OECD Economic Outlook

OECD

Volume 2002/2
No. 72, December

OECD ECONOMIC OUTLOOK

72

DECEMBER 2002

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development (OECD)

was set up under a Convention, signed in Paris on 14 December 1960, which provides that the OECD shall promote policies designed:

– *To achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries while maintaining financial stability, and thus to contribute to the development of the world economy.*

– *To contribute to sound economic expansion in Member as well as non-member countries in the process of economic development.*

– *To contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

The original Member countries of the OECD are: Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The following countries became Members subsequently through accession at the dates indicated hereafter: Japan (28 April 1964), Finland (28 January 1969), Australia (7 June 1971), New Zealand (29 May 1973), Mexico (18 May 1994), the Czech Republic (21 December 1995), Hungary (7 May 1996), Poland (22 November 1996), Korea (12 December 1996) and Slovak Republic (14th December 2000). The Commission of the European Communities takes part in the work of the OECD (Article 13 of the OECD Convention).

The French version of the *OECD Economic Outlook* is entitled *Perspectives économiques de l'OCDE.*

The *OECD Economic Outlook* is published on the responsibility of the Secretary-General of the OECD. The assessments given of countries' prospects do not necessarily correspond to those of the national authorities concerned. The OECD is the source of statistical material contained in tables and figures, except where other sources are explicitly cited.

Photo Credit:
Don Carstens, Lawrence Lawru/gettyimages

TABLE OF CONTENTS

Conventional signs

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

Summary of projections[a]

	2002	2003	2004	2002 I	2002 II	2003 I	2003 II	2004 I	2004 II
	Percentage changes from previous period								
Real GDP									
United States	2.3	2.6	3.6	3.5	2.2	2.2	3.7	3.6	3.5
Japan	-0.7	0.8	0.9	-0.1	1.5	0.4	0.7	1.1	0.8
Euro area	0.8	1.8	2.7	0.8	1.4	1.9	2.2	2.9	3.0
European Union	0.9	1.9	2.7	0.9	1.5	1.9	2.2	2.8	2.9
Total OECD	1.5	2.2	3.0	1.7	2.2	2.0	2.8	3.1	3.0
Real total domestic demand									
United States	2.8	2.7	3.8	4.2	2.5	2.2	3.8	3.8	3.6
Japan	-1.4	0.3	0.6	-1.5	1.3	-0.2	0.1	0.8	0.6
Euro area	0.4	1.8	2.6	0.3	1.4	2.0	2.1	2.7	2.7
European Union	0.7	2.0	2.6	0.6	1.6	2.1	2.2	2.7	2.8
Total OECD	1.6	2.2	3.0	1.9	2.4	2.0	2.7	3.1	3.0
	Per cent								
Inflation[b]									
United States	1.1	1.3	1.3	0.9	1.1	1.5	1.3	1.3	1.3
Japan	-1.0	-1.6	-1.4	-1.0	-1.5	-1.7	-1.5	-1.4	-1.5
Euro area	2.2	1.9	1.8	2.4	1.9	2.0	1.9	1.8	1.8
European Union	2.4	2.0	1.9	2.7	2.0	2.0	1.9	1.9	1.9
OECD *less* Turkey	1.5	1.4	1.3	1.6	1.3	1.4	1.3	1.4	1.3
Total OECD	2.2	1.8	1.6	2.6	1.8	1.9	1.6	1.6	1.5
	Per cent of labour force								
Unemployment									
United States	5.8	6.0	5.7	5.8	5.8	6.1	6.0	5.8	5.6
Japan	5.5	5.6	5.6	5.3	5.6	5.6	5.6	5.6	5.6
Euro area	8.3	8.5	8.3	8.1	8.4	8.5	8.5	8.4	8.2
European Union	7.6	7.8	7.5	7.5	7.7	7.7	7.8	7.6	7.4
Total OECD	6.8	6.9	6.7	6.8	6.9	6.9	6.9	6.8	6.6
	Per cent of GDP								
Current account balance									
United States	-4.9	-5.1	-5.3	-4.7	-5.1	-5.1	-5.1	-5.2	-5.3
Japan	3.2	3.8	4.2	3.1	3.4	3.6	4.0	4.2	4.3
Euro area	0.9	0.9	1.2	0.8	0.9	0.9	0.9	1.1	1.3
European Union	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.5	0.6
Total OECD	-1.2	-1.2	-1.2	-1.1	-1.1	-1.1	-1.1	-1.1	-1.2
	Per cent								
Short-term interest rate[c]									
United States	1.8	1.6	3.4	1.9	1.7	1.4	1.9	3.1	3.7
Japan	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Euro area	3.3	3.0	3.6	3.4	3.3	2.9	3.1	3.4	3.8
	Percentage changes from previous period								
World trade[d]	2.6	7.7	8.8	4.5	6.7	7.6	9.0	8.9	8.5

Note: Apart from unemployment rates and interest rates, half-yearly data are seasonnaly adjusted, annual rates.

a) Assumptions underlying the projections include:
- no change in actual and announced fiscal policies;
- unchanged exchange rates as from 4 November 2002; in particular 1$ = 122.50 yen and 1.003 euros;
- the cut-off date for other information used in the compilation of the projections is 8 November 2002.

b) GDP deflator, percentage changes from previous period.

c) United States: 3-month eurodollars; Japan: 3-month CDs; euro area: 3-month interbank rates. See box on Policy and other assumptions underlying the projections.

d) Growth rate of the arithmetic average of world merchandise import and export volumes.

Source: OECD.

EDITORIAL: A HESITANT RECOVERY

This *OECD Economic Outlook* is published at a time when the world recovery appears more hesitant and less widespread than expected. Activity bounced back early in 2002 but then lost momentum, in a context of weakening consumer and business confidence. This pattern of fits and starts is not unusual in the initial stages of a recovery but it has been associated with a further deterioration of equity and financial markets, which marks a clear departure from past business cycle experience.

The continuation of an already protracted phase of financial correction is not, however, a complete surprise. It underscores the very singular nature of the cycle currently unfolding, with its large initial capital overhang and financial imbalances. With hindsight, it appears, indeed, that developments over the course of 2002 featured both normal and unique cyclical characteristics:

- The rebound at the beginning of the year was very much a technical recovery in the usual sense, signalling the end of a period of abrupt destocking.
- The subsequent slowdown came as confirmation that sound economic and financial "fundamentals" had not yet been completely restored. The capital overhang had not yet been fully worked through and equity valuations were perhaps still too high.

Recent developments have also featured large growth differences between North America, Continental Europe and Japan, prompting worries that stabilisation policies were not appropriately fine-tuning global demand in certain OECD areas. A closer examination of available evidence does not point, however, to a marked "cyclical divergence" across OECD countries. To the contrary, the recent cycle seems to have been highly synchronised. What we are witnessing might rather be a phenomenon of "structural divergences", with potential growth in North America far exceeding what can be observed and expected in other OECD regions.

Looking forward, world economic prospects hinge on the answers to three fundamental questions:

- How far are OECD economies from the restoration of healthy financial fundamentals?
- Do stabilisation policies provide the appropriate cushion to prevent economic activity from undershooting in the short run, in the form of a double-dip?
- Have sufficient structural reforms been undertaken for other parts of the OECD area to resume the catch-up process with North America?

The recent spate of corporate scandals and the fears it raised among investors should not mask the progress already realised towards sound stock market evaluations. Price/earnings ratios, for instance, have moved back closer to their historical "confidence band". In the United States, net household wealth relative to income is now close to its historical average, indicating a return to normality. However, economic agents, both businesses and households, are likely to adjust their spending behaviour to these changing parameters with a lag. This is why the present *Outlook* incorporates a period of sluggish spending in most of the OECD until mid-2003, followed by a progressive strengthening at the 2004 horizon.

This scenario is not without downside risks. In the short run, economies can easily undershoot their medium-term path, especially when confidence is weak. In countries, such as the United States, where strong personal consumption may run out of steam, the recovery of investment may come too late to take over as the main engine of demand. In other countries, where personal consumption remains sluggish, such as Germany or Japan, current problems have an important structural and therefore longer-lasting dimension, with negative consequences for confidence and the strength of the expected recovery.

In such a context, it is of course of utmost importance for macroeconomic policies to provide the appropriate cushioning. In this respect, the scenario put forward in the *Outlook* takes into account the recent loosening of US monetary policy as well as the Federal Reserve's willingness to act again, if necessary. It also incorporates an

early 50 basis points cut from the European Central Bank, in a context of weakening inflationary pressures and subdued recovery. Hence, in the near term, monetary conditions are set to remain extremely supportive in the United States and to be broadly accommodative in Europe.

Fiscal policy has been very supportive on both sides of the Atlantic, with Europe relying more on its large automatic stabilisers and the United States on discretionary stimulation. Going forward, it is assumed that, as a general rule, automatic stabilisers are allowed to operate, while discretionary policy errs on the side of caution to preserve the long-term sustainability of public finance, following, in the case of large European countries, a period of ill-timed loosening during the good years of the late 1990s. Indeed, policy-makers in a number of large OECD countries are currently facing a dilemma: because past fiscal policies proved less than principled, there may be, at present, a conflict between the needs of economic stabilisation and the pursuit of long-term sustainability. As a result the task of conjunctural stabilisation may fall disproportionately on monetary policy.

This uneasy outcome presents a number of countries with the challenge of designing better fiscal rules or at least improving their implementation and clarifying their interpretation. The challenge is, indeed, to formulate fiscal rules that are well-designed, transparent, enforceable and likely to work both during upswings and downswings. The perfect rule probably does not exist. But whatever the rule chosen, it should take account of cyclical influences on budget balances, let built-in stabilisers play and focus on achieving long-term sustainability in light of demographic ageing. The present issue of the *Outlook* pays particular attention to this very important question of fiscal rules.

A distinctive feature of the difficulties currently facing a number of large OECD countries is how entangled macro and structural policies are at present. In Japan, decisive structural reform of the banking sector is now overdue in order to restore at least some effectiveness to monetary policy. Deflation will not come to an end without economic reforms, while economic reforms could worsen deflation in the short run if not accompanied by supportive macro policies. Without wholesale implementation, the current plans of the Japanese authorities to restore the fitness of the banking sector will not succeed and potential growth will remain less than modest. In Germany the search for better-functioning labour markets, drawing on the recent successes of other European countries as well as on the findings of the Hartz Commission, will be crucial for lifting potential growth in the medium term. It may also provide a decisive spark for the recovery by boosting household and business confidence and improving the resilience of the economy in the face of future conjunctural shocks.

From a more general perspective, it seems increasingly likely that structural policies will become an integral part of the policy mix, even in a very short-run sense. As the experience of successful countries amply shows, good structural policies can provide a decisive contribution to short-term stabilisation, thus giving greater room for monetary and fiscal policies to balance more effectively their short and long-run commitments.

Beyond the short run, economic reform remains an essential ingredient for long-term growth. There is, for instance, a strong case for action to raise participation rates among older persons in a large number of European countries. This is important not only for the sake of facing the public finance consequences of ageing but also with a view to raising long-term growth and bringing it closer to the Lisbon objectives. In this area, the *Outlook* shows, in a very thorough way, that much needs to be done to provide ageing workers with financial signals that do not discourage them from remaining economically active. It also explores in some depth the consequences of increased product market competition on OECD-wide growth and employment, drawing extensively on recent empirical OECD and outside research. Here again, it appears that the importance of good structural policies should not be underestimated.

18 November 2002

Jean-Philippe Cotis
Chief Economist

I. GENERAL ASSESSMENT OF THE MACROECONOMIC SITUATION

A hesitant recovery

The recovery is slow and irregular

The global recovery is slow and irregular, not unlike some earlier upturns. The seemingly encouraging start early in 2002 was partly of a technical nature, reflecting slower destocking, and momentum weakened in the second quarter. However, considerable monetary and fiscal stimulus had been rapidly put in place. It clearly boosted public spending, consumption and housing investment in North America and some European economies through to mid-2002. Reinforced by monetary loosening later in the year, the effects of the stimulus will continue to feed through for some time. The apparent bottoming out of the information-technology downturn is also helping, as is the resilience of growth in most of Asia excluding Japan and in Russia. A fallback into recession is therefore improbable, even though greater geopolitical uncertainty and a further slide in world equity markets have been weighing on confidence in the second half of this year. Overall, OECD GDP growth will not exceed 1½ per cent in 2002 and a broad-based recovery is unlikely to emerge until current uncertainties dissipate, possibly well into 2003. Only in 2004 would the output gap start narrowing.

The 2002 recovery has met substantial headwinds

Output growth is uneven…

Following output declines during 2001, the recovery looked to be well on track in the United States by the spring of 2002, while business surveys were suggesting that it was getting underway in Europe and still uncertain in Japan. However, the global picture of activity in 2002 now appears to be one of relatively weak and uneven recovery across OECD regions. In the United States, real GDP growth slowed sharply in the second quarter, picked up in the third but has lost momentum entering the final months of 2002. In Japan, activity also picked up during the first half, but then slowed according to provisional estimates. In the euro area, growth of output has remained very modest, with Germany and Italy particularly sluggish. Elsewhere in Europe, growth held up reasonably well in the United Kingdom and in several Nordic countries, as well as in most of the central European countries, except for Poland. Economic activity expanded briskly in Australia, Canada, Korea and New Zealand.

… being dependent on public and household spending…

Growth has been sustained by government spending and buoyant personal consumption in those countries where fiscal easing has reinforced monetary policy support for demand, the United States in particular (Figure I.1). There, in the United Kingdom and in several smaller economies, the positive effects on household spending from lower interest rates, higher housing prices and generous refinancing opportunities (see Box I.1) have outweighed the negative effects from falling equity prices. In Germany and Italy, by contrast, consumption has been weak and growth heavily dependent on export demand. In Japan, deflation and a weak labour market have

Figure I.1. **Real total domestic demand and exports**

Percentage change over 4 quarters

Source: OECD, *Quarterly national accounts;* ECB, Monthly bulletin.

Box I.1. Wealth effects on household spending

Growing importance of wealth effects. Household spending is influenced by current income but also by wealth, all the more so when financial systems allow individuals to borrow against expected future income. The fluctuations in wealth associated with asset price movements thus affect household consumption and investment, albeit to an extent and with lags that vary across countries, asset classes and income groups. Empirical research has documented this and suggests that the importance of wealth effects has tended to increase over time, as deregulation and intensifying competition among financial institutions have eased the liquidity constraints facing households, leading them to hold more assets and liabilities relative to income.[1] The development of private pension funds may have worked in the same direction. In the United States, at least every other household now has some form of exposure to the equity market, be it through direct ownership of shares or indirectly, via 401(k) plans, individual retirement accounts or company pension schemes.

The equity price shock. In the late 1990s, equity and house prices were on the rise in most OECD countries, helping to buoy household consumption and investment. The subsequent steep equity prices falls are now damping household spending. By mid-October 2002, broad equity price indices in major markets had tumbled by some 40 (United Kingdom) to over 60 per cent (Germany) compared with their 2000 peaks. Erosion at this speed and on this scale, even if equity holders did not fully factor in paper gains at the height of the boom, substantially dents aggregate demand and activity, with domestic effects compounded by the simultaneity of drops across national borders.[2]

Housing market offsets. While the downturn was amplified by the equity price falls, a powerful offset came from lower interest rates, which have sustained demand via their impact on the housing market and residential real estate prices. Unlike in the downturns of the early 1980s and early 1990s, the latter have held up well in most OECD countries. In the United States, house prices rose by 19 per cent between early 2000 and mid-2002. In the United Kingdom, which witnessed the biggest surge, the corresponding increase exceeded 25 per cent. Housing is by far the single largest component of household wealth (excluding human capital), and house price fluctuations may be perceived as less transient than equity price movements. The resilience of house prices has therefore significantly helped contain the drag exerted by equity price developments, notably in the United States and most strikingly in the United Kingdom.[3] The Federal Reserve estimates that the $7 trillion equity wealth loss experienced by US households in the two and a half years to September 2002 is partly offset by a $2 trillion housing wealth gain, translating in net terms into a drag of 1½ percentage points on household consumption in 2002 and a little less in 2003. In the United Kingdom, changes in housing wealth come through relatively more quickly than for equity wealth because equities are largely held indirectly, and hence there is a strong impetus coming from housing in 2002, while the effect of recent equity weakness may show up only in 2003. In both countries, the build-up of household debt, if it were to reach unsustainable levels, could have much the same restraining effects on future household demand as direct destruction of wealth via equity price declines.

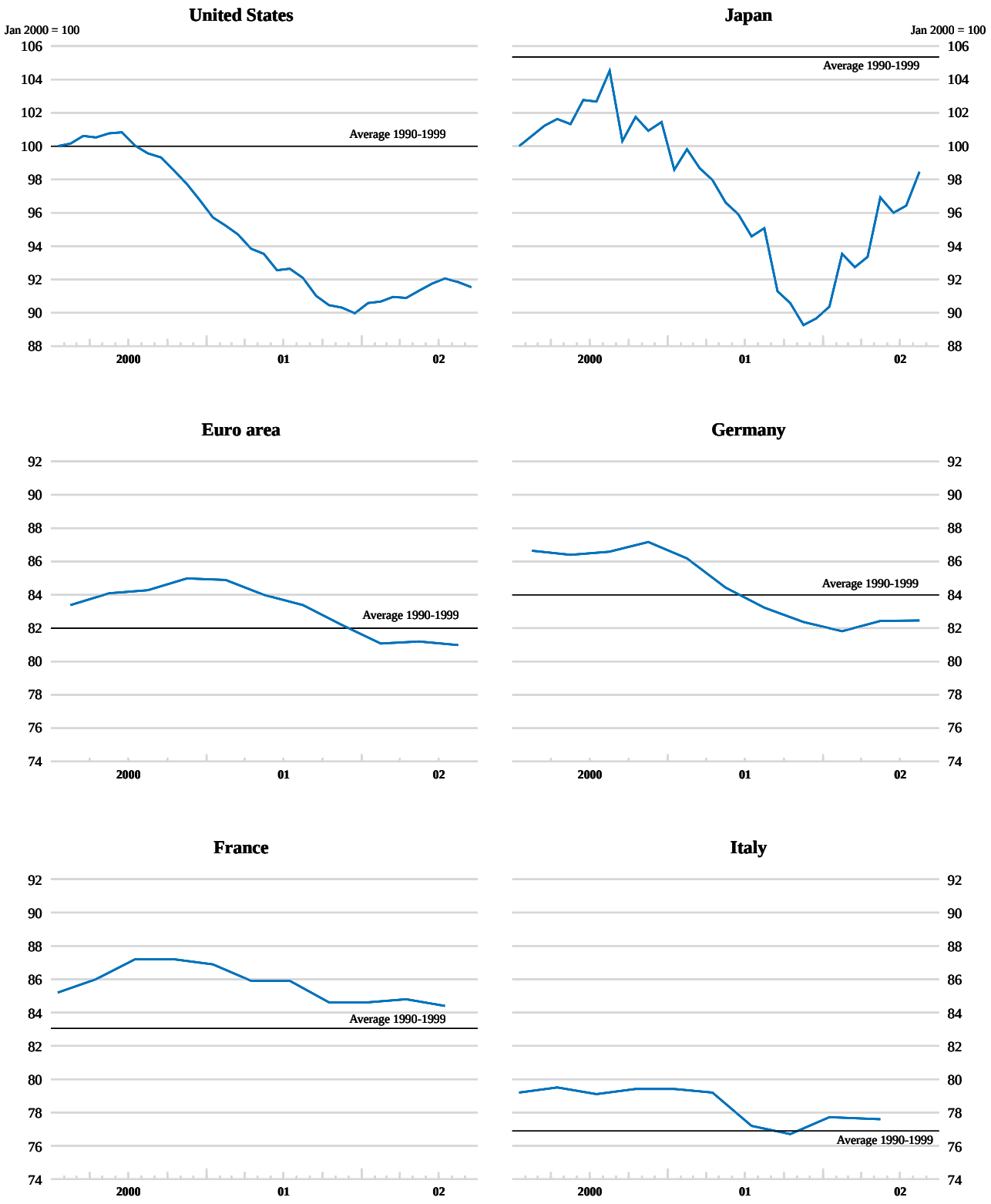
1. See for example Ludwig, A. and T. Sløk, "The impact of changes in stock prices and house prices on consumption in OECD countries", IMF Working Paper No. 02/1, 2002, Boone, L. and N. Girouard, "The stock market, the housing market, financial deregulation and consumption", *OECD Economic Studies*, No. 35, 2002 and Bertaut, C. "Equity prices, household wealth, and consumption growth in foreign industrial countries: wealth effects in the 1990s", Board of Governors of the Federal Reserve System, *International Finance Discussion Papers*, No. 724, 2002.
2. The long-run marginal propensity to consume out of equity wealth is typically estimated at between 0.03 and 0.07 for the United States. In "Stock market fluctuations and consumption behaviour: some recent evidence", *OECD Economics Department Working Papers*, No. 208, 1998, L. Boone, C. Giorno and P. Richardson find that a simultaneous 20 per cent decline in stock prices in the G7 countries would shave 0.7 per cent of GDP in the first year, on average, but a full 1.0 per cent in the United States.
3. In "House prices and economic activity", *OECD Economics Department Working Papers*, No. 279, 2001, N. Girouard and S. Blöndal estimate a long-run marginal propensity to consume out of gross housing wealth of 0.05 for the United States and 0.06 for the United Kingdom. In "Comparing wealth effects: the stock market *versus* the housing market", *NBER Working Paper*, No. 8606, 2001, K. Case, R. Shiller, and J. Quigley find the wealth effect stemming from the housing market to exceed that associated with equity holdings.

tended to weigh on household consumption, while business investment has been lacklustre, leaving exports as the only really dynamic element of aggregate demand during the first half of 2002.

… while investment has remained depressed

Meanwhile, financing conditions have deteriorated for many companies and business confidence is generally weak. It is now projected that business fixed investment in the OECD as a whole will contract by 4¼ per cent in 2002, after a 2¼ per cent decline in 2001 – cumulatively a much larger decline than in the recessions of

Figure I.2. **Capacity utilisation rates in manufacturing**



Note: Business tendency survey, rate of capacity utilisation, for countries of euro area; index of capacity of utilisation for United States and Japan.
Source: OECD, *Main Economic Indicators.*

the early 1980s and early 1990s. This reflects not only growing uncertainty about near-term profit and sales prospects but also a considerable degree of unused capacity in manufacturing (Figure I.2). Part of the capital overhang resulting from previous high investment has yet to be eliminated (notably in some sub-sectors of telecommunications in the United States, and also, more broadly perhaps, in Japan). Although capital-output ratios have come down quite substantially, capacity utilisation rates in both the United States and Japan are still far below their long-term averages. In Europe, where the cyclical decline in capacity utilisation is less pronounced, business investment has nevertheless continued to contract reflecting subdued demand and an uncertain profit outlook. Contrasting with the decline in fixed investment, destocking has slowed, providing a temporary technical boost to GDP.

Forces shaping the recovery

Forward-looking indicators point to near-term weakness

Forward-looking indicators suggest that a solid recovery may be rather slow to materialise. Purchasing manager surveys indicate that factory output is contracting in the United States, while auto production schedules are being cut back. In the euro area, similar surveys show that manufacturing may be sliding back into recession. Similarly, the Bank of Japan's September *Tankan* survey of companies suggested that Japan's recovery may already be weakening. Business surveys more generally paint a similar picture (Figure I.3). In the euro area, business expectations rose in the first half of 2002, but have since deteriorated in line with those in the United States, falling to levels normally associated with declining production. The deterioration in prospects has been particularly noticeable in Germany.

The global equity market slide continued in 2002…

Notwithstanding the large corrections witnessed since 2000, equity valuations in mid-2002 implied anticipation of double-digit earnings increases. As expectations have adjusted, broad indices have subsequently fallen to their lowest levels since the mid-1990s in the United States and Europe, and since the early 1980s in the case of Japan.[1] Equity market weakness of this magnitude is unusual in periods of well-established economic recoveries, when equity prices normally tend to rise. In the United States for example, the equity price slide that has taken place since the turn of the year is the first decline in any of the 18 economic recoveries since 1912 (Figure I.4).[2]

… and the investment climate worsened

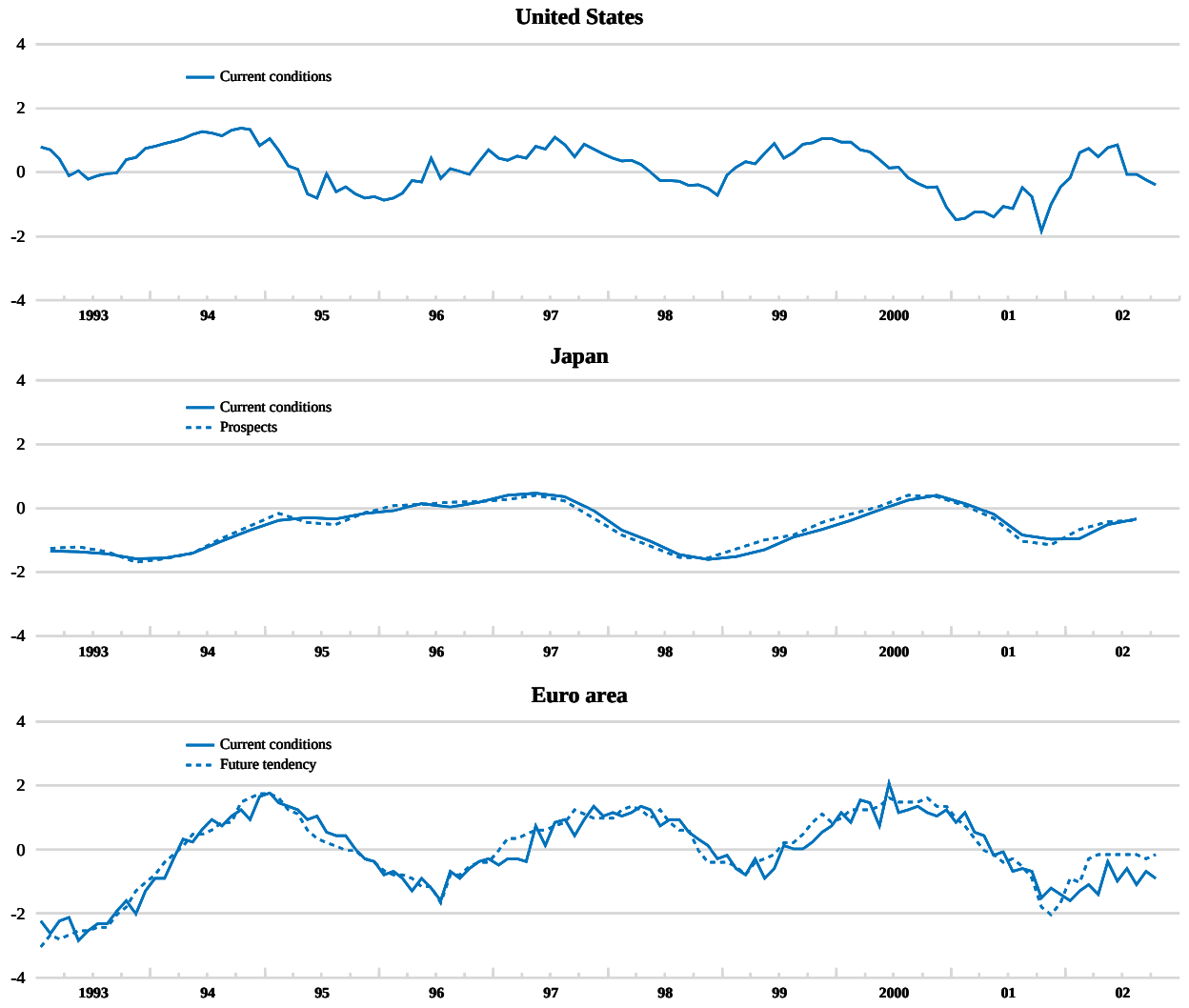
The global investment climate is also suffering from fall-outs from the string of corporate governance, accounting and investment bank scandals, which started in the United States in late 2001 with the bankruptcy of Enron and seem to have propagated to other countries as well (see below). The effects are difficult to assess quantitatively, but are likely to reinforce the negative factors currently affecting private consumption and investment decisions.

Investors show greater risk aversion

As a consequence of, or perhaps as a major factor behind global equity market weakness, risk aversion has risen among institutional and individual investors alike. Investors seeking safe havens have moved from equity to government bond markets, where yields have declined substantially, while corporate yield spreads have widened,

1. In the third quarter of 2002 the German Dax index lost 36 per cent, and the London FTSE 20 per cent. The US Dow Jones industrials index experienced its worst quarterly performance since the 1987 crash, and the fall in September marked the sixth consecutive month of decline, the longest period in 21 years. US and European equity markets indices recovered in recent weeks, however.
2. Since before the Great Depression, the Standard and Poor's 500 index has posted median gains of 18½ per cent in the first eight months of an economic recovery (the Business Cycle Dating Committee of the National Bureau of Economic Research has not yet pronounced this a recovery, however).

Figure I.3. **Business surveys: current and future tendency**



Note: All series have been normalised at the average for the period for which data are available and are presented in units of standard deviation.
Source: OECD, *Main Economic Indicators.*

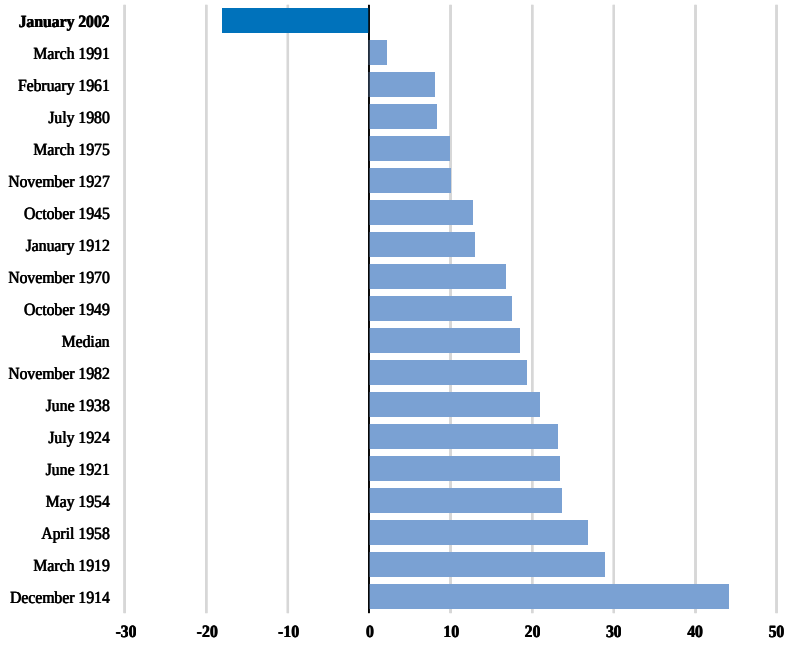
particularly for lower-investment-grade borrowers. For non-investment-grade borrowers, in particular start-up firms and high-risk enterprises, venture capital and capital for initial public offerings have become scarce. At the same time, bank lending attitudes have tightened not only because the outlook is generally more uncertain but also because in some cases financial institutions have been forced to dispose of assets to protect their own capital base.

Consumers are affected by wealth losses

Equity price declines directly affect household spending through wealth effects, though these have to some extent been offset by continued buoyancy of housing markets, notably in the United States and the United Kingdom. On the European continent, where households' direct equity holdings are comparatively smaller, consumer behaviour has nevertheless been affected indirectly via the substantial losses incurred by life insurance companies and pension funds on their asset holdings. In Japan, lower share prices may have affected households indirectly, through a weakening of corporate pension funds.

Figure I.4. **Equity prices in US economic recoveries**[1]

Per cent change in the eight months after each recession trough



1. Dow Jones Industrial average.
Source: Datastream and OECD.

The overall fiscal stance has loosened in 2002…

The general government deficit for the OECD area as a whole has deteriorated rather abruptly in 2002, by 1½ per cent of GDP. This is mostly a reflection of the shift in fiscal stance in the United States, where the cyclically-adjusted budget balance has declined by over 3½ per cent of GDP since 2000. In the United Kingdom and Canada, too, the cyclically-adjusted shift is very pronounced. In the euro area, there has been a significant non-cyclical weakening in Germany, but economic activity accounts for most of the budget deterioration in 2002. Germany is expected to breach the 3 per cent Stability and Growth Pact (SGP) deficit limit while France is approaching it. In Japan, the deficit is projected to worsen from an already very high level.

… but should begin to tighten moderately in 2003 and thereafter

Under announced policies (Box I.2), the overall OECD fiscal position would not deteriorate further in 2003 and 2004. The fiscal stance would tighten somewhat in the United States, due to slower public spending growth, while being broadly neutral in Japan (assuming no supplementary budget) and in the euro area at large. Germany is set to respond to substantial slippage from the stability programme target by significantly tightening its fiscal stance over the coming two years. However, a number of euro area countries, notably France and Italy, would on current policies maintain the recent fiscal easing. Budget deficits in OECD transition economies would improve but remain high, ranging from 4 to over 6 per cent of GDP. Budgets in Australia, Canada, New Zealand and Korea would remain in surplus.

Interest rates are low

The US Federal Reserve maintained the federal funds rate at a historically low 1¾ per cent from late 2001 to early November 2002, when it was reduced

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

Fiscal policy assumptions are based on an as close to unchanged policies or "current services" basis as possible. They embody only the effects of measures that are legislated, or that are known in detail and are about to be legislated. This means that governments are not given credit for hopes, intentions or normative targets but only for actual measures or for procedures that have stood the test of time in delivering outcomes. Departure from this underlying basis is allowed only in line with well-established practice in respect of slippage.

Policy-controlled interest rates are set in line with the stated objectives of the relevant monetary authorities with respect to inflation and, in some cases, to supporting activity or exchange rates. In the United States, the federal funds target rate, which has recently been lowered to 1¼ per cent, is assumed to rise gradually, to 3¾ per cent by late 2004, as activity firms and some withdrawal of policy stimulus becomes appropriate in order to maintain price stability. In the euro area, the main refinancing rate is assumed to be lowered by ½ percentage point over the coming months, and to start gradually moving up later in 2003, to approach 4 per cent in late 2004. In Japan, short-term interest rates are assumed to remain close to zero throughout the projection period.

The projections assume unchanged exchange rates from those prevailing on 4 November 2002; in particular, one US dollar equals ¥ 122.5 and € 1.003. For Turkey, the exchange rate is assumed to depreciate in line with projected inflation.

Since early 2002, oil prices have responded to production cutbacks and political tensions in the Middle East. World energy demand should gradually gather momentum, and as OPEC production cuts are likely to be maintained, this should by itself keep the oil market rather tight. Moreover, there is considerable uncertainty about oil prices in case of a military conflict in the region. Against this background, a working hypothesis has been adopted where the average OECD import price of oil remains unchanged at $25.8 per barrel through 2002 and 2003 and eases to $24.8 per barrel in 2004. There has been some rise in non-oil commodity prices since the troughs observed in late 2001, but average annual increases are likely to be modest, as industrial raw materials markets adjust to moderate activity globally this year and next. Drought, however, has led to steep increases in wheat and corn prices this year.

The cut-off date for information used in the projections is 8 November 2002.

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

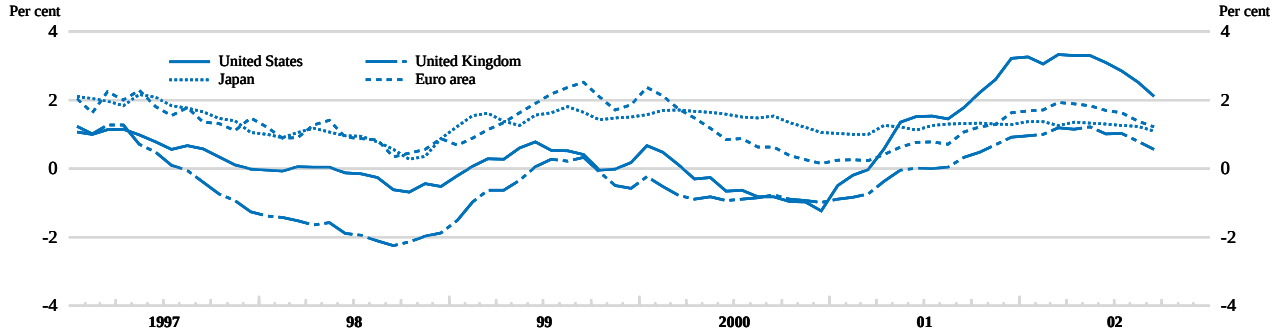
further to 1¼ per cent. The Eurosystem has kept its policy-controlled rate unchanged at 3¼ per cent over the same period, and the OECD projections assume that in the euro area short-term interest rates will also decline by ½ percentage point in the near future. Money market rates would only start to rise relatively late in the projection period, as the recovery gathers pace. The yield curve has flattened (Figure I.5), as inflation expectations (measured via indexed bond yields) seemed to recede, and bond prices have benefited from the flight from equity markets. Hence, bond yields may bounce back somewhat as uncertainty begins to dissipate, confidence returns and growth picks up.

The dollar is somewhat weaker and oil prices are volatile

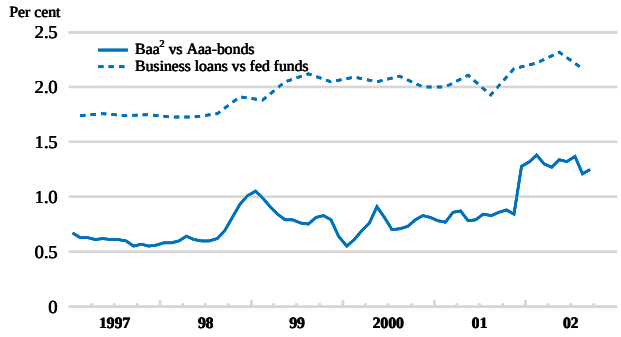
By early November, and compared with early April, when the previous set of *OECD Economic Outlook* projections were finalised, the dollar had depreciated by close to 14 per cent against the euro and by close to 8 per cent against the yen. In effective terms, however, it had depreciated by less than 3 per cent. Oil prices increased by about $5 per barrel between June and September 2002. Part of the rise reflected growing market concerns about geopolitical tensions in the Middle East – with a premium evaluated by many observers at around $3 to $5 per barrel. However, by early November, oil prices had reverted to their June levels. It has been assumed as a working hypothesis that the average OECD import price of oil will stay close to $26 through end-2003 and ease to just below $25 per barrel in 2004 (Table I.1).

Figure I.5. **International term spreads and credit conditions in the United States**

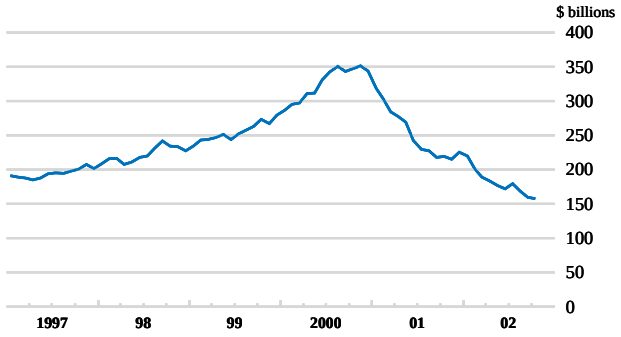
Term spreads[1]



Commercial yield spreads in the United States



Stock of outstanding commercial paper in the United States
Non-financial paper, end-period



1. Long-term government bond yield less 3-month money market rate.
2. Baa are low-investment-grade bonds.

Source: OECD, Main Economic Indicators; Federal Reserve Board.

Table I.1. **Oil and non-oil commodity prices**

	2000	2001	2002	2003	2004
	Percentage changes				
OECD import oil price (cif)	62.1	-15.8	1.6	7.8	-4.1
Non-oil commodity prices[a]	3.1	-8.6	-1.5	5.6	3.1
	$ per barrel				
Memorandum item:					
OECD import oil price (cif)[b]	28.0	23.6	23.9	25.8	24.8

a) Total Hambourg commodity price index, excluding energy. OECD estimates and projections for 2002-04.

b) The historical data for the OECD crude oil import prices are average cif unit prices as calculated by the International Energy Agency; that is, they include cost, insurance and freight but exclude import duties. OECD estimates and projections for 2002-04.

Source: Hamburg Institute for Economic Research (HWWA), International Energy Agency and OECD.

Looking ahead: a gradually strengthening but modest recovery

Activity should gradually firm in the United States…

The global recovery is slow and fragile and its momentum is, in the initial stages, heavily dependent on developments in the United States. In 2002, US GDP should grow at some 2¼ per cent, and with the expansion remaining muted into early 2003, average annual growth is projected to be only slightly faster next year (Table I.2). However, by mid-2003 the support from monetary policy, in conjunction with ongoing improvements in corporate balance sheets, should lead to the more solid recovery in business fixed investment needed to underpin the expansion.

… and in the euro area…

Exports have been the main motor of output growth in the euro area during 2002, but private consumption is expected to pick up in 2003 (Table I.3), as actual and perceived inflation slowly ease and confidence improves. Higher consumer demand should be accompanied by renewed inventory accumulation, with business investment benefiting, later in the projection period, from both higher domestic spending and improving export demand. However, growth performance within the euro area, as in Europe at large, is not projected to be uniform. Germany and Italy in particular appear to have less domestically-led growth momentum than other economies within and outside the euro area.

Table I.2. **Contributions to changes in real GDP**

Per cent of GDP in previous period

	2001	2002	2003	2004
United States				
Final domestic demand	1.7	2.4	2.4	3.7
of which: Business investment	-0.8	-0.8	0.3	1.1
Stockbuilding	-1.4	0.6	0.4	0.3
Net exports	-0.2	-0.7	-0.3	-0.4
GDP	0.3	2.3	2.6	3.6
Japan				
Final domestic demand	0.6	-0.7	0.1	0.5
of which: Business investment	0.0	-1.1	0.1	0.0
Stockbuilding	-0.2	-0.7	0.1	0.0
Net exports	-0.7	0.7	0.5	0.3
GDP	-0.3	-0.7	0.8	0.9
Euro area				
Final domestic demand	1.4	0.3	1.5	2.3
of which: Business investment	0.0	-0.4	0.2	0.5
Stockbuilding	-0.4	0.0	0.3	0.2
Net exports	0.5	0.4	0.0	0.3
GDP	1.5	0.8	1.8	2.7
OECD				
Final domestic demand	1.2	1.4	2.0	2.8
of which: Business investment	-0.3	-0.6	0.3	0.7
Stockbuilding	-0.8	0.2	0.3	0.2
Net exports	0.3	-0.1	0.0	0.0
GDP	0.7	1.5	2.2	3.0

Source: OECD.

Table I.3. **Euro area: summary of projections**

	1999 current prices		2001	2002	2003	2004
	Billion euros	Per cent of GDP	Percentage changes, volume			
Private consumption	3 587 .1	57.3	1.8	0.6	1.5	2.5
Government consumption	1 247 .2	19.9	1.9	2.1	1.6	1.4
Gross fixed capital formation	1 316 .0	21.0	-0.3	-1.9	1.6	3.1
Residential	363 .7	5.8	-2.7	-0.6	1.2	1.2
Business	794 .3	12.7	0.0	-2.7	1.3	4.3
Government	157 .9	2.5	3.6	-0.2	3.7	1.1
Final domestic demand	6 150 .4	98.2	1.4	0.3	1.5	2.4
Stockbuilding [a]	19 .3	0.3	-0.4	0.0	0.3	0.2
Total domestic demand	6 169 .7	98.5	1.0	0.4	1.8	2.6
Net exports [a]	92 .4	1.5	0.5	0.4	0.0	0.3
GDP at constant prices			1.5	0.8	1.8	2.7
GDP at current prices	6 262 .0	100.0	3.9	3.0	3.8	4.6
Memorandum items						
Harmonised consumer price index			2.5	2.4	2.2	2.0
Private consumption deflator			2.4	2.2	2.0	1.8
Total employment			1.5	0.4	0.5	1.2
Unemployment rate			8.0	8.3	8.5	8.3
General government financial balance [b]			-1.5	-2.2	-2.1	-1.8
Current account balance [b]			0.1	0.9	0.9	1.2
Output gap [c]			0.0	-1.3	-1.5	-1.0

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

… but deflation and sluggish growth continue in Japan

In Japan, growth has come out of negative territory, but this partly reflects slower destocking and activity is projected to remain weak against the backdrop of continued, if relatively stable, deflation. Growth remains heavily dependent on exports, which expanded briskly during the first half of 2002 although they slowed over the summer, while structural adjustment in the enterprise sector continues to affect corporate investment and employment negatively. With high unemployment and weak income growth, household spending increases will remain modest. Real GDP growth is expected to average less than 1 per cent in 2003 and 2004.

Overall, modest employment growth should resume

The recovery in the United States has been associated with shrinking labour demand (Table I.4). In the euro area, employment has been more resilient but ceased to expand, on average, in the third quarter and is contracting in Germany. As economic activity gathers momentum, employment growth should start strengthening again. However, unemployment may not start to decline until 2004, as labour force growth is also projected to rise. In Japan, employment in hours may continue to fall faster than employment in persons, with job creation increasingly in the form of part-time contracts. In addition, the decline in the labour force cushions unemployment. OECD area-wide unemployment is projected to peak in late 2003 at 36¼ million or close to 7 per cent of the labour force.

Area-wide inflation should remain low…

The projected output gaps are not particularly large when compared with previous recessions and recoveries – except in Japan. Moreover, despite different output growth rates, they are quite similar on both sides of the Atlantic. Growth in the two

Table I.4. **Productivity, unemployment, output gaps and inflation**

	2001	2002	2003	2004
		Percentage changes		
Labour productivity				
United States	0.2	3.8	1.7	1.7
Japan	0.0	0.5	1.1	1.1
Euro area	-0.1	0.4	1.5	1.7
European Union	0.4	0.7	1.7	1.8
Total OECD	0.2	2.0	1.7	1.8
Employment				
United States	-0.1	-0.5	0.8	1.5
Japan	-0.5	-1.4	-0.4	-0.2
Euro area	1.5	0.4	0.5	1.2
European Union	1.4	0.4	0.4	1.1
Total OECD	0.4	0.1	0.6	1.2
		Percentage of labour force		
Unemployment rate				
United States	4.8	5.8	6.0	5.7
Japan	5.0	5.5	5.6	5.6
Euro area	8.0	8.3	8.5	8.3
European Union	7.3	7.6	7.8	7.5
Total OECD	6.4	6.8	6.9	6.7
		Per cent		
Output gaps[a]				
United States	-0.7	-1.4	-1.7	-1.1
Japan	-1.4	-2.9	-2.9	-2.6
Euro area	0.0	-1.3	-1.5	-1.0
European Union	0.0	-1.2	-1.3	-0.8
Total OECD	-0.5	-1.5	-1.7	-1.1
Inflation[b]		GDP deflator		
United States	2.4	1.1	1.3	1.3
Japan	-1.2	-1.0	-1.6	-1.4
Euro area	2.4	2.2	1.9	1.8
European Union	2.3	2.4	2.0	1.9
Total OECD *less* Turkey	2.0	1.5	1.4	1.3
Total OECD	2.9	2.2	1.8	1.6
		Consumer price index		
United States	2.8	1.6	1.9	1.8
Japan	-0.7	-1.1	-1.1	-1.1
Euro area[c]	2.5	2.4	2.2	2.0

a) Per cent of potential GDP.
b) Percentage change from previous period.
c) Harmonised index of consumer prices.
Source: OECD.

major OECD regions eventually exceeds potential rates by a broadly similar margin at the end of the projection period, so that output gaps in the United States and the euro area tend to close in parallel. As a result, cyclical positions by the end of the projection period should not be very different. Since output gaps only start closing late in the projection period and then only moderately, inflation will remain subdued in the United States and deflation is likely to continue in Japan. In contrast, inflation in the euro area seems likely to exhibit a higher degree of inertia, despite a continuing negative output gap. Indeed, core inflation is stubbornly running at around 2½ per cent at present, and while headline inflation is projected to come down to the

2 per cent European Central Bank threshold in the second half of 2003, it would not continue to ease thereafter.

… with profit margins improving

Following steep declines area-wide in 2001-02, a strong pick-up of business investment is crucial for the projected recovery of economic activity in 2003-04 to materialise. However, a rise in business spending depends *inter alia* on an improvement in future profits, since margins came under pressure in many countries over the final years of the past decade, as reflected in increasing wage shares (Figure I.6). Unit profits deteriorated most in the United States and in the United Kingdom, where wage increases more than absorbed productivity gains.[3] For the OECD as a whole, a significant increase in margins will be registered in 2002 in a context of more subdued labour markets and improving productivity. Thereafter they are projected to stabilise.

World trade should regain momentum…

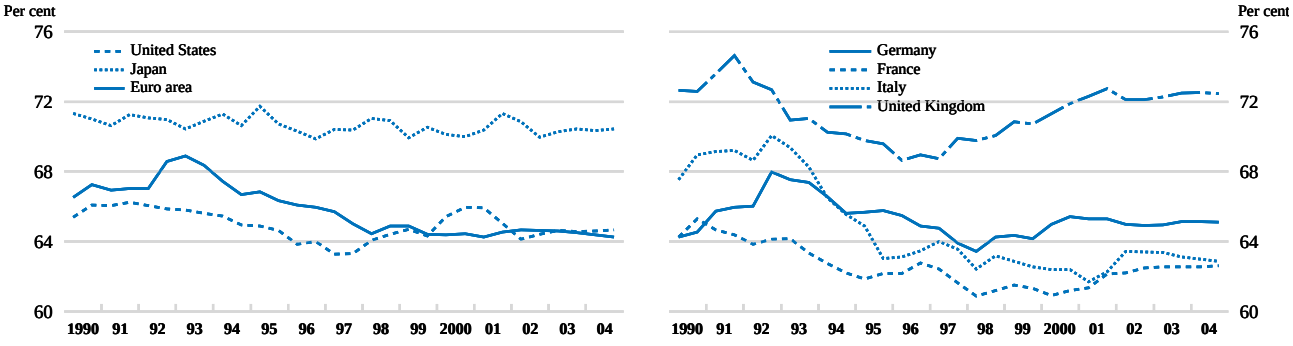
World trade growth picked up sharply in early 2002, in part reflecting the bottoming out of the trade-intensive information-technology cycle, with reduced destocking (Table I.5). However, as global economic activity lost some of its momentum in late summer, the pace of world trade growth tapered off. For the year as a whole the increase will be in the order of 2½ per cent. Looking forward, and in the context of a global recovery, world trade growth is projected to pick up to around 8 per cent.

… but current account imbalances are building up again

With the United States and Europe sharing the same pattern of recovery, and Japanese domestic demand remaining weak, current external imbalances are set to remain large, and could even widen further. The US current account deficit is likely to rise from just under 4 per cent of GDP in 2001 to 5¼ per cent in 2004. As a counterpart, the Japanese surplus would double from 2 to 4 per cent of GDP, reflecting stagnating domestic demand and imports. The European current account surplus would increase somewhat, while remaining modest, at around 1 per cent of GDP.

Figure I.6. **Wage shares in the business sector**

Per cent of business GDP



Source: OECD.

3. For more evidence, see Citron, L. and R. Walton, "International comparisons of company profitability", *Economic Trends*, No. 587, 2002.

Table I.5. **World trade and current account summary**

	2001	2002	2003	2004
		Percentage changes		
Merchandise trade volume				
World trade[a]	0.0	2.6	7.7	8.8
of which: Manufactures	-0.8	2.3	7.9	9.2
OECD exports	-0.4	1.6	6.1	8.0
OECD imports	-0.6	1.5	6.2	8.0
Non-OECD exports	-0.1	5.4	11.8	10.8
Non-OECD imports	2.9	5.6	12.0	11.3
Intra-OECD trade[b]	-0.9	0.3	4.5	7.2
OECD exports to non-OECD	2.4	6.4	12.3	10.9
OECD imports from non-OECD	0.0	6.2	11.6	10.1
Trade prices				
OECD exports[c]	-2.6	2.0	4.6	1.4
OECD imports[c]	-3.3	0.8	4.4	1.2
OECD terms-of-trade with rest of the world[d]	2.0	1.9	-0.1	0.6
Current account balances		Per cent of GDP		
United States	-3.9	-4.9	-5.1	-5.3
Japan	2.1	3.2	3.8	4.2
Euro area	0.1	0.9	0.9	1.2
European Union	-0.2	0.5	0.5	0.5
OECD	-1.1	-1.2	-1.2	-1.2
		$ billion		
United States	-393.4	-509.8	-553.6	-599.7
Japan	87.7	128.3	153.2	169.7
Euro area	6.8	58.9	68.1	90.9
European Union	-13.2	45.2	43.2	53.1
OECD	-279.0	-304.3	-327.7	-348.9
Non-OECD	94.7	81.7	92.5	86.2
World	-184.3	-222.5	-235.2	-262.7

Note: Regional aggregates include intra-regional trade.
a) Growth rates of the arithmetic average of world import volumes and world export volumes.
b) Arithmetic average of the intra-OECD import and export volumes implied by the total OECD trade volumes and the estimated trade flows between the OECD and the non-OECD areas based on the 1995 structure of trade values.
c) Average unit values in US$.
d) The OECD terms of trade are calculated as the ratio of OECD export to OECD import prices, excluding intra-OECD trade.
Source: OECD.

Economic policy challenges

Policies are already expansionary with little room for further support

As noted above, macroeconomic levers have been used in a number of OECD countries to limit the magnitude of the downturn, often quite actively so. In addition, some easing was already in train before the full extent of the downturn became apparent, notably in the United States. Given the lags with which changes in policy parameters affect activity, this loosening turned out to be welcome from a cyclical perspective. Room for further support is now narrower everywhere, but generally – and in the absence of new shocks that are not built into the baseline projection – there is still considerable stimulus in the pipeline.

Monetary policy is expansionary against a background of low inflation

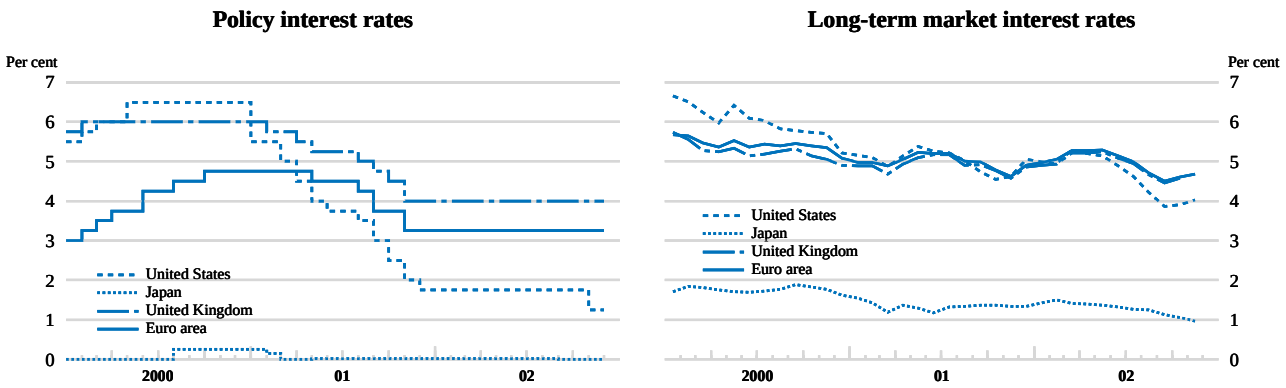
Monetary policy is accommodating

As illustrated in Figure I.7, policy-controlled rates in the four largest OECD currency areas (United States, euro area, Japan, United Kingdom) remained on hold at low levels following the series of cuts in 2001. This "wait-and-see" posture was related to a weaker-than-expected upturn and mixed signals about the outlook. In early November this year, however, and with risks to growth gaining prominence, the policy rate was brought down by ½ percentage point in the United States. The Eurosystem did not follow, but did discuss a rate cut. Reflecting disparate short-term trends, interest rate movements have diverged elsewhere since late 2001. In a few smaller countries, rates have been cut (Czech Republic, Denmark, Poland and, notably, Switzerland – where the central policy rate is now only ¾ per cent). While tightening started earlier in 2002 in some others (Australia, Canada, Hungary, Korea, New Zealand, Norway, Sweden), monetary policy since has been on hold there, or even on a path of renewed easing.

The Federal Reserve has cut rates aggressively…

Compared with past downturns, lower inflation and enhanced credibility have allowed the Federal Reserve to ease more substantially. By cutting rates aggressively in the course of 2001, the Federal Reserve moved faster and further than a traditional Taylor rule would have prescribed.[4] The current level of 1¼ per cent for federal funds is the lowest in over four decades.[5] Reflecting the mixed signals regarding the strength of the recovery, the central bank's risk assessment has shifted from "weakness" to "balanced" in March, reverting to "weakness" in August and back again to "balanced" at the time of the November cut.

Figure I.7. **Interest rates**



Source: OECD, *Main Economic Indicators.*

4. The standard "Taylor rule" sets the interest rate as a function of the output gap and of the deviation of actual or projected inflation from explicitly or implicitly targeted inflation.
5. In some ways, the current environment of low inflation and nominal interest rates is reminiscent of the 1950s and early 1960s. At the trough of the four recessions that occurred between 1952 and 1965, the three-month interest rate stood at 1.0, 0.8, 1.1 and 2.4 per cent, respectively.

… as an insurance against downside risks

Even if deflation remains a remote risk in the United States, there is a desire to draw the lessons from Japan's experience.[6] Two stand out. The first is that the costs associated with possible policy errors are asymmetric. They are far higher when erring on the conservative side than when loosening too much: if deflation sets in, the central bank's control over real policy rates is undermined, while a rise in inflation expectations can be more easily headed off. This asymmetry then justifies a policy posture biased towards expansion, involving decisive cuts early in the downturn and a deferral of rate hikes until a recovery is well under way, as "insurance" against downside risks. Such a stance is also seen as helping meet the second concern – that of preserving a sound financial system – thereby allowing monetary policy to operate effectively. In that respect, the situation in the banking sector looks less worrisome now than during the 1991-92 recession or in Japan a decade ago, so that the transmission mechanism can indeed be relied upon.

The Eurosystem faces a somewhat different dilemma

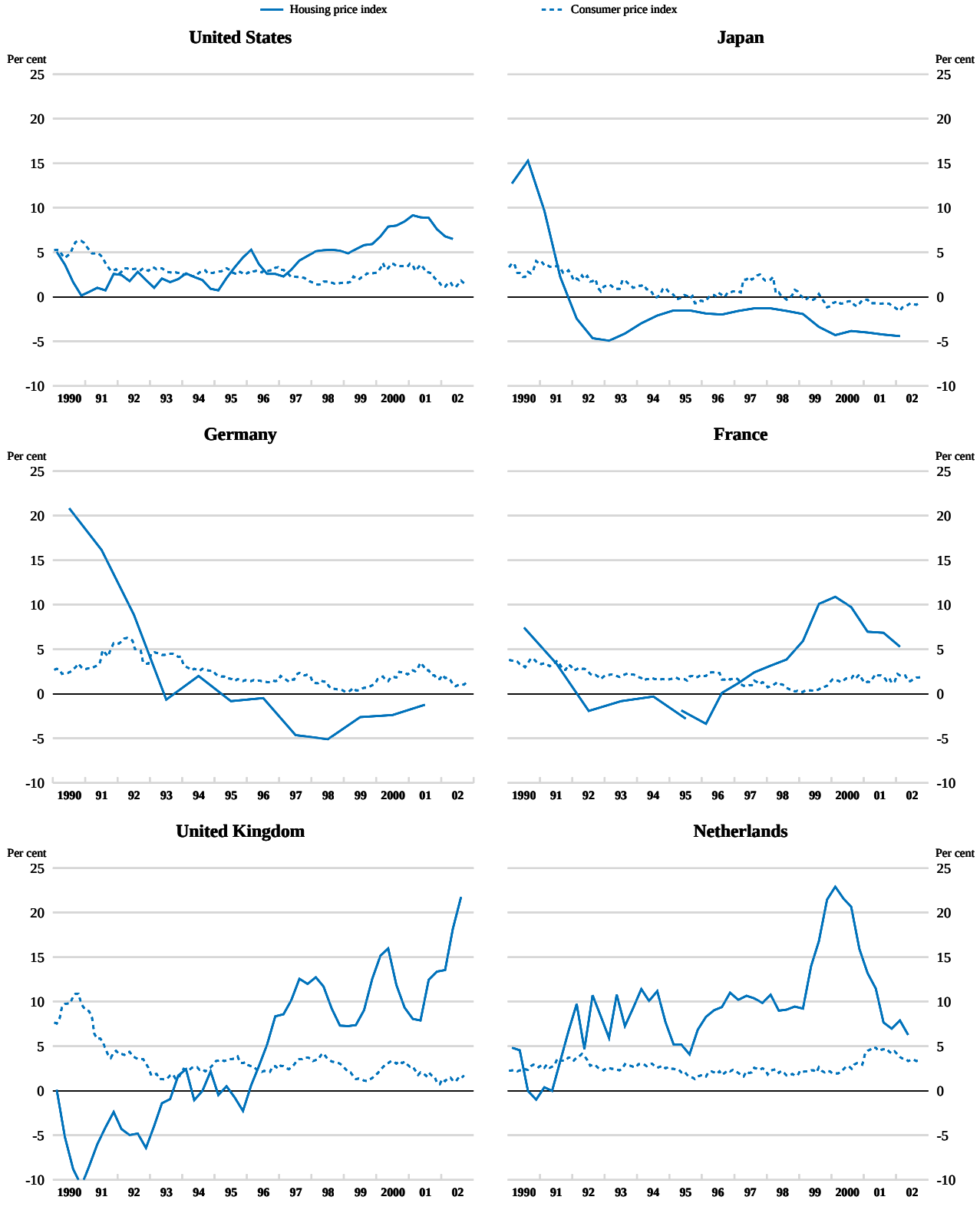
The Eurosystem has also kept its minimum refinance rate at a relatively low level in light of history – and a fairly accommodative one by Taylor-rule standards.[7] Over the summer, the Eurosystem's assessment of the balance of risks moved in the same direction as at the US Federal Reserve. However, headline inflation in the euro area (as measured by the harmonised consumer price index) has remained above 2 per cent most of the time during the last two and a half years, and perceived inflation – as captured in household surveys – has been even higher following the changeover to euro cash. Even if the Eurosystem is only aiming to keep inflation below 2 per cent over the medium term, this protracted overshooting makes it more difficult to cut interest rates, all the more so as some second-round effects have become visible in the form of pressures on the part of wage-earners for wages to catch up and an acceleration in hourly labour costs, which in mid-2002 were up by 3¾ per cent over a year earlier. On the other hand, the substantial appreciation of the euro since last Spring helps damp inflation. Broad money growth, at around 7 per cent, has continued to run well above the Eurosystem's 4½ per cent reference value, but this partly reflects portfolio shifts towards liquid and safe assets and in any event says little about inflation prospects in the short run. Growth in credit to the private sector, which in this context is perhaps more relevant, has been on a downward trend, with recent readings around 5 per cent.[8] Against this background, a moderate cut in the policy rate is embodied in the OECD baseline projection, but the Eurosystem should stand ready to move further if prospects were to weaken substantially.

In the United Kingdom, monetary policy needs to avoid a housing price bubble

In some OECD economies, central banks face the dilemma of supporting activity while avoiding what could become a house price bubble.[9] House prices constitute a particularly important transmission mechanism for monetary policy in the United Kingdom and have been accelerating in the course of 2002, contrasting with trends in much of the euro area (Figure I.8). In recent months, this has been a key consideration underlying the decision by the Bank of England not to cut the repo rate further.

6. See Ahearne, A. *et al.*, "Preventing deflation: lessons from Japan's experience in the 1990s", Federal Reserve Board, *International Finance Discussion Papers*, No. 729, 2002.
7. This assessment would be less clear-cut if one used a Taylor rule embodying an inflation target of, say, 2½ per cent.
8. Any single money or credit indicator is nonetheless potentially misleading on its own. The profile of the M3 series changed twice in 2001, following redefinitions of its contours, and buoyant credit growth in 1999-2000 partly reflected the financing of a merger and acquisitions wave and of third-generation mobile phone licenses.
9. For a more general analysis of the importance of asset prices in monetary policy see for instance Borio, C. and P. Lowe, "Asset prices, financial and monetary stability: exploring the nexus", *BIS Working Paper*, No. 114, 2002 and Bernanke, B., "Asset-price 'bubbles' and monetary policy", remarks before the New York Chapter of the National Association for Business Economics, 15 October 2002.

Figure I.8. **Housing and consumer price inflation**[1]



1. Year-on-year percentage changes.
Source: OECD, *Main Economic Indicators*; BIS; Nationwide.

Japanese monetary policy remains in a deflationary trap

In the case of Japan, the nominal policy rate has essentially remained at the zero bound for some time but deflation expectations remain entrenched. To ensure an ample supply of liquidity and try to boost monetary growth, the Bank of Japan has increased its target for banking system reserves in steps, most recently to ¥ 15 to 20 trillion. It has also increased its purchases of government bonds, which now amount to ¥ 1.2 trillion per month, effectively underwriting over a third of the general government net borrowing requirement. Thus far, however, broad money has not followed suit, and bank lending has continued to contract. Moreover, the yen has actually been appreciating, notwithstanding the authorities' massive intervention on the foreign exchange market in the second quarter of 2002. Meanwhile, real short-term interest rates remain stuck at over 1 per cent.

Various measures aim at repairing bank balance sheets…

While the anticipation of falling prices reduces the demand for credit, it also exacerbates bank balance sheet problems. New estimates of bad loans published by the Financial Services Agency have confirmed that the amount of non-performing loans (NPLs) is far greater than hitherto acknowledged. And the actual scale of the problem may still not yet be fully revealed, especially as regards regional banks. Decisive measures to address the NPL problem are essential to support monetary policy, and over the past year the authorities have moved towards a more robust approach to NPLs. In an unorthodox move, the Bank of Japan recently announced that it would directly buy some ¥ 2 trillion worth of listed equity held by banks, at market prices – not to boost already abundant liquidity, but to help them reduce their holdings of shares to the level of their tier-I capital. This scheme is intended to help clean up bank balance sheets without forcing them to sell the shares in the market, which would push their prices down further and exacerbate financial instability. The Bank of Japan's initiative raises delicate questions as to whose and which shares would be selected, and as to how the associated voting rights will be used.

… most recently in october…

This initiative was followed by a new government package unveiled in late October 2002 and involving *inter alia*:

- Tightening loan quality assessments and enhancing provisioning through another round of special inspections for large borrowers by March 2003; discounted cash flow methods might be introduced to value loans to large borrowers classified as "in need of special attention".
- Reinforcing capital adequacy, possibly via a ceiling on the tax credits that can be counted as part of banks' tier-I capital,[10] more generous tax treatment of provisioning, and a new scheme making it easier to inject public funds (the current one allows this only in a systemic crisis).
- Accelerating the resolution of NPLs and rehabilitation of distressed debtors, with the creation of an Industrial Revitalisation Corporation and the securitisation of distressed loans.

To cope with the worsening in the deflationary pressure and rise in unemployment that accelerated NPL resolution might entail, a strengthening of the social safety net is under consideration (via an extension of employment subsidies and the public employment programme).

10. A recent Bank of Japan report noted that deferred tax assets account for over 40 per cent of tier-I capital. These tax credits are genuine assets only if banks generate profits in the future.

… but their effectiveness remains to be seen

How effective the latest initiatives will be remains to be seen, not least because of the persisting risk that fresh public money be channelled to moribund companies which are undercutting healthier competitors. Impediments to the efficient operation of the banking system remain considerable. The authorities have recently decided that the capping of deposit insurance scheduled for April 2003 would be postponed by two years. Banks and depositors will therefore continue to face a risk of moral hazard. It is thus all the more important that banks be pressed to improve loan classifications and forced to restructure, even if it results in bank closures or requires the injection of public funds. To stem the growth of new NPLs, it is also necessary to restore banks' profitability. Margins on bank lending fail to cover the costs of deposit-taking activities and credit risk, and the playing field remains tilted by the presence of public financial institutions, notably the Post Office, which offers fully guaranteed deposits without bearing the associated cost.

Fiscal policy: the need for spending restraint

Fiscal positions have turned around sharply…

Fiscal positions have sharply deteriorated during the downturn, both in headline and in cyclically-adjusted terms (Table I.6 and Figure I.9), following the substantial strides in fiscal consolidation made during the 1990s. As noted in earlier issues of the *OECD Economic Outlook*, the momentum of fiscal adjustment weakened in the late 1990s. In a number of countries the opportunity was lost during the relatively buoyant growth years to bring budgets into surplus or at least close to balance, which would have put governments in a better position to let the automatic stabilisers operate unimpeded during the downturn. Overconfidence about the permanence of tax receipts coupled with overoptimistic growth projections (reminiscent of the mid-1970s and late 1980s) served to justify tax-cutting and new spending initiatives. This year, US tax receipts are estimated to be falling more steeply, in real terms, than ever before during the last quarter century, and general government revenue in 2002 may be no higher than in 1992 in real terms. Elsewhere, there have been particularly abrupt revenue declines in 2002 in Canada and in many EU member states (including Austria, France, Finland, Germany, Ireland, Sweden and the United Kingdom), which also illustrate how strongly tax revenues react when activity and equity markets go through boom and bust phases.[11] Automatic stabilisers have usefully played their cushioning role, and should continue to operate. However, the room for new tax cuts is now limited or non-existent, especially where spending is being allowed to rise rapidly. In general, engineering tax reductions will require effective restraint on the spending side, in terms of both *ex ante* budgetary planning and *ex post* execution. Once the recovery is underway, it will be of utmost importance to consolidate swiftly for structural balance and tax objectives to be met. Robust and effectively applied fiscal rules can be of assistance in this respect (see Chapter IV below).

… in the United States…

In the United States, the fiscal stimulus, measured as the cumulative change in the cyclically-adjusted balance in 2001 and 2002 combined, exceeded that for any other recession period in the past four decades. It also dwarfed the loosening seen elsewhere, so that the bulk of the global fiscal impulse in 2001-02 was imparted by

11. In many OECD countries, receipts from individual income taxes on exercised stock options, which are only partly offset by their deduction from corporate taxable income, had increased considerably in the late 1990s, and have most likely dwindled since. The same holds for capital gains tax receipts: they have probably declined a lot already and taxpayers are carrying forward into future fiscal years a sizeable amount of realised but not yet deducted capital losses, not to mention accrued but as yet unrealised losses. In some countries, however, buoyant housing markets have generated positive tax revenue surprises.

Table I.6. **General government financial balances**

Per cent of GDP/potential GDP

	2001	2002	2003	2004
United States				
Actual balance	-0.5	-3.1	-3.0	-2.7
Cyclically-adjusted balance	-0.3	-2.7	-2.5	-2.4
Cyclically-adjusted primary balance	2.0	-0.7	-0.5	-0.5
Japan[a]				
Actual balance	-7.2	-7.9	-7.7	-7.8
Cyclically-adjusted balance	-6.8	-7.1	-6.9	-7.1
Cyclically-adjusted primary balance	-5.4	-5.9	-5.5	-5.6
Euro area				
Actual balance	-1.5	-2.2	-2.1	-1.8
Cyclically-adjusted balance	-1.5	-1.6	-1.4	-1.4
Cyclically-adjusted primary balance	2.0	1.8	1.9	1.9
European Union				
Actual balance	-1.0	-2.0	-1.9	-1.6
Cyclically-adjusted balance	-1.0	-1.4	-1.2	-1.2
Cyclically-adjusted primary balance	2.3	1.8	1.9	1.9
OECD[b]				
Actual balance	-1.4	-2.9	-2.9	-2.7
Cyclically-adjusted balance	-1.5	-2.6	-2.5	-2.5
Cyclically-adjusted primary balance	1.0	-0.4	-0.2	-0.2

Note: Actual balances are as a per cent of nominal GDP. Cyclically-adjusted balances are as a per cent of potential GDP. The cyclically-adjusted balance excludes one-off revenues from the sale of mobile telephone licences. The primary cyclically-adjusted balance is the cyclically-adjusted balance less net debt interest payments.

a) Includes deferred tax payments on postal saving accounts amounting to 0.5, 0.6 and 0.2 per cent of GDP in 2000, 2001 and 2002, respectively, and capital transfers to the Deposit Insurance Company amounting to 0.9 per cent of GDP in 2000.

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

Source: OECD.

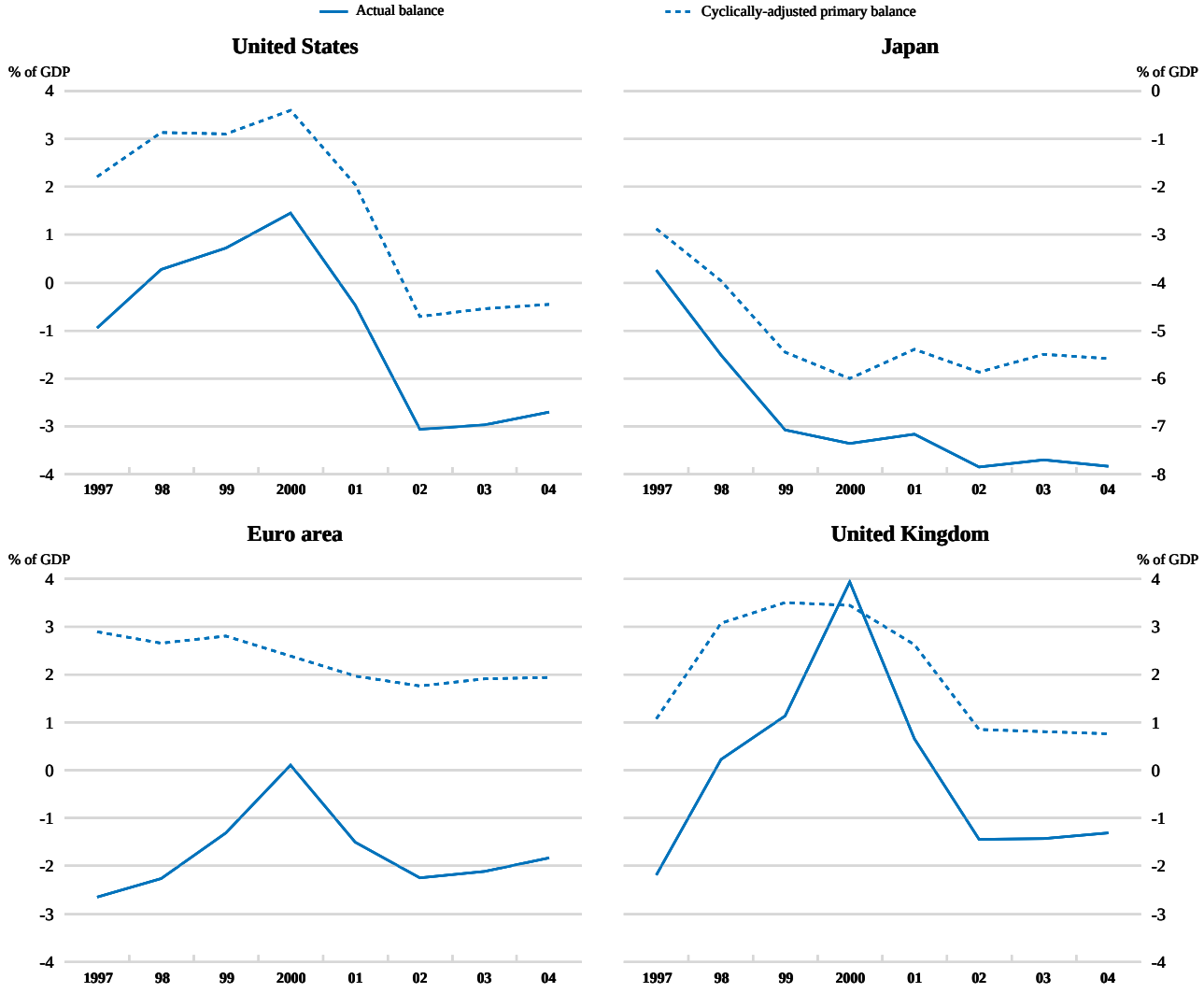
the United States (Figure I.10).[12] In cyclically-adjusted terms, the fall in revenue is related to the tax cuts legislated in mid-2001 (which are coming into effect in steps, with further relief yet to come), to the stimulus package passed in March 2002 and to the unexpected decline in the elasticity of revenues. At the same time, outlays have expanded, owing to cyclical but also to longer-lasting factors.

… where spending pressures are strong…

There are some deeper-seated spending pressures in the medium term, which will need to be controlled against the background of the legislated tax cuts yet to come into effect and the possible removal of the sunset clauses applicable to some of the 2001 tax reductions. Security spending, not least on the war against global terrorism,[13] is seeing the largest increase in two decades and is slated to rise further in the foreseeable future. Spending on Medicaid (health care for the low-income and the disabled) has accelerated. Over the longer run, and under the existing rules, public spending on health more broadly defined (also

12. However, automatic stabilisers are much more powerful in the euro area (see Brunila, A., M. Buti and J. in't Veld, "Fiscal policy in Europe: how effective are the automatic stabilisers?", *European Economy Economic Papers*, No. 177, 2002). Figure I.10 therefore reflects impulses more than fiscal offsets.
13. See Lenain, P., M. Bonturi and V. Koen, "The economic consequences of terrorism", *OECD Economics Department Working Papers*, No. 334, 2002.

Figure I.9. **Fiscal policy**



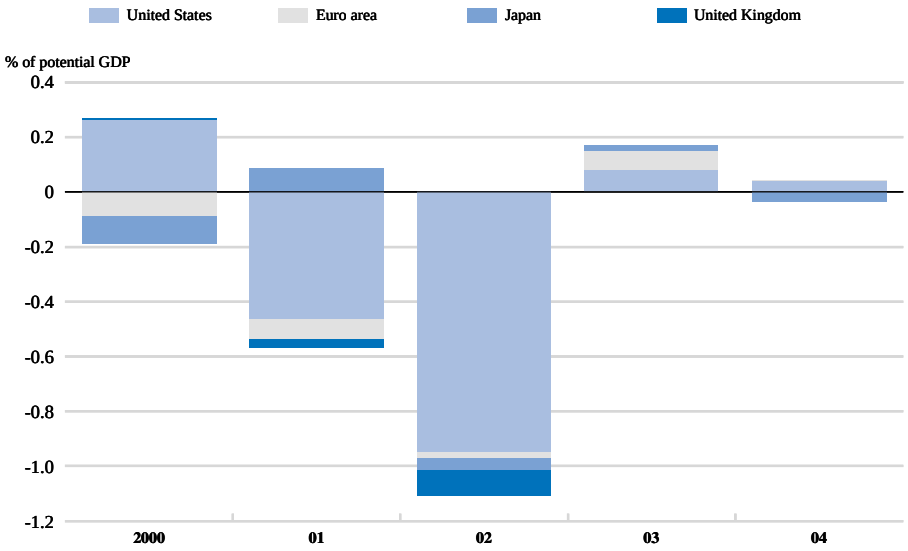
Source: OECD.

including Medicare, *i.e.* health care for the elderly) is projected to increase substantially.[14] So are social security outlays beyond the current decade.[15] Upward pressures for other categories of outlays, notably farm spending, have also been strong as of late. *De facto*, a fair degree of restraint is assumed in official US projections and in the OECD's baseline projection as well. But even then, the latter does not show a return to a general government surplus over the medium term, suggesting that there might be a need in future to raise taxes or to reconsider plans to render the 2001 cuts permanent. Consolidation during the 1990s was helped by the rules enshrined in the 1990 Budget Enforcement Act, which

14. Specific projections are discussed in the *OECD Economic Survey of the United States*, 2002.
15. Like health care costs, this is an OECD-wide problem; see Chapter V, "Increasing employment: the role of later retirement".

Figure I.10. **Contributions to the global fiscal impulse**

GDP-weighted change in cyclically-adjusted balances



Note: The sample of OECD countries included in this calculation is restricted to those for which an estimated cyclically-adjusted balance is available.
Source: OECD.

has now expired. While no set of rules is watertight, it would be desirable to reinstate some kind of overall medium-term framework (see Chapter IV below).

… as well as in Europe…

As noted above, in contrast with the United States, the deterioration in the euro area appears to be predominantly cyclical. In Sweden and the United Kingdom, however, it also reflects a sizeable loosening of the fiscal stance.[16] The fiscal situation in 2002 is thus much worse than projected in the previous *OECD Economic Outlook* and *a fortiori* than suggested by governments in the stability or convergence programmes submitted around late 2001 (Table I.7). As foreseen in the EU Treaty, the excessive deficit procedure has been activated for Portugal, where the deficit turned out to have exceeded 4 per cent of GDP in 2001, and for Germany, where it is projected to reach 3.7 per cent in 2002. In France, the deficit is projected to reach 2.7 per cent of GDP in 2002 and 2.9 per cent in 2003 and an early warning is being envisaged. This episode has, *inter alia*, highlighted deficiencies in the production and reporting of public finance data in several euro area countries.

16. In the case of Sweden, however, the cyclically-adjusted primary balance deteriorated by over 3 percentage point of GDP between 2001 and 2002, reflecting not only large tax cuts but also swings in capital gains tax receipts, which surged in 2001 and plummeted in 2002, but do not reflect discretionary policy. A similar caveat applies to a number of other countries as the OECD cyclical adjustment methodology does not in principle control for asset market cycles. For further analysis, see Eschenbach, F. and L. Schuknecht, "Asset prices and fiscal balances", *ECB Working Paper*, No. 141, 2002.

Table I.7. **Revisiting fiscal prospects in the European Union**

General government balance, in per cent of GDP

	2001[a]		2002		2003		2004	*Memorandum item*: gross public debt in per cent of GDP in 2001[a]	
	February 2002	September 2002	Spring 2002 OECD projections	Current OECD projections	Spring 2002 OECD projections	Current OECD projections	Current OECD projections	February 2002	September 2002
Austria	0.1	0.2	-0.3	-1.6	0.0	-1.4	-0.8	61.7	63.2
Belgium	0.2	0.4	0.0	0.0	0.0	0.0	0.5	107.5	107.6
Finland	4.9	4.9	3.2	3.2	3.3	2.9	3.6	43.6	43.4
France	-1.4	-1.4	-2.0	-2.7	-1.8	-2.9	-2.5	57.2	57.3
Germany	-2.7	-2.8	-2.8	-3.7	-2.1	-3.3	-2.6	59.8	59.5
Greece	0.1	-1.2[b]	0.4	-1.1	1.0	-1.0	-0.7	99.7	107.0 [b]
Ireland	1.7	1.5	0.1	-0.5	-0.3	-1.3	-1.8	36.6	36.4
Italy	-1.4	-2.2	-1.4	-2.3	-1.3	-2.1	-2.8	109.4	109.8 [c]
Luxembourg	5.0	6.1	2.2	1.8	1.8	0.3	0.5	5.5	5.6
Netherlands	0.2	0.1	0.1	-0.8	-0.3	-0.6	-0.3	53.2	52.8
Portugal	-2.2	-4.1	-2.4	-3.4	-1.8	-3.0	-2.4	55.6	55.5
Spain	0.0	-0.1	-0.3	0.0	0.0	-0.1	0.1	57.2	57.1
Euro area	-1.3	-1.4	-1.5	-2.2	-1.2	-2.1	-1.8	69.1	69.2
Denmark	2.5	3.1	2.2	2.2	2.3	2.4	2.9	44.5	44.7
Sweden	4.7	4.8	2.1	1.7	2.4	1.6	1.9	56.0	56.6
United Kingdom	0.9	0.8	-0.8	-1.4	-1.3	-1.4	-1.3	39.0	39.1

a) Notification by EU member countries to Eurostat.
b) November 2002 notification.
c) Provisional, as Eurostat has not completed the examination of certain past securitisation operations.
Source: Eurostat, OECD.

… where consolidation is set to be slow

Against this background, the Commission proposed to postpone the target year for reaching close to balance or surplus positions from 2004 to 2006,[17] with a view to avoiding pro-cyclical fiscal decisions in the midst of a spell of very subdued activity. At the same time, the Commission put forward a requirement for member states that are still far from a "safe" position to reduce their structural balance by half a percentage point *per annum*, starting in 2003. This approach was endorsed by euro area Finance Ministers. OECD projections, however, suggest that on current policies consolidation in some of the countries displaying large cyclically-adjusted deficits is set to be slow – notably in France and in Italy. In both countries, announced measures to restrain spending are being offset by tax cuts. Progress in Germany is projected to be more tangible, reflecting *inter alia* cuts in government employment and subsidies and indirect tax hikes. In addition, a package is being prepared – mainly involving revenue-raising measures – which would provide for further consolidation, beyond what is reflected in the OECD projection. Among the EU countries not in the euro area, national fiscal rules generally allow for the operation of built-in stabilisers, including that of the United Kingdom, which stipulates that over the business cycle the government will borrow only for net investment purposes and not to fund current spending.

17. When multilateral budgetary surveillance under the aegis of the Stability and Growth Pact started, the target date was 2002.

However, once the recovery in Europe firms up, fiscal consolidation efforts will be needed in order for cyclically-adjusted balances to improve to a point where automatic stabilisers are free to operate in a future downturn and longer-term fiscal sustainability is ensured.

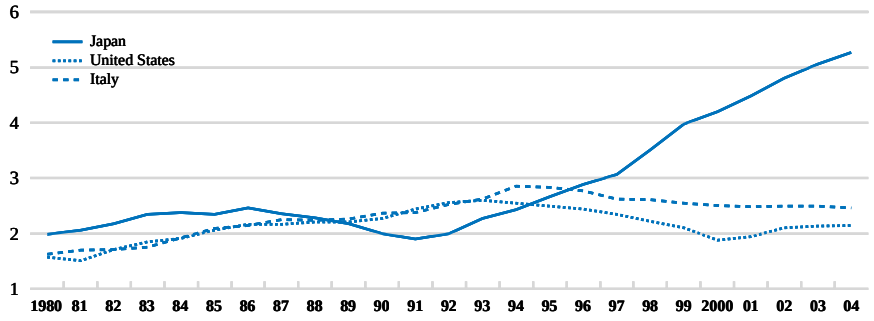
Fiscal strains are showing in EU accession countries

The central European OECD member countries, which are moving towards EU accession, are also experiencing public finance strains, as general government deficits approach or exceed 6 per cent of GDP in 2002. The deterioration has a substantial cyclical component, but other factors are at play, such as the fiscal toll from the floods in the Czech Republic and very large increases in public-sector wages in Hungary. In addition, fiscal difficulties in Poland and Hungary are compounded by the obstacles encountered in implementing pension reform, while problems such as systematic abuse of disability benefit regimes (in particular in Poland) become even more evident in the context of a slowdown. Looking ahead, prioritisation of spending will be very important, the more so as the co-financing requirements accompanying EU funding of public investment and other projects paradoxically lessen the incentives to moderate spending. Against this background, the temptation of window dressing to accelerate the reduction of reported deficits should be strongly resisted.

More than ever, restoring fiscal sustainability is the challenge in Japan

While fiscal sustainability is increasingly a medium or long-term concern in many OECD countries (see Chapter IV below), it is a more obvious and immediate one in Japan (Figure I.11). Current OECD estimates suggest that in order to stabilise the gross debt-to-GDP ratio at the very high level of around 180 per cent by 2010, a general government primary surplus of 1¾ per cent is needed, which leaves a gap of over 8 percentage points of GDP as compared to the present primary deficit. Adjusting for the business cycle and for one-off revenues, the general government primary deficit has fluctuated between 5½ and 6 per cent of GDP since 1999 and is not projected to decline substantially over the next two years.[18] The Government has managed to keep new borrowing under the self-imposed limit of ¥ 30 trillion, albeit not without some creative accounting. But for the 2003 fiscal year (FY), starting next April, the Government has decided to replace this ceiling with a spending cap, and

Figure I.11. **Ratio of gross public debt to government revenue**



Source: OECD.

18. The uncertainty surrounding potential output estimates is particularly acute in the case of Japan, meaning that conventional measures to assess the evolution of the fiscal stance should be interpreted with great caution.

borrowing will exceed ¥ 30 trillion. Without a credible framework for consolidation, there is a real and growing danger of an increase in long-term interest rates – as under-subscription at a recent government bond auction illustrated – or of a rise in household saving as consumers cut spending in the expectation of increased taxes to finance future debt payment. In this context, the Government's medium-term consolidation plans as spelled out early in 2002 rest on optimistic assumptions and lack the requisite ambition as well as substantive details on the measures that would be taken to bring about fiscal adjustment.

Spending cuts should accompany tax reform

Cutting and redirecting spending towards more productive uses is indeed of paramount importance. For FY 2003, the expenditure plans are set to involve some small savings and ministries would be given more autonomy to reshuffle resources within their overall allocation. However, spending on public works is scheduled to fall only marginally. Moreover, it remains very difficult to assess fiscal policy given the poor quality of the data and the rapid succession of "emergency" packages. Spending restraint is all the more important because the tax system in Japan suffers from an overly narrow base and a number of serious incentive distortions. Pressure has been building up for reform, but most of the proposals would involve severe declines in tax revenue, at least in the short run. The Government has conceded that tax breaks for FY 2003 will probably involve a net reduction of revenues by some 0.2 percentage point of GDP for several years, to be compensated later by revenue-raising measures. It would be desirable to ensure that any tax reforms be accompanied by substantial spending cuts or alternatively that they be as revenue-neutral as possible even in the short run.

Financial headwinds

The recovery is being retarded by financial headwinds

The effectiveness of the macroeconomic stimulus measures described above is likely to have been diminished, and the investment recovery put back, because of financial developments. The most visible of these has been continued price falls in equity markets. This has contributed to increases in the cost of capital for companies and reduced household wealth. But financial institutions, which generally speaking entered the downturn in good health, are also being affected, with negative implications for credit availability.

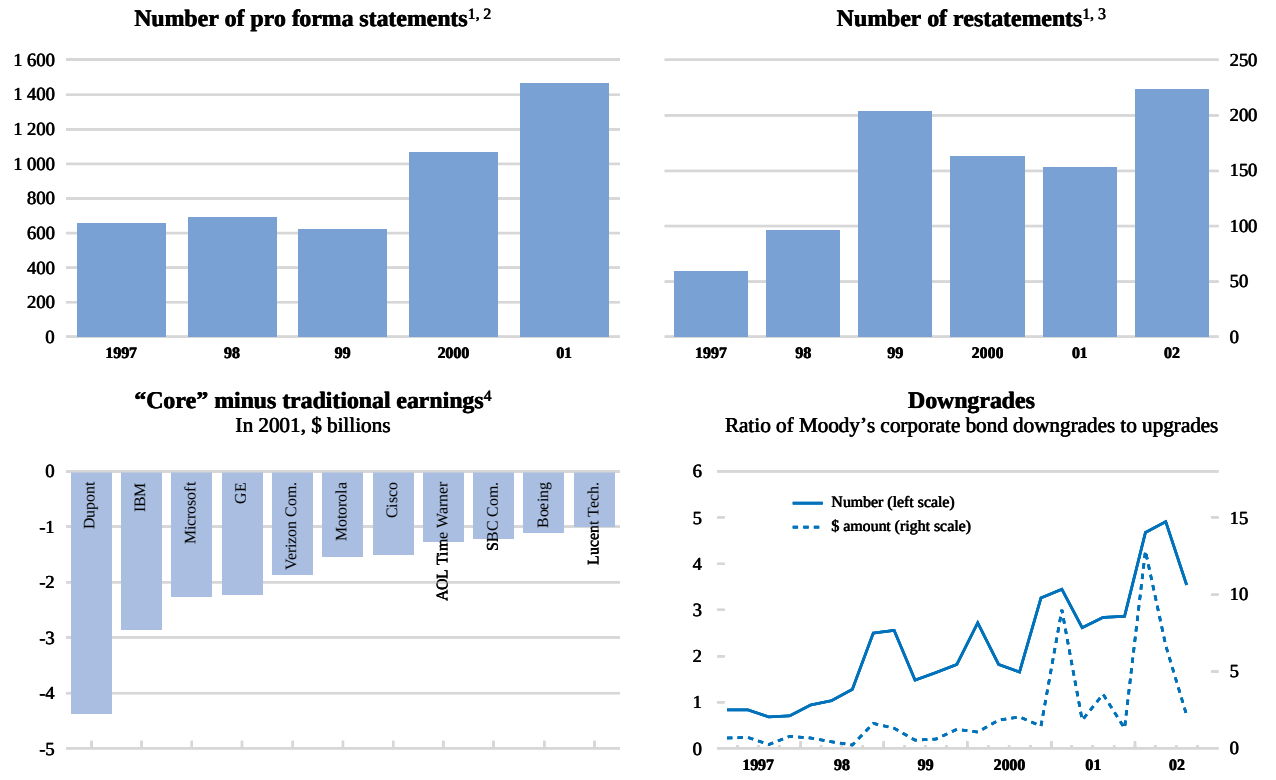
Profit reassessments have led to a stock market slump

The bursting of the equity price bubble was, to a large extent, caused by wholesale reassessments of current and prospective profits, triggered in some cases by revelations of accounting and governance failures. Equity-market-based profit indicators substantially outpaced national accounts measures in the late 1990s, but have since been adjusting downwards. By September 2002, broad equity price indices had fallen by over 40 per cent from their 2000 peaks in the United States and the United Kingdom, and by close to 50 per cent in the euro area and Japan (based on monthly averages). Compared with the levels prevailing at the time of the previous *OECD Economic Outlook*, this corresponds to declines of over 20 per cent in the United States and the United Kingdom, 22 per cent in the euro area and 15 per cent in Japan.

Aversion to corporate risk has increased…

The negative impact of profit revisions has been exacerbated by accounting and governance problems visible in the proliferation of earnings restatements. As a result, awareness of corporate risk has increased (Figure I.12). Rating agencies

Figure I.12. **Reassessing corporate risk and performance in the United States**



1. For the most recent year, the first half annualised.
2. Number of hits on PR Newswire using LEXIS/NEXIS for company press releases containing pro forma financial results.
3. Including irregularities or errors reported voluntarily by the companies, forced by company auditors, or enforced by the SEC; excluding instances of accounting methodology changes, stock splits, dividends, inflation accounting and discontinued operations.
4. Selection of firms where the difference between traditional and core earnings exceeded $1 billion.

Source: http://pages.stern.nyu.edu/~mwul/; Standard and Poor's Compustat database; d'Avolio, G., E. Gildor, et A. Shleifer, "Technology, information production and market efficiency", in *Economic policy for the information economy*; Federal Reserve Bank of Kansas City, 2002.

engaged in wholesale downgrading, resulting in record numbers of "fallen angels", whose outstanding bonds were reclassified from investment grade to junk status. Rating agencies also encouraged firms to replace "*pro forma*" by more reliable measures of earnings. Credit and bond yield spreads widened considerably. Banks imposed stricter underwriting standards and higher fees and spreads on backup lines for commercial paper, pushing a number of firms towards alternative funding sources. While significant misdemeanour has in all likelihood remained confined to a small minority of firms, and despite legislative and regulatory measures (Box I.3), distrust has spread, penalising healthy and properly managed firms as well.

… impeding investment…

On the corporate side, and notwithstanding the decline in Treasury bond yields, interest rates on bank loans have not decreased in the course of 2002, especially for sub-prime borrowers. At the same time, equity capital has become more costly, or in some cases unavailable altogether. This clearly dampens investment. In addition, in a context of starker legal and reputation risks, businesses are now likely to put more emphasis on cleaning up balance sheets and generating cash rather than on expanding

operations, which might also depress investment. A number of firms also need to replenish their in-house pension schemes, which with the stock market collapse turned out to be underfunded.

… and affecting household consumption and saving

The general slide in equity prices is also restraining consumption, in accordance with the traditional wealth effects (see Box I.1). The US household saving rate has bounced back from a trough of only 2 per cent of disposable income in the late 1990s to about 4 per cent. Partly underlying this turnaround is the sudden evaporation of a large share of their retirement assets hitting employees of failing corporations who had concentrated much of their portfolio in their employer's stock, as well as stakeholders in pension funds more generally, including beyond US borders.

Bank lending capacity is healthy, with exceptions

Meanwhile, in the United States and generally in Europe, the financial system was healthier at the outset of the current downturn than at the start of the previous recession. While the shock from the equity markets has been much larger, credit risk transfer techniques have allowed banks, especially in the United States, to reduce their exposure to the cycle. As bank commercial lending has fallen, bank profits are often being sustained by consumer credit operations. There are, however, exceptions to this picture, where losses incurred on stock and bond-holdings, as well as on some loans, could be inhibiting lending operations. This has long been a factor in Japan and problems are now starting to surface among German banks, via deteriorating prudential ratios and higher capital costs from recent downgrades by rating agencies.[19] While there is no broad-based evidence of a credit crunch, bank capital adequacy ratios could now be more constraining.

There are strains in the insurance sector

Non-life insurance companies, which were still suffering from the losses related to the 11 September attacks, have endured portfolio losses both on the equity and on the corporate bond side. Reinsurers have also been hit hard by the 11 September shock and by a series of natural catastrophes, including the recent floods in Europe. The situation is even more difficult for life insurers, especially in Europe, where some have given guarantees to investors based on what have now turned out to be imprudent assumptions about equity returns. Some firms have had to sell large volumes of shares in order to satisfy prudential requirements, thus possibly exacerbating the ongoing market slump and further raising the cost of corporate capital. Regulators have expressed concerns and measures are being considered to improve supervision.[20] Meanwhile, the insurance *premia* charged to households and firms have increased significantly.

Tensions and risks

Downside risks dominate

While risks had become more balanced at the time of the previous *OECD Economic Outlook*, uncertainty has since increased, as reflected in the rise of implied volatilities on equity and bond markets. Upside risks should not be ignored, given the sheer size of the policy stimulus that is still working its way through, and in light of the precedent of

19. The problem is partly structural. German banks exhibit high cost-income ratios and low returns on capital, partly due to under-pricing by state-subsidised banks.
20. In some countries (notably the United Kingdom), regulators are planning to tighten the way solvency ratios are computed and to enhance the transparency of company reporting, with a view *inter alia* to reducing the scope for artificially boosting prudential ratios through such means as the inclusion of future profits. At the OECD level, efforts are also underway to enhance the prudential oversight of the reinsurance sector through improved international exchange of information on the activities and solvency of companies.

Box I.3. Restoring confidence in the corporate sector

Corporate governance failures

To some extent, corporate failures are a cyclical phenomenon. As the economy slows and expectations are revised downwards, overstretched or otherwise vulnerable firms tend to go under. The relative mildness of the recent downturn, however, contrasts with the number and scale of the reporting and corporate governance failures that have surfaced. In part, this constitutes the inevitable payback of the financial market euphoria of the late 1990s, but it also stems from serious incentive conflicts which intensified as opportunities for a quick profit seemed to multiply. The bursting of the equity market bubble and rising risk *premia* have imparted welcome discipline on issuers, investors and intermediaries. In addition, legislators and regulators are moving ahead to try and realign incentives and discourage corporate malfeasance, especially in the United States. But while accounting and governance rules are being rewritten, the number of high-profile corporate scandals has depressed confidence, acting as a drag in the context of an already relatively subdued recovery.

In early December 2001, Enron, a US energy firm, filed for Chapter 11, in what was at the time the largest-ever bankruptcy. Revelations of massive, systematic and far-reaching fraud surrounded this failure. Enron's collapse was followed by a number of others, and by a stream of reports on fraudulent accounting practices, wilfully misleading disclosure and other corporate wrongdoing. Although much of the attention focussed on big US firms (such as Global Crossing, Tyco, Adelphia Communications, Worldcom and Xerox), the problem is clearly a more global one. Similar excesses and abuses have indeed come to light in several prominent European firms (such as Vivendi Universal or ABB), and it bears reminding that long-standing weaknesses in corporate governance were among the key factors of the Asian crises in the 1990s (including Japan's dismal performance over the last decade). They are also conspicuous in many other emerging markets.

One of the symptoms foreshadowing the outbreak of "enronitis" was the divergence between the national accounts and the stock market measures of profits: in the three years to 2000, the latter consistently outpaced the former.[1] The equity market illusion was fuelled by inaccurate or incomplete disclosure of financial information, aimed at overstating sales and profits,[2] against the background of unevenly rigorous enforcement of existing rules.[3] Market discipline broke down due to:

- Deficient boardroom oversight, with directors allowing or even encouraging management to engage in aggressive earnings management and in some cases to hijack the company's reputation and resources for personal gain.
- Absence of checks, complacency or even complicity on the part of auditors, not least because of their insufficient independence from management (low turnover, simultaneous involvement in consulting activities with the same firm).
- Financial analysts becoming cheerleaders, particularly in the case of initial public offerings: their recommendations were systematically too positive, especially in relation to companies with which their employers had an investment banking relationship.
- A structure of executive compensation that did not properly align long-term managerial and shareholder interests. The asymmetric pay-off of stock options provided managers with an incentive to take on excessive risks and to favour initiatives boosting companies' reported earnings in the short run while heavily discounting any longer-run costs. In addition, stock options were generally not counted as an expense in companies' financial statements.

Regulatory responses

The response in the United States. In the United States, the Securities and Exchange Commission (SEC) has intensified its scrutiny of corporate financial statements and has stepped up the number of its investigations. A new Corporate Fraud Task Force was set up in mid-2002, based at the Justice Department, to co-ordinate and oversee all investigations into business wrongdoing. It has started to arrest some executives. More importantly, legislators have acted swiftly and forcefully: the comprehensive and far-reaching Sarbanes/Oxley Act was signed into law in July 2002. It aimed at deterring and punishing corporate and accounting fraud and at improving the quality of financial accounting, reporting and auditing. It created a Public Company Accounting Oversight Board to enforce professional standards and strengthened the independence of auditors. It increased corporate responsibility, as chief executive and financial officers must personally vouch for the truth and fairness of their company's disclosures. In addition, during the blackout periods when workers are prevented from buying and selling company stock in their pension plans, corporate officials are also barred from any buying or selling. The law tried to protect the objectivity and independence of securities analysts. It authorised new funding for investigators and technology at the SEC to uncover wrongdoing.[4] The SEC now has the authority to bar dishonest directors and officers from ever again serving in positions of corporate responsibility. The penalties for obstructing justice and shredding documents have also been stiffened. Meanwhile, the New York Stock Exchange and the Nasdaq have put forward stricter listing requirements.

Box I.3. **Restoring confidence in the corporate sector** *(cont.)*

Responses in other OECD countries. Measures to improve corporate governance have also been taken in other OECD countries, albeit in more limited fashion. In Canada, a new Public Accountability Board is being set up to supervise auditors, tougher auditor independence rules have been introduced, regular lead audit partner rotations are becoming compulsory and a second partner review of all audits is now required. In Japan, the new corporate law enhances the role of outsiders: companies are encouraged to henceforth have three committees composed mainly of outside directors and charged respectively with auditing, appointing directors and deciding executive directors' compensation. As well, the accounting loophole that has thus far allowed Japanese banks not to disclose the massive off-balance sheet interest-rate swaps they have engaged in should be closed in April 2003. Moreover, companies listed on the Tokyo Stock Exchange will soon be required to publish quarterly statements. In the United Kingdom, a wave of corporate scandals in the early 1990s had already prompted serious reform, but additional measures are being taken, including new regulations giving shareholders an annual vote on company directors' salaries, more rotation for audit partners, a stricter separation between auditing and consulting activities, and a compulsory two-year cooling-off period before audit partners are allowed to join their client as an employee or director. In France, more emphasis is to be put in practice on auditor rotation and the separation between auditing and consulting, as well as on the requirement for companies to have audit and remuneration committees. In Germany, a new accounting task force is to be empowered to conduct snap audits at firms suspected of manipulating financial information, and a draft law would boost shareholders' rights to take action against members of a company's managing and supervisory boards in cases of misreporting. Overall, the sense of urgency to change accounting and corporate governance rules is less prevalent in Europe, partly because fewer abuses have been exposed and because in some ways legislation was already better protecting shareholders than in the United States.[5]

Stock options. Additional measures are being discussed in many OECD countries. The long-standing debate on stock options has intensified. Many observers and several government agencies plead for them to be expensed and for rules on exercising them to be toughened. Some suggest to make their pay-off dependent on performance relative to the sector or the market rather than in the absolute (which may call for changes in the tax code), while others argue that stock grants are a better way to align managerial and shareholder interests. The International Accounting Standards Board (IASB) proposes that options be expensed from 2004, and in practice, a number of companies are starting to do so. In any event, it would seem that the costs of any incentives should be fully disclosed and that managers should not be allowed for some time after they receive them to sell the stock or exercise the stock options they are given.

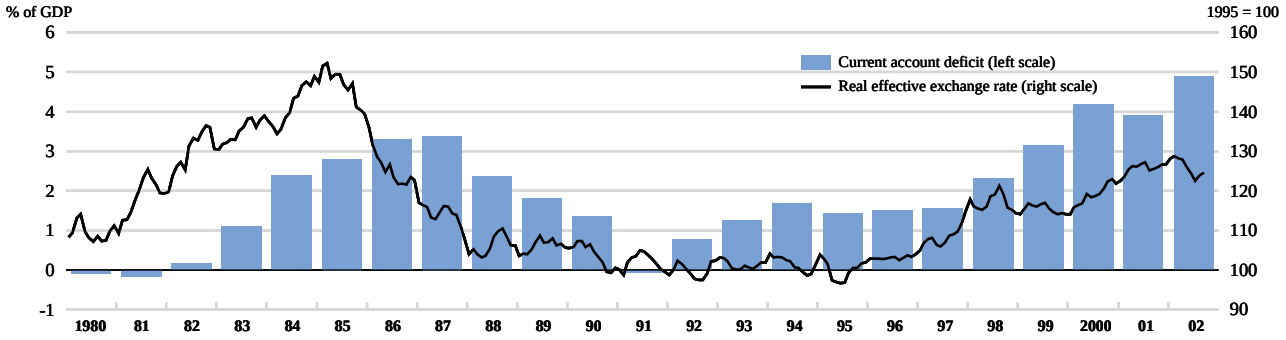
Accounting principles. The corporate debacles have also reignited the discussion on the relative merits of the rules-based approach to accounting standards embodied in the US Generally Accepted Accounting Principles (GAAP) and principle-based approaches such as the International Accounting Standards (IAS) promoted by the IASB and applicable in the EU from 2005 (at a minimum for listed companies). Recent developments have certainly shown that abiding by a set of detailed rules does not necessarily mean that the spirit of fair accounting is upheld. The US Financial Accounting Standards Board and the IASB have recently agreed to narrow the gap between the GAAP and the IAS.[6]

International consistency. An important consideration at the international level is that corporate governance and accounting reform should be carried out with cross-border consistency as one of the overarching priorities. In this regard, it would be desirable that in pinning down the specifics of the implementation of the Sarbanes/Oxley Act during the coming months, the SEC leave sufficient room for national idiosyncrasies.

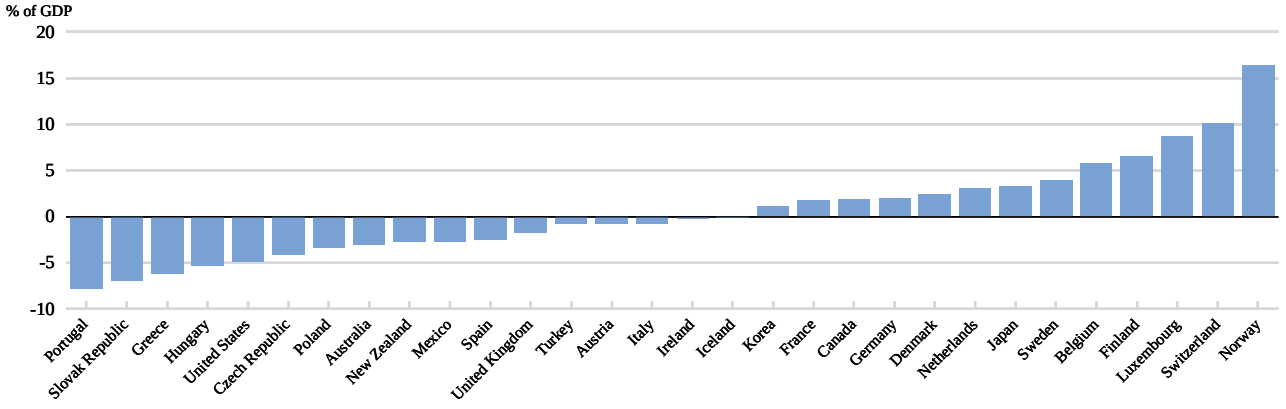
1. In addition, the July 2002 vintage of the US national accounts estimates pre-tax corporate profits (after inventory valuation and capital consumption adjustment) to have been $138 billion, or 1.4 percentage points of GDP, lower in 2000 than first reported, implying that the wedge between the national accounts and stock market measure was even wider than initially thought.
2. Box I.2 in the previous *OECD Economic Outlook* listed several window-dressing techniques.
3. Enforcement was tightened in some areas, however, *e.g.* the SEC in late 1998 embarked on an effort to force erring companies to restate earnings.
4. In early 2002, the SEC had an investigative staff of about 35 accountants, as against tens of thousands in the large audit firms.
5. At the EU level, an action plan for company law is being considered which would draw on the work of a high-level group of company law experts (*A Modern Regulatory Framework for Company Law in Europe*, Brussels, November 2002).
6. There may also be a role for technological innovation. Even in a world where different standards continue to coexist, there may be ways to reduce reporting and analysis costs, accelerate the dissemination of information and improve its comparability. The ongoing development of the so-called Extensible Business Reporting Language (XBRL) can help enhance the usability and transparency of financial information reported under prevailing accounting standards, simplify disclosure, and facilitate the communication of financial information via the Internet. This tool should in particular enable management, investors, regulators, analysts and other parties to easily deconstruct company statements and to reconstruct them using their preferred conventions, *e.g.* as regards the expensing of options, the recognition of unrealised gains or losses, or inventory accounting.

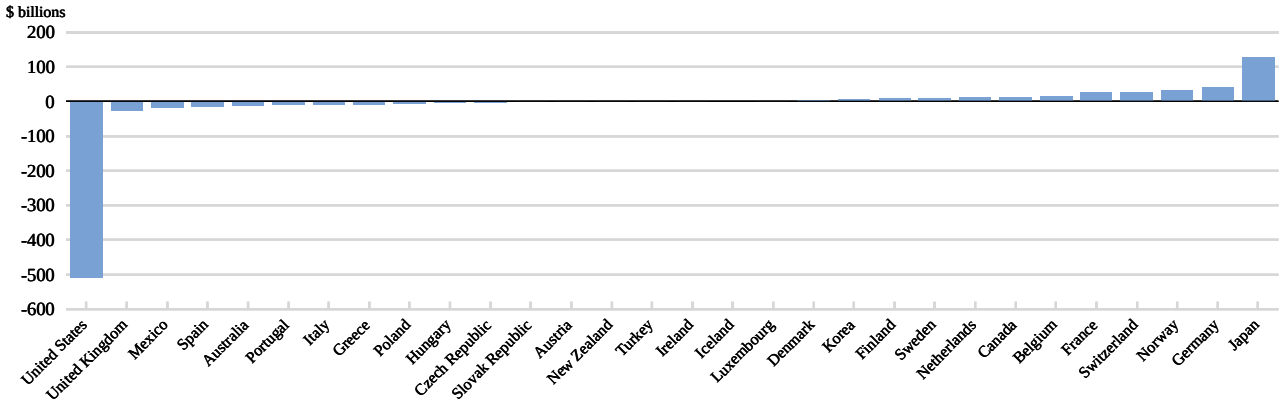
Figure I.13. **Current account balances**

United States: Current account deficit and real exchange rate



Current account balances in OECD countries in 2002





Source: OECD.

the 1987 equity market collapse, which was followed by an unexpectedly rapid and strong rebound. But downside risks seem to dominate at this juncture, including new financial market shocks, with a further deferral of corporate investment; a possible further cut in household wealth stemming from falling property prices; a disorderly unwinding of international imbalances; emerging market crises and/or a surge in oil prices. There is also a subset of risks related to the possibility that the current downturn may be associated with delays in structural reforms in OECD economies.

Equity prices could fall further

A still significant risk is that there could be further equity market declines. The bottom may not yet have been reached even if according to conventional benchmarks most if not all of the earlier overvaluation has been worked off.[21] Moreover, the repercussions of the equity price declines experienced so far are still coming through.

Household saving may rise if house prices fall

As noted above, household net wealth has shrunk over the past two years, but consumption has been relatively well maintained. Indeed, the projections rely on consumer spending bridging the gap until investment recovers. There are, however, risks here in addition to that applying to the equity market. House prices have been rising very rapidly by historical standards in some countries, far outpacing rents (notably in the United Kingdom, Australia and the United States), and house-price-to-earnings ratios are high. Whether or not there is a bubble is unclear,[22] but the risk that house prices would decline or at least cease to rise cannot be dismissed, especially considering the record indebtedness levels reached in several countries.

International imbalances have barely corrected so far…

The constellation of current account balances across OECD countries is essentially bipolar (Figure I.13). The United States has now been running a large current account deficit for almost two decades and Japan a large surplus, with most other countries recording relatively small net balances (even when they are large in per cent of their GDP). The US economy has thus been absorbing a disproportionate share of world saving (Figure I.14), lately at a pace of around $2 billion per working day, in terms of net inflows. On baseline growth projections, the US current account deficit is set to rise to over 5 per cent of GDP. Reflecting these persistent imbalances, the US international investment position has deteriorated rapidly in recent years, with Japan again the main counterpart, and it is projected to move further into deficit.[23]

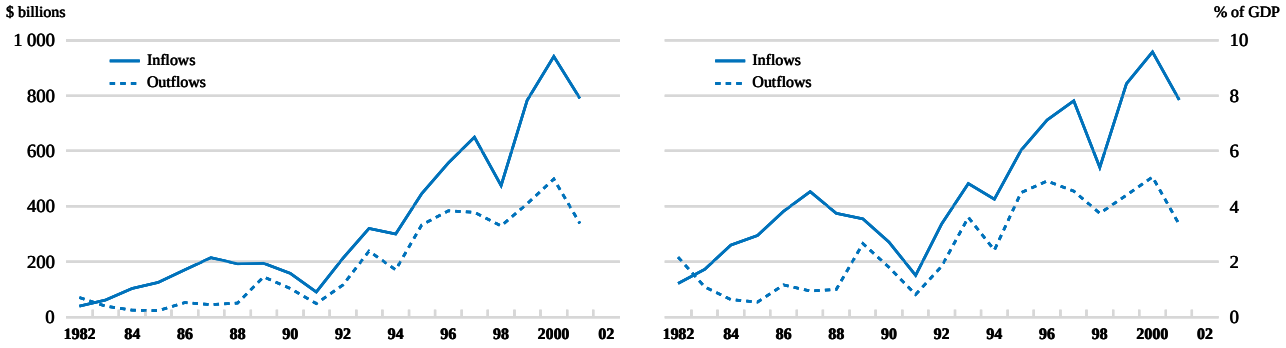
… and might unwind in disorderly fashion

Thus far, the US current account deficit has been easily financed, since net capital inflows have been driven by expected risk-adjusted returns that looked more attractive than elsewhere.[24] The composition of inflows has changed recently, with

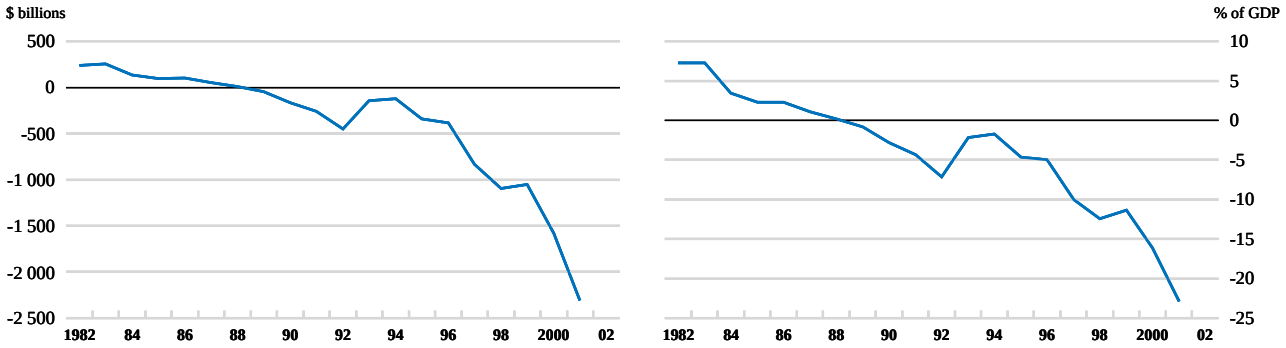
21. Where stock prices are or should be headed remains subject to intense debate: some see a reversion to an average price/earnings ratio (PER) of around 15 in the long run in the United States (Campbell, J. and R. Shiller, "Valuation ratios and the long-run stock market outlook: an update", *NBER Working Paper*, No. 8221, 2001), but others argue that an average PER in the low 20s is fully warranted as long as inflation stays low and tax policy remains favourable (Siegel, J., "The rise in stock valuations and future equity returns", *Journal of Investment Consulting*, forthcoming).
22. Standing against the overheating worries are the following considerations: properly measured house prices have risen less than most headline indices indicate (house price indices are often based on the average price of sold properties, without properly adjusting for size and quality improvements); financial liberalisation and competition have relaxed quantitative limits on mortgage lending; and in a low-inflation environment, for any given duration and interest rate, mortgage payments are more back-loaded in real terms, so that housing has become more affordable for liquidity-constrained households.
23. Owing to statistical recording problems, the US current account deficit as well as the net debtor position may be overstated (Warnock, F. and C. Cleaver, "Financial centers and the geography of capital flows", Board of Governors of the Federal Reserve System, *International Finance Discussion Papers*, No. 722, 2002), but the implied distortions are unlikely to fundamentally alter the overall picture.
24. For a more comprehensive analysis, see Mann, C., "Perspectives on the US current account deficit and sustainability", *Journal of Economic Perspectives*, Vol. 16, No. 3, 2002.

Figure I.14. **Capital flows and international investment position of the United States**

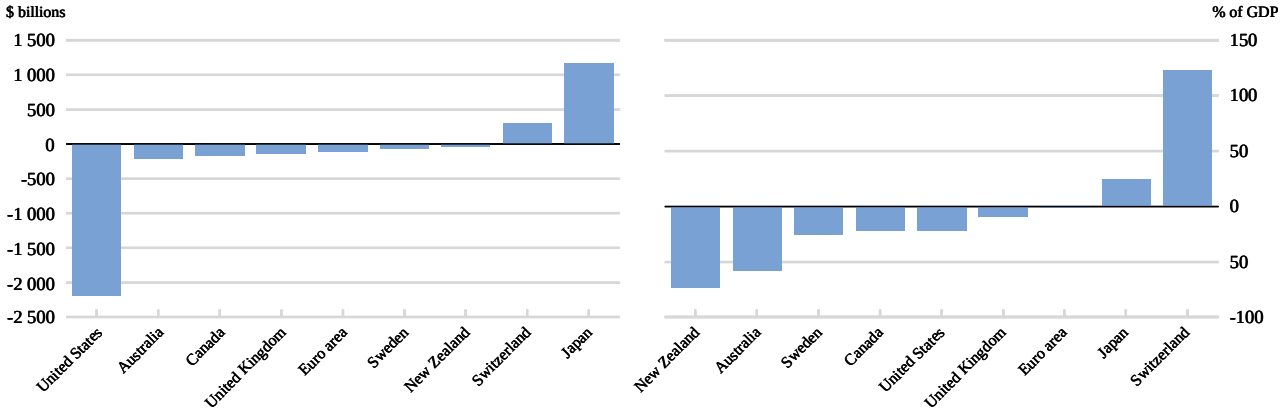
Inflows and outflows



United States international investment position[1]



International investment position in selected OECD countries (2000)[2]



1. Direct investment positions are estimated at market value, year-end.
2. 2001 for Australia, New Zealand and United Kingdom.

Source: Board of Governors of the Federal Reserve System; Bureau of Economic Analysis; IMF, *International Financial Statistics* and OECD.

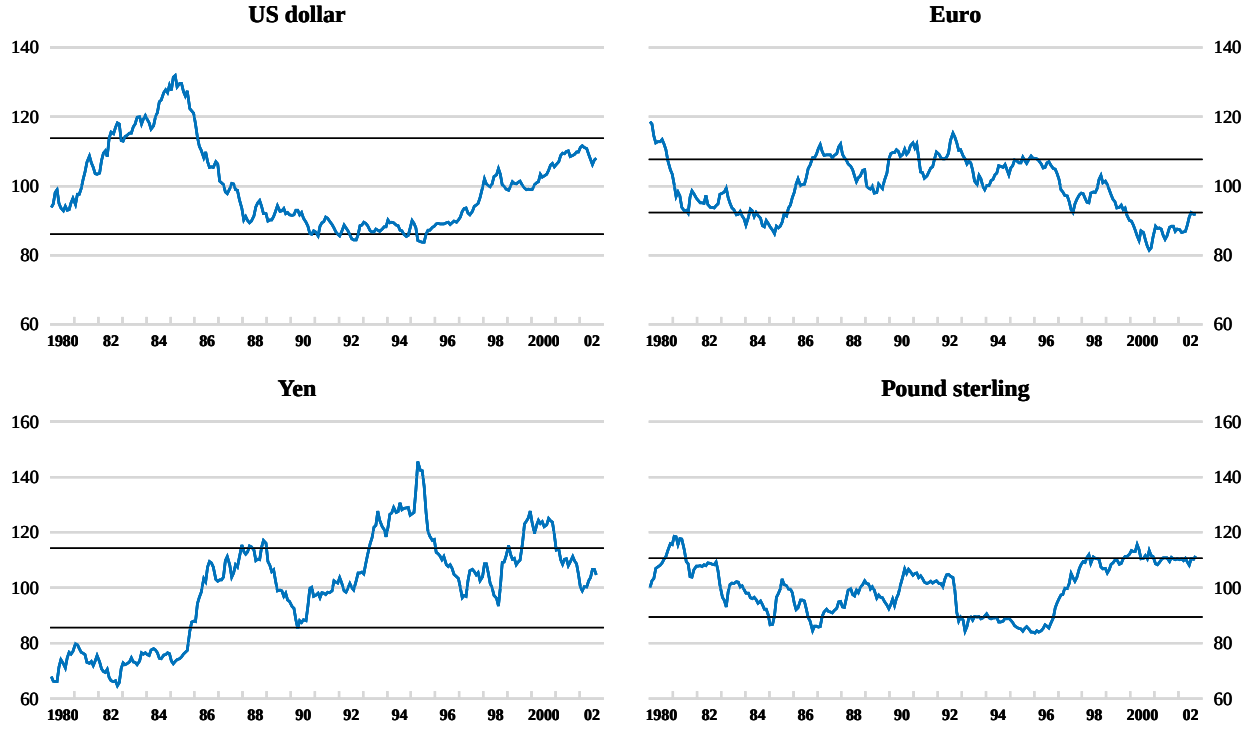
less equity and more bond finance, but there are no signs at present that market participants would judge that a US deficit on the order of 5 per cent of GDP cannot be sustained. Over the longer run, however, the accumulation of net debt has to slow and perhaps to reverse, meaning that the current account will have to adjust. The experience of the late 1980s shows that this can happen fairly smoothly. The implied dollar depreciation – from what is at present a rather elevated level (Figure I.15) – would be smaller the more robust growth and demand for US exports are elsewhere.[25] Currently, however, activity in the euro area and Japan is weak. With nominal interest rates already down to zero in Japan, a sharp depreciation of the dollar could be highly disruptive, pushing a number of partner countries back into recession and fuelling protectionist pressures.

Some emerging markets are highly vulnerable

The overall level of the emerging market risk premium as captured in aggregate indices of bond spreads has risen since spring. The crisis in Argentina has dragged on and has now spilled over to some extent to Uruguay and Paraguay, via trade, tourism and financial channels. While Brazil has steered a rather commendable macroeconomic policy course in recent years, it has seen the spread on its debt rise during the run-up

Figure I.15. **Real effective exchange rates**

Average since 1980 = 100[1]



1.Horizontal lines delineate +/– one standard deviation from the average since 1980.
Source: OECD, *Main Economic Indicators.*

25. Dollar depreciation would improve the trade balance, with the usual J-curve lag, but would also immediately improve the US investment position via favourable valuation effects (and impart a wealth loss on non-resident holders of dollar denominated assets).

Box I.4. Oil price shock

Using the OECD's Interlink model, a simulation has been run of a temporary increase in oil prices of $10 a barrel from the first semester 2003 through to the end of the year (a jump of about one third from recent levels). The oil price is then assumed to fall back to the trajectory assumed in the baseline, *i.e.* to $25. As stressed in the text, the size and timing of the increase are by no means intended as a forecast of the likely scale or duration of the effect of war in the Middle East on oil prices. Rather, the simulation simply tries to illustrate the possible effects of a temporary rise in oil prices on the outlook.

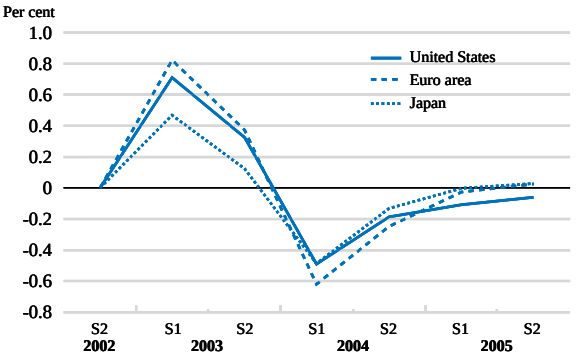
It is further assumed that the monetary authorities in the United States and the euro area raise short-term interest rates by ¼ percentage point in response to the temporary rise in inflation (thus partly accommodating the temporary increase in inflation),[1] that discretionary fiscal policy is unchanged, and that wage earners and businesses do not see through the price increase. No autonomous confidence effects or increases in uncertainty have been built into the simulation, nor have any fiscal implications of an increase in military expenditure been taken into account.

The impact of the increase in oil prices in the simulation varies across countries, depending largely on the degree to which they are net oil importers. In many ways, the economic impacts are like those of an adverse terms-of-trade shock: national income is reduced and the current account balance deteriorates. Worst affected are the euro area and Japan.[2]

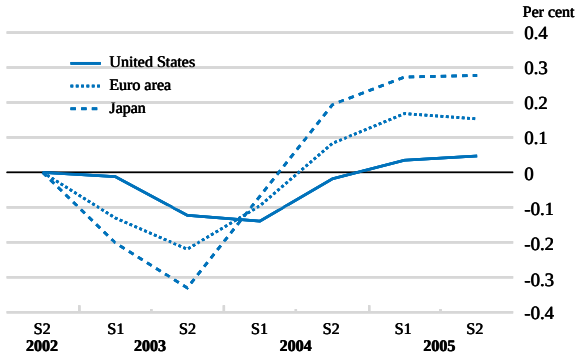
Unlike a terms-of-trade shock, however, the increase in oil prices also represents an increase in supply prices, and hence has a more uniform impact on consumer prices across countries (Panel A). Higher consumer prices reduce household disposable income in the short term. The combination of lower household income and reduced national income has its largest effects on activity in Japan and the euro area (Panel B).

Impact of a temporary $10 oil price shock

A. Inflation (annualised rate)



B. Output Gap



Source: OECD.

1. No change in interest rates is assumed for Japan.
2. In contrast, the United Kingdom, Canada, Norway and Australia experience a positive terms-of-trade effect and an improvement in the current account balance (not shown).

to the presidential elections from around 8 percentage points in April to 23 percentage points in early October.[26] Sound policy management has helped shield Chile, where growth slowed but spreads rose by only one percentage point. In Asia, growth has held up well in China and has recovered markedly in the other emerging

26. As the bulk of Brazil's local currency debt is short term, and with a highly variable risk premium, the country is prone to multiple self-fulfilling expectations equilibria. See Razin, A. and E. Sadka, "A Brazilian debt-crisis model", *NBER Working Paper*, No. 9211, 2002.

economies. But several countries continue to suffer from serious banking and corporate debt problems, and from the large increases in government debt that have been required to address them. In addition, the recent terrorist strike in Indonesia has increased this country's macroeconomic vulnerability. In this context, if one or several of the larger emerging market economies were to fall prey to a financial crisis, there is a risk of contagion, including to banks and non-financial firms in OECD countries. A number of them have already had to absorb the costs related to Argentina's collapse, which has reduced their room to cope with another major shock.

Oil prices might shoot up given geopolitical uncertainty

The price of Brent crude oil has fluctuated considerably since last Spring, against the background of heightened geopolitical uncertainty and aggressive stockpiling. What would happen to the physical supply and to the price of oil if war broke out is unclear. In the early 1990s, the invasion of Kuwait by Iraq triggered a spike in oil prices, which surged to over $40 per barrel but fell back to below $30 even before the start of Operation Desert Storm, and dropped to around $20 after it ended. This precedent offers only limited guidance, however, as to what would happen to the price of oil in the event of war. In addition, if an oil price shock were to occur, it would come at a very different stage of the cycle, *i.e.* during a weak recovery rather than at the tail end of a boom. For illustrative purposes, a simulation has been run using the OECD Interlink model which suggests that a temporary increase of the oil price by $10 per barrel, lasting one year, would on average lead to a temporary increase in inflation of around ½ percentage point and a temporary reduction in output of around ¼ percentage point, albeit with significant differences across regions (see Box I.4). This simulation does not factor in any fiscal impacts associated with the financing of a military conflict. The latter may differ from what was observed during the Gulf War when the United States received transfers from its allies of about 1 percentage point of GDP, which briefly pushed the current account into modest surplus.

Risks are affected by supply-side performance and structural reform

The above risks are not independent of the supply-side performance of OECD economies. In that respect, developments during the downturn have been relatively encouraging in the United States, where productivity growth has remained strong, but mixed elsewhere. If efforts at reform were to be stepped up, the longer-run resilience of national economies to shocks would be improved and the effects on business confidence could be felt within the projection period. Such reforms would need to include measures to promote both labour and product market competition.[27]

27. See Chapter VI, "Product market competition and economic performance".

II. DEVELOPMENTS IN INDIVIDUAL OECD COUNTRIES

United States

The recovery has proceeded somewhat unevenly. While low interest rates and disposable income gains have spurred household spending, much of the bounce-back in GDP in the first half of the year was due to inventory adjustments. Government purchases have also supported demand, but a turnaround in business fixed investment has not yet materialised. Growth appears set to slow somewhat, as the impetus from household purchases wanes with lower equity prices and a stagnant labour market. Later, strengthening export markets and a sharper pickup in investment should underpin a more robust expansion. Inflation is likely to remain quiescent, reflecting persistent slack in product and labour markets, but the current-account deficit may widen further.

Monetary policy has remained supportive. With recent signs that the labour market is weak and inflation subdued, interest rates should be kept low for the time being. But once the expansion gathers pace, they will need to be raised, moving steadily towards a neutral stance. Fiscal policy has loosened considerably as a result of new spending priorities and tax measures, and renewed restraint will be needed to re-establish fiscal discipline.

The recovery has been modest…

The economy bounced back in the first half of 2002. The end of destocking combined with strong consumer purchases to lead the advance, and the decline in business fixed investment moderated. Moreover, residential investment posted a strong gain in response to low mortgage rates. Home purchases and demand for motor vehicles rose further this summer, as the lowest long-term interest rates in 40 years spurred another round of mortgage refinancing and was accompanied by further generous incentives from automakers. With the recovery in demand and the passing of the lull induced by last year's terrorist attacks, trade volumes increased sharply.

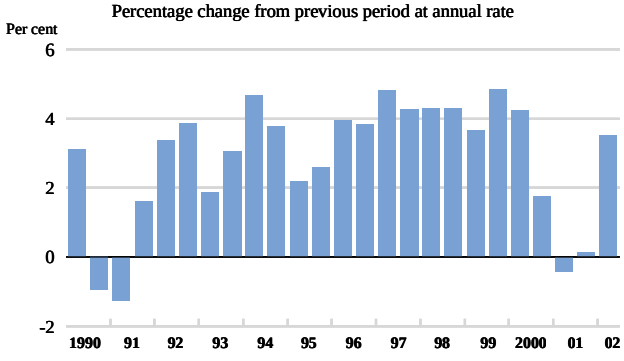
… and may be weakening

The fragility of the recovery has been evident in manufacturing production and the labour market, both of which have shown signs of weakening since mid-summer.

United States

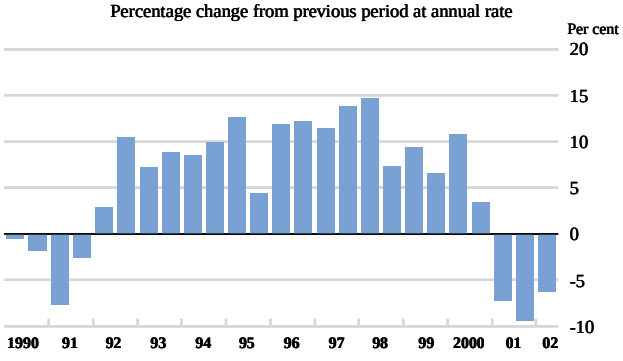
GDP jumped early this year

Percentage change from previous period at annual rate



But business fixed investment continued to drop

Percentage change from previous period at annual rate



Source: Bureau of Economic Analysis.

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

Percentage changes from previous period

	2000	2001	2002	2003	2004
Employment[a]	1.9	0.0	-0.9	1.0	1.9
Unemployment rate[b]	4.0	4.8	5.8	6.0	5.7
Employment cost index	4.6	4.1	3.9	3.7	3.6
Compensation per employee[c]	5.9	2.3	2.5	3.3	3.0
Labour productivity[c]	2.1	0.2	3.8	1.7	1.7
Unit labour cost[c]	3.8	2.1	-1.2	1.6	1.3
GDP deflator	2.1	2.4	1.1	1.3	1.3
Consumer price index	3.4	2.8	1.6	1.9	1.8
Private consumption deflator	2.5	2.0	1.4	1.4	1.2
Real household disposable income	4.8	1.8	4.2	3.1	3.6

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

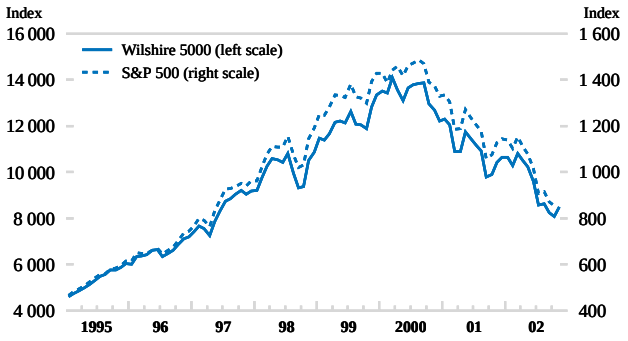
The surge in motor vehicle sales probably borrowed from the future and the high level of demand for housing is unlikely to pick up further. Business investment in equipment and software has risen since mid-year, but the sharp decline in spending on non-residential structures has not abated. The renewed weakness was accompanied by significant declines in equity markets and a drop in longer-term interest rates, especially for government bonds. While the low yields have contributed to the resilience of household demand, they clearly indicate reduced appetite for risk and lower confidence in the pace of the recovery.

Household debt has risen, as has the current account deficit…

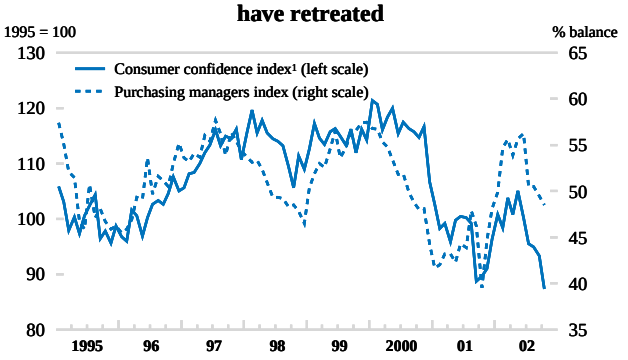
Gains in private consumption and residential investment have spurred household debt accumulation, placing the debt service burden at the top end of its historical range. While these gains have sustained the recovery, the steep decline in equity prices implies that households must rely increasingly on saving to increase net worth. This suggests that savings ratios will rise over the next couple of years, possibly considerably if confidence falters or equity markets fall once again. The sharp widening of the current account deficit this year also highlights the dependence of domestic

United States

Equity markets have been very weak lately



Consumer confidence and the business outlook have retreated



1. University of Michigan.
Source: Institute for Supply Management, Thomson Financial and OECD.

United States: **Financial indicators**

	2000	2001	2002	2003	2004
Household saving ratio [a]	2.8	2.3	3.7	4.5	4.7
General government financial balance [b]	1.4	-0.5	-3.1	-3.0	-2.7
Current account balance [b]	-4.2	-3.9	-4.9	-5.1	-5.3
Short-term interest rate [c]	6.5	3.7	1.8	1.6	3.4
Long-term interest rate [d]	6.0	5.0	4.6	4.2	4.9

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

demand on foreign borrowing. While the persistent strength of productivity gains and relatively rapid projected output growth should continue to make US assets attractive, their share in foreign portfolios will ultimately stabilise. An already fragile recovery could be endangered if this adjustment – accompanied by declines in the dollar and equity prices and a jump in interest rates – were to occur before demand in the rest of the world picks up significantly.

… monetary policy has responded to the changing outlook

The Federal Reserve has maintained a stimulative stance throughout the year. The federal funds rate was held at 1¾ per cent for nearly a year, but with signs that the economy had weakened, the target rate was cut to 1¼ per cent on 6 November. It is assumed that the current level is maintained through the middle of next year, with a gradual move toward a more neutral monetary stance beginning at around that time as demand picks up.

Fiscal policy is supporting the recovery

Federal government purchases of goods and services have expanded rapidly while revenues have dropped off significantly, generating a federal budget deficit of 1½ per cent of GDP in fiscal year 2002. A similar result is likely in the 2003 fiscal

United States: **Demand and output**

	1999	2000	2001	2002	2003	2004
	Current prices billion $	Percentage changes, volume				
Private consumption	6 246.5	4.3	2.5	3.1	2.3	3.4
Government consumption	1 336.3	2.8	3.7	4.2	2.9	2.5
Gross fixed investment	1 881.9	5.5	-2.6	-2.0	2.0	5.0
Public	304.7	2.4	3.3	4.2	1.9	2.1
Residential	403.7	1.1	0.3	3.4	1.9	-1.9
Non-residential	1 173.5	7.8	-5.2	-5.8	2.0	8.8
Final domestic demand	9 464.7	4.3	1.6	2.3	2.3	3.5
Stockbuilding [a]	59.5	0.0	-1.4	0.6	0.4	0.3
Total domestic demand	9 524.3	4.4	0.4	2.8	2.7	3.8
Exports of goods and services	989.4	9.7	-5.4	-1.2	7.0	8.2
Imports of goods and services	1 239.2	13.2	-2.9	3.4	6.5	8.1
Net exports [a]	- 249.9	-0.9	-0.2	-0.7	-0.3	-0.4
GDP at market prices	9 274.4	3.8	0.3	2.3	2.6	3.6

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

United States: **External indicators**

	2000	2001	2002	2003	2004
			$ billion		
Merchandise exports	772.0	718.8	688.5	748	823
Merchandise imports	1 224.4	1 145.9	1 166.0	1 252	1 365
Trade balance	- 452.4	- 427.2	- 477.5	- 504	- 542
Invisibles, net	42.1	33.8	- 32.3	- 49	- 57
Current account balance	- 410.3	- 393.4	- 509.8	- 554	- 600
			Percentage changes		
Merchandise export volumes [a]	11.3	- 5.9	- 3.0	6.7	8.8
Merchandise import volumes [a]	13.5	- 3.3	3.4	6.4	8.1
Export performance [b]	- 1.2	- 5.0	- 5.6	- 1.0	0.0
Terms of trade	- 3.5	2.3	1.3	0.9	0.3

a) Customs basis.
b) Ratio between export volume and export market of total goods.
Source: OECD.

year. The return to budget surpluses over the medium run as officially projected assumes substantial spending discipline. An important component of the worsening in government finances stems from discretionary measures aimed at strengthening the recovery, particularly incentives for investment in equipment and software. This boost provides some insurance that the recovery in such spending will take root. State and local finances have also deteriorated, leading to slower spending increases and bringing the projected general government deficit up to 3 per cent of GDP this calendar year. A careful balancing of spending priorities and tax changes will be necessary to improve government finances before pension and healthcare spending associated with ageing become increasing burdens in the next decade.

Growth should pick up slowly over the course of 2003

The economy appears to be expanding only slightly in the final quarter of 2002, and sluggish growth is likely to continue through the first half of 2003, with more robust gains thereafter. Consumption expenditures should grow more slowly in coming quarters, as vehicle purchases slow and households strive to raise savings in the face of persistent labour market weakness and losses in wealth. Inventories remain lean, and their rebuilding should provide some further lift to activity. Business fixed investment in 2002 is estimated to have fallen even faster than in 2001. The sharp contraction in structures should abate over the course of 2003. Moreover, the improvement in corporate balance sheets and further, albeit modest, increases in final demand should lead to a labour-market turnaround next year, underpinning more robust increases in capital spending. With domestic growth exceeding that of trading partners and the dollar only modestly weaker, the current account deficit is expected to remain over 5 per cent of GDP throughout the projection period.

However, the recovery remains fragile

The recent drop in manufacturing output and employment could signal a more pronounced, imminent decline in activity, particularly if households trim their spending. Moreover, an investment recovery hinges on an improvement in business sentiment following the recent gains in productivity and profits. The benign inflation outlook, and hence healthy real purchasing power, depends in part on oil prices not spiking higher. However, these downside risks should be set against the possibility that positive surprises in household demand may not yet be over. The return to record net corporate cash flow levels may also lead to more aggressive capital spending plans, especially given the continued stimulus from fiscal and monetary policies.

Japan

The economy recovered during the first half of 2002, underpinned by a low level of inventories and a sharp increase in exports. However, these factors have already weakened and, with domestic demand likely to be constrained by flat household incomes, real GDP growth is projected to ease to around 1 per cent during the rest of the year and to continue at that rate in 2003 and 2004. Financial sector strains, the need to issue a large volume of public debt without pushing up interest rates, and the possibility that deflationary forces could strengthen represent major downside risks to the projection.

The resolution of non-performing loans should be accelerated in line with the government's new goal, accompanied by further structural reforms and if necessary by the direct injection of public funds. Monetary policy should take the lead in dealing with deflation by increasing liquidity further through the purchase of a wider range of financial assets. While the fiscal stance should for the moment remain neutral, it will also need to be sensitive to the speed and scale of the resolution of bad debts. Fiscal policy must now be placed in a medium-term consolidation framework going beyond the government's present plan and incorporating relatively short-term targets for real expenditures.

The underlying forces driving the recovery have already weakened

A rapid increase in exports during the first half of 2002 was supported by the weak yen, while production was also stimulated by a low level of inventories. Led by these factors, GDP growth reached 2½ per cent in the second quarter, while business sentiment and expectations of profits rebounded, albeit from a low base. However, these driving forces weakened in the second half with the nominal exchange rate appreciating by 10 per cent from early 2002 and export growth slowing markedly. Share prices have fallen to levels not seen since the early 1980s, and the improvement in profitability has been limited not only by the recent strength of the currency but also by deflation. Under these conditions and ongoing enterprise restructuring, the forces driving investment have remained weak.

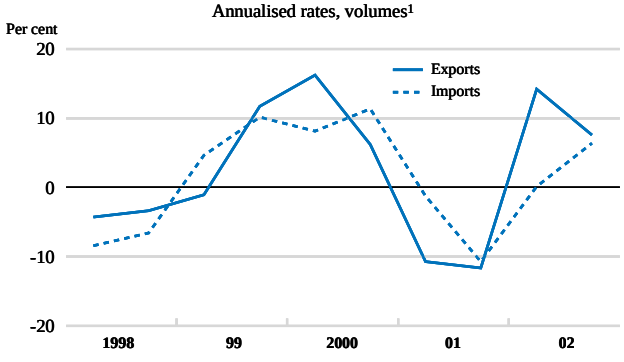
Non-performing loans have increased sharply

A more robust approach by the authorities to classifying bank loans has resulted in the stock of non-performing loans (NPLs) increasing by ¥ 9½ trillion (2 per cent of GDP) to some ¥ 43 trillion (around 8 per cent of GDP) at the end of March 2002. The banks thus recorded net operating losses for the eighth straight year. Nevertheless, there remain concerns that the NPLs could be even larger and that banks are already under-provisioned. Their capital base could therefore be quite weak, making them risk averse. Bank capital is also vulnerable to prices of bonds and shares, of

Japan

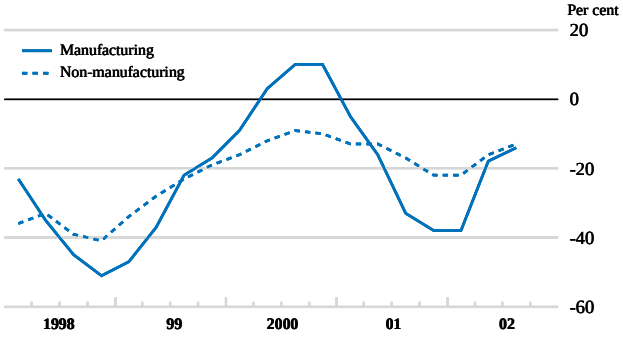
Export growth is slowing

Annualised rates, volumes[1]



Business confidence is low but picking up

Tankan diffusion indices[2]



1. OECD projections for the second half of 2002.
2. Firm's judgement on present business conditions, showing the difference in per cent of firms answering "improving" and "getting worse".

Source: Bank of Japan and OECD.

Japan: **Employment, income and inflation**

Percentage changes from previous period

	2000	2001	2002	2003	2004
Employment	-0.2	-0.5	-1.4	-0.4	-0.2
Unemployment rate[a]	4.7	5.0	5.5	5.6	5.6
Compensation of employees	0.9	0.1	-2.0	-0.6	-0.3
Unit labour cost	-1.6	0.4	-1.3	-1.3	-1.2
Household disposable income	-0.6	-0.7	-1.5	-1.1	-0.6
GDP deflator	-2.1	-1.2	-1.0	-1.6	-1.4
Consumer price index	-0.7	-0.7	-1.1	-1.1	-1.1
Private consumption deflator	-1.1	-1.5	-1.5	-1.6	-1.6

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

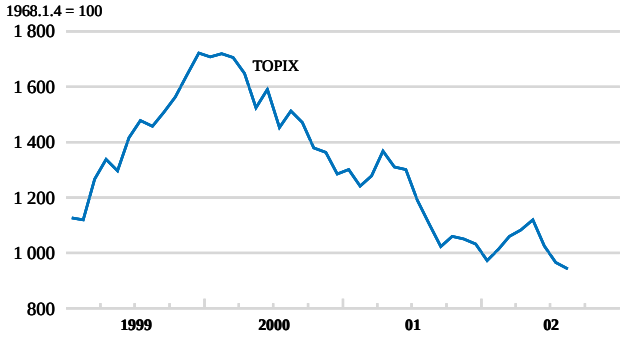
which the banks hold a significant amount. Concerns about the potential impact of low share prices on banks' capital arose again in September before the mid-year financial results, and contributed to a subsequent decision by the Bank of Japan to purchase some of the shares held by banks. Although it is not evident how such a scheme will induce banks to deal with NPLs more rapidly and to reform their own management, the move was followed by government proposals to halve the amount of NPLs by the end of fiscal year (FY) 2004. Special bank inspections are to continue and loan classification criteria are to be tightened. However, many crucial details remain to be decided so that the projection does not incorporate any economic effects arising from the new programme.

Room has been created for further monetary easing

In October, the Bank of Japan increased its quantitative target on the current accounts held with it by banks from a range of ¥ 10 to 15 trillion to ¥ 15 to 20 billion and affirmed that it would meet temporary demands for even higher liquidity. Prior to this decision, it kept the volume at the top of the previous band so that base money has grown by well over 20 per cent. To meet its liquidity objective, the Bank has been purchasing outright ¥ 1 trillion of long-term public bonds per month, an amount now increased to ¥ 1.2 trillion, effectively underwriting about a third of the general

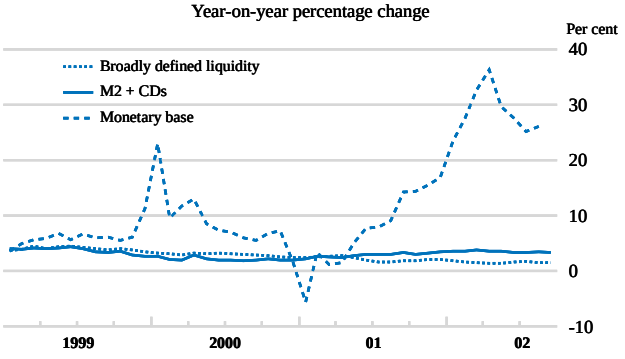
Japan

Share prices have weakened



Broad money supply has not picked up

Year-on-year percentage change



Source: Bank of Japan.

Japan: **Financial indicators**

	2000	2001	2002	2003	2004
Household saving ratio [a]	10.3	10.7	9.9	9.9	10.1
General government financial balance [b]	-7.4	-7.2	-7.9	-7.7	-7.8
Current account balance [b]	2.5	2.1	3.2	3.8	4.2
Short-term interest rate [c]	0.2	0.1	0.1	0.0	0.0
Long-term interest rate [d]	1.7	1.3	1.3	1.2	1.4

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

government net borrowing requirement. Nevertheless, it is hard to identify a marked impact on monetary aggregates, with broad money continuing to grow by 3½ per cent and bank lending declining at a steady 2½ per cent rate. On the other hand, the flat yield curve suggests that the markets do not expect the Bank of Japan to change its monetary stance for some time to come, though this also implies that they expect deflation to continue.

Fiscal policy has been broadly neutral

The government has met its goals both as regards its borrowing ceiling and for the reallocation of expenditures, leaving the underlying cyclically-adjusted balance at around 7 per cent of GDP. For the FY 2003 budget, the government has moved to an expenditure target, allowing cyclical fluctuations in tax revenue. Based on the government's budget guideline and the assumption of no supplementary budget, the fiscal stance is projected to remain broadly neutral in calendar year 2002 and 2003. Beyond 2003, the government has adopted a medium-term goal to reduce the primary deficit of central and local government to 2.2 per cent of GDP by FY 2006 with a view to eliminating it by the early 2010s. The medium-term plan has adopted a cap

Japan: **Demand and output**

	1999	2000	2001	2002	2003	2004
	Current prices trillion ¥	Percentage changes, volume (1995 prices)				
Private consumption	288.8	0.5	1.4	0.8	0.5	0.8
Government consumption	82.9	4.4	2.9	2.4	1.9	1.7
Gross fixed investment	134.0	4.1	-2.3	-5.5	-2.1	-0.7
Public [a]	39.5	-10.5	-5.9	-3.0	-10.1	-3.5
Residential	20.2	1.9	-5.6	-4.0	-0.5	-0.5
Non-residential	74.3	12.2	-0.1	-6.8	0.8	0.2
Final domestic demand	505.7	2.1	0.6	-0.7	0.1	0.5
Stockbuilding [b]	- 1.7	0.0	-0.2	-0.7	0.1	0.0
Total domestic demand	503.9	2.1	0.4	-1.4	0.3	0.6
Exports of goods and services	51.1	12.5	-7.0	5.5	7.6	6.2
Imports of goods and services	43.3	9.4	-0.8	-1.2	3.9	4.5
Net exports [b]	7.9	0.5	-0.7	0.7	0.5	0.3
GDP at market prices	511.8	2.6	-0.3	-0.7	0.8	0.9

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

Japan: **External indicators**

	2000	2001	2002	2003	2004
			$ billion		
Merchandise exports	459.3	383.8	393.1	434	462
Merchandise imports	342.6	313.5	294.6	319	332
Trade balance	116.6	70.3	98.5	115	130
Invisibles, net	2.9	17.4	29.7	38	39
Current account balance	119.5	87.7	128.3	153	170
			Percentage changes		
Merchandise export volumes[a]	9.4	- 10.1	8.5	8.0	6.1
Merchandise import volumes[a]	10.9	- 1.3	0.1	3.7	4.5
Export performance[b]	- 6.8	- 8.4	3.9	- 1.6	- 4.0
Terms of trade	- 5.2	0.5	0.5	- 2.0	0.8

a) Customs basis.
b) Ratio between export volume and export market of total goods.
Source: OECD.

on total expenditure as a proportion to GDP, but it lacks specific policy measures. Tax reforms are planned for FY 2003, which are assumed to involve a revenue reduction of over ¥ 1 trillion (some ¼ per cent of GDP).

Growth is likely to remain only moderate

After contracting by some ¾ per cent in 2002 due in part to a strong negative carry-over from 2001, growth should amount to around 1 per cent in 2003 and 2004. Exports are projected to slow in line with world demand while private investment is expected to remain only modest, constrained by continuing corporate restructuring and low profitability. Moreover, the share of investment in GDP is high relative to expected growth. With unemployment likely to remain high and with income prospects poor due to downward pressure on nominal wages in the context of deflation, private consumption might grow at only a very moderate rate. Deflation is expected to continue throughout the projection period, owing to entrenched deflation expectations which weak growth will not be able to offset.

Risks are skewed to the downside

Financial market risks remain significant. Although interest rates are currently very low, public bond markets have become very sensitive to the expected path and balance of economic policy. An accelerated resolution of non-performing loans is crucial to engineer a long-lasting and robust recovery, but it could strengthen deflation in the short-run and weaker confidence if policies are not carefully co-ordinated. Any further fall in share prices would dampen business sentiment and amplify fragility in the financial sector, which in turn could constrain business activities. Further external weakness would also affect growth prospects.

Germany

Output grew slightly in the first half of 2002, as strengthening net exports more than offset a continuing fall in domestic demand. The recession in equipment investment deepened and private consumption continued to contract. The stronger external contribution to growth was due to a rise in exports but, more importantly, a marked fall in imports reflecting the weakness in domestic demand. While destocking might have reached its trough, growth remains very weak and unemployment is increasing. Growth should pick up in 2003, driven by strengthening exports. As activity broadens in 2004, GDP is projected to grow above potential, at some 2½ per cent.

The general government deficit is projected to total 3.7 per cent of GDP in 2002 and remain above 3 per cent in 2003. Further expenditure reforms are required to reduce the cyclically-adjusted deficit in a sustainable way, and measures need to be taken to raise the growth path of the economy, notably with respect to improving the functioning of labour markets and streamlining government transfers.

Output is hardly growing largely reflecting weak domestic demand

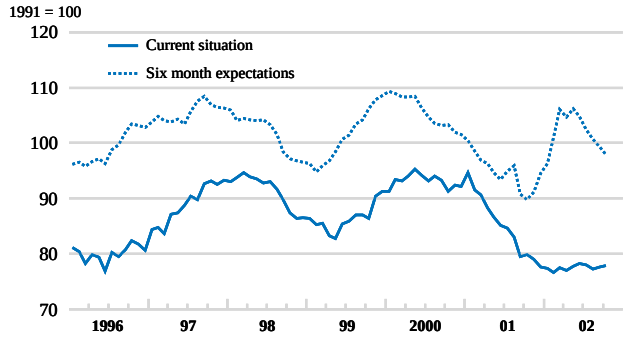
Real GDP grew slightly in the first half of 2002. Private consumption continued to contract, as consumer confidence remained subdued and rising unemployment reduced disposable income growth. Construction investment remained in deep recession, on account both of ongoing downward adjustments in the new states and of weak residential investment in the old *Länder*. Investment in machinery and equipment, already in recession in 2001, declined further, reflecting weak domestic and foreign demand and low levels of capacity utilisation. Destocking continued, but might have reached its trough more recently. The weakness in domestic demand is also reflected in a further reduction in imports, although more recent data point to positive import growth. Exports are expanding only moderately but are serving to stabilise output growth.

While the business climate has deteriorated anew…

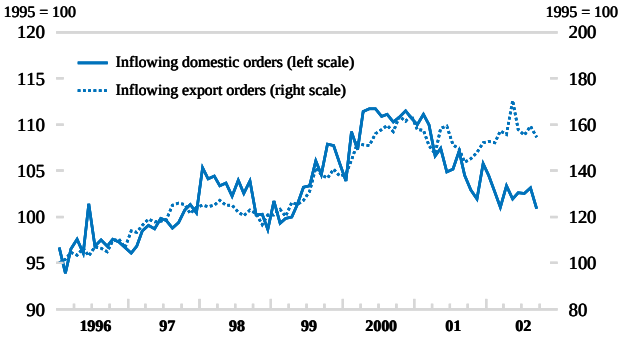
Forward-looking indicators signal that activity will remain weak over the coming months. Business confidence improved temporarily in the spring, but expectations deteriorated thereafter. Weakening export expectations, higher wage settlements than foreseen, the steep decline in stock prices and the risk of further oil price increases explain most of the deterioration. Consumer confidence is still low on the back of high unemployment. Orders improved in the first part of the year but appear to have stabilised over the last months.

Germany

Business expectations have weakened recently[1]



Export orders have stabilised[2]



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

Source: Ifo Institut für Wirtschaftsforschung; Deutsche Bundesbank.

Germany: **Employment, income and inflation**

Percentage changes from previous period

	2000	2001	2002	2003	2004
Employment	1.8	0.4	-0.5	-0.1	1.0
Unemployment rate[a]	7.3	7.3	7.8	8.1	7.7
Compensation of employees	3.9	1.9	1.5	2.5	3.4
Unit labour cost	1.0	1.3	1.2	0.9	0.9
Household disposable income	2.9	3.8	1.5	2.1	3.5
GDP deflator	-0.3	1.4	1.6	1.2	1.1
Consumer price index	2.1	2.4	1.6	1.4	1.1
Private consumption deflator	1.5	1.9	1.6	1.4	1.1

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

… employment continues to fall

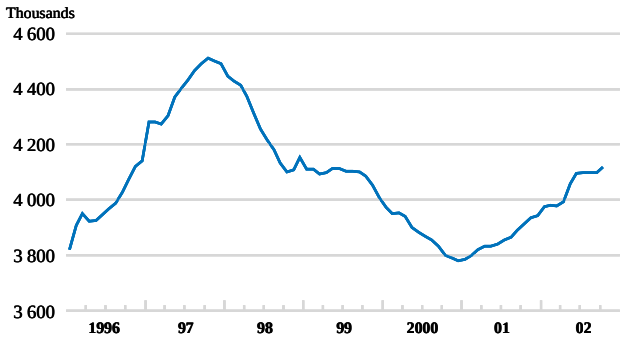
Employment continues to decline and unemployment has significantly increased despite weakening labour force growth. Wage settlements in major parts of the economy, notably the metal and engineering and the chemical sectors, imply some pick-up in real wage growth in 2002. On the other hand, in the chemical industry, an element of increased wage flexibility has been added by allowing some part of compensation to depend on profits. New legislation came into force in the spring, designed to improve the activation of the unemployed and increase the efficiency of the public employment service, but the effects have still to be seen.

Monetary conditions should remain broadly consistent with economic recovery

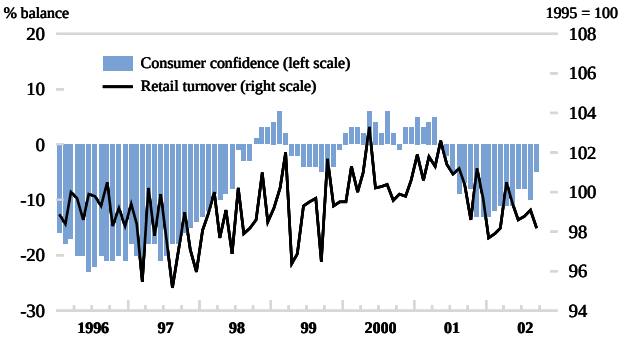
Headline inflation (harmonised index of consumer prices) has declined substantially from the temporary rebound at the beginning of the year, although the reduction in core inflation has been less pronounced. Inflation is likely to come down further on account of the euro appreciation, which more than offsets the effects on prices of higher wages and the rise in oil prices. Stock prices have fallen, with the DAX stock exchange index declining to its lowest level in six years in mid-October. While associated adverse wealth affects are smaller than in several other OECD countries, equity financing conditions for enterprises have become more difficult. Real interest rates have increased, although they remain below the long-term average.

Germany

Unemployment has risen[1]



Consumer confidence is still low



1. Seasonally adjusted, registered unemployment.
Source: Deutsche Bundesbank; OECD.

Germany: **Financial indicators**

	2000	2001	2002	2003	2004
Household saving ratio [a]	9.8	10.1	10.4	10.1	10.2
General government financial balance [b]	1.1 [c]	-2.8	-3.7	-3.3	-2.6
Current account balance [b]	-1.1	0.1	2.0	2.3	2.8
Short-term interest rate [d]	4.4	4.2	3.3	3.0	3.6
Long-term interest rate [e]	5.3	4.8	4.8	4.6	5.1

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

The budget deficit will exceed 3 per cent of GDP in 2002…

With the negative output gap opening up further, the general government deficit is projected to increase by 1 percentage point in 2002, to 3.7 per cent of GDP. While some consolidation measures have become effective, restraining spending and raising revenues, the budget is further burdened by continuing significant tax shortfalls and extra emergency spending relating to the September floods.

… and will remain high in the next couple of years

Spending caps were agreed between the federal government and the states for 2003 and 2004, but most of the pertinent consolidation measures still need to be mandated. The 2003 federal budget is not yet available, and while the new government is designing a consolidation package, this has not yet been fully enumerated and could not be incorporated in these projections. Nevertheless, those consolidation measures already mandated, notably further reductions in government employment and subsidies and increases in indirect taxes, are taken into account. Additional significant flood relief spending in 2003 is set to be fully compensated by a deferral of the income tax

Germany: **Demand and output**

	1999	2000	2001	2002	2003	2004
	Current prices billion euros	Percentage changes, volume (1995 prices)				
Private consumption	1 156.5	1.4	1.5	-0.5	1.1	2.2
Government consumption	378.8	1.2	0.8	1.1	0.8	0.7
Gross fixed investment	426.1	2.5	-5.3	-4.7	0.6	1.3
Public	37.8	-2.9	-3.4	-3.2	1.6	-5.2
Residential	143.5	-2.6	-7.1	-3.4	-0.1	-2.1
Non-residential	244.9	6.2	-4.5	-5.5	0.9	4.1
Final domestic demand	1 961.4	1.6	-0.2	-1.1	0.9	1.7
Stockbuilding [a]	0.9	0.2	-0.6	0.0	0.4	0.4
Total domestic demand	1 962.3	1.8	-0.8	-1.1	1.4	2.1
Exports of goods and services	587.0	13.7	5.0	1.8	5.3	8.0
Imports of goods and services	570.7	10.5	1.0	-2.5	5.4	7.7
Net exports [a]	16.3	1.0	1.4	1.4	0.2	0.5
GDP at market prices	1 978.6	2.9	0.6	0.4	1.5	2.5
Memorandum items						
Investment in machinery and equipment	181.0	9.3	-4.4	-6.0	0.9	5.7
Construction investment	245.2	-2.6	-6.0	-3.6	0.4	-2.3

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

Germany: **External indicators**

	2000	2001	2002	2003	2004
			$ billion		
Merchandise exports	550.2	570.4	608.9	687	752
Merchandise imports	491.8	481.0	485.3	546	597
Trade balance	58.4	89.5	123.6	141	155
Invisibles, net	- 78.8	- 87.2	- 84.1	- 91	- 92
Current account balance	- 20.4	2.3	39.5	50	62
			Percentage changes		
Merchandise export volumes [a]	12.8	4.7	1.9	5.4	8.1
Merchandise import volumes [a]	9.9	2.4	- 1.8	5.5	8.2
Export performance [b]	- 0.2	3.8	0.2	- 1.6	- 0.6
Terms of trade	- 5.7	2.0	3.2	0.3	0.3

a) Customs basis.
b) Ratio between export volume and export market of total goods.
Source: OECD.

reductions originally scheduled for 2003 and by temporary increases in the corporation tax. On these assumptions, the OECD projection is that the cyclically-adjusted deficit may fall by some ¼ per cent of GDP in both 2003 and 2004. The overall deficit is projected to decline to 2½ per cent in 2004, helped by strengthening economic activity.

GDP growth will remain subdued this year but accelerate in 2003

With activity remaining weak in the second half of 2002, average growth for the year as a whole is likely to be around ½ per cent. Although higher wage growth and lower inflation are supporting real disposable incomes, private consumption will remain subdued well into 2003 as consumer confidence is low and unemployment is projected to remain at high levels through next year. World trade is expected to recover next year, and accelerating exports will be the main driving force for higher growth in both 2003 and 2004. Construction investment will be temporarily boosted in the first half of 2003 on account of the flood relief measures. The relief package is assumed to leave overall activity unaffected, however, because higher spending is to be financed by the temporary tax hikes noted above. Consumption will strengthen as employment ceases to fall, and the recovery will be supported by income tax reductions in 2004. Rising foreign and domestic demand and increasing capacity utilisation should lead to strengthening investment in machinery and equipment. All in all, GDP is projected to grow by 1½ per cent in 2003, around its potential. As the upswing broadens in 2004, growth is projected to increase to some 2½ per cent.

Risks to these projections are significant

Risks to these projections largely arise from the uncertainty surrounding the pace of the recovery of world trade and the time needed for consumer and investor confidence to return. In this respect, monetary conditions should remain supportive for GDP growth. However, the recent sharp fall in German inflation to among the lowest in the euro area means that real interest rates risk exercising a negative effect on the strength of the recovery of demand in Germany. On the other hand, if labour market reform were to deliver significant results, confidence and activity might recover more strongly than projected.

France

After picking up sharply at the beginning of the year, GDP growth slowed to 1.6 per cent in the second quarter. Demand was supported by relatively robust personal and government consumption expenditure, while investment spending and stockbuilding remained weak. Growth has lost momentum during the second half of the year as consumer and business confidence weakened markedly. The slowdown appears to have halted the trend rise in core inflation, while the unemployment rate has remained broadly stable at a level close to its structural rate. Looking forward, growth is projected to remain moderate before slower rates of destocking and a pick-up in external demand prompt a recovery, with output increasing by somewhat less than 2 and 3 per cent in each of 2003 and 2004.

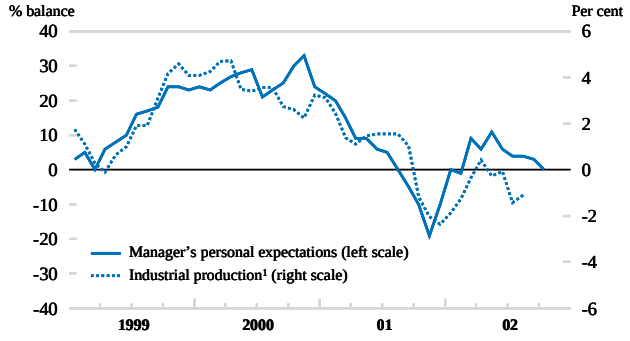
In its execution, the 2002 budget represented a substantial easing of fiscal policy, with almost half of the slippage being structural in nature. The draft budget for 2003 does not include well identified measures to redress these overruns, so that the fiscal situation may deteriorate further if cyclical weakness persists. In order to prevent the overall debt from exceeding 60 per cent of GDP and so as to ensure the future sustainability of public finances, especially in the face of rising pension obligations, substantial budgetary savings will need to be found in the near future.

Economic activity strengthened in the first half of 2002

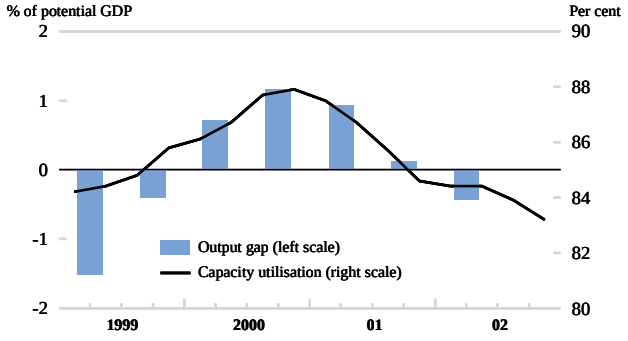
GDP rebounded in the first half of 2002, expanding by 2.4 and 1.6 per cent in the first and second quarters. Government consumption was the fastest growing component of domestic demand, followed by private consumption, which has been expanding rapidly for several years, reflecting robust gains in household incomes. In contrast, investment growth was weak. The slowing trend observed in the second quarter appears to have continued in the summer and autumn. In the third quarter industrial production declined, while data suggest that household consumption growth has slowed. Meanwhile, business surveys and industrial production data suggest that investment activity continued to be weak. The same uncertainty that underlies these trends appears to have caused firms to meet a significant portion of demand by running down inventories, adjustments in which have reduced GDP by more than 1 per cent since mid-2001. On the external side, both exports and imports rebounded in the first quarter before slowing in the second and third quarters, reflecting an apparent reduction in intra-European trade. Notwithstanding an improvement in the trade balance, the current account surplus fell by ½ per cent of GDP as investment income earnings weakened.

France

Business conditions are declining



The output gap has turned negative



1. Year-on-year growth.

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

France: **Employment, income and inflation**

Percentage changes from previous period

	2000	2001	2002	2003	2004
Employment	2.4	1.6	-0.1	0.1	1.0
Unemployment rate[a]	9.4	8.7	9.0	9.4	9.1
Compensation of employees	4.9	4.9	3.1	2.7	3.5
Unit labour cost	0.7	3.0	2.0	0.8	0.6
Household disposable income	4.5	4.9	3.6	2.7	3.5
GDP deflator	0.5	1.4	1.9	1.6	1.6
Consumer price index	1.8	1.8	1.9	1.8	1.8
Private consumption deflator	1.2	1.4	1.6	1.6	1.6

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

Core inflation has stabilised and labour market has weakened

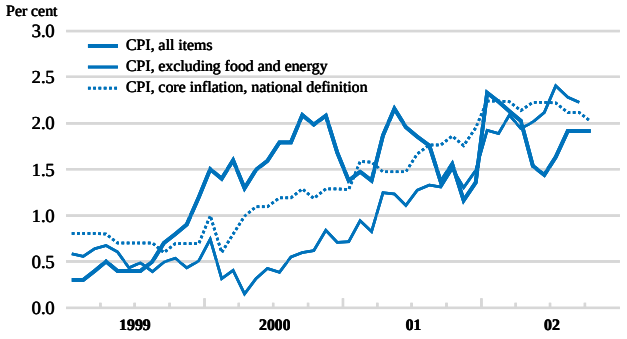
Despite this weak environment and a significant appreciation of the currency, core inflation continued rising during the first six months of 2002, but has recently shown signs of stabilising at somewhat more than 2 per cent. Headline inflation has been more volatile, being sharply influenced by changes in oil and food prices. Nevertheless, as of October, it too was around 2 per cent. The rise in core inflation did not reflect labour market factors *per se*, as monthly wage growth slowed appreciably in the first half year and unit labour costs actually fell. These developments reflected a weakening but still tight labour market. Thus, even though employment stopped growing in the first half of 2002 and unemployment increased by 50 thousand persons, firms continue to report problems finding employees in some sectors. Taken together, this suggests that the unemployment rate, which has been broadly stable at around 9 per cent, is close to its structural level.

Activity remains at high levels despite weakening confidence

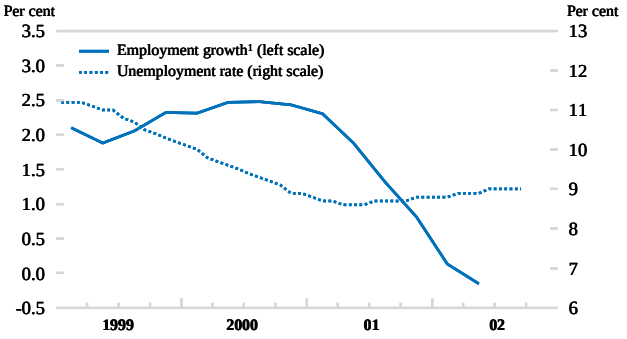
The slowdown in activity since 2000 has served to reduce the serious supply constraints that were then apparent. Nevertheless, capacity utilisation rates remain high, and this would normally be expected to spur increased investment activity. However, expected demand and orders for investment goods such as machinery and equipment are weak. Overall, order books suggest that sales will expand only slowly

France

Core inflation has stabilised



The labour market has weakened



1. Year-on-year percentage changes.
Source: National Institute for Statistics and Economic Studies (INSEE).

France: **Financial indicators**

	2000	2001	2002	2003	2004
Household saving ratio [a]	10.8	11.4	11.9	11.3	10.5
General government financial balance [b]	-1.3	-1.4	-2.7	-2.9	-2.5
Current account balance [b]	1.3	1.6	1.8	1.4	1.4
Short-term interest rate [c]	4.4	4.2	3.3	3.0	3.6
Long-term interest rate [d]	5.4	4.9	4.9	4.7	5.2

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

until the end of the year. As a consequence, managers indicate that they intend to cut production levels further.

Monetary conditions are accommodating and fiscal policy easy

Considered alone, the appreciation of the euro would have tightened monetary conditions in Europe. However, nominal and real short-term interest rates are lower than in 2001. As a result, when viewed as a whole, monetary conditions remain accommodative. Although access to loans has been tightened somewhat for firms, credit remains readily available and there are some signs of rising levels of indebtedness among households. Meanwhile, despite a budget that called for a stable government deficit, fiscal policy turned sharply expansionary in 2002. The general government deficit is expected to have almost doubled, reaching about 2.7 per cent of GDP, with almost half of the hike due to discretionary increases in spending. Moreover, the draft budget for 2003 does not contain discernible measures to reverse these developments. Rather, it calls for an unchanged deficit in 2003 and is based on relatively optimistic assumptions for GDP growth and healthcare expenditures. As a result, it is consistent with a further (albeit small) widening of the cyclically-adjusted deficit. Such an event could be forestalled if

France: **Demand and output**

	1999	2000	2001	2002	2003	2004
	Current prices billion euros	Percentage changes, volume (1995 prices)				
Private consumption	742.8	2.8	2.8	1.5	1.7	2.8
Government consumption	315.7	2.9	2.4	3.4	2.8	2.2
Gross fixed investment	259.9	8.3	2.7	0.0	0.3	3.1
General government	40.4	11.1	6.1	0.9	0.8	0.9
Household	64.4	4.1	-0.8	-0.1	0.0	2.0
Other	155.1	9.2	3.1	-0.2	0.3	4.1
Final domestic demand	1 318.4	3.9	2.7	1.6	1.7	2.7
Stockbuilding [a]	5.6	0.4	-1.0	-0.6	0.7	0.2
Total domestic demand	1 324.1	4.3	1.6	1.0	2.4	2.9
Exports of goods and services	350.3	13.6	1.5	0.2	5.2	7.5
Imports of goods and services	320.1	15.0	0.8	0.1	7.4	7.9
Net exports [a]	30.2	-0.1	0.2	0.0	-0.5	0.0
GDP at market prices	1 354.3	4.2	1.8	1.0	1.9	2.9

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

France: **External indicators**

	2000	2001	2002	2003	2004
			$ billion		
Merchandise exports	298.9	292.1	308.7	346	378
Merchandise imports	302.1	288.9	297.9	344	379
Trade balance	- 3.2	3.2	10.7	1	- 1
Invisibles, net	20.4	17.9	15.3	20	24
Current account balance	17.2	21.2	26.0	22	23
			Percentage changes		
Merchandise export volumes [a]	13.3	1.5	1.0	4.9	7.7
Merchandise import volumes [a]	15.5	0.3	0.5	8.2	8.6
Export performance [b]	0.9	- 0.6	0.5	- 1.4	- 0.4
Terms of trade	- 3.5	0.8	1.1	- 0.1	0.2

a) Customs basis.
b) Ratio between export volume and export market of total goods.
Source: OECD.

the authorities take steps under consideration to reduce discretionary expenditures during the course of 2003.

Output should pick up moderately in 2003…

GDP is projected to increase by only 1 per cent this year, before accelerating towards the middle of next year, by 1.9 per cent in 2003 and 2.9 per cent in 2004. Household incomes are likely to get a boost from tax reductions and the upward adjustment of the multiple minimum wages created by the introduction of the 35 hour work week. Nevertheless, rising unemployment and poor consumer confidence are expected to restrain the growth of household demand in 2003. The initial recovery in activity is expected to reflect a slowing of the destocking process and a pick up in external demand. In line with current expectations, destocking is expected to continue apace for the rest of this year. However, as stocks are already at historically low levels, the rate of inventory decline should slow in 2003, making a significant positive contribution to activity. This technical factor is projected to be reinforced by increased demand for French exports, due to the recovery in North America and strong trade growth in Asia. As output picks up, business sentiment and investment activity should improve, which in combination with the recovery elsewhere in Europe should lead to stronger export growth and a generalised expansion in 2004. Unemployment is projected to continue increasing at a moderate rate well into 2003, before beginning to decline in 2004. This, plus the weakness of the economy over the next six to nine months, should help to reduce consumer price inflation somewhat.

… but the pace of recovery will depend on external factors

A number of events could affect the timing and strength of the recovery by negatively impacting investment activity and delaying or weakening the pick-up in demand. These might include a worsening in the international environment, either as a result of a weaker North American economy or a further delay in the European recovery; additional wealth losses, possibly arising from the stock market, or a worsening of business confidence. However, a more positive outcome might also be possible if more reassuring news worldwide improves confidence.

Italy

Growth in the first half of 2002 was minimal, and is expected to have recovered only slightly in the second half of the year. The economy is projected to gather strength during 2003 and in 2004. A pick-up in world trade is likely to boost to exports, while low real interest rates should underpin a revival in domestic demand. Inflation is expected to decline to below 2 per cent by 2004.

The budget deficit remains high, with the risk that progress on debt reduction will stall. Wage settlements geared to targets and developments at the European level would yield beneficial effects on inflation, employment and competitiveness. At the same time, there is a need to strengthen the underpinnings of growth through more decisive action to liberalise product markets and to improve the functioning of the labour market.

The economy stalled in 2002…

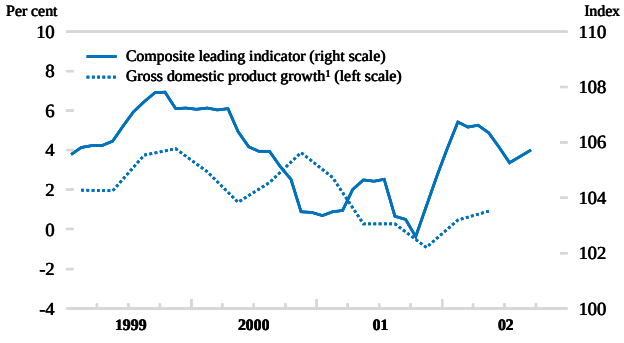
GDP hardly grew in the first half of 2002, as higher than expected government consumption and a positive contribution of stockbuilding were almost offset by declining private consumption and investment and a negative contribution of net exports. Available indicators for the second half are mixed, but on balance point to modest growth. Industrial production strengthened in the third quarter, but services activity remains weak and consumer confidence is declining. Exports are benefiting from strengthening world demand, although euro appreciation may imply market share losses. Overall, growth in 2002 is likely to end up at around ¼ per cent.

… but employment rose significantly

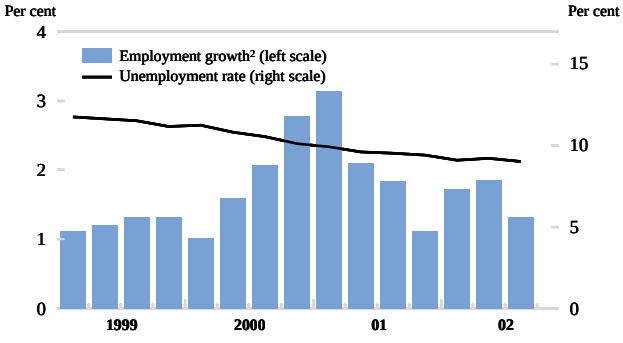
Employment has been growing (at around 2½ per cent in the first half of 2002) thanks to past structural measures, continuing wage moderation and tax incentives to stimulate hiring. However, the pace of reform has lost its initial momentum, while budgetary tightness has led to the imposition of restrictions on tax incentives. Slower employment growth and stubbornly high unemployment are projected in the near term. Tensions between trade unions and employers' associations pose a risk to wage moderation in the coming rounds (including in the public administration). Contractual wage rates are currently increasing in line with inflation but coupled with recent declines in labour productivity, this has entailed a significant increase of unit labour costs in 2002. As long as low productivity is the result of the cyclical downturn combined with an ongoing process of labour deepening due to past structural reforms, the rise in unit labour costs could be largely temporary.

Italy

Activity remains weak



Employment is still growing



1. Seasonally adjusted data, at annual rate.
2. Year-on-year percentage changes.

Source: OECD.

Italy: **Employment, income and inflation**

Percentage changes from previous period

	2000	2001	2002	2003	2004
Employment	1.9	2.0	1.7	1.0	1.3
Unemployment rate[a]	10.7	9.6	9.2	9.2	9.1
Compensation of employees	4.8	5.0	5.2	4.0	4.4
Unit labour cost	1.9	3.2	5.0	2.5	1.9
Household disposable income	3.7	6.0	5.4	4.1	3.9
GDP deflator	2.1	2.6	2.4	2.3	2.0
Consumer price index	2.6	2.3	2.5	2.3	1.9
Private consumption deflator	2.8	2.9	2.6	2.5	2.0

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

Contrasting forces are shaping price developments

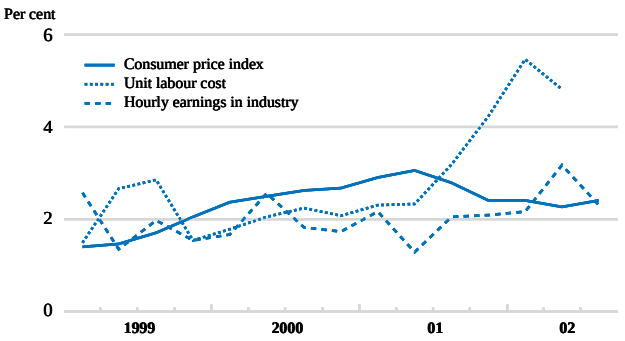
The rate of consumer price inflation hardly decelerated during the second half of 2002 and is expected to be 2½ per cent for the year as a whole. Price increases since the end of 2001 partly reflect temporary effects, such as unfavourable weather and the euro changeover. Faced with increasing protests from consumers, the government froze many utilities prices from September until December 2002, mostly overruling decisions taken by the regulatory authorities. Such interventions can have only temporary effects, and the lifting of such measures towards end-year is likely to add to inflation tensions on top of rising unit labour costs and the risk of higher oil prices. On the other hand, euro appreciation and weak demand will help mitigate inflationary pressures.

The fiscal outlook is worsening in 2002…

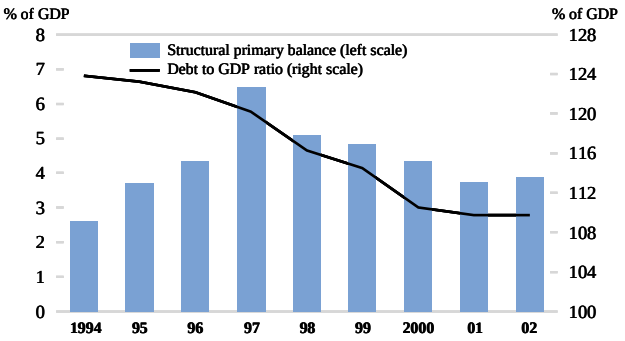
In September 2002, the government approved measures to contain public spending and enlarge the business tax base in order to limit both the slippage from the Stability Programme's targets and the rise in debt as a percentage of GDP. The measures will help to reduce the deficit in 2002, while having their full effects only in the following years. Despite this, the government revised up the 2002 target for the general government deficit from 1.1 per cent to 2.1 per cent of GDP, with the debt-to-GDP ratio decreasing only marginally. The deficit overshoot reflects mainly cyclical influences on revenue developments and persistent difficulties in limiting

Italy

Risks from unit labour costs increase[1]



The downtrend in the debt ratio has halted



1. Year-on-year percentage changes.
Source: OECD.

Italy: **Financial indicators**

	2000	2001	2002	2003	2004
Household saving ratio [a]	12.3	13.2	15.8	16.3	16.1
General government financial balance [b,c]	-0.6	-2.2	-2.3	-2.1	-2.8
Current account balance [b]	-0.5	0.0	-0.8	-0.5	-0.2
Short-term interest rate [d]	4.4	4.2	3.3	3.0	3.6
Long-term interest rate [e]	5.6	5.2	5.1	4.9	5.4

a) As a percentage of disposable income.
b) As a percentage of GDP.
c) Excludes the impact of swaps and forward rate transactions on interest payments. These operations are however included in the financial balance reported to the European Commission for purposes of the excessive deficit procedure. On this basis the deficit is -0.5 per cent of GDP for the year 2000.
d) 3-month interbank rate.
e) 10-year government bonds.
Source: OECD.

spending, especially on health. Nevertheless, the deterioration in the cyclically-adjusted primary balance evident in 2001 has been halted.

… but the new budget should reduce the deficit and support demand

At the end of September, the government presented to Parliament the 2003 Budget, aimed at reducing the deficit to 1½ per cent of GDP while sustaining domestic demand through cuts in households' effective tax rates, reinforcing unemployment insurance protection and improving public infrastructure. The business tax was cut by two percentage points, partly compensating for the previously-introduced enlargement of the tax base. These cuts will be mainly financed through tax amnesties, the use of institutions outside the general government such as the newly created *Infrastrutture S.p.A.* to finance public investment, a streamlining of state aids to the Mezzogiorno, a freeze on new hiring, and a greater use of centralised purchases for the public administration. Transfers to decentralised public entities will also be reduced

Italy: **Demand and output**

	1999	2000	2001	2002	2003	2004
	Current prices billion euros	Percentage changes, volume (1995 prices)				
Private consumption [a]	666.8	2.7	1.1	-0.3	0.9	2.2
Government consumption	199.7	1.7	2.2	1.9	1.2	1.0
Gross fixed investment	212.1	6.5	2.4	-2.7	1.8	2.6
Machinery and equipment	124.9	7.1	1.5	-4.4	1.3	2.1
Construction	87.2	5.6	3.7	-0.2	2.5	3.2
Residential	47.9	5.2	3.0	1.0	2.0	3.0
Non-residential	39.3	6.0	4.5	-1.5	3.1	3.6
Final domestic demand	1 078.6	3.3	1.6	-0.4	1.2	2.0
Stockbuilding [b]	7.1	-1.1	0.0	1.1	0.0	0.0
Total domestic demand	1 085.7	2.1	1.6	0.7	1.1	2.0
Exports of goods and services	283.1	11.7	0.8	-1.4	6.0	7.7
Imports of goods and services	260.3	9.4	0.2	-0.1	5.0	6.3
Net exports [b]	22.8	0.8	0.2	-0.4	0.4	0.5
GDP at market prices	1 108.5	2.9	1.8	0.3	1.5	2.5

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

Italy: **External indicators**

	2000	2001	2002	2003	2004
			$ billion		
Merchandise exports	240.6	242.5	249.1	281	307
Merchandise imports	230.6	226.5	231.7	258	280
Trade balance	10.0	16.0	17.5	22	27
Invisibles, net	- 15.4	- 16.1	- 26.6	- 29	- 30
Current account balance	- 5.4	- 0.1	- 9.1	- 7	- 2
			Percentage changes		
Merchandise export volumes [a]	10.2	0.3	- 0.2	6.1	7.8
Merchandise import volumes [a]	8.3	- 0.7	- 0.2	4.8	6.3
Export performance [b]	- 2.6	- 0.8	- 1.5	- 1.1	- 0.9
Terms of trade	- 7.4	2.0	1.2	- 0.2	- 0.3

a) Customs basis.
b) Ratio between export volume and export market of total goods.
Source: OECD.

without curtailing the amount of services they are mandated to provide. Overall, structural measures of tax reduction and higher spending are mainly being compensated by savings measures which are either one-off or whose effectiveness is dependent on highly uncertain factors. For example, there are questions about the ability of decentralised entities to improve productivity in providing services like health, and the extent of participation in the tax amnesty. Regardless of how these measures turn out, the task of consolidation beyond 2003 will prove more challenging.

Recovery is expected to start at the beginning of 2003

A mild recovery is expected to start at the beginning of 2003. Capital spending should pick up as the contribution of net exports turns positive in the first half of next year, reflecting accelerating world trade growth. Investment will be assisted also by low real interest rates and, by 2004, a declining tax burden on business. The rebound in consumption will be less marked, as income from labour slows down, while already emerging increases in the household saving ratio will mute the impact of tax cuts for lower-income households. Overall, output is expected to grow by 1½ per cent in 2003 and 2½ per cent in 2004. The unemployment rate should stabilise at just above 9 per cent. Inflation is expected to decline to under 2 per cent by 2004, thanks primarily to decelerating unit labour costs reflecting higher productivity.

Risks attach to the fiscal side and to the loss of reform momentum

The main risk surrounding these projections attaches to the fiscal side. A relaxation of the Stability Pact's commitments beyond the planned easing of fiscal policies both in Italy and in other European Union countries might lead to a rise in real interest rates, especially in Italy because of the high level of the debt, braking the expected recovery of the economy. To offset higher interest payments associated with higher interest rates, fiscal policy would have to be tightened again. Another risk is that current tensions in the labour market might preclude a satisfactory outcome for incomes policy and structural reforms. Such risks would be aggravated if the external environment were to deteriorate. On the other hand, if uncertainty worldwide dissipates rapidly, a more forceful acceleration of world trade and a decrease in oil prices would lead to higher output and lower inflation.

United Kingdom

The economy has weathered the downturn relatively well and the recovery should compare favourably with that of the other major European countries. Strong household demand has been a key element, supported by low interest rates and rising housing wealth. Rapidly growing public expenditure is providing additional support to activity and will continue to do so, being gradually supplemented by growing external demand and a revival of investment.

Monetary and fiscal policy have provided a stable macroeconomic environment to date. However the current surge in house prices creates a dilemma for monetary policy as to whether to act before any potential bubble becomes a risk to macroeconomic stability. The large increases in public expenditure, needed to address deep-seated structural problems in education, health and transport, are not expected to break the authorities' fiscal rules. However the government faces a challenge in ensuring that the higher spending is fully translated into better public services.

Growth continues to be higher than elsewhere

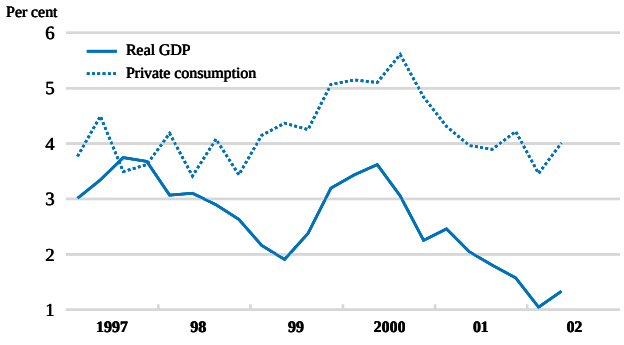
Output growth picked up in the second quarter to 2½ per cent on an annualised basis, following a stint of growth well below potential since mid-2001. Furthermore, growth for the second quarter is estimated to have been reduced by about a ¼ percentage point as production was affected by the Jubilee celebrations. The composition of growth continues to reflect a "two-speed" economy; private and public consumption have strongly supported activity, but business investment has shrunk and net exports have generally been a drag on activity. The fall in manufacturing output associated with these developments has been accentuated by the information and communication technology producing sector where, despite its small share, falls in production have been so large as to affect the total. The unemployment rate continues to hover just above 5 per cent.

Low interest rates and rising housing wealth are supporting consumption

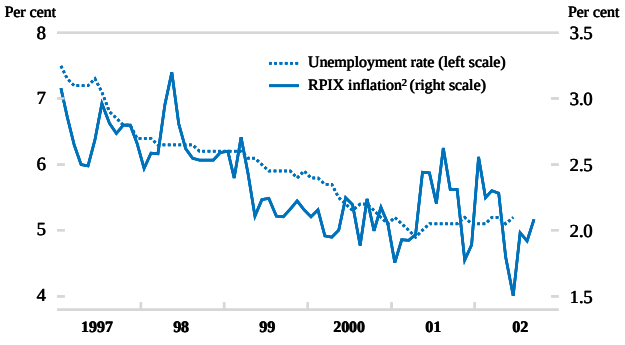
Low mortgage interest rates and rising house prices are playing a key role in household borrowing and spending. On the one hand, interest rates on mortgages have fallen to a 37-year low. On the other hand, with house prices rising at a rate of 20 to 25 per cent annually, the size of mortgages has been rapidly increasing. Growth in credit extended to households and mortgage equity withdrawal as a proportion of disposable income are at their highest in more than a decade and household debt as a proportion of income has reached record levels. The ratio of house prices to earnings

United Kingdom

Consumption is supporting growth[1]



Inflation and unemployment remain low



1. Seasonally adjusted data, growth over same period of previous year.
2. All items excluding mortgage interest payments, year-on-year percentage changes.

Source: National Statistics and OECD.

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

Percentage changes from previous period

	2000	2001	2002	2003	2004
Employment	1.3	0.8	0.5	0.3	0.6
Unemployment rate[a]	5.4	5.1	5.2	5.2	4.9
Compensation of employees	6.5	5.9	4.1	5.1	5.3
Unit labour cost	3.4	3.9	2.5	2.8	2.7
Household disposable income	5.3	7.0	3.5	4.9	5.3
GDP deflator	2.2	1.9	3.2	2.4	2.6
Consumer price index[b]	2.1	2.1	2.0	1.8	2.1
Private consumption deflator	0.7	0.4	1.1	1.8	2.1

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

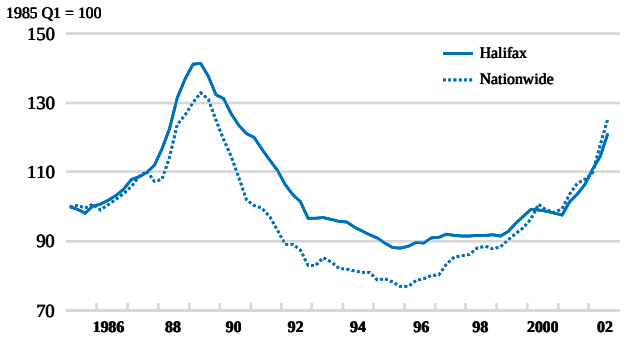
is well above the long-run average, although it still remains below the peaks of the property boom at the end of the 1980s. Despite the illiquid nature of most housing wealth, the large house price increases have undoubtedly helped to counter the impact of the sharp reduction in equity wealth on consumption.

Monetary policy continues to achieve the inflation target

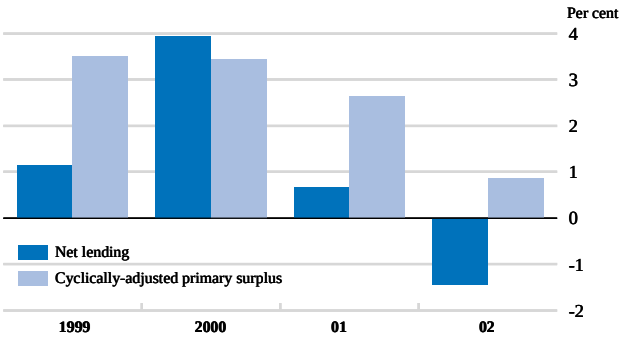
The Bank of England's Monetary Policy Committee has kept the repo rate at 4 per cent since November 2001. The key measure of inflation targeted by the monetary authorities, the retail price index excluding mortgage payments (RPIX), indicates that in the second and third quarter inflation edged down below the target of 2½ per cent. However, at its November meeting the Monetary Policy Committee considered it likely that inflation would temporarily rise above the target in the near term as a result of higher oil prices and an unusually large contribution from housing depreciation. Given their assessment that the balance of risks for inflation is slightly skewed on the upside, a cut in interest rates in the near future seems unlikely despite a weakening global outlook. In any case a cut in interest rates might risk further fuelling house prices. While the low base rate has been a major influence in reducing the

United Kingdom

House prices are rising relative to earnings[1]



The fiscal stance is becoming more relaxed[2]



1. Ratio of the average price for houses to national average earnings.
2. General government net lending in per cent of (potential) GDP.
Source: National Statistics, Halifax, Nationwide and OECD.

United Kingdom: **Financial indicators**

	2000	2001	2002	2003	2004
Household saving ratio [a]	4.2	6.1	5.1	5.4	6.0
General government financial balance [b]	3.9	0.7	-1.4	-1.4	-1.3
Current account balance [b]	-2.0	-2.1	-1.7	-2.3	-3.0
Short-term interest rate [c]	6.1	5.0	4.0	4.2	5.0
Long-term interest rate [d]	5.3	4.9	4.9	4.7	5.1

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

cost of borrowing for households, it has had less influence on the conditions for corporate financing, where solvency concerns have prompted a rise in yield spreads on corporate bonds. In addition increased uncertainty, particularly associated with the international environment, has weighed on investment decisions.

Public spending continues to increase

Implementation of ambitious plans for the reform and modernisation of public services, addressing previous under-investment, is now fully under way. According to the 2002 Spending Review, real resources made available for health, education and transport will continue to rise substantially faster than total government expenditure. Most notably, real annual expenditure increases of over 7 per cent are planned for the health sector between the fiscal years 2002/03 and 2005/06. One risk in such rapid expenditure increases is that there is a leakage into cost increases. Indeed, growth in the deflator for government expenditure has exceeded that of the GDP deflator by an unusually wide margin over the last couple of years, although this may partly reflect the difficulties of measuring government output and adjusting for quality and productivity improvements, issues which become more apparent when nominal expenditure is growing quickly. Partly due to cyclical developments and partly due to a fall off in tax

United Kingdom: **Demand and output**

	1999	2000	2001	2002	2003	2004
	Current prices billion £	Percentage changes, volume (1995 prices)				
Private consumption	591.6	5.2	4.1	3.6	2.9	2.5
Government consumption	166.6	2.1	3.1	4.5	2.8	3.0
Gross fixed investment	153.5	1.9	0.3	-4.4	2.4	3.9
Public [a]	11.5	5.3	3.5	11.5	6.9	10.0
Private residential	33.8	0.8	-4.0	10.5	3.1	2.8
Private non-residential	108.2	1.8	0.9	-9.3	1.6	3.3
Final domestic demand	911.7	4.0	3.3	2.4	2.8	2.8
Stockbuilding [b]	6.3	-0.1	-0.6	-0.1	0.1	0.5
Total domestic demand	918.0	3.9	2.6	2.3	3.0	3.2
Exports of goods and services	236.6	10.1	1.2	-1.1	4.2	7.8
Imports of goods and services	252.2	11.7	2.8	1.5	5.9	8.6
Net exports [b]	- 15.6	-1.1	-0.7	-1.0	-1.0	-1.0
GDP at market prices	902.5	3.1	2.0	1.5	2.2	2.5

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

United Kingdom: **External indicators**

	2000	2001	2002	2003	2004
			$ billion		
Merchandise exports	284.5	276.2	284.6	310	341
Merchandise imports	330.4	324.5	329.7	368	408
Trade balance	- 45.9	- 48.3	- 45.1	- 58	- 67
Invisibles, net	16.9	18.0	18.1	19	13
Current account balance	- 28.9	- 30.3	- 27.0	- 39	- 54
			Percentage changes		
Merchandise export volumes [a]	11.4	2.0	- 1.5	3.4	8.0
Merchandise import volumes [a]	11.8	3.9	0.6	5.8	8.8
Export performance [b]	- 0.8	1.8	- 2.7	- 3.1	- 0.3
Terms of trade	0.9	0.4	3.2	- 0.2	0.0

a) Customs basis.
b) Ratio between export volume and export market of total goods.
Source: OECD.

revenues related to weaker asset prices (especially capital gains tax and lower corporate tax revenues from financial companies), the 2001/02 surplus was weaker than expected and net borrowing could reach 1½ per cent of GDP in the 2002/03 financial year. However, in view of the current balance surpluses that have already been accumulated since the start of this cycle, the budget should continue to satisfy the "golden rule" that over the course of the cycle the government should borrow only to invest, even if net borrowing of around 1½ per cent of GDP persists over the coming two years. The second rule, that public debt should be stable and below 40 per cent of GDP over the cycle, is also not likely to be breached under this scenario.

Growth is projected to pick up…

For 2003, growth is projected to increase to about 2¼ per cent, in line with potential growth, and to be slightly above that in the following year. The increased growth comes from a gradual rise in exports and stronger investment, while the contribution from private consumption is projected to weaken gradually as house prices level off. Faster growth in total expenditure compared to that of major trading partners is likely to lead to a marked deterioration in the current account deficit, which may reach 3 per cent of GDP by 2004, with net exports continuing to have a negative impact on growth. Inflation is likely to rise, but should remain somewhat below the target rate if, as projected, monetary policy tightens gradually as from the end of next year.

… though there are important risks

The most significant domestic uncertainty in the near term lies with household spending. If house prices continue to rise strongly relative to average earnings, concerns about a re-run of the property bubble of the late 1980s will heighten. A subsequent collapse in house prices combined with continuing weakness in equity prices could be particularly damaging to the maintenance of stable demand. In any case, the high levels of borrowing mean that households are unusually sensitive to interest rate movements, making it more difficult to predict the effect of any change in monetary policy. The main external risks for the near term lie in developments in international financial markets and the possibility of a more delayed pick-up in the United Kingdom's export markets.

Canada

After recovering vigorously from last year's mild downturn, economic activity in Canada seems to have maintained its momentum, in contrast to the United States. Employment growth has remained strong and is set to continue so, albeit at a slower pace. Although some signs of softening have recently appeared, partly connected to global uncertainties, the sustained expansion of consumer demand and a further pick-up of business investment should ensure that any moderation will be mild and short-lived, and growth should return to above potential rates some time next year.

The budget surplus has declined significantly and is expected to remain modest in coming years, leaving limited room for new spending. The monetary stance is still expansionary. With the economy already close to full capacity and core inflation near the top of the target range, a gradual but steady monetary tightening will be required to keep price pressures under control.

Economic activity has been robust thus far in 2002…

The Canadian economy has been doing extremely well so far this year, with GDP growth clearly outpacing its US counterpart. After averaging over 5 per cent at annual rates in the first two quarters of 2002, the pace of output growth seems to have eased slightly during the summer. Activity has been driven essentially by domestic demand. Consumer spending has been expanding at a healthy rate, supported by rising employment levels and incomes. Residential investment and spending on consumer durables, stimulated by last year's interest rate cuts, have been buoyant. And a rebound of business investment (including investment in information and communication technology) started in the second quarter.

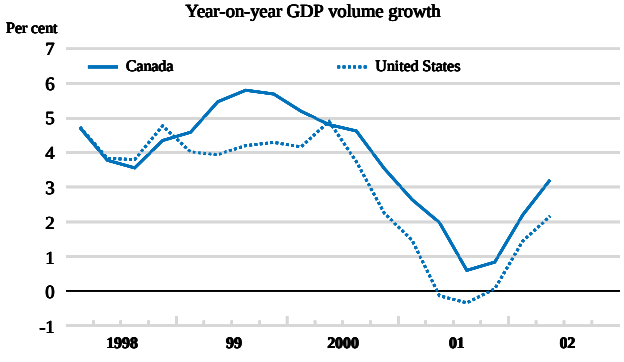
… accompanied by strong employment growth

One of the features of the current economic expansion has been the very robust labour market performance. Again in contrast to the United States, job creation has been exceptionally strong, running at an annual rate of almost 4 per cent in the first three quarters of the year. Employment growth has been broadly based across sectors. It has been reflected both in a declining unemployment rate and in a significant rise in participation rates across all gender and age groups, itself a sign of rising confidence. Growth of labour productivity per worker has resumed in line with its medium-term trend, in spite of the fact that a fairly high proportion of jobs created have been of a part-time nature.

Canada

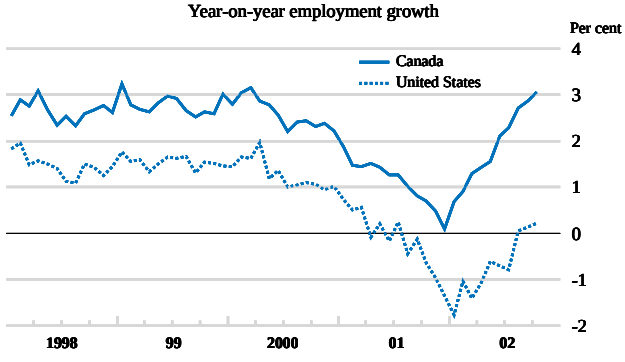
Growth has outpaced that in the United States

Year-on-year GDP volume growth



Employment trends are even more divergent

Year-on-year employment growth



Source: Statistics Canada.

Canada: **Employment, income and inflation**

Percentage changes from previous period

	2000	2001	2002	2003	2004
Employment	2.6	1.1	1.9	1.9	1.7
Unemployment rate[a]	6.8	7.2	7.6	7.3	6.9
Compensation of employees	8.4	4.4	4.6	5.5	5.6
Unit labour cost	3.7	2.8	1.2	2.4	2.0
Household disposable income	6.9	4.4	5.2	5.5	5.8
GDP deflator	3.9	1.0	1.0	2.6	2.2
Consumer price index	2.7	2.5	2.2	2.7	2.3
Private consumption deflator	2.1	1.9	2.0	2.7	2.4

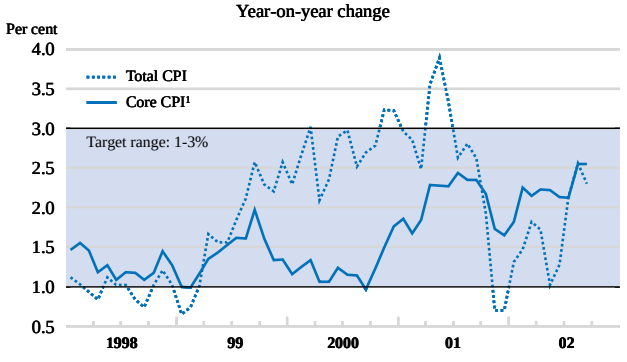
a) As a percentage of labour force.
Source: OECD.

A moderate slowdown is expected in the short term

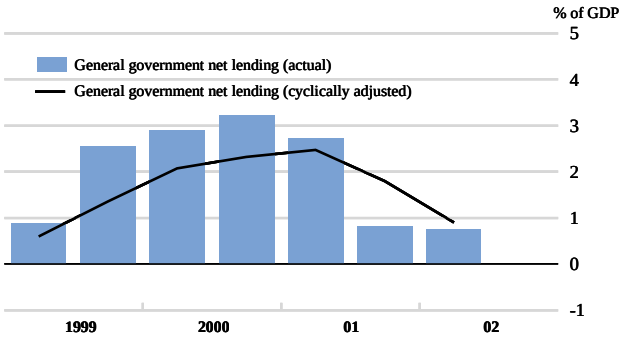
A number of indicators of consumer and business confidence point to somewhat weaker growth in the second half of the year. But there is reason to believe that, if there is a slowdown, it will be moderate and relatively brief, and economic activity should start gathering strength again over the course of 2003. The main factors likely to slow the economy in the very short term are external. The slowing pace of the US recovery is expected to make for more subdued export demand growth than in previous upswings, while the combination of global uncertainty and the fall in stock prices could induce a temporary postponement of consumer and busines spending plans. In addition, the boom in residential construction may have already peaked in the first half of the year, although there is little sign thus far of any retrenchment. Most other domestic spending components, however, should continue to provide impetus to the current upswing. Business investment should recover further, given that profit margins have already risen above historical averages, capacity utilisation rates are high and demand is still robust. Moreover, having a smaller information and communications technology sector than the United States, Canada is less likely to be feeling the impact of a capital overhang. Meanwhile, employment is expected to continue to expand, albeit probably at a slower rate, and this will support consumer

Canada

Inflation is rising
Year-on-year change



The budget surplus has declined substantially



1. Excluding the 8 most volatile components and indirect taxes.
Source: Statistics Canada.

Canada: **Financial indicators**

	2000	2001	2002	2003	2004
Household saving ratio [a]	4.8	4.6	5.3	5.3	5.7
General government financial balance [b]	3.1	1.8	0.6	0.5	0.6
Current account balance [b]	2.6	2.8	1.9	2.2	2.4
Short-term interest rate [c]	5.8	4.0	2.6	3.5	4.5
Long-term interest rate [d]	5.9	5.5	5.2	5.4	6.0

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

spending. Finally, firms have already started to rebuild their inventories and are expected to keep doing so in view of expanding demand.

Monetary policy is still expansionary, but will have to be tightened

The present macroeconomic policy settings are also still broadly supportive of economic activity and are therefore helping to offset the impact of weaker external demand. Even though the Bank of Canada raised policy rates by a total of 75 basis points between April and July, the monetary stance is still rather expansionary, with short-term market rates only slightly above core inflation. The headline consumer price inflation rate rose significantly during the summer, although partly as a result of temporary factors, and it appears poised to rise further in coming months as a result of higher energy prices. Core inflation has also risen and is expected to remain above the mid-point of the Bank of Canada's target range throughout the projection horizon. In light of the projection that output growth will again exceed its potential rate of a little more than 3 per cent per year and that unemployment will decline to

Canada: **Demand and output**

	1999	2000	2001	2002	2003	2004
	Current prices billion CAD	Percentage changes, volume				
Private consumption	561.0	3.7	2.6	2.6	2.9	2.9
Government consumption	185.3	2.3	3.3	1.9	2.7	2.6
Gross fixed investment	195.3	6.5	1.7	3.4	3.9	5.3
Public [a]	22.6	3.0	11.5	10.4	5.7	4.9
Residential	45.9	3.5	4.7	12.7	-3.1	0.7
Non-residential	126.8	8.2	-1.1	-1.5	6.7	7.3
Final domestic demand	941.6	4.0	2.5	2.6	3.0	3.3
Stockbuilding [b]	5.3	0.4	-1.3	0.4	0.1	0.1
Total domestic demand	946.9	4.5	1.0	2.9	3.2	3.4
Exports of goods and services	421.8	8.0	-3.8	1.6	6.1	7.6
Imports of goods and services	388.2	8.2	-5.8	0.3	6.8	7.8
Net exports [b]	33.6	0.3	0.6	0.6	0.1	0.4
Error of estimate [b]	0.0	0.0	-0.1	0.0	0.0	0.0
GDP at market prices	980.5	4.5	1.5	3.3	3.1	3.5

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

Canada: **External indicators**

	2000	2001	2002	2003	2004
			$ billion		
Merchandise exports	286.5	268.0	263.3	290	318
Merchandise imports	244.7	226.5	227.5	251	277
Trade balance	41.8	41.4	35.8	38	41
Invisibles, net	- 23.1	- 21.9	- 22.2	- 22	- 21
Current account balance	18.6	19.5	13.6	17	20
			Percentage changes		
Merchandise export volumes [a]	9.0	- 4.3	1.4	6.0	7.8
Merchandise import volumes [a]	9.5	- 5.9	1.1	7.0	8.2
Export performance [b]	- 4.3	- 0.6	- 1.4	- 0.6	- 0.3
Terms of trade	4.8	- 0.7	- 2.5	0.5	0.0

a) Customs basis.
b) Ratio between export volume and export market of total goods.
Source: OECD.

around its estimated structural rate of 6¾ per cent by the end of 2004, monetary policy is assumed to be progressively tightened over the next two years.

Budget surpluses have declined, so that room for new spending is limited

The general government budget surplus has declined substantially since 2000, partly as a result of last year's slowdown but also due to past tax cuts. The surplus is expected to remain at relatively modest levels in the coming two years, as favourable cyclical effects will be largely offset by the impact of further, already scheduled tax cuts (mostly for corporations) and by rising spending pressures. The federal government has recently announced its intention to implement new spending initiatives for health care, infrastructure investment in cities and increased child benefits: details will probably be included in the next budget, expected in February. In addition, as the health system comes under review, the government may face pressure to further increase transfers to the provinces, which have also seen their budget positions deteriorate and are planning tax cuts of their own. However, the room to accommodate spending increases will be limited if the government also wants to honour its commitment to avoiding budget deficits.

Growth is expected to accelerate again sometime in 2003

Economic activity is projected to strengthen gradually again over the course of the next year and in 2004 as the pace of the global recovery picks up. The current account surplus is estimated at around 2 per cent of GDP in 2002 and is expected to rise moderately over the next two years, benefiting from terms-of-trade gains. The risks are relatively balanced. On the one hand, a more pronounced or protracted US slowdown could lead to weaker exports. On the other hand, the Canadian economy, already close to full capacity, could easily overheat if the US recovery were to pick up rapidly and a surge in exports were superimposed on the continuing vigorous expansion of domestic demand.

Australia

The economy continued to perform strongly in the first half of 2002, as buoyant domestic demand more than offset the weakness of exports. With monetary conditions remaining supportive and the global environment expected to improve, economic growth is projected to remain robust, despite the current farm drought and a likely downturn in the residential property sector. The labour market may improve further, while the combination of wage moderation and sizeable productivity gains will help keep labour costs and inflation under control.

The favourable economic outlook should permit a more neutral setting of monetary and fiscal policies, to lock in price stability and ensure budget balance over the economic cycle. Further decentralisation of wage bargaining should help to lower the still high structural unemployment, while reform of the income support system should aim at strengthening the incentives of welfare recipients to participate in gainful employment.

Domestic demand is buoyant

Total domestic demand grew at an annual rate of 5½ per cent in the first half of 2002, driven by buoyant private consumption growth, continued strong residential construction and a marked pick-up in business investment. Domestic demand was underpinned by high levels of business and consumer confidence, historically low interest rates and a generous subsidy to first-time home buyers. Net exports subtracted from GDP growth in line with the weak external environment and strong domestic demand.

Employment is growing and inflation low

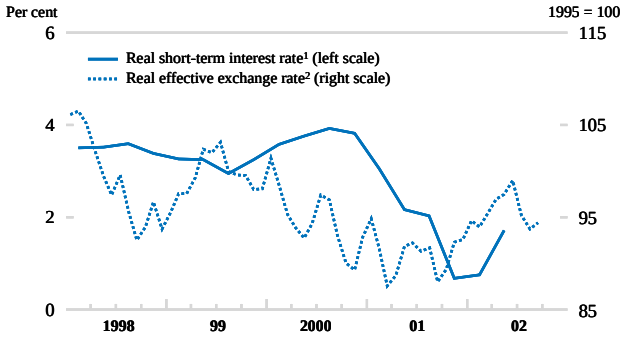
Employment recovered in the first three quarters of 2002, mainly reflecting a rapid increase in part-time jobs, whereas full-time employment growth was below its long-run average. At around 6¼ per cent, the unemployment rate still exceeded OECD's estimates of structural unemployment. Consumer price inflation stayed just at the upper end of the Reserve Bank's 2 to 3 per cent inflation target range in the first three quarters of 2002, with underlying inflation measures being somewhat lower. Good inflation performance was underpinned by wage moderation and very strong labour productivity growth.

Monetary policy remains accommodating…

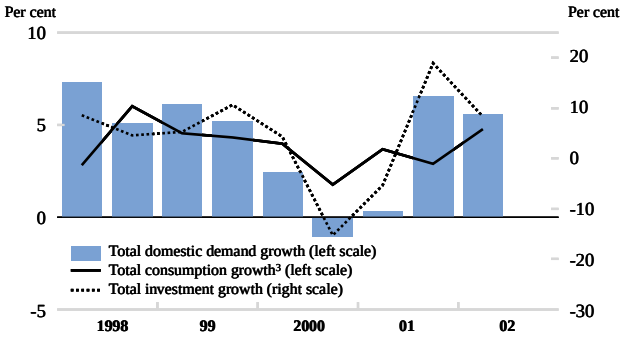
With short-term interest rates at their lowest levels in almost 30 years and the economy remaining strong, the Bank decided to move to a less expansionary monetary policy setting and raised the cash rate in May and June 2002 by altogether 50 basis points to 4.75 per cent. This still left monetary conditions supportive of economic activity, but in view of global uncertainties the Bank has kept the cash rate

Australia

Monetary conditions remain supportive



Domestic demand has surged



1. 90-day bank accepted bill rate, deflated by core inflation estimates.
2. Consumer price index based.
3. Private and public consumption.

Source: OECD.

Australia: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion AUD	Percentage changes, volume				
Private consumption	365.3	2.9	3.4	4.3	3.7	3.5
Government consumption	111.0	5.4	1.7	3.0	2.4	2.1
Gross fixed capital formation	143.0	0.6	-2.5	9.3	4.5	5.6
Final domestic demand	619.3	2.8	1.8	5.1	3.7	3.7
Stockbuilding [a]	4.4	-0.6	-0.3	0.0	0.1	0.2
Total domestic demand	623.8	2.2	1.5	5.1	3.8	3.9
Exports of goods and services	113.8	10.7	1.1	2.3	7.5	7.7
Imports of goods and services	130.3	7.1	-4.1	9.8	7.8	8.1
Net exports [a]	- 16.5	0.6	1.2	-1.6	-0.2	-0.2
Statistical discrepancy [a]	0.0	0.3	0.1	0.1	0.1	0.1
GDP at market prices	607.2	3.2	2.8	3.5	3.7	3.8
GDP deflator	_	4.2	3.3	2.9	2.7	2.5
Memorandum items						
Consumer price index	_	4.5	4.4	3.0	2.9	2.7
Private consumption deflator	_	3.2	3.5	2.5	2.5	2.6
Unemployment rate	_	6.3	6.7	6.3	6.1	6.0
Household saving ratio [b]	_	4.0	3.5	2.5	3.0	3.3
General government financial balance [c]	_	0.3	0.0	0.1	0.4	0.8
Current account balance [c]	_	-3.4	-2.0	-3.0	-2.9	-2.8

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

unchanged since. A return to more neutral monetary conditions is incorporated in the projections for 2003-04.

… while fiscal policy is tightening

Following the counter-cyclical loosening of the fiscal stance in 2001, which entailed a federal deficit of 0.2 per cent of GDP in fiscal year (FY) 2001/02, the Commonwealth budget projects a return to a small surplus in FY 2002/03 and larger ones thereafter. This is in line with the government's objective of budget balance over the economic cycle. It implies a mildly contractionary fiscal policy stance over the projection period.

Growth should be rapid with low inflation and employment gains

With leading indicators favourable and the policy environment conducive to robust activity, the economy is projected to grow broadly in line with potential output. Improving labour markets, rising real-estate wealth and comparatively low debt-servicing costs for households should support consumer confidence and private consumption. Dwelling construction is likely to start falling in 2003-04, given reduced subsidies to first-time home buyers, rising house prices, higher vacancy rates and falling rental yields. But surveys suggest that business investment growth is rising, underpinned by low financing cost, healthy company profitability and low corporate debt. Exports are expected to recover in line with export markets. Together with further terms-of-trade gains, this may keep the current external deficit below 3 per cent of GDP. Although the current drought will substantially curtail farm output, GDP may nevertheless grow at a rate of around 3¾ per cent over 2003 and 2004.

Austria

Economic activity has been slowly picking up since the end of 2001. However, the expansion has mainly been supported by firmer export growth, as domestic demand has remained weak and imports have fallen. Growth should firm from mid-2003 as world trade recovers, but unemployment is unlikely to begin falling before 2004.

The general government budget, which was balanced in 2001, is likely to be in deficit this year by about 1½ per cent of GDP, and improve only marginally in 2003. A durable path towards a balanced budget requires both the full implementation of planned fiscal consolidation measures at all levels of government and the replacing of one-off revenue measures with lasting savings.

Economic activity has been only slowly gathering pace…

The economy has been slowly picking up since the end of 2001. Private consumption growth has remained weak, with real income growth held back by lower employment and modest real wage growth. Higher inventories and low capacity utilisation have led to a contraction of investment in machinery and equipment, while the growth of construction investment has remained slow. Consequently, imports have been falling and this, together with a mild pick-up in exports, has accounted for positive output growth. Neither business nor consumer confidence point to a rapid recovery in the remainder of 2002.

… but growth has not been sufficient to prevent further increases in unemployment

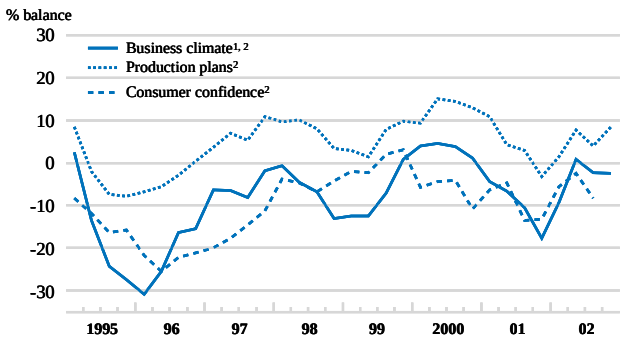
Employment continued to contract in 2002, as labour shedding spread to most sectors, while the labour supply has been boosted both by the higher retirement age and by the increased number of foreign seasonal workers. As a result, the registered unemployment rate has increased to nearly 7¼ per cent or 1½ percentage point higher than its cyclical low at the end of 2000. Nevertheless, hourly wage growth has remained at around 3 per cent. Consumer price inflation (measured by the harmonised index of consumer prices) came down to 1½ per cent by mid-2002, as oil price increases abated and tax effects disappeared, before increasing somewhat. Underlying inflation (excluding energy and food items) has remained above 2 per cent.

A substantial general government deficit has emerged

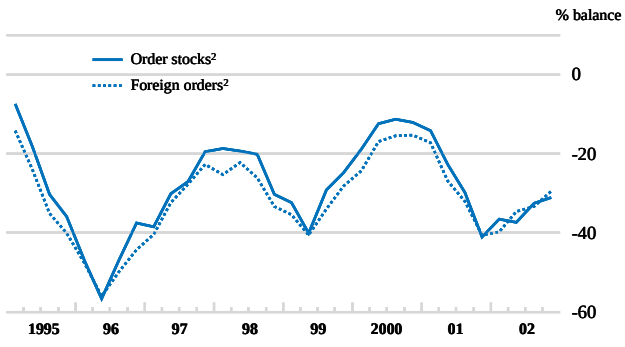
The general government budget is deteriorating under the impact of slow economic growth. In addition, recent data indicate some spending slippage, particularly at the local government level, and revenue shortfalls for 2002. Moreover, extra

Austria

Confidence remains fragile



Orders are slowly recovering



1. Anticipated business conditions.
2. Seasonally adjusted. Balance of positive-negative replies.

Source: WIFO Institut für Wirtschaftsforschung and OECD.

Austria: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion euros	Percentage changes, volume (1995 prices)				
Private consumption	112.3	2.5	1.4	0.7	1.6	2.2
Government consumption	38.7	0.9	-0.3	0.1	0.5	0.9
Gross fixed capital formation	45.8	5.1	-3.4	-2.8	2.9	4.2
Final domestic demand	196.8	2.8	-0.1	-0.2	1.7	2.4
Stockbuilding [a]	1.5	-0.3	0.0	-0.1	0.0	0.0
Total domestic demand	198.3	2.4	-0.1	-0.3	1.7	2.4
Exports of goods and services	89.6	12.2	5.5	-0.9	6.1	7.4
Imports of goods and services	91.3	11.1	3.4	-2.7	5.8	7.2
Net exports [a]	- 1.7	0.5	1.1	0.9	0.3	0.3
GDP at market prices	196.7	3.0	1.0	0.7	1.9	2.6
GDP deflator	_	1.2	1.7	1.2	1.6	1.7
Memorandum items						
Consumer price index	_	2.0	2.3	1.7	1.6	1.7
Private consumption deflator	_	1.5	2.3	1.3	1.6	1.7
Unemployment rate [b]	_	4.7	4.9	5.6	5.7	5.3
Household saving ratio [c]	_	6.7	5.5	6.2	6.1	6.4
General government financial balance [d]	_	-1.7	0.0	-1.6	-1.4	-0.8
Current account balance [d]	_	-2.6	-2.2	-0.8	-0.7	-0.6

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

spending to the amount of about ½ per cent of GDP – in both 2002 and 2003 – results from this summer's flooding and next year's stimulus package. Overall, the general government balance is likely to record a deficit of around 1½ per cent of GDP in 2002 and improve only marginally next year as already legislated tightening will be offset by additional spending. Automatic stabilisers and a resumption of the medium-term fiscal consolidation strategy should bring the deficit to below 1 per cent in 2004.

Economic activity is only expected to gather pace after mid-2003…

The pace of economic activity will remain modest until mid-2003, when it is projected to accelerate as the effects of supportive monetary conditions come through and as world trade recovers. Private consumption growth should pick up as real disposable income gathers pace. Higher demand and improving profits are expected to stimulate the growth of investment in machinery and equipment. Activity in the construction sector should be boosted until mid-2003 by flood-related spending, but subsequently come down as the sector continues its downsizing. In sum, economic growth is projected to be less than 1 per cent in 2002 and about 2 per cent in 2003, exceeding the economy's potential growth rate only in 2004. Consequently, unemployment will continue to increase in 2003 and only be reduced significantly in 2004. The inflation outlook should remain subdued.

… although much depends on a recovery in world trade

The recovery may be postponed if the expected acceleration of international activity is delayed. On the other hand, the tourism sector may benefit from a change in travel behaviour in response to increased global security concerns.

Belgium

Economic growth is largely determined by international demand conditions and is likely to remain weak until early 2003. Thereafter growth is projected to pick up to 2¾ per cent in 2004 in line with a recovery of export markets. Underlying inflation is likely to fall to 1¾ per cent, reflecting lower increases in unit labour costs.

Fiscal policy has sought to offset the cyclical deterioration in the budget position and sustained consolidation will be required over the coming years to keep debt reduction on track.

The economy is slowly recovering

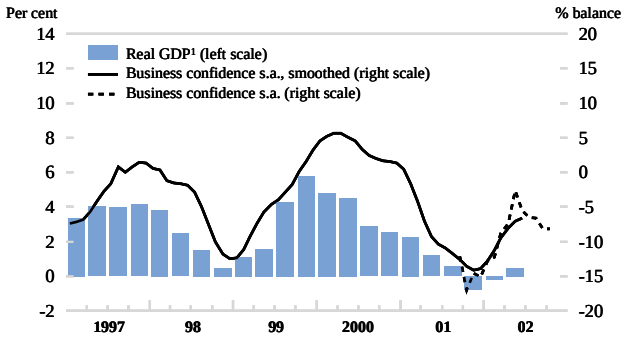
Economic activity recovered slowly in the first half of 2002, from the trough reached at the end of 2001. Destocking in the business sector became less severe and exports and private consumption improved somewhat. Weak business investment, however, has weighed on the recovery. Firms still appear to be working off past over-investment and are adopting a cautious attitude to new capital spending. Employment has continued to contract slowly, lifting the unemployment rate to 6.9 per cent in recent months, around the OECD estimate of its structural rate. Underlying inflation has fallen to 2 per cent in recent months, reflecting the passing of the indirect effects of the 2001 energy and food price shocks but also the abolition of the television licence fee in Flanders and Brussels (reducing inflation by 0.3 percentage point in 2002 and 2003). Headline inflation has fallen more sharply, to only 1¼ per cent. After steadily improving since late last year, business confidence has been deteriorating since June, reflecting a correction to earlier over-optimism. Manufacturers' export orders have been declining since May, falling back almost to the low levels recorded in late 2001. Consumer confidence has also been declining since May to levels that point to weak growth in consumption expenditures in coming months, although it remains more resilient than in neighbouring countries.

There has been a loss of cost competitiveness

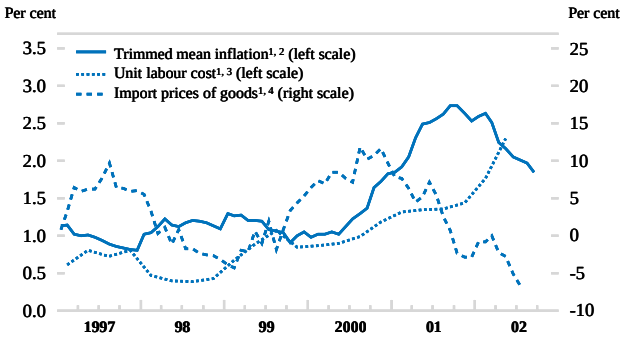
Unit labour cost increases in the business sector are likely to amount to 6½ per cent in 2001-02. This increase is 1½ percentage points greater than estimated for Belgium's three main neighbours. It is assumed that wage increases for 2003-04, to be agreed by the end of 2002, will maintain cost competitiveness against these three countries.

Belgium

Business confidence has weakened



Underlying inflation has started to fall



1. Year-on-year percentage changes.
2. Measured by CPI components.
3. Total economy, moving average over 10 quarters.
4. Excluding energy.

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

Belgium: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion euros	Percentage changes, volume (1995 prices)				
Private consumption	126.6	3.3	1.0	0.6	1.9	2.4
Government consumption	50.0	2.4	2.1	1.5	1.9	2.0
Gross fixed capital formation	49.6	3.2	0.5	-2.2	2.2	3.3
Final domestic demand	226.2	3.1	1.1	0.2	2.0	2.5
Stockbuilding [a]	- 0.5	0.2	-0.5	0.6	0.0	0.0
Total domestic demand	225.7	3.3	0.5	0.8	2.0	2.5
Exports of goods and services	178.4	8.5	1.2	-0.8	5.1	6.6
Imports of goods and services	168.3	8.3	0.8	-0.8	5.2	6.5
Net exports [a]	10.1	0.5	0.3	-0.1	0.2	0.5
GDP at market prices	235.8	3.7	0.8	0.7	2.1	2.8
GDP deflator	_	1.3	1.9	2.8	1.6	1.8
Memorandum items						
Consumer price index	_	2.7	2.4	1.6	1.4	1.7
Private consumption deflator	_	2.3	2.5	1.9	1.7	1.7
Unemployment rate	_	6.9	6.6	6.9	6.9	6.8
Household saving ratio [b]	_	13.4	13.0	14.5	14.3	13.7
General government financial balance [c]	_	0.1	0.4	0.0	0.0	0.5
Current account balance [c]	_	3.8	3.8	5.8	5.8	6.0

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

Much of the cyclical deterioration in the budget balance is being offset

The government has taken steps, mainly on the expenditure side, to maintain the budget near to balance in 2002, despite the cyclically weak economy. This is intended to ensure that savings in debt interest payments from declining public debt are fully available for further fiscal reform. Personal income tax reform, which is being phased in over 2002-06, is expected to reduce tax revenue by 0.3 per cent of GDP per year in 2002-03 and by 0.1 per cent of GDP in 2004. There have been small reductions in employers' social security contributions in 2002-03, following much larger cuts over the 1999-2001 period. The corporate income tax rate is being cut in 2003, but this has no effect on the budget balance as there is a compensating widening of the corporate profits tax base.

The recovery should strengthen during 2003

Economic growth is projected to remain weak until early 2003 but to pick up subsequently as the international economy recovers, lifting growth to 2¾ per cent in 2004. While this will reduce the output gap, it will remain negative. Employment growth is likely to remain weak until mid-2003, holding the unemployment rate at around 7 per cent in 2003, but should subsequently recover more strongly. Underlying inflation is projected to fall to around 1¾ per cent in 2004. The main risk to this outlook is the timing and strength of the international recovery. There is also a risk that households may not spend the proceeds of personal income tax cuts, which would weaken the pick-up in consumption.

Czech Republic

Growth has slowed to about 2½ per cent in 2002, essentially reflecting a slowdown of external demand as private consumption has remained robust and public consumption increased strongly. Falling food prices and an appreciating currency have contributed to a marked decline in inflation. The big drop in tourism receipts in the aftermath of recent floods can be expected to be reversed and the pace of expansion is projected to pick up in 2003 and 2004, following a broadening recovery in western Europe.

The fiscal policy stance has loosened excessively this year and should be tightened. International competitiveness has remained weak, despite strong disinflation and even though the authorities have managed to limit exchange-rate appreciation in the face of massive foreign direct investment inflows. A determined pursuit of structural reforms is needed to improve the performance of the domestically-owned corporate sector, increase trend productivity growth and bolster international competitiveness.

Foreign trade has decelerated strongly while inflation has declined

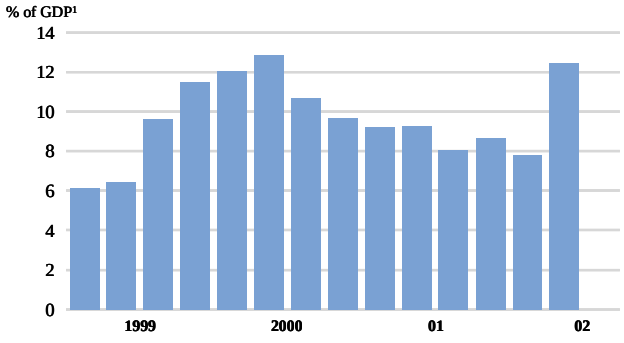
Export growth has slowed steadily since the last quarter of 2001, due both to weakening external demand and deteriorating competitiveness**.** However, the merchandise trade balance improved, as exports slowed less than imports, which were curtailed by depressed investment of domestic companies. Massive foreign direct investment (FDI) inflows continued, reflecting the privatisation of large utilities and strong incentives for greenfield projects. Headline inflation fell below 1 per cent in July and August while core inflation became negative, reflecting a strong currency appreciation *vis-à-vis* the euro. Registered unemployment increased rapidly even though unemployment as measured by labour force surveys declined, suggesting that the Czech benefit system still provides incentives for voluntary unemployment.

Fiscal policy is expansionary and monetary conditions tight

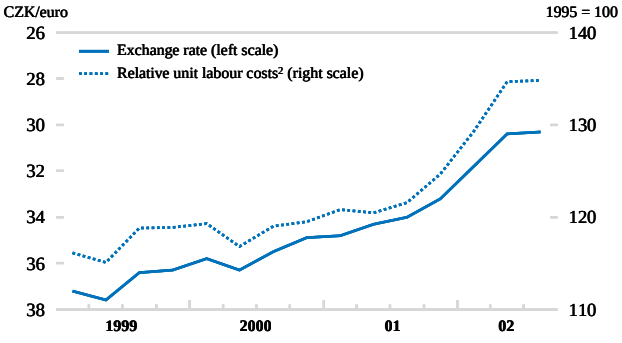
Fiscal policy is on a strongly expansionary path, with the general government deficit expected to double this year to almost 6 per cent of GDP (on an adjusted Government Finance Statistics basis), reflecting stagnant tax revenues and strong growth of spending driven by the electoral cycle, but also due to the fiscal consequences of massive floods. Buoyant FDI inflows and expectations of accession to the European Union have pushed up the koruna and contributed to the tightening of monetary conditions. The central bank prevented an even stronger appreciation by cutting policy

Czech Republic

Foreign direct investment has remained strong



Competitiveness has been eroded



1. Current plus previous 3 quarters.
2. Unit labour costs in manufacturing in US dollars relative to a weighted average of those of trade partners. An increase in the index indicates a deterioration of the competitive position.

Source: Czech National Bank; Czech Statistical Office; OECD.

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

	1999	2000	2001	2002	2003	2004
	Current prices billion CZK	Percentage changes, volume (1995 prices)				
Private consumption	1 019.2	2.5	3.9	3.5	3.2	3.7
Government consumption	373.3	-1.0	0.3	4.8	2.5	1.0
Gross fixed capital formation	528.3	5.3	7.2	3.3	3.7	4.1
Final domestic demand	1 920.8	2.7	4.3	3.7	3.3	3.4
Stockbuilding [a]	5.8	1.3	0.7	-0.6	0.1	0.2
Total domestic demand	1 926.6	4.0	4.9	3.0	3.3	3.6
Exports of goods and services	1 152.6	17.0	12.3	3.7	7.0	9.9
Imports of goods and services	1 176.9	17.0	13.6	4.1	6.6	9.3
Net exports [a]	- 24.3	-1.0	-2.0	-0.8	-0.3	-0.3
GDP at market prices	1 902.3	3.3	3.3	2.5	3.3	3.6
GDP deflator	_	1.1	5.3	2.6	2.8	3.3
Memorandum items						
Consumer price index	_	3.9	4.8	2.1	2.5	3.1
Private consumption deflator	_	2.8	3.7	1.2	1.8	2.5
Unemployment rate	_	8.9	8.2	7.4	7.4	7.4
Household saving ratio [b]	_	9.2	8.7	11.6	13.1	13.7
General government financial balance [c,d]	_	-3.3	-2.8	-5.7	-6.3	-5.7
Current account balance [c]	_	-5.3	-4.6	-4.2	-4.3	-4.2

a) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
b) As a percentage of disposable income.
c) As a percentage of GDP.
d) On the GFS basis; excluding privatisation revenues and expenditures on transformation institutions.
Source: OECD.

interest rates to all-time low levels, by intervening in the foreign exchange market and by sterilising privatisation-related inflows in co-operation with the government.

GDP growth will accelerate in 2003 and 2004

GDP growth in 2002 is expected to slow to 2½ per cent in response to subdued European demand and new market uncertainties. Due to sluggish external demand and weakened competitiveness, exports are likely to have decelerated further in the second half. In 2003, recovery in western Europe and improved production potential resulting from ongoing industrial restructuring driven by FDI firms should result in an export-driven rebound, with GDP growth picking up to 3¼ per cent in 2003 and 3½ per cent in 2004.

Eroding competitiveness is a risk, as is a weaker European recovery

The competitiveness of domestically-controlled firms has been hit especially hard by the strength of the koruna, and there are risks to the economic expansion from further competitiveness losses. These would be exacerbated by a delayed recovery in western Europe. Domestic risks to the expansion are centred on the possible adverse reaction of confidence to the large public sector deficit, and possible supply-side problems related to inadequate work incentives, continuing infrastructure bottlenecks and lagging productivity performance in domestically-owned companies. Conversely, policies to effectively address these problems could lead to stronger growth.

Denmark

Denmark is already enjoying a recovery in private consumption and stronger exports. The pace of activity is projected to pick up gradually as the international situation improves and firms regain sufficient confidence to increase investment and expand employment. But unemployment is already lower than its structural rate and labour shortages accompanied by accelerating wages could re-emerge as the expansion quickens.

The authorities continue to steer a prudent fiscal course, and the "tax freeze" should help to constrain public consumption growth in the face of strong upward pressures. Recent initiatives to get more people into work and reduce reliance on benefits are welcome, and further reforms to boost participation should be pursued.

Recovery is underway

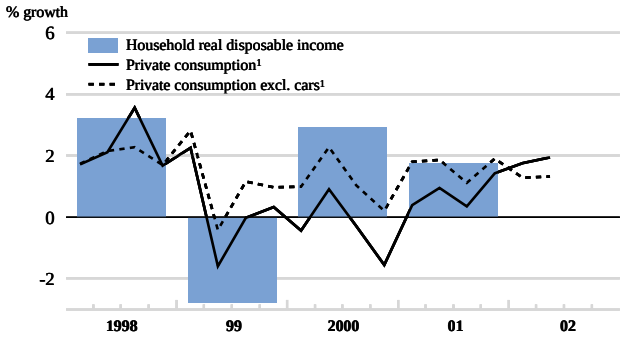
Private consumption growth has at last picked up pace, reaching an annualised rate of almost 3½ per cent in the first half of this year, with a surge in purchases of new cars and other durable items. Exports have significantly outperformed market growth, expanding by more than 7 per cent in the first semester. But business sector indicators present a somewhat mixed picture for production in the second half of 2002, which may lead to a postponement of some business investment plans. Nevertheless, additions to capacity over the past year have boosted labour productivity, while labour that was hoarded during the slowdown is now being used to respond to higher demand. Private sector employment has remained stable this year, while job creation has continued in the public sector, albeit at a reduced annual pace of around ½ per cent, leaving the standardised unemployment rate at 4¼ per cent. Compensation per employee has decelerated slightly, but overall the labour market remains relatively tight, with actual unemployment below estimated sustainable levels.

Fiscal policy is neutral

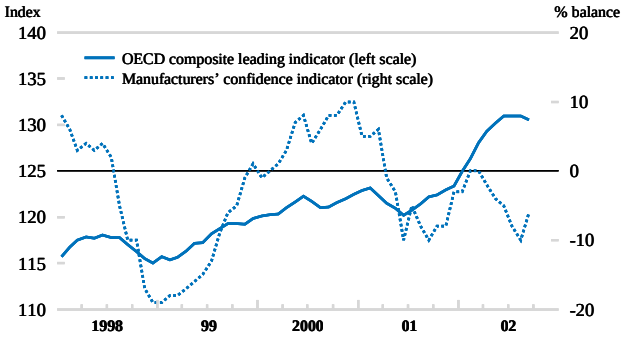
The government is expected to maintain the current neutral cyclically-adjusted budget stance over the projection period, with the budget surplus rising to nearly 3 per cent of GDP by 2004 as output growth accelerates. However, new rules on taxation of pension fund yields make public revenues more sensitive to movements in stock prices than in the past, increasing their volatility. The government's "tax freeze" is designed to put downward pressure on public expenditure growth. However, this may prove quite difficult to achieve given only indirect mechanisms for controlling the behaviour of individual local authorities and the government's stated

Denmark

Consumption growth is picking up



Indicators of business climate are mixed



1. 4-quarters moving average.
Source: Statistics Denmark; OECD.

Denmark: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion Dkk	Percentage changes, volume (1995 prices)				
Private consumption	597.5	-0.3	0.8	2.2	2.0	2.2
Government consumption	313.9	0.6	1.2	1.3	0.8	0.9
Gross fixed capital formation	248.1	10.7	-0.2	0.5	1.5	3.4
Final domestic demand	1 159.5	2.4	0.7	1.6	1.5	2.2
Stockbuilding [a]	- 3.2	0.2	0.4	-0.3	0.1	0.0
Total domestic demand	1 156.3	2.6	1.1	1.3	1.6	2.2
Exports of goods and services	459.6	11.5	3.7	4.3	6.1	7.1
Imports of goods and services	402.3	11.2	4.3	4.1	5.7	6.9
Net exports [a]	57.3	0.6	-0.1	0.3	0.4	0.4
GDP at market prices	1 213.6	3.0	1.0	1.5	2.0	2.5
GDP deflator	_	3.7	2.8	1.5	2.3	2.1
Memorandum items						
Consumer price index	_	2.9	2.4	2.4	2.0	2.2
Private consumption deflator	_	3.0	2.1	2.4	2.1	2.2
Unemployment rate	_	4.4	4.3	4.3	4.2	4.1
Household saving ratio [b]	_	4.0	5.3	4.8	5.3	4.9
General government financial balance [c]	_	2.5	3.0	2.2	2.4	2.9
Current account balance [c]	_	1.6	2.5	2.4	2.8	2.9

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

ambitions in health and education. Recent policy initiatives to reduce reliance on various forms of income support by strengthening work incentives go in the right direction but are only expected to deliver a slight reduction in public expenditures within the time horizon of the projections.

Monetary conditions will support growth

Monetary policy largely mirrors developments in the euro area, with the National Bank making minor adjustments when necessary to keep the krone within narrow bands around its central parity *vis-à-vis* the euro. Monetary conditions may remain relatively easy over the projection period, given Denmark's cyclical position relative to the euro area.

The pace of activity is projected to pick up steadily

The economy is projected to expand at a gradually accelerating rate from around 1½ per cent in 2002 to about 2½ per cent by 2004. Household finances are projected to sustain private consumption growth of around 2 per cent each year, while export prospects should brighten significantly with the projected pick-up in world trade as Denmark consolidates its recent gains in export market share. These factors are expected to provide a modest impetus to business investment. But housing investment may remain relatively sluggish, despite some pressures in certain urban areas and policy measures to boost construction of social housing.

Labour shortages with accelerating wages are the main risk

The gathering momentum in activity is projected to feed through into modest increases in employment. With unemployment expected to decline further below the structural rate, some wage acceleration is likely. Tight labour markets remain the predominant risk to the outlook, and further policy initiatives to increase labour supply would help.

Finland

Output growth continues to be volatile, with a surge in the second quarter mainly due to exports. As international demand picks up, GDP growth should reach 3 per cent next year, in line with potential, and may exceed it in 2004. If the export recovery is delayed there is a risk of labour shedding and weakening domestic demand, which until now has held up reasonably well.

The general government account has remained in surplus. However, slippage against fiscal targets needs to be addressed, especially given a rapidly ageing population. In this context, the recent agreement on pension reform, which increases incentives to work longer and provides adjustments to reflect increasing life expectancy, is welcome. Further improvements in the labour market will require additional reform of the tax and benefit systems to raise work incentives and increase demand for low-skilled workers.

The economy grew strongly in the second quarter

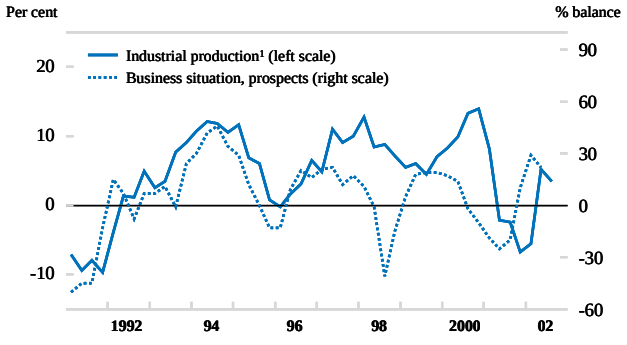
Quarterly movements in output remain amongst the most volatile of any euro-area country. After a fall of 0.7 per cent in the first quarter of 2002 (quarter-on-quarter), real GDP rose by 2.1 per cent in the second, mainly due to a pick-up in exports but with private consumption also strengthening. The rise in exports was mainly due to electronic and paper products, with production by the electronic equipment and forestry industries up 22 and 3½ per cent, respectively, over the previous year. This recent surge in output follows growth in 2001 of only 0.7 per cent, well below the euro-area average for the first time since 1993. Nevertheless, the unemployment rate has remained broadly stable, partly reflecting labour hoarding in anticipation of the upturn. This in turn has supported continued growth in real disposable income and consumption. Inflation, as measured by the harmonised index of consumer prices, has remained close to the euro-area average over the last year and dipped in September to 1.4 per cent.

The government surplus continues to fall from the record high in 2000

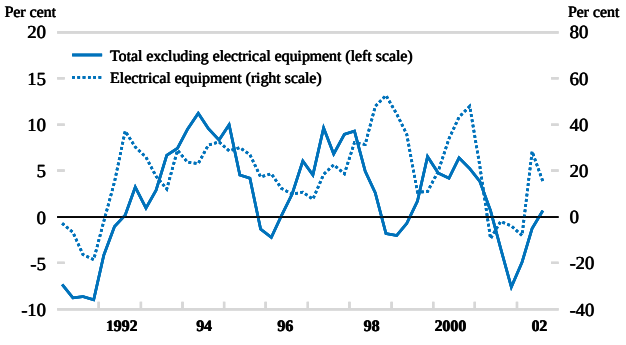
In 2002, the general government surplus is estimated to have fallen to 3¼ per cent of GDP, half the level of 2000, due to the slowdown in economic activity, income tax cuts and a fall-off in exceptionally high revenues on capital gains and stock options. The central government surplus is likely to be below the target of 1½ to 2 per cent of GDP in 2002 and again in 2003, when the government budget proposal foresees surpluses of only 1 per cent and ½ per cent of GDP, respectively.

Finland

Industrial production and business confidence are up



Sectoral differences persist[1, 2]



1. Seasonally adjusted data, growth over same period of previous year.
2. Electrical includes electronic and optical equipment.

Source: Statistics Finland and Confederation of Finnish Industry and Employers.

Finland: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion euros	Percentage changes, volume (1995 prices)				
Private consumption	61.1	2.6	1.1	2.5	2.1	2.4
Government consumption	26.1	-0.2	2.1	2.0	1.8	1.9
Gross fixed capital formation	22.8	3.9	4.0	-2.3	-0.1	2.9
Final domestic demand	110.1	2.2	1.9	1.4	1.6	2.4
Stockbuilding [a]	- 0.1	1.3	-0.8	-0.6	0.3	0.3
Total domestic demand	110.0	3.7	1.0	0.6	1.9	2.8
Exports of goods and services	45.6	20.1	-2.2	2.6	7.0	8.7
Imports of goods and services	35.5	16.0	0.1	-0.9	6.7	8.2
Net exports [a]	10.1	3.5	-1.1	1.6	1.1	1.4
GDP at market prices	120.5	6.1	0.7	1.6	3.2	3.8
GDP deflator	_	2.6	3.0	1.4	2.1	2.4
Memorandum items						
Consumer price index	_	3.0	2.7	1.7	2.0	1.8
Private consumption deflator	_	3.9	2.9	1.7	2.0	1.8
Unemployment rate	_	9.8	9.2	9.3	9.5	9.4
General government financial balance [b]	_	7.0	4.9	3.2	2.9	3.6
Current account balance [b]	_	7.4	6.4	6.5	6.5	7.6

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

There has also been slippage against expenditure targets. Although government finances appear strong relative to most other euro-area countries, these slippages will need to be addressed as population ageing in Finland is among the most rapid in the OECD.

The recovery should strengthen as foreign demand picks up

The volatility of output makes the strength and sustainability of the recovery going forward difficult to judge. Business confidence fell in the second quarter, but remains much higher than in 2001. As the global economy strengthens next year, the associated boost to exports should ensure output growth rising to around 3 per cent in line with potential growth. It could move above that in 2004 as business fixed investment revives. Nevertheless, the unemployment rate may not fall much. It could remain above 9 per cent and would thus continue to exceed the euro-area average. The persistence of slack should ensure a further fall in inflation in the short-term, but further progress will depend on a moderate outcome of the centralised wage round currently in progress.

The major uncertainty concerns the strength of international demand

The major concern is whether the recent strength in export growth will be sustained. Much depends on the performance of information and communication technology based exports, which have weathered the industry-wide downturn relatively well. However, prospects for the industry in 2003 and beyond depend on a positive international reaction of consumers to third-generation mobile telephony. If the pick-up in international demand is delayed there is a risk that employment will suffer, with knock on effects on domestic demand.

Greece

Following a brief slowdown in 2002, growth is projected to recover to around 4 per cent in 2003 and 2004, reflecting buoyant domestic demand and stronger export demand. This should lead to a further decline in the still-high unemployment rate. Inflation is expected to decelerate over the projection period, influenced by lower food and energy prices. Inflationary pressures remain, though, because of the strong cyclical position of the economy.

Further efforts to control primary government expenditure are required to reduce the still high debt-to-GDP ratio and ensure fiscal sustainability. Recent reforms of the social security and tax systems are steps in that direction. More rapid progress in addressing the remaining structural rigidities in the labour market, a faster opening of network industries to competition and bold reforms in public administration would help towards the convergence of incomes to European Union levels.

Growth has been strong but is expected to ease somewhat…

In the first half of 2002, weak export markets were more than offset by investment-led domestic demand, underpinned by low real interest rates, the inflows from the Third Community Support Framework and preparations for the 2004 Olympic Games. Private consumption was further buoyed by still-rapid credit growth, as well as by generous wage awards, tax cuts and income-supporting measures. Activity in the second half of the year appears to have weakened, and for 2002 as a whole, real output growth is expected to slow to 3½ per cent, still well above the euro-area average. The unemployment rate is expected to fall to around 10 per cent.

… and inflation has remained high

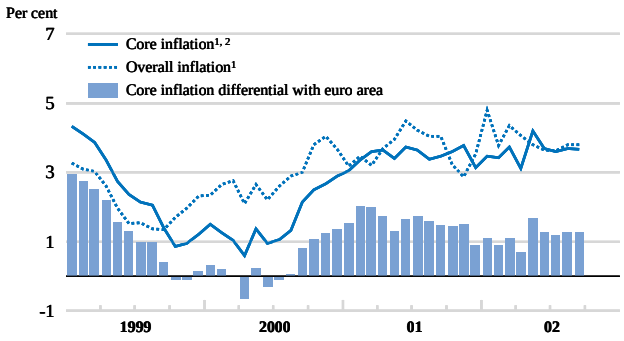
Adverse weather conditions and the euro change-over resulted in a spike in the harmonised consumer price index early in 2002 and inflation has averaged around 4 per cent in the first nine months of the year. Underlying inflation has also remained stubbornly high, at 3.7 per cent in September, with the average differential versus the euro area standing at 1¼ percentage points. Service prices have risen particularly sharply.

Monetary conditions remained easy…

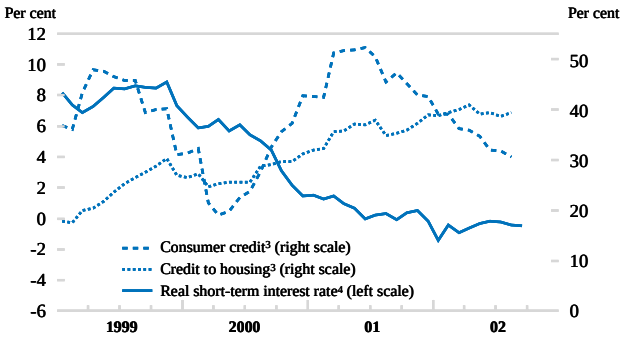
Monetary conditions remained easy in the course of the year, with real short-term interest rates estimated to average around zero in 2002. Consumer credit expansion has shown signs of slowing, but the demand for mortgages has remained robust, growing by around 40 per cent in August 2002 (year-on-year basis).

Greece

The inflation differential persists



Monetary conditions remain easy



1. Harmonised index of consumer price. Year-on-year percentage change.
2. Excluding energy, food, alcohol and tobacco.
3. Year-on-year percentage change. Previsional data for August 2002.
4. Three-month interest rate. From January 2001, three month Euribor. Deflated using the harmonised index of consumer price.

Source: OECD; Bank of Greece.

Greece: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion euros	Percentage changes, volume (1995 prices)				
Private consumption	79.8	2.7	3.2	2.9	3.1	3.2
Government consumption	17.3	2.3	0.5	1.6	-0.3	0.2
Gross fixed capital formation [a]	24.5	8.0	5.9	6.9	9.5	6.7
Final domestic demand	121.6	3.7	3.4	3.6	4.2	3.7
Stockbuilding [b,c]	- 0.4	0.3	0.1	0.0	0.0	0.0
Total domestic demand	121.2	4.0	3.5	3.6	4.2	3.7
Exports of goods and services	23.1	19.7	-1.3	0.6	6.2	7.0
Imports of goods and services	31.5	14.5	-1.9	1.5	6.6	5.6
Net exports [b]	- 8.4	-0.1	0.3	-0.3	-0.6	-0.1
GDP at market prices	112.8	4.2	4.1	3.6	3.9	3.8
GDP deflator	_	3.4	3.4	3.4	3.2	3.1
Memorandum items	_					
Consumer price index	_	2.9	3.7	3.8	3.3	3.2
Private consumption deflator	_	3.2	3.1	3.2	3.1	3.1
Unemployment rate	_	11.1	10.4	10.1	9.8	9.5
General government financial balance [d]	_	-1.8	-1.2[e]	-1.1	-1.0	-0.7
Current account balance [d,f]	_	-6.7	-6.2	-6.1	-5.9	-5.8

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

… while the fiscal balance is in deficit

Following the recently released guidelines by Eurostat on the reclassification of certain operations, the general government budget balance is estimated to have recorded a deficit of 1.1 per cent of GDP in 2002, compared with a budgeted deficit of 0.7 per cent of GDP, on a similar basis. The undershooting mainly reflects an overrun in primary current expenditure and higher-than expected interest payments and tax refunds. The 2003 draft budget, which targets a deficit of 0.9 per cent of GDP for the general government, embodies a new package of tax-reduction measures within the context of the current comprehensive reform of the tax system. It further incorporates a substantial increase in public investment expenditure, and provides for financing of the social security reform. The OECD also expects a small improvement in the general government budget over the next year, moving the deficit to 0.7 per cent of GDP in 2004.

Output growth is expected to strengthen, with a risk of inflationary pressures

GDP growth is expected to recover to around 4 per cent in 2003 and 2004, with persistently low real interest rates, employment gains and tax cuts boosting private consumption and business investment. Investment activity should be further stimulated by the completion of the infrastructure for the 2004 Olympic Games, and continuing inflows of European structural funds. Exports are expected to pick up strongly over the projection period, eliminating the drag from the external sector on output growth by 2004. Inflation is expected to edge down, influenced by lower food and energy prices, but still remain above 3 per cent at the end of the projection period. Given the expected strength of the economy, a major uncertainty is whether inflation pressures may not be rather stronger. A downward risk to the outlook is the possibility of a weaker international economic environment.

Hungary

GDP is likely to expand by more than 3 per cent in 2002 led by strong domestic demand. Although competitiveness has weakened and the net contribution from trade has become strongly negative, the growth impulse will carry over to 2003, when international recovery will add further stimulus.

Ongoing fiscal loosening is putting pressure on monetary policy. Fiscal policy needs to be tightened substantially, both to forestall overheating and to allow monetary policy to be more supportive of competitiveness so as to avoid undue deterioration of the foreign balance and a negative impact on foreign direct investment inflows. Labour market reforms should support employment adjustments in the government sector and encourage business sector demand for low-skilled labour, in order to provide a boost to Hungary's low employment rate.

Domestic demand has supported growth…

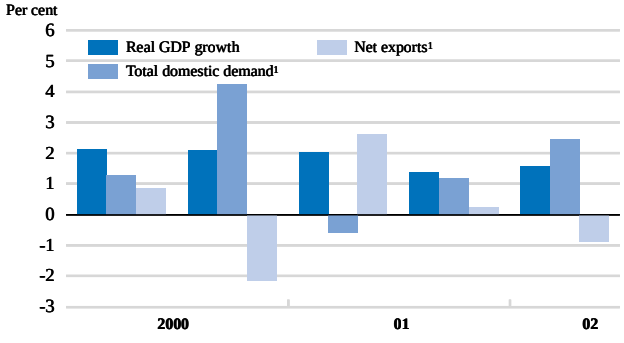
Strong government investment and private consumption have kept up the stimulus to the economy after the deceleration of foreign direct investment (FDI) and export-driven growth since early 2001. The fiscal deficit is set to grow further this year, approaching 7 per cent of GDP (on an ESA 95-compatible basis). At the same time, very strong wage increases (averaging 30 per cent in the public sector and 15 per cent in the private sector in the first seven months, relative to a year ago) have fed consumer demand. Competitiveness has suffered, even though Hungary has continued to gain market share in shrinking export markets, and the contribution of trade has become negative due to strong import growth. The current account deficit on a cash basis is projected to peak at over 5 per cent of GDP at the end of this year, up from 2 per cent in 2001.

… and disinflation objectives were achieved

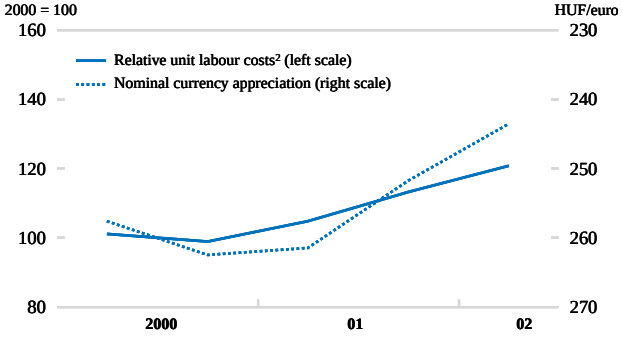
Monetary policy efforts to cut the inflation rate from 10 per cent in December 2000 to 5½ per cent in December 2002 have been successful. Disinflation has come largely via the appreciation of the forint, which partly passed through to tradables prices during 2002. Low international food and energy prices have also helped. Price increases remain strong in market services, however, and regulated prices are tightly controlled, masking persistent inflationary pressures. In response to wage growth and currency appreciation, industrial producers have achieved strong productivity growth, though this has not been enough to prevent an increase in unit labour costs. Exporters have cut the wide profit margins that they had established in the past in order to limit price increases. High-technology firms and multinationals appear to have been more successful in these adjustments than less productive local firms. Industrial orders and investment fell below their levels of the previous year in the summer, and demand for labour (notably

Hungary

Strong domestic demand has supported growth



Competitiveness has weakened



1. Contributions to changes in real GDP (percentage of real GDP in previous half-year).
2. Unit labour costs in manufacturing in US dollars relative to a weighted average of those of trade partners. An increase in the index indicates a deterioration of the competitive position.

Source: OECD.

Hungary: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion HUF	Percentage changes, volume (1998 prices)				
Private consumption	5 974.0	4.4	4.9	9.9	7.5	3.7
Government consumption	2 454.8	1.9	0.1	3.9	1.8	1.9
Gross fixed capital formation	2 724.5	7.7	3.1	5.3	3.5	5.8
Final domestic demand	11 153.4	4.7	3.4	7.5	5.4	3.9
Stockbuilding [a]	523.4	0.7	-1.2	-1.8	0.2	0.6
Total domestic demand	11 676.8	5.1	2.1	5.4	5.4	4.3
Exports of goods and services	6 038.3	21.8	9.1	7.8	7.3	10.1
Imports of goods and services	6 321.6	21.1	6.3	11.2	9.1	10.3
Net exports [a]	- 283.3	0.0	1.7	-2.3	-1.5	-0.5
GDP at market prices	11 393.5	5.2	3.8	3.1	4.1	4.0
GDP deflator	_	9.7	9.0	8.4	5.2	4.1
Memorandum items						
Consumer price index	_	9.8	9.2	5.4	5.2	4.2
Private consumption deflator	_	9.9	8.6	5.4	5.2	4.2
Unemployment rate	_	6.5	5.8	5.5	5.3	5.3
General government financial balance [b,c]	_	-3.0	-5.2	-6.7	-5.0	-4.0
Current account balance [b]	_	-2.9	-2.1	-5.3	-5.4	-5.5

a) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
b) As a percentage of GDP.
c) OECD estimate which adjusts official data so as to increase international and intertemporal comparability.
Source: OECD.

low-skilled labour) shrank. The number of blue-collar workers in manufacturing decreased by 10 000 between the first two quarters of the year.

Policies are scheduled to tighten…

After the April elections, the new government endorsed the ambitious objectives of monetary policy – inflation targets of 4.5±1 per cent for end 2002 and of 3.5±1 per cent for end 2003 and end 2004, with average inflation of 3 per cent by 2005. A pre-accession economic programme aiming at rapidly joining the euro area was announced in August, with an objective of reducing the budget deficit by 4 percentage points of GDP by 2005, to below 3 per cent.

… but private consumption will remain buoyant

Exceptional wage growth in the past two years created an income shock for households and their savings soared. Consumer confidence reached record highs in 2002 and, as household loans are increasingly available, saving rates should rapidly revert to their declining trend, fuelling consumption further. The expected decline in employment, including employment cuts planned in the public sector for 2003, may not shake consumer confidence, as the labour force also keeps shrinking and the unemployment rate is on the decline.

Growth will strengthen next year, with inflation and current account risks

Activity is projected to strengthen next year, fuelled by strong domestic consumption and the international recovery. Government investment is projected to fall, but this will be partly offset by the growth of private business investment and housing construction. Inflationary pressures may thus revive, entailing policy tightening and hence softer growth in 2004. There is a risk that if wages do not abate in line with productivity, and rapid fiscal consolidation does not take place, still tighter monetary policy will be required to stave off excessive expansion, bringing further competitiveness losses and a widening current account deficit. This would cause sharper GDP deceleration and a decline in FDI inflows with longer-term negative effects on supply potential.

Iceland

With robust export growth largely offsetting the contraction in domestic demand, the economic downturn has been milder and shorter than expected. It has, nevertheless sufficed to correct the sizeable external deficit and high inflation that had emerged in recent years. Improved fundamentals have allowed some monetary easing and set the stage for a gradual recovery.

As inflation has moved well within the target band, further interest cuts might be warranted. However, steady monetary tightening will probably be required later in the projection period when the output gap is expected to close and major investment projects are likely to get underway. Public spending discipline will be crucial to offset the fiscal effect of both tax cuts and infrastructure expenditure related to those projects.

The economy seems to be turning around…

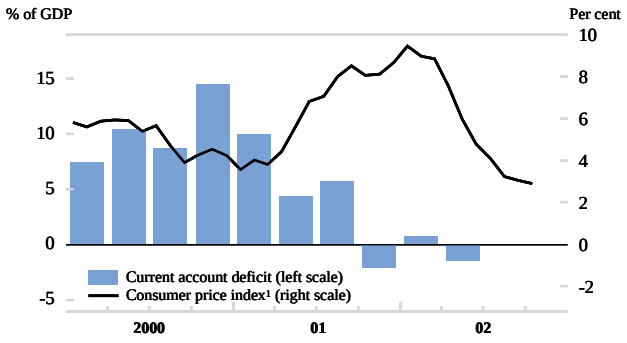
The decline in domestic demand continued in the first half of 2002. Business investment, in particular, remained depressed despite improving profitability. The contraction in household demand slowed, however, and leading indicators (such as value-added tax collections and vehicle imports) point to a revival in consumer spending more recently, possibly in response to lower interest rates and a disinflation-induced pick-up in real wage growth. Exports of marine products rose strongly in the first half of 2002, and exports of manufactures also posted solid gains given a favourable competitive position. Nonetheless, real GDP contracted (on a seasonally-adjusted basis) before probably recovering somewhat in the third quarter.

… as economic imbalances have unwound

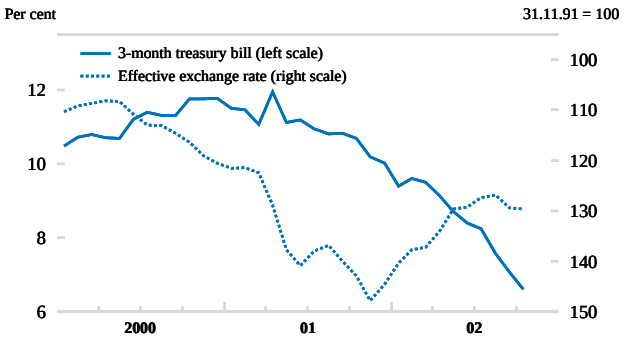
The current account has been in broad balance in recent quarters, a dramatic turnaround from the deficit of 10 per cent of GDP recorded only two years ago. This reflects the strength in exports, a decline in imports associated with the contraction in domestic demand and terms-of-trade gains owing to strongly rising prices for marine products. Consumer price inflation has also receded rapidly, falling from 9½ per cent at the beginning of the year to just below 3 per cent. This can be traced mainly to a substantial strengthening in the exchange rate, which partly reversed the steep fall in the krona last year. In addition, emerging slack in goods markets weighed on prices, while easing labour-market conditions damped wage drift. Moreover, the government withdrew or postponed increases in public service charges with a view to avoiding a re-opening of wage negotiations (which would have been permitted had inflation come down less rapidly).

Iceland

Economic imbalances have been corrected



This has allowed some monetary easing



1. Year-on-year percentage change.
Source: Central Bank and Statistics Iceland.

Iceland: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion ISK	Percentage changes, volume (1990 prices)				
Private consumption	358.7	4.0	-3.0	-1.0	1.2	2.3
Government consumption	142.1	3.7	3.2	3.0	2.0	3.1
Gross fixed capital formation	135.0	14.8	-4.2	-14.6	2.1	13.0
Final domestic demand	635.8	6.2	-2.1	-3.3	1.5	4.6
Stockbuilding [a]	0.1	0.5	-0.9	0.3	0.0	0.0
Total domestic demand	635.9	6.7	-2.9	-3.0	1.5	4.7
Exports of goods and services	212.2	5.0	7.8	5.0	4.2	5.5
Imports of goods and services	241.5	8.0	-9.0	-3.0	4.0	8.0
Net exports [a]	- 29.3	-1.6	6.8	3.0	0.2	-0.9
GDP at market prices	606.6	5.5	3.7	0.0	1.7	3.7
GDP deflator	_	2.9	9.0	6.6	3.6	3.0
Memorandum items						
Consumer price index	_	5.2	6.4	5.2	2.8	2.8
Private consumption deflator	_	4.5	8.1	6.0	3.4	2.8
Unemployment rate	_	2.3	2.3	2.8	2.8	2.3
General government financial balance [b]	_	2.5	0.5	0.3	0.0	0.3
Current account balance [b]	_	-10.3	-4.5	-0.1	-0.2	-1.2

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

Interest rates have fallen and the budget remained in slight surplus

Given the rapid decline in inflation and inflation expectations to its 2½ per cent objective, the central bank has lowered its target interest rate by 3¼ percentage points since April, to just below 7 per cent. The projections incorporate a further reduction in the near term, followed by a gradual increase from late 2003 as economic slack is taken up. Indeed, the authorities expect that a marked rise in interest rates will be required to prevent the economy from overheating when planned major investment projects get underway. The latest indicators suggest that a slight general government surplus may be achieved in 2002, as extra spending (on wages and health care) has been offset by the positive effect of better-than-projected activity on revenues. Given the imminent reductions in corporate and wealth taxes and the likely need for higher infrastructure spending, maintaining budget balance will be challenging, despite the economic upswing.

A gradual recovery is projected

Following the recent slump, economic activity is expected to post a moderate recovery in 2003. This reflects some rise in export market growth, combined with a revival in domestic demand in response to monetary easing and a rebound in real disposable income. The projections assume that there will be a boost to demand in 2004 from the construction of an aluminium smelter, a hydropower station and related public investments, although a final decision has not yet been made. This will bring growth back above potential rates, leading to the re-emergence of a significant current account deficit toward the end of projection period. Inflation is projected to remain near to the official target, given the persistence of economic slack over the next year or so. External developments would appear to pose the most important near-term risk, while on the domestic side, the still-high level of household debt could make for slower consumption growth. If it is decided to go ahead with the major investment projects, monetary policy will need to tighten quickly lest a boom mentality gains hold.

Ireland

Growth in the first half of this year was underpinned by an unanticipated surge in public consumption and strong exports, both of which should fade. Nonetheless, output growth is projected to pick up gradually from 3½ per cent this year to 4½ per cent in 2004, supported by private consumption and a recovery of investment. Inflation is projected to edge down, but if wage growth fails to decelerate there would be a further loss of competitiveness and slower growth.

The government needs to move quickly to bring the rapid growth of public employment and consumption under control so as to maintain needed improvements to infrastructure without increasing the budget deficit. The recommended rise in public sector wages should only be granted against commitments to improve work practices. There is no room for another national wage agreement based on tax cuts.

Public sector demand has underpinned activity

The economy rebounded more rapidly than expected during the first half of 2002, with GDP growth reaching around 5½ per cent year-on-year, driven by strongly rising exports and public consumption. However, export growth was narrowly based on pharmaceuticals. The important information and communications technology sector grew only modestly, so that the level of employment in industry declined after a number of years of rapid growth. Public sector employment has grown very rapidly in contrast to the private sector. Public consumption increased at rates well above budget estimates and construction activity remained firm, underpinned by public infrastructure spending and residential construction.

Inflationary pressures remain strong

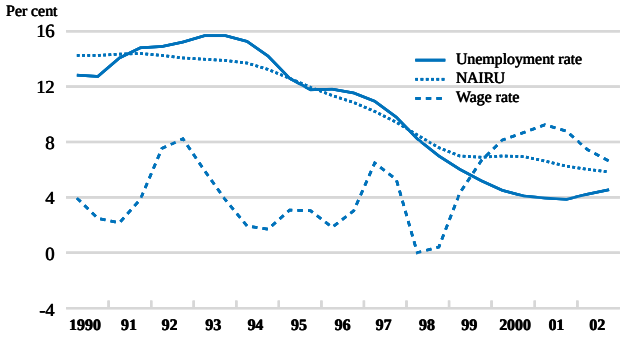
Despite the slowdown in growth since 2000, prices for services have continued to grow at rates far above those in Europe, so that the price level is now above that of the euro area. The current high rate of service price inflation is due to continuing strong wage growth in this sector, including unusually large increases in a number of regulated sectors. Moreover, there is a danger that public sector wages could surge over the next two years as a result of a benchmarking exercise. Meanwhile, wage growth appears to have slowed in the export sector as companies have reacted to reduced competitiveness. The inflation process may thus now be driven less by a spill-over from productivity gains in the export sector and more by wage/price inertia in the domestic sector.

The budget appears to have shifted to cyclically-adjusted deficit

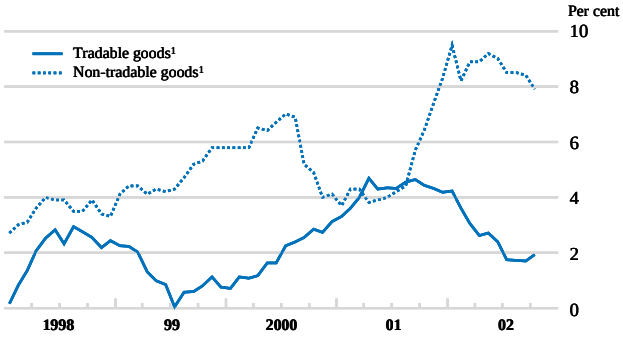
The fiscal position has swung rapidly from a surplus of some 2 per cent of GDP in recent years to a deficit of around 1 per cent of GDP this year, possibly rising to 2 per cent in 2004 if corrective actions are not taken quickly to maintain commitments under the Growth and Stability Pact. This swing reflects the cyclical slowdown only to a

Ireland

Wage pressure has continued



Service price inflation has reached new highs



1. Tradable goods include food, clothing, durable goods and other goods (covering 40% of CPI). Non-tradable goods reflect only prices for services. The non-tradable index is distorted downwards in November 2000 when the treatment of child services, health insurance and tuition fees was altered.

Source: Central Statistics Office and OECD.

Ireland: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion euros	Percentage changes, volume (1995 prices)				
Private consumption	42.9	10.0	4.8	3.8	4.0	4.5
Government consumption	12.5	5.4	5.3	8.5	4.2	4.0
Gross fixed capital formation	20.9	7.3	1.1	2.6	4.4	5.5
Final domestic demand	76.3	8.6	3.9	4.3	4.1	4.7
Stockbuilding [a]	0.0	0.5	0.1	-0.2	0.2	0.0
Total domestic demand	76.3	9.2	4.0	4.0	4.4	4.7
Exports of goods and services	79.0	17.8	8.4	7.1	6.0	8.5
Imports of goods and services	66.6	16.6	7.7	8.1	7.1	9.4
Net exports [a]	12.4	3.7	2.0	0.4	0.0	0.5
GDP at market prices	89.0	11.5	6.0	3.6	3.6	4.4
GDP deflator	_	4.3	5.4	4.6	4.0	3.6
GNP at market prices	75.8	10.4	4.9	2.8	2.5	3.3
Memorandum items						
Consumer price index	_	5.3	4.0	4.7	4.3	3.8
Private consumption deflator	_	4.6	5.9	4.8	4.0	3.5
Unemployment rate	_	4.3	3.9	4.4	5.1	5.3
General government financial balance [b]	_	4.5	1.7	-0.5	-1.3	-1.8
Current account balance [b]	_	0.1	-0.3	-0.2	-1.2	-1.3

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

small extent. Rather, tax revenues have been weaker than budgeted due to weaker tax elasticities as growth slowed and probably to an underestimate of the cost of recent changes to the personal tax system. Expenditures have also grown rapidly, the budget authorising a nominal increase of some 14 per cent. The government will have to deal with the consequences of the Benchmarking Agreement, which could add around ¾ percentage point of GDP to the annual public sector wage bill. The projections assume that payments begin next year, although nothing has yet been agreed.

Growth should recover but not to rates seen in recent years

With world trade and financial developments expected to remain subdued for some time, net exports are likely to contribute little to GDP growth this year and next, and business investment may therefore grow at much slower rates than in recent years. Nevertheless, overall investment is projected to grow by some 2½ per cent this year, rising to 4 to 5 per cent in 2003 and 2004 due to momentum in the public investment programme and continued high levels of residential construction. Public consumption growth is projected to decline sharply, from some 8 per cent this year to 3½ per cent by 2004. With employment expected to increase by some 1½ to 2 per cent, and real wages continuing to grow, private consumption might rise by around 4 per cent rate through the projection period. Unemployment is expected to increase to around 5 per cent, so that wage increases should abate somewhat and inflation gradually decelerate to under 4 per cent.

Risks are related to any loss of competitiveness

The greatest risks to the projection would arise if wage growth fails to decelerate due to entrenched inflation expectations. Failure by the government to bring increasing current expenditure down to levels more consistent with the growth of revenues might also adversely affect expectations. The implications for competitiveness and investment prospects would become particularly acute if the euro should appreciate further.

Korea

Buoyant private consumption has fuelled a recovery from the 2001 slowdown. With a pick-up in external demand, output growth of around 6 per cent is projected to continue through to 2004. The unemployment rate is below 3 per cent and, though inflation has stabilised at around 3 per cent, a double-digit hike in wages and a sharp increase in housing prices are raising concerns about the outlook for inflation.

Given the pressures emerging in the labour and real estate markets, it will be necessary to reverse gradually the decline in short-term interest rates that occurred in 2001 in order to achieve the medium-term inflation target of 2½ per cent. The privatisation of government-owned banks is important to promote corporate restructuring and to cover at least part of the cost of financial-sector restructuring. A prudent fiscal policy will be needed to absorb the remainder of such costs.

Growth is fuelled by domestic demand and a rebound in exports

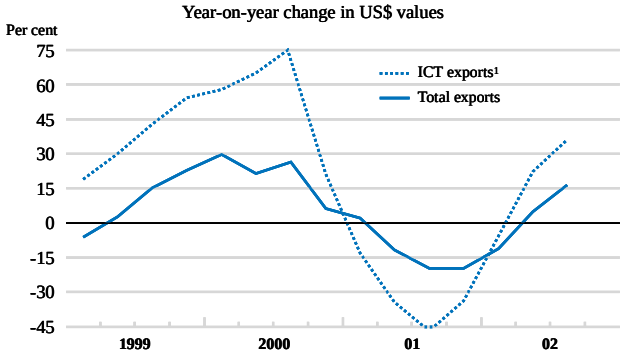
The upturn in the first half of 2002, with output rising 6 per cent (year-on-year), was led by private consumption and construction investment. The rebound in construction, after three consecutive years of decline, resulted from a surge in housing investment. A recovery in exports began in mid-2002, based on rising shipments to China. Exports of information and communications technology products, notably semiconductors and portable phones, were particularly buoyant. Inflation, as measured by the core consumer price index, is currently at around 3 per cent – the mid-point of the central bank's target zone for 2002 – despite wage growth of 10 per cent in the first half of 2002.

Rising housing prices have led to measures to curb speculative demand

In addition to favourable labour market conditions, private consumption has been sustained by changes in the behaviour of financial institutions and by wealth effects. The shift of bank lending growth from the corporate sector to households and increased use of credit cards led to a rise in household debt from 86 per cent of disposable income in 1998 to an estimated 110 per cent in 2001. The change in bank behaviour has also contributed to the upward trend in housing prices. Indeed, the price of apartments has risen by a third since the beginning of 2001, with the largest increases recorded in the Seoul region. The positive wealth effect from housing has been only partially offset by the 26 per cent fall in equity prices since April 2002. The government has responded to the increase in housing costs with six packages of measures since December 2001 to limit speculative demand and to expand the supply of housing over the medium term. While the jump in real estate prices reflects, in part, demand for higher quality housing, the easing of monetary policy was also a major factor: during 2001, the Bank of Korea cut the overnight interest rate by

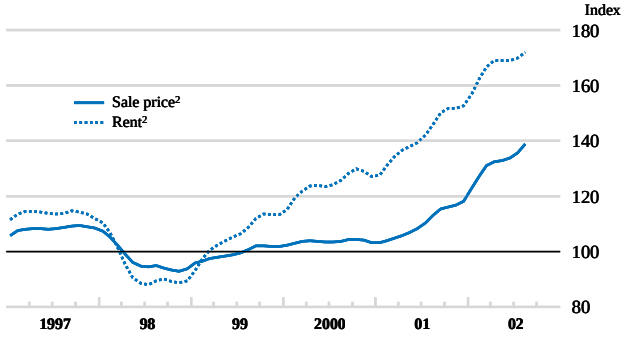
The ICT sector leads an exports upturn

Year-on-year change in US$ values



Housing prices and rents have risen sharply

1995 = 100



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

Source: National Statistical Office and Kookmin Bank.

Korea: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices trillion KRW	Percentage changes, volume (1995 prices)				
Private consumption	271.1	7.9	4.2	7.2	4.4	4.1
Government consumption	50.1	0.1	0.2	3.5	2.0	2.0
Gross fixed capital formation	134.2	11.4	-1.7	6.5	5.8	6.3
Final domestic demand	455.4	8.2	2.0	6.7	4.7	4.6
Stockbuilding [a]	- 5.4	-0.2	0.0	0.0	0.0	0.0
Total domestic demand	450.0	8.1	1.9	6.8	4.7	4.7
Exports of goods and services	204.4	20.5	1.0	8.7	11.0	10.2
Imports of goods and services	171.3	20.0	-2.8	12.0	10.9	10.0
Net exports [a]	33.1	3.1	1.5	0.3	1.8	1.8
Statistical discrepancy [a]	- 0.4	-0.7	-0.1	0.0	0.0	0.0
GDP at market prices	482.7	9.3	3.0	6.1	5.8	5.7
GDP deflator	_	-1.1	1.3	2.1	2.4	2.7
Memorandum items						
Consumer price index	_	2.3	4.1	2.7	3.5	3.3
Private consumption deflator	_	2.2	4.0	2.8	3.6	3.4
Unemployment rate	_	4.1	3.7	2.9	2.8	2.7
Household saving ratio [b]	_	11.8	10.0	9.5	10.1	11.4
Consolidated central government balance [c]	_	1.2	1.3	2.2	0.4	0.7
Current account balance [c]	_	2.7	2.0	1.1	1.0	1.3

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

125 basis points. This downward trend was reversed in May 2002, when the overnight rate increased by 25 basis points to 4¼ per cent.

Fiscal policy should cope with the costs of financial-sector restructuring

The stance of fiscal policy has been neutral, with the consolidated central government budget likely to record a surplus of around 2 per cent of GDP in 2002. Over the medium term, fiscal policy will be constrained by the burden of covering the costs already incurred for financial-sector restructuring. A total of KRW 156 trillion (29 per cent of GDP), much of it financed by issues of government-guaranteed bonds, was spent following the 1997 crisis. While the privatisation of state-owned banks will bring in substantial revenue, a significant portion of the outlays for financial restructuring is not recoverable. Consequently, KRW 49 trillion (13 per cent of GDP) of government-guaranteed debt is to be rolled over by the issue of government bonds during the period 2003 to 2006.

Overseas demand should help sustain the expansion through 2004

Economic growth is likely to reach 6 per cent in 2002, primarily as a result of buoyant private consumption. However, given the rise in household debt during the past few years, sustaining the expansion through to 2004 will probably depend on a pick-up in exports. The projected acceleration in demand in export markets in 2003 and 2004 should result in output growth in the 5½ to 6 per cent range, with the current account remaining in surplus, further boosting Korea's net creditor position. The measures in the real estate market should help sustain construction investment, while limiting the upward trend in real estate prices. However, failure to stabilise the housing market in the short run could necessitate a strong monetary policy response that would slow economic activity. In addition to the risks related to external demand and the real estate market, there is lingering concern about the significant number of companies with weak balance sheets.

Luxembourg

GDP is expected to grow at well below potential in 2002 for the second consecutive year, as this small and open economy specialised in financial services has been hard hit by the fall in asset prices and sluggish manufacturing activity in Europe. These adverse external shocks are cushioned to some extent by relatively robust domestic demand, which has been boosted by tax cuts and substantial increases in public investment. A pickup in external demand and stabilising financial market conditions should lead to a marked acceleration in growth as from the end of 2003.

As economic conditions improve, the government should seek to raise the cyclically-adjusted budget balance to be prepared for the fiscal impact of population ageing.

Weak financial markets and external demand hit growth…

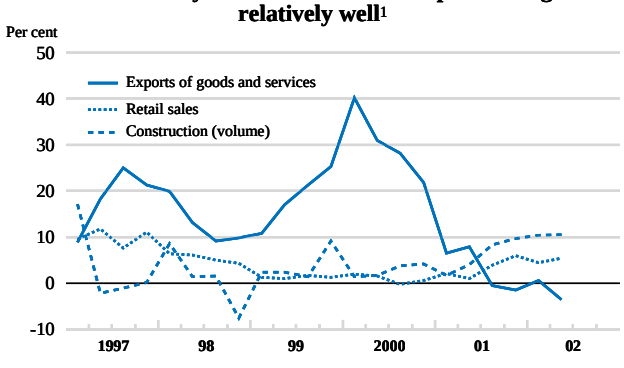
Having weakened during 2001, economic growth remained feeble in the first half of 2002, reflecting slow expansion in Europe and weakness in the financial sector. The value of goods exports contracted by almost 5 per cent (year-on-year). Banks gross earnings declined, as interest rate margins became tighter and commissions fell. Cost-saving efforts by firms resulted in lower demand for business services and a cutback in investment in information and communications technology, bringing down imports considerably.

… but domestically oriented activities hold up relatively well

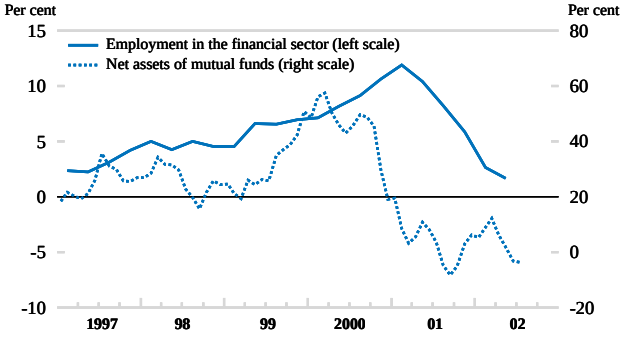
On the other hand, domestically-oriented sectors such as construction, hotels and restaurants, and public, social and personal services posted healthy gains, benefiting from resilient consumption and residential investment. Disposable incomes were boosted by the second round of rate cuts from the 2001-02 income tax reform, strong increases in real wages and pensions until spring 2002, and still positive employment growth. Headline and core inflation continued their downward trend, despite price pressures resulting from the introduction of euro coins and notes (adding about one-third of a percentage point to the consumer price index according to national estimates). In the course of 2002, wage increases decelerated, reflecting the marked slowdown in labour demand. Employment growth has fallen to about half the rate observed during the three previous years. The number of cross-border workers in September 2002 was 4.9 per cent higher than a year before, and employment of nationals 1.4 per cent higher. The unemployment rate has risen significantly since its low one year ago and stood at 3 per cent in September 2002.

Luxembourg

Domestically-oriented activities are performing relatively well[1]



The financial sector is struggling[1]



1. Year-on-year percentage changes.

Source: Central Service of Statistics and Economic Studies (STATEC); Central Bank of Luxembourg and OECD.

Luxembourg: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion euros	Percentage changes, volume (1995 prices)				
Private consumption	8.1	3.3	3.6	2.0	2.5	3.2
Government consumption	3.1	4.3	7.5	6.0	7.5	4.5
Gross fixed capital formation	4.5	-6.3	5.9	-4.0	4.0	7.0
Final domestic demand	15.7	0.7	5.0	1.2	4.0	4.5
Stockbuilding [a]	0.1	-0.9	1.0	0.0	0.0	0.2
Total domestic demand	15.7	-0.3	6.3	1.2	4.0	4.6
Exports of goods and services	25.3	19.1	1.2	-2.0	3.0	6.2
Imports of goods and services	22.5	14.0	4.5	-2.1	4.2	6.6
Net exports [a]	2.8	8.3	-4.0	-0.2	-1.1	0.3
GDP at market prices	18.6	8.9	1.0	0.8	2.5	4.5
GDP deflator	_	2.8	2.3	0.1	1.0	2.3
Memorandum items						
Consumer price index	_	3.8	2.4	2.1	1.7	1.5
Private consumption deflator	_	2.6	2.8	2.1	1.5	1.5
Unemployment rate	_	2.6	2.6	3.0	3.5	3.4
General government financial balance [b]	_	5.6	6.1	1.8	0.3	0.5

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

Fiscal policy is expansionary

The stance of fiscal policy has been markedly expansionary since 2001. Both income and corporate tax rates have been cut, and central government spending is set to rise by 9.6 per cent this year, well above the medium-term average of nominal GDP growth. In 2003 and 2004, fiscal policy will be less expansionary. Due to much slower-than-expected growth, the 2002 general government surplus will fall short of the 2.8 per cent of GDP objective laid down in the Stability and Growth Programme. It may then fall to almost zero in 2003 but recover slightly in 2004.

Higher growth depends on stronger foreign demand and financial services

Led by a pick-up in manufacturing exports in the first half and a progressive, albeit modest recovery in financial services in the second half of 2003, growth is projected to accelerate. Despite this cyclical improvement, medium-term GDP growth is unlikely to return to its average during the nineties (5½ per cent). The unemployment rate will peak at close to 4 per cent in the summer of 2003. With low capacity utilisation leading to waning wage pressures in 2003 and a cyclical productivity improvement in 2004, core inflation may come down to around 1½ per cent. The main risk surrounding this forecast is a more persistent-than-expected slack in domestic demand in Europe and a further fall in asset prices.

Mexico

Activity bottomed out in the first half of 2002, but the recovery is still hesitant and seems likely to become well-established only in 2003, when private domestic demand is projected to pick up. Inflation is expected to slow further. The current account deficit, which has narrowed in 2002, is expected to widen gradually as activity gains momentum.

Economic policies were tightened in 2002, in the context of a weaker peso and stalling disinflation. This stance needs to be maintained to keep disinflation and fiscal consolidation on target and retain market confidence. Implementation of the structural agenda, including the electricity and tax reforms, would reduce business uncertainty and improve growth prospects.

The economy started to recover in 2002

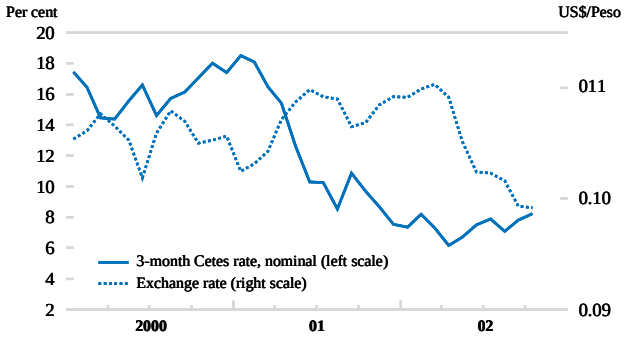
The Mexican downturn ended in the spring of 2002. Driven by a strong recovery in exports to the United States and a pick-up in investment, GDP growth is estimated to have recovered to 1½ per cent. However, the recovery is still fragile: business confidence is depressed and the upturn has not yet translated into a significant increase in formal employment. Reflecting higher oil prices and a lower non-oil trade deficit, the current account deficit may have narrowed in 2002, to below $17 billion (2¾ per cent of GDP). Net foreign direct investment could reach $13 to 14 billion, just above 2001 level excluding the purchase of Banamex by Citigroup. The peso has depreciated significantly since its April 2002 peak, reflecting uncertainties related to the US economy – with which the Mexican cycle is increasingly synchronised – and other external and domestic factors. Disinflation came to a halt in mid-2002, reflecting in particular a hike in administered prices (gas, electricity) and the rigidity of service prices as contractual wages adjusted only slowly. The passthrough from import prices being moderated by weak activity and a continuing non-accommodating monetary stance, core inflation should remain below the central bank target this year (4.5 per cent year-on-year in December). However, headline inflation is expected to be slightly higher.

Fiscal and monetary policies are assumed to remain tight

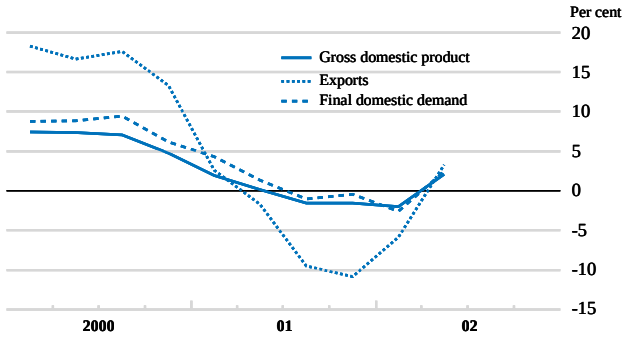
The public sector deficit is expected to be close to the government target in 2002, at 0.65 per cent of GDP, after 0.73 per cent of GDP in 2001. The broader public sector borrowing requirement may approach 3 per cent of GDP. As is the norm in the Mexican fiscal framework, budget cuts were implemented in the first half of 2002 in response to lower than budgeted tax revenues. However, higher oil

Mexico

The peso weakened, interest rates increased slightly



Activity has bottomed out[1]



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

Mexico: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion MXN	Percentage changes, volume (1993 prices)				
Private consumption	3 084.1	8.3	3.4	1.7	3.5	4.7
Government consumption	506.5	2.0	-1.4	-0.5	2.8	3.2
Gross fixed capital formation	973.8	11.4	-5.9	2.0	5.6	6.3
Final domestic demand	4 564.4	8.3	1.0	1.5	3.8	4.9
Stockbuilding [a]	109.3	0.4	-0.5	0.2	0.1	0.3
Total domestic demand	4 673.7	8.4	0.4	1.7	3.8	5.0
Exports of goods and services	1 414.3	16.4	-5.1	3.3	6.7	7.6
Imports of goods and services	1 488.6	21.5	-2.9	3.9	7.7	9.8
Net exports [a]	- 74.2	-1.8	-0.7	-0.3	-0.6	-1.2
GDP at market prices	4 599.4	6.6	-0.3	1.5	3.3	4.0
GDP deflator	_	12.0	5.4	4.0	3.9	3.7
Memorandum items						
Consumer price index	_	9.5	6.4	4.7	4.0	3.5
Private consumption deflator	_	10.7	5.9	4.4	3.9	3.5
Unemployment rate [b]	_	2.2	2.5	2.8	2.7	2.4
Current account balance [c]	_	-3.1	-2.9	-2.7	-3.3	-3.8

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

revenues in the second half of the year will help to achieve the 2002 fiscal target without the need for further expenditure cuts. A prudent fiscal stance is assumed to be maintained over the projection period, in line with the official medium-term programme to balance the public sector accounts by 2005. The central bank tightened its policy stance in February and in September 2002. The last move aimed at bringing inflation expectations down in line with the inflation target for 2003. The three-month *Cetes* rate, which had come down to around 7 per cent – implying real interest rates around 3½ per cent – moved back up in September. Real interest rates are assumed to remain close to their recent levels in 2003, and to edge up slightly in 2004 as the recovery strengthens.

The recovery would gain momentum in 2003…

Uncertainties related to the implementation of the reform agenda and the strength of the US economy may be delaying the expansion of domestic investment spending. Though recovering from its negative or sluggish performance in 2001 and 2002, GDP growth is therefore expected to remain below the 5 per cent rate of the late 1990s. Nevertheless, the pace of activity may entail a widening of the current account deficit to 3¾ per cent of GDP by 2004. With monetary policy remaining tight, inflation should fall to within the central bank target range of 3 per cent, plus or minus 1 per cent, by December 2003.

… and will depend on US growth and progress on structural reforms

The main risks to the outlook concern external developments, including world oil prices, financial markets and above all the timing and speed of the projected recovery in the United States. The main domestic uncertainty relates to the agenda for structural reforms. If the reforms in the areas of tax and electricity are approved, the uncertainties weighing on investment, including foreign direct investment, would dwindle, and GDP growth could reach a more rapid pace by 2004.

Netherlands

After stagnating in 2002, real GDP growth is set to recover only slowly. The economy will receive positive impulses from exports and stockbuilding in 2003 but growth will be limited by a loss in competitiveness and by fiscal tightening. Unemployment is projected to rise, leading to somewhat lower wage increases, but the labour market will remain relatively tight. Inflation is projected to fall to 2 per cent by 2004, reflecting lower import prices and a decline in unit labour costs.

Sustained wage moderation is essential to restore competitiveness, especially in view of the risk that pension fund losses might necessitate a further increase in contribution rates. Incentives to work need to be strengthened, while higher expenditure on education, which is relatively low in comparison with other OECD countries, as well as on innovation, could contribute to better overall performance.

Economic growth has come to a standstill…

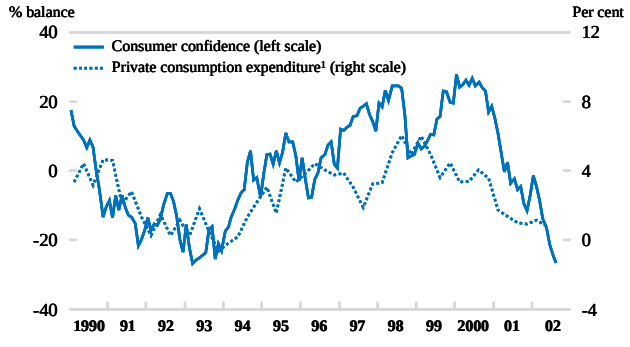
In the first half of 2002, output growth came to a halt and quarterly growth figures (year-on-year) turned negative, bringing the economy below trend. The slowdown was driven by a contraction in total exports, which was partly attributable to a loss in competitiveness, and a stagnation of domestic demand. Business investment also contracted, reflecting over-investment and a fall in profit margins in recent years, and stocks were sharply reduced. Private consumption remained weak, in response to the fall in equity prices and to price increases of certain goods and services after the introduction of the euro. Consumer confidence fell to its lowest level since 1993, but producer confidence weakened less.

… with the labour market easing and inflation declining

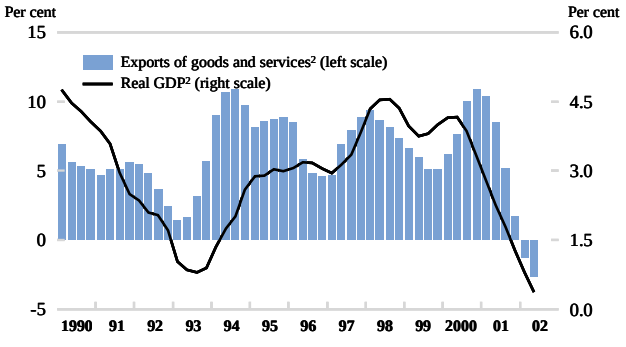
Employment growth in the business sector showed a marked deceleration. At the beginning of 2002, this resulted in a reversal in the trend in the unemployment rate, which had been downward for eight years. However, the labour market remains tight and contractual wage increases, which had peaked at 5 per cent in 2001, have not yet decelerated sufficiently to prevent a further loss in cost competitiveness. This loss was also due to lower productivity growth, as a result of labour hoarding and the appreciation of the euro. Harmonised consumer price inflation decreased from over 5 per cent in the fourth quarter of 2001 to 3.7 per cent in September 2002. Underlying inflation remained slightly lower.

Netherlands

Confidence has further deteriorated



Exports and GDP have strongly decelerated



1. Year-on-year percentage changes.
2. Year-on-year growth rates of four-quarter-totals, in volume.

Source: OECD.

Netherlands: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion euros	Percentage changes, volume				
Private consumption	187.6	3.6	1.2	0.9	1.7	2.7
Government consumption	85.5	1.9	3.1	2.5	0.2	0.8
Gross fixed capital formation	84.2	3.5	-0.8	-2.1	1.8	5.6
Final domestic demand	357.3	3.2	1.2	0.6	1.4	2.9
Stockbuilding [a]	0.5	-0.3	0.2	-0.5	0.3	0.0
Total domestic demand	357.8	2.8	1.4	0.0	1.7	2.9
Exports of goods and services	225.4	10.9	1.7	-2.0	4.9	8.0
Imports of goods and services	209.1	10.6	1.9	-2.3	5.3	9.0
Net exports [a]	16.2	0.8	0.0	0.1	0.0	-0.2
GDP at market prices	374.1	3.3	1.3	0.1	1.6	2.6
GDP deflator	_	4.2	5.3	3.8	3.2	2.6
Memorandum items						
Consumer price index	_	2.3	5.1	4.0	2.7	2.0
Private consumption deflator	_	3.5	4.6	3.5	2.5	2.0
Unemployment rate	_	2.6	2.0	2.7	3.5	4.0
Household saving ratio [b]	_	6.7	11.2	13.1	13.4	13.0
General government financial balance [c]	_	2.2	0.1	-0.8	-0.6	-0.3
Current account balance [c]	_	2.0	0.6	3.1	3.6	4.0

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

A strong fiscal tightening is in place

In the first half of 2002, government consumption remained strong, owing to increased spending of windfalls in previous years on healthcare, infrastructure and education. Fiscal policy had already been eased in 2001 by a personal income tax reform and additional tax cuts, although households put most of the considerable increase in their disposable income into saving accounts. During its short-lived cabinet period, from July 2002 to mid-October, the new government had announced tax increases and expenditure cuts totalling more than 1 per cent of GDP, in order to limit the budget deficit in 2003 and beyond. It is assumed that, following the general elections in January 2003, a new cabinet will adhere to this objective. A budget deficit of 0.6 per cent of GDP is expected for 2003, declining further to 0.3 per cent in 2004.

The economy is likely to return to above trend growth in 2004

Real GDP growth is likely to increase to 1½ per cent in 2003 and 2½ per cent in 2004, but a large output gap will remain. World trade is set to drive the recovery. Private consumption should pick up, albeit slowly because of the fiscal tightening in 2003 and only modest growth in employment. Business investment will only increase in 2004, when the international recovery is projected to gather pace. Unemployment is projected to increase above its natural rate, contributing to a slowdown in wage increases. However, increases in personal income taxes and contributions to pension funds to compensate for wealth losses, are still likely to have an upward effect on labour costs in 2003. Harmonised consumer price inflation is projected to ease to 2 per cent. The main risk to the outlook is that falling equity prices could lead to further increases in pension-fund contribution rates. These are an important element of labour costs in a country with high second-pillar pension savings, and could fuel wage demands, exacerbating competitiveness problems and reducing growth in consumption expenditure.

New Zealand

Activity in the first half of 2002 was exceptionally strong, as the flow-through effects of high export prices fuelled domestic demand. But this stimulus has weakened markedly, and growth is likely to have fallen substantially in the second half. The pace of expansion should pick up again next year and into 2004 in line with global recovery, though not so much as to lead to overheating.

This mild slowdown, with the new less-aggressive inflation target, should stay the central bank's hand until a robust recovery is clearly in place. After that, interest rates would need to rise only slightly to return monetary conditions to neutral. The fiscal stance remains appropriate but there are substantial challenges to maintaining surpluses over the medium term. Expenditure slippage may also be harder to resist now that the government has not renewed its three-year spending cap.

The economy has cruised through the global turbulence…

Activity has been strong despite the global slowdown, with the economy growing by more than 4½ per cent in the first half of this year (at an annual rate). Export volumes have expanded by a third since their trough after the Asian crisis, driven by a weak currency and an excellent agricultural growing season. Export prices were also high in 2001, especially for dairy products, and the flow-through effects of high farm incomes have continued to boost domestic demand and employment. The labour market is very tight, with employment and participation rates at 15-year highs, although immigration is easing the pressure by adding around 2 per cent a year to the labour force. It is also lifting consumer demand and triggering a surge in housing construction. Inflation has picked up, with most measures of core inflation around 2½-3 per cent.

… but business conditions are weakening

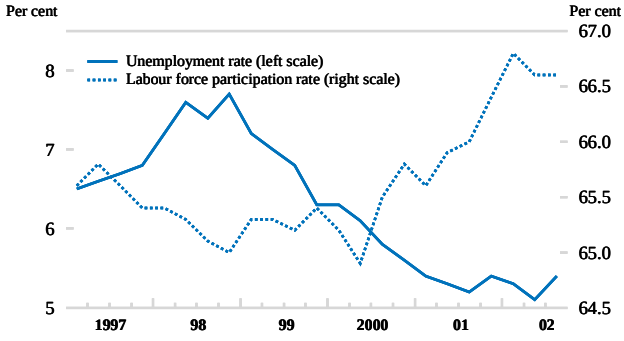
The key driving factor has weakened significantly, with export prices plunging in the first half of 2002. Dairy prices have been the hardest hit, but meat prices have also fallen as a result of higher European Union farm subsidies. While the impact has been cushioned by an exchange rate that is below its long-run trend, confidence has nevertheless been dented, leading to a softening of consumption and surprisingly sluggish business investment considering the high capacity utilisation rates.

The inflation target has changed…

The Reserve Bank raised interest rates by 100 basis points in the first half of the year in response to the pickup in core inflation and to the exhaustion of spare capacity. This tightening process has been put on hold until the global outlook becomes clearer. With the appointment in August of a new Governor, the inflation target was changed to "1 to 3 per cent inflation on average over the medium term", rather than "0 to 3 per cent annual increases". Raising the floor is probably less significant than

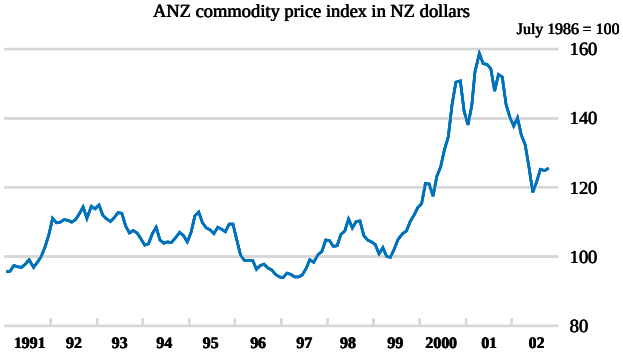
New Zealand

The labour market is tight



Export prices have fallen back

ANZ commodity price index in NZ dollars



Source: Statistics New Zealand and ANZ Bank Ltd.

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

	1999	2000	2001	2002	2003	2004
	Current prices billion NZD	Percentage changes, volume				
Private consumption	65.1	2.4	1.9	3.1	1.9	2.6
Government consumption	20.1	-2.1	0.5	1.8	2.3	2.6
Gross fixed capital formation	20.2	7.6	-1.7	4.6	5.0	4.1
Final domestic demand	105.5	2.5	0.9	3.2	2.6	2.9
Stockbuilding [a]	1.3	-0.7	0.3	-0.3	0.0	0.0
Total domestic demand	106.8	1.8	1.2	3.0	2.6	2.9
Exports of goods and services	32.2	6.8	2.1	9.0	6.9	6.9
Imports of goods and services	33.2	0.2	1.4	6.9	6.1	5.6
Net exports [a]	- 1.0	2.1	0.2	0.8	0.4	0.6
GDP (expenditure) at market prices	105.7	3.9	1.4	3.8	3.0	3.4
GDP deflator	_	2.4	4.7	0.4	1.9	2.6
Memorandum items						
GDP (production)	_	3.9	2.5	4.0	3.0	3.4
Consumer price index	_	2.6	2.6	2.6	2.3	2.1
Private consumption deflator	_	2.2	2.0	1.6	2.3	2.1
Unemployment rate	_	6.0	5.3	5.1	5.5	5.4
General government financial balance [b]	_	0.9	1.7	1.6	1.2	1.1
Current account balance [b]	_	-5.2	-2.8	-2.7	-3.6	-4.0

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

extending the time frame, which is intended to make the Bank more patient instead of continuously aiming for the mid-point.

… and short-term fiscal constraints have been loosened a little

The government was re-elected in July. While structural policies seem unlikely to change, there have been adjustments to the fiscal management tools. The three-year cap on new policy spending has been replaced by a more direct focus on the operating balance and on long-term debt and expenditure ratios. This should not lead to spending slippage in the short term, since the debt target is currently binding, but it increases the likelihood that favourable fiscal shocks could lead to extra spending rather than further debt reduction. The central government ran an operating surplus of 2¼ per cent of GDP in the year to June 2002, and it should remain comfortably in surplus over the medium term. These operating surpluses, however, will be more than absorbed by the investment programme, which includes the pre-funding of pensions.

While expected to slow in late 2002, growth should pick up in 2003

The decline in the terms of trade this year, worth 1½ per cent of national income, will be the main force driving the short-term outlook. This is likely to lower consumption growth significantly, although strong migration and high employment levels should provide some offsetting support. Business investment is likely to rise noticeably only as uncertainty fades, but residential investment should remain strong as immigration boosts housing demand. Export volumes are expected to follow the global trade cycle, slowing over the second half of this year and picking up towards the middle of 2003, although these external factors are the major uncertainty around the projections. GDP should follow a similar pattern, growing well short of its potential rate in the third and fourth quarters. That in turn should take some of the pressure off inflation, allowing the central bank to hold interest rates unchanged until robust growth is firmly re-established next year.

Norway

Despite some easing of activity, bottlenecks have persisted. Monetary conditions are tight and profits have been squeezed, but solid pay rises continue to boost consumption. Mainland output growth could strengthen from 1½ per cent in 2002 and 2003 to 2½ per cent in 2004. The unemployment rate is expected to stabilise at 4 per cent with inflation remaining subdued.

The authorities should not ease fiscal policy beyond the room for manoeuvre provided by the new fiscal guideline and should offset spending overruns by expenditure cuts elsewhere. Pension reforms are needed urgently to safeguard the long-run sustainability of public finances.

Buoyant consumption is offsetting weak external conditions

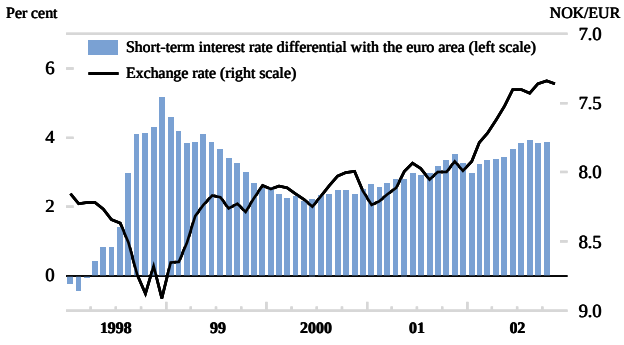
Growth of Norway's mainland (non-oil and gas) GDP is estimated to reach 1½ per cent in 2002. A 5½ per cent wage hike amid subdued inflation has boosted household real disposable income and consumption. Meanwhile, mainland exports have been sluggish and business investment has declined due to weak growth in world trade, rising cost pressures and currency appreciation. As a result, while public job growth has remained robust, private employment has fallen and the unemployment rate has been broadly stable at almost 4 per cent during 2002, ¾ percentage point above its 1998 low. Inflation has come down from 3 per cent in 2001 to just over 1 per cent, but core inflation (excluding indirect taxes and energy) has remained close to the official 2½ per cent target. Expanding activity on the continental shelf lifted overall GDP growth to 2 per cent. With oil prices also soaring, the current account surplus may reach 15 per cent of GDP – the same as in 2001.

Fiscal stimulus contrasts with tight monetary policy

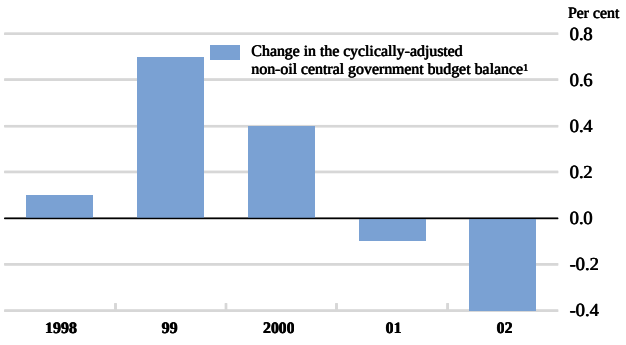
The current policy guidelines allow the government to channel 4 per cent of assets invested in the Government Petroleum Fund (exceeding 40 per cent of GDP) into the fiscal budget. Accordingly, the cyclically-adjusted budget deficit excluding oil and gas proceeds and the return on the Fund would gradually rise to around 4 per cent of trend GDP by 2010 from 1.9 per cent in 2001. The guidelines also mandate the Bank of Norway to gear monetary policy towards keeping inflation close to 2½ per cent over the medium term. These guidelines aim to provide fiscal and monetary policy with medium-term anchors. Meanwhile the new fiscal room for manoeuvre is being used for a reduction in the heavy tax burden to bolster the mainland economy's potential. The resulting fiscal stimulus is officially estimated to be almost ½ per cent of potential mainland GDP in 2002. The Bank of Norway has kept monetary policy tight, raising its official deposit

Norway

Monetary conditions have tightened



As the fiscal stance eased



1. As a percentage of trend mainland GDP.

Source: Ministry of Finance, 2003 National Budget, October 2002; Norges Bank and OECD, *Main Economic Indicators*.

Norway: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion NOK	Percentage changes, volume (1999 prices)				
Private consumption	584.3	3.5	2.5	2.7	3.2	2.9
Government consumption	263.7	1.2	2.0	1.7	0.5	1.0
Gross fixed capital formation	271.8	-1.5	-4.6	-2.5	2.2	4.7
Final domestic demand	1 119.8	1.8	0.7	1.3	2.3	2.9
Stockbuilding [a]	20.7	0.7	-0.8	-0.2	0.3	0.0
Total domestic demand	1 140.6	2.5	-0.2	1.1	2.7	2.8
Exports of goods and services	486.2	2.9	4.2	2.2	0.6	2.8
Imports of goods and services	393.8	3.2	0.0	-0.3	3.4	4.2
Net exports [a]	92.5	0.1	1.7	1.0	-0.8	-0.2
GDP at market prices	1 233.0	2.4	1.4	2.0	1.6	2.3
GDP deflator	_	16.0	1.7	0.0	2.3	2.7
Memorandum items						
Mainland GDP at market prices [b]	_	2.0	1.6	1.6	1.4	2.3
Consumer price index	_	3.1	3.0	1.2	2.3	2.5
Private consumption deflator	_	3.3	1.8	1.2	2.3	2.5
Unemployment rate	_	3.4	3.5	3.9	4.0	3.9
Household saving ratio [c]	_	4.7	4.5	5.2	5.3	5.8
General government financial balance [d]	_	15.1	15.0	12.4	10.2	9.8
Current account balance [d]	_	15.0	15.4	16.4	16.4	15.8

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

rate by 50 basis points to 7 per cent in July reflecting heightened concerns over wage inflation. While inflation concerns have receded owing to currency appreciation and an up-tick in unemployment, this has so far not resulted in a rate cut.

The policy mix is set to become more balanced going forward

A recent drop in the market value of the capital in the Petroleum Fund – due to the slump in stock markets and the currency appreciation – has acted to reduce the government's leeway to tap resources from the Fund. Accordingly, the draft budget released in October suggests a less pronounced fiscal easing in 2003 than in 2002. This should provide room for monetary policy to ease, with the official deposit rate cut by 50 basis points by early 2003 and staying on hold for most of the projection period. Barring a reversal of the capital losses on the Fund, the guidelines will act to contain fiscal stimulus also in 2004.

Growth should pick up while inflation should remain in check

A surge in investment in the continental shelf and buoyant consumption are likely to be offset by continued weak mainland exports in 2003. Thereafter mainland exports should benefit from the recovery in world trade as the adverse exchange rate effect peters out, but business investment is likely to stay weak as profits remain squeezed. Accordingly, the mainland economy is projected to continue to grow at a moderate 1½ per cent in 2003 but pick up to 2½ per cent in 2004. The unemployment rate is projected to stabilise at around 4 per cent. With wage growth receding somewhat to 5 per cent, inflation should stay on target.

A further appreciation of the krone would be unwelcome

The projections are built on the assumption of unchanged exchange rates. A further appreciation of the krone could severely hit the mainland's international competitiveness and squeeze profits further. If so, the outlook might be considerably weaker, especially if concerns over wage inflation limit the scope for monetary easing.

Poland

Output grew by only 0.6 per cent in the first half of this year. Although volatile, recent data suggest a recovery is under way. As a result, GDP growth is projected to continue to firm, reaching about 3 per cent in 2004. With unemployment at about 20 per cent of the labour force and a substantial output gap, inflation is expected to remain broadly stable in both 2003 and 2004.

Substantial reductions of nominal interest rates and the decline in the currency have eased monetary conditions, but policy remains tight and further cuts are required. In order to improve the policy mix, general government spending needs to be reduced as compared with the levels proposed in the 2003 draft budget. Such a step also appears necessary to prevent debt levels from breaching constitutional limits.

Economic activity has remained muted so far in 2002

Real GDP grew by only 0.6 per cent (year-over-year) in the first half of 2002, a bit more rapidly than in the previous half year. Personal and government consumption were the main sources of demand, but were offset by a further sharp decline in investment activity. On the external side, the depreciation of the currency allowed external trade to pick up somewhat. Signals from the most recent data have been mixed, with monthly trade and production data showing considerable volatility. Nevertheless, a 3.3 per cent increase in industrial production in the third quarter and improving business confidence suggest that a modest recovery in activity has begun.

Inflation and employment have continued to fall

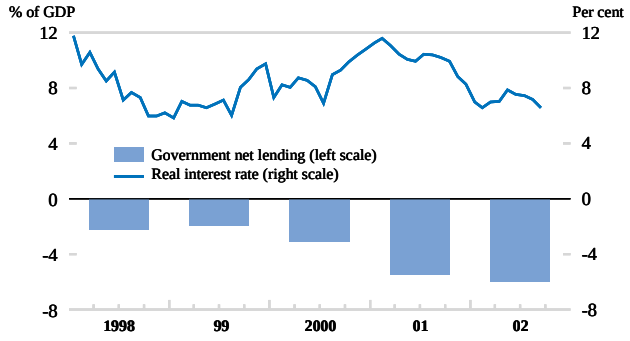
Reflecting the large output gap, both headline and core measures of inflation continued to decline in 2002, with the headline number currently well below the Polish National Bank's official target for the end of 2003 of 3±1 per cent. This disinflation was supported by the labour market, where real wages grew much less quickly than labour productivity. Nevertheless, employment continued to fall sharply and the unemployment rate reached almost 20 per cent on a labour force survey basis.

A mild, export-driven recovery is expected

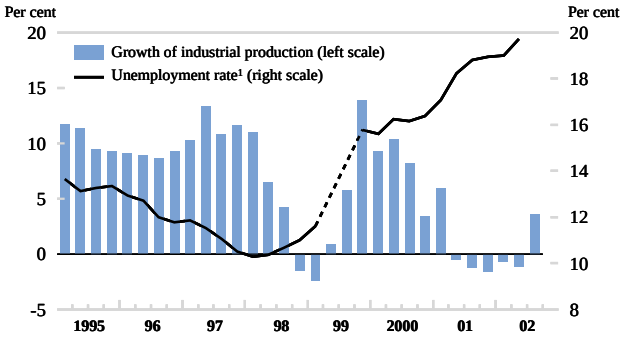
Looking forward, GDP is projected to pick up speed slowly during 2003 and to expand by about 3 per cent in 2004. Increased export demand and an end to destocking are expected to lead the recovery, stimulating a return to positive rates of business investment growth. Notwithstanding the projected turnaround, a substantial output gap will persist and unemployment will remain disturbingly high. In this context, wage

Poland

Easy fiscal and tight monetary policy



Unemployment is at record levels



1. The LFS Survey was not carried out in Q2 and Q3 1999.
Source: OECD.

Poland: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion PLZ	Percentage changes, volume				
Private consumption	396.4	2.8	2.1	2.5	2.2	2.5
Government consumption	95.6	1.1	0.6	1.1	1.7	1.8
Gross fixed capital formation	156.7	2.7	-9.8	-5.5	4.0	7.1
Final domestic demand	648.6	2.6	-0.8	0.7	2.5	3.3
Stockbuilding [a]	5.6	0.4	-1.2	-0.4	0.3	0.2
Total domestic demand	654.2	2.9	-1.9	0.4	2.9	3.5
Exports of goods and services	160.8	23.2	10.2	5.0	10.0	11.2
Imports of goods and services	199.9	15.6	-0.1	3.4	11.5	11.2
Net exports [a]	- 39.1	1.3	3.5	0.6	-0.6	-0.1
Statistical discrepancy [a]	0.0	-0.1	-0.7	0.2	0.3	-0.5
GDP at market prices	615.1	4.0	1.0	1.2	2.5	2.9
GDP deflator	_	7.0	4.3	1.9	2.0	2.9
Memorandum items						
Consumer price index	_	10.1	5.5	2.1	2.5	2.7
Private consumption deflator	_	9.8	5.3	2.1	2.1	2.4
Unemployment rate	_	16.1	18.2	19.7	20.4	20.0
General government financial balance [b]	_	-3.1	-5.5	-6.0	-6.3	-5.9
Current account balance [b]	_	-6.3	-3.0	-3.3	-4.4	-5.2

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

growth and consumer inflation are expected to be moderate, with the latter picking up slightly towards the end of the period as the disinflationary influence of falling food prices wears off. Meanwhile, the expansion in consumer and investment demand, combined with the large fiscal deficit, is projected to push the current account deficit above 5 per cent of GDP in 2004.

The strength of which will depend on investment picking up

The volatility of recent data increases uncertainty for the near term. If the recovery in the rest of Europe is slower than projected, exports will grow less quickly, delaying the pick-up in investment spending and the overall recovery of the Polish economy. In contrast, were the authorities to adopt a more prudent fiscal stance, the central bank would be able to move more aggressively to lower interest rates. As a result, the recovery in investment and consumer durable spending would be stronger, while lower levels of public-sector dissaving would reduce the risk that the current account deficit reaches excessive levels.

Portugal

Real GDP growth decelerated further in 2002 to below ½ per cent, reflecting weak exports, sluggish private demand and cutbacks in government investment. A gradual export-led recovery is projected for 2003. By 2004, with private investment reviving, GDP growth could approach potential, at around 2½ per cent, but still leaving a large output gap. In this context, inflation is expected to ease, while remaining higher than the European Union average.

Fiscal consolidation will have to be pursued forcefully, despite the weak outlook, requiring strong measures to limit government spending, including tight control of the public payroll and structural reform in social spending areas.

Activity almost stagnated in 2002

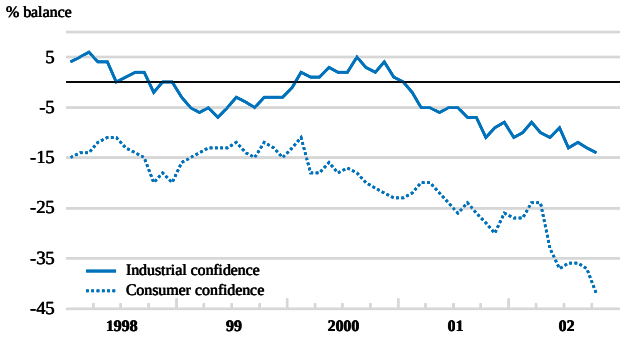
Activity continued to decelerate in 2002 and output is estimated to have grown by less than ½ per cent. Exports were negatively affected by weak activity in the European Union, and domestic demand stagnated. Private investment expenditure declined for the second consecutive year and there was a significant reduction in public investment. Private consumption growth was depressed by deteriorating conditions in the labour market and a further fall in consumer confidence, which resulted in a higher household savings rate. The increase in the value-added tax (VAT) rate in summer 2002 may have further damped consumption in the second half of the year, and also pushed headline and core inflation up temporarily. However, the progressive deceleration of wages (in both the public and the private sectors) is helping to reduce inflationary pressures. Nominal wages implicit in wage agreements for the private sector decelerated slightly in the first nine months of 2002, and, given weak activity, wage drift should decline significantly. Reflecting flat domestic demand and slightly favourable terms of trade, the trade deficit has continued to narrow, and the current account deficit is estimated to fall to about 8 per cent of GDP in 2002.

After the 2001 slippage, a tough fiscal consolidation has started

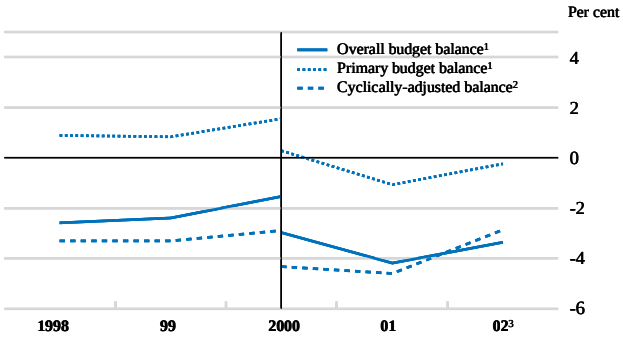
Around mid-2002, it became clear that the budget deficit had reached 4.2 per cent of GDP in 2001, more than twice the target set in the Stability Programme, and that the primary balance was negative for the first time since 1983. Budget revenues were much lower than expected, reflecting both weaker growth and the low efficiency of tax collection. There was also significant slippage in current spending ahead of the parliamentary elections in March 2002, and capital expenditure co-financed by the European Union increased sharply. In May 2002, the incoming government

Portugal

Confidence indicators are worsening



The fiscal situation deteriorated in 2001



1. As a percentage of GDP. Break in 2000 due to changes in methodology and recording practices.
2. As a percentage of potential GDP. Break in 2000 due to changes in methodology and recording practices.
3. OECD estimates.

Source: Ministry of Finance; European Commission; OECD.

Portugal: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion euros	Percentage changes, volume (1995 prices)				
Private consumption	67.4	2.6	1.2	0.8	1.0	1.8
Government consumption	21.3	4.0	2.8	1.1	-0.2	0.0
Gross fixed capital formation	29.5	4.4	0.0	-2.5	0.3	3.0
Final domestic demand	118.1	3.3	1.2	0.0	0.6	1.8
Stockbuilding[a]	1.1	-0.3	0.0	0.0	0.0	0.0
Total domestic demand	119.2	3.1	1.1	0.0	0.6	1.8
Exports of goods and services	32.1	8.0	1.4	1.1	5.7	8.0
Imports of goods and services	43.3	5.4	0.3	0.0	2.6	5.7
Net exports[a]	- 11.2	0.3	0.4	0.4	0.8	0.4
GDP at market prices	108.0	3.7	1.6	0.4	1.5	2.3
GDP deflator	_	3.2	4.7	3.7	2.9	2.6
Memorandum items						
Consumer price index	_	2.8	4.4	3.5	2.8	2.4
Private consumption deflator	_	2.8	4.2	3.4	2.8	2.4
Unemployment rate	_	4.0	4.1	4.7	5.1	5.0
Household saving ratio[b]	_	10.1	11.0	11.2	11.4	11.3
General government financial balance[c]	_	-3.0[d]	-4.2	-3.4	-3.0	-2.4
Current account balance[c]	_	-10.3	-9.4	-7.8	-6.9	-6.4

a) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
b) As a percentage of disposable income.
c) As a percentage of GDP.
d) Including proceeds of sales of mobile telephone licences (around 0.3 per cent of GDP).
Source: OECD.

approved measures to bring the deficit back below 3 per cent of GDP in 2002, including a 2 percentage point increase in the standard VAT rate and expenditure cuts over the coming two years. This stance has been confirmed in the 2003 budget proposal. Given weaker-than-expected activity in 2002, the 2.8 per cent official target appears difficult to achieve without additional measures. The current OECD projection thus incorporates some slippage in 2002. The deficit is projected to narrow gradually over the projection period as the economy recovers and spending restraint is forcefully implemented. For 2003, the projected narrowing of the deficit as a share of GDP is comparable to that foreseen in the budget. The close-to-balance budget target for 2004 seems unachievable, however, without new measures or buoyant economic growth, so that a cyclically-adjusted budget deficit at around 1½ per cent of GDP is projected for that year.

The recovery will be driven by exports…

Against the background of confidence indicators at low levels and a tight fiscal policy for the next two years, foreign demand seems likely to lead the recovery. The economy is therefore expected to pick up gradually in 2003, following the recovery in the rest of Europe. Private demand components may gather momentum in 2004 as confidence returns and the labour market improves. With the output gap widening over the next two years, inflation is expected to decelerate.

… but depends on how fast Europe will grow as well as on wage trends

The main external uncertainty concerns the timing and strength of the recovery in Europe. On the domestic front, if private wage increases do not moderate in the face of weak activity, competitiveness will erode further, putting export and employment growth at risk. The government's ability to limit public sector pay, which traditionally serves as a benchmark for private sector wage settlements, will play a decisive role in this regard.

Slovak Republic

Strong domestic demand has enabled Slovakia to maintain buoyant growth during the past two years despite global weakness. However, the current account deficit has been uncomfortably large. A pick-up in export demand is now projected to sustain growth at around 4 per cent through 2004, resulting in a modest decline in unemployment, and a narrowing of the current account deficit.

It is essential that the new government reform the social security and social welfare systems in order to improve work incentives and reduce the budget deficit. Fiscal consolidation would also increase the scope for the central bank to cut interest rates further. Pushing ahead with privatisation will also be important in enhancing efficiency and in generating capital inflows.

Output growth has picked up, underpinned by domestic demand

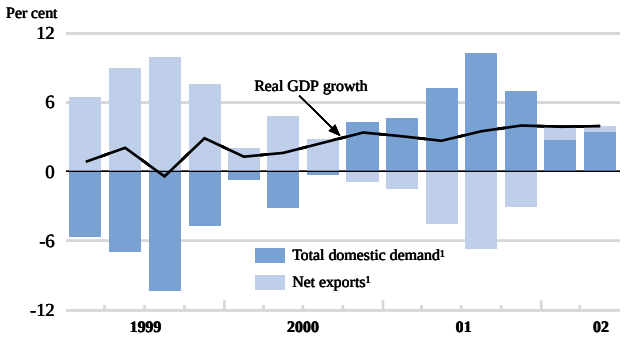
Economic output increased 4 per cent (year-on-year) in the first half of 2002, thanks largely to buoyant private consumption. Consumer spending was fuelled by double-digit growth in wages, due in part to a 15 per cent rise in the public sector. In contrast, fixed investment, the main force driving growth in 2001, declined slightly. Weak investment, in turn, contributed to a fall in imports. However, exports also stagnated in the first half of 2002, keeping the current account deficit at 8 per cent of GDP. This is being more than financed by inflows of foreign direct investment. In March 2002, the Government sold a 49 per cent share of the gas utility to foreign investors for an amount equivalent to 12 per cent of GDP.

Inflation has slowed significantly with high unemployment

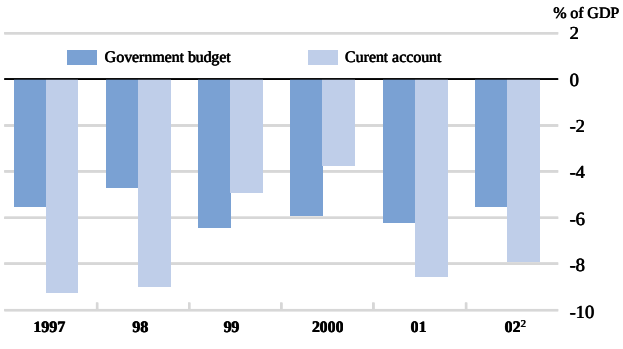
Despite the fastest output growth since 1998, there was no increase in employment in the first half of 2002. As a result, the unemployment rate has remained at 19 per cent. In this context, inflation slowed to a record low of 2½ per cent in the third quarter of the year. To some extent, the deceleration reflects a pause in the process of price liberalisation that has aimed to bring regulated prices – particularly in the area of energy – up to market levels. However, the core price index, which excludes regulated prices, also decelerated to a record low of 1½ per cent in the third quarter. Both measures of inflation are likely to undershoot the central bank's target zones for the end of 2002, which are set at 3.5 to 4.9 per cent for headline inflation and 3.2 to 4.7 per cent for core inflation.

Slovak Republic

Strong domestic demand has eased



The twin deficits remain large



1. Contributions to real GDP growth, year-on-year growth rates.
2. OECD projections.

Source: Statistical Office of the Slovak Republic and OECD.

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

	1999	2000	2001	2002	2003	2004
	Current prices billion SKK	Percentage changes, volume (1995 prices)				
Private consumption	470.6	-1.8	3.9	4.9	3.7	4.0
Government consumption	165.6	1.3	5.1	5.0	2.0	2.2
Gross fixed capital formation	252.9	1.2	9.6	2.2	5.0	5.2
Final domestic demand	889.0	-0.4	5.7	4.1	3.8	4.0
Stockbuilding [a]	- 17.1	0.4	1.4	0.0	0.0	0.0
Total domestic demand	871.9	0.0	7.2	4.2	3.8	4.0
Exports of goods and services	510.0	13.8	6.5	3.1	6.6	8.1
Imports of goods and services	546.2	10.2	11.7	3.0	6.5	7.5
Net exports [a]	- 36.2	2.2	-4.0	0.0	-0.2	0.2
GDP at market prices	835.7	2.2	3.3	4.3	3.7	4.3
GDP deflator	_	6.4	5.4	3.0	5.9	5.8
Memorandum items						
Consumer price index	_	12.0	7.4	3.5	8.8	8.5
Private consumption deflator	_	10.5	5.6	3.4	6.0	5.5
Unemployment rate	_	18.8	19.3	19.0	18.7	18.2
Current account balance [b]	_	-3.7	-8.6	-7.0	-6.4	-5.4

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

The macroeconomic policy mix has been skewed

The macroeconomic policy mix has been one of loose fiscal policy and tight monetary policy. The original goal, to reduce the budget deficit from 3.9 per cent of GDP (on a Government Financial Statistics basis) in 2001 to no more than 3½ per cent in 2002, will not be reached due to spending overruns, notably the large rise in the public-sector wage bill. The new government has set a goal to reduce the deficit from an estimated 5½ per cent of GDP (on an ESA 95 basis) in 2002 to 5 per cent in 2003, through spending cuts and hikes in value-added and excise taxes. The central bank, which has been understandably cautious in the face of the large deficits in the government budget and the external balance, cut the two-week repo rate by 25 basis points to 8 per cent in October 2002.

Structural reforms may increase potential growth

The government has implemented some major reforms that are likely to enhance the country's growth potential. Perhaps most important is the privatisation of the banking sector through sales to foreign investors, which insulates the banks from political pressures. In addition, the privatisation of large government utilities, such as those for gas and electricity, offer the potential for efficiency gains, while providing needed revenue.

Stronger external demand may sustain the expansion through 2004

These supply-side improvements, combined with a pick-up in export growth, should sustain output growth of around 4 per cent in 2003 and 2004. Indeed, exports have shown signs of rebounding since mid-2002. Output growth at such a rate should be sufficient to boost employment, leading to a gradual fall in the unemployment rate. While the considerable slack in the economy should reduce pressure on prices, inflation is likely to pick up significantly in 2003 as the price deregulation process resumes. A rebound in export demand may help narrow the current account deficit. However, the deficit, while currently financed by investment inflows, seems likely to remain large enough to pose a potential risk to a sustained expansion. A failure to control fiscal policy would pose a second risk to the economic outlook. Yet success in reducing the budget deficit would allow the central bank to lower interest rates further, thus supporting faster growth.

Spain

Economic growth slowed considerably in the first half of 2002, reflecting weaker household spending and sluggish foreign demand. Despite subdued activity, inflation has accelerated and the differential with the euro area remains high. Stronger exports should revive domestic demand, lifting GDP growth to 2½ per cent in 2003 and above potential in 2004.

From 2003 onwards, all levels of administration have to aim at a budget in balance or surplus. Given the uncertainty about the final budgetary impact of the personal income tax cut planned for 2003, the government will have to control expenditure tightly to avoid a deterioration in the cyclically-adjusted balance. Reforms of the wage bargaining system should aim at establishing a closer link between wage and productivity growth, which should help in reducing the inflation differential with the euro area.

The slowdown reflects weaker consumption and sluggish exports

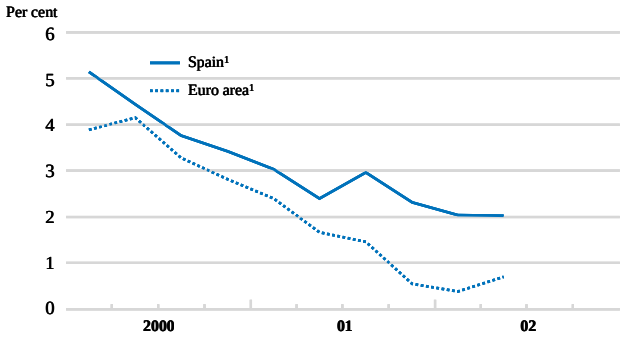
GDP growth weakened substantially in the first half of 2002 as consumption growth faltered and equipment investment continued to fall, partly reflecting the decline in exports. Construction growth remained strong, and even accelerated. Conjunctural indicators for the second half of the year do not point to a significant rebound of activity, with falling car sales and industrial production and a weak tourist season, though retail sales have fared better and public consumption is likely to pick up at the end of the year. Weaker activity has lowered employment growth considerably to only 1½ per cent in the first semester and, with a strong pick-up in the labour force, the unemployment rate has risen to above 11 per cent.

The inflation differential with the euro area has remained high

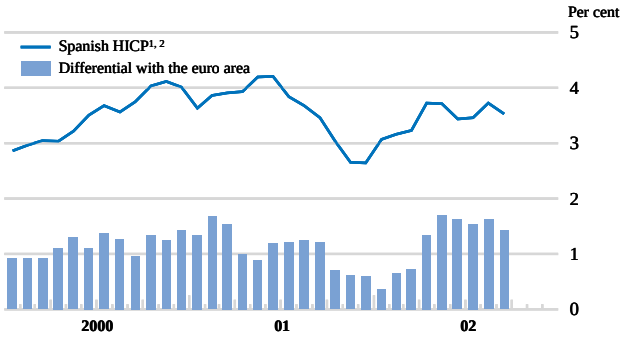
Partly reflecting the introduction of the cash euro, underlying inflation reached 4 per cent in May, although it has fallen somewhat since then. Despite lower energy prices and subdued growth, year-on-year headline inflation accelerated from 3 to over 3½ per cent in the first nine months of 2002, while the inflation differential with the euro area has remained high at 1½ percentage points. Labour cost pressures have also remained strong. While agreed wages have risen by only 3 per cent, wages per employee as recorded in the national accounts accelerated in the first half of the year due to wage drift. In conjunction with modest productivity increases, unit labour cost growth has remained above the euro-area average.

Spain

Real GDP has slowed less than in the euro area



But the inflation differential remains high



1. Year-on-year percentage changes.
2. The break in 2001 of the Spanish harmonised consumer price index has been corrected using the national CPI data.

Source: OECD, *Main Economic Indicators.*

Spain: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion euros	Percentage changes, volume (1995 prices)				
Private consumption	335.2	3.9	2.5	1.8	2.6	3.1
Government consumption	98.6	5.0	3.1	2.1	2.7	1.9
Gross fixed capital formation	136.1	5.7	3.2	1.3	3.2	4.6
Final domestic demand	570.0	4.5	2.8	1.7	2.8	3.2
Stockbuilding [a]	2.6	-0.1	0.0	0.1	0.0	0.0
Total domestic demand	572.6	4.4	2.7	1.8	2.8	3.3
Exports of goods and services	155.5	10.0	3.4	-0.2	5.5	7.9
Imports of goods and services	162.8	10.6	3.5	-0.4	6.1	8.3
Net exports [a]	- 7.4	-0.3	-0.1	0.0	-0.3	-0.3
GDP at market prices	565.2	4.2	2.7	1.8	2.5	3.0
GDP deflator	_	3.5	4.2	3.1	2.6	2.6
Memorandum items						
Consumer price index	_	3.5	2.8	3.5	3.0	2.8
Private consumption deflator	_	3.2	3.3	3.4	3.0	2.8
Unemployment rate [b]	_	11.0	10.5	11.2	11.2	10.8
Household saving ratio [c]	_	10.0	10.3	10.6	10.7	10.6
General government financial balance [d]	_	-0.6	-0.1	0.0	-0.1	0.1
Current account balance [d]	_	-3.5	-2.6	-2.4	-2.6	-2.7

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

The budget should remain close to balance over the projection period

The 2002 budget is estimated to be in balance. While indirect tax revenues could be lower than expected, personal and corporate income tax will be stronger and capital expenditure weaker. Next year the new Budget Stability Law will enter into force obliging all levels of administration to aim at a budget in balance or in surplus. The government will again cut personal income taxes, with an estimated revenue loss of ½ per cent of GDP, but the continued strength of social security receipts should help to maintain an almost balanced budget. The fiscal stance should remain broadly neutral in 2003 and 2004.

An export-led rebound is expected for 2003

Activity should start accelerating during 2003 mainly stimulated by external demand. Equipment investment is projected to recover as demand prospects improve, while construction growth should moderate slightly, but remain strong. Private consumption should revive, with incomes bolstered by the income tax cut and stronger employment growth. Overall, GDP is expected to grow by 2½ per cent in 2003 and 3 per cent in 2004, above the euro area average. The unemployment rate could fall to below 11 per cent by 2004. However, with a negative output gap over the projection period, inflation should decline to below 3 per cent.

There are a number of negative risks

The recovery hinges on a revival in external demand. An international recovery that is slower than expected would thus be an important downside risk. Equipment investment could also be more sluggish if business sentiment does not recover, or if further turmoil in Latin America translates into lower profits for the Spanish companies that have invested in this region. Over the medium term, the inflation differential with the euro area, if it persists, would damage competitiveness and undermine export performance.

Sweden

A recovery is well underway in Sweden, although output growth has remained below its potential rate in 2002. Growth of around 2½ to 2¾ per cent in the next two years could close the output gap and turn it positive by 2004. Prospects are nevertheless sensitive to developments in the information and communications technology sector and in the labour supply, since an already tight labour market is generating inflation pressures.

Interest rates will need to be raised in 2003 as activity gains steam. Although the general government financial surplus remains substantial, greater efforts are needed to rein in the surge in expenditure on sickness benefits and disability pensions. Policies to increase effective labour supply would help to curb pressure on wages.

A moderate recovery is underway

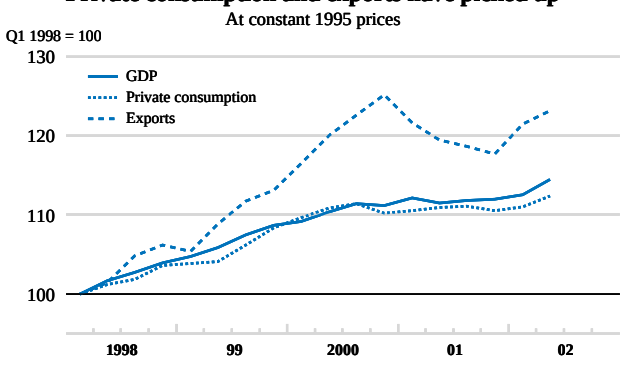
Output accelerated moderately in the first half of 2002 after last year's slowdown, driven by exports and private consumption. Renewed growth was mirrored in a sharp increase in consumer and business confidence indicators at the beginning of the year. Both consumer and business confidence have fallen back following stock market turbulence and external weakness, thus leaving a less positive picture of growth in the second half of 2002. The sharp downturn in new vacancies following a sizeable rise in the early part of the year points in the same direction. However, the unemployment rate has remained fairly constant since the beginning of 2001, indicating that the labour market is still relatively tight. Consumer price inflation eased by almost 1 percentage point in the spring, primarily due to base effects, but has risen again to around 2½ per cent in October.

An expansionary fiscal stance is stimulating private consumption…

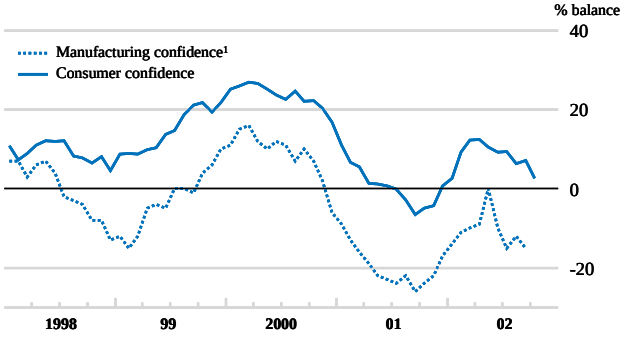
Tax cuts and other discretionary measures of fiscal easing have boosted household disposable income significantly in 2002. The effect on private consumption will be seen gradually over the forecast horizon, as households react cautiously in a relatively uncertain economic environment. The general government financial surplus is expected to drop from 4¾ per cent of GDP in 2001 to 1¾ per cent in 2002 as a result of the fiscal stimulus and the disappearance of large and lagged payments of corporate and capital gains taxes. An additional fiscal stimulus would not be helpful in the current situation, and no further tax cuts are projected, allowing the surplus to move back to almost 2 per cent of GDP in 2004.

Sweden

Private consumption and exports have picked up



Confidence indicators have weakened again



1. The figures for 2002 may not be fully comparable with those for earlier years due to a change of methodology.
Source: Statistics Sweden; NIER; OECD, *Quarterly National Accounts.*

Sweden: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion SEK	Percentage changes, volume				
Private consumption	1 004.6	4.6	0.2	1.6	2.5	2.6
Government consumption	536.1	-0.9	1.4	1.7	0.8	0.8
Gross fixed capital formation	340.8	5.0	1.5	-1.5	3.8	4.2
Final domestic demand	1 881.6	3.2	0.8	1.0	2.3	2.5
Stockbuilding [a]	3.5	0.5	-0.5	-0.5	0.3	0.2
Total domestic demand	1 885.1	3.8	0.2	0.5	2.7	2.7
Exports of goods and services	872.4	10.3	-1.4	2.9	6.0	7.1
Imports of goods and services	752.8	11.5	-3.9	0.3	6.8	7.3
Net exports [a]	119.6	0.4	1.0	1.3	0.3	0.7
GDP at market prices	2 004.7	3.6	1.2	1.7	2.5	2.8
GDP deflator	_	1.0	2.0	2.1	2.0	2.6
Memorandum items						
Consumer price index	_	0.9	2.4	2.3	2.2	2.3
Private consumption deflator	_	0.9	1.6	2.3	2.1	2.2
Unemployment rate [b]	_	4.7	4.0	4.0	4.1	4.0
Household saving ratio [c]	_	2.3	4.9	8.0	7.8	7.0
General government financial balance [d,e]	_	3.7	4.8	1.7	1.6	1.9
Current account balance [d]	_	3.3	3.0	3.9	3.5	3.7

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

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

… and monetary conditions are also supportive of growth

Monetary conditions are likely to remain expansionary. With inflation expectations and core inflation rates currently in the 2 to 2½ per cent range, the *Riksbank* is not expected to raise interest rates in the near future. However, some increase in rates is projected in 2003 as domestic and external demand pick up. The krona has regained strength after the marked depreciation in 2001, but Swedish exports should still benefit from a relatively favourable exchange rate.

Economic prospects are generally bright…

Growth in real GDP is projected to rise from 1¾ per cent in 2002 to around 2½ per cent in 2003 and 2¾ per cent in 2004. Domestic demand may gain momentum in 2003, as private consumption continues the adjustment to the earlier increases in household disposable income and investment picks up. Exports should accelerate in 2003, and a sharp turnaround in imports will follow from the stronger demand pressure. Employment is projected to increase as from 2003, with a minor up-tick in unemployment in 2003 being reversed the following year. Higher increases in wages and consumer prices are projected in 2004. Given a persistently tight labour market, policies to reverse the upward trend in sickness absentees and increase effective labour supply in other ways would help to curb inflationary pressure. Otherwise, a stronger monetary response from the *Riksbank* than projected could be necessary.

… but ICT sector developments are rather uncertain

Growth prospects for investment and exports are particular sensitive to developments in the information and communications technology sector, with downside risks currently dominating. A strong recovery in telecommunications is not likely before 2004, as global investments in 3G networks currently seem to be on hold, but it could eventually give a big contribution to Swedish exports.

Switzerland

The slowdown in activity continued in conjunction with the slackening of the external environment and the appreciation of the franc. GDP growth, which was close to zero in 2002, should however pick up and reach around 1½ per cent in 2003, thanks to the international recovery and to an expansionary monetary policy. The improvement in the economic situation is unlikely to result in a fall in unemployment before mid-2003, while inflation could ease to less than ½ per cent.

The very accommodating stance of monetary policy is appropriate and should be maintained until the recovery is firmly established. But a more expansionary fiscal policy is hardly advisable, and would not be consistent with the new debt containment rule, which implies a stable cyclically-adjusted balance. There is a need to boost potential growth and this requires a more efficient factor utilisation, which should be stimulated by enhanced competition.

Activity remains depressed and unemployment is rising

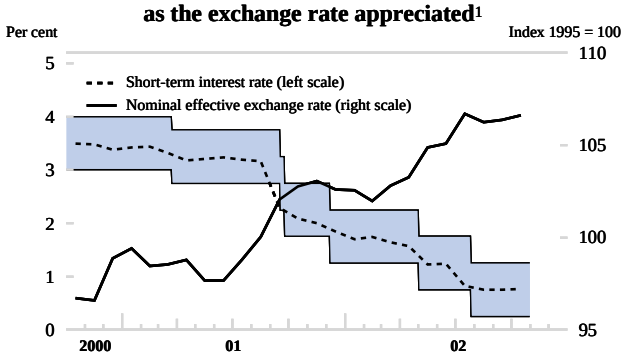
The major national accounting revisions published during the summer revealed an unexpected fall in production in the first half of 2001 (–¾ per cent, at annual rate) and in the first half of 2002 (–¼ per cent) relative to the previous semester. The weak international environment and the appreciation of the franc caused a sharp fall in exports and investment, which was only partially offset by a positive contribution of stocks and resilient private and public consumption. The latest leading and conjunctural indicators do not point to a rapid pick-up in activity. Tourism was sluggish during the summer and industrial orders continued to fall. Consumer confidence declined and unemployment, which reached 3.0 per cent in October 2002, is still growing. As a result, 2002 is likely to see a slight fall of GDP. Against this background, the rise in consumer prices has remained at ½ per cent on average up till October 2002.

Monetary policy has eased while the franc has appreciated

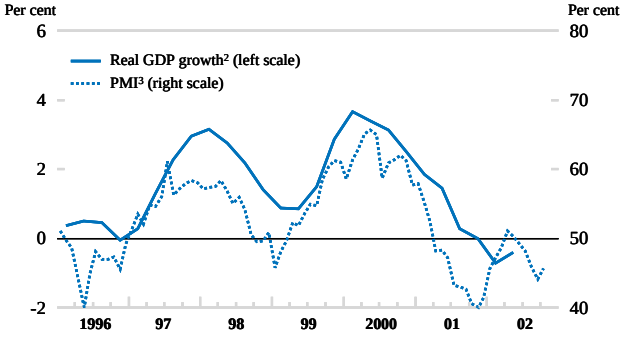
The absence of inflationary pressures, coupled with the appreciation of the exchange rate and the sluggishness of activity, prompted the National Bank to ease monetary policy as of the spring. The three-month LIBOR rate has been reduced in two stages by 1 percentage point down to ¾ per cent, the lowest level for nearly 25 years. This easing of policy offset the restrictive impact of the rise of the franc, which is being used as a safe haven and has appreciated in effective terms by 3 per cent since the start of the year and by 10 per cent since 2000. In the projections, it is assumed that the Bank will leave interest rates unchanged until the second half of 2003, before gradually tightening monetary policy.

Switzerland

Interest rates were cut as the exchange rate appreciated[1]



The economy remains weak



1. The boundaries of the shaded "corridor" correspond to the National Bank's intervention rate.
2. Year-on-year percentage changes.
3. The Purschasing Managers' Index (PMI) is an index based on the response of 200 managers at Swiss industrial companies about their performance in the current month compared with the prior month. An index below 50 indicates that industrial production is falling.

Source: National Swiss Bank; Credit Suisse; OECD, *Quarterly National Accounts.*

Switzerland: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices billion CHF	Percentage changes, volume (1990 prices)				
Private consumption	234.7	2.0	1.8	1.0	1.6	2.1
Government consumption	57.3	1.5	2.6	3.1	0.5	0.4
Gross fixed capital formation	78.1	5.8	-5.2	-6.1	2.8	3.9
Final domestic demand	370.1	2.9	0.1	-0.4	1.7	2.3
Stockbuilding [a]	- 2.3	-0.3	0.7	0.2	-0.1	0.0
Total domestic demand	367.8	2.5	0.8	-0.2	1.7	2.3
Exports of goods and services	157.7	10.0	-0.1	-1.8	3.6	5.8
Imports of goods and services	136.9	8.5	-0.3	-1.8	4.2	6.0
Net exports [a]	20.8	0.6	0.1	0.0	-0.3	-0.1
GDP at market prices	388.5	3.2	0.9	-0.2	1.4	2.2
GDP deflator	_	1.2	1.4	2.1	0.6	0.6
Memorandum items						
Consumer price index	_	1.6	1.0	0.6	0.5	0.3
Private consumption deflator	_	1.1	1.2	0.7	0.5	0.3
Unemployment rate	_	2.0	1.9	2.7	3.0	2.5
Current account balance [b]	_	12.9	8.2	10.0	9.9	10.4

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

A cyclical budget deficit is probable in 2003

The budget deficit target of CHF 950 million (¼ per cent of GDP) for the general government in 2002 seems out of reach. In particular, the forecast deficit of CHF 300 million for the Confederation will be exceeded because of the sluggishness of tax revenue and additional expenditure equivalent to 0.3 per cent of GDP. Another deficit is likely in 2003, the first year of implementation of the debt containment rule, which requires the Confederation to balance its accounts in cyclically-adjusted terms. This target, which implies a neutral fiscal stance, should result in a deficit of about CHF 300 million according to the revised official forecasts, which are based on a growth assumption of 1.3 per cent.

The upturn in growth will be gradual in 2003-2004

Production is likely to increase at a rate close to potential growth in 2003, before picking up more sharply to 2¼ per cent in 2004. In 2003, the recovery in exports and investment will be underpinned by the improving external environment and expansionary monetary policy, though exchange rate appreciation acts as an offset. Growth of private consumption is expected to remain moderate because of the labour market situation. Due to the weakness of employment, the unemployment rate could reach 3 per cent on average in 2003, before falling to 2½ per cent in 2004, while inflation would ease back to ¼ per cent. The risk of deflation looks limited due to the strength of the banking sector and the fairly generous wage increases awarded in 2002 and under discussion for 2003. This recovery scenario could, however, be jeopardised by the uncertainty surrounding the external environment and by the exchange rate, which could appreciate further.

Turkey

The Turkish economy is recovering unexpectedly quickly, following the worst recession in decades. Real growth of close to 4 per cent is likely in 2002, with inflation slowing to below its target of 35 per cent by year-end. Given renewed lira weakness since mid-year, achieving next year's 20 per cent inflation target appears problematical, especially if the pace of growth were to strengthen further. However, with real interest rates also higher and policies set to remain tight, growth should be contained between 3½ and 4½ per cent in 2003 and 2004.

A strong and credible government following the 3 November elections, able to carry through the current stabilisation programme, is key to any lasting improvement in Turkey's creditworthiness. A decline in the sovereign risk premium to reasonable levels is critical to achieving fiscal sustainability and low-inflation growth.

The economy is recovering…

After a sharp contraction last year, real GDP rose by more than 5 per cent in the first half of 2002. Inventory accumulation provided the initial impetus, though by the second quarter, other domestic demand components stabilised or recovered. Rising trends for industrial production, exports, and value added tax collections suggest a continuation of growth, albeit at a slower pace, into the second half of the year. A growth rate of nearly 4 per cent is likely for the year as a whole.

… but financial market turbulence has clouded the picture

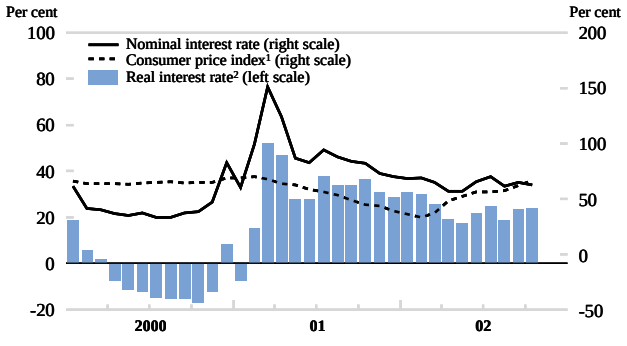
The favourable economic environment has nevertheless been clouded by political tensions that started in May. Since then, average market interest rates have been 15-20 percentage points higher at around 65 to 70 per cent, although falling somewhat after the 3 November elections. The nominal exchange rate has depreciated by around 20 per cent, to 1.6 to 1.7 million lira per dollars, implying a 10 per cent cumulative real depreciation since the start of floating in February 2001. The jump in interest rates, along with ongoing disinflation, has implied a rise in real interest rates to around 30 per cent.

Inflation remains on a downward trajectory…

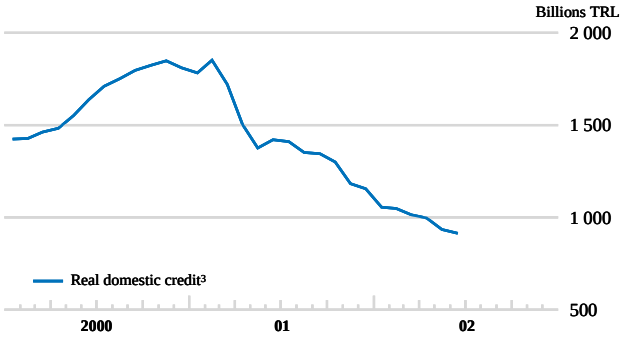
Disinflation continued during the summer, as seasonal movements in food prices helped offset the weaker exchange rate. Moreover, despite the pass-through of lira weakness and other inflationary pressures into core inflation (as measured by the manufacturing wholesale price index) in early autumn, the projections see a year-end inflation rate at a few percentage points below the official target of 35 per cent. However, these factors stand as risks looking forward, as do oil prices, the likelihood of more public price adjustments, and the inflation-indexed structure of public sector wages.

Turkey

Real interest rates remain high



Credit conditions are tight



1. Year-on-year growth.
2. Calculated using 12-month ahead inflation or expected inflation.
3. Using wholesale prices index as deflator.

Source: OECD.

Turkey: **Demand, output and prices**

	1999	2000	2001	2002	2003	2004
	Current prices trillion TRL	Percentage changes, volume (1987 prices)				
Private consumption	55 928	6.2	-9.0	2.2	2.0	3.0
Government consumption	11 748	7.1	-8.6	2.1	1.0	1.5
Gross fixed capital formation	16 931	16.9	-31.7	-4.5	8.8	10.0
Final domestic demand	84 606	8.9	-15.0	0.8	3.3	4.4
Stockbuilding [a]	1 149	1.1	-4.0	4.0	0.0	0.0
Total domestic demand	85 755	9.8	-18.4	5.1	3.2	4.3
Exports of goods and services	17 972	19.2	7.4	6.5	6.6	10.9
Imports of goods and services	20 801	25.4	-24.8	11.5	6.5	11.5
Net exports [a]	-2 829	-3.0	12.4	-1.2	0.3	0.3
Statistical discrepancy [a]	-5 510	0.1	0.0	0.1	0.2	0.0
GDP at market prices	77 415	7.4	-7.4	3.7	3.6	4.3
GDP deflator	_	49.9	61.7	47.9	27.6	15.1
Memorandum items						
Consumer price index	_	54.9	54.4	45.3	31.7	16.2
Private consumption deflator	_	50.0	63.5	44.9	32.3	17.0
Unemployment rate	_	6.6	8.5	8.5	8.3	8.1
Current account balance [b]	_	-4.9	2.3	-0.8	-1.6	-2.0

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

… as macroeconomic policies remain very tight

The central bank has reduced interest rates broadly in line with inflation trends but is likely to maintain a cautious stance as long as markets remain unsettled, and also because of the announced shift to inflation targeting by end-2002. Survey data suggest that the Bank has succeeded in lowering inflation expectations, helped by demand weakness and high unemployment. Fiscal policy is likewise very tight, with a primary surplus of 6½ per cent of GDP now targeted for both 2003 and 2004 to prevent further rises in the public debt. However, persistently high real levels of interest rates are making the debt sustainability criterion difficult to meet, given the very large amount of short-term debt that either has to be rolled over, or has been issued on a floating-rate basis. The high proportion of the debt that is now denominated in or linked to foreign currencies also leaves the debt burden susceptible to exchange rate changes.

Moderate growth is projected, with continuing disinflation

The projections assume that current market uncertainty will progressively dissipate following the recent elections and as the programme is steadily implemented. Real interest rates are projected to decline gradually throughout the forecast horizon, reaching 10 per cent by the end of 2004. The real exchange rate is assumed to stabilise at current levels. With strong export growth benefiting from world recovery and real depreciation, and gradually recovering domestic demand in response to declining real interest rates, real GDP is projected to grow in the range of 3½ to 4½ per cent in 2003 and 2004. Inflation is projected to decline to 26 per cent by end-2003, against a target of 20 per cent, and then to 10 per cent by the end of 2004.

Risks to both inflation and growth outlooks are significant

Risks are more numerous on the downside. The currently high country risk premium will become an obstacle to growth if it were to fail to decline as strongly as supposed in the projections. Another source of downside risk is bank lending to the corporate sector, as non-performing loans continue to rise and put pressure on banks' capital. A significant deterioration in the labour market, with adverse effects on income distribution, remains a major threat to consumption dynamics. Finally, growing international tensions in the region would have direct effects on the Turkish economy and financial markets.

III. DEVELOPMENTS IN SELECTED NON-MEMBER ECONOMIES

A marked pickup in real GDP growth in the Asian economies during the first half of 2002 was sparked by a recovery in manufacturing exports to the United States, reinforced by strengthening regional domestic demand. Trade within the region is also being boosted by the ongoing shift of regional production facilities to China. Despite the recovery in 2002, domestic demand in several economies is vulnerable to downside risks arising from continued internal financial strains and other structural problems. In China, these problems are likely to lead to a progressive weakening in domestic demand and real GDP growth in coming years unless further reforms beyond those now officially planned are undertaken.

Economic growth in South-East Europe and the Newly Independent States, whose trade is mainly linked to European countries, has benefited little from the recovery in the United States but continues to be underpinned by a strong expansion in internal demand. Real growth is expected to remain robust in 2002, at around 4 per cent both for Russia and for the region. For Russia, growth of this order may be sustainable in the medium-term, mainly as a result of better management of Russia's large private enterprises and improved macroeconomic policies. However, a stable macroeconomic environment still depends critically on effective and prudent management of budgetary and foreign exchange windfalls stemming from current high oil prices, so that major current account and fiscal imbalances are avoided if oil prices weaken.

The problems of Argentina and Brazil, and their spillover to neighbouring economies, have led to a weak economic performance of South America in 2002. In Brazil, real GDP has been stagnant, due in part to the political uncertainty surrounding the October elections. Argentina's crisis may be bottoming out, although the signs of recovery are fragile. Economic recovery is conditional on a smooth political transition and maintenance of prudent macroeconomic policies in Brazil and progress on reforms in Argentina.

Asian economies have recovered in 2002, led by strong exports…

Economic activity in the Asian economies rebounded sharply in 2002 in response to strong export recoveries fuelled by the recovery of demand in the United States. Real GDP in the Dynamic Asian Economies rose by 2.4 per cent, year-on-year, in the first half of 2002, after falling slightly in 2001. Real GDP growth in China also rose further. Malaysia, Singapore and Chinese Taipei, which are relatively specialised in electronic products and which as a result experienced especially severe downturns in 2001, have recorded the strongest recoveries this year. Growth in Asian exports and imports is also being spurred by the impetus to intra-regional trade arising from the ongoing shift of assembly and other regional production facilities to China. As a result, and provided that OECD economies recover as projected, exports should continue to grow at a robust pace through 2004.

… and domestic demand has also strengthened…

The rebound in exports has been accompanied by a recovery in private domestic demand, supported in the Dynamic Asian Economies by stronger consumption spending and a revival in investment, reinforced in several cases (particularly, Singapore and Thailand) by fiscal stimulus. Domestic demand and real GDP growth should accelerate further in 2003. However, continued domestic private debt strains pose significant downside risks in a number of economies, while deflation is a risk in Hong Kong, China.

… as also in South-East Europe and the Newly Independent States

South-East Europe and the Newly Independent States experienced a slowdown of economic activity in the first half of 2002, due partly to weak external demand and partly to persistent structural problems. Economic growth in the region is projected to be around 4 per cent in 2002, driven by continuing strong domestic demand – especially in Russia. Growth has benefited from improved macroeconomic

management and, in the Balkans, by the termination of armed conflict. For the region, enhanced macroeconomic stability linked to further progress on structural reforms, including improvements of the environment for foreign direct investment (FDI), will be essential to sustaining real growth beyond 2002.

South America suffers from the weak Brazilian economy and the crisis in Argentina

The crisis in Argentina may have touched bottom although signs of recovery are weak. After a fall of 15 per cent in GDP in the first half, economic activity seems to be picking up slowly. Inflation has been decelerating in the past few months and since July the exchange rate has been stable. Political uncertainties in Brazil ahead of the presidential elections led to strong downward pressure on the exchange rate and bond prices. These adverse financial conditions, and perhaps a more general loss of confidence, have caused weakness in both consumer and investment demand in 2002. Chile's economic performance was also weakened by the region's turbulence, with growth in domestic demand and exports both stalling. The region as a whole has also suffered from a significant drop in foreign direct investment. Economic recovery in Brazil is conditional on a reasonably smooth transition of government and on the maintenance of prudent macroeconomic policies. In Argentina, the paralysed banking system and depressed consumer demand handicap economic recovery in the short run. Necessary major reforms are unlikely to be undertaken before the elections of March 2003.

China

Real GDP growth accelerated in 2002

Real GDP growth in China rose to 8 per cent, year-on-year, in the second and third quarters of 2002, compared with an average pace of 6.8 per cent in the second half of 2001. Exports, driven by the recovery of demand in the US and in other Asian economies, rose by 19.4 per cent during the January to September period on a year-on-year basis and have led the upturn in real GDP growth. However, imports have also surged and the net contribution of external demand is expected to be slightly negative for 2002 as a whole. Internal demand has accelerated, due largely to a sharp rise in fixed investment, which was up by 24 per cent in the first nine months of 2002 compared with the same period in 2001.

Export growth has been bolstered by market share gains

In addition to the recovery in its external markets, China's strong export growth reflects gains in market share in its major trading partners. These gains are attributable to China's strong international competitive position and have been further bolstered by the rapid growth of foreign direct investment in its export sectors. The transfer of production facilities to China from other Asian economies, notably Japan, Korea, and Chinese Taipei, is transforming China into a major regional export platform. Foreign investment in China's businesses has been a major contributor to the surge in exports, but it has also strongly boosted imports of capital equipment and intermediate goods. China's World Trade Organisation entry is expected to sustain and even reinforce this process. Foreign direct investment inflows have surged following entry in the World Trade Organisation, registering 22.5 per cent year-on-year growth for the first nine months of 2002.

Domestic demand has been driven by government investment

Fixed investment has been the major driver of domestic demand during 2002, spurred by government infrastructure spending that has been concentrated in the first half of the year. Government infrastructure spending is likely to have eased over the second half, so as to meet the year-end target for the overall fiscal deficit of no more

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

	2001	2002	2003	2004
Real GDP growth	7.3	7.9	7.5	6.9
Inflation	0.7	-0.7	-0.2	0.0
Fiscal balance (% of GDP)	-2.6	-3.0	-3.2	-3.3
Current account balance ($ billion)	17.4	18.4	14.7	10.1
Current account balance (% of GDP)	1.5	1.5	1.1	0.7

a) The figures given for GDP and inflation are percentage changes from the previous year. Inflation refers to the consumer price index.
Source: Figures for 2001 are from national sources. Figures for 2002-04 are OECD estimates and projections.

than 3 per cent of GDP. By contrast, capital spending by domestic enterprises has been considerably weaker, reflecting low profits, limited access to external credit, excess capacity and falling prices in much of the industrial sector.

Consumption growth has been slowing

Consumption growth, which has been a major support to domestic demand, is also slowing, despite the measures that have been taken in recent years to support it. Household spending has been supported by rising urban incomes, salary increases for public workers, loan programmes to encourage expenditure on housing, and by reduced tariffs on automobiles and other consumer durables. Nevertheless, consumer confidence has been falling and household savings have been increasing in response to rising unemployment levels. Unemployment is expected to increase further as production facilities are closed to reduce excess capacity and domestic firms continue to cut labour costs.

Macroeconomic policies can provide only limited support…

The ability of macroeconomic policies to offset the deflationary effects of these structural problems is at best limited. Monetary policy has little room to ease further as the one-year deposit rate is already at a low of 2 per cent. Despite this low deposit rate, lending rates are relatively high in real terms, given falling prices and the large spread between loan and deposit rates that authorities have maintained, in part to buttress bank profits. Banks' priority on preventing new non-performing loans (NPLs) has made them unwilling to lend to a large portion of enterprises, particularly small and medium sized firms. The scope for further fiscal stimulus is also receding, particularly in view of the large future costs the government is likely to have to assume to restore capital adequacy to financial institutions and to carry out other economic reforms.

… and more structural reforms are needed to sustain adequate growth

Given these conditions, and without further structural reforms beyond those which are now officially planned, domestic demand and real GDP growth are likely to slow progressively over the next two years. To prevent this outcome, reforms need urgently to address the present vicious circle between the financial problems of China's banks and enterprises.[1] This will require restoration of adequate capital to the banks along with strengthened reforms to ensure that the banks operate as profit-oriented commercial entities that observe prudential norms and can impose adequate financial discipline on their enterprise customers. At the same time, further measures need to be undertaken to strengthen corporate governance, in particular by reducing government intervention in the management of state-owned enterprises, to bolster competition in certain sectors, and to curtail regional protectionism.

1. For further discussion of priorities for economic reforms in China, see OECD, *China in the World Economy: the Domestic Policy Challenges*, Paris, 2002.

The Russian Federation

GDP growth has slowed to what may be its potential rate

The Russian economy continued to expand, albeit at a somewhat slower rate than in 2001. Growth should be around 4 per cent in 2002, mainly driven by strong domestic demand. Large wage increases and administrative adjustments in (still repressed) domestic energy and transportation prices continued to weigh on the profitability of many Russian industrial firms, significantly slowing investment growth. At the same time, restructuring in parts of the private large-enterprises sector may have finally led to increased efficiency, thus counteracting to some degree the labour and other cost pressures on competitiveness. Some of these enterprises are now actively diversifying operations in the region and are in the process of becoming multinationals.

Russia's large trade surplus continues to shrink fast

In the context of still high dollarisation, the disinflation process has been supported by the continuing real appreciation of the rouble against the dollar. However, overall external competitiveness has been little affected as, due to the rouble's depreciation against the euro, Russia's effective (trade weighted) real exchange rate has been almost unchanged in 2002. Nonetheless, growing export volumes during 2002, partly driven by higher output in the oil sector, has been outweighed by the continued strong increase in import volumes. As a result the large trade surplus has continued to shrink rapidly, and has been down almost 20 per cent during the first nine months of 2002 compared to the corresponding period of the previous year.

Macroeconomic policies remain sound

Fiscal policy, while expansionary, has remained sound in 2002. The consolidated budget showed a surplus of 3 per cent of GDP in the first half of the year. The first draft for the 2003 federal budget plans for a decreasing surplus, but has some built-in buffer as it is based on oil prices of around $20 per barrel. Substantial purchases of foreign exchange by the central bank on the currency market continued to generate some inflationary pressures, although the budget surplus has alleviated these tensions somewhat. Consumer price inflation has continued its gradual decline and is projected to be around 15 per cent (year-on-year) by the end of 2002. There has, however, been a build up in producer price inflation in recent months.

The short-term macroeconomic outlook remains favourable…

In 2003, further large wage increases in the public sector and repression of energy and transport prices in the run up to Duma and presidential elections should support continuing strong domestic demand growth. Real GDP growth in 2003 would be further boosted by recovery in the world economy. It is questionable, however, whether domestic demand can sustain real GDP growth at its current pace beyond 2003.

Table III.2. **Projections for the Russian Federation**[a]

	2001	2002	2003	2004
Real GDP growth	5.0	4.0	4.5	3.5
Inflation	18.6	15.0	12.0	10.0
Fiscal balance (% of GDP)[b]	2.9	1.6	0.6	0.5
Current account balance ($ billion)	34.6	27.5	18.5	10.0
Current account balance (% of GDP)	11.1	7.8	4.7	2.3

a) The figures given for GDP are percentage changes from previous year. Inflation refers to the end-of-year consumer price index.
b) Includes federal, regional and local budgets.
Source: Figures for 2001 are final figures from national sources. Figures for 2002-04 are OECD estimates and projections.

… but medium-term risks have increased

High domestic demand and a stronger real exchange rate will continue to fuel import growth, which, even if oil and gas prices stay at current high levels, will further reduce Russia's (still large) current account surplus. While achieving the targeted budget surplus will be more difficult in 2003 than in the past years, due to the electoral cycle and an exceptionally high burden on the federal budget from foreign debt obligations, macroeconomic policy is expected to remain reasonably sound. At current levels, both the current account and the budget surplus still provide for a sizeable buffer if oil prices were to fall. In the medium term, however, there is an increased risk that a large fall in oil prices could lead to serious fiscal and current account imbalances.

Brazil

Growth has stagnated and the exchange rate has depreciated…

The Brazilian economy continued to suffer from an unfavourable external environment and uncertainty surrounding the Presidential elections during the first half of 2002. GDP growth was flat with investment declining strongly (–7 per cent, over the same period of the previous year) and to a lesser extent also private consumption (–1 per cent). The ongoing crisis in Argentina and weak growth in some other major trading partners caused exports to fall by 5 per cent in volume terms. But imports fell even more (18 per cent), mostly due to the stagnation of domestic demand and the strong depreciation of the real by more than 30 per cent. As a result, the trade balance and the current account have shown a trend improvement. Despite government efforts to bolster confidence and a $30 billion International Monetary Fund financial package agreed in end-July (split into $6 billion this year and the rest next year), financial markets have remained very volatile. Overall, GDP growth for calendar 2002 year is projected to be somewhat disappointing, at around 1.2 per cent.

… leading the central bank to tighten monetary policy…

Inflation for 2002 is projected at around 9 per cent, which means that the target rate (5.5 per cent this year) will be overshot for the second consecutive year. Faced with a weak economy on the one hand, but a large depreciation of the exchange rate and its potential inflationary pressures on the other, monetary policy, at first, was intended to be moderately supportive of economic activity. However, further pressures on the exchange rate and inflation led the central bank to reverse this stance and to limit liquidity by increasing the short-term interest rate from 18 to 21 per cent in mid-October.

… which has been supported by strict fiscal targets

Public finances continue to be on track, as the primary fiscal surplus was 4 per cent of GDP for the first three quarters of 2002. Nonetheless, the rolling over of public debt has become more difficult, with the government being obliged to shorten the average maturity again. The increase of the public debt-to-GDP ratio by 9 percentage points to 62 per cent (end-July) is largely explained by the depreciation of the real in the first half of 2002. It is noteworthy that around 30 per cent of the total *net* public debt is either in foreign currency or indexed to the dollar.

A smooth government transition may stimulate economic activity in 2003…

The new government will take office on 1 January 2003. The transition of government appears to be preceeding smoothly and some continuity of policies seems to be assured. First, the newly elected President has announced his intention to pursue prudent fiscal policies, in particular to maintain the current level of the primary surplus. Brazil's access to IMF funds of $24 billion in 2003, necessary for servicing the

Table III.3. **Projections for Brazil**[a]

	2001	2002	2003	2004
Real GDP growth	1.5	1.2	2.0	3.5
Inflation	7.7	9.0	9.0	7.0
Fiscal balance (% of GDP)[b]	-5.3	-3.5	-3.2	-4.5
Primary fiscal balance (% of GDP)	3.8	3.9	3.8	3.5
Current account balance ($ billion)	-23.2	-11.0	-9.0	-10.0
Current account balance (% of GDP)	-4.6	-2.9	-2.2	-2.2

a) The figures given for GDP and inflation are average percentage changes from the previous period. Inflation refers to the end-year consumer price index (IPCA).
b) Harmonised concept excluding revaluations of public debt due to changes in the exchange rate.
Source: Figures for 2001 are from national sources. Figures for 2002-04 are OECD estimates and projections.

external debt, is conditional on maintaining sound macroeconomic policies. Second, the current administration has put in place a "Presidential Transition Project" that creates the conditions for a relatively smooth and transparent change of government. Other existing institutional arrangements, such as the Fiscal Responsibility Law, also guarantee the cap on public spending at all levels of government. Another positive sign is that the President elect has declared his commitment to undertake urgent structural reforms of the pension and social security systems and the labour market. Under these conditions, growth is expected to pick up somewhat in the second half of 2002 and in 2003, driven in particular by private demand and exports.

… but the dynamics of the public debt needs to be addressed

A serious downside risk is related to the sustainability of the debt dynamics, in case confidence about the continuation of sound macroeconomic policies is not quickly re-established and financial markets continue to display high volatility. A negative scenario would be for the government to keep real interest rates artificially low by forcing the central bank to pursue a more expansionary monetary policy. Lower real interest rates could reduce the burden of the debt linked to the short-term interest rate temporarily, but such a policy would likely lead to a vicious circle of rising inflation, declines in confidence, and depreciation of the currency. The real depreciation would increase the domestic burden of servicing the debt linked to the US dollar, thereby further eroding confidence, which ultimately would increase the difficulty of rolling over the public debt. A more positive outcome would emerge if the new government manages to re-establish market confidence quickly, thereby reducing exchange rate pressures and the negative impact on the ratio of dollar-denominated debt to GDP.

IV. FISCAL SUSTAINABILITY: THE CONTRIBUTION OF FISCAL RULES

Introduction

Problems of fiscal sustainability have re-emerged…

The 1990s saw considerable progress in fiscal consolidation, but fiscal positions have recently deteriorated in most OECD countries, both in actual and cyclically-adjusted terms. Public debt ratios, which except in Japan had been declining in the second half of the 1990s, have stopped falling and even started to rise again in some cases. At the same time, pension and other age-related spending pressures are intensifying. This chapter begins by describing how the fiscal outlook has changed over time and asks whether, on current policies, public finances in OECD countries are on a sustainable course.

… raising questions about appropriate fiscal policy rules

The budgetary outlook has worsened despite the operation of a variety of fiscal rules in OECD countries. In the United States these have been based on nominal caps for discretionary spending and in the euro area on limits to the size of fiscal deficits. Rules or norms based on deficits, debt and/or public spending have also been operational in a number of other countries, including Canada, Switzerland and the United Kingdom. Rules have been an important factor behind the fiscal consolidation in the latter part of the 1990s and have helped to create the room for a flexible fiscal response to the current downturn. But they have not been proof against an unforeseen deterioration in budgetary positions or political pressures, especially when budget positions are cyclically strong, and may not guarantee medium-term fiscal sustainability. The chapter discusses the factors that seem to have contributed to the imperfect effectiveness of existing rules and how various possible fiscal targets (public spending, headline balance, structural position, debt) can help attain and safeguard a sustainable fiscal position.

Changing perspectives on sustainability

Fiscal sustainability concerns have evolved…

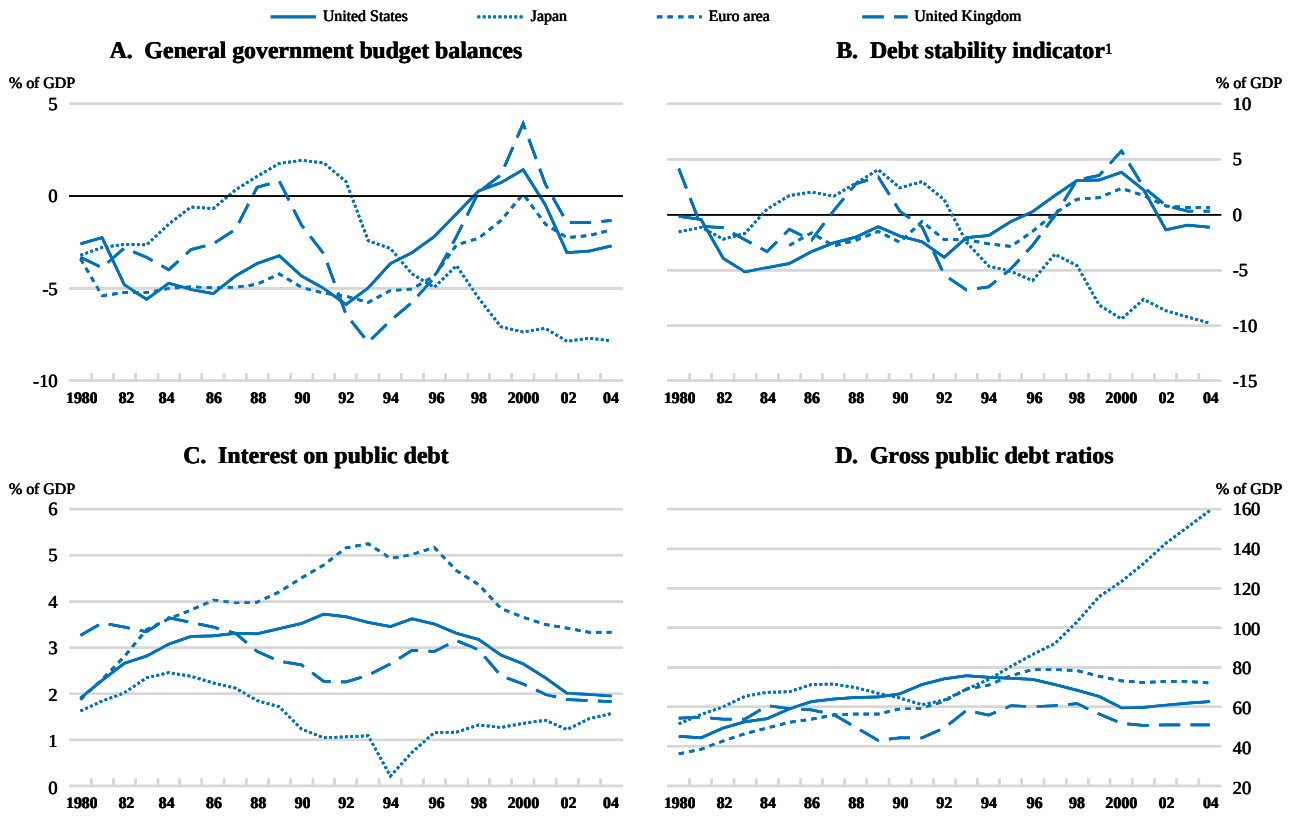
The recent fiscal deterioration should be seen in the context of the substantial progress made, over the past two decades, in controlling adverse public debt dynamics (Figure IV.1). There have been a number of distinct phases in the chronology of sustainability concerns. Originally, these were largely related to unstable debt dynamics, given the interrelationships between deficits, debt and interest rates. But as governments moved toward better borrowing discipline, the focus shifted towards expenditure and taxation trends, under two major constraints: fulfilling public commitments to an ageing population and avoiding the imposition of tax rates harmful to longer-term growth.

… from the inflationary pressures stemming from deficits…

Prior to the second oil shock, the burden of public debt was reduced by large unanticipated inflation-induced transfers of wealth from bond-holders to the public sector (the so-called "inflation tax").[1] The unsustainable mix of loose fiscal and loose monetary policy manifested itself in rising inflation and its deleterious consequences for growth.

1. For a description of the dependence of governments on this form of "seignorage", see OECD (1989).

Figure IV.1. **Changing debt dynamics**



1. This is the difference between the actual primary balance and the primary balance needed to stabilise the debt ratio.
Source: OECD.

… to crowding out and adverse debt dynamics…

During the 1980s, tight monetary policy coupled with still rather loose fiscal policy was associated with high real rates of interest and increasing debt/GDP ratios in most OECD countries. In the OECD area at large, the debt/GDP ratio rose by over 16 percentage points of GDP. Sustainability issues during this period revolved around the familiar debt dynamics of primary surpluses inadequate to offset spiralling debt interest payments (Figure IV.1, panel B). The debt spiral can be exacerbated where an actual or perceived lack of fiscal discipline leads to continuous upward pressure on interest rates.[2] At the limit, the credibility of central bank inflation control can be undermined if the rate of debt accumulation becomes unsustainable.[3]

2. The precise links between public-sector deficits and interest rates are controversial but deficits and interest rates do seem to be related (Ford and Laxton, 1995, Helbling and Wescott, 1995 and Orr *et al.*, 1995). A recent study suggests that in the United States, a one percentage point increase in the Congressional Budget Office projection of the deficit ratio causes the spread between long and short-term interest rates to widen by over 50 basis points, and documents that positive public spending shocks push up interest rates, so that the stimulus to activity is partly neutralised by the reaction of financial markets (Canzoneri *et al.*, 2002).
3. This is the contention of the so-called fiscal theory of the price level, which concludes that in order for central banks to truly benefit from functional independence, an institutional mechanism imposing fiscal discipline may be needed. This theory, however, is controversial (Buiter, 2002). Moreover, in a context of high capital mobility, unsustainable fiscal policies would be sanctioned by financial markets before reaching the point of threatening the control of central banks on inflation. Even so, long-run inflation expectations are probably influenced by the strong political pressures on monetary policy that high debt service usually entails.

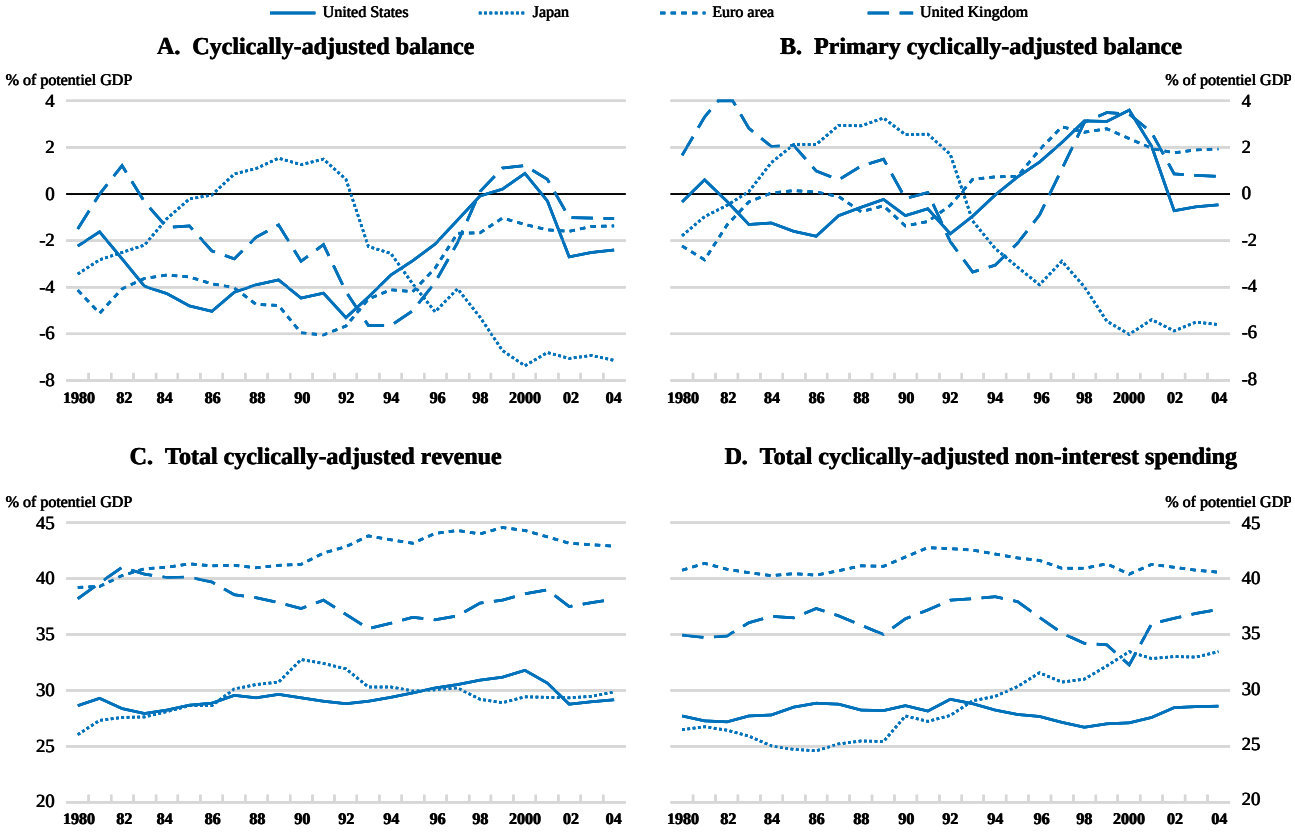
… which have been reduced by fiscal consolidation

By the early 1990s, the problem of unsustainability had been widely recognised and prompted fiscal consolidation to bring debt dynamics under control (Figure IV.2 and Table IV.1). Fiscal positions worsened during the recession of the early 1990s but subsequently improved, as consolidation became a priority in Europe, the United States and a number of other countries, Japan being a notable exception. Structural reforms enhancing potential output growth also helped in a number of cases. In several euro area countries, falling nominal interest rates were a potent factor, as they converged to the levels prevailing in those countries that historically had low inflation. By 2000, debt ratios had fallen substantially in the United States and somewhat less so in Europe, although they were trending down. The rather slow turnaround was at least partly due to the fact that fiscal retrenchment in highly indebted countries was being offset by the slower erosion of the real debt as inflation came down. Indeed, in some cases, the effect of a falling inflation tax almost outweighed the improvement in the cyclically-adjusted balance.

Progress has stalled…

During the initial years of the current decade, there has been a slowing in, and in some cases reversal of, the consolidation process, but with the exception of Japan the progress made towards sounder debt dynamics has been more or less preserved. Fiscal positions have deteriorated during the downturn, in cyclically-adjusted as well as actual terms. In 2002, the OECD-wide general government deficit is projected to approach 3 per cent of GDP, and in cyclically-adjusted terms, it is set to exceed 2½ per cent of potential GDP. On current policies, very modest fiscal adjustment is to be expected over the next two years in the euro area or Japan. Some improvement

Figure IV.2. **The process of fiscal consolidation**



Source: OECD.

Table IV.1. **Fiscal consolidations in selected OECD countries**

Changes in general government, in per cent of GDP[a]

	Net lending	Cyclically-adjusted net lending	Cyclically-adjusted revenues	Cyclically-adjusted expenditures[b]	Net interest payments	Gross debt
Major economies						
United States (1993-2000)	7.3	6.2	3.0	-1.9	-1.0	-14.6
United Kingdom (1994-2000)	11.9	6.9	3.1	-2.0	-0.2	-6.6
Canada (1993-2000)	12.2	9.4	0.2	-6.9	-1.9	-7.6
Euro area (1994-2000)	5.9	3.2	0.5	-0.6	-1.6	4.1
Euro area countries						
Austria (1996-2001)	5.3	5.1	3.0	-1.4	-1.2	-6.0
Belgium (1993-2001)	8.5	8.8	2.8	-1.0	-4.6	-24.2
Finland (1994-2000)	14.4	4.6	-0.9	-3.9	1.4	-5.4
France (1994-2000)	4.6	3.3	2.1	-0.6	-0.1	13.8
Germany (1997-2000)	4.5	1.0	0.5	-0.3	-0.3	0.2
Greece (1994-2001)	12.4	10.0	7.2	4.0	-6.3	-3.2
Ireland (1996-2000)	6.7	3.8	-1.3	-4.0	-3.0	-43.6
Italy (1991-2000)	11.2	10.8	3.0	-1.6	-3.9	13.2
Netherlands (1995-2000)	6.4	4.7	0.3	-4.3	-1.1	-19.9
Portugal (1994-2000)	3.0	1.0	0.4	3.9	-2.8	-6.0
Spain (1996-2001)	6.5	4.7	1.7	-0.4	-2.0	-5.4
Other OECD						
Australia (1993-99)	7.1	5.4	4.5	0.6	-1.4	-0.5
Denmark (1994-99)	6.0	2.7	0.5	0.1	-1.2	-28.9
Iceland (1995-2000)	7.2	4.3	6.2	4.0	-0.6	-14.2
New Zealand (1991-94)	7.7	5.8	-1.2	-2.3	-2.9	..
Norway (1994-97)	9.9	7.2	1.7	-4.0	1.0	-12.6
Sweden (1994-98)	14.0	10.6	2.2	-4.5	1.8	2.6
Total OECD (1994-2000)	5.1	3.3	1.1	..	-1.0	1.9

Note: Fiscal consolidation are defined between 1990 and 2001 as periods of protracted (more than three years) improvements in the annual general government's net lending position in per cent of GDP, as compared to the previous year, where such periods are allowed to be interrupted if the worsening of that balance does not exceed 0.5 per cent of GDP and does not last for more than one year.
a) Value in the last year of the consolidation minus the value in the year before the consolidation.
b) Excluding interest payments.
Source: OECD.

in the underlying balance would occur in the United States, but in the context of a much sharper deterioration in the two years to 2002. Nevertheless, at the current juncture, apart from Japan, no substantial imminent increase in debt/GDP ratios is in store (Figure IV.1, panel B). Indeed, bond yields have fallen, and markets do not currently seem to be responding to the risk that higher structural deficits could durably push up interest rates.

… and medium-term prospects are now bleaker

Looking further out, the prospects are now less optimistic. Medium-run projections published in early 2001 by the US Congressional Budget Office had the general government surplus rise to 4.3 per cent of GDP by 2008. This has been revised down several times since, to a surplus of only 0.6 per cent of GDP, largely reflecting the 2001 tax cuts, unexpectedly low tax elasticities and an acceleration in spending (see Chapter I). The most recent OECD medium-term baseline (Table IV.2) – which is

Table IV.2. **Fiscal trends in the medium-term baseline**

Per cent of GDP or potential GDP

	General government balance			Cyclically-adjusted balance			Gross public debt		
	2002	2004	2008	2002	2004	2008	2002	2004	2008
Australia	0.1	0.8	0.8	0.3	0.9	0.8	22	20	16
Austria	-1.6	-0.8	-0.1	-1.1	-0.5	-0.1	63	60	54
Belgium	0.0	0.5	1.6	0.9	1.0	1.6	105	97	80
Canada	0.6	0.6	1.2	0.5	0.3	1.2	81	77	66
Denmark	2.2	2.9	3.7	2.8	3.2	3.7	43	36	22
Finland	3.2	3.6	3.7	4.3	4.4	3.7	48	46	41
France	-2.7	-2.5	-1.9	-2.5	-2.4	-1.9	67	69	69
Germany	-3.7	-2.6	-1.7	-2.7	-2.1	-1.7	62	64	66
Greece	-1.1	-0.7	-0.4	-1.3	-1.1	-0.4	106	100	90
Iceland	0.3	0.3	0.3	0.0	0.0	0.3	44	41	32
Ireland	-0.5	-1.8	-1.3	-1.4	-0.9	-1.3	34	32	35
Italy	-2.3	-2.8	-1.9	-1.6	-2.3	-1.9	110	107	101
Japan	-7.9	-7.8	-8.7	-7.1	-7.1	-8.7	143	159	193
Netherlands	-0.8	-0.3	1.6	0.4	1.3	1.6	52	49	39
New Zealand	1.6	1.1	1.8	1.4	0.9	1.8	41	37	38
Norway[a]	12.4	9.8	8.9	1.4	0.2	0.0	25	23	27
Portugal	-3.4	-2.4	-0.7	-2.9	-1.5	-0.7	60	59	52
Spain	0.0	0.1	0.3	0.3	0.4	0.3	66	62	55
Sweden	1.7	1.9	1.5	1.9	1.7	1.5	63	61	55
United Kingdom	-1.4	-1.3	-1.1	-1.0	-1.1	-1.1	51	51	51
United States	-3.1	-2.7	-1.3	-2.7	-2.4	-1.3	61	63	61
Euro area	-2.2	-1.8	-1.0	-1.6	-1.4	-1.0	73	72	69
European Union	-2.0	-1.6	-0.9	-1.4	-1.2	-0.9	70	69	66
Total of above OECD countries	-3.1	-2.8	-2.1	-2.6	-2.5	-2.2	77	80	83

a) Oil-related revenues are excluded form the cyclically-adjusted balance.
Source: OECD.

based on current tax legislation and spending trends, and which is less a projection than a simulation assuming that output gaps close over the medium term – shows that in the OECD as a whole, public debt as a share of GDP is on course to rise during this decade. There could be a slight decline in the United States and the European Union (EU) at large, but modest increases in several large European countries (France and Germany) and snowballing debt dynamics in Japan.

Long-term sustainability

Age-related spending pressures are building up

The main concern about current budget positions is that they do not adequately take account of future contingent liabilities tied to age-related spending. These commitments, combined with existing tax and spending arrangements, may be saddling future generations with an unmanageable bill. Indeed, pension, health care and other relevant structural reforms have proceeded very unevenly across countries. Past consolidation has been achieved only partially through primary expenditure restraint and

to a significant extent through tax increases and/or falls in nominal interest rates (Figure IV.2 and Table IV.1). The demographic transition to older societies (Figure IV.3) is already starting to affect public finances, or about to do so. Public age-related spending (taking into account old-age pensions, health and education) is projected to increase on average in OECD countries by 6 to 7 percentage points of GDP by the middle of the century, putting heavy pressure on public finances (Table IV.3).[4]

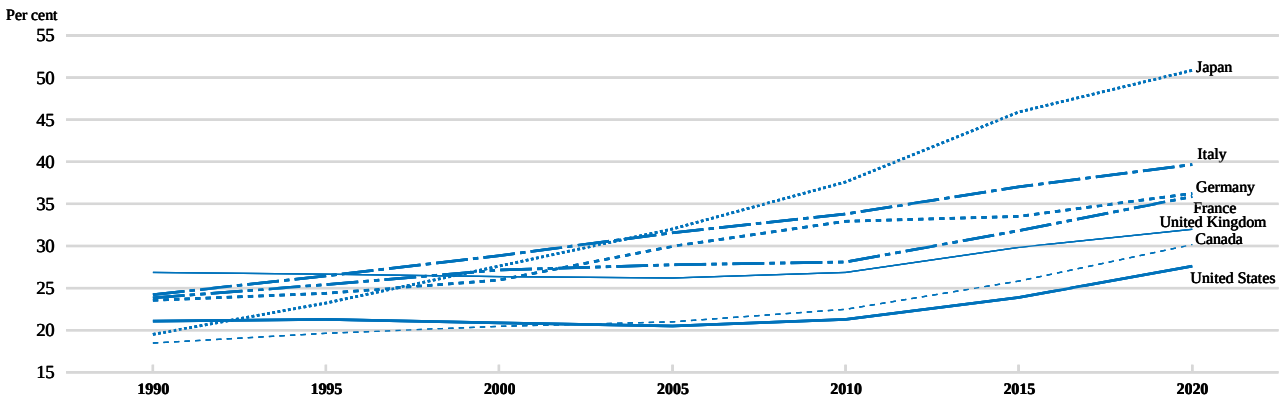
While quantification is difficult…

While the magnitude of the above spending pressures is unquestionably worrying, quantification of the size of the fiscal adjustment required to restore sustainability is fraught with difficulties:

- There are different ways to define a long-term condition that has to be satisfied in order to ensure sustainability, and different approaches to estimating the needed fiscal adjustment for any given condition.[5]
- Once the methodological approach to assessing sustainability is selected, the long-run projections underpinning scenarios are bound to rest on the assumptions made about potential growth rates, real interest rates, labour market trends and demographics. They are also very sensitive to uncertainty surrounding the starting point.
- In a proper sustainability assessment, net rather than gross public debt would be the relevant concept. In some countries (*e.g.* Finland, Japan, Norway and

Figure IV.3. **Old-age dependency ratios in the major 7 countries**

Population aged 65 and over as a percentage of the working age population (aged 20-64)



Source: United Nations (2000); Eurostat.

4. See Dang *et al.* (2001), which compiles projections based on national models but using a commonly agreed set of macroeconomic and demographic assumptions. This study was conducted in co-ordination with an EU effort along similar lines (Economic Policy Committee of the European Union, 2001).
5. See Buiter (1985), Blanchard *et al.* (1990) and Auerbach (1994). For more detailed discussions of how to go from the government's intertemporal budget constraint in a theoretical infinite horizon model to an operational sustainability benchmark, see Banca d'Italia (2000).

Table IV.3. **Age-related spending pressures**

Levels in per cent of GDP, changes in percentage points

	Total age-related spending		Old-age pensions		Early retirement programmes		Health care and long-term care		Child/family benefits and education	
	Level 2000	Change 2000-50	Level 2000	Change 2000-50	Level 2000	Change 2000-50	Level 2000	Change 2000-50	Level 2000	Change 2000-50
Australia	16.7	5.6	3.0	1.6	0.9	0.2	6.8	6.2	6.1	-2.3
Austria[a]	10.4	2.3	9.5	2.2	..	..	5.1[g]	3.1[g]	..	..
Belgium	22.1	5.2	8.8	3.3	1.1	0.1	6.2	3.0	6.0	-1.3
Canada	17.9	8.7	5.1	5.8	..	..	6.3	4.2	6.4	-1.3
Czech Republic	23.1	6.9	7.8	6.8	1.8	-0.7	7.5	2.0	6.0	-1.2
Denmark[b]	29.3	5.7	6.1	2.7	4.0	0.2	6.6	2.7	6.3	0.0
Finland	19.4	8.5	8.1	4.8	3.1	-0.1	8.1	3.8	..	..
France[c]	18.0	6.4	12.1	3.9	..	..	6.9[g]	2.5[g]	..	..
Germany	17.5	8.1	11.8	5.0	..	..	5.7[g]	3.1[g]	..	..
Hungary[d]	7.1	1.6	6.0	1.2	1.2	0.3	..	..	..	..
Italy	19.7	1.9	14.2	-0.3	..	..	5.5[g]	2.1[g]	..	..
Japan	13.7	3.0	7.9	0.6	..	..	5.8	2.4	..	..
Korea	3.1	8.5	2.1	8.0	0.3	0.0	0.7	0.5	..	..
Netherlands[e]	19.1	9.9	5.2	4.8	1.2	0.4	7.2	4.8	5.4	0.0
New Zealand	18.7	8.4	4.8	5.7	..	..	6.7	4.0	7.2	-1.3
Norway	17.9	13.4	4.9	8.0	2.4	1.6	5.2	3.2	5.5	0.5
Poland[d]	12.2	-2.6	10.8	-2.5	1.4	-0.1	..	..	..	..
Portugal	15.6	4.3	8.0	4.5	2.5	-0.4	..	..	..	..
Spain	15.6	10.5	9.4	8.0	..	..	6.2[g]	2.5[g]	..	..
Sweden	29.0	3.2	9.2	1.6	1.9	-0.4	8.1	3.2	9.8	-1.2
United Kingdom	15.6	0.2	4.3	-0.7	..	..	5.6	1.7	5.7	-0.9
United States	11.2	5.5	4.4	1.8	0.2	0.3	2.6	4.4	3.9	-1.0
Average of countries above[f]	21.2	5.8	7.4	3.4	1.6	0.2	5.9	3.1	6.2	-0.9
Average of countries which provide all or nearly all spending components	18.7	6.9	..	..	..	..	..	..	..	..

a) Total pension spending includes other age-related spending which does not fall within the identified sub-components, represents 0.9 per cent of GDP in 2000 and rises by 0.1 percentage point in the period to 2050.
b) Total includes other age-related spending not classifiable under the other headings, which represents 0.6 per cent of GDP in 2000 and increases by 0.2 percentage points from 2000 to 2050.
c) The lastest available year is 2040.
d) Total includes old-age pension spending and "early retirement" programmes only.
e) "Early retirement" programmes only include spending on persons aged 55 and over.
f) Average excludes countries where information is not available and Portugal.
g) Estimate from Economic Policy Committee of the European Union (2001).
Source: Dang *et al.* (2001), Economic Policy Committee of the European Union (2001).

Sweden), the difference between gross and net debt is very large. But the value of publicly-held assets is uncertain and volatile (especially where, as in Finland, they include large stakes in information and telecommunication companies).

A further complication is that simulations often ignore some important feedback effects, in particular the effects of taxation on incentives to work and to save and invest (which depend on the level and mix of taxes) and of the composition of spending (with longer-run value-for-money varying considerably across outlays). Moreover, fiscal

sustainability might be achieved on paper but at the cost of politically implausible assumptions. For instance, it might imply pensions at poverty levels or an unsustainable shift of the burden from the current to future generations (such as could be the case when a country decides to go from a pay-as-you-go to a fully-funded pension system).

… longer-run sustainability is in doubt…

For many OECD countries, the uncertainty associated with these caveats is an extra reason to worry about how sustainable the projected long-term increase in spending commitments is, although the severity of the problem varies considerably across countries:

… most immediately in Japan…

– In Japan, the debt dynamics are potentially explosive with the real interest rate rather high relative to growth. The ratio of gross (as well as net) public debt to GDP is indeed on a sharply rising trend, even under fairly favourable assumptions. Given low potential growth and the spending pressures implied by an old and rapidly ageing society, substantial adjustment measures are needed to restore fiscal sustainability (OECD, 2002a).

… but even in the United States

– In the United States, long-run imbalances in public pensions and health care for the elderly are less severe than in most other OECD countries, thanks to later retirement, immigration and relatively high fertility. Nonetheless, a significant rise in tax rates would be required for future obligations to be financed (OECD, 2002b).

In the European Union there are large disparities…

– In the European Union, countries are on average somewhere in between Japan and the United States, but with large disparities from one to the next. Even before recent reappraisals of 2001 fiscal outcomes, the European Commission judged that on unchanged policies and over the longer run, there was a risk of significant budgetary imbalances, in breach of the requirements of the Stability and Growth Pact, in seven member states (Austria, France, Germany, Greece, Ireland, Portugal and Spain).[6] In high-public-debt countries such as Belgium and Italy, preserving the current large primary surpluses indefinitely would ensure sustainability, but restraint may be difficult to maintain permanently. In Italy and the United Kingdom, large falls in pension replacement rates may appear to ensure budget sustainability but will need to be accompanied by higher private pension saving to be politically sustainable.

… while even where current stocks and flows look sound, action is needed

– In Australia, despite a comparatively low public debt ratio, a well-developed system of private retirement saving, a targeted public pension and welfare system, and a relatively efficient health system, current arrangements are unsustainable in the long run (Australian Government, 2002). In New Zealand also, an increase in the primary surplus is estimated to be necessary at some point if the public debt ratio is to be kept within reasonable bounds at mid-century horizon (Janssen, 2002). Even in the case of Norway, where oil receipts are being used to build up a sizeable reserve for future generations, estimates suggest that in the absence of pension reform, public finances are unsustainable (OECD, 2002c).

6. See European Commission (2002). The central simulation ran to 2050 and assumed that age-related outlays would rise in line with commonly agreed projections, that the tax burden and other primary spending would remain constant as a share of GDP and that interest rates would stay 2 percentage points above GDP growth rates.

Central European economies face different challenges

– Public debt ratios in the four OECD Central European countries are below 60 per cent of GDP and demographic pressures are lower in Hungary and Poland. But they face major fiscal challenges over the medium run, including enterprise restructuring costs, public service reforms and, in the context of EU accession, the adoption of the *acquis communautaire* (which for example involves large environmental outlays), against the background of an already fairly high tax burden, notably on labour. In Hungary, the recent widening of the pay-as-you-go pillar of the old-age pension system has put public finance sustainability at risk (OECD, 2002d).

Policy responses

Structural reform

Financial sustainability demands structural reforms…

Policy action to ensure long-term fiscal sustainability, and in particular to anticipate ageing-related expenditure increases, includes labour and product market reforms designed to boost the future resource base as well as reforms that affect expenditure on pensions and health directly. A few countries have already set up reserve funds, although in general limited contributions have as yet been channelled into them (Ireland and Norway being exceptions). Pension system reform improving the viability of the publicly-funded pillar has been particularly far-reaching in some Nordic countries (Finland and Sweden), although it has run into problems in Central Europe (Poland and Hungary). In a number of other countries, including several large EU member states, the case for pension reform has been made recurrently and some changes have been introduced but decisive action remains urgently needed. Efforts have been made to control the growth of public spending on health, but in many cases, public health outlays almost systematically overshoot projections or targets. Cost containment has apparently been more successful in a few countries (Canada, Denmark, Finland), although it remains to be seen how durable restraint will be. More broadly, the effectiveness of public spending at large has been reconsidered in a number of countries.[7]

Introducing new fiscal rules

… as well as effective fiscal rules

Effective budgetary rules can also help restore or safeguard fiscal sustainability. Indeed, in many OECD countries, budget processes are subjected to rules with a view to ensuring better discipline and efficiency (see Appendix).[8] These rules may apply to budget deficits and/or expenditures and may be expressed in actual or cyclically-adjusted terms (see Box IV.1). They always contain a normative element, the most venerable rule in that regard being some variant of a balanced budget. However, in the absence of indisputable optimality criteria, any indebtedness target is

7. See Atkinson and van den Noord (2001) as well as the special public spending chapters published in a number of recent *OECD Economic Surveys*. In some countries, enhancing the efficiency of budgetary interaction between levels of government would also help (OECD, 2002f).
8. An alternative approach would be the set-up of new institutions: Wyplosz (2002) for instance argues that given the limitations inherent to any set of rules, the creation of a Fiscal Policy Committee, alongside and analogous to the Monetary Policy Committee existing in a number of countries, would be preferable.

Box IV.1. Designing effective rules

Rules involve choices. The diversity of rules that have been put in place raises a number of questions. What should the appropriate target be (the level of debt, deficit or expenditures)? Should it be satisfied at all times or only over a defined horizon (such as the business cycle)? Should specific items (in particular public investment) be excluded from the target's definition? In many cases, there are trade-offs between economic efficiency and more practical considerations.

Targets. Targeting the debt level directly is in principle better suited to addressing considerations of long-term sustainability and inter-generational equity. But defining a desirable debt level is bound to remain judgmental, and targets for the budget balance or for expenditures may be more easily understood by the wider public. A deficit target, however, while useful during a period of fiscal consolidation, may not provide adequate control on expenditures in times of budgetary surpluses. A drawback shared by debt and deficit targets is that they can always be satisfied through higher taxes with adverse consequences for economic growth. This would then point towards an expenditure target. But such targets are often circumvented and do not ensure that stability objectives will be met. Jointly targeting the budget balance and adhering to an expenditure norm may be an option, possibly with more leeway built in when the debt level is lower. Putting constraints both on flows and on stocks can help reduce the incentive to meet a deficit or an expenditure rule in pro forma terms only by pushing some spending below the line.

Relevant horizon. The rule can be defined on a yearly basis or over the business cycle. Defining a deficit target in cyclically-adjusted terms allows for automatic stabilisers to respond to cyclical fluctuations and to deal with exceptional circumstances while avoiding pro-cyclical loosening in upturns. It also discourages the use of excessively optimistic growth projections, relative to longer-run potential, since such optimism would entail ambitious targets for the unadjusted fiscal balance (Bini Smaghi, 2002).[1] These benefits, however, come at the cost of reduced simplicity and clarity given that the target is unobservable and subject to substantial margins of interpretation. Targeting the actual balance has, in this respect, the advantage of stronger credibility, although the latter can be undermined by excessive use of "escape" clauses and/or creative accounting.

What to leave out of the target. As public investment confers benefits to future generations, inter-generational equity considerations may seem to favour targeting the current rather than the overall fiscal balance (the so-called "golden rule").[2] Such a rule can also help counteract the bias against public investment observed in the past in several countries, where it was an easy target for cutbacks. In practice, however, the distinction between current and capital outlays embedded in accounting conventions is somewhat arbitrary: current education and health spending for example can be viewed to some extent as investment in human capital. In addition, current and capital outlays are frequently linked such as in the case of expenditures to maintain the existing capital stock. Where a debt norm is in place, the question arises of whether to define it in gross or in net terms. In principle, publicly-held assets should be taken into account, but their future (and even current) value may be highly uncertain.

Rules should be credible but not overly rigid. While the nature and strength of the rules has varied across countries, in all cases the aim has been to tighten the constraints on discretionary interventions. In this respect, the rules should be credible, simple to understand, perceived as binding and backed by sanctions. The rules embedded in the US Budget Enforcement Act and in the European Stability and Growth Pact satisfy these criteria. Both are set in terms of actual deficit or expenditures and the legislated limits are underpinned with explicit sanctions. However, they contain escape clauses providing some flexibility so that fiscal policy can fulfil its stabilising role or deal with special events. The spending caps imposed under the Budget Enforcement Act are thus accompanied by a clause allowing for "emergency appropriations". Likewise, European countries breaching the 3 per cent deficit ceiling can avoid financial sanctions if the excessive deficit is due to exceptional circumstances, temporary and close to the ceiling.[3] Taking another approach, Canada has anticipated special events by establishing a contingency reserve.

Increased transparency helps. A way to alleviate the trade-off between credibility and flexibility is by improving transparency. Australia, New Zealand and the United Kingdom have followed this route.[4] Numerical rules are set but they are not necessarily legislated and they are defined in a way that allows for a more flexible use of discretionary policy, at least over the business cycle. It is argued that despite this extra flexibility, credibility can be maintained by raising the transparency of the budgetary process (Kilpatrick, 2001).[5] In all three countries the change was introduced after much of the consolidation effort was achieved, suggesting that such a framework may be more useful once a position of budget balance has been established. In the EU context, the requirement that member states submit annual stability or convergence programmes and their obligation to notify flow and stock outcomes twice a year is meant, *inter alia*, to enhance transparency.

1. On the other hand, governments might be tempted to assume too-high estimates of potential growth.
2. Some have long advocated the shift to a golden rule in the euro area (Modigliani *et al*., 1998). The idea has been floated in France that defence spending should be excluded from the targeted fiscal balance because it has beneficial EU-wide spillovers.
3. The exceptionality clause applies automatically if GDP falls by over 2 per cent the year the 3 per cent ceiling is breached. It can still be granted if GDP falls by between 0.75 and 2.0 per cent, but subject to a formal approval by the EU Council.
4. Their approach has contributed to the development of international codes in the late 1990s (*OECD Best Practices for Budget Transparency* and *IMF Code on Good Practices on Fiscal Transparency*).
5. Von Hagen and Harden (1995) present empirical evidence that transparency of budget procedures has a positive impact on fiscal discipline.

bound to remain judgmental. Beyond their importance for ensuring sustainability, rules also have a role to play in communicating with the public.

In the United States, rules have been imposed on the expenditure side

In the United States, the deficit targets set in the 1985 Balanced Budget and Emergency Deficit Control Act (Gramm-Rudman Act) were vastly exceeded and were subsequently relaxed. Against this backdrop, the 1990 Budget Enforcement Act (BEA) introduced caps on discretionary spending (which encompasses almost all defence outlays, salaries and other governmental operating expenses as well as many grant programmes). These caps were set in nominal terms and with sub-limits for specific spending categories. Caps could be exceeded, though, in the event of "emergencies". The BEA also stipulated that legislated changes affecting revenues or mandatory spending programmes (such as health care, unemployment benefits and farm price support) should be budget neutral. However, this did not apply to Social Security (*i.e.* pensions). Both provisions applied over five-year periods. The BEA was enforced through sequestration procedures. Most of its provisions elapsed in September 2002, without being extended or replaced.[9]

The euro area has moved towards a cyclically-adjusted budget rule

In the European Union, public debts and fiscal balances varied considerably across member states in the early 1990s, as did interest rates. The Maastricht Treaty and the Stability and Growth Pact (SGP) put in place in 1997 set out conditions necessary to safeguard fiscal discipline in a common currency area. The Treaty set the deficit hurdle for entry into monetary union at 3 per cent of GDP, allowing for long-run debt convergence around 60 per cent of GDP (on the assumption of trend growth around 3 per cent and trend inflation around 2 per cent). The SGP – which introduced possible financial penalties for non-compliance with the deficit ceiling – also calls for fiscal positions to be "close to balance" or in surplus over the medium run, which would asymptotically lead to zero net debt. These conditions were probably the minimum that would have been necessary in any case to achieve long-term fiscal sustainability in the individual countries involved absent the Pact. In practice, the emphasis has gradually shifted from the actual deficit measure to the cyclically-adjusted one, to avoid pro-cyclical budgeting. This approach was made very explicit in 2001 in the revised Code of Conduct on the format and content of the stability and convergence programmes. Besides, some euro area member states have also put in place domestic "stability pacts" in order to promote fiscal discipline at sub-national levels (Austria, Belgium, Germany and Spain).

Other types of rules were put in place elsewhere

In the United Kingdom, two fiscal rules were set out in 1997: the so-called "golden rule", which states that over the cycle current outlays, including the consumption of fixed capital, should not be financed by borrowing; and a debt rule, or "sustainable investment rule", stipulating that over the cycle the ratio of net debt to GDP should not exceed a prudent level, defined for the time being as 40 per cent. Several other OECD countries have adopted new rules since the 1990s. For example, in New Zealand, the Government has been required, since the mid-1990s, to run operating surpluses on average over the cycle so as to achieve "prudent" levels of debt, currently defined as 30 per cent of GDP or less. In Switzerland, an expenditure rule was recently introduced at the federal government level, effective from 2003. It aims at keeping the cyclically-adjusted balance close to zero and sets a ceiling for expenditure, which cannot exceed cyclically-adjusted revenue.

9. In mid-October 2002, some of the provisions of the BEA were extended, but only for six months, applying only to the Senate and excluding any discretionary spending cap.

Implementation of rules in practice

How effective have rules been?

The specific contribution of rules to good fiscal performance cannot be easily established (Hemming and Kell, 2001). As long as political momentum and a measure of popular support for fiscal consolidation are present, rules based on numerical targets as in the United States and the European Union can prove to be quite useful in helping countries to focus on clear objectives. Some of the Nordic countries have led the way, for example, by having an explicit budgetary objective of consistently running surpluses, backed by comprehensive pension system reforms. But elsewhere recent developments have highlighted a number of drawbacks and weaknesses of implementation. In the United States, the framework has been increasingly circumvented, and the rules have now expired without being renewed. In the euro area, the framework is being questioned, and the issue of the optimal design and implementation of such rules has taken centre stage.

Some rules have lost their bite over time

With surpluses being generated in the United States, the constraint of the spending caps was lifted through a series of emergency appropriations in 1999 and 2000 and an upward revision of the caps for 2001 and 2002. In a number of European countries, the deficit ceiling did not prevent the relapse described above, nor did the "close-to-balance or surplus" requirement. Experience thus illustrates that the types of rules that may be helpful during a phase of deficit reduction may no longer be sufficient later on. In this regard, it is worth noting that both Canada and Switzerland modified their rules after the initial balanced budget objective was achieved, with Canada shifting the emphasis from deficit to debt reduction and Switzerland adopting an expenditure rule.

Where they are absent, rules should be (re)introduced

Where medium or long-term oriented rules have elapsed or are missing, it is desirable to consider their (re)introduction. In the United States, an improved version of the BEA could serve to foster budget discipline and transparency. Proposals to this effect include enhancing flexibility within the discretionary spending caps and setting more stringent criteria for what can be considered as emergency spending. They also involve creating a contingency reserve for emergencies, introducing an explicit link with the public debt ratio and reducing the leeway to score tax and spending programmes in ways that understate their full impact.

In the Japanese case, rules may help retrenchment

In Japan, restoring fiscal sustainability requires retrenchment but would also be assisted by a firm medium-term framework for anchoring policy decisions, which is currently missing. The Government did assume a ceiling on the ratio of total expenditure to GDP in an indicative medium-term simulation exercise presented in January 2002 and set out broad directions for controlling expenditure. More recently, the draft FY 2003 budget replaced a ceiling on bond issuance by an expenditure cap allowing cyclical fluctuation in tax revenue. But a firmer and more binding framework, with short-run targets for the growth of real spending, would help in the process of restoring sounder public finances.

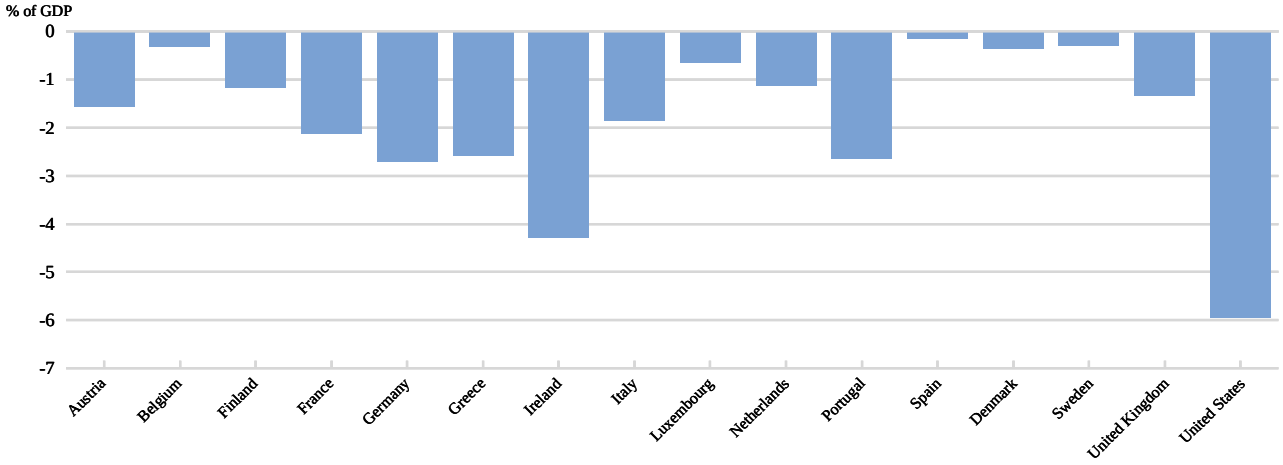
The rules have come under strain in Europe…

In the euro area, the SGP did not prevent some member states from letting structural balances deteriorate during the latest upswing. Assumptions about underlying growth were made which turned out to be overoptimistic. Unpleasant fiscal surprises also occurred because the tax receipts stemming from booming equity markets were not always recognised as transient.[10] As a result, and given the weakness of activity,

10. Asset market cycles are not perfectly correlated with cycles in economic activity and standard cyclical-adjustment methodologies – including the OECD's – treat the impact of capital gains or losses on the fiscal balance as partly structural. For further discussion, see Eschenbach and Schuknecht (2002).

Figure IV.4. **Fiscal projection errors**

2002 general government balance, in per cent of GDP, latest OECD projection minus official projection in late 2000-early 2001[1]



1. For EU countries, projection in the late 2000-early 2001 stability or convergence programme. For the United States, the national projection is the one published by the Congressional Budget Office in January 2001 (on current policy assumptions).

Source: National stability and convergence programmes, US Congressional Budget Office; OECD.

the batch of stability and convergence programmes submitted around late 2001 (fourth vintage) revealed widespread slippages of unadjusted fiscal balances compared with the projections in previous vintages. For 2002, the deviation of current OECD projections from these national projections amounts to some 2 percentage points of GDP for the three largest euro area economies (Figure IV.4).

… because of a perceived conflict with automatic stabilisers…

The fifth vintage of the programmes, insofar as they have been published, as well as the 2003 budgets submitted to national parliaments, embody further slippages. Thus, the objective to reach balance or surplus by 2004 – which had been reconfirmed by the EU Council in March 2002 – will be missed by a sizeable margin. Sticking to the earlier fiscal plans, however, would have required some member states to tighten the fiscal stance before the recovery is well underway, in some cases substantially so.[11] As automatic stabilisers are generally recognised as a timely and powerful mechanism damping business cycle volatility, at least in the case of demand shocks and especially in the euro area (Brunila *et al.*, 2002), the inability to let them function freely imposes significant costs.[12]

… leading to greater emphasis on cyclically-adjusted outcomes

Against this background, the European Commission recently proposed to postpone the target year for reaching close to balance or surplus positions from 2004 to 2006.[13] At the same time, however, it called for member states that are still far from

11. In fact, even with slippages, some member states, including Germany, are set to tighten their fiscal stance before the recovery is firmly established.
12. Simulations based on the OECD's Interlink model suggest that for most OECD countries, output gap variance would have been *ceteris paribus* 10 to 50 per cent higher in the 1990s without the contribution from automatic stabilisers, and that they reduced output volatility by a quarter on average (van den Noord, 2002). This is in itself welfare-enhancing but also has welcome indirect effects on trend GDP via stronger and/or better quality investment and a reduced risk of adverse hysteresis effects in labour or product markets.
13. This is not the first postponement. When multilateral budgetary surveillance under the aegis of the SGP started, the target date was 2002.

such a position to reduce their structural deficits by at least half a percentage point *per annum*, an effort at variance with what OECD estimates suggest is implied in the French and Italian 2003 draft budgets. The European Commission further suggested that in future, any pro-cyclical loosening of the budget during high-growth years leading to a violation of the "close-to-balance or surplus" rule should be treated as a failure to comply with the SGP. While the 3 per cent of GDP threshold remains a binding constraint, more importance is thus to be given to the structural budget balances. This approach should be facilitated by the agreement reached among EU finance ministers, in July 2002, on a common methodology for the calculation of output gaps.

Concerns have arisen that rules can be arbitrarily waived

These recent developments, following the refusal by the EU finance ministers in February 2002 to endorse the early warning that the European Commission had proposed for Germany and Portugal, has heightened two types of concerns. One is that future political pressures to reinterpret, amend or waive existing rules might prove irresistible once these rules start biting, thereby undermining the credibility and effectiveness of the fiscal framework. It is sensed for example that if deficits in some member states were to exceed the 3 per cent mark, the wording of the escape clause would provide room for judgement allowing the deferral of any financial sanctions (OECD, 2002e). A second worry, expressed by several EU member states with balanced or surplus budget positions, is that rules seem to impose less discipline on the three largest countries than on themselves. These concerns should, however, be alleviated by the initiation of the excessive deficit procedure for Germany.

Lessons and challenges

Safeguarding fiscal sustainability requires structural reform…

Establishing longer-term fiscal sustainability remains a challenge, or at least an issue, in many OECD countries, even where recorded budget stocks and flows may look reassuring. At the root of sustainability problems lie future public spending commitments which outstrip what can be supported by the revenue base. Restoring or safeguarding sustainability has thus to be achieved not just via further budget balance adjustments but through reforms that reshape public spending – especially the age-related components – and boost economic growth. Some reforms can actually help on both scores, *e.g.* labour market initiatives aiming at increasing the participation ratios of older workers, or product market reforms enhancing competition.

… but well-designed and properly implemented rules can help too…

At the same time, well-designed rules can help in setting and achieving fiscal consolidation objectives consistent with stable debt dynamics. Fiscal discipline is especially strong when there is a clear incentive to comply, as was the case in the 1990s for countries wishing to qualify for monetary union. The application of rules in more "steady-state" circumstances is often more difficult and requires careful consideration of the appropriate target. Even so, and whatever the rule chosen, it usually rests on some compromises and may have to be adapted or changed at some point. Most importantly, its effectiveness will depend heavily on how it is implemented. Rules which are specified in cyclically-adjusted form offer the greatest flexibility, through the operation of built-in stabilisers. But they need to be implemented symmetrically and transparently. This calls for realistic growth assumptions and objectivity in assessing cyclically-adjusted positions, based on output gap estimates produced in accordance

with a commonly agreed methodology. Following the large corrections to initial budgetary estimates that came to light this year for some countries, orthodoxy and openness in scoring revenue and outlays are also indispensable.[14]

… provided the political economy of enforcement is right

A potential problem is that the more economically-refined the fiscal rule, the more vulnerable it may be politically, especially at times when surpluses are building up. Indeed, applying and enforcing rules is a political-economy as much as a technical issue. The implementation process may be assisted by explicit sanctions within an economic and monetary union, but even so the penalties may be small relative to the interest-rate premia which would be imposed on individual countries by the market. To pre-empt pressures for rules to be inappropriately modified or set aside, governments must thus be prepared to adopt a more pedagogic approach to their operation, generating both peer and public pressure for their consistent enforcement.

14. The decision taken by Eurostat in July 2002 on the treatment of governments' securitisation operations – which in the case of Italy in particular had led to a substantial understatement of the 2001 deficit – constitutes one important step which should help improve the comparability of fiscal positions across EU member states. The problem of statistical disclosure, coverage, timeliness and reliability is even more acute in EU accession countries.

Appendix Table IV.A.1. **Changes in the fiscal frameworks since the 1990s**

Country/region	Year	Summary of changes
Australia	1998	**Charter for Budget Honesty** ***Rule*** • No legislated numerical rules. The Charter requires the government to spell out objectives and targets but places no constraints on their nature. ***Enforcement/Sanctions*** • No sanctions. ***Transparency*** • Requires the Government to prepare an annual fiscal strategy statement outlining long-term fiscal policy objectives and fiscal targets for the following three years. External auditors assess the statement and performance.
Austria	2000	**Domestic Stability Pact** ***Rule*** • Negotiated floors on the budget balance for each government level (0.75 per cent of GDP for the *Länder*, zero for municipalities and the federal government balance should be such that the Stability Programme target is met). The floors apply on average, over several years. ***Enforcement/Sanctions*** • Possible fines (8 per cent of the floor plus 15 per cent of the shortfall, up to a ceiling), subject to a unanimous decision from all interested parties. ***Escape clause*** • In case of a serious economic slowdown for example, the sanctions do not apply.
Belgium	1996 to 1999	**Intergovernmental treaties**
	1999 to 2002	***Rule*** • Permissible deficits are established for the federal government plus Social Security on the one hand, and for the regions and the local governments on the other. ***Enforcement/Sanctions*** • The borrowing capacity of regions and communities may be restricted. ***Transparency*** • Permissible deficits for the different government levels and for Social Security are established on the basis of recommendations of the High Council of Finance (a wise men committee), which are published in annual reports.
Canada	1991 to 1996	**Federal Spending Control Act** ***Rules*** • Limits on all programme spending except self-financing programmes. • Overspending in one year permitted if offset in following two years. ***Enforcement/Sanctions*** • No explicit sanctions. Compliance with the Act was assessed by Auditor General.
	1998	**Debt Repayment Plan** ***Rules*** • There are no legislated rules at the federal level but the government has a "balanced budget or better" policy. • Most provinces have some form of balanced budget legislation, with sanctions that may include salary cuts for cabinet members or forced elections. • A Contingency Reserve and an economic prudence factor are built into the federal budget and may be devoted to debt reduction if not needed.
Euro area/ EU countries	1992	**Maastricht Treaty; extended in 1997 under the Stability and Growth Pact** ***Rules*** • 3 per cent of GDP ceiling on general government net borrowing. • 60 per cent of gross government debt-to-GDP ratio norm. • "Close to balance or surplus" target. ***Enforcement/Sanctions*** • Non-remunerated deposits with a fixed component equal to 0.2 per cent of deficit and a variable component rising with size of excessive deficit. • Financial sanction applies only in case of non-respect of deficit rule, although peer pressures can be exerted in the form of policy recommendations on the basis of the Commission's assessment. ***Escape clause*** • Exceptional circumstances including if output falls by over 2 per cent during the year the deficit exceeds the limit. ***Transparency*** • Member States are required to report twice a year to the Commission their planned and actual deficits and their debt levels under the excessive deficit procedure. Once a year they must also submit a stability (euro area "ins") or convergence ("outs") programme, which is subject to an opinion from the Council.

Appendix Table IV.A.1. **Changes in the fiscal frameworks since the 1990s** *(cont.)*

Country/region	Year	Summary of changes
Germany	2002	**Domestic Stability Pact** ***Rules*** • Golden rule: the budgeted deficit of the federal government must not exceed federal investment spending (by constitutional law; most *Länder* constitutions have a similar law). • Both the government and the states (including the communities) should aim at balanced budgets. ***Enforcement/Sanctions*** • No explicit sanctions. ***Transparency*** • The inter-governmental Financial Planning Council should make recommendations on how to achieve fiscal discipline and monitor whether authorities' spending and the budget evolve in line with the requirements of the EU Stability and Growth Pact. It can also make recommendations on how to restore fiscal discipline.
Japan	1997 to 1998	**Fiscal Structural Reform Act** ***Rules*** • Reduce fiscal deficits to 3 per cent of GDP by FY 2003. • Terminate issuance of special deficit-financing bonds by FY 2003. • Set numerical reduction targets for major expenditure areas over the subsequent three years. ***Enforcement/Sanctions*** • No explicit sanctions. ***Escape clause*** • Added in 1998 in response to the economic slowdown.
	2002	**Cabinet Decision on the Medium-Term Fiscal Perspective** ***Rules*** • Maintain the size of government (measured by total general government outlays as a share of GDP) at or below the current level until FY 2006. • Achieve primary balance surplus in the early 2010s. ***Enforcement/Sanctions*** • No explicit sanctions.
Netherlands	1994	**Multi-year expenditure agreements** ***Rules*** • Use deliberately cautious growth projections. • Ceilings on central government, social security and health care spending. • If the balance exceeds –¾ per cent of GDP, half of the revenue windfalls can go to tax cuts.
New Zealand	1994	**Fiscal Responsibility Act** ***Rule*** • Maintain debt and net worth at "prudent" levels and run operating surpluses on average over a "reasonable" period of time. The government of the day sets its own numerical targets consistent with these principles. ***Enforcement/Sanctions*** • Given that the numerical targets are not legislated, no sanctions are specified. ***Transparency*** • The Act requires the Government to strengthen reporting requirements so as to provide parliamentary assessments of fiscal policy, to spell out clearly the objectives and consequences of policy choices and to take an aggregate and medium-term perspective.
Norway	2001	**Fiscal Stability Guidelines** ***Rules*** • Structural non-oil central-government budget deficit should equal 4 per cent of the Government Petroleum Fund over the cycle. Discretionary easing or tightening during the cycle is allowed. • In the event of non-compliance due to extraordinary circumstances (major revaluations of the Fund's capital or statistical revisions of the structural deficit), corrective action should be spread over several years. ***Enforcement/Sanctions*** • No sanctions. ***Transparency*** • Budget documentation reports the structural fiscal balances including and excluding oil revenues. This is complemented with an annual update of long-term projections.

Appendix Table IV.A.1. **Changes in the fiscal frameworks since the 1990s** *(cont.)*

Country/region	Year	Summary of changes
Poland	1999	**Act on Public Finance** ***Rule*** • The Constitution sets a limit of 60 per cent of GDP for total public debt. ***Enforcement/Sanctions*** • Constraints are put on deficits, both at the national and at the sub-national level, once public debt exceeds 50 per cent of GDP.
Spain	2003	**Fiscal Stability Law** ***Rules*** • Accounts should balance or show a surplus at all levels of government (central, social, territorial and local) as well as for public enterprises and corporations. • A cap will be put on expenditure and a contingency fund (2 per cent of expenditure) will be set up to cover unscheduled expenditure. ***Escape clauses*** • Possibility of running deficits restricted to temporary and exceptional situations. Two-to-three-year plans to restore the accounts to balance will have to be discussed in Parliament.
Sweden	1996	**Fiscal budget Act** ***Rules*** • Set nominal expenditure limits for the subsequent three years on 27 expenditure areas (including social security). • Maintain a general government surplus of 2 per cent of GDP on average over the business cycle. ***Enforcement/Sanctions*** • No explicit sanctions.
Switzerland	1998	**Budget Objective 2001** ***Rule*** • Capped the federal deficit at 2 per cent of revenues or 0.25 per cent of GDP by 2001. ***Enforcement/Sanctions*** • Expenditure excess to be financed by tax increase.
	2001	**Debt Containment Rule** ***Rule*** • Sets a ceiling for expenditures which is equal to total revenues adjusted for the cycle and for *ex post* deviations of out-turns from the norm laid out in the rule. ***Enforcement/Sanctions*** • No explicit sanctions, though deviations from the rule must be corrected within three years. ***Escape clauses*** • Exceptional circumstances require an absolute majority in both houses of Parliament.
United Kingdom	1997	**Code for Fiscal Stability** ***Rules*** • Golden rule: over the business cycle the Government will borrow only to invest and not to fund current spending. • Sustainable investment rule: net debt as a proportion of GDP must be held stable over the business cycle at a prudent level defined so far as net debt below 40 per cent of GDP. ***Enforcement/Sanctions*** • No explicit sanctions. ***Transparency*** • Annual reporting cycle, including a Pre-Budget Report, an Economic and Fiscal Strategy Report and a Debt Management Report.
United States	1990 to 2002	**Budget Enforcement Act** ***Rules*** • Medium-term nominal caps for discretionary spending. • Legislated changes to revenues or mandatory spending programmes should be budget neutral over a five-year horizon. ***Enforcement/Sanctions*** • Sequestration procedures (cuts across-the-board). ***Escape clause*** • "Emergency appropriations" could be passed.

BIBLIOGRAPHY

ATKINSON, P. and P. van den NOORD (2001),
"Managing public expenditure: some emerging policy issues and a framework for analysis", *OECD Economics Department Working Papers*, No. 285.

AUERBACH, A. (1994),
"The US fiscal problem: where we are, how we got here and where we're going", *in* S. Fischer and J. Rotemberg (eds), *NBER Macroeconomics Annual 1994*.

AUSTRALIAN GOVERNMENT (2002),
2002-03 Budget Papers, No. 5.

BANCA D'ITALIA (ed.) (2000),
Fiscal Sustainability, Proceedings of a Research Department Public Finance Workshop.

BINI SMAGHI, L. (2002),
"Fiscal discipline and policy coordination in the eurozone: comments on Jean Pisani-Ferry", *www.dt.tesoro.it/Aree-Docum/Relazioni-/Working-Pa/*

BLANCHARD, O., J-C. CHOURAQUI, R. HAGEMANN and N. SARTOR (1990),
"The sustainability of fiscal policy: new answers to an old question", *OECD Economic Studies*, No. 15.

BRUNILA, A., M. BUTI and J. IN'T VELD (2002),
"Fiscal policy in Europe: how effective are the automatic stabilisers?", *European Economy Economic Papers*, No. 177.

BUITER, W. (1985),
"A guide to public sector debt and deficits", *Economic Policy*, No. 1.

BUITER, W. (2002),
"The fiscal theory of the price level: a critique", *Economic Journal*, Vol. 112, No. 481.

CANZONERI, M., R. CUMBY and B. DIBA (2002),
"Should the European Central Bank and the Federal Reserve be concerned about fiscal policy?", *mimeo*, September, *www.georgetown.edu/faculty/canzonem/JH.pdf*

DANG, T.T., P. ANTOLIN and H. OXLEY (2001),
"Fiscal implications of ageing: projections of age-related spending", *OECD Economics Department Working Papers*, No. 305.

ECONOMIC POLICY COMMITTEE OF THE EUROPEAN UNION (2001),
Budgetary challenges posed by ageing populations, EPC/ECFIN/655/01-EN final.

ESCHENBACH, F. AND L. SCHUKNECHT (2002),
"Asset prices and fiscal balances", *ECB Working Papers*, No. 141.

EUROPEAN COMMISSION (2000),
Public Finances in EMU – 2000, European Economy, No. 3.

EUROPEAN COMMISSION (2002),
Public Finances in EMU – 2002, European Economy, No. 3.

FORD, R. and D. LAXTON (1995),
"World public debt and real interest rates", *IMF Working Papers*, No. 95/30.

HELBLING, T. and R. WESCOTT (1995),
"The global real interest rate", *Staff Studies for the World Economic Outlook*, International Monetary Fund, Washington DC.

HEMMING, R. and M. KELL (2001),
"Promoting fiscal responsibility: transparency, rules and independent fiscal authorities", *in* Banca d'Italia (ed.), *Fiscal rules*, Proceedings of a Research Department Public Finance Workshop.

HEMMING, R., S. MAHFOUZ and A. SCHIMMELPFENNIG (2002),
"Fiscal policy and economic activity during recessions in advanced economies", *IMF Working Papers*, WP/02/87.

JANSSEN, J., (2002),
"Long-term fiscal projections and their relationship with the intertemporal budget constraint: an application to New Zealand", *New Zealand Treasury Working Paper*, No. 02/04.

JOUMARD, I. (2001),
"Tax systems in European Union countries", *OECD Economics Department Working Papers*, No. 301.

KILPATRICK, A. (2001),
"Transparent frameworks, fiscal rules and policy making under uncertainty", *in* Banca d'Italia (ed.), *Fiscal rules*, Proceedings of a Research Department Public Finance Workshop.

MODIGLIANI, F., J.-P. FITOUSSI, A. LINDBECK, B. MORO, D. SNOWER, R. SOLOW, A. STEINHERR and P. LABINI,
"An economists' manifesto on unemployment in the European Union", *Banca Nazionale del Lavoro Quarterly Review*, Vol. 51, No. 206.

OECD (1989),
"The public sector: restoring the balance", in *Economies in transition, Structural Adjustment in OECD countries*, Paris.

OECD (2002a),
OECD Economic Survey of Japan, Paris.

OECD (2002b),
OECD Economic Survey of the United States, Paris.

OECD (2002c),
OECD Economic Survey of Norway, Paris.

OECD (2002d),
OECD Economic Survey of Hungary, Paris.

OECD (2002e),
OECD Economic Survey of the euro area, Paris.

OECD (2002f),
OECD Economic Survey of Germany, forthcoming, Paris.

ORR, A., M. EDEY and M. KENNEDY (1995),
"Real long-term interest rates: the evidence from pooled time series", *OECD Economic Studies*, No. 25.

PEARSON, M. and S. SCARPETTA (2000),
"An overview: what do we know about policies to make work pay?", *OECD Economic Studies*, No. 31.

VAN DEN NOORD, P. (2002),
"Automatic stabilizers in the 1990s and beyond", *in* M. Buti, J. von Hagen and C. Martinez-Mongay (eds), *The Behaviour of Fiscal Authorities*, Palgrave.

VON HAGEN, J. and I. HARDEN (1995),
"Budget processes and commitment to fiscal discipline", *European Economic Review*, Vol. 39, Issues 3-4.

WYPLOSZ, C. (2002),
"Fiscal policy: rules or institutions?", *http://europa.eu.int/comm/dgs/policy_advisers/gea/gea_2002_04/wyplosz.pdf*

V. INCREASING EMPLOYMENT: THE ROLE OF LATER RETIREMENT

Introduction

Pension systems and other benefit schemes reduce labour supply

Over the past decades early retirement has become more widespread in many OECD countries. If this trend reflected mainly increased income and higher preferences for leisure, it would not be a policy concern from a welfare point of view. But this is not the case. Earlier work by the OECD has shown that this development was to a good part caused by the institutional set up of pension systems and other benefit schemes which have encouraged people to withdraw from the labour market at a relatively early age.[1] Such distortions of labour-leisure decisions are problematic as they reduce labour supply, output and living standards. The problem will become even larger with ageing populations, as there will be more people in the relevant age groups affected by these distortions.

There are benefits and costs of retiring later

In light of the challenges arising from ageing populations, many OECD countries have recently changed their policies with respect to early retirement and they are now aiming to increase labour participation of older workers. Other measures to cope with ageing populations have been taken particularly in two areas*: i)* reducing the generosity of public pensions and, at the same time, enhancing the role of private pensions; *ii)* consolidating general government budgets and/or pre-funding of age-related expenditure. Reducing government debt levels and interest payments is intended to create "space" for future age-related public spending.

Delaying retirement increases output and government revenues…

Increasing the effective age of retirement would alleviate the burden of ageing populations. Assuming that those who retire later are in employment, delayed retirement raises the level of output, thereby increasing the resources available for consumption; this is the case even if older people, on average, have a lower productivity than the young. People would also pay more taxes (including social security contributions) on income from work, thereby improving public finances. Some argue, however, that with a shorter retirement period, people will save less as they need less wealth and lower savings will reduce the capital-labour ratio, productivity and real wages. Thus, delaying retirement would increase the wage base on which social security contributions are assessed because of higher employment, but would reduce it because of the decline in the real wage rate. The net long-run impact of delayed retirement on the rise in payroll tax payments could therefore be very small.[2] But such results of models depend heavily on the underlying life-cycle hypothesis of saving, which implies large demographic effects on private savings. The empirical

1. See S. Blöndal and S. Scarpetta, "The retirement decision in OECD countries", *OECD Economics Department Working Papers*, No. 202, Paris, 1998.
2. See L.J. Kotlikoff, K. Smetters, J. Walliser, "Finding a way out of America's demographic dilemma", *NBER Working Paper*, No. 8258, 2001.

literature on the size of such effects is, however, inconclusive. Simple correlations across countries between life expectancy at retirement age and private savings, or between changes in both variables, do not reveal any relationship. While this does not prove that saving is unaffected by the length of the retirement period, as other factors which are omitted may have outweighed such effects, it nevertheless suggests that the length of retirement may not be as important for saving, productivity and real wages as such models suggests.

… and may reduce government spending

As people draw their pensions later, they benefit from them over a shorter period of time. This could reduce pension expenditure, although this effect depends on the degree to which pension levels are linked to contributions (or, technically speaking, whether the system is actuarially neutral or not). For example sensitivity analysis by the OECD Secretariat indicates that if labour participation of older workers would increase by 10 percentage points between 2000 and 2050, relative to the base-case scenario, total old-age pensions (as a per cent of GDP) could be reduced (on average) by 0.6 percentage points.[3]

But retiring later may also involve costs, as older workers may have to be retrained and jobs and workplaces may have to be adjusted to their needs and abilities. It is, therefore, important to set an appropriate framework for labour market and wage-setting policies. Given recent reforms in pension systems and other benefit schemes, it is instructive to update the assessment of their possible effects on the decisions of older workers to retire. The OECD has recently reviewed early retirement incentives for 15 OECD countries. The new analysis includes the effects of recent pension reforms and also considers the effects of taxes on pension benefits. In the following, first the effective age of retirement is compared across countries and over time. Then recent policy reforms are described which countries have adopted towards delaying retirement. Finally, the chapter examines those incentives for retirement that still exist in pension systems and in other benefit schemes.

Various benefit schemes provide fiscal incentives to retire earlier

A main finding is that ordinary public old-age pension systems now do not generally give strong incentives to retire before the statutory age. To some extent this reflects policy measures to strengthen the link between the number of years of pension contributions and the eventual benefits so that pension systems are becoming more actuarially neutral. However, there are other pathways to withdraw from the labour market at a relatively early age, in particular by using special early retirement schemes, unemployment-related transfer schemes, disability pensions and occupational pensions. While some of these schemes have also been tightened more recently, they still provide important fiscal incentives to retire before the statutory retirement age.

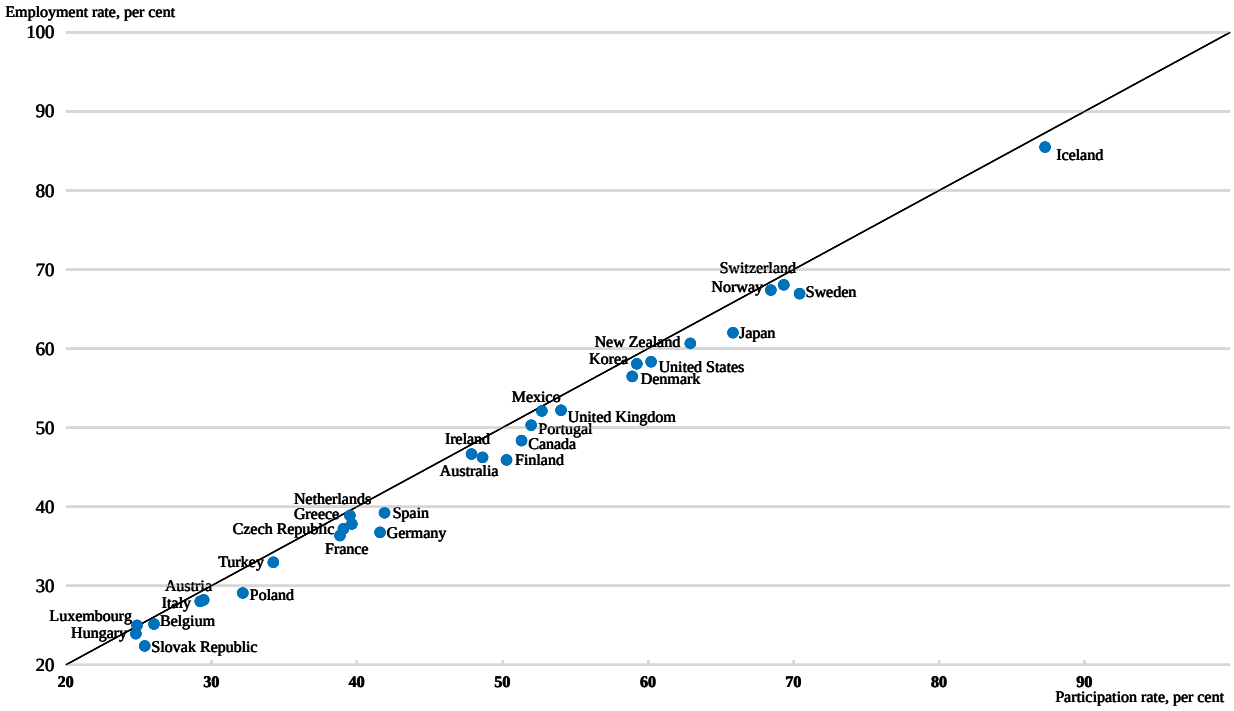
Reforms are warranted to increase supply and demand of older workers

Hence, further reforms are warranted to eliminate the distortions that provide for an early withdrawal from the labour market. But it is obviously not enough that labour supply increases, demand should also be there. Labour market participation of older people differs widely across countries and those with high participation rates also have high employment rates (Figure V.1). This could suggest that supply factors are the driving force for employment. However, the causal relationship between labour participation and employment is not always clear. Furthermore, during the transition to a "new equilibrium" with higher labour participation and higher

3. See T.T. Dang, P. Antolin and H. Oxley "Fiscal implications of ageing: projections of age-related spending", *OECD Economics Deaprtment Working Papers*, No. 305, Paris, 2001.

Figure V.1. **Participation rates and employment rate for older workers (55-64), 2001**[1]

Men and women



1. 2000 for Austria.
Source: OECD.

employment, which in any case will take several years, unemployment could rise if the adjustment on the demand side is too slow. Therefore a number of specific issues need to be addressed to ensure that demand meets supply.

Wages should better adjust to productivity

Wages have to be sufficiently flexible to adjust to productivity; if productivity declines at a higher age and wages are not adjusted accordingly labour demand declines. However, where pensions are closely linked to wages just prior to retirement, there will be strong resistance to continue working for less, suggesting a need for reform of such pension systems. Furthermore, overly tight employment protection may be an obstacle to hiring of older workers and may have to be modified.

Improving life-long learning

Finally, training of older workers is also important. As individuals move towards retirement, investment in marketable skills tends to decline as the period over which the benefits from the associated improvements in productivity can be reaped becomes progressively shorter. In consequence, it is not surprising that the incidence of training falls with age.[4] A corollary is that if policy reforms manage to raise retirement ages this is, in itself, likely to raise incentives for life-long learning. Nonetheless, additional measures to support training of older workers may be needed

4. See *OECD Employment Outlook*, Paris 1999 and OECD, *Reforms for an Ageing Society: Social Issues*, Paris, 2000.

and some countries have taken steps in this direction. Hence there are a range of potential and pressing demand-side issues to be tackled if countries are to achieve the goal of significantly lengthening the period older workers spend in the labour market. But these are not examined in this chapter which focuses on supply-side financial disincentives facing older workers.[5]

Low effective retirement age in many countries

Employment rate of older people has fallen over the past decades

With a few exceptions, the standard age of retirement in public pension systems is currently 65.[6] However, in most OECD countries the effective average age of retirement is between around 60 and 63 and in a few countries (as France and Italy) it is below 60 (Table V.1). Only in the United States does the effective retirement age broadly correspond to the standard age of retirement (65) and in Japan and Korea workers retire on average only at the age of 69 and 67 respectively, which is four

Table V.1. **Average effective retirement age (men)**

	1970 to 1975	1980 to 1985	1990 to 1995	1994 to 1999
Australia	63.8	61.1	61.8	62.3
Canada	..	62.6	61.4	62.2
Denmark	..	64.7[b]	62.3	62.4
Finland	62.0	60.4	58.9	59.8
France	63.5	59.7	59.1	59.3
Greece	..	62.0[b]	62.9	61.7[a]
Italy	62.3	60.8	57.9	59.3
Japan	70.1	68.4	70.2	69.1
Korea	..	..	70.4	67.1
Netherlands	61.5[c]	58.7	59.6	61.6[a]
Norway	67.6[d]	66.3	63.2	64.2
Poland	..	..	..	60.6
Portugal	65.1[f]	62.7	64.7	65.3
Spain	64.7[d]	61.4	60.3	61.1
Sweden	64.7	63.6	62.5	63.3
Western Germany	62.8	62.2	60.1	60.5[a]
United Kingdom	..	62.3[e]	61.2	62.0
United States	64.2	63.7	63.6	65.1

a) 1993-1998.
b) 1983-1988.
c) 1971-1976.
d) 1972-1977.
e) 1984-1989.
f) 1974-1979.
Source: P. Scherer, "Age of withdrawal from the labour force in OECD countries", *Labour Market and Social Policy Occasional Papers,* No.49, OECD, 2002.

5. The OECD has recently launched a review to assess the strength of such demand-side barriers and possible policy responses.
6. The exceptions are France, where the retirement age is 60, and Norway and Korea where it is 67. The United States has begun in 2000 to move toward 67 until 2022.

and seven years later than the standard age of retirement.[7] In a number of countries, particularly in Europe, less than half of the male population at age 55 to 64 is currently working. Employment of older workers has fallen everywhere over the past few decades, although this trend appears to have come to a halt in many countries in the second half of the 1990s, but this could to some extent reflect favourable cyclical conditions during this period (Table V.2).

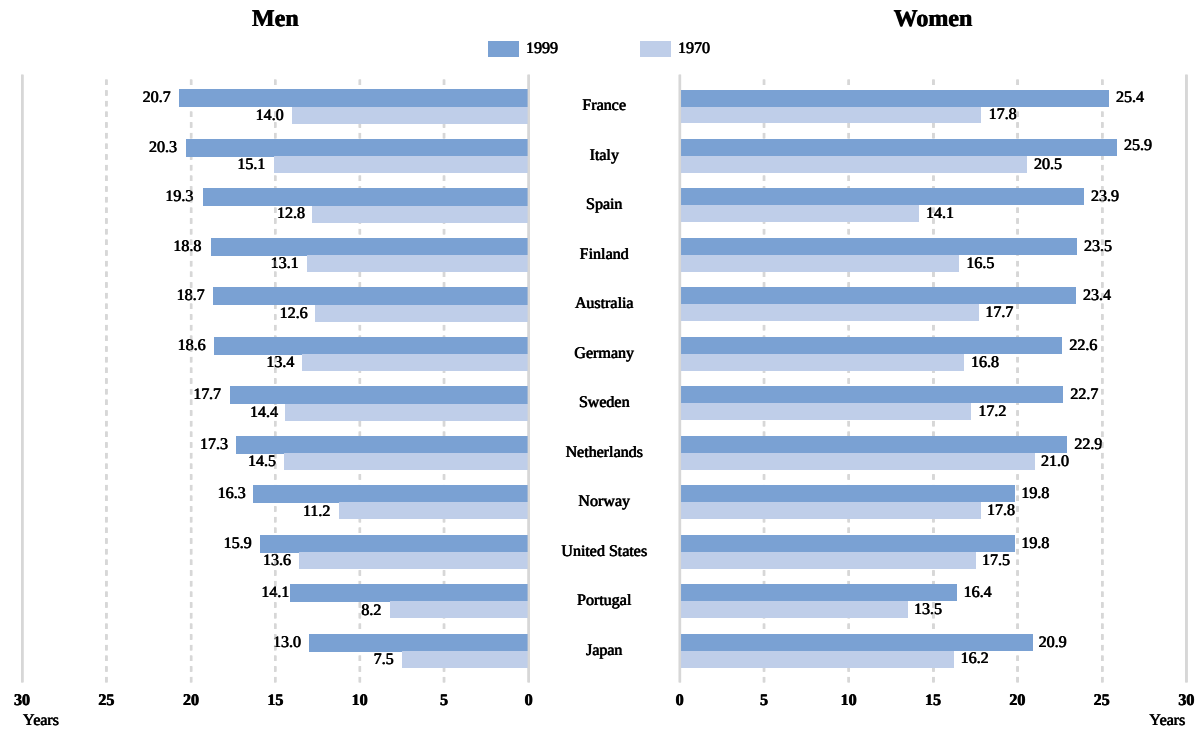
Table V.2. **Employment rates of older male workers**[a]

	1970[b]	1980[c]	1990[d]	1995	2000
Australia	..	66.6	59.2	55.3	58.5
Austria	..	..	..	42.9	40.2
Belgium	..	47.7	34.3	34.5	35.1
Canada	..	71.3	60.3	53.7	57.7
Czech Republic	..	..	..	51.1	51.7
Denmark	..	63.1	65.6	63.2	61.9
Finland	72.5	55.0	46.3	34.9	43.7
France	74.0	65.3	43.0	38.4	38.5
Germany[e]	78.9	64.1	52.0	48.2	48.2
Greece	..	..	58.4	58.9	55.3
Hungary	..	..	33.3	27.1	33.2
Iceland	..	..	92.6	88.8	94.2
Ireland	82.4	72.3	59.5	59.3	63.0
Italy	47.8	39.0	35.4	44.7	40.9
Japan	84.8	82.2	80.4	80.8	78.4
Korea	..	77.5	76.3	78.8	68.2
Luxembourg	..	37.9	42.9	35.1	37.9
Mexico	..	..	85.1	77.9	79.8
Netherlands	..	60.9	44.2	41.1	50.0
New Zealand	..	..	53.9	62.9	68.3
Norway	82.9	79.5	70.7	70.0	73.1
Poland	..	..	44.3	42.5	36.7
Portugal	..	74.2	65.0	57.7	62.5
Slovak Republic	..	..	..	38.1	35.4
Spain	82.7	71.5	57.2	48.4	55.2
Sweden	84.1	77.5	74.4	64.4	67.8
Switzerland	..	..	85.2	79.0	77.0
Turkey	..	..	58.8	58.4	51.0
United Kingdom	..	62.6	62.4	56.1	59.8
United States	80.7	69.7	65.2	63.6	65.6

a) Employment of male workers at age 55 to 64 as a percent of male populations of the same age, except for Italy: 60-64 instead of 55-64.
b) 1971 for Ireland, 1972 for Norway and Spain.
c) 1981 for Ireland, 1983 for Belgium, Denmark and Luxembourg, 1984 for United Kingdom.
d) 1991 for Canada, Iceland and Mexico, 1992 for Hungary and Poland.
e) Western Germany before 1991.
Source: OECD.

7. The average effective age of retirement as used here has been calculated as a weighted average of the various retirement ages where the weights are the probability of (net) withdrawal from the labour force at these particular ages. See P. Scherer, "Age of withrawal from the labour force in OECD countries", *Labour Market and Social Policy Occasional Papers*, No. 49, 2002.

Figure V.2. **Life expectancy at effective retirement age in 1970 and 1999**



Source: OECD.

People spend more and more years in retirement

While the average effective age of retirement has declined, life expectancy has increased. In consequence, people are now drawing on pensions for a much longer period than before. In a number of OECD countries, life expectancy at the average effective retirement age is now 18 to 20 years, about five to six years longer than it was 30 years ago (Figure V.2). As life expectancy is projected to increase further, the length of retirement would continue to rise if retirement is not delayed.

How policies affect retirement

There are often important disincentives to continue working…

People generally retire when they have the incentives to do so, *i.e.* when retirement income is high enough and when the financial incentive to continue working is matched by the disutility of continue working. The overall fiscal incentive to retire can be separated into two components (see Box V.1). The first component is the replacement rate – *i.e.* the pension a person receives as a percentage of the working income prior to retirement. The higher the replacement rate, the higher the incentive to retire. Replacement rates as calculated here consider only benefits from public old-age pension schemes and the other benefit schemes as described below but no other income which people may have in retirement and which is in some cases considerable.[8] The second component is the change in net pension wealth from working

8. See OECD, *Ageing and Income, Financial Resources and Retirement in Nine OECD Countries*, Paris, 2001.

Box V.1. How to measure the incentives for early retirement

The overall incentive from policies to retire can be separated into two components. The first is the replacement rate and the second is the change in net pension wealth. The replacement rate is the income out of work as a proportion of expected income in work. A relatively high replacement rate ensures that people have enough resources to support an adequate standard of living in retirement. A high replacement rate available before the normal retirement age already provides a strong incentive to retire earlier. There are various ways of calculating replacement rates for pension systems. One approach is to compare directly current pensioners' incomes with those of workers, or with general living standards (GDP per capita). This approach provides information on the relative living standards of pensioners, although other sources of income (capital income and – if pensioners continue working – labour income) should also be considered, in order to obtain a fuller picture.[1]

But, the replacement rate, as calculated by this approach, may be incomplete as a measure of the work disincentive of the current pension system faced by a typical older worker. This is because current pension payments are affected to some extent by past rules of pension systems, which may have changed, and by individual characteristics of current pensioners which may be different from those of a typical older worker.

A second approach – which is adopted here – is to calculate pension benefits for illustrative workers with particular characteristics (such as level of income, number of working years etc.). The parameters of the current pension system (in these calculations including recent reform measures that have not been fully implemented) such as accrual rates, minimum pensions, indexation rules, eligibility requirements, etc.) are then applied to calculate pension benefits. Benefits are calculated net of tax so that special tax treatments often provided to pension benefits are considered. Pension benefits can be related to the individual net earnings just prior to retirement to arrive at a replacement rate for an illustrative worker.

This second approach provides a better measure for the impact of pension rules on the retirement decision of older workers. With this approach it is also possible to assess the combined effect of pension systems and other welfare systems such as unemployment programmes or disability pensions. For example, one can examine how replacement rates evolve if older workers use these benefits to bridge the time until they receive old-age pensions.

A drawback of the replacement rate is that it ignores dynamic effects. The decision to continue working and/or to retire also depends – at a given replacement rate – on how much is gained or lost by continuing to work. If the pension accrual rate is positive (*i.e.* the would-be pensioner earns more pension rights), working longer increases future pensions. But working longer also entails costs of paying additional contributions and drawing pensions for a shorter period of time. Net pension wealth is a summary measure for these effects. It corresponds to the present value of the future stream of pension payments that the person can expect to receive from working an additional year, net of all future contributions to the pension system. Pension wealth does not change if the additional contributions by working another year and the foregone pension due to this delayed retirement are exactly matched by an increase in the value of the pension received over the remaining (shorter) retirement period. In this case the discounted value of additional future pension streams corresponds to the additional pension contributions so that the pension system is actuarially fair. With such a system, there is no incentive to retire earlier. But, if pension wealth falls with an additional year of work, continuing working carries an implicit tax so that there is an incentive for the individual to retire. If, on the other hand, pension wealth increases by working an additional year, there is a subsidy to delay retirement.

In the particular cases shown here, the individual is assumed to have a full work career before reaching the normal retirement age and to be earning an average wage. Simulations for lower and higher earnings (50 and 150 per cent of an Average Production Worker wage) have also been carried out but are not shown here. Incentives to retire early tend to be above-average at 50 per cent of earnings, reflecting the effect of pension minima in many national pension systems which increase replacement rates in the period of pre-retirement. At higher income levels the incentives tend to be below average, reflecting various ceilings in the calculation of benefits.

1. Mean disposable income of pensioners is generally around 75 to 85 per cent of income before retirement. See OECD, *Ageing and Income, Financial Resources and Retirement in Nine OECD Countries*, Paris, 2001.

an additional year. Working an extra year implies foregoing one year of pension and paying additional contributions, with often little or no increase in future pensions (depending on pension accrual rates). The difference in pension wealth between two adjacent years of age indicates whether working an additional year is financially worthwhile with regard to future pensions. If net pension wealth remains constant, the system is neutral but if it falls, the pension system poses an implicit tax on continuing working. An individual's decision on whether to retire or not depends on both the replacement rate and the change in net pension wealth. For example, even if

the implicit tax on continuing working is high, a low replacement rate may imply that people cannot afford to retire and thereby acts to discourage retirement.

… and they have increased over time

Previous OECD work using this basis for analysis found that policies were causing marked disincentives to continue working after a certain age and that these disincentives have increased significantly over the past three decades. This was mainly due to the lowering of standard retirement ages and the increase in pension replacement rates combined with a low "return" on additional pension contributions paid when continuing working as this did not lead to correspondingly higher future pension benefits (*i.e.* an implicit tax on continuing working). Furthermore, governments have provided various alternative pathways to withdraw from the labour market such as special early retirement schemes, unemployment-related benefits and disability schemes which increase overall replacement rates and implicit tax rates. The negative impact of implicit tax rates on the effective retirement age is supported by an econometric analysis that sought to take better account of the complexity of the retirement decision process.[9] By using pooled cross-country time-series regressions, covering 15 countries over the period 1971-95, this earlier OECD study found that these policies contributed significantly to the decline in employment of older male workers, although the deterioration of labour market conditions in many countries also played a significant role.[10]

Policies towards delaying retirement

Distortions to labour-leisure decisions should be removed

If, because of the effect of ageing, people should not be encouraged to leave the labour market prematurely, governments should reduce distortions to labour-leisure decisions which reduce labour supply.[11] Policies are now moving in this direction and various measures have been legislated and phased in gradually – although sometimes with a long delay. The following only describes those policies targeted directly at premature withdrawal of older workers. Other measures, such as direct or indirect cuts in pension replacement rates, may also increase the effective retirement age as with lower pensions people may continue to work longer to sustain a higher living standard.[12] Policies to increase labour supply of older workers can be grouped under three categories: *i)* increasing the earliest and/or the standard age of retirement; *ii)* increasing the link between contribution years and benefits; and *iii)* tightening non-pension transfer programmes which permit an early withdrawal from the labour market.

Raising the earliest and/or the standard retirement age

Official retirement ages should be increased…

Reforming normal old-age pension systems by raising the earliest age of retirement or the standard age at which a full pension is paid could be an efficient way to delay retirement, but only if at the same time the other pathways to early

9. See S. Blöndal and S. Scarpetta, *op. cit.*
10. According to these estimates, the decline in the standard retirement ages in France (from 65 to 60), in Ireland from (70 to 66) and in Sweden from (67 to 65), reduced labour force participation of older workers in these countries by 5.5, 4.4 and 2.2 percentage points, respectively.
11. As a general rule, governments should reform policies that distort the decisions taken by private individuals. In this specific case, ageing makes the rule especially compelling.
12. Only a few countries have cut replacement rates directly (such as Germany) but a number of countries have changed indexation or increased the number of years of contributions to base pensions, all of which are indirect ways to reduce replacement rates.

retirement are blocked. A number of countries have changed retirement ages. New Zealand has progressively increased the standard retirement age from 60 to 65. Canada has introduced a flexible retirement age from 60 to 70. In the United States, the standard age of retirement has been increased from 65 to 67, but this change will be fully phased in only by 2022. Italy and Hungary have also raised the standard age of retirement (from 60 to 65 and from 60 to 62, respectively). Japan and Korea (where the retirement age for the state pension is 65 and 60, respectively) have increased the retirement age for flat-rate benefits from 60 to 65 and in Japan the age for the income-related pension will also increase at a later date. In Finland a flexible retirement age between 62 and 67 is planned. Iceland has raised the retirement age of public sector workers. Belgium, Germany, United Kingdom, Australia, Austria, Hungary and Italy (for new entrants) have increased the retirement age of women so that it will be equal to that of men (sometimes after a long phasing-in period). But Denmark went in the other direction by lowering the normal retirement age from 67 to 65, although conditions for early retirement were tightened at the same time.

Reducing the implicit tax on continuing working

… and pension systems should be more neutral

Measures have been taken to make pension systems more neutral (or actuarially fair), so that if people retire later (and contribute more), their pensions will be increased accordingly. This reduces or eliminates the implicit tax on continuing working. The most radical reforms in this respect were implemented in Sweden, Italy, Poland and Hungary where public pensions are being progressively transformed from defined benefit systems to Notional Defined Contribution systems (NDC). In these systems pension benefits depend on accumulated contributions; these are registered in notional individual accounts which are transformed into an annuity at retirement; the replacement rate declines with average longevity and working longer increases the individual replacement rate. The level of benefits also depends on the administratively fixed (*i.e.* the notional) rate of interest. If this is set at the rate of growth of the contribution base (the wage bill), the replacement rate is reduced to a level where pension expenditure is adjusted to revenues so that the system is sustainable over the longer run (but not necessarily in the short-term). But, in practice, the formulae used in NDC systems to calculate pensions do not necessarily guarantee fiscal sustainability, so that further adjustments may be needed in the future.[13] Other countries (as Germany, Finland, France and Iceland)[14] which are still running Defined Benefit (DB) systems have also reduced the implicit tax rates by increasing pension accrual rates so that the replacement rate increases more if people work longer. Australia is following a somewhat different

13. See D. Franco, "Italy: a never-ending pension reform", paper presented at the NBER-Kiel Institute Conference in March 2000; O. Settergren, "The automatic balance mechanism of the Swedish pension system – a non-technical introduction", in: *Wirtschaftspolitische Blätter*, 4/2001; H. Oksanen, "Pension reforms: key issues illustrated with an actuarial model", European Economy, *Economic Paper*, No. 174, 2002. For Poland and Hungary there remains a "pay-as-you-go" component to the pension system. See A. Burns and J. Cekota, "Coping with population ageing in Hungary", *OECD Economics Department Working Papers*, No. 338, Paris, 2002.
14. Germany has introduced benefit reductions for early retirement and benefit increases for late retirement. Finland has raised the rate at which benefit rights are accrued for persons age 60-64 and Iceland has raised the accrual rate for workers over 65. France has extended the contribution period (in private sector markets only) for access to a full pension (from 37½ years to 40 years).

approach by granting a tax-free bonus for people working after the standard pension age. Spain also introduced tax incentives for workers above 65. The forthcoming pension reform in Finland includes a significant increase in the accrual rate to encourage work beyond 62 years.

Reducing early retirement incentives in other schemes

Alternative pathways towards early retirement should be blocked

Replacement rates and implicit tax rates on continuing working have also been high where there is relatively easy access to alternative pathways to withdraw from the labour market. In the past special early retirement pensions, unemployment-related benefits and disability schemes have often been used to bridge the time until people are entitled to receive the normal old-age pension.[15] These schemes have offered relatively high replacement rates and have at the same time imposed an implicit tax on continuing working. Furthermore, generous private occupational pension schemes in combination with severance payments of firms have also stimulated early retirement. In order to delay retirement a number of countries (such as Germany, Belgium, Italy, Finland, Netherlands, Hungary, United Kingdom and Canada) have started to tighten access to early retirement pension, disability benefits and/or unemployment-related schemes and/or making these less generous and strengthening job-search requirements for older unemployed workers. But, some countries went in the other direction by introducing an early retirement scheme (Norway) or making the existing system more generous and accessible to unemployed older workers (Spain).

Incentives for early retirement still exist, even after recent reforms

Policies are now moving in the right direction but more remains to be done

Both above-mentioned components of the overall fiscal incentive to retire, the replacement rate and the implicit tax rates have been calculated including recent reform measures. The new analysis includes measures which have been legislated including those that have been not yet fully implemented. Calculations have been carried out for all ages between 55 and 70 for a full-career worker with average earnings (APW).[16]

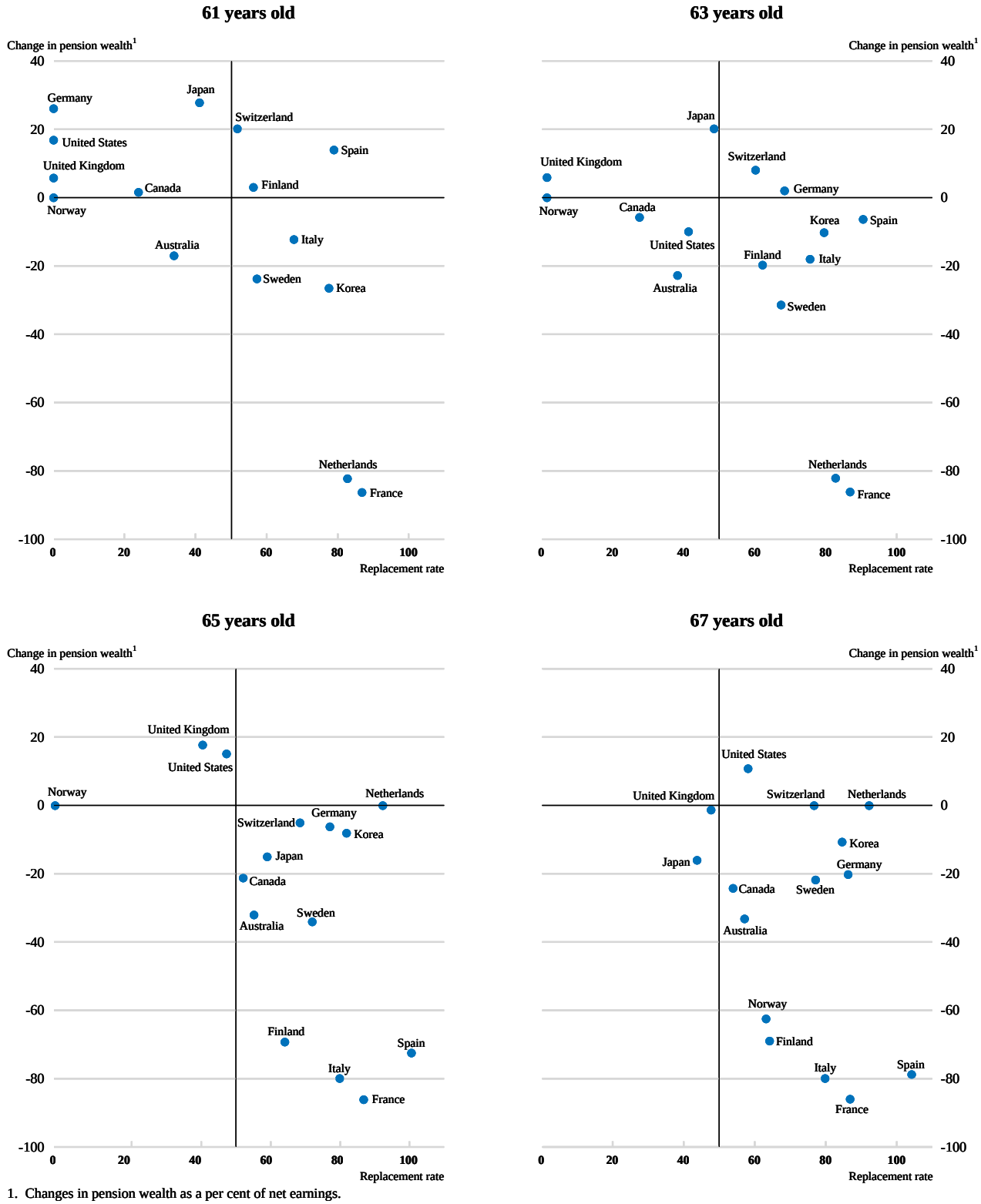
Retirement under normal old-age pension system

Pension systems are not neutral

The calculations show that before the age of 60 there are almost no incentives to retire from the regular old-age pension system. The only exceptions are Italy, where the earliest retirement age is 57 and the replacement rate is above 50 per cent, and Australia, where individuals can draw on their mandatory savings from 55 on. Figure V.3 shows the replacement rate and the change in pension wealth (relative to net-of-tax earnings per year) for a worker (with average earnings and a full working career) at the

15. Such early withdrawal of older workers from the labour market was sometimes conditioned upon their length of unemployment, their employer replacing them with an unemployed person, or their location in regions of high unemployment.
16. Calculations have also been carried out for workers with lower and higher earnings but are not presented here. As the focus is on a single worker with a full working history the approach does not consider that work/leisure decisions may be determined on a household basis taking into account income of other family members.

Figure V.3. **Replacement rates and change in pension wealth under regular retirement schemes by age**



1. Changes in pension wealth as a per cent of net earnings.
Source: OECD.

ages of 61, 63, 65 and 67. Where replacement rates are low (for example below 50 per cent) the incentive to retire at those ages is low. With higher replacement rates (above 50 per cent) the incentive to retire increases. This is reinforced if continuing working leads to a fall in net pension wealth (*i.e.* an implicit tax) which is the case in countries which are located in the lower right hand side quadrant in Figure V.3. As can be seen from this Figure as workers are approaching the age of 65 more countries are placed in this quadrant where the incentives to retire are relatively strong; in some countries significant incentives to retire exist already at the age of 61 and 63.

Retirement under special provisions

Implicit tax of all welfare programmes should be reviewed

As mentioned above, old-age pension systems are only one path for withdrawing from the labour market. Other schemes, such as special early retirement schemes, unemployment benefits, disability pensions and private occupational pensions are other channels whereby individuals can withdraw from the labour market before the regular retirement age is reached. Such programmes exist in most countries, but they are more widely used in some than in others. Entitlement conditions play a critical role in determining to what extent such programmes can be used to exit the labour market. If these conditions are relatively lax high replacement rates and implicit tax rates can provide strong disincentives to continue working. The results presented here for illustrative purposes for selected countries suggest that these schemes still provide relatively strong incentives to retire well before the statutory retirement ages. This is the case because individuals receive a pension over a longer period. In addition, they often accumulate their old-age pension rights (although sometimes at reduced rates) in many of these programmes even though they are not working, *i.e.* they obtain a higher pension for free. When they switch onto full retirement benefits their replacement rates are higher than they would be if only the years of work were taken into account.

Unemployment and other early retirement programmes

Unemployment related-schemes interact with pension schemes

Incentives arising from unemployment programmes for Finland, Germany, the Netherlands and the United Kingdom are shown in Figure V.A.1 in the Appendix along with separate early retirement arrangements that are available to older workers following redundancy for France and Spain.[17] For unemployment, Figure V.A.1 shows the replacement rate in the year that the person becomes unemployed as well as the change in the pension wealth associated with working an additional year. It is assumed that each individual will remain unemployed until retirement can be taken and use all the available programmes over the pre-retirement period.[18] These can differ from country to country but could include mixes of unemployment benefits, unemployment pensions, unemployment assistance and social assistance.[19] For each

17. For France, it includes the programme under the Fonds national de l'emploi. For Spain, this concerns "jubilación anticipada".
18. The replacement rate averaged over the entire pre-retirement period should be lower than the rate in the first year of unemployment as individuals move from unemployment benefits to social assistance. But, this difference would tend to narrow with age: individuals falling unemployed at 55 are more likely to fall onto social assistance than those falling unemployed at, say, age 59.
19. For example, in the case of Germany, the individual falling unemployed at 55 would have first, an unemployment benefit at 60 per cent (single person rate) for 26 months, and then the income-tested unemployment benefit at 53 per cent before moving on to social assistance benefit. The unemployment benefit increases to 32 months for those 57 and over.

programme the benefit levels as well as the rules for accumulating old-age pension rights are taken into account in calculating pension wealth.

… and provide strong incentives to retire early

The results for unemployment benefits indicate that initial replacement rates are high, generally above 60 per cent with the exception of the United Kingdom where it is only around 20 per cent.[20] Changes in pension wealth are negative although only marginally so in the case of the United Kingdom reflecting the low level and flat rate nature of the benefits. Changes in pension wealth become more sharply negative for those individuals falling unemployed after 59-60 as at this stage early retirement arrangements under the old age benefit system become available. The special early retirement arrangements for redundant workers are available from 57 in the case of France and 60 in the case of Spain. For France there are high and stable replacement rates from this age and the change in pension wealth from an additional year of work is strongly negative through the pre-retirement period, indicating a clear incentive to retire. Replacement rates for Spain are also high for workers falling unemployed at 60 but, in contrast to France, replacement rates rise steeply for each additional year of work. As a result, the change in pension wealth from an additional year of work is positive and there is an incentive to delay retirement on the basis of this measure.

Disability pensions

Disability pensions are often used as a pathway towards early retirement

The impact of disability systems on retirement incentives was evaluated for Finland, Germany, the Netherlands, Norway and the United Kingdom. The calculations assume that the individual becomes disabled (or becomes classified as disabled) at the specified age and remains so until the earliest date when retirement benefit can be obtained. As in the case of unemployment, the replacement rate is the rate at the time the individual is classified as disabled at the age specified. This rate is around 30 per cent for the United Kingdom. Replacement rates are around 60 per cent for all other countries except the Netherlands where it is above 80 per cent.[21] The change in pension wealth is significantly negative in all countries through the period, although, less so for the United Kingdom, reflecting the lower level of benefit. As a consequence, disability schemes encourage early retirement (Figure V.A.2 in the Appendix). The relatively high inflow of older workers to disability pensions in some countries may therefore reflect such incentives to retire rather than differences in health problems. For example, in 1999 inflows to disability programmes in both age-groups 55 to 59 and 60 to 64 were above-average in Norway, Sweden, Portugal and Germany and in the age-group 55 to 59 in addition in Austria, the United Kingdom and Australia, three countries in which women can retire regularly before age 65.[22]

20. However, as noted, the replacement rate averaged over the overall pre-retirement period would be lower than this.
21. Disability benefits tend to be constant over time and are thus less likely to change than for unemployment benefits (which can be exhausted). In the Netherlands benefits do, however, change over time, thus significantly reducing the replacement rate for those people whose disability occurred early in life. For a person age 35 at the time a disability benefit is granted, the replacement rate can go down to as low as 55 per cent, although collective agreements sometimes would ensure a 70 per cent replacement rate throughout the period until age 65.
22. See OECD, *Transforming Disability into Ability, Policies to Promote Work and Income Security for Disabled People*, forthcoming.

Private occupational pensions

Occupational pensions also help to retire earlier…

As mentioned above private employer-employee arrangements can also permit earlier retirement, in the absence of access to public insurance and transfer programmes. These private arrangements exist in many countries under various forms (lump sum redundancy payments or "bridge pensions" until the individual becomes eligible for public pensions). They are particularly important in countries with significant (but not mandatory) company and occupational pension schemes, such as Canada, the United Kingdom and the United States. Calculations have thus been made for these countries alone for "typical" pension arrangements and the results are shown in Figure V.A.3 in the Appendix.[23] This, however, can only give very broad orders of magnitude of overall replacement rates and changes in pension wealth and masks considerable variation across enterprises or industries. Taking 60 as the earliest retirement age, replacement rates vary considerably in the examples chosen, ranging from around 45 per cent in the United States to over 70 per cent in the case of the United Kingdom. However, replacement rates increase sharply to around 90 per cent in the United States at 62 when individuals become eligible for the Social Security pension.[24] There are substantial increases in benefits in all countries for those delaying retirement until 65. Changes in pension wealth for an additional year worked are generally positive through the early retirement period but become sharply negative after 65.

… in particular when more generous in case of redundancies

However, in many cases firms offer improved conditions for early retirement in the case of redundancies, for example by waiving the actuarial reduction in pensions for earlier retirement such that pension benefits are closer to the levels the individual would have had at 65.[25] To assess the possible impact of such a measure, the replacement rates and changes in pension wealth have been calculated for the United Kingdom and Canada on the basis of no actuarial adjustment for earlier retirement. A comparison of the results with and without actuarial adjustment suggest, that waiving the actuarial adjustment can provide a considerable incentive towards early retirement: the replacement rate is higher and the changes in pension wealth become negative in the United Kingdom, from about 60, and in Canada from 62.

Conclusions

A broad policy approach can help…

Future demographic trends reinforce the need for governments to roll back existing incentives for early retirement. Measures to this end need to be integrated within a broad policy approach aimed at reforms to both pension systems and other social programmes, so as to reduce discouragement of labour market activity in later life. This policy should ensure that the implicit tax on income from working an additional year is

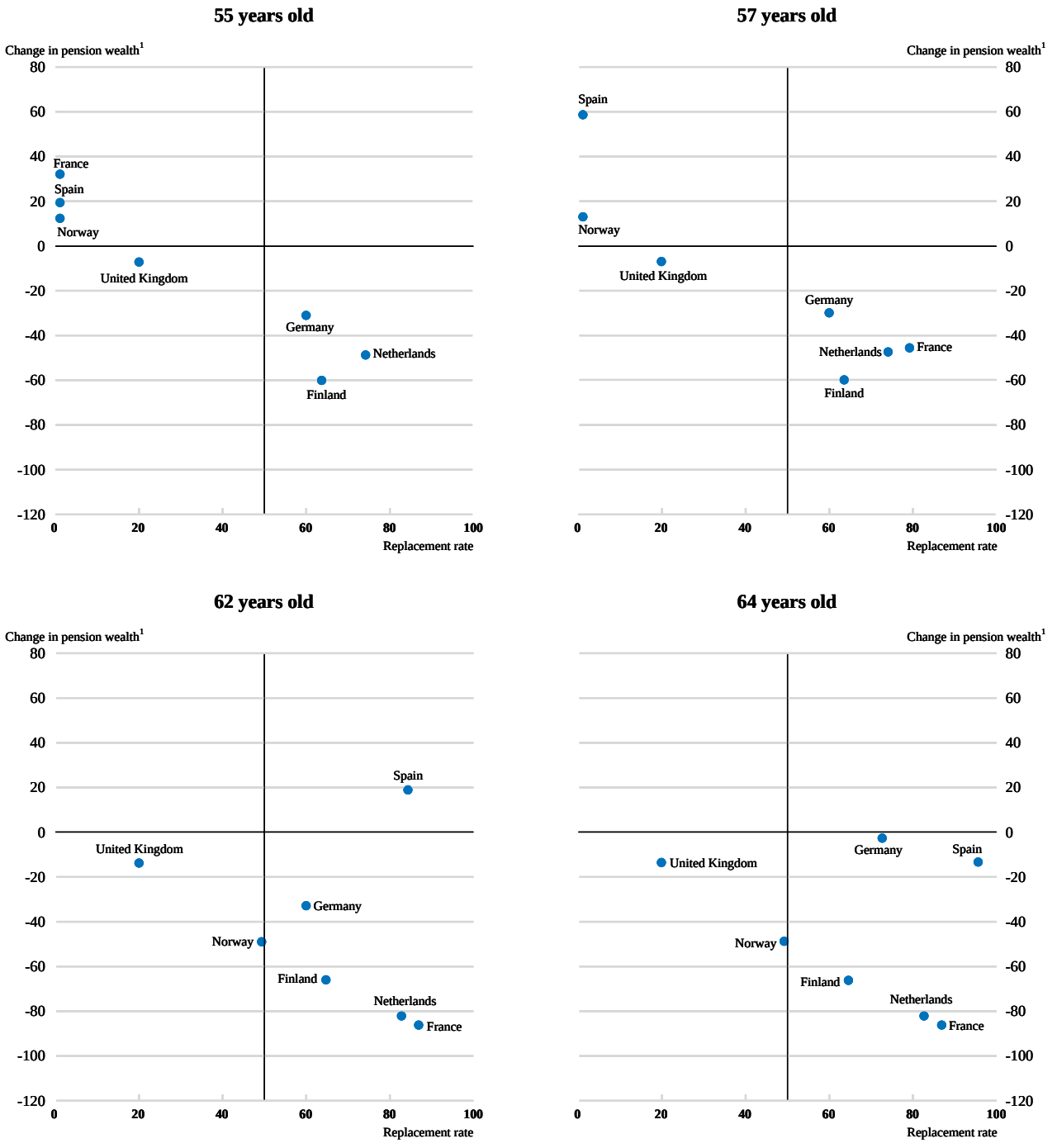
23. These calculations are based on the assumption that early retirement is possible from 60 with full retirement at 65.
24. Note that the values on a pre-tax basis are considerably smaller. This reflects the relatively generous tax provisions for the retired in the United States.
25. For example, some companies in the United States have adjusted their benefit formula to increase the incentive to retire early at specific ages. In some "early out" arrangements, all employees of a certain class and number of years of service are offered an additional sum of money for retiring. While employees are not obliged to take this offer they typically do so. See OECD, *Reforms for an Ageing Society*, Paris, 2000.

close to zero and that replacement rates are consistent with both adequate income in retirement (particularly at the bottom of the income scale), the maintenance of appropriate work incentives and longer-term fiscal sustainability.

… to better cope with ageing

This analysis has shown that policies are now shifting in the direction of no longer discouraging employment of older workers. However, important incentives for an early withdrawal from the labour market are still in place, particularly in continental Europe, where employment of older workers is currently relatively low. Thus, further measures are urgently needed to make pension systems neutral with respect to the age of retirement and to tighten eligibility conditions for unemployment benefits and disability pensions and to remove tax incentives for early occupational pensions. Such policies need to be combined with improving framework conditions for job creation in general and working conditions for older workers in particular. This would help to better adjust the effective retirement age to rising life expectancy and to alleviate the pressure from ageing populations on government budgets and on living standards of both younger and older generations.

Appendix Figure V.A.1. **Replacement rates and change in pension wealth under unemployment and other schemes by age, average production worker wage**

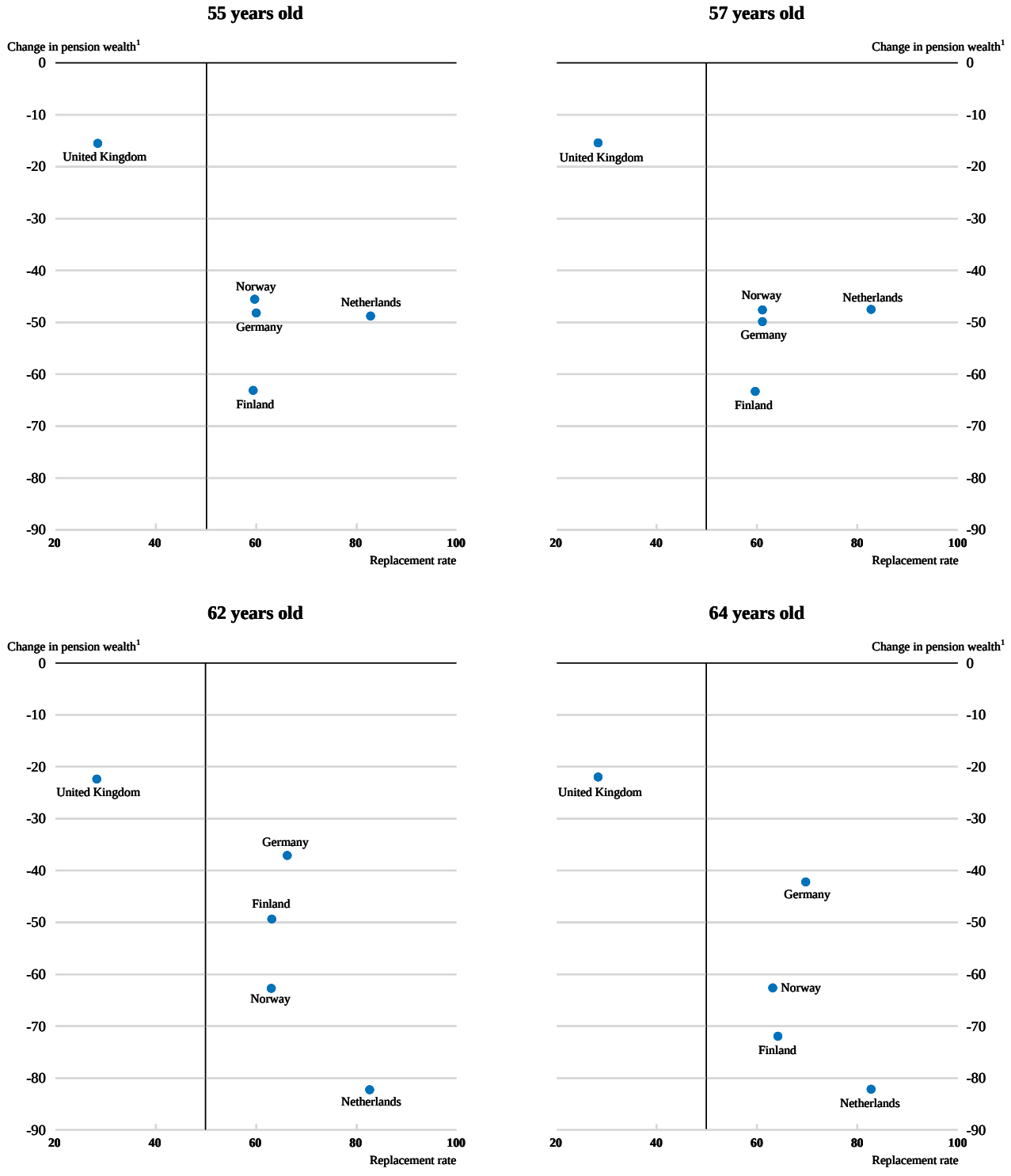


Note: For unemployment (Finland, Germany, the Netherlands and Norway) the replacement rate refers to the unemployment benefit at the time the person falls unemployed relative to the preceding wage.Replacement rates and pension wealth are calculated for individuals falling unemployed at each age.
The estimate of pension wealth assumes that the individual continues on unemployment benefit until they are exhausted. If this occurs before earliest age for receipt of for old-age retirement benefits is reached, the individual is assumed to fall back on unemployment assistance or social assistance benefits (which are normally income tested) at a lower replacement rate for the intervening period.For the special early retirement schemes (France and Spain), the method follows that indicated under the regular retirement schemes.

1. Changes in pension wealth as a per cent of net earnings.

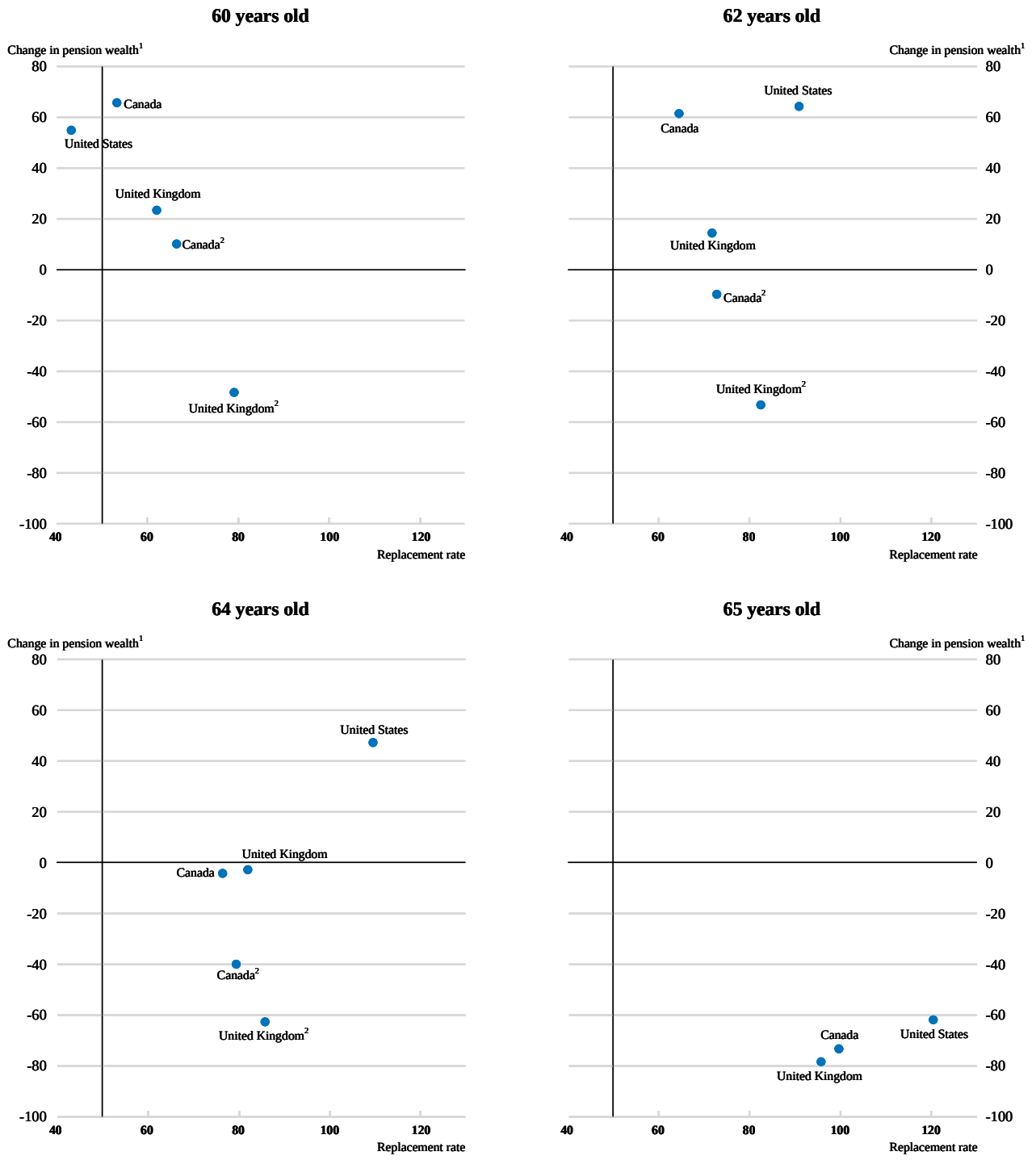
Source: OECD.

Appendix Figure V.A.2. **Replacement rates and change in pension wealth under disability schemes by age, average production worker wage**



Note: The replacement rates is the rate assuming that the individual is classified as disabled at that age.
For pension wealth, the individual is assumed to remain disabled until the earliest age at which old-age retirement benefits can be obtained and then switch to the old-age benefits.
1. Changes in pension wealth as a per cent of net earnings.
Source: OECD.

Appendix Figure V.A.3. **Replacement rates and change in pension wealth under occupational pension schemes by age, average production worker wage**



Note: The replacement rates and pension wealth take into account both the benefits from the public old-age retirement schemes and occupational pensions. Individuals are assumed to have worked their entire careers for the same firm and obtain a defined benefit pension on the basis of a "standard" scheme.
1. Changes in pension wealth as a percent of net earnings.
2. For Canada and the United Kingdom, the calculations have also been made allowing for no actuarial adjustment for retirement before the normal retirement age of 65. This provides a rough indication of the impact of one kind of measure used by firms to ease the effects of redundancy on their staff.
Source: OECD.

VI. PRODUCT MARKET COMPETITION AND ECONOMIC PERFORMANCE

Introduction

Product market reforms can yield significant economy-wide benefits

All OECD countries rely fundamentally on competition in product markets to organise production. Indeed, the advantage of competitive markets over command-and-control systems is generally recognised. Even so, it is often difficult to provide empirical evidence of the effect of incremental changes in the intensity of competition for aggregate economic performance. This is partly because product market competition is only one among many factors influencing key aggregate performance indicators, such as productivity and employment. OECD work,[1] however, has identified an empirical connection between strong competition in markets for goods and services and better productivity and employment outcomes.

Competitive pressures are important in explaining economic performance

This chapter examines the main channels through which competition affects aggregate economic performance. Bearing in mind the methodological difficulties, it also provides some rough indications of the possible gains in performance that could arise from reforms to intensify product market competition. The empirical evidence suggests that differences in competitive pressures have played an important role in explaining the variation in economic performance across OECD countries. It also indicates that product-market reforms that enhance competition will have positive effects on employment performance.

Competitive pressure is important for productivity and innovation

Competition leads to both one-time and ongoing gains in productivity

Increased competition can lead to both one-time and ongoing gains in multi-factor productivity (MFP), *i.e.* the combined productivity of labour and capital. One-off efficiency improvements (described as "static gains") arise both from better resource allocation and from less slack in the use of inputs in response to greater pressures to perform.[2] Ongoing (or "dynamic") gains relate to enhanced efforts to innovate and faster diffusion of innovations.[3] While there is general consensus that stronger competition leads to static efficiency gains, there has been some controversy about the link between competition and dynamic gains. The main issues involved are briefly examined below before some overall numerical results are provided.

1. See OECD (1997), Chapter IV, in OECD (2000) and the sector-specific papers contained in OECD (2001).
2. Less slack in the use of input is often referred to as reduced "X-inefficiency".
3. The distinction between static and dynamic gains is employed mainly to facilitate the presentation. Factors that logically imply a shift in the level of output are by definition static, but where transition processes are protracted growth rates may be affected over longer periods. Hence, the distinction is not independent of the time horizon of the analysis.

Encouraging efficient allocation and use of resources – the static gains

Static gains arise through more efficient allocation and less slack

Firms operating under imperfect competition may seek to depress output in certain activities to create scarcity rents, thereby forcing resources to move to other activities where they are not employed as productively. However, even if imperfect competition is widespread, the welfare costs associated with such static resource misallocation are not by themselves likely to be very large (Harberger, 1954; Scherer and Ross, 1990).[4] A different channel for imperfect competition to impair performance is through weaker incentives for production efficiency. Indeed, productivity has often been observed to improve markedly following regulatory reforms in previously sheltered industries,[5] indicating that the imperfect competition found in regulated sectors tends to be accompanied by excess use of labour or other forms of slack.

Inefficiencies may be related to weak governance structures…

These inefficiencies appear to be related to weak governance structures, since there is no other apparent reason why owners of monopoly firms should be more prone to accept lower efforts from managers or staff than owners of fully competitive firms (Nickell, 1996). Indeed, it may be difficult for owners of monopolistic companies to enforce "maximum efforts" even if they intend to, since in markets with little competition there is a lack of other firms to serve as a standard of reference and the threat of corporate failure may be limited.

… and are amplified by imperfectly competitive labour markets

The distortionary effects of monopoly will be amplified when product market rents are shared with workers in the form of supra-normal wages. The empirical finding that wages differ across industries even after taking individuals' and employers' characteristics into account suggests that such rent sharing is widespread, especially as the wage premia are correlated with measures of competition intensity. Such spillovers of product market distortions to labour markets will lead to inefficiently low labour use in the rent-generating industries and, more generally, will adversely affect the functioning of the labour market (see below).

Driving forth dynamic efficiency gains

Dynamic gains arise from increased innovative activity

While efficient use and allocation of resources at any moment in time is obviously important, in the medium and long run, it is dynamic efficiency that matters most for growth in living standards. Indeed, increased input of capital and labour (hours worked) has contributed far less to *per capita* GDP growth in industrialised countries than has the residual "technological change" through improved production practices and equipment (OECD, *forthcoming*).

Innovation and diffusion of new technologies are engines of growth…

The role of innovation and diffusion of new technology as engines of growth is empirically well established from firm and industry-level studies (*e.g.* see Ahn, 2002; Nadiri, 1993), while cross-country evidence of the aggregate magnitudes has been more limited. However, recent empirical work at the OECD has found that innovation activity, proxied by aggregate R&D intensities, has a clear positive

4. This result rests on the assumption that production efficiency levels and input markets are unaffected by monopoly. However, Browning (1997) finds that the welfare loss from imperfect competition that is attributable to labour supply distortions is around ten times higher than the welfare losses arising from the standard resource misallocation costs estimated by Harberger (1954).
5. See *e.g.* OECD (1997) and Gönenç *et al.* (2001).

effect on output.[6] Thus, the estimation results by Bassanini and Scarpetta (2001) suggest that, at a minimum, a 0.1 percentage point increase in the share of business-sector R&D spending in GDP boosts the level of GDP *per capita* by 1¼ per cent in the long term. Considering that the variation in the business sector's R&D intensity across countries is significant (the standard deviation is 0.6) this is a sizeable effect.[7]

These results, however, need to be interpreted cautiously. While R&D spending has the advantage of being quantifiable, it is an imperfect indicator of innovation if only because it measures inputs to rather than outputs from the innovative process. In addition, there are important aspects of the innovative process that are not captured by R&D spending. For example, organisational change may also be very important. There are also important complementary effects between innovation and human capital development, which escape a crude indicator like R&D spending. Thus, while R&D expenditure is often employed in empirical studies, the results should be thought of in this broader context, acknowledging interdependencies with other omitted factors.

… and increased competitive pressures enhance innovative efforts

The relationship between competition and innovation has been intensively debated with opposing claims as to whether monopoly or fierce competition in atomistic market structures is most conducive to the creation of new products and processes.[8] Using the extent of anti-competitive product market regulation (PMR) as a proxy for the strength of product market competition, the cross-country pattern of R&D intensity and the extent of product market competition suggests an inverse relationship (Figure VI.1).[9] This is consistent with findings in recent OECD work that accounts for other determinants of R&D intensity, notably the degree of intellectual property rights protection (Nicoletti *et al.*, 2001; Bassanini and Ernst, 2002). This work also suggests that non-tariff trade barriers have a negative impact on R&D. Other recent research, however, has found a hump-shaped relationship, *i.e.* indicating that neither monopoly nor highly competitive atomistic market structures are the most advantageous to innovation (Aghion *et al.*, 2002). This evidence suggests that, beyond a certain point, market power tends to reduce the incentive to adopt and develop new technology and better production methods, but that some minimum scale may be needed for having the resources to engage in R&D.

The overall effect of increased product market competition

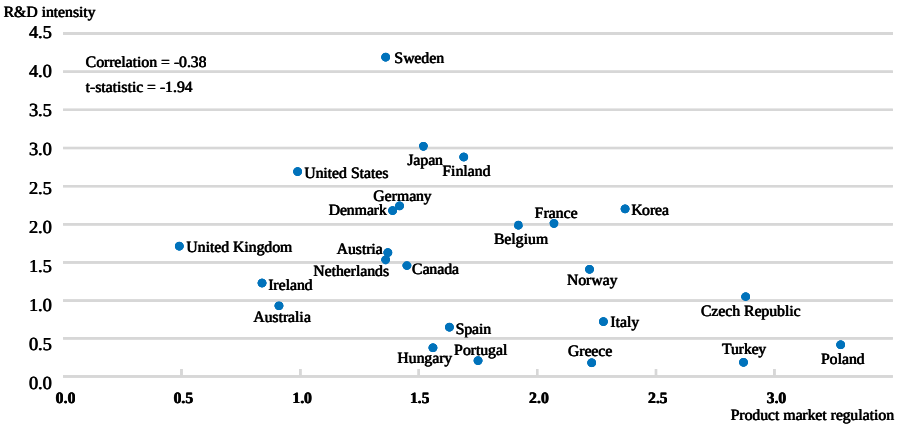
Pro-competititve regulatory frameworks increase productivity…

Recent OECD analysis shows that a more pro-competitive regulatory framework has a significant positive effect on the level of MFP in the long term (Scarpetta and Tressel, 2002). It indicates that, within individual industries, product market regulation may determine the extent to which productivity growth closes the technology gap, *i.e.* the distance to the international technological frontier. According to the

6. This does not preclude the possibility that high levels of GDP per capita induce high R&D spending.
7. The results reported in Bassanini and Scarpetta can be given a different interpretation, namely that a 0.1 percentage point increase in the share of business-sector R&D spending in GDP leads to an increase in per capita output growth of 0.3 to 0.4 percentage points. Such a sustained growth effect appears unrealistically high. The high-low difference in average MFP growth across countries over the past two decades has been around 1¼ percentage points. At face value, an effect of this size would imply that such growth differences could be fully accounted for by much smaller differences in the R&D intensity than its actual standard deviation of 0.6 per cent of GDP.
8. See Ahn (2002) for an overview.
9. Stronger product market regulations imply weaker product market competition. Detailed information on the construction of the PMR indicator is provided in Nicoletti *et al.* (1999). Here it suffices to say that it pertains to regulatory frameworks in 1998 and that it is based on a weighted aggregation of a large number of sub-indicators pertaining to specific regulatory features.

Figure VI.1. **R&D intensity and product market regulation**[1]

1998



1. The OECD summary index of product market regulation is from Nicoletti *et al*. (1999). R&D intensity is defined as business enterprise expenditure on R&D as a percentage of value added in industry.

Source: OECD.

estimates, an alignment of the regulatory stance in OECD countries to that of the countries with the most pro-competitive stance could reduce the technological gap by as much as a half in Greece and a quarter in Norway and Portugal, all of which have relatively heavy regulation.[10] The reductions in the gap would, however, be comparatively small in Canada, the Netherlands, Denmark and Sweden, partly due to their somewhat more competitive stance initially.

The corresponding increases in the levels of MFP would depend on the absolute level of the technological gap. In most countries, including Japan and the large continental European countries, the increases in the level of MFP could range from 2 to 6 per cent. In Greece and Portugal, MFP could increase by 10 per cent or more, reflecting comparatively strict regulations in product markets and relatively large distances from the technological frontier. To put these results into context, the estimated potential gains in MFP would correspond to several years of growth at the average rate of MFP growth over the 1981-2000 period (Table VI.1).

… and mark-ups can impact on MFP growth rates

Using estimates of price-cost mark-ups as a proxy for the intensity of competition, other studies find a positive and significant long-term effect of product market competition on MFP growth. For example, Nickell (1996) finds a negative relationship between the size of price-cost margins and productivity growth. On a panel of British manufacturing companies he found that an increase of 10 percentage points in the mark-up was associated with a loss in MFP growth by between 1.3 and 1.6 percentage points.[11] These results suggests that product market competition may

10. Table 8 in Scarpetta and Tressel (2002) shows how a one standard deviation change in PMR would affect the technological gap. The magnitudes referred to in the text are obtained by multiplying this effect with the difference in PMR regulations *vis-à-vis* the least restrictive countries expressed as a multiple of the standard deviation.
11. It is uncertain whether these results are transmittable to non-manufacturing industries (and hence the economy at large). On the one hand, services are less traded internationally and less exposed to competition from abroad. This may facilitate higher average mark-ups in service industries and perhaps result in greater cross-country differences. On the other hand, the link between mark-ups and MFP growth may be weaker in service industries as the potential for technology-induced MFP gains are smaller.

Table VI.1. **Trends in multi-factor productivity growth, 1981-2000**

	1981-1990	1991-2000	1981-2000
Average MFP growth	1.4	1.4	1.4
Low[a]	0.3	0.5	0.6
High[b]	1.8	1.9	1.7

Note: Due to limited data availability, it has not been possible to calculate figures for eight OECD countries: Czech Republic, Hungary, Luxembourg, Mexico, Poland, Portugal, Slovakia and Turkey.
a) Average of the five countries with the lowest MFP growth between 1981 and 2000.
b) Average of the five countries with the highest MFP growth between 1981 and 2000. Excluding Korea and Ireland.
Source: OECD.

have significant effects on growth, especially when compared with the observed cross-country differences in overall MFP growth over the past two decades.

Product market reforms have positive spillover effects on labour market outcomes

Stronger product market competition will increase real wages…

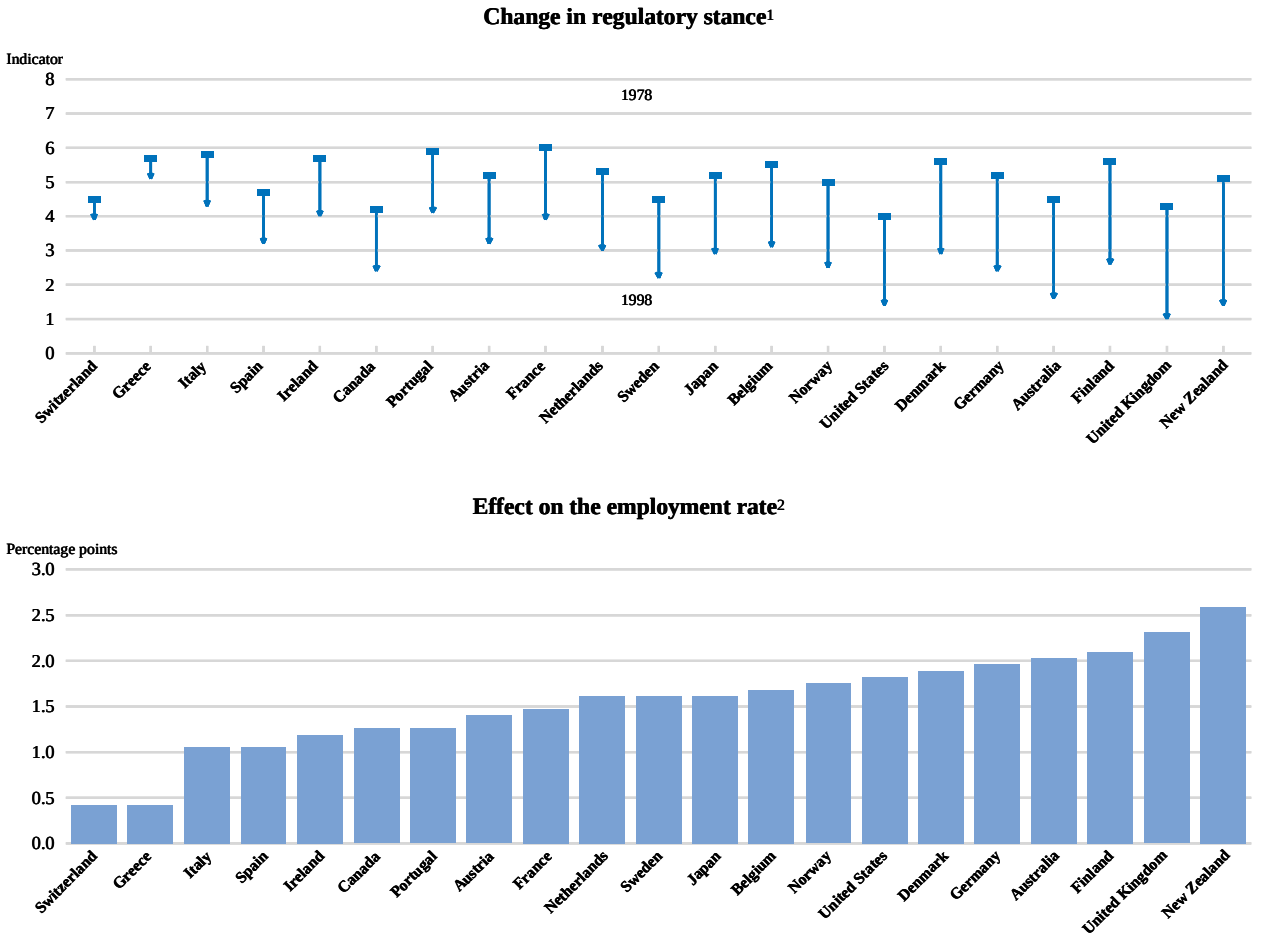
Reforms to enhance product markets will boost real wages via lower prices arising from increased competition. However, the impact on aggregate real wages could be attenuated somewhat if wage *premia* are widespread prior to the reforms since stronger competition will lower product market rents and thereby reduce the scope for rent-sharing. The effect of increased product market competition on employment levels is not as straightforward and, depending on the characteristics of the labour market, can yield modest or larger gains in employment. In the textbook case of fully flexible labour markets, employment will only rise to the extent that the rise in real wages stimulates labour supply. In practice, labour markets in the OECD are characterised by rigidities to various extents,[12] and under these circumstances an increase in product market competition can have a significant impact on employment, especially if it induces changes in the functioning of the labour market.

… and improve the functioning of the labour market…

Indeed, there are reasons to believe that labour market institutions can interact with increased product market competition so as to diminish structural unemployment. Such interactions could take several forms. Greater competition in product markets may harden the bargaining position of employers and increase the perceived employment costs of pressing for higher real wages, thereby leading to lower unemployment. A reduced incidence and extent of rent sharing will tend to make it less attractive for workers to search intensively for employment opportunities in "high-wage" sectors and instead more readily accept available jobs, thereby lowering "wait" unemployment. As unemployment benefits are often related to past wages, including any rent components, more product market competition might also reduce unemployment benefits for workers displaced from previously less competitive sectors, thereby also enhancing job search incentives.

12. See OECD (1999).

Figure VI.2. **Product market liberalisation and labour market performance**



1. Reports changes in the regulatory stance in seven non-manufacturing industries (gas, electricity, post, telecommunications, passenger air transport, railways and road freight) between 1978 and 1998. The regulatory stance is measured by a synthetic indicator ranging between 0 (least restrictive) and 6 (most restrictive).
2. Estimated contribution to the change in the non-agricultural business sector employment rate.

Source: Nicoletti *et al*. (2001).

… though employees in some industries may initially be adversely affected

While these effects will tend to reduce unemployment and boost employment in the long term, there could be significant short-term adjustment problems. Lack of product market competition not only frequently spills over into wages but also to productivity levels and increased competition may sometimes be associated with a labour shake-out from the sector in question. Since such effects are often an important political barrier to product market reforms, it is essential to create a widespread recognition that such reforms can also be the source of the potential welfare gains. To facilitate the acceptance of the related adjustment, it is important that labour set free as a result of increased competition be re-employed as quickly as possible. It is therefore a concern that countries with restrictive regulation of product markets, and a corresponding need for reforms to boost competition, also tend to have relatively highly regulated labour markets (Nicoletti *et al*., 1999).[13]

13. Active labour market policies, such as job search assistance and training, can help to speed up the adjustment to a more competitive environment.

While past market reforms have increased employment…

A recent study by Nicoletti *et al.* (2001) found a significant effect of regulatory reforms on the employment rate in the business sector (excluding agriculture) even after controlling for the impact of various labour market indicators and the public-sector employment rate. The study applied a time-varying indicator of the regulatory stance in seven network industries from 1978 to 1998 to represent the evolution of the general regulatory framework in individual countries.[14] Although the speed of progress varied, substantial regulatory reforms were implemented in all OECD countries over this period, increasing individual countries' employment rates by an average of 1½ and up to around 2½ percentage points where reforms have been pursued most vigorously (Figure VI.2).

… there is still significant scope for additional gains

Nonetheless, there is significant scope for additional gains in employment via product market reforms. Indeed, the estimates of Nicoletti *et al.* (2001) suggest that if countries with the most restrictive regulation moved towards the situation in the least restrictive countries, they might envisage an average increase in their employment rate of 1½ to 2 per cent.[15] Smaller, but nevertheless noticeable gains could also be obtained in countries with more pro-competitive regulations of product markets.[16]

14. See Nicoletti *et al.* (2001) for further detail on the construction of the indicator.
15. This figure is obtained by applying the estimation result in Nicoletti *et al.* (2001) (Table 13, column 3) to the observed variation in 1998 in the time-varying PMR indicator (Figure 1, panel A).
16. These figures tend to underestimate the potential employment gains from product market reforms because they do not take into account the possible indirect effects of these reforms on labour market arrangements (*e.g.* the effects of enhanced product market competition on the bargaining power of insiders).

BIBLIOGRAPHY

AGHION, P., N. BLOOM, R. BLUNDELL, R. GRIFFITH and P. HOWITT (2002), "Competition and innovation: An Inverted U Relationship", *The Institute for Fiscal Studies, Working Paper*, 02/04.

AHN, S. (2002), "Competition, innovation and productivity growth: A review of theory and evidence", *OECD Economics Department Working Papers*, No. 317.

BASSANINI, A. and E. ERNST (2002), "Labour market institutions, product market regulation and innovation: Cross-country evidence", *OECD Economics Department Working Papers*, No. 316.

BASSANINI, A. and S. SCARPETTA (2001), "The driving forces of economic growth: panel data evidence for the OECD countries", *OECD Economic Studies*, No. 33.

BROWNING, E.K (1997), "A neglected welfare cost of monopoly – and most other product market distortions", *Journal of Public Economics*, Vol. 66.

GÖNENÇ, R., M. MAHER and G. NICOLETTI (2001), "The implementation and the effects of regulatory reform: past experience and current issues", *OECD Economic Studies*, No. 32.

HARBERGER, A.C. (1954), "Monopoly and resource allocation", *American Economic Review*, Vol. 44.

NADIRI, M.I. (1993), "Innovation and technological spillovers", *NBER Working Paper*, No. 4423.

NICKELL, S. (1996), "Competition and corporate performance", *Journal of Political Economy*, Vol. 104.

NICOLETTI, G., A. BASSANI, E. ERNST, S. JEAN, P. SANTIAGO and P. SWAIM (2001), "Product and labour market interactions in OECD Countries", *OECD Economics Department Working Papers*, No. 312.

NICOLETTI, G., S. SCARPETTA and O. BOYLAUD (1999), "Summary indicators of product market regulation with an extension to employment protection legislation", *OECD Economics Department Working Papers*, No. 226.

OECD (1997), *The OECD Report on Regulatory Reform I-II*, Paris.

OECD (1999), *Implementing the OECD Jobs Strategy: Assessing Performance and Policy*, Paris.

OECD (2000), *OECD Economic Outlook*, No. 67, Paris.

OECD (2001), *OECD Economic Studies: Special Issue on Regulatory Reform*, No. 32, Paris.

OECD (forthcoming), *Sources of Economic Growth*, Paris.

OLIVEIRA MARTINS, J., S. SCARPETTA and D. PILAT (1996), "Mark-up ratios in manufacturing industries: Estimates for 14 OECD countries", *OECD Economics Department Working Papers*, No. 162.

SCARPETTA, S. and T. TRESSEL (2002), "Productivity and convergence in a panel of OECD industries: do regulations and institutions matter?" *OECD Economics Department Working Papers*, No. 342.

SCHERER, F.M. and D. ROSS (1990), *Industrial Market Structure and Economic Performance*, Houghton Mifflin Company, Boston, Massachusetts.

VII. INFLATION PERSISTENCE IN THE EURO AREA

Introduction

Euro area inflation stubbornly above 2 per cent

Headline inflation in the euro area has, on average, remained stubbornly above 2 per cent – the upper limit of the European Central Bank's definition of medium-term price stability – for most of the period since mid-2000. This persistence may seem puzzling in the light of weakness in activity and is only partly explained by factors like oil and food prices, and exchange rates. Core inflation, which excludes some of these elements, and the service component of the index, a measure less sensitive to exchange rate developments, have both been rising since late 1999 (Figure VII.1, top panel). At the same time, the inflation rates across euro area economies have diverged (Figure VII.1, middle panel). The policy issues that arise concern both the appropriate rate of inflation that should be used to guide monetary policy decisions and whether structural reforms could enhance the responsiveness of inflation to weak economic activity.

Inflation divergence in the euro area

Divergent inflation rates reflect part of the adjustment mechanism…

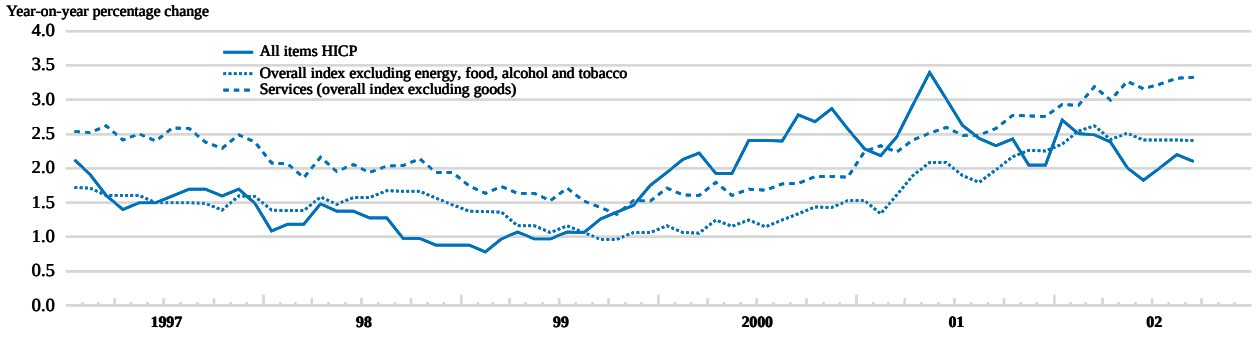
Divergent inflation rates within a monetary union are not a bad thing *per se*. In the euro area, where alternative mechanisms for adjustment to differing real economy developments are weak, a greater reliance on relative price and wage changes among countries is needed. For example, a regional slowdown in the United States is usually associated with sizeable migration flows to other areas whereas there is little emigration from euro area countries experiencing weak activity towards those with a more buoyant economy.

… but nominal rigidities may be hampering it

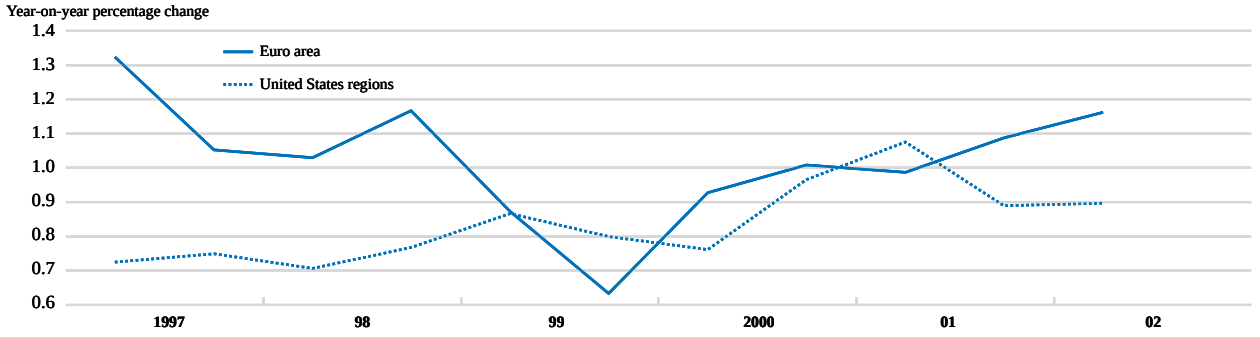
In this regard, the recent persistence of aggregate euro area inflation may be due to the fact that national inflation rates have not sufficiently reflected very different activity developments. In particular, in some of the larger economies, where demand has been weak relative to supply, core inflation rates did not move so as to offset higher rates in the other countries where the opposite occurred (Figure VII.1, bottom panel). In Germany and Italy for example, core inflation has either risen or remained approximately stable despite fairly significant output gaps, a measure of the difference between demand and supply. Indeed, it appears to be a generalised phenomenon that inflation has risen in countries with positive cumulative output gaps but has not fallen in those with negative cumulative gaps. This feature of the data, apart from possible mis-measurement of potential output and the corresponding output gaps, could reflect the presence of nominal rigidities that are hampering inflation adjustment in countries where activity is weak.

Figure VII.1. **Inflation developments in the euro area**

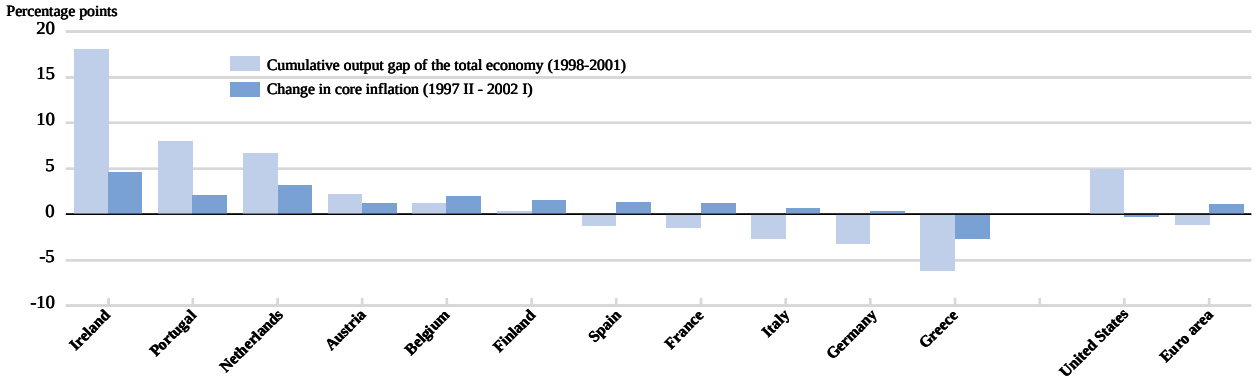
A. Euro area inflation[1]



B. Inflation dispersion[2]



C. Cumulative output gap and core inflation in euro area countries



1. Based on harmonised CPI (HICP).
2. Measured by the standard deviation of year-on-year percentage changes of the respective regional price indices (semi-annual data). The number of regions is 25 for the United States and 12 for the euro area.

Source: Eurostat, New Cronos, US Bureau of Labor Statistics and OECD.

Adjustment in a low inflation environment

Reasons behind nominal rigidities

Resistance to nominal wage cuts may reflect psychological factors…

While several factors related to price and wage determination in an imperfectly competitive environment could account for such effects, the presence of downward nominal wage rigidities has received the most attention. The strong resistance by workers to money wage cuts when demand conditions weaken could reflect some form of money illusion or, partly related, perceptions that worker salary reductions are unfair. Employers, for their part, could be reluctant to enact them for fear of damaging workers' morale and productivity.[1] When inflation is low, the importance of such nominal rigidities increases. In this context, inflation facilitates both relative and aggregate wage adjustments, with benefits for employment.

… as well as institutional arrangements

The resistance to money wage cuts can be re-enforced by the regulatory environment framing the relationship between employers and employees, including the process of contract renegotiations. In some countries, labour market legislation sets the terms of employment in permanent jobs as a legal contract that can only be changed by mutual consent. While, in principle, the spectre of job losses could persuade workers to consent to a wage cut, the threat may not be that strong in places where employees benefit from generous unemployment income support, stringent employment protection legislation and/or union power. These features, which can lower the response of inflation to activity, could be stronger in the euro area compared with other monetary unions. Nonetheless, it is likely that all monetary unions where financial contracts are fixed in nominal terms will experience some degree of rigidity, as, for example, workers become less amenable to accepting nominal wage restraint if their debt servicing obligations are fixed.

Prices can also be sticky in response to weak demand

Rigidities may arise from the manner in which prices are adjusted. For instance, firms may not automatically change their prices every time they notice a shift in the demand for their products. Besides the administrative costs associated with such changes, there are concerns that frequent price changes might hurt relations with clients.[2] On the other hand, keeping prices unchanged incurs costs. These will rise the more current prices deviate from desired ones. Hence, changes may take place only after the desired price has deviated from its current level by a substantial margin, leading to aggregate price rigidities in the short run.[3] In this context, the frequency and size of price adjustments will rise with inflation so that the latter become more sensitive to demand conditions at higher inflation rates.[4] An additional possible source of downward nominal price rigidity is that firms operating in markets characterised by

1. See Bewley (1999).
2. These two sources of costs are lumped together in the economic literature under the label "menu costs".
3. This is true only if, initially (*i.e.* before demand conditions change), the actual price coincides with the desired price. Otherwise even a small change in the desired price could trigger an adjustment by the firm.
4. Furthermore, with a positive inflation rate, prices will tend to become more flexible upwards than downwards, causing a different reaction of inflation to positive and negative demand shocks. This is because firms facing declines in the demand for their products are less willing to incur the costs of changing their prices given that the desired relative price decline can be brought about automatically by inflation. In contrast, firms confronted with an increase in their desired relative price will face a proportionately larger revenue loss if they do not compensate for inflation and hence are more willing to incur the menu costs and change prices more frequently (Ball and Mankiw, 1994).

monopolistic competition may wait until at least one of the competitors first changes prices for fear of getting into a price war.

Evidence from micro data

Some survey evidence supports the existence of money illusion

The type of money illusion required to generate downward nominal wage rigidity has received some support from survey evidence in which a large majority of respondents indicated they would prefer a 7 per cent money wage increase when inflation was 12 per cent to a 5 per cent money wage cut when prices were stable.[5] This is partly reinforced by more recent evidence showing that only a minority of people would disagree with the suggestion that job satisfaction would improve were the pay to go up, even if this was offset by an equivalent increase in prices. However, some have questioned the relevance of such information, arguing that it relies on hypothetical situations rather than how agents would respond to actual events.[6]

Data on wage settlements show downward nominal rigidities…

Several studies using micro data on wage settlements have provided some support for the hypothesis of downward nominal wage rigidity. In most cases, the evidence is based on the distribution of nominal wage changes which tends to be asymmetrical; that is, while nominal wage cuts are not uncommon, negative wage adjustments are significantly fewer than positive ones and there seems to be a disproportionate percentage of wage contracts that does not change on an annual basis. Furthermore, this percentage appears to be negatively correlated with inflation.[7]

… which may be a factor in a number of euro area countries

Even though the majority of studies have focused on countries outside the euro area (in particular the United States), there is some recent evidence concerning individual member countries. For instance, there are indications that wages might be less likely to be cut in Germany and Italy than in France, Spain or Ireland.[8] Earlier evidence also points to downward earnings rigidity in Germany, potentially implying that inflation rates below 3 per cent are shown to lead to higher equilibrium unemployment.[9] Nonetheless, it needs to be kept in mind that, to the extent earnings (and thus actual labour costs) contain flexible elements, such as overtime payments, bonuses, etc., wage costs may be reduced without requiring cuts in negotiated wage rates. More flexible elements have been put into German wage contracts since the mid-1990s.

However, their macro impact may not be that large

While the main characteristics of the distribution of wage changes appear to be well documented and relatively uncontroversial,[10] the impact of these rigidities at an aggregate level is considerably less well established. Altogether, the general conclusion

5. The two situations may not be that comparable. Taking account of taxes, real returns on bonds could actually be lower in the high inflation case. At the same time, however, most households have nominal debts, the value of which would decline with inflation, as against real assets that would likely remain unchanged.
6. On these points, see Kahneman *et al.* (1986), Shiller (1997) and Yates (1998).
7. See in particular, Akerlof *et al.* (1996) for the United States. These results, however, have been disputed on the ground that wage settlement data tend to exaggerate the extent of rigidities in the aggregate economy (Crawford, 2001, Card and Hyslop, 1997, and Smith, 2000).
8. In the European Community Household Panel, roughly 27 per cent of the Germans who did not switch jobs between 1995 and 1996 had no changes in their nominal wages. The equivalent figure was 27 per cent for Italy, 9 per cent for France, 5 per cent for Spain and 3 per cent for Ireland. In the United Kingdom 6 per cent of the sampled workers sustained no changes in their wages. While these figures vary significantly over time, the relative performances appear to be reasonably well defined (Dessy, 2002). There may, as well, be timing issues that could be affecting these results.
9. See Knoppik and Beissinger (2001). This refers to the period 1975-95.
10. There are, however, differences in the interpretation of what these stylised facts actually mean. For example, the bunching of wage changes at zero can be the outcome of "symmetric" causes such as long-term contracts, measurement error and rounding (Smith, 2000).

of the studies that have considered this question is that the overall impact of nominal wage rigidities on economic activity is too modest to have a significant impact on aggregate inflation.[11]

Cost increases are passed on more quickly to prices than reductions

As regards price rigidity, some survey evidence has provided support for the notion that firms have more of an aversion to price cuts than to price increases in response to changes in costs of comparable size.[12] In short, it appears that while increases in costs are quickly passed on into higher prices, declines tend to be absorbed, at least initially, by widening margins.[13] Furthermore, there is little evidence of the first-mover problem, *i.e.* that firms will delay price cuts to avoid being the first to do so.[14] However, the latter evidence concerns mainly the United States where competitive pressures may be stronger than in a number of European countries.

Evidence from macro data

At the macro level, excess demand and supply have different effects…

As an alternative to the evidence based on micro information, several studies have turned to aggregate data on inflation and output (or wages and unemployment) to test whether significant and systematic differences in the relationship can be uncovered when economic conditions vary. The most common approach used in these studies is to test whether the response of price (wage) inflation to excess demand in the product (labour) market is significantly higher than the response to excess supply.[15] Using this approach, evidence of asymmetric effects between excess supply and demand situations has been found for all EU countries except Spain, the Netherlands and Finland.[16] This corroborates earlier findings based on wage and price adjustment to unemployment gaps that found some indications of different *hysteresis*[17] effects in labour markets in the cases of Germany, France and Italy. Evidence using pooled data for the seven major industrial countries also provided support for the assumption of a different relationship between inflation and output depending on whether or not there are conditions of excess demand or supply.[18]

… although the evidence is mixed

These results have not gone unchallenged. One study found empirical evidence of asymmetric effects of output gaps in the cases of the United States, Japan and Canada but not for the major European countries.[19] More recently, signs of these effects in European countries were found in the relationship between the output and

11. See Card and Hyslop (1997), Yates (1998) and Nickell and Quintini (2001). However, none of these studies covers euro area data.
12. See Hall *et al.* (1996).
13. While empirical support to the menu costs argument is found in Belgium, the evidence presented suggests that the implied downward rigidity is a function of the level of inflation and, hence, would likely disappear under price stability. See Aucremanne *et al.* (2002).
14. See Blinder (1995).
15. Technically, this is done by entering positive and negative output gaps separately in a Phillips curve type regression. This is equivalent to treating the asymmetry as being piece-wise linear, meaning that the sensitivity of inflation to the output gap depends on the sign of the latter but it is independent of the absolute size of the gap or the prevailing level of inflation.
16. See Mayes and Virén (2000).
17. Different *hysteresis* effects imply that, while negative demand shocks tend to generate a persistent increase in unemployment, with little downward pressures on wages, positive shocks are accompanied by a transitory decline in unemployment and stronger increases in wages. This could be due to the fact that the human capital of workers who lose their job may deteriorate to the point where they become *de facto* unemployable and hence no longer put effective downward pressures on the wage demand of workers (Giorno *et al.*, 1997).
18. See Laxton *et al.* (1995).
19. See Turner (1995).

the unemployment gaps, but not between the output gap and inflation.[20] Overall, even though the empirical findings based on macro data appear to point to the existence of such effects, the evidence remains mixed.

The role of policy in facilitating adjustment

Given that further significant cyclical convergence is unlikely…

An increase in the degree of business cycle synchronisation within the euro area would lessen, although not eliminate, the need for relative price adjustments. However, considering the steady increase in the degree of convergence already observed (Figure VII.2), it is not clear how much further progress can be achieved. Hence reliance on relative price changes is likely to remain a key adjustment mechanism for the area.

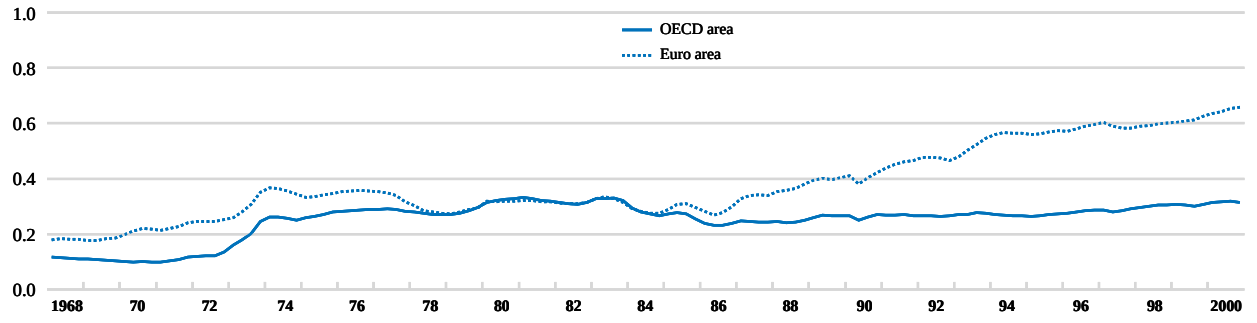
… it has been argued that higher inflation helps to "grease" adjustment…

Although the evidence reported above is not uncontroversial, some have argued that downward nominal wage or price rigidity could be sufficiently important to justify higher than existing inflation rates, on the grounds that it would provide a beneficial "grease" effect on the wheels of economic activity. For instance, on the basis of US evidence, it has been suggested that an inflation rate of around 3 to 4 per cent could eliminate the main source of these adjustment problems.[21] Assuming that cross-country divergences in output performance continue to occur in the euro area, this raises the question of whether the objective of keeping inflation below 2 per cent is too stringent to allow for smooth relative price adjustments between regions in different cyclical positions.

… although it is not likely to be as effective as structural reform

There are also arguments against such a policy change. For instance, a move to increase the inflation rate above the level consistent with price stability may make it more difficult for the European Central Bank to credibly commit that it will not tolerate further increases. While other central banks have set inflation targets at, or just

Figure VII.2. **Bilateral output gap correlations for different country groups**



Note: The figure shows for the OECD area and the Euro area the average of bilateral correlations between output gaps in ten-year moving windows. The output gaps are calculated using an HP 1600 filter.
Source: OECD.

20. See Aguiar and Martins (2002).
21. See Akerlof *et al.* (1996).

above, a rate of 2 per cent,[22] and have achieved stable inflation outcomes, none has changed its initial target, with the exception of New Zealand.[23] Furthermore, it is not clear that allowing somewhat higher inflation rates would necessarily alleviate adjustment rigidities. In fact, the evidence of these types of adjustment problems from macro data is largely based on episodes prevailing at a time when average inflation was significantly higher than currently. Conversely, it could be argued that once inflation has been low for a long time, the extent of money illusion uncovered in some studies is likely to diminish along with the reluctance to accept money wage cuts. This process could be further aided by structural reforms, particularly to the extent that such reforms enhanced productivity growth. In a situation where adjustment is required, strong productivity growth would allow the nominal wage of workers to be maintained, or even increased by less than the growth of productivity. This, in turn, would provide firms with more scope to respond to changes in demand.

22. An important difference is that the inflation target set in these countries represents a mid-point rather than a ceiling.
23. Recently, the authorities have redefined their target range of 0 to 3 per cent to 1 to 3 per cent.

BIBLIOGRAPHY

AUCREMANNE, L, G. BRYS, M. HUBERT, P.J. ROUSSEEUW and A. STRUYF (2002), "Inflation, relative prices and nominal rigidities", *National Bank of Belgium Working Paper* No. 20.

AGUIAR, A. and M.M.F. MARTINS (2002), "Trend, cycle and non-linear trade-off in the Euro area 1970-2001", Centro de Estudos Macroeconómicos e Previsão, *mimeo.*

AKERLOF, G.A., W.T. DICKENS and W.L. PERRY (1996), "The macroeconomics of low inflation", *Brookings Papers on Economic Activity* 1.

BALL, L. and N.G. MANKIW (1994), "Asymmetric price adjustment and economic fluctuations", *Economic Journal*, Vol. 104. No. 423.

BEWLEY, T.F. (1999), *Why Wages Don't Fall During a Recession*, Harvard University Press.

BLINDER, A. (1995), "On sticky prices: academic theories meet the real world", in *Monetary Policy, Studies in Business Cycles*, Vol. 28, N.G. Mankiw (ed), University of Chicago Press.

CARD, D. and D. HYSLOP (1997), "Does inflation grease the wheels of the labor market", in *Reducing Inflation, NBER Studies in Business Cycles*, Vol. 30, C.D. Romer and D.H. Romer (eds), University of Chicago Press.

CRAWFORD, A. (2001), "How rigid are nominal-wage rates?", *Bank of Canada Working Paper*, No. 8.

DESSY, O. (2002), "Nominal wage rigidity in the European countries: evidence from the Europanel", CREST-INSEE, *preliminary.*

GIORNO, C., A. DE SERRES and P. STURM (1997), "Macroeconomic policy and the NAIRU in European economies", *European University Institute Working Papers*, RSC No. 97/50.

HALL, S., M. WALSH and A. YATES (1996), "How do UK companies set prices?", *Bank of England Quarterly Bulletin*, May.

KAHNEMAN, D., J. KNETSCH and T. THALER (1986), "Fairness as a constraint on profit seeking: entitlements in the market", *American Economic Review*, Vol. 76, No. 4.

KNOPPIK, C. and T. BEISSINGER (2001), "How rigid are nominal wages? Evidence and implications for Germany", *IZA Discussion Paper*, No. 357, University of Regensburg.

LAXTON, D., G. MEREDITH and D. ROSE (1995), "Asymmetric effects of economic activity on inflation?", *IMF Staff Papers*, Vol. 42, No. 2.

MAYES, D.G. and M. VIRÉN (2000), "Asymmetry and the problem of aggregation in the Euro area", *Bank of Finland Discussions Papers*, No. 11.

NICKELL, S. and G. QUINTINI (2001), "Nominal wage rigidity and the rate of inflation", *Discussion Paper* No. 489, Centre for Economic Performance, London Schoold of Economics.

SHILLER, R.J. (1997), "Why do people dislike inflation", in *Reducing Inflation, NBER Studies in Business Cycles*, Vol. 30, C.D. Romer and D.H. Romer (eds), University of Chicago Press.

SMITH, J.C. (2000),
"Nominal wage rigidity in the United Kingdom", *The Economic Journal*, Vol. 110, No. 462.

TURNER, D. (1995),
"Speed limit and asymmetric inflation effects from the output gap in the major seven economies", *OECD Economic Studies*, No. 24.

YATES, A. (1998),
"Downward nominal rigidity and monetary policy", *Bank of England Working Paper*, No. 82.

Special chapters in recent issues of *OECD Economic Outlook*

No. 71, June 2002

Economic consequences of terrorism
Ongoing changes in the business cycle
Intra-industry and intra-firm trade and the internationalisation of production
Productivity and innovation: the impact of product and labour market policies

No. 70, December 2001

Saving and investment: determinants and policy implications
Investment in human capital through post-compulsory education and training
The cross-market effects of product and labour market policies
Agricultural policy reform: the need for further progress

No. 69, June 2001

Fiscal implications of ageing: projections of age-related spending
Challenges for tax policy in OECD countries
Encouraging environmentally sustainable growth: experience in OECD countries
Productivity and firms dynamics: evidence from microdata

No. 68, December 2000

Links between policy and growth: cross-country evidence
Revised OECD measures of structural unemployment
House prices and economic activity
Trends in immigration and economic consequences

No. 67, June 2000

Regulatory reform in network industries: past experience and current issues
Recent growth trends in OECD countries
E-commerce: impacts and policy challenges
Recent labour-market performance and structural reforms
Monetary policy in a changing financial environment

No. 66, December 1999

The size and role of automatic fiscal stabilisers
Making work pay
Public debt management at the cross-roads
Cross-country patterns of product market regulation

No. 65, June 1999

Labour market performance and the OECD jobs strategy
Policy challenges arising from climate change
The recent experience with capital flows to emerging market economies
Causes of the recent widening of OECD current account imbalances
Trends in market openness

No. 64, December 1998

Challenges for monetary and fiscal policies in the euro area
Recent equity market developments and implications
Low-income dynamics in four OECD countries

Statistical Annex

This annex contains data on some main economic series which are intended to provide a background to the recent economic developments in the OECD area described in the main body of this report. Data for 2002-2004 are OECD estimates and projections. The data on some of the tables have been adjusted to internationally agreed concepts and definitions in order to make them more comparable as between countries, as well as consistent with historical data shown in other OECD publications. Regional totals and sub-totals are based on those countries in the table for which data are shown. Aggregate measures contained in the Annex, except the series for the euro area (see below), are computed on the basis of 1995 GDP weights expressed in 1995 purchasing power parities (see following page for weights). Aggregate measures for external trade and payments statistics, on the other hand, are based on current year exchange rates for values and base-year exchange rates for volumes.

The OECD projection methods and underlying statistical concepts and sources are described in detail in documentation that can be downloaded from the OECD Internet site:

- *OECD Economic Outlook* Sources and Methods (*www.oecd.org/eco/sources-and-methods*).
- *OECD Economic Outlook* Database Inventory (*www.oecd.org/eco/data/eoinv.pdf*).
- The construction of macroeconomic series of the euro area (*www.oecd.org/eco/data/euroset.htm*).

NOTE ON STATISTICAL TREATMENT OF GERMANY,
THE CZECH REPUBLIC, HUNGARY, POLAND,
THE SLOVAK REPUBLIC AND THE EURO AREA AGGREGATE

In this publication, the following should be noted:

- Data up to end-1990 are for western Germany only; unless, otherwise indicated, they are for the whole Germany from 1991 onwards. In tables showing percentage changes from previous year, data refer to the whole Germany from 1992 onwards. When data are available for western Germany only, a special mention is made in a footnote to the table.
- For the Czech Republic, Hungary, Poland and Slovak Republic data are available from 1993 onwards. In tables showing percentage changes from the previous year, the Czech Republic, Hungary, Poland and the Slovak Republic are included from 1994 onwards.
- Greece entered the euro area on 1 January 2001. In order to ensure comparability of the euro area data over time, Greece has been included in the calculation of the euro area throughout.

Country classification

	OECD
Seven major OECD countries	Canada, France, Germany, Italy, Japan, United Kingdom and United States.
European Union	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom.
Euro area	Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.
	Non-OECD
Africa and the Middle East	Africa and the following countries (Middle East): Bahrain, Cyprus, Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates and Yemen.
Dynamic Asian Economies (DAEs)	Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; the Philippines; Singapore and Thailand.
Other Asia	Non-OECD Asia and Oceania, excluding China, the DAEs and the Middle East.
Latin America	Central and South America.
Central and Eastern Europe	Albania, Bulgaria, Romania, the Newly Independent States of the former Soviet Union, and the Baltic States.

Weighting scheme for aggregate measures

Per cent

Australia	1.80	Mexico	2.96
Austria	0.82	Netherlands	1.56
Belgium	1.06	New Zealand	0.30
Canada	3.26	Norway	0.50
Czech Republic	0.61	Poland	1.29
Denmark	0.57	Portugal	0.65
Finland	0.46	Slovak Republic	0.23
France	5.71	Spain	2.84
Germany	8.31	Sweden	0.84
Greece	0.64	Switzerland	0.86
Hungary	0.44	Turkey	1.65
Iceland	0.03	United Kingdom	5.23
Ireland	0.31	United States	35.18
Italy	5.48	Total OECD	100.00
Japan	13.92	*Memorandum items:*	
Korea	2.46	European Union	34.53
Luxembourg	0.07	Euro area	27.89

Note: Based on 1995 GDP and purchasing power parities (PPPs).

Irrevocable euro conversion rates

National currency unit per euro

Austria	13.7603	Ireland	0.787564
Belgium	40.3399	Italy	1 936.27
Finland	5.94573	Luxembourg	40.3399
France	6.55957	Netherlands	2.20371
Germany	1.95583	Portugal	200.482
Greece	340.750	Spain	166.386

Source: European Central Bank.

National accounts reporting systems and base-years

Many countries are changing from the SNA68/ESA79 methodology for the national accounts data.
In the present edition of the OECD Economic Outlook, *the status of national accounts in the OECD countries is as follows:*

	Expenditure accounts	Household accounts	Government accounts	Use of chain-weighted price indices	Benchmark/ base year
Australia	SNA93 (1959)	SNA93 (1959)	SNA93 (1959)	YES	2000/2001[a]
Austria	ESA95 (1988)	ESA95 (1995)	ESA95 (1976)	NO	1995
Belgium	ESA95 (1970)	ESA95 (1995)	ESA95 (1970)	NO	1995
Canada	SNA93 (1955)	SNA93 (1955)	SNA93 (1955)	YES	1997
Czech Republic	SNA93 (1994)	SNA93 (1994)	GFS (adjusted by OECD)	NO	1995
Denmark	ESA95 (1988)	ESA95 (1988)	ESA95 (1988)	NO	1995
Finland	ESA95 (1975)	ESA95 (1975)	ESA95 (1975)	NO	1995
France	ESA95 (1978)	ESA95 (1978)	ESA95 (1978)	NO	1995
Germany[b]	ESA95 (1960)	ESA95 (1970)	ESA95 (1980)	NO	1995
Greece	ESA95 (1960)	Not available	ESA95 (1960)	NO	1995
Hungary	SNA93 (1995)	Not available	Not available	NO	1998
Iceland	SNA93 (1970)	Not available	SNA93 (1970)[c]	NO	1990
Ireland	ESA95 (1990)	ESA95 (1990)	ESA95 (1990)	NO	1995
Italy	ESA95 (1982)	ESA79	ESA95 (1995)	NO	1995
Japan	SNA93 (1980q1)[d, e]	SNA93 (1990)[d]	SNA93 (1990)[d]	NO	1995
Korea	SNA93 (1970)	SNA93 (1975)	SNA93 (1975)	NO	1995
Luxembourg	ESA95 (1970)	Not available	SNA95 (1990)	NO	1995
Mexico	SNA93 (1980)	Not available	Not available	NO	1993
Netherlands	ESA95 (1995)	ESA95 (1995)	ESA95 (1995)	YES	1995
New Zealand	SNA93 (1987)	SNA68	SNA93	YES	1995/96
Norway	SNA93 (1978)	SNA93 (1978)	SNA93 (1978)	NO	1999[a]
Poland	SNA93 (1991)	SNA93 (1991)	SNA93 (1991)	YES	1995
Portugal	ESA95 (1995)	ESA95 (1995)	ESA95 (1995)	NO	1995
Slovak Republic	SNA93 (1993)	SNA93 (1996)	SNA93 (1994)[c]	NO	1995
Spain	ESA95 (1995)	ESA95 (1995)	ESA95 (1995)	NO	1995
Sweden	ESA95 (1980)	ESA95 (1993)	ESA95 (1980)	YES	1995
Switzerland	SNA68	SNA68	Not available	NO	1990
Turkey	SNA68	SNA68	SNA68	NO	1987
United Kingdom	ESA95 (1987)	ESA95 (1987)	ESA95 (1987)	NO	1995
United States	NIPA (SNA93) (1959q1)	NIPA (SNA93) (1959q1)	NIPA (SNA93) (1960q1)	YES	1996

Note: SNA: System of National Accounts. ESA: European Standardised Accounts. NIPA: National Income and Product Accounts. GFS: Government Financial Statistics. The numbers in brackets indicate the starting year for the time series.
a) Change in benchmark/base year since the last edition of *OECD Economic Outlook*.
b) Data prior to 1991 refer to western Germany and refer to the new SNA93/ESA95 accounts.
c) Estimated.
d) Spliced to SNA68.
e) New definitions from 2001.

Annex Tables

Demand and Output

Wages, Costs, Unemployment and Inflation

Key supply-side data

Saving

Fiscal Balances and Public Indebtedness

Interest Rates and Exchange Rates

External Trade and Payments

Other Background Data

Annex Table 1. **Real GDP**

Percentage change from previous period

	Average 1975-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	3.0	1.5	5.0	4.5	4.5	1.4	-0.7	2.4	3.8	4.7	4.0	4.0	3.6	5.5	4.4	3.2	2.8	3.5	3.7	3.8
Austria	2.4	2.1	1.6	3.4	4.2	4.7	3.3	2.3	0.4	2.6	1.6	2.0	1.6	3.5	2.8	3.0	1.0	0.7	1.9	2.6
Belgium	2.1	1.8	2.4	4.6	3.6	3.0	1.8	1.3	-0.7	3.3	2.3	0.8	3.9	2.1	3.2	3.7	0.8	0.7	2.1	2.8
Canada	3.2	2.4	4.3	5.0	2.6	0.2	-2.1	0.9	2.3	4.8	2.8	1.6	4.2	4.1	5.4	4.5	1.5	3.3	3.1	3.5
Czech Republic	..	..	..	..	..	..	..	..	..	2.6	5.9	4.3	-0.8	-1.0	0.5	3.3	3.3	2.5	3.3	3.6
Denmark	2.6	3.6	0.3	1.2	0.2	1.0	1.1	0.6	0.0	5.5	2.8	2.5	3.0	2.5	2.3	3.0	1.0	1.5	2.0	2.5
Finland	2.9	2.5	4.2	4.7	5.1	0.0	-6.3	-3.3	-1.1	4.0	3.8	4.0	6.3	5.3	4.1	6.1	0.7	1.6	3.2	3.8
France	2.3	2.3	2.5	4.2	4.3	2.6	1.0	1.3	-0.9	1.9	1.8	1.1	1.9	3.5	3.2	4.2	1.8	1.0	1.9	2.9
Germany	2.2	2.4	1.5	3.7	3.9	5.7	5.1	2.2	-1.1	2.3	1.7	0.8	1.4	2.0	2.0	2.9	0.6	0.4	1.5	2.5
Greece	2.1	0.5	-2.3	4.3	3.8	0.0	3.1	0.7	-1.6	2.0	2.1	2.4	3.6	3.4	3.6	4.2	4.1	3.6	3.9	3.8
Hungary	..	..	..	..	..	..	..	..	..	2.9	1.5	1.3	4.6	4.9	4.2	5.2	3.8	3.1	4.1	4.0
Iceland	4.3	6.3	8.5	-0.1	0.3	1.2	-0.3	-3.3	0.9	4.1	0.1	5.1	3.5	5.5	3.9	5.5	3.7	0.0	1.7	3.7
Ireland	3.5	-0.4	4.7	5.2	5.8	8.5	1.9	3.3	2.7	5.8	10.0	7.8	10.8	8.6	10.8	11.5	6.0	3.6	3.6	4.4
Italy	3.0	2.5	3.0	3.9	2.9	2.0	1.4	0.8	-0.9	2.2	2.9	1.1	2.0	1.8	1.6	2.9	1.8	0.3	1.5	2.5
Japan	3.8	3.0	4.5	6.5	5.3	5.3	3.1	0.9	0.4	1.0	1.6	3.5	1.8	-1.1	0.7	2.6	-0.3	-0.7	0.8	0.9
Korea	7.6	11.6	11.5	11.3	6.4	7.8	9.2	5.4	5.5	8.3	8.9	6.8	5.0	-6.7	10.9	9.3	3.0	6.1	5.8	5.7
Luxembourg	2.4	10.0	4.0	8.5	9.8	5.3	8.6	1.8	4.2	3.8	1.3	3.7	7.7	7.5	6.0	8.9	1.0	0.8	2.5	4.5
Mexico	4.3	-3.6	1.8	1.3	4.2	5.1	4.2	3.6	2.0	4.5	-6.2	5.1	6.8	4.9	3.7	6.6	-0.3	1.5	3.3	4.0
Netherlands	1.9	2.8	1.4	2.6	4.7	4.1	2.3	2.0	0.8	3.2	2.3	3.0	3.8	4.3	4.0	3.3	1.3	0.1	1.6	2.6
New Zealand	1.7	0.6	0.8	2.6	0.6	0.5	-1.9	0.8	4.7	6.2	3.9	3.4	3.2	-0.6	4.8	3.9	1.4	3.8	3.0	3.4
Norway	4.0	3.6	2.0	-0.1	0.9	2.0	3.1	3.3	2.7	5.5	3.8	4.9	4.7	2.4	1.1	2.4	1.4	2.0	1.6	2.3
Poland	..	..	..	..	..	..	..	..	..	5.2	7.0	6.0	6.8	4.8	4.1	4.0	1.0	1.2	2.5	2.9
Portugal	3.0	4.1	6.4	7.5	6.4	4.0	4.4	1.1	-2.0	1.0	4.3	3.5	4.0	4.6	3.8	3.7	1.6	0.4	1.5	2.3
Slovak Republic	..	..	..	..	..	..	..	..	..	5.2	6.5	5.8	5.6	4.0	1.3	2.2	3.3	4.3	3.7	4.3
Spain	1.6	3.3	5.5	5.1	4.8	3.8	2.5	0.9	-1.0	2.4	2.8	2.4	4.0	4.3	4.2	4.2	2.7	1.8	2.5	3.0
Sweden	1.6	2.7	3.3	2.6	2.7	1.1	-1.1	-1.7	-1.8	4.1	3.7	1.1	2.1	3.6	4.5	3.6	1.2	1.7	2.5	2.8
Switzerland	1.6	1.6	0.7	3.1	4.3	3.7	-0.8	-0.1	-0.5	0.5	0.5	0.3	1.7	2.4	1.5	3.2	0.9	-0.2	1.4	2.2
Turkey	3.6	7.0	9.5	2.1	0.3	9.3	0.9	6.0	8.0	-5.5	7.2	7.0	7.5	3.1	-4.7	7.4	-7.4	3.7	3.6	4.3
United Kingdom	1.9	4.2	4.2	5.2	2.2	0.8	-1.4	0.2	2.5	4.7	2.9	2.6	3.4	2.9	2.4	3.1	2.0	1.5	2.2	2.5
United States	3.4	3.4	3.4	4.2	3.5	1.8	-0.5	3.1	2.7	4.0	2.7	3.6	4.4	4.3	4.1	3.8	0.3	2.3	2.6	3.6
Euro area	2.3	2.4	2.5	4.1	4.0	3.6	2.5	1.4	-0.8	2.3	2.2	1.4	2.3	2.9	2.8	3.6	1.5	0.8	1.8	2.7
European Union	2.3	2.8	2.8	4.2	3.6	3.1	1.9	1.2	-0.3	2.8	2.5	1.7	2.6	2.9	2.8	3.5	1.6	0.9	1.9	2.7
Total OECD	3.2	3.1	3.6	4.6	3.8	3.1	1.2	2.1	1.4	3.2	2.5	3.0	3.5	2.7	3.2	3.8	0.7	1.5	2.2	3.0

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

Annex Table 2. **Nominal GDP**

Percentage change from previous period

	Average 1975-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	12.5	8.2	13.2	13.5	11.9	6.4	1.6	3.7	5.1	5.6	5.5	6.5	5.3	5.7	5.4	7.6	6.2	6.5	6.6	6.4
Austria	7.4	5.1	3.8	4.7	7.3	8.2	7.2	6.0	3.4	5.4	4.2	3.3	2.5	4.1	3.5	4.2	2.7	2.0	3.6	4.4
Belgium	7.8	4.7	4.1	7.0	8.5	5.9	4.7	4.8	3.3	5.5	3.6	2.1	5.1	3.7	4.6	5.0	2.7	3.5	3.7	4.6
Canada	10.8	5.5	9.1	9.7	7.3	3.4	0.8	2.2	3.8	6.0	5.1	3.3	5.5	3.7	7.2	8.6	2.6	4.4	5.8	5.8
Czech Republic	..	..	..	..	..	..	..	..	..	13.9	16.8	13.5	7.2	9.5	3.4	4.3	8.7	5.1	6.2	7.1
Denmark	11.0	8.4	5.0	4.6	5.4	4.7	3.9	3.5	1.4	7.3	4.6	5.1	5.2	3.5	5.0	6.8	3.7	3.0	4.3	4.6
Finland	12.3	6.9	8.6	13.2	11.6	5.5	-4.5	-2.5	1.2	6.0	8.1	3.8	8.5	8.5	3.9	8.8	3.7	3.1	5.4	6.3
France	12.2	7.5	5.5	7.6	7.6	5.6	4.0	3.3	1.5	3.7	3.5	2.5	3.1	4.4	3.7	4.7	3.3	2.9	3.5	4.5
Germany	5.9	5.7	3.3	5.3	6.4	9.1	8.8	7.4	2.5	4.9	3.8	1.8	2.1	3.1	2.6	2.6	2.0	2.0	2.8	3.6
Greece	21.9	19.5	12.6	21.7	18.8	20.7	23.5	15.6	12.6	13.4	12.1	9.9	10.7	8.8	6.7	7.8	7.6	7.1	7.2	7.0
Hungary	..	..	..	..	..	..	..	..	..	23.0	27.4	22.8	23.9	18.1	12.9	15.4	13.1	11.7	9.5	8.2
Iceland	49.6	33.3	29.7	22.7	20.1	18.2	8.2	-0.1	3.1	6.2	3.0	7.3	7.0	10.7	6.9	8.5	13.1	6.6	5.3	6.8
Ireland	16.7	6.1	7.0	8.6	11.7	7.7	3.8	6.2	8.0	7.5	13.3	10.2	15.4	15.1	15.5	16.2	11.7	8.4	7.8	8.2
Italy	19.3	10.6	9.4	11.0	9.5	10.4	9.1	5.3	3.0	5.8	8.1	6.4	4.5	4.6	3.3	5.1	4.5	2.6	3.8	4.6
Japan	8.0	4.7	4.4	7.2	7.3	7.9	6.2	2.6	1.0	1.1	1.2	2.6	2.2	-1.2	-0.8	0.4	-1.5	-1.7	-0.8	-0.5
Korea	23.1	16.7	17.1	18.7	12.0	19.7	21.1	13.5	12.9	16.5	16.7	10.9	8.3	-2.0	8.6	8.1	4.4	8.3	8.3	8.6
Luxembourg	9.0	9.9	4.0	11.5	14.2	8.0	10.6	5.6	10.4	7.5	3.8	5.4	11.2	9.8	9.3	12.0	3.3	0.9	3.6	6.9
Mexico	45.0	67.0	145.2	103.8	31.8	34.6	28.5	18.6	11.6	13.3	29.3	37.5	25.7	21.0	19.5	19.4	5.1	5.5	7.4	7.9
Netherlands	6.7	2.9	0.7	3.8	6.0	6.5	5.0	4.3	2.7	5.6	4.1	4.2	5.9	6.1	5.6	7.6	6.6	3.9	4.9	5.2
New Zealand	15.7	16.0	14.1	10.3	5.7	3.8	-1.4	2.3	7.8	7.3	6.4	6.1	3.5	1.0	4.6	6.5	6.1	4.2	4.9	6.1
Norway	12.5	2.6	9.1	4.8	6.7	5.9	5.6	2.8	4.9	5.3	7.1	9.5	7.8	1.7	7.4	18.8	3.1	2.0	3.9	5.1
Poland	..	..	..	..	..	..	..	..	..	44.5	36.9	25.9	21.8	17.2	11.1	11.4	5.3	3.1	4.6	5.9
Portugal	25.0	25.4	17.1	19.5	17.6	17.6	14.9	12.7	5.2	8.3	7.9	6.7	7.9	8.5	7.0	7.0	6.4	4.1	4.5	5.0
Slovak Republic	..	..	..	..	..	..	..	..	..	19.6	17.0	10.5	12.7	9.4	7.8	8.7	8.9	7.4	9.9	10.4
Spain	16.6	14.5	11.8	11.3	12.1	11.4	9.7	7.7	3.5	6.4	7.8	6.0	6.4	6.8	7.0	7.8	6.9	5.0	5.2	5.7
Sweden	11.6	9.5	8.3	9.1	10.9	10.0	6.1	-0.8	0.8	6.6	7.3	2.5	3.8	4.5	5.2	4.7	3.3	3.8	4.6	5.5
Switzerland	4.8	4.8	3.5	6.0	7.5	8.2	5.2	2.6	2.2	2.2	1.6	0.7	1.5	2.3	2.2	4.4	2.3	1.9	2.0	2.8
Turkey	48.5	45.5	46.3	72.9	75.9	72.9	60.3	73.5	81.3	95.2	100.7	90.3	95.2	81.1	48.2	60.9	49.7	53.4	32.2	20.0
United Kingdom	12.9	7.5	9.9	11.6	9.8	8.4	5.2	4.2	5.2	6.1	5.6	6.0	6.4	6.0	5.0	5.3	3.9	4.8	4.7	5.1
United States	9.9	5.7	6.5	7.7	7.5	5.7	3.2	5.6	5.1	6.2	4.9	5.6	6.5	5.6	5.6	5.9	2.6	3.5	3.9	4.9
Euro area	11.4	8.1	6.0	8.0	8.4	8.7	7.4	5.8	2.8	5.2	5.2	3.6	4.0	4.7	4.0	4.9	3.9	3.0	3.8	4.6
European Union	12.4	8.5	7.0	8.9	8.9	8.9	7.2	5.5	3.2	5.6	5.5	4.2	4.5	4.9	4.2	5.0	3.9	3.3	4.0	4.7
Total OECD	12.8	9.5	11.8	12.7	10.1	9.4	7.1	6.6	5.4	7.9	7.8	7.4	7.4	6.0	5.6	6.5	3.7	3.8	4.1	4.6
Memorandum item																				
OECD *less* high inflation countries [a]	11.0	6.9	6.9	8.5	8.2	7.5	5.5	5.1	3.9	5.5	5.0	4.8	5.1	4.0	4.2	5.0	2.7	2.8	3.5	4.2

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

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

Percentage change from previous period

	Average 1975-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	2.9	1.8	2.0	3.8	5.5	2.7	0.5	2.5	1.6	3.7	4.6	2.9	3.9	4.7	5.0	2.9	3.4	4.3	3.7	3.5
Austria	2.5	1.9	2.6	3.1	4.3	4.5	2.5	3.0	0.8	2.4	2.6	3.2	1.7	2.8	2.7	2.5	1.4	0.7	1.6	2.2
Belgium	2.4	2.7	1.7	3.3	3.4	3.1	3.0	1.8	-0.3	2.4	1.6	0.9	2.3	3.0	2.2	3.3	1.0	0.6	1.9	2.4
Canada	2.7	3.7	4.2	4.3	3.4	1.2	-1.6	1.5	1.8	3.0	2.1	2.6	4.6	2.8	3.9	3.7	2.6	2.6	2.9	2.9
Czech Republic	..	..	..	..	..	..	..	..	..	5.3	5.9	7.9	2.4	-1.6	1.7	2.5	3.9	3.5	3.2	3.7
Denmark	1.7	5.7	-1.5	-1.0	-0.1	0.1	1.6	1.9	0.5	6.5	1.2	2.5	2.9	2.3	0.2	-0.3	0.8	2.2	2.0	2.2
Finland	2.6	4.0	5.1	5.3	4.6	-0.6	-3.8	-4.4	-3.1	2.6	4.4	4.2	3.5	5.1	4.0	2.6	1.1	2.5	2.1	2.4
France	2.1	3.5	2.6	2.4	3.2	2.7	0.7	0.8	-0.2	0.9	1.3	1.3	0.1	3.6	3.5	2.8	2.8	1.5	1.7	2.8
Germany	2.0	3.9	3.7	2.6	3.2	4.1	4.6	2.7	0.1	1.1	2.1	1.0	0.6	1.8	3.7	1.4	1.5	-0.5	1.1	2.2
Greece	3.4	-1.5	2.7	6.1	6.3	2.6	2.9	2.3	-0.8	1.9	2.5	2.4	2.7	3.5	2.9	2.7	3.2	2.9	3.1	3.2
Hungary	..	..	..	..	..	..	..	..	..	0.2	-7.1	-4.3	1.9	4.8	5.4	4.4	4.9	9.9	7.5	3.7
Iceland	4.6	6.9	16.2	-3.8	-4.2	0.5	2.9	-3.1	-4.7	2.9	2.2	5.4	3.3	10.1	7.3	4.0	-3.0	-1.0	1.2	2.3
Ireland	2.5	2.0	3.3	4.5	6.5	1.4	1.8	2.9	2.9	4.4	4.1	6.4	7.4	7.3	8.3	10.0	4.8	3.8	4.0	4.5
Italy	3.3	4.0	3.8	4.0	3.7	2.1	2.9	1.9	-3.7	1.5	1.7	1.2	3.2	3.2	2.4	2.7	1.1	-0.3	0.9	2.2
Japan	3.4	3.2	4.1	5.1	4.7	4.4	2.7	2.6	1.8	2.6	1.4	2.4	0.8	0.1	1.2	0.5	1.4	0.8	0.5	0.8
Korea	6.4	8.1	8.1	9.0	10.8	8.0	8.0	5.5	5.6	8.2	9.6	7.1	3.5	-11.7	11.0	7.9	4.2	7.2	4.4	4.1
Luxembourg	2.1	3.5	4.6	6.0	4.8	3.8	7.0	-2.3	2.1	4.0	2.1	4.0	4.0	7.8	2.6	3.3	3.6	2.0	2.5	3.2
Mexico	3.6	-2.6	-0.1	1.8	7.3	6.4	4.7	4.7	1.5	4.6	-9.5	2.2	6.5	5.4	4.3	8.3	3.4	1.7	3.5	4.7
Netherlands	1.7	2.6	2.7	0.8	3.5	4.2	3.1	2.5	1.0	2.2	1.8	4.0	3.0	4.8	4.7	3.6	1.2	0.9	1.7	2.7
New Zealand	0.7	4.0	2.4	2.7	1.1	0.1	-1.3	0.1	2.8	5.8	3.9	5.0	2.4	1.9	4.2	2.4	1.9	3.1	1.9	2.6
Norway	3.3	5.0	-0.8	-2.0	-0.6	0.7	1.5	2.2	2.2	4.0	3.4	5.3	3.6	3.4	2.2	3.5	2.5	2.7	3.2	2.9
Poland	..	..	..	..	..	..	..	..	..	4.5	3.2	8.6	6.9	4.8	5.2	2.8	2.1	2.5	2.2	2.5
Portugal	0.7	5.6	5.3	6.8	2.9	6.4	4.2	4.7	1.1	1.0	0.6	3.0	3.3	5.0	5.1	2.6	1.2	0.8	1.0	1.8
Slovak Republic	..	..	..	..	..	..	..	..	..	1.5	4.0	8.8	5.7	6.3	3.3	-1.8	3.9	4.9	3.7	4.0
Spain	1.1	3.4	6.0	4.9	5.4	3.5	2.9	2.2	-1.9	1.1	1.7	2.2	3.2	4.4	4.7	3.9	2.5	1.8	2.6	3.1
Sweden	0.7	5.2	5.3	2.6	1.2	-0.4	1.0	-1.3	-3.0	1.8	0.6	1.4	2.0	2.7	3.9	4.6	0.2	1.6	2.5	2.6
Switzerland	1.5	2.3	2.2	1.7	2.3	1.2	1.6	0.1	-0.9	1.0	0.6	0.7	1.4	2.3	2.2	2.0	1.8	1.0	1.6	2.1
Turkey	4.7	5.8	-0.3	1.2	-1.0	13.1	2.7	3.2	8.6	-5.4	4.8	8.5	8.4	0.6	-2.6	6.2	-9.0	2.2	2.0	3.0
United Kingdom	2.1	6.6	5.0	7.5	3.3	1.0	-1.5	0.6	3.2	3.3	1.9	3.8	3.8	3.8	4.5	5.2	4.1	3.6	2.9	2.5
United States	3.5	4.2	3.3	4.0	2.7	1.8	-0.2	2.9	3.4	3.8	3.0	3.2	3.6	4.8	4.9	4.3	2.5	3.1	2.3	3.4
Euro area	2.2	3.5	3.5	3.2	3.7	3.2	2.8	1.9	-0.9	1.3	1.8	1.6	1.6	3.1	3.6	2.6	1.8	0.6	1.5	2.5
European Union	2.2	4.1	3.8	3.9	3.5	2.7	2.1	1.7	-0.3	1.7	1.8	2.0	2.1	3.2	3.7	3.0	2.1	1.1	1.8	2.5
Total OECD	3.1	3.9	3.5	4.1	3.6	3.0	1.4	2.4	1.8	2.8	2.1	2.9	2.9	3.0	3.9	3.5	2.1	2.1	2.0	2.7

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

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

Percentage change from previous period

	Average 1975-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	3.7	4.2	2.1	2.4	3.4	3.5	3.1	0.4	0.3	3.1	4.0	3.0	2.6	3.4	4.2	5.4	1.7	3.0	2.4	2.1
Austria	2.3	1.8	0.1	1.1	1.7	2.3	3.2	3.5	3.7	3.0	1.3	1.2	-1.5	2.8	2.2	0.9	-0.3	0.1	0.5	0.9
Belgium	2.3	1.4	2.7	-0.8	1.1	-0.4	3.6	1.4	-0.1	1.6	1.3	2.2	0.3	1.1	3.5	2.4	2.1	1.5	1.9	2.0
Canada	2.3	1.8	1.3	4.6	2.8	3.5	2.9	1.0	0.0	-1.2	-0.6	-1.2	-1.0	3.2	1.9	2.3	3.3	1.9	2.7	2.6
Czech Republic	..	..	..	..	..	..	..	..	..	-2.4	-4.3	3.6	-4.4	-4.4	2.3	-1.0	0.3	4.8	2.5	1.0
Denmark	3.1	0.5	2.5	0.9	-0.8	-0.2	0.6	0.8	4.1	3.0	2.1	3.4	0.8	3.1	1.8	0.6	1.2	1.3	0.8	0.9
Finland	3.6	3.4	4.4	1.9	2.2	4.0	2.1	-2.4	-4.2	0.3	2.0	2.5	4.1	1.7	1.9	-0.2	2.1	2.0	1.8	1.9
France	3.3	2.4	2.2	3.0	1.8	2.5	2.6	3.6	4.3	0.5	0.0	2.2	2.1	0.0	1.5	2.9	2.4	3.4	2.8	2.2
Germany	2.0	2.4	1.8	2.4	-1.1	3.1	1.9	5.0	0.1	2.4	1.5	1.8	0.3	1.9	1.0	1.2	0.8	1.1	0.8	0.7
Greece	3.6	-1.1	0.2	-5.5	5.4	0.6	-1.5	-3.0	2.6	-1.1	5.6	0.9	3.0	1.7	1.4	2.3	0.5	1.6	-0.3	0.2
Hungary	..	..	..	..	..	..	..	..	..	-7.4	-5.7	-1.9	3.1	2.8	1.5	1.9	0.1	3.9	1.8	1.9
Iceland	4.7	7.3	6.5	4.7	3.0	4.4	3.1	-0.7	2.3	4.0	1.8	1.2	2.5	3.4	4.4	3.7	3.2	3.0	2.0	3.1
Ireland	2.8	2.6	-4.8	-5.0	-1.3	5.4	2.7	3.0	0.1	4.1	3.9	3.3	5.3	5.7	6.3	5.4	5.3	8.5	4.2	4.0
Italy	3.0	2.6	4.8	4.0	0.2	2.5	1.7	0.6	-0.2	-0.9	-2.2	1.0	0.2	0.2	1.3	1.7	2.2	1.9	1.2	1.0
Japan	4.1	4.8	3.5	3.4	2.9	2.5	3.2	2.7	3.2	2.9	4.3	2.8	1.3	1.9	4.5	4.4	2.9	2.4	1.9	1.7
Korea	4.0	8.4	6.1	8.0	8.5	3.6	7.2	5.9	4.6	1.9	0.8	8.2	1.5	-0.4	1.3	0.1	0.2	3.5	2.0	2.0
Luxembourg	2.2	6.4	9.6	4.3	8.2	6.7	4.0	3.2	5.2	1.0	4.8	5.6	3.1	1.3	7.1	4.3	7.5	6.0	7.5	4.5
Mexico	5.6	1.4	-1.2	-0.5	2.2	3.3	5.4	1.9	2.4	2.9	-1.3	-0.7	2.9	2.3	4.7	2.0	-1.4	-0.5	2.8	3.2
Netherlands	2.6	3.6	2.6	1.4	1.5	1.6	1.5	1.7	1.5	0.6	0.6	-0.4	3.2	3.6	2.5	1.9	3.1	2.5	0.2	0.8
New Zealand	1.6	2.1	0.5	0.1	3.6	1.6	-0.6	1.1	1.2	0.8	4.8	2.3	7.7	-1.8	7.4	-2.1	0.5	1.8	2.3	2.6
Norway	4.0	1.9	4.6	-0.1	1.9	4.9	4.3	5.3	2.2	1.4	0.3	2.8	1.9	3.8	3.3	1.2	2.0	1.7	0.5	1.0
Poland	..	..	..	..	..	..	..	..	..	2.3	3.7	2.0	3.1	1.4	1.0	1.1	0.6	1.1	1.7	1.8
Portugal	5.7	7.2	3.8	8.6	6.4	4.2	9.6	-0.9	-0.2	4.3	1.0	3.4	2.2	4.1	5.6	4.0	2.8	1.1	-0.2	0.0
Slovak Republic	..	..	..	..	..	..	..	..	..	-10.1	2.1	17.4	-4.5	11.5	-7.7	1.3	5.1	5.0	2.0	2.2
Spain	4.3	4.6	9.2	3.6	8.3	6.3	6.0	3.5	2.7	0.5	2.4	1.3	2.9	3.7	4.2	5.0	3.1	2.1	2.7	1.9
Sweden	2.4	1.8	1.2	1.1	3.0	2.5	3.4	0.2	-0.1	-0.9	-0.6	0.9	-1.2	3.2	1.7	-0.9	1.4	1.7	0.8	0.8
Switzerland	2.0	3.4	1.7	4.5	5.4	5.4	3.5	0.7	-0.1	2.0	-0.1	2.0	0.0	1.3	1.2	1.5	2.6	3.1	0.5	0.4
Turkey	5.3	9.2	9.4	-1.1	0.8	8.0	3.7	3.6	8.6	-5.5	6.8	8.6	4.1	7.8	6.5	7.1	-8.6	2.1	1.0	1.5
United Kingdom	0.9	1.6	-0.4	0.2	1.0	2.2	3.0	0.7	-0.7	1.0	1.7	1.2	0.1	1.5	3.1	2.1	3.1	4.5	2.8	3.0
United States	2.0	4.6	2.4	1.6	2.5	2.6	1.4	0.4	-0.3	0.2	0.0	0.5	1.8	1.4	2.9	2.8	3.7	4.2	2.9	2.5
Euro area	2.8	2.6	3.0	2.6	1.1	2.8	2.5	2.9	1.4	1.1	0.6	1.6	1.3	1.4	1.8	2.2	1.9	2.1	1.6	1.4
European Union	2.6	2.5	2.7	2.2	1.4	2.8	2.7	2.4	1.0	1.0	0.8	1.5	1.0	1.6	2.1	2.1	2.1	2.4	1.7	1.5
Total OECD	2.8	3.8	2.7	2.2	2.4	2.8	2.5	1.7	1.1	0.9	1.0	1.6	1.4	1.7	2.8	2.7	2.4	3.0	2.2	2.0

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

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

Percentage change from previous period

	Average 1975-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	4.7	-0.7	3.6	9.3	10.0	-7.5	-8.4	1.5	5.2	11.7	2.4	4.0	9.7	7.7	6.5	0.6	-2.5	9.3	4.5	5.6
Austria	1.1	1.3	3.8	7.4	4.1	6.2	6.6	0.6	-0.9	4.6	1.3	2.2	2.0	3.4	1.5	5.1	-3.4	-2.8	2.9	4.2
Belgium	-0.4	3.4	5.1	15.6	12.2	7.8	-3.9	0.8	-1.7	-0.1	3.7	-0.5	8.5	3.2	4.5	3.2	0.5	-2.2	2.2	3.3
Canada	3.7	4.6	10.5	9.3	5.6	-3.9	-5.4	-2.7	-2.0	7.5	-2.1	4.4	15.2	2.4	7.8	6.5	1.7	3.4	3.9	5.3
Czech Republic	..	..	..	..	..	..	..	..	..	17.1	19.8	8.2	-2.9	0.7	-1.0	5.3	7.2	3.3	3.7	4.1
Denmark	1.2	17.1	-3.8	-6.6	-0.8	-2.1	-3.3	-2.0	-4.0	7.6	11.6	4.0	10.9	10.1	1.0	10.7	-0.2	0.5	1.5	3.4
Finland	0.3	1.0	4.9	11.0	13.0	-4.6	-18.6	-16.7	-16.6	-2.7	10.6	8.4	12.0	9.3	3.0	3.9	4.0	-2.3	-0.1	2.9
France	0.6	4.6	5.7	9.0	7.6	3.3	-1.5	-1.8	-6.6	1.5	2.2	0.1	-0.2	7.3	8.3	8.3	2.7	0.0	0.3	3.1
Germany	1.1	2.9	1.8	4.6	6.7	7.7	5.2	4.5	-4.4	4.0	-0.6	-0.8	0.6	3.0	4.1	2.5	-5.3	-4.7	0.6	1.3
Greece	0.1	0.1	-5.6	2.6	6.1	4.5	4.2	-3.5	-4.0	-3.1	4.1	8.4	6.8	10.6	6.2	8.0	5.9	6.9	9.5	6.7
Hungary	..	..	..	..	..	..	..	..	..	12.5	-4.3	6.7	9.2	13.3	5.9	7.7	3.1	5.3	3.5	5.8
Iceland	1.1	-1.6	18.8	-0.2	-7.9	3.0	1.5	-11.1	-10.7	0.6	-1.1	25.7	9.3	32.9	-3.7	14.8	-4.2	-14.6	2.1	13.0
Ireland	2.8	-2.8	-1.1	5.2	10.1	13.4	-7.0	0.0	-5.1	11.8	13.4	16.6	17.8	15.7	13.5	7.3	1.1	2.6	4.4	5.5
Italy	1.0	2.3	4.2	6.7	4.2	4.0	1.0	-1.4	-10.9	0.1	6.0	3.6	2.1	4.0	5.7	6.5	2.4	-2.7	1.8	2.6
Japan	2.8	5.1	9.4	12.0	8.6	8.8	2.2	-2.5	-3.1	-1.4	0.3	6.8	1.0	-4.0	-0.8	4.1	-2.3	-5.5	-2.1	-0.7
Korea	11.4	10.6	17.0	13.7	15.9	28.2	13.3	-0.7	6.3	10.7	11.9	7.3	-2.2	-21.2	3.7	11.4	-1.7	6.5	5.8	6.3
Luxembourg	-1.8	37.1	17.7	11.5	6.9	3.4	15.8	-15.1	20.6	0.0	-1.5	3.9	12.6	11.8	14.0	-6.3	5.9	-4.0	4.0	7.0
Mexico	1.7	-11.8	-0.1	5.8	5.8	13.1	11.0	10.8	-2.5	8.4	-29.0	16.4	21.0	10.3	7.7	11.4	-5.9	2.0	5.6	6.3
Netherlands	0.8	6.9	0.9	4.5	4.9	1.6	0.2	0.6	-2.8	2.2	5.0	6.3	6.6	4.2	7.8	3.5	-0.8	-2.1	1.8	5.6
New Zealand	0.7	-1.8	-0.2	0.2	4.5	-0.8	-18.3	0.2	14.5	15.3	12.3	7.7	0.7	-5.0	4.0	7.6	-1.7	4.6	5.0	4.1
Norway	0.8	7.6	0.3	-1.8	-6.9	-10.8	-0.4	-3.1	4.3	4.5	3.4	9.9	13.9	10.6	-8.2	-1.5	-4.6	-2.5	2.2	4.7
Poland	..	..	..	..	..	..	..	..	..	9.2	16.5	19.7	21.7	14.2	6.8	2.7	-9.8	-5.5	4.0	7.1
Portugal	0.3	10.9	18.0	14.8	3.7	7.6	3.3	4.5	-5.5	2.7	6.6	5.7	13.9	11.5	6.4	4.4	0.0	-2.5	0.3	3.0
Slovak Republic	..	..	..	..	..	..	..	..	..	-2.5	1.8	30.9	14.3	11.0	-18.5	1.2	9.6	2.2	5.0	5.2
Spain	-0.9	10.5	12.2	13.6	12.0	6.5	1.7	-4.1	-8.9	1.8	7.7	2.1	5.0	10.0	8.7	5.7	3.2	1.3	3.2	4.6
Sweden	1.1	1.1	8.0	6.4	12.1	0.2	-8.6	-11.6	-15.0	6.1	9.4	5.0	-1.1	8.5	9.6	5.0	1.5	-1.5	3.8	4.2
Switzerland	1.9	5.4	4.0	8.1	5.3	3.8	-2.9	-6.6	-2.7	6.5	1.8	-2.4	1.5	4.5	2.7	5.8	-5.2	-6.1	2.8	3.9
Turkey	-0.5	8.4	45.1	-1.0	2.2	15.9	0.4	6.4	26.4	-16.0	9.1	14.1	14.8	-3.9	-15.7	16.9	-31.7	-4.5	8.8	10.0
United Kingdom	1.5	2.1	9.0	14.9	6.0	-2.6	-8.2	-0.9	0.3	4.7	3.1	4.7	6.9	12.8	0.6	1.9	0.3	-4.4	2.4	3.9
United States	5.4	2.7	1.1	2.9	2.9	-0.2	-5.4	5.3	5.9	7.4	5.5	8.4	8.9	10.3	7.9	5.5	-2.6	-2.0	2.0	5.0
Euro area	0.7	4.0	4.3	7.6	7.1	5.0	1.1	0.0	-6.4	2.3	2.6	1.3	2.5	5.3	6.0	5.0	-0.3	-1.9	1.6	3.1
European Union	0.9	4.1	5.2	8.6	6.9	3.8	-0.4	-0.4	-5.6	2.6	3.5	2.3	3.4	6.8	5.3	4.8	0.0	-2.3	1.7	3.1
Total OECD	3.4	3.4	5.2	6.8	5.7	3.6	-1.5	1.7	0.3	4.4	3.1	6.3	6.3	5.7	5.0	5.4	-2.1	-1.9	1.8	3.7

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

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

Percentage change from previous period

	Average 1975-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	5.9	0.7	7.2	9.1	10.0	-7.5	-11.5	-2.0	2.2	12.2	8.1	10.1	8.3	6.5	6.0	-1.9	-0.3	8.4	8.1	8.9
Austria	2.4	-0.6	8.5	9.4	6.3	13.2	6.1	-3.1	-4.4	3.7	-2.2	4.0	10.7	6.9	3.6	10.9	-2.0	-3.5	3.3	5.5
Belgium	1.4	6.6	7.0	13.9	17.0	9.3	-3.3	-1.2	-4.7	-2.5	5.3	3.5	8.6	4.8	2.5	4.2	2.9	-2.8	2.0	4.0
Canada	5.4	2.4	10.0	14.7	5.5	-2.6	-3.3	-7.8	-1.4	9.4	4.8	4.4	22.6	5.3	7.8	8.2	-1.1	-1.5	6.7	7.3
Denmark	4.4	18.1	-4.8	-7.3	3.6	2.2	-1.4	-4.2	-8.3	7.6	13.9	2.7	13.7	13.5	0.4	11.1	3.0	1.5	1.6	3.8
Finland	0.3	4.7	5.3	10.7	16.3	-7.4	-23.1	-18.8	-17.5	-2.9	20.9	9.8	8.1	13.0	1.0	6.3	10.2	-3.4	-0.8	4.0
France	2.2	6.7	7.6	9.6	8.2	5.7	-1.1	-2.6	-8.0	0.7	3.3	0.0	0.9	10.2	9.1	9.2	3.1	-0.2	0.3	4.1
Germany	1.5	0.2	1.9	5.6	7.1	9.0	6.0	0.7	-9.0	0.7	1.0	-0.8	2.2	4.9	5.2	6.2	-4.5	-5.5	0.9	4.1
Greece	0.9	-10.5	0.6	2.8	15.3	6.5	5.3	0.7	1.1	0.9	2.9	14.7	5.4	12.0	7.4	12.7	6.6	9.9	11.4	7.9
Iceland	1.9	4.5	22.3	-10.3	-14.6	6.5	2.5	-17.3	-23.7	1.3	10.5	49.5	17.9	45.4	-5.6	15.1	-8.9	-20.6	3.5	18.0
Ireland	4.0	-4.4	6.4	19.4	9.5	18.9	-11.7	-2.5	-5.7	8.2	14.0	17.9	20.5	20.9	13.3	1.4	-2.4	1.7	4.1	5.7
Italy	1.2	5.0	7.5	10.2	5.4	4.8	0.3	-1.3	-14.7	4.4	10.4	5.0	4.0	4.6	7.3	8.1	1.2	-3.9	0.2	2.4
Japan	5.5	4.9	6.2	15.5	15.0	11.5	4.4	-7.3	-11.6	-6.5	2.4	4.2	13.2	-2.3	-4.2	12.2	-0.1	-6.8	0.8	0.2
Korea	13.4	13.0	20.5	12.7	15.6	18.9	13.4	0.1	5.3	15.1	14.1	7.3	-3.0	-29.2	11.4	18.0	-6.1	6.4	6.3	6.5
Mexico	..	-17.1	8.7	20.3	7.1	19.6	22.6	22.8	-5.6	-0.4	-38.9	45.8	34.0	18.3	8.8	10.6	-5.3	1.8	6.1	6.8
Netherlands	2.1	12.0	0.3	1.2	8.1	2.5	2.2	-3.4	-4.3	0.1	7.7	7.0	9.7	5.2	9.9	3.7	-3.0	-3.0	1.0	7.0
New Zealand	4.4	-5.3	12.1	0.2	6.0	-5.1	-18.9	8.2	23.1	17.0	15.1	9.0	-6.1	1.8	0.9	11.4	5.5	0.5	4.1	4.0
Norway	0.9	6.5	-3.0	-0.8	-6.7	-9.3	4.7	-3.0	10.5	1.0	1.7	14.4	14.7	15.2	-11.1	-2.9	-7.2	-4.4	2.6	5.9
Spain	-1.2	17.3	19.6	14.0	12.1	3.9	3.7	-1.0	-13.5	3.5	12.4	3.6	6.4	9.1	9.5	5.9	3.7	-0.5	3.0	5.2
Sweden	1.9	3.1	8.6	5.3	14.5	-2.3	-14.6	-15.2	-10.9	18.5	20.0	8.0	2.6	9.6	10.1	7.0	0.6	-3.7	3.3	4.2
Switzerland	1.6	8.7	4.6	9.7	4.7	6.3	-2.6	-10.6	-5.9	2.0	4.9	2.3	4.3	6.8	3.4	7.6	-7.0	-10.4	3.1	4.7
United Kingdom	3.2	1.1	10.4	16.1	12.6	0.1	-7.9	-3.5	-3.5	4.8	7.8	9.1	10.2	18.4	1.6	1.8	0.9	-9.3	1.6	3.3
United States	6.3	-2.7	-0.1	5.4	5.5	0.7	-4.9	3.4	8.4	8.9	9.8	10.0	12.2	12.5	8.1	7.8	-5.2	-5.8	2.0	8.8
Euro area	1.2	4.6	6.2	8.6	8.2	6.0	1.3	-1.3	-9.7	1.5	4.9	2.2	4.3	7.0	7.0	7.0	0.0	-2.7	1.3	4.3
European Union	1.8	4.7	7.0	9.5	9.1	5.1	-0.3	-2.1	-8.8	2.7	6.4	3.7	5.1	8.9	6.2	6.4	0.3	-3.7	1.3	4.1
Total OECD	4.6	1.4	4.7	9.4	8.5	4.6	-0.6	-0.3	-1.7	4.3	5.8	7.7	10.3	7.7	5.5	8.1	-2.3	-4.3	2.1	5.6

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. Some countries, United States, Canada and France use hedonic price indices to deflate current-price values of investment in certain information and communication technology products such as computers. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex. National account data do not always have a sectoral breakdown of investment expenditures, and for some countries data are estimated by the OECD. See also *OECD Economic Outlook* Sources and Methods, *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

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

Percentage change from previous period

	Average 1975-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	5.1	-7.7	-2.2	20.1	8.8	-10.8	-5.7	11.4	12.8	12.1	-7.6	-10.6	15.3	14.7	5.2	3.4	-10.7	18.6	-1.3	-2.0
Austria	0.9	1.8	1.3	9.2	-0.6	-8.2	9.4	10.7	4.3	7.7	13.1	2.4	-1.7	-2.5	-2.5	-6.2	-3.2	0.5	2.0	0.5
Belgium	-4.4	-0.3	9.0	25.2	17.3	8.3	-9.0	4.9	1.8	5.5	4.3	-8.3	10.4	0.1	5.7	0.8	-2.0	-0.1	0.6	1.5
Canada	2.4	12.4	14.7	2.1	4.1	-10.5	-14.8	7.1	-3.4	4.1	-14.8	9.6	8.2	-3.5	5.4	3.5	4.7	12.7	-3.1	0.7
Denmark	-2.1	21.3	-3.2	-9.4	-8.4	-11.3	-10.1	0.1	6.3	8.9	8.5	5.8	7.1	4.2	2.5	11.0	-13.5	-4.9	0.6	2.2
Finland	-0.6	-7.8	0.9	15.8	17.4	-5.6	-16.6	-20.6	-14.3	-4.5	-2.7	2.7	21.5	7.8	12.7	3.6	-10.7	-1.2	2.4	1.4
France	-1.2	1.6	2.9	5.6	7.4	-1.7	-6.9	-3.7	-5.2	4.4	2.1	0.4	0.9	3.8	7.1	4.1	-0.8	-0.1	0.0	2.0
Germany	3.6	8.3	3.1	4.7	7.7	7.6	7.4	10.8	4.7	12.0	0.4	-0.2	0.4	0.3	1.6	-2.6	-7.1	-3.4	-0.1	-2.1
Greece	-1.9	20.9	-5.8	-0.6	-1.8	5.5	-0.3	-15.6	-10.5	-11.3	2.6	-1.2	6.6	8.8	3.9	-4.3	4.4	2.5	2.7	2.4
Iceland	-0.6	-13.9	14.2	14.9	2.8	-0.6	-4.1	-3.4	-5.2	4.1	-8.7	7.1	-9.7	1.3	0.3	10.4	12.9	0.0	-1.0	5.0
Ireland	2.5	8.1	6.2	0.3	13.2	-0.6	1.1	8.1	-11.7	23.6	14.9	18.4	16.1	5.8	11.3	13.5	-0.9	3.5	4.2	4.0
Italy	-0.4	-3.0	-2.1	2.2	3.0	3.7	3.3	1.3	-1.5	-2.3	-0.1	-1.4	-2.8	-0.6	1.8	5.2	3.0	1.0	2.0	3.0
Japan	-0.6	8.1	22.4	11.4	0.9	4.8	-6.7	-5.8	1.7	7.4	-6.1	13.7	-15.7	-13.7	1.2	1.9	-5.6	-4.0	-0.5	-0.5
Korea	6.0	16.2	9.0	22.7	19.7	62.1	10.8	-7.3	11.2	-1.7	8.3	1.5	-6.3	-7.9	-16.5	-10.0	13.3	8.0	5.0	7.3
Mexico	2.8	-1.6	4.4	-1.2	5.8	4.4	7.6	2.9	5.2	4.0	-7.9	2.5	4.5	3.4	2.9	5.2	-4.8	1.7	4.4	5.2
Netherlands	0.5	4.2	1.6	11.3	0.7	-2.5	-5.4	6.4	-0.3	6.2	0.9	3.9	5.3	1.4	4.2	-0.4	-1.2	-1.0	3.5	4.5
New Zealand	-2.1	-3.1	-3.9	4.7	15.5	2.4	-15.5	3.8	17.1	13.2	3.0	8.1	6.4	-16.2	11.0	-0.3	-9.6	9.0	5.7	3.0
Norway	0.9	7.8	3.2	-6.9	-12.5	-17.8	-21.7	-10.6	-3.7	24.6	9.1	-0.1	7.4	-1.8	-2.5	11.0	5.1	-2.5	2.5	3.9
Spain	-2.6	2.1	6.3	11.4	3.3	6.4	-3.7	-4.0	-4.1	0.4	7.1	9.3	3.0	10.2	10.0	7.4	0.8	3.5	3.4	3.4
Sweden	-0.1	-2.2	8.8	8.4	4.8	7.2	-2.4	-11.6	-33.5	-34.1	-23.9	8.9	-11.5	3.2	12.1	9.3	8.3	7.2	6.8	6.4
Switzerland	4.6	-1.6	2.7	4.9	5.8	-3.4	-7.7	-1.6	5.8	19.3	0.0	-10.2	-4.0	-0.6	0.8	2.5	-4.7	1.2	2.4	2.7
United Kingdom	1.6	10.2	9.8	19.0	-11.6	-17.5	-15.1	0.2	8.1	2.5	-3.0	6.9	5.1	-2.0	-2.8	0.8	-4.0	10.5	3.1	2.8
United States	4.1	12.0	0.2	-0.5	-4.1	-8.6	-12.8	16.3	7.3	9.7	-3.6	7.4	2.0	8.0	6.7	1.1	0.3	3.4	1.9	-1.9
Euro area	0.2	3.0	2.1	6.3	5.8	3.0	0.0	2.8	-0.1	6.2	1.8	0.8	1.4	2.1	4.0	1.2	-2.7	-0.6	1.2	1.2
European Union	0.6	4.4	3.5	8.2	2.8	-0.2	-2.4	1.8	-0.1	3.6	0.8	2.1	1.8	1.6	3.3	2.0	-2.2	1.3	1.6	1.6
Total OECD	2.5	7.9	5.5	5.4	0.6	-1.5	-7.0	6.2	3.6	6.8	-2.6	5.7	-0.4	1.5	3.8	1.6	-1.4	2.2	1.4	0.2

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

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

Percentage change from previous period

	Average 1975-85[a]	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	3.3	1.0	2.8	5.6	6.7	-0.7	-2.1	2.5	2.9	5.0	4.4	2.8	3.2	6.9	5.6	2.2	1.5	5.1	3.8	3.9
Austria	2.2	1.8	2.4	3.2	3.8	4.5	3.2	2.1	0.7	3.2	3.0	1.9	1.4	3.0	2.5	2.4	-0.1	-0.3	1.7	2.4
Belgium	1.6	2.6	3.4	4.6	4.1	3.1	1.7	1.7	-0.9	2.0	1.6	0.8	2.9	3.2	2.4	3.3	0.5	0.8	2.0	2.5
Canada	2.9	3.2	4.9	6.1	3.9	-0.5	-1.9	0.3	1.4	3.4	1.8	1.3	6.2	2.5	4.4	4.5	1.0	2.9	3.2	3.4
Czech Republic	..	..	..	..	..	..	..	..	..	6.3	8.4	7.3	-0.7	-2.4	0.3	4.0	4.9	3.0	3.3	3.6
Denmark	2.1	5.6	-1.7	-0.7	-0.1	-0.7	-0.1	0.9	-0.3	7.0	4.2	2.2	4.9	4.0	-0.5	2.6	1.1	1.3	1.6	2.2
Finland	2.0	2.8	5.1	6.5	6.9	-1.5	-8.5	-5.8	-5.7	3.7	4.4	2.9	6.0	5.8	2.0	3.7	1.0	0.6	1.9	2.8
France	2.2	3.5	3.3	4.3	3.9	2.7	0.5	0.6	-1.6	1.8	1.7	0.7	0.6	4.1	3.7	4.3	1.6	1.0	2.4	2.9
Germany	1.8	3.7	2.4	3.7	3.2	4.7	4.4	2.8	-1.1	2.3	1.7	0.3	0.6	2.4	2.8	1.8	-0.8	-1.1	1.4	2.1
Greece	2.1	0.4	-2.7	5.9	5.3	2.2	3.5	-0.5	-1.0	1.1	3.5	3.3	3.5	4.6	2.8	4.0	3.5	3.6	4.2	3.7
Hungary	..	..	..	..	..	..	..	..	..	2.0	-2.8	0.6	3.9	7.6	4.0	5.1	2.1	5.4	5.4	4.3
Iceland	3.3	4.6	15.7	-0.7	-4.4	1.5	3.5	-4.5	-3.7	2.2	2.2	7.0	4.3	13.4	4.0	6.7	-2.9	-3.0	1.5	4.7
Ireland	2.7	1.2	-0.4	1.9	6.9	6.3	0.1	-0.3	1.1	5.6	7.3	7.7	9.8	9.4	7.0	9.2	4.0	4.0	4.4	4.7
Italy	2.9	3.1	4.3	4.1	3.1	2.7	2.1	0.9	-5.1	1.7	2.0	0.9	2.7	3.1	3.0	2.1	1.6	0.7	1.1	2.0
Japan	3.4	3.8	5.3	7.3	5.6	5.3	2.7	0.6	0.3	1.2	2.1	4.0	0.9	-1.5	0.8	2.1	0.4	-1.4	0.3	0.6
Korea	7.1	8.2	10.6	11.4	12.6	11.6	10.4	3.2	4.6	9.6	9.3	7.8	-0.8	-19.8	14.7	8.1	1.9	6.8	4.7	4.7
Luxembourg	1.8	9.1	8.2	7.7	6.2	4.7	8.5	-4.2	4.8	2.4	2.3	4.2	6.0	7.3	6.1	-0.3	6.3	1.2	4.0	4.6
Mexico	3.5	-4.9	1.1	3.9	5.6	7.0	5.7	6.0	1.1	5.6	-14.0	5.6	9.6	6.1	4.3	8.4	0.4	1.7	3.8	5.0
Netherlands	1.8	3.9	1.4	1.9	4.4	3.2	1.7	1.5	-1.1	2.9	1.9	2.8	3.9	4.8	4.3	2.8	1.4	0.0	1.7	2.9
New Zealand	1.0	1.4	1.5	0.8	4.3	0.3	-6.0	2.0	4.9	6.9	5.4	4.6	2.7	-0.6	5.9	1.8	1.2	3.0	2.6	2.9
Norway	2.6	7.0	-0.6	-2.9	-1.9	-0.3	0.9	1.7	3.1	3.9	3.9	4.3	6.2	5.4	-0.6	2.5	-0.2	1.1	2.7	2.8
Poland	..	..	..	..	..	..	..	..	..	4.6	7.3	9.0	10.4	6.4	4.9	2.9	-1.9	0.4	2.9	3.5
Portugal	2.1	6.0	8.8	9.9	4.9	5.3	6.1	3.4	-2.1	1.5	4.1	3.0	5.1	6.7	5.9	3.1	1.1	0.0	0.6	1.8
Slovak Republic	..	..	..	..	..	..	..	..	..	-4.5	10.3	17.9	3.8	6.9	-6.2	0.0	7.2	4.2	3.8	4.0
Spain	0.9	5.3	7.9	6.8	7.3	4.6	3.0	1.0	-3.3	1.5	3.1	1.9	3.5	5.7	5.6	4.4	2.7	1.8	2.8	3.3
Sweden	0.9	3.0	4.3	3.0	3.7	0.7	-1.6	-1.9	-4.6	3.0	1.9	0.7	0.9	4.3	3.6	3.8	0.2	0.5	2.7	2.7
Switzerland	1.8	4.0	2.0	3.0	4.2	3.9	-1.0	-2.4	-1.0	2.5	1.9	0.1	0.8	3.5	2.5	2.5	0.8	-0.2	1.7	2.3
Turkey	3.3	7.0	8.9	-1.3	1.5	14.6	-0.6	5.6	14.2	-12.5	11.4	7.6	9.0	0.6	-3.7	9.8	-18.4	5.1	3.2	4.3
United Kingdom	1.9	4.7	4.6	8.1	2.9	-0.3	-2.5	0.9	2.3	3.8	2.0	3.1	3.9	5.0	3.6	3.9	2.6	2.3	3.0	3.2
United States	3.7	3.6	3.1	3.2	2.9	1.4	-1.1	3.1	3.2	4.4	2.5	3.7	4.7	5.4	5.0	4.4	0.4	2.8	2.7	3.8
Euro area	2.1	3.4	3.4	4.3	4.0	3.5	2.3	1.4	-2.1	2.1	2.0	1.1	1.8	3.6	3.4	3.0	1.0	0.4	1.8	2.6
European Union	2.0	3.7	3.7	4.8	3.8	2.8	1.5	1.2	-1.6	2.4	2.1	1.4	2.3	3.9	3.4	3.1	1.2	0.7	2.0	2.6
Total OECD	3.1	3.5	3.9	4.6	4.0	3.0	0.8	2.1	1.2	3.1	2.3	3.2	3.4	3.1	3.8	3.8	0.5	1.6	2.2	3.0

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

a) Average 1975-84 in the case of Australia.

Source: OECD.

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

Percentage change from previous period

	Average 1975-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	4.9	4.3	12.2	3.5	2.9	8.5	13.1	5.4	8.0	9.0	5.0	10.6	11.5	-0.2	4.6	10.7	1.1	2.3	7.5	7.7
Austria	6.1	-4.8	2.3	9.8	9.7	7.8	5.2	1.5	-1.4	5.6	3.0	5.2	12.4	7.9	8.7	12.2	5.5	-0.9	6.1	7.4
Belgium	4.0	2.3	4.6	10.2	8.9	4.5	2.9	2.4	0.8	9.1	5.0	2.2	6.3	5.6	5.3	8.5	1.2	-0.8	5.1	6.6
Canada	6.5	4.3	2.9	8.9	1.0	4.7	1.8	7.2	10.8	12.7	8.5	5.6	8.3	9.1	10.0	8.0	-3.8	1.6	6.1	7.6
Czech Republic	..	..	..	..	..	..	..	..	..	0.2	16.7	8.2	9.2	10.0	6.1	17.0	12.3	3.7	7.0	9.9
Denmark	4.7	0.0	5.1	7.8	4.2	6.2	6.1	-0.9	-1.5	7.0	2.9	4.3	4.1	4.3	10.8	11.5	3.7	4.3	6.1	7.1
Finland	6.8	0.7	2.9	3.5	1.6	1.2	-7.3	10.3	16.7	13.1	8.6	5.8	14.1	8.9	6.8	20.1	-2.2	2.6	7.0	8.7
France	4.7	-0.8	2.7	8.5	10.6	4.9	5.5	5.1	-0.1	8.1	7.7	3.2	12.0	8.3	4.2	13.6	1.5	0.2	5.2	7.5
Germany	5.3	-1.3	0.7	5.5	10.3	13.2	12.9	-0.8	-5.5	7.6	5.7	5.1	11.2	7.0	5.6	13.7	5.0	1.8	5.3	8.0
Greece	5.6	16.8	5.9	-2.1	1.9	-3.5	4.1	10.0	-2.6	7.4	3.0	3.5	20.0	5.3	8.0	19.7	-1.3	0.6	6.2	7.0
Hungary	..	..	..	..	..	..	..	..	..	13.7	13.4	8.4	26.4	16.7	13.1	21.8	9.1	7.8	7.3	10.1
Iceland	6.3	5.9	3.3	-3.6	2.9	0.0	-6.7	-2.0	7.0	9.9	-2.1	9.8	5.3	2.0	4.0	5.0	7.8	5.0	4.2	5.5
Ireland	8.8	2.9	13.7	9.0	10.3	8.7	5.7	13.9	9.7	15.1	20.0	12.2	17.4	21.4	15.7	17.8	8.4	7.1	6.0	8.5
Italy	5.0	0.8	4.5	5.1	7.8	7.5	-1.4	7.3	9.0	9.8	12.6	0.6	6.4	3.4	0.3	11.7	0.8	-1.4	6.0	7.7
Japan	8.5	-5.5	-0.5	5.9	9.1	7.0	4.1	3.9	-0.1	3.5	4.1	6.5	11.2	-2.3	1.4	12.5	-7.0	5.5	7.6	6.2
Korea	13.0	26.5	21.7	12.5	-4.1	3.8	11.2	11.3	11.3	16.1	24.6	11.2	21.4	14.1	15.8	20.5	1.0	8.7	11.0	10.2
Luxembourg	4.2	2.8	3.3	11.1	12.6	5.6	9.2	2.7	4.8	7.7	3.4	5.6	13.6	14.3	12.0	19.1	1.2	-2.0	3.0	6.2
Mexico	10.8	4.5	9.5	5.8	5.7	5.3	5.1	5.0	8.1	17.8	30.2	18.2	10.7	12.1	12.4	16.4	-5.1	3.3	6.7	7.6
Netherlands	3.7	1.8	4.0	9.0	6.6	5.3	4.7	2.9	1.5	6.7	7.1	4.6	8.8	7.4	5.1	10.9	1.7	-2.0	4.9	8.0
New Zealand	5.7	-0.4	5.6	6.1	-1.4	4.9	10.8	3.7	4.6	10.0	3.8	3.7	3.9	1.5	8.2	6.8	2.1	9.0	6.9	6.9
Norway	5.4	2.2	1.1	6.4	11.0	8.6	6.1	5.2	3.2	8.7	4.3	9.3	6.1	0.3	2.8	2.9	4.2	2.2	0.6	2.8
Poland	..	..	..	..	..	..	..	..	..	13.1	22.8	12.0	12.2	14.3	-2.6	23.2	10.2	5.0	10.0	11.2
Portugal	7.8	6.8	11.2	8.2	12.2	9.5	1.2	3.2	-3.3	8.4	8.8	7.1	7.1	9.1	2.9	8.0	1.4	1.1	5.7	8.0
Slovak Republic	..	..	..	..	..	..	..	..	..	12.2	4.8	-1.3	19.0	13.2	5.2	13.8	6.5	3.1	6.6	8.1
Spain	7.4	0.2	5.3	3.8	1.4	4.7	8.3	7.5	7.8	16.7	9.4	10.4	15.3	8.2	7.7	10.0	3.4	-0.2	5.5	7.9
Sweden	4.6	3.4	4.3	2.8	3.2	1.8	-1.9	2.2	8.3	14.1	11.3	3.5	13.7	8.4	6.5	10.3	-1.4	2.9	6.0	7.1
Switzerland	4.7	0.2	2.0	5.7	5.3	2.6	-0.7	3.1	1.0	2.7	2.8	2.4	8.4	5.4	5.1	10.0	-0.1	-1.8	3.6	5.8
Turkey	11.3	-5.1	26.4	18.4	-0.3	2.6	3.7	11.0	7.7	15.2	8.0	22.0	19.1	12.0	-7.0	19.2	7.4	6.5	6.6	10.9
United Kingdom	3.5	4.5	6.0	0.6	4.5	5.4	-0.1	4.3	4.4	9.2	9.0	8.2	8.3	3.0	5.3	10.1	1.2	-1.1	4.2	7.8
United States	4.0	7.4	11.2	16.1	11.8	8.7	6.5	6.2	3.3	8.9	10.3	8.2	12.3	2.1	3.4	9.7	-5.4	-1.2	7.0	8.2
Total OECD	5.9	3.2	7.0	9.8	8.5	7.4	5.5	5.2	3.1	8.9	9.5	7.3	11.6	4.2	4.3	11.8	-1.9	1.1	6.6	7.8

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

Source: OECD.

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

Percentage change from previous period

	Average 1975-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	5.1	-3.3	2.7	17.1	20.6	-4.0	-2.4	7.1	4.2	14.3	7.9	8.3	10.5	6.0	9.2	7.1	-4.1	9.8	7.8	8.1
Austria	5.4	-6.0	4.8	9.3	8.0	6.9	5.8	1.4	-1.1	8.2	5.6	4.9	12.0	5.9	8.8	11.1	3.4	-2.7	5.8	7.2
Belgium	3.2	3.8	6.8	10.5	10.1	4.8	2.9	3.1	0.6	7.3	4.1	2.2	5.0	7.4	4.3	8.3	0.8	-0.8	5.2	6.5
Canada	5.4	7.2	5.3	13.5	5.9	2.0	2.5	4.7	7.4	8.0	5.7	5.1	14.2	5.1	7.8	8.2	-5.8	0.3	6.8	7.8
Czech Republic	..	..	..	..	..	..	..	..	..	7.6	21.2	13.4	8.1	6.6	5.4	17.0	13.6	4.1	6.6	9.3
Denmark	3.0	6.8	-2.0	1.5	4.1	1.2	3.0	-0.4	-2.7	12.3	7.3	3.5	10.0	8.9	3.3	11.2	4.3	4.1	5.7	6.9
Finland	3.0	1.5	9.2	10.9	9.0	-0.8	-13.5	0.6	1.3	12.8	7.8	6.4	11.3	8.5	4.0	16.0	0.1	-0.9	6.7	8.2
France	4.5	6.4	7.5	8.5	8.4	5.5	2.5	1.6	-3.6	8.3	7.7	1.7	7.3	11.6	6.2	15.0	0.8	0.1	7.4	7.9
Germany	3.9	3.1	4.7	5.7	8.5	10.7	12.2	1.5	-5.5	7.4	5.6	3.1	8.3	9.1	8.5	10.5	1.0	-2.5	5.4	7.7
Greece	5.1	13.9	2.1	7.3	10.5	8.4	5.8	1.1	0.6	1.5	8.9	7.0	14.2	9.2	3.8	14.5	-1.9	1.5	6.6	5.6
Hungary	..	..	..	..	..	..	..	..	..	8.8	-0.7	6.2	24.6	22.8	12.3	21.1	6.3	11.2	9.1	10.3
Iceland	3.9	0.9	23.3	-4.6	-10.3	1.0	4.7	-5.9	-7.7	4.2	4.0	16.7	7.8	23.4	4.2	8.0	-9.0	-3.0	4.0	8.0
Ireland	6.7	5.6	6.2	4.9	13.5	5.1	2.4	8.2	7.5	15.5	16.4	12.5	16.8	25.8	11.9	16.6	7.7	8.1	7.1	9.4
Italy	4.8	4.0	12.2	5.9	8.9	11.5	2.3	7.4	-10.9	8.1	9.7	-0.3	10.1	8.9	5.3	9.4	0.2	-0.1	5.0	6.3
Japan	2.4	3.2	11.3	19.5	15.7	7.0	-1.1	-0.7	-1.4	7.8	12.8	13.2	1.2	-6.8	3.0	9.4	-0.8	-1.2	3.9	4.5
Korea	10.2	17.9	19.6	12.9	16.3	13.0	19.2	5.3	6.2	21.6	22.4	14.2	3.2	-22.1	28.8	20.0	-2.8	12.0	10.9	10.0
Luxembourg	3.6	1.7	7.3	10.5	9.1	5.0	9.1	-3.1	5.2	6.7	4.7	6.3	12.6	14.9	12.9	14.0	4.5	-2.1	4.2	6.6
Mexico	1.8	-7.6	5.1	36.7	18.0	19.7	15.2	19.6	1.9	21.3	-15.0	22.9	22.7	16.6	14.1	21.5	-2.9	3.9	7.7	9.8
Netherlands	3.3	3.5	4.2	7.6	6.7	4.2	4.1	2.1	-2.1	6.7	7.2	4.4	9.5	8.5	5.8	10.6	1.9	-2.3	5.3	9.0
New Zealand	2.6	2.8	8.6	-0.9	13.5	3.6	-5.2	8.3	5.3	13.1	9.0	7.7	2.2	1.3	11.8	0.2	1.4	6.9	6.1	5.6
Norway	2.2	11.8	-6.5	-2.4	2.2	2.5	0.2	0.7	4.4	4.9	5.6	8.0	11.3	8.0	-1.6	3.2	0.0	-0.3	3.4	4.2
Poland	..	..	..	..	..	..	..	..	..	11.2	24.3	28.0	21.4	18.5	1.0	15.6	-0.1	3.4	11.5	11.2
Portugal	3.0	16.9	23.1	18.0	5.9	14.5	7.2	10.7	-3.3	8.8	7.4	4.9	10.0	14.2	8.5	5.4	0.3	0.0	2.6	5.7
Slovak Republic	..	..	..	..	..	..	..	..	..	-5.4	11.5	19.8	13.8	16.9	-6.3	10.2	11.7	3.0	6.5	7.5
Spain	2.3	17.2	24.8	16.1	17.7	9.6	10.3	6.8	-5.2	11.4	11.1	8.0	13.2	13.2	12.7	10.6	3.5	-0.4	6.1	8.3
Sweden	2.4	3.8	7.6	4.5	7.7	0.7	-4.9	1.5	-2.2	12.2	7.2	3.0	12.5	11.2	4.4	11.5	-3.9	0.3	6.8	7.3
Switzerland	6.1	7.9	5.9	5.5	4.8	3.0	-1.4	-3.7	-0.5	8.9	6.9	1.9	6.1	8.3	7.4	8.5	-0.3	-1.8	4.2	6.0
Turkey	6.8	-3.5	23.0	-4.5	6.9	33.0	-5.2	10.9	35.8	-21.9	29.6	20.5	22.4	2.3	-3.7	25.4	-24.8	11.5	6.5	11.5
United Kingdom	3.7	6.9	7.9	12.8	7.4	0.5	-4.5	6.8	3.3	5.7	5.4	9.6	9.7	9.6	8.7	11.7	2.8	1.5	5.9	8.6
United States	7.5	8.4	6.1	3.8	3.9	3.8	-0.5	6.6	9.1	12.0	8.2	8.6	13.7	11.8	10.9	13.2	-2.9	3.4	6.5	8.1
Total OECD	5.5	6.1	8.3	9.4	8.6	6.4	2.0	4.9	2.9	9.7	8.7	8.5	10.6	7.5	8.5	12.3	-1.3	1.8	6.1	7.6

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

Annex Table 11. **Output gaps**

Deviations of actual GDP from potential GDP as a per cent of potential GDP

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	0.7	-1.3	-0.1	0.6	1.0	-1.1	-4.6	-4.7	-3.5	-1.7	-1.2	-0.5	-0.6	0.7	1.1	0.4	-0.4	-0.5	-0.4	-0.4
Austria	-2.5	-2.3	-2.6	-1.2	0.8	2.2	2.4	2.3	-0.7	-0.4	-0.8	-0.8	-0.8	0.4	0.8	1.1	-0.2	-1.6	-1.6	-1.2
Belgium	-2.9	-2.8	-2.0	0.6	1.9	2.6	1.8	0.7	-2.3	-1.5	-1.2	-2.4	-0.7	-0.7	0.3	1.7	-0.1	-1.5	-1.6	-0.9
Canada	-0.3	-0.1	1.6	3.8	3.6	1.3	-2.9	-4.0	-3.7	-1.4	-1.1	-2.2	-1.5	-0.9	1.0	2.0	-0.1	0.2	0.3	0.8
Denmark	2.1	3.8	2.3	1.3	0.0	-0.7	-1.1	-1.9	-3.4	-0.2	0.0	0.2	0.8	0.9	0.8	1.2	-0.1	-0.7	-0.8	-0.3
Finland	-0.9	-1.0	0.6	2.7	5.1	3.2	-4.4	-8.5	-10.8	-8.8	-7.0	-5.6	-2.8	-1.2	-0.6	2.3	-0.2	-1.8	-1.8	-1.3
France	-4.2	-3.8	-3.2	-1.2	0.9	1.5	0.7	0.3	-2.3	-2.1	-2.2	-3.2	-3.4	-2.0	-1.0	0.9	0.5	-0.6	-0.8	-0.1
Germany	-2.3	-1.4	-1.6	-0.1	0.3	2.4	2.7	1.5	-1.8	-1.2	-1.1	-1.8	-1.9	-1.6	-1.1	0.2	-0.8	-1.9	-1.8	-1.0
Greece	-2.0	-2.0	-4.8	-1.5	1.1	-0.1	0.7	-0.6	-3.8	-3.6	-3.5	-3.5	-2.1	-2.9	-2.3	-1.1	0.1	0.4	0.7	0.8
Iceland	-1.6	1.6	6.6	3.1	1.0	0.4	-2.2	-7.0	-7.1	-4.3	-5.2	-2.2	-0.7	1.0	1.5	3.1	3.4	0.7	-0.2	0.9
Ireland	-1.3	-4.4	-3.5	-1.9	0.1	3.5	0.2	-1.9	-4.4	-4.5	-1.9	-1.5	1.2	0.9	3.5	7.7	6.0	2.6	-0.6	-2.8
Italy	-2.5	-2.0	-1.2	0.6	1.5	1.4	0.7	-0.5	-3.0	-2.2	-1.0	-1.5	-1.1	-1.0	-1.2	-0.2	-0.2	-1.6	-1.8	-1.1
Japan	-1.7	-2.8	-2.4	-0.1	1.1	3.1	2.7	0.8	-0.8	-1.3	-1.6	0.5	1.3	-1.0	-1.5	0.0	-1.4	-2.9	-2.9	-2.6
Netherlands	-0.5	-0.2	-1.0	-1.0	1.0	2.6	2.0	1.3	-0.2	0.6	0.3	0.4	0.8	1.5	2.3	2.3	0.5	-1.9	-2.6	-2.5
New Zealand	2.8	2.5	1.6	-0.4	-0.7	-2.5	-5.4	-5.4	-2.3	0.9	1.5	1.7	0.5	-2.3	-0.9	0.3	-0.3	0.3	0.0	0.4
Norway [a]	2.5	3.2	2.5	-0.5	-3.7	-3.9	-4.1	-3.7	-1.9	-0.5	-0.2	0.0	1.4	2.7	1.4	1.2	0.7	0.6	0.2	0.5
Portugal	-9.7	-7.9	-4.6	-0.5	2.8	4.1	5.4	3.3	-1.5	-3.0	-1.3	-0.2	0.7	2.0	2.4	2.6	1.1	-1.3	-2.4	-2.5
Spain	-4.6	-4.9	-2.7	-0.4	1.0	1.8	1.6	-0.3	-3.8	-3.9	-4.0	-4.4	-3.2	-1.7	-0.4	0.6	0.2	-0.7	-1.0	-0.8
Sweden	1.0	2.0	3.4	4.2	4.6	3.4	0.3	-3.2	-5.8	-4.1	-2.7	-3.4	-3.1	-1.7	0.5	1.5	0.1	-0.3	-0.2	0.4
Switzerland	1.5	1.0	-0.3	0.6	2.9	4.4	1.1	-0.8	-2.1	-2.5	-2.4	-3.0	-2.0	-0.6	-1.1	-0.2	-0.8	-2.2	-2.1	-1.4
United Kingdom	-2.8	-0.3	1.8	4.7	4.4	2.6	-1.7	-3.9	-4.0	-2.0	-1.4	-1.2	-0.2	0.2	0.1	0.7	0.0	-0.8	-0.8	-0.5
United States	-0.8	-0.8	-0.4	0.9	1.6	0.5	-2.5	-1.9	-1.8	-0.6	-0.7	-0.2	0.6	1.4	2.0	2.2	-0.7	-1.4	-1.7	-1.1
Euro area	-2.8	-2.3	-1.9	-0.1	1.2	2.1	1.5	0.5	-2.4	-1.9	-1.6	-2.2	-1.9	-1.2	-0.6	0.7	0.0	-1.3	-1.5	-1.0
European Union	-2.8	-2.0	-1.3	0.6	1.6	2.0	1.0	-0.3	-2.8	-2.0	-1.6	-2.1	-1.6	-1.0	-0.5	0.7	0.0	-1.2	-1.3	-0.8
Total OECD	-1.6	-1.5	-1.0	0.7	1.6	1.5	-0.4	-1.0	-2.1	-1.3	-1.2	-0.9	-0.2	0.0	0.4	1.2	-0.5	-1.5	-1.7	-1.1

Note: Potential output for all countries except Portugal is calculated using the "production function method" described in Giorno et al, "Potential Output, Output Gaps, and Structural Budget Balances", *OECD Economic Studies*, No. 24, 1995/I. Using this methodology, two broad changes have been made to the calculation of potential output since the last *OECD Economic Outlook*. First, the "smoothing parameters" applied in the calculations have been standardised across the OECD countries. Second, as was previously the case for the major seven economies only, the calculations now incorporate trend working hours for other Member economies also, excepting Austria and Portugal where the data span is insufficient. Potential output for Portugal is calculated using a Hodrick-Prescott filter of actual output. See also *OECD Economic Outlook* Sources and Methods (http://*www.oecd.org/eco/sources-and-methods*).

a) Mainland Norway.

Source: OECD.

Annex Table 12. **Compensation per employee in the business sector**

Percentage change from previous period

	Average 1975-85 [a]	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	8.9	6.7	5.5	6.5	7.7	8.3	2.4	3.8	3.4	0.9	3.1	6.4	3.3	2.7	2.4	3.6	3.6	3.8	3.9	3.9
Austria	7.0	5.7	4.1	4.2	4.5	5.2	6.0	5.5	4.3	3.7	3.5	0.9	2.8	2.4	1.8	2.8	4.0	2.2	2.1	2.5
Belgium	8.6	4.3	2.5	2.8	3.0	8.2	6.9	5.5	2.8	3.3	2.3	1.5	2.7	1.0	3.7	2.0	2.8	3.7	2.5	3.0
Canada	8.4	2.3	6.4	7.6	5.6	4.3	4.9	3.2	2.3	0.5	2.3	2.9	5.9	2.9	3.2	4.8	2.3	2.7	3.5	3.8
Czech Republic	..	..	..	..	..	..	..	..	..	17.1	17.3	17.3	7.9	5.0	5.0	7.2	8.1	6.7	5.9	6.5
Denmark	9.4	5.1	7.4	11.3	4.7	4.1	4.0	4.4	2.5	3.2	3.4	2.9	3.8	4.1	3.0	4.1	4.4	3.9	4.1	4.2
Finland	11.2	7.7	8.1	9.6	10.8	8.9	4.9	1.8	1.3	4.6	4.1	2.1	2.8	4.4	2.3	4.1	4.9	4.0	3.9	3.8
France	11.8	4.1	4.7	4.2	4.0	3.5	4.2	3.8	1.9	0.8	0.9	1.8	1.7	0.7	1.9	2.0	3.3	3.0	2.7	2.5
Germany	5.3	3.3	3.0	2.8	2.8	4.7	5.7	10.4	3.7	3.0	3.3	1.0	0.7	1.0	1.0	2.2	1.8	2.1	2.8	2.6
Greece	21.8	12.9	10.7	17.3	22.6	16.3	16.3	12.7	8.7	11.7	12.4	10.6	11.3	4.7	4.2	5.5	5.2	5.8	5.6	5.7
Hungary	..	..	..	..	..	..	..	..	..	..	24.2	21.0	19.5	12.3	1.8	21.6	14.8	13.7	8.5	6.6
Iceland	45.0	29.2	44.3	28.0	13.6	14.9	9.3	0.4	-4.2	3.7	4.7	8.8	6.2	6.3	5.6	7.2	5.8	8.2	5.0	5.0
Ireland	15.1	6.2	6.1	5.3	6.8	3.3	3.2	7.8	4.9	1.7	2.9	1.8	6.0	0.3	5.6	8.5	7.9	6.5	6.8	5.7
Italy	17.2	7.0	7.3	7.3	8.8	8.3	9.0	6.2	5.2	3.1	4.8	4.8	3.2	-0.8	2.4	2.7	2.4	3.0	2.9	2.9
Japan	6.0	2.5	2.0	3.0	3.8	4.1	4.4	0.8	0.6	1.3	1.1	0.2	1.6	-0.7	-1.2	0.5	-0.1	-1.2	-0.6	-0.4
Korea	18.1	10.5	10.2	17.5	10.0	16.3	19.1	11.1	10.8	11.2	15.0	11.2	3.4	2.0	1.9	4.0	5.7	8.9	7.3	7.4
Luxembourg	6.2	4.5	2.1	3.8	8.5	3.0	5.1	6.4	4.9	4.9	1.4	1.1	1.9	2.2	4.1	6.0	5.3	3.2	1.8	3.2
Mexico	..	..	..	..	27.0	27.7	29.9	24.1	15.2	11.4	17.7	22.9	21.0	18.0	13.5	11.5	9.3	5.0	6.0	6.0
Netherlands	5.5	2.7	1.5	1.3	0.9	3.3	4.5	4.2	3.0	2.8	1.3	1.7	2.1	3.6	2.4	4.7	5.0	4.8	4.1	3.0
New Zealand	11.9	18.8	14.2	11.2	6.9	1.8	0.6	1.4	2.3	1.5	-0.6	1.3	2.4	1.4	1.6	1.6	3.2	2.2	3.6	3.9
Norway	8.8	9.9	9.1	8.5	4.5	5.0	5.4	4.6	3.8	3.1	3.1	1.9	2.5	7.4	6.3	4.2	7.1	5.5	5.0	5.0
Poland	..	..	..	..	..	..	..	..	..	45.1	30.8	29.4	20.5	15.3	14.1	9.7	8.5	3.5	3.5	4.0
Portugal	20.0	21.1	13.8	9.8	13.1	17.3	18.6	16.1	6.9	5.9	6.5	9.7	4.4	3.3	4.2	4.9	6.1	4.0	3.6	3.4
Spain	17.8	11.1	6.5	7.2	7.3	10.0	10.4	10.4	8.3	3.9	3.5	5.5	3.3	2.6	2.6	4.1	4.7	4.1	3.8	3.8
Sweden	10.6	8.3	7.5	8.1	12.3	9.8	6.3	3.2	8.5	5.8	2.0	6.2	3.5	4.1	1.0	7.1	3.4	4.4	4.0	4.3
Switzerland	4.9	4.2	3.3	3.6	4.6	5.2	6.5	4.6	2.0	2.4	2.8	0.7	3.9	1.0	1.9	3.1	3.1	2.2	1.8	1.7
Turkey	35.5	30.0	44.4	62.8	159.4	94.6	134.6	61.2	72.7	72.9	87.5	65.5	68.5	72.9	59.1	40.2	41.6	33.4	26.6	17.7
United Kingdom	11.7	8.4	4.8	6.6	9.1	10.1	8.6	5.1	3.6	4.3	3.0	2.9	3.9	5.5	3.6	7.5	2.5	3.4	4.7	4.6
United States	7.2	3.9	4.5	4.8	3.2	4.9	3.9	5.7	2.8	2.3	1.9	2.5	3.2	5.0	4.3	5.9	2.3	2.5	3.3	3.0
Euro area	11.0	6.0	5.1	4.5	4.8	6.8	6.6	8.0	5.5	3.1	3.6	1.8	1.7	0.8	1.2	2.3	2.6	2.7	2.9	2.8
European Union	11.5	6.3	5.1	5.5	6.3	7.0	7.2	7.0	4.2	3.2	3.2	3.0	2.6	1.9	2.3	3.7	3.0	3.2	3.4	3.3
Total OECD	9.5	5.3	5.3	6.3	8.1	8.1	8.6	7.0	4.7	4.7	5.1	4.8	4.8	4.6	4.0	5.1	3.4	3.1	3.4	3.2
Memorandum item																				
OECD less high inflation countries [b]	9.0	4.8	4.6	5.3	4.8	5.9	5.6	5.4	3.2	2.7	2.8	2.7	2.9	2.8	2.6	4.1	2.4	2.5	2.9	2.8

Note: The business sector is in the OECD terminology defined as total economy less the public sector. Hence business sector employees are defined as total employees less public sector employees. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

a) Average 1975-84 in the case of Korea.

b) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

Annex Table 13. **Labour productivity in the business sector**

Percentage change from previous period

	Average 1975-85[a]	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	1.9	-2.6	3.2	0.8	-0.4	-0.1	1.5	3.6	4.0	1.5	-0.2	3.0	2.9	4.2	2.1	0.2	1.8	2.2	2.3	2.3
Austria	2.7	2.0	1.9	3.3	3.5	3.6	2.2	2.5	1.2	3.2	2.0	3.0	1.9	3.2	1.8	2.9	0.7	1.5	2.0	2.1
Belgium	2.9	1.5	2.0	3.4	2.3	2.2	1.3	1.6	-0.2	3.7	1.7	0.4	3.3	0.5	2.2	1.9	-1.0	1.3	1.5	2.1
Canada	1.0	-0.9	1.6	2.0	0.5	-0.4	-0.2	2.1	1.8	3.1	0.8	0.7	1.8	1.5	2.9	2.1	0.4	1.8	1.3	2.0
Czech Republic	..	..	..	..	..	..	..	..	..	1.5	5.4	4.4	-0.5	0.4	3.0	4.4	2.8	2.3	3.6	3.9
Denmark	2.3	0.1	0.7	-0.5	2.0	0.5	2.1	1.3	3.2	7.7	0.5	1.8	1.7	2.8	1.6	3.3	0.7	1.6	2.1	2.6
Finland	2.9	3.6	4.6	4.6	5.1	0.6	-0.3	5.5	6.6	6.5	2.6	3.0	3.4	3.2	1.2	4.3	-0.5	2.3	2.6	2.2
France	2.7	2.3	2.7	3.6	3.2	2.0	1.3	2.8	0.7	1.9	0.8	0.8	1.3	1.9	1.1	1.7	0.2	1.5	2.1	2.0
Germany	2.0	0.6	0.2	2.6	2.3	0.9	2.4	4.3	0.2	2.7	1.5	1.1	1.6	0.8	0.8	1.0	0.0	0.8	1.7	1.6
Greece	1.1	0.2	-2.4	2.9	3.9	-1.5	6.4	-0.9	-2.7	0.1	1.2	3.1	4.8	-0.9	4.0	4.9	4.9	3.7	3.3	3.1
Hungary	..	..	..	..	..	..	..	..	..	..	3.7	1.4	4.3	2.8	0.3	4.4	3.6	4.4	4.1	4.1
Iceland	2.3	3.6	3.1	3.8	2.3	1.4	-9.9	-3.8	0.9	3.9	-3.3	6.1	4.6	1.3	0.1	3.9	2.1	-0.1	0.9	2.3
Ireland	3.8	0.1	4.8	6.5	6.9	4.4	2.5	3.3	1.3	2.7	5.4	4.0	7.6	-1.8	4.7	6.9	3.2	3.1	2.6	2.9
Italy	2.4	1.9	2.9	3.3	3.0	1.1	0.7	1.6	2.5	3.8	3.3	0.8	1.7	0.7	0.8	1.2	0.1	-1.2	1.0	1.7
Japan	2.8	2.1	3.7	5.0	3.5	3.8	1.3	-0.2	0.2	0.9	1.4	3.0	0.8	-0.7	1.2	2.9	0.0	0.5	1.1	1.1
Korea	5.7	8.8	6.4	8.8	2.4	5.2	6.4	3.8	4.2	5.5	6.5	5.1	3.9	-1.5	10.2	5.6	1.6	3.5	4.3	4.2
Luxembourg	..	..	..	..	..	..	5.0	-0.9	2.7	1.4	-1.5	1.0	5.0	3.5	0.8	3.5	-4.8	-2.4	0.4	1.7
Mexico	..	..	..	..	1.3	2.3	1.5	-0.3	-2.0	1.2	-6.5	0.9	0.5	1.5	2.6	7.6	-0.8	-0.1	0.8	1.3
Netherlands	2.2	0.6	-0.5	0.9	2.9	1.8	0.8	0.8	0.7	3.9	0.9	0.4	0.5	1.5	1.9	1.5	-0.7	-0.3	1.8	2.2
New Zealand	0.7	2.0	0.1	3.4	4.2	-1.4	-0.9	-0.2	2.9	1.1	-1.5	0.2	1.5	0.4	2.7	2.4	-0.1	1.0	2.5	2.8
Norway	2.1	-1.3	-0.5	-0.6	1.5	2.6	3.5	3.1	5.6	2.6	0.2	0.0	1.0	1.9	0.9	1.7	1.5	1.4	1.3	2.0
Poland	..	..	..	..	..	..	..	..	..	8.8	7.1	5.5	6.1	4.0	9.3	6.4	3.8	4.8	4.0	2.6
Portugal	2.2	4.6	4.2	5.5	4.8	2.3	-0.5	1.4	-3.2	2.6	6.1	3.6	2.4	2.4	2.2	2.1	0.1	-0.4	1.0	1.1
Spain	3.3	1.2	0.8	1.7	1.4	0.0	1.7	2.8	2.3	3.3	1.0	1.5	0.9	0.3	0.6	0.9	0.4	0.6	1.0	1.0
Sweden	1.5	2.5	2.7	1.4	1.4	0.1	0.5	3.5	6.3	5.6	2.2	1.7	3.5	2.6	2.5	0.6	-0.9	2.3	2.8	2.8
Switzerland	0.9	-0.9	-1.7	0.7	2.6	-1.9	-3.6	1.0	0.1	2.3	0.1	-0.2	2.4	1.4	0.6	2.2	-0.9	0.4	1.5	1.6
United Kingdom	2.5	5.1	1.0	0.1	-1.0	0.3	1.5	2.8	2.2	3.2	1.0	0.8	0.7	1.6	0.5	1.9	1.4	0.9	2.1	2.0
United States	1.2	1.7	0.7	1.1	1.2	0.6	0.4	3.7	0.9	1.3	0.4	1.8	2.2	2.2	2.4	2.1	0.2	3.8	1.7	1.7
Euro area	2.5	1.6	1.6	3.0	2.9	1.8	..	2.8	1.0	3.1	1.7	1.0	1.7	0.9	0.7	1.3	-0.1	0.4	1.5	1.7
European Union	2.4	2.0	1.5	2.4	2.2	1.1	1.6	2.7	1.3	3.1	1.7	1.1	1.6	1.2	1.1	1.6	0.4	0.7	1.7	1.8
Total OECD	2.0	1.9	1.8	2.4	1.8	1.4	1.1	2.6	1.3	1.9	1.1	1.9	1.9	1.3	1.9	2.6	0.2	2.0	1.7	1.8
Memorandum item																				
OECD less high inflation countries[b]	2.0	1.9	1.7	2.4	1.9	1.3	1.1	2.7	1.2	2.1	1.2	1.8	1.8	1.3	2.0	2.1	0.3	2.0	1.7	1.8

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) Average 1975-84 in the case of Korea.

b) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

Annex Table 14. **Unemployment rates: commonly used definitions**

Per cent of labour force

	1999 Unemployment (thousands)	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	656	7.9	7.9	6.9	5.9	6.8	9.2	10.4	10.6	9.4	8.2	8.1	8.3	7.7	6.9	6.3	6.7	6.3	6.1	6.0
Austria	226	4.0	4.3	4.1	3.8	4.1	4.5	4.7	5.4	5.3	5.3	5.6	5.7	5.7	5.3	4.7	4.9	5.6	5.7	5.3
Belgium	382	10.0	9.8	8.8	7.4	6.6	6.4	7.1	8.6	9.8	9.7	9.5	9.2	9.3	8.6	6.9	6.6	6.9	6.9	6.8
Canada	1 188	9.7	8.8	7.8	7.5	8.1	10.3	11.2	11.4	10.3	9.4	9.6	9.1	8.3	7.6	6.8	7.2	7.6	7.3	6.9
Czech Republic	454	..	..	..	..	..	..	..	4.3	4.4	4.1	3.9	4.8	6.5	8.8	8.9	8.2	7.4	7.4	7.4
Denmark	137	5.0	5.0	5.7	6.8	7.2	7.9	8.6	9.6	7.7	6.8	6.3	5.3	4.9	4.8	4.4	4.3	4.3	4.2	4.1
Finland	261	5.4	5.1	4.6	3.1	3.2	6.6	11.7	16.4	16.6	15.4	14.6	12.7	11.4	10.3	9.8	9.2	9.3	9.5	9.4
France	2 834	10.4	10.5	10.0	9.3	8.9	9.4	10.4	11.7	12.0	11.4	12.0	12.1	11.5	10.7	9.4	8.7	9.0	9.4	9.1
Germany	3 333	6.1	5.8	5.8	5.2	4.5	5.3	6.2	7.5	8.0	7.7	8.4	9.2	8.7	8.0	7.3	7.3	7.8	8.1	7.7
Greece	533	7.4	7.4	7.7	7.5	7.0	7.7	8.7	9.7	9.6	10.0	9.8	9.8	11.1	11.9	11.1	10.4	10.1	9.8	9.5
Hungary	285	..	..	..	..	..	..	..	12.1	11.0	10.4	10.1	8.9	7.9	7.1	6.5	5.8	5.5	5.3	5.3
Iceland	3	0.6	0.5	0.6	1.6	1.8	2.5	4.2	5.0	5.1	4.7	3.7	3.9	2.7	2.0	2.3	2.3	2.8	2.8	2.3
Ireland	95	17.0	16.7	16.2	14.9	12.8	14.4	15.1	15.7	14.7	12.2	11.7	10.4	7.6	5.6	4.3	3.9	4.4	5.1	5.3
Italy	2 669	9.9	10.2	10.5	10.2	9.1	8.6	8.8	10.2	11.2	11.7	11.7	11.8	11.9	11.5	10.7	9.6	9.2	9.2	9.1
Japan	3 174	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2.5	2.9	3.1	3.4	3.4	4.1	4.7	4.7	5.0	5.5	5.6	5.6
Korea	1 353	3.8	3.1	2.5	2.6	2.4	2.3	2.4	2.8	2.4	2.0	2.0	2.6	6.8	6.3	4.1	3.7	2.9	2.8	2.7
Luxembourg	5	1.5	1.7	1.6	1.4	1.3	1.4	1.6	2.1	2.7	3.0	3.3	3.6	3.1	2.9	2.6	2.6	3.0	3.5	3.4
Mexico[a]	493	..	3.8	3.4	2.9	2.7	2.6	2.9	3.5	3.7	6.4	5.7	3.7	3.2	2.6	2.2	2.5	2.8	2.7	2.4
Netherlands	222	8.4	8.0	7.7	6.9	6.0	5.4	5.4	6.6	7.6	7.1	6.6	5.5	4.2	3.2	2.6	2.0	2.7	3.5	4.0
New Zealand	128	4.0	4.1	5.6	7.1	7.8	10.3	10.3	9.5	8.1	6.3	6.1	6.6	7.5	6.8	6.0	5.3	5.1	5.5	5.4
Norway	75	2.0	2.1	3.2	4.9	5.2	5.5	5.9	6.0	5.4	4.9	4.8	4.0	3.1	3.2	3.4	3.5	3.9	4.0	3.9
Poland	2 391	..	..	..	..	..	..	..	14.0	14.4	13.3	12.3	11.2	10.6	13.9	16.1	18.2	19.7	20.4	20.0
Portugal	222	8.8	7.3	6.0	5.2	4.9	4.3	4.1	5.5	6.9	7.2	7.3	6.8	5.0	4.4	4.0	4.1	4.7	5.1	5.0
Slovak Republic	417	..	..	..	..	..	..	..	..	13.6	13.1	11.3	11.9	12.6	16.4	18.8	19.3	19.0	18.7	18.2
Spain[b]	2 147	16.7	15.9	14.0	12.1	11.6	11.8	13.0	16.6	18.4	18.1	17.5	16.6	15.0	12.8	11.0	10.5	11.2	11.2	10.8
Sweden	241	2.5	2.1	1.7	1.5	1.7	3.0	5.3	8.2	8.0	7.7	8.0	8.0	6.5	5.6	4.7	4.0	4.0	4.1	4.0
Switzerland	99	0.8	0.8	0.7	0.6	0.5	1.1	2.5	4.5	4.7	4.2	4.7	5.2	3.9	2.7	2.0	1.9	2.7	3.0	2.5
Turkey[c]	1 774	7.7	8.1	8.2	8.4	7.8	7.9	8.1	8.5	8.2	7.3	6.4	6.6	6.7	7.5	6.6	8.5	8.5	8.3	8.1
United Kingdom	1 752	11.7	10.2	7.8	6.1	5.9	8.2	10.2	10.3	9.4	8.5	7.9	6.5	6.3	5.9	5.4	5.1	5.2	5.2	4.9
United States	5 881	7.0	6.2	5.5	5.3	5.6	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.0	5.7
Euro area	12 930	9.4	9.2	8.8	8.1	7.4	7.6	8.4	10.0	10.7	10.5	10.7	10.8	10.2	9.4	8.4	8.0	8.3	8.5	8.3
European Union	15 060	9.5	9.1	8.4	7.5	7.0	7.6	8.6	10.0	10.3	10.0	10.1	9.9	9.4	8.7	7.7	7.3	7.6	7.8	7.5
Total OECD	33 430	7.2	6.8	6.1	5.6	5.5	6.2	6.9	7.6	7.5	7.2	7.1	6.8	6.7	6.6	6.1	6.4	6.8	6.9	6.7

Note: Labour market data are subject to differences in definitions across countries and to many series breaks, though the latter are often of a minor nature. For information about definitions, sources, data coverage, break in series and rebasings, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) Data based on the National Survey of Urban Employment; see *OECD Economic Outlook* Sources and Methods.

b) Spanish data on unemployment are revised since 1976 using the methodology to be applied by the LFS as from 2002. Revisions are OECD calculations based on information from INE in Spain.

c) The figures incorporate important revisions to Turkish data; see *OECD Economic Outlook* Sources and Methods.

Source: OECD.

Annex Table 15. **Standardised unemployment rates**[a]

Per cent of civilian labour force

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Australia	10.0	9.0	8.3	7.9	7.9	7.0	6.0	6.7	9.3	10.5	10.6	9.5	8.2	8.2	8.3	7.7	7.0	6.3	6.7
Austria	..	..	..	..	..	..	..	..	..	..	4.0	3.8	3.9	4.4	4.4	4.5	4.0	3.7	3.6
Belgium	10.7	10.8	10.1	10.0	9.8	8.8	7.4	6.6	6.4	7.1	8.6	9.8	9.7	9.5	9.2	9.3	8.6	6.9	6.6
Canada	11.9	11.3	10.7	9.6	8.8	7.8	7.5	8.1	10.3	11.2	11.4	10.4	9.4	9.6	9.1	8.3	7.6	6.8	7.2
Czech Republic	..	..	..	..	..	..	..	..	..	..	4.4	4.4	4.1	3.9	4.8	6.5	8.8	8.9	8.2
Denmark	8.4	7.9	6.6	5.0	5.0	5.7	6.8	7.2	7.9	8.6	9.6	7.7	6.8	6.3	5.3	4.9	4.8	4.4	4.3
Finland	..	5.9	6.0	6.7	4.9	4.2	3.1	3.2	6.6	11.6	16.4	16.8	15.2	14.6	12.6	11.4	10.2	9.7	9.1
France	7.9	9.4	9.8	9.9	10.1	9.6	9.1	8.6	9.1	10.0	11.3	11.8	11.4	11.9	11.8	11.4	10.7	9.3	8.5
Germany[b]	6.9	7.1	7.2	6.5	6.3	6.2	5.6	4.8	4.2	6.4	7.7	8.2	8.0	8.7	9.7	9.1	8.4	7.7	7.7
Hungary	..	..	..	..	..	..	..	..	..	9.9	12.1	11.0	10.4	10.1	8.9	7.9	7.1	6.5	5.8
Ireland	13.9	15.5	16.8	16.8	16.6	16.2	14.7	13.4	14.7	15.4	15.6	14.3	12.3	11.7	9.9	7.5	5.6	4.3	3.9
Italy	7.4	7.9	8.1	8.9	9.6	9.7	9.7	8.9	8.5	8.7	10.1	11.0	11.5	11.5	11.6	11.7	11.3	10.4	9.4
Japan	2.7	2.7	2.6	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2.5	2.9	3.1	3.4	3.4	4.1	4.7	4.7	5.0
Luxembourg	3.4	3.0	2.9	2.5	2.5	2.0	1.8	1.6	1.6	2.1	2.6	3.2	2.9	2.9	2.7	2.7	2.4	2.3	2.0
Netherlands	9.2	8.9	7.9	7.8	7.7	7.2	6.6	5.9	5.5	5.3	6.2	6.8	6.6	6.0	4.9	3.8	3.2	2.9	2.5
New Zealand	5.7	5.7	4.2	4.0	4.1	5.6	7.1	7.8	10.3	10.3	9.5	8.1	6.3	6.1	6.6	7.5	6.8	6.0	5.3
Norway	3.5	3.2	2.6	2.0	2.1	3.3	5.4	5.7	6.0	6.5	6.5	5.9	5.4	4.8	4.0	3.2	3.2	3.4	3.6
Poland	..	..	..	..	..	..	..	..	..	..	14.0	14.4	13.3	12.3	11.2	10.6	..	16.1	18.2
Portugal	8.2	8.9	9.2	8.8	7.2	5.8	5.2	4.8	4.2	4.3	5.6	6.9	7.3	7.3	6.8	5.2	4.5	4.1	4.1
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	13.6	13.1	11.3	11.9	12.6	16.4	18.8	19.3
Spain	14.1	16.5	17.7	17.4	16.7	15.8	13.9	13.1	13.2	14.9	18.6	19.8	18.8	18.1	17.0	15.2	12.8	11.3	10.6
Sweden	3.7	3.3	2.9	2.7	2.2	1.8	1.5	1.7	3.1	5.6	9.1	9.4	8.8	9.6	9.9	8.3	7.1	5.8	4.9
Switzerland	..	..	..	..	..	..	..	..	1.9	2.9	3.8	3.7	3.3	3.8	4.0	3.4	2.9	2.5	..
United Kingdom	10.8	10.9	11.2	11.2	10.3	8.5	7.1	6.9	8.6	9.7	9.9	9.2	8.5	8.0	6.9	6.2	5.9	5.4	5.0
United States	9.6	7.5	7.2	7.0	6.2	5.5	5.3	5.6	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.8
Euro area	..	..	..	..	..	..	..	..	7.9	8.6	10.2	10.8	10.6	10.8	10.8	10.2	9.4	8.5	8.0
European Union	..	..	..	..	..	..	..	..	7.9	8.8	10.1	10.5	10.1	10.2	10.0	9.4	8.7	7.8	7.4
Total OECD	..	..	..	..	..	..	..	..	..	..	..	7.7	7.3	7.2	7.0	6.9	6.7	6.3	6.5

Note: In so far as possible, the data have been adjusted to ensure comparability over time and to conform to the guidelines of the International Labour Office. All series are benchmarked to labour-force-survey-based estimates. In countries with annual surveys, monthly estimates are obtained by interpolation/extrapolation and by incorporating trends in administrative data, where available. The annual figures are then calculated by averaging the monthly estimates (for both unemployed and the labour force). For countries with monthly or quarterly surveys, the annual estimates are obtained by averaging the monthly or quarterly estimates, respectively. For several countries, the adjustment procedure used is similar to that of the Bureau of Labor Statistics, U.S. Department of Labor. For EU countries, the procedures are similar to those used in deriving the Comparable Unemployment Rates (CURs) of the Statistical Office of the European Communities. Minor differences may appear mainly because of various methods of calculating and applying adjustment factors, and because EU estimates are based on the civilian labour force.

a) See technical notes in OECD *Quarterly Labour Force Statistics.*

b) Prior to 1993 data refers to Western Germany.

Source: OECD.

Annex Table 16. **Labour force, employment and unemployment**

Millions

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Labour force																			
Major seven countries	296.4	300.0	304.1	308.2	312.4	323.1	325.3	326.5	329.0	330.7	333.6	337.7	340.4	343.4	346.1	347.8	348.9	351.0	353.7
Total of smaller countries[a]	96.9	112.5	114.7	117.1	119.1	121.5	122.6	149.1	154.0	156.0	158.4	160.2	162.2	164.5	165.2	167.1	168.8	170.6	172.7
European Union	151.8	153.2	154.9	156.0	157.5	166.8	166.6	166.3	166.8	167.5	168.6	169.9	171.9	174.0	175.8	177.4	178.6	179.8	181.2
Euro area	116.8	117.9	119.0	119.9	121.3	130.8	130.7	130.6	131.2	131.8	132.8	134.0	135.7	137.3	138.9	140.3	141.3	142.3	143.6
Total OECD[a]	393.3	412.6	418.8	425.3	431.5	444.6	447.9	475.6	483.0	486.8	492.0	497.9	502.6	507.9	511.3	514.9	517.7	521.7	526.4
Employment																			
Major seven countries	275.3	280.1	285.9	291.2	295.4	302.8	302.6	303.1	306.1	308.7	311.3	315.8	319.0	322.5	326.5	327.3	326.3	327.7	331.0
Total of smaller countries[a]	89.5	104.7	107.3	110.1	112.3	114.2	114.4	136.3	140.6	142.9	145.8	148.1	149.8	151.9	153.6	154.8	156.1	157.8	160.1
European Union	137.3	139.2	141.9	144.3	146.5	154.2	152.3	149.7	149.5	150.7	151.6	153.1	155.8	158.9	162.2	164.4	165.1	165.8	167.6
Euro area	105.8	107.0	108.5	110.2	112.3	120.9	119.7	117.5	117.2	118.0	118.5	119.5	121.9	124.4	127.2	129.1	129.6	130.2	131.8
Total OECD[a]	364.8	384.8	393.2	401.3	407.6	416.9	417.0	439.4	446.7	451.6	457.1	463.9	468.8	474.4	480.1	482.1	482.4	485.5	491.1
Unemployment																			
Major seven countries	21.1	19.9	18.2	17.0	17.0	20.3	22.7	23.5	22.9	22.0	22.3	21.9	21.4	20.8	19.6	20.5	22.6	23.3	22.6
Total of smaller countries[a]	7.4	7.8	7.4	7.0	6.8	7.4	8.2	12.7	13.4	13.2	12.6	12.1	12.4	12.6	11.6	12.3	12.7	12.9	12.7
European Union	14.5	14.0	13.0	11.7	11.0	12.6	14.3	16.6	17.3	16.8	17.0	16.8	16.1	15.1	13.6	13.0	13.5	13.9	13.6
Euro area	11.0	10.9	10.5	9.7	9.0	9.9	10.9	13.0	14.0	13.8	14.2	14.5	13.9	12.9	11.7	11.2	11.7	12.1	11.9
Total OECD[a]	28.5	27.7	25.6	24.0	23.8	27.7	30.9	36.2	36.3	35.2	35.0	33.9	33.8	33.4	31.2	32.8	35.3	36.2	35.3

a) The aggregate measures include Mexico as of 1987. There is a potential bias in the aggregates thereafter because of the limited coverage of the Mexican National Survey of Urban Employment.
Source: OECD.

Annex Table 17. **GDP deflators**

Percentage change from previous period

	Average 1975-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	9.2	6.5	7.9	8.5	7.1	4.9	2.3	1.3	1.2	0.9	1.5	2.4	1.7	0.1	1.0	4.2	3.3	2.9	2.7	2.5
Austria	4.9	2.9	2.2	1.2	2.9	3.3	3.8	3.6	2.9	2.7	2.5	1.3	0.9	0.5	0.7	1.2	1.7	1.2	1.6	1.7
Belgium	5.6	2.8	1.6	2.3	4.8	2.8	2.9	3.5	4.0	2.1	1.3	1.2	1.2	1.6	1.4	1.3	1.9	2.8	1.6	1.8
Canada	7.4	3.0	4.6	4.5	4.5	3.2	3.0	1.3	1.4	1.1	2.3	1.6	1.2	-0.4	1.7	3.9	1.0	1.0	2.6	2.2
Czech Republic	..	..	..	..	..	..	..	..	..	11.0	10.2	8.8	8.0	10.6	3.0	1.1	5.3	2.6	2.8	3.3
Denmark	8.2	4.6	4.7	3.4	5.2	3.7	2.8	2.9	1.4	1.7	1.8	2.5	2.2	1.0	2.7	3.7	2.8	1.5	2.3	2.1
Finland	9.1	4.3	4.2	8.1	6.1	5.4	1.8	0.9	2.3	2.0	4.1	-0.2	2.1	3.0	-0.2	2.6	3.0	1.4	2.1	2.4
France	9.7	5.1	2.9	3.2	3.2	2.9	3.0	2.0	2.4	1.8	1.7	1.4	1.3	0.9	0.5	0.5	1.4	1.9	1.6	1.6
Germany	3.6	3.3	1.8	1.5	2.3	3.2	3.5	5.0	3.7	2.5	2.0	1.0	0.7	1.1	0.5	-0.3	1.4	1.6	1.2	1.1
Greece	19.3	18.9	15.3	16.7	14.5	20.7	19.8	14.8	14.4	11.2	9.8	7.4	6.8	5.2	3.0	3.4	3.4	3.4	3.2	3.1
Hungary	..	..	..	..	..	..	..	..	..	19.5	25.6	21.2	18.5	12.6	8.4	9.7	9.0	8.4	5.2	4.1
Iceland	43.4	25.5	19.5	22.8	19.8	16.9	8.6	3.3	2.1	2.0	2.8	2.1	3.4	5.0	2.9	2.9	9.0	6.6	3.6	3.0
Ireland	12.7	6.5	2.2	3.2	5.5	-0.7	1.8	2.8	5.2	1.7	3.0	2.2	4.1	5.9	4.2	4.3	5.4	4.6	4.0	3.6
Italy	15.8	7.9	6.2	6.8	6.5	8.2	7.6	4.5	3.9	3.5	5.0	5.3	2.4	2.7	1.7	2.1	2.6	2.4	2.3	2.0
Japan	4.0	1.6	-0.1	0.7	2.0	2.4	3.0	1.7	0.6	0.1	-0.4	-0.8	0.4	-0.1	-1.4	-2.1	-1.2	-1.0	-1.6	-1.4
Korea	14.4	4.6	5.0	6.7	5.3	11.0	10.9	7.6	7.1	7.7	7.1	3.9	3.1	5.1	-2.0	-1.1	1.3	2.1	2.4	2.7
Luxembourg	6.5	-0.1	0.1	2.8	4.0	2.5	1.8	3.7	6.0	3.5	2.4	1.6	3.3	2.1	3.1	2.8	2.3	0.1	1.0	2.3
Mexico	39.0	73.4	140.7	101.2	26.5	28.1	23.3	14.4	9.5	8.5	37.9	30.7	17.7	15.4	15.2	12.0	5.4	4.0	3.9	3.7
Netherlands	4.6	0.1	-0.7	1.2	1.2	2.3	2.7	2.3	1.9	2.3	1.8	1.2	2.0	1.7	1.6	4.2	5.3	3.8	3.2	2.6
New Zealand	13.7	15.3	13.2	7.5	5.1	3.3	0.5	1.4	3.0	1.1	2.4	2.6	0.3	1.6	-0.2	2.4	4.7	0.4	1.9	2.6
Norway	8.2	-0.9	6.9	5.0	5.7	3.9	2.4	-0.4	2.1	-0.2	3.1	4.3	3.0	-0.7	6.3	16.0	1.7	0.0	2.3	2.7
Poland	..	..	..	..	..	..	..	..	..	37.3	27.9	18.7	14.0	11.8	6.8	7.0	4.3	1.9	2.0	2.9
Portugal	21.4	20.5	10.1	11.2	10.5	13.1	10.1	11.4	7.4	7.3	3.4	3.0	3.8	3.8	3.1	3.2	4.7	3.7	2.9	2.6
Slovak Republic	..	..	..	..	..	..	..	..	..	13.7	9.9	4.4	6.7	5.2	6.4	6.4	5.4	3.0	5.9	5.8
Spain	14.7	10.9	5.9	5.9	6.9	7.3	6.9	6.7	4.5	3.9	4.9	3.5	2.3	2.4	2.7	3.5	4.2	3.1	2.6	2.6
Sweden	9.9	6.5	4.8	6.4	8.0	8.8	7.3	1.0	2.7	2.4	3.5	1.4	1.7	0.9	0.7	1.0	2.0	2.1	2.0	2.6
Switzerland	3.2	3.1	2.7	2.8	3.1	4.3	6.0	2.7	2.7	1.6	1.1	0.4	-0.2	0.0	0.7	1.2	1.4	2.1	0.6	0.6
Turkey	43.3	36.0	33.6	69.3	75.5	58.3	58.8	63.7	67.8	106.5	87.2	77.8	81.5	75.7	55.6	49.9	61.7	47.9	27.6	15.1
United Kingdom	10.8	3.1	5.5	6.1	7.5	7.5	6.6	4.0	2.6	1.4	2.6	3.3	2.9	2.9	2.5	2.2	1.9	3.2	2.4	2.6
United States	6.3	2.2	3.0	3.4	3.8	3.9	3.6	2.4	2.4	2.1	2.2	1.9	1.9	1.2	1.4	2.1	2.4	1.1	1.3	1.3
Euro area	8.9	5.5	3.5	3.8	4.2	4.9	4.8	4.3	3.7	2.8	2.9	2.1	1.6	1.7	1.1	1.3	2.4	2.2	1.9	1.8
European Union	9.9	5.5	4.1	4.5	5.0	5.6	5.3	4.3	3.5	2.7	3.0	2.5	1.9	1.9	1.4	1.5	2.3	2.4	2.0	1.9
Total OECD	9.3	6.2	7.9	7.7	6.0	6.1	5.8	4.5	3.9	4.6	5.2	4.3	3.7	3.2	2.4	2.6	2.9	2.2	1.8	1.6
Memorandum item																				
OECD *less* high inflation countries [a]	7.6	3.6	3.2	3.6	4.1	4.5	4.3	3.1	2.6	2.2	2.3	1.8	1.7	1.4	1.0	1.4	1.8	1.3	1.3	1.2

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

Annex Table 18. **Private consumption deflators**

Percentage change from previous period

	Average 1975-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	9.4	8.0	8.6	7.6	5.7	6.4	4.5	2.3	2.2	1.1	2.4	2.2	1.7	1.3	0.9	3.2	3.5	2.5	2.5	2.6
Austria	5.1	1.7	1.2	1.5	2.6	3.3	3.5	3.9	3.5	2.8	2.0	1.9	1.5	0.5	0.7	1.5	2.3	1.3	1.6	1.7
Belgium	6.2	0.4	1.6	1.1	3.8	2.8	2.8	1.8	2.5	2.3	1.5	2.2	1.7	1.1	1.2	2.3	2.5	1.9	1.7	1.7
Canada	7.9	4.3	3.9	3.9	4.4	4.2	5.0	1.7	2.3	1.1	1.3	1.6	1.6	1.2	1.7	2.1	1.9	2.0	2.7	2.4
Czech Republic	..	..	..	..	..	..	..	..	..	10.7	9.2	8.1	7.4	9.1	3.7	2.8	3.7	1.2	1.8	2.5
Denmark	9.0	2.9	4.6	4.0	4.7	2.9	2.8	1.9	2.0	3.0	1.9	2.1	2.2	1.3	2.6	3.0	2.1	2.4	2.1	2.2
Finland	9.3	2.8	3.2	4.8	5.3	5.5	5.9	4.1	3.9	0.9	0.4	1.4	1.3	1.7	1.0	3.9	2.9	1.7	2.0	1.8
France	10.1	2.9	3.3	2.9	3.8	3.1	3.5	2.5	2.5	2.2	2.0	1.9	1.4	0.6	0.2	1.2	1.4	1.6	1.6	1.6
Germany	3.9	-0.5	0.5	1.3	2.8	2.6	3.8	4.4	3.9	2.6	1.9	1.7	2.0	1.1	0.4	1.5	1.9	1.6	1.4	1.1
Greece	18.1	22.4	17.3	15.1	13.5	19.8	19.7	15.7	14.1	11.0	9.0	8.2	5.6	4.5	2.2	3.2	3.1	3.2	3.1	3.1
Hungary	..	..	..	..	..	..	..	..	..	19.7	27.0	23.7	18.0	13.7	10.7	9.9	8.6	5.4	5.2	4.2
Iceland	44.4	20.1	15.9	25.4	23.3	16.7	6.7	3.5	3.6	1.4	1.9	2.4	1.8	0.9	2.6	4.5	8.1	6.0	3.4	2.8
Ireland	13.1	4.6	2.4	3.8	4.1	2.1	2.7	3.0	2.2	2.7	2.8	2.6	2.7	3.5	3.4	4.6	5.9	4.8	4.0	3.5
Italy	15.4	6.4	5.2	5.9	6.7	6.4	7.0	5.5	5.5	4.9	6.0	4.4	2.2	2.1	2.1	2.8	2.9	2.6	2.5	2.0
Japan	4.7	0.7	0.4	0.6	2.1	2.6	2.7	1.6	1.0	0.5	-0.3	-0.1	1.0	-0.1	-0.5	-1.1	-1.5	-1.5	-1.6	-1.6
Korea	13.5	1.7	3.3	5.6	5.5	9.4	12.1	8.9	8.0	9.7	7.0	5.7	5.4	7.9	0.6	2.2	4.0	2.8	3.6	3.4
Luxembourg	6.9	0.3	0.9	2.3	3.2	3.6	3.4	4.2	4.0	2.6	2.2	1.7	1.5	1.2	1.4	2.6	2.8	2.1	1.5	1.5
Mexico	38.4	82.0	135.1	109.1	25.1	27.8	24.3	15.4	10.1	7.6	34.0	30.6	16.5	20.6	14.0	10.7	5.9	4.4	3.9	3.5
Netherlands	5.0	0.3	0.2	0.5	1.2	2.2	3.2	3.1	2.1	2.8	1.6	1.9	2.0	1.7	1.8	3.5	4.6	3.5	2.5	2.0
New Zealand	14.0	12.8	13.0	6.3	6.2	5.6	2.2	1.1	1.2	1.1	2.7	2.3	1.9	2.2	0.2	2.2	2.0	1.6	2.3	2.1
Norway	8.5	6.7	7.8	6.1	4.8	4.7	3.9	2.7	2.0	1.2	2.4	1.5	2.5	2.6	2.0	3.3	1.8	1.2	2.3	2.5
Poland	..	..	..	..	..	..	..	..	..	37.1	27.9	20.0	14.7	11.5	7.0	9.8	5.3	2.1	2.1	2.4
Portugal	22.6	13.8	9.9	11.5	12.8	11.6	11.8	9.2	6.9	5.6	4.3	3.7	2.9	2.8	2.1	2.8	4.2	3.4	2.8	2.4
Slovak Republic	..	..	..	..	..	..	..	..	..	14.1	9.2	4.9	6.2	5.8	8.7	10.5	5.6	3.4	6.0	5.5
Spain	15.0	9.3	5.5	4.8	6.7	6.6	6.4	6.6	5.3	4.9	4.8	3.5	2.6	2.2	2.4	3.2	3.3	3.4	3.0	2.8
Sweden	10.3	4.6	5.2	5.9	6.9	9.8	10.5	2.1	5.8	2.8	2.9	1.4	2.3	1.0	1.0	0.9	1.6	2.3	2.1	2.2
Switzerland	3.4	1.3	1.5	1.9	2.9	5.2	6.0	4.2	3.4	1.1	1.7	1.1	0.6	-0.2	0.3	1.1	1.2	0.7	0.5	0.3
Turkey	41.5	30.4	48.8	58.9	83.7	59.8	60.7	65.6	65.9	108.9	92.4	67.8	82.1	83.0	59.0	50.0	63.5	44.9	32.3	17.0
United Kingdom	10.4	4.0	4.7	5.2	6.3	7.5	7.9	4.7	3.2	1.9	3.1	3.1	2.3	2.7	1.6	0.7	0.4	1.1	1.8	2.1
United States	6.4	2.4	3.8	3.9	4.4	4.6	3.8	3.1	2.4	2.0	2.3	2.1	1.9	1.1	1.6	2.5	2.0	1.4	1.4	1.2
Euro area	9.3	3.4	3.1	3.4	4.6	4.5	5.1	4.6	4.1	3.3	3.0	2.5	2.0	1.4	1.1	2.1	2.4	2.2	2.0	1.8
European Union	9.9	3.8	3.6	3.9	5.0	5.1	5.7	4.5	4.0	3.2	3.1	2.7	2.1	1.7	1.2	1.9	2.1	2.0	2.0	1.8
Total OECD	9.4	5.8	8.1	7.7	6.3	6.3	6.2	4.9	4.2	4.9	5.2	4.4	4.0	3.5	2.6	3.0	2.8	2.1	1.9	1.5
Memorandum item																				
OECD *less* high inflation countries [a]	7.8	2.9	3.3	3.5	4.3	4.7	4.6	3.5	2.9	2.5	2.4	2.1	2.0	1.4	1.1	1.8	1.6	1.3	1.3	1.2

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of the GDP deflator on average during the last 10 years based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

Annex Table 19. **Consumer prices indices**

Percentage change from previous period

	Average 1975-85	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	9.4	9.1	8.5	7.3	7.5	7.3	3.2	1.0	1.8	1.9	4.6	2.6	0.3	0.9	1.5	4.5	4.4	3.0	2.9	2.7
Austria	5.0	1.7	1.5	1.9	2.6	3.3	3.1	3.5	3.2	2.7	1.6	1.8	1.2	0.8	0.5	2.0	2.3	1.7	1.6	1.7
Belgium	6.7	1.3	1.6	1.2	3.1	3.4	3.9	2.2	2.5	2.4	1.3	1.8	1.5	0.9	1.1	2.7	2.4	1.6	1.4	1.7
Canada	8.1	4.2	4.3	4.0	5.0	4.8	5.6	1.5	1.9	0.2	2.2	1.6	1.6	1.0	1.7	2.7	2.5	2.2	2.7	2.3
Czech Republic	..	..	..	..	..	..	..	..	..	10.0	9.1	8.8	8.5	10.7	2.1	3.9	4.8	2.1	2.5	3.1
Denmark	9.2	3.7	4.0	4.5	4.8	2.6	2.4	2.1	1.3	2.0	2.1	2.1	2.2	1.8	2.5	2.9	2.4	2.4	2.0	2.2
Finland	9.4	2.9	4.1	5.1	6.6	6.1	4.6	3.2	3.3	1.6	0.4	1.1	1.2	1.4	1.3	3.0	2.7	1.7	2.0	1.8
France	10.1	2.5	3.3	2.7	3.5	3.6	3.4	2.4	2.2	1.7	1.8	2.1	1.3	0.7	0.6	1.8	1.8	1.9	1.8	1.8
Germany	3.9	-0.1	0.2	1.3	2.8	2.7	4.0	5.1	4.4	2.8	1.7	1.2	1.5	0.6	0.6	2.1	2.4	1.6	1.4	1.1
Greece	18.4	23.0	16.4	13.5	13.7	20.4	19.5	15.9	14.4	10.9	8.9	7.9	5.4	4.5	2.1	2.9	3.7	3.8	3.3	3.2
Hungary	..	..	..	..	..	..	..	..	..	18.9	28.3	23.5	18.3	14.2	10.0	9.8	9.2	5.4	5.2	4.2
Iceland[a]	..	22.1	18.3	25.7	20.8	15.5	6.8	4.0	4.0	1.6	1.7	2.3	1.8	1.7	3.2	5.2	6.4	5.2	2.8	2.8
Ireland	13.2	3.8	3.1	2.2	4.0	3.3	3.2	3.1	1.4	2.3	2.5	2.2	1.2	2.1	2.5	5.3	4.0	4.7	4.3	3.8
Italy	15.0	5.8	4.7	5.1	6.3	6.5	6.2	5.0	4.5	4.2	5.4	4.0	1.9	2.0	1.7	2.6	2.3	2.5	2.3	1.9
Japan	4.7	0.6	0.1	0.7	2.3	3.1	3.2	1.7	1.3	0.7	-0.1	0.1	1.7	0.7	-0.3	-0.7	-0.7	-1.1	-1.1	-1.1
Korea	12.0	2.3	3.5	7.1	5.7	8.5	9.3	6.2	4.8	6.3	4.5	4.9	4.4	7.5	0.8	2.3	4.1	2.7	3.5	3.3
Luxembourg	6.7	0.3	-0.1	1.4	3.4	3.3	3.1	3.2	3.6	2.2	1.9	1.2	1.4	1.0	1.0	3.8	2.4	2.1	1.7	1.5
Mexico	39.6	86.2	131.8	114.2	20.0	26.7	22.7	15.5	9.8	7.0	35.0	34.4	20.6	15.9	16.6	9.5	6.4	4.7	4.0	3.5
Netherlands	5.1	0.1	-0.7	0.7	1.1	2.5	3.1	2.8	1.7	2.2	1.6	1.4	1.9	1.8	2.0	2.3	5.1	4.0	2.7	2.0
New Zealand	13.4	13.2	15.7	6.4	5.7	6.1	2.6	1.0	1.3	1.7	3.8	2.3	1.2	1.3	-0.1	2.6	2.6	2.6	2.3	2.1
Norway	8.7	7.2	8.7	6.7	4.5	4.1	3.4	2.3	2.3	1.4	2.4	1.2	2.6	2.3	2.3	3.1	3.0	1.2	2.3	2.5
Poland	..	..	..	..	..	..	..	..	..	33.2	28.3	19.9	14.9	11.6	7.3	10.1	5.5	2.1	2.5	2.7
Portugal	23.3	11.8	9.4	9.7	12.6	13.4	11.4	8.9	5.9	5.0	4.0	2.9	1.9	2.2	2.2	2.8	4.4	3.5	2.8	2.4
Slovak Republic	..	..	..	..	..	..	..	..	..	13.4	9.9	5.8	6.1	6.7	10.6	12.0	7.4	3.5	8.8	8.5
Spain	15.4	8.8	5.2	4.8	6.8	6.7	5.9	5.9	4.9	4.6	4.6	3.6	1.9	1.8	2.2	3.5	2.8	3.5	3.0	2.8
Sweden	9.7	4.2	4.2	5.8	6.4	10.4	9.4	2.4	4.7	2.2	2.5	0.5	0.7	-0.3	0.5	0.9	2.4	2.3	2.2	2.3
Switzerland	3.3	0.8	1.4	1.9	3.2	5.4	5.9	4.0	3.3	0.9	1.8	0.8	0.5	0.0	0.8	1.6	1.0	0.6	0.5	0.3
Turkey[b]	44.0	34.6	38.9	68.8	63.3	60.3	66.0	70.1	66.1	105.2	89.1	80.4	85.7	84.6	64.9	54.9	54.4	45.3	31.7	16.2
United Kingdom	10.6	3.6	3.7	4.6	5.9	8.1	6.8	4.7	3.0	2.4	2.8	2.9	2.8	2.7	2.3	2.1	2.1	2.0	1.8	2.1
United States[c]	7.2	1.9	3.6	4.1	4.8	5.4	4.2	3.0	3.0	2.6	2.8	2.9	2.3	1.5	2.2	3.4	2.8	1.6	1.9	1.8
Euro area	7.3	2.5	2.6	2.7	3.8	5.8	4.3	3.8	3.4	2.8	2.6	2.3	1.7	1.2	1.1	2.4	2.5	2.4	2.2	2.0

Note: Consumer price index. For the euro area countries and the euro area aggregate: harmonised index of consumer prices (HICP) and United Kingdom: retail price index excluding mortgage payments (RPIX).

a) Excluding rent, but including imputed rent.

b) Until 1981: Istanbul index (154 items); from 1982, Turkish index.

c) The methodology for calculating the Consumer Price Index has changed considerably over the past years, lowering measured inflation substantially.

Source: OECD.

Annex Table 20. **Oil and other primary commodity markets**

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Oil market conditions[a] (in million barrels per day)																		
Demand																		
OECD[b]	39.3	40.6	41.2	41.5	41.9	42.9	43.2	44.4	44.9	45.9	46.7	46.8	47.7	47.7	47.7	47.6	48.2	..
of which: North America	20.1	20.8	21.0	20.7	20.5	20.8	21.1	21.7	21.6	22.2	22.7	23.1	23.8	24.0	23.9	24.0	24.3	..
Europe[c]	13.2	13.4	13.5	13.6	14.0	14.2	14.2	14.3	14.6	14.9	15.0	15.3	15.2	15.1	15.3	15.2	15.4	..
Pacific	5.9	6.4	6.7	7.2	7.5	7.9	8.0	8.4	8.7	8.8	9.0	8.4	8.7	8.6	8.6	8.4	8.5	..
Non-OECD[d]	23.5	24.2	24.5	24.5	24.8	24.4	24.6	24.0	24.7	25.6	26.8	27.0	27.7	28.4	28.8	29.1	29.6	..
Total	62.8	64.8	65.8	66.0	66.7	67.2	67.8	68.4	69.6	71.5	73.5	73.8	75.4	76.2	76.5	76.7	77.8	..
Supply																		
OECD[b]	19.8	19.6	18.9	19.0	19.5	19.8	20.0	20.8	21.1	21.7	22.1	21.9	21.4	21.9	21.9	22.0	22.1	..
OPEC total	19.7	21.8	23.8	25.1	25.3	26.5	26.9	27.4	27.6	28.4	29.9	30.8	29.4	30.8	30.2	..	..	..
Former USSR	12.5	12.5	12.2	11.5	10.4	8.9	7.9	7.2	7.1	7.1	7.2	7.3	7.5	7.9	8.6	9.3	9.8	..
Other non-OECD[d]	10.4	10.8	11.2	11.4	11.6	12.1	12.6	13.4	14.5	15.1	15.4	15.8	16.0	16.2	16.3	..	..	..
Total	62.4	64.8	66.1	66.9	66.8	67.2	67.5	68.8	70.4	72.3	74.6	75.7	74.3	76.8	76.9	..	..	..
Trade																		
OECD net imports[b]	19.8	20.8	22.5	22.8	22.4	23.1	23.5	23.8	23.4	24.2	24.9	25.3	25.5	26.0	26.1	25.7	26.0	..
Former USSR net exports	3.6	3.6	3.5	3.1	2.2	2.0	2.0	2.7	2.8	3.1	3.4	3.6	3.9	4.3	4.9	5.5	6.0	..
Other non-OECD net exports[d]	16.2	17.2	19.0	19.7	20.2	21.1	21.4	21.1	20.6	21.1	21.5	21.7	21.6	21.7	21.2	20.2	20.1	..
Prices[e]																		
OECD crude oil import price (cif, $ per bl)	17.9	14.9	17.5	22.3	19.3	18.4	16.4	15.6	17.2	20.5	19.1	12.6	17.3	28.0	23.6	23.9	25.8	24.8
Prices of other primary commodities[e]																		
($ indices)																		
Food and tropical beverages	80	93	88	79	74	72	73	98	100	99	104	91	74	67	61	63	66	68
of which: Food	71	99	96	85	83	87	88	95	100	118	104	91	77	73	70	72	74	76
Tropical beverages	86	90	82	75	68	62	63	100	100	86	103	91	72	62	55	56	60	63
Agricultural raw materials	72	80	82	90	78	79	75	86	100	86	83	71	71	74	67	64	67	69
Minerals, ores and metals	78	112	107	99	88	85	74	85	100	90	91	78	74	84	77	76	81	83
Total	76	94	92	90	80	79	74	89	100	90	91	78	73	75	69	68	71	73
Memorandum item																		
Export prices of OECD manufactures (dollar index)	79	84	84	91	90	93	89	91	100	97	89	86	83	79	77	79	83	84

a) Based on data published in in varoius issues of IEA, Oil Market Report and Annual Statistical Supplement, August 2002.
b) Excluding Czech Republic, Hungary, Korea, Mexico and Poland.
c) European Union countries and Iceland, Norway, Switzerland and Turkey.
d) Including Czech Republic, Hungary, Korea, Mexico and Poland.
e) Indices through 2001 are based on data compiled by IEA for oil and by Hamburg Institute for Economic Research for the prices of other primary commodities; OECD estimates and projections for 2002 to 2004.
Source: OECD.

Annex Table 21. **Employment rates, participation rates and labour force**

	Employment rates						Labour force participation rates						Labour force					
	Average 1981-83	Average 1991-93	2001	2002	2003	2004	Average 1981-83	Average 1991-93	2001	2002	2003	2004	Average 1981-90	Average 1991-00	2001	2002	2003	2004
	Per cent						*Per cent*						*Percentage change*					
Australia	64.8	66.3	70.5	70.6	70.8	70.9	70.1	73.7	75.6	75.4	75.4	75.5	2.4	1.4	1.5	1.2	1.6	1.6
Austria	76.2	74.1	73.1	72.5	72.5	72.8	78.2	77.9	76.9	76.9	76.9	76.9	0.4	0.2	0.4	0.3	0.3	0.3
Belgium	57.5	58.5	62.4	62.2	62.7	63.2	63.7	63.1	66.8	66.9	67.3	67.9	0.1	0.6	1.1	0.1	0.7	0.8
Canada	65.9	68.2	71.9	72.4	73.0	73.4	73.3	76.6	77.5	78.4	78.7	78.9	1.7	1.2	1.5	2.4	1.5	1.3
Czech Republic	..	69.2	65.6	65.8	65.7	65.7	..	72.3	71.5	71.1	71.0	70.9	..	0.1	0.0	-0.5	0.0	0.0
Denmark	71.6	74.8	76.5	76.6	76.8	76.9	77.7	81.9	80.0	80.1	80.1	80.2	1.1	-0.1	0.3	0.2	0.2	0.2
Finland	72.1	65.3	68.0	67.8	68.1	68.9	76.1	73.8	74.8	74.8	75.2	76.1	0.5	0.2	0.7	0.2	0.7	1.3
France	62.2	59.8	63.6	63.3	63.1	63.5	67.6	66.9	69.6	69.6	69.7	69.9	0.5	0.7	0.7	0.3	0.5	0.7
Germany	64.8	68.5	69.8	69.6	69.6	70.4	68.0	73.1	75.3	75.5	75.7	76.2	1.3	0.3	0.4	0.0	0.2	0.6
Greece	57.9	55.2	57.2	57.3	57.7	58.1	61.5	60.5	63.8	63.7	63.9	64.1	0.9	1.3	-1.1	-0.1	0.4	0.6
Hungary	..	54.3	54.6	..	..	..	..	61.8	58.0	..	..	..	..	-0.2	-0.3	-1.0	-0.2	0.2
Iceland	76.6	81.6	85.5	84.2	83.9	84.3	77.2	84.9	87.5	86.7	86.3	86.3	1.6	1.5	1.7	0.6	0.8	1.0
Ireland	55.4	52.9	67.3	66.9	66.8	66.9	63.3	62.3	70.0	70.0	70.3	70.7	0.4	3.0	2.5	1.5	2.0	2.0
Italy	56.3	53.8	54.9	56.0	56.6	57.4	60.5	59.2	60.8	61.6	62.3	63.1	0.6	0.1	0.8	1.2	1.0	1.2
Japan	70.6	73.9	74.2	73.4	73.4	73.5	72.3	75.6	78.2	77.6	77.7	77.8	1.3	0.4	-0.2	-0.9	-0.3	-0.2
Korea	57.5	62.1	63.0	64.0	64.4	64.8	60.0	63.7	65.4	65.9	66.2	66.6	2.6	1.5	1.1	1.7	1.5	1.5
Luxembourg	60.0	60.7	63.9	64.4	64.2	64.4	60.8	61.8	65.6	66.3	66.5	66.6	0.8	1.4	2.5	2.0	1.2	1.1
Mexico	..	52.4	54.4	54.0	54.2	54.6	..	54.1	55.7	55.6	55.7	55.9	..	2.8	1.0	1.7	2.3	2.4
Netherlands	52.5	56.2	65.2	65.3	65.4	65.6	57.4	59.7	66.5	67.1	67.7	68.4	1.1	1.7	1.5	1.1	1.1	1.2
New Zealand	71.9	64.4	72.4	..	..	..	75.0	71.5	76.5	..	..	..	0.7	1.7	1.8	3.0	1.2	0.8
Norway	74.3	72.4	77.7	77.7	77.6	77.8	76.3	76.8	80.5	80.8	80.9	80.9	0.9	1.1	0.5	0.9	0.6	0.6
Poland	..	59.1	53.2	51.5	50.7	50.7	..	68.8	65.1	64.1	63.8	63.4	..	0.2	0.4	-1.0	-0.1	-0.1
Portugal	61.5	68.2	71.0	71.2	71.2	71.8	66.9	71.6	74.1	74.7	75.1	75.5	1.1	0.7	1.7	1.3	0.9	1.0
Slovak Republic	..	..	56.1	56.3	56.6	57.0	..	..	69.5	69.5	69.6	69.7	..	0.9	1.7	0.0	0.2	0.2
Spain	49.7	49.8	59.1	59.8	60.4	61.4	56.7	57.8	66.0	67.3	68.0	68.8	1.3	1.7	3.1	2.7	1.6	1.7
Sweden	78.7	75.6	73.7	73.3	73.0	72.8	81.1	79.9	76.8	76.3	76.1	75.9	0.6	-0.4	1.3	0.0	0.3	0.4
Switzerland	75.4	81.6	80.4	79.3	78.7	78.8	75.7	83.6	81.8	81.2	80.9	80.6	1.8	0.1	1.6	0.1	0.3	0.4
Turkey	62.4	53.5	45.8	45.3	44.9	44.6	67.1	58.3	50.1	49.5	48.9	48.6	1.8	0.4	1.1	1.4	1.3	1.7
United Kingdom	66.0	68.6	72.0	72.0	71.9	72.0	73.5	75.9	75.8	76.0	75.8	75.8	0.8	0.4	0.5	0.7	0.3	0.3
United States	65.1	71.0	71.3	..	..	..	71.5	76.5	74.9	..	..	..	1.6	1.2	0.7	0.5	1.1	1.2
Euro area	59.6	60.1	63.5	63.7	63.9	64.5	64.2	65.7	69.0	69.4	69.8	70.3	0.9	0.7	1.0	0.7	0.7	0.9
European Union	61.3	61.9	65.3	65.4	65.5	66.1	66.4	67.8	70.4	70.7	71.0	71.4	0.9	0.6	0.9	0.7	0.6	0.8
Total OECD	64.0	65.2	66.0	64.0	64.0	64.2	68.9	70.1	70.4	68.9	69.0	69.1	1.3	0.9	0.7	0.5	0.8	0.9

Note: Employment rates are calculated as the ratio of total employment to the population of working age. The working age population concept used here and in the labour force participation rate is defined as all persons of the age 15 to 64 years (16 to 65 years for Spain). This definition does not correspond to the commonly-used working age population concepts for the United States (16 years and above), Hungary and New Zealand (15 years and above). Hence for these countries no projections are available. For information about sources and definitions, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

Annex Table 22. **Potential GDP, employment and capital stock**

Percentage change from previous period

	Potential GDP						Employment						Capital stock					
	Average 1981-90	Average 1991-00	2001	2002	2003	2004	Average 1981-90	Average 1991-00	2001	2002	2003	2004	Average 1981-90	Average 1991-00	2001	2002	2003	2004
Australia	3.5	3.4	3.6	3.6	3.6	3.9	2.3	1.8	1.1	1.7	1.8	1.8	4.6	4.1	3.4	3.8	4.1	4.7
Austria	2.3	2.3	2.3	2.2	1.9	2.2	0.2	0.2	0.2	-0.5	0.2	0.7	3.9	4.1	4.2	3.5	3.3	3.2
Belgium	2.0	2.2	2.6	2.2	2.1	2.1	0.4	0.6	1.4	-0.2	0.7	0.9	3.0	2.8	2.9	2.6	2.6	2.7
Canada	2.6	2.8	3.6	3.1	3.0	3.1	1.6	1.7	1.1	1.9	1.9	1.7	2.9	2.2	3.0	2.5	2.9	3.4
Czech Republic	..	..	..	..	..	..	..	-0.7	0.7	0.3	0.0	0.0	..	..	..	..	..	..
Denmark	1.9	2.2	2.3	2.1	2.0	2.0	1.1	0.3	0.5	0.2	0.3	0.4	3.1	2.8	3.3	2.9	2.5	2.2
Finland	2.8	2.4	3.3	3.2	3.2	3.3	0.7	-0.2	1.4	0.0	0.5	1.4	3.1	0.5	1.7	1.3	1.1	1.3
France	2.2	1.9	2.2	2.2	2.0	2.2	0.4	0.7	1.6	-0.1	0.1	1.0	3.5	2.9	3.1	2.9	2.7	2.8
Germany	2.3	1.8	1.5	1.5	1.4	1.6	1.1	0.1	0.4	-0.5	-0.1	1.0	3.0	2.3	1.1	0.5	0.3	0.3
Greece	1.1	2.4	2.9	3.2	3.5	3.7	0.6	0.9	-0.3	0.2	0.8	0.9	..	..	..	..	..	..
Hungary	..	..	..	..	..	..	..	0.6	0.5	-0.8	0.1	0.2	..	..	..	..	..	..
Iceland	3.1	2.2	3.4	2.7	2.5	2.7	1.4	1.5	1.7	0.0	0.8	1.6	3.0	2.4	4.7	2.0	2.1	3.4
Ireland	3.6	7.0	7.6	7.1	6.9	6.9	0.2	4.3	2.9	1.0	1.2	1.7	2.6	3.7	5.0	4.7	4.6	4.7
Italy	2.5	1.7	1.8	1.7	1.7	1.8	0.2	-0.2	2.0	1.7	1.0	1.3	3.0	2.9	3.5	3.0	2.9	2.9
Japan	3.9	1.5	1.1	0.8	0.7	0.6	1.3	0.1	-0.5	-1.4	-0.4	-0.2	6.1	4.0	3.5	2.8	2.6	2.5
Korea	..	..	..	..	..	..	2.9	1.3	1.4	2.6	1.6	1.6	..	..	..	..	..	..
Luxembourg	..	..	..	..	..	..	0.8	1.2	2.6	1.6	0.6	1.2	..	..	..	..	..	..
Mexico	..	..	..	..	..	..	1.9	2.8	0.7	1.3	2.5	2.7	..	..	..	..	..	..
Netherlands	2.0	2.9	3.1	2.6	2.4	2.4	1.1	2.0	2.1	0.4	0.3	0.6	1.8	2.6	3.1	2.7	2.6	2.9
New Zealand	1.7	2.6	3.0	3.4	3.2	3.0	0.2	2.2	2.5	3.2	0.8	0.9	3.5	2.5	3.8	3.5	3.5	3.6
Norway	2.1	2.3	2.0	1.7	1.8	1.9	0.5	1.4	0.4	0.5	0.4	0.8	1.8	1.7	2.5	1.5	1.0	1.0
Poland	..	..	..	..	..	..	..	-0.2	-2.2	-2.8	-1.0	0.5	..	..	..	..	..	..
Portugal	2.8	2.9	3.2	2.8	2.6	2.5	1.5	0.7	1.6	0.6	0.5	1.2	..	..	..	..	..	..
Slovak Republic	..	..	..	..	..	..	..	-0.4	1.0	0.4	0.5	0.8	..	..	..	..	..	..
Spain	2.3	2.8	3.1	2.8	2.8	2.8	1.2	1.8	3.7	1.9	1.7	2.2	3.5	3.9	3.9	3.4	3.2	3.1
Sweden	1.9	2.0	2.6	2.2	2.3	2.3	0.7	-0.6	2.0	0.0	0.2	0.4	2.6	2.2	3.0	2.5	2.6	2.6
Switzerland	1.9	1.2	1.5	1.3	1.3	1.4	1.7	0.0	1.8	-0.7	0.1	0.8	2.7	2.3	2.3	1.7	1.8	2.0
Turkey	..	..	..	..	..	..	1.7	0.6	-1.0	1.5	1.5	1.9	..	..	..	..	..	..
United Kingdom	2.1	2.5	2.7	2.4	2.2	2.2	1.1	0.8	0.8	0.5	0.3	0.6	2.0	2.7	3.3	2.5	2.5	2.5
United States	3.0	3.1	3.2	3.0	2.9	3.0	1.9	1.6	-0.1	-0.5	0.8	1.5	2.8	3.0	2.7	1.3	0.9	1.3
Euro area	2.3	2.1	2.2	2.1	2.0	2.2	0.7	0.6	1.5	0.4	0.5	1.2	..	..	..	..	..	..
European Union	2.2	2.2	2.3	2.1	2.0	2.1	0.8	0.6	1.4	0.4	0.4	1.1	2.9	2.8	2.8	2.3	2.1	2.2
Total OECD	2.8	2.5	2.5	2.3	2.3	2.3	1.4	1.0	0.4	0.1	0.6	1.2	3.4	3.0	2.9	2.0	1.8	1.9

Note: Potential output is estimated using a Cobb-Douglas production function approach. For information about definitions, sources and data coverage, see *OECD Economic Outlook* Sources and Methods (*http://www.oecd.org/eco/sources-and-methods*).

Source: OECD.

Annex Table 23. **Structural unemployment, wage shares and unit labor costs**

	Structural unemployment rate						Wage shares in the business sector						Unit labour costs in the business sector					
	Average 1981-83	Average 1991-93	2001	2002	2003	2004	Average 1981-83	Average 1991-93	2001	2002	2003	2004	Average 1981-90	Average 1991-00	2001	2002	2003	2004
	Per cent						*Per cent of business GDP*						*Percentage change*					
Australia	5.9	7.0	6.2	5.8	5.6	5.5	46.4	44.7	45.6	45.1	44.9	44.8	6.8	0.9	1.7	1.5	1.6	1.6
Austria	2.5	5.0	4.9	4.9	5.2	5.1	58.1	54.8	54.0	53.8	53.1	52.6	2.1	0.6	3.3	0.8	0.0	0.4
Belgium	6.6	8.7	7.2	6.9	6.9	6.9	51.4	51.9	50.0	49.7	49.5	49.2	3.1	1.1	3.9	2.3	0.9	0.8
Canada	8.7	8.9	6.9	6.8	6.8	6.8	45.4	47.4	49.8	49.9	49.8	49.7	4.6	1.2	1.9	0.9	2.2	1.8
Czech Republic	..	..	..	..	..	..	..	43.4	43.8	44.1	43.5	43.2	..	6.8	5.2	4.3	2.2	2.5
Denmark	5.8	7.7	4.9	4.9	4.9	4.9	..	41.7	39.8	40.2	40.2	40.2	5.6	0.8	3.7	2.2	2.0	1.5
Finland	4.0	8.1	8.6	8.4	8.3	8.3	48.1	43.1	40.0	40.1	39.9	39.7	5.7	-0.9	5.4	1.7	1.3	1.5
France	5.7	10.0	9.3	9.2	9.1	9.0	52.4	45.1	42.7	42.5	42.2	42.0	3.7	0.3	3.1	1.5	0.5	0.4
Germany	4.3	6.6	7.3	7.2	7.2	7.2	53.6	52.3	52.7	52.6	52.9	53.3	1.9	1.3	1.8	1.3	1.0	1.0
Greece	5.0	8.5	9.8	9.7	9.6	9.4	56.5	46.2	42.8	42.3	42.1	42.0	..	..	..	..	..	..
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	..	12.0	10.9	9.0	4.2	2.4
Iceland	0.6	1.7	3.5	3.5	3.4	3.4	46.5	52.5	48.8	49.4	49.6	49.6	31.9	2.7	3.5	8.2	4.1	2.7
Ireland	13.0	14.1	6.4	5.9	5.7	5.5	56.9	51.0	41.5	40.9	41.0	40.8	3.4	0.6	4.6	3.3	4.1	2.8
Italy	7.0	9.4	9.2	9.0	8.9	8.8	55.2	51.0	47.0	47.9	47.7	47.5	8.1	1.6	2.3	4.3	1.9	1.2
Japan	2.0	2.4	3.9	3.9	3.9	3.9	66.2	59.9	57.9	57.3	57.1	57.0	0.2	-0.6	-0.2	-1.7	-1.7	-1.5
Korea	..	..	..	..	..	..	79.1	72.3	69.6	72.1	72.8	73.3	4.3	2.8	4.0	5.2	2.9	3.1
Luxembourg	..	..	..	..	..	..	..	46.8	48.0	50.4	50.4	49.9	..	..	..	..	..	..
Mexico	..	..	..	..	..	..	..	..	..	..	..	..	24.8	16.5	10.2	5.1	5.1	4.6
Netherlands	5.7	6.8	4.0	3.7	3.6	3.5	46.9	47.0	46.7	47.0	46.8	46.1	0.7	1.5	5.8	5.2	2.3	0.8
New Zealand	2.2	7.5	5.4	5.4	5.4	5.4	46.8	44.2	41.6	41.8	41.5	40.9	7.7	0.4	3.3	1.2	1.1	1.1
Norway	2.2	5.1	3.6	3.6	3.6	3.6	39.7	36.5	33.2	34.0	34.1	34.2	6.8	2.2	5.5	4.1	3.6	2.9
Poland	..	..	..	..	..	..	..	51.3	48.8	47.5	46.4	45.8	..	12.5	4.6	-1.2	-0.5	1.3
Portugal	6.1	4.6	3.8	3.8	3.8	3.8	..	..	49.1	49.6	49.4	49.5	14.2	4.6	5.9	4.4	2.6	2.2
Slovak Republic	..	..	..	..	..	..	..	..	35.5	35.5	36.9	37.4	..	4.9	5.9	2.6	8.4	6.4
Spain	8.8	13.4	11.5	11.4	11.1	10.8	..	..	49.2	49.4	49.6	49.8	7.7	3.3	4.2	3.5	2.7	2.8
Sweden	..	..	..	..	..	..	41.3	40.9	45.2	45.3	45.2	44.9	6.4	1.4	4.3	2.0	1.2	1.5
Switzerland	1.0	1.7	1.8	1.8	1.8	1.8	..	..	..	..	..	..	4.2	1.4	4.1	1.8	0.3	0.1
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	49.5	60.8	52.7	29.9	24.2	15.0
United Kingdom	5.3	7.6	5.5	5.3	5.2	5.1	50.4	54.8	60.1	59.6	59.8	59.8	5.4	2.7	1.1	2.5	2.5	2.5
United States	5.8	5.3	5.1	5.1	5.1	5.1	50.9	49.7	50.9	49.7	49.9	49.9	3.2	1.8	2.1	-1.2	1.6	1.3
Euro area	6.0	8.6	8.2	8.1	8.0	7.9	54.1	50.7	48.9	48.9	48.8	48.7	4.6	1.5	2.7	2.3	1.3	1.0
European Union	5.8	8.5	7.8	7.6	7.5	7.4	52.5	50.2	49.7	49.8	49.7	49.7	4.8	1.6	2.7	2.5	1.6	1.4
Total OECD	5.2	6.2	6.0	5.9	5.9	5.8	54.3	51.8	51.6	51.2	51.2	51.2	5.0	3.0	3.2	1.1	1.7	1.4

Note: The structural unemployment rate corresponds to "NAIRU". For more information about sources and definitions, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*
Source: OECD.

Annex Table 24. **Household saving rates**

Per cent of disposable household income

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	10.7	10.1	8.0	6.7	8.4	9.1	6.0	5.5	4.3	5.6	4.5	5.5	3.7	2.3	2.1	4.0	3.5	2.5	3.0	3.3
Austria	10.3	12.1	13.7	11.7	12.6	13.8	14.7	11.8	10.7	11.6	11.5	9.6	7.1	8.0	7.7	6.7	5.5	6.2	6.1	6.4
Belgium	15.9	18.5	16.9	17.0	15.3	18.0	17.9	19.0	19.4	19.3	18.8	17.0	15.7	14.5	14.1	13.4	13.0	14.5	14.3	13.7
Canada	15.8	13.4	11.9	12.3	13.0	13.0	13.3	13.0	11.9	9.5	9.2	7.0	4.9	4.9	4.1	4.8	4.6	5.3	5.3	5.7
Czech Republic	..	..	..	..	..	..	..	..	3.2	-0.7	15.7	16.6	15.5	14.7	14.5	9.2	8.7	11.6	13.1	13.7
Denmark	..	..	..	7.4	8.4	11.2	10.8	9.7	8.3	4.2	6.9	5.6	3.6	5.0	1.7	4.0	5.3	4.8	5.3	4.9
Finland	4.3	2.9	4.4	0.2	0.5	2.9	7.8	10.0	7.6	2.6	6.0	2.0	4.4	3.1	3.8	0.3	2.4	2.8	3.0	2.6
France	9.0	8.1	6.4	6.9	7.2	7.8	8.7	9.7	10.4	9.8	11.2	10.0	11.3	10.8	10.4	10.8	11.4	11.9	11.3	10.5
Germany	12.1	12.9	12.9	13.2	12.7	13.9	13.0	13.0	12.3	11.6	11.2	10.8	10.4	10.3	9.8	9.8	10.1	10.4	10.1	10.2
Italy	28.8	27.1	26.6	25.9	25.5	25.9	25.0	23.4	23.2	21.8	20.0	21.2	18.1	15.0	13.9	12.3	13.2	15.8	16.3	16.1
Japan	18.5	18.5	16.0	15.0	15.3	13.4	14.8	14.1	14.3	12.1	11.9	10.9	10.2	11.6	10.6	10.3	10.7	9.9	9.9	10.1
Korea	15.1	21.0	23.9	26.5	25.5	23.4	25.5	24.4	21.9	21.3	18.0	16.9	16.5	23.1	17.5	11.8	10.0	9.5	10.1	11.4
Netherlands	5.6	8.2	8.3	8.1	9.8	11.6	7.2	8.3	6.8	7.1	14.9	13.6	13.4	12.9	9.6	6.7	11.2	13.1	13.4	13.0
New Zealand	5.7	4.4	7.2	5.8	5.5	3.3	5.5	3.4	3.3	0.4	0.6	0.6	-0.7	-1.5	-0.3	-0.8	2.4	3.5	2.3	2.0
Norway	-3.3	-6.2	-6.2	-2.8	-0.4	0.8	2.9	5.0	6.1	5.2	4.6	2.2	2.8	5.8	5.5	4.7	4.5	5.2	5.3	5.8
Portugal	..	..	..	..	..	..	..	..	..	..	12.0	11.2	9.8	8.9	8.5	10.1	11.0	11.2	11.4	11.3
Spain	11.1	12.1	10.6	11.0	10.2	12.3	13.4	11.9	14.3	11.9	14.4	14.2	13.4	12.2	10.8	10.0	10.3	10.6	10.7	10.6
Sweden	2.8	1.6	-2.9	-4.9	-4.8	-0.3	3.1	7.7	11.5	11.3	8.6	7.1	4.5	3.2	3.4	2.3	4.9	8.0	7.8	7.0
Switzerland	..	..	..	..	..	8.7	9.9	10.1	10.8	9.1	9.4	8.7	10.1	8.6	8.9	8.3	8.7	8.9	9.0	8.9
United Kingdom	9.8	8.2	6.4	4.9	6.6	8.0	10.0	11.4	10.8	9.3	10.0	9.1	9.5	6.0	5.1	4.2	6.1	5.1	5.4	6.0
United States	9.2	8.2	7.3	7.8	7.5	7.8	8.3	8.7	7.1	6.1	5.6	4.8	4.2	4.7	2.6	2.8	2.3	3.7	4.5	4.7

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Countries differ in the way household disposable income is reported (in particular whether private pension benefits less pension contributions are included in disposable income or not), but the calculation of household saving is adjusted for this difference. Most countries are reporting household saving on a net basis (i.e. excluding consumption of fixed capital by households and unincorporated businesses). Five countries, Belgium, Denmark, Italy, Spain and the United Kingdom are reporting gross household saving. In most countries the households saving include saving by non-profit institutions (in some cases referred to as personal saving). Other countries (Czech Republic, Finland, France, Japan and New Zealand) report saving of households only.

Source: OECD.

Annex Table 25. **Gross national saving**

Per cent of nominal GDP

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Australia	20.2	20.1	18.9	19.4	21.3	22.7	21.7	18.2	16.2	17.2	18.6	17.5	17.8	18.9	19.0	18.5	18.6	18.3	..
Austria	22.2	23.2	23.1	23.2	23.3	23.9	24.4	25.0	24.8	23.9	22.4	22.3	21.6	21.4	21.3	21.8	21.3	22.0	21.3
Belgium	16.4	17.8	17.9	19.0	19.8	22.5	23.6	23.9	23.1	23.5	24.6	25.9	25.8	24.6	25.7	25.7	26.0	25.9	24.8
Canada	20.0	20.8	20.2	18.8	20.0	20.8	20.1	17.6	14.9	13.6	14.2	16.5	18.6	19.1	19.9	19.4	21.3	24.2	22.7
Czech Republic	..	..	..	..	..	..	..	..	..	27.9	28.1	27.3	29.9	27.4	26.1	27.9	25.4	..	..
Denmark	15.5	17.1	17.4	18.3	18.6	19.2	19.5	20.7	20.0	20.3	19.2	19.1	20.4	20.4	21.2	20.8	21.8	23.3	23.7
Finland	24.2	25.4	24.4	23.8	23.7	26.1	26.1	24.5	16.8	14.0	14.9	18.4	21.6	20.7	24.1	24.9	25.1	27.8	27.5
France	18.6	18.3	18.1	19.4	19.6	20.8	21.6	21.5	20.9	20.5	19.0	19.2	19.5	19.2	20.4	21.4	22.3	22.1	21.4
Germany	..	..	..	..	..	..	..	..	23.3	23.1	21.9	21.9	21.8	21.3	21.4	21.5	20.8	20.8	19.8
Greece	21.9	23.0	22.6	22.4	18.9	21.3	19.0	19.1	20.7	20.0	18.5	19.4	18.0	17.4	17.9	17.8	18.1	18.6	18.2
Iceland	19.6	17.5	15.7	18.7	16.3	16.1	16.0	17.1	16.6	16.5	18.0	18.2	17.5	17.6	18.3	17.4	15.0	13.7	17.1
Ireland	14.3	14.1	13.5	13.4	14.5	14.7	15.0	18.0	17.7	15.6	17.7	18.0	20.8	22.3	24.2	25.7	24.6	25.0	23.4
Italy	23.1	23.1	22.6	22.4	21.9	21.8	21.0	20.7	19.6	18.3	19.2	19.7	21.6	21.9	21.6	21.2	20.8	20.2	20.4
Japan	30.3	31.2	32.0	32.2	32.7	33.6	33.6	33.5	34.4	33.6	32.0	30.1	29.6	29.9	30.2	29.1	27.6	27.7	..
Korea	28.8	30.6	30.6	34.6	38.4	40.7	37.6	37.6	37.4	36.5	36.2	35.6	35.4	33.7	33.3	33.7	32.6	32.2	29.8
Mexico	28.4	25.7	25.8	19.1	24.5	21.3	20.3	20.3	18.7	16.6	15.1	14.8	19.3	22.5	24.0	20.5	20.5	20.4	..
Netherlands	24.0	25.2	25.7	25.8	23.8	25.6	27.2	26.0	25.4	24.5	24.6	26.3	27.4	26.7	27.9	25.2	26.6	27.6	25.3
New Zealand	18.8	19.1	18.6	18.9	18.0	18.6	17.8	16.2	13.0	13.9	16.6	17.3	17.2	16.4	15.7	15.4	14.2	15.6	..
Norway	28.5	30.6	29.8	25.0	25.3	24.9	25.8	25.3	24.7	23.7	23.8	24.8	26.4	28.4	30.1	27.3	29.1	36.4	35.1
Poland	..	..	..	..	..	..	..	..	15.9	15.4	15.8	20.0	21.2	20.7	20.9	22.0	20.9	19.7	..
Portugal	8.2	7.5	8.7	10.6	11.9	11.6	12.4	11.1	8.6	8.0	5.0	4.1	4.7	3.8	3.6	4.3	3.2	2.7	2.6
Spain	19.5	21.2	21.9	22.9	22.6	23.4	22.9	22.9	22.3	20.5	20.5	19.9	22.3	22.1	22.6	22.6	22.2	22.3	..
Sweden	18.3	20.5	19.9	20.6	20.7	21.2	21.7	20.0	17.9	15.2	13.4	17.1	20.3	19.4	19.9	20.6	21.2	21.6	20.9
Switzerland	27.4	30.0	30.4	30.0	29.8	31.8	32.5	32.3	30.2	28.4	28.9	27.9	28.5	27.9	30.3	30.7	31.4	34.2	..
Turkey	15.5	16.3	20.7	23.9	24.3	28.9	26.4	21.5	17.7	18.5	18.7	18.9	20.1	22.6	21.6	20.6	13.7	15.2	12.4
United Kingdom	17.7	18.2	18.2	17.3	17.3	17.2	17.1	16.2	15.3	14.0	13.9	15.5	15.7	15.6	16.9	17.6	15.5	15.3	14.5
United States	16.3	18.5	17.2	15.4	15.9	17.2	16.7	15.9	16.1	15.1	15.0	15.8	16.4	16.7	17.6	18.3	17.9	18.0	16.1
European Union	19.6	20.1	20.1	20.3	20.1	20.8	20.9	20.5	20.5	19.6	19.1	19.7	20.4	20.1	20.7	20.9	20.5	20.5	19.6
Total OECD	20.6	21.8	21.4	20.7	21.3	22.2	21.9	21.2	21.0	20.1	19.7	20.0	20.7	20.8	21.5	21.5	20.9	21.1	18.4

Note: Based on SNA93 or ESA95 except for Switzerland and Turkey that report on SNA68 basis.
Source: OECD.

Annex Table 26. **General government total outlays**

Per cent of nominal GDP

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	37.6	37.5	36.0	33.2	32.1	32.9	34.5	36.2	36.3	35.5	35.7	34.9	33.7	33.2	32.9	32.6	32.7	32.5	32.2	31.8
Austria	50.3	51.2	51.6	50.8	49.3	48.8	49.9	50.5	53.3	52.6	52.5	52.1	49.9	50.3	50.0	49.0	50.1	50.5	50.1	49.3
Belgium	57.1	56.3	54.3	52.4	50.9	50.8	51.8	52.1	53.0	50.7	50.1	50.3	48.6	48.0	47.2	46.7	46.5	46.1	45.7	44.8
Canada	45.3	44.6	43.2	42.5	43.0	45.8	49.0	49.9	48.8	46.4	45.0	43.1	40.6	40.6	38.6	37.5	38.0	37.5	37.1	36.7
Czech Republic	..	..	..	..	..	..	..	..	43.1	44.8	43.9	41.7	41.0	40.6	42.3	43.4	42.9	46.2	46.2	45.6
Denmark	..	..	..	54.2	54.3	53.6	54.5	55.5	58.1	58.0	56.6	56.3	54.4	54.0	52.5	50.6	50.6	50.8	50.1	49.1
Finland	42.6	43.5	44.0	42.6	40.9	44.4	52.7	57.7	59.1	57.5	54.3	54.0	51.3	48.1	47.1	43.6	44.3	44.8	43.9	42.6
France	49.8	49.2	48.2	47.8	46.9	47.5	47.9	49.7	51.8	51.6	51.4	51.5	50.5	49.9	49.5	48.7	48.8	49.4	49.4	48.8
Germany [a]	43.4	42.6	43.0	42.6	41.4	41.8	44.2	45.0	46.2	45.9	46.3	47.3	46.5	46.0	46.1	43.3	45.7	46.1	46.1	45.1
Greece	43.8	42.9	43.1	41.4	43.1	47.4	43.8	45.9	48.1	46.0	46.5	44.3	42.7	42.7	43.2	44.7	42.9	42.8	42.6	42.2
Hungary	..	..	..	..	..	..	..	..	59.8	63.4	56.2	53.2	52.2	53.1	50.0	47.2	49.1	48.8	46.4	46.6
Iceland	35.5	37.6	34.5	39.3	41.8	39.3	40.4	40.9	40.8	40.4	39.6	39.0	38.0	38.4	39.3	39.0	39.6	40.2	40.2	39.8
Ireland	50.7	50.6	48.1	45.4	39.2	39.9	41.3	41.7	41.3	41.1	38.0	36.4	34.2	32.2	31.9	29.2	29.9	31.1	32.2	32.9
Italy	49.5	50.0	49.4	50.1	51.4	52.9	54.0	53.2	55.4	52.7	51.1	51.3	48.5	47.6	46.7	44.8	46.4	46.3	45.4	46.1
Japan [b]	29.4	29.6	30.0	29.4	28.9	30.5	30.3	31.0	32.8	33.3	34.4	34.9	33.8	34.8	36.1	36.8	36.7	37.6	37.6	38.1
Korea	17.6	16.9	16.0	16.2	17.3	18.3	19.4	20.6	20.1	19.7	19.3	20.7	21.5	24.2	23.3	23.0	23.3	23.1	24.7	24.7
Luxembourg	..	..	..	..	..	41.2	42.4	43.7	43.4	42.4	42.8	43.3	41.6	40.0	39.6	38.0	38.6	42.5	44.4	43.9
Netherlands [c]	51.9	52.0	53.3	51.3	48.9	49.4	49.5	50.0	49.9	47.6	47.7	45.6	44.4	43.4	43.0	41.4	42.0	42.9	42.8	42.4
New Zealand	..	51.8	48.1	49.1	47.5	48.1	45.3	44.8	41.4	39.3	38.6	37.5	38.2	39.0	38.1	37.4	36.5	37.0	37.2	36.9
Norway	40.8	44.7	46.8	48.6	48.1	48.6	49.5	50.9	50.3	49.2	46.9	44.4	42.8	45.2	44.7	40.3	41.2	43.0	43.5	43.5
Poland	..	..	..	..	..	..	..	..	54.3	49.4	47.0	46.1	45.6	43.8	43.4	42.3	44.1	44.6	44.8	44.2
Portugal	39.3	39.8	38.4	37.0	36.3	39.3	41.6	42.2	44.0	42.7	41.1	41.6	40.2	40.2	40.9	41.2	42.0	41.5	41.3	40.7
Slovak Republic	..	..	..	..	..	..	..	..	..	54.2	53.0	56.9	57.9	56.9	52.8	50.9	51.4	51.9	51.5	51.2
Spain	..	..	..	..	..	..	..	..	..	..	42.5	41.2	39.7	39.2	38.3	37.9	37.5	37.6	37.4	37.1
Sweden	60.4	58.6	54.8	55.2	55.1	55.9	58.9	64.3	67.5	64.8	61.9	59.9	58.0	55.5	55.0	52.6	52.2	52.6	52.5	52.1
United Kingdom	42.9	42.2	40.4	38.0	37.2	39.0	41.1	43.0	43.2	42.6	42.2	40.7	38.8	37.6	36.9	34.7	38.3	38.9	39.2	39.4
United States [d]	33.8	34.2	33.9	32.9	32.8	33.6	34.2	34.8	34.1	33.1	32.9	32.4	31.4	30.5	30.3	30.1	31.2	31.9	32.1	31.9
Euro area	46.3	46.2	46.2	45.7	45.3	46.4	47.4	48.2	49.7	48.7	48.3	48.5	47.0	46.3	45.9	44.1	45.2	45.5	45.2	44.7
European Union	47.2	46.8	46.2	45.6	44.9	45.9	47.3	48.4	49.8	48.8	47.8	47.5	46.0	45.2	44.7	43.0	44.5	44.8	44.6	44.3
Total OECD	37.8	37.9	37.5	36.8	36.5	37.6	38.5	39.4	40.1	39.3	39.2	38.9	37.7	37.3	37.1	36.4	37.4	37.9	37.9	37.8

Note: Total outlays are defined as current outlays plus net capital outlays. Data refer to the general government sector, which is a consolidation of accounts for the central, state and local governments plus social security. One-off revenues from the sale of mobile telephone licenses are recorded as negative capital outlays for countries listed in the note to Table 28. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) The 1995 outlays are net of the debt taken on this year from the Inherited Debt funds.

b) The 1998 outlays would be 5.2 percentage points of GDP higher if account were taken of the assumption by the central government of the debt of the Japan Railway Settlement Corporation and the National Forest Special Account. The 2000 outlays include capital transfers to the Deposit Insurance Company.

c) The 1995 outlays would be 4.9 percentage points of GDP higher if capital transfers to social rental companies were taken into account.

d) These data include outlays net of operating surpluses of public enterprises.

Source: OECD.

Annex Table 27. **General government current tax and non-tax receipts**

Per cent of nominal GDP

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections		
																		2002	2003	2004
Australia	32.5	33.3	33.9	32.8	32.1	31.7	30.8	30.3	30.7	31.0	31.9	32.8	33.2	33.9	34.0	32.9	32.7	32.7	32.6	32.6
Austria	47.7	47.4	47.2	47.3	46.2	46.4	46.9	48.5	49.0	47.6	47.3	48.1	47.9	47.8	47.6	47.3	50.1	49.0	48.8	48.5
Belgium	46.8	46.1	46.4	45.0	43.2	44.0	44.4	44.0	45.6	45.7	45.8	46.5	46.6	47.2	46.7	46.8	46.9	46.1	45.7	45.3
Canada	36.7	37.5	37.8	38.2	38.4	40.0	40.6	40.8	40.1	39.7	39.7	40.3	40.7	40.7	40.4	40.5	39.8	38.1	37.5	37.3
Czech Republic	..	..	..	..	..	..	..	..	39.7	39.6	38.8	37.2	36.3	35.3	35.9	40.1	40.1	40.5	39.8	39.9
Denmark	..	..	..	55.7	54.6	52.5	52.1	53.3	55.2	55.6	54.3	55.3	54.8	55.2	55.6	53.1	53.6	53.1	52.5	52.0
Finland	45.9	47.3	45.4	47.7	47.6	49.6	51.6	52.0	51.8	51.8	50.6	50.9	49.8	49.3	49.0	50.7	49.2	48.0	46.7	46.2
France	46.8	46.0	46.2	45.3	45.1	45.4	45.5	45.5	45.9	46.1	45.9	47.5	47.4	47.3	47.8	47.4	47.4	46.7	46.5	46.3
Germany	42.3	41.5	41.2	40.6	41.5	39.9	41.2	42.5	43.1	43.5	43.0	43.9	43.8	43.8	44.6	44.4	43.0	42.4	42.8	42.5
Greece	32.2	33.3	33.5	30.0	28.9	31.5	32.5	33.3	34.5	36.1	36.4	36.8	38.7	40.2	41.3	42.9	41.7	41.7	41.6	41.5
Hungary	..	..	..	..	..	..	..	..	53.2	52.3	48.7	47.3	45.0	44.9	44.8	44.2	43.9	42.2	41.4	42.7
Iceland	33.8	33.5	33.6	37.2	37.3	36.0	37.5	38.1	36.3	35.6	36.6	37.4	38.0	38.9	41.7	41.4	40.1	40.5	40.3	40.2
Ireland	40.3	40.4	39.9	41.1	37.5	37.1	38.5	38.8	38.6	39.1	35.9	36.2	35.4	34.5	34.2	33.8	31.7	30.6	30.9	31.1
Italy	36.8	37.7	37.7	38.8	39.6	41.2	42.3	42.6	45.2	43.4	43.5	44.2	45.8	44.5	44.9	44.2	44.2	43.9	43.3	43.4
Japan [a]	28.8	28.9	30.3	30.5	30.7	32.4	32.1	31.8	30.4	30.5	30.2	30.0	30.0	29.3	29.1	29.4	29.6	29.7	29.9	30.2
Korea	18.8	18.4	18.6	19.7	20.8	21.8	21.3	22.0	22.5	22.8	23.5	24.5	25.2	26.1	26.3	29.1	28.8	28.9	29.5	29.7
Luxembourg	..	..	..	..	..	46.3	43.8	43.7	45.3	45.1	45.4	45.3	44.4	43.1	43.1	43.7	44.7	44.4	44.7	44.5
Netherlands	47.9	46.3	46.7	46.2	43.6	43.7	46.3	45.6	46.3	43.4	43.6	43.8	43.3	42.6	43.6	43.6	42.1	42.0	42.2	42.2
New Zealand	..	45.4	46.0	44.5	44.1	43.5	41.7	41.7	41.0	42.4	41.5	40.4	39.8	39.4	38.4	38.2	38.2	38.6	38.4	38.1
Norway	50.3	50.2	51.1	51.0	49.8	51.1	49.6	49.0	48.1	48.8	49.6	50.8	50.6	48.8	50.8	55.4	56.1	55.4	53.7	53.4
Poland	..	..	..	..	..	..	..	..	49.8	45.9	44.5	43.3	42.8	41.5	41.4	39.2	38.6	38.6	38.5	38.3
Portugal	32.2	33.6	33.0	33.6	34.0	34.4	35.8	39.4	38.0	36.8	36.7	37.6	37.3	37.6	38.5	38.2	37.8	38.2	38.3	38.3
Slovak Republic	..	..	..	..	..	..	..	..	..	48.9	48.9	49.1	52.4	52.2	46.4	45.0	45.3	46.1	46.5	46.7
Spain	..	..	..	..	..	..	..	..	..	..	35.9	36.3	36.5	36.6	37.1	37.3	37.4	37.7	37.3	37.2
Sweden	56.5	57.3	58.7	58.1	60.0	59.7	57.0	56.5	55.5	54.0	54.2	56.8	56.4	57.6	56.4	56.3	57.0	54.3	54.1	54.0
United Kingdom	40.0	39.7	38.6	38.5	38.0	37.4	38.0	36.6	35.3	35.9	36.4	36.2	36.6	37.8	38.1	38.7	39.0	37.4	37.8	38.1
United States [b]	28.7	28.9	29.6	29.3	29.5	29.3	29.2	28.9	29.2	29.4	29.8	30.2	30.5	30.8	31.0	31.6	30.7	28.9	29.1	29.2
Euro area	41.4	41.2	41.3	41.0	41.1	41.4	42.2	42.8	43.9	43.6	43.2	44.2	44.4	44.0	44.6	44.3	43.7	43.2	43.1	42.9
European Union	42.3	42.1	41.9	41.9	41.9	41.8	42.6	42.8	43.4	43.2	42.4	43.2	43.5	43.5	43.9	43.8	43.5	42.8	42.8	42.7
Total OECD	33.7	33.8	34.2	34.2	34.3	34.6	34.8	34.8	35.2	35.2	35.2	35.7	35.9	35.9	36.1	36.4	35.9	35.0	35.0	35.1

Note: Current receipts exclude capital receipts. Non-tax current receipts include operating surpluses of public enterprises, property income, fines, etc. Data refer to the general government sector, which is a consolidation of accounts for central, state and local governments plus social security. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* .

a) Includes deferred tax payments on postal savings accounts in 2000, 2001 and 2002.

b) Excludes the operating surpluses of public enterprises.

Source: OECD.

Annex Table 28. **General government financial balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	-5.1	-4.2	-2.2	-0.4	0.0	-1.2	-3.8	-5.9	-5.5	-4.6	-3.7	-2.2	-0.5	0.6	1.1	0.3	0.0	0.1	0.4	0.8
Austria	-2.6	-3.8	-4.4	-3.5	-3.1	-2.4	-3.0	-2.0	-4.2	-5.0	-5.3	-4.0	-2.0	-2.5	-2.4	-1.7	0.0	-1.6	-1.4	-0.8
Belgium	-10.2	-10.1	-7.9	-7.3	-7.7	-6.8	-7.5	-8.1	-7.3	-5.0	-4.3	-3.8	-2.0	-0.7	-0.5	0.1	0.4	0.0	0.0	0.5
Canada	-8.6	-7.1	-5.4	-4.3	-4.6	-5.8	-8.4	-9.1	-8.7	-6.7	-5.3	-2.8	0.2	0.1	1.7	3.1	1.8	0.6	0.5	0.6
Czech Republic	..	..	..	..	..	..	..	..	-3.4	-5.1	-5.1	-4.5	-4.7	-5.3	-6.3	-3.3	-2.8	-5.7	-6.3	-5.7
Denmark	..	..	..	1.5	0.3	-1.0	-2.4	-2.2	-2.9	-2.4	-2.3	-1.0	0.4	1.1	3.1	2.5	3.0	2.2	2.4	2.9
Finland	3.3	3.8	1.4	5.1	6.7	5.3	-1.1	-5.6	-7.3	-5.7	-3.7	-3.2	-1.5	1.3	1.9	7.0	4.9	3.2	2.9	3.6
France	-3.0	-3.2	-2.0	-2.5	-1.8	-2.1	-2.4	-4.2	-6.0	-5.5	-5.5	-4.1	-3.0	-2.7	-1.6	-1.3	-1.4	-2.7	-2.9	-2.5
Germany	-1.1	-1.1	-1.8	-2.0	0.1	-2.0	-2.9	-2.6	-3.1	-2.4	-3.3	-3.4	-2.7	-2.2	-1.5	1.1	-2.8	-3.7	-3.3	-2.6
Greece	-11.6	-9.6	-9.6	-11.4	-14.2	-15.9	-11.4	-12.6	-13.6	-9.9	-10.2	-7.4	-4.0	-2.5	-1.9	-1.8	-1.2	-1.1	-1.0	-0.7
Hungary	..	..	..	..	..	..	..	..	-6.6	-11.0	-7.6	-5.9	-7.2	-8.3	-5.2	-3.0	-5.2	-6.7	-5.0	-4.0
Iceland	-1.6	-4.0	-0.8	-2.0	-4.5	-3.3	-2.9	-2.8	-4.5	-4.8	-3.0	-1.6	0.0	0.5	2.4	2.5	0.5	0.3	0.0	0.3
Ireland	-10.3	-10.2	-8.2	-4.2	-1.7	-2.8	-2.9	-3.0	-2.7	-2.0	-2.2	-0.2	1.2	2.3	2.3	4.5	1.7	-0.5	-1.3	-1.8
Italy	-12.7	-12.2	-11.8	-11.3	-11.7	-11.8	-11.7	-10.7	-10.3	-9.3	-7.6	-7.1	-2.7	-3.1	-1.8	-0.6	-2.2	-2.3	-2.1	-2.8
Japan [a]	-0.6	-0.7	0.3	1.1	1.8	1.9	1.8	0.8	-2.4	-2.8	-4.2	-4.9	-3.7	-5.5	-7.1	-7.4	-7.2	-7.9	-7.7	-7.8
Korea	1.1	1.6	2.6	3.5	3.4	3.5	1.8	1.4	2.5	3.1	4.2	3.8	3.6	1.9	3.1	6.2	5.5	5.8	4.7	5.0
Luxembourg	..	..	..	..	..	5.1	1.4	0.1	1.9	2.7	2.6	2.0	2.8	3.1	3.6	5.6	6.1	1.8	0.3	0.5
Netherlands	-4.1	-5.7	-6.6	-5.1	-5.3	-5.7	-3.2	-4.4	-3.6	-4.2	-4.2	-1.8	-1.1	-0.8	0.7	2.2	0.1	-0.8	-0.6	-0.3
New Zealand	..	-6.4	-2.1	-4.6	-3.4	-4.6	-3.5	-3.1	-0.4	3.1	2.9	2.8	1.6	0.4	0.2	0.9	1.7	1.6	1.2	1.1
Norway	9.5	5.5	4.4	2.4	1.7	2.4	0.1	-1.8	-2.1	-0.3	2.7	6.4	7.8	3.6	6.1	15.1	15.0	12.4	10.2	9.8
Poland	..	..	..	..	..	..	..	..	-4.5	-3.5	-2.5	-2.9	-2.8	-2.3	-2.0	-3.1	-5.5	-6.0	-6.3	-5.9
Portugal	-7.2	-6.2	-5.4	-3.4	-2.3	-4.9	-5.8	-2.9	-5.9	-5.9	-4.5	-4.0	-3.0	-2.6	-2.4	-3.0	-4.2	-3.4	-3.0	-2.4
Slovak Republic	..	..	..	..	..	..	..	..	..	-5.3	-4.0	-7.8	-5.5	-4.7	-6.4	-5.9	-6.2	-5.8	-5.0	-4.5
Spain	..	..	..	..	..	..	..	..	..	..	-6.6	-4.9	-3.2	-2.7	-1.1	-0.6	-0.1	0.0	-0.1	0.1
Sweden	-3.9	-1.4	3.9	3.0	4.9	3.8	-2.0	-7.8	-11.9	-10.8	-7.7	-3.1	-1.6	2.1	1.3	3.7	4.8	1.7	1.6	1.9
United Kingdom	-2.9	-2.6	-1.8	0.5	0.8	-1.6	-3.1	-6.4	-7.9	-6.7	-5.8	-4.4	-2.2	0.2	1.1	3.9	0.7	-1.4	-1.4	-1.3
United States [b]	-5.0	-5.3	-4.3	-3.6	-3.2	-4.3	-5.0	-5.9	-5.0	-3.6	-3.1	-2.2	-0.9	0.3	0.7	1.4	-0.5	-3.1	-3.0	-2.7
Euro area	-4.9	-5.0	-4.9	-4.8	-4.2	-4.9	-5.2	-5.4	-5.8	-5.1	-5.0	-4.3	-2.6	-2.3	-1.3	0.1	-1.5	-2.2	-2.1	-1.8
European Union	-4.8	-4.7	-4.3	-3.6	-3.0	-4.1	-4.7	-5.5	-6.4	-5.6	-5.3	-4.3	-2.5	-1.8	-0.8	0.8	-1.0	-2.0	-1.9	-1.6
Total OECD	-4.1	-4.1	-3.3	-2.6	-2.1	-3.0	-3.7	-4.6	-5.0	-4.1	-3.9	-3.2	-1.8	-1.4	-1.0	0.0	-1.4	-2.9	-2.9	-2.7
Memorandum items																				
General government financial balances excluding social security																				
United States	-5.3	-5.4	-4.8	-4.4	-4.2	-5.4	-5.9	-6.7	-5.7	-4.5	-3.9	-3.1	-2.0	-0.9	-0.7	-0.1	-2.1	-4.6	-4.7	-4.5
Japan [c]	-3.1	-3.5	-2.5	-2.0	-1.4	-1.5	-0.7	-1.6	-4.5	-4.7	-6.0	-6.5	-5.3	-6.7	-8.1	-7.9	-7.6	-8.2	-7.7	-7.8

Note: Financial balances include one-off revenues from the sale of the mobile telephone licenses where reported revenues are substantial: *i.e.* Australia (2000-2001), Austria (2000), Belgium (2001), Denmark (2001), France (2001), Germany (2000), Greece (2001), Ireland (2002), Italy (2000), Netherlands (2000), New Zealand (2001), Portugal (2000), the United Kingdom (2000) and Spain (2000). Moreover, being on a national account basis, the government financial balance may differ from the numbers reported to the European Commission under the Excessive Deficit Procedure for some EU countries and for some years. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* .

a) Deferred tax payments on postal savings accounts are included in 2000, 2001 and 2002. The 2000 outlays include capital transfers to the Deposit Insurance Company.

b) The general government sector includes public enterprises.

c) From 1991 onwards data are based on SNA93 and thus exclude private pension funds.

Source: OECD.

Annex Table 29. **Cyclically-adjusted general government balances**

Surplus (+) or deficit (-) as a per cent of potential GDP

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	-5.3	-3.8	-2.1	-0.5	-0.3	-0.9	-2.5	-4.5	-4.5	-4.1	-3.4	-2.0	-0.4	0.5	0.8	0.0	0.0	0.3	0.5	0.9
Austria	-1.8	-3.1	-3.6	-3.1	-3.4	-3.1	-3.7	-2.6	-4.0	-4.8	-5.0	-3.7	-1.8	-2.6	-2.6	-2.4	0.1	-1.1	-0.9	-0.5
Belgium	-8.2	-8.1	-6.5	-7.7	-8.9	-8.5	-8.6	-8.5	-5.8	-4.0	-3.5	-2.3	-1.5	-0.3	-0.7	-0.9	0.3	0.9	1.0	1.0
Canada	-8.5	-7.1	-6.1	-5.9	-6.1	-6.4	-6.9	-7.1	-6.9	-6.1	-4.8	-1.9	0.8	0.5	1.4	2.3	1.8	0.5	0.4	0.3
Denmark	..	..	..	0.5	0.3	-0.5	-1.6	-0.8	-0.2	-2.2	-2.2	-1.2	-0.3	0.5	2.6	1.6	2.9	2.8	3.0	3.2
Finland	3.9	4.4	1.1	3.5	3.8	3.3	2.0	0.8	1.1	1.2	1.4	0.9	0.4	2.0	2.3	5.7	5.1	4.3	3.9	4.4
France	-1.3	-1.6	-0.7	-2.0	-2.1	-2.7	-2.7	-4.3	-5.0	-4.6	-4.6	-2.7	-1.6	-1.9	-1.2	-1.7	-1.7	-2.5	-2.6	-2.4
Germany	-0.1	-0.5	-1.0	-2.0	0.0	-3.1	-3.8	-3.3	-2.2	-1.8	-2.8	-2.5	-1.7	-1.4	-0.9	-1.5	-2.4	-2.7	-2.3	-2.1
Greece	-10.7	-8.8	-7.5	-10.7	-14.7	-15.7	-11.7	-12.3	-11.8	-8.2	-8.5	-5.9	-3.1	-1.2	-0.8	-1.3	-1.7	-1.3	-1.3	-1.1
Iceland	-1.1	-4.6	-3.1	-3.2	-4.9	-3.4	-2.0	0.0	-1.6	-3.0	-0.9	-0.8	0.2	0.1	1.8	1.2	-0.9	0.0	0.1	0.0
Ireland	-9.7	-8.1	-6.5	-3.4	-1.7	-4.1	-2.9	-2.2	-1.0	-0.2	-1.4	0.3	0.8	2.0	1.2	2.4	-0.1	-1.4	-1.1	-0.9
Italy	-11.5	-11.3	-11.2	-11.6	-12.5	-12.5	-12.0	-10.4	-8.7	-8.1	-7.1	-6.4	-2.2	-2.6	-1.2	-1.7	-2.1	-1.6	-1.2	-2.3
Japan [a]	-0.2	0.0	0.9	1.1	1.5	1.3	1.5	0.6	-2.2	-2.5	-3.8	-5.1	-4.1	-5.3	-6.7	-7.4	-6.8	-7.1	-6.9	-7.1
Netherlands	-3.7	-5.5	-5.9	-4.4	-6.0	-7.7	-4.8	-5.4	-3.5	-4.7	-4.3	-2.1	-1.6	-1.7	-0.8	0.1	-0.2	0.4	1.0	1.3
New Zealand	..	-8.0	-3.0	-4.4	-3.1	-3.1	-0.5	0.0	0.8	2.7	2.2	2.0	1.3	1.6	0.7	0.7	1.8	1.4	1.2	0.9
Norway [b]	-1.2	0.6	-0.2	0.5	0.2	-1.4	-4.3	-6.5	-8.5	-7.2	-3.5	-1.9	-1.1	-2.7	-0.7	1.0	2.1	1.4	0.9	0.2
Portugal	-3.8	-3.5	-3.9	-3.2	-3.2	-6.1	-7.8	-4.0	-5.4	-4.7	-4.0	-3.9	-3.2	-3.3	-3.3	-4.3	-4.6	-2.9	-2.1	-1.5
Spain	..	..	..	..	..	..	..	..	..	..	-4.9	-3.1	-1.9	-2.0	-1.0	-0.9	-0.2	0.3	0.3	0.4
Sweden	-4.5	-2.8	1.6	0.2	1.8	1.5	-2.2	-5.4	-7.3	-7.7	-5.7	-0.6	0.6	3.2	1.0	2.7	4.7	1.9	1.7	1.7
United Kingdom	-1.4	-2.4	-2.8	-1.9	-1.3	-2.9	-2.2	-4.2	-5.6	-5.6	-5.0	-3.8	-2.1	0.1	1.1	1.2	0.6	-1.0	-1.0	-1.1
United States	-4.8	-5.0	-4.2	-3.9	-3.7	-4.5	-4.3	-5.3	-4.4	-3.5	-2.9	-2.1	-1.1	-0.1	0.2	0.9	-0.3	-2.7	-2.5	-2.4
Euro area	-3.6	-3.8	-4.0	-4.7	-4.8	-5.9	-6.0	-5.7	-4.5	-4.1	-4.2	-3.2	-1.7	-1.7	-1.0	-1.3	-1.5	-1.6	-1.4	-1.4
European Union	-3.6	-3.9	-3.8	-4.0	-3.8	-5.1	-5.0	-5.3	-4.9	-4.6	-4.5	-3.3	-1.8	-1.3	-0.6	-0.8	-1.0	-1.4	-1.2	-1.2
Total OECD	-3.7	-3.8	-3.2	-3.1	-2.9	-3.7	-3.7	-4.4	-4.4	-3.9	-3.7	-3.0	-1.7	-1.3	-1.1	-1.0	-1.5	-2.6	-2.5	-2.5

Note: Cyclically-adjusted balances exclude one-off revenues from the sale of mobile telephone licenses for those countries listed in the note to Table 28. For details on the methodology used for estimating the cyclical component of government balances see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* .

a) Includes deferred tax payments on postal savings accounts in 2000, 2001 and 2002. The 2000 outlays include capital transfers to the Deposit Insurance Company.

b) As a percentage of mainland potential GDP. The financial balances shown exclude revenues from oil production.

Source: OECD.

Annex Table 30. **General government primary balances**

Surplus (+) or deficit (-) as a per cent of nominal GDP

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	-1.3	-0.1	1.8	3.3	3.6	2.1	-0.9	-2.5	-2.6	-0.6	0.1	1.1	2.1	2.7	3.1	2.2	1.7	1.8	2.1	2.5
Austria	0.2	-0.9	-1.3	-0.3	0.0	0.8	0.3	1.4	-0.7	-1.5	-1.7	-0.1	1.5	0.8	0.8	1.7	2.4	0.8	0.9	1.4
Belgium	0.0	0.6	2.2	2.6	3.2	4.4	3.3	2.7	3.3	4.2	4.5	4.7	5.7	6.5	6.2	6.6	6.6	5.7	5.2	5.1
Canada	-4.6	-3.0	-1.3	-0.1	0.1	-0.6	-3.2	-4.1	-3.7	-1.7	0.3	2.5	4.9	4.8	5.9	6.2	4.6	3.3	2.9	3.0
Denmark	..	..	..	5.8	4.3	2.8	1.6	1.0	0.6	0.9	0.9	1.9	3.3	3.6	5.5	4.4	4.7	3.5	3.4	3.6
Finland	2.4	2.7	0.5	4.2	5.5	3.6	-3.1	-7.6	-7.7	-4.6	-2.8	-1.7	0.4	3.0	3.5	8.1	5.6	3.9	3.4	3.9
France	-0.9	-1.0	0.2	-0.3	0.4	0.3	0.1	-1.4	-3.0	-2.4	-2.2	-0.6	0.2	0.5	1.3	1.6	1.4	0.1	-0.1	0.3
Germany	1.5	1.4	0.7	0.4	2.4	0.3	-0.6	0.1	-0.3	0.4	-0.1	-0.2	0.5	1.1	1.6	4.1	0.2	-0.6	-0.1	0.7
Greece	-6.6	-4.2	-2.8	-4.0	-6.7	-5.9	-2.1	-1.1	-1.0	4.0	1.0	3.1	4.2	5.3	5.3	5.2	5.1	4.6	4.4	4.4
Iceland	-1.5	-3.4	-0.5	-0.8	-3.1	-1.1	-0.8	-0.6	-2.1	-2.2	-0.1	1.0	2.5	2.9	4.7	4.4	2.3	2.5	2.2	2.4
Ireland	-3.3	-3.4	-0.5	2.1	4.3	3.4	2.8	2.2	2.1	2.6	1.8	3.0	4.1	4.6	3.7	5.5	1.8	-0.8	-1.5	-2.1
Italy	-4.6	-3.9	-4.2	-3.3	-2.7	-1.8	-0.4	1.5	2.3	1.7	3.3	3.8	6.1	4.7	4.3	5.4	3.6	3.1	3.1	2.6
Japan	1.8	1.6	2.5	2.9	3.5	3.2	2.9	1.9	-1.3	-2.6	-3.5	-3.8	-2.6	-4.2	-5.8	-6.0	-5.7	-6.6	-6.2	-6.3
Korea	1.2	1.7	2.7	3.5	3.2	3.2	1.4	1.0	2.1	2.7	3.8	3.2	2.8	0.6	2.0	5.1	4.5	4.9	3.8	4.1
Luxembourg	..	..	..	..	..	2.9	-0.7	-1.9	0.4	1.5	1.5	1.1	2.0	2.1	2.8	4.7	5.2	1.1	-0.5	-0.3
Netherlands	0.3	-1.2	-1.9	-0.5	-1.2	-1.6	1.1	0.0	0.8	0.2	0.6	2.9	3.3	3.4	4.5	5.4	2.8	1.8	1.9	2.1
New Zealand	..	-2.1	1.9	-1.3	0.4	-0.5	-0.7	-0.2	1.9	4.4	4.4	3.5	2.2	0.0	-0.2	1.1	1.7	1.2	0.6	0.5
Norway	8.3	3.8	2.6	0.1	-0.5	0.3	-2.0	-3.6	-4.6	-2.1	0.9	4.8	6.4	2.3	4.4	13.2	12.8	9.6	7.4	7.0
Portugal	0.9	2.2	2.1	3.3	3.7	2.9	1.8	4.1	0.1	0.2	1.8	1.4	1.3	0.9	0.8	0.3	-1.1	-0.3	0.4	0.9
Slovak Republic	..	..	..	..	..	..	..	..	..	-1.8	-1.7	-5.3	-3.3	-2.3	-3.0	-3.1	-3.1	-2.6	-1.8	-1.2
Spain	..	..	..	..	..	..	..	..	..	..	-1.8	0.0	1.2	1.3	2.2	2.5	2.8	2.9	2.6	2.7
Sweden	-0.9	0.8	5.6	3.9	5.4	3.9	-1.8	-7.6	-11.0	-8.9	-5.1	-0.1	1.6	4.9	4.0	5.8	7.0	3.4	3.2	3.4
United Kingdom	0.7	0.9	1.5	3.4	3.5	1.1	-0.8	-4.1	-5.5	-4.1	-2.8	-1.5	1.0	3.2	3.5	6.1	2.7	0.4	0.4	0.5
United States	-1.8	-2.0	-1.0	-0.3	0.2	-0.8	-1.3	-2.2	-1.4	-0.2	0.6	1.3	2.4	3.5	3.6	4.1	1.9	-1.0	-1.0	-0.7
Euro area	-1.1	-0.9	-1.0	-0.8	0.0	-0.4	-0.5	-0.3	-0.5	-0.2	0.0	0.9	2.0	2.1	2.5	3.8	2.0	1.2	1.2	1.5
European Union	-0.6	-0.5	-0.2	0.4	1.1	0.3	-0.2	-0.7	-1.4	-0.8	-0.4	0.6	2.0	2.4	2.8	4.2	2.3	1.2	1.2	1.5
Total OECD	-0.8	-0.8	0.0	0.6	1.2	0.4	-0.2	-1.0	-1.4	-0.7	-0.3	0.4	1.6	1.8	1.9	2.7	1.1	-0.6	-0.6	-0.4

Note: The primary balance is the difference between the financial balance and net interest payments. For more details see footnotes of Annex Tables 28 and 32 and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* .

Source: OECD.

Annex Table 31. **Cyclically-adjusted general government primary balances**

Surplus (+) or deficit (-) as a per cent of potential GDP

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	-1.5	0.2	1.8	3.2	3.4	2.4	0.3	-1.3	-1.7	-0.2	0.4	1.2	2.3	2.6	2.9	1.9	1.7	1.9	2.2	2.6
Austria	0.9	-0.3	-0.6	0.1	-0.2	0.2	-0.3	0.8	-0.5	-1.4	-1.4	0.1	1.7	0.7	0.6	1.0	2.5	1.2	1.3	1.7
Belgium	1.8	2.2	3.4	2.2	2.2	3.1	2.4	2.3	4.5	5.0	5.2	6.0	6.1	6.9	6.0	5.7	6.4	6.5	6.1	5.6
Canada	-4.5	-3.0	-1.9	-1.5	-1.2	-1.1	-2.0	-2.2	-2.1	-1.1	0.7	3.3	5.4	5.1	5.6	5.5	4.6	3.2	2.8	2.7
Denmark	..	..	..	4.9	4.3	3.2	2.3	2.4	3.2	1.0	0.9	1.7	2.6	3.0	4.9	3.5	4.5	4.0	4.0	3.9
Finland	3.0	3.4	0.2	2.6	2.6	1.5	0.1	-1.0	0.7	2.2	2.2	2.3	2.3	3.8	3.9	6.8	5.8	4.9	4.4	4.7
France	0.7	0.5	1.4	0.1	0.1	-0.2	-0.1	-1.5	-2.1	-1.6	-1.4	0.6	1.5	1.3	1.7	1.2	1.2	0.3	0.2	0.4
Germany	2.2	1.8	1.2	0.3	2.2	-0.8	-1.4	-0.6	0.6	1.0	0.4	0.7	1.5	1.8	2.2	1.5	0.6	0.3	0.8	1.1
Greece	-5.8	-3.5	-1.0	-3.5	-7.1	-5.8	-2.3	-0.9	0.4	5.2	2.3	4.3	5.0	6.4	6.2	5.6	4.5	4.4	4.1	4.1
Iceland	-1.0	-4.0	-2.7	-1.9	-3.5	-1.2	0.0	2.1	0.6	-0.6	1.9	1.8	2.8	2.5	4.2	3.2	1.0	2.2	2.3	2.1
Ireland	-2.8	-1.5	0.8	2.8	4.2	2.2	2.7	2.9	3.6	4.2	2.5	3.5	3.8	4.3	2.6	3.4	0.0	-1.7	-1.3	-1.1
Italy	-3.6	-3.2	-3.7	-3.5	-3.3	-2.4	-0.7	1.7	3.5	2.6	3.7	4.3	6.5	5.1	4.8	4.3	3.7	3.8	3.8	3.0
Japan[a]	2.1	2.1	2.9	2.9	3.3	2.5	2.6	1.7	-1.2	-2.3	-3.1	-3.9	-2.9	-4.0	-5.5	-6.0	-5.4	-5.9	-5.5	-5.6
Netherlands	0.6	-1.1	-1.2	0.2	-1.8	-3.4	-0.4	-1.0	1.0	-0.2	0.4	2.6	2.9	2.5	3.1	3.4	2.5	3.0	3.4	3.6
New Zealand	..	-3.5	1.1	-1.1	0.8	0.9	2.2	2.7	3.1	3.9	3.6	2.7	2.0	1.2	0.3	1.0	1.8	1.1	0.6	0.2
Norway[b]	-3.0	-1.6	-2.5	-2.5	-2.6	-4.1	-7.1	-8.8	-11.7	-9.6	-5.8	-4.1	-3.1	-4.4	-3.1	-2.0	-1.2	-2.9	-3.5	-4.1
Portugal	3.4	4.1	3.2	3.4	3.0	1.9	0.2	3.2	0.6	1.2	2.2	1.5	1.0	0.2	0.0	-1.0	-1.4	0.2	1.2	1.7
Spain	..	..	..	..	..	..	..	..	..	..	-0.2	1.6	2.4	1.9	2.4	2.2	2.7	3.1	3.0	3.0
Sweden	-1.6	-0.6	3.4	1.1	2.4	1.7	-2.0	-5.1	-6.4	-5.8	-3.2	2.2	3.7	6.0	3.7	4.9	6.9	3.7	3.3	3.1
United Kingdom	2.1	1.0	0.6	1.2	1.5	-0.2	0.1	-2.0	-3.3	-3.0	-2.1	-0.9	1.1	3.1	3.5	3.4	2.6	0.9	0.8	0.8
United States	-1.6	-1.8	-0.9	-0.6	-0.2	-0.9	-0.6	-1.7	-0.9	0.0	0.7	1.4	2.2	3.1	3.1	3.6	2.0	-0.7	-0.5	-0.5
Euro area	0.2	0.1	-0.1	-0.7	-0.5	-1.4	-1.2	-0.5	0.6	0.7	0.8	1.9	2.9	2.7	2.8	2.4	2.0	1.8	1.9	1.9
European Union	0.4	0.2	0.2	0.0	0.3	-0.7	-0.5	-0.5	0.0	0.1	0.3	1.5	2.7	2.8	3.0	2.7	2.3	1.8	1.9	1.9
Total OECD	-0.4	-0.5	0.1	0.2	0.6	-0.2	-0.1	-0.7	-0.7	-0.4	-0.1	0.6	1.7	1.9	1.8	1.7	1.0	-0.4	-0.2	-0.2

Note: The cyclically-adjusted primary balance is the difference between the cyclically adjusted balance and net interest payments. It excludes one-off revenues from the sale of mobile telephone licenses. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* for details on the methodology used for estimating the cyclical component of government balances.

a) Includes deferred tax payments on postal savings accounts in 2000, 2001 and 2002. The 2000 outlays include capital transfers to the Deposit Insurance Company.

b) As a percentage of mainland potential GDP. The financial balances shown exclude revenues from oil production.

Source: OECD.

Annex Table 32. **General government net debt interest payments**

Per cent of nominal GDP

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	3.7	4.1	3.9	3.7	3.7	3.3	2.9	3.4	2.9	4.0	3.9	3.2	2.6	2.1	2.0	1.8	1.7	1.7	1.7	1.6
Austria	2.8	2.9	3.1	3.2	3.1	3.2	3.3	3.4	3.6	3.4	3.6	3.8	3.5	3.3	3.2	3.3	2.4	2.3	2.3	2.2
Belgium	10.3	10.7	10.1	9.9	10.9	11.3	10.8	10.8	10.6	9.2	8.9	8.5	7.7	7.3	6.6	6.5	6.2	5.7	5.2	4.6
Canada	4.0	4.1	4.2	4.3	4.7	5.2	5.1	5.1	5.0	5.0	5.6	5.3	4.7	4.7	4.2	3.1	2.8	2.7	2.5	2.4
Denmark	..	..	..	4.3	4.0	3.8	4.0	3.2	3.5	3.3	3.1	2.9	2.9	2.5	2.3	1.9	1.7	1.3	1.0	0.7
Finland	-0.9	-1.0	-0.9	-0.9	-1.2	-1.7	-1.9	-1.9	-0.3	1.1	0.9	1.5	1.9	1.7	1.6	1.0	0.7	0.6	0.5	0.3
France	2.1	2.2	2.2	2.1	2.2	2.4	2.6	2.7	3.0	3.1	3.3	3.4	3.3	3.2	3.0	2.9	2.9	2.8	2.8	2.8
Germany [a]	2.6	2.5	2.5	2.5	2.3	2.2	2.3	2.7	2.8	2.8	3.2	3.2	3.2	3.3	3.1	2.9	3.0	3.1	3.2	3.2
Greece	5.0	5.4	6.8	7.4	7.5	10.0	9.3	11.5	12.6	13.9	11.2	10.5	8.2	7.8	7.2	6.9	6.3	5.6	5.4	5.1
Iceland	0.1	0.6	0.4	1.2	1.4	2.2	2.1	2.2	2.4	2.5	2.9	2.7	2.5	2.4	2.3	1.9	1.8	2.2	2.2	2.1
Ireland	7.0	6.9	7.6	6.4	6.0	6.2	5.7	5.2	4.8	4.5	4.0	3.2	3.0	2.3	1.3	1.0	0.0	-0.3	-0.3	-0.2
Italy	8.1	8.3	7.6	8.1	9.0	9.9	11.3	12.2	12.6	11.0	10.9	10.9	8.8	7.8	6.2	6.0	5.9	5.5	5.1	5.4
Japan [b]	2.4	2.2	2.1	1.8	1.7	1.2	1.0	1.1	1.1	0.2	0.7	1.1	1.2	1.3	1.3	1.4	1.4	1.2	1.5	1.6
Korea	0.1	0.1	0.1	0.0	-0.2	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4	-0.6	-0.9	-1.3	-1.1	-1.1	-1.0	-0.9	-0.9	-0.9
Luxembourg	..	..	..	..	..	-2.2	-2.0	-1.9	-1.6	-1.3	-1.1	-0.9	-0.8	-0.9	-0.7	-0.9	-0.9	-0.8	-0.8	-0.8
Netherlands	4.4	4.4	4.7	4.6	4.1	4.1	4.3	4.4	4.4	4.4	4.7	4.7	4.4	4.2	3.8	3.2	2.7	2.6	2.5	2.3
New Zealand	..	4.3	4.0	3.3	3.9	4.1	2.9	2.9	2.3	1.3	1.4	0.7	0.6	-0.4	-0.4	0.3	0.0	-0.3	-0.6	-0.7
Norway	-1.2	-1.7	-1.7	-2.3	-2.2	-2.1	-2.1	-1.7	-2.4	-1.8	-1.7	-1.5	-1.4	-1.3	-1.7	-1.9	-2.2	-2.8	-2.8	-2.8
Portugal	8.0	8.3	7.5	6.7	6.0	7.8	7.6	7.0	6.0	6.1	6.3	5.4	4.2	3.5	3.2	3.3	3.1	3.1	3.3	3.3
Slovak Republic	..	..	..	..	..	..	..	..	..	3.5	2.4	2.5	2.2	2.4	3.4	2.9	3.1	3.2	3.2	3.3
Spain	..	..	..	..	..	..	..	..	..	..	4.9	5.0	4.4	4.0	3.3	3.1	2.9	2.8	2.7	2.6
Sweden	2.9	2.2	1.7	0.9	0.5	0.1	0.1	0.2	1.0	1.9	2.6	3.0	3.3	2.8	2.7	2.2	2.1	1.7	1.6	1.5
United Kingdom	3.5	3.4	3.3	2.9	2.7	2.6	2.3	2.2	2.4	2.6	2.9	2.9	3.2	3.0	2.4	2.2	2.0	1.9	1.8	1.8
United States	3.2	3.3	3.3	3.3	3.4	3.5	3.7	3.7	3.5	3.5	3.6	3.5	3.3	3.2	2.8	2.6	2.3	2.0	2.0	2.0
Euro area	3.8	4.0	4.0	4.0	4.2	4.5	4.8	5.2	5.3	4.9	5.0	5.2	4.7	4.4	3.8	3.7	3.5	3.4	3.3	3.3
European Union	4.2	4.2	4.1	4.0	4.1	4.3	4.5	4.8	5.0	4.8	4.9	4.9	4.5	4.2	3.6	3.4	3.3	3.2	3.1	3.1
Total OECD	3.4	3.4	3.3	3.2	3.3	3.4	3.5	3.6	3.6	3.4	3.6	3.6	3.3	3.1	2.8	2.6	2.4	2.2	2.2	2.2

Note: In the case of Ireland, Japan and New Zealand where net interest payments are not available, net property income paid is used as a proxy. For Denmark, net interest payments include dividends received. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) Includes interest payments on the debt of the Inherited Debt Funds from 1995 onwards.

b) Includes interest payments on the debt of the Japan Railway settlement Corporation and the National Forest Special Account from 1998 onwards.

Source: OECD.

Annex Table 33. **General government gross financial liabilities**

Per cent of nominal GDP

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	..	..	..	25.8	23.8	22.6	23.8	28.1	31.5	41.3	43.2	40.3	38.5	33.2	27.7	24.1	20.9	21.8	21.3	20.4
Austria	49.1	53.6	57.5	58.9	58.1	57.2	57.5	57.2	61.8	64.7	69.2	69.1	64.7	63.9	64.9	63.6	63.2	63.3	62.2	60.2
Belgium	118.1	123.3	127.8	127.9	124.6	129.1	130.9	132.8	138.1	135.8	133.9	130.5	124.8	119.5	114.8	109.6	108.6	105.4	101.9	97.3
Canada	66.9	71.0	71.5	71.1	72.3	75.1	82.8	90.9	96.2	97.2	99.9	99.2	97.5	94.3	92.5	83.3	83.2	81.2	78.9	76.6
Denmark	74.9	71.8	68.6	66.7	65.1	65.8	66.7	70.6	83.8	77.7	73.9	68.1	64.4	59.7	54.8	50.0	46.1	43.2	40.0	36.3
Finland	18.5	19.7	20.2	19.1	16.8	16.6	25.2	45.2	58.5	61.0	66.0	66.6	64.9	61.3	55.9	53.1	51.5	47.6	47.0	46.0
France	38.0	38.8	40.1	40.0	39.9	39.5	40.3	44.7	51.6	55.3	62.9	66.5	68.2	70.4	66.2	65.4	65.0	66.7	68.4	69.1
Germany [a]	40.8	40.7	41.8	42.3	40.9	41.5	38.8	41.8	47.4	47.9	57.1	60.3	61.8	63.2	61.2	60.5	60.2	62.4	63.7	64.1
Greece	47.1	47.7	53.0	62.7	65.7	79.6	82.2	87.8	110.1	107.9	108.7	111.3	108.2	105.8	105.1	106.2	107.0	106.4	103.6	99.7
Iceland	32.9	30.4	28.0	31.3	37.0	36.7	38.9	46.9	53.9	56.5	59.9	57.3	54.5	49.4	44.9	42.3	47.2	43.7	42.4	40.9
Ireland	99.5	110.6	111.8	108.2	98.9	101.4	102.8	100.1	96.2	90.4	82.6	74.2	65.1	55.1	49.6	39.0	36.4	34.1	32.9	32.3
Italy	76.8	80.8	84.8	86.8	89.4	97.2	100.6	107.7	118.1	123.8	123.2	122.1	120.2	116.3	114.5	110.5	109.8	109.6	108.1	106.6
Japan [b]	67.7	71.2	71.6	69.6	66.7	64.6	61.1	63.5	69.0	73.9	80.4	86.5	92.0	103.0	115.8	123.4	132.6	142.7	151.0	159.2
Korea	16.3	14.4	12.6	9.8	9.1	8.2	7.2	6.9	5.9	6.1	6.3	6.3	9.2	15.2	18.7	19.3	17.2	16.2	16.8	17.6
Luxembourg	..	..	..	..	..	4.4	3.8	4.7	5.7	5.4	5.6	6.2	6.1	6.3	6.0	5.6	5.6	6.0	6.0	6.0
Netherlands	68.7	70.6	73.1	76.0	76.0	76.7	76.9	77.6	78.8	75.7	77.2	75.2	69.9	66.8	63.1	55.8	52.8	51.7	50.6	49.0
New Zealand	..	..	..	..	..	..	..	..	70.6	63.9	57.2	51.6	49.5	49.9	47.4	44.8	42.8	41.3	39.5	37.5
Norway	31.6	39.8	32.9	32.1	32.0	28.6	27.0	31.5	39.6	36.1	33.7	30.1	27.1	25.8	26.8	30.1	25.7	24.7	23.1	23.4
Portugal	55.8	54.0	60.8	61.0	59.0	58.3	60.7	54.4	59.1	62.1	64.3	62.9	59.1	55.0	54.3	53.1	55.4	59.8	59.7	58.9
Slovak Republic	..	..	..	..	..	..	..	..	27.0	23.9	21.9	26.4	28.8	29.4	29.4	32.0	35.6	38.9	40.4	41.1
Spain	..	..	..	..	..	..	..	..	..	..	73.8	81.4	80.8	81.4	75.6	72.4	68.4	66.4	64.6	62.5
Sweden	..	..	..	..	..	..	..	..	..	..	84.9	87.6	85.7	84.1	74.2	67.2	67.0	62.8	61.7	60.5
United Kingdom	59.2	58.4	56.1	49.7	43.0	44.4	44.3	49.2	58.1	55.8	60.6	60.1	60.5	61.5	56.3	51.5	50.7	50.8	50.9	50.8
United States	59.0	62.6	64.1	64.7	65.0	66.6	71.4	74.1	75.8	75.0	74.5	73.9	71.4	68.3	65.3	59.5	59.7	60.7	62.0	62.5
Euro area	52.1	53.7	55.8	56.2	56.4	59.1	59.3	62.8	69.0	71.0	75.8	78.9	79.0	78.4	75.5	73.2	72.2	72.8	72.8	72.1
European Union	55.7	56.9	58.4	58.0	56.7	58.8	58.8	62.9	70.4	71.6	76.3	77.8	77.3	76.8	73.3	70.5	69.6	69.9	69.8	69.1
Total OECD	58.2	60.8	61.9	60.9	60.1	61.1	62.7	66.1	70.4	71.5	74.1	75.2	74.9	75.2	74.6	72.1	73.0	75.0	76.6	77.7

Note: Gross debt data are not always comparable across countries due to a different definition or treatment of debt components. Notably, they include the funded portion of government employee pension liabilities for some OECD countries, including Australia and the United States. The debt position of these countries is thus overstated relative to countries that have large unfunded liabilities for such pensions which according to ESA95/SNA93 are not counted in the debt figures, but rather as a memorandum item to the debt. For Canada, the unfunded component of government employee pension liabilities was previously included in the OECD debt data. It is now excluded to improve international comparability. General government financial liabilities presented here are defined according to ESA95/SNA93 for all countries with the exception of Austria, Belgium, Greece, Ireland, Italy, Luxembourg, Netherlands and Portugal where debt measures follow the definition of debt applied under the Maastricht Treaty. Maastricht debt for European Union countries is shown in Annex Table 58. For more details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) Includes the debt of the Inherited Debt Fund from 1995 onwards.

b) Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

Source: OECD.

Annex Table 34. **General government net financial liabilities**

Per cent of nominal GDP

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	..	..	..	15.3	11.3	10.7	11.6	16.1	22.1	26.6	27.3	21.7	21.9	16.6	15.5	9.5	5.1	6.6	6.1	5.1
Austria	30.1	33.3	36.2	38.4	38.1	37.5	37.4	38.7	43.5	45.7	50.5	50.1	47.8	48.8	50.1	49.4	50.3	50.9	50.5	49.2
Belgium	108.2	113.5	117.7	118.1	115.1	116.8	118.1	119.3	123.9	123.1	123.2	120.6	115.9	110.4	105.6	100.7	98.1	95.2	91.8	87.2
Canada	35.3	39.7	39.3	38.2	41.0	43.4	50.1	59.6	64.0	66.7	68.0	66.6	64.3	60.8	55.5	46.6	43.6	41.1	38.4	35.8
Denmark	45.3	37.9	33.7	35.4	33.2	33.0	37.5	41.2	45.2	45.8	46.2	42.4	38.4	36.0	31.1	26.6	22.7	19.8	16.5	12.9
Finland	-27.1	-28.0	-27.9	-29.2	-33.3	-35.5	-34.2	-25.0	-16.2	-16.4	-12.5	-15.1	-15.6	-25.8	-61.7	-41.4	-42.0	-43.9	-44.5	-45.5
France	9.7	12.5	13.3	15.1	15.7	17.5	18.8	20.4	27.1	28.3	38.9	42.6	43.3	41.7	33.6	34.9	37.7	39.4	41.0	41.7
Germany[a]	19.9	20.1	21.1	22.0	20.5	21.0	20.2	24.4	27.9	29.1	39.6	42.4	43.4	46.0	44.8	41.9	44.3	47.2	49.2	50.1
Iceland	6.0	8.9	8.1	9.8	17.8	19.2	20.0	26.9	35.1	38.2	40.2	40.0	38.3	31.8	24.2	24.1	27.2	24.5	23.2	22.2
Italy	80.4	84.8	89.2	91.5	94.4	84.5	89.4	98.2	106.4	111.8	109.8	111.3	107.4	108.5	103.9	99.5	97.5	97.3	95.8	94.4
Japan[b]	35.0	33.7	27.9	23.7	19.4	12.4	6.4	7.3	10.1	12.1	16.9	21.6	27.9	38.0	45.2	50.4	58.4	67.2	75.5	83.7
Korea	-6.5	-8.1	-10.2	-13.6	-16.3	-17.2	-15.9	-15.3	-15.5	-15.2	-18.0	-19.4	-22.5	-24.5	-25.6	-28.4	-32.7	-36.0	-38.0	-39.9
Netherlands	40.6	43.7	27.1	30.9	34.5	35.4	36.2	39.6	40.6	41.9	53.2	53.7	55.3	53.7	50.2	44.5	41.6	40.8	39.6	37.9
New Zealand	..	..	..	..	..	..	..	..	48.0	42.0	35.5	31.1	28.7	26.5	24.0	21.3	20.1	19.6	17.5	15.4
Norway	-35.8	-40.3	-41.6	-41.7	-40.9	-40.8	-37.2	-34.8	-31.8	-30.3	-31.9	-35.8	-42.2	-46.3	-52.7	-60.3	-73.4	-84.4	-91.4	-96.8
Spain	..	..	..	..	..	..	..	..	..	..	49.2	53.4	52.4	51.9	46.0	42.9	41.5	39.5	37.6	35.5
Sweden	13.9	12.5	6.4	0.2	-6.0	-7.9	-5.1	4.6	10.6	21.0	26.1	26.6	23.9	20.6	10.0	1.8	-1.0	-2.7	-4.2	-5.9
United Kingdom	30.8	31.2	29.5	23.8	19.1	15.1	15.3	21.6	30.9	31.1	36.9	38.7	40.1	41.9	36.7	30.9	29.0	29.2	29.3	29.2
United States	41.9	45.4	47.4	48.5	48.7	49.9	53.6	57.1	59.1	59.7	59.2	58.8	56.7	53.0	48.7	43.7	42.9	44.3	45.6	46.2
Euro area	32.7	35.4	36.4	38.0	38.6	38.7	39.9	43.9	48.4	49.8	56.1	59.8	59.7	59.8	55.1	53.2	53.9	54.7	55.0	54.5
European Union	35.3	37.0	37.0	37.1	36.4	34.3	35.2	40.2	46.2	48.2	54.2	56.3	55.9	56.2	51.3	48.4	48.4	49.0	49.1	48.6
Total OECD	36.3	38.3	38.1	37.3	36.4	35.1	36.3	40.0	43.6	45.1	47.9	49.0	48.8	48.7	46.0	43.2	43.8	45.7	47.3	48.4

Note: Net debt measures are not always comparable across countries due to a different definition or treatment of debt (and asset) components. First, the treatment of government liabilities in respect of their employee pension plans may be different (see footnote to Annex Table 33). Second while general government financial liabilities presented here for most countries are defined by ESA95/SNA93, for some EU countries, i.e.Austria, Belgium, Greece, Ireland, Italy, Luxembourg, Netherlands and Portugal, debt measures follow the definition of debt applied under the Maastricht Treaty. Third, a range of items included as general government assets differs across countries. For example, equity participation is excluded from government assets in some countries, whereas foreign exchange, gold and SDR holdings are considered as assets of the government in the United States and the United Kingdom. For details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* .

a) Includes the debt of the Inherited Debt Fund from 1995 onwards.

b) Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

Source: OECD.

Annex Table 35. **Short-term interest rates**

Per cent, per annum

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	16.0	16.5	13.8	12.8	17.6	14.5	10.2	6.5	5.2	5.7	7.7	7.2	5.4	5.0	5.0	6.2	4.9	4.8	5.4	5.5
Austria	6.2	5.3	4.3	4.6	7.5	9.0	9.5	9.5	7.0	5.1	4.6	3.4	3.5	3.6	3.0	4.4	4.2	3.3	3.0	3.6
Belgium	9.5	8.1	7.1	6.7	8.8	9.6	9.4	9.4	8.2	5.7	4.8	3.2	3.4	3.6	3.0	4.4	4.2	3.3	3.0	3.6
Canada	8.6	8.1	7.8	9.5	12.1	12.7	8.8	6.6	5.0	5.5	7.1	4.4	3.5	5.0	4.9	5.8	4.0	2.6	3.5	4.5
Czech Republic	..	..	..	..	..	..	..	..	13.1	9.1	10.9	12.0	15.9	14.3	6.9	5.4	5.2	3.6	3.8	4.4
Denmark	10.3	9.1	10.1	8.5	9.6	10.9	9.7	11.0	10.4	6.1	6.1	3.9	3.7	4.1	3.3	4.9	4.6	3.5	3.2	3.8
Finland	13.5	12.7	10.0	10.0	12.6	14.0	13.1	13.3	7.8	5.4	5.8	3.6	3.2	3.6	3.0	4.4	4.2	3.3	3.0	3.6
France	9.9	7.7	8.3	7.9	9.4	10.3	9.6	10.3	8.6	5.8	6.6	3.9	3.5	3.6	3.0	4.4	4.2	3.3	3.0	3.6
Germany	5.4	4.6	4.0	4.3	7.1	8.5	9.2	9.5	7.3	5.4	4.5	3.3	3.3	3.5	3.0	4.4	4.2	3.3	3.0	3.6
Greece	18.4	18.5	19.0	19.2	19.0	23.0	23.3	21.7	21.3	19.3	15.5	12.8	10.4	11.6	8.9	6.1	4.2	3.3	3.0	3.6
Hungary	..	..	..	..	..	..	..	..	17.2	26.9	32.0	24.0	20.1	18.0	14.7	11.0	10.8	9.2	9.9	10.1
Iceland	..	..	..	31.0	27.9	14.8	14.6	10.5	8.8	4.9	7.0	7.0	7.1	7.4	8.6	11.2	11.0	8.6	6.8	8.0
Ireland	11.9	12.5	10.8	8.0	10.0	11.3	10.4	14.3	9.1	5.9	6.2	5.4	6.1	5.4	3.0	4.4	4.2	3.3	3.0	3.6
Italy	15.2	13.4	11.3	10.8	12.6	12.2	12.2	14.0	10.2	8.5	10.5	8.8	6.9	5.0	3.0	4.4	4.2	3.3	3.0	3.6
Japan	6.6	5.2	4.2	4.5	5.4	7.7	7.4	4.5	3.0	2.2	1.2	0.6	0.6	0.7	0.2	0.2	0.1	0.1	0.0	0.0
Korea	..	..	..	..	..	..	18.3	16.4	13.0	13.3	14.1	12.7	13.4	15.2	6.8	7.1	5.3	4.8	5.4	5.8
Luxembourg	9.5	8.1	7.1	6.7	8.8	9.6	9.4	9.4	8.2	5.7	4.8	3.2	3.4	3.6	3.0	4.4	4.2	3.3	3.0	3.6
Mexico	..	..	..	..	..	35.0	19.8	15.9	15.5	14.5	47.8	32.9	21.3	26.1	22.4	16.2	12.2	7.6	7.7	8.0
Netherlands	6.3	5.7	5.4	4.8	7.4	8.7	9.3	9.4	6.9	5.2	4.4	3.0	3.3	3.5	3.0	4.4	4.2	3.3	3.0	3.6
New Zealand	23.3	19.1	21.1	15.4	13.5	13.9	10.0	6.7	6.3	6.7	9.0	9.3	7.7	7.3	4.8	6.5	5.7	5.7	5.9	6.5
Norway	12.5	14.4	14.7	13.5	11.4	11.5	10.6	11.8	7.3	5.9	5.5	4.9	3.7	5.8	6.5	6.7	7.2	6.9	6.5	6.6
Poland	..	..	..	..	..	..	..	..	34.9	31.8	27.7	21.3	23.1	19.9	14.7	18.9	15.7	8.8	7.4	7.6
Portugal	22.4	15.6	13.9	13.0	14.9	16.9	17.7	16.1	12.5	11.1	9.8	7.4	5.7	4.3	3.0	4.4	4.2	3.3	3.0	3.6
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	11.5	20.2	18.1	14.8	8.2	7.5	7.8	7.9	7.3
Spain	12.2	11.7	15.8	11.7	15.0	15.2	13.2	13.3	11.7	8.0	9.4	7.5	5.4	4.2	3.0	4.4	4.2	3.3	3.0	3.6
Sweden	14.2	9.8	9.4	10.1	11.5	13.7	11.6	12.9	8.4	7.4	8.7	5.8	4.1	4.2	3.1	4.0	4.0	4.2	4.4	4.7
Switzerland	4.9	4.2	3.8	3.1	7.3	8.9	8.2	7.9	4.9	4.2	2.9	2.0	1.6	1.5	1.4	3.2	2.9	1.1	1.0	2.0
Turkey	..	..	..	..	..	51.9	109.6	97.8	90.3	150.6	136.3	143.6	119.2	115.7	96.6	37.0	70.2	64.2	37.1	16.1
United Kingdom	12.2	10.9	9.7	10.3	13.9	14.8	11.5	9.6	5.9	5.5	6.7	6.0	6.8	7.3	5.4	6.1	5.0	4.0	4.2	5.0
United States	8.3	6.8	7.1	7.9	9.3	8.2	5.9	3.8	3.2	4.7	6.0	5.4	5.7	5.5	5.4	6.5	3.7	1.8	1.6	3.4
Euro area	9.9	8.5	8.2	7.7	10.0	10.9	10.6	11.1	8.6	6.3	6.5	4.8	4.3	3.9	3.0	4.4	4.2	3.3	3.0	3.6

Note : Three-month money market rates where available, or rates on proximately similar financial instruments. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*
Source: OECD.

Annex Table 36. **Long-term interest rates**

Per cent, per annum

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	14.0	13.4	13.2	12.1	13.4	13.2	10.7	9.2	7.3	9.0	9.2	8.2	6.9	5.5	6.1	6.3	5.6	6.0	6.2	6.3
Austria	7.8	7.3	6.9	6.7	7.1	8.7	8.5	8.1	6.7	7.0	7.1	6.3	5.7	4.7	4.7	5.6	5.1	5.0	4.8	5.2
Belgium	11.0	8.6	8.2	8.0	8.6	10.1	9.3	8.7	7.2	7.7	7.4	6.3	5.6	4.7	4.7	5.6	5.1	4.9	4.8	5.2
Canada	10.8	9.1	9.5	9.8	9.8	10.8	9.4	8.1	7.2	8.4	8.1	7.2	6.1	5.3	5.6	5.9	5.5	5.2	5.4	6.0
Denmark	11.6	10.1	11.3	9.9	9.7	10.6	9.3	9.0	7.3	7.8	8.3	7.2	6.3	5.0	4.9	5.7	5.1	5.1	5.0	5.4
Finland	10.7	8.9	7.9	10.3	12.1	13.2	11.9	12.1	8.8	9.0	8.8	7.1	6.0	4.8	4.7	5.5	5.0	5.0	4.7	5.0
France	11.9	9.1	9.5	9.1	8.8	9.9	9.0	8.6	6.8	7.2	7.5	6.3	5.6	4.6	4.6	5.4	4.9	4.9	4.7	5.2
Germany	7.2	6.3	6.4	6.6	7.1	8.7	8.5	7.9	6.5	6.9	6.9	6.2	5.7	4.6	4.5	5.3	4.8	4.8	4.6	5.1
Greece	..	..	..	..	..	..	..	..	..	..	..	..	9.8	8.5	6.3	6.1	5.3	5.1	4.9	5.3
Iceland	..	..	..	..	..	..	..	13.1	13.4	7.0	9.7	9.2	8.7	7.7	8.5	11.2	10.4	9.6	7.0	7.5
Ireland	12.8	11.2	11.3	9.4	9.2	10.3	9.4	9.3	7.6	8.0	8.2	7.2	6.3	4.7	4.8	5.5	5.0	5.0	4.8	5.3
Italy	13.7	11.5	10.6	10.9	12.8	13.5	13.3	13.3	11.2	10.5	12.2	9.4	6.9	4.9	4.7	5.6	5.2	5.1	4.9	5.4
Japan	6.5	5.1	5.0	4.8	5.1	7.0	6.3	5.3	4.3	4.4	3.4	3.1	2.4	1.5	1.7	1.7	1.3	1.3	1.2	1.4
Korea	13.9	11.9	12.4	13.0	14.2	15.1	16.5	15.1	12.1	12.3	12.4	10.9	11.8	12.8	8.7	8.5	6.7	6.4	6.6	7.6
Luxembourg	..	..	..	..	..	..	..	..	..	7.2	7.2	6.3	5.6	4.7	4.7	5.5	4.9	4.8	4.7	4.9
Mexico	..	..	..	..	..	34.8	19.7	16.1	15.5	13.8	39.8	34.4	22.5	24.8	24.1	16.9	13.8	8.5	8.5	9.3
Netherlands	7.3	6.3	6.4	6.4	7.2	8.9	8.7	8.1	6.4	6.9	6.9	6.2	5.6	4.6	4.6	5.4	4.9	4.9	4.6	4.9
New Zealand	17.7	16.4	15.7	13.1	12.8	12.4	10.1	8.4	6.9	7.6	7.8	7.9	7.2	6.3	6.4	6.9	6.4	6.5	6.3	6.3
Norway	12.6	13.3	13.3	12.9	10.8	10.7	10.0	9.6	6.9	7.4	7.4	6.8	5.9	5.4	5.5	6.3	6.2	6.1	6.2	6.5
Portugal	..	..	..	..	..	..	..	..	..	10.4	11.5	8.6	6.4	4.9	4.8	5.6	5.2	4.9	4.8	5.2
Slovak Republic	..	..	..	..	..	..	..	..	..	..	10.4	9.7	9.4	21.7	15.9	8.5	7.8	7.8	8.0	8.0
Spain	13.4	11.4	12.8	11.7	13.8	14.6	12.8	11.7	10.2	10.0	11.3	8.7	6.4	4.8	4.7	5.5	5.1	5.0	4.7	5.1
Sweden	13.2	10.5	11.7	11.4	11.2	13.2	10.7	10.0	8.5	9.5	10.2	8.0	6.6	5.0	5.0	5.4	5.1	5.4	5.2	5.5
Switzerland	4.7	4.2	4.0	4.0	5.2	6.4	6.2	6.4	4.6	5.0	4.5	4.0	3.4	3.0	3.0	3.9	3.4	3.1	2.9	3.3
Turkey	..	55.0	47.0	62.4	58.3	51.9	71.9	79.6	86.6	138.5	111.5	124.9	106.0	113.6	106.6	35.8	87.4	62.4	38.9	15.5
United Kingdom	11.0	10.1	9.6	9.7	10.2	11.8	10.1	9.1	7.5	8.2	8.2	7.8	7.1	5.5	5.1	5.3	4.9	4.9	4.7	5.1
United States	10.6	7.7	8.4	8.8	8.5	8.6	7.9	7.0	5.9	7.1	6.6	6.4	6.4	5.3	5.6	6.0	5.0	4.6	4.2	4.9
Euro area	..	..	..	..	..	11.1	10.5	10.0	8.3	8.2	8.6	7.1	6.0	4.8	4.7	5.4	5.0	4.9	4.7	5.2

Note: 10-year benchmark government bond yields where available or yield on proximately similar financial instruments (for Korea a 5-year bond is used). See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

Annex Table 37. **Nominal exchange rates (*vis-à-vis* the US dollar)**

Average of daily rates

	Monetary unit	1992	1993	1994	1995	1996	1997	1998	1999	1999	2000	2001	Estimates and assumptions[a] 2002	2003	2004
Australia	*Dollar*	1.362	1.473	1.369	1.350	1.277	1.348	1.592	1.550	1.550	1.727	1.935	1.842	1.784	1.784
Austria	*Schilling*	10.99	11.63	11.42	10.08	10.58	12.20	12.38	12.91						
Belgium	*Franc*	32.15	34.55	33.46	29.50	30.98	35.76	36.30	37.86						
Canada	*Dollar*	1.209	1.290	1.366	1.372	1.364	1.385	1.483	1.486	1.486	1.485	1.548	1.568	1.555	1.555
Czech Republic	*Koruny*	..	29.15	28.79	26.54	27.15	31.70	32.28	34.59	34.59	38.64	38.02	32.77	30.89	30.890
Denmark	*Krone*	6.038	6.482	6.360	5.604	5.798	6.604	6.699	6.980	6.980	8.088	8.321	7.902	7.457	7.457
Finland	*Markka*	4.486	5.721	5.223	4.367	4.592	5.187	5.345	5.580						
France	*Franc*	5.294	5.662	5.552	4.991	5.116	5.837	5.899	6.157						
Germany	*Deutschemark*	1.562	1.653	1.623	1.433	1.505	1.734	1.759	1.836						
Greece	*Drachma*	190.5	229.1	242.2	231.6	240.7	272.9	295.3	305.7						
Hungary	*Forint*	..	91.9	105.1	125.7	152.6	186.6	214.3	237.1	237.1	282.3	286.5	258.6	241.9	241.9
Iceland	*Krona*	57.62	67.64	69.99	64.77	66.69	70.97	71.17	72.43	72.43	78.84	97.67	91.95	86.93	86.93
Ireland	*Pound*	0.588	0.683	0.670	0.624	0.625	0.660	0.703	0.739						
Italy	*Lira*	1232	1572	1613	1629	1543	1703	1736	1817						
Japan	*Yen*	126.7	111.2	102.2	94.1	108.8	121.0	130.9	113.9	113.9	107.8	121.5	125.4	122.5	122.5
Korea	*Won*	780.0	802.4	804.3	771.4	804.4	950.5	1 400.5	1 186.7	1 186.7	1 130.6	1 290.4	1 252.5	1 218.8	1 218.8
Luxembourg	*Franc*	32.15	34.55	33.46	29.50	30.98	35.76	36.30	37.86						
Mexico	*Peso*	3.095	3.115	3.389	6.421	7.601	7.924	9.153	9.553	9.553	9.453	9.344	9.655	10.168	10.168
Netherlands	*Guilder*	1.759	1.857	1.820	1.605	1.686	1.951	1.983	2.068						
New Zealand	*Dollar*	1.860	1.851	1.687	1.524	1.454	1.513	1.869	1.892	1.892	2.205	2.382	2.169	2.021	2.021
Norway	*Krone*	6.214	7.094	7.057	6.337	6.457	7.072	7.545	7.797	7.797	8.797	8.993	8.014	7.412	7.412
Poland	*Zloty*	..	1.814	2.273	2.425	2.695	3.277	3.492	3.964	3.964	4.346	4.097	4.088	3.980	3.980
Portugal	*Escudo*	134.8	160.7	166.0	149.9	154.2	175.2	180.1	188.2						
Slovak Republic	*Koruna*	..	30.77	32.04	29.74	30.65	33.62	35.23	41.36	41.36	46.23	48.35	45.35	41.58	41.580
Spain	*Peseta*	102.4	127.2	134.0	124.7	126.7	146.4	149.4	156.2						
Sweden	*Krona*	5.823	7.785	7.716	7.134	6.707	7.635	7.947	8.262	8.262	9.161	10.338	9.742	9.132	9.132
Switzerland	*Franc*	1.406	1.477	1.367	1.182	1.236	1.450	1.450	1.503	1.503	1.688	1.687	1.559	1.467	1.467
Turkey	*Lira*	6 861	10 964	29 778	45 738	81 281	151 595	260 473	418 984	418 984	624 325	1 228 269	1 538 691	2 060 686	2 406 876
United Kingdom	*Pound*	0.570	0.666	0.653	0.634	0.641	0.611	0.604	0.618	0.618	0.661	0.694	0.668	0.642	0.642
United States	*Dollar*	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Euro area	*Euro*	..	..	..	..	..	..	..	0.939	0.939	1.085	1.117	1.063	1.003	1.003
	SDR	0.710	0.716	0.699	0.659	0.689	0.726	0.737	0.731	0.731	0.758	0.785	0.774	0.754	0.754

Note: No rate are shown for individual euro area countries after 1999.
a) On the technical assumption that exchange rates remain at their levels of 4 November 2002, except for Turkey, where exchange rates vary according to official exchange rate policy.
Source: OECD.

Annex Table 38. **Effective exchange rates**

Indices 1995 = 100, average of daily rates

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and assumptions[a] 2002	2003	2004
Australia	106.7	106.9	107.7	100.9	95.7	103.1	100.0	109.7	111.0	103.5	103.6	96.3	90.3	93.7	94.9	95.1
Austria	84.4	87.9	88.1	90.2	93.2	95.4	100.0	99.1	97.2	99.2	99.9	97.7	98.1	98.7	100.5	101.2
Belgium	79.7	85.2	86.1	88.7	90.7	94.7	100.0	98.4	94.5	96.8	96.3	92.5	93.6	95.2	96.9	97.1
Canada	109.7	113.2	116.5	110.7	105.6	100.8	100.0	101.9	102.2	97.4	97.1	98.0	95.1	93.7	94.2	94.2
Czech Republic	..	..	..	..	95.9	99.3	100.0	101.6	98.6	100.3	99.9	101.2	106.2	118.3	119.4	119.8
Denmark	80.0	86.5	86.0	88.7	92.9	95.1	100.0	99.1	96.8	99.3	98.7	94.8	96.4	97.6	98.8	99.1
Finland	96.1	99.9	97.0	85.2	76.7	87.0	100.0	97.6	95.4	98.2	101.1	96.6	98.6	100.3	102.1	102.4
France	80.5	86.4	85.9	89.6	93.3	96.1	100.0	100.4	97.7	100.0	99.3	95.7	96.6	98.0	100.0	100.5
Germany	73.2	79.4	80.1	84.0	88.6	93.0	100.0	98.6	95.2	98.7	98.6	94.3	95.5	97.1	99.8	100.6
Greece	142.4	133.8	120.8	113.7	106.0	101.2	100.0	98.4	96.6	93.9	94.6	88.4	89.1	90.7	92.4	92.7
Hungary	..	..	..	..	140.1	126.0	100.0	85.2	78.9	71.5	69.0	65.5	66.7	71.0	72.6	72.8
Iceland	121.9	110.4	110.9	110.5	104.0	99.6	100.0	99.5	101.7	104.5	106.3	107.4	91.0	92.9	94.1	94.3
Ireland	90.8	98.6	97.5	101.7	96.6	98.2	100.0	102.6	102.4	99.4	96.5	89.5	90.7	92.8	95.3	95.4
Italy	118.7	126.1	127.3	126.2	108.7	108.6	100.0	110.0	111.5	113.9	113.5	109.4	110.7	112.7	115.5	116.2
Japan	54.0	53.2	59.9	65.0	80.4	93.4	100.0	87.2	83.3	86.6	99.3	108.1	99.7	95.5	96.9	97.1
Korea	114.6	111.3	107.4	100.1	98.6	99.7	100.0	101.6	94.1	68.1	77.9	83.4	77.1	79.7	80.8	80.9
Luxembourg	86.8	91.0	91.6	93.5	94.1	96.8	100.0	98.9	96.7	97.7	97.5	94.9	95.4	96.4	97.8	97.9
Mexico	212.5	193.5	186.9	187.1	196.5	190.3	100.0	84.9	83.3	74.0	70.6	72.1	74.1	71.9	67.9	67.9
Netherlands	75.8	81.4	82.0	85.2	89.3	93.6	100.0	98.6	93.9	97.2	97.1	92.2	93.5	95.5	97.8	98.1
New Zealand	91.9	92.0	89.5	83.3	87.3	93.6	100.0	106.3	108.9	97.8	94.4	85.6	84.7	91.3	95.6	95.7
Norway	94.4	95.8	95.0	96.7	95.7	96.4	100.0	100.1	101.1	98.0	97.9	95.8	99.0	107.1	110.4	110.6
Poland	..	..	..	..	139.0	113.5	100.0	93.2	86.6	84.8	79.2	81.6	90.0	86.1	84.4	84.6
Portugal	91.8	93.3	95.8	101.3	97.8	96.9	100.0	99.6	98.3	98.2	97.7	95.4	96.3	97.2	98.4	98.6
Slovak Republic	..	..	..	..	97.9	96.7	100.0	100.9	105.6	106.6	100.6	102.3	99.8	100.2	104.1	104.3
Spain	109.7	117.0	118.4	117.1	104.6	99.7	100.0	101.0	96.9	98.1	97.3	94.3	95.4	96.8	98.3	98.6
Sweden	115.2	115.7	116.7	119.6	98.4	99.6	100.0	110.1	106.6	106.3	106.1	106.3	97.8	100.2	102.6	102.9
Switzerland	74.3	80.5	80.2	79.7	83.5	91.9	100.0	98.7	93.1	97.2	97.8	96.1	100.0	105.0	107.1	107.1
Turkey	2 008.1	1546.9	1023.7	610.9	427.8	173.5	100.0	58.6	34.9	21.1	14.1	10.3	5.8	4.2	3.0	2.6
United Kingdom	108.0	109.0	111.1	108.4	100.2	103.4	100.0	102.3	119.2	127.0	127.5	130.9	129.6	131.0	131.6	132.0
United States	79.2	83.3	85.4	87.1	92.6	98.0	100.0	105.6	113.1	124.8	124.4	127.5	134.3	134.8	133.6	133.8
Euro area	68.3	81.1	81.6	86.9	86.0	92.0	100.0	102.0	95.5	100.7	99.0	90.1	92.4	95.5	100.4	101.6

Note: For details on the method of calculation, see the section on exchange rates and competitiveness indicators in *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) On the technical assumption that exchange rates remain at their levels of 4 November 2002, except for Turkey, where exchange rates vary according to official exchange rate policy.

Source: OECD.

Annex Table 39. **Export volumes**

Total goods, customs basis, percentage changes from previous year

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	9.0	3.1	8.1	0.1	4.8	7.2	16.2	6.3	6.2	6.3	3.0	12.3	8.0	0.1	4.9	9.7	1.4	2.8	7.8	7.8
Austria	9.5	1.2	2.0	7.6	15.0	10.7	7.1	3.7	-2.8	10.7	9.3	12.0	20.0	12.1	15.0	15.5	5.3	3.6	6.2	7.7
Belgium[a]	4.1	7.9	6.9	4.6	8.1	3.1	4.0	0.0	7.5	9.0	6.2	2.2	7.5	5.6	5.1	10.2	1.7	-0.5	4.8	6.6
Canada	6.4	5.8	3.6	9.7	1.2	4.7	2.6	7.9	11.3	13.2	9.5	5.6	9.8	8.5	10.7	9.0	-4.3	1.4	6.0	7.8
Czech Republic	..	..	..	..	..	..	..	..	..	5.7	15.0	2.6	15.0	15.3	7.8	16.0	12.8	5.4	7.1	10.5
Denmark	4.6	1.4	2.4	7.6	7.4	6.5	7.1	5.3	0.1	7.5	6.0	3.4	6.3	1.5	6.7	10.8	2.4	6.6	5.8	7.4
Finland	1.0	0.6	1.4	3.2	-0.2	2.8	-8.7	9.0	18.6	13.9	7.0	6.0	12.0	7.0	6.1	9.1	-0.6	1.0	7.1	9.0
France[b]	2.5	0.1	4.2	9.7	10.1	5.1	5.2	4.8	-0.0	10.0	9.5	2.3	12.1	9.2	4.8	13.3	1.5	1.0	4.9	7.7
Germany	5.9	1.3	2.9	6.6	8.1	1.4	1.4	0.8	-6.3	9.0	6.7	7.1	10.7	5.7	6.2	12.8	4.7	1.9	5.4	8.1
Hungary	..	..	..	..	..	..	..	..	..	16.7	9.9	24.2	29.7	21.9	16.3	21.7	7.7	7.4	7.4	11.0
Iceland[c]	12.7	34.5	25.2	0.5	-2.1	13.5	-1.2	-2.8	-4.7	10.8	11.7	5.3	-0.3	-3.4	7.6	-1.5	7.2	7.9	2.9	4.8
Ireland	6.5	4.0	14.2	7.1	11.2	8.5	5.6	13.7	11.1	14.8	20.1	9.9	14.9	24.4	14.9	20.5	5.1	6.2	5.9	8.5
Italy	7.4	1.8	2.5	5.6	8.6	3.3	0.2	3.7	8.8	11.9	13.2	1.2	3.8	2.6	1.8	10.2	0.3	-0.2	6.1	7.8
Japan	5.0	-0.5	0.4	4.4	4.5	5.5	2.5	1.5	-2.1	1.7	4.4	0.8	11.8	-1.2	2.1	9.4	-10.1	8.5	8.0	6.1
Korea	10.7	24.5	23.2	19.3	-0.1	8.2	11.1	8.7	12.1	13.7	21.9	19.6	15.3	22.0	10.5	19.8	0.4	8.1	11.5	10.8
Luxembourg	..	..	..	..	12.8	2.2	3.7	-0.5	-0.2	6.6	3.6	1.3	12.5	16.1	5.4	16.9	3.9	-5.2	-2.4	-1.0
Mexico	-3.2	18.0	11.7	16.8	5.9	8.0	14.3	8.1	16.6	8.6	23.9	18.4	16.3	13.3	11.4	13.6	-2.7	-0.0	6.6	7.6
Netherlands	5.9	2.1	4.5	9.2	6.4	5.2	4.8	2.6	1.1	6.5	7.2	5.4	6.5	8.4	6.2	10.1	6.0	-2.4	5.1	8.3
New Zealand	10.7	-2.0	2.9	3.9	-2.7	5.7	10.4	2.6	4.2	10.1	2.9	4.8	5.9	-0.6	2.7	5.5	3.3	5.9	7.2	7.2
Norway	3.5	1.8	13.9	4.4	15.0	6.7	6.7	8.0	5.3	12.4	5.5	12.9	4.6	0.2	3.0	4.1	4.4	0.8	-0.4	1.5
Poland	..	..	..	..	..	..	..	..	..	19.6	17.1	9.9	13.8	8.8	2.8	25.1	18.0	5.2	10.4	11.1
Portugal	10.6	7.8	11.7	9.3	20.5	12.7	0.6	7.5	-4.2	14.4	14.2	9.6	10.0	6.6	5.1	9.5	1.5	1.7	5.7	8.1
Slovak Republic	..	..	..	..	..	..	..	..	..	5.7	15.0	6.6	3.9	16.4	6.2	16.1	6.6	2.3	6.7	8.5
Spain	2.8	-3.7	7.6	6.0	4.8	11.9	11.3	4.9	11.7	21.2	9.7	12.0	14.1	6.9	6.4	12.2	2.0	-0.5	5.0	8.2
Sweden	3.4	2.9	2.7	3.7	2.1	0.2	-2.2	1.0	9.8	16.9	10.8	6.1	10.7	8.5	6.1	11.3	-4.4	4.5	6.2	7.3
Switzerland	9.0	0.9	1.5	6.2	6.0	4.2	-1.0	3.8	0.4	4.8	3.8	2.5	7.6	3.5	3.6	7.0	1.2	1.3	3.4	5.9
Turkey	14.5	-20.8	21.9	8.8	-1.6	1.1	6.4	6.5	7.6	22.0	5.7	12.8	18.5	6.7	5.8	19.4	5.5	7.3	6.0	12.1
United Kingdom	5.7	4.0	5.5	2.5	5.4	6.5	0.5	2.2	0.1	13.0	10.6	8.2	7.6	1.6	4.5	11.4	2.0	-1.5	3.4	8.0
United States[b]	3.6	5.1	11.4	18.8	12.6	8.3	7.1	6.8	3.0	9.7	11.9	8.7	14.5	2.1	3.8	11.3	-5.9	-3.0	6.7	8.8
Total OECD	5.2	2.6	4.9	7.8	7.3	5.1	3.7	3.8	2.0	9.4	9.4	6.5	11.1	5.7	5.7	12.0	-0.4	1.6	6.1	8.0

Note: Regional aggregates are calculated *inclusive* of intra-regional trade. Data are on a national account basis for the United States and France, otherwise from international trade statistics. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

a) Including Luxembourg until 1994.

b) Volume data use hedonic price deflators for certain components.

c) OECD estimates.

Source: OECD.

Annex Table 40. **Import volumes**

Total goods, customs basis, percentage changes from previous year

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	7.9	-1.3	1.5	13.2	22.8	-7.3	-1.3	6.7	4.3	11.8	10.1	7.0	6.2	7.1	7.2	5.6	-4.7	11.7	8.1	8.7
Austria	5.4	5.2	5.3	7.7	10.6	11.0	3.3	2.8	-1.3	12.9	6.7	12.4	15.8	12.4	13.3	9.4	2.3	-1.0	5.9	7.5
Belgium[a]	3.8	10.6	8.3	4.9	6.8	5.2	4.1	1.0	1.2	7.8	4.9	4.3	4.6	8.1	3.3	10.3	0.2	-0.7	5.0	6.6
Canada	10.4	9.1	5.4	13.5	5.2	0.6	3.1	7.6	8.7	10.6	7.5	6.0	17.1	6.2	8.8	9.5	-5.9	1.1	7.0	8.2
Czech Republic	..	..	..	..	..	..	..	..	..	18.8	26.7	10.9	8.8	11.1	2.4	14.1	13.9	3.6	6.9	9.8
Denmark	7.9	7.0	-1.7	0.0	2.4	4.5	4.7	4.7	-3.6	12.3	7.8	0.1	8.5	3.3	1.1	6.4	1.4	6.1	6.1	7.2
Finland	6.0	5.7	8.9	8.7	10.7	-4.0	-16.7	-2.1	-3.7	20.4	8.1	7.7	10.1	8.9	2.1	4.4	-2.7	0.5	7.5	9.4
France[b]	5.7	6.6	8.8	11.1	9.6	5.4	2.8	0.9	-4.1	10.1	8.5	0.2	7.6	12.3	7.4	15.5	0.3	0.5	8.2	8.6
Germany	4.9	5.4	5.3	6.4	7.3	12.7	11.9	1.3	-9.8	7.9	6.9	5.5	6.1	11.0	6.6	9.9	2.4	-1.8	5.5	8.2
Hungary	..	..	..	..	..	..	..	..	..	14.9	-3.1	17.9	26.2	24.6	14.2	20.8	3.9	7.6	9.5	11.0
Iceland[c]	10.1	23.4	41.8	0.6	-12.3	18.6	5.1	-3.3	-16.3	4.6	19.4	16.2	6.8	24.4	3.1	3.8	-9.4	-4.7	4.5	9.7
Ireland	3.3	3.0	6.2	4.7	13.0	6.8	0.8	4.8	7.0	13.2	14.4	10.0	14.9	18.1	6.5	17.4	-0.0	5.9	5.5	8.4
Italy	8.8	4.6	10.2	7.0	8.3	4.5	4.6	3.2	-10.2	12.5	9.8	-3.1	8.9	8.5	7.9	8.3	-0.7	-0.2	4.8	6.3
Japan	0.7	9.7	9.0	16.9	7.7	5.5	3.9	-0.7	3.7	13.4	13.8	5.0	1.7	-5.3	9.6	10.9	-1.3	0.1	3.7	4.5
Korea	5.6	1.6	17.8	20.0	15.8	15.2	23.1	3.3	4.6	23.5	24.4	16.1	2.3	-22.2	28.2	16.8	-3.4	12.2	10.7	9.4
Luxembourg	..	..	..	..	5.8	4.9	10.5	-2.9	2.5	4.9	2.9	-0.5	12.9	10.4	14.2	5.0	3.4	-1.8	1.9	4.3
Mexico	14.6	-6.9	8.9	41.1	18.8	17.4	19.7	23.2	3.8	18.5	-13.2	22.7	22.0	15.3	13.8	19.5	-4.1	1.8	7.7	9.9
Netherlands	7.2	3.7	4.7	8.0	6.8	4.7	4.3	1.3	-2.7	7.1	7.8	6.1	7.6	8.1	5.7	12.1	4.7	-1.1	5.1	9.3
New Zealand	-0.0	-1.4	10.4	-7.8	21.7	7.3	-9.6	10.7	4.3	16.3	6.5	3.4	3.6	2.4	13.4	-2.7	1.9	7.0	6.0	5.6
Norway	11.7	14.4	-2.0	-9.5	-5.7	10.3	2.6	3.3	0.7	16.1	8.1	10.4	7.9	10.5	-1.8	5.1	0.6	-0.6	3.6	4.1
Poland	..	..	..	..	..	..	..	..	..	15.2	20.8	28.2	22.2	15.1	4.2	10.8	-2.0	4.0	11.9	11.4
Portugal	6.6	19.2	28.0	22.2	8.4	15.8	5.9	13.0	-9.5	12.2	9.4	5.1	12.8	15.0	9.8	5.6	1.5	-1.0	2.6	5.6
Slovak Republic	..	..	..	..	..	..	..	..	..	18.8	26.6	5.4	1.9	18.6	-5.5	12.8	12.4	2.2	6.2	7.3
Spain	8.4	20.3	27.7	19.2	16.8	9.9	11.5	6.8	-5.7	15.2	11.0	7.5	11.8	13.7	13.9	8.3	4.1	-0.3	6.2	8.8
Sweden	9.2	3.7	8.9	5.4	7.1	0.2	-6.4	-0.8	2.5	14.9	9.0	2.4	10.5	10.3	2.9	12.2	-6.0	-0.8	6.9	7.5
Switzerland	5.5	8.2	5.7	4.7	5.8	2.3	-1.2	-4.3	-1.6	9.5	6.1	1.4	6.8	6.1	8.2	7.4	1.0	-1.0	4.2	5.9
Turkey	7.9	-5.0	14.1	-0.5	5.7	34.2	-2.0	10.6	37.2	-21.1	29.8	30.8	21.9	-1.8	-6.0	33.3	-25.6	11.6	5.8	12.2
United Kingdom	3.8	7.2	6.9	13.8	8.0	0.5	-5.2	6.2	0.4	6.3	6.0	10.1	9.4	9.6	7.6	11.8	3.9	0.6	5.8	8.8
United States[b]	6.3	10.3	4.8	4.1	4.2	3.0	-0.1	9.3	10.1	13.3	9.0	9.4	14.2	11.7	12.2	13.5	-3.3	3.4	6.4	8.1
Total OECD	5.9	7.3	7.1	8.6	7.7	5.6	3.6	4.1	0.4	11.0	8.9	7.0	9.7	8.2	9.0	11.9	-0.6	1.5	6.2	8.0

Note: Regional aggregates are calculated *inclusive* of intra-regional trade. Data are on a national account basis for the United States and France, otherwise from international trade statistics. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

a) Including Luxembourg until 1994.

b) Volume data use hedonic price deflators for certain components.

c) OECD estimates.

Source: OECD.

Annex Table 41. **Export prices (average unit values)**

Total goods, percentage changes from previous year, national currency terms

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	12.5	1.2	4.0	11.8	5.5	1.2	-9.1	2.1	1.3	-2.8	7.4	-4.1	1.8	4.9	-7.0	15.7	9.8	-3.4	-4.3	5.3
Austria	2.6	-4.3	-1.9	4.0	-2.6	-1.9	-4.1	-1.8	-1.4	-1.0	3.7	-6.1	-2.6	-3.3	-8.0	-0.2	1.1	1.0	0.8	1.6
Belgium[a]	1.7	-9.9	-6.1	4.7	7.9	-3.1	-1.9	-1.4	-1.6	1.2	1.8	2.8	5.3	-0.0	-0.6	8.7	2.2	1.0	-0.0	2.2
Canada	0.5	-2.4	1.4	-0.5	1.2	-1.2	-5.3	2.5	4.6	6.0	6.2	-0.0	-1.3	-0.6	1.4	6.3	1.8	-1.9	3.0	1.8
Czech Republic	..	..	..	..	..	..	..	..	..	4.7	7.2	1.0	5.5	3.6	-0.9	6.3	0.3	-8.0	-3.8	0.3
Denmark	3.4	-4.5	-1.0	-0.1	5.6	-1.5	-0.4	-1.7	-3.0	1.9	0.1	1.2	2.0	-0.8	0.4	6.7	2.4	-1.5	0.9	1.3
Finland	2.8	-2.4	2.2	5.2	7.6	-1.2	0.5	6.1	5.3	0.8	6.9	-0.1	1.7	1.6	-4.9	13.4	-1.9	-1.4	1.2	3.2
France[b]	3.7	-4.5	-1.3	2.1	3.7	-1.8	-1.5	-2.3	-3.2	-0.6	0.4	1.7	2.1	-1.9	-1.8	1.6	0.4	-0.9	0.9	1.5
Germany	3.9	-3.3	-2.7	0.9	4.5	-1.1	-0.6	0.7	0.0	1.0	1.7	0.2	1.6	0.0	-1.7	3.9	1.8	-0.7	1.2	1.3
Hungary	..	..	..	..	..	..	..	..	..	18.0	31.2	18.9	15.1	13.1	3.5	9.9	2.1	-4.2	1.1	4.0
Iceland[c]	30.9	-1.0	-5.9	11.3	32.7	2.0	1.4	-2.5	17.6	3.1	-7.3	3.0	4.8	7.7	-1.4	4.7	22.9	4.4	1.3	1.9
Ireland	2.8	-6.8	-0.7	7.1	6.7	-9.4	-0.8	-2.6	7.8	0.2	1.2	-0.8	1.3	2.6	1.5	3.4	5.2	-1.7	-0.3	1.8
Italy	8.0	-4.7	1.2	5.0	6.3	2.1	2.9	0.8	11.3	3.7	9.2	0.8	0.5	0.9	-0.1	5.7	4.0	-2.5	0.4	1.6
Japan	-0.7	-15.4	-6.0	-2.5	7.0	3.6	-0.3	-0.1	-4.6	-1.0	-1.8	6.9	1.9	0.7	-8.0	-0.7	5.6	-2.6	0.0	0.5
Korea	-6.0	-8.4	10.5	8.6	-5.3	2.1	3.1	4.3	-1.5	2.8	2.4	-9.4	8.0	17.1	-17.0	-4.6	-0.8	-0.2	0.0	-0.2
Luxembourg	..	..	..	..	15.7	5.2	-1.0	8.3	11.3	-10.9	2.7	-7.0	0.7	-7.1	16.1	-7.8	5.6	5.4	-5.9	-0.2
Mexico	60.7	35.6	152.2	53.3	18.4	22.2	-2.6	2.5	-3.0	17.9	100.0	20.3	3.1	8.7	8.2	6.5	-3.3	4.8	7.1	2.8
Netherlands	1.3	-17.1	-5.7	0.4	5.0	-1.2	-0.6	-2.9	-3.4	2.0	1.5	0.7	3.0	-2.3	-1.0	8.1	0.5	3.4	0.1	2.1
New Zealand	9.3	-2.6	6.0	6.2	13.3	-1.4	-4.2	8.1	2.7	-4.1	-1.7	-3.5	-2.8	4.6	1.4	17.7	9.0	-7.2	0.5	3.0
Norway	4.9	-24.8	-3.4	-0.1	12.3	4.1	-3.7	-8.4	0.6	-3.7	3.7	7.4	2.2	-11.3	12.6	45.8	-6.1	-1.7	2.8	1.8
Poland	..	..	..	..	..	..	..	..	..	29.0	20.8	8.0	12.7	6.5	8.0	1.1	-6.0	-2.6	-1.2	1.6
Portugal	15.7	3.3	8.4	10.4	5.8	2.9	0.2	-2.2	4.3	5.1	3.0	-1.1	0.4	-0.3	-0.6	4.8	0.5	0.2	0.5	1.8
Slovak Republic	..	..	..	..	..	..	..	..	..	4.7	7.2	3.0	1.2	3.0	5.4	11.1	4.6	-0.3	0.7	4.9
Spain	6.9	-3.9	2.5	5.4	4.6	-1.8	-0.9	1.1	5.1	4.2	6.3	1.0	3.5	-0.2	-0.8	6.1	2.5	-0.3	0.7	1.9
Sweden	3.8	-1.2	3.5	4.5	6.9	2.1	0.2	-3.0	8.4	3.9	5.4	-4.3	0.4	-2.5	-1.8	2.0	3.3	-1.9	-1.0	2.0
Switzerland	2.0	0.5	-1.0	2.2	5.7	1.3	2.4	1.2	0.2	-0.6	-1.8	-0.2	3.8	0.3	1.2	3.4	2.9	-2.2	0.1	0.2
Turkey	35.9	25.7	45.6	59.5	50.4	35.8	58.2	66.9	55.4	163.7	72.1	69.6	77.6	64.0	50.2	24.6	105.0	12.3	27.7	16.0
United Kingdom	5.2	-10.6	3.8	0.4	8.3	4.0	0.6	1.2	9.7	0.4	3.7	1.1	-5.1	-5.7	-3.0	1.2	-0.2	-0.1	1.4	1.8
United States[b]	-5.0	-3.3	2.2	6.5	1.4	-1.0	-0.1	-1.5	-0.5	1.1	2.4	-2.6	-2.7	-3.1	-1.4	1.2	-0.7	-0.3	1.8	1.2
Total OECD	2.9	-5.9	1.8	3.8	5.0	0.8	-0.3	0.2	1.0	2.3	4.5	1.2	1.2	-0.1	-2.1	3.7	2.0	-0.8	1.1	1.5

Note: Regional aggregates are calculated *inclusive* of intra-regional trade. Data are national accounts price deflators in the case of the United States and France.
a) Including Luxembourg until 1994.
b) Certain components are estimated on a hedonic basis.
c) OECD estimates.
Source: OECD.

Annex Table 42. **Import prices (average unit values)**
Total goods, percentage changes from previous year, national currency terms

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	18.7	9.3	6.1	-2.4	-1.0	3.9	1.0	4.6	8.1	-2.4	3.6	-5.4	-0.1	8.4	-2.3	9.2	5.8	-8.9	-7.4	4.8
Austria	3.8	-9.9	-4.1	1.8	3.0	-2.6	3.1	-2.5	-3.5	-1.2	-1.2	-5.2	-3.8	-5.3	-6.7	4.3	1.8	-0.4	0.9	1.6
Belgium[a]	-0.0	-16.2	-7.0	5.7	7.1	-1.8	-1.3	-3.2	-5.8	2.1	3.2	3.3	6.0	-1.6	1.1	9.7	4.0	0.8	0.9	2.6
Canada	1.7	0.1	-1.8	-2.0	-0.3	0.7	-3.3	2.0	5.5	6.1	3.0	-2.5	-0.2	2.9	-0.9	1.5	2.5	0.6	2.4	1.8
Czech Republic	..	..	..	..	..	..	..	..	..	-0.9	5.6	1.3	5.1	-2.0	2.0	11.9	-1.7	-9.4	-3.3	0.9
Denmark	2.4	-9.6	-4.1	1.8	7.1	-2.9	0.0	-2.9	-2.9	2.5	2.4	2.1	3.4	0.9	0.4	7.8	0.8	-1.6	0.4	2.0
Finland	3.0	-10.0	-1.9	2.2	3.6	1.7	2.2	10.5	12.8	-2.9	-1.3	2.6	2.4	0.0	-1.4	14.9	0.7	-2.5	-0.2	1.4
France[b]	0.8	-14.9	-2.3	0.7	6.0	-2.1	-0.7	-3.7	-4.1	0.2	0.4	2.5	1.6	-3.1	-1.9	5.2	-0.4	-2.0	1.0	1.3
Germany	2.5	-15.9	-6.1	0.9	7.4	-2.5	1.9	-2.4	-1.5	0.8	0.5	0.5	3.2	-3.2	-1.4	10.2	-0.2	-3.8	0.9	1.0
Hungary	..	..	..	..	..	..	..	..	..	15.2	30.6	21.3	13.6	11.3	5.5	13.0	2.4	-5.4	0.6	4.1
Iceland[c]	30.9	-1.0	-5.9	11.3	32.7	2.1	1.2	-2.5	17.4	3.3	-7.3	3.0	-1.5	-0.8	0.4	7.5	20.4	3.8	0.4	1.3
Ireland	2.6	-10.7	-0.6	6.6	6.5	-5.0	2.2	-2.0	6.4	1.6	4.5	-1.1	0.5	2.2	4.7	6.7	2.2	-1.5	-1.9	1.0
Italy	7.4	-17.6	-1.5	4.0	7.7	-0.7	-0.8	-0.5	11.7	4.1	12.2	-1.3	1.4	-2.7	-0.9	14.2	2.0	-3.7	0.6	1.9
Japan	-4.4	-36.5	-8.0	-5.4	11.9	10.8	-9.1	-6.9	-12.3	-7.7	-1.4	14.7	6.0	-5.5	-12.2	4.7	5.0	-3.1	2.0	-0.3
Korea	-3.6	-0.2	10.1	3.2	-5.8	4.2	-1.7	3.2	0.8	-0.9	1.7	0.2	10.8	22.6	-15.5	9.5	3.8	-1.8	1.5	-2.1
Luxembourg	..	..	..	..	6.1	-2.6	-3.5	4.7	8.5	3.1	-3.9	2.5	-1.5	-4.7	4.2	0.3	-0.4	0.6	-5.8	0.1
Mexico	70.7	92.1	129.8	69.7	14.2	16.2	6.6	3.3	2.0	11.7	99.7	18.9	4.8	14.7	3.3	1.9	-0.6	3.0	7.9	2.3
Netherlands	0.9	-18.1	-3.0	-0.6	5.2	-1.7	-0.3	-2.7	-3.2	2.0	0.2	0.7	2.6	-2.3	1.0	7.5	-1.4	-1.7	-1.6	0.4
New Zealand	10.5	-2.5	-4.3	-0.8	7.9	0.7	1.0	6.7	-0.6	-3.4	-0.1	-2.7	-0.9	3.8	2.3	16.5	1.2	-3.1	3.0	2.7
Norway	6.5	0.0	2.8	2.9	6.0	0.9	-1.7	-2.1	1.0	0.7	0.9	-0.9	-1.0	1.4	-1.9	4.7	1.5	-5.8	-0.2	2.2
Poland	..	..	..	..	..	..	..	..	..	28.3	18.6	11.2	13.3	2.1	7.2	5.2	-7.9	0.3	1.4	1.9
Portugal	7.3	-8.6	6.1	7.1	7.8	3.3	0.2	-5.1	5.0	3.6	1.8	2.7	0.3	-2.1	-1.3	8.5	1.8	-1.0	0.7	2.0
Slovak Republic	..	..	..	..	..	..	..	..	..	-0.9	5.6	5.5	2.6	-3.4	7.7	14.0	7.7	-3.4	0.9	4.0
Spain	1.2	-19.1	-4.4	-2.1	2.1	-3.4	-2.7	-1.2	5.2	5.8	4.4	0.3	4.1	-2.9	0.0	12.9	-0.7	-2.6	0.8	1.7
Sweden	2.4	-8.3	1.7	3.4	5.2	2.2	-0.6	-2.7	12.0	4.2	0.8	-3.8	0.9	-3.3	1.5	5.0	5.7	0.4	-0.3	2.1
Switzerland	4.4	-9.3	-3.6	4.8	8.1	-0.4	-0.1	2.2	-1.9	-4.9	-2.0	-0.1	5.0	-2.3	-1.9	5.6	0.1	-3.5	0.7	0.6
Turkey	44.3	8.3	37.5	64.6	54.7	30.0	54.6	61.6	50.0	171.5	82.2	65.2	71.5	62.9	53.2	47.1	88.3	29.9	35.3	22.9
United Kingdom	3.9	-5.8	2.7	-0.5	5.9	3.0	-0.5	-0.3	7.8	3.6	6.7	-0.3	-7.1	-7.4	-3.3	0.4	-0.6	-3.2	1.6	1.8
United States[b]	-4.0	-2.2	6.9	4.8	2.8	1.8	-1.4	-0.4	-1.1	0.8	2.7	-2.4	-4.1	-6.0	0.1	4.8	-2.9	-1.6	0.9	0.9
Total OECD	2.0	-10.7	1.2	2.9	5.7	1.4	-0.7	-0.9	0.1	2.1	4.3	1.7	1.5	-1.9	-1.7	6.8	1.0	-1.9	1.1	1.3

Note: Regional aggregates are calculated *inclusive* of intra-regional trade. Data are national accounts price deflators in the case of the United States and France.
a) Including Luxembourg until 1994.
b) Certain components are estimated on a hedonic basis.
c) OECD estimates.
Source: OECD.

Annex Table 43. **Competitive positions: relative unit labour costs**

Indices, 1995 = 100

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Australia	224.3	181.0	164.7	161.6	163.8	149.9	132.9	115.8	101.5	102.9	100.0	103.3	104.8	92.8	90.1	85.6	80.6	85.3
Austria	94.3	109.2	115.6	109.8	103.9	104.2	102.1	103.6	105.8	98.9	100.0	102.0	92.0	81.9	78.9	72.0	70.4	69.9
Belgium	88.6	92.5	95.9	93.4	91.5	97.4	97.2	97.3	96.4	96.9	100.0	94.6	87.9	89.0	89.1	85.4	87.0	89.2
Canada	105.1	99.1	105.3	115.3	119.7	122.2	127.1	116.5	104.9	97.8	100.0	104.5	105.6	101.4	103.3	105.7	108.2	107.0
Czech Republic	..	..	..	..	..	..	..	..	90.2	98.2	100.0	107.1	104.9	115.2	116.6	115.8	118.9	131.0
Denmark	78.4	82.4	90.2	95.4	89.6	97.8	93.8	96.3	101.2	96.9	100.0	104.0	98.5	101.8	103.5	102.8	104.8	107.1
Finland	133.6	128.9	127.6	131.7	138.3	145.5	139.2	108.2	82.3	87.2	100.0	93.8	88.1	88.9	87.0	77.3	80.7	81.6
France	106.7	108.1	107.1	103.0	99.4	105.6	100.9	99.0	101.5	100.4	100.0	99.6	90.8	87.1	84.3	77.8	77.8	78.4
Germany	69.8	77.4	83.5	83.1	80.4	82.9	83.6	89.8	91.5	92.6	100.0	97.3	92.9	94.7	95.9	93.1	92.6	93.7
Greece	102.7	88.0	85.0	93.8	99.7	106.3	97.8	94.3	88.2	92.1	100.0	102.6	105.9	101.1	102.7	98.2	98.3	100.7
Hungary	..	..	..	..	..	..	..	..	122.7	122.2	100.0	92.5	92.5	85.4	85.4	78.1	86.0	97.7
Iceland	92.9	90.3	110.7	120.3	106.6	102.8	112.2	112.9	101.2	99.4	100.0	98.7	104.0	113.0	124.0	134.0	115.7	120.8
Ireland	152.9	163.7	151.1	138.6	127.6	133.0	126.8	123.0	113.0	109.0	100.0	99.0	91.9	85.2	80.8	73.7	71.5	74.3
Italy	135.5	133.9	133.5	130.9	130.7	129.9	133.1	131.3	120.0	114.1	100.0	111.8	114.1	120.2	120.9	113.4	114.9	118.5
Japan	49.6	65.9	69.6	72.0	65.2	60.9	66.2	73.4	89.1	98.6	100.0	84.5	80.6	87.5	98.1	101.2	97.4	92.7
Korea	82.6	65.2	68.4	84.0	99.2	96.6	98.0	90.6	87.3	89.9	100.0	106.9	93.7	64.8	67.4	70.1	65.7	68.9
Luxembourg	110.4	119.2	120.7	109.5	103.5	104.4	102.1	102.0	100.9	99.4	100.0	94.8	94.1	92.5	88.0	87.1	88.7	89.7
Mexico	134.5	103.6	105.0	109.1	120.9	123.0	137.4	153.0	164.7	160.7	100.0	101.7	111.8	108.2	113.6	122.6	131.4	133.4
Netherlands	98.9	106.7	112.5	108.9	101.2	102.6	99.4	102.6	101.6	97.6	100.0	96.6	93.9	97.8	96.7	93.2	96.8	101.4
New Zealand	77.7	80.0	89.9	100.0	92.8	93.0	91.9	82.4	85.4	93.4	100.0	110.9	116.6	107.4	107.0	96.3	94.4	102.8
Norway	93.4	94.1	95.4	100.6	98.9	97.7	95.7	93.7	90.6	94.4	100.0	101.0	107.1	108.8	115.3	118.1	123.5	137.2
Poland	..	..	..	..	..	..	..	..	89.4	95.5	100.0	102.7	102.4	108.0	100.9	100.3	104.5	95.9
Portugal	89.3	87.3	83.7	86.9	94.6	89.8	91.8	100.7	91.5	95.0	100.0	91.3	92.9	94.6	96.9	97.8	100.3	102.3
Slovak Republic	..	..	..	..	..	..	..	..	83.3	89.3	100.0	107.7	125.8	133.9	132.1	146.5	153.2	155.0
Spain	79.3	82.9	84.2	89.5	96.6	108.7	109.7	112.6	102.4	99.2	100.0	104.3	103.8	106.4	106.3	106.9	110.4	112.6
Sweden	127.8	128.9	129.9	134.7	141.3	145.8	148.3	145.5	103.9	97.2	100.0	113.1	108.7	105.8	104.0	102.1	93.7	95.2
Switzerland	69.4	76.6	82.0	83.5	79.0	84.9	85.3	83.6	82.7	91.3	100.0	96.5	92.8	96.0	96.0	95.8	100.6	106.0
Turkey	122.0	97.1	88.5	80.8	122.2	173.4	190.7	172.1	171.3	111.5	100.0	100.2	112.6	125.6	146.7	168.0	120.7	115.5
United Kingdom	112.0	105.9	109.1	116.6	112.6	116.7	120.0	111.2	98.3	100.6	100.0	103.1	125.4	137.8	142.2	144.4	142.6	147.9
United States	169.8	149.8	126.8	117.1	118.0	115.0	112.3	108.2	106.6	105.6	100.0	101.1	106.5	114.8	111.1	115.5	118.0	116.8
Euro area	83.8	94.6	101.9	97.3	92.4	101.1	98.7	103.2	99.3	96.8	100.0	100.3	90.7	92.1	90.5	81.5	83.2	86.8

Note: Competitiveness-weighted relative unit labour costs in the manufactoring sector in dollar terms. Competitiveness weights take into account the structure of competition in both export and import markets of the manufacturing sector of 42 countries. An increase in the index indicates a real effective appreciation and a corresponding deterioration of the competitive position. For details on the method of calculation see Durand, M., C. Madaschi and F. Terribile (1998), "Trends in OECD Countries' International Competitiveness: The Influence of Emerging Market Economies", *OECD Economics Department Working Papers,* No. 195. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

Annex Table 44. **Competitive positions: relative export prices**

Indices, 1995 = 100

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Australia	108.6	98.0	101.0	118.3	123.5	116.3	105.7	96.9	91.1	96.1	100.0	100.4	102.2	95.6	97.5	103.0	97.2	95.4
Austria	103.6	107.8	109.7	112.5	102.7	104.6	99.3	98.5	99.4	96.0	100.0	92.3	86.1	83.6	77.5	72.3	71.8	73.5
Belgium	89.8	93.5	93.1	92.8	95.2	97.3	95.0	95.9	94.0	95.9	100.0	100.2	100.1	102.4	102.1	103.8	105.0	108.2
Canada	100.0	97.3	99.2	102.8	105.6	103.1	100.4	96.3	95.3	95.6	100.0	101.3	102.3	100.1	100.8	102.4	100.3	98.9
Czech Republic	..	..	..	..	..	..	..	..	94.2	98.3	100.0	102.7	103.2	108.3	106.9	108.7	111.4	114.4
Denmark	89.3	96.0	98.6	95.5	93.2	98.7	97.2	98.7	98.7	99.9	100.0	99.6	97.9	100.7	102.5	98.9	99.6	102.0
Finland	88.4	88.6	91.2	94.6	99.3	99.3	98.0	90.1	79.5	85.1	100.0	95.3	94.6	98.6	94.4	100.4	98.3	97.6
France	105.2	108.7	109.1	107.4	104.0	106.8	102.5	103.0	100.3	99.8	100.0	101.7	99.5	99.2	97.5	91.8	90.5	90.9
Germany	80.6	89.9	93.0	90.5	89.1	92.9	91.5	94.9	96.4	96.6	100.0	97.8	93.3	95.2	94.1	91.0	91.1	91.6
Hungary	..	..	..	..	..	..	..	..	103.3	102.4	100.0	101.2	105.7	107.9	107.2	108.1	109.4	112.0
Iceland	175.1	143.9	127.4	120.0	121.2	109.9	111.0	107.6	115.3	111.7	100.0	102.6	122.7	137.8	124.3	130.5	123.0	144.4
Ireland	108.5	110.9	103.7	108.3	108.7	103.9	102.0	104.6	100.9	99.5	100.0	102.4	106.3	106.9	108.0	99.8	106.4	107.7
Italy	101.8	104.1	104.6	100.6	107.4	113.0	114.1	112.6	100.4	98.5	100.0	105.8	105.1	109.0	109.8	108.9	111.6	109.8
Japan	71.7	80.7	79.4	81.5	79.4	74.8	80.4	84.1	94.5	100.7	100.0	92.7	89.7	90.2	98.1	104.4	100.8	93.2
Korea	100.7	87.1	99.6	112.4	123.9	116.6	110.1	103.5	101.3	99.0	100.0	104.1	105.2	84.4	81.2	83.9	80.0	85.2
Luxembourg	71.8	73.9	73.9	74.0	81.0	89.2	88.6	97.6	108.2	96.9	100.0	91.1	87.8	82.2	96.0	84.0	87.0	91.6
Mexico	103.2	100.8	97.4	97.5	95.7	93.8	94.0	91.7	92.2	99.4	100.0	103.6	110.0	113.8	114.5	118.1	119.7	118.0
Netherlands	91.2	91.9	98.6	98.7	95.0	96.6	95.2	95.3	94.9	96.2	100.0	98.7	95.0	95.0	93.7	86.6	87.7	96.1
New Zealand	92.6	88.5	94.6	106.0	104.0	98.7	92.1	89.2	93.0	97.4	100.0	102.1	101.7	92.9	91.7	95.2	99.1	99.7
Norway	99.5	95.6	96.3	111.9	116.3	105.8	100.2	94.8	90.4	89.2	100.0	95.8	95.3	95.3	94.5	97.8	97.8	102.7
Poland	..	..	..	..	..	..	..	..	100.8	99.3	100.0	100.2	102.4	106.3	108.0	107.6	106.6	98.8
Portugal	108.7	106.9	104.9	104.9	100.4	101.7	103.6	105.5	100.5	99.6	100.0	98.6	95.0	94.4	94.5	93.9	92.6	93.3
Slovak Republic	..	..	..	..	..	..	..	..	102.7	99.7	100.0	101.9	104.1	106.6	103.6	111.5	114.5	118.7
Spain	104.0	106.7	107.0	113.3	111.4	111.5	112.9	112.4	106.1	100.1	100.0	100.8	101.0	101.5	100.4	100.2	105.9	110.7
Sweden	104.8	107.4	109.0	110.7	112.5	113.2	114.4	113.1	98.1	98.9	100.0	105.6	100.8	97.8	96.3	93.9	87.6	88.3
Switzerland	74.5	84.5	88.4	88.0	83.9	90.7	92.5	91.7	93.7	99.5	100.0	99.4	97.0	101.8	104.6	103.9	110.5	114.5
Turkey	142.2	112.7	119.9	108.8	106.5	104.9	104.7	102.3	101.0	98.6	100.0	97.2	99.2	96.7	95.8	85.0	93.6	76.6
United Kingdom	100.8	96.8	97.8	102.7	101.3	103.3	104.9	102.8	102.4	104.1	100.0	101.5	110.4	111.2	108.0	105.6	102.4	103.0
United States	151.4	134.1	123.5	119.3	119.5	114.9	114.5	111.3	112.6	108.7	100.0	98.9	101.4	105.1	105.4	106.6	109.9	109.8

Note: Competitiveness-weighted relative export prices in the manufactoring sector in dollar terms. Competitiveness weights take into account the structure of competition in both export and import markets of the manufacturing sector of 42 countries. An increase in the index indicates a real effective appreciation and a corresponding deterioration of the competitive position. For details on the method of calculation see Durand, M., C. Madaschi and F. Terribile (1998), "Trends in OECD Countries' International Competitiveness: The Influence of Emerging Market Economies", *OECD Economics Department Working Papers,* No. 195. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD.

Annex Table 45. **Export performance for total goods**

Total goods, percentage changes from previous year

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	7.1	2.3	-1.9	-8.9	-1.9	2.0	11.0	0.5	2.7	-4.6	-5.5	8.3	3.0	-1.4	0.0	-1.7	2.9	0.3	-0.7	-0.8
Austria	5.0	-4.7	-3.7	0.7	6.8	3.2	0.9	2.5	-0.1	0.4	0.0	5.2	9.2	1.5	7.6	2.7	2.5	2.7	-0.6	-0.9
Belgium[a]	0.5	-1.0	0.3	-1.0	0.5	-3.3	-1.2	-2.5	10.6	0.2	-2.3	-2.9	-1.4	-3.6	-1.6	-1.6	-0.4	-0.8	-1.5	-1.6
Canada	-0.9	-2.8	-1.3	2.5	-4.0	4.0	1.5	-0.9	1.4	0.6	1.2	-2.3	-2.9	-0.8	-0.4	-4.3	-0.6	-1.4	-0.6	-0.3
Czech Republic	..	..	..	..	..	..	..	..	..	-5.1	2.7	-4.8	4.9	2.6	3.3	5.5	9.0	4.3	0.1	1.8
Denmark	-0.0	-3.5	-2.7	2.3	1.3	1.6	2.7	2.4	1.4	-1.9	-0.9	-3.9	-1.4	-5.6	1.9	-0.9	2.7	4.6	-0.7	-0.4
Finland	-2.7	-5.0	-3.8	-2.6	-6.2	-0.7	-12.0	7.6	20.0	8.4	-10.4	-3.2	0.9	-0.0	0.0	-3.4	-2.3	-0.9	-0.3	0.2
France	1.7	-4.4	-1.0	1.2	1.2	-1.9	-1.3	1.1	2.1	-1.4	0.7	-3.6	1.6	-0.1	-1.9	0.9	-0.6	0.5	-1.4	-0.4
Germany	1.5	-4.5	-3.3	-1.9	0.3	-3.1	-1.3	-2.5	-7.7	-1.7	-2.7	-0.1	-0.1	-2.8	-0.9	-0.2	3.8	0.2	-1.6	-0.6
Hungary	..	..	..	..	..	..	..	..	..	8.3	0.1	16.8	18.1	12.8	12.9	10.4	4.0	5.5	0.4	2.4
Iceland	10.5	27.4	18.5	0.2	-6.4	9.7	-3.4	-6.1	-4.3	4.0	7.6	0.4	-5.0	-7.3	4.0	-8.0	4.2	6.9	-2.7	-1.8
Ireland	2.2	-0.8	8.6	-3.1	3.7	3.6	3.2	8.3	12.2	6.0	10.8	2.6	3.9	14.4	7.4	7.8	3.4	5.6	-0.3	0.3
Italy	3.9	-5.0	-1.8	0.8	-1.8	-4.3	-4.3	0.1	12.4	2.4	-1.2	-2.3	-5.3	-6.6	-4.8	-2.6	-0.8	-1.5	-1.1	-0.9
Japan	-0.5	-6.0	-6.3	-5.8	-3.7	-0.5	-5.3	-6.3	-9.7	-10.5	-6.6	-6.2	0.6	-3.8	-7.7	-6.8	-8.4	3.9	-1.6	-4.0
Korea	3.9	10.7	11.9	6.8	-12.9	2.6	5.9	1.8	0.5	2.8	7.7	-2.1	1.2	24.4	2.3	-0.8	-4.2	2.0	2.1	0.8
Luxembourg	..	..	..	..	-3.3	-10.3	-2.5	-13.9	-11.4	11.9	-5.0	2.9	1.7	16.2	-15.8	13.6	-0.1	-11.0	-8.4	-8.6
Mexico	-7.3	1.3	5.0	9.4	3.2	7.5	10.2	-2.2	3.8	-3.9	16.7	8.3	0.4	-0.5	2.2	1.5	0.2	-1.1	0.2	-0.4
Netherlands	2.4	-2.0	-1.1	2.8	-0.2	-0.8	-0.1	-0.2	3.7	-2.2	0.3	-0.2	-1.0	0.1	1.1	-0.3	4.8	-3.1	-1.3	0.4
New Zealand	9.0	-1.6	-5.1	-4.5	-11.6	4.4	8.7	-3.7	-0.3	0.7	-5.4	-0.1	0.0	-2.0	-2.6	-3.3	3.3	1.6	-0.1	-0.3
Norway	0.2	-5.1	6.3	-0.8	9.1	2.6	3.4	3.6	5.3	4.5	-0.2	6.8	-1.9	-4.5	-1.2	-5.0	3.2	-2.2	-6.5	-5.5
Poland	..	..	..	..	..	..	..	..	..	8.0	7.2	3.8	4.4	0.1	-1.1	12.6	14.3	4.2	3.5	2.5
Portugal	6.4	1.5	4.0	-0.3	11.5	4.8	-4.1	3.9	0.2	4.4	6.3	4.4	0.9	-3.6	-3.3	-1.3	-0.5	2.0	-0.6	-0.2
Slovak Republic	..	..	..	..	..	..	..	..	..	-7.0	-0.4	-3.0	-7.0	4.2	4.8	2.1	-0.9	-0.5	-0.7	-0.8
Spain	-2.1	-13.0	-0.2	-0.3	-0.1	-1.3	3.5	1.8	11.6	12.1	2.9	7.2	2.9	-1.5	0.9	0.1	-2.8	-4.0	-1.4	0.1
Sweden	-1.9	-3.7	-2.1	-2.7	-4.3	-4.6	-5.0	-2.4	9.9	5.2	1.6	-1.2	1.0	0.1	0.4	-0.3	-5.2	2.9	-0.5	-1.0
Switzerland	6.0	-4.2	-4.7	-0.8	-2.2	-2.3	-7.1	0.5	2.5	-6.3	-4.8	-3.4	-3.5	-4.9	-3.1	-6.1	0.9	-0.6	-3.4	-2.6
Turkey	15.8	-22.8	18.8	3.9	-4.8	-2.7	3.3	5.9	11.6	11.9	-4.1	6.9	10.1	-0.3	2.6	7.3	1.3	5.1	-1.3	3.4
United Kingdom	3.2	-0.9	1.3	-3.0	-1.1	0.5	-3.7	-2.0	1.1	2.6	1.3	2.5	-1.7	-6.7	-2.0	-0.8	1.8	-2.7	-3.1	-0.3
United States	0.7	0.8	8.5	5.2	4.0	3.1	0.0	-0.6	-2.1	-2.2	3.3	1.5	3.4	-1.4	-2.5	-1.2	-5.0	-5.6	-1.0	-0.0
Total OECD	1.4	-3.3	-0.7	-0.4	-0.4	-0.4	-1.3	-1.2	-0.2	-1.4	-0.2	-0.5	0.5	-1.2	-1.5	-1.2	-0.8	-0.6	-1.3	-0.8
Memorandum items																				
China	14.5	6.2	2.0	0.7	-2.9	0.4	8.2	10.1	2.7	19.3	-6.7	6.9	16.7	8.2	1.5	12.4	13.1	11.3	4.1	2.3
Dynamic Asia[b]	-4.1	15.1	10.0	4.5	2.3	4.3	5.1	3.5	3.6	2.4	0.4	-1.3	-0.8	0.6	-4.1	-0.9	-6.3	-1.7	5.5	2.8
Other Asia	-3.1	5.2	3.8	-1.8	5.7	5.2	1.0	7.3	7.9	1.1	6.6	5.6	-4.5	1.6	1.6	2.0	2.6	1.0	0.9	0.6
Non-OECD Asia	-1.0	12.4	8.0	3.3	1.7	3.7	5.3	5.0	3.9	5.2	-0.5	0.7	2.3	2.2	-2.5	2.3	-0.9	2.0	4.6	2.4
Latin America	0.6	-8.6	-2.0	6.5	2.4	-2.9	-1.6	-4.1	3.5	-4.3	-6.8	1.4	-0.1	2.0	-0.4	0.3	2.9	1.2	-0.1	-0.2
Africa and Middle-East	-0.7	21.0	-8.9	-1.2	-0.7	-6.0	0.4	-0.9	1.7	-5.3	-6.9	8.3	1.4	0.7	-1.2	-6.8	-0.2	0.3	0.7	0.5
Central and Eastern Europe	-8.4	2.1	-1.1	-3.8	-4.1	-3.5	-13.1	-13.4	-1.0	11.9	0.2	-3.6	-12.4	-2.5	4.8	-6.2	-0.3	0.1	-1.8	-2.5
Total of non-OECD countries	-3.2	8.4	-0.4	0.3	-0.2	-1.1	-0.1	-0.1	2.7	2.4	-2.4	1.6	0.2	1.4	-1.2	-0.2	-0.4	1.4	2.9	1.5
World	0.3	-0.4	-0.6	-0.2	-0.4	-0.6	-1.0	-0.9	0.5	-0.4	-0.8	0.0	0.4	-0.5	-1.4	-0.9	-0.7	-0.0	-0.1	-0.1

Note: Regional aggregates are calculated *inclusive* of intra-regional trade. Export performance is the ratio between export volumes and export markets for total goods. The export volume concept employed is the sum of the exports of non-manufactured goods and manufactures. The calculation of export markets is based on a weighted average of import volumes in each exporting country's markets, with weights based on trade flows in 1995. The export markets for total goods facing each country is calculated as the weighted sum of the individual export markets for non-manufactured goods and manufactures, where the weights correspond to the commodity export structure of the exporting country in 1995.

a) Including Luxembourg until 1994.

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

Source: OECD.

Annex Table 46. **Shares in World exports and imports**

Percentage, values for total goods, customs basis

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
A. Exports																				
Canada	4.8	4.5	4.2	4.3	4.2	3.9	3.8	3.7	4.0	4.0	3.9	3.9	4.1	4.2	4.5	4.6	4.5	4.2	4.2	4.1
France	5.4	6.1	6.1	6.1	5.9	6.4	6.2	6.3	5.7	5.6	5.7	5.5	5.4	5.8	5.5	4.9	5.0	5.1	5.1	5.0
Germany	10.2	12.3	12.7	12.2	11.8	12.2	11.7	11.8	10.4	10.2	10.5	10.3	9.7	10.3	9.9	8.9	9.6	9.8	9.9	9.8
Italy	4.2	4.8	4.8	4.7	4.7	5.0	4.9	4.8	4.5	4.5	4.6	4.7	4.3	4.5	4.2	3.8	4.0	3.9	3.9	3.9
Japan	9.7	10.5	9.8	9.8	9.4	8.7	9.3	9.4	9.9	9.6	8.9	7.9	7.9	7.3	7.6	7.8	6.8	6.7	6.6	6.4
United Kingdom	5.4	5.2	5.4	5.3	5.1	5.4	5.3	5.1	4.8	4.9	4.8	5.0	5.1	5.1	4.8	4.6	4.6	4.5	4.4	4.4
United States	11.4	10.6	10.2	11.3	11.9	11.3	11.7	11.6	11.8	11.5	11.0	11.1	12.0	12.1	11.9	11.9	11.6	10.8	10.4	10.4
Other OECD countries	19.5	20.4	21.4	21.7	21.3	22.1	21.9	21.9	22.2	22.5	23.4	23.6	23.2	24.3	24.3	23.5	24.2	24.9	24.7	24.7
Total OECD	70.6	74.4	74.7	75.3	74.4	75.0	74.8	74.7	73.4	72.7	72.8	72.1	71.6	73.5	72.8	70.0	70.3	69.9	69.1	68.7
Non-OECD Asia	9.9	9.8	10.6	11.3	11.8	11.8	13.1	14.1	15.5	16.3	16.3	16.4	16.8	16.2	16.6	17.7	17.3	17.9	18.8	19.5
Latin America	4.5	3.7	3.3	3.4	3.4	3.2	3.0	2.9	3.0	3.0	2.9	3.0	3.2	3.1	2.9	3.1	3.1	3.0	3.0	3.0
Other non-OECD countries	15.0	12.1	11.4	10.1	10.4	10.1	9.0	8.3	8.1	8.0	7.9	8.5	8.4	7.3	7.7	9.2	9.3	9.1	9.1	8.8
Total of non-OECD countries	29.4	25.6	25.3	24.7	25.6	25.0	25.2	25.3	26.6	27.3	27.2	27.9	28.4	26.5	27.2	30.0	29.7	30.1	30.9	31.3
B. Imports																				
Canada	3.7	3.7	3.4	3.6	3.6	3.3	3.2	3.1	3.4	3.3	3.1	3.1	3.4	3.5	3.6	3.6	3.4	3.3	3.3	3.3
France	5.6	6.1	6.4	6.3	6.3	6.7	6.4	6.3	5.4	5.4	5.5	5.2	4.9	5.3	5.1	4.8	4.8	4.8	5.0	5.0
Germany	8.3	9.1	9.4	9.0	8.9	10.1	10.9	10.7	9.1	8.9	9.0	8.7	8.1	8.6	8.3	7.7	7.9	7.6	7.7	7.6
Italy	4.4	4.4	4.7	4.5	4.7	4.9	4.8	4.6	3.7	3.7	3.8	3.6	3.5	3.7	3.6	3.4	3.5	3.4	3.4	3.3
Japan	6.1	5.5	5.5	6.0	6.2	6.1	6.0	5.5	5.8	5.8	5.9	5.9	5.6	4.6	4.9	5.4	5.1	4.6	4.5	4.2
United Kingdom	5.6	5.9	6.2	6.7	6.5	6.4	5.9	5.8	5.4	5.3	5.2	5.4	5.6	5.8	5.7	5.3	5.4	5.3	5.3	5.3
United States	18.1	17.8	17.1	16.3	16.1	14.9	14.3	14.6	16.1	16.1	15.1	15.4	16.5	17.4	18.8	19.8	19.2	18.9	18.1	18.0
Other OECD countries	20.3	21.6	22.8	23.1	23.3	24.4	24.1	23.9	23.6	23.8	24.4	24.9	24.3	24.8	24.9	24.0	24.1	24.6	24.5	24.5
Total OECD	72.1	74.0	75.5	75.3	75.6	76.7	75.6	74.6	72.4	72.4	72.0	72.3	71.8	73.8	75.1	74.0	73.4	72.6	71.7	71.2
Non-OECD Asia	10.2	9.6	9.9	11.2	11.6	11.4	12.6	13.8	15.9	16.2	16.5	16.1	16.0	14.1	14.5	15.9	15.5	16.3	17.1	17.8
Latin America	3.7	3.8	3.5	3.1	3.0	2.8	3.0	3.3	3.6	3.8	3.8	3.9	4.4	4.5	3.7	3.6	3.7	3.5	3.4	3.4
Other non-OECD countries	13.9	12.6	11.1	10.4	9.8	9.1	8.8	8.3	8.1	7.6	7.7	7.8	7.8	7.6	6.7	6.5	7.4	7.6	7.7	7.7
Total of non-OECD countries	27.9	26.0	24.5	24.7	24.4	23.3	24.4	25.4	27.6	27.6	28.0	27.7	28.2	26.2	24.9	26.0	26.6	27.4	28.3	28.8

Note: Regional aggregates are calculated *inclusive* of intra-regional trade.
Source: OECD.

Annex Table 47. **Trade balances**

$ billion

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	-1.0	-1.9	0.5	-0.7	-3.4	0.4	3.5	1.6	-0.1	-3.3	-4.2	-0.6	1.8	-5.4	-9.7	-4.7	1.9	0.2	2.3	2.3
Austria	-3.1	-4.0	-4.8	-4.8	-5.6	-7.0	-8.6	-7.7	-6.5	-7.9	-6.7	-7.3	-4.3	-3.7	-3.6	-2.7	-1.3	2.9	3.4	3.9
Belgium[a]	1.2	3.2	2.4	3.9	3.6	3.2	3.6	5.4	7.4	8.7	11.8	10.5	9.4	9.3	9.5	4.9	6.0	8.0	7.0	7.0
Canada	11.9	7.2	9.2	8.8	6.5	9.5	6.1	7.4	10.2	14.8	25.8	31.1	18.6	16.0	27.1	41.8	41.4	35.8	38.3	41.2
Czech Republic	..	..	..	..	..	..	..	..	-0.5	-1.4	-3.7	-5.7	-5.0	-2.6	-1.9	-3.1	-3.1	-2.2	-2.6	-2.9
Denmark	-0.7	-1.0	0.8	2.4	2.7	5.0	5.1	7.4	7.8	7.6	6.7	7.7	5.8	3.8	6.7	6.8	6.8	8.1	9.2	9.8
Finland	1.0	1.8	1.6	1.3	-0.1	0.9	2.4	4.0	6.4	7.7	12.4	11.3	11.6	12.5	12.2	13.7	12.7	14.2	16.6	19.3
France	-5.0	-1.4	-7.8	-7.6	-10.3	-13.3	-9.7	2.4	7.2	7.2	11.0	15.1	26.6	25.4	17.6	-3.2	3.2	10.7	1.2	-1.4
Germany	28.3	54.6	67.6	76.3	74.9	68.4	19.5	28.2	41.2	50.9	65.1	70.6	71.3	77.8	70.9	58.4	89.5	123.6	140.6	154.7
Greece	-6.6	-5.9	-7.2	-8.0	-9.6	-13.2	-13.1	-15.0	-13.6	-14.7	-18.7	-20.0	-19.1	-17.1	-18.8	-20.5	-19.1	-20.8	-24.2	-25.9
Hungary	..	..	..	..	..	..	..	..	-3.3	-3.6	-2.4	-2.7	-2.0	-2.4	-2.2	-1.8	-2.0	-3.5	-4.5	-5.3
Iceland	-0.0	0.1	-0.1	-0.0	0.1	0.1	-0.0	0.0	0.2	0.3	0.2	0.0	0.0	-0.4	-0.3	-0.5	-0.1	0.2	0.2	0.1
Ireland	0.6	1.1	2.6	3.8	4.0	3.9	4.3	7.0	8.1	9.3	13.5	15.7	18.6	20.0	24.3	25.9	30.7	32.8	37.8	42.4
Italy	-5.4	4.8	0.1	-0.8	-2.7	-1.8	-2.5	-1.0	29.5	31.4	38.8	54.0	40.0	36.5	23.5	10.0	16.0	17.5	22.1	27.3
Japan	54.9	90.7	91.3	92.3	80.3	69.2	96.2	124.7	139.4	144.1	132.1	83.7	101.6	122.5	123.3	116.6	70.3	98.5	115.1	130.3
Korea	-0.0	4.3	7.5	11.3	4.4	-2.5	-6.8	-1.8	2.3	-2.9	-4.4	-15.0	-3.2	41.6	28.4	16.9	13.4	10.8	11.0	18.6
Luxembourg	..	..	..	..	..	..	..	..	..	..	-1.7	-1.9	-2.0	-2.3	-2.6	-2.4	-2.4	-1.9	-3.2	-4.8
Mexico	8.4	5.0	8.8	2.6	0.4	-0.9	-7.3	-15.9	-13.5	-18.5	7.1	6.5	0.6	-7.9	-5.6	-8.0	-9.9	-9.7	-13.8	-18.5
Netherlands	6.8	7.4	6.3	10.1	9.8	12.0	12.0	12.3	16.9	18.7	23.8	22.8	21.0	20.4	16.1	17.6	19.5	30.7	37.7	43.4
New Zealand	-0.0	0.1	0.6	2.2	1.0	0.9	2.1	1.6	1.7	1.4	0.8	0.5	0.9	0.9	-0.4	0.7	1.5	1.0	1.0	1.4
Norway	3.0	-3.8	-2.6	-2.1	1.1	4.6	6.0	8.3	6.9	7.5	8.7	13.0	11.7	2.1	10.7	26.0	26.0	29.8	32.3	32.3
Poland	..	..	..	..	..	..	..	..	-2.5	-0.6	-1.6	-7.3	-9.8	-12.8	-15.1	-12.3	-7.7	-8.8	-12.2	-14.1
Portugal	-1.4	-1.6	-3.5	-5.3	-4.7	-6.6	-7.6	-9.3	-8.0	-8.2	-8.9	-9.2	-9.9	-12.2	-13.8	-14.0	-13.4	-12.4	-12.8	-13.0
Slovak Republic	..	..	..	..	..	..	..	..	-0.9	0.1	-0.2	-2.3	-2.1	-2.4	-1.1	-0.9	-2.1	-1.8	-2.1	-1.9
Spain	-4.7	-7.2	-13.7	-18.7	-25.4	-29.1	-30.4	-30.4	-15.1	-14.8	-18.4	-16.3	-13.5	-20.7	-30.4	-35.0	-31.6	-30.3	-35.9	-40.2
Sweden	2.4	5.1	4.5	4.8	4.0	3.4	6.3	6.2	7.2	9.4	16.9	18.7	19.0	17.5	16.7	15.0	13.6	15.5	16.3	17.6
Switzerland	-3.9	-4.3	-6.0	-6.3	-7.4	-7.1	-6.0	-1.0	1.7	1.6	0.9	0.9	-0.3	-1.6	-0.2	-2.5	-2.7	2.8	1.8	1.5
Turkey	-3.0	-3.1	-3.2	-1.8	-4.2	-9.6	-7.3	-8.2	-14.2	-4.2	-13.2	-10.6	-15.4	-14.2	-10.4	-22.4	-4.5	-11.1	-14.1	-18.9
United Kingdom	-4.2	-14.1	-19.4	-38.3	-40.6	-32.8	-18.2	-22.8	-19.6	-17.0	-19.0	-21.4	-20.2	-36.2	-44.3	-45.9	-48.3	-45.1	-58.3	-67.2
United States	-122.2	-145.1	-159.6	-127.0	-117.7	-111.0	-76.9	-96.9	-132.5	-165.8	-174.2	-191.0	-198.1	-246.7	-346.0	-452.4	-427.2	-477.5	-504.4	-542.2
Euro area	11.5	52.9	43.6	50.3	34.1	17.6	-30.2	-4.1	73.5	88.3	122.1	145.3	149.8	145.8	104.8	52.7	109.8	174.9	190.3	212.5
European Union	9.0	42.8	29.5	19.2	0.2	-6.8	-36.9	-13.3	69.0	88.2	126.7	150.3	154.3	131.0	83.8	28.6	81.9	153.4	157.5	172.7
Total OECD	-43.0	-8.0	-24.0	-1.5	-38.8	-53.2	-27.3	6.6	64.0	57.7	98.3	50.8	53.7	17.7	-119.6	-278.1	-223.0	-182.0	-194.1	-203.4

a) Including Luxembourg until 1994.
Source: OECD.

Annex Table 48. **Non-factor services, net**
$ billion

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	-3.5	-2.9	-2.6	-2.4	-4.3	-3.6	-2.5	-2.6	-1.5	-1.3	-1.0	-0.0	-0.4	-1.1	-0.9	0.3	-0.5	-1.2	-1.5	-1.3
Austria	3.3	5.0	5.5	5.4	6.8	9.1	10.1	9.4	7.5	7.3	4.6	4.6	1.0	2.4	1.8	1.6	1.3	-0.1	0.1	0.2
Belgium[a]	0.2	0.5	1.1	0.7	-0.8	0.0	-0.2	0.5	1.1	1.2	0.1	0.4	1.4	1.0	1.0	1.7	1.4	1.8	3.8	4.8
Canada	-4.1	-4.1	-4.6	-5.4	-6.9	-9.1	-10.0	-10.1	-10.5	-8.5	-7.4	-6.7	-6.4	-4.3	-4.8	-5.0	-5.4	-4.3	-3.8	-3.3
Czech Republic	..	..	..	..	..	..	..	..	1.0	0.5	1.8	1.9	1.8	1.9	1.2	1.4	1.5	1.4	1.8	2.2
Denmark	0.7	0.3	0.5	0.8	0.7	1.8	2.8	2.3	1.6	0.5	0.7	1.3	0.1	-0.3	1.6	2.3	3.4	2.6	3.5	3.9
Finland	-0.5	-0.8	-1.3	-1.8	-2.3	-3.2	-3.6	-2.9	-2.2	-1.8	-2.2	-1.7	-1.6	-1.1	-1.4	-2.4	-2.1	-2.3	-2.4	-2.4
France	9.6	10.0	10.4	10.7	13.6	14.9	16.6	19.5	17.3	17.8	14.3	15.1	16.5	17.6	18.5	19.9	17.7	20.5	25.8	29.7
Germany	-4.5	-7.0	-10.7	-14.4	-13.7	-18.6	-22.6	-31.6	-33.8	-41.1	-47.0	-45.4	-42.5	-47.0	-53.0	-50.8	-52.0	-45.7	-51.4	-54.2
Greece	2.4	2.9	4.0	4.5	4.1	5.7	6.2	7.2	6.8	7.7	7.9	7.6	7.2	7.0	7.6	8.3	7.9	8.3	9.8	10.7
Hungary	..	..	..	..	..	..	..	..	0.2	0.2	0.6	1.5	2.3	1.8	1.4	1.8	2.2	1.2	1.5	1.7
Iceland	0.0	0.1	0.0	-0.0	0.0	0.0	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0	-0.0	-0.1	-0.1	0.0	-0.0	0.0	0.0
Ireland	-0.3	-0.6	-1.0	-1.4	-1.8	-1.7	-2.0	-3.1	-3.0	-4.1	-6.3	-7.7	-9.0	-10.1	-11.1	-12.9	-15.6	-16.5	-20.0	-23.5
Italy	3.4	3.4	3.5	1.6	2.5	3.6	3.3	0.6	3.2	5.2	6.4	7.2	7.9	4.8	1.2	0.9	0.2	-6.2	-7.2	-6.8
Japan	-9.6	-12.9	-20.4	-30.3	-36.7	-42.9	-41.9	-44.0	-43.0	-48.0	-57.3	-62.3	-54.1	-49.5	-54.1	-47.6	-43.8	-39.5	-39.2	-41.0
Korea	0.5	1.4	2.3	2.3	0.4	-0.6	-2.2	-2.9	-2.1	-1.8	-3.0	-6.2	-3.2	1.0	-0.7	-2.9	-3.5	-4.7	-6.4	-11.0
Luxembourg	..	..	..	..	..	..	..	..	..	..	3.1	3.4	3.9	4.2	4.7	6.7	6.2	6.6	7.1	8.1
Mexico	-0.6	-0.4	0.3	0.0	-0.5	-1.9	-1.8	-2.3	-2.1	-2.0	0.7	0.4	-0.7	-0.9	-1.8	-2.3	-3.6	-3.9	-4.4	-5.4
Netherlands	-1.2	-1.3	-1.5	-2.3	-1.4	-0.4	-0.8	-0.1	-0.1	0.2	1.1	2.0	3.2	2.5	2.5	-0.7	-2.0	-2.1	-4.2	-6.2
New Zealand	-0.3	-0.5	-0.5	-0.6	-0.8	-0.8	-0.8	-0.9	-0.6	-0.3	-0.2	-0.3	-0.7	-0.7	-0.2	-0.1	0.1	0.6	0.6	0.7
Norway	1.8	1.2	0.6	1.6	2.6	3.2	3.5	0.4	0.8	0.2	0.5	1.4	1.5	0.7	1.0	1.9	2.6	2.7	3.2	3.6
Poland	..	..	..	..	..	..	..	..	0.4	2.8	3.5	3.4	3.2	4.2	1.4	1.4	0.8	1.4	2.8	3.3
Portugal	0.6	0.8	1.0	0.7	0.9	1.0	0.8	0.6	1.3	1.2	1.5	1.4	1.5	1.9	1.9	1.9	2.6	2.9	3.7	4.3
Slovak Republic	..	..	..	..	..	..	..	..	0.3	0.7	0.5	0.0	0.1	0.2	0.2	0.4	0.5	0.4	0.6	0.6
Spain	8.1	11.8	13.4	13.9	12.7	11.9	12.1	12.4	11.7	14.9	18.6	20.4	20.0	21.9	23.0	22.3	24.3	25.1	28.8	31.4
Sweden	-0.6	-1.8	-1.7	-2.2	-3.0	-3.3	-2.6	-2.3	0.1	0.2	-0.6	-1.3	-1.8	-2.6	-2.3	-2.7	-0.9	-0.2	-0.5	-0.8
Switzerland	4.8	6.6	8.3	8.3	8.0	9.4	10.3	10.7	11.4	11.5	12.9	12.4	13.1	13.5	14.4	15.2	14.3	16.2	18.3	19.6
Turkey	1.5	1.6	2.1	3.7	3.9	4.9	5.2	5.8	6.7	7.0	9.6	6.6	10.9	13.5	7.4	11.3	9.1	10.4	10.7	13.1
United Kingdom	8.6	9.5	11.1	7.9	6.0	7.7	7.2	9.6	9.9	9.8	13.4	15.0	20.5	21.0	19.1	18.0	15.1	16.5	19.2	19.7
United States	0.3	6.5	7.9	12.4	24.6	30.2	45.8	60.4	63.7	69.2	77.8	89.2	90.4	79.8	83.8	73.7	68.9	41.2	37.6	34.2
Euro area	21.2	24.7	24.6	17.6	20.7	22.2	19.9	12.6	9.9	8.5	2.2	7.3	9.4	5.1	-3.3	-3.6	-10.0	-7.6	-6.2	-3.7
European Union	30.0	32.7	34.6	24.1	24.4	28.4	27.2	22.1	21.5	19.0	15.7	22.4	28.2	23.1	15.0	14.1	7.7	11.3	16.1	19.1
Total OECD	20.8	29.2	28.1	13.7	14.8	17.1	32.9	36.8	46.0	49.1	54.9	63.8	85.8	83.2	63.2	63.6	50.9	33.2	37.8	36.2

Note: The classification of non-factor services and investment income is affected by the change in reporting system to the International Monetary Fund, *Fifth Balance of Payments Manual*.
a) Including Luxembourg until 1994.
Source: OECD.

Annex Table 49. **Investment income, net**

$ billion

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	-4.5	-4.9	-5.8	-8.6	-10.4	-13.2	-12.2	-10.1	-8.1	-12.4	-14.0	-15.2	-13.8	-11.4	-11.6	-10.8	-10.2	-11.7	-13.6	-14.1
Austria	-0.2	-0.6	-0.8	-0.9	-0.9	-0.9	-1.4	-1.4	-1.5	-1.7	-2.4	-0.9	-1.5	-2.0	-2.9	-2.5	-3.0	-2.8	-3.4	-3.9
Belgium[a]	0.9	1.2	1.5	1.7	3.4	4.0	4.9	5.4	6.0	6.4	6.4	6.0	5.7	6.5	6.2	6.1	5.3	8.9	9.6	9.8
Canada	-12.8	-14.0	-17.1	-17.5	-20.5	-19.4	-17.4	-17.5	-20.8	-18.9	-22.7	-21.5	-20.9	-20.0	-21.6	-19.1	-17.8	-18.7	-18.4	-18.5
Czech Republic	..	..	..	..	..	..	..	..	-0.1	-0.0	-0.1	-0.7	-0.8	-1.1	-1.4	-1.4	-1.5	-2.5	-2.9	-3.3
Denmark	-2.6	-3.5	-4.1	-3.7	-3.8	-5.1	-5.1	-4.9	-3.8	-3.8	-3.8	-3.7	-3.4	-2.8	-2.3	-3.6	-3.5	-3.4	-4.1	-4.4
Finland	-1.0	-1.3	-1.6	-1.7	-2.7	-3.7	-4.7	-5.4	-4.9	-4.4	-4.4	-3.6	-2.4	-3.1	-2.0	-1.8	-2.1	-1.4	-2.2	-2.1
France	-2.3	-1.7	-1.7	-1.0	-0.3	-1.6	-3.3	-6.0	-6.6	-6.0	-8.4	-1.9	7.4	9.1	18.9	13.8	14.8	10.1	11.0	11.9
Germany	4.7	5.3	5.2	9.4	14.3	20.6	20.3	21.8	16.6	2.9	0.1	1.0	-1.4	-7.2	-9.5	-3.0	-11.3	-10.9	-9.6	-8.5
Greece	-1.3	-1.5	-1.6	-1.7	-1.8	-1.9	-1.9	-2.3	-1.6	-1.4	-1.8	-2.0	-1.7	-1.6	-0.7	-0.9	-1.8	-1.9	-1.8	-2.1
Hungary	..	..	..	..	..	..	..	..	-1.2	-1.4	-1.8	-1.5	-1.4	-1.9	-1.7	-1.6	-1.5	-1.5	-1.4	-1.3
Iceland	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.2	-0.2	-0.3
Ireland	-2.1	-2.6	-3.1	-3.9	-4.3	-5.0	-4.6	-5.6	-5.3	-5.4	-7.3	-8.2	-9.7	-10.6	-14.0	-13.7	-15.8	-16.9	-19.8	-21.3
Italy	-2.7	-4.2	-4.9	-5.5	-7.2	-14.6	-17.5	-22.0	-17.4	-16.9	-15.9	-15.4	-10.1	-10.9	-11.2	-12.0	-10.3	-12.0	-12.7	-13.1
Japan	6.8	9.3	16.3	20.6	22.9	22.7	26.0	35.7	40.7	40.4	44.1	53.4	58.1	54.7	57.8	60.3	69.1	73.1	84.4	87.5
Korea	-2.1	-2.3	-1.6	-1.3	-0.6	-0.1	-0.2	-0.4	-0.4	-0.5	-1.3	-1.8	-2.5	-5.6	-5.2	-2.4	-0.9	-0.2	0.5	0.2
Luxembourg	..	..	..	..	..	..	..	..	..	..	1.6	1.3	0.5	0.2	-0.5	-1.3	-1.6	-2.3	-1.9	-1.3
Mexico	-9.0	-7.5	-6.8	-7.2	-8.3	-8.6	-8.6	-9.6	-11.4	-13.0	-13.3	-13.9	-12.8	-13.3	-12.9	-14.8	-13.7	-13.2	-13.4	-13.2
Netherlands	-0.2	-0.2	1.4	1.2	2.9	-0.6	0.4	-1.0	0.8	3.5	7.1	3.2	6.5	-2.8	3.3	-3.2	-8.4	-7.8	-8.1	-8.6
New Zealand	-1.3	-1.5	-2.0	-2.1	-1.9	-1.6	-2.5	-2.5	-2.9	-3.4	-4.0	-4.7	-4.9	-2.6	-3.1	-3.5	-3.1	-3.3	-4.0	-4.9
Norway	-1.2	-1.3	-1.4	-2.5	-2.8	-3.4	-4.0	-2.8	-2.8	-2.2	-1.9	-1.9	-1.7	-1.2	-1.9	-1.7	-0.9	1.4	2.5	2.6
Poland	..	..	..	..	..	..	..	..	-3.4	-2.6	-2.0	-1.1	-1.1	-1.2	-1.0	-1.5	-1.4	-1.8	-2.4	-3.0
Portugal	-1.1	-1.0	-0.8	-0.8	-0.6	-0.1	0.2	0.6	0.2	-0.6	-0.0	-1.0	-1.5	-1.6	-1.8	-2.3	-3.1	-3.6	-4.0	-4.2
Slovak Republic	..	..	..	..	..	..	..	..	-0.0	-0.1	-0.0	-0.0	-0.1	-0.2	-0.3	-0.4	-0.3	-0.4	-0.5	-0.5
Spain	-1.7	-1.8	-2.6	-3.3	-2.8	-3.5	-4.3	-5.8	-3.6	-7.8	-4.1	-6.1	-6.8	-7.5	-9.5	-8.3	-9.6	-11.9	-13.2	-13.9
Sweden	-2.0	-2.0	-1.6	-1.8	-2.3	-4.5	-6.4	-10.0	-8.8	-5.9	-5.5	-6.3	-4.9	-3.2	-2.0	-1.4	-3.1	-2.9	-3.4	-3.4
Switzerland	5.0	5.8	6.8	8.9	8.1	8.8	8.9	8.4	9.1	7.9	11.8	12.6	16.2	17.8	20.2	21.2	12.7	13.3	14.5	15.8
Turkey	-1.6	-1.9	-2.1	-2.5	-2.3	-2.5	-2.7	-2.6	-2.7	-3.3	-3.2	-2.9	-3.0	-3.0	-3.5	-4.0	-5.0	-4.1	-3.6	-3.1
United Kingdom	-0.0	4.2	1.4	1.3	-1.2	-5.1	-5.9	0.2	-0.3	5.1	3.3	1.8	6.4	20.8	4.1	14.1	13.2	18.1	17.9	13.2
United States	25.7	15.5	14.3	18.7	19.8	28.5	24.1	23.0	23.9	16.7	24.6	24.1	20.2	7.6	18.1	21.8	14.4	-14.4	-25.7	-27.7
Euro area	-7.0	-8.5	-9.0	-6.4	0.0	-7.4	-12.0	-21.7	-17.3	-31.3	-29.1	-27.8	-15.0	-31.5	-23.6	-29.0	-46.9	-52.4	-56.0	-57.3
European Union	-11.6	-9.8	-13.2	-10.6	-7.3	-22.1	-29.4	-36.4	-30.2	-35.9	-35.0	-35.9	-17.0	-16.7	-23.7	-19.9	-40.4	-40.6	-45.6	-51.8
Total OECD	-6.7	-12.7	-12.9	-4.4	-3.6	-11.2	-18.1	-15.1	-10.5	-28.9	-19.1	-11.3	14.4	1.9	8.1	22.1	-0.9	-24.7	-29.9	-35.5

Note: The classification of non-factor services and investment income is affected by the change in reporting system to the International Monetary Fund, *Fifth Balance of Payments Manual*.
a) Including Luxembourg until 1994.
Source: OECD.

Annex Table 50. **Current account balances**

$ billion

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	-7.8	-8.4	-6.7	-10.0	-16.3	-14.0	-9.2	-9.5	-8.1	-15.2	-17.4	-14.0	-10.7	-16.5	-20.6	-13.2	-7.3	-11.9	-12.8	-13.0
Austria	-0.1	0.3	-0.2	-0.3	0.3	1.2	-0.0	-0.7	-1.4	-3.3	-6.2	-5.4	-6.5	-5.2	-6.7	-5.0	-4.2	-1.6	-1.5	-1.4
Belgium[a]	1.7	4.0	3.6	4.7	4.4	5.3	6.2	8.8	11.9	13.0	14.2	12.9	12.8	12.6	12.2	8.8	8.6	14.3	15.8	17.1
Canada	-5.7	-11.2	-13.5	-14.9	-21.8	-19.8	-22.4	-21.1	-21.7	-13.0	-4.4	3.4	-8.2	-7.7	1.3	18.6	19.5	13.6	16.8	20.1
Czech Republic	..	..	..	..	..	..	..	..	0.5	-0.8	-1.4	-4.1	-3.6	-1.4	-1.6	-2.7	-2.6	-2.9	-3.3	-3.5
Denmark	-2.7	-4.5	-3.0	-1.6	-1.7	0.6	1.2	3.2	3.9	2.3	1.2	2.7	0.7	-1.6	3.2	2.5	4.1	4.2	5.4	5.9
Finland	-0.8	-0.7	-1.7	-2.7	-5.8	-7.0	-6.8	-5.1	-1.1	1.1	5.4	5.1	6.8	7.3	7.7	8.9	7.8	8.6	9.6	11.9
France	-0.2	2.4	-4.5	-4.6	-4.6	-9.8	-5.7	4.8	9.6	7.4	11.0	20.8	37.8	39.3	41.3	17.2	21.2	26.0	21.5	23.0
Germany	18.3	40.2	45.8	52.7	57.1	48.6	-18.4	-14.5	-9.7	-24.3	-20.7	-7.9	-3.1	-6.7	-19.1	-20.4	2.3	39.5	50.0	62.4
Greece	-3.8	-2.1	-1.8	-1.6	-3.3	-4.7	-2.7	-3.6	-2.0	-1.4	-4.5	-6.4	-5.3	-3.7	-5.3	-7.5	-7.2	-8.1	-8.8	-9.3
Hungary	..	..	..	..	..	..	..	..	-3.5	-4.0	-2.5	-1.7	-1.0	-2.3	-2.1	-1.3	-1.1	-3.4	-4.1	-4.5
Iceland	-0.1	0.0	-0.2	-0.2	-0.1	-0.1	-0.3	-0.2	0.0	0.1	0.1	-0.1	-0.1	-0.6	-0.6	-0.9	-0.4	-0.0	-0.0	-0.1
Ireland	-0.8	-0.9	-0.1	-0.0	-0.6	-0.4	0.3	0.5	1.8	1.5	1.7	2.0	1.9	0.7	0.4	0.1	-0.3	-0.2	-1.7	-1.9
Italy	-4.2	2.2	-2.5	-7.0	-11.2	-16.8	-24.2	-30.2	8.0	12.6	25.0	39.1	33.7	23.0	8.2	-5.4	-0.1	-9.1	-7.1	-2.4
Japan	50.7	85.4	84.1	79.2	63.3	44.1	68.3	112.6	131.9	130.4	111.1	65.8	96.8	119.0	114.8	119.5	87.7	128.3	153.2	169.7
Korea	-0.8	4.7	10.1	14.5	5.4	-2.0	-8.3	-3.9	1.0	-3.9	-8.5	-23.0	-8.2	40.4	24.5	12.2	8.6	5.0	5.4	7.4
Luxembourg	..	..	..	..	..	..	..	..	..	..	2.4	2.2	1.8	1.6	1.1	2.5	1.7	1.8	1.3	1.2
Mexico	0.8	-1.4	4.2	-2.4	-5.8	-7.5	-14.6	-24.4	-23.4	-29.7	-1.6	-2.5	-7.7	-16.1	-14.0	-18.1	-17.9	-16.9	-21.3	-26.5
Netherlands	4.4	4.3	4.2	7.1	9.4	8.1	7.5	6.8	13.1	17.1	25.6	21.2	24.6	12.9	15.5	7.4	2.4	12.9	17.0	19.9
New Zealand	-1.6	-1.8	-1.7	-0.4	-1.6	-1.4	-1.2	-1.7	-1.7	-2.1	-3.1	-3.9	-4.4	-2.1	-3.5	-2.7	-1.4	-1.6	-2.4	-2.7
Norway	3.0	-4.7	-4.4	-4.0	-0.1	3.1	4.3	4.4	3.6	3.8	5.2	11.0	10.0	0.0	8.4	24.8	25.9	31.8	35.5	35.8
Poland	..	..	..	..	..	..	..	..	-4.6	1.0	0.9	-3.3	-5.7	-6.9	-12.5	-10.0	-5.4	-6.1	-8.7	-10.7
Portugal[b]	0.4	1.2	0.4	-1.0	0.2	-0.2	-0.7	-0.3	0.3	-2.3	-0.2	-4.4	-6.1	-7.8	-9.8	-11.0	-10.3	-9.4	-9.1	-8.9
Slovak Republic	..	..	..	..	..	..	..	..	-0.6	0.7	0.4	-2.1	-2.0	-2.0	-1.0	-0.7	-1.8	-1.6	-1.8	-1.7
Spain	2.8	3.9	-0.2	-3.7	-10.9	-18.1	-19.9	-21.6	-5.7	-6.4	0.8	0.4	2.5	-3.0	-13.9	-19.5	-15.1	-15.8	-18.8	-20.6
Sweden	-1.0	0.0	-0.0	-0.6	-3.1	-6.3	-4.7	-7.5	-2.6	2.5	8.1	8.5	9.0	8.2	8.7	7.6	6.3	9.1	9.0	10.2
Switzerland	5.1	6.9	7.6	9.1	7.0	8.7	10.6	15.2	19.5	17.5	21.4	21.9	25.5	26.0	30.3	30.9	20.2	27.4	29.1	31.3
Turkey	-1.0	-1.5	-0.8	1.6	0.9	-2.6	0.2	-1.0	-6.4	2.6	-2.3	-2.4	-2.6	2.0	-1.4	-9.8	3.4	-1.3	-2.9	-3.8
United Kingdom	0.5	-3.5	-12.7	-35.4	-43.1	-39.1	-19.0	-22.9	-17.9	-10.3	-14.3	-13.5	-2.9	-8.0	-31.9	-28.9	-30.3	-27.0	-39.4	-53.9
United States	-118.2	-147.2	-160.7	-121.2	-99.5	-79.0	3.7	-48.5	-82.5	-118.2	-105.8	-117.8	-128.4	-203.8	-292.9	-410.3	-393.4	-509.8	-553.6	-599.7
Euro area	17.7	54.7	43.0	43.7	34.9	6.2	-64.4	-55.1	24.8	15.0	54.5	79.6	100.9	71.0	31.6	-23.7	6.8	58.9	68.1	90.9
European Union	14.5	46.7	27.3	6.1	-13.0	-38.6	-87.0	-82.4	8.1	9.5	49.6	77.3	107.7	69.6	11.5	-42.6	-13.2	45.2	43.2	53.1
Total OECD	-61.2	-32.3	-54.7	-42.6	-81.6	-109.0	-55.7	-60.4	12.0	-21.4	41.5	4.2	57.4	-2.4	-159.2	-306.2	-279.0	-304.3	-327.7	-348.9

Note: The balance-of-payments data in this table are based on the concepts and definition of the International Monetary Fund, *Fifth Balance of Payments Manual*.
a) Including Luxembourg until 1994.
b) Break between 1995 and 1996, reflecting change in methodology to the International Monetary Fund, *Fifth Balance of Payments Manual* (capital transfers from European Union are excluded from the current account as from 1996).
Source: OECD.

Annex Table 51. **Current account balances as a percentage of GDP**

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Australia	-4.7	-4.9	-3.3	-3.8	-5.6	-4.6	-3.0	-3.1	-2.7	-4.5	-4.8	-3.5	-2.7	-4.6	-5.3	-3.4	-2.0	-3.0	-2.9	-2.8
Austria	-0.1	0.3	-0.2	-0.2	0.2	0.7	0.0	-0.4	-0.8	-1.6	-2.6	-2.3	-3.2	-2.5	-3.2	-2.6	-2.2	-0.8	-0.7	-0.6
Belgium[a]	2.0	3.5	2.5	3.0	2.8	2.7	3.1	3.9	5.5	5.5	5.1	4.8	5.2	5.0	4.8	3.8	3.8	5.8	5.8	6.0
Canada	-1.6	-3.0	-3.2	-3.0	-3.9	-3.4	-3.7	-3.6	-3.9	-2.3	-0.8	0.5	-1.3	-1.2	0.2	2.6	2.8	1.9	2.2	2.4
Czech Republic	..	..	..	..	..	..	..	..	1.3	-1.9	-2.6	-7.1	-6.7	-2.4	-2.8	-5.3	-4.6	-4.2	-4.3	-4.2
Denmark	-4.6	-5.3	-2.9	-1.4	-1.6	0.4	0.9	2.2	2.8	1.5	0.7	1.4	0.4	-0.9	1.8	1.6	2.5	2.4	2.8	2.9
Finland	-1.4	-0.9	-1.9	-2.5	-5.0	-5.1	-5.4	-4.7	-1.3	1.1	4.1	4.0	5.6	5.6	6.0	7.4	6.4	6.5	6.5	7.6
France	-0.1	0.3	-0.5	-0.5	-0.5	-0.8	-0.5	0.4	0.8	0.5	0.7	1.3	2.7	2.7	2.9	1.3	1.6	1.8	1.4	1.4
Germany	2.8	4.4	4.0	4.3	4.7	3.2	-1.0	-0.7	-0.5	-1.1	-0.8	-0.3	-0.1	-0.3	-0.9	-1.1	0.1	2.0	2.3	2.8
Greece	-9.2	-4.4	-3.1	-2.3	-4.9	-5.6	-2.9	-3.6	-2.1	-1.4	-3.9	-5.2	-4.4	-3.1	-4.2	-6.7	-6.2	-6.1	-5.9	-5.8
Hungary	..	..	..	..	..	..	..	..	-9.0	-9.5	-5.5	-3.8	-2.1	-4.9	-4.4	-2.9	-2.1	-5.3	-5.4	-5.5
Iceland	-3.8	0.5	-3.3	-3.7	-1.9	-2.1	-4.0	-2.4	0.7	2.0	0.8	-1.8	-1.7	-7.0	-7.0	-10.3	-4.5	-0.1	-0.2	-1.2
Ireland	-3.7	-3.1	-0.2	-0.1	-1.5	-0.8	0.7	1.0	3.7	2.7	2.6	2.8	2.4	0.9	0.4	0.1	-0.3	-0.2	-1.2	-1.3
Italy	-1.0	0.3	-0.3	-0.8	-1.3	-1.5	-2.1	-2.5	0.8	1.2	2.3	3.2	2.9	1.9	0.7	-0.5	-0.0	-0.8	-0.5	-0.2
Japan	3.7	4.2	3.4	2.7	2.1	1.5	2.0	3.0	3.0	2.7	2.1	1.4	2.2	3.0	2.6	2.5	2.1	3.2	3.8	4.2
Korea	-0.8	4.3	7.4	7.9	2.4	-0.8	-2.8	-1.2	0.3	-1.0	-1.7	-4.4	-1.5	12.8	6.0	2.7	2.0	1.1	1.0	1.3
Luxembourg	..	..	..	..	..	..	..	..	..	..	13.3	12.2	10.4	8.8	5.6	13.1	8.7	8.7	5.6	5.1
Mexico	0.8	-0.8	2.8	-1.3	-2.7	-2.9	-4.7	-6.7	-5.8	-7.1	-0.5	-0.8	-1.9	-3.8	-2.9	-3.1	-2.9	-2.7	-3.3	-3.8
Netherlands	3.2	2.4	1.8	2.9	4.0	2.7	2.5	2.0	4.0	4.9	6.2	5.2	6.5	3.3	3.9	2.0	0.6	3.1	3.6	4.0
New Zealand	-7.2	-6.2	-4.9	-1.0	-3.8	-3.2	-2.8	-4.2	-4.0	-4.0	-5.2	-5.9	-6.5	-3.9	-6.2	-5.2	-2.8	-2.7	-3.6	-4.0
Norway	4.6	-6.0	-4.7	-4.0	-0.1	2.5	3.6	3.4	3.0	3.0	3.5	6.8	6.3	0.0	5.3	15.0	15.4	16.4	16.4	15.8
Poland	..	..	..	..	..	..	..	..	-5.2	1.0	0.7	-2.3	-4.0	-4.4	-8.1	-6.3	-3.0	-3.3	-4.4	-5.2
Portugal[b]	1.5	3.3	1.0	-2.0	0.3	-0.3	-0.8	-0.2	0.4	-2.4	-0.1	-3.9	-5.7	-6.9	-8.5	-10.3	-9.4	-7.8	-6.9	-6.4
Slovak Republic	..	..	..	..	..	..	..	..	-4.7	4.3	2.0	-10.2	-9.2	-9.0	-4.9	-3.7	-8.6	-7.0	-6.4	-5.4
Spain	1.6	1.6	-0.0	-1.0	-2.8	-3.5	-3.6	-3.6	-1.1	-1.3	0.1	0.1	0.4	-0.5	-2.3	-3.5	-2.6	-2.4	-2.6	-2.7
Sweden	-1.0	0.0	-0.0	-0.3	-1.6	-2.6	-1.9	-3.0	-1.3	1.2	3.4	3.2	3.8	3.4	3.6	3.3	3.0	3.9	3.5	3.7
Switzerland	5.2	5.0	4.4	4.9	3.9	3.8	4.6	6.2	8.2	6.7	6.9	7.4	10.0	9.9	11.7	12.9	8.2	10.0	9.9	10.4
Turkey	-1.5	-1.9	-0.9	2.0	0.9	-1.7	0.1	-0.6	-3.6	2.2	-1.5	-1.3	-1.3	1.1	-0.9	-4.9	2.3	-0.8	-1.6	-2.0
United Kingdom	0.1	-0.6	-1.8	-4.3	-5.1	-4.0	-1.8	-2.1	-1.9	-1.0	-1.3	-1.1	-0.2	-0.6	-2.2	-2.0	-2.1	-1.7	-2.3	-3.0
United States	-2.8	-3.3	-3.4	-2.4	-1.8	-1.4	0.1	-0.8	-1.2	-1.7	-1.4	-1.5	-1.5	-2.3	-3.2	-4.2	-3.9	-4.9	-5.1	-5.3
Euro area	0.8	1.8	1.1	1.0	0.8	0.1	-1.1	-0.9	0.4	0.2	0.8	1.1	1.6	1.1	0.5	-0.4	0.1	0.9	0.9	1.2
European Union	0.5	1.2	0.6	0.1	-0.2	-0.6	-1.2	-1.1	0.1	0.1	0.6	0.9	1.3	0.8	0.1	-0.5	-0.2	0.5	0.5	0.5
Total OECD	-0.7	-0.3	-0.4	-0.3	-0.5	-0.6	-0.3	-0.3	0.1	-0.1	0.2	0.0	0.2	-0.0	-0.6	-1.2	-1.1	-1.2	-1.2	-1.2

a) Including Luxembourg until 1994.
b) Break between 1995 and 1996, reflecting change in methodology to the International Monetary Fund, *Fifth Balance of Payments Manual* (capital transfers from European Union are excluded from the current account as from 1996).
Source: OECD.

Annex Table 52. **Structure of current account balances of major world regions**

$ billion

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Trade balance																				
OECD	-43	-8	-24	-1	-39	-53	-27	7	64	58	98	51	54	18	-120	-278	-223	-182	-194	-203
Non-OECD *of which:*	53	16	51	33	48	69	54	29	-0	30	10	40	52	40	148	263	194	183	206	206
Non-OECD Asia *of which:*	-9	-1	13	2	3	8	10	4	-13	-4	-15	-11	27	88	98	84	78	80	93	95
China	-13	-9	-2	-5	-6	9	9	5	-11	7	18	20	46	47	36	34	34	34	29	25
Dynamic Asia[a]	18	22	28	21	22	11	11	8	8	3	-13	-6	1	62	78	73	68	72	90	95
Other Asia	-13	-14	-13	-14	-13	-12	-9	-10	-11	-14	-20	-24	-21	-20	-16	-23	-24	-26	-26	-25
Latin America	25	12	12	22	28	31	19	10	2	2	-8	-6	-19	-33	-6	8	7	10	13	20
Africa and Middle-East	31	-4	15	4	22	53	23	14	11	23	25	54	48	-11	33	118	73	65	77	77
Central and Eastern Europe	5	8	12	6	-6	-23	1	2	-0	10	8	3	-3	-4	23	52	36	28	23	14
World[b]	10	8	27	31	10	16	26	36	63	88	109	91	106	58	28	-15	-29	1	12	3
Services and private transfers																				
OECD	10	10	3	-5	-4	-11	-1	2	17	-1	11	26	73	59	38	51	12	-35	-38	-48
Non-OECD *of which:*	-83	-67	-68	-74	-83	-85	-102	-90	-91	-82	-110	-104	-109	-115	-109	-121	-112	-114	-127	-134
Non-OECD Asia *of which:*	-5	-1	-2	-4	-4	-3	-1	-0	-2	3	-16	-6	1	-11	-14	-8	-1	-0	-4	-7
China	2	2	2	2	1	3	4	1	-1	0	-17	-13	-10	-15	-21	-14	-17	-15	-14	-15
Dynamic Asia[a]	-9	-5	-6	-6	-5	-4	-4	-1	-1	-1	-2	1	1	-3	-2	-5	5	6	0	-3
Other Asia	3	3	2	0	-0	-1	-1	-0	1	4	3	6	10	8	9	11	10	10	10	11
Latin America	-30	-30	-28	-31	-33	-27	-24	-21	-26	-26	-30	-33	-42	-44	-39	-39	-44	-46	-47	-48
Africa and Middle-East	-49	-38	-40	-39	-47	-57	-73	-58	-56	-54	-54	-61	-58	-48	-48	-63	-55	-55	-63	-65
Central and Eastern Europe	1	1	1	1	1	1	-4	-10	-6	-5	-10	-5	-10	-12	-9	-11	-11	-12	-13	-14
World[b]	-73	-58	-65	-78	-87	-96	-103	-88	-74	-83	-99	-78	-36	-56	-71	-70	-99	-149	-165	-182
Official transfers																				
OECD	-28	-34	-34	-37	-39	-45	-28	-69	-69	-78	-67	-73	-69	-79	-77	-79	-68	-87	-95	-97
Non-OECD *of which:*	10	12	10	13	12	4	-9	18	18	14	15	14	13	12	12	11	12	12	13	14
Non-OECD Asia *of which:*	2	3	3	3	2	2	3	3	3	3	4	3	3	2	1	1	2	2	2	2
China	0	0	-0	0	0	0	0	0	0	-1	1	0	0	0	0	0	0	0	0	0
Dynamic Asia[a]	0	0	0	0	0	1	0	1	0	1	1	0	0	0	1	1	0	0	0	0
Other Asia	2	2	2	2	2	2	2	2	2	3	3	3	2	2	0	0	1	2	2	1
Latin America	2	2	2	2	2	2	2	2	2	2	2	2	1	1	2	2	1	1	2	2
Africa and Middle-East	6	7	6	8	8	-1	-20	10	10	8	7	7	6	6	6	6	7	7	7	7
Central and Eastern Europe	0	0	0	0	0	1	6	4	4	2	2	2	2	2	3	2	2	2	2	2
World[b]	-18	-22	-24	-24	-27	-41	-37	-51	-51	-63	-53	-60	-57	-67	-66	-68	-57	-75	-82	-84
Current account balance																				
OECD	-61	-32	-55	-43	-82	-109	-56	-60	12	-21	42	4	57	-2	-159	-306	-279	-304	-328	-349
Non-OECD *of which:*	-20	-40	-6	-28	-22	-12	-58	-43	-73	-37	-85	-50	-44	-63	51	152	95	82	92	86
Non-OECD Asia *of which:*	-11	1	14	0	2	8	12	6	-12	2	-27	-14	31	80	85	77	78	82	91	90
China	-11	-7	0	-4	-4	12	13	6	-12	7	2	7	37	31	16	21	17	18	15	10
Dynamic Asia[a]	8	17	22	16	17	7	7	8	7	3	-14	-5	3	59	77	68	73	78	90	93
Other Asia	-8	-9	-9	-11	-11	-12	-8	-8	-8	-8	-15	-16	-9	-11	-7	-11	-12	-14	-14	-13
Latin America	-4	-16	-14	-8	-3	6	-3	-9	-23	-22	-36	-37	-60	-76	-43	-29	-36	-35	-32	-27
Africa and Middle-East	-12	-35	-19	-27	-17	-4	-70	-35	-35	-23	-22	-0	-4	-53	-9	62	25	17	20	19
Central and Eastern Europe	6	10	13	7	-4	-21	3	-4	-3	6	-0	0	-11	-14	17	43	28	18	13	3
World[b]	-81	-72	-61	-70	-104	-121	-114	-103	-61	-59	-44	-46	14	-66	-108	-154	-184	-223	-235	-263

Note: Historical data for the OECD area are aggregates of reported balance-of-payments data of each individual country. Because of various statistical problems as well as a large number of non-reporters among non-OECD countries, trade and current account balances estimated on the basis of these countries' own balance-of-payments records may differ from corresponding estimates shown in this table.

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

b) Reflects statistical errors and asymmetries. Given the very large gross flows of world balance-of-payments transactions, statistical errors and asymmetries easily give rise to world totals (balances) that are significantly different from zero.

Source: OECD.

Annex Table 53. **Semi-annual demand and output projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2002	2003	2004	2002		2003		2004	
				I	II	I	II	I	II
Private consumption									
Canada	2.6	2.9	2.9	3.2	2.8	2.8	2.9	2.9	2.8
France	1.5	1.7	2.8	1.2	1.2	1.7	2.2	2.9	3.0
Germany	-0.5	1.1	2.2	-1.5	1.0	1.0	1.5	2.3	2.5
Italy	-0.3	0.9	2.2	-0.4	0.3	0.8	1.7	2.2	2.4
Japan	0.8	0.5	0.8	1.3	0.6	0.5	0.6	0.8	0.8
United Kingdom	3.6	2.9	2.5	3.4	3.6	2.8	2.6	2.4	2.4
United States	3.1	2.3	3.4	3.5	2.7	1.7	3.2	3.5	3.4
Euro area	0.6	1.5	2.5	0.1	1.1	1.5	2.0	2.6	2.7
European Union	1.1	1.8	2.5	0.7	1.5	1.7	2.1	2.5	2.6
Total OECD	2.1	2.0	2.7	2.1	2.2	1.8	2.5	2.8	2.8
Public consumption									
Canada	1.9	2.7	2.6	1.2	2.7	2.7	2.6	2.6	2.6
France	3.4	2.8	2.2	3.1	4.5	2.2	2.2	2.2	2.2
Germany	1.1	0.8	0.7	1.7	1.0	0.7	0.7	0.7	0.7
Italy	1.9	1.2	1.0	2.1	1.6	1.2	1.0	1.0	1.0
Japan	2.4	1.9	1.7	1.9	3.0	1.4	1.7	1.7	1.7
United Kingdom	4.5	2.8	3.0	4.9	2.2	3.0	3.0	3.0	3.0
United States	4.2	2.9	2.5	4.7	2.7	2.9	2.9	2.5	2.2
Euro area	2.1	1.6	1.4	2.3	2.3	1.3	1.3	1.4	1.4
European Union	2.4	1.7	1.5	2.6	2.1	1.5	1.5	1.5	1.5
Total OECD	3.0	2.2	2.0	2.3	3.8	1.7	2.1	2.0	1.9
Investment									
Canada	3.4	3.9	5.3	3.3	4.8	3.2	4.4	5.6	5.8
France	0.0	0.3	3.1	0.3	-0.3	-0.1	1.9	3.4	3.7
Germany	-4.7	0.6	1.3	-5.6	-0.8	2.5	-1.7	2.0	3.1
Italy	-2.7	1.8	2.6	-5.8	0.6	2.1	2.6	2.6	2.6
Japan	-5.5	-2.1	-0.7	-6.3	0.3	-3.1	-2.3	0.1	-0.7
United Kingdom	-4.4	2.4	3.9	-6.3	0.7	2.8	3.2	4.0	4.4
United States	-2.0	2.0	5.0	-0.5	-0.3	1.7	4.8	4.9	5.1
Euro area	-1.9	1.6	3.1	-2.7	0.2	2.1	1.9	3.3	3.8
European Union	-2.3	1.7	3.1	-3.3	0.1	2.3	2.0	3.3	3.7
Total OECD	-1.9	1.8	3.7	-1.9	0.9	1.7	3.0	3.9	4.1
Total domestic demand									
Canada	2.9	3.2	3.4	4.3	3.3	3.0	3.4	3.5	3.2
France	1.0	2.4	2.9	0.9	1.6	2.6	2.7	3.0	3.0
Germany	-1.1	1.4	2.1	-1.5	1.1	1.6	1.1	2.5	2.5
Italy	0.7	1.1	2.0	1.1	0.6	1.1	1.7	2.1	2.2
Japan	-1.4	0.3	0.6	-1.5	1.3	-0.2	0.1	0.8	0.6
United Kingdom	2.3	3.0	3.2	1.9	3.1	2.9	2.9	3.3	3.4
United States	2.8	2.7	3.8	4.2	2.5	2.2	3.8	3.8	3.6
Euro area	0.4	1.8	2.6	0.3	1.4	2.0	2.1	2.7	2.7
European Union	0.7	2.0	2.6	0.6	1.6	2.1	2.2	2.7	2.8
Total OECD	1.6	2.2	3.0	1.9	2.4	2.0	2.7	3.1	3.0
Export of goods and services									
Canada	1.6	6.1	7.6	3.0	6.2	5.3	7.6	7.7	7.5
France	0.2	5.2	7.5	1.9	3.5	5.0	7.4	7.6	7.3
Germany	1.8	5.3	8.0	1.6	3.9	5.2	7.1	8.2	8.3
Italy	-1.4	6.0	7.7	-2.4	4.2	6.2	7.2	7.7	7.8
Japan	5.5	7.6	6.2	14.2	7.6	7.8	7.4	6.1	5.2
United Kingdom	-1.1	4.2	7.8	1.6	2.9	3.7	6.3	8.2	8.2
United States	-1.2	7.0	8.2	2.6	6.1	6.8	8.4	8.1	8.0
Total OECD [a]	1.1	6.6	7.8	3.8	5.8	6.3	7.8	7.8	7.6

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) Includes intra-regional trade.

Source: OECD.

Annex Table 53. ***(cont'd)*** **Semi-annual demand and output projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2002	2003	2004	2002 I	2002 II	2003 I	2003 II	2004 I	2004 II
Import of goods and services									
Canada	0.3	6.8	7.8	1.4	7.2	6.1	7.7	7.9	7.6
France	0.1	7.4	7.9	1.5	3.6	8.4	9.4	7.5	7.2
Germany	-2.5	5.4	7.7	-4.5	4.4	5.3	6.7	8.0	8.0
Italy	-0.1	5.0	6.3	0.4	4.3	4.9	6.0	6.2	6.5
Japan	-1.2	3.9	4.5	0.1	6.4	2.9	3.4	5.0	4.5
United Kingdom	1.5	5.9	8.6	3.7	4.8	5.7	7.2	9.1	9.1
United States	3.4	6.5	8.1	8.1	7.4	5.2	8.1	8.2	7.7
Total OECD[a]	1.8	6.1	7.6	4.1	6.4	5.5	7.2	7.8	7.5
GDP									
Canada	3.3	3.1	3.5	4.9	3.1	2.8	3.6	3.6	3.4
France	1.0	1.9	2.9	1.1	1.6	1.8	2.2	3.1	3.0
Germany	0.4	1.5	2.5	0.6	1.1	1.7	1.5	2.8	2.9
Italy	0.3	1.5	2.5	0.2	0.6	1.6	2.2	2.6	2.7
Japan	-0.7	0.8	0.9	-0.1	1.5	0.4	0.7	1.1	0.8
United Kingdom	1.5	2.2	2.5	1.1	2.6	2.1	2.3	2.5	2.6
United States	2.3	2.6	3.6	3.5	2.2	2.2	3.7	3.6	3.5
Euro area	0.8	1.8	2.7	0.8	1.4	1.9	2.2	2.9	3.0
European Union	0.9	1.9	2.7	0.9	1.5	1.9	2.2	2.8	2.9
Total OECD	1.5	2.2	3.0	1.7	2.2	2.0	2.8	3.1	3.0
	Per cent of GDP								
Current account balance									
Canada	1.9	2.2	2.4	1.8	1.9	2.0	2.3	2.4	2.5
France	1.8	1.4	1.4	1.8	1.9	1.5	1.3	1.4	1.5
Germany	2.0	2.3	2.8	1.9	2.1	2.2	2.4	2.7	2.9
Italy	-0.8	-0.5	-0.2	-0.9	-0.7	-0.6	-0.5	-0.3	-0.1
Japan	3.2	3.8	4.2	3.1	3.4	3.6	4.0	4.2	4.3
United Kingdom	-1.7	-2.3	-3.0	-1.5	-1.9	-2.2	-2.5	-2.9	-3.2
United States	-4.9	-5.1	-5.3	-4.7	-5.1	-5.1	-5.1	-5.2	-5.3
Euro area	0.9	0.9	1.2	0.8	0.9	0.9	0.9	1.1	1.3
European Union	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.5	0.6
Total OECD	-1.2	-1.2	-1.2	-1.1	-1.1	-1.1	-1.1	-1.1	-1.2
	$ billions								
Current account balance									
Canada	13.6	17	20	12.9	14.2	16	18	19	21
France	26.0	22	23	23.9	28.1	23	20	22	24
Germany	39.5	50	62	35.8	43.3	47	53	59	66
Italy	-9.1	-7	-2	-9.6	-8.6	-8	-6	-4	-1
Japan	128.3	153	170	118.7	137.8	146	160	168	171
United Kingdom	-27.0	-39	-54	-22.6	-31.4	-36	-43	-51	-57
United States	-509.8	-554	-600	-484.8	-534.7	-543	-564	-589	-611
Euro area	58.9	68	91	52.7	65.1	66	70	85	97
European Union	45.2	43	53	43.4	47.0	45	42	50	56
Total OECD	-304.3	-328	-349	-289.5	-319.0	-323	-332	-342	-356

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) Includes intra-regional trade.

Source: OECD.

Annex Table 54. **Semi-annual price, cost and unemployment projections**

Percentage changes from previous period, seasonally adjusted at annual rates

	2002	2003	2004	2002 I	2002 II	2003 I	2003 II	2004 I	2004 II
Private consumption deflator									
Canada	2.0	2.7	2.4	1.9	3.1	2.6	2.3	2.4	2.4
France	1.6	1.6	1.6	1.8	1.5	1.5	1.7	1.5	1.6
Germany	1.6	1.4	1.1	1.8	1.4	1.4	1.2	1.1	1.2
Italy	2.6	2.5	2.0	2.6	2.6	2.5	2.2	2.0	1.8
Japan	-1.5	-1.6	-1.6	-1.3	-1.6	-1.6	-1.6	-1.6	-1.5
United Kingdom	1.1	1.8	2.1	1.0	1.8	1.8	1.9	2.1	2.2
United States	1.4	1.4	1.2	1.4	1.9	1.1	1.3	1.2	1.3
Euro area	2.2	2.0	1.8	2.3	2.1	2.0	1.9	1.7	1.7
European Union	2.0	2.0	1.8	2.2	2.0	2.0	1.9	1.8	1.8
Total OECD	2.1	1.9	1.5	2.1	2.3	1.9	1.7	1.5	1.5
Total OECD *less* high inflation countries[a]	1.3	1.3	1.2	1.4	1.5	1.2	1.2	1.2	1.2
GDP deflator									
Canada	1.0	2.6	2.2	2.3	3.1	2.6	2.3	2.1	2.1
France	1.9	1.6	1.6	2.0	1.6	1.6	1.5	1.6	1.6
Germany	1.6	1.2	1.1	1.8	1.4	1.2	1.1	1.1	1.1
Italy	2.4	2.3	2.0	2.2	2.6	2.2	2.2	2.0	1.9
Japan	-1.0	-1.6	-1.4	-1.0	-1.5	-1.7	-1.5	-1.4	-1.5
United Kingdom	3.2	2.4	2.6	4.3	2.6	2.3	2.3	2.6	2.7
United States	1.1	1.3	1.3	0.9	1.1	1.5	1.3	1.3	1.3
Euro area	2.2	1.9	1.8	2.4	1.9	2.0	1.9	1.8	1.8
European Union	2.4	2.0	1.9	2.7	2.0	2.0	1.9	1.9	1.9
Total OECD	2.2	1.8	1.6	2.6	1.8	1.9	1.6	1.6	1.5
Total OECD *less* high inflation countries[a]	1.3	1.3	1.2	1.5	1.3	1.3	1.2	1.3	1.2
Unit labour cost (total economy)									
Canada	1.2	2.4	2.0	0.7	2.5	2.5	2.1	1.9	2.0
France	2.0	0.8	0.6	1.4	0.9	0.8	0.8	0.5	0.7
Germany	1.2	0.9	0.9	1.2	1.0	0.8	1.1	0.8	0.9
Italy	5.0	2.5	1.9	5.9	2.8	2.5	2.0	1.9	1.7
Japan	-1.3	-1.3	-1.2	-2.0	-3.0	-0.7	-0.9	-1.4	-1.2
United Kingdom	2.5	2.8	2.7	2.9	2.6	2.8	3.0	2.7	2.6
United States	-0.3	1.8	1.5	-1.2	1.7	2.1	1.3	1.6	1.7
European Union	2.8	1.8	1.6	3.0	1.9	1.8	1.7	1.6	1.6
Total OECD	1.7	2.0	1.6	1.9	1.6	2.3	1.7	1.6	1.6
Total OECD less high inflation countries [a]	1.0	1.4	1.3	0.6	1.2	1.7	1.3	1.2	1.3
				Per cent of labour force					
Unemployment									
Canada	7.6	7.3	6.9	7.7	7.5	7.4	7.2	7.0	6.8
France	9.0	9.4	9.1	8.9	9.2	9.4	9.5	9.3	9.0
Germany	7.8	8.1	7.7	7.6	7.9	8.0	8.1	7.9	7.5
Italy	9.2	9.2	9.1	9.1	9.2	9.2	9.2	9.1	9.1
Japan	5.5	5.6	5.6	5.3	5.6	5.6	5.6	5.6	5.6
United Kingdom	5.2	5.2	4.9	5.2	5.2	5.2	5.1	5.0	4.8
United States	5.8	6.0	5.7	5.8	5.8	6.1	6.0	5.8	5.6
Euro area	8.3	8.5	8.3	8.1	8.4	8.5	8.5	8.4	8.2
European Union	7.6	7.8	7.5	7.5	7.7	7.7	7.8	7.6	7.4
Total OECD	6.8	6.9	6.7	6.8	6.9	6.9	6.9	6.8	6.6

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

a) High inflation countries are defined as countries which have had, on average, 10 per cent or more inflation in terms of the GDP deflator during the last 10 years, based on historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

Annex Table 55. **Contributions to changes in real GDP in OECD countries**

As a per cent of real GDP in the previous period, seasonally adjusted at annual rates

	2001	2002	2003	2004
Australia				
Final domestic demand	1.8	5.1	3.7	3.7
Stockbuilding	-0.3	0.0	0.1	0.2
Net exports	1.2	-1.6	-0.2	-0.2
GDP	2.8	3.5	3.7	3.8
Austria				
Final domestic demand	-0.1	-0.2	1.6	2.3
Stockbuilding	0.0	-0.1	0.0	0.0
Net exports	1.1	0.9	0.3	0.3
GDP	1.0	0.7	1.9	2.6
Belgium				
Final domestic demand	1.1	0.2	1.9	2.4
Stockbuilding	-0.5	0.6	0.0	0.0
Net exports	0.3	-0.1	0.2	0.5
GDP	0.8	0.7	2.1	2.8
Canada				
Final domestic demand	2.4	2.5	2.9	3.2
Stockbuilding	-1.3	0.4	0.1	0.1
Net exports	0.6	0.6	0.1	0.4
GDP	1.5	3.3	3.1	3.5
Czech Republic				
Final domestic demand	4.6	3.9	3.5	3.7
Stockbuilding	0.7	-0.6	0.1	0.2
Net exports	-2.0	-0.8	-0.3	-0.3
GDP	3.3	2.5	3.3	3.6
Denmark				
Final domestic demand	0.6	1.5	1.5	2.1
Stockbuilding	0.4	-0.3	0.1	0.0
Net exports	-0.1	0.3	0.4	0.4
GDP	1.0	1.5	2.0	2.5
Finland				
Final domestic demand	1.7	1.2	1.4	2.0
Stockbuilding	-0.8	-0.6	0.3	0.3
Net exports	-1.1	1.6	1.1	1.4
GDP	0.7	1.6	3.2	3.8
France				
Final domestic demand	2.6	1.6	1.7	2.7
Stockbuilding	-1.0	-0.6	0.7	0.2
Net exports	0.2	0.0	-0.5	0.0
GDP	1.8	1.0	1.9	2.9
Germany				
Final domestic demand	-0.2	-1.1	0.9	1.6
Stockbuilding	-0.6	0.0	0.4	0.4
Net exports	1.4	1.4	0.2	0.5
GDP	0.6	0.4	1.5	2.5
Greece				
Final domestic demand	3.7	3.9	4.5	3.9
Stockbuilding	0.1	0.0	0.0	0.0
Net exports	0.3	-0.3	-0.6	-0.1
GDP	4.1	3.6	3.9	3.8
Hungary				
Final domestic demand	3.3	7.2	5.3	3.9
Stockbuilding	-1.2	-1.8	0.2	0.6
Net exports	1.7	-2.3	-1.5	-0.5
GDP	3.8	3.1	4.1	4.0
Iceland				
Final domestic demand	-2.3	-3.3	1.5	4.5
Stockbuilding	-0.9	0.3	0.0	0.0
Net exports	6.8	3.0	0.2	-0.9
GDP	3.7	0.0	1.7	3.7
Ireland				
Final domestic demand	3.3	3.5	3.4	3.9
Stockbuilding	0.1	-0.2	0.2	0.0
Net exports	2.0	0.4	0.0	0.5
GDP	6.0	3.6	3.6	4.4
Italy				
Final domestic demand	1.6	-0.4	1.1	2.0
Stockbuilding	0.0	1.1	0.0	0.0
Net exports	0.2	-0.4	0.4	0.5
GDP	1.8	0.3	1.5	2.5
Japan				
Final domestic demand	0.6	-0.7	0.1	0.5
Stockbuilding	-0.2	-0.7	0.1	0.0
Net exports	-0.7	0.7	0.5	0.3
GDP	-0.3	-0.7	0.8	0.9
Korea				
Final domestic demand	1.7	5.7	4.0	4.0
Stockbuilding	0.0	0.0	0.0	0.0
Net exports	1.5	0.3	1.8	1.8
GDP	3.0	6.1	5.8	5.7

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Totals may not add up due to rounding and/or statistical discrepancy.

Source: OECD.

Annex Table 55. ***(cont'd)*** **Contributions to changes in real GDP in OECD countries**

As a per cent of real GDP in the previous period

	2001	2002	2003	2004
Luxembourg				
Final domestic demand	4.0	1.0	3.4	3.8
Stockbuilding	1.0	0.0	0.0	0.2
Net exports	-4.0	-0.2	-1.1	0.3
GDP	1.0	0.8	2.5	4.5
Mexico				
Final domestic demand	1.0	1.6	3.9	4.9
Stockbuilding	-0.5	0.2	0.1	0.3
Net exports	-0.7	-0.3	-0.6	-1.2
GDP	-0.3	1.5	3.3	4.0
Netherlands				
Final domestic demand	1.1	0.6	1.3	2.7
Stockbuilding	0.2	-0.5	0.3	0.0
Net exports	0.0	0.1	0.0	-0.2
GDP	1.3	0.1	1.6	2.6
New Zealand				
Final domestic demand	0.9	3.1	2.5	2.8
Stockbuilding	0.3	-0.3	0.0	0.0
Net exports	0.2	0.8	0.4	0.6
GDP	1.4	3.8	3.0	3.4
Norway				
Final domestic demand	0.6	1.2	2.1	2.6
Stockbuilding	-0.8	-0.2	0.3	0.0
Net exports	1.7	1.0	-0.8	-0.2
GDP	1.4	2.0	1.6	2.3
Poland				
Final domestic demand	-0.8	0.7	2.5	3.4
Stockbuilding	-1.2	-0.4	0.3	0.2
Net exports	3.5	0.6	-0.6	-0.1
GDP	1.0	1.2	2.5	2.9
Portugal				
Final domestic demand	1.3	0.0	0.7	2.0
Stockbuilding	0.0	0.0	0.0	0.0
Net exports	0.4	0.4	0.8	0.4
GDP	1.6	0.4	1.5	2.3
Slovak Republic				
Final domestic demand	5.8	4.3	3.9	4.1
Stockbuilding	1.4	0.0	0.0	0.0
Net exports	-4.0	0.0	-0.2	0.2
GDP	3.3	4.3	3.7	4.3
Spain				
Final domestic demand	2.8	1.7	2.8	3.3
Stockbuilding	0.0	0.1	0.0	0.0
Net exports	-0.1	0.0	-0.3	-0.3
GDP	2.7	1.8	2.5	3.0
Sweden				
Final domestic demand	0.7	0.9	2.0	2.2
Stockbuilding	-0.5	-0.5	0.3	0.2
Net exports	1.0	1.3	0.3	0.7
GDP	1.2	1.7	2.5	2.8
Switzerland				
Final domestic demand	0.1	-0.4	1.7	2.3
Stockbuilding	0.7	0.2	-0.1	0.0
Net exports	0.1	0.0	-0.3	-0.1
GDP	0.9	-0.2	1.4	2.2
Turkey				
Final domestic demand	-15.7	0.8	3.1	4.1
Stockbuilding	-4.0	4.0	0.0	0.0
Net exports	12.4	-1.2	0.3	0.3
GDP	-7.4	3.7	3.6	4.3
United Kingdom				
Final domestic demand	3.4	2.6	3.0	3.0
Stockbuilding	-0.6	-0.1	0.1	0.5
Net exports	-0.7	-1.0	-1.0	-1.0
GDP	2.0	1.5	2.2	2.5
United States				
Final domestic demand	1.7	2.4	2.4	3.7
Stockbuilding	-1.4	0.6	0.4	0.3
Net exports	-0.2	-0.7	-0.3	-0.4
GDP	0.3	2.3	2.6	3.6
Euro area				
Final domestic demand	1.4	0.3	1.5	2.3
Stockbuilding	-0.4	0.0	0.3	0.2
Net exports	0.5	0.4	0.0	0.3
GDP	1.5	0.8	1.8	2.7
European Union				
Final domestic demand	1.6	0.7	1.7	2.4
Stockbuilding	-0.4	0.0	0.3	0.2
Net exports	0.3	0.2	-0.1	0.1
GDP	1.6	0.9	1.9	2.7
Total OECD				
Final domestic demand	1.2	1.4	2.0	2.8
Stockbuilding	-0.8	0.2	0.3	0.2
Net exports	0.3	-0.1	0.0	0.0
GDP	0.7	1.5	2.2	3.0

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Totals may not add up due to rounding and/or statistical discrepancy.

Source: OECD.

Annex Table 56. **Household wealth and indebtedness**[a]

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Canada												
Net wealth	416.5	427.5	441.6	455.1	475.3	480.8	494.8	509.6	511.2	514.3	506.9	503.2
Net financial wealth	177.5	186.2	195.2	201.5	212.0	222.2	233.2	245.1	245.4	246.5	242.7	236.5
Non-financial assets	239.0	241.3	246.4	253.6	263.4	258.6	261.6	264.6	265.8	267.8	264.2	266.7
Financial assets	270.4	279.5	291.4	300.4	314.4	325.0	339.3	353.8	355.9	358.3	353.5	348.2
of which: Equities	49.6	51.3	52.6	59.7	64.0	67.6	76.0	86.4	93.6	95.9	95.7	98.9
Liabilities	92.9	93.4	96.2	98.9	102.4	102.8	106.1	108.7	110.4	111.8	110.8	111.7
of which: Mortgages	59.2	61.4	64.7	66.4	68.6	68.8	70.9	71.5	71.7	71.4	69.8	70.0
France												
Net wealth	541.8	527.2	510.3	515.9	494.7	507.6	533.6	557.5	577.8	656.0	650.2	631.2
Net financial wealth	169.6	170.3	173.1	188.9	166.5	195.0	220.2	241.6	262.2	310.5	302.4	271.9
Non-financial assets	372.2	356.9	337.2	327.0	328.3	312.6	313.4	315.9	315.6	345.5	347.8	359.3
Financial assets	248.3	251.3	253.4	271.4	251.1	262.9	288.9	310.8	336.0	385.8	379.6	347.9
of which: Equities	114.1	118.6	115.5	126.2	94.9	89.6	104.5	117.1	137.6	177.6	174.2	144.4
Liabilities	78.7	80.9	80.3	82.6	84.6	67.9	68.7	69.2	73.8	75.3	77.2	76.1
of which: Long-term loans	53.4	53.4	53.0	54.7	53.7	51.6	52.2	52.6	52.9	55.0	55.4	55.3
Germany												
Net wealth	535.6	532.3	530.8	547.5	553.3	563.1	570.8	579.3	585.4	591.0	583.9	568.5
Net financial wealth	130.8	123.2	124.1	133.7	130.3	135.6	140.5	149.2	155.2	165.7	162.9	158.6
Non-financial assets	404.8	344.8	341.4	347.4	356.2	360.6	353.8	360.8	360.3	355.5	351.0	340.4
Financial assets	200.7	208.1	209.9	224.7	227.3	236.2	245.2	256.8	266.2	280.0	277.3	270.5
of which: Equities	11.6	30.4	30.8	37.8	40.7	42.4	46.8	55.2	53.0	75.0	75.0	67.0
Liabilities	70.0	84.9	85.7	91.0	97.0	100.6	104.8	107.6	111.0	114.2	114.4	112.0
of which: Mortgages	53.6	50.7	50.3	53.8	58.0	61.0	64.5	67.1	68.5	71.9	72.5	72.1
Italy												
Net wealth	636.9	653.9	723.8	762.4	708.2	699.3	699.6	711.6	732.3	750.5	769.3	725.6
Net financial wealth	196.3	202.4	207.0	229.2	224.1	224.0	231.3	246.1	273.5	299.5	302.9	255.7
Non-financial assets	440.5	451.5	516.7	533.2	484.2	475.3	468.3	465.5	458.8	451.1	466.5	469.9
Financial assets	225.4	232.2	237.7	261.0	256.0	254.6	263.3	275.0	304.6	333.9	339.1	291.6
of which: Equities	46.0	47.9	47.9	54.4	49.3	46.5	50.9	74.1	111.2	155.8	151.5	104.2
Liabilities	29.1	29.8	30.6	31.8	31.9	30.6	32.0	29.0	31.1	34.4	36.3	35.9
of which: Medium and long-term loans	13.7	14.3	14.4	14.9	15.2	18.6	19.1	19.8	21.8	24.8	26.4	26.4
Japan												
Net wealth	943.2	858.0	787.3	759.8	765.1	753.0	758.7	755.7	740.8	762.1	749.5	..
Net financial wealth	261.9	258.4	250.9	256.3	276.0	285.1	298.0	308.0	301.6	335.1	337.7	341.5
Non-financial assets	681.3	599.7	536.4	503.5	489.1	467.9	460.7	447.8	439.2	427.0	411.8	..
Financial assets	393.3	388.8	379.3	388.2	409.7	423.4	430.6	440.1	433.5	465.5	468.4	474.7
of which: Equities	51.7	48.1	34.5	35.8	43.8	43.4	39.7	36.7	25.6	44.9	38.6	33.2
Liabilities	131.5	130.5	128.4	131.9	133.7	138.3	132.6	132.2	131.9	130.4	130.7	133.2
of which: Mortgages	50.7	50.6	51.6	53.2	56.1	58.6	59.7	54.4	54.8	57.3	58.5	60.1
United Kingdom												
Net wealth	611.0	579.8	551.7	584.7	546.1	553.4	568.7	626.3	672.5	746.5	748.0	667.1
Net financial wealth	214.1	220.0	234.5	278.7	257.3	281.3	286.9	342.2	355.4	402.5	375.5	293.3
Non-financial assets	396.9	359.9	317.2	306.0	288.8	272.1	281.8	284.1	317.1	344.0	372.6	373.8
Financial assets	329.9	333.4	343.9	385.1	364.7	387.8	392.0	447.2	464.4	514.2	491.1	412.3
of which: Equities	61.2	58.9	61.2	73.5	70.2	71.7	70.2	96.2	92.1	120.2	111.4	77.7
Liabilities	115.8	113.5	109.4	106.4	107.5	106.5	105.1	105.0	109.1	111.7	115.6	118.9
of which: Mortgages	81.3	80.6	79.1	78.2	79.5	78.1	77.6	76.4	79.1	81.0	83.6	86.2
United States												
Net wealth	474.5	490.4	481.1	488.5	478.9	508.7	530.0	567.2	587.6	639.5	590.1	555.8
Net financial wealth	259.0	277.9	274.4	283.1	276.6	304.9	327.6	363.7	381.3	425.5	372.0	329.5
Non-financial assets	215.6	212.4	206.8	205.4	202.3	203.7	202.4	203.5	206.3	214.0	218.1	226.3
Financial assets	345.6	365.9	361.5	372.5	368.2	398.7	423.5	461.3	480.6	529.5	476.9	438.3
of which: Equities	52.1	69.7	75.2	85.1	79.0	97.7	112.3	137.6	149.5	184.6	148.6	122.2
Liabilities	86.6	87.9	87.1	89.5	91.6	93.7	95.9	97.6	99.3	103.9	104.8	108.8
of which: Mortgages	60.3	62.1	62.3	63.4	63.7	63.5	64.7	65.6	67.1	70.0	70.4	74.4

a) Assets and liabilities are amounts outstanding at the end of the period, in per cent of nominal disposable income. Vertical lines between columns indicate breaks in the series due to changes in the definitions or accounting systems. Figures after the most recent breaks in the series are based on the UN System of National Accounts 1993 (SNA 93) and, more specifically, for European Union countries, on the corresponding European System of Accounts 1995 (ESA 95).

Households include non-profit institutions serving households. Net wealth is defined as non-financial and financial assets minus liabilities; net financial wealth is financial assets minus liabilities. Non-financial assets include stock of durable goods and dwellings, at replacement cost and at market value, respectively. Financial assets comprise currency and deposits, securities other than shares, loans, shares and other equity, insurance technical reserves; and other accounts receivable/payable. Not included are assets with regard to social security pension insurance schemes. Equities comprise shares and other equity, including quoted, unquoted and mutual fund shares. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Sources: Canada: Statistics Canada, *National Balance Sheet Accounts.* France: INSEE, *Rapport sur les Comptes de la Nation* and *25 ans de Comptes de Patrimoine* (1969-1993); Banque de France, *Flow of Funds Accounts.* Germany: Deutsche Bundesbank, *Monthly Report* and *Financial accounts for Germany 1991 to 1999,* Special Statistical Publication, 2000. Italy: Banca d'Italia, *Supplements to the Statistical Bulletin*; Ando, A., L.Guiso, I.Visco (eds.), *Saving and the Accumulation of Wealth,* Cambridge University Press, 1994; OECD, *Financial Accounts of OECD countries*. Japan: Economic Planning Agency, Government of Japan, *Annual Report on National Accounts.* United Kingdom: Office for National Statistics, *United Kingdom National Accounts,* and *Financial Statistics.* United States: Federal Reserve Statistical Release, *Flow of Funds Accounts* of the United States.

Annex Table 57. **Central government financial balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Canada	-5.5	-4.6	-3.9	-2.0	0.7	0.8	0.8	1.7	1.0	0.3	0.4	0.5
France	-4.9	-4.9	-4.2	-3.7	-2.8	-3.0	-2.5	-2.4	-2.3	-3.3	-3.1	-2.7
Germany	-1.9	-1.2	-1.4	-2.2	-1.6	-1.8	-1.6	1.3	-1.3	-1.9	-1.7	-1.4
Italy	-9.8	-9.2	-7.7	-6.9	-2.7	-2.2	-1.5	-1.0	-3.0	-2.9	-2.7	-3.4
Japan[a]	-2.8	-3.5	-3.9	-4.2	-3.7	-5.2	-7.6	-6.7	-6.3	-6.4	-7.1	-7.3
United Kingdom	-8.1	-6.7	-5.5	-4.6	-2.2	0.3	1.2	4.1	0.8	-1.4	-1.4	-1.3
United States	-4.4	-3.2	-2.6	-1.9	-0.6	0.5	1.1	2.0	0.6	-1.9	-2.0	-1.8
excluding social security	-5.1	-4.0	-3.4	-2.8	-1.7	-0.7	-0.3	0.5	-1.0	-3.4	-3.7	-3.7
Total of above countries	-4.6	-3.9	-3.5	-3.0	-1.6	-1.2	-1.2	0.0	-1.3	-2.8	-2.9	-2.8

Note: Central government financial balances include one-off revenues from the sale of mobile telephone licenses.

a) Data are only available for fiscal years beginning April 1 of the year shown. The 1998 deficit would rise by 5.2 percentage points of GDP if account were taken of the assumption by the central government of the debt of the Japan Railway Settlement Corporation and the National Forest Special Account.

Source: OECD.

Annex Table 58. **Maastricht definition of general government gross public debt**

As a percentage of nominal GDP

	1993	1994	1995	1996	1997	1998	1999	2000	2001	Estimates and projections 2002	2003	2004
Austria	61.8	64.7	69.2	69.1	64.7	63.9	64.9	63.6	63.2	63.3	62.2	60.2
Belgium	138.1	135.8	133.9	130.5	124.8	119.5	114.8	109.6	108.6	105.4	101.9	97.3
Denmark	78.0	73.5	69.3	65.1	61.2	56.2	52.7	46.8	44.7	41.9	38.7	35.1
Finland	56.0	58.0	57.2	57.1	54.1	48.8	46.8	44.0	43.4	39.8	39.6	39.1
France	45.3	48.4	54.6	57.0	59.3	59.5	58.5	57.3	57.3	59.3	61.2	62.2
Germany	46.9	49.3	57.0	59.8	61.0	60.9	61.2	60.2	59.5	61.7	63.0	63.4
Greece	110.1	107.9	108.7	111.3	108.2	105.8	105.1	106.2	107.0	106.4	103.6	99.7
Ireland	96.2	90.4	82.6	74.2	65.1	55.1	49.6	39.0	36.4	34.1	32.9	32.3
Italy	118.1	123.8	123.2	122.1	120.2	116.3	114.5	110.5	109.8	109.6	108.1	106.6
Luxembourg	5.7	5.4	5.6	6.2	6.1	6.3	6.0	5.6	5.6	6.0	6.0	6.0
Netherlands	78.8	75.7	77.2	75.2	69.9	66.8	63.1	55.8	52.8	51.7	50.6	49.0
Portugal	59.1	62.1	64.3	62.9	59.1	55.0	54.3	53.1	55.4	59.8	59.7	58.9
Spain	..	..	63.9	68.1	66.6	64.6	63.1	60.5	57.1	55.6	54.3	52.8
Sweden	..	76.2	76.2	76.0	73.1	70.5	65.0	55.3	56.6	52.8	52.2	51.5
United Kingdom	45.4	48.5	51.8	52.3	50.8	47.7	45.1	42.1	39.1	39.7	40.4	40.7

Note: Debt figures are based on ESA95 definitions. For the period 1993-2001, they are provided by Eurostat, the Statistical Office of the European Communities, while GDP figures are provided by National Authorities. The 2002 to 2004 debt ratios are projected forward in line with the OECD projections for general government gross financial liabilities and GDP.

Source: OECD.

Annex Table 59. **Monetary and credit aggregates: recent trends**

Annualised percentage change, seasonally adjusted

		Annual change (to 4th quarter)					Latest twelve months	
		1997	1998	1999	2000	2001		
Canada	M2	-1.0	0.7	3.8	7.3	5.8	6.9	(Sep. 2002)
	BL[a]	9.5	7.4	5.9	7.0	4.7	4.4	(Sep. 2002)
Japan	M2+CD	3.3	4.5	3.1	2.0	3.2	3.3	(Sep. 2002)
	BL[a]	1.2	-1.0	-0.6	2.5	-1.4	-1.3	(Aug. 2002)
United Kingdom	M0	6.6	5.2	9.3	9.0	7.7	8.2	(Oct. 2002)
	M4	5.4	8.8	3.6	8.8	7.4	5.7	(Sep. 2002)
	BL[a]	15.1	6.2	8.0	13.8	10.0	13.1	(Sep. 2002)
United States	M2	5.6	8.5	6.3	6.1	10.3	6.2	(Sep. 2002)
	M3	9.5	10.8	7.7	9.3	12.8	6.5	(Sep. 2002)
	BL[a]	8.6	9.8	4.5	12.1	2.6	8.2	(Oct. 2002)
Euro area	M2	5.1	3.9	5.7	6.6	4.0	6.4	(Sep. 2002)
	M3	4.5	4.7	5.1	5.0	4.6	7.1	(Sep. 2002)
	BL[a]	..	6.4	6.6	5.9	7.2	4.3	(Sep. 2002)

a) Commercial bank lending.

Source: OECD.

Annex Table 60. **Export market growth and performance in manufactured goods**

Percentage changes from previous year

	Import volume				Export market growth				Export volume				Export performance[a]			
	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004
Australia	-6.9	12.9	8.3	9.2	-2.2	4.9	9.8	9.9	5.5	10.0	8.4	7.6	7.9	4.9	-1.3	-2.1
Austria	2.2	-1.4	5.9	7.6	2.9	0.7	6.9	8.9	5.0	3.5	6.2	7.9	2.0	2.8	-0.6	-0.9
Belgium	-0.4	-1.3	5.0	7.0	1.9	-0.1	6.6	8.8	2.0	-1.3	4.7	6.8	0.0	-1.2	-1.8	-1.8
Canada	-7.0	1.4	7.1	8.4	-4.5	3.5	6.7	8.4	-6.0	0.8	5.8	8.4	-1.5	-2.7	-0.8	0.1
Czech Republic	16.0	4.1	7.1	10.3	4.1	0.5	6.9	8.7	14.5	5.6	7.1	10.8	10.0	5.1	0.2	1.9
Denmark	1.0	6.8	6.6	7.8	0.5	0.0	6.6	8.4	4.9	5.8	6.1	8.1	4.4	5.8	-0.5	-0.3
Finland	-3.5	-2.5	8.2	10.7	1.0	1.9	7.6	9.0	-0.6	1.2	7.5	9.5	-1.6	-0.7	-0.1	0.5
France	0.0	0.4	8.9	9.4	1.3	0.4	6.4	8.4	1.8	0.8	5.0	8.0	0.4	0.4	-1.4	-0.4
Germany	3.7	-2.3	5.4	8.4	0.7	1.5	7.2	8.9	5.3	1.8	5.4	8.2	4.6	0.2	-1.7	-0.6
Hungary	4.2	7.6	9.8	11.5	3.5	0.8	7.1	8.7	8.0	7.9	7.6	11.3	4.4	7.0	0.5	2.3
Iceland	-12.3	-6.1	4.5	10.6	1.5	0.3	5.7	7.9	10.7	10.7	0.8	5.0	9.0	10.4	-4.6	-2.7
Ireland	-2.1	5.9	4.8	8.4	0.9	0.3	6.2	8.6	4.7	6.8	5.6	8.5	3.8	6.5	-0.5	-0.1
Italy	-0.2	-1.0	4.1	6.0	1.1	1.3	7.4	8.9	0.3	-0.3	6.1	7.9	-0.8	-1.5	-1.2	-1.0
Japan	-1.6	2.1	3.2	3.6	-2.5	4.4	9.7	10.5	-11.2	8.7	8.0	6.1	-8.9	4.2	-1.6	-4.0
Korea	-3.0	13.8	11.5	9.3	-0.9	4.1	9.3	10.0	-5.4	6.2	11.5	10.7	-4.5	2.1	2.1	0.7
Luxembourg	10.5	-8.5	0.4	3.9	1.3	-0.2	6.7	8.7	0.8	-13.6	-3.9	-2.2	-0.5	-13.4	-9.9	-10.1
Mexico	-3.7	2.8	7.8	10.0	-4.7	3.0	6.5	8.2	-3.4	1.2	6.6	7.7	1.4	-1.7	0.1	-0.5
Netherlands	5.1	-3.2	4.8	10.5	1.0	0.2	6.6	8.5	6.7	-5.2	4.7	9.4	5.6	-5.4	-1.8	0.8
New Zealand	1.7	6.3	5.9	5.1	-3.7	6.9	7.7	8.4	0.2	7.6	7.8	7.0	4.1	0.6	0.0	-1.3
Norway	-1.1	-2.3	3.8	4.0	-0.2	0.7	6.9	8.8	5.7	-6.0	-5.0	0.0	5.9	-6.7	-11.1	-8.1
Poland	-3.0	3.5	12.5	11.8	3.5	0.4	6.8	8.9	19.5	4.7	10.5	11.2	15.5	4.3	3.5	2.2
Portugal	1.3	-1.4	2.7	5.6	1.5	-0.8	6.3	8.6	1.2	1.3	5.5	8.1	-0.3	2.1	-0.7	-0.5
Slovak Republic	13.6	-0.3	4.9	6.6	7.9	2.8	7.6	9.7	6.3	1.1	6.3	8.6	-1.5	-1.6	-1.2	-1.0
Spain	0.8	-3.8	5.8	9.2	1.1	0.4	6.7	8.4	-2.4	-3.8	4.8	8.6	-3.4	-4.3	-1.8	0.2
Sweden	-7.1	-2.0	7.0	7.9	0.5	1.3	6.9	8.7	-5.2	4.3	6.4	7.5	-5.7	2.9	-0.5	-1.1
Switzerland	1.2	-1.2	4.2	6.0	0.5	0.9	7.0	8.8	1.7	0.2	3.3	5.9	1.2	-0.6	-3.5	-2.6
Turkey	-28.2	13.4	5.5	16.0	3.6	1.7	7.6	8.8	3.9	8.5	5.9	12.8	0.3	6.6	-1.6	3.6
United Kingdom	3.6	0.7	5.6	9.1	-0.1	1.2	6.8	8.6	2.4	-1.6	3.0	8.2	2.5	-2.7	-3.6	-0.4
United States	-5.2	3.5	6.4	8.2	-2.1	2.3	7.9	9.1	-7.5	-4.5	7.1	9.4	-5.6	-6.7	-0.8	0.3
Total OECD	-1.3	1.3	6.2	8.3	-0.4	1.9	7.5	9.1	-1.2	1.1	6.1	8.2	-0.8	-0.8	-1.3	-0.8
Memorandum items																
China	15.9	17.7	16.6	14.3	-3.2	3.0	8.8	9.6	10.0	14.7	13.2	12.0	13.6	11.4	4.1	2.2
Dynamic Asia[b]	-8.4	3.2	15.8	15.5	-0.6	5.2	10.0	10.6	-6.6	3.2	16.3	13.9	-6.1	-1.9	5.7	3.0
Other Asia	5.3	4.4	7.1	6.5	-0.6	2.6	7.5	8.8	1.8	3.6	8.7	9.1	2.5	1.0	1.1	0.3
Non-OECD Asia	-1.0	7.5	15.1	14.2	-1.0	4.7	9.6	10.3	-1.8	6.6	14.9	13.1	-0.8	1.8	4.8	2.5
Latin America	1.5	-3.0	6.0	7.0	-1.1	0.9	6.8	8.2	3.0	2.5	6.9	8.1	4.1	1.6	0.1	-0.1
Africa and Middle-East	10.0	2.9	7.7	6.5	0.9	2.3	7.5	8.5	0.8	1.7	8.3	8.1	-0.1	-0.6	0.8	-0.4
Central and Eastern Europe	15.6	11.5	13.6	11.2	5.2	5.9	9.8	10.1	5.0	4.2	6.4	6.1	-0.2	-1.6	-3.1	-3.6
Total of non-OECD countries	2.3	5.8	12.8	12.0	-0.3	4.4	9.3	10.0	-0.9	5.9	13.4	12.1	-0.6	1.4	3.8	1.8
World	-0.4	2.5	7.9	9.3	-0.4	2.5	7.9	9.3	-1.1	2.2	7.8	9.2	-0.7	-0.3	-0.1	-0.1

Note: Regional aggregates are calculated *inclusive* of intra-regional trade. The calculation of export markets is based on a weighted average of import volumes in each exporting country's market, with weights based on manufacturing trade flows in 1995.

a) Export performance is calculated as the percentage change in the ratio of export volumes to export markets.

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

Sources: OECD; Direction of trade data - United Nations Statistical Office; OECD, *International Trade by commodity Statistics.*

Annex Table 61. **Geographical structure of OECD trade**

Percentage of nominal GDP

Area or country	Source/destination		Source of imports						Destination of exports					
			1962	1972	1982	1992	2000	2001	1962	1972	1982	1992	2000	2001
OECD[a]	**OECD**		**6.17**	**8.20**	**10.67**	**11.23**	**13.85**	**13.47**	**5.89**	**8.08**	**10.32**	**11.02**	**13.93**	**13.57**
	of which:	European Union	3.53	4.93	6.15	6.62	7.08	7.09	3.48	4.85	6.38	6.74	7.29	7.30
		United States	1.25	1.27	1.65	1.66	2.39	2.20	0.88	1.38	1.67	1.84	3.18	3.01
		Other	1.40	2.00	2.86	2.94	4.39	4.18	1.53	1.85	2.27	2.43	3.46	3.26
	Non-OECD		**2.24**	**2.35**	**4.59**	**3.08**	**4.93**	**4.80**	**2.24**	**2.22**	**4.13**	**2.98**	**3.55**	**3.58**
	of which:	DAEs + China[b]	0.25	0.34	0.76	1.20	2.28	2.20	0.27	0.38	0.75	1.15	1.65	1.52
		OPEC	0.58	0.80	2.13	0.71	0.98	0.90	0.28	0.40	1.40	0.54	0.41	0.45
United States	**OECD**		**1.80**	**3.45**	**4.94**	**5.76**	**8.21**	**7.56**	**2.22**	**2.93**	**4.22**	**5.09**	**5.91**	**5.30**
	of which:	European Union	0.69	1.15	1.45	1.60	2.24	2.18	0.96	1.13	1.69	1.71	1.68	1.59
		Other	1.11	2.30	3.49	4.16	5.97	5.39	1.26	1.80	2.53	3.38	4.23	3.71
	Non-OECD		**0.99**	**1.03**	**2.55**	**2.67**	**4.19**	**3.76**	**1.46**	**1.08**	**2.29**	**2.00**	**2.05**	**1.95**
	of which:	DAEs + China[b]	0.14	0.30	0.72	1.45	2.31	2.07	0.12	0.18	0.54	0.83	1.01	0.92
		OPEC	0.24	0.21	0.90	0.49	0.68	0.60	0.17	0.21	0.67	0.33	0.19	0.20
Japan	**OECD**		**5.36**	**4.16**	**4.66**	**3.30**	**3.64**	**3.77**	**4.13**	**5.60**	**6.59**	**5.42**	**5.91**	**5.68**
	of which:	European Union	0.88	0.73	0.78	0.89	0.98	1.06	0.97	1.40	1.79	1.76	1.64	1.55
		United States	2.94	1.92	2.18	1.37	1.51	1.52	2.27	2.91	3.28	2.52	2.99	2.91
		Other	1.54	1.51	1.69	1.04	1.14	1.19	0.89	1.29	1.52	1.14	1.28	1.22
	Non-OECD		**3.79**	**3.57**	**7.27**	**2.83**	**4.33**	**4.61**	**3.85**	**3.83**	**5.96**	**3.51**	**4.14**	**4.00**
	of which:	DAEs + China[b]	1.08	0.75	1.43	1.22	2.38	2.59	1.24	1.50	2.09	2.34	3.19	3.00
		OPEC	1.09	1.48	4.39	1.02	1.32	1.37	0.51	0.60	1.95	0.49	0.33	0.38
European Union[c]	**OECD**		**12.50**	**13.63**	**18.15**	**17.90**	**22.92**	**22.40**	**11.54**	**13.69**	**17.26**	**17.13**	**24.18**	**23.84**
	of which:	European Union	8.51	10.35	13.35	13.63	16.30	16.03	8.22	10.32	13.48	13.61	17.68	17.45
		United States	1.97	1.45	2.06	1.53	2.44	2.32	1.18	1.38	1.56	1.31	2.70	2.66
		Other	2.02	1.83	2.74	2.73	4.18	4.04	2.13	1.99	2.23	2.21	3.80	3.73
	Non-OECD		**4.36**	**3.74**	**6.26**	**3.42**	**5.60**	**5.59**	**3.44**	**3.09**	**5.53**	**3.20**	**4.32**	**4.71**
	of which:	DAEs + China[b]	0.31	0.28	0.57	0.94	1.96	1.90	0.30	0.25	0.44	0.65	1.09	1.13
		OPEC	1.12	1.38	2.82	0.71	0.98	0.87	0.47	0.59	2.06	0.70	0.62	0.70

a) OECD includes Korea from 1988. Trade data for Greece in 2001 are partially OECD estimates.
b) DAEs are the Dynamic Asian Economies (Chinese Taipei; Hong Kong, China; Malaysia; Philippines; Singapore and Thailand).
c) Trade data for Greece in 2001 are partially OECD estimates.
Source: OECD.

OECD ECONOMICS DEPARTMENT

A wide range of news and information about recent Economics Department studies and publications on a variety of topics is now regularly available *via* INTERNET on the OECD website at the following address: ***www.oecd.org/eco***. This includes links to the *Economics Department Working Papers* series, which can be downloaded free of charge, as well as summaries of recent editions in the *OECD Economic Surveys* series and the *OECD Economic Outlook.*

OECD ECONOMIC OUTLOOK

OECD Economic Outlook Flashfile

A datafile containing a summary of the *Economic Outlook* forecasts is now available on INTERNET at the time of its preliminary publication (a month to six weeks before the final publication date) at the following address: ***www.oecd.org/eco/statistics***. This includes key macroeconomic variables for all OECD countries and regions in text file form, which can be input directly into most statistical and analytical software. The *Economic Outlook* Flashfile is available free of charge.

Statistics and projections on CD-ROM

The full set of historical time series data and projections underlying the *OECD Economic Outlook* is now available on CD-ROM at the same time as its publication. The *OECD Economic Outlook* CD-ROM contains approximately 4 000 macroeconomic time series for OECD countries and non-OECD zones, beginning in 1960 and extending to the end of the published forecast horizon.

The general subject and country coverage for both versions are as follows:

Subject coverage

- Gross domestic product and its components
- Government and households appropriation accounts
- Fiscal and monetary indicators
- Labour market and supply indicators
- Wages, prices and profitability
- International trade and payments
- Potential output and output gaps

Country coverage

- 30 OECD countries
- OECD area aggregations
- Non-OECD zones
- The euro area

Subscriptions, which also include the printed version of the *OECD Economic Outlook*, may be made at any time of the year. For special conditions (Academics, Government Agencies, etc.) and information on commercial redistribution rights, contact OECD Publications. For more information, register to the OECD newsletters at ***www.oecd.org/OECDdirect*** or visit the OECD bookshop at ***www.oecd.org/bookshop*** or send your order to:

OECD Publications
2, rue André-Pascal
75775 Paris Cedex 16
FRANCE

OECD ECONOMIC SURVEYS

For more in-depth, country-by-country analysis, read the *OECD Economic Surveys*. By providing rich information on economic and policy developments, this series constitutes a must for financial institutions, multinational enterprises, consulting firms, universities and libraries. Each issue contains OECD assessments of:

- Recent macroeconomic performance
- The short-term outlook
- Monetary policy
- The fiscal stance
- Structural reforms in various areas such as the labour market, the financial system, taxation, healthcare, environment, etc.
- Specific themes, among which: tax reform, ageing populations, sustainable development and public expenditure.

Surveys are available for the following countries:

Australia
Austria
Belgium
Bulgaria
Canada
Czech Republic
Denmark
Finland
France
Germany
Greece
Hungary
Iceland
Ireland
Italy
Japan
Korea
Mexico
Netherlands
New Zealand
Norway
Poland
Portugal
Romania
Russian Federation
Slovak Republic
Slovenia
Spain
Sweden
Switzerland
Turkey
United Kingdom
United States

Available on subscription. You also create your own personalised collection by ordering just the books you need, for example, major seven OECD countries, European Union, Asia-Pacific, or central and eastern European countries, just a single country. For more information, register to the OECD newsletters at ***www.oecd.org/OECDdirect*** or visit the OECD bookshop at ***www.oecd.org/bookshop*** or send your order to:

OECD Publications
2, rue André-Pascal
75775 Paris Cedex 16
FRANCE

For customers in Germany and Austria
OECD Sales Office
August-Bebel-Allee 6, D-53175 Bonn
Tel.: (49-228) 959 1215
Fax: (49-228) 959 1218
E-mail: bonn.contact@oecd.org
Internet: *www.oecd.org/deutschland*

For customers in North America
OECD Washington Center
2001 L Street N.W., Suite 650
Washington DC, 20036-4922 USA
Tel.: 1 202 785 6323
Fax: 1 202 785 0350
E-mail: washington.contact@oecd.org
Internet: www.oecdwash.org

For customers in Japan and Asia
OECD Tokyo Centre
3rd Floor, Nippon Press Center Building
2-2-1, Uchisaiwaicho
Chiyoda-ku, Tokyo 100-0011
Tel.: 81 3 5532 0021
Fax: 81 3 5532 0035
E-mail: center@oecdtokyo.org
Internet: *www.oecdtokyo.org*

For customers in Central and South America
OECD Mexico Centre
Av. Presidente Mazaryk 526
Colonia: Polanco
C.P. 11560, Mexico D.F.
Tel.: 52 555 281 3810
Fax: 52 555 280 0480
E-mail: mexico.contact@oecd.org
Internet: *rtn.net.mx/ocde*

For customers in the rest of the world
OECD Paris Centre
2, rue André-Pascal
75775 Paris Cedex 16, France
Tel.: 33 1 45 24 9416
Fax: 33 1 45 24 9453
E-mail: sourceoecd@oecd.org
Internet: *www.sourceoecd.org*

Online ordering: *www.oecd.org/publications*
(secure payment with credit card)

OECD PUBLICATIONS, 2, rue André-Pascal, 75775 PARIS CEDEX 16
PRINTED IN FRANCE
(12 2002 72 1 P) ISBN 92-64-19162-3 – No. 52801 2002
ISSN 0474-5574