Iceland	-6.0	-7.5	3.8	3.6	16.5	8.0	23.4	4.4	8.6	-9.1	-2.6	10.7	14.5	29.3	10.4	-0.7	-18.2	-24.0	1.6	3.7
Ireland	8.2	7.5	15.5	16.4	12.9	16.6	27.5	12.4	21.7	7.1	2.7	-1.6	8.5	8.3	6.6	5.7	-2.0	-9.3	-0.4	3.1
Italy	6.5	-11.6	8.7	9.7	-1.2	9.8	8.6	4.7	10.7	1.4	0.2	1.6	3.3	2.7	6.2	3.3	-4.3	-14.8	2.7	3.0
Japan	-1.1	-1.3	8.2	14.2	13.4	0.5	-6.8	3.6	9.2	0.6	0.9	3.9	8.1	5.8	4.2	1.6	0.9	-17.0	8.3	8.2
Korea	5.4	4.9	22.8	22.5	14.7	4.2	-22.0	26.4	22.6	-4.9	14.4	11.1	11.7	7.6	11.3	11.7	4.4	-8.2	14.2	11.9
Luxembourg	-3.1	5.2	6.7	4.2	5.4	12.6	11.8	14.8	10.5	6.0	0.8	6.9	11.8	4.2	12.9	8.3	3.3	-9.2	7.6	3.4
Mexico	19.9	1.9	21.2	-15.1	22.7	22.7	16.8	13.9	21.6	-1.5	1.4	0.7	10.7	8.4	12.7	7.0	3.1	-18.5	15.9	9.0
Netherlands	2.9	0.4	9.0	10.2	5.3	11.9	9.0	9.3	12.2	2.5	0.3	1.8	5.7	5.4	8.8	5.1	3.7	-8.7	9.0	6.9
New Zealand	8.3	5.4	13.1	8.7	7.6	2.1	1.3	12.1	-0.4	2.0	9.6	8.4	15.9	5.4	-2.5	8.9	1.9	-14.9	14.7	9.0
Norway	1.7	4.8	5.8	5.8	8.8	12.5	8.8	-1.6	2.0	1.7	1.0	1.4	8.8	8.7	8.4	8.6	2.2	-9.7	2.1	5.7
Poland	..	..	..	..	27.2	21.1	18.7	1.6	15.5	-5.3	2.8	9.6	15.7	4.7	17.4	13.5	8.1	-13.5	5.6	8.9
Portugal	10.7	-3.3	8.8	7.4	5.2	9.8	14.2	8.6	5.3	0.9	-0.7	-0.8	6.7	3.5	5.1	6.1	2.7	-9.2	1.9	2.3
Slovak Republic	..	..	-4.7	11.6	17.3	10.2	19.1	0.4	8.2	13.5	4.4	7.4	8.3	12.4	17.8	9.2	3.1	-17.6	10.1	12.1
Spain	6.8	-5.2	11.4	11.1	8.8	13.3	14.8	13.7	10.8	4.5	3.7	6.2	9.6	7.7	10.2	8.0	-4.9	-17.9	8.2	8.4
Sweden	1.4	-1.9	12.6	7.6	3.5	12.9	11.1	4.6	12.0	-1.5	-1.2	4.0	5.7	6.9	9.5	9.3	2.5	-13.2	0.8	6.6
Switzerland	-3.3	-0.1	7.7	4.0	4.0	8.1	7.4	4.1	10.3	2.3	-1.1	1.3	7.3	6.6	6.5	6.0	0.4	-5.9	4.0	6.1
Turkey	10.9	35.8	-21.9	29.6	20.5	22.4	2.3	-3.7	21.8	-24.8	20.9	23.5	20.8	12.2	6.9	10.7	-4.1	-14.6	16.8	13.6
United Kingdom	6.8	3.3	5.9	5.5	9.7	9.7	9.3	7.9	8.9	4.8	4.9	2.2	6.9	7.1	8.8	-0.7	-0.5	-11.9	6.9	5.2
United States[1]	7.0	8.6	11.9	8.0	8.7	13.5	11.7	11.5	13.0	-2.8	3.4	4.4	11.0	6.1	6.1	2.0	-3.2	-13.9	10.0	8.4
Total OECD	4.2	0.9	9.4	8.4	7.3	10.3	7.7	8.2	12.2	0.1	2.4	4.0	8.7	6.6	8.0	4.8	0.5	-12.5	7.9	7.2

Note: Regional aggregates are calculated inclusive of intra-regional trade as the sum of volumes expressed in 2005 $.

1. Volume data use hedonic price deflators for certain components.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308192

Annex Table 40. **Export prices of goods and services**

National accounts basis, percentage changes from previous year, national currency terms

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	1.7	1.0	-3.8	6.0	-2.3	0.0	2.3	-4.8	12.9	6.7	-2.0	-5.0	4.5	12.4	12.1	0.8	24.2	-10.4	4.3	4.9
Austria	-0.1	0.2	1.3	1.6	0.6	0.9	0.1	0.4	1.6	0.6	0.3	-0.4	1.1	1.7	2.5	1.7	2.6	-1.6	1.7	1.3
Belgium	-1.1	-1.3	1.3	1.6	-1.5	1.2	-1.0	-0.1	5.5	1.4	-0.7	-1.3	2.0	4.1	2.7	2.2	4.2	-4.1	2.1	1.2
Canada	2.9	4.4	5.9	6.4	0.6	0.2	-0.3	1.1	6.2	1.3	-1.9	-1.3	2.2	2.8	0.2	0.9	10.4	-9.4	3.0	1.2
Chile	..	..	..	..	-8.1	-0.7	-2.9	6.6	11.0	5.5	7.1	11.2	12.3	10.3	23.9	5.9	-4.4	-7.5	16.7	4.7
Czech Republic	..	..	5.2	6.4	4.7	5.6	3.9	1.1	3.2	-0.3	-5.5	0.1	2.7	-2.2	-1.3	-0.1	-5.2	-1.2	-1.2	1.7
Denmark	1.3	-1.7	-0.3	1.0	1.5	2.7	-2.1	-0.5	8.2	1.6	-1.3	-1.1	1.9	5.4	3.0	2.1	5.3	-8.5	3.2	2.1
Finland	6.1	6.6	1.5	4.8	-0.5	-1.0	-1.0	-5.1	3.5	-1.3	-2.6	-1.4	-0.4	1.2	2.3	1.0	-1.0	-5.8	2.1	2.2
France[1]	-2.2	-2.2	-0.4	-0.5	0.9	1.3	-1.5	-1.6	2.4	-0.3	-1.7	-1.8	0.6	2.1	2.5	1.4	2.9	-3.5	0.6	1.0
Germany	1.0	0.1	0.8	1.2	-0.5	0.9	-0.9	-0.9	2.5	0.4	-0.2	-1.7	0.0	0.7	1.3	0.5	0.6	-2.9	2.3	0.3
Greece	10.1	9.1	8.6	8.7	5.6	3.6	4.1	1.9	8.0	3.9	2.4	1.6	2.3	2.9	3.3	2.3	3.8	-1.7	-2.0	0.6
Hungary	..	..	18.5	45.5	19.3	15.8	13.2	4.9	10.3	3.0	-4.0	0.1	-1.1	-0.3	6.5	-4.0	1.0	2.5	-2.9	0.9
Iceland	-1.3	4.8	6.2	4.8	-0.2	2.1	4.5	0.0	3.8	21.5	-1.7	-7.1	1.3	-4.5	21.3	2.2	35.5	12.2	9.2	4.8
Ireland	-2.0	6.8	0.2	1.9	-0.3	1.2	2.8	2.3	6.2	4.6	-0.4	-5.0	-0.6	0.7	1.2	0.2	0.0	0.1	-2.4	-0.4
Italy	0.7	10.4	3.4	8.2	0.3	1.3	1.4	0.7	4.4	2.3	1.4	0.4	2.6	4.0	4.6	4.1	5.1	-0.4	2.1	1.6
Japan	-2.9	-7.1	-3.4	-1.9	3.5	1.8	0.9	-8.8	-4.1	2.2	-1.2	-3.4	-1.2	1.4	3.7	2.5	-4.1	-11.6	0.4	0.0
Korea	3.3	1.5	1.8	1.8	-2.0	5.0	22.7	-19.6	-3.6	3.6	-8.5	-0.7	4.1	-6.7	-4.7	0.7	24.9	-1.7	-2.6	-2.4
Luxembourg	1.8	5.7	3.1	1.5	6.8	1.6	0.6	5.3	9.8	-4.0	-0.1	-1.8	6.4	8.0	7.9	5.8	0.9	-3.7	1.8	1.6
Mexico	5.2	3.3	5.9	79.5	23.0	7.2	9.3	6.6	3.4	-2.3	3.3	11.2	6.7	3.1	4.3	3.0	7.3	13.5	8.5	4.2
Netherlands	-1.9	-2.5	0.6	0.7	0.8	2.5	-2.0	-1.2	6.0	0.9	-1.8	-0.8	0.6	3.4	2.6	1.3	4.7	-5.9	2.1	1.2
New Zealand	5.5	2.1	-2.6	-0.5	-2.5	-2.4	4.9	-0.1	14.3	7.2	-7.2	-7.3	-0.1	1.2	6.9	1.2	15.3	-7.4	5.8	1.6
Norway	-7.0	2.1	-2.8	1.8	6.9	2.0	-7.9	10.7	36.7	-2.2	-10.2	2.1	12.9	17.3	15.4	1.4	16.5	-14.1	5.0	2.9
Poland	..	..	31.7	19.6	6.8	14.1	13.1	5.7	1.9	1.3	4.7	6.2	8.3	-2.5	2.3	2.7	-0.9	13.8	0.5	0.5
Portugal	0.5	4.9	6.4	5.6	-0.9	3.4	1.6	0.3	5.3	0.8	-0.1	-1.4	1.5	1.9	4.2	2.8	3.2	-4.7	1.5	1.3
Slovak Republic	..	..	10.7	8.4	4.3	6.5	-4.8	-1.1	17.3	4.9	1.0	1.5	1.8	1.6	2.2	0.5	1.4	-4.7	0.1	2.5
Spain	2.9	5.0	4.6	5.9	1.4	3.0	0.5	0.0	7.3	1.8	0.7	-0.2	1.6	4.3	4.1	2.5	3.0	-2.7	0.1	0.5
Sweden	-2.6	8.7	4.0	6.2	-4.7	-0.3	-1.5	-1.0	2.2	2.3	-1.6	-2.1	0.4	2.9	2.5	1.7	4.3	0.5	2.5	1.8
Switzerland	0.8	2.0	-0.4	-0.3	-1.1	0.7	-0.3	-0.8	2.9	0.3	-2.4	0.5	0.5	0.8	2.7	3.8	1.4	-2.2	-2.0	0.1
Turkey	62.5	59.9	164.8	73.0	69.0	87.0	60.1	52.0	42.0	89.4	25.4	10.7	13.3	-0.2	13.7	2.1	17.5	3.1	5.1	3.7
United Kingdom	0.7	9.1	1.2	3.3	1.6	-4.1	-4.7	0.3	1.9	-0.4	0.3	1.7	-0.5	0.9	2.7	1.2	12.5	3.0	1.8	0.8
United States[1]	-0.4	0.0	1.1	2.3	-1.3	-1.7	-2.3	-0.6	1.8	-0.4	-0.4	2.2	3.5	3.6	3.4	3.5	4.9	-5.5	3.7	3.0
Total OECD	1.6	2.2	4.8	6.7	2.4	2.3	1.5	-0.5	3.1	2.6	-0.1	0.8	2.4	2.6	3.5	2.4	5.2	-3.8	2.5	1.8

Note: Regional aggregates are calculated inclusive of intra-regional trade. They are calculated as the geometric averages of prices weighted by 2005 GDP volumes expressed in $.

1. Certain components are estimated on a hedonic basis.

Source: OECD Economic Outlook 87 database.

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Annex Table 41. **Import prices of goods and services**

National accounts basis, percentage changes from previous year, national currency terms

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	4.2	5.6	-4.4	3.2	-6.5	-1.5	6.5	-4.3	7.4	5.9	-4.2	-8.5	-4.8	0.6	4.2	-3.7	7.8	-2.6	-7.2	0.5
Austria	0.5	0.9	1.2	1.4	2.3	1.8	0.3	0.5	2.9	0.5	-1.1	-0.6	1.3	2.7	3.3	2.0	4.0	-1.9	2.4	1.4
Belgium	-2.8	-2.8	1.8	1.7	-0.6	1.5	-1.8	1.1	7.7	1.3	-1.8	-1.2	3.0	4.2	3.6	1.9	6.6	-6.6	2.1	1.2
Canada	4.4	6.4	6.6	3.4	-1.1	0.8	3.7	-0.2	2.1	3.0	0.6	-6.5	-2.2	-0.7	-0.6	-2.2	5.5	-0.2	-4.7	0.1
Chile	..	..	..	..	5.4	-1.0	-0.2	3.9	8.0	10.2	3.6	2.9	-6.2	0.7	-0.5	4.3	14.0	-10.9	7.4	5.0
Czech Republic	..	..	2.6	5.8	1.7	5.2	-1.7	1.6	6.1	-2.6	-8.4	-0.4	1.3	-0.5	-0.1	-1.2	-3.7	-3.7	-2.0	1.8
Denmark	-1.1	-1.3	0.5	0.5	-0.1	2.4	-2.1	-0.5	7.2	1.5	-2.5	-2.0	0.7	3.3	3.3	3.2	4.1	-7.9	5.0	2.0
Finland	7.7	8.1	-0.5	0.1	0.3	0.5	-2.7	-2.1	7.4	-3.0	-2.7	0.0	1.9	4.8	5.7	1.9	1.9	-7.3	2.0	1.5
France[1]	-3.8	-2.2	-0.4	-0.5	0.8	0.6	-2.8	-1.7	5.5	-0.9	-4.2	-1.6	1.3	3.2	3.2	0.7	4.0	-6.5	2.4	1.3
Germany	-2.1	-1.8	-0.1	-0.3	0.2	3.1	-2.4	-1.4	7.7	0.5	-2.2	-2.6	0.2	2.2	2.6	0.1	1.4	-6.4	3.6	0.6
Greece	12.3	7.4	5.6	7.5	5.0	2.8	3.8	1.7	9.3	3.0	0.8	-0.3	2.0	3.6	3.8	2.4	4.3	-1.4	0.3	1.2
Hungary	..	..	15.6	41.1	20.7	13.7	12.1	5.6	12.9	2.4	-5.4	0.3	-1.0	1.3	8.0	-4.3	1.7	1.5	-2.8	2.2
Iceland	-0.7	8.7	5.9	3.7	3.1	0.0	-0.7	0.6	6.3	21.1	-2.3	-3.1	2.6	-5.4	17.3	2.1	44.4	24.9	4.0	4.2
Ireland	-1.2	4.5	2.4	3.8	-0.5	0.8	2.6	2.6	7.5	3.9	-1.4	-4.0	0.1	1.8	2.2	2.7	1.3	-0.3	-1.5	0.0
Italy	1.7	15.4	4.8	11.4	-2.6	1.7	-1.6	0.7	11.2	1.4	-0.3	-1.3	2.7	6.3	7.7	2.6	6.8	-6.1	4.4	2.1
Japan	-4.7	-8.4	-4.7	-2.5	8.4	6.5	-2.7	-8.5	1.5	2.4	-0.9	-0.8	2.9	8.3	11.4	7.3	5.8	-20.3	5.6	0.9
Korea	3.4	0.2	1.0	4.3	3.0	11.4	26.8	-17.0	4.0	6.4	-8.6	0.2	7.0	-3.2	-1.2	1.4	35.2	-4.3	-2.0	-1.3
Luxembourg	2.7	3.2	2.1	1.3	5.9	5.2	1.7	3.0	12.3	-3.2	-1.0	-5.8	7.6	7.7	5.4	6.0	-0.8	-4.6	2.3	1.4
Mexico	4.0	3.7	5.1	95.1	21.4	3.6	12.0	3.7	0.1	-2.8	2.0	12.5	8.4	0.2	1.8	2.9	7.2	15.0	6.3	4.9
Netherlands	-1.4	-2.4	0.3	0.3	0.7	1.5	-2.4	-0.9	5.8	-0.4	-2.9	-0.9	1.4	2.7	3.0	1.7	4.5	-4.9	3.7	1.0
New Zealand	6.3	-1.6	-3.8	-1.8	-3.7	-0.4	5.7	0.7	15.4	2.2	-5.9	-11.4	-4.3	1.0	10.0	-4.7	13.2	-1.6	-3.9	3.7
Norway	-1.8	1.6	0.7	0.6	0.8	0.3	1.2	-1.1	7.5	-0.1	-5.0	1.1	4.8	1.5	3.1	3.9	4.0	-1.0	-4.2	0.4
Poland	..	..	27.0	18.0	11.0	16.0	10.8	6.5	7.9	1.3	5.4	6.7	4.9	-3.5	2.4	1.2	0.8	8.0	1.0	2.0
Portugal	-4.2	4.4	4.3	3.9	1.5	2.6	-1.4	-0.7	8.5	0.3	-1.7	-1.8	2.2	3.2	4.0	1.5	5.0	-8.7	3.4	1.4
Slovak Republic	..	..	12.3	7.3	9.6	3.6	-2.4	0.3	14.1	6.0	1.0	1.9	2.1	1.7	3.6	1.6	3.0	-5.7	0.4	3.9
Spain	1.2	6.1	5.8	4.4	0.4	3.4	-1.5	0.3	10.6	-0.2	-2.0	-1.5	2.2	3.7	3.8	2.0	4.7	-6.7	3.8	0.5
Sweden	-2.2	13.8	3.3	4.3	-3.9	0.0	-0.8	1.6	3.8	3.7	0.1	-2.3	1.9	4.6	2.8	0.3	4.9	-0.2	3.9	1.6
Switzerland	1.9	-1.4	-4.5	-2.6	-0.4	3.8	-1.6	-0.1	5.8	0.5	-5.9	-1.4	1.2	3.3	3.9	4.0	2.0	-6.4	-0.1	0.1
Turkey	63.1	48.9	163.3	85.0	80.4	74.1	62.5	47.9	56.7	93.4	22.1	7.1	10.8	0.2	19.0	0.1	21.3	0.9	7.8	4.1
United Kingdom	0.0	8.6	3.0	5.9	0.1	-7.0	-5.7	-1.1	3.1	-0.2	-2.2	0.4	-0.7	3.8	3.2	0.0	11.2	3.8	2.1	1.3
United States[1]	0.1	-0.8	0.9	2.7	-1.7	-3.5	-5.4	0.6	4.3	-2.4	-1.1	3.5	4.8	6.2	4.1	3.7	10.7	-10.5	7.6	2.0
Total OECD	1.1	1.7	4.5	7.4	3.0	2.2	-0.1	-0.3	6.0	1.9	-1.1	0.9	3.1	4.3	4.7	2.6	8.6	-7.0	4.4	1.6

Note: Regional aggregates are calculated inclusive of intra-regional trade. They are calculated as the geometric averages of prices weighted by 2005 GDP volumes expressed in $.

1. Certain components are estimated on a hedonic basis.

Source: OECD Economic Outlook 87 database.

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Annex Table 42. **Competitive positions: relative consumer prices**

Indices, 2005 = 100

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Australia	85.9	79.3	83.2	81.9	89.6	88.7	81.1	81.6	77.9	75.0	79.3	89.6	97.0	100.0	99.9	106.0	104.1	101.1
Austria	101.3	102.4	102.6	105.5	103.1	99.4	99.7	98.5	96.0	96.3	96.7	99.5	100.5	100.0	99.4	99.8	100.0	100.7
Belgium	98.3	98.1	99.7	103.1	100.6	95.4	96.2	94.9	91.2	92.1	93.5	98.0	99.8	100.0	99.8	100.5	103.4	103.5
Canada	106.7	99.5	91.4	89.4	89.5	88.8	83.8	83.1	83.7	81.1	80.4	89.4	94.2	100.0	105.6	109.7	107.5	102.1
Chile	..	..	..	..	..	112.3	110.9	104.6	103.2	94.9	93.8	88.1	94.5	100.0	104.2	102.7	104.8	100.8
Czech Republic	..	62.2	65.3	67.6	72.0	73.2	80.1	78.9	80.5	86.0	95.5	93.6	94.3	100.0	105.5	108.3	124.0	118.9
Denmark	93.5	94.2	94.0	97.4	95.9	93.5	95.6	95.7	92.4	93.8	95.6	100.3	101.0	100.0	99.7	100.2	101.9	105.0
Finland	117.0	97.8	101.6	109.1	102.7	99.0	100.7	100.4	96.2	97.5	98.6	102.7	102.5	100.0	99.0	100.3	102.1	103.2
France	101.1	102.1	102.0	104.1	103.4	99.1	99.9	97.9	93.5	93.4	94.8	99.5	101.0	100.0	99.6	99.9	100.7	100.9
Germany	104.1	107.5	108.2	112.3	107.8	102.3	103.5	101.1	95.0	95.0	95.9	100.6	101.9	100.0	99.4	100.5	100.5	101.3
Greece	87.9	88.5	89.2	92.1	94.7	95.4	93.9	94.3	88.2	89.2	91.8	97.4	99.6	100.0	100.9	102.6	104.8	106.1
Hungary	..	72.2	70.5	67.0	67.6	71.8	72.3	74.3	75.3	81.5	89.9	91.9	98.0	100.0	95.4	106.3	109.1	102.5
Iceland	89.2	83.9	78.6	77.5	77.0	78.6	80.7	82.8	85.9	76.3	81.7	85.9	88.1	100.0	93.7	97.5	76.4	62.2
Ireland	94.0	86.9	86.9	87.9	89.3	88.5	86.5	83.8	80.7	83.8	88.4	97.6	100.0	100.0	101.9	106.9	112.8	108.9
Italy	111.0	93.7	91.1	84.6	93.6	93.9	95.3	94.4	90.8	92.1	94.2	99.4	101.0	100.0	100.0	100.5	101.4	102.4
Japan	102.5	118.8	128.3	130.5	109.1	102.7	103.3	116.1	122.8	110.0	103.2	104.5	106.1	100.0	90.5	83.0	89.7	100.4
Korea	95.8	93.1	94.1	95.2	98.7	92.6	70.3	80.2	86.4	81.8	86.2	87.5	88.9	100.0	107.9	107.4	87.2	76.5
Luxembourg	98.8	98.7	99.9	102.3	99.9	96.2	96.2	95.5	93.5	94.2	95.4	98.9	100.2	100.0	100.9	102.3	103.2	102.9
Mexico	97.9	104.6	100.0	67.8	75.7	87.5	88.4	96.7	105.1	112.1	112.5	100.4	96.4	100.0	100.0	99.2	97.6	85.6
Netherlands	94.0	94.3	94.4	98.0	95.3	90.0	92.7	92.0	87.1	89.7	93.2	99.8	101.3	100.0	99.0	99.8	100.2	101.3
New Zealand	74.7	76.4	80.5	86.3	91.5	93.1	83.0	79.0	71.8	71.0	77.8	88.4	94.6	100.0	93.2	99.8	93.3	87.0
Norway	98.1	94.3	91.9	94.1	93.0	94.1	91.7	92.2	91.2	94.7	102.1	100.5	96.0	100.0	99.9	99.8	99.7	98.2
Poland	..	69.0	69.7	74.5	79.9	82.7	88.0	85.4	94.2	106.3	101.6	90.2	89.4	100.0	102.2	105.7	115.4	97.6
Portugal	95.2	92.2	90.8	94.1	94.0	92.8	93.5	93.6	91.7	94.1	96.3	99.9	100.7	100.0	100.6	101.3	101.2	100.5
Slovak Republic	..	66.0	65.3	66.8	66.6	70.3	70.8	69.8	76.9	77.9	79.0	89.1	97.6	100.0	105.4	116.2	125.8	135.2
Spain	106.6	94.9	90.7	92.0	93.5	89.3	90.3	90.2	88.2	90.2	92.7	97.3	99.3	100.0	101.5	103.0	105.2	105.1
Sweden	135.0	110.8	109.3	108.4	116.7	110.8	107.9	105.8	104.4	95.8	98.4	104.0	104.2	100.0	99.6	100.5	98.2	89.1
Switzerland	97.8	99.6	104.2	110.5	106.5	98.1	100.4	99.2	96.4	98.7	102.4	102.7	101.8	100.0	97.4	93.2	97.3	101.4
Turkey	77.7	83.3	61.2	66.4	67.1	71.5	78.8	82.8	92.5	75.5	82.4	86.9	89.9	100.0	99.7	108.1	109.7	102.6
United Kingdom	98.1	88.3	88.2	84.4	85.8	98.8	104.3	104.0	104.7	102.1	102.6	97.9	101.6	100.0	100.6	102.2	89.1	80.5
United States	88.7	90.0	90.1	88.8	91.6	96.2	103.8	102.6	106.0	112.1	112.4	105.8	101.4	100.0	99.4	95.2	91.7	95.6
Euro area	106.4	100.3	99.9	103.7	102.3	93.2	95.6	92.2	83.1	84.8	88.1	98.6	102.0	100.0	99.7	101.9	104.0	105.1

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 Economic Outlook 87 database.

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Annex Table 43. **Competitive positions: relative unit labour costs**

Indices, 2005 = 100

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Australia	71.6	64.6	68.2	71.6	79.6	80.4	73.6	77.5	73.5	67.0	71.3	81.4	91.7	100.0	100.2	108.3	106.5	106.0
Austria	109.5	110.6	111.0	108.8	103.1	100.3	101.7	100.5	95.2	94.4	95.4	99.0	100.5	100.0	97.7	96.5	95.3	95.5
Belgium	98.2	99.6	102.9	105.1	100.6	93.2	94.0	95.0	90.4	92.3	94.5	100.0	100.7	100.0	102.6	103.1	104.1	106.8
Canada	83.4	75.4	70.3	72.2	75.7	75.4	71.4	70.9	69.0	69.1	71.7	81.8	91.9	100.0	109.2	115.3	116.3	109.6
Chile	..	..	..	..	..	97.3	99.4	99.1	98.8	89.4	90.4	86.1	94.1	100.0	106.3	107.6	111.5	134.0
Czech Republic	..	70.6	69.0	68.4	74.4	75.1	83.7	76.9	75.9	85.6	97.0	101.0	98.9	100.0	100.4	101.5	108.6	93.2
Denmark	80.4	82.4	80.3	84.0	85.2	82.8	86.1	86.7	84.0	86.0	89.7	95.8	98.4	100.0	100.9	104.3	105.1	102.9
Finland	135.7	104.1	108.1	127.5	119.1	112.4	113.4	113.5	101.9	101.0	99.1	101.3	101.8	100.0	94.8	89.5	90.5	102.7
France	112.6	112.4	113.0	114.8	114.1	107.1	104.5	101.6	96.0	94.8	96.4	99.0	101.6	100.0	101.2	102.6	102.9	101.7
Germany	99.8	104.5	104.5	114.5	112.6	103.6	106.4	106.2	100.1	98.7	100.7	105.0	104.9	100.0	96.6	96.6	95.3	96.2
Greece	76.0	83.2	85.2	89.3	91.5	97.9	94.0	91.1	86.2	86.1	103.2	105.8	105.5	100.0	103.0	104.0	96.2	102.5
Hungary	..	110.5	98.9	89.6	82.5	81.6	77.0	74.6	79.9	86.9	93.5	90.9	96.6	100.0	91.8	96.9	100.8	96.9
Iceland	68.3	62.4	60.7	61.4	61.2	64.7	70.6	78.1	84.8	74.0	78.7	82.9	85.8	100.0	97.6	103.9	77.6	56.5
Ireland	138.4	131.1	128.8	121.5	120.9	115.0	104.6	97.2	90.3	87.3	82.8	91.2	95.2	100.0	98.2	94.8	99.4	92.0
Italy	96.9	80.5	76.4	69.4	78.7	81.6	82.3	83.5	79.5	80.7	84.7	94.1	98.8	100.0	101.0	103.0	108.0	117.0
Japan	115.0	134.2	152.9	151.3	123.6	117.9	122.0	138.9	143.2	131.2	122.2	114.6	111.7	100.0	88.6	79.1	84.8	91.3
Korea	104.8	100.7	103.0	114.5	124.1	109.5	76.0	79.9	85.5	79.8	84.8	84.1	87.2	100.0	104.3	101.4	75.9	66.1
Luxembourg	94.0	90.0	90.3	98.4	97.3	92.2	88.6	85.0	83.8	88.8	89.8	93.0	95.8	100.0	106.2	99.8	105.0	115.3
Mexico	85.3	92.8	89.9	55.7	58.9	70.0	71.8	82.0	96.3	105.9	111.5	99.7	97.3	100.0	101.8	99.5	95.1	78.4
Netherlands	99.2	97.5	95.1	97.8	94.6	91.8	95.3	94.9	88.6	90.0	93.9	101.6	103.3	100.0	98.5	99.7	102.5	102.8
New Zealand	62.1	62.6	68.1	72.0	78.5	81.6	73.9	70.8	62.6	64.0	69.8	81.2	90.1	100.0	97.4	106.0	100.6	93.2
Norway	70.8	69.4	72.1	76.6	76.1	80.3	79.7	86.6	88.7	91.6	102.1	96.9	93.6	100.0	108.9	114.5	115.3	111.1
Poland	..	121.1	112.7	111.2	118.3	122.3	129.5	123.4	126.5	130.1	114.6	94.1	89.0	100.0	97.8	98.1	106.8	87.5
Portugal	95.7	92.5	92.3	94.5	91.4	90.0	92.7	94.9	93.4	93.5	95.3	96.9	98.6	100.0	101.2	97.9	97.3	99.2
Slovak Republic	..	72.0	86.9	94.5	98.5	118.6	108.3	99.8	116.5	103.7	104.1	104.9	101.0	100.0	104.6	106.7	111.5	112.6
Spain	97.9	90.4	86.3	86.7	88.7	86.9	87.3	85.6	84.9	86.0	88.4	94.0	97.6	100.0	102.6	106.6	110.8	115.2
Sweden	190.0	139.5	130.1	125.0	141.4	132.0	124.5	115.4	116.2	111.6	108.1	110.5	106.4	100.0	94.6	98.7	99.8	99.2
Turkey	126.5	117.9	82.2	70.0	68.4	77.0	83.9	108.2	116.5	88.2	89.8	87.5	90.7	100.0	96.7	101.9	102.4	88.4
United Kingdom	76.3	69.8	72.2	69.3	69.9	83.6	95.1	96.5	99.3	96.8	100.1	96.7	101.0	100.0	102.7	105.4	92.7	86.0
United States	116.9	116.8	115.0	109.2	110.4	114.3	122.2	121.2	125.1	128.5	121.1	114.2	103.3	100.0	95.7	90.3	85.7	92.4
Euro area	106.9	99.9	98.5	104.6	105.2	94.8	96.2	94.6	84.2	83.5	88.1	99.2	103.4	100.0	99.2	100.9	103.1	108.2

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 Economic Outlook 87 database.

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Annex Table 44. **Export performance for total goods and services**

Percentage changes from previous year

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	-1.2	-7.2	0.7	4.4	1.1	0.0	-1.9	2.0	-5.1	-9.5	-8.1	-6.6	-5.2	-3.9	-2.4	12.1	-8.6	-3.0
Austria	-1.3	-1.3	-2.9	2.2	0.2	0.3	1.3	4.3	1.9	-3.2	1.1	0.4	-2.6	1.8	-3.5	-4.1	-3.5	0.4
Belgium	0.3	-3.2	-1.9	0.2	-3.6	-2.0	-0.3	-0.7	1.0	-3.0	-1.8	-2.1	-3.8	-1.4	-0.8	-1.6	-1.7	-1.4
Canada	1.3	0.3	-3.0	-3.8	-0.9	0.2	-3.6	-1.0	-2.2	-6.6	-5.4	-4.5	-5.6	-2.0	-3.2	-0.9	-2.4	-2.2
Chile	..	..	2.4	1.0	2.1	1.8	-6.6	6.8	-1.2	-0.2	1.7	-3.8	-4.1	-0.6	-0.8	5.5	-7.5	-1.7
Czech Republic	-6.2	7.4	-0.6	-1.5	0.8	-0.6	5.4	8.2	0.6	2.0	11.0	3.8	4.4	7.3	2.2	2.6	-1.2	-0.5
Denmark	-0.1	-4.9	-2.1	-5.0	-3.8	5.5	1.2	2.1	2.4	-5.2	-5.4	0.4	-0.4	-4.3	-0.2	1.8	-4.3	-2.2
Finland	6.7	-0.5	-0.1	3.6	3.6	7.1	3.9	-0.7	-0.1	-7.4	-2.2	-2.3	0.8	-1.8	1.6	-12.2	-4.1	-2.6
France	1.3	-0.2	-2.6	2.5	0.9	-1.5	1.6	0.7	-1.2	-5.6	-4.9	-4.0	-3.8	-4.1	-3.1	0.8	0.3	-0.2
Germany	0.4	-2.4	-0.3	1.3	-0.1	0.0	1.5	4.9	1.2	-2.1	-0.4	0.4	4.0	0.4	0.1	-2.1	2.1	1.2
Greece	2.8	-5.0	-2.3	8.7	-1.8	13.1	3.6	-1.7	-11.4	-2.3	7.1	-5.7	-3.5	-2.3	-0.2	-6.9	-2.1	-2.2
Hungary	6.4	26.7	5.1	10.4	7.8	5.2	7.7	5.3	2.1	1.1	5.9	3.5	7.6	8.1	2.2	3.2	1.9	-1.1
Iceland	1.1	-9.6	3.3	-4.0	-5.8	-3.0	-6.2	5.0	1.3	-1.9	0.2	0.2	-12.8	11.7	5.2	20.3	-5.6	-4.5
Ireland	6.3	11.3	5.7	7.0	14.2	7.8	7.7	7.5	2.6	-3.1	-0.8	-1.6	-2.9	4.1	-2.1	10.7	-4.0	-1.6
Italy	3.9	3.8	-5.5	-4.1	-5.5	-6.0	1.0	0.2	-5.4	-6.1	-5.5	-5.7	-2.7	-3.6	-7.1	-8.4	-4.5	-3.9
Japan	-6.5	-6.9	-2.5	1.2	-4.1	-6.1	-2.0	-5.7	0.6	0.4	0.2	-2.0	-0.2	0.7	-2.4	-16.2	1.7	-1.7
Korea	6.9	11.5	1.8	9.7	10.5	7.6	3.5	-3.9	5.0	4.3	5.0	-2.0	0.9	3.8	1.8	8.4	-4.1	2.9
Luxembourg	-0.3	-3.0	-2.2	1.8	2.7	7.6	0.7	2.7	0.8	3.3	3.5	-2.2	4.4	3.3	-0.2	4.4	0.3	-3.0
Mexico	6.0	20.4	9.0	-2.2	1.4	1.9	3.4	-1.3	-1.7	-1.8	0.5	0.1	4.2	2.5	2.7	-2.0	4.9	-0.5
Netherlands	1.1	1.2	-1.0	1.1	-1.1	2.5	1.4	0.2	-1.0	-2.5	-0.4	-1.4	-1.9	0.4	0.1	4.0	2.3	-0.1
New Zealand	0.3	-5.8	-4.5	-4.5	-1.6	1.1	-4.1	4.2	0.4	-4.6	-5.4	-8.8	-6.5	-3.8	-6.9	11.4	-6.8	-3.4
Norway	-0.2	-2.8	3.5	-2.3	-7.1	-3.8	-7.6	2.7	-2.8	-3.5	-6.5	-5.8	-8.2	-2.3	-0.9	8.8	-6.0	-4.0
Poland	4.8	12.6	7.4	2.5	6.0	-7.3	10.4	0.1	2.9	8.7	4.8	0.1	3.4	1.2	3.1	3.2	-1.1	-0.5
Portugal	0.7	0.3	-0.3	-4.1	-1.0	-4.2	-2.9	-0.8	-1.1	-0.3	-4.3	-5.4	-0.4	0.9	-1.6	1.0	-1.8	-2.0
Slovak Republic	6.6	-5.3	-7.4	0.0	10.9	5.9	-3.2	3.5	3.1	9.8	-2.5	3.1	8.8	5.3	-0.2	-5.4	6.9	4.4
Spain	8.9	1.6	4.7	4.5	-0.8	1.6	-0.9	2.3	0.2	0.4	-3.6	-4.3	-1.7	0.5	-3.5	-0.4	6.2	5.3
Sweden	5.0	3.1	-2.2	3.2	1.1	2.1	0.6	-0.6	-1.6	0.4	0.5	-1.9	-0.1	-0.7	-2.0	-0.1	-4.5	-0.5
Switzerland	-5.4	-7.6	-1.9	1.3	-2.7	0.2	0.6	-0.9	-2.2	-5.0	-1.0	0.3	1.0	2.7	0.3	1.7	-1.8	-1.9
Turkey	11.2	0.1	15.8	8.3	4.6	-14.8	4.8	0.4	3.7	2.3	1.7	-1.2	-2.7	-2.0	-2.3	6.6	2.6	0.9
United Kingdom	1.2	0.1	2.2	-2.2	-4.5	-2.3	-3.2	1.9	-1.7	-2.2	-4.3	-0.1	2.6	-9.3	-1.4	0.9	-1.2	0.3
United States	-0.3	2.6	-0.3	0.9	-1.8	-1.8	-3.5	-5.2	-4.8	-3.1	-0.9	-1.7	0.1	0.9	1.3	2.6	-1.9	-0.3
Total OECD	0.7	0.1	-0.4	0.7	-1.1	-0.9	-0.4	-0.2	-1.3	-2.6	-1.6	-1.9	-0.3	-0.6	-0.9	-0.5	-0.8	-0.3
Memorandum items																		
China	18.8	-3.7	9.2	13.2	4.5	6.1	12.7	7.1	20.9	19.4	11.0	14.5	14.4	12.7	4.8	2.8	9.2	3.8
Other industrialised Asia[1]	..	1.0	-2.0	-1.1	-0.8	-2.4	2.8	-2.7	1.4	0.3	2.0	1.2	1.2	-0.6	0.6	-1.6	1.1	1.2
Russia	..	..	-3.0	-10.3	-5.1	6.1	-1.8	2.3	6.5	6.3	1.8	-1.6	-2.2	-2.1	-3.2	6.6	5.8	-3.4
Brazil	-4.1	-7.4	-7.6	-2.0	-1.1	2.7	2.0	10.5	8.4	2.6	1.9	-1.0	-4.5	-3.3	-6.0	1.9	-6.4	-1.2
Other oil producers	-5.0	-4.4	-4.4	0.0	-1.3	-7.9	-3.9	0.6	-3.6	4.1	-3.8	0.7	-4.1	-2.1	-0.5	5.5	-4.1	-1.9
Rest of the world	-3.6	-1.8	-0.7	-3.0	-1.9	0.3	-2.4	1.6	-0.2	0.0	0.2	-2.4	-2.7	-1.7	-0.2	5.4	-4.4	-1.3

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 exp markets is based on a weighted average of import volumes in each exporting country's markets, with weights based on trade flows in 2005.

1. Dynamic Asian Economies (Chinese Taipei; Hong Kong, China; Malaysia; Philippines; Singapore; Vietnam and Thailand), India and Indonesia.

Source: OECD Economic Outlook 87 database.

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Annex Table 45. **Shares in world exports and imports**

Percentage, values for goods and services, national accounts basis

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
A. Exports																	
Canada	3.5	3.5	3.6	3.7	4.0	4.2	4.1	3.8	3.6	3.4	3.3	3.1	2.9	2.7	2.5	2.6	2.6
France	5.6	5.5	5.3	5.7	5.4	4.8	5.0	5.0	5.0	4.7	4.4	4.1	4.0	3.8	3.9	3.5	3.4
Germany	9.5	9.1	8.6	9.2	8.9	8.1	8.7	9.1	9.4	9.3	8.9	9.0	9.1	8.8	8.7	8.1	7.9
Italy	4.6	4.7	4.4	4.5	4.1	3.8	4.0	3.9	4.0	3.9	3.6	3.5	3.6	3.4	3.2	2.8	2.6
Japan	7.6	6.8	6.7	6.2	6.4	6.5	5.7	5.6	5.5	5.4	5.1	4.7	4.5	4.3	4.1	4.2	4.2
United Kingdom	5.2	5.4	5.6	5.7	5.5	5.2	5.2	5.3	5.1	4.9	4.7	4.7	4.3	4.0	3.9	3.6	3.5
United States	12.8	13.0	13.8	14.0	14.0	13.9	13.5	12.5	11.2	10.5	10.2	9.9	9.6	9.3	10.0	9.9	10.1
Other OECD countries	26.0	25.9	25.5	26.6	26.6	25.8	26.5	26.8	27.3	27.4	26.8	26.4	26.9	26.8	27.2	25.9	25.5
Total OECD	74.9	73.8	73.4	75.5	74.9	72.2	72.6	71.9	71.0	69.6	66.9	65.6	64.9	63.1	63.6	60.6	59.8
China	2.3	2.6	3.0	3.0	3.1	3.5	3.9	4.6	5.2	5.8	6.5	7.2	7.8	8.0	8.5	9.1	9.4
Other industrialised Asia	12.2	12.4	12.5	11.4	11.7	12.4	11.8	11.9	11.5	11.5	11.6	11.6	11.4	11.2	11.9	13.1	13.5
Brazil	0.9	0.8	0.9	0.9	0.8	0.8	0.9	0.9	0.9	1.0	1.0	1.1	1.1	1.2	1.1	1.0	1.0
Russia	1.4	1.5	1.4	1.3	1.2	1.5	1.5	1.5	1.6	1.8	2.1	2.3	2.3	2.7	2.2	2.6	2.5
Other oil producers	3.5	3.9	3.8	2.9	3.5	4.7	4.3	4.3	4.6	5.1	6.5	7.0	7.0	8.1	6.6	7.9	7.9
Rest of the world	4.8	4.9	5.0	5.1	4.9	4.9	5.1	5.0	5.1	5.2	5.3	5.3	5.5	5.8	6.0	5.7	5.8
Total of non-OECD countries	25.1	26.2	26.6	24.5	25.1	27.8	27.4	28.1	29.0	30.4	33.1	34.4	35.1	36.9	36.4	39.4	40.2
B. Imports																	
Canada	3.2	3.2	3.5	3.6	3.7	3.7	3.5	3.4	3.2	3.0	3.0	3.0	2.8	2.6	2.7	2.7	2.7
France	5.5	5.2	4.8	5.2	5.0	4.7	4.7	4.7	4.8	4.7	4.5	4.4	4.4	4.3	4.3	3.8	3.7
Germany	9.5	9.0	8.4	8.9	8.7	8.0	8.1	7.9	8.4	8.2	7.8	8.0	7.9	7.8	7.9	7.3	7.0
Italy	4.0	3.9	3.8	4.0	3.8	3.7	3.8	3.8	3.9	3.8	3.6	3.7	3.7	3.5	3.3	3.0	2.8
Japan	6.6	6.6	6.1	5.2	5.4	5.6	5.3	5.0	4.8	4.7	4.6	4.5	4.2	4.4	4.0	4.1	4.1
United Kingdom	5.3	5.5	5.6	5.9	5.9	5.5	5.7	5.8	5.6	5.5	5.3	5.3	5.0	4.4	4.3	3.9	3.8
United States	14.5	14.7	15.6	16.6	17.8	18.8	18.3	17.9	16.7	16.1	16.0	15.4	14.1	13.1	12.7	13.2	13.3
Other OECD countries	25.1	25.4	25.0	25.8	25.8	25.1	25.2	25.6	26.3	26.4	26.1	26.1	26.8	26.7	26.0	24.8	24.4
Total OECD	73.8	73.5	72.9	75.1	76.2	75.0	74.7	74.1	73.7	72.4	71.1	70.2	68.8	66.8	65.2	62.8	61.8
China	2.2	2.4	2.4	2.4	2.7	3.2	3.5	4.1	4.9	5.4	5.6	5.9	6.2	6.4	7.2	8.9	9.0
Other industrialised Asia	12.8	12.8	12.8	10.7	10.8	11.6	10.9	11.0	10.6	10.9	11.1	11.1	10.9	11.2	11.6	13.1	13.6
Brazil	1.1	1.1	1.2	1.1	0.9	1.0	1.0	0.8	0.7	0.7	0.8	0.9	1.0	1.2	1.2	1.2	1.2
Russia	1.3	1.3	1.3	1.1	0.7	0.8	1.0	1.1	1.1	1.2	1.3	1.4	1.7	1.9	1.6	1.8	1.9
Other oil producers	3.1	3.1	3.2	3.1	2.9	2.9	3.2	3.4	3.4	3.5	4.1	4.2	4.8	5.3	5.9	5.6	5.6
Rest of the world	5.8	5.9	6.1	6.3	5.8	5.5	5.8	5.5	5.7	5.8	6.1	6.3	6.8	7.3	7.2	6.7	6.9
Total of non-OECD countries	26.2	26.5	27.1	24.9	23.8	25.0	25.3	25.9	26.3	27.6	28.9	29.8	31.2	33.2	34.8	37.2	38.2

Note: Regional aggregates are calculated inclusive of intra-regional trade.

Source: OECD Economic Outlook 87 database.

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Annex Table 46. **Geographical structure of world trade growth**

Average of export and import volumes

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
A. Trade growth	Percentage changes from previous year																
OECD America[1]	8.3	8.8	12.7	7.8	8.8	11.3	-3.7	1.2	2.7	9.8	6.2	6.9	4.7	0.3	-12.8	10.3	7.9
OECD Europe	8.3	5.5	10.6	8.2	6.0	12.3	2.9	1.7	2.5	7.2	6.2	9.1	5.4	1.1	-11.8	6.5	6.7
OECD Asia & Pacific[2]	11.3	10.4	7.1	-4.1	7.1	12.6	-2.9	6.6	7.7	12.1	6.5	7.9	7.7	3.3	-13.2	12.4	9.5
Total OECD	8.7	7.0	10.7	6.5	6.9	12.1	0.4	2.1	3.2	8.5	6.3	8.4	5.5	1.2	-12.2	8.3	7.4
China	12.9	23.3	17.4	1.8	17.4	25.4	6.8	25.7	28.2	23.8	18.9	20.2	17.1	6.5	-3.9	25.3	11.8
Other industrialised Asia	15.3	6.6	7.6	-2.3	2.4	18.0	-3.9	7.7	9.6	16.7	11.1	11.0	6.9	7.3	-10.4	18.9	11.2
Brazil	14.9	3.5	13.3	2.2	-6.7	11.6	5.8	-2.9	4.8	14.4	8.9	10.8	12.5	8.5	-11.0	11.7	8.5
Russia	..	2.8	-0.2	-5.0	2.4	15.3	8.4	11.7	14.2	15.7	10.1	12.6	14.6	7.0	-17.2	18.1	8.4
Other oil producers	6.9	4.6	9.7	0.9	-2.2	8.8	4.0	3.8	8.9	9.5	13.9	6.3	12.0	8.1	-5.3	5.3	8.3
Rest of the world	7.3	6.0	8.6	4.9	1.3	6.6	3.7	1.8	6.3	11.0	8.3	8.9	10.3	6.9	-10.5	1.7	8.4
Total Non-OECD	11.3	7.0	8.9	0.4	2.3	14.1	1.4	7.8	11.7	15.4	12.4	11.7	11.1	7.2	-8.6	14.8	10.2
World	9.4	7.0	10.2	4.9	5.7	12.6	0.7	3.6	5.4	10.5	8.1	9.4	7.3	3.2	-11.0	10.6	8.4
B. Contribution to World Trade growth	Percentage points																
OECD America[1]	1.6	1.7	2.5	1.6	1.8	2.4	-0.8	0.2	0.5	1.9	1.2	1.3	0.9	0.0	-2.2	1.7	1.3
OECD Europe	3.7	2.4	4.6	3.6	2.7	5.5	1.3	0.8	1.1	3.2	2.6	3.8	2.3	0.5	-4.7	2.6	2.6
OECD Asia & Pacific[2]	1.0	1.0	0.7	-0.4	0.6	1.1	-0.3	0.5	0.7	1.1	0.6	0.7	0.7	0.3	-1.1	1.0	0.8
Total OECD	6.3	5.0	7.7	4.8	5.1	9.0	0.3	1.6	2.3	6.1	4.4	5.8	3.8	0.8	-8.1	5.4	4.7
China	0.3	0.5	0.4	0.0	0.4	0.7	0.2	0.9	1.1	1.2	1.0	1.2	1.1	0.5	-0.3	2.1	1.1
Other industrialised Asia	1.6	0.7	0.8	-0.2	0.2	1.7	-0.4	0.7	1.0	1.7	1.2	1.2	0.8	0.8	-1.2	2.3	1.4
Brazil	0.2	0.0	0.1	0.0	-0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	-0.1	0.1	0.1
Russia	..	0.0	0.0	-0.1	0.0	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.1	-0.3	0.3	0.2
Other oil producers	0.4	0.3	0.5	0.1	-0.1	0.4	0.2	0.2	0.4	0.5	0.7	0.3	0.6	0.4	-0.3	0.3	0.5
Rest of the world	0.5	0.4	0.5	0.3	0.1	0.4	0.2	0.1	0.3	0.6	0.5	0.5	0.6	0.4	-0.6	0.1	0.5
Total Non-OECD	3.1	1.9	2.5	0.1	0.6	3.6	0.4	2.0	3.1	4.4	3.7	3.6	3.5	2.4	-2.9	5.2	3.7
World	9.4	7.0	10.2	4.9	5.7	12.6	0.7	3.6	5.4	10.5	8.1	9.4	7.3	3.2	-11.0	10.6	8.4

Note: Regional aggregates are calculated inclusive of intra-regional trade as the sum of volumes expressed in 2005 $.

1. Canada, Chile, Mexico and United States.
2. Australia, Japan, Korea and New Zealand.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308325

Annex Table 47. **Trade balances for goods and services**

$ billion, national accounts basis

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	-1.0	-1.7	-4.6	-5.4	-0.6	1.7	-6.7	-10.2	-4.2	2.3	-4.4	-13.8	-18.0	-13.5	-9.2	-18.1	-9.1	-7.3	1.4	5.4
Austria	-0.8	0.0	-1.7	-1.3	-4.3	-1.7	0.8	1.7	2.8	4.1	8.7	8.3	10.3	10.9	14.4	21.2	23.1	14.9	17.8	20.2
Belgium	5.7	7.0	8.7	10.9	8.9	9.4	9.8	10.7	6.4	8.6	14.5	17.0	18.2	15.0	14.6	17.6	5.1	13.8	17.8	17.8
Canada	-2.2	0.0	6.7	18.9	24.7	12.6	12.3	24.2	41.6	41.2	32.4	32.5	42.7	42.5	32.2	27.3	25.3	-22.9	-7.0	-3.9
Chile	..	..	..	1.5	-1.3	-1.7	-2.6	1.6	1.4	1.0	1.6	3.1	8.8	10.2	22.1	22.9	7.5	12.9	14.4	12.4
Czech Republic	..	0.0	-1.0	-2.4	-3.6	-3.0	-0.7	-0.7	-1.7	-1.6	-1.6	-2.1	0.1	4.0	4.9	8.8	10.0	11.1	13.6	15.2
Denmark	9.4	9.4	8.1	7.4	9.1	6.3	3.7	8.8	9.6	10.7	10.2	13.3	11.9	12.7	8.7	7.6	9.3	10.7	8.3	8.0
Finland	0.8	4.0	5.6	9.7	8.9	9.1	10.5	11.8	11.1	11.6	12.5	11.2	12.3	8.0	9.8	12.6	11.2	6.5	7.2	9.0
France	2.8	12.1	12.4	17.9	23.3	40.9	37.8	30.9	12.7	15.1	25.1	17.2	2.9	-17.9	-29.8	-49.5	-72.5	-46.0	-45.0	-47.1
Germany	-9.3	-0.9	2.7	11.8	22.0	27.0	29.6	18.0	7.0	38.4	93.4	98.2	137.9	147.0	167.4	237.9	228.7	154.0	165.2	198.5
Greece	-11.6	-10.7	-9.3	-12.4	-14.1	-13.1	-14.7	-15.7	-17.2	-17.2	-20.1	-23.9	-22.7	-22.3	-28.0	-34.5	-36.0	-32.1	-17.5	-9.0
Hungary	..	..	..	0.0	0.3	0.5	-0.7	-1.3	-1.7	-0.6	-1.4	-3.3	-3.4	-2.0	-0.8	2.2	1.5	9.3	8.5	8.3
Iceland	0.0	0.2	0.3	0.3	0.0	0.0	-0.4	-0.4	-0.6	-0.1	0.1	-0.3	-0.7	-2.0	-3.0	-2.2	-0.7	1.0	1.3	1.3
Ireland	4.3	5.5	5.7	7.9	8.9	10.6	10.4	13.5	12.9	16.3	21.3	25.4	27.8	24.0	22.0	26.5	27.4	39.3	42.3	45.9
Italy	-1.4	31.4	36.1	43.2	58.5	46.3	37.1	22.1	10.5	15.3	11.6	9.0	11.4	-0.9	-14.9	-5.1	-13.5	-7.3	-19.2	-19.4
Japan	82.2	96.9	96.5	74.8	23.4	47.4	72.4	69.4	68.0	26.1	51.2	69.3	89.0	63.3	54.5	73.2	6.1	15.6	43.0	36.0
Korea	-0.8	3.1	-1.5	-2.8	-15.8	-3.6	43.2	29.8	15.3	11.4	8.4	14.7	29.9	22.8	13.2	15.8	-12.3	33.1	23.7	24.0
Luxembourg	2.5	2.8	3.6	4.4	4.2	3.2	3.2	4.1	4.3	3.6	4.4	7.0	8.3	9.6	13.5	17.2	18.8	17.7	17.4	18.1
Mexico	-18.3	-15.8	-20.1	7.8	7.2	0.0	-8.5	-7.5	-11.2	-13.6	-11.4	-10.0	-13.1	-12.1	-11.6	-16.1	-23.8	-12.2	-12.3	-20.5
Netherlands	12.7	17.7	19.8	23.8	22.1	21.9	18.9	17.4	21.3	23.2	28.8	33.9	45.1	54.5	52.4	67.4	73.2	56.9	54.5	59.4
New Zealand	0.7	1.2	1.1	0.7	0.3	0.3	0.2	-0.6	0.4	1.5	0.8	0.7	-0.4	-2.2	-1.8	-1.5	-2.4	1.4	1.9	-0.3
Norway	8.7	7.6	7.6	9.2	14.3	13.0	2.8	11.6	28.7	28.9	25.8	29.2	35.1	49.6	60.7	59.9	87.9	55.6	69.9	72.3
Poland	..	..	..	3.0	-2.2	-6.1	-8.3	-9.9	-11.0	-7.0	-6.9	-5.8	-5.9	-2.2	-6.2	-12.3	-21.6	0.2	-0.3	-6.9
Portugal	-7.7	-6.4	-6.7	-7.3	-8.2	-9.0	-10.6	-12.4	-12.3	-11.6	-10.6	-10.3	-14.0	-16.4	-16.0	-16.9	-23.4	-17.3	-16.2	-14.5
Slovak Republic	..	-0.6	0.9	0.4	-2.3	-2.1	-2.4	-0.9	-0.5	-1.7	-1.8	-0.6	-1.1	-2.2	-2.2	-0.8	-2.2	-0.1	1.6	0.5
Spain	-16.4	-3.2	0.1	0.0	3.3	5.0	-1.4	-11.3	-18.2	-15.4	-14.7	-21.1	-41.8	-59.5	-79.0	-98.1	-94.7	-30.1	-29.5	-16.8
Sweden	4.8	7.5	9.7	17.3	18.3	18.9	17.0	16.8	15.7	15.2	17.0	21.6	29.6	29.0	32.4	34.6	33.5	28.0	30.6	33.9
Switzerland	10.9	14.4	14.6	16.1	14.7	14.1	13.1	14.9	14.6	12.6	18.4	21.4	25.1	25.0	32.4	44.8	56.1	49.2	51.3	51.9
Turkey	0.2	-4.8	6.1	-0.1	-3.1	-1.1	2.7	0.8	-8.0	7.7	3.7	-3.1	-10.4	-16.9	-26.1	-33.8	-33.7	-7.1	-26.5	-40.6
United Kingdom	-11.8	-7.4	-4.5	-1.4	1.0	7.3	-11.3	-21.9	-27.2	-34.6	-42.2	-42.7	-59.5	-77.7	-76.7	-90.1	-72.1	-50.8	-57.2	-45.8
United States	-32.9	-64.4	-92.7	-90.7	-96.3	-101.4	-161.8	-262.1	-382.1	-371.0	-427.2	-504.1	-618.7	-722.7	-769.3	-713.8	-707.8	-392.4	-539.9	-585.8
Euro area	-18.4	58.6	77.8	109.2	131.3	147.5	129.0	89.8	40.7	90.2	173.0	171.4	194.5	149.8	124.3	195.6	145.2	170.1	196.4	262.4
Total OECD	31.6	104.9	104.2	163.5	121.8	152.6	95.4	-46.8	-211.9	-179.5	-152.3	-208.1	-263.5	-442.5	-519.2	-395.0	-501.3	-94.6	-179.0	-172.8

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308344

Annex Table 48. **Investment income, net**

$ billion

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	-9.7	-7.9	-11.4	-13.4	-14.2	-13.8	-11.3	-11.9	-11.0	-10.2	-11.5	-15.0	-21.9	-27.6	-31.2	-39.8	-38.8	-34.6	-39.5	-41.2
Austria	-1.4	-1.5	-1.7	-2.1	-0.6	-1.3	-1.8	-2.8	-2.3	-3.0	-1.5	-1.1	-1.2	-2.0	-1.8	-2.2	-2.5	-2.0	-2.9	-3.4
Belgium[1]	6.4	6.9	7.4	7.3	6.8	6.3	6.9	6.7	6.3	4.6	4.5	6.5	5.7	5.4	5.0	7.3	6.5	6.3	5.3	5.5
Canada	-17.5	-20.8	-18.9	-22.7	-21.5	-20.9	-20.0	-22.6	-22.3	-25.4	-19.3	-21.3	-18.6	-18.9	-12.2	-10.2	-14.1	-10.9	-15.9	-19.3
Chile	..	..	..	..	-2.5	-2.6	-1.9	-2.2	-2.9	-2.6	-2.9	-4.5	-7.9	-10.6	-18.5	-18.7	-13.5	-10.4	-17.2	-17.4
Czech Republic	..	-0.1	0.0	-0.1	-0.7	-0.8	-1.1	-1.4	-1.4	-2.2	-3.5	-4.3	-6.1	-6.0	-7.4	-12.7	-10.4	-12.1	-12.3	-15.0
Denmark	-4.9	-3.8	-3.8	-3.8	-3.7	-3.4	-2.8	-2.6	-3.6	-3.6	-2.7	-2.6	-2.2	1.6	2.8	1.7	3.8	8.0	6.0	5.1
Finland	-5.4	-4.9	-4.4	-4.4	-3.7	-2.4	-3.1	-2.0	-1.7	-1.0	-0.6	-2.6	0.2	-0.3	0.8	-0.7	-0.9	-1.5	-0.9	-0.8
France	-6.4	-7.0	-6.2	-8.4	-1.9	7.1	8.7	22.8	19.5	19.5	8.7	14.9	22.5	29.5	37.2	40.5	36.4	25.6	24.9	26.5
Germany	18.2	11.5	1.4	-2.9	0.8	-2.7	-10.8	-12.4	-8.9	-10.0	-17.4	-17.3	24.7	30.1	56.0	60.4	64.0	49.1	54.0	63.1
Greece	-2.4	-1.6	-1.4	-1.8	-2.1	-1.7	-1.6	-0.7	-0.9	-1.8	-2.0	-4.5	-5.4	-7.0	-9.1	-12.7	-15.6	-13.6	-14.6	-15.6
Hungary	..	..	..	-1.7	-2.0	-2.7	-3.0	-2.9	-2.6	-2.9	-3.6	-4.2	-5.4	-6.3	-6.7	-10.1	-11.2	-7.8	-8.2	-8.7
Iceland	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	0.0	-0.2	-0.6	-0.6	-1.1	-1.2	-3.0	-1.4	-0.7	-1.0
Ireland	-5.6	-5.2	-5.4	-7.3	-8.2	-9.7	-10.5	-13.7	-13.5	-16.4	-22.4	-24.8	-28.0	-31.0	-30.2	-38.1	-39.3	-44.0	-41.5	-40.6
Italy	-22.0	-17.4	-16.9	-15.9	-15.4	-10.1	-11.0	-11.1	-11.9	-10.4	-14.6	-20.5	-18.7	-16.8	-16.9	-26.8	-43.7	-37.0	-29.3	-28.6
Japan	35.7	40.5	40.8	44.4	53.1	58.1	54.9	57.9	61.0	69.2	65.9	71.8	86.1	103.6	118.2	138.7	153.1	132.0	130.5	150.3
Korea	-0.4	-0.4	-0.5	-1.3	-1.8	-2.5	-5.6	-5.2	-2.4	-1.2	0.4	0.3	1.1	-1.6	0.5	1.0	5.9	4.6	3.0	3.1
Luxembourg	..	..	..	1.6	1.3	0.5	0.2	-0.5	-1.3	-1.6	-3.4	-4.0	-4.3	-6.7	-11.0	-15.6	-17.8	-16.5	-16.5	-17.2
Mexico	-9.6	-11.4	-13.0	-13.3	-13.9	-12.8	-13.3	-12.9	-15.1	-13.9	-12.7	-12.3	-10.6	-14.4	-18.5	-18.4	-17.0	-14.1	-15.3	-15.9
Netherlands	-1.0	0.9	3.6	7.3	3.5	7.0	-2.7	3.5	-2.3	-0.2	0.1	1.3	11.3	3.8	16.7	8.3	-14.7	-3.8	-3.1	-3.2
New Zealand	-2.5	-2.9	-3.4	-4.0	-4.7	-4.9	-2.6	-3.1	-3.4	-3.1	-3.2	-4.2	-5.8	-7.3	-7.9	-9.4	-9.8	-5.2	-7.2	-9.1
Norway	-3.4	-3.3	-2.2	-1.9	-1.9	-1.7	-1.2	-1.3	-2.3	0.2	0.6	1.4	0.5	2.1	-0.3	-1.3	1.0	2.0	3.0	4.1
Poland	..	..	-2.6	-2.0	-1.1	-1.1	-1.2	-1.0	-0.8	-0.6	-1.1	-2.4	-8.4	-6.8	-9.7	-16.4	-14.2	-14.0	-14.4	-15.4
Portugal	0.7	0.3	-0.5	0.2	-0.9	-1.3	-1.5	-1.6	-2.4	-3.5	-3.0	-2.6	-3.7	-4.8	-7.9	-9.5	-11.4	-10.9	-10.8	-12.4
Slovak Republic	..	0.0	-0.1	0.0	0.0	-0.1	-0.2	-0.3	-0.4	-0.3	-0.5	-1.8	-2.2	-2.0	-2.5	-3.3	-3.3	-2.1	-2.7	-3.0
Spain	-5.8	-3.6	-7.8	-5.4	-7.5	-7.4	-8.6	-9.5	-6.9	-11.3	-11.6	-11.7	-15.1	-21.3	-26.2	-41.4	-52.8	-41.0	-28.2	-30.6
Sweden	-10.0	-8.7	-5.9	-5.5	-6.3	-4.9	-3.2	-2.0	-1.4	-1.4	-1.8	3.9	0.0	2.8	5.6	10.9	16.7	6.9	4.1	5.3
Switzerland	6.4	7.4	6.0	9.8	10.7	14.2	15.2	17.8	19.2	11.8	9.3	24.2	25.2	33.5	33.0	2.6	-37.4	0.4	1.6	2.6
Turkey	-2.6	-2.7	-3.3	-3.2	-2.9	-3.0	-3.0	-3.6	-4.0	-5.0	-4.6	-5.6	-5.6	-5.9	-6.7	-7.1	-8.2	-7.7	-6.1	-6.2
United Kingdom	-1.8	-3.8	2.0	-1.4	-3.8	0.5	19.6	-1.7	3.0	13.6	27.6	28.7	32.8	40.0	17.5	42.0	58.5	44.9	43.2	42.5
United States	24.2	25.3	17.1	20.9	22.3	12.6	4.3	13.9	21.1	31.7	27.4	45.3	67.2	72.4	48.1	90.8	118.2	89.0	90.5	74.5
Euro area	-24.6	-21.7	-31.9	-31.8	-27.9	-16.0	-36.0	-21.7	-26.7	-35.3	-63.6	-68.3	-14.1	-23.1	10.1	-33.8	-95.0	-91.5	-66.4	-60.2
Total OECD	-20.8	-14.6	-31.1	-31.1	-23.1	-5.7	-12.4	-6.7	4.2	18.8	0.6	30.7	105.8	127.0	115.5	108.7	84.7	78.2	78.8	78.3

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.

1. Including Luxembourg until 1994.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308363

Annex Table 49. **Total transfers, net**

$ billion

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	0.3	0.3	0.2	0.3	0.5	0.4	0.2	0.4	0.1	0.3	0.4	0.3	0.1	-0.3	-0.5	-0.2	-0.3	-0.7	-0.9	-0.9
Austria	-1.0	-1.0	-1.1	-1.7	-2.0	-2.0	-1.9	-2.1	-1.7	-1.7	-1.5	-1.8	-1.7	-1.8	-1.6	-1.7	-2.5	-2.4	-1.9	-2.2
Belgium[1]	-2.5	-2.6	-3.3	-4.2	-4.1	-3.7	-4.3	-4.6	-3.9	-4.1	-4.4	-6.4	-6.5	-6.3	-6.6	-6.4	-9.4	-9.4	-9.5	-9.3
Canada	-0.9	-0.6	-0.3	-0.1	0.5	0.5	0.6	0.5	0.8	1.0	0.0	-0.2	-0.5	-1.2	-1.3	-1.8	-1.0	-2.0	-2.2	-2.3
Chile	..	..	..	..	0.5	0.5	0.5	0.6	0.6	0.4	0.6	0.6	1.0	1.8	3.3	3.1	2.9	1.6	2.7	2.8
Czech Republic	..	0.1	0.1	0.6	0.4	0.4	0.5	0.6	0.4	0.5	0.9	0.6	0.2	0.3	-0.9	-1.4	-1.0	-0.8	-0.9	-0.7
Denmark	-1.7	-1.7	-2.0	-2.4	-2.6	-1.8	-2.3	-2.9	-3.0	-2.6	-2.6	-3.7	-4.6	-4.2	-4.8	-5.3	-5.7	-6.3	-6.1	-6.2
Finland	-0.8	-0.4	-0.5	-0.4	-0.9	-0.7	-1.0	-1.0	-0.7	-0.7	-0.8	-1.1	-1.1	-1.5	-1.7	-1.9	-2.3	-2.3	-1.8	-1.8
France	-11.5	-8.1	-10.6	-5.9	-7.4	-13.1	-12.2	-13.2	-14.0	-14.8	-14.2	-19.2	-21.8	-27.3	-27.5	-31.2	-35.6	-33.8	-33.9	-34.4
Germany	-32.5	-33.0	-36.2	-38.8	-34.0	-30.5	-30.2	-26.6	-25.9	-24.1	-26.0	-32.1	-34.7	-36.0	-34.3	-44.4	-50.1	-44.7	-39.3	-41.0
Greece[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	4.5	3.9	4.3	2.2	4.1	1.8	2.3	2.3
Hungary	..	..	..	0.2	0.0	0.2	0.2	0.4	0.4	0.4	0.5	0.7	-0.2	-0.4	-0.4	-0.7	-1.0	0.5	1.4	0.4
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	-0.1	0.0	-0.1	-0.1	-0.1
Ireland	2.1	1.9	1.7	1.8	2.2	2.0	1.5	1.3	0.9	0.3	0.7	0.5	0.5	0.3	-0.6	-1.4	-1.6	-1.3	0.2	-0.2
Italy	-7.8	-7.3	-7.2	-4.2	-6.6	-4.2	-7.4	-5.4	-4.3	-5.8	-5.5	-8.1	-10.3	-12.3	-16.7	-19.7	-22.5	-17.3	-17.1	-16.7
Japan	-3.9	-5.3	-6.1	-7.8	-9.3	-8.8	-8.8	-10.8	-9.8	-8.1	-5.6	-7.7	-8.0	-7.3	-10.6	-11.6	-13.2	-12.7	-11.6	-11.5
Korea	1.1	1.2	1.3	0.2	0.0	0.7	3.4	1.9	0.6	-0.4	-1.6	-2.9	-2.4	-2.5	-4.1	-3.5	-0.7	-0.8	-1.2	-1.0
Luxembourg	..	..	..	-0.6	-0.6	-0.5	-0.4	-0.6	-0.5	-0.5	-0.3	-0.6	-1.1	-1.2	-1.2	-2.2	-2.7	-1.4	-0.9	-0.9
Mexico	3.4	3.6	3.8	4.0	4.5	5.2	6.0	6.3	7.0	9.3	10.3	15.5	18.8	22.1	25.9	26.4	25.5	21.5	21.0	23.6
Netherlands	-4.3	-4.5	-5.2	-6.4	-6.8	-6.1	-7.2	-6.4	-6.2	-6.7	-6.5	-7.2	-10.4	-11.8	-10.4	-9.9	-13.0	-8.7	-11.5	-11.2
New Zealand	0.2	0.2	0.3	0.3	0.6	0.3	0.3	0.2	0.2	0.2	0.1	0.2	0.1	0.2	0.5	0.5	0.8	0.3	0.7	0.7
Norway	-0.2	0.3	-1.7	-2.1	-1.5	-1.4	-1.5	-1.4	-1.3	-1.6	-2.2	-2.9	-2.6	-2.7	-2.3	-3.5	-3.7	-4.4	-5.1	-5.0
Poland	..	..	1.3	1.0	1.7	2.0	2.9	2.2	1.3	1.5	2.0	2.4	3.8	5.1	6.5	8.4	8.2	6.3	7.4	9.3
Portugal[2]	7.9	6.8	5.4	7.3	4.4	3.8	4.0	3.8	3.4	3.4	2.8	3.3	3.5	2.8	3.2	3.6	3.7	3.0	2.6	2.5
Slovak Republic	..	0.1	0.1	0.1	0.2	0.2	0.4	0.2	0.1	0.2	0.2	0.2	0.2	0.0	-0.1	-0.4	-1.3	0.9	0.3	-0.3
Spain	2.1	1.3	1.2	4.8	3.2	3.0	3.2	3.0	1.6	1.3	2.4	-0.6	-0.1	-4.2	-8.2	-9.8	-13.7	-11.1	-11.7	-10.9
Sweden	-1.4	-1.2	-1.2	-2.6	-1.9	-2.4	-2.5	-2.7	-2.5	-2.5	-2.9	-2.3	-4.7	-4.6	-5.0	-4.9	-6.4	-4.9	-3.9	-3.8
Switzerland	-3.1	-3.0	-3.5	-4.4	-4.3	-4.0	-4.6	-5.3	-4.5	-5.5	-5.9	-5.6	-6.5	-11.0	-9.3	-9.4	-12.7	-12.9	-12.7	-12.0
Turkey	3.9	3.7	3.0	4.4	4.1	4.5	5.5	4.9	4.8	3.0	2.4	1.0	1.1	1.4	1.9	2.2	2.1	2.3	2.3	2.3
United Kingdom	-9.3	-7.6	-7.9	-11.6	-7.1	-9.4	-13.6	-11.8	-14.7	-9.4	-13.3	-16.1	-18.8	-21.5	-21.9	-27.2	-26.2	-22.8	-20.2	-20.1
United States	-35.1	-39.8	-40.3	-38.1	-43.0	-45.1	-53.2	-50.4	-58.6	-51.3	-64.9	-71.8	-88.4	-105.8	-91.3	-116.0	-128.4	-130.2	-124.6	-120.6
Euro area	-41.9	-40.3	-48.6	-40.2	-44.4	-43.6	-47.6	-47.4	-47.7	-50.0	-49.5	-68.7	-78.9	-95.3	-101.4	-123.2	-147.0	-126.9	-122.2	-124.1
Total OECD	-88.7	-90.2	-101.7	-98.3	-101.4	-101.7	-114.1	-114.7	-126.2	-114.7	-131.5	-160.5	-190.5	-225.8	-215.6	-268.0	-307.9	-293.0	-276.3	-269.1

1. Including Luxembourg until 1994.
2. 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).

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308382

Annex Table 50. **Current account balances**

$ billion

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	-10.4	-9.3	-15.8	-18.4	-14.3	-11.7	-17.7	-21.7	-15.2	-7.6	-15.5	-28.5	-39.7	-41.4	-41.0	-58.1	-48.0	-42.9	-39.0	-36.7
Austria	-0.7	-1.4	-3.3	-6.9	-6.7	-5.2	-3.5	-3.6	-1.4	-1.6	5.6	4.3	6.4	6.6	9.2	13.2	13.7	8.9	11.0	12.7
Belgium[1]	9.9	13.0	14.2	15.3	13.8	13.8	13.3	12.9	9.4	7.9	11.7	12.9	12.6	9.9	8.1	7.1	-14.8	2.8	9.0	9.5
Canada	-21.1	-21.7	-13.0	-4.4	3.4	-8.2	-7.7	1.7	19.7	16.3	12.6	10.6	22.9	21.6	17.9	14.3	9.2	-36.7	-26.2	-26.6
Chile	..	..	..	..	-3.1	-3.7	-4.0	0.1	-0.9	-1.2	-0.6	-0.8	2.2	1.7	7.2	7.6	-2.8	4.7	0.4	-1.6
Czech Republic	..	0.5	-0.8	-1.4	-4.1	-3.6	-1.3	-1.5	-2.7	-3.3	-4.2	-5.8	-5.7	-1.7	-3.4	-5.6	-1.3	-1.8	0.2	-0.8
Denmark	3.2	3.9	2.3	1.2	2.7	0.7	-1.5	3.4	2.5	4.2	5.0	7.3	5.7	11.1	8.2	4.7	7.5	12.5	9.7	8.4
Finland	-5.1	-1.1	1.0	5.4	5.1	6.8	7.3	8.1	9.9	10.8	12.0	8.5	12.5	7.1	9.5	10.4	8.2	3.3	5.5	7.4
France	4.0	9.4	8.2	11.0	20.8	37.2	38.9	45.6	22.4	26.3	19.3	15.5	11.6	-8.9	-10.8	-26.1	-64.9	-57.1	-49.2	-50.3
Germany	-22.0	-19.4	-30.5	-29.5	-13.8	-10.2	-17.0	-28.2	-34.0	0.2	41.0	47.6	126.5	141.3	188.4	256.4	247.1	169.5	191.5	232.0
Greece[2]	-3.6	-1.9	-1.4	-4.5	-6.4	-5.3	-3.8	-7.7	-9.9	-9.5	-10.1	-12.8	-13.3	-17.8	-29.8	-44.8	-51.3	-37.1	-26.9	-19.4
Hungary	..	..	..	-1.6	-1.7	-2.0	-3.4	-3.8	-4.0	-3.2	-4.7	-6.7	-8.5	-8.0	-8.1	-9.0	-10.8	0.5	1.1	-0.6
Iceland	-0.2	0.0	0.1	0.1	-0.1	-0.1	-0.6	-0.6	-0.9	-0.4	0.1	-0.5	-1.3	-2.6	-4.1	-3.3	-3.6	-0.4	0.0	-0.2
Ireland	0.5	1.8	1.5	1.7	2.0	1.9	0.7	0.3	-0.3	-0.7	-1.2	0.0	-1.1	-7.0	-7.9	-13.9	-14.1	-6.6	-0.9	3.0
Italy	-30.3	8.0	12.5	25.1	39.1	33.8	22.9	8.2	-5.8	-0.7	-9.8	-19.7	-16.7	-29.3	-48.5	-51.5	-79.2	-65.0	-72.8	-71.8
Japan	108.3	130.0	130.6	114.3	65.8	96.6	119.7	115.7	118.1	89.0	112.6	136.2	171.6	166.0	171.5	212.8	157.4	144.0	168.9	181.7
Korea	-4.1	0.8	-4.0	-8.7	-23.1	-8.3	40.4	24.5	12.3	8.0	5.4	11.9	28.2	15.0	5.4	5.9	-5.8	42.7	17.2	17.8
Luxembourg	..	..	..	2.5	2.3	1.9	1.8	1.8	2.7	1.8	2.3	2.4	4.1	4.1	4.4	5.0	3.1	3.0	3.3	3.2
Mexico	-24.4	-23.4	-29.7	-1.6	-2.5	-7.7	-16.0	-14.0	-18.7	-17.7	-14.1	-7.2	-5.2	-4.5	-4.4	-8.4	-15.9	-5.2	-7.4	-13.5
Netherlands	6.9	13.2	17.3	25.8	21.5	25.0	13.0	15.6	7.2	9.8	11.1	29.9	46.1	46.4	63.3	67.7	42.4	43.2	39.9	45.0
New Zealand	-1.7	-1.7	-2.0	-3.0	-3.9	-4.3	-2.1	-3.5	-2.7	-1.4	-2.3	-3.4	-6.2	-9.2	-9.1	-10.4	-11.4	-3.6	-4.9	-9.0
Norway	4.6	3.8	3.8	5.2	10.9	10.0	0.0	8.9	25.1	27.5	24.2	27.7	33.0	49.1	58.4	55.0	85.1	53.1	67.9	71.4
Poland	..	..	1.0	0.9	-3.3	-5.7	-6.9	-12.5	-10.3	-5.9	-5.5	-5.5	-10.1	-3.7	-9.4	-20.3	-26.9	-7.2	-7.3	-13.0
Portugal[2]	-0.3	0.3	-2.3	-0.2	-4.9	-6.6	-8.4	-10.3	-11.5	-11.4	-10.2	-9.4	-13.4	-17.4	-19.3	-21.0	-29.3	-23.4	-22.3	-22.4
Slovak Republic	..	-0.5	0.8	0.5	-2.0	-1.8	-2.0	-1.0	-0.7	-1.7	-1.9	-1.9	-3.3	-4.0	-4.4	-4.0	-6.2	-1.0	-0.7	-2.7
Spain	-21.6	-5.6	-6.5	-1.7	-1.5	-0.6	-7.2	-17.9	-23.0	-24.0	-22.5	-31.1	-54.9	-83.1	-111.1	-144.6	-156.4	-78.8	-56.0	-45.3
Sweden	-7.5	-2.6	2.5	8.4	9.8	10.3	9.7	10.7	9.4	8.5	9.8	22.4	24.0	25.3	31.3	38.2	45.9	29.3	27.9	32.4
Switzerland	14.6	18.8	16.9	20.8	21.1	24.6	25.2	29.0	30.1	21.0	24.8	43.4	48.4	51.9	59.6	39.2	8.7	41.9	49.7	52.0
Turkey	-0.9	-6.4	2.4	-2.2	-2.3	-2.9	1.8	-0.4	-9.9	3.9	-0.8	-8.4	-14.9	-22.3	-32.2	-38.3	-41.5	-13.6	-32.9	-47.0
United Kingdom	-23.0	-18.7	-10.4	-14.3	-9.8	-1.6	-5.3	-35.4	-38.9	-30.4	-27.9	-30.0	-45.6	-59.2	-81.1	-75.3	-39.8	-28.7	-34.2	-23.3
United States	-50.1	-84.8	-121.6	-113.6	-124.8	-140.7	-215.1	-301.6	-417.4	-384.7	-459.1	-521.5	-631.1	-748.7	-803.5	-726.6	-706.1	-419.9	-560.2	-618.1
Euro area	-62.3	15.6	11.6	44.5	69.5	90.9	56.0	23.8	-35.1	7.1	47.1	46.3	116.9	47.8	51.0	53.8	-101.7	-38.2	31.5	101.0
Total OECD	-75.0	4.8	-26.1	26.2	-9.9	32.5	-28.9	-177.2	-339.7	-270.2	-293.2	-312.5	-315.3	-511.9	-586.0	-523.5	-701.9	-269.7	-337.6	-325.7

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.

1. Including Luxembourg until 1994.
2. 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).

Source: OECD Economic Outlook 87 database.

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Annex Table 51. **Current account balances as a percentage of GDP**

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	-3.2	-3.0	-4.4	-4.8	-3.3	-2.8	-4.7	-5.3	-3.7	-2.0	-3.6	-5.2	-6.0	-5.6	-5.2	-6.1	-4.4	-4.1	-3.2	-2.8
Austria	-0.4	-0.8	-1.6	-2.9	-2.9	-2.5	-1.7	-1.7	-0.7	-0.8	2.7	1.7	2.2	2.2	2.8	3.6	3.3	2.3	3.0	3.4
Belgium[1]	4.2	5.8	5.9	5.4	5.0	5.5	5.2	5.1	4.0	3.4	4.6	4.1	3.5	2.6	2.0	1.6	-2.9	0.5	2.0	2.1
Canada	-3.6	-3.9	-2.3	-0.8	0.5	-1.3	-1.2	0.3	2.7	2.3	1.7	1.2	2.3	1.9	1.4	1.0	0.5	-2.7	-1.6	-1.6
Chile	..	..	..	..	-4.1	-4.5	-5.0	0.1	-1.3	-1.7	-1.0	-1.0	2.3	1.4	4.9	4.6	-1.9	2.8	0.2	-0.8
Czech Republic	..	1.2	-1.8	-2.5	-6.6	-6.2	-2.0	-2.4	-4.8	-5.3	-5.5	-6.2	-5.2	-1.3	-2.4	-3.2	-0.6	-1.0	0.1	-0.4
Denmark	2.1	2.8	1.5	0.7	1.4	0.4	-0.9	1.9	1.6	2.6	2.9	3.4	2.3	4.3	3.0	1.5	2.2	4.0	3.2	2.7
Finland	-4.6	-1.3	1.1	4.1	4.0	5.6	5.6	6.3	8.1	8.6	8.9	5.2	6.6	3.6	4.6	4.2	3.0	1.3	2.4	3.1
France	0.3	0.7	0.6	0.7	1.3	2.6	2.6	3.1	1.7	2.0	1.3	0.9	0.6	-0.4	-0.5	-1.0	-2.3	-2.2	-1.9	-1.9
Germany	-1.1	-1.0	-1.4	-1.2	-0.6	-0.5	-0.8	-1.3	-1.8	0.0	2.0	1.9	4.6	5.1	6.4	7.7	6.7	5.0	6.0	7.2
Greece[2]	-3.2	-1.9	-1.2	-3.4	-4.6	-3.9	-2.8	-5.6	-7.8	-7.3	-6.8	-6.5	-5.8	-7.3	-11.3	-14.4	-14.6	-11.2	-8.9	-6.7
Hungary	..	..	..	-3.3	-3.8	-4.3	-6.9	-7.6	-8.5	-6.0	-6.9	-7.9	-8.3	-7.2	-7.1	-6.5	-7.1	0.2	0.8	-0.4
Iceland	-2.4	0.7	1.9	0.7	-1.8	-1.8	-6.8	-6.8	-10.2	-4.3	1.5	-4.8	-9.8	-16.1	-24.4	-16.3	-18.5	-3.3	-0.2	-1.8
Ireland	1.0	3.6	2.7	2.6	2.7	2.4	0.8	0.3	-0.4	-0.6	-1.0	0.0	-0.6	-3.5	-3.6	-5.3	-5.2	-2.9	-0.4	1.4
Italy	-2.4	0.8	1.2	2.2	3.1	2.8	1.9	0.7	-0.6	-0.1	-0.8	-1.3	-1.0	-1.6	-2.6	-2.4	-3.5	-3.1	-3.6	-3.5
Japan	2.8	3.0	2.7	2.2	1.4	2.3	3.1	2.6	2.5	2.2	2.9	3.2	3.7	3.6	3.9	4.9	3.3	2.8	3.3	3.5
Korea	-1.2	0.2	-0.9	-1.6	-4.1	-1.3	11.4	5.3	2.3	1.6	0.9	1.8	3.9	1.8	0.6	0.6	-0.5	5.2	1.7	1.6
Luxembourg	..	..	..	12.1	11.2	10.4	9.2	8.4	13.2	8.8	10.5	8.1	11.9	11.0	10.3	9.7	5.3	5.6	6.3	6.0
Mexico	-6.1	-5.3	-6.4	-0.5	-0.7	-1.8	-3.5	-2.7	-2.9	-2.6	-2.0	-1.0	-0.7	-0.5	-0.5	-0.8	-1.5	-0.6	-0.7	-1.2
Netherlands	2.0	4.0	4.9	6.2	5.1	6.5	3.2	3.8	1.9	2.4	2.5	5.5	7.5	7.3	9.3	8.7	4.8	5.4	5.3	5.9
New Zealand	-4.1	-3.9	-3.8	-5.0	-5.7	-6.3	-3.8	-6.1	-5.1	-2.8	-3.9	-4.2	-6.2	-8.3	-8.4	-8.0	-8.6	-3.0	-3.5	-6.0
Norway	3.5	3.2	3.0	3.5	6.8	6.3	0.0	5.6	15.0	16.1	12.6	12.3	12.7	16.3	17.3	14.1	18.6	13.8	16.0	16.2
Poland	..	..	0.9	0.6	-2.1	-3.7	-4.0	-7.5	-6.0	-3.1	-2.8	-2.5	-4.0	-1.2	-2.7	-4.7	-5.0	-1.6	-1.6	-2.7
Portugal[2]	-0.2	0.4	-2.3	-0.1	-4.2	-5.9	-7.0	-8.5	-10.2	-9.8	-8.0	-6.0	-7.5	-9.4	-9.9	-9.4	-12.0	-10.3	-10.2	-10.3
Slovak Republic	..	-3.9	4.9	2.6	-9.3	-8.5	-8.9	-4.8	-3.5	-8.3	-7.9	-5.9	-7.8	-8.5	-7.8	-5.3	-6.5	-1.3	-0.9	-3.0
Spain	-3.5	-1.1	-1.2	-0.3	-0.2	-0.1	-1.2	-2.9	-4.0	-3.9	-3.3	-3.5	-5.3	-7.4	-9.0	-10.0	-9.7	-5.4	-4.1	-3.3
Sweden	-2.8	-1.3	1.1	3.3	3.5	4.1	3.8	4.1	3.8	3.7	4.0	7.1	6.6	6.8	7.8	8.2	9.3	7.2	6.3	7.1
Switzerland	5.8	7.7	6.2	6.6	6.9	9.3	9.3	10.8	12.0	8.2	8.8	13.3	13.3	13.9	15.2	9.1	1.8	8.4	9.9	10.2
Turkey	-0.4	-2.6	1.9	-1.1	-0.9	-1.1	0.8	-0.4	-3.7	2.1	-0.4	-2.8	-3.8	-4.6	-6.1	-5.9	-5.5	-2.2	-4.5	-5.9
United Kingdom	-2.1	-1.9	-1.0	-1.2	-0.8	-0.1	-0.4	-2.4	-2.6	-2.1	-1.7	-1.6	-2.1	-2.6	-3.3	-2.7	-1.5	-1.3	-1.6	-1.0
United States	-0.8	-1.3	-1.7	-1.5	-1.6	-1.7	-2.4	-3.2	-4.2	-3.7	-4.3	-4.7	-5.3	-5.9	-6.0	-5.2	-4.9	-2.9	-3.8	-4.0
Euro area	-1.0	0.3	0.2	0.6	0.9	1.4	0.8	0.3	-0.6	0.1	0.7	0.5	1.2	0.5	0.5	0.4	-0.8	-0.3	0.3	0.8
Total OECD	-0.4	0.0	-0.1	0.1	0.0	0.1	-0.1	-0.7	-1.3	-1.0	-1.1	-1.0	-0.9	-1.4	-1.6	-1.3	-1.6	-0.7	-0.8	-0.7

1. Including Luxembourg until 1994.
2. 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).

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308420

Annex Table 52. **Structure of current account balances of major world regions**

$ billion

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Goods and services trade balance[1]																	
OECD	163	122	153	95	-47	-212	-179	-152	-208	-264	-443	-519	-395	-501	-95	-179	-173
China	12	18	43	44	31	29	28	37	36	49	125	209	307	349	220	70	120
Other industrialised Asia[2]	-20	-5	-4	53	65	61	63	78	97	80	78	109	125	34	77	39	27
Russia	10	16	9	12	33	52	39	37	49	72	105	126	112	154	92	149	129
Brazil	-12	-15	-19	-17	-8	-11	-8	6	16	26	32	32	20	3	-2	-25	-30
Other oil producers	28	59	50	-12	46	143	86	75	119	181	321	417	409	574	130	435	462
Rest of the world	-56	-57	-67	-78	-58	-49	-52	-42	-49	-68	-97	-128	-195	-268	-169	-150	-195
World[3]	126	138	164	97	61	12	-24	40	59	77	122	245	385	346	254	339	340
Investment income, net																	
OECD	-31	-23	-6	-12	-7	4	19	1	31	106	127	116	109	85	78	79	78
China	-12	-12	-11	-17	-14	-15	-19	-15	-8	-4	11	15	26	31	43	56	66
Other industrialised Asia[2]	-6	-9	-8	-9	-15	-18	-12	-16	-12	-22	-32	-27	-24	-16	-18	-26	-29
Russia	-3	-5	-9	-12	-8	-7	-4	-7	-13	-13	-19	-29	-31	-49	-40	-41	-35
Brazil	-11	-12	-15	-18	-19	-18	-20	-18	-19	-21	-26	-27	-29	-41	-34	-43	-42
Other oil producers	0	-2	0	1	-5	-11	-11	-19	-24	-30	-39	-23	-30	-54	-46	-70	-70
Rest of the world	-22	-27	-29	-27	-30	-36	-34	-35	-41	-47	-45	-48	-62	-75	-49	-40	-44
World[3]	-85	-91	-77	-94	-97	-100	-81	-109	-86	-30	-23	-25	-42	-119	-65	-87	-75
Net transfers, net																	
OECD	-98	-101	-102	-114	-115	-126	-115	-131	-161	-190	-226	-216	-268	-308	-293	-276	-269
China	1	2	5	4	5	6	8	13	18	23	25	29	39	46	34	28	26
Other industrialised Asia[2]	7	10	11	7	15	16	17	20	27	24	34	42	54	67	67	76	83
Russia	0	0	0	0	1	0	-1	-1	0	-1	-1	-2	-4	-3	-3	-2	-2
Brazil	4	2	2	1	2	2	2	2	3	3	4	4	4	4	3	3	3
Other oil producers	-22	-19	-18	-18	-18	-19	-20	-20	-19	-19	-12	-8	-16	-24	-20	-22	-24
Rest of the world	38	39	41	46	47	52	59	66	77	89	101	118	135	154	147	147	167
World[3]	-70	-67	-62	-74	-64	-69	-50	-51	-56	-71	-75	-32	-56	-64	-65	-46	-16
Current balance																	
OECD	26	-10	32	-29	-177	-340	-270	-293	-313	-315	-512	-586	-523	-702	-270	-338	-326
China	2	7	37	31	21	21	17	35	46	69	161	253	372	426	297	154	212
Other industrialised Asia[2]	-28	-18	-9	46	59	47	59	77	103	76	70	119	152	90	125	87	81
Russia	7	11	0	0	25	47	34	29	35	60	85	95	77	102	49	106	92
Brazil	-18	-24	-30	-33	-25	-24	-23	-8	4	12	14	14	2	-28	-24	-55	-59
Other oil producers	1	30	23	-35	16	107	51	31	72	129	270	386	364	495	64	343	367
Rest of the world	-42	-48	-58	-63	-43	-36	-28	-10	-14	-28	-43	-63	-128	-195	-77	-50	-80
World[3]	-52	-50	-5	-82	-125	-178	-161	-138	-65	2	45	217	315	189	164	247	288

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.

1. National-accounts basis for OECD countries and balance-of-payments basis for the non-OECD regions.
2. Dynamic Asian Economies (Chinese Taipei; Hong Kong, China; Malaysia; Philippines; Singapore; Vietnam and Thailand), India and Indonesia.
3. 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 Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308439

Annex Table 53. **Export market growth in goods and services**

Percentage changes from previous year

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	3.5	3.9	10.3	13.1	9.8	6.9	-1.1	4.7	12.9	0.2	5.8	8.1	13.2	9.7	9.0	7.5	5.1	-10.3	14.3	9.7
Austria	3.3	-1.0	7.4	8.7	5.3	9.7	8.2	6.1	11.6	2.2	1.6	5.1	8.7	7.4	10.6	7.1	3.3	-11.4	7.7	7.3
Belgium	3.1	-0.5	8.0	8.5	5.4	10.0	8.6	6.4	12.2	1.8	1.7	3.8	8.4	7.1	9.1	5.9	2.2	-11.1	7.7	7.1
Canada	6.5	7.2	11.3	8.1	8.8	12.6	10.1	10.4	13.0	-2.0	3.5	4.7	11.0	6.7	6.8	3.1	-1.6	-13.2	10.3	8.4
Chile	4.8	4.7	10.2	10.9	9.1	10.1	3.0	5.5	12.5	0.4	2.8	6.7	11.5	8.5	9.6	8.2	4.0	-10.5	12.3	8.8
Czech Republic	..	..	6.8	8.6	6.3	10.0	9.6	5.7	11.3	2.7	1.4	5.1	8.4	7.6	11.2	7.1	3.3	-12.2	7.3	7.7
Denmark	3.2	0.4	8.5	8.4	6.4	10.5	8.2	5.8	11.4	1.0	1.7	4.4	8.6	7.6	9.4	6.8	2.6	-12.0	7.0	7.2
Finland	3.0	0.7	6.3	9.1	5.9	10.0	5.6	3.5	12.9	2.4	3.5	6.0	10.6	9.5	11.3	10.0	4.9	-13.9	9.3	8.5
France	4.2	0.2	6.9	8.6	6.1	10.3	7.4	5.9	11.3	1.8	2.6	4.6	9.1	7.7	9.1	6.9	2.7	-11.7	7.4	7.4
Germany	3.9	1.0	7.7	9.3	6.5	10.4	7.5	5.6	12.5	1.8	3.1	4.6	9.7	7.6	9.0	7.3	2.2	-12.3	7.8	7.6
Greece	5.1	3.9	4.5	8.4	5.9	10.4	7.2	4.5	10.2	1.8	3.4	5.3	9.6	8.6	9.1	8.3	4.2	-12.0	5.5	8.3
Hungary	..	..	6.6	8.5	5.7	9.5	8.1	5.5	11.1	2.6	1.7	5.0	8.6	7.6	10.3	7.4	3.3	-11.9	6.4	7.5
Iceland	3.4	0.0	8.0	8.1	6.4	10.0	8.8	7.2	11.1	2.3	2.5	3.6	8.2	7.4	9.4	5.4	1.8	-11.7	6.9	6.8
Ireland	4.1	0.6	8.3	7.7	6.4	9.9	7.8	7.2	11.6	1.2	2.6	3.7	8.4	6.9	8.2	4.4	1.0	-11.8	8.0	7.0
Italy	3.4	1.5	6.4	8.6	6.5	10.2	7.6	5.7	11.9	2.0	2.7	4.9	9.7	8.2	9.5	7.9	3.4	-11.7	7.3	7.8
Japan	4.7	5.8	11.1	11.9	8.6	9.8	1.5	8.5	15.0	-1.3	6.9	8.8	13.7	9.2	9.8	7.7	4.1	-9.3	15.8	9.7
Korea	4.6	5.4	8.9	11.9	9.7	9.2	2.2	6.3	14.0	0.5	6.7	9.8	14.1	10.0	10.4	8.5	4.7	-8.5	15.9	9.5
Luxembourg	3.3	-2.3	8.0	7.8	4.6	9.4	8.3	6.2	11.8	1.7	1.2	3.3	7.3	6.8	8.6	5.4	1.7	-11.5	6.6	6.7
Mexico	6.5	7.9	11.0	8.1	8.4	13.1	10.7	10.2	12.5	-2.2	3.1	4.6	11.0	6.6	6.5	3.1	-1.9	-13.5	9.7	8.4
Netherlands	3.5	-0.9	7.5	7.9	5.4	9.7	8.0	6.0	11.9	1.7	2.0	4.1	8.4	7.5	9.3	6.3	2.6	-11.7	7.1	7.0
New Zealand	4.5	3.9	9.5	10.2	8.7	8.8	3.2	6.7	11.6	-0.8	6.0	7.2	12.2	9.1	8.8	7.9	5.9	-10.2	11.9	9.2
Norway	3.9	0.9	8.6	8.0	6.3	10.3	8.4	6.9	11.7	1.6	2.6	3.5	8.1	7.3	9.0	4.7	1.8	-12.0	7.4	6.9
Poland	..	..	6.8	8.6	5.0	9.5	8.0	5.2	11.5	3.0	1.9	5.0	8.8	7.8	10.8	7.8	3.8	-12.4	7.0	7.4
Portugal	4.0	-1.3	7.7	8.5	6.0	10.7	9.6	7.4	11.6	2.6	2.6	4.2	8.7	7.8	9.1	6.8	1.1	-12.5	7.2	7.5
Slovak Republic	..	..	7.7	10.4	6.5	10.0	9.1	5.9	12.5	3.3	2.0	5.6	10.1	6.7	11.2	8.5	3.4	-11.7	6.3	7.0
Spain	4.3	-0.4	7.1	7.7	5.4	10.1	8.9	5.8	11.3	1.9	1.8	3.3	8.1	7.2	8.6	6.2	2.6	-11.1	6.3	6.7
Sweden	3.3	1.7	7.7	8.3	6.8	10.6	7.6	4.6	11.2	1.5	3.0	4.0	9.4	8.6	9.5	6.7	3.2	-12.3	7.3	7.4
Switzerland	3.7	-0.4	7.7	8.8	5.8	9.8	7.2	6.2	11.8	1.4	2.1	4.8	9.0	7.5	9.2	6.6	2.5	-11.5	8.1	7.5
Turkey	3.8	-0.3	3.6	7.9	5.3	10.0	7.1	4.8	10.7	3.5	3.1	4.4	9.3	9.2	9.6	9.5	5.1	-11.3	5.7	7.8
United Kingdom	3.6	1.1	7.9	9.3	6.5	10.6	8.0	6.2	12.7	1.1	2.7	4.2	9.7	8.1	8.5	7.1	2.5	-11.4	7.8	7.7
United States	4.7	3.5	9.0	7.4	8.6	10.9	4.2	6.3	12.5	-0.5	3.0	4.9	10.5	8.5	8.8	7.7	4.0	-11.9	11.6	8.3
Total OECD	4.1	1.9	8.3	8.8	7.0	10.4	6.6	6.5	12.4	0.8	3.1	5.1	10.1	8.0	9.1	6.9	2.8	-11.5	9.5	8.0
Memorandum items																				
China	3.1	3.9	9.8	11.4	7.8	8.8	1.7	6.4	13.4	-1.4	4.3	5.9	11.8	8.1	8.3	6.4	3.5	-12.5	12.3	9.3
Other industrialised Asia[1]	4.3	5.5	10.7	12.8	9.5	8.7	1.1	7.0	14.5	-0.2	7.1	9.7	14.1	10.0	10.4	7.9	5.1	-8.2	16.2	9.7
Russia	4.5	2.8	5.3	9.8	6.9	10.9	7.4	4.8	11.5	1.9	3.5	6.0	9.9	8.2	9.7	8.6	3.8	-10.6	6.9	7.9
Brazil	4.3	4.7	8.2	6.0	9.1	12.8	6.2	2.9	10.6	-0.3	-1.3	7.8	13.3	10.4	10.0	9.9	5.5	-12.0	10.9	9.0
Other oil producers	4.0	3.2	8.6	12.0	8.5	8.7	1.9	6.3	12.7	0.1	4.7	6.7	11.3	8.5	8.8	7.5	3.4	-10.9	11.1	9.0
Rest of the world	4.3	3.0	6.1	9.8	6.5	10.6	5.8	3.6	11.9	1.8	3.4	5.6	10.8	9.0	9.6	9.1	4.6	-12.3	8.7	8.6

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 2005.

1. Dynamic Asia (Chinese Taipei; Hong Kong, China; Malaysia; Philippines; Singapore; Thailand and Vietnam), Indonesia and India.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308458

Annex Table 54. **Import penetration**

Goods and services import volume as a percentage of total final expenditure, constant prices

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	9.8	9.8	10.6	11.0	11.3	11.9	12.1	12.5	13.0	12.2	12.9	13.6	15.0	15.6	16.2	17.1	18.3	16.7	18.1	18.9
Austria	25.4	24.4	25.6	26.3	26.9	27.8	28.1	28.5	29.9	30.7	30.5	31.1	32.7	33.6	33.9	34.7	34.0	31.7	31.7	32.6
Belgium	36.4	36.5	37.3	37.6	38.2	39.4	40.2	40.1	42.0	41.8	41.7	41.7	42.4	43.5	44.0	44.3	44.8	42.1	42.8	43.7
Canada	23.1	24.0	24.6	25.1	25.8	27.6	27.8	28.2	28.8	27.3	27.1	27.5	28.5	29.4	29.8	30.5	30.6	28.1	29.7	30.4
Chile	..	..	..	21.7	22.4	23.5	24.1	22.4	23.3	23.5	23.5	24.5	26.6	28.7	29.8	31.7	33.5	30.4	32.8	34.2
Czech Republic	..	27.5	28.6	31.3	32.8	34.4	36.3	37.1	39.9	42.3	43.0	44.1	47.3	47.0	48.9	51.0	51.6	49.7	50.6	51.6
Denmark	22.8	22.6	23.8	24.5	24.6	25.7	26.9	27.0	28.8	29.1	30.5	30.1	31.2	33.0	35.2	35.4	36.4	34.2	34.4	35.2
Finland	19.7	20.0	21.3	21.7	22.5	23.3	23.7	23.7	25.6	25.5	25.9	26.2	26.8	28.4	29.0	29.1	30.2	26.8	27.2	27.7
France	16.2	15.9	16.7	17.4	17.5	18.3	19.5	19.9	21.7	21.8	21.8	21.9	22.6	23.3	24.0	24.5	24.6	23.1	23.8	24.7
Germany	18.9	18.3	19.1	19.9	20.3	21.3	22.5	23.6	24.8	24.9	24.6	25.6	26.7	27.9	29.6	30.1	30.7	29.8	31.1	32.1
Greece	18.9	19.3	19.2	20.2	21.0	22.7	23.7	25.8	27.7	27.1	26.2	25.7	25.8	25.3	26.1	26.6	26.2	23.8	21.9	21.1
Hungary	..	25.9	27.0	30.0	31.6	35.1	38.7	40.5	43.4	43.7	44.3	45.6	47.8	48.8	51.7	55.0	56.6	53.4	55.6	56.4
Iceland	23.9	22.3	22.3	22.9	24.8	25.3	28.1	28.2	29.0	26.3	25.8	27.3	28.6	32.5	33.7	32.3	27.8	24.0	24.8	25.0
Ireland	30.5	31.3	33.0	34.2	35.1	36.0	39.6	39.7	42.0	42.3	41.4	39.9	40.9	41.4	41.8	41.6	42.0	41.4	41.5	41.5
Italy	17.3	15.6	16.5	17.4	17.1	18.1	19.2	19.7	20.8	20.7	20.7	20.9	21.2	21.6	22.2	22.6	22.0	20.2	20.5	20.7
Japan	6.6	6.5	6.9	7.7	8.4	8.3	8.0	8.2	8.7	8.7	8.8	9.0	9.4	9.7	9.9	9.8	10.0	9.0	9.4	9.9
Korea	18.5	18.3	20.1	22.0	23.1	22.9	19.8	21.8	23.9	22.4	23.5	24.9	26.1	26.8	27.9	29.1	29.6	27.9	29.4	30.7
Luxembourg	..	..	..	50.4	51.5	53.1	54.4	55.8	56.3	57.2	56.3	57.7	59.5	59.2	60.9	61.3	62.1	60.5	61.8	61.9
Mexico	12.1	12.1	13.7	12.5	14.3	16.0	17.5	18.9	21.1	21.0	21.2	21.1	22.2	23.1	24.3	25.0	25.3	22.8	24.7	25.6
Netherlands	30.9	30.8	32.0	33.4	33.8	35.3	36.4	37.4	39.2	39.3	39.4	39.8	40.6	41.4	42.8	43.1	43.6	42.3	44.2	45.4
New Zealand	20.0	20.0	21.0	21.7	22.4	22.2	22.4	23.6	22.9	22.9	23.7	24.4	26.4	27.0	25.9	27.1	27.7	24.2	26.6	27.6
Norway	17.6	17.9	18.0	18.2	18.7	19.6	20.5	20.0	19.8	19.7	19.7	19.7	20.4	21.4	22.4	23.3	23.4	21.9	22.1	22.7
Poland	..	14.2	15.0	16.9	19.5	21.6	23.7	23.2	25.1	23.9	24.1	25.1	26.9	27.1	29.1	30.3	31.0	27.7	28.3	29.2
Portugal	23.1	22.9	24.2	24.8	25.0	26.0	27.7	28.6	28.9	28.7	28.4	28.4	29.4	29.9	30.7	31.6	32.1	30.6	30.8	31.1
Slovak Republic	..	35.4	33.1	34.3	36.5	37.5	40.5	40.6	42.2	44.5	44.4	45.0	45.8	47.2	49.3	49.0	48.2	44.4	46.0	48.0
Spain	16.4	15.7	16.9	18.0	19.0	20.3	21.9	23.3	24.3	24.5	24.7	25.3	26.4	27.2	28.5	29.4	28.1	24.8	26.5	28.0
Sweden	22.0	22.0	23.4	24.0	24.3	26.1	27.4	27.4	28.8	28.2	27.5	27.8	28.1	28.9	29.9	31.0	31.7	29.8	29.4	30.1
Switzerland	22.7	22.7	23.8	24.4	25.1	26.2	27.1	27.6	28.9	29.1	28.8	29.1	30.1	30.9	31.5	32.0	31.7	30.7	31.2	32.0
Turkey	11.5	13.8	11.8	13.9	15.2	16.9	16.8	16.7	18.7	15.4	17.2	19.7	21.3	21.9	22.0	23.0	22.1	20.2	21.7	23.2
United Kingdom	15.9	16.1	16.4	16.7	17.7	18.6	19.4	20.0	20.8	21.2	21.6	21.5	22.1	23.0	24.0	23.4	23.2	21.8	22.7	23.2
United States	8.0	8.4	9.0	9.4	9.8	10.6	11.2	11.9	12.7	12.3	12.5	12.7	13.5	13.8	14.2	14.2	13.8	12.3	13.0	13.6
Total OECD	13.4	13.4	14.1	14.7	15.3	16.1	16.8	17.4	18.5	18.3	18.5	18.8	19.6	20.2	21.0	21.3	21.3	19.7	20.5	21.2

Note: The OECD aggregate is calculated inclusive of intra-regional trade as the sum of import volumes expressed in 2005 $ divided by the sum of total final expenditure expressed in 2005 $.
Source: OECD Economic Outlook 87 database.

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Annex Table 55. **Quarterly demand and output projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2009	2010	2011	2009 Q4	2010 Q1	2011 Q2	2011 Q3	2011 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	Fourth quarter[1] 2009	Fourth quarter[1] 2010	Fourth quarter[1] 2011
Private consumption															
Canada	0.2	3.3	3.2	3.6	3.6	3.2	2.8	3.2	3.2	3.2	3.2	3.2	1.9	3.2	3.2
France	1.0	1.2	1.5	3.6	0.0	0.4	0.8	1.4	1.4	2.0	2.2	2.4	1.8	0.7	2.0
Germany	0.3	-1.4	0.7	-3.7	-1.4	-0.6	0.3	0.6	0.9	1.0	1.0	1.0	-0.4	-0.3	1.0
Italy	-1.7	0.8	1.1	-0.4	0.6	1.0	1.1	1.1	1.1	1.1	1.2	1.1	-0.5	0.9	1.1
Japan	-1.0	2.0	1.2	2.8	2.2	0.8	0.9	0.9	1.2	1.4	1.7	1.9	1.1	1.2	1.5
United Kingdom	-3.2	0.3	2.2	1.2	-0.8	0.6	2.0	2.1	2.2	2.3	2.8	3.2	-2.2	1.0	2.6
United States	-0.6	2.6	2.7	1.6	3.6	3.3	2.5	2.5	2.6	2.8	2.9	3.0	1.0	3.0	2.8
Euro area	-1.0	0.1	1.0	0.0	-0.1	0.2	0.1	0.8	1.1	1.3	1.4	1.5	-0.5	0.2	1.3
Total OECD	-1.1	1.9	2.3	1.6	2.1	2.0	1.8	2.1	2.3	2.6	2.7	2.9	0.6	2.0	2.6
Public consumption															
Canada	3.0	4.6	2.1	5.8	5.5	4.0	2.0	2.0	2.0	2.0	2.0	2.0	4.4	3.4	2.0
France	1.8	1.6	0.5	2.8	0.4	1.0	0.8	0.8	0.4	0.4	0.2	0.0	2.3	0.8	0.3
Germany	3.0	1.4	0.8	-2.2	2.4	1.6	1.0	1.0	1.0	0.4	0.4	0.4	2.6	1.5	0.6
Italy	0.6	0.2	0.2	-0.5	0.8	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.2
Japan	1.6	1.9	1.6	2.5	2.0	2.4	2.3	1.9	1.5	1.2	1.2	1.0	1.8	2.1	1.2
United Kingdom	2.2	2.1	0.8	4.2	1.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	2.2	1.1	0.8
United States	1.8	1.5	1.0	0.7	-0.2	3.6	1.6	0.9	0.7	0.7	0.7	0.7	1.3	1.5	0.7
Euro area	2.3	0.5	0.2	-0.7	0.4	0.1	0.0	0.3	0.4	0.2	0.2	0.2	1.9	0.2	0.2
Total OECD	2.3	1.5	1.0	1.5	0.9	1.6	1.1	0.9	1.0	0.9	0.9	0.9	2.1	1.1	0.9
Business investment															
Canada	-17.4	-2.2	5.8	-8.8	-3.0	1.0	3.0	5.0	6.0	7.0	8.0	9.0	-16.6	1.5	7.5
France	-7.9	-1.2	6.0	-4.7	-3.4	3.2	4.9	6.1	6.1	6.6	7.0	7.0	-7.2	2.7	6.7
Germany	-14.5	-0.1	5.6	-9.1	-1.1	4.8	2.2	4.9	4.7	7.2	8.8	7.4	-13.7	2.7	7.0
Italy	-17.6	1.6	5.5	-2.0	3.5	5.1	5.2	5.3	5.3	5.5	5.7	6.5	-10.2	4.8	5.8
Japan	-19.3	2.3	6.5	3.8	9.0	4.5	5.2	6.1	7.1	7.1	7.1	7.1	-14.0	6.2	7.1
United Kingdom	-19.3	-6.6	4.2	-16.2	-2.7	1.6	2.0	4.2	4.4	4.8	5.5	5.9	-23.5	1.3	5.2
United States	-17.8	3.7	12.2	5.3	4.0	7.2	9.2	11.3	13.3	13.6	13.6	13.6	-14.1	7.9	13.5
Euro area	-14.1	-1.4	5.1	-6.2	-2.1	3.2	3.6	4.8	5.0	5.8	6.4	6.3	-12.1	2.3	5.9
Total OECD	-15.3	1.8	8.0	0.9	2.5	5.1	6.1	7.6	8.3	8.9	9.2	9.4	-12.1	5.3	9.0
Total investment															
Canada	-10.1	4.7	3.7	6.5	5.5	4.3	1.4	3.9	4.5	4.0	3.5	3.1	-5.5	3.8	3.8
France	-7.1	-1.6	4.0	-4.4	-3.3	2.1	3.2	4.1	3.9	4.5	4.7	4.7	-6.0	1.4	4.4
Germany	-8.8	1.5	2.0	-2.6	-0.2	4.7	2.5	3.0	-1.7	2.5	4.3	4.5	-6.9	2.5	2.4
Italy	-12.2	-0.5	3.8	-3.8	0.5	1.9	2.4	3.0	4.5	4.6	4.4	4.3	-7.4	2.0	4.4
Japan	-14.3	0.0	4.6	-0.5	5.3	2.5	3.4	4.4	5.0	5.3	5.3	5.2	-12.0	3.9	5.2
United Kingdom	-14.9	-3.2	0.3	-10.3	-1.8	-0.1	-1.1	-1.7	0.3	1.5	2.0	2.4	-14.0	-1.2	1.5
United States	-14.5	2.0	8.8	1.3	-1.6	6.6	6.6	7.9	9.3	9.9	10.2	10.5	-10.8	4.8	10.0
Euro area	-10.7	-2.2	2.2	-5.2	-3.0	1.0	1.5	2.2	1.4	2.9	3.6	3.9	-8.9	0.4	3.0
Total OECD	-11.7	1.3	5.6	0.2	0.4	4.1	4.6	5.3	5.5	6.1	6.5	6.8	-8.5	3.6	6.2

Note: The adoption of 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, most countries have shifted to chain-weighted price indices to calculate real GDP and expenditures components. For further information, see table "National Account Reporting Systems, base years and latest data updates" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Year-on-year growth rates in per cent.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308496

Annex Table 55. **Quarterly demand and output projections *(cont'd)***

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2009	2010	2011	2009	2010	2011						Fourth quarter[1]		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011
Total domestic demand															
Canada	-2.8	4.9	3.3	3.9	6.1	5.6	3.8	3.1	3.2	3.1	3.0	2.9	-0.3	4.6	3.0
France	-2.4	1.3	2.1	4.2	-1.0	2.9	2.5	1.8	1.7	2.1	2.2	2.3	-1.1	1.5	2.1
Germany	-2.0	0.8	0.9	-7.3	8.2	-1.3	1.0	1.1	0.4	1.1	1.5	1.5	-3.0	2.2	1.1
Italy	-3.9	1.1	1.4	2.0	1.3	1.0	1.1	1.2	1.5	1.6	1.5	1.5	-2.1	1.2	1.5
Japan	-4.0	1.7	2.0	1.5	4.2	2.2	1.7	1.8	2.0	2.2	2.3	2.4	-3.4	2.5	2.2
United Kingdom	-5.3	1.5	1.8	3.1	1.4	3.6	1.3	1.2	1.6	1.8	2.2	2.6	-2.7	1.9	2.1
United States	-3.4	3.5	3.4	5.1	3.8	4.2	3.2	3.0	3.3	3.5	3.6	3.8	-0.8	3.5	3.5
Euro area	-3.3	0.3	1.1	-1.6	2.1	0.3	0.7	1.0	0.9	1.4	1.5	1.7	-2.9	1.0	1.4
Total OECD	-3.7	2.7	2.7	2.9	3.4	2.8	2.5	2.5	2.6	2.9	3.1	3.2	-1.5	2.8	3.0
Export of goods and services															
Canada	-14.0	7.6	6.1	15.4	11.2	5.0	5.0	5.5	6.0	6.5	7.2	7.7	-7.5	6.6	6.8
France	-10.9	7.8	7.2	0.3	16.5	7.4	7.0	7.0	7.0	7.4	7.5	7.8	-4.6	9.4	7.4
Germany	-14.2	10.0	8.8	12.6	3.0	21.6	7.8	7.9	8.0	8.2	8.2	8.2	-5.2	9.9	8.2
Italy	-19.1	2.5	3.6	0.5	2.4	3.2	3.0	3.6	3.6	3.6	4.0	3.9	-11.4	3.1	3.8
Japan	-24.0	17.8	7.8	21.8	15.8	8.9	8.6	7.6	7.5	7.7	7.7	7.8	-5.0	10.2	7.7
United Kingdom	-10.6	6.6	8.0	16.0	3.2	8.2	8.0	7.9	7.8	8.1	8.2	8.2	-4.8	6.8	8.1
United States	-9.6	9.4	7.9	22.8	5.8	5.0	5.5	7.0	9.0	9.0	9.0	9.0	-0.7	5.8	9.0
Total OECD[2]	-11.4	8.7	7.8	11.7	7.4	8.5	7.1	7.4	7.9	8.0	8.1	8.2	-2.1	7.6	8.0
Import of goods and services															
Canada	-13.4	11.4	6.4	8.9	13.0	8.6	7.0	6.0	6.2	6.2	6.3	6.4	-4.0	8.6	6.3
France	-9.9	5.5	6.9	8.5	8.2	6.6	6.3	6.6	7.0	7.0	7.4	7.4	-5.9	6.9	7.2
Germany	-8.9	8.2	6.7	-7.1	23.6	9.1	6.1	6.1	6.5	6.8	7.0	7.1	-7.3	11.0	6.8
Italy	-14.8	2.7	3.0	10.0	0.0	0.8	2.8	3.0	3.2	3.2	3.2	3.2	-8.4	1.7	3.2
Japan	-17.0	8.3	8.2	5.1	8.5	10.0	9.1	7.9	7.7	8.1	8.2	8.4	-15.5	8.9	8.1
United Kingdom	-11.9	6.9	5.2	20.0	4.7	7.8	4.5	4.5	4.4	4.8	6.3	7.5	-3.8	5.4	5.8
United States	-13.9	10.0	8.4	15.8	8.9	10.3	7.6	8.0	8.5	8.5	8.5	8.5	-6.6	8.7	8.5
Total OECD[2]	-12.5	8.4	7.5	8.0	9.9	8.2	7.1	7.1	7.5	7.6	7.9	8.1	-5.1	8.1	7.8
GDP															
Canada	-2.7	3.6	3.2	5.0	5.5	4.5	3.2	2.9	3.1	3.2	3.2	3.3	-1.2	4.0	3.2
France	-2.5	1.7	2.1	2.1	0.6	3.0	2.6	1.8	1.5	2.2	2.2	2.3	-0.6	2.0	2.1
Germany	-4.9	1.9	2.1	0.7	0.7	4.0	2.0	2.2	1.5	2.1	2.4	2.4	-2.2	2.2	2.1
Italy	-5.1	1.1	1.5	-0.4	2.0	1.6	1.2	1.4	1.6	1.6	1.7	1.7	-2.9	1.5	1.6
Japan	-5.2	3.0	2.0	3.8	5.2	2.2	1.7	1.9	2.0	2.2	2.3	2.4	-1.4	2.7	2.2
United Kingdom	-4.9	1.3	2.5	1.8	1.0	3.6	2.1	2.1	2.4	2.6	2.7	2.7	-3.1	2.2	2.6
United States	-2.4	3.2	3.2	5.6	3.2	3.4	2.8	2.7	3.1	3.4	3.5	3.7	0.1	3.0	3.4
Euro area	-4.1	1.2	1.8	0.5	0.9	2.3	1.5	1.6	1.5	1.9	2.1	2.2	-2.1	1.5	1.9
Total OECD	-3.3	2.7	2.8	3.7	2.8	2.9	2.4	2.5	2.7	3.0	3.1	3.2	-0.6	2.7	3.0

Note: The adoption of 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, most countries have shifted to chain-weighted price indices to calculate real GDP and expenditures components. For further information, see table "National Account Reporting Systems, base years and latest data updates" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Year-on-year growth rates in per cent.
2. Includes intra-regional trade.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308496

Annex Table 56. **Quarterly price, cost and unemployment projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2009	2010	2011	2009	2010	2011						Fourth quarter[1]		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011
Consumer price index[2]															
Canada	0.3	1.6	1.7	0.6	2.0	1.8	2.1	1.5	1.7	1.5	1.6	1.7	0.8	1.8	1.6
France	0.1	1.7	1.1	2.4	3.0	1.0	1.0	1.0	1.1	1.1	1.2	1.2	0.4	1.5	1.1
Germany	0.2	1.3	1.0	1.4	1.4	2.2	1.1	1.0	1.0	0.9	1.0	1.0	0.3	1.4	1.0
Italy	0.8	1.2	1.0	2.4	1.2	1.1	0.9	0.9	1.0	1.0	1.0	1.1	0.7	1.0	1.0
Japan	-1.4	-0.7	-0.3	-1.3	0.7	-1.0	-0.3	-0.1	-0.4	-0.3	-0.2	-0.2	-2.0	-0.2	-0.3
United Kingdom	2.2	3.0	1.5	3.0	5.4	1.8	1.7	1.0	1.7	1.4	1.4	1.6	2.1	2.5	1.5
United States	-0.3	1.9	1.1	2.6	1.5	1.0	1.2	1.1	1.1	1.0	1.0	1.0	1.5	1.2	1.1
Euro area	0.3	1.4	1.0	2.0	1.8	1.5	1.1	1.0	1.0	0.9	0.9	0.9	0.4	1.3	0.9
GDP deflator															
Canada	-1.9	3.5	1.8	4.5	3.4	4.4	3.1	1.8	1.6	1.1	1.1	1.1	0.5	3.2	1.2
France	0.8	0.7	1.0	0.4	1.4	0.8	0.9	0.9	1.1	1.1	1.2	1.2	0.1	1.0	1.2
Germany	1.5	0.1	0.6	-0.6	-2.3	1.1	0.9	0.7	0.7	0.4	0.6	0.6	1.0	0.1	0.6
Italy	2.1	1.0	0.8	-0.3	2.3	0.8	0.8	0.8	0.8	0.8	0.8	0.9	1.3	1.2	0.9
Japan	-1.0	-2.1	-0.5	-3.2	-1.7	-1.4	-1.0	-0.4	-0.4	-0.4	-0.3	-0.2	-2.9	-1.1	-0.3
United Kingdom	1.4	2.4	1.2	2.8	2.9	1.7	1.1	0.7	1.4	1.2	1.2	1.3	1.4	1.6	1.3
United States	1.2	0.8	1.2	0.5	0.9	1.2	1.2	1.2	1.2	1.2	1.2	1.2	0.7	1.1	1.2
Euro area	1.0	0.5	0.8	0.3	0.2	0.9	0.9	0.8	0.9	0.8	0.8	0.8	0.4	0.7	0.8
Total OECD	1.2	1.1	1.4	1.1	1.6	1.4	1.2	1.3	1.9	1.1	1.3	1.4	0.6	1.4	1.4
Unit labour cost (total economy)															
Canada	2.8	0.9	1.0	0.5	0.4	2.3	1.1	1.1	0.6	0.9	1.2	1.5	1.2	1.2	1.1
France	2.6	-0.6	-0.2	1.7	-0.5	-2.1	-1.1	0.1	0.4	-0.1	0.1	0.0	0.9	-0.9	0.1
Germany	5.1	-2.0	-1.5	-1.3	-0.9	-3.7	-2.6	-1.5	-0.8	-1.0	-1.2	-1.2	1.7	-2.2	-1.1
Italy	5.9	0.0	0.2	2.6	-1.1	-1.0	-0.3	0.1	0.5	0.5	0.4	0.2	3.7	-0.6	0.4
Japan	1.3	-3.4	-0.9	-8.2	-2.3	-1.9	-0.8	-0.9	-0.7	-0.9	-0.9	-0.9	-3.1	-1.5	-0.8
United Kingdom	4.6	-0.2	-0.3	-0.9	0.2	-2.2	-0.6	-0.3	-0.3	-0.1	0.3	0.8	3.5	-0.7	0.2
United States	-0.8	-0.7	0.7	-4.2	0.3	2.5	0.9	1.6	0.2	0.1	0.2	0.2	-3.5	1.3	0.2
Euro area	4.0	-1.1	-0.6	0.7	-1.4	-2.3	-1.5	-0.8	-0.1	-0.2	-0.3	-0.4	1.7	-1.5	-0.3
Total OECD	2.5	-0.7	0.5	-2.5	0.0	0.4	0.3	0.6	0.4	0.5	0.6	0.7	-0.7	0.3	0.5
Unemployment							Per cent of labour force								
Canada	8.3	7.9	7.2	8.4	8.2	8.0	7.8	7.6	7.4	7.3	7.1	7.0			
France	9.1	9.8	9.5	9.6	9.8	9.8	9.8	9.7	9.7	9.6	9.5	9.4			
Germany	7.4	7.6	8.0	7.4	7.3	7.4	7.9	7.9	8.0	8.0	7.9	7.9			
Italy	7.8	8.7	8.8	8.3	8.5	8.7	8.8	8.9	8.9	8.8	8.8	8.7			
Japan	5.1	4.9	4.7	5.2	5.0	4.9	4.9	4.8	4.8	4.8	4.7	4.7			
United Kingdom	7.6	8.1	7.9	7.8	8.0	8.1	8.1	8.1	8.0	7.9	7.8	7.7			
United States	9.3	9.7	8.9	10.0	9.7	9.8	9.8	9.6	9.3	9.0	8.7	8.4			
Euro area	9.4	10.1	10.1	9.8	9.9	10.1	10.2	10.2	10.2	10.2	10.0	9.9			
Total OECD	8.1	8.5	8.2	8.5	8.5	8.5	8.6	8.5	8.4	8.3	8.1	8.0			

Note: The adoption of 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, most countries have shifted to chain-weighted price indices to calculate real GDP and expenditures components. For further information, see table "National Account Reporting Systems, base years and latest data updates" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

1. Year-on-year growth rates in per cent.
2. For the United Kingdom, the euro area countries and the euro area aggregate, the Harmonised Index of Consumer Prices (HICP) is used.

Source: OECD Economic Outlook 87 database.

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Annex Table 57. **Contributions to changes in real GDP in OECD countries**

	2008	2009	2010	2011		2008	2009	2010	2011
Australia					**Germany**				
Final domestic demand	4.8	1.6	4.5	4.5	Final domestic demand	0.9	-0.9	-0.3	0.9
Stockbuilding	-0.4	-0.5	0.7	0.0	Stockbuilding	0.5	-0.9	1.1	-0.1
Net exports	-1.8	1.9	-1.9	-0.9	Net exports	-0.5	-3.0	1.1	1.3
GDP	2.2	1.4	3.2	3.6	GDP	1.0	-4.9	1.9	2.1
Austria					**Greece**				
Final domestic demand	0.9	-1.0	0.1	1.5	Final domestic demand	0.1	-2.7	-6.7	-5.6
Stockbuilding	-0.1	-0.7	0.2	0.1	Stockbuilding	1.1	-0.1	-2.2	0.0
Net exports	0.6	-1.8	1.3	0.8	Net exports	0.9	0.7	5.0	3.1
GDP	1.8	-3.4	1.4	2.3	GDP	2.0	-2.0	-3.7	-2.5
Belgium					**Hungary**				
Final domestic demand	2.1	-1.5	0.6	1.9	Final domestic demand	-0.4	-5.7	-2.2	2.1
Stockbuilding	-0.2	-1.0	-0.2	0.0	Stockbuilding	1.1	-5.8	4.1	0.2
Net exports	-1.0	0.0	1.1	0.0	Net exports	0.0	5.1	0.0	0.9
GDP	0.8	-3.0	1.4	1.9	GDP	0.4	-5.7	1.2	3.1
Canada					**Iceland**				
Final domestic demand	2.7	-1.8	4.1	3.2	Final domestic demand	-9.4	-20.1	-2.4	2.5
Stockbuilding	-0.2	-1.1	1.0	0.3	Stockbuilding	-0.4	0.1	0.0	0.2
Net exports	-1.9	-0.4	-1.3	-0.1	Net exports	10.7	14.1	-0.2	-0.5
GDP	0.4	-2.7	3.6	3.2	GDP	1.0	-6.5	-2.2	2.3
Chile					**Ireland**				
Final domestic demand	7.9	-3.1	7.9	8.2	Final domestic demand	-4.1	-10.1	-4.7	0.1
Stockbuilding	0.2	-3.5	1.9	0.3	Stockbuilding	0.1	-1.7	0.5	0.3
Net exports	-2.6	3.4	-3.5	-1.2	Net exports	0.6	4.9	3.6	2.6
GDP	3.7	-1.5	4.1	5.3	GDP	-3.0	-7.1	-0.7	3.0
Czech Republic					**Italy**				
Final domestic demand	1.5	-1.2	0.3	2.1	Final domestic demand	-1.1	-3.4	0.5	1.4
Stockbuilding	-0.5	-2.5	0.6	0.0	Stockbuilding	-0.3	-0.5	0.7	0.0
Net exports	1.3	-0.4	1.1	0.9	Net exports	0.1	-1.2	-0.1	0.1
GDP	2.3	-4.1	2.0	3.0	GDP	-1.3	-5.1	1.1	1.5
Denmark					**Japan**				
Final domestic demand	-0.8	-4.2	0.6	2.1	Final domestic demand	-0.9	-3.4	1.5	1.9
Stockbuilding	0.3	-2.0	0.9	0.0	Stockbuilding	-0.4	-0.4	0.2	0.0
Net exports	-0.4	1.2	0.0	-0.1	Net exports	0.1	-1.2	1.2	0.0
GDP	-0.9	-4.9	1.2	2.0	GDP	-1.2	-5.2	3.0	2.0
Finland					**Korea**				
Final domestic demand	1.1	-3.4	0.0	1.5	Final domestic demand	0.8	0.8	4.4	3.8
Stockbuilding	-0.6	-2.1	1.2	0.3	Stockbuilding	0.6	-4.6	2.2	0.0
Net exports	0.6	-3.4	0.7	0.8	Net exports	1.0	4.0	-1.0	0.7
GDP	1.2	-7.8	1.7	2.5	GDP	2.3	0.2	5.8	4.7
France					**Luxembourg**				
Final domestic demand	0.9	-0.6	0.8	1.8	Final domestic demand	1.8	-2.9	1.1	2.2
Stockbuilding	-0.3	-1.9	0.5	0.3	Stockbuilding	0.5	-0.5	0.1	-0.2
Net exports	-0.3	0.0	0.4	0.0	Net exports	-2.1	-0.2	1.5	1.4
GDP	0.3	-2.5	1.7	2.1	GDP	0.0	-3.4	2.7	3.1

Note: The adoption of 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, most countries have shifted to chain-weighted price indices to calculate real GDP and expenditures components. For further information, see table "National Account Reporting Systems, base years and latest data updates" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308534

Annex Table 57. **Contributions to changes in real GDP in OECD countries *(cont'd)***

	2008	2009	2010	2011
Mexico				
Final domestic demand	2.4	-6.4	3.3	4.5
Stockbuilding	-0.1	-1.9	1.7	0.0
Net exports	-0.8	1.7	-0.6	-0.6
GDP	1.5	-6.6	4.5	4.0
Netherlands				
Final domestic demand	2.1	-3.0	-0.9	1.4
Stockbuilding	0.3	-0.7	1.1	0.0
Net exports	-0.4	-0.4	1.1	0.6
GDP	2.0	-4.0	1.2	2.0
New Zealand				
Final domestic demand	-0.1	-2.9	3.1	4.9
Stockbuilding	0.0	-0.5	1.1	0.1
Net exports	-1.0	4.9	-2.8	-0.9
GDP	-0.5	-0.5	2.5	3.9
Norway				
Final domestic demand	1.6	-0.7	1.5	2.3
Stockbuilding	0.5	-1.7	-0.2	0.0
Net exports	-0.3	0.8	-0.1	-0.3
GDP	1.8	-1.5	1.2	2.0
Poland				
Final domestic demand	6.8	1.6	1.5	4.5
Stockbuilding	-1.1	-2.5	1.2	0.3
Net exports	-0.7	2.1	0.1	-0.8
GDP	5.0	1.8	3.1	3.9
Portugal				
Final domestic demand	1.2	-2.4	-0.3	0.1
Stockbuilding	0.3	-0.4	0.3	0.0
Net exports	-1.4	0.1	1.0	0.8
GDP	0.0	-2.7	1.0	0.8
Slovak Republic				
Final domestic demand	4.6	-2.4	0.5	3.4
Stockbuilding	1.3	-3.4	0.7	0.5
Net exports	0.1	1.3	2.4	-0.1
GDP	6.2	-4.7	3.6	3.9
Spain				
Final domestic demand	-0.7	-6.6	-1.2	0.0
Stockbuilding	0.1	0.0	0.1	0.0
Net exports	1.4	2.8	1.0	0.9
GDP	0.9	-3.6	-0.2	0.9
Sweden				
Final domestic demand	0.5	-3.3	1.4	2.6
Stockbuilding	-0.5	-1.4	0.3	0.0
Net exports	-0.5	-0.5	0.8	0.6
GDP	-0.6	-5.1	1.6	3.2
Switzerland				
Final domestic demand	1.0	0.2	1.9	2.0
Stockbuilding	-0.7	1.3	-1.6	0.0
Net exports	1.4	-3.0	1.5	0.2
GDP	1.8	-1.5	1.8	2.2
Turkey				
Final domestic demand	-1.3	-4.6	6.6	5.9
Stockbuilding	0.3	-2.6	2.3	0.0
Net exports	1.7	2.8	-2.1	-1.6
GDP	0.7	-4.9	6.8	4.5
United Kingdom				
Final domestic demand	0.5	-4.2	0.1	1.7
Stockbuilding	-0.4	-1.2	1.4	0.2
Net exports	0.5	0.7	-0.2	0.6
GDP	0.5	-4.9	1.3	2.5
United States				
Final domestic demand	-0.4	-2.8	2.4	3.4
Stockbuilding	-0.4	-0.7	1.2	0.1
Net exports	1.2	1.2	-0.3	-0.4
GDP	0.4	-2.4	3.2	3.2
Euro area				
Final domestic demand	0.4	-2.4	-0.3	1.0
Stockbuilding	0.1	-0.9	0.6	0.0
Net exports	0.0	-0.8	0.9	0.7
GDP	0.5	-4.1	1.2	1.8
Total OECD				
Final domestic demand	0.3	-2.7	1.7	2.7
Stockbuilding	-0.2	-1.2	1.0	0.1
Net exports	0.4	0.5	0.0	0.0
GDP	0.5	-3.3	2.7	2.8

Note: The adoption of 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, most countries have shifted to chain-weighted price indices to calculate real GDP and expenditures components. For further information, see table "National Account Reporting Systems, base years and latest data updates" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308534

Annex Table 58. **Household wealth and indebtedness**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Canada												
Net wealth	501.2	498.4	507.0	502.2	503.2	512.7	516.1	518.1	534.5	545.9	549.8	544.5
Net financial wealth	237.3	233.7	239.1	240.1	235.5	231.4	224.0	214.6	216.5	218.2	211.3	210.5
Non-financial assets	263.9	264.7	267.9	262.0	267.7	281.3	292.1	303.5	318.0	327.7	338.4	333.9
Financial assets	346.9	345.6	353.2	352.7	349.6	348.5	344.7	338.9	345.9	349.9	348.9	352.1
of which: Equities	74.1	79.5	81.1	84.3	84.2	83.6	81.0	79.4	79.4	86.7	86.7	94.3
Liabilities	109.6	112.0	114.1	112.6	114.1	117.1	120.6	124.3	129.4	131.7	137.6	141.6
of which: Mortgages	71.6	71.8	71.8	69.6	69.6	71.2	73.2	75.9	79.1	81.0	85.4	88.2
France												
Net wealth	487.3	494.9	545.8	552.5	552.3	571.3	621.2	682.1	748.2	792.3	802.6	751.9
Net financial wealth	180.5	185.5	211.8	205.7	188.4	183.1	189.6	194.9	200.5	210.4	211.2	185.5
Non-financial assets	306.8	309.3	334.1	346.8	363.9	388.2	431.6	487.3	547.7	581.9	591.4	566.4
Financial assets	247.9	258.1	287.2	282.5	266.4	258.7	269.2	278.6	291.5	306.9	311.3	286.0
of which: Equities	60.5	67.3	86.6	83.5	69.8	63.1	69.7	72.4	77.5	87.1	88.0	64.7
Liabilities	67.4	72.5	75.4	76.8	78.0	75.6	79.7	83.7	91.0	96.5	100.0	100.5
of which: Long-term loans	50.8	51.5	53.8	53.4	53.6	54.6	57.1	60.2	65.3	69.5	73.2	76.6
Germany												
Net wealth	513.8	527.6	539.1	536.6	531.2	533.7	547.8	561.2	581.4	606.3	628.6	..
Net financial wealth	135.2	143.5	153.8	151.4	150.7	145.9	158.2	167.2	180.2	189.7	198.7	186.3
Non-financial assets	378.6	384.1	385.3	385.2	380.5	387.8	389.6	394.0	401.2	416.6	430.0	..
Financial assets	240.2	252.8	267.9	265.9	262.4	257.9	269.1	276.8	287.3	294.6	300.6	284.5
of which: Equities	53.8	61.1	74.5	75.2	71.3	57.4	63.3	63.9	71.3	72.1	72.9	54.6
Liabilities	105.0	109.3	114.1	114.5	111.8	112.1	110.9	109.6	107.1	104.9	101.9	98.3
of which: Mortgages	65.2	67.1	71.0	71.7	71.2	72.3	72.2	71.8	71.0	70.9	69.2	66.8
Italy												
Net wealth	681.0	718.5	744.6	758.3	737.7	746.2	770.0	793.9	823.5	846.0	857.1	818.0
Net financial wealth	260.5	293.5	324.8	330.0	306.9	293.0	290.7	297.6	304.8	304.0	293.9	253.7
Non-financial assets	420.5	424.9	419.9	428.3	430.8	453.2	479.3	496.3	518.7	541.9	563.2	564.3
Financial assets	303.4	339.0	373.5	382.8	359.2	351.3	353.0	364.3	376.7	379.8	373.2	333.2
of which: Equities	48.6	63.0	94.0	98.0	82.0	75.1	70.8	74.3	84.2	86.1	79.8	47.7
Liabilities	42.9	45.5	48.8	52.8	52.3	58.3	62.3	66.7	71.9	75.7	79.4	79.5
of which: Medium and long-term loans	24.5	24.6	27.3	28.5	28.3	33.6	36.3	39.9	43.7	46.2	48.7	48.4
Japan												
Net wealth	727.5	722.5	746.2	743.9	740.5	719.4	728.1	720.1	739.2	744.7	735.3	697.0
Net financial wealth	288.9	296.3	327.3	335.6	341.6	340.7	361.1	369.4	397.1	401.4	386.3	356.5
Non-financial assets	438.6	426.2	418.9	408.3	398.9	378.7	367.0	350.7	342.1	343.3	349.0	340.6
Financial assets	420.8	428.8	460.7	470.2	477.5	474.4	494.7	500.8	529.0	531.8	513.7	483.6
of which: Equities	28.8	27.0	45.6	41.5	31.8	29.8	42.1	48.9	75.5	75.8	50.3	29.7
Liabilities	131.9	132.5	133.4	134.5	135.9	133.6	133.6	131.4	131.8	130.4	127.4	127.2
of which: Mortgages[1]	55.3	56.0	58.9	61.0	63.1	62.8	63.9	63.4	64.1	65.2	64.9	64.7
United Kingdom												
Net wealth	648.9	686.4	769.1	768.1	714.3	715.6	748.0	797.2	827.0	875.3	911.6	767.9
Net financial wealth	348.2	359.6	410.3	380.3	323.5	260.8	265.9	270.0	304.3	313.8	310.8	248.9
Non-financial assets	300.7	326.8	358.8	387.8	390.8	454.9	482.2	527.2	522.7	561.5	600.7	519.0
Financial assets	455.3	469.0	524.0	497.4	445.0	394.7	410.9	430.0	466.6	491.4	496.6	428.5
of which: Equities	96.5	97.1	121.4	113.6	85.9	61.4	67.3	71.4	76.0	77.9	72.8	47.4
Liabilities	107.1	109.4	113.7	117.1	121.4	134.0	145.0	160.0	162.3	177.6	185.8	179.6
of which: Mortgages	78.2	79.4	82.7	85.4	88.5	97.1	106.8	119.0	121.2	131.3	140.0	137.9
United States												
Net wealth	553.2	580.0	630.4	583.2	555.4	516.2	562.5	594.9	642.2	650.1	619.8	475.7
Net financial wealth	345.4	369.3	411.6	355.2	315.9	267.5	303.9	317.8	336.2	350.2	350.3	254.6
Non-financial assets	207.9	210.7	218.8	228.0	239.5	248.7	258.6	277.1	306.0	299.9	269.5	221.1
Financial assets	440.0	464.7	511.1	455.9	420.5	377.4	421.4	441.7	467.2	485.4	487.9	385.9
of which: Equities	133.2	153.9	190.3	148.9	122.9	91.6	115.2	122.6	127.5	140.0	137.4	86.3
Liabilities	94.6	95.4	99.6	100.7	104.7	109.9	117.5	123.8	131.0	135.2	137.6	131.4
of which: Mortgages	63.1	63.8	66.6	67.2	71.3	77.2	84.0	89.9	97.4	101.2	103.1	98.8

Note: Assets and liabilities are amounts outstanding at the end of the period, in per cent of nominal disposable income.

Households include non-profit institutions serving households, except for Italy. Net wealth is defined as non-financial and financial assets minus liabilities; net financial wealth is financial assets minus liabilities. Non-financial assets consist mainly of dwellings and land. For a more detailed description of the variable, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Fiscal year data.

Sources: Canada: Statistics Canada; France: INSEE; Germany: Deutsche Bundesbank, Federal Statistical Office (Destatis); Italy: Banca d'Italia; Japan: Economic Planning Agency; United Kingdom: Office for National Statistics; United States: Federal Reserve.

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Annex Table 59. **House prices**

Percentage change from previous year

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Nominal																	
United States	2.6	2.1	2.3	3.0	3.6	3.6	5.1	4.8	6.5	7.7	6.5	6.3	9.5	11.4	7.3	1.9	-2.9
Japan	-3.9	-4.3	-2.4	-1.6	-1.9	-1.4	-1.6	-3.2	-3.8	-4.2	-4.6	-5.4	-6.1	-4.8	-3.0	-1.0	-1.6
Germany				1.0	-0.9	-1.8	-1.9	1.9	0.0	0.0	-2.8	-1.0	-1.9	-2.0	0.0	1.0	1.0
France					-1.7	0.1	1.9	7.1	8.8	7.9	8.3	11.7	15.2	15.3	12.1	6.6	1.3
Italy	6.2	0.2	-2.8	0.8	-3.3	-4.6	2.1	5.6	8.3	8.2	9.6	10.3	9.9	7.5	6.4	5.2	1.7
United Kingdom	-4.0	-1.7	2.6	0.7	3.7	8.8	11.5	10.9	14.9	8.1	16.1	15.7	11.9	5.5	6.3	10.9	-0.9
Canada	1.1	1.9	3.3	-4.5	0.2	2.5	-1.5	3.8	3.7	4.7	9.9	9.0	9.9	9.9	11.3	11.3	-1.2
Australia	1.6	2.6	3.6	1.2	0.8	4.0	7.4	7.2	8.3	11.2	18.8	18.2	6.5	1.5	7.8	11.3	4.4
Belgium	6.7	5.3	6.4	4.5	2.2	2.4	6.4	7.1	5.4	4.8	6.4	6.9	8.7	12.7	11.8	9.3	4.8
Denmark	-1.6	-1.0	12.2	7.6	10.7	11.5	9.0	6.7	6.5	5.8	3.6	3.2	8.9	17.6	21.6	4.6	-4.5
Finland									5.4	-0.9	10.5	5.9	6.1	5.5	7.0	6.9	0.5
Ireland	1.9	2.0	4.8	6.3	15.0	20.0	31.0	21.7	16.5	8.2	10.7	15.9	11.6	11.8	13.5	1.0	-8.8
Korea	-6.5	-3.5	-1.6	-0.1	1.0	2.7	-9.2	-1.3	1.8	4.0	16.6	9.1	1.1	0.8	6.1	9.0	4.0
Netherlands	8.4	8.2	12.3	6.9	10.8	12.0	10.9	16.3	18.2	11.1	6.5	3.6	4.3	3.8	4.6	4.2	2.9
Norway	-4.9	1.0	13.2	7.2	9.2	11.8	11.1	11.2	15.7	7.0	4.9	1.7	10.1	8.2	13.7	12.6	-1.1
New Zealand	0.7	4.1	13.7	9.3	10.3	6.1	-1.7	2.1	-0.4	1.8	9.5	19.4	17.8	14.5	10.5	10.9	-4.4
Spain	-0.7	-0.3	1.5	3.5	2.6	4.2	4.9	7.0	7.5	9.5	16.9	20.0	18.3	14.6	10.0	5.5	0.2
Sweden	-9.4	-11.0	4.6	0.3	0.8	6.6	9.5	9.4	11.2	7.9	6.3	6.6	9.3	9.0	12.2	10.4	3.2
Switzerland	-4.4	-5.2	-0.1	-3.9	-5.3	-3.5	-0.9	-0.1	0.9	1.9	4.6	3.0	2.4	1.1	2.5	2.1	2.6
Real[1]																	
United States	-0.4	-0.1	0.3	0.7	1.4	1.7	4.1	3.2	3.9	5.7	5.0	4.2	6.7	8.2	4.4	-0.8	-6.0
Japan	-5.5	-5.3	-2.9	-1.3	-1.8	-2.6	-1.7	-2.6	-2.7	-3.1	-3.2	-4.6	-5.5	-4.1	-2.8	-0.4	-2.0
Germany				-0.3	-1.8	-3.2	-2.3	1.6	-0.9	-1.7	-3.9	-2.5	-3.2	-3.3	-1.0	-0.8	-1.1
France					-3.3	-0.8	1.7	7.7	6.4	6.0	7.3	9.7	13.1	13.3	9.8	4.4	-1.5
Italy	1.0	-4.9	-7.6	-5.0	-7.1	-6.7	0.3	3.7	4.7	5.4	6.5	7.3	7.2	5.2	3.7	2.8	-1.4
United Kingdom	-8.3	-5.1	0.6	-2.5	0.2	6.2	8.9	9.5	13.7	6.1	14.4	13.6	9.9	3.0	3.5	7.8	-3.8
Canada	-0.6	-0.4	2.2	-5.8	-1.4	0.9	-2.7	2.1	1.5	2.8	7.8	7.2	8.3	8.1	9.8	9.6	-2.8
Australia	-0.1	0.7	2.4	-1.5	-1.4	2.5	6.1	6.3	5.1	7.3	15.2	16.0	5.1	-0.4	4.2	7.9	0.7
Belgium	4.2	2.0	3.6	2.4	1.5	0.8	5.4	6.7	1.9	2.9	5.1	5.3	6.2	9.7	8.6	6.3	1.0
Denmark	-2.7	-2.1	9.3	5.6	9.0	9.4	7.5	4.8	3.7	3.4	1.9	1.9	7.6	15.8	19.3	2.5	-7.4
Finland									1.2	-3.3	8.2	6.4	5.5	4.9	5.5	4.4	-2.9
Ireland	-1.1	-0.1	2.0	3.4	12.1	16.9	26.4	18.6	8.9	3.8	5.0	11.3	9.6	9.8	10.8	-2.3	-11.2
Korea	-13.7	-9.5	-10.3	-6.2	-5.5	-3.3	-14.6	-3.9	-2.5	-0.4	13.2	5.7	-2.0	-1.4	4.5	6.9	-0.5
Netherlands	5.1	5.9	9.5	4.7	8.6	9.4	8.7	14.2	13.8	6.4	3.4	1.2	3.3	1.7	2.3	2.6	0.8
Norway	-7.0	-1.4	12.1	4.7	7.9	9.2	8.4	9.0	12.4	4.8	3.5	-1.2	9.3	7.1	11.6	11.3	-4.6
New Zealand	-0.2	3.0	12.1	6.8	7.5	4.2	-3.6	1.4	-2.6	-0.4	7.3	18.4	16.0	12.1	7.2	9.2	-7.7
Spain	-6.8	-5.3	-3.2	-1.3	-0.6	1.5	2.9	4.6	3.6	5.8	13.7	16.3	14.2	10.8	6.2	2.2	-3.4
Sweden	-11.3	-16.8	1.7	-2.5	-0.2	5.2	8.9	7.7	10.2	5.7	4.6	4.9	8.1	7.7	11.3	9.2	0.3
Switzerland	-8.0	-7.7	-0.4	-5.2	-6.5	-4.3	-0.8	-0.5	0.1	1.3	3.7	2.6	1.5	0.6	1.1	0.7	0.4

1. Nominal house prices deflated by the private consumption deflator.

Source: Various national sources and Nomisma, see table A.1 in Girouard, N., M. Kennedy, P. van den Noord and C. André, "Recent house price developments: the role of fundamentals", *OECD Economics Department Working Papers,* No. 475, 2006.

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Annex Table 60. **House price ratios**

Long-term average = 100

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Price-to-rent ratio																	
United States	90.5	89.7	89.0	88.8	89.2	89.6	91.1	92.9	95.8	99.4	102.0	105.9	112.9	122.6	127.1	124.9	118.3
Japan	127.9	119.2	113.8	109.9	106.3	103.3	101.0	97.9	94.0	89.9	85.9	81.3	76.5	72.8	70.6	70.0	68.8
Germany				94.3	90.6	86.9	84.3	85.1	84.1	83.2	79.8	78.3	76.1	73.9	73.0	72.8	72.5
France					79.2	78.1	78.1	82.2	89.5	96.1	101.5	110.4	123.7	137.6	149.2	154.2	152.7
Italy	129.0	121.6	109.9	104.3	93.8	83.9	81.4	83.2	87.9	93.0	99.6	106.9	114.3	120.3	124.9	128.4	127.5
United Kingdom	85.8	82.6	81.0	78.6	78.9	84.4	92.9	100.8	114.3	120.8	136.8	155.3	167.6	166.4	161.9	171.0	156.5
Canada	96.7	100.6	106.2	99.0	99.4	104.1	103.4	106.6	107.4	109.7	120.6	130.1	142.1	154.8	169.5	182.3	173.0
Australia	88.5	90.3	92.9	92.5	90.5	91.4	95.2	99.5	104.5	112.6	130.7	151.5	157.5	156.4	163.2	172.2	167.0
Belgium	86.2	86.2	87.8	89.2	89.0	89.6	94.2	99.5	103.3	106.3	110.4	115.5	123.2	136.1	147.1	157.9	162.5
Denmark	70.1	67.4	73.6	77.6	84.7	92.0	98.3	102.2	106.1	109.3	110.3	110.9	117.5	134.8	160.7	164.6	153.4
Finland									114.6	109.5	121.6	129.5	136.1	139.7	143.1	144.3	139.0
Ireland	58.0	63.4	71.9	71.7	83.3	94.0	119.1	174.7	182.1	162.7	184.3	226.7	246.2	253.4	235.0	180.5	146.3
Korea	113.5	103.5	97.6	93.3	90.8	90.3	80.2	82.1	83.8	83.8	93.0	97.9	96.8	97.4	102.4	109.5	110.7
Netherlands	70.8	72.8	77.8	79.2	84.3	91.0	97.4	110.0	126.5	136.6	141.3	142.0	143.6	145.5	148.5	151.4	153.1
Norway	66.0	64.8	72.4	75.9	81.5	88.9	96.5	103.9	115.5	118.7	119.3	116.9	125.9	133.2	148.1	162.6	156.0
New Zealand	85.5	85.8	91.2	93.6	98.5	101.3	97.3	100.0	97.7	100.2	106.2	120.5	133.3	144.7	152.1	160.4	146.4
Spain	123.1	112.4	108.1	106.0	101.2	99.4	99.4	102.7	106.4	111.7	125.2	144.0	163.7	179.9	189.6	191.7	184.3
Sweden	78.2	65.9	67.7	66.4	66.3	71.9	80.8	89.7	99.4	104.9	108.9	115.1	126.3	137.8	152.2	159.6	155.9
Switzerland	107.1	96.5	95.9	91.2	85.2	81.8	81.1	80.4	79.9	79.2	82.0	84.3	85.2	85.0	85.4	85.2	85.4
Price-to-income ratio																	
United States	91.0	90.6	89.1	88.2	87.6	87.1	86.6	87.7	87.7	91.4	93.7	96.1	100.1	107.8	109.2	107.1	101.0
Japan	110.5	104.5	100.3	98.5	96.8	94.0	92.5	90.6	88.9	88.3	84.4	81.2	75.7	71.5	68.5	67.9	66.9
Germany				92.7	90.3	87.3	84.3	83.7	81.5	78.6	75.9	73.7	71.2	68.5	67.0	66.5	65.3
France					81.9	80.3	79.4	83.3	86.2	89.0	92.7	101.7	113.0	127.0	137.0	139.7	137.7
Italy	105.4	103.9	96.6	91.8	83.9	78.4	79.6	81.8	85.6	87.8	92.7	99.4	106.0	112.0	115.9	119.3	118.9
United Kingdom	88.1	81.3	80.9	77.1	75.2	76.8	82.2	88.1	96.6	98.6	111.2	123.0	135.2	137.2	142.6	154.7	147.3
Canada	102.5	103.1	106.2	98.9	98.6	98.6	94.1	93.9	91.7	92.7	99.3	105.1	110.6	117.5	123.1	131.5	124.2
Australia	98.9	98.0	96.9	93.7	90.0	90.4	95.3	98.4	102.1	105.9	122.6	140.1	141.4	137.4	138.7	145.0	144.7
Belgium	86.5	88.3	90.5	88.1	90.1	90.5	93.6	97.8	98.2	98.3	104.1	110.4	117.9	129.9	138.0	145.2	146.2
Denmark	71.9	71.5	77.7	77.2	83.5	91.8	96.4	105.3	109.0	109.1	109.3	109.1	114.5	130.1	153.0	156.9	146.0
Finland									96.3	90.5	96.0	96.7	97.8	101.5	104.8	106.2	101.4
Ireland	73.3	69.7	71.2	69.0	73.3	80.9	95.6	110.8	117.4	113.2	128.9	142.8	148.7	160.1	174.3	168.7	149.6
Korea	130.2	113.7	96.3	86.6	77.6	74.5	66.8	62.8	61.5	61.2	67.3	68.2	64.1	61.9	63.2	66.1	65.1
Netherlands	72.8	79.0	85.4	87.4	92.8	98.0	103.7	116.5	130.7	132.7	139.0	144.8	149.0	152.4	155.2	152.9	154.5
Norway	71.6	68.5	76.0	77.7	81.2	85.9	88.6	94.9	103.4	108.9	104.9	99.9	106.0	106.3	127.8	135.1	126.5
New Zealand	78.9	80.9	89.8	91.7	96.0	98.2	93.4	89.3	90.4	86.5	95.0	107.1	120.0	136.3	146.2	152.1	145.8
Spain	109.7	103.3	102.3	94.7	92.4	92.8	93.2	95.4	96.7	100.5	112.4	128.8	145.0	156.9	164.0	165.8	159.2
Sweden	82.2	71.4	73.6	72.2	72.8	76.9	82.2	86.5	91.2	91.0	92.1	95.6	102.7	109.7	118.7	125.5	123.8
Switzerland	102.8	96.2	95.7	89.7	85.3	80.9	78.3	76.2	74.0	73.3	77.6	80.8	80.9	79.9	78.9	77.3	79.9

Source: Various national sources and Nomisma, see table A.1 in Girouard, N., M. Kennedy, P. van den Noord and C. André, "Recent house price developments: the role of fundamentals", *OECD Economics Department Working Papers,* No. 475, 2006 and OECD estimates.

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Annex Table 61. **Central government financial balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Canada	-3.9	-2.0	0.7	0.8	0.9	1.9	1.1	0.8	0.3	0.8	0.1	0.8	1.0	0.2	-2.0
France	-4.5	-3.6	-3.1	-2.8	-2.4	-2.1	-2.1	-3.1	-3.6	-2.6	-2.6	-2.1	-2.3	-2.8	-6.0
Germany[1]	-7.9	-1.9	-1.6	-1.8	-1.5	1.4	-1.3	-1.7	-1.8	-2.4	-2.1	-1.5	-0.8	-0.6	-1.6
Italy	-7.5	-6.8	-2.6	-2.5	-1.5	-1.2	-3.1	-3.1	-3.0	-3.0	-4.0	-2.8	-2.0	-2.6	-4.8
Japan[2]	-4.1	-4.1	-3.5	-10.6	-7.3	-6.4	-5.9	-6.7	-6.7	-5.2	-6.2	-1.0	-2.6	-2.6	-5.8
United Kingdom[3]	-5.5	-4.1	-2.0	0.2	1.1	3.9	0.8	-1.9	-3.4	-3.1	-3.0	-2.7	-2.7	-4.6	-11.1
United States	-2.8	-2.0	-0.6	0.5	1.0	1.9	0.3	-2.6	-3.8	-3.6	-2.8	-1.8	-2.2	-5.4	-10.2
less social security	-3.6	-2.9	-1.7	-0.7	-0.4	0.3	-1.3	-4.2	-5.2	-4.9	-4.1	-3.3	-3.5	-6.7	-11.0
Total of above countries	-4.3	-2.9	-1.6	-2.0	-1.0	0.2	-1.2	-3.0	-3.8	-3.4	-3.2	-1.7	-2.0	-3.8	-7.8

Note: Central government financial balances include one-off revenues from the sale of mobile telephone licenses.

1. In 1995, this includes the central government's assumption of the debt of the Inherited Debt Fund.
2. Data for central government financial balances are only available for fiscal years beginning April 1 of the year shown. The 1998 deficit includes the central government's assumption of the debt of the Japan Railway Settlement Corporation and the National Forest Special Account which represent some 5.3 percentage points of GDP.
3. The data for 2000 and onwards reflect Eurostat's decision concerning the recording of one-off revenues from the sale of the mobile telephone licenses.

Source: OECD Economic Outlook 87 database.

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Annex Table 62. **Maastricht definition of general government gross public debt**

As a percentage of nominal GDP

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	64.4	64.9	67.2	66.6	67.1	66.6	65.6	64.9	64.0	62.3	59.5	62.7	66.4	70.1	73.5
Belgium[1]	122.3	117.4	113.8	107.9	106.6	103.5	98.5	94.3	92.1	88.0	84.2	90.0	97.0	99.6	101.1
Czech Republic	13.1	15.0	16.4	18.5	24.8	28.2	29.8	30.2	29.7	29.4	28.9	30.0	35.3	41.5	48.9
Denmark	65.2	60.8	57.4	51.5	48.7	48.3	45.8	44.5	37.1	32.1	27.4	34.2	41.5	44.6	46.7
Finland	54.0	48.4	45.8	43.8	42.6	41.6	44.6	44.4	41.8	39.6	35.3	34.2	43.9	52.3	60.1
France	59.3	59.4	58.8	57.3	56.9	58.8	62.9	65.0	66.4	63.6	63.8	67.5	77.7	85.1	90.6
Germany	59.6	60.4	61.0	59.7	58.7	60.3	63.9	66.0	68.1	67.6	64.9	66.0	73.2	77.9	81.3
Greece	96.6	94.5	94.0	103.4	103.7	101.7	97.4	98.6	100.0	97.8	95.7	99.2	115.1	125.3	134.8
Hungary	61.7	59.5	59.5	54.9	51.6	55.2	58.0	59.1	61.5	65.2	65.3	72.8	77.4	80.1	82.3
Ireland	64.3	53.6	48.5	37.8	35.6	32.2	31.0	29.7	27.6	24.9	25.0	43.9	64.0	76.3	85.8
Italy	118.0	115.0	113.9	109.1	108.8	105.7	104.3	103.9	105.8	106.4	103.5	106.1	115.9	119.0	121.7
Luxembourg	7.4	7.1	6.4	6.2	6.3	6.3	6.1	6.3	6.1	6.5	6.7	13.7	14.5	20.0	27.3
Netherlands	68.2	65.7	61.1	53.8	50.7	50.5	52.0	52.4	51.8	47.4	45.5	58.2	60.9	67.2	71.5
Poland	42.9	38.9	39.6	36.8	37.6	42.2	47.1	45.7	47.1	47.7	45.0	47.2	51.0	56.9	61.9
Portugal	56.1	52.1	51.4	50.5	52.9	55.6	56.9	58.3	63.6	64.7	63.6	66.3	76.8	84.9	88.5
Slovak Republic	33.8	34.5	47.9	50.3	48.9	43.4	42.4	41.5	34.2	30.5	29.3	27.7	35.7	41.3	46.0
Spain	66.1	64.1	62.3	59.3	55.5	52.5	48.7	46.2	43.0	39.6	36.2	39.7	53.2	63.4	69.0
Sweden	70.8	68.6	64.4	53.2	53.9	52.1	51.7	50.6	50.4	45.0	39.9	37.6	41.6	44.3	47.1
United Kingdom	49.8	46.7	43.7	41.0	37.7	37.5	38.7	40.6	42.2	43.5	44.7	52.0	68.1	78.1	86.5
Euro area	73.7	72.6	71.9	69.3	68.3	68.1	69.2	69.7	70.2	68.4	66.1	69.6	78.9	85.0	89.3

Note: For the period before 2010, gross debt figures are provided by Eurostat, the Statistical Office of the European Communities, unless more recent data are available, while GDP figures are provided by national authorities.This explains why these ratios can differ significantly from the ones published by Eurostat. The 2010 to 2011 debt ratios are in line with the OECD projections for general government gross financial liabilities and GDP. For further information, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Includes the debt of the Belgium National Railways Company (SNCB) from 2005 onwards.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932308629

Annex Table 63. **Monetary and credit aggregates: recent trends**

Annualised percentage change, seasonally adjusted

		Annual change (to 4th quarter)					Latest twelve months	
		2005	2006	2007	2008	2009		
Canada	M2	5.6	8.9	6.4	12.5	10.9	6.7	(Mar 2010)
	BL[1]	8.6	7.7	9.8	7.3	3.9	4.0	(Mar 2010)
Japan	M2	1.9	0.6	2.0	1.8	3.3	2.7	(Mar 2010)
	BL[1]	1.0	-0.2	-0.9	3.4	3.5	4.4	(Mar 2010)
United Kingdom	M2	9.0	8.1	7.6	5.1	5.6	6.2	(Mar 2010)
	M4	11.8	13.2	12.5	15.8	6.6	10.5	(Mar 2010)
	BL[1]	8.8	12.6	12.5	14.3	11.5	13.4	(Mar 2010)
United States	M2	4.1	5.7	6.3	8.5	5.1	1.5	(Mar 2010)
	BL[1]	12.0	12.0	11.3	8.3	-7.8	-2.0	(Apr 2010)
Euro area	M2	8.8	8.8	11.3	9.7	2.1	1.7	(Mar 2010)
	M3	8.2	9.0	12.3	9.0	-0.2	-0.1	(Mar 2010)
	BL[1]	9.0	7.9	11.5	9.1	3.0	1.5	(Mar 2010)

1. Commercial bank credit.

Source: OECD Main Economic Indicators; US Federal Reserve Board; Bank of Japan; European Central Bank; Bank of England; Statistics Canada.

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