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SPRING 2006

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Economic Forecasts
Spring 2006

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Overview

Growth revival underway in the EU and the euro area

The economic recovery that started in 2005 is gathering pace in 2006. Output growth in 2006 is forecast to reach 2.3% in the EU and 2.1% in the euro area, i.e. around ¾ of a percentage point above last year's growth and 0.2 percentage point higher than forecast six months ago. In 2007, growth is projected to slow somewhat, with the annual rate declining by 0.1 percentage point in the EU and by 0.3 percentage point in the euro area.

The growth moderation in 2007 has to be seen in the context of the planned budgetary measures in Germany. In particular, due to the increase in the standard VAT rate by 3 percentage points on 1 January 2007, German households are expected to shift a part of their consumption and housing investment from 2007 to 2006. While this has a marked impact on the projected profile, the overall growth effect for Germany of the budgetary policy measures is assessed to be broadly neutral over a time horizon of two years and does therefore not imply a weakening of the underlying growth momentum in 2007.

The recovery in the EU and the euro area will be underpinned by a strengthening of domestic demand. More specifically, investment in equipment is set to increase at a robust pace. Construction investment is also forecast to pick up in 2006. However, this is to a large extent due to an upsurge in Germany, while a significant number of Member States will experience a slowdown as a consequence of the expected cooling of housing markets. Private consumption is projected to grow more moderately in line with the gradual improvement foreseen in the labour market. Import growth is forecast to pick up in 2006 on the back of stronger domestic demand. As exports are projected to accelerate even more rapidly, the net contribution to GDP growth from the external sector should improve.

Continued strong world growth…

External demand will be helped by the continued strong expansion of the world economy. Indeed, due to an acceleration of economic activity in the second half of the year, world GDP growth in 2005 exceeded expectations and is now estimated at 4.6%, only ½ of a percentage point lower than the record high attained in 2004. The fast pace of world economic activity is expected to be sustained for most of 2006. Owing also to an upward revision of the carry-over from 2005, annual average growth is projected to remain unchanged at 4.6%. However, this figure masks a moderation of the growth momentum later in the year which is due, in particular, to the effects of the monetary tightening across world regions and the strong increase in the price of oil and other commodities.

The acceleration in global growth in the second half of 2005 was particularly pronounced in the manufacturing sector, with growth in the services sector also gaining momentum. From a regional perspective, upward revisions for China, India and Japan are largely responsible for the stronger-than-expected expansion.

In the United States, while the fourth quarter of last year saw a temporary weakening due particularly to hurricane-related disruptions, underlying growth seems to have continued at around 3½%. This figure also corresponds to the latest estimate of annual average growth in 2005. The current pace of activity is expected to continue until mid-2006, when the effects of tighter monetary conditions combined with a correction in the growth of house prices are likely to start curbing domestic demand. For the year as a whole, growth is projected to reach 3.2% in 2006 and to moderate to 2.7% in 2007 owing to the declining growth profile from mid-2006 on. While the projected slowdown in domestic demand will be instrumental in stabilising the deficit in the foreign trade balance, it will be insufficient by itself to reverse the ongoing deterioration in the current account.

Economic expansion in Japan, which reached a five-year high in 2005, is broadening beyond the manufacturing sector. The momentum should be maintained in 2006 thanks mainly to high growth of business investment, spurred by upbeat business confidence and strongly improved corporate profits, while improvements in the labour market should foster private consumption. These factors should help sustain growth at a rate of 2.8% in 2006 and 2.4% in 2007. The economy appears to have overcome deflation, as consumer prices are expected to edge up by ½-1% per year over the forecast period.

The Chinese economy continues to surprise on the upside, with growth in 2005 estimated to have reached 9.9%, only marginally below the 10.1% of the previous year. The expansion is driven by bumper rates of growth in investment and exports. The current account surplus is estimated at 6½% of GDP in 2005. Following the replacement of the peg against the US dollar by a managed float the renminbi is expected to gradually appreciate. This should act to dampen export growth and, as a knock-on effect, reduce output growth slightly to around 9½% in 2006 and to 9% in 2007.

Among the other emerging regions, growth in the main oil-exporting countries in 2005 came in above expectations. For Russia, output growth is estimated at around 6½% and for the countries of the Middle East and North Africa at 5½%. Surging income from oil exports made these countries' current account surpluses swell further, despite strong growth in import volumes. Latin America and Sub-Saharan Africa saw robust economic growth in 2005 and the momentum is expected to be maintained in 2006, before moderating somewhat in 2007.

…boosts world trade

Strong growth in world output spurred world trade, which grew by 6⅔% in 2005, slightly above earlier expectations. The pick-up of world trade from the second quarter on was mainly driven by the recovery in the global manufacturing sector. With the carry-over reaching 5¼%, world trade growth is projected to be in the vicinity of 8% in 2006, and, in step with the slowing of output growth, to ease to around 7% in 2007.

Commodity prices increased significantly in 2005, primarily due to the rise in prices for oil and other energy products. This year will see further strong increases in commodity prices, particularly for fuels but also for food and metals.

Oil prices spiralling due to supply uncertainty

Regarding oil, the price of Brent fluctuated between 55 and 65 US dollar per barrel between September 2005 and March 2006, when it started a new spurt to around 75 US dollar per barrel by late April. Behind the high and volatile oil prices lies the fact that the oil market remains very tight, as strong demand growth on the one hand and recurrent supply disruptions on the other have prevented the rebuilding of spare capacity. With uncertainty due to geopolitical tensions adding to recent price pressures, markets expect oil prices to stay high in the near term. Considering these factors, the price for Brent is assumed to rise from 61.4 US dollars per barrel in the first quarter of 2006 to an average of around 71 US dollars for the remainder of the forecast period. This corresponds to an annual average increase of more than 27% in 2006 and of around 3% in 2007 (after an increase of more than 40% in 2005).

Bond yields historically low, but on the rise

Long-term bond yields fell to very low levels in 2005. The euro area, in particular, experienced a sustained downward trend of 10-year bond yields which reached levels last seen in the heyday of the Gold Standard. With US bond yields changing only marginally, the yield differential between the euro area and the US rose to 120 basis points by October. Since then, bond yields have gradually increased by around 100 basis points in both the euro area and the US. Since October, bond yields have gradually increased by some 100 basis points both in the euro area and the US. The yield differential has narrowed somewhat and was slightly above 100 basis points at the end of April.

The yield curve flattened significantly in the course of 2005. A low yield spread is often interpreted as heralding and economic downturn. However, the evolution in long-term rates was driven by a number of global factors, such as an increase in central bank credibility; Asian central banks' purchases of US Treasury bills to maintain their currency pegs; slow growth in corporate sector investment; increased purchases of longer-term bonds by pension funds due to population ageing; and the recycling of oil income. Moreover, yield spreads on euro-area corporate bonds relative to benchmark bonds remain low, indicating that, in the near-term, financial conditions continue to be favourable and supportive to growth.

Increasing momentum in the EU and the euro area economies…

Against this backdrop, the EU and the euro area economies seem to have overcome the soft patch in 2004-05, which was triggered by a strong depreciation of the US dollar during 2003-04 and the sharp rise in oil prices. In the face of the income losses suffered from the negative terms-of-trade effects of the oil price shock, growth-supporting domestic factors such as continued favourable financing conditions, wider profit margins and improved corporate balance sheets have regained the upper hand, while exports benefit from buoyant world trade and a correction in the euro/US dollar exchange rate.

…but significant disparities among Member States

With the recovery set to unfold, the situation at the start of 2006 remains characterised by significant growth dispersion. In particular, Denmark, Greece, Spain, Ireland, Luxembourg and almost all of the recently acceded Member States posted growth rates of more than 3% in 2005, whilst Germany, Italy and Portugal saw output growth staying below 1%.

Moreover, individual components of domestic demand are developing at different speeds, with robust growth of equipment investment contrasting with lack-lustre private consumption. Improved profitability in the business sector on the one hand, and slow growth in households' disposable income on the other, appear to be the main factors behind the differences in the performance of investment and consumption.

A further element in this picture is the discrepancy observed between "hard" statistical data and "soft" survey data. Indeed, despite the mixed results provided by hard data over the past few months, survey data have continued to signal solid underlying growth, reaching a 5-year high in a majority of sectors. Discrepancies between statistical and survey data were particularly puzzling for the fourth quarter of last year when output figures indicated a slowdown in economic growth while confidence indicators continued to improve.

One factor explaining these differences may be related to statistical working-day adjustments. In view of a strongly varying number of working days in the last two quarters of 2005, conventional methods of correcting for such variances may have led to some distortions. Though this may account for a part of the apparent slowdown, it can hardly explain the sharp drop in the growth rate of private consumption. An additional consideration, therefore, is that the loss in household purchasing power as a result of the surge in energy prices during the summer of 2005 may have dented real consumption expenditure in the final months of the year.

More recently, hard data has painted a somewhat more favourable picture, suggesting that the economy has entered the first quarter of 2006 with significant momentum. Disregarding the volatility of quarter-on-quarter fluctuations and looking at the underlying growth in terms of year-on-year changes, the rate of expansion continued to improve during 2005. In the EU as a whole, GDP growth accelerated from 1.5% in the first half of 2005

Table 0.1

Main features of the Spring 2006 forecast - EU25

(Real annual percentage change unless otherwise stated)				Spring 2006 forecast [1]			Difference vs Autumn 2005 (a)	
	2002	2003	2004	2005	2006	2007	2006	2007
GDP	1.2	1.2	2.4	1.6	2.3	2.2	0.2	-0.2
Consumption	1.6	1.5	2.0	1.5	1.9	1.7	0.3	-0.4
Total investment	-0.8	0.9	3.0	2.9	4.4	3.1	0.9	-0.5
Employment	0.4	0.3	0.6	0.8	0.9	0.8	-0.1	-0.2
Unemployment rate (b)	8.8	9.0	9.1	8.7	8.5	8.2	0.0	0.1
Inflation (c)	2.1	1.9	2.1	2.2	2.1	2.2	-0.1	0.3
Government balance (% GDP) (d)	-2.3	-3.0	-2.6	-2.3	-2.3	-2.2	0.4	0.5
Government debt (% GDP)	60.5	62.0	62.4	63.4	63.2	62.9	-1.0	-1.4
Current account balance (% GDP)	0.4	0.1	0.0	-0.3	-0.9	-0.7	-0.5	-0.4

[1] The Commission services' Spring 2006 Forecasts are based on available data up to April 24, 2006.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Autumn 2005.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.
(d) Including proceeds from UMTS licences.

to 1.9% in the second half. Corresponding figures for the euro area are 1.2% and 1.7%.

Among the demand components, investment showed the most unambiguous signs of a robust upturn. Following an annualised growth rate of about 2% in the first half of the year, the pace of investment growth quickened to almost 3% in the second half. These figures should be seen in the perspective of the performance of investment during the 2½ years since the start of the current expansion. The annualised average growth rate during this period amounted to little more than 1%, which is only about one half of the rate observed during previous expansions.

Upturn driven by investment…

A number of factors account for the slow pace of investment growth during this cyclical upturn, including a financial overextension of the corporate sector in the boom years before 2001, a relatively slow return to profitability due, *inter alia*, to low productivity growth, and enterprises' disenchanted demand expectations. In addition, construction investment has continued to be depressed by the long-lasting adjustment process in Germany following the build-up of a significant oversupply in the wake of re-unification.

Against this background, the pick-up in investment growth in the course of 2005 points to a healthy underlying momentum and, combined with the recent acceleration in equity financing and bank loans to companies, suggests a further pick-up in 2006.

…with consumption following more gradually

Developments in consumer spending have been less encouraging. Although showing some improvement during 2005, the modest upturn got derailed in the fourth quarter when the oil price hike curtailed the purchasing power of households. The sluggish growth of private consumption has to be seen in the light of persistently weak growth of disposable income, the key determinant of household spending. More

Table 0.2

Main features of the Spring 2006 forecast - euro area

(Real annual percentage change unless otherwise stated)				Spring 2006 forecast [1]			Difference vs Autumn 2005 (a)	
	2002	2003	2004	2005	2006	2007	2006	2007
GDP	0.9	0.7	2.0	1.3	2.1	1.8	0.2	-0.3
Consumption	0.9	1.0	1.5	1.3	1.7	1.4	0.3	-0.5
Total investment	-1.5	0.9	2.3	2.2	4.2	2.4	1.1	-0.8
Employment	0.7	0.3	0.6	0.7	0.9	0.8	-0.3	-0.3
Unemployment rate (b)	8.3	8.7	8.9	8.6	8.4	8.2	0.0	0.1
Inflation (c)	2.3	2.1	2.1	2.2	2.2	2.2	0.0	0.4
Government balance (% GDP) (d)	-2.5	-3.0	-2.8	-2.4	-2.4	-2.3	0.4	0.5
Government debt (% GDP)	68.1	69.3	69.8	70.8	70.5	70.1	-1.2	-1.7
Current account balance (% GDP)	0.8	0.4	0.5	0.1	-0.5	-0.3	-0.4	-0.2

[1] The Commission services' Spring 2006 Forecasts are based on available data up to April 24, 2006.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to Autumn 2005.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.
(d) Including proceeds from UMTS licences.

specifically, and bearing in mind that employment growth appears to be a more important determinant for consumer spending than growth of hourly wages, many EU economies have had difficulties in creating jobs in sufficient numbers, as witnessed by continuously high unemployment rates. While considerable cross-country differences exist, and despite increased reform efforts in recent years, there are still significant structural impediments to job creation in many Member States. In addition, uncertainties regarding the sustainability of the social security systems as a consequence of population ageing may have induced households to increase their precautionary savings. It is encouraging to note that labour markets experienced some improvements during 2005. An underlying improvement is also signalled by consumer surveys, which show consumer confidence on a gradual but sustained rise since the summer of last year.

Exports picking up

Export growth was relatively weak in 2005, after a strong performance in the year before. An important factor behind subdued export growth was a loss in market shares due to the significant appreciation of the euro in real effective terms during 2003-04. However, following the reversal of the euro appreciation, export growth picked up from around ½% in the first half of 2005 to almost 2% in the second half. EU exports were also aided by strong growth of imports from oil-exporting countries which EU exporters seem to have benefited from to a more-than-proportional degree.

Output growth accelerating in 2006…

Looking ahead, overall GDP growth is expected to pick up as a result of both a better performance of domestic demand and an improved contribution of the external sector. In particular, investment is set to continue growing at a rapid pace underpinned by optimistic business sentiment, a favourable profit outlook and the increased need for replacement investment. The assumed gradual tightening of financing conditions is not expected to impact significantly on investment growth, given the momentum of the recovery. Nevertheless, somewhat lower investment growth is foreseen in 2007, mainly as a result of a drop in residential construction in Germany on the heels of the expected surge in 2006 caused by the hike in the VAT rate.

…with German VAT hike causing a slight temporary dip in 2007

Growth of private consumption should become more solidly based in 2006, in line with improving labour market conditions and higher consumer confidence. However, the upturn will remain gradual as the rate of unemployment comes down only slowly and uncertainty over the future course of oil prices is likely to keep consumers cautious. In 2007, consumption growth is projected to slow down marginally, mainly as a payback to the temporary acceleration in Germany in the last quarter of 2006 induced by the VAT hike.

As a result of the depreciation of the real effective exchange rate in 2005-06, the losses in export market shares observed in recent years should diminish in 2006-07. Exporters in the EU and the euro area should thus benefit from the acceleration in external demand in 2006, with export growth reaching 6% in the EU and 5.5% in the euro area. In 2007, export growth will be marginally lower. Imports are projected to outpace exports in 2006, but this will reverse in 2007. As a result, the contribution to growth of the external side will improve but still be negative in 2006 before turning positive in 2007.

Gradual improvement in the labour market

The labour market has proved more resilient in the last economic slowdown compared to earlier cycles. Employment growth never turned negative and the rise in unemployment remained limited, with the unemployment rate peaking at 8.9% in the fourth quarter of 2004. However, the more limited response in the labour market in the downturn has been followed by a similarly more tempered response in the subsequent economic upturn. Furthermore, the economic recovery has in itself been weaker than during previous upswings.

In line with the usual lagging response of the labour market, employment growth is expected to improve, albeit modestly, in 2006 to 0.9% in both the EU and the euro area. Employment growth is expected to stabilise at 0.8% in both areas in 2007. This corresponds to the creation of just above 3½ million new jobs in the EU and almost 2½ million jobs in the euro area in 2006-07. The usual influx into the labour force when the labour market situation improves limits the decline in unemployment. The unemployment rate is set to decline gradually to 8.5% in the EU and to 8.4% in the euro area this year before diminishing to 8.2% in both areas in 2007.

No significant second-round effects from the oil price rise

Under the influence of marked increases in oil and energy prices, inflationary pressures intensified during most of 2005 in both the EU and the euro area. Consumer price inflation peaked at 2.6% on the year in September 2005 but has come down gradually to 2.2% in March 2006. For the year as a whole HICP inflation rose by 2.2% in both regions, marginally below the projections in the autumn forecast. Core inflation, i.e. changes in the HICP excluding energy and unprocessed food, eased in the first half of 2005 and stabilised thereafter at around 1.3%.

The substantial gap between headline and core inflation indicates that the oil price hike has not led so far to significant indirect effects on the non-energy sub-indices of the HICP. In addition, hourly labour costs have declined since the start of 2005 and both consumer surveys and inflation-indexed bonds suggest that inflation expectations remain contained. Given the counterbalancing effect of these forces, year-on-year headline inflation is expected to change little over the forecast period. Following a slight easing in 2006, the VAT rate hike in Germany will lead to a temporary push at the start of 2007 which should, however, taper off in the course of the year. This results in annual average inflation of slightly over 2% for both the EU and euro area in 2006 and 2007. The relatively static evolution of inflation at the aggregate level conceals a considerable dispersion across euro area Member States which, despite a slight narrowing of the gap between the highest and the lowest inflation, remains high.

Public finances turned out better-than-expected

The current public finance outlook for 2006 and 2007 starts from a better-than-expected outturn in 2005, which is projected to carry over into the forecast period with a small improvement for 2007 (on an unchanged policy basis). The general government budget balance in the euro area as a whole was 2.4% of GDP in 2005, as compared to an autumn forecast of 2.9% of GDP. The positive surprise stems from lower-than-expected expenditure in GDP, which more than offset lower revenues. At the country level, the better-than-expected outturn was relatively broad-based though particularly pronounced in Germany, Spain, the Netherlands and Ireland.

In spite of a relatively marked economic recovery, the general government deficit in the euro area is not projected to improve but to remain unchanged at 2.4% of GDP. As a result, the cyclically-adjusted budget balance is estimated to worsen slightly. In structural terms, i.e. net of cyclical factors and temporary measures, the budgetary situation in the euro area is estimated to improve gradually over the forecast horizon, *inter alia* signalling a diminishing recourse to temporary measures.

Five countries in the euro area are currently in excessive deficit, namely Germany, Greece, France, Italy and Portugal. In France, after falling just below 3% of GDP in 2005, the deficit is projected to increase to 3.0% of GDP in 2006 and to return marginally above the deficit threshold of the Treaty in 2007, based on the usual no-policy-change assumption and reflecting a lower recourse to one-off measures. In Italy, current policies are projected to merely stabilise the deficit at above 4% of GDP in 2006 and to lead to a further increase in 2007. In Greece, the deficit is expected to reach the 3% of GDP threshold in 2006, but additional measures will be necessary to sustain the correction into 2007 and beyond. In Germany, current policies are expected to bring the deficit below 3% of GDP by 2007. Unless policies change, the deficit in Portugal is forecast to reach 4.9% of GDP in 2007. The deadline set by the Council for Portugal to bring the deficit below the 3% of GDP threshold is end-2008.

The public finance situation of the other countries in the euro area is not expected to give rise to major concerns. The Netherlands and Ireland are forecast to significantly loosen their fiscal position in 2006. However, in both cases the loosening occurs from a relatively comfortable budgetary position. Minor changes or small improvements of the nominal budget balance are expected in the other countries of the euro area that are not in excessive deficit.

Outside the euro area, diverse fiscal policy and economic trends can be seen. Not all the larger economies currently in EDP, namely Hungary, Poland and the United Kingdom, do take advantage of a the better-than-expected deficit outturn in 2005 and the projected improvement of economic conditions to adjust public finances. In Poland, the deficit, after having declined to 2.5% of GDP in 2005, is expected to rise again to 3% of GDP over the forecast period. In Hungary, current policies are projected to increase the deficit towards 7% of GDP in 2007. Only the United Kingdom is expected to bring the deficit slightly below 3% of GDP at the end of the forecast period. The smaller EDP countries outside the euro area, Cyprus, Malta and Slovakia, are expected to be more effective in consolidating public finances. Their budgetary positions are expected to improve against the backdrop of stable or weakening economic growth. In particular, Cyprus and Slovakia are expected to have brought the deficit below 3% of GDP in 2005 and to make further progress over the forecast horizon. In Malta, the deficit is expected to decline below 3% of GDP in 2006. In the other non-euro-area economies public finance developments are expected to stay within the margins safeguarding against the risks of breaching the 3% of GDP threshold.

In both the EU and the euro area, the general government gross debt ratio is projected to reverse the upward trend observed since 2003. Following the peak of 70¾% of GDP in 2005, the debt ratio in the euro area is projected to embark on a slow downward path reaching around 70% of GDP in 2007. A similar decline, from a lower level, is expected in the EU. The projected downward trend conceals a number of notable exceptions. In Hungary, the debt ratio is expected to rise above the 60% of GDP threshold in 2007. In Germany and France existing policies, while slowing the upward trend compared to the autumn 2005 outlook, are not sufficient to reverse it by the end of the forecast period. Also in Italy, the debt ratio is forecast to continue increasing over the forecast horizon.

Upside and downside risks to the forecast

Summing up, the economic outlook in the EU and the euro area is for a return to potential growth while inflation will stay slightly above 2%. However, there are several risks to this outlook.

On the *external side*, oil and energy prices remain exceptionally high and volatile. With a tight balance between supply and demand, the market remains vulnerable to supply disruptions. Price increases above those already assumed can not be ruled out and continue to be one of the major risks to the outlook. On the other hand, if oil prices currently contain a high risk premium due to geopolitical tensions, an easing of these tensions could also imply the possibility of a decline in oil prices.

Global current account imbalances have continued to rise. Hence, a disorderly correction of global imbalances remains a threat to world growth. Furthermore, the gradual removal of excess liquidity could affect financial markets more adversely than is usually assumed. Historically low credit-risk premia could adjust abruptly as liquidity is withdrawn. The rapid growth in highly complex financial instruments, such as credit derivatives, could present a risk of discontinuity in more testing times with potential knock-on effects to the broader financial system.

Regarding the US economy, a stronger adjustment of consumer behaviour as a consequence of a sharper-than-expected correction in the US housing market cannot be ruled out. However, the strong momentum in the world economy and the buoyancy in many survey indicators also imply some upside risks to the world economy, especially in the shorter horizon.

A further risk reflects the continued concern about a possible global pandemic originating from an avian flu. However, the likelihood and the severity of a pandemic are extremely difficult to assess with any significant degree of confidence.

On the *internal side*, private consumption remains subject to both upside and downside risks. On the one hand, consumer confidence may improve more than expected due to better labour market conditions and a reduction of uncertainty over future income streams, thanks to past or ongoing structural reforms. Such a recovery in confidence would trigger a release of pent-up demand which has accumulated in the household sector and which could be financed through a reduction in the saving rate. On the other hand, while not a problem for the euro area or the EU as a whole, house prices seem to be stretched in some Member States and could pose a downside risk in these countries, especially if the price corrections are not gradual.

In the case of investment, positive risks arise from stronger external demand or faster productivity growth as a result of IT-investments and past reforms. Negative risks include higher oil prices, a disappointing development of aggregate demand and entrenched low-growth expectations.

A final risk to both the consumption and investment outlook stems from the uncertainty surrounding the impact of the German consolidation package, which covers a wide range of measures of an unprecedented scale. Economic agents may react to this package differently from what is currently assumed, with potentially positive or negative effects on GDP growth in Germany and the EU.

Overall, the risks to the growth outlook in this forecast seem to be fairly balanced, but uncertainties, especially on the external side, clearly increase over time. Regarding 2006, the risks appear slightly tilted to the upside, as the forecast may underestimate the current momentum of growth, both inside and outside the EU. For 2007, the risks are more tilted to the downside, with the uncertainties linked to the evolution of oil prices particularly weighing on the growth and inflation outlook.

Acceding and Candidate Countries

In the acceding and candidate countries, economic growth is expected to remain strong, increasing by more than 5% in Turkey, Bulgaria and Romania and by about 4½% in Croatia and the Former Yugoslav Republic of Macedonia. Main driving forces will be private investment and consumption. Rising labour productivity and an expanding and modernised capital stock will help to improve external competitiveness and to contain domestic inflationary pressures. In all countries, domestic demand will continue to outpace production and to be driven by very strong investment and, to a somewhat lesser extent, private consumption. Externally financed credit growth will remain an important source of financing private consumption, raising concerns in some of the countries.

Inflation is forecast to decline in all countries, with the exception of Croatia and the Former Yugoslav Republic of Macedonia, where price increases are likely to accelerate from a low level, reflecting higher energy prices, price liberalisations and one-off tax measures. In Turkey, fiscal discipline and a monetary policy geared towards price stability are expected to bring down inflation to close to 6% by 2007. In the Former

Yugoslav Republic of Macedonia and in Croatia, higher prices for energy and commodities as well as price liberalisations will lead to inflation rates of about 2% and 3½% by 2007. In the case of the two acceding countries, inflation will rise in 2006, due to higher energy prices, but decline in 2007.

Unemployment is likely to decline in all five countries. Based on strong output growth, job creation will accelerate in the candidate countries: in Croatia and the Former Yugoslav Republic of Macedonia employment will increase by about 1¼-1½% in 2007. In Turkey, employment growth is likely to be somewhat stronger, increasing from 1¼ % in 2005 to about 2% in 2007. Unemployment will decline during 2006-07 by about 1 percentage point in Croatia, by 2 percentage points in the Former Yugoslav Republic of Macedonia and by ¼ percentage point in Turkey. In the two acceding countries, employment growth will remain limited, reflecting a declining labour force and productivity enhancing investment, dampening the job intensity of growth.

Public finances still benefit from strong growth. The general government deficit is likely to improve in Croatia and in Turkey, while it should remain close to balance in the Former Yugoslav Republic of Macedonia and in Romania. In Bulgaria, the public sector will continue to register a surplus, which is projected to rise to 3% of GDP in 2006 before declining to 2% in 2007. Turkey reported a government deficit of 1.3% of GDP in 2005, and strong growth is likely to keep the deficit low also over the forecast period. In Croatia, the deficit is likely to decline from 3.9% of GDP in 2005 to 3½% by 2007. The Former Yugoslav Republic of Macedonia registered a surplus of 0.3% of GDP in 2005, which in view of high public investment needs might deteriorate slightly during the forecasting period.

Current account deficits have been widening in most countries, reflecting strong domestic demand and rising energy prices. The exception is the Former Yugoslav Republic of Macedonia, where steel exports and workers' remittances led to a sharp improvement in the current account balance in 2005. Current account imbalances are likely to remain high over the forecast horizon, largely financed by transfers, FDI and other capital inflows.

Chapter 1

The world economy

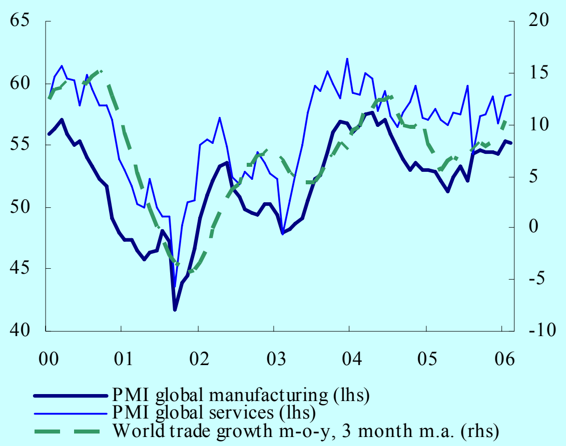
1. World growth broadening while remaining robust

The world economy continued its robust expansion last year. Despite the impact of higher oil prices and the ongoing tightening of monetary policies, it is projected to continue to grow by around 4½% in 2006, with global growth becoming less reliant on the United States. This is slightly stronger than projected in the autumn forecast, mainly reflecting upward revisions to the growth forecast for Asia, including Japan and China. Oil prices are expected to remain high in view of still-strong demand growth, ongoing supply concerns and the current very low level of excess supply capacity. Risks to the outlook remain, in particular related to high and volatile oil prices and the global current account imbalances. Furthermore, the lagged impact of the tightening of monetary policy could have a greater-than-expected impact on financial markets, which in particular could have implications for housing markets and bond-spreads.

Growth momentum remains strong

World growth is estimated to have reached around 4½% in 2005. Although down from the very strong growth rate of 5.1% in 2004, this was still robust, in view of the oil price hike and the trend towards monetary policy tightening.

Graph 1.1: **Global PMI indicators and world trade growth**

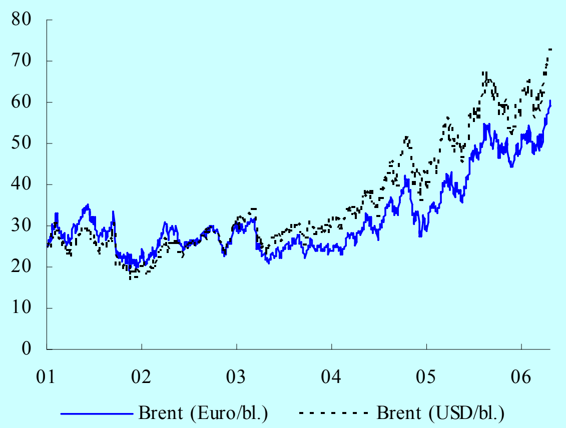


Growth in world trade also picked up again over the course of 2005, to around 6⅔% on average for the year as a whole, while world trade in the last quarter of 2005 was up by 8.3% compared to the previous year. The buoyancy in the world economy is also evident in global indicators. Following a slowdown in early 2005, the global manufacturing Purchasing Managers Index (PMI) has been on an upward trend since May last year. The services industry also continues to exhibit fairly strong momentum, with the global services PMI, which remained significantly above the 50 threshold signifying expansion throughout last year, seemingly gaining momentum. All in all, momentum in the world economy is quite strong, despite some downside risks.

Oil prices set to remain high

Oil prices have recently seen renewed strong increases to new record levels for Brent crude oil around 75 USD/bl. in mid-April. Robust global demand growth, low excess capacity, disruptions to oil production in Nigeria and geopolitical uncertainty surrounding Iran and Iraq are all factors behind the surge in prices.

Graph 1.2: **Oil prices (Brent) in USD and €**



Oil prices are assumed to remain high over the forecast period, with the price of Brent assumed to average 68.9 USD/bl. in 2006 and 71 USD/bl. in 2007, in line with the profile suggested by futures prices. This corresponds to an increase in the average annual price of 27.4% in 2006 and of 3.1% in 2007. The assumed level of oil prices is roughly 12% and 18% higher for 2006 and 2007, respectively, than what was assumed in the autumn forecast.

The high level of oil prices is underpinned by a rebound in global oil demand growth, led by China and North America. According to the International Energy Agency (IEA) global oil demand is projected to grow by 1.8% in 2006, up from 1.3% in 2005.

The low level of excess supply capacity of oil and refined products, and the long time it takes for new capacity to come on-stream, adds to the upward pressure on oil prices. Continued uncertainties about the security of crude oil supply in a number of major oil-exporting countries also contribute to this pressure. Recent unrest in Nigeria halted production of around 0.5 mb/d. (compared with a total world supply of around 85 mb/d.). Furthermore, geopolitical tensions increase the uncertainty about oil supply from the Middle East, in particular Iran's nuclear program. In addition, recent falls in US petrol stocks, due to unplanned refinery outages and changes in environmental requirements, have added further pressure to petrol prices, with petrol prices recently increasing by more than prices for crude oil.

The higher price of oil acts as an income transfer from the oil importing to the oil exporting regions. However, so far the global economy seems to have coped well with the strong increase in oil prices, with world growth still robust and inflationary pressures well-contained in most regions. Nevertheless, the recent increase in oil prices is likely to have a slight dampening effect on growth in the importing regions and there could still be some additional effects in store from past increases. Indirect effects on inflation, as firms adjust prices to reflect higher input costs of production, and second-round effects through higher wage demands have been subdued so far but could still surface, with implications for inflation and monetary policy.

Given the rise in oil prices, the major oil-exporting countries have experienced strong increases in their current account surplus. To a large extent these surpluses have been recycled in the form of increased financial holdings and direct investment, mainly into US dollar-denominated assets. In addition, these countries have seen strongly growing imports which significantly benefit the European Union, because of its relatively large export share to these countries. In 2005, goods exports to OPEC and CIS countries grew in value by 18% and 22%, respectively, while export values to the rest of the world only increased by 6½%. However, import values from OPEC rose by more than 40%, in line with the oil price increase expressed in euro. As a result, three-quarters of the deterioration of the EU trade balance between 2004 and 2005 is due to the bilateral trade balances with OPEC and CIS.

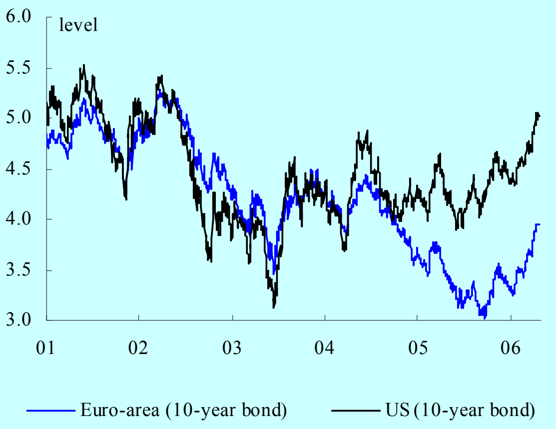
Financial market conditions remain growth supportive

Despite the ongoing tightening phase of monetary policy, monetary and financial conditions continue to be growth supportive.

The US Federal Reserve continued its gradual tightening of monetary conditions, which began in mid-2004, by hiking its policy rate by 25 basis points at each of the last 15 consecutive FOMC meetings, bringing the target rate to 4.75 percent in March 2006. The Bank of Japan recently brought the quantitative easing to an end, the first step to a less expansionary monetary policy, but the zero interest rate policy remains in place. The European Central Bank has increased interest rates twice since the end of last year, bringing its main policy rate from 2 percent to 2.5 percent. Despite these two rate hikes, both nominal and real interest rates remain at low levels.

Long-term bond yields have recently increased, in line with the positive outlook for growth, implying a degree of normalisation from the very low term premiums observed in 2005. Nevertheless, US long term interest rates are still at low levels relative to short term interest rates, suggesting that upside risks to long-term interest rates remain.

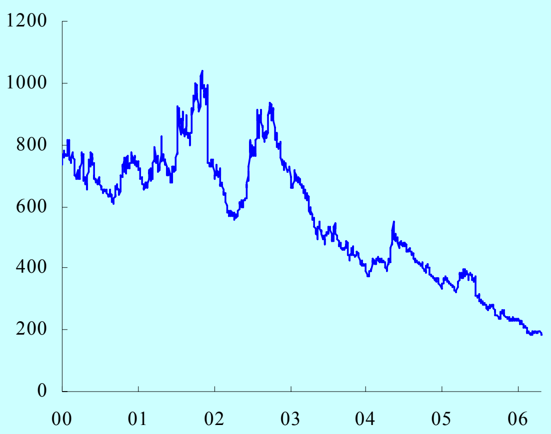
Graph 1.3: **Long-term interest rates, euro area and United States**



The so-called "carry trade", with investors borrowing in low-yield countries and investing the proceeds in higher-yield assets, has contributed to very low yield spreads on emerging market bonds and corporate bonds, indicating reduced risk sensitivity of investors in a situation of high global liquidity growth.

These low yield spreads are conducive to continued strong momentum in the world economy, but also pose a risk when the liquidity growth in the international financial system decelerates. Recent episodes, with slides in the currencies of Iceland and New Zealand, highlight the risks associated with the gradual unwinding of the carry trade. Furthermore, uncertainty related to global currency adjustments in view of the growing global current account imbalances could also pose some risk to financial markets in case of abrupt swings in exchange rates.

Graph 1.4: **Emerging markets bond spread**

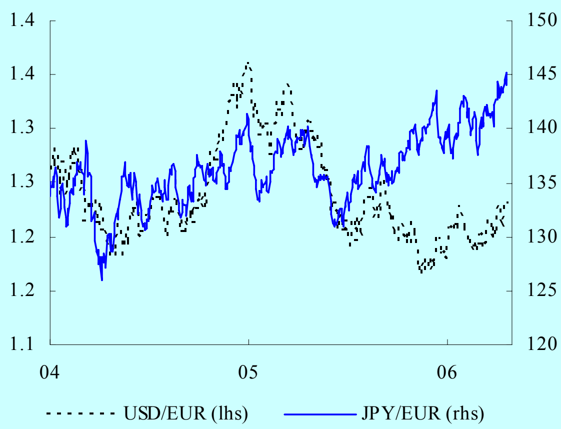


Following the appreciation of the US dollar in 2005 on the back of rising short-term interest rates, the major currencies have so far been relatively stable in 2006, with movements in the dollar exchange rate mainly driven by interest rate expectations and interest rate differential expectations vis-à-vis the euro area, as well as the size of the US trade deficit.

The Chinese exchange rate regime has remained close to a dollar peg despite the replacement in July 2005 of the 11-year old peg against the US dollar by a managed floating exchange rate regime. Since the 2.1 percent appreciation in July 2005, the Chinese currency has only gained 1% against the US dollar. The 10% real effective appreciation recorded in 2005 largely reflects the appreciation of the US dollar against other currencies.

Stock markets have also benefited from strong global growth and easy financing conditions, with firms having achieved strong growth in profits. The Japanese equity market, in particular, has benefited from the improved outlook, with the Japanese Nikkei index posting an increase of about 40% during 2005, while the European stock market (as measured by the Eurostoxx index) was up by about 20% at the end of 2005. Since the beginning of 2006, the Eurostoxx and Nikkei indices have increased by about 8%, while the US markets increased by some 5%.

Graph 1.5: **Euro exchange rates, USD and JPY**



Outlook by region

The **global economy** is expected to continue to expand at a solid pace over the forecast period. After growing by 4½% in 2005, growth is forecast to remain at that level in 2006 and to moderate only slightly to 4.3% in 2007. This implies a slight upward revision compared to the Autumn 2005 forecast, mainly reflecting upward revisions to the growth forecast for Asia, including Japan and China. Buoyant global growth over the forecast period is coupled with an acceleration in **world trade**, from an annual rate of 6⅔% in 2005 to 7-8% in 2006 and 2007. **Global imbalances** are likely to widen further, with the US current account deficit expected to reach over 900 billion US dollar in 2006 and 2007, close to 7% of US GDP. Oil-exporting countries and China represent an increasing share of the corresponding surpluses.

World growth is still being helped by the strength of the **US** economy, which expanded by 3.5% in 2005, based on continued buoyant consumer spending and relatively strong investment growth. The current momentum is expected to continue through the first half of 2006, before slowing down in response to rising interest rates and a downturn in the housing market. Declining residential investment and decelerating consumer spending should be particularly instrumental in the expected slowdown. The forecast for annual GDP growth remains unchanged at 3.2% for 2006 and 2.7% for 2007.

The **Canadian** economy expanded by 2.9% in 2005 and continues to operate close to its full production capacity and has generally benefited from a positive terms-of-trade shock from sharply higher energy and commodity prices. Going forward, the Canadian economy is set to continue to expand around its long-term potential growth rate, with some softening of domestic demand offset by the external sector, resulting in GDP growth of 3.2% this year and 2.7% in 2007.

Japan's economic expansion is broadening beyond the export-related sector. In 2005 as a whole, Japanese GDP growth reached a five-year-high of 2.7%, somewhat higher than the autumn forecast and faster than the 2.3% recorded in 2004. The main engine of growth was private domestic demand, including both household consumption and business investment, but net exports also contributed significantly. Although risks remain, in particular on the external side, the Japanese economy is expected to continue expanding at a rate of around 2.8% in 2006 and 2.4% in 2007. The global economic environment should remain supportive of Japanese growth, while domestic demand should maintain its current momentum.

China's GDP was revised upwards in December 2005, mainly due to an upward revision of the size of the service sector. GDP growth in 2005 is now estimated at 9.9%, only slightly lower than the 10.1% growth rate estimated for 2004. The very robust growth was underpinned by still-elevated investment spending and surging net exports. The surge in the trade surplus reflected a sharp deceleration of import growth. However, the growth contribution from external trade diminished towards the end of 2005, in the context of a 10% real effective appreciation of the renminbi in the course of 2005. Consumption continued to grow at a healthy pace, underpinned by strong income growth in both urban and rural areas.

GDP growth is expected to moderate somewhat to an average of about 9.5% in 2006, before further slowing to about 9% in 2007. This is above what was forecast in autumn due to the statistical revision. The deceleration should mainly come from a reduction of net export growth, against the background of slowing US growth and a gradually appreciating currency, with domestic demand gradually becoming a more important driver for growth.

Economic growth in **non-Japan Asia** as a whole ended 2005 strongly, reaching 7.9%, almost equalling the outcome of 2004. Over the forecast period, growth is expected to moderate to 7.7% and 7.5% in 2006 and 2007 respectively. This is in line with slightly decelerating global growth and, in particular, an expected gradual moderation of growth in China, as well as the deceleration in the US economy.

For the **accession and candidate** countries strong output growth of around 4-5% annually and significant trade deficits are likely to remain key features, driven by strong domestic demand. Significant FDI inflows facilitate the financing of the current account deficits. Inflationary pressures and public finances are likely to remain under control.

Growth has also been fairly robust in other European countries. The **Norwegian** economy continued to grow at a rapid pace in 2005, supported by expansionary monetary and fiscal policy, as well as increased investment in the petroleum sector encouraged by high oil prices. A modest deceleration is expected over the forecast period, with GDP growth projected to reach 2.5% in 2006 and 2.0% in 2007. The **Swiss** economy grew more than expected in the second half of 2005, supported by higher consumer spending and continued growth in exports. Healthy growth in private consumption and export growth supported by the external environment should see GDP growth reaching 1.8% in 2006 and 2.2% in 2007.

In 2005, GDP in **Russia** increased by 6.4%, below the figures of the preceding years, when growth exceeded 7%. The slowdown reflects a negative contribution to growth from the external sector, despite the rise in energy prices, while growth in domestic demand remained robust, regarding both consumption and investment. The trade and the current account surpluses increased further, on the back of further improvements of the terms of trade and despite a much faster increase in import volumes. Russia's current account surplus in 2005 exceeded 10% of GDP, for the second year in a row. In 2006 and 2007, the current trends are expected to continue, i.e. growth should remain robust at around 6%, reflecting the continued strength of domestic demand, fuelled by the increase in disposable income and fiscal easing.

Economic growth in the **other CIS countries** slowed down from an estimated 11% in 2004 to just over 7% in 2005, exclusively reflecting **Ukraine**'s hard landing – to 2.4% growth in 2005 after 12.1% a year before. This follows a negative terms of trade shock that halved the current account surplus and sluggish investment under an uncertain policy environment. Growth in 2006 is expected to remain similar to that of 2005 and to accelerate to only 3.5% in 2007. The most impressive growth performance in the region in 2005 was registered by the resource-rich **Azerbaijan** with GDP growth of around 24%, which is not expected to slow down before 2008. Most other countries of the region are set to experience GDP growth rates of 5 to 8%. Overall, the CIS is the second fastest growing region in the world, behind East Asia.

Economic growth in **Latin America** remained strong at around 4¼% in 2005, although somewhat lower compared to the rapid expansion of 2004. The growth deceleration was more marked in Brazil and, to a lesser extent, Mexico. By contrast, growth in Argentina, Chile, Colombia, Peru and Venezuela has kept up unexpectedly well. With external conditions remaining favourable (strong global demand, high commodity prices and benign financing conditions), growth in the region is expected to remain around 4% over the forecast period.

Growth in the **MENA** region (Middle East and North Africa) was strong in 2005 at 5.4%, but is projected to decrease slightly during the forecast period, with real GDP growth rates of 5.2% and 5.0% in 2006 and 2007, respectively. The region's oil export volume is projected to grow at 2-4% annually during the forecast period (assuming that high oil demand and prices will allow OPEC quotas not to be tightened), and non-oil export growth should remain strong for most countries.

In 2005, real GDP growth in **sub-Saharan Africa** was about 5%, up from 4.6% in 2004. In many African countries investment remained strong, supported by macroeconomic stability and an increase in development aid. These trends are expected to strengthen in 2006, especially in South Africa and oil producing countries, so that growth could accelerate to 6%. While growth should mainly be based on strong domestic demand, exports will also expand further, in particular for oil and other primary commodities. However, higher imports are expected to limit the growth contribution from net exports.

Table 1.1

International environment

(Real annual percentage change)					Spring 2006 forecast			Difference vs Autumn 2005	
		2002	2003	2004	2005	2006	2007	2006	2007
					Real GDP growth				
USA		1.6	2.7	4.2	3.5	3.2	2.7	0.0	0.0
Japan		0.1	1.8	2.3	2.7	2.8	2.4	0.6	0.6
Asia (excl. Japan)		6.7	7.8	8.1	7.9	7.7	7.5	0.5	0.5
of which	China	9.1	10.0	10.1	9.9	9.5	9.0	0.8	0.8
	ASEAN4 + Korea (a)	4.3	3.3	6.6	5.8	5.4	4.9	0.3	-0.3
Acceding/Candidate Countries		6.9	5.4	8.2	6.4	5.6	5.4	0.4	0.3
CIS		5.3	7.9	8.4	6.7	6.5	6.3	-0.4	-0.1
of which	Russia	4.7	7.3	7.2	6.4	6.1	5.9	-0.2	0.1
MENA		1.6	2.9	5.8	5.4	5.2	5.0	0.1	0.2
Latin America		-0.2	2.1	5.5	4.3	4.3	3.7	0.7	0.1
Sub-Saharan Africa		3.6	3.0	4.9	5.0	6.0	5.5	0.0	0.0
World		3.0	3.9	5.1	4.6	4.6	4.3	0.3	0.1
World excl. EU25		3.4	4.6	5.8	5.4	5.2	4.9	0.3	0.3
					World trade				
World import growth		4.7	6.7	11.3	7.1	8.5	7.1	1.1	-0.2
World import growth excl. EU25		6.7	8.7	13.3	8.2	9.8	8.2	1.1	-0.2
Extra EU25 export market growth		:	:	12.1	9.0	9.8	8.1	0.8	-0.3

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

Chapter 2

The economies of the euro area and the EU

1. Recovery in progress

GDP in the fourth quarter of 2005 influenced by technical factors ….

After a subdued performance in the first half of 2005, with quarter-on-quarter GDP growth of about 0.4% in both the euro area and the EU, the pace of expansion in economic activity accelerated to 0.7%, above potential, in the third quarter. The outturn largely reflected a significant strengthening of activity in the two largest euro area economies, Germany and France.

In the fourth quarter the region continued to benefit from a supportive economic environment, including strong growth in world output and trade, a further improvement in the competitive position as measured by the real effective exchange rate, a moderation in oil prices and a broadly supportive macroeconomic policy mix. Under these conditions, the weakening of GDP growth to just 0.3% in the last quarter of 2005 in the euro area surprised on the downside. At the same time, growth in the previous quarters of 2005 was revised upwards, resulting in an annual rate of 1.3% for the year 2005 as a whole in the euro area (1.6% in the EU), as projected in the autumn forecast. However, as a consequence of the changed quarterly profile, the carryover to 2006 was slightly reduced.

Table 2.1

Composition of growth in 2005 - Euro area

(Seasonally and working day adjusted)	(Quarter-on-quarter % ch.)			
	05Q1	**05Q2**	**05Q3**	**05Q4**
GDP	0.3	0.4	0.7	0.3
Private consumption	0.1	0.3	0.5	0.1
Government consumption	0.2	0.7	0.9	0.0
Gross fixed capital formation	0.2	1.2	1.0	0.3
Changes in inventories (% of GDP)	0.2	0.2	0.2	0.6
Export of goods and services	-0.2	1.6	2.7	0.7
Import of goods and services	-1.2	2.1	2.9	1.3
	(Contributions in pp.)			
	05Q1	**05Q2**	**05Q3**	**05Q4**
Private consumption	0.1	0.2	0.3	0.1
Government consumption	0.0	0.1	0.2	0.0
Gross fixed capital formation	0.0	0.3	0.2	0.1
Changes in inventories	-0.2	0.0	0.0	0.4
Net exports	0.4	-0.1	0.0	-0.2

The slowdown of economic activity between the third and the fourth quarter should not be overstated. As GDP growth accelerated to an annualised pace of 2.7% in the third quarter, some correction in the following quarter was to be expected. In addition, GDP figures may have been influenced by statistical distortions as working-day adjustments procedures were faced with exceptionally strong variations in working days in the last two quarters in some large euro area countries. Assessing the deceleration of GDP growth was further complicated by the heterogeneity of the growth performance of individual Member States, with the weakening of economic activity in some large euro area economies dampening the outcome for the region as a whole. All in all, a large part of the fluctuations in economic activity in the second half of 2005 was of a technical nature and, as such, not particularly worrying.

….with the underlying growth momentum in 2005 accelerating

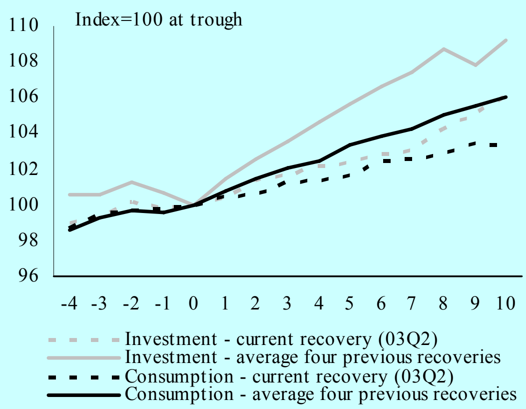
In fact, disregarding the volatility of quarter-on-quarter fluctuations in economic activity and looking at the underlying growth momentum, the picture was more encouraging. On a year-on-year basis, the rate of expansion in economic activity continued to improve during 2005. In the euro area, GDP growth rose from 1.2% in the first half of the year to 1.6% in the third quarter, edging up further to 1.8% in the fourth quarter. Similarly, in the EU economic activity accelerated from around 1.5% in the first half of 2005 to 1.9% in the second. Against the background of an increase in oil prices by almost 45% in euro terms in 2005, the economic performance of the region was positive.

Another sign confirming the strengthening of the growth momentum in the euro area in the second half of 2005 was the continuous and marked improvement in business survey data. The European Commission's economic sentiment index, which summarises business and consumer confidence, has risen almost uninterruptedly since mid-2005. Key business survey indicators such as the European Commission's industrial confidence and business climate indicators and the PMI for manufacturing activity in the euro area have improved steadily. Survey data have also been pointing to improved conditions in the services sector, even though the recovery in the survey data has so far been more muted than in manufacturing.

Encouraging signals from investment spending….

When compared with the average performance of output during the past four recoveries, the expansion of economic activity in the euro area has remained more subdued during the current cycle, which started in mid-2003. This was largely the result of weaker investment and consumption growth compared with previous upswings.

Graph 2.1: **Investment and consumption during the current and past recoveries**



In particular, investment seemed to be constrained by sluggish domestic demand, low labour productivity growth and a financial over-extension during the boom years before 2001. However, since the second quarter of 2005, euro area corporations have adjusted their spending plans upwards. After limited growth of 0.3% in the first quarter of 2005, growth in investment accelerated to above 1% in the second and third quarter. While the fourth quarter saw a slowdown, the underlying momentum remained healthy, as confirmed by the acceleration of the annual growth rate from 1.7% in the first quarter to 2.7% in the fourth quarter. Moreover, growth in bank loans to companies expanded by almost 8% in the fourth quarter compared to 5.9% in the first, which is another indication of the renewed vigour in investment expenditure by firms. For the year as a whole, capital spending rose by 2.2% in 2005 in the euro area (2.9% in the EU) and the outlook is for a marked increase this year.

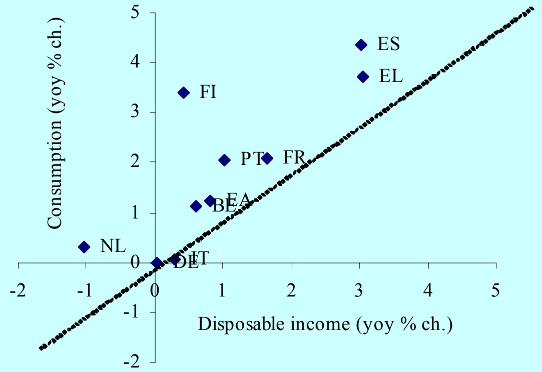
….with improving, but still weak consumption…

In contrast to investment, recent developments in consumer spending have been less encouraging. Following a moderate, although steady improvement in the first three quarters of 2005, private consumption remained almost unchanged in the fourth quarter in the euro area, resulting in an estimated annual growth rate of 1.3% in 2005 (1.5% in the EU). The weakening of private consumption in the last part of 2005 is at odds with developments in consumer surveys. After the temporary dip during the first half of 2005, consumer confidence has shown signs of improvement since summer 2005. The strengthening of consumer confidence largely reflected improved expectations about economic growth and reduced concerns about unemployment. Notwithstanding the positive effect of confidence on consumption, developments in income and, more critically, the labour market are key for the recovery of household spending and the solidity of the rebound of economic activity in the euro area.

….held back by low income growth …

In this regard, the weakness of private consumption in 2005 mirrored the lacklustre performance of disposable income, which is the main determinant of household spending. In fact, real gross disposable income is estimated to grow at just 1% in 2005 in the euro area, the lowest expansion in this decade and below the growth rate of consumption. Significant cross-country differences were observed in the dynamics of income in 2005. Among the largest euro area Member States, income growth was buoyant in Spain and France but much weaker in Germany and Italy and negative in the Netherlands, thus dampening the overall outcome for the euro area.

Graph 2.2: **Household consumption and real disposable income in the euro area in 2005**



Note: EUR-9: euro area excluding IR, LU and AT.

As a result of income growing more slowly than consumption, the household saving ratio is estimated to have declined from a level of around 15% in 2002-2004 to about 14.5% in 2005. However, due to adverse developments in the saving ratio in some euro area Member States, there has been very little consumption smoothing in the euro area in this cycle. The saving ratio rose during the period of strong growth (2000-2001) and stabilised during the downturn which followed. Concerns about the sustainability of public pension and healthcare systems are likely to have kept the saving ratio high and have more than offset the downward pressure on saving exerted by EMU via lower interest rates and financial liberalisation. Structural reforms implemented in several Member States are starting to have a positive effect on agents' confidence, thereby affecting consumption and saving in a growth-supportive way.

Subdued growth in disposable income in 2005 stemmed from moderate wage growth and a still weak employment performance. Wage indicators have continued to increase at a very moderate pace. The annual growth rate of nominal compensation of employees per head is estimated at 1.9% in 2005, down from 2.4% and 2.6% in 2004 and 2003, respectively. In real terms, wages are estimated to have remained unchanged compared with an average growth of 0.5% in the previous two years. Following the delayed impact of rising oil prices, consumer spending suffered from the increase in headline inflation from 2% to 2.3% between the first and the second half of the year, which reduced households' real wages and purchasing power.

When assessing the outlook for consumption, however, it is important to bear in mind that employment is a more significant determinant of consumer spending than wages in the euro area. In this respect, it is encouraging to note that there was some improvement, albeit limited, in the labour market during 2005. Employment growth accelerated from 0.1% (quarter-on-quarter) in the first quarter to 0.3% in the third and the unemployment rate fell from 8.8% to 8.3% in the final part of the year.

Although wealth effects are generally estimated to be low in the euro area as a whole, consumption in some Member States has benefited from strong house price dynamics and the rise in financial wealth in 2005. The euro area stock market index rose by almost 20% last year and house prices in countries like Spain and France went up by around 15% and 11%, respectively. However, set against a combination of ample liquidity and strong growth in household loans (up by 11.7% in 2005) boosted by historically low interest rates, developments of property markets in an environment of rising interest rates generate concerns about their sustainability and the possible adverse effects on consumption and investment in some parts of the euro area.

…and perhaps some changes in the distribution of income

While changes in consumption are largely the result of changes in disposable income, the distribution of income can also affect consumption as the propensity to consume out of different sources of income may vary. In the euro area, the share of wages and salaries declined from 57% of total disposable income in 2001 to less than 56% in 2005, while the share of the gross operating surplus and net property income taken together remained more stable. Net re-distribution effects between the government and the household sector, mostly current taxes on income and wealth, social contributions and benefits, rose from about 3% of disposable income in 2001 to 4.5% in 2005.

Table 2.2
Composition of households' disposable income (2001-2005)

	Wages and salaries		Gross operating surplus		Net property income		Net re-distribution	
	2001	2005	2001	2005	2001	2005	2001	2005
DE	61.5	58.0	19.5	19.3	19.7	20.8	-0.6	1.9
ES	58.5	57.7	30.3	32.6	6.5	5.4	4.6	4.3
FR	58.4	58.2	22.7	22.9	10.0	8.8	9.0	10.1
IT	42.3	42.7	30.1	31.4	23.5	20.9	4.1	5.1
EA9 (1)	57.0	55.8	24.4	25.1	15.7	14.6	2.9	4.5

(1) Euro area excluding IE, LU, AT

The aggregate result conceals sizeable differences across countries. The share of wages and salaries declined most in Germany (-3.5 pps), but weakened also in Spain (-0.8 pp), while it remained broadly stable in France and rose in Italy (+0.4 pp). As regards the gross operating surplus and net property, the share of these components in disposable income rose in Germany and in Spain. In France and Italy, on the other hand, this share declined as the rise in gross operating surplus did not compensate for lower net-property income. Overall, the reduction in the wage share in the euro area largely results from low employment and wage growth in Germany.

Upbeat exports and imports but competitiveness varies greatly across Member States….

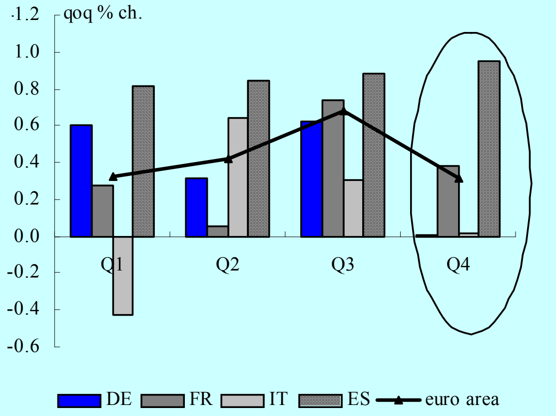
After contracting in the first quarter of 2005, export growth accelerated in the following two quarters before weakening substantially in the last quarter of the year. A similar volatile pattern was observed for imports. A statistical adjustment after strong export and import growth in the third quarter was expected. Furthermore, as exports include intra-euro area trade data, the slowdown in the fourth quarter may partly reflect weak output growth. The parallel, albeit less pronounced deceleration of import growth supports this observation. Disregarding the volatility of short-term trade data, the growth momentum for trade was sustained. The year-on-year rate of the change in exports increased from 3.5% in the first quarter to 4.9% in the last quarter of 2005, while import growth strengthened from 4.5% to 5.2% in the same period. For the year as a whole, net foreign demand is estimated to have subtracted about 0.2 pp from GDP growth as import growth (4.8%) outpaced export growth (3.9%).

Given the weakness of private consumption, the strength of imports in 2005 is likely to reflect the pick-up in capital spending. As regards exports, their acceleration owed much to the strong evolution of global growth since mid-2005. In addition, exports appear to have benefited from the gradual depreciation of the euro since early 2005. Measured by REER (nominal effective exchange rate deflated by unit labour costs), the external competitiveness of the euro area relative to the rest of the 35 most industrialised countries improved in 2005 with an estimated gain of almost 3%. However, at the country level, performance varied greatly with Germany seeing a further improvement – above the euro area average – of its competitive position. Competitiveness also improved in the Netherlands. On the other hand, competitiveness was broadly stable in 2005 in Spain, Italy and Portugal. However, these three countries experienced considerable losses in market shares, due mainly to a past deterioration in cost competitiveness.

….and growth dispersion remained wide

Divergence in GDP growth within the euro area declined somewhat in the course of last year but remained wide. The gap in growth performance was particularly noticeable between the four largest member States. In the first quarter of 2005, there was a 1.2 pps difference between the best- and the worst-performing country (Spain and Italy respectively). By the last quarter of the year, the difference had reduced to 0.9 pp, with Spain registering a robust 0.9% quarter-on-quarter growth while economic activity was flat in Germany and Italy.

Graph 2.3: **GDP quarter-on-quarter growth in 2005, euro area and selected countries**



Outside the euro area, most of the recently acceded Member States continued to show a strong growth performance in 2005. This was particularly the case in the Baltic countries, which registered annual growth rates in the range of 7½-10%. Among the larger economies, the highest GDP growth was observed in the Czech Republic (6%), followed by Hungary (4.1%) and Poland (3.2%). Among other non-euro area Member States, domestic demand driven GDP growth reached 3.1% in Denmark and 2.7% in Sweden, while in the UK the weakening of consumer spending compared with the previous year reduced growth to 1.8%.

Box 2.1: Some specificities about the forecast

Exchange rates

For currencies in ERM II as well as for Bulgaria, constant nominal exchange rates are assumed. This means that the central rate of these currencies against the euro will remain constant over the forecast period. The ERM currencies are: the DKK (Danish krone), the EEK (Estonian kroon), the CYP (Cyprus pound), the LVL (Latvian lats), the LTL (Lithuanian litas), the MTL (Maltese lira), the SIT (Slovenian tolar) and the SKK (Slovakian koruna). Constant real effective exchange rates (that is nominal rates adjusted for changes in GDP deflators) are assumed for the all the other countries / areas, i.e. the euro, CZK (Czech koruna), the HUF (Hungarian forint), the PLN (Polish zloty), the SEK (Swedish krona), the GBP (sterling) and for the non-EU currencies.

The reference period used for the exchange rate constancy assumption is the second quarter of 2006, calculated on the basis of historical values up to 3 April and the average of a two-week reference period (4 to 18 April) for the remainder of the quarter. This technical assumption yields the average USD/EUR rate 1.22 and the average JPY/EUR rate 143.8 for the second quarter. This, in turn, leads to an implied average USD/EUR rates of 1.22 in 2006 and 2007, and average JPY/EUR rates of 142.4 in 2006 and 141.1 in 2007.

Interest rates

Short-term interest rates are set in order to reflect the price stability objective of monetary policy. Long-term interest rate assumptions are based on developments in short-term rates and an assessment of economic conditions. Attention is paid to international financial linkages, market expectations and budgetary developments.

Commodity prices

Commodity prices are forecast taking into account market conditions. In the case of oil prices special attention is paid to futures prices. Prices for Brent oil are, accordingly, projected to be 68.9 USD/bl in 2006 and 71.0 USD/bl in 2007. Prices of primary commodities, excluding fuels, are assumed to increase by 16.8% in 2006, and to increase by 0.7% in 2007. In 2006, the prices of all groups are expected to increase, except for wood and pulp.

Chain linking

In order to improve the accuracy of GDP growth estimates, National Accounts have moved to 'chain linking' in several Member States to incorporate more up-to-date price weights. Chain-linking uses previous year's prices (instead of prices from a given base year) which are then 'chained' together. Forecasts for 12 Member States (namely CZ, DE, ES, FR, IE, IT, LT, AT, PL, PT, SI and SK) have been made using the new volume measure.

Budgetary data

Data for 2005 are based on government debt and deficit data transmitted by Member States to the European Commission in April 2006. In publishing these data, Eurostat maintained its reservation concerning the quality of the reported data in Greece. Eurostat also questioned the treatment of the assumption of the debt of the railway company by the Belgian government in 2005. For 2006, budgets adopted or presented to parliaments and all other measures known in sufficient detail are taken into consideration. For 2007, the "no policy change" assumption used in the forecasts implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail.

The general government balances reported by Member States to the Commission in the context of the excessive deficit procedure (EDP) may be slightly different from those published in the national accounts. According to Regulation (EC) N° 2558/2001 on the reclassification of settlements under swaps agreements and forward rate agreements, interest flows under swaps have been reclassified from "income property" to "financial account". However, the same regulation also states the need for specific treatment of these flows for data transmitted under EDP, allowing for interest expenditure to include swaps, contrary to ESA95 new rules. The forecasts present the general government balance using the EDP definition.

Calendar effects on GDP growth and output gaps

The number of working days may differ from one year to another. For example, 2004 was a leap year with 2.8 additional working days compared to the average number of working days. This translated to an estimated impact of 0.24 pp on the GDP growth rate for the euro area. On the other hand, for 2005, the effect was negative, yielding an impact of -0.13 pp. For 2006, the impact is estimated at -0.1 pp.

Annual GDP figures are not adjusted for the number of working days, while mostly quarterly figures are. The calculation of potential growth and the output gap does not involve any adjustment for working days. Since it is considered temporary, it should not affect the cyclically-adjusted balances.

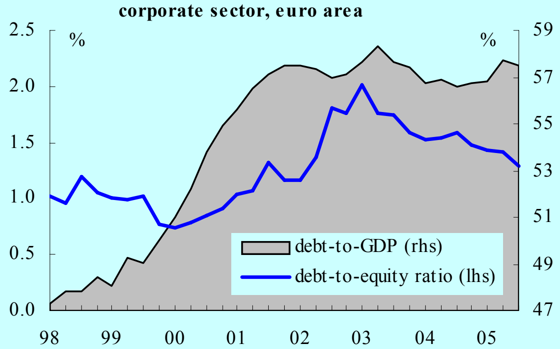
2. The private non-financial sector: funding environment and balance sheets

The pick-up in economic activity in the euro area – with more investment and consumption - is taking place hand in hand with gradually rising interest rates. As a result, the period of exceptionally low-cost funding through loans is coming to an end, although the private sector financing environment remains favourable when viewed from a longer time horizon. This section focuses on financing conditions for corporates and households – and particularly the evolution of their balance sheets – as the main channels through which real-sector and financial-sector activity are linked.

The corporate sector

The euro-area corporate sector continues to recover from significant balance-sheet problems. A surge in debt-financed investment in the late 1990s and the bursting of the equity market bubble in 2000 left in their wake an elevated level of corporate debt. While the highly pro-cyclical debt-to-equity ratio has declined since its peak in 2003, the debt-to-GDP ratio remains close to 60%.

Graph 2.4: **Debt-to-GDP and debt-to-equity ratios of the corporate sector, euro area**

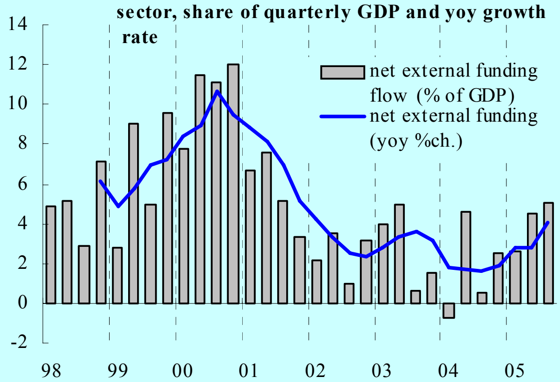


Note: debt includes loans and non-share securities

Source: ECB, Commission Services calculations

Yet a process of debt restructuring has allowed corporates to lower their debt burden. This has involved refinancing of existing debt at lower interest rates and longer maturities. The share of long-term debt obligations (i.e. outstanding loans and debt securities issuance with maturity of more than one year) has risen from about 64% in 2001 to about 68% in 2005. Meanwhile the amount of net interest payments of the corporate sector to banks has declined from almost 1.75% of GDP in 2003 to 1.5% in 2005. The sector has also been accumulating substantial cash balances, amid a strong recovery in profitability. Inflows to corporate bank deposits have been rising at record rates[1] in stark contrast to the period before 2000 when inflows fell to zero.

Graph 2.5: **Quarterly flow of funding for the non-financial sector, share of quarterly GDP and yoy growth rate**



Source: ECB, Eurostat, Commission Services calculations

As a result, the corporate sector seems to be more comfortable with its current debt level, as shown by the rise in external financing demand. Overall net external funding growth rose to 4.1% year-on-year in the third quarter of 2005, up from 2.8% in the second. Expressed as a percentage of GDP, net external funding demand in the second and third quarter of 2005 amounted to roughly 4½%[2], a relatively high level when compared with the last 3 years. Underlying component data indicate a continuation of that trend, with bank lending accelerating significantly on the back of easing bank lending conditions.

The household sector

Household borrowing has been robust for a number of years and is accelerating. Owing to continuing favourable financing conditions - low bank interest rates and loosening credit conditions - loan growth exceeded 11% year-on-year for mortgage loans at the beginning of 2006, while consumer loan growth accelerated to 8% in the same period.

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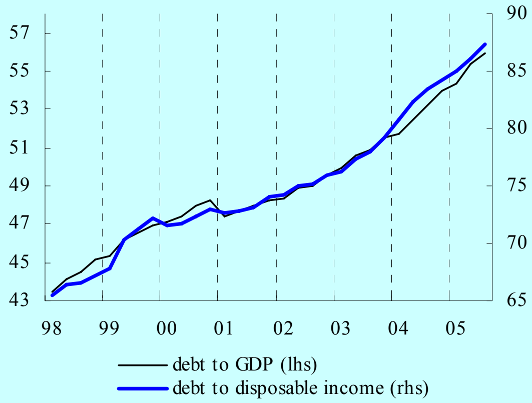
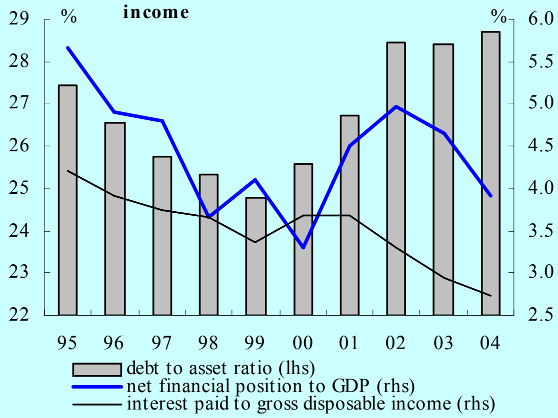
[1] By almost EUR 100 billion per year based on a four-quarter moving average.

[2] Percentage of quarterly net external funding flows versus quarterly seasonally adjusted GDP.

Graph 2.6: **Debt-to-GDP and debt-to-gross disposable income ratios, euro area household sector**



Graph 2.7: **Debt-to-asset ratio, net financial position to GDP and interest paid to gross disposable income**



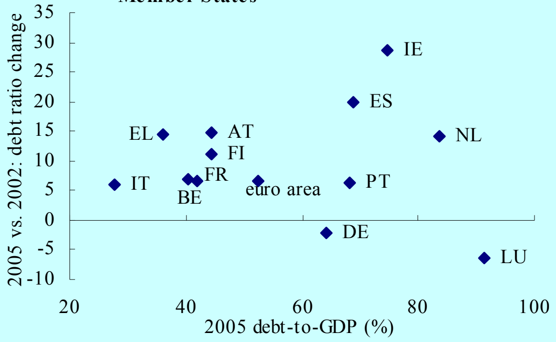
In the face of rising house prices in some Member States, robust credit growth for house purchases is leading to a steady accumulation of household debt. High levels of indebtedness can leave households vulnerable to negative shocks, e.g. adverse changes in interest rates, disposable income or the value of housing assets against which much of the debt is secured. Such shocks may lead to an abrupt re-assessment by households of their desired exposure to debt. Any subsequent period of balance-sheet consolidation is likely to hamper economic activity, mainly by way of reduced expenditures for consumption or a retrenchment in construction activity.

However, the euro area household balance sheet seems relatively robust. There is no evidence to suggest that households have borrowed substantially to consume or that the build-up of household debt has spurred a boom in residential construction. The overall financial surplus – also called net financial position and defined as the difference between the acquisition of financial assets and the incurrence of financial liabilities of households – remains significantly positive. In addition, the debt-to-financial asset ratio has risen only moderately and debt-servicing costs have actually been declining as a proportion of disposable income.

On the other hand, the aggregate position for the euro area hides considerable differences in household indebtedness across Member States. Debt ratios when measured against GDP are above 60% in Luxembourg, the Netherlands, Ireland, Spain, Portugal and Germany. Compared with end-2002 they have increased by almost 30% of GDP in Ireland, about 20% in Spain, and roughly 15% in the Netherlands, Austria and Greece. In addition, data for the beginning of the year 2006 indicate credit growth in excess of 25% per year for Greece, Spain and Ireland.

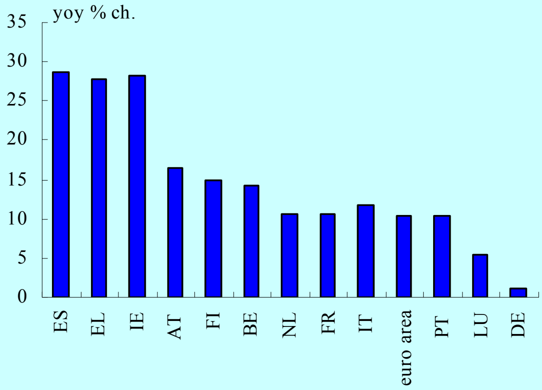
Several factors have contributed to differences in household indebtedness within the euro area since the mid-1990s. First, the adoption of the euro was associated with a very substantial downward convergence in interest rates and an increased access to external bank lending for several Member States (notably Greece, Spain, Ireland, Italy and Portugal). Second, above-average inflation rates in some Member States have lowered real interest rates, providing an additional boost to credit demand. This pro-cyclical effect of real interest rates may have been reinforced by the mutual interaction between real interest rates and house prices (low real interest rates fuelled demand for housing, leading to a rise in house prices which pushed up growth and inflation via

Graph 2.8: **2005 debt-to-GDP ratio and 2005 vs. 2002 debt ratio change, household sector, euro area and Member States**



Note: credit institutions and other resident financial institutions
Source: ECB, Commission Services calculations

Graph 2.9: **Household credit growth in the euro-area Member States, February 2006**



wealth effects and further depressed real interest rates). Third, demographic developments have been more supportive of demand for housing and mortgages in some Member States than others due, for instance, to significant immigration flows (e.g. Ireland and Spain) or faster growth of the population of household formation age (e.g. Ireland, Spain, Netherlands and France). Fourth, the increase in household borrowing for house purchase may reflect differences and changes in Member States' mortgage markets, which have offered households with expanded access to credit through (i) extended maturity of contracts, (ii) higher loan-to-value ratios, (iii) an increasing share of variable interest rate loans, and (iv) equity withdrawal possibilities in some Member States. In addition, mortgage bonds and debt securitisation allowed financing institutions to receive additional funding.

While the above factors explain the high level of household debt in some Member States, they do not necessarily reduce the exposure which is linked to it. While related risks are unlikely as long as economic growth – and by extension household disposable income – continues to grow, the debt-servicing costs of households are set to increase as the interest cycle turns. The experience of the Netherlands is revealing in this context. There, an apparently autonomous response of households to high levels of debt, even in the absence of adverse shocks, has led to a protracted slowdown in economic growth.

3. Temporary slowdown in 2007 - sound underlying growth momentum

Acceleration of economic activity in 2006

The deceleration in GDP growth in the fourth quarter of 2005 was unexpected and may have been due partly to the timing of holidays, which may have led to a statistical artefact in the quarterly growth figures in the second half of 2005 (see section 1). This could also be an explanation for the recent discrepancy between hard data, which provide rather mixed signals, and survey results, which remain upbeat.

The strength of survey data can be seen as an important signal of a more pronounced underlying pick-up in economic activity. Three arguments underpin this conclusion. First, most survey results have reached their highest level in a long time: for example, the European Commission's economic sentiment indicators for the EU and the euro area are at their highest level in five years. Second, the improvement is not limited to expectation variables, but is also apparent in indicators of current conditions. Finally, the improvement is broad-based across different sectors: a majority of the European Commission's sector confidence indicators for the euro area are at their highest level for at least 3½ years.

The forecast therefore expects a marked pick-up of growth in the first quarter of 2006 to a rate at or above potential and this growth momentum should be broadly maintained over the forecast period. The first quarter of 2007 is an exception in this regard, with the growth rate falling clearly below potential. This temporary decline counterbalances the acceleration in the second half of 2006 and is explained by the impact of the planned budgetary policy measures in Germany, particularly the increase in the standard VAT rate by 3 percentage points on 1 January 2007 (see also box 2.2). However, as the compound effect of the consolidation package over a period of two years is assessed to be broadly neutral, the projected slight slowdown in 2007 does not imply a weakening of the underlying growth momentum.

The recovery in 2006 will be driven by a robust pick-up in investment expenditure, while the upturn in consumption will be more gradual. Although improving, the contribution to growth from the external sector will still be negative in 2006. The healthy outlook for domestic demand remains underpinned by a relatively accommodative macroeconomic policy stance. Financing conditions are set to deteriorate gradually, but this is not expected to have a significant impact on economic growth in 2006 and 2007, given the momentum of the

Table 2.3

Composition of growth - EU25

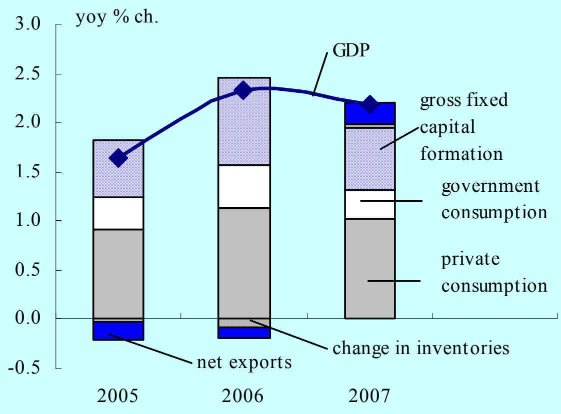
(Real annual percentage change)

	2004							Spring 2006 forecast		
	bn Euro curr. prices	% GDP	2000	2001	2002	2003	2004	2005	2006	2007
			Real percentage change							
Private consumption	6039.3	57.9	3.4	2.1	1.6	1.5	2.0	1.5	1.9	1.7
Government consumption	2160.6	20.7	2.4	2.1	2.9	2.2	1.4	1.6	2.1	1.4
Gross fixed capital formation	2030.3	19.5	4.8	0.6	-0.8	0.9	3.0	2.9	4.4	3.1
Change in stocks as % of GDP	77.8	0.7	0.6	0.3	0.0	0.1	0.5	0.4	0.6	0.6
Exports of goods and services	3734.6	35.8	11.9	3.5	1.7	1.7	6.9	4.7	5.9	5.7
Final demand	14042.6	134.6	5.6	2.0	1.2	1.7	3.6	2.5	3.6	3.0
Imports of goods and services	3610.1	34.6	10.9	2.2	1.3	3.2	7.3	5.2	6.2	5.1
GDP	10432.4	100.0	3.9	1.9	1.2	1.2	2.4	1.6	2.3	2.2
GNI	10407.3	99.8	4.1	1.8	1.2	1.2	2.6	1.8	2.3	2.2
p.m. GDP euro area	7751.2	74.3	3.8	1.9	0.9	0.7	2.0	1.3	2.1	1.8
			Contribution to change in GDP							
Consumption			2.5	1.7	1.5	1.3	1.5	1.2	1.6	1.3
Investment			1.0	0.1	-0.2	0.2	0.6	0.6	0.9	0.6
Inventories			0.0	-0.4	-0.3	0.2	0.4	-0.1	0.3	0.0
Exports			3.9	1.3	0.6	0.6	2.4	1.7	2.3	2.3
Final demand			7.4	2.7	1.7	2.3	4.9	3.4	4.7	4.2
Imports (minus)			-3.5	-0.8	-0.5	-1.1	-2.5	-1.8	-2.3	-2.0
Net exports			0.4	0.5	0.1	-0.5	0.0	-0.1	0.0	0.3

recovery. Overall, in 2006 GDP growth is projected to reach 2.3% in the EU and 2.1% in the euro area and to decelerate slightly to 2.2% and 1.8% in 2007, respectively.

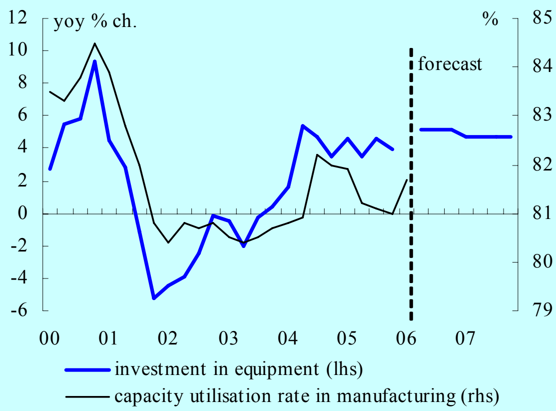
Investment growth will be underpinned by optimistic business sentiment on the back of a brightening outlook for demand and profits, improved balance sheets coupled with continued relatively benign financing conditions, and an increased need for replacement investment following an extended period of restrained investment growth.

Graph 2.10: **Growth contributions, EU**



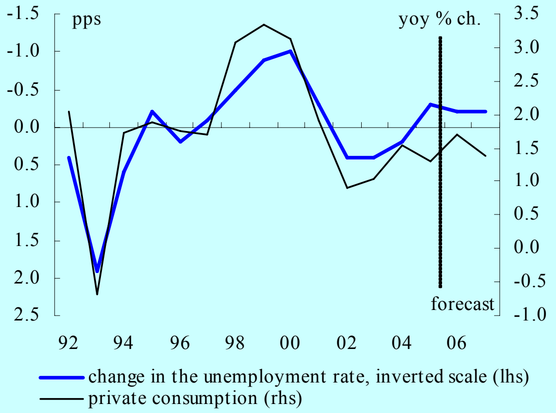
Against this background, investment in equipment is expected to grow by 5.4% in the euro area in 2006. In 2007, the ongoing tightening of financing conditions will dampen somewhat equipment investment to a (still very solid) rate of 4.5%. Investment in residential construction is expected to be particularly affected by the German VAT increase, with a surge in German housing investment in 2006 followed by a temporary drop in 2007. Growth in construction investment in the euro area would, as a result, accelerate to a rate of 3.4% in 2006 and slow down to 0.7% in 2007. In accordance with the projected profile of equipment and construction investment, total euro-area investment will grow by 4.2% in 2006 and by 2.4% in 2007. The projected decline in total investment is smaller in the EU: from 4.4% in 2006 to 3.1% in 2007.

Graph 2.11: **Capacity utilisation and investment in equipment, EU**



Private consumption is projected to accelerate gradually in 2006, in line with improving labour market conditions and higher consumer confidence. In the EU, growth of private consumption is expected to reach 1.9% in 2006, up from 1.5% in the year before. Similarly, in the euro area private consumption is forecast to accelerate to 1.7%, from 1.3% the year before. In 2007, the annual growth rate of consumption will slow down slightly, to 1.5% in the EU and to 1.4% in the euro area. This decline is again mainly caused by developments in Germany, where households are expected to bring forward a part of their consumption expenditure ahead of the VAT increase in 2007. This will boost growth of private consumption in Germany in 2006, but as an echo-effect lead to a fall in 2007.

Graph 2.12: **Unemployment rate and private consumption, euro area**



Exports are projected to pick up in 2006 owing to continued strong external demand. Moreover, gains in competitiveness which result from the depreciation of the real effective exchange rate in 2005 and 2006 should reduce market share losses. However, relative competitive positions have changed markedly in Europe in recent years. Gains have been made, for example, by Germany and Austria whilst competitiveness has deteriorated in Greece, Spain, Ireland, Italy and Portugal. The degree to which European exporters will reap the benefits of increased external demand will therefore vary. On average, export growth is projected to reach 5.9% in the EU and 5.4% in the euro area. In 2007, export growth will be marginally lower, following a slight moderation of external demand.

The contribution of the external side to output growth will remain negative in 2006, but should turn positive in 2007. This is partly explained by imports outpacing exports in 2006, while, in 2007, the annual growth rate of imports should decline in line with weaker final demand.

Box 2.2: Recent budgetary measures in Germany are the main reason behind new profile

The change in the growth outlook for 2006 and 2007 in the euro area and the EU reflects, in particular, the marked revision of the German outlook. The latter is explained by the estimated impact of the new government's budgetary measures (as well as disappointing data from the last quarter of 2005). It does not, however, reflect an underlying acceleration and subsequent deceleration of economic activity in the euro area - nor in Germany.

Table 2.4

GDP growth and components - Comparison of forecasts

	Euro area			Germany			Euro area (excl. Germany)		
	GDP	Final domestic demand	Net exports	GDP	Final domestic demand	Net exports	GDP	Final domestic demand	Net exports
	yoy % ch.	contributions in pp		yoy % ch.	contributions in pp		yoy % ch.	contributions in pp	
Spring 2006 (a)									
2005	1.3	1.5	-0.2	0.9	0.0	0.6	1.5	2.1	-0.6
2006	2.1	2.2	-0.1	1.7	1.8	-0.1	2.2	2.4	-0.2
2007	1.8	1.6	0.2	1.0	-0.3	1.1	2.1	2.3	-0.1
Autumn 2005 (b)									
2005	1.3	1.4	-0.1	0.8	-0.3	0.8	1.5	2.0	-0.5
2006	1.9	1.8	0.1	1.2	0.5	0.8	2.2	2.3	-0.2
2007	2.1	2.1	0.0	1.6	0.8	0.8	2.3	2.6	-0.3
Revisions (a - b)									
2005	0.0	0.1	-0.1	0.1	0.2	-0.2	0.0	0.0	-0.1
2006	0.2	0.4	-0.2	0.4	1.4	-0.8	0.1	0.0	0.0
2007	-0.3	-0.5	0.2	-0.6	-1.1	0.4	-0.2	-0.3	0.2

The new German government's budgetary package will have a substantial impact on the growth profile in Germany and beyond. While the 2007 VAT increase is the most important policy measure in quantitative terms, other measures will also influence aggregate demand.

For the assessment of the impact on growth, the simple shift in the timing of demand has to be distinguished from a change in the underlying trend. Concerning the shift in consumption, simple arithmetics suggests that carrying forward expenditure from 2007 to 2006 produces asymmetric effects on annual growth rates. While the positive effect in 2006 equals the amount of consumption brought forward, consumption in 2007 is expected not only to fall back to its baseline without the VAT increase in 2007, but to that level minus the consumption brought forward. Hence, the negative echo-effect in terms of growth rates is twice as strong in 2007 as the positive effect in 2006. However, once the negative echo-effect has run its course, a positive effect on the growth rate will return in 2008. Hence, the forecast period up to 2007 leaves aside part of the positive correction.

The quantification of the carry-forward effect is particularly difficult. A VAT increase by 3 percentage points is without precedent. Also unique is the time span of more than a year between the announcement of the measure and its implementation. Therefore only rough indications of the likely effects can be gained from looking at previous VAT increases in Germany or other countries. In addition, as a VAT increase above a certain threshold might induce over-proportional reactions by the private sector, the impact will not necessarily be linear. It is likely also to depend on the current position of the economy in the business cycle.

In order to quantify the effect on private consumption, a bottom-up approach was used, calculating the impact on different consumption good categories. It was assumed that between 0% and 2% of average annual purchases in different categories will be brought forward to 2006, totalling around 0.5% of overall annual private consumption expenditure. In addition, it is assumed that stronger growth in 2006 and the prospect of sustainable fiscal consolidation will lead to positive confidence effects on the part of households releasing some of the pent-up demand. About 2/3 of the contribution of private households to fiscal consolidation is assumed to be financed through a reduction in the saving rate and 1/3 through lower consumption. As with private consumption, the VAT increase will lead to a strong carry-forward effect on housing construction. Therefore, private households will try to finish as much as possible of their housing investment before the end of 2006. This tendency is supported by increased building permits issued before the end of 2005, i.e. ahead of the abolition of favourable subsidies for owner-occupied housing investment. As housing represents more than 50% of construction investment, this time shift is clearly visible in the overall pattern of gross fixed capital formation over the forecast period.

Corporate investment will be supported by the new government package, as depreciation rules were made more generous until end-2007. Against the background of some pent-up demand in recent years, increased capacity utilisation, an improved financial situation and higher profits as well as brighter business outlook, enterprises will use this opportunity to step up their investment in 2006 and 2007. So taking the different developments in investment components together, gross fixed capital formation should be exceptionally strong this year and stagnate at the higher level in 2007.

However, the strong impact on GDP growth of changes in the timing of investment and consumption is substantially smoothed by inventories and external trade. Consequently, GDP growth will be boosted in 2006 by the fiscal package and temporarily dampened in 2007, but the swings are not as pronounced as for single demand components. Moreover, due to the strong resumption of growth in the course of 2007 a significant recovery of the growth rate can be expected for 2008.

4. Continued modest employment growth

Although labour markets function better…

Both the euro-area and the EU labour markets proved more resilient in the economic slowdown in 2001-2003. Even if labour market conditions worsened with the usual lag to the economic cycle, employment growth never turned negative and the increase in the annual unemployment rate was limited to 1 percentage point. Unemployment peaked in this cycle at 8.9% in the second quarter of 2004.

Structural reforms in both product and labour markets over the last 10 years are largely behind this improved performance in terms of lower long-term unemployment rates; shorter average duration of unemployment spells; improved matching, and, recently, more employment-friendly wage developments.

…employment growth has only started to pick up

However, as a consequence of more pronounced labour hoarding in the economic downturn, employment growth has been unusually limited since the start of the current economic upswing in the middle of 2003. In addition, the recovery has itself been weaker than previous ones, as evidenced by a slowdown in GDP growth from the third quarter of 2004 to the second quarter of 2005, dampening demand for labour.

Euro-area employment growth picked up gradually during the first three quarters of 2005 to 0.3% (quarter-on-quarter) in the third quarter.

Table 2.5

Sectoral employment growth in the euro area

(Quarterly percentage change, seasonally adjusted)

	2003	2004	04Q4	05Q1	05Q2	05Q3
Whole economy	0.3	0.7	0.2	0.1	0.2	0.3
Agriculture	-2.0	-0.8	-0.3	-1.0	-0.1	-0.7
Industry	-1.0	-0.9	0.0	-0.6	0.1	0.1
Services	0.9	1.4	0.4	0.4	0.2	0.4

Source: ECB

The overall development of employment growth masks sizeable differences across Member States and across sectors. Amongst the larger euro-area Member States, job-creation has remained buoyant in Spain, whereas it has been markedly weaker in Italy and France. At the sectoral level, job creation has been driven by a sustained expansion in the services sector and, in particular, by finance and business services. The decline in employment in the industry sector appears to have ended in the course of 2005, while employment in the agriculture sector continued to fall.

Unemployment started to decline in 2005

The standardised unemployment rate stabilised at just below 9% of the labour force in 2003-2004 in both the euro area and the EU. This follows both from the moderate employment creation in the early phase of this economic upswing and remaining rigidities in several European labour markets. Following the pick-up in employment in the course of 2005, aggregate unemployment finally started to decline. The unemployment rate in the euro area stood at 8.2% in February 2006, which is somewhat more than ½ pp lower than in February 2005. Similarly, the EU-wide unemployment rate has fallen by almost ½ pp over the last year to 8.5% in February 2006.

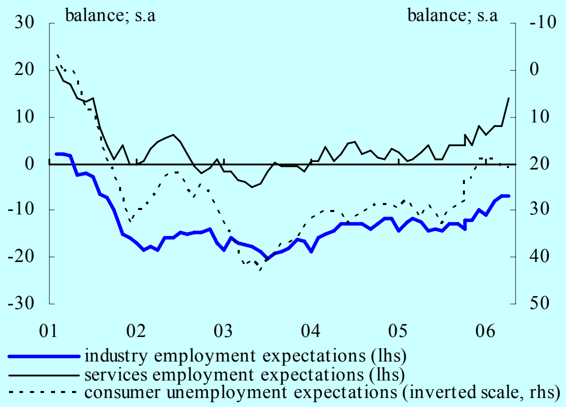
Differences continue to be significant across Member States, with the unemployment rate in January 2006 ranging from 4-5% of the labour force in Denmark, Ireland, the Netherlands and the United Kingdom to around 9% in Germany, 9½% in Greece and France and more than 15% in Slovakia and Poland.

Employment expectations point to a further expansion (in the services sector)

Looking ahead, employment expectations reported in the European Commission's business and consumer survey improved further in March. Even if the volatility of such monthly indicators suggests that they should be interpreted with caution, it should be noted that the survey indicators have generally been on a strong upward trend since the summer of 2005.

Analysing the three-months moving average, employment expectations improved in all sectors in the first quarter of 2006 compared with the fourth quarter of last year. This would support the hypothesis that the decline in GDP growth (from 0.7% quarter-on-quarter in the third quarter to 0.3% in the fourth) is only temporary. The expectations suggest a further expansion of employment, at least in the services sector, whereas the outlook in industry presents a more mixed picture. Although the indicator has clearly improved, the balance remains negative pointing to a further deterioration of jobs in industry.

Graph 2.13: **Employment and unemployment expactations in**



The forecast points to a continued, modest pick up in employment…

In line with a strengthened economic recovery, employment growth is expected to improve, albeit modestly, to 0.9% in the euro area in 2006 (up from 0.7% last year). An even more marginal improvement is projected for the EU as a whole where employment is set to grow by 0.9% (0.8% in 2005).

The spring forecast implies a downward revision of the employment outlook compared to the autumn 2005 forecast, despite an upward revision of GDP growth by 0.2 pp. This may partly be explained by the temporary nature of the "boost" to private consumption and GDP growth in Germany (c.f. box 2.2), which is the main factor behind the upward revision of the euro-area and EU growth outlook.

Since a number of specific factors, such as the regularisation of immigrant workers in Spain and Italy, explained part of the employment growth recorded for 2005 the underlying improvement in job creation in the euro area is more pronounced this year. On the other hand, the increasing importance of temporary jobs and part-time employment (enhancing the flexibility de-facto) would limit the rise in employment measured in full-time equivalents.

Employment growth is thereafter expected to stabilise at 0.8% in 2007 in both areas (and despite the temporary decline in economic activity in the euro area that follows from the impact of the German package).

…and a limited decline in unemployment…

Although employment is expected to grow by 1.2 million persons in the euro area this year, the decline in unemployment will be limited to 0.1 million persons by the traditional influx of persons into the labour force when the labour market situation improves (and latent job-seekers return to the regular labour market in active search of employment). The unemployment rate is therefore expected to decline only modestly to 8.4% of the labour force in the euro area in 2006 and to 8.5% in the EU. For 2007, the gradual decline continues, with the unemployment rate projected at 8.2% in both the euro area and the EU.

…which, in turn, help to contain wage pressures…

Wage growth, as measured by compensation of employees per head, was to begin with relatively unaffected by the economic slowdown in 2001-2003. At the euro-area level, wage growth began to decline more markedly only in 2005 and is expected to stabilise around 2% over the forecast period, albeit with sizeable differences across Member States. In 2006, wage growth is expected to range from about ¼% in Germany to around 5-6% in Greece and Ireland.

Wage growth seems to reflect local labour market conditions in most cases. This would, for instance, explain wage increases of around 3% (or more) in Greece, Spain, Ireland and Luxembourg in view of their relatively high GDP- and employment growth (although it appears difficult to justify wage increases of 5-6% in Greece, with employment growing by 1¼% a year). On the other hand, wage growth in France, and possibly also in Italy and Portugal, appears on the high side considering their relatively weak demand for labour.

Reflecting the catching-up process in several of the recently-acceded Member States, average wage growth in the EU as a whole is higher than that of the euro area. It is estimated at 2¾% in both 2006 and 2007.

…even if some Member States have problems with their competitiveness

Persistent and relatively high wage increases in some Member States have, where not matched by improved labour productivity, taken their toll on competitiveness. Although growth in nominal unit labour cost is set to decelerate to 0.9% in 2006 in the euro area and to 1.2% in the EU – it is estimated to remain above 2½% in Estonia, Greece, Spain, Ireland, Latvia and Lithuania.

Overall, labour productivity growth is set to improve to 1.2% in the euro area (up from 0.7% last year) and to 1.4% in the EU (0.8%). This implies a sizeable upward revision of the euro area compared to the autumn forecast (+½ pp. in the euro area), reflecting a better-than-expected outcome in 2005 and a rebound after exceptionally low levels noted in several Member States last year. However, it should be noted that labour productivity growth remains limited at around ½% in Spain and Portugal in 2006.

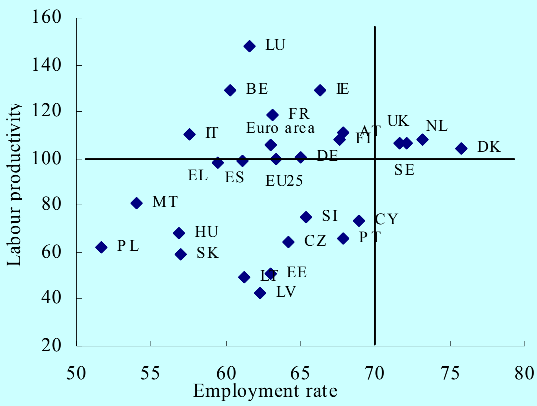
The Lisbon targets at risk

The moderate employment gains in recent years have contributed to a gradual increase in the employment rate (defined as the share of employed persons aged 15-64 in the total population of the same age group). The most recent outcome refers to 2004, when the employment rate rose to 63.3% in the EU.

The estimated increase in employment is likely to contribute to a further increase to around 64% in 2007. This would fall short of the intermediate target of 67% to be achieved by the end of 2005 as agreed by the European Councils in Lisbon and Stockholm. It would also make a further rise to 70%, to be achieved by the end of 2010, seem increasingly challenging.

Differences continue to be marked across Member States, with four Member States having an employment rate above the EU threshold level already in 2004, see graph 2.14. At the other end, six Member States had an employment rate below 60% in 2004.

Graph 2.14: **Employment and productivity levels in the EU**



In line with developments in recent years, progress has been somewhat better with the employment rate for women, which rose to 55.7% in the EU in 2004. However, this level is also below the intermediate target of 57% and the target of 60% in 2010.

Least progress has been made with the employment rate of older workers, which increased to 41% in the EU in 2004, well below the 50% target for 2010.

Table 2.6

Labour market outlook - EU25

(Annual percentage change)				Spring 2006 forecast			Difference vs Autumn 2005	
	1991-95	1996-00	2004	2005	2006	2007	2006	2007
Population in working age (15-64)	:	0.3	0.5	0.5	0.4	0.3	0.0	-0.1
Labour force	:	:	:	0.7	0.8	0.7	0.1	0.0
Employment	:	1.2	0.6	0.8	0.9	0.8	-0.1	-0.2
Employment (change in million)	:	10.0	1.2	1.7	1.8	1.7	-0.3	-0.3
Unemployment (levels in millions)	:	19.2	19.5	19.0	18.7	18.2	0.2	0.3
Unemployment rate (% of labour force)	:	9.5	9.1	8.7	8.5	8.2	0.0	0.1
Labour productivity, whole economy	:	1.7	1.8	0.8	1.4	1.3	0.3	-0.1
Employment rate (a)	:	:	63.0	63.4	63.8	64.2	0.0	0.1
p.m. Employment euro area	-0.2	1.5	0.6	0.7	0.9	0.8	-0.3	-0.3

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

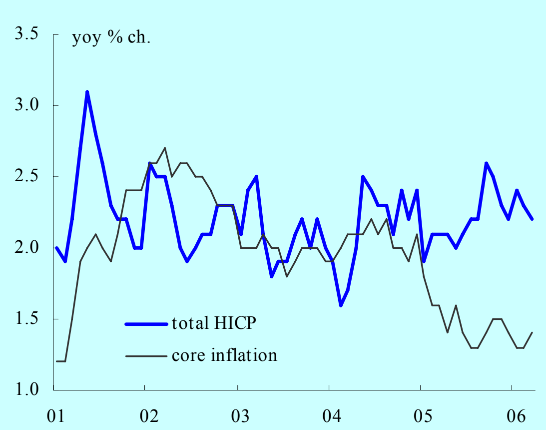
5. Inflation developments and outlook

Headline inflation remained above 2% in 2005, pushed by surging energy prices…

Largely because of marked increases in oil and energy prices, headline HICP inflation in both the EU and the euro area moved up again during 2005. For the year as a whole, HICP inflation in both regions rose from 2.1% in 2004 to 2.2% in 2005. This was just below (0.1 pp) the estimate included in the autumn forecast, essentially due to oil prices moderating in autumn 2005 by more than was assumed last November. Inflation in the euro area has now been somewhat above 2% in the euro area for six consecutive years.

In terms of monthly data, headline HICP inflation in the euro area rose by 0.7 pp during the first nine months of the year, peaking at 2.6% (year-on-year) in September 2005. Thereafter it eased continuously, benefiting from a moderation in oil prices and favourable base effects linked to past increases in administered prices and indirect taxes. The decline was temporarily interrupted at the beginning of 2006, when a rebound in oil and energy prices led to a spike in inflation to 2.4% in January 2006. Headline inflation has since eased to 2.2% in March 2006.

Graph 2.15: **Headline and core inflation, euro area**



The dominant influence of energy prices on inflation developments in the recent past can be readily illustrated. Although the energy component accounts for only about 9% of the euro-area HICP basket, its contribution to overall inflation rose from around 0.5 pp at the beginning of 2005 to close to or above 1 pp. by early summer 2005, accounting for roughly half of the registered inflation rates thereafter. Double digit annual inflation in energy prices from the middle of 2005 onwards account for this. The rate stood at 10.5% in March 2006, down from 12.5% in the previous month. To put the impact of energy prices into perspective, only services, which account for just over 40% of the HICP basket, added a roughly similar amount to inflation in 2005.

In contrast to the developments in headline inflation, euro-area core inflation (HICP excluding energy and unprocessed food) continued in 2005 on the downward path started in autumn 2004. It declined by close to half a percentage point during the first half of the year, from 1.8% in January to 1.4% in June 2005. Since then, core inflation has hovered around that level and, after two month at 1.3%, was back at 1.4% in March 2006.

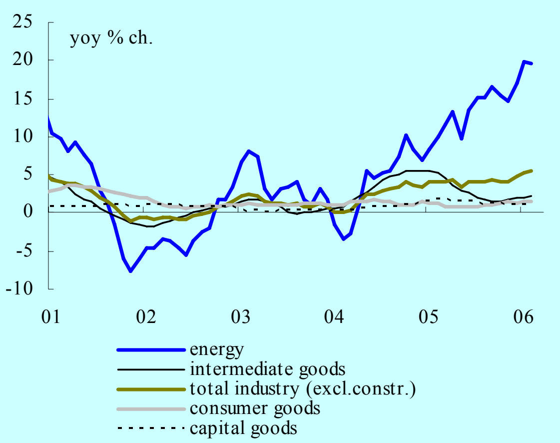
The substantial gap that has opened between headline and core inflation in the euro area suggests that past oil price hikes have not been accompanied so far by significant indirect effects on the non-energy sub-indices of HICP inflation. In effect, annual inflation in the two largest components of core inflation - services and non-energy industrial goods - eased throughout 2005 to some of the lowest rates seen in the previous four years. In March 2006 services inflation in the euro area was 1.9% (down from 2.0% in the previous month), while it was just 0.5% for non-energy industrial goods (up from 0.3% in the previous month). Similarly low inflation rates in non-energy industrial goods have now been observed since the beginning of 2005. This suggests that factors such as heightened competition in the tradable sector, due to increased globalisation, coupled with ongoing wage moderation and subdued growth in domestic demand, are having a strong countervailing effect against the upward price pressures from rising energy prices.

Outside the euro area, headline inflation also moved up in 2005 in several Member States, including the UK and Denmark, reflecting higher energy prices. Among the recently-acceded Member States, this was also the case in the Baltic countries and in Cyprus. However, in the countries of central Europe, headline inflation actually declined compared with the previous year. This appears to have been the result of increased import competition in industrial goods, regulatory reforms in network industries and a cushioning of inflationary pressures by currencies appreciating against the euro.

…but with little signs thus far of significant second-round effects

Pipeline inflationary pressures in the euro area have remained relatively contained since the autumn forecasts. While, overall *producer price (PPI) inflation* (excluding construction) has edged up, from 4.2% in November 2005 to 5.4% in February 2006, this development mainly reflected the influence of sharp rises in the energy component, from around 15% in November 2005 to almost 20% in February 2006. Annual inflation in the consumer goods components, which are the most immediately relevant for consumer prices, has in contrast remained relatively subdued. Inflation for durable consumer goods was 1.4% in February 2006, 1.5% for non-durable goods, while it was 1.0% for capital goods. The relatively limited pass-through on the non-energy components so far probably results from the reduced energy intensity of the economy, a heightened degree of competition and the improved financial situation of companies.

Graph 2.16: **Industrial producer prices, euro area**



Inflation expectations in the euro area have, on the whole, also remained fairly resilient to developments in oil and energy prices. Towards the end of April 2006 long-term inflation expectations derived from French government indexed linked bonds stood at around 2.15%, although up compared to mid-2005, this level was similar to that that of early November 2005. Short-term inflation expectations derived from the EU Harmonised Consumer survey, after recovering from historically low levels during the first half of last year, have since levelled-off and remain below their historical average.

Turning to wages, labour cost indicators in the euro area support the overall picture of continued moderate wage increases. After an upswing in the first quarter of 2005, annual growth in total hourly labour costs declined to 2.4% in the fourth quarter. The ECB's indicator of negotiated wages also supports the picture of continued wage moderation throughout 2005. For the year as a whole, it is estimated that growth in compensation per employee fell to 1.9%, after 2.4% in 2004, signalling the absence thus far of significant second-round effects on wages from the rise in energy prices. Combined with gradually recovering productivity, this means that upward price pressure from unit labour costs has been easing.

Inflation set to remain above 2% in 2006 and 2007

Looking ahead, HICP inflation in the euro area is projected to ease gradually in the course of 2006, from 2.3% in the first quarter to 2.1% in the last quarter of the year. This downward path is, however, interrupted in the first quarter of 2007, when HICP inflation is set to jump to 2.5%, before declining back to 2.0% in the final quarter of that year. The jump at the beginning of 2007 reflects an expected sharp increase of inflation in Germany (from 1.5% in the fourth quarter of 2005 to 2.9% in the first quarter of 2007) due to the planed VAT increase in January of that year.

In terms of annual averages, HICP inflation in the EU is projected to ease slightly from 2.2% in 2005 to 2.1% in 2006, before edging up back to 2.2% in 2007. In the euro area, HICP inflation is expected to remain unchanged at 2.2% in both 2006 and 2007. Compared with the autumn forecasts, for the EU this corresponds to a 0.1 pp downward revision for 2006 and an upward revision by 0.3 pp for 2007. For the euro area, the spring forecasts correspond to an unchanged projection for 2006 and a 0.4 pp upward revision for 2007. Compared with the interim forecast released last February, the projections remain unchanged for both areas.

The revised outlook for inflation reflects mainly the higher oil price assumptions and the higher inflation profile in Germany. However, the new projections also reflect the expectation of no significant second-round effects from oil price increases on wages over the forecast horizon. Indeed, growth in compensation per employee is projected to increase only slightly over the forecast horizon in both the euro area and the EU. In the former it should rise from 1.9% in 2005 to 2.1% in 2007 and from 2.4% in 2005 to 2.7% in 2007 in the latter.

Given the projected economic recovery and its lagged effect on employment growth, labour productivity growth should recover more markedly. The projection is for a pick-up in productivity gains from 0.7% in 2005 to around 1.1% in 2006-2007 in the euro area, and from 0.8% to 1.4% in the EU. This should therefore lead to reduced pressure from unit labour costs. Growth in unit labour costs is expected to decline from 1.2% in 2005 to 1.0% in 2006 in the euro area, and from 1.6% in 2005 to 1.2% in the EU. Furthermore, the output gap is projected to remain broadly constant over the forecast horizon (at around -1.0% in both regions), indicating no overall upward pressures on prices from increased capacity utilisation.

On the external side, markedly slower increases in the prices of primary commodities (including oil) should also bring about a reduction in imported inflation from around 4.1% in 2006 to 1.6% in 2007 in the euro area, and from 4.0% to 1.8% in the EU.

Inflation prospects across Member States

Among euro-area Member States, by far the most significant change to the outlook for inflation compared with the autumn is for Germany. Reflecting the planned VAT increase, HICP inflation in Germany is now projected to decline from 1.9% in 2005 to 1.7% in 2006, before surging to 2.3% in 2007. This compares to a decline to 1.1% in 2007 expected in the autumn forecast (. In France and Italy, inflation is still expected to ease marginally over the forecast horizon, to reach 1.8% in 2007 in France and 2.0% in Italy. In Spain, inflation is also projected to come down but to remain significantly higher than the other larger Member States and, at 3.1% in 2007, would be the third highest in the euro area after Luxembourg and Greece, where inflation would near 3½%. Among the smaller Member States, inflation is expected to remain subdued in Finland and Austria, which should register the lowest inflation rates in the area (close to 1½% in 2007). Inflation in the Netherlands should also remain among the lowest in the euro area, despite a projected rise to about 2.0% in 2007.

Outside the euro area, inflation in the UK and Denmark is expected to remain broadly stable at around 2.0% in 2006 and 2007. In Sweden, inflation should also remain subdued, although rising from 1.1% in 2006 to 1.8% in 2007. Among the larger recently-acceded Member States, after coming down from different levels by around 1 pp in 2006, inflation in Hungary and Poland is projected to rise by roughly the same magnitude in 2007 to reach, respectively, 3.3% and 2.0%. In the Czech Republic and Lithuania, inflation is also expected to edge up, but more moderately to about 3.0% in 2007, while it remains broadly stable at around 2½% in Slovenia. In contrast, inflation is set to ease through 2007 to close to 3.0% in Estonia and around 5½% in Latvia. In Slovakia, further increases in administered prices and indirect taxes are expected to first push up inflation to 4½% in 2006, before it edges down to about 2½% in 2007.

Table 2.7

Inflation outlook - euro area and EU25

(Annual percentage change)	Euro area				Difference vs Autumn 2005		EU25				Difference vs Autumn 2005	
	2004	2005	2006	2007	2006	2007	2004	2005	2006	2007	2006	2007
Private consumption deflator	2.0	1.9	2.1	2.1	0.0	0.4	1.9	1.9	2.1	2.1	0.0	0.3
GDP deflator	1.9	1.7	1.7	1.9	0.0	0.2	2.0	1.8	1.8	2.0	-0.1	0.1
HICP	2.1	2.2	2.2	2.2	0.0	0.4	2.1	2.2	2.1	2.2	-0.1	0.3
Compensation per employee	2.4	1.9	2.1	2.1	0.1	-0.3	2.9	2.4	2.7	2.7	0.0	-0.3
Unit labour costs	1.0	1.2	0.9	1.1	-0.4	-0.3	1.1	1.6	1.2	1.3	-0.3	-0.3
Import prices of goods	1.5	3.9	4.1	1.6	1.6	0.1	:	3.6	4.0	1.8	1.6	0.3

6. Better-than-expected 2005 and economic recovery brighten public finance outlook

Slow progress on the cards

The public finance outlook for 2006 and 2007 starts from a significantly better-than-expected outturn in 2005, which is projected to carry over into the forecast period. The general government budget balance in the euro area as a whole was 2.4% of GDP in 2005, as compared to an autumn forecast of 2.9% of GDP. The positive surprise reflects lower-than-expected expenditure in GDP, which more than offset a lower-than-expected revenue ratio. At the country level, the better-than-expected outturn was relatively broad-based though particularly pronounced in Germany, Spain, the Netherlands and Ireland.

In spite of a relatively marked economic recovery in the euro area, the general government deficit is forecast to remain unchanged at 2.4% of GDP. Consequently, the cyclically-adjusted budget balance is likely to worsen slightly.

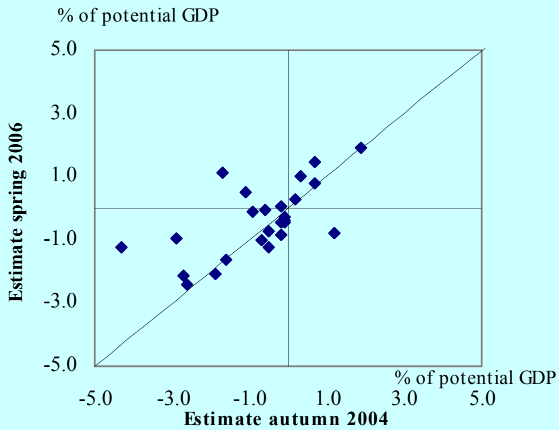
In 2007, by contrast, unchanged fiscal policies are expected to lead to a slight reduction of the nominal deficit in the euro area despite an expected easing of real economic growth. This reduction chiefly reflects the impact of the announced VAT increase in Germany where the deficit is projected to drop from 3.1% of GDP in 2006 to 2.4% in 2007.

In structural terms, i.e. net of cyclical factors and temporary measures, the budgetary situation is estimated to improve gradually over the entire forecast period (see Table 2.9). This trend is the result, *inter alia*, of a diminishing recourse to temporary measures, particularly in Belgium, Italy and Portugal.

The outlook in the EU as a whole is similar to that of the euro area. It is characterised by a better-than-expected deficit outturn in 2005 and an unchanged nominal budget balance in 2006. Unless policies change, the deficit in the EU as a whole is set to decrease marginally in 2007.

The cyclical conditions in which the projected deficit path falls are characterised by mostly negative output gaps. In 2006 actual output in both the euro area and the EU is estimated to be around 1 percentage point below its potential level, essentially unchanged vis-à-vis 2005. Cyclical conditions have remained remarkably stable over the past four forecast exercises, except in the case of small economies such as Estonia, Luxembourg, Latvia and Slovakia, for which estimates of potential output and the output gap tend to be more volatile than for larger economies. In these four economies the 2006 output gap estimates have narrowed significantly, but otherwise there is no clear pattern in the revisions (see Graph 2.17). The measurement of cyclical conditions has therefore not affected the assessment of the fiscal stance over the past two years. The restrictive stance planned in most EDP countries is balanced by a slightly expansionary stance in the other EU economies.

Graph 2.17: **Output gap estimates for 2006 of EU25 Member States**



Euro area: three out of five EDP countries on track towards reduction of deficit

The essentially unchanged deficit forecast for the euro area as a whole masks offsetting patterns at the country level. Among the five countries currently in excessive deficit, three are expected to make varying degrees of progress towards reducing the deficit. In Germany, current policies are expected to bring the deficit significantly below 3% of GDP in 2007. In Greece, the deficit is projected to reach the 3% of GDP threshold in 2006, but additional measures will be needed to ensure the correction is sustainable. In Portugal, current policies are forecast to keep the deficit essentially unchanged at around 5% of GDP over the forecast period, down from 6% of GDP in 2005. The deadline set by the Council for Portugal to bring the deficit below 3% of GDP is end-2008. In France and Italy, by contrast, unless policies change, the deficit is projected to increase over the forecast period.

Among the non-EDP countries, three – Belgium, the Netherlands and Ireland – are expected to significantly loosen their fiscal positions over the forecast period. In the case of the Netherlands the loosening in 2006 largely reflects a shift of corporate income taxes to 2005. Minor changes or small improvements of the nominal budget balances are expected in the other countries of the euro area that are not in excessive deficit.

Mixed patterns persist outside the euro area

Outside the euro area, diverse fiscal policy and economic trends can be seen. Three EDP countries are enjoying a measurably improving economic environment. One of these, the United Kingdom, is expected to take advantage of the improving economic conditions in 2006, when the deficit is projected to reach 3.0% of GDP, down from 3.5% in 2005. A further, although somewhat smaller, adjustment is expected in 2007, when, assuming unchanged legislation, the deficit is set to drop below the 3% of GDP threshold.

Poland, by contrast, which is also benefiting from a better-than-expected outturn in 2005 that pushed the deficit significantly below 3% of GDP, is expected to loosen its budgetary position over the forecast horizon. The nominal deficit is expected to reach the 3% of GDP threshold, in spite of a projected increase in the speed of economic expansion throughout the forecast period, suggesting a fiscal loosening in structural terms. In Hungary, the deficit is similarly forecast to increase to close to 7% of GDP, in spite of a projected acceleration of economic activity in 2006.

Cyprus and Slovakia, which brought their deficits below 3% of GDP in 2005, are expected to improve their fiscal position further in 2006 and 2007 against a backdrop of stable or only slightly increasing economic growth. Malta is expected to bring its deficit below the Treaty threshold in 2006. In the Czech Republic, however, the deficit is expected to consistently increase up until 2007, a trend only partly attributable to the projected economic slowdown.

A similarly varied picture can be drawn for the six non-EDP countries outside the euro area. In the two Scandinavian Member States – both running comfortable surpluses – 2006 is expected to see a discretionary easing of fiscal policy which, in the case of Sweden, is projected to be reined in during 2007. In the case of Denmark the lower surplus expected for 2006 is a normalisation after exceptionally strong revenues in 2005 arising from tax bases boosted by buoyant financial markets. In Slovenia and the Baltic countries, one of which – Estonia – is also running a surplus, the fiscal position is projected to stay within the margins which safeguard against the risk of breaching the 3% of GDP threshold.

Table 2.8

General government budgetary position - EU25

(% of GDP)				Spring 2006 forecast			Difference vs Autumn 2005	
	2002	2003	2004	2005	2006	2007	2006	2007
Total receipts (1)	44.4	44.5	44.3	44.9	44.9	44.7	-0.1	-0.1
Total expenditure (2)	46.8	47.5	47.0	47.2	47.1	46.9	-0.6	-0.6
Actual balance (3) = (1)-(2)	-2.3	-3.0	-2.6	-2.3	-2.3	-2.2	0.4	0.5
Interest expenditure (4)	3.2	3.0	2.8	2.8	2.7	2.7	-0.1	-0.1
Primary balance (5) = (3)+(4)	0.8	0.0	0.2	0.5	0.4	0.5	0.3	0.4
Change in actual balance :	-1.0	-0.7	0.4	0.3	0.0	0.1	0.0	0.1
Gross debt	60.5	62.0	62.4	63.4	63.2	62.9	-1.0	-1.4
p.m. Actual balance euro area	-2.5	-3.0	-2.8	-2.4	-2.4	-2.3	0.4	0.5
p.m. Primary balance euro area	1.0	0.3	0.3	0.6	0.6	0.6	0.4	0.4
p.m. Cycl. adj. prim. balance euro area	0.6	0.5	0.5	1.1	1.0	1.1	0.2	0.4

Note : Total expenditure, actual and primary balances include UMTS proceeds, while cyclically adjusted figures exclude UMTS proceeds.

Table 2.9

Structural budget balance (% of GDP)

	2004	2005	2006	2007
Belgium	-0.8	0.1	-0.5	-0.3
Germany	-3.5	-3.1	-3.0	-2.3
Greece	-7.7	-5.3	-4.4	-4.4
Spain	-0.7	1.3	1.3	1.0
France	-3.7	-3.1	-2.7	-2.5
Ireland	0.7	1.9	1.0	0.8
Italy	-4.6	-3.9	-3.8	-3.8
Luxembourg	-0.5	-1.3	-1.3	-1.0
Netherlands	-1.1	1.0	-0.3	-0.2
Austria	-0.8	-1.0	-1.7	-1.2
Portugal	-4.8	-5.2	-4.1	-3.9
Finland	2.5	3.2	2.8	2.7
Euro area	**-3.0**	**-2.2**	**-2.1**	**-1.9**
Czech Republic	-1.3	-1.4	-3.4	-4.0
Denmark	3.6	5.2	3.6	3.7
Estonia	1.8	1.5	1.1	0.5
Cyprus	-4.7	-2.9	-2.2	-2.3
Latvia	-0.8	-0.1	-1.2	-0.8
Lithuania	-2.0	-1.1	-1.0	-1.0
Hungary	-5.2	-6.3	-7.6	-8.5
Malta	-4.6	-3.1	-3.2	-3.3
Poland	-4.2	-2.6	-3.3	-3.5
Slovenia	-1.8	-1.5	-1.7	-1.7
Slovakia	-2.3	-1.6	-2.4	-2.2
Sweden	1.4	2.6	2.1	2.1
United Kingdom	-3.5	-3.3	-2.7	-2.5
EU-25	**-2.9**	**-2.1**	**-2.1**	**-1.9**

Note: Budget balance net of cyclical factors and one-off and other temporary measures

Debt expected to embark on downward trend

Over the forecast period, a combination of stronger economic growth and a stable primary surplus is expected to reverse the upward trend in the euro-area debt ratio observed since 2003. From the peak of 70¾% of GDP in 2005, the debt ratio is projected to embark on a slow downward path, reaching around 70% of GDP in 2007.

A similar development is forecast in the EU as a whole, where the debt ratio is expected to drop from 63½% of GDP in 2005 to marginally below 63% of GDP in 2007.

The downward trend for the euro area and the EU as a whole masks a number of notable exceptions. In Hungary, the debt ratio is expected to rise above the 60% of GDP threshold in 2007. In Germany, France and Italy existing policies, while slowing the upward trend compared to the autumn 2005 outlook, are not sufficient to reverse it by the end of the forecast period. In the case of Italy, current policies are expected to increase the debt ratio to close to 108% of GDP in 2007.

7. Both upside and downside risks

The economic outlook in the spring forecast is one where the euro area and the EU return to potential growth supported externally by continued robust world trade, and internally by an acceleration of domestic demand, especially investment. The outlook is also for inflation to stay slightly above 2%, with second-round effects of the strong rise in energy prices remaining contained. However, there are several key risk factors to this outlook that need to be considered.

On the *external side*, oil and energy prices remain exceptionally high and volatile. With a tight balance between supply and demand, reflecting constraints in oil production and refining capacity, the market remains vulnerable to climatic, security and political disruptions. The most recent surge in oil prices bears witness to the effect geopolitical tensions can have on oil prices under these circumstances. Price increases above those already assumed can therefore not be ruled out and continue to be amongst the major risks to the outlook. In particular, although world economic growth has withstood the oil-price shock so far, it cannot be excluded that negative non-linear confidence effects might come into play in the relationship between energy prices and economic growth at higher price levels. Obviously, higher-than-assumed increases in energy prices will also have a direct impact on the outlook for headline inflation. Moreover, second-round effects on wages may emerge beyond certain thresholds of energy price increases, testing the assumption of continued benign wage developments.

On the other hand, if the currently high oil prices contain a sizeable geopolitical risk premium, then there is also a risk of a decline in oil prices as a consequence of an easing in geopolitical tensions, implying in turn an upward risk to the growth outlook and a downward risk to the inflation outlook

Global current account imbalances have continued to increase since last autumn and a disorderly correction of these remains a threat to world growth. Clearly, the more such imbalances accumulate, the larger the associated risks for the global economy, which means that they are higher for 2007 than for 2006.

Furthermore, the gradual removal of excess liquidity could affect financial markets more adversely than is usually assumed. In recent years, the search for yield among investors has resulted in historically low credit-risk premiums. As past experience shows, such low risk premiums could adjust abruptly as liquidity is withdrawn and investors become more discriminating.

Since managing corporate debt has been facilitated by historically low interest rates, more testing times may be ahead. Higher interest rates have so far been felt mainly in the corporate bond market, but the recent increase in policy rates can be expected to feed through into bank lending rates. In the context of a still significant level of accumulated corporate debt, this could have a stronger-than-anticipated effect on investment expenditure, the extent of which depends on the size and pace of the monetary tightening and the reaction of longer-term interest rates. In particular, in view of the expected gathering of momentum of the recovery, a gradual deterioration in funding conditions would not be expected to impact significantly on investment decisions over the forecast period. However, if interest rates were to rise more sharply, the need to roll over short-term and maturing longer-term corporate debt could weigh on any recovery in corporate investment activity.

Past years have also been characterised by rapid growth in the use of highly complex financial instruments, such as credit derivatives. The markets for these instruments remain relatively untested in periods of stress, presenting a risk of discontinuity in the event of adverse developments with potential knock-on effects to the broader financial system.

The resilience of growth in the US has continued to surprise, backed by strong and unrelenting growth in private consumption. While the US economy might again surprise on the upside in the short-term, an adjustment of consumer behaviour at some stage, in the light of the impact of rising interest rates or a sharper-than-expected correction in the US housing market, cannot be ruled out. However, the strong momentum in the world economy and the buoyancy in many survey indicators also imply some upside risks, especially in the shorter horizon.

In addition to the US, a stronger-than-expected consolidation of the recovery in Japan and continued buoyant growth in China could provide some upside risk.

A further downside risk on the external side is the continued possibility of a global pandemic originating from an avian flu (see also box 2.3). However, the likelihood, timing and severity of a pandemic are extremely difficult to assess with any significant degree of confidence.

On the *internal side*, private consumption remains subject to both upside and downside risks. On the one hand, consumer confidence may improve more than expected due to better labour market conditions and a reduction of uncertainty over future income streams, thanks to past or ongoing structural reforms. Such a recovery in confidence would trigger a release of pent-up demand which has accumulated in the household sector and which could be financed through a reduction in the saving rate.

On the other hand, independently from the above-mentioned external risk associated with the evolution of oil prices itself, there is also as risk that indirect and second-round effects from past increases in oil prices may still materialise, ultimately leading to a stronger-than-projected loss in the purchasing power of households, thereby dampening consumption expenditure more than currently anticipated. In addition, in the event of a stronger-than-expected pass-through of energy prices to other prices the forecast may underestimate the extent and speed of monetary tightening, entailing the risk of a more subdued evolution of output growth.

Moreover, while not a problem for the euro area or the EU as a whole, house prices seem to be stretched in some Member States and could pose a downside risk in these countries, especially if the price corrections are not gradual. Growing debt has also made the household sector more vulnerable in general to adverse shocks, which could form a downside risk of particular significance in a period of rising financing costs.

In the case of investment, positive risks arise from stronger growth of specific housing markets, stronger-than-expected external demand or higher productivity as a result of IT-investments and past reforms. Negative risks include higher oil prices, a disappointing development of aggregate demand and entrenched low-growth expectations.

A final risk to both the consumption and investment outlook stems from the uncertainty surrounding the impact of the German consolidation package, which covers a wide range of measures of an unprecedented scale. It cannot be excluded that economic agents react to this package differently from what is currently assumed, with potentially positive or negative effects on GDP growth in Germany and the EU.

Overall, the risks to the growth outlook in this forecast seem to be fairly balanced but uncertainties, especially on the external side, clearly increase over time. Regarding 2006, the risks appear slightly tilted to the upside, as the forecast may underestimate the current momentum of growth, both inside and outside the EU. For 2007, the risks are more tilted to the downside, with the uncertainties linked to the evolution of oil prices and its effects on output growth and inflation weighing particularly on the outlook. The pictured balance of risks is enhanced by the mentioned uncertainties surrounding the impact of the budgetary policy measures in Germany, which tend to reinforce the upside risks in 2006 and the downside risks in 2007.

Box 2.3: **Economic implications for Europe of a possible flu pandemic**

One risk highlighted in the current forecast reflects concern about a possible influenza pandemic originating from an avian flu.

The H5N1 avian flu virus has spread quickly among birds with a high mortality rate. Human infections are still very rare but have been fatal in more than half of the detected cases. The H5N1 avian flu has a pandemic potential, since it could mutate into a strain that is contagious among humans. The World Health Organisation (WHO), which facilitates pandemic preparedness planning by means of a 6 phase approach (see www.who.int), assesses the current risk situation as being at phase 3: a virus new to humans that is causing infection, but does not spread easily from one person to another.

It should be noted that it is close to impossible to predict the evolution of influenza viruses or if a virus might become easily transmissible among humans. It is therefore also impossible to assess when another pandemic may occur; if it would involve H5N1, and if it would be a mild or a severe pandemic. What is known is that influenza pandemics are rare, but recurrent events.

Drawing on the experiences of the three pandemics that occurred in the previous century, i.e. the "Spanish influenza" in 1918, the "Asian influenza" in 1957 and the "Hong Kong influenza" in 1968, the Commission will assess the potential economic implications for Europe in the case of a flu pandemic in a forthcoming economic paper. The economic costs of a pandemic, in terms of production lost due to illness and death will be measured as reductions in GDP growth and/or declines in the level of GDP under different pandemic scenarios.

The effects on the economies of the EU Member States will be estimated using a quarterly macro-economic model. Using such a model has the advantage of capturing a number of substitution and interaction effects and of both the short-run and long-run perspective. It must be stressed that the assessments would still be surrounded with great uncertainty, well beyond the assumptions made on the attack and fatality rates. Medical technology has made considerable advances since previous pandemics. Automatic stabilisers (such as health insurance and government transfers) ought to play an important role in dampening the economic impact. On the other hand, global integration and indirect effects stemming from reduced confidence in the financial markets and among households and enterprises may increase some risks.

The central scenario of the study – derived from the pandemics in the last century - assumes that a pandemic would have (i) a morbidity rate (i.e. the percentage of the population infected by the pandemic) of 30%; (ii) a mortality rate (i.e. the percentage of the infected that die) of 2.5%; and (iii) an average of 3 weeks out of work due to the pandemic. This would imply that around 150 million Europeans would become sick for three weeks and 2.5% of those, i.e. 0.75% of the total population, which corresponds to 3.75 million persons, would die. Both the sickness and the mortality rates are assumed to be uniformly distributed over the age cohorts. Furthermore, it is assumed that the pandemic has an identical health impact on the rest of the world outside Europe.

Both supply and demand effects are to be expected. The supply effect stems from the loss of hours worked, while the demand effect results mainly from precautionary measures taken by the population in order to avoid infection. Certain types of activities, like trade and tourism, are likely to be particularly severely hit.

The initial findings point to a reduction in GDP growth of around 1½ percentage points in year 1. If the pandemic had occurred in the first quarter of this year, the outlook for GDP growth in this spring forecast would have been limited to just below 1% in 2006 (instead of 2.3%). The main impact arises from the supply side (≈ -1 pp), while the demand side would limit growth by ½ pp. However, in the following year (2007 in this simulation), a recovery is projected and GDP growth would be around 1 pp. higher. The expected adjustment is based on the pattern known from previous pandemics. In the longer term, the level of GDP in the EU would be ¾ pp. lower, reflecting the permanent reduction of the population and thereby also of the labour force. The results refer to an average effect for the EU. However, it is likely that some Member States, such as the Mediterranean countries, would be more affected because of their larger tourist industry.

An alternative, worst-case scenario takes into account that the psychological effects could be markedly larger (leading to a stronger decline in domestic demand). In this scenario, the impact on GDP growth is estimated to be between -2 and -4 pps. in year 1. Following a subsequent recovery, the level of GDP would decline by around ¾ pp. in the longer term.

The outcome of the two scenarios is broadly in line with predictions made elsewhere for e.g. the USA.

Chapter 3

Member States

1. Belgium

A strong start after a weak 2005

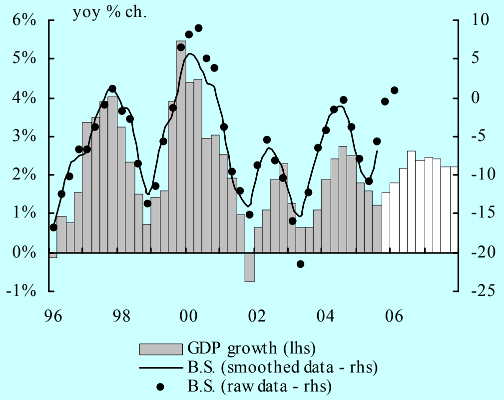
Activity in 2005

In 2005, economic activity gradually accelerated after a near standstill in the first quarter, resulting in a moderate 1.2% growth of real GDP. Investment growth turned out to be very high, mainly as a result of a catching-up effect after several years of low investment and some exceptional investments in the shipping industry (amounting to about 0.2% of GDP). Public investment, mainly by local government, also experienced exceptionally strong growth (13.5% in real terms) in the run-up to the October 2006 local elections. Meanwhile, other components of domestic demand grew more moderately due to continuously decreasing consumer confidence in the first three quarters of the year and strict expenditure restraint by the government in view of its budgetary targets. Net exports deteriorated significantly as a result of a decrease in external demand in the first quarter of 2005 combined with a strong acceleration of imports in the final three quarters.

Prospects for 2006 and 2007

By now the acceleration of activity that had started in 2005 has gained momentum and should lead to real GDP growth of around 2.3% in 2006 and of 2.1% in 2007. The Belgian central bank's business survey, which is usually a very good indicator for cyclical developments (see graph 3.1), has shown a marked improvement since the second half of 2005. Moreover, consumer confidence has also started to improve since its low point in the third quarter last year, with households reporting a higher saving capacity and lower unemployment expectations.

Graph 3.1: **Belgium - GDP growth and business survey results**



Consumer demand also benefits from an anticipated increase in real disposable income, due to increased employment and the implementation of the final stage of the 2001 tax reform. Meanwhile strong business confidence, growing demand and continued high business profitability are supporting high private investment levels in 2006, although the growth rate should fall back somewhat following the exceptional results in 2005. The electoral public investment cycle that started in 2005 should also remain strong in the first half of 2006. But it is expected to decrease markedly after the local elections, following a similar pattern observed in the past. Moreover, its impact is offset by large real estate sales (0.2% of GDP) by the federal government in 2006. Government consumption should remain more subdued throughout the forecasting period in view the strict budgetary targets. The significant loss in net exports near the end of 2005 is expected to be mainly temporary and external demand should increase as a result of the growth acceleration in Belgium's main trading partners.

Labour market, costs and prices

The labour market is expected to benefit from the economic upturn that started towards the end of 2005. Total employment is forecast to grow by about 1% per annum in 2006 and 2007, but the impact on unemployment is partly offset by the growth of the labour force. Despite efforts to restrain labour costs, pressures on competitiveness are building up due to wage moderation in the neighbouring countries.

In 2006, HICP inflation might still suffer from the recent turmoil in oil markets and reach 2.4%. Inflation measured by the national CPI in 2006 (2.0%) will exceptionally be lower than HICP inflation, due to a revision of the product basket and a change in the base year. From 2007 onwards, HICP and CPI inflation are expected to be about the same, at around 2.1%.

Public finances

Despite the growth deceleration, tax revenue remained on track in 2005. Reforms in the health sector kept health care expenditure in line with expectations (against a large overrun in 2004). Government accounts also benefited from additional one-off revenues of some 0.2% of GDP linked to a decision to take over pension obligations from the

SNCB (railways) and the Antwerp Port. As a result, Belgium has reported a small surplus[1] for 2005.

For 2006, a deficit of 0.3% of GDP can be expected, in contrast to the balanced budget foreseen in the 2006 budget law, mainly as a result of lower estimates for the proceeds of some new taxes (for instance on some investment products or on excess capacity in the electricity industry) in the 2006 budget and less optimistic assumptions regarding government expenditure. A substantial package of one-off measures (0.6% of GDP) also supports government accounts. In the first months of 2006, tax revenue continued to increase strongly, but this was largely offset by an unanticipated increase in interest expenditure following recent interest rate rises. In 2007 the government balance is likely to further deteriorate due to the phasing out of the above-mentioned one-off measures and measures to reduce the tax-burden on labour (0.2%), though this will be partly offset by anticipated reductions in spending by local authorities (0.2%). Therefore, on a no-policy-change basis a deficit of 0.9% of GDP is anticipated.

The debt reduction was slowed down in 2005 by the assumption of debt from the railways, but should continue in 2006 and 2007. By the end of the forecast horizon, the debt ratio is expected to fall well below 90% of GDP.

[1] The assumption of debt (2.5% of GDP) from the railway company SNCB by the government in 2005 has been treated without impact to the deficit. However, Eurostat considers that this debt assumption must be recorded as a capital transfer, with an impact on the government deficit by the same amount. Belgium has informed Eurostat of its intention to introduce legislation to retroactively annul this transaction. In spite of this, the debt ratios for 2005, 2006 and 2007 in this forecast include the railway debt.

Table 3.1

Main features of country forecast - BELGIUM

	2004		Annual percentage change						
bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices	288.1	100.0	2.0	1.5	0.9	2.6	1.2	2.3	2.1
Private consumption	152.8	53.1	1.9	0.8	0.9	1.5	1.1	1.7	1.9
Public consumption	66.1	22.9	1.4	2.9	2.5	2.0	1.5	1.8	1.9
Gross fixed capital formation	54.3	18.8	1.9	-2.3	-0.7	4.2	8.4	1.9	2.1
of which : equipment	25.9	9.0	4.6	-2.8	-2.5	2.3	10.7	0.5	3.7
Exports (goods and services)	241.5	83.8	4.5	1.2	2.9	6.2	1.8	4.6	4.6
Final demand	518.0	179.8	2.9	0.9	1.9	4.3	2.2	3.1	3.2
Imports (goods and services)	229.9	79.8	4.1	0.1	3.1	6.4	3.4	4.1	4.5
GNI at constant prices (GDP deflator)	290.7	100.9	2.1	1.3	1.0	2.1	1.3	2.3	2.1
Contribution to GDP growth :	Domestic demand		1.8	0.6	0.9	2.1	2.6	1.7	1.9
	Stockbuilding		0.0	0.0	0.0	0.4	-0.1	0.0	0.0
	Foreign balance		0.3	0.9	-0.1	0.1	-1.2	0.5	0.3
Employment			0.5	-0.1	-0.1	0.6	0.9	0.9	0.9
Unemployment (a)			8.9	7.5	8.2	8.4	8.4	8.0	7.6
Compensation of employees/head			4.3	3.8	1.7	2.1	2.4	2.4	2.2
Unit labour costs			2.7	2.1	0.7	0.1	2.1	1.0	1.0
Real unit labour costs			-0.3	0.3	-1.0	-2.1	-0.2	-0.9	-1.0
Savings rate of households (b)			-	-	14.3	12.8	12.8	12.9	12.9
GDP deflator			3.0	1.8	1.7	2.3	2.2	2.0	2.0
Private consumption deflator			3.0	1.3	1.6	2.5	2.8	2.4	2.0
Harmonised index of consumer prices			-	1.6	1.5	1.9	2.5	2.4	2.1
Trade balance (c)			0.5	3.8	3.5	2.7	1.0	0.9	1.0
Current account balance (c)			2.4	5.0	4.5	3.5	2.2	2.3	2.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			2.3	4.8	4.4	3.4	2.2	2.1	2.3
General government balance (c)(d)			-5.7	0.0	0.1	0.0	0.1	-0.3	-0.9
Cyclically-adjusted budget balance (c)(d)			-5.5	-0.2	0.4	0.0	0.6	0.1	-0.3
General government gross debt (c)			117.9	103.2	98.5	94.7	93.3	89.8	87.0

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

2. The Czech Republic

Strong GDP growth increasingly fuelled by domestic demand

Activity in 2005

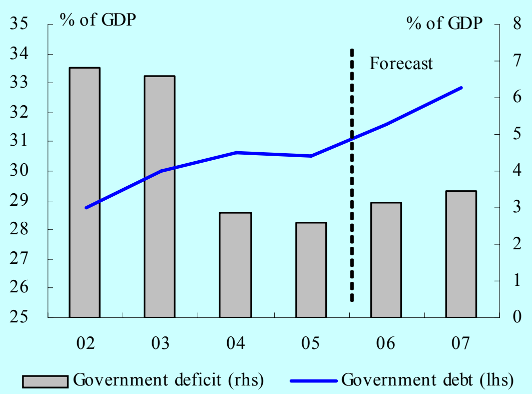
Real GDP growth reached 6% in 2005, the best ever result in the 15 years history of the Czech Republic. This impressive economic performance was driven mainly by very strong net exports, coming largely on the back of foreign direct investment of previous years in the automotive sector. Exports rose by more than 11% in real terms, while imports were up by just under 5%. The external balance of goods and services improved significantly in 2005, reaching a surplus of about 2% of GDP, for the first time since 1991. Against this backdrop, the net borrowing vis-à-vis the rest of the world narrowed substantially. Growth of private consumption remained weak, in line with the moderate growth of real gross disposable income, which was negatively influenced by relatively weak real wage growth and unfavourable developments in the terms of trade. Public consumption grew only slightly, though data are affected by a large one-off purchase of military equipment. Gross fixed capital formation decelerated, despite the record-low interest rates. From the supply side, economic activity was driven mainly by industry, trade and financial services.

Prospects for 2006 and 2007

In 2006 and 2007, the economic expansion is projected to remain strong, but to decelerate to some 5¼% in 2006 and 4¾% in 2007. Domestic demand is expected to replace net exports as the main growth driver. Private consumption will be stimulated by an improving labour market situation, while investment will benefit from new projects by foreign investors, higher utilisation of EU structural funds and favourable financial conditions. Public consumption will accelerate as well, though only modestly.

Vigorous exports are likely to continue, profiting mainly from favourable economic developments in the main trading partners and thanks to new production capacities in the automotive industry. Imports are projected to accelerate against the backdrop of stronger investment and a moderate increase in consumer spending. The favourable developments in net exports will be largely offset by increasing deficits in the income balance due to rising repatriated profits and salaries to non-residents. Nevertheless, the net borrowing vis-à-vis the rest of the world should hover only around 2% of GDP.

Graph 3.2: **Czech Republic - General government finances**



Labour market, costs and prices

Strong economic performance helped improve the situation in the labour market. Employment grew faster in 2005 and the rate of unemployment began to fall, reaching less than 8%. Employment is projected to continue rising over the forecast horizon. The unemployment rate is forecast to fall from almost 8% in 2005 to about 7½% in 2007. However, structural shortcomings in the labour market (such as a high share of long-term unemployed) are expected to remain.

Due to the ongoing appreciation of the koruna, falling food prices, favourable base effects and strong competition, HICP inflation in 2005 was only 1.6%. As a consequence of high energy prices, inflation somewhat increased towards the end of 2005 and re-entered the target band set by the monetary authorities (CPI inflation of 3% year on year +/-1 percentage points since 2006). Inflation is expected to further increase in the first half of 2006. However, the second-round effects of increased energy prices are projected to be weak and inflation should grow only gradually in the second half of the year. Average HICP inflation is expected to reach 2½% in 2006 and accelerate slightly in 2007.

Public finances

The government deficit ratio in 2005 was -2½% of GDP, after about -3% in 2004. This development was due to the favourable economic situation and fiscal targeting introduced in 2004. More importantly, the low deficits in latest years reflect the possibility given to government departments to carry over unspent funds, rather than intentional and durable spending cuts. The cumulative sum of expenditure carryovers is currently estimated at some 1¾% of GDP. The uncertainty about when these funds will be accumulated and when they will be spent complicates the forecasting of public finances. This budgetary forecast assumes cumulated expenditure carryovers to remain constant in 2006 and 2007.

In 2006, the general government deficit is projected to reach some 3¼% of GDP. The forecast is based on the fiscal target set by the Czech authorities (-3.8% of GDP), but is more optimistic about revenues. On the expenditure side, the forecast takes account of a debt cancellation of about ¼% of GDP. The budgetary outcome is thus expected to be more than half a percentage point worse than in 2005, in spite of the strong economic performance.

The 2007 deficit is projected to reach about 3½% of GDP which is slightly more than the targeted 3.3% of GDP. It is assumed that the planned nominal medium-term expenditure ceiling will be exceeded, as in the 2006 draft budget, in order to finance recently introduced additional social spending. The structural budgetary balance is forecast to worsen in both 2006 and 2007.

Government debt – which was recently revised downwards because of the reclassification of a state guarantee – is expected to increase from 30½% of GDP in 2005 to some 32½% at the end of 2007.

Table 3.2

Main features of country forecast - CZECH REPUBLIC

		2004		Annual percentage change						
	bn CZK	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices		2767.5	100.0	2.3	1.5	3.2	4.7	6.0	5.3	4.7
Private consumption		1389.1	50.2	3.1	2.8	4.6	3.3	2.6	3.1	3.3
Public consumption		621.9	22.5	1.0	4.5	3.8	-2.7	0.8	1.0	0.6
Gross fixed capital formation		743.8	26.9	4.0	3.4	4.7	5.3	3.7	5.0	6.6
of which : equipment		345.6	12.5	11.0	7.7	3.3	6.5	7.5	5.5	6.5
Exports (goods and services)		1972.0	71.3	10.6	2.1	7.5	21.4	11.1	11.1	9.7
Final demand		4752.6	171.7	5.7	2.9	5.0	10.1	5.5	6.7	6.3
Imports (goods and services)		1985.1	71.7	11.7	4.9	7.9	18.4	4.8	8.6	8.5
GNI at previous year prices (GDP deflator)		2623	94.8	1.7	0.2	3.6	4.3	5.7	4.2	4.3
Contribution to GDP growth :	Domestic demand			3.0	3.4	4.5	2.5	2.5	3.0	3.5
	Stockbuilding			0.3	0.1	-0.9	0.7	-1.0	0.3	0.1
	Foreign balance			-1.0	-2.0	-0.4	1.4	4.4	2.0	1.2
Employment				-	1.5	-1.4	0.1	0.9	0.6	0.5
Unemployment (a)				6.3	7.3	7.8	8.3	7.9	7.7	7.6
Compensation of employees/head				-	6.2	4.9	6.3	4.0	4.8	5.1
Unit labour costs				-	6.3	0.2	1.6	-1.0	0.2	0.9
Real unit labour costs				-	3.4	-2.3	-1.7	-0.9	-1.1	-1.2
Savings rate of households (b)				-	-	8.0	8.4	7.8	7.2	7.1
GDP deflator				6.7	2.8	2.6	3.4	-0.1	1.3	2.1
Private consumption deflator				6.1	0.7	1.8	2.2	1.0	2.0	2.3
Harmonised index of consumer prices				-	1.4	-0.1	2.6	1.6	2.5	2.7
Trade balance (c)				-6.2	-3.0	-2.7	-1.0	1.4	2.2	3.1
Current account balance (c)				-4.3	-5.6	-6.3	-6.0	-2.3	-2.6	-2.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.3	-5.7	-6.3	-6.6	-2.1	-2.4	-1.9
General government balance (c)(d)				-5.2	-6.8	-6.6	-2.9	-2.6	-3.2	-3.4
Cyclically-adjusted budget balance (c)(d)				-	-5.8	-5.4	-2.0	-2.5	-3.6	-4.0
General government gross debt (c)				-	28.8	30.0	30.6	30.5	31.5	32.4

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

3. Denmark

More broadly-based growth

Activity in 2005

In 2005, the Danish economy gained further momentum. Despite hesitant first and last quarters, real GDP growth reached 3.1% for the year as a whole, following 1.9% in 2004. As in 2004, private consumption continued to be a main driving force, supported in particular by a booming housing market with price increases of above 20% in the fourth quarter, low interest rates and falling unemployment. However, investments also took off in 2005 and grew overall by 9%. The increase in investment activity was particularly strong for both construction and equipment, although investment in equipment showed a rather erratic behaviour over the year. Moreover, public consumption expanded and grew by more than 1¼%, well above the ½% objective set by the government, which can be partly explained by overspending by local governments. All in all the contribution of domestic demand to GDP growth was 4 percentage points.

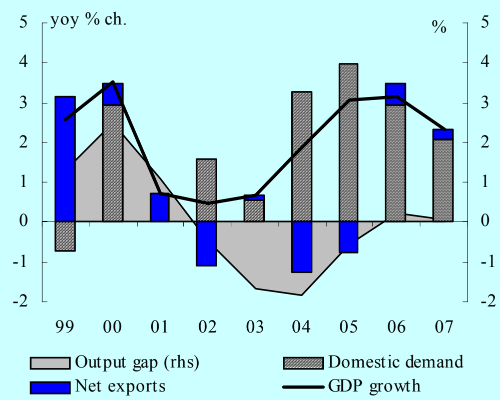
As for the external sector, both exports and imports accelerated in 2005. Exports of goods and services grew by almost 8% and benefited from strong growth in both the US economy and in Asia, as well as from a strong US dollar. However, due to buoyant private consumption and a high import content in exports, import growth of about 11% was higher than that of exports. Consequently, net exports continued to contribute negatively to GDP growth by 1 percentage point, although less than the year before.

Prospects for 2006 and 2007

Economic indicators give a very positive picture of the short-term prospects for the Danish economy. Consumer confidence is at a historically high level and overall consumers are extremely satisfied with their personal economic situation and with the general economic situation. Business confidence is also at relatively high historical levels, with the industrial, construction and services sectors all positive about production and sales.

Against this setting, GDP growth is expected to continue to grow steadily and above potential over the forecast period at about 3¼% in 2006 and 2¼% in 2007. Compared with 2005, growth is projected to be supported not only by robust domestic demand, but also by growing external demand. Private consumption is expected to moderate somewhat as the effects of tax cuts on real disposable income fade out and as the wealth effects of the sharp increase in house prices taper off. At the present juncture, however, it is not clear to what extent higher interest rates and thereby higher financing costs may limit further increases in house prices. Moreover, investment is envisaged to continue to grow strongly over the forecast period and to contribute to more balanced economic growth. Finally, exports of goods and services are forecast to continue growing steadily, benefiting from an economic upswing in Europe and an expansion of Denmark's export markets. With imports dampening somewhat in line with a moderation in private consumption, net exports are also expected to contribute to economic growth, albeit rather modestly.

Graph 3.3: **Denmark - GDP and the growth contributions**



Labour market, cost and prices

In 2005, employment picked up strongly and unemployment fell to very low levels. Despite shortages of labour in certain sectors, there are so far few signs of mounting wage pressures in the overall economy and wage-driven inflation. This can be explained by the typically lagged response of the labour market to the business cycle. Moreover, it is likely that increasing competition from emerging markets is also playing a role, in so far as the threat of outsourcing and import of labour is having a dampening effect on wages. Nevertheless, as the expansion of the economy continues and the labour market tightens further, wage pressures are expected to gradually grow stronger over the forecast period.

After historically low consumer price inflation in 2004, which was due to the temporary effects of tax cuts and low import prices, the rate increased in 2005. This was largely due to rising energy prices, while domestic inflation remained relatively subdued. However, as capacity and wage pressures in the economy are expected to grow stronger, domestically generated inflation is now expected to pick up. This, together with continuingly high energy prices, is expected to lead to a further increase in consumer price inflation. Headline inflation is therefore projected to be around 2% throughout 2006 and 2007.

Public finances

After a surplus of 2.7% of GDP in 2004, the general government recorded a surplus of close to 5% in 2005. In addition to the effects of healthy economic growth, the strength of the public finances is largely due to higher revenue from oil and gas exploitation and from the pension yield tax, where higher prices and favourable financial market developments respectively have boosted tax revenues. It should be noted that the surplus figures used by the Commission services, in contrast to the Danish National Accounts, will include the surplus of the second pillar pension fund until spring 2007, which improves the general government surplus by about 1 percentage point of GDP.

In the forecast period, lower revenues from the pension fund yield tax and, later on, a moderation in growth of economic activity are expected to translate into somewhat lower surpluses. Nevertheless, with continued relatively strong surpluses the gross debt ratio is expected to be reduced further, to below 30% of GDP in 2007.

Table 3.3

Main features of country forecast - DENMARK

		2004		Annual percentage change						
	bn DKK	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		1467.3	100.0	2.0	0.5	0.7	1.9	3.1	3.2	2.3
Private consumption		710.6	48.4	1.3	1.5	1.6	3.4	3.8	2.9	2.0
Public consumption		388.3	26.5	1.6	2.1	0.2	1.5	1.3	1.0	0.7
Gross fixed capital formation		292.6	19.9	2.9	0.1	2.1	4.5	9.0	7.0	4.0
of which : equipment		118.5	8.1	4.3	-2.6	2.3	4.9	13.4	6.2	3.0
Exports (goods and services)		663.1	45.2	5.2	4.1	-1.2	2.7	8.0	7.0	5.4
Final demand		2058.4	140.3	2.6	2.5	0.0	3.2	5.4	4.4	3.3
Imports (goods and services)		591.1	40.3	4.8	7.5	-1.7	6.4	11.0	6.3	5.3
GNI at constant prices (GDP deflator)		1462.6	99.7	2.0	0.7	1.2	2.2	3.6	3.2	2.3
Contribution to GDP growth :	Domestic demand			1.7	1.3	1.2	3.1	4.0	3.2	2.1
	Stockbuilding			0.0	0.3	-0.6	0.2	-0.2	-0.3	0.0
	Foreign balance			0.3	-1.1	0.1	-1.3	-1.0	0.5	0.2
Employment				0.4	-0.1	-1.2	0.0	0.7	0.4	0.1
Unemployment (a)				6.7	4.6	5.4	5.5	4.8	4.0	3.8
Compensation of employees/head				5.1	3.8	3.8	2.1	3.5	3.8	3.9
Unit labour costs				3.4	3.2	1.8	0.3	1.2	1.0	1.7
Real unit labour costs				-0.5	0.9	-0.1	-1.9	-1.4	-2.1	-0.7
Savings rate of households (b)				-	-	7.5	3.8	3.0	3.7	3.3
GDP deflator				3.9	2.3	1.9	2.2	2.6	3.2	2.4
Private consumption deflator				3.9	1.7	2.0	1.7	2.0	1.9	2.0
Harmonised index of consumer prices				-	2.4	2.0	0.9	1.7	2.1	2.0
Trade balance (c)				1.8	4.6	4.5	3.7	2.7	3.3	3.5
Current account balance (c)				-0.6	2.5	3.2	2.3	2.9	3.4	3.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-0.5	2.6	3.2	2.3	3.0	3.4	3.4
General government balance (c)(d)(e)				-1.2	1.2	1.0	2.7	4.9	3.9	4.0
Cyclically-adjusted budget balance (c)(d)				-0.9	1.4	2.1	3.8	5.4	3.9	4.0
General government gross debt (c)				65.3	46.8	44.4	42.6	35.8	30.0	26.5

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).
(e) Including second pillar pension funds (see for more details note 11 on concepts and sources).

4. Germany

Gradual recovery dominated by the effects of budgetary measures

Activity in 2005

Real GDP growth was rather volatile in 2005. Substantial advances of 0.6% in the first and the third quarters, respectively, were followed by a moderate second and a disappointing final quarter. In the last three months of 2005, the negative contribution to growth from both domestic and external demand was counterbalanced by an extraordinarily strong build-up of inventories, resulting in a flat profile for real GDP in the fourth quarter. While the uncertainty surrounding the working day effect makes a substantial revision of the growth composition in the final quarter of 2005 likely, the overall picture of a modest, export-driven recovery is still intact.

As in 2004, external demand provided the biggest contribution to overall GDP growth. While stock-building also had a positive impact, final domestic demand again did not contribute to growth.

Continued wage restraint helped to maintain international price competitiveness and export market shares. On the downside, low wage growth and a further fall in employment curbed private consumption expenditure and gross fixed capital formation in 2005.

Prospects for 2006 and 2007

The latest indicators are sending mixed signals regarding the strength of the economic recovery in Germany. Seasonally adjusted unemployment slightly increased in March and households' future earnings expectations dropped for a second straight month. On the other hand, the *ifo* index suggests that business confidence reached its highest level for 15 years and also the *GfK* consumer climate index surged, indicating a possible release of some pent-up demand in the run-up to the 3 percentage point increase in the standard VAT rate as from January 2007.

Indeed, the cyclical pattern will be dominated by the budgetary measures that are part of the coalition agreement and which will have significant effects even beyond the forecast horizon (see Box 2.2).

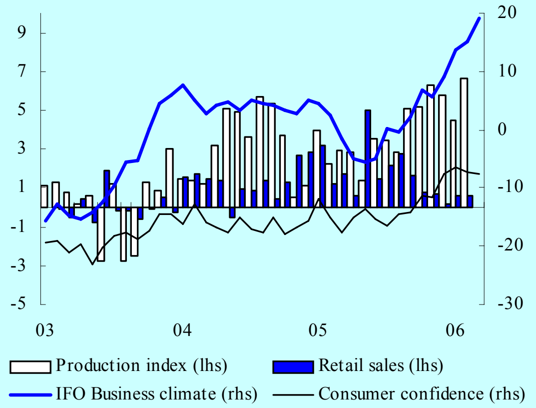
The underlying trend of private consumption expenditure remains moderate, as employment will only gradually pick up and the inflationary effects of the VAT increase will weigh on real disposable income in 2007. However, households are expected to bring forward some purchases of durable consumer goods in anticipation of the VAT increase. As a result, private consumption is projected to strongly increase in 2006 and to slightly fall in the next year. Correspondingly, the household savings rate is forecast to decrease significantly in 2006 and to remain at a lower level in 2007.

Similarly, the carry-forward effect for housing investment should be substantial, with an equally strong negative echo effect in 2007. Consequently, gross fixed capital formation will receive a boost in the current year before subsiding in 2007.

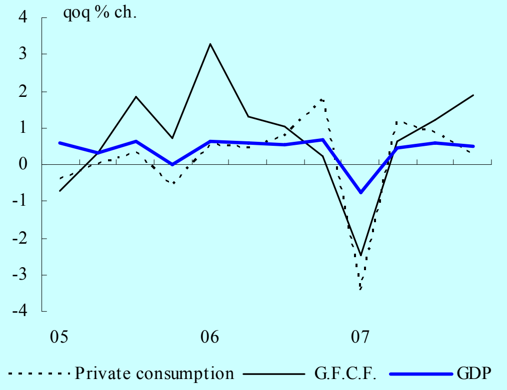
Labour market, costs and prices

The situation on the labour market is finally improving, as job losses, in particular for jobs subject to social security contributions, are bottoming out. While in the current year employment gains are

Graph 3.4: **Germany - Hard and soft indicators**



Graph 3.5: **Germany - Real GDP growth, GFCF and private consumption**



expected to be large for part-time jobs, growth of full-time employment is projected to accelerate over the forecast period. Hence, unemployment will further recede in 2006 and 2007.

More favourable developments on the labour market and solid company profits are prompting trade unions to demand higher wage increases after several years of wage restraint. Though effective pay will continue to increase by less than contractual wages, private sector wages and salaries are expected to increase in 2006 and 2007. Nevertheless, unit labour costs are expected to further decline up to the forecast horizon, as productivity growth will again outpace the increase in compensation per employee in 2006 and employers' contributions to unemployment insurance will be lowered as from 2007. Developments in external competitiveness will thus remain favourable.

As a result of the temporary boost to domestic demand, imports are forecast to increase strongly in 2006 and the contribution to growth of external trade is expected to temporarily turn negative. In the next year, the external surplus will widen again and significantly contribute to overall GDP growth.

With wage increases remaining moderate and the effects of the surge in oil prices fading, inflationary pressures should slacken in the rest of this year. In 2007 HICP inflation will be driven by the 3 percentage point increase in the standard VAT rate, of which two thirds is expected to be passed through to consumer prices.

Public finances

The general government deficit edged down to 3.3% of GDP in 2005, from 3.7% in 2004, the decrease being driven by structural developments as the deficit in cyclically-adjusted terms was reduced from 3.4% of GDP to 3.0%. Tax revenues increased by 2.1%. In particular, direct taxes showed strong growth despite the final stage of tax cuts passed in 2000, which provided considerably less relief for households than projected. Indirect taxes yielded stronger revenues than implied by tax base developments, reflecting strong growth of local taxes. Subsidy repayments by several *Landesbanken* and the introduction of the road toll for lorries added to revenues.

General government expenditure increased by 1.1% in nominal terms in 2005, resulting in a slight fall in the expenditure share in GDP. The public wage bill was contained by wage restraint and by personnel reduction. Pension outlays have grown less than GDP, as pensions are indexed to wage developments with a lag, although the number of beneficiaries is rising. A government decision prevented cuts in nominal per capita benefits, which would have followed from the adjustment mechanism in force. As a result, the liquidity fund of the pension system has been further depleted. The dampening effect of the 2004 health care reform abated in 2005; health care expenditure increased by 3.1% in 2005, after decreasing by the same percentage in the previous year.

Payments from the unemployment insurance decreased significantly in 2005. Although the unemployment rate according to the Eurostat definition remained constant, the number of benefit recipients declined, since some were transferred into the new system of social assistance and others moved into subsidised self-employment. Moreover, active labour market policies were reduced. The new system of social assistance ("Hartz IV") did not deliver the budgetary savings expected by the government, since problems in design and administrative frictions during the transition period resulted in more recipients than expected.

In 2006, the general government deficit is expected to decline to 3.1% of GDP, largely owing to improved cyclical conditions, while the cyclically-adjusted deficit is expected to remain broadly constant. Revenues are projected to increase by 1.3%. Newly introduced measures widen some direct tax allowances and cut back others. For example, depreciation rules on non-fixed capital are made more generous and some household services are being granted tax-favourable treatment. In contrast, loopholes on tax-saving investment funds are removed. Regarding indirect taxes, the method of tax collection from small businesses is changed, resulting in tax losses in 2006. Overall, the fiscal effects of these measures tend to cancel out. However, indirect tax revenues will be boosted, as taxable consumption is brought forward from 2007. Companies have to carry forward their monthly social contributions from the middle of the following month to the end of the month when the payment is due. This will lead to thirteen instead of twelve payments in 2006, providing temporary cash relief until 2007. This is budget neutral in ESA95 accrual accounting rules, so that the social security system would record deficits in 2006 and 2007. The 2005 Bundesbank profit adds revenues to the amount of 0.1% of GDP in 2006.

General government expenditure is projected to grow by 0.8% in 2006, resulting in a reduction in the expenditure share in GDP by 0.5 of a percentage point compared with 2005. Active labour market policies are being stepped up, while tightening means-testing for social benefit recipients. New subsidies and additional spending on road and rail road infrastructure will add to expenditure. The abolition of the subsidy on owner-occupied housing will make a growing contribution to consolidation. Pension expenditure will rise only slightly. The public sector wage agreements continue to contribute substantially to consolidation in 2006 and 2007.

In 2007, the general government deficit, projected at 2.5% of GDP, would fall well below the Treaty reference value. The increase in the central VAT rate from 16% to 19% should add almost 1% of GDP to revenues. On the other hand, the government has adopted legislation to lower the contribution rate to the unemployment insurance from 6.5% to 4.5% and intends to increase the pension contribution rate from 19.5% to 19.9%, which might not be sufficient to keep the pension system in balance. Under current legislation, public health insurers are projected to increase contribution rates by ½ a percentage point. Overall, the revenue share in GDP is expected to remain broadly constant compared with 2006. The expenditure share should decline by ½ a percentage point or more, reflecting public sector wage restraint and reductions in labour-market-related spending.

With low nominal GDP growth, the public debt ratio is projected to increase from 67.7% of GDP in 2005 to 69.2% in 2007, despite dampening effects expected from the above-mentioned cash relief in the social systems and from privatisations.

Table 3.4

Main features of country forecast - GERMANY

	2004		Annual percentage change						
bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices	2215.7	100.0	2.2	0.1	-0.2	1.6	0.9	1.7	1.0
Private consumption	1312.5	59.2	2.1	-0.5	0.1	0.6	0.0	1.2	-0.3
Public consumption	412.8	18.6	1.6	1.4	0.1	-1.6	0.1	0.3	0.1
Gross fixed capital formation	384.9	17.4	1.6	-6.1	-0.8	-0.2	-0.2	6.1	-0.5
of which : equipment	149.4	6.7	2.5	-7.5	-0.2	2.6	4.0	6.7	4.7
Exports (goods and services)	842.8	38.0	6.0	4.2	2.4	9.3	6.3	6.6	6.5
Final demand	2949.0	133.1	2.7	-0.3	1.1	2.9	2.0	3.2	1.9
Imports (goods and services)	733.4	33.1	5.0	-1.4	5.1	7.0	5.3	7.7	4.3
GNI at previous year prices (GDP deflator)	2216	100.0	2.1	-0.1	0.2	2.4	1.0	1.8	1.1
Contribution to GDP growth : Domestic demand			1.8	-1.3	0.0	0.0	0.0	1.8	-0.3
Stockbuilding			-0.1	-0.6	0.6	0.5	0.3	-0.1	0.1
Foreign balance			0.4	1.9	-0.7	1.1	0.6	-0.1	1.1
Employment			0.7	-0.6	-1.0	0.4	-0.2	0.3	0.3
Unemployment (a)			6.9	8.2	9.0	9.5	9.5	9.4	9.2
Compensation of employees/head			3.7	2.0	2.4	1.4	0.2	0.2	-0.2
Unit labour costs			2.2	1.3	1.6	0.1	-0.9	-1.2	-0.9
Real unit labour costs			0.0	-0.1	0.6	-0.6	-1.4	-1.6	-2.0
Savings rate of households (b)			-	-	16.0	16.1	16.2	15.9	16.0
GDP deflator			2.2	1.5	1.0	0.8	0.5	0.4	1.1
Private consumption deflator			2.2	1.2	1.5	1.4	1.3	1.4	2.0
Harmonised index of consumer prices			-	1.4	1.0	1.8	1.9	1.7	2.3
Trade balance (c)			3.7	6.4	6.1	7.0	7.1	6.3	7.0
Current account balance (c)			0.7	2.2	2.1	3.7	3.9	3.3	4.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			0.6	2.2	2.1	3.7	3.9	3.2	4.1
General government balance (c)(d)			-2.2	-3.7	-4.0	-3.7	-3.3	-3.1	-2.5
Cyclically-adjusted budget balance (c)(d)			-2.0	-3.7	-3.4	-3.4	-3.0	-3.0	-2.3
General government gross debt (c)			47.0	60.3	63.8	65.5	67.7	68.9	69.2

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

5. Estonia

Buoyant activity, but risk of overheating remaining contained

Activity in 2005

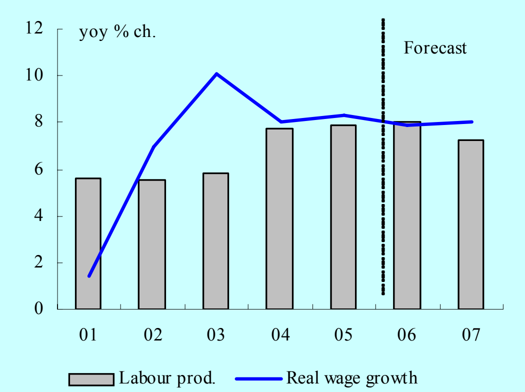
According to preliminary national accounts data, real GDP growth rose to a high 9.8% in 2005. The quarterly profile of y-o-y growth rates shows a strong acceleration over the year. While export growth expanded by more than 20% in real terms, imports remained below that growth rate, and thus the net export contribution was positive in 2005, a development which supported a distinct improvement on the trade balance. Private consumption expanded strongly, too, fuelled by significant increases in households' disposable income. However, investment grew fastest among the domestic demand components, at above 13 %. Construction benefited in particular from a housing boom driven by lively credit expansion.

Although foreign trade data remain somewhat unreliable following several methodological revisions since EU accession, they suggest a trend reversal in the sizeable external imbalance: the external account deficit for 2005 turned out at below 10% of GDP, and the current account deficit at around 10 ½% of GDP which constitutes a two percentage points improvement as compared with 2004. The improvement occurred primarily on the trade of goods balance, while the services surplus declined.

Prospects for 2006 and 2007

The economy is projected to remain on a firm growth path over the forecast period. While 2006 will benefit from a strong carry-over effect, data on trade and industrial production indicate some deceleration. Also price developments in the real estate sector suggest some cooling of demand since early 2006. Thus, annual growth in 2006-2007 is expected at around 8-9%, converging towards potential output at the end of the forecast period.

Graph 3.6: **Estonia -Real wage growth and productivity**



Final domestic demand is expected to continue to drive growth, primarily led by investment, with housing construction still increasing strongly. Private consumption is also expected to remain robust, due to a healthy combination of employment growth, continued whitening of some parts of the grey economy and substantial real wage gains. The competitive cost advantage and rapidly growing productivity gains will continue to boost export growth. Net exports are projected to provide a positive contribution to growth also in 2006, despite deteriorating terms of trade caused primarily by higher energy import prices. However, in 2007 the export contribution to growth is projected to turn negative again, with private consumption expenditure driving imports.

Throughout the forecast period, the external account deficit is expected to narrow steadily to less than 8% of GDP. Further improvements on the trade balance are projected to be supported by public sector savings.

Labour market, costs and prices

Strong economic growth has contributed to significant employment growth and a marked reduction of unemployment last year. In line with the projected expansion of construction output and continued dynamic growth in the service sector (in particular tourism), employment gains are likely to continue in 2006 and 2007, albeit at a slower pace. Labour force growth, after taking account of significant outward migration (chiefly towards the 'old' EU Member States) and negative demographic trends, is projected to remain sluggish. As a result, the unemployment rate is estimated to decrease further, as could be observed during the first quarter of 2006. Active employment measures have started to mitigate regional disparities.

Given the flexibility of the Estonian labour market, and the virtual absence of automatic wage indexation, wages are estimated to grow broadly in line or slightly below productivity increases which are expected to remain high both in 2006 and 2007. A continuation of cuts in personal income tax rates at one percentage point per year over the forecast period, and a one-off cut in the unemployment insurance contribution rate in 2006 will allow net wages to grow more rapidly than gross wages, an effect also observed in recent years. The risk to this outlook lies primarily with the rapid tightening of the labour market, which could increase wage pressures.

Annual HICP inflation increased from 3% in 2004 to 4.1 % in 2005, reflecting base effects from EU-accession-related price rises (notably for fuel and food) in the first half of 2005 and strong energy price increases in the second half of the year. Inflation eased to 3½ % in late 2005 as the oil price increase abated, but picked up again to 4.4 % in the first quarter of 2006 reflecting a renewed rise of oil and heat energy prices. Core inflation remained at considerably more moderate levels, suggesting the absence of significant second-round effects from the oil price hike. A postponement of excise duty increases is expected to alleviate inflation. The forecast projects a gradual deceleration of inflation in 2006 and 2007, with the headline rate settling at around 3% next year. This outlook strongly depends on energy price as well as exchange rate developments, while an increase of inflationary pressures due to high economic growth and a tightening labour market remains a potential risk.

Public finances

Estonia's public finances are among the strongest in the EU. The budgetary situation is forecast to remain comfortable over the forecast period, with general government surpluses hovering around 1 – 1 ½% of GDP despite further income tax cuts and the recently announced postponement of planned increases to a number of excise duties, namely on tobacco, alcohol and fuel.

Government debt, already the lowest among EU Member States, is forecast to decline further to around 3% of GDP by the end of 2007.

Table 3.5

Main features of country forecast - ESTONIA

		2004		Annual percentage change						
	bn EEK	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		141.5	100.0	5.5	7.2	6.7	7.8	9.8	8.9	7.9
Private consumption		79.2	56.0	6.3	10.7	7.6	4.4	8.2	7.7	7.2
Public consumption		26.9	19.0	2.5	6.2	5.9	6.9	7.5	6.6	6.3
Gross fixed capital formation		40.2	28.4	8.1	17.2	8.5	6.0	13.9	9.5	8.0
of which : equipment		19.5	13.8	-	-	-	-	13.9	9.5	8.0
Exports (goods and services)		111.0	78.4	10.6	0.8	5.8	16.0	21.3	12.5	12.1
Final demand		261.3	184.7	7.9	7.4	6.9	9.6	14.6	10.1	10.0
Imports (goods and services)		121.8	86.1	10.9	3.8	10.6	14.6	17.4	11.2	12.0
GNI at constant prices (GDP deflator)		132.3	93.5	5.0	7.4	5.4	7.0	11.3	9.6	9.0
Contribution to GDP growth :	Domestic demand			5.9	8.7	10.9	8.4	10.3	8.5	7.6
	Stockbuilding			0.4	1.2	0.3	-0.1	0.1	0.2	1.1
	Foreign balance			-0.7	-2.6	-4.6	-0.6	1.3	0.3	-0.8
Employment				-2.5	1.6	0.8	0.1	1.8	0.8	0.6
Unemployment (a)				10.7	10.3	10.0	9.7	7.9	7.0	6.3
Compensation of employees/head				18.8	10.3	10.9	10.8	12.0	11.7	11.1
Unit labour costs				9.7	4.5	4.7	2.8	3.8	3.4	3.6
Real unit labour costs				-2.5	0.1	2.6	-0.2	-2.2	-0.3	0.5
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				12.5	4.4	2.1	3.1	6.2	3.7	3.1
Private consumption deflator				11.4	3.2	0.7	2.6	3.4	3.6	2.9
Harmonised index of consumer prices				-	3.6	1.4	3.0	4.1	3.6	2.9
Trade balance (c)				-17.8	-15.4	-16.9	-17.5	-14.0	-13.9	-14.5
Current account balance (c)				-6.9	-10.2	-11.9	-12.7	-10.6	-9.8	-9.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-8.0	-12.1	-13.0	-10.5	-9.5	-8.5	-7.5
General government balance (c)(d)				-0.6	1.0	2.4	1.5	1.6	1.4	0.8
Cyclically-adjusted budget balance (c)(d)				0.5	1.2	2.5	1.8	1.5	1.1	0.5
General government gross debt (c)				-	5.5	6.0	5.4	4.8	3.6	3.0

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

6. Greece

Strong economic activity fuels large external imbalances

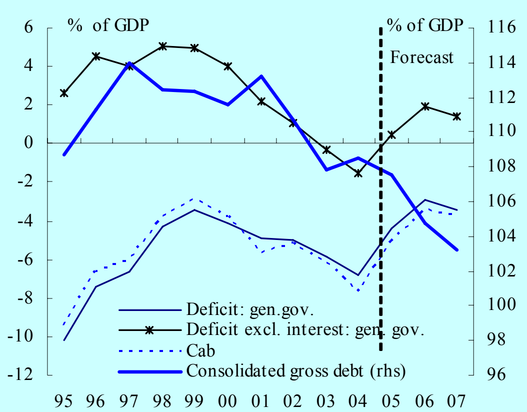
Activity in 2005

After two years of strong economic activity, 2005 brought a slowdown of real GDP growth, to 3.6%. Although the planned fiscal consolidation and the petering out of the 'Olympic bonus' has weighed on growth prospects, this outcome is slightly better than was expected last autumn. The economic slowdown originated in a deceleration of the domestic sector, while, after several years of negative contributions, net exports added to growth. In line with the less buoyant growth recorded in real disposable income, private consumption decelerated, while the strong fall recorded by public infrastructure expenditure in nominal terms led to a contraction of investment of about 1%. In spite of fiscal consolidation efforts, public consumption actually grew above 3%. The positive contribution of the external sector to growth does not reflect prosperous exports, but rather a contraction of imports. Exports of goods grew at above 8% and led to an almost 1 percentage point external sector contribution to growth, in spite of stagnation in exports of services, specially shipping. In line with the economic slowdown, employment decelerated, while inflation accelerated, fuelled by higher energy prices and still strong wage increases, thus further widening the differential with the euro-area average.

Prospects for 2006 and 2007

While the Greek economy is projected to decelerate marginally over the forecast horizon, significant changes in growth composition are expected. In particular, economic activity will be almost exclusively demand-driven. GDP should grow at 3½% in 2006 (slightly less in 2007). The combination of moderate wage and employment growth, leading to lower disposable income growth, and higher oil prices should slow down private consumption. However, consumption will still grow above income, gradually lowering the households' saving rate. Moreover, households' net borrowing will rise, as housing investment is increasing. In parallel, public consumption should not increase in 2006. Total investment will rebound, thanks to the recovery of public infrastructure investment, while the new incentive laws, aiming at promoting investments, and the corporate tax reform should support private investment. In spite of this, higher profits will contribute to improve the corporate sector's balance sheets. All in all, domestic demand is projected to contribute around 3½ percentage points to growth in 2006 and 3¾ in 2007. The external sector is projected to be growth-neutral in 2006, while contributing negatively by the end of the forecast period. Imports are expected to return to growth rates of about 5%. Although projected to grow at around a healthy 7% over the forecast period, exports of goods are not expected to keep pace with world trade. However, after the strong correction last year, exports of services should return to growth rates much more in line with long-run trends over the forecasting period. Also helped by an upward trend in tourism. As a result, the external deficit is projected to fall by more than 1 percentage point, to below 6½% of GDP by 2007.

Graph 3.7: **Greece - Net lending & consolidated gross debt**



Labour market, costs and prices

Consistent with decelerating but still robust GDP growth, employment[1] is projected to grow above 1% per year until 2007. The unemployment rate should accordingly decrease by 1 percentage point to just below 10% by the end of the forecast period. Wages per head are set to rise more in 2006 and less in 2007 compared to last year. However, since productivity is expected to remain stable, wage moderation should not result in a significant deceleration of unit labour costs; rather, they should increase above the euro-area average. Such wage developments, coupled with sustained domestic demand and higher energy prices, should fuel inflation, which would remain above 3¼% over the forecast period. As a result, real unit labour costs should continue on an upward trend until 2007.

Public finances

The government deficit in 2005 was 4.5% of GDP[2]. This is ¾% of GDP above the autumn 2005 forecast, which included one-off revenues from an announced securitisation operation worth 0.8% of GDP, which did not in the end take place. The 2005 deficit outcome is an improvement on 2004's figure of above 2¼% of GDP in nominal terms. In structural terms, the deficit improved from 7¾% of GDP in 2004 to 5¼% last year. The 2006 deficit is projected to decline further to just below 3% of GDP (the table shows it as 3% due to rounding). The forecast includes half of the 0.6% of GDP temporary one-off operations planned in the budget as a result of the need for clarification on the accounting treatment. However, the government has recently released a permanent measure amounting to 0.1% of GDP and a temporary measure amounting to ¼% of GDP that are included in the forecast. In structural terms, the adjustment is expenditure-driven. Specifically, the measures to improve tax administration, coupled with the broadening of tax bases brought about by the fight against tax fraud and evasion, should raise revenues by less than ¼% of GDP. In parallel, expenditure will fall by ¾% of GDP, less than half of which is accounted for by the control of primary current spending. Overall, the structural deficit is projected to improve by around 1% of GDP in 2006. Assuming unchanged legislation, the deficit projection for 2007 will be around 3½% of GDP, which shows that structural measures will be necessary to keep the deficit below 3% in a durable manner. Finally, at 107.5% of GDP in 2005, the general government debt is projected to decrease only slightly by 2007.

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[1] Changes were applied to the Labour Force Survey in 2004.

[2] Despite the recent improvement in the statistical processes and good co-operation between Eurostat and the Greek national authorities, issues remain related to the Greek government accounts of a structural and systemic nature.

Table 3.6

Main features of country forecast - GREECE

		2004		Annual percentage change						
		bn Euro Curr. prices	**% GDP**	**81-01**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
GDP at constant prices		168.4	100.0	1.7	3.8	4.8	4.7	3.6	3.5	3.4
Private consumption		113.0	67.1	2.3	3.6	4.5	4.7	3.7	3.1	3.0
Public consumption		27.9	16.6	1.8	7.4	-2.0	2.8	3.1	0.4	3.1
Gross fixed capital formation		42.4	25.2	1.6	5.7	13.7	5.7	-1.2	4.6	4.7
of which : equipment		16.7	9.9	6.2	6.8	18.3	8.2	0.5	7.4	6.1
Exports (goods and services)		35.1	20.8	4.4	-7.7	1.0	11.7	2.3	6.3	5.8
Final demand		218.4	129.7	2.4	2.5	4.7	5.7	2.5	3.7	3.8
Imports (goods and services)		50.0	29.7	5.8	-1.4	4.5	9.3	-1.2	4.4	5.0
GNI at constant prices (GDP deflator)		167.1	99.2	1.4	3.8	4.4	5.0	2.5	4.6	3.4
Contribution to GDP growth :	Domestic demand			2.2	5.1	5.9	5.1	2.7	3.4	3.7
	Stockbuilding			0.0	0.1	0.0	0.0	0.0	0.1	-0.1
	Foreign balance			-0.5	-1.4	-1.2	-0.4	0.9	0.0	-0.3
Employment				0.8	0.1	1.3	2.9	1.4	1.3	1.3
Unemployment (a)				8.1	10.3	9.7	10.5	9.8	9.5	9.1
Compensation of employees/head				14.3	10.0	4.6	5.8	6.1	5.9	5.0
Unit labour costs				13.2	6.0	1.2	4.0	3.8	3.6	2.9
Real unit labour costs				-0.6	2.1	-2.2	0.6	0.0	0.6	-0.1
Savings rate of households (b)				-	-	6.7	7.3	6.8	4.9	3.5
GDP deflator				13.9	3.8	3.5	3.4	3.7	3.0	3.0
Private consumption deflator				13.6	2.5	2.8	2.5	3.7	3.2	3.2
Harmonised index of consumer prices				-	3.9	3.4	3.0	3.5	3.3	3.3
Trade balance (c)				-12.3	-16.3	-16.7	-17.7	-16.2	-16.2	-16.5
Current account balance (c)				-2.1	-9.7	-10.0	-9.5	-9.2	-7.8	-7.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-8.6	-8.6	-7.7	-7.7	-6.4	-6.4
General government balance (c)(d)				-9.1	-4.9	-5.8	-6.9	-4.5	-3.0	-3.6
Cyclically-adjusted budget balance (c)(d)				-8.6	-5.0	-6.2	-7.7	-5.3	-3.8	-4.4
General government gross debt (c)				81.5	110.7	107.8	108.5	107.5	105.0	102.1

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

7. Spain

Cooling at home, worsening external deficit

Activity in 2005

GDP growth increased in 2005 to 3½%, from just above 3% in 2004. Economic activity was underpinned by dynamic domestic demand, while net exports continued to contribute negatively to growth. Private consumption remained robust, supported by strong job creation and easy monetary and financial conditions, and grew above real disposable income, thus further lowering the households' saving rate to 10½% in 2005, from 11% in 2004. Easy monetary and financial conditions were also largely behind the recorded acceleration in household investment in dwellings, pushing indebtedness close to 115% of disposable income. This has increased households' exposure to interest rates and employment shocks. Investment in equipment also remained robust. Although government consumption decelerated, domestic demand contributed around 5½ percentage points to growth in 2005.

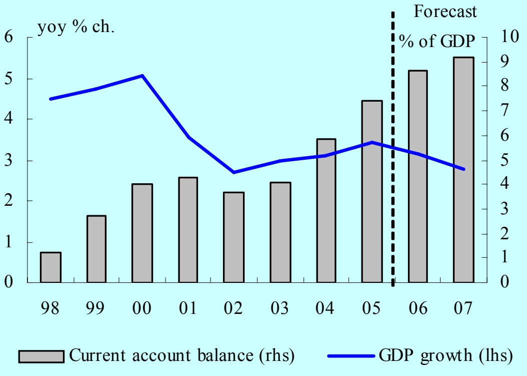
The external sector recorded large imbalances again. In 2005, its negative contribution to growth was close to 2 pps. Imports grew at 7% in real terms, while exports presented a rather flat profile, rising by a meagre 1%. In particular, the trade deficit increased by more than 1 pp of GDP to reach 7½%. Widening external imbalances mirror the continuous deterioration of the competitive position of the Spanish economy, associated with high and persistent inflation and productivity-growth differentials with the euro area. HICP rose to just below 3½%, while productivity grew marginally (<¼%), which compares with 2¼% and ½%, respectively, in the euro area.

Prospects for 2006 and 2007

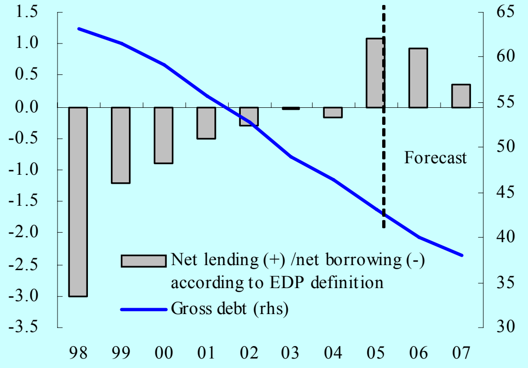
In 2006, GDP growth is projected to slightly fall, to 3.1%. Economic activity should still be based on buoyant domestic demand, as, in spite of higher interest rate expectations, higher inflation is projected to keep real interest rates in the red, which, in turn, should push private consumption to grow above disposable income. As a result, the households' saving rate should continue on a decreasing path, declining to just above 9½%. In parallel, household debt should rise to around 120% of annual gross disposable income. Investment is projected to remain robust, especially in equipment and software, whereas residential construction growth is expected to moderate. Overall, domestic demand is projected to contribute 4½ percentage points to GDP growth this year.

In spite of the slowdown projected for domestic demand, imports are expected to decelerate only marginally since the worsening of the competitive position of the Spanish industry should also affect the domestic market. Although export growth should increase to around 2% this year, compared with 1% in 2005, deteriorating external competitiveness should keep exports growing well below world trade, thus further reducing export market shares. This projection takes account of potentially better prospects in the automotive sector, underpinned by the launch of new models by several car manufacturers. Overall, the negative contribution from net exports to GDP growth is projected to be close to 1¼ percentage points, while the trade deficit should continue to widen to slightly

Graph 3.8: **Spain - Real GDP growth and current account deficit**



Graph 3.9: **Spain - General government accounts (% of GDP)**



below 8½% of GDP.

GDP is projected to further slow down in 2007. Higher interest rate expectations should at last lead to positive interest rates in real terms, further decelerating private consumption and putting a brake on investment in dwellings. The latter should lead to a slight deceleration of gross fixed capital formation. The projected stagnation of residential construction (although at a very high activity level), should be largely offset by stronger activity in infrastructure, as well as in investment in equipment and software. In parallel, the households' saving rate, with gross disposable income growing at a similar pace as private consumption, should at last remain stable at around 9½% of disposable income, putting an end to a decreasing saving ratio since 2003. Overall, domestic demand would still contribute to GDP growth by around 3¾ percentage points.

The projected deceleration of domestic demand should further moderate import growth. However, since no significant improvements are expected in terms of productivity growth and inflation differentials between Spain and its main trade partners, exports are expected to grow by only 2¼%, thus leading to further losses of export market shares. The trade deficit might peak at 9% of GDP. Overall, the negative contribution to GDP growth from the external sector should decrease to 1 percentage point.

The evolution of the external accounts in 2006 and 2007 deserves special attention. In spite of a rebound in 2005, declining net tourism inflows are expected to further narrow the surplus recorded by services. Regarding the balance of primary incomes, the projected rising deficit reflects payments stemming from the large cumulated debt of the country vis-à-vis its foreign lenders. The deficit in the balance of current transfers should increase, partially as a result of larger remittances abroad by migrants. The surplus of services is projected to just offset the aggregate deficits in the primary income and current transfers accounts. Consequently, the current account deficit mirrors the trade deficit and is expected to rise to 9% of GDP at the end of the forecast period. The net borrowing position vis-à-vis the rest of the world is projected to reach 8¾% of GDP in 2007, on account of the expected reduction of EU transfers by the end of the forecasting period. Since there is no evidence to support a rebound in foreign direct investment inflows, portfolio investments should continue to represent the main source of financing for the external deficit in Spain.

There are risks to this scenario. In particular, export growth depends on a recovery of the automotive sector, which, if it fails to materialise, could weigh negatively on growth. Additionally, some of the current developments, namely, higher household indebtedness, low productivity growth, persistent inflation differentials with the euro area and wider external imbalances, are risks for internal demand growth. However, neither soft nor hard data appear to support a sudden slowdown of economic activity.

Labour market, costs and prices

Job creation is projected to remain robust over the forecast period. In 2005, employment grew slightly above 3% (full time equivalent). The regularisation of immigrants carried out by the government during the first half of the year partially explains the employment boom. In 2006 and 2007, however, job creation should decelerate to about 2¾% and 2¼% respectively, in line with slower economic activity, especially in residential construction, which accounts for a significant part of the new jobs created in Spain in the recent past. The unemployment rate should continue to fall over the forecast period, to around 8¼% of the labour force by 2007.

Following the oil price hike in the first and second quarters of 2005, headline inflation, measured by the HICP, almost reached 3½% at the end of the year, while core inflation remained around 2%. Since the increase in energy prices is expected to also have a significant impact this year, inflation is projected to remain at 3½% in 2006 and gradually ease to slightly above 3% in 2007. Structural factors such as insufficient competition in certain utilities and services sectors, coupled with remaining rigidities in the labour market, are expected to keep the inflation differential with the euro area well above 1 percentage point over the forecasting horizon. Compensation of employees per head is projected to grow above 3% until the end of the forecast period. Although the existing wage agreements should push wage inflation up, new employees entering the labour market with relatively low salaries should partially ease the pressure. As a result, wages are projected to grow by around 3½% in nominal terms. Therefore, real wages should stagnate. In any case, wages are still expected to grow above the euro-area average, thus mirroring the high and persistent inflation differential. Low productivity growth should result in unit labour costs also growing above the euro-area average.

Public finances

In 2005, the general government registered a surplus above 1% of GDP. In 2006, a surplus of around 1% of GDP is projected. This is in line with the updated 2005 Stability Programme but well above the 2006 Budget Law, which targeted a general government surplus of less than ¼% of GDP. The Budget Law is based on underestimated revenues for 2005 with carry-over effects in 2006. Revenues in 2006 should grow at around 7½%, thus matching nominal GDP growth. Regarding central government expenditure, the 2006 Budget Law gives priority to R&D and infrastructure expenditure, which are projected to grow in nominal terms by around 30% and 12% respectively. Overall, total expenditures are projected to increase by around 7¾%, somewhat above nominal GDP.

In 2007, within the framework of the customary no-policy-change scenario, government revenues are projected to grow at around 5¾%, slightly below nominal GDP, although this figure includes the potential effects of the direct taxation reform that has been enacted. Total expenditure is assumed to follow previous trends and increase at around 7%. On this basis, the general government surplus could narrow to around ½% of a percentage point of GDP.

Due to primary surpluses in the vicinity of 2%, the debt-to-GDP ratio is projected to continue on a declining path, from 43% of GDP in 2005 to 38% in 2007.

Table 3.7

Main features of country forecast - SPAIN

		2004			Annual percentage change					
	bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices		837.3	100.0	2.9	2.7	3.0	3.1	3.4	3.1	2.8
Private consumption		483.2	57.7	2.6	2.9	2.6	4.4	4.4	3.7	3.1
Public consumption		148.9	17.8	4.1	4.5	4.8	6.0	4.5	4.3	4.1
Gross fixed capital formation		233.6	27.9	4.3	3.3	5.6	4.9	7.2	5.3	4.1
of which : equipment		56.2	6.7	4.6	-2.9	2.5	3.7	9.5	7.9	7.0
Exports (goods and services)		216.9	25.9	7.5	1.8	3.6	3.3	1.0	2.0	2.3
Final demand		1085.7	129.7	3.8	3.0	3.7	4.5	4.3	3.8	3.3
Imports (goods and services)		248.4	29.7	8.9	3.9	6.0	9.3	7.1	6.0	4.9
GNI at previous year prices (GDP deflator)		824	98.4	2.9	2.8	3.1	2.9	3.4	3.1	2.8
Contribution to GDP growth :	Domestic demand			3.2	3.3	3.8	4.9	5.3	4.5	3.8
	Stockbuilding			0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Foreign balance			-0.2	-0.7	-0.8	-1.8	-1.9	-1.3	-1.0
Employment				1.4	2.4	2.5	2.6	3.1	2.7	2.2
Unemployment (a)				15.4	11.1	11.1	10.6	9.2	8.7	8.3
Compensation of employees/head				7.4	3.3	3.4	3.3	2.5	3.3	3.2
Unit labour costs				5.9	3.0	2.9	2.8	2.2	2.8	2.6
Real unit labour costs				-0.7	-1.4	-1.0	-1.2	-2.2	-1.3	-0.9
Savings rate of households (b)				-	-	12.0	11.0	10.4	9.6	9.6
GDP deflator				6.6	4.4	4.0	4.1	4.4	4.2	3.6
Private consumption deflator				6.5	2.9	2.8	3.4	3.5	3.6	3.2
Harmonised index of consumer prices				-	3.6	3.1	3.1	3.4	3.6	3.1
Trade balance (c)				-4.2	-5.0	-5.1	-6.3	-7.5	-8.5	-9.1
Current account balance (c)				-1.6	-3.7	-4.1	-5.8	-7.4	-8.7	-9.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.1	-2.6	-3.0	-4.8	-6.5	-8.0	-8.8
General government balance (c)(d)				-4.1	-0.3	0.0	-0.1	1.1	0.9	0.4
Cyclically-adjusted budget balance (c)(d)				-3.5	-0.8	-0.2	0.0	1.3	1.3	1.0
General government gross debt (c)				47.7	52.5	48.9	46.4	43.2	40.0	37.9

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

8. France

Growth strengthening and becoming more balanced

Activity in 2005

In 2005, economic growth lost momentum and GDP grew by only 1.4% in real terms, compared with 2.1% in 2004. For the second consecutive year, net exports negatively contributed to GDP growth by about 1 percentage point.

Despite a strong expansion of external demand, real export growth remained subdued, while imports rose markedly (+6.6%), in response to the robustness of final demand. France could not fully take advantage of the expansion of world trade because its export markets expanded more slowly and its competitiveness deteriorated. Contrary to what was observed in the euro area as a whole, GDP growth was therefore still exclusively driven by domestic demand and especially by private consumption, which both increased by 2.1%. Private consumption remained supported by buoyant wage increases and favourable monetary and financial conditions. The gradual harmonisation of the minimum wage, implemented from 2003 onwards in the context of the reduction of the working week to 35 hours, still supported wages in 2005, but this process is now complete. Inflation was fairly moderate despite the surge in oil prices and also contributed to supporting households' purchasing power, while employment growth was disappointing (+0.2%). In a macroeconomic context still characterised by uncertainties, firms remained cautious with respect to their hiring and investment plans. Nevertheless, boosted by favourable financial conditions, residential construction accelerated in 2004.

Prospects for 2006 and 2007

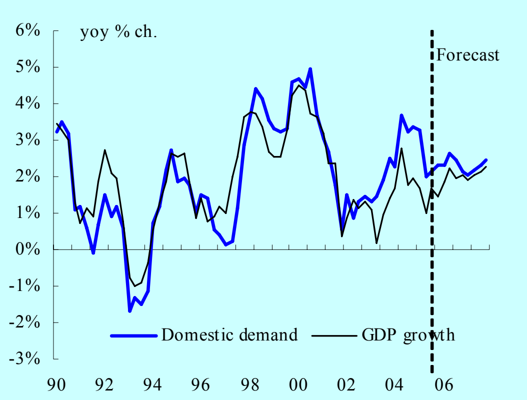
Real GDP growth is expected to accelerate somewhat in 2006 to return to its potential in 2007. Economic activity should be more balanced: although GDP growth is expected to still be largely driven by domestic demand, over the forecast period the contribution of net exports to GDP growth should be less negative and turn neutral by the end of 2007.

Private consumption is forecast to remain the main driving force of economic growth, based on an expected recovery in employment. Consumption will increase in line with households' disposable income, reflecting the expected rise in the demand for labour. The projected benign inflation outlook should also support households' purchasing power. Moreover, consumer spending would be supported by a still quite strong housing market.

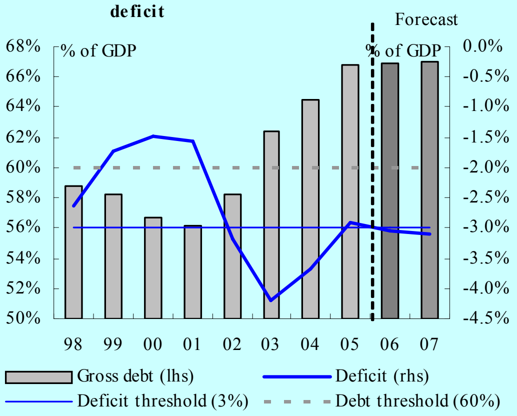
Investment in equipment is expected to slightly decelerate in 2006 due to a continued deterioration of corporate margins and a capacity utilisation which remains below its long-term average. In 2007, this tendency is likely to be reversed due to a more positive economic outlook, continuing supportive financing conditions and the retention of lower tax rates on new capital expenditure. In contrast, investment in construction is forecast to remain buoyant over the forecast period, thanks to historically favourable mortgage financing conditions.

After a loss in export market shares in 2005 for the third consecutive year, export volumes are projected to increase again more in line with the expansion of external demand in connection with the improvement

Graph 3.10: **France - GDP and domestic demand**



Graph 3.11: **France - General government gross debt and deficit**



in price competitiveness linked to the past depreciation of the euro and to a somewhat stronger impulse from France's main trading partners (notably Germany and Italy). In this context, and although imports are forecast to remain buoyant as a result of robust final demand, the negative contribution of net exports to GDP growth will diminish over time.

Labour markets, costs and prices

In 2005, employment growth barely reached 0.2%. Uncertainties concerning the durability of the recovery and the traditional lag with which employment reacts to economic activity largely explain the current weakness in employment growth. In 2006 and 2007, employment growth is set to gradually strengthen in response to better economic prospects over the forecast horizon. The recovery of employment should also be stimulated by the implementation of the "emergency employment plan" announced in June 2005 which aims at facilitating recruitment by small companies and encouraging people to return to work.

Given the still high unemployment rate, wage moderation is expected to continue. Nevertheless, a slight cyclical acceleration in wages is expected to occur over the forecast horizon, driven by the improvement of the situation in the labour market. As productivity growth is expected to decelerate from the high rate observed in 2004, unit labour costs should rise by 2% in 2006 and 2007. Coupled with some second-round and indirect effects from high commodity prices, core inflation is thus projected to pick up gradually. Nevertheless, since it is difficult for companies to fully pass the increase in commodity prices onto final customers due to strong competition from low-cost countries, the rise in prices of manufactured goods will be modest. Although growth is expected to be firmer, inflationary pressures should remain subdued due to the persistent negative output gap. In this context, HICP inflation should be slightly below 2% in 2006 and in 2007.

Public finances

Following a decline from 4.2% to 3.7% of GDP in 2004[1], the general government deficit was further reduced to 2.9% in 2005, mainly thanks to substantial one-off revenues for a total amount of 0.6% of GDP, in connection with the inclusion of the specific electricity and gas companies' pension schemes in the general regime (0.5% of GDP) and exceptional revenues from the December 2005 change in the corporate tax code which brought forward revenue initially planned to be collected in 2006 (0.1% of GDP). The budgetary outturn also benefited from stronger-than-expected tax receipts notably linked to the strong performance of housing and asset prices. The ratio of total revenues to GDP increased by 1.5 percentage point to 51.0% of GDP, while the tax burden rose by a full percentage point to 44.1% of GDP. On the expenditure side, targets were respected at the State level and for health-care expenditures; nevertheless total public expenditure overshot the official target, mainly due to slippages in local governments and other social security funds' expenditures. All in all, the expenditure-to-GDP ratio increased by 0.7 percentage point of GDP to 53.9%.

For 2006, the government deficit is expected to slightly increase to 3.0% of GDP. Expenditure growth is anticipated to slow down somewhat, mainly thanks to a deceleration in health-care expenditure and other social benefits. On the revenue side, notably the personal income tax, property tax and tax on interest earnings (especially due to a strong housing and stock exchange performance) should boost revenues. This should lead to an elasticity of tax revenues-to-GDP above the long-term average of one but somewhat lower than the high elasticity registered in 2005. This forecast incorporates new measures included in the budget for 2006 (notably increases in social contributions resulting from the implementation of the 2004 health-care reform, increases in local taxes, lower tax rates on new capital expenditure, an increase in the employment premium), which contribute to increase the tax burden to 44.2% of GDP. The forecast also incorporates one-off revenues of about ¼% of GDP in connection with the transfer to social security of pension commitments vis-à-vis the postal sector employees and the exceptional collection of social contributions on specific saving plans that were to be collected at a latter stage. The general government deficit forecast is slightly above that contained in the March 2006 French government notification (2.8% of GDP), mainly due to somewhat higher expenditures in the areas of health and local government. Concerning health-care expenditure, while the 2004 health-care reform has noticeably curbed expenditure, the expected dynamics (an annual increase in spending of 3.2% in 2006) are forecast to be somewhat higher than assumed by the government

(2.5%) based on a prudent assessment of some of the measures announced in the 2006 budget bill for social security. The Commission services' 2006 deficit forecast implies no change in the cyclical balance and a slight improvement in the structural balance (CAB net of one-offs).

The deficit forecast for 2007, 3.1% of GDP, follows the conventional assumption of unchanged policies. It thus takes only account of already decided measures such as (i) the income tax reform, (ii) the increase in the employment premium and in the income tax allowance for children, and (iii) lower tax rates on new capital expenditures, which will, altogether, negatively impact the deficit by about ¼% of GDP. Moreover, the forecast assumes a rebound in local investment linked to upcoming local elections in 2008 (as observed in the past). The implementation of the unchanged policy assumption implies that the forecast does not include the new expenditure rules and ceilings for the sub-sectors of the general government as announced in the 2006 update of the stability programme, and notably the new rule of a decrease in the State expenditure by 1% in volume terms (about -0.15% of GDP), as details are only expected to be presented by the Prime Minister in June.

Following an increase by 2.3% of GDP in 2005, the debt-to-GDP ratio would only slightly rise over the forecast horizon thanks to the allocation of privatisation receipts to debt reduction. In 2006, receipts are linked to the motorway companies' privatisation (EUR 11 bn) and for 2007 the forecast includes EUR 7.5 bn of receipts, i.e. the middle of the announced range presented in the 2006 update of the stability programme.

[1] In 2004 the deficit was reduced by 0.1% of GDP thanks to some advanced (one-off) payments made by EDF and Cogema (both government-owned companies) to the general government for the decommissioning of an old nuclear power plant.

Table 3.8

Main features of country forecast - FRANCE

	2004 bn Euro Curr. prices	2004 % GDP	81-01	2002	2003	2004	2005	2006	2007
			Annual percentage change						
GDP at previous year prices	1659.0	100.0	2.3	1.2	0.8	2.3	1.4	1.9	2.0
Private consumption	924.3	55.7	2.1	2.3	1.4	2.1	2.1	2.1	2.2
Public consumption	393.6	23.7	2.3	2.9	2.0	2.6	1.5	1.8	1.2
Gross fixed capital formation	316.0	19.0	2.5	-1.7	2.7	2.5	3.1	3.5	3.6
of which : equipment	88.6	5.3	5.2	-4.0	1.3	2.9	5.6	4.8	4.9
Exports (goods and services)	427.7	25.8	5.4	1.5	-1.7	3.1	3.2	5.1	5.3
Final demand	2083.3	125.6	2.8	1.3	0.8	3.2	2.5	2.9	2.9
Imports (goods and services)	423.8	25.5	4.9	1.7	0.7	6.9	6.6	6.0	5.6
GNI at previous year prices (GDP deflator)	1667.8	100.5	2.3	0.3	1.0	2.4	2.3	2.0	2.1
Contribution to GDP growth : Domestic demand			2.2	1.6	1.8	2.4	2.1	2.3	2.3
Stockbuilding			0.0	-0.3	-0.3	1.0	0.2	0.1	0.0
Foreign balance			0.1	0.0	-0.6	-0.9	-0.9	-0.3	-0.2
Employment			0.4	0.9	0.1	-0.1	0.2	0.4	0.6
Unemployment (a)			9.7	8.9	9.5	9.6	9.5	9.4	9.3
Compensation of employees/head			4.9	3.0	2.4	3.1	3.2	3.3	3.2
Unit labour costs			2.9	2.7	1.7	0.6	1.9	1.9	1.8
Real unit labour costs			-0.7	0.5	0.1	-1.0	0.6	0.3	-0.1
Savings rate of households (b)			-	-	15.7	15.1	14.9	14.7	14.6
GDP deflator			3.6	2.2	1.6	1.6	1.3	1.5	1.9
Private consumption deflator			3.7	1.0	1.4	1.7	1.2	1.8	1.8
Harmonised index of consumer prices			-	1.9	2.2	2.3	1.9	1.9	1.8
Trade balance (c)			-0.4	0.5	0.2	-0.4	-2.1	-2.6	-2.7
Current account balance (c)			-0.6	0.8	0.2	-0.7	-1.2	-1.7	-1.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-0.6	0.8	-0.3	-0.6	-1.0	-1.4	-1.3
General government balance (c)(d)			-2.8	-3.2	-4.2	-3.7	-2.9	-3.0	-3.1
Cyclically-adjusted budget balance (c)(d)			-2.5	-3.8	-4.1	-3.6	-2.5	-2.5	-2.5
General government gross debt (c)			41.5	58.2	62.4	64.4	66.8	66.9	67.0

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

9. Ireland

Strong growth fuelled by domestic demand

Activity in 2005

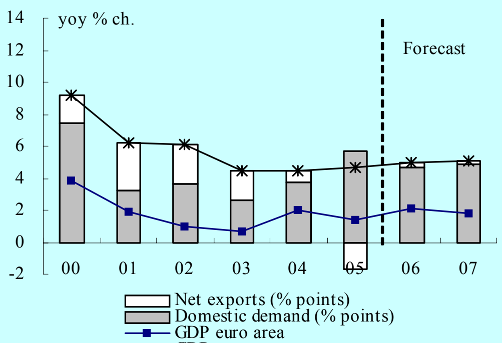
According to the preliminary national accounts, real GDP is estimated to have grown by 4.7% in 2005, slightly up from 4.5% in the previous year. In contrast to the recent past, economic activity in 2005 was driven by buoyant domestic demand while the external economy was a drag on growth. On the domestic side, private consumption growth picked up strongly from more muted levels in previous years, but the increase remained below the gains in real disposable income. Fixed investment is estimated to have expanded at a two-digit rate, mirroring exceptionally strong demand for equipment (inter alia including some one-off purchases of aircraft) and a buoyant construction sector. On the external side, exports posted a subdued performance by historical standards, reflecting a somewhat less favourable trading environment and a relatively weak performance of the chemical sector (in particular in the first half of the year). Imports strengthened in the course of the year in line with the pick-up of consumer demand and fixed capital formation.

Prospects for 2006 and 2007

GDP is projected to grow by around 5% in both 2006 and 2007, close to the rate commonly thought to be sustainable in the medium term. Domestic demand growth is expected to remain very solid. Private consumption is expected to accelerate further in 2006 and 2007, supported by healthy employment growth and notably by the release of SSIA funds (a government-sponsored saving scheme) into the economy. The growth of fixed investment is projected to moderate over the forecast period. Housing investment is forecast to taper off somewhat in 2007, as the high volumes of completions are not expected to be repeated. However, part of the downward correction in the residential sector is expected to be offset by strong infrastructure investment and commercial construction. On the external side, both merchandise and service exports are projected to put in a somewhat stronger performance than in 2005. Import growth is projected to pick up in 2006 and 2007, in line with the acceleration in private consumption expenditure. As net profit outflows are expected to remain on an upward trend, the implied growth rate of gross national income is somewhat lower than that of GDP.

While the most recent data suggest that robust growth of the Irish economy will continue, recent trends also reveal that growth has become somewhat imbalanced. On the external side, recent export weakness and competitiveness pressures expose the economy's sensitivity to changes in the global economic environment, especially to trends in international activity (notably sector-specific developments) and the euro/dollar exchange rate. On the domestic side, the extended residential construction boom and accelerating house prices, coupled with the significant increases in household indebtedness, are noteworthy risks to the economy over the medium term.

Graph 3.12: **Ireland - GDP growth compared to euro area and contributions to change**



Note: contribution from statistical discrepancy is not shown

Labour market, costs and prices

Labour market performance was extremely robust in 2005, with employment estimated to have grown by 4¾% on the year. In line with the strong performance of the services sector, partly offset by some easing in construction output, employment gains will be somewhat weaker but still remain very robust over the forecast horizon. Labour force growth, fuelled by significant inward migration (notably from the recently acceded EU Member States) and increased participation, is projected to keep pace with the upward employment trend. The unemployment rate is thus estimated to remain under 4½% in 2006 and 2007. In the light of a lower contribution from benchmarking pay awards to public sector employees (i.e. the alignment of public sector wages with private sector equivalents), despite the relatively tight labour market conditions, the growth in per capita compensation is estimated to fall below 5% over the forecast period. HICP inflation picked up somewhat in the first quarter of 2006, partly reflecting adverse energy developments. The annual rate is nevertheless expected to moderate in the second half of 2006 due to a base effect, before rising slightly again into 2007 in line with the projected pick-up in private consumption. CPI inflation is expected to be above that of HICP over the forecast period, in line with the expected increase of average mortgage repayments.

Public finances

In 2005 the general government balance is estimated to have been in surplus by 1.0% of GDP. This favourable outturn is mainly due to higher-than-expected tax receipts and partly to lower-than-budgeted expenditures, especially on capital outlays. As regards the budget for 2006, the main measures on the revenue side include an upward adjustment of the standard tax band for personal income and some further relief through an increase in the employee tax credit. On the expenditure side, the social welfare package is somewhat more generous than in 2005. A significant rise in capital spending is also foreseen for 2006 and 2007, focusing in particular on improvements in transport infrastructure. The public finances are expected to remain strong, with the general government balance forecast to post a small surplus of 0.1% of GDP in 2006 before turning into a deficit of 0.4% of GDP in 2007. However, the macroeconomic risks, if realised, have the potential to push the public finances into a larger deficit than forecast. Given the non-indexed nature of the tax and social benefit systems, the no-policy-change assumption for 2007 is made operational, in the absence of previously announced measures, by freezing average tax rates and adjusting social transfer payments by the forecast CPI inflation rate (with a small top-up). Government debt is projected to stabilise at around 27% of GDP over the forecast period.

Table 3.9

Main features of country forecast - IRELAND

	2004			Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices		148.6	100.0	5.4	6.1	4.4	4.5	4.7	4.9	5.1
Private consumption		66.1	44.5	3.7	3.4	3.4	4.1	5.6	6.0	6.7
Public consumption		23.3	15.7	2.5	7.3	3.2	1.9	3.1	3.5	3.5
Gross fixed capital formation		36.3	24.4	4.2	3.6	5.7	7.9	13.1	5.4	4.5
of which : equipment		7.9	5.3	4.5	2.1	0.3	6.3	27.1	7.5	6.7
Exports (goods and services)		123.5	83.1	11.7	4.0	0.8	7.0	1.8	5.5	5.4
Final demand		250.0	168.3	6.8	4.1	2.6	5.7	4.3	5.4	5.4
Imports (goods and services)		100.7	67.8	9.3	1.8	-1.4	7.6	4.6	6.1	6.0
GNI at previous year prices (GDP deflator)		125.7	84.6	4.5	3.9	7.1	4.5	5.7	4.7	5.0
Contribution to GDP growth :	Domestic demand			3.2	3.5	2.1	4.0	6.5	4.7	4.9
	Stockbuilding			0.2	0.1	0.6	-0.3	-0.4	0.0	0.0
	Foreign balance			1.9	2.5	1.8	0.8	-1.6	0.3	0.3
Employment				1.8	1.8	2.0	3.1	4.7	2.9	2.4
Unemployment (a)				12.5	4.5	4.7	4.5	4.3	4.4	4.4
Compensation of employees/head				7.1	5.1	5.6	5.5	5.5	5.0	4.8
Unit labour costs				3.4	0.8	3.1	4.1	5.6	2.9	2.2
Real unit labour costs				-1.8	-4.1	1.0	1.8	2.4	0.2	-0.7
Savings rate of households (b)				-	-	15.1	16.5	17.6	19.5	19.2
GDP deflator				5.3	5.0	2.0	2.2	3.1	2.8	2.9
Private consumption deflator				5.0	5.1	3.7	0.8	1.9	2.3	2.3
Harmonised index of consumer prices				-	4.7	4.0	2.3	2.2	2.4	2.3
Trade balance (c)				10.0	25.1	21.8	19.8	17.2	15.9	14.9
Current account balance (c)				-1.5	-1.0	0.0	-0.8	-1.9	-2.6	-3.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-0.6	-0.6	0.1	-0.5	-1.7	-2.4	-2.9
General government balance (c)(d)				-3.8	-0.4	0.2	1.5	1.0	0.1	-0.4
Cyclically-adjusted budget balance (c)(d)				-3.5	-1.8	-0.5	1.4	1.5	1.1	0.8
General government gross debt (c)				82.6	32.1	31.1	29.4	27.6	27.2	27.0

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

10. Italy

Modest upturn, but still below the euro area performance

Activity in 2005

Following a mild recovery in 2004, real GDP stagnated again in 2005 as it did in 2002 2003. This confirmed the structural weakness of the Italian economy, in a period of global upswing.

Private consumption was very weak and investment contracted. Persistent difficulties in public finances may have affected economic actors' confidence. The contribution of domestic demand to economic growth was marginally positive only thanks to increasing government consumption. On the external side, real exports continued to record a large loss of market shares and net exports acted as a drag on GDP growth.

Employment, measured in full-time equivalent terms, which had held up well during the previous years of feeble economic growth, decreased in 2005, for the first time since 1994. However, the increase in head count employment recorded by the Labour Force Surveys continued to be surprisingly solid, mainly reflecting immigrants' regularisation.

HICP inflation averaged 2.2%, in line with that in the euro area, although the impact of higher energy prices was less pronounced.

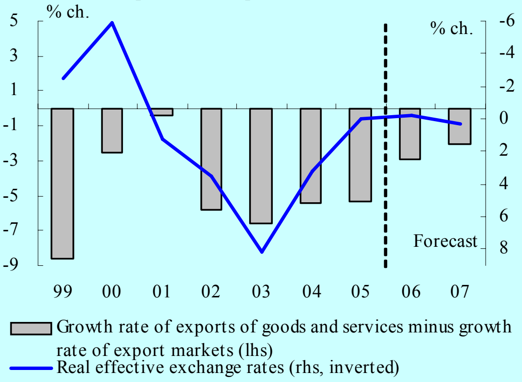
Prospects for 2006 and 2007

Signs of an improving short-term outlook started materialising only at the end of 2005, when industrial production and orders rebounded after the unexpected fall recorded in early autumn. However, this did not prevent a flat real GDP in the last quarter of 2005, which implies a weaker carryover into 2006 than assumed in the autumn 2005 forecasts. On the back of improving business confidence and increasing industrial production, real GDP is expected to accelerate in the first part of 2006, with quarterly rises slightly above potential. On an annual basis, the economy is projected to expand by 1.3% in 2006, before decelerating slightly to 1.2% in 2007 due to the impact of increasing oil prices.

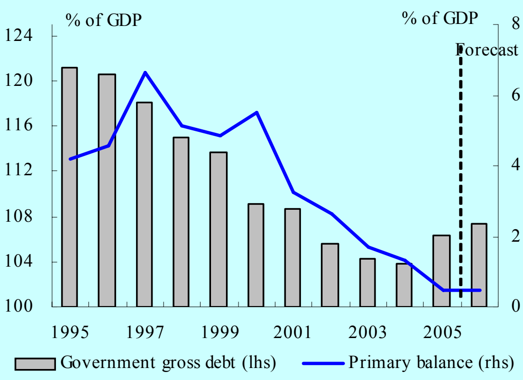
Over 2006-2007, the recovery is expected to be largely driven by domestic demand, while the contribution to economic growth from net exports is expected to be broadly neutral.

After the negative reading at the end of 2005, private consumption is projected to regain steam already at the beginning of 2006. Underpinned by a revival of job creation and nominal wages growing above inflation, private consumption should expand by 1.0% and 1.1% in 2006 and 2007, respectively. The households' saving rate is expected to remain stable. Public consumption is projected to decelerate due to the effects of the 2006 budget. Increased confidence and stronger demand prospects should trigger a pick up in investment, which should also be supported by still favourable financial conditions, in spite of rising interest rate expectations. Companies will also benefit from the reduction in the employers' social contribution rate of up to 1% implemented in the 2006 budget. Following the fall recorded in 2005, public investment is expected to rebound. Overall, gross fixed capital formation is expected to represent the most dynamic component of domestic demand and should provide a positive contribution to GDP growth

Graph 3.13: **Italy - Real effective exchange rate and export market performance**



Graph 3.14: **Italy - Government gross debt and primary balance**



of ½% both in 2006 and in 2007.

Concerning the external sector, exports are set to accelerate in real terms. However, they will expand at only around half the pace assumed in corresponding export markets, due to persistent competitiveness problems, partly related to structural shortcomings like the product specialisation of the Italian economy. After the high elasticity to final demand recorded in 2005, imports are assumed to grow in line with their long term elasticity over 2006 2007.

Labour market, costs and prices

The projected economic upturn in 2006 and 2007 should push employment up again, even when measured in full-time equivalents. Nevertheless, the labour content of economic growth is expected to be lower than in the recent past, as the effects of labour market reforms introduced since the mid 1990s seem to be fading away. The unemployment rate is projected to remain stable at 7¾% in both 2006 and 2007.

On the back of more favourable cyclical conditions, but still constrained by low specialisation in high technology/growth sectors, labour productivity is forecast to increase by 1% both in 2006 and 2007, approaching rates more consistent with historical figures. Higher labour productivity growth together with the projected deceleration of wage costs in the private sector, which should also be curbed by the reduction in social contributions, should result in a slowdown of unit labour costs. This would have a positive impact on the competitive position of the Italian economy, especially vis-à-vis non-EU countries, and mitigate somewhat the loss of market shares in 2006 and 2007.

The more moderate unit labour costs growth will also contribute to keeping core inflation below 2% over 2006-2007. However, on the back of higher oil prices, headline HICP inflation is expected to remain above 2% in 2006 and to fall to 2.0% in 2007.

Public finances

In 2005, the deficit increased to 4.1% of GDP, up from 3.4% of GDP in 2004[1]. The primary surplus shrank to a meagre 0.5% of GDP, from 1.3% in 2004. Interest expenditure, including swap-related savings, dropped by around 0.2% of GDP. The budgetary impact of one-offs declined to around ½ of a percentage point of GDP, from about 1¼% in 2004. The structural balance, i.e. the cyclically adjusted deficit excluding one-off measures, improved by more than ½% of GDP. The primary structural surplus increased by nearly ½% of GDP.

In 2006, the general government deficit is forecast to remain stable at 4.1% of GDP. The impact of one-off measures (sales of real estate and revenues from taxes on the revaluations of corporations' assets and tax amnesties) is expected to diminish further to ¼ of a percentage point of GDP. Increased interest rates and the rising government debt would prevent a further reduction of interest expenditure, which is projected to remain broadly stable at around 4½ % of GDP. The primary surplus would remain at around ½% of GDP. Net of cyclical factors and excluding one-off measures, both the deficit and the primary balance are projected to improve by slightly less than ¼ of a percentage point of GDP, thus well below the ¾ recommended by the Council in its recommendation under Article 104(7).

The 4.1% of GDP deficit forecast for 2006 contrasts with the official projections in the 2005 update of the stability programme, which targeted a 3.5% of GDP deficit this year, assuming the full implementation of the 2006 and previous Budget Laws. However, despite the better than expected 2005 deficit outturn, on 5 April, the Ministry of Economy and Finance revised the official deficit forecast upward, to 3.8% of GDP, which mainly reflects expenditure overruns.

Given the record of regular overruns, confirmed by the new official forecast, the Commission services are more prudent in their assessment of the size of savings foreseen in the 2006 Budget Law through substantial cuts on health care and other government expenditure, in particular of local government. Moreover, in accordance with the new official forecast of 5 April, the lack of implementation of the measures on public employment envisaged in previous budgets would lead to higher expenditure for compensation of employees. On the revenue side, Commission projections are overall in line with those in the Budget Law, except for the additional revenue to be realised by regions having a structural deficit in health care accounts, as the procedures necessary to trigger this increase have not yet been fully implemented.

Concerning the risks linked to the Commission projections for public finance, the new mechanisms to enforce the ambitious expenditure cuts foreseen in the 2006 budget might turn out to be more effective than assumed. However, the Commission services forecast already incorporates a sizeable share of such savings, which might prove challenging to achieve. In addition, the large cuts in transfers to State-owned railways and road maintenance companies planned in the Budget Law might be difficult to sustain given their current financial needs. Finally, the new tax agreement with self-employed professionals and small firms still needs to be put in place. The forecast for a 2007 deficit of 4.5% of GDP is based on the customary no policy change scenario and mainly reflects higher interest expenditure and no one-off measures.

In 2005, the government debt ratio increased for the first time in ten years, to attain 106½% of GDP, up from 103¾% in 2004. This was the result of the combined effect of stagnation and the very low primary surplus. Debt-increasing financial transactions amounted to around 1¼% of GDP, of which ½% of investment in liquid assets. Privatisation receipts dropped to 0.3% of GDP in 2005, from 0.6% in 2004.

The government debt ratio is forecast to increase again in 2006 by around 1% of GDP. This forecast incorporates the high cash borrowing requirement estimated in the new official forecast released on 5 April and includes privatisation receipts amounting to around ¾ of a percentage point of GDP as planned in the 2005 stability programme. Based on the no-policy-change scenario and the stock-flow adjustment planned in the 2005 stability programme, the debt-to-GDP ratio should further increase by ¼% in 2007.

[1] On 1 March 2006 the government deficit was revised by around 0.2% of GDP for all the years from 2002 to 2004. The upward revision of nominal GDP has substantially reduced the debt ratio.

Table 3.10

Main features of country forecast - ITALY

		2004		Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		1388.9	100.0	2.0	0.3	0.0	1.1	0.0	1.3	1.2
Private consumption		814.4	58.6	2.1	0.2	1.0	0.6	0.1	1.0	1.1
Public consumption		275.5	19.8	1.5	2.1	2.0	0.5	1.2	0.6	0.6
Gross fixed capital formation		286.5	20.6	1.7	4.0	-1.7	2.2	-0.6	2.3	2.2
of which : equipment		121.0	8.7	2.6	2.0	-5.8	3.3	-1.1	3.6	3.4
Exports (goods and services)		351.9	25.3	4.4	-4.0	-2.4	3.0	0.3	3.5	3.1
Final demand		1731.1	124.6	2.4	0.2	0.2	1.4	0.2	1.8	1.6
Imports (goods and services)		342.3	24.6	4.3	-0.5	0.8	2.5	1.4	3.4	3.2
GNI at constant prices (GDP deflator)		1381	99.4	1.9	0.2	0.0	1.3	0.2	1.3	1.2
Contribution to GDP growth :	Domestic demand			1.9	1.3	0.6	0.9	0.2	1.2	1.2
	Stockbuilding			0.1	0.0	0.2	0.0	0.1	0.1	0.0
	Foreign balance			0.1	-1.0	-0.8	0.1	-0.3	0.0	0.0
Employment				0.4	1.3	0.6	0.0	-0.4	0.2	0.2
Unemployment (a)				9.5	8.6	8.4	8.0	7.7	7.7	7.7
Compensation of employees/head				7.6	2.7	3.7	3.5	2.9	2.6	2.7
Unit labour costs				5.9	3.7	4.3	2.4	2.5	1.5	1.7
Real unit labour costs				-1.0	0.3	1.2	-0.5	0.4	-0.6	-0.4
Savings rate of households (b)				-	-	15.9	16.8	16.7	16.8	16.8
GDP deflator				6.9	3.4	3.1	2.9	2.1	2.0	2.1
Private consumption deflator				6.8	2.9	2.8	2.6	2.3	2.4	2.1
Harmonised index of consumer prices				-	2.6	2.8	2.3	2.2	2.2	2.0
Trade balance (c)				0.7	1.1	0.7	0.6	0.0	-0.3	-0.3
Current account balance (c)				0.0	-0.3	-0.9	-0.5	-1.1	-1.5	-1.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.1	-0.3	-0.7	-0.4	-0.9	-1.4	-1.3
General government balance (c)(d)				-8.2	-2.9	-3.4	-3.4	-4.1	-4.1	-4.5
Cyclically-adjusted budget balance (c)(d)				-8.0	-3.4	-3.4	-3.3	-3.4	-3.4	-3.8
General government gross debt (c)				97.3	105.5	104.2	103.8	106.4	107.4	107.7

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

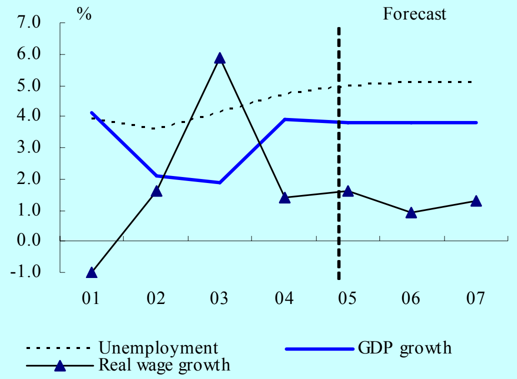
11. Cyprus

On the road to fiscal consolidation

Activity in 2005

Despite posting a slight deceleration compared with 2004, real GDP growth in Cyprus remained buoyant last year at 3.8%. This seems to confirm that the Cypriot economy has recovered the strength it enjoyed prior to the deceleration cycle in 2002-2003, in spite of the recent oil price hike, which does not seem to have had a significant impact on activity. Growth was mainly driven by domestic demand, which contributed 3¾ percentage points. Compared with the previous year, private consumption decelerated significantly, after a surge recorded in 2004 associated with one-off factors (reduction in car excise), but still attained a healthy growth of 4¾%. Despite the ongoing consolidation of public finances, public consumption showed a marginal but positive real growth of ½%, whereas it had contracted in 2004. The strong deceleration recorded by public infrastructure expenditure, which contracted by about 13.5%, was not fully compensated by buoyant private investment in construction. As a result, total investment growth in real terms recorded a sharp slowdown, to just above 2½% (10% in 2004). The contribution to GDP growth of net exports was still negative (⅓ of a percentage point), although much less so than in 2004 when it dragged growth down by 3½ points. Despite the relatively poor performance of tourism revenue, which led to a deceleration of exports, the reduction in the negative contribution of the net exports was actually driven by the sharp slowdown recorded by imports, partially caused by decelerating domestic demand. As a result, the external account deficit increased only marginally, to about 5¾% of GDP.

Graph 3.15: **Cyprus - Unemployment rate, real wage growth and GDP growth**



Prospects for 2006 and 2007

Cyprus' economy is projected to continue growing solidly at 3.8% over the forecast horizon. Consequently, the output gap is set to almost close by 2007, while it was in negative territory since 2003. Growth is expected to be mainly driven by domestic demand. Private consumption growth is foreseen to remain on a declining path slightly above 4% in 2006, but 3½% in 2007. This is the result of a more moderate wage growth, and the fading-out of tax reforms introduced in 2004, in particular excise duties on cars, that boosted private consumption growth to unusually high levels. Public consumption is projected to rebound in real terms to nearly 2% in 2006. Investment should recover, and grow by about 5% per year over the forecasting horizon. This expansion of investment in 2006 should be mainly led by construction, in particular housing, on account partly of a strong demand for dwellings by non-residents. In 2007, although rising prices should ease demand pressures in the housing market, higher investment in machinery and equipment, driven by confidence effects in the process of joining the euro area, should sustain investment.

The external sector is projected to be broadly growth-neutral until the end of the forecast period. Imports are expected to rebound to growth rates of above 6%, which is not only more consistent with past trends in import penetration than those recorded last year, but is also the result of the much higher investment projected, particularly in equipment. Based on a stronger growth outlook for the EU and other main trading partners, export growth should also recover. Specifically, exports of goods should increase by above 6½% in both years, mainly driven by buoyant re-export activity. In parallel, the improvement of prospects in the tourism sector should give a boost to services. The external account deficit is projected to remain broadly constant above 5½% of GDP for the forecast period.

Labour market, costs and prices

Consistent with sustained GDP growth, employment is projected to keep growing at around 1½% per year until 2007. As a result, unemployment is expected to remain around its current levels for the forecast period. Although labour market conditions will remain tight, increasing share of foreign workers, combined with moderate wage growth in the public sector, should ease wage pressure. Wage growth should moderate to 3½%. Since productivity growth is expected to rise to slightly above 2½% by 2007, unit labour costs will keep on rising, but at lower rates than in the recent past. Buoyant domestic demand, healthy wage growth and rising oil prices, are expected to lead inflation to 2.4% in 2006, and to 2.2% by 2007. Monetary conditions appear stable, although slightly restrictive, which is helping to keep inflation under control, while the exchange rate with the Euro remains broadly constant.

Public finances

The government deficit in 2005 was 2.4% of GDP; this outcome represents an improvement of around 1¾% of GDP compared with 2004. This deficit reduction is attributed to the better-than-expected impact of the tax amnesty and the effect of other structural consolidation measures, on both the expenditure and the revenue sides. Indirect taxes were supported by the growth composition, especially private consumption. One-off revenues, mainly from the tax amnesty, amounted to almost 1% of GDP, a similar figure to that of 2004. As a result, the structural deficit is estimated to have improved by 2% of GDP, from about 5% in 2004 to 3% last year. The 2006 deficit is projected above 2% of GDP, slightly higher than the official target, and at around 2¼% in structural terms. The adjustment projected for 2006 is based on structural cuts in current primary expenditure, savings on interest expenditure and a combination of structural and one-off measures (amounting to ¼% of GDP) on the revenue side. In 2007, the customary no-policy-change scenario projects a deficit of 2% of GDP. The general government debt is projected to continue the declining path initiated in 2004 and to reach 67¾% in 2007.

Table 3.11

Main features of country forecast - CYPRUS

		2004		Annual percentage change						
mio CYP		Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		7254.9	100.0	4.7	2.1	1.9	3.9	3.8	3.8	3.8
Private consumption		4677.4	64.5	6.8	1.5	1.6	6.8	4.7	4.1	3.5
Public consumption		1335.9	18.4	4.3	7.3	5.1	-3.9	0.5	1.8	3.4
Gross fixed capital formation		1385.6	19.1	2.3	8.1	0.7	10.0	2.6	5.0	4.8
of which : equipment		416.3	5.7	6.8	11.8	-12.7	10.3	-4.5	3.9	6.0
Exports (goods and services)		3439.6	47.4	6.9	-5.2	-0.2	4.4	3.1	6.6	6.8
Final demand		10925.0	150.6	5.4	1.2	0.5	6.3	3.6	4.6	4.6
Imports (goods and services)		3670.1	50.6	6.8	-0.5	-2.3	11.1	3.4	6.1	6.1
GNI at constant prices (GDP deflator)		7026.6	96.9	4.4	2.9	3.6	2.5	4.5	4.2	4.0
Contribution to GDP growth :	Domestic demand			5.3	3.6	2.0	5.6	3.7	4.0	3.8
	Stockbuilding			-0.7	1.1	-1.2	1.7	0.3	-0.2	-0.1
	Foreign balance			0.1	-2.6	1.1	-3.2	-0.3	0.0	0.1
Employment				-	1.1	1.1	1.5	1.5	1.5	1.5
Unemployment (a)				4.3	3.6	4.1	4.7	5.3	5.4	5.4
Compensation of employees/head				-	4.1	9.3	3.5	4.4	3.5	3.5
Unit labour costs				-	3.1	8.4	1.1	2.1	1.2	1.1
Real unit labour costs				-	0.8	3.2	-1.3	-0.7	-1.1	-1.1
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.2	2.2	5.0	2.4	2.8	2.3	2.3
Private consumption deflator				1.6	2.5	3.4	2.1	2.8	3.2	2.5
Harmonised index of consumer prices				-	2.8	4.0	1.9	2.0	2.4	2.2
Trade balance (c)				-24.5	-27.2	-23.7	-26.2	-25.5	-27.6	-28.4
Current account balance (c)				-2.2	-3.8	-0.9	-5.3	-5.7	-6.1	-6.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-5.3	-5.8	-5.8
General government balance (c)(d)				-	-4.5	-6.3	-4.1	-2.4	-2.1	-2.0
Cyclically-adjusted budget balance (c)(d)				-	-4.9	-6.1	-3.9	-2.1	-1.9	-2.0
General government gross debt (c)				-	65.2	69.7	71.7	70.3	69.1	67.8

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

12. Latvia

Growth fuelling external imbalances and inflation

Activity in 2005

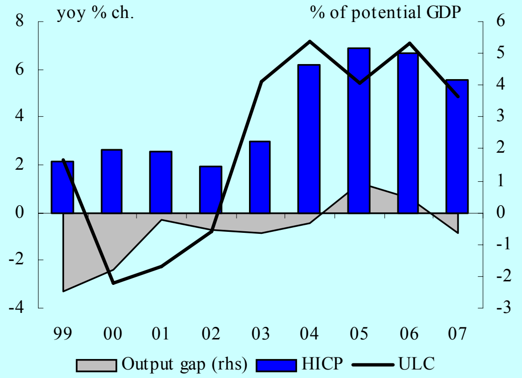
According to preliminary national accounts, real GDP growth reached an all-time high, registering a 10.2% annual growth rate which pushed output even further above potential. Virtually every sector experienced growth. Domestic demand growth remained high and external demand accelerated. Consumer demand, fuelled by better credit access and significant increases in real disposable income, continued to expand at a steady rate. Retail sales growth exceeded 20% throughout the year; sales grew most strongly in the non-food sector with buoyant spending on durables correlating with a real estate boom. Investment grew at a very fast rate, reflecting strong demand for equipment and continued buoyancy in the construction sector. Export performance in 2005 was particularly robust. Export values grew by more than 30%, outpacing imports, which grew by around 25%; in real terms, the respective growth rates were 21% and 13%. Even though the external deficit remained very large, the external growth contribution turned positive for the first time since 2000.

The economy's momentum is supported by significant EU funds-related activity, increased labour participation and declining unemployment.

Prospects for 2006 and 2007

Growth prospects for 2006-2007 are strong, with an expected expansion of about 8½% in 2006 and 7½% in 2007. Given the already wide positive estimated output gap, there is a non-negligible risk to sustaining growth at such a rapid rate. Since strong investment expansion is the main contributor to the increase in estimated potential, the forecast is predicated on the quality of investment being adequate in terms of enabling real productivity gains. If the investment mix were inappropriate there would be significant downward risks to the sustainability of expansion at the rates foreseen, with potential labour problems (shortage and high cost level) adding to the risk.

Graph 3.16: **Latvia - Inflation, unit labour costs and output gap**



Expansion of final domestic demand is expected to continue to drive overall growth, primarily led by investment, with housing construction increasing strongly. Private consumption is also expected to remain strong, largely because of employment growth, substantially higher real wages and better credit access. The external contribution will again turn negative. While the high levels of investment in equipment and production facilities will underpin export growth, the relatively high base level and some short-term saturation of foreign markets will moderate export expansion to rates below those achieved in 2005. Import growth is expected to remain robust, only slightly down on 2005, partly due to the increase in investment and inputs for intermediate goods. Thus, the current account deficit will remain at roughly the same ratio to GDP throughout the forecast period.

Labour market, costs and prices

High growth has contributed to reducing unemployment and boosting employment. In line with the projected expansion of construction output and strong performance of the service sector, employment gains are expected to remain robust in 2006 and 2007 while annual productivity growth will remain of the order of 7-8%. Labour force growth, after taking account of significant outward migration (chiefly to the old EU Member States) and negative demographic trends, is projected to remain negligible, though the activity rate should rise somewhat. The unemployment rate is estimated to decrease steadily. Per capita compensation will continue to increase strongly.

Throughout 2005 a sharp pick-up in inflation was reflected in all indices, with that for producer prices outpacing consumer prices. Several factors contributed, food prices the most, followed by energy and administered prices. The main risk to the inflation outlook is that price increases could become persistent if strong demand continues to drive output further above potential and feeds into inflation expectations.

Taking this into account, the current prospects are for HICP inflation for 2006 of around 6½%, and only modestly lower in 2007.

Public finances

Generally, owing to the strong growth, fiscal targets have been met or even exceeded. The budget results for 2005 were significantly better than expected and the resulting general government surplus of 0.2% of GDP was surprising, not least in light of a cash-based estimate of a deficit of 1% of GDP (the difference stemming mostly from the cash-accrual adjustment for EU funds). The deficit is expected to remain at around 1% of GDP in 2006-2007 (well within the official targets of 1½%), though for 2006 this is predicted upon no mid-year budget re-opening to increase expenditure as has been common in previous years. Government debt is projected to drop just below 11% of GDP at the end of the forecast period.

Table 3.12

Main features of country forecast - LATVIA

	2004			Annual percentage change						
mio LVL	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices	7385.5	100.0	4.8	6.5	7.2	8.5	10.2	8.5	7.6
Private consumption	4623.9	62.6	-	7.4	8.2	9.3	10.8	7.8	7.5
Public consumption	1451.2	19.6	-	2.2	1.9	2.1	2.7	2.8	3.0
Gross fixed capital formation	2041.8	27.6	-	13.0	12.3	23.8	18.6	14.0	9.2
of which : equipment	-	-	-	-	-	-	-	-	-
Exports (goods and services)	3268.3	44.3	-	5.4	5.2	9.4	20.7	12.8	11.7
Final demand	11814.4	160.0	-	5.9	9.2	11.3	11.4	10.0	8.6
Imports (goods and services)	4428.9	60.0	-	4.7	13.1	16.6	13.5	12.6	10.3
GNI at constant prices (GDP deflator)	7214.3	97.7	5.0	6.5	6.6	6.5	11.4	8.7	7.8
Contribution to GDP growth :	Domestic demand		-	8.3	8.8	12.9	13.2	10.2	8.5
	Stockbuilding		-	-1.6	2.9	0.7	-3.7	0.0	0.0
	Foreign balance		-	-0.2	-4.5	-5.1	0.7	-1.8	-0.9
Employment			-1.6	1.6	1.7	1.1	1.5	1.0	0.7
Unemployment (a)			15.7	12.2	10.5	10.4	9.0	8.4	7.9
Compensation of employees/head			10.2	4.0	11.1	15.1	14.4	15.0	12.0
Unit labour costs			3.4	-0.8	5.5	7.2	5.4	7.1	4.9
Real unit labour costs			-3.6	-4.2	1.9	0.3	-3.7	-0.2	-1.3
Savings rate of households (b)			-	-	2.3	1.9	-2.6	-2.7	-1.8
GDP deflator			7.3	3.6	3.6	6.8	9.4	7.3	6.2
Private consumption deflator			-	2.2	3.1	6.1	11.1	6.6	5.6
Harmonised index of consumer prices			-	2.0	2.9	6.2	6.9	6.7	5.6
Trade balance (c)			-14.4	-15.8	-17.8	-20.3	-18.9	-20.1	-19.6
Current account balance (c)			-6.0	-6.6	-8.1	-12.9	-12.4	-13.1	-12.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-5.7	-6.4	-7.4	-11.9	-11.2	-11.1	-10.2
General government balance (c)(d)			-1.7	-2.3	-1.2	-0.9	0.2	-1.0	-1.0
Cyclically-adjusted budget balance (c)(d)			-1.3	-2.1	-1.0	-0.9	-0.2	-1.2	-0.8
General government gross debt (c)			-	13.5	14.4	14.6	11.9	11.3	10.9

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

13. Lithuania

Strong growth and a tightening labour market

Activity in 2005

GDP growth is estimated to have reached 7.5% in 2005, exceeding the autumn forecast by half a percentage point and supported mainly by domestic demand. Household consumption remained very firm, on the back of a rapid expansion of bank credit, increasing employment and strong wage growth. A slowdown of investment activity in the first half of 2005 proved temporary. In the year as a whole, investment grew at double-digit rates for the fifth consecutive year. Exports regained momentum after two years of relatively low growth and led to a considerably lower drag on growth from net trade.

Prospects in 2006 and 2007

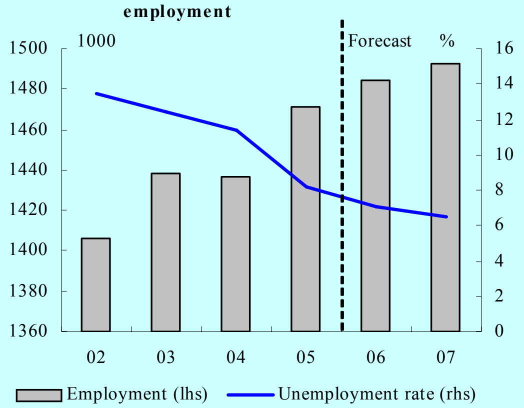
The outlook for growth in 2006 and 2007 remains favourable. GDP growth is projected to gradually slow down but to remain robust at above 6%. Domestic demand is expected to remain the main driver, though contributing more moderately than in 2005.

Investment activity is forecast to remain buoyant, aided by EU funds and favourable financial conditions, as real interest rates are expected to remain low. Disposable income growth is expected to increase, on the back of rapid wage growth and the reduction of the personal income tax in July 2006. This, together with high bank credit growth, is likely to continue to stimulate high consumption.

The outlook for exports is benign, reflecting positive prospects for Lithuania's major trading partners. The outlook for international trade remains favourable and strong demand from Russia and other CIS countries is expected to persist. It is also assumed that Lithuania's export capacity will improve due to the high increase of investment in previous years.

Import growth is forecast to remain robust, on the back of buoyant private consumption and investment activity. The contribution of net trade to growth is expected to remain negative, though less than in previous years. As in the last two years, a projected improvement in the terms of trade is likely to contain the trade deficit. The current account deficit is expected to increase to some 7.4% of GDP by 2007, while Lithuania's net borrowing position in the balance of payments will be less negative due to the positive impact of increasing EU capital transfers.

Graph 3.17: **Lithuania - Unemployment rate and employment**



Labour market, costs and prices

The labour market tightened in 2005. The labour force declined, which partly reflects emigration flows, while the imbalance between supply and demand in several sectors persisted and may have created upward pressures on labour costs. Employment growth picked up strongly, while the unemployment rate declined markedly, to about 8%. Structural unemployment remains high, with long-term unemployment significantly above the EU average.

Looking forward, employment growth is anticipated to remain positive over the forecast period, although lower than in 2005. Unemployment is anticipated to decrease below 7% towards the end of 2007. The labour market is likely to tighten further and nominal wage growth is expected to remain high. Nevertheless, the decrease in the personal income tax rate in July 2006, from 33% to 27% could slow down wage growth relative to 2005, reducing the gap with productivity growth and to some extent moderating the impact on unit labour costs.

Annual average HICP inflation increased to 2.7% in 2005, mostly reflecting rising energy, health care, transport and food prices. HICP inflation in the first quarter of 2006 was on average 3.3%. The inflation outlook for 2006-2007 has been revised upwards compared to the autumn forecast. From January 2006, Lithuania's single gas supplier (Gazprom) increased wholesale gas prices by some 40%. This was not included in the headline projection in autumn, and was only considered an upward risk. Central heating prices, which are regulated, have not been fully adjusted yet and thus the main impact on consumer prices is expected in the second half of the year. Additional upward pressure on prices in 2006 may come from the external environment, as import prices are assumed to remain high and a slight depreciation of the litas against the US dollar is anticipated. High wage growth is forecast to continue and expected to put pressure on unit labour costs. Against this background, annual average inflation in 2006 is projected to edge up to 3.5%. In 2007, inflation is expected to decline slightly but remain above 3%. A significantly lower increase in import prices is likely to ease pressures on inflation, while the impact of higher gas prices is expected to be an offsetting factor. The evolution of oil prices and their impact on inflation, together with a reaction of wages and prices to demand growth, are the main risks for the projections. Excise duty adjustments foreseen in Lithuania's accession treaty may also lead to significantly higher inflation than projected.

Public finances

The general government deficit decreased to 0.5% of GDP in 2005, well below the initial government target and the Commission services' autumn forecast. The more favourable outcome stems from a virtuous budgetary execution at all levels of government, which recorded higher-than-planned revenues while expenditure plans were broadly achieved. Assuming that the budget will be strictly implemented, the deficit is forecast to remain rather stable in 2006 on the back of strong revenue growth and improved tax collection. The impact of the tax reform, which is included in the budget for 2006, is likely to be broadly neutral in 2006 but negative in 2007 which, together with the increasing costs of the pension reform and other expenditure, is expected to raise the deficit to close to 1% of GDP. The general government debt is anticipated to remain low at close to 19% of GDP in the forecast period.

Table 3.13

Main features of country forecast - LITHUANIA

		2004		Annual percentage change						
	bn LTL	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		62.5	100.0	4.4	6.8	10.5	7.0	7.5	6.5	6.2
Private consumption		40.6	65.0	-	6.1	12.6	9.7	10.4	8.0	7.4
Public consumption		11.2	18.0	-	1.4	3.8	7.5	5.6	4.6	4.6
Gross fixed capital formation		13.6	21.7	10.0	11.1	14.0	12.3	11.2	9.7	8.7
of which : equipment		5.4	8.6	-	11.4	7.5	24.3	18.2	12.3	10.1
Exports (goods and services)		32.6	52.2	-	19.5	6.9	4.2	14.3	10.8	9.9
Final demand		99.6	159.3	-	11.2	10.6	10.5	10.9	8.4	8.0
Imports (goods and services)		37.1	59.3	-	17.7	10.3	14.8	15.9	11.4	10.5
GNI at constant prices (GDP deflator)		60.9	97.4	-	7.0	8.9	6.9	8.0	6.9	6.2
Contribution to GDP growth :	Domestic demand			-	8.3	12.8	12.1	13.4	8.5	8.0
	Stockbuilding			-	0.8	2.2	5.5	0.1	-0.5	-0.2
	Foreign balance			-	-2.4	-4.5	-10.6	-6.0	-1.8	-1.8
Employment				-1.5	4.0	2.3	-0.1	2.4	0.9	0.6
Unemployment (a)				14.1	13.5	12.4	11.4	8.2	7.1	6.5
Compensation of employees/head				19.6	4.4	8.8	8.1	11.5	8.9	8.2
Unit labour costs				12.8	1.7	0.7	0.9	6.3	3.2	2.4
Real unit labour costs				1.3	1.5	1.8	-1.8	0.3	-1.4	-0.3
Savings rate of households (b)				-	-	-3.2	-3.4	-6.4	-6.1	-5.4
GDP deflator				11.4	0.2	-1.1	2.8	5.8	4.6	2.8
Private consumption deflator				-	-0.1	-2.7	1.1	3.4	3.5	3.3
Harmonised index of consumer prices				-	0.3	-1.1	1.2	2.7	3.5	3.3
Trade balance (c)				-11.3	-9.4	-9.1	-10.6	-10.9	-11.8	-11.7
Current account balance (c)				-8.8	-5.1	-6.8	-7.9	-7.0	-7.3	-7.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-8.9	-4.7	-6.4	-7.2	-6.0	-6.3	-6.4
General government balance (c)(d)				-4.0	-1.4	-1.2	-1.5	-0.5	-0.6	-0.9
Cyclically-adjusted budget balance (c)(d)				-	-1.0	-1.7	-1.9	-1.2	-1.0	-1.0
General government gross debt (c)				-	22.3	21.2	19.5	18.7	18.9	19.7

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

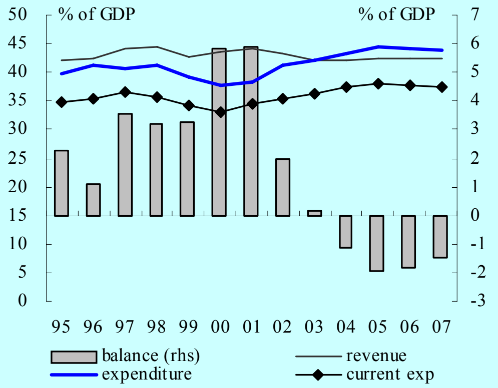
14. Luxembourg

Healthy growth, concerns about unemployment and public finances

Activity in 2005

The Luxembourg economy performed rather well in 2005: real GDP growth probably reached between 4 and 4½%, about the same rate as in 2004, which is, however, below the average of the last 10 years (5.2%). Growth in 2005 was chiefly supported by external trade in services, the exports and imports of which both rose by more than 10% in real terms : the activity in the financial sector was buoyant thanks to the good health of financial markets and tourism benefited from the Luxembourg presidency of the EU in the first half of the year. On the other hand, like in 2004, domestic demand was rather subdued in 2005, with private consumption only growing by about 1½% : although unemployment remains relatively low by EU standards, it has considerably risen in recent years, which probably explains the deterioration in consumer confidence all along the year 2005. Moreover, as non-resident workers, whose consumption in Luxembourg is smaller than that of residents, accounted for about two-thirds of domestic employment growth in recent years, a large and rising part of the increase in the wage bill is spent abroad. As a result, retail trade stagnated, even if a significant improvement was visible in the second half of the year. Similarly, activity in the construction sector decreased due to the weakness of investment by enterprises and the government but some signs of recovery could be observed towards the end of the year. In total, gross fixed capital formation hardly grew by more than 2%. On the other hand, government consumption was buoyant, rising by nearly 7% in real terms.

Graph 3.18: **Luxembourg - Government revenues, expenditure and balance**



Prospects for 2006 and 2007

GDP growth is expected to remain in the neighbourhood of 4½% in 2006 and 2007. The external sector will probably be less supportive than in 2005: exports of goods are projected to accelerate in 2006 in line with the strengthening of exports market growth but exports of services, though remaining vigorous, could slow down somewhat after the strong growth recorded in 2005. On the other hand, domestic demand should be more dynamic than in recent years. Despite the projected rise in unemployment, private consumption should accelerate somewhat thanks to non negligible wage increases and a projected acceleration in resident employment. Similarly, investment by enterprises, which has been rather subdued in 2004 and 2005, should also accelerate. The more dynamic domestic demand should also lead to an acceleration in imports, at least in 2006, which explains in part why external trade is expected to be less supportive.

Labour market, costs and prices

Reflecting the strong growth in output, employment rose by about 3% in 2005. However, unemployment kept rising, reaching 5.3%, so that the Grand-Duchy no longer has the lowest unemployment rate in the EU. Once again, job creation mostly benefited non-residents, whose number rose by more than 5% while resident employment only increased by about 1½%. This discrepancy certainly reflects mismatches between the skills (or absence thereof) of unemployed residents and those required by the jobs created but it might also be the result of a significantly higher reservation wage related to the generosity of the social security system (unemployment benefits are nearly twice as high in Luxembourg as in neighbouring countries). Due to this bias of job creation towards non-residents, employment may have to rise by about 3½% a year for unemployment to stabilise. Employment growth is projected to accelerate slightly over the forecast period but probably not enough to prevent unemployment from continuing to rise, albeit at a gradually slower pace. Like in recent years, the rise in domestic employment should considerably outpace that in resident employment.

Inflation considerably accelerated in the course of 2005, mostly as a result of the surge in oil prices. The HICP increased by 3.8%, while the rise in the national CPI, which excludes consumption by non-residents and especially their large purchases of car fuel, alcohol and tobacco products, reached 2.5% (the weight of these three items amounts to 22.2% in the HICP compared to 7.5% in the national index). Due to still rising projected oil prices, both indexes should post in 2006 even higher increases than those recorded in 2005, before decelerating in 2007.

Public finances

After record surpluses in 2000 and 2001 (more than 6% of GDP in both years), government finances rapidly deteriorated, recording in 2004 a 1.1% of GDP deficit, which rose to 1.9% in 2005. Despite a large shortfall in VAT revenues, due in part to the relative weakness in private consumption but above all to large and unexpected VAT reimbursements, total government resources rose by 6.2% and by 0.2 percentage point of GDP, thanks chiefly to buoyant revenues from direct taxes, especially the corporate tax. However, simultaneously, government expenditure rose by more than 8% and by 1 percentage point of GDP. This fast increase in expenditure was mostly imputable to public investment (+14.1%) but also to collective consumption (+12.3%). In 2006, the rise in revenues is projected to accelerate and the increase in expenditure to slow down somewhat, as government consumption and investment are unlikely to post again the very high growth rates recorded in 2005. Consequently, the deficit should slightly improve to about 1¾% of GDP. In 2007, it is expected to contract further to about 1½% of GDP: the rise in expenditure is assumed to be similar to that projected for 2006, while additional revenues will result from tax and contribution increases, announced by the government on April 21. Additional consolidation measures, more specifically targeted at curbing the rise in spending, were due to be announced at the beginning of May, but their content was not known before this forecast was finalised.

Table 3.14

Main features of country forecast - LUXEMBOURG

	2004			Annual percentage change						
mio Euro	Curr. prices	% GDP		81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices	27056.0	100.0		4.9	3.6	2.0	4.2	4.2	4.4	4.5
Private consumption	11068.0	40.9		3.1	6.0	2.4	2.5	1.6	2.2	2.5
Public consumption	4583.0	16.9		4.4	4.5	4.5	3.0	6.8	3.5	3.2
Gross fixed capital formation	5542.0	20.5		4.8	2.7	2.6	1.5	2.1	3.6	5.3
of which : equipment	1540.0	5.7		5.4	-8.5	-18.1	14.5	2.5	5.0	6.0
Exports (goods and services)	40209.0	148.6		6.9	2.8	3.7	10.2	9.0	8.4	7.9
Final demand	61385.0	226.9		5.6	2.6	3.6	7.4	7.1	6.6	6.5
Imports (goods and services)	34328.0	126.9		6.4	1.8	4.9	9.8	9.1	8.1	7.8
GNI at constant prices (GDP deflator)	24115	89.1		4.6	0.8	-4.2	10.6	3.4	3.9	4.1
Contribution to GDP growth :	Domestic demand			3.4	3.8	2.4	1.9	2.2	2.2	2.6
	Stockbuilding			0.3	-2.1	0.5	-0.2	0.2	0.0	-0.1
	Foreign balance			1.2	1.9	-0.8	2.6	1.8	2.1	1.9
Employment				2.7	2.9	1.8	2.3	2.9	3.0	3.0
Unemployment (a)				2.5	2.8	3.7	4.8	5.3	5.7	5.8
Compensation of employees/head				4.8	3.9	1.8	4.1	3.7	3.5	3.0
Unit labour costs				2.6	3.2	1.6	2.1	2.4	2.1	1.6
Real unit labour costs				-0.5	0.5	-3.0	1.1	1.1	-1.0	-1.3
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.2	2.7	4.8	1.0	1.3	3.1	3.0
Private consumption deflator				3.7	0.7	2.2	2.4	2.5	3.2	2.5
Harmonised index of consumer prices				-	2.1	2.5	3.2	3.8	4.1	3.4
Trade balance (c)				-11.7	-10.5	-10.6	-9.8	-12.4	-12.5	-12.4
Current account balance (c)				13.6	11.0	6.4	10.5	8.4	9.2	9.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	8.4	9.2	9.9
General government balance (c)(d)				-	2.0	0.2	-1.1	-1.9	-1.8	-1.5
Cyclically-adjusted budget balance (c)(d)				-	1.7	0.9	-0.5	-1.3	-1.3	-1.0
General government gross debt (c)				7.2	6.5	6.3	6.6	6.2	7.9	8.2

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

15. Hungary

Solid growth overshadowed by twin deficit

Activity in 2005

After a moderate acceleration in 2004, real GDP decelerated slightly to 4.1% in 2005. The main driver of GDP growth was the exceptionally strong performance in net exports. Growth in the manufacturing sector was particularly robust in the production of electrical and optical equipment and of transport equipment. Most of the increase in gross fixed capital formation was realised in the area of public infrastructure investment. Private consumption was relatively moderate compared to the previous years.

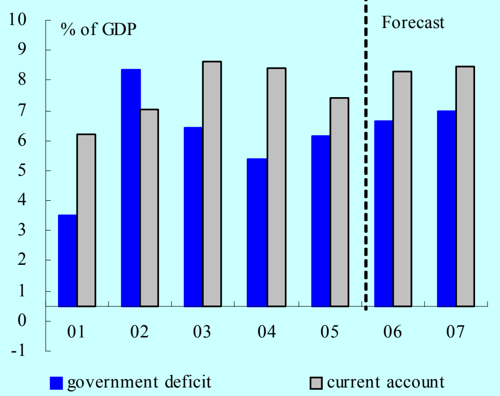
Consumer price inflation (HICP) declined sharply to 3.5% in the year as a whole, down from 6.8% in 2004. Against the background of falling inflation, the central bank cut its policy rates by 350 basis points during the course of 2005. The unemployment rate hit a seven-year high of 7.5% in the three months to January 2006.

The current account deficit decreased to 7.3% of GDP in 2005, down from over 8.5% of GDP in the previous years due to the narrowing gap in the trade balance. However, the surprisingly low trade deficit could be linked to an underestimation of imports as suggested by the corresponding sharp rise in net errors and omissions (close to 2.5% of GDP in 2005) in the balance of payment statistics. The deficit was increasingly financed by net foreign direct investment inflows.

Prospects for 2006 and 2007

In 2006, real GDP growth is forecast to accelerate to around 4.6%. Domestic demand is expected to fuel economic activity mainly because of the expansionary fiscal stance. Foreign demand is also expected to contribute to GDP growth in line with the pick-up in the international economic activity. In 2007, GDP growth is expected to ease somewhat to around 4.2%, due mainly to moderating private consumption.

Graph 3.19: **Hungary - Government and current account deficit**



Throughout the projection period, private consumption is anticipated to be especially strong, supported by lower indirect taxes, rising social transfers and minimum wage increases. Investment in construction will continue to benefit from extensive motorway construction, while investment in equipment will remain steady both in 2006 and 2007. Imports are set to rise alongside private consumption and investment spending. As exports are also expected to grow relatively strongly both in 2006 and 2007, the negative trade balance is set to stabilize at around 2.5% of GDP.

Due to the continuing fiscal expansion and robust private consumption, the current account deficit is projected to widen throughout the forecast period, reaching close to 8.5% of GDP. The increasing amount of public and private foreign debt-related interest expenditure will continue to strongly contribute to the expanding factor income deficit.

Labour market, costs and prices

Employment is expected to slightly increase throughout the forecast period. As the participation rate is projected to rise, the anticipated employment growth might not translate into a decline in the unemployment rate, which is expected to stabilise at above 7½%.

Annual consumer price inflation is projected to further decelerate to about 2.3% in 2006 as a whole, mainly as a result of the cut in VAT rates. The first monthly data for 2006 showed that so far the cut in the VAT only partially affected prices. However, the falling inflation expectations and the intensive competition in the tradable sector following EU accession are expected to cool inflationary pressures in 2006. In 2007, fuelled by high oil prices and the weakening forint, consumer price inflation is forecast to return to close to 3.5%, broadly in line with the underlying inflationary trends in Hungary.

Public finances

The government deficit increased to 6.1% of GDP in 2005, from 5.4% in 2004[1]. The deficit is expected to further increase in 2006, reaching 6.7% of GDP[2]. The forecast includes tax cuts of over 1% of GDP in the 2006 budget (mainly the reduction of VAT rates and a cut in the top rate of the personal income tax). Expenditures are projected to be higher than officially estimated, as the budget lacks the necessary structural reforms targeting expenditure reduction. Interest expenditure is also expected to be higher than budgeted in view of the projected rise in interest rates and the government debt level. Based on the usual no-policy change assumption, the budgetary position is expected to worsen in 2007 to 7% of GDP, chiefly due to the second step of the planned tax cuts.

The forecast includes the costs of military aircraft (0.3% of GDP in 2006, and 0.2% of GDP in 2007) purchased under a financial lease and to be delivered in those two years (these outlays were not included in the original official targets of 4.7% of GDP in 2006 and of 3.3% of GDP in 2007). It assumes that investment in new motorways built in public-private partnerships worth about 1% of GDP, are recorded as private investment and not as government expenditure[3].

In the light of increasing yearly deficit levels, the debt-to-GDP ratio is expected to exceed the 60% threshold in 2007.

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[1] This forecast takes into account the temporary reclassification of second pillar pension funds inside the general government, which lowers the deficit figures each year by at least 1.4 percentage points in 2005-2007 (for details see Statistical Annex, note 11).

[2] The forecasts have been prepared assuming that the debt of the public transport companies which benefit from a State guarantee will not be a taken over by the government during the forecast period.

[3] The recording of these investments will be assessed by Eurostat at a later stage once detailed information is provided by Hungary.

Table 3.15

Main features of country forecast - HUNGARY

	2004		Annual percentage change						
bn HUF	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices	20413.5	100.0	3.7	3.8	3.4	4.6	4.1	4.6	4.2
Private consumption	11127.3	54.5	-	10.6	8.4	3.2	2.4	3.8	3.2
Public consumption	4881.5	23.9	0.3	5.8	6.2	1.7	-0.3	1.8	0.2
Gross fixed capital formation	4616.0	22.6	6.2	9.3	2.5	8.4	6.6	6.8	6.6
of which : equipment	1932.6	9.5	-	-	-	-	3.7	5.5	5.7
Exports (goods and services)	13409.3	65.7	19.8	3.9	7.8	16.4	10.6	11.6	11.5
Final demand	34461.7	168.8	-	5.0	6.8	8.6	4.9	7.6	7.4
Imports (goods and services)	14048.2	68.8	16.5	6.6	11.1	13.2	5.8	10.3	9.9
GNI at constant prices (GDP deflator)	19272.7	94.4	3.4	4.8	4.0	3.9	3.3	4.2	3.7
Contribution to GDP growth :	Domestic demand		2.2	9.1	6.8	4.4	3.0	4.4	3.7
	Stockbuilding		0.7	-3.1	-0.3	-1.4	-2.8	-0.4	-0.2
	Foreign balance		0.8	-2.2	-3.0	1.7	3.9	1.2	1.6
Employment			0.4	0.0	1.3	-0.7	0.0	0.1	0.5
Unemployment (a)			8.0	5.8	5.9	6.1	7.2	7.7	7.6
Compensation of employees/head			16.0	12.7	10.0	9.7	9.1	5.3	4.0
Unit labour costs			12.3	8.6	7.7	4.1	4.8	0.8	0.4
Real unit labour costs			-2.2	-0.1	1.0	-0.4	2.3	-1.4	-2.4
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			14.9	8.7	6.6	4.6	2.5	2.3	2.8
Private consumption deflator			-	3.0	4.3	4.5	5.4	2.7	3.8
Harmonised index of consumer prices			-	5.2	4.7	6.8	3.5	2.3	3.3
Trade balance (c)			-4.1	-3.2	-3.9	-3.0	-1.5	-2.3	-2.6
Current account balance (c)			-7.4	-7.0	-8.6	-8.4	-7.4	-8.3	-8.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-7.1	-6.7	-8.7	-8.1	-6.6	-7.4	-7.0
General government balance (c)(d)(e)			-	-8.4	-6.4	-5.4	-6.1	-6.7	-7.0
Cyclically-adjusted budget balance (c)(d)			-	-8.0	-5.8	-5.2	-5.8	-6.6	-7.1
General government gross debt (c)			-	55.0	56.7	57.1	58.4	59.9	62.0

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).
(e) Including second pillar pension funds (see for more details note 11 on concepts and sources).

16. Malta

Mixed signs of a possible recovery

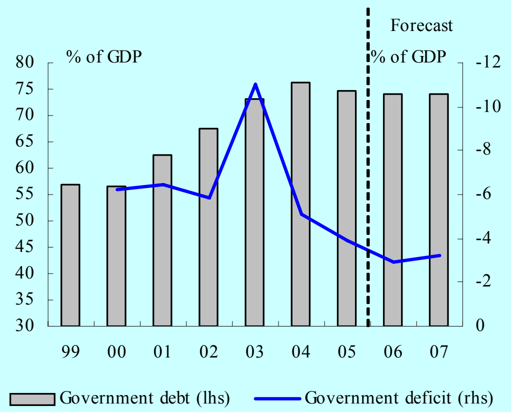
Activity in 2005

Following a contraction of 1½% in 2004, real GDP growth turned positive to 2½% in 2005. The rebound of economic activity was driven by domestic demand, especially inventories. Growth in private consumption stood close to 1½%, mainly reflecting higher household spending on services. Gross fixed capital formation expanded by above 6%, largely due to public spending on the Mater Dei Hospital and other infrastructure works financed through the EU Structural Funds and the Italian Protocol[1]. However, reflecting ongoing efforts to rein in the fiscal imbalance, public consumption contracted by close to 2%. Overall, the contribution of final domestic demand to GDP growth amounted to about 1¾ percentage points. In addition, changes in inventories contributed 4½ percentage points to growth, possibly reflecting anticipated production to meet orders booked for 2006.

After posting modest growth in 2004, exports contracted significantly by close to 4% in 2005, mainly owing to a poor performance of exports by the electronics sector. Although decelerating to below ¼%, import growth was positive. Accordingly, the negative contribution of the external sector to GDP growth amounted to 4 percentage points.

Employment growth decelerated, reflecting a decline in public sector employment which partly offset the increase in private sector jobs. HICP inflation decelerated to 2.5% in 2005 reflecting a favourable base effect caused by a rise in the standard VAT rate and an upward adjustment in energy products in 2004.

Graph 3.20: **Malta - General government finances**



Prospects for 2006 and 2007

Real GDP growth is expected to slow down somewhat to 1¾% in 2006, and accelerate to around 2% in 2007. Economic activity is projected to be almost exclusively domestically-driven in both years, while the negative contribution of the external sector should narrow significantly. Private consumption is forecast to grow by around 1¼% in 2006 and accelerate to 1½% in 2007, on account of higher wage growth, while, following the substantial fiscal consolidation in recent years, public consumption is projected to increase by around 1% in 2006 and 1½% in 2007. Investment is expected to remain the main contributor to domestic demand, albeit growing at a slower speed than in 2005 due to the completion of some public infrastructure projects. Investment growth is projected to ease in 2007, when the decline in public investment should be partly compensated by higher private investment. Overall, the contribution of domestic demand is projected to attain slightly more than 1¾ percentage points in 2006 and 2007.

On the back of an improved outlook for the electronics sector and, to a lesser extent, the tourism industry, exports are expected to recover in 2006 and to accelerate further in 2007. As a result of higher export growth and sustained consumption, imports are also expected to accelerate over the forecast period. Net exports are projected to detract around ¼ of a percentage point from GDP growth.

After peaking in 2005, the current account deficit is forecast to fall to around 12½% of GDP in 2006 and to improve further in 2007. This outcome is mainly explained by a reduction in the imbalance of primary incomes and current transfers over the forecast period. The current account deficit is expected to be only partially financed by capital inflows from EU funds. The remaining net external borrowing position is projected to remain around 9% of GDP over the forecast horizon.

Labour market, costs and prices

Employment growth is expected to decelerate in 2006 as the labour-intensive construction work related with the Mater Dei Hospital approach completion stage. Although declines in construction may continue in 2007, job creation in other activities is expected to pick up owing to improved prospects mainly in the private sector. With the restructuring of manufacturing industry almost completed, job losses in traditional sectors should bottom out, while employment will be created by nascent sectors such as pharmaceuticals. However, the services sector is expected to remain the main contributor to employment growth, due to further expansion in information technology and financial services activities. Although unemployment is anticipated to rise to 7½% in 2006, it should decline marginally in 2007. The outlook for HICP inflation shows a rise to almost 3% in 2006, both as the impact of the recently introduced market-based utility rates are fully captured by the index and as a result of expected further increases in energy prices. Inflation in 2007 is projected to decline only marginally to around 2¾%.

Public finances

Fiscal consolidation proceeded during 2005 as the deficit declined to 3.3% of GDP. In 2006, the general government deficit is expected to decline further to below 3% as a result of tax buoyancy mirroring the domestically-led composition of growth and capital transfers. The structural deficit (cyclically-adjusted deficit net of one-offs) is expected to improve by less than ¼% of GDP. Under a no-policy change scenario, which takes into account the reduction in public investment linked with the Mater Dei Hospital but excludes one-off revenue (sale of immovable property estimated at ¾% of GDP), the deficit is forecast to stand at almost 3¼% in 2007. The general government gross debt in 2005 declined below 75% of GDP. In 2006, the debt-to-GDP ratio excluding the effect of planned privatisation (estimated at 7% of GDP), is expected to fall to 74%. Based on a no-policy change scenario, the debt ratio in 2007 is projected to remain unchanged from the previous year's level.

[1] Co-operation agreement signed between Italy and Malta providing grants to finance public projects in Malta.

Table 3.16

Main features of country forecast - MALTA

		2004			Annual percentage change					
mio MTL		Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		1830.4	100.0	4.2	1.5	-2.5	-1.5	2.5	1.7	1.9
Private consumption		1212.3	66.2	-	-0.3	2.4	-1.2	1.4	1.3	1.5
Public consumption		418.2	22.8	-	4.0	3.0	1.8	-1.9	1.1	1.4
Gross fixed capital formation		380.8	20.8	-	-18.7	28.6	3.8	6.1	4.0	3.5
of which : equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		1393.4	76.1	-	3.6	-2.1	0.4	-3.9	1.1	2.3
Final demand		3356.4	183.4	-	-0.4	2.0	0.2	1.3	1.5	2.1
Imports (goods and services)		1526.0	83.4	-	-2.3	7.0	2.0	0.2	1.2	2.2
GNI at constant prices (GDP deflator)		1808.9	98.8	3.9	1.0	-3.2	-2.3	1.0	1.8	2.1
Contribution to GDP growth :	Domestic demand			-	-3.0	6.5	0.3	1.8	2.0	2.1
	Stockbuilding			-	-1.0	-0.7	-0.2	4.6	0.0	0.0
	Foreign balance			-	5.4	-8.2	-1.6	-3.9	-0.2	-0.1
Employment				1.3	-0.7	-0.7	1.4	0.6	0.3	0.5
Unemployment (a)				6.3	7.5	7.6	7.3	7.3	7.4	7.4
Compensation of employees/head				5.1	2.8	1.7	-0.8	2.4	2.9	3.0
Unit labour costs				2.2	0.6	3.5	2.1	0.5	1.5	1.6
Real unit labour costs				-0.1	-1.2	-0.8	0.5	-2.2	-1.9	-1.3
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.3	1.9	4.4	1.6	2.7	3.5	2.9
Private consumption deflator				-	1.4	0.8	3.5	3.0	3.2	2.8
Harmonised index of consumer prices				-	2.6	1.9	2.7	2.5	2.9	2.7
Trade balance (c)				-19.1	-8.6	-14.2	-16.2	-19.9	-20.0	-20.1
Current account balance (c)				-7.8	0.3	-5.8	-9.6	-12.9	-12.6	-12.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-6.9	0.5	-5.4	-8.0	-9.6	-9.1	-8.9
General government balance (c)(d)				-	-5.6	-10.2	-5.1	-3.3	-2.9	-3.2
Cyclically-adjusted budget balance (c)(d)				-	-6.8	-10.0	-3.9	-2.4	-2.2	-2.6
General government gross debt (c)				-	61.2	71.3	76.2	74.7	74.0	74.0

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

17. The Netherlands

Economic growth back on track

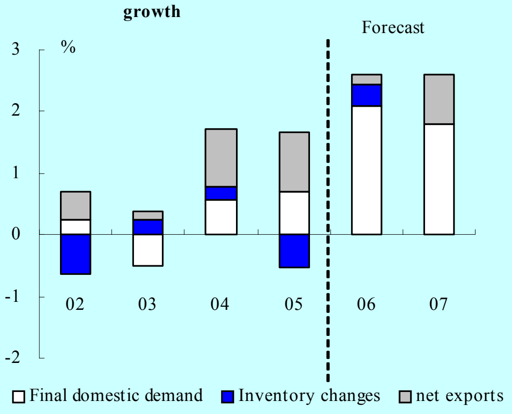
Activity in 2005

The hesitant recovery that had started in 2004 did not follow through in 2005, with GDP growth again turning out lower, at 1.1%. The quarterly profile shows that after a strongly negative first quarter, when the economy contracted by a hefty 0.7% quarter-on-quarter, the recovery restarted with vigour as quarterly growth reached 0.9% on average in each of the subsequent quarters.

Private consumption, after stagnating in 2004, increased by a modest 0.3% in 2005. With households' net real disposable income declining, consumption growth was held up only by the fall in private savings. Private gross fixed investment grew by just over 3% and was dominated by investment in construction. Public investment was down 2% and public consumption expenditure increased only by 0.5% as fiscal consolidation continued. All in all, domestic demand added 0.7% to GDP growth.

Albeit slightly less pronounced than in 2004, economic growth was still predominantly driven by the external sector. Real exports of goods and services grew by 5.9%, on the back of strong world trade growth. Imports lagged somewhat, in line with other national demand factors. In all, net exports contributed 0.9 of a percentage point to GDP growth. The strong recovery was accompanied by a large depletion of stocks, unlike in 2004, when significant stock building took place. This swing in stock-building resulted in a negative contribution to GDP growth.

Graph 3.21: **The Netherlands - Contributions to GDP growth**



Prospects for 2006 and 2007

Economic growth is expected to exceed potential growth by a significant margin and post 2.6% in both years of the forecast period. Strong world import growth continues to support exports, which are likely to grow by around 6½% in 2006 and 2007. However, import growth is now expected to fully catch up and show similar or even marginally higher growth rates. The resulting net exports will add to GDP – around ¼ and ¾ a percentage point in 2006 and 2007, respectively. The main gross contribution to economic growth in both years will come from domestic sources. Private investment will show strong momentum, which is not uncommon at this phase of the economic cycle. Corporate gross fixed capital formation is expected to increase by around 6% in 2006 and over 4% in 2007, although the figure for 2006 is inflated by some large investment projects.

The reform of the health care system that came into effect at the beginning of 2006 resulted in a shift of health care expenditures from private to public consumption. Although this leads to heavily distorted growth figures of private and public consumption, it merely represents a statistical reclassification and no large behavioural effects are assumed for the forecast period. Government consumption, net of these effects, is expected to increase relatively modestly in 2006, but to pick up somewhat in the first half of 2007 in the run-up to the general elections. Private consumption expenditure, also corrected for the health care reform, is forecast to grow modestly in both years, at around 1½% per annum. The main reason for the relatively benign consumption path is that real disposable household income is expected to increase only slowly as wage growth will lag the economic recovery. Additionally, private savings are expected to recuperate some of the ground lost in recent years, increasing from 12.3% in 2005 to 12.6% of gross disposable income in 2006 and 2007.

Labour market, costs and prices

In 2005, total employment is expected to have fallen by 0.2%, representing the third consecutive year of falling employment. The economic recovery will result in significant employment growth from 2006 onwards, leading to a fall in unemployment from 4.7% in 2005 to 3.9% in 2007. Wage growth is expected to remain relatively subdued, mainly because tensions in the labour market will only start to arise at the end of the forecast period and wages are likely to respond with a lag to the tightening labour market. Unit labour costs will only marginally increase in 2006, but pick up somewhat in 2007. As the output gap is likely to remain well within negative territory, inflationary pressures are forecast to remain contained. HICP inflation is expected to increase to 1.8%[1] in 2006 and 2.1% in 2007. Oil prices are assumed to continue to rise in 2006 and 2007, albeit at a slower pace, alleviating upward pressures on consumer prices.

Public finances

Since the deficit peaked in 2003, the general government deficit was brought back to 1.9% in 2004 and continued to decline quickly in 2005. The estimated deficit for 2005 has been heavily revised in recent months, from 1.8% last September at the time of the budget to a current 0.3% of GDP. This better-than-expected outcome reflects higher gas receipts and tax revenues, as well as spending that remained below the allotted ceilings. Additionally, the balance benefited from corporate tax receipts of ¼% of GDP which had been advanced from 2006 to 2005 following an increase in interest rates paid on overpaid taxes. For 2006, it is assumed that allotted expenditure ceilings will again be met and that there will be a mirror effect of the advance from corporate tax receipts. On balance, this will effectively increase the budget deficit by 0.9 of a percentage point to 1.2% of GDP against the background of substantially higher economic growth. In 2007, the deficit is expected to improve to ¾% of GDP on the back of the cyclical upswing, but also because the expected increase in oil prices will feed through to gas prices, generating additional revenues.

[1] Note that in 2006 the CPI, but not the HICP, is affected by the elimination of the users' part of the property tax, reducing CPI inflation by around ½ a percentage point.

Table 3.17

Main features of country forecast - NETHERLANDS

		2004		Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices		488.6	100.0	2.5	0.1	-0.1	1.7	1.1	2.6	2.6
Private consumption		239.2	48.9	2.0	0.9	-0.7	0.0	0.3	-2.1	1.5
Public consumption		118.5	24.3	2.6	3.3	2.4	0.0	0.5	9.5	1.6
Gross fixed capital formation		94.6	19.4	2.5	-4.5	-3.5	2.9	2.3	4.4	3.4
of which : equipment		28.3	5.8	3.8	-4.9	3.7	5.1	1.4	6.2	3.7
Exports (goods and services)		328.1	67.1	5.4	0.9	2.0	8.5	5.9	6.5	6.7
Final demand		781.3	159.9	3.3	0.1	0.6	3.9	2.7	4.4	4.2
Imports (goods and services)		292.6	59.9	4.8	0.3	2.0	7.8	5.1	7.0	6.4
GNI at previous year prices (GDP deflator)		489.8	100.2	2.4	0.2	-0.9	1.8	1.4	2.7	2.6
Contribution to GDP growth :	Domestic demand			2.1	0.2	-0.5	0.6	0.7	2.1	1.8
	Stockbuilding			-0.1	-0.6	0.2	0.2	-0.5	0.3	0.0
	Foreign balance			0.5	0.5	0.1	0.9	0.9	0.2	0.8
Employment				1.2	-0.3	-0.9	-1.6	-0.2	0.8	0.8
Unemployment (a)				6.4	2.8	3.7	4.6	4.7	4.3	3.9
Compensation of employees/head				2.9	5.2	4.0	3.3	1.4	2.2	2.7
Unit labour costs				1.6	4.8	3.3	-0.1	0.1	0.4	0.9
Real unit labour costs				-0.6	1.0	0.7	-0.9	-1.4	-0.9	-0.4
Savings rate of households (b)				-	-	13.9	14.0	12.3	12.6	12.6
GDP deflator				2.2	3.8	2.5	0.9	1.6	1.3	1.4
Private consumption deflator				2.5	3.0	2.2	1.1	1.7	2.0	2.1
Harmonised index of consumer prices				-	3.9	2.2	1.4	1.5	1.8	2.1
Trade balance (c)				4.1	6.7	6.8	7.3	8.2	8.2	8.6
Current account balance (c)				4.0	6.1	5.9	6.2	7.1	6.5	6.7
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				3.6	5.9	5.6	5.9	6.6	6.4	6.4
General government balance (c)(d)				-3.1	-2.0	-3.1	-1.9	-0.3	-1.2	-0.7
Cyclically-adjusted budget balance (c)(d)				-2.9	-1.9	-2.1	-0.9	1.0	-0.3	-0.2
General government gross debt (c)				66.3	50.5	51.9	52.6	52.9	51.2	50.3

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

18. Austria

Private consumption finally picking up slowly

Activity in 2005

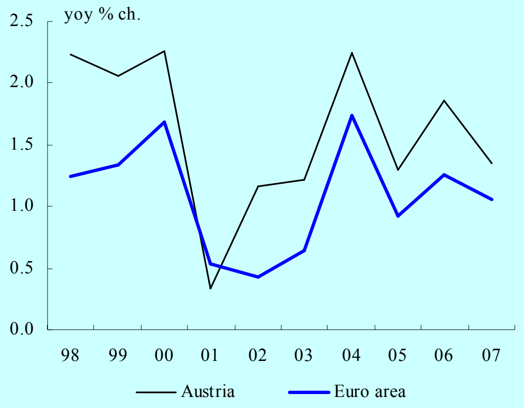
The Austrian economy grew by 1.9% in 2005, decelerating from 2.4% in the previous year. Domestic and external demand provided roughly equal contributions to growth. Against the background of sizeable personal income tax cuts, private consumption grew at almost twice the pace of the previous year, though still moderately by historical standards. As expected, investment grew only slowly due to the expiry of the fiscal investment premium at the end of 2004 (initially planned for the end of 2003, but then postponed) which resulted in significant carry-forward effects, predominantly in 2003. After the strong 9% growth in 2004, exports decelerated substantially, but this was mainly due to statistical effects caused by the change in the treatment of accounting of aircraft repairs. With imports growing very slowly, net exports still contributed strongly to growth.

Looking at the quarterly profile, the year saw a gradual acceleration from 0.2% in the first quarter up to 0.7% in the last. Both private and government consumption grew at a steady pace throughout the year, whereas gross fixed capital formation and imports growth sped up quarter-on-quarter. Export growth peaked in the middle of the year and weakened thereafter, reflecting a softening of exports and imports in Germany.

Prospects for 2006 and 2007

Activity is expected to accelerate significantly in 2006 and slow down somewhat thereafter, narrowing the negative output gap over the forecast period. Growth will be increasingly driven by domestic demand as consumers benefit from previous years' tax cuts, lower-than-initially-expected inflation and relatively strong job creation. The growth rate of equipment investment should rebound in 2006 on the back of rising replacement demand and healthy profits. Housing construction is to pick up after a slump in 2005. Other construction is expected to grow robustly due to the government's measures aimed at improving Austria's infrastructure, adopted mainly to address growing unemployment.

Graph 3.22: **Austria - Labour productivity**



Export growth in 2006 is assumed to be strong because of carry-forward effects in private consumption in Germany due to the increase in the standard German VAT rate as from 2007. The planned change is thought to influence in particular purchases of durable goods, which constitute a significant share of Austrian exports to Germany.

Labour market, costs and prices

Employment is expected to grow throughout the forecast period, albeit more slowly than in the euro area on average, due to continuously higher labour productivity in Austria (see graph). The unemployment rate is likely to remain unchanged up to the forecast horizon as the labour force grows rapidly due to more women and foreigners entering the job market and older workers staying longer as a consequence of the recent pension reform. The government's special measures adopted in September 2005 seem to be helping to stabilise unemployment, but are not sufficient to bring it down.

Consumer price inflation is projected to stay well below 2% over the forecast period. Since wage developments are expected to stay in line with productivity growth, no inflationary pressures should arise from labour cost.

Public finances

In 2005, the general government budget deficit amounted to 1.5% of GDP, 0.4 percentage point lower than the national authorities had initially expected. The 2005 budget was affected by the second stage of the tax reform started one year earlier. Its burden on the budget in 2005 had been estimated at 0.8% of GDP, but tax revenue turned out to be higher than expected, mainly owing to higher proceeds from VAT and corporate tax. However, the planned expenditure was also exceeded (e.g. on education and family benefits), though by a smaller margin.

The revenue loss from the tax reform, which did not fully materialize in 2005, will most probably be deferred to 2006 and enlarge the revenue loss of about 1.4% of GDP initially estimated for 2006.. The budget will be additionally burdened with the cost of the regional employment and growth initiative of August 2005 and a package of measures aimed at combating youth unemployment and helping women re-enter the job market that the government adopted in September 2005 (about 0.16% of GDP in total). On the other hand, implementation of the second stage of the administrative reform, agreed on by the different levels of government in November 2005, should result in expenditure savings of around 0.1% of GDP. Taking all those factors into account, it is likely that the general government deficit will slightly surpass the 1.7% of GDP planned by the national authorities.

In 2007, the deficit is expected to decline somewhat as the impact of the tax reform wears off, but it will still be considerably higher than the 0.8% target presented in the latest update of the stability programme.

The debt ratio should decrease slightly over the forecast period, but will nevertheless remain above the 60%-of-GDP reference value.

Table 3.18

Main features of country forecast - AUSTRIA

		2004		Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices		237.0	100.0	2.3	1.0	1.4	2.4	1.9	2.5	2.2
Private consumption		132.0	55.7	2.3	0.3	1.6	0.8	1.4	2.0	2.1
Public consumption		42.3	17.8	1.9	1.1	1.7	1.0	1.3	1.3	1.3
Gross fixed capital formation		49.7	21.0	2.1	-5.0	6.1	0.6	0.9	3.0	2.4
of which : equipment		19.7	8.3	2.8	-9.6	8.1	0.5	0.9	3.0	2.9
Exports (goods and services)		120.9	51.0	5.2	3.5	2.3	9.0	3.7	6.8	5.0
Final demand		345.9	145.9	3.0	0.7	2.5	3.6	2.2	3.7	3.1
Imports (goods and services)		109.3	46.1	4.4	0.2	5.6	6.2	1.8	5.2	4.5
GNI at previous year prices (GDP deflator)		234.2	98.8	2.3	2.2	1.5	2.3	1.9	2.5	2.2
Contribution to GDP growth :	Domestic demand			2.1	-0.6	2.8	0.8	0.8	2.0	1.9
	Stockbuilding			0.0	0.0	0.0	0.1	0.1	0.0	0.0
	Foreign balance			0.3	1.6	-1.4	1.6	1.0	1.1	0.6
Employment				0.4	-0.1	0.1	0.0	0.6	0.6	0.9
Unemployment (a)				3.4	4.2	4.3	4.8	5.2	5.2	5.2
Compensation of employees/head				4.1	2.1	1.9	2.3	2.4	2.8	2.2
Unit labour costs				2.2	1.0	0.6	-0.2	1.1	0.9	0.8
Real unit labour costs				-0.5	-0.2	-0.8	-2.1	-0.9	-0.9	-0.9
Savings rate of households (b)				-	-	13.0	13.4	14.1	14.1	13.8
GDP deflator				2.7	1.3	1.4	1.9	2.0	1.9	1.8
Private consumption deflator				2.8	1.0	1.5	2.0	2.0	1.7	1.7
Harmonised index of consumer prices				-	1.7	1.3	2.0	2.1	1.7	1.6
Trade balance (c)				-3.3	1.7	0.5	1.5	1.5	1.7	1.7
Current account balance (c)				-1.1	2.6	1.5	2.7	2.9	3.7	4.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.1	2.4	1.5	2.6	2.9	3.7	3.9
General government balance (c)(d)				-2.8	-0.5	-1.5	-1.1	-1.5	-1.9	-1.4
Cyclically-adjusted budget balance (c)(d)				-2.7	-0.3	-1.0	-0.8	-1.0	-1.7	-1.2
General government gross debt (c)				56.7	66.0	64.4	63.6	62.9	62.4	61.6

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

19. Poland

Expansion driven by domestic demand, no improvement in the fiscal position

Activity in 2005

At 3.2%, GDP growth in 2005 was disappointing compared to the previous year (5.3%). Economic activity started to recover in the final quarter of 2005, when economic growth reached 4.2% year-on-year on the back of a strong pick-up in investment activity. Following the end of the pre-election instability in the first half of the year, when investment growth reached only 2.5%, investors regained confidence in the second half. In 2005 as a whole gross fixed capital formation was up by 6.2%. Total domestic demand grew by a meagre 1.9% in 2005 because of low consumption and large de-stocking.

Export growth almost halved to 7.1% in comparison with 2004, and import growth slowed to a mere 3.4%, down from 15.2% in 2004. Overall, GDP growth in 2005 was supported by domestic demand net of changes in inventories and net exports (3.0 and 1.3 percentage point contributions to GDP growth, respectively). The contribution of inventories to GDP growth was negative (-1.1 percentage points). Large de-stocking can be explained by the adjustment of stocks to lower-than-expected demand and too high demand expectations in 2004 (the year of accession to the EU) when stocks were built up.

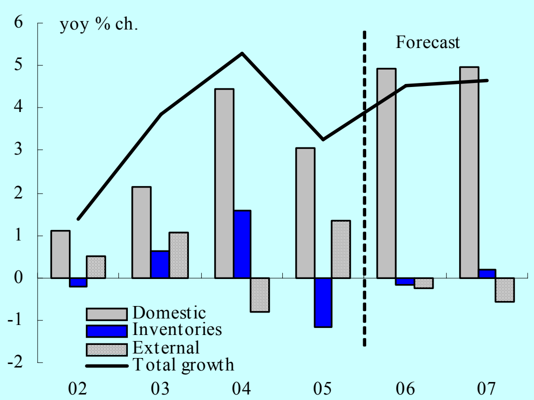
Prospects for 2006 and 2007

GDP growth is expected to accelerate to 4.5% in 2006 and 4.6% in 2007. Domestic demand is expected to be the main driving force in both years. Investment and private consumption growth are likely to pick up strongly over the forecast period. This outlook is underpinned by short-term indicators which point to industrial production and retail sales reaching over 10% year-on-year growth in the first quarter of 2006. Despite the still unstable political situation, companies seem to be more inclined to invest, which is reflected in high investment-driven import growth. Furthermore, capacity utilisation is very high, while corporate profits in 2005 were the highest in the last 16 years and interest rates are at a record-low level. These factors are expected to translate into high investment growth in 2006 and 2007.

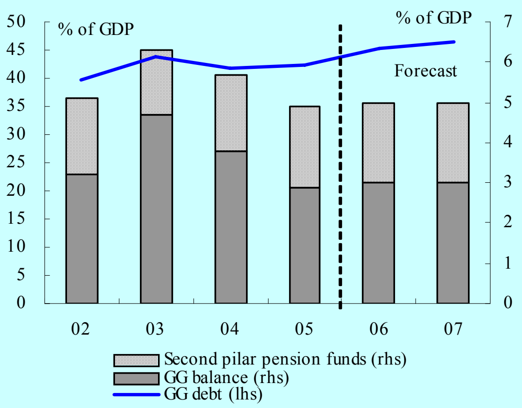
Private consumption is likely to benefit from a number of factors, notably the indexation of pensions in 2006, the lowering of effective personal income tax rates as from 2007, direct payments to farmers and stronger real wage growth. The administrative difficulties encountered in managing EU funds have so far limited Poland's absorption capacity, but the situation has started to improve. Therefore, in 2006 and 2007, EU funds (up to 1.2% and 1.5% of GDP, respectively) will boost domestic demand and increase imports, which will translate into a negative contribution of net exports to GDP growth, in spite of a good performance of Polish exporters

Export growth accelerated in the last quarter of 2005 and is expected to remain buoyant within the forecast period, despite a temporary food export ban to Russia and Ukraine. The share of exports to non-EU countries is likely to increase. Growing imports in line with strengthening domestic demand is projected to lead to an increase in the trade and current account deficits this year and next. However, higher transfers from the EU will have a moderating impact on both the current and capital accounts. After narrowing to

Graph 3.23: **Poland - GDP growth and its contributors**



Graph 3.24: **Poland - General Government finances**



1.5% in 2005, the current account deficit is expected to widen to about 2% in 2006 and 2½% in 2007, and will thus remain within sustainable bounds.

Labour market, costs and prices

Labour market conditions have been improving since the second quarter of 2004. Overall, employment started to grow in 2004. It increased by 2.3% in 2005 and is expected to stay on an upward trend over the forecast horizon, but the employment rate remains the lowest in the EU. As economic activity is accelerating *inter alia* thanks to higher investment, projected employment growth should translate into a lower unemployment rate by more than 2 percentage points in 2006-2007. The participation rate is expected to grow slowly up to 64.2% in 2007. The planned reduction of taxes on labour should also have a favourable impact on employment and unemployment from 2007 onwards. However, unemployment will still be relatively high, above 16% of the labour force, by the end of the forecast horizon, reflecting the deep-rooted structural problems in the labour market.

Unit labour costs grew by 2.1% in 2005, owing to a drop in productivity growth combined with modest compensation growth. In 2006 and 2007, unit labour cost growth is expected to expand by 2¼% in 2006 and 2½% in 2007 on the back of a moderate recovery of productivity and rapid wage growth. Unemployment is reaching levels close to structural unemployment, and thus will exert to a lesser extent a moderating influence on wage growth.

Despite unfavourable developments in oil and energy prices, lower mark-ups of oil refineries and subdued food prices have kept HICP inflation relatively low, at 2.2% on average in 2005; year-on-year inflation went down to 0.8% in December. In February 2006, annual inflation reached 0.9% and is likely to remain close to this level in the coming months. A slightly negative output gap, which is not likely to close over the forecast horizon, and muted inflationary expectations are projected to keep inflation in 2006 and 2007 below the central bank's medium-term target of 2.5%. Inflation is forecast to reach 1.0% in 2006 and 2.0% in 2007.

Public finances

Since the 2005 autumn forecast, the picture of public finances has changed significantly as a result of substantial data revisions following methodological changes. The 2005 general government deficit is now estimated at 2.5% of GDP compared to an earlier prediction of 3.6%. This significant reduction is mainly due to a new formula transforming cash data into accrual data, an upward revision of GDP by the statistical office and lower absorption of EU funds, which resulted in lower investment expenditure. In addition, the record-high corporate profits resulted in a large increase of corporate income tax revenues in 2005 which is not likely to continue into 2006.

The general government deficit is expected to reach 3% of GDP in 2006, above the target set in the January 2006 Convergence Programme (2.6%). This reflects high uncertainty concerning the implementation of the 2006 budget. Despite the projected acceleration of GDP growth, revenues from indirect taxes are likely to be lower than in the rather very optimistic outlook presented in the budget. In addition, there is a risk that the government will increase social expenditure under pressure from smaller parties or if the prospects of early elections resurge. Numerous expenditure-increasing initiatives have already been presented in the so-called political "stabilisation pact", which was signed by the ruling party and the smaller ones in February 2006.

Against the background of slightly accelerating growth, the general government deficit-to-GDP ratio is expected to stabilise at 3% of GDP in 2007. This forecast clearly diverges from the deficit target of 2.2% of GDP set in the January 2006 Convergence Programme mainly because it considers revenue-reducing reforms in social contributions, personal income tax and value added tax announced on 31 March 2006. In particular, the cuts in contributions to the disability and sickness funds (estimated at more than 0.6% of GDP), pro-family tax reliefs and the indexation of brackets of personal income tax (estimated at about 0.4% of GDP) will weigh on the 2007 budget. The revenue losses are to be counterbalanced to some extent by increased revenues from higher excise duties on fuel and cigarettes and the removal of private construction and renovation tax reliefs (about 0.6% of GDP altogether).

The general government balance presented in the forecast still includes the surplus of the second-pillar pension funds, the impact of which is expected to reach approximately 2% of GDP in 2006-07.

The debt-to-GDP ratio is projected to increase by more than 4 percentage points between 2005 and 2007 and it will reach 46.7% of GDP. A high growth of the ratio in 2006 (3 percentage points) can to a large extent be attributed to significant stock-flow adjustments (around 2 percentage points), distributed equally across net accumulation of financial assets, valuation effects and the difference between cash and accrual balance.

Table 3.19

Main features of country forecast - POLAND

		2004		Annual percentage change						
bn PLN		Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices		923.1	100.0	5.0	1.4	3.8	5.3	3.2	4.5	4.6
Private consumption		591.1	64.0	5.1	3.3	1.9	3.9	2.3	4.0	3.6
Public consumption		165.1	17.9	2.7	1.3	4.9	4.2	2.7	2.9	3.0
Gross fixed capital formation		165.8	18.0	9.7	-6.3	-0.1	6.3	6.2	10.2	11.2
of which : equipment		64.6	7.0	-	-8.5	-1.4	8.0	5.0	8.5	10.0
Exports (goods and services)		346.4	37.5	11.8	4.8	14.2	14.0	7.1	7.8	6.9
Final demand		1286.9	139.4	6.7	1.7	5.2	7.9	3.3	5.6	5.6
Imports (goods and services)		363.7	39.4	14.2	2.7	9.3	15.2	3.4	8.4	8.1
GNI at previous year prices (GDP deflator)		881.1	95.4	5.0	1.2	3.1	2.2	4.4	4.7	5.0
Contribution to GDP growth :	Domestic demand			5.6	1.1	2.1	4.5	3.1	4.9	5.0
	Stockbuilding			0.1	-0.2	0.6	1.6	-1.2	-0.2	0.2
	Foreign balance			-0.7	0.5	1.1	-0.8	1.4	-0.2	-0.6
Employment				-	-	-	-	2.3	2.2	1.8
Unemployment (a)				13.4	19.9	19.6	19.0	17.7	16.2	15.2
Compensation of employees/head				19.2	2.0	0.8	1.9	3.0	4.6	5.2
Unit labour costs				-	-	-	-	2.1	2.3	2.4
Real unit labour costs				-	-	-	-	0.5	1.8	0.9
Savings rate of households (b)				-	-	7.7	6.2	8.5	9.6	10.1
GDP deflator				12.3	2.2	0.4	4.0	1.5	0.4	1.5
Private consumption deflator				12.8	3.3	0.4	3.1	1.5	0.5	1.6
Harmonised index of consumer prices				-	1.9	0.7	3.6	2.2	1.0	2.0
Trade balance (c)				-4.9	-3.7	-2.6	-2.3	-0.9	-1.5	-2.2
Current account balance (c)				-3.6	-2.5	-2.1	-4.2	-1.5	-2.0	-2.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-3.5	-2.5	-2.1	-3.8	-1.1	-1.7	-2.2
General government balance (c)(d)(e)				-3.3	-3.2	-4.7	-3.9	-2.5	-3.0	-3.0
Cyclically-adjusted budget balance (c)(d)				-2.8	-2.3	-4.2	-4.2	-2.6	-3.3	-3.5
General government gross debt (c)				-	39.8	43.9	41.9	42.5	45.5	46.7

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).
(e) Including second pillar pension funds (see for more details note 11 on concepts and sources).

20. Portugal

Gradual recovery of activity, but imbalances remaining large

Activity in 2005

In 2005, the Portuguese economy grew by 0.3%, indicating the continuation of a fragile economic situation. The growth profile was uneven with a temporary revival in the second quarter on the back of a carry-forward of purchases against the increase in the VAT standard rate in July. For the year as a whole, investment receded on the back of a shrinking construction sector. Exports gradually recovered from the weak performance of late 2004 and imports decelerated markedly. Altogether, the contribution of domestic demand to GDP growth declined over the year, while the net contribution of the external sector gradually improved.

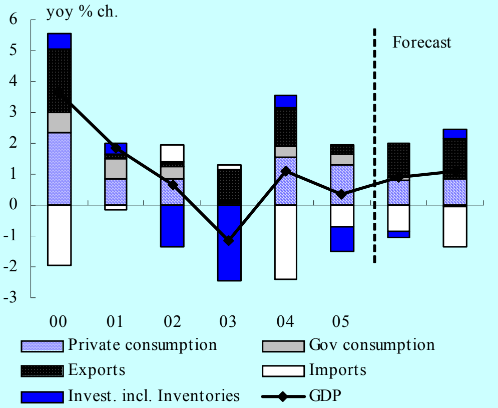
Nevertheless, 2005 was marked by a widening of the external deficit. Notably, the primary income deficit increased and current and capital transfers declined considerably: altogether these items accounted for more than half of the external balance deterioration.

Prospects for 2006 and 2007

Some moderate improvement of economic activity is expected this year and next, with real GDP growth rates expected to be close to 1%.

The contribution of domestic demand to GDP growth is forecast to be smaller than in the last two years. Private consumption is expected to be constrained by a weakening labour market and high household indebtedness against the backdrop of possibly tighter financing conditions. Additionally, recent curbs on tax credits and hikes on some taxes will constrain disposable income growth over the forecast period.

Graph 3.25: **Portugal - Contributions to GDP growth**



Investment is expected to mirror the downturn in construction, which seems to be the result of cyclical factors as well as of a more permanent downsizing of the sector. At the same time, investment in equipment will recover gradually over the forecast period, though held back by the weak momentum of final demand.

The contribution of net exports to GDP growth is forecast to be slightly positive or neutral. Price and wage deceleration, in particular in 2007, is expected to create some leeway for export growth. Additionally, a contribution is expected to come from a recovery of car exports already in 2006 and, building upon the 2005 experience, exports to new markets may become somewhat brisker. However, the fact that some export-oriented industries are still adjusting to supply shocks coming from the increasing integration of emerging economies into world trade adds uncertainty to the exports outlook.

The external balance is not expected to improve over the forecast period. In addition to a deterioration of the terms of trade, driven by oil prices, current and capital transfers are predicted to remain on a downward trend.

Labour market, costs and prices

In the past few years, employment has been affected by the subdued economic activity. Small employment gains are projected for the coming years in line with the expected cyclical recovery of activity, yet not sufficient to reduce the unemployment rate. Under such conditions, wage growth is expected to slow down, putting a lid on prices and unit labour costs.

In 2005, inflation fell to its lowest level since 1997, despite the pressure exerted by higher energy prices and the increase in the standard VAT rate from 19 to 21% in July. However, in 2006, the carry-over of these shocks will weigh on prices. Although the subdued cyclical conditions, as revealed by a negative output gap, are pulling in the opposite direction, average HICP inflation may nevertheless increase to almost 2¾% in 2006 before declining in 2007.

Public finances

In 2005, the general government deficit corresponded to 6% of GDP. The sharp deterioration from the 2004 deficit was largely the result of the government decision of no longer implementing deficit-reducing one-off operations.

Tax revenue grew markedly in 2005, apparently as the result of improved tax collection, as well as of the VAT increase in July. On the other hand, lower dividend receipts from government-owned enterprises acted as a drag on revenues. At the same time, current expenditure increased further as a share of GDP, with a strong increase in social transfers persisting as old-age pension schemes mature. Additional expenditure pressure also came from personnel, health and local government spending and EU contributions.

Various corrective measures on both the revenue and expenditure side have been introduced since mid-2005. They include the VAT increase, gradual increases in some excise taxes and the reduction of tax credits. The main corrective measures on the expenditure side concern health and pension schemes, in particular those for government employees. Relevant changes have been also introduced to central government hiring rules and, in 2006, a temporary freeze of staff automatic promotions and transfers to local government has been put in place[1].

Revenues are expected to grow at a healthy pace, in particular in 2006, underpinned by discretionary measures affecting tax rates and credits. Whereas a slowdown in current primary expenditure is expected, sustained control will continue to be a matter of concern. In particular, social transfers other than in kind are forecast to continue growing well above nominal GDP. In addition, interest expenditure seems to have bottomed out and to be starting to rise faster.

In all, the projected revenue and expenditure patterns will yield a fall of the general government deficit to some 5% of GDP in 2006. With high deficits and low GDP growth, the government debt ratio is projected to continue increasing over the forecast period.

[1] Other sizeable measures, notably on the public administration, have been outlined but not presented in sufficient detail for them to be properly assessed; therefore it was not possible to consider them in the current forecast.

Table 3.20

Main features of country forecast - PORTUGAL

		2004		Annual percentage change						
	bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at previous year prices		142.8	100.0	3.0	0.8	-1.1	1.1	0.3	0.9	1.1
Private consumption		92.3	64.6	3.0	1.3	0.1	2.4	2.0	1.2	1.2
Public consumption		29.2	20.4	4.1	2.6	0.3	2.0	1.7	0.3	-0.1
Gross fixed capital formation		31.9	22.4	3.9	-3.5	-10.0	0.9	-3.1	-0.8	1.3
of which : equipment		10.2	7.1	3.7	-8.2	-6.4	4.7	-0.6	1.8	2.6
Exports (goods and services)		40.8	28.6	6.2	1.5	3.7	4.5	0.9	3.9	4.5
Final demand		195.0	136.5	4.0	0.3	-0.9	2.7	0.8	1.3	1.7
Imports (goods and services)		52.2	36.5	6.9	-0.7	-0.4	6.8	1.8	2.3	3.4
GNI at previous year prices (GDP deflator)		141.1	98.8	3.0	1.8	-0.6	1.0	-0.1	1.1	1.1
Contribution to GDP growth :	Domestic demand			3.6	0.4	-2.4	2.1	1.0	0.7	1.1
	Stockbuilding			0.0	-0.4	0.0	0.2	-0.2	0.0	0.0
	Foreign balance			-0.6	0.7	1.2	-1.1	-0.4	0.2	0.0
Employment				0.5	0.4	-0.4	0.1	0.0	0.2	0.3
Unemployment (a)				6.3	5.0	6.3	6.7	7.6	8.1	8.3
Compensation of employees/head				13.1	4.4	3.1	2.4	2.9	2.7	2.5
Unit labour costs				10.3	4.0	3.9	1.4	2.6	2.0	1.7
Real unit labour costs				-0.5	0.1	1.1	-1.3	-0.2	0.3	-1.1
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				10.9	3.9	2.7	2.8	2.7	1.7	2.8
Private consumption deflator				10.6	3.0	2.8	2.6	2.6	2.8	2.5
Harmonised index of consumer prices				-	3.7	3.3	2.5	2.1	2.7	2.4
Trade balance (c)				-11.8	-9.7	-8.3	-9.6	-10.4	-10.9	-10.7
Current account balance (c)				-4.7	-8.2	-6.5	-7.8	-9.5	-9.8	-9.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-6.4	-4.0	-5.8	-7.9	-8.2	-8.3
General government balance (c)(d)				-5.3	-2.9	-2.9	-3.2	-6.0	-5.0	-4.9
Cyclically-adjusted budget balance (c)(d)				-5.2	-3.5	-2.5	-2.7	-5.1	-4.0	-3.8
General government gross debt (c)				53.4	55.5	57.0	58.7	63.9	68.4	70.6

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

21. Slovenia

Healthy growth continues

Activity in 2005

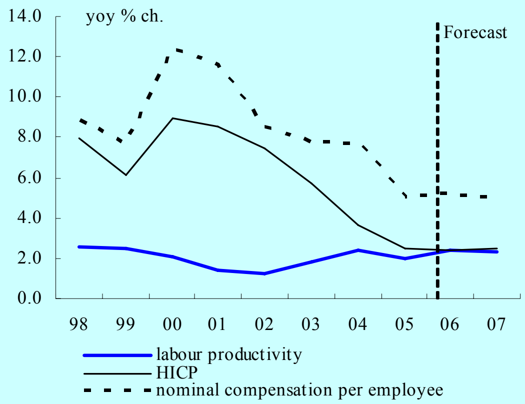
Against the background of oil price hikes, the economy continued to grow steadily at 3.9% in 2005. After relatively weak activity in the first quarter, GDP growth soared in the second quarter due to vigorous car exports to France and Austria, but stabilised just above 3.5% yoy in the second half of the year. While the export performance remained remarkably resilient throughout the year, imports slowed against the backdrop of high commodity price levels and subdued investment activity. At the same time, major de-stocking occurred, which decreased annual growth of real GDP by 1.7 percentage points. Domestic consumption was stimulated mainly through household spending, which strengthened following a sustained rise in employment and favourable borrowing conditions.

Prospects for 2006 and 2007

In 2006, real GDP is projected to increase by 4.3%, largely driven by domestic demand. The external contribution is expected to decline but stay positive thanks to the favourable circumstances in the international environment, and especially owing to prospects of a temporary increase in Germany's domestic consumption.

The revival in foreign markets should ensure that export performance holds up in the face of the fading effect of the recent increase in exports of vehicles. Imports are set to rise in step with buoyant domestic demand. Household consumption, in particular, is likely to remain strong in the run-up to euro introduction. Favourable labour market developments and attractive credit opportunities should continue to encourage private spending, especially on durable goods. Investment spending related to housing construction is also forecast to stay high, as evidenced by strong growth in the number of construction permits issued. Furthermore, a major investment in the highway construction has been announced. Investment expenditure related to the adjustment of production processes with the aim of improving the competitiveness of Slovene industry is also anticipated to pick up.

Graph 3.26: **Slovenia - Price and wage delopments**



In 2007, GDP growth is projected to decelerate slightly to 4.1% since foreign demand is expected to slowly lose momentum. Imports are forecast to increase further with buoyant private and investment spending. The projections foresee the trade deficit to widen, however, the current account deficit is likely to stay contained below 2% of GDP.

Labour market, costs and prices

In 2005, against the background of a remarkably stable exchange rate, inflation dropped to 2.5%. Throughout the year, market prices were driven down by increased competition resulting from EU accession. Furthermore, the government regulated administered price rises in such a way as not to exert inflationary pressures. Excise duties on energy products were adjusted to partly counteract the adverse effects of oil price hikes. The lowest level of taxes allowed by EU legislation was reached in July 2005. In the same period, the regular harmonisation of excise duties on tobacco with the acquis was carried out as requested by the accession agreement. The disinflationary path, however, remained smooth.

The existing government policies and exchange rate stability fostered in the ERM II framework curb inflationary pressures. Assuming contained market price rises following the limited second-round effects of the rising oil price, inflation is expected to decrease marginally to 2.4% by the end of the year. The mandatory double pricing, in effect as of 1 March 2006 throughout the economy, should limit the inflationary impact of euro introduction. Consumer price growth is projected to stabilise, though this forecast remains vulnerable to oil price shocks and liberalisation of the electricity and natural gas market for households by 1 July 2007. Furthermore, there are uncertainties related to the potential increase in VAT rates, which could add around 0.8 percentage points to the rate of inflation, and the outcome of the pending wage agreement.

The labour market situation is set to improve further this year against the background of solid economic activity. The marked rise in employment recorded in 2005 should be sustained until 2007, while the unemployment rate is forecast to linger just above 6%. In 2005, an increase in gross wages compared to 2004 was moderate despite the effect of the new tax regime, which ended the favourable treatment for freelance fees and thus encouraged employers to pay salaries instead. The negotiations between social partners for 2006-2007 are still ongoing and the wage policy is expected to be agreed by early summer. However, the government has declared itself in favour of maintaining the arrangement whereby the real wage rise should lag behind productivity growth by more than one percentage point.

Public finances

Following the third consecutive alignment of government accounts to ESA95 methodology (on capital transfers), the general government figures were revised upwards by 0.1-0.4% of GDP for the period 2000-2004. In 2005, the deficit declined to 1.8% of GDP. The revenues came in better than expected while the increase in general government expenditure was contained against a backdrop of restrictive employment and wage policies in the public sector and rationalisation of government goods and services purchases. The forecast for 2006 projects the deficit to worsen against the decision to index pensions to wages and the commitment of the new government to gradually abolish the payroll tax. To cover for the loss in revenue, an increase in VAT rates is contemplated as a possible corrective measure. Over the forecast horizon, the general government debt is expected to stay just below 30 percent of GDP.

Table 3.21

Main features of country forecast - SLOVENIA

	2004		Annual percentage change						
	bn SIT Curr. prices	**% GDP**	**95-01**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
GDP at previous year prices	6251.2	100.0	4.1	3.5	2.7	4.2	3.9	4.3	4.1
Private consumption	3461.5	55.4	3.8	1.3	3.4	3.1	3.3	3.5	3.4
Public consumption	1219.1	19.5	3.3	3.2	1.6	2.9	3.0	2.8	2.9
Gross fixed capital formation	1506.0	24.1	9.8	0.9	7.1	5.9	3.7	4.4	5.8
of which : equipment	653.7	10.5	12.3	-2.7	11.4	9.4	2.9	3.2	7.2
Exports (goods and services)	3761.5	60.2	6.1	6.7	3.1	12.5	9.2	7.7	7.3
Final demand	10088.3	161.4	5.3	3.9	4.1	7.4	4.4	5.2	5.4
Imports (goods and services)	3837.0	61.4	7.4	4.8	6.7	13.2	5.3	6.6	7.5
GNI at previous year prices (GDP deflator)	6193.5	99.1	4.0	2.7	2.5	3.9	4.0	4.4	4.1
Contribution to GDP growth :	Domestic demand		4.9	1.6	3.8	3.7	3.3	3.6	3.9
	Stockbuilding		-0.1	0.8	0.8	0.9	-1.7	0.0	0.4
	Foreign balance		-0.7	1.1	-2.0	-0.4	2.3	0.7	-0.2
Employment			-	1.5	-0.2	0.4	0.7	0.6	0.4
Unemployment (a)			6.9	6.3	6.7	6.3	6.3	6.3	6.3
Compensation of employees/head			-	8.5	7.8	7.7	5.0	5.2	5.0
Unit labour costs			-	6.5	4.7	3.8	1.8	1.4	1.3
Real unit labour costs			-	-1.3	-1.0	0.6	0.8	-0.7	-1.1
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			9.8	7.9	5.8	3.2	1.0	2.2	2.5
Private consumption deflator			10.1	7.9	5.4	3.5	1.6	2.2	2.4
Harmonised index of consumer prices			-	7.5	5.7	3.7	2.5	2.4	2.5
Trade balance (c)			-4.5	-1.1	-2.2	-3.9	-3.6	-4.4	-4.7
Current account balance (c)			-0.9	1.5	-0.3	-2.0	-1.1	-1.6	-1.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-0.9	1.5	-0.3	-1.9	-1.1	-1.6	-1.8
General government balance (c)(d)			-	-2.7	-2.8	-2.3	-1.8	-1.9	-1.6
Cyclically-adjusted budget balance (c)(d)			-	-2.4	-2.1	-1.8	-1.4	-1.8	-1.7
General government gross debt (c)			-	29.7	29.1	29.5	29.1	29.9	29.7

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

22. Slovakia

Domestic demand remains the main growth engine

Activity in 2005

Economic growth accelerated to 6% in 2005. It continued to be driven by domestic demand, particularly by investment and private consumption. Robust employment and real wage growth lifted private consumption growth to 5¾%. Gross fixed capital formation increased by 13¼%, boosted by the realisation of some big investment projects in the corporate sector as well as by an increase in public infrastructure investment. The contribution of net exports remained negative against the backdrop of lower real growth of both exports and imports.

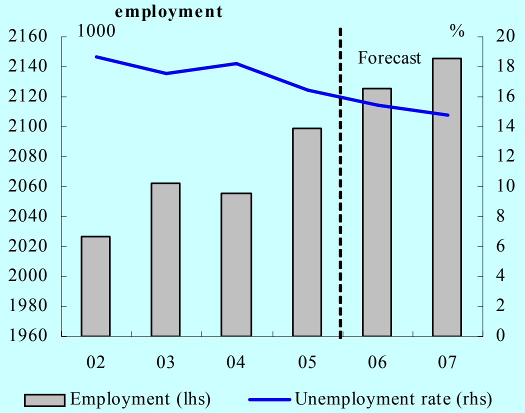
The current account deficit widened further, to above 8% of GDP in 2005, as a sharply deteriorating income balance added to the negative trade balance.

Prospects for 2006 and 2007

The economic expansion is expected to remain strong at around 6% and 6½% in 2006 and 2007 respectively. Domestic demand is likely to remain the main driving force while export growth should speed up in 2006 as new export capacity will gradually come on stream; the external contribution to GDP growth should thus become positive again.

An improving labour market situation combined with strong credit growth is expected to continue to support private consumption growth, which should remain at above 4½% over the forecast period. Gross fixed capital formation should start to decelerate markedly in 2006 as major investment projects in the automotive industry are to be finalised in the course of the year although the government, supported by EU funds, continues to invest in large infrastructure projects. The investment boom should further ease in 2007, under the assumption of no new major foreign direct investments. As new production capacities enter full production only gradually, and further imports of investment goods for the new facilities can still be expected in the first half of 2006, the external contribution is likely to improve only gradually as well.

Graph 3.27: **Slovakia - Unemployment rate and employment**



Accelerating exports and a lower negative income balance should lead to a significant improvement in the current account balance in 2006 and 2007.

Labour market, costs and prices

Total employment increased by more than 2% in 2005 while the unemployment rate decreased to below 17%. Similar, though slower, trends are anticipated in 2006 and 2007 as strong domestic demand and newly built export production capacities are expected to create additional employment opportunities.

Although annual HICP inflation fell to 2% in August 2005 and averaged some 2½% over the first eight months, adjustments in administered prices pushed it up to 4% towards the end of the year. Since further increases in administered prices and indirect taxes followed at the beginning of 2006, the average annual HICP inflation is expected to reach around 4½% this year. As these one-off effects fade out, inflation should fall back to about 2¾% in 2007 unless further significant increases in administered prices are stipulated.

Public finances

After tax reforms were put in place in 2004, a pension reform was launched in 2005, affecting social contributions by redirecting 9 percent of gross wages to a funded (second) pension pillar. Due to widespread public interest in this pillar, these revenue transfers are estimated at about ½%, 1¼% and again 1¼% of GDP in 2005, 2006 and 2007 respectively.

From autumn 2005 until the end of the transition period granted by Eurostat in spring 2007, the Commission services' forecasts present the general government deficit net of the pension reform costs, that is, with the second pillar pension scheme classified within government.

The general government deficit, net of the pension reform costs, decreased to below 3% of GDP in 2005, some ½ a percentage point lower than foreseen in the 2005 budget. Furthermore, the 2005 deficit figure includes debt cancellations amounting to about 1% of GDP which were not included in the budget. However, for the second year in a row, this positive development was mainly driven by the fact that unspent resources of around ¾% of GDP were just carried-over into the next year and thus constitute upside risks to the 2006 and 2007 fiscal outcome.

Furthermore, January 2006 increases in excise taxes on cigarettes and alcohol induced a large accumulation of stocks of cigarettes and alcohol at the end of 2005 and thus resulted in better-than-expected tax revenues for the year (¼% of GDP). This effect which was not foreseen in the 2006 budget will, however, negatively affect tax revenues in 2006. Better-than-expected GDP and employment growth combined with lower interest expenditure should, nevertheless, ensure that the 2006 general government deficit ends up at around 2¾% of GDP, slightly below the level foreseen in the 2006 budget. Increases in public expenditure in the election year are expected to prevent a more significant fiscal consolidation despite a favourable macroeconomic situation.

Under the customary no-policy-change assumption, the budget deficit net of the pension reform costs is projected to fall to about 2% of GDP in 2007 as a result of accelerating growth.

Gross public debt is estimated to decrease sharply to below 35% of GDP in 2005 as part of the privatisation revenues from previous years has been used to pay-off some of the country's debts. Government debt is projected to slightly increase but should remain far below 40% of GDP over the forecast period. Moreover, anticipated significant privatisation revenues in 2006 create a space for further debt reductions.

Table 3.22

Main features of country forecast - SLOVAKIA

		2004			Annual percentage change					
	bn SKK	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		1325.5	100.0	4.0	4.6	4.5	5.5	6.0	6.1	6.5
Private consumption		750.6	56.6	4.6	5.5	-0.6	3.5	5.8	4.7	4.9
Public consumption		257.7	19.4	3.5	4.9	2.7	1.2	2.0	3.1	2.8
Gross fixed capital formation		327.2	24.7	5.0	-0.6	-1.5	2.5	13.2	7.9	6.1
of which : equipment		200.1	15.1	-	-	-	-	8.6	7.1	4.9
Exports (goods and services)		1018.0	76.8	8.2	5.6	22.5	11.4	10.9	13.7	14.3
Final demand		2379.1	179.5	6.5	5.0	7.8	8.0	8.3	8.5	8.7
Imports (goods and services)		1053.6	79.5	10.7	5.5	13.6	12.7	11.2	11.4	11.3
GNI at constant prices (GDP deflator)		1309.3	98.8	4.1	4.5	4.5	4.5	2.8	7.6	6.6
Contribution to GDP growth :	Domestic demand			4.9	4.0	1.0	4.0	7.0	5.3	4.9
	Stockbuilding			1.0	1.0	-2.0	2.7	-0.4	-0.5	-0.4
	Foreign balance			-1.9	-0.4	5.5	-1.2	-0.6	1.3	2.1
Employment				-0.5	-0.5	1.8	-0.3	2.1	1.2	0.9
Unemployment (a)				14.8	18.7	17.6	18.2	16.4	15.5	14.8
Compensation of employees/head				11.5	9.3	6.0	10.8	9.2	7.3	6.5
Unit labour costs				6.8	3.9	3.3	4.6	5.2	2.4	1.0
Real unit labour costs				0.3	-0.1	-1.3	0.0	2.7	-1.5	-1.8
Savings rate of households (b)				-	-	8.4	6.0	9.2	10.0	10.6
GDP deflator				6.4	4.0	4.7	4.6	2.4	4.0	2.8
Private consumption deflator				7.3	2.5	7.7	6.9	3.2	3.7	2.4
Harmonised index of consumer prices				-	3.5	8.4	7.5	2.8	4.4	2.7
Trade balance (c)				-7.8	-9.0	-2.3	-3.5	-5.2	-4.4	-2.3
Current account balance (c)				-5.3	-7.3	-0.5	-3.4	-8.5	-5.7	-3.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-5.2	-7.3	-0.8	-3.3	-8.6	-5.4	-3.1
General government balance (c)(d)(e)				-6.2	-7.7	-3.7	-3.0	-2.9	-2.7	-2.1
Cyclically-adjusted budget balance (c)(d)				-	-7.6	-3.0	-2.3	-2.4	-2.4	-2.1
General government gross debt (c)				-	43.3	42.7	41.6	34.5	34.3	34.7

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

(e) Including second pillar pension funds (see for more details note 11 on concepts and sources).

23. Finland

Growth rebounding from temporary slowdown

Activity in 2005

According to preliminary national accounts data, real GDP growth slowed to 2.1% in 2005, down from 3.6% in the previous year. The slowdown was primarily the reflection of a seven-week-long production stoppage in the paper industry due to a labour dispute, which is estimated to have shaved 1 percentage point off GDP growth in the year as a whole.

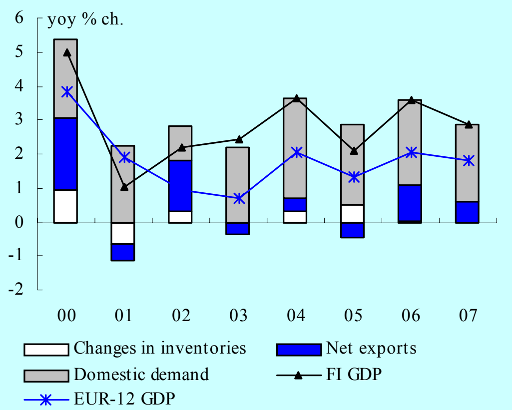
Growth was driven by domestic demand, while net exports contributed negatively as a result of the low activity level in the paper industry. Persistently strong household consumption, led by high consumer confidence, increasing credit growth and rising employment, gave the main boost to domestic demand.

Following a 5% increase in 2004, investment grew by only 1.7% in 2005 due to a slump in machinery and equipment investment and a lower rate of expansion in residential construction. Import and export volumes grew surprisingly strongly in 2005. However, part of the foreign trade was accounted for by transit exports, such as automobiles and telecommunications products, which were imported over the Finnish customs line before being re-exported mainly to Russia. The weakening in the terms of trade continued.

Prospects for 2006 and 2007

The economy is projected to return to and remain on a firm growth path throughout the forecast period. Survey indicators suggest that activity will pick up further in 2006, as industrial production and exports are strengthening while domestic demand remains solid. Real GDP growth should rebound to close to 3½% in 2006, partly boosted by the base effect, before easing somewhat in 2007 towards the current estimate of potential GDP growth of 3%.

Graph 3.28: **Finland - GDP growth and its driving forces**



After healthy gains in 2005, private consumption is expected to continue to provide the main stimulus to overall GDP growth over the forecast period, albeit decelerating slightly due to rising interest rates and moderating household borrowing. Public consumption growth is foreseen to ease, given the efforts of the central government to control expenditure. Exports are anticipated to rebound and gain further momentum as import demand from trading partners will increase. Imports are expected to grow at a firm pace on the back of lively domestic demand. Also, the import content of exported goods is on a rising trend. Nevertheless, net exports will give a strong positive contribution to growth in 2006 and to a smaller degree in 2007 when the base effect from the paper industry stoppage has faded. Investment is projected to recover from the slump in 2005, led by equipment investment, which is assumed to revive as stronger business confidence and order-books have improved the outlook for production and sales.

Labour market, costs and prices

Employment increased by 1.6% in 2005 and is projected to continue to grow at a similar pace in 2006, before slowing somewhat in 2007 due to a slight slowdown in economic activity. The labour shortages in some sectors are expected to be alleviated by the lifting of the restrictions on the free movement of labour from the new EU Member States as of 1 May 2006, giving a boost to employment growth. The unemployment rate is projected to fall steadily well below 8% of the labour force in 2007.

During the forecast period, HICP inflation is expected to accelerate only slightly towards 1½% from 0.8% in 2005, the lowest in the euro area. Higher oil prices are the most important factor exerting upward pressure on inflation. Tightening competition, especially in services, and subdued import prices of consumption goods will keep consumer prices in check also in the forecast period.

The centralised wage agreement, settled in late 2004, provides for moderate wage increases up to

September 2007. Assuming the usual positive wage drift of about 1 percentage point, per capita wages are expected to increase on average by less than 3% in 2006-2007. Strong productivity growth appears likely to limit the rise in unit labour costs to about ½% over the forecast period.

Public finances

The outcome for the general government financial surplus for 2005 and projections for 2006-2007 are markedly more favourable than in the previous forecast exercise. Current projections indicate a general government surplus of 2½% of GDP over the forecast period rather than the 2% predicted in autumn 2005. The increase is due to a better outlook for revenues, while spending is assumed to remain contained. Based on the Finnish Government's medium-term spending guidelines of spring 2006, the improvement in the central government balance will shift the general government surplus upwards over the forecast period. Local government finances are seen to remain in deficit due to higher operating expenditure, even with tax revenues projected to rise. Social security should maintain the same strong surplus as predicted before.

The government debt ratio is projected to steadily decline to below 39% of GDP by the end of the forecast period.

Table 3.23

Main features of country forecast - FINLAND

		2004			Annual percentage change					
	bn Euro	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		149.7	100.0	2.4	2.2	2.4	3.6	2.1	3.6	2.9
Private consumption		77.7	51.9	2.2	1.5	4.4	3.2	3.4	2.9	2.5
Public consumption		33.7	22.5	2.0	4.3	1.5	1.6	1.5	1.3	1.3
Gross fixed capital formation		28.2	18.8	1.1	-3.1	-1.5	5.0	1.7	4.0	3.9
of which : equipment		8.0	5.3	1.5	-9.8	-6.9	8.2	-5.5	4.6	4.4
Exports (goods and services)		56.6	37.8	5.5	5.0	1.4	5.6	7.0	8.0	5.7
Final demand		198.2	132.4	2.7	2.6	2.1	4.2	4.2	4.5	3.6
Imports (goods and services)		48.5	32.4	4.4	1.8	2.9	6.0	10.3	7.0	5.5
GNI at constant prices (GDP deflator)		149.2	99.6	2.4	2.9	0.8	4.7	2.3	3.9	2.9
Contribution to GDP growth :	Domestic demand			2.0	0.4	2.8	2.9	2.4	2.5	2.2
	Stockbuilding			-0.1	0.3	0.0	0.3	0.2	0.0	0.0
	Foreign balance			0.5	1.5	-0.4	0.4	-0.5	1.1	0.6
Employment				0.0	0.9	0.0	0.3	1.6	1.4	0.8
Unemployment (a)				8.6	9.1	9.0	8.8	8.4	7.9	7.6
Compensation of employees/head				6.3	1.8	2.6	4.1	3.2	2.8	2.5
Unit labour costs				3.8	0.6	0.2	0.8	2.7	0.6	0.5
Real unit labour costs				-0.7	-0.4	0.5	0.3	1.1	-0.1	-0.3
Savings rate of households (b)				-	-	7.8	9.6	6.9	7.4	7.5
GDP deflator				4.5	1.0	-0.3	0.5	1.6	0.8	0.9
Private consumption deflator				4.4	2.9	0.0	0.1	1.3	1.2	1.3
Harmonised index of consumer prices				-	2.0	1.3	0.1	0.8	1.4	1.4
Trade balance (c)				4.9	9.6	7.9	6.9	5.2	5.0	4.7
Current account balance (c)				0.2	7.3	3.8	4.1	2.4	2.4	2.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.4	7.4	3.9	4.2	2.5	2.5	2.1
General government balance (c)(d)				0.8	4.1	2.5	2.3	2.6	2.8	2.5
Cyclically-adjusted budget balance (c)(d)				1.0	4.3	3.0	2.5	3.2	3.0	2.7
General government gross debt (c)				32.3	41.3	44.3	44.3	41.1	39.7	38.3

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

24. Sweden

Continued robust economic performance

Activity in 2005

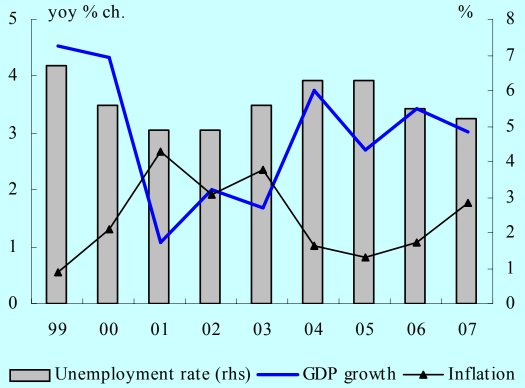
Swedish GDP growth in 2005 was 2.7%, representing a slowdown compared with the 3.7% growth recorded in 2004. While in 2004 net exports contributed strongly to growth, in 2005 faster domestic demand took over. Private consumption advanced steadily and also public consumption growth picked up. The investment expansion was firm with high growth rates in equipment and construction. Net exports continued to give a positive growth contribution, albeit marginal as compared to 2004, as exports slowed down and the pace of import growth stepped up.

Prospects for 2006 and 2007

Recent indicators are generally positive. Consumer confidence continues to show a positive picture as regards household views both on the economy as a whole and on their own economic situation. Industrial confidence is high in general, as it is for services, retail trade and, in particular, construction. These indicators should support continued buoyant performance in 2006, when GDP growth is expected to be around 3½%. Domestic demand is the main growth driver but net exports will also contribute. In 2007 the economy is expected to grow somewhat less, closer to potential rates, while the negative output gap is expected to close and turn positive.

A resumption of employment growth will contribute positively to household disposable income in 2006 and 2007, enabling a pick-up in private consumption. While households have taken on more debt, wealth has benefited from rising equity and strongly rising house prices, contributing to the maintenance of a relatively strong net wealth position. The saving rate remains at a relatively high level. Overall, as a positive risk, private consumption could surprise on the upside.

Graph 3.29: **Sweden - GDP growth, unemployment rate and inflation**



Growth in public consumption is expected to increase in 2006, reflecting the improved financial situation at local government level and the relatively expansionary 2006 central government budget. In 2007, public consumption growth is expected to be somewhat lower. As regards investment, the conditions for a continued expansion, albeit at a decelerating pace, remain in place: a benign demand outlook, favourable financing conditions and a high capacity utilisation rate in manufacturing. Both exports and imports are expected to pick up and grow relatively strongly in 2006 and then slow down somewhat in 2007, in line with world markets. Imports should also grow faster as final demand strengthens. Overall, net exports will contribute to growth by close to a half-percentage point of GDP in both 2006 and 2007.

Labour market, costs and prices

The labour market improved in 2005: employment growth turned positive, after having shown negative numbers in 2003-2004, and the unemployment rate stabilised (it should be noted that a methodological change in the measurement of unemployment increases its rate by around 0.5 percentage points from 2005 as compared to 2004 and earlier). The relatively strong rise in economic activity over the forecast period results in a continuing improvement. Employment growth is expected to strengthen, supported by a significant increase in the volume of active labour market measures in 2006. Against this background, and the unemployment rate will decrease.

Weak developments in the labour market over the last few years have helped to contain wage demands. Wage demands and inflationary pressures remained contained for most of 2005, allowing the Riksbank to reduce interest rates by a further 50 basis points in June. Inflation thus remained low in spite of the significant recent oil price increases, but more recently has started to increase. Given the somewhat stronger inflation outlook, the Riksbank raised interest rates by a cumulative 50 basis points in January and March 2006, effectively neutralising the cut in June 2005. Wages are nevertheless expected to continue to rise relatively moderately, reflecting the current wage agreement for private sector and central government reached in the spring of 2004 and covering a period including 2006. Overall, inflationary pressures remain relatively subdued but inflation is expected to rise towards 2% during the course of 2007. With robust growth over this period, and with a stronger labour market, interest rates may rise further.

Public finances

In 2005, the budget surplus was a full 2.9% of GDP, about 1.5 percentage point of GDP higher than projected in the 2005 autumn forecast. The main reason behind this rapid improvement has been a very significant increase in tax revenues towards the end of the year. It should, however, be noted that over 2004 and 2005 the budget has benefited from large one-off (corporate) tax receipts amounting roughly to a cumulative 1% of GDP.

Sweden will continue to show budget surpluses over the forecast period. Income tax cuts proposed in the 2006 Budget Bill, the last step of a phased income tax reform (adopted over the 2000-2006 period), as well as additional labour market measures, will contribute to an expansionary fiscal policy stance that will reduce the 2006 surplus as compared to 2005, though the ratio is still expected to be around 2% of GDP. On current policies, and taking into account the additional measures presented in the 2006 Spring Budget Bill, a slight rise in the surplus is projected in 2007, as a result also of an improvement in the labour market. It should be noted that Swedish government accounts and the balances shown here will include second pillar pension funds (contributing to a budget balance improvement of about 1% of GDP per year) until spring 2007.

General government gross debt, mainly central government liabilities, is projected to continue to fall, to below 45% of GDP in 2007.

Table 3.24

Main features of country forecast - SWEDEN

	2004		Annual percentage change						
bn SEK	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices	2573.2	100.0	2.0	2.0	1.7	3.7	2.7	3.4	3.0
Private consumption	1241.0	48.2	1.5	1.5	1.8	1.8	2.4	3.2	3.2
Public consumption	704.8	27.4	1.2	2.3	0.7	0.1	1.1	1.6	1.0
Gross fixed capital formation	413.8	16.1	2.0	-2.6	1.1	5.1	8.3	5.6	4.5
of which : equipment	173.4	6.7	4.8	-3.6	3.3	4.2	11.1	5.0	4.0
Exports (goods and services)	1182.6	46.0	5.7	1.2	4.5	10.8	6.4	7.2	6.2
Final demand	3545.8	137.8	2.5	0.9	2.6	4.5	4.0	4.6	4.0
Imports (goods and services)	972.6	37.8	4.3	-1.9	5.0	6.4	7.4	7.7	6.4
GNI at constant prices (GDP deflator)	2568	99.8	2.0	2.7	3.0	2.6	2.6	3.4	3.0
Contribution to GDP growth :	Domestic demand		1.5	0.9	1.2	1.7	2.8	2.9	2.6
	Stockbuilding		-0.1	-0.2	0.3	-0.3	-0.2	0.1	0.0
	Foreign balance		0.6	1.3	0.1	2.3	0.1	0.4	0.4
Employment			0.1	0.2	-0.3	-0.5	0.7	1.6	1.0
Unemployment (a)			5.1	4.9	5.6	6.3	7.8	7.0	6.7
Compensation of employees/head			6.4	2.9	3.0	3.7	3.4	3.7	4.3
Unit labour costs			4.4	1.0	1.0	-0.6	1.3	1.9	2.2
Real unit labour costs			-0.5	-0.6	-1.0	-1.4	0.2	0.3	0.1
Savings rate of households (b)			-	-	11.7	11.3	10.8	11.2	10.9
GDP deflator			4.9	1.6	2.0	0.8	1.1	1.5	2.1
Private consumption deflator			5.4	1.7	1.8	1.3	1.0	1.3	1.5
Harmonised index of consumer prices			-	1.9	2.3	1.0	0.8	1.1	1.8
Trade balance (c)			3.8	6.6	6.1	6.7	5.4	5.0	5.1
Current account balance (c)			0.9	5.3	6.6	6.6	5.9	5.8	6.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			0.2	5.3	6.6	6.6	6.0	5.9	6.1
General government balance (c)(d)(e)			-1.7	-0.2	0.1	1.8	2.9	2.2	2.3
Cyclically-adjusted budget balance (c)(d)			-1.2	0.0	0.8	1.9	3.0	2.1	2.1
General government gross debt (c)			59.5	52.0	51.8	50.5	50.3	47.6	44.8

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

(e) Including second pillar pension funds (see for more details note 11 on concepts and sources).

25. The United Kingdom

Moving to more balanced growth

Activity in 2005

From 3.1% in 2004, real UK GDP growth slowed to 1.8% in 2005 as a whole. This was well below potential growth, reflecting shrinking manufacturing output and slower service sector output growth. However, GDP growth of 0.6% in the final quarter was the year's best outturn.

Faltering domestic demand was chiefly responsible for the sharp slowdown in 2005, expanding only 1.9%, half the rate of growth in 2004. Private consumption growth, in particular, was much slower than in 2004, dampened by a cooler housing market, earlier interest rate increases and an erosion of real disposable incomes by higher energy prices. Correspondingly, household saving rose to around 5% of real disposable income from the very low levels of 2004.

Total investment also slowed compared to the previous year, in spite of rapidly growing government investment broadly in line with budgetary plans. Business investment was highly volatile but, over the whole year, did not seem to respond to favourable conditions (high profitability, robust equity markets and low real interest rates). However, early estimates for investment tend to be revised significantly.

Net trade data evolved erratically over 2005, although these are thought to have been affected by intra-Community VAT fraud. Overall, data show slower growth of imports compared to exports, consistent with the observed slowdown in domestic demand. For 2005 as a whole, net trade had a broadly neutral impact on GDP growth, after the large negative contribution in 2004.

Prospects for 2006 and 2007

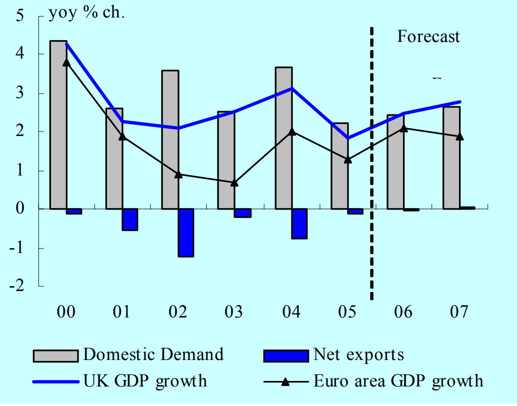
Real GDP growth is expected to increase over the forecast period, to around 2½% in 2006 and around 2¾% in 2007, mainly thanks to expanding domestic demand supported by government consumption and to a lesser extent by investment and private consumption.

Household consumption should start to pick up only marginally in 2006, as the slight softening of the labour market weakens otherwise steady real disposable income growth, before settling at a moderate but significant rate of growth by 2007. However, private consumption growth is expected to remain below its long-term average over the forecast horizon, reflecting a projected increase in the saving rate as more uncertainty about future income and employment prospects leads to balance-sheet consolidation in the household sector.

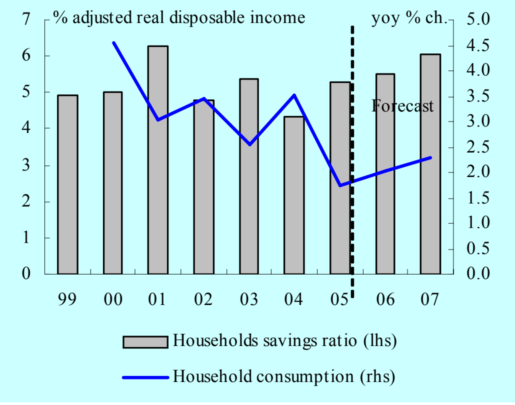
Despite favourable conditions (high profitability, low cost of capital and lack of spare capacity), business investment is expected to remain subdued in 2006, as favourable conditions are offset by uncertainties on energy prices which might be compounded, for some companies, by relatively high levels of capital gearing. In 2007, as prospects for consumer demand brighten and spare capacity diminishes, business investment should eventually pick up.

Growth in government consumption and investment is expected to continue to play an important role in supporting domestic demand, growing strongly in

Graph 3.30: **United Kingdom - Contributions to GDP growth**



Graph 3.31: **United Kingdom - Household savings and consumption**



2006 but moderating in 2007, in line with government plans.

On the external side, net trade is expected to provide a neutral contribution to real growth over the forecast period. This reflects the support for exports from faster growth expected in the euro area, the UK's largest market. Nonetheless, the already significant external current account deficit is expected to widen further as UK net overseas liabilities continue to accumulate, reducing net income flows from abroad.

In sum, the forecast shows the economy becoming slightly less imbalanced in terms of demand growth with net exports ceasing to drag, while government expenditure should continue to be the most buoyant component of domestic demand in the short term.

Labour market, costs and prices

The impact of higher oil and gas prices on headline inflation petered out more quickly than previously expected, with HICP inflation[1] at 2.1% for 2005 as a whole. Going forwards, inflation is expected to remain around the Bank of England's target of 2%, supported by the Bank's ability to anchor inflation expectations.

For the first three quarters of 2005, the labour market remained firm, shrugging off slower real GDP growth. Productivity growth thus slowed sharply and unit labour costs accelerated. However, labour appears to have been hoarded, with this beginning to unwind in the final quarter of 2005: the numbers of newly unemployed represented the fastest quarterly increase for over a decade. Further unwinding is likely to push unemployment up to about 5% during 2006, but higher real growth in 2007 should help bring it back down slightly. Employment growth slowed in the final quarter of 2005. This should continue into 2006, in response to slower growth of the economy and already high employment rates.

Public finances

A preliminary estimate suggests that the deficit in the 2005/06 financial year[2] stood at 3.1% of GDP[3]. The public finances are estimated to show marked improvement in the first three months of 2006, the last quarter of the financial year, over the deficit outturn for 2005, thanks to buoyant corporation tax revenues, especially from oil-producing companies and the financial sector, as well as relatively strong income tax receipts and social security contributions. Part of the strong pick-up in receipts in 2005/06 is temporary in nature, due to the change in timing of payments of corporation tax from oil companies which, compounded by rising oil prices, had an important role in boosting corporation tax receipts.

The table below shows the projections for the general government deficit and debt on a financial year basis.

Public finance projections on a financial year basis (% GDP)

	2004/05	2005/06	2006/07	2007/08
General government deficit	3.3	3.1*	3.0	2.7
General government gross debt	40.2	42.0*	43.4	43.8

*Estimates based on preliminary data

The deficit is expected to improve only slightly to around 3% of GDP in 2006/07, and to narrow further to around 2¾% of GDP in 2007/08.

The improvement in the deficit in 2006/07 is supported by the pick-up in economic growth, which should improve the tax base and reduce cyclical expenditure. Continuing profitability from the financial sector, assuming no significant reversal of the currently strong equity market, suggests that corporation tax receipts should continue to grow relatively strongly in the short term. However, oil production is now expected to be lower, at least in part offsetting the positive effect of rising oil prices on tax receipts from oil-producing corporations.

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[1] Referred to in the UK as the CPI.

[2] The UK financial year begins in April; the excessive deficit procedure applies to the United Kingdom on a financial year basis. Actual general government balance data reported here apply the Eurostat decision of 14 July 2000 on the allocation of UMTS receipts. The UK has not generally applied this decision in domestic publication of its deficit data, which results in the deficit on a Eurostat basis being at most 0.1% points of GDP per annum higher than reported in UK national accounts from 2001/02 onwards.

[3] The forecast incorporates an outturn for the aggregate deficit in 2005/06 published by the UK Office for National Statistics (ONS) on 24 April. This release also revised data incorporated in the 2005 outturn submitted in the UK's EDP return on 30 March and validated by Eurostat on 24 April, implying a reduction of the deficit ratio from 3.6% of GDP (reported by Eurostat) to 3.5%. However, the 24 April ONS release did not update the detailed breakdown of general government expenditure and revenue components published in the national accounts; in the forecast this inconsistency has necessitated an ad hoc adjustment.

These on balance favourable trends are partly offset by a projected increase of discretionary public expenditure as a share of GDP, in line with government plans (which the forecast assumes to be fully met) while the softening of the labour market suggests that the strong growth in income tax receipts observed in the past financial year might moderate going forwards.

The deficit in 2007/08 is expected to improve to below the 3%-of-GDP reference value, driven by the strengthening of the cyclical recovery, and by a number of additional factors: first, a number of discretionary measures implemented by the government since the autumn of 2005, including an increase in taxation on oil companies and further measures to improve tax compliance; second, a structural improvement in the ratio between direct tax receipts and their respective tax bases in line with long-term trends; third, reflecting the government's plans, a projected slight moderation in overall expenditure growth in the 2007/08 financial year.

General government gross debt is projected to increase from around 42% of GDP in 2005/06 to around 43¾% in 2007/08.

Table 3.25

Main features of country forecast - UNITED KINGDOM

		2004		Annual percentage change						
bn GBP		Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		1183.6	100.0	2.5	2.0	2.5	3.1	1.8	2.4	2.8
Private consumption		760.8	64.3	3.1	3.5	2.6	3.5	1.7	1.9	2.3
Public consumption		246.8	20.8	1.2	4.4	4.5	3.1	2.9	3.0	2.2
Gross fixed capital formation		190.4	16.1	3.5	3.0	0.0	5.1	3.2	3.4	4.3
of which : equipment		69.5	5.9	3.4	0.3	-5.1	3.6	1.4	3.4	4.4
Exports (goods and services)		293.9	24.8	4.7	0.2	1.2	4.6	5.6	5.9	5.2
Final demand		1497.5	126.5	3.2	2.6	2.4	3.9	2.6	3.1	3.2
Imports (goods and services)		332.9	28.1	5.8	4.5	1.8	6.7	5.3	5.2	4.3
GNI at constant prices (GDP deflator)		1209	102.1	2.6	3.3	2.5	3.2	1.8	2.0	2.7
Contribution to GDP growth :	Domestic demand			2.8	3.6	2.6	3.8	2.3	2.5	2.7
	Stockbuilding			0.1	-0.3	0.1	0.1	-0.3	0.0	0.0
	Foreign balance			-0.4	-1.3	-0.2	-0.7	-0.1	0.0	0.1
Employment				0.5	0.8	1.0	1.0	1.0	0.4	0.6
Unemployment (a)				8.5	5.1	4.9	4.7	4.7	5.0	4.8
Compensation of employees/head				6.5	3.6	4.8	4.3	4.4	4.3	4.4
Unit labour costs				4.4	2.4	3.2	2.1	3.5	2.3	2.2
Real unit labour costs				-0.2	-0.7	0.3	0.0	1.5	0.1	-0.2
Savings rate of households (b)				-	-	5.4	4.4	5.3	5.6	5.9
GDP deflator				4.6	3.1	2.9	2.1	1.9	2.1	2.4
Private consumption deflator				4.6	1.5	2.0	1.4	2.0	2.1	2.1
Harmonised index of consumer prices				-	1.3	1.4	1.3	2.1	2.0	2.0
Trade balance (c)				-2.1	-4.5	-4.3	-5.2	-5.3	-5.9	-5.9
Current account balance (c)				-1.5	-1.6	-1.4	-2.0	-2.6	-3.3	-3.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.4	-1.5	-1.3	-1.9	-2.4	-3.1	-3.1
General government balance (c)(d)				-2.3	-1.6	-3.3	-3.3	-3.5	-3.0	-2.8
Cyclically-adjusted budget balance (c)(d)				-	-1.7	-3.3	-3.5	-3.3	-2.7	-2.5
General government gross debt (c)				46.2	37.6	39.0	40.8	42.8	44.1	44.7

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

Chapter 4

Acceding Countries

1. Bulgaria

Investment boom fuelling strong growth and high external deficit

Activity in 2005

Growth of real GDP accelerated to 6.2% in the first half of 2005, fuelled by strong consumption and particularly buoyant investment growth. Heavy floods during the summer, however, caused a significant drop in agricultural production and also a marked slowdown in the growth of services and industry. Thus real GDP growth decelerated in the third quarter and reached 5.5% for the whole year. The highest contribution to growth came again from private consumption, while investments grew exceptionally strongly at a rate of 19%.

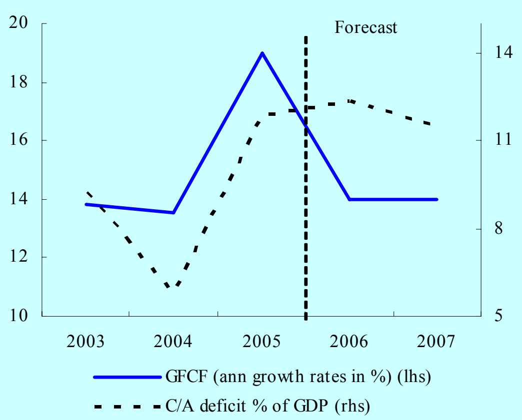
On the back of rising prices for oil, food and certain services, inflation accelerated towards the end of 2005 with end-of-year inflation increasing to 6.5% from 4.0% in 2004. Employment growth slowed down to 2.0% in 2005, reflecting mainly lower public sector employment. The unemployment rate continued to fall from 12% in 2004 to around 10% in 2005.

Higher oil prices and a surge in the import of investment goods contributed to a substantial increase in the trade and current account deficits. Following methodological revisions in 2006, the current account deficit increased to 11.8% of GDP in 2005 while the trade deficit rose to 20.4% of GDP.

Prospects for 2006 and 2007

Economic growth is set to remain strong in 2006 and 2007. It will be fuelled in particular by increasing investment rates further supporting the catching-up of the Bulgarian economy. While growth in exports of goods and services should pick up again from a temporary dip in 2005, external deficits are expected to remain high.

Graph 4.1: **Bulgaria - Investment and external deficit**



In 2006, lower real wage increases, due to higher inflation and greater wage restraint especially in the public sector, together with tighter constraints on credit growth should have a dampening effect on domestic demand. The continuation of tight fiscal policies to contain the current account deficit and lower employment growth will also have a moderating influence. At the same time, investment growth is expected to remain strong, driven by strong foreign investment and capital inflows as well as necessary upgrades in business infrastructure in order to meet EU requirements. Following the slow-down in 2005 due to the floods and other one-off factors, the growth of exports of goods and services should re-accelerate again to substantially higher rates. From the supply side, the high oil price will continue to hold back growth in some manufacturing sectors. Agriculture should recover from a low base following the floods in 2005, although renewed floods in spring 2006 may again have a negative impact. Real GDP growth is thus expected to remain strong, but to cool down slightly to just below 5½% in 2006.

With rising investment rates and economic restructuring continuing, potential growth should gradually increase, with economic growth expected to accelerate to around 5¾% in 2007. This will be supported by a higher absorption of EU transfers, some fiscal expansion due to extra accession-related expenditure, and the continuation of strong investment growth. Following more moderate wage hikes in 2006, higher wage increases are expected in 2007 which, together with a slowdown in inflation, should give a boost to disposable incomes.

Growth in merchandise exports is expected to recover from a temporary slow down in 2005, while imports are set to grow more slowly in line with lower domestic demand growth. This will, however, be insufficient to bring down the trade deficit with a further widening to above 21% of GDP being expected for 2006. Terms-of-trade improvements should help to keep the trade deficit relatively constant in 2007, despite a re-acceleration of domestic demand and import growth. Improvements in the services and transfer balances should limit the induced increase in the current account deficit in 2006 and contribute to a more significant reduction in 2007.

Labour market, costs and prices

Strong economic growth will continue to trigger relatively robust employment growth. Unemployment is thus set to decrease to well below 10%. With a shrinking and rapidly ageing population, participation rates will, however, have to increase significantly to prevent a decline in the labour force already in the short term. This will also limit the potential for further employment growth, which is therefore expected to slow down to around 1% per year.

Consumer price inflation is expected to accelerate further in 2006 to around 7% as increases in excise duties on alcohol and cigarettes come on top of the hike in oil prices in the second half of 2005. Due to more favourable import price developments and in the absence of inflationary pressures from indirect tax increases, inflation should come back down to around 3½% in 2007.

Public finances

As in previous years, the general government surplus turned out much higher in 2005 than originally planned. This was mainly due to higher-than-expected revenues resulting from higher economic growth (and associated higher revenues from VAT and import duties), but also from improvements in revenue collection and compliance. Conservative revenue estimations in the 2006 budget together with the relatively moderate wage and pension increases foreseen this year should enable the government to achieve its revised fiscal target of a 3% of GDP surplus. Due to higher accession-related expenditure needs some fiscal expansion is expected for 2007 with the general government surplus dropping below 2% of GDP. In line with this fiscal stance and continued strong growth, gross public debt as a share of GDP will decline further to below 25% in 2007.

Table 4.1

Main features of country forecast - BULGARIA

	2004		Annual percentage change						
bn BGN	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices	38.3	100.0	0.4	4.9	4.5	5.7	5.5	5.4	5.7
Private consumption	25.9	67.7	0.8	3.5	6.4	4.7	7.2	5.0	6.5
Public consumption	7.3	19.1	-2.2	4.1	7.6	6.5	5.3	4.0	4.0
Gross fixed capital formation	8.0	20.8	7.7	8.5	13.9	13.5	19.0	14.0	14.0
of which : equipment	-	-	-	-	-	-	-	-	-
Exports (goods and services)	22.0	57.5	-	7.0	8.0	13.0	7.2	10.2	9.8
Final demand	64.7	169.0	-	4.9	8.5	9.1	9.2	7.5	8.0
Imports (goods and services)	26.4	69.0	-	4.9	15.3	14.1	14.6	10.1	10.9
GNI at constant prices (GDP deflator)	38.7	101.2	0.4	5.6	2.7	10.6	5.4	5.3	5.6
Contribution to GDP growth : Domestic demand			1.6	4.7	8.3	7.1	9.8	7.6	9.0
Stockbuilding			1.2	-0.6	1.1	0.6	1.5	-0.5	-0.6
Foreign balance			-	0.8	-4.9	-1.9	-5.7	-1.7	-2.7
Employment			-1.3	0.4	6.3	2.2	2.0	1.0	0.8
Unemployment (a)			12.9	18.1	13.7	12.0	9.9	9.0	8.3
Compensation of employees/head			-	4.7	1.0	6.6	8.8	9.4	9.3
Unit labour costs			-	0.2	2.7	3.1	5.3	4.9	4.2
Real unit labour costs			-	-3.4	0.4	-1.7	1.5	0.2	0.1
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			77.3	3.8	2.3	4.8	3.8	4.7	4.1
Private consumption deflator			75.0	4.0	0.5	4.2	4.7	6.5	3.0
Harmonised index of consumer prices			-	5.8	2.3	6.1	5.0	7.0	3.5
Trade balance (c)			-4.3	-10.2	-12.5	-15.1	-20.4	-21.8	-21.9
Current account balance (c)			-2.2	-4.7	-9.2	-5.8	-11.8	-12.3	-11.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-	-	-5.8	-11.8	-12.3	-11.5
General government balance (c)(d)			-	0.1	0.3	1.9	3.1	3.0	1.9
Cyclically-adjusted budget balance (c)(d)			-	-	-	-	-	-	-
General government gross debt (c)			-	54.0	46.1	38.6	29.9	26.7	22.4

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

2. Romania

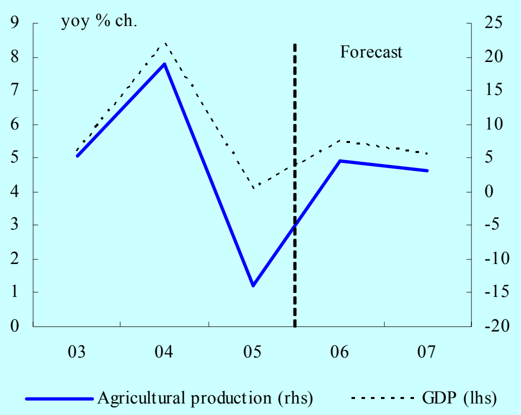
Recovery in agriculture drives reacceleration of growth

Activity in 2005

After a record growth of 8.4% in 2004, real GDP growth slowed to 4.1% in 2005, mainly due to the negative impact of widespread floods and acceleration of structural changes affecting industrial activity. Value added declined by 13.9% in agriculture and recorded a modest increase of 2.5% in industry. The rapid appreciation of the exchange rate and increasing energy prices stepped up the restructuring of industry and redirected output growth towards higher value-added sectors such as the automotive, oil processing and furniture industries. Gross fixed capital formation increased strongly, by 13%, due to exceptionally high investment in the private sector. It outpaced private consumption which gradually decelerated its growth from 14.2% in 2004 to 9.7% in 2005 and underwent a substitution of own consumption of households for purchases of new goods, although the latter were still growing strongly. A negative contribution of stocks by 1.1 of a percentage point to real growth occurred due the depletion of agricultural stocks following the poor harvest. Imports expanded again more strongly than exports. The loss of momentum in export growth from 13.9% in 2004 to 7.6% in 2005 is a consequence of the adverse shocks affecting the Romanian economy in 2005.

Consumer price inflation declined from 11.9% in 2004 to 9% in 2005. The rise in administered, transport, energy and volatile food prices held back the disinflation process, despite a fall in import prices due to the rapid appreciation of the currency. Employment continued to grow, although at a slower pace due to the contraction of several labour-intensive industries, such as textiles, clothing and mining. The current account deficit widened from about 8.3% of GDP in 2004 to 8.7% of GDP in 2005, of which more than 75% was covered by net foreign direct investment.

Graph 4.2: **Romania - GDP and agriculture**



Prospects for 2006 and 2007

In 2006 and 2007 real GDP growth is expected to pick up to 5.5% and 5.1% respectively. Assuming normal weather conditions, agricultural output should bounce back to the long-term average growth rate of around 3% in 2007 while in 2006 it would grow by around 4.5% due to the low base effect. The changes in the structure of industrial activity, accentuated by EU accession, and continued high energy prices will limit the growth rate of value added in industry to around 3% in both 2006 and 2007.

The pattern of robust increase of gross fixed capital formation and deceleration of private consumption is expected to extend into 2006 and 2007. Investment will continue to be strong on the back of considerable FDI inflows, further flood repairs in 2006 and acceleration of public investment projects. Private consumption growth is likely to ease further to an average of 7.5% in 2006 and 6.5% in 2007 as the effect of the fiscal reform on disposable incomes will by then be fully phased in and the reignited credit growth will be subdued by the central bank's measures to restrict lending and tighten monetary policy. Public consumption is expected to expand faster in 2006 and 2007, mainly driven by the increase in the public sector wage bill.

Annual average consumer price inflation is expected to decelerate to around 5.7% in 2007 assuming that the recently started course of tight monetary policy is maintained. The ongoing adjustment of administered prices and wage growth pressures may negatively impact the outcome.

A modest increase in employment of about 0.2% is anticipated for both 2006 and 2007, which is somewhat lower than the economic growth rate might indicate. The job creation process in the private sector will be mitigated by the continuation of lay-offs in state-owned enterprises and the shrinkage of the labour-intensive light industry. Unemployment may rise slightly in 2006, but is projected to return to a downward trend from 2007.

Public finances

The general government deficit declined from 1.3% of GDP in 2004 to 0.4% of GDP in 2005 against the background of strong collection of cyclically-sensitive indirect taxes and a decline in capital spending. The cuts in the income and profit tax rate had a negative impact on revenue from direct taxes of about 1% of GDP in 2005, and the budget outcome was also affected by higher than budgeted increase in public sector wages, subsidies and transfers. Supported by strong appreciation of the currency, the stock of public debt declined further to around 15% of GDP. The general government deficit is projected to expand to 2.3% of GDP in 2006 and 5.4% of GDP in 2007 for two main reasons. First, the envisaged restrain in expenditures for goods and services and the public wage bill seems difficult to attain. Secondly, a Property Fund was established in December 2005 to which the State transferred state shareholdings in a large number of enterprises. The Fund will compensate citizens for the non-return of property confiscated during the communist period by distributing shares in the Fund to claimants. Under ESA 95 accounting rules, the adopted scheme is expected to have a significant budgetary impact of 0.9% of GDP in 2006 and 3.1% of GDP in 2007.

External balances

The increase in export volumes growth accompanied by a gradual decline in the growth of import volumes will not prevent a widening of the trade deficit from 9.8% of GDP in 2005 to 13.1% of GDP in 2007. The rise in the terms of trade recorded in 2005 is not expected to continue in 2006 and 2007. Despite a foreseen increase in the number of remittances and EU transfers, the current account deficit is anticipated to widen to around 10.4% of GDP in 2006 and 12% of GDP in 2007.

Table 4.2

Main features of country forecast - ROMANIA

	2004		Annual percentage change						
bn RON	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices	246.4	100.0	0.9	5.1	5.2	8.4	4.1	5.5	5.1
Private consumption	167.2	67.8	3.1	5.2	8.4	14.2	9.7	7.5	6.5
Public consumption	46.5	18.9	0.7	3.2	7.7	4.2	4.5	5.5	5.0
Gross fixed capital formation	53.3	21.6	2.6	8.2	8.6	10.8	13.0	11.0	10.0
of which : equipment	-	-	7.0	13.3	7.7	-	-	-	-
Exports (goods and services)	88.6	35.9	10.4	17.5	8.4	13.9	7.6	9.0	9.9
Final demand	357.3	145.0	3.7	7.1	8.4	12.5	8.1	8.5	7.6
Imports (goods and services)	110.9	45.0	14.0	12.0	16.0	22.1	17.2	15.4	13.3
GNI at constant prices (GDP deflator)	236.1	95.8	0.9	4.8	3.9	6.3	5.4	5.7	5.1
Contribution to GDP growth :	Domestic demand		3.5	5.9	8.8	12.5	10.2	8.7	7.9
	Stockbuilding		-0.6	-1.6	0.1	0.5	-1.1	0.5	0.0
	Foreign balance		-1.8	0.9	-3.6	-4.5	-5.0	-3.7	-2.7
Employment			-2.2	-2.7	-0.1	0.4	0.2	0.2	0.2
Unemployment (a)			5.6	7.5	6.8	7.6	7.7	7.8	7.6
Compensation of employees/head			64.8	25.9	27.7	22.1	16.7	13.8	10.9
Unit labour costs			59.8	16.5	21.3	13.0	12.3	8.1	5.7
Real unit labour costs			2.7	-5.6	-2.2	-1.7	0.3	-0.6	-0.7
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			55.6	23.4	24.0	15.0	12.0	8.7	6.5
Private consumption deflator			54.4	21.4	15.2	12.2	6.7	8.0	6.0
Harmonised index of consumer prices			-	22.5	15.3	11.9	9.1	7.8	5.7
Trade balance (c)			-6.8	-5.7	-7.6	-8.7	-9.8	-11.6	-13.1
Current account balance (c)			-5.3	-1.1	-4.8	-8.3	-8.7	-10.4	-12.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-5.0	-1.0	-4.3	-	-8.7	-10.4	-12.0
General government balance (c)(d)			-1.3	-2.0	-1.7	-1.3	-0.4	-2.3	-5.4
Cyclically-adjusted budget balance (c)(d)			-	-	-	-	-	-	-
General government gross debt (c)			-	23.8	20.7	18.0	15.2	14.7	15.4

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

Chapter 5

Candidate Countries

1. Croatia

Catching up continues, but fiscal risks remain

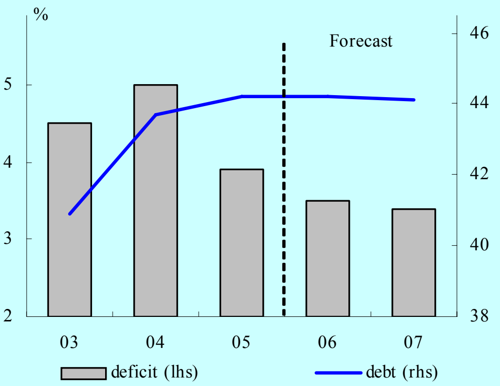
Activity in 2005

In 2005, real GDP grew stronger than expected by 4.3%, up from 3.8% in 2004. Growth continued to be driven mainly by domestic demand, in particular stronger private investment growth and higher public consumption. Exports of goods and services in 2005 grew by 4.6% in real terms, while imports increased by 3.5%. The contribution of private consumption to growth slightly declined from 2.3 to 2.1 percentage points, while gross fixed capital formation added 1.4 percentage points after 1.2 percentage points a year before. Inventories added 0.6 percentage points to growth. Recent high frequency indicators suggest a continuation of a rather strong economic performance in early 2006. Industrial production volume growth accelerated to 6.4% year on year in the first quarter of 2006, following an annual average growth of 5.1% in 2005.

Annual average consumer price inflation increased significantly from 2.1% in 2004 to 3.3% in 2005, as a result of shocks on the supply side, resulting in higher prices for energy (oil), transport and food. Consumer prices increased further to 3.4% by March 2006 on a twelve months moving average.

The current account deficit increased to 6.3% in 2005, up from 5.2% of GDP a year before. A significant trade deficit (24.1% of GDP, up from 23.7% in 2004) was not fully compensated for a by a higher surplus in services (17.1% of GDP, up from 16.4% in 2004). Moreover, a higher income balance deficit and a lower surplus in transfers added to the increase of the current account deficit. Net FDI inflows grew by around 53% in 2005 to 3.7% of GDP, providing for coverage of 59% of the current account deficit.

Graph 5.1: **Croatia - General government deficit and debt (ESA 95, % of GDP)**



Prospects for 2006 and 2007

Real GDP growth is expected to slightly increase to around 4.4% in 2006 and 4.5% in 2007. Continued strong credit growth, improved consumer confidence, and one-off payments to pensioners in the context of a phased debt repayment over the next two years will push private consumption growth up. It is set to accelerate to 3.8% in 2006 and further to 4.3% in 2007. Public consumption is expected to grow stronger than in recent years, by 2% in 2006 and 1.1% in 2007, driven by an increase in public sector employment by 1% in 2006 and pre-election spending prior to the parliamentary elections scheduled for late 2007. A modest acceleration of gross fixed capital formation growth over the reference period (to 5% in 2006 and 5.2% in 2007) will result from both ongoing public investment and stronger private capital formation as privatisation and enterprise restructuring is expected to continue. The growth of real export will accelerate to 5.5% in 2006 and 5.8% in 2007, in particular backed by strong exports of services in line with the assumption of further improvements of tourism performance. As a result of strong private consumption, real imports are expected to accelerate to 3.6% in 2006 and 4.3% in 2007. Net exports will thus contribute 0.5 and 0.3 percentage points to growth in 2006 and 2007, respectively.

Stability-oriented monetary and exchange rate policies will keep inflation at relatively low levels over the forecast period. Annual average consumer price inflation will slightly increase to 3.7% in 2006, mainly as a result of continued strong domestic demand, further administrative price adjustments and higher prices for services provided at the municipal level. Inflation will slightly fall to 3.5% in 2007.

Growth and investment dynamics are expected to lead to a slightly accelerating employment growth from 0.8% in 2005 to 1.0% in 2006 and 1.2% in 2007 which supports a gradual reduction of the unemployment rate to 12.3% by 2007. Following a decline in 2005, real wage growth is expected to accelerate to 3.5% on average over the forecast period, slightly above productivity gains in 2007, leading to an increase in real unit labour costs of 0.4% in that year.

Public finances

While the process of moderate fiscal consolidation is expected to continue, stronger public consumption will prevent a more significant deficit reduction. The public sector wage bill is forecast to increase due to a rise in employment. The share of social spending is set to rise towards the second half of the forecast period and potential risks of overspending will persist due to the election year 2007. The general government deficit (ESA 95) is expected to be reduced from 3.9% of GDP to 3.5% in 2006 and 3.4% in 2007. The gross debt to GDP ratio is forecast to stay at around the 2005 ratio over the reference period. Although nominal GDP growth will in itself have a reducing effect on the debt ratio, additional financing requirements arising from the scheduled repayment of pensioner's debt are expected to eat up revenues from privatisation and thus prevent a sizeable public debt reduction.

External balances

The trade deficit to GDP ratio is forecast to only marginally decline over the forecast period and stay at around 24% of GDP. High import growth, resulting from strong private consumption, a slight deterioration of the terms of trade as well as a high import content of exports will prevent a more significant reduction of the trade deficit. The surplus of the services balance will slightly increase, mostly due to a strong tourism performance, and will support a gradual but only marginal reduction of the current account deficit to 6.1% of GDP in 2006 and 6% in 2007. Net foreign direct investments, which are largely driven by further major privatisation deals, are expected to finance a significant share of the current account deficit over the forecast period.

Table 5.1

Main features of country forecast - CROATIA

	2004			Annual percentage change						
mio HRK	Curr. prices	% GDP		95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices	212826.0	100.0		-	5.2	4.3	3.8	4.3	4.4	4.5
Private consumption	122100.0	57.4		-	7.5	4.1	3.9	3.4	3.8	4.3
Public consumption	44674.0	21.0		-	-1.8	-0.3	-0.3	0.8	2.0	1.1
Gross fixed capital formation	60866.0	28.6		-	12.0	16.8	4.4	4.8	5.0	5.2
of which : equipment	-	-		-	-	-	-	-	-	-
Exports (goods and services)	100905.0	47.4		-	1.3	10.1	5.4	4.6	5.5	5.8
Final demand	333487.0	156.7		-	6.5	6.7	3.7	4.0	4.1	4.4
Imports (goods and services)	120661.0	56.7		-	8.8	10.9	3.5	3.5	3.6	4.3
GNI at constant prices (GDP deflator)	208035	97.7		-	-	-	-	3.3	4.2	4.4
Contribution to GDP growth :	Domestic demand			-	6.8	6.5	3.5	3.7	4.1	4.3
	Stockbuilding			-	2.7	-0.7	-0.2	0.6	-0.2	-0.1
	Foreign balance			-	-4.2	-1.5	0.5	0.1	0.5	0.3
Employment				-	0.8	2.5	1.2	0.8	1.0	1.2
Unemployment (a)				-	14.7	14.1	13.6	13.2	12.9	12.3
Compensation of employees/head				-	-	-	-	4.4	6.6	7.3
Unit labour costs				-	-	-	-	0.9	3.1	3.9
Real unit labour costs				-	-	-	-	-1.9	-0.2	0.4
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				-	2.9	3.2	3.3	2.8	3.3	3.5
Private consumption deflator				-	1.9	1.4	2.2	3.4	3.7	3.5
General index of consumer prices				-	-	-	-	3.3	3.7	3.5
Trade balance (c)				-	-	-	-	-24.1	-24.0	-23.8
Current account balance (c)				-	-	-	-	-6.3	-6.1	-6.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)(d)				-	-4.1	-4.5	-5.0	-3.9	-3.5	-3.4
Cyclically-adjusted budget balance (c)(d)				-	-	-	-	-	-	-
General government gross debt (c)				-	40.0	40.9	43.7	44.2	44.2	44.1

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

2. The Former Yugoslav Republic of Macedonia

EU perspective bolsters growth performance

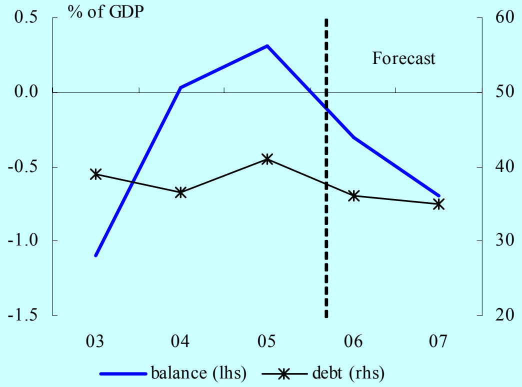
Activity in 2005

Provisional data points to an increase in economic activity by about 4% in 2005, compared to a similar increase of 4.1% in 2004. Thus, GDP growth was by about ¼ percentage point stronger than expected. However, in view of high unemployment and low capacity utilisation the country's current growth potential would be higher. Exports and investment were the most dynamic elements of the economy, while growth of private and public consumption appears to have remained moderate. Inflation continued to remain low, with an increase of consumer prices by 0.5% in 2005, after a decline by 0.4% in 2004. The main factors were declining food prices, which account for a considerable share in the CPI basket.

External balances improved markedly, with a strong narrowing of the current account deficit from -7.7% of GDP in 2004 to -1.4% in 2005. The improvement in the trade account was less pronounced, with a decline from -20.8% of GDP in 2004 to -19.5% in 2005. Workers remittances remain a large factor behind capital inflows financing the current account deficit.

After a balanced general government budget in 2004, public sector balances turned into a surplus 0.3% of GDP, which was nearly 1 percentage point better than originally budgeted. The main factor for this better than planned outcome were higher than expected dividends from the state share in the telecommunication company and lower than budgeted spending for public employment and procurement.

Graph 5.2: **Former Yugoslav Republic of Macedonia - General government finances**



Due to a transaction in order to finance debt repayments in early 2006, the gross debt ratio increased from 36.5% end of 2004 to 40.9% end of 2005.

Prospects for 2006 and 2007

Overall, economic activity is expected to accelerate. The medium-term perspective of EU accession is likely to strengthen consumer and business confidence, which in combination with recent measures to improve the business environment - by simplifying procedures, fighting corruption and strengthening the judiciary and regulatory and supervisory institutions – will lead to stronger private consumption and investment. Furthermore, increasing capital inflows and strengthened confidence in the financial sector have already translated in a marked decline in interest rates, which should have a positive impact on investment. As a result, output growth is expected to amount tp 4¼ % in 2006 and could further accelerate to 4¾ in 2007. Main driving forces will be private investment and consumption, while the contribution of net exports will become increasingly negative, reflecting stable or even slightly declining exports, while strong private consumption and investment will lead to a further increase in imports. As a result, the current account deficit will widen from 1.4% in 2005 to 3¼ % in 2006 and slightly above 4% in 2007. However, despite the expected decline in workers remittances, improving FDI inflows are likely to finance the current account.

Labour market, costs and prices

Despite the acceleration in economic activity, the level of unemployment is likely to remain high, at around 35% of the labour force. The stable growth performance will lead to an increase of employment by some 1¼% in 2006 and about 1½% in 2007. However, increased labour supply will dampen the positive impact on unemployment. However, official labour market statistics appear to overstate the number of unemployed, as a significant share of officially unemployed persons are employed in the informal sector, which according to rough estimates could account for up to 30% of GDP.

Wage growth is likely to remain moderate, reflecting fiscal discipline in the public sector, competitive pressures from abroad and the high unemployment.

As a result, real unit labour costs are likely to improve with a positive impact on competitiveness of exports.

Consumer price inflation is likely to increase from 0.5% as annual average in 2005 to 2½% in 2006 and to decline to 1¾% in 2007. One important reason for the pronounced rise in 2006 is a one-off increase in excise taxes on tobacco products, by early 2006. Furthermore, energy prices will increase as a lagged effect of the recent oil price rises. By 2007, these one-off factors are expected to fade away, which should bring consumer price inflation back below 2%.

Public finances

After the better than expected performance of public finances in 2005, the favourable development is expected to continue in 2007. Previous structural reforms start to bear fruits, such as the administrative decentralisation, which appears to help containing current spending. Furthermore, reforms in the health sector, such as transparent tendering are likely to improve cost efficiency. In view of the favourable growth outlook, a general government deficit of about ¼% of GDP is expected for 2006, which is about ½ percentage point better than the official budget target. In 2007, the need of co-financing EU assistance might lead to a net increase of the deficit by about ½ percentage point of GDP, thus reaching a general government deficit of ¾% of GDP. Debt repayments and economic growth will lead to a decline in the general government debt ratio from 40.9% in 2005 to about 35% in 2007.

External balances

Improving competitiveness is expected to contain the negative effect of increased global competition in the textile sector. However, accelerating consumption and investment are likely to lead to increasing deficits in the trade and current account. Workers remittances and other capital inflows, such as increasing FDI, are expected to finance those imbalances.

Table 5.2

Main features of country forecast - FORMER YUGOSLAV REPUBLIC OF MACEDONIA

		2004		Annual percentage change						
	bn MKD	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		265.3	100.0	1.3	0.9	2.8	4.1	4.0	4.3	4.7
Private consumption		206.6	77.9	-	-	-	7.5	2.0	3.8	4.5
Public consumption		55.1	20.8	-	-	-	6.0	1.1	1.5	2.0
Gross fixed capital formation		47.3	17.8	-	-	-	6.3	5.0	11.5	13.0
of which : equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		102.6	38.7	-	-	-	10.6	10.7	10.0	9.0
Final demand		425.8	160.5	-	-	-	8.0	4.3	5.8	6.2
Imports (goods and services)		160.4	60.5	-	-	-	15.3	4.7	8.3	8.5
GNI at constant prices (GDP deflator)		263.9	99.5	-	1.3	2.9	4.1	4.0	4.3	4.7
Contribution to GDP growth :	Domestic demand			-	8.6	-3.2	8.0	2.7	5.2	6.2
	Stockbuilding			-	0.0	-0.7	0.4	0.0	0.0	0.0
	Foreign balance			-	-7.7	6.7	-4.4	1.5	-0.8	-1.3
Employment				-	-6.3	-2.9	-2.4	4.3	1.2	1.5
Unemployment (a)				-	31.9	36.7	37.2	36.5	35.6	34.4
Compensation of employees/head				-	1.4	-	7.7	0.3	2.3	2.0
Unit labour costs				-	-5.8	-	-1.1	0.6	-0.8	-1.1
Real unit labour costs				-	-8.9	-	-2.5	-1.1	-2.8	-2.6
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				5.6	3.4	0.3	1.3	1.7	2.1	1.5
Private consumption deflator				-	-	-	0.2	0.7	2.6	1.9
General index of consumer prices				-	2.3	1.1	-0.4	0.5	2.5	1.8
Trade balance (c)				-	-21.3	-18.4	-20.7	-19.5	-19.6	-20.3
Current account balance (c)				-	-9.5	-3.3	-7.7	-1.4	-3.2	-4.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)(d)				-	-	-1.1	0.0	0.3	-0.3	-0.7
Cyclically-adjusted budget balance (c)(d)				-	-	-	-	-	-	-
General government gross debt (c)				-	43.0	39.0	36.6	40.9	36.0	35.0

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

3. Turkey

Solid growth and strengthening macroeconomic stability

Activity in 2005

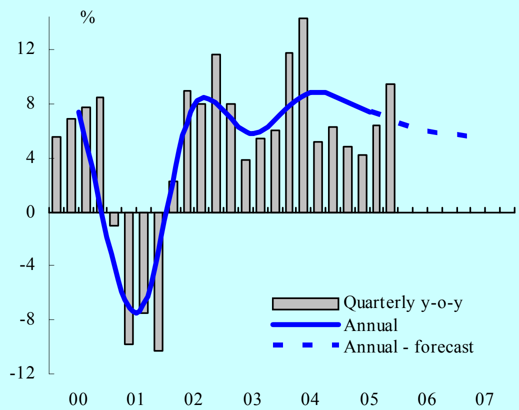
In 2004 and 2005, economic stabilisation continued along with a better balancing of the sources of growth. Last year, strong private consumption and investment led to an increase in output by 7½%. Favourable base-year effects and leading indicators, such as industrial production and capacity utilisation, point to continued strong growth in the first months of 2006. Inflationary pressures continued to decline, reflecting the strength of the Turkish currency and the strict fiscal policy of the Turkish authorities. As a result, consumer price inflation fell to 7⅔% in December 2005, below the year-end target of 8%.

After three years of strong growth with almost no job creation, employment started to increase since mid-2004 by roughly 2% year-on-year. The labour force participation rate went slightly down to about 50% in tandem with stable unemployment rates at around 10%. Public finances remained largely on track, with general government achieving a primary surplus of 6½% of GNP. This substantial surplus and strong GDP growth led to a sharp reduction in the general government debt ratio by about 7 percentage points to 70% in 2005. The current account deficit widened considerably reflecting accelerating domestic demand and the strength of the currency, from just over 5% of GDP in 2004 to about 6⅓% of GDP in 2005.

Prospects for 2006 to 2007

The overall picture for the forecasting period looks favourable. Turkey should be able to maintain strong export growth -in particular in tourism- while the tight fiscal policy stance will support the current disinflation process, in spite of pressures arising from high oil prices and rigidities in services prices.

Graph 5.3: **Turkey - GDP growth**



The continued decline in inflationary pressures will improve predictability and allow for falls in interest rates, albeit at a slower pace than in the previous years, and improve the investment climate. Overall, output is expected to increase by 5½-6% throughout the forecasting period. GDP growth is expected to be increasingly balanced by domestic demand components, with private investment outpacing overall growth. Declining inflation will support disposable income and allow consumers to maintain private consumption growth at above 5% in 2006-2007. Gross fixed capital formation will continue to benefit from improved macroeconomic stability and declining real interest rates. On the other hand, the accumulation of stocks is forecast to have come to an end in 2005. The strong investment and consumption will lead to continued high growth of imports, in particular of consumer durables and capital goods. Exports should benefit from diversification and quality improvements resulting from earlier high investments in exporting sectors. However, the relative strength of the Turkish currency might make it more difficult for exporters to benefit from new trade opportunities.

Parliamentary and Presidential elections are due in 2007. This might have an important impact on public spending. Any possible impact stemming from policy changes in the context of political events has not been incorporated in the current forecast.

The trend of declining inflation is likely to continue. Fiscal discipline, improving credibility of the Central Bank's inflation targets and the recent strength of the currency are important elements in this respect. Annual average consumer price inflation is expected fall again below 8% during the first half of 2006. However, high oil and services prices might slow down further disinflation in 2006 and 2007. In line with the strong growth performance, employment is forecast to increase by about 2% per year. This rise more or less corresponds with the rise in labour force, so that unemployment rates are expected to stabilize around 10⅓% in 2006 and 2007.

Public finances

Public sector imbalances are likely to decline markedly during 2006-2007, benefiting from the sustained recovery, declining interest rates driven by improved market confidence and a prudent fiscal policy stance. The general government budget deficit is therefore forecast to fall to below 1% of GDP by 2007. The ongoing public finance reforms will help to widen the tax base and to increase the efficiency of tax collection. Non-interest expenditures are seen to remain largely constant as a percentage of GDP.

External balances

Growth of imports is expected to remain strong, partially reflecting a high import content of exports and continued strong domestic demand. The current account deficit is forecast to widen to 6⅔% of GDP in 2006, due to a deterioration of the terms of trade and a higher deficit of the income balance. Chiefly due to a higher surplus of the services balance and the results of strong investment in the export-oriented sectors, the deficit is forecast to fall to 6½ in 2007. The strong TRY and current account deficits have been made possible by large inflows of foreign capital into the economy, initially led by IMF and financial market lending, but more recently dominated by loans to Turkish banks and companies and purchases of Turkish domestic bonds and shares.

Table 5.3

Main features of country forecast - TURKEY

	2004		Annual percentage change						
bn TRY	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices	429.7	100.0	2.7	7.9	5.8	8.9	7.4	5.8	5.5
Private consumption	287.2	66.8	2.1	1.9	7.2	10.6	8.8	5.8	5.2
Public consumption	56.8	13.2	4.5	5.4	-2.4	0.5	2.4	3.5	3.0
Gross fixed capital formation	76.7	17.9	-1.1	-1.1	10.0	32.4	24.0	12.4	8.4
of which : equipment	44.6	10.4	-0.3	9.1	43.7	61.7	26.8	12.0	8.0
Exports (goods and services)	124.3	28.9	11.1	11.1	16.0	12.5	9.0	7.9	8.4
Final demand	579.0	134.7	3.7	9.5	10.4	12.8	9.2	7.2	6.5
Imports (goods and services)	149.3	34.7	8.6	15.8	27.1	24.7	13.0	9.9	8.2
GNI at constant prices (GDP deflator)	431.4	100.4	2.4	8.1	5.9	9.5	7.9	5.5	5.6
Contribution to GDP growth : Domestic demand			2.4	3.2	6.2	12.2	11.6	7.4	6.0
Stockbuilding			0.2	5.7	2.4	0.9	-1.9	-0.2	-0.1
Foreign balance			0.3	-0.9	-2.8	-4.2	-2.3	-1.4	-0.4
Employment			0.8	-0.8	-1.0	3.0	1.2	1.7	2.0
Unemployment (a)			7.2	10.3	10.5	10.3	10.3	10.2	9.9
Compensation of employees/head			72.1	37.9	27.9	16.5	16.3	12.1	11.1
Unit labour costs			69.0	26.7	19.7	10.2	9.6	7.8	7.3
Real unit labour costs			0.4	-12.1	-2.3	0.3	1.5	0.6	1.4
Savings rate of households (b)			-	-	14.8	4.0	-0.3	-1.9	-2.2
GDP deflator			68.4	44.1	22.5	9.9	8.0	7.2	5.8
Private consumption deflator			70.1	40.8	21.2	7.4	9.3	6.8	6.1
General index of consumer prices			-	-	-	-	8.2	7.1	6.0
Trade balance (c)			-9.7	-7.8	-8.1	-9.0	-8.7	-8.7	-8.5
Current account balance (c)			-3.0	-2.4	-4.1	-6.2	-6.3	-6.5	-6.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-	-	-	-6.3	-6.9	-6.9
General government balance (c)(d)			-	-12.9	-11.3	-5.7	-1.2	-1.4	-1.0
Cyclically-adjusted budget balance (c)(d)			-	-	-	-	-	-	-
General government gross debt (c)			-	93.0	85.1	76.9	69.6	64.5	60.8

(a) as % of civilian labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) Including proceeds relative to UMTS licences (see for more details note 10 on concepts and sources).

Chapter 6

Other non-EU Countries

1. The United States of America

Housing correction expected to trigger a "soft landing"

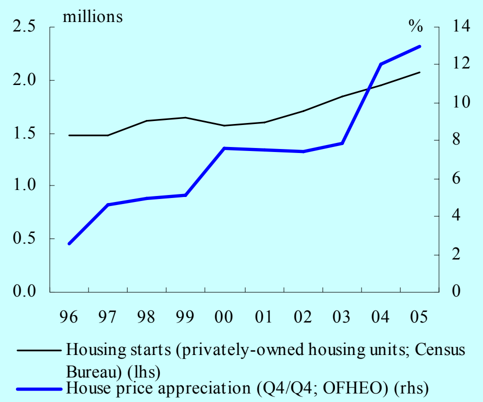
Continued expansion and imbalances in 2005

The US economy expanded at a solid 3.5% rate in 2005, slightly above its long-term potential. Weak growth in the final quarter reflected only temporary or special factors, including the economic fall-out from unusually severe hurricanes. The strong underlying growth momentum was carried over into 2006.

Last year's growth was primarily driven by a 3.5% advance in real personal consumption expenditure. This was mainly based on a 2.2 percentage point drop in the personal saving rate since real disposable income increased by only 1.4%. Fixed investment was also an important driver of growth: business investment increased by 8.6% and residential investment by 7.1%. Government spending rose by 1.8% and contributed only modestly to growth. A negative contribution to growth came again from net exports in spite of the fact that export growth actually exceeded import growth in volume terms for the first time since 1995. However, this relative improvement in trade performance was not translated into a positive growth contribution since imports were 55% greater than exports.

Unemployment fell to an annual average of 5.1% as employment continued to grow moderately. Wage inflation was practically flat at a low level and core inflation stayed around 2%, but headline inflation was more elevated due to the energy price developments. The trends in the so-called 'twin deficits' continued to diverge in 2005. The surge in the current account deficit to around $800 billion or 6.3% of GDP on a national account basis was to a large extent due to a sharply higher energy import bill. The decline in the fiscal deficit of general government to 3.8% of GDP was caused by a temporary surge in tax revenues.

Graph 6.1: **United States - Housing boom near its apex?**



Housing market slowdown in the offing

The strong growth momentum – now also supported by hurricane rebuilding - should continue in the first half of 2006. Private consumption has regained traction after a dip in the second half of last year. Consumer confidence is at a solid level, helped by steady job growth and low unemployment. Business investment is benefiting from high corporate profitability and above-average industrial capacity utilisation.

Later in 2006, the economy is expected to cool down in a lagged response to the withdrawal of monetary policy accommodation and because of higher energy prices. The Federal Reserve has raised the federal funds target rate by a combined 375 basis points between June 2004 and March 2006. Long-term rates, which remained surprisingly low for a very long time, have also trended higher since the middle of last year.

Higher interest rates are likely to slow down residential construction which – as a share of GDP – has reached the highest level since 1980. They are also likely to put a brake on house price inflation and on private consumption growth. As shown in the chart, average house prices have increased rapidly in recent years – in many regions probably in excess of what fundamentals, including low interest rates, have warranted. Rising housing wealth has incited households to engage in loan-financed consumption on an unprecedented scale and contributed to driving the personal saving rate into negative territory. This process is expected to be much reduced as the housing market softens – a development which has already been signalled by a number of leading indicators for the sector.

Although the housing market correction is expected to lower overall growth to below potential in the second half of 2006 and in 2007, the economy should be able to avoid a downward spiral. A ‘soft landing’ will be facilitated by continuing solid growth in US export markets. Even more important is that the Federal Reserve will have considerable leeway in the current low-inflation environment to embark on a new phase of monetary policy easing, if needed.

Prospects for 2006 and 2007

The forecast projects output to expand strongly in the first half of 2006, particularly in the first quarter when growth will be boosted by a large statistical overhang from the preceding quarter. In the second half of the year, output growth is expected to fall just below 3% annualised. This profile results in an annual growth rate of 3.2%. For 2007, the forecast projects continued below-potential growth with a 2.7% annual growth rate. The anticipated deceleration in consumer spending over two years should bring the personal saving rate back into positive territory. Slowing demand growth with largely unchanged productivity growth should push the unemployment rate up a bit next year. Headline inflation is projected to remain close to 3% this year, but to recede more decisively next year, which is consistent with the assumed energy price development and with more slack in the economy in 2007. The general government deficit should rise back up to more than 4% of GDP as the growth in tax revenues normalises. The current account deficit is projected to increase to 7% of GDP this year, partly because the balance of net investment income is likely to deteriorate further. In 2007 the trade and current account deficits should stabilise as imports decelerate in line with domestic demand while export growth remains at a relatively high level.

There are risks to the forecasts on both sides. On the upside, there is the possibility that the housing market correction will be delayed or that its macroeconomic fallout will be weaker than expected. The downside risks may be somewhat less likely, but their effect more severe if they materialise. A sharp rise in long-term rates, possibly in connection with a loss of confidence in the dollar because of the growing current account deficit, could result in large negative wealth effects followed by a recession.

Table 6.1

Main features of country forecast - UNITED STATES

	2004			Annual percentage change						
bn USD		Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		11734.3	100.0	3.1	1.6	2.7	4.2	3.5	3.2	2.7
Private consumption		8214.3	70.0	3.5	2.7	2.9	3.9	3.5	2.9	2.1
Public consumption		1843.4	15.7	2.0	4.7	3.3	2.5	1.5	1.9	2.2
Gross fixed capital formation		2245.1	19.1	4.1	-3.9	3.2	8.3	7.3	5.3	3.7
of which : equipment		1040.8	8.9	6.5	-5.5	3.1	11.4	10.2	7.4	6.0
Exports (goods and services)		1173.9	10.0	5.7	-2.3	1.8	8.4	6.9	9.2	8.4
Final demand		13532.1	115.3	3.5	1.8	2.9	5.0	4.0	3.9	3.0
Imports (goods and services)		1797.8	15.3	7.6	3.4	4.6	10.7	6.4	8.1	4.7
GNI at constant prices (GDP deflator)		11788	100.5	3.1	1.5	3.1	4.1	3.3	2.9	2.4
Contribution to GDP growth :	Domestic demand			3.4	1.9	3.1	4.6	4.2	3.4	2.5
	Stockbuilding			0.0	0.4	0.0	0.3	-0.3	0.1	0.0
	Foreign balance			-0.3	-0.7	-0.5	-0.7	-0.3	-0.3	0.1
Employment (*)				1.6	-0.3	0.9	1.1	1.8	1.4	0.6
Unemployment (a)				6.3	5.8	6.0	5.5	5.1	4.8	5.1
Compensation of employees/head				4.5	3.6	4.2	4.8	4.6	3.8	4.1
Unit labour costs				2.9	1.6	2.3	1.6	2.8	2.0	2.0
Real unit labour costs				-0.2	-0.1	0.3	-1.0	0.0	-0.5	0.3
Savings rate of households (b)				-	-	2.2	1.8	-0.4	-0.1	1.2
GDP deflator				3.1	1.8	2.0	2.6	2.8	2.5	1.7
Private consumption deflator				3.3	1.4	1.9	2.6	2.8	2.3	1.5
General index of consumer prices				-	1.6	2.3	2.7	3.4	2.9	1.6
Trade balance (c)				-2.5	-4.7	-5.1	-5.8	-6.4	-6.8	-6.6
Current account balance (c)				-1.7	-4.4	-4.6	-5.6	-6.3	-7.0	-6.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.8	-4.4	-4.7	-5.6	-6.3	-7.0	-6.9
General government balance (c)				-3.4	-3.8	-5.0	-4.7	-3.8	-4.1	-4.4
Cyclically-adjusted budget balance (c)(d)				-	-	-	-	-	-	-
General government gross debt (c)				64.5	60.6	64.2	64.8	60.7	61.5	63.2

(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(*) Employment data from the BLS household survey.

2. Japan

Sayonara deflation!

Economic activity improved in 2005

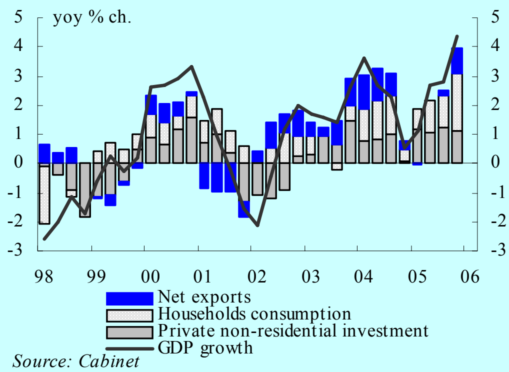
The Japanese economic expansion broadened further beyond the export-related sector in 2005. In the last quarter of 2005, GDP growth reached 5.4% in quarterly annualised terms after having attained 0.8%, 5.7% and 5.5% respectively in the three preceding quarters. GDP growth was driven by both private domestic demand (mainly household consumption) and net exports (reflecting a decrease in imports).

In 2005 as a whole, and despite a negative growth overhang from the previous year, Japanese growth reached 2.7% in 2005 after 2.3% in 2004. While the contribution of net exports to GDP growth more than halved, that of domestic demand increased significantly, to 2.4 percentage points. On the back of rising confidence and better employment prospects, households significantly increased their consumption expenditure. Residential investment started to pick up in the second half of the year. Following the revival of export growth in the course of the year, the business investment cycle was also reinvigorated. Industrial production rebounded from its mid-2005 soft patch and inventory data suggest no problem with demand.

Prospects for 2006 and 2007

Recent indicators suggest that the Japanese economy should continue to expand steadily in the coming quarters. The situation in the labour market improved markedly in 2005. At 4.1% of the labour force, the unemployment rate reached its lowest level since 1998. Moreover, full-time employment increased in 2005 for the first year since 1999. Against this backdrop, wages and consumer confidence have started to rise and should continue to do so in the near future. As a result, it is forecast that household consumption will maintain its momentum over 2006 and slightly decelerate next year.

Graph 6.2: **Japan - GDP growth and main components' contribution**



Source: Cabinet

As suggested in the quarterly April Tankan survey which showed high and widespread confidence, business investment should remain dynamic over the coming quarters. High corporate profitability, a sound corporate financial situation and the gradual absorption of excess productive capacity provide a favourable environment for dynamic investment expenditure.

On the external side, net exports are expected to remain supportive of GDP growth as the strength of exports (mainly to the rest of Asia) should partially offset the expected acceleration in imports. Though remaining sizeable, Japan's current account surplus is forecast to diminish gradually, from 3.6% of GDP in 2005 to 3.4% in 2007.

Overall, Japanese GDP growth is forecast to reach 2.8% in 2006 and to decelerate only marginally to 2.4% in 2007.

End of deflation and normalisation of the monetary policy framework

Deflation is gradually being overcome. In February, the headline inflation rate reached 0.4%, while core inflation (excluding fresh food) stood at 0.5%, having been positive for five consecutive months. On the asset price front, there are signs of increases in land prices in some regions. Additionally, bank loan growth, which had been negative since 1998, was positive (+1.7%) in February for the seventh month in a row.

In spite of the planned rebasing of the CPI and revision of the CPI's weights in August 2006, which should reduce the inflation rate by a couple of tenths of a percentage point, headline inflation is projected to average 0.7% in 2006 and 1% in 2007.

In this context, the Bank of Japan (BoJ) decided on 9 March 2006 to end its quantitative easing policy framework, which had been in place since March 2001. It decided to shift its operating target for money market interventions from the outstanding balance of current accounts held by commercial banks at the BoJ to the uncollateralised overnight call rate. It also stated that it will encourage the latter to remain effectively at zero percent for a few months.

In addition, the BoJ clarified its definition of price stability by setting a reference target range for the year-on-year change in headline CPI at between 0 and 2% over the medium term. The BoJ is expected to drain the currently existing excess liquidity in the financial system over a period of some months. The policy rate should remain at zero for some months. At a later stage, a first – small – increase in the policy rate might be envisaged. In other words, Japan's key policy rate should remain at zero for a couple of quarters.

Government finances have yet to be put on a sustainable path

Although the fiscal consolidation debate is starting to heat up, the government remains cautious toward fiscal consolidation. It retains the objective of reducing the primary balance by around 0.5 percentage points annually so as to achieve the target of primary balance in the early 2010s. However, population ageing and the projected higher interest payments still leave Japanese public finances on an unsustainable path.

While the reduction in expenditure should continue, a significant increase in revenues (which might involve a reform of the income tax or an increase in the VAT rate) also seems necessary.

Table 6.2

Main features of country forecast - JAPAN

	2004		Annual percentage change						
bn YEN	Curr. prices	% GDP	81-01	2002	2003	2004	2005	2006	2007
GDP at constant prices	496050.3	100.0	2.5	0.1	1.8	2.3	2.7	2.8	2.4
Private consumption	284921.9	57.4	2.6	1.1	0.6	1.9	2.2	2.2	2.0
Public consumption	89074.9	18.0	3.3	2.4	2.3	2.0	1.7	0.9	0.8
Gross fixed capital formation	113368.9	22.9	2.0	-5.0	0.3	1.1	3.5	3.9	4.0
of which : equipment	-	-	4.5	-9.5	9.2	-	-	-	-
Exports (goods and services)	66286.3	13.4	4.0	7.6	9.0	13.9	6.9	10.0	8.1
Final demand	552710.5	111.4	2.6	0.2	2.0	2.9	3.1	3.2	3.1
Imports (goods and services)	55660.2	11.2	4.9	0.9	3.9	8.5	6.2	8.1	9.8
GNI at constant prices (GDP deflator)	505670.2	101.9	2.6	0.1	1.8	2.5	3.1	2.7	2.2
Contribution to GDP growth : Domestic demand			2.5	-0.2	0.8	1.7	2.4	2.3	2.2
Stockbuilding			0.0	-0.4	0.3	-0.2	0.2	-0.1	0.1
Foreign balance			0.0	0.7	0.6	0.8	0.3	0.5	0.1
Employment			0.6	-1.4	-0.3	0.2	0.4	0.4	0.3
Unemployment (a)			3.0	5.4	5.3	4.7	4.4	4.3	4.3
Compensation of employees/head			2.3	-1.6	-1.6	-1.6	0.6	0.8	1.0
Unit labour costs			0.4	-3.1	-3.6	-3.6	-1.7	-1.5	-1.0
Real unit labour costs			-0.6	-1.5	-2.1	-2.5	-0.4	-1.2	-1.4
Savings rate of households (b)			-	-	11.0	10.3	10.1	9.8	9.6
GDP deflator			1.0	-1.6	-1.6	-1.2	-1.3	-0.3	0.4
Private consumption deflator			1.1	-1.4	-0.9	-0.7	-0.8	0.5	0.7
General index of consumer prices			-	-0.9	-0.3	0.0	-0.3	0.7	1.0
Trade balance (c)			2.8	2.4	2.5	2.9	1.9	1.9	1.9
Current account balance (c)			2.5	3.1	3.5	4.0	3.6	3.6	3.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			2.5	3.2	3.6	4.1	3.5	3.4	3.3
General government balance (c)			-2.6	-8.2	-8.0	-6.3	-6.5	-5.8	-5.4
Cyclically-adjusted budget balance (c)(d)			-	-	-	-	-	-	-
General government gross debt (c)			85.8	152.0	156.3	157.3	158.9	161.1	162.4

(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

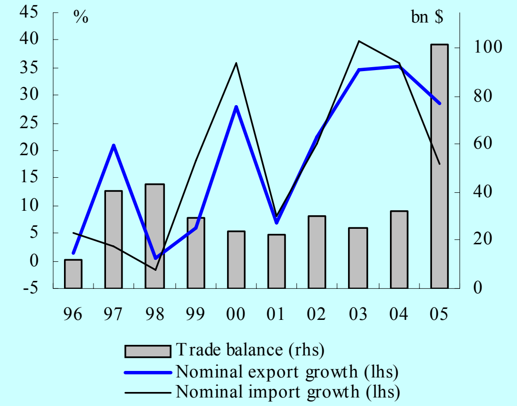
3. China

On track for continued very robust growth, albeit at a more moderate pace

2005, another year of very robust growth

China's GDP was revised upwards in December 2005, mainly due to an upward revision of the size of the service sector. GDP growth in 2005 is now officially estimated at 9.9%, only slightly lower than the 10.1% growth rate now estimated for 2004. The very robust 2005 GDP growth rate was underpinned by still high investment spending and surging net exports. Fixed investment growth decelerated only slightly (averaging 27.2% in 2005), with less investment in sectors suffering from overcapacity (steel, cement, aluminium, real estate) and a reorientation towards under-invested sectors (transportation infrastructure, energy). Net export growth strongly accelerated in 2005, with the trade surplus tripling from $32 bn in 2004 to a record $102 bn in 2005. The surge in the 2005 trade surplus essentially reflected a sharp deceleration of import growth due to some moderation of investment growth, excess stocks of some commodities and intermediate goods, an increase in the supply of some domestic import substitutes and the postponement of foreign purchases of big items in anticipation of a renminbi revaluation. However, the contribution of external trade to GDP growth diminished towards the end of 2005, in the context of a real effective appreciation of the renminbi of about 10% in the course of 2005. Domestic consumption continued to grow at a healthy pace, underpinned by strong income growth in both urban and rural areas.

Graph 6.3: **China - External trade**



A somewhat more balanced economy than earlier data suggested

After the December revision, the tertiary sector accounted for 41% of 2004 GDP, up from 32% previously. This suggests a more resilient composition of demand, as services as an engine of growth are more independent of the investment cycle and volatile external demand. The revised GDP figure also implies a lower share of fixed investment in GDP (39% of 2004 GDP post-revision versus 46% pre-revision). This somewhat weakens the picture of a generalised overinvestment problem. However, investment in some sectors (such as metal refining and construction) is still very large and investment growth remains well above the objective set by government for this year (+18%).

Some easing in monetary policy, against the background of lower inflationary pressures

After two years of restrictive monetary policy and administrative controls on bank lending (including the marked cutting down of funding for the infrastructure and property sectors), the central bank began in mid-2005 to timidly ease its policy stance by encouraging banks to continue their lending to "good" projects and sectors and increased liquidity to banks. As a result, money growth (M2) accelerated modestly in the second half of 2005 (from 14.6% on average in H105 to 17.6% in H205). Also, credits to the construction sector grew by 10% on average in the second half of 2005, after one and a half years of negative growth. However, total credit growth remained moderate, averaging 10% in 2005.

Year-on-year inflation sharply decelerated in 2005 to 1.8% (from 3.9% in 2004), despite higher raw material and energy costs and continued strong output growth. This was largely due to a reversal of earlier food price increases following higher agricultural production. Increased capacity from strong investment and persistent productivity gains have helped to keep non-food inflation in check. Furthermore, due to price controls, surging oil prices did not automatically translate into higher consumer prices in China.

Prospects for 2006 and 2007

GDP growth is projected to slow down modestly, averaging about 9.5% in 2006, before further slowing to about 9% in 2007. The slowdown is expected to mainly come from a reduction of net export growth, against the background of a slowdown of the US economy and assuming a gradually appreciating domestic currency. Investment is likely to remain restricted in sectors experiencing excessive fixed investments, but boosted in under-invested areas. Domestic demand is expected to increasingly become a more important driver for growth, supported by government efforts to boost income growth and job creation. Inflation is likely to increase moderately, reflecting rising food, energy and utility prices.

The balance of risks in the short term is probably more on the upside

The banking system remains very liquid and foreign exchanges reserves continue to rise rapidly, albeit at a somewhat lower pace than in 2004. The ample liquidity in the banking system could trigger a rebound in lending and investment. In addition, investment spending rebounded in the first quarter of 2006, in particular in the construction and metal sectors. If this trend continues and expands to other sectors, investment could re-accelerate in 2006, which could increase overcapacity and non-performing loans problems. This would lead to a higher-than-forecast growth rate in the short term but would increase the risk of bust at a later stage.

Table 6.3

Main features of country forecast - CHINA

		2004		Annual percentage change						
	bn CNY	Curr. prices	% GDP	95-01	2002	2003	2004	2005	2006	2007
GDP at constant prices		16028.0	100.0	8.9	9.1	10.0	10.1	9.9	9.5	9.0
Private consumption		6383.4	39.8	--	--	--	--	--	--	--
Public consumption		2319.9	14.5	--	--	--	--	--	--	--
Gross fixed capital formation		6511.7	40.6	--	--	--	--	--	--	--
of which : equipment		--	--	--	--	--	--	--	--	--
Change in stocks as % of GDP		405.1	2.5	--	--	--	--	--	--	--
Exports (goods and services)		5428.1	33.9	14.2	24.6	29.7	27.8	20.2	16.9	15.4
Final demand		21048.2	131.3	8.1	7.9	8.5	8.4	10.1	8.7	8.2
Imports (goods and services)		5020.2	31.3	12.6	23.6	32.7	26.6	8.3	18.0	16.4
GNI at constant prices (GDP deflator)		--	--	--	--	--	--	--	--	--
Contribution to GDP growth :	Domestic demand			--	--	--	--	--	--	--
	Stockbuilding			--	--	--	--	--	--	--
	Foreign balance			--	--	--	--	--	--	--
Employment				1.1	1.0	0.9	1.0	0.8	1.1	1.1
Unemployment (a)				3.1	4.0	4.3	4.2	4.2	4.1	4.1
Compensation of employees/head				--	--	--	--	--	--	--
Unit labour costs				--	--	--	--	--	--	--
Real unit labour costs				--	--	--	--	--	--	--
Savings rate of households (b)				--	--	--	--	--	--	--
GDP deflator				4.0	0.8	2.4	7.1	4.1	4.5	4.6
Private consumption deflator				--	--	--	--	--	--	--
Index of consumer prices (d)				3.9	-0.8	1.2	3.9	1.8	2.3	2.5
Trade balance (c)				3.3	3.0	2.7	3.1	5.8	5.0	4.7
Current account balance (c)				1.9	2.4	2.8	3.6	6.5	5.7	5.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				--	--	--	--	--	--	--
General government balance (c)				-1.6	-2.9	-2.4	-1.3	-1.6	-1.5	-1.4
General government gross debt (c)				16.6	25.1	25.6	23.6	22.3	21.2	20.5

(a) urban unemployment, as % of labour force. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.
(d) national indicator.

Statistical Annex

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Output: GDP and its components

Prices

Wages, population and labour market

Interest and exchange rates

General Government

Saving

Trade and international payments

World economy

STATISTICAL ANNEX : SPRING 2006 ECONOMIC FORECASTS

TABLE 1 : Gross domestic product, volume (percentage change on preceding year, 1961-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	3.4	1.6	2.7	1.0	1.5	0.9	2.6	*1.4*	1.2	*2.1*	2.3	*2.0*	2.1
Germany	3.2	2.2	2.0	1.2	0.1	-0.2	1.6	*0.8*	0.9	*1.2*	1.7	*1.6*	1.0
Greece	4.5	1.2	3.4	5.1	3.8	4.8	4.7	*3.5*	3.6	*3.4*	3.5	*3.4*	3.4
Spain	4.6	1.5	4.1	3.5	2.7	3.0	3.1	*3.4*	3.4	*3.2*	3.1	*3.0*	2.8
France	3.8	1.3	2.9	2.1	1.2	0.8	2.3	*1.5*	1.4	*1.8*	1.9	*2.3*	2.0
Ireland	4.2	4.7	9.7	6.2	6.1	4.4	4.5	*4.4*	4.7	*4.8*	4.9	*5.0*	5.1
Italy	4.0	1.3	1.9	1.8	0.3	0.0	1.1	*0.2*	0.0	*1.5*	1.3	*1.4*	1.2
Luxembourg	3.7	4.0	6.1	2.5	3.6	2.0	4.2	*4.2*	4.2	*4.4*	4.4	*4.5*	4.5
Netherlands	3.4	2.1	3.7	1.4	0.1	-0.1	1.7	*0.5*	1.1	*2.0*	2.6	*2.4*	2.6
Austria	3.5	2.2	2.9	0.8	1.0	1.4	2.4	*1.7*	1.9	*1.9*	2.5	*2.2*	2.2
Portugal	4.8	1.7	4.1	2.0	0.8	-1.1	1.1	*0.4*	0.3	*0.8*	0.9	*1.2*	1.1
Finland	3.9	-0.9	4.7	1.0	2.2	2.4	3.6	*1.9*	2.1	*3.5*	3.6	*3.1*	2.9
Euro area	3.7	1.6	2.7	1.9	0.9	0.7	2.0	*1.3*	1.3	*1.9*	2.1	*2.1*	1.8
Czech Republic	:	-1.0	1.5	2.6	1.5	3.2	4.7	*4.8*	6.0	*4.4*	5.3	*4.3*	4.7
Denmark	2.7	2.3	2.9	0.7	0.5	0.7	1.9	*2.7*	3.1	*2.3*	3.2	*2.1*	2.3
Estonia	:	:	5.6	6.5	7.2	6.7	7.8	*8.4*	9.8	*7.2*	8.9	*7.4*	7.9
Cyprus	:	5.3	3.8	4.1	2.1	1.9	3.9	*3.9*	3.8	*4.0*	3.8	*4.2*	3.8
Latvia	:	-11.8	5.4	8.0	6.5	7.2	8.5	*9.1*	10.2	*7.7*	8.5	*7.1*	7.6
Lithuania	:	-10.3	4.2	6.4	6.8	10.5	7.0	*7.0*	7.5	*6.2*	6.5	*5.8*	6.2
Hungary	:	:	4.0	4.3	3.8	3.4	4.6	*3.7*	4.1	*3.9*	4.6	*3.9*	4.2
Malta	:	:	4.5	0.3	1.5	-2.5	-1.5	*0.8*	2.5	*0.7*	1.7	*1.1*	1.9
Poland	:	2.2	5.4	1.1	1.4	3.8	5.3	*3.4*	3.2	*4.3*	4.5	*4.5*	4.6
Slovenia	:	-0.6	4.4	2.7	3.5	2.7	4.2	*3.8*	3.9	*4.0*	4.3	*4.2*	4.1
Slovakia	:	:	3.7	3.8	4.6	4.5	5.5	*5.1*	6.0	*5.5*	6.1	*6.3*	6.5
Sweden	2.9	0.7	3.2	1.1	2.0	1.7	3.7	*2.5*	2.7	*3.0*	3.4	*2.8*	3.0
United Kingdom	2.5	1.7	3.2	2.2	2.0	2.5	3.1	*1.6*	1.8	*2.3*	2.4	*2.8*	2.8
EU-25	:	:	2.9	1.9	1.2	1.2	2.4	*1.5*	1.6	*2.1*	2.3	*2.4*	2.2
EU-15	3.4	1.6	2.8	1.9	1.1	1.1	2.3	*1.4*	1.5	*2.0*	2.2	*2.2*	2.0
Bulgaria	:	:	-0.8	4.1	4.9	4.5	5.7	*6.0*	5.5	*5.5*	5.4	*5.5*	5.7
Romania	:	-2.2	-1.3	5.7	5.1	5.2	8.4	*5.2*	4.1	*5.3*	5.5	*5.0*	5.1
USA	3.5	2.5	4.1	0.8	1.6	2.7	4.2	*3.5*	3.5	*3.2*	3.2	*2.7*	2.7
Japan	6.1	1.5	1.0	0.4	0.1	1.8	2.3	*2.5*	2.7	*2.2*	2.8	*1.8*	2.4

TABLE 2 : Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2005-2007)

	2005/1	2005/2	2005/3	2005/4	2006/1	2006/2	2006/3	2006/4	2007/1	2007/2	2007/3	2007/4
Belgium	0.1	0.3	0.5	0.6	0.4	0.7	0.9	0.4	0.4	0.7	0.7	0.4
Germany	0.6	0.3	0.6	0.0	0.6	0.6	0.6	0.7	-0.8	0.5	0.6	0.5
Greece	2.4	-0.3	1.8	-0.2	1.1	1.1	1.2	1.1	0.6	0.7	0.7	0.7
Spain	0.8	0.8	0.9	0.9	0.8	0.7	0.6	0.6	0.8	0.7	0.6	0.6
France	0.3	0.1	0.7	0.4	0.7	0.4	0.5	0.5	0.5	0.6	0.6	0.6
Ireland	0.6	1.7	0.6	1.9	1.3	1.0	1.0	0.9	1.3	1.4	1.5	1.6
Italy	-0.4	0.6	0.3	0.0	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	-0.7	1.2	0.8	0.8	0.4	0.5	0.6	0.6	0.7	0.6	0.6	0.6
Austria	0.2	0.5	0.6	0.7	0.9	0.8	0.8	0.8	0.6	0.4	0.5	0.5
Portugal	0.3	1.1	-0.9	0.1	0.4	0.4	0.3	0.2	0.2	0.3	0.2	0.2
Finland	0.4	-1.3	2.9	0.9	0.1	1.1	1.1	1.1	0.5	0.5	0.5	0.5
Euro area	0.3	0.4	0.7	0.3	0.6	0.6	0.6	0.6	0.2	0.5	0.5	0.5
Czech Republic	1.4	1.7	1.6	1.9	:	:	:	:	:	:	:	:
Denmark	0.1	2.1	1.2	0.0	0.3	1.1	1.2	1.1	0.2	0.3	0.2	0.1
Estonia	2.2	4.0	2.7	2.2	:	:	:	:	:	:	:	:
Cyprus	1.1	0.7	1.0	0.7	1.1	1.0	1.0	1.0	0.8	1.0	1.0	1.0
Latvia	2.7	3.1	2.6	2.7	:	:	:	:	:	:	:	:
Lithuania	0.3	3.6	2.1	2.5	:	:	:	:	:	:	:	:
Hungary	1.0	1.1	1.0	1.0	1.4	1.4	1.5	1.2	0.9	1.3	1.5	1.6
Malta	0.6	-1.4	2.5	0.8	:	:	:	:	:	:	:	:
Poland	1.2	0.1	1.5	1.3	:	:	:	:	:	:	:	:
Slovenia	1.1	2.3	0.7	1.0	:	:	:	:	:	:	:	:
Slovakia	1.5	1.5	1.7	1.8	:	:	:	:	:	:	:	:
Sweden	0.6	0.8	0.9	0.7	0.9	0.9	0.9	0.8	0.7	0.7	0.7	0.8
United Kingdom	0.2	0.5	0.5	0.6	0.7	0.7	0.5	0.6	0.7	0.8	0.8	0.9
EU-25	0.3	0.5	0.7	0.4	0.6	0.6	0.6	0.6	0.3	0.6	0.6	0.6
EU-15	0.3	0.5	0.7	0.4	0.6	0.6	0.6	0.6	0.3	0.6	0.6	0.6
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:
Romania	:	:	:	:	:	:	:	:	:	:	:	:
USA	0.9	0.8	1.0	0.4	1.2	0.8	0.7	0.7	0.7	0.6	0.6	0.6
Japan	1.3	1.4	0.2	1.3	0.6	0.5	0.4	0.5	0.7	0.6	0.6	0.6

TABLE 3 : Profiles (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2005-2007) 24.04.2006

	2005/1	2005/2	2005/3	2005/4	2006/1	2006/2	2006/3	2006/4	2007/1	2007/2	2007/3	2007/4
Belgium	1.8	1.6	1.2	1.5	1.8	2.2	2.6	2.4	2.4	2.4	2.2	2.2
Germany	0.6	0.8	1.5	1.6	1.5	1.8	1.8	2.5	1.0	0.9	0.9	0.8
Greece	3.5	3.7	3.8	3.7	2.4	3.8	3.2	4.5	4.1	3.6	3.1	2.7
Spain	3.3	3.4	3.5	3.5	3.5	3.3	3.1	2.7	2.8	2.8	2.8	2.7
France	1.7	1.0	1.7	1.5	1.9	2.2	2.0	2.1	1.9	2.0	2.1	2.3
Ireland	2.5	4.4	5.4	4.8	5.6	4.9	5.3	4.3	4.3	4.7	5.3	5.9
Italy	-0.3	0.1	0.1	0.5	1.4	1.2	1.2	1.5	1.3	1.2	1.2	1.2
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	0.1	1.0	1.3	2.1	3.2	2.5	2.4	2.2	2.5	2.6	2.6	2.6
Austria	2.6	1.9	1.6	1.9	2.7	3.0	3.2	3.3	3.0	2.6	2.3	2.0
Portugal	-0.1	0.4	0.4	0.7	0.7	0.0	1.3	1.4	1.2	1.1	0.9	0.9
Finland	2.9	0.6	2.5	2.9	2.6	5.1	3.2	3.4	3.8	3.2	2.6	1.9
Euro area	1.2	1.2	1.6	1.8	2.0	2.2	2.1	2.3	1.9	1.8	1.8	1.8
Czech Republic	5.3	5.8	5.8	6.9	5.7	5.4	5.2	5.1	4.6	4.7	4.7	4.7
Denmark	1.4	3.0	4.4	3.4	3.7	2.7	2.6	3.8	3.7	2.9	1.9	0.9
Estonia	7.0	10.2	10.4	11.5	10.3	9.0	8.1	8.3	8.3	7.3	7.5	8.3
Cyprus	3.9	3.6	4.0	3.6	3.5	3.8	3.8	4.1	3.8	3.8	3.8	3.8
Latvia	10.0	11.1	11.2	11.6	:	:	:	:	:	:	:	:
Lithuania	5.1	7.6	8.3	8.7	7.1	6.3	6.1	6.0	6.0	6.1	6.3	6.2
Hungary	4.4	4.3	4.4	4.2	4.5	4.8	5.3	5.5	5.0	4.8	4.8	5.2
Malta	0.3	1.5	5.4	2.5	:	:	:	:	:	:	:	:
Poland	3.2	1.8	3.3	4.1	5.1	4.5	4.1	4.4	4.0	5.0	4.7	4.8
Slovenia	2.9	4.9	4.0	5.1	4.8	3.7	4.5	4.3	3.9	4.3	4.1	4.1
Slovakia	5.5	5.6	6.2	6.7	5.7	6.7	5.7	6.2	6.5	6.5	6.5	6.5
Sweden	2.4	2.4	2.9	2.9	3.4	3.5	3.5	3.7	3.4	3.2	2.9	2.8
United Kingdom	1.9	1.7	1.9	1.8	2.3	2.5	2.5	2.5	2.5	2.6	2.9	3.3
EU-25	1.5	1.5	1.9	2.0	2.3	2.4	2.3	2.5	2.1	2.1	2.1	2.1
EU-15	1.4	1.3	1.7	1.8	2.3	2.4	2.2	2.4	2.1	2.0	2.1	2.1
Bulgaria	5.9	6.5	4.6	5.5	:	:	:	:	:	:	:	:
Romania	7.1	4.9	4.0	:	:	:	:	:	:	:	:	:
USA	3.6	3.6	3.6	3.2	3.5	3.5	3.2	3.4	2.9	2.7	2.6	2.6
Japan	1.1	2.7	2.8	4.3	3.5	2.6	2.8	2.0	2.1	2.2	2.4	2.5

TABLE 4 : Gross domestic product per capita (percentage change on preceding year, 1961-2007)

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	3.1	1.3	2.4	0.7	1.0	0.5	2.2	*1.1*	0.9	*1.9*	2.0	*1.8*	1.9
Germany	2.7	1.5	1.9	1.1	-0.1	-0.2	1.7	*0.8*	0.9	*1.2*	1.7	*1.6*	1.0
Greece	3.9	0.3	2.9	4.8	3.5	4.4	4.3	*3.2*	3.5	*3.1*	3.2	*3.1*	3.1
Spain	3.7	1.3	3.6	2.4	1.2	1.3	1.4	*1.8*	2.0	*1.8*	1.9	*1.6*	1.9
France	3.1	0.9	2.5	1.4	0.6	0.2	1.7	*1.0*	0.9	*1.3*	1.3	*1.8*	1.4
Ireland	3.4	4.1	8.5	4.6	4.3	2.7	2.7	*2.2*	2.5	*2.9*	2.7	*3.3*	3.4
Italy	3.5	1.2	1.9	1.7	0.0	-0.7	0.1	*-0.4*	-0.6	*1.4*	1.1	*1.2*	1.0
Luxembourg	3.0	2.5	4.7	1.8	2.5	1.2	3.5	*3.4*	3.5	*3.7*	3.7	*3.8*	3.8
Netherlands	2.5	1.4	3.1	0.7	-0.6	-0.6	1.4	*0.2*	0.9	*1.8*	2.5	*2.2*	2.6
Austria	3.2	1.5	2.8	0.4	0.5	1.0	1.7	*1.1*	1.3	*1.4*	2.0	*1.8*	1.8
Portugal	4.4	1.6	3.7	1.4	0.0	-1.8	0.5	*-0.2*	-0.3	*0.2*	0.3	*0.6*	0.5
Finland	3.5	-1.4	4.4	0.8	1.9	2.2	3.3	*1.7*	1.7	*3.3*	3.4	*2.9*	2.7
Euro area	3.1	1.3	2.5	1.4	0.4	0.1	1.4	*0.8*	0.8	*1.5*	1.7	*1.7*	1.5
Czech Republic	:	-0.9	1.6	3.1	1.7	3.2	4.6	*4.7*	5.7	*4.3*	5.2	*4.2*	4.6
Denmark	2.3	2.0	2.4	0.3	0.1	0.4	1.6	*2.5*	2.9	*2.2*	3.1	*2.0*	2.2
Estonia	:	:	6.6	6.9	7.7	7.1	8.2	*8.7*	9.5	*7.6*	9.3	*7.7*	8.3
Cyprus	:	2.9	2.4	3.0	0.8	0.2	1.5	*2.7*	1.2	*2.9*	1.8	*3.0*	1.8
Latvia	:	-10.6	6.4	8.9	7.2	7.8	9.1	*9.3*	11.1	*8.0*	8.8	*7.3*	7.9
Lithuania	:	-10.0	4.9	7.0	7.1	11.0	7.5	*7.5*	8.6	*6.4*	6.7	*5.9*	6.3
Hungary	:	:	4.3	4.6	4.1	3.7	4.9	*3.9*	4.3	*4.2*	4.8	*4.1*	4.4
Malta	:	:	3.9	-0.5	0.7	-3.1	-2.1	*0.3*	1.8	*0.2*	0.8	*0.6*	1.0
Poland	:	1.9	5.5	1.7	1.4	3.9	5.3	*3.5*	3.3	*4.4*	4.6	*4.6*	4.7
Slovenia	:	-0.5	4.4	2.5	3.3	2.6	4.1	*3.8*	3.7	*4.0*	4.1	*4.2*	3.9
Slovakia	:	:	3.5	3.7	5.1	4.5	5.4	*5.0*	5.9	*5.4*	6.0	*6.2*	6.4
Sweden	2.5	0.1	3.1	0.8	1.7	1.3	3.3	*2.1*	2.3	*2.6*	3.0	*2.4*	2.6
United Kingdom	2.2	1.5	3.0	1.5	1.5	2.1	2.6	*1.0*	1.2	*1.8*	2.0	*2.3*	2.4
EU-25	:	:	2.7	1.6	0.8	0.7	1.9	*1.1*	1.2	*1.8*	2.0	*2.0*	1.9
EU-15	2.9	1.3	2.6	1.4	0.6	0.5	1.7	*0.9*	1.0	*1.6*	1.8	*1.8*	1.7
Bulgaria	:	:	-0.3	7.4	5.5	5.1	6.3	*6.3*	5.8	*5.8*	5.7	*5.8*	6.0
Romania	:	-1.7	-1.0	5.9	8.1	5.5	8.7	*5.4*	4.2	*5.8*	5.7	*5.5*	5.5
USA	2.4	1.2	2.9	-0.3	0.6	1.7	3.2	*2.6*	2.6	*2.2*	2.3	*1.7*	1.7
Japan	5.2	1.2	0.8	0.1	0.0	1.6	2.2	*2.6*	2.8	*2.2*	2.9	*1.9*	2.5

TABLE 5 : Domestic demand, volume (percentage change on preceding year, 1961-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	3.3	1.4	2.5	0.5	0.7	1.0	2.6	*1.9*	2.6	*1.8*	1.8	*1.8*	1.9
Germany	3.1	2.1	1.7	-0.5	-1.9	0.6	0.5	*-0.3*	0.3	*0.5*	1.8	*0.9*	-0.2
Greece	4.7	1.3	4.1	3.1	4.7	5.4	4.7	*2.4*	2.5	*3.0*	3.2	*3.1*	3.4
Spain	4.9	1.0	4.7	3.6	3.3	3.7	4.8	*5.0*	5.1	*4.5*	4.3	*3.9*	3.5
France	3.8	0.9	2.9	2.0	1.3	1.5	3.4	*2.4*	2.4	*2.1*	2.4	*2.7*	2.2
Ireland	3.6	2.6	8.8	3.8	4.3	3.2	4.4	*5.4*	7.2	*4.3*	5.4	*4.7*	5.5
Italy	3.9	0.3	2.5	1.6	1.3	0.9	1.0	*0.7*	0.3	*1.6*	1.3	*1.5*	1.2
Luxembourg	3.5	2.3	6.1	4.5	2.1	3.7	2.2	*1.9*	3.0	*3.2*	2.8	*4.1*	3.3
Netherlands	3.3	1.5	3.7	1.8	-0.4	-0.3	0.8	*0.2*	0.3	*1.9*	2.6	*3.1*	1.9
Austria	3.4	2.4	2.3	-0.2	-0.7	2.9	0.9	*0.9*	0.9	*1.7*	2.1	*2.0*	2.0
Portugal	4.9	2.5	5.0	1.7	0.0	-2.2	2.2	*0.9*	0.7	*0.6*	0.6	*1.4*	1.0
Finland	4.1	-2.5	3.7	1.7	0.8	3.1	3.5	*1.9*	2.8	*2.6*	2.8	*2.4*	2.5
Euro area	3.7	1.2	2.7	1.2	0.4	1.3	2.0	*1.5*	1.6	*1.9*	2.7	*2.1*	1.6
Czech Republic	:	-0.2	1.9	3.9	3.4	3.5	3.2	*1.4*	1.5	*3.4*	3.4	*3.9*	3.7
Denmark	2.5	2.4	2.6	0.0	1.7	0.6	3.5	*3.0*	4.0	*2.4*	3.1	*2.0*	2.2
Estonia	:	:	5.6	8.2	9.4	10.5	7.5	*6.5*	9.5	*3.7*	8.0	*5.3*	8.1
Cyprus	:	:	3.8	3.3	4.7	0.8	7.3	*2.8*	3.8	*3.6*	3.7	*3.7*	3.5
Latvia	:	:	6.2	11.1	6.0	10.7	12.0	*7.7*	8.2	*7.5*	8.9	*7.2*	7.4
Lithuania	:	:	5.7	6.6	7.6	12.4	14.3	*7.9*	10.3	*7.1*	7.1	*6.6*	6.9
Hungary	:	:	4.5	2.4	5.9	6.2	2.8	*3.1*	0.2	*4.5*	3.9	*4.2*	3.4
Malta	:	:	3.6	-5.9	-3.9	5.9	0.1	*1.0*	5.9	*1.3*	1.8	*1.5*	1.9
Poland	:	3.9	6.7	-1.4	0.9	2.7	5.9	*2.5*	1.9	*4.6*	4.8	*4.9*	5.1
Slovenia	:	2.7	4.7	0.9	2.4	4.7	4.6	*2.2*	1.6	*3.6*	3.6	*4.2*	4.2
Slovakia	:	:	4.5	7.3	4.6	-0.9	6.6	*6.0*	6.4	*4.6*	4.6	*3.0*	4.3
Sweden	2.7	-0.6	2.7	-0.2	0.8	1.7	1.5	*2.7*	2.8	*3.3*	3.3	*2.7*	2.8
United Kingdom	2.6	1.2	4.0	2.8	3.2	2.7	3.8	*1.6*	1.9	*2.1*	2.4	*2.6*	2.6
EU-25	:	:	3.0	1.4	1.1	1.7	2.5	*1.6*	1.7	*2.1*	2.7	*2.4*	2.0
EU-15	3.4	1.2	2.9	1.4	1.0	1.6	2.4	*1.6*	1.7	*1.9*	2.6	*2.2*	1.8
Bulgaria	:	:	0.8	7.1	3.8	8.8	7.0	*8.5*	10.3	*6.4*	6.1	*6.5*	7.1
Romania	:	-3.5	0.0	8.4	3.9	8.4	12.1	*9.5*	8.3	*8.5*	8.4	*7.0*	7.0
USA	3.4	2.5	4.7	0.9	2.2	3.0	4.7	*3.6*	3.7	*3.0*	3.4	*2.5*	2.4
Japan	6.1	1.5	0.7	1.2	-0.6	1.2	1.5	*2.5*	2.6	*2.4*	2.3	*2.1*	2.4

TABLE 6 : Final demand, volume (percentage change on preceding year, 1961-2007)

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	4.2	2.4	3.9	0.7	0.9	1.9	4.3	*2.0*	2.2	*3.1*	3.1	*3.2*	3.2
Germany	3.6	2.7	3.2	1.2	-0.3	1.1	2.9	*1.6*	2.0	*2.3*	3.2	*2.6*	1.9
Greece	5.0	1.7	5.3	2.4	2.5	4.7	5.7	*2.9*	2.5	*3.6*	3.7	*3.7*	3.8
Spain	5.2	2.4	5.7	3.7	3.0	3.7	4.5	*4.2*	4.3	*3.9*	3.8	*3.6*	3.3
France	4.2	1.6	3.9	2.1	1.3	0.8	3.2	*2.4*	2.5	*2.5*	2.9	*3.1*	2.9
Ireland	4.9	6.7	13.2	6.8	4.1	2.6	5.7	*3.8*	4.3	*4.7*	5.4	*5.1*	5.4
Italy	4.4	1.6	2.4	1.4	0.2	0.2	1.4	*0.6*	0.2	*2.1*	1.8	*1.9*	1.6
Luxembourg	4.2	4.1	8.6	4.5	2.6	3.6	7.4	*5.6*	7.1	*6.2*	6.6	*6.5*	6.5
Netherlands	4.1	3.1	5.1	1.7	0.1	0.6	3.9	*1.5*	2.7	*3.2*	4.4	*4.0*	4.2
Austria	4.2	2.4	3.9	2.2	0.7	2.5	3.6	*1.9*	2.2	*3.0*	3.7	*3.1*	3.1
Portugal	5.5	2.6	5.3	1.7	0.3	-0.9	2.7	*0.9*	0.8	*1.5*	1.3	*2.1*	1.7
Finland	4.1	-0.5	5.7	0.9	2.6	2.1	4.2	*2.8*	4.2	*3.6*	4.5	*3.4*	3.6
Euro area	4.1	2.2	4.0	1.9	0.8	1.3	3.2	*2.0*	2.2	*2.7*	3.4	*3.0*	2.7
Czech Republic	:	1.9	4.4	6.8	2.9	5.0	10.1	*4.6*	5.5	*6.2*	6.7	*6.5*	6.3
Denmark	3.1	2.8	4.1	1.0	2.5	0.0	3.2	*3.8*	5.4	*3.2*	4.4	*2.9*	3.3
Estonia	:	:	9.1	3.8	7.4	6.9	9.6	*12.0*	14.6	*9.6*	10.1	*9.6*	10.0
Cyprus	:	:	4.3	4.3	1.2	0.5	6.3	*3.6*	3.6	*4.3*	4.6	*4.4*	4.6
Latvia	:	:	6.7	10.1	5.9	9.2	11.3	*9.2*	11.4	*8.8*	10.0	*8.3*	8.6
Lithuania	:	:	5.8	11.1	11.2	10.6	10.5	*8.8*	10.9	*8.3*	8.4	*7.8*	8.0
Hungary	:	:	8.9	4.7	5.0	6.8	8.6	*6.6*	4.9	*7.5*	7.6	*7.2*	7.4
Malta	:	:	3.5	-4.2	-0.4	2.0	0.2	*-0.6*	1.3	*1.3*	1.5	*2.0*	2.1
Poland	:	4.7	7.6	-0.5	1.7	5.2	7.9	*2.9*	3.3	*4.7*	5.6	*5.2*	5.6
Slovenia	:	-1.1	5.5	2.8	3.9	4.1	7.4	*4.8*	4.4	*5.1*	5.2	*5.4*	5.4
Slovakia	:	:	6.1	6.9	5.0	7.8	8.0	*6.7*	8.3	*7.6*	8.5	*8.7*	8.7
Sweden	3.1	1.2	4.6	0.0	0.9	2.6	4.5	*3.1*	4.0	*4.2*	4.6	*3.8*	4.0
United Kingdom	2.9	2.0	4.6	2.8	2.6	2.4	3.9	*2.2*	2.6	*2.7*	3.1	*3.2*	3.2
EU-25	:	:	4.2	2.0	1.2	1.7	3.6	*2.3*	2.5	*3.0*	3.6	*3.2*	3.0
EU-15	3.8	2.1	4.1	1.9	1.1	1.5	3.4	*2.1*	2.4	*2.8*	3.4	*3.0*	2.8
Bulgaria	:	:	2.4	8.1	4.9	8.5	9.1	*9.0*	9.2	*7.8*	7.5	*7.9*	8.0
Romania	:	-3.9	1.8	9.3	7.1	8.4	12.5	*8.9*	8.1	*8.4*	8.5	*7.6*	7.6
USA	3.6	2.9	5.0	0.3	1.8	2.9	5.0	*3.9*	4.0	*3.5*	3.9	*3.1*	3.0
Japan	6.3	1.6	1.2	0.4	0.2	2.0	2.9	*2.9*	3.1	*2.8*	3.2	*2.6*	3.1

TABLE 7 : Private consumption expenditure, volume (percentage change on preceding year, 1961-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	3.2	1.7	2.3	1.1	0.8	0.9	1.5	*1.3*	1.1	*1.5*	1.7	*1.8*	1.9
Germany	3.6	2.4	1.8	1.9	-0.5	0.1	0.6	*-0.1*	0.0	*0.3*	1.2	*0.8*	-0.3
Greece	4.8	1.9	2.6	3.5	3.6	4.5	4.7	*3.2*	3.7	*3.0*	3.1	*2.9*	3.0
Spain	4.5	1.2	4.1	3.2	2.9	2.6	4.4	*4.3*	4.4	*3.9*	3.7	*3.3*	3.1
France	3.8	0.9	2.6	2.6	2.3	1.4	2.1	*2.0*	2.1	*1.8*	2.1	*2.5*	2.2
Ireland	3.1	3.1	7.6	5.4	3.4	3.4	4.1	*4.9*	5.6	*5.3*	6.0	*6.0*	6.7
Italy	4.3	0.8	2.5	0.7	0.2	1.0	0.6	*1.0*	0.1	*1.4*	1.0	*1.6*	1.1
Luxembourg	3.8	2.5	4.2	3.4	6.0	2.4	2.5	*1.2*	1.6	*2.5*	2.2	*3.0*	2.5
Netherlands	3.5	1.6	4.0	1.4	0.9	-0.7	0.0	*-0.2*	0.3	*-3.0*	-2.1	*1.8*	1.5
Austria	3.5	2.1	2.2	1.0	0.3	1.6	0.8	*1.2*	1.4	*1.6*	2.0	*2.0*	2.1
Portugal	4.0	2.3	4.2	1.3	1.3	0.1	2.4	*2.2*	2.0	*1.0*	1.2	*1.5*	1.2
Finland	3.9	-1.1	3.5	1.9	1.5	4.4	3.2	*2.8*	3.4	*2.6*	2.9	*2.4*	2.5
Euro area	3.8	1.5	2.6	1.9	0.9	1.0	1.5	*1.4*	1.3	*1.4*	1.7	*1.9*	1.4
Czech Republic	:	-0.4	2.7	2.6	2.8	4.6	3.3	*2.4*	2.6	*3.5*	3.1	*3.9*	3.3
Denmark	2.1	2.3	1.5	0.1	1.5	1.6	3.4	*4.1*	3.8	*2.6*	2.9	*2.1*	2.0
Estonia	:	:	6.5	6.5	10.7	7.6	4.4	*6.5*	8.2	*6.5*	7.7	*6.2*	7.2
Cyprus	:	:	4.2	3.8	1.5	1.6	6.8	*4.3*	4.7	*4.0*	4.1	*3.8*	3.5
Latvia	:	:	5.3	7.3	7.4	8.2	9.3	*8.4*	10.8	*7.8*	7.8	*7.5*	7.5
Lithuania	:	:	5.4	3.7	6.1	12.6	9.7	*8.2*	10.4	*8.0*	8.0	*7.2*	7.4
Hungary	:	:	2.8	6.1	10.6	8.4	3.2	*2.9*	2.4	*3.9*	3.8	*3.4*	3.2
Malta	:	:	4.9	0.8	-0.3	2.4	-1.2	*-0.8*	1.4	*0.6*	1.3	*0.9*	1.5
Poland	:	4.4	5.9	2.1	3.3	1.9	3.9	*2.8*	2.3	*3.4*	4.0	*3.5*	3.6
Slovenia	:	2.1	3.1	2.3	1.3	3.4	3.1	*3.5*	3.3	*3.4*	3.5	*3.3*	3.4
Slovakia	:	:	4.4	4.8	5.5	-0.6	3.5	*5.4*	5.8	*4.6*	4.7	*4.8*	4.9
Sweden	2.4	-0.2	3.2	0.4	1.5	1.8	1.8	*2.3*	2.4	*3.1*	3.2	*2.9*	3.2
United Kingdom	2.8	1.4	4.0	3.0	3.5	2.6	3.5	*1.7*	1.7	*1.8*	1.9	*2.1*	2.3
EU-25	:	:	2.9	2.1	1.6	1.5	2.0	*1.6*	1.5	*1.6*	1.9	*2.1*	1.7
EU-15	3.5	1.4	2.8	2.1	1.4	1.4	1.9	*1.5*	1.5	*1.5*	1.8	*2.0*	1.6
Bulgaria	:	:	0.2	5.2	3.5	6.4	4.7	*7.0*	7.2	*5.5*	5.0	*5.0*	6.5
Romania	:	-2.0	0.5	7.1	5.2	8.4	14.2	*10.0*	9.7	*7.5*	7.5	*6.0*	6.5
USA	3.7	2.6	4.4	2.5	2.7	2.9	3.9	*3.5*	3.5	*2.0*	2.9	*2.1*	2.1
Japan	5.8	2.3	0.9	1.4	1.1	0.6	1.9	*1.9*	2.2	*2.0*	2.2	*1.6*	2.0

TABLE 8 : Government consumption expenditure, volume (percentage change on preceding year, 1961-2007)

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	3.5	1.6	1.9	2.7	2.9	2.5	2.0	*1.1*	1.5	*1.5*	1.8	*1.6*	1.9
Germany	3.2	2.4	1.4	0.5	1.4	0.1	-1.6	*-0.4*	0.1	*0.0*	0.3	*0.0*	0.1
Greece	4.6	0.5	4.4	-0.9	7.4	-2.0	2.8	*2.7*	3.1	*1.3*	0.4	*2.1*	3.1
Spain	4.9	3.0	3.3	3.9	4.5	4.8	6.0	*5.3*	4.5	*5.3*	4.3	*5.3*	4.1
France	3.4	2.4	1.6	2.0	2.9	2.0	2.6	*1.7*	1.5	*1.7*	1.8	*1.6*	1.2
Ireland	3.6	2.7	5.8	10.6	7.3	3.2	1.9	*3.0*	3.1	*3.0*	3.5	*3.0*	3.5
Italy	3.5	-0.7	0.9	3.6	2.1	2.0	0.5	*1.1*	1.2	*0.6*	0.6	*0.6*	0.6
Luxembourg	3.6	3.6	4.8	6.1	4.5	4.5	3.0	*4.5*	6.8	*2.6*	3.5	*3.0*	3.2
Netherlands	3.1	2.1	2.2	4.8	3.3	2.4	0.0	*0.1*	0.5	*9.5*	9.5	*3.0*	1.6
Austria	2.7	2.8	2.0	-1.2	1.1	1.7	1.0	*1.0*	1.3	*1.0*	1.3	*0.9*	1.3
Portugal	7.6	2.7	3.8	3.3	2.6	0.3	2.0	*1.0*	1.7	*-0.2*	0.3	*0.0*	-0.1
Finland	4.4	-0.4	1.8	2.5	4.3	1.5	1.6	*1.8*	1.5	*1.6*	1.3	*1.5*	1.3
Euro area	3.5	1.8	1.7	2.2	2.6	1.7	1.1	*1.3*	1.3	*2.0*	2.0	*1.5*	1.2
Czech Republic	:	-4.1	1.5	3.8	4.5	3.8	-2.7	*0.3*	0.8	*1.9*	1.0	*1.4*	0.6
Denmark	3.6	2.1	2.5	2.2	2.1	0.2	1.5	*0.9*	1.3	*0.5*	1.0	*0.5*	0.7
Estonia	:	:	0.5	1.6	6.2	5.9	6.9	*5.7*	7.5	*5.9*	6.6	*6.0*	6.3
Cyprus	:	:	6.1	12.6	7.3	5.1	-3.9	*2.0*	0.5	*2.7*	1.8	*2.1*	3.4
Latvia	:	:	0.7	2.8	2.2	1.9	2.1	*2.4*	2.7	*2.6*	2.8	*2.6*	3.0
Lithuania	:	:	2.0	0.7	1.4	3.8	7.5	*5.2*	5.6	*4.9*	4.6	*5.2*	4.6
Hungary	:	:	1.2	3.1	5.8	6.2	1.7	*0.2*	-0.3	*0.5*	1.8	*0.2*	0.2
Malta	:	:	1.5	0.7	4.0	3.0	1.8	*-1.9*	-1.9	*1.1*	1.1	*1.3*	1.4
Poland	:	4.7	2.4	2.7	1.3	4.9	4.2	*2.5*	2.7	*2.8*	2.9	*2.9*	3.0
Slovenia	:	1.5	3.4	3.9	3.2	1.6	2.9	*2.6*	3.0	*2.7*	2.8	*2.9*	2.9
Slovakia	:	:	3.3	4.6	4.9	2.7	1.2	*2.4*	2.0	*3.3*	3.1	*2.8*	2.8
Sweden	3.5	0.9	0.7	0.9	2.3	0.7	0.1	*0.3*	1.1	*1.3*	1.6	*0.8*	1.0
United Kingdom	1.8	1.1	1.8	1.7	4.4	4.5	3.1	*1.2*	2.9	*1.8*	3.0	*2.7*	2.2
EU-25	:	:	1.8	2.1	2.9	2.2	1.4	*1.2*	1.6	*1.9*	2.1	*1.7*	1.4
EU-15	3.2	1.6	1.8	2.1	2.9	2.1	1.4	*1.2*	1.6	*1.9*	2.1	*1.7*	1.4
Bulgaria	:	:	-1.7	1.4	4.1	7.6	6.5	*7.5*	5.3	*5.0*	4.0	*5.0*	4.0
Romania	:	5.4	0.2	2.8	3.2	7.7	4.2	*4.0*	4.5	*4.5*	5.5	*5.5*	5.0
USA	2.5	0.0	1.8	3.3	4.7	3.3	2.5	*1.9*	1.5	*4.0*	1.9	*2.4*	2.2
Japan	4.4	3.3	2.8	3.0	2.4	2.3	2.0	*1.8*	1.7	*1.1*	0.9	*1.0*	0.8

TABLE 9 : Total investment, volume (percentage change on preceding year, 1961-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	3.4	-0.4	4.0	0.2	-2.3	-0.7	4.2	*4.9*	8.4	*3.9*	1.9	*2.2*	2.1
Germany	2.3	1.9	2.4	-3.6	-6.1	-0.8	-0.2	*-0.5*	-0.2	*1.6*	6.1	*2.0*	-0.5
Greece	2.9	-0.4	9.0	6.5	5.7	13.7	5.7	*1.1*	-1.2	*4.2*	4.6	*4.3*	4.7
Spain	6.0	-0.5	7.2	4.5	3.3	5.6	4.9	*6.5*	7.2	*5.3*	5.3	*4.5*	4.1
France	4.5	-1.0	4.7	2.4	-1.7	2.7	2.5	*2.6*	3.1	*3.0*	3.5	*3.4*	3.6
Ireland	5.2	2.6	14.5	-0.2	3.6	5.7	7.9	*7.9*	13.1	*3.2*	5.4	*3.3*	4.5
Italy	3.3	-1.0	3.5	2.5	4.0	-1.7	2.2	*-0.8*	-0.6	*2.8*	2.3	*2.2*	2.2
Luxembourg	3.3	3.2	7.4	8.8	2.7	2.6	1.5	*1.5*	2.1	*4.0*	3.6	*7.3*	5.3
Netherlands	3.0	0.8	5.2	0.2	-4.5	-3.5	2.9	*1.4*	2.3	*4.5*	4.4	*6.3*	3.4
Austria	3.9	2.2	3.2	-1.5	-5.0	6.1	0.6	*0.5*	0.9	*2.5*	3.0	*2.9*	2.4
Portugal	4.6	2.2	8.2	1.0	-3.5	-10.0	0.9	*-2.4*	-3.1	*0.3*	-0.8	*2.3*	1.3
Finland	3.3	-9.1	7.0	3.9	-3.1	-1.5	5.0	*1.3*	1.7	*3.2*	4.0	*3.3*	3.9
Euro area	3.5	0.0	4.2	0.5	-1.5	0.9	2.3	*1.7*	2.2	*3.1*	4.2	*3.2*	2.4
Czech Republic	:	2.1	0.8	5.4	3.4	4.7	5.3	*3.9*	3.7	*4.2*	5.0	*5.4*	6.6
Denmark	2.7	2.5	6.3	-1.4	0.1	2.1	4.5	*3.8*	9.0	*4.0*	7.0	*3.3*	4.0
Estonia	:	:	7.6	13.0	17.2	8.5	6.0	*8.3*	13.9	*6.5*	9.5	*6.1*	8.0
Cyprus	:	:	2.6	3.2	8.1	0.7	10.0	*4.5*	2.6	*4.8*	5.0	*4.8*	4.8
Latvia	:	:	19.6	11.4	13.0	12.3	23.8	*16.5*	18.6	*10.0*	14.0	*9.5*	9.2
Lithuania	:	:	8.3	13.5	11.1	14.0	12.3	*10.1*	11.2	*8.2*	9.7	*8.0*	8.7
Hungary	:	:	8.5	5.9	9.3	2.5	8.4	*7.0*	6.6	*6.8*	6.8	*6.6*	6.6
Malta	:	:	0.6	-14.2	-18.7	28.6	3.8	*10.1*	6.1	*4.5*	4.0	*3.1*	3.5
Poland	:	5.1	12.8	-9.7	-6.3	-0.1	6.3	*5.5*	6.2	*8.2*	10.2	*10.4*	11.2
Slovenia	:	2.6	10.5	0.4	0.9	7.1	5.9	*3.8*	3.7	*4.7*	4.4	*5.5*	5.8
Slovakia	:	:	4.2	13.9	-0.6	-1.5	2.5	*8.4*	13.2	*8.5*	7.9	*5.3*	6.1
Sweden	3.1	-4.1	5.1	-1.0	-2.6	1.1	5.1	*8.2*	8.3	*6.1*	5.6	*4.9*	4.5
United Kingdom	3.3	-0.3	6.1	2.4	3.0	0.0	5.1	*2.7*	3.2	*3.9*	3.4	*4.2*	4.3
EU-25	:	:	4.6	0.6	-0.8	0.9	3.0	*2.3*	2.9	*3.5*	4.4	*3.6*	3.1
EU-15	3.4	-0.2	4.5	0.7	-0.8	0.8	2.8	*2.1*	2.7	*3.3*	4.2	*3.4*	2.8
Bulgaria	:	:	3.3	23.3	8.5	13.9	13.5	*15.0*	19.0	*12.0*	14.0	*12.0*	14.0
Romania	:	1.2	0.3	10.1	8.2	8.6	10.8	*8.5*	13.0	*11.0*	11.0	*9.0*	10.0
USA	3.6	4.2	8.2	-1.9	-3.9	3.2	8.3	*7.1*	7.3	*5.5*	5.3	*3.9*	3.7
Japan	7.9	-0.7	-0.5	-0.9	-5.0	0.3	1.1	*4.2*	3.5	*5.0*	3.9	*3.8*	4.0

TABLE 10 : Investment in construction, volume (percentage change on preceding year, 1971-2007)

	average	5-year average						2005		2006		2007	
	1971-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	1.0	1.7	1.4	-6.3	-2.5	-0.5	5.5	*4.3*	5.6	*3.4*	3.4	*-0.6*	-0.7
Germany	0.7	4.0	-1.2	-4.6	-5.8	-1.6	-2.3	*-4.4*	-3.4	*-1.2*	5.6	*-0.4*	-5.1
Greece	0.2	-2.8	5.4	7.0	3.6	11.0	3.7	*-0.3*	-4.5	*3.7*	2.7	*3.7*	4.1
Spain	3.1	0.1	4.6	6.8	6.2	6.3	5.5	*7.0*	6.0	*4.7*	4.3	*3.8*	2.9
France	1.1	-2.2	1.9	1.3	-1.5	3.3	1.8	*2.4*	2.6	*2.9*	3.0	*3.1*	3.0
Ireland	2.3	3.7	13.2	4.6	5.1	7.3	9.1	*4.9*	8.6	*3.0*	4.5	*1.9*	3.6
Italy	0.6	-2.2	1.7	4.1	4.8	1.4	0.9	*1.9*	0.5	*2.8*	0.9	*1.5*	0.8
Luxembourg	2.3	4.4	5.9	4.8	10.9	11.7	-4.6	*1.3*	1.6	*3.3*	2.6	*4.2*	4.6
Netherlands	0.0	0.8	3.9	1.9	-5.0	-4.9	0.9	*1.1*	3.2	*2.5*	3.0	*4.2*	3.2
Austria	2.3	3.5	0.7	-4.2	-2.3	4.8	0.5	*1.5*	1.5	*1.9*	2.9	*2.2*	2.0
Portugal	:	3.5	6.7	3.4	-3.3	-11.9	-1.6	*-3.6*	-4.7	*-0.5*	-3.1	*1.5*	0.1
Finland	2.2	-9.9	8.7	-0.7	-1.9	0.7	4.6	*1.7*	4.9	*2.7*	4.0	*3.3*	3.9
Euro area [1]	1.3	0.4	1.4	0.2	-1.0	1.3	1.3	*1.2*	1.4	*2.2*	3.4	*2.2*	0.7
Czech Republic	:	-0.7	-6.5	6.2	-0.8	6.8	3.1	*2.3*	-0.1	*3.9*	4.8	*5.3*	6.9
Denmark	-1.2	-1.3	4.6	-2.1	-4.5	2.4	3.9	*3.5*	5.9	*2.7*	8.2	*2.7*	5.2
Estonia	:	:	:	:	:	:	:	*6.5*	13.9	*6.5*	9.5	*6.1*	8.0
Cyprus	:	:	-0.7	3.8	6.1	9.6	10.0	*3.5*	6.5	*4.5*	4.5	*4.0*	4.3
Latvia	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Lithuania	:	:	2.8	8.9	11.5	19.8	3.8	*8.7*	7.0	*6.5*	8.2	*8.1*	8.0
Hungary	:	:	:	:	:	:	:	*9.6*	8.7	*13.6*	10.1	*6.0*	6.9
Malta	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Poland	:	:	10.5	-9.9	-3.8	-0.3	5.4	*6.5*	7.2	*9.5*	11.7	*12.0*	12.2
Slovenia	:	-4.2	9.3	-5.5	4.1	5.3	2.7	*5.1*	4.1	*6.0*	5.3	*5.7*	4.8
Slovakia	:	:	:	:	:	:	:	*8.9*	22.7	*9.0*	9.2	*5.6*	8.3
Sweden	0.3	-7.8	-0.3	5.9	2.6	-2.1	5.3	*6.6*	7.2	*6.3*	6.4	*4.8*	5.2
United Kingdom	1.1	-0.4	5.5	2.3	4.4	6.7	5.1	*2.9*	4.4	*4.1*	3.4	*4.3*	4.1
EU-25	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
EU-15 [1]	1.3	0.1	1.8	0.5	-0.2	2.0	2.0	*1.6*	2.0	*2.6*	3.6	*2.6*	1.4
Bulgaria	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Romania	:	5.6	2.8	11.5	9.5	4.1	:	*:*	:	*:*	:	*:*	:
USA	1.7	1.0	4.7	0.4	-2.3	3.2	5.8	*3.9*	4.2	*3.5*	2.9	*1.2*	0.9
Japan	3.3	-1.6	-1.2	-3.1	-3.4	-2.2	:	*:*	:	*:*	:	*:*	:

[1] Excluding Portugal up to 1985.

TABLE 11 : Investment in equipment, volume (percentage change on preceding year, 1971-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1971-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	3.8	-3.2	6.7	5.7	-2.8	-2.5	2.3	*5.4*	10.7	*4.2*	0.5	*4.1*	3.7
Germany	2.2	-1.8	7.7	-3.7	-7.5	-0.2	2.6	*4.2*	4.0	*4.7*	6.7	*4.6*	4.7
Greece	3.5	4.6	15.9	4.9	6.8	18.3	8.2	*1.1*	0.5	*5.0*	7.4	*5.3*	6.1
Spain	4.3	-2.5	11.2	0.1	-2.9	2.5	3.7	*6.2*	9.5	*6.6*	7.9	*6.3*	7.0
France	5.4	0.4	8.0	2.7	-4.0	1.3	2.9	*4.7*	5.6	*3.8*	4.8	*4.3*	4.9
Ireland	4.5	2.9	16.3	-10.5	2.1	0.3	6.3	*16.8*	27.1	*3.5*	7.5	*6.5*	6.7
Italy	4.5	-0.1	5.1	1.4	2.0	-5.8	3.3	*-3.1*	-1.1	*2.7*	3.6	*2.6*	3.4
Luxembourg	4.1	2.2	7.1	14.5	-8.5	-18.1	14.5	*1.5*	2.5	*5.0*	5.0	*6.0*	6.0
Netherlands	2.9	1.3	5.5	-1.3	-4.9	3.7	5.1	*0.3*	1.4	*7.7*	6.2	*9.0*	3.7
Austria	3.5	0.1	6.3	0.8	-9.6	8.1	0.5	*-1.0*	0.9	*3.5*	3.0	*3.7*	2.9
Portugal	:	0.0	10.9	-1.1	-8.2	-6.4	4.7	*-1.1*	-0.6	*0.9*	1.8	*3.1*	2.6
Finland	3.7	-9.8	4.4	12.0	-9.8	-6.9	8.2	*0.3*	-5.5	*4.9*	4.6	*4.1*	4.4
Euro area [1]	3.9	-0.5	7.5	-0.1	-3.8	-0.4	3.4	*2.5*	3.7	*4.3*	5.4	*4.4*	4.5
Czech Republic	:	3.6	8.9	4.5	7.7	3.3	6.5	*5.8*	7.5	*4.8*	5.5	*5.7*	6.5
Denmark	2.6	5.3	6.3	-0.3	-2.6	2.3	4.9	*4.8*	13.4	*4.9*	6.2	*4.0*	3.0
Estonia	:	:	:	:	:	:	:	*13.0*	13.9	*6.5*	9.5	*6.1*	8.0
Cyprus	:	:	9.7	1.9	11.8	-12.7	10.3	*6.0*	-4.5	*5.3*	3.9	*6.0*	6.0
Latvia	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Lithuania	:	:	18.7	22.2	11.4	7.5	24.3	*12.7*	18.2	*10.8*	12.3	*8.2*	10.1
Hungary	:	:	:	:	:	:	:	*4.1*	3.7	*-3.9*	5.5	*7.2*	5.7
Malta	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Poland	:	:	14.4	-10.6	-8.5	-1.4	8.0	*4.7*	5.0	*7.2*	8.5	*9.0*	10.0
Slovenia	:	8.0	12.1	6.4	-2.7	11.4	9.4	*2.2*	2.9	*3.0*	3.2	*5.3*	7.2
Slovakia	:	:	10.6	:	:	:	:	*8.1*	8.6	*8.3*	7.1	*5.2*	4.9
Sweden	4.8	0.6	8.1	-4.4	-3.6	3.3	4.2	*11.0*	11.1	*6.0*	5.0	*5.0*	4.0
United Kingdom	3.2	0.0	4.6	3.1	0.3	-5.1	3.6	*2.2*	1.4	*3.7*	3.4	*4.0*	4.4
EU-25	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
EU-15 [1]	3.8	-0.2	7.1	0.3	-3.0	-1.1	3.5	*2.7*	3.8	*4.3*	5.1	*4.4*	4.4
Bulgaria	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Romania	:	-4.6	12.2	-2.5	13.3	7.7	:	*:*	:	*:*	:	*:*	:
USA	5.3	7.7	11.7	-4.2	-5.5	3.1	11.4	*10.0*	10.2	*7.3*	7.4	*6.2*	6.0
Japan	5.8	-0.7	3.3	1.6	-9.5	9.2	:	*:*	:	*:*	:	*:*	:

[1] Excluding Portugal up to 1985.

TABLE 12 : Public investment (as a percentage of GDP, 1971-2007)

	average	5-year average						2005		2006		2007	
	1971-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	3.4	1.5	1.8	1.7	1.7	1.6	1.6	*1.8*	1.8	*2.0*	1.7	*1.7*	1.7
Germany	3.1	2.5	1.9	1.7	1.7	1.5	1.4	*1.3*	1.3	*1.3*	1.3	*1.3*	1.3
Greece	2.8	3.2	3.5	3.9	3.7	4.1	4.2	*3.1*	3.5	*3.2*	3.1	*3.2*	3.1
Spain	2.8	4.0	3.1	3.3	3.5	3.6	3.4	*3.5*	3.6	*3.5*	3.6	*3.6*	3.7
France	3.3	3.2	3.0	3.0	2.9	3.1	3.1	*3.2*	3.3	*3.2*	3.3	*3.3*	3.4
Ireland	3.9	2.2	2.8	4.2	4.2	3.8	3.6	*3.8*	3.4	*4.0*	3.7	*3.8*	4.0
Italy	3.1	2.6	2.3	2.4	1.7	2.5	2.4	*2.7*	2.4	*2.7*	2.5	*2.8*	2.5
Luxembourg	:	4.0	4.1	4.3	4.8	4.6	4.4	*5.0*	4.7	*5.0*	4.7	*5.1*	4.8
Netherlands	2.7	2.1	2.9	3.3	3.5	3.4	3.1	*3.0*	2.9	*3.0*	2.9	*3.0*	2.8
Austria	4.2	3.1	2.0	1.1	1.3	1.2	1.1	*1.1*	1.1	*1.1*	1.1	*1.0*	1.1
Portugal	3.0	3.4	3.9	3.9	3.5	3.1	3.0	*2.9*	3.1	*2.9*	2.9	*3.1*	2.8
Finland	3.8	3.1	2.8	2.6	2.7	2.9	2.9	*3.0*	2.8	*2.9*	2.7	*2.8*	2.7
Euro area	3.2	2.8	2.5	2.5	2.4	2.5	2.4	*2.5*	2.4	*2.5*	2.5	*2.6*	2.5
Czech Republic	:	:	3.6	3.2	3.9	4.5	4.9	*6.0*	5.9	*6.5*	6.5	*6.8*	6.8
Denmark	3.0	1.7	1.8	1.9	1.8	1.6	1.9	*1.9*	1.7	*2.0*	1.7	*2.0*	1.6
Estonia	:	:	4.3	4.1	4.7	4.3	3.0	*3.2*	4.0	*3.7*	4.0	*3.5*	4.1
Cyprus	:	:	:	3.0	3.0	3.4	4.1	*4.1*	3.2	*4.1*	3.4	*4.1*	3.4
Latvia	:	2.3	1.7	1.1	1.3	1.5	1.9	*2.3*	2.1	*2.7*	2.7	*3.2*	3.2
Lithuania	:	:	2.5	2.2	2.9	3.0	3.4	*3.7*	3.5	*3.6*	3.5	*3.5*	3.5
Hungary	:	:	:	3.8	5.0	3.5	3.6	*3.4*	3.4	*2.4*	2.7	*2.6*	2.6
Malta	:	:	:	3.7	4.5	5.2	4.5	*4.8*	4.9	*4.5*	4.6	*4.4*	4.1
Poland	:	3.1	3.4	3.4	3.4	3.3	3.4	*4.0*	3.1	*4.3*	4.0	*4.1*	4.1
Slovenia	:	:	:	3.1	3.0	3.3	3.4	*3.4*	3.3	*3.4*	3.4	*3.4*	3.3
Slovakia	:	:	3.7	3.1	3.2	2.6	2.4	*2.6*	2.1	*2.4*	1.9	*2.2*	1.5
Sweden	3.9	2.5	3.2	3.0	3.2	3.1	3.0	*3.1*	3.0	*3.2*	3.0	*3.1*	3.0
United Kingdom	3.0	2.0	1.4	1.4	1.5	1.6	1.8	*2.1*	2.0	*2.4*	2.2	*2.5*	2.4
EU-25	:	:	:	2.3	2.3	2.4	2.4	*2.5*	2.4	*2.6*	2.5	*2.6*	2.6
EU-15	3.2	2.7	2.3	2.3	2.2	2.4	2.3	*2.4*	2.4	*2.5*	2.4	*2.6*	2.5
Bulgaria	:	:	:	:	3.0	2.8	3.1	*:*	3.5	*:*	4.1	*:*	4.9
Romania	:	:	1.9	2.4	3.0	3.2	3.0	*:*	2.8	*:*	3.1	*:*	3.2
USA	2.7	2.5	2.5	2.7	2.8	2.7	2.6	*3.2*	3.2	*3.3*	3.3	*3.3*	3.4
Japan	5.3	5.9	5.7	5.0	4.8	4.3	3.9	*3.4*	3.7	*3.2*	3.5	*3.1*	3.3

TABLE 13 : Output gap relative to potential GDP (deviation of actual output from potential output as % of potential GDP, 1986-2007) [1] 24.04.2006

	average	5-year average						2005		2006		2007	
	1965-90	1991-95	1996-00	2001	2002	2003	2004	XI-2005	IV-2006	XI-2005	IV-2006	XI-2005	IV-2006
Belgium	-0.2	-0.3	-0.1	0.8	0.3	-0.7	0.0	-0.8	-0.9	-0.8	-0.9	-1.0	-1.0
Germany	-0.4	1.1	-0.6	1.0	-0.1	-1.2	-0.4	-0.9	-0.6	-0.8	-0.1	-0.4	-0.3
Greece	0.0	-0.9	-2.0	0.0	0.2	1.0	1.9	2.0	1.9	2.0	1.9	2.2	1.9
Spain	-0.3	-1.4	-0.7	2.3	1.3	0.4	-0.2	0.0	-0.5	-0.2	-1.0	-0.5	-1.5
France	-0.1	-0.7	-0.2	2.1	1.2	-0.1	0.0	-0.5	-0.7	-0.9	-1.0	-1.0	-1.3
Ireland	-0.1	-2.7	1.8	3.8	3.3	1.7	0.3	-1.6	-1.3	-2.2	-2.4	-2.6	-2.9
Italy	0.0	-0.7	-0.1	2.1	1.1	0.0	-0.2	-1.5	-1.4	-1.2	-1.3	-1.2	-1.4
Luxembourg	:	2.1	-1.0	1.6	0.7	-1.6	-1.5	-1.6	-1.5	-1.3	-1.2	-1.2	-1.0
Netherlands	-0.4	-0.6	1.3	2.0	-0.1	-1.9	-1.8	-2.2	-2.3	-1.9	-1.6	-1.4	-1.0
Austria	-0.2	0.3	0.5	0.7	-0.4	-1.2	-0.7	-0.7	-1.0	-1.0	-0.4	-0.9	-0.3
Portugal	-0.1	-0.3	0.8	2.8	1.6	-0.9	-1.2	-2.0	-1.9	-2.4	-2.2	-2.6	-2.3
Finland	0.2	-5.0	1.4	0.6	-0.4	-1.0	-0.3	-1.2	-1.1	-0.7	-0.4	-0.5	-0.4
Euro area	:	-0.3	-0.2	1.6	0.6	-0.5	-0.3	-0.9	-0.9	-0.9	-0.8	-0.8	-0.9
Czech Republic	:	:	:	-1.5	-2.8	-3.2	-2.3	-0.2	-0.2	0.6	1.0	1.2	1.4
Denmark	-0.3	-1.9	1.3	1.1	-0.4	-1.6	-1.7	-0.6	-0.8	-0.4	0.0	-0.4	0.1
Estonia	:	:	-2.7	-0.9	-0.5	-1.1	-0.9	0.5	0.4	0.1	1.1	-0.1	1.0
Cyprus	:	:	-0.4	2.5	1.2	-0.6	-1.1	-0.7	-0.9	-0.2	-0.5	0.4	0.0
Latvia	:	:	-1.0	-0.2	-0.5	-0.7	-0.4	0.8	1.0	0.3	0.5	-0.7	-0.7
Lithuania	:	:	-3.6	-2.5	-1.5	2.0	1.8	2.2	2.4	1.4	1.6	0.2	0.4
Hungary	:	:	-0.7	-0.2	-0.7	-1.4	-0.9	-0.7	-0.7	-0.3	-0.1	0.2	0.3
Malta	:	:	0.8	2.8	3.5	-0.4	-3.1	-3.1	-2.3	-4.3	-2.1	-5.1	-1.6
Poland	:	:	-0.8	-0.8	-2.2	-1.3	0.7	0.2	0.4	0.4	0.8	0.6	1.1
Slovenia	:	:	:	-0.3	-0.5	-1.6	-1.1	-0.9	-0.9	-0.5	-0.3	0.2	0.1
Slovakia	:	:	0.0	-0.9	-1.0	-2.4	-2.4	-1.3	-1.6	-0.9	-0.8	0.2	0.2
Sweden	-0.1	-2.8	-0.6	0.3	-0.3	-1.2	-0.1	-0.4	-0.1	-0.1	0.3	0.0	0.4
United Kingdom	0.2	-2.1	0.3	0.9	0.2	0.1	0.5	-0.5	-0.4	-0.9	-0.7	-0.8	-0.7
EU-25	:	:	:	1.4	0.4	-0.5	-0.2	-0.8	-0.7	-0.8	-0.7	-0.7	-0.8
EU-15	:	-0.7	-0.1	1.4	0.5	-0.5	-0.2	-0.8	-0.8	-0.9	-0.7	-0.8	-0.8
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:	:
Romania	:	:	:	:	:	:	:	:	:	:	:	:	:

TABLE 14 : Deflator of gross domestic product (percentage change on preceding year, 1961-2007)

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	XI-2005	IV-2006	XI-2005	IV-2006	XI-2005	IV-2006
Belgium	4.9	2.7	1.2	1.8	1.8	1.7	2.3	2.6	2.2	2.3	2.0	1.9	2.0
Germany	3.9	3.3	0.2	1.2	1.5	1.0	0.8	0.6	0.5	0.4	0.4	0.5	1.1
Greece	12.2	13.9	5.6	1.8	3.8	3.5	3.4	3.7	3.7	3.1	3.0	3.1	3.0
Spain	10.3	5.4	2.9	4.2	4.4	4.0	4.1	4.3	4.4	3.8	4.2	2.9	3.6
France	6.7	1.7	0.9	1.8	2.2	1.6	1.6	1.4	1.3	1.7	1.5	1.9	1.9
Ireland	8.7	2.9	4.4	5.7	5.0	2.0	2.2	3.2	3.1	2.5	2.8	2.6	2.9
Italy	9.9	4.9	2.7	3.0	3.4	3.1	2.9	2.4	2.1	2.2	2.0	2.2	2.1
Luxembourg	4.9	3.5	1.6	0.1	2.7	4.8	1.0	1.6	1.3	2.3	3.1	2.5	3.0
Netherlands	4.9	2.3	2.1	5.2	3.8	2.5	0.9	0.9	1.6	0.9	1.3	1.6	1.4
Austria	4.6	3.0	0.7	1.8	1.3	1.4	1.9	1.6	2.0	1.4	1.9	1.3	1.8
Portugal	11.9	7.9	3.3	3.7	3.9	2.7	2.8	2.0	2.7	2.2	1.7	2.5	2.8
Finland	8.0	2.5	1.6	3.2	1.0	-0.3	0.5	0.5	1.6	0.5	0.8	0.9	0.9
Euro area	6.6	3.6	1.4	2.4	2.6	2.0	1.9	1.8	1.7	1.7	1.7	1.7	1.9
Czech Republic	:	18.3	6.4	4.9	2.8	2.6	3.4	2.7	-0.1	2.5	1.3	2.2	2.1
Denmark	7.5	1.6	2.0	2.5	2.3	1.9	2.2	2.3	2.6	2.0	3.2	1.9	2.4
Estonia	:	:	10.5	5.6	4.4	2.1	3.1	4.7	6.2	3.2	3.7	2.9	3.1
Cyprus	:	3.9	2.6	3.2	2.2	5.0	2.4	2.5	2.8	2.2	2.3	2.1	2.3
Latvia	:	133.9	6.9	1.7	3.6	3.6	6.8	6.2	9.4	7.0	7.3	6.1	6.2
Lithuania	:	218.7	7.9	-0.5	0.2	-1.1	2.8	3.2	5.8	4.1	4.6	4.0	2.8
Hungary	:	:	14.0	8.3	8.7	6.6	4.6	3.3	2.5	2.7	2.3	3.0	2.8
Malta	:	:	1.8	2.1	1.9	4.4	1.6	2.8	2.7	2.8	3.5	2.3	2.9
Poland	:	37.6	11.2	3.5	2.2	0.4	4.0	2.3	1.5	2.2	0.4	2.5	1.5
Slovenia	:	65.5	7.6	8.7	7.9	5.8	3.2	2.5	1.0	2.5	2.2	2.5	2.5
Slovakia	:	:	6.2	4.2	4.0	4.7	4.6	2.7	2.4	3.1	4.0	2.8	2.8
Sweden	7.2	4.0	1.1	2.1	1.6	2.0	0.8	1.2	1.1	1.8	1.5	2.2	2.1
United Kingdom	8.1	3.4	2.5	2.3	3.1	2.9	2.1	2.2	1.9	2.6	2.1	2.6	2.4
EU-25	:	:	1.9	2.4	2.7	2.2	2.0	1.9	1.8	1.9	1.8	1.9	2.0
EU-15	6.9	3.5	1.6	2.4	2.6	2.2	1.9	1.8	1.8	1.9	1.8	1.9	2.0
Bulgaria	:	:	99.6	6.7	3.8	2.3	4.8	3.3	3.8	5.4	4.7	4.7	4.1
Romania	:	148.0	64.0	37.4	23.4	24.0	15.0	12.5	12.0	8.5	8.7	6.9	6.5
USA	4.7	2.5	1.7	2.4	1.8	2.0	2.6	2.7	2.8	2.9	2.5	2.4	1.7
Japan	5.2	0.8	-0.6	-1.2	-1.6	-1.6	-1.2	-1.0	-1.3	-0.3	-0.3	0.9	0.4

TABLE 15 : Price deflator of private consumption (percentage change on preceding year, 1961-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	XI-2005	IV-2006	XI-2005	IV-2006	XI-2005	IV-2006
Belgium	4.7	2.2	1.5	2.3	1.3	1.6	2.5	*2.9*	2.8	*2.7*	2.4	*2.0*	2.0
Germany	3.4	3.0	0.8	1.8	1.2	1.5	1.4	*1.7*	1.3	*1.6*	1.4	*1.1*	2.0
Greece	11.5	13.8	5.6	2.1	2.5	2.8	2.5	*3.7*	3.7	*3.3*	3.2	*3.0*	3.2
Spain	10.0	5.6	2.8	3.4	2.9	2.8	3.4	*3.7*	3.5	*3.4*	3.6	*2.9*	3.2
France	6.8	1.9	0.9	1.7	1.0	1.4	1.7	*1.3*	1.2	*1.7*	1.8	*1.6*	1.8
Ireland	8.7	2.7	3.4	4.1	5.1	3.7	0.8	*1.8*	1.9	*2.4*	2.3	*2.3*	2.3
Italy	9.4	5.7	2.7	2.6	2.9	2.8	2.6	*2.0*	2.3	*2.1*	2.4	*1.9*	2.1
Luxembourg	4.6	3.2	2.2	2.0	0.7	2.2	2.4	*2.6*	2.5	*3.0*	3.2	*2.0*	2.5
Netherlands	4.6	2.6	2.1	4.6	3.0	2.2	1.1	*1.7*	1.7	*2.0*	2.0	*1.8*	2.1
Austria	4.4	3.1	1.4	1.9	1.0	1.5	2.0	*2.3*	2.0	*2.1*	1.7	*1.7*	1.7
Portugal	12.2	7.5	2.7	3.4	3.0	2.8	2.6	*2.2*	2.6	*2.7*	2.8	*2.2*	2.5
Finland	7.4	3.1	2.0	3.6	2.9	0.0	0.1	*1.5*	1.3	*1.1*	1.2	*1.0*	1.3
Euro area	6.4	3.8	1.6	2.4	1.9	2.0	2.0	*2.0*	1.9	*2.1*	2.1	*1.7*	2.1
Czech Republic	:	18.3	6.0	3.5	0.7	1.8	2.2	*2.1*	1.0	*2.3*	2.0	*2.3*	2.3
Denmark	7.4	1.9	1.9	2.3	1.7	2.0	1.7	*1.7*	2.0	*2.0*	1.9	*1.9*	2.0
Estonia	:	:	10.0	6.1	3.2	0.7	2.6	*4.1*	3.4	*3.3*	3.6	*2.6*	2.9
Cyprus	:	:	2.4	2.0	2.5	3.4	2.1	*2.6*	2.8	*2.3*	3.2	*2.2*	2.5
Latvia	:	:	6.9	2.3	2.2	3.1	6.1	*6.5*	11.1	*6.0*	6.6	*4.8*	5.6
Lithuania	:	:	6.0	2.4	-0.1	-2.7	1.1	*2.4*	3.4	*2.7*	3.5	*2.8*	3.3
Hungary	:	:	14.7	7.9	3.0	4.3	4.5	*3.6*	5.4	*2.1*	2.7	*3.0*	3.8
Malta	:	:	1.4	1.8	1.4	0.8	3.5	*3.2*	3.0	*2.8*	3.2	*2.4*	2.8
Poland	:	41.1	11.9	3.8	3.3	0.4	3.1	*1.9*	1.5	*2.1*	0.5	*2.3*	1.6
Slovenia	:	64.9	8.1	7.6	7.9	5.4	3.5	*2.5*	1.6	*2.4*	2.2	*2.3*	2.4
Slovakia	:	:	7.2	5.9	2.5	7.7	6.9	*2.9*	3.2	*3.4*	3.7	*2.0*	2.4
Sweden	7.2	5.4	1.2	2.1	1.7	1.8	1.3	*1.0*	1.0	*1.5*	1.3	*1.8*	1.5
United Kingdom	7.7	4.2	2.3	2.3	1.5	2.0	1.4	*2.4*	2.0	*2.4*	2.1	*2.0*	2.1
EU-25	:	:	2.0	2.4	1.8	2.0	1.9	*2.1*	1.9	*2.1*	2.1	*1.8*	2.1
EU-15	6.7	3.9	1.7	2.3	1.8	2.0	1.8	*2.1*	1.9	*2.1*	2.1	*1.8*	2.1
Bulgaria	:	:	96.7	6.0	4.0	0.5	4.2	*4.2*	4.7	*5.0*	6.5	*3.0*	3.0
Romania	:	148.9	62.3	35.6	21.4	15.2	12.2	*9.0*	6.7	*7.5*	8.0	*6.0*	6.0
USA	4.6	2.6	1.8	2.1	1.4	1.9	2.6	*2.9*	2.8	*2.8*	2.3	*2.2*	1.5
Japan	5.5	0.7	-0.1	-1.1	-1.4	-0.9	-0.7	*-0.5*	-0.8	*0.0*	0.5	*1.2*	0.7

TABLE 16 : Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1961-2007)

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	XI-2005	IV-2006	XI-2005	IV-2006	XI-2005	IV-2006
Belgium	5.1	2.4	1.6	2.4	1.6	1.5	1.9	*2.7*	2.5	*2.6*	2.4	*1.9*	2.1
Germany	3.5	3.1	1.1	1.9	1.4	1.0	1.8	*2.0*	1.9	*1.6*	1.7	*1.1*	2.3
Greece	11.6	13.9	4.6	3.7	3.9	3.4	3.0	*3.5*	3.5	*3.1*	3.3	*3.0*	3.3
Spain	10.1	5.2	2.6	2.8	3.6	3.1	3.1	*3.6*	3.4	*3.3*	3.6	*2.6*	3.1
France	6.7	2.2	1.3	1.8	1.9	2.2	2.3	*2.0*	1.9	*2.1*	1.9	*1.9*	1.8
Ireland	8.6	2.5	2.6	4.0	4.7	4.0	2.3	*2.2*	2.2	*2.5*	2.4	*2.4*	2.3
Italy	9.1	5.0	2.4	2.3	2.6	2.8	2.3	*2.2*	2.2	*2.1*	2.2	*1.9*	2.0
Luxembourg	4.6	2.8	1.7	2.4	2.1	2.5	3.2	*4.1*	3.8	*4.4*	4.1	*2.2*	3.4
Netherlands	4.7	2.9	1.9	5.1	3.9	2.2	1.4	*1.7*	1.5	*2.0*	1.8	*1.9*	2.1
Austria	4.5	3.2	1.2	2.3	1.7	1.3	2.0	*2.2*	2.1	*2.1*	1.7	*1.7*	1.6
Portugal	13.2	7.1	2.4	4.4	3.7	3.3	2.5	*2.2*	2.1	*2.7*	2.7	*2.2*	2.4
Finland	7.6	2.3	1.6	2.7	2.0	1.3	0.1	*1.0*	0.8	*1.4*	1.4	*1.3*	1.4
Euro area	6.9	3.5	1.7	2.4	2.3	2.1	2.1	*2.3*	2.2	*2.2*	2.2	*1.8*	2.2
Czech Republic	:	:	6.5	4.5	1.4	-0.1	2.6	*1.7*	1.6	*2.9*	2.5	*2.6*	2.7
Denmark	7.2	2.0	2.0	2.3	2.4	2.0	0.9	*1.7*	1.7	*2.0*	2.1	*1.9*	2.0
Estonia	:	:	8.8	5.6	3.6	1.4	3.0	*4.1*	4.1	*3.3*	3.6	*2.6*	2.9
Cyprus	:	:	:	2.0	2.8	4.0	1.9	*2.3*	2.0	*2.1*	2.4	*2.1*	2.2
Latvia	:	:	:	2.5	2.0	2.9	6.2	*6.8*	6.9	*6.0*	6.7	*4.8*	5.6
Lithuania	:	:	8.2	1.6	0.3	-1.1	1.2	*2.6*	2.7	*2.8*	3.5	*2.9*	3.3
Hungary	:	:	15.1	9.1	5.2	4.7	6.8	*3.7*	3.5	*2.0*	2.3	*3.0*	3.3
Malta	:	:	:	2.5	2.6	1.9	2.7	*3.1*	2.5	*2.6*	2.9	*2.2*	2.7
Poland	:	:	:	5.3	1.9	0.7	3.6	*2.2*	2.2	*2.3*	1.0	*2.5*	2.0
Slovenia	:	:	8.2	8.6	7.5	5.7	3.7	*2.6*	2.5	*2.5*	2.4	*2.5*	2.5
Slovakia	:	:	8.2	7.2	3.5	8.4	7.5	*2.9*	2.8	*3.6*	4.4	*2.1*	2.7
Sweden	6.9	4.2	1.1	2.7	1.9	2.3	1.0	*0.7*	0.8	*1.4*	1.1	*1.8*	1.8
United Kingdom	8.0	3.4	1.6	1.2	1.3	1.4	1.3	*2.4*	2.1	*2.2*	2.0	*2.0*	2.0
EU-25	:	:	2.4	2.5	2.1	1.9	2.1	*2.3*	2.2	*2.2*	2.1	*1.9*	2.2
EU-15	7.1	3.7	1.7	2.2	2.1	2.0	2.0	*2.3*	2.1	*2.2*	2.1	*1.9*	2.2
Bulgaria	:	:	:	7.4	5.8	2.3	6.1	*4.5*	5.0	*5.5*	7.0	*3.5*	3.5
Romania	:	:	64.3	34.5	22.5	15.3	11.9	*9.1*	9.1	*7.4*	7.8	*6.0*	5.7
USA	5.1	3.1	2.5	2.8	1.6	2.3	2.7	*3.3*	3.4	*2.9*	2.9	*2.2*	1.6
Japan	5.6	1.4	0.3	-0.6	-0.9	-0.3	0.0	*-0.2*	-0.3	*0.3*	0.7	*2.0*	1.0

TABLE 17 : Profiles of quarterly harmonised index of consumer prices (percentage change on corresponding quarter in previous year, 200 24.04.2006

	2005/1	2005/2	2005/3	2005/4	2006/1	2006/2	2006/3	2006/4	2007/1	2007/2	2007/3	2007/4
Belgium	2.4	2.5	2.9	2.5	2.6	2.3	2.3	2.4	2.5	2.2	1.9	1.8
Germany	1.7	1.6	2.1	2.2	2.1	1.8	1.4	1.5	2.9	2.3	2.1	1.8
Greece	3.4	3.3	3.8	3.5	3.4	3.2	3.3	3.3	3.3	3.2	3.4	3.3
Spain	3.3	3.2	3.5	3.5	4.1	3.7	3.4	3.4	3.3	3.2	3.0	3.0
France	1.9	1.8	2.1	1.8	2.0	2.0	1.9	1.9	2.0	1.8	1.7	1.7
Ireland	2.0	2.1	2.4	2.3	2.7	2.5	2.3	2.2	2.1	2.3	2.5	2.5
Italy	2.0	2.2	2.2	2.4	2.2	2.3	2.2	2.2	2.2	2.1	2.0	1.9
Luxembourg	3.2	3.5	4.3	4.0	3.9	4.2	3.5	4.7	5.3	4.0	2.9	1.6
Netherlands	1.4	1.3	1.6	1.7	1.6	1.7	1.9	2.0	2.0	2.1	2.1	2.2
Austria	2.4	2.1	2.2	1.8	1.5	1.6	1.9	1.9	1.9	1.8	1.4	1.3
Portugal	2.1	1.5	2.4	2.6	3.0	2.8	2.3	2.5	2.5	2.3	2.4	2.2
Finland	0.6	1.0	0.8	0.7	1.2	1.5	1.4	1.5	1.4	1.5	1.4	1.4
Euro area	2.0	2.0	2.3	2.3	2.3	2.2	2.0	2.1	2.5	2.3	2.1	2.0
Czech Republic	1.4	1.2	1.6	2.2	2.4	2.6	2.5	2.7	2.7	2.9	2.8	2.5
Denmark	1.0	1.6	2.2	2.0	2.2	2.0	2.0	2.2	2.2	2.0	2.1	1.7
Estonia	4.5	3.6	4.3	4.0	4.4	3.8	3.2	3.1	3.0	2.7	2.9	2.9
Cyprus	2.6	2.1	1.6	1.8	2.3	2.4	2.4	2.4	2.3	2.2	2.2	2.2
Latvia	6.8	6.7	6.7	7.2	7.1	6.5	6.5	6.8	6.2	5.0	5.6	5.4
Lithuania	3.1	2.4	2.2	3.0	3.3	3.5	3.6	3.6	3.5	3.4	3.2	3.3
Hungary	3.5	3.6	3.5	3.3	2.4	1.9	2.1	2.6	2.9	3.2	3.4	3.6
Malta	:	:	:	:	:	:	:	:	:	:	:	:
Poland	3.6	2.2	1.7	1.2	0.9	0.9	1.0	1.1	1.5	1.8	2.1	2.4
Slovenia	2.8	2.2	2.3	2.6	2.2	2.5	2.5	2.3	2.6	2.5	2.4	2.4
Slovakia	2.8	2.6	2.2	3.7	4.3	4.6	4.7	3.9	3.3	2.9	2.8	2.0
Sweden	0.7	0.5	1.0	1.1	1.1	1.2	0.9	1.1	1.6	1.7	1.8	2.0
United Kingdom	1.7	1.9	2.4	2.1	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0
EU-25	2.0	2.0	2.3	2.2	2.2	2.1	2.0	2.1	2.4	2.2	2.1	2.0
EU-15	2.0	2.0	2.3	2.2	2.2	2.1	2.0	2.1	2.4	2.2	2.1	2.0
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:
Romania	:	:	:	:	:	:	:	:	:	:	:	:
USA	3.0	2.9	3.8	3.7	3.7	3.3	2.5	2.2	1.9	1.7	1.5	1.4
Japan	-0.2	-0.1	-0.3	-0.5	0.4	0.6	0.8	0.8	0.9	1.0	1.1	1.1

TABLE 18 : Price deflator of exports of goods in national currency (percentage change on preceding year, 1961-2007)

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	4.1	0.5	3.0	2.2	-0.9	-2.9	1.9	*5.8*	6.4	*2.2*	3.1	*1.9*	2.1
Germany	2.7	0.7	0.3	0.5	-0.9	-1.0	0.0	*0.7*	0.7	*0.3*	0.7	*0.2*	0.3
Greece	10.0	8.7	5.0	0.5	2.0	0.3	2.8	*2.5*	5.2	*1.4*	1.3	*1.0*	1.0
Spain	:	3.1	2.2	0.6	-0.7	-1.3	1.7	*2.8*	5.2	*2.6*	3.3	*2.0*	2.7
France	5.0	-1.5	0.5	-0.9	-2.5	-1.9	2.0	*1.2*	0.8	*1.7*	1.8	*1.9*	2.0
Ireland	7.4	1.1	2.4	3.8	-1.5	-8.8	-2.4	*1.9*	0.5	*1.9*	2.4	*1.2*	1.3
Italy	7.5	5.3	3.6	4.9	2.6	0.7	4.5	*5.3*	6.6	*3.1*	6.1	*2.3*	2.3
Luxembourg	:	-0.4	0.3	-1.1	-1.3	-1.1	7.0	*1.0*	1.0	*1.5*	1.5	*2.0*	2.0
Netherlands	2.8	-0.8	1.8	1.1	-3.2	-1.8	0.1	*2.8*	3.0	*1.1*	4.8	*2.0*	1.0
Austria	:	-0.1	0.8	0.3	-0.1	-0.6	0.9	*1.0*	1.4	*0.4*	1.1	*0.4*	1.0
Portugal	:	1.4	1.2	0.9	-0.8	-2.8	0.5	*1.2*	2.1	*1.7*	1.9	*1.7*	1.8
Finland	:	3.7	-1.4	-3.1	-5.2	-3.7	0.1	*-0.7*	-0.8	*0.4*	0.5	*0.1*	0.1
Euro area	4.4	1.0	1.4	1.1	-1.1	-1.6	1.1	*2.2*	2.5	*1.4*	2.5	*1.3*	1.3
Czech Republic	:	:	3.0	-1.0	-6.8	-0.8	2.1	*-0.1*	-3.2	*2.3*	-1.9	*2.4*	1.7
Denmark	:	0.1	1.3	1.3	-0.4	-1.1	1.1	*5.6*	4.6	*3.6*	5.6	*0.6*	2.1
Estonia	:	:	5.8	10.2	-4.3	2.9	0.5	*4.2*	2.3	*3.2*	2.9	*2.9*	2.6
Cyprus	:	:	2.8	3.5	-4.0	-0.8	1.1	*2.8*	2.1	*2.6*	5.0	*1.0*	2.5
Latvia	:	:	0.5	2.6	2.8	7.9	13.7	*14.9*	10.0	*6.0*	6.3	*2.2*	3.7
Lithuania	:	:	3.0	-3.1	-6.3	-0.9	7.7	*8.2*	12.4	*5.7*	8.2	*4.2*	4.0
Hungary	:	:	11.8	2.2	-5.0	-0.3	-1.5	*-1.6*	-0.7	*1.6*	1.4	*1.0*	2.0
Malta	:	:	6.0	-14.2	3.1	-3.0	-6.1	*1.1*	17.3	*1.6*	2.9	*1.3*	3.1
Poland	:	:	7.4	1.3	4.8	5.9	9.4	*1.0*	-2.6	*1.8*	1.4	*2.3*	1.4
Slovenia	:	57.1	6.1	8.0	3.7	2.0	2.6	*1.5*	1.2	*0.9*	1.2	*0.7*	1.0
Slovakia	:	:	4.6	5.3	1.0	-4.0	-1.9	*0.5*	0.5	*2.4*	3.2	*2.3*	2.4
Sweden	:	3.2	-1.6	2.3	-2.3	-2.3	-0.3	*3.8*	3.3	*1.1*	1.7	*0.6*	0.9
United Kingdom	6.7	2.9	-2.2	-1.5	-0.2	1.4	-0.1	*3.4*	2.1	*2.9*	3.9	*2.2*	2.9
EU-25	:	:	:	:	:	:	:	*2.3*	2.3	*1.6*	2.6	*1.4*	1.5
EU-15	4.7	1.2	1.0	0.9	-1.0	-1.3	1.0	*2.5*	2.5	*1.6*	2.7	*1.3*	1.4
Bulgaria	:	:	:	:	:	:	:	*6.0*	7.6	*4.0*	6.0	*3.0*	3.0
Romania	:	154.5	53.5	31.4	17.6	18.3	13.4	*-0.8*	-2.2	*0.2*	0.4	*2.7*	4.1
USA	3.9	0.2	-1.8	-0.7	-0.6	2.0	3.7	*3.1*	3.1	*2.1*	2.4	*2.0*	1.8
Japan	:	:	:	:	:	:	:	*3.4*	-2.1	*5.4*	5.6	*6.1*	2.7

TABLE 19 : Price deflator of imports of goods in national currency (percentage change on preceding year, 1961-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	4.3	-0.7	4.0	2.4	-1.8	-2.4	2.7	6.2	7.3	2.4	3.7	2.0	2.1
Germany	2.2	-0.7	1.1	0.2	-3.4	-3.0	0.0	3.5	2.5	2.7	2.8	1.4	1.1
Greece	10.6	8.5	4.7	2.0	0.3	1.3	0.9	3.5	2.9	2.5	2.8	0.8	2.8
Spain	:	2.3	2.4	-1.5	-3.2	-1.6	1.8	3.6	3.7	2.7	3.8	2.1	2.5
France	5.6	-1.6	0.9	-1.2	-4.2	-2.0	1.7	2.4	2.9	1.5	3.3	1.1	1.4
Ireland	7.2	2.4	2.6	3.0	-3.8	-8.4	-2.3	3.2	-0.3	2.9	4.0	1.1	1.5
Italy	7.9	5.1	3.3	3.5	0.2	-0.4	5.0	7.5	8.7	3.1	7.9	1.0	2.1
Luxembourg	:	0.4	2.2	-0.6	-2.9	-1.3	5.9	4.5	4.5	2.0	2.0	2.0	2.0
Netherlands	2.8	-1.2	2.2	-0.2	-4.6	-3.2	0.6	3.7	3.0	2.5	5.9	2.0	1.5
Austria	:	0.1	1.2	-0.4	-2.3	-1.4	1.0	2.7	2.9	1.8	1.7	1.0	1.4
Portugal	:	0.3	2.0	0.0	-2.3	-2.5	1.9	4.2	3.5	3.2	4.0	1.1	1.6
Finland	:	3.7	-0.1	-3.7	-2.7	-0.1	3.4	4.4	2.8	3.4	2.9	1.3	1.6
Euro area	4.7	0.5	2.0	0.4	-2.9	-2.2	1.5	4.1	3.9	2.5	4.1	1.5	1.6
Czech Republic	:	:	2.7	-2.6	-8.6	-0.2	1.4	0.5	-1.0	2.2	-0.7	2.5	1.7
Denmark	:	-0.3	0.0	0.2	-1.5	-0.1	0.8	3.9	4.1	2.9	3.7	0.9	1.6
Estonia	:	:	5.9	4.0	0.1	-1.5	1.6	5.2	3.5	4.1	3.9	3.1	2.8
Cyprus	:	:	2.7	0.5	-0.6	-1.0	3.8	5.3	5.0	3.7	8.0	0.5	3.0
Latvia	:	:	4.3	1.5	6.0	6.9	8.2	13.8	12.7	5.0	7.8	1.1	4.1
Lithuania	:	:	-0.1	-3.0	-4.7	-3.4	-0.5	6.1	9.0	3.7	7.5	3.0	2.2
Hungary	:	:	12.7	2.5	-5.4	0.1	-0.9	-0.5	1.4	1.3	3.8	1.0	3.6
Malta	:	:	5.5	-4.2	2.5	-5.7	-3.0	1.8	3.3	1.5	3.5	1.4	3.6
Poland	:	:	9.7	1.3	5.2	9.1	4.9	-1.2	-3.1	1.5	2.1	1.8	2.0
Slovenia	:	55.0	6.5	5.8	1.7	1.5	4.1	3.6	3.8	2.1	3.7	1.1	1.3
Slovakia	:	:	5.3	8.2	-0.2	-3.2	-1.8	1.5	2.0	2.6	3.5	1.6	2.2
Sweden	:	3.5	0.0	3.5	-0.5	-2.8	0.7	5.3	5.1	1.7	2.7	0.2	0.7
United Kingdom	6.8	3.4	-2.6	-0.9	-2.9	-0.7	-0.5	3.3	3.5	2.4	5.2	1.7	2.7
EU-25	:	:	:	:	:	:	:	3.7	3.6	2.4	4.0	1.5	1.8
EU-15	5.1	1.0	1.3	0.3	-2.8	-2.0	1.2	4.0	3.9	2.4	4.2	1.4	1.7
Bulgaria	:	:	:	:	:	:	:	7.0	9.3	3.0	6.0	0.5	1.0
Romania	:	161.4	46.2	28.8	15.8	15.4	8.7	-4.4	-5.3	1.6	0.6	2.2	4.2
USA	5.3	0.1	-1.6	-3.0	-1.8	2.9	5.0	6.1	6.3	3.4	4.5	2.1	1.4
Japan	:	:	:	:	:	:	:	7.5	8.7	6.5	10.0	3.0	2.0

TABLE 20 : Terms of trade of goods (percentage change on preceding year, 1961-2007)

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	-0.2	1.2	-0.9	-0.2	0.9	-0.5	-0.8	-0.4	-0.9	-0.2	-0.6	-0.1	0.0
Germany	0.5	1.4	-0.8	0.3	2.5	2.0	0.0	-2.7	-1.8	-2.3	-2.0	-1.3	-0.8
Greece	-0.5	0.2	0.3	-1.4	1.7	-1.0	1.9	-1.0	2.2	-1.1	-1.4	0.2	-1.8
Spain	:	0.8	-0.2	2.1	2.7	0.2	-0.1	-0.7	1.4	-0.1	-0.5	-0.1	0.2
France	-0.5	0.2	-0.5	0.3	1.9	0.1	0.3	-1.2	-2.1	0.3	-1.4	0.8	0.6
Ireland	0.1	-1.2	-0.2	0.8	2.4	-0.5	-0.1	-1.3	0.7	-1.0	-1.6	0.1	-0.2
Italy	-0.4	0.2	0.2	1.4	2.5	1.1	-0.5	-2.0	-2.0	0.0	-1.7	1.3	0.2
Luxembourg	:	-0.8	-1.8	-0.4	1.6	0.2	1.0	-3.4	-3.3	-0.5	-0.5	0.0	0.0
Netherlands	-0.1	0.5	-0.4	1.2	1.5	1.4	-0.4	-0.9	0.0	-1.4	-1.1	0.0	-0.5
Austria	:	-0.1	-0.4	0.7	2.3	0.8	-0.1	-1.7	-1.5	-1.4	-0.6	-0.6	-0.4
Portugal	:	1.2	-0.7	0.9	1.5	-0.3	-1.3	-2.9	-1.4	-1.5	-2.0	0.6	0.2
Finland	:	-0.1	-1.3	0.5	-2.5	-3.6	-3.2	-4.9	-3.4	-2.9	-2.3	-1.1	-1.5
Euro area	-0.3	0.5	-0.6	0.7	1.9	0.7	-0.4	-1.8	-1.4	-1.1	-1.5	-0.2	-0.3
Czech Republic	:	:	0.2	1.6	2.0	-0.6	0.7	-0.6	-2.2	0.1	-1.2	-0.1	0.0
Denmark	:	0.4	1.3	1.1	1.1	-1.0	0.3	1.6	0.5	0.7	1.8	-0.3	0.4
Estonia	:	:	0.0	6.0	-4.4	4.5	-1.1	-1.0	-1.2	-0.9	-1.0	-0.2	-0.2
Cyprus	:	:	0.1	3.0	-3.4	0.2	-2.5	-2.4	-2.7	-1.1	-2.8	0.5	-0.5
Latvia	:	:	-3.7	1.1	-3.0	1.0	5.1	1.0	-2.4	1.0	-1.4	1.0	-0.4
Lithuania	:	:	3.1	0.0	-1.6	2.6	8.3	2.0	3.1	1.9	0.7	1.2	1.8
Hungary	:	:	-0.8	-0.3	0.4	-0.4	-0.6	-1.0	-2.1	0.4	-2.3	0.0	-1.6
Malta	:	:	0.5	-10.4	0.6	2.9	-3.2	-0.7	13.6	0.1	-0.6	-0.1	-0.5
Poland	:	:	-2.1	0.0	-0.4	-2.9	4.3	2.2	0.5	0.3	-0.7	0.5	-0.6
Slovenia	:	1.4	-0.4	2.1	2.0	0.5	-1.4	-2.0	-2.5	-1.2	-2.4	-0.4	-0.3
Slovakia	:	:	-0.6	-2.7	1.3	-0.8	-0.1	-1.0	-1.5	-0.2	-0.3	0.7	0.2
Sweden	:	-0.2	-1.6	-1.2	-1.8	0.5	-1.0	-1.4	-1.7	-0.6	-1.0	0.4	0.2
United Kingdom	-0.1	-0.4	0.5	-0.5	2.8	2.1	0.4	0.1	-1.3	0.5	-1.3	0.5	0.1
EU-25	:	:	:	:	:	:	:	-1.3	-1.3	-0.7	-1.4	-0.1	-0.3
EU-15	-0.4	0.3	-0.4	0.6	1.9	0.7	-0.2	-1.5	-1.3	-0.8	-1.4	-0.1	-0.3
Bulgaria	:	:	:	:	:	:	:	-0.9	-1.6	1.0	0.0	2.5	2.0
Romania	:	-2.6	5.0	2.0	1.6	2.5	4.4	3.7	3.3	-1.3	-0.2	0.5	0.0
USA	-1.3	0.2	-0.1	2.4	1.1	-0.9	-1.2	-2.8	-3.0	-1.2	-2.0	-0.1	0.4
Japan	:	:	:	:	:	:	:	-3.8	-9.9	-1.0	-4.0	3.0	0.7

TABLE 21 : Compensation of employees per head (percentage change on preceding year, 1961-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	8.4	4.6	2.3	3.6	3.8	1.7	2.1	*2.6*	2.4	*2.7*	2.4	*2.4*	2.2
Germany	6.7	6.1	2.4	2.3	2.0	2.4	1.4	*-0.1*	0.2	*0.2*	0.2	*1.2*	-0.2
Greece	15.7	12.1	8.0	5.7	10.0	4.6	5.8	*6.2*	6.1	*5.6*	5.9	*5.0*	5.0
Spain	14.9	7.2	2.6	3.6	3.3	3.4	3.3	*3.1*	2.5	*3.9*	3.3	*3.5*	3.2
France	10.1	3.1	2.3	2.3	3.0	2.4	3.1	*2.9*	3.2	*2.7*	3.3	*3.0*	3.2
Ireland	12.4	4.6	5.3	7.4	5.1	5.6	5.5	*4.9*	5.5	*4.5*	5.0	*4.5*	4.8
Italy	13.6	5.2	2.7	3.2	2.7	3.7	3.5	*2.9*	2.9	*2.6*	2.6	*2.7*	2.7
Luxembourg	7.7	4.6	2.9	3.5	3.9	1.8	4.1	*3.5*	3.7	*3.2*	3.5	*3.0*	3.0
Netherlands	7.9	3.5	3.0	5.5	5.2	4.0	3.3	*1.4*	1.4	*1.0*	2.2	*1.3*	2.7
Austria	7.9	4.9	1.9	1.4	2.1	1.9	2.3	*2.2*	2.4	*2.7*	2.8	*2.3*	2.2
Portugal	17.0	10.6	5.9	5.3	4.4	3.1	2.4	*3.0*	2.9	*2.9*	2.7	*3.0*	2.5
Finland	11.5	3.2	2.9	4.7	1.8	2.6	4.1	*3.0*	3.2	*2.9*	2.8	*2.8*	2.5
Euro area	9.8	5.2	2.4	2.8	2.7	2.6	2.4	*1.8*	1.9	*2.0*	2.1	*2.4*	2.1
Czech Republic	:	:	10.2	7.6	6.2	4.9	6.3	*4.6*	4.0	*5.6*	4.8	*5.4*	5.1
Denmark	9.8	3.1	3.8	4.4	3.8	3.8	2.1	*3.3*	3.5	*3.6*	3.8	*3.8*	3.9
Estonia	:	:	16.8	7.6	10.3	10.9	10.8	*12.8*	12.0	*10.0*	11.7	*8.3*	11.1
Cyprus	:	:	4.1	1.0	4.1	9.3	3.5	*4.5*	4.4	*4.0*	3.5	*4.0*	3.5
Latvia	:	:	11.9	3.4	4.0	11.1	15.1	*16.0*	14.4	*12.0*	15.0	*10.0*	12.0
Lithuania	:	:	14.8	3.6	4.4	8.8	8.1	*9.1*	11.5	*8.1*	8.9	*6.8*	8.2
Hungary	:	:	15.0	15.9	12.7	10.0	9.7	*5.5*	9.1	*5.2*	5.3	*4.5*	4.0
Malta	:	8.3	4.3	5.0	2.8	1.7	-0.8	*1.5*	2.4	*2.2*	2.9	*1.6*	3.0
Poland	:	:	17.6	13.1	2.0	0.8	1.9	*4.1*	3.0	*4.4*	4.6	*4.4*	5.2
Slovenia	:	:	11.0	11.6	8.5	7.8	7.7	*6.1*	5.0	*5.6*	5.2	*5.9*	5.0
Slovakia	:	:	10.9	6.3	9.3	6.0	10.8	*8.2*	9.2	*6.5*	7.3	*5.9*	6.5
Sweden	9.4	4.7	4.7	4.5	2.9	3.0	3.7	*3.5*	3.4	*3.5*	3.7	*4.0*	4.3
United Kingdom	10.4	4.9	4.6	5.0	3.6	4.8	4.3	*4.1*	4.4	*4.5*	4.3	*4.5*	4.4
EU-25	:	:	3.4	3.9	3.2	3.1	2.9	*2.4*	2.4	*2.7*	2.7	*3.0*	2.7
EU-15	9.8	5.1	2.8	3.3	2.9	3.1	2.8	*2.3*	2.5	*2.5*	2.6	*2.9*	2.6
Bulgaria	:	:	96.3	12.3	4.7	1.0	6.6	*9.5*	8.8	*9.2*	9.4	*8.7*	9.3
Romania	:	135.4	71.4	44.8	25.9	27.7	22.1	*18.0*	16.7	*15.4*	13.8	*13.7*	10.9
USA	6.2	3.5	4.2	2.4	3.6	4.2	4.8	*4.9*	4.6	*4.4*	3.8	*4.4*	4.1
Japan	10.1	2.0	-0.1	-0.6	-1.6	-1.6	-1.6	*-0.2*	0.6	*0.1*	0.8	*0.3*	1.0

TABLE 22 : Real compensation of employees per head [1] (percentage change on preceding year, 1961-2007)

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	3.6	2.4	0.8	1.3	2.5	0.1	-0.4	*-0.3*	-0.4	*0.0*	0.0	*0.4*	0.2
Germany	3.2	3.0	1.5	0.5	0.8	0.9	0.0	*-1.8*	-1.1	*-1.3*	-1.3	*0.1*	-2.1
Greece	3.7	-1.5	2.3	3.5	7.3	1.7	3.2	*2.4*	2.3	*2.3*	2.6	*1.9*	1.7
Spain	4.5	1.5	-0.1	0.2	0.4	0.5	-0.1	*-0.6*	-1.0	*0.4*	-0.4	*0.6*	0.0
France	3.2	1.2	1.4	0.5	1.9	1.0	1.3	*1.6*	2.0	*1.0*	1.5	*1.4*	1.4
Ireland	3.5	1.9	1.9	3.2	0.0	1.8	4.7	*3.0*	3.5	*2.1*	2.6	*2.2*	2.4
Italy	3.8	-0.4	0.0	0.5	-0.1	0.9	0.8	*0.9*	0.5	*0.4*	0.2	*0.8*	0.6
Luxembourg	3.0	1.3	0.7	1.5	3.2	-0.4	1.7	*0.9*	1.2	*0.2*	0.3	*1.0*	0.5
Netherlands	3.2	0.9	0.9	0.8	2.1	1.8	2.2	*-0.3*	-0.3	*-0.9*	0.2	*-0.5*	0.7
Austria	3.4	1.8	0.6	-0.5	1.1	0.4	0.3	*-0.1*	0.4	*0.6*	1.1	*0.6*	0.5
Portugal	4.2	2.8	3.1	1.9	1.3	0.3	-0.1	*0.8*	0.3	*0.2*	-0.1	*0.8*	0.0
Finland	3.8	0.1	0.8	1.0	-1.0	2.7	3.9	*1.5*	1.9	*1.8*	1.6	*1.8*	1.3
Euro area	3.2	1.4	0.7	0.4	0.9	0.6	0.5	*-0.3*	0.0	*-0.1*	0.0	*0.6*	-0.1
Czech Republic	:	:	4.0	4.0	5.4	3.0	4.0	*2.4*	2.9	*3.2*	2.7	*3.0*	2.7
Denmark	2.2	1.1	1.8	2.0	2.0	1.7	0.4	*1.5*	1.5	*1.6*	1.9	*1.9*	1.9
Estonia	:	:	6.3	1.4	7.0	10.1	8.0	*8.4*	8.3	*6.5*	7.9	*5.6*	8.0
Cyprus	:	:	1.7	-0.9	1.6	5.7	1.3	*1.9*	1.5	*1.7*	0.3	*1.8*	1.0
Latvia	:	:	4.7	1.1	1.8	7.9	8.5	*8.9*	3.0	*5.7*	7.8	*5.0*	6.1
Lithuania	:	:	8.3	1.2	4.4	11.8	6.9	*6.5*	7.9	*5.3*	5.2	*3.9*	4.7
Hungary	:	:	0.3	7.4	9.4	5.4	4.9	*1.8*	3.6	*3.0*	2.5	*1.5*	0.2
Malta	:	:	2.9	3.1	1.3	0.8	-4.1	*-1.6*	-0.6	*-0.6*	-0.3	*-0.8*	0.2
Poland	:	:	5.1	8.9	-1.3	0.4	-1.2	*2.2*	1.4	*2.3*	4.1	*2.1*	3.5
Slovenia	:	:	2.7	3.6	0.6	2.2	4.0	*3.5*	3.3	*3.1*	2.9	*3.5*	2.5
Slovakia	:	:	3.4	0.3	6.6	-1.5	3.6	*5.2*	5.8	*3.0*	3.4	*3.8*	4.0
Sweden	2.0	-0.6	3.5	2.4	1.1	1.2	2.3	*2.5*	2.3	*2.0*	2.4	*2.2*	2.7
United Kingdom	2.6	0.6	2.3	2.6	2.1	2.8	2.8	*1.6*	2.3	*2.0*	2.2	*2.5*	2.3
EU-25	:	:	1.4	1.4	1.3	1.1	1.0	*0.3*	0.5	*0.5*	0.6	*1.2*	0.6
EU-15	3.0	1.2	1.1	1.0	1.1	1.1	1.0	*0.2*	0.6	*0.4*	0.5	*1.1*	0.5
Bulgaria	:	:	-0.2	6.0	0.7	0.5	2.3	*5.1*	4.0	*4.0*	2.7	*5.5*	6.1
Romania	:	-5.4	5.6	6.7	3.7	10.9	8.8	*8.3*	9.4	*7.3*	5.4	*7.2*	4.6
USA	1.5	0.8	2.4	0.3	2.1	2.2	2.2	*2.0*	1.7	*1.6*	1.5	*2.1*	2.6
Japan	4.3	1.3	0.0	0.5	-0.1	-0.7	-0.9	*0.3*	1.3	*0.1*	0.3	*-0.9*	0.3

[1] Deflated by the price deflator of private consumption.

TABLE 23 : Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1961-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	XI-2005	IV-2006	XI-2005	IV-2006	XI-2005	IV-2006
Belgium	3.1	1.5	1.5	-0.4	1.7	1.0	2.0	0.8	0.3	1.4	1.3	1.3	1.2
Germany	2.7	2.2	1.2	0.8	0.6	0.8	1.3	0.5	1.1	0.7	1.4	1.2	0.7
Greece	4.2	0.7	2.8	5.4	3.7	3.4	1.7	2.2	2.2	2.1	2.2	2.1	2.1
Spain	4.2	1.9	0.3	0.3	0.3	0.4	0.5	0.4	0.3	0.8	0.4	0.8	0.6
France	3.4	1.8	1.7	0.2	0.3	0.7	2.5	1.5	1.2	1.3	1.4	1.4	1.4
Ireland	3.9	2.9	3.7	3.1	4.3	2.4	1.3	0.6	-0.1	2.6	2.0	2.9	2.5
Italy	3.6	2.1	1.1	0.0	-0.9	-0.6	1.0	-0.3	0.4	0.9	1.1	0.8	1.0
Luxembourg	2.5	1.2	1.9	-2.9	0.7	0.2	1.9	1.2	1.3	1.2	1.3	1.1	1.4
Netherlands	2.7	1.3	1.2	0.1	0.3	0.7	3.4	1.1	1.3	1.5	1.8	1.4	1.8
Austria	3.3	1.9	1.9	0.2	1.1	1.3	2.5	1.3	1.3	1.3	1.9	1.6	1.3
Portugal	4.7	2.3	2.2	0.3	0.4	-0.7	1.0	0.3	0.3	0.6	0.7	0.8	0.8
Finland	3.5	2.9	2.3	-0.5	1.3	2.4	3.3	0.5	0.5	2.8	2.2	2.4	2.0
Euro area	3.2	1.8	1.2	0.4	0.3	0.4	1.5	0.3	0.7	0.7	1.2	0.9	1.0
Czech Republic	:	:	2.9	2.2	0.0	4.6	4.6	4.3	5.0	4.0	4.6	3.9	4.2
Denmark	2.1	2.5	1.8	-0.1	0.5	1.9	1.8	2.1	2.3	1.8	2.7	1.7	2.2
Estonia	:	:	8.2	5.6	5.6	5.8	7.7	7.9	7.9	6.6	8.0	6.5	7.3
Cyprus	:	:	2.4	1.9	1.0	0.9	2.3	2.3	2.2	2.7	2.3	2.8	2.3
Latvia	:	-5.0	5.9	5.7	4.8	5.4	7.4	8.1	8.5	7.0	7.4	6.5	6.8
Lithuania	:	-8.2	5.4	10.1	2.6	8.0	7.1	5.3	5.0	5.5	5.5	5.2	5.6
Hungary	:	:	2.8	4.1	3.8	2.1	5.4	3.3	4.2	3.3	4.4	3.5	3.6
Malta	:	:	3.8	-1.7	2.1	-1.8	-2.8	0.2	1.9	-0.1	1.4	0.3	1.4
Poland	:	:	:	:	:	:	:	2.3	0.9	3.0	2.3	3.2	2.7
Slovenia	:	:	4.8	2.2	1.9	2.9	3.7	3.5	3.2	3.8	3.7	3.9	3.6
Slovakia	:	:	4.5	3.2	5.2	2.6	5.9	3.2	3.8	4.5	4.8	5.4	5.5
Sweden	2.2	2.9	2.4	-0.8	1.8	2.0	4.3	1.9	2.0	1.9	1.8	2.1	2.0
United Kingdom	2.1	2.5	2.0	1.4	1.2	1.6	2.1	1.0	0.9	1.9	2.0	2.2	2.2
EU-25	:	:	1.7	0.9	0.8	0.9	1.8	0.6	0.8	1.1	1.4	1.4	1.3
EU-15	3.0	1.9	1.3	0.5	0.5	0.7	1.7	0.5	0.8	1.0	1.4	1.2	1.3
Bulgaria	:	:	1.1	4.5	4.5	-1.7	3.4	4.1	3.4	4.4	4.3	4.7	4.9
Romania	:	0.5	0.6	6.6	8.1	5.4	8.0	3.5	3.9	4.8	5.3	5.0	4.9
USA	1.6	1.4	2.0	0.7	1.9	1.8	3.1	1.8	1.7	1.9	1.8	2.1	2.1
Japan	5.1	0.7	1.0	1.0	1.5	2.1	2.1	2.2	2.3	2.0	2.4	1.8	2.0

TABLE 24 : Unit labour costs, whole economy [1] (percentage change on preceding year, 1961-2007)

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	XI-2005	IV-2006	XI-2005	IV-2006	XI-2005	IV-2006
Belgium	5.1	3.1	0.8	4.0	2.1	0.7	0.1	1.8	2.1	1.3	1.0	1.1	1.0
Germany	3.9	3.8	1.2	1.5	1.3	1.6	0.1	-0.5	-0.9	-0.5	-1.2	0.1	-0.9
Greece	11.0	11.3	5.1	0.2	6.0	1.2	4.0	3.9	3.8	3.4	3.6	2.9	2.9
Spain	10.2	5.2	2.3	3.3	3.0	2.9	2.8	2.7	2.2	3.0	2.8	2.7	2.6
France	6.6	1.3	0.6	2.1	2.7	1.7	0.6	1.5	1.9	1.4	1.9	1.6	1.8
Ireland	8.2	1.6	1.5	4.2	0.8	3.1	4.1	4.3	5.6	1.9	2.9	1.6	2.2
Italy	9.7	3.1	1.6	3.2	3.7	4.3	2.4	3.3	2.5	1.6	1.5	1.9	1.7
Luxembourg	5.1	3.4	1.0	6.5	3.2	1.6	2.1	2.3	2.4	2.0	2.1	1.9	1.6
Netherlands	5.1	2.2	1.9	5.4	4.8	3.3	-0.1	0.3	0.1	-0.5	0.4	-0.1	0.9
Austria	4.4	3.0	0.1	1.1	1.0	0.6	-0.2	0.9	1.1	1.4	0.9	0.7	0.8
Portugal	11.8	8.1	3.7	5.1	4.0	3.9	1.4	2.7	2.6	2.4	2.0	2.2	1.7
Finland	7.8	0.3	0.6	5.1	0.6	0.2	0.8	2.4	2.7	0.1	0.6	0.4	0.5
Euro area	6.4	3.3	1.2	2.4	2.5	2.2	1.0	1.5	1.2	1.3	0.9	1.4	1.1
Czech Republic	:	:	7.1	5.2	6.3	0.2	1.6	0.3	-1.0	1.6	0.2	1.4	0.9
Denmark	7.5	0.6	1.9	4.5	3.2	1.8	0.3	1.1	1.2	1.7	1.0	2.0	1.7
Estonia	:	:	8.0	1.9	4.5	4.7	2.8	4.5	3.8	3.2	3.4	1.7	3.6
Cyprus	:	:	1.6	-0.8	3.1	8.4	1.1	2.1	2.1	1.3	1.2	1.2	1.1
Latvia	:	:	5.6	-2.2	-0.8	5.5	7.2	7.3	5.4	4.7	7.1	3.3	4.9
Lithuania	:	:	8.9	-5.9	1.7	0.7	0.9	3.6	6.3	2.5	3.2	1.6	2.4
Hungary	:	:	11.9	11.4	8.6	7.7	4.1	2.1	4.8	1.8	0.8	0.9	0.4
Malta	:	:	0.5	6.8	0.6	3.5	2.1	1.3	0.5	2.3	1.5	1.3	1.6
Poland	:	:	:	:	:	:	:	1.7	2.1	1.3	2.3	1.1	2.4
Slovenia	:	:	5.9	9.2	6.5	4.7	3.8	2.5	1.8	1.7	1.4	1.9	1.3
Slovakia	:	:	6.1	3.0	3.9	3.3	4.6	4.9	5.2	1.9	2.4	0.4	1.0
Sweden	7.1	1.8	2.2	5.4	1.0	1.0	-0.6	1.5	1.3	1.6	1.9	1.9	2.2
United Kingdom	8.2	2.4	2.6	3.6	2.4	3.2	2.1	3.1	3.5	2.6	2.3	2.3	2.2
EU-25	:	:	1.7	3.0	2.4	2.2	1.1	1.8	1.6	1.5	1.2	1.6	1.3
EU-15	6.7	3.1	1.5	2.8	2.4	2.4	1.1	1.8	1.7	1.6	1.2	1.7	1.4
Bulgaria	:	:	94.2	7.5	0.2	2.7	3.1	5.2	5.3	4.6	4.9	3.8	4.2
Romania	:	134.3	70.3	35.8	16.5	21.3	13.0	14.0	12.3	10.1	8.1	8.3	5.7
USA	4.6	2.0	2.2	1.7	1.6	2.3	1.6	3.1	2.8	2.4	2.0	2.3	2.0
Japan	4.8	1.2	-1.1	-1.5	-3.1	-3.6	-3.6	-2.4	-1.7	-1.8	-1.5	-1.5	-1.0

[1] Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment.

TABLE 25 : Real unit labour costs [1] (percentage change on preceding year, 1961-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	0.3	0.4	-0.4	2.2	0.3	-1.0	-2.1	*-0.8*	-0.2	*-1.0*	-0.9	*-0.7*	-1.0
Germany	0.0	0.5	1.0	0.3	-0.1	0.6	-0.6	*-1.2*	-1.4	*-0.9*	-1.6	*-0.4*	-2.0
Greece	-1.1	-2.3	-0.5	-1.6	2.1	-2.2	0.6	*0.2*	0.0	*0.2*	0.6	*-0.2*	-0.1
Spain	-0.1	-0.2	-0.6	-0.9	-1.4	-1.0	-1.2	*-1.5*	-2.2	*-0.7*	-1.3	*-0.2*	-0.9
France	-0.1	-0.3	-0.3	0.3	0.5	0.1	-1.0	*0.1*	0.6	*-0.4*	0.3	*-0.3*	-0.1
Ireland	-0.4	-1.2	-2.7	-1.4	-4.1	1.0	1.8	*1.0*	2.4	*-0.6*	0.2	*-1.0*	-0.7
Italy	-0.2	-1.7	-1.1	0.2	0.3	1.2	-0.5	*0.9*	0.4	*-0.6*	-0.6	*-0.3*	-0.4
Luxembourg	0.2	-0.1	-0.6	6.4	0.5	-3.0	1.1	*0.7*	1.1	*-0.3*	-1.0	*-0.6*	-1.3
Netherlands	0.2	0.0	-0.2	0.1	1.0	0.7	-0.9	*-0.6*	-1.4	*-1.4*	-0.9	*-1.7*	-0.4
Austria	-0.2	0.0	-0.7	-0.6	-0.2	-0.8	-2.1	*-0.8*	-0.9	*0.0*	-0.9	*-0.6*	-0.9
Portugal	-0.1	0.2	0.4	1.3	0.1	1.1	-1.3	*0.7*	-0.2	*0.1*	0.3	*-0.3*	-1.1
Finland	-0.2	-2.1	-1.0	1.9	-0.4	0.5	0.3	*2.0*	1.1	*-0.4*	-0.1	*-0.5*	-0.3
Euro area	-0.2	-0.2	-0.2	0.1	-0.1	0.2	-0.9	*-0.3*	-0.5	*-0.4*	-0.8	*-0.2*	-0.9
Czech Republic	:	:	0.7	0.3	3.4	-2.3	-1.7	*-2.3*	-0.9	*-0.9*	-1.1	*-0.8*	-1.2
Denmark	0.0	-1.0	0.0	1.9	0.9	-0.1	-1.9	*-1.1*	-1.4	*-0.3*	-2.1	*0.1*	-0.7
Estonia	:	:	-2.3	-3.5	0.1	2.6	-0.2	*-0.2*	-2.2	*0.0*	-0.3	*-1.1*	0.5
Cyprus	:	:	-1.0	-3.9	0.8	3.2	-1.3	*-0.3*	-0.7	*-0.9*	-1.1	*-0.9*	-1.1
Latvia	:	:	-1.2	-3.9	-4.2	1.9	0.3	*1.0*	-3.7	*-2.1*	-0.2	*-2.6*	-1.3
Lithuania	:	:	1.0	-5.4	1.5	1.8	-1.8	*0.3*	0.3	*-1.6*	-1.4	*-2.4*	-0.3
Hungary	:	:	-1.9	2.9	-0.1	1.0	-0.4	*-1.2*	2.3	*-0.9*	-1.4	*-2.0*	-2.4
Malta	:	:	-1.2	4.6	-1.2	-0.8	0.5	*-1.4*	-2.2	*-0.5*	-1.9	*-1.0*	-1.3
Poland	:	:	:	:	:	:	:	*-0.6*	0.5	*-0.8*	1.8	*-1.3*	0.9
Slovenia	:	:	-1.6	0.4	-1.3	-1.0	0.6	*0.0*	0.8	*-0.7*	-0.7	*-0.6*	-1.1
Slovakia	:	:	-0.1	-1.1	-0.1	-1.3	0.0	*2.1*	2.7	*-1.1*	-1.5	*-2.3*	-1.8
Sweden	-0.1	-2.1	1.0	3.2	-0.6	-1.0	-1.4	*0.4*	0.2	*-0.3*	0.3	*-0.3*	0.1
United Kingdom	0.1	-1.0	0.1	1.3	-0.7	0.3	0.0	*0.8*	1.5	*0.0*	0.1	*-0.3*	-0.2
EU-25	:	:	-0.2	0.5	-0.3	0.0	-0.9	*-0.1*	-0.1	*-0.3*	-0.6	*-0.3*	-0.7
EU-15	-0.2	-0.4	-0.1	0.5	-0.2	0.2	-0.8	*0.0*	-0.1	*-0.3*	-0.6	*-0.2*	-0.7
Bulgaria	:	:	-2.7	0.8	-3.4	0.4	-1.7	*1.9*	1.5	*-0.8*	0.2	*-0.9*	0.1
Romania	:	-5.5	3.8	-1.1	-5.6	-2.2	-1.7	*1.3*	0.3	*1.5*	-0.6	*1.3*	-0.7
USA	-0.1	-0.4	0.5	-0.7	-0.1	0.3	-1.0	*0.3*	0.0	*-0.5*	-0.5	*-0.1*	0.3
Japan	-0.4	0.5	-0.4	-0.3	-1.5	-2.1	-2.5	*-1.4*	-0.4	*-1.6*	-1.2	*-2.4*	-1.4

[1] Nominal unit labour costs divided by GDP price deflator.

TABLE 26 : Total population (percentage change on preceding year, 1961-2007)

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	0.3	0.3	0.2	0.3	0.5	0.4	0.4	*0.3*	0.3	*0.2*	0.2	*0.2*	0.2
Germany	0.4	0.7	0.1	0.2	0.2	0.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0
Greece	0.7	0.9	0.5	0.3	0.3	0.3	0.4	*0.3*	0.2	*0.3*	0.3	*0.3*	0.3
Spain	0.8	0.2	0.4	1.1	1.5	1.7	1.6	*1.5*	1.4	*1.4*	1.2	*1.4*	0.9
France	0.7	0.4	0.4	0.6	0.6	0.6	0.6	*0.5*	0.5	*0.5*	0.6	*0.5*	0.5
Ireland	0.7	0.5	1.1	1.5	1.7	1.6	1.7	*2.1*	2.1	*1.8*	2.2	*1.6*	1.6
Italy	0.4	0.0	0.0	0.1	0.3	0.8	1.0	*0.6*	0.6	*0.1*	0.2	*0.1*	0.2
Luxembourg	0.6	1.4	1.4	0.7	1.1	0.9	0.7	*0.7*	0.7	*0.6*	0.6	*0.6*	0.6
Netherlands	0.9	0.7	0.6	0.8	0.6	0.5	0.3	*0.3*	0.2	*0.2*	0.1	*0.2*	0.0
Austria	0.3	0.7	0.2	0.4	0.5	0.4	0.7	*0.6*	0.6	*0.5*	0.5	*0.4*	0.4
Portugal	0.4	0.1	0.4	0.7	0.7	0.7	0.6	*0.6*	0.6	*0.6*	0.6	*0.6*	0.6
Finland	0.4	0.5	0.3	0.2	0.3	0.2	0.3	*0.2*	0.3	*0.2*	0.2	*0.2*	0.2
Euro area	0.6	0.4	0.3	0.5	0.6	0.6	0.6	*0.5*	0.5	*0.4*	0.4	*0.4*	0.3
Czech Republic	0.2	-0.1	-0.1	-0.5	-0.2	0.0	0.1	*0.1*	0.2	*0.1*	0.1	*0.1*	0.1
Denmark	0.4	0.3	0.4	0.4	0.4	0.3	0.2	*0.2*	0.1	*0.1*	0.1	*0.1*	0.1
Estonia	0.9	-1.7	-1.0	-0.4	-0.4	-0.4	-0.3	*-0.3*	0.2	*-0.3*	-0.4	*-0.3*	-0.3
Cyprus	0.0	2.3	1.3	1.1	1.3	1.7	2.4	*1.1*	2.5	*1.1*	2.0	*1.1*	2.0
Latvia	0.8	-1.4	-0.9	-0.8	-0.7	-0.6	-0.5	*-0.2*	-0.8	*-0.2*	-0.3	*-0.2*	-0.3
Lithuania	1.0	-0.4	-0.7	-0.5	-0.3	-0.4	-0.5	*-0.5*	-1.0	*-0.2*	-0.2	*-0.1*	-0.1
Hungary	0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.2	*-0.2*	-0.2	*-0.2*	-0.2	*-0.2*	-0.2
Malta	0.3	1.0	0.6	0.8	0.7	0.6	0.7	*0.5*	0.7	*0.5*	1.0	*0.5*	0.9
Poland	0.8	0.3	-0.1	-0.5	0.0	-0.1	-0.1	*-0.1*	0.0	*-0.1*	-0.1	*-0.1*	-0.1
Slovenia	0.8	-0.1	0.0	0.1	0.2	0.1	0.0	*0.0*	0.2	*0.0*	0.2	*0.0*	0.2
Slovakia	0.9	0.2	0.1	0.0	-0.4	0.0	0.1	*0.0*	0.1	*0.1*	0.1	*0.1*	0.1
Sweden	0.4	0.6	0.1	0.3	0.3	0.4	0.4	*0.4*	0.4	*0.4*	0.4	*0.4*	0.4
United Kingdom	0.3	0.2	0.2	0.7	0.5	0.4	0.5	*0.6*	0.6	*0.5*	0.4	*0.5*	0.4
EU-25	:	0.4	0.2	0.3	0.4	0.5	0.5	*0.4*	0.4	*0.3*	0.3	*0.3*	0.3
EU-15	0.5	0.4	0.3	0.5	0.5	0.6	0.6	*0.5*	0.5	*0.4*	0.4	*0.4*	0.3
Bulgaria	0.3	-0.7	-0.6	-3.1	-0.6	-0.6	-0.5	*-0.3*	-0.3	*-0.3*	-0.3	*-0.3*	-0.3
Romania	0.8	-0.5	-0.2	-0.1	-2.7	-0.3	-0.3	*-0.2*	-0.1	*-0.4*	-0.2	*-0.5*	-0.3
USA	1.1	1.3	1.2	1.0	1.0	1.0	1.0	*0.9*	0.9	*1.0*	1.0	*1.0*	1.0
Japan	0.9	0.3	0.2	0.3	0.1	0.1	0.1	*0.0*	-0.1	*0.0*	-0.1	*0.0*	-0.1

TABLE 27 : Total employment (percentage change on preceding year, 1961-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	0.3	0.1	1.1	1.4	-0.1	-0.1	0.6	*0.7*	0.9	*0.6*	0.9	*0.7*	0.9
Germany	0.5	0.0	0.8	0.4	-0.6	-1.0	0.4	*0.3*	-0.2	*0.5*	0.3	*0.4*	0.3
Greece	0.3	0.6	0.6	-0.3	0.1	1.3	2.9	*1.2*	1.4	*1.3*	1.3	*1.3*	1.3
Spain	0.3	-0.4	3.8	3.2	2.4	2.5	2.6	*3.0*	3.1	*2.4*	2.7	*2.2*	2.2
France	0.4	-0.4	1.2	1.9	0.9	0.1	-0.1	*0.1*	0.2	*0.5*	0.4	*0.9*	0.6
Ireland	0.2	1.7	5.7	3.0	1.8	2.0	3.1	*3.8*	4.7	*2.2*	2.9	*2.0*	2.4
Italy	0.4	-0.8	0.8	1.8	1.3	0.6	0.0	*0.5*	-0.4	*0.6*	0.2	*0.6*	0.2
Luxembourg	1.2	2.8	4.1	5.5	2.9	1.8	2.3	*3.0*	2.9	*3.2*	3.0	*3.4*	3.0
Netherlands	0.7	0.8	2.6	1.3	-0.3	-0.9	-1.6	*-0.6*	-0.2	*0.5*	0.8	*1.0*	0.8
Austria	0.2	0.2	1.0	0.6	-0.1	0.1	0.0	*0.4*	0.6	*0.6*	0.6	*0.6*	0.9
Portugal	0.1	-0.6	1.9	1.7	0.4	-0.4	0.1	*0.1*	0.0	*0.2*	0.2	*0.4*	0.3
Finland	0.4	-3.7	2.3	1.5	0.9	0.0	0.3	*1.3*	1.6	*0.7*	1.4	*0.7*	0.8
Euro area	0.4	-0.2	1.5	1.5	0.7	0.3	0.6	*1.0*	0.7	*1.2*	0.9	*1.1*	0.8
Czech Republic	:	:	-1.4	0.4	1.5	-1.4	0.1	*0.5*	0.9	*0.4*	0.6	*0.3*	0.5
Denmark	0.6	-0.1	1.0	0.8	-0.1	-1.2	0.0	*0.6*	0.7	*0.5*	0.4	*0.4*	0.1
Estonia	:	-5.3	-2.4	0.8	1.6	0.8	0.1	*0.4*	1.8	*0.6*	0.8	*0.8*	0.6
Cyprus	:	:	1.3	2.2	1.1	1.1	1.5	*1.5*	1.5	*1.3*	1.5	*1.3*	1.5
Latvia	:	-7.2	-0.5	2.2	1.6	1.7	1.1	*0.9*	1.5	*0.7*	1.0	*0.6*	0.7
Lithuania	:	-2.4	-1.1	-3.3	4.0	2.3	-0.1	*1.6*	2.4	*0.7*	0.9	*0.6*	0.6
Hungary	:	:	1.2	0.3	0.0	1.3	-0.7	*0.4*	0.0	*0.6*	0.1	*0.3*	0.5
Malta	:	1.5	0.8	2.1	-0.7	-0.7	1.4	*0.6*	0.6	*0.8*	0.3	*0.8*	0.5
Poland	:	:	:	:	:	:	:	*1.0*	2.3	*1.2*	2.2	*1.2*	1.8
Slovenia	:	:	-0.4	0.5	1.5	-0.2	0.4	*0.3*	0.7	*0.2*	0.6	*0.3*	0.4
Slovakia	:	:	-0.8	0.6	-0.5	1.8	-0.3	*1.8*	2.1	*0.9*	1.2	*0.8*	0.9
Sweden	0.7	-2.1	0.8	1.9	0.2	-0.3	-0.5	*0.5*	0.7	*1.1*	1.6	*0.7*	1.0
United Kingdom	0.4	-0.8	1.3	0.8	0.8	1.0	1.0	*0.6*	1.0	*0.4*	0.4	*0.6*	0.6
EU-25	:	:	1.2	1.0	0.4	0.3	0.6	*0.9*	0.8	*1.0*	0.9	*1.0*	0.8
EU-15	0.4	-0.3	1.5	1.4	0.6	0.4	0.6	*0.9*	0.7	*1.0*	0.8	*1.0*	0.8
Bulgaria	:	-4.3	-1.9	-0.4	0.4	6.3	2.2	*1.8*	2.0	*1.0*	1.0	*0.7*	0.8
Romania	:	-2.6	-1.9	-0.8	-2.7	-0.1	0.4	*1.6*	0.2	*0.5*	0.2	*0.0*	0.2
USA	1.9	1.0	2.1	0.0	-0.3	0.9	1.1	*1.7*	1.8	*1.2*	1.4	*0.6*	0.6
Japan	1.0	0.8	0.0	-0.6	-1.4	-0.3	0.2	*0.3*	0.4	*0.2*	0.4	*0.0*	0.3

TABLE 28 : Number of unemployed (as a percentage of civilian labour force, 1964-2007) [1]

	average	5-year average						2005		2006		2007	
	1964-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	5.7	8.3	8.7	6.6	7.5	8.2	8.4	*8.0*	8.4	*7.9*	8.0	*7.8*	7.6
Germany	3.2	7.2	8.3	7.4	8.2	9.0	9.5	*9.5*	9.5	*9.3*	9.4	*9.1*	9.2
Greece	4.5	8.3	10.7	10.8	10.3	9.7	10.5	*10.4*	9.8	*10.0*	9.5	*9.7*	9.1
Spain	8.5	16.8	14.6	10.3	11.1	11.1	10.6	*9.2*	9.2	*8.5*	8.7	*8.1*	8.3
France	5.3	10.6	10.8	8.4	8.9	9.5	9.6	*9.6*	9.5	*9.3*	9.4	*8.9*	9.3
Ireland	9.7	14.5	7.8	4.0	4.5	4.7	4.5	*4.3*	4.3	*4.4*	4.4	*4.5*	4.4
Italy	6.7	9.8	11.0	9.1	8.6	8.4	8.0	*7.7*	7.7	*7.6*	7.7	*7.5*	7.7
Luxembourg	1.1	2.5	2.6	2.1	2.8	3.7	4.8	*5.3*	5.3	*5.6*	5.7	*5.8*	5.8
Netherlands	4.9	6.1	4.1	2.2	2.8	3.7	4.6	*5.1*	4.7	*4.9*	4.3	*4.2*	3.9
Austria	2.1	3.7	4.1	3.6	4.2	4.3	4.8	*5.0*	5.2	*5.0*	5.2	*5.1*	5.2
Portugal	5.2	5.7	5.5	4.0	5.0	6.3	6.7	*7.4*	7.6	*7.7*	8.1	*7.8*	8.3
Finland	3.9	13.3	11.7	9.1	9.1	9.0	8.8	*8.4*	8.4	*7.8*	7.9	*7.2*	7.6
Euro area	5.3	9.5	9.8	7.9	8.3	8.7	8.9	*8.6*	8.6	*8.4*	8.4	*8.1*	8.2
Czech Republic	:	:	6.4	8.0	7.3	7.8	8.3	*7.9*	7.9	*7.5*	7.7	*7.4*	7.6
Denmark	4.1	8.1	5.2	4.5	4.6	5.4	5.5	*4.6*	4.8	*4.2*	4.0	*4.0*	3.8
Estonia	:	5.8	10.6	12.4	10.3	10.0	9.7	*7.2*	7.9	*6.0*	7.0	*5.4*	6.3
Cyprus	:	:	4.6	3.9	3.6	4.1	4.7	*4.9*	5.3	*4.8*	5.4	*4.6*	5.4
Latvia	:	9.8	15.6	12.9	12.2	10.5	10.4	*9.7*	9.0	*9.4*	8.4	*9.3*	7.9
Lithuania	:	9.1	13.9	16.5	13.5	12.4	11.4	*9.0*	8.2	*8.1*	7.1	*7.5*	6.5
Hungary	:	:	8.1	5.7	5.8	5.9	6.1	*7.0*	7.2	*6.9*	7.7	*6.7*	7.6
Malta	:	5.0	6.4	7.6	7.5	7.6	7.3	*7.2*	7.3	*7.1*	7.4	*7.1*	7.4
Poland	:	:	12.5	18.2	19.9	19.6	19.0	*17.8*	17.7	*16.8*	16.2	*15.5*	15.2
Slovenia	:	:	7.0	6.2	6.3	6.7	6.3	*5.8*	6.3	*5.7*	6.3	*5.6*	6.3
Slovakia	:	:	14.2	19.3	18.7	17.6	18.2	*16.7*	16.4	*16.2*	15.5	*15.8*	14.8
Sweden	2.2	7.2	8.0	4.9	4.9	5.6	6.3	*6.8*	7.8	*5.9*	7.0	*5.6*	6.7
United Kingdom	5.4	9.3	6.4	5.0	5.1	4.9	4.7	*4.6*	4.7	*4.9*	5.0	*4.7*	4.8
EU-25	:	:	9.5	8.4	8.8	9.0	9.1	*8.7*	8.7	*8.5*	8.5	*8.1*	8.2
EU-15	5.2	9.4	9.1	7.3	7.6	8.0	8.1	*7.9*	7.9	*7.7*	7.8	*7.4*	7.6
Bulgaria	:	10.5	12.2	19.5	18.1	13.7	12.0	*10.7*	9.9	*9.9*	9.0	*9.4*	8.3
Romania	:	:	5.4	6.6	7.5	6.8	7.6	*6.5*	7.7	*6.1*	7.8	*5.9*	7.6
USA	6.1	6.5	4.6	4.8	5.8	6.0	5.5	*5.1*	5.1	*5.0*	4.8	*5.3*	5.1
Japan	1.9	2.6	4.1	5.0	5.4	5.3	4.7	*4.5*	4.4	*4.2*	4.3	*4.2*	4.3

[1] Series following Eurostat definition, based on the labour force survey.

TABLE 29 : Nominal bilateral exchange rates against Ecu/euro (1970-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	44.45	40.50	40.23	40.34	:	:	:	*:*	:	*:*	:	*:*	:
Germany	2.64	1.96	1.95	1.96	:	:	:	*:*	:	*:*	:	*:*	:
Greece	80.44	266.37	321.61	340.75	:	:	:	*:*	:	*:*	:	*:*	:
Spain	102.29	146.41	165.32	166.39	:	:	:	*:*	:	*:*	:	*:*	:
France	6.17	6.71	6.57	6.56	:	:	:	*:*	:	*:*	:	*:*	:
Ireland	0.64	0.79	0.78	0.79	:	:	:	*:*	:	*:*	:	*:*	:
Italy	1137.90	1803.04	1940.89	1936.27	:	:	:	*:*	:	*:*	:	*:*	:
Luxembourg	44.45	40.50	40.23	40.34	:	:	:	*:*	:	*:*	:	*:*	:
Netherlands	2.83	2.20	2.20	2.20	:	:	:	*:*	:	*:*	:	*:*	:
Austria	18.83	13.80	13.73	13.76	:	:	:	*:*	:	*:*	:	*:*	:
Portugal	84.58	186.94	199.40	200.48	:	:	:	*:*	:	*:*	:	*:*	:
Finland	4.77	5.88	5.92	5.95	:	:	:	*:*	:	*:*	:	*:*	:
Euro area	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Czech Republic	:	34.89	35.78	34.07	30.80	31.85	31.89	*29.88*	29.78	*29.83*	28.52	*30.03*	28.32
Denmark	7.65	7.64	7.45	7.45	7.43	7.43	7.44	*7.45*	7.45	*7.46*	7.46	*7.46*	7.46
Estonia	:	:	15.61	15.65	15.65	15.65	15.65	*15.65*	15.65	*15.65*	15.65	*15.65*	15.65
Cyprus	0.48	0.58	0.58	0.58	0.58	0.58	0.58	*0.58*	0.58	*0.59*	0.58	*0.59*	0.59
Latvia	:	:	0.64	0.56	0.58	0.64	0.67	*0.70*	0.70	*0.70*	0.70	*0.70*	0.70
Lithuania	:	:	4.41	3.58	3.46	3.45	3.45	*3.45*	3.45	*3.45*	3.45	*3.45*	3.45
Hungary	:	142.43	231.76	256.59	242.96	253.62	251.66	*248.09*	248.05	*252.84*	263.20	*256.16*	267.08
Malta	0.43	0.43	0.43	0.40	0.41	0.43	0.43	*0.43*	0.43	*0.43*	0.43	*0.43*	0.43
Poland	:	2.60	3.86	3.67	3.86	4.40	4.53	*4.03*	4.02	*3.95*	3.91	*3.98*	3.93
Slovenia	:	116.46	187.96	217.98	225.98	233.85	239.09	*239.57*	239.57	*239.64*	239.61	*239.64*	239.64
Slovakia	:	:	40.66	43.30	42.69	41.49	40.02	*38.71*	38.60	*39.41*	38.20	*40.07*	38.46
Sweden	6.05	8.53	8.67	9.26	9.16	9.12	9.12	*9.28*	9.28	*9.50*	9.35	*9.53*	9.34
United Kingdom	0.59	0.76	0.69	0.62	0.63	0.69	0.68	*0.68*	0.68	*0.68*	0.69	*0.69*	0.70
EU-25	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
EU-15	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Bulgaria	:	0.05	1.60	1.95	1.95	1.95	1.95	*:*	1.96	*:*	1.96	*:*	1.96
Romania	:	0.13	1.17	2.60	3.13	3.76	4.05	*:*	3.62	*:*	3.56	*:*	3.73
USA	1.11	1.24	1.10	0.90	0.95	1.13	1.24	*1.25*	1.24	*1.21*	1.22	*1.22*	1.22
Japan	262.44	141.04	128.47	108.68	118.06	130.97	134.44	*136.72*	136.85	*137.33*	142.45	*135.71*	141.13

TABLE 30 : Nominal effective exchange rates to rest of a group [1] of industrialised countries (percentage change on preceding year, 1970-2007)

	average	5-year average						2005		2006		2007	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	:	:	-1.6	1.2	1.2	4.5	1.1	*-0.2*	-0.2	*-0.4*	0.0	*0.3*	0.2
Germany	:	:	-1.5	1.3	1.7	5.9	1.7	*-0.5*	-0.6	*-0.5*	0.0	*0.4*	0.2
Greece	:	:	0.3	3.1	2.5	5.0	1.4	*-0.7*	-0.8	*-0.2*	-0.1	*0.5*	0.4
Spain	:	:	-1.1	1.4	1.4	4.4	1.1	*-0.3*	-0.3	*-0.4*	0.0	*0.3*	0.3
France	:	:	-1.1	1.3	1.7	5.3	1.4	*-0.2*	-0.3	*-0.4*	0.1	*0.3*	0.2
Ireland	:	:	-1.5	1.0	2.0	7.3	2.3	*0.0*	0.0	*-0.8*	-0.1	*0.4*	0.3
Italy	:	:	1.9	1.7	2.1	5.7	1.7	*-0.5*	-0.6	*-0.5*	-0.1	*0.4*	0.3
Luxembourg	:	:	-1.6	1.2	1.2	4.5	1.1	*-0.2*	-0.2	*-0.4*	0.0	*0.3*	0.2
Netherlands	:	:	-1.5	1.1	1.1	3.9	0.9	*-0.2*	-0.3	*-0.3*	0.1	*0.3*	0.2
Austria	:	:	-0.4	0.8	1.0	3.7	1.0	*-0.6*	-0.6	*-0.2*	0.0	*0.3*	0.2
Portugal	:	:	-1.1	0.7	0.9	3.5	0.9	*-0.1*	-0.2	*-0.3*	0.0	*0.2*	0.2
Finland	:	:	-1.8	2.0	1.6	5.4	1.6	*-0.3*	-0.3	*-0.4*	0.0	*0.3*	0.2
Euro area	:	:	-1.3	2.9	3.2	10.8	2.9	*-1.0*	-1.1	*-0.8*	0.0	*0.7*	0.5
Czech Republic	:	:	0.4	5.2	11.6	-0.3	0.4	*6.0*	6.3	*0.0*	4.4	*-0.4*	0.9
Denmark	:	:	-1.3	1.7	1.4	4.7	1.4	*-0.5*	-0.6	*-0.5*	0.0	*0.2*	0.1
Estonia	:	:	-0.8	1.7	0.6	3.2	0.9	*-0.1*	-0.1	*0.0*	0.1	*0.2*	0.1
Cyprus	:	:	6.8	2.2	1.9	4.2	0.9	*0.5*	0.4	*-1.7*	-1.2	*0.4*	0.3
Latvia	:	:	4.2	1.0	-3.0	-5.9	-2.7	*-4.5*	-4.6	*-1.3*	-0.9	*0.4*	0.3
Lithuania	:	:	8.7	4.6	5.1	5.0	1.1	*-0.3*	-0.4	*-0.2*	0.1	*0.2*	0.1
Hungary	:	:	-7.8	2.4	6.9	-1.2	1.8	*0.8*	0.8	*-2.1*	-6.0	*-1.0*	-1.2
Malta	:	:	-0.1	0.7	1.1	3.1	2.1	*-0.5*	-0.5	*-0.5*	0.4	*0.3*	0.2
Poland	:	:	-4.2	10.3	-4.3	-10.1	-2.2	*12.0*	12.1	*1.9*	2.7	*-0.6*	-0.2
Slovenia	:	:	-4.9	-4.3	-2.7	-0.6	-1.4	*-0.9*	-1.0	*-0.2*	-0.1	*0.3*	0.2
Slovakia	:	:	-0.7	-1.6	1.5	5.8	4.6	*2.3*	2.5	*-2.0*	0.7	*-1.4*	-0.5
Sweden	:	:	1.1	-7.7	2.4	6.2	2.1	*-2.3*	-2.3	*-3.0*	-0.9	*-0.2*	0.2
United Kingdom	:	:	5.4	-1.0	0.9	-3.9	4.5	*-1.1*	-1.2	*-0.7*	-1.8	*-0.7*	-0.9
EU-25	:	:	1.2	3.8	5.8	12.6	6.2	*-0.8*	-1.0	*-1.7*	-0.6	*0.5*	0.4
EU-15	:	:	1.0	2.1	4.1	11.2	5.0	*-1.9*	-2.1	*-1.4*	-0.7	*0.6*	0.3
Bulgaria	:	:	-44.2	6.9	3.2	4.7	1.2	*-1.0*	-1.1	*-0.2*	-0.2	*0.7*	0.6
Romania	:	:	-32.0	-20.6	-15.3	-13.8	-6.5	*11.5*	11.4	*-4.8*	1.6	*-5.9*	-4.1
USA	:	:	5.2	5.5	-0.9	-9.0	-6.5	*-2.2*	-2.0	*1.5*	1.4	*-0.4*	0.1
Japan	:	:	0.7	-9.1	-5.1	-0.3	1.6	*-2.1*	-2.3	*-2.1*	-4.8	*1.8*	1.4

[1] 35 countries : EUR24 (excl. LU), BG, RO, TR, CH, NR, US, CA, JP, AU, MX and NZ.

TABLE 31 : Relative unit labour costs, to rest of a group [1] of industrialised countries (nat. curr.) (percentage change on preceding year, 19 24.04.2006

	average	5-year average						2005		2006		2007	
	1963-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	:	:	-1.2	0.9	-0.1	-1.2	-0.7	*0.2*	0.5	*0.1*	-0.2	*:*	-0.3
Germany	:	:	-2.9	-2.9	-1.6	-1.2	-1.8	*-2.7*	-3.0	*-2.3*	-2.4	*:*	-2.7
Greece	:	:	-0.7	-5.3	2.8	-1.9	2.5	*1.4*	1.4	*1.5*	1.8	*:*	1.1
Spain	:	:	-0.1	-0.3	0.5	0.6	1.7	*0.8*	0.3	*1.6*	1.3	*:*	1.1
France	:	:	-1.8	-1.2	0.5	-0.4	-0.4	*-0.5*	0.1	*-0.1*	0.4	*:*	0.3
Ireland	:	:	-0.5	1.4	-1.0	1.2	3.2	*2.3*	3.1	*0.3*	1.4	*:*	0.6
Italy	:	:	-1.4	-0.4	1.4	2.4	1.4	*1.3*	0.5	*0.0*	-0.2	*:*	0.1
Luxembourg	:	:	-1.2	0.9	-0.1	-1.2	-0.7	*0.2*	0.5	*0.1*	-0.2	*:*	-0.3
Netherlands	:	:	-0.1	2.4	2.8	1.4	-0.8	*-1.4*	-1.1	*-1.7*	-0.8	*:*	-0.3
Austria	:	:	-2.9	-2.2	-1.3	-1.3	-0.8	*-0.5*	0.1	*0.4*	0.3	*:*	0.4
Portugal	:	:	1.9	2.1	1.7	1.7	0.3	*0.8*	0.7	*0.7*	0.4	*:*	0.1
Finland	:	:	-2.1	1.7	-1.3	-1.5	0.0	*0.7*	0.8	*-1.3*	-0.8	*:*	-1.0
Euro area	:	:	-4.2	-2.1	0.0	-0.2	-0.8	*-1.5*	-1.6	*-1.6*	-1.3	*:*	-1.5
Czech Republic	:	:	4.3	2.1	4.2	2.9	0.9	*-1.1*	-1.2	*0.6*	-0.9	*:*	-0.1
Denmark	:	:	-0.2	1.4	1.4	0.3	-0.3	*-0.4*	-0.4	*0.5*	-0.3	*:*	0.3
Estonia	:	:	4.3	-1.6	2.9	3.1	1.9	*2.5*	1.7	*1.9*	1.9	*:*	2.1
Cyprus	:	:	-8.1	-4.5	0.3	6.2	0.0	*0.0*	-0.2	*-0.4*	-0.5	*:*	-0.5
Latvia	:	:	1.7	-5.1	-2.7	3.6	6.3	*5.3*	3.3	*3.2*	5.5	*:*	3.3
Lithuania	:	:	4.1	-9.3	-0.4	-1.6	-0.1	*1.2*	4.0	*0.7*	1.1	*:*	0.4
Hungary	:	:	8.2	8.1	6.2	5.1	3.6	*0.5*	3.5	*0.5*	-0.2	*:*	-0.7
Malta	:	:	-1.4	4.6	-0.9	2.2	1.5	*-0.3*	-1.2	*1.0*	0.3	*:*	0.3
Poland	:	:	8.5	6.3	-4.7	-6.1	-2.7	*0.3*	0.7	*0.2*	1.3	*:*	1.3
Slovenia	:	:	2.9	5.5	4.1	2.6	3.0	*0.8*	0.2	*0.5*	0.2	*:*	0.1
Slovakia	:	:	2.1	-0.5	1.5	1.2	4.1	*3.6*	-0.1	*0.9*	1.5	*:*	0.1
Sweden	:	:	-0.3	2.0	-0.9	-0.7	-1.4	*-0.2*	-0.5	*0.1*	0.4	*:*	0.6
United Kingdom	:	:	0.4	0.6	0.4	1.5	1.3	*1.2*	1.7	*1.2*	0.8	*:*	0.7
EU-25	:	:	-5.1	-1.7	0.2	0.1	-0.4	*-1.4*	-1.3	*-1.4*	-1.2	*:*	-1.4
EU-15	:	:	-4.9	-2.1	0.0	0.2	-0.6	*-1.3*	-1.3	*-1.3*	-1.1	*:*	-1.3
Bulgaria	:	:	80.9	0.4	-4.0	-1.0	0.9	*2.3*	0.6	*2.4*	2.7	*:*	2.2
Romania	:	:	62.9	29.2	12.9	17.9	11.5	*11.5*	10.0	*8.4*	6.5	*:*	4.1
USA	:	:	-0.6	-1.2	-0.9	-0.3	0.7	*1.7*	1.1	*1.3*	0.6	*:*	0.6
Japan	:	:	-3.4	-4.1	-4.7	-5.3	-4.8	*-4.8*	-4.0	*-3.7*	-3.3	*:*	-2.8

[1] 35 countries : EUR24 (excl. LU), BG, RO, TR, CH, NR, US, CA, JP, AU, MX and NZ.

TABLE 32 : Real effective exchange rate : ulc relative to rest of a group [1] of industrialised countries (usd) (% change on preceding year, 1963-2007)

	average	5-year average						2005		2006		2007	
	1963-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	:	:	-2.8	2.1	1.1	3.2	0.4	*0.0*	0.2	*-0.3*	-0.2	*:*	-0.1
Germany	:	:	-4.4	-1.6	0.2	4.7	-0.2	*-3.2*	-3.6	*-2.8*	-2.4	*:*	-2.4
Greece	:	:	-0.4	-2.4	5.4	3.1	3.9	*0.6*	0.6	*1.3*	1.7	*:*	1.6
Spain	:	:	-1.2	1.1	1.9	5.0	2.9	*0.5*	0.0	*1.2*	1.3	*:*	1.4
France	:	:	-2.9	0.1	2.3	4.8	1.0	*-0.7*	-0.2	*-0.6*	0.5	*:*	0.6
Ireland	:	:	-2.0	2.4	1.0	8.6	5.6	*2.3*	3.1	*-0.5*	1.3	*:*	0.9
Italy	:	:	0.4	1.3	3.5	8.2	3.2	*0.8*	0.0	*-0.5*	-0.2	*:*	0.4
Luxembourg	:	:	-2.8	2.1	1.1	3.2	0.4	*0.0*	0.2	*-0.3*	-0.2	*:*	-0.1
Netherlands	:	:	-1.6	3.6	3.9	5.4	0.1	*-1.6*	-1.3	*-2.0*	-0.8	*:*	-0.1
Austria	:	:	-3.3	-1.4	-0.4	2.3	0.3	*-1.1*	-0.5	*0.1*	0.4	*:*	0.6
Portugal	:	:	0.7	2.8	2.6	5.3	1.1	*0.7*	0.5	*0.4*	0.4	*:*	0.3
Finland	:	:	-3.9	3.8	0.2	3.8	1.6	*0.4*	0.5	*-1.7*	-0.8	*:*	-0.8
Euro area	:	:	-5.5	0.7	3.2	10.6	2.1	*-2.5*	-2.7	*-2.4*	-1.3	*:*	-0.9
Czech Republic	:	:	4.7	7.4	16.3	2.6	1.3	*4.9*	5.0	*0.6*	3.5	*:*	0.9
Denmark	:	:	-1.5	3.2	2.8	4.9	1.1	*-0.9*	-1.0	*0.0*	-0.3	*:*	0.4
Estonia	:	:	3.5	0.1	3.5	6.4	2.9	*2.4*	1.6	*1.9*	2.0	*:*	2.2
Cyprus	:	:	-1.8	-2.4	2.2	10.7	0.8	*0.5*	0.3	*-2.1*	-1.7	*:*	-0.1
Latvia	:	:	6.0	-4.1	-5.6	-2.5	3.4	*0.5*	-1.4	*1.9*	4.6	*:*	3.6
Lithuania	:	:	13.2	-5.1	4.8	3.3	1.0	*0.9*	3.6	*0.5*	1.2	*:*	0.5
Hungary	:	:	-0.3	10.8	13.5	3.8	5.5	*1.3*	4.3	*-1.6*	-6.2	*:*	-1.9
Malta	:	:	-1.4	5.4	0.2	5.4	3.7	*-0.7*	-1.7	*0.5*	0.7	*:*	0.6
Poland	:	:	3.9	17.3	-8.7	-15.6	-4.8	*12.3*	12.9	*2.1*	4.0	*:*	1.1
Slovenia	:	:	-2.1	1.0	1.2	2.0	1.5	*-0.1*	-0.8	*0.2*	0.1	*:*	0.3
Slovakia	:	:	1.4	-2.1	3.0	7.0	8.8	*6.0*	2.4	*-1.1*	2.2	*:*	-0.5
Sweden	:	:	0.7	-5.9	1.6	5.5	0.6	*-2.5*	-2.8	*-2.9*	-0.5	*:*	0.8
United Kingdom	:	:	5.8	-0.4	1.4	-2.5	5.9	*0.1*	0.5	*0.5*	-1.0	*:*	-0.2
EU-25	:	:	-3.9	2.0	6.0	12.8	5.7	*-2.2*	-2.3	*-3.1*	-1.9	*:*	-1.1
EU-15	:	:	-3.9	-0.1	4.1	11.3	4.4	*-3.2*	-3.3	*-2.7*	-1.8	*:*	-0.9
Bulgaria	:	:	0.9	7.3	-1.0	3.6	2.1	*1.3*	-0.5	*2.3*	2.5	*:*	2.8
Romania	:	:	10.8	2.6	-4.4	1.7	4.2	*24.4*	22.5	*3.2*	8.2	*:*	-0.2
USA	:	:	4.5	4.3	-1.8	-9.3	-5.8	*-0.5*	-0.9	*2.8*	2.1	*:*	0.7
Japan	:	:	-2.7	-12.8	-9.6	-5.6	-3.3	*-6.8*	-6.3	*-5.7*	-7.9	*:*	-1.4

[1] 35 countries : EUR24 (excl. LU), BG, RO, TR, CH, NR, US, CA, JP, AU, MX and NZ.

TABLE 33 : Short term interest rates (1961-2005) 24.04.2006

	average	5-year average											
	1961-90	1991-95	1996-00	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	7.9	7.4	3.5	3.2	3.4	3.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Germany	6.2	7.1	3.5	3.3	3.3	3.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Greece	:	22.1	11.7	13.8	12.8	14.0	10.1	7.7	4.3	3.3	2.3	2.1	2.2
Spain	:	11.1	4.9	7.5	5.4	4.3	3.0	4.4	4.3	3.3	2.3	2.1	2.2
France	8.3	8.2	3.7	3.9	3.5	3.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Ireland	:	8.8	4.9	5.4	6.1	5.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Italy	10.0	11.0	5.5	8.7	6.8	4.9	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Luxembourg	7.9	7.4	3.5	3.2	3.4	3.5	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Netherlands	5.9	7.0	3.4	3.0	3.3	3.4	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Austria	:	7.0	3.6	3.3	3.5	3.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Portugal	:	13.6	5.0	7.4	5.7	4.3	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Finland	:	9.0	3.6	3.6	3.2	3.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2
Euro area	8.0	9.1	4.3	5.2	4.5	4.2	3.1	4.5	4.3	3.3	2.3	2.1	2.2
Czech Republic	:	:	10.9	12.0	16.0	14.3	6.9	5.4	5.2	3.5	2.3	2.4	2.0
Denmark	9.7	9.0	4.1	4.0	3.7	4.3	3.4	5.0	4.7	3.5	2.4	2.2	2.2
Estonia	:	:	8.8	8.1	8.6	13.9	7.8	5.7	5.3	3.9	2.9	2.5	2.4
Cyprus	:	:	:	:	:	:	6.3	6.4	5.9	4.4	3.9	4.7	4.3
Latvia	:	:	:	:	6.0	8.4	8.4	5.4	6.9	4.4	3.8	4.2	3.1
Lithuania	:	:	:	:	:	:	13.9	8.6	5.9	3.7	2.8	2.7	2.4
Hungary	:	:	17.8	24.3	20.4	17.9	15.1	11.4	10.9	9.2	8.5	11.5	6.9
Malta	:	:	5.1	5.0	5.1	5.4	5.2	4.9	4.9	4.0	3.3	2.9	3.2
Poland	:	:	19.8	21.4	23.7	20.4	14.7	18.8	16.1	9.0	5.7	6.2	5.3
Slovenia	:	:	:	:	:	10.3	8.6	10.9	10.9	8.0	6.8	4.7	4.0
Slovakia	:	:	15.8	11.9	21.8	21.1	15.7	8.6	7.8	7.8	6.2	4.7	2.9
Sweden	:	10.1	4.4	6.0	4.4	4.4	3.3	4.1	4.1	4.3	3.2	2.3	1.9
United Kingdom	9.7	7.9	6.4	6.1	6.9	7.4	5.6	6.2	5.0	4.1	3.7	4.6	4.8
EU-25	:	:	:	:	:	:	:	:	:	:	:	:	:
EU-15	8.4	8.9	4.6	5.4	4.9	4.7	3.5	4.7	4.4	3.5	2.6	2.5	2.6
Bulgaria	:	:	:	:	:	5.9	5.9	4.6	5.1	4.9	3.6	3.3	2.7
Romania	:	:	66.8	53.7	80.8	69.5	79.6	50.7	41.3	27.3	17.7	19.1	6.9
USA	6.8	4.8	5.8	5.5	5.8	5.6	5.4	6.5	3.8	1.8	1.2	1.6	3.6
Japan	:	3.7	0.5	0.6	0.6	0.7	0.2	0.3	0.2	0.1	0.1	0.1	0.1

TABLE 34 : Long term interest rates (1961-2005)

	average	5-year average											
	1961-90	1991-95	1996-00	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	8.5	8.1	5.5	6.5	5.8	4.8	4.8	5.6	5.1	5.0	4.2	4.2	3.4
Germany	7.5	7.3	5.2	6.2	5.6	4.6	4.5	5.3	4.8	4.8	4.1	4.0	3.4
Greece	:	:	9.1	14.5	9.9	8.5	6.3	6.1	5.3	5.1	4.3	4.3	3.6
Spain	:	11.1	6.0	8.7	6.4	4.8	4.7	5.5	5.1	5.0	4.1	4.1	3.4
France	9.4	7.8	5.3	6.3	5.6	4.6	4.6	5.4	4.9	4.9	4.1	4.1	3.4
Ireland	:	8.4	5.7	7.3	6.3	4.8	4.7	5.5	5.0	5.0	4.1	4.1	3.3
Italy	11.0	12.1	6.3	9.4	6.9	4.9	4.7	5.6	5.2	5.0	4.3	4.3	3.6
Luxembourg	:	7.5	5.4	6.3	5.6	4.7	4.7	5.5	4.9	4.7	4.0	4.2	3.4
Netherlands	7.5	7.4	5.3	6.2	5.6	4.6	4.6	5.4	5.0	4.9	4.1	4.1	3.4
Austria	:	7.5	5.4	6.3	5.7	4.7	4.7	5.6	5.1	5.0	4.2	4.2	3.4
Portugal	:	12.3	6.0	8.6	6.4	4.9	4.8	5.6	5.2	5.0	4.2	4.1	3.4
Finland	9.9	10.1	5.6	7.1	6.0	4.8	4.7	5.5	5.0	5.0	4.1	4.1	3.3
Euro area	9.1	9.1	5.7	7.4	6.1	4.8	4.7	5.4	5.0	4.9	4.1	4.1	3.4
Czech Republic	:	:	:	:	:	:	:	6.9	6.3	4.9	4.1	4.8	3.5
Denmark	12.0	8.3	5.8	7.2	6.3	4.9	4.9	5.6	5.1	5.1	4.3	4.3	3.4
Estonia	:	:	:	:	:	13.2	11.4	10.5	10.2	8.4	5.3	4.4	4.0
Cyprus	:	:	:	:	6.9	6.7	7.4	7.6	7.6	5.7	4.7	5.8	5.2
Latvia	:	:	:	:	:	:	:	:	7.6	5.4	4.9	4.9	3.9
Lithuania	:	:	:	:	:	:	:	:	8.2	6.1	5.3	4.5	3.7
Hungary	:	:	:	:	:	:	9.9	8.6	8.0	7.1	6.8	8.2	6.6
Malta	:	:	:	:	:	:	:	5.8	6.2	5.8	5.0	4.7	4.5
Poland	:	:	:	:	:	:	9.5	11.8	10.7	7.4	5.8	6.9	5.2
Slovenia	:	:	:	:	:	:	:	:	:	:	6.4	4.7	3.8
Slovakia	:	:	:	:	:	:	:	8.3	8.0	6.9	5.0	5.0	3.5
Sweden	9.1	9.8	6.0	8.0	6.6	5.0	5.0	5.4	5.1	5.3	4.6	4.4	3.4
United Kingdom	10.2	8.6	6.2	7.9	7.1	5.6	5.0	5.3	5.0	4.9	4.6	4.9	4.5
EU-25	:	:	:	:	:	:	:	:	:	:	:	:	:
EU-15	9.3	9.1	5.8	7.5	6.3	4.9	4.7	5.4	5.0	4.9	4.2	4.3	3.6
Bulgaria	:	:	:	:	:	:	:	:	:	8.3	6.4	5.3	4.0
Romania	:	:	:	:	:	:	:	:	:	:	:	:	7.9
USA	7.4	7.0	6.0	6.5	6.5	5.3	5.6	6.0	5.0	4.6	4.0	4.3	4.3
Japan	:	4.7	2.0	3.0	2.2	1.3	1.8	1.8	1.3	1.3	1.0	1.5	1.4

TABLE 35 : Total expenditure, general government (as a percentage of GDP, 1970-2007) [1] **24.04.2006**

	average	5-year average						2005		2006		2007	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	51.4	52.8	50.5	49.0	49.8	51.1	49.4	*49.8*	50.0	*49.3*	49.6	*48.8*	49.4
Germany	44.8	47.1	47.8	47.6	48.1	48.4	46.8	*47.6*	46.7	*47.0*	46.1	*46.3*	45.5
Greece	33.2	47.6	49.9	49.8	48.9	48.9	48.9	*47.4*	46.3	*45.4*	44.9	*43.4*	44.9
Spain	31.0	44.4	40.5	38.5	38.7	38.3	38.8	*38.8*	38.2	*39.1*	38.3	*39.6*	38.5
France	44.5	52.3	53.0	51.6	52.6	53.3	53.2	*54.2*	53.9	*54.2*	54.0	*53.9*	53.8
Ireland	42.1	39.2	35.2	33.3	33.4	33.4	33.7	*35.8*	34.5	*35.0*	34.9	*34.4*	35.1
Italy	43.1	53.1	49.0	48.0	47.2	48.2	47.7	*49.2*	48.1	*48.8*	48.1	*48.9*	48.4
Luxembourg	:	:	40.0	38.2	41.4	42.1	43.2	*46.3*	44.3	*46.1*	44.0	*45.9*	43.8
Netherlands	49.3	50.9	45.5	45.3	46.2	47.0	46.4	*48.8*	45.7	*49.5*	47.7	*49.5*	47.1
Austria	45.2	52.1	53.2	50.7	50.5	50.8	49.9	*50.0*	49.5	*49.4*	48.6	*48.7*	48.2
Portugal	31.1	40.2	42.9	44.4	44.2	45.8	46.4	*47.7*	47.8	*47.8*	48.0	*48.0*	48.0
Finland	38.9	58.6	53.9	48.9	48.8	49.9	50.1	*51.8*	50.5	*51.2*	49.9	*50.7*	49.6
Euro area	43.5	49.7	48.5	47.4	47.6	48.1	47.5	*48.3*	47.5	*48.0*	47.4	*47.7*	47.1
Czech Republic	:	:	42.3	44.5	46.7	47.3	44.3	*45.0*	43.7	*45.2*	44.1	*44.7*	43.9
Denmark	49.4	58.4	56.1	53.7	54.5	54.6	54.4	*54.6*	52.6	*54.1*	50.8	*53.6*	49.8
Estonia	:	:	40.4	37.1	36.8	36.7	36.4	*39.6*	35.9	*40.8*	35.8	*38.8*	35.9
Cyprus	:	:	:	38.9	40.6	45.3	43.8	*44.1*	44.7	*43.3*	43.9	*42.9*	43.8
Latvia	:	:	38.6	35.8	35.6	34.6	35.9	*36.4*	36.2	*36.8*	37.1	*36.8*	37.1
Lithuania	:	:	41.8	35.1	34.3	33.2	33.4	*34.8*	33.7	*34.0*	32.6	*32.7*	31.7
Hungary	:	:	:	48.2	52.0	49.8	49.5	*49.5*	50.6	*48.3*	49.8	*47.6*	49.2
Malta	:	:	:	43.2	44.3	49.4	48.5	*50.7*	47.5	*49.2*	45.3	*47.8*	43.4
Poland	:	:	45.1	43.7	44.2	44.6	42.5	*45.0*	43.3	*45.0*	44.6	*44.6*	43.7
Slovenia	:	:	:	49.0	48.0	48.1	47.6	*47.2*	47.3	*47.0*	47.3	*46.3*	47.0
Slovakia	:	:	60.1	43.3	43.3	39.4	38.9	*41.2*	36.8	*39.3*	35.7	*38.3*	34.6
Sweden	54.9	64.6	60.8	56.6	57.7	57.9	56.5	*56.9*	56.2	*56.8*	55.9	*56.3*	55.5
United Kingdom	41.5	42.3	39.7	40.2	40.9	42.5	43.2	*44.8*	44.8	*45.1*	45.2	*45.3*	45.5
EU-25	:	:	:	46.3	46.8	47.5	47.0	*47.9*	47.2	*47.7*	47.1	*47.5*	46.9
EU-15	43.7	49.3	47.6	46.4	46.8	47.6	47.1	*48.1*	47.4	*47.9*	47.3	*47.7*	47.1
Bulgaria	:	:	:	:	43.2	44.0	43.6	*:*	43.0	*:*	39.1	*:*	40.7
Romania	:	:	:	42.2	38.7	37.9	37.4	*:*	20.0	*:*	19.0	*:*	19.2
USA	34.1	36.2	33.4	33.5	34.4	34.8	34.3	*34.5*	34.5	*34.6*	34.7	*34.5*	35.1
Japan	28.6	33.4	40.1	40.3	40.7	40.3	39.2	*38.0*	39.5	*37.5*	38.8	*36.9*	38.5

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards. Total expenditure includes one-off proceeds relative to UMTS licences (see note 10 on concepts and sources).

TABLE 36 : Total revenue, general government (as a percentage of GDP, 1970-2007) [1]

	average	5-year average						2005		2006		2007	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	44.8	47.0	49.1	49.7	49.8	51.2	49.4	*49.8*	50.1	*49.0*	49.3	*48.2*	48.5
Germany	43.0	44.1	46.1	44.7	44.3	44.4	43.2	*43.7*	43.4	*43.2*	43.1	*43.0*	43.0
Greece	27.5	36.1	44.7	44.9	43.9	43.2	42.0	*43.7*	41.8	*41.6*	41.9	*39.6*	41.3
Spain	28.8	39.0	37.9	38.0	38.4	38.3	38.7	*39.0*	39.3	*39.2*	39.3	*39.2*	38.8
France	43.3	47.8	50.4	50.0	49.5	49.2	49.6	*50.9*	51.0	*50.8*	51.0	*50.3*	50.7
Ireland	34.5	37.1	37.2	34.0	33.0	33.6	35.2	*35.4*	35.5	*34.6*	35.1	*34.2*	34.7
Italy	34.0	44.3	46.0	44.9	44.4	44.8	44.3	*44.9*	44.0	*44.6*	44.0	*44.4*	43.8
Luxembourg	:	:	43.4	44.1	43.4	42.2	42.1	*44.0*	42.4	*44.1*	42.2	*43.7*	42.3
Netherlands	46.5	47.5	45.4	45.1	44.2	43.9	44.5	*47.0*	45.4	*47.6*	46.5	*48.0*	46.4
Austria	43.4	48.3	50.9	50.7	50.0	49.2	48.8	*48.2*	48.0	*47.5*	46.6	*47.3*	46.8
Portugal	26.8	35.3	39.5	40.1	41.4	42.9	43.2	*41.7*	41.8	*42.8*	43.0	*43.2*	43.1
Finland	42.7	53.2	55.0	54.0	52.9	52.4	52.4	*53.7*	53.1	*53.0*	52.7	*52.6*	52.1
Euro area	40.2	44.8	46.4	45.6	45.1	45.1	44.7	*45.5*	45.1	*45.2*	45.0	*44.9*	44.8
Czech Republic	:	:	38.8	38.7	39.9	40.7	41.4	*41.8*	41.1	*41.5*	40.8	*41.4*	40.4
Denmark	49.6	56.1	57.3	56.3	55.7	55.6	57.2	*58.2*	57.4	*57.1*	54.7	*56.3*	53.8
Estonia	:	:	39.4	37.4	37.8	39.1	37.9	*40.7*	37.5	*41.4*	37.3	*39.2*	36.8
Cyprus	:	:	:	36.6	36.1	39.1	39.7	*41.4*	42.3	*40.5*	41.8	*40.4*	41.8
Latvia	:	33.3	37.1	33.7	33.4	33.5	34.9	*35.2*	36.4	*35.3*	36.1	*35.3*	36.1
Lithuania	:	:	36.9	33.1	32.9	31.9	31.9	*32.8*	33.1	*32.2*	32.0	*31.2*	30.7
Hungary	:	:	:	44.7	43.7	43.4	44.1	*43.4*	44.5	*41.6*	43.1	*40.7*	42.2
Malta	:	:	:	36.8	38.7	39.2	43.4	*46.5*	44.2	*46.1*	42.4	*45.4*	40.2
Poland	:	:	41.7	40.0	41.0	39.9	38.6	*41.4*	40.8	*41.4*	41.6	*41.2*	40.7
Slovenia	:	:	:	44.7	45.4	45.2	45.3	*45.4*	45.5	*45.1*	45.5	*44.7*	45.3
Slovakia	:	:	52.9	36.8	35.7	35.6	35.9	*37.0*	33.9	*36.3*	33.0	*35.8*	32.5
Sweden	55.4	57.3	61.9	59.1	57.5	58.0	58.3	*58.2*	59.1	*57.6*	58.2	*57.4*	57.7
United Kingdom	39.3	36.6	39.4	40.9	39.3	39.3	39.9	*41.4*	41.3	*41.8*	42.2	*42.2*	42.7
EU-25	:	:	:	45.1	44.4	44.5	44.3	*45.2*	44.9	*45.0*	44.9	*44.8*	44.7
EU-15	40.9	44.3	46.0	45.3	44.6	44.7	44.5	*45.4*	45.1	*45.2*	45.1	*45.0*	45.0
Bulgaria	:	:	:	:	43.2	44.3	45.5	*:*	46.2	*:*	42.1	*:*	42.5
Romania	:	:	:	37.6	36.7	36.1	36.0	*:*	19.6	*:*	16.7	*:*	13.8
USA	30.7	31.4	33.4	33.1	30.6	29.8	29.6	*30.6*	30.7	*29.9*	30.7	*29.6*	30.7
Japan	27.7	32.6	33.0	33.9	32.6	32.3	32.9	*31.5*	32.9	*31.3*	33.0	*31.1*	33.1

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 37 : Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1970-2007) [1] 24.04.2006

	average	5-year average						2005		2006		2007	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	-6.6	-5.8	-1.4	0.6	0.0	0.1	0.0	*0.0*	0.1	*-0.3*	-0.3	*-0.5*	-0.9
Germany	-1.9	-3.0	-1.7	-2.8	-3.7	-4.0	-3.7	*-3.9*	-3.3	*-3.7*	-3.1	*-3.3*	-2.5
Greece	-5.7	-11.5	-5.2	-4.9	-4.9	-5.8	-6.9	*-3.7*	-4.5	*-3.8*	-3.0	*-3.8*	-3.6
Spain	-2.3	-5.4	-2.6	-0.5	-0.3	0.0	-0.1	*0.2*	1.1	*0.1*	0.9	*-0.4*	0.4
France	-1.2	-4.5	-2.6	-1.5	-3.2	-4.2	-3.7	*-3.2*	-2.9	*-3.5*	-3.0	*-3.5*	-3.1
Ireland	-7.6	-2.1	2.1	0.8	-0.4	0.2	1.5	*-0.4*	1.0	*-0.3*	0.1	*-0.1*	-0.4
Italy	-8.9	-8.9	-3.0	-3.1	-2.9	-3.4	-3.4	*-4.3*	-4.1	*-4.2*	-4.1	*-4.6*	-4.5
Luxembourg	:	1.6	3.4	5.9	2.0	0.2	-1.1	*-2.3*	-1.9	*-2.0*	-1.8	*-2.2*	-1.5
Netherlands	-3.1	-3.3	-0.2	-0.2	-2.0	-3.1	-1.9	*-1.8*	-0.3	*-1.9*	-1.2	*-1.5*	-0.7
Austria	-1.7	-3.9	-2.3	0.0	-0.5	-1.5	-1.1	*-1.9*	-1.5	*-1.8*	-1.9	*-1.4*	-1.4
Portugal	-4.3	-4.9	-3.3	-4.3	-2.9	-2.9	-3.2	*-6.0*	-6.0	*-5.0*	-5.0	*-4.8*	-4.9
Finland	3.9	-5.4	1.1	5.1	4.1	2.5	2.3	*1.9*	2.6	*1.9*	2.8	*1.8*	2.5
Euro area	-3.3	-4.9	-2.1	-1.8	-2.5	-3.0	-2.8	*-2.9*	-2.4	*-2.8*	-2.4	*-2.8*	-2.3
Czech Republic	:	:	-3.5	-5.9	-6.8	-6.6	-2.9	*-3.2*	-2.6	*-3.7*	-3.2	*-3.3*	-3.4
Denmark	-0.4	-2.4	1.2	2.6	1.2	1.0	2.7	*3.7*	4.9	*3.0*	3.9	*2.7*	4.0
Estonia	:	:	-1.0	0.3	1.0	2.4	1.5	*1.1*	1.6	*0.6*	1.4	*0.4*	0.8
Cyprus	:	:	:	-2.3	-4.5	-6.3	-4.1	*-2.8*	-2.4	*-2.8*	-2.1	*-2.4*	-2.0
Latvia	:	0.8	-1.5	-2.1	-2.3	-1.2	-0.9	*-1.2*	0.2	*-1.5*	-1.0	*-1.5*	-1.0
Lithuania	:	:	-4.9	-2.0	-1.4	-1.2	-1.5	*-2.0*	-0.5	*-1.8*	-0.6	*-1.6*	-0.9
Hungary	:	:	:	-3.5	-8.4	-6.4	-5.4	*-6.1*	-6.1	*-6.7*	-6.7	*-6.9*	-7.0
Malta	:	:	:	-6.4	-5.6	-10.2	-5.1	*-4.2*	-3.3	*-3.0*	-2.9	*-2.5*	-3.2
Poland	:	-3.1	-3.4	-3.7	-3.2	-4.7	-3.9	*-3.6*	-2.5	*-3.6*	-3.0	*-3.4*	-3.0
Slovenia	:	:	:	-4.3	-2.7	-2.8	-2.3	*-1.7*	-1.8	*-1.9*	-1.9	*-1.6*	-1.6
Slovakia	:	:	-7.3	-6.5	-7.7	-3.7	-3.0	*-4.1*	-2.9	*-3.0*	-2.7	*-2.5*	-2.1
Sweden	0.6	-7.3	1.1	2.5	-0.2	0.1	1.8	*1.4*	2.9	*0.8*	2.2	*1.1*	2.3
United Kingdom	-2.2	-5.7	-0.3	0.7	-1.6	-3.3	-3.3	*-3.4*	-3.5	*-3.3*	-3.0	*-3.0*	-2.8
EU-25	:	:	:	-1.3	-2.3	-3.0	-2.6	*-2.7*	-2.3	*-2.7*	-2.3	*-2.7*	-2.2
EU-15	-2.9	-5.0	-1.6	-1.2	-2.2	-2.9	-2.6	*-2.7*	-2.3	*-2.7*	-2.2	*-2.6*	-2.2
Bulgaria	:	:	:	:	0.1	0.3	1.9	*1.0*	3.1	*0.0*	3.0	*0.0*	1.9
Romania	:	:	-0.9	-2.1	-2.0	-1.7	-1.3	*-0.9*	-0.4	*-1.4*	-2.3	*-2.2*	-5.4
USA	-3.4	-4.8	0.0	-0.4	-3.8	-5.0	-4.7	*-3.9*	-3.8	*-4.7*	-4.1	*-4.9*	-4.4
Japan	-1.4	-0.9	-7.1	-6.4	-8.2	-8.0	-6.3	*-6.5*	-6.5	*-6.1*	-5.8	*-5.8*	-5.4

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards. The net lending (borrowing) includes one-off proceeds relative to UMTS licences (see note 10 on concepts and sources).

TABLE 38 : Interest expenditure, general government (as a percentage of GDP, 1970-2007) [1]

	average	5-year average						2005		2006		2007	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	6.4	9.8	7.4	6.5	5.8	5.3	4.8	*4.5*	4.4	*4.2*	4.2	*3.9*	3.9
Germany	2.0	3.1	3.3	3.1	2.9	3.0	2.8	*3.0*	2.8	*2.9*	2.8	*2.9*	2.8
Greece	3.2	12.0	9.7	7.1	6.0	5.4	5.4	*5.4*	5.0	*5.0*	4.9	*4.7*	4.9
Spain	1.3	4.5	4.2	3.0	2.7	2.4	2.0	*1.9*	1.8	*1.8*	1.6	*1.7*	1.5
France	1.7	3.2	3.2	3.0	2.9	2.8	2.7	*2.7*	2.6	*2.8*	2.6	*2.8*	2.6
Ireland	6.1	6.2	3.2	1.5	1.3	1.2	1.2	*1.2*	1.2	*1.1*	1.2	*1.1*	1.2
Italy	5.5	10.9	8.3	6.3	5.5	5.1	4.7	*4.9*	4.6	*4.7*	4.5	*4.8*	4.8
Luxembourg	:	0.3	0.4	0.3	0.3	0.2	0.2	*0.2*	0.1	*0.2*	0.1	*0.2*	0.1
Netherlands	4.1	5.7	4.6	3.2	2.9	2.7	2.6	*2.5*	2.5	*2.5*	2.3	*2.4*	2.3
Austria	2.4	4.0	3.5	3.4	3.1	2.9	2.8	*2.9*	2.8	*2.9*	2.7	*2.8*	2.6
Portugal	3.5	6.2	3.7	3.0	2.9	2.7	2.6	*2.8*	2.7	*3.0*	2.9	*3.2*	3.1
Finland	1.1	3.6	3.6	2.7	2.1	1.7	1.5	*1.9*	1.5	*1.8*	1.4	*1.7*	1.3
Euro area	2.9	5.3	4.6	3.8	3.5	3.3	3.1	*3.2*	3.0	*3.1*	2.9	*3.1*	2.9
Czech Republic	:	:	1.1	1.1	1.3	1.2	1.2	*1.3*	1.2	*1.4*	1.4	*1.4*	1.4
Denmark	4.4	6.7	4.6	3.3	2.9	2.5	2.2	*2.2*	1.9	*1.8*	1.8	*1.7*	1.5
Estonia	:	:	0.3	0.2	0.2	0.2	0.2	*0.2*	0.2	*0.2*	0.2	*0.2*	0.2
Cyprus	:	:	:	3.4	3.2	3.4	3.2	*3.3*	3.4	*3.2*	3.1	*3.1*	3.0
Latvia	:	:	1.0	0.9	0.7	0.7	0.7	*0.7*	0.6	*0.7*	0.6	*0.7*	0.6
Lithuania	:	:	1.2	1.5	1.3	1.2	0.9	*0.9*	0.8	*0.8*	0.7	*0.8*	0.7
Hungary	:	:	:	4.6	3.9	3.9	4.2	*3.9*	3.8	*3.7*	3.7	*3.5*	3.7
Malta	:	:	:	3.5	3.7	3.7	4.1	*4.4*	4.0	*4.4*	3.8	*4.3*	3.7
Poland	:	5.9	3.8	3.0	2.7	2.8	2.6	*2.6*	2.4	*2.5*	2.5	*2.4*	2.6
Slovenia	:	:	:	2.5	2.4	2.1	1.9	*1.7*	1.6	*1.5*	1.5	*1.4*	1.4
Slovakia	:	:	2.9	4.1	3.5	2.5	2.2	*2.3*	1.7	*2.2*	1.8	*2.2*	1.7
Sweden	4.2	5.7	5.3	3.1	2.9	2.0	1.6	*1.8*	1.6	*1.8*	1.8	*1.9*	1.8
United Kingdom	4.2	3.0	3.3	2.4	2.0	2.0	2.0	*2.1*	2.2	*2.1*	2.0	*2.2*	2.1
EU-25	:	:	:	3.5	3.2	3.0	2.8	*2.9*	2.8	*2.8*	2.7	*2.8*	2.7
EU-15	3.2	5.0	4.4	3.5	3.2	3.0	2.8	*2.9*	2.8	*2.8*	2.7	*2.8*	2.7
Bulgaria	:	:	:	:	2.2	2.1	1.8	*1.9*	1.6	*1.8*	1.4	*1.7*	1.2
Romania	:	:	4.0	3.3	2.2	1.7	1.3	*1.3*	0.9	*1.3*	0.9	*1.2*	0.8
USA	3.6	4.9	4.2	3.4	3.0	2.8	2.7	*2.7*	2.7	*2.8*	2.8	*3.0*	2.9
Japan	2.7	3.6	3.5	3.2	3.1	2.8	2.7	*3.1*	3.5	*3.3*	3.7	*3.4*	3.9

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 39 : Primary balance, general government (as a percentage of GDP, 1970-2007) [1] [2] 24.04.2006

	average	5-year average						2005		2006		2007	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	-0.1	4.0	6.0	7.1	5.7	5.4	4.8	*4.4*	4.5	*3.8*	3.8	*3.4*	3.1
Germany	0.2	0.1	1.6	0.2	-0.8	-1.0	-0.8	*-0.9*	-0.5	*-0.9*	-0.3	*-0.4*	0.3
Greece	-2.4	0.5	4.5	2.2	1.1	-0.3	-1.5	*1.7*	0.5	*1.2*	1.9	*0.9*	1.4
Spain	-1.1	-1.0	1.6	2.5	2.4	2.3	1.9	*2.1*	2.9	*1.9*	2.6	*1.3*	1.9
France	0.5	-1.2	0.7	1.5	-0.3	-1.4	-1.0	*-0.5*	-0.3	*-0.7*	-0.4	*-0.7*	-0.5
Ireland	-1.5	4.1	5.3	2.2	0.9	1.4	2.7	*0.8*	2.2	*0.8*	1.3	*0.9*	0.8
Italy	-3.4	2.0	5.3	3.2	2.7	1.7	1.3	*0.6*	0.4	*0.6*	0.5	*0.3*	0.2
Luxembourg	:	1.9	3.8	6.2	2.3	0.4	-1.0	*-2.1*	-1.8	*-1.8*	-1.7	*-2.0*	-1.4
Netherlands	1.1	2.3	4.4	2.9	0.9	-0.4	0.7	*0.7*	2.3	*0.6*	1.2	*1.0*	1.6
Austria	0.6	0.1	1.3	3.5	2.6	1.4	1.7	*1.0*	1.2	*1.0*	0.8	*1.4*	1.3
Portugal	-0.8	1.3	0.4	-1.3	0.0	-0.2	-0.5	*-3.1*	-3.3	*-2.0*	-2.1	*-1.6*	-1.8
Finland	5.0	-1.8	4.7	7.8	6.2	4.2	3.8	*3.8*	4.1	*3.7*	4.2	*3.6*	3.9
Euro area	-0.4	0.3	2.5	2.0	1.0	0.3	0.3	*0.3*	0.6	*0.2*	0.6	*0.2*	0.6
Czech Republic	:	:	-2.4	-4.8	-5.6	-5.5	-1.7	*-1.9*	-1.4	*-2.3*	-1.8	*-1.9*	-2.0
Denmark	4.0	4.3	5.7	5.9	4.1	3.6	4.9	*5.8*	6.8	*4.9*	5.7	*4.4*	5.5
Estonia	:	:	-0.7	0.5	1.2	2.6	1.8	*1.3*	1.8	*0.8*	1.6	*0.5*	1.0
Cyprus	:	:	:	1.1	-1.3	-2.8	-0.9	*0.5*	1.0	*0.3*	1.0	*0.7*	1.0
Latvia	:	:	-0.5	-1.2	-1.5	-0.5	-0.2	*-0.5*	0.8	*-0.8*	-0.5	*-0.8*	-0.4
Lithuania	:	:	-3.7	-0.5	-0.1	0.0	-0.5	*-1.1*	0.3	*-1.0*	0.1	*-0.8*	-0.2
Hungary	:	:	:	1.1	-4.4	-2.5	-1.2	*-2.2*	-2.3	*-3.0*	-3.0	*-3.4*	-3.3
Malta	:	:	:	-2.9	-1.8	-6.5	-1.1	*0.2*	0.7	*1.3*	0.9	*1.9*	0.5
Poland	:	2.8	0.4	-0.7	-0.4	-1.9	-1.3	*-1.0*	-0.1	*-1.1*	-0.5	*-1.0*	-0.4
Slovenia	:	:	:	-1.8	-0.3	-0.7	-0.5	*-0.1*	-0.1	*-0.4*	-0.4	*-0.2*	-0.2
Slovakia	:	:	-4.4	-2.4	-4.1	-1.2	-0.8	*-1.9*	-1.1	*-0.8*	-0.9	*-0.2*	-0.4
Sweden	4.8	-1.5	6.5	5.6	2.6	2.1	3.4	*3.2*	4.5	*2.6*	4.0	*2.9*	4.1
United Kingdom	2.0	-2.7	3.0	3.1	0.4	-1.3	-1.3	*-1.3*	-1.3	*-1.1*	-1.0	*-0.8*	-0.7
EU-25	:	:	:	2.2	0.8	0.0	0.2	*0.1*	0.5	*0.1*	0.4	*0.1*	0.5
EU-15	0.3	0.0	2.8	2.4	1.0	0.1	0.2	*0.2*	0.5	*0.1*	0.5	*0.2*	0.6
Bulgaria	:	:	:	:	2.3	2.4	3.7	*2.9*	4.8	*1.8*	4.4	*1.7*	3.1
Romania	:	:	3.1	1.3	0.2	0.0	0.0	*0.4*	0.5	*-0.1*	-1.4	*-1.0*	-4.6
USA	0.1	0.0	4.2	3.0	-0.8	-2.2	-2.1	*-1.2*	-1.1	*-1.9*	-1.2	*-1.9*	-1.4
Japan	1.3	2.7	-3.6	-3.1	-5.1	-5.2	-3.6	*-3.4*	-3.0	*-2.9*	-2.1	*-2.4*	-1.5

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards. The primary balance includes one-off proceeds relative to UMTS licences (see note 10 on concepts and sources).

[2] Net lending/borrowing excluding interest expenditure.

TABLE 40 : Cyclically adjusted net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1970-2007) [1]

	average	5-year average						2005		2006		2007	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	-6.5	-5.6	-1.3	0.0	-0.2	0.4	0.0	*0.5*	0.6	*0.1*	0.1	*0.1*	-0.3
Germany	-1.7	-3.5	-1.8	-3.3	-3.7	-3.4	-3.4	*-3.2*	-3.0	*-3.2*	-3.0	*-3.0*	-2.3
Greece	-5.8	-11.1	-4.3	-5.4	-5.0	-6.2	-7.7	*-4.5*	-5.3	*-4.7*	-3.8	*-4.8*	-4.4
Spain	-2.2	-4.8	-2.3	-1.4	-0.8	-0.2	0.0	*0.2*	1.3	*0.2*	1.3	*-0.1*	1.0
France	-1.1	-4.1	-2.5	-2.6	-3.8	-4.1	-3.6	*-3.0*	-2.5	*-3.0*	-2.5	*-3.0*	-2.5
Ireland	-7.5	-0.9	1.4	-0.7	-1.8	-0.5	1.4	*0.4*	1.5	*0.9*	1.1	*1.2*	0.8
Italy	-8.9	-8.5	-3.1	-4.1	-3.4	-3.4	-3.3	*-3.5*	-3.4	*-3.5*	-3.4	*-3.9*	-3.8
Luxembourg	:	:	3.9	5.2	1.7	0.9	-0.5	*-1.5*	-1.3	*-1.3*	-1.3	*-1.6*	-1.0
Netherlands	-2.9	-3.0	-1.0	-1.3	-1.9	-2.1	-0.9	*0.0*	1.0	*-0.2*	-0.3	*-0.3*	-0.2
Austria	-1.8	-4.0	-2.6	-0.3	-0.3	-1.0	-0.8	*-1.5*	-1.0	*-1.3*	-1.7	*-1.0*	-1.2
Portugal	-4.3	-4.7	-3.7	-5.5	-3.5	-2.5	-2.7	*-5.0*	-5.1	*-3.7*	-4.0	*-3.4*	-3.8
Finland	3.6	-2.6	0.4	4.8	4.3	3.0	2.5	*2.7*	3.2	*2.3*	3.0	*2.1*	2.7
Euro area	:	-4.8	-2.2	-2.6	-2.8	-2.8	-2.6	*-2.3*	-1.9	*-2.3*	-2.0	*-2.3*	-1.9
Czech Republic	:	:	:	-5.6	-5.8	-5.4	-2.0	*-3.1*	-2.5	*-4.0*	-3.6	*-3.8*	-4.0
Denmark	-0.3	-1.1	0.4	1.6	1.4	2.1	3.8	*4.2*	5.4	*3.4*	3.9	*3.0*	4.0
Estonia	:	:	0.0	0.6	1.2	2.5	1.8	*1.0*	1.5	*0.6*	1.1	*0.4*	0.5
Cyprus	:	:	:	-3.2	-4.9	-6.1	-3.9	*-2.5*	-2.1	*-2.7*	-1.9	*-2.6*	-2.0
Latvia	:	:	-1.2	-2.0	-2.1	-1.0	-0.9	*-1.5*	-0.2	*-1.6*	-1.2	*-1.3*	-0.8
Lithuania	:	:	-3.8	-1.3	-1.0	-1.7	-1.9	*-2.6*	-1.2	*-2.2*	-1.0	*-1.6*	-1.0
Hungary	:	:	:	-3.4	-8.0	-5.8	-5.2	*-5.8*	-5.8	*-6.6*	-6.6	*-7.0*	-7.1
Malta	:	:	:	-7.4	-6.8	-10.0	-3.9	*-2.9*	-2.4	*-1.2*	-2.2	*-0.3*	-2.6
Poland	:	:	-3.3	-3.3	-2.3	-4.2	-4.2	*-3.7*	-2.6	*-3.8*	-3.3	*-3.7*	-3.5
Slovenia	:	:	:	-4.6	-2.4	-2.1	-1.8	*-1.4*	-1.4	*-1.7*	-1.8	*-1.7*	-1.7
Slovakia	:	:	-7.3	-6.2	-7.6	-3.0	-2.3	*-3.7*	-2.4	*-2.7*	-2.4	*-2.5*	-2.1
Sweden	0.5	-5.6	1.5	2.3	0.0	0.8	1.9	*1.6*	3.0	*0.9*	2.1	*1.1*	2.1
United Kingdom	:	-4.9	-0.9	0.4	-1.7	-3.3	-3.5	*-3.1*	-3.3	*-2.8*	-2.7	*-2.6*	-2.5
EU-25	:	:	:	-2.0	-2.5	-2.7	-2.5	*-2.3*	-1.9	*-2.3*	-1.9	*-2.3*	-1.8
EU-15	:	-4.8	-1.8	-1.9	-2.5	-2.7	-2.5	*-2.2*	-1.9	*-2.2*	-1.9	*-2.2*	-1.7
Bulgaria	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Romania	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:

TABLE 41 : Cyclically adjusted primary balance, general government (as a percentage of GDP, 1970-2007) [1] 24.04.2006

	average	5-year average						2005		2006		2007	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	XI-2005	IV-2006	XI-2005	IV-2006	XI-2005	IV-2006
Belgium	-0.1	4.2	6.0	6.5	5.6	5.8	4.8	4.9	4.9	4.3	4.3	4.0	3.6
Germany	0.3	-0.4	1.5	-0.3	-0.7	-0.4	-0.6	-0.2	-0.2	-0.3	-0.2	-0.1	0.5
Greece	-2.5	0.9	5.3	1.7	1.0	-0.8	-2.3	0.8	-0.3	0.4	1.1	-0.1	0.6
Spain	-0.7	-0.3	1.9	1.6	1.9	2.1	2.0	2.1	3.1	2.0	3.0	1.5	2.5
France	0.6	-0.9	0.8	0.4	-0.9	-1.3	-1.0	-0.2	0.1	-0.2	0.1	-0.2	0.2
Ireland	-1.4	5.3	4.6	0.8	-0.5	0.7	2.6	1.6	2.7	2.0	2.3	2.3	2.0
Italy	-3.4	2.4	5.1	2.2	2.1	1.7	1.4	1.5	1.2	1.2	1.1	0.9	0.9
Luxembourg	:	:	4.2	5.5	1.9	1.1	-0.3	-1.3	-1.1	-1.2	-1.1	-1.4	-0.9
Netherlands	1.2	2.7	3.6	1.8	0.9	0.6	1.7	2.6	3.5	2.3	2.1	2.2	2.1
Austria	0.6	0.0	1.0	3.2	2.8	1.9	2.0	1.4	1.7	1.5	1.0	1.8	1.4
Portugal	-0.8	1.5	0.0	-2.5	-0.7	0.3	0.0	-2.1	-2.4	-0.7	-1.1	-0.3	-0.7
Finland	4.8	1.0	4.0	7.5	6.4	4.7	4.0	4.5	4.7	4.1	4.4	3.8	4.1
Euro area	:	0.5	2.4	1.2	0.6	0.5	0.5	0.9	1.1	0.8	1.0	0.7	1.1
Czech Republic	:	:	:	-4.6	-4.5	-4.3	-0.8	-1.8	-1.4	-2.5	-2.2	-2.4	-2.6
Denmark	4.2	5.5	4.9	4.9	4.3	4.6	6.1	6.3	7.3	5.2	5.7	4.7	5.5
Estonia	:	:	0.2	0.7	1.4	2.8	2.0	1.2	1.7	0.8	1.3	0.6	0.7
Cyprus	:	:	:	0.2	-1.7	-2.6	-0.7	0.8	1.3	0.4	1.2	0.5	1.0
Latvia	:	:	-0.2	-1.1	-1.4	-0.3	-0.1	-0.8	0.4	-0.9	-0.6	-0.6	-0.2
Lithuania	:	:	-2.6	0.2	0.4	-0.5	-1.0	-1.7	-0.3	-1.4	-0.3	-0.9	-0.3
Hungary	:	:	:	1.2	-4.1	-1.9	-1.1	-1.9	-1.9	-2.9	-2.9	-3.5	-3.5
Malta	:	:	:	-3.9	-3.1	-6.4	0.1	1.5	1.5	3.1	1.6	4.0	1.1
Poland	:	:	0.5	-0.4	0.5	-1.4	-1.6	-1.1	-0.3	-1.3	-0.8	-1.3	-0.9
Slovenia	:	:	:	-2.1	-0.1	0.0	0.0	0.3	0.3	-0.1	-0.3	-0.3	-0.3
Slovakia	:	:	-4.4	-2.2	-4.1	-0.5	-0.1	-1.5	-0.7	-0.5	-0.7	-0.3	-0.4
Sweden	4.7	0.2	6.8	5.5	2.8	2.8	3.5	3.4	4.6	2.7	3.8	2.9	3.9
United Kingdom	:	-1.9	2.4	2.7	0.3	-1.3	-1.5	-1.1	-1.1	-0.7	-0.7	-0.5	-0.5
EU-25	:	:	:	1.5	0.6	0.3	0.3	0.6	0.8	0.5	0.7	0.5	0.9
EU-15	:	0.3	2.6	1.6	0.7	0.4	0.4	0.7	0.9	0.7	0.9	0.7	1.0
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:	:
Romania	:	:	:	:	:	:	:	:	:	:	:	:	:

TABLE 42 : Gross debt, general government (as a percentage of GDP, 1980-2007) [1]

								2005		2006		2007	
	1980	1985	1990	2001	2002	2003	2004	XI-2005	IV-2006	XI-2005	IV-2006	XI-2005	IV-2006
Belgium	74.1	115.2	125.7	106.3	103.2	98.5	94.7	94.9	93.3	91.1	89.8	88.1	87.0
Germany	31.2	40.7	42.3	58.8	60.3	63.8	65.5	68.6	67.7	70.0	68.9	71.4	69.2
Greece	25.0	53.6	79.6	113.2	110.7	107.8	108.5	107.9	107.5	106.8	105.0	106.0	102.1
Spain	16.4	41.4	42.6	55.6	52.5	48.9	46.4	44.2	43.2	41.9	40.0	40.7	37.9
France	20.8	30.3	35.3	56.2	58.2	62.4	64.4	66.5	66.8	67.1	66.9	68.0	67.0
Ireland	69.0	100.5	93.1	35.3	32.1	31.1	29.4	29.0	27.6	28.7	27.2	28.2	27.0
Italy	56.9	80.5	94.7	108.7	105.5	104.2	103.8	108.6	106.4	108.3	107.4	107.9	107.7
Luxembourg	9.9	10.3	4.7	6.5	6.5	6.3	6.6	6.8	6.2	7.0	7.9	7.3	8.2
Netherlands	44.0	67.5	73.7	50.7	50.5	51.9	52.6	54.0	52.9	54.2	51.2	53.8	50.3
Austria	35.4	48.1	56.1	66.1	66.0	64.4	63.6	64.3	62.9	64.2	62.4	63.6	61.6
Portugal	30.6	58.4	55.3	52.9	55.5	57.0	58.7	65.9	63.9	69.8	68.4	72.1	70.6
Finland	11.4	16.1	14.1	43.3	41.3	44.3	44.3	42.8	41.1	41.5	39.7	40.6	38.3
Euro area	33.7	50.6	57.0	68.3	68.1	69.3	69.8	71.7	70.8	71.7	70.5	71.8	70.1
Czech Republic	:	:	:	25.3	28.8	30.0	30.6	36.2	30.5	36.6	31.5	36.9	32.4
Denmark	39.1	75.0	62.0	47.4	46.8	44.4	42.6	36.0	35.8	33.0	30.0	31.5	26.5
Estonia	:	:	:	4.6	5.5	6.0	5.4	5.1	4.8	4.0	3.6	3.1	3.0
Cyprus	:	:	:	61.9	65.2	69.7	71.7	70.4	70.3	69.1	69.1	67.4	67.8
Latvia	:	:	:	14.0	13.5	14.4	14.6	12.8	11.9	13.0	11.3	13.2	10.9
Lithuania	:	:	:	22.9	22.3	21.2	19.5	20.7	18.7	20.2	18.9	19.6	19.7
Hungary	:	:	:	51.7	55.0	56.7	57.1	57.2	58.4	58.0	59.9	59.2	62.0
Malta	:	:	:	61.7	61.2	71.3	76.2	77.2	74.7	77.4	74.0	77.1	74.0
Poland	:	:	:	35.9	39.8	43.9	41.9	46.3	42.5	47.0	45.5	47.3	46.7
Slovenia	:	:	:	28.3	29.7	29.1	29.5	29.3	29.1	29.5	29.9	29.2	29.7
Slovakia	:	:	:	48.8	43.3	42.7	41.6	36.7	34.5	38.2	34.3	38.5	34.7
Sweden	40.0	61.9	42.0	53.8	52.0	51.8	50.5	50.6	50.3	49.4	47.6	47.8	44.8
United Kingdom	53.2	52.7	34.0	38.1	37.6	39.0	40.8	43.1	42.8	44.3	44.1	45.1	44.7
EU-25	:	:	:	61.1	60.5	62.0	62.4	64.1	63.4	64.2	63.2	64.3	62.9
EU-15	37.8	51.5	53.2	62.2	61.5	63.1	63.4	65.1	64.6	65.2	64.4	65.3	64.0
Bulgaria	:	:	:	:	54.0	46.1	38.6	33.9	29.9	30.5	26.7	27.6	22.4
Romania	:	:	:	23.2	23.8	20.7	18.0	16.2	15.2	15.6	14.7	16.2	15.4

TABLE 43 : Gross national saving (as a percentage of GDP, 1970-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	22.7	24.5	25.7	24.6	24.2	23.6	23.5	*23.5*	23.5	*23.8*	23.7	*23.8*	23.8
Germany	24.3	21.6	20.5	19.5	19.4	19.3	20.9	*21.0*	21.2	*21.2*	21.2	*21.7*	21.8
Greece	27.5	20.1	16.9	14.2	13.9	15.2	15.7	*17.3*	14.6	*18.2*	16.2	*18.6*	16.3
Spain	23.5	20.4	20.5	22.1	22.9	23.4	22.4	*22.1*	22.3	*22.0*	22.1	*21.5*	22.1
France	22.4	19.0	20.6	21.3	19.8	19.2	19.1	*19.7*	20.2	*19.8*	20.0	*20.2*	20.3
Ireland	18.2	17.8	24.3	23.0	21.9	23.4	23.7	*23.8*	24.6	*23.5*	24.5	*23.0*	23.9
Italy	23.6	20.1	21.5	20.9	20.8	19.8	20.3	*18.7*	19.8	*19.0*	19.9	*19.3*	20.1
Luxembourg	39.4	36.7	33.0	33.2	32.6	27.6	31.0	*25.1*	28.7	*25.1*	29.2	*25.6*	29.8
Netherlands	25.3	25.6	26.7	26.6	25.7	24.9	25.6	*25.4*	26.3	*25.2*	26.4	*25.2*	26.8
Austria	24.6	21.9	21.7	22.2	23.4	23.2	24.2	*22.0*	24.5	*21.9*	25.0	*22.1*	25.3
Portugal	23.3	21.2	18.9	16.8	17.0	16.3	15.1	*13.2*	12.8	*13.1*	12.3	*13.5*	12.4
Finland	26.4	17.6	24.8	27.3	26.6	23.1	24.3	*22.6*	23.9	*22.6*	24.4	*23.0*	24.3
Euro area	23.7	20.8	21.3	21.1	20.8	20.4	20.9	*20.7*	21.2	*20.8*	21.2	*21.1*	21.5
Czech Republic	:	:	25.0	23.5	22.2	21.0	22.6	*24.1*	24.1	*24.2*	24.1	*24.8*	25.1
Denmark	19.6	19.7	21.4	23.5	22.9	22.9	22.5	*22.5*	23.8	*22.9*	24.7	*23.3*	25.0
Estonia	:	:	19.6	21.2	19.4	18.2	20.0	*22.3*	23.5	*22.6*	25.2	*22.3*	26.9
Cyprus	:	:	17.1	14.6	15.1	16.4	15.0	*15.1*	14.9	*15.3*	15.0	*15.8*	15.1
Latvia	:	:	14.8	19.1	20.0	20.7	20.4	*22.2*	20.2	*23.1*	21.2	*24.1*	22.0
Lithuania	:	:	13.1	15.8	16.8	16.1	16.2	*15.9*	18.1	*16.1*	18.8	*16.2*	17.7
Hungary	:	:	19.5	19.3	18.0	16.0	16.3	*16.1*	15.2	*17.1*	15.2	*18.9*	15.5
Malta	:	:	15.4	14.9	14.3	11.7	8.1	*16.6*	10.3	*17.0*	11.2	*17.3*	12.2
Poland	:	16.0	20.0	17.9	15.9	16.5	15.7	*15.6*	17.6	*16.1*	18.1	*17.0*	19.2
Slovenia	:	23.8	24.0	24.3	24.8	24.4	24.4	*24.6*	24.3	*25.1*	25.1	*26.0*	25.9
Slovakia	:	:	24.8	22.6	22.1	24.6	23.3	*21.0*	19.9	*22.1*	23.3	*23.9*	25.3
Sweden	21.1	17.2	21.1	22.1	21.9	23.0	22.8	*24.0*	22.9	*24.0*	23.2	*24.1*	23.6
United Kingdom	:	14.9	16.1	15.1	15.2	14.8	14.8	*14.3*	15.5	*14.5*	15.0	*15.0*	15.3
EU-25	:	:	20.5	20.1	19.8	19.6	19.9	*19.7*	20.3	*19.8*	20.2	*20.1*	20.6
EU-15	:	19.8	20.5	20.3	20.0	19.7	20.1	*19.7*	20.3	*19.9*	20.2	*20.1*	20.6
Bulgaria	:	10.9	13.3	14.6	15.1	:	:	*13.1*	16.9	*13.8*	16.6	*15.7*	17.7
Romania	:	24.6	14.6	16.9	20.6	17.1	14.0	*15.3*	14.0	*14.9*	13.9	*15.3*	13.4
USA	18.9	16.3	17.3	15.1	13.6	13.4	13.5	*13.7*	13.8	*14.3*	13.9	*14.5*	14.2
Japan	33.6	32.5	29.4	27.3	26.1	26.5	26.7	*27.9*	26.8	*28.0*	27.0	*28.2*	27.2

TABLE 44 : Gross saving, private sector (as a percentage of GDP, 1970-2007) [1]

	average	5-year average						2005		2006		2007	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	25.3	28.3	24.6	22.2	22.3	22.8	22.1	*21.8*	21.8	*22.3*	22.2	*22.4*	22.8
Germany	21.5	20.8	20.0	19.3	20.3	20.6	22.2	*22.4*	22.1	*22.6*	22.1	*22.7*	22.2
Greece	29.5	27.2	18.5	14.4	14.5	16.5	18.0	*18.1*	15.8	*19.2*	16.4	*19.7*	17.1
Spain	21.9	21.0	19.3	18.6	19.0	19.4	18.3	*17.9*	16.9	*17.9*	16.8	*17.8*	17.2
France	19.9	19.9	19.6	19.2	19.5	19.9	19.3	*19.7*	19.9	*19.8*	19.5	*20.1*	19.7
Ireland	21.1	18.3	19.5	18.0	18.6	19.7	19.1	*20.8*	20.7	*20.1*	21.0	*19.5*	20.4
Italy	28.6	25.5	21.7	20.1	20.6	20.7	20.7	*19.1*	20.5	*19.3*	20.5	*19.7*	20.9
Luxembourg	:	:	24.7	23.6	24.7	21.8	26.3	*20.8*	24.4	*20.5*	24.8	*21.1*	25.1
Netherlands	24.0	26.2	24.4	23.2	23.9	24.2	24.3	*22.3*	22.9	*23.7*	24.3	*23.2*	24.2
Austria	20.5	21.1	20.2	18.8	20.7	21.6	22.0	*20.6*	22.7	*21.0*	23.7	*20.7*	23.5
Portugal	24.1	22.8	18.3	17.5	17.3	17.8	17.4	*16.6*	15.7	*15.5*	14.3	*15.5*	14.5
Finland	18.6	19.2	20.6	19.5	19.7	18.0	19.4	*18.1*	19.0	*18.3*	19.2	*18.6*	19.5
Euro area	22.8	22.2	20.5	19.5	20.1	20.4	20.7	*20.3*	20.5	*20.5*	20.5	*20.6*	20.7
Czech Republic	:	:	21.3	21.0	20.2	19.6	18.5	*20.2*	20.4	*20.2*	20.1	*20.1*	21.7
Denmark	16.5	20.3	18.5	19.6	20.1	20.4	18.4	*17.6*	17.4	*18.0*	19.4	*18.7*	19.7
Estonia	:	:	14.4	15.4	12.7	11.7	15.2	*18.2*	18.5	*18.5*	19.9	*18.7*	22.3
Cyprus	:	:	:	13.5	16.0	18.7	15.6	*14.3*	14.5	*13.7*	13.4	*13.9*	13.4
Latvia	:	:	13.7	17.9	19.0	19.1	17.6	*19.4*	16.0	*20.6*	17.7	*21.1*	18.4
Lithuania	:	:	11.5	15.0	15.2	14.3	14.4	*14.3*	15.7	*14.3*	16.5	*14.3*	15.7
Hungary	:	:	:	16.6	17.8	17.2	17.3	*17.4*	17.0	*20.2*	19.0	*21.8*	20.1
Malta	:	:	:	17.0	15.5	13.9	10.0	*17.5*	11.9	*17.0*	13.3	*16.7*	15.1
Poland	:	16.8	19.1	17.4	14.9	16.7	15.5	*15.3*	16.3	*15.1*	16.7	*16.2*	17.8
Slovenia	:	:	:	24.1	23.5	22.6	22.3	*21.9*	22.0	*22.6*	22.7	*23.5*	23.6
Slovakia	:	:	22.3	23.2	22.8	24.9	22.9	*20.6*	18.5	*21.5*	21.9	*23.0*	23.6
Sweden	16.4	20.7	17.0	16.6	19.2	20.1	18.3	*19.9*	17.2	*20.3*	18.3	*20.2*	18.7
United Kingdom	:	17.8	15.1	12.6	15.1	16.1	16.0	*14.9*	16.7	*14.7*	15.2	*15.0*	15.0
EU-25	:	:	:	18.2	19.2	19.7	19.7	*19.2*	19.6	*19.4*	19.4	*19.5*	19.6
EU-15	:	21.4	19.5	18.4	19.3	19.8	19.8	*19.3*	19.7	*19.4*	19.5	*19.6*	19.6
Bulgaria	:	:	:	:	:	:	:	*:*	10.3	*:*	9.4	*:*	10.7
Romania	:	:	12.7	15.7	18.3	14.2	10.9	*:*	10.0	*:*	10.9	*:*	11.0
USA	19.9	18.8	15.1	13.0	14.8	15.7	15.7	*14.5*	14.4	*15.7*	14.6	*16.1*	15.2
Japan	28.6	26.1	28.1	27.2	28.3	29.1	29.5	*30.3*	30.2	*30.3*	30.0	*30.5*	30.0

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 45 : Gross saving, general government (as a percentage of GDP, 1970-2007) [1] 24.04.2006

	average	5-year average						2005		2006		2007	
	1970-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	-2.6	-3.8	1.1	2.5	2.0	0.8	1.4	*1.8*	1.9	*1.6*	1.6	*1.4*	1.1
Germany	2.8	0.8	0.5	0.1	-0.9	-1.3	-1.2	*-1.4*	-1.0	*-1.4*	-0.9	*-1.0*	-0.4
Greece	-2.1	-7.1	-1.5	-0.1	-0.6	-1.1	-2.5	*-0.9*	-1.4	*-1.2*	-0.3	*-1.1*	-0.8
Spain	1.7	-0.6	1.2	3.6	3.9	4.0	4.2	*4.2*	5.4	*4.1*	5.3	*3.7*	4.9
France	2.4	-0.8	1.1	2.1	0.3	-0.8	-0.2	*0.0*	0.3	*0.1*	0.5	*0.2*	0.6
Ireland	-3.0	-0.6	4.7	5.0	3.3	3.7	4.6	*3.1*	3.9	*3.4*	3.5	*3.5*	3.5
Italy	-5.0	-5.3	-0.2	0.8	0.3	-0.8	-0.4	*-0.3*	-0.5	*-0.3*	-0.5	*-0.3*	-0.8
Luxembourg	:	:	8.4	9.6	7.9	5.9	4.7	*4.3*	4.3	*4.7*	4.4	*4.5*	4.7
Netherlands	1.3	-0.6	2.2	3.5	1.8	0.7	1.3	*3.1*	2.9	*1.5*	2.1	*1.9*	2.7
Austria	4.1	0.8	1.6	3.5	2.9	1.8	2.3	*1.5*	1.9	*1.1*	1.4	*1.5*	1.9
Portugal	-0.8	-1.6	0.6	-0.6	-0.3	-1.4	-2.2	*-3.4*	-2.9	*-2.4*	-2.1	*-2.0*	-2.0
Finland	7.9	-1.6	4.3	7.8	6.8	5.2	5.1	*4.7*	5.1	*4.5*	5.3	*4.4*	5.0
Euro area	0.9	-1.4	0.8	1.6	0.7	0.0	0.3	*0.4*	0.7	*0.3*	0.8	*0.5*	0.9
Czech Republic	:	:	3.8	2.5	2.0	1.4	4.1	*3.8*	4.1	*3.9*	3.9	*4.7*	3.3
Denmark	3.1	-0.6	3.0	4.2	2.9	2.7	4.3	*5.1*	6.6	*5.0*	5.4	*4.7*	5.5
Estonia	:	:	5.2	5.8	6.7	6.5	4.8	*4.1*	5.0	*4.1*	5.2	*3.6*	4.6
Cyprus	:	:	:	1.1	-0.9	-2.3	-0.6	*0.8*	0.4	*1.6*	1.6	*1.9*	1.7
Latvia	:	3.7	1.0	1.2	1.0	1.6	2.8	*2.8*	4.2	*2.6*	3.5	*3.0*	3.6
Lithuania	:	:	1.6	0.8	1.6	1.8	1.8	*1.7*	2.4	*1.7*	2.3	*1.9*	2.0
Hungary	:	:	:	2.7	0.2	-1.3	-1.0	*-1.3*	-1.7	*-3.1*	-3.7	*-2.9*	-4.6
Malta	:	:	:	-2.1	-1.2	-2.2	-1.9	*-0.6*	-1.7	*0.3*	-2.1	*0.9*	-2.7
Poland	:	-0.8	1.1	0.5	1.0	-0.2	0.2	*0.3*	1.3	*1.0*	1.4	*0.8*	1.4
Slovenia	:	:	:	-0.2	1.4	1.8	2.1	*2.5*	2.2	*2.4*	2.4	*2.4*	2.3
Slovakia	:	:	2.6	-0.6	-0.7	-0.3	0.4	*0.4*	1.4	*0.6*	1.3	*0.9*	1.7
Sweden	4.8	-3.5	4.1	5.4	3.0	3.1	4.7	*4.4*	6.0	*3.8*	5.0	*4.1*	5.0
United Kingdom	1.2	-2.9	1.0	2.4	0.1	-1.2	-1.1	*-0.6*	-1.2	*-0.2*	-0.2	*0.1*	0.2
EU-25	:	:	:	1.9	0.7	-0.1	0.3	*0.5*	0.7	*0.5*	0.8	*0.6*	1.0
EU-15	1.1	-1.6	1.0	1.9	0.7	-0.1	0.2	*0.4*	0.7	*0.4*	0.8	*0.6*	1.0
Bulgaria	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Romania	:	:	1.8	1.2	2.2	2.8	3.1	*:*	:	*:*	:	*:*	:
USA	-1.1	-2.5	2.2	2.1	-1.2	-2.3	-2.2	*-0.7*	-0.6	*-1.4*	-0.7	*-1.6*	-1.0
Japan	5.0	6.3	1.3	0.1	-2.2	-2.5	-2.8	*-2.4*	-3.3	*-2.3*	-3.0	*-2.2*	-2.8

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 46 : Exports of goods and services, volume (percentage change on preceding year, 1961-2007)

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	6.1	3.9	5.7	0.9	1.2	2.9	6.2	*2.2*	1.8	*4.4*	4.6	*4.8*	4.6
Germany	6.0	4.5	9.0	6.4	4.2	2.4	9.3	*6.1*	6.3	*6.5*	6.6	*6.2*	6.5
Greece	7.7	4.3	12.0	-1.1	-7.7	1.0	11.7	*5.9*	2.3	*6.7*	6.3	*6.2*	5.8
Spain	8.0	9.9	10.2	4.0	1.8	3.6	3.3	*1.1*	1.0	*1.7*	2.0	*2.0*	2.3
France	6.6	5.7	8.3	2.5	1.5	-1.7	3.1	*2.3*	3.2	*4.3*	5.1	*4.7*	5.3
Ireland	8.4	12.8	17.7	9.3	4.0	0.8	7.0	*2.3*	1.8	*5.1*	5.5	*5.4*	5.4
Italy	7.3	7.0	2.4	0.5	-4.0	-2.4	3.0	*0.1*	0.3	*4.0*	3.5	*3.2*	3.1
Luxembourg	5.0	5.8	10.2	4.5	2.8	3.7	10.2	*7.7*	9.0	*7.8*	8.4	*7.8*	7.9
Netherlands	6.0	6.1	7.4	1.6	0.9	2.0	8.5	*3.3*	5.9	*4.8*	6.5	*5.3*	6.7
Austria	6.8	2.7	8.2	7.2	3.5	2.3	9.0	*3.9*	3.7	*5.2*	6.8	*5.0*	5.0
Portugal	8.1	3.6	6.3	1.8	1.5	3.7	4.5	*0.9*	0.9	*4.7*	3.9	*4.6*	4.5
Finland	5.2	7.9	10.7	-0.9	5.0	1.4	5.6	*4.5*	7.0	*5.8*	8.0	*5.3*	5.7
Euro area [1]	6.4	5.8	7.8	3.6	1.7	1.1	6.5	*3.4*	3.8	*5.0*	5.4	*5.0*	5.3
Czech Republic	:	7.2	9.2	11.5	2.1	7.5	21.4	*9.1*	11.1	*9.7*	11.1	*9.6*	9.7
Denmark	5.4	3.9	7.4	3.1	4.1	-1.2	2.7	*5.5*	8.0	*4.8*	7.0	*4.6*	5.4
Estonia	:	:	14.0	-0.2	0.8	5.8	16.0	*18.5*	21.3	*16.0*	12.5	*13.8*	12.1
Cyprus	:	:	5.3	6.3	-5.2	-0.2	4.4	*5.2*	3.1	*5.7*	6.6	*5.8*	6.8
Latvia	:	:	8.1	7.5	5.4	5.2	9.4	*13.6*	20.7	*12.3*	12.8	*11.2*	11.7
Lithuania	:	:	6.3	21.2	19.5	6.9	4.2	*10.7*	14.3	*10.9*	10.8	*10.0*	9.9
Hungary	:	:	17.2	8.0	3.9	7.8	16.4	*10.3*	10.6	*10.3*	11.6	*10.0*	11.5
Malta	:	:	3.9	-2.2	3.6	-2.1	0.4	*-2.5*	-3.9	*1.3*	1.1	*2.6*	2.3
Poland	:	9.3	11.5	3.1	4.8	14.2	14.0	*4.1*	7.1	*4.9*	7.8	*6.0*	6.9
Slovenia	:	-6.9	7.1	6.3	6.7	3.1	12.5	*9.1*	9.2	*7.4*	7.7	*7.3*	7.3
Slovakia	:	:	9.4	6.3	5.6	22.5	11.4	*7.3*	10.9	*10.4*	13.7	*14.1*	14.3
Sweden	5.2	6.6	9.0	0.5	1.2	4.5	10.8	*4.0*	6.4	*6.0*	7.2	*6.1*	6.2
United Kingdom	4.3	5.4	6.7	2.9	0.2	1.2	4.6	*4.6*	5.6	*5.1*	5.9	*5.2*	5.2
EU-25 [2]	:	:	7.9	3.5	1.7	1.7	6.9	*3.9*	4.7	*5.3*	5.9	*5.3*	5.7
EU-15 [2]	6.0	5.7	7.7	3.3	1.5	1.2	6.3	*3.6*	4.3	*5.1*	5.6	*5.0*	5.3
Bulgaria	:	:	5.9	10.0	7.0	8.0	13.0	*9.9*	7.2	*10.4*	10.2	*10.5*	9.8
Romania	:	5.5	8.8	12.1	17.5	8.4	13.9	*7.5*	7.6	*7.9*	9.0	*9.3*	9.9
USA	6.2	7.1	7.1	-5.4	-2.3	1.8	8.4	*7.0*	6.9	*8.9*	9.2	*8.0*	8.4
Japan	9.9	3.1	5.6	-6.7	7.6	9.0	13.9	*5.7*	6.9	*5.5*	10.0	*6.2*	8.1

[1] Excluding Spain, Austria and Finland up to 1973 and Portugal up to 2003.
[2] Excluding Spain, Austria, Finland and Sweden up to 1973 and Portugal up to 2003.

TABLE 47 : Imports of goods and services, volume (percentage change on preceding year, 1961-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	5.8	3.7	5.5	0.2	0.1	3.1	6.4	*2.7*	3.4	*4.3*	4.1	*4.7*	4.5
Germany	6.4	4.9	8.0	1.2	-1.4	5.1	7.0	*4.5*	5.3	*5.2*	7.7	*5.0*	4.3
Greece	8.0	3.5	12.1	-5.2	-1.4	4.5	9.3	*1.4*	-1.2	*4.3*	4.4	*4.5*	5.0
Spain	11.1	6.7	12.3	4.2	3.9	6.0	9.3	*6.8*	7.1	*6.4*	6.0	*5.6*	4.9
France	6.7	3.3	8.6	2.2	1.7	0.7	6.9	*5.1*	6.6	*5.0*	6.0	*5.5*	5.6
Ireland	7.1	9.9	18.0	7.3	1.8	-1.4	7.6	*3.2*	4.6	*4.6*	6.1	*5.3*	6.0
Italy	7.1	2.6	4.9	-0.2	-0.5	0.8	2.5	*2.1*	1.4	*4.2*	3.4	*3.8*	3.2
Luxembourg	4.9	4.4	11.0	6.0	1.8	4.9	9.8	*6.7*	9.1	*7.6*	8.1	*8.1*	7.8
Netherlands	5.8	5.3	7.7	2.2	0.3	2.0	7.8	*3.0*	5.1	*5.0*	7.0	*6.4*	6.4
Austria	6.3	3.4	6.7	5.1	0.2	5.6	6.2	*2.0*	1.8	*5.2*	5.2	*5.0*	4.5
Portugal	7.7	6.1	8.6	0.9	-0.7	-0.4	6.8	*1.7*	1.8	*3.0*	2.3	*4.1*	3.4
Finland	5.4	1.4	9.0	0.4	1.8	2.9	6.0	*5.3*	10.3	*4.1*	7.0	*4.1*	5.5
Euro area [1]	6.6	4.3	8.1	1.8	0.3	3.0	6.7	*3.9*	4.8	*5.0*	6.0	*5.1*	4.8
Czech Republic	:	8.4	9.7	13.0	4.9	7.9	18.4	*4.5*	4.8	*8.4*	8.6	*9.1*	8.5
Denmark	4.6	4.4	7.5	1.9	7.5	-1.7	6.4	*6.3*	11.0	*5.1*	6.3	*4.5*	5.3
Estonia	:	:	13.7	2.1	3.8	10.6	14.6	*13.7*	17.4	*11.6*	11.2	*11.4*	12.0
Cyprus	:	:	5.3	4.7	-0.5	-2.3	11.1	*3.1*	3.4	*4.7*	6.1	*4.8*	6.1
Latvia	:	:	9.8	14.3	4.7	13.1	16.6	*9.5*	13.5	*10.5*	12.6	*10.3*	10.3
Lithuania	:	:	8.5	17.6	17.7	10.3	14.8	*11.5*	15.9	*11.4*	11.4	*10.5*	10.5
Hungary	:	:	17.8	5.2	6.6	11.1	13.2	*8.6*	5.8	*10.5*	10.3	*9.8*	9.9
Malta	:	:	2.9	-8.6	-2.3	7.0	2.0	*-2.0*	0.2	*1.9*	1.2	*2.9*	2.2
Poland	:	15.6	16.6	-5.3	2.7	9.3	15.2	*1.9*	3.4	*5.6*	8.4	*7.1*	8.1
Slovenia	:	-2.4	7.6	3.0	4.8	6.7	13.2	*6.3*	5.3	*6.8*	6.6	*7.3*	7.5
Slovakia	:	:	10.4	11.0	5.5	13.6	12.7	*8.2*	11.2	*9.6*	11.4	*11.0*	11.3
Sweden	4.4	2.7	8.6	-2.6	-1.9	5.0	6.4	*4.8*	7.4	*7.2*	7.7	*6.4*	6.4
United Kingdom	4.5	3.3	9.1	4.8	4.5	1.8	6.7	*4.2*	5.3	*3.9*	5.2	*4.4*	4.3
EU-25 [2]	:	:	8.5	2.2	1.3	3.2	7.3	*4.2*	5.2	*5.2*	6.2	*5.3*	5.1
EU-15 [2]	6.0	4.1	8.3	2.1	1.1	2.7	6.7	*4.1*	5.1	*4.9*	5.9	*5.0*	4.8
Bulgaria	:	:	9.6	14.8	4.9	15.3	14.1	*13.3*	14.6	*10.8*	10.1	*10.9*	10.9
Romania	:	-1.5	10.2	18.4	12.0	16.0	22.1	*16.5*	17.2	*13.9*	15.4	*12.0*	13.3
USA	6.1	6.9	11.7	-2.7	3.4	4.6	10.7	*6.0*	6.4	*5.7*	8.1	*5.1*	4.7
Japan	8.8	3.4	3.6	0.9	0.9	3.9	8.5	*6.4*	6.2	*8.2*	8.1	*9.4*	9.8

[1] Excluding Spain, Austria and Finland up to 1973 and Portugal up to 2003.

[2] Excluding Spain, Austria, Finland and Sweden up to 1973 and Portugal up to 2003.

TABLE 48 : Merchandise trade balance (fob-fob, as a percentage of GDP, 1974-2007)

	average	5-year average						2005		2006		2007	
	1974-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	-2.9	2.9	3.4	2.8	3.8	3.5	2.7	*2.1*	1.0	*2.2*	0.9	*2.4*	1.0
Germany	4.1	1.8	3.2	4.8	6.4	6.1	7.0	*7.1*	7.1	*7.1*	6.3	*7.4*	7.0
Greece	-9.9	-12.6	-15.1	-16.0	-16.3	-16.7	-17.7	*-17.1*	-16.2	*-17.1*	-16.2	*-16.7*	-16.5
Spain	-5.2	-3.8	-4.0	-5.6	-5.0	-5.1	-6.3	*-7.6*	-7.5	*-8.5*	-8.5	*-9.3*	-9.1
France	-1.4	0.2	1.1	0.2	0.5	0.2	-0.4	*-1.8*	-2.1	*-2.0*	-2.6	*-2.0*	-2.7
Ireland	-4.8	14.6	21.2	24.0	25.1	21.8	19.8	*18.0*	17.2	*17.5*	15.9	*17.0*	14.9
Italy	-1.0	1.8	2.7	1.3	1.1	0.7	0.6	*0.5*	0.0	*0.4*	-0.3	*0.6*	-0.3
Luxembourg	-8.5	-11.0	-12.1	-13.3	-10.5	-10.6	-9.8	*-12.3*	-12.4	*-12.4*	-12.5	*-12.1*	-12.4
Netherlands	1.2	5.2	5.0	6.0	6.7	6.8	7.3	*7.4*	8.2	*6.8*	8.2	*6.2*	8.6
Austria	-4.9	-3.7	-1.9	-0.6	1.7	0.5	1.5	*1.8*	1.5	*1.4*	1.7	*1.3*	1.7
Portugal	:	-9.6	-9.8	-11.2	-9.7	-8.3	-9.6	*-10.9*	-10.4	*-11.2*	-10.9	*-11.1*	-10.7
Finland	0.2	6.1	9.8	10.4	9.6	7.9	6.9	*5.1*	5.2	*4.8*	5.0	*4.7*	4.7
Euro area	-0.4	0.7	1.7	1.7	2.4	2.0	1.9	*1.3*	1.1	*1.0*	0.5	*0.9*	0.6
Euro area, adjusted [1]				1.1	1.8	1.5	1.4	*0.8*	0.7	*0.5*	0.1	*0.5*	0.2
Czech Republic	:	-2.5	-6.2	-5.0	-3.0	-2.7	-1.0	*1.7*	1.4	*2.7*	2.2	*3.1*	3.1
Denmark	-2.6	3.8	3.5	4.7	4.6	4.5	3.7	*3.0*	2.7	*3.1*	3.3	*2.9*	3.5
Estonia	:	:	-18.8	-13.2	-15.4	-16.9	-17.5	*-16.4*	-14.0	*-15.3*	-13.9	*-15.0*	-14.5
Cyprus	:	:	-24.3	-27.2	-27.2	-23.7	-26.2	*-25.9*	-25.5	*-26.7*	-27.6	*-26.5*	-28.4
Latvia	:	:	-14.5	-16.1	-15.8	-17.8	-20.3	*-18.5*	-18.9	*-17.4*	-20.1	*-16.1*	-19.6
Lithuania	:	:	-11.8	-9.1	-9.4	-9.1	-10.6	*-10.8*	-10.9	*-10.7*	-11.8	*-10.7*	-11.7
Hungary	:	:	-4.3	-4.3	-3.2	-3.9	-3.0	*-2.6*	-1.5	*-2.7*	-2.3	*-2.7*	-2.6
Malta	:	-23.0	-19.3	-14.1	-8.6	-14.2	-16.2	*-15.8*	-19.9	*-16.3*	-20.0	*-16.8*	-20.1
Poland	:	0.1	-6.3	-4.0	-3.7	-2.6	-2.3	*-4.3*	-0.9	*-4.4*	-1.5	*-4.6*	-2.2
Slovenia	:	1.7	-4.7	-3.1	-1.1	-2.2	-3.9	*-3.4*	-3.6	*-3.8*	-4.4	*-4.0*	-4.7
Slovakia	:	:	-8.5	-10.6	-9.0	-2.3	-3.5	*-4.9*	-5.2	*-4.7*	-4.4	*-2.2*	-2.3
Sweden	:	3.9	6.9	6.8	6.6	6.1	6.7	*6.4*	5.4	*5.9*	5.0	*6.0*	5.1
United Kingdom	-2.1	-1.8	-2.5	-4.1	-4.5	-4.3	-5.2	*-4.9*	-5.3	*-4.7*	-5.9	*-4.5*	-5.9
EU-25	:	:	0.9	0.6	1.1	0.9	0.6	*0.2*	0.0	*0.0*	-0.5	*-0.1*	-0.5
EU-25, adjusted [1]				-0.5	0.1	0.0	-0.3	*-0.6*	-0.7	*-0.8*	-1.3	*-0.8*	-1.2
EU-15	-0.7	0.6	1.2	0.9	1.3	1.1	0.8	*0.4*	0.2	*0.2*	-0.4	*0.2*	-0.4
Bulgaria	:	-1.1	-3.0	-11.7	-10.2	-12.5	-15.1	*-17.3*	-20.4	*-17.7*	-21.8	*-16.9*	-21.9
Romania	:	-6.5	-6.6	-7.5	-5.7	-7.6	-8.7	*-10.0*	-9.8	*-12.2*	-11.6	*-12.9*	-13.1
USA	-1.6	-1.9	-3.2	-4.3	-4.7	-5.1	-5.8	*-6.3*	-6.4	*-6.3*	-6.8	*-6.2*	-6.6
Japan	2.2	3.0	2.5	1.7	2.4	2.5	2.9	*2.6*	1.9	*2.6*	1.9	*2.9*	1.9

[1] See note 8 on concepts and sources.

TABLE 49 : Current account balance (as a percentage of GDP, 1961-2007) 24.04.2006

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	0.5	4.0	5.0	4.1	5.0	4.5	3.5	*3.0*	2.2	*3.1*	2.3	*3.3*	2.4
Germany	1.3	-1.2	-0.9	0.0	2.2	2.1	3.7	*3.8*	3.9	*3.9*	3.3	*4.5*	4.1
Greece	-0.9	-0.5	-4.5	-9.2	-9.7	-10.0	-9.5	*-7.4*	-9.2	*-6.6*	-7.8	*-6.1*	-7.8
Spain	-1.1	-2.0	-1.5	-4.3	-3.7	-4.1	-5.8	*-7.4*	-7.4	*-8.3*	-8.7	*-9.1*	-9.2
France	-0.6	-0.2	1.9	1.2	0.8	0.2	-0.7	*-0.8*	-1.2	*-0.9*	-1.7	*-0.8*	-1.6
Ireland	-4.4	1.9	1.4	-0.6	-1.0	0.0	-0.8	*-2.2*	-1.9	*-2.5*	-2.6	*-2.8*	-3.1
Italy	0.2	0.0	1.8	0.3	-0.3	-0.9	-0.5	*-1.2*	-1.1	*-1.2*	-1.5	*-1.0*	-1.4
Luxembourg	12.5	13.0	10.5	8.8	11.0	6.4	10.5	*5.9*	8.4	*6.1*	9.2	*6.1*	9.9
Netherlands	1.8	4.4	4.7	5.2	6.1	5.9	6.2	*6.0*	7.1	*5.4*	6.5	*4.8*	6.7
Austria	-0.8	-1.3	-1.4	-0.3	2.6	1.5	2.7	*0.8*	2.9	*0.6*	3.7	*0.6*	4.0
Portugal	-2.5	-2.7	-7.5	-10.3	-8.2	-6.5	-7.8	*-9.5*	-9.5	*-9.7*	-9.8	*-9.4*	-9.6
Finland	-2.1	-1.3	5.7	6.9	7.3	3.8	4.1	*2.2*	2.4	*2.0*	2.4	*2.1*	2.0
Euro area	0.1	-0.3	0.6	0.0	0.8	0.4	0.5	*0.0*	0.1	*-0.1*	-0.5	*-0.1*	-0.3
Euro area, adjusted [1]				-0.3	0.8	0.5	0.6	*0.1*	-0.4	*-0.1*	-0.9	*0.0*	-0.7
Czech Republic	:	:	-4.5	-5.4	-5.6	-6.3	-6.0	*-2.9*	-2.3	*-2.6*	-2.6	*-2.3*	-2.0
Denmark	-2.6	1.7	0.9	3.1	2.5	3.2	2.3	*2.9*	2.9	*3.2*	3.4	*3.4*	3.4
Estonia	:	:	-7.7	-5.6	-10.2	-11.9	-12.7	*-9.9*	-10.6	*-7.7*	-9.8	*-7.1*	-9.0
Cyprus	:	:	-2.2	-2.1	-3.8	-0.9	-5.3	*-5.8*	-5.7	*-5.5*	-6.1	*-4.7*	-6.0
Latvia	:	:	-6.8	-7.6	-6.6	-8.1	-12.9	*-11.1*	-12.4	*-10.5*	-13.1	*-9.8*	-12.6
Lithuania	:	:	-9.5	-4.7	-5.1	-6.8	-7.9	*-7.4*	-7.0	*-7.1*	-7.3	*-7.0*	-7.4
Hungary	:	:	-8.2	-6.2	-7.0	-8.6	-8.4	*-8.4*	-7.4	*-8.4*	-8.3	*-7.7*	-8.5
Malta	:	:	-7.9	-4.2	0.3	-5.8	-9.6	*-6.7*	-12.9	*-6.8*	-12.6	*-7.0*	-12.3
Poland	:	-0.1	-4.6	-2.8	-2.5	-2.1	-4.2	*-3.2*	-1.5	*-3.5*	-2.0	*-3.9*	-2.5
Slovenia	:	4.3	-1.2	0.2	1.5	-0.3	-2.0	*-1.6*	-1.1	*-1.8*	-1.6	*-2.0*	-1.8
Slovakia	:	:	-6.6	-7.4	-7.3	-0.5	-3.4	*-6.6*	-8.5	*-6.2*	-5.7	*-3.7*	-3.4
Sweden	-0.4	-0.1	4.0	4.6	5.3	6.6	6.6	*7.0*	5.9	*6.3*	5.8	*6.1*	6.0
United Kingdom	:	-1.6	-1.4	-2.2	-1.6	-1.4	-2.0	*-2.1*	-2.6	*-1.9*	-3.3	*-1.6*	-3.2
EU-25	:	:	0.2	-0.3	0.4	0.1	0.0	*-0.3*	-0.3	*-0.4*	-0.9	*-0.3*	-0.7
EU-25, adjusted [1]				-0.8	0.0	-0.1	-0.2	*-0.5*	-0.8	*-0.7*	-1.3	*-0.6*	-1.2
EU-15	:	-0.4	0.4	-0.1	0.6	0.4	0.4	*-0.1*	-0.1	*-0.2*	-0.7	*-0.1*	-0.5
Bulgaria	:	-5.7	-0.9	-6.1	-4.7	-9.2	-5.8	*-12.2*	-11.8	*-12.0*	-12.3	*-10.8*	-11.5
Romania	:	:	-5.4	-5.7	-1.1	-4.8	-8.3	*-8.1*	-8.7	*-9.9*	-10.4	*-10.4*	-12.0
USA	-0.3	-0.8	-2.4	-3.7	-4.4	-4.6	-5.6	*-6.2*	-6.3	*-6.3*	-7.0	*-6.4*	-6.9
Japan	1.0	2.6	2.8	2.5	3.1	3.5	4.0	*3.5*	3.6	*3.2*	3.6	*3.3*	3.4

[1] See note 8 on concepts and sources.

TABLE 50 : Net lending (+) or net borrowing (-) of the nation (as a percentage of GDP, 1961-2007)

	average	5-year average						2005		2006		2007	
	1961-90	1991-95	1996-00	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	0.3	3.8	5.0	4.0	4.8	4.4	3.4	*3.0*	2.2	*3.1*	2.1	*3.2*	2.3
Germany	1.2	-1.3	-0.9	0.0	2.2	2.1	3.7	*3.9*	3.9	*3.9*	3.2	*4.4*	4.1
Greece	:	:	-2.6	-8.0	-8.6	-8.6	-7.7	*-6.1*	-7.7	*-4.9*	-6.4	*-4.6*	-6.4
Spain	:	-1.4	-0.3	-3.4	-2.6	-3.0	-4.8	*-6.3*	-6.5	*-7.3*	-8.0	*-8.2*	-8.8
France	:	-0.2	2.0	1.1	0.8	-0.3	-0.6	*-0.8*	-1.0	*-0.9*	-1.4	*-0.8*	-1.3
Ireland	:	3.1	2.4	0.0	-0.6	0.1	-0.5	*-2.0*	-1.7	*-2.3*	-2.4	*-2.6*	-2.9
Italy	:	0.1	2.0	0.4	-0.3	-0.7	-0.4	*-1.1*	-0.9	*-1.1*	-1.4	*-0.9*	-1.3
Luxembourg	:	:	:	:	:	:	:	*5.9*	8.4	*6.1*	9.2	*6.1*	9.9
Netherlands	:	4.0	4.2	5.0	5.9	5.6	5.9	*3.8*	6.6	*3.3*	6.4	*4.8*	6.4
Austria	:	-1.4	-1.4	-0.6	2.4	1.5	2.6	*0.7*	2.9	*0.4*	3.7	*0.5*	3.9
Portugal	:	-0.3	-5.1	-8.5	-6.4	-4.0	-5.8	*-7.9*	-7.9	*-8.1*	-8.2	*-8.0*	-8.3
Finland	-1.8	-0.9	5.7	6.9	7.4	3.9	4.2	*2.3*	2.5	*2.0*	2.5	*2.2*	2.1
Euro area	:	-0.2	0.9	0.2	0.9	0.5	0.7	*0.1*	0.3	*-0.1*	-0.3	*0.1*	-0.1
Euro area, adjusted [1]				-0.1	0.9	0.6	0.8	*0.2*	-0.2	*0.0*	-0.7	*0.2*	-0.6
Czech Republic	:	:	-4.5	-5.4	-5.7	-6.3	-6.6	*-2.7*	-2.1	*-2.4*	-2.4	*-2.1*	-1.9
Denmark	:	1.7	1.1	3.1	2.6	3.2	2.3	*2.9*	3.0	*3.1*	3.4	*3.3*	3.4
Estonia	:	:	-8.4	-7.8	-12.1	-13.0	-10.5	*-9.0*	-9.5	*-6.8*	-8.5	*-6.2*	-7.5
Cyprus	:	:	:	:	:	:	:	*-5.7*	-5.3	*-5.4*	-5.8	*-4.6*	-5.8
Latvia	:	16.9	-6.5	-7.1	-6.4	-7.4	-11.9	*-9.6*	-11.2	*-8.5*	-11.1	*-7.2*	-10.2
Lithuania	:	:	-9.5	-4.7	-4.7	-6.4	-7.2	*-5.9*	-6.0	*-5.5*	-6.3	*-5.3*	-6.4
Hungary	:	:	-7.9	-5.6	-6.7	-8.7	-8.1	*-7.8*	-6.6	*-7.3*	-7.4	*-5.9*	-7.0
Malta	:	:	-6.8	-4.2	0.5	-5.4	-8.0	*-4.0*	-9.6	*-5.6*	-9.1	*-5.8*	-8.9
Poland	:	1.7	-4.6	-2.8	-2.5	-2.1	-3.8	*-3.2*	-1.1	*-3.6*	-1.7	*-3.9*	-2.2
Slovenia	:	4.2	-1.2	0.2	1.5	-0.3	-1.9	*-1.5*	-1.1	*-1.8*	-1.6	*-1.9*	-1.8
Slovakia	:	:	-6.5	-7.4	-7.3	-0.8	-3.3	*-6.2*	-8.6	*-5.7*	-5.4	*-3.3*	-3.1
Sweden	:	-0.5	3.6	4.5	5.3	6.6	6.6	*7.0*	6.0	*6.3*	5.9	*6.1*	6.1
United Kingdom	:	-1.6	-1.3	-2.1	-1.5	-1.3	-1.9	*-1.8*	-2.4	*-1.7*	-3.1	*-1.4*	-3.1
EU-25	:	:	:	:	:	:	:	*-0.2*	-0.1	*-0.3*	-0.7	*-0.1*	-0.6
EU-25, adjusted [1]				:	:	:	:	*-0.4*	-0.6	*-0.6*	-1.1	*-0.4*	-1.0
EU-15	:	-0.4	0.7	0.0	0.7	0.5	0.6	*0.0*	0.1	*-0.1*	-0.5	*0.1*	-0.4
Bulgaria	:	-6.2	:	:	:	:	-5.8	*-12.2*	-11.8	*-12.0*	-12.3	*-10.8*	-11.5
Romania	:	-2.7	-5.2	-5.3	-1.0	-4.3	:	*-8.1*	-8.7	*-9.9*	-10.4	*-10.4*	-12.0
USA	-0.3	-0.9	-2.4	-3.7	-4.4	-4.7	-5.6	*-6.2*	-6.3	*-6.3*	-7.0	*-6.4*	-6.9
Japan	1.0	2.5	3.0	2.6	3.2	3.6	4.1	*3.4*	3.5	*3.1*	3.4	*3.2*	3.3

[1] See note 8 on concepts and sources.

TABLE 51 : Merchandise trade balance (fob-fob, in billions of Ecu/euro, 1999-2007) 24.04.2006

	1999	2000	2001	2002	2003	2004	2005		2006		2007	
							XI-2005	IV-2006	XI-2005	IV-2006	XI-2005	IV-2006
Belgium	8.9	5.3	7.1	10.2	9.7	7.9	6.4	3.0	7.0	2.9	7.7	3.2
Germany	66.2	62.6	100.7	136.6	132.0	154.4	158.7	158.6	161.8	144.0	172.0	163.9
Greece	-18.4	-23.0	-21.3	-23.4	-26.0	-29.9	-30.6	-29.3	-32.6	-31.3	-34.1	-34.0
Spain	-29.0	-39.9	-38.0	-36.2	-39.5	-52.5	-68.3	-67.6	-82.5	-83.0	-94.9	-94.2
France	15.6	-2.5	2.4	8.4	-3.1	-13.8	-30.7	-35.1	-34.3	-46.6	-36.6	-49.3
Ireland	20.4	24.9	28.1	32.7	30.3	29.4	28.8	27.6	30.1	27.6	31.5	27.9
Italy	21.7	10.5	16.7	14.3	9.5	7.7	6.2	0.2	6.1	-5.0	9.3	-4.7
Luxembourg	-2.6	-2.8	-3.0	-2.5	-2.7	-2.7	-3.4	-3.5	-3.6	-3.8	-3.7	-4.1
Netherlands	14.7	19.7	27.0	31.2	32.5	35.4	36.6	41.2	34.7	43.0	32.7	46.5
Austria	-3.1	-3.1	-1.2	3.8	1.2	3.7	4.4	3.6	3.5	4.4	3.3	4.5
Portugal	-12.9	-14.7	-14.5	-13.1	-11.4	-13.8	-15.7	-15.3	-16.7	-16.4	-17.2	-16.8
Finland	11.5	14.9	14.1	13.5	11.4	10.3	7.9	8.1	7.6	8.2	7.9	7.9
Euro area	92.9	51.9	118.1	175.3	143.7	136.1	100.4	91.5	81.2	43.7	77.8	50.9
Euro area, adjusted [1]	56.4	8.8	74.4	130.3	108.1	106.7	61.1	58.4	41.9	10.6	38.5	17.8
Czech Republic	-1.8	-3.4	-3.4	-2.3	-2.2	-0.8	1.7	1.4	2.9	2.4	3.5	3.7
Denmark	6.2	7.2	8.3	8.5	6.8	5.4	6.2	5.5	6.6	7.2	6.5	8.1
Estonia	-0.8	-0.8	-0.9	-1.2	-1.4	-1.6	-1.7	-1.5	-1.7	-1.7	-1.9	-1.9
Cyprus	-2.1	-2.7	-2.9	-3.0	-2.8	-3.3	-3.4	-3.4	-3.7	-3.9	-3.9	-4.2
Latvia	-1.0	-1.1	-1.5	-1.6	-1.8	-2.3	-2.3	-2.4	-2.4	-3.0	-2.6	-3.3
Lithuania	-1.3	-1.2	-1.2	-1.4	-1.5	-1.9	-2.1	-2.2	-2.3	-2.7	-2.6	-2.9
Hungary	-2.0	-3.2	-2.5	-2.2	-2.9	-2.4	-2.3	-1.3	-2.5	-2.0	-2.6	-2.4
Malta	-0.6	-0.8	-0.6	-0.4	-0.6	-0.7	-0.7	-0.9	-0.7	-0.9	-0.8	-1.0
Poland	-10.6	-13.3	-8.5	-7.7	-5.1	-4.6	-10.0	-2.2	-11.0	-3.8	-12.2	-6.0
Slovenia	-1.2	-1.2	-0.7	-0.3	-0.5	-1.0	-1.0	-1.0	-1.1	-1.3	-1.3	-1.5
Slovakia	-1.1	-1.0	-2.5	-2.3	-0.7	-1.2	-1.8	-1.9	-1.9	-1.8	-0.9	-1.1
Sweden	15.7	16.9	16.8	17.2	16.5	18.8	18.2	15.5	17.3	14.9	18.4	16.0
United Kingdom	-44.1	-54.1	-65.4	-74.9	-69.2	-89.1	-87.6	-96.0	-87.5	-109.8	-87.2	-114.9
EU-25	48.4	-7.1	53.1	103.8	78.5	53.1	16.3	2.5	-3.5	-61.8	-7.5	-61.5
EU-25, adjusted [1]	:	:	-47.4	6.1	-4.7	-27.2	-63.8	-77.7	-83.7	-142.0	-87.6	-141.7
EU-15	70.7	21.8	77.9	126.1	97.8	71.2	37.2	16.6	17.6	-44.0	15.4	-39.9
Bulgaria	-1.1	-1.3	-1.8	-1.7	-2.2	-3.0	:	-4.4	:	-5.1	:	-5.7
Romania	-1.2	-1.9	-3.4	-2.8	-4.0	-5.3	:	-7.8	:	-10.7	:	-13.0
USA	-326.7	-497.7	-487.8	-521.2	-495.4	-545.4	-625.2	-639.2	-684.7	-736.8	-703.0	-746.7
Japan	115.8	126.4	78.4	99.4	93.7	106.4	99.0	70.4	99.0	68.2	115.7	70.8

[1] See note 8 on concepts and sources.

TABLE 52 : Current account balance (in billions of Ecu/euro, 1999-2007)

	1999	2000	2001	2002	2003	2004	2005		2006		2007	
							XI-2005	IV-2006	XI-2005	IV-2006	XI-2005	IV-2006
Belgium	12.4	10.5	10.6	13.3	12.3	10.0	9.0	6.5	9.7	7.1	10.6	7.8
Germany	-23.8	-33.6	-0.6	47.9	45.4	82.4	86.0	88.4	90.0	74.5	104.2	96.5
Greece	-6.8	-11.1	-12.3	-13.9	-15.6	-16.0	-13.3	-16.6	-12.5	-15.0	-12.4	-16.0
Spain	-15.5	-25.3	-28.9	-26.8	-28.8	-48.9	-66.5	-66.9	-79.9	-84.2	-93.5	-94.8
France	33.9	15.9	17.6	12.2	3.3	-11.3	-14.4	-19.8	-15.7	-29.9	-14.6	-28.7
Ireland	0.3	-0.4	-0.7	-1.3	0.0	-1.2	-3.5	-3.1	-4.3	-4.6	-5.1	-5.8
Italy	11.6	-1.7	3.6	-4.3	-12.0	-7.3	-16.8	-15.1	-17.9	-21.7	-15.6	-21.9
Luxembourg	1.7	2.9	2.0	2.7	2.3	2.4	1.6	2.4	1.8	2.8	1.9	3.3
Netherlands	15.0	19.6	23.3	28.2	27.8	29.8	29.9	35.8	27.5	34.2	25.4	36.2
Austria	-2.0	-2.2	-0.7	5.8	3.4	6.3	2.0	7.2	1.4	9.6	1.6	10.7
Portugal	-10.2	-13.2	-13.3	-11.1	-8.9	-11.2	-13.7	-13.9	-14.5	-14.7	-14.5	-15.0
Finland	7.4	9.4	9.4	10.3	5.5	6.2	3.4	3.7	3.1	3.9	3.5	3.4
Euro area	22.3	-31.9	8.1	60.4	34.6	41.2	3.6	8.6	-11.3	-38.0	-8.5	-24.3
Euro area, adjusted [1]	-32.4	-97.6	-19.8	57.5	33.8	45.7	8.1	-28.8	-6.7	-75.4	-4.0	-61.7
Czech Republic	-1.4	-2.9	-3.7	-4.4	-5.0	-4.8	-2.9	-2.2	-2.7	-2.9	-2.6	-2.4
Denmark	3.1	2.4	5.6	4.6	6.2	4.5	6.0	5.9	6.8	7.5	7.6	7.9
Estonia	-0.2	-0.3	-0.4	-0.8	-1.0	-1.1	-1.0	-1.1	-0.9	-1.2	-0.9	-1.2
Cyprus	-0.1	-0.4	-0.2	-0.4	-0.1	-0.7	-0.8	-0.8	-0.8	-0.9	-0.7	-0.9
Latvia	-0.6	-0.4	-0.7	-0.7	-0.8	-1.5	-1.4	-1.6	-1.5	-1.9	-1.6	-2.1
Lithuania	-1.1	-0.7	-0.6	-0.8	-1.1	-1.4	-1.5	-1.4	-1.6	-1.7	-1.7	-1.9
Hungary	-4.3	-4.4	-3.6	-4.9	-6.3	-6.8	-7.4	-6.5	-7.7	-7.3	-7.5	-7.9
Malta	-0.1	-0.5	-0.2	0.0	-0.2	-0.4	-0.3	-0.6	-0.3	-0.6	-0.3	-0.6
Poland	-11.7	-10.8	-5.9	-5.3	-4.1	-8.6	-7.4	-3.5	-8.9	-5.1	-10.4	-6.8
Slovenia	-0.7	-0.6	0.0	0.3	-0.1	-0.5	-0.4	-0.3	-0.5	-0.5	-0.6	-0.6
Slovakia	-0.7	-0.6	-1.7	-1.9	-0.1	-1.2	-2.4	-3.2	-2.4	-2.4	-1.6	-1.5
Sweden	10.0	10.8	11.3	13.8	17.9	18.5	19.9	17.1	18.4	17.5	18.6	19.0
United Kingdom	-36.8	-40.1	-35.7	-26.2	-23.1	-34.7	-36.5	-46.6	-35.9	-60.5	-31.2	-62.2
EU-25	-20.7	-77.5	-25.7	36.4	16.7	3.4	-31.2	-35.2	-47.4	-97.3	-40.1	-86.1
EU-25, adjusted [1]	:	:	-73.2	0.5	-7.1	-18.5	-58.6	-88.0	-74.8	-150.1	-67.5	-138.9
EU-15	-1.4	-58.7	-10.6	52.5	35.6	29.5	-7.0	-15.0	-22.0	-73.6	-13.5	-59.7
Bulgaria	-0.6	-0.8	-0.9	-0.8	-1.6	-1.1	:	-2.5	:	-2.9	:	-3.0
Romania	-0.6	-1.6	-2.5	-0.5	-3.1	-5.1	:	-6.9	:	-9.6	:	-11.8
USA	-256.9	-429.9	-413.8	-485.8	-446.5	-524.5	-614.2	-629.0	-685.9	-756.6	-730.5	-782.1
Japan	128.0	146.9	113.5	127.7	120.5	146.0	131.5	132.7	121.4	128.4	129.5	128.3

[1] See note 8 on concepts and sources.

TABLE 53 : Export markets (a) (percentage change on preceding year, 1999-2007) 24.04.2006

							2005		2006		2007	
	1999	2000	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	6.9	11.9	1.1	2.4	4.0	8.5	*5.3*	6.4	*6.0*	7.5	*6.1*	5.9
Germany	5.9	12.3	0.6	3.8	4.0	9.7	*5.8*	6.4	*7.0*	7.7	*6.9*	6.7
Greece	5.6	9.7	1.6	3.2	4.5	9.5	*6.6*	7.5	*7.3*	8.2	*7.0*	6.9
Spain	6.0	10.8	0.6	1.9	3.1	8.5	*5.0*	5.9	*5.8*	6.7	*5.9*	5.8
France	7.2	10.7	0.6	2.9	4.6	8.7	*5.5*	6.1	*6.4*	7.4	*6.2*	6.0
Ireland	6.9	11.5	0.1	3.2	3.6	8.5	*5.1*	6.0	*5.7*	7.0	*5.7*	5.5
Italy	6.4	12.3	0.5	3.6	5.1	9.9	*6.4*	7.1	*6.9*	8.1	*6.8*	6.6
Luxembourg (b)	:	:	:	:	:	8.1	*4.8*	5.9	*5.7*	6.9	*5.7*	5.5
Netherlands	4.8	9.6	0.3	2.3	4.2	8.3	*5.1*	6.1	*6.0*	7.3	*5.9*	5.7
Austria	6.6	12.5	1.2	2.0	4.6	9.3	*5.6*	6.3	*6.8*	8.2	*6.6*	6.3
Portugal	8.2	12.5	0.7	1.4	3.9	8.5	*5.6*	6.5	*6.1*	7.0	*5.9*	5.6
Finland	3.8	11.6	0.6	4.0	5.3	9.8	*7.5*	8.8	*8.9*	9.6	*8.3*	8.1
Euro area (c)	6.2	11.5	0.6	3.1	4.3	9.1	*5.6*	6.4	*6.6*	7.6	*6.5*	6.3
Czech Republic		:	:	:	:	9.2	*5.5*	6.6	*6.8*	8.6	*6.9*	6.6
Denmark	5.0	9.5	0.1	2.6	4.5	8.7	*5.9*	7.3	*6.7*	8.1	*6.5*	6.5
Estonia	:	:	:	:	:	9.7	*7.3*	9.7	*8.6*	9.3	*8.1*	7.5
Cyprus	:	:	:	:	:	7.6	*5.9*	6.7	*6.5*	7.4	*6.5*	6.6
Latvia	:	:	:	:	:	9.2	*7.3*	9.1	*7.8*	8.5	*7.5*	6.9
Lithuania	:	:	:	:	:	10.6	*7.8*	9.2	*9.4*	9.5	*8.9*	7.8
Hungary	:	:	:	:	:	8.9	*5.5*	6.6	*6.8*	8.1	*6.6*	6.3
Malta	:	:	:	:	:	11.0	*6.9*	7.2	*7.2*	8.6	*7.3*	7.2
Poland	:	:	:	:	:	9.6	*6.5*	7.5	*7.8*	8.5	*7.6*	6.7
Slovenia	:	:	:	:	:	8.4	*5.2*	5.8	*7.0*	7.7	*6.8*	6.3
Slovakia	:	:	:	:	:	10.3	*5.0*	5.8	*7.0*	8.4	*6.9*	6.5
Sweden	6.0	11.3	-0.4	3.5	3.9	9.3	*6.4*	7.6	*6.6*	8.1	*6.3*	6.4
United Kingdom	6.5	11.4	0.0	3.0	4.1	9.0	*6.0*	7.0	*6.5*	7.9	*6.5*	6.4
EU-25 (c)	:	:	:	:	:	9.1	*5.7*	6.6	*6.6*	7.7	*6.5*	6.3
EU-15 (c)	6.2	11.5	0.5	3.1	4.2	:	*:*	:	*:*	:	*:*	:
Bulgaria	:	:	:	:	:	10.5	*:*	6.4	*:*	7.7	*:*	6.5
Romania	:	:	:	:	:	8.7	*:*	5.5	*:*	7.2	*:*	6.0
USA	6.7	10.8	-2.2	6.5	5.2	10.8	*7.0*	7.3	*7.2*	8.5	*7.4*	7.4
Japan	9.1	12.5	-2.3	7.9	6.6	12.8	*8.1*	7.6	*8.6*	9.7	*8.5*	8.2

(a) Imports of goods to the various markets (incl. EU-markets) weighted according to their share in country's exports od goods.
(b) Included in the figures for Belgium up to 2003.
(c) Intra- and extra-EU trade.

TABLE 54 : Export performance (a) (percentage change on preceding year, 1999-2007)

							2005		2006		2007	
	1999	2000	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Belgium	-1.6	-4.0	-0.9	-1.1	0.1	-1.5	*-2.9*	-4.3	*-1.0*	-2.4	*-0.8*	-0.8
Germany	-0.6	1.1	5.6	-0.3	-0.9	0.3	*0.4*	0.3	*-0.5*	-0.8	*-0.6*	0.2
Greece	-3.1	-0.9	-3.1	-10.0	-0.3	-10.9	*0.0*	0.7	*-0.4*	-1.2	*-0.1*	0.0
Spain	-0.9	-0.7	3.3	1.4	1.8	-3.8	*-3.7*	-5.9	*-3.5*	-4.7	*-3.1*	-3.5
France	-3.3	1.4	2.3	-0.9	-5.2	-4.4	*-2.8*	-2.4	*-1.8*	-1.7	*-1.3*	-0.5
Ireland	4.5	6.2	4.5	1.0	-7.3	-3.2	*-2.5*	-3.1	*-0.4*	-1.2	*-0.2*	0.3
Italy	-5.0	-2.6	-0.6	-7.3	-7.1	-6.5	*-6.0*	-7.4	*-2.5*	-4.5	*-3.3*	-3.4
Luxembourg (b)	:	:	:	:	:	-1.2	*-2.2*	-2.3	*-0.2*	-1.8	*0.1*	-0.3
Netherlands	0.8	2.1	1.0	-1.0	-1.4	1.0	*-1.2*	0.4	*-0.9*	-0.2	*-0.6*	1.3
Austria	1.2	0.5	5.5	2.6	-2.3	2.3	*-1.1*	-2.9	*-0.7*	-1.0	*-0.8*	-1.0
Portugal	:	:	0.8	0.1	1.7	-3.7	*-4.0*	-5.2	*-1.1*	-2.7	*-1.0*	-0.8
Finland	3.7	9.9	-0.8	0.2	-3.2	-4.0	*-3.0*	-0.9	*-2.8*	-1.0	*-2.7*	-2.1
Euro area (c)	-1.5	0.7	2.8	-1.2	-2.5	-1.8	*-2.0*	-2.3	*-1.3*	-1.8	*-1.2*	-0.7
Czech Republic		:	:	:	:	12.7	*3.8*	5.4	*3.1*	3.0	*2.8*	3.6
Denmark	2.3	0.4	2.4	1.7	-6.1	-4.1	*-0.6*	-0.4	*-1.9*	-1.4	*-2.0*	-0.9
Estonia	:	:	:	:	:	7.1	*11.6*	17.1	*7.0*	3.6	*4.8*	4.6
Cyprus	:	:	:	:	:	3.9	*8.6*	12.2	*-2.5*	-0.7	*-2.5*	0.0
Latvia	:	:	:	:	:	1.5	*5.4*	9.7	*5.0*	4.3	*4.9*	5.8
Lithuania	:	:	:	:	:	-7.3	*1.9*	4.2	*0.8*	0.7	*0.7*	1.3
Hungary	:	:	:	:	:	8.5	*4.9*	3.0	*3.6*	3.8	*3.3*	5.3
Malta	:	:	:	:	:	-6.5	*-9.7*	-25.1	*-6.0*	-6.3	*-4.4*	-3.5
Poland	:	:	:	:	:	4.7	*-2.2*	-0.5	*-2.6*	-0.6	*-1.5*	0.3
Slovenia	:	:	:	:	:	4.1	*4.5*	2.7	*0.7*	0.4	*0.7*	1.1
Slovakia	:	:	:	:	:	2.7	*2.0*	4.3	*3.1*	4.8	*7.5*	7.4
Sweden	-1.0	0.7	-1.7	-1.5	0.9	0.4	*-2.3*	-2.9	*-0.7*	-1.1	*-0.2*	-0.1
United Kingdom	-2.8	0.7	2.7	-4.6	-4.2	-7.1	*0.3*	0.8	*-0.7*	-1.9	*-1.1*	-1.5
EU-25 (c)	:	:	:	:	:	:	*-1.4*	-1.6	*-1.0*	-1.5	*-0.9*	-0.4
EU-15 (c)	-1.6	0.6	2.6	-1.4	-2.6	:	*:*	:	*:*	:	*:*	:
Bulgaria	:	:	:	:	:	:	*:*	3.5	*:*	3.5	*:*	4.2
Romania	:	:	:	:	:	6.4	*:*	1.8	*:*	1.7	*:*	3.8
USA	-2.5	0.4	-4.0	-9.8	-3.2	-1.7	*0.5*	0.0	*2.6*	2.2	*0.8*	0.8
Japan	-13.4	-0.1	-4.0	0.1	2.4	1.2	*-2.3*	-1.9	*-2.5*	-0.1	*-1.8*	-0.2

(a) Index for exports of goods divided by an index for growth of markets.
(b) Included in the figures for Belgium up to 2003.
(c) Intra- and extra-EU trade.

TABLE 55 : World GDP, volume (percentage change on preceding year, 2000-2007) 24.04.2006

							2005		2006		2007	
	(a)	2000	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
EU-25	21.7	3.9	1.9	1.2	1.2	2.4	*1.5*	1.6	*2.1*	2.3	*2.4*	2.2
Euro area	15.7	3.8	1.9	0.9	0.7	2.0	*1.3*	1.3	*1.9*	2.1	*2.1*	1.8
Belgium	0.6	3.9	1.0	1.5	0.9	2.6	*1.4*	1.2	*2.1*	2.3	*2.0*	2.1
Czech Republic	0.2	3.9	2.6	1.5	3.2	4.7	*4.8*	6.0	*4.4*	5.3	*4.3*	4.7
Denmark	0.4	3.5	0.7	0.5	0.7	1.9	*2.7*	3.1	*2.3*	3.2	*2.1*	2.3
Germany	4.6	3.2	1.2	0.1	-0.2	1.6	*0.8*	0.9	*1.2*	1.7	*1.6*	1.0
Estonia	0.0	7.9	6.5	7.2	6.7	7.8	*8.4*	9.8	*7.2*	8.9	*7.4*	7.9
Greece	0.3	4.5	5.1	3.8	4.8	4.7	*3.5*	3.6	*3.4*	3.5	*3.4*	3.4
Spain	1.7	5.0	3.5	2.7	3.0	3.1	*3.4*	3.4	*3.2*	3.1	*3.0*	2.8
France	3.4	4.1	2.1	1.2	0.8	2.3	*1.5*	1.4	*1.8*	1.9	*2.3*	2.0
Ireland	0.3	9.2	6.2	6.1	4.4	4.5	*4.4*	4.7	*4.8*	4.9	*5.0*	5.1
Italy	2.9	3.6	1.8	0.3	0.0	1.1	*0.2*	0.0	*1.5*	1.3	*1.4*	1.2
Cyprus	0.0	5.0	4.1	2.1	1.9	3.9	*3.9*	3.8	*4.0*	3.8	*4.2*	3.8
Latvia	0.0	6.9	8.0	6.5	7.2	8.5	*9.1*	10.2	*7.7*	8.5	*7.1*	7.6
Lithuania	0.0	3.9	6.4	6.8	10.5	7.0	*7.0*	7.5	*6.2*	6.5	*5.8*	6.2
Luxembourg	0.1	8.4	2.5	3.6	2.0	4.2	*4.2*	4.2	*4.4*	4.4	*4.5*	4.5
Hungary	0.2	5.2	4.3	3.8	3.4	4.6	*3.7*	4.1	*3.9*	4.6	*3.9*	4.2
Malta	0.0	6.4	0.3	1.5	-2.5	-1.5	*0.8*	2.5	*0.7*	1.7	*1.1*	1.9
Netherlands	1.0	3.5	1.4	0.1	-0.1	1.7	*0.5*	1.1	*2.0*	2.6	*2.4*	2.6
Austria	0.5	3.4	0.8	1.0	1.4	2.4	*1.7*	1.9	*1.9*	2.5	*2.2*	2.2
Poland	0.4	4.2	1.1	1.4	3.8	5.3	*3.4*	3.2	*4.3*	4.5	*4.5*	4.6
Portugal	0.3	3.9	2.0	0.8	-1.1	1.1	*0.4*	0.3	*0.8*	0.9	*1.2*	1.1
Slovenia	0.1	4.1	2.7	3.5	2.7	4.2	*3.8*	3.9	*4.0*	4.3	*4.2*	4.1
Slovakia	0.1	2.0	3.8	4.6	4.5	5.5	*5.1*	6.0	*5.5*	6.1	*6.3*	6.5
Finland	0.3	5.0	1.0	2.2	2.4	3.6	*1.9*	2.1	*3.5*	3.6	*3.1*	2.9
Sweden	0.6	4.3	1.1	2.0	1.7	3.7	*2.5*	2.7	*3.0*	3.4	*2.8*	3.0
United Kingdom	3.6	4.0	2.2	2.0	2.5	3.1	*1.6*	1.8	*2.3*	2.4	*2.8*	2.8
Acc/Cand Countries	1.5	6.1	-4.3	6.9	5.4	8.2	*5.0*	6.4	*5.2*	5.6	*5.1*	5.4
- Bulgaria	0.1	5.4	4.1	4.9	4.5	5.7	*6.0*	5.5	*5.5*	5.4	*5.5*	5.7
- Romania	0.3	2.1	5.7	5.1	5.2	8.4	*3.6*	4.1	*4.0*	5.5	*4.4*	5.1
- Croatia	0.1	2.9	4.4	5.2	4.3	3.8	*5.2*	4.3	*5.3*	4.4	*5.0*	4.5
- Turkey	1.0	7.4	-7.5	7.9	5.8	8.9	*5.0*	7.4	*5.2*	5.8	*5.1*	5.5
- Former Yugoslav Republic of Macedonia	0.0	4.5	-4.5	0.9	2.8	4.1	*:*	4.0	*:*	4.3	*:*	4.7
USA	21.4	3.7	0.8	1.6	2.7	4.2	*3.5*	3.5	*3.2*	3.2	*2.7*	2.7
Japan	7.1	2.9	0.4	0.1	1.8	2.3	*2.5*	2.7	*2.2*	2.8	*1.8*	2.4
Canada	1.9	5.3	1.8	3.1	2.0	2.9	*2.7*	2.9	*2.9*	3.2	*3.0*	2.7
Norway	0.3	2.8	2.7	1.1	1.1	3.1	*3.9*	2.5	*3.0*	2.5	*1.8*	2.0
Switzerland	0.4	3.6	1.0	0.3	-0.3	2.1	*0.9*	1.7	*1.6*	1.8	*1.5*	2.2
Iceland	0.0	5.0	3.3	-1.3	3.6	6.2	*6.0*	5.8	*5.9*	5.6	*5.5*	0.4
Australia	1.1	1.9	3.8	3.2	4.0	2.3	*2.7*	2.5	*3.4*	2.9	*3.5*	3.2
New Zealand	0.2	2.3	3.5	4.6	3.6	4.4	*2.5*	2.2	*2.8*	1.2	*2.9*	2.1
Industrialised countries	54.3	3.8	1.1	1.5	2.0	3.3	*2.6*	2.7	*2.7*	2.9	*2.5*	2.5
Others	45.7	6.1	4.3	4.9	6.2	7.3	*6.4*	6.9	*6.3*	6.7	*6.1*	6.4
CIS	3.6	9.0	6.3	5.3	7.9	8.4	*6.8*	6.7	*6.9*	6.5	*6.4*	6.3
- Russia	2.4	10.0	5.1	4.7	7.3	7.2	*6.0*	6.4	*6.3*	6.1	*5.8*	5.9
- Other	1.2	6.8	9.0	6.6	9.1	11.1	*8.3*	7.3	*8.0*	7.2	*7.5*	6.9
MENA	3.9	4.8	1.0	1.6	2.9	5.8	*5.2*	5.4	*5.1*	5.2	*4.8*	5.0
Other emerging markets	38.2	5.9	4.4	5.1	6.4	7.4	*6.5*	7.0	*6.4*	6.9	*6.2*	6.6
Asia	28.2	6.7	5.5	6.7	7.8	8.1	*7.2*	7.9	*7.2*	7.7	*7.0*	7.5
- China	13.6	8.4	8.3	9.1	10.0	10.1	*9.3*	9.9	*8.7*	9.5	*8.2*	9.0
- India	6.0	3.9	5.1	4.6	8.3	7.3	*6.8*	8.0	*6.8*	7.3	*7.0*	7.3
- Hong Kong	0.4	10.2	0.5	1.9	3.1	8.2	*6.3*	7.3	*5.1*	5.8	*4.4*	4.7
- Korea	1.9	8.5	3.8	7.0	3.1	4.6	*3.8*	4.0	*4.8*	4.9	*5.0*	5.0
- Indonesia	1.5	4.9	3.8	4.4	4.9	5.1	*5.1*	5.6	*5.3*	5.1	*5.5*	5.5
Latin America	7.6	3.9	0.5	-0.2	2.1	5.5	*4.0*	4.3	*3.6*	4.3	*3.6*	3.7
- Brazil	2.7	4.4	1.3	1.9	0.5	4.9	*3.2*	2.3	*3.6*	3.5	*3.6*	3.5
- Mexico	1.8	6.6	0.0	0.8	1.4	4.4	*3.2*	3.0	*3.4*	3.6	*3.4*	3.4
Sub-Saharan Africa	2.5	3.3	3.9	3.6	3.0	4.9	*5.0*	5.0	*6.0*	6.0	*5.5*	5.5
World	100.0	4.8	2.6	3.0	3.9	5.1	*4.3*	4.6	*4.3*	4.6	*4.2*	4.3
World excluding EU-25	78.3	5.0	2.9	3.4	4.6	5.8	*5.1*	5.4	*4.9*	5.2	*4.6*	4.9
World excluding euro area	84.3	5.0	2.7	3.4	4.5	5.7	*4.9*	5.2	*4.8*	5.1	*4.5*	4.8

(a) Relative weights, based on GDP (at constant prices and pps) in 2004.

TABLE 56 : World exports of goods and services, volume (percentage change on preceding year, 2000-2007) 24.04.2006

	(a)	2000	2001	2002	2003	2004	2005 *XI-2005*	2005 IV-2006	2006 *XI-2005*	2006 IV-2006	2007 *XI-2005*	2007 IV-2006
EU-25 (b)	41.9	11.9	3.5	1.7	1.7	6.9	:	4.7	:	5.9	:	5.7
Euro area (b)	31.7	12.0	3.6	1.7	1.1	6.5	:	3.8	:	5.4	:	5.3
Acc/Cand Countries	1.4	18.9	8.6	10.8	13.1	12.0	:	8.1	:	8.3	:	8.7
- Bulgaria	0.1	16.6	10.0	7.0	8.0	13.0	:	7.1	:	10.1	:	9.8
- Romania	0.3	23.4	12.1	17.5	8.4	13.9	:	7.6	:	9.0	:	9.9
- Croatia	0.2	12.0	8.1	1.3	10.1	5.4	:	4.6	:	5.5	:	5.8
- Turkey	0.8	19.2	7.4	11.1	16.0	12.5	:	9.0	:	7.9	:	8.4
- Former Yugoslav Republic of Macedonia	0.0	:	:	:	:	:	:	10.7	:	10.0	:	9.0
USA	10.6	8.7	-5.4	-2.3	1.8	8.4	:	6.9	:	9.2	:	8.4
Japan	5.5	12.2	-6.7	7.6	9.0	13.9	:	6.9	:	10.0	:	8.1
Canada	3.4	8.9	-3.0	1.0	-2.1	5.0	:	2.4	:	6.2	:	4.8
Norway	1.0	4.0	5.0	-0.8	0.2	0.6	:	4.6	:	5.7	:	4.4
Switzerland	1.5	12.2	0.2	-0.7	-0.5	8.9	:	4.5	:	6.2	:	4.8
Iceland	0.0	-0.7	-1.5	0.6	1.1	17.1	:	3.7	:	6.2	:	8.7
Australia	1.0	11.0	0.2	0.3	-0.8	2.4	:	4.1	:	5.8	:	6.7
New Zealand	0.3	8.7	2.7	5.4	0.9	6.3	:	1.2	:	5.7	:	6.6
Industrialised countries	66.6	11.3	0.9	1.6	2.3	7.6	:	5.1	:	6.8	:	6.3
Others	33.4	16.2	-1.9	9.0	10.1	15.6	:	9.4	:	9.8	:	9.0
CIS	2.7	12.3	-14.1	-5.1	7.8	18.1	:	4.0	:	7.5	:	6.9
- Russia	1.8	6.1	-17.2	-7.3	5.9	13.5	:	3.3	:	6.9	:	5.3
- Other	0.9	38.2	-4.2	1.0	12.8	29.4	:	5.6	:	8.7	:	10.2
MENA	4.1	24.5	-4.1	6.8	4.3	2.9	:	6.4	:	6.1	:	6.0
Other emerging markets	26.6	15.3	-0.3	10.8	11.3	17.3	:	10.4	:	10.6	:	9.6
Asia	20.3	15.6	-0.5	13.7	13.8	18.4	:	11.7	:	11.3	:	10.5
- China	5.9	24.2	14.9	24.6	29.7	27.8	:	20.2	:	16.9	:	15.4
- India	0.9	18.6	7.4	15.4	4.6	18.4	:	13.0	:	13.0	:	10.3
- Hong Kong	2.8	17.3	-2.5	8.8	12.9	14.7	:	10.0	:	9.3	:	8.5
- Korea	2.7	17.2	-10.0	22.3	14.9	21.1	:	9.3	:	9.2	:	8.3
- Indonesia	0.8	-15.4	-1.1	-1.1	-3.9	10.2	:	7.2	:	7.4	:	8.8
Latin America	4.9	15.8	-0.5	1.3	3.7	15.6	:	6.5	:	7.7	:	6.3
- Brazil	1.0	9.1	12.3	9.1	7.2	18.0	:	7.4	:	8.0	:	6.7
- Mexico	1.8	15.4	-4.4	0.9	3.3	8.5	:	5.8	:	6.8	:	5.9
Sub-Saharan Africa	1.5	9.7	2.7	2.2	1.6	7.3	:	5.0	:	9.4	:	8.6
World	100.0	12.9	0.0	4.1	4.9	10.3	:	6.6	:	7.8	:	7.2
World excluding EU-25	58.1	13.6	-2.6	5.8	7.2	12.7	:	7.9	:	9.2	:	8.3
World excluding euro area	68.3	13.5	-1.6	5.2	6.7	12.1	:	7.8	:	8.9	:	8.0

(a) Relative weights, based on exports of goods and services (at current prices and current exchange rates) in 2004.
(b) Intra- and extra-EU trade.

TABLE 57 : Export shares in EU trade (goods only - 2004)

	EU-25	Acceding/ Candidate Countries	USA	Japan	Canada	Other Industr. Countries	CIS	MENA	Rest Asia	Latin America	Sub Saharan Africa	World
EU-25	68.3	2.4	8.1	1.5	0.8	4.5	2.2	3.8	5.2	1.8	1.3	100
Belgium	77.8	1.3	6.5	1.1	0.6	2.0	0.9	3.1	4.6	1.0	1.0	100
Czech Republic	83.8	3.0	3.1	0.5	0.3	2.4	2.4	1.6	2.0	0.6	0.4	100
Denmark	68.5	1.0	5.7	4.0	1.2	8.1	1.8	2.5	5.0	1.3	0.9	100
Germany	64.6	2.7	8.9	1.8	0.7	5.4	2.8	3.0	6.8	2.0	1.2	100
Estonia	74.6	0.6	5.5	0.3	0.3	4.1	11.5	0.5	1.5	0.6	0.5	100
Greece	60.1	15.6	5.8	0.5	0.7	2.1	3.3	7.0	2.8	0.8	1.3	100
Spain	75.2	2.5	4.2	0.8	0.5	2.2	0.9	5.2	2.5	4.8	1.2	100
France	67.1	2.0	6.9	1.6	0.8	4.3	1.4	6.8	5.0	1.8	2.3	100
Ireland	63.2	0.5	19.9	2.8	0.4	5.0	0.3	1.3	4.9	1.0	0.7	100
Italy	60.4	4.8	8.1	1.6	0.9	5.8	2.6	6.3	5.6	2.7	1.2	100
Cyprus	64.9	2.8	1.8	2.2	0.2	1.0	2.8	17.6	3.5	0.4	2.8	100
Latvia	75.9	0.1	7.5	0.7	0.2	4.1	7.8	1.0	2.0	0.6	0.1	100
Lithuania	61.3	2.1	5.3	0.2	1.3	13.1	15.2	0.1	0.8	0.1	0.4	100
Luxembourg	90.4	0.7	1.9	0.3	0.4	1.9	0.8	1.0	1.6	0.8	0.4	100
Hungary	80.7	6.0	3.1	0.6	0.1	1.7	3.2	2.2	1.5	0.5	0.3	100
Malta	44.5	2.4	12.4	2.0	0.7	0.7	0.1	5.2	30.3	0.7	0.9	100
Netherlands	81.0	1.4	4.4	0.8	0.4	2.7	1.6	2.3	3.3	1.0	1.2	100
Austria	72.4	4.2	6.1	1.2	0.9	5.9	2.4	1.8	3.6	0.9	0.7	100
Poland	79.1	3.1	2.8	0.3	0.5	2.2	7.9	1.2	1.6	0.8	0.6	100
Portugal	80.8	0.9	6.1	0.3	0.6	1.7	0.3	1.8	2.2	1.2	4.0	100
Slovenia	73.3	11.1	3.7	0.3	0.3	2.3	5.1	2.1	1.2	0.5	0.3	100
Slovakia	85.7	2.9	4.5	0.5	0.4	1.3	2.8	0.5	0.9	0.2	0.3	100
Finland	58.3	1.1	6.5	2.0	1.0	5.3	9.9	4.7	8.0	2.0	1.2	100
Sweden	59.1	1.3	10.8	1.9	1.1	11.4	2.1	3.2	6.0	2.0	1.1	100
United Kingdom	57.0	1.6	15.7	2.1	1.8	4.4	1.3	5.0	7.4	1.5	2.2	100

TABLE 58 : World imports of goods and services, volume (percentage change on preceding year, 2000-2007) 24.04.2006

	(a)	2000	2001	2002	2003	2004	2005 XI-2005	2005 IV-2006	2006 XI-2005	2006 IV-2006	2007 XI-2005	2007 IV-2006
EU-25 (b)	40.8	10.9	2.2	1.3	3.2	7.3	:	5.2	:	6.2	:	5.1
Euro area (b)	30.1	10.8	1.8	0.3	3.0	6.7	:	4.8	:	6.0	:	4.8
Acc/Cand Countries	1.7	22.6	-8.7	13.2	21.9	20.8	:	13.2	:	10.3	:	9.1
- Bulgaria	0.2	18.6	14.8	4.9	15.3	14.1	:	14.6	:	10.1	:	10.8
- Romania	0.3	27.1	18.4	12.0	16.0	22.1	:	17.2	:	15.4	:	13.3
- Croatia	0.2	3.7	9.8	8.8	10.9	3.5	:	3.5	:	3.6	:	4.3
- Turkey	1.0	25.4	-24.8	15.8	27.1	24.7	:	13.0	:	9.9	:	8.2
- Former Yugoslav Republic of Macedonia	0.0	:	:	:	:	:	:	4.7	:	8.3	:	8.5
USA	16.3	13.1	-2.7	3.4	4.6	10.7	:	6.4	:	8.1	:	4.7
Japan	4.7	8.5	0.9	0.9	3.9	8.5	:	6.2	:	8.1	:	9.8
Canada	3.1	8.2	-5.1	1.5	4.1	8.1	:	7.1	:	8.4	:	6.4
Norway	0.7	2.7	0.9	0.7	1.1	8.9	:	11.8	:	9.6	:	6.7
Switzerland	1.3	9.6	3.2	-2.6	1.3	7.4	:	4.7	:	6.9	:	4.7
Iceland	0.0	2.8	-17.5	-5.9	11.3	18.3	:	21.3	:	7.1	:	-0.2
Australia	1.2	6.2	-3.9	9.6	8.0	12.0	:	12.1	:	7.1	:	7.5
New Zealand	0.3	2.7	-3.1	9.5	5.6	12.8	:	9.8	:	7.6	:	7.8
Industrialised countries	70.0	11.2	0.3	2.1	4.1	8.6	:	6.0	:	7.0	:	5.5
Others	30.0	14.7	-1.1	8.4	9.9	15.4	:	8.7	:	10.8	:	9.9
CIS	2.0	1.9	2.6	-1.1	7.3	18.7	:	18.7	:	17.3	:	14.9
- Russia	1.2	-10.1	3.0	-1.4	2.7	15.7	:	20.4	:	22.5	:	18.5
- Other	0.8	32.0	1.8	-0.6	15.1	23.2	:	16.3	:	9.5	:	8.8
MENA	3.0	12.1	6.1	4.4	1.8	3.4	:	9.6	:	8.3	:	7.7
Other emerging markets	25.0	16.0	-2.2	9.6	11.0	16.5	:	7.8	:	10.5	:	9.8
Asia	19.2	17.6	-3.6	12.5	13.5	19.0	:	8.0	:	11.4	:	10.7
- China	5.5	26.4	12.5	23.6	32.7	26.6	:	8.3	:	18.0	:	16.4
- India	1.1	7.2	2.6	4.4	18.5	23.1	:	16.3	:	12.3	:	8.6
- Hong Kong	2.7	17.2	-1.9	7.4	11.4	13.4	:	7.7	:	8.2	:	7.9
- Korea	2.5	16.7	-17.5	32.1	6.3	12.5	:	5.2	:	7.7	:	8.3
- Indonesia	0.7	24.7	-3.5	-0.7	-0.2	28.1	:	9.1	:	7.6	:	6.0
Latin America	4.5	13.4	-0.3	-0.8	2.6	10.0	:	6.7	:	7.5	:	6.7
- Brazil	0.7	9.3	5.3	-3.4	1.0	6.7	:	5.0	:	6.8	:	6.9
- Mexico	2.0	19.7	-2.6	1.0	1.2	7.9	:	5.9	:	6.9	:	6.3
Sub-Saharan Africa	1.4	1.7	12.3	2.5	3.9	3.1	:	8.3	:	9.0	:	8.0
World	100.0	12.2	-0.1	4.0	5.8	10.7	:	6.8	:	8.1	:	6.9
World excluding EU-25	59.2	13.2	-1.7	5.9	7.7	13.0	:	7.9	:	9.5	:	8.1
World excluding euro area	69.9	12.9	-0.9	5.6	7.1	12.4	:	7.7	:	9.1	:	7.7

(a) Relative weights, based on imports of goods and services (at current prices and current exchange rates) in 2004.
(b) Intra- and extra-EU trade.

TABLE 59 : Import shares in EU trade (goods only - 2004)

	EU-25	Acceding/ Candidate Countries	USA	Japan	Canada	Other Industr. Countries	CIS	MENA	Rest Asia	Latin America	Sub Saharan Africa	World
EU-25	69.1	1.7	4.9	2.5	0.5	4.3	3.1	3.0	8.2	1.8	1.1	100
Belgium	74.7	0.9	6.5	2.8	0.5	1.9	1.3	2.8	6.3	1.1	1.3	100
Czech Republic	82.5	0.8	1.4	2.1	0.1	2.5	5.1	0.8	4.4	0.3	0.2	100
Denmark	76.4	1.2	3.5	1.4	0.4	7.0	0.8	0.4	7.3	1.3	0.3	100
Germany	69.5	2.0	4.6	2.8	0.3	5.3	2.7	1.6	9.0	1.6	0.8	100
Estonia	64.7	0.5	1.4	1.6	0.1	1.2	23.8	0.1	4.2	0.6	1.9	100
Greece	64.0	4.4	4.0	2.5	0.4	1.9	4.6	7.4	9.1	1.2	0.5	100
Spain	71.8	1.3	2.6	2.0	0.4	2.7	1.6	5.8	6.3	3.3	2.3	100
France	72.8	1.3	4.7	1.8	0.4	4.5	1.7	4.2	5.9	1.4	1.3	100
Ireland	69.9	0.8	13.0	3.2	0.6	2.0	0.7	0.4	8.2	0.7	0.5	100
Italy	64.3	3.7	3.2	1.9	0.4	4.2	3.9	7.7	7.2	2.3	1.1	100
Cyprus	44.5	2.4	1.1	5.8	0.2	1.0	31.0	6.1	6.6	1.1	0.2	100
Latvia	62.9	0.7	1.4	0.6	0.3	2.2	28.0	0.3	3.3	0.3	0.0	100
Lithuania	62.0	1.2	2.3	0.3	0.1	1.7	27.5	0.3	3.8	0.7	0.3	100
Luxembourg	83.8	0.1	3.5	1.1	0.4	1.6	0.5	0.3	8.6	0.0	0.1	100
Hungary	71.8	2.5	2.1	2.7	0.1	1.7	7.3	0.2	11.2	0.3	0.1	100
Malta	60.5	4.0	3.5	2.2	0.2	2.0	3.6	1.5	21.2	1.1	0.3	100
Netherlands	55.5	0.9	7.8	4.3	0.5	3.9	3.9	3.4	14.8	3.8	1.3	100
Austria	83.1	2.6	1.8	1.2	0.2	4.5	2.2	0.9	2.9	0.3	0.4	100
Poland	77.6	1.3	1.2	1.1	0.2	2.1	9.6	0.5	4.8	1.1	0.5	100
Portugal	81.2	0.8	1.8	1.6	0.2	1.8	1.4	3.2	2.8	2.9	2.2	100
Slovenia	84.1	5.6	1.2	0.7	0.2	1.7	1.6	0.7	2.9	1.2	0.1	100
Slovakia	82.7	0.9	0.5	0.4	0.1	1.1	12.2	0.1	1.7	0.2	0.1	100
Finland	65.6	0.5	3.8	3.1	0.4	3.8	11.4	0.3	9.1	1.4	0.5	100
Sweden	77.0	0.9	3.4	1.9	0.3	7.1	1.9	0.7	5.1	1.3	0.3	100
United Kingdom	61.5	1.6	8.0	3.4	1.1	6.5	1.4	2.0	11.4	1.5	1.5	100

TABLE 60 : World merchandise trade balances (fob-fob, bn. US dollars, 1999-2007)

24.04.2006

							2005		2006		2007	
	1999	2000	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
EU-25	51.6	-6.5	47.6	98.0	88.6	65.9	*20.4*	3.1	*-4.3*	-75.4	*-9.1*	-75.0
EU-25, adjusted [1]	:	:	-42.5	5.8	-5.3	-33.8	*-79.8*	-96.7	*-101.2*	-173.3	*-106.9*	-172.9
Euro area	99.0	47.8	105.7	165.4	162.4	169.1	*125.5*	113.8	*98.2*	53.3	*94.9*	62.1
Euro area, adjusted [1]	60.1	8.1	66.6	123.2	122.3	132.7	*76.4*	72.7	*50.7*	12.9	*46.9*	21.7
Acc/Cand Countries	:	:	:	:	-32.9	-45.5	*-52.4*	-56.7	*-60.2*	-64.7	*-66.0*	-73.0
USA	-348.3	-459.2	-436.7	-491.7	-559.6	-677.7	*-781.5*	-795.0	*-828.5*	-898.9	*-857.7*	-911.0
Japan	123.4	116.6	70.2	93.8	105.8	132.2	*123.8*	87.5	*119.8*	83.1	*141.1*	86.4
Canada	28.3	45.1	45.6	36.5	41.1	50.8	*54.5*	55.0	*70.6*	75.2	*70.7*	75.2
Norway	10.7	26.0	25.8	23.4	27.0	32.2	*46.4*	53.2	*54.6*	59.8	*63.3*	56.0
Switzerland	-0.2	-2.5	-2.8	3.3	3.4	5.5	*0.9*	4.3	*-1.6*	1.9	*-0.6*	1.8
Iceland	-0.3	-0.5	-0.1	0.2	-0.2	-0.5	*-0.9*	-1.1	*-1.0*	-1.2	*-1.1*	-0.9
Australia	-9.8	-4.8	1.7	-5.5	-15.3	-18.1	*-17.7*	-25.0	*-19.6*	-21.7	*-21.5*	-22.5
New Zealand	-0.4	0.7	1.5	0.2	-0.5	-1.4	*-2.9*	-4.0	*-2.5*	-4.2	*-2.6*	-4.5
Industrialised countries	:	:	:	:	-342.5	-456.7	*-609.4*	-678.7	*-672.7*	-846.1	*-683.3*	-867.5
Others	133.1	201.9	145.1	170.0	225.4	274.8	*433.2*	427.3	*505.5*	598.9	*504.0*	644.1
CIS	-0.2	3.3	1.8	2.8	2.4	7.1	*14.4*	8.5	*15.2*	16.6	*8.8*	21.0
MENA	43.8	106.0	70.0	68.8	91.8	118.1	*256.6*	247.3	*311.5*	367.2	*309.8*	394.0
Other emerging markets	89.4	92.7	73.3	98.4	131.2	149.7	*162.1*	171.5	*178.7*	215.1	*185.3*	229.1
Asia	84.9	61.9	59.0	69.2	88.7	93.5	*99.4*	93.0	*100.0*	89.1	*103.4*	82.6
Latin America	-2.4	10.2	1.0	15.7	23.5	31.7	*41.0*	41.6	*52.3*	62.7	*58.5*	69.8
Sub-Saharan Africa	6.9	20.6	13.3	13.5	19.0	24.5	*21.8*	36.9	*26.5*	63.3	*23.5*	76.8
World	:	:	:	:	-117.1	-181.9	*-176.3*	-251.4	*-167.3*	-247.1	*-179.3*	-223.4

[1] See note 8 on concepts and sources.

TABLE 61 : World current account balances (bn. US dollars, 1999-2007)

							2005		2006		2007	
	1999	2000	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
EU-25	-10000.5	-10053.2	-10008.5	-9949.4	18.9	4.3	*-39.0*	-43.8	*-57.3*	-118.7	*-48.9*	-105.1
EU-25, adjusted [1]	:	:	-65.6	0.5	-8.0	-23.0	*-73.2*	-109.5	*-90.5*	-183.1	*-82.3*	-169.5
Euro area	23.8	-29.4	7.3	56.9	39.1	51.2	*4.5*	10.7	*-13.6*	-46.4	*-10.4*	-29.7
Euro area, adjusted [1]	-34.5	-90.1	-17.7	54.4	38.2	56.8	*10.1*	-35.8	*-8.2*	-92.0	*-4.9*	-75.3
Acc/Cand Countries	:	:	:	:	-15.8	-27.2	*-35.5*	-36.8	*-41.2*	-43.6	*-45.1*	-50.1
USA	-273.9	-396.6	-370.4	-458.3	-504.4	-651.7	*-767.7*	-782.3	*-830.0*	-923.0	*-891.1*	-954.1
Japan	136.5	135.5	101.6	120.5	136.1	181.4	*164.3*	165.0	*146.9*	156.7	*157.9*	156.5
Canada	2.4	23.6	21.9	14.9	16.7	22.8	*23.5*	25.7	*37.5*	44.2	*40.4*	41.8
Norway	8.5	26.0	26.2	24.4	28.9	34.4	*47.1*	53.4	*53.1*	57.2	*58.6*	49.5
Switzerland	28.9	29.6	21.0	20.9	39.2	48.2	*40.5*	51.1	*36.9*	49.7	*34.9*	50.1
Iceland	-0.6	-0.8	-0.3	-0.1	0.9	1.9	*-1.3*	-1.7	*-1.4*	-1.8	*-1.5*	-1.3
Australia	-22.3	-15.4	-8.4	-17.3	-30.7	-39.7	*-38.8*	-43.0	*-40.9*	-42.9	*-43.0*	-41.9
New Zealand	-3.5	-2.5	-1.3	-2.2	-3.4	-6.2	*-7.1*	-9.8	*-6.5*	-10.4	*-6.3*	-8.7
Industrialised countries	:	:	:	:	-313.6	-431.9	*-614.0*	-622.1	*-703.1*	-832.6	*-744.1*	-863.5
Others	75.5	130.2	82.0	115.4	180.9	219.6	*423.7*	391.2	*488.9*	555.7	*486.9*	597.1
CIS	-0.5	1.3	-0.9	1.0	0.7	3.9	*8.0*	2.6	*6.0*	9.8	*-4.0*	12.9
MENA	15.1	67.8	33.9	30.1	55.8	85.4	*266.3*	260.5	*322.7*	381.9	*323.7*	410.5
Other emerging markets	61.0	61.2	48.9	84.3	124.4	130.3	*149.4*	128.1	*160.2*	164.0	*167.2*	173.7
Asia	87.6	62.9	65.8	82.4	111.0	116.8	*123.1*	88.2	*123.7*	77.6	*132.1*	69.8
Latin America	-16.5	-4.6	-11.6	5.9	12.1	14.2	*18.4*	18.7	*29.5*	39.6	*35.5*	46.4
Sub-Saharan Africa	-10.1	2.9	-5.2	-4.0	1.4	-0.7	*7.9*	21.2	*7.1*	46.9	*-0.4*	57.5
World	:	:	:	:	-132.7	-212.3	*-190.3*	-230.9	*-214.2*	-276.9	*-257.2*	-266.4

[1] See note 8 on concepts and sources.

TABLE 62 : Primary commodity prices (in US dollars, percentage change on preceding year, 1999-2007)

SITC							2005		2006		2007	
Classification	1999	2000	2001	2002	2003	2004	*XI-2005*	IV-2006	*XI-2005*	IV-2006	*XI-2005*	IV-2006
Food (0 + 1)	-10.8	0.4	0.3	0.5	2.0	6.5	*8.4*	3.0	*2.4*	12.2	*1.5*	6.5
Basic materials (2 + 4)	-3.7	5.4	-7.0	1.0	8.6	19.9	*7.0*	10.6	*0.8*	18.6	*-2.0*	-1.6
- of which :												
Agricultures non-food	-5.1	1.5	-5.2	4.6	7.3	9.8	*-0.2*	0.6	*2.9*	5.2	*0.3*	0.4
- of which :												
Wood and pulp	9.0	3.4	-10.7	-3.3	6.8	13.3	*1.9*	4.3	*-0.4*	-1.0	*-1.3*	-3.4
Minerals and metals	-1.6	11.4	-9.6	-4.2	10.6	35.5	*16.2*	23.1	*-1.4*	32.5	*-4.6*	-3.2
Fuel products (3)	23.2	47.5	-8.9	-0.3	12.7	30.1	*41.2*	41.6	*10.9*	25.0	*-1.6*	3.0
- of which :												
Crude petroleum	41.1	59.1	-12.4	0.2	14.8	31.6	*45.3*	42.8	*11.6*	27.4	*-1.8*	3.1
Primary commodities												
- Total excluding fuels	-6.2	3.7	-4.6	0.8	6.3	15.5	*7.4*	8.3	*1.3*	16.8	*-0.9*	0.7
- Total including fuels	4.8	23.5	-7.2	0.3	9.6	23.2	*26.3*	26.9	*7.3*	21.9	*-1.4*	2.1
					Crude petroleum - price per barrel (us dollar)							
Brent	17.9	28.5	25.0	25.0	28.8	37.8	*55.0*	54.1	*61.4*	68.9	*60.3*	71.0

Note on concepts and sources

1. The directorate general for economic and financial affairs (DG ECFIN) produces, under its own responsibility, short-term fully-fledged economic forecasts twice a year: in the spring and in the autumn. These forecasts cover the principal macroeconomic aggregates for the Member States, the Acceding and Candidate Countries, the European Union as a whole, the euro area and the international environment. Interim forecasts, updating the outlook for the five largest Member States, the EU-25 and the euro area, are presented in between the fully-fledged forecasts.

2. Data for 2005 are estimates and those for 2006 and 2007 are forecasts. The sources for all tables are the Commission services, except where it is stated otherwise. In general, the historical data for the Member States are based on ESA 95. The forecasts for 12 Member States (namely CZ, DE, ES, FR, IE, IT, LT, AT, PL, PT, SI and SK) have been made using chain-linked volume measures. For the USA and Japan the definitions are as in the SNA.

3. Tables 5 and 6 on domestic demand and final demand, respectively, present data including inventories.

4. In Table 16, the data are based on the national index for USA and Japan, and for EU Member States and the aggregates prior to 1996.

5. The potential output gap is calculated with reference to potential output as estimated via a production function, where the increase in the capital stock and the difference between actual unemployment and the NAIRU play a key role. The labour component has been replaced by average hours worked per year and person in employment (thereby also including self-employment) in absolute level terms in the autumn 2005 economic forecast. The cyclical adjustment of budgetary balances is based on this concept.

6. Employment data are based on numbers of persons employed. The concept of full-time equivalent (FTE) is used for Spain, France, Italy, the Netherlands and Estonia. Tables 21-27 and 31-32 use data on FTE for these countries.

7. The nominal short-term interest rates are defined as the 3-month inter-bank rates. The nominal long-term interest rates are defined as the yield on the central government benchmark 10-year bond.

8. EU25 and euro-area data are aggregated using exchange rates. World GDP is aggregated using Purchasing Power Standards (PPS). In the tables on world trade and international payments, the aggregation is carried out on the basis of current exchange rates. Tables 48-52, 60 and 61 show also EU25 and euro area "adjusted" balances. Theoretically, balances of EU25 and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU25 or the euro area. However, intra-EU25 or intra-euro-area balances are non-zero because of reporting errors.

   The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading to an overestimation of the surplus. For the past, the "adjusted" balances are Eurostat (for EU25) estimates and ECB (for euro area) estimates. For the future, they are ECFIN's forecasts based on the extrapolation of the discrepancies observed in 2004 or 2005.

9. Tables 37, 38, 39 and 42 are based on government deficit and debt data for the period 2002-2007, as transmitted by Member States to the European Commission in April 2006. In publishing these data, Eurostat maintained its reservation concerning the quality of the reported data in Greece. Eurostat also questioned the treatment of the assumption of the debt of the railway company by the Belgian government in 2005. The data are according to ESA95. Interest expenditure includes settlements under swap arrangements and forward rate agreements (Tables 35, 37, 38 and 40).

10. The allocation of mobile phone licences (UMTS) impacts strongly on the general government accounts for some countries in 2000-2007. Tables 36, 37 and 39 include the amounts from the sale of the licences, while the cyclically adjusted balances in tables 40 and 41 exclude these amounts. The amounts in bn of national currency are for BE 0.5, for CZ 7.4, for DK 3.2, for DE 50.8, for EE 0.2, for EL 0.7, for ES 0.5, for FR 1.8, for IE 0.2, for IT 13.8, for HU 52.0, for NL 2.7, for AT 0.8, for PL 8.2, for PT 0.4, for SI 24.3, for SK 3.0, for UK 22.5, for EU25 110.5, and for euro area 72.2.

11. Second pillar pension funds are included in the general government sector in the following Member States (with the estimated effect as % of GDP indicated in brackets): DK (1.1 in 2001, 1.0 in 2002, 1.1 in 2003, 1.0 in 2004-07), HU (0.7 in 2001-02, 0.9 in 2003, 1.1 in 2004, 1.3 in 2005 and 1.4 in 2006-07), PL (1.5 in 2001, 1.9 in 2002, 1.6 in 2003, 1.8 in 2004-05, 2.0 in 2006, 1.9 in 2007), SK (0.8 in 2005, 1.3 in 2006 and 1.4 in 2007) and SE (0.9 in 2001-03, 1.0 in 2004-07). According to the Eurostat decisions of 2 March and 23 September 2004, these pension schemes should be classified outside the government sector by spring 2007. This will lead to an increase in the government deficits by the amounts indicated above.

12. German, EU25 and euro-area figures are for unified Germany from 1991 onwards; from 1992 onwards for percentage changes.

13. With respect to the RAMS (recently-acceded Member States) and the acceding countries, which are currently in a transition phase, the quality of statistical data may not always be directly comparable to most EU15 Member States.

14. Geographical zones are defined as follows :
    - Euro area:
      - EUR12 (EU15 excluding DK, SE and the UK).
    - Acceding countries:
      - Bulgaria and Romania.
    - Candidate countries:
      - Croatia, Former Yugoslav Republic of Macedonia and Turkey.
    - Industrialised Countries:
      - EU25, Acceding and Candidate Countries, USA, Japan, Canada, Norway, Switzerland, Iceland, Australia and New Zealand.
    - MENA (Middle East and Northern Africa):
      - Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen.
    - Asia:
      - All countries except Japan and the Asian MENA countries.
    - Latin America:
      - All countries.
    - Sub-Saharian Africa:
      - All countries except the African MENA countries.