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FOREWORD

This edition of the *OECD Economic Outlook* analyses prospective economic developments in OECD countries over the next two years, and provides recommendations on the economic policies needed to ensure sustained economic growth. In addition, this volume examines the impact of the hike in oil prices on the OECD economies and presents alternative scenarios illustrating the possible macroeconomic effects of oil prices being significantly higher and lower than assumed in the central projections. It also looks at the main fiscal issues that Member countries are confronted with in the short and medium term.

The detailed country notes provide an assessment of the economic situation and the outlook for each Member country and certain non-member economies. The projections on which the policy assessments presented in this edition are based were finalised on 7 November and published in a preliminary edition on 20 November.

Apart from these issues a number of other themes are dealt with in more depth in four special chapters:

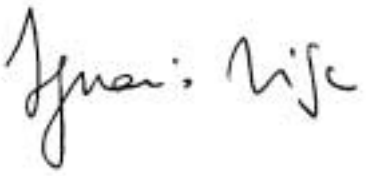
– *Links between policy and growth: cross-country evidence.* This chapter assesses the role that the accumulation of physical and human capital, as well as policies and institutions, have played in shaping economic growth in the OECD countries over the past decades. The analysis suggests that investment in all forms of capital is important for economic growth, while the move towards stability-oriented macroeconomic policies has had a positive effect on growth over the past decade. There is also evidence of a strong contribution from research and development (R&D) activities, especially if directly performed by enterprises. The chapter also addresses policy issues more directly related to the current debate on the new economy. In particular, it underscores the role that appropriate conditions in financial markets and product market regulations have in fostering innovation and productivity enhancement.

– *Revised OECD measures of structural unemployment.* This chapter reviews the conceptual background to, and presents revised estimates for, NAIRU-based measures of structural unemployment for most OECD countries. The policy-relevance of such measures is also discussed. Estimated NAIRUs fell in many OECD countries in the second half of the 1990s, although actual unemployment has remained well above the NAIRU for a majority of countries for much of the 1990s, particularly in Europe. Among the various estimates, the "short-run" NAIRU is seen as being useful in assessing to which shocks monetary policy should react. This measure may be strongly influenced by temporary shocks such as from oil and non-oil import prices; however, if such shocks are expected to dissipate in the near future no policy action may be necessary.

– *House prices and economic activity.* This chapter reviews the role of house prices in influencing private consumption and residential investment in OECD countries. Deregulation of the mortgage markets in most OECD countries since the 1970s has made it easier for households to borrow for current consumption on the basis of their housing wealth, and the easing of borrowing constraints has often been accompanied by sizeable withdrawal of housing equity. The analysis presented in the chapter and a review of existing empirical work for the major OECD countries suggest that house prices have a significant positive impact on private consumption through wealth effects and/or an easing of liquidity constraints. House prices also influence the profitability of house building, and in many countries there is a close association between profitability of house construction and private residential investment. A corollary of these results is that residential property prices can be useful indicators of demand pressures in the economy.

– *Trends in immigration and economic consequences.* This chapter reviews the size and nature of immigrant flows in OECD countries and some of the factors that influence the decision to migrate. It provides a preliminary assessment of the broad impact of immigration on labour markets and public finances. The chapter suggests that immigration has had no obvious impact on native unemployment and might even be

beneficial for the economy and for native employment to the extent that it acts as a source of flexibility. Success with recent efforts to ease skilled labour shortages through net immigration, however, could prove difficult to achieve in the short term. The chapter also notes that while increased immigration may limit the adverse impact of ageing populations on living standards and government budgetary positions, it cannot on its own resolve the problem.



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Conventional signs

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

Summary of projections[a]

Seasonally adjusted at annual rates

	2000	2001	2002	2000 I	2000 II	2001 I	2001 II	2002 I	2002 II
					Percentage changes from previous period				
Real total domestic demand									
United States	5.8	3.6	3.4	6.5	4.0	3.5	3.3	3.4	3.5
Japan	1.3	2.4	1.8	3.4	1.4	3.5	1.0	2.0	2.0
Euro area[b]	2.8	2.6	2.7	3.2	2.5	2.7	2.7	2.7	2.7
European Union	2.9	2.7	2.7	3.2	2.6	2.7	2.7	2.7	2.6
Total OECD	4.2	3.2	3.0	4.9	3.3	3.4	2.9	3.0	3.1
Real GDP									
United States	5.2	3.5	3.3	5.9	3.7	3.5	3.2	3.3	3.4
Japan	1.9	2.3	2.0	4.5	1.5	3.3	1.3	2.2	2.3
Euro area[b]	3.5	3.1	2.8	3.7	3.3	3.0	3.0	2.8	2.7
European Union	3.4	3.0	2.7	3.5	3.4	2.8	2.8	2.7	2.6
Total OECD	4.3	3.3	3.1	5.0	3.5	3.3	2.9	3.1	3.1
					Per cent				
Inflation[c]									
United States	2.1	2.2	2.3	2.6	2.1	2.3	2.2	2.3	2.3
Japan	–1.5	–0.4	–0.2	–1.8	–0.8	–0.2	–0.4	–0.1	–0.1
Euro area[b]	1.2	1.9	2.0	1.1	1.8	2.0	2.0	2.1	2.1
European Union	1.4	2.0	2.2	1.2	1.8	2.1	2.1	2.2	2.2
Total OECD *less* high inflation countries[d]	1.3	1.8	1.9	1.4	1.6	1.9	1.8	1.9	1.8
Total OECD	2.6	2.4	2.3	2.6	2.6	2.5	2.3	2.4	2.3
					Per cent of labour force				
Unemployment									
United States	4.0	4.2	4.5	4.0	4.0	4.1	4.3	4.4	4.6
Japan	4.7	4.6	4.6	4.8	4.7	4.7	4.6	4.6	4.6
Euro area[b]	9.0	8.3	7.7	9.2	8.8	8.4	8.1	7.8	7.6
European Union	8.2	7.6	7.2	8.4	8.0	7.7	7.5	7.3	7.1
Total OECD	6.2	6.0	5.9	6.3	6.1	6.0	6.0	6.0	5.9
					Per cent of GDP				
Current account balances									
United States	–4.3	–4.5	–4.3	–4.2	–4.4	–4.5	–4.4	–4.4	–4.3
Japan	2.8	2.7	3.0	2.9	2.7	2.6	2.8	3.0	3.1
Euro area[b]	0.0	0.1	0.4	0.1	–0.1	0.0	0.2	0.3	0.5
European Union	–0.2	–0.2	0.0	–0.1	–0.3	–0.2	–0.2	0.0	0.1
Total OECD	–1.2	–1.3	–1.2	–1.1	–1.3	–1.3	–1.3	–1.2	–1.1
					Per cent				
Short-term interest rates[e]									
United States	6.5	7.0	7.0	6.3	6.7	6.9	7.1	7.1	6.9
Japan	0.2	0.6	0.9	0.1	0.3	0.5	0.8	0.9	0.9
Euro area[b]	4.4	5.4	5.5	3.9	4.9	5.3	5.5	5.5	5.5
					Percentage changes from previous period				
World trade[f]	13.3	9.7	8.0	14.3	12.6	9.0	8.2	8.0	7.7

a) Assumptions underlying the projections include:
– no change in actual and announced fiscal policies;
– unchanged exchange rates from 30 October 2000; in particular $1 = ¥ 108.80 and 1.189 euro;
– the cut-off date for other information used in the compilation of the projections was 7 November 2000.

b) Greece will enter the euro area on the 1 January 2001. In order to present consistent projections for the euro area and to ensure comparability of the euro area data over time, Greece has been included in the calculation of the euro area throughout.

c) GDP deflator, percentage changes from previous period.

d) High inflation countries are defined as countries which had, on average, 10 per cent or more inflation in terms of the GDP deflator during the 1990s. Consequently, Greece, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

e) 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.

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

Source: OECD.

EDITORIAL

The outlook overall remains broadly favourable…

Global economic growth appears to have peaked during the first half of 2000, but world economic prospects remain relatively bright, despite higher oil prices and a weakening in many equity markets. After reaching 4¼ per cent this year – the fastest pace in more than a decade – OECD-wide output growth is projected to slow to about 3¼ and 3 per cent in 2001 and 2002, respectively. Against a background of some modest further tightening in monetary policy in the United States and in the euro area, core inflation is likely to remain low in most OECD countries. Area-wide employment should continue to rise while unemployment may remain close to its present level, at about 6 per cent of the labour force. With a sharper and more widespread rebound in activity outside the OECD area than earlier expected, world output may rise by some 4¾ per cent this year, before slowing to a growth rate of 4 per cent in 2001 and 2002.

… provided oil prices do not rise further…

This broadly favourable outlook is particularly conditioned on the assumption that world oil prices ease back slightly from their recent levels – some 60 per cent higher than the average price in 1999 – and on the absence of turbulence in financial markets. Despite OPEC production increasing somewhat since the beginning of the year, the oil market will remain tight over the coming months, with strong demand, crude production close to capacity and stocks near historically low levels. This low stock situation, in particular for some refined oil products in certain regions, and the prospect of continuing political tensions in the Middle East has also resulted in an unusually volatile market. Given these market conditions, a relatively minor disruption to supply or a spike in demand, for instance in the event of an unusually cold winter, could lead to higher prices in the short run. The current situation, however is not a crisis of the same dimension as the oil price shocks in the 1970s, in part since oil intensity in the OECD area has halved and because production possibilities are such that demand trends are likely to be satisfied at lower prices, once the short-term tightness in oil markets dissipates.

The macroeconomic consequences of recent higher oil prices hinge critically on the extent to which they become embedded in the wage and price inflation process through attempts to restore lost real incomes. So far, and in contrast to previous episodes of oil price hikes, there has been no evidence of such behaviour. Both the greater importance attached to price stability as a goal of macroeconomic policy and the impact of increased product market competition on wage bargaining attitudes may account for this. Nevertheless, the situation may change if oil price increases are sustained or spike higher, with the possibility of relatively large consequences for output and inflation.

… and financial markets remain relatively calm

Against the background of turmoil in oil markets, financial market developments, so far, do not suggest turbulence or rising distress levels, but remain possible sources of risk to the outlook. In particular:

– The optimism attached to technology stocks at the beginning of the year has waned and risk premia in high-yield corporate bond markets have widened. If these developments were to intensify or generalise to all financial markets, then there would be adverse consequences on household wealth and on the

ability for firms to obtain finance. This would impact on confidence and discourage private spending, especially in the United States, triggering a sharper than projected slowdown in activity.

– The lower value of the euro and of the currencies in some other OECD countries over the past year could lead to more inflation than projected in these areas, if for instance, the earlier exchange rate movements are increasingly considered to be permanent and result in larger than anticipated lagged price responses.

– Attractive rates of return and buoyant economic conditions in the United States have ensured that the record high current account deficit could be financed without difficulty. Ultimately, however, the current account deficit will require adjustment. It may take place smoothly, but a sudden reversal cannot be excluded. A change in sentiment, for instance, could slacken the pace of capital flows and lead to turbulence in foreign exchange markets with inflationary consequences, possibly requiring a monetary policy response. This in turn, would raise the possibility of a more abrupt slowing in the US economy.

– In a number of non-OECD emerging market countries, growth could be inhibited by continuing downward trends in equity prices, higher oil prices and the projected slowdown in the OECD area. This risk would rise, particularly in those economies that have not fully dealt with balance sheet problems in their corporate sectors, if significantly higher interest rates were required to ward off inflation in OECD countries.

Monetary policy in the United States will depend on how rapidly pressure on capicity eases

A slowdown in the US economy is now underway, as private demand reacts to earlier tightening of monetary policy, recent declines in stock market prices and the real income effects of higher oil prices. This should help reduce excess demand that appears to have characterised the economy in recent years and ease the inflationary risks entailed by the jump in oil prices. The rebalancing process will be further assisted by the rise in underlying productivity and potential growth rates that has taken place in the latter part of the 1990s. But actual productivity growth is likely to come down as the economy slows, thus contributing to a lesser extent to restraining price increases, while continued tightness in the labour market may push up wage inflation. The projections assume that a further modest increase in the federal funds rate in 2001 may be necessary to check inflationary pressures and that this will be perceived by markets as necessary and therefore will not adversely affect confidence. With the output gap continuing to decline in 2002 and as the economy moves towards balance, there should be scope for the Federal Reserve to start reducing interest rates during the course of that year.

The US fiscal position should remain unchanged

As regards fiscal policy, and on the basis of existing legislation, the structural budget surplus is officially projected to continue to rise steadily. A new Administration taking over next year is unlikely to change this position immediately. In any case, given current economic conditions, a fiscal stimulus would not be desirable. For 2002 and beyond, however, a new Administration and Congress are likely to move forward with a policy agenda that appears likely to involve some combination of tax cuts and spending increases. The scope for such measures is sensitive to prospects for potential output and, in particular, the extent to which recent increases in trend productivity growth can be sustained. The uncertainties in this regard are substantial and it would be prudent to base any measures on conservative assumptions, while taking account of the spending pressures that population ageing will bring.

In the euro area, the challenge for policy is to avoid inflationary bottlenecks and prolong the expansion

The rise in oil prices and less supportive monetary conditions have already contributed to a moderate deceleration in the pace of activity in the euro area during the course of this year. Nonetheless, output is set to expand at rates above potential over the coming two years, with unemployment declining to a 20-year low. Underlying inflation trends have been surprisingly benign in the face of the oil price hike and the depreciation of the euro, but core inflation is projected to move up somewhat as spare capacity is exhausted and wage pressures start to emerge. The challenge for policy is to avoid inflationary bottlenecks and prolong the expansion. So far, there is no clear evidence that the euro area has succeeded in raising economy-wide productivity growth through the production or use of information and communication technology, although a key question is whether it is now the euro area's turn to deliver surprises in this area. A further key issue is the extent to which structural reforms in product and labour markets over the 1990s have contributed to strengthening aggregate supply. Monetary policy will need to be based on careful assessments of the current level and growth rate of potential output. In this context and provided the euro does not significantly appreciate in the short term, the ECB may need to raise interest rates somewhat further – the OECD assessment is for a rise of 50 basis points – to keep core inflation from settling durably above 2 per cent.

Any additional major easing of fiscal policy would be inappropriate at this stage

With respect to fiscal policy, the various tax and spending measures put into effect in 2000 and announced for 2001 and 2002 imply a broadly neutral stance overall during this three-year period, although projected changes in country structural positions vary across the euro area. While improved trends in the underlying fiscal position have provided room for tax cuts in some countries, additional major easing of fiscal policy would not be appropriate at present given limited spare capacity. Indeed, in most countries further progress in strengthening public finances is required in view of still large public indebtedness and future pension liabilities. This should not preclude further tax reforms that help to improve supply performance to the extent they are financed through expenditure restraint or implemented in a revenue neutral manner. Maintaining the momentum for structural reforms more generally still remains a priority.

In Japan, the policy mix should be rebalanced…

The Japanese economy has started a moderate recovery. Output is projected to grow at a rate of 2 to 2¼ per cent during the projection period and as the output gap closes slowly, deflation should gradually subside. Employment may increase modestly, though unemployment is likely to remain high as the labour force responds to the improved economic situation. Given a modest but sustained recovery underway and provided it continues, a re-balancing of policy needs to begin, with monetary policy continuing to support growth and fiscal consolidation starting gradually during 2002.

… within the context of a transparent medium-term macroeconomic policy framework

This re-balancing would be best implemented in the context of a transparent medium-term framework for macroeconomic policy. Without such a framework for the policy mix, there is a danger that confidence will not be restored and that long-term interest rates will rise, thereby reducing growth prospects and subjecting the financial sector to stress. Maintaining the credibility of monetary policy would be facilitated by an explicit medium-term monetary strategy, that made clearer the means to achieve the overall price stability objective. Similarly, the gradual start to fiscal adjustment should be part of a transparent and credible fiscal improvement plan aimed at stabilising, and ultimately reducing, the debt-to-GDP ratio over the medium term. Given the amount of tightening that this will involve, the government's commitment to a well-defined consolidation strategy would limit the restraining effects on the economy and ensure an orderly financing of budget deficits. Within this broad framework, priority will also need to be given to improving the

efficiency of the public expenditure system, with spending decisions more systematically based on an overall assessment of economic returns. The third crucial element of the overall policy approach is the continued pursuit of efforts to restructure and liberalise the economy to enhance growth and efficiency.

"Old economy" mechanisms are still crucial to understanding the growth process

While global economic growth appears to have peaked, the outlook implies an unusually long expansion by historic standards in the United States and in a few other OECD economies. Coupled with the strong pick-up in productivity growth that occurred over the past five years in the United States, such performance has prompted much discussion on the sources of growth and the set of policies which favour a better growth performance. While the debate is dominated by "new economy" arguments emphasising the production and diffusion of information and communications technology, the evidence suggests that "old economy" mechanisms are still crucial to understanding the growth process. In particular, the accumulation of various kinds of capital – physical and, especially, human – as well as research and development are important for growth, and differences across countries in this respect contribute significantly to explain the observed variations in growth patterns.

Raising levels of *per capita* income in the long term requires a broad set of policies, including: sound macroeconomic management; a tax system that encourages work effort and entrepreneurship; openness to international trade and competition; and government expenditure programmes that emphasise investment and capital accumulation, including investment in infrastructure. Appropriate conditions in financial markets and product market regulations also have an important role in fostering innovation and productivity enhancement. The "new economy" does, however, raise some novel policy challenges, notably in respect of consumer protection, taxation and competition policy.

17 November 2000

I. GENERAL ASSESSMENT OF THE MACROECONOMIC SITUATION

The global situation and outlook

Global economic growth appears to have peaked

The current expansion of global economic activity is now maturing. Growth in most OECD countries is projected to slow following strong performance in late 1999 and the first half of 2000, although in Europe it will be fast enough to imply further declines in unemployment. Evidence of such slowing has appeared in the United States in recent months and seems to be emerging in some European countries. A major exception to this general picture is Japan, where a moderate recovery driven by strong profits and business investment is still gathering strength, but spare capacity, while being absorbed slowly, is nonetheless likely to persist for some time. Overall, following a projected 4¼ per cent increase in output in the OECD area in 2000, growth may slow to around 3¼ per cent in 2001 and 3 per cent in 2002 (Table I.1). Outside the OECD area, recoveries from the emerging markets crisis have gained momentum and inflation remains moderate. For the world as a whole, growth may slow from 4¾ per cent in 2000 to 4 per cent in 2001 and 2002.

Higher oil prices are slowing demand and activity

The rise in world oil prices to nearly double their average since their sharp fall in 1986, with benchmark Brent crude averaging close to $31 per barrel during October, has contributed to the apparent moderation in the overall pace of economic activity in the OECD area. By directly raising consumer prices in most countries during the past year and thus reducing the purchasing power of households, it is acting like an indirect tax increase, and reinforcing the restraining effect of the monetary tightening that began in the second half of 1999. So far, despite protests against higher oil-related costs in some countries, there is little evidence of inflationary wage

Table I.1. **Output growth**

Percentage increase in real GDP over previous period

	1999	2000	2001	2002
United States	4.2	5.2	3.5	3.3
Japan	0.2	1.9	2.3	2.0
Euro area[a]	2.5	3.5	3.1	2.8
European Union	2.4	3.4	3.0	2.7
Total OECD	3.0	4.3	3.3	3.1
Memorandum items:				
Non-OECD area[b]	3.8	5.4	5.4	5.5
World[b]	3.3	4.7	4.1	4.1

a) Greece will enter the euro area on 1 January 2001. In order to present consistent projections for the euro area and to ensure comparability of the euro area data over time, Greece has been included in the calculation of the euro area throughout.

b) The outlook for regions for which the OECD does not make projections is based on IMF and World Bank assessments, using weights based on purchasing power parities.

Source: OECD.

Box I.1. Policy and other assumptions underlying the projections

Fiscal policy assumptions are based on measures taken and stated policy intentions, where these are embodied in well-defined programmes.* For the OECD area as a whole, the outlook is for fiscal stances, as measured by changes in structural budget balances, to be broadly neutral in 2001 and in 2002 as the clearly restrictive stance in place over the past several years comes to an end. This, however, masks divergent trends across the area: there is a tightening of fiscal policy in the United States; a slight move towards some easing in Japan in 2001 and, once account is taken of one-off revenue increases related to taxation of interest income on postal deposits in 2000 and 2001, a tightening in 2002; and a broadly neutral strance in the European Union as a whole.

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 case of the United States, this is interpreted to imply that the federal funds rate will be increased by ½ percentage point during the first half of 2001 as inflation pressures intensify, but short-term interest rates should ease by the end of the projection period as the economy slows and inflation remains under control. Maintenance of price stability over the medium term is the primary objective in the euro area.** With headline inflation running ahead of the target and spare capacity disappearing throughout the region, the European Central Bank is assumed to raise its key policy rate by ½ percentage point during the first half of 2001 so that three-month money market rates reach 5½ per cent and stay there through 2002. In Japan, the "zero-interest rate policy" came to an end in August 2000, and policy rates are assumed to remain constant at current low levels throughout the projection period.

The projections assume unchanged exchange rates from those prevailing on 30 October 2000; in particular, one US dollar equals ¥ 108.8 and 1.19 euro. The fixed exchange rate assumption is modified for Hungary and Turkey to allow for continuous depreciation, reflecting the OECD interpretation of "official" exchange rate policies.

Oil prices have moved significantly above levels built into the projections finalised just six months ago, averaging $30 per barrel for Brent crude over the third quarter of 2000. In view of the unusually large amount of uncertainty surrounding the near-term course of oil prices as the winter heating season approaches, the technical assumption has been adopted that OECD oil import prices, which normally average around $1 less than Brent crude prices, remain at $30 per barrel until mid-2001. They are assumed to decline somewhat thereafter to $27 per barrel in the second half of 2002. Overall non-oil commodity prices, after having started to increase in the second half of 1999, are projected to rise further in 2001 as prices of metals and, to a lesser extent, agricultural raw materials respond to high global industrial activity. During 2002 non-oil commodity prices are assumed to move in line with prices of OECD manufactured exports.

The cut-off date for information used in the projections was 7 November 2000.

Oil and non-oil commodity prices

	1998	1999	2000	2001	2002
	Percentage changes				
OECD import oil price (cif)	–34.2	37.3	63.6	4.2	–6.8
Non-oil commodity prices[a]	–13.7	–7.2	9.5	3.9	1.2
Memorandum item:					
OECD import oil price (cif, $/barrel)[b]	12.6	17.3	28.3	29.5	27.5

a) Total Hamburg commodity price index, excluding energy. OECD estimate for 2000 and OECD projections for 2001 and 2002.
b) The historical data for 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 estimate for 2000 and OECD projections for 2001 and 2002.
Sources: Hamburg Institute for Economic Research (HWWA), International Energy Agency and OECD.

* Details of assumptions for individual countries are provided in the corresponding country notes in Chapter II "Developments in Individual OECD Countries".
** Price stability is defined as an annual increase of the harmonised index of consumer prices below 2 per cent.

and price adjustments designed to recover the lost real income. Thus, notwithstanding the rise in headline inflation, and unlike the experience during the oil price rises of the 1970s, core inflation (*i.e.* excluding food and energy) has risen only slowly and remains low in most countries.

But the outlook remains relatively favourable…

Monetary authorities appear to have responded by looking beyond the headline numbers and basing their actions on the medium-term outlook for inflation. Provided wage settlements continue to reflect core inflation, as is assumed in the projections, and central banks continue to focus on the medium term, there should be no repetition of the stagflation that followed previous large oil price rises. Indeed, the overall outlook remains relatively favourable: inflation should remain subdued and economic expansion should continue with the level of activity moving into line with potential in most countries.

… despite oil prices assumed to remain high

A key assumption underlying the projections is that world oil prices will stabilise around their recent high levels until mid-2001 and decline only slightly thereafter to end-2002 (Box I.1). On this basis, the negative effects of the oil price rise should pass fairly soon as the income transfer from OECD countries to oil exporters, so far mainly reflected in the large improvement in the current accounts of Africa and the Middle East (Table I.2), stops rising. Headline inflation will converge with, or even drop below, core inflation and, as oil producers eventually spend more of their revenues, rising exports will support activity in OECD countries. Large current account imbalances will remain in a number of countries, however, notably in the United States, although typically these reflect factors other than oil.

Financial markets have been comparatively steady

Against the background of turmoil in world oil markets and the likelihood of continuing tension in the Middle East, reports that conditions in financial markets are becoming tighter have been widespread. There is scattered evidence to support this: the

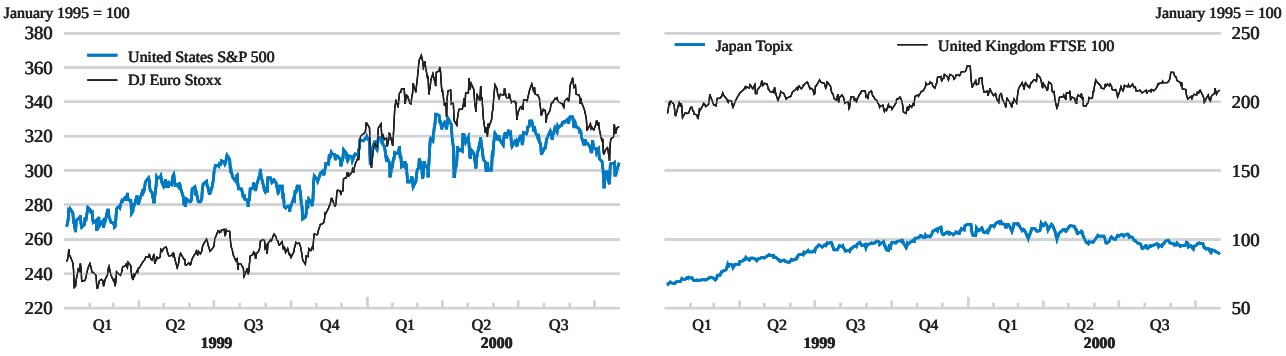
Table I.2. **Current account balances**

	1999	2000	2001	2002
	Per cent of GDP			
United States	–3.6	–4.3	–4.5	–4.3
Euro area[a]	0.4	0.0	0.1	0.4
European Union	0.2	–0.2	–0.2	0.0
Japan	2.5	2.8	2.7	3.0
OECD	–0.8	–1.2	–1.3	–1.2
	Billion of dollars			
United States	–331.5	–432.8	–470.5	–483.3
Euro area[a]	29.6	–1.0	6.9	23.5
European Union	20.8	–15.0	–13.2	1.3
Japan	106.9	127.6	126.5	143.0
OECD	–204.0	–307.1	–338.2	–318.7
Memorandum items:				
China and other Asia	7.5	3.4	0.3	–5.6
Latin America	–35.6	–25.1	–26.4	–33.0
Africa, Middle East	–9.6	82.4	82.7	65.1
Former Soviet Union, Central and Eastern Europe	15.6	27.7	19.0	12.6
World	–154.1	–162.4	–205.5	–225.3

a) Greece will enter the euro area on 1 January 2001. In order to present consistent projections for the euro area and to ensure comparability of the euro area data over time, Greece has been included in the calculation of the euro area throughout.

Source: OECD.

Figure I.1. **Equity price developments**



Source: Bloomberg.

latest Federal Reserve's Senior Loan Officer Survey on Bank Lending Practices indicated that business lending practices are firming; some corporate borrowers have reportedly had trouble accessing capital markets, with a notable fall in initial public offerings in recent months; some spreads have widened in credit and bond markets; and prices of some richly valued technology stocks have fallen sharply following disappointing announcements of financial results. But it is not clear how far these indications generalise. While there has evidently been a problem of indigestion arising from very high demands for capital from telecommunications companies, overall price trends in major financial markets since the *OECD Economic Outlook* 67 projections were finalised in May do not suggest major turbulence or rising distress levels.

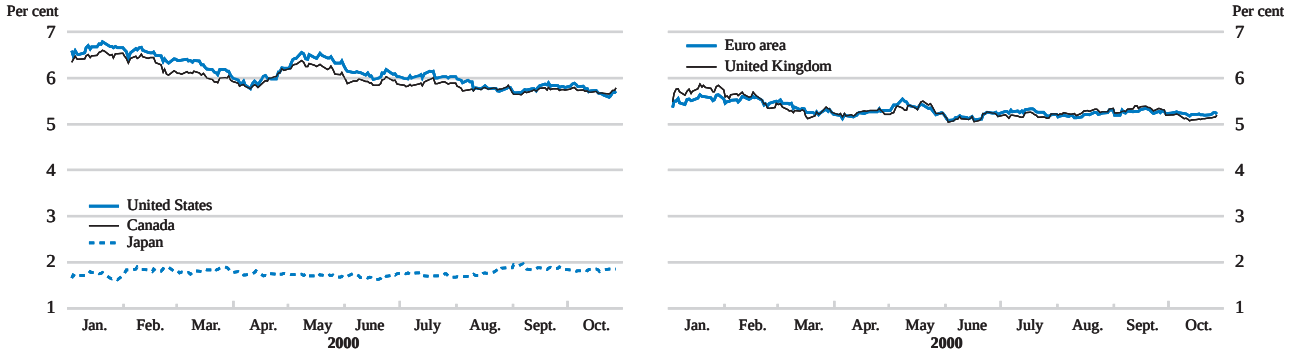
– *Foreign exchange markets*. Since May, the euro has been recurrently weak, depreciating by 7½ and 8 per cent against the dollar and the yen, respectively, and around 4 per cent in effective terms by the time exchange rates underlying the projections were fixed at the end of October. This has contributed to modest effective appreciations of the dollar and the yen, amounting to 3 and 4 per cent, respectively. The continued weakness of the euro was of enough concern to lead G-7 countries to support it with market intervention on 22 September. After the European Central Bank resumed interventions in early November, it regained some of its lost ground.

– *Equity markets*. Stock markets in the United States and Europe have fluctuated without a clear direction, while the equity market in Japan has softened (Figure I.1). In the latter part of September and into October, a string of disappointing profit results and warnings sent stock markets around the world lower, with many technology shares being particularly hard hit. Although many markets recovered subsequently, in mid-November, the main markets were significantly below their peak early this year, easing concerns that wealth effects were fuelling excess demand in some countries, especially in the United States.

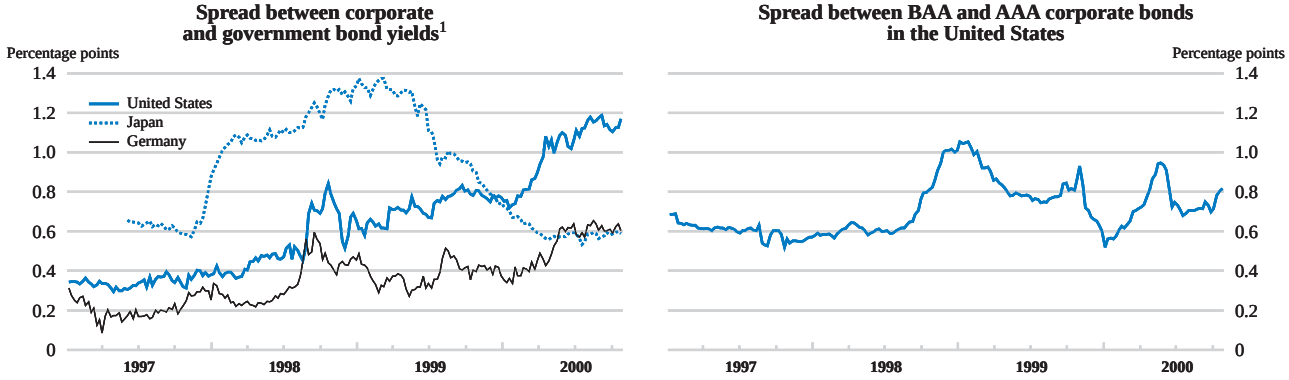
– *Bond markets*. Government bond yields have eased in the United States and remained steady in the euro area (Figure I.2), despite increases in policy-determined interest rates and the euro's weakness. In Japan, interest rates rose somewhat all along the yield curve following the abandonment of the "zero interest rate policy" in August. In the United States, the yield differential

Figure I.2. **Long-term interest rates**

Panel A. 10-year government bond yields



Panel B. Yield spreads



1. United States: AAA-rated paper; Japan: BAA bonds; Germany: Pfandbrief/kommunal 10-year. Government bond yields are for 10-year benchmark bonds, except for Japan: 5-year.

Sources: Bloomberg, Japanese Securities Dealers Association, Federal Reserve Board.

between AAA-rated private and government bonds has not risen significantly since May, although it is relatively high, reflecting *inter alia* supply conditions in the government bond market and continuing concerns about risks. The differential between AAA-grade and riskier corporate bonds was rather stable until mid-September, but spreads widened significantly thereafter, especially for "junk" bonds. In Europe, the differential between high-yielding private bonds and government securities has widened significantly in the past six months, primarily due to investors' concerns about deteriorating balance sheets of companies in the telecommunication sector.[1]

Interest rates may rise moderately in most OECD countries

During the projection period it is assumed that policy-controlled and short-term market interest rates will rise further, though moderately, across much of the OECD area as pressure on capacity emerges or remains high. Long-term interest rates are broadly projected to follow. In the United States and some other countries, where

1. The spread of bonds in the "Euro High Yield Index" rose by around 250 basis points from May to October, see Merrill Lynch, *Bond-Indices – Europe*, November 2000.

expansions are already mature, a small further increase in policy-determined rates is assumed to take place in the near future. However, the phase of monetary tightening is assumed to come to an end as demand begins to converge towards sustainable supply, allowing declines in policy-determined rates before the end of the projection period. In the euro area, an additional increase in policy rates is projected to raise short-term market rates to 5½ per cent by mid-2001. In Japan, official rates are assumed to remain constant at their current levels, but market rates could firm somewhat as the recovery becomes better established. Changes in fiscal stance are not expected to be a major force operating on the OECD area (see below).

World trade growth is set to moderate

Following its steep increase in 1999 and 2000, the expansion of world trade is set to slow somewhat in coming years (Table I.3). The slowdown is likely to be most pronounced in trade within the OECD region, where the rate of growth could be almost halved by 2002 (to 7 per cent) compared with 2000. The OECD area will continue to benefit from strong export growth to the non-OECD region. However, reflecting the increase in the oil price, the terms-of-trade of the OECD has deteriorated significantly and will improve only modestly with the slow decline in oil prices assumed from the middle of 2001.

Growth will slow in the United States…

The slowdown in the United States is being led by household spending on consumption and residential construction. Driving factors include monetary tightening since June 1999, higher mortgage rates since early 1999, the retreat of equity prices

Table I.3. **World trade summary**

Percentage changes from previous period

	1999	2000	2001	2002
Merchandise trade volume				
World trade[a]	5.9	13.3	9.7	8.0
of which: Manufactures	6.9	14.6	10.1	8.3
OECD exports	5.1	12.9	9.3	7.6
OECD imports	8.5	12.7	9.2	7.4
Non-OECD exports	6.5	15.0	10.2	9.0
Non-OECD imports	0.0	14.8	11.6	10.0
Memorandum items:				
Intra-OECD trade[b]	7.4	12.3	8.9	7.1
OECD exports to non-OECD	1.7	15.1	11.4	9.5
OECD imports from non-OECD	7.3	14.4	9.9	8.5
Trade prices				
OECD exports[c]	–2.6	–3.9	–2.0	1.4
OECD imports[c]	–2.8	–1.4	–1.5	0.9
OECD terms-of-trade with rest of the world[d]	–0.8	–7.3	–1.4	1.2

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 local currency.
d) The OECD terms of trade are calculated as the ratio of OECD export to OECD import prices, excluding intra-OECD trade.
Source: OECD.

from their peaks and the impact of rising energy prices on real income. As profit growth eases and long-term borrowing rates remain high, business investment is also likely to slow. Exports should remain buoyant, however, and despite further monetary tightening, growth is projected to come down from 5¼ per cent in 2000 to a still-healthy 3½ per cent in 2001 and 3¼ per cent in 2002, only slightly below potential, while pressure on capacity remains high.

… and in Europe…

Growth in the euro area through the first part of 2000 was strong and broadly based across the region as buoyant domestic demand was reinforced by continued strength of exports. It may be expected to slow moderately from now on, however, reflecting less supportive monetary conditions and households' losses of purchasing power associated with the increase in energy prices. Notwithstanding this slowdown, growth is projected at about 3½ per cent in 2000 and 3 per cent in 2001, leading to the disappearance of the area's output gap. Indeed, the growing pressure on resources is already a concern in several Member countries where cyclical unemployment has been substantially reduced or fully eliminated. In the rest of the European Union, growth has been strong during 2000 but should also come down over the next two years.

… while a moderate recovery becomes established in Japan

The Japanese recovery is becoming established with growth projected to average just over 2 per cent during 2001 and 2002. Rising profits – both actual and anticipated – and increasing demand for information technology will continue to support business investment and to drive the expansion, although some sectors remain affected by restructuring. In this environment, private consumption should strengthen, supported by increases in wages and winter bonuses, falling consumer prices and a modest expansion of employment. The high volume of fixed term postal savings due to mature between October 2000 and May 2001 will provide considerable liquidity to the household sector and may stimulate consumption somewhat. At the same time, the oil price rise may have less effects on private consumption in Japan than elsewhere as it may be offset by lower profit margins of distributors since competition in this segment of the market has increased in the wake of regulatory reforms. The coming fiscal package, the outline of which is assumed to result in ¥ 2.5 trillion for public works (½ per cent of GDP), will provide additional support by boosting public investment during the first half of 2001. However, slower export growth, due to a decline in market growth and the lagged effects of the yen's appreciation during 1999, and progressive fiscal tightening as public works spending eventually begins to decline will act as restraining forces. Activity will remain below its potential level during 2002.

Growth in most other OECD countries should also slow in line with the general area trend

Growth in most remaining OECD countries is likely to slow somewhat. In a number of cases, including both advanced economies (Canada and Australia) and emerging market economies (Korea, Mexico and Turkey), it should remain in line with or above the area average. In others (New Zealand, Norway and Switzerland), it is projected to slow to more modest rates. The transition countries are exceptions to this picture, as growth is set to remain steady and robust in Hungary and Poland and will rise in the Czech Republic.

Employment growth will continue but at a reduced rate in most countries…

As demand and activity have strengthened during recent years, employment has grown strongly in most of the OECD area (Table I.4) and unemployment has fallen sharply (Japan remains the major exception). With growth set to slow, employment increases in the area as a whole will ease from their 2000 levels. Correspondingly,

Table I.4. **Unemployment, output gaps and inflation**

	1999	2000	2001	2002
	Per cent			
Employment growth				
United States	1.5	1.3	0.7	0.8
Japan	–0.8	–0.4	0.3	0.4
Euro area[a]	1.8	2.1	1.6	1.3
European Union	1.7	1.9	1.4	1.1
Total OECD	1.1	1.5	1.2	1.1
	Percentage of labour force			
Unemployment rate				
United States	4.2	4.0	4.2	4.5
Japan	4.7	4.7	4.6	4.6
Euro area[a]	9.9	9.0	8.3	7.7
European Union	9.1	8.2	7.6	7.2
Total OECD	6.7	6.2	6.0	5.9
	Millions			
Unemployment levels				
United States	5.9	5.7	6.0	6.5
Japan	3.2	3.2	3.1	3.2
Euro area[a]	13.6	12.4	11.5	10.8
European Union	15.7	14.4	13.4	12.8
Total OECD	33.7	31.7	31.0	30.8
	Per cent			
Output gaps[b]				
United States	1.3	2.5	1.7	1.1
Japan	–3.8	–3.2	–2.2	–1.7
Euro area[a]	–1.4	–0.3	0.3	0.6
European Union	–1.2	–0.2	0.4	0.6
Total OECD	–0.5	0.5	0.5	0.5
Inflation[c]				
United States	1.5	2.1	2.2	2.3
Japan	–0.9	–1.5	–0.4	–0.2
Euro area[a]	1.2	1.2	1.9	2.0
European Union	1.5	1.4	2.0	2.2
Total OECD *less* high inflation countries[d]	1.0	1.3	1.8	1.9
Total OECD	2.5	2.6	2.4	2.3

a) Greece will enter the euro area on 1 January 2001. In order to present consistent projections for the euro area and to ensure comparability of the euro area data over time, Greece has been included in the calculation of the euro area throughout.
b) Per cent of potential GDP.
c) Percentage change in the GDP deflator from previous period.
d) 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 1990s. Consequently, Greece, Hungary, Mexico, Poland, and Turkey are excluded from the aggregate.
Source: OECD.

unemployment is projected to remain fairly stable around its current level, although there will be variations across regions. The largest employment gains are still expected in the European Union, pushing the unemployment rate down to just over 7 per cent, the lowest level in 20 years. In contrast, employment growth will slow to a rate below that of the labour force, leading to a modest rise in unemployment in North America, while employment growth will only be sufficient to stabilise unemployment at a high level in Japan.

… while, abstracting from energy prices, inflation will drift up slightly

Headline inflation has risen in response to higher energy prices with the notable exception of Japan. So far, however, underlying inflation remains relatively subdued in a majority of Member countries, even if it is drifting up in some. This reflects remaining margins of slack in some regions of the OECD area, notably in Japan and in parts of continental Europe. In the United States, it mirrors the favourable impact that exceptionally strong productivity growth has had on unit labour costs during the past year. However, spare capacity in most of the area either has already been eliminated or is projected to disappear during 2001. As a result, some upward pressure on core inflation is likely to continue in most regions even if inflationary wage rises aimed at compensating for higher energy prices are avoided. In the near term, this upward pressure may be masked at the consumer price level as oil prices stabilise.[2]

The major uncertainty facing most OECD economies at this stage is the outlook for oil prices, and the response of wage and price behaviour to higher headline inflation that proves to be temporary. Oil prices are now significantly higher than the levels built into the *OECD Economic Outlook* 67 projections in May, and the outcome over the next year could well differ considerably from the assumptions built into the projections reported here. Some of the key factors likely to influence oil prices and their impact on the global economy are considered below. In addition, a number of risks that have been extensively discussed in recent issues of the *OECD Economic Outlook* remain important. These include risks arising from financial market developments, notably a further substantial correction of equity markets in the United States. Moreover, the large and increasing external imbalance of the United States poses a potential risk to the dollar, which could lead to more inflation there than projected and to turbulence in foreign exchange markets more generally. Rising government indebtedness in Japan may also affect confidence and derail bond prices there, threatening some financial institutions and the continued expansion of output. Finally, emerging market recoveries are still fragile as suggested by the recent weakening of equity markets in several non-OECD economies in Asia. If on top of the oil price increase, financial conditions tighten in the OECD area by more than projected, this could have negative effects for growth prospects in many of these economies, particularly those that have not fully dealt with balance sheet problems in their corporate sectors.

Will high oil prices derail the global expansion?

Oil market trends and prospects

High oil prices have induced a supply response

High oil prices have clearly induced a supply response: by October, OPEC production was nearly 15 per cent higher than at the beginning of the year, primarily due to increased oil production in Saudi Arabia.[3] Non-OPEC supplies rose considerably in the second half of 1999 but have remained fairly stable at a high level since then. Furthermore, in 2001 OPEC crude production capacity and non-OPEC oil supply are

2. The underlying upward pressure should be evident in most countries in slowly rising inflation as measured by GDP deflators. However, this does not apply to countries where oil production represents a large part of the economy. Mexico and, especially, Norway are the major cases in point.
3. The International Energy Agency reports that as of early November only Saudi Arabia is estimated to have any significant spare capacity, amounting to 1½-2 million barrels per day. See International Energy Agency, *Monthly Oil Market Report*, November 2000.

each expected to increase by around 1 per cent of global demand, which should work to reduce the pressure on prices next year.[4] Nevertheless, prices have remained high and volatile, and this has been reflected in prices of other energy products such as natural gas and, to a lesser extent, electricity in some countries.

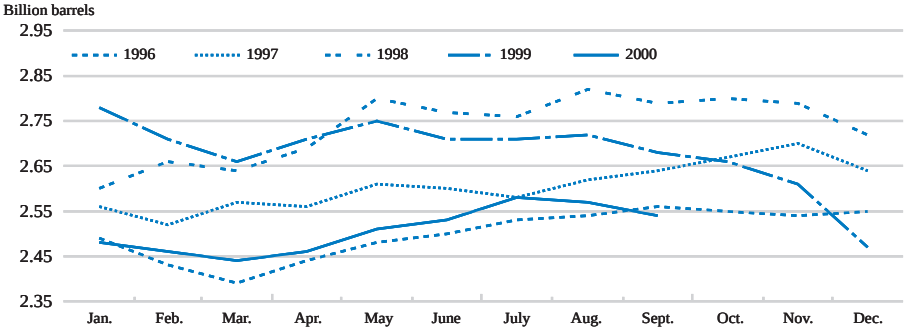
But stocks are low and the refining and distribution systems are stretched

Oil market uncertainty and volatility have been related to the fact that the market is stretched and lacks flexibility. Industry stocks of crude and refined products have been low during 2000, roughly in line with levels in 1996 (Figure I.3), when demand was 6 per cent below current levels. With so little margin to meet unexpected demand increases, the market is exposed to potential disruptions and the threat of regional supply imbalances. Indeed, even if crude oil is forthcoming in sufficient quantities to meet demand, bottlenecks for specific final products (such as heating oil) and in specific regions (*e.g.* the United States) may result from constraints on capacity to produce and transport petroleum products in the short term. The tightness of current stock levels in part reflects the fact that under present price structures – with high spot prices and downward sloping future prices – there is little commercial incentive for refiners to rebuild stocks, though primary stock data may be "distorted" by end-users building up inventories ahead of the approaching winter heating season.[5]

Oil prices may remain high in the near term…

Given the tight demand/supply balance over the coming months, the oil market will remain vulnerable to any disturbance to supply or demand. Developments such as continuing political tensions in the Middle East, an important refinery outage or an unusually cold winter could result in oil prices well above recent peaks for an extended period of time. On the other hand, if such disturbances are avoided and inventories are restored to levels that provide the market with some margin of

Figure I.3. **OECD industry oil stocks**[1]



1. Stocks are primary national territory stocks on land and include stocks held by industry to meet IEA, EU and national emergency commitments and are subject to government control in emergencies.

Source: International Energy Agency, *Monthly Oil Market Report*, various issues.

4. Various estimates suggest that OPEC capacity will increase in the range of 0.6-0.9 million barrels per day, while the IEA expects non-OPEC supply to increase by 0.7-0.8 million barrels per day. See International Energy Agency, *Monthly Oil Market Report*, September 2000, p. 18.
5. In response to public fears of heating oil shortages during the coming winter, the United States government decided to release some 30 million barrels of its Strategic Petroleum Reserve during a 30-day period. This is not a large amount in the global context (less than a day's oil consumption) but it may be significant in the context of speculative spot markets. This move has so far not been followed by other countries.

flexibility, prices could fall sharply once a seasonal easing of demand occurs around the second quarter of 2001. Against this background, the assumption adopted in the present set of projections is that oil prices will stay high at $30 per barrel through to mid-2001, before a very mild decline occurs during the remainder of the projection period, leaving oil prices at about $27 in the second half of 2002.[6]

… but prices are likely to come down in the medium term

Beyond the short term, prices are likely to come down substantially due to underlying trends in demand and supply. In its new medium-term outlook,[7] the International Energy Agency (IEA) is assuming a constant crude oil price of $21 per barrel in today's money in 2000 to 2010, and increasing thereafter to $28 by 2020 (Table I.5). This is judged by the IEA to reflect the full cost of expanding production,

Table I.5. **Global oil market trends 1986-2020**

	1986	2000[a]	2010[b]	2020[b]
	Million barrels per day			
World demand[c]	**61.6**	**75.6**	**95.8**	**114.7**
OECD[d]	38.6	47.8	46.9	50.0
Former Soviet Union	8.9	3.5	5.8	7.4
Non-OECD[d] (excluding FSU)	14.1	24.4	39.2	52.6
of which:				
China	2.0	4.8	7.6	11.0
Other Asia	3.3	7.3	14.2	19.8
Latin America[d]	3.3	4.8	8.7	10.9
Others	5.6	7.5	8.7	10.9
World supply	**62.0**	**76.2**	**95.8**	**114.7**
OECD[d]	19.7	22.0	15.7	13.1
Former Soviet Union	12.3	7.9	10.3	12.2
Non-OECD[d] (excluding OPEC and FSU)	10.5	15.7	25.7	27.6
of which:				
Latin America[d]	2.3	3.8	9.2	10.0
Others	8.2	12.0	16.5	17.6
OPEC	19.5	30.5	44.1	61.8
Balancing item (Stock building)	0.4	0.3	..	..
	Per cent			
Memorandum item:				
Shares in world oil supply				
OECD[d]	31.8	28.9	16.4	11.4
Non-OECD[d] (excluding OPEC and FSU)	16.9	20.6	26.8	24.1
Former Soviet Union	19.9	10.4	10.8	10.6
OPEC	31.4	40.1	46.0	53.9

a) OECD estimate.
b) Reference scenario as reported in International Energy Agency, *World Energy Outlook – 2000*, Paris, 2000.
c) Including bunkers and stockbuilding.
d) Mexico is included in the aggregate for Latin America for 2010 and 2020.
Sources: International Energy Agency, *Monthly Oil Market Report*, various issues, and *World Energy Outlook – 2000*, Paris, 2000.

6. Oil futures are often used as a rough guide to how oil prices could develop over the coming quarters and they suggest that oil prices will decline moderately from a fourth quarter 2000 peak, but stay above $30 through the first quarter 2001, before falling back gradually towards $23½ per barrel at the end of 2002. However, forward markets are extremely thin and, in current conditions of market volatility and tight supply, forward prices may not be a good guide to wider market expectations. On the other hand, many market observers take a more bearish stance on prices than forward markets would suggest and see prices coming down to below $30 per barrel of Brent crude in the fourth quarter 2000 and to the low $20's by year-end 2001.
7. International Energy Agency, *World Energy Outlook – 2000*, Paris 2000.

as it would provide an incentive to produce from existing fields, fields under development, probable and possible resources and new discoveries. With such a price scenario, increased oil supply, in particular from the OPEC countries, could satisfy medium-term oil demand trends, which are likely to continue much as observed in the recent past. Overall, world oil consumption is projected to increase by more than 2 per cent per year on average, rising substantially faster in non-OECD regions than in the OECD area (reflecting increasing industrialisation, rising per capita incomes and switching out of non-commercial fuels).

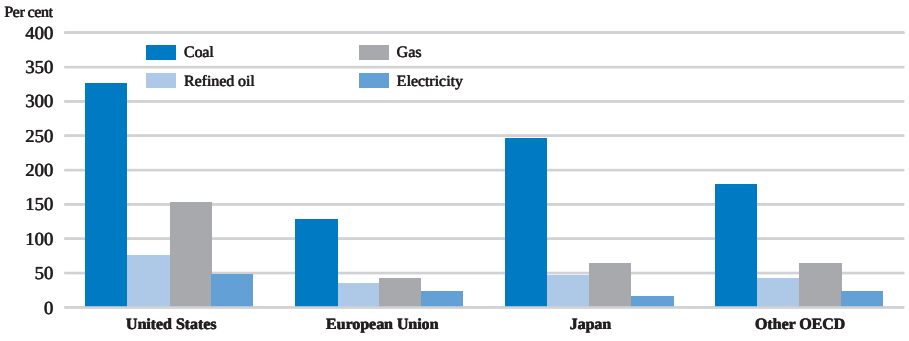
Governments should respond cautiously to pressure for cuts in taxation of oil products

The public reaction to the recent oil price hike in many countries has raised questions about the role that high levels of taxation of energy products should play in the future. Indeed, protests have prompted governments in a few European countries to reduce certain taxes on oil consumption with a view to assuming some of the burden of higher fuel costs (see Box I.2). Such measures should be taken very cautiously. Most especially, to the extent that this is successful in lowering oil prices for users, this is a step in the wrong direction in terms of environmental policies. In particular, most OECD governments have assumed obligations under the Kyoto Protocol to reduce greenhouse gas emissions, especially carbon dioxide associated with fossil fuel use. Compared with existing underlying trends, large cuts in energy consumption are inevitable if these targets are to be met, and the most cost-effective way to achieve this will involve substantial increases in post-tax prices of various forms of energy, including oil. Indeed, simulations with the OECD's "GREEN" model suggest that achieving the Kyoto targets efficiently (but without international trade in emission permits) might imply an increase in the price of refined oil products by 35 to 75 per cent in 2010 compared with a baseline that is broadly in line with the IEA scenarios described above (Figure I.4).[8]

There are other reasons for assessing energy tax cuts carefully before proceeding. First, the revenue foregone with tax cuts must be made up elsewhere, either by cutting expenditure or by raising other taxes. All feasible options entail some costs

Figure I.4. **Energy price increases in 2010 required to implement the Kyoto Protocol**

Difference in prices to end users from Business as Usual scenario



Source: Simulations from the OECD's GREEN Model, version with 3 gases and assuming no use of flexibility mechanisms. See Burniaux J.M., "A multigas assessment of the Kyoto Protocol", *OECD Economics Department Working Papers*, No. 270, Paris 2000.

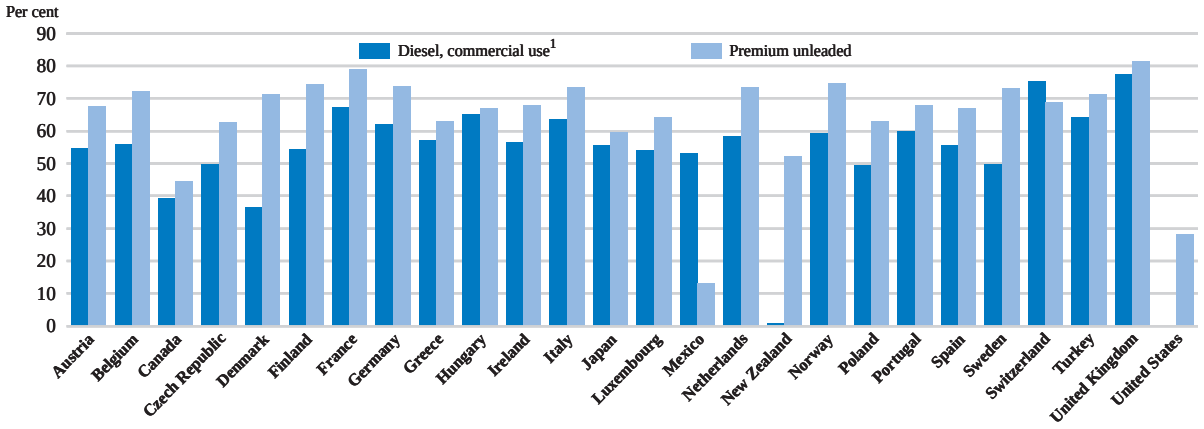
8. See Burniaux, J.M., "A multigas assessment of the Kyoto Protocol", *OECD Economics Department Working Papers No. 270*, Paris 2000.

Box I.2. The lowering of energy taxes in response to higher oil prices

The recent increase in oil prices has attracted attention to the heavy taxation of oil use in most OECD countries. Taxes as a share of the final price of oil differ significantly across the OECD countries and within countries depending on the type of oil product and the user of the fuel (see figure below). For example, taxes as a share of the final price of premium unleaded gasoline range from less than 30 per cent (Mexico and United States) to more than 80 per cent (United Kingdom). Similarly, the tax component in the final price of automotive diesel fuel for commercial use ranges from close to zero (New Zealand) to more than 60 per cent in several countries.

Tax rates on motor fuel in OECD countries, 1999

Per cent of final use price



1. Data on diesel tax rates are not available for the United States.

Source: International Energy Agency, *Energy Prices and Taxes – Quarterly Statistics, 1st Quarter 2000.*

In the wake of protests due to rising oil prices, taxes have been lowered on oil products in a few OECD countries including:

– *France.* In August and September, the government reduced excise taxes on gasoline for selected activities and reduced other taxes for other groups hard hit by the increase in oil prices. In addition, as from October 2000, the excise tax for gasoline is to vary in order to keep the combined excise tax and VAT on the product constant. These measures are expected to cost the budget in 2000 and 2001 around FF 3 billion per year (around 0.03 per cent of GDP), but will be mostly covered by a special profit surtax on petroleum companies of FF 5½ billion.

– *Italy.* The excise tax on oil and some of its derivatives was reduced in November 1999 and further cuts were implemented in 2000. In addition, a mineral oil excise that was planned in connection with the introduction of a carbon tax has been delayed. The estimated budgetary cost is 0.15 per cent of GDP for 2000.

– *Belgium.* The introduction of a subsidy for oil consumption of low-income households may cost the budget less than 0.01 per cent of GDP in 2000. As several further oil cost relief measures will be implemented in 2001, the overall budgetary cost could be 0.05 per cent of GDP next year.

– *Netherlands.* In September, the government increased tax rebates on fuel used by selected groups, and further cuts will be implemented next year. The measures are estimated to cost the budget around 0.05 per cent of GDP annually.

– *Portugal.* The long-standing policy of varying excise taxes to smooth fluctuations in the international price of oil implies that government energy tax revenues are likely to be lower by ½ per cent of GDP in 2000 than originally budgeted.

– *Spain.* Different types of budgetary compensations for various groups hard hit by the increase in the oil price are likely to amount to 0.12 per cent of GDP in 2000.

Other countries may also make some adjustments to energy taxation in the near future with the aim of reducing the price for selected users. Overall, the reductions have so far been small, involving minimal fiscal implications, and are unlikely to have much effect in the international oil market. But they do suggest a change in direction of policies in this area, in particular if the tax cuts are not reversed as oil prices come down in the future.

which need to be factored into the decision-making process.[9] Second, until additional supply is forthcoming in the medium term, the main benefits are likely to accrue to producers, *i.e.* OPEC and the oil industry, rather than to the consumers for whose benefit the policies are intended. Third, the logic of cutting taxes to stabilise prices and thereby cushioning the impact of rising oil prices on users suggests that taxes should rise again when producer prices fall. This may be politically difficult. To the extent that it is desirable to insulate users of oil products from the impact of price fluctuations, direct support for incomes is likely to be more efficient than trying to stabilise prices themselves.

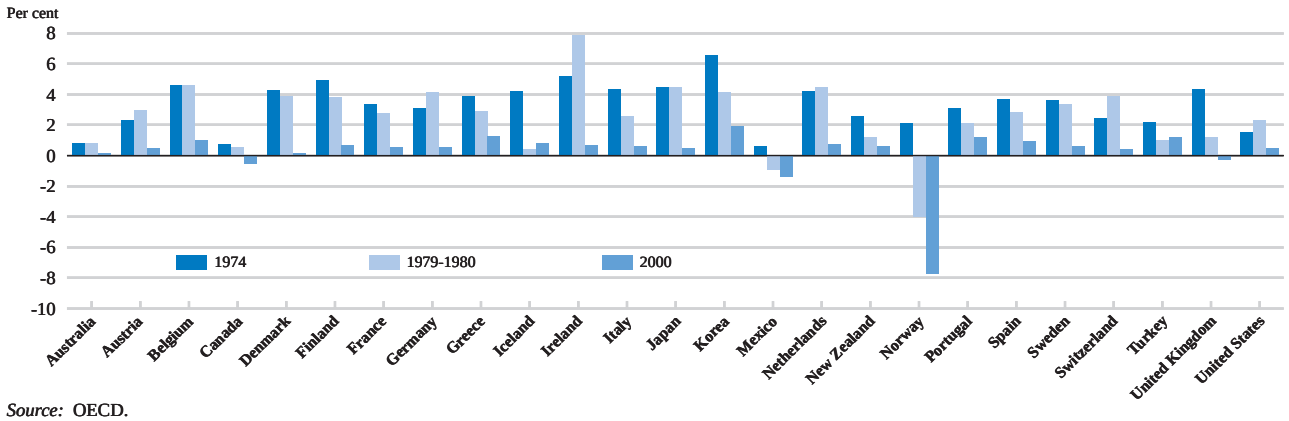
The macroeconomic impact of higher oil prices

The oil price increase involves a significant redistribution of world income

The increase in oil prices since 1999 has entailed a redistribution of world income. During 2000, the OECD area as a whole is likely to suffer a real income loss of around ½ per cent of GDP. With the exceptions of the United Kingdom, Canada, Mexico and, most significantly, Norway, all OECD countries have been affected by this loss, which ranges from negligible in Australia to as much as 2 per cent of GDP in Korea (Figure I.5). While this is a sizeable increase in the net oil import bill, it is much less than the loss of 2¾ per cent of GDP in 1974 and 2½ per cent in 1979-80. This essentially reflects the sharp reduction in the oil intensity of OECD economies by nearly 50 per cent since the early 1970s (Figure I.6) due to the high price of oil that prevailed between 1974 and 1986, and the consequent reduction in dependence on net imports of oil. Outside the OECD, there have been both gainers and losers among non-OPEC countries: the former Soviet Union area has benefited from higher oil prices, while some other countries, notably the emerging economies in Asia, have experienced major oil-induced cuts in real income (Table I.6). The principal beneficiaries of the oil price hike are of course the OPEC countries, which are likely to get additional oil export revenues of around $80 to $100 billion in 2000.

Figure I.5. **Terms of trade losses due to oil price increases in OECD countries**

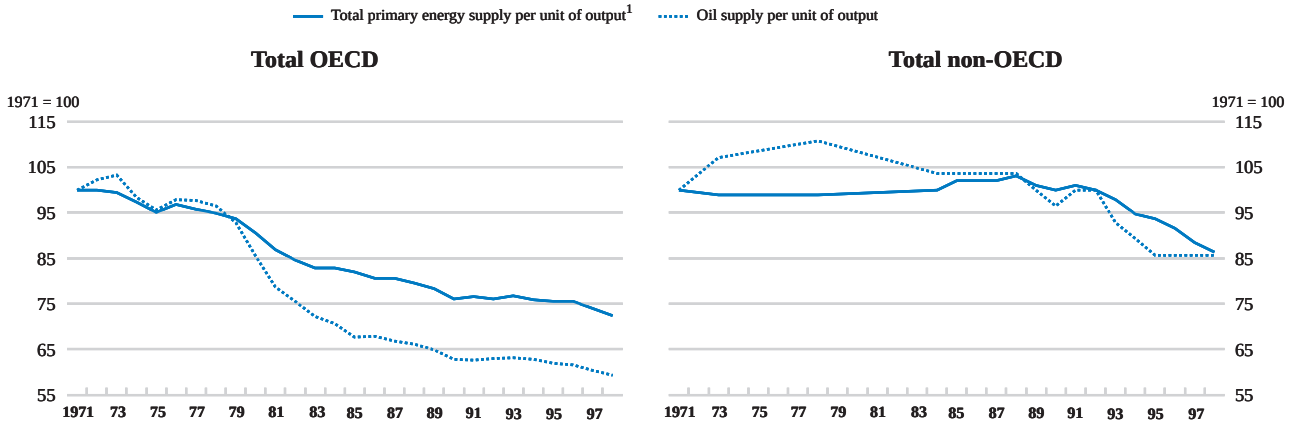
Per cent of GDP



Source: OECD.

9. In particular, energy taxation must be considered in the context of overall design of the tax system. It may be noted, however, that where taxation of energy products is high, specific duties would operate to cushion the economy-wide implications of oil price fluctuations whereas *ad valorem* taxes would tend to amplify them.

Figure I.6. **Energy and oil intensity**



1. Primary energy is measured in tons of oil equivalent.
Sources: International Energy Agency; OECD.

Table I.6. **The direct impact of the oil price rise on selected non-OECD countries**

	Increase in cost of crude oil to users		Implied terms of trade loss[a]	
	$billion	Per cent of GDP	$billion	Per cent of GDP
Argentina	2.1	0.7	–1.6	–0.6
Brazil	8.4	1.1	3.4	0.5
China	16.9	1.7	4.0	0.4
Former Soviet Union	15.0	3.2	–14.4	–3.1
India	7.4	1.7	4.4	1.0
Malaysia	1.8	2.3	1.1	1.4
Phillipines	1.5	2.0	1.5	2.0
Singapore	2.6	2.7	3.2	3.4
South Africa	1.8	1.4	1.5	1.1
Thailand	2.8	2.3	2.4	2.0

Note: The increase in cost of crude oil to users equals oil demand (million barrels per year) in 1998 (the latest year for which data are available) times the estimated increase in the price of oil per barrel in 2000 ($28.3) compared with 1999 ($17.3). The terms of trade loss equals net oil imports times the increase in the oil price.
a) Negative sign implies gain.
Sources: OECD, International Energy Agency, World Bank.

OPEC countries may use some of their windfall gains to strengthen their financial positions

So far, the limited evidence available suggests that OPEC countries are using a significant part of their higher revenues to strengthen their external financial positions. Some improvement in positions *vis-à-vis* international banks was registered by the Gulf states in the first quarter of 2000, following a significant deterioration of their net financial positions in the preceding three years (Table I.7). Moreover, the Gulf states made net purchase of US securities of more than $13 billion in the first half of 2000, a substantially faster pace than in the recent past.[10] As recently as the first half of 2000, exports from OECD countries to the OPEC area had not recovered

10. The Gulf states made a net purchase of around $3 billion during all of 1999. In 1998, the Gulf states were net sellers of securities worth $13 billion. In the preceding two years they had been net buyers of some $10 billion per year. See Table CM-V-3 in US Treasury, *Treasury Bulletin* (various issues).

Table I.7. **Net position of OPEC *vis-à-vis* BIS reporting banks**

$ billion, end of period

	1996	1997	1998	1999	2000, q1
Gulf States	87.5	72.2	75.5	54.7	57.8
of which:					
Iran	–0.1	–1.0	–2.5	–0.1	1.3
Iraq	–3.6	–3.2	–3.3	0.1	0.0
Kuwait	9.0	7.4	7.1	7.9	9.7
Qatar	–1.3	–2.5	–3.3	–3.2	–3.3
Saudi Arabia	49.3	36.2	43.6	23.3	22.9
United Arab Emirates	34.2	35.3	33.9	26.7	27.2
Indonesia	–44.2	–52.5	–38.1	–32.8	–31.5
Other OPEC members	13.1	19.7	21.3	21.2	25.1
of which:					
Algeria	–6.6	–1.6	–1.0	–0.7	0.1
Libya	5.5	6.8	6.8	6.6	7.5
Nigeria	1.3	2.5	1.8	3.0	3.9
Venezuela	12.9	12.0	13.7	12.3	13.6
OPEC	56.4	39.4	58.7	43.1	51.4

Source: Bank for International Settlements, *Quarterly Review: International Banking and Financial Market Developments* (various issues).

from their decline following the collapse in revenues that OPEC countries experienced in 1998.[11] However, at some stage in the near future OPEC spending is likely to strengthen, although it may not entail full respending of the higher revenues. In its central projections, the OECD has assumed, in line with past experience, that, after three years, around 75 per cent of the increase in oil export revenues of the OPEC countries will be spent on higher imports, mainly from OECD countries.

The oil price rise has already weakened activity in the OECD area

The partial and delayed spending of OPEC's increased oil revenues implies that the oil price hike will weaken world demand for goods and services, since the pressure on oil users to reduce expenditures in line with lost income does not have a full counterpart in higher expenditure by oil producers. On the basis of simulation analysis by the OECD, the rise in oil prices that has occurred since the beginning of this year may reduce output growth in the OECD area during 2000 and 2001, cumulatively, by around 0.2 of a percentage point (Table I.8).

The inflationary effects of the oil price rise have been rather small…

Given the extent to which it has raised costs throughout the economy, the rise in the oil price since early 1999 has so far had rather little effect on underlying inflation trends. It has significantly raised headline consumer price inflation in the United States and the euro area (Figure I.7), and, to a much lesser extent, it has worked to limit the extent of deflation in Japan. However, the year-on-year increase in consumer prices excluding energy has drifted up only slightly in both the United States and the euro area. At the same time, oil price developments do not appear to have given a push to wages. In the United States, despite a tight labour market, the growth rate of hourly earnings has not shown any significant upward movements, although the employment cost index has risen somewhat faster. In the euro area, year-on-year hourly wages have risen only moderately, and have so far shown little signs of

11. The monthly rate of exports from the major seven OECD countries to the OPEC area fell from $6.7 billion in 1998 to $5.8 billion in 1999 and $5.5 billion in the second quarter of 2000.

Table I.8. **The impact on the economic outlook of the rise in oil prices since early 2000**[a]

Differences between central projections and scenario in which the oil price remains constant at its end-1999 level of around $25

	2000	2001
	Per cent	
Real GDP level		
United States	–0.1	–0.2
Japan	–0.2	–0.3
Euro area[b]	–0.2	–0.2
OECD total	–0.1	–0.2
	Percentage points	
Consumer price inflation[c]		
United States	0.2	0.2
Japan	0.2	0.1
Euro area[b]	0.2	0.2
OECD total[d]	0.2	0.2
	Per cent of GDP	
Current external account		
United States	–0.1	–0.1
Japan	–0.1	–0.2
Euro area[b]	–0.1	–0.1
OECD total	–0.1	–0.1
	$ per barrel	
Memorandum item:		
The level of oil prices		
Assumption in central projections	28.3	29.5
Assumption in this simulation	25.0	25.0

a) The effects of holding the oil price unchanged from its end-1999 level are simulated using the OECD's global macroeconomic model, INTERLINK. The simulation assumes that oil exporting countries spend around ⅓ of their additional export revenues on imports the first year and around half the second year. Real interest rates and nominal exchange rates are kept unchanged from central projections.

b) Greece will enter the euro area on 1 January 2001. In order to present consistent projections for the euro area and to ensure comparability of the euro area data over time, Greece has been included in the calculation of the euro area throughout.

c) Private consumption deflator.

d) Excluding high inflation countries.

Source: OECD.

responding to higher oil prices. There are also no signs of higher longer-term inflation expectations as derived from the difference in yields on index-linked and conventional bonds. In the United States, the hike in the oil price has not prompted professional forecasters to revise up their projections for the average consumer price inflation over the coming ten years.[12] Similarly, in Europe there have only been modest upward revisions to long-term inflation forecasts, mostly confined to some smaller countries where pressures on resources are currently high.[13]

12. According to forecasters surveyed by the Federal Reserve Bank of Philadelphia, the projected average annual consumer price inflation in the coming ten years has been constant a 2½ per cent since the second quarter of 1999. See Federal Bank of Philadelphia, *Survey of Professional Forecasters* (available at *http://www.phil.frb.org/files/spf*).

13. See Consensus Economics Inc., *Consensus Forecasts* (various issues).

Figure I.7. **Consumer price indices with and without energy**

Year-on-year percentage change

Source: OECD.

… partly because of structural and macroeconomic policy reforms

These benign inflationary effects are in marked contrast to the earlier episodes of oil price hikes, when a wage-price spiral was quickly put in motion. In addition to the substantial reduction in oil intensity noted earlier, several factors can account for the weaker inflation effects at present:

- The abolition of formal or informal backward-looking wage indexation arrangements removed the mechanism that proved to be particularly destabilising in the wake of past oil shocks. Since the ending of the *scala mobile* in Italy in 1992, wage indexation is not an important feature in any of the major OECD countries.
- The strengthening of competition in product markets has slowed down and/or limited the extent to which oil prices and induced wage effects can be passed on to customers. For example, the small effect of the increase in crude oil prices on consumer price inflation in Japan is reportedly due to some extent to more intense competition among oil distributors, and hence lower margins, in the wake of regulatory reforms in the industry. Also, road haulage companies have reportedly found it difficult to pass higher costs on to prices in the current deregulated environment.
- The greater importance attached to price stability as a goal of macroeconomic policy implies that oil-induced wage-price spirals are not underwritten or encouraged by an accommodative policy stance. The easing of policy in the

aftermath of the first oil shock played an important role in driving up inflation, and that will not be repeated with stability-oriented macroeconomic policy.

Changes in oil prices could have significant impact on the short-term outlook

The OECD has examined the implications of oil prices being substantially higher or lower than assumed in the central projection (Table I.9). Should the oil price rise again to its previous peak in 2000 of $38.50 per barrel and remain there until end-2002, the level of real GDP could be lower by 0.2 to 0.4 per cent in the main OECD areas by the end of the projection period. In 2001, the inflation rate could rise by ½ percentage point, while second-round effects would imply that inflation would remain higher than in the central projections in 2002. On the other hand, if oil prices were to drop to $17.50, a level around the average of the past 15 years that appears to be more in line with longer term fundamentals in the oil market, economic activity would strengthen and inflation would be lower in all regions.

Table I.9. **Oil price scenarios**

Deviations from central projections

	Oil price falls to $17.5[a]		Oil price increases to $38.5[a]	
	2001	**2002**	**2001**	**2002**
	Per cent			
Real GDP level				
United States	0.3	0.3	–0.3	–0.2
Japan	0.4	0.6	–0.4	–0.4
Euro area[b]	0.4	0.4	–0.4	–0.2
OECD total	0.3	0.4	–0.3	–0.2
	Percentage points			
Consumer price inflation				
United States	–0.5	–0.3	0.5	0.2
Japan	–0.5	–0.2	0.4	0.1
Euro area[b]	–0.5	–0.4	0.5	0.2
OECD total	–0.5	–0.3	0.5	0.2
	Per cent of GDP			
Current external account				
United States	0.1	0.1	–0.1	–0.1
Japan	0.2	0.3	–0.2	–0.3
Euro area[b]	0.3	0.2	–0.2	–0.2
OECD total	0.1	0.1	–0.1	–0.1
	$ per barrel			
Memorandum item:				
The level of oil prices				
Assumption in central projections	29.5	27.5	29.5	27.5
Assumption in this simulation	20.7	17.5	38.5	38.5

a) The effects of the oil price changes are simulated using the OECD's global macroeconomic model, INTERLINK. They indicate changes to GDP, consumer price inflation and the current account relative to a baseline scenario where the oil price stays at $30 until summer 2001 and then gradually falls back to $27 by the end of 2002. The price increase scenario assumes that the oil price increases gradually to $38.50 from October to January 2001 and then stays at this level throughout 2002. The price fall scenario assumes that the oil price stays at $30 until the second quarter of 2001, where it drops to $17.50 and stays there throughout 2002. The oil exporting countries are assumed to spend around ⅓ or their additional export revenues on imports the first year and around half in the second year. Real interest rates and nominal exchange rates are kept constant.

b) Greece will enter the euro area on 1 January 2001. In order to present consistent projections for the euro area and to ensure comparability of the euro area data over time, Greece has been included in the calculation of the euro area throughout.

Source: OECD.

Fiscal issues in the short and medium term

As fiscal positions have improved, many countries are cutting taxes or boosting spending

The improvements in overall fiscal positions that most OECD countries have experienced in recent years have continued during 2000. In terms of the general government finance balance, the OECD area as a whole is projected to achieve a surplus this year for the first time since 1969 and to maintain it in 2001-02 (Table I.10). Against the background of surprisingly strong revenue growth, there has been a widespread tendency to reduce taxes and boost public spending in many countries, especially in Europe (Table I.11).

While fiscal policies are not pro-cyclical, the long phase of restraint is ending

At this stage, on the basis of the announced tax and spending policies reflected in the projections, the clearly restrictive fiscal stance on an area-wide basis that has been in place for several years is coming to an end. Abstracting from some large one-off revenue gains, notably associated with the sale of mobile telephone licenses (Box I.3), the underlying structural budget position is projected to stabilise on an area-wide basis during 2001 and to tighten only marginally in 2002. Although relatively few countries appear so far to have shifted to an expansionary course, the trend

Table I.10. **General government financial balances**[a]

Per cent of GDP/Potential GDP

	1998	1999	2000	2001	2002
United States					
Actual balance	0.3	1.0	2.3	2.6	2.7
Structural balance	0.0	0.7	1.7	2.2	2.5
Primary structural balance	3.2	3.5	4.4	4.6	4.7
Japan					
Actual balance	–5.0[b]	–7.0	–6.0[c]	–6.0[c]	–5.7
Structural balance	–4.2[b]	–6.0	–5.2[c]	–5.4[c]	–5.3
Primary structural balance	–3.1[b]	–4.7	–3.8[c]	–4.0[c]	–3.8
Euro area[d]					
Actual balance	–2.2	–1.3	0.3	–0.5	–0.3
Structural balance	–1.3	–0.6	–0.6	–0.8	–0.6
Primary structural balance	2.9	3.2	3.0	2.7	2.8
European Union[d]					
Actual balance	–1.6	–0.8	0.7	0.0	0.1
Structural balance	–1.0	–0.2	–0.1	–0.3	–0.2
Primary structural balance	3.1	3.4	3.4	3.0	3.0
OECD[d]					
Actual balance	–1.2	–0.8	0.5	0.4	0.5
Structural balance	–1.0	–0.6	0.0	0.0	0.2
Primary structural balance	2.2	2.3	2.7	2.6	2.7

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

b) Excludes the budgetary impact of the debt take-over of Japan National Railways Settlement Corporation and National Forest Special Account (5.4 percentage points of GDP).

c) Includes deferred tax payments on postal saving accounts amounting to 0.8 and 0.9 per cent of GDP in 2000 and 2001 respectively.

d) Euro area and European Union figures exclude Luxembourg. Greece will enter the euro area on 1 January 2001. In order to present consistent projections for the euro area and to ensure comparability of the euro area data over time, Greece has been included in the calculation of the euro area throughout. Total OECD figures for the actual balance exclude, in addition, Mexico, Switzerland and Turkey and those for the structural balance further exclude the Czech Republic, Hungary, Iceland, Korea and Poland.

Source: OECD.

Table I.11. **Major fiscal policy initiatives for 2000 and 2001 in selected countries**

The packages listed below are estimated by the OECD to cost around ½ per cent of GDP or more

Germany	2001	Reform of income and company taxation, including further reduction in statutory personal and corporate income tax rates and an increase in the basic income tax allowance; broadening the tax base.
France	2000	A reduction in VAT rate by one percentage point; reduction in the VAT rate on dwelling improvement; cuts in income tax rates; abolition of a surtax on corporate profits, cuts in real estate tax. These are partially offset by increases in social security contribution on profits and in a general tax on polluting activities.
	2001	A cut in personal income taxes; reduced social security contribution rates for low-wage workers; reduction in gasoline taxes. Pension income and social benefit revaluation, job creation by local governments.
Italy	2001	Tax cuts, mainly for low-income earners; lower social security contributions; reduced corporate income taxes. Increased spending for infrastructure and social transfers.
United Kingdom	2000-01	A reduction in the basic income tax rate; lowering of taxes for small and medium-sized enterprises; reduction in national insurance contribution. These will be partially offset by an introduction of a new climate change levy and increased tobacco duties. Increases in spending on public health. Broadening the tax base and improving tax compliance.
Canada	2000-01	Full indexation of the income tax system, cuts in personal and corporate income taxes.
Belgium	2000	Acceleration in the multi-annual reduction in social security contributions.
Finland	2000-01	Income tax cuts and reduction in social security contributions.
Ireland	2000	A cut in taxes on labour income, a move towards the application of unified tax rates on traded and non-traded goods industries. Increased general infrastructure spending (1 per cent of GDP).
	2001	Continued tax reform. Increased general infrastructure spending (1 per cent of GDP).
Netherlands	2001	A reduction in tax rates and an increase in earned income tax credits. These will be partially offset by reduced scope for tax deductions; an increase in environmental levies and VAT rates; higher taxes on imputed income from wealth.
Sweden	2000-01	Income tax cuts.

Source: OECD.

toward cutting taxes and increasing spending, if it persists, will entail a possibility that fiscal policies become pro-cyclical. In the United States the underlying structural budget position is still projected to continue to tighten steadily, but the outlook for 2002 could be affected by changes implemented by a new administration. In the European Union, the various measures put into effect in 2000 and announced for 2001 and 2002 imply a broadly neutral stance overall during this three-year period, although a slight stimulus is on track for 2001. This mainly reflects the tax reform package in Germany. In Japan, the underlying budget deficit may come down (abstracting from one-off revenues from the taxation of cumulated interest on postal saving deposits) although, as explained in Box I.3, the shift toward tightening is not projected until 2002.

Four main factors explain why cuts in taxes and increased public expenditures can be accommodated in so many countries without seriously weakening estimated underlying fiscal positions:

– Reduced interest payments on public debt are acting to strengthen the non-cyclical budget position in almost all Member countries. In Greece, the Netherlands and Sweden, net debt interest payments are likely to fall by more than a full percentage point of GDP between 1999 and 2002; the reduction could amount to between ½ and 1 percentage point for Australia, Belgium, Canada, Denmark, Finland, Iceland, Ireland, Italy and the United States.

– The widespread practice of indexing the tax system to prices rather than to earnings implies an automatic strengthening of fiscal positions in the absence

Box I.3. Assessing the underlying fiscal position

Assessing the underlying fiscal position for some OECD countries in 2000 and, prospectively, in 2001 is unusually complicated by large one-off revenues. The most important are the one-off up-front payments associated with the sale of third-generation mobile telephone licenses in some European countries. Rapid technological progress in the telecommunication industries and the increasing demand for high-quality multimedia mobile services have made the allocation of electromagnetic spectrum for the UMTS (universal mobile telecommunications systems) to operating companies a high priority in many countries.* OECD Member countries have taken different approaches to making these allocations and, where this has involved sales or licensing fees, to recording the revenues. Since the amounts involved turn out or are expected to be substantial for some countries, how to book these revenues has become an important issue for fiscal reporting and analysis. The SNA93 (System of National Accounts) does not provide specific guidance on the treatment of mobile phone license receipts in government appropriation accounts, but three approaches have been considered or adopted in this regard:

– A widely accepted approach is to consider the license to be an *intangible non-financial non-produced asset*. In this approach, the proceeds from the sale of the licenses are recorded as revenues at the time the license is allocated, and have an immediate direct impact on government net lending/borrowing. The majority of EU member countries concerned and the IMF are proponents of this view, and Eurostat recommends that all EU members implement it unless the contract duration is less than five years or the full purchase price is not agreed in the lease contract.

– An alternative approach is to treat the sale of licenses as the prepayment of a rent for the use of a *tangible non-financial non-produced asset* – electromagnetic spectrum – whereby receipts are recorded as a purely financial transaction that does not affect government net lending immediately. This prepayment is amortised over the life of the license following accrual-based principles, which affects the government net lending/borrowing by relatively small amounts each year during the period in which the license contract is in force. The United Kingdom supports this approach, arguing that the sprectrum itself, rather than the license, is the asset.

– The third approach is to consider the sale of licenses to be one-off indirect tax akin to broadcasting licenses or passport fees. Canada, where only a small amount is involved, has adopted this approach.

The estimates for the government financial balances as reported in the *OECD Economic Outlook* are in accordance with the approaches adopted by the various countries. Therefore, care must be taken with the cross-country comparison since the figures are based on different treatments of the UMTS licensing sales. Estimates for those member countries where the revenues from the UMTS licensing are most substantial are shown below.

Estimated revenues from the UMTS licensing

	Germany	United Kingdom[a]	Italy	France	Netherlands
Estimated revenue (% of GDP)	2.5	2.4	1.2	1.1	0.7
Year in which the licenses are sold	2000	2000	2000	2001	2000

a) The actual impact on recorded current government revenues is spread out over two decades, in line with the second approach described above.

of offsetting discretionary measures. For example, the annual fiscal drag in France and Germany may be as high as ½ percentage point of GDP.[14]

– Improved underlying labour market conditions are increasing the level of potential output, and hence the level of structural government revenues. This effect is set to be particularly strong in Ireland, Spain, Italy and the Netherlands.

14. For France, see Ministère de l'Économie, des Finances et de l'Industrie, *Projet de loi de finances pour 2001*, Paris, 2000. For Germany, the tax elasticity with respect to household revenues is estimated to be 1.85; see A. Boss and T. Elendner, "Ein Modell zur Simulation des Lohnsteueraufkommens in Deutschland", *Kieler Arbeitspapiere* No. 988, June 2000. With households' income rising by 4 per cent, this translates into government revenue gains of around 0.5 per cent of GDP.

Box I.3. **Assessing the underlying fiscal position** *(cont.)*

It should be observed, however, that the revenues from the sales of licenses are similar to pure financial transactions in that they have no counterpart in claims on real resources and will only involve claims on operators' income as they are amortised in the future. Thus, their inclusion as receipts in the budgetary accounts obscures the underlying fiscal position and its impact on the flow of incomes and expenditures in the economy. To deal with this, the OECD has adjusted the general government structural balance, which is an indicator of the *fiscal stance*, for those countries that adopted the first approach, by subtracting UMTS-related revenues from the structural balance. In computing the structural balance of the United Kingdom, which adopted the second approach, no such adjustment is necessary because only rental receipts for the use of spectrum are recorded in the financial balance. For Canada, which followed the third approach, no adjustment is made since the revenue from license sales is negligible in macroeconomic terms (0.02 per cent of GDP).

Another significant one-off item without any counterpart in terms of claims on real resources is the deferred tax receipts associated with fixed-term postal savings deposits maturing in Japan. Substantial investments in ten-year postal saving deposits were made in the early 1990s because those financial instruments provided not only a high fixed interest rate (about 6 per cent), but also flexibility allowing depositors to withdraw their money after six months without penalty. As a result, those savings deposits will mature in 2000 and 2001, and deferred payment of accumulated tax liabilities on interest incomes will be made and recorded. These deferred tax payments are expected to amount to 0.8 per cent and 0.9 per cent of GDP for 2000 and 2001, respectively. The improvement in the government financial balance, expressed as percentage of GDP, in 2000 and 2001 will be mainly due to the revenue increase from those deferred tax payments, since tax payments are recorded on a cash basis while the interest incomes being taxed were recorded on an accrual basis in both government and household accounts during the previous decade. The OECD has made no adjustment for these tax receipts in the calculation of the structural balance, but the effect on the structural balance if this were done is shown below.

Fiscal stance in Japan

Per cent of GDP

	1999	2000	2001	2002
Net lending	–7.0	–6.0	–6.0	–5.7
Cyclically-adjusted net lending	–6.0	–5.2	–5.4	–5.3
(Effects of taxes on postal savings)		(0.8)	(0.9)	
Underlying cyclically-adjusted net lending	–6.0	–6.0	–6.3	–5.3

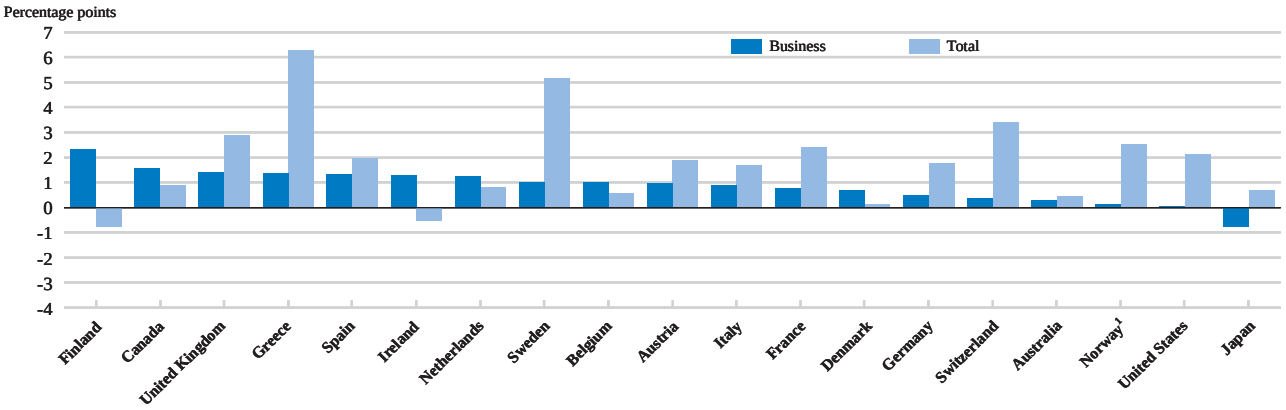
* Most EU countries aim to introduce commercial services by 1 January 2002, in compliance with the EU decision. On the other hand, Canada, New Zealand and the United States have left these decisions to the existing and potential operators, expecting that they will upgrade their systems in response to consumer demand. Some Eastern European countries, Japan and Korea will also launch commercial UMTS services during 2001 and 2002.

– Improvements in tax collection systems and greater efforts to limit tax evasion are increasing structural revenues in some countries (Greece, Italy, Portugal, Spain, United Kingdom).

Fiscal prudence is warranted in the light of uncertainty about underlying improvements…

In a longer-term perspective, there are several reasons for fiscal prudence in a number of European countries, and, eventually, in Japan. First, there is some uncertainty about the underlying strength of fiscal positions. While OECD estimates of cyclically adjusted budget balances suggest that improvements in budget positions amounting to some 4 per cent of GDP since the early 1990s in the European Union, and more than this in most other OECD countries except Japan, appear to be structural, there may be some doubts about the durability of certain improvements. For example, the increase in taxes on businesses has played a disproportionate role in improving public finances since the mid-1990s (Figure I.8). The separation of total

Figure I.8. **Cyclically adjusted total and business tax revenues as a per cent of potential GDP : Changes from 1995 to 2000**



1. Data for Norway refer to Mainland Norway.
Source: OECD.

business-tax revenues into cyclical and non-cyclical components is subject to a particularly large margin of error,[15] and some of the extraordinary increase in business tax receipts in recent years may have been erroneously attributed to a structural improvement. Indeed, cyclical peaks in the past have been associated with unusually high estimates of structural business taxes in some countries, and these recorded structural receipts have fallen in the ensuing downturn.[16] There may also be some doubt about the sustainability of structural revenue increases that are based on rising asset prices, in particular in countries where employee share options have become a significant part of total remuneration, or on strong increases in sales of heavily taxed goods.

… and debt positions that remain high

Second, while improved budget positions have led to declining government debt-to-GDP ratios nearly everywhere (Figure I.9), the pace of improvement in the larger European countries has been slow. As a result, even assuming that the projected declines in this ratio occur, it will remain substantially higher in 2002 in both the European Union and the euro area than it was when the Maastricht Treaty was signed in 1991. In Japan, the debt-to-GDP ratio shows no sign of stabilising and will require policy action as soon as the overall economic situation permits (see below). Looking further ahead, provided that the fiscal positions remain broadly stable as assumed in the OECD's Medium-Term Reference Scenario, most Member countries will make continued progress in reducing their public debt ratio in the period to 2006 (Box I.4). Japan remains the most notable exception to this trend, even though the reference scenario embodies significant adjustments to offset rising ageing-related spending. As a result, its gross debt-to-GDP ratio rises by 15 percentage points, to 140 per cent of GDP by 2006.

15. See *e.g.* Van den Noord P., "The size and role of automatic fiscal stabilisers in the 1990s and beyond", *OECD Economics Department Working Papers* No. 230, Paris 2000.
16. For example, structural business tax receipts fell by more than 1 percentage point of potential GDP in the downturns in the early 1990s in the United Kingdom, Spain, Finland and Sweden.

Figure I.9. **General government gross financial liabilities**[1]

1. Based on System of National Accounts (SNA) data. For European Union countries, these data include liabilities not included in the Maastricht definition of debt, for which a long time series is not available. The 2000 data are OECD estimates.

Source: OECD.

If spending is adequately restrained, tax reductions that increase efficiency are welcome

Provided spending is adequately restrained to ensure that underlying fiscal positions are satisfactory, tax reductions are welcome in view of the scope they provide for improving incentive structures in the economy. A positive aspect of the tax cuts that have been implemented or announced is that in some countries they have been designed with a view to taking strong advantage of this scope. Though differing to some extent from country to country, there are several common features across many of these reforms:

– Social security contribution rates paid by employers are being reduced for all workers (Finland, Germany), for workers at the lower end of the wage scale

Box I.4. The medium-term reference scenario

The OECD's medium-term reference scenario, which extends the short-term projections to 2006 (table below), is conditional on the following assumptions for the period beyond the short-term projection horizon:

- The gaps between actual and potential output are broadly eliminated by 2006.
- Commodity prices and most exchange rates remain broadly unchanged in real terms.
- Monetary policies are directed at keeping inflation low, or bringing it down in line with medium-term objectives.
- Fiscal policies are assumed to remain broadly unchanged, *i.e.* the cyclically-adjusted primary budget balance is held approximately constant. This implies that the authorities take measures to offset underlying changes of the structural primary balance. These assumptions result in falling debt-to-GDP ratios in most countries (table on opposite page).

Medium-term reference scenario summary

Per cent

	Real GDP growth	Inflation rate[a]		Unemployment rate[b]		Current balance[c]		Long-term interest rate	
	2002-2006	2002	2006	2002	2006	2002	2006	2002	2006
Australia	3.7	2.6	2.2	6.1	6.0	–4.0	–3.0	6.8	6.4
Austria	2.2	1.8	1.8	4.0	4.4	–2.0	–1.7	6.0	5.8
Belgium	2.4	1.9	1.7	7.6	7.1	6.0	6.4	6.0	5.8
Canada	2.8	2.0	2.1	6.7	6.8	2.2	2.3	6.3	6.3
Czech Republic	3.5	4.3	2.6	9.0	7.7	–5.4	–5.7	8.0[d]	6.7[d]
Denmark	2.1	2.6	2.0	5.1	5.9	2.7	3.4	6.3	6.1
Finland	3.3	2.1	2.5	8.4	8.0	8.0	8.6	6.0	5.8
France	2.3	2.3	1.7	8.2	8.8	2.4	2.4	5.8	5.7
Germany	1.8	1.4	1.7	6.3	6.2	0.0	1.3	5.7	5.6
Greece	3.4	2.6	2.6	10.0	9.7	–4.4	–2.2	5.5[d]	5.5[d]
Hungary	4.7	5.7	3.4	6.2	5.8	–4.2	–2.9	10.5[d]	7.5[d]
Iceland	2.4	5.2	4.9	2.6	3.8	–9.2	–8.0	11.4[d]	10.1[d]
Ireland	7.1	3.8	5.0	3.6	5.0	–1.0	–1.6	6.0	6.0
Italy	2.5	2.0	1.8	9.4	9.2	–0.6	1.0	5.9	5.7
Japan	1.9	–0.2	0.2	4.6	4.3	3.0	3.4	2.3	3.8
Korea	5.7	1.5	2.5	3.5	3.5	2.3	–0.5	9.0	8.5
Mexico	4.8	5.8	3.9	2.8	3.0	–4.2	–4.8	12.8	10.0
Netherlands	2.3	2.6	2.8	2.3	3.0	5.1	4.1	5.9	5.8
New Zealand	2.8	2.0	2.0	6.0	5.8	–4.0	–2.0	7.5	6.0
Norway	1.3	1.0	2.5	3.4	3.6	19.7	16.0	6.8	6.6
Poland	4.9	9.5	3.8	15.0	12.0	–6.0	–4.8	13.1[d]	8.8[d]
Portugal	3.2	3.1	2.8	4.2	4.1	–12.0	–10.9	6.1	6.1
Spain	2.6	2.9	2.4	12.2	11.0	–3.8	–3.8	5.9	5.8
Sweden	2.0	2.7	2.9	3.7	5.6	1.1	1.5	5.8	6.0
Switzerland	1.8	1.8	1.8	1.8	1.8	12.9	12.7	4.4	4.3
Turkey	5.6	15.8	10.0	6.8	6.1	–3.4	–3.2	26.8	21.0
United Kingdom	2.2	2.6	2.4	5.5	6.0	–1.9	–1.9	5.7	6.0
United States	3.6	2.3	2.3	4.5	5.0	–4.3	–3.9	6.5	6.4
Euro area	2.4	2.0	2.0	7.7	7.7	0.4	1.1	5.8	5.7
European Union	2.3	2.2	2.0	7.2	7.3	0.0	0.6	5.8	5.8
Total of above OECD countries	3.0	2.1[e]	2.0[e]	5.9	5.9	–1.2	–0.9	6.0[e]	6.0[e]

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

a) Percentage change from the previous period in the GDP deflator.
b) Per cent of labour force.
c) Per cent of nominal GDP.
d) Short-term interest rate.
e) Excluding Turkey.

Box I.4. The medium-term reference scenario *(cont.)*

The current version features a continuation of the short-term area-wide expansion, with medium-term growth of around 3 per cent and growth in world trade at around 7 per cent. Area-wide inflation remains stable at around 2 per cent; the average unemployment rate remains broadly stable over the period but remains high in a number of European countries. In spite of the closure of output gaps, the present levels of current account imbalances between major OECD countries and regions persist over the medium-term, reflecting mostly underlying structural factors.

Fiscal trends in the medium-term reference scenario

As a percentage of nominal GDP

	Financial balances[a]		Net financial liabilities[b]		Gross financial liabilities[c]		Gross public debt (Maastricht definition)[d]	
	2002	2006	2002	2006	2002	2006	2002	2006
Australia	1.0	1.6	9	2	24	17	..	..
Austria	0.0	0.1	45	38	60	53	60	53
Belgium	0.7	1.2	91	74	100	83	100	83
Canada	1.9	1.9	56	39	96	79	..	..
Czech Republic	–7.5	–7.7	..	..	..	..	..	..
Denmark	3.1	2.9	18	4	42	28	40	26
Finland	5.3	4.8	–37	–48	36	25	36	25
France	–0.8	–0.1	40	35	63	58	57	53
Germany	–1.2	–0.3	40	37	58	55	58	55
Greece	0.3	1.4	..	..	96	83	96	83
Hungary	–2.5	–1.7	..	..	..	..	..	..
Iceland	2.5	3.5	15	0	30	15	..	..
Ireland	7.3	5.9	..	..	17	0	17	0
Italy	–0.8	0.4	93	78	105	90	104	89
Japan	–5.7	–4.8	54	69	125	140	..	..
Korea	5.0	5.3	–32	–42	8	0	..	..
Netherlands	1.3	0.5	37	27	49	40	49	40
New Zealand	1.2	1.5	..	..	..	..	..	..
Norway	14.4	14.1	–78	–121	24	23	..	..
Poland	–2.3	–1.4	..	..	..	..	..	..
Portugal	–1.3	0.0	..	..	52	42	52	42
Spain	0.4	1.0	37	28	64	54	56	48
Sweden	3.8	2.1	–9	–18	41	32	43	34
United Kingdom	1.8	0.6	26	18	47	39	38	31
United States	2.7	3.3	33	15	50	32	..	..
Euro area	–0.3	0.4	51	43	68	60	68	60
European Union	0.1	0.4	45	37	65	57	62	55
Total of above OECD countries	0.5	1.0	38	29	66	58		

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

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

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

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

d) Debt ratios are based on debt figures for 1999, provided by Eurostat, and GDP figures from national authorities, projected forward in line with the OECD projections for GDP and general government financial liabilities.

(Belgium, France, Italy, Netherlands, and United Kingdom), for new staff (Greece, Italy and Portugal) and for persons on new permanent contracts (Spain). As indicated by the experience of some of the countries that have employed such measures in the past, the targeted cuts may increase the demand for low-productivity workers.[17]

– Personal income taxes are being reduced in general (Australia, Canada, Finland, France, Germany, Greece, Ireland, Netherlands, Spain and Sweden) and/or targeted at low income earners (Austria, Germany, Ireland, Italy, the Netherlands, Portugal, and the United Kingdom). Targeted reductions that have increased the after-tax gain from work have been found to encourage labour force participation and, to a smaller extent, overall labour supply.

– Corporate tax rates are being reduced in general in Canada, Denmark, Germany, Greece, Ireland, Italy and Portugal, encouraging better resource allocation.

These measures will contribute to economy-wide efficiency improvements and raise potential output over the longer term, but they will take time to have their full effects; over the short run their impact is likely to be modest.

Policy requirements in OECD countries

The United States

The key policy issue in the United States is whether further tightening of monetary policy is required

As noted above, the long-awaited slowing of the US economy is now under way. This should help to reduce the excess demand that appears to have characterised the economy in recent years, and this re-balancing process will be further assisted by the rise in potential growth rates that has taken place in the latter part of the 1990s. Indeed, it now looks as if the potential growth rate has risen to 4 per cent, a full percentage point higher than the OECD's estimate in June 1999, and that excess demand is less than previously thought.

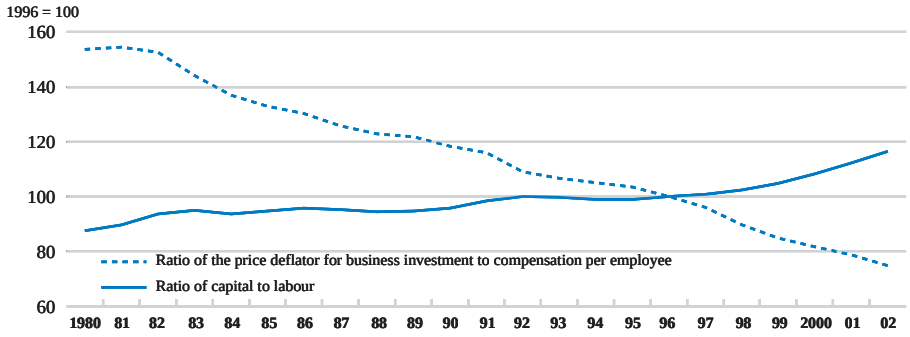
The key issue remains whether the tightening of monetary policy that has already been implemented is sufficient to bring about a soft landing. The possibility that the oil price hike may lead to responses that have adverse effects on core inflation further complicates the task of the monetary authorities in maintaining price stability. Even taking account of the increase in the potential growth rate, the OECD's current assessment is that some further tightening will be necessary. However, a rise of only 50 basis points in the federal funds rate is estimated to be sufficient in 2001 to arrest increases in the inflation rate. With the pressures on resources continuing to decline, there would then be some scope for the Federal Reserve Board to start reducing interest rates in the second half of 2002.

Inflationary tensions may emerge as productivity growth falls for cyclical reasons and wage inflation edges up

The remarkable surge in productivity growth in the first half of 2000 has limited some inflationary pressures originating in tight labour markets. The rise in productivity growth was importantly related to the continued strong increase in the capital stock (Figure I.10), as businesses took advantage of the persistent dramatic fall in the price of computer equipment to invest in new technology. Though future underlying

17. See Chapter V, "Making Work Pay" in *OECD Economic Outlook* 66, December 1999, and articles in *OECD Economic Studies*, No. 31, 2000/2.

Figure I.10. **United States: Capital-labour ratio and relative factor prices in the business sector**



Source: OECD.

productivity trends are inherently uncertain, the OECD expects recent trends to continue for some time as there is no evidence to suggest that the rate of fall in computer prices will ease in the near future. However, actual productivity growth is likely to come down as the economy slows, so productivity developments in the short run may not be as helpful in moderating price increases as in the recent past. At the same time, continued pressures in the labour market may push up wage inflation.

The higher potential growth rate has reduced risks associated with the stock market and the current account deficit…

Provided higher rates of potential output growth in the United States are sustained, some long-standing risks to the economy would seem to have become less serious in the short term:

– *Stock market correction*. As highlighted in previous issues of *OECD Economic Outlook*, a sharp correction of the apparently highly valued stock market has been considered to be a major risk for the United States and the world economy. However, if long-term dividend growth expectations have risen in line with estimated potential output growth to 4 per cent, the extent of the over-valuation of stock prices is much less than if a backward-looking dividend growth record is used to assess fundamental values.[18] Even so, equity prices remain vulnerable to shifts in investors' sentiments, as demonstrated by recent falls in technology stocks.

– *The current-account deficit*. Concerns about the external financing requirements associated with the large current-account deficit in the United States are widely seen to make the possibility of a disorderly fall in the dollar a major downside risk. However, as expected rates of return on capital have risen with higher potential growth rates, foreigners have sought to acquire claims on future profit streams through mergers with and acquisition of US

18. Within the framework of the standard dividend discount model, the extent of the over-valuation of equities is often measured by the implicit risk premium demanded by investors to hold stocks instead of risk-free bonds, an unusually low risk premium signalling an over-valuation (see Chapter V "Recent Equity Market Developments and Implication" in *OECD Economic Outlook* 64, December 1998). In the current year, the implied risk premium is around 2.2 per cent if dividends are expected to grow at 4 per cent in real terms, the return to equity holders from dividends and net share repurchases is 2.2 per cent, and the real interest rate is 4 per cent. If dividends were instead expected to grow at the average potential growth rate over the 1986-93 period of only 2.7 per cent, the implicit risk premium would be only 0.9 per cent. The implicit risk premium over the 1986-93 period was 2.9 per cent.

Table I.12. **The US current account deficit and its financing**

$ billion

	1996	1997	1998	1999	2000 I[a]
Current account balance	–123.3	–140.5	–217.1	–331.4	–415.2
Direct investment flows, net	–5.4	1.0	40.2	124.6	96.3
Inflows from abroad	86.5	106.0	186.3	275.5	257.3
US purchases abroad	91.9	105.0	146.1	150.9	161.0
Corporate stocks, net	–71.1	10.2	–59.3	–16.3	77.2
Inflows from abroad	11.1	67.8	41.9	98.1	176.4
US puchases abroad	82.2	57.6	101.2	114.4	99.2
Bonds, net	329.1	212.8	182.8	232.2	258.6
Inflows from abroad	396.1	274.2	217.6	246.4	266.7
US purchases abroad	67.0	61.4	34.8	14.2	8.1
Other identified flows	–94.1	44.4	–16.3	–20.6	–18.1
Statistical discrepancy	–35.2	–127.9	69.7	11.5	1.2

a) Annual rate, first half of 2000.
Sources: Bureau of Economic Analysis and Federal Reserve Board.

companies and the buying of shares. Indeed, increased net direct investment inflows and net flows into corporate stocks have covered around a half of the additional financing needs due to the widening of the current-account deficit since 1997 (Table I.12).

… and has major implications for public finances in the long term

Provided that the higher potential growth rate is durable, there will also be major implications for public finances in the longer term. Official projections for the period 2000-10, based on average growth rates of only a little less than 3 per cent, suggest that total budget surpluses could be on average 3½ per cent of GDP and add up to $4.5 trillion in the period.[19] If instead the average growth rates were to increase to the currently estimated potential growth rate of 4 per cent, cumulative surpluses could be much higher than the baseline estimates.[20] This would imply that there could be significant scope to reduce taxes or increase public spending over the medium term without weakening the underlying budget surplus. Alternatively, refraining from such policy easing would significantly strengthen the capacity of the authorities to meet the added public spending related to the ageing of the population after 2008.

There are, however, uncertainties about the future evolution of the potential growth rate

There are, however, uncertainties about the evolution of potential growth rates in the short and long run. Given the pivotal role of technological advance in the information and communication industries in raising dynamism in the 1990s, high trend output growth in the future will depend critically on continued high rates of innovation and product development in these sectors. As has been the case with major innovations in

19. See Congressional Budget Office, *The Budget and Economic Outlook: An Update*, July 2000. The figures referred to in the text are based on the assumption that discretionary spending grows at the same rate as the inflation rate.
20. Sensitivity analysis suggests that an increase in the average GDP growth rate over the 2000-10 period of only 0.4 percentage point could more than double cumulative surpluses over the period, see Chapter 5 in Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2001-2010*, January 2000.

the past, technological advance in the computer industry will eventually slow down. However, so far there are no signs of this taking place, and falling computer prices will continue to induce businesses to use capital equipment more intensively in the medium term. On the other hand, the diffusion of these innovations may temporarily slow down if the economy turns down, as past experience shows that business investment is sensitive to companies' cash-flows and profit positions.

The euro area

Growth is set to be above potential in the euro area in the coming two years

The euro area looks set to grow at rates above potential over the coming two years, with unemployment declining to a 20-year low and some excess demand pressure emerging (Table I.13). Growth in 2000 has been supported by the weakening of the euro, and the depreciation that has already taken place will continue to have positive effects on activity in the short term. Underlying inflation trends have been remarkably benign in the face of the oil price hike and the depreciation of the euro,

Table I.13. **Euro area**

Summary of projections

	1999		1999	2000	2001	2002
	Current prices		Percentage changes, volume (1995 prices)			
	Billion euro	Per cent of GDP				
Private consumption	3 558.6	57.0	2.8	2.5	2.6	2.6
Government consumption	1 245.7	20.0	1.4	1.3	1.1	1.1
Gross fixed capital formation	1 303.4	20.9	5.4	5.0	4.4	4.3
Residential	358.7	5.7	3.2	2.7	1.8	1.8
Business	789.0	12.6	6.5	6.4	5.9	5.7
Government	155.7	2.5	4.6	2.8	2.6	2.6
Final domestic demand	6 107.7	97.9	3.0	2.8	2.7	2.7
Stockbuilding[a]	36.9	0.6	–0.1	0.0	0.0	0.0
Total domestic demand	6 144.6	98.4	2.9	2.8	2.6	2.7
Exports of goods and services[b]	1 098.4	17.6	4.5	13.2	10.1	7.6
Imports of goods and services[b]	1 001.6	16.0	7.8	10.0	8.5	7.5
Net exports[a]	96.8	1.6	–0.4	0.7	0.5	0.2
GDP at constant prices			2.5	3.5	3.1	2.8
GDP at current prices	6 241.5	100.0	3.7	4.7	5.0	4.9
Memorandum items:						
Private consumption deflator			1.2	2.2	2.3	2.0
Total employment			1.8	2.1	1.6	1.3
Unemployment rate			9.9	9.0	8.3	7.7
General government financial balance[c]			–1.3	0.3	–0.5	–0.3
Current account balance[c]			0.4	0.0	0.1	0.4
Household saving ratio[d]			9.9	9.7	9.9	9.8
Output gap[e]			–1.4	–0.3	0.3	0.6

Note: Greece will enter the euro area on 1 January 2001. In order to present consistent projections for the euro area and to ensure comparability of the euro area data over time, Greece has been included in the calculation of the euro area throughout.

a) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
b) Excluding intra-area trade.
c) As a percentage of GDP.
d) As a percentage of disposable income.
e) As a percentage of potential GDP.
Source: OECD.

but core inflation is likely to move up somewhat as spare capacity is exhausted. There will be some tendency for convergence in cyclical positions across individual countries in the euro area, with all but Italy and Portugal expected to be operating above potential in 2002.

The strength of the supply side is uncertain

Important issues in the context of assessing monetary policy priorities are the current level and growth rate of potential output in the euro area. As noted above, the strength of the supply side of the US economy has been revised up in recent years, and the question arises whether it is now the euro area's turn to deliver positive surprises in this area.

There is little evidence of new technology raising productivity growth rates…

There is no clear evidence that the euro area has succeeded in raising aggregate productivity growth through the creation and use of information and communication technology. Companies in the euro area have taken the lead in some areas of new technology, and the interest in acquiring licences for operating third-generation mobile telephones bears witness to the vibrancy of this segment of the industry. However, the information technology sector is small in many countries of the euro area, and, although investment in new technology has increased, there has not been any significant acceleration in aggregate investment. Nevertheless, it would be surprising if productivity growth trends in the euro area did not eventually benefit from the creation and diffusion of new technology. The process could be accelerated by improving framework conditions in the business sector.[21]

… but sustainable resource utilisation rates have risen

There is firmer evidence that structural reforms over the past decade have raised sustainable resource utilisation rates.[22] For example, the area-wide structural employment-to-population ratio is estimated to have risen by close to 2 percentage points from 1995 to 2000, due to the combined effect of lower structural unemployment rates and higher trend participation rates. These structural improvements have played a key role in the unusually rapid employment growth observed since 1997. Moreover, the extent of these improvements has continued to surprise on the upside. Such surprises will recur if past and future reforms are more effective than currently anticipated in improving conditions in the labour and product market.

Some inflationary tensions in the short term call for a modest rise in interest rates…

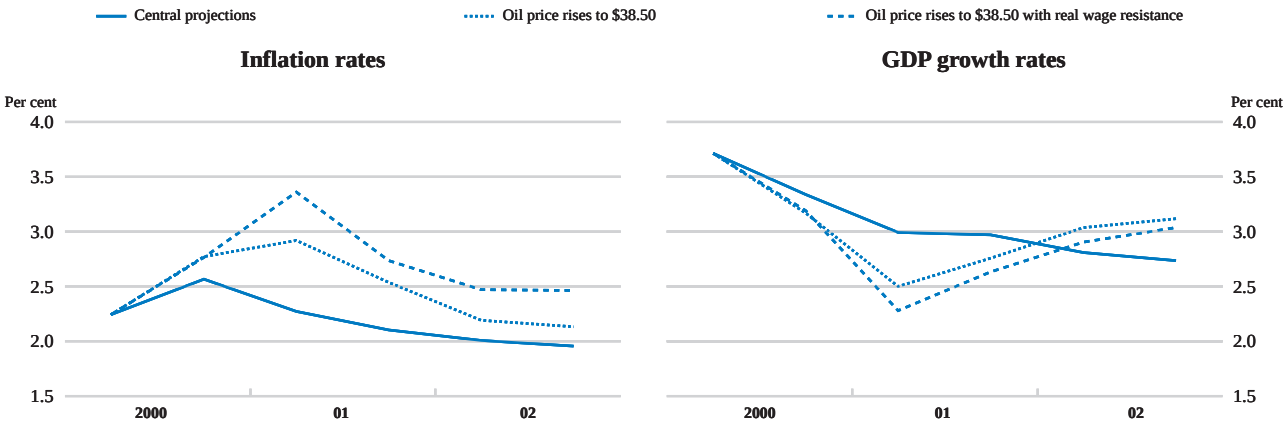
Against the background of modest excess demand emerging in 2002 and the possibility that potential output is higher than generally recognised, the monetary authorities may have to raise interest rates only modestly to ensure that inflation stays below the upper limit of 2 per cent in the medium term. The OECD's projections assume that the average refinancing rate will rise by a further 50 basis points by mid-2001, and remain constant thereafter. Coming on top of a cumulative increase in the policy rate of 225 basis points since November 1999, this would continue the process of making the monetary policy stance less supportive of demand. However, two upside risks to inflation could put pressure on macroeconomic policy were they to materialise.

21. See Chapter IV "Links between policy and growth: cross-country evidence".
22. For a discussion of the evolution of structural unemployment rates in Member countries, see Chapter V "Revised OECD Measures of Structural Unemployment".

… but stronger policy responses would be required if oil prices were to have larger effects on wages…

First, interest rates would have to rise further if wage earners or producers attempt to recover oil-induced losses in real income. The wage response has so far been muted, but the real test will come when existing wage contracts are renegotiated. The central projections assume that wage moderation will continue, but there is a risk that the strengthening of the labour market may induce workers to demand higher wages. Simulation analysis by the OECD illustrates the deleterious macroeconomic effects of a combined increase in oil prices to $38.50 (*i.e.* the peak attained this year) and nominal wages adjusting in an attempt to offset the direct impact on real income. Assuming that real interest rates would remain constant, the effect would be stagflationary relative to the central projection, with output lower and inflation higher (Figure I.11). In such an unfavourable environment, monetary policy would have to react strongly to maintain price stability.

Figure I.11. **The effect of higher oil prices with real wage resistance in the Euro area**



Note: The average price of imported oil is assumed in these scenarios to rise to $38.50 by the end of 2000 and to stay there throughout 2001 and 2002. The wage resistance scenario assumes that nominal wages adjust to recuperate the direct impact of the higher oil price on consumer prices.
Source: OECD.

… or if the euro were to continue its decline

Second, continued declines in the value of the euro would directly add to inflation and increase the risk of overheating in the area. This would require corrective monetary policy action by the European Central Bank. The prospects for the euro are highly uncertain, in particular since the reasons for its sharp drop thus far are not well understood. In fact, there does not seem to be any single explanation for the fall applicable for the whole period since January 1999 and for movements against both the dollar and the yen. Concerns about the continued decline in the value of the euro has prompted intervention in foreign exchange markets to provide support on several occasions since September.

Japan

The focus of policy in Japan is shifting from crisis to recovery management…

Although there is still some uncertainty about the robustness of the expansion in Japan, the focus of policy making is shifting from crisis to recovery management. In August, the Bank of Japan raised its overnight lending rate from practically zero to ¼ percentage point, signalling that the monetary authorities no longer considered emergency measures to be appropriate in the light of the recovery. Reflecting somewhat greater concern about the fragility of the economy in the near term, the government has announced another supplementary budget. However, this tenth supplementary budget

since the downturn in the early 1990s is comparatively modest, little more than offsetting the automatic tightening of the fiscal stance due to declines in public spending from abnormally high levels in the absence of any new initiatives.

… but the transition has not been smooth

While markets had been prepared for the termination of "the zero interest rate policy", the raising of the overnight rate by 25 basis points was quickly transmitted throughout the yield curve (Figure I.12). At the short end of the maturity spectrum, this appears to have been related to perceived risks of continued rises in policy rates in the absence of a clear monetary framework. As for longer-dated instruments, the increase in yields was related to expectations of strong second quarter GDP figures and to the risk of fiscal policy turning more expansionary to offset the impact of less supportive monetary conditions. Indeed, the government was in an open disagreement with the Bank of Japan's decision to terminate the "zero interest rate policy", emphasising instead the fragility of the recovery. Though long-term government bond rates have come down since mid-August, they still remain slightly above their level prior to the raising of the overnight rate.

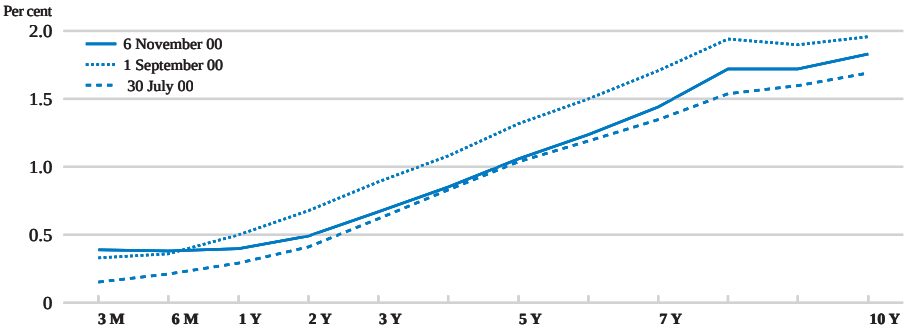
The macroeconomic policy mix will have to change as the recovery becomes firmly established

As the economic recovery becomes firmly established, the priority of fiscal policy will have to shift towards budget consolidation and debt stabilisation. This could slow the return of the economy to normal rates of resource utilisation. In this environment, the role of monetary policy is to provide continued strong support to growth, refraining from any tightening of policy unless there are clear indications that the price stability objective is at risk.

There is no need for further tightening of monetary policy…

At this stage, there is no indication of any inflationary pressures that would warrant tighter policies, and it is assumed in the projections that no further increase in policy rates will take place in the coming two years. To avoid excessive risk premia being built into market rates because of uncertainty about monetary policy actions, the monetary authorities need to introduce a transparent medium-term monetary strategy[23] that would provide greater clarity about their inflation objective and their

Figure I.12. **Yield curves in Japan**[1]



1. The curves refer to yields on government financial instruments.
Source: Bloomberg.

23. In October, the Bank of Japan announced several changes to increase transparency. It has begun to publish half-yearly reports where the range of forecasts by policy board members for inflation (consumer and wholesale price indices) are presented for the current fiscal year. The views of its policy board members concerning risks to inflation for the coming year are also outlined. However, the inflation objective of the Bank has not been clarified.

use of instruments. In particular, such a framework would need to specify what inflation rate or range is considered to be compatible with the broad goal of price stability. This would involve making monetary policy in Japan more transparent than judged to be necessary in some other OECD areas, but this would seem to be justified by the critical need in the case of Japan to provide strong monetary support for the economy.

… but fiscal policy will have to shift towards restriction

In view of the projected recovery, the authorities are assumed to begin budget consolidation in 2002. This tightening of the underlying budget position by 1 percentage point is but a step to stabilise the debt-to-GDP ratio. Indeed, stabilising the debt ratio by 2010 in the face of ageing-related pressure on spending might possibly require budget consolidation of as much as 10 per cent of GDP. A tightening of this size would have to be spread out over a long period in order to limit the restraining effects on the economy. However, investors may be hesitant to finance persistent, even if gently declining, budget deficits unless they are in the context of a clear and a credible medium-term consolidation plan. The maintenance of investors' confidence is a pre-requisite for an orderly return to stable public finances, and government commitments about the future path of consolidation and the possible reaction to adverse shocks could help in this respect.

Restructuring of the economy is being facilitated by changes in framework conditions…

Restructuring of the Japanese economy is progressing, aided by changes in the legal framework governing the transfer of resources between companies and sectors. Accounting reforms have made it easier to identify loss-making activities, and the increased transparency has acted to stimulate better resource allocation. The simplification of procedures for merging and splitting companies has also encouraged this process. The new reorganisation law is a major step forward in facilitating restructuring in an orderly way, providing protection of vital assets from secured creditors in exchange for more effective implementation of restructuring plans.

… but it has had adverse effects on the banking system

The restructuring process has inevitably had adverse effects on the banking system. The re-capitalisation of the banking system in 1999 with public funds allowed banks to write off large amounts of bad debt. However, the introduction of better accounting rules has highlighted the extent of continuing problems in troubled sectors, notably property-related industries and retailing. The banking system therefore continues to be saddled with high levels of bad debts and very low profits (Table I.14). Moreover, costs related to bad debt may well increase in the future as troubled clients are increasingly asking for debt forgiveness. For the management of individual banks it may be expedient to accede to such requests, as partial debt forgiveness may delay having to classify the whole debt of a company as non-recoverable. However, this will tend to delay restructuring in the economy and could ultimately result in costs for the government. To avoid "easy" debt forgiveness, the authorities need to monitor such practices and insist on strict loan classification and provisioning rules. As demonstrated by recent bankruptcies in the insurance industry, serious problems remain in other segments of the financial sector and need to be addressed.

It is essential to continue structural reforms

Beyond the short term, it is essential that structural reform efforts continue as the economic recovery becomes better established. Further progress in implementing the reform agenda contained in last year's *OECD Review of Regulatory Reform* in Japan would make the economy more dynamic and strengthen its capacity to take advantage of technological advances. A particular emphasis should be placed on adjusting regulatory structures in the telecommunication sector with the aim of encouraging new entry and rapid diffusion of new modes of communications. But

Table I.14. **Income statements for Japanese banks, 1996-99**

Financial years beginning 1 April

	1996	1997	1998	1999
	Trillion yen			
Operating profits	5.9	5.1	3.8	4.6
of which:				
"Core" operations	5.2	4.7	4.8	5.0
Bonds	0.4	0.7	0.9	–0.1
Current profits	0.5	–4.7	–7.2	2.4
of which:				
Capital gains on equities	1.0	2.7	0.8	3.8
Write-offs	–6.9	–12.3	–11.9	–6.0
Final profits, after-tax[a]	0.3	–4.3	–4.4	0.9
Memorandum item:				
Bad loans[b]	..	65.7	64.3	63.4

a) Includes capital gains/losses on real estate.
b) Loans against which provision is required.
Source: Bank of Japan, *Research Monthly,* August 2000 (in Japanese).

there is also a need to address structural problems that have emerged in the course of recession, notably the appearance of marginalisation of youth in the labour market and the increase in unemployment among older workers. So far, the authorities have responded to these developments by increasing income support and expanding traditional active labour market measures. However, a solution to these labour-market problems might have to involve the relaxation of *de facto* strict employment protection for insiders, the adjustment of the incentive structure embedded in unemployment benefit systems for older workers, and new measures to entitle unemployed youth to employment-relevant training.

II. DEVELOPMENTS IN INDIVIDUAL OECD COUNTRIES

United States

The continuing transformation of the US economy has boosted its estimated annual potential growth rate to 4 per cent. However, output growth has outstripped supply in recent years, resulting in a tight labour market. Inflation has increased, pushed up by higher oil prices and a slight increase in core inflation. With higher short-term interest rates and a stabilisation in the stock market, the growth of demand should slacken. That could lead real GDP growth to drop to around 3¼ to 3½ per cent in 2001 and 2002, from over 5 per cent in 2000 – a slowdown that should be sufficient to stabilise inflation, with unemployment rising somewhat. The current account deficit is projected to increase further, before levelling out at around 4¼ per cent of GDP.

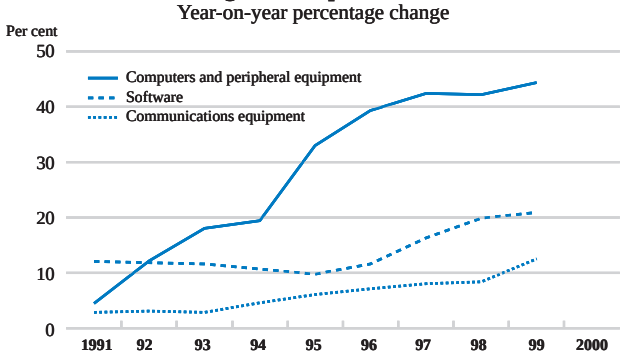
In view of the prospects for increasing core inflation and in order to check inflationary expectations, some additional monetary tightening may be called for. However, given the uncertainty about the potential growth rate and the magnitude of current excess demand, increases should continue to be made cautiously. Although the pace of discretionary government spending has picked up, budget surpluses continue to rise rapidly. Fiscal policy, however, should avoid optimistic assessments about the room for future tax cuts or spending increases in order to avoid both undue stimulus to the economy in the near term and the need for a large reversal later on, as the population ages.

US capacity is now estimated to be growing at 4 per cent

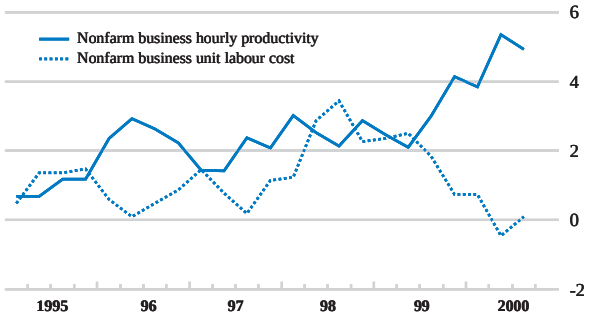
The economy is continuing to pass through a period of rapid change, with the adoption of new information and communications technology boosting its capacity. The OECD now estimates that the underlying rate of expansion of supply is about 4 per cent per annum. The most recent data, covering the period to 1998, showed that multifactor productivity continued to accelerate in the high-tech sector and has also registered gains in other sectors. Moreover, capital deepening continues apace throughout the economy, with the stock of computers rising by more than 40 per cent in 1999. In the first half of 2000, the pace of capital accumulation of this type of equipment was even faster than in 1999. Despite falling prices, outlays on information

United States

The stock of high-tech capital continues to soar
Year-on-year percentage change



Rapid productivity growth brings a fall in labour costs
Year-on-year percentage change



Sources: Bureau of Labor Statistics; Bureau of Economic Analysis.

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

Percentage changes

	1998	1999	2000	2001	2002
Employment[a]	2.2	1.9	1.9	1.0	1.1
Unemployment rate[b]	4.5	4.2	4.0	4.2	4.5
Employment cost index	3.5	3.2	4.6	4.7	4.9
Compensation per employee[c]	4.9	4.3	4.5	4.9	5.1
Labour productivity[c]	2.3	2.6	3.8	2.6	2.5
Unit labour cost[c]	2.5	1.6	0.7	2.3	2.5
GDP deflator	1.3	1.5	2.1	2.2	2.3
Private consumption deflator	1.1	1.8	2.5	2.1	2.2
Real household disposable income	4.8	3.2	3.0	3.4	3.3

a) Whole economy, for further details see "Sources and Methods".
b) As a percentage of labour force.
c) In the business sector.
Source: OECD.

and communications technology represented half of nominal spending on equipment and software, up from 40 per cent five years ago.

Growth has been very rapid, and the labour market has tightened with the current account deficit widening

The growth of output, though, has been even faster than that of productive capacity. In the first half of 2000, GDP rose by almost 6 per cent. Such a surge has kept the labour market very tight. Unemployment has fallen only slightly, to about 4 per cent, but there has been a somewhat greater reduction in the number of people who currently want a job even though they are not actively searching. Product market pressure has also resulted in imports growing markedly faster than total demand, a development that, together with the increase in oil prices, has pushed the current account deficit to 4¼ per cent of GDP.

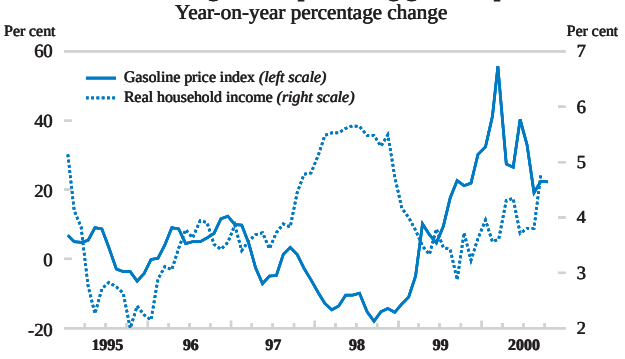
Unit labour costs have stabilised, boosting profits, despite an oil-induced jump in inflation

Despite the degree of excess demand, there has been only a limited acceleration in most measures of employee compensation and unit labour costs remained substantially unchanged over the past year. The rate of growth of productivity has been in line with that of hourly labour compensation. Flat unit labour costs have not been

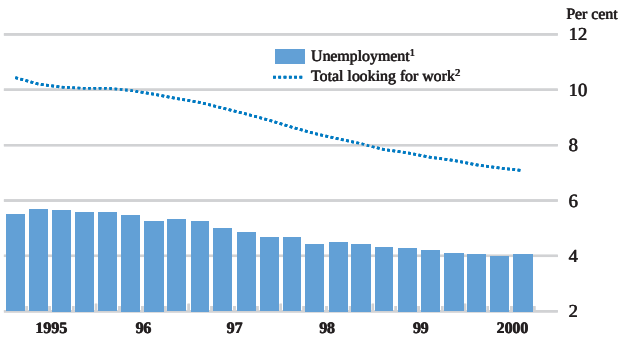
United States

Real incomes grow despite rising gasoline prices

Year-on-year percentage change



Labour markets remain tight



1. Percentage of labour force.
2. Unemployment plus those marginally attached to the labour force and involuntary part-time workers as a percentage of the labour force plus the number of those marginally attached to the labour force.

Sources: Bureau of Labor Statistics; Bureau of Economic Analysis.

United States: **Financial indicators**

	1998	1999	2000	2001	2002
Household saving ratio [a]	4.2	2.2	0.0	-0.3	-0.2
General government financial balance [b]	0.3	1.0	2.3	2.6	2.7
Current account balance [b]	-2.5	-3.6	-4.3	-4.5	-4.3
Short-term interest rate [c]	5.5	5.4	6.5	7.0	7.0
Long-term interest rate [d]	5.3	5.6	6.1	6.4	6.5

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.

reflected in any deceleration in prices. Indeed in the first half of 2000, the rate of increase of the domestic demand deflator for products other than food and energy, picked up, after having been broadly stable in 1999. Such contrasting developments in costs and prices have lifted company earnings. The surge in profits outside the energy sector was accentuated by higher domestic crude oil and natural gas prices and a widening of margins in the refining and distribution chain, that resulted in gasoline prices growing more rapidly than crude oil prices in the first half of 2000. Overall, higher energy prices added 0.8 percentage point to the rate of growth of the consumer price deflator which increased at an annual rate of 2.8 per cent in that period. Nonetheless, real household income continued to grow at a brisk rate. In effect, unexpectedly rapid productivity growth and a fall in unit labour costs have helped offset the impact of higher oil prices on real incomes.

High equity prices led consumers to further reduce their saving rate

By early November, stock prices were at the same level as in December 1999, though some 9 per cent below their all time high. Rising profits have lowered the average price to earnings ratio in the traditional sector of the economy to under 24, the same as at the end of 1997, with a marked narrowing of the premium for technology

United States: **Demand and output**

	1997	1998	1999	2000	2001	2002
	current prices billion $	Percentage changes, volume (1996 prices)				
Private consumption	5 529.3	4.7	5.3	5.4	3.6	3.0
Government consumption	1 223.3	1.5	2.1	2.0	2.1	2.5
Gross fixed investment	1 592.3	10.7	9.2	9.0	5.1	5.4
Public	264.7	5.3	9.1	4.8	2.4	3.8
Residential	328.3	8.3	6.4	-0.2	-3.4	-1.2
Non-residential	999.4	13.0	10.1	13.1	8.3	7.6
Final domestic demand	8 344.9	5.4	5.6	5.6	3.7	3.4
Stockbuilding [a]	62.9	0.2	-0.4	0.2	-0.1	-0.1
Total domestic demand	8 407.8	5.5	5.2	5.8	3.6	3.4
Exports of goods and services	966.4	2.3	2.9	10.4	9.3	7.7
Imports of goods and services	1 055.8	11.9	10.7	13.7	8.8	7.2
Net exports [a]	- 89.4	-1.3	-1.2	-0.9	-0.3	-0.3
GDP at market prices	8 318.5	4.4	4.2	5.2	3.5	3.3
Industrial production	_	4.3	3.5	5.5	4.0	4.0

Note: National accounts are based on chain linked data. See "Sources and Methods" for further details.
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**

	1998	1999	2000	2001	2002
			$ billion		
Merchandise exports	670.3	684.4	782.6	868	941
Merchandise imports	917.2	1 029.9	1 233.4	1 358	1 447
Trade balance	- 246.9	- 345.6	- 450.9	- 491	- 506
Invisibles, net	29.7	14.1	18.0	20	23
Current account balance	- 217.1	- 331.5	- 432.8	- 470	- 483
			Percentage changes		
Merchandise export volumes [a]	2.2	4.0	12.6	10.0	7.8
Merchandise import volumes [a]	11.8	12.5	14.5	9.4	7.3
Export performance [b]	- 1.1	- 2.3	- 1.1	- 0.1	- 0.3
Terms of trade	3.0	- 1.5	- 3.2	0.2	1.3

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

stocks. Nonetheless, personal sector wealth remains well above the average 1999 level, and this is probably one of the main factors underlying the continued strong growth in household consumption outlays that have brought the saving ratio close to zero in the first half of the year.

Fiscal policy remains tight, but nonetheless a further increase in interest rates may be needed

Once again, there has been a marked increase in the federal government surplus. It is likely to reach $230 billion (2¼ per cent of GDP) in FY 2000. This improvement was driven by a jump in income tax receipts, possibly due to continued strong capital gains, that was only partly offset by the pick-up in overall federal non-interest spending following the removal of the discretionary spending caps. In the absence of an agreed budget for 2001, the projections assume growth in discretionary outlays similar to that in recent years and no tax changes. On this basis, the federal surplus should continue to climb, reaching $340 billion (3 per cent of GDP) by 2002, with net federal debt declining to 25 per cent of GDP from 39½ per cent in 1999. As well as a rising fiscal surplus, higher oil prices have also lowered demand. Nonetheless, output remains above potential. Consequently, with a slight increase in the underlying rate of inflation, a resumption of the policy of increasing interest rates may be required, even if some reduction might be envisaged towards the end of the projection period as the economy moves toward balance.

The pace of the expansion should slacken, bringing demand into better balance with supply

The rise in short-term interest rates that has already occurred, together with the modest further tightening (of 50 basis points) assumed in the projections, should slow the economy. Indeed, the process has already started, though third-quarter GDP data (showing an annual growth rate to 2.7 per cent) exaggerate the extent of the slowdown. Moreover, unemployment at 3.9 per cent in October is still below the average for the first half of the year. Higher interest rates are likely to have their effect through two channels. With equity prices stabilising, the growth of consumption will no longer outpace that of income and, in addition, higher long-term borrowing rates should reduce the expansion of investment in the traditional sector of the economy. Even the high-tech sector may be affected, given the signs of over-capacity emerging in the telecommunications industry, the reduction in the rate at which computer prices are falling, financing problems for new start-ups and increasing spreads for borrowers. With the growth of output moving towards that in the rest of the

OECD area, the current account deficit should stabilise at about 4¼ per cent of GDP. At the same time, the unemployment rate may start moving back towards 4½ per cent, helping lessen the acceleration in prices outside the food and energy sectors. In the second half of this year, with oil prices increasing less rapidly, the overall rate of inflation should ease markedly. Thereafter, it may edge up slightly, as the increase in core inflation is only partly buffered by easing oil prices.

Alternatively, a hard landing could ensue, but better performance is also possible

The current account deficit has been largely financed by direct investment and share purchases by foreigners. Such flows, while in many cases linked to the desire of companies to participate in the surge of innovation in the US economy, are, nonetheless, vulnerable to short-term changes in sentiment. Only a slight slackening in their pace would put the dollar under significant downward pressure, raising the possibility of a more disruptive slowing in the economy. The likelihood of such an adverse out-turn, though, has to be balanced against the fact that economic performance has continued to surprise in the past. If underlying productivity proves to be still accelerating, as many financial market analysts project, then the need for future interest-rate increases would be lessened and actual growth could be somewhat faster without generating any additional inflationary pressures.

Japan

The economic recovery in the first half of 2000, with growth at an annual rate of 4½ per cent, has been stronger than expected, led by business investment and surprisingly robust private consumption. Export growth was also strong but has been erratic. A moderate expansion of both investment and consumption is expected over the next two years, although significant uncertainty remains. Growth will nevertheless remain volatile as fiscal measures run their course. Output growth is expected to be around 2 per cent in 2000, rising temporarily to 2¼ per cent in 2001 under the influence of the latest fiscal boost before moving back to about 2 per cent in 2002.

With a modest recovery underway, some re-balancing of policy would now be appropriate. While the stance of monetary policy should remain easy to continue to support the recovery, maintaining the credibility of monetary policy in this context requires a more explicit monetary policy framework than has been the case till now. The recent decision to publish inflation forecasts is a step in this direction. At the same time, fiscal policy should gradually be reoriented toward consolidation in a transparent medium-term framework. Without this policy mix there is a danger that long-term interest rates will rise, thereby reducing growth prospects and subjecting the financial sector to stress. Priority will also need to be given to improving the efficiency of the public expenditure system and to continuing with structural reforms.

Economic activity has gained momentum…

Activity picked up strongly in the first half of 2000 and forward-looking indicators suggest that economic expansion will continue. Business investment has been the driving force in the recovery, stimulated by a marked increase of actual and expected profits and accelerating demand, both domestic and external, for information technology. Rising activity is now lifting household incomes, and summer bonuses have stabilised. Improved labour demand has in turn underpinned favourable consumer sentiment despite the rise in bankruptcies and a relatively high level of unemployment. Moreover, a large volume of postal savings deposits are maturing this year and next, providing households with additional liquidity. Although the statistics are volatile, consumption is strengthening, broadening the base of the recovery.

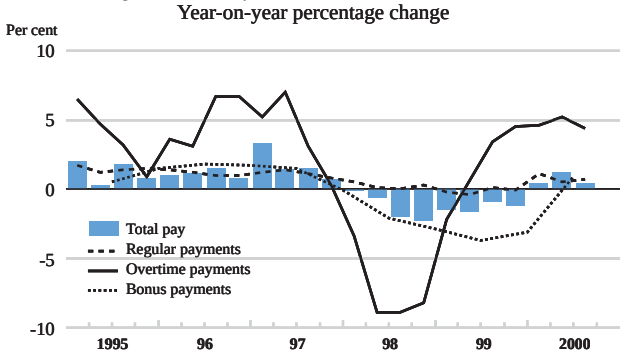
… although conflicting forces will constrain the growth of investment

The share of business investment in GDP and the growth rate of investment are both expected to remain below levels reached in past recoveries. Enterprises are still faced with excess capital stock and, although firms are continuing to scrap at a rapid rate, the overhang will nevertheless serve to constrain investment demand. In addition, expectations of lower future output growth than in the past and a greater emphasis on

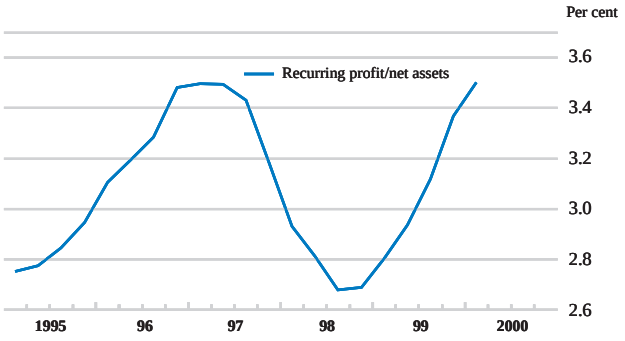
Japan

Wage and salary incomes have started to rise

Year-on-year percentage change



Corporate profits are recovering from a low level



Sources: Ministry of Labour and Ministry of Finance.

Japan: **Employment, income and inflation**

Percentage changes

	1998	1999	2000	2001	2002
Employment	-0.7	-0.8	-0.4	0.3	0.4
Unemployment rate[a]	4.1	4.7	4.7	4.6	4.6
Compensation of employees	-1.0	-1.0	1.1	1.1	1.4
Unit labour cost	1.5	-1.2	-0.8	-1.2	-0.6
Household disposable income	0.3	0.5	0.6	1.7	3.0
GDP deflator	0.3	-0.9	-1.5	-0.4	-0.2
Private consumption deflator	0.2	-0.5	-0.5	0.0	-0.1

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

profitability may also serve to limit investment recovery. Budget pressures are serving to constrain public investment, particularly at the local government level, while fiscal measures to stimulate residential construction have served to bring forward activity, which will subsequently retard demand as from the second half of this year.

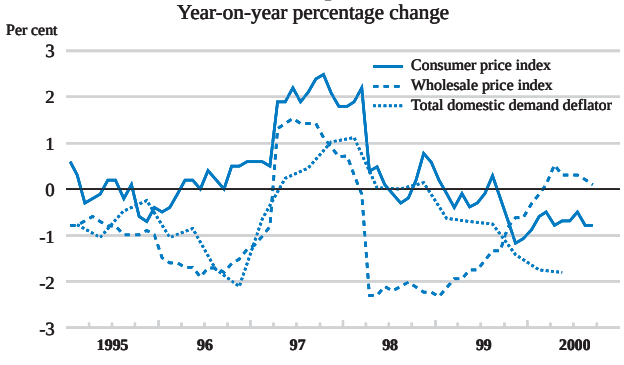
Deflation has tended to stabilise

Price developments present a very mixed picture with deflation continuing according to most measures, although there are no indications of a downward spiral developing. The domestic demand deflator has fallen at an annual rate of some 1½ per cent in the first half, a significantly larger decline than in 1999. Price declines have been greatest in the investment goods component, where factors such as technological progress are likely to be important. Consumer prices have continued to decline but only by some ½ per cent, while domestic wholesale prices have been rising since March 2000. Effects of higher oil prices on price movements have been muted by a decrease in the profit margins of oil companies following deregulation of this sector. Land prices continue to fall, although the annual rate of decline has moderated to around 9 per cent.

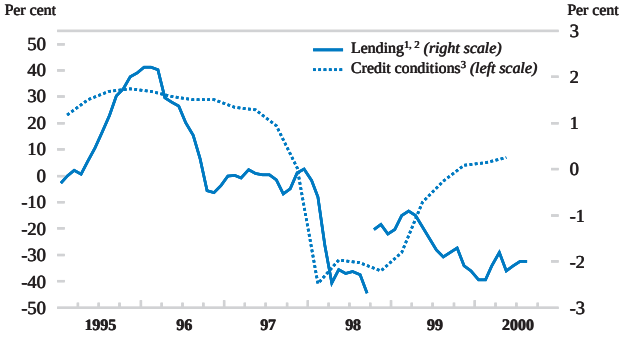
Japan

Deflation persists

Year-on-year percentage change



Banks want to lend but borrowing has contracted



1. Year-on-year percentage changes.
2. From third quarter of 1998, adjusted for loan write-offs.
3. Opinions on financial institutions' lending attitudes (accommodative minus severe in per cent).

Source: Bank of Japan.

Japan: **Financial indicators**

	1998	1999	2000	2001	2002
Household saving ratio [a]	13.4	13.2	12.8	12.4	13.2
General government financial balance [b,e]	-5.0	-7.0	-6.0	-6.0	-5.7
Current account balance [b]	3.2	2.5	2.8	2.7	3.0
Short-term interest rate [c]	0.7	0.2	0.2	0.6	0.9
Long-term interest rate [d]	1.5	1.7	1.8	2.1	2.3

a) As a percentage of disposable income.
b) As a percentage of GDP.
c) 3 month CDs.
d) 10-year government bonds.
e) The 1998 deficit would have risen by 5.4 percentage points if account were taken of the assumption by the central government of the debt of the Japan National Railway Settlement Corporation and the National Forest Special Account.
Source: OECD.

Monetary and financial conditions continue to underpin activity

Monetary and financial conditions remain favourable for growth despite policy rates being raised by 25 basis points in August. Base money has grown at around 5 per cent, while lending attitudes of banks are judged to be accommodative. Nevertheless, money supply has grown only slowly, in great part owing to weak demand for bank lending as enterprises restructure their balance sheets and finance investment through improved cash flows. The rate of bankruptcies has moved up sharply, but this reflects the expiry of the one year period of grace for capital repayments for loan guarantees granted to small and medium sized enterprises at the end of 1998 rather than a tightening of financial conditions. The projection assumes no further increases in policy rates over the projection period, although short-term rates will drift upward somewhat. In a welcome departure from past practice, the BOJ has started to publish the inflation and output forecasts of the members of the policy board for the current fiscal year as well as the main risks to the projections.

Japan: **Demand and output**

	1997	1998	1999	2000	2001	2002
	current prices trillion yen	Percentage changes, volume (1990 prices)				
Private consumption	305.9	-0.5	1.2	1.6	2.1	2.2
Government consumption	49.6	1.5	1.3	0.2	0.5	0.6
Gross fixed investment	145.6	-7.4	-1.2	0.6	2.8	1.2
Public [a]	39.5	-3.0	7.8	-8.8	-1.3	-7.3
Residential	23.7	-14.4	1.4	1.0	-4.3	-2.0
Non-residential	82.4	-7.6	-5.9	5.4	6.3	5.5
Final domestic demand	501.1	-2.5	0.5	1.1	2.1	1.7
Stockbuilding [b]	2.6	-0.6	0.1	0.1	0.2	0.0
Total domestic demand	503.6	-3.1	0.5	1.3	2.4	1.8
Exports of goods and services	56.3	-2.5	1.9	13.6	5.5	5.3
Imports of goods and services	50.3	-7.6	5.3	10.5	6.4	4.2
Net exports [b]	6.0	0.5	-0.3	0.7	0.0	0.3
GDP at market prices	509.6	-2.5	0.2	1.9	2.3	2.0
Industrial production [c]	_	-7.2	1.0	5.8	4.0	2.8

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

Japan: **External indicators**

	1998	1999	2000	2001	2002
			$ billion		
Merchandise exports	374.0	403.4	462.7	482	509
Merchandise imports	251.5	280.3	337.9	365	379
Trade balance	122.4	123.1	124.8	117	131
Invisibles, net	- 1.5	- 16.3	2.8	9	12
Current account balance	120.9	106.9	127.6	126	143
			Percentage changes		
Merchandise export volumes [a]	- 1.2	2.1	12.5	5.7	5.3
Merchandise import volumes [a]	- 5.3	9.6	11.5	7.7	4.2
Export performance [b]	- 3.1	- 7.7	- 3.8	- 4.9	- 3.4
Terms of trade	6.5	4.9	- 5.5	- 1.7	0.9

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

Fiscal policy remains neutral in the short term although public investment continues to weaken

Fiscal policy is projected to remain broadly neutral this year and next but to tighten thereafter. However, the bunching of public works associated with the latest fiscal stimulus package will lead to a temporary surge of demand (concentrated in the first half of 2001). The October fiscal package this year is assumed to result in a rise of infrastructure spending of 2½ trillion yen (½ per cent of GDP). This is less than the announced plan since local governments seem likely to continue to cut back on their own spending over the projection period. Excluding the one-off increases in tax revenues from maturing postal savings deposits this year and next (worth around ¾ and 1 percentage point of GDP, respectively), the underlying structural fiscal deficit should remain around 6-6¼ per cent of GDP this year and next. However, in the absence of a new fiscal package in 2001 and with continuing expenditure cuts by local governments, the underlying structural deficit would decline by 1 per cent of GDP in 2002. Such a consolidation might limit the rise in long-term rates to around 25 basis points by the end of the period. However, in these circumstances, general government liabilities would be likely to increase to around 130 per cent of GDP by 2002. With ongoing financial market reforms, the financing of this debt will increasingly take place in a more transparent manner.

Growth is likely to continue at a moderate pace subject to short-term volatility

Growth is projected to be around 2¼ per cent on average over the projection period, driven by moderate rates of growth of both private consumption and business investment. Export growth should slow to around 5 per cent, although the current account surplus may still increase somewhat. Fiscal measures will impart considerable volatility to half yearly and quarterly growth rates, making policy assessment difficult. The first half of next year is projected to be strong with annual growth of over 3 per cent, since the effects of the 2000 fiscal stimulus package will be felt most strongly in the second quarter. The second half of 2001 might then be weak, however, with just 1 per cent growth as public works decline and residential construction falls further with the expiration of tax incentives. Thereafter the economy is expected to pick up again with growth of around 2 per cent in 2002. Employment growth is expected to remain modest but the rate of unemployment will continue to be high as discouraged workers re-enter the workforce. The output gap is projected to close slowly while deflation should gradually subside.

Domestic risks remain important although they are now more balanced

Uncertainty about prospects remains high and is reflected in the wide range of projections available. Domestic risks are closely associated with how restructuring will unfold as the scenario rests on the assessment that the expansionary momentum imparted by business investment will more than offset the negative impact of corporate restructuring on employment and hence on private consumption. The potential for disruptive bankruptcies cannot be excluded, while banks remain vulnerable to any marked decline in bond and share prices – an issue that may become urgent if the latter remains at the low levels prevailing in November. On the other hand, the economy is in the midst of a major restructuring with rapid scrapping of old capital so that investment and growth could easily surprise on the upside.

Germany

Activity accelerated in the first half of 2000, underpinned by buoyant investment in machinery and equipment and a more rapid expansion of private consumption. Current economic conditions remain favourable for growth above potential, not least because of the major income and business tax reform that will come into effect in 2001. Partly because of higher oil prices, however, economic activity is projected to slow somewhat from the second half of this year. With the expansion in world trade slowing, the contribution from the external sector should decline, bringing GDP growth down from 3 per cent this year to some 2½ per cent by 2002.

One-off proceeds from selling mobile phone licences will generate a substantial general government surplus in 2000 because of the accounting conventions used. But a deficit will re-emerge in 2001, as income tax cuts worth more than one per cent of GDP become effective, and will continue in 2002, though to a lesser degree. With the output gap becoming positive, fiscal restraint, through strict spending control, will be necessary both for conjunctural reasons and to improve public finances in view of population ageing.

Economic activity accelerated in the first half of 2000…

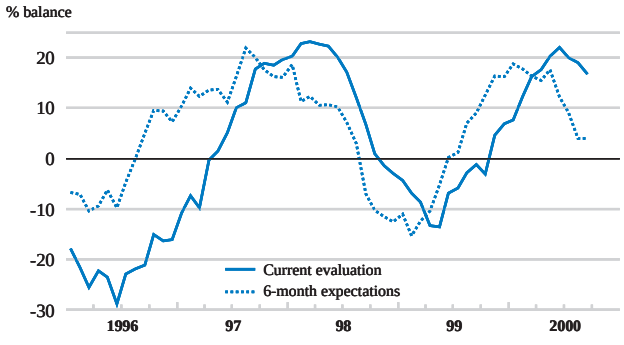
Economic activity accelerated further in the first half of 2000 when real GDP increased at an annual rate of some 3½ per cent. Exports continued to grow at double-digit rates, although the net contribution of the external sector to GDP growth was slightly lower than in the previous half year. On the domestic side, investment in machinery and equipment – including intangible investment such as computer software – grew at an annual rate of 12 per cent. Private consumption growth improved strongly in the second quarter after stagnating in the first months of the year. But construction slid back into recession with over-capacity in the new states still constituting the main brake for a recovery in this sector.

… and the labour market improved

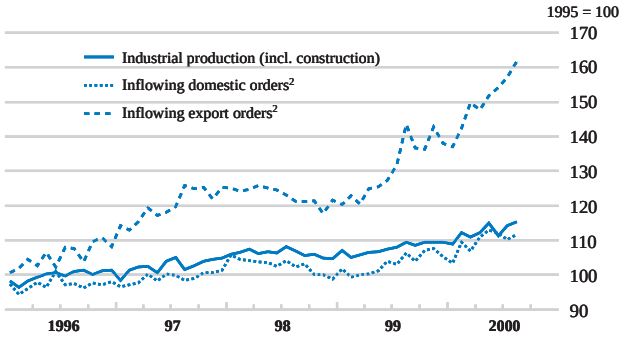
Employment growth also picked up in the first half of 2000, to an annual rate of 1.8 per cent. A large part of the increase appears to be attributable to part-time employment of new entrants into the labour market. Earlier changes in the obligation to pay social security contributions also seem to boost marginal jobs held as a main occupation at the expense of those held as a secondary occupation. While the former are included in the employment statistics, the latter are not.

Germany

Business[1] sentiment is no longer improving



Inflow of industrial orders has accelerated



1. Manufacturing excluding food.
2. In manufacturing, volume.

Sources: Ifo Institute; Deutsche Bundesbank and OECD.

Germany: **Employment, income and inflation**

Percentage changes

	1998	1999	2000	2001	2002
Employment	0.9	1.1	1.6	1.1	0.8
Unemployment rate[a]	8.9	8.3	7.7	6.9	6.3
Compensation of employees	1.9	2.4	3.0	2.8	3.1
Unit labour cost	-0.1	0.8	0.0	0.1	0.6
Household disposable income	2.7	2.6	3.4	4.3	3.6
GDP deflator	1.1	0.9	0.0	1.0	1.4
Private consumption deflator	1.1	0.3	1.5	1.6	1.6

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

Orders are buoyant but while still favourable, the business climate is weakening…

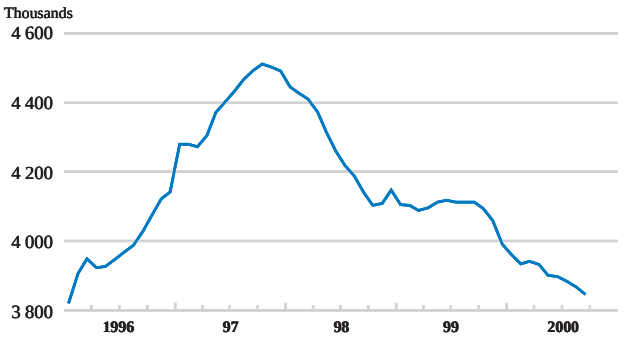
The inflow of industrial orders in manufacturing accelerated in the first half, mainly driven by external demand. Business sentiment peaked at high levels in early summer 2000, after steady improvements since spring 1999. Although still at a high level, the sentiment deteriorated markedly in the middle of the year, owing to downward revisions of business expectations for the next six months. The drop is probably related to the rise in energy prices.

… in a context of rising oil prices affecting the terms of trade and inflation

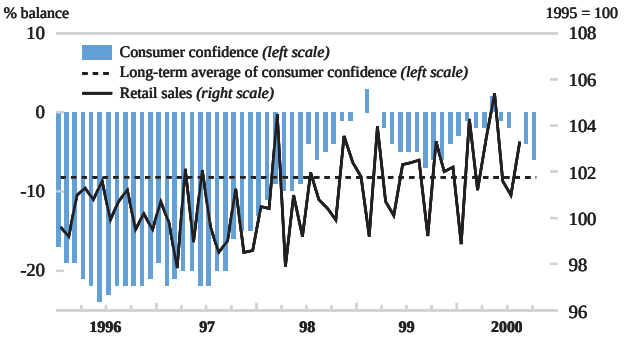
Accelerating oil prices and the depreciation of the euro shaped the development of inflation rates. Import prices accelerated sharply, mainly on account of the oil price rise. Export prices also accelerated – although to a lesser degree – responding to the depreciation in the effective exchange rate. The implied deterioration of the terms of trade may have led to a reduction in profit margins, as indicated by a fall in the GDP deflator in the first half of 2000. Consumer price inflation also accelerated, reaching 2½ per cent in the autumn. But core inflation, which excludes oil products, remained at about half this level. Compensation grew more strongly than productivity in the first half (seasonally adjusted) but growth in unit labour costs remained subdued.

Germany

Unemployment[1] is coming down



Consumer confidence remains robust



1. Seasonally adjusted, registered unemployment.
Sources: Deutsche Bundesbank and OECD.

Germany: **Financial indicators**

	1998	1999	2000	2001	2002
Household saving ratio[a]	10.2	9.9	10.1	10.2	9.8
General government financial balance[b]	-2.1	-1.4	1.4	-1.7	-1.2
Current account balance[b]	-0.2	-0.9	-0.9	-0.6	0.0
Short-term interest rate[c]	3.5	3.0	4.4	5.4	5.5
Long-term interest rate[d]	4.6	4.5	5.4	5.7	5.7

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

Fiscal conditions support domestic demand…

Although public spending restraint is projected to continue, based on the government's budget proposal and consolidation measures legislated earlier, overall fiscal conditions are supporting growth. In 2000, reductions in income taxes and social security contributions have more than compensated for a rise in energy taxes. Moreover, the main income and business tax reform, which will become effective from January 2001 on, includes *inter alia* significant reductions in statutory tax rates for both corporate and personal taxation, an increase in the basic income tax allowance, and a broadening of the tax base. Some of the measures are being phased in over a five-year horizon. Net tax reductions are estimated to total more than 1 per cent of GDP in 2001. With extra revenues from the sales of universal mobile telecommunications systems phone licenses, of the order of 2.5 per cent of GDP, being counted as affecting the budget balance, the general government is projected to exhibit a surplus

Germany: **Demand and output**

	1997	1998	1999	2000	2001	2002
	current prices billion DM	Percentage changes, volume (1995 prices)				
Private consumption	2 112.3	2.0	2.6	1.7	2.6	2.4
Government consumption	713.3	0.5	-0.1	1.0	0.5	0.6
Gross fixed investment	784.6	3.0	3.3	2.4	2.8	2.7
Public	69.2	-3.9	5.1	0.7	0.7	0.5
Residential	276.2	0.3	-0.2	-0.3	0.1	0.5
Non-residential	439.2	5.9	5.1	4.3	4.6	4.1
Final domestic demand	3 610.1	1.9	2.2	1.7	2.2	2.1
Stockbuilding[a]	6.2	0.4	0.2	0.2	-0.2	0.0
Total domestic demand	3 616.4	2.4	2.4	1.9	2.1	2.1
Exports of goods and services	1 021.1	7.0	5.1	12.6	9.3	7.4
Imports of goods and services	971.0	8.6	8.1	9.1	7.7	6.5
Net exports[a]	50.1	-0.3	-0.8	1.1	0.7	0.5
GDP at market prices	3 666.5	2.1	1.6	3.0	2.7	2.5
GDP at market prices in billion €	1 874.7					
Industrial production	_	4.2	1.5	5.1	4.3	3.2
Memorandum items						
Investment in machinery and equipment	303.5	9.4	7.4	9.1	6.4	5.1
Construction investment	481.1	-1.0	0.5	-2.5	-0.1	0.5

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**

	1998	1999	2000	2001	2002
			$ billion		
Merchandise exports	542.7	543.2	546.7	567	618
Merchandise imports	462.9	470.0	482.6	498	537
Trade balance	79.7	73.1	64.1	69	81
Invisibles, net	- 84.4	- 92.5	- 81.9	- 80	- 81
Current account balance	- 4.6	- 19.3	- 17.7	- 11	0
			Percentage changes		
Merchandise export volumes [a]	8.3	4.6	15.7	9.7	7.5
Merchandise import volumes [a]	10.8	4.8	12.6	8.1	7.0
Export performance [b]	0.2	- 1.4	3.1	0.1	- 0.5
Terms of trade	2.7	0.2	- 4.8	- 0.8	0.5

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

of 1.4 per cent of GDP in 2000. The proceeds from the auctioning are being used for debt redemption, generating savings on interest paid in the following years (which are assumed to be spent on infrastructure investment) To take account of their one-off nature, these revenues have not been included into the Secretariat's estimate of the structural deficit. Overall, this estimate of the structural deficit is projected to deteriorate by 1 per cent of GDP in 2001, owing to the tax reductions, but the structural deficit is then projected to improve by ¼ percentage point in 2002 under the influence of continued spending restraint.

… and, although decelerating, growth will remain above potential

With world trade expected to slow down over the next two years, the net contribution to growth of the external sector will decline. But domestic demand should remain robust, despite higher interest rates. Private consumption is projected to accelerate further in the second half of 2000 and in 2001, based on income tax reductions and improved labour market conditions. Investment should remain strong, benefiting from tax cuts (despite a tightening of depreciation rules), from very high capacity utilisation in manufacturing, and the favourable investment climate associated with wage moderation embodied in collective agreements that are largely fixed until spring 2002. Construction, however, is expected to remain weak, although it will benefit from higher infrastructure investment. All in all, GDP growth is projected to grow at an annual rate of 3 per cent in 2000 and 2.7 per cent in 2001. Growth will further decelerate in 2002, but will remain above potential, while the output gap will become positive. Headline inflation will edge up this year and wages may accelerate in 2002 when unemployment falls below the estimated non-accelerating inflation rate of unemployment. The unemployment rate should decline from 8.3 per cent in 1999 to 6.3 per cent in 2002. Employment gains will decelerate, however, with growth of marginal employment losing momentum.

But there are both external and domestic risks to activity

A risk to these projections would arise if negative terms of trade effects on private consumption and investment associated with persistently high oil prices and a low euro exchange rate prove to be stronger than expected. On the other hand, the tax reductions may induce higher consumption of private households than assumed in the projections.

France

France entered 2000 with robust economic growth and low inflation. Job creation was vigorous, and unemployment dropped to its lowest level in ten years. Strong world trade growth, easy monetary conditions and high consumer confidence underpinned economic activity. Capacity utilisation approached its highest level in a decade, and enterprises therefore stepped up their gross fixed investments. The economic environment has, however, become less supportive recently. Higher crude oil prices are in particular reducing growth in real household incomes and affecting confidence. As a result, the pace of economic expansion appears to have eased somewhat.

At this juncture, fiscal policy needs to be prudent. The significant tax cuts made by the authorities are helpful to support real incomes and launch a supply-side oriented reform of the tax system. They require, however, a strict adherence to the "spending rule" introduced in the medium-term public finance programme in order to preserve a sound budget. Spending restraint is also required in view of the high public indebtedness and large unfunded pension liabilities.

Economic growth slowed somewhat during the first half of 2000…

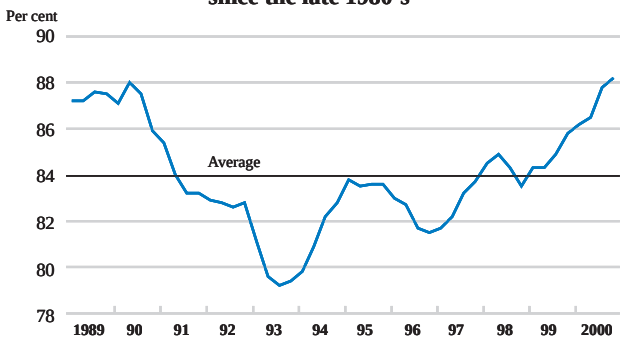
France entered 2000 with solid growth and moderate inflation. Output growth benefited from a supportive international environment and the weak euro, as well as from gains in real disposable incomes and bullish consumer confidence. Industrial firms encountered growing difficulties in satisfying orders because capacity utilisation was reaching levels unknown for a decade, and therefore stepped up their investment. Higher oil prices, however, have subsequently slowed real income growth, reduced confidence and moderated household spending expansion, so that real GDP growth has weakened somewhat.

… but job creation remained strong…

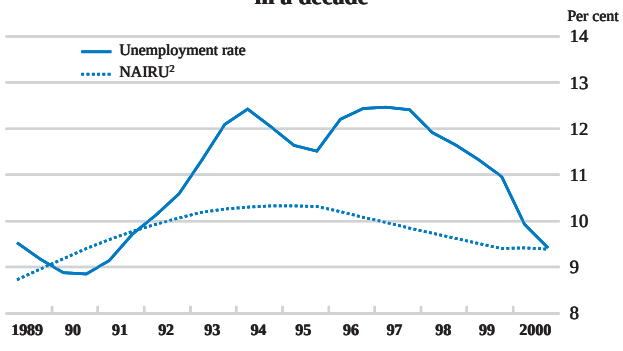
In 1999 and the first half of 2000, enterprises created new jobs at a pace not seen for many years. Besides output expansion, employment growth has been supported by various other factors, including greater labour market flexibility, lower social security contributions, new jobs in the public sector and wage moderation. This has allowed unemployment to fall to its lowest level in ten years, with most categories of job seekers enjoying improved employment prospects. About one-half of workers in large enterprises (20 employees and more) have been covered by 35-hour agreements. These firms have been able to reduce working time without cutting monthly salaries, in part thanks to generous state subsidies. The legislation foresees that small firms (less than 20 employees) will be subject to the 35-hour rules beginning in 2002.

France

Capacity utilisation is at its highest since the late 1980's[1]



The unemployment rate is at its lowest in a decade



1. Manufacturing sector.
2. OECD estimate.

Sources: INSEE and OECD.

France: **Employment, income and inflation**

Percentage changes

	1998	1999	2000	2001	2002
Employment	1.4	1.8	2.1	1.8	1.3
Unemployment rate[a]	11.8	11.1	9.7	8.8	8.2
Compensation of employees	3.9	3.9	4.3	4.9	4.4
Unit labour cost	0.6	0.9	1.0	2.0	1.9
Household disposable income	3.7	3.0	4.0	4.8	4.5
GDP deflator	0.8	0.3	0.9	1.7	2.3
Private consumption deflator	0.7	0.7	1.5	2.1	2.0

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

… and inflation is still moderate

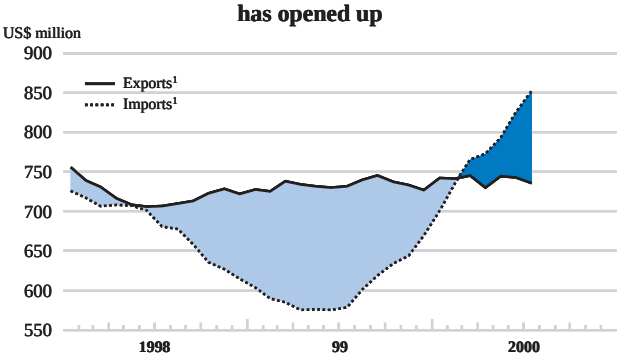
With oil prices back to a high level, headline inflation has been creeping up. Higher oil prices and the weaker euro, taken together, have contributed 1 per cent to annual consumer price inflation. However, apart from energy and also food, price movements have so far remained surprisingly subdued, most probably because nominal wages have not reacted to the upward drift in inflation. Hence, although core inflation is presently not a concern, faster nominal wage increases would change this assessment.

The 2001 budget envisages no further progress in fiscal consolidation

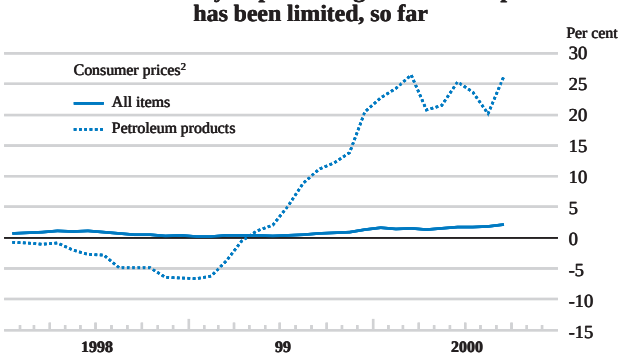
General government receipts in 2000 have benefited from vigorous income growth in 1999 (close to half of state tax revenue is linked to previous year's income). The bulk of these additional revenues was used to cut taxes, in the context of a broad reform of the tax system. The various tax cuts add up to a total of 1 per cent of GDP in 2000. The authorities have announced a new tax cut plan for the period 2001-03 amounting to FF 120 billion (approximately 1.2 per cent of GDP in 2003). The new plan mainly benefits households through lower personal income taxes, employee social security contributions, and passenger car taxes. Businesses too will get tax reductions in the form of lower corporate taxes, but to a lesser extent. In addition to this three-year plan, the authorities have decided to soften the impact of higher oil prices on energy consumers. A new

France

A trade deficit with OPEC countries has opened up



The inflationary impact of higher crude oil prices has been limited, so far



1. Three-month moving averages at monthly rates.
2. Growth rate over twelve months.
Sources: INSEE and OECD.

France: **Financial indicators**

	1998	1999	2000	2001	2002
Household saving ratio[a]	15.6	15.6	15.6	16.0	16.2
General government financial balance[b]	-2.7	-1.8	-1.4	-0.1	-0.8
Current account balance[b]	2.6	2.6	2.3	2.3	2.4
Short-term interest rate[c]	3.6	3.0	4.4	5.4	5.5
Long-term interest rate[d]	4.7	4.6	5.5	5.8	5.8

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.

system of "floating gasoline taxes" was introduced to help reduce the impact of volatile prices on the cost of fuel for passenger cars and truck fleets. With all these measures, general government revenues are now growing less rapidly than nominal GDP, so that the tax burden is gradually drifting down. On the expenditure side of the budget, the authorities decided to exceed in 2001 the 1.3 per cent per annum real "spending growth rule" that was included in the medium-term public finance programme. In particular, ministries have been authorised to start new recruitment after years of freeze. Public hospitals will also be entitled to new hiring. Finally, the government loosened the restraint on health care spending and raised pension benefits by more than inflation. Overall, these measures imply that no further progress is being made in consolidating the budget, and that the underlying structural deficit will increase during the period 2000-01. Proceeds from the sale of third generation telephone licenses via a "beauty contest" in 2001 (slightly over 1 per cent of GDP) will be used to build up assets of the pension reserve fund and, to a lesser extent, for debt buy-backs (not included in the OECD estimate of the structural deficit).

France: **Demand and output**

	1997	1998	1999	2000	2001	2002
	current prices billion FF	Percentage changes, volume (1995 prices)				
Private consumption	4 509.1	3.4	2.3	2.6	2.3	2.2
Government consumption	1 986.2	0.3	2.5	1.3	1.3	1.3
Gross fixed investment	1 473.0	6.6	7.2	6.0	4.6	4.8
General government	243.2	2.8	2.2	2.8	1.5	1.4
Household	374.3	3.6	8.2	6.2	0.9	0.9
Other	855.6	9.0	8.1	6.8	6.9	7.0
Final domestic demand	7 968.4	3.3	3.3	3.0	2.5	2.6
Stockbuilding[a]	- 7.6	0.6	-0.4	0.0	0.0	0.0
Total domestic demand	7 960.7	3.9	2.9	3.0	2.5	2.5
Exports of goods and services	2 093.2	7.7	3.8	12.8	8.7	7.4
Imports of goods and services	1 849.2	11.3	3.8	12.5	8.1	8.1
Net exports[a]	244.0	-0.6	0.1	0.4	0.4	0.0
GDP at market prices	8 204.8	3.2	2.9	3.3	2.9	2.5
GDP at market prices in billion €	1 250.8					
Industrial production[b]	_	5.1	2.1	3.2	2.6	2.3

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

France: **External indicators**

	1998	1999	2000	2001	2002
			$ billion		
Merchandise exports	302.8	298.1	295.0	310	342
Merchandise imports	278.0	278.4	287.0	303	333
Trade balance	24.8	19.8	8.0	7	8
Invisibles, net	13.3	17.8	22.0	21	23
Current account balance	38.2	37.5	30.0	28	31
			Percentage changes		
Merchandise export volumes [a]	8.8	3.8	14.0	9.2	7.7
Merchandise import volumes [a]	12.3	4.7	14.0	8.2	8.5
Export performance [b]	- 0.1	- 1.8	1.5	- 0.1	0.0
Terms of trade	1.5	- 1.0	- 3.4	- 1.4	0.9

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

The economy will lose momentum gradually in 2001 and 2002 with inflation edging up

The short-term outlook is influenced by a mix of positive and negative and factors. On the positive side, the environment is propitious for increased investment: business expectations remain positive and profit margins comfortable. In addition, after years of weak investment, companies need to expand their production capacity, modernise equipment, and incorporate new information and communication technologies. Business fixed investment is therefore projected to pick up strongly and approach annual increases of nearly 7 per cent in real terms, allowing the capital stock to grow in line with output. But, at the same time, several negative factors are influencing the outlook. First, the sharp increase in oil prices is reducing household real incomes, and – notwithstanding the package of tax cuts – a downward impact on consumer spending should result. Second, world trade is projected to decelerate markedly in the wake of the soft landing expected in North America. Third, the monetary tightening by the European Central Bank will have a lagged dampening impact on domestic demand. Finally, French enterprises are running into supply-side constraints (hiring difficulties, high capacity utilisation) and have little leeway to increase output, so that imports are growing faster than domestic production. On balance, the negative factors are expected to somewhat exceed the positive influences, and real GDP is therefore projected to lose speed gradually over the next two years. In this environment, inflation is expected to edge up, initially under the impulse of energy prices, then increasingly under the pressure of higher wage settlements. But with petroleum prices moderating as from the middle of next year, consumer price inflation could remain in the 2 per cent range over the projection period.

The main risk stems from the impact of high oil prices

This relatively positive outlook of growth persisting despite a less supportive environment is threatened by the risks stemming from high oil prices. So far, energy price hikes have been accompanied by remarkably mild retail price and nominal wage responses – so mild that they are not entirely explainable. There is therefore a risk that price increases are currently being repressed and that inflationary pressures will be unleashed at some point. Growing inflation would erode real incomes further and undermine confidence. In addition, higher oil prices may also have a larger impact on the world economy than projected. Without a healthy international economic environment, the French economy would lose more speed than projected, and the projected further improvement in labour market conditions would not be realised.

Italy

GDP growth should be around 2¾ per cent in 2000, based on strong domestic and external demand. But the effects of higher oil prices on inflation and confidence are likely to lead to somewhat slower growth over the projection period. Wage behaviour has remained moderate so far, and if this continues, then consumer price inflation that is running at just below 2¾ per cent at present could fall back to around 2 per cent by 2002.

Italy's structural reform requirements focus on the need to increase competition in the sheltered sectors of the economy, where inflation inertia raises costs and affects the exposed sectors, thereby weakening competitiveness vis-à-vis *the euro area. Continuing efforts are also needed to tackle the wide divergence in labour-market performance between the North and the South.*

The recovery has continued but the pace has slowed somewhat

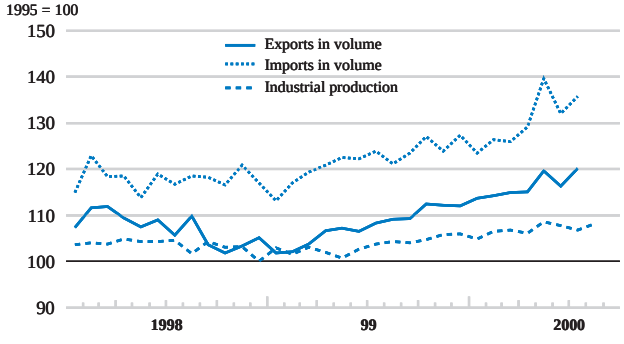
The recovery that began in late 1999 continued during the first half of 2000, underpinned both by domestic demand, most prominently investment in equipment, and by strong exports. However, the pattern of activity changed during the semester. Following a period of negative stockbuilding, inventory accumulation strengthened in the second quarter, while the restraining effects of higher inflation on real income growth translated into a smaller impulse from household spending. On the external side, export growth exhibited a weakening trend and imports jumped. At 2.6 per cent in the second quarter (annual rate), real GDP was below expectations and represented a deceleration compared with the 3 per cent registered in the previous quarter.

Import demand has been strong, as have exports to non-EMU countries

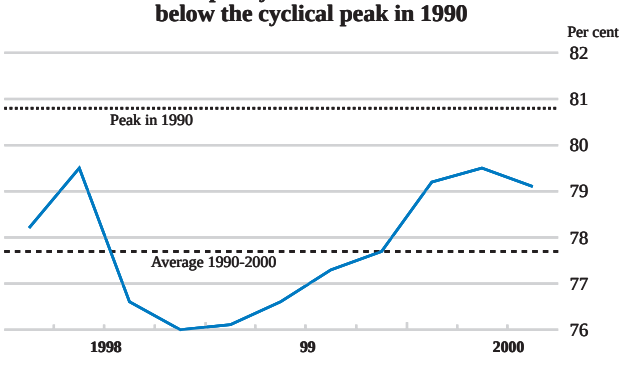
Industrial production has recovered substantially since mid-1999 and the level of capacity utilisation is the highest since early 1990. The upswing in industrial production has to a large extent been driven by the solid performance of real merchandise exports, which rose by 9 per cent in the first half of 2000. Export demand has been supported by the weakness of the euro and expanding foreign markets, reflecting mainly strong sales to the US and emerging Asian markets. Sales growth to the euro area has been relatively modest, reflecting an underlying deterioration in competitiveness *vis-à-vis* Italy's euro competitors. Real imports surged in the first half of 2000, over and above the rise implied by the high import content of Italian exports. This accentuated the adverse effects of worsening terms of trade, so that the trade surplus continued to decline.

Italy

The external sector is driving activity[1]



Capacity utilisation is still below the cyclical peak in 1990



1. Year-on-year percentage changes using three-month moving averages. Data are seasonally adjusted.
Source: OECD.

Italy: **Employment, income and inflation**

Percentage changes

	1998	1999	2000	2001	2002
Employment	1.1	1.2	1.3	1.2	1.1
Unemployment rate[a]	11.9	11.5	10.8	10.1	9.4
Compensation of employees	-1.2	3.6	3.9	3.9	3.6
Unit labour cost[b]	-2.7	2.2	1.0	1.2	1.0
Household disposable income	2.6	3.0	3.6	4.3	3.9
GDP deflator	2.7	1.5	1.8	2.2	2.0
Private consumption deflator	2.1	2.2	2.7	2.5	2.0

a) As a percentage of labour force.
b) The figure for 1998 reflects the introduction of the regional tax (IRAP) which was accompanied by the partial abolition of the employers' compulsory contributions to the health care system.
Source: OECD.

The labour market has strengthened, without narrowing regional differences

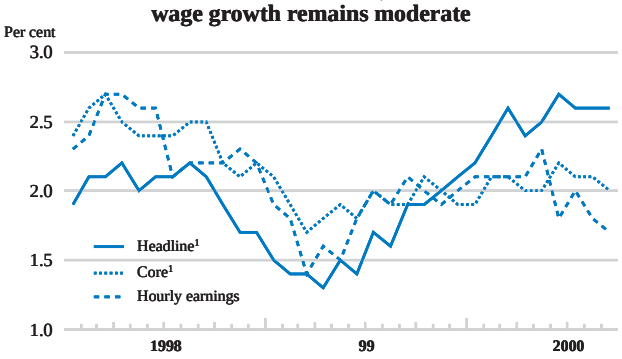
Assisted by accelerating investment, the labour market has registered further improvement. Employment rose by 2 per cent in the third quarter of 2000 (annual rate), corresponding to 430 000 additional employees. There has been a one percentage point reduction in the unemployment rate since the end of 1999 (down to 10.5 per cent in seasonally adjusted terms). However, a decline in unemployment in the South has not sufficed so far to markedly reduce the wide regional disparities which characterise the Italian labour market: the unemployment gap between northern and southern regions is still 16¼ per cent. In the North, the unemployment rate is about 4½ per cent and survey figures point to a relatively tight labour market, with the business sector expressing concerns about a lack of specialised workers.

Inflation has increased, but wage tensions are absent and external competitiveness has been maintained

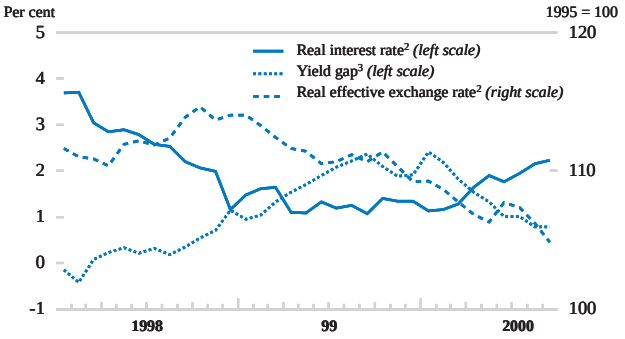
There is no evidence thus far that such tensions have compromised wage moderation. Assisted by the improved economic momentum, labour productivity increased relative to 1999, and this, combined with wage moderation and euro depreciation, has supported Italy's external competitiveness outside the euro area. However, oil prices continued to increase over the summer and the euro depreciated further, exacerbating producer price inflation. Reflecting these mounting pressures,

Italy

Inflation accelerates, while wage growth remains moderate



Monetary conditions continue to be supportive



1. Year-on-year percentage changes of the harmonised consumer price index. Core inflation excludes energy, food, alcoholic beverages and tobacco.
2. Deflated using the consumer price index.
3. Long-term interest rate minus short-term interest rate.
Sources: OECD; Eurostat.

Italy: **Financial indicators**

	1998	1999	2000	2001	2002
Household saving ratio [a]	13.1	12.3	11.3	11.3	11.0
General government financial balance [b]	-2.8	-1.9	-0.1	-1.0	-0.8
Current account balance [b]	1.8	0.6	-0.9	-0.7	-0.6
Short-term interest rate [c]	5.0	3.0	4.4	5.4	5.5
Long-term interest rate [d]	4.9	4.7	5.7	5.9	5.9

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

the rate of consumer price inflation drifted up to somewhat above 2½ per cent in the third quarter of 2000, the highest level since early 1997.

Higher tax receipts are being given back as tax cuts

The projection for the general government deficit takes into account the planned concession of a "fiscal bonus" (some ½ percentage point of GDP in 2000 and 1 point in 2001). The official (and OECD) assumption is that this will not worsen the deficit outturn for 2000, thanks to the higher baseline for receipts, resulting from tax reforms (including the fight against tax evasion). For this year the OECD is projecting a deficit outcome consistent with the official target.[1] However, for 2001 the official expenditure assumption may be optimistic in light of a possible overrun, including on health. The

Italy: **Demand and output**

	1997	1998	1999	2000	2001	2002
	current prices trillion L.	Percentage changes, volume (1995 prices)				
Private consumption [a]	1 167.8	2.3	1.7	2.0	1.8	2.3
Government consumption	360.5	0.7	0.6	1.2	1.1	1.2
Gross fixed investment	359.6	4.1	4.4	6.9	4.7	5.2
Machinery and equipment	200.9	7.4	6.2	7.9	5.6	6.0
Construction	158.8	-0.1	1.8	5.5	3.4	4.0
Residential	88.9	-0.6	1.6	0.0	0.5	1.0
Non-residential	69.8	0.5	1.9	12.3	6.7	7.2
Final domestic demand	1 888.0	2.4	2.0	2.9	2.3	2.7
Stockbuilding [b]	15.4	0.6	0.4	-0.6	0.0	0.0
Total domestic demand	1 903.4	2.9	2.5	2.2	2.2	2.7
Exports of goods and services	524.4	3.3	-0.4	9.5	9.3	7.6
Imports of goods and services	444.0	9.1	3.4	7.6	8.1	8.4
Net exports [b]	80.5	-1.3	-1.0	0.6	0.5	-0.1
GDP at market prices	1 983.9	1.5	1.4	2.8	2.7	2.6
GDP at market prices in billion €	1 024.6					
Industrial production	_	1.3	0.0	4.4	3.5	2.9

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.

1. The projection for the general government deficit in 2000 takes into account the revenues from selling of third-generation mobile phone licences (UMTS). These equal L 26.8 trillion, some 1.2 per cent of GDP. Such an amount is set against the underlying budget deficit of 1.3 per cent and allowed to reduce the debt.

Italy: **External indicators**

	1998	1999	2000	2001	2002
			$ billion		
Merchandise exports	245.5	231.0	233.1	251	276
Merchandise imports	209.2	210.5	220.8	238	263
Trade balance	36.4	20.6	12.3	13	13
Invisibles, net	- 14.6	- 13.9	- 21.5	- 20	- 20
Current account balance	21.8	6.6	- 9.2	- 7	- 6
			Percentage changes		
Merchandise export volumes [a]	3.3	1.5	10.6	9.4	7.7
Merchandise import volumes [a]	10.9	3.8	8.9	8.7	8.9
Export performance [b]	- 6.2	- 5.8	- 2.1	0.0	- 0.2
Terms of trade	5.2	- 3.1	- 5.8	- 0.8	0.7

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

projection thus sees the possibility of a slight slippage from target in the absence of new structural measures to keep expenditures under better control.

Monetary conditions are supporting activity but inflation is rising

Despite the increases in short-term interest rates by the European Central Bank, monetary conditions remain accommodating. While long-term rates have also risen recently, so too has inflation, and real interest rates remain low by historical standards. Taking into account both the direct effect of the oil-price hike on consumer prices and the related second-round effects on the price of imported intermediate inputs, the projection sees consumer price inflation rising to just below 2¾ per cent in 2000, then decelerating somewhat from the first half of 2001. It should continue to moderate thereafter, as the combined impacts of higher oil prices and exchange rate depreciation unwind. However, following a year of moderate wage gains, wage inflation seems set to accelerate somewhat in 2001, as the new round of wage negotiations is expected to imply a partial recuperation of the losses caused by the gap between actual and expected inflation in 2000.

Consumption is expected to weaken temporarily, but business sentiment remains strong

Stronger inflationary pressures seem to have had some negative impact on consumer confidence, which points to some temporary weakening in consumption growth. Corporate surveys also suggest somewhat less optimistic business-sector sentiment. But order books are still healthy and investment should remain robust, albeit decelerating somewhat. Moreover, despite rising unit labour costs, the new exchange rate assumptions imply a positive contribution to growth arising from the external sector in both 2000 and 2001. GDP is thus projected to rise by nearly 2¾ per cent in 2001 and some 2½ per cent in 2002.

The projections contain significant risks

The main uncertainties attaching to the projections relate to the possible consequences of the oil price hike on consumption and investment. Higher costs of intermediate inputs could combine with weakening business confidence to dampen investment plans, partly offsetting the influence of an accommodating monetary policy stance. Although the employment picture is improving, weakening household confidence could lead to a temporary recovery in saving rates following the marked decline which has occurred this year. On the other hand, if and when such confidence effects dissipate, the positive impact on household consumption arising from the planned “fiscal bonus” could be underestimated, with inflationary consequences.

United Kingdom

Growth has been robust in the first half of this year, mainly driven by household consumption. Labour markets have continued to tighten, with unemployment reaching very low levels by historical standards, but wage and price inflation remain subdued. The outlook is for a gradual deceleration of output, corresponding to a smooth slowdown in domestic demand, and for a limited pick-up in inflation.

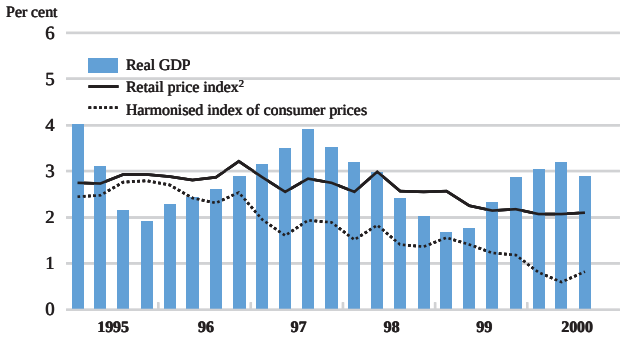
Fiscal policy in the first half of the year has been slightly restrictive, reflecting buoyant revenue. This has eased the burden borne by monetary policy in an economy with little slack. Interest rates might have to increase a bit further, however, if the impact on aggregate demand of the acceleration of public spending is not offset by a sufficient slowdown of private consumption, or if the exchange rate were to depreciate markedly.

Growth has been robust, led by consumption

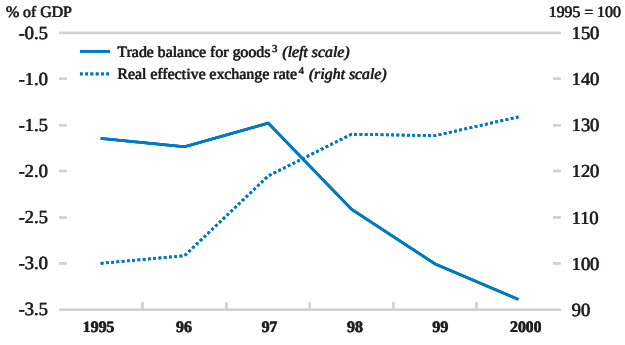
Over the past year and a half, activity expanded at a rate exceeding potential and approaching 3 per cent. The key factor underlying this vigorous performance was buoyant household consumption. This was accompanied by a sharp decline in the household saving ratio, to only 3 per cent of disposable income in the second quarter, the lowest level since the 1980s and well below what is observed in most other European countries (but above the current level in the United States). Meanwhile, private fixed investment continued to slow – albeit after half a decade of rapid growth – somewhat diminishing the likelihood of a sharp productivity acceleration. Exports picked up, reflecting the dynamism of demand overseas, but market share erosion continued owing to the strength of the pound, despite the compression of exporters' margins. In effective terms, the currency has come down from its spring 2000 peak, having depreciated significantly against the dollar and to a lesser extent against the euro. Nevertheless, on most estimates the pound remains overvalued. In this context, and given the vigour of domestic demand, import growth barely abated and the goods trade deficit widened to over 3 per cent of GDP (at current prices).

United Kingdom

Growth remains robust and inflation subdued[1]



Exchange rate overvaluation widens the trade deficit



1. Year-on-year percentage changes.
2. All items excluding mortgage interest payments (RPIX).
3. Balance of payments basis.
4. Based on consumer prices.

Sources: ONS and OECD.

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

Percentage changes

	1998	1999	2000	2001	2002
Employment	1.1	1.3	1.2	0.7	0.4
Unemployment rate[a]	5.9	6.0	5.5	5.4	5.5
Compensation of employees	7.1	6.3	5.0	5.6	5.2
Unit labour cost	4.3	4.0	2.0	2.9	2.8
Household disposable income	2.5	5.5	4.5	5.5	5.0
GDP deflator	3.0	2.5	2.0	2.5	2.6
Private consumption deflator	2.4	2.0	1.4	2.4	2.3

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

Although unemployment has declined further, inflationary pressures have been contained thus far

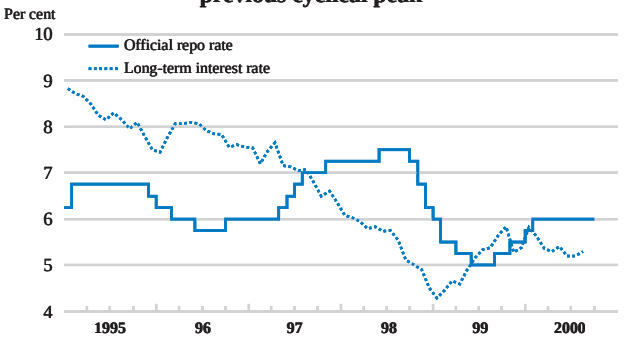
At the same time, the strength of the pound helped offset the inflationary pressures stemming from domestic labour and product markets. Unemployment continued to decline, down to 5.3 per cent of the labour force, not least reflecting a welcome decrease in long-term joblessness. Skill shortages remained pronounced in some sectors. Meanwhile, prices for materials and fuels purchased by manufacturing industry were rising at double digit rates. Notwithstanding, wage inflation as reflected in regular pay as well as wage settlements did not increase and headline average earnings even decelerated, owing partly to the ending of millennium-related bonuses. Moreover, retail price inflation (excluding mortgage interest payments) remained clearly below the 2½ per cent target, while consumer price inflation (on a harmonised basis) did not exceed 1 per cent and was the lowest in the European Union. The intensification of competition in various sectors, including the car sector, helped contain inflation. Furthermore, house price inflation slowed down significantly.

Monetary policy has remained on hold…

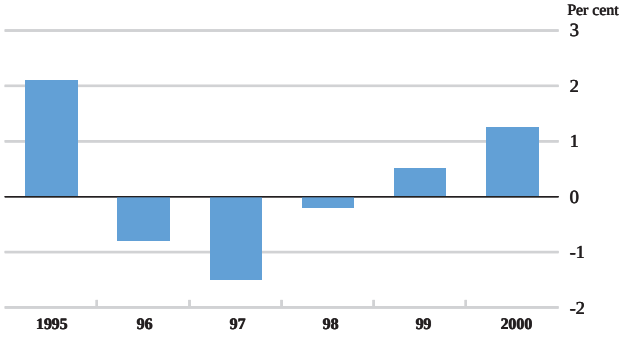
Faced with those mixed signs, and taking into account the time needed for earlier pre-emptive interest rate hikes to work their way through, the Monetary Policy Committee of the Bank of England has left the official repo rate unchanged since last February, at 6 per cent. In general, market participants no longer expect a

United Kingdom

The official repo rate has remained below its previous cyclical peak



Government spending is starting to pick up[1]



1. Growth of total general government expenditure in real terms (using the GDP deflator).
Sources: Bank of England and ONS.

United Kingdom: **Financial indicators**

	1998	1999	2000	2001	2002
Household saving ratio [a]	5.8	5.1	3.9	4.3	4.6
General government financial balance [b]	0.4	1.3	2.7	2.2	1.8
Current account balance [b]	0.0	-1.2	-1.5	-1.9	-1.9
Short-term interest rate [c]	7.3	5.4	6.3	6.6	6.3
Long-term interest rate [d]	5.5	5.1	5.5	5.7	5.7

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

further rise. Long-term interest rates have not fluctuated much since the Spring, remaining below corresponding euro area averages, with the yield curve continuing to be negatively sloped.

… while public spending is about to accelerate

Tax receipts grew much faster than forecast at the time of the March 2000 Budget, including on account of higher oil prices, while unemployment-related outlays undershot budgeted amounts. As a result, the cyclically-adjusted fiscal surplus rose in the first half of 2000.[2] Other current and capital spending, however, has started to pick up and the cyclically-adjusted surplus is projected to shrink by almost one percentage point of GDP over the projection period. Measures on fuel duties and increases in state-financed pension entitlements are presently under consideration but not taken into account in the projections.[3] The structural surplus would nonetheless remain higher and the debt-to-GDP ratio lower than in the largest euro area countries.

United Kingdom: **External indicators**

	1998	1999	2000	2001	2002
			$ billion		
Merchandise exports	271.9	268.0	282.1	299	325
Merchandise imports	305.9	311.4	327.5	349	377
Trade balance	- 34.1	- 43.4	- 45.5	- 50	- 52
Invisibles, net	33.9	25.6	23.9	23	23
Current account balance	- 0.2	- 17.8	- 21.5	- 27	- 29
			Percentage changes		
Merchandise export volumes [a]	1.5	3.4	7.9	7.4	6.0
Merchandise import volumes [a]	9.4	7.2	7.6	7.8	6.1
Export performance [b]	- 6.5	- 2.4	- 3.9	- 2.0	- 1.7
Terms of trade	1.7	0.9	- 0.5	- 0.2	0.6

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

2. Unlike for most other European countries, the receipts associated with the auction of third-generation mobile phone licences (totalling 2.4 per cent of annual GDP) are treated by the United Kingdom as rental income over the lifetime of the licences. The OECD has applied national treatment.
3. The November 2000 Pre-Budget Report, containing a number of new measures, was published after the cut-off date for this Outlook.

United Kingdom: **Demand and output**

	1997	1998	1999	2000	2001	2002
	current prices billion £	Percentage changes, volume (1995 prices)				
Private consumption	517.9	4.0	4.3	3.5	2.4	2.2
Government consumption	148.4	1.1	3.3	1.8	4.3	3.3
Gross fixed investment	134.2	10.1	6.1	2.4	3.8	3.0
Public[a]	11.5	3.7	0.5	4.7	7.0	6.7
Private residential	29.6	-0.3	2.7	0.0	2.7	2.9
Private non-residential	93.0	13.8	7.6	2.7	3.7	2.7
Final domestic demand	800.5	4.5	4.5	3.0	3.0	2.6
Stockbuilding[b]	4.4	0.1	-0.7	0.4	-0.1	0.0
Total domestic demand	804.9	4.6	3.7	3.4	2.9	2.6
Exports of goods and services	229.3	2.6	3.3	7.8	7.2	6.0
Imports of goods and services	228.8	8.8	7.6	8.5	7.5	6.1
Net exports[b]	0.5	-2.0	-1.6	-0.6	-0.5	-0.3
GDP at market prices	805.4	2.6	2.2	3.0	2.6	2.3
Manufacturing production	_	0.5	-0.1	1.5	3.0	2.8

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.

The economy is projected to revert to trend

Growth is projected to gradually moderate to trend rates over the next two years, so that the current small positive output gap would increase only slightly. The main underlying force would be the deceleration in private consumption, which would be affected by higher oil prices and no longer boosted by the sizeable wealth effects witnessed in recent years in connection with the buoyancy of stock and housing markets. This would be consistent with survey evidence of weakening consumer confidence. Concomitantly, the household saving ratio would recover somewhat. Capacity utilisation is high and fixed business investment is projected to pick up. Public sector investment is set to rise more rapidly, in line with the July 2000 Spending Review, following a string of lean years. The external balance would exert a diminishing but still significant drag on growth over the projection period. Against this background, unemployment would not decline further from its current low level. Wage and price inflation are projected to rise a bit, but retail prices are unlikely to increase much faster than the target.

Overheating remains a risk

Risks to this rather benign outlook go both ways. On the bright side, the numerous measures taken over the past few years to boost product market competition, raise the employability of the low-skilled and sharpen work incentives for the low-paid should help ease the inflationary pressures stemming from rising oil prices. On the opposite side, some uncertainties loom. One relates to wage moderation or the lack thereof, in the context of a tight labour market. Another pertains to households' propensity to save, which could turn out to be lower than projected if they feel that their balance sheet positions are still strong, with interest rates far below their levels a decade ago. A third one is associated with a possible firming of the euro *vis-à-vis* sterling, which would ease many exporters' plight but push domestic prices up.

Canada

Growth performance remained strong through mid-2000, aided by persistently robust demand in the United States and rising world commodity prices. With income gains in the export sector spilling over into the rest of the economy, business investment has surged and household demand has strengthened. Despite the recent momentum of the economy, underlying cost and price pressures are still subdued. On the back of the improving terms of trade, the current account has moved into substantial surplus. At the same time, stronger-than-anticipated economic growth has contributed to large fiscal surpluses. Even with tax cuts, the economy is projected to shift to a more moderate pace of growth, owing to monetary tightening and the expected slowdown in the United States.

Although core inflation is still low, a further moderate tightening of monetary policy may be needed in the near term, given that the economy already appears to be operating at, or slightly above, full capacity. Against this backdrop, it would be advisable to use any extra revenues beyond budgeted levels for public debt reduction rather than funding one-off spending initiatives, so as to take pressure off monetary policy. Maintaining the pace of economic growth will also entail continuing policy efforts in the area of structural reform. In this context, the proposed changes to the Employment Insurance programme, which may have adverse effects on structural unemployment and hence potential growth, should be reconsidered.

Following a period of strong growth, there are signs of moderation

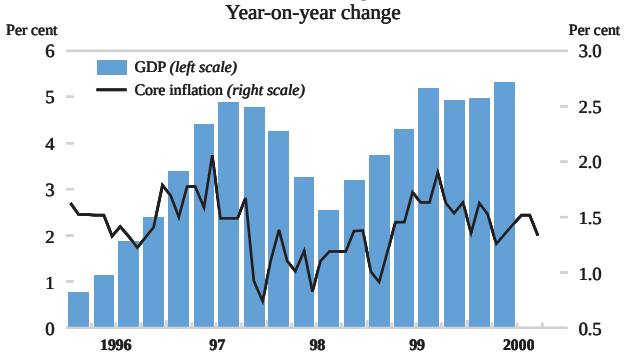
In the first half of 2000, real GDP expanded at an annual rate of 5 per cent, about the same pace as recorded in the two preceding half years. Growth continued to be driven by exports and business fixed investment, with both advancing at double-digit rates. Corporate capital spending has been supported by the rise in both capacity utilisation and profitability to historical highs. Investment in machinery and equipment has been particularly buoyant in recent quarters, as strong spending on computers, continued unabated following the year 2000 episode. On the other hand, demand has shown some signs of slowing in the most interest-sensitive sectors, such as construction and durable goods, apparently reflecting the monetary tightening from late 1999, though special factors have also played a role. Recent employment developments suggest that this tendency has begun to translate into a more moderate pace of overall economic expansion, although output growth has increasingly relied on productivity gains. Combined with rising labour-force participation, slower employment growth has caused the unemployment rate to edge up from its low of just over 6½ per cent reached in the middle of the year.

Rising commodity prices are reflected in higher headline inflation and an external surplus

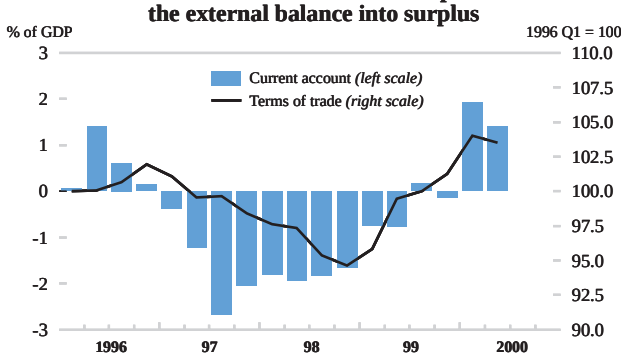
Although economic slack seems to have been absorbed, underlying inflation has remained muted so far. While the annual increase in the all-items consumer price index has moved toward the ceiling of the official 1 to 3 per cent target band, the Bank of Canada's indicator of core inflation (excluding energy, food and indirect taxes) has

Canada

Growth has remained strong and inflation low
Year-on-year change



Favourable terms of trade have pushed the external balance into surplus



Sources: Statistics Canada and Bank of Canada.

Canada: **Employment, income and inflation**

Percentage changes

	1998	1999	2000	2001	2002
Employment	2.6	2.8	2.7	1.6	1.3
Unemployment rate[a]	8.3	7.6	6.7	6.7	6.7
Compensation of employees	4.7	5.1	7.0	5.0	4.9
Unit labour cost	1.4	0.5	2.1	1.6	1.8
Household disposable income	3.9	4.0	6.1	5.6	5.4
GDP deflator	-0.6	1.6	3.3	2.4	2.0
Private consumption deflator	1.0	1.3	1.7	2.3	2.1

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

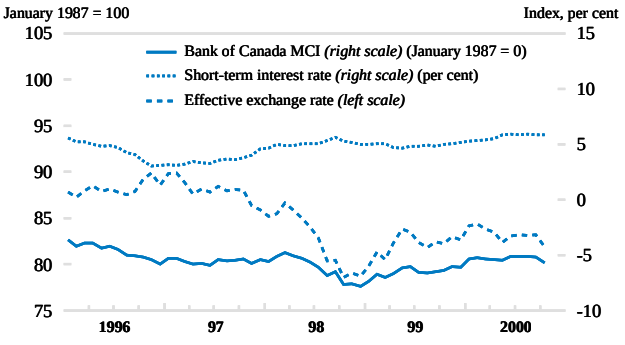
stayed well below the mid-point of the band. For the time being, there is no evidence that higher energy prices, which have pulled up "headline" inflation, are feeding to any significant extent into prices of other goods and services, or into inflation expectations. With Canada being a net exporter of commodities in general and of energy in particular, rising world market prices have entailed a marked improvement in its terms of trade. This, in turn, has resulted in a large positive swing in the current account, which registered a surplus of over 1½ per cent of GDP in the first half of 2000. Despite strong export volume growth, the real foreign balance has actually deteriorated somewhat, as strong aggregate demand has boosted import volume growth.

Monetary conditions have changed little

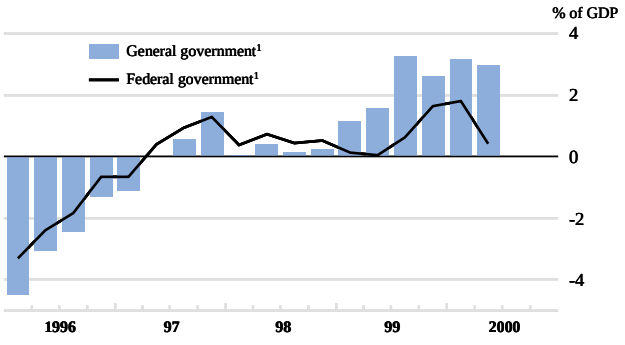
Given signs that the economy was rapidly approaching capacity limits, the authorities sought to pre-empt inflation pressures by raising interest rates in parallel with US rates over the six months to May 2000. Since then, with inflation continuing to surprise on the downside, the Bank of Canada has left interest rates unchanged. Taking account of exchange-rate developments, overall monetary conditions have also changed relatively little in recent months. Some recent weakening notwithstanding, the fact that the Canadian dollar has held up much better than many other currencies against its US counterpart and remained roughly stable in effective terms reflects the significant improvement in economic fundamentals in recent years. The projections described below assume that further modest interest-rate increases will be necessary in coming months to

Canada

Monetary conditions have changed little



The budget has been in substantial surplus



1. National Accounts definition.
Sources: Statistics Canada and Bank of Canada.

Canada: **Financial indicators**

	1998	1999	2000	2001	2002
Household saving ratio[a]	6.1	5.4	6.1	6.4	7.0
General government financial balance[b]	0.2	2.2	2.5	2.1	1.9
Current account balance[b]	-1.8	-0.4	1.8	2.2	2.2
Short-term interest rate[c]	5.0	4.9	5.7	6.2	6.2
Long-term interest rate[d]	5.5	5.7	5.9	6.2	6.3

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

keep inflation comfortably within the target range. Some monetary easing is expected, however, later in the projection period, when capacity pressures are seen to diminish.

Fiscal surpluses remain large

Boosted by better-than-expected economic performance, the federal budget surplus in the fiscal year 1999/2000 (ending in March) reached 1¼ per cent of GDP. This is about 1 percentage point more than in the preceding year and compares with the authorities' commitment to achieve "a balanced budget or better". At the general government level, the financial surplus has been running in the 3 per cent range (national accounts definition) since mid-1999, reflecting the progress provinces have also made in improving their fiscal position. Since the mid-1990s, general government debt has declined by about 15 percentage points. Nonetheless, at over 100 per cent of GDP, gross public debt is still high, although the fact that Canadian data now include funded government pension liabilities tends to overstate the margin over other OECD countries. With substantial tax reductions and additional spending, fiscal surpluses are projected to decline in the period ahead but remain relatively favourable by international comparison, both in actual and cyclically-adjusted terms.

Canada: **Demand and output**

	1997	1998	1999	2000	2001	2002
	current prices billion C$	Percentage changes, volume (1992 prices)				
Private consumption	512.5	2.9	3.5	3.6	2.8	2.6
Government consumption	171.7	1.6	1.3	2.0	1.7	1.5
Gross fixed investment	167.9	3.4	10.1	11.8	6.4	6.1
Public[a]	18.5	1.4	15.9	15.7	4.2	3.5
Residential	45.1	-2.0	6.6	3.3	3.5	3.9
Non-residential	104.2	6.1	10.5	14.4	7.8	7.3
Final domestic demand	852.1	2.8	4.4	5.1	3.4	3.2
Stockbuilding[b]	10.6	-0.5	-0.2	0.4	0.0	0.0
Total domestic demand	862.7	2.2	4.2	5.4	3.4	3.2
Exports of goods and services	346.5	8.9	10.0	11.6	7.5	6.4
Imports of goods and services	331.5	6.1	9.4	13.3	7.8	6.8
Net exports[b]	15.0	1.1	0.4	-0.4	0.1	-0.1
Error of estimate[b]	0.2	0.0	0.0	-0.1	0.0	0.0
GDP at market prices	877.9	3.3	4.5	4.8	3.4	3.0
Industrial production	_	2.3	4.5	5.7	3.6	3.7

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**

	1998	1999	2000	2001	2002
			$ billion		
Merchandise exports	217.4	242.8	281.5	300	323
Merchandise imports	204.6	220.1	247.2	264	285
Trade balance	12.8	22.8	34.4	37	38
Invisibles, net	- 23.8	- 25.1	- 21.8	- 21	- 21
Current account balance	- 11.0	- 2.3	12.6	16	17
			Percentage changes		
Merchandise export volumes [a]	8.5	11.0	12.4	7.7	6.4
Merchandise import volumes [a]	7.3	10.4	15.5	8.2	6.9
Export performance [b]	- 1.5	- 0.9	- 1.5	- 1.3	- 0.7
Terms of trade	- 3.2	3.2	6.1	0.4	- 0.1

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

The government has announced changes to the Employment Insurance programme

The investment boom in recent years has boosted economic efficiency and potential output growth, which is estimated to have moved into the 3 to 3½ per cent range. However, recently announced changes to labour market policy risk having a negative impact on the economy's productive capacity. In particular, they would eliminate the "intensity rule", which is meant to discourage repeat users of the Employment Insurance system by reducing their benefits. Boosting the system's generosity, when a further tightening of eligibility criteria would seem to be desirable to enhance work incentives, could arrest, or even reverse, the decline in the structural rate of unemployment, which has made a significant contribution to raising potential growth in recent years.

Economic growth is projected to continue at a more moderate pace…

After still growing faster than aggregate supply in the second half of 2000, real GDP is projected to expand thereafter at a rate a little below that of estimated potential output, as US demand becomes less supportive while past and prospective monetary tightening dampens domestic spending. Nonetheless, core inflation is expected to rise somewhat, though staying well within the official target range. At the same time, headline inflation is projected to fall back to the core rate as the effect of energy price increases dissipates, reducing the risk of spill-over effects and an increase in inflation expectations. The external balance should remain in comfortable surplus, as import growth slows broadly in line with that of exports.

… but there are some risks to the outlook

Other less favourable scenarios cannot be ruled out, however. On the one hand, there are a number of risks that could result in a sharper-than-expected downturn in the US economy. Given the strong trade linkages between the two countries, this would obviously have serious consequences for Canada's growth prospects. On the other hand, given the recent economic momentum both in the United States and Canada, the slowdown in activity could be less pronounced than expected. The emergence of sizeable excess demand could entail significant inflation pressures and necessitate a more substantial tightening in monetary conditions than assumed. This highlights the importance of continued prudence in fiscal-policy setting as well as the avoidance of structural policy changes that could adversely affect the economy's growth potential.

Australia

The economy continued to perform strongly in the first half of 2000, supported by robust domestic demand and buoyant exports. With employment growth accelerating, unemployment fell further. Largely due to higher oil prices, headline inflation rose above its 2 to 3 per cent target, but underlying inflation remained well in check. Economic activity is projected to slow mildly, to 3¾ per cent, with exports remaining a major pillar of growth, reflecting the supportive external environment. The current account deficit is projected to narrow substantially.

Given that the economy is operating at a cyclical peak, it is essential that the budget surplus be maintained. Monetary policy should remain vigilant against possible second-round effects flowing from the mid-year introduction of the goods and services tax. Further labour-market reform efforts are needed to reduce the still relatively high structural unemployment.

Strong domestic demand and dynamic exports have kept economic activity high

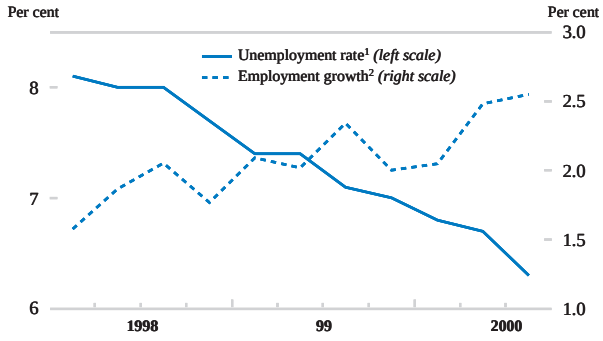
Real GDP grew at an annual rate of nearly 5 per cent in the first half of 2000, making for an average 4.4 per cent growth rate over the past eight fiscal years. Exports were boosted by buoyant world trade and a lower exchange rate. Domestic demand remained robust, with its composition being heavily influenced by anticipations of the introduction of goods and services tax (GST) on 1 July 2000: dwelling investment was brought forward to avoid the new tax while business investment and some consumer spending seem to have been deferred to take advantage of the new regime. Public spending was boosted by the preparation of the Olympic Games and peace-keeping commitments in East Timor. Recent household and business surveys indicate continued strong domestic demand in the second half of 2000, supported by the positive impact of the Olympics.

Substantial employment gains have reduced unemployment further, while underlying inflation remains under control

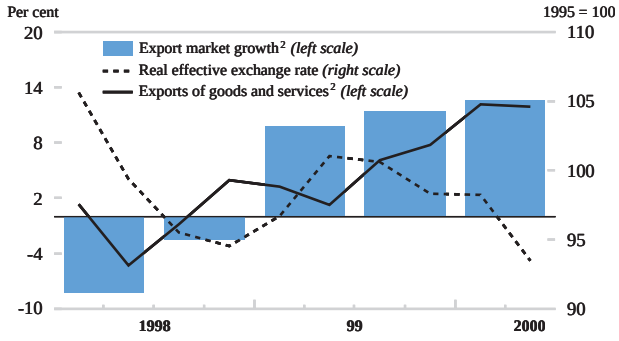
Employment growth accelerated sharply in the first three quarters of 2000, coinciding with higher labour-force participation and a reduction in the unemployment rate to 6¼ per cent in the third quarter. Despite the recent acceleration in some earnings indicators, the wage cost index suggests continued wage moderation. Helped by further productivity gains, unit labour cost growth is well in check. The slight overshooting of the Reserve Bank's 2 to 3 per cent consumer price inflation target in the second quarter was largely due to higher oil prices, while measures of core inflation

Australia

The labour market continues to improve



Exports remain dynamic



1. As a percentage of labour force.
2. Year-on-year percentage changes.

Source: OECD.

Australia: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion A$	Percentage changes, volume (1997/98 prices)				
Private consumption	325.8	4.6	5.2	3.7	3.5	3.2
Government consumption	98.7	4.0	5.3	6.0	3.3	3.1
Gross fixed capital formation	126.5	7.5	6.5	3.6	4.8	4.4
Final domestic demand	551.0	5.2	5.5	4.1	3.8	3.5
Stockbuilding [a]	- 4.6	1.8	0.3	-0.1	0.1	0.0
Total domestic demand	546.3	7.0	5.7	4.0	3.9	3.4
Exports of goods and services	112.3	-0.3	4.6	10.8	8.5	8.3
Imports of goods and services	110.5	5.9	9.5	9.9	6.8	7.1
Net exports [a]	1.8	-1.3	-1.1	-0.1	0.1	0.0
Statistical discrepancy [a]	0.2	-0.2	0.0	0.2	-0.4	0.2
GDP at market prices	548.3	5.6	4.7	4.2	3.7	3.7
GDP deflator	_	0.1	1.0	3.4	2.8	2.6
Memorandum items						
Private consumption deflator	_	1.0	0.6	4.0	3.4	2.8
Industrial production	_	0.9	2.0	3.0	3.3	3.6
Unemployment rate	_	8.0	7.2	6.6	6.3	6.1
Household saving ratio [b]	_	2.1	1.8	2.4	2.8	3.1
General government financial balance [c]	_	0.6	1.9	0.9	0.7	1.0
Current account balance [c]	_	-5.0	-5.8	-4.8	-4.4	-4.0

Note: National accounts are based on chain linked data. This introduces a discrepancy in the identity between real demand components and the GDP. See "Sources and Methods" for further details.
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.

were still running at around 2½ per cent. The jump in headline inflation in the third quarter of 2000 to 6.1 per cent is a one-off effect from the introduction of the broad based GST, which will fall out of the statistics next year.

Monetary policy has tightened to reduce the inflation risks…

With recent growth and inflation data somewhat higher than forecast, the Reserve Bank raised its target cash rate by a further 25 basis points to 6.25 per cent in early August 2000. It was the fifth increase since November 1999, when the cash rate was 4.75 per cent. The projections incorporate some further rate increases, but are based on the assumption that there will be no secondary inflation effects in response to the new GST.

… while the recent tax reform package will result in a declining budget surplus

The Commonwealth recorded its largest ever budget surplus (2 per cent of GDP) in FY 1999-2000, around 0.6 percentage point higher than the latest budget estimate. Stronger-than-expected tax revenues and lower expenses have both contributed, but much of the improvement was due to one-off events. The tax reform (which came into effect on 1 July 2000) will result in higher indirect tax revenues but this will be more than offset by the accompanying income tax cuts and increases in welfare benefits, so that the general government fiscal surplus is set to decline this year and next.

The upswing will continue, although there are risks

Over 2001-02, the economy is expected to slow somewhat, mainly as a result of tighter monetary policy and relatively high household indebtedness. Exports will remain a major source of growth and should, together with the import-dampening effect of slowing domestic demand, help to reduce the external deficit from its current high

level. A major risk in the projections is that an international slowdown could weaken the domestic economy. Further, the introduction of GST could raise inflation expectations. This would require tighter monetary policy than assumed and could necessitate household balance-sheet restructuring, impacting negatively on private consumption. However, there is also an upward risk to household consumption from income-tax cuts and higher social benefits.

Austria

Economic growth accelerated in 2000 as exports gathered momentum following the depreciation of the euro and the recovery in Austria's export markets, and as private consumption strengthened further. Over the next two years, export growth is expected to moderate and private consumption should slow as robust increases in wage income are partly offset by higher taxes, while high capacity utilisation should underpin buoyant business investment. Overall, GDP growth is projected to remain above potential, although declining from 3½ per cent in 2000 to about 2½ per cent in 2002.

The government's ambitious fiscal consolidation effort is taking place during a period of high growth, which should ease its implementation. However, the reliance on revenue increasing measures may require additional efforts to eliminate the structural budget deficit. The prospect of the lowest unemployment rate in a decade may also require additional structural reforms to avoid the build-up of inflationary pressures.

The economic recovery is broadening…

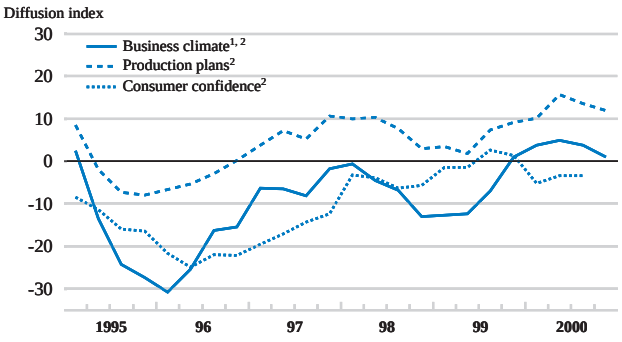
The economic recovery became more broadly based in 2000, as private consumption growth strengthened to 3 per cent and export growth accelerated to 9 per cent in response to the recovery in Austria's main export markets and improved external competitiveness. High capacity utilisation bolstered business investment as well as inducing higher import growth. But the contribution of net exports to growth remained positive at above 1 percentage point.

… and the labour market outlook is improving

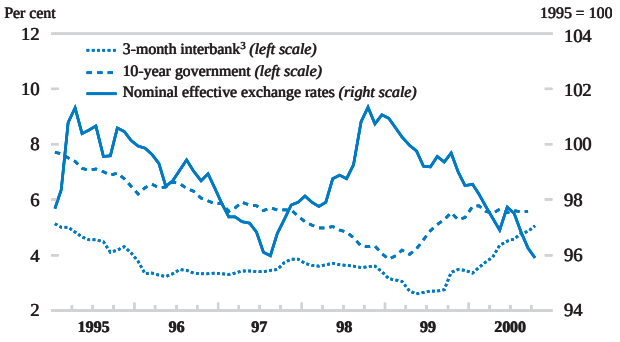
Rapid employment creation continued into 2000, mainly taking place in the service sector and with the support of public job creation programmes. Moreover, part-time employment increased faster than full-time employment. Labour supply growth moderated, allowing the registered unemployment rate to decline to around 4½ per cent in the second half of 2000, although this trend in labour supply should reverse with recent labour market reforms, which are focused on raising the age of early retirement and restricting benefits. Overall wage growth remained stable at a low level, partly due to the current wage agreements and partly due to negative wage drift, resulting from the increasing share of part-time workers. On the other hand, consumer price inflation (as measured by the consumer price index) increased to 3 per cent in the second half of 2000, driven by higher oil and import prices as well as

Austria

Confidence remains high



Monetary conditions are supportive



1. Anticipated business conditions.
2. Seasonally adjusted. Balance of positive-negative replies.
3. From January 1999, Euribor.

Sources: WIFO and OECD.

Austria: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion Sch	Percentage changes, volume (1995 prices)				
Private consumption	1 433.7	1.5	2.7	3.0	2.3	2.3
Government consumption	499.1	2.0	1.0	0.5	0.0	-1.0
Gross fixed capital formation	582.5	6.8	2.9	3.6	3.5	3.4
Final domestic demand	2 515.3	2.8	2.4	2.7	2.2	1.9
Stockbuilding [a]	17.8	-0.1	-0.7	-0.1	0.0	0.1
Total domestic demand	2 533.1	2.7	1.7	2.5	2.2	2.1
Exports of goods and services	1 074.3	8.7	3.5	8.8	8.4	7.3
Imports of goods and services	1 110.7	6.9	1.9	6.5	7.2	6.6
Net exports [a]	- 36.4	0.7	0.7	1.1	0.7	0.5
GDP at market prices	2 522.2	2.9	2.1	3.6	2.9	2.6
GDP at market prices in billion €	183.3					
GDP deflator	_	0.6	0.9	0.5	1.5	1.8
Memorandum items						
Private consumption deflator	_	0.7	0.7	2.1	1.9	1.8
Industrial production	_	8.3	5.5	8.0	6.5	4.5
Unemployment rate [b]	_	5.7	5.2	4.6	4.2	4.0
General government financial balance [c]	_	-2.3	-2.1	-1.6	-0.7	0.0
Current account balance [c]	_	-2.5	-2.8	-3.0	-2.5	-2.0

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 GDP.
Source: OECD.

by indirect tax increases. As these temporary effects peter out, consumer price inflation should return to below 2 per cent in the latter part of 2001.

The fiscal stance becomes restrictive, but…

The government's ongoing fiscal consolidation effort began with the Stability Programme of spring 2000, centred mainly on reducing government employment and pension expenditures. It was further extended in the two-year budget 2001-02, which relies more on higher tax revenues and local government surpluses (the latter accounting for about 15 per cent of the overall fiscal consolidation) in an effort to balance the general government budget by 2002. Overall, fiscal consolidation for 2000 to 2002 should average just above 1 per cent of GDP over the period with the central government's share based on two-thirds revenue increases and one-third spending cuts. Although interest rates are projected to rise, monetary conditions remain quite favourable to growth.

… growth prospects remain favourable…

Continued solid income growth, despite higher taxes and fees, should maintain the expansion in private consumption at around 2¼ per cent in 2001 and 2002. The external competitive position is expected to remain favourable but, in line with world trade, export growth is projected to moderate over the projection period. At the same time, import growth should remain strong in response to the high level of domestic demand, implying a declining contribution to growth from net exports. The high level of capacity utilisation should underpin business investment, while government consumption is expected to remain weak. Overall, GDP growth is projected to remain robust and above its potential, although the pace slows from 3½ per cent in 2000 to about 2½ per cent in 2002.

… though domestic risks remain

The fiscal consolidation programme's reliance on revenue increasing measures may reduce the tax base more than estimated. This may carry the risk of the government being forced to implement additional consolidation measures in order to reach its 2002 objective, thus further restricting economic activity at a time when the economy is projected to be slowing. However, there is also an inflation risk since wages may be higher than projected if recent labour market reforms (especially the increase in effective retirement age) are insufficient to avoid bottlenecks in the labour market as the unemployment rate reaches its lowest point in a decade.

Belgium

Real GDP growth is estimated to be around 3¾ per cent in 2000, despite a slowdown in the last months. Driven by exports, robust expansion is projected to continue, although gradually slowing to around 3 per cent in 2002. With the economy virtually at potential, some tensions may emerge in the labour market, but the increase in wages and compensation per employee may remain moderate. On the basis of announced fiscal policy, the general government budget is likely to move from broad balance in 2000 to a small surplus in the next two years, with the debt-to-GDP ratio falling to 100 per cent in 2002.

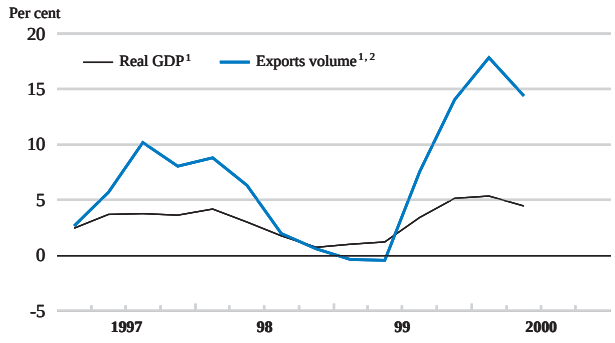
Given the strength of the economy and the still high public sector indebtedness, it is essential to avoid a pro-cyclical easing in the fiscal consolidation path. However, with appropriate spending restraint, an income tax reform aiming to reduce replacement rates in the labour market would strengthen current supply measures designed to tap the large pool of benefit recipients not in employment.

A strong broadly based expansion

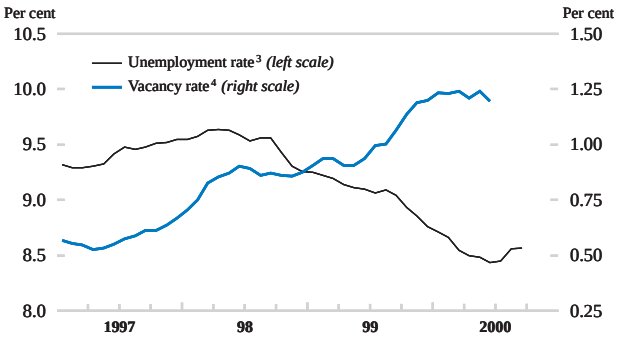
Economic activity was buoyant in the first half of 2000, boosted by rising exports as well as by strong private consumption, business fixed investment and residential construction. The strength of private spending was underpinned by a large increase in real disposable income, historically high consumer confidence and a further decline in the saving ratio. However, higher import prices and uncertainties about the price of oil seem to have weighed on economic activity in the more recent period. Nonetheless, for 2000 as a whole, real GDP growth is estimated to be of the order of 3¾ per cent, compared with 2¾ per cent in 1999. Employment has continued to grow at a rapid pace and the standardised unemployment rate fell to 8.6 per cent in September 2000. The increase in wages has accelerated somewhat but the rise in compensation per employee has remained moderate, as the government has stepped up the multi-annual programme of cuts in employers' social security contributions. Reflecting increases in oil prices and euro weakness, consumer price inflation reached 3.3 per cent in September. On the basis of the "health index", which excludes most energy products, alcohol and tobacco, inflation rose to 2.6 per cent.

Belgium

Export-led growth has continued



The labour market has tightened



1. Year-on-year percentage changes.
2. Goods and services.
3. Standardised unemployment rates.
4. Unfilled vacancies as a percentage of the labour force.

Source: OECD.

While fiscal policy is expected to remain neutral, monetary conditions may tighten somewhat

The 2001 Budget and the stability programme for 2001-2005, imply a broadly neutral fiscal policy. Under cautious assumptions, notably an average annual rate of growth of real GDP of 2½ per cent, the government has set a target for general government surpluses of 0.2 and 0.3 per cent of GDP in 2001 and 2002 respectively. With a somewhat higher projected rate of growth, the OECD expects the general government budget to move from broad balance in 2000 to a small surplus of around ¾ per cent of GDP by 2002. The primary surplus may widen somewhat to 6½ per cent of GDP in 2002 but, in cyclically adjusted terms, it is likely to remain stable. The debt-to-GDP ratio may fall to 100 per cent in 2002 continuing its strong downward path of recent years. On the assumption that monetary policy in the euro area is tightened somewhat further over the next two years, monetary conditions in Belgium are likely to become progressively less supportive of growth.

Belgium: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion BF	Percentage changes, volume (1995 prices)				
Private consumption	4 694.7	3.3	1.9	2.6	2.4	2.2
Government consumption	1 857.2	1.4	3.4	0.8	1.4	1.4
Gross fixed capital formation	1 801.6	4.6	4.8	4.5	2.5	2.7
Final domestic demand	8 353.5	3.2	2.9	2.6	2.2	2.2
Stockbuilding [a]	- 20.0	0.6	-0.7	0.1	0.0	0.0
Total domestic demand	8 333.4	3.9	2.1	2.7	2.2	2.2
Exports of goods and services	6 608.3	4.4	5.2	12.4	9.2	7.7
Imports of goods and services	6 214.7	6.5	4.5	11.5	8.5	7.2
Net exports [a]	393.6	-1.2	0.7	1.2	1.0	0.9
GDP at market prices	8 727.0	2.4	2.7	3.8	3.1	2.9
GDP at market prices in billion €	216.3					
GDP deflator	_	1.6	1.0	1.7	2.0	1.9
Memorandum items						
Private consumption deflator	_	1.0	1.2	2.6	1.9	1.6
Industrial production	_	3.2	0.9	2.5	3.0	2.7
Unemployment rate	_	9.5	9.0	8.2	7.9	7.6
Household saving ratio [b]	_	14.0	14.2	13.4	13.9	14.3
General government financial balance [c]	_	-0.9	-0.7	-0.1	0.3	0.7
Current account balance [c]	_	4.1	3.9	4.2	5.1	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.

The expansion is projected to continue, albeit at a slower pace

The depreciation of the euro in effective terms has boosted the international competitiveness of Belgian firms, which will also benefit from a period of broad wage moderation and further cuts in employers' social security contributions. Hence, Belgian firms stand to gain market shares. However, as growth in the European Union and the OECD area in general is projected to slow, a progressive loss of buoy-

ancy in Belgian exports will weigh on domestic activity as well as on imports. All told, while the *ex post* contribution of net exports to growth may remain close to 1 per cent, real GDP growth is projected to slow to around 3 per cent in 2002.

The labour market is expected to tighten further, with a risk of inflationary tensions

Employment is projected to continue to grow at a robust pace, and the standardised unemployment rate may decline to around 7½ per cent in 2002 – close to its estimated structural rate. With tight labour market conditions and relatively high inflation – even in terms of the health index – wages and compensation per employee are expected to accelerate but only moderately, as the government is considering further initiatives, notably an income tax reform, to bolster disposable incomes. However, wage developments constitute the main risk to the projection, since it is not certain that wage moderation will be sustained given the recent spike in inflation, with the result that Belgium's competitive position might worsen. Another risk concerns exports, which may be weaker if the slowdown in foreign markets is more pronounced than projected.

Czech Republic

Growth picked up to around 3 per cent in the first half of 2000, reflecting strong exports, a substantial fiscal stimulus and a pick-up in investment spending. Notwithstanding the acceleration in foreign sales, the current account deficit widened during the second quarter because of rising imports and higher oil prices. Meanwhile, inflation, after having fallen sharply in 1999, increased somewhat but was held in check by high unemployment. Looking forward, output should continue to expand, albeit at moderate rates, with the current account deficit rising to above 5 per cent of GDP.

In order to ensure that economic prospects are not seriously threatened, the substantial rise in the general government deficit in 2000 should be reversed by adopting a much tighter fiscal stance. Rather than stimulating demand, emphasis should be placed on reinforcing recent structural reforms so as to improve the supply-side response of the economy, thereby laying the foundations for a more balanced pattern of growth over the medium term.

Growth picked up moderately in 2000, reflecting both domestic and external factors…

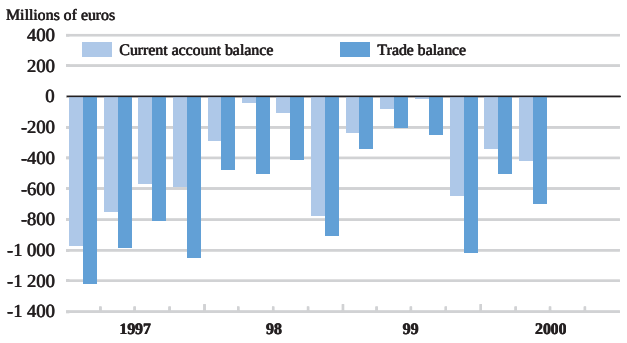
Aggregate demand increased by 3.1 per cent (year-on-year) in the first half of 2000, spurred by a strengthening of private consumption and a surge in investment, which grew by 1.8 and 6 per cent respectively. The rapid expansion of exports in the first quarter, itself a response to a pick-up in European demand, slowed somewhat in the second. This, combined with sustained imports, due to higher oil prices and strong domestic demand, led the current account deficit to widen to 3.2 per cent of GDP.

… and inflation increased from last year's low levels, despite still high unemployment

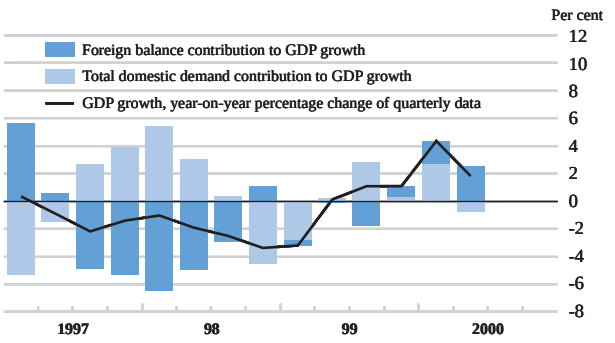
Both headline and net inflation (*i.e.* changes in the prices of non-regulated goods and services), after falling substantially last year, rose throughout 2000, reaching 4.4 and 3.5 per cent respectively by October 2000. Much of this rise represents the influence of energy and food prices, as well as an end to various one-off factors that had served to lower price increases in 1999. For this reason, the hike in inflation was largely anticipated and, despite high unemployment, real wages rose by 2.5 per cent – broadly in line with productivity. As a consequence, employment continued to fall, although by the end of the second quarter the standardised unemployment rate, at 8.9 per cent, was about the same level as a year earlier.

Czech Republic

The current account deficit widens



Net exports weaken



Sources: Czech National Bank and OECD.

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

	1997	1998	1999	2000	2001	2002
	current prices billion Kc	Percentage changes, volume (1995 prices)				
Private consumption	889.6	-2.6	1.2	1.2	2.4	3.0
Government consumption	331.8	-0.9	-0.1	1.0	3.0	3.0
Gross fixed capital formation	514.4	-3.9	-5.5	5.0	6.5	5.5
Final domestic demand	1 735.8	-2.7	-1.1	2.3	3.7	3.8
Stockbuilding [a]	33.0	-0.4	0.8	-0.2	0.0	0.0
Total domestic demand	1 768.8	-3.0	-0.4	2.1	3.7	3.7
Exports of goods and services	949.7	10.7	6.6	16.1	12.0	10.6
Imports of goods and services	1 049.7	7.9	5.8	14.4	11.8	10.6
Net exports [a]	- 100.0	1.1	0.1	0.3	-0.6	-0.8
GDP at market prices	1 668.8	-2.2	-0.2	2.5	3.3	3.2
GDP deflator	_	10.2	2.4	1.9	3.4	4.3
Memorandum items						
Consumer price index	_	10.7	2.1	4.0	4.3	4.4
Private consumption deflator	_	9.6	2.0	4.0	4.2	4.2
Industrial production	_	3.1	-2.9	5.5	5.0	4.9
Unemployment rate	_	6.5	8.8	9.0	9.1	9.0
Household saving ratio [b]	_	9.6	11.2	12.1	11.2	11.1
General government financial balance [c,d]	_	-2.3	-4.9	-7.7	-6.5	-7.5
Current account balance [c]	_	-2.4	-2.0	-3.9	-5.0	-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 disposable income.
c) As a percentage of GDP.
d) OECD estimate which adjusts official data so as to increase international and intertemporal comparability.
Source: OECD.

Macroeconomic policy eased sharply, helping to swell domestic demand…

The recovery of domestic demand reflected a substantial easing of macroeconomic policy in both 1999 and 2000. Despite the pick-up in inflation, the Central Bank's two-week repo rate has stood at 5 per cent since October 1999, implying less than 2 per cent real interest rates throughout this year. Moreover, according to official estimates the general government budget deficit is expected to widen sharply, reaching 7.7 per cent of GDP (excluding some 2.4 per cent of GDP in privatisation revenues), up from 4.3 per cent in 1999. The increase reflects moderate current revenue growth of 4.4 per cent and substantial hikes in discretionary spending, including a 17 per cent rise in expenditures on goods and services, a 50 per cent hike in subsidies and a 10 per cent boost to household transfers.

… but growth will remain moderate, as the current account deficit rises

Growth for 2000 as a whole is expected to be somewhat slower than in the first half of the year with some weakening of the still rapid growth of exports and continuing strong imports. Over the period 2001-02, domestic demand and the current account deficit are projected to increase under the impact of the persistent strong fiscal stimulus. Thus, assuming unchanged policies and notwithstanding a windfall revenue of 1 per cent of GDP from a mobile telephone auction, the general government deficit is projected to remain at about 7 per cent of GDP. In this context, personal consumption is expected to rise steadily and investment is projected to remain strong, reflecting both new tax incentives and direct government spending. While still high unemployment and a moderate tightening of monetary policy should keep inflationary pressures muted, on-going restructuring at the firm level and tight domestic credit conditions, as banks clean up their balance sheets, will continue to constrain the

economy's capacity to meet this demand. As a result, a significant proportion of the additional demand is projected to be met by imports and the current account deficit is expected to rise to more than 5 per cent of GDP.

The main risk stems from the fiscal stimulus and an inadequate supply-side response

The main risk to this projection is that the supply-side will not respond adequately to the ongoing fiscal stimulus in 2001 and 2002, resulting in an even larger than projected widening of the current account deficit. Indeed, to date, the net increment to output from the substantial increase in the general government deficit has been limited, because of rising imports. In this context, with domestic demand strengthening, the current expansionary stance of fiscal policy may be counterproductive yielding increased imports and foreign indebtedness without generating a significant increase in output.

Denmark

The Danish economy is expected to grow at around 2¾ per cent in 2000. Wage pressures have eased, although unemployment has remained low, and the economy is operating very close to its potential. With annual GDP growth projected to be around 2½ per cent in both 2001 and 2002, driven by buoyant exports and a pick-up in private consumption, supply constraints may lead to accelerating wages and inflation remaining above the European Union average.

A tighter fiscal stance might become necessary to alleviate emerging pressures, and restraining the planned increases in public consumption would be the most helpful way to achieve this. Further measures to expand labour supply would also contribute to raising capacity, allowing Denmark to sustain high growth in the medium term.

Growth has picked up in 2000

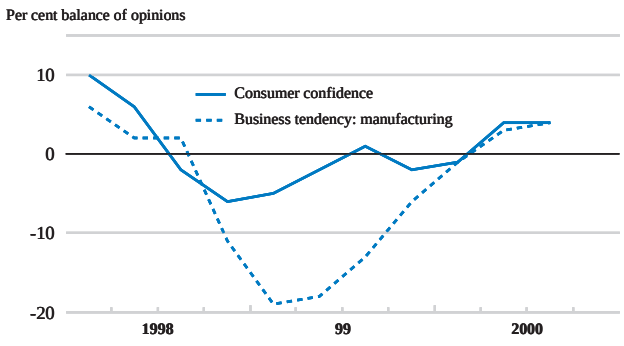
GDP grew by 2½ per cent (at an annual rate and seasonally adjusted) in the first half of 2000, following a strong performance in the second half of 1999. Business confidence recovered and this fed through into expanding capacity through a strong pick-up in machinery and equipment investment. Investment was also boosted sharply as the extensive damage caused by the December 1999 hurricane was repaired. However, private consumption fell, despite rising confidence among households, reflecting in part the end of the car restocking cycle and some rebuilding of savings from their low levels. Expected strong export growth, based on both the improvement in export markets and the effective exchange rate depreciation, did not materialise in the first half of the year. Even with a recovery in the second half, Denmark's export market share will shrink. Nevertheless, the current account surplus in the first half of 2000 remained at around 1 per cent of GDP. Employment growth has continued while unemployment has stabilised at just over 5 per cent of the labour force. Annual wage gains have moderated to around 3½ per cent, and consumer price inflation has probably peaked, although to some extent this reflects earlier indirect tax increases, and the harmonised index of consumer prices is still rising at around 2¾ per cent.

Monetary policy remains firmly linked to euro developments…

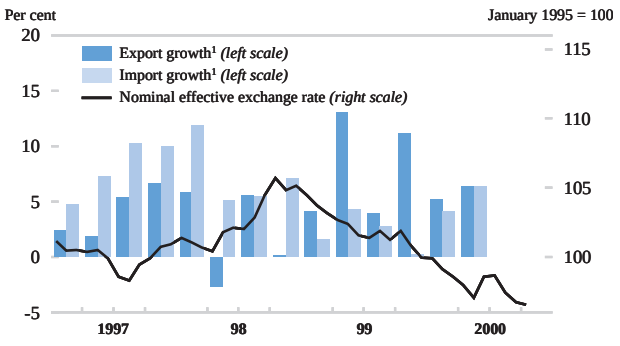
Despite the decision against joining European Economic and Monetary Union in the recent referendum, the long-standing monetary policy framework remains unchanged, and the Danish krone continues to be fixed to the euro. Increases in euro interest rates have been matched by Denmark, although some unilateral moves were also taken in the run up and aftermath of the referendum so as to reaffirm the commitment to a fixed

Denmark

Confidence has risen



Exports continue to be strong



1. Year-on-year percentage change.
Sources: Statistics Denmark; OECD.

Denmark: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion Dkk	Percentage changes, volume (1995 prices)				
Private consumption	564.0	3.5	0.6	0.5	1.4	1.7
Government consumption	284.5	3.0	1.4	1.1	1.3	1.1
Gross fixed capital formation	218.0	6.7	0.3	7.9	2.3	3.3
Final domestic demand	1 066.6	4.0	0.8	2.2	1.6	1.9
Stockbuilding [a]	6.5	0.3	-1.2	0.1	0.0	0.0
Total domestic demand	1 073.1	4.3	-0.4	2.3	1.6	1.9
Exports of goods and services	405.7	2.2	7.9	6.0	7.8	6.5
Imports of goods and services	366.8	7.3	2.2	4.9	5.9	5.4
Net exports [a]	38.9	-1.6	2.1	0.6	1.0	0.7
GDP at market prices	1 112.0	2.5	1.7	2.8	2.5	2.5
GDP deflator	_	2.1	2.7	2.8	2.7	2.6
Memorandum items						
Private consumption deflator	_	1.8	2.6	2.9	2.7	2.6
Industrial production	_	2.1	2.6	4.5	4.0	3.7
Unemployment rate	_	5.2	5.2	5.2	5.1	5.1
Household saving ratio [b]	_	3.9	2.4	2.8	3.1	3.2
General government financial balance [c]	_	1.2	2.8	2.7	2.9	3.1
Current account balance [c]	_	-0.6	1.8	1.4	2.2	2.7

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

exchange rate. With the Danish economy currently at a similar point in the economic cycle as the euro area as a whole, monetary conditions appear broadly appropriate and should help at the margin to dampen activity and reduce the risks of overheating.

… while the budget remains in healthy surplus

The fiscal outcome for 2000 is likely to be even better than the general government surplus of 2.4 per cent of GDP projected in the government's budget, because of stronger growth. But the underlying fiscal stance is easier this year than it was in 1999. Although the government's budget for 2001 contains some spending initiatives on education, research, culture and the environment, fiscal policy is assumed to remain broadly neutral next year and also in 2002. On this basis, the overall budget surplus is expected to gradually rise, bringing with it a rapid decline in the public debt to GDP ratio (Maastricht definition) to around 40 per cent by 2002.

Growth is likely to remain close to potential, but overheating remains a risk

A pick-up in both exports and consumption over the projection period is expected, with GDP growth at 2½ per cent per year, only slightly higher than the estimated rate of growth of potential output. However, the relatively tight labour situation and shortages of some skilled workers, together with the effects of higher oil prices, may boost wage demands and make it more difficult to bring inflation down. Despite the healthy budget surplus, fiscal policy may need to be tightened in order to dampen activity if signs of overheating start to emerge: given already high tax burdens, restraining the growth of public consumption projected in the 2001 budget should be a prime candidate. Policies that would help to increase labour supply in future years would also contribute to easing pressures on the labour market, especially those changes that could generate relatively rapid responses, such as providing stronger incentives to work through reform of the tax system.

Finland

Less buoyant world trade and capacity constraints in major export sectors are projected to lead to some slowdown in the growth of economic activity to around 4½ per cent in 2001 and 2002. However, growth is expected to remain far above the euro area average and unemployment should continue to drop rapidly. Labour market shortages are likely to push up wage costs by more than in the euro area. Nonetheless, with the effects of the oil price hike waning, price inflation could recede to 2¼ per cent in 2002.

In this context, stringent control of government expenditure should be maintained to prevent overheating, while taxes on labour should be reduced further in order to improve the supply side. Furthermore, other structural reforms aimed at raising potential output should be stepped up to ensure a continued fall in unemployment, while avoiding rising cost pressures.

Buoyant exports boost output growth and inflation is up

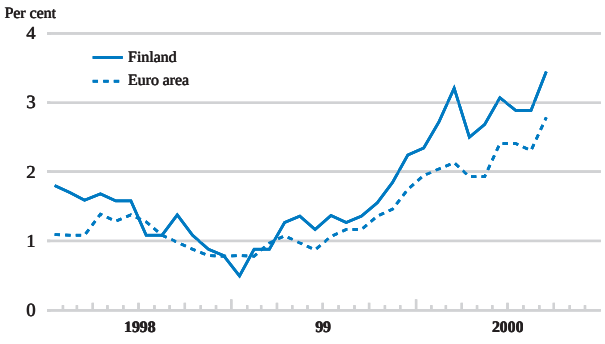
Since mid-1999, the Finnish economy has regained momentum due to stronger world demand. Real GDP growth accelerated to 5 per cent in the first half of 2000 (year-on-year), boosted primarily by soaring exports but also by robust domestic demand. Activity has been underpinned by the extraordinary growth in the electronic equipment industry, with an increase of 48 per cent in the 12 months to August. These developments were reflected in some further decline in the unemployment rate, to 9.7 per cent in September, and labour shortages have become more pressing in the south of the country, and in the electronic equipment and construction industries. Most sectors have, nevertheless, agreed a relatively moderate wage rise of just over 3 per cent for 2000. In some industries, however, covering 10 per cent of the employees, the settlement led to a stronger increase, of 4 to 5 per cent, which could lead to catch-up effects in 2001. Primarily due to the surge in oil prices, consumer price inflation (measured by the 12 month change in the harmonised consumer price index) has risen from the trough of 0.5 per cent in January 1999 to 3.4 per cent in September 2000 – some 0.6 percentage point above the euro area average.

Stronger income tax cuts are planned for 2001

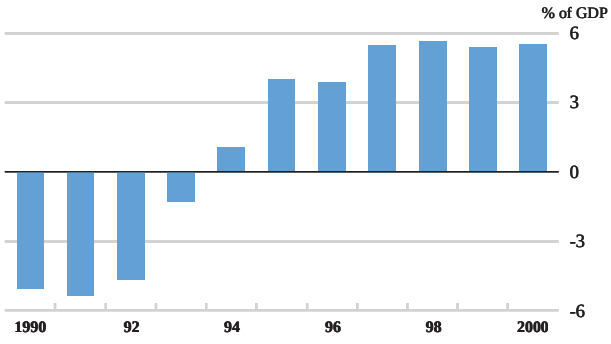
Owing to tight expenditure control, the fiscal stance is expected to be somewhat restrictive in 2000 despite an income tax cut of around 0.4 per cent of GDP. In its draft 2001 budget, the government has proposed to reduce income taxes further by

Finland

Inflation[1] surpasses the euro area average



Current account surplus is at a record level



1. Harmonised consumer price index, year-on-year percentage change.
Sources: Statistics Finland and Eurostat.

Finland: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion FIM	Percentage changes, volume (1995 prices)				
Private consumption	323.6	4.9	3.6	3.3	2.5	2.4
Government consumption	142.6	1.7	2.0	0.4	0.9	0.8
Gross fixed capital formation	114.3	9.4	4.6	5.4	6.0	5.1
Final domestic demand	580.5	5.0	3.4	3.1	2.9	2.6
Stockbuilding [a]	2.8	0.7	-0.5	0.0	-0.1	0.0
Total domestic demand	583.3	5.7	2.8	3.1	2.7	2.6
Exports of goods and services	248.3	8.9	6.3	11.3	9.2	7.9
Imports of goods and services	196.5	8.3	3.2	6.8	5.9	5.3
Net exports [a]	51.8	1.0	1.6	2.6	2.2	2.0
GDP at market prices	635.5	5.5	4.0	5.4	4.6	4.2
GDP at market prices in billion €	106.9					
GDP deflator	_	3.1	0.7	1.3	2.1	2.1
Memorandum items						
Private consumption deflator	_	1.9	1.7	3.2	2.6	2.2
Unemployment rate	_	11.4	10.2	9.6	8.8	8.4
General government financial balance [b]	_	1.3	1.9	4.0	4.8	5.3
Current account balance [b]	_	5.7	5.4	5.5	6.5	8.0

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.

around 0.6 per cent of GDP in 2001. This is welcome, as it will improve the supply side of the economy. But with the economy close to overheating, it will necessitate the continuation of a tight grip on expenditures. Despite the further tax cuts, the fiscal stance is projected to be neutral in 2001 and 2002. Strong revenue growth could lead to a general government surplus of over 5 per cent of GDP by 2002, the second largest in the euro area.

The overall outlook is bright

The economic outlook remains favourable, although the income tax cuts will only partly offset less buoyant world demand, the effect of higher oil prices and the impact of higher interest rates on private consumption. Thus, economic growth could slow from 5½ per cent in 2000 to around 4½ per cent on average in 2001 and 2002. This is still above the growth rate of potential output, so that excess demand is projected to intensify. Despite capacity constraints, the electronic equipment industry will continue to contribute substantially to economic expansion. Unemployment should remain on a downward trend, and bottlenecks in the labour market are likely to become more severe. This could lead to a further acceleration of wage inflation to around 4½ per cent in 2001 and 2002. Nevertheless, due to an assumed fall in oil prices, price inflation is projected to decelerate from its peak of 3¼ per cent in 2000 to around 2¼ per cent by 2002. Boosted by soaring exports and despite a terms of trade loss, the current account surplus is set to mount to around 8 per cent of GDP by 2002.

A major uncertainty concerns wage developments

The main uncertainty in the outlook concerns labour cost developments. Despite labour market tensions, the tripartite central wage agreement reached in November may lead to somewhat lower wage rises than projected. This would lead to lower inflationary pressures, especially if underpinned by further structural reform.

Greece

Growth has remained robust in 2000 at about 4 per cent. Activity is set to gather further momentum in 2001 and 2002, driven by surging investment outlays and healthy export growth. This should lead to a decline in the unemployment rate, which is currently among the highest in the OECD. Headline inflation has picked up, largely due to higher energy prices, but may recede somewhat over the projection period. Greece's application for euro area membership was approved in mid-June 2000 and the country will join the single currency area in January 2001.

Sustaining inflation at levels close to the euro area average in the face of strong momentum could become a major policy challenge. With monetary conditions set to ease further in the run up to euro area membership, the pace of fiscal consolidation should be stepped up by reining in primary government expenditure. Progress in reforming the labour market and enhancing competition in product markets, including a faster opening to competition of network industries, would help to secure low inflation and boost incomes.

Growth has remained resilient and headline inflation has picked up

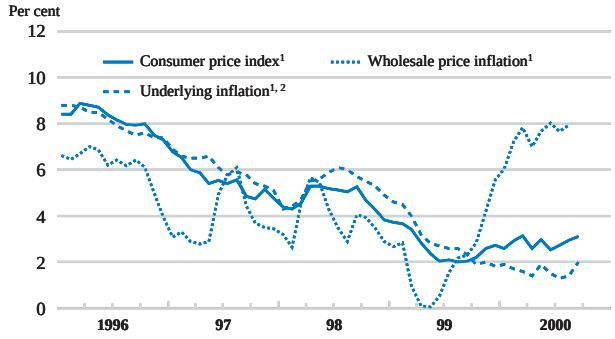
Economic activity has remained vigorous in 2000, with output estimated to grow at around 4 per cent, driven by surging exports and strong investment activity. Retail sales weakened in early 2000, due to the waning effect of the reductions in the car sales tax and the stock market slump. However, lower interest rates and the 1999 tax/benefit package are expected to reinvigorate household spending. Headline inflation has picked up to 3 per cent in September 2000, reflecting higher oil prices, the depreciation of the drachma and the waning effects of indirect tax cuts. Core inflation has, however, remained low so far even though it has drifted up in recent months to 2 per cent in September 2000. The collective agreement concluded in May 2000 ensures subdued labour cost pressures until 2001, although wage drift has risen in some rapidly-expanding sectors, for instance in financial services.

Monetary conditions are set to ease further…

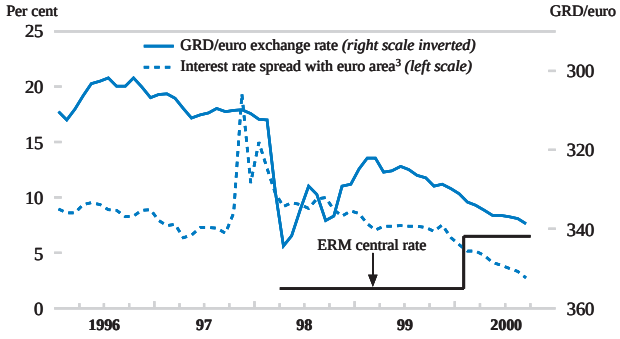
Monetary conditions have eased, with the Bank of Greece reducing its key intervention rate by 2.25 percentage points since January 2000. Even looser monetary conditions are predicted, due to the elimination of the interest rate differential with the euro area. Indeed, on current assumptions, short-term interest rates would have to drop a further 250 basis points by end-2000. The exchange rate has already converged to the

Greece

Higher energy prices have pushed up inflation



Monetary conditions are set to ease further



1. Year-on-year percentage change.
2. Excluding fresh food and energy products.
3. 3-month ATHIBOR and EURIBOR rates.

Sources: Bank of Greece and ECB.

Greece: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion Dr	Percentage changes, volume (1995 prices)				
Private consumption	23 905.9	3.1	2.9	2.9	3.0	3.2
Government consumption	5 018.9	1.7	-0.1	0.8	0.5	0.5
Gross fixed capital formation [a]	6 612.4	11.8	7.3	7.8	9.1	9.7
Final domestic demand	35 537.2	4.5	3.4	3.6	4.0	4.4
Stockbuilding [b,c]	64.5	0.2	-0.5	0.0	0.0	0.0
Total domestic demand	35 601.7	4.7	2.9	3.7	4.0	4.4
Exports of goods and services	6 432.0	5.9	6.5	12.5	11.9	9.0
Imports of goods and services	8 929.9	11.3	3.9	8.7	7.9	7.7
Net exports [b]	-2 497.9	-2.0	0.2	0.0	0.2	-0.3
GDP at market prices	33 103.8	3.1	3.4	4.0	4.6	4.4
GDP deflator	_	5.2	2.9	3.0	2.4	2.6
Memorandum items						
Private consumption deflator	_	4.5	2.4	2.9	2.7	2.5
Industrial production	_	4.3	0.6	5.4	6.1	6.0
Unemployment rate	_	11.2	12.0	11.4	10.7	10.0
General government financial balance [d]	_	-2.5	-1.8	-1.0	-0.4	0.3
Current account balance [d,e]	_	-3.2	-4.2	-4.6	-4.6	-4.4

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) On settlement data basis.
Source: OECD.

central rate in the Exchange Rate Mechanism, and also the differential on the long-term interest rate has become small. In July 2000, the Bank of Greece reduced the minimum reserve requirement for commercial banks from 12 per cent to 2 per cent (the level mandated by the European Central Bank). In order to prevent a surge in liquidity, only 10 per cent will be returned to the banks in January 2001, while the rest will be converted into time deposits maturing in 6 to 18 months.

… while the fiscal stance will be broadly neutral in 2001 and 2002

The government deficit is projected to decline to 1 per cent of GDP in 2000, despite the implementation of the 1999 tax and benefit package and lower revenues from the stock market transactions tax. Buoyant revenues during the first half of 2000 have more than offset slippage on current primary expenditure. The draft 2001 Budget again includes tax cuts and various spending initiatives. However, strong growth and buoyant underlying revenue developments due to better revenue collection should lead to a further reduction in the deficit to ½ per cent of GDP in 2001. The budget is projected to move into a small surplus in 2002.

Growth will strengthen further, and inflationary pressures could rise

Led by strong investment activity, healthy exports, and relaxed monetary conditions, output is projected to grow by around 4½ per cent in 2001 and 2002. Joining the euro area should boost private sector confidence and profitability should be sustained due to the moderate collective agreement, at least until 2001. The labour market is expected to benefit from strong activity, with the unemployment rate declining to 10 per cent in 2002. Inflation is projected to rise by 2¾ per cent in 2001 before edging down to 2½ per cent in 2002. The main policy issue is the sustainability of low inflation in the face of strong momentum. Cost pressures could arise from capacity constraints and stronger wage drift, while domestic demand could gather even more steam than projected.

Hungary

GDP growth accelerated to more than 6 per cent in the first half of 2000. Meanwhile, inflation remained well above government targets. Despite these conditions, strong export performance and comparatively slow import growth helped reduce the current account deficit significantly. Looking forward and assuming unchanged policies, growth is projected to remain strong, with falling unemployment, lower inflation and a smaller budget deficit.

Given the strength of the economy and in order to ensure that this balanced growth is achieved, the significant tax cuts and spending measures currently envisaged as part of the 2001-02 budget will have to be offset by cuts in permanent expenditures. Otherwise, the significant fiscal stimulus implicit in these plans runs the risk of overheating the economy.

Economic activity accelerated further…

Output expanded by 6.2 per cent (year-on-year) in the first semester of 2000, driven by stronger net exports and moderate growth of domestic demand. Consumer expenditure rose 3.8 per cent and although investment grew rapidly overall – due to a pick-up in government projects – private spending on machinery and equipment decelerated sharply. Exports of goods and services rose rapidly throughout the first half, with import growth not far behind. Notwithstanding higher energy prices, the cumulative current account deficit improved significantly, falling to 1 billion euros in the third quarter, down from 1.25 billion at the same time in 1999.

… while employment growth slowed and inflation proved much higher than expected

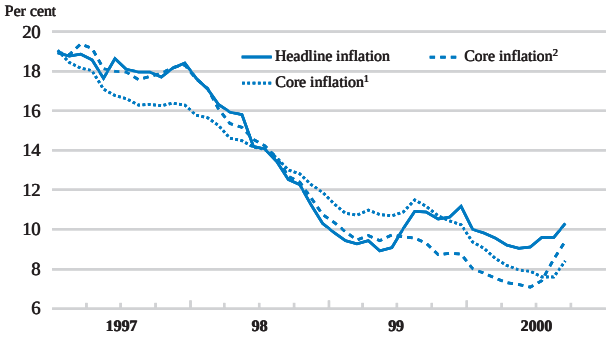
Despite the strong expansion of output, employment growth slowed from more than 3 to less than 1 per cent and the unemployment rate fell modestly to 6½ per cent. Inflation, after falling early in 2000, began picking up towards the middle of the year under the influence of high energy and food prices and despite strict limits placed on price increases of regulated goods and services. As a result, consumer prices grew 9½ per cent over the first eight months of the year, well above the government's initial target of 6-7 per cent. Indeed, even core inflation, after falling during the first half of the year, began climbing in the third quarter.

In this context, interest rates fell pro-cyclically, while the general government deficit is on track to meet its target

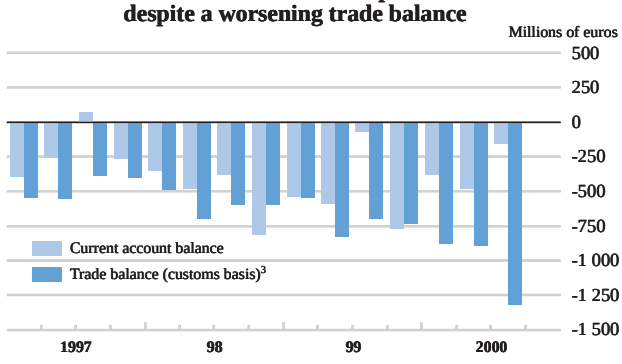
Macroeconomic policy has been broadly supportive of demand. Improved investor sentiment towards the end of 1999 resulted in a pick-up of capital inflows, which pushed interest rates down. Moreover, the authorities decided to keep the currency's rate of crawl steady at 0.3 per cent per month until the end of the year. As a result, and notwithstanding a 100 basis point increase in interest rates in

Hungary

Disinflation pauses



The current account improves despite a worsening trade balance



1. As measured by the Central Statistical Office.
2. As measured by the National Bank of Hungary.
3. 2000 Q3 is an estimate based on data for July and August.

Sources: OECD, Central Statistical Office and National Bank of Hungary.

Hungary: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion HUF	Percentage changes, volume (1995 prices)				
Private consumption	4 206.2	4.8	5.1	4.4	5.4	5.1
Government consumption	1 964.7	2.8	2.5	1.5	2.5	2.5
Gross fixed capital formation	1 898.9	13.3	6.6	6.0	6.5	7.5
Final domestic demand	8 069.8	6.3	4.8	4.1	5.0	5.2
Stockbuilding [a]	467.9	1.9	-0.2	0.2	0.2	0.2
Total domestic demand	8 537.7	7.8	4.3	4.1	4.9	5.0
Exports of goods and services	3 885.6	16.7	13.2	18.0	13.0	11.4
Imports of goods and services	3 882.6	22.8	12.3	15.0	12.0	11.2
Net exports [a]	3.0	-2.9	0.1	1.3	0.5	0.1
GDP at market prices	8 540.7	4.9	4.5	5.5	5.5	5.1
GDP deflator	_	12.6	9.0	7.9	6.6	5.7
Memorandum items	_					
Consumer price index	_	14.2	10.0	9.6	8.0	6.0
Private consumption deflator	_	13.3	10.5	9.6	7.8	5.8
Industrial production	_	12.5	10.2	15.0	9.0	7.2
Unemployment rate	_	8.0	7.1	6.7	6.4	6.2
General government financial balance [b,c]	_	-6.1	-5.3	-4.3	-3.4	-2.5
Current account balance [b]	_	-4.9	-4.3	-3.2	-4.1	-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 GDP.
c) OECD estimate which adjusts official data so as to increase international and intertemporal comparability.
Source: OECD.

October 2000, monetary conditions have loosened pro-cyclically. Meanwhile, although still high, the general government deficit is on track to fall by about 1 per cent of GDP as compared with 1999, as revenues have responded to both the strong growth and higher than expected inflation.

Growth could remain strong and balanced…

GDP is projected to expand by 5½ per cent in both 2000 and 2001, and somewhat less rapidly in 2002. This projection is based on the continuation of the tax and spending policies of the 2000 budget, with the general government deficit expected to gradually fall as automatic stabilisers respond to the strength of demand. This should help inflation to fall slowly. While exports are projected to continue growing quickly, they should weaken as the pace at which new capacity comes on line slackens. Imports, however, are expected to remain relatively strong, so that the external sector's net contribution to growth should diminish and the current account deficit gradually widen. Despite the rapid pace of GDP expansion, employment growth is projected to remain moderate. Unemployment is projected to fall only moderately because of a gradual increase in labour force participation.

… unless external demand slows or the fiscal stance loosens

Outcomes would be considerably different if demand for Hungary's exports slows or if there is a significant relaxation of the fiscal stance in the 2001-02 budget. In the first case, the current account deficit would be higher than projected, and growth would slow. The second risk stems from the tax and spending measures embodied in the forthcoming budget, which could increase the government deficit by a further 1½ per cent of GDP. These steps could well lead to significantly higher inflation than projected here, a larger current account imbalance, and an increase in the risk premium on the currency. Moreover, the proposal to raise the minimum wage by 57 per cent would add to inflationary pressures, while simultaneously increasing joblessness among the less skilled.

Iceland

Following a boom period in which Iceland's economy became overheated, the economy now appears to be slowing. Output growth is likely to be close to 3½ per cent in 2000, after four years of increases averaging 4¾ per cent. Inflation peaked earlier this year, but remains high. Output is expected to slow considerably further next year, in part reflecting a cutback in the allowable fish catch. Despite a projected rise in unemployment, inflationary pressures could gain momentum in the near term, following the recent fall in the exchange rate.

Monetary and fiscal policy may nevertheless be sufficiently restrictive to ensure at least a stabilisation in the rate of inflation at 5 per cent by 2002. However, further interest rate increases cannot be ruled out, given the need to finance a very high current account deficit, to counter sporadic weakness in the exchange rate and to reduce inflation to that of its trading partners.

Inflation peaked earlier this year, but remains high

Inflation rose significantly in 1999 and the first half of this year. The twelve-month change in the consumer price index peaked at 6 per cent in April. After a brief slowdown, consumer price inflation began to accelerate again in the fall, registering an annual gain of 4.6 per cent in November. Although some of this movement reflects developments in oil prices, a pick-up in underlying inflation reflects continued tightness in the real economy. Real GDP growth was 4.3 per cent in 1999, only slightly less than during the previous three years. Activity is likely to have expanded more slowly in 2000, but output is still growing faster than its potential rate. With the unemployment rate averaging about 1¼ per cent this year, increases in private-sector compensation are likely to exceed 7 per cent, following an even more rapid increase in 1999.

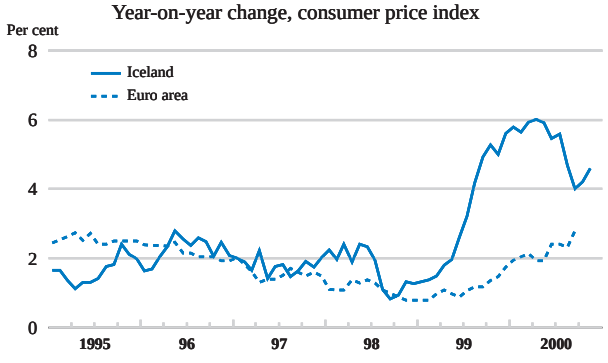
Monetary and fiscal policies are restrictive

Nominal policy rates have been raised during this year, and real interest rates have risen further in the summer as inflation eased. A sudden decline in the value of the currency following the announcement of the fishing quota cutback at mid-year prompted two rounds of central bank intervention and the brief closure of the interbank foreign exchange market. The value of the currency has continued to decline since the summer, leading to a further increase in the policy rate to 11.4 per cent in November (from the 10.6 per cent it had reached in June). The projections assume that official rates will be raised once again before falling in 2002 when the positive output gap will have nearly closed. The government budget surplus rose to 2 per cent

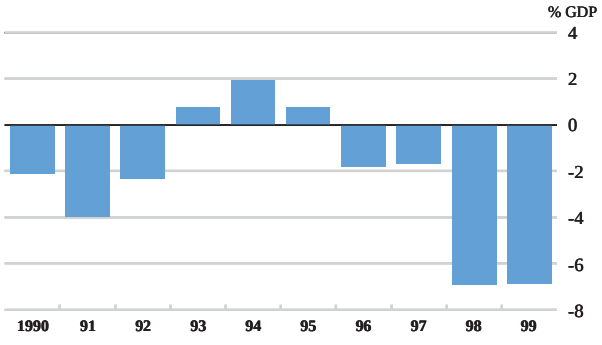
Iceland

Inflation remains above euro area rates

Year-on-year change, consumer price index



The current account deficit has widened markedly



Source: OECD.

Iceland: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion Ikr	Percentage changes, volume (1990 prices)				
Private consumption	299.4	10.0	6.9	4.0	2.0	2.5
Government consumption	112.8	3.4	4.9	3.5	2.5	1.1
Gross fixed capital formation	109.5	26.6	-0.8	11.1	0.5	1.7
Final domestic demand	521.7	12.1	4.7	5.5	1.7	2.0
Stockbuilding [a]	- 0.2	0.1	-0.1	-0.1	0.1	0.1
Total domestic demand	521.4	12.3	4.6	5.4	1.8	2.1
Exports of goods and services	190.9	2.2	5.5	2.6	-1.0	3.4
Imports of goods and services	187.7	23.3	6.1	7.0	0.6	2.5
Net exports [a]	3.2	-7.6	-0.6	-2.1	-0.6	0.1
GDP at market prices	524.7	4.5	4.3	3.6	1.3	2.4
GDP deflator	_	5.3	3.8	4.2	4.8	5.2
Memorandum items	_					
Private consumption deflator	_	1.0	3.3	5.0	5.9	4.9
Unemployment rate	_	2.8	1.9	1.3	1.8	2.6
General government financial balance [b]	_	0.5	2.0	2.8	2.4	2.5
Current account balance [b]	_	-6.9	-6.9	-9.1	-10.0	-9.2

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.

of GDP in 1999, and a record surplus of 2¾ per cent of GDP is likely this year. Revenue growth has exceeded expectations to a greater extent than expenditure. The budget for 2001 is expected to increase the structural surplus somewhat further.

Output growth should slow considerably next year…

Following a marked downward revision to the estimate of the cod stock made by the Marine Research Institute, the government lowered the allowable fishing quota for the current fishing season. This sharp reduction in the catch, combined with fairly restrictive monetary and fiscal policies, is expected to produce a considerable slowdown in activity. GDP growth is projected to drop to 1.1 per cent next year, with a decline in exports and a deceleration in domestic demand, especially business investment. With the recent drop in the exchange rate, inflationary pressures are likely to increase. In 2002, growth should rebound to about 2½ per cent, as real net exports improve and financial conditions are eased.

… while the large current account continues to be a risk

With a current account deficit expected to reach 10 per cent of GDP in 2001, the economy remains vulnerable to a change in investor sentiment, which might be brought about by any re-opening of the national wage contracts in February 2001. Such developments would accentuate inflationary pressures, by weakening the exchange rate and raising labour costs, and could engender a harder landing for the economy than projected. Furthermore, should domestic demand prove to be more resilient than expected to the reduction in the cod catch, import growth could be higher, putting further pressure on the external accounts.

Ireland

Strong, broad-based economic expansion is likely to continue this year with real GDP growing by around 11 per cent. But it should slow steadily thereafter, to some 7 per cent by 2002, as labour shortages become more pronounced. Consumer price inflation should peak this year and slowly decline to annual rates of under 4 per cent in 2002, even though wages are projected to increase rapidly.

The key policy issue is to ensure that price and wage increases, which have been in part stimulated by the weak exchange rate and oil price hikes, do not get out of control. The structural budget surplus is set to rise, tightening the fiscal stance. Further tax cuts should be oriented to raising labour supply rather than increasing net real wages and cuts in indirect taxes to reduce headline inflation should be resisted. Meanwhile it would be helpful to spread out public investment over time so as to both raise efficiency and reduce demand pressures.

The growth momentum remains strong…

Economic activity grew by 9¾ per cent in 1999, and the momentum has carried into this year with growth expected to be around 11 per cent. In the first half of 2000, consumer spending has been exceptionally strong, while exports have expanded at an annualised rate of 17 per cent owing to buoyant foreign markets and a favourable exchange rate. With demand buoyant in all areas, the growth rate has been determined by supply factors: the labour force has continued to increase by some 3½ per cent, underpinning even higher growth rates of employment, although this is now starting to slow. Investment in machinery and equipment has been increasing by some 14 per cent per annum, mainly in the high technology sector where productivity growth is rapid. Despite the recent appearance of labour shortages, foreign direct investment inflows, a key element in the take-off during the 1990s, remain robust.

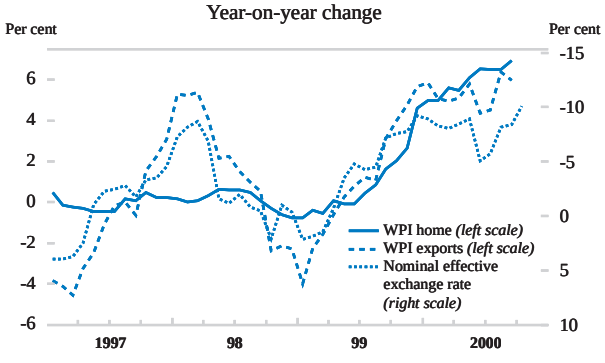
… but inflation has accelerated, threatening the national wage agreement

Consumer price inflation (measured by the harmonised consumer price index) has risen from 2 per cent in the middle of 1999 to some 5¾ per cent in the third quarter of this year. Increases in indirect taxes account for ¾ percentage point of this acceleration while goods and energy prices have also risen rapidly, reflecting the weakness of the nominal effective exchange rate and oil price increases. While these factors may be temporary, service prices continue to rise rapidly, reflecting strong demand and the need to pay wages similar to those in the high-productivity exporting sectors. Possible second round effects from compensatory wage increases have

Ireland

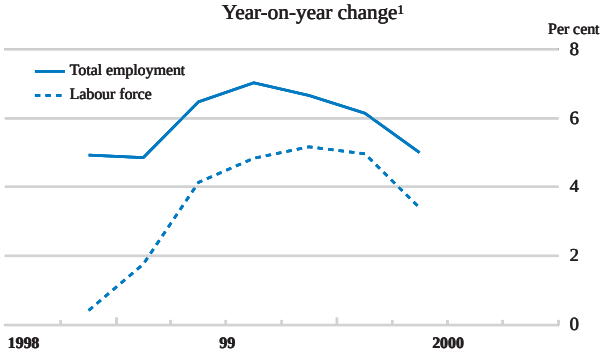
Exchange rate weakness has lifted goods prices

Year-on-year change



Employment growth is high but slowing

Year-on-year change[1]



1. Comparable data are not available prior to the fourth quarter of 1997.
Sources: Central Statistics Office and OECD.

become an issue as pressures mount to change the terms of the national wage agreement, which sought to limit increases to 5½ per cent assuming an inflation rate of some 3 per cent this year. In response, the government has introduced some minor price controls and sought to speed up the release of residential land in order to bring down the high rate of house price inflation.

Ireland: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion Ir£	Percentage changes, volume (1995 prices)				
Private consumption	27.9	7.8	7.7	8.7	8.0	8.0
Government consumption	7.3	5.1	5.2	3.0	3.6	3.4
Gross fixed capital formation	10.7	15.5	13.0	11.3	9.5	10.1
Final domestic demand	45.8	9.1	8.6	8.6	7.8	7.9
Stockbuilding [a]	0.7	0.3	-1.9	0.0	0.0	0.0
Total domestic demand	46.5	9.4	6.3	8.6	7.8	7.9
Exports of goods and services	42.1	21.4	12.4	15.5	13.3	8.4
Imports of goods and services	35.4	25.8	8.7	14.9	14.1	9.5
Net exports [a]	6.7	-0.3	4.5	2.7	1.4	0.4
GDP at market prices	52.8	8.6	9.8	11.0	7.9	7.0
GDP at market prices in billion €	67.0					
GDP deflator	_	5.8	3.8	4.8	4.6	3.8
GNP at market prices	46.4	7.8	7.8	9.0	6.2	5.5
Memorandum items						
Private consumption deflator	_	3.8	3.3	6.5	4.8	3.8
Industrial production	_	15.3	12.0	14.0	10.5	8.7
Unemployment rate	_	7.6	5.6	4.2	3.6	3.6
Household saving ratio [b]	_	10.4	10.6	7.9	7.1	6.4
General government financial balance [c]	_	2.2	2.7	5.6	6.5	7.3
Current account balance [d]	_	0.9	0.7	0.9	0.3	-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 disposable income.
c) As a percentage of GDP.
d) As a percentage of GNP.
Source: OECD.

The budget surplus is set to rise further

Despite tax cuts, revenues have been very strong in the first half, and even with high levels of spending the general government surplus is set to rise although the fiscal stance should remain neutral. After excluding the prepayment of off-budget pension liabilities last year, worth some 2 per cent of GDP, it appears that the underlying structural budget surplus should remain at around 4 per cent this year but it is expected to tighten in the following two years. The budget projections assume that tax cuts for 2001 will remain moderate and that implementation of investment spending in the National Development Plan will be spread out over the projection period. Indirect taxes are assumed to remain at existing levels, despite calls from some quarters for cuts to lower inflation.

Growth should remain very strong this year although the peak might have been passed

Economic activity and inflation are projected to peak this year, with GDP growth expected to slow to some 8 per cent in 2001, which is closer to its estimated current potential rate. With labour market conditions remaining tight, wage increases are likely to remain high, stimulating imports and reducing the contribution of the foreign sector to growth. With imports rising and exports gradually slowing, the current

account is projected to move into deficit. Inflation should gradually decline as the effects of the depreciation of the exchange rate and oil price hikes wear off.

Unwinding inflationary pressures remains the greatest risk

The main risk to the projection is that the current surge of inflation may become entrenched in expectations, leading both wages and inflation to overshoot and resulting in a greater slowdown of activity than foreseen. Such a risk would become more pronounced if the nominal effective exchange rate were to rebound from its current low level. On the other hand, investment, technology, population growth and productivity could continue to underpin growth at very high rates.

Korea

The economic expansion continued through 2000, though at a more moderate pace, in the face of restructuring in the financial and corporate sectors. The strong recovery reduced the unemployment rate to under 4 per cent, while inflation appears to have been limited to around 2½ per cent for the year. Output growth is projected to continue slowing from the nearly 11 per cent rate recorded in 1999 to a more sustainable level close to 6 per cent in 2001 and 2002.

Sustaining the recovery from the 1997 economic crisis requires effective implementation of reforms to advance market-based restructuring of the financial and corporate sectors. It is important that the newly-independent central bank demonstrate that achieving its medium-term inflation target is its primary objective. Containing the growth of public spending in line with the medium-term fiscal plan is necessary to meet the costs of financial-sector restructuring as well as future spending pressures.

The pace of the recovery slowed in the first half of 2000…

The strong rebound from the severe recession of 1998 was followed by a deceleration in output growth to 7½ per cent (seasonally-adjusted annual rate) in the first half of 2000. The expansion continued to be centred on large increases in wages and employment, which have fuelled private consumption, and a recovery in fixed investment. Rising imports of capital goods, combined with higher oil prices, reduced the current account surplus from 6 per cent of GDP in 1999 to around 2½ per cent in 2000. The jump in oil prices has also contributed to a pick-up in inflation from a 1½ per cent rate (year-on-year) in the first half of 2000 to an estimated 3 per cent in the second. Nevertheless, there appears to be some slack remaining in the economy, given that the labour force participation rate is about 1½ percentage points below its pre-crisis level. Moreover, capacity utilisation is at moderate levels, except in the consumer electronics and communication equipment sectors, which accounted for one-fifth of the rise in industrial production in the first half of 2000.

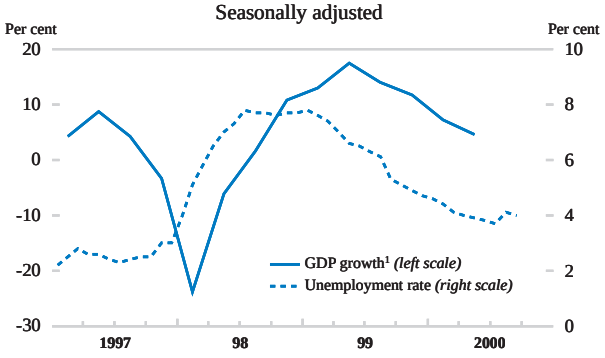
… owing, in part, to higher oil prices and uncertainty about the restructuring of the corporate and financial sectors

The slowdown in growth has been partly a normal reaction to the strong rebound seen in 1999. But it also reflected the impact of higher oil prices (Korea relying on imported oil for about half of its energy needs), fiscal consolidation and concerns about problems in restructuring weak firms, including Daewoo Motors, which has been declared bankrupt. These concerns have contributed to a 45 per cent fall in the stock market price index since the beginning of 2000, with negative implications for wealth and confidence. In this context, a number of firms have had trouble rolling

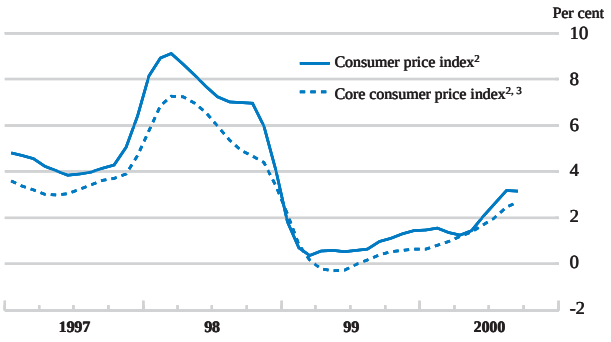
Korea

The pace of the expansion has moderated

Seasonally adjusted



Inflation has picked up



1. Percentage change over previous quarter, annual rates.
2. Three-month moving average, year-on-year changes.
3. Excludes energy and agricultural products (apart from grains).

Sources: Bank of Korea and OECD.

Korea: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices trillion won	Percentage changes, volume (1995 prices)				
Private consumption	255.0	-11.4	10.3	7.0	5.0	5.0
Government consumption	45.7	-0.4	-0.6	1.0	1.0	1.0
Gross fixed capital formation	159.1	-21.2	4.1	12.0	4.0	3.0
Final domestic demand	459.8	-13.8	7.1	7.9	4.3	3.9
Stockbuilding [a]	- 3.9	-5.5	5.5	-0.6	1.0	0.0
Total domestic demand	455.8	-19.6	14.3	7.3	5.5	4.0
Exports of goods and services	157.4	13.2	16.3	20.4	15.5	12.0
Imports of goods and services	162.0	-22.4	28.9	21.3	19.0	11.0
Net exports [a]	- 4.6	12.3	-0.8	2.6	1.1	2.3
Statistical discrepancy [a]	2.1	0.0	-0.5	0.0	0.0	0.0
GDP at market prices	453.3	-6.7	10.7	8.9	5.8	5.6
GDP deflator	_	5.1	-1.6	-0.9	2.0	1.5
Memorandum items						
Private consumption deflator	_	7.8	0.4	2.5	3.5	2.8
Industrial production	_	-6.5	24.1	19.0	10.0	7.0
Unemployment rate	_	6.8	6.3	4.0	3.7	3.5
Household saving ratio [b]	_	22.7	24.8	24.0	22.0	19.2
Consolidated central government balance [c]	_	-4.2	-2.7	-1.5	-0.2	0.0
Current account balance [c]	_	12.8	6.0	2.5	1.7	2.3

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

over their maturing bonds, prompting the government to establish a 10 trillion won (2 per cent of GDP) fund to purchase bonds.

Government efforts to complete financial-sector restructuring have been accompanied by fiscal consolidation

The government has launched a second financial-sector restructuring programme using 40 trillion won (7½ per cent of GDP) of public money. This brings net expenditures in this area to around 130 trillion won. While these primarily debt-financed outlays have boosted government interest payments, the growth of overall expenditures has been limited in line with the goal of balancing the consolidated central government deficit by 2003. A large surge in tax revenues in the first half of 2000 suggests that this objective may be achieved prior to the target date. Monetary policy remains supportive of the expansion, with the central bank giving priority thus far to concerns about financial-market stability. However, with oil price increases now feeding through, the emphasis is shifting to controlling inflation, as evidenced by the 25 basis point rise in the call rate in October.

The economy is projected to slow to a more sustainable pace in 2001 and 2002, although there are some downside risks

Output growth is projected to slow to close to 6 per cent – a rate roughly in line with the economy's potential – in 2001 and 2002. Achieving a soft landing would help stabilise core inflation around the medium-term target of 2.5 per cent by 2002, while supporting continued job creation to bring the employment-to-population ratio back towards its 1997 level. Such a favourable outcome does depend on effective actions to resolve outstanding problems in the financial and corporate sectors. Moreover, the possibility of additional failures among the large chaebols raises the risk of even more serious financial-sector problems that would impinge on the real economy. However, the risk of a second foreign-exchange crisis is limited by the fact that Korea's foreign reserves – which now exceed $92 billion, the second-highest in the OECD area – are almost double its short-term foreign debt. The major risk on the external side would be a sharp slowdown in key overseas markets, particularly the United States.

Luxembourg

Real GDP growth is projected to decline from 8 per cent this year to around 5½ per cent in 2002. This pattern mainly reflects developments in the euro and in activity in neighbouring countries, which have led to a strong boost to exports. Inflation may also peak this year at around 3 per cent, mainly due to rising energy prices, and fall back to about 2 per cent in 2002. Employment growth should remain high, with most new jobs going to cross-border workers.

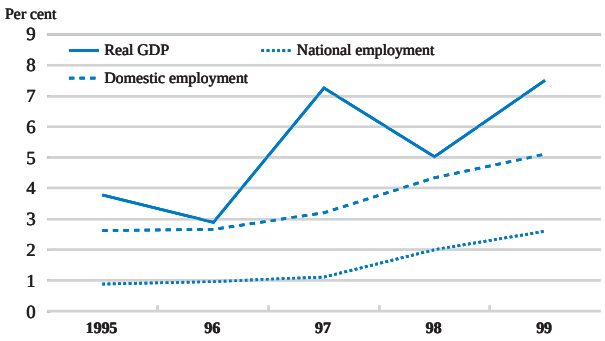
Wage indexation arrangements should be terminated, or at least be linked to underlying inflation, to reduce the risk that the increase in energy prices sets off a wage-price spiral. A more restrictive fiscal policy could also be helpful in countering growing inflationary pressures.

Economic growth has been high and inflation has risen

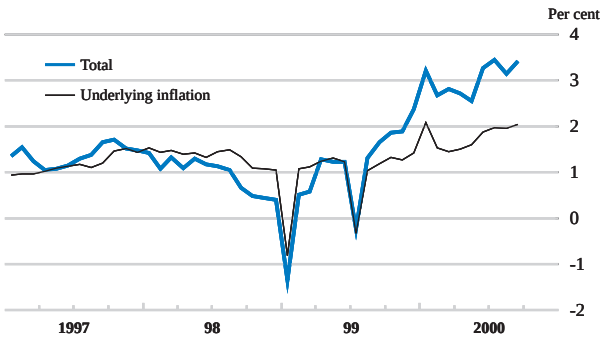
Real GDP growth rose to 7½ per cent in 1999, well above the long-term average (5½ per cent since 1985). Although this overstates underlying trends because a new system for elderly care boosted public consumption and hence GDP (by 0.8 percentage point in 1999), there was nevertheless a broadly based acceleration in economic activity. A buoyant labour market and the activation of an indexation threshold for wages and social security benefits contributed to the strengthening in private consumption, while the rise in export growth mainly reflects developments in the finance and transport and communications sectors. Growth in fixed investment also rose markedly, although a large part of this reflects one-off purchases of aircraft and satellites. These purchases and the strength in domestic demand more generally, resulted in a very large increase in imports, slashing the net foreign contribution to growth. Indicators for the first half of 2000 suggest that underlying growth has accelerated, notably in the finance, manufacturing and construction industries. Employment growth has also picked up, to around 5½ per cent (year-on-year) in recent months, and the unemployment rate (national definition) has edged down to 2½ per cent. Cross-border workers again took most new jobs with the (resident) labour force growing at not much more than 2 per cent. Inflation has accelerated over the past year to almost 3½ per cent, mainly owing to the rise in energy prices; meanwhile, underlying inflation has doubled, to around 2 per

Luxembourg

Growth and employment[1] have increased



Inflation[1] has accelerated



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

Luxembourg: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion LF	Percentage changes, volume (1995 prices)				
Private consumption	289.0	2.3	4.1	3.5	5.5	5.0
Government consumption	107.9	2.8	12.8	3.9	3.6	3.6
Gross fixed capital formation	125.8	1.5	26.6	0.1	3.2	4.0
Final domestic demand	522.8	2.2	11.4	2.6	4.5	4.4
Stockbuilding [a]	1.8	0.1	0.1	-0.1	0.0	0.0
Total domestic demand	524.6	2.3	11.5	2.5	4.5	4.4
Exports of goods and services	685.5	9.9	7.9	15.0	10.0	8.3
Imports of goods and services	585.6	8.3	11.2	11.2	9.3	8.0
Net exports [a]	100.0	3.0	-1.9	6.0	2.6	2.0
GDP at market prices	624.6	5.0	7.5	8.1	6.2	5.5
GDP at market prices in billion €	15.5					
GDP deflator	_	1.5	2.3	2.6	2.8	2.1
Memorandum items						
Private consumption deflator	_	1.7	1.4	3.1	2.3	2.1
Industrial production	_	4.3	3.1	8.0	6.0	4.0
Unemployment rate	_	3.1	2.9	2.7	2.5	2.3

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

cent.[4] A price index threshold was breached in June, triggering a 2½ per cent increase in wages and social security benefits, less than one year after the previous indexed increase. Another threshold is likely to be breached in mid-2001. The short intervals between index-linked wage increases have contributed to an acceleration in wage rate growth to around 4½ per cent.

Monetary conditions and export markets should become progressively less supportive

The depreciation of the euro and the strengthening in export market growth in the past year have provided a powerful boost to economic activity. This source of stimulus should nevertheless wane over the coming two years. While the stance of fiscal policy is set to ease, this is unlikely to be as significant for activity as developments in the euro or in export markets. The government has announced personal income tax cuts amounting to 1.2 per cent of GDP in 2001 and 0.5 per cent of GDP in 2002. As result of these and corporate income tax cuts in 2002, the general government budget surplus is likely to decline from 4½ per cent of GDP in 1999 to 1½ per cent of GDP in 2002.

Growth should remain robust, albeit weakening, but underlying inflation may rise

Real GDP growth is projected to reach a peak of around 8 per cent this year and to slow progressively over the next two years to a more sustainable rate of 5½ per cent as export markets weaken and the stimulus from euro depreciation passes. Employment growth should remain solid, albeit easing to 3¾ per cent, with cross-border workers continuing to fill most new jobs and unemployment edging down to about 2¼ per cent in 2002. Inflation is likely to peak this year at 3 per cent or so and to fall to around 2 per cent in 2002. The main risk to these projections is that the energy-price shock leads to a serious wage-price spiral owing to indexation arrangements.

4. Underlying inflation excludes petroleum products, solid fuels, coffee, tea, cocoa, potatoes and cut flowers.

Mexico

Output may have grown by around 7 per cent in 2000, helped by the continued expansion of the United States' economy, while the strength of the peso and tighter monetary conditions have allowed inflation to come down. The deterioration in the current account has been limited by rising oil-export revenue. The external factors at work this year are likely to wane in 2001, GDP growth being projected to ease to a more sustainable rate of around 5 per cent per year over the next two years. Inflation should continue to fall steadily, while the current account deficit could widen to just over 4 per cent of GDP by 2002.

To reduce risks of overheating, monetary action needs to be supported by fiscal restraint. Moreover, the incoming administration, which will take office on 1 December, should take the opportunity of the current benign economic climate to move ahead in areas where structural reform has stalled. High on the list of priorities is a tax reform to strengthen budget revenues and limit tax distortions. Reforms to enhance competition in product markets are also needed, in the electricity sector in particular.

Economic activity picked up in 2000…

Robust exports to the United States and booming domestic demand underpinned real output growth of 8½ per cent in the first half of 2000 from the previous period, at an annual rate. GDP growth could reach close to 7 per cent for the year as a whole. The expansion has induced strong job creation in the formal sector, and real wage increases have boosted household disposable income. The buoyancy of aggregate demand, combined with a strong exchange rate, has led to a surge in imports; but rising oil export prices have helped limit the deterioration of the trade deficit. The current account deficit could move to nearly 3½ per cent of GDP in 2000, mostly financed by long-term capital inflows.

… and inflation has continued to decline

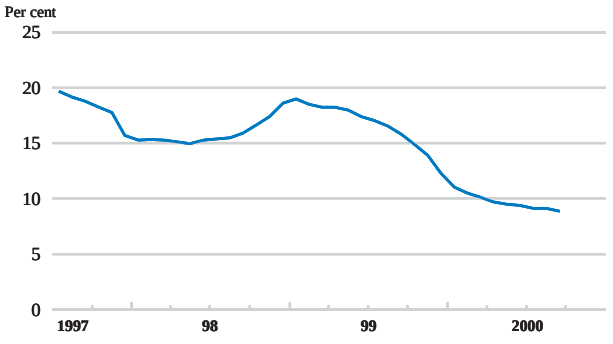
Despite election-related volatility earlier this year, the effective exchange rate has appreciated, helping to bring 12-month consumer price inflation down to 8.8 per cent in September, while underlying inflation moved below that rate. The headline rate is likely to fall to just over 8 per cent by December 2000, almost 2 percentage points below the central bank target.

After strong public spending growth in 2000, a deceleration is assumed

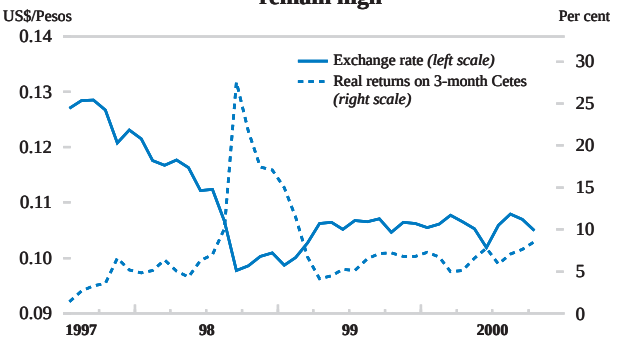
Revenue from privatisation operations fell short of budget projections for 2000, but booming activity and oil-related receipts (which still account for one-third of budget revenues) created a substantial revenue windfall. Hence, the public-sector deficit target of 1 per cent of GDP should easily be met, with

Mexico

Inflation is coming down[1]



The peso remains strong and real interest rates remain high



1. Consumer price index inflation, year-on-year percentage change.
Source: OECD.

Mexico: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion Pesos	Percentage changes, volume (1993 prices)				
Private consumption	2 040.4	5.4	4.3	8.0	5.5	4.8
Government consumption	314.6	2.2	1.0	4.3	1.0	3.5
Gross fixed capital formation	619.5	10.3	5.8	10.6	9.7	9.2
Final domestic demand	2 974.5	6.0	4.3	8.1	5.9	5.6
Stockbuilding [a]	206.3	0.2	-0.8	0.7	0.2	0.0
Total domestic demand	3 180.8	6.0	3.4	8.6	5.9	5.5
Exports of goods and services	963.9	12.1	13.9	16.0	11.0	9.0
Imports of goods and services	965.6	16.5	12.8	21.0	13.2	10.5
Net exports [a]	- 1.7	-1.1	0.3	-1.7	-1.0	-0.8
GDP at market prices	3 179.1	4.8	3.7	7.0	5.0	4.8
GDP deflator	_	15.5	15.9	10.1	7.7	5.8
Memorandum items						
Private consumption deflator	_	20.5	16.4	9.3	7.2	5.5
Unemployment rate [b]	_	3.2	2.6	2.4	2.6	2.8
Current account balance [c]	_	-3.8	-2.9	-3.4	-3.8	-4.2

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.

higher-than-budgeted revenue largely offset by higher spending. For 2001 and 2002, a prudent spending stance is assumed, and the budget deficit should fall to around ½ per cent of GDP.

Real interest rates might be slow to come down

Short-term interest rates declined steadily in late 1999 and early 2000, when the downward trend was halted and then reversed, partly as a result of central bank action. By October, the three-month Cetes rate had risen above 17 per cent, up from a low of 14 per cent earlier in the year, implying stubbornly high real interest rates. Since the central bank has announced that it will maintain tight monetary conditions in order to consolidate the disinflation process, real rates are assumed not to come down much in the short term. The aim is to bring down the inflation rate close to that of Mexico's main trading partners by 2003.

Output growth should moderate to a more sustainable rate

Demand from the United States is projected to slow, while oil prices are assumed to stabilise at a relatively high level. Against this background, and in the context of relatively tight macroeconomic policies, real GDP growth is projected to moderate to a more sustainable rate around 5 per cent in 2001 and 2002. Inflation should continue to come down gradually, to 5 per cent by the end of 2002, although this projection hinges on the usual assumption of an unchanged exchange rate. The current account deficit could widen to just over 4 per cent of GDP by 2002, but with long-term capital inflows expected to remain strong, financing should not be a problem. The main risk concerns the pace of deceleration of domestic demand, in the context of the uncertain strength of Mexico's main export markets. The prudent fiscal policy stance that is assumed might not be sufficient to support the disinflation process, creating risks of an excessive appreciation of the real exchange rate and of a widening of the current-account deficit. In this case, further fiscal tightening might be required.

Netherlands

After increasing to 4½ per cent in 2000, real GDP growth is projected to ease progressively to around 3½ per cent in 2002, as the boost from euro weakness and the tax cut in 2001 dissipate. The labour market is expected to tighten further and the unemployment rate to fall to around 2¼ per cent. Reflecting growing labour shortages, real compensation per employee is projected to accelerate somewhat, while headline inflation, after rising further in 2001, is expected to fall in 2002, as the impact of higher import prices and the increase in value added tax fades away. Due to the strength of activity, the general government budget is likely to stay in surplus despite a considerable tax cut in 2001. Consequently, the cyclically-adjusted budget may remain close to balance.

Given the strength of the economy, increasing shortages in the labour market and the expansionary stance of fiscal policy embodied in the 2001 budget and in the tax reform, the authorities should refrain from using future budgetary windfalls for additional spending or further tax cuts. Also, in view of the very low unemployment rate and the still large pool of working-age benefit recipients without a job, a further tightening of welfare programmes, in terms of level of benefits and eligibility conditions, should be considered.

Export led growth has continued

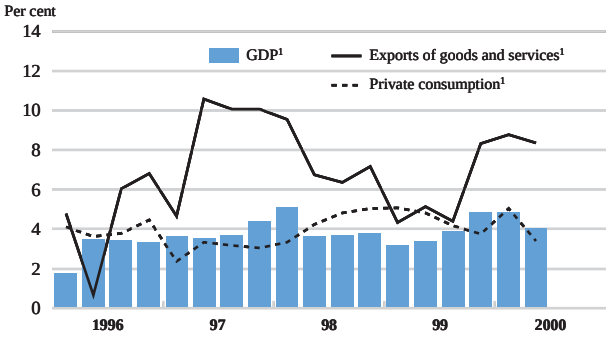
In the first half of 2000, economic activity remained buoyant, with surging exports offsetting a slight deceleration in domestic demand, notably private consumption. Until August both consumer and producer confidence remained quite strong. In recent months, however, as a result of the rise in energy prices and the more uncertain environment, private consumption and economic activity seem likely to have weakened somewhat. Nonetheless, in 2000 as a whole, real GDP growth is estimated to increase to around 4½ per cent (compared with 3.9 per cent in 1999), far above the potential rate of growth estimated by the OECD at around 3½ per cent. Registered unemployment has continued to trend down, to 2.4 per cent in the second quarter of 2000. The growth in average wages has remained moderate, partly as a result of the increasing number of employees at the lower end of the labour market. Consumer price inflation increased to 2.5 per cent in August 2000, but underlying inflation remained subdued at around 1½ per cent.

Fiscal policy is becoming expansionary, while monetary policy may be tightened further

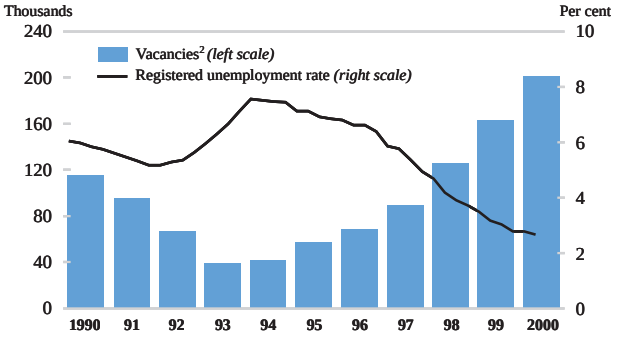
The stance of fiscal policy will be eased significantly in 2001, as a reform of the personal income tax regime, implying a tax cut of 0.7 per cent of GDP, will be implemented. The reform includes a shift from direct taxes to indirect taxes and a reduction in social security contributions. The hike in indirect taxes will result in a one-off

Netherlands

Growth remains export led



The labour market has tightened



1. Volume, year-on-year percentage changes of quarterly data.
2. Vacancies for 2000 are the average of the first two quarters.

Sources: Statistics Netherlands and OECD.

Netherlands: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion Gld	Percentage changes, volume (1995 prices)				
Private consumption	363.6	4.4	4.4	4.1	4.3	3.5
Government consumption	168.4	3.4	2.5	3.5	2.3	2.5
Gross fixed capital formation	158.0	4.1	6.5	6.6	4.1	4.3
Final domestic demand	690.0	4.1	4.4	4.5	3.8	3.5
Stockbuilding [a]	1.9	0.1	-0.2	-0.1	0.0	0.0
Total domestic demand	691.8	4.2	4.2	4.4	3.8	3.4
Exports of goods and services	449.2	7.4	5.6	10.3	9.3	6.8
Imports of goods and services	405.6	8.0	6.3	10.8	9.6	7.1
Net exports [a]	43.6	0.1	-0.1	0.3	0.3	0.2
GDP at market prices	735.4	4.1	3.9	4.5	3.9	3.4
GDP at market prices in billion €	333.7					
GDP deflator	_	2.0	1.6	3.0	3.9	2.6
Memorandum items						
Private consumption deflator	_	1.8	1.9	3.0	4.1	2.5
Industrial production	_	2.4	1.4	5.0	4.5	3.0
Unemployment rate	_	4.2	3.2	2.8	2.5	2.3
Household saving ratio [b]	_	13.4	10.6	9.4	10.6	10.6
General government financial balance [c]	_	-0.7	1.0	1.6	1.0	1.3
Current account balance [c]	_	6.3	5.3	5.1	5.2	5.1

Note: National accounts are based on chain linked data. This introduces a discrepancy in the identity between real demand components and the GDP. See "Sources and Methods" for further details.
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.

increase in inflation of one percentage point while the whole package will entail a rise in households' disposable income of around 5¼ per cent. The reform also implies a further decline in the replacement rate, which should encourage persons of working age on welfare to return to the labour market. In the 2001 budget, unemployment outlays and interest payments are expected once again to be considerably lower than was projected a few years ago in the coalition agreement, which was based on very cautious growth assumptions. The windfall gains in expenditure will be fully spent, but additional revenues will not be used for additional tax cuts or lower social security contributions, although the budgetary rules would have allowed it. Monetary conditions in the euro area are expected to be tightened further over the next two years, with both short- and long-term interest rates rising somewhat.

Other forces may become less supportive of activity

The boost to economic activity provided by exports is likely to weaken progressively, as the effect of stronger competitiveness due to the depreciation of the euro is limited by increasing capacity problems and growth in export markets is projected to slow. Also, the strong fall in new second mortgage contracts in the first quarter of 2000 may point to a declining contribution to consumption growth of wealth effects stemming from rising house prices.

Economic growth is expected to remain above potential, with a risk of inflationary pressures

Expansion in real GDP is projected to decline only moderately, to 3½ per cent in 2002, roughly in line with potential output growth. Private consumption is expected to remain buoyant, due to the rise in disposable income following the tax reform. But, after the very rapid increase of production capacity from 1997 to 2000,

the growth in business fixed investment is projected to slow down, as a result of lower profits and higher interest rates. Reflecting growing labour shortages, real wages and compensation per employee are expected to accelerate, albeit only modestly, to around 2 per cent in 2002. The private consumption deflator is projected to rise temporarily to 4 per cent in 2001, and to fall back in 2002. The main risk is that wage moderation may not be as effective as assumed in the projections. Moreover, it is uncertain to what extent the tax reforms and other structural measures will lead to a further "activation" of working-age persons on welfare.

New Zealand

With past interest rate hikes and some recent policy measures damping confidence and domestic demand, real GDP fell in the second quarter of 2000. As exports have continued to advance strongly, spurred by a substantial exchange rate depreciation, the large current account deficit narrowed to about 6 per cent of GDP in the same period. The depreciation, combined with the rise in oil prices saw inflation reach the official target ceiling of 3 per cent in the third quarter of 2000, and a further increase is likely. Economic activity is projected to rebound, boosted by strong exports, although the strength of the recovery will depend on the extent to which confidence and domestic demand improve.

Although the recent drop in output has headed off a build-up in excess demand, some further tightening in monetary conditions is likely to be necessary to avoid the emergence of generalised inflation. Managing spending pressures will be a major challenge for fiscal policy, and should eventually be addressed by budget savings. Nevertheless, if the rebound falters, the automatic stabilisers should be allowed to operate.

Economic activity slumped in the second quarter…

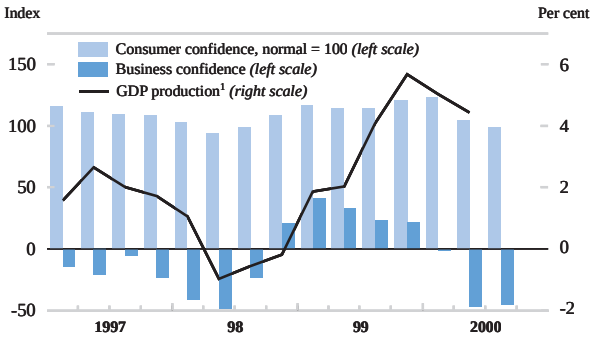
Real GDP fell 0.6 per cent (actual rate, production-based) in the second quarter of 2000, led by a pronounced decline in construction activity. Past interest rate hikes also slowed consumer spending. On the positive side, machinery and equipment investment kept growing despite increasing business-sector pessimism, while continued export growth meant that the trade balance moved back into surplus. Meanwhile, employment fell in the first half of the year, but rebounded thereafter. Thus the unemployment rate dropped to just under 6 per cent, slightly above its estimated structural rate. At the same time, excess demand in product markets, which had emerged as a result of the strong momentum of the economy in the second half of 1999, is likely to have been temporarily eliminated. With inflationary pressures from rising oil prices and the currency depreciation, the increase in the consumer price index reached 3 per cent (year-over-year basis) in the third quarter. Moreover there are recent indications that firms increasingly plan to raise prices.

… while monetary conditions eased substantially

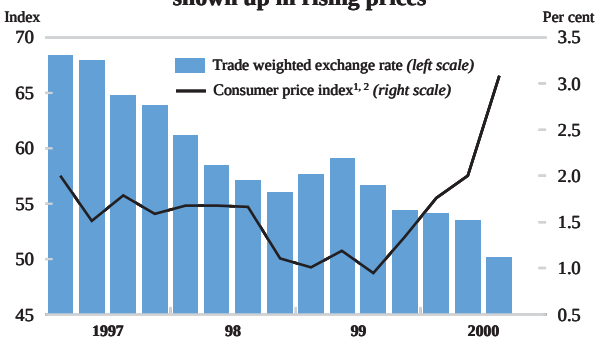
With interest rates holding steady, the marked fall in the value of the currency in recent months has meant that monetary conditions (the effect of both interest-rate and exchange-rate movements) have eased substantially. The depreciation came in spite of

New Zealand

Slumping confidence has affected GDP growth



A falling exchange rate has already shown up in rising prices



1. Year-on-year percentage changes.
2. Excluding credit services.

Source: Statistics New Zealand.

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

	1997	1998	1999	2000	2001	2002
	current prices billion NZ$	Percentage changes, volume (1991/92 prices)				
Private consumption	61.5	1.7	2.4	1.8	1.7	1.7
Government consumption	14.6	-1.0	8.7	-4.8	1.5	1.0
Gross fixed capital formation	19.9	-1.9	8.4	6.2	3.5	4.4
Final domestic demand	96.0	0.5	4.7	1.8	2.1	2.3
Stockbuilding [a,b]	0.7	-0.7	1.1	-0.1	0.0	0.0
Total domestic demand	96.8	-0.2	5.8	1.7	2.1	2.2
Exports of goods and services	27.9	1.6	6.2	9.2	7.8	7.4
Imports of goods and services	27.3	2.7	12.0	3.3	5.3	5.7
Net exports [a]	0.7	-0.4	-2.2	1.8	0.7	0.5
GDP (expenditure) at market prices	97.4	-0.6	3.7	3.6	2.9	2.8
GDP deflator	_	1.7	0.1	2.2	2.9	2.0
Memorandum items						
GDP (production)	_	-0.2	3.4	3.5	2.9	2.8
Private consumption deflator	_	2.0	1.2	1.8	2.9	2.0
Unemployment rate	_	7.5	6.8	6.1	6.0	6.0
Current account balance [c]	_	-4.1	-6.7	-5.7	-4.7	-4.0

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

firming export prices and probably reflects the still-large current account deficit and uncertainty over government policies and growth prospects. The projections incorporate a modest rise in interest rates in the near term to restrain a spill-over from higher import costs into domestic prices against a backdrop of the possible re-emergence of capacity pressures.

The government's books have remained in surplus

The government recorded a surplus on its accounts in the June 2000 fiscal year, owing partly to tax increases and better-than-expected economic conditions earlier in the period. The June Budget foresees rising actual and structural surpluses, although both expenditures and revenues will be at a higher share of GDP than envisaged under the previous administration. However, spending pressures, especially in the health and education sectors, will need to be carefully managed in order to meet fiscal targets.

Output growth should resume in the second half of this year…

Real GDP is projected to expand at a moderate pace over the next two years, supported mainly by the external sector due to continued solid growth in New Zealand's trading partners and a favourable competitive position. The drop in confidence is expected to be temporary, given these positive factors. Nonetheless, household spending is projected to remain relatively subdued because of interest-rate hikes. On the other hand, business investment is projected to hold up relatively well due to capacity constraints. Meanwhile, the boost in rates should help avoid a significant overshoot of the economy's potential and restrain inflationary pressures. Headline consumer price inflation should begin to slow by the end of 2001 as the effects of the recent depreciation and oil price increases dissipate. The unemployment rate, while edging down, will probably remain above its structural rate.

… but downside risks exist

The current economic situation is clouded by mixed indicators, creating considerable uncertainty over future developments. Should the slump in confidence persist, domestic demand could be weaker than projected, helping to contain cost pressures and lessening the need for interest-rate increases. But if the new industrial relations framework encourages wage settlements beyond productivity gains, the economy could see more inflation than projected, leading to larger interest rate hikes along with subdued growth. This situation would be exacerbated by any greater-than-expected slowing in New Zealand's export markets.

Norway

The rebound in output growth that started in mid-1999 has continued in 2000 and, with the economy already close to full employment, has heightened the inflationary pressures prompted by the oil price hike. The central bank has reacted swiftly by increasing its key deposit rate from 5½ to 7 per cent. The high oil price is projected to lead to a current account surplus of about 20 per cent of GDP in 2001 while the government surplus is likely to be close to 15 per cent of GDP.

Despite the speedy monetary policy reaction since April, the overheating risks remain substantial. They could become more severe, because labour supply will be reduced by the introduction of a fifth holiday week, the strong rise in child-care cash benefit, the continuing sharp increase in sickness leave and the absence of measures to contain early retirement. Monetary policy should stand ready to restrain demand should inflationary pressures not dissipate, while the fiscal authorities should at least avoid departing from the intended neutral budgetary stance.

The pick-up in output growth and the oil price hike have led to a further rise in inflation

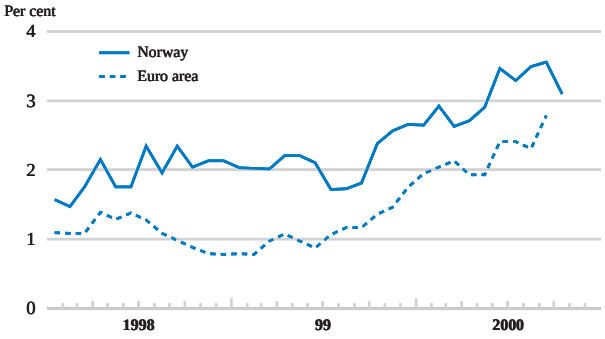
The Norwegian economy experienced a short and shallow growth pause that ended in mid-1999, under the impact of an easing of monetary policy and increasing world demand for Norwegian products. Real mainland GDP increased by 2.4 per cent in the first half of 2000 compared with a year earlier. Falling oil investment has remained a substantial drag on output growth but the coming on stream of new oil and gas fields has started to boost petroleum exports. The labour market response to stronger activity has been rapid, with the unemployment rate falling back to 3.4 per cent in the third quarter. New vacancies are now higher than at any time during the 1990s. High oil prices and the tight labour market have pushed up inflation, with consumer prices (measured by the harmonised index) rising 3.6 per cent in the year to September, 0.8 percentage point more than in the euro area and the highest rate since 1992. The tight labour market conditions have affected the two-year wage agreement for 2000 and 2001. Wage increases will remain higher than those granted in trading partner countries, while labour costs are increasing even more due to the granting of two extra days of vacation in both 2001 and 2002.

The central bank has reacted swiftly to inflationary pressures

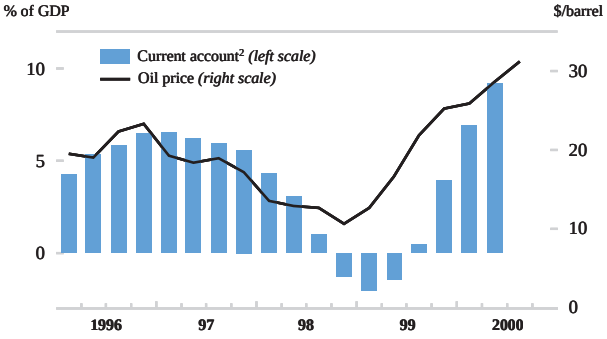
With monetary policy aiming to achieve low inflation as the fundamental precondition for exchange rate stability *vis-à-vis* the euro, the inflationary pressures have led to a rise in the key deposit rate of 1½ percentage points to 7 per cent between April and September. Based on a projected economic slowdown and an assumed neutral fiscal

Norway

Inflation[1] remains well above the euro area average



Current account surplus explodes due to oil price



1. Harmonised consumer price index, year-on-year percentage change.
2. Four quarter moving average for both the current account balance and GDP.

Source: Statistics Norway.

Norway: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion NOK	Percentage changes, volume (1990 prices)				
Private consumption	520.8	3.3	2.4	2.9	2.0	2.0
Government consumption	218.4	3.8	2.7	2.8	2.4	2.0
Gross fixed capital formation	252.1	5.8	-5.6	-2.2	-2.2	0.9
Final domestic demand	991.3	4.0	0.4	1.6	1.1	1.7
Stockbuilding [a]	23.0	1.4	-1.2	0.2	-0.1	0.0
Total domestic demand	1 014.2	5.4	-0.9	1.8	1.0	1.6
Exports of goods and services	448.1	0.3	1.7	5.0	4.8	3.4
Imports of goods and services	366.2	9.3	-3.1	1.6	2.5	3.6
Net exports [a]	81.9	-3.0	1.8	1.5	1.1	0.2
GDP at market prices	1 096.2	2.0	0.9	3.1	2.4	1.9
GDP deflator	_	-0.8	6.6	16.1	7.5	1.0
Memorandum items						
Mainland GDP at market prices [b]	_	3.3	0.8	2.3	1.8	1.9
Mainland GDP deflator [b]	_	3.9	2.8	2.9	4.4	3.1
Exports of non-manufactures (incl. energy)	_	-2.8	2.4	7.4	5.0	2.0
Private consumption deflator	_	2.7	2.2	3.0	2.8	2.6
Unemployment rate	_	3.2	3.2	3.3	3.3	3.4
Household saving ratio [c]	_	6.6	6.7	6.3	6.6	6.8
General government financial balance [d]	_	3.6	4.9	14.0	14.8	14.4
Current account balance [d]	_	-1.3	3.9	15.4	20.5	19.7

Note: National accounts are based on chain linked data. This introduces a discrepancy in the identity between real demand components and the GDP. See "Sources and Methods" for further details.
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.

policy in the coming years, the Norwegian central bank switched its monetary policy bias from upward to neutral in September. There are indications that the monetary tightening already had some damping effect on private consumption and on the housing market in the third quarter.

Pressures for higher government outlays are very strong

The draft budget presented in early October shows indeed a neutral stance, with relatively strong expenditure growth offset by tax increases, especially on capital income. With strong oil revenues leading to an estimated general government surplus of 15 per cent of GDP in 2001, pressures to raise government expenditure are very strong.

Slower demand and lower inflation are projected…

Reflecting the tightening of monetary policy and less buoyant world trade, mainland GDP growth is projected to decelerate somewhat from 2.3 per cent in 2000 to slightly below 2 per cent in 2001 and 2002. The output gap, however, should remain positive. The slowdown in private consumption, induced by the interest rate rise, is expected to be partly offset by a gradual recovery of oil-sector investment. The deterioration in competitiveness should lead to a further loss of market share by manufacturing exporters. With oil prices assumed to decline only slightly and the labour market remaining extremely tight, headline inflation is projected still to be clearly above 2 per cent at the end of the projection period.

… but inflation risks remain substantial

The economy remains on the brink of overheating despite the speedy shift in monetary policy and the neutral fiscal policy stance in 2001. Monetary policy should stand ready to restrain demand further if price and cost pressures do not diminish sufficiently.

Poland

Poland has been one of the fastest growing European economies in 1999-2000, with real GDP expanding by 4½ per cent annually on average. Activity has been underpinned by supportive economic policies, including relatively low interest rates until recently and an easy fiscal stance. Strong domestic demand, fuelled by aggressive bank lending, has led to double-digit inflation and a growing current account deficit. Higher energy prices, together with a jump in food prices, are aggravating these trends.

These symptoms of overheating call for careful monetary and fiscal policies. The National Bank of Poland has appropriately tightened its stance since late 1999 within its inflation-targeting framework. However, inflation is unlikely to be reduced sufficiently to reach the target range in December 2000. Monetary policy and structural measures are thus necessary to make further disinflationary progress. Similarly, the authorities should resume their fiscal consolidation efforts so as to reduce the need for external financing through short-term capital flows.

Output growth slowed during 2000…

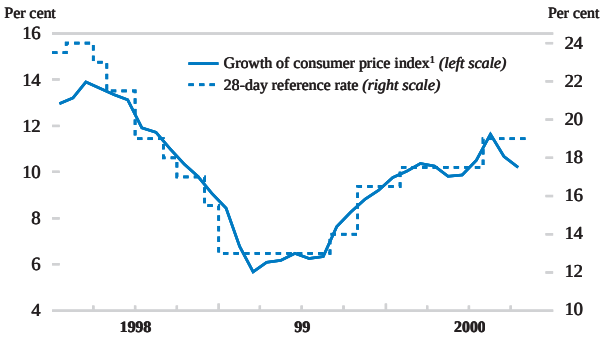
The Polish economy has expanded rapidly in 2000, fuelled by supportive financial conditions and a favourable external environment. Output growth has been strong, but it has also become more balanced. In the first part of the year, domestic demand increased rapidly, in particular household spending, while net exports contributed negatively to growth. In the second part of the year, indications are that these contributions have changed: domestic demand growth has eased under the pressure of higher interest rates, and net exports have become a positive contributor to GDP growth. Despite strong activity, labour market conditions have deteriorated. Net job creation has been virtually flat, and unemployment has risen sharply. Industrial firms (especially coal mines) appear to have finally embarked on long-delayed restructuring, with the government providing generous financial support to departing workers.

… but inflation remained high…

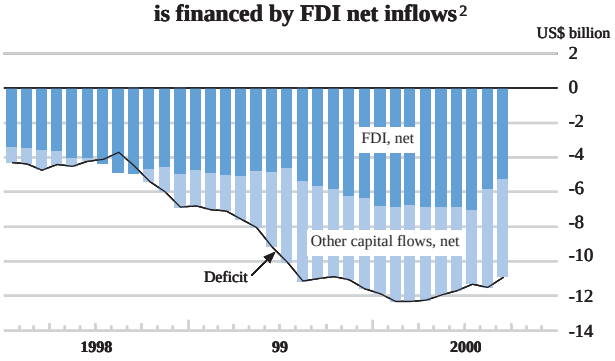
Inflation rose significantly in the first half of 2000. After reaching a single-digit low in 1999, consumer price increases gathered pace, peaking at 11.6 per cent in July 2000, well above the 5.4 to 6.8 per cent target range established by the National Bank of Poland for the end of the year. Apart from strong domestic demand, the rise in

Poland

Interest rates move in line with inflation



About half of the current account deficit is financed by FDI net inflows[2]



1. Lagged by one month.
2. Cumulated over twelve months.

Sources: Central Statistical Office and OECD.

Poland: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion Zl	Percentage changes, volume (1995 prices)				
Private consumption	301.1	4.8	5.1	4.6	4.2	4.4
Government consumption	75.7	1.4	0.8	2.1	2.0	2.0
Gross fixed capital formation	110.9	14.4	6.9	6.5	5.0	8.0
Final domestic demand	487.6	6.5	4.9	4.7	4.1	5.0
Stockbuilding [a,b]	5.2	0.1	-0.2	0.1	0.1	0.1
Total domestic demand	492.7	6.6	4.7	4.8	4.1	5.1
Exports of goods and services	120.4	17.0	-2.1	9.8	9.9	8.4
Imports of goods and services	140.8	19.1	1.5	7.8	6.4	7.8
Net exports [a]	- 20.4	-1.3	-1.2	0.2	0.8	-0.1
GDP at market prices	472.4	4.9	4.0	5.1	4.9	5.0
GDP deflator	_	11.8	7.1	10.0	9.2	9.5
Memorandum items						
Private consumption deflator	_	11.5	7.2	10.2	8.4	7.2
Industrial production	_	4.9	4.5	9.0	8.0	8.0
Unemployment rate	_	10.6	13.9	15.1	15.0	15.0
General government financial balance [c]	_	-2.3	-3.2	-2.8	-1.5	-2.3
Current account balance [c]	_	-4.4	-8.0	-7.6	-7.1	-6.0

Note: National accounts are based on chain linked data. This introduces a discrepancy in the identity between real demand components and the GDP. See "Sources and Methods" for further details.
a) Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
b) Including statistical discrepancy.
c) As a percentage of GDP.
Source: OECD.

inflation resulted from a number of factors, including crude oil price hikes, drought-related food price increases, and higher excise taxes and value added tax. Although some of these factors are temporary, core inflation is estimated to have increased by over 3 percentage points in 2000.

… and the current account deficit stabilised at a very high level

With export performance improving – thanks to the recovery in Europe – and domestic demand weakening, the current account deficit has stabilised at around 7½ per cent of GDP in 2000.[5] Net foreign direct investment flows provided financing for about half of the external deficit so far this year. High interest rates on zloty-denominated securities have also attracted short-term portfolio investment.

The tightening of monetary policy should slow domestic demand growth and reduce inflation…

With inflation exceeding its target range in both 1999 and 2000, the National Bank of Poland raised its reference rate several times, to 19 per cent at the end of August 2000. The tightening of monetary policy has already contributed to lower domestic demand growth and should help reduce inflation. Hence, the inflation target of 6-8 per cent established for December 2001 seems achievable. With inflation drifting down, it should be possible to ease monetary policy at some stage, allowing domestic demand to pick up again in 2002.

5. The OECD balance-of-payments projections are on a transactions basis, which can differ substantially from the cash basis.

… and the authorities intend to tighten fiscal policy in 2001

Fiscal policy remained loose in 2000, with the general government deficit expected to stay at around 3 per cent of GDP. Higher inflation led to wage increases, debt servicing payments rose, costly separation packages were paid in the context of industrial restructuring plans, and unemployment benefits grew rapidly. The draft 2001 budget calls for a reduction of the official budget deficit by 0.9 per cent to 1.6 per cent of GDP. This would be achieved by raising indirect tax rates and cutting back on some social transfers.

The growing recourse to short-term capital inflows carries a risk of financial volatility

With its growing dependence on short-term capital inflows to finance the budget and balance of payment deficits, Poland is vulnerable to abrupt changes in market sentiment. Investors have so far been attracted by the country's impressive economic potential and its prospective membership in the European Union. Nevertheless, there are other aspects that make the macro picture less attractive, including the lack of fiscal consolidation, growing short-term indebtedness, and uncertainties concerning forthcoming parliamentary elections. In these circumstances, a sudden slowdown in the European Union would make the current account deficit more problematic. A flight to quality in international capital markets would also make Poland vulnerable to financial distress. This would lead to a lower exchange rate, higher inflation, tighter money and slower activity than projected.

Portugal

Economic activity remained strong in 2000, as a recovery in exports more than offset a sharp slowdown in private consumption. Unemployment continued to edge down and inflation picked up, boosted by the increase in the domestic price of oil and its second-round effects. Output growth should remain at around 3 per cent on average over the period 2000-02, as exports and investment continue to expand strongly. The current account deficit is projected to widen to 12 per cent of GDP in 2002. Consumer price inflation is likely to remain above the euro average, due to the rising price of domestic oil products and the tightness in the labour market.

Fiscal policy targets are unambitious, given the state of the cycle, the external deficit and the recent intensification of price and wage pressures. Moreover, fiscal consolidation in the future will require better control of public spending, including structural reforms in health and social security. A tighter rein should be kept on the ballooning public sector wage bill, which typically has strong spill-over effects on private sector wage demands. Finally, current tax reform proposals need to be implemented and additional measures taken to improve tax administration and control.

Output growth remains strong…

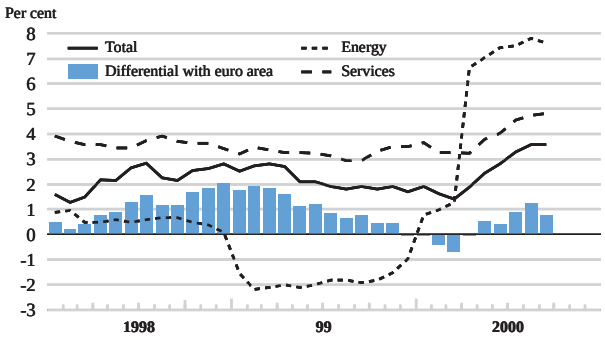
After seven years of expansion, the economy is now operating close to its estimated potential. Real output growth is projected at around 3¼ per cent for 2000, with the momentum shifting from domestic demand to the external sector. Private consumption decelerated sharply as the increase in the domestic price of oil derivatives and rising interest rates affected real disposable income. This was in part offset by a strong pick-up in exports, which benefited from the growth of export markets and the depreciation of the euro, although Portugal has continued to lose market share. Fixed capital formation has remained strong, as private investment has picked up. Buoyant import growth and a deterioration in the terms of trade have led to a widening of the trade balance, with the current account deficit exceeding 10 per cent of GDP in 2000.

… with the labour market tight and inflation moving up

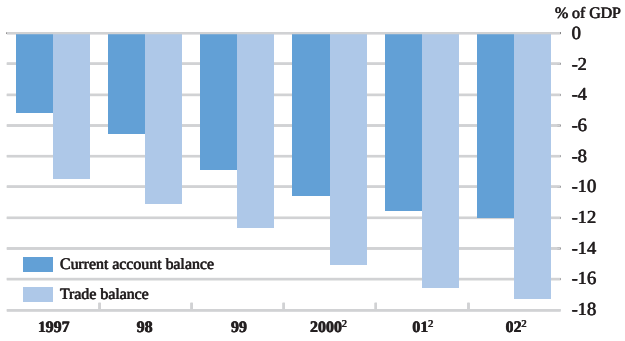
Employment has continued to grow strongly, leading to a further fall in unemployment to around 4 per cent. In spite of the slowdown in consumption, inflation continued to rise. The year-on-year consumer price increase accelerated to 3.4 per cent in the third quarter, as the direct effect of the rise in domestic oil prices (an administratively delayed and partial reflection of the rise in international oil prices) was followed by a broader second-round impact.

Portugal

Inflation picks up[1]



The current account deficit widens



1. Harmonised index of consumer price. Year-on-year percentage change.
2. Estimates and projections.

Sources: Banco de Portugal; Eurostat.

Portugal: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion Esc	Percentage changes, volume (1995 prices)				
Private consumption	11 802.3	5.4	4.8	3.3	2.9	2.8
Government consumption	3 592.2	4.6	3.4	3.0	2.1	2.3
Gross fixed capital formation	4 469.5	8.7	6.0	5.8	6.0	5.8
Final domestic demand	19 863.9	6.0	4.8	3.8	3.5	3.5
Stockbuilding [a]	76.1	0.0	0.0	-0.1	-0.1	0.0
Total domestic demand	19 940.0	6.0	4.8	3.7	3.4	3.5
Exports of goods and services	5 685.6	7.6	4.8	8.9	9.2	8.2
Imports of goods and services	7 076.1	13.8	8.8	8.7	8.5	8.4
Net exports [a]	-1 390.5	-2.9	-2.2	-0.9	-0.7	-1.1
GDP at market prices	18 549.4	3.5	3.0	3.2	3.0	2.9
GDP at market prices in billion €	92.5					
GDP deflator	_	4.0	2.7	2.3	3.0	3.1
Memorandum items						
Private consumption deflator	_	2.6	2.3	2.7	3.0	2.9
Industrial production [b]	_	5.7	3.1	1.5	2.5	2.5
Unemployment rate	_	5.1	4.5	4.1	4.1	4.2
Household saving ratio [c]	_	10.8	9.5	9.2	9.1	9.1
Current account balance [d]	_	-6.5	-8.9	-10.6	-11.5	-12.0

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

A public spending freeze and extraordinary revenues will help achieve the 2000 budget deficit target

Government current spending has continued to grow significantly more rapidly than nominal GDP. Contrary to previous years, however, tax revenue growth has been lower than budgeted. This was mainly the result of lower-than-expected receipts from oil excise taxes, as the rise in international oil prices was not fully passed on to domestic consumers. The introduction of a mid-year spending freeze and extraordinary revenues from the sale of mobile phone concessions – equivalent to 0.4 per cent of GDP – will help the achievement of the budget deficit target of 1.5 per cent of GDP in 2000. The draft budget for 2001 calls for a further reduction in the deficit to 1.1 per cent, while the Stability and Growth Programme targets a balanced budget in 2004. Even assuming a recovery in receipts from oil excise taxes, meeting these targets will require new tax measures and/or actions to improve spending control which have not been incorporated in the central projections.

Output growth is likely to remain strong

Price and wage increases are likely to accelerate in 2001, especially if the cost of oil products rises further. Economic activity is projected to remain strong, with real output growing at around 3 per cent in 2001 and 2002. Investment should stay buoyant, as EU transfers are stepped up and a new round of infrastructure projects gets under way. Higher inflation should lead to lower real wage growth and a further deceleration of real disposable income, and hence slower consumption growth. At the same time, employment growth is likely to slow, the unemployment rate stabilising at present low levels. As export-market growth slows and imports remain strong, the current account deficit could widen to 12 per cent of GDP in 2002.

Wages and public spending constitute a risk

The main risk to the projections concerns the behaviour of wages as well as possible public spending overruns which would tend to exacerbate demand pressures. As the economy continues to operate close to potential and in the absence of a sharper fiscal policy tightening, wages could rise faster than expected. In this case, growing inflationary pressures in domestically-oriented sectors and a steeper erosion of external competitiveness would cause a further widening of the external imbalance, lower output growth and higher unemployment.

Slovak Republic*

In spite of the strength of exports, GDP growth softened during the first half of 2000 as domestic demand fell. Inflation continued its downward track, falling faster than expected in the middle of the year. Real wages kept declining even as already high unemployment rose. The government has maintained the tighter fiscal stance it adopted in the middle of 1999, though it may use a significant windfall from privatisation to ease this a little during the last quarter. GDP growth is projected to pick up modestly as structural changes gradually promote job-generating growth in the enterprise sector and domestic demand revives.

The authorities will have to remain vigilant to keep the fiscal position under control as they push ahead with structural changes in the enterprise sector, reform of the welfare system and complete restructuring in the banking sector.

Growth has weakened…

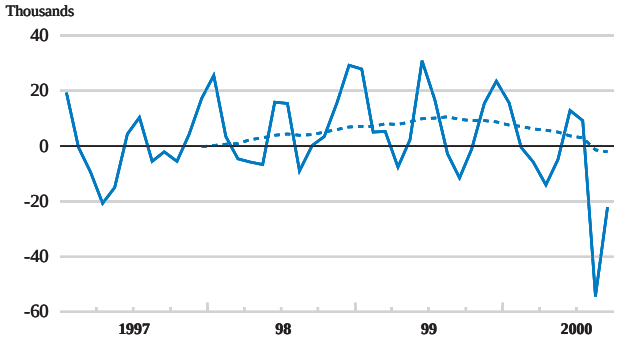
GDP growth of 1.7 per cent during the first half was almost ¾ of a per cent lower than that recorded for the same period in the previous year. However, exports rose by 19.8 per cent, outweighing strong reductions both in household and government consumption, and investment. A bare recovery in domestic demand during the first quarter was reversed in the second quarter, when all its components fell sharply – in aggregate by 2.1 per cent. The current account balance has continued to improve as demand for imports lags export growth. The trade deficit in the first half was 2.3 per cent of GDP compared with 6.8 per cent in the previous year.

… and core inflation fallen, as unemployment remains high

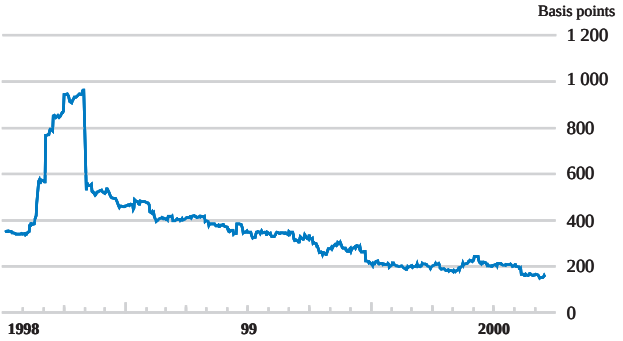
The one-off impact of price deregulation (during 1999) has now almost fallen away, and consumer price inflation has declined unexpectedly quickly. Twelve-month inflation in August was 8.7 per cent, almost half of that at the peak recorded in March. Given nominal wage moderation, real wages have fallen by some 7 per cent in the first half of 2000. However, unemployment in the growing labour force remains high. In August, the government introduced subsidies for employers taking on long-term unemployed. Together with a previous tightening of qualification criteria, this resulted in a sharp fall in the rate of registered unemployment.

Slovak Republic

Unemployment started to decline[1]



Sovereign spreads are falling[2]



1. Monthly changes in registered unemployment; the dotted line is the 12-month moving average.
2. Spread measured as difference in annual yield between equivalent German and Slovak sovereign bonds, in basis points.

Sources: Slovak Statistical Office, Bloomberg and OECD.

* The process of accession of the Slovak Republic to the OECD is in its final stage at the time of going to print. On 28 September 2000, the OECD and the Slovak Republic signed the Agreement on the invitation to the Slovak Republic to accede to the Convention on the OECD. This Agreement contains the terms and conditions under which the Slovak Republic will be able to join the OECD. It was ratified by the Slovak Parliament on the 26 October. The Slovak Republic is expected to have become an OECD Member after having deposited its instrument of accession with the French authorities, depository of the OECD Convention, before the publication of this issue of the *OECD Economic Outlook*.

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

	1997	1998	1999	2000	2001	2002
	current prices billion SKK	Percentage changes, volume (1995 prices)				
Private consumption	356.6	5.8	-0.2	-1.7	4.0	3.5
Government consumption	145.7	4.0	-6.9	-0.7	3.0	2.5
Gross fixed capital formation	246.5	11.1	-18.8	-1.0	8.5	6.5
Final domestic demand	748.8	7.2	-7.7	-1.3	5.1	4.2
Stockbuilding [a]	4.7	2.3	3.3	-0.5	-0.2	0.0
Total domestic demand	753.5	9.5	-4.8	-1.8	4.8	4.1
Exports of goods and services	397.8	12.2	3.6	22.0	13.0	12.0
Imports of goods and services	465.2	19.9	-6.1	15.8	15.5	12.5
Net exports [a]	- 67.4	-5.9	7.2	3.7	-2.1	-0.7
GDP at market prices	686.1	4.1	1.9	1.9	2.7	3.5
GDP deflator	_	5.1	6.6	6.0	5.7	5.1
Memorandum items						
Private consumption deflator	_	6.1	10.2	9.5	7.5	7.0
Industrial production	_	5.0	-3.3	5.0	4.5	3.5
Unemployment rate	_	12.1	16.4	18.9	18.0	17.0
General government financial balance [b]	_	-4.6	-3.6	-3.8	-4.2	-4.0
Current account balance [b]	_	-10.0	-5.8	-2.5	-4.6	-5.3

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.

A cautious macroeconomic stance underlies ongoing efforts to implement structural reforms

A cautious monetary policy has successfully targeted a reduction in core inflation; interest rates have fallen and international reserves have risen. The exchange rate has been broadly stable against the euro. Fiscal policy has remained tight since the third quarter of 1999 as the government has made greater efforts to reduce tax arrears, and has continued to keep government expenditure in check. Restructuring in the banking sector is well advanced, and the sale of major state-owned banks to strategic investors should be completed during the first half of 2001. Privatisation has resumed: a majority holding in the telecommunications company was sold in July, and the largest commercial banks have been put out to tender.

Growth is expected to pick up modestly as investment rises…

Two transitory factors should lead to some recovery in domestic demand over the next year. First, the government is intending to invest a significant amount of the SKK 25 billion cash it received from telecom privatisation in, banking sector restructuring, repayment of government guaranteed loans, repayment of arrears in the health sector and housing construction. Second, SKK 27 billion of privatisation bonds issued in 1995 fall due for repayment during 2001.

… but will only take root if reforms facilitate the generation of new jobs

Robust export growth (18 per cent in the first half of 2000 year-on-year) has not so far spilled over into the rest of the economy, though by off-setting the fall in domestic demand it has averted a transitional recession associated with restructuring. Only if structural changes allow recovery in the enterprise sector, will the anticipated easing of fiscal policy lead to renewed consumer confidence and sustained growth in domestic demand. To this end, and to maintain low international financing costs, the government should conclude the reforms it is implementing in the banking sector and develop its plans to achieve financial sustainability in the welfare system. Such policies are also valuable in promoting international confidence in the economy. This should help attract greater foreign direct investment, which in the medium term should lead to a higher share of export value-added originating in the Slovak Republic.

The Slovak economy in perspective*

In terms of economic weight, measured by GDP at market exchange rates, the Slovak Republic ranks 28th in the OECD, between Hungary and Luxembourg. Per capita income measured at purchasing power parity is less than half the OECD average, although not the lowest in the OECD area.

The Slovak economy experienced high rates of growth during the years following its emergence as an independent state. These were initially based on strong exports and subsequently on very high levels of public investment and expenditure. However, given slow progress on structural reforms this led to the emergence of serious macroeconomic imbalances. The government introduced a series of austerity measures during 1999 and 2000 that substantially reduced the external deficit and improved the fiscal position, whilst maintaining modest GDP growth. Compared with other transition economies, Slovakia has experienced relatively modest inflation. But consumer prices remain under some pressure from increases in still regulated prices. In contrast, high unemployment has persisted throughout Slovakia's independence. Its 1999 level of 16.4 per cent would have placed it top in an OECD ranking. Increasing unemployment has partly been the consequence of measures taken by the government to stabilise the economy and structural reforms needed to lay the foundations for sustainable growth.

The economy is very open. Foreign trade, of which 85 per cent is with OECD countries, represents about 130 per cent of GDP. The economy is equally open to capital flows. Despite Slovakia's disappointing record in attracting foreign direct investment, the government has been able to issue sovereign debt on international markets that has traded at low and declining spreads over similar debt issued by large OECD Members. The prospects for FDI are improving as the government implements its programme to restructure and privatise the largest banks. This is expected to create a better environment to pursue reforms in the enterprise sector. In aiming to foster the development of private businesses, the government has undertaken a number of important measures: abolishing legislation that created wrong incentives for enterprise restructuring, reinforcing bankruptcy proceedings, extending privatisation in the large enterprise sector and promoting a better climate for investment.

Deepening economic restructuring over the next years will almost unavoidably continue to put pressure on the social area, placing a significant burden of adjustment on the public sector. The Slovak Republic indeed faces a significant challenge in addressing high and persistent structural unemployment, which notably affects the more vulnerable segments of the population (young and old people) and less developed regions.

The Slovak economy in comparison with the OECD, 1999

	Slovak Republic		29 other OECD countries		
		Rank in OECD[a]	Maximum	Minimum	Average
Size					
Area (million square km)	0.05	(25)	9.976	0.003	1.198
Population (million)	5.4	(23)	272.9	0.3	38.2
Labour force (million)	2.5	(25)	139.3	0.1	17.4
GDP (US$ bn, current prices)	19.7	(28)	9 192.0	8.8	921.5
Structure (per cent)					
Participation rate	69	(16)	81.3	55.7	71.0
Unemployment rate[b]	16.4	(1)	15.9	2.3	6.9
Gross public debt/GDP[c]	23.6	(21)	116.6	11.0	73.0
Government expenditure/GDP[d]	42.1	(17)	56.0	23.5	37.6
Gross fixed investment/GDP	29.4	(2)	30.2	17.1	22.7
Performance					
Average annual GDP growth 1995-99[e]	5.0	(4)	9.2	1.2	2.9
GDP per capita 1998 (US$, PPP)	9 997	(27)	37 491	6 538	21 543
Average annual inflation 1995-99[e, f]	7.8	(6)	80.7	0.4	4.8

a) (1) = Highest/largest amongst OECD countries.
b) ILO definition. Comparison with 25 OECD countries.
c) Comparison with 21 OECD countries.
d) General government.
e) Average annual percentage change.
f) Consumer price index.
Sources: Slovak Statistical Office and OECD.

* For a detailed review of the Slovak economy, see Oliveira Martins J. and T. Price, "Policy Interdependence during Economic Transition: The Case of Slovakia 1999-2000", *OECD Economics Department Working Papers*, No. 253.

Spain

Domestic demand slowed somewhat in the first half of 2000, but activity remained strong as exports were buoyant. Headline and core inflation have risen substantially during the year. While slowing, output and employment growth are projected to remain strong and the unemployment rate to decline to 12 per cent in 2002. With the effect of the oil price hike waning, but GDP growing above potential, headline inflation is likely to stabilise over the projection horizon at around 3 per cent.

In the face of rising core inflation and still relaxed monetary conditions, the fiscal stance should be tightened to damp demand pressures. On the supply side, the liberalisation of product markets should continue. Given the current risk of a wage-price spiral, a reform of the wage bargaining process and the removal of indexation of wage contracts to headline inflation would help to contain labour cost pressures. Easing the stringent employment protection legislation would also help to sustain strong employment growth.

Activity remains strong while underlying inflation has accelerated

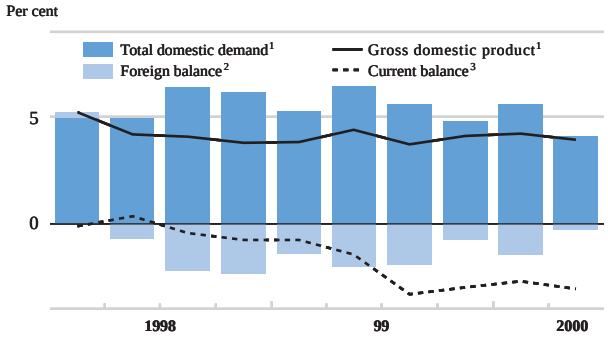
After several years of growth of around 4 per cent, the economy remained strong in the first half of 2000, despite a deceleration of domestic demand. Private consumption remained buoyant as unemployment continued to fall, although it slowed somewhat due to higher interest rates and the oil price hike. Machinery investment was weak in the second quarter, but construction remained buoyant. The mild deceleration of domestic demand was compensated by stronger exports. The labour market continued to improve, with national accounts employment growing at more than 3 per cent. Despite a sharp rise in the labour force, the unemployment rate declined by 1¾ percentage points to 13.7 per cent in the year up to the third quarter of 2000. Consumer price inflation hit 4.0 per cent in October 2000, pushed up by the oil price hike and the depreciation of the euro. Underlying inflation also rose during the summer reaching 2.8 per cent, and the inflation differential with the euro area has widened. Wage inflation has increased only moderately so far.

The fiscal stance remains neutral and monetary conditions relaxed

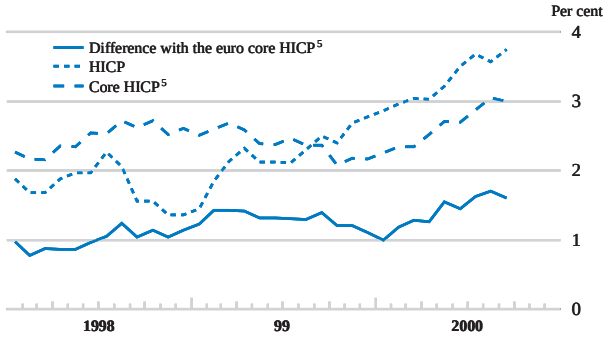
With the euro weak and inflation above the European Union average, monetary conditions remain relaxed even though interest rates have been rising. The government deficit for 2000 is likely to be lower than originally expected by the government due to booming value-added tax receipts and higher than expected revenues from direct

Spain

Output growth remains strong



Core inflation has drifted up[1, 4]



1. Year-on-year percentage changes.
2. Contribution to GDP growth.
3. As a percentage of GDP.
4. Harmonised inflation as defined by Eurostat.
5. Excluding energy, food, alcohol and tobacco.

Sources: Ministry of Economy and Finance; National Institute of Statistics and Eurostat.

Spain: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion Ptas	Percentage changes, volume (1995 prices)				
Private consumption	48 626.2	4.5	4.7	4.1	3.3	3.3
Government consumption	14 415.3	3.7	2.9	1.2	1.4	1.4
Gross fixed capital formation	17 999.2	9.7	8.9	6.1	6.6	5.0
Final domestic demand	81 040.7	5.5	5.4	4.1	3.8	3.4
Stockbuilding [a]	180.2	0.1	0.2	0.2	-0.1	0.0
Total domestic demand	81 220.9	5.6	5.5	4.2	3.7	3.4
Exports of goods and services	21 989.9	8.3	6.6	11.0	9.4	8.8
Imports of goods and services	21 151.3	13.4	11.9	11.0	9.8	9.2
Net exports [a]	838.6	-1.3	-1.5	-0.2	-0.3	-0.3
GDP at market prices	82 059.5	4.3	4.0	4.1	3.5	3.1
GDP at market prices in billion €	493.2					
GDP deflator	_	2.3	2.9	2.9	2.9	2.9
Memorandum items						
Private consumption deflator	_	2.0	2.4	3.4	3.2	2.9
Industrial production	_	5.4	3.2	4.0	3.4	3.1
Unemployment rate	_	18.8	15.9	14.1	12.9	12.2
Household saving ratio [b]	_	12.7	11.9	11.2	11.1	11.1
General government financial balance [c]	_	-2.6	-1.1	-0.3	0.2	0.4
Current account balance [c]	_	-0.2	-2.1	-3.3	-3.7	-3.8

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

income taxes. For 2001, the government aims at a balanced budget. The restrictions on hiring and on wages for civil servants will remain and a new tax on the use of electromagnetic spectrum will collect the equivalent of 0.2 per cent of GDP. However, this will be offset by higher social spending as the government is legally obliged to make additional pension payments to compensate for higher than expected inflation in 2000, and infrastructure spending will be boosted further. Overall, the fiscal stance measured by the structural budget balance will be broadly neutral.

Output growth is projected to slow

Private consumption is likely to slow due to higher interest rates and the oil price shock. Investment should remain strong, given the high level of capacity utilisation and the additional infrastructure spending for public sector projects and for third generation mobile telephony. Overall, domestic demand growth is projected to fall to below 3½ per cent in 2002 with GDP growth easing to close to 3 per cent in 2002 as the negative contribution of net exports to GDP stabilises at around a quarter per cent of GDP. The current account deficit is likely to exceed 3½ per cent of GDP in 2001 and 2002. The consumption deflator is expected to remain above 3 per cent in 2001, reflecting strong demand pressures, while wages are likely to edge up somewhat.

The economy risks overheating

In a context of output growing above potential, the main risk concerns wage developments. Wage increases could be stronger, as many contracts are indexed to headline inflation. This could create a price-wage spiral that would drive up inflation further and result in losses of output and employment in the medium term.

Sweden

The economy continued to expand vigorously in the first half of 2000, and GDP is expected to increase by 4 per cent for the year. Demand stimulus from fiscal policy has been significant, and monetary policy has remained supportive. Short-term interest rates have risen less than elsewhere and have been lower than in the euro area since June 2000, while inflation remains low. Nonetheless, the output gap is judged to have closed this year and GDP is expected to grow faster than potential in 2001 before moderating to that rate (2½ per cent) in 2002.

With the budget and the current account both in comfortable surplus and inflation still well below the average European Union level, there are no immediate risks of serious imbalances. However, a steadily tighter labour market, spurred by expansionary macro policies, may increase inflationary pressures. The upcoming wage negotiations, the oil shock and recent weakness in the crown reinforce such risks. In this light, it would have been preferable to have offset the considerable tax cuts announced in the Budget for 2001 with spending cuts, and to aim them more directly at increasing labour supply. The onus is now on the monetary authorities to contain overheating risks by raising interest rates.

High growth and low inflation were sustained in the first half of 2000

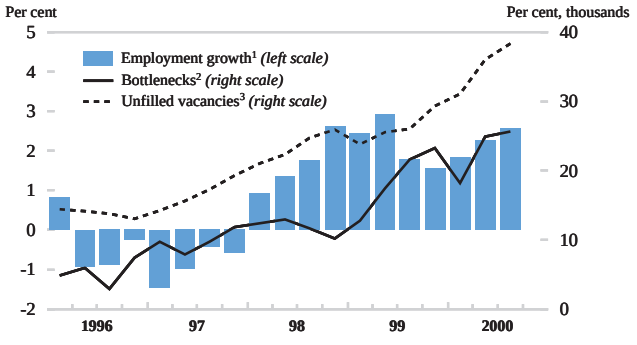
The economy continued to expand at an annual rate close to 4 per cent in the first half of 2000, underpinned by both domestic demand and net exports. Employment growth was also well maintained, increasing at an annualised rate of 2 per cent. Unemployment has therefore fallen quite rapidly to near 4 per cent, the government's target level for this year, and labour shortages have spread. Against this backdrop inflation stayed remarkably low, with the harmonised consumer price index (HICP) up a mere 1.1 per cent over the 12 months to August. In the run-up to the wage negotiations this winter, private-sector wage increases have remained broadly stable at 3½ to 4 per cent. Since the implied real wage gains exceed productivity growth, the profit share is declining further.

Demand has been supported by low interest rates, strong consumer and business confidence…

The Central Bank has kept the repo rate unchanged at 3¾ per cent since February, while recorded inflation has stayed low and indicators have pointed to inflation expectations close to the 2 per cent inflation target. Thus, monetary policy has accommodated buoyant demand, and the short-term interest rate has been below that of the euro area since June, thereby causing the crown to weaken slightly against the European currency. Long-term interest rates on government bonds have edged down

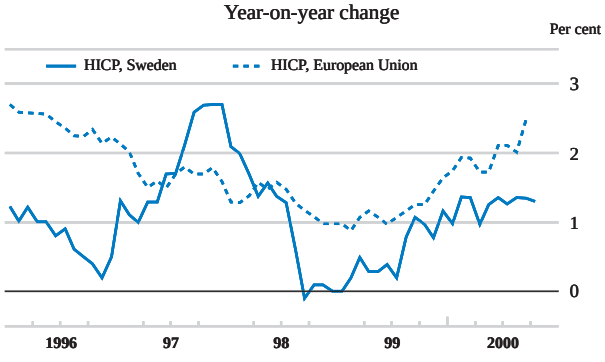
Sweden

The labour market is tightening



But inflation is still below the EU-average

Year-on-year change



1. Year-on-year percentage change.
2. Production restricted by shortage of skilled labour. Percentage balance of opinions.
3. Thousands.

Sources: Statistics Sweden; OECD.

Sweden: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion SKr	Percentage changes, volume (1995 prices)				
Private consumption	919.2	2.4	4.1	5.0	4.8	3.0
Government consumption	484.6	2.2	1.8	-1.4	1.3	1.8
Gross fixed capital formation	269.6	9.4	8.1	4.9	6.4	5.9
Final domestic demand	1 673.4	3.5	4.2	3.2	4.2	3.3
Stockbuilding [a]	11.0	0.3	-0.5	0.1	-0.1	0.0
Total domestic demand	1 684.4	3.9	3.6	3.3	4.1	3.2
Exports of goods and services	773.6	7.3	5.2	9.7	6.8	5.1
Imports of goods and services	644.9	10.4	5.0	8.5	9.0	7.0
Net exports [a]	128.7	-0.5	0.5	1.3	-0.3	-0.4
GDP at market prices	1 813.1	3.0	3.8	4.0	3.2	2.4
GDP deflator	_	1.3	0.5	0.7	1.9	2.7
Memorandum items						
Private consumption deflator	_	1.0	0.7	1.0	1.8	2.3
Industrial production	_	4.6	2.1	7.6	5.5	4.5
Unemployment rate [b]	_	6.5	5.6	4.7	4.1	3.7
Household saving ratio [c]	_	3.1	2.1	2.1	2.0	2.2
General government financial balance [d,e]	_	1.9	1.9	3.4	3.3	3.8
Current account balance [d]	_	2.8	2.5	2.4	1.6	1.1

Note: National accounts are based on chain linked data. This introduces a discrepancy in the identity between real demand components and the GDP. See "Sources and Methods" for further details.
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.

in 2000, and the yield spread *vis-à-vis* Germany has disappeared. In addition to low interest rates, consumer confidence continues to benefit from healthy household balance sheets, falling unemployment and substantial increases in real disposable incomes. Business confidence has also strengthened, albeit more moderately.

… and expansionary fiscal policy

The fiscal policy assumptions underlying the projection are based on the Budgets for 2000 and 2001 which include annual tax cuts of some 0.7 per cent of GDP in each of these years. Previously set expenditure ceilings are restraining total central government spending but they allow cyclical savings to be converted into higher discretionary outlays. One-off factors have worked to reduce public consumption this year, but the underlying increasing trend should show up in 2001 and 2002, particularly at the local level. Notwithstanding the easier fiscal stance, cyclical gains and falling net interest payments have combined to increase the budget surplus to almost 3½ per cent of GDP in 2000, a level that should be maintained next year. Even so, the cyclically-adjusted surplus is expected to fall from 2¾ per cent of GDP this year to just over 2 per cent in 2001.

Interest rates are expected to increase in response to mounting inflationary pressure

With the current policy ease likely to keep growth above potential – real GDP is projected to rise by more than 3 per cent in 2001 – the unemployment rate is expected to move further below its sustainable level, prompting wage increases to accelerate to around 5¼ per cent by the end of the projection period. Against this background, monetary policy is expected to be tightened. The short-term interest rate is assumed to increase by 1½ percentage points to 5¼ per cent by the end of 2001,

thereby eliminating most of the current negative differential against the euro area. Nevertheless, with spreading capacity constraints leading to losses in market shares the current account surplus is projected to shrink from 2½ per cent of GDP in 2000 to just over 1 per cent in 2002 and consumer price inflation to move slightly beyond the 2 per cent target by the end of the projection period.

The risks are mostly on the upside

The main risk to the projection, other than the possibility of weaker external developments, is on the side of faster growth, particularly in 2001. A continued decline in the household savings rate in the forthcoming years or less pronounced losses of export market shares than assumed in the projection would push GDP growth higher. Unless accompanied by a more rapid increase in labour supply, inflationary pressures could be further aggravated in such a scenario.

Switzerland

The sharp increase in activity in late 1999 and early 2000 slowed considerably in the second quarter following the tightening of monetary policy and the rise in the oil price. The unemployment rate fell to 1¾ per cent in early autumn, but underlying inflation remained low. Output should continue to grow moderately at about 2¼ per cent over the coming two years, while unemployment could stabilise somewhat below 2 per cent at about its structural level. Inflation should remain below 2 per cent over the projection period, the objective aimed at by the Swiss National Bank.

The gradual tightening of monetary policy towards more neutral monetary conditions seems appropriate in order to guarantee a prolonged period of non-inflationary growth. In view of the comfortable public finance position, which should ensure a balanced federal budget in 2001, as planned, any easing of fiscal policy would be inopportune, given the need to reduce borrowing further. The Swiss authorities should increase their efforts to raise productive potential by strengthening competition in product markets.

Activity slowed in the second quarter while inflationary pressures remained moderate

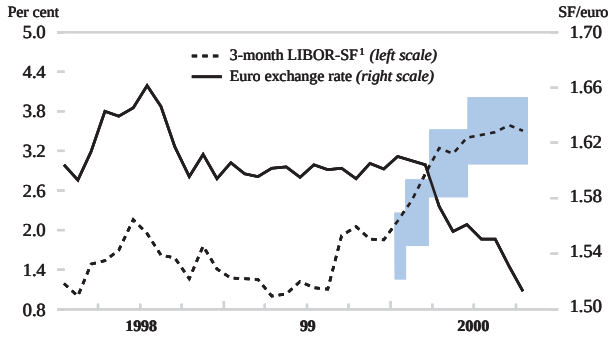
GDP grew by 3¾ per cent in the first half of 2000 with respect to the previous half year thanks to buoyant exports and investment. However, activity slowed significantly between the first and second quarter to an annual rate of around 2¼ per cent. The monetary tightening of late 1999 and the increase in inflation due to the rise in oil prices have restrained private consumption, while export growth has also slowed. According to the leading indicators, activity is likely to remain moderate in the second half of 2000 reflecting less buoyant order books, even though consumer confidence remains at historically high levels. The unemployment rate fell to 1.7 per cent in early autumn. The big rise in employment was offset by the increase in the labour force, especially of foreigners. There are still few signs of wage pressures in the labour market, since the fall in unemployment is partly structural, as indicated by the reduction in the long-term unemployed. Inflationary pressures are still low. Underlying inflation has remained stable at around 0.5 per cent over the past few months, although the oil price hike has pushed headline inflation to 1.9 per cent in October 2000.

Monetary conditions have tightened

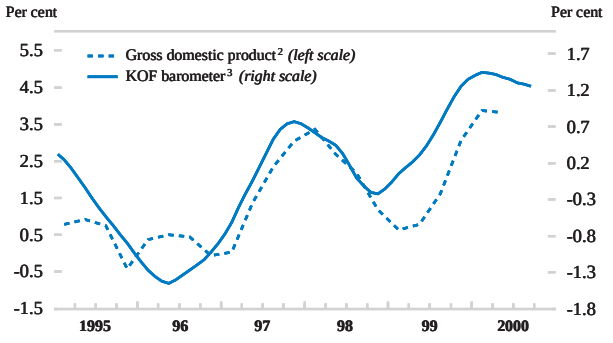
The gradual tightening of monetary policy that began in the autumn of 1999 continued until mid-2000. The 3-month Libor fluctuation margin was increased by half a point in mid-June to 3 to 4 per cent. This tightening has resulted in a slight

Switzerland

Monetary policy has tightened



Output growth has slowed



1. The shaded area indicates the target ranges of the 3-month LIBOR, which have been fixed by the Swiss National Bank since early 2000.
2. Real terms. Year-on-year percentage changes.
3. The KOF barometer is a leading indicator of future development of GDP growth, with an average lead of 6 to 9 months.

Sources: KOF/ETH; OECD.

Switzerland: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices billion SF	Percentage changes, volume (1990 prices)				
Private consumption	224.2	2.2	2.2	2.1	2.0	1.9
Government consumption	55.8	0.7	-0.4	0.3	0.3	0.2
Gross fixed capital formation	72.9	4.5	1.8	6.2	4.6	4.5
Final domestic demand	353.0	2.6	1.7	2.9	2.4	2.4
Stockbuilding [a]	2.2	1.7	-0.2	-0.2	0.0	0.0
Total domestic demand	355.2	4.3	1.4	2.6	2.4	2.3
Exports of goods and services	147.1	5.0	5.9	9.9	6.6	5.8
Imports of goods and services	130.9	9.6	5.5	8.2	6.7	6.4
Net exports [a]	16.2	-1.9	0.1	0.7	-0.1	-0.4
GDP at market prices	371.4	2.3	1.5	3.3	2.4	2.0
GDP deflator	_	0.2	0.6	1.0	1.6	1.8
Memorandum items						
Private consumption deflator	_	-0.3	0.3	1.7	1.8	1.7
Industrial production	_	4.3	3.3	5.4	3.2	2.3
Unemployment rate	_	3.9	2.7	2.0	1.8	1.8
Current account balance [b]	_	9.8	11.6	12.7	12.7	12.9

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

appreciation of the Swiss franc against the euro since the first quarter of 2000, partly offsetting the depreciation against the US dollar. The projections include small interest rates rises in late 2000 and early 2001, in parallel to those expected in the euro area. As a result, monetary conditions are expected to become neutral.

The objective of balancing the budget for 2001 will be easily achieved

The objective of fiscal policy is to bring the federal budget into balance in 2001 and to be in surplus as from 2002. With better than expected economic conditions, budget outcomes for the federal and the general government will be above target, yielding a surplus in 2000. This surplus will probably increase in 2001, and could be boosted by extraordinary revenues from the sale of third-generation mobile telephone licences, scheduled for end-2000.

The growth slowdown should prevent overheating risks

The recent slowdown of GDP growth to around 2 per cent is likely to persist in 2001-02 as a result of the tightening of monetary policy and of a less favourable international environment. The deceleration is expected to come mainly through slower growth in exports and investment, but to be less marked for private consumption, since higher real wage increases should compensate lower employment creation. With growth slowing to a rate close to potential and limited tensions on capacity, inflation should remain at around 1¾ per cent in 2001-02 despite the oil price rise. Unemployment could stabilise at just under 2 per cent, around its structural rate. Two main risks are attached to these projections. One relates to the labour market, where bottlenecks could lead to stronger wage gains. The second concerns the Swiss franc, which could appreciate significantly given the large current account surplus and the recent volatility in financial markets and could lead to a deterioration of competitiveness of the economy and a more pronounced slowdown of output.

Turkey

GDP growth should be in the range of 7 per cent in 2000, the first year of the stabilisation programme supported by the International Monetary Fund. Linking the rate of exchange-rate depreciation to targeted inflation has affected price dynamics and inflation has fallen. However, the current account has deteriorated sharply. The target of single-digit inflation by the end of 2002 seems achievable if demand pressure decelerates over the next two years, as projected. At the same time, the external deficit is likely to narrow toward a more sustainable level.

The stabilisation programme is accompanied by an extensive structural reform agenda, aimed at improving budget transparency, privatising state-owned enterprises and liberalising product markets. The full implementation of these reforms is required for credibility in the programme to be maintained.

GDP is growing fast and inflation is falling

Real GDP grew by nearly 6 per cent in the first half of 2000, reflecting a strong recovery of both consumption and investment from a very weak base. The main contributing factor was a sharp fall in real interest rates which accompanied the announcement of a three-year stabilisation programme in late 1999. The programme has been followed by a marked decline in inflation expectations and a steady reduction in inflation, although the target of a 25 per cent consumer price increase by December will be overshot by around 10 percentage points.

Exchange-rate depreciation is based on targeted inflation

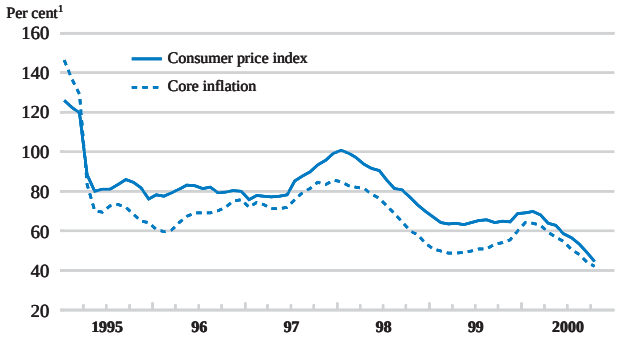
Monetary policy is providing an anchor to inflation expectations, with the rate of exchange-rate crawl strictly geared to the inflation target. Critical support is coming from the side of incomes policy which applies to the government sector and the minimum wage. However, neither public-enterprise nor private-sector wage bargaining outcomes are covered by the incomes policy, and these have been slow to adjust to the inflation target.

Domestic demand is booming and the current account deficit rising

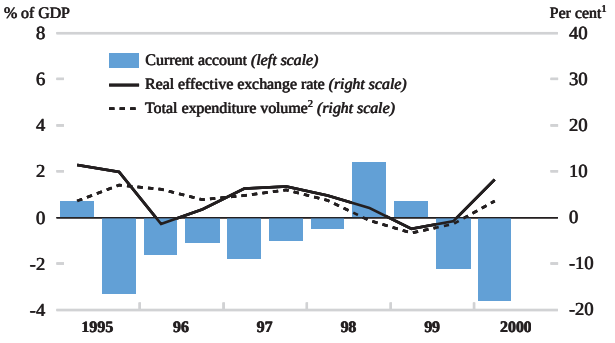
Real disposable incomes have benefited from the decline in inflation, while earnings from earlier high nominal yields continued to accrue to holders of longer-term bonds, accentuating the positive demand effects of lower current yields. However, booming demand has spilled over into imports, and the oil-price rise has exacerbated the resulting negative impact on the current account, which is expected to

Turkey

Disinflation is underway



But the current account is deteriorating



1. Year-on-year percentage changes.
2. Excluding government wage consumption.

Sources: State Planning Organisation; OECD.

exceed 4½ per cent of GDP in 2000. The government has increased the rate of value-added tax on luxury cars, as well as fees on consumer credits, in order to curb domestic demand and imports. The new budget also extends a number of "temporary" tax-raising measures into 2001.

Turkey: **Demand, output and prices**

	1997	1998	1999	2000	2001	2002
	current prices trillion TL	Percentage changes, volume (1987 prices)				
Private consumption	19 619	0.6	-3.1	6.0	3.2	3.5
Government consumption	3 535	7.8	6.5	5.0	2.0	2.0
Gross fixed capital formation	7 618	-3.9	-16.0	16.2	7.0	5.3
Final domestic demand	30 773	-0.2	-6.0	8.5	4.1	3.9
Stockbuilding [a]	- 377	0.9	2.1	0.0	0.0	0.0
Total domestic demand	30 395	0.6	-4.0	8.3	4.1	3.8
Exports of goods and services	7 088	12.0	-7.0	15.0	6.6	7.5
Imports of goods and services	8 763	2.3	-3.7	18.0	4.0	5.6
Net exports [a]	-1 674	2.6	-0.9	-1.7	0.6	0.3
Statistical discrepancy [a]	115	-0.1	0.1	0.0	0.0	0.0
GDP at market prices	28 836	3.1	-5.0	7.0	4.9	4.4
GDP deflator	_	75.7	56.0	50.1	22.4	15.8
Memorandum items						
Private consumption deflator	_	83.0	60.7	54.3	22.5	11.8
Unemployment rate	_	6.3	7.3	7.1	7.0	6.8
Current account balance [b]	_	1.1	-0.9	-4.6	-4.2	-3.4

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.

Fiscal policy is in line with the programme

Fiscal restraint is an essential part of the stabilisation programme and entails new controls over off-budget entities and inclusion of the state-owned enterprises in the fiscal targets. These have been a prime source of chronic fiscal deficits in the past. As to the central government, there have been major tax increases which, in conjunction with high growth, have allowed its primary surplus target to be surpassed by August. Primary expenditures have been kept under control by incomes policy measures and by the early positive impact of the social security reform. The decline in interest rates has also begun to reduce interest expenditures substantially. It is expected that the high primary surplus of the central government, along with buoyant privatisation revenues, will allow the level of the debt relative to the gross national product to stabilise in 2000, following a sharp rise in 1999.

Decelerating demand will help achieve the programme's targets in 2001 and 2002

A marked deceleration of domestic demand is projected over the next two years. First, the income effects of the recent interest rate declines will turn sharply negative as outstanding bonds (with an average maturity of around one year) mature. Second, the impact of the recent demand-curbing measures will be felt. Third, the real interest rate is expected to rise to a more "normal" level (in the 10 to 15 per cent range) from its recent undershooting. Weaker demand growth should allow the target of single-digit inflation to be met by the end of 2002. However, real exchange-rate appreciation (amounting to a cumulative 20 per cent in 2000 and 2001) will hold back export

volume. The current-account deficit is thus likely to remain above 4 per cent of GDP in 2001, before falling back to around 3½ per cent in 2002 as the impact of real appreciation unwinds.

Risks attach to the current account deficit and to wages

A principal risk relates to the perverse effects of possible demand overheating on the inflation and current-account targets of the programme. The risk to inflation is amplified by a possible failure to achieve the goals of wage policy. Although state-owned utilities have not been allowed to pass on the rising world oil price, this comes at the cost of higher state enterprise-sector deficits. These risks and tensions will be reduced to the extent that the fundamental fiscal and structural elements of the programme are implemented in full.

III. DEVELOPMENTS IN SELECTED NON-MEMBER ECONOMIES

Recoveries in most non-member economies in Asia, Europe, and South America have gained momentum in the past six months, underpinned by exports and a strengthening of domestic demand. Inflation has remained moderate. Growth in Dynamic Asia has been stronger than expected and activity in China has also picked up modestly. Russia has profited from much higher oil and other key export prices. Performance in South America has been somewhat uneven, with Brazil recovering strongly and growth in Argentina remaining sluggish.

Recovery is projected to broaden and gain further momentum in most non-member countries over the next two years. But higher oil prices will restrain growth somewhat in 2001 in those countries more dependent on oil imports, such as Thailand and the Philippines. The overall impact is likely to be modest unless higher oil prices lead to a greater slowdown in OECD countries than is now expected. The downside risks posed by high oil prices, or a harder than expected landing of the United States economy, are underscored by the marked drop in equity prices recorded in most Asian non-members since the first quarter of 2000. There are some upside risks on inflation if oil prices do not moderate.

Dynamic Asia and China

Economic recoveries have been stronger than expected

Economic recoveries have been stronger than foreseen last spring but differences among countries are becoming more apparent. The leaders have been Malaysia, Singapore and Hong Kong, China, all of which recorded growth in real GDP above potential in the first half of 2000. Growth in Thailand has also picked up but has been less robust in relation to past growth performance than in the other three. The recovery in Indonesia, particularly in domestic demand, is still comparatively weak and fragile.

Exports have been especially strong

Very rapid export growth driven by strong external demand, particularly from the United States and Asian OECD countries, has been a major factor in the unexpectedly strong recoveries. Imports have also been growing rapidly, spurred by sharply rising demand for imported inputs used by export industries and for inventory restocking. Domestic demand growth has picked up significantly since the second half of 1999 and is becoming increasingly important to the recoveries. Private consumption, inventory accumulation, and fiscal stimulus have been the strongest contributors to domestic demand. But business fixed investment in the crisis countries is now reviving and, except in Indonesia, is expected to record positive year-on-year growth in 2000 for the first time since 1997.

Underlying forces favour continued recovery

Underlying forces are on balance favourable to a continuation and broadening of the recoveries. Although posted inflation rates have risen with the surge in oil prices, core inflation rates are still low and, except possibly in the Philippines, appear unlikely to rise to levels that would require a reversal of the current supportive stance of monetary policy, at least before 2002. Rising capacity utilisation rates, particularly in export sectors, should stimulate growing momentum in business investment in 2001. Fiscal stimulus is likely to diminish after this year in those economies that are net oil importers, particularly in Thailand and Chinese Taipei where general government deficit levels are now above 5 per cent of GDP. However the rise in oil prices will provide more room for expansionary fiscal policy in Indonesia.

Higher oil prices and debt loads will restrain growth

Higher oil prices and the heavy private sector debt loads in some crisis countries are expected to damp growth moderately in 2001, but could pose further downside risks. Rapid growth has led to substantial improvement in financial conditions in Malaysia and in Hong Kong, China. The improvement in Thailand has been more gradual and modest and financial risks remain somewhat greater. There has been very little improvement in the severe debt problems of the corporate sector in Indonesia, which remain a major constraint on growth. The comparatively large decline in equity prices since the first quarter of 2000 recorded by Thailand and Indonesia may be an indication of market unease over their continuing financial burdens. The dampening impact of higher oil prices is likely to be greatest for Thailand and the Philippines, which are relatively dependent on net oil imports, but small for the region as a whole. The rise in oil prices is unlikely to pose a major risk to the recoveries unless it was to lead to a much greater slowdown in OECD countries than is now foreseen.

Table III.1. **Projections for selected Asian economies**[a]

	1999	2000	2001	2002
China				
Real GDP growth	7.1	8.0	7.6	7.8
Domestic demand growth	7.8	7.9	7.9	8.0
Inflation	–1.3	0.4	1.0	2.0
Current account balance (US$ bn)	15.7	15.1	12.7	6.7
Current account balance (% of GDP)	1.6	1.4	1.1	0.7
Hong Kong, China				
Real GDP growth	3.1	9.0	7.1	5.5
Domestic demand growth	–2.1	8.3	6.9	5.8
Inflation	–2.0	–1.8	2.0	1.5
Current account balance (US$ bn)	7.2	5.9	5.6	5.2
Current account balance (% of GDP)	4.3	3.3	2.8	2.4
Indonesia				
Real GDP growth	0.0	3.7	5.0	6.1
Domestic demand growth	–3.0	2.3	5.4	7.9
Inflation	20.0	2.6	5.0	4.5
Current account balance (US$ bn)	5.8	11.1	11.1	9.6
Current account balance (% of GDP)	4.4	8.2	8.5	6.6
Malaysia				
Real GDP growth	5.4	8.5	7.0	6.5
Domestic demand growth	2.4	9.0	7.6	6.8
Inflation	2.8	2.5	3.5	3.0
Current account balance (US$ bn)	12.6	13.6	12.8	12.5
Current account balance (% of GDP)	16.1	15.6	13.3	11.9
Philippines				
Real GDP growth	3.2	3.5	3.0	3.5
Domestic demand growth	–1.0	3.8	2.6	4.2
Inflation	7.0	5.0	5.5	5.0
Current account balance (US$ bn)	7.8	5.8	5.9	5.3
Current account balance (% of GDP)	10.4	8.2	9.0	7.4
Thailand				
Real GDP growth	4.2	5.6	5.8	7.0
Domestic demand growth	6.2	5.8	5.1	7.8
Inflation	0.0	2.0	4.0	3.5
Current account balance (US$ bn)	12.5	9.9	10.5	9.2
Current account balance (% of GDP)	9.6	7.6	8.0	6.3

a) The figures given for GDP and inflation are percentage changes from the previous period. Inflation refers to the Consumer Price Index. Current account estimates for Hong Kong, China correspond to net exports of goods and services on a national accounts basis and therefore exclude investment income and transfers.

Source: Figures for 1999 are preliminary figures from national sources or OECD estimates. Figures for 2000-2002 are OECD projections.

Recovery in China is gaining strength…

In China, the rebound in activity witnessed during the second half of 1999 gained strength in the first nine months of 2000, when GDP increased at an annual rate of 8.2 per cent. The pick-up in growth was underpinned by strong export growth but also by a recovery in urban consumption and in investment. Both construction and industry grew rapidly, reversing last year's weakening trends and compensating for the sluggish performance in agriculture.

… and fundamentals are healthier than in previous upturns

The current recovery is still largely dependent on macroeconomic policy stimulus and external demand. However, fundamentals are healthier than in previous economic upturns. Consumer and business confidence is improving, retail sales have been rising steadily, reported industry profits are rising, capacity utilisation is increasing, and there are signs of improvement in the inventory overhang. In

Box III.1. Progress in reforms to China's enterprises

China has been undertaking extensive reforms to its business sector that are very important to its macroeconomic performance and which will become all the more essential once it enters the World Trade Organisation. A recently published OECD study* assessing these reforms finds that significant progress is being made, but that much more needs to be done if the reform process is to succeed.

The first objective of enterprise reform is to improve financial performance, which has deteriorated markedly for both state-owned enterprises (SOE) and non-state enterprises during the 1990s. Reforms to improve performance have focused on retiring excess industry capacity built up during the investment boom of the early 1990s, reducing excess labour and other government-imposed burdens on SOE, and reorganising and downsizing of the SOE sector. As a result, surplus labour of SOE has been reduced by roughly one-half, industry capacity utilisation has begun to improve, and debt loads of many larger SOE have been reduced substantially through the debt-equity swap programme instituted in 1999. However several factors have limited the gains from these measures. First, government efforts have focused on larger loss-making SOE, while the serious problems of non-state enterprises, whose overall importance to the economy is greater, have received relatively little attention. Second, because government revenues are quite limited, SOE continue to bear much of the burden for supporting laid-off workers and so do not reap the full benefits of their labour shedding. And third, industry reorganisation through mergers and acquisitions has been severely hampered by government imposition of non-economic considerations and by regional protectionism.

The second key objective of enterprise reforms is to improve enterprise behaviour. Distortions in management and in external incentives that are responsible for many of the current problems of enterprises need to be corrected so that enterprises make effective use of the gains from measures to improve financial performance. Reforms in this area have focused on establishing effective corporate governance structures in SOE and on improving the discipline exercised by the financial system. Some progress has been made in removing line government agencies from day-to-day enterprise management and in establishing boards of directors and other structures to improve the accountability of SOE management to their state owners. Commercial bank lending standards have been tightened considerably and an important step toward dealing with the extensive non-performing bank loans was taken with the formation of four bank asset management companies in 1999. However, progress has been uneven and constrained by several factors that have limited the benefits. Top SOE managers continue to be appointed by government or political officials and boards of directors tend to be dominated by insiders. Policy considerations such as the need to sustain operations of large loss-making SOE continue to influence bank lending. It is also doubtful that current reforms will be sufficient to fully resolve non-performing bank loans.

The third reform objective is to develop institutions needed to allow enterprises to focus on their commercial objectives. A key priority is to establish modern social insurance systems to relieve SOE of their excess social burdens and to improve the functioning of labour markets. Key institutional foundations have been laid for socialising these programmes and extending their coverage. However progress in implementation is limited by the scarcity of government revenues.

Overall, enterprise reforms in China are now at a critical stage. Rapid progress needs to be made over the next several years to break bottlenecks in key areas, notably in ending undue government interference in SOE operations and bolstering efforts to improve financial discipline. Without such progress, the reform process is likely to become more difficult to sustain and the gains that have been made could be jeopardised.

* OECD, *Reforming China's Enterprises*, Paris, 2000.

addition, deflation has been arrested, helped by the recovery in domestic consumption. On the external side, export growth has remained robust, spurred by strong global and regional demand. Imports of goods and services have also been growing strongly. The economy has continued to receive a boost from fiscal expansion, funded by US$18 billion worth of extra-budgetary treasury bonds issued this year. The bulk of the government bond proceeds has been used for infrastructure investment in western provinces, reflecting the priority now being given by the central government to development of China's West. Further stimulus has been provided by housing reforms, which have boosted spending for home renovation and decoration, and the suspension of direct taxes on investment. In addition, improvement in business financial conditions arising from ongoing enterprise reforms (see Box III.1) should contribute to an overall strengthening of the macroeconomic situation.

Continued recovery in domestic demand should support growth

Real GDP growth is expected to moderate next year, as the contribution from net exports and state investment weakens, but should remain in the 7½ to 8 per cent range over the next two years. The recovery in private consumption is expected to strengthen somewhat, although its speed will be constrained by labour shedding by urban enterprises and subdued growth in the cash income of rural residents. Fiscal and monetary policies are expected to remain largely supportive of growth. Inflation will continue to edge up, as the situation of oversupply gradually improves and the rise in service prices continues. Although the trade and services balances will decline, the current account is expected to remain in surplus. Contracted foreign direct investment inflows registered with the authorities have been rising again, perhaps in anticipation of China's entry to the World Trade Organisation. The impact of high oil prices is expected to be relatively mild in China, as net oil imports are relatively low in relation to GDP.

The Russian Federation

Strong GDP and industrial growth continues in Russia

Fuelled by high prices for a number of key exports, notably energy products and metals, the Russian economy continues to exhibit strong growth in 2000. GDP grew by a reported 7½ per cent in the first half of 2000, while industrial output was 10 per cent higher than in the corresponding period of the previous year. While industrial growth is still concentrated primarily in a number of export-oriented and import-substituting sectors, there has also been a partial recovery in domestic demand. While still well below pre-crises levels, real incomes were 13 per cent higher in the first half of 2000 relative to the same period in 1999, while retail trade was up by 8 per cent. The production of investment goods has also picked up, mirroring an estimated 17 per cent growth in fixed capital investment relative to the same period of 1999. The high export prices and growth in export volumes, coupled with only a modest recovery in import demand, have significantly increased Russia's current account surplus. The surplus rose from US$9 billion in the first half of 1999 to a reported US$23 billion in the first half of 2000.

Higher reserves have bolstered monetary policy, but central bank intervention may be adding to inflationary pressures

The very strong current account has helped restore credibility to monetary policy and the rouble. Despite the burden of foreign debt service, gross gold and foreign currency reserves doubled in the first three quarters of 2000, reaching US$24 billion. As the nominal exchange rate has remained rather stable in the range of 27-28 roubles to the dollar, the strong inflows can be associated with somewhat greater inflationary pressures. CPI inflation for the first eight months of 2000

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

	1999	2000	2001	2002
Russia				
Real GDP growth (annual %)	3.2	6.5	4.0	4.0
Inflation	36.7	22.0	15.0	15.0
Unemployment (ILO definition)	12.0	10.0	10.0	10.0
Consolidated fiscal balance (% of GDP)[b]	–2.0	0.0	0.0	0.0
Current account (US$ bn)	25.0	40.0	25.0	12.0
Current account balance (% of GDP)	14.0	18.0	9.0	4.0

a) The figures given for GDP are percentage changes from previous year. Inflation refers to end-of-year consumer price index.
b) Includes federal, regional and local budgets.
Source: Figures for 1999 are final figures from national sources, figures for 2000 are preliminary estimates from national sources or the OECD estimates, and figures for 2001 and 2002 are OECD projections.

amounted to 12.5 per cent, and annual inflation could well exceed the annual December-on-December target of 18 per cent.

The federal budget is in surplus

In contrast to the chronic budget deficits of the past, the federal budget experienced a surplus amounting to 4 per cent of GDP in the first half of 2000. The primary surplus was 7 per cent. The turnaround in the Russian federal budgetary position is due primarily to increases in tax collection, particularly higher export and excise tax receipts. The federal government is on track to more than meet its budgetary deficit target for 2000 of 1 per cent of GDP.

The outlook for the Russian economy is favourable in the short term, but key structural reforms are still needed

Current positive trends in output, investment, fiscal consolidation, and macroeconomic stability are sufficiently strong to carry into at least early 2001. Meanwhile the current account surplus is likely to narrow in 2001 and 2002 as further recoveries in consumption and investment fuel imports. The pace of industrial growth is likely to slow somewhat because of continued pressure for the real appreciation of the rouble and necessary increases in repressed domestic energy and transportation prices. Medium-term prospects continue to depend critically on key structural reforms, including taxation, fiscal federalist relations, corporate governance, and competition. The current political and economic situation presents a major opportunity for Russia to make progress in this area. The recently adopted comprehensive economic programme of the government, and a number of recent initiatives to amend or pass new laws are important first steps in this direction.

South America

Growth in South America is expected to strengthen

Growth in South America is tending to pick up, though somewhat unevenly. Strong exports and accelerating domestic demand are underpinning growth in Brazil while oil revenues are helping economic activity in Venezuela and easing condition for the dollarisation process in Ecuador. On the other hand, in the second quarter of 2000 a slight deceleration occurred in some countries, notably Argentina, Colombia and Chile. Inflation has remained moderate. Growth is expected to strengthen somewhat further over the projection horizon, though generally remaining below estimated potential. Inflation seems likely to remain subdued though pressures may emerge from the impact of rising oil prices. Additional pressures may emerge in the external accounts.

Export-led growth continued in Brazil also supported by a revival of domestic demand

The Brazilian economy is projected to grow at around 3½ per cent in 2000, accelerating to 4 per cent in 2001. Recent export performance has been very positive. Comparing the first half of 1999 with the first half of 2000, total export volume increased by 15.3 per cent, while import growth was only 9½ per cent. Brazilian exporters seem to have benefited from the combination of currency devaluation and strong world demand. A process of import substitution also took place. While imports of capital goods and consumer durables decreased by 13 and 23 per cent (year-on-year) respectively in the first half of 2000, there were increases in domestic demand for these products. Recently, there are signs of a more general revival of domestic demand supported by lower consumer interest rates, following the continuous decrease in overnight money market rates (200 basis points since June, falling to 16½ per cent in October).

Inflation has remained subdued, but adjustments in regulated tariffs (electricity and telephone), rising prices for fuel and a seasonal increase in the price of some agricultural products (grains and meat) induced a larger than expected increase in the consumer price index in July and August (over 1 per cent in July and in August). However, these pressures had only a temporary effect and inflation will remain moderate.

Labour market conditions are also improving…

The labour market has also developed favourably, notably industrial employment with a growth rate of 4.3 per cent in July (year-on-year), together with employment in the informal sector. As a result, the unemployment rate fell to 6.7 per cent in September (seasonally adjusted) from a peak of 8.3 per cent in November 1999. Real incomes also recovered from last year's losses and are roughly back at their level one year ago.

… and the fiscal position is on track

These conditions are helping the ongoing fiscal adjustment. While the increase in revenues in 1999 was due to temporary measures and increased social security contributions, this year the economic recovery is leading the revenue expansion. Federal government revenues in 2000 are expected to increase by 11 per cent. Given improved control of expenditure, largely as a result of the Fiscal Responsibility Law – the fiscal targets for this year (including a primary surplus at 3¼ per cent of GDP) should be met. The fiscal adjustment and the fall in interest rates are also improving the management of the public debt.

But, medium-term challenges are substantial

Nonetheless, Brazil faces important challenges in the medium-term in the areas of tax reform and fiscal federal relations, public pensions and social security reform. Education and health care also need to be addressed firmly in order to increase the prospects for sustained growth. The external balance may also constrain economic expansion. Indeed, the export growth induced a surge of imports of intermediate products (32½ per cent growth year-on-year for the first half of 2000). Exports to the OECD area are also dominated by traditional goods very sensitive to cyclical conditions, and this raises questions about the sustainability of the current export performance.

With a fragile recovery, Argentina presents a difficult situation

Recovery in Argentina is fragile. The economy is in a vicious circle of high interest rates, recession and loss of confidence. While for the first half of 2000 GDP grew by 1.2 per cent (year-on-year), indicators of industrial activity and retail sales indicate a slump in the second quarter. Consumer prices continue to decline. The fiscal deficit is turning out larger than programmed (despite tax increases at the beginning of the year). The improvement in the trade balance barely offset the

Table III.3. **Projections for Brazil and Argentina**

	1999	2000	2001	2002
Brazil				
Real GDP growth	0.8	3.5	4.0	4.3
Inflation[a]	4.3	7.9	6.8	4.2
Fiscal balance (% of GDP)	–10.0	–5.0	–4.0	–3.5
Primary fiscal balance (% of GDP)	3.0	3.3	3.5	3.0
Current account balance (US$ bn)	–24.4	–25.0	–27.0	–28.0
Current account balance (% of GDP)	–4.3	–4.2	–4.1	–3.9
Argentina				
Real GDP growth	–3.2	2.0	2.5	2.5
Inflation[a]	–1.0	–1.0	0.5	1.0
Fiscal balance (% of GDP)[b]	–2.5	–2.0	–2.0	–2.0
Current account balance (US$ bn)	–12.3	–12.0	–11.5	–11.0
Current account balance (% of GDP)	–4.3	–4.0	–3.7	–3.5

a) Consumer price index average annual growth rate.
b) Central government, excluding privatisation receipts.
Source: Figures for 2000-2002 are OECD estimates or projections.

deterioration in the income balance, so that the current account deficit in the first quarter of 2000 was roughly unchanged from that of 1999 (4.3 per cent of GDP).

Capital markets remain wary…

Capital inflows have not resumed, and interest rate spreads are high. The sovereign risk spread was 560 basis points by the end of July, higher than the low of 420 basis points in March. These conditions are reflected in very high domestic interest rates. The opportunities for new foreign investments have declined since the privatisation programme is already well advanced. The lack of market confidence undermines the fiscal account owing to the large refinancing needs of the public sector; and public borrowing is crowding out financial resources for the private sector in the domestic market.

… despite the fiscal tightening

Seeking to prove its commitment to fiscal austerity by reducing the fiscal deficit and to improve financial market confidence, the Argentinian government raised consumption and personal income taxes at the beginning of 2000 and undertook expenditure cuts (about US$ ½ billion) starting in May (among them a 12-15 per cent cut in public sector wages). But fiscal tightening further depressed domestic demand and exacerbated social unrest. This, in turn, contributed to the caution of foreign investors who are reluctant to increase their exposure to Argentina.

The real sector is still suffering from loss in competitiveness

The strength of the dollar, to which the Argentinian peso is pegged, and Brazil's successful (non-inflationary) devaluation led to significant losses of competitiveness. Timid labour market reform is too recent to have yet had any effect on productivity and labour costs. The agricultural sector is also suffering from the terms-of-trade losses due to the fall in international commodity prices. Falling domestic demand is also reflected in a sharp contraction of the construction sector. As a result, employment contracted in the first quarter of 2000 by 1.3 per cent with respect to the same period in 1999, and the unemployment rate rose from 14½ to 15¼ per cent.

Some relief could come from external factors…

In the present configuration domestic demand seems unlikely to be able to drive a recovery. Export prospects are also limited by a weak competitive position, although rising world demand has led to a pick-up in the iron and steel sectors as well as automobile and heavy industry. The Argentinian government is firmly com-

mitted to the currency board and this position is justified by extremely high costs involved in abandoning the present regime (with risks of insolvency in the public sector and a large part of the private sector). The economic stagnation itself is exacerbating risk perceptions. The recovery in Brazil and in other countries in South-America should help the export sector. Despite the depreciation of the Brazilian real, the price and wage deflation in Argentina has created an inflation differential *vis-à-vis* Brazil which is gradually restoring some competitiveness. Any reversal in the dollar appreciation would also help, especially in restoring competitiveness *vis-à-vis* European markets, the main export outlet.

… with continued support from government policies

In the short term, some loosening of fiscal policy may be needed, although it should be targeted to stimulate consumption or private investments without compromising medium-term public spending. The Argentinian government has already increased the fiscal target for this year. To the extent that financial markets are willing to finance it, there is some room for an increase in the debt stock (currently at 45 per cent of GDP). The government is also seeking ways around the constraints imposed by the currency board. For example it intends to persuade privatised public utilities to allow a three-month delay for payment of enterprise bills, or to persuade banks to lend against VAT credits accumulated by large enterprises (unable to use them due to insufficient turnover). In addition, the government is preparing some tax measures to reduce the cost of credit. Over the medium term, however, the sustainability of the currency board is only compatible with deeper labour and product market reforms.

IV. LINKS BETWEEN POLICY AND GROWTH: CROSS-COUNTRY EVIDENCE

Summary and conclusions

This chapter follows up on the review of growth patterns in the OECD countries

This chapter discusses some of the main factors shaping the growth process in the OECD countries. It draws on empirical evidence from a sample of OECD countries over the past three decades. The chapter follows on from one in the previous issue of the *OECD Economic Outlook* (No. 67, July 2000) which showed widening disparities in growth rates of output per capita in the 1990s, resulting from a continued slow-down in many OECD countries, but also a significant acceleration in a few, most notably the United States.

The first section of the chapter focuses on the basic factors driving the growth process, namely the accumulation of various kinds of capital: physical, human and knowledge. The role of the public sector as a provider, or funder, of infrastructure, education and research, and implications for growth, are also discussed here. The second section extends the analysis to a number of other policy and institutional factors that could influence output growth via their impact on the accumulation of physical capital or via their impact on economic efficiency and allocation of resources. The third section explores the implications of the empirical evidence for the interpretation of the observed cross-country differences in output per capita, as well as the evolution of growth rates over time in each country. The section also sheds some light on the current debate on the "new economy" by looking at two aspects that may be of particular importance in the current period of rapid technological change: financial market conditions and product-market regulations.

The main conclusions of this analysis are the following:

Investment in all forms of capital is important…

– The accumulation of physical capital and human capital is important for growth, and differences across countries in this respect contribute significantly to explain the observed differences in growth patterns. In particular, the evidence suggests that investment in education may be characterised by positive externalities that make social returns to schooling greater than private returns, although improvements to education systems may take time to make significant impacts on average skills in the workforce, especially in ageing populations.

… and can be encouraged by appropriate macroeconomic policies

– Macroeconomic policy geared towards stable, low inflation and sound public finances contributes to better growth performance, for example by encouraging private accumulation of physical capital and a shift in investment towards higher returns projects.

Both public expenditure, and the taxes needed to finance it, need to be carefully designed so that their net impact on growth is positive

– Public expenditure on health, education and research clearly sustains living standards in the long term, and social transfers help to meet social goals, but all have to be financed. The corresponding taxation could negatively affect incentives to save and invest, with however the effect on the economy depending on the efficiency of taxation and expenditure.

Research and development (R&D) spending appears to have a significant positive impact on growth

– Research and development (R&D) appears to be important to the growth process. In the past decade, R&D intensity has risen in a number of countries. Moreover, increases in business-performed R&D have in some cases more than compensated for falls in defence-related government outlays, the former having a potentially more direct effect on productivity and output growth. Interpretation of the large cross-country differences in R&D intensity and in the role that governments play in supporting directly and indirectly private R&D is, however, complicated by the increasingly interconnected and global nature of R&D networks.

Increased investment in equipment using new technologies spurs productivity growth, and is helped by continuing falls in their price...

– While the current debate on growth is dominated by "new economy" arguments, the evidence here suggests that "old economy" forces are still crucial to understanding the growth process. A key example is the United States, where the recent exceptional performance can be seen as the result of a fairly traditional process of strong capital deepening, in this instance due to ICT-driven investment resulting from rapid falls in the price of ICT capital equipment. Of course, "new economy" elements are involved: rapid capital deepening is related to the technological advance and falling prices of IC technologies -- a process widely expected to continue for some time. Over the longer term, reorganisation of working methods and network externalities associated with increasing ICT use could lead to an acceleration in multifactor productivity.

… as well as an appropriate financial and regulatory environment

– Against a backdrop of the need for governments to ensure a broad economic environment conducive to sustained growth, there are specific areas of policy that could support the spread of new technologies. One area that has attracted widespread attention is that small, innovative businesses have played a key role alongside more established firms in making advances in technology and developing downstream products and services. The evidence presented in this chapter underscores the role that appropriate conditions in financial markets and product-market regulations have in fostering innovation and productivity enhancement.

Basic determinants of growth

There are wide disparities in growth rates across the OECD countries…

As discussed in the previous *Outlook*, OECD countries have shown wide disparities in growth performances over the recent decades. The 1990s, in particular, saw some relatively affluent countries (notably the United States) pulling further ahead, while most other countries continued to slow down. Persistent differences in the accumulation of different forms of capital (physical, human, knowledge), market conditions and technological progress – all of which could themselves be influenced by policy and institutions – are potentially important sources of these differences in growth paths across countries.

… and policy and institutions are likely to play a key role

Although there is agreement on the importance of policy and institutions for growth, the precise mechanisms linking policy to capital accumulation, economic efficiency, technical progress and, ultimately, output growth are still the subject of an intense debate (see Box IV.1). In particular, policy and institutions may influence

Box IV.1. Policy influences on output growth

Renewed interest in the determinants of growth, in part encouraged by the availability of databases covering a large number of developing as well as OECD countries, has generated a vast literature.* There is, however, no agreement on the mechanisms linking policy settings to growth. A number of studies suggest that policy and institutions mainly affect the *level* of economic efficiency with which resources are allocated in the economy. This would imply that any policy change will affect output growth only in a short to medium-term perspective by shifting the growth path, although the underlying rate of growth remains determined by exogenous (but potentially different across countries) population growth and technological progress. Other studies assume that technological progress itself could be influenced by policy, leading to a more persistent effect of policy on output growth.

The distinction between these two views largely depends on how one sees the process of accumulation of various types of capital being affected by policies and on how capital accumulation then feeds back into output growth. Policies can influence savings and the formation of physical capital, human capital (*e.g.* education), knowledge capital (*e.g.* R&D) and infrastructure. Some of these forms of capital are likely to influence the process of innovation and technological progress: for example human capital and R&D are important ingredients in the formation of new ideas and their translation into new production processes; and technological progress itself may be embodied in new capital equipment, thus creating a link between physical capital accumulation and long-term growth rates.

Only empirical evidence can determine which view of the link between policy and the growth process is most relevant. Aggregate analyses, such as that presented in this chapter, can only shed some light, while microeconomic evidence is needed to better assess the link between capital accumulation and technological progress. In particular, the results presented in this chapter lend some support to the notion that countries converge to a country-specific steady state output per capita growth path and are interpreted under the assumption that policy largely affects growth via its impact on the level (as opposed to the growth) of economic efficiency. On this basis, the observed growth in output in any given period can be seen as the combination of three different forces: *i)* technological progress – which is assumed to be exogenous; *ii)* a convergence process towards the steady-state path of output per capita; and *iii)* shifts in the level of the steady state that can arise from changes in policy and institutions as well as investment rates and population changes.

The speed with which countries converge to their specific steady state paths of output per capita gives an idea of the relative importance of the different components shaping the growth process. Most studies that focus on a large sample of countries, including many non-OECD countries, find convergence to be slow. In this case, any policy change will have a long-lasting effect on growth but be of limited intensity in any one year. By contrast, with a rapid convergence, a policy change will have a significant but shorter-lived impact on growth, and its potential effect on living standards will be quickly felt. Estimates reported in the table below suggest that this second scenario is more likely for OECD countries: following a change in a growth-related variable, it takes about four years to go half way to the new steady state output per capita.** Hence, observed changes in factor inputs as well as in policies over past decades are likely to have significantly affected growth patterns and are of importance in the assessment of cross-country differences.

The estimated speed of convergence

	Range of estimated values	
Speed of conditional convergence towards the steady-state growth path (per year)[a]	15%	17%
Half way to convergence	4.3 years	3.9 years

a) The values reflect the coefficient on the lagged output per capita in a growth regression. The range reflects the values obtained in different specifications on the growth equation.

* For a review of the empirical literature see Ahn and Hemmings (2000).

** As discussed above, an interpretation of more persistent policy influences on growth could be made, either by assuming a constant-returns-to-capital production process, or by assuming that policy affects technological progress. While there is no firm evidence on the first hypothesis, most of the policy and institutional factors considered in this chapter do not seem likely to affect technological progress, with the likely exception of R&D activity. See Bassanini, Scarpetta and Hemmings (2000) for a more detailed discussion.

private decisions on savings and investment and the formation of human capital. They can also contribute to the overall efficiency with which resources are allocated in the economy, over and above their effects on the accumulation of physical and human capital.

In order to shed light on the role of policy and institutions on output growth in OECD countries, an empirical analysis based on growth regressions has been undertaken. The analysis focuses on a sample of 21 OECD countries over the period 1971-1998 and it considers separately the effects of policy and institutions on physical capital accumulation and economic efficiency.[1] Conclusions are also drawn concerning the overall impact on output per capita.

The accumulation of physical and human capital

Business investment is a key factor for growth, and varies significantly across countries

The accumulation of physical capital (typically proxied by the share of investment in GDP) is a key factor in the growth process, although its effects could be more or less permanent depending on the extent to which technological innovation is embodied in new capital (see Box IV.1). Whatever the transition mechanism from capital accumulation to growth, the significant differences in the investment rate point to it as a possible source of differences in output per capita in different countries and over time. In particular, long-run averages of business-sector investment rates range from around 10 per cent to over 20 per cent of GDP. Furthermore, major shifts in investment rates within countries are common, a notable example being the rapid rise in the US investment rate in recent years (see below).

The empirical analysis confirms the importance of physical capital accumulation for output per capita, although there is no strong evidence that an increase in the rate of physical investment will have permanent effects on underlying growth rates as opposed to a permanent effect on the level of output.[2] More specifically, the analysis suggests that a 1 percentage point increase in the business sector investment rate could increase the annual rate of growth by as much as 0.2-0.3 per cent during the transition process, with a long-term impact on the level of output per capita of about 1.3-1.5 per cent (Table IV.1).

Some types of public investment also boost output

The government also is a direct investor in certain activities and, although the volume of its investment is small compared to that of the private sector, such investment may have a distinct bearing on growth, depending on its composition. For example, public investment in transport, communication and other infrastructure is likely to influence growth by contributing to an environment conducive to private-

1. The country sample includes neither the new members of the OECD nor Iceland, Luxembourg and Turkey. Moreover, some regressions (*e.g.* those including R&D indicators or indicators of financial developments) are based on smaller samples due to data availability. See Bassanini, Scarpetta and Hemmings (2000) for details. The same source provides an overview of recent studies applying growth regressions to data for OECD countries and their main results. Moreover, the analysis benefited from a workshop on growth organised by the OECD Economics Department held in July 2000; papers can be found in *www.oecd.org/subject/growth* (*OECD Economics Department Working Papers* Nos. 260-268).
2. For the former to be the case, one should have observed a significantly higher partial elasticity of output with respect to capital than the capital share in value added. Indeed, in a competitive market with a constant returns to scale production function, the estimated partial elasticity of output with respect to capital should be equal to the capital share in total value added. The estimated value of the partial elasticity is around 0.25, that is consistent with the range found for the capital share in National Accounts data, albeit somewhat on the low side.

Table IV.1. **The estimated role of capital accumulation for growth**

	Range of the estimated long-run impact on output per working-age person (per cent)
Business sector investment rate[a] (increase of 1% point)	1.3 to 1.5
Human capital[a] (1 additional year of average schooling in the working-age population)[b]	3.8 to 6.8

a) The values reported in this table are the estimated long-run effects on output per working-age person of a given change in the variable. The range reported reflects the values obtained in different specifications of the growth equation.
b) One additional year of average education is about a 10 per cent increase in the cross-country average.
Source: OECD.

sector activity. The varied nature of public-sector investment and its possibly complex role in the growth process is reflected in somewhat mixed conclusions from the empirical research. The empirical analysis conducted for this chapter suggests that the effect of government investment on output per capita, controlling for the required financing, has been positive, though not always statistically significant.

Human capital is of great importance for growth…

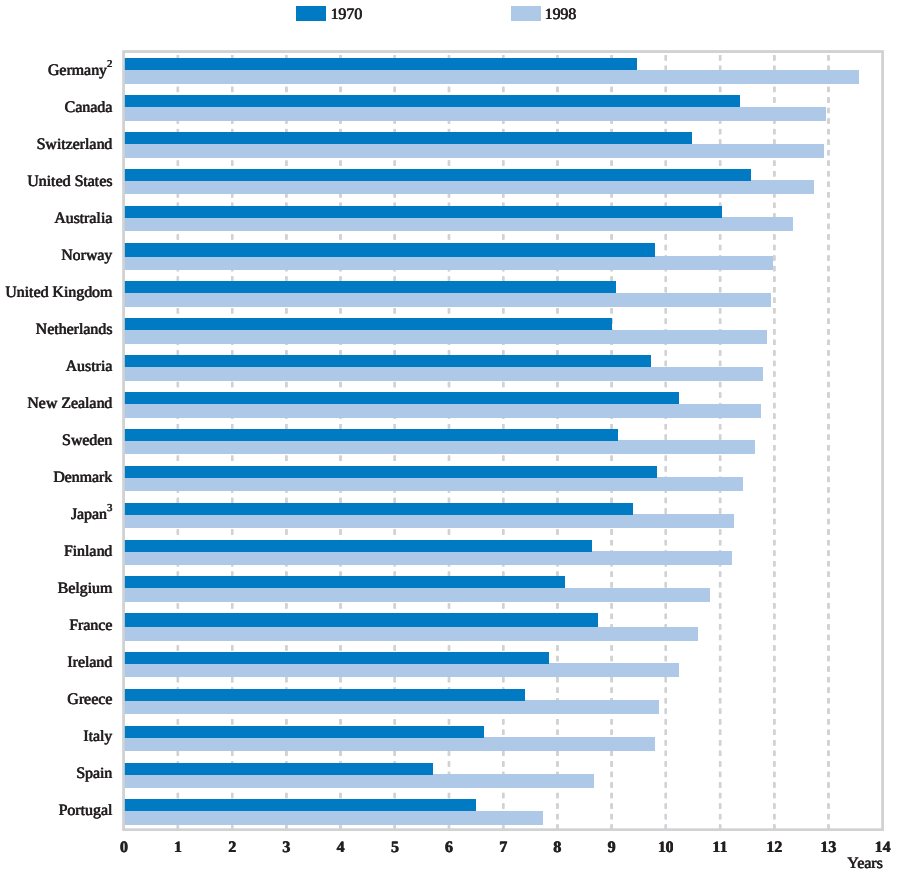
Studies on growth typically assume that formal skills and experience embodied in the labour force represent a form of (human) capital. It could be argued that human capital, like physical capital, is subject to some kind of diminishing returns, so that a more highly-trained and skilled workforce would enjoy higher levels of income in the long term, but not necessarily permanently higher growth rates of income. Alternatively, investment in human capital (*e.g.* expenditures on education and training) could have a more permanent impact on the growth process if high skills and training go hand-in-hand with more intensive research and development and a faster rate of technological progress or if a highly-skilled workforce eases the adoption of new technologies.[3]

… and its proxy based on formal education attainment shows variation across countries and over time…

Available indicators of human capital typically focus only on levels of formal education. They are admittedly crude and somewhat narrow proxies, taking little account of quality aspects of formal education or other important dimensions of human capital. Nonetheless, estimates of the average years of schooling amongst the working-age population suggest that, despite some convergence over the past decades, there remain significant differences across the OECD countries.[4] In terms of the evolution over time, Figure IV.1 indicates that the increases in average education were in the range from less than half a year per decade (*e.g.* the United States, from relatively high initial levels) to more than one year per decade (*e.g.* Germany and Italy, the latter from a relatively low level).

3. Indeed, new-growth models that incorporate a knowledge-producing sector can be interpreted as incorporating the role that, for example, research universities may play in growth. An early example of this type of model was by Uzawa (1965), later examples by Lucas (1988), Romer (1990), Grossman and Helpman (1991) and Aghion and Howitt (1998).
4. This indicator of human capital is based on education attainment amongst the population of working age and average years of schooling at each level of education. It is derived from OECD data (OECD *Education at a Glance*, various issues) combined with data from de la Fuente and Doménech (2000).

Figure IV.1. **Average years of education[1] of the working-age population in OECD countries, 1970 and 1998**



1. Average number of years of education in the population aged 15-64 years, based on data on level of education attained and assumptions about the number of years of education implied by different levels of education attainment.
2. Western Germany in 1970.
3. 1990 instead of 1998 for Japan.

Source: OECD.

… with an estimated strong effect on observed growth trends

Analysis conducted for this chapter indicates that the long-run effect on the level of output per capita of an additional year of education has ranged between 4 and 7 per cent (Table IV.1).[5] However, although average levels of human capital have typically been rising – thus continually feeding through into higher growth – the relatively slow rates of increase (half to one year per decade) need to be borne in mind in evaluating this result.

The magnitude of the impact on growth found in this analysis suggests that the economy-wide returns to investment in education may be larger than those experi-

5. These results are in contrast with a number of previous studies that failed to find a robust association between human capital and output per capita. For example, Benhabib and Spiegel (1994) and Barro and Sala-i-Martin (1995) found no, or very limited, effects of human capital on growth. The more significant results found in the present study may be due to the use of better quality data on human capital. Indeed, using a similar indicator of human capital, de la Fuente and Doménech (2000) also found a statistically significant role for human capital in growth.

enced by individuals. This possibly reflects spillover effects, such as links between education levels and advances in technology, and implies that incentives for individuals to engage in education may be usefully enhanced by policy to reap maximum benefits for society as a whole. However, there are some caveats to this interpretation of the results. First, the impacts found in the analysis may be over-estimated because the indicator of human capital may be partially acting as a proxy for other variables, an issue also raised in some microeconomic studies. In addition, the empirical analysis suggests that the impact is determined with some lack of precision. In any case, the average level of formal education is bound to react only slowly to changes in education policy, as the latter typically affect only young cohorts entering the workforce. Finally, extending the period of formal education may not be the most efficient way of providing workplace skills, and this aspect of education must also be balanced against other (sometimes-competing) goals of education systems. Thus, for those countries at the forefront of educational provision, the growth dividend from further increases in formal education may be less marked than that implied in the empirical analysis.

Innovation, R&D and growth

Innovation is a key driver of growth, and is influenced by R&D activity

Expenditure on R&D can be considered as an investment in knowledge that can translate into new technologies and more efficient ways of using existing resources of physical and human capital. Insofar as it is successful in these respects, it is plausible that higher R&D expenditure would, *ceteris paribus*, be associated with permanently higher growth rates. The potential benefits from new ideas may not accrue fully to the innovators themselves due to spillover effects, implying that without policy intervention the private sector would likely engage in less R&D than is socially optimal. This can justify some government involvement in R&D, both through direct provision and funding and through indirect measures such as tax incentives and protection of intellectual property rights to encourage private-sector R&D.

Expenditures on R&D have increased from the 1980s to the 1990s, especially in the business sector…

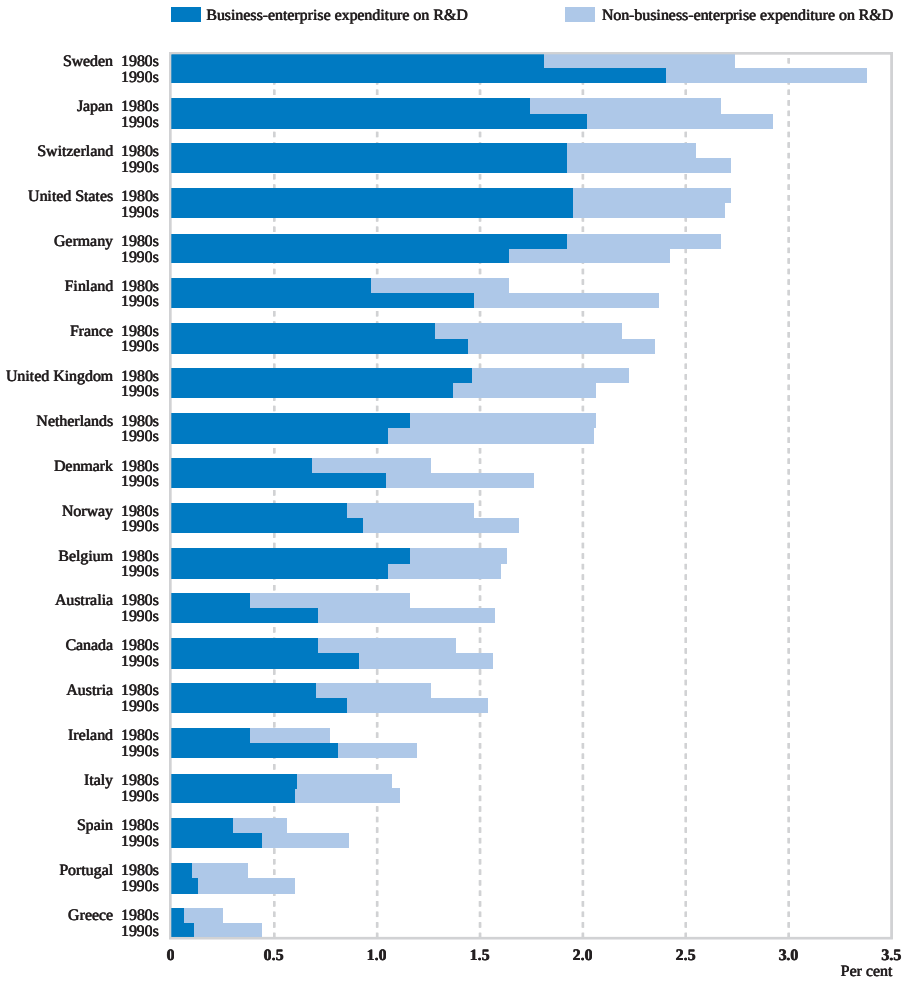
Overall expenditure on R&D as a share of GDP has risen somewhat since the 1980s in most countries (Figure IV.2), mainly reflecting increases in business-performed R&D that accounts for the majority of expenditure in most OECD countries.[6] The increase in business-sector R&D intensity in the 1990s as compared with the 1980s has been driven by larger resources made available by private firms, rather than by governments: indeed the share of publicly financed business-sector R&D has declined over the past decade.

… and this is estimated to have had a significant positive effect on output per capita

The empirical analysis suggests that business-performed R&D has had a substantial impact on output and growth.[7] Confirming some previous studies, R&D activities seem to have high social returns: the 10 per cent increase in R&D intensity (about 0.1 per cent of GDP) recorded from the 1980s to the 1990s could have boosted output growth in the latter period by some 0.3-0.4 per cent. This could imply a long-run effect of about 1.2 per cent higher output per capita under the "conservative" view that changes in R&D do not permanently affect output growth. The

6. OECD (2000) provides more details on recent trends in R&D intensity. In particular, the decline in government spending on R&D has been affected by the reduction in military R&D budgets following the end of the cold war and, more generally, efforts to reduce fiscal imbalances.
7. These empirical findings are not fully comparable with those discussed above, insofar as the analysis from which they are drawn only includes 16 countries over the 1981-98 period.

— Figure IV.2. **Expenditure on R&D in the OECD countries, 1980s and 1990s** —
Per cent of GDP



Source: OECD.

results are not clear-cut for R&D activities performed by other institutions (mainly government and research laboratories). There are, however, potential interactions between the different sources of R&D activities that were not considered in the empirical analysis, *i.e.* certain forms of government R&D could stimulate business R&D.[8] Moreover, the nature of the two forms of R&D activity may be different. For example, while business R&D is likely to be more directly targeted towards innovation and implementation of innovative processes (leading to improvements in productivity), non-business oriented R&D (*e.g.* defence, fundamental science and health research) may generate basic knowledge with possible "technology spillovers" in the long run. The latter are difficult to identify in growth regressions, not least because of the long lags involved, and the possible interactions with human capital and associated institutions.

8. See Guellec and Van Pottelsberghe (2000).

Policy and institutional influences on growth

Macroeconomic policy setting and growth

Both the level and variability of inflation could be harmful for growth

In recent years, most OECD countries have succeeded in lowering inflation and improving public finances, and a number of studies have shown the beneficial effects of these moves for economic growth. The usual arguments for lower and more stable inflation rates include reduced uncertainty and enhanced efficiency of the price mechanism. Moreover, more stable inflation may be associated with more stable output growth, also reducing uncertainty and improving the environment for private-sector decisions. There could also be an additional effect on capital accumulation where inflation exacerbates tax distortions (*e.g.* nominally-denominated allowances). Nevertheless, a simple comparison of inflation rates and growth rates for OECD countries shows that the link may not be very strong, especially when inflation is low, as at present. By contrast, there is a somewhat stronger negative correlation between the change in variability of inflation and changes in average growth rates from the 1980s to the 1990s.[9]

More sophisticated empirical analysis lends stronger support to the notion that the level of inflation has a negative impact on output, mainly via its impact on the accumulation of physical capital in the private sector (Table IV.2). On this basis, the approximately 4 percentage point reduction in the average rate of inflation from the 1980s to the 1990s could be associated with about 1.6 per cent higher output per capita. Moreover, the average reduction in the *variability* of inflation observed from the 1980s to the 1990s could be associated with an increase in output per working age person of about 1.3 per cent, holding all other factors constant. These results are consistent with the view that uncertainty about price developments influences growth mainly via its impact on economic efficiency, for example by leading to a sub-optimal choice of potential investment projects, with lower average returns. At the same time, the results suggest that high levels of inflation discourage savings and investment and by this channel negatively affect growth. However, some care has to be taken in interpreting the evidence on the negative relationship between inflation (or its variation) and growth, given the current conditions observed in many OECD countries. At low levels of inflation, the link with growth is likely to be more uncertain.[10]

Government expenditures and taxation could also have a bearing on growth

Most types of government expenditures probably have some impact on economic growth, directly and indirectly, whether or not this is their main purpose. Analysing the impact of these expenditures on growth is not straightforward, in part because the mechanisms may be complex and slow to operate in some cases, but also because the causation could go the other way.[11]

9. The correlation between the change in the standard deviation of inflation from the 1980s to the 1990s and the change in the average growth rate is –0.42 (with a t-statistic of –2.23). If countries with relatively high variability of inflation are excluded (*e.g.* Mexico, Ireland, Turkey, Korea and Greece), the correlation is not statistically significant (–0.28, with a t-statistic of –1.23).
10. On the one hand, some argue (*e.g.* Feldstein, 1996) that further reductions in inflation, even towards zero inflation (or more stringently, price stability) would see continuation of the benefits of reduced inflation. On the other hand, others (*e.g.* Akerlof *et al.*, 1996) claim that negative effects on growth emerge at very low levels of inflation through nominal wage rigidities creating market inefficiencies.
11. For example, long-run data often show that government expenditure as a share of GDP tends to rise with standards of living (Wagner's law), reflecting income-elastic demand for key government services (health, education and law and order). Kolluri *et al.* (2000) find strong support for Wagner's law operating in OECD countries based on regressions linking total government expenditure with GDP.

Table IV.2. **Estimated impact of changes in institutional or policy factors on output per capita**[a]

Variable	Impact on output per working age person (per cent)[b]			Order of magnitude withrespect to OECD experience (1980s-90s)[c]
	Effect via economic efficiency	Effect via investment	Overall effect	
Inflation rate (fall of 1% point)		0.4 to 0.5	0.4 to 0.5	About 1/4 the observed fall
Variability of inflation (1% point fall in the standard deviation of inflation)	2.0		2.0	About 1.5 times the observed fall
Tax burden[d] (increase of 1% point)	–0.3	–0.3 to –0.4	–0.6 to –0.7	About 2/3 of the observed increase
Business R&D intensity[d] (increase of 0.1% point)	1.2		1.2	About the increase observed
Trade exposure[d] (increase of 10% points)	4.0		4.0	About the increase observed

a) The values reported in this table are the estimated long-run effects on output per working-age person of a given policy change. The range reported reflects the values obtained in different specifications of the growth equation.
b) The effect via economic efficiency refers to the impact on output per capita over and above any potential influence on the accumulation of physical capital. The effect via investment refers to the combined impact of the variable on the investment rate and by that channel, on output per capita.
c) Average change from the 1980 average to the 1990 average in the sample of 21 OECD countries, excluding new Members as well as Iceland, Luxembourg and Turkey.
d) In percentage of GDP.
Source: OECD.

In any case, expenditures have to be financed. Where public consumption or social transfers are financed by government deficits, a traditional argument for a more restrictive fiscal policy is to contain the crowding-out effects that reduce growth through cut-backs in private-sector investment. Where taxes are raised to support government spending, they may distort incentives, reduce the efficient allocation of resources and hence reduce the level or growth of output.

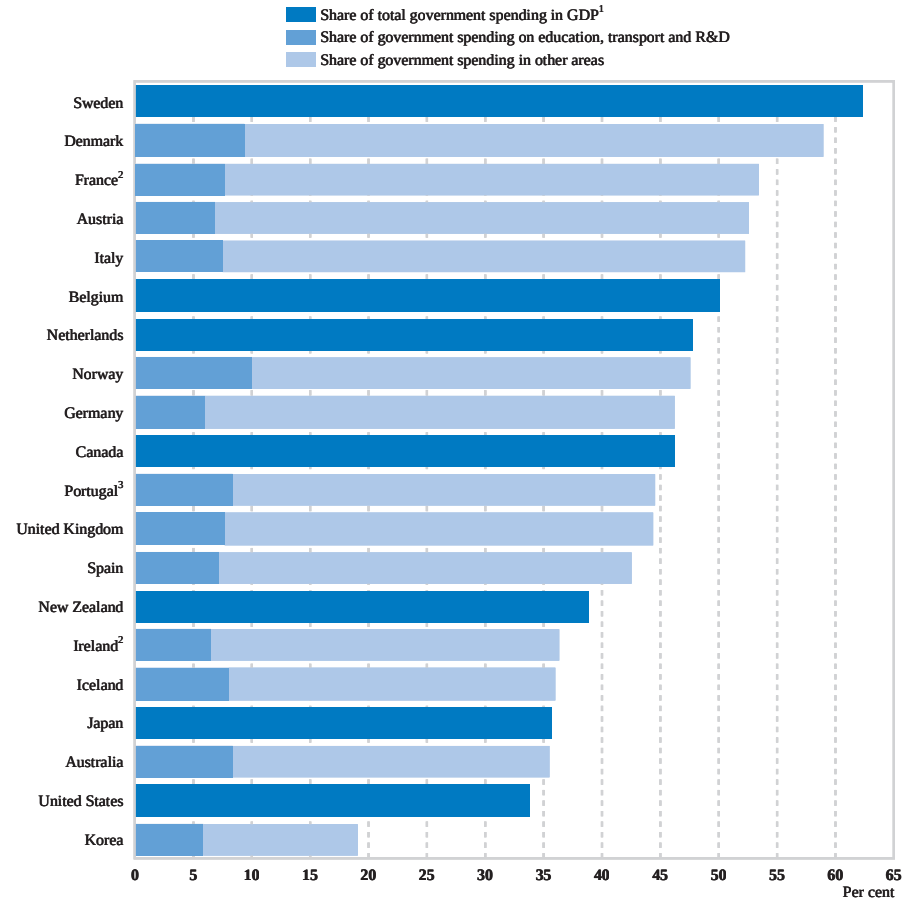
Over the past decade, tax pressure increased in many countries…

Over the past decade, the size of the public sector tended to increase in most OECD countries as did government gross liabilities, although the most recent years have seen some reversal of this trend. Notwithstanding these latest developments, the ratio of total government expenditure to nominal GDP was still in the range of 40-50 per cent in a number of OECD countries in 1999. Less than a fifth of expenditure is typically allocated to areas more directly related to growth (*e.g.* schooling, infrastructure and R&D) (Figure IV.3).

… and this is estimated to have led to a lower output per capita, ceteris paribus

The empirical results reported in Table IV.2 provide some support for the idea that the tax pressure related to government spending could have an overall negative impact on output per capita, by influencing the efficiency of resource allocation across different investment projects, and by reducing the accumulation of physical capital. Bearing in mind the illustrative nature of this exercise, the observed average increase in tax pressure across the 21 OECD countries between the 1980s and the 1990s (about 1.5 per cent of GDP) could have led to a lower output per capita, *ceteris paribus*, of about 0.9 to 1.1 per cent. The composition of expenditure is also

Figure IV.3. **Share of total government spending in GDP in OECD countries, 1995**



1. Where disaggregated data are not available.
2. 1993.
3. 1992.

Source: OECD.

important: both government consumption and investment seem to have a positive impact on output per capita. In addition, it seems likely that the structure of taxes has some bearing on this result as an additional negative effect was found for tax structures with a heavy weight on direct taxes.

Trade and growth

Exposure to foreign trade has increased in all OECD countries over the past decade…

Empirical studies have often pointed to the importance of foreign trade for growth. Aside from the benefits of exploiting comparative advantages, gains from trade may arise through economies of scale, greater exposure to competition and the diffusion of knowledge. Past progress in reducing tariff barriers and dismantling non-tariff barriers has almost certainly opened up opportunities to gain from trade. The relatively open policy stance now in place across OECD countries would sug-

gest that the amount of trade conducted is by now more a reflection of patterns of growth (and to some extent geography, size and transport costs) rather than something that is tightly constrained by tariff and non-tariff barriers.

... with an estimated positive contribution to income per capita

Given this interpretation of the link between trade and growth in OECD countries, the results in Table IV.2 concerning trade exposure probably capture various competitive pressures, as much as factors directly related to trade policy. The results are based on a measure of trade exposure that attempts to control for the inherent higher exposure of small countries as compared to large countries (Table IV.2). The results point to a significant contribution to output per capita (about 4 per cent) from the observed average increases in trade exposure in the OECD countries over the 1980s-90s period.

Financial development and growth

Financial systems deliver a range of services that are likely to encourage growth…

Financial systems play a role in the growth process because they are key in the provision of funding for capital accumulation and for the diffusion of new technologies. A well-developed financial system: *i*) mobilises savings by channelling the small-denomination savings of individuals into profitable large-scale investments while offering savers a high degree of liquidity; *ii*) provides insurance to individual savers against idiosyncratic risk through diversification; *iii*) reduces the costs of acquiring and evaluating information on prospective projects, for example through specialised investment services; and *iv*) serves in the monitoring of investments to reduce the risk that resources are mismanaged. All these services are likely to contribute to economic growth, but there could, in theory, also be opposite effects. For example, lower risk and higher returns resulting from diversification may prompt households to save less.

… and recent OECD analysis finds supporting evidence for this within Member countries

Despite the theoretical complications, a number of empirical studies attempting to explain cross-country differences in growth across a broad range of countries have concluded that financial development plays a significant role.[12] In particular, financial market development appears to be significantly related to output per capita.[13] The results point to effects working through two channels. One is through increased efficiency, which may arise from the allocation of resources towards higher-return projects. The other is through the accumulation of physical capital. However, as is the case in previous studies, the possibility of reverse causality must be recognised in assessing these results insofar as economic growth may also prompt the development of financial systems.

12. See, for example Levine (1997), Levine *et al.* (2000), Temple (1999).
13. Specifically, an indicator of stock market capitalisation was found to be statistically significant in the regression analysis. Results using private credit of deposit money banks as a share of GDP were somewhat weaker. See Leahy *et al.* (2000) and Bassanini, Scarpetta and Hemmings (2000).

Determinants of growth in OECD countries over the past decades and the "New Economy"

Explaining past growth trends

Changes in policy settings within countries have generally gone in the direction of fostering growth…

The results discussed above can be used to shed some light on the possible impact of policy changes on the growth path of each country over the past decade (Figure IV.4).[14] The improvement in human capital seems to be a common factor behind the growth process of the past decades in all OECD countries, but especially so in Italy, Greece, Ireland and Spain where the increase in human capital accounted for more than half a percentage point acceleration in growth in the 1990s with respect to the previous decade. The contribution stemming from changes in the investment rate is more mixed. Some countries are estimated to have benefited from an increase in the business investment rate in the past decade (*e.g.* Canada, Austria, Belgium, New Zealand, Portugal and Spain), while others experienced a negative impact from lower investment rates (*e.g.* Finland, and to a lesser extent Norway and Sweden).

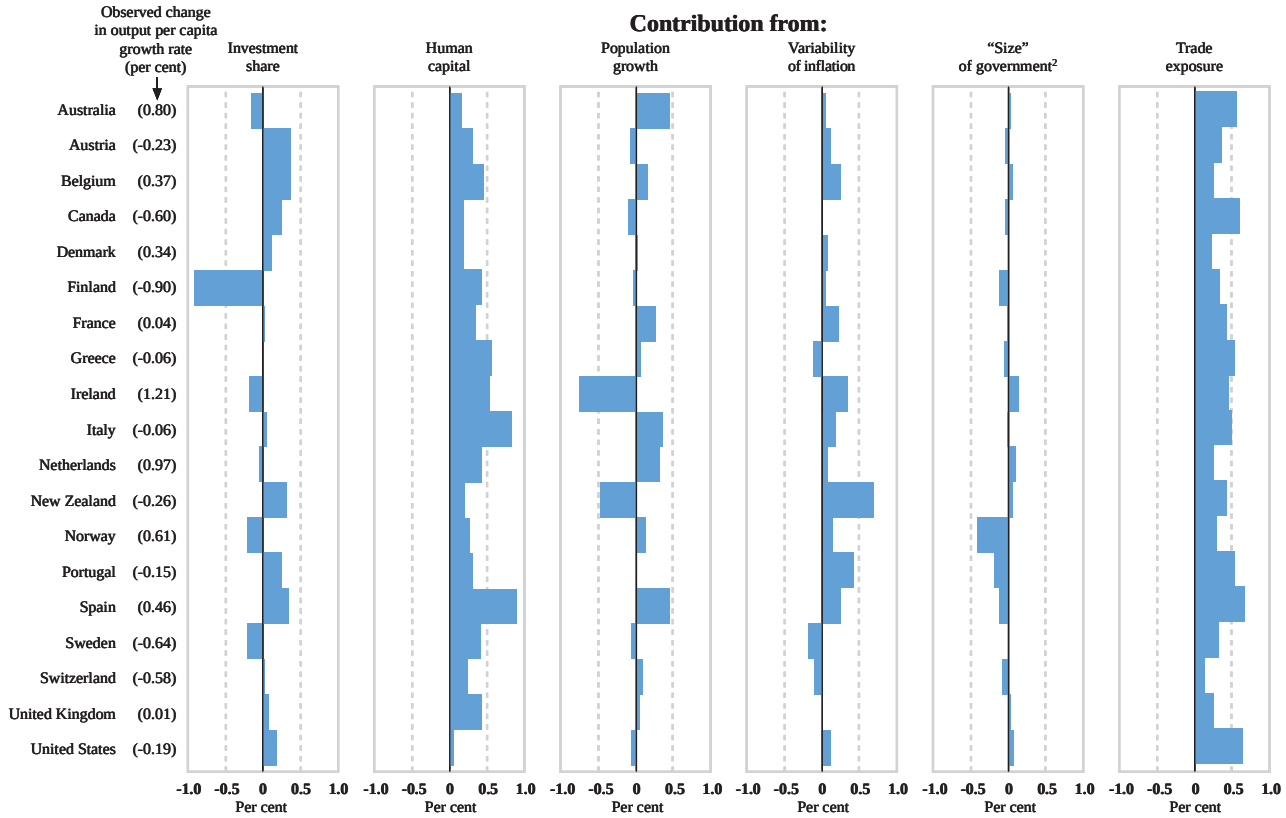
There have also been important changes in policy and institutional settings in each country that have contributed to growth, over and above the changes in inputs of physical and human capital. Most countries have benefited, especially in the 1990s, from a lower variability of inflation. The most noticeable examples include Portugal and New Zealand, where about half a percentage point higher annual output per capita growth rate is estimated to be due to this factor, *ceteris paribus*. By contrast, in spite of the greater fiscal discipline especially in the last decade, the rise in the size of government contributed to a marginal growth slow-down in many countries. Exceptions include Ireland and the Netherlands, where a reduction in taxes and expenditures as a share of GDP marginally boosted output per capita growth in the 1990s. Finally, the generalised process of trade liberalisation in which all OECD countries have been involved is estimated to have increased growth by up to two-thirds of a percentage point annually over the past decade.

… however, there remain large cross-country differences in the main determinants of growth

Despite developments in the past decade, there remain profound differences in the main determinants of economic growth across the OECD countries. As an illustration, Figure IV.5 presents the changes in output per capita that would occur in individual countries if these determinants converged to the OECD average (of the 1990s). The potential contributions are derived from the empirical results discussed above. Focussing on the basic determinants of growth, a relatively low investment rate tended to reduce output per capita in a number of countries (*e.g.* United States, United Kingdom, Ireland), *ceteris paribus*, whilst relatively low levels of human capital have had a negative impact on output per capita in some European countries,

14. Note that Figure IV.4 does not report the estimated effect on growth of different initial conditions (*i.e.* the convergence process) nor does it show the unexplained country-specific effect. The coefficients used to perform the decomposition are from a growth equation that includes the variability of inflation, trade exposure and government consumption (as a share of GDP) as a proxy for the potential effect of government "size" on growth. This last variable is highly correlated with the overall tax and non-tax receipts, for which however there is not full country coverage. For further details on the decomposition, see Bassanini, Scarpetta and Hemmings (2000).

Figure IV.4. **The estimated effect of changes in explanatory variables to changes in output per capita growth rates[1] over the period 1980s-1990s**



Note: The calculations are from decompositions of differences in growth rates based on the results of multivariate regressions. The sum of the contributions shown do not correspond to the observed change in output per capita growth rates because the estimated impact of initial levels of GDP per capita and the component unexplained by the regressions are not shown.

1. The changes in growth are based on differences in average growth in GDP per person of working age over each decade. The 1980s include the period 1981-89; the 1990s cover the period up to 1997.
2. Government consumption as a percentage of GDP is used as a proxy for the size of government due to data availability. This variable is highly correlated in most countries with the tax and non-tax receipts (as a share of GDP) for which, however country coverage is more limited.

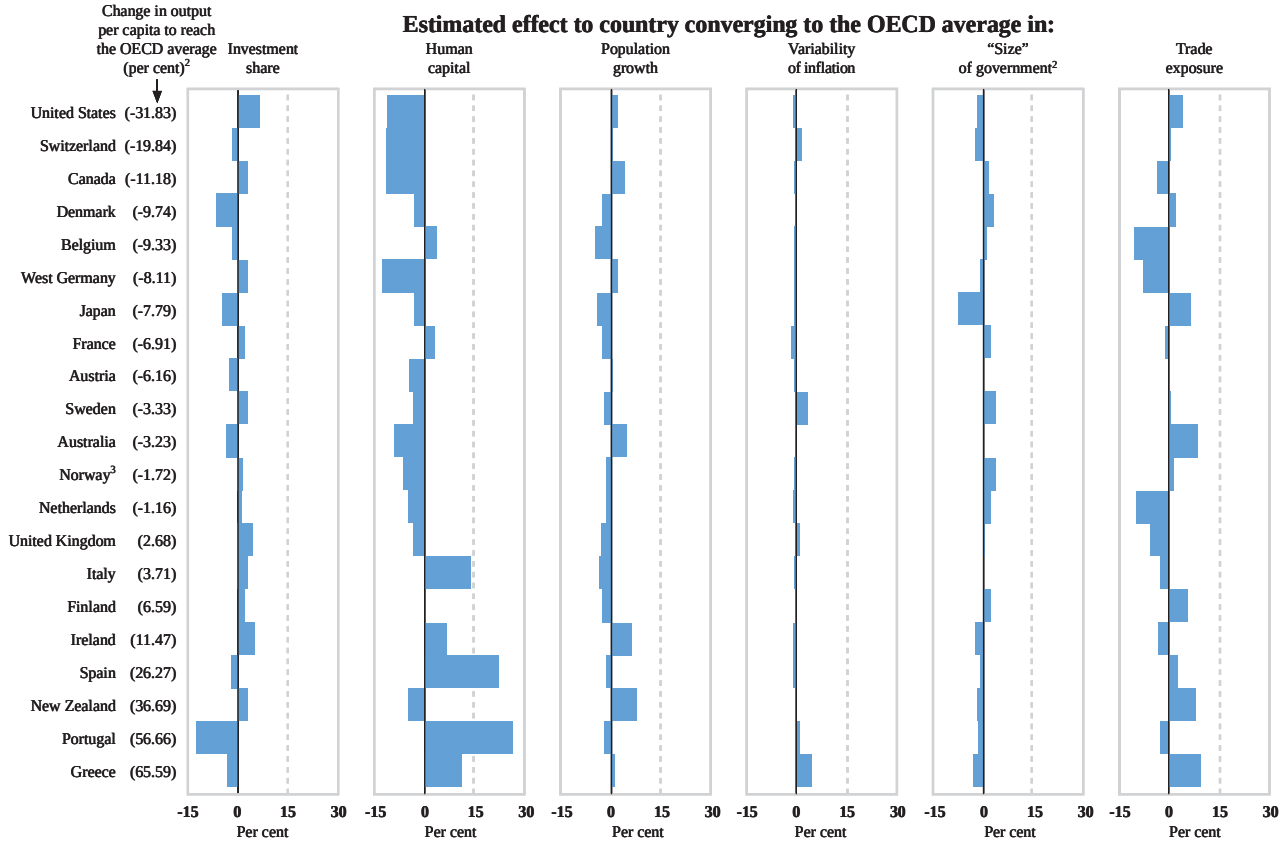
Source: OECD.

particularly in Portugal and Spain.[15] It should be stressed, however, that in the case of human capital, closing the gap with the OECD average could take a long time, given that formal education policy mainly affects new entrants in the working-age population.[16]

Differences in macroeconomic policy conditions in the 1990s had only a limited effect on output per capita. At the same time, the large "size" of government had a negative influence on output per capita in some countries, notably in Denmark and Sweden. Moreover, the relatively low exposure to foreign trade (after controlling for

15. It should also be noted that the calculations in Figure IV.5 are based on a regression in which the estimated effect of human capital on output per capita is on the high side of the range presented in Table IV.1.
16. In addition, some countries, including Australia, Canada, Ireland and New Zealand, had a somewhat lower output per capita as a result of a rapidly growing population.

Figure IV.5. **Differences in output per capita[1] and estimated contributions from differences in policy and institutional variables, 1990s**



Note: The contributions from policy and institutional variables are calculated on the basis of the observed differences in these variables in each counrty with respect to the OECD average and the estimated elasticities in the growth regressions.

1. Output per capita refers to GDP (in 1993 PPPs) per working age person.
2. Government consumption as a percentage of GDP is used as a proxy for the size of government due to data availability. This variable is highly correlated in most countries with the tax and non-tax receipts (as a share of GDP) for which, however country coverage is more limited.
3. Mainland only.

Source: OECD.

the size of individual economies) somewhat reduced potential output per capita in Australia and New Zealand, possibly reflecting geographical realities but also in Greece.

There are limits to the extent to which these results can shed light on very recent growth trends…

Results based on regression analysis clearly have limits in the extent to which they can confirm and quantify links between policy and institutional settings and economic growth. An obvious and inherent difficulty is that relatively recent growth issues, in particular the current debate about the possible shift to a "new economy" due to the development and diffusion of ICT, are difficult to examine using the regression approach. The most fruitful analyses on the effects of ICT to date have been based on growth accounting or case studies which attempt to isolate the impact on aggregate productivity of the ICT-producing sector, and the identification of wider effects on productivity in other sectors (see the previous *OECD Economic Outlook* for a review). These studies point out that rapid technological change in the ICT-producing

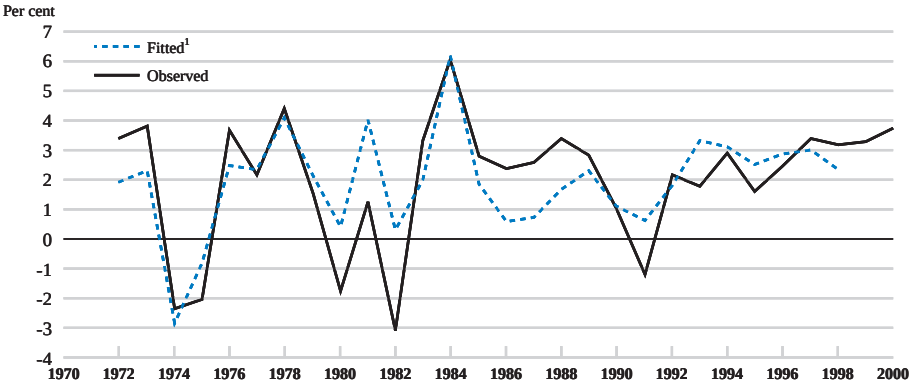
sectors and falling relative prices of ICT equipment induced rapid growth of investment in the United States, thereby boosting growth in ICT-using sectors.

… but a comparison of model-predicted and actual growth rates sheds some light on the strength of "new economy" factors

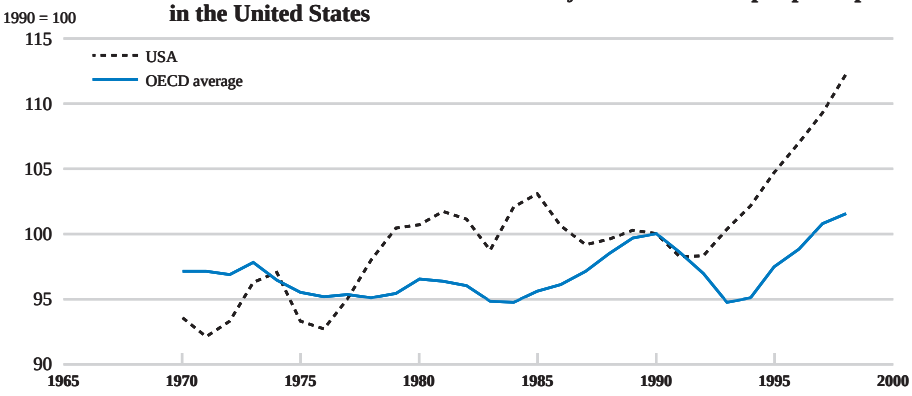
A tentative contribution from the regression analysis to the current debate can be made by comparing the growth rates estimated by the empirical model discussed in this chapter with the values actually observed in a country where there is some evidence of a "new economy", the United States. Panel A of Figure IV.6 plots predicted annual growth of output per capita in the United States with the actual values. From the figure, there is little evidence of a positive gap opening up between actual and predicted growth rates, that is to say factors included in the growth regression explain most of the observed growth paths up to 1998, and there is little need for additional explanatory factors. Consistent with most growth-accounting studies, this also suggests that there is still little evidence of a generalised pickup in productivity resulting from spillover, or network, effects in the use of IC technology, since these effects should have shown up in a divergence between estimated and observed growth rates.

Figure IV.6. **US growth performance and the role of investment in output per capita**

Panel A. Observed and fitted annual growth rates in the United States, 1972-1998



Panel B. Contribution of investment to the steady-state level of output per capita in the United States



1. The fitted series is based on a panel regression where the coefficients of some variables are allowed to vary across countries.

Source: OECD.

Rising investment in the US explains most of the acceleration in growth

This result suggests an interpretation of the "new economy" that emphasises an ICT-driven process of capital deepening. Indeed, the good fit of the growth regression is largely explicable by the business-sector investment variable. Panel B of Figure IV.6 plots the estimated contribution of the investment rate to output per capita. The figure shows that this contribution soared in the United States in the 1993-1998 period – accounting for a rise in the steady state output per capita of more than 10 per cent – while it had remained roughly constant in previous decades.[17] If the rise in the investment share in the United States is a more permanent phenomenon, its economy would converge over time to this higher steady-state level of output per capita. This may not seem implausible given that a significant part of the rise in investment in the United States has been due to a major fall in the relative prices of ICT equipment,[18] *i.e.* the rise in investment has not required a similar rise in savings. In any case, the figure also shows that no such boost from investment to output could be detected in the OECD-wide average over the same period.

Encouraging the "New Economy"

Encouraging the new economy requires both "old" and "new" policies

Although evidence of new forces shaping the growth process is still limited, it is undeniable that the recent years have witnessed an acceleration in growth in some countries and, at least in the United States, this has been driven by an ICT-related process of capital deepening. Setting the right broad economic environment for encouraging further diffusion of this technology is likely to involve a combination of both "old" and "new" policies. Thus, the general framework conditions discussed above, including macroeconomic conditions and the climate for investment in physical and human capital development and R&D, will remain important in a comprehensive growth strategy. At the same time, a number of more specific issues affects the ability of markets to adapt to the new technologies. This section focuses on two areas of concern. First, the role that the financial environment may play in fostering investment and innovation; and second, the role that product-market regulations may have on innovation and technological progress through their influence on competition, market entry and incentives for business start-ups. Finally, the new technologies raise a number of challenges to existing policies in various areas and these are briefly presented.

The financial environment and innovation

Financial environment conditions may play an important role in the development of ICT-related industries

As discussed above, financial systems have an important role to play in the growth process. In the context of the new economy, a specific contribution they could offer is that of allowing the emergence of new, innovative enterprises. In particular, the financial environment is likely to have played a role in the development of "venture capital" markets. Venture capital typically consists of equity, or equity-linked, investments in young, privately held companies and has often served as seed money in ICT businesses. In addition, share markets have also played a role in providing funding by the public. The fact that these forms of capital, and other forms of high-risk capital, have developed to differing degrees across countries suggests that differences in financial framework conditions may be influential in determining investment in innovative projects and ultimately the rate of innovation itself.

17. The empirical analysis does not, of course, "explain" in detail why investment in ICT has soared so much.
18. See the previous *OECD Economic Outlook* and Bassanini, Scarpetta and Visco (2000).

In theory the relationship between financial systems and innovation is complex…

The link between financial environment and innovation is not clear-cut. For example, a system of shareholder rights that results in ownership concentration may strengthen shareholders' incentives to monitor enterprises and investments, but may also inhibit the development of liquid equity markets, providing fewer opportunities for risk diversification and greater obstacles to funding risky projects. In terms of creditor rights, a harsher bankruptcy policy might elicit more efficient decision-making by enterprise managers but may also reduce incentives for managers to undertake risky projects that offer the potential for higher future returns, leading to less innovation and slower long-run growth.

… and measurement issues are prominent

Given the trade-offs involved, questions of how financial conditions affect innovation, investment and growth are essentially empirical. The approach taken in this chapter is to examine simple correlations between measures of framework conditions and innovation, investment and growth.[19] Such an approach is clearly tentative, at best, as it faces inevitable measurement difficulties and tends to skim over the complex nature of both evolving financial systems and their interactions with the growth process. Nonetheless, some significant relationships emerge.

However, there would appear to be some connection between framework conditions and various indicators of innovation…

The results (Table IV.3, left-most column) suggest that several specific indicators of innovative activity are positively correlated with a compound measure of investor protection, which includes measures of transparency and enforcement, as well as shareholder and creditor rights. R&D spending, R&D personnel and patent applications in OECD countries tend to rise with investor protection. Also, measures of IPOs and venture capital investment, which can be seen as proxies for investment in innovative new businesses, show significant and positive correlation with the compound measure of investor protection. Finally, supporting the view that stronger investor protection might help economies to adapt to and deploy changing technologies, results indicate that cross-country changes in multifactor productivity (MFP) growth from the 1980s to the 1990s are significantly correlated with the compound measure of investor protection.

… but the most important factors seem to be enforcement and transparency, rather than specific issues of shareholder and creditor rights

Examination of the role played by the separate components of the summary measure of investor protection indicates that the correlations in the left-hand column of Table IV.3 are driven largely by the indicator of enforcement and transparency, rather than statutory shareholder and creditor rights. It is possible that financial systems may adapt to whatever legal framework conditions are in place, with this adaptation helped by strong enforcement and transparency. Thus, the particular rights and mechanisms that apply may be less critical to the functioning of economic activity than their clear and consistent enforcement and execution.

Product-market regulation and MFP growth

Product-market regulation may be another factor influencing the degree of entrepreneurial activity and innovation in ICT industries…

Entrepreneurial behaviour is an important factor in the growth process at any time but especially so in periods of major technological change, when new technologies are often more efficiently harnessed through the creation of new enterprises and the redesign of existing ones. Product-market regulation is one of the influences on the entrepreneurial climate, alongside issues such as taxation, employment regulations and, as discussed above, finance. For example, excessive regulation in the registration of new businesses (as well as opacity in the procedures) adds further costs

19. See Leahy *et al.* (2000).

Table IV.3. **Correlation between financial framework conditions and indicators of innovative activity**[a]

Correlation coefficients

	Indicator of financial framework conditions				
	Enforcement, transparency, shareholder and creditor rights	**Enforcement, transparency**	**Shareholder and creditor rights**	**Shareholder rights**	**Creditor rights**
R&D expenditure as a per cent of GDP (average 1990-97)	0.56***	0.65***	0.00	0.08	–0.22
Total R&D personnel per 1 000 labour force (average 1990-97)	0.57***	0.68***	–0.06	0.00	–0.19
Resident patent applications per 10 000 population (average 1990-97)[b]	0.65***	0.69***	0.05	0.16	–0.04
Patents in the United States, per 100 000 population (average 1990-97)[c]	0.57**	0.62***	–0.24	–0.07	–0.20
IPOs per million of population, (1995:7-1996:6)	0.50**	0.45*	0.30	0.48**	–0.26
Venture capital investment, early stage and expansion, as a per cent of GDP (average 1995-98)[d]	0.47**	0.44*	0.05	0.19	–0.26
Change in MFP growth corrected for hours worked (average 1990s minus average 1980s)	0.48**	0.47**	0.15	0.26	–0.19

a) 21 countries are covered in the calculation. The indicators of financial framework conditions are based on factor analysis (see Leahy *et al*, 2000) .
*: significant at 10% level; ** at 5% level; *** at 1% level.
b) Excluding Japan.
c) Excluding Japan, Switzerland and the United States.
d) Data for Japan and Australia are for 1994 and 1997, respectively.
Sources: Indicators of financial framework conditions are from La Porta *et al.* (1998) and Kaufmann *et al*. (1999*a*, *b*). Other data are from OECD sources.

that can discourage entry. Furthermore, administrative procedures might require many steps and interaction with a multitude of different agencies, raising start-up costs and reducing incentives for developing new ventures.

… and negative correlation between indicators of product-market regulation and changes in MFP growth lends some support to this hypothesis

Tentative evidence of the correlation between stringent administrative regulations concerning start-ups (*e.g*. licences and permits, communication rules, administrative burdens on corporate and sole proprietor firms, legal barriers to entry) and productivity performance is shown in Table IV.4.[20] Indeed, strict regulations seem to be associated with poorer MFP growth from the 1980s to the 1990s. Administrative burdens are not the only dimension of product-market regulation that may matter for speeding up the adoption of new technologies and, more generally, the process of innovation. The indicator of the stringency of overall domestic product-market regulation is also negatively related to the evolution of MFP growth from the 1980s to the 1990s. More specifically, the indicator reflecting government involvement in business operations (*e.g.* price controls, use of command and control regulations) appears to be negatively and significantly associated with MFP growth. All in all, these results point to the potential negative implications for productivity growth of

20. The indicator of administrative regulation, as well as all other indicators of product-market regulation, increases with the strictness of regulations. The product-market regulation indicators are from Nicoletti *et al*. (2000).

Table IV.4. **Correlation between changes in average multifactor productivity growth between 1980s and 1990s and OECD indicators of product-market regulation**

	Correlation
Overall product-market regulation	–0.30
Inward orientated policies	–0.41*
State control	–0.25
Public ownership	–0.04
Involvement in business operations	–0.43*
Barriers to entrepreneurship	–0.52**
Administrative burdens	–0.63***
Regulatory and administrative opacity	–0.02
Barriers to competition	0.14

Notes: * significant at 10% level; ** at 5% level; *** at 1% level.
19 countries are covered in the calculation: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Greece, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden and United States. The MFP growth data are cyclically-adjusted figures from Scarpetta *et al.* (2000). MFP growth in Germany for 1991 is excluded from the calculations. The indicators of regulation are based on factor analysis of a range of variables. Note that "outward-orientated" indicators could not be used for correlations because EU countries were given the same value in most of the data. See Nicoletti *et al.* (2000) for more details. Note that Norway was a significant outlier in the correlations. With the exclusion of Norway, the correlation between overall product-market regulation and the acceleration of MFP becomes statistically significant (at 5% level) and all the others are higher and often statistically significant.
Source: OECD.

stringent regulations in the product market and suggest an area where, despite recent reforms, more remains to be done.[21]

Policy challenges created by the spread of IC technologies

However, there are a number of additional policy challenges directly related to the spread of ICT

The increased role of ICT in the OECD economies raises a number of additional policy issues that are not discussed in this chapter. Reaping the full benefits of ICT requires, for example, the removal of barriers to network access. Moreover, regulatory reforms are needed to foster competition in new ICT-related activities such as mobile telephony. At the same time, there are also features of the IC technology that pose new challenges to competition: certain products become more useful as more people use them (*e.g.* networks or software) and economies of scale in their production can be large, both factors making it more difficult for other enterprises to enter a market where an incumbent is already established. The spread of e-commerce has implications for tax revenues, privacy and consumer protection that are difficult to tackle given the borderless nature of the net and the many jurisdictions involved. Last but not least, social concerns are raised about the possible emergence of a "digital" divide in the access to the new technologies.

21. A number of other studies have also found a negative impact of more general regulatory indicators on growth (see Ahn and Hemmings, 2000, for a review of the evidence).

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V. REVISED OECD MEASURES OF STRUCTURAL UNEMPLOYMENT

Introduction

The NAIRU is the rate of unemployment consistent with stable inflation…

An important challenge in setting economic policy is to identify the rate of capacity utilisation that is sustainable, in the sense that it is associated with reasonably stable inflation. There are different ways of measuring capacity utilisation. Looking at perhaps the most common measure, unemployment, this idea of sustainable resource utilisation has been made operational in the concept of the NAIRU – the non-accelerating inflation rate of unemployment, *i.e.* the unemployment rate consistent with stable inflation.[1]

… providing a benchmark to assess the sustainability of macroeconomic policy

Views are mixed as to the usefulness of the NAIRU concept. Nevertheless, economists analyse future inflation trends, the sustainability of fiscal positions, and the need to undertake structural reforms to permanently reduce unemployment and for these purposes they need a benchmark to identify and distinguish sustainable and unsustainable trends in output and unemployment. The NAIRU concept provides such a benchmark. Estimates of the NAIRU help to make more transparent the assumptions that lie behind policy analysis and recommendations.

Its measurement is subject to uncertainty, particularly because it is determined by a wide range of factors and varies over time

The measurement of the NAIRU is also controversial. By its nature, it is non-observable and depends on a wide range of institutional and economic factors. It follows that even if one accepts the concept, it can only be estimated with uncertainty. Moreover, it may well vary over time – European experience suggests that, in general, inflation would rise if unemployment reached the low unemployment rates associated with stable inflation in the 1960s. And at times, such as when there are large fluctuations in oil or raw material prices, it is clear that unemployment would have to rise or fall very steeply to stabilise inflation.

The OECD has recently revised its procedures for estimating the NAIRU

The OECD has recently reviewed its procedures for deriving estimates of the unemployment rates consistent with stable inflation.[2] The procedures have been updated and improved in several respects. The new estimates focus on the unemployment rate consistent with stable price inflation, as measured by the private consumption deflator.[3] More importantly, the new procedures allow the distinction between and estimation of a slow-moving NAIRU and a more volatile short-term NAIRU, which is affected by temporary factors, such as oil price fluctuations, impacting on inflation in the short term. They also provide a gauge to the measurement of uncertainty surrounding the NAIRU estimates. The current chapter first

1. As noted by others (see, for example, Braun (1984)), the acronym is a misnomer, the concept is correctly defined as a "non-increasing" inflation rate of unemployment.
2. This work is reported in more detail in Richardson, *et al*. (2000).
3. Previous OECD estimates related to wage inflation and the NAWRU, as described in Elmeskov (1993) and elaborated in OECD (1999).

reviews the conceptual background to the new indicators. It then presents the estimates resulting from applying the new procedures. And, finally, it illustrates how these estimates can be used to analyse inflation developments and monetary policy.

Conceptual framework

The existence of a NAIRU implies the absence of any long-run trade-off between inflation and unemployment

The dominant view among economic analysts is that there is not a long-term trade-off between inflation and unemployment: in the long run, unemployment depends on essentially structural variables, whereas inflation is a monetary phenomenon.[4] In the short term, however, a trade-off exists such that if unemployment falls below the NAIRU, inflation will rise until unemployment returns to the NAIRU, at which time inflation will stabilise at a permanently higher level. The existence of a NAIRU therefore has immediate implications for the conduct of economic policies, in that: macroeconomic stimulus alone cannot permanently reduce unemployment; and any short-term improvements relative to the NAIRU resulting from stimulative policy actions will be reflected in progressively higher rates of inflation. In practice, the situation may be somewhat less clear-cut – the NAIRU may, to some extent, be influenced by the path of actual unemployment – but, conceptually, the notion of a NAIRU determined mainly by structural factors remains important.[5]

Both the level and change of unemployment may have an effect on inflation…

Inflation can usefully be thought of as being determined by three factors: inflation expectations/inertia, the pressure of demand as proxied by unemployment and supply factors.[6] Inflation expectations are often slow moving, which means that the effects of demand pressures or supply shocks get built into the inflation process only gradually. With regards to demand pressures, unemployment may be important not just in terms of its level, but also its recent movements. For example rapidly falling unemployment may put upward pressure on inflation even at high levels of unemployment; an effect sometimes referred to as a "speed limit".

… which is also influenced by temporary supply shocks

Taking appropriate account of supply shocks is important in order to distinguish between one-off price changes and ongoing inflation. An important distinction to make here is between temporary and long-lasting supply shocks.[7] Temporary supply shocks (for example, changes in real import prices or changes in real oil prices) are typically those which are expected to revert to zero over the horizon of one to two years that is particularly relevant to monetary policy. Such temporary shocks may alter the rate of inflation, at any given rate of unemployment, but the NAIRU will be

4. Friedman (1968) and Phelps (1968) are jointly credited with introducing the concept of the structural or natural rate, whilst the term NAIRU was first introduced by Modigliani and Papademos (1975).
5. This "orthodox" view contrasts with the alternative of "full hysteresis", whereby the level of unemployment exerts no influence on inflation, although inflation is affected by the rate of change in unemployment. In this extreme case, unemployment is not anchored by structural variables, but will instead reflect the cumulative effect of all past shocks to the economy, including those to demand. A further implication is that unemployment can be maintained indefinitely at any level with stable inflation, which undermines the NAIRU concept. However, there is considerable empirical evidence against the hysteresis model in this extreme form; in particular, a substantial number of empirical studies suggest that the level of unemployment does have an effect on inflation, see for example the recent survey by Nickell (1998).
6. This follows Gordon's (1992) description of the Phillips curve as a "triangle model" explaining inflation in terms of the same three factors.
7. The latter may include, potentially, a fairly wide range of influences affecting pricing policies (changes in mark-ups, input prices, etc.), the transformation and distribution process (competition, regulation, price controls, etc.), and wage determination (tax wedges, unionisation, income policies, etc.).

largely unchanged once they have passed.[8] By contrast, a long-lasting supply shock (caused by factors such as the level of real interest rates, the tax wedge, demographics, etc.) may permanently alter the NAIRU, so that inflation will rise or fall until unemployment adjusts.

Three different NAIRU concepts are defined each relating to a different time horizon

Within such a framework, it is useful to identify three distinct concepts: the NAIRU (with no qualifying adjective), the short-term NAIRU and the long-term equilibrium rate of unemployment.[9] Each of these relate to the same basic idea of an "unemployment rate consistent with stable inflation", but differ according to the time horizon to which they refer:

- The NAIRU is defined as the rate towards which unemployment converges in the absence of temporary supply influences once the dynamic adjustment of inflation is completed (*i.e.* in the medium term or when the effects of temporary supply shocks dissipate).
- The short-term NAIRU is defined as that rate of unemployment consistent with stabilising the inflation rate at its current level in the next period (where the precise time frame is defined by the specific frequency used in the inflation analysis, for example, the next quarter, the next semester, or the next year). It depends on the NAIRU (as defined above) but is a priori more volatile because it is affected by all supply influences, including temporary ones, expectations and inertia in the dynamic process of inflation adjustment and possible related speed-limit effects. It follows that the short-term NAIRU concept will be influenced also by the level of actual unemployment.
- The long-term equilibrium unemployment rate corresponds to a long-term steady state, once the NAIRU has fully adjusted to all supply and policy influences, including those having long-lasting effects.

Of these three concepts, the first two play clearly defined roles in macroeconomic analysis and policy assessments and give rise to relationships that, in principle, make it possible to provide empirical estimates. Because of difficulties in identifying the effects of individual long-lasting supply influences, the long-term equilibrium rate of unemployment is less easy to quantify empirically. However, while important for structural policies, the long-term equilibrium rate may be of limited relevance to macro policy, especially if the complete adjustment of the NAIRU towards the long-run equilibrium is very protracted.

Revised OECD estimates of the NAIRU

New NAIRU estimates suggest a mixed performance across OECD countries during the 1990s

Recently the OECD has revised its estimates of the NAIRU for OECD countries (see Table V.1 for revised estimates and the appendix for detail of the methods used in revision).[10] These new estimates suggest that the extent and direction of changes in the NAIRU over the 1990s is distinctly mixed across OECD countries, although this might be favourably contrasted with the 1980s during which the NAIRU rose across virtually all of them (the United States and Portugal being exceptions).

8. It is possible that factors, which permanently change the level of the wedge between the real product wage and the real consumption wage, may also affect the NAIRU.
9. For more formal definitions of these NAIRU concepts see the appendix to Richardson *et al.* (2000).
10. For most countries, the NAIRU estimates correspond to commonly used, national definitions of unemployment. For Belgium and Denmark, the OECD standardised rate is used.

Table V.1. **NAIRU estimates and standard errors**[a]

	1980	1985	1990	1995	1999	Standard errors[b]	
						Average	Final year
Australia	5.1	6.0	6.5	7.1	6.8	1.0	1.6
Austria	1.9	3.2	4.6	5.0	4.9	0.2	0.3
Belgium	5.5	6.8	8.4	8.0	8.2	1.3	1.3
Canada	8.9	10.1	9.0	8.8	7.7	0.6	0.9
Denmark	5.8	5.9	6.9	7.1	6.3	1.0	1.3
Finland	4.3	3.9	5.6	10.6	9.0	1.4	1.8
France	5.8	6.5	9.3	10.3	9.5	1.1	1.7
Germany	3.3	4.4	5.3	6.7	6.9	0.9	1.2
Greece	4.6	6.5	8.4	8.8	9.5	0.8	1.1
Ireland	12.8	13.2	14.1	10.8	7.1	1.2	2.0
Italy	6.8	7.8	9.1	10.0	10.4	0.8	1.1
Japan	1.9	2.7	2.2	2.9	4.0	0.2	0.3
Netherlands	4.7	7.5	7.5	6.1	4.7	1.0	1.3
New Zealand	1.6	5.1	7.0	7.5	6.1	0.6	0.8
Norway	2.2	2.6	4.6	4.9	3.7	0.5	0.6
Portugal	6.1	5.4	4.8	4.2	3.9	1.0	1.4
Spain	7.8	14.4	17.4	16.5	15.1	1.2	1.2
Sweden	2.4	2.1	3.8	5.8	5.8	0.8	1.0
Switzerland	2.3	2.9	3.0	3.3	2.4	0.8	1.0
United Kingdom	4.4	8.1	8.6	6.9	7.0	1.1	1.5
United States	6.1	5.6	5.4	5.3	5.2	0.9	1.2
Euro area	5.5	7.1	8.8	9.2	8.8		
Weighted average of above countries[c]	5.0	5.9	6.3	6.5	6.5		

a) Correspond to commonly used national definitions of unemployment except for Belgium and Denmark where the correspondance is with the standardised unemployment rates.
b) Estimated standard errors around initial econometric estimates.
c) Weighted by size of labour force.
Source: OECD.

Countries where the estimated NAIRU has risen by about 2 percentage points or more during the 1990s include Finland, Germany, Japan and Sweden, while Italy and Greece experienced a rise of just over 1 percentage point. Conversely, countries where the NAIRU has fallen by about a percentage point or more – Canada, Netherlands, New Zealand, the United Kingdom, Spain, Portugal, Ireland and Norway – include many of those where labour market reforms have been most extensive.[11] Nevertheless, the experience of these countries suggests that even following major reforms the estimated NAIRU may only fall gradually (typically by less than ½ percentage point per year) and with considerable lags. A striking exception is Ireland for which the NAIRU appears to have fallen by a remarkable 7 percentage points over the past decade.

Estimated NAIRUs fell in many countries in the second half of the 1990s…

There does appear to be a more uniform improvement in labour market performance across many countries in the second half of the 1990s with two-thirds of the countries examined having experienced some fall in the estimated NAIRU over the past five years. For example, Denmark, Finland, France, New Zealand and Norway

11. Previous analysis has found that there is a correlation between falling structural unemployment and the extent to which OECD *Job Study* recommendations have been implemented, see OECD (1999).

have all had substantial falls in the NAIRU (of at least a percentage point) over the second half despite it rising earlier in the decade. Moreover, there are other countries (Canada, Ireland and Spain) for which the NAIRU has fallen more steeply in the second half of the 1990s. A major exception is Japan where the NAIRU has risen steeply, by over a percentage point, in the second half of the decade. Overall, while there do seem to be signs of recent progress, there remains considerable scope for further improvement: a weighted average of the NAIRUs across all the countries examined (which cover about 82 per cent of the total OECD labour force) suggests that structural unemployment in the OECD is significantly higher now than in 1980 (let alone in earlier decades). Moreover, while disparities have narrowed marginally, large differences across countries remain.

… while unemployment has been well above the NAIRU in many countries, especially in Europe, during most of the 1990s

At the same time, the revised estimates imply that for most OECD countries actual unemployment has been well in excess of the NAIRU for much of the 1990s, consistent with the substantial reduction in area-wide inflation. This is particularly the case for the euro area; the average gap between unemployment and the estimated NAIRU since 1993 is about 1¾ percentage points (Figure V.1). Much of this gap is accounted for by the three largest euro area economies, for which unemployment was still between 1 and 1½ percentage points higher than the estimated NAIRU in the second half of 1999, although the gap was narrowing. Conversely, for some of the smaller euro area countries the unemployment gap has just closed (Austria and Spain) or unemployment has been below the NAIRU for a year or more (Ireland and Netherlands). On this basis, recovery is even more advanced in both the United Kingdom and United States, where unemployment has been below the estimated NAIRU for three and four years, respectively. In order to reconcile inflation outcomes with these differing profiles of the gap between unemployment and the NAIRU, it is necessary to consider the role of short-term supply shocks, embedded in the short-run NAIRU.

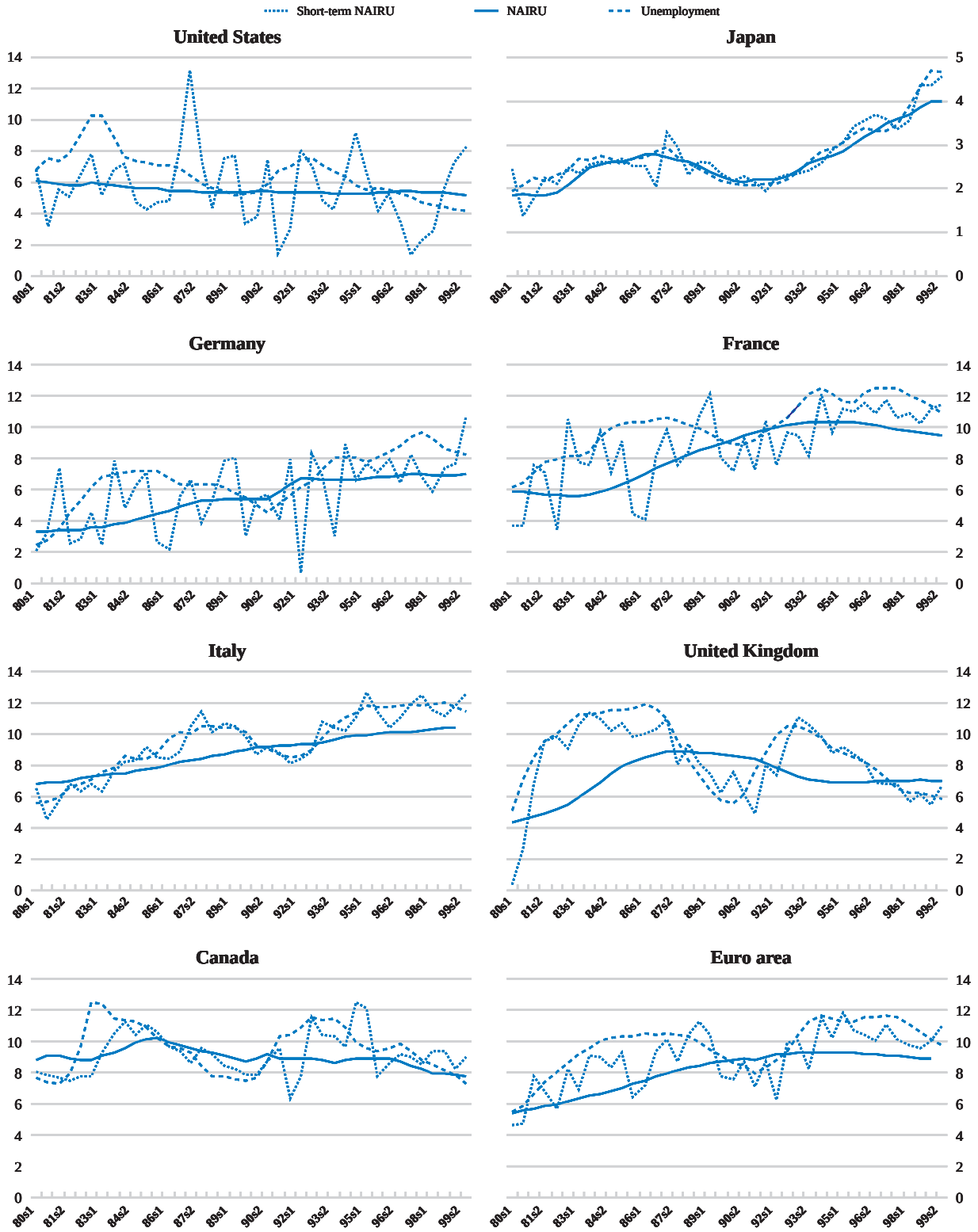
Monetary policy and inflation

The short-run NAIRU indicates how seriously to take the presence or absence of inflation pressures

Indicators of structural unemployment provide a useful input to the setting of monetary policy if they help in assessing inflationary developments in the short term.[12] In this respect, the short-term NAIRU concept may be a useful synthesis of information concerning current inflationary pressures (see Estrella and Mishkin, 1998 and King, 1999) even though its inherent volatility means that it is unsuitable as a target. Indeed, fluctuations in the short-run NAIRU provide an indication of which inflationary shocks policy-makers can ignore. For example, the effect of adverse temporary supply shocks that may dissipate in the near future should not be seen as necessitating a permanent rise in unemployment. In this situation, policy-makers need to assess, before taking action, whether or not inflation is likely to be consistent with policy objectives when the shock wears off.[13]

12. Here and in the following paragraphs discussing the policy usefulness of the NAIRU, it should be noted that to avoid confusion the terms "NAIRU" (*i.e.* without qualifying adjective) and "short-run NAIRU" are used strictly according to the definitions of the previous section.
13. See King (1999) for a discussion of how the appreciation of sterling in 1996 and 1997 was assessed by the Bank of England's Monetary Policy Committee in broadly these terms, and also Meyer (2000) in the context of recent US monetary policies.

Figure V.1. **NAIRU and short-term NAIRU**[1]



1. Japan is shown on a different scale.

Source: OECD.

The importance of the distinction between the NAIRU and short-run NAIRU is illustrated in Figure V.1, which shows estimates for the G7 and euro-area economies: periods when unemployment is higher (lower) than the short-run NAIRU generally signal periods of falling (rising) inflation, even though the short-run NAIRU gap is sometimes of the opposite sign to that of the NAIRU gap. For the United States, the top left-hand panel of Figure V.1 shows that the unemployment rate was consistently above the short-run NAIRU over the period 1996 to 1998, a period during which inflation fell, even though the unemployment rate was below the NAIRU.

The relative strength of exchange rates has been important in explaining the short-run NAIRU, although most recently the oil price rise has been dominant

Since 1996 unemployment has tended to exceed both the NAIRU and the short run NAIRU for the three largest euro-area economies, implying that demand pressures have been an important influence behind the fall in inflation, at least until the end of 1998. Over the same period, favourable movements in the short-run NAIRU in the United Kingdom and United States relative to euro-area economies are explained by the relative strength of exchange rates and their effects on imported inflation. However, since 1999 the rise in oil prices has become a major factor explaining the upturn in inflation and the corresponding increases in the short-run NAIRU across most OECD countries.

For Japan the rise in inflation during 1996 and 1997 can be related to unemployment falling below the NAIRU combined with pressure from import prices following depreciation of the yen. However, since 1997 the relatively rapid rise in unemployment, to levels in excess of the rising NAIRU has played an important role in driving inflation down to negative rates. Indeed, the relatively large unemployment gap coupled with the strengthening of the yen led to a further fall in inflation in 1999, despite the sharp rise in oil prices.

"Speed limit" effects may represent a constraint in reducing unemployment even if it is above the NAIRU

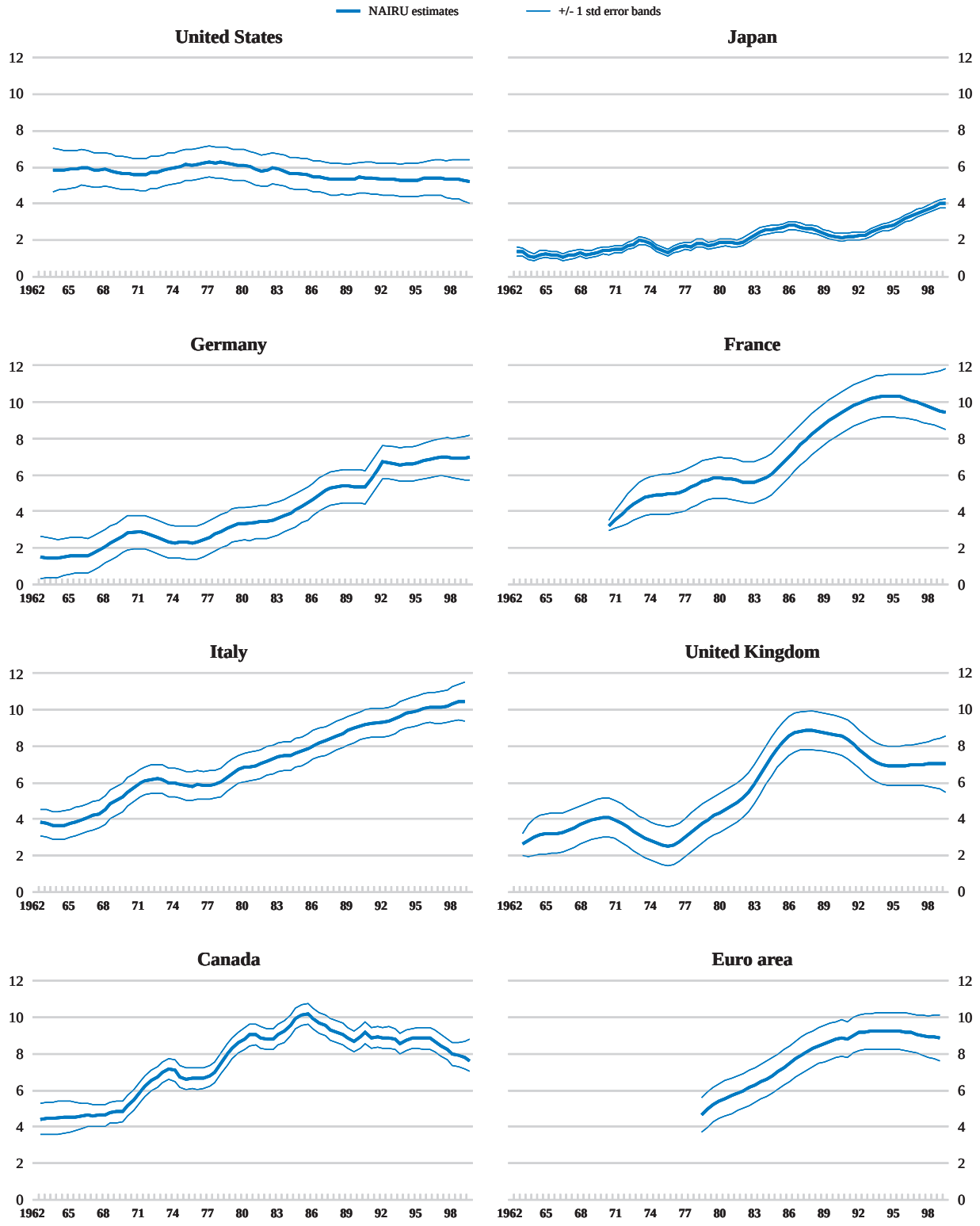
If speed-limit effects are strong then the short-run NAIRU will show a tendency to track the actual unemployment rate because pronounced changes in unemployment will generate considerable changes in inflation in the short-run. In these circumstances, a rapid closing of a positive gap between actual unemployment and the NAIRU may generate unacceptable short-term inflationary effects. Among the G7 economies, such effects are found to be particularly important for Italy and the United Kingdom as reflected in the path of the short-run NAIRU estimates, which for these countries tend to fluctuate around the actual unemployment rate rather than around the NAIRU (Figure V.1). Thus, for both countries there have been prolonged periods during the 1980s and 1990s when the actual unemployment rate has exceeded the NAIRU, but the profile of the short-run NAIRU suggests that the scope for reducing unemployment without (temporarily) increasing inflation was limited. Such speed limits may be less pronounced in other countries, but nevertheless have represented a constraint in reducing unemployment quickly, even while it has remained well in excess of the NAIRU during most of the 1990s.

The limitations of any analysis based on the NAIRU suggest that it is only one of a range of indicators that may be useful for assessing inflation

Finally, the limitations of any analysis based on the NAIRU and short-run NAIRU should be emphasised, particularly that they depend on estimated econometric relationships that explain inflation developments imperfectly, and are sometimes subject to large margins of error. As illustrated in Table V.1 and Figure V.2, standard errors surrounding the NAIRU estimates are on average about ¾ of a percentage point across all countries, but rise above 1 percentage point at the end of the estimation period.[14] Moreover, different specification choices may lead to different policy

14. See Richardson *et al.* (2000) and Boone (2000) for a description of the Monte Carlo methods used to calculate these standard errors.

Figure V.2. **NAIRU estimates and standard error bands**[1]



1. Estimated standard errors are centred around the initial econometric estimates. For France and Canada, where these initial estimates are judgementally revised (see appendix) the NAIRU is not in the centre of the band.

Source: OECD.

conclusions. For example, the choice of which temporary supply shocks to consider (oil and import price inflation in the current analysis) is based on what variables explain inflation consistently well across most OECD countries, but other choices are possible.[15] These factors all suggest that the NAIRU and short-term NAIRU can only serve as elements in a range of possible indicators that are useful for assessing inflationary pressures.

Appendix: Estimation and adjustment of the NAIRU

The NAIRU estimates are based on recent empirical work adjusted for a number of factors

The current OECD NAIRU estimates are based on the methodology presented and discussed in Richardson *et al.* (2000). Preliminary estimates are obtained from a Phillips curve relationship using a Kalman filter. In some cases, these estimates are subsequently adjusted for possible biases, particularly to allow for the effect of recent policy reforms given the uncertainty surrounding the empirical estimates. This appendix describes this procedure and the specific nature of the adjustments made in the case of individual OECD countries.

Estimation procedure for preliminary estimates

Preliminary estimates are based on estimated Phillips curves

In preliminary estimation, the Phillips curve specification found to be most robust across all the countries examined was based on consumer price inflation and included both imported inflation and oil prices as measures of temporary supply shocks. Although the theoretical framework underlying the Phillips curve gives little guidance as to the choice between wage or price inflation as the dependent variable, a measure of consumer price inflation has been used on the grounds that such a variable is close to broad measures of inflation of most relevance to policy makers and because the results were typically better determined econometrically.[16]

The NAIRU is estimated to vary smoothly over time using a Kalman filter…

The Kalman filter generates a time-varying NAIRU from its ability to explain inflationary developments subject to constraints relating to the movement of the NAIRU through time.[17] The first constraint specifies movement in the NAIRU either as a random walk or, more commonly for the European countries, as an autoregressive process. A second constraint concerns the smoothness/volatility of the estimated NAIRU. The degree of variation is, in principle, arbitrary but the choice of assumption is conditioned by the facts that too little variation in the NAIRU will result in mis-specified and unreliable inflation equations, while too much variation undermines the concept and makes the NAIRU difficult to project and of limited use for policy analysis.

… for 21 OECD countries

Applying the above framework to 21 OECD countries generated results in which the unemployment gap was significant in explaining inflation across all countries (for the G7

15. For example Brayton *et al*. (1999) suggest that variations in the mark-up of prices over unit labour costs explain low inflation in the United States in recent years. Similarly, Meyer (2000) suggests that the temporary effects of productivity acceleration on inflation dynamics are especially relevant in the case of the United States.
16. In practice, the choice between wage or price inflation does not appear to radically alter the results, although the use of price inflation represents a change from previous OECD estimates which relate to wage inflation and hence the NAWRU. For most countries the chosen inflation indicator was based on the private consumption deflator.
17. The use of the Kalman filter to estimate the NAIRU follows a proliferation of recent studies including Gordon (1997 and 1998), King *et al.* (1995), Staiger *et al*. (1997*a*) where it is applied to the United States, Bank of England (1999) to the United Kingdom, Gruen *et al.* (1999) to Australia, Irac (1999) to France, Meyler (1999) to Ireland, Apel and Jansson (1998, 1999) to Sweden, Rasi and Viikari (1998) to Finland, Orlani and Pichelman (2000) for the European Union and Fabiani and Mestre (1999) to the euro area. There are fewer studies where the approach is applied consistently across a number of countries, although Laxton *et al*. (1998*b*) and Laubach (1999) both apply it to all the G7 countries.

economies typically explaining a quarter of inflation variation); temporary supply shocks represented by changes in real non-oil import prices and real oil prices were found to have significant effects across virtually all countries; and the corresponding Phillips curves performed well in terms of a standard range of diagnostic tests.

Revisions to preliminary estimates

These estimates are subject to statistical uncertainty and are adjusted for…

The NAIRU estimates generated by the econometric procedure described above have subsequently been scrutinised by OECD country experts and sometimes revised to take account of specific biases, particularly to allow for the effect of recent reforms. These revisions also take into account the uncertainty surrounding the econometric estimates, as measured by the standard errors reported in Table V.1. In some cases these revisions simply involved using a more appropriate definition of inflation or unemployment in the Phillips curve estimation, which led to a better fitting Phillips curve and a profile for the NAIRU that was judged to be more plausible.[18]

… three main sources of bias

For two countries (Canada and Greece) a more fundamental change of specification to the Phillips curve involved more explicit modelling of inflation expectations. For a further three countries (Australia, France and Switzerland) the preliminary estimates appeared to contradict other information, particularly relating to the likely effect of recent labour market reforms, and so were judgementally adjusted. These latter revisions occur at the end of the estimation period where uncertainty surrounding any filter-based estimates of the NAIRU is greatest.[19] Two countries (Finland and Ireland) were considered as special cases in so far as the basic estimation framework was considered inadequate for explaining recent episodes.[20] These revisions are discussed in further detail below.

More explicit modelling of inflation expectations (Canada and Greece)

For some countries allowance is made for changes in inflation expectations and changes in monetary policy regimes

In the original estimation, inflation expectations in the Phillips curve for most countries are proxied by a distributed lag of past inflation rates. However, this assumption may lead to biased estimates of the NAIRU following a change in policy regime. Canada and Greece are two countries where allowing for such a regime change seemed appropriate and leads to significant changes in the estimated NAIRU.

Canada was one of the first countries to introduce explicit inflation targeting in 1991. Empirical evidence from the Bank of Canada suggests that this has significantly influenced inflation expectations and following this evidence, inflation expectations from 1991 onwards are modelled as a weighted average of the (mid-point of the) inflation target and a distributed lag of past inflation rates (with weights of about half on each component).[21] The inflation variable used in the Phillips curve is the core measure of consumer price inflation (excluding the effects of food, energy and indirect taxes) that the Bank focuses on for the purposes of monetary policy (although formally the inflation target is formulated in terms of the headline consumer price inflation). The new policy regime may have provided an anchor for inflation expectations. Thus the fact that inflation in recent years has only modestly undershot the official target may reflect its credibility rather than an only small unemployment gap. In consequence, not taking into account the effect of the change in policy regime on expectations is likely to lead to the NAIRU being over-estimated over recent years.

18. In the case of Spain this involved using an inflation rate based on core consumer price index rather than the consumers' expenditure deflator. For Denmark a standardised rate of unemployment was used in place of a register-based definition, because the latter might not be a consistent basis for estimating the NAIRU given recent policy reforms which have eliminated a number of those on the rolls who would not fit within the standardised unemployment definition. In the case of Germany a distinct break in the NAIRU series was introduced to allow for the effect of re-unification (although this change had virtually no effect on the estimated NAIRU at the end of the estimation period).
19. See Table V.1 and Figure V.2.
20. Finland and Ireland are also the two countries with the largest standard errors surrounding the Kalman filter NAIRU estimates.
21. See, for example, Fillion and Léonard (1997); and Perrier (1998).

Indeed, allowing for the change in policy regime lowers the NAIRU estimate on average by 0.3 percentage point over the period since the target has been in operation and by slightly more at the end of the estimation period.[22]

Over the course of the 1990s, consumer price inflation in Greece has fallen from 20 to 2½ per cent per annum. One factor underlying this fall, at least over the past several years, may have been the effect that prospective membership of the European Economic and Monetary Union has had on lowering inflation expectations. To allow for this effect in the estimation of the NAIRU, inflation expectations from 1991 onwards are specified as a weighted average of past inflation and average euro area inflation, where the weight is estimated but allowed to increase at a linear rate over time.[23] Allowing for this regime shift implies a systematically higher NAIRU (because some of the disinflation is attributed to an expectations effect rather than the unemployment gap), that is on average nearly a percentage point higher than implied by the standard Phillips curve specification.

Allowing for the impact of recent reforms (Australia, France and Switzerland)

The effects of labour market reforms can be quite significant, but for some countries reforms may be too recent to show up in the estimates

A practical limitation of the estimation method concerns the greater uncertainty at the end of the sample period and, in particular, with respect to the effects of recent and on-going reforms. For those countries where such reforms took place in the late 1980s to mid-1990s (for example: the Netherlands, New Zealand, Spain and the United Kingdom), their impact on the NAIRU is typically found to be substantial but relatively slow to emerge.[24] To the extent that a number of other OECD countries are currently undergoing similar reforms, it may be too soon to see any appreciable reduction in the NAIRU reflected in current econometric estimates. In such cases, further adjustments are, therefore, made on the basis of the scale and nature of these recent reforms.[25]

In Australia there have been significant reforms to both product and labour market institutions since 1996, including changes to the coverage of industrial awards, a move towards more decentralised bargaining and ongoing deregulation and privatisation of utilities. To incorporate the effect of these changes, the NAIRU was progressively revised downwards from 1998 to 6¾ per cent in 1999 (compared with a preliminary estimate of 7¼ per cent).

For France the preliminary econometric estimates suggested that the NAIRU had been broadly stable over the 1990s (at just over 10 per cent), although the standard error surrounding the estimate is among the largest of any country. Such a profile is not easily reconciled with the structural reforms that have been implemented since 1995, in particular large cuts in social security contributions, as well as evidence that the labour market has become more flexible with a growing share of temporary and part-time employment. To reflect these reforms the NAIRU is progressively revised downward from 1995, so that by 1999 it has fallen to 9½ per cent.

Switzerland has recently undergone a major reform of the unemployment insurance system that involved a tightening of unemployment benefit eligibility criteria in 1996 and 1997, with more intensive use of active labour market policies in 1998 and with participation becoming a condition of unemployment benefit eligibility. The tighter eligibility criterion has implied a significant drop in register-based unemployment – an effect which the Kalman filter can pick up only gradually. The preliminary econometric estimates of the NAIRU were adjusted to reflect these changes; a fall of ¾ per cent is imposed from 1997 to give an estimate of the NAIRU of 2½ per cent in 1999.

22. For Canada the econometric NAIRU estimate was also revised down 0.1 percentage point in 1999 to reflect the effect of recent reforms to the unemployment insurance system.
23. By the end of the sample the weights on lagged and euro area inflation are around 85 and 15 per cent, respectively.
24. The fall in NAIRU estimates for these countries since implementing labour market reforms has, on average, been up to ½ per cent per annum, typically over a period of four to five years.
25. For further details of the reforms, see the most recent OECD Survey relating to the country concerned as well as the chapter on "Recent labour-market performance and structural reforms" in *OECD Economic Outlook*, No. 67.

Special cases (Finland and Ireland)

For some countries, special factors make the estimates much less reliable

In two special cases (Finland and Ireland) the specific estimation framework is considered inadequate for explaining past and recent experiences.

Finland has been affected by a number of major shocks in the early 1990s: the bursting of an asset price bubble, a sharp terms-of-trade fall and the collapse of trade with the former Soviet Union. To reflect the impact of these shocks the profile of the estimated NAIRU has been judgementally adjusted in order to give a profile with a more pronounced rise in the early 1990s, that falls in the second half of the 1990s (consistent with supply side improvements in taxes, replacement rates and employment protection legislation) to a level of about 9 per cent in 1999.

The case of Ireland is unusual given the importance of immigration flows, which may mean that the NAIRU is more volatile than for most other countries with a greater tendency to follow the actual unemployment rate. Attempts to allow for this in the estimation process were, however, unsuccessful. Instead the econometric estimate was progressively revised downwards from 1995 to be more in line with the sharp fall in actual unemployment, so that by 1999 it had fallen to 7 per cent (compared with an econometric estimate of 9 per cent).

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VI. HOUSE PRICES AND ECONOMIC ACTIVITY

House price movements have macroeconomic impacts

In many OECD countries, movements in real house prices have been closely correlated with the business cycle. Strong increases in property values were associated with the overheating in the late 1980s in several countries, and are widely considered to have contributed significantly to an unsustainable expansion in demand. With house prices rising more rapidly than most other prices in several Member countries in the second half of the 1990s, their potential macroeconomic impact is again becoming an important issue. In the United States for instance, the contribution of real estate developments to the current economic expansion has been emphasised recently; house price developments are being scrutinised in the United Kingdom as advanced indicators of demand pressure; in several smaller European countries, the potential impact of booming property values on demand has been a matter of concern.

This chapter examines the role of house prices in influencing private consumption and residential investment in OECD countries.[1] The main results suggest that:

– House prices have a significant positive impact on private consumption.

– House prices also appear to have an important effect on private residential investment.

– As might be expected, property prices can be useful indicators of demand pressures in the economy.

The first section of this chapter documents the developments of inflation-adjusted house prices over the past three decades in selected OECD countries. The second section assesses how changes in the mortgage market since the early 1970s are likely to have affected the link between property prices and demand. The third and fourth sections examine the role of house prices in influencing respectively, private consumption and residential construction. The final section discusses the policy implications of the findings of the chapter.

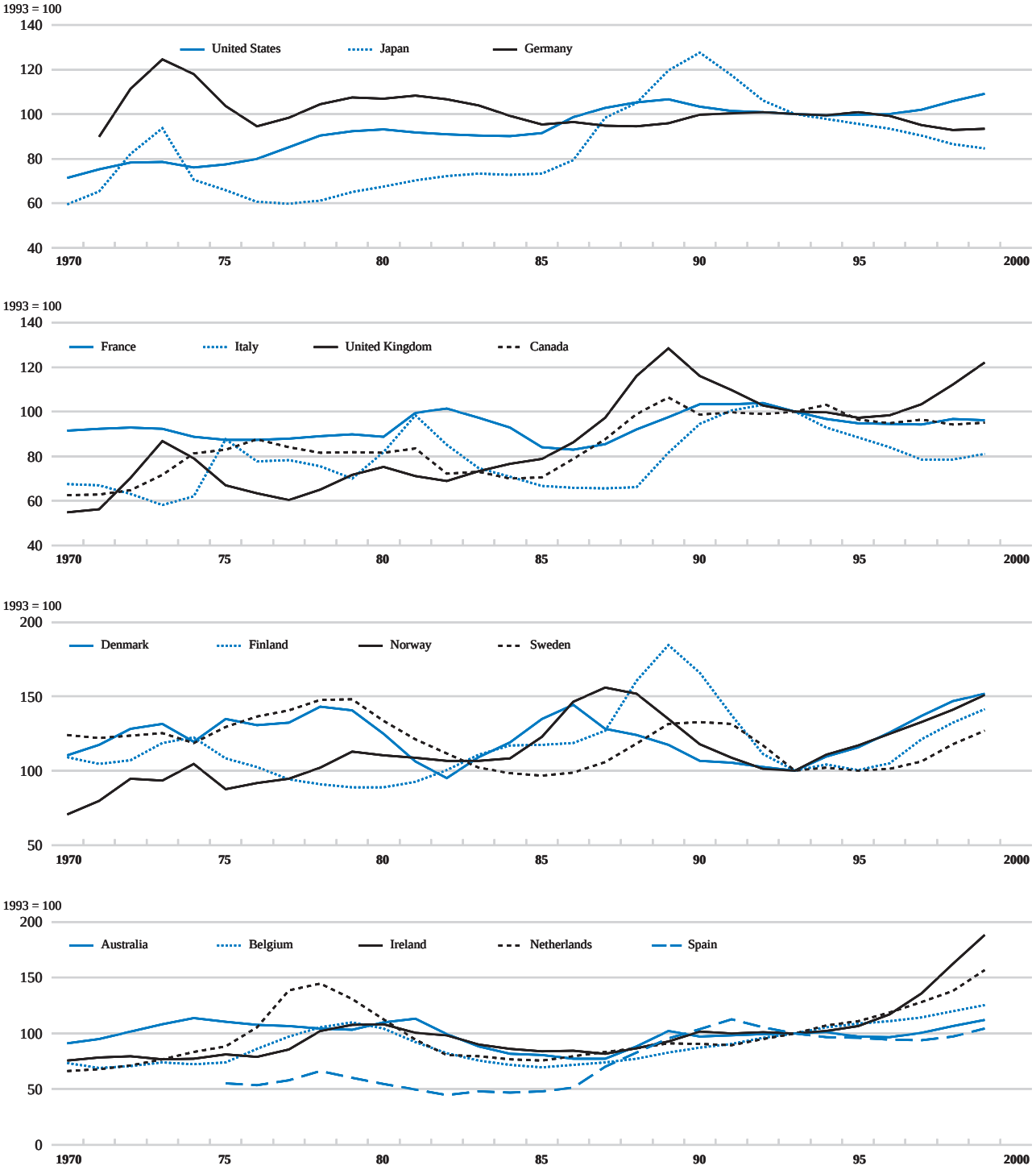
House price movements and economic activity

House price fluctuations have been strong in many OECD countries...

Many OECD countries have experienced large variations in the level of house prices[2] in real terms, *i.e.* adjusted for movements in the consumer price index, over the 1970-99 period (Figure VI.1). Measured as the standard deviation of the annual growth rate of real house prices, fluctuations have been particularly strong in

1. Detailed analyses of the trends, outcomes and issues in housing market of OECD countries can be found in Girouard and Blöndal (2000).
2. Data on house prices for 16 countries have been provided by the Bank for International Settlements. See footnote of Figure VI.1 for detailed definitions of data across countries. Regional house price dynamics can be very large. However, in this paper property price developments are considered at the national level.

Figure VI.1. **Real house price developments, 1970-1999**[1]



1. Data on residential property prices are not strictly comparable across countries due to differences in definitions. In most countries, the house price index covers house prices on a national basis. However, in Australia, the index refers to a weighted average of capital cities and regional areas, whereas in Germany, the index refers to the prices of houses located in western Germany. In Japan, the price index refers to residential land prices. Furthermore, depending on the country, the index relates to prices of existing and/or new houses, to prices of houses for owner-occupation only or also to prices of second residences, to prices of houses for which a loan has been applied for only or to a mix-ajusted house price index taking into account several differences in property type. House prices are deflated by the consumer price index.

Source: Bank for International Settlements.

Finland, Italy, Japan, the Netherlands, Spain and the United Kingdom. In these countries, the cumulative increase and decrease in property values over the cycle have been striking:

- In Japan, inflation-adjusted property prices rose by close to 75 per cent in the five years to 1990 and have fallen by a third since then.
- In Italy, real house prices increased by more than 50 per cent in the 1988-92 period. In 1974-75 and 1979-81 prices had risen by around 40 per cent in real terms.
- In the United Kingdom, inflation-adjusted house prices rose by more than 50 per cent in 1972 and 1973, only to fall by 30 per cent in the subsequent four years. In the latter part of the 1980s, real house prices rose by more than two-thirds in a period of four years. They then fell by more than 20 per cent in the five years to 1994.
- In the Netherlands, real property prices rose by close to 75 per cent in the 1974-78 period, and then fell by 50 per cent by the mid-1980s. The cumulative increase in real house prices since 1993 has been more than 50 per cent.
- In Finland, an increase of more than 50 per cent in the three years to 1989 was followed by a 45 per cent fall in the subsequent four years.
- In Spain, real house prices rose by 120 per cent in the five years to 1991.

… and have in general been closely associated with the business cycle over the past 30 years

In many OECD countries, changes in real house prices appear to be closely correlated to business cycles as measured by OECD output gap indicators. Falling property values have accompanied recessions in Japan and some European Union countries since the early 1980s. Conversely, the overheating in the late 1980s in the United Kingdom and some of the Nordic countries was associated with sustained growth of inflation-adjusted real estate prices. Statistical correlations suggest strong links, in particular in the United Kingdom, Canada, Germany, Spain and some of the Nordic countries over the 1970-99 period. For France, Japan, and Italy the correlation coefficients are significant for the period since 1980.[3]

Recent increases in house prices have coincided with strong economic expansions

Since the mid-1990s, real house prices have risen rapidly in the United Kingdom, Ireland, the Netherlands, the Nordic countries and Australia. Sustained, if more moderate, price increases have also taken place in the United States. The cumulative rise in house prices in these countries has been associated with strong economic expansion, with most of them now operating near or above full capacity. The housing market was weak in a few countries in the latter part of the 1990s. In Japan, real property prices have continued their gradual but steady decline since 1990. In Germany the housing market is still suffering from the hangover following the unification boom and from the withdrawal of tax subsidies in the late 1990s.

Changes in house prices affect the wealth position of households...

Changes in house prices affect the wealth position of households as commonly measured. Indeed, residential property is often the single most important component of the asset side of a household balance sheet. Overall, the relative weight of real estate has fallen somewhat in the 1990s as a result of the sharp increase in the price

3. Correlation coefficients for the United Kingdom, Germany, Canada, Spain and some of the Nordic countries range from 0.5 to 0.75 over the 1970-99 period. They are statistically significant in France and Italy after 1980 at 0.6 and 0.8 respectively. In the United States, a significant correlation is observed since 1990. In Japan, there is no evidence of a correlation between property prices and the output gap except in the 1970s.

Table VI.1. **Household assets**

Per cent of household total assets

	Housing assets					Other assets in 1998		
	1970	1980	1990	1995	1998	Equity	Other financial assets	Other tangible assets
						Per cent		
United States	22	27	27	23	21	20	50	8
Japan	10	14	8	10	10	3	44	43
Germany	..	..	34	34	32	3	35	30
France[a]	34	44	43	42	40	3	47	9
Italy	36	40	37	35	31	17	39	13
United Kingdom	..	40	44	33	34	12	47	7
Canada	21	22	23	22	21	17	39	23

a) 1998 data refer to 1997.

Sources : OECD, *Financial Accounts of OECD countries*; United States, Federal Reserve, *Flow of Funds Accounts of the United States*, September 2000; Japan, Economic Planning Agency, *Annual Report on National Accounts, 2000*; Germany, Deutsche Bundesbank, *Ergebnisse der gesamtwirtschaftlichen Finanzierungsrechnung der Deutschen Bundesbank*; France, INSEE, *25 ans de Comptes de Patrimoine* (1969-1993), and *Rapport sur les Comptes de la Nation*. (France's estimates for household equity holdings have been corrected to exclude non-quoted shares. Data presented are based on national authorities' estimates of the ratio of quoted to non-quoted shares in household portfolios); Italy, Banca d'Italia, *Supplementi al Bollettino Statistico* and unpublished estimates; United Kingdom, Central Statistical Office, *United Kingdom National Accounts, Financial Statistics*; Canada, Statistics Canada, *National Balance Sheet Accounts*.

of equities, but it still accounts for 20 per cent of total gross household assets in the United States and Canada, and between 30 to 40 per cent in the major European countries, (Japan, at 10 per cent, is an exception to this picture) (Table VI.1). As owner-occupation rates exceed 50 per cent in most OECD countries,[4] a large number of households will be affected by changes in property prices.

… and are linked to changes in household borrowing

House price fluctuations also tend to be associated with changes in household borrowing. An increase in property prices generally goes hand in hand with increased net mortgage lending, the predominant mode of lending to households, while falling real estate prices are typically accompanied by decreased mortgage borrowing by households. These co-movements in property prices and household borrowing were comparatively weak in the 1970s, but they have become stronger in the 1980s and 1990s.

Deregulation in the mortgage market

Before the 1980s, mortgage markets were subject to restrictions in many countries

The increased correlation between house prices and mortgage lending to households since the early 1980s reflects changes in the financial system that have expanded the scope for households to use their housing wealth as a basis for borrowing. In the regulatory environment prevailing in most countries in the 1970s, financial institutions usually had limited scope to increase mortgage lending, despite a higher value of assets that could be used to secure loans. Mortgage lending was generally reserved for specialised institutions that were prohibited from engaging in other activities, direct quantitative limits were imposed on mortgage loans or the funding capacity of these institutions curtailed, and terms and conditions of mortgage lending were regulated.

4. See Chapter VIII, "Monetary Policy in a Changing Financial Environment" in *OECD Economic Outlook 67*, June 2000.

Financial reforms have increased households' access to mortgage credit…

Financial reforms since the 1980s have significantly reduced constraints on households' borrowing (Table VI.2). In some cases it contributed to macroeconomic fluctuations as both policymakers and market participants went through a learning process as they adapted to the new environment.[5] In the United States, the United

Table VI.2. **Selected financial deregulation and liberalisation measures affecting the housing market**

United States	Securitisation introduced in 1971 Interest rate deregulation, phasing out of Regulation Q[a] over four years starting in 1980 Elimination of portfolio restrictions for thrifts in 1980
Japan	Bank specialisation requirements reduced in 1993 Interest rate deregulation completed in 1994
Germany	Interest rate deregulation in 1967 Implementation of Second Banking Directive (89/646/EEC)[b] into national law in 1992
France	Bank specialisation requirements reduced in 1984 Elimination of credit controls in 1987 Securitisation introduced in 1991 Implementation of Second Banking Directive (89/646/EEC) into national law in 1992
Italy	Interest rate deregulation in 1983 Credit ceilings eliminated in 1983 and temporarily re-imposed in 1986-87 Implementation of Second Banking Directive (89/646/EEC) into national law in 1993 Separation of long-term and short-term credit institutions abolished in 1994
United Kingdom	Credit controls, "the corset", eliminated in 1980 Bank of England's minimum lending rate abolished in 1981 Banks allowed to compete with building societies for housing finance after 1981 Building societies allowed to expand their lending business after 1986 Government withdrew guidelines on mortgage lending in 1986 Securitisation introduced in 1987 Implementation of Second Banking Directive (89/646/EEC) into national law in 1993
Canada	Ceiling on interest rates on bank loans eliminated in 1967 Restrictions on the banks' involvement in mortgage financing abolished in 1967 Banks allowed to have mortgage loan subsidiaries in 1980 Securitisation introduced in 1987
Australia	Bank specialisation requirements eliminated for large domestic banks in 1980 Quantitative bank lending guidance eliminated in 1982 Interest rate deregulation in 1985
Denmark	Liberalisation of mortgage contract terms in 1982 Interest rate deregulation in 1982 Elimination of restrictions on mortgage bond issuance in 1989 Implementation of Second Banking Directive (89/646/EEC) into national law in 1991
Finland	Funding quotas from the Central Bank to commercial banks eliminated in 1984 Interest rate deregulation in 1986 Government withdrew guidelines on mortgage lending in 1987 Securitisation introduced in 1989
Netherlands	Interest rate deregulation in 1980 Implementation of Second Banking Directive (89/646/EEC) into national law in 1992
New Zealand	Credit-allocation guidelines removed in 1984 Interest rate deregulation completed in 1984
Norway	Lending controls abolished in 1984 Interest rate deregulation in 1985
Sweden	Interest rate deregulation in 1985 Lending ceilings for banks abolished in 1985

a) Deposit interest rate ceilings.
b) This Directive refers to the co-ordination of laws, regulations and administrative provisions relating to the taking up and pursuit of activities and services of credit institutions. It is aimed at further liberalising banking services from the point of view of both the freedom of establishment and the freedom to provide financial services.
Sources: Williamson and Mahar (1998), Freedman (1998), Booth *et al*. (1994), Drees and Pazarbasioglu (1995), and OECD.

5. As became evident later, many institutions over-extended mortgage credit in the new competitive environment. Indeed, many countries suffered serious problems with mortgage loans, requiring costly public interventions (see Edey and Hviding, 1995).

Kingdom, the Nordic countries, Australia and New Zealand, the liberalisation process was relatively quick and was almost completed by the mid-1980s. In some continental European countries and Japan, deregulation tended to be less comprehensive and slower.

… and competition in the mortgage market has intensified

In the countries where liberalisation was completed by the mid-1980s, competition in the mortgage market rose as new entrants fought to gain market share:

- In the United States, the reduction of preferential tax treatment in favour of thrifts,[6] the elimination of interest-rate ceilings and government measures to develop secondary markets in mortgage bonds increased competition between banks and thrifts for customers. The share of non-thrift institutions in total mortgage origination, *i.e.* direct lending to households, rose from 45 per cent in the late 1970s to 60 per cent in the late 1980s, and their share in outstanding home mortgages reached 70 per cent in the late 1980s.
- In the United Kingdom, banks entered the mortgage market as credit controls were lifted and restrictions on mortgage lending for non-housing purposes abolished. The market share of building societies in net advances, *i.e.* new loans secured on dwellings, which accounted for 50 per cent of the mortgage market in the late 1970s, dropped to 35 per cent by the late 1980s. Housing credit was expanded significantly, and the range of types of contract available was increased.
- In Canada, ceilings on interest rates on loans and restrictions on commercial banks' involvement in mortgage financing were abolished in 1967, permitting banks to invest in non-insured mortgages. Since then, there has been relatively strong competition between banks and trust and mortgage loan companies in the market for mortgages. The banks' share of the residential mortgage market (including securitised mortgages) climbed steadily from 10 per cent in 1970 to about 55 per cent in the late 1990s (Freedman, 1998).
- In most Nordic countries, the impact of financial deregulation was particularly strong on the housing market as it was accomplished within few years and in conditions when tax systems gave strong incentives to borrow. The lifting of lending and deposit rate ceilings opened the way to more competition by facilitating entry of banks and other financial institutions into new segments of the credit market.

In Germany, the financial system was largely liberalised in the early 1970s, with all interest rate restrictions having already been removed in 1967. However, competition on the funding side of the banking sector has remained somewhat distorted given that public-sector financial institutions, accounting for a large share of the residential mortgage market, benefit from advantageous financing conditions due to perceived public guarantees.

In a number of other countries the reform process was less comprehensive and competitive pressure less intense in the mortgage market:

- In France, deregulation allowed commercial banks to compete in the mortgage market after 1987, but restrictions on interest rates remained for a longer period. Although market-driven lending became the rule, funding sources

6. The term "thrift" refers to savings and loans and saving banks. Both institutions have traditionally focused on retail deposit gathering and mortgage lending.

were not completely competitive, and public-sector financial intermediaries still enjoy significant advantages. Until mid-1999, the Crédit Foncier de France, the main state housing loan institution, had the monopoly right to issue mortgage bonds.

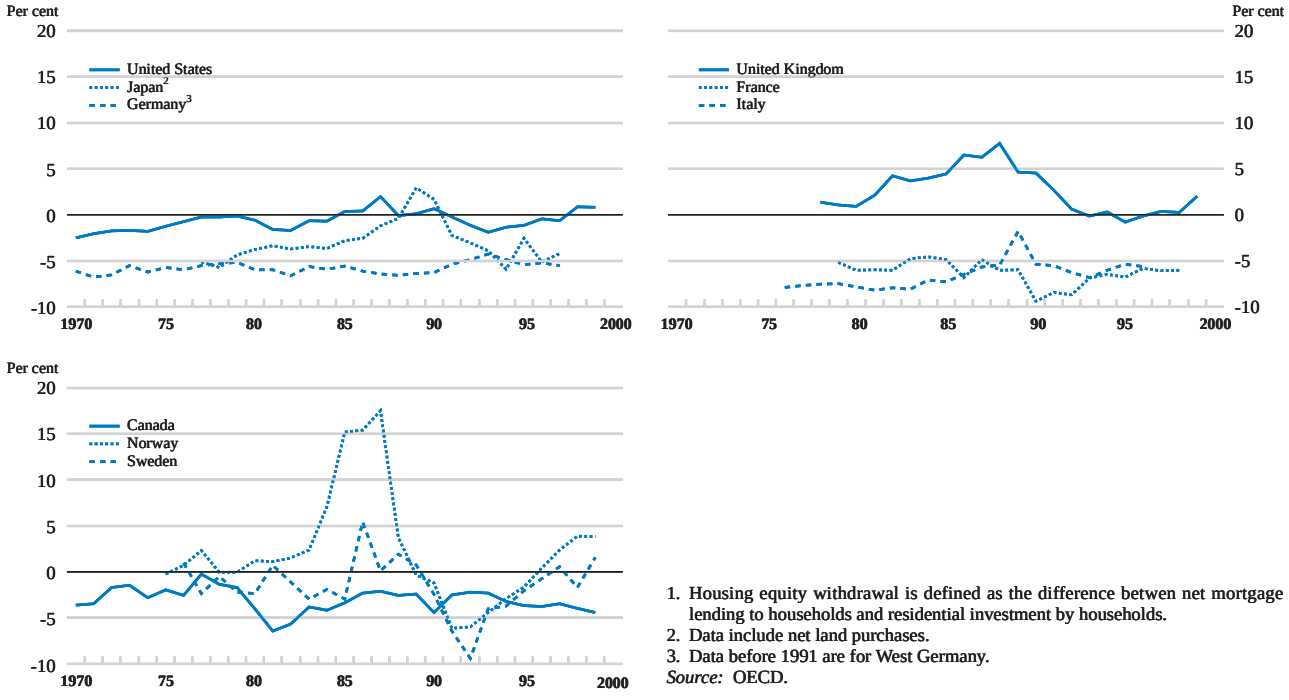
– In Italy, quantitative ceilings on bank loans were abolished in 1983 but re-imposed temporarily in 1986 and 1987. In 1994, important restrictions on activities in the banking sector were eliminated and all types of credit institutions were allowed to issue mortgage bonds and grant long-term loans. Banks are nonetheless subject to various procedural and lending restrictions on their mortgage activity, limiting their possibilities to engage in mortgage lending.

– Japan took a gradual path to deregulating its financial markets. Interest rate deregulation began in the early 1980s but restrictions were not completely eliminated until the mid-1990s and credit controls were lifted gradually in the early 1990s. However, in the second half of the 1980s, housing loans increased massively as banks were faced with abundant liquidity due to the relaxed monetary policy. They lent to housing loan corporations (*jusen*), which were active in mortgage financing and contributed to the substantial expansion of property loans.

Reforms in financial markets have often been reflected in the extent to which households inject equity into the housing market or, in some cases, withdraw it, *i.e.* the difference between households' residential investment and the flow of net mortgage lending to households (Figure VI.2). Deregulation of the mortgage market in the 1980s was accompanied by housing equity withdrawal on a large scale in the

Figure VI.2. **Housing equity withdrawal in selected countries**[1]

Per cent of household disposable income



1. Housing equity withdrawal is defined as the difference betwen net mortgage lending to households and residential investment by households.
2. Data include net land purchases.
3. Data before 1991 are for West Germany.

Source: OECD.

Table VI.3. Mortgage markets in OECD countries: Institutional set-up[a]

	Main lenders[b] (approximate market share)	Interest adjustment (approximate market share)	Typical term (years)	Maximum loan-to-value ratio[c] (per cent)
United States		Fixed rate: 74% Initial fixed-period rate: 26%	30	75-80[d]
New mortgages:	Mortgage companies: 58% Commercial banks: 24% Savings Institutions: 15%			
Outstanding mortgages:	Mortgage pools: 55% Commercial banks: 19% Savings institutions: 12%			
Japan	Housing loan corporation: 30% Commercial banks: 64%	Fixed rate: 36% Initial fixed-period rate and variable rates: 64%	25-30	70-80[d]
Germany	Mortgage banks: 28% Savings banks: 26% Co-operative and Mutual credit banks: 14%	Initial fixed-period rate: 100%	25-30	60-80
France	Co-operative and Mutual credit banks: 34% Commercial banks: 33% Savings banks: 13%	Fixed rate: 60% Variable rate: 40%	15	80
Italy	Commercial Banks: 100%	Initial fixed-period rate: 50% Fixed rate: 50%	15	50
United Kingdom	Building societies:[e] 23% Commercial banks: 71%	Initial fixed-period rate: 95% Variable rate: 5%	25	100
Canada	Commercial banks: 55% Trust companies: 11% Co-operative credit institutions: 14%	Fixed or initial fixed-period rate: 92% Variable rate: 8%	25	75[d]
Austria	*Bausparkassen:* 20% Savings banks: 26% Mortgage banks: 19%	Initial fixed-period rate: 100%	20-30	60-80
Belgium	Commercial banks: 91% Insurance corporations and Pension funds: 6%	Initial fixed-period rate: 79% Fixed rate: 21%	20	80-85
Denmark	Mortgage banks: 90% Commercial banks: 10%	Fixed rate: 78%	30	80
Finland	Commercial banks: 38% Specialised lenders: 38% Co-operative and Mutual credit banks: 19%	Initial fixed-period rate: 90%	15-18	70-80
Greece	Commercial banks: 67% Specialised institutions: 31%	Initial fixed-period rate: 88% Fixed rate: 12%	15	70
Ireland	Building societies: 62% Commercial banks: 38%	Initial fixed-period rate: 70% Variable rate: 30%	20	90
Netherlands	Commercial banks: 85% Insurance corporations and Pension funds: 15%	Initial fixed-period rate: 80% Variable rate: 20%	30	75
Norway	Savings banks: 43% Commercial banks: 38%	Initial fixed-period rate: 10% Variable rate: 90%	15-20	80
Portugal	Commercial banks: 100%	Variable rate: 100%	15	90
Spain	Savings banks: 52% Commercial banks: 38%	Initial fixed-period rate: 50% Variable rate: 50%	15	80
Sweden	Mortgage banks: 80% Insurance corporations and Pension funds: 10% Commercial banks: 10%	Initial fixed-period rate: 100%	< 30	60-80

Note : In a fixed rates contract the interest rate does not change throughout the entire duration of the loan. An initial fixed-period rate contract will start with a period during which the interest rate does not change. After this initial period, the interest rate can either be fixed for another period or vary. In a variable rate contract the interest rate could change from every day up to one year.

a) Most recent data available.

b) Market shares of main lenders in the United States refer to new mortgage, representing the flow of new loans, and to outstanding mortgages defined as the stock of loans (including securitisation). For Canada and European countries, securitised mortgage loans are included.

c) Normal maximum loan-to-value ratios are presented here. The European Mortgage Federation also reports absolute maximum loan-to-value ratios.

d) For these countries, typical loan-to-value ratio are presented.

e) Since 1997 a number of building societies have converted their status of mutual institutions to commercial banks. The share of building societies indicated above refers to the remaining institutions under the Building Society Act.

Sources: European Mortgage Federation (2000), Noguchi and Poterba (1994), US Department of Housing and Urban Development, Canadian Housing and Mortgage Corporation.

United Kingdom and Norway, and, to a lesser extent, in the United States and Sweden. While this was followed by a period of no housing equity withdrawal or housing equity injections, there has been a tendency in these countries for mortgage borrowing by households to exceed their residential investment in the latter part of the 1990s. Such equity withdrawal provides households with liquidity and may work to provide a stimulus to consumption. By contrast, in countries where the deregulation of the mortgage market has been less extensive, the household sector has been permanently injecting equity into housing, in most cases by substantial amounts. Japan is an exception in this respect, but, as noted earlier, the positive housing equity withdrawal in the 1980s was primarily related to ample liquidity in the financial system.

However, convergence across countries is still far from complete

Partly reflecting the uneven progress in liberalising mortgage markets, the terms and conditions on mortgage loans vary considerably across countries (Table VI.3). For example, normal maximum loan-to-value ratios range from 50 per cent in Italy to 100 per cent in the United Kingdom, the standard length of mortgage loans varies from 15 years in France, Italy, Finland and Greece to 30 years in the United States, Denmark, and the Netherlands, and the share of variable rate mortgage loans ranges from 10 per cent to 100 per cent. While these differences are likely to reflect differing regulations and intensity of competition in mortgage market, they also mirror differences across countries with respect to legal procedures (*e.g.* the granting of loans and repossession in the case of loan default) and differences in regulations of the rental sector.

Housing wealth and private consumption

Changes in house prices may influence consumption through a wealth effect...

Changes in property prices can have powerful impacts on private consumption through wealth effects.[7] Thus, owner-occupiers may perceive house price increases as an addition to their wealth, and reduce their saving out of current income.[8] However, households planning to purchase their own homes may reduce their consumption in the wake of higher house prices as they will have to save more for higher down-payments and repayments. For these reasons, the strength of the wealth effect is uncertain.

… and through an easing of liquidity constraints on households

Changing house prices may influence private consumption, even if wealth effects are absent, to the extent they influence the borrowing capacity of households.[9] Credit rationing was often an inherent feature in a system that artificially fixed interest rates at low levels. But rationing at the margin may also be a feature of a market-based system for reasons such as asymmetric information between borrowers and lenders (see Deaton, 1991, for a review of arguments for credit constraints). In practice, households' ability to borrow is strongly dependent on their capacity to

7. See Miles (1995) for a comprehensive coverage of issues related to the housing markets and their macroeconomic impact.
8. It is also possible that owners do not feel wealthier when the value of their property goes up since their implicit rental costs have gone up as well. However, in this case the increased implicit rental cost could induce the owners to trade down and the resulting housing equity withdrawal could be used to increase consumption.
9. See Kennedy and Andersen (1994) for a comparative analysis of the role of house prices in household saving.

Box VI.1. Wealth and consumption: some recent empirical evidence

The OECD has examined the long-term determinants of consumption in major OECD economies, and in particular the role of housing wealth in driving households' current spending. Building on earlier OECD work on the impact of stock market wealth on private consumption, the approach adopted has been to estimate structural consumption equations. Two different long-run specifications have been employed. The first one relates private consumption to the net worth of households (or the personal sector). This implicitly assumes that the marginal propensity to consume (MPC) is equal for different forms of wealth, so that a dollar change in housing wealth is constrained to have the same effects as a dollar change in financial or other forms of wealth. The second specification allows the MPC to differ across three major components of total net worth: net financial wealth (*i.e.* financial assets minus financial liabilities), housing wealth and other wealth derived as a residual. Apart from these central variables, both specifications include interest rate and inflation terms.

Estimates of marginal propensity to consume

	MPC out of net worth	MPC out of housing wealth
United States	0.04	0.05
Japan		0.16[a]
France	0.03	0.04[a]
United Kingdom	0.02	0.03[a]
Canada	0.05	0.12

a) Net housing wealth, *i.e.* gross housing wealth minus home mortgages.
Source: OECD.

The main results suggest that the long-run marginal propensity to consume out of net worth (including housing wealth) in the United States, France, the United Kingdom and Canada ranges from 0.02 to 0.05 (Table). Regression results also indicate that an extra dollar of housing wealth in the United States will ultimately result in increased private consumption of about 5 cents. The marginal propensity to consume out of housing wealth in France and in the United Kingdom is estimated to be somewhat smaller. On the other hand, the OECD estimates for Japan and Canada are high and significantly above results reported in the literature.

The importance of housing wealth in determining private consumption is supported by econometric studies in a number of countries.[1] Recent work in the United States suggest that for each dollar increase in housing wealth, households increase their consumption by 3 to 5 cents (Greenspan, 1999, and Brayton, Davis and Tulip, 2000).[2] In the United Kingdom, many studies have attempted to link consumption behaviour with the developments in the housing market.[3] The estimated long-term housing wealth elasticity ranges from 6 per cent to 15 per cent and corresponding estimates of marginal propensity to consume out of housing wealth vary between 0.02 and 0.08. In Japan, Ogawa *et al*. (1996) reported property wealth effects (land and housing wealth) with estimates of the long-term elasticity ranging from 6 per cent to 10 per cent. In Italy, little evidence of housing wealth effects is reported in the literature. However, Rossi and Visco (1995) provided evidence of a marginal propensity to consume out of total wealth of the order of 0.03 to 0.035, once account is taken of double counting of social security transfers in the measurement of disposable income and pension wealth. Similarly, in Canada, evidence of housing wealth effects is limited in empirical studies. Bérubé and Côté (2000) presented estimates for long-term net worth elasticity ranging from 2 per cent to 4 per cent. For France, a variety of studies provide no strong evidence of any wealth effect at all.

The importance of housing equity withdrawal for private consumption is also supported by OECD regression analysis for the United States, the United Kingdom, France and Canada. In these countries, changes in housing equity withdrawal influence the saving ratio, operating in addition to total wealth effects that determine the long-run value of the saving rate.[4]

1. See Boone *et al.* (1998) for a review of the role of stock market fluctuations on wealth and consumption.
2. The estimates of marginal propensity to consume vary substantially across models as they depend on the particular measure of wealth that is included in the set of explanatory variables, on the measure of private consumption, on the data sample, and on the particular specification being estimated.
3. For a survey, see Church, Smith and Wallis (1995).
4. Recent work in the United States suggests that cash-out refinancing activity in 1998 and early 1999 is likely to have boosted consumption spending, but by only a small amount relative to aggregate consumption spending (Brady *et al.*, 2000).

supply assets that can serve as a security for repayments and real estate is the most widely used collateral asset. Households can withdraw part of the rise in housing equity by increasing their borrowing secured on rising property values, and use some of the proceeds to finance extra consumption.

Changes in housing wealth have played a role in driving consumption in some countries in recent years

Empirical work by the OECD (see Box VI.1) suggests that the recent increases in house prices have contributed to boosting demand in a few countries. Over the 1996-99 period, the growth of housing wealth in excess of income growth in the United States may have contributed 0.4 percentage point to the total drop of the household saving ratio of some 2.4 percentage points. In the United Kingdom, increases in the ratio of housing wealth to disposable income over the same period could have reduced the saving ratio by some 2 percentage points.

House prices and residential investment

Property prices can influence residential investment through their impact on the profitability of house building

Property prices can have important effects on residential investment through their impact on the profitability of such activity. When house prices rise above current construction costs, it will be profitable for developers to engage in the building of new housing units. Because such investment is likely to be small in the short run relative to the existing housing stock, current construction activity is unlikely to have much impact on house prices. The new units can thus be sold at the price prevailing in the secondary housing market and at a margin over costs. However, over time the cumulative addition to the housing stock will impinge on property prices, and in the long run price-cost margins will return to normal.

High volatility in the price-cost margins have characterised several small countries

As measured by the ratio of residential property prices to the implicit residential investment deflator (which excludes land costs), price-cost margins in the housing construction industry have fluctuated markedly in several Member countries for which data are available. The annual fluctuations and cumulative changes have been particularly pronounced in some of the smaller European countries, notably in Denmark, Finland and Norway and to a lesser extent in the United Kingdom (Figure VI.3). By contrast, the three largest OECD countries have experienced only small changes in price-cost margins.

Price-cost margins have been closely correlated with private residential investment in some countries…

For the majority of countries under review there is a fairly close contemporaneous association between the construction profitability indicator and private residential investment (Table VI.4). The correlation coefficient is strikingly high in some of the smaller European countries, even exceeding 0.8 over the 1980-99 period in the Netherlands, Denmark, Spain and Belgium. On the other hand, the correlation is weak in the United States, Japan, France and Norway, while the negative correlation observed in Germany may be attributable largely to large-scale subsidies aimed at improving housing standards in the New *Länder*, which are not taken into account in the profitability indicator.

… but there is little evidence that profit margins alone can explain private residential investment in the long run

Notwithstanding the close short-run associations in many countries, there is little formal evidence of a stable long-run relationship between the profitability of construction and private residential investment. To some extent this could result from the fact that the profitability indicator used here does not include the cost of land,[10] but it could also reflect the importance of other factors. For example, prices for new

10. Studies using better measures of price-cost discrepancies have detected more significant long-run links between profitability and investment in some countries.

Figure VI.3. **Residential investment and its profitability in selected OECD countries**[1]

1. The profitability of housing investment is measured as the ratio of residential property prices to the implicit residential investment deflator. In Japan, residential property prices refer to the implicit price deflator for the housing stock as recorded in national accounts.

Source: OECD.

Table VI.4. **Residential investment and its profitability**[a]

	Correlation coefficients, 1980 to 1999 (*: Statistically significant at 5 per cent level)
United States	0.37
Japan	0.35
Germany	–0.71*
France	0.25
Italy	0.77*
United Kingdom	0.61*
Canada	0.66*
Australia	0.51*
Belgium	0.83*
Denmark	0.92*
Finland	0.59*
Ireland	0.43
Netherlands	0.92*
Norway	0.16
Spain	0.82*
Sweden	0.60*

a) Data for residential investment refer to the private sector. Its profitability is measured as the ratio of residential property prices to the implicit residential investment deflator (which excludes land costs).
Source: OECD.

and existing houses may differ for reasons such as segmented financing arrangements. Also, property developers may have been constrained in their investment decisions by lack of finance. Indeed, construction companies have typically been highly leveraged and thus particularly vulnerable to any changes in lending practices of financial institutions.

Policy implications

Property prices may serve as useful indicators of excess demand pressures…

The link between house price developments and movements in aggregate demand suggests that monitoring developments in property markets can provide a useful input to the setting of economic policy. In a number of OECD countries house prices are already regarded as important indicators of the state of the economy and demand pressures, and timely and comprehensive data on property prices are available. However, in some other countries, adequate information about real estate prices is lacking. Increased efforts would therefore be warranted to develop better data collection systems in this area.

… and to monitor changes in the opportunity for households to withdraw housing equity

It is also important to monitor changes in mortgage arrangements that make it easier for households to withdraw housing equity and hence to finance consumption. In the coming years, in particular in the European Union with the establishment of a single market in financial services, terms and conditions on mortgage products are likely to change further. Market forces may act to make mortgage borrowing easier in the countries where down-payment requirements are still high and repayment periods remain short. This process of convergence may thus involve a stimulus to demand in some countries by making it easier to withdraw housing equity.

Where strong increases in property values are part of a more general pattern of excess demand in markets for goods and services, the need for a monetary policy response is clear. The more difficult situation arises when no such general pattern of excess demand is apparent. Rising property prices may give rise to concern that inflation pressures are latent, but in their absence a policy response is difficult to justify. The major risk in this circumstance is that property prices may rise to unsustainable levels, resulting in severe balance-sheet problems once a correction sets in, as occurred in a number of countries in the late 1980s and early 1990s. Strong supervision arrangements in the financial sector and high prudential standards provide the best means of guarding against this risk.

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VII. TRENDS IN IMMIGRATION AND ECONOMIC CONSEQUENCES

Introduction and summary[1]

This chapter reviews trends in immigration and its impacts on labour markets and public finances

For a variety of reasons, international migration has long been a concern in both originating and receiving countries. Recently, the debate has focussed on the role that immigration may play in easing the economic and budgetary impacts of declining and ageing OECD populations and addressing skilled labour shortages in sectors such as information technology. This chapter reviews recent trends in international migration and then attempts to synthesise what is known about the impacts of immigration on labour markets and public finances. It concludes with a brief discussion on some of the linkages between emigration and economic development in the source country. The main findings can be summarised as follows:[2]

- Most studies suggest that immigration confers small net gains in terms of per capita output to the host country, but the distribution of the benefits is not necessarily even and depends on the qualification structure of the immigrant and native-born workforce.
- Past immigration has had no obvious impact on native unemployment. It might even have been beneficial for the economy and for native employment to the extent that it acts as a source of flexibility.
- A number of OECD countries have recently moved to favour the immigration of more skilled labour. This has raised concerns of a possible "brain drain" in less developed countries.
- Immigration impacts on government expenditures and revenues, but the net impact at the national level seems to have been negligible so far.
- Increased immigration can limit the adverse impact on living standards and government budgetary positions due to declining and ageing populations, but cannot on its own resolve the problem.
- Policies to stimulate economic development may reduce the incentive to emigrate from developing countries.

1. This chapter has been prepared in co-operation with the Non-member Economies and International Migration Division of the Directorate for Education, Employment, Labour and Social Affairs.
2. For a more detailed assessment see Coppel *et al.* (2000) and the bibliography and references therein. See also Visco (2000*a*).

Trends in international migration

Migration statistics are not readily comparable across countries

A number of statistical caveats should be borne in mind when assessing the overall scale of immigration, the number of foreign residents and some of their key characteristics (see Box VII.1). Caution is especially required when interpreting flows and stocks of immigrants across countries. Furthermore, the analysis presented here deals primarily with legal immigration, although illegal migration is thought to account for a significant proportion of migration flows (see below).

Immigration patterns have changed in all OECD countries

Given these caveats, the size and pattern of immigration has changed markedly in recent decades and varies widely among OECD countries:

– The United States has historically been, and continues to be, an important net recipient of immigrants and is the largest gross recipient of immigrants in absolute terms among the OECD countries (Figure VII.1, top panel).[3] Relative to population, however, gross immigration rates are now about half the rate recorded between the middle of the 19th century and the first two decades of the 20th century.

Box VII.1. Migration statistics: definitions and comparability issues

In OECD countries the principal sources of migration data are population registers, residence or work permits, censuses and, in a few cases, dedicated surveys. These sources generally do not have as their raison d'être the recording of migration, and this makes it difficult to compile harmonised and comparable data. Moreover, they only provide official information based on legal entry and do not capture clandestine migration flows. Problems associated with the actual timing of migrant arrivals or departures and breaks in time series are common, since often the data are based on administrative formalities, which change frequently and do not apply to everyone. For example, in cases where data are based on the issuance of permits, arrivals data may not correspond with actual movements, since individuals may decide not to use the permit or to delay arrival. In other cases, illegal immigrants may already be in the country, but only counted when their status changes.* A particular problem is identifying the level of intra European Union migration flows, since there are no restrictions on movement and reporting requirements are difficult to enforce. Changes in status and governmental procedures can, therefore, lead to substantial, and in some sense artificial variation over time in the recorded arrivals.

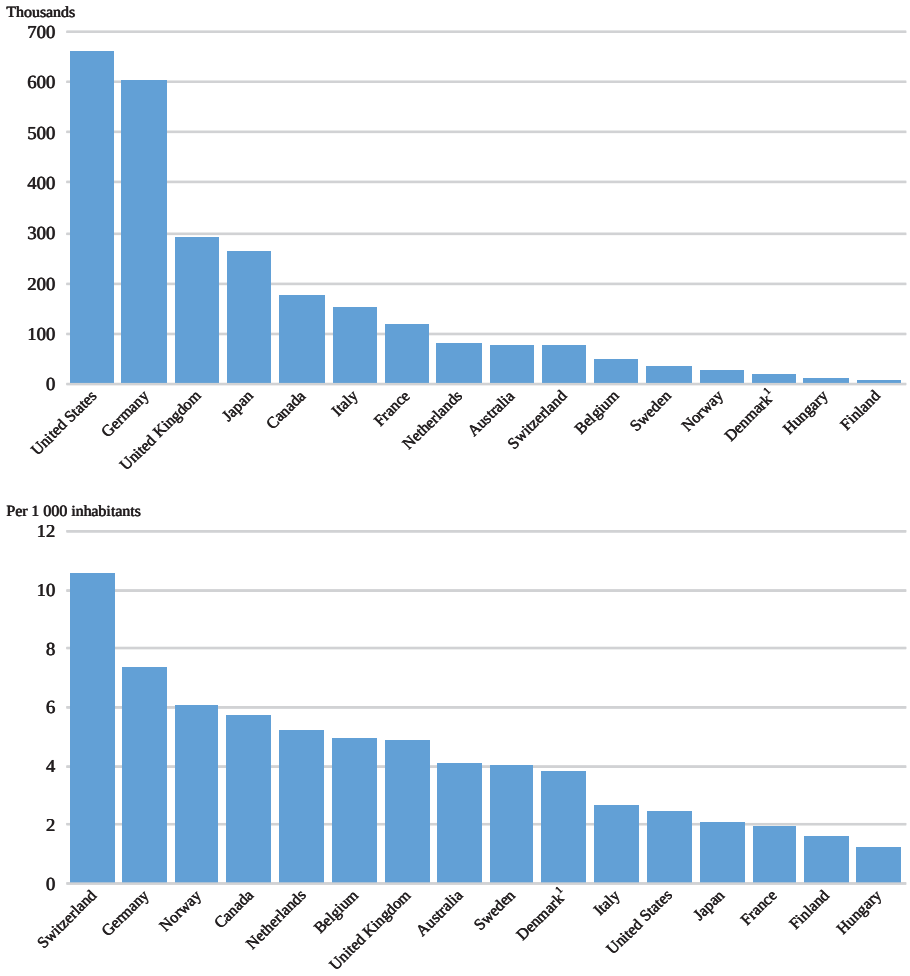
International comparisons, notwithstanding great efforts by the United Nations to collect data based on a common approach, are even more difficult, given the diversity of sources, lack of common definitions and the different compilation methods used. In particular, some OECD countries define the immigrant population as those of foreign nationality (European countries, Japan and Korea), whereas others count the number of foreign-born persons (Australia, Canada, New Zealand and the United States). In the former case, the stock of migrants in the overall population tends to be lower because naturalised citizens are not considered to be immigrants. This, however, is not always the case, as some countries have nationality laws which limit the scope for foreigners, even for their children who are born in the host country, to become naturalised citizens.**

* In the United States, for instance, at least half the number of immigrants issued with a permanent residence permit in 1986 and 1995 were already in the country when their status was adjusted following amnesty programmes.

** For a more detailed discussion on migration statistics, see the statistical annex in OECD, *Trends in International Migration.*

3. The sources for net migration and gross migration flows are different. The former is based on population registers, with net migration calculated as a residual and the latter is based on administrative formalities. The two series are not directly comparable.

Figure VII.1. **Arrivals of foreigners into OECD countries in 1998**



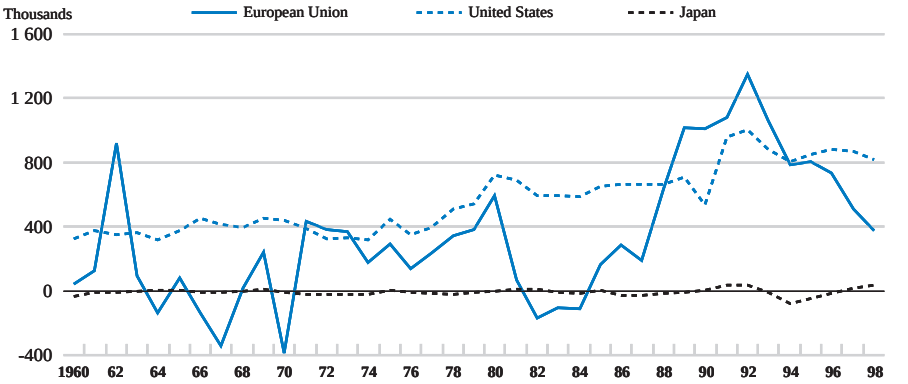
1. Data for Denmark refer to 1997.
Sources: OECD; ISTAT (1998), *Rapporto Annuale*.

– Most European countries have switched away from being emigration nations and, as a result, in most years over the past four decades the European Union (EU) as a whole has been receiving a net inflow of migrants (Figure VII.2). Net flows rose through the 1980s and peaked in the early 1990s, driven by the fall of the "iron curtain" and a number of wars and ethnic conflicts, which led to an increased volume of asylum seekers, especially in Germany, the Netherlands, the Nordic countries and the United Kingdom. Since then tighter controls on immigration have led to a decline in legal arrivals.[4]

– In Japan, net migration has traditionally been negligible. Recently, however, restrictions on temporary migration have been eased and in 1998 Japan

4. Arrivals of migrants can mask the underlying scale of inward and outward movements in some countries because of the relative importance of emigration. Germany, for instance, receives about four times as many arrivals as most other European countries where data are available and yet the net intake of migrants is similar to other major host countries in Europe.

Figure VII.2. **Net migration in major OECD areas**[1]



1. Net migration is measured as the difference between the total population on 1 January and 31 December for a given calendar year, minus the difference between births and deaths.

Sources: OECD; Eurostat (1999).

received a large number of arrivals. But, relative to population, arrivals remain limited, compared with a number of the smaller OECD countries.

Source countries largely reflect geographical proximity and historical ties

The number of source countries for migrant arrivals have increased in almost all OECD countries and their distribution differs considerably among countries. For example, the largest groups of foreigners to arrive in Germany are of Turkish and East European origin. In Italy, the recent rise in inward flows is mainly of Albanian, ex-Yugoslav and North African origin, and for France and the United Kingdom people from former territories and colonies remain an important source of arrivals. In the United States, the main group of new immigrants come from Mexico, whereas in Australia they predominantly come from Asian countries, New Zealand and the United Kingdom. Cross-country differences in source countries, therefore still largely reflect geographical proximity and historical ties.

The foreign population in the OECD area has risen over the past decade…

Reflecting the increase in immigration during the 1980s and early 1990s, the stock of the foreign population in the OECD area rose by over 13 million between 1988 and 1998 (where data are available), to reach nearly 57 million persons, equivalent to 7 per cent of the total population. In Europe, the proportion is relatively low at about 5 per cent in 1998, compared with around 20 per cent in Australia and Canada and nearly 10 per cent in the United States. However, within Europe the size of the foreign relative to the overall population spans a wide range (Table VII.1).

… and has different education and employment profiles compared with nationals

The characteristics of the foreign population differ in some important respects from the national profile. In a number of large OECD countries, almost half the foreign adult population only has a lower secondary level of education (Table VII.2). This, in part, reflects past demands for low-skilled workers in the manufacturing sector, notably in many European and "settlement" countries, such as Australia and Canada where the share of foreigners employed in industry is larger than the corresponding share for nationals (Table VII.3). In the United States, the share of foreigners employed in agriculture is also disproportionate compared with the share for nationals. The dichotomy in educational attainment levels between the native and foreign populations is likely to narrow, if the increasing emphasis on inflows of skilled workers continues (see below).

Table VII.1. Foreign or foreign born population in selected OECD countries

	Thousands		Per cent of total population	
	1988[b]	1998[c]	1988[b]	1998[c]
Australia[a]	3 753	3 908	22.3	21.1
Austria	344	737	4.5	9.1
Belgium	869	892	8.8	8.7
Canada[a]	4 343	4 971	16.1	17.4
Denmark	149	256	2.8	4.8
Finland	19	85	0.4	1.6
France	3 714	3 597	6.8	6.3
Germany	4 489	7 320	7.3	8.9
Ireland	82	111	2.4	3.0
Italy	645	1 250	1.1	2.1
Japan	941	1 512	0.8	1.2
Luxembourg	106	153	27.4	35.6
Netherlands	624	662	4.2	4.4
Norway	136	165	3.2	3.7
Portugal	95	178	1.0	1.8
Spain	360	720	0.9	1.5
Sweden	421	500	5.0	5.6
Switzerland	1 007	1 348	15.2	19.0
United Kingdom	1 821	2 207	3.2	3.8
United States[a]	19 767	26 300	7.9	9.8
European Union[d]	11 249	14 291	4.1	5.1
Total[e]	43 677	56 872	5.7	7.0

a) Data for the United States, Canada and Australia refer to foreign-born population.
b) 1990 for the United States; 1991 for Canada and Australia; 1982 for France.
c) 1990 for France; 1996 for Canada and Australia.
d) Excluding Greece.
e) For those countries shown in the table, and, where applicable, for the dates noted in the above footnotes.
Source: OECD.

Table VII.2. Foreign and national adult populations classified by level of education in selected OECD countries[a]

1995-98 average, percentages

	Lower secondary		Upper secondary		Third level	
	Foreigners	Nationals	Foreigners	Nationals	Foreigners	Nationals
United States[b]	35.0	15.7	24.1	35.0	40.9	49.3
Germany	48.5	13.2	37.0	62.2	14.4	24.6
France	63.3	33.4	22.9	45.4	13.8	21.1
Italy	47.1	56.3	38.3	34.3	14.6	9.3
United Kingdom	65.1	43.9	14.7	32.5	20.2	23.7
Canada[c]	22.2	23.1	54.9	60.3	22.9	16.6
Sweden	30.8	20.4	41.5	50.3	27.7	29.3

a) The educational attainment classification is defined as follows: lower secondary refers to pre-primary education or none, primary or lower secondary; upper secondary refers to upper secondary education or post-secondary non tertiary education; third level refers to tertiary education.
b) Foreign-born and native populations aged 25 and over. Lower secondary refers to less than high school diploma, upper secondary refers to high school diploma, and third level refers to some college or more.
c) Foreign-born and native populations aged 25 to 44. Lower secondary refers to below grade 9, upper secondary refers to grades 9 to 13, and third level refers to some post-secondary education plus university degrees.
Sources: Labour Force Surveys (Eurostat), Statistics Canada, US Census Bureau.

Table VII.3. **Employment of foreigners and national by industry division**[a]

1995-1998 average

	Agriculture		Industry		Services	
	Foreigners	Nationals	Foreigners	Nationals	Foreigners	Nationals
Australia	2.2	5.8	26.7	20.7	71.1	73.4
Austria	1.3	7.6	42.0	29.2	56.7	63.2
Belgium	1.1	2.7	35.9	27.1	63.0	70.3
Canada[b]	2.4	4.7	24.6	19.6	73.0	75.7
Denmark	4.4	3.9	22.9	26.6	72.7	69.5
Finland	3.6	7.7	23.5	27.6	72.9	64.7
France	3.2	4.8	38.2	26.0	58.7	69.3
Germany	1.4	3.1	46.3	34.1	52.3	62.8
Greece	3.9	19.9	41.3	22.5	54.7	57.6
Ireland	3.7	11.0	25.2	28.3	71.2	60.8
Italy	6.8	6.6	34.9	32.2	58.3	61.2
Japan[c]	0.3	5.5	64.1	61.6	35.6	33.0
Luxembourg	1.6	3.8	28.3	20.0	70.1	76.2
Netherlands	2.1	3.8	28.3	22.9	69.7	73.4
Portugal	1.9	12.8	38.8	32.5	59.3	54.7
Spain	7.5	8.5	20.7	30.1	71.8	61.4
Sweden	1.5	3.3	27.2	25.7	71.3	71.0
United Kingdom	0.7	1.9	20.2	27.4	79.1	70.7
United States[d]	4.2	2.4	26.2	22.6	69.5	75.0
Total[e]	3.3	4.3	29.2	27.4	67.5	68.4

a) For each country, each two columns represent breakdowns of foreigners and nationals (foreign-born and natives for Australia, Canada and the United States) in total employment of their respective industry groups.
b) 1996.
c) Foreign employment refers to June 1997. National employment refers to total civilian employment for the period 1995-98.
d) 1997.
e) For those countries shown in the table, and, where applicable, for the dates noted in the above footnotes.
Sources: OECD, Eurostat, Australian Bureau of Statistics, Statistics Canada, Japan's Ministry of Justice, US Census Bureau.

Illegal immigration is thought to be on the rise

As noted earlier, both gross arrivals and net flows of immigrants may underestimate the level of migration due to the movements of illegal or clandestine immigrants. These are immigrants who enter unlawfully, overstay the expiration date of their visa or asylum seekers who remain despite not having been granted political refugee status. By definition it is impossible to know exactly how many illegal immigrants enter OECD countries, but they may be more significant now as compared with earlier periods.[5] Moreover, within-year gross flows of clandestine migrants are believed to be even higher, suggesting that many must enter and leave again after a short period of time.

5. Efforts have been made to estimate the importance of illegal immigration based on the response to "regularisation" programmes. In the United States, a relatively recent estimate suggested that the number of illegal immigrants entering in 1996 was approximately 300 000, equivalent to one third of the number of legal immigrants that year. In Europe, estimates of clandestine immigration have been put as high as half a million a year, implying an even larger proportion of illegal to legal immigrants. For Japan, the number of undocumented residents was officially estimated at the beginning of 1999 at 270 000. And in Australia, the number of temporary visitors who fail to return on the expiry of their visa was estimated at about 53 000 persons in mid-1999. (For references, see Coppel *et al.*, 2000).

The principal factors driving immigration

Immigration flows are influenced by a complex set of factors

Knowledge on why some people migrate and what happens when they do remains still fairly thin, despite a growing literature. Two general influences on the incentive to emigrate are usually distinguished: "push", or supply side factors affecting the interest and willingness to emigrate and "pull", or demand side factors that affect the demand for immigrants in the destination country.

These include the difference in expected incomes between host and source countries…

On the supply side, relative expected incomes between host and source countries is generally thought to be an important factor influencing the incentive to migrate.[6] Relative expected income discrepancies can be approximated by the proportion of per capita income in the source countries (where the data are available) relative to the host country. On this measure, using country average statistics and thus ignoring disparities in income distribution within source and host countries, the incentive to move can be quite sharp (Table VII.4).[7] In all the major seven countries, except the United Kingdom, the average annual per capita income in 1997 in the

Table VII.4. **Per capita income in source relative to host countries in current PPP$, 1997**[a]

Host country	Average number of immigrants[a] (thousands)	Per cent of total immigrants included in calculation	Weighted source country GDP per capita in 1997, PPP$	Ratio of source country GDP per capita to host country GDP per capita in 1997
Australia	87.4	66.6	12 265	60.7
Belgium	51.2	74.1	17 688	77.7
Canada	207.3	48.6	9 900	44.0
Denmark[b]	26.1	33.4	16 679	70.4
Finland	7.8	61.2	8 744	43.4
France	77.5	55.3	6 231	28.3
Germany	679.3	49.9	10 016	47.1
Italy[c]	111.0	67.4	8 279	40.8
Japan	243.9	67.3	10 387	43.2
Netherlands	75.6	43.2	15 497	73.4
Norway	18.0	61.7	17 565	71.8
Sweden	33.6	32.6	17 835	90.1
Switzerland	77.5	50.4	19 262	76.3
United Kingdom[b]	219.8	89.4	14 832	71.5
United States	773.8	77.8	6 371	22.0

a) Based on immigration flows between 1995-98.
b) Immigration data refer to average 1995-97.
c) Immigration data refer to 1998 only.
Source: OECD, World Bank Development Indicators, 1999.

6. This follows in the tradition of seminal work by Harris and Todaro (1970) on rural urban migration.
7. The coverage of the immigrants included in the calculations for this table varies widely between countries (from 33 to 89 per cent). This reflects both the lack of data on the full decomposition of host country immigrants by source country and the absence of per capita GDP data for former Yugoslavia, Bosnia, Croatia, Iran, Iraq, Somalia and Zaire. As a consequence of the latter, the relative income indicator is biased upwards, especially in countries such as Denmark, Sweden and Switzerland since a relatively large proportion of their migrants are from source countries where GDP data is lacking. A downward bias, however, is also possible if the low coverage of immigrants is related to insufficient information on migrants from other EU countries.

source countries is less than half the level of the host country, whereas the simple average for all the countries shown in the table is close to two thirds. The United States is fairly unique in that its migratory flows come primarily from countries with very low per capita incomes.[8]

… a number of non-economic factors…

Relative income discrepancies need not correspond closely with actual migration movements, as these also depend on the immigration policy of the destination country as well as other factors that influence the expected costs and benefits of moving. Non-economic factors are likewise important. The psychological stress associated with moving to live in another country and the language and cultural differences impinge on the decision to move as well as the choice of destination country. Both the economic and non-economic costs borne by migrants are partially muted by the presence of existing migrant networks in the host country, which therefore provides a strong dynamic force in the choice of destination country, with the source country of recent arrivals influenced, via family reunion programmes, by the settlement patterns of past immigrants (Carrington, Detragiache and Vishwanath, 1996). Moreover, some research (most recently by Daveri and Faini, 1999) suggests that international migration acts as a family strategy to diversify sources of income, minimise risks to the household and overcome access barriers to credit markets.

… and labour shortages in host countries

On the demand side, the need for migrant workers in many host countries has been stressed.[9] A number of large European countries and the United States have traditionally filled positions in the service sector and in import-competing industries through recourse to foreign labour. This was especially the case between the mid 1950s and the early 1970s when there were widespread labour shortages and countries like Australia, France, Germany and the United Kingdom actively promoted immigration. The importance of this demand side force declined in the aftermath of the first oil shock in 1973. In recent years, there has been a shift in host-country labour demand towards skilled workers and increased emphasis on attracting skilled immigrants (see below).

Consequences of immigration and policy issues

The main economic concerns about immigration relate to its impacts on the labour market and public finances

Immigration is a contentious issue. Opponents of migration fear adverse impacts on the labour market, public finances, social conditions and on the distribution of income. Proponents of migration, on the other hand, note the positive economic role immigrants can play, for instance in terms of addressing specific labour shortages and the problems linked to ageing populations. But the factual basis for these concerns and aspects of international migration are often limited.

8. These calculations, however, exclude "non-immigrants". These are people who have the right to remain and work in the United States for up to 6 years, although they often become permanent residents. In recent years the United States has admitted some 600 000 "non-immigrants" per year, of which about 80 per cent are skilled workers. It is probable, therefore, that a greater proportion of the "non-immigrants" are from richer countries and earn above average incomes within their own countries, compared with the average immigrant.
9. See, for instance, Faini (1998).

Impacts on the labour market

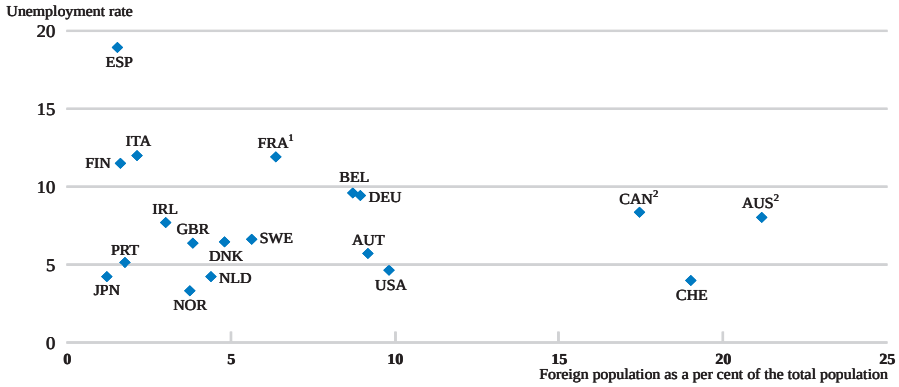
In theory, the consequences on wage rates depends on the skill composition of foreign and native labour

Despite no obvious relationship between immigration and unemployment (Figure VII.3), concerns are often expressed that immigration will lead to higher unemployment and lower wages for the native population. In theory, the labour market impact of immigration depends on how the skills of immigrants compare with those of nationals in the host country. One should expect that the wage income of the migrating factor – predominantly unskilled labour – and of others with which it competes will rise in the source country and fall in the destination country (or, if wages in the destination country are inflexible, unemployment will increase), while the wage and income of complementary factors will move in the opposite direction, as production adjusts to the new factor intensities. The distributional impacts are more complex when other factors of production, such as capital, are included in the analysis.[10]

In practice, the magnitudes are small

It is difficult to evaluate the size and nature of these effects, since, apart from differences in skill and educational attainment, they also depend on the volume of immigrants, the different immigration waves, their settlement patterns, as well as the characteristics of migrants, such as sex, age, country of origin and legal status. Moreover, the effects are likely to vary over time as immigrants acquire new skills and experience in the local labour market. And as relative wages change, decisions on human capital investment by the native population are also likely to adjust. Nonetheless, available empirical studies from the United States fail to find that immigration has harmful effects in terms of raising unemployment in the receiving country (Borjas, 1993 and Friedberg and Hunt, 1995). In Europe the results are less categorical, with a few studies reporting small negative effects of immigration on unemployment (Winkelman and Zimmerman, 1993). This finding may reflect lower labour market flexibility and the slow speed of adjustment in EU economies compared with the United States. Studies which examine the effect of immigration

Figure VII.3. **Immigration and unemployment rates in OECD countries, 1998**



1. Population data refer to 1990.
2. Population data refer to 1996.

Source: OECD.

10. See Borjas (1999) for a formal discussion and extensions to this basic model.

on wages generally support the predictions of standard theory, although the magnitudes are small.[11]

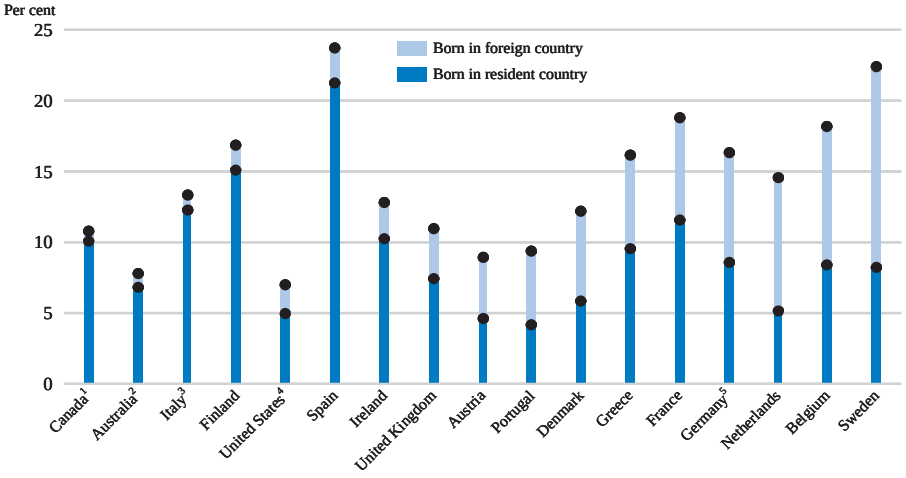
Immigrants, especially in EU countries, tend to have a considerably higher rate of unemployment than the native population (Figure VII.4). But over time, as immigrants acquire language skills, better understand labour market institutions and improve their qualifications, the rate of foreigner unemployment declines and approaches that for nationals. Moreover, as this process of assimilation matures, wage convergence between immigrants and natives advances (Borjas, 1998).

Migration contains a number of economic benefits to the host country…

Although much attention has been paid to the potential adverse effects of immigration on the labour market, migration may in fact confer a number of economic benefits to the host country. First, immigration creates demand for goods and services produced by the host population with favourable consequences for labour demand. Second, immigrants, especially in the EU, tend to serve as a flexible labour reserve and in part compensate for the low geographical or functional mobility of the native born population. Immigration may hence speed up adjustment to changing conditions and thereby help soften the cost of adjustment on the native population. Nonetheless, immigration is not a substitute for flexible markets and potential benefits are only likely to be harnessed if market institutions and policies provide the right framework for both migrants and the native population to look for and find work.

Figure VII.4. **Foreign-born and native unemployment rates, 1995-1998 average**

Per cent of foreign born and native labour forces



1. Data refer to 1996.
2. Data refer to 1998.
3. Data refer to 1995-97.
4. Data refer to 1997.
5. Data refer to foreigners and nationals, instead of foreign-born and native.

Source: OECD.

11. For the United States, Freidberg and Hunt (1995) report that a 10 per cent increase in the fraction of immigrants in the population – a large increase – reduces native wages by at most 1 per cent. In the European context, a study of German workers found that immigration depressed the wage rate of blue collar workers and increased that of white collar workers in the 1980s (De New and Zimmerman, 1994). In the case of France, Garson *et al.* (1987) show that immigration has a very small impact on nationals' wages.

… although these are unlikely to be evenly distributed

For the economy overall, it is harder still to determine with precision whether immigration induces net benefits or costs. A few studies, however, have attempted to do so and these typically find aggregate net benefits for the native population. The benefits, however, are not necessarily evenly distributed and some groups (*e.g.* those whose labour is substitutable with immigrants) could lose from immigration. Moreover, the transfers of wealth could be many multiples the size of the net benefits.

Immigration and skilled labour shortages

There has been an upward shift in the demand for skilled workers

Structural shifts in OECD economies towards more "knowledge" intensive output have raised the demand for skilled labour. In some sectors, such as information technology (IT), the increase has been sizeable and rapid and made it difficult for employers to find suitably qualified workers. For instance, the unemployment rate for IT workers in the United States is currently less than 2 per cent and salaries have increased at a pace above the national rate, both common features for other high skilled workers. This has led to some calls for increased immigration and particularly a re-orientation of migration policies to favour attracting high skilled individuals on a temporary basis.

Measures have been taken to increase the intake of skilled workers

A number of OECD countries have already adapted their legislation in order to facilitate the entry of skilled foreign workers as a partial response to skilled labour shortages. For instance, the Japanese authorities have extended the maximum visa duration for some categories of skilled workers from one to three years. In the United States, caps to temporary immigration have recently been raised and in the same vein, the United Kingdom and France introduced a fast-track work permit system in order to speed up the recruitment of foreign workers by companies experiencing severe skill shortages. Finally, the German government has launched a temporary immigration programme in order to recruit IT specialists.

These initiatives are too recent to show in data on the composition of immigrant arrivals. But given the multiple criteria for entry in host countries it will be difficult to

Table VII.5. **Immigration by eligibility category in selected OECD countries**[a]

As a percentage of total

	Family		Skills		Refugee		Other[b]	
	1993	1998	1993	1998	1993	1998	1993	1998
Australia[c]	42	27	29	34	14	11	15	28
Canada	65	61	15	23	10	13	10	3
Denmark[d]	29	32	12	11	19	15	40	42
New Zealand	20	42	73	49	5	9	2	1
United States[e]	53	72	16	12	14	8	17	8

a) Refers to permanent settlers or equivalent, unless otherwise noted.
b) The category "other" varies according to country. For Australia, this category includes New Zealanders, who may emigrate to Australia without a visa. In Denmark, "other" includes EU residence certificates.
c) Fiscal year ending June 30.
d) Refers to residence permits.
e) Fiscal year ending September 30.
Sources: OECD (1999), *Trends in International Migration*, Australian Department of Immigration and Multicultural Affairs (DIMA), Citizenship and Immigration Canada, New Zealand Immigration Service, US Immigration and Naturalization Service, European Migration Centre (EMZ).

radically shift the orientation of immigration programmes. For example, in countries such as Australia and Canada, which have a tradition of selective immigration and have over recent years shifted their focus more in favour of skilled migrants, this category still only accounted for less than a third of the overall number of entrants in 1998, which is only a small increase compared with earlier in the decade (Table VII.5).

Impacts on general government budgets

Immigration impacts on government expenditures and revenues…

Part of the public debate regarding the costs and benefits of immigration has centred on the impact that immigrants have on public finances. The question is often phrased in terms of whether immigration places an additional load on social welfare, education and health systems, which is not compensated by higher tax payments. Whether the net contribution to budgetary positions is positive or negative is not just important from a public finance angle, as it may also be a factor influencing policies which encourage or discourage immigration. This discussion has led some governments to put in place policies, such as waiting periods, which restrict access of new arrivals to some social protection payments, including unemployment benefits.

… but the effects are complicated to calculate…

Efforts to compute the net fiscal contribution of immigrants are complicated. The results depend very much on the methodology adopted, the time period concerned, the assumptions about what should be considered and excluded, which public services are regarded as pure public goods, the appropriate discount rate and the demographic unit of analysis (individuals or households). The scope of various studies also differs, with most serious attempts to quantify immigration effects on government outlays focussed on welfare spending. This work generally finds that foreign born individuals are less likely to receive public assistance and, when they do, to receive lower levels of such transfers than the native-born population with similar characteristics.[12] Recent analytical work in the United States (most recently Gustman and Steinmeier, 2000), however, finds the likelihood that an immigrant receives social welfare payments has increased between the beginning of the 1970s and the late 1990s in line with the reduced human capital and poor English language skills possessed by more recent immigrants, both of which are associated with greater welfare use. Welfare recipient rates among immigrants, however, tend to fall with length of settlement in the host country towards the level of the native-born population (Borjas and Hilton, 1996).

… while the net impact at the national level is negligible

Research results that report an additional net burden are more of an accounting exercise, the analysis is static and often lacks an economic framework. This approach is of limited interest because it mixes together immigrants of different generations and it ignores life-cycle effects on demands for public services and the payment of taxes. Studies which follow immigrants over time have mostly suggested that in net present value terms immigrants and their descendants tend to contribute more in terms of tax revenues than they absorb via higher government outlays, but the orders of magnitude are typically small. These findings, however, are sensitive to the composition of new immigrants, particularly their level of educational achievement and age at arrival in the host country. Moreover, given the concentration of immigrants in a few geographic areas, the budgetary impacts at local levels of government may be important, especially in the years following arrival.

12. For an overview, see the special chapter on immigration and social transfers in the 1997 edition of OECD, *Trends in International Migration*.

Is increased immigration a solution to ageing OECD populations?

OECD countries face ageing and declining populations…

One of the major structural changes facing OECD economies is population ageing.[13] The proportion of the population of working age will decline, particularly in the years after 2010, when the baby boom generation begins to retire. Moreover, under current United Nation population projections, which are based on low or zero net migration flows, the population of the European Union and Japan are expected to fall between year 2000 and 2050 by 12 and 17 per cent respectively, equivalent overall to some 65 million people. In the United States, the overall population is projected to increase, although the proportion of elderly people rises.

… with negative consequences for living standards and added fiscal pressures

Contracting or slower growing populations and labour forces will impact on material living standards and generate added fiscal pressures. OECD estimates suggest that the cumulative effect by mid-century could be to reduce the United States' living standards – measured by GNP per capita adjusted for terms of trade effects – by 10 per cent, the European Union's by 18 per cent and Japan's by 23 per cent below the level they might have reached extrapolating current productivity trends with unchanged dependency ratios (the proportion of the population above 65 years of age relative to the population aged 15 to 64 years).[14]

A recourse to immigration could have an impact on the age structure of the population

One option for dealing with ageing populations, which has been rarely analysed in depth, is to increase and change the population age structure through immigration. Increased immigration would have an immediate impact on the working-age population, assuming the relatively young age structure of net migration to apply also in the future.[15] Nonetheless, in a number of OECD countries, the age profile of the foreign population is not too different from that of the native population (Figure VII.5). This suggests that maintenance of past migration trends would not be sufficient to offset ageing populations.

However, it could not on its own solve the problems linked to ageing

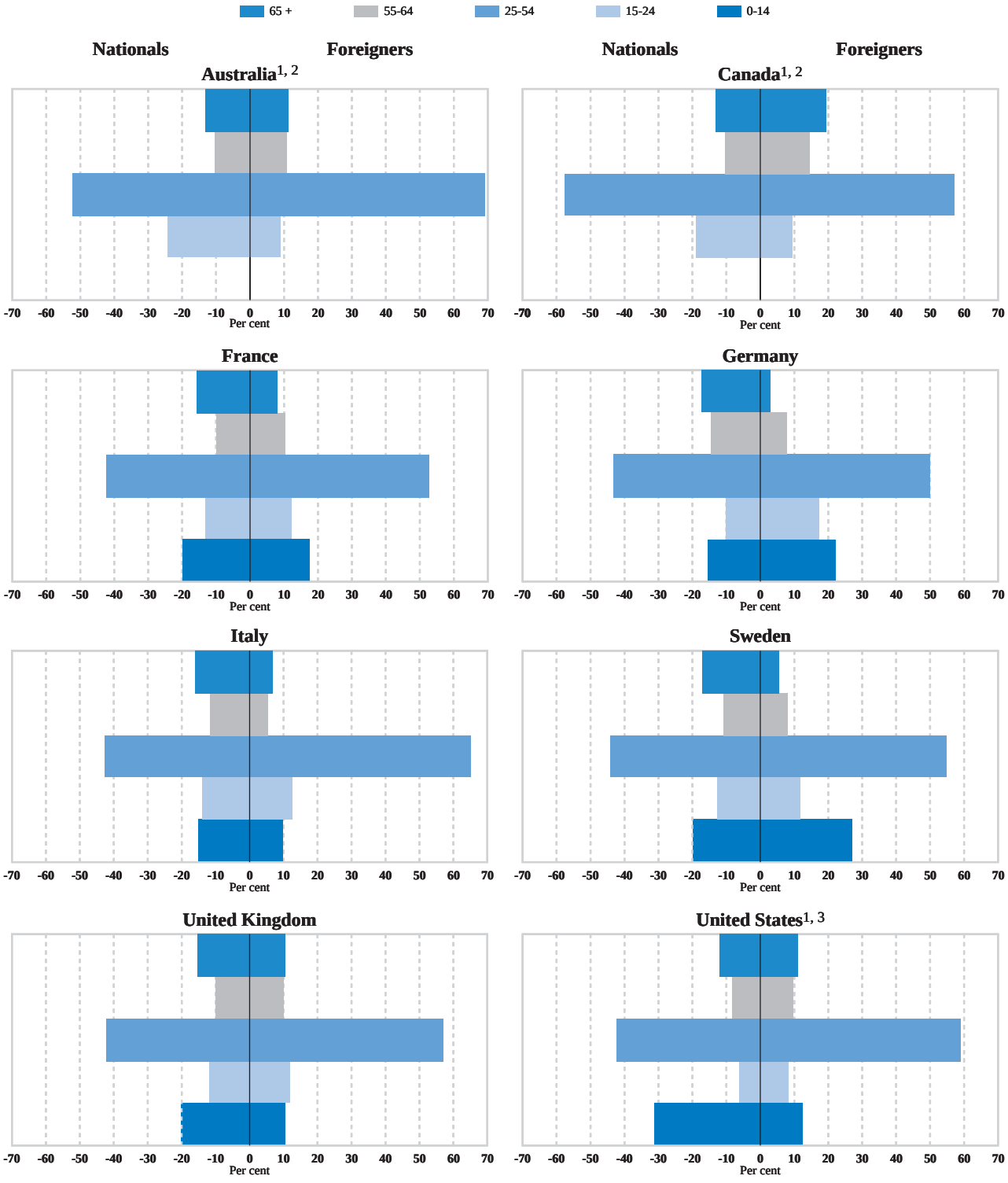
A recent report by the United Nations (United Nations, 2000) has investigated the level of migration required to achieve population objectives in selected countries between 1995 and the year 2050. Maintaining the size of the population or that of the working-age population (15 to 64 years) at their highest levels reached in the absence of migration after 1995 would imply migration flows for the EU that are not too different than those recorded over the past decade. On the other hand, the level of net migration required in order to maintain the old-age dependency ratio at its 2000 level entails enormous increases in all countries and regions studied, implying very large increases in the overall population (Figure VII.6).

Even if these very large increases in migrants could be attracted to countries with ageing populations, immigration policy cannot easily be fine-tuned to reach precise demographic objectives. For instance, while policy may have control over the level of immigration, it has little or no control over emigration and hence net migration is difficult to influence. In addition, the existence of free circulation agreements, the persistence and difficulty of tackling illegal immigration and humanitarian

13. For more detailed discussion on ageing see OECD (1998) and Visco (2000*b*).
14. These results also depend on conservative assumptions concerning migration. For more details on the model, the underlying assumptions used and the simulated scenarios see Turner *et al.* (1998).
15. The median age of new immigrants is on average about 30 years, compared with 36 years for the overall OECD population.

Figure VII.5. **Foreign and national population by age group,[1] 1995-1998 average**

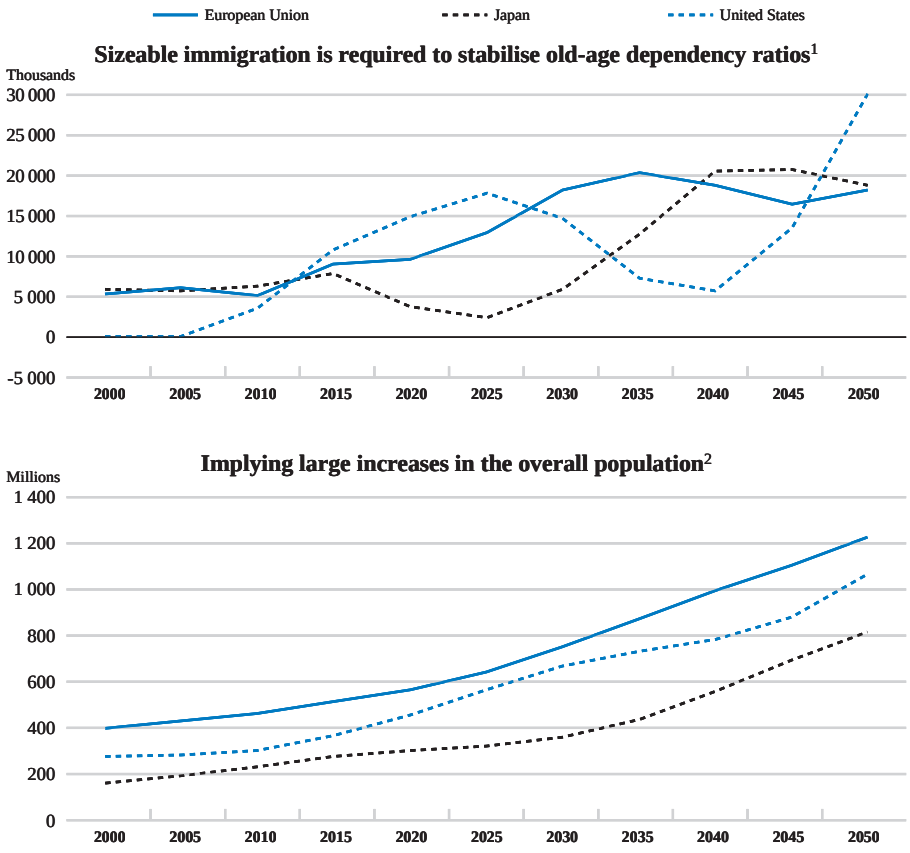
Per cent of total population of each group



1. Foreign-born and native populations for Australia, Canada and the United States.
2. Population aged 15 and over, for the year 1996.
3. Data refer to 1998.

Sources: Eurostat, Australian Bureau of Statistics, Statistics Canada, US Census Bureau.

Figure VII.6. **Immigration and ageing**



1. Average annual net migration for 5 years ending in the year shown.
2. Total population in the year shown.

Source: United Nations Population Division, *Replacement Migration* (2000).

commitments limit and complicate the ability to control the demographic composition of immigration.[16] Realistically, therefore, while increased immigration can limit the adverse impact on living standards and government budgetary positions due to declining and ageing populations, it cannot on its own solve them.

Development policy issues

Immigration affects economic opportunities in the source country

Immigration impacts not only on the host country, but in the source country economy as well. One of the major concerns is that the source country will lose its most qualified workers – the "brain drain" – and as a result its economic development will suffer. The extent to which this is an issue depends on whether emigrants remain permanently in another country or whether they eventually return to their

16. Even those countries which have traditionally had selective immigration seem unable to make a large difference to the overall composition of arrivals (Cobb-Clark, 2000, for Australia and Duleep and Regets, 1992, for Canada).

Table VII.6. **Worker remittances in selected emigration countries, 1998**

	Worker remittances, million US$	Workers remittances as a per cent of exports of goods and services
Albania	452	153.5
Jordan	1 543	42.5
Bangladesh	1 600	27.3
Egypt	3 370	26.9
Nicaragua	200	26.3
India	9 453	20.7
Morocco	2 011	20.2
Jamaica	659	19.5
Greece[a]	2 816	18.9
Dominican Republic	1 326	17.7
Sri Lanka	999	17.7
Pakistan[a]	1 738	17.1
Ecuador	840	16.8
Nigeria	1 574	16.0
Guatemala	457	13.1
Turkey	5 356	9.8
Honduras	220	9.2
Tunisia	718	8.5
Peru	400	5.3
Mexico	5 627	4.3
Total of above	41 359	12.1

a) Data refer to 1997.
Source: International Monetary Fund, *Balance of Payments Statistics Yearbook*, Part 1, Washington, 1999.

country of origin. Little, however, is known on the level of, and motivation for remigration, although for the United States it has been estimated that approximately 25 per cent of immigrants eventually return to their country of origin. To the extent that a sizeable fraction of emigrants ultimately return, they may actually serve economic development well, as the experience gained in another country is transferred and applied in the source country. Moreover, remittances from emigrants represent an important source of finance. In Albania, for instance, remittances are one and a half the level of its exports of goods and services and they are equivalent to about 20 per cent of exports in India, Morocco and Greece (Table VII.6). Overall, workers remittances in the 20 countries shown in the table totalled some $41 billion in 1998, which is close to the net level of official foreign aid from OECD countries.

Even if the positive aspects of emigration were outweighed by the loss of skilled workers, it would be hard for policy to respond directly, since democratic governments cannot easily control the outflow of their population. But nor can governments ignore high permanent net emigration. Indeed, it is a signal that something is wrong in the source country economy. Addressing the problem of a "brain drain" is hence connected with policies that promote economic development and thereby reduce the incentive to migrate in the first instance.

Policies to stimulate development may reduce the incentive to emigrate from developing countries

While there is no magic code to economic development, there is little doubt that increased investment in physical and human capital are universal drivers of economic growth, especially when supported by well functioning markets (see Chapter IV: "Links Between Policy and Growth: Cross Country Evidence"). In this respect, greater market access to developed country markets and openness to foreign direct

investment in emigration countries could enhance work opportunities and thereby lower the incentive to move. Foreign aid can also contribute to the development process, especially when it complements domestic policy reforms in the recipient country and provides a conduit for the transmission of technical know-how. In the short term, however, such policies are unlikely to make a big impact on the incentive to emigrate, as the benefits from more open markets and foreign investment take time to materialise.[17]

17. See for instance, OECD, 2000*a*.

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Statistical Annex

This annex contains data on some main economic series which are intended to provide a background to the recent economic developments in the OECD area described in the main body of this report. Data for 2000-2002 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 rate for values and base-year exchange rates for volumes.

Given the uneven progress in the transition of the Member countries to the new system of National Accounts (SNA93) and the European System of Accounts (ESA95) (see Table "National accounts reporting systems and base-years" below), the publication of three Annex tables have been temporarily suspended: Annex Table 24, "Capital income shares in the business sector"; Annex Table 25, "Rates of return on capital in the business sector"; Annex Table 58, "Productivity in the business sector". When data homogeneity and country coverage become comprehensive enough to arrive at reasonably consistent data series across countries the OECD will resume their publication.

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/index.htm*);
- *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, 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.

For technical reasons, data for the Czech Republic, Hungary and Poland are shown and included in aggregate measures for total OECD from 1993 onwards only. In tables showing percentage changes from previous year, data (for the Czech Republic, Hungary and Poland) are included from 1994 onwards.

Data for the Slovak Republic (expected to become an OECD Member before the publication of this issue of *the OECD Economic Outlook*) are not included in any regional totals and subtotals.

Greece will enter the euro area on 1 January 2001. In order to present consistent projections for the euro area and 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	1.82	Mexico	2.97
Austria	0.82	Netherlands	1.57
Belgium	1.05	New Zealand	0.29
Canada	3.25	Norway	0.48
Czech Republic	0.61	Poland	1.29
Denmark	0.57	Portugal	0.65
Finland	0.46	Spain	2.84
France	5.72	Sweden	0.84
Germany	8.33	Switzerland	0.86
Greece	0.64	Turkey	1.66
Hungary	0.44	United Kingdom	5.20
Iceland	0.03	United States	35.26
Ireland	0.31	Total OECD[a]	100.00
Italy	5.49		
Japan	13.55	*Memorandum items:*	
Korea	2.92	European Union	34.57
Luxembourg	0.07	Euro area[b]	27.95

Note: Based on 1995 GDP and purchasing power parities (PPPs).

a) Data for the Slovak Republic (expected to become an OECD Member before the publication of this issue of the *OECD Economic Outlook*) are not included in any regional totals and subtotals.

b) Greece will enter the euro area on 1 January 2001; in order to present consistent projections for the euro area and to ensure comparability of the euro area data over time, Greece has been included in the calculation of the euro area throughout.

National account reporting systems and base-years

Many countries are changing from the SNA68/ESA79 methodology to the SNA93/ESA95 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 starting in 1959	SNA93 starting in 1959	SNA93 starting in 1959	YES	1998/99[a]
Austria	ESA95 starting in 1995	SNA68	ESA95 starting in 1995	NO	1995
Belgium	ESA95 starting in 1970	ESA95 starting in 1995	ESA95 starting in 1970	NO	1995
Canada	SNA93 starting in 1955	SNA93 starting in 1955	SNA93 starting in 1955	NO	1992
Czech Republic	SNA93 starting in 1994	Partial SNA93 starting in 1994	GFS adjusted by OECD	NO	1995
Denmark	ESA95 starting in 1988	ESA95 starting in 1988	ESA95 starting in 1988	NO	1995
Finland	ESA95 starting in 1988 (introduced in April 1999)	ESA95 starting in 1988 (introduced in April 1999)	ESA95 starting in 1988 (introduced in April 1999)	NO	1995
France	ESA95 starting in 1978 (introduced in July 1999)	ESA95 starting in 1978 (introduced in September 1999)	ESA95 starting in 1978 (introduced in September 1999)	NO	1995
Germany[b]	ESA95 starting in 1991 (introduced in April 1999)	ESA95 starting in 1991 (introduced in April 2000)	ESA95 starting in 1991 (introduced in September 1999)	NO	1995
Greece	ESA95 starting in 1995 (introduced in September 1999)	Not available	ESA95 starting in 1995 (introduced in September 1999)	NO	1995
Hungary	SNA93 starting in 1995	Partial SNA93 starting in 1995	GFS adjusted by OECD to broadly match SNA93	NO	1995
Iceland	ESA95 (introduced fall 2000)	Not available	Not available	NO	1990
Ireland	ESA95 starting in 1990	ESA95 starting in 1990	ESA95 starting in 1990	NO	1995
Italy	ESA95 starting in 1982 (introduced in April 1999)	ESA79	ESA95 starting in 1995 (introduced in April 1999)	NO	1995
Japan	SNA68	SNA68	SNA68	NO	1990
Korea	SNA93 starting in 1970 (introduced in March 1999)	SNA93 starting in 1975 (introduced in fall 2000)	SNA93 starting in 1975 (introduced in fall 2000)	NO	1995
Luxembourg	ESA95 starting in 1995	Not available	SNA93 starting in 1970	NO	1995
Mexico	SNA93 starting in 1980	Not available	Not available	NO	1993
Netherlands	ESA95 starting in 1995 (introduced in October 1999)	ESA95 starting in 1995 (introduced in October 1999)	ESA95 starting in 1995 (introduced in October 1999)	YES	1995
New Zealand	SNA68	SNA68	SNA68	NO	1991/92
Norway	SNA93 starting in 1978	SNA93 starting in 1978	SNA93 starting in 1978	YES	1997[a]
Poland	SNA93 starting in 1991	SNA93 starting in 1991	Partial SNA93 starting in 1991	YES	1995
Portugal	ESA95 starting in 1995	ESA79	ESA95 starting in 1995	NO	1995[a]
Slovak Republic	ESA95 starting in 1993	Not available	Not available	NO	1995
Spain	ESA95 starting in 1995 (introduced in June 1999)	ESA95 starting in 1995 (introduced in September 2000)	ESA95 starting in 1995 (introduced in October 1999)	NO	1995
Sweden	ESA95 starting in 1993 (introduced in May 1999)	ESA95 starting in 1993 (introduced in October 1999)	ESA95 starting in 1993 (introduced in October 1999)	YES	1995
Switzerland	SNA68	SNA68	SNA68	NO	1990
Turkey	SNA68	SNA68	SNA68	NO	1987
United Kingdom	ESA95 starting in 1987	ESA95 starting in 1987	ESA95 starting in 1987	NO	1995
United States	NIPA tables (SNA93) since 1959q1; revised volumes	NIPA table s(SNA93) since 1959q1	NIPA tables (SNA93) since 1960q1	YES	1996

Note: SNA: System of National Accounts. ESA: European Standardised Accounts. NIPA: National Income and Product Accounts. GFS: Government Financial Statistics.
a) Change in benchmark/base year since the last edition of *OECD Economic Outlook.*
b) Data prior to 1991 refer to West Germany and are spliced to accord with the new SNA93/ESA95 accounts.

Annex Tables

Interest Rates and Exchange Rates

External Trade and Payments

Other Background Data

Annex Table 1. **Real GDP**

Percentage change from previous period

	Average 1973-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	2.4	6.9	5.1	2.0	4.9	4.6	4.5	1.4	-0.9	2.6	3.8	5.0	4.4	3.7	3.8	5.6	4.7	4.2	3.7	3.7
Austria	2.4	0.3	2.2	2.3	1.7	3.2	4.2	4.6	3.4	1.3	0.5	2.4	1.7	2.0	1.2	2.9	2.1	3.6	2.9	2.6
Belgium	1.9	2.7	1.9	1.8	2.7	4.6	3.6	2.8	1.9	1.6	-1.5	3.0	2.6	1.2	3.4	2.4	2.7	3.8	3.1	2.9
Canada	2.8	5.7	5.4	2.6	4.1	4.9	2.5	0.3	-1.9	0.9	2.3	4.7	2.8	1.5	4.4	3.3	4.5	4.8	3.4	3.0
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	2.6	5.9	4.8	-1.0	-2.2	-0.2	2.5	3.3	3.2
Denmark	1.5	4.4	4.3	3.6	0.3	1.2	0.2	1.0	1.1	0.6	0.0	5.5	2.8	2.5	3.1	2.5	1.7	2.8	2.5	2.5
Finland	2.6	3.4	3.1	2.5	4.2	4.7	5.1	0.0	-6.3	-3.3	-1.1	4.0	3.8	4.0	6.3	5.5	4.0	5.4	4.6	4.2
France	2.3	1.6	1.6	2.3	2.5	4.2	4.3	2.6	1.1	1.3	-0.9	1.8	1.8	1.1	1.9	3.2	2.9	3.3	2.9	2.5
Germany	1.6	2.8	2.0	2.3	1.5	3.7	3.6	5.7	5.0	2.2	-1.1	2.3	1.7	0.8	1.4	2.1	1.6	3.0	2.7	2.5
Greece	2.5	2.8	3.1	1.6	-0.5	4.5	3.8	0.0	3.1	0.7	-1.6	2.0	2.1	2.4	3.5	3.1	3.4	4.0	4.6	4.4
Hungary	..	..	..	..	..	..	..	..	..	..	..	2.9	1.5	1.3	4.6	4.9	4.5	5.5	5.5	5.1
Iceland	4.2	4.1	3.3	6.3	8.5	-0.1	0.3	1.2	0.7	-3.3	0.6	4.5	0.1	5.2	4.8	4.5	4.3	3.6	1.3	2.4
Ireland	3.8	4.4	3.1	-0.4	4.7	5.2	5.8	8.5	1.9	3.3	2.7	5.8	9.7	7.7	10.7	8.6	9.8	11.0	7.9	7.0
Italy	2.7	2.8	3.0	2.5	3.0	3.9	2.9	2.0	1.4	0.8	-0.9	2.2	2.9	1.1	1.8	1.5	1.4	2.8	2.7	2.6
Japan	3.2	3.9	4.4	2.9	4.2	6.2	4.8	5.1	3.8	1.0	0.3	0.6	1.5	5.1	1.6	-2.5	0.2	1.9	2.3	2.0
Korea	7.5	8.7	6.5	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	10.7	8.9	5.8	5.6
Luxembourg	1.2	6.2	2.9	7.7	2.3	10.4	9.8	2.2	6.1	4.5	8.7	4.2	3.8	2.9	7.3	5.0	7.5	8.1	6.2	5.5
Mexico	4.8	3.5	2.5	-3.6	1.8	1.3	4.2	5.1	4.2	3.6	2.0	4.5	-6.2	5.1	6.8	4.8	3.7	7.0	5.0	4.8
Netherlands	1.7	3.3	3.1	2.8	1.4	2.6	4.7	4.1	2.3	2.0	0.8	3.2	2.3	3.0	3.8	4.1	3.9	4.5	3.9	3.4
New Zealand	1.3	8.5	1.6	0.6	0.7	2.7	-0.8	0.3	-2.3	0.6	4.9	6.1	3.4	2.6	2.9	-0.6	3.7	3.6	2.9	2.8
Norway	3.8	5.9	5.2	3.6	2.0	-0.1	0.9	2.0	3.1	3.3	3.1	5.5	3.8	4.9	4.7	2.0	0.9	3.1	2.4	1.9
Poland	..	..	..	..	..	..	..	..	..	..	..	5.3	7.0	6.0	6.8	4.9	4.0	5.1	4.9	5.0
Portugal	2.5	-1.9	2.8	4.1	6.4	4.9	5.1	4.4	2.3	2.5	-1.1	2.2	2.9	3.6	3.7	3.5	3.0	3.2	3.0	2.9
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	4.9	6.7	6.2	6.2	4.1	1.9	1.9	2.7	3.5
Spain	1.9	1.5	2.6	3.2	5.6	5.2	4.7	3.7	2.3	0.7	-1.2	2.3	2.7	2.4	3.9	4.3	4.0	4.1	3.5	3.1
Sweden	1.5	4.5	2.0	2.4	3.0	1.7	2.7	1.6	-1.1	-1.6	-2.4	4.1	3.7	1.1	2.0	3.0	3.8	4.0	3.2	2.4
Switzerland	0.9	3.0	3.4	1.6	0.7	3.1	4.3	3.7	-0.8	-0.1	-0.5	0.5	0.5	0.3	1.7	2.3	1.5	3.3	2.4	2.0
Turkey	3.8	6.7	4.2	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	-5.0	7.0	4.9	4.4
United Kingdom	1.1	2.4	3.8	4.2	4.4	5.2	2.1	0.7	-1.5	0.1	2.3	4.4	2.8	2.6	3.5	2.6	2.2	3.0	2.6	2.3
United States	2.2	7.3	3.8	3.4	3.4	4.2	3.5	1.8	-0.5	3.1	2.7	4.0	2.7	3.6	4.4	4.4	4.2	5.2	3.5	3.3
Euro area	2.1	2.3	2.3	2.4	2.5	4.0	3.9	3.6	2.4	1.4	-0.8	2.3	2.2	1.4	2.3	2.8	2.5	3.5	3.1	2.8
European Union	1.9	2.4	2.6	2.8	2.9	4.1	3.5	3.0	1.8	1.1	-0.4	2.7	2.4	1.7	2.5	2.7	2.4	3.4	3.0	2.7
Total OECD	2.6	4.9	3.6	3.1	3.6	4.5	3.7	3.0	1.3	2.1	1.4	3.1	2.5	3.2	3.5	2.5	3.0	4.3	3.3	3.1

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, a growing number of 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/index.htm).*

Source: OECD.

Annex Table 2. **Nominal GDP**

Percentage change from previous period

	Average 1973-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	13.9	13.4	11.1	8.5	13.0	13.6	11.8	6.4	1.5	4.0	5.4	5.8	6.0	6.0	5.4	5.7	5.7	7.8	6.6	6.5
Austria	8.6	5.0	5.4	5.1	3.8	4.8	7.1	8.2	7.3	5.7	3.3	5.3	4.1	3.3	2.8	3.5	3.0	4.2	4.4	4.4
Belgium	9.1	8.0	6.6	4.8	4.1	7.0	8.8	5.8	4.8	5.3	2.2	4.9	4.4	2.4	4.8	4.1	3.8	5.6	5.1	4.8
Canada	12.3	9.3	8.0	5.5	9.0	9.6	7.3	3.3	0.8	2.2	3.8	5.9	5.2	3.2	5.4	2.7	6.2	8.3	5.8	5.1
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	13.9	16.8	13.8	6.1	7.8	2.1	4.4	6.8	7.6
Denmark	11.5	10.3	8.8	8.4	5.0	4.6	5.4	4.6	3.9	3.5	1.4	7.3	4.6	5.1	4.8	4.7	4.5	5.7	5.3	5.2
Finland	14.2	12.2	8.8	6.9	8.6	13.2	11.6	5.5	-4.5	-2.5	1.2	6.0	8.1	3.8	8.5	8.8	4.7	6.8	6.8	6.4
France	13.4	9.0	7.1	7.5	5.5	7.5	7.7	5.5	4.1	3.3	1.5	3.6	3.6	2.6	3.1	4.0	3.3	4.2	4.6	4.8
Germany	6.2	4.9	4.1	5.6	3.4	5.3	6.1	9.1	9.1	7.4	2.5	4.9	3.8	1.8	2.2	3.2	2.5	2.9	3.7	3.9
Greece	20.3	23.6	21.3	19.4	13.7	20.7	18.9	20.6	23.5	15.7	12.6	13.4	12.1	9.9	10.6	8.4	6.3	7.0	7.1	7.1
Hungary	..	..	..	..	..	..	..	..	..	..	..	23.0	27.4	22.8	23.9	18.1	13.9	13.8	12.4	11.1
Iceland	52.0	30.6	35.6	33.3	29.7	22.7	20.1	18.2	8.4	0.3	2.9	6.5	2.9	7.2	8.4	10.0	8.2	8.0	6.2	7.7
Ireland	18.5	11.0	8.4	6.1	7.0	8.6	11.7	7.7	3.8	6.2	8.0	7.5	13.1	10.2	15.6	14.8	14.0	16.3	12.9	11.1
Italy	20.7	14.6	12.2	10.6	9.4	11.0	9.5	10.4	9.1	5.3	3.0	5.8	8.1	6.4	4.3	4.2	2.9	4.7	4.9	4.7
Japan	9.6	6.7	6.6	4.7	4.3	6.9	7.0	7.5	6.6	2.8	0.9	0.8	0.8	3.5	1.9	-2.2	-0.7	0.3	1.9	1.8
Korea	28.0	14.7	11.5	16.7	17.1	18.7	12.0	19.7	21.1	13.5	12.9	16.5	16.7	10.9	8.3	-1.9	8.8	7.9	8.0	7.2
Luxembourg	8.6	10.9	6.0	8.5	5.2	11.1	14.6	7.5	8.6	7.2	9.3	9.2	4.1	4.6	10.8	6.6	9.9	10.8	9.2	7.7
Mexico	37.8	64.4	60.4	67.0	145.2	103.8	31.8	34.6	28.5	18.6	11.6	13.3	29.4	37.3	25.7	21.0	20.1	17.8	13.2	10.9
Netherlands	8.1	4.7	4.9	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	8.0	6.1
New Zealand	14.2	15.1	17.2	16.0	13.9	10.9	5.9	4.1	-1.3	2.3	7.7	7.8	6.2	4.5	2.9	1.1	3.8	5.9	5.9	4.9
Norway	13.3	12.6	10.7	2.6	9.1	4.9	6.7	5.9	5.7	2.8	4.9	5.3	7.1	9.4	7.8	1.2	7.5	19.7	10.1	3.0
Poland	..	..	..	..	..	..	..	..	..	..	..	44.5	36.9	25.9	21.8	17.2	11.5	15.7	14.6	15.0
Portugal	23.4	22.3	25.2	25.4	17.1	17.3	18.2	17.7	14.8	12.8	5.5	8.7	8.1	6.9	6.9	7.7	5.8	5.6	6.1	6.1
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	19.4	17.1	11.0	13.2	9.4	8.6	8.0	8.6	8.8
Spain	18.3	13.3	10.5	14.6	11.8	11.1	12.2	11.3	9.5	7.6	3.1	6.3	7.7	6.0	6.2	6.7	7.0	7.1	6.5	6.2
Sweden	12.1	11.9	8.7	9.3	8.1	8.9	10.6	10.3	6.4	-0.4	0.3	6.6	7.3	2.5	3.2	4.3	4.3	4.7	5.2	5.2
Switzerland	4.8	6.6	5.9	4.8	3.5	6.0	7.5	8.2	5.2	2.6	2.2	2.2	1.6	0.7	1.5	2.6	2.1	4.4	4.0	3.9
Turkey	43.2	58.2	59.5	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	60.6	28.4	20.8
United Kingdom	15.1	7.1	9.6	7.5	9.9	11.5	9.7	8.4	5.1	4.0	5.1	6.0	5.4	5.9	6.5	5.7	4.7	5.0	5.1	5.0
United States	9.8	11.3	7.1	5.7	6.5	7.7	7.5	5.7	3.2	5.6	5.1	6.2	4.9	5.6	6.5	5.7	5.8	7.5	5.8	5.7
Euro area	12.2	9.2	7.8	8.1	6.1	8.0	8.4	8.6	7.2	5.8	2.7	5.2	5.2	3.6	3.9	4.5	3.7	4.7	5.0	4.9
European Union	13.5	9.5	8.5	8.4	7.0	8.8	8.8	8.8	7.3	5.5	3.1	5.5	5.5	4.2	4.5	4.8	3.9	4.8	5.0	4.9
Total OECD	13.3	12.5	10.4	9.6	11.9	12.6	10.0	9.4	7.2	6.7	5.4	7.9	7.8	7.6	7.3	5.8	5.6	6.9	5.8	5.5
Memorandum item																				
OECD *less* high inflation countries [a]	11.8	9.9	7.8	6.9	6.9	8.4	8.0	7.4	5.5	5.1	3.9	5.4	4.9	4.9	5.0	3.8	4.2	5.5	5.0	4.8

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. 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/index.htm).*

a) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of GDP deflator on average during the 1990s. Consequently, Greece, 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 1973-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	3.1	1.9	4.6	2.1	2.1	3.8	5.8	2.9	0.6	2.7	1.8	4.0	5.0	3.3	3.9	4.6	5.2	3.7	3.5	3.2
Austria	2.8	-1.3	1.9	2.2	2.9	3.3	3.7	3.8	2.8	3.0	0.7	1.8	2.9	3.2	0.1	1.5	2.7	3.0	2.3	2.3
Belgium	2.0	1.1	2.2	3.1	1.8	3.7	3.9	3.2	3.0	2.2	-1.0	2.0	1.0	0.7	2.1	3.3	1.9	2.6	2.4	2.2
Canada	2.8	4.5	5.2	4.0	4.1	4.4	3.6	1.3	-1.4	1.8	1.8	3.1	2.1	2.5	4.4	2.9	3.5	3.6	2.8	2.6
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	5.3	5.9	6.9	1.9	-2.6	1.2	1.2	2.4	3.0
Denmark	0.9	3.4	5.0	5.7	-1.5	-1.0	-0.1	0.1	1.6	1.9	0.5	6.5	1.2	2.5	3.7	3.5	0.6	0.5	1.4	1.7
Finland	2.4	3.2	3.8	4.0	5.1	5.3	4.6	-0.6	-3.8	-4.4	-3.1	2.6	4.4	4.2	3.5	4.9	3.6	3.3	2.5	2.4
France	2.3	0.8	1.5	3.2	2.6	2.3	3.3	2.5	0.8	0.7	-0.1	0.6	1.6	1.3	0.1	3.4	2.3	2.6	2.3	2.2
Germany	2.0	1.8	1.7	3.5	3.4	2.7	2.8	5.4	5.6	2.7	0.1	1.0	2.0	1.0	0.7	2.0	2.6	1.7	2.6	2.4
Greece	3.0	1.7	3.9	0.7	1.2	3.6	6.0	2.6	2.8	2.4	-0.8	2.0	2.7	2.4	2.8	3.1	2.9	2.9	3.0	3.2
Hungary	..	..	..	..	..	..	..	..	..	..	..	0.2	-7.1	-4.3	1.9	4.8	5.1	4.4	5.4	5.1
Iceland	3.7	3.7	4.2	6.9	16.2	-3.8	-4.2	0.5	2.9	-3.1	-4.7	2.9	2.2	5.4	5.5	10.0	6.9	4.0	2.0	2.5
Ireland	2.1	2.0	4.6	2.0	3.3	4.5	6.5	1.4	1.8	2.9	3.0	4.4	4.3	6.3	7.4	7.8	7.7	8.7	8.0	8.0
Italy	3.2	3.0	3.1	4.0	3.8	4.0	3.7	2.1	2.9	1.9	-3.7	1.5	1.7	1.2	3.0	2.3	1.7	2.0	1.8	2.3
Japan	3.3	2.6	3.3	3.5	4.2	5.3	4.8	4.4	2.5	2.1	1.2	1.9	2.1	2.9	0.5	-0.5	1.2	1.6	2.1	2.2
Korea	6.1	7.9	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	-11.4	10.3	7.0	5.0	5.0
Luxembourg	2.7	1.4	2.7	5.7	4.6	4.6	5.1	5.7	6.3	-0.9	1.7	2.4	2.4	4.4	3.8	2.3	4.1	3.5	5.5	5.0
Mexico	4.1	3.3	3.3	-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	8.0	5.5	4.8
Netherlands	2.0	1.2	2.8	2.6	2.7	0.8	3.5	4.2	3.1	2.5	1.0	2.2	1.8	4.0	3.0	4.4	4.4	4.1	4.3	3.5
New Zealand	0.7	5.7	0.5	4.0	2.4	2.3	0.8	-0.3	-1.9	-0.1	2.3	5.6	4.6	4.3	2.8	1.7	2.4	1.8	1.7	1.7
Norway	2.9	3.2	9.4	5.0	-0.8	-2.0	-0.6	0.7	1.5	2.2	2.3	4.0	3.4	5.3	3.6	3.3	2.4	2.9	2.0	2.0
Poland	..	..	..	..	..	..	..	..	..	..	..	3.9	3.7	8.6	6.8	4.8	5.1	4.6	4.2	4.4
Portugal	1.8	-2.9	0.7	5.6	5.3	5.5	2.6	5.9	3.7	4.3	1.5	2.2	1.6	4.0	2.9	5.4	4.8	3.3	2.9	2.8
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	1.0	3.4	8.0	5.4	5.8	-0.2	-1.7	4.0	3.5
Spain	1.6	-0.2	3.5	3.3	5.8	4.9	5.7	3.6	2.9	2.2	-2.2	0.9	1.6	2.2	3.1	4.5	4.7	4.1	3.3	3.3
Sweden	0.8	1.5	2.7	4.4	4.5	2.4	1.1	-0.4	0.9	-1.4	-3.1	1.8	0.6	1.4	1.7	2.4	4.1	5.0	4.8	3.0
Switzerland	0.2	1.3	1.6	2.3	2.2	1.7	2.3	1.2	1.6	0.1	-0.9	1.0	0.6	0.7	1.4	2.2	2.2	2.1	2.0	1.9
Turkey	3.9	8.1	-0.6	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	-3.1	6.0	3.2	3.5
United Kingdom	1.3	1.9	3.9	6.6	5.3	7.5	3.2	0.7	-1.7	0.5	2.9	2.9	1.7	3.6	3.9	4.0	4.3	3.5	2.4	2.2
United States	2.6	5.4	5.0	4.2	3.3	4.0	2.7	1.8	-0.2	2.9	3.4	3.8	3.0	3.2	3.6	4.7	5.3	5.4	3.6	3.0
Euro area	2.3	1.4	2.3	3.4	3.4	3.2	3.6	3.5	3.0	1.9	-0.9	1.2	1.9	1.6	1.5	2.9	2.8	2.5	2.6	2.6
European Union	2.1	1.5	2.6	4.0	3.7	3.8	3.5	2.9	2.3	1.7	-0.3	1.6	1.8	2.0	2.0	3.2	3.0	2.7	2.6	2.5
Total OECD	2.7	3.6	3.8	3.9	3.5	4.1	3.6	3.1	1.5	2.4	1.7	2.7	2.3	2.9	2.8	2.8	3.8	3.9	3.1	2.8

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, a growing number of 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/index.htm).*

Source: OECD.

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

Percentage change from previous period

	Average 1973-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	3.8	5.6	5.9	4.5	1.1	2.9	3.1	3.2	2.3	0.6	0.3	4.0	3.6	2.6	1.6	4.0	5.3	6.0	3.3	3.1
Austria	2.5	0.8	1.3	1.8	0.2	1.1	1.4	1.3	2.2	2.0	2.7	2.5	0.0	1.3	-0.4	2.0	1.0	0.5	0.0	-1.0
Belgium	2.7	0.2	2.9	1.3	2.7	-0.7	1.1	-0.3	3.6	1.5	-0.1	1.4	1.2	2.4	0.1	1.4	3.4	0.8	1.4	1.4
Canada	3.1	1.1	4.3	1.9	1.4	4.6	2.8	3.7	2.8	1.0	0.1	-1.2	-0.5	-1.4	-1.2	1.6	1.3	2.0	1.7	1.5
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	-2.3	-4.2	3.5	0.8	-0.9	-0.1	1.0	3.0	3.0
Denmark	3.4	-0.4	2.5	0.5	2.5	0.9	-0.8	-0.2	0.6	0.8	4.1	3.0	2.1	3.4	1.3	3.0	1.4	1.1	1.3	1.1
Finland	4.1	2.0	4.3	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	2.0	0.4	0.9	0.8
France	3.3	2.9	2.1	2.4	2.2	3.1	1.7	2.5	2.6	3.6	4.2	0.6	-0.1	2.2	2.1	0.3	2.5	1.3	1.3	1.3
Germany	2.2	2.5	2.1	2.5	1.5	2.1	-1.6	2.2	0.4	5.0	0.1	2.4	1.5	1.8	-0.9	0.5	-0.1	1.0	0.5	0.6
Greece	5.6	3.0	3.2	-0.8	0.9	5.7	5.4	0.6	-1.5	-3.0	2.6	-1.1	5.6	0.9	3.0	1.7	-0.1	0.8	0.5	0.5
Hungary	..	..	..	..	..	..	..	..	..	..	..	-7.4	-5.7	-1.9	3.1	2.8	2.5	1.5	2.5	2.5
Iceland	5.8	0.6	6.5	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	4.9	3.5	2.5	1.1
Ireland	4.3	-0.7	1.8	2.6	-4.8	-5.0	-1.3	5.4	2.8	3.0	-0.4	4.1	2.8	3.1	5.7	5.1	5.2	3.0	3.6	3.4
Italy	2.7	1.8	3.0	2.6	4.8	4.0	0.2	2.5	1.7	0.6	-0.2	-0.9	-2.2	1.0	0.8	0.7	0.6	1.2	1.1	1.2
Japan	4.3	2.3	0.3	5.1	1.6	2.3	2.0	1.5	2.0	2.0	2.4	2.4	3.3	1.9	1.5	1.5	1.3	0.2	0.5	0.6
Korea	5.3	1.3	4.8	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	-0.6	1.0	1.0	1.0
Luxembourg	2.5	2.2	2.0	2.7	4.7	4.9	3.9	3.1	3.9	1.5	3.7	2.0	2.2	4.4	2.1	2.8	12.8	3.9	3.6	3.6
Mexico	6.9	6.5	1.0	1.4	-1.2	-0.5	2.2	3.3	5.4	1.9	2.4	2.9	-1.3	-0.7	2.9	2.2	1.0	4.3	1.0	3.5
Netherlands	3.0	0.0	2.4	3.6	2.6	1.4	1.5	1.6	1.5	1.7	1.5	0.6	0.6	-0.4	3.2	3.4	2.5	3.5	2.3	2.5
New Zealand	2.6	2.2	1.5	2.1	0.1	1.7	0.6	4.0	-1.9	3.1	-0.5	-1.0	2.9	2.7	5.2	-1.0	8.7	-4.8	1.5	1.0
Norway	4.8	0.8	2.4	1.9	4.6	-0.1	1.9	4.9	4.3	5.3	3.5	1.4	0.3	2.8	1.9	3.8	2.7	2.8	2.4	2.0
Poland	..	..	..	..	..	..	..	..	..	..	..	1.2	4.8	2.0	3.0	1.4	0.8	2.1	2.0	2.0
Portugal	7.4	0.2	6.4	7.2	3.8	8.1	6.6	5.4	10.3	1.1	0.9	2.1	2.2	-0.7	3.5	4.6	3.4	3.0	2.1	2.3
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	-11.4	2.1	21.0	4.0	4.0	-6.9	-0.7	3.0	2.5
Spain	5.2	2.4	5.5	5.4	8.9	4.0	8.3	6.6	5.6	4.0	2.4	-0.3	1.8	1.3	2.9	3.7	2.9	1.2	1.4	1.4
Sweden	2.9	2.2	2.2	1.3	1.0	0.6	2.1	2.6	2.7	-0.1	0.1	-0.9	-0.6	0.9	-1.0	2.2	1.8	-1.4	1.3	1.8
Switzerland	1.9	1.7	3.4	3.4	1.7	4.5	5.4	5.4	3.5	0.7	-0.1	2.0	-0.1	2.0	0.0	0.7	-0.4	0.3	0.3	0.2
Turkey	6.7	1.9	14.1	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	5.0	2.0	2.0
United Kingdom	1.6	1.2	-0.2	1.6	0.0	0.0	0.8	2.5	2.9	0.5	-0.8	1.4	1.6	1.7	-1.4	1.1	3.3	1.8	4.3	3.3
United States	1.8	1.8	5.0	4.6	2.4	1.6	2.5	2.6	1.4	0.4	-0.3	0.2	0.0	0.5	1.8	1.5	2.1	2.0	2.1	2.5
Euro area	3.0	2.1	2.6	2.7	2.9	2.7	1.0	2.6	2.1	2.9	1.3	1.0	0.5	1.6	1.0	1.1	1.4	1.3	1.1	1.1
European Union	2.9	1.9	2.3	2.6	2.6	2.4	1.2	2.7	2.3	2.4	1.0	0.9	0.7	1.6	0.7	1.3	1.7	1.3	1.6	1.5
Total OECD	3.0	2.1	3.4	4.0	2.4	2.2	2.2	2.7	2.2	1.7	0.9	0.8	0.8	1.4	1.3	1.5	1.8	1.6	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, a growing number of 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/index.htm).*

Source: OECD.

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

Percentage change from previous period

	Average 1973-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	1.3	10.6	11.1	-2.8	4.8	9.1	10.3	-7.6	-8.5	3.2	4.9	11.6	3.2	4.9	11.0	7.5	6.5	3.6	4.8	4.4
Austria	0.2	0.1	6.9	2.4	4.4	6.8	6.3	6.6	6.3	0.1	-2.0	8.4	1.2	2.1	0.8	6.8	2.9	3.6	3.5	3.4
Belgium	-1.2	2.7	6.9	3.2	6.2	15.7	12.6	8.5	-4.1	1.7	-3.1	-0.1	4.9	0.8	6.7	4.6	4.8	4.5	2.5	2.7
Canada	3.9	2.5	10.3	5.4	10.7	9.8	5.9	-3.6	-3.5	-1.3	-2.7	7.4	-1.9	5.8	15.4	3.4	10.1	11.8	6.4	6.1
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	17.3	19.8	8.2	-2.9	-3.9	-5.5	5.0	6.5	5.5
Denmark	-3.4	12.9	12.6	17.1	-3.8	-6.6	-0.8	-2.1	-3.3	-2.0	-4.0	7.6	11.6	4.0	8.0	6.7	0.3	7.9	2.3	3.3
Finland	1.1	-1.7	2.8	1.0	4.9	11.0	13.0	-4.6	-18.6	-16.7	-16.6	-2.7	10.6	8.4	11.9	9.4	4.6	5.4	6.0	5.1
France	-0.1	-1.1	2.9	4.4	5.7	8.9	7.7	3.2	-1.6	-1.7	-6.5	1.5	2.1	-0.1	0.0	6.6	7.2	6.0	4.6	4.8
Germany	-0.4	0.1	-0.5	3.3	1.8	4.4	6.3	8.5	6.0	4.5	-4.5	4.0	-0.7	-0.8	0.6	3.0	3.3	2.4	2.8	2.7
Greece	-1.9	-5.7	5.2	-6.2	-5.1	8.9	7.1	5.0	4.8	-3.2	-3.5	-2.8	4.2	8.4	7.8	11.8	7.3	7.8	9.1	9.7
Hungary	..	..	..	..	..	..	..	..	..	..	..	12.5	-4.3	6.7	9.2	13.3	6.6	6.0	6.5	7.5
Iceland	0.0	9.4	1.0	-1.6	18.8	-0.2	-7.9	3.0	3.3	-11.1	-10.7	0.6	-1.1	25.7	9.6	26.6	-0.8	11.1	0.5	1.7
Ireland	2.2	-2.5	-7.7	-2.8	-1.1	5.2	10.1	13.4	-6.2	-1.8	-3.5	12.0	12.7	16.4	17.9	15.5	13.0	11.3	9.5	10.1
Italy	-0.1	3.4	0.4	2.3	4.2	6.7	4.2	4.0	1.0	-1.4	-10.9	0.1	6.0	3.6	1.2	4.1	4.4	6.9	4.7	5.2
Japan	1.0	4.3	5.0	4.8	9.1	11.5	8.2	8.5	3.3	-1.5	-2.0	-0.8	1.7	11.1	-0.8	-7.4	-1.2	0.6	2.8	1.2
Korea	12.2	10.0	4.3	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	4.1	12.0	4.0	3.0
Luxembourg	-2.3	0.1	-9.5	31.0	17.9	15.0	7.0	2.7	31.6	-9.0	28.4	-14.9	3.5	-3.5	10.5	1.5	26.6	0.1	3.2	4.0
Mexico	2.0	6.4	7.9	-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	5.8	10.6	9.7	9.2
Netherlands	-1.3	5.8	7.0	6.9	0.9	4.5	4.9	1.6	0.2	0.6	-2.8	2.2	5.0	6.3	6.6	4.1	6.5	6.6	4.1	4.3
New Zealand	-0.4	11.5	4.0	-1.8	0.1	-2.2	4.8	-1.2	-18.6	1.4	14.8	16.7	12.2	7.0	3.8	-1.9	8.4	6.2	3.5	4.4
Norway	2.7	1.0	-4.0	7.6	0.3	-1.8	-6.9	-10.8	-0.4	-3.1	3.8	4.5	3.4	9.9	13.9	5.8	-5.6	-2.2	-2.2	0.9
Poland	..	..	..	..	..	..	..	..	..	..	..	9.2	16.6	19.7	21.5	14.4	6.9	6.5	5.0	8.0
Portugal	0.6	-17.4	-3.5	10.9	18.0	10.5	4.4	7.6	3.5	4.8	-6.0	3.4	4.8	3.4	13.5	8.7	6.0	5.8	6.0	5.8
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	-5.0	5.3	32.0	12.0	11.1	-18.8	-1.0	8.5	6.5
Spain	-1.0	-6.9	6.1	9.9	14.0	13.9	13.6	6.6	1.6	-4.4	-10.5	2.5	8.2	2.1	5.0	9.7	8.9	6.1	6.6	5.0
Sweden	-0.4	7.2	5.2	0.3	8.2	6.6	11.3	1.3	-8.9	-10.8	-17.2	6.1	9.4	5.0	-2.2	9.4	8.1	4.9	6.4	5.9
Switzerland	0.4	4.7	2.8	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	1.8	6.2	4.6	4.5
Turkey	2.9	0.9	11.5	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	-16.0	16.2	7.0	5.3
United Kingdom	-0.2	9.3	4.0	2.1	8.9	14.8	5.9	-2.3	-8.7	-0.7	0.8	3.6	2.9	4.9	7.5	10.1	6.1	2.4	3.8	3.0
United States	1.8	16.0	6.7	2.7	1.1	2.9	2.9	-0.2	-5.4	5.3	5.9	7.4	5.5	8.4	8.9	10.7	9.2	9.0	5.1	5.4
Euro area	-0.4	-0.1	2.0	3.9	4.5	7.6	7.3	5.2	1.2	0.1	-6.6	2.5	2.6	1.3	2.3	5.3	5.4	5.0	4.4	4.3
European Union	-0.3	1.5	2.6	3.9	5.4	8.6	7.0	4.1	-0.3	-0.3	-5.8	2.6	3.5	2.3	3.2	6.3	5.5	4.7	4.3	4.2
Total OECD	1.5	7.8	5.2	3.3	5.4	6.8	5.8	3.8	-1.2	2.0	0.4	4.6	3.4	6.9	6.0	5.1	5.5	6.5	4.7	4.5

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, a growing number of 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/index.htm).*

Source: OECD.

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

Percentage change from previous period

	Average 1973-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	2.0	7.0	14.1	-3.0	8.6	9.3	10.3	-7.6	-11.2	0.4	2.1	12.3	7.7	9.0	10.8	6.8	4.9	1.9	6.1	5.0
Austria	0.9	0.8	13.1	1.5	8.3	9.4	9.6	11.1	7.7	-3.3	-6.5	10.1	-1.6	3.8	8.7	10.9	6.5	6.6	4.7	4.6
Belgium	-1.1	8.2	8.8	6.4	8.9	13.9	17.6	10.6	-3.7	0.2	-6.8	-2.4	6.8	4.0	7.3	5.9	5.7	5.0	4.0	3.0
Canada	6.6	3.1	10.4	1.6	9.6	16.8	6.0	-1.6	0.5	-5.9	-2.4	9.2	5.7	6.4	20.7	6.1	10.5	14.4	7.8	7.3
Denmark	0.0	11.5	19.2	18.0	-5.1	-6.8	3.5	2.2	-1.0	-5.4	-7.7	7.5	13.2	2.8	9.2	8.6	-0.1	8.0	3.8	4.5
Finland	1.0	-1.6	5.8	4.7	5.3	10.7	16.3	-7.4	-23.1	-18.8	-17.5	-2.9	20.9	9.8	8.1	13.1	4.8	6.6	6.9	5.8
France	0.5	0.6	4.4	6.6	7.5	9.6	8.3	5.4	-1.2	-2.4	-7.9	0.6	3.1	-0.3	1.3	9.0	8.1	6.8	6.9	7.0
Germany	0.8	-0.4	5.0	4.3	3.8	5.6	7.4	10.1	7.5	1.0	-9.0	0.7	1.0	-0.7	2.1	5.9	5.1	4.3	4.6	4.1
Greece	0.9	-0.6	9.9	-19.4	-7.7	17.0	18.6	7.5	5.1	3.7	1.9	0.5	3.0	15.1	8.2	13.0	5.4	8.9	11.2	12.3
Ireland	3.1	-3.0	-15.1	-4.4	6.5	19.6	9.6	19.0	-10.6	-5.3	-3.1	8.4	12.9	17.7	20.6	20.7	10.6	10.7	9.3	10.5
Italy	-0.9	5.7	0.6	5.8	7.7	11.0	5.3	5.6	0.2	-1.2	-14.7	4.0	10.7	5.0	2.4	4.8	4.7	10.0	6.3	6.9
Japan	2.0	11.7	12.1	4.5	5.9	14.7	14.5	10.9	6.3	-5.6	-10.2	-5.3	5.2	11.3	9.0	-7.6	-5.9	5.4	6.3	5.5
Korea	..	16.1	4.6	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	11.8	18.3	3.6	2.5
Mexico	..	10.5	15.9	-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	9.8	12.0	11.5	11.0
Netherlands	-0.4	5.6	14.8	12.0	0.3	1.2	8.1	2.5	2.2	-3.4	-4.3	0.1	7.7	7.0	9.2	5.4	8.6	6.9	5.2	5.0
New Zealand	0.0	28.9	2.5	-5.3	12.7	-3.1	6.6	-6.6	-17.9	8.5	23.8	18.2	18.7	4.2	-1.5	3.3	8.6	6.5	5.9	5.5
Norway	3.3	1.6	-5.4	6.7	-2.1	-1.6	-7.4	-10.3	1.8	-3.5	6.5	2.5	2.3	13.3	14.2	7.1	-7.5	-5.2	-4.0	0.6
Spain	0.0	-11.6	-1.2	16.4	23.3	14.7	14.8	4.2	3.5	-1.7	-16.1	4.8	13.3	3.5	7.5	10.0	9.6	6.0	6.5	5.2
Sweden	0.4	8.2	11.3	2.1	9.0	5.1	13.5	-0.6	-14.6	-15.0	-15.7	18.5	20.0	8.0	3.0	10.5	7.6	6.0	6.0	6.0
Switzerland	2.0	3.8	5.2	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	2.0	8.0	5.6	5.6
United Kingdom	1.8	11.1	9.2	-3.2	12.0	16.7	12.9	1.0	-7.9	-2.9	-2.9	3.7	7.7	8.8	11.8	13.8	7.6	2.7	3.7	2.7
United States	3.0	17.6	6.7	-2.7	-0.1	5.4	5.5	0.7	-4.9	3.4	8.4	8.9	9.8	10.0	12.2	13.0	10.1	13.1	8.3	7.6
Euro area	0.2	0.4	4.3	6.3	7.2	8.9	8.8	6.5	1.8	-1.1	-10.1	1.7	5.0	2.1	4.1	7.4	6.5	6.4	5.9	5.7
European Union	0.6	2.6	5.4	4.8	8.0	10.1	9.6	5.6	0.0	-1.9	-9.0	2.7	6.5	3.6	5.1	8.4	6.5	6.0	5.5	5.2
Total OECD	2.3	10.4	7.4	1.3	5.1	9.5	8.6	4.8	-0.1	0.2	-1.6	4.6	6.4	8.8	9.6	6.8	6.3	9.3	6.8	6.3

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, a growing number of 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/index.htm).*

Source: OECD.

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

Percentage change from previous period

	Average 1973-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	0.5	20.6	2.6	-7.6	-2.5	19.8	8.8	-11.2	-6.1	13.1	13.3	11.9	-5.9	-7.7	13.5	13.7	7.4	7.6	1.7	3.3
Austria	0.1	-1.3	-0.8	2.1	2.8	7.1	0.4	-1.1	4.7	8.6	4.4	7.6	11.4	2.4	-2.0	0.8	-5.6	-0.5	-0.5	1.5
Belgium	-5.5	2.7	20.4	0.0	8.5	25.2	17.6	8.0	-8.9	4.9	1.8	5.3	5.6	-4.1	5.0	2.3	0.2	2.5	2.3	2.0
Canada	1.8	0.6	9.2	12.8	14.7	2.2	4.2	-10.2	-14.5	7.2	-3.5	4.2	-15.1	9.7	12.6	-2.0	6.6	3.3	3.5	3.9
Denmark	-7.9	20.3	-2.1	21.3	-3.2	-9.4	-8.4	-11.3	-10.1	0.1	6.3	8.9	8.5	5.8	8.7	4.9	4.6	9.0	-5.0	0.1
Finland	0.4	-1.5	-4.2	-7.8	0.9	15.8	17.4	-5.6	-16.6	-20.6	-14.3	-4.5	-2.7	2.6	21.5	7.8	10.3	6.3	6.8	6.0
France	-0.9	-4.4	-2.7	1.6	2.9	5.6	7.4	-1.7	-6.9	-3.7	-5.2	4.4	2.1	0.4	0.9	3.6	8.2	6.2	0.9	0.9
Germany	-1.3	2.0	-10.0	-0.6	-1.3	3.6	4.8	8.4	4.2	9.8	4.1	11.9	0.4	-0.2	0.4	0.3	-0.2	-0.3	0.1	0.5
Greece	-3.8	-19.7	-0.5	14.6	3.4	2.9	-1.8	5.4	-0.6	-16.7	-10.5	-11.3	2.6	-1.2	6.6	9.8	6.9	4.7	6.4	6.1
Iceland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ireland	0.9	8.3	-0.7	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	21.0	13.3	8.7	8.7
Italy	-0.4	0.6	-3.1	-3.0	-2.1	2.2	3.0	3.7	3.3	1.3	-1.5	-2.3	-0.1	-1.4	-2.7	-0.6	1.6	0.0	0.5	1.0
Japan	-1.7	-2.1	2.6	8.1	22.4	11.4	0.9	4.8	-8.5	-6.5	2.4	8.5	-6.5	13.6	-16.2	-14.4	1.4	1.0	-4.3	-2.0
Korea	11.9	-9.3	0.8	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	-19.1	-5.9	5.0	3.9
Mexico	3.0	5.0	8.1	-1.6	4.4	-1.2	5.8	4.4	7.6	2.9	5.2	4.0	-7.9	2.5	4.5	7.5	6.8	7.0	6.5	6.0
Netherlands	-2.0	4.4	-0.8	4.2	1.6	11.3	0.7	-2.5	-5.4	6.4	-0.3	6.2	0.9	3.9	6.4	-0.9	3.3	5.3	3.0	2.5
New Zealand	-4.1	18.5	-0.5	-3.1	-3.9	4.2	15.1	2.0	-15.8	3.4	17.0	12.7	2.2	5.4	6.3	-16.9	12.0	6.4	-3.6	2.1
Norway	1.8	-0.7	-0.9	7.8	3.2	-6.9	-12.5	-17.8	-21.7	-10.6	3.1	24.6	9.1	-0.1	7.4	-0.9	-2.2	10.6	8.6	2.4
Spain	-3.2	-5.4	6.5	2.1	6.3	11.4	3.3	6.4	-3.7	-4.0	-4.1	0.4	7.1	9.7	0.7	9.2	10.1	8.0	6.7	4.7
Sweden	-1.8	10.7	-2.7	-2.9	10.0	10.7	6.2	8.1	-2.1	-7.3	-32.8	-34.1	-23.9	8.9	-22.3	3.6	18.8	8.0	15.0	10.0
Switzerland	-1.7	9.4	0.5	-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	2.7	2.1
United Kingdom	-0.3	6.7	-2.7	12.0	8.1	19.0	-11.6	-17.5	-15.1	0.2	8.1	2.5	-3.1	9.7	2.5	-0.3	2.7	0.0	2.7	2.9
United States	-1.2	14.6	1.4	12.0	0.2	-0.5	-4.1	-8.6	-12.8	16.3	7.3	9.7	-3.6	7.4	2.0	8.3	6.4	-0.2	-3.4	-1.2
Euro area	-1.4	-1.3	-3.8	0.3	1.1	6.0	5.0	3.3	-1.1	2.4	-0.2	6.1	1.8	0.9	1.1	1.9	3.2	2.7	1.8	1.8
European Union	-1.1	0.9	-2.7	2.5	2.5	8.0	2.3	0.1	-3.3	1.6	-0.3	3.6	0.7	2.7	0.8	1.9	3.9	2.6	2.0	2.0
Total OECD	-0.1	5.9	0.6	7.3	5.1	5.4	0.5	-1.1	-7.4	6.0	3.7	6.9	-2.6	5.9	-0.6	1.8	4.0	1.4	-0.6	0.5

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, a growing number of 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/index.htm).*

Source: OECD.

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

Percentage change from previous period

	Average 1973-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	5.5	6.0	5.3	0.8	3.0	5.7	7.0	-0.7	-2.3	3.0	3.0	5.3	4.8	3.2	3.4	7.0	5.7	4.0	3.9	3.4
Austria	2.1	1.3	2.0	2.2	2.4	3.2	3.3	4.4	3.6	1.4	0.8	3.3	1.8	2.0	0.5	2.7	1.7	2.5	2.2	2.1
Belgium	1.4	2.5	2.0	2.6	3.5	4.8	4.3	2.9	1.7	1.8	-1.5	2.1	1.9	0.9	2.6	3.9	2.1	2.7	2.2	2.2
Canada	2.9	4.7	5.8	3.4	4.7	5.3	4.1	0.0	-1.4	0.9	1.4	3.2	1.7	1.4	6.2	2.2	4.2	5.4	3.4	3.2
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	6.4	8.4	7.9	-0.9	-3.0	-0.4	2.1	3.7	3.7
Denmark	0.7	5.0	5.1	5.6	-1.7	-0.7	-0.1	-0.7	-0.1	0.9	-0.3	7.0	4.2	2.2	4.4	4.3	-0.4	2.3	1.6	1.9
Finland	2.4	2.0	3.3	2.9	5.1	6.4	6.7	-1.2	-8.5	-5.8	-5.7	3.7	4.4	2.9	6.0	5.7	2.8	3.1	2.7	2.6
France	2.0	0.9	2.0	3.4	3.3	4.2	3.9	2.7	0.5	0.6	-1.6	1.8	1.8	0.7	0.6	3.9	2.9	3.0	2.5	2.5
Germany	1.3	1.9	1.0	3.3	2.4	3.5	2.8	5.2	4.6	2.8	-1.1	2.3	1.7	0.3	0.6	2.4	2.4	1.9	2.1	2.1
Greece	2.2	0.9	4.7	0.5	0.0	4.4	4.9	2.4	3.6	-0.6	-0.9	1.1	3.9	3.3	3.6	4.7	2.9	3.7	4.0	4.4
Hungary	..	..	..	..	..	..	..	..	..	..	..	2.0	-3.0	0.6	4.0	7.8	4.3	4.1	4.9	5.0
Iceland	3.1	6.4	2.7	4.5	15.6	-0.6	-4.3	1.5	4.5	-4.6	-4.2	2.5	2.2	7.2	5.7	12.3	4.6	5.4	1.8	2.1
Ireland	2.7	1.5	1.5	1.0	0.8	2.8	6.9	5.9	0.1	-0.3	1.1	5.6	7.2	7.8	9.8	9.4	6.3	8.6	7.8	7.9
Italy	2.3	3.3	3.2	3.1	4.3	4.1	3.1	2.7	2.1	0.9	-5.1	1.7	2.0	0.9	2.5	2.9	2.5	2.2	2.2	2.7
Japan	2.6	3.2	3.8	3.9	5.1	7.4	5.6	5.2	2.9	0.4	0.1	1.0	2.3	5.7	0.2	-3.1	0.5	1.3	2.4	1.8
Korea	7.2	8.9	5.5	8.2	10.6	11.4	12.6	11.6	10.4	3.2	4.6	9.6	9.3	7.8	-0.8	-19.6	14.3	7.3	5.5	4.0
Luxembourg	1.6	1.3	0.4	8.9	7.2	6.8	4.9	4.7	11.6	-2.6	8.3	-2.8	2.6	2.7	5.6	2.3	11.5	2.5	4.5	4.4
Mexico	4.0	4.3	4.1	-4.9	1.1	3.9	5.6	7.0	5.7	6.0	1.1	5.6	-14.0	5.6	9.6	6.0	3.4	8.6	5.9	5.5
Netherlands	1.4	1.7	3.7	3.9	1.4	1.9	4.4	3.2	1.7	1.5	-1.1	2.9	1.9	2.8	3.9	4.2	4.2	4.4	3.8	3.4
New Zealand	0.6	10.5	-0.1	1.4	1.2	1.4	2.9	-0.3	-6.2	2.0	4.9	6.9	5.1	4.1	3.3	-0.2	5.8	1.7	2.1	2.2
Norway	2.8	4.5	5.4	7.1	-0.7	-3.0	-2.0	-0.4	0.8	1.7	3.5	3.8	4.3	4.2	6.4	5.4	-0.9	1.8	1.0	1.6
Poland	..	..	..	..	..	..	..	..	..	..	..	4.3	7.5	9.7	9.3	6.6	4.7	4.8	4.1	5.1
Portugal	2.2	-4.8	1.7	6.0	8.8	7.5	3.6	5.5	3.7	4.3	-1.2	2.7	2.8	3.0	4.7	6.0	4.8	3.7	3.4	3.5
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	-5.0	10.6	16.0	4.3	9.5	-4.8	-1.8	4.8	4.1
Spain	1.5	-0.4	3.2	4.7	7.4	6.5	6.9	4.5	2.6	0.8	-3.5	1.3	2.9	1.9	3.4	5.6	5.5	4.2	3.7	3.4
Sweden	1.1	4.0	3.5	2.6	3.9	2.6	3.9	1.3	-1.9	-2.0	-5.6	3.0	1.9	0.7	0.8	3.9	3.6	3.3	4.1	3.2
Switzerland	0.9	3.2	1.9	4.5	2.0	2.6	4.1	3.9	-0.6	-2.7	-1.0	2.7	1.8	0.4	1.3	4.3	1.4	2.6	2.4	2.3
Turkey	3.8	6.4	3.2	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	-4.0	8.3	4.1	3.8
United Kingdom	0.9	2.8	3.1	4.7	4.9	8.0	2.8	-0.3	-2.7	0.8	2.2	3.4	1.8	3.0	3.8	4.6	3.7	3.4	2.9	2.6
United States	2.2	8.7	4.2	3.6	3.1	3.2	2.8	1.4	-1.1	3.1	3.2	4.4	2.5	3.7	4.7	5.5	5.2	5.8	3.6	3.4
Euro area	1.8	1.7	2.3	3.3	3.4	4.1	3.9	3.6	2.3	1.3	-2.1	2.1	2.0	1.1	1.7	3.4	2.9	2.8	2.6	2.7
European Union	1.6	1.9	2.5	3.6	3.7	4.7	3.7	2.9	1.5	1.2	-1.6	2.4	2.1	1.4	2.2	3.7	3.1	2.9	2.7	2.7
Total OECD	2.4	5.1	3.6	3.5	3.9	4.6	4.0	3.1	0.9	2.1	1.2	3.1	2.3	3.4	3.3	2.8	3.8	4.2	3.2	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, a growing number of 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/index.htm).*

Source: OECD.

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

Percentage change from previous period

	Average 1973-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	3.0	16.1	11.1	4.3	12.2	3.5	2.9	8.5	13.1	5.4	8.0	9.0	5.1	10.6	11.5	-0.3	4.6	10.8	8.5	8.3
Austria	5.1	6.3	7.1	-2.3	3.1	10.2	11.3	7.9	5.9	1.7	-1.3	5.6	6.5	6.0	10.1	8.7	3.5	8.8	8.4	7.3
Belgium	2.7	6.5	0.4	2.8	5.0	9.6	8.3	4.6	3.1	3.7	-0.4	8.4	5.7	1.2	6.7	4.4	5.2	12.4	9.2	7.7
Canada	3.3	18.6	5.5	5.2	3.3	9.5	1.3	4.7	2.3	7.9	10.9	13.1	9.0	5.9	8.8	8.9	10.0	11.6	7.5	6.4
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	0.2	16.7	9.2	8.1	10.7	6.6	16.1	12.0	10.6
Denmark	4.0	3.5	5.0	0.0	5.1	7.8	4.2	6.2	6.1	-0.9	-1.5	7.0	2.9	4.3	4.1	2.2	7.9	6.0	7.8	6.5
Finland	4.6	5.2	0.7	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	6.3	11.3	9.2	7.9
France	4.5	7.3	2.1	-0.8	2.8	8.5	10.8	4.8	5.5	5.2	-0.1	7.9	7.8	3.1	12.1	7.7	3.8	12.8	8.7	7.4
Germany	4.1	8.2	7.6	-0.6	0.4	5.5	10.2	11.0	12.6	-0.8	-5.5	7.6	5.7	5.1	11.3	7.0	5.1	12.6	9.3	7.4
Greece	5.1	16.9	1.3	14.0	16.0	9.0	4.8	-4.1	3.7	10.4	-3.3	6.6	0.5	3.5	18.2	5.9	6.5	12.5	11.9	9.0
Hungary	..	..	..	..	..	..	..	..	..	..	..	13.7	13.4	8.4	26.4	16.7	13.2	18.0	13.0	11.4
Iceland	4.9	2.4	11.1	5.9	3.3	-3.6	2.9	0.0	-5.9	-1.9	7.0	9.9	-2.1	9.9	5.7	2.2	5.5	2.6	-1.0	3.4
Ireland	7.3	16.6	6.6	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	12.4	15.5	13.3	8.4
Italy	4.8	7.7	3.9	0.8	4.5	5.1	7.8	7.5	-1.4	7.3	9.0	9.8	12.6	0.6	6.5	3.3	-0.4	9.5	9.3	7.6
Japan	8.7	14.8	5.4	-5.7	-0.5	5.9	9.1	6.9	5.2	4.9	1.3	4.6	5.4	6.3	11.6	-2.5	1.9	13.6	5.5	5.3
Korea	13.6	7.7	4.6	26.5	21.7	12.5	-4.1	3.8	11.2	11.3	11.3	16.1	24.6	11.2	21.4	13.2	16.3	20.4	15.5	12.0
Luxembourg	0.9	18.0	9.5	3.3	4.4	11.7	8.1	3.4	6.7	4.8	2.8	4.4	4.4	4.0	10.5	9.9	7.9	15.0	10.0	8.3
Mexico	9.7	5.8	-4.5	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	13.9	16.0	11.0	9.0
Netherlands	2.4	7.5	5.1	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	5.6	10.3	9.3	6.8
New Zealand	4.3	7.4	8.0	-0.4	6.1	4.1	-2.6	4.6	9.6	2.7	5.9	10.3	3.7	3.7	3.0	1.6	6.2	9.2	7.8	7.4
Norway	4.2	7.9	7.2	2.2	1.1	6.4	11.0	8.6	6.1	5.2	3.5	8.7	4.3	9.3	6.1	0.3	1.7	5.0	4.8	3.4
Poland	..	..	..	..	..	..	..	..	..	..	..	13.1	22.9	12.0	14.5	17.0	-2.1	9.8	9.9	8.4
Portugal	2.4	11.6	6.7	6.8	11.2	6.5	13.0	10.0	2.6	4.9	-3.6	8.7	9.1	7.2	8.5	7.6	4.8	8.9	9.2	8.2
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	14.2	3.0	0.7	17.6	12.2	3.6	22.0	13.0	12.0
Spain	5.7	11.7	2.6	1.9	6.3	5.1	3.0	3.2	7.9	7.4	8.5	16.7	10.0	10.4	15.3	8.3	6.6	11.0	9.4	8.8
Sweden	3.1	6.8	1.5	3.7	4.2	2.5	3.2	1.6	-2.4	2.4	7.7	14.1	11.3	3.5	13.0	7.3	5.2	9.7	6.8	5.1
Switzerland	2.4	7.5	8.0	-0.4	2.3	6.5	6.6	2.1	-2.1	3.0	1.5	1.8	1.6	2.5	8.6	5.0	5.9	9.9	6.6	5.8
Turkey	8.6	25.4	-1.9	-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	15.0	6.6	7.5
United Kingdom	2.7	6.6	6.0	4.5	5.9	0.6	4.8	4.9	-0.2	4.1	3.9	9.2	9.5	7.5	8.6	2.6	3.3	7.8	7.2	6.0
United States	3.8	8.4	2.7	7.4	11.2	16.1	11.8	8.7	6.5	6.2	3.3	8.9	10.3	8.2	12.3	2.3	2.9	10.4	9.3	7.7
Euro area	6.5	10.4	3.5	-10.7	-2.7	6.5	7.9	8.0	7.4	2.2	12.7	8.9	6.8	6.9	13.8	3.8	4.5	13.2	10.1	7.6
European Union	4.1	8.1	4.6	1.4	4.0	5.6	7.8	6.4	4.7	3.9	1.8	9.2	8.4	4.8	10.4	6.0	4.0	10.9	8.9	7.3
Total OECD	5.3	9.8	3.8	3.5	7.2	10.0	8.6	7.1	5.7	5.4	3.3	9.1	9.9	7.3	11.7	4.2	4.0	11.6	8.8	7.4

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, a growing number of 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/index.htm).*

Source: OECD.

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

Percentage change from previous period

	Average 1973-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	3.2	22.1	3.5	-3.3	2.7	17.1	20.6	-4.0	-2.4	7.1	4.2	14.1	8.1	8.2	10.3	5.9	9.5	9.9	6.8	7.1
Austria	3.7	10.1	6.2	-2.9	5.4	10.4	8.4	7.3	6.5	1.8	-0.7	8.3	7.0	5.9	9.4	6.9	1.9	6.5	7.2	6.6
Belgium	1.8	6.4	0.4	4.5	6.7	10.4	9.6	4.8	2.8	4.1	-0.4	7.2	5.0	0.8	5.7	6.5	4.5	11.5	8.5	7.2
Canada	3.9	18.1	8.8	8.5	5.6	13.7	6.3	2.3	3.2	6.2	7.4	8.3	6.2	5.8	15.1	6.1	9.4	13.3	7.8	6.8
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	7.8	21.2	14.3	7.2	7.9	5.8	14.4	11.8	10.6
Denmark	0.7	5.5	8.1	6.8	-2.0	1.5	4.1	1.2	3.0	-0.4	-2.7	12.3	7.3	3.5	8.0	7.3	2.2	4.9	5.9	5.4
Finland	2.9	1.9	6.2	1.5	9.2	10.9	9.0	-0.8	-13.5	0.6	1.3	12.8	7.8	6.4	11.3	8.3	3.2	6.8	5.9	5.3
France	2.8	3.1	4.7	6.3	7.5	8.6	8.4	5.2	2.6	1.7	-3.8	8.5	7.8	1.5	7.1	11.3	3.8	12.5	8.1	8.1
Germany	3.0	5.2	4.5	2.7	4.2	5.1	8.3	10.3	13.1	1.5	-5.5	7.4	5.6	3.1	8.4	8.6	8.1	9.1	7.7	6.5
Greece	2.5	0.2	12.8	3.8	16.6	8.0	10.7	8.7	6.0	1.3	0.2	1.3	9.2	7.0	13.9	11.3	3.9	8.7	7.9	7.7
Hungary	..	..	..	..	..	..	..	..	..	..	..	8.8	-0.7	6.2	24.6	22.8	12.3	15.0	12.0	11.2
Iceland	1.8	9.1	9.4	0.9	23.3	-4.6	-10.3	1.0	5.3	-5.9	-7.7	4.2	4.0	16.7	8.5	23.3	6.1	7.0	0.6	2.5
Ireland	4.0	9.9	3.2	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	8.7	14.9	14.1	9.5
Italy	2.4	12.4	5.3	4.0	12.2	5.9	8.9	11.5	2.3	7.4	-10.9	8.1	9.7	-0.3	10.2	9.1	3.4	7.6	8.1	8.4
Japan	0.9	10.5	-1.4	2.0	9.5	20.9	18.6	7.9	-3.1	-0.7	-0.3	8.9	14.2	11.9	0.5	-7.6	5.3	10.5	6.4	4.2
Korea	11.6	7.4	-0.6	17.9	19.6	12.9	16.3	13.0	19.2	5.3	6.2	21.6	22.4	14.2	3.2	-22.4	28.9	21.3	19.0	11.0
Luxembourg	1.2	13.9	7.0	3.8	7.5	8.2	6.6	4.5	9.0	-0.8	2.8	-0.1	3.8	4.0	9.3	8.3	11.2	11.2	9.3	8.0
Mexico	1.0	17.8	11.0	-7.6	5.1	36.7	18.0	19.7	15.2	19.6	1.9	21.3	-15.0	22.9	22.7	16.5	12.8	21.0	13.2	10.5
Netherlands	1.7	5.0	6.3	3.5	4.2	7.6	6.7	4.2	4.1	2.1	-2.1	6.7	7.2	4.4	9.5	8.0	6.3	10.8	9.6	7.1
New Zealand	0.8	16.5	0.6	2.8	8.6	-0.8	12.4	2.1	-5.4	8.3	5.8	13.2	9.0	8.4	4.2	2.7	12.0	3.3	5.3	5.7
Norway	2.0	5.8	8.9	11.8	-6.5	-2.4	2.2	2.5	0.2	0.7	4.4	4.9	5.6	8.0	11.3	9.3	-3.1	1.6	2.5	3.6
Poland	..	..	..	..	..	..	..	..	..	..	..	11.3	24.2	28.0	23.9	19.1	1.5	7.8	6.4	7.8
Portugal	0.9	-4.4	1.4	16.9	23.1	17.3	6.1	14.0	7.3	10.7	-3.3	9.0	7.8	5.0	10.6	13.8	8.8	8.7	8.5	8.4
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	-3.4	9.2	17.2	13.1	19.9	-6.1	15.8	15.5	12.5
Spain	2.4	-1.8	7.9	14.4	20.1	14.4	17.3	7.8	9.0	6.9	-5.2	11.3	11.0	8.0	13.3	13.4	11.9	11.0	9.8	9.2
Sweden	1.5	5.4	7.0	4.4	7.6	5.4	7.4	0.8	-4.9	1.2	-2.7	12.2	7.2	3.0	11.8	10.4	5.0	8.5	9.0	7.0
Switzerland	2.5	8.3	3.7	8.1	6.2	5.2	5.9	2.6	-1.6	-4.2	0.1	7.9	5.1	2.7	7.6	9.6	5.5	8.2	6.7	6.4
Turkey	7.3	19.7	-6.6	-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	18.0	4.0	5.6
United Kingdom	1.9	9.9	2.5	6.9	7.9	12.8	7.4	0.5	-5.0	6.8	3.2	5.4	5.5	9.1	9.2	8.8	7.6	8.5	7.5	6.1
United States	3.1	24.3	6.5	8.4	6.1	3.8	3.9	3.8	-0.5	6.6	9.1	12.0	8.2	8.6	13.7	11.9	10.7	13.7	8.8	7.2
Euro area	3.9	6.2	3.6	-7.0	5.1	8.1	8.1	9.2	6.9	1.7	2.1	7.6	5.6	5.0	11.6	8.5	7.8	10.0	8.5	7.5
European Union	2.5	6.0	4.9	5.5	8.8	8.5	9.0	6.8	4.2	4.0	-3.8	7.9	7.4	3.9	9.3	9.7	6.2	9.5	8.1	7.3
Total OECD	3.1	14.7	4.5	5.9	8.0	9.5	9.0	6.5	1.8	5.0	3.1	10.0	9.0	8.3	10.5	7.2	8.5	12.0	8.5	7.0

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, a growing number of 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/index.htm).*

Source: OECD.

Annex Table 11. **Output gaps**

Deviations of actual GDP from potential GDP as a percentage of potential GDP

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	-5.5	-1.9	-0.3	-1.8	-0.6	0.3	0.9	-1.1	-4.7	-4.6	-3.6	-1.6	-0.8	-0.4	-0.4	0.8	1.2	1.4	1.1	0.8
Austria	-0.6	-2.4	-2.4	-2.0	-2.1	-0.9	1.2	2.7	3.0	2.0	-0.7	-0.6	-0.8	-0.7	-1.1	-0.5	-0.8	0.3	0.6	0.8
Belgium	-4.3	-3.5	-3.1	-2.9	-1.6	1.1	2.5	3.1	2.4	1.4	-2.5	-2.4	-2.2	-3.4	-2.2	-2.1	-1.7	-0.6	-0.2	0.1
Canada	-5.4	-2.0	1.1	0.9	2.2	4.0	3.3	1.0	-3.7	-5.0	-5.0	-2.5	-2.0	-2.9	-1.8	-1.6	-0.3	0.9	0.9	0.7
Denmark	-2.7	-0.3	1.6	3.0	0.9	-0.3	-2.0	-3.2	-3.5	-4.1	-5.5	-2.5	-2.1	-1.5	-0.5	0.1	-0.1	0.3	0.4	0.5
Finland	-1.5	-1.1	-0.9	-1.2	0.3	2.4	4.7	2.8	-4.9	-9.0	-11.3	-9.3	-7.7	-6.4	-3.8	-2.3	-1.8	0.1	1.0	1.5
France	-3.0	-3.7	-4.1	-3.7	-3.1	-1.2	0.9	1.3	0.5	0.0	-2.4	-2.2	-2.3	-3.1	-3.2	-2.1	-1.2	0.3	1.0	1.3
Germany	-5.1	-4.1	-3.6	-2.8	-2.9	-1.3	-0.4	2.4	1.7	1.2	-1.9	-1.3	-1.1	-1.9	-2.1	-1.7	-1.8	-0.7	0.1	0.6
Greece	-2.7	-1.8	-0.4	-0.3	-2.1	0.8	2.9	0.9	1.7	0.4	-2.4	-2.7	-2.7	-2.4	-1.3	-2.2	-1.7	-0.8	0.3	0.9
Ireland	-3.7	-3.2	-3.2	-6.4	-5.2	-3.3	-0.8	3.0	-0.3	-2.5	-5.2	-5.5	-3.2	-3.0	-0.4	1.5	2.9	5.5	5.3	4.1
Italy	-2.0	-2.3	-1.7	-1.3	-0.7	0.9	1.6	1.5	0.8	-0.4	-2.8	-2.2	-0.7	-1.3	-1.5	-1.8	-2.3	-1.6	-1.2	-0.8
Japan	-1.5	-1.2	-1.2	-2.3	-2.3	-0.4	0.5	2.2	2.8	1.1	-0.7	-1.8	-2.3	0.9	1.0	-2.9	-3.8	-3.2	-2.2	-1.7
Netherlands	-3.1	-1.3	0.1	0.2	-0.7	-1.0	0.7	2.1	1.4	0.5	-1.1	-0.4	-0.8	-0.7	-0.4	0.2	0.7	1.6	2.0	2.0
New Zealand	-2.8	2.0	2.0	2.3	1.5	-0.2	-0.6	-2.3	-5.1	-5.4	-2.3	0.7	1.2	1.2	0.5	-2.0	-0.9	0.0	0.2	0.1
Norway [a]	-1.9	-1.2	2.1	2.5	1.7	-1.4	-4.3	-3.9	-3.8	-3.2	-2.6	-1.0	-0.8	0.1	1.1	1.9	0.8	1.0	0.8	0.8
Portugal	-0.4	-4.7	-4.7	-3.7	-0.9	0.6	2.3	3.4	2.8	2.5	-1.3	-1.8	-1.7	-1.0	-0.3	0.1	0.0	0.1	0.0	-0.2
Spain	-5.4	-5.5	-4.8	-4.8	-2.0	0.4	1.7	2.3	1.7	-0.7	-4.5	-4.9	-5.4	-6.3	-5.1	-3.2	-1.3	-0.4	0.2	0.6
Sweden	-3.7	-0.8	0.0	1.2	2.8	3.4	4.5	4.5	1.3	-2.2	-5.3	-3.0	-1.3	-2.0	-2.1	-1.5	-0.3	1.0	1.8	1.8
Switzerland	0.7	1.8	3.6	3.0	1.1	1.5	3.3	4.5	1.8	-0.1	-1.8	-2.3	-2.4	-3.2	-2.5	-1.8	-2.0	-0.6	-0.1	0.1
United Kingdom	-5.6	-5.0	-3.1	-0.8	1.9	4.9	4.7	2.8	-1.4	-4.0	-3.7	-1.8	-1.4	-1.0	0.2	0.4	0.3	0.8	0.9	0.8
United States	-5.6	-1.7	-1.0	-0.9	-0.5	0.8	1.6	0.4	-2.5	-1.8	-1.6	-0.2	-0.2	0.2	0.7	1.2	1.3	2.5	1.7	1.1
Total of above Euro area countries	-3.4	-3.2	-2.9	-2.5	-2.0	-0.4	1.0	2.0	1.2	0.2	-2.6	-2.2	-1.9	-2.5	-2.4	-1.8	-1.4	-0.3	0.3	0.6
Total of above European Union countries	-3.8	-3.6	-2.9	-2.2	-1.3	0.5	1.6	2.1	0.8	-0.5	-2.9	-2.2	-1.8	-2.2	-1.9	-1.4	-1.2	-0.2	0.4	0.6
Total of above OECD countries	-4.2	-2.3	-1.6	-1.5	-1.0	0.6	1.4	1.3	-0.5	-1.0	-2.1	-1.3	-1.2	-0.8	-0.4	-0.6	-0.5	0.5	0.5	0.5

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. 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/index.htm).*

a) Mainland Norway.

Source: OECD.

Annex Table 12. **Compensation per employee in the business sector**

Percentage change from previous period

	Average 1973-83 [a]	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	9.4	10.0	5.0	6.5	5.2	6.4	7.5	8.2	2.8	3.2	3.3	2.0	3.5	5.6	3.3	3.0	2.2	4.2	3.8	3.7
Austria	8.6	5.6	5.5	5.7	4.1	4.3	4.8	5.6	5.7	4.2	3.7	3.2	3.6	0.8	2.2	3.1	2.1	2.0	2.6	3.2
Belgium	10.5	6.7	6.7	4.4	2.5	2.8	3.0	8.1	6.9	5.6	2.9	3.2	1.8	1.1	2.8	1.9	2.2	2.5	3.3	3.0
Canada	9.7	4.8	5.5	2.9	6.9	7.1	4.9	5.0	4.9	3.2	2.3	0.5	2.3	2.9	6.0	3.0	2.6	3.9	3.3	3.4
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	17.3	17.6	17.7	10.6	9.5	6.1	6.9	6.4	6.7
Denmark	11.6	6.1	4.9	5.1	7.3	11.4	4.6	4.1	4.0	4.4	2.5	3.2	3.4	2.9	2.1	2.4	2.5	4.0	4.4	4.4
Finland	14.4	10.0	10.4	7.4	8.0	9.6	10.3	9.3	4.9	1.8	1.3	4.6	4.1	2.1	2.8	4.4	2.3	4.1	4.5	4.3
France	13.9	9.4	5.6	4.1	4.7	4.2	4.0	3.6	4.5	4.0	2.1	1.4	1.2	2.0	1.9	1.8	1.8	1.6	2.8	3.0
Germany	6.5	3.8	3.1	3.7	3.3	3.2	3.0	4.2	4.8	10.4	3.7	3.0	3.3	1.0	0.7	1.0	1.0	1.1	1.6	2.3
Greece	20.7	18.6	21.9	12.9	10.7	17.3	22.5	16.3	16.4	12.7	8.7	11.8	14.7	10.6	11.2	8.3	4.2	5.0	5.1	5.5
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	23.8	23.0	21.5	17.1	12.1	14.0	12.7	10.6
Iceland	..	..	..	..	..	26.3	13.2	18.9	25.5	2.1	-3.3	4.3	8.7	4.0	3.0	7.0	11.1	8.1	8.6	7.6
Ireland	18.3	10.5	4.1	6.2	6.1	5.3	6.8	3.3	3.2	7.8	4.9	1.7	2.5	1.8	6.1	-0.3	4.0	8.0	8.1	8.0
Italy	19.8	11.8	10.3	6.9	7.4	7.3	9.1	8.1	8.9	6.3	5.3	3.0	4.9	4.9	3.4	-1.8	1.9	2.2	2.9	2.4
Japan	9.3	4.2	3.4	2.4	2.5	3.0	3.8	5.1	4.3	0.9	0.6	2.0	0.8	0.6	0.9	-1.0	-0.3	1.1	0.5	1.1
Korea	21.7	7.6	4.9	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	11.4	8.0	7.0	5.7
Mexico	..	..	..	..	..	..	27.0	27.9	29.9	24.1	15.2	11.4	17.6	23.1	21.0	18.0	13.5	12.0	9.0	7.0
Netherlands	8.1	0.8	1.8	2.7	1.5	1.3	0.9	3.3	4.5	4.2	3.0	2.8	1.3	1.7	2.1	2.8	2.9	4.2	4.9	4.5
New Zealand	13.6	3.5	12.3	18.8	14.2	11.2	6.8	0.9	1.3	1.1	1.9	1.9	-0.2	1.7	2.6	2.4	2.4	3.1	3.7	3.2
Norway	10.4	7.5	7.1	9.8	9.1	8.6	4.6	5.0	5.4	4.5	2.2	2.8	3.0	2.5	2.4	7.5	5.6	4.8	6.0	4.8
Poland	..	..	..	..	..	..	..	..	..	..	..	40.7	34.1	29.6	20.7	15.5	12.6	11.8	12.5	12.5
Portugal	24.2	20.6	19.3	18.9	13.6	9.4	12.9	17.3	18.4	16.1	6.6	5.9	6.4	5.5	5.0	4.5	4.3	4.8	5.2	5.3
Spain	20.0	11.1	7.9	8.0	1.3	5.2	6.0	9.7	10.8	10.7	9.3	2.9	2.4	4.4	3.1	2.8	3.0	3.4	3.7	3.9
Sweden	11.9	9.8	8.5	8.3	7.5	8.1	12.3	9.8	6.2	3.2	8.5	5.7	2.3	6.2	3.7	3.3	1.2	3.9	4.5	4.9
Switzerland	5.5	3.3	3.9	4.3	3.2	3.6	4.5	5.0	7.2	6.3	1.8	1.3	2.4	0.7	2.7	0.8	1.5	2.0	2.8	3.0
United Kingdom	15.6	7.6	9.1	9.6	7.5	8.1	10.4	10.6	9.7	5.6	6.3	6.4	2.9	4.3	4.2	5.5	4.9	3.3	5.0	4.9
United States	8.0	5.0	4.0	3.9	4.5	4.7	3.2	4.9	3.9	5.7	2.8	2.3	1.9	2.5	3.2	4.9	4.3	4.5	4.9	5.1
Euro area [b]	12.8	7.9	6.5	5.7	4.6	4.6	4.8	5.6	6.1	8.1	5.5	3.2	3.8	1.9	1.7	1.2	1.4	1.8	2.6	2.9
European Union [b]	13.8	8.2	7.1	6.3	5.2	5.7	6.5	7.0	7.3	7.1	4.7	3.5	3.2	3.0	2.7	2.0	2.4	2.4	3.3	3.4
Total OECD	10.8	6.2	5.2	4.8	4.8	5.4	5.6	6.8	6.5	6.1	3.8	3.8	3.8	3.9	3.7	3.5	3.5	3.7	4.0	4.0
Memorandum item																				
OECD *less* high inflation countries [c]	10.8	6.1	5.1	4.8	4.7	5.3	4.7	6.0	5.6	5.5	3.4	3.0	2.7	2.8	2.8	2.7	3.0	3.3	3.6	3.8

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/index.htm).*

a) Average 1975-83 in the case of Korea.

b) Luxembourg excluded.

c) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of GDP deflator on average during the 1990s. Consequently, Greece, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

Annex Table 13. **Unit labour costs in the total economy**

Percentage change from previous period

	Average 1973-83 [a]	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	11.2	4.5	3.5	7.9	3.1	5.6	8.4	7.5	1.8	0.3	-0.5	2.0	2.7	2.8	1.2	0.4	0.4	2.8	2.5	2.0
Austria	6.5	5.2	3.7	3.7	2.4	1.2	2.1	3.2	4.9	5.2	3.6	1.4	1.8	-1.0	0.3	1.4	2.0	0.0	0.9	1.3
Belgium	7.7	3.9	3.7	2.6	-0.2	-0.5	1.4	5.5	5.3	3.4	4.0	0.6	0.4	0.3	0.5	1.4	0.8	0.8	1.7	1.5
Canada	9.3	1.9	2.3	3.9	4.4	4.6	5.2	4.9	4.7	1.4	-0.5	-2.1	0.6	0.8	1.2	1.4	0.5	2.1	1.6	1.8
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	15.7	10.4	11.9	10.6	8.4	4.4	3.0	2.7	3.2
Denmark	10.2	3.5	3.7	3.9	8.9	8.7	3.8	2.7	2.3	2.4	1.2	-1.9	2.0	2.3	1.5	2.9	2.1	1.8	2.6	2.5
Finland	11.8	7.4	8.1	4.5	4.3	5.6	6.2	9.5	7.0	-2.3	-4.5	-2.1	2.4	0.3	-0.9	1.9	0.5	0.8	1.8	1.8
France	12.2	5.7	4.3	2.7	1.7	1.5	2.0	4.1	3.4	2.4	2.5	0.2	1.6	1.6	0.9	0.6	0.9	1.0	2.0	1.9
Germany	4.7	0.8	1.8	2.8	2.7	0.2	0.8	2.0	2.8	6.1	3.5	0.2	2.0	0.2	-1.0	-0.1	0.8	0.0	0.1	0.6
Greece	20.9	19.0	20.9	10.5	13.0	16.0	21.4	21.6	11.0	11.4	14.1	10.7	15.4	5.7	9.9	9.0	2.6	3.7	2.0	2.3
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	17.2	17.9	18.7	16.6	11.1	9.3	9.0	7.0
Ireland	15.1	4.0	4.0	7.3	0.5	-0.9	0.9	-0.3	4.2	3.9	4.9	0.6	-1.6	0.4	-0.2	3.2	1.9	2.2	4.2	4.2
Italy	17.2	8.6	8.4	5.4	5.3	5.5	6.5	9.7	7.9	4.3	3.2	-0.1	1.0	5.2	2.9	-2.7	2.2	1.0	1.2	1.0
Japan	7.6	1.6	0.3	1.4	-0.6	-0.5	2.2	3.2	3.8	2.5	2.0	1.8	0.2	-2.9	0.5	1.5	-1.2	-0.8	-1.2	-0.6
Korea	19.3	5.3	4.5	3.0	7.7	10.4	11.8	13.7	13.6	7.4	6.6	7.4	9.5	6.4	-0.3	0.7	3.2	4.4	3.1	1.6
Mexico	..	..	..	..	..	..	25.5	28.1	28.9	21.9	15.7	10.1	21.3	21.4	17.1	15.0	11.8	9.3	6.9	4.9
Netherlands	5.9	-2.8	0.4	1.6	1.9	0.0	-1.7	1.7	3.7	3.7	2.1	-1.2	1.0	0.8	1.7	2.4	2.6	2.4	3.3	2.9
New Zealand	13.7	0.2	14.7	18.5	13.4	6.4	2.6	2.2	0.8	0.5	-1.1	0.1	2.1	2.4	1.9	0.9	-0.3	0.7	1.9	1.5
Norway	8.2	3.1	5.4	9.0	10.3	6.5	0.2	1.6	1.5	0.6	-1.3	-0.4	2.0	2.0	3.4	7.5	5.4	2.3	4.4	3.8
Poland	..	..	..	..	..	..	..	..	..	..	..	28.5	32.0	22.8	16.2	12.1	4.6	6.7	7.1	7.3
Portugal	21.5	20.5	17.4	15.2	9.3	11.2	12.3	16.0	18.0	11.9	6.2	1.1	3.1	1.2	3.0	7.5	5.3	4.2	4.0	3.9
Spain	16.3	5.5	5.1	9.2	6.0	6.3	7.7	10.5	9.3	7.3	5.0	0.1	2.3	3.2	2.3	2.7	3.1	2.9	3.1	2.8
Sweden	10.9	4.8	6.9	6.9	5.1	7.3	9.9	10.8	6.3	0.4	0.6	-0.2	0.7	5.1	0.6	1.6	-0.1	2.2	2.7	3.6
Switzerland	4.6	1.1	2.5	4.4	4.1	2.7	2.5	4.9	8.2	3.5	1.4	0.5	1.9	0.1	0.3	-0.5	0.3	0.0	1.2	1.6
United Kingdom	13.3	4.3	4.6	3.5	3.8	6.2	9.0	9.6	7.5	3.9	0.4	-0.6	1.3	2.5	3.3	4.3	4.0	2.0	2.9	2.8
United States	7.3	3.0	3.5	2.5	3.7	3.6	2.4	4.5	3.6	2.4	1.9	1.2	1.9	1.0	1.3	2.7	2.0	1.2	2.6	2.8
Euro area [b]	10.5	4.5	4.7	4.4	3.4	2.4	3.1	5.5	5.0	5.1	4.5	0.4	2.3	1.3	0.6	0.5	1.5	1.0	1.4	1.5
European Union [b]	11.6	4.9	5.0	4.4	3.8	3.7	4.7	6.6	5.8	4.6	2.9	0.1	1.8	2.1	1.4	1.2	2.0	1.2	1.7	1.8
Total OECD	9.4	3.5	3.6	3.3	3.3	3.3	4.4	6.1	5.5	3.9	2.7	1.7	2.9	2.1	2.0	2.4	1.9	1.4	2.0	2.0
Memorandum item																				
OECD *less* high inflation countries [c]	9.4	3.4	3.5	3.3	3.2	3.2	3.6	5.3	4.7	3.2	2.2	1.0	1.8	1.1	1.2	1.8	1.5	1.1	1.7	1.8

Note: Calculated on national account data. 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, a growing number of countries are using chain-weighted price indices. 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/index.htm).*

a) Average 1975-83 in the case of Korea.

b) Luxembourg excluded.

c) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of GDP deflator on average during the 1990s. Consequently, Greece, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

Annex Table 14. **GDP deflators**

Percentage change from previous period

	Average 1973-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	11.3	6.0	5.7	6.3	7.7	8.6	7.0	4.9	2.4	1.3	1.6	0.8	1.5	2.2	1.6	0.1	1.0	3.4	2.8	2.6
Austria	6.1	4.6	3.1	2.7	2.1	1.6	2.7	3.4	3.7	4.3	2.8	2.8	2.3	1.3	1.6	0.6	0.9	0.5	1.5	1.8
Belgium	7.1	5.1	4.6	3.0	1.4	2.3	4.9	3.0	2.8	3.6	3.7	1.8	1.8	1.2	1.3	1.6	1.0	1.7	2.0	1.9
Canada	9.3	3.4	2.5	2.8	4.8	4.5	4.6	3.1	2.7	1.3	1.5	1.1	2.3	1.7	1.0	-0.6	1.6	3.3	2.4	2.0
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	11.0	10.2	8.6	7.2	10.2	2.4	1.9	3.4	4.3
Denmark	9.8	5.7	4.3	4.6	4.7	3.4	5.2	3.6	2.8	2.9	1.4	1.7	1.8	2.5	1.6	2.1	2.7	2.8	2.7	2.6
Finland	11.3	8.5	5.5	4.3	4.2	8.1	6.1	5.4	1.8	0.9	2.3	2.0	4.1	-0.2	2.1	3.1	0.7	1.3	2.1	2.1
France	10.9	7.2	5.5	5.1	2.9	3.2	3.3	2.9	3.0	2.0	2.4	1.8	1.7	1.4	1.2	0.8	0.3	0.9	1.7	2.3
Germany	4.5	2.1	2.1	3.2	1.9	1.5	2.4	3.2	3.9	5.0	3.7	2.5	2.0	1.0	0.8	1.1	0.9	0.0	1.0	1.4
Greece	17.4	20.3	17.7	17.5	14.2	15.5	14.5	20.6	19.8	14.9	14.4	11.2	9.8	7.4	6.8	5.2	2.9	3.0	2.4	2.6
Hungary	..	..	..	..	..	..	..	..	..	..	..	19.5	25.6	21.2	18.5	12.6	9.0	7.9	6.6	5.7
Iceland	45.9	25.4	31.3	25.5	19.5	22.9	19.8	16.9	7.6	3.7	2.3	1.9	2.7	1.9	3.5	5.3	3.8	4.2	4.8	5.2
Ireland	14.2	6.4	5.2	6.6	2.2	3.2	5.5	-0.7	1.8	2.8	5.2	1.7	3.0	2.3	4.4	5.8	3.8	4.8	4.6	3.8
Italy	17.5	11.5	8.9	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	1.5	1.8	2.2	2.0
Japan	6.2	2.6	2.1	1.7	0.1	0.7	2.0	2.3	2.7	1.7	0.6	0.2	-0.6	-1.4	0.3	0.3	-0.9	-1.5	-0.4	-0.2
Korea	19.1	5.5	4.6	4.6	5.0	6.7	5.3	11.1	10.9	7.7	7.0	7.6	7.1	3.9	3.1	5.1	-1.6	-0.9	2.0	1.5
Luxembourg	7.3	4.4	3.0	0.7	2.8	0.6	4.3	5.2	2.3	2.6	0.6	4.8	0.3	1.7	3.3	1.5	2.3	2.6	2.8	2.1
Mexico	31.5	58.8	56.5	73.4	140.7	101.2	26.5	28.1	23.3	14.4	9.5	8.5	38.0	30.6	17.7	15.5	15.9	10.1	7.7	5.8
Netherlands	6.2	1.4	1.8	0.1	-0.7	1.2	1.2	2.3	2.7	2.3	1.9	2.3	1.8	1.2	2.0	2.0	1.6	3.0	3.9	2.6
New Zealand	12.8	6.1	15.4	15.3	13.1	8.1	6.7	3.8	1.0	1.7	2.7	1.5	2.7	1.8	0.0	1.7	0.1	2.2	2.9	2.0
Norway	9.1	6.3	5.2	-0.9	6.9	5.0	5.7	3.8	2.5	-0.4	1.8	-0.2	3.1	4.3	3.0	-0.8	6.6	16.1	7.5	1.0
Poland	..	..	..	..	..	..	..	..	..	..	..	37.2	28.0	18.7	14.0	11.8	7.1	10.0	9.2	9.5
Portugal	20.3	24.7	21.7	20.5	10.1	11.8	12.4	12.8	12.2	10.0	6.7	6.3	5.1	3.3	3.0	4.0	2.7	2.3	3.0	3.1
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	13.8	9.7	4.5	6.6	5.1	6.6	6.0	5.7	5.1
Spain	16.1	11.6	7.7	11.1	5.8	5.6	7.1	7.3	7.1	6.9	4.3	4.0	4.8	3.5	2.2	2.3	2.9	2.9	2.9	2.9
Sweden	10.4	7.1	6.6	6.7	4.9	7.0	7.7	8.6	7.6	1.3	2.7	2.4	3.5	1.4	1.2	1.3	0.5	0.7	1.9	2.7
Switzerland	3.9	3.5	2.4	3.1	2.7	2.8	3.1	4.3	6.0	2.7	2.7	1.6	1.1	0.4	-0.2	0.2	0.6	1.0	1.6	1.8
Turkey	38.0	48.2	53.1	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	56.0	50.1	22.4	15.8
United Kingdom	13.9	4.6	5.6	3.1	5.2	6.0	7.5	7.7	6.7	4.0	2.7	1.5	2.5	3.3	2.9	3.0	2.5	2.0	2.5	2.6
United States	7.4	3.7	3.2	2.2	3.0	3.4	3.8	3.9	3.6	2.4	2.4	2.1	2.2	1.9	1.9	1.3	1.5	2.1	2.2	2.3
Euro area	10.0	6.7	5.4	5.5	3.5	3.8	4.3	4.9	4.7	4.4	3.6	2.8	2.9	2.1	1.6	1.7	1.2	1.2	1.9	2.0
European Union	11.3	6.9	5.8	5.5	4.0	4.5	5.1	5.6	5.4	4.3	3.5	2.7	3.0	2.5	1.9	2.0	1.5	1.4	2.0	2.2
Total OECD	10.5	7.2	6.5	6.3	8.0	7.8	6.1	6.2	5.8	4.5	4.0	4.6	5.2	4.2	3.7	3.3	2.5	2.6	2.4	2.3
Memorandum item																				
OECD *less* high inflation countries [a]	9.2	4.7	4.0	3.5	3.1	3.6	4.1	4.4	4.2	3.0	2.6	2.1	2.2	1.7	1.7	1.4	1.0	1.3	1.8	1.9

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, a growing number of 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/index.htm).*

a) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of GDP deflator on average during the 1990s. Consequently, Greece, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

Annex Table 15. **Private consumption deflators**

Percentage change from previous period

	Average 1973-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	11.4	6.4	6.8	7.7	8.6	7.6	5.5	6.3	4.4	2.3	2.4	1.0	2.0	2.0	1.6	1.0	0.6	4.0	3.4	2.8
Austria	6.1	5.3	3.3	1.7	0.7	1.6	2.7	3.5	3.0	3.9	3.3	3.3	1.5	2.3	1.8	0.7	0.7	2.1	1.9	1.8
Belgium	7.8	5.3	5.7	-0.1	2.1	1.0	3.9	2.8	2.6	1.9	2.7	2.5	1.7	2.2	1.6	1.0	1.2	2.6	1.9	1.6
Canada	9.3	4.3	3.8	4.1	3.9	3.9	4.3	4.1	4.8	1.5	2.3	0.9	1.2	1.7	1.8	1.0	1.3	1.7	2.3	2.1
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	10.7	9.2	8.1	7.7	9.6	2.0	4.0	4.2	4.2
Denmark	10.5	6.4	4.3	2.9	4.6	4.0	4.7	2.9	2.8	1.9	2.0	3.0	1.9	2.1	2.0	1.8	2.6	2.9	2.7	2.6
Finland	11.6	6.9	5.5	2.8	3.1	4.8	5.3	5.5	5.9	4.1	3.9	0.9	0.4	1.4	1.3	1.9	1.7	3.2	2.6	2.2
France	11.4	8.0	6.0	2.8	3.4	2.9	3.8	3.1	3.5	2.5	2.5	2.2	2.0	1.9	1.4	0.7	0.7	1.5	2.1	2.0
Germany	4.8	2.5	1.8	-0.6	0.5	1.3	2.9	2.7	3.7	4.4	3.9	2.6	1.9	1.7	2.0	1.1	0.3	1.5	1.6	1.6
Greece	17.3	17.9	18.3	22.1	15.7	14.1	13.6	19.9	19.7	15.7	14.2	11.0	8.9	8.2	5.5	4.5	2.4	2.9	2.7	2.5
Hungary	..	..	..	..	..	..	..	..	..	..	..	19.4	27.7	23.4	18.0	13.3	10.5	9.6	7.8	5.8
Iceland	47.4	31.4	32.6	20.1	15.9	25.5	23.2	16.7	6.7	3.6	3.6	1.4	1.9	2.4	1.9	1.0	3.3	5.0	5.9	4.9
Ireland	15.2	7.4	5.0	4.6	2.4	3.8	4.1	2.1	2.7	3.0	2.2	2.8	2.8	2.6	2.6	3.8	3.3	6.5	4.8	3.8
Italy	17.1	11.6	9.1	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	2.2	2.7	2.5	2.0
Japan	7.4	2.6	2.3	0.7	0.5	0.5	2.1	2.6	2.5	1.9	1.2	0.7	-0.5	0.1	1.7	0.2	-0.5	-0.5	0.0	-0.1
Korea	19.0	3.6	3.9	1.7	3.3	5.6	5.4	9.4	12.1	8.9	8.0	9.7	7.0	5.7	5.5	7.8	0.4	2.5	3.5	2.8
Luxembourg	7.8	6.5	4.3	-2.4	1.0	0.7	2.0	1.6	2.9	2.6	2.5	3.6	1.1	1.7	1.7	1.7	1.4	3.1	2.3	2.1
Mexico	29.9	65.5	59.2	82.0	135.1	109.1	25.0	27.9	24.4	15.4	10.1	7.6	34.1	30.4	16.5	20.5	16.4	9.3	7.2	5.5
Netherlands	6.5	1.9	2.4	0.3	0.2	0.5	1.2	2.2	3.2	3.1	2.1	2.8	1.6	1.9	2.0	1.8	1.9	3.0	4.1	2.5
New Zealand	13.7	7.2	17.3	12.8	12.9	6.5	6.8	6.1	2.9	1.4	1.8	1.7	2.5	2.0	1.0	2.0	1.2	1.8	2.9	2.0
Norway	9.3	6.3	5.9	6.7	7.8	6.1	4.8	4.7	3.8	2.7	1.9	1.2	2.4	1.5	2.5	2.7	2.2	3.0	2.8	2.6
Poland	..	..	..	..	..	..	..	..	..	..	..	37.9	27.2	20.0	14.8	11.5	7.2	10.2	8.4	7.2
Portugal	22.0	28.5	19.4	13.8	9.9	11.7	13.1	12.4	12.2	9.7	6.6	5.6	4.5	3.0	2.1	2.6	2.3	2.7	3.0	2.9
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	13.1	10.2	5.2	6.0	6.1	10.2	9.5	7.5	7.0
Spain	16.6	11.9	7.1	9.4	5.7	5.0	6.6	6.5	6.4	6.4	5.6	4.9	4.7	3.5	2.4	2.0	2.4	3.4	3.2	2.9
Sweden	11.0	7.7	7.0	5.2	5.6	6.1	7.0	9.9	10.3	2.2	5.7	2.8	2.9	1.4	2.2	1.0	0.7	1.0	1.8	2.3
Switzerland	4.3	3.0	3.3	1.3	1.5	1.9	2.9	5.2	6.0	4.2	3.4	1.1	1.7	1.1	0.6	-0.3	0.3	1.7	1.8	1.7
Turkey	38.1	49.0	50.9	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	60.7	54.3	22.5	11.8
United Kingdom	13.4	5.1	5.2	4.0	4.2	5.0	6.2	7.8	7.9	4.7	3.5	2.2	2.9	3.2	2.5	2.4	2.0	1.4	2.4	2.3
United States	7.6	3.7	3.5	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	1.8	2.5	2.1	2.2
Euro area	10.4	7.3	5.6	3.4	3.1	3.4	4.6	4.5	4.7	4.6	4.2	3.4	3.0	2.5	2.0	1.4	1.2	2.2	2.3	2.0
European Union	11.5	7.3	5.8	3.8	3.5	3.9	5.0	5.2	5.6	4.5	4.1	3.3	3.1	2.7	2.1	1.6	1.4	2.1	2.3	2.1
Total OECD	10.7	7.6	6.8	5.8	8.2	7.7	6.3	6.4	6.2	5.0	4.3	5.0	5.2	4.4	4.1	3.5	2.8	3.1	2.6	2.2
Memorandum item																				
OECD *less* high inflation countries [a]	9.4	4.9	4.2	2.7	3.2	3.4	4.3	4.6	4.5	3.5	2.9	2.5	2.3	2.1	2.1	1.4	1.2	1.9	2.0	1.9

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, a growing number of 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/index.htm)*.

a) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of GDP deflator on average during the 1990s. Consequently, Greece, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

Annex Table 16. **Consumer prices index**[a]

Percentage change from previous period

	Average 1970-80	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Australia	10.4	9.6	11.2	10.1	3.9	6.7	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
Austria	6.2	6.8	5.4	3.3	5.7	3.2	1.7	1.5	1.9	2.6	3.3	3.3	4.0	3.6	3.0	2.2	1.5	1.3	0.9	0.6
Belgium	7.4	7.6	8.7	7.7	6.3	4.9	1.3	1.6	1.2	3.1	3.4	3.2	2.4	2.8	2.4	1.5	2.1	1.6	1.0	1.1
Canada	8.0	12.4	10.8	5.9	4.3	4.0	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
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..	10.0	9.1	8.8	8.5	10.7	2.1
Denmark	9.8	11.8	10.1	6.9	6.3	4.7	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
Finland	11.1	11.3	9.6	8.4	7.1	5.2	2.9	4.1	5.1	6.6	6.1	4.3	2.9	2.2	1.1	0.8	0.6	1.2	1.4	1.2
France	9.6	13.3	12.0	9.5	7.7	5.8	2.5	3.3	2.7	3.5	3.6	3.2	2.4	2.1	1.7	1.8	2.0	1.2	0.8	0.5
Germany	5.1	6.3	5.2	3.3	2.4	2.1	-0.1	0.2	1.3	2.8	2.7	3.6	5.1	4.4	2.8	1.7	1.4	1.9	0.9	0.6
Greece	14.3	24.5	21.0	20.2	18.5	19.3	23.0	16.4	13.5	13.7	20.4	19.5	15.9	14.4	10.7	8.9	8.2	5.5	4.8	2.6
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	..	..	18.9	28.3	23.5	18.3	14.2	10.0
Iceland[b]	32.8	50.6	50.0	85.2	28.9	32.5	21.2	17.8	25.7	20.8	15.9	6.8	3.7	4.1	1.5	1.7	2.3	1.8	1.7	3.4
Ireland	13.6	20.4	17.1	10.5	8.6	5.5	3.8	3.1	2.1	4.1	3.3	3.2	3.1	1.4	2.3	2.5	1.7	1.4	2.4	1.6
Italy[c]	13.8	18.0	16.5	14.6	10.8	9.2	5.8	4.7	5.1	6.3	6.5	6.3	5.3	4.6	4.1	5.2	4.0	2.0	2.0	1.7
Japan	9.0	4.9	2.7	1.9	2.3	2.0	0.6	0.1	0.7	2.3	3.1	3.3	1.7	1.2	0.7	-0.1	0.1	1.7	0.6	-0.3
Korea	..	..	..	..	..	..	..	..	..	..	8.6	9.3	6.2	4.8	6.3	4.5	4.9	4.4	7.5	0.8
Luxembourg	6.6	8.1	9.4	8.7	6.4	4.1	0.3	-0.1	1.4	3.4	3.3	3.1	3.2	3.6	2.2	1.9	1.3	1.4	1.0	1.0
Mexico	16.5	28.0	59.0	102.3	65.3	57.8	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
Netherlands	7.3	6.7	5.9	2.7	3.3	2.3	0.1	-0.7	0.7	1.1	2.5	3.2	3.2	2.6	2.8	1.9	2.0	2.2	2.0	2.2
New Zealand	12.5	15.4	16.2	7.3	6.2	15.4	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
Norway	8.4	13.7	11.3	8.4	6.3	5.7	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
Poland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	32.2	27.8	19.9	14.9	11.6	7.3
Portugal	19.1	20.0	22.7	25.1	28.9	19.6	11.8	9.4	9.7	12.6	13.4	10.5	9.4	6.7	5.4	4.2	3.1	2.3	2.8	2.3
Slovak Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..	13.4	9.9	5.8	6.1	6.7	10.6
Spain	15.3	14.5	14.4	12.2	11.3	8.8	8.8	5.2	4.8	6.8	6.7	5.9	5.9	4.6	4.7	4.7	3.6	2.0	1.8	2.3
Sweden	9.2	12.1	8.6	8.9	8.0	7.4	4.2	4.2	6.1	6.6	10.4	9.7	2.6	4.7	2.4	2.9	0.8	0.9	0.4	0.3
Switzerland	5.0	6.5	5.7	2.9	2.9	3.4	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
Turkey[d]	33.4	37.6	29.1	31.4	48.4	45.0	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
United Kingdom	13.7	11.9	8.6	4.6	5.0	6.1	3.4	4.1	4.9	7.8	9.5	5.9	3.7	1.6	2.5	3.4	2.4	3.1	3.4	1.6
United States[e]	7.8	10.3	6.1	3.2	4.3	3.5	1.9	3.7	4.1	4.8	5.4	4.2	3.0	3.0	2.6	2.8	2.9	2.3	1.6	2.2
European Union	10.4	11.8	10.3	8.0	6.9	5.8	3.2	3.0	3.4	4.9	5.4	4.8	4.3	3.4	2.9	2.9	2.4	2.0	1.7	1.2
Total OECD	9.7	11.3	9.6	8.7	7.8	6.8	5.8	8.0	8.4	6.2	6.9	6.2	5.0	4.3	5.0	5.6	5.1	4.5	3.8	3.2
Memorandum item																				
OECD *less* high inflation countries[f]	8.9	10.2	7.5	5.0	4.9	4.3	2.4	3.1	3.4	4.6	5.2	4.5	3.3	2.9	2.5	2.6	2.4	2.1	1.6	1.4

a) Aggregates were computed using weights based on 1997 consumer expenditure expressed in private consumption purchasing power parities.
b) Excluding rent, but including imputed rent.
c) Index for households of wage and salary earners.
d) Until 1981: Istanbul index (154 items); from 1982, Turkish index.
e) The methodology for calculating the Consumer Price Index has changed considerably over the past years, lowering measured inflation substantially.
f) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of GDP deflator on average during the 1990s. Consequently, Greece, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

Annex Table 17. **Oil and other primary commodity markets**

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Oil market conditions[a]																		
(in million barrels per day)																		
Demand																		
OECD[b]	37.7	38.6	39.4	40.7	41.3	41.6	41.9	42.9	43.2	44.4	44.9	45.9	46.7	46.8	47.6	47.8	48.8	..
of which: North America	19.3	19.6	20.1	20.8	21.0	20.8	20.5	20.8	21.1	21.7	21.6	22.2	22.7	23.1	23.9	24.1	24.6	..
Europe[c]	12.7	13.2	13.3	13.5	13.5	13.7	14.0	14.2	14.2	14.3	14.6	14.9	15.0	15.3	15.1	15.1	15.3	..
Pacific	5.7	5.8	6.0	6.4	6.8	7.2	7.5	7.9	8.0	8.4	8.7	8.8	9.0	8.4	8.6	8.7	9.0	..
Non-OECD[d]	22.4	23.0	23.7	24.3	24.8	24.7	24.8	24.4	24.4	23.7	24.4	25.3	26.5	26.7	27.1	27.8	28.8	..
Total	60.2	61.6	63.1	65.0	66.08	66.4	66.7	67.2	67.6	68.2	69.3	71.2	73.1	73.5	74.7	75.6	77.6	..
Supply																		
OECD[b]	20.1	19.7	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	22.0	22.4	..
OPEC total	17.2	19.5	19.3	21.3	23.3	24.5	24.7	25.9	26.7	27.0	27.6	28.4	29.9	30.8	29.4	30.5	..	..
Former USSR	11.9	12.3	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	8.2	..
Other non-OECD[d]	10.0	10.5	10.7	11.3	11.7	12.0	12.2	12.7	12.9	13.5	14.3	14.8	15.2	15.5	15.7	15.7	15.8	..
Total	59.3	62.0	62.4	64.8	66.1	66.9	66.8	67.2	67.5	68.6	70.2	72.0	74.3	75.5	74.1	76.2	..	..
Trade																		
OECD net imports[b]	17.4	19.3	19.9	20.9	22.5	22.9	22.4	23.1	23.5	23.8	23.4	24.2	24.9	25.3	25.4	25.9	26.5	..
Former USSR net exports	3.0	3.4	3.6	3.6	3.5	3.1	2.2	2.0	2.0	2.7	2.8	3.1	3.4	3.6	4.0	4.4	4.8	..
Other non-OECD net exports[d]	14.3	15.8	16.3	17.3	19.0	19.8	20.1	21.1	21.4	21.1	20.7	21.1	21.4	21.7	21.4	21.5	21.7	..
Prices[e,f]																		
OECD crude oil import price																		
(cif, $ per bl)	27.5	15.0	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	28.3	29.5	27.5
Prices of other primary commodities[e,f]																		
(US$ indices)																		
Food and tropical beverages	94	97	80	94	88	79	74	72	73	98	100	99	104	91	74	69	68	69
of which: Food	87	73	71	99	96	85	83	87	88	95	100	118	104	91	77	77	80	81
Tropical beverages	98	114	86	90	82	75	68	62	63	100	100	86	103	91	72	63	60	61
Agricultural raw materials	50	58	72	80	82	90	78	79	75	86	100	86	83	71	71	76	81	83
Minerals, ores and metals	69	69	78	112	107	99	88	85	74	85	100	90	91	78	75	84	87	88
Total	67	71	76	94	92	90	80	79	74	89	100	90	91	78	73	77	80	81
Memorandum item																		
Export prices of OECD																		
manufactures (dollar index)	59	70	79	84	84	91	90	93	89	91	100	97	90	86	84	79	77	78

a) Based on data published in International Energy Agency, *Oil Market Report*, October 2000 ; *Annual Statistical Supplement*, August 2000.
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 1999 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 2000 to 2002.
f) By technical assumption, prices are projected to rise broadly in line with OECD manufactured export prices for 2001and 2002.
Source*:* OECD.

Annex Table 18. **Labour force**

Percentage change from previous period

	1997 Labour force (thousands)	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	9 251	1.8	2.7	3.5	2.2	2.6	3.6	2.4	0.6	0.7	0.6	1.7	2.8	1.3	0.9	1.2	1.4	2.4	2.2	2.1
Austria	4 161	0.0	0.5	0.7	0.3	0.4	1.2	2.3	2.3	1.6	0.4	0.0	-0.3	-0.1	0.6	1.0	0.9	0.6	0.6	0.6
Belgium	4 204	0.1	-0.3	0.5	0.3	0.5	-0.4	0.0	0.0	0.2	1.0	1.0	0.6	0.2	0.5	1.3	0.3	0.6	0.7	0.7
Canada	15 151	2.0	2.1	1.9	1.9	2.0	1.8	0.7	0.6	0.2	1.0	0.8	0.9	1.0	1.7	1.8	2.0	1.8	1.6	1.4
Czech Republic	5 133	..	..	..	..	..	..	..	..	..	..	1.1	0.6	0.0	0.3	0.4	0.2	-0.5	-0.3	0.0
Denmark	2 832	2.2	1.3	1.3	0.2	1.9	0.1	0.9	0.3	0.4	-1.2	-2.7	0.9	0.6	0.3	0.0	0.8	0.7	0.7	0.6
Finland	2 476	0.7	0.8	0.1	-0.6	-0.3	1.5	0.0	-1.6	-1.8	-0.9	-0.5	0.8	0.3	-0.2	0.9	2.0	1.5	1.1	1.1
France	25 796	0.6	0.5	0.6	0.5	0.5	0.8	0.3	0.6	0.4	0.3	0.7	0.1	1.0	0.7	0.6	1.0	0.4	0.8	0.7
Germany	41 082	0.2	0.8	1.0	0.7	0.8	0.7	2.2	1.7	-0.5	0.0	0.5	-0.1	0.4	0.8	0.4	0.3	0.9	0.3	0.1
Greece	4 201	0.7	0.6	-0.1	-0.1	2.0	0.2	0.8	-1.7	2.5	2.1	1.8	1.3	-0.7	-0.4	5.1	0.2	0.4	0.4	0.6
Hungary	3 916	..	..	..	..	..	..	..	..	..	..	-4.6	-2.5	-0.9	-1.0	0.4	2.6	0.7	1.0	1.0
Iceland	134	1.6	3.3	2.9	5.6	-2.8	-0.4	-0.9	-0.3	0.1	0.6	0.9	1.1	2.3	0.6	2.2	1.8	1.4	1.0	1.0
Ireland	1 539	0.0	0.8	0.0	0.4	-0.7	-1.5	1.8	1.7	1.3	2.3	2.1	1.9	3.3	2.1	6.9	4.0	3.5	3.5	3.5
Italy	22 715	1.1	0.4	1.8	0.1	0.8	-0.4	0.0	0.1	-0.8	-1.6	-0.5	0.0	0.5	0.5	1.2	0.8	0.5	0.4	0.4
Japan	67 875	0.7	0.6	1.0	1.0	1.4	1.7	1.8	1.9	1.1	0.6	0.5	0.3	0.7	1.1	0.1	-0.2	-0.4	0.3	0.4
Korea	21 662	-0.8	4.0	3.4	4.7	2.6	4.1	2.9	3.1	2.0	1.9	2.6	2.2	1.9	2.0	-1.0	0.8	1.6	1.8	1.4
Luxembourg	177	0.6	-0.2	1.0	1.5	1.5	1.4	1.4	1.4	0.4	0.0	1.4	1.2	1.3	1.5	1.4	2.3	2.2	1.8	1.6
Mexico[a]	18 433	..	..	..	..	4.3	2.9	1.7	5.4	2.2	2.2	2.3	2.3	5.6	3.4	2.1	0.7	3.2	2.9	2.7
Netherlands	6 775	0.1	-0.2	1.6	1.2	2.0	1.0	2.0	2.0	1.6	1.9	1.0	1.9	1.6	2.2	1.8	1.9	1.8	1.7	1.6
New Zealand	1 859	1.9	2.5	0.1	0.9	-1.6	-1.0	1.6	1.5	0.9	1.7	3.1	3.1	3.5	1.0	0.3	0.7	0.3	0.9	1.0
Norway	2 287	1.0	1.7	2.9	2.0	0.5	-1.3	-0.6	-0.7	0.2	0.0	1.0	1.7	2.4	2.1	1.6	0.5	0.8	0.7	0.7
Poland	17 100	..	..	..	..	..	..	..	..	..	..	-1.1	-0.4	0.0	0.1	0.4	-0.1	0.8	0.8	0.8
Portugal	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1.3	1.1	1.1	1.1
Spain[b]	16 121	0.6	0.8	1.7	2.4	1.6	1.3	1.4	0.4	0.5	1.1	1.0	0.5	0.9	1.1	0.9	1.0	2.6	2.1	1.5
Sweden	4 263	0.4	-0.5	0.4	0.6	1.0	1.2	1.1	-0.7	-1.9	-2.7	-1.2	1.3	-0.2	-1.1	-0.2	1.2	1.1	0.7	0.6
Switzerland	3 991	1.2	1.8	2.1	2.4	2.5	2.5	3.2	2.4	-0.2	1.1	-0.1	-0.2	0.7	0.2	-0.1	-0.4	0.7	0.7	0.7
Turkey [c]	22 448	1.4	1.2	2.7	2.8	1.6	2.8	1.1	1.6	0.3	-0.2	3.2	2.3	1.1	-2.1	2.7	3.3	2.5	2.4	2.4
United Kingdom	28 872	2.2	1.3	0.3	0.9	1.5	0.5	0.1	-0.5	0.1	-0.3	-0.1	0.4	0.4	0.4	0.5	1.4	0.6	0.6	0.5
United States	136 290	1.8	1.7	2.1	1.7	1.5	1.8	1.6	0.4	1.4	0.8	1.4	1.0	1.2	1.8	1.0	1.2	1.1	0.9	1.0
Euro area	133 857	0.5	0.5	1.1	0.7	0.8	0.6	1.1	0.9	0.1	0.1	0.5	0.2	0.6	0.8	1.1	0.8	1.0	0.8	0.7
European Union	165 216	0.9	0.7	0.9	0.7	1.0	0.6	0.9	0.5	0.0	-0.1	0.3	0.3	0.6	0.7	0.9	0.9	0.9	0.8	0.7
Total OECD	490 745	1.1	1.2	1.6	1.4	1.5	1.5	1.4	1.0	0.8	0.5	0.9	0.8	1.0	1.1	0.9	1.0	1.0	1.0	1.0

Note: The labour force includes all employed plus all unemployed persons. Unemployment is recorded on the basis of commonly used definitions, (see Annex Table 21). See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods/index.htm).*

a) Data based on the National Survey of Urban Employment; see *OECD Economic Outlook* Sources and Methods.

b) Rebased; see *OECD Economic Outlook* Sources and Methods.

c) The figures incorporate important revisions to Turkish data; see *OECD Economic Outlook* Sources and Methods.

Source: OECD.

Annex Table 19. **Labour force participation rate**

	Average 1973-83	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	70.2	69.9	70.6	71.7	71.9	72.5	73.8	74.4	74.0	73.7	73.5	74.0	75.2	75.2	74.8	74.7	74.6	75.5	76.2	76.9
Austria	78.2	74.4	74.4	74.7	74.8	75.0	75.7	76.5	77.2	78.0	77.0	76.8	76.4	76.2	76.5	77.1	77.6	77.8	78.1	78.3
Belgium	62.0	60.9	60.7	60.9	61.0	61.1	60.9	60.9	60.9	61.0	61.5	62.0	62.3	62.4	62.7	63.5	63.7	64.0	64.5	64.9
Canada	70.4	74.2	75.1	75.8	76.5	77.3	77.8	77.7	77.2	76.4	76.1	76.0	75.8	75.6	75.9	76.3	76.9	77.4	77.7	77.8
Czech Republic	..	..	..	..	..	..	..	..	..	..	80.9	81.1	81.1	80.7	80.7	80.6	80.4	79.9	79.6	79.4
Denmark	77.1	80.1	80.9	81.7	81.4	82.7	82.5	82.9	82.8	82.8	81.6	79.2	79.6	79.7	79.8	79.7	80.3	80.6	81.0	81.4
Finland	73.9	76.3	76.6	76.6	76.1	75.9	77.0	76.8	75.3	73.6	72.7	72.1	72.5	72.6	72.3	72.6	73.7	74.7	75.4	76.1
France	68.0	66.6	66.4	66.5	66.5	66.4	66.6	66.5	66.7	66.7	66.6	66.9	66.7	67.1	67.3	67.6	68.0	68.1	68.3	68.5
Germany	68.2	66.9	67.4	67.9	68.4	68.6	68.5	69.1	73.9	73.1	72.7	72.9	72.8	72.9	73.4	73.6	73.9	74.6	74.9	75.0
Greece	57.0	59.8	59.6	59.1	58.7	59.5	59.2	59.2	57.3	58.1	58.9	59.6	60.1 |	59.6	59.2	61.8	61.8	61.8	61.9	62.0
Hungary	..	..	..	..	..	..	..	..	..	..	61.8	59.0	57.6	57.2	56.7	57.1	58.7	59.0	59.6	60.1
Iceland	74.0	77.7	79.4	81.0	84.2	80.2	78.9	77.5	76.2	75.5	75.4	75.4	75.7	76.8	76.6	77.1	77.5	77.6	77.7	77.9
Ireland	63.0	62.7	62.7	62.5	62.4	61.8	61.1	62.0	62.2	62.0	62.7	63.0	63.1	64.1	64.2	67.2	68.6	69.7	71.1	72.5
Italy	59.8	59.5	59.2	60.2	60.0	60.3	59.9	59.6	59.5	59.0	57.9	57.4	57.4	57.7	58.0	58.8	59.3	59.7	60.1	60.6
Japan	71.4	72.5	72.3	72.2	72.3	72.5	73.1	74.1	75.2	75.7	76.0	76.4	76.5	77.0	78.0	78.2	78.1	78.0	78.4	78.9
Korea	..	57.4	58.3	58.9	60.3	60.5	61.9	62.4	63.4	63.7	64.1	64.9	65.4	65.6	66.1	64.7	64.7	64.9	65.4	65.7
Luxembourg	..	60.7	60.2	60.4	60.9	61.5	61.9	62.0	62.3	62.0	61.4	61.7	61.8	62.3	62.6	62.8	63.5	64.0	64.5	64.9
Mexico [a]	..	..	..	..	51.1	51.6	51.8	51.8	53.3	53.8	55.2	54.7	55.3	55.3	56.2	56.5	55.7	56.4	56.8	57.2
Netherlands	58.3	56.8	56.0	56.4	56.5	57.2	57.4	58.2	59.0	59.6	60.5	60.8	61.7	62.5	63.7	64.5	65.5	66.4	67.2	67.9
New Zealand	65.7	65.5	66.5	66.2	66.1	64.6	63.5	63.8	63.8	63.3	63.3	64.1	64.9	65.8	65.6	65.2	65.3	64.9	64.8	64.8
Norway	73.7	76.7	77.5	79.2	80.3	80.1	78.7	78.0	77.1	76.9	76.5	76.8	77.7	79.2	80.4	81.1	81.2	81.5	81.6	81.6
Poland	..	..	..	..	..	..	..	..	..	..	68.8	67.6	66.9	66.5	66.1	65.8	65.1	65.4	65.6	65.8
Portugal	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	70.1	70.7	71.2	71.7	72.3
Spain [b]	62.7	60.6	60.2	60.3	61.2	61.8	61.8	62.2	62.2	62.1	62.3	62.6	62.4	62.2	62.7	63.3	64.2	65.9	67.4	68.6
Sweden	79.4	81.4	81.0	81.2	81.5	82.0	82.5	82.9	82.0	80.1	77.6	76.3	76.9	76.5	75.5	75.2	75.7	76.3	76.5	76.7
Switzerland	74.7	74.7	75.5	76.5	77.7	79.0	80.5	82.3	83.3	82.4	82.8	82.1	81.8	82.2	82.3	82.0	81.4	81.6	81.7	81.9
Turkey [c]	72.9	66.0	64.6	64.4	64.3	63.4	63.3	62.0	61.3	59.9	58.2	58.5	58.4	57.6	55.2	55.3	55.7	55.7	55.7	55.6
United Kingdom	73.8	74.0	74.8	74.8	75.2	76.3	76.6	76.5	76.0	76.0	75.7	75.4	75.3	75.3	75.3	75.3	76.0	76.2	76.4	76.6
United States	62.7	64.4	64.8	65.3	65.6	65.9	66.4	66.5	66.2	66.4	66.3 |	66.6	66.6	66.8	67.1	67.1	67.1	67.2	67.1	67.1
Euro area	64.7	63.7	63.6	63.9	64.1	64.4	64.3	64.6	66.2	65.9	65.7	65.8	65.7	65.9	66.3	66.9	67.4	68.1	68.6	69.0
European Union	66.8	66.1	66.2	66.5	66.7	67.1	67.1	67.3	68.3	68.0	67.7	67.7	67.6	67.8	68.1	68.6	69.1	69.7	70.1	70.5
Total OECD	64.4	66.5	66.6	67.0	66.6	66.8	67.2	67.3	67.8	67.8	67.7	67.8	67.8	67.9	68.0	68.2	68.3	68.5	68.8	69.0

Note: Labour force participation rates are not fully comparable across countries because of different definitions of the working-age population. In most countries, the working-age population is defined as all persons of the age of 16 to 64 years, except for Sweden, where it is 15 to 64 years, Canada, New Zealand and Turkey, where it is 15 years and more, and the United States where it is 16 years of age and more. 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/index.htm).*

a) Data based on the National Survey of Urban Employment; see *OECD Economic Outlook* Sources and Methods.

b) Rebased; see *OECD Economic Outlook* Sources and Methods.

c) The figures incorporate important revisions to Turkish data; see *OECD Economic Outlook* Sources and Methods.

Source: OECD.

Annex Table 20. **Employment**

Percentage change from previous period

	1997 Employment (thousands)	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	8 458	2.9	3.5	3.6	2.2	3.7	4.7	1.5	-2.1	-0.7	0.4	3.1	4.2	1.3	0.8	1.8	2.3	3.1	2.5	2.3
Austria	3 927	-0.1	0.2	0.4	0.0	0.6	1.5	1.9	1.9	1.5	-0.3	0.2	-0.4	-0.4	0.5	0.9	1.4	1.3	1.1	0.8
Belgium	3 808	0.0	0.5	0.6	0.6	1.7	1.2	0.9	0.1	-0.5	-0.7	-0.3	0.7	0.4	0.8	1.2	0.9	1.5	1.1	1.0
Canada	13 774	2.7	3.0	3.0	2.7	3.2	2.1	0.0	-1.8	-0.7	0.8	2.0	1.9	0.8	2.3	2.6	2.8	2.7	1.6	1.3
Czech Republic	4 884	..	..	..	..	..	..	..	..	..	..	1.1	0.9	0.1	-0.6	-1.4	-2.3	-0.6	-0.4	0.0
Denmark	2 673	2.7	2.9	3.2	0.1	1.2	-1.3	0.5	-0.6	-0.5	-2.3	-0.6	2.0	1.1	1.6	0.4	0.8	0.7	0.7	0.6
Finland	2 162	1.0	1.0	-0.2	-0.3	0.3	3.1	0.0	-5.1	-7.1	-6.1	-0.8	2.2	1.4	2.0	2.4	3.3	2.3	1.9	1.6
France	22 587	-0.9	-0.1	0.5	0.4	1.0	1.5	0.8	0.0	-0.6	-1.2	0.1	0.8	0.1	0.5	1.4	1.8	2.1	1.8	1.3
Germany	37 194	0.2	0.7	1.4	0.7	0.8	1.5	3.0	2.5	-1.5	-1.4	-0.2	0.2	-0.3	-0.2	0.9	1.1	1.6	1.1	0.8
Greece	3 792	0.4	1.0	0.4	-0.1	1.6	0.4	1.3	-2.3	1.5	0.9	1.9	0.9	-0.5	-0.3	3.4	-0.7	1.1	1.2	1.4
Hungary	3 567	..	..	..	..	..	..	..	..	..	..	-3.4	-1.9	-0.5	0.3	1.5	3.6	1.1	1.3	1.2
Iceland	129	1.4	3.6	3.1	5.8	-3.0	-1.4	-1.1	-0.1	-1.4	-0.8	0.5	0.9	3.1	1.0	3.4	2.7	2.0	0.5	0.2
Ireland	1 380	-1.8	0.6	-0.5	0.7	-0.1	0.0	4.4	-0.2	0.5	1.5	3.2	4.9	3.9	3.6	10.2	6.3	5.0	4.2	3.5
Italy	20 027	0.3	0.3	0.4	-0.3	0.5	-0.1	1.2	0.7	-1.0	-3.1	-1.6	-0.6	0.5	0.4	1.1	1.2	1.3	1.2	1.1
Japan	65 571	0.6	0.7	0.8	1.0	1.7	2.0	2.0	1.9	1.1	0.2	0.1	0.1	0.4	1.1	-0.7	-0.8	-0.4	0.3	0.4
Korea	21 106	-0.5	3.7	3.6	5.5	3.2	4.1	3.0	3.3	1.9	1.5	3.0	2.6	1.9	1.4	-5.3	1.4	4.0	2.2	1.6
Luxembourg	170	0.6	1.4	2.5	2.7	-7.0	1.5	1.6	1.3	0.2	-0.5	0.7	0.9	1.0	1.1	2.0	2.4	2.5	2.0	1.8
Mexico[a]	17 743	..	..	..	..	4.7	3.5	1.9	5.5	2.0	1.5	2.1	-0.6	6.5	5.5	2.7	1.3	3.4	2.7	2.5
Netherlands	6 400	0.5	1.3	2.5	1.6	2.3	1.8	3.0	2.6	1.6	0.7	-0.1	2.4	2.0	3.4	3.3	3.0	2.2	2.0	1.8
New Zealand	1 736	2.7	3.5	-0.4	0.8	-3.1	-2.6	0.9	-1.3	0.8	2.6	4.7	5.2	3.7	0.4	-0.6	1.4	1.0	1.0	1.0
Norway	2 195	1.3	2.3	3.5	1.9	-0.6	-3.0	-0.9	-1.0	-0.3	0.0	1.5	2.2	2.5	3.0	2.5	0.5	0.7	0.7	0.6
Poland	15 177	..	..	..	..	..	..	..	..	..	..	-1.6	0.9	1.2	1.4	1.2	-3.9	-0.5	0.8	0.8
Portugal	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1.9	1.5	1.2	1.0
Spain[b]	12 765	-1.8	-0.9	2.2	3.1	2.9	4.1	2.6	0.2	-1.9	-4.3	-0.9	1.8	1.5	2.9	3.4	4.6	4.8	3.5	2.3
Sweden	3 921	0.7	-0.3	0.7	1.0	1.4	1.5	1.0	-2.0	-4.3	-5.8	-0.9	1.6	-0.6	-1.1	1.5	2.2	2.0	1.3	1.0
Switzerland	3 803	1.0	2.0	2.3	2.5	2.6	2.7	3.2	1.9	-1.6	-0.8	-0.3	0.3	0.3	-0.3	1.2	0.6	1.4	0.8	0.7
Turkey[c]	21 008	1.6	1.7	1.9	2.3	1.5	2.6	1.7	1.7	0.2	0.2	2.8	3.7	2.0	-2.5	2.8	2.2	2.7	2.5	2.6
United Kingdom	26 999	2.0	1.1	0.1	2.6	4.3	2.4	0.3	-3.0	-2.1	-0.4	1.0	1.4	1.1	2.0	1.1	1.3	1.2	0.7	0.4
United States	129 565	4.1	2.0	2.3	2.6	2.3	2.0	1.3	-0.9	0.7	1.5	2.3	1.5	1.4	2.2	1.5	1.5	1.3	0.7	0.8
Euro area	118 509	-0.3	0.3	0.9	0.7	1.2	1.5	1.9	1.0	-0.9	-1.8	-0.3	0.5	0.3	0.8	1.8	1.8	2.1	1.6	1.3
European Union	147 807	0.2	0.5	0.8	1.0	1.7	1.6	1.5	0.0	-1.3	-1.7	-0.1	0.7	0.5	0.9	1.6	1.7	1.9	1.4	1.1
Total OECD	456 522	1.6	1.4	1.6	1.9	2.1	2.0	1.6	0.4	0.0	0.0	1.0	1.1	1.1	1.4	1.0	1.1	1.5	1.2	1.1

Note: Employment is measured as the number of persons employed full or part time and covers in most cases civilian and military employments. For the United States, only civilian employment is reported. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/Sources-and-Methods/Index.htm)*.

a) Data based on the National Survey of Urban Employment; see *OECD Economic Outlook* Sources and Methods.

b) Rebased; see *OECD Economic Outlook* Sources and Methods.

c) The figures incorporate important revisions to Turkish data; see *OECD Economic Outlook* Sources and Methods.

Source: OECD.

Annex Table 21. **Unemployment rates: commonly used definitions**

	1997 Unemployment (thousands)	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	793	8.9	8.2	8.1	8.1	7.1	6.1	7.0	9.5	10.7	10.9	9.7	8.5	8.5	8.6	8.0	7.2	6.6	6.3	6.1
Austria	234	3.5	3.7	4.0	4.3	4.1	3.8	4.2	4.5	4.7	5.4	5.2	5.2	5.6	5.6	5.7	5.2	4.6	4.2	4.0
Belgium	396	11.1	10.4	10.3	10.0	9.0	7.5	6.7	6.6	7.2	8.8	10.0	9.9	9.7	9.4	9.5	9.0	8.2	7.9	7.6
Canada	1 377	11.3	10.5	9.6	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	6.7	6.7	6.7
Czech Republic	248	..	..	..	..	..	..	..	..	..	4.3	4.4	4.1	3.9	4.8	6.5	8.8	9.0	9.1	9.0
Denmark	159	8.5	7.1	5.4	5.4	6.1	7.3	7.7	8.4	9.2	10.2	8.2	7.3	6.8	5.6	5.2	5.2	5.2	5.1	5.1
Finland	314	5.2	5.0	5.4	5.1	4.6	3.1	3.1	6.7	11.8	16.4	16.7	15.5	14.6	12.7	11.4	10.2	9.6	8.8	8.4
France	3 209	9.7	10.2	10.4	10.5	10.0	9.3	8.9	9.4	10.4	11.7	12.2	11.6	12.3	12.4	11.8	11.1	9.7	8.8	8.2
Germany	3 888	7.9	8.0	7.7	7.6	7.6	6.9	6.2	5.4	6.3	7.6	8.2	7.9	8.6	9.5	8.9	8.3	7.7	6.9	6.3
Greece	409	8.1	7.8	7.4	7.4	7.7	7.5	7.0	7.7	8.7	9.7	9.6	10.0 |	9.8	9.7	11.2	12.0	11.4	10.7	10.0
Hungary	349	..	..	..	..	..	..	..	..	..	12.1	11.0	10.4	10.1	8.9	8.0	7.1	6.7	6.4	6.2
Iceland	5	1.3	0.9	0.7	0.4	0.6	1.7	1.8	1.5	3.0	4.4	4.8	5.0	4.3	3.9	2.8	1.9	1.3	1.8	2.6
Ireland	159	16.4	16.5	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	4.2	3.6	3.6
Italy	2 688	8.5	8.6	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	10.8	10.1	9.4
Japan	2 304	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	4.6	4.6
Korea	556	3.8	4.0	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	4.0	3.7	3.5
Luxembourg	6	1.7	1.7	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	2.7	2.5	2.3
Mexico[a]	690	..	..	..	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	2.4	2.6	2.8
Netherlands	375	10.6	9.2	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	2.8	2.5	2.3
New Zealand	124	4.5	3.5	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	6.1	6.0	6.0
Norway	92	3.2	2.6	2.0	2.1	3.2	4.9	5.2	5.5	5.9	6.0	5.4	4.9	4.8	4.0	3.2	3.2	3.3	3.3	3.4
Poland	1 923	..	..	..	..	..	..	..	..	..	14.0	14.4	13.3	12.3	11.2	10.6	13.9	15.1	15.0	15.0
Portugal	..	8.8	8.9	8.8	7.3	6.0	5.3	4.9	4.3 |	4.1	5.5	6.9	7.2	7.3	6.8	5.1	4.5	4.1	4.1	4.2
Slovak Republic	..	..	..	..	..	..	..	..	..	..	13.1	13.7	13.1	11.1	11.6	12.1	16.4	18.9	18.0	17.0
Spain[b]	3 356	19.6	20.9	20.5	20.0	19.0	16.7	15.7	15.8	17.9	22.2	23.7	22.7	22.2	20.8	18.8	15.9	14.1	12.9	12.2
Sweden	342	3.1	2.8	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	4.1	3.7
Switzerland	188	1.1	1.0	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	1.8	1.8
Turkey[c]	1 440	7.7	7.2	8.0	8.4	8.5	8.7	8.1	7.9	8.1	7.8	8.1	6.9	6.0	6.4	6.3	7.3	7.1	7.0	6.8
United Kingdom	1 873	11.4	11.6	11.8	10.2	7.8	6.1	5.9	8.2	10.2	10.3	9.4	8.5	7.9	6.5	5.9	6.0	5.5	5.4	5.5
United States	6 725	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	4.2	4.5
Euro area	15 348	10.0	10.2	10.3	10.3	10.0	9.2	8.4	8.1	9.0	10.7	11.5	11.2	11.5	11.5	10.8	9.9	9.0	8.3	7.7
European Union	17 410	10.0	10.2	10.3	10.0	9.3	8.4	7.8	8.0	9.1	10.6	11.0	10.6	10.7	10.4	9.8	9.1	8.2	7.6	7.2
Total OECD	34 224	7.7	7.6	7.5	7.0	6.5	6.0	5.8	6.4	7.1	7.8	7.7	7.4	7.3	7.0	6.8	6.7	6.2	6.0	5.9

Note: For sources and definitions see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods/index.htm).*
a) Data based on the National Survey of Urban Employment; see *OECD Economic Outlook* Sources and Methods.
b) Rebased; see *OECD Economic Outlook* Sources and Methods.
c) The figures incorporate important revisions to Turkish data; see *OECD Economic Outlook* Sources and Methods.
Source: OECD.

Annex Table 22. **Standardised unemployment rates**[a]

Per cent of civilian labour force

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Australia	5.8	7.2	10.0	9.0	8.3	8.1	8.1	7.2	6.2	6.9	9.6	10.8	10.9	9.7	8.5	8.5	8.5	8.0	7.2
Austria	..	..	..	..	..	..	..	..	..	..	..	..	4.0	3.8	3.9	4.3	4.4	4.5	3.8
Belgium	..	10.1	11.0	11.1	10.4	10.3	10.1	9.0	7.5	6.7	6.6	7.2	8.8	10.0	9.9	9.7	9.4	9.5	9.1
Canada	7.6	11.0	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
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	4.4	4.4	4.1	3.9	4.8	6.5	8.8
Denmark	..	8.4	9.0	8.5	7.1	5.4	5.4	6.1	7.3	7.7	8.4	9.2	10.2	8.2	7.2	6.8	5.6	5.2	5.2
Finland	..	..	..	5.9	6.0	6.7	4.9	4.2	3.1	3.2	6.6	11.6	16.4	16.7	15.2	14.5	12.6	11.4	10.2
France	..	7.7	8.1	9.7	10.2	10.3	10.5	10.0	9.4	9.0	9.5	10.4	11.7	12.3	11.7	12.4	12.3	11.8	11.3
Germany[b]	4.0	5.7	6.9	7.1	7.2	6.5	6.3	6.2	5.6	4.8	4.2	4.5	7.9	8.5	8.2	8.9	9.9	9.4	8.8
Hungary	..	..	..	..	..	..	..	..	..	..	..	9.9	12.1	11.0	10.4	10.1	8.9	8.0	7.1
Ireland	..	11.4	13.9	15.5	16.8	16.8	16.6	16.2	14.7	13.4	14.8	15.4	15.6	14.4	12.3	11.7	9.9	7.6	5.7
Italy	..	6.4	7.5	8.0	8.3	9.0	9.8	9.8	9.8	9.0	8.6	8.9	10.2	11.2	11.6	11.7	11.7	11.8	11.3
Japan	2.2	2.4	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
Luxembourg	..	3.0	3.5	3.1	2.9	2.6	2.5	2.0	1.8	1.7	1.7	2.1	2.6	3.2	2.9	3.0	2.7	2.7	2.3
Netherlands	6.8	8.1	9.7	9.3	8.3	8.3	8.1	7.6	6.9	6.2	5.8	5.6	6.6	7.1	6.9	6.3	5.2	4.1	3.3
New Zealand	3.6	3.5	5.7	5.7	4.2	4.0	4.1	5.6	7.1	7.8	10.3	10.3	9.5	8.2	6.3	6.0	6.6	7.5	6.8
Norway	2.1	2.6	3.5	3.2	2.7	2.0	2.1	3.2	5.0	5.3	5.6	6.0	6.1	5.5	5.0	4.9	4.1	3.3	3.2
Poland	..	..	..	..	..	..	..	..	..	..	..	..	14.0	14.4	13.3	12.3	11.2	10.6	..
Portugal	..	..	8.3	8.9	9.2	8.8	7.3	5.9	5.2	4.8	4.2	4.3	5.7	7.0	7.3	7.3	6.8	5.2	4.5
Spain	..	14.9	17.5	20.2	21.6	21.2	20.6	19.5	17.2	16.3	16.4	18.4	22.7	24.1	22.9	22.2	20.8	18.8	15.9
Sweden	..	3.3	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	7.2
Switzerland	..	..	..	..	..	..	..	..	..	..	2.0	3.1	4.0	3.8	3.5	3.9	4.2	3.5	..
United Kingdom	..	10.3	11.1	11.2	11.5	11.6	10.6	8.7	7.3	7.1	8.9	10.0	10.5	9.6	8.7	8.2	7.0	6.3	6.1
United States	7.6	9.7	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
Euro area	..	..	..	..	..	..	..	..	..	..	8.3	9.2	10.9	11.6	11.3	11.5	11.6	10.9	10.0
European Union	..	..	..	..	..	..	..	..	..	..	8.2	9.2	10.7	11.1	10.7	10.8	10.6	9.9	9.2
Total OECD	..	..	..	..	..	..	..	..	..	..	..	..	8.2	8.1	7.7	7.7	7.4	7.1	6.9

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 23. **Labour force, employment and unemployment**

Millions

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Labour force																			
Major seven countries	288.2	291.6	295.8	299.2	303.1	307.0	311.0	323.1	325.4	326.6	329.1	330.8	333.7	337.8	340.2	343.1	345.4	347.7	350.2
Total of smaller countries*a*	90.3	91.6	93.4	108.9	111.1	113.5	115.3	117.3	118.5	146.2	147.9	149.8	151.9	153.0	159.4	161.3	164.2	166.9	169.5
European Union	144.9	145.9	147.3	148.3	149.8	150.6	151.9	162.4	162.4	162.3	162.7	163.2	164.2	165.2	171.4	173.0	174.6	175.9	177.1
Euro area	114.5	115.1	116.3	117.1	118.1	118.8	120.1	130.9	130.9	131.0	131.7	132.0	132.8	133.9	135.3	136.4	137.8	138.9	139.8
Total OECD[a]	378.5	383.2	389.2	408.2	414.2	420.5	426.4	440.5	443.9	472.8	477.0	480.6	485.6	490.7	499.6	504.4	509.5	514.6	519.6
Employment																			
Major seven countries	267.0	270.4	274.2	278.9	284.4	289.6	293.6	302.8	302.7	303.1	306.1	308.7	311.2	315.7	318.7	322.0	325.6	328.3	330.7
Total of smaller countries*a*	82.5	83.9	85.7	100.6	103.0	105.8	107.9	109.4	109.6	132.7	134.1	136.5	139.1	140.8	146.8	148.7	152.3	155.3	158.0
European Union	130.4	131.0	132.1	133.5	135.8	137.9	140.0	149.3	147.4	144.9	144.7	145.8	146.5	147.8	154.6	157.2	160.2	162.5	164.3
Euro area	103.1	103.3	104.3	105.1	106.3	107.9	110.0	120.3	119.1	117.0	116.6	117.2	117.6	118.5	120.6	122.8	125.4	127.4	129.0
Total OECD[a]	349.5	354.3	359.9	379.5	387.4	395.4	401.5	412.2	412.2	435.8	440.2	445.2	450.3	456.5	465.5	470.7	477.9	483.6	488.8
Unemployment																			
Major seven countries	21.2	21.2	21.5	20.4	18.7	17.5	17.4	20.4	22.8	23.5	23.0	22.1	22.5	22.1	21.5	21.0	19.8	19.4	19.4
Total of smaller countries*a*	7.8	7.7	7.8	8.3	8.1	7.7	7.4	7.9	8.9	13.5	13.8	13.3	12.8	12.2	12.7	12.6	11.8	11.5	11.4
European Union	14.6	14.9	15.2	14.9	14.0	12.7	11.9	13.1	15.0	17.4	18.0	17.4	17.7	17.4	16.8	15.7	14.4	13.4	12.8
Euro area	11.4	11.8	12.0	12.1	11.8	10.9	10.1	10.6	11.8	14.1	15.1	14.8	15.2	15.3	14.6	13.6	12.4	11.5	10.8
Total OECD[a]	29.0	28.9	29.3	28.7	26.8	25.1	24.9	28.3	31.7	37.0	36.8	35.4	35.3	34.2	34.1	33.7	31.7	31.0	30.8

Note: See Annex Tables 18 to 20.
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 26. **Household saving rates**

Percentage of disposable household income

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	12.2	13.7	11.1	10.5	8.2	6.9	8.5	9.1	6.2	5.3	3.4	5.1	4.3	4.8	3.0	2.1	1.8	2.4	2.8	3.1
Belgium	15.4	14.4	12.1	14.5	13.3	14.4	14.4	15.6	17.1	18.4	18.1	17.6	17.4	16.2	14.5	14.0	14.2	13.4	13.9	14.3
Canada	19.6	19.3	18.4	16.0	14.3	15.0	15.8	16.0	15.9	15.1	13.6	11.1	11.3	9.0	6.2	6.1	5.4	6.1	6.4	7.0
Czech Republic	..	..	..	..	..	..	..	..	..	..	6.0	1.9	6.2	8.2	8.9	9.6	11.2	12.1	11.2	11.1
Denmark	..	..	..	..	..	7.4	8.4	11.2	10.8	9.7	8.3	4.2	6.9	5.6	3.4	3.9	2.4	2.8	3.1	3.2
Finland	3.7	3.0	2.7	1.6	3.2	-0.4	0.2	2.9	7.8	10.0	7.6	2.6	6.0	2.0	4.4	3.4	3.3	2.5	2.6	2.8
France	16.0	14.3	13.5	12.9	11.4	12.4	12.5	13.1	13.8	14.7	15.2	14.9	15.9	14.8	16.0	15.6	15.6	15.6	16.0	16.2
Germany	9.0	9.5	9.5	10.4	10.7	10.9	10.5	12.0	13.0	12.9	12.5	11.7	11.1	10.8	10.4	10.2	9.9	10.1	10.2	9.8
Ireland	12.4	12.7	10.6	8.8	9.6	6.8	4.8	6.5	7.7	7.2	9.9	6.1	8.5	7.0	8.0	10.4	10.6	7.9	7.1	6.4
Italy	24.7	22.8	21.0	20.2	19.5	18.4	17.0	18.4	18.7	18.4	17.2	17.2	16.6	16.0	14.6	13.1	12.3	11.3	11.3	11.0
Japan	16.1	15.8	15.6	15.6	13.8	13.0	12.9	12.1	13.2	13.1	13.4	13.3	13.7	13.4	12.6	13.4	13.2	12.8	12.4	13.2
Korea	11.6	14.1	14.8	20.0	23.2	24.8	23.4	21.6	23.8	22.5	20.2	19.0	16.4	15.6	15.0	22.7	24.8	24.0	22.0	19.2
Netherlands	5.8	5.6	5.6	8.2	8.3	8.1	9.8	11.6	7.2	8.3	6.8	7.1	14.9	13.6	14.1	13.4	10.6	9.4	10.6	10.6
New Zealand	6.9	6.6	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	-2.0	-2.0	-1.1	-0.5
Norway	4.2	5.0	-1.8	-4.7	-4.6	-1.2	1.1	2.2	4.2	5.9	6.9	5.9	5.7	4.7	4.8	6.6	6.7	6.3	6.6	6.8
Portugal	22.4	23.2	24.3	21.8	21.4	16.4	15.1	16.4	17.0	14.8	12.6	10.2	10.3	10.4	10.4	10.8	9.5	9.2	9.1	9.1
Spain	12.8	11.6	11.1	12.1	10.6	11.0	10.2	12.3	13.4	11.9	14.4	11.9	14.3	14.1	13.4	12.7	11.9	11.2	11.1	11.1
Sweden	4.0	3.7	3.9	2.9	-1.2	-3.2	-3.2	1.0	4.7	9.2	11.5	11.3	8.6	7.1	4.1	3.1	2.1	2.1	2.0	2.2
Switzerland	2.7	2.9	2.8	3.8	5.5	7.9	9.3	10.3	10.5	10.1	10.8	9.1	9.5	8.5	8.9	8.8	8.2	7.9	7.8	7.9
United Kingdom	8.3	9.7	9.1	7.5	5.5	3.9	5.6	7.4	9.3	11.4	10.9	9.4	10.3	9.4	9.3	5.8	5.1	3.9	4.3	4.6
United States	8.8	10.6	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	4.2	2.2	0.0	-0.3	-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. 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/index.htm).* 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). Six countries, Belgium, Denmark, France, 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 27. **Gross national saving**

As a percentage of nominal GDP

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Australia	20.9	18.6	20.6	20.2	19.0	19.5	21.3	22.6	21.4	17.7	15.8	16.6	18.0	17.7	18.1	19.3	19.7	20.1	..
Austria	24.9	24.2	22.7	23.6	23.6	23.7	23.9	23.9	24.4	25.0	24.8	23.9	22.4	22.3	21.8	21.5	22.0	22.0	21.4
Belgium	17.3	16.3	16.7	17.6	17.4	19.0	19.5	21.8	22.3	22.9	22.1	22.9	24.0	24.7	24.9	24.5	24.9	24.7	24.5
Canada	22.6	19.8	19.7	20.5	19.9	18.4	19.6	20.4	19.6	17.0	14.3	13.1	13.6	15.8	17.9	18.5	19.3	18.5	20.2
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	27.9	28.1	27.3	29.9	28.1	26.3	..	..
Denmark	9.0	8.5	11.7	16.2	16.0	19.0	18.2	19.2	19.5	20.7	20.0	20.3	19.2	19.1	20.4	20.4	20.4	19.9	20.6
Finland	26.1	24.7	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	25.1	25.2
France	20.0	18.8	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	21.1	21.3
Germany	20.3	20.2	21.2	21.7	22.0	23.8	23.5	24.3	25.7	24.9	23.3	23.1	22.0	22.0	21.9	21.3	21.5	21.6	21.4
Greece	35.0	22.2	22.1	19.9	16.1	18.2	18.1	23.0	20.2	20.2	22.2	21.3	19.3	20.4	18.0	17.4	17.8	18.0	19.1
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Iceland	24.2	21.0	20.1	17.8	15.8	19.2	16.8	16.5	16.3	17.5	16.8	16.7	18.4	18.9	18.0	18.3	19.3	18.2	16.4
Ireland	12.1	14.4	14.3	14.1	13.5	13.4	14.5	14.7	15.0	18.0	17.7	15.6	17.7	18.0	20.4	22.0	23.8	24.8	23.9
Italy	23.3	22.8	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	21.7	21.4	21.2
Japan [a]	31.5	30.6	29.8	30.8	31.7	31.9	32.5	33.4	33.6	33.6	34.5	33.9	32.7	31.3	30.8	31.6	31.0	29.6	..
Korea	24.0	25.1	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	33.8	33.5
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mexico	25.4	26.3	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	..
Netherlands	24.3	24.3	24.9	26.3	26.9	26.9	25.4	26.9	28.7	28.6	27.5	26.5	26.3	27.2	27.4	26.7	28.6	27.9	27.1
New Zealand [a]	20.4	19.4	20.4	19.4	17.1	18.9	17.9	17.8	15.6	14.0	13.7	16.4	19.2	19.1	17.4	15.1	15.1	12.4	..
Norway	30.6	29.1	29.6	32.1	31.2	25.5	25.7	25.1	26.2	25.8	25.1	24.2	24.6	25.4	27.0	29.3	30.7	27.1	28.3
Poland	..	..	..	..	..	..	..	..	..	..	15.9	15.4	15.8	20.0	21.2	20.8	21.0	22.0	..
Portugal	6.1	5.5	5.3	4.9	5.6	6.9	7.7	7.5	7.7	7.3	6.3	6.0	5.1	4.7	4.8	4.1	3.9	3.5	..
Spain	20.3	20.7	20.9	22.0	22.0	22.7	22.7	23.6	22.9	22.6	22.0	20.1	20.1	20.0	22.3	22.1	22.6	22.6	22.3
Sweden	17.6	16.1	18.2	20.4	19.8	20.6	20.7	21.3	21.8	20.0	17.9	15.1	13.4	17.1	19.9	18.9	19.1	20.1	19.3
Switzerland [a]	29.5	28.3	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	31.0	..
Turkey [a]	19.2	18.4	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	13.2
United Kingdom	18.0	18.0	18.3	19.0	19.0	17.6	17.7	17.7	17.6	16.7	15.6	14.5	14.2	16.2	16.4	16.8	18.0	18.0	16.3
United States	20.4	18.4	16.3	18.5	17.2	15.4	15.9	17.2	16.6	15.8	16.1	15.1	14.9	15.8	16.4	16.7	17.9	18.4	18.1
European Union	20.3	19.7	20.1	20.6	20.5	21.1	20.9	21.7	22.0	21.6	20.6	19.7	19.2	19.8	20.5	20.3	20.9	21.0	21.0
Total OECD	22.4	21.2	20.6	21.8	21.4	20.9	21.4	22.4	22.1	21.5	21.1	20.2	19.8	20.2	20.9	21.1	21.8	21.6	20.0

a) SNA68.

Source: OECD.

Annex Table 28. **General government total outlays**

As a percentage of nominal GDP

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	36.7	37.8	37.4	36.2	33.2	32.2	33.0	34.7	36.2	36.2	35.4	35.4	34.7	33.5	33.4	31.8	31.4	31.0	30.5
Austria	49.2	50.1	50.9	51.4	50.4	49.0	48.5	49.6	50.3	53.1	52.5	52.4	51.9	49.5	50.1	49.8	48.8	48.1	46.8
Belgium	58.0	57.3	56.4	54.5	52.4	50.8	50.8	51.8	51.9	53.3	51.3	50.3	50.3	48.8	48.2	47.9	46.7	45.8	45.2
Canada	44.8	45.4	44.8	43.3	42.7	43.2	46.0	49.2	50.1	49.0	46.7	45.3	43.4	40.8	41.0	38.8	37.8	37.4	37.0
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	41.1	41.1	45.7	47.6	47.1	47.9
Denmark	..	..	..	..	54.2	54.3	53.6	54.5	55.5	58.1	58.0	56.6	56.3	54.6	53.6	52.3	51.3	50.6	50.0
Finland	40.6	42.3	43.3	43.8	42.7	41.0	44.4	52.7	57.7	59.1	57.5	54.3	54.0	51.3	48.1	47.0	44.8	43.1	41.8
France	51.6	51.9	51.2	50.2	49.9	49.0	49.6	50.0	51.7	53.9	53.8	53.6	53.8	52.8	52.4	52.1	51.2	49.4	49.7
Germany [a]	46.1	45.6	45.0	45.3	44.9	43.5	43.8	44.2	45.0	46.2	45.9	46.3	47.3	46.4	45.8	45.9	43.0	44.5	43.8
Greece	39.2	42.3	41.9	41.7	41.8	43.2	47.8	43.8	45.8	47.9	45.5	46.6	44.4	42.8	42.6	43.9	43.7	43.0	42.1
Hungary	..	..	..	..	..	..	..	..	..	55.3	56.2	51.2	47.1	46.9	46.2	45.6	43.8	43.0	42.0
Iceland	..	..	..	32.1	39.0	41.6	39.0	40.1	40.5	40.4	39.9	39.2	38.6	37.2	37.8	38.8	38.0	38.6	38.2
Ireland	49.6	50.5	50.2	48.5	44.9	38.6	39.5	40.7	41.2	40.8	40.6	37.6	35.8	34.0	31.8	30.9	27.7	26.7	26.0
Italy	49.4	50.6	50.6	50.3	50.4	51.2	53.1	53.1	53.3	56.4	53.9	52.3	52.5	49.9	48.7	48.3	46.7	47.1	46.6
Japan [b]	32.3	31.6	31.9	32.1	31.3	30.6	31.3	30.9	31.7	33.7	34.4	35.6	35.9	34.9	36.6	38.1	38.2	38.3	37.5
Korea	17.6	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	23.5	23.4	23.4	23.3
Netherlands	53.8	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	43.3	42.7	41.5	40.1	39.8
New Zealand	..	..	52.6	49.0	49.9	48.4	48.8	45.8	45.4	42.0	39.6	38.8	38.5	38.9	39.5	40.9	40.8	40.2	39.9
Norway	42.1	41.5	45.4	47.7	49.5	49.1	49.7	50.6	52.0	51.0	49.9	47.6	45.4	43.8	46.4	46.2	40.6	38.8	39.7
Portugal	..	..	..	..	..	..	..	..	..	..	..	41.2	41.5	40.1	40.2	41.3	42.1	42.4	42.7
Spain	36.9	39.4	40.3	39.3	38.7	40.4	41.4	42.4	43.7	47.1	45.0	44.0	42.8	41.3	40.6	39.6	38.5	38.2	38.0
Sweden	58.6	59.9	58.3	54.6	54.8	55.1	55.8	58.0	63.6	67.5	64.9	62.1	60.2	58.6	56.2	56.0	53.9	53.1	52.7
United Kingdom	..	..	..	43.0	40.6	39.9	41.9	43.5	45.3	45.5	44.7	44.4	43.0	40.9	39.7	39.1	38.4	38.8	39.0
United States [c]	33.1	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	30.0	29.3	29.0	28.8
Euro area	47.4	47.8	47.6	47.4	46.8	46.1	47.0	47.4	48.4	50.5	49.4	49.0	49.2	47.8	47.1	46.8	45.0	44.9	44.5
Total of above European Union countries	48.1	48.6	48.3	47.2	46.5	45.9	47.0	47.6	48.8	50.6	49.5	48.8	48.6	47.0	46.2	45.9	44.3	44.3	44.0
Total of above OECD countries	37.8	38.2	38.4	38.3	37.6	37.2	38.2	38.9	39.8	40.5	39.6	39.5	39.2	38.0	37.7	37.5	36.6	36.5	36.1

Note: 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 the Czech republic (2001), France (2001), Germany (2000), Italy (2000), Netherlands (2000) and Portugal (2000), where reported or expected revenues are substantial. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex, Box 1.3. in the main text and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods/index.htm).*

a) The 1995 outlays are net of the debt taken on this year from the Inherited Debt funds.

b) The 1998 outlays would be 5.4 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.

c) Includes outlays net of surpluses of public enterprises.

Source: OECD.

Annex Table 29 . **General government current tax and non-tax receipts**

As a percentage of nominal GDP

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	31.5	32.7	33.2	34.0	32.9	32.2	31.8	30.9	30.3	30.7	30.8	31.7	32.5	33.0	33.9	33.7	32.3	31.7	31.5
Austria	46.6	47.5	47.2	47.0	46.9	45.9	46.1	46.6	48.3	48.9	47.5	47.3	48.1	47.8	47.8	47.7	47.2	47.3	46.8
Belgium	47.1	47.0	46.3	46.5	45.1	43.2	44.1	44.4	43.9	46.0	46.2	46.0	46.6	46.9	47.3	47.2	46.6	46.1	45.9
Canada	37.0	36.8	37.6	37.9	38.4	38.6	40.1	40.8	41.0	40.3	39.9	40.0	40.5	41.0	41.2	40.9	40.3	39.5	38.9
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	39.1	38.8	40.8	39.9	40.6	40.5
Denmark	..	..	..	..	55.7	54.6	52.5	52.1	53.3	55.2	55.6	54.3	55.3	55.0	54.8	55.1	54.0	53.5	53.1
Finland	43.9	45.6	47.0	45.1	46.5	46.9	49.6	51.6	52.0	51.8	51.8	50.6	50.9	49.8	49.3	48.9	48.8	48.0	47.1
France	48.7	48.9	48.0	48.3	47.4	47.1	47.4	47.6	47.5	47.9	48.2	48.0	49.7	49.7	49.6	50.4	49.8	49.3	48.8
Germany	44.2	44.5	43.8	43.5	42.8	43.6	41.8	41.2	42.5	43.0	43.5	43.0	43.9	43.7	43.8	44.5	44.4	42.8	42.6
Greece	30.8	30.8	31.6	32.2	30.3	28.8	31.7	32.3	33.0	34.1	35.5	36.4	36.9	38.8	40.1	42.1	42.7	42.6	42.5
Hungary	..	..	..	..	..	..	..	..	..	48.7	45.2	43.6	41.5	39.8	40.1	40.3	39.4	39.5	39.5
Iceland	..	..	..	31.3	37.0	37.1	35.8	37.2	37.7	35.9	35.2	36.2	37.0	37.1	38.3	40.8	40.9	41.0	40.7
Ireland	40.6	40.2	40.0	40.3	40.7	36.9	36.7	37.8	38.2	38.1	38.7	35.4	35.7	34.8	34.0	33.6	33.2	33.2	33.3
Italy	38.0	38.4	39.3	39.4	39.7	41.4	42.1	43.1	43.8	47.0	44.8	44.7	45.4	47.2	45.9	46.4	46.6	46.0	45.8
Japan [a]	30.2	30.8	31.0	32.5	32.8	33.1	34.2	33.8	33.2	32.1	32.1	32.0	31.7	31.6	31.6	31.1	32.2	32.3	31.7
Korea	19.2	18.8	18.4	18.6	19.7	20.8	21.8	21.3	22.0	22.6	22.8	23.5	24.5	25.2	26.1	26.8	27.4	28.1	28.3
Netherlands	47.6	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	42.7	43.7	43.1	41.1	41.0
New Zealand	..	..	46.0	46.7	45.1	44.7	44.0	42.1	42.1	41.4	42.6	41.9	41.4	40.9	41.0	41.2	41.2	41.2	41.1
Norway	49.1	51.4	51.3	52.3	52.1	51.0	52.3	50.7	50.2	49.6	50.3	51.1	52.0	51.7	50.0	51.0	54.7	53.7	54.1
Portugal	..	..	..	..	..	..	..	..	..	..	..	36.6	37.5	37.5	38.0	39.3	40.5	41.0	41.4
Spain	32.5	33.9	34.2	35.6	35.5	36.9	37.2	38.1	39.7	40.4	38.9	37.4	37.8	38.1	38.1	38.5	38.2	38.4	38.5
Sweden	55.8	56.3	57.1	58.7	58.2	60.2	59.8	56.9	56.2	55.5	54.0	54.2	56.8	56.6	58.1	57.9	57.3	56.4	56.5
United Kingdom	..	..	..	41.2	41.2	40.8	40.4	40.7	38.8	37.5	37.9	38.6	38.6	38.9	40.2	40.4	41.2	40.9	40.8
United States [b]	28.3	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	31.6	31.5
Euro area	42.6	43.0	42.8	42.9	42.4	42.7	42.5	42.8	43.5	44.8	44.4	44.0	44.9	45.2	44.9	45.5	45.3	44.4	44.1
Total of above European Union countries	43.0	43.5	43.2	43.1	43.0	43.2	43.0	43.2	43.5	44.2	43.8	43.4	44.2	44.5	44.6	45.1	45.0	44.4	44.1
Total of above OECD countries	33.6	34.0	34.1	35.1	35.1	35.3	35.4	35.4	35.4	35.6	35.5	35.6	36.1	36.3	36.5	36.7	37.1	36.8	36.6

Note: Current receipts exclude capital receipts. Non-tax current receipts include operating surpluses of public enterprises, property income, fees, charges, 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 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/index.htm)*.

a) Includes deferred tax payments on postal savings accounts in 2000 and 2001.

b) Excludes the operating surpluses of public enterprises.

Source: OECD.

Annex Table 30. **General government financial balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	-5.2	-5.1	-4.2	-2.2	-0.4	0.0	-1.2	-3.8	-6.0	-5.5	-4.6	-3.7	-2.1	-0.5	0.6	1.9	0.9	0.7	1.0
Austria	-2.6	-2.6	-3.8	-4.3	-3.5	-3.1	-2.4	-3.0	-2.0	-4.2	-5.0	-5.1	-3.8	-1.7	-2.3	-2.1	-1.6	-0.7	0.0
Belgium	-10.9	-10.3	-10.1	-7.9	-7.3	-7.6	-6.7	-7.4	-8.0	-7.3	-5.0	-4.3	-3.8	-1.9	-0.9	-0.7	-0.1	0.3	0.7
Canada	-7.8	-8.6	-7.2	-5.4	-4.3	-4.6	-5.8	-8.4	-9.2	-8.7	-6.7	-5.4	-2.8	0.2	0.2	2.2	2.5	2.1	1.9
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	-2.0	-2.3	-4.9	-7.7	-6.5	-7.5
Denmark	..	..	..	..	1.5	0.3	-1.0	-2.4	-2.2	-2.9	-2.4	-2.3	-1.0	0.5	1.2	2.8	2.7	2.9	3.1
Finland	3.3	3.3	3.7	1.3	3.8	6.0	5.3	-1.1	-5.6	-7.3	-5.7	-3.7	-3.2	-1.5	1.3	1.9	4.0	4.8	5.3
France	-2.8	-3.0	-3.2	-2.0	-2.4	-1.8	-2.1	-2.4	-4.2	-6.0	-5.5	-5.6	-4.1	-3.0	-2.7	-1.8	-1.4	-0.1	-0.8
Germany [a]	-1.9	-1.1	-1.3	-1.8	-2.1	0.1	-2.0	-3.0	-2.5	-3.1	-2.4	-3.3	-3.4	-2.7	-2.1	-1.4	1.4	-1.7	-1.2
Greece	-8.4	-11.5	-10.3	-9.5	-11.5	-14.4	-16.1	-11.5	-12.8	-13.8	-10.0	-10.2	-7.4	-4.0	-2.5	-1.8	-1.0	-0.4	0.3
Hungary	..	..	..	..	..	..	..	..	..	-6.6	-11.0	-7.6	-5.7	-7.0	-6.1	-5.3	-4.3	-3.4	-2.5
Iceland	..	..	..	-0.8	-2.0	-4.5	-3.3	-2.9	-2.8	-4.5	-4.7	-3.0	-1.6	0.0	0.5	2.0	2.8	2.4	2.5
Ireland	-9.0	-10.3	-10.2	-8.2	-4.2	-1.7	-2.8	-2.9	-3.0	-2.7	-2.0	-2.2	-0.1	0.7	2.2	2.7	5.6	6.5	7.3
Italy	-11.4	-12.2	-11.4	-11.0	-10.7	-9.8	-11.0	-10.0	-9.5	-9.4	-9.1	-7.6	-7.1	-2.7	-2.8	-1.9	-0.1	-1.0	-0.8
Japan [b]	-2.1	-0.8	-0.9	0.5	1.5	2.5	2.9	2.9	1.5	-1.6	-2.3	-3.6	-4.2	-3.3	-5.0	-7.0	-6.0	-6.0	-5.7
Korea	1.5	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	3.3	4.0	4.7	5.0
Netherlands	-6.2	-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	-0.7	1.0	1.6	1.0	1.3
New Zealand	..	..	-6.5	-2.2	-4.8	-3.7	-4.7	-3.8	-3.3	-0.6	3.0	3.1	3.0	2.0	1.4	0.3	0.5	1.0	1.2
Norway	7.0	9.9	5.9	4.6	2.7	1.8	2.6	0.1	-1.7	-1.4	0.4	3.5	6.6	7.9	3.6	4.9	14.0	14.8	14.4
Poland	..	..	..	..	..	..	..	..	..	-4.5	-3.1	-2.5	-2.8	-2.7	-2.3	-3.2	-2.8	-1.5	-2.3
Portugal	..	..	..	..	..	..	..	..	..	..	..	-4.6	-4.0	-2.6	-2.3	-2.0	-1.5	-1.4	-1.3
Spain	-4.4	-5.5	-6.0	-3.7	-3.3	-3.6	-4.1	-4.3	-4.0	-6.7	-6.1	-6.6	-4.9	-3.2	-2.6	-1.1	-0.3	0.2	0.4
Sweden	-2.8	-3.7	-1.2	4.1	3.4	5.2	4.0	-1.1	-7.4	-11.9	-10.8	-7.9	-3.4	-2.0	1.9	1.9	3.4	3.3	3.8
United Kingdom [c]	-4.0	-2.9	-2.6	-1.9	0.6	0.9	-1.5	-2.8	-6.5	-8.0	-6.8	-5.8	-4.4	-2.0	0.4	1.3	2.7	2.2	1.8
United States [d]	-4.7	-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	1.0	2.3	2.6	2.7
Euro area	-4.8	-4.8	-4.8	-4.5	-4.4	-3.5	-4.5	-4.6	-4.8	-5.6	-5.0	-5.0	-4.3	-2.6	-2.2	-1.3	0.3	-0.5	-0.3
Total of above European Union countries	-4.9	-4.8	-4.7	-4.1	-3.5	-2.7	-4.0	-4.3	-5.3	-6.3	-5.6	-5.4	-4.3	-2.5	-1.6	-0.8	0.7	0.0	0.1
Total of above OECD countries	-4.2	-4.2	-4.2	-3.2	-2.5	-1.9	-2.8	-3.4	-4.4	-4.9	-4.1	-3.8	-3.1	-1.7	-1.2	-0.8	0.5	0.4	0.5
Memorandum items																			
General government financial balances excluding social security																			
United States	-4.8	-5.3	-5.7	-4.8	-4.5	-4.2	-5.3	-5.9	-6.7	-5.7	-4.5	-3.9	-3.1	-2.0	-0.9	-0.4	0.8	1.0	1.1
Japan	-4.6	-3.4	-3.9	-2.4	-1.6	-0.7	-0.6	-0.8	-2.0	-4.8	-5.1	-6.4	-6.9	-5.9	-7.1	-8.8	-7.8	-7.7	-7.4

Note: Includes one-off revenues from the sale of the mobile telephone licenses for the Czech Republic (2001), France (2001), Germany (2000), Italy (2000), Netherlands (2000), Poland (2001) and Portugal (2000) in which reported or expected revenues are substantial. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex, Box 1.3 in the main text and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods/index.htm).*

a) The 1995 outlays are net of the debt taken on this year from the Inherited Debt Funds.

b) The 1998 outlays would be 5.4 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. Deferred tax payments on postal savings accounts are included in 2000 and 2001.

c) Includes only rents for the use of spectrum for the third generation mobile telephone in 2000 and onwards, as the lump-sum prepayment made in 2000 will be amortised over the next 20 years.

d) Includes public enterprises.

Source: OECD.

Annex Table 31. **General government structural balances**

Surplus (+) or deficit (-) as a percentage of potential GDP

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	-4.7	-5.0	-3.7	-2.0	-0.4	-0.2	-0.9	-2.5	-4.6	-4.5	-4.1	-3.5	-2.0	-0.4	0.3	1.6	0.6	0.5	0.8
Austria	-1.9	-1.9	-3.2	-3.7	-3.2	-3.4	-3.2	-3.8	-2.5	-4.0	-4.8	-4.9	-3.6	-1.4	-2.1	-1.9	-1.7	-0.9	-0.2
Belgium	-8.4	-8.0	-8.1	-6.8	-8.0	-9.2	-8.7	-8.9	-8.9	-5.7	-3.5	-2.9	-1.6	-0.5	0.3	0.4	0.3	0.4	0.7
Canada	-6.9	-9.1	-7.6	-6.4	-6.1	-6.0	-6.3	-6.5	-6.6	-6.2	-5.6	-4.4	-1.6	1.0	0.9	2.3	2.1	1.7	1.6
Denmark	..	..	..	..	1.7	1.8	1.4	0.2	0.9	1.5	-0.4	-0.6	0.2	0.9	1.2	2.9	2.5	2.6	2.8
Finland	3.9	3.9	4.4	1.1	2.4	3.3	3.6	2.3	1.2	1.4	1.6	1.8	1.5	1.1	2.7	3.0	3.9	4.2	4.4
France	-1.3	-1.4	-1.7	-0.7	-2.0	-2.2	-2.6	-2.6	-4.2	-5.0	-4.6	-4.6	-2.8	-1.7	-1.8	-1.3	-1.6	-1.6	-1.4
Germany	0.1	0.6	0.0	-0.4	-1.5	0.3	-3.1	-3.3	-3.1	-2.2	-1.8	-2.7	-2.4	-1.6	-1.2	-0.5	-0.7	-1.7	-1.5
Greece	-7.7	-11.3	-10.1	-8.6	-11.9	-15.7	-16.6	-12.3	-13.0	-12.6	-8.8	-8.9	-6.4	-3.5	-1.5	-1.0	-0.6	-0.5	-0.1
Ireland	-7.6	-8.9	-7.3	-5.9	-2.9	-1.4	-3.9	-2.7	-2.0	-0.8	0.1	-1.0	0.9	0.8	1.8	1.9	4.1	5.2	6.3
Italy	-10.3	-11.4	-10.8	-10.6	-11.1	-10.6	-11.8	-10.4	-9.3	-7.9	-8.0	-7.2	-6.5	-2.0	-2.0	-0.8	-0.6	-0.5	-0.4
Japan[a]	-1.8	-0.5	-0.4	1.0	1.6	2.4	2.4	2.5	1.2	-1.5	-1.9	-3.1	-4.4	-3.6	-4.2	-6.0	-5.2	-5.4	-5.3
Netherlands	-5.2	-4.1	-5.8	-6.1	-4.4	-5.9	-7.3	-4.3	-4.8	-2.7	-3.9	-3.6	-1.4	-0.9	-0.8	0.5	-0.1	-0.2	0.1
New Zealand	..	..	-7.9	-3.1	-4.7	-3.4	-3.4	-0.9	-0.2	0.6	2.6	2.5	2.4	1.7	2.5	0.7	0.5	0.9	1.1
Norway[b]	-1.3	-0.8	1.2	0.5	1.1	0.6	-1.1	-4.0	-6.0	-6.3	-5.2	-1.9	-1.7	-0.9	-2.1	-1.9	-1.4	-1.2	-1.4
Portugal	..	..	..	..	..	..	..	..	..	..	..	-3.9	-3.6	-2.5	-2.3	-2.0	-2.0	-1.4	-1.3
Spain	-2.4	-3.7	-4.1	-2.9	-3.4	-4.2	-5.1	-5.0	-3.7	-4.7	-3.9	-4.3	-2.3	-1.1	-1.2	-0.6	-0.1	0.1	0.2
Sweden	-2.3	-3.7	-2.0	2.2	1.1	2.2	0.9	-2.0	-5.8	-7.7	-8.5	-6.9	-1.9	-0.5	2.9	2.1	2.7	2.1	2.7
United Kingdom	..	..	..	-2.9	-1.9	-1.4	-2.9	-2.0	-4.2	-5.9	-5.8	-5.0	-3.8	-2.1	0.2	1.1	2.4	1.8	1.5
United States	-4.2	-4.7	-5.0	-4.2	-3.9	-3.7	-4.5	-4.3	-5.3	-4.5	-3.6	-3.0	-2.3	-1.1	0.0	0.7	1.7	2.2	2.5
Euro area	-3.2	-3.4	-3.6	-3.5	-4.2	-3.9	-5.5	-5.2	-4.9	-4.3	-3.9	-4.1	-3.0	-1.4	-1.3	-0.6	-0.6	-0.8	-0.6
Total of above European Union countries	-3.5	-3.8	-4.0	-3.5	-3.8	-3.5	-5.0	-4.5	-4.9	-4.7	-4.5	-4.5	-3.2	-1.6	-1.0	-0.2	-0.1	-0.3	-0.2
Total of above OECD countries	-3.7	-3.9	-4.0	-3.1	-3.0	-2.7	-3.6	-3.4	-4.2	-4.2	-3.7	-3.6	-2.9	-1.6	-1.0	-0.6	0.0	0.0	0.2

Note: See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods/index.htm)* for details on the methodology used for estimating the structural component of government balances and Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex. Excludes one-off revenues from the sale of the mobile telephone licenses for France (2001), Germany (2000), Italy (2000), Netherlands (2000) and Portugal (2000) in which reported or expected revenues are substantial.

a) Includes deferred tax payments on postal savings accounts in 2000 and 2001.

b) As a percentage of mainland potential GDP. The financial balances shown exclude revenues from oil production.

Source: OECD.

Annex Table 32. **General government primary balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	-2.3	-1.7	-0.5	1.4	2.9	3.3	1.8	-1.1	-3.4	-2.5	-0.9	-0.1	0.8	1.9	2.3	3.6	2.3	2.1	2.2
Austria	0.1	0.2	-0.9	-1.3	-0.2	0.0	0.8	0.4	1.4	-0.7	-1.5	-1.6	-0.2	1.9	1.3	1.4	1.8	2.7	3.3
Belgium	-1.6	0.0	0.6	2.2	2.6	3.2	4.5	3.3	2.7	3.3	4.2	4.6	4.7	5.8	6.4	6.2	6.2	6.4	6.6
Canada	-4.3	-4.6	-3.0	-1.3	-0.1	0.1	-0.6	-3.3	-4.1	-3.8	-1.7	0.2	2.4	5.1	5.2	6.7	6.6	6.1	5.6
Denmark	..	..	..	..	5.8	4.3	2.8	1.6	1.0	0.6	0.9	0.9	1.9	3.4	3.7	5.1	4.7	4.7	4.8
Finland	2.4	2.4	2.6	0.4	2.9	4.7	3.6	-3.1	-7.6	-7.7	-4.6	-2.8	-1.7	0.4	3.0	3.4	5.3	5.9	6.3
France	-0.9	-1.0	-1.0	0.2	-0.3	0.4	0.3	0.1	-1.5	-3.0	-2.5	-2.3	-0.7	0.2	0.5	1.2	1.5	2.8	2.0
Germany [a]	0.4	1.1	1.0	0.4	0.2	2.2	-0.1	-0.7	0.0	-0.5	0.3	-0.2	-0.3	0.4	1.1	1.6	4.3	1.1	1.5
Greece	-4.7	-7.1	-5.6	-3.6	-5.1	-7.9	-7.4	-3.4	-2.7	-2.8	2.1	1.0	3.1	4.2	5.4	5.8	6.2	6.4	6.7
Iceland	..	..	..	-0.5	-0.8	-3.1	-1.3	-1.1	-0.9	-2.4	-2.5	-0.3	0.7	2.1	2.5	4.1	4.5	3.8	3.9
Ireland	-4.8	-5.5	-5.3	-3.2	0.2	2.7	1.5	1.0	0.3	0.2	0.7	0.2	1.5	2.3	3.1	3.2	5.8	6.6	7.3
Italy	-4.0	-5.1	-3.8	-3.8	-3.3	-1.6	-2.2	-0.4	1.4	2.1	1.4	3.5	4.0	6.2	4.9	4.5	5.9	4.8	4.9
Japan [b]	-0.1	1.0	0.7	2.0	2.7	3.6	3.7	3.4	2.1	-0.9	-2.3	-3.1	-3.5	-2.3	-3.8	-5.7	-4.5	-4.5	-4.2
Korea	1.7	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	2.6	3.8	4.6	4.8
Netherlands	-2.0	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	3.5	4.8	4.9	3.9	4.0
New Zealand	..	..	-2.0	1.8	-1.4	0.2	-0.5	-0.8	-0.3	1.8	4.3	4.6	3.8	2.7	1.7	0.2	0.5	1.0	1.1
Norway	6.0	8.7	4.2	2.8	0.3	-0.4	0.4	-2.0	-3.5	-2.7	-0.2	2.9	6.1	7.5	3.3	3.9	12.3	13.1	12.8
Portugal	..	..	..	..	..	..	..	..	..	..	..	0.6	0.4	1.6	1.2	1.2	1.7	1.8	1.9
Spain	-4.2	-4.7	-3.4	-0.5	-0.6	-0.3	-1.0	-1.2	-0.3	-2.2	-1.9	-1.8	0.0	1.2	1.4	2.3	3.1	3.5	3.7
Sweden	-0.2	-0.4	1.3	6.0	4.5	5.9	4.4	-0.7	-7.0	-10.7	-8.6	-5.0	0.0	1.5	5.2	4.9	5.5	5.0	5.2
United Kingdom	-0.6	0.5	0.6	1.2	3.3	3.4	0.8	-0.7	-4.5	-5.8	-4.2	-2.8	-1.5	0.9	3.2	3.5	4.9	4.2	3.8
United States	-1.6	-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	3.8	4.9	5.0	5.0
Euro area	-1.5	-1.3	-1.1	-0.7	-0.6	0.5	-0.4	-0.3	0.0	-0.7	-0.3	-0.1	0.8	2.0	2.1	2.6	3.9	3.1	3.1
Total of above European Union countries	-1.5	-1.3	-1.0	-0.4	0.1	1.0	-0.1	-0.4	-0.9	-1.6	-1.0	-0.4	0.6	2.0	2.5	2.9	4.2	3.3	3.3
Total of above OECD countries	-1.3	-1.1	-1.1	-0.1	0.5	1.2	0.3	-0.2	-1.1	-1.4	-0.8	-0.2	0.5	1.6	2.0	2.1	3.2	3.0	3.0

Note: The primary balance is the difference between actual balance and net interest payments. In the case of Japan, Ireland and New Zealand where net interest payments are not available, net property income paid is used as a proxy. For Denmark, net interest payments including dividends received are used. Includes one-off revenues from the sale of the mobile telephone licenses for France (2001), Germany (2000), Italy (2000), Netherlands (2000) and Portugal (2000) in which reported or expected revenues are substantial. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods/index.htm)* and Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex.

a) The 1995 outlays are net of the debt taken on this year from the Inherited Debt Funds.

b) The 1998 outlays would be 5.4 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. Deferred tax payments on postal savings accounts are included in 2000 and 2001.

Source: OECD.

Annex Table 33. **General government net debt interest payments**

As a percentage of nominal GDP

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	2.9	3.4	3.7	3.6	3.3	3.3	3.0	2.7	2.6	3.0	3.7	3.6	3.0	2.4	1.8	1.7	1.4	1.4	1.2
Austria	2.7	2.8	2.9	3.1	3.2	3.1	3.2	3.3	3.4	3.6	3.4	3.5	3.6	3.6	3.6	3.5	3.5	3.4	3.3
Belgium	9.3	10.3	10.7	10.1	9.8	10.8	11.2	10.7	10.6	10.6	9.3	8.9	8.5	7.7	7.4	6.8	6.3	6.1	5.9
Canada	3.5	4.0	4.1	4.2	4.3	4.7	5.3	5.1	5.1	4.9	5.0	5.6	5.2	4.8	5.0	4.5	4.1	4.0	3.7
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	2.0	1.8	1.6
Finland	-0.9	-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	1.5	1.2	1.1	1.0
France	1.9	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
Germany [a]	2.2	2.2	2.3	2.3	2.3	2.1	1.9	2.2	2.6	2.7	2.7	3.1	3.1	3.1	3.1	3.0	2.9	2.7	2.7
Greece	3.7	4.4	4.7	5.9	6.4	6.5	8.7	8.1	10.1	11.0	12.1	11.1	10.5	8.3	7.8	7.6	7.2	6.8	6.4
Iceland	..	..	..	0.4	1.2	1.4	1.9	1.9	1.9	2.1	2.2	2.6	2.3	2.1	2.0	2.1	1.6	1.4	1.4
Ireland	4.2	4.9	5.0	4.9	4.5	4.4	4.3	3.9	3.3	2.9	2.7	2.3	1.6	1.6	0.9	0.5	0.2	0.0	0.0
Italy	7.4	7.2	7.5	7.2	7.4	8.2	8.9	9.6	10.9	11.5	10.5	11.1	11.1	9.0	7.7	6.4	6.0	5.8	5.7
Japan [b]	2.0	1.9	1.7	1.5	1.2	1.1	0.8	0.5	0.7	0.7	0.0	0.6	0.7	1.0	1.2	1.3	1.4	1.5	1.5
Korea	0.2	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	-0.7	-0.2	-0.1	-0.1
Netherlands	4.2	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	3.3	2.9	2.7
New Zealand	..	..	4.5	4.1	3.3	3.9	4.2	3.0	2.9	2.4	1.3	1.5	0.8	0.8	0.3	-0.1	0.0	0.0	-0.1
Norway	-1.0	-1.2	-1.7	-1.8	-2.4	-2.3	-2.1	-2.2	-1.8	-1.3	-0.6	-0.6	-0.5	-0.4	-0.3	-1.0	-1.7	-1.7	-1.6
Portugal	..	..	..	..	..	..	..	..	..	..	..	5.2	4.4	4.2	3.5	3.2	3.2	3.2	3.2
Spain	0.2	0.8	2.6	3.2	2.7	3.3	3.2	3.1	3.7	4.5	4.2	4.9	5.0	4.4	4.0	3.4	3.3	3.3	3.3
Sweden	2.6	3.3	2.5	2.0	1.2	0.7	0.3	0.3	0.5	1.2	2.2	2.9	3.4	3.6	3.3	3.1	2.0	1.7	1.3
United Kingdom	3.4	3.4	3.2	3.1	2.7	2.4	2.3	2.0	2.0	2.2	2.6	3.0	2.8	2.9	2.8	2.3	2.1	2.1	2.0
United States	3.1	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	2.4	2.2
Euro area	3.4	3.5	3.8	3.8	3.8	4.0	4.1	4.3	4.8	5.0	4.7	5.0	5.1	4.6	4.3	3.9	3.7	3.5	3.4
Total of above European Union countries	3.4	3.5	3.7	3.7	3.7	3.8	3.9	4.0	4.4	4.7	4.6	4.9	4.9	4.4	4.1	3.7	3.5	3.3	3.2
Total of above OECD countries	2.9	3.0	3.1	3.1	3.0	3.1	3.1	3.2	3.3	3.4	3.3	3.6	3.5	3.3	3.1	2.8	2.6	2.5	2.4

Note: In the case of Japan, Ireland and New Zealand where net interest payments are not available, net property income paid is used as a proxy. For Denmark, net interest payments including dividends received are used.
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/index.htm).*

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 34. **General government gross financial liabilities**

As a percentage of nominal GDP

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	..	..	..	..	25.9	23.8	22.6	23.8	28.2	31.4	41.2	42.9	40.1	38.3	33.0	26.1	25.4	24.3	23.6
Austria	46.8	48.8	53.2	57.1	58.4	57.7	56.9	57.1	57.0	61.6	64.6	69.1	69.1	64.5	64.0	65.2	64.1	62.4	59.9
Belgium	113.9	118.5	123.5	127.9	127.9	124.4	124.9	126.7	128.1	134.8	132.7	129.8	130.5	125.2	119.7	115.9	110.7	105.4	100.2
Canada[a]	78.9	84.3	89.1	89.5	89.0	90.2	93.3	102.4	110.3	116.9	117.5	120.6	120.9	117.4	116.2	111.6	105.9	100.5	96.0
Denmark	77.5	74.9	71.8	68.6	66.7	65.0	65.8	66.7	70.6	83.8	77.7	73.9	68.1	64.7	59.5	55.1	50.4	46.2	41.9
Finland	..	..	..	..	..	..	14.3	22.7	45.3	56.0	58.0	57.2	57.1	54.1	48.7	46.6	43.5	39.7	36.1
France	36.3	37.9	38.8	40.1	40.0	39.9	39.5	40.3	44.7	51.6	55.3	59.3	62.3	64.7	65.2	65.0	64.6	63.6	62.6
Germany[b]	40.6	41.6	41.5	42.2	42.2	39.9	42.0	38.8	41.8	47.4	47.9	57.1	60.3	61.7	63.0	60.6	59.6	57.8	57.5
Greece	40.9	47.8	48.4	52.6	62.7	65.7	89.0	91.2	97.5	110.2	107.9	108.7	111.3	108.3	105.5	104.6	102.7	99.7	96.3
Iceland	33.0	32.7	30.2	27.8	31.5	37.1	36.7	38.8	46.6	53.6	56.6	60.1	57.4	53.9	49.2	44.1	39.5	33.4	29.6
Ireland	96.6	99.5	110.6	111.8	108.2	98.9	92.4	92.1	89.7	93.7	87.7	80.0	74.3	65.1	55.0	50.1	37.3	26.7	16.7
Italy	75.2	81.9	86.2	90.4	92.5	95.3	103.7	107.4	116.1	117.9	124.0	123.1	121.8	119.8	117.7	116.6	112.0	108.3	104.8
Japan[c]	63.4	63.8	67.1	67.5	65.8	63.3	61.5	57.9	59.3	63.7	68.8	76.2	80.5	84.6	97.4	105.3	112.3	118.6	124.7
Korea	16.7	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	10.6	11.0	10.8	9.7	8.4
Netherlands	64.2	68.7	70.6	73.1	76.0	76.0	75.6	75.7	76.4	77.6	74.0	75.5	75.2	70.0	66.6	62.6	57.4	53.1	49.1
Norway	29.9	32.5	40.9	33.9	33.0	33.0	29.5	27.8	32.4	40.9	37.3	35.4	31.6	28.0	26.5	27.4	26.1	25.6	24.3
Portugal	..	..	..	..	..	..	..	..	..	..	..	64.2	62.7	59.4	55.7	55.9	55.9	53.8	52.4
Spain	43.7	48.6	49.4	48.6	45.0	46.5	48.5	49.6	52.1	63.4	66.4	71.7	78.7	77.7	78.3	72.4	69.7	66.5	63.7
Sweden	64.7	64.4	63.9	57.0	51.3	46.7	42.7	51.4	68.6	73.7	77.9	76.9	74.5	74.0	70.7	63.5	56.2	48.6	40.9
United Kingdom	60.7	59.2	58.4	56.1	49.7	43.1	44.5	44.4	49.4	58.4	56.1	61.1	60.6	60.9	62.0	57.0	53.5	50.7	47.5
United States[d]	54.0	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	68.4	65.3	59.5	54.6	49.8
Euro area	50.1	53.2	54.9	56.9	57.3	57.2	59.9	60.0	64.0	68.6	70.4	74.3	77.5	77.6	77.0	75.0	72.7	70.0	68.0
Total of above European Union countries	54.7	57.0	58.2	59.1	58.3	57.0	58.9	58.9	63.7	70.0	71.4	75.2	76.6	76.1	75.6	73.0	70.3	67.6	65.2
Total of above OECD countries	55.2	58.4	60.9	61.8	60.7	59.9	61.0	62.6	66.0	70.0	71.2	73.6	74.5	73.9	74.3	73.0	70.6	68.3	66.3

Note: Includes all financial liabilities, as defined by ESA95/SNA93 and covers the general government sector. The definition of debt applied under the Maastricht Treaty differs from SNA definitions used here for EU countries (except for Austria, Belgium, Greece, Ireland, Netherlands, Finland and Portugal as of 1996). Maastricht debt is shown in Annex Table 60. 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/index.htm).*

a) Includes funded government employee pension liabilities amounting to 19 per cent of GDP in 1999. This overstates the Canadian debt position relative to countries that have large unfunded liabilities for such pensions, which according to SNA93/ESA95 are not counted in the debt figures, but rather as a memorandum item to the debt.

b) Includes the debt of the Inherited Debt Fund from 1995 onwards.

c) Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

d) Includes the funded part of central government employee pension liabilities amounting to 8.3 per cent of GDP in 1999 (the unfunded central government pension liabilities amounted to 9.5 per cent of GDP in 1999).

Source: OECD.

Annex Table 35. **General government net financial liabilities**

As a percentage of nominal GDP

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	..	..	..	..	15.3	11.3	10.7	11.6	16.2	22.0	26.5	27.1	21.6	21.7	16.5	13.7	11.2	10.0	9.2
Austria	28.3	29.9	33.1	36.0	38.1	37.9	37.3	37.2	38.5	43.4	45.6	50.4	50.2	47.6	47.8	48.5	48.2	46.9	45.0
Belgium	105.2	108.5	113.7	117.8	118.2	114.9	115.2	116.4	118.4	124.8	123.9	123.0	120.5	115.9	110.7	107.4	101.8	96.5	91.3
Canada[a]	46.8	52.7	57.7	57.3	56.0	58.8	61.5	69.5	78.9	84.3	86.8	88.5	88.2	83.4	81.4	75.3	67.1	61.3	56.4
Denmark	48.8	45.3	37.9	33.7	35.4	33.2	33.0	37.5	41.2	45.2	45.8	46.2	42.4	38.6	35.7	31.3	26.9	22.6	18.4
Finland	-25.8	-27.1	-28.0	-27.9	-29.2	-33.3	-35.5	-34.2	-25.8	-17.3	-17.4	-13.3	-15.5	-16.1	-27.1	-28.2	-30.4	-33.3	-36.5
France	7.3	10.6	13.6	12.8	13.9	14.6	16.1	16.3	18.4	26.6	29.4	36.0	41.5	41.4	42.5	43.0	42.7	40.9	39.8
Germany[b]	18.7	18.7	19.0	20.4	20.7	18.0	17.8	20.1	24.4	27.9	29.0	39.3	42.0	42.6	44.9	42.3	41.7	39.9	39.6
Iceland	5.7	6.0	8.9	8.1	10.1	18.0	19.4	20.1	26.8	35.0	38.5	40.5	40.3	38.1	31.9	24.6	22.8	19.1	15.3
Italy	72.7	79.6	84.0	88.3	90.6	93.5	83.7	88.6	97.3	105.4	110.7	108.7	108.8	107.0	105.5	104.4	99.8	96.1	92.6
Japan[c]	27.0	26.5	25.5	21.2	18.0	14.8	9.5	4.8	4.2	5.2	7.7	13.0	16.4	17.9	30.6	37.8	43.6	48.8	53.6
Korea	-5.3	-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	-22.6	-24.0	-26.3	-29.1	-32.1
Netherlands	37.8	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	49.9	44.8	40.5	36.9
Norway	-30.1	-36.9	-41.4	-42.8	-43.0	-42.2	-42.0	-38.3	-35.9	-32.2	-30.8	-32.8	-36.7	-43.0	-48.1	-49.6	-55.5	-65.2	-77.7
Spain	23.1	25.9	29.1	29.7	30.4	30.4	31.6	33.0	35.2	42.3	43.2	49.2	53.2	52.1	51.8	45.9	43.1	40.3	37.5
Sweden	13.2	13.8	12.5	6.4	0.2	-6.0	-7.8	-5.0	4.6	10.7	21.0	22.7	19.5	18.2	13.0	8.1	2.0	-3.7	-9.5
United Kingdom	30.2	30.8	31.2	29.5	23.9	19.2	15.1	15.3	21.7	31.0	31.3	37.2	39.0	40.3	42.3	37.1	32.6	28.8	25.6
United States[d]	38.7	41.9	45.4	47.4	48.6	48.7	49.9	53.7	57.1	59.1	59.8	59.3	58.9	56.8	53.5	48.9	43.2	38.2	33.5
Euro area	29.5	32.4	35.2	35.9	37.9	38.2	37.1	39.1	43.2	48.0	49.8	55.2	58.9	58.9	59.0	57.1	55.1	52.5	50.7
Total of above European Union countries	32.0	34.3	36.3	36.1	36.0	35.1	33.0	34.4	39.2	45.7	47.8	53.4	55.5	55.2	55.4	52.8	50.2	47.3	45.1
Total of above OECD countries	32.9	35.1	37.2	37.2	36.5	35.7	34.6	36.3	39.8	43.4	45.0	47.6	48.5	47.5	48.0	46.0	43.2	40.6	38.3

Note: Includes all financial liabilities less financial assets, as defined by ESA95/SNA93 and covers the general government sector. 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/index.htm).*

a) Includes funded government employee pension liabilities amounting to 19 per cent of GDP in 1999. This overstates the Canadian debt position relative to countries that have large unfunded liabilities for such pensions, which according to SNA93/ESA95 are not counted in the debt figures, but rather as a memorandum item to the debt.

b) Includes the debt of the Inherited Debt Fund from 1995 onwards.

c) Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

d) Includes the funded part of central government employee pension liabilities amounting to 8.3 per cent of GDP in 1999 (the unfunded central government pension liabilities amounted to 9.5 per cent of GDP in 1999).

Source: OECD.

Annex Table 36. **Short-term interest rates**

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	12.1	12.2	16.2	16.4	13.5	12.9	17.7	14.4	10.2	6.5	5.2	5.7	7.7	7.2	5.4	5.0	5.0	6.2	6.7	6.7
Austria	5.4	6.5	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	5.4	5.5
Belgium	10.4	11.4	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	5.4	5.5
Canada	8.3	10.0	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	5.7	6.2	6.2
Czech Republic	..	..	..	..	..	..	..	..	..	..	13.1	9.1	10.9	12.0	15.9	14.3	6.9	5.4	7.3	8.0
Denmark	12.7	11.7	10.2	9.1	10.1	8.5	9.8	10.8	9.7	11.5	10.3	6.2	6.0	3.9	3.7	4.1	3.3	5.0	5.9	5.9
Finland	14.6	16.5	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	5.4	5.5
France	12.5	11.7	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	5.4	5.5
Germany	5.8	6.0	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	5.4	5.5
Greece	15.3	17.8	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	6.0	5.4	5.5
Hungary	..	..	..	..	..	..	..	..	..	..	17.2	26.9	32.0	24.0	20.1	18.0	14.7	10.8	11.6	10.5
Iceland	51.0	28.4	35.0	23.8	25.6	31.0	27.9	14.8	14.6	10.5	8.8	4.9	7.0	7.0	7.1	7.4	8.6	11.1	11.9	11.4
Ireland	13.2	13.2	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	5.4	5.5
Italy	18.3	17.3	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	5.4	5.5
Japan	6.7	6.5	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	0.6	0.9
Korea	..	..	..	..	..	..	..	..	18.3	16.4	13.0	13.3	14.1	12.7	13.4	15.2	6.8	7.2	7.4	7.8
Mexico	59.4	49.7	64.2	90.6	103.8	62.1	44.6	35.0	19.8	15.9	15.5	14.5	47.8	32.9	21.3	26.1	22.4	16.0	14.2	12.0
New Zealand	13.1	15.0	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	6.9	7.0
Norway	13.3	13.0	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	7.4	7.2
Poland	..	..	..	..	..	..	..	..	..	..	33.2	28.8	25.6	20.3	21.6	19.1	13.1	16.5	14.7	13.1
Portugal	22.7	24.9	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	5.4	5.5
Spain	20.0	14.9	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	5.4	5.5
Sweden	11.4	11.9	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	3.8	5.0	5.3
Switzerland	4.1	4.3	4.9	4.2	3.8	3.1	7.0	8.9	8.2	7.8	4.9	4.2	2.9	2.0	1.6	1.5	1.4	3.2	4.1	4.2
Turkey	..	..	..	..	..	60.6	40.7	51.9	109.6	97.8	90.3	150.6	136.3	143.6	119.2	115.7	89.2	37.5	25.0	23.9
United Kingdom	10.1	9.9	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	6.3	6.6	6.3
United States	9.6	10.8	8.3	6.8	7.1	7.9	9.2	8.2	5.9	3.8	3.2	4.7	6.0	5.4	5.7	5.5	5.4	6.5	7.0	7.0
Euro area	11.6	11.1	9.9	8.5	8.2	7.7	10.0	10.9	10.8	11.4	8.9	6.5	6.7	4.9	4.3	4.0	3.1	4.4	5.4	5.5

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/index.htm).*
Source: OECD.

Annex Table 37. **Long-term interest rates**[a]

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	13.9	13.5	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	6.4	6.7	6.8
Austria	8.2	8.0	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	5.7	6.0	6.0
Belgium	11.9	12.2	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	5.7	5.9	6.0
Canada	11.8	12.7	11.1	9.5	9.9	10.2	9.9	10.8	9.8	8.8	7.9	8.6	8.4	7.5	6.5	5.5	5.7	5.9	6.2	6.3
Denmark	15.1	14.5	11.6	10.1	11.3	9.6	9.8	10.6	9.3	8.9	7.2	7.9	8.3	7.1	6.2	4.9	5.0	5.9	6.3	6.3
Finland	10.8	11.1	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	5.7	6.0	6.0
France	14.4	13.4	11.9	9.1	10.2	9.2	9.2	10.3	9.0	8.6	6.8	7.2	7.5	6.3	5.6	4.7	4.6	5.5	5.8	5.8
Germany	8.2	8.1	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	5.4	5.7	5.7
Iceland	..	..	..	..	..	33.2	29.5	16.4	17.7	13.1	14.3	7.0	9.7	9.2	8.7	7.7	8.5	11.0	11.6	11.3
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	5.6	5.9	6.0
Korea	13.8	14.3	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	9.2	9.1	9.0
Mexico	..	..	64.2	90.6	103.8	62.1	44.6	34.8	19.7	16.1	15.5	13.8	39.8	34.4	22.5	24.8	24.1	16.9	15.0	12.8
New Zealand	12.2	12.6	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	7.0	7.4	7.5
Norway	12.9	12.2	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	6.4	6.7	6.8
Portugal	..	..	..	..	..	..	..	..	..	..	..	10.4	11.5	8.6	6.4	4.9	4.8	5.8	6.0	6.1
Spain	16.9	16.5	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	5.6	5.9	5.9
Sweden	12.6	12.5	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	5.5	5.7	5.8
Switzerland	4.2	4.6	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	2.8	3.0	4.1	4.4	4.4
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	97.4	35.1	27.6	26.8
United Kingdom	11.3	11.1	11.0	10.1	9.6	9.7	10.2	11.8	10.1	9.1	7.5	8.2	8.2	7.8	7.0	5.5	5.1	5.5	5.7	5.7
United States	11.1	12.4	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	6.1	6.4	6.5
Euro area	..	..	10.8	9.0	9.1	8.9	9.8	11.2	10.5	10.0	8.3	8.2	8.6	7.1	6.0	4.8	4.7	5.5	5.8	5.8

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/index.htm).*

Source: OECD.

Annex Table 38. **Nominal exchange rates (*vis-à-vis* the US dollar)**

Average of daily rates

	Monetary unit	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and assumptions[a] 2000	2001	2002
Australia	*Dollar*	1.281	1.265	1.282	1.284	1.362	1.473	1.369	1.350	1.277	1.348	1.592	1.550	1.730	1.897	1.897
Austria	*Schilling*	12.345	13.23	11.37	11.67	10.99	11.63	11.42	10.08	10.58	12.20	12.38	12.91	15.05	16.36	16.36
Belgium-Luxembourg	*Franc*	36.772	39.40	33.42	34.16	32.15	34.55	33.46	29.50	30.98	35.76	36.30	37.86	44.11	47.96	47.96
Canada	*Dollar*	1.231	1.184	1.167	1.146	1.209	1.290	1.366	1.372	1.364	1.385	1.483	1.486	1.485	1.531	1.531
Czech Republic	*Koruny*	..	..	..	29.47	28.26	29.15	28.79	26.54	27.15	31.70	32.28	34.59	38.92	41.42	41.42
Denmark	*Krone*	6.730	7.310	6.186	6.393	6.038	6.482	6.360	5.604	5.798	6.604	6.699	6.980	8.132	8.778	8.778
Finland	*Markka*	4.186	4.288	3.823	4.043	4.486	5.721	5.223	4.367	4.592	5.187	5.345	5.580	6.501	7.068	7.068
France	*Franc*	5.957	6.380	5.446	5.641	5.294	5.662	5.552	4.991	5.116	5.837	5.899	6.157	7.172	7.798	7.798
Germany	*Deutschemark*	1.756	1.880	1.616	1.659	1.562	1.653	1.623	1.433	1.505	1.734	1.759	1.836	2.138	2.325	2.325
Greece	*Drachma*	141.7	162.1	158.2	182.1	190.5	229.1	242.2	231.6	240.7	272.9	295.3	305.7	368.3	405.1	405.1
Hungary	*Forint*	..	..	..	74.8	79.0	91.9	105.1	125.7	152.6	186.6	214.3	237.1	284.4	318.9	321.3
Iceland	*Krona*	43.05	57.11	58.38	59.10	57.62	67.64	69.99	64.77	66.69	70.97	71.17	72.43	78.87	86.95	86.95
Ireland	*Pound*	0.657	0.706	0.605	0.622	0.588	0.683	0.670	0.624	0.625	0.660	0.703	0.739	0.861	0.936	0.936
Italy	*Lira*	1 302	1 372	1 198	1 241	1 232	1 572	1 613	1 629	1 543	1 703	1 736	1 817	2 117	2 302	2 302
Japan	*Yen*	128.1	138.0	144.8	134.5	126.7	111.2	102.2	94.1	108.8	121.0	130.9	113.9	107.5	108.8	108.8
Korea	*Won*	730.0	669.2	708.0	733.2	780.0	802.4	804.3	771.4	804.4	950.5	1 400.5	1 186.7	1 122.7	1 137.4	1 137.4
Mexico	*Peso*	2.281	2.495	2.841	3.022	3.095	3.115	3.389	6.421	7.601	7.924	9.153	9.553	9.467	9.569	9.569
Netherlands	*Guilder*	1.977	2.121	1.821	1.870	1.759	1.857	1.820	1.605	1.686	1.951	1.983	2.068	2.410	2.620	2.620
New Zealand	*Dollar*	1.529	1.674	1.678	1.729	1.860	1.851	1.687	1.524	1.454	1.513	1.869	1.892	2.213	2.472	2.472
Norway	*Krone*	6.517	6.903	6.258	6.484	6.214	7.094	7.057	6.337	6.457	7.072	7.545	7.797	8.827	9.350	9.350
Poland	*Zloty*	..	..	..	1.058	1.363	1.814	2.273	2.425	2.695	3.277	3.492	3.964	4.384	4.680	4.680
Portugal	*Escudo*	143.9	157.1	142.3	144.4	134.8	160.7	166.0	149.9	154.2	175.2	180.1	188.2	219.2	238.3	238.3
Slovak Republic	*Koruna*	..	..	..	..	..	30.8	32.0	29.7	30.7	33.6	35.2	41.4	46.6	51.6	51.6
Spain	*Peseta*	116.5	118.4	101.9	103.9	102.4	127.2	134.0	124.7	126.7	146.4	149.4	156.2	181.9	197.8	197.8
Sweden	*Krona*	6.129	6.446	5.918	6.045	5.823	7.785	7.716	7.134	6.707	7.635	7.947	8.262	9.191	10.091	10.091
Switzerland	*Franc*	1.463	1.635	1.389	1.434	1.406	1.477	1.367	1.182	1.236	1.450	1.450	1.503	1.701	1.808	1.808
Turkey	*Lira*	1 421	2 120	2 606	4 169	6 861	10 964	29 778	45 738	81 281	151 595	260 473	418 984	627 255	745 050	806 253
United Kingdom	*Pound*	0.562	0.611	0.563	0.567	0.570	0.666	0.653	0.634	0.641	0.611	0.604	0.618	0.660	0.689	0.689
United States	*Dollar*	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Euro area	€	0.808	0.859	0.742	0.766	0.736	0.832	0.828	0.756	0.775	0.883	0.899	0.939	1.094	1.190	1.190
	SDR	0.742	0.780	0.738	0.731	0.710	0.716	0.699	0.659	0.689	0.726	0.737	0.731	0.760	0.783	0.783

Note: Greece becomes a member of the euro area on the 1st of January 2001. In order to present consistent projections for the euro area and ensure comparability of the euro data over time, Greece has been included in the calculation of the euro data throughout.

a) On the technical assumption that exchange rates remain at their levels of 30 October 2000, except for Hungary and Turkey, where exchange rates vary according to official exchange rate policy. For Greece, the exchange rate level is fixed at the irrevocable conversion rate between the euro and the Greek drachma (as from 1 January 2001).

Source: OECD.

Annex Table 39. **Effective exchange rates**[a]

Indices 1995 = 100, average of daily rates

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and assumptions[a]		
														2000	2001	2002
Australia	91.8	99.1	106.3	106.5	107.3	100.5	95.3	103.1	100.0	109.7	111.0	102.8	103.0	95.6	90.1	90.1
Austria	83.8	84.1	84.2	87.6	87.8	89.9	92.8	95.1	100.0	99.1	97.1	99.3	99.7	97.0	95.8	95.9
Belgium-Luxembourg	79.2	78.9	79.2	84.7	85.5	88.2	90.3	94.3	100.0	98.4	94.5	96.7	96.1	92.1	90.4	90.4
Canada	94.8	101.8	109.0	112.4	115.7	109.9	104.9	100.5	100.0	102.1	102.7	98.3	97.9	99.0	97.0	97.1
Czech Republic	..	..	..	..	..	90.9	95.3	98.6	100.0	101.9	99.0	100.9	99.8	100.7	101.6	101.7
Denmark	82.1	81.1	79.8	86.3	85.9	88.6	92.5	95.0	100.0	99.3	96.9	99.5	98.9	94.8	94.0	94.0
Finland	91.0	93.1	97.3	101.2	98.3	86.3	77.1	87.3	100.0	97.8	95.5	98.0	99.8	94.5	92.3	92.3
France	80.7	79.9	79.8	85.6	85.1	88.8	92.3	95.6	100.0	100.4	97.4	100.1	99.1	94.7	92.7	92.7
Germany	71.4	72.1	72.6	78.7	79.4	83.2	87.8	92.6	100.0	98.7	95.2	98.8	98.4	93.6	91.4	91.5
Greece	160.1	149.8	140.4	131.9	119.0	112.0	104.7	100.8	100.0	98.6	96.9	94.4	95.6	89.2	86.7	86.8
Hungary	..	..	..	..	..	..	126.4	120.9	100.0	85.2	78.8	71.4	68.9	65.1	62.1	61.7
Iceland	151.8	144.3	123.1	111.5	112.0	111.6	104.5	99.9	100.0	99.7	102.2	105.4	106.6	108.3	104.3	104.3
Ireland	93.3	91.5	90.9	98.8	97.7	101.9	96.5	98.1	100.0	102.5	102.2	99.4	96.0	88.6	85.3	85.3
Italy	112.7	111.6	115.7	122.9	124.1	123.0	106.6	107.5	100.0	110.2	111.7	114.3	114.3	109.8	107.8	107.9
Japan	48.7	54.7	53.4	52.7	59.3	64.3	79.8	93.2	100.0	87.3	83.4	86.4	99.3	108.6	110.9	110.9
Korea	91.1	97.9	113.1	109.8	106.0	98.8	97.6	99.3	100.0	101.4	93.7	67.5	77.5	83.7	85.1	85.1
Mexico	371.6	218.7	210.8	192.0	185.4	185.6	195.3	190.0	100.0	84.9	83.4	74.2	70.7	72.1	72.2	72.2
New Zealand	92.3	96.2	91.3	91.5	89.0	82.8	86.7	93.8	100.0	107.2	109.9	97.7	94.1	84.5	78.9	78.9
Norway	93.6	94.1	94.7	96.1	95.3	97.0	95.5	96.2	100.0	100.4	101.1	98.3	98.3	95.8	96.4	96.5
Poland	..	..	..	..	..	154.9	141.5	114.3	100.0	93.0	86.1	84.0	77.0	78.4	78.8	78.8
Portugal	95.7	92.2	91.7	93.2	95.7	101.2	97.6	97.0	100.0	99.7	98.4	98.4	97.8	95.3	94.2	94.2
Spain	98.6	102.8	108.7	116.0	117.3	116.1	103.6	99.3	100.0	101.2	97.0	98.4	97.5	94.0	92.5	92.5
Sweden	111.2	112.3	114.1	114.6	115.6	118.4	97.4	99.0	100.0	110.2	106.7	106.4	105.9	106.1	102.7	102.8
Switzerland	78.1	78.3	75.2	81.5	81.2	80.7	84.1	92.3	100.0	98.7	93.2	97.0	97.5	95.8	96.0	96.1
Turkey	4 501.0	2703.1	1927.5	1484.8	982.6	586.4	416.2	171.8	100.0	58.8	35.0	21.1	14.2	10.3	9.2	8.5
United Kingdom	103.0	110.1	107.9	108.8	110.9	108.2	100.0	103.3	100.0	102.3	119.1	127.1	127.4	131.2	133.3	133.4
United States	75.3	73.7	79.1	83.3	85.4	87.0	92.5	98.3	100.0	105.6	113.2	125.5	124.7	127.8	132.5	132.5
Euro area	65.9	66.1	68.2	81.0	81.7	87.1	86.1	92.1	100.0	102.1	95.7	101.5	100.2	90.5	86.4	86.5

Note: Greece becomes a member of the euro area on the 1st of January 2001. In order to present consistent projections for the euro area and ensure comparability of the euro data over time, Greece has been included in the calculation of the euro data throughout.

a) 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/index.htm).*

b) On the technical assumption that exchange rates remain at their levels of 30 October 2000, except for Hungary and Turkey, where exchange rates vary according to official exchange rate policy. For Greece, the exchange rate level is fixed at the irrevocable conversion rate between the euro and the Greek drachma (as from 1 January 2001).

Source: OECD.

Annex Table 40. **Export volumes**

Total goods, customs basis, percentage changes from previous year

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	-2.8	17.7	9.0	3.1	8.1	0.1	4.8	7.2	16.2	6.3	6.2	6.3	3.0	12.7	7.4	0.2	4.9	12.1	9.1	8.8
Austria	4.5	9.5	9.5	1.2	2.0	7.6	15.0	10.7	7.1	3.7	-2.8	10.7	6.5	-1.0	17.0	8.4	5.7	9.0	9.3	8.1
Belgium[a]	4.1	5.0	4.1	7.9	6.9	4.6	8.1	3.1	4.0	0.0	7.6	9.0	6.2	2.2	7.4	5.7	4.9	15.8	9.5	8.0
Canada	7.4	18.6	6.4	5.8	3.6	9.7	1.2	4.7	2.6	7.9	11.3	13.2	9.5	5.6	9.1	8.5	11.0	12.4	7.7	6.4
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	5.7	15.0	2.6	15.0	13.3	7.7	17.8	13.4	11.3
Denmark	7.6	5.5	4.6	1.4	2.4	7.6	7.4	6.5	7.1	5.3	0.1	7.5	5.5	3.7	6.1	0.9	6.0	3.5	9.2	7.6
Finland	4.0	9.6	0.9	0.4	1.5	3.1	-0.2	2.8	-8.7	9.0	18.6	13.9	7.0	6.0	12.0	7.0	3.9	8.7	9.8	8.1
France[b]	4.4	7.3	2.6	0.1	4.2	9.6	10.2	5.0	5.3	4.8	-0.0	9.9	9.6	2.2	12.1	8.8	3.8	14.0	9.2	7.7
Germany	-0.3	9.1	5.9	1.3	2.9	6.6	8.1	1.4	1.4	0.8	-6.3	9.0	6.7	7.1	8.1	8.3	4.6	15.7	9.7	7.5
Hungary	..	..	..	..	..	..	..	..	..	..	..	16.7	9.9	24.2	29.7	21.9	16.3	17.6	14.4	12.0
Iceland[c]	9.4	-3.6	12.7	34.5	25.2	0.6	-2.1	13.5	-1.2	-2.8	-4.7	10.8	11.7	5.3	-0.0	-3.0	6.9	2.7	-3.9	2.8
Ireland	12.0	18.4	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	16.1	13.5	8.4
Italy	3.1	6.7	7.4	1.8	2.4	5.7	8.6	3.2	0.2	3.8	9.0	11.7	13.2	-2.2	4.7	3.3	1.5	10.6	9.4	7.7
Japan	8.5	15.8	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	12.5	5.7	5.3
Korea	19.5	18.1	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	20.1	16.3	12.2
Mexico	15.5	10.4	-3.2	18.0	11.7	16.8	5.9	8.1	14.3	8.1	16.6	8.6	23.9	18.4	16.3	13.2	11.5	13.0	10.9	8.8
Netherlands	4.5	7.4	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	8.5	5.9	11.5	9.5	6.7
New Zealand	5.5	4.9	10.7	-2.0	2.9	3.9	-2.7	5.7	10.4	2.6	4.2	10.1	2.9	4.8	5.6	-1.0	1.6	8.2	8.6	8.1
Norway	12.6	9.1	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	6.5	5.5	3.6
Poland	..	..	..	..	..	..	..	..	..	..	..	18.6	16.6	9.9	13.7	8.5	2.8	15.9	10.8	9.3
Portugal	21.3	14.5	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	4.1	6.2	9.7	9.7	8.6
Spain	8.4	17.5	2.8	-3.7	7.6	6.0	4.8	11.9	11.3	4.9	11.7	21.2	9.7	12.0	14.5	6.6	6.4	12.2	10.4	9.6
Sweden	11.4	8.2	3.4	2.9	2.7	3.7	2.1	0.2	-2.2	1.0	9.8	16.9	10.8	6.1	10.2	7.3	5.3	10.1	7.3	5.4
Switzerland	-0.5	7.9	7.8	-0.0	1.8	7.2	7.7	3.4	-2.8	3.5	1.0	3.4	2.2	2.6	7.9	4.0	4.7	10.5	7.0	5.9
Turkey	5.4	29.5	14.5	-20.8	21.9	8.7	-1.6	1.1	6.4	6.5	7.6	22.0	5.8	12.9	18.6	6.6	3.0	5.8	2.8	6.6
United Kingdom	1.8	8.6	5.7	4.0	5.5	2.5	5.4	6.5	0.5	2.2	0.1	13.0	10.6	8.3	7.6	1.5	3.4	7.9	7.4	6.0
United States[b]	-2.9	7.9	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	2.2	4.0	12.6	10.0	7.8
European Union	3.1	8.4	5.2	2.2	4.1	6.1	7.9	4.0	2.6	2.8	0.9	10.7	8.9	4.9	9.0	6.8	4.7	12.6	9.4	7.5
Total OECD	3.7	10.3	5.2	2.5	4.9	7.9	7.4	5.0	3.7	3.8	2.0	9.4	9.3	6.1	10.7	5.9	5.1	12.9	9.3	7.6

a) Including Luxembourg until 1994.
b) Volume data use hedonic price deflators for certain components.
c) OECD estimates.

Note: 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/index.html).*

Source: OECD.

Annex Table 41. **Import volumes**

Total goods, customs basis, percentage changes from previous year

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	-16.0	18.9	7.9	-1.3	1.5	13.2	22.8	-7.3	-1.3	6.7	4.3	11.8	10.1	6.9	6.2	7.2	7.1	11.7	7.0	7.3
Austria	8.1	8.3	5.4	5.2	5.3	7.7	10.6	11.0	3.3	2.8	-1.3	12.9	7.0	-0.2	11.3	6.3	5.7	8.8	7.9	6.9
Belgium[a]	-1.4	4.9	3.8	10.6	8.3	4.9	6.8	5.2	4.1	1.0	1.2	7.7	5.0	4.3	4.5	8.1	2.7	14.3	8.8	7.4
Canada	11.0	19.7	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	7.3	10.4	15.5	8.2	6.9
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	18.8	26.6	10.9	8.8	11.1	2.0	15.0	12.8	11.2
Denmark	3.0	3.4	7.9	7.0	-1.7	0.0	2.4	4.5	4.7	4.7	-3.6	12.3	7.0	1.2	9.1	3.3	1.2	3.2	6.4	5.9
Finland	3.2	-0.3	5.9	5.2	9.3	8.8	10.7	-4.0	-16.7	-2.1	-3.7	20.4	8.1	7.7	10.1	8.9	2.1	5.8	6.7	6.0
France[b]	-2.3	2.1	5.6	6.6	8.8	11.2	9.8	5.2	2.9	1.0	-4.3	10.3	8.7	0.0	7.4	12.3	4.7	14.0	8.2	8.5
Germany	4.0	5.2	4.9	5.4	5.3	6.4	7.3	12.7	11.9	1.3	-9.8	7.9	6.9	5.5	6.6	10.8	4.8	12.6	8.1	7.0
Hungary	..	..	..	..	..	..	..	..	..	..	..	14.9	-3.1	17.9	26.2	24.6	14.2	15.1	12.3	11.5
Iceland[c]	-13.4	0.7	10.1	23.4	41.8	0.6	-12.3	18.6	5.1	-3.3	-16.3	4.6	19.4	16.2	8.7	24.1	6.1	7.7	-0.3	2.6
Ireland	3.2	10.5	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	14.2	13.0	8.8
Italy	-0.0	9.1	8.8	4.5	10.1	7.0	8.3	4.4	4.6	3.3	-10.1	12.4	9.8	-4.4	10.3	10.9	3.8	8.9	8.7	8.9
Japan	1.1	10.6	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	11.5	7.7	4.2
Korea	12.0	18.6	5.6	1.6	17.8	18.9	15.2	17.9	17.3	2.2	7.1	19.0	23.6	28.4	5.2	-19.0	31.1	23.1	20.2	11.0
Mexico	-32.1	30.1	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	19.6	13.3	10.6
Netherlands	4.5	5.5	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	7.5	6.7	11.8	10.2	7.5
New Zealand	-6.8	20.1	-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	-1.9	6.0	6.4
Norway	-3.3	13.5	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	1.5	2.3	3.3
Poland	..	..	..	..	..	..	..	..	..	..	..	13.3	20.2	28.2	21.9	14.9	4.2	13.6	6.5	7.9
Portugal	-12.6	-5.7	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	13.4	9.8	9.3	8.8	8.6
Spain	-1.6	-1.0	8.4	20.3	27.7	19.2	16.8	9.9	11.5	6.8	-5.7	15.2	11.0	7.5	12.4	13.1	13.9	8.8	9.8	9.1
Sweden	1.9	6.7	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	2.6	10.3	10.2	7.4
Switzerland	5.9	8.5	3.8	8.5	6.0	4.5	7.0	1.9	-1.5	-4.9	-0.8	8.3	4.1	2.4	8.5	9.1	5.8	8.7	6.8	6.5
Turkey	12.0	24.0	7.9	-5.0	14.1	-0.5	5.7	34.2	-2.0	10.6	37.2	-21.1	29.9	30.8	21.9	-1.9	-3.5	19.9	4.1	5.3
United Kingdom	6.1	11.1	3.8	7.2	6.9	13.8	8.0	0.5	-5.2	6.2	0.4	6.3	6.0	9.8	8.7	9.4	7.2	7.6	7.8	6.1
United States[b]	13.6	24.2	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	11.8	12.5	14.5	9.4	7.3
European Union	2.1	5.7	5.8	6.5	7.8	8.6	8.5	6.4	4.2	2.8	-4.6	9.5	7.7	4.2	8.4	10.3	5.6	11.0	8.6	7.6
Total OECD	3.8	10.9	5.8	7.3	7.1	8.6	7.7	5.7	3.5	4.1	0.5	10.9	8.8	7.2	9.9	8.2	8.5	12.7	9.2	7.4

a) Including Luxembourg until 1994.
b) Volume data use hedonic price deflators for certain components.
c) OECD estimates.

Note: 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/index.html).*

Source: OECD.

Annex Table 42. **Export prices (average unit values)**
Total goods, percentage changes from previous year, national currency terms

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	7.6	0.3	12.5	1.2	4.0	11.8	5.5	1.2	-9.1	2.1	1.3	-2.8	7.4	-4.2	1.8	4.9	-7.0	13.2	8.5	0.6
Austria	-0.5	3.7	2.6	-4.2	-1.9	4.0	-2.6	-1.9	-4.1	-1.7	-1.4	-1.0	6.5	6.3	-0.0	0.0	-0.1	3.0	3.8	1.8
Belgium[a]	7.9	7.8	1.7	-9.9	-6.1	4.8	7.9	-3.1	-1.9	-1.4	-1.5	1.1	1.8	2.7	5.4	-0.1	-0.5	8.7	6.2	1.3
Canada	-0.1	3.7	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	-1.4	0.7	3.2	2.0	1.1
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	4.7	7.2	1.0	5.5	4.1	-0.9	5.1	3.1	2.5
Denmark	4.9	6.2	3.4	-4.5	-1.0	-0.1	5.6	-1.6	-0.4	-1.7	-3.0	1.9	0.6	0.8	2.2	-0.3	-0.1	7.8	5.9	1.4
Finland	6.4	6.3	2.6	-2.2	2.1	5.4	7.5	-1.2	0.5	6.1	5.3	0.8	6.9	-0.1	1.7	1.6	-2.9	8.4	2.9	0.8
France[b]	9.0	8.7	3.9	-4.6	-1.2	2.1	3.7	-1.9	-1.5	-2.3	-3.2	-0.6	0.4	1.7	2.1	-1.7	-0.9	2.7	4.6	2.3
Germany	1.3	3.4	3.9	-3.3	-2.7	0.9	4.4	-1.1	-0.6	0.7	0.0	1.0	1.7	0.2	1.6	-0.2	-1.5	3.3	2.9	1.4
Hungary	..	..	..	..	..	..	..	..	..	..	..	18.0	31.2	18.9	15.1	13.1	3.5	8.5	10.0	5.0
Iceland[c]	102.1	27.7	30.9	-1.0	-5.9	11.6	32.1	2.2	1.4	-2.5	17.6	3.1	-7.3	3.0	4.3	7.3	-0.7	-1.0	8.8	1.8
Ireland	8.5	8.5	2.8	-7.2	-0.1	7.1	6.7	-9.4	-0.9	-2.6	6.8	1.0	1.3	-0.7	1.2	2.7	0.4	10.4	6.0	1.7
Italy	7.5	9.5	8.0	-4.7	1.2	5.0	6.3	2.1	2.9	0.8	11.3	3.7	9.3	4.3	-0.3	0.3	-1.9	7.2	6.9	2.1
Japan	-6.6	-0.2	-0.7	-15.4	-6.0	-2.5	6.9	3.6	-0.3	-0.1	-4.6	-1.0	-1.8	6.9	1.9	0.7	-8.0	-3.4	-0.3	0.4
Korea	-6.4	1.3	-6.0	-8.4	10.5	8.6	-5.4	2.1	3.1	4.3	-1.5	2.8	2.4	-9.4	8.0	17.1	-17.0	-0.1	2.6	1.0
Mexico	181.3	25.9	60.7	35.6	152.2	53.2	18.5	22.2	-2.5	2.5	-3.0	17.9	100.0	20.3	3.1	8.7	8.2	9.2	7.2	4.9
Netherlands	-0.3	5.9	1.3	-17.0	-5.7	0.5	5.0	-1.2	-0.6	-2.9	-3.4	2.0	1.5	0.7	3.0	-3.0	-1.5	10.4	7.1	1.2
New Zealand	5.6	13.1	9.3	-2.6	6.0	6.3	13.0	-1.2	-4.2	8.1	2.7	-4.1	-1.7	-3.5	-2.6	4.8	1.4	13.8	10.4	1.8
Norway	3.7	9.4	4.9	-24.8	-3.4	-0.0	12.3	4.1	-3.7	-8.4	0.6	-3.7	3.7	7.4	2.2	-11.3	12.6	46.9	13.0	-2.7
Poland	..	..	..	..	..	..	..	..	..	..	..	28.4	21.4	8.1	12.8	6.8	8.0	7.9	7.7	5.8
Portugal	30.2	30.7	15.7	3.3	8.4	10.5	5.7	2.9	0.2	-2.2	4.3	5.1	3.0	-1.1	0.4	2.3	-1.9	6.6	5.7	1.9
Spain	16.9	12.4	6.9	-3.9	2.5	5.4	4.6	-1.8	-0.9	1.1	5.1	4.2	6.3	1.0	3.2	0.1	-0.8	6.6	4.4	2.0
Sweden	13.9	6.6	3.8	-1.2	3.5	4.5	6.9	2.1	0.2	-3.0	8.4	3.9	5.4	-4.3	0.8	-1.4	-1.0	3.1	3.8	2.5
Switzerland	2.4	4.7	2.0	0.5	-1.0	2.3	5.6	1.3	2.5	1.2	0.2	-0.6	-1.8	-0.1	3.8	-0.7	1.1	3.4	3.3	1.5
Turkey	32.5	51.6	35.9	25.7	45.6	59.6	50.3	35.8	58.2	66.9	55.4	163.7	72.1	69.6	77.6	64.0	49.9	48.5	20.1	13.0
United Kingdom	7.6	6.9	5.2	-10.6	3.8	0.4	8.3	3.9	0.6	1.2	9.7	0.4	3.7	1.1	-5.1	-5.6	-2.2	1.3	2.9	2.5
United States[b]	-0.7	0.9	-5.0	-3.3	2.2	6.5	1.3	-0.9	-0.1	-1.5	-0.5	1.1	2.4	-2.6	-2.7	-3.1	-1.4	1.3	0.8	0.6
European Union	6.0	7.0	4.4	-6.2	-0.9	2.6	5.4	-0.4	-0.3	-0.4	2.3	1.4	3.2	1.2	1.0	-1.1	-1.3	4.9	4.5	1.8
Total OECD	4.9	5.3	2.9	-5.9	1.8	3.8	5.0	0.8	-0.3	0.2	1.0	2.3	4.5	1.6	1.2	-0.0	-2.0	3.9	3.5	1.5

a) Including Luxembourg until 1994.
b) Certain components are estimated on a hedonic basis.
c) OECD estimates.
Note: Data are national accounts price deflators in the case of the United States and France.
Source: OECD.

Annex Table 43. **Import prices (average unit values)**

Total goods, percentage changes from previous year, national currency terms

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	8.6	2.5	18.7	9.3	6.1	-2.6	-0.8	3.9	1.0	4.6	8.1	-2.4	3.6	-5.4	-0.1	8.4	-2.3	6.1	6.5	0.7
Austria	-3.0	4.2	3.9	-9.9	-4.1	1.8	3.0	-2.6	3.1	-2.4	-3.5	-1.2	-1.3	6.7	-0.0	0.0	-0.1	3.5	4.6	1.8
Belgium[a]	13.8	8.3	-0.0	-16.2	-7.0	5.7	7.1	-1.8	-1.3	-3.2	-5.7	2.0	3.1	3.3	6.1	-1.7	1.3	10.4	6.1	0.9
Canada	-1.4	4.6	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	1.8	-2.4	-2.7	1.6	1.3
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	-0.9	5.6	1.3	5.2	-2.8	1.9	11.3	4.5	2.4
Denmark	3.2	8.7	2.4	-9.6	-4.1	1.8	7.1	-2.9	0.0	-2.9	-2.9	2.5	3.2	0.9	3.2	0.4	-0.2	5.7	5.9	1.9
Finland	7.1	4.4	3.5	-9.9	-2.3	2.1	3.5	1.7	2.2	10.5	12.8	-2.9	-1.3	2.6	2.4	-8.6	7.8	14.6	4.6	0.5
France[b]	7.5	11.3	0.9	-14.9	-2.3	0.8	6.0	-2.1	-0.7	-3.8	-4.1	0.1	0.4	2.5	1.6	-3.1	0.1	6.4	6.1	1.4
Germany	-0.4	5.9	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	-2.8	-1.7	8.5	3.8	0.9
Hungary	..	..	..	..	..	..	..	..	..	..	..	15.2	30.6	21.3	13.6	11.3	5.5	10.9	11.9	5.3
Iceland[c]	102.1	27.7	30.9	-1.0	-5.9	11.0	32.7	2.4	1.2	-2.5	17.3	3.3	-7.3	3.0	-2.8	-0.6	-2.5	1.3	9.9	1.0
Ireland	4.6	9.5	2.6	-11.2	-0.1	6.5	6.4	-4.9	2.1	-1.9	5.4	2.4	4.5	-1.0	0.4	2.2	3.4	12.1	6.7	1.2
Italy	4.8	11.3	7.4	-17.6	-1.5	4.1	7.6	-0.7	-0.8	-0.5	11.7	4.1	12.2	0.1	0.1	-4.7	1.2	13.7	7.8	1.4
Japan	-9.1	-2.6	-4.4	-36.5	-8.0	-5.4	11.9	10.7	-9.1	-6.9	-12.3	-7.7	-1.4	14.6	6.0	-5.4	-12.3	2.2	1.4	-0.5
Korea	-3.5	-1.4	-3.6	-0.2	10.1	4.0	-5.4	2.1	3.0	4.4	-1.5	2.8	2.5	-9.4	7.5	17.8	-17.2	7.1	2.3	1.0
Mexico	206.3	28.4	70.7	92.1	129.8	70.0	14.1	16.2	6.6	3.3	2.0	11.7	99.7	18.8	4.8	14.8	3.3	4.0	5.9	4.8
Netherlands	0.1	5.7	0.9	-18.0	-3.1	-0.6	5.2	-1.7	-0.3	-2.7	-3.2	2.0	0.2	0.7	2.6	-2.2	-0.5	10.3	6.7	1.0
New Zealand	8.3	13.7	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	17.2	11.0	1.4
Norway	3.7	3.1	6.5	0.0	2.8	2.8	6.1	0.9	-1.7	-2.1	1.0	0.7	0.9	-0.9	-1.0	1.4	-1.9	6.4	3.5	1.7
Poland	..	..	..	..	..	..	..	..	..	..	..	27.6	19.3	11.1	13.6	2.3	7.2	9.4	6.7	1.5
Portugal	37.3	35.3	7.3	-8.6	6.1	7.2	7.7	3.2	0.2	-5.1	5.0	3.6	1.8	2.7	0.3	0.9	2.6	9.9	6.8	1.9
Spain	22.3	11.8	1.2	-19.1	-4.4	-2.1	2.1	-3.4	-2.7	-1.2	5.2	5.8	4.4	0.3	3.6	-2.4	0.0	12.6	4.3	1.9
Sweden	15.0	2.3	2.4	-8.3	1.7	3.5	5.2	2.2	-0.6	-2.7	12.0	4.2	0.8	-3.8	0.9	-3.3	1.9	5.2	4.9	2.5
Switzerland	-0.7	4.2	4.4	-9.3	-3.7	4.9	8.0	-0.4	-0.1	2.1	-1.9	-4.9	-2.0	-0.1	4.9	-3.6	-2.1	7.6	4.4	1.7
Turkey	29.4	56.2	44.3	8.3	37.5	63.2	56.4	29.6	54.6	61.6	50.0	171.5	82.2	65.2	71.5	62.9	52.2	63.2	21.3	11.3
United Kingdom	9.1	8.0	3.9	-5.8	2.7	-0.4	5.9	3.0	-0.5	-0.3	7.8	3.6	6.7	-0.0	-6.6	-7.2	-3.0	1.8	3.1	1.9
United States[b]	-4.2	-0.7	-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	0.2	4.6	0.7	-0.7
European Union	6.3	8.5	2.9	-13.9	-2.8	1.5	6.2	-1.0	0.2	-2.0	1.2	2.0	2.9	1.0	1.2	-3.2	-0.3	8.1	5.1	1.4
Total OECD	3.9	5.5	2.0	-10.7	1.2	3.0	5.7	1.4	-0.5	-0.9	-0.0	2.2	4.3	1.6	1.4	-2.0	-1.5	6.7	3.8	0.9

a) Including Luxembourg until 1994.
b) Certain components are estimated on a hedonic basis.
c) OECD estimates.

Note: Data are national accounts price deflators in the case of the United States and France.

Source: OECD.

Annex Table 44. **Competitive positions: relative unit labour costs**

Indices, 1995 = 100

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Australia	281.6	283.7	221.2	177.0	160.5	157.2	159.5	146.4	131.1	115.4	101.8	103.0	100.0	103.5	104.9	94.0	97.5	93.5
Austria	113.7	110.3	109.7	115.3	115.2	109.2	105.1	105.3	103.0	102.9	101.9	99.1	100.0	95.0	88.9	88.1	86.4	84.7
Belgium-Luxembourg	89.2	89.1	89.8	93.6	96.1	93.5	91.3	96.9	98.0	98.3	97.7	97.5	100.0	95.1	90.0	92.2	91.0	86.7
Canada	117.2	109.1	104.1	97.7	103.8	113.7	117.7	119.8	126.6	116.3	105.2	97.3	100.0	102.9	104.8	102.7	102.7	107.7
Czech Republic	..	..	..	..	..	..	..	..	..	..	87.1	96.5	100.0	108.9	107.5	118.9	120.8	129.0
Denmark	80.2	81.0	84.2	92.3	101.1	98.1	92.4	99.9	96.8	99.7	101.1	96.7	100.0	103.9	103.5	106.7	112.0	110.4
Finland	127.2	131.4	133.0	128.0	125.7	130.0	136.2	142.9	138.2	107.8	82.3	87.0	100.0	94.4	88.5	90.1	86.6	83.1
France	106.1	106.8	109.5	112.6	111.6	105.7	101.0	104.7	100.5	100.5	101.9	100.0	100.0	99.1	92.7	95.6	94.2	89.1
Germany	71.5	69.9	69.0	76.1	84.4	84.1	81.6	84.6	82.2	88.7	91.9	92.5	100.0	97.9	92.2	91.8	90.7	83.9
Greece	103.3	108.0	105.9	90.1	86.0	94.7	99.9	105.5	98.7	96.0	90.1	93.2	100.0	102.0	104.6	101.6	103.6	97.9
Hungary	..	..	..	..	..	..	..	..	..	..	127.2	119.3	100.0	92.4	91.5	85.2	85.5	86.7
Iceland	84.4	88.2	94.4	91.3	111.0	121.7	109.1	107.2	111.8	109.8	101.2	99.4	100.0	99.3	104.4	114.6	125.1	135.1
Ireland	170.8	157.8	152.3	162.8	149.4	137.2	126.1	131.4	126.3	122.1	112.9	108.8	100.0	99.1	91.7	85.9	81.7	73.8
Italy	133.0	130.4	128.4	131.2	131.0	130.4	135.1	142.6	145.6	138.3	115.1	109.9	100.0	113.9	118.8	119.4	120.0	116.6
Japan	54.8	56.1	55.0	75.2	79.2	82.6	73.8	67.2	71.5	75.8	90.9	102.2	100.0	81.6	77.6	83.2	96.1	102.6
Korea	88.1	89.4	84.1	66.3	70.1	85.5	100.5	97.1	98.8	92.0	88.0	90.1	100.0	106.4	90.6	64.1	71.3	76.8
Mexico	109.8	140.3	133.4	102.5	103.8	107.7	119.4	121.5	136.3	152.3	164.4	160.6	100.0	101.8	111.7	109.2	113.0	124.9
New Zealand	92.7	77.9	77.6	79.2	88.8	98.4	92.0	92.1	92.4	83.3	85.8	93.4	100.0	112.2	117.3	105.7	102.7	93.9
Norway	96.4	95.0	94.7	94.9	95.4	101.3	99.5	97.8	95.7	94.3	91.3	94.8	100.0	101.2	106.4	108.8	114.5	115.1
Poland	..	..	..	..	..	..	..	..	..	..	89.4	92.1	100.0	102.4	101.8	108.5	101.0	104.2
Portugal	74.9	66.7	73.2	69.8	69.8	72.1	73.5	79.4	89.1	99.7	97.5	99.1	100.0	97.9	97.1	99.2	100.5	100.9
Spain	89.6	91.8	90.6	89.1	90.0	96.3	103.7	114.6	117.5	120.3	107.6	101.2	100.0	103.1	101.8	105.5	106.5	105.3
Sweden	119.4	122.4	128.4	129.1	129.0	134.4	140.6	144.5	148.8	146.5	104.4	97.2	100.0	113.0	108.1	108.3	107.7	109.7
Switzerland	72.5	70.5	69.6	76.7	81.2	82.6	77.7	83.2	85.0	83.3	83.7	92.3	100.0	96.4	92.2	96.0	96.2	95.1
Turkey	111.1	96.7	99.4	79.0	71.4	64.8	98.1	115.9	149.6	140.7	139.2	95.7	100.0	98.8	100.9	109.9	118.3	131.4
United Kingdom	113.4	108.8	112.0	105.4	108.1	115.1	111.1	114.4	118.4	112.5	99.3	101.5	100.0	102.6	123.6	137.6	138.5	145.4
United States	157.4	160.9	166.8	146.0	123.0	113.3	114.5	112.1	110.4	107.6	107.0	106.0	100.0	101.4	107.1	117.2	115.7	116.1
Euro area	89.0	85.1	84.5	95.4	104.2	99.9	95.7	106.3	102.7	106.8	100.2	96.7	100.0	101.1	92.3	94.8	92.8	83.2

Note: Competitiveness-weighted relative unit labour costs in the manufactoring sector in dollar terms. Competitiveness weights take into account the structure of competition in both export and import markets of the manufacturing sector of 40 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.

Source: OECD.

Annex Table 45. **Competitive positions: relative export prices**

Indices, 1995 = 100

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Australia	121.3	121.6	108.7	98.1	101.0	118.4	123.6	116.4	105.8	97.0	91.2	96.2	100.0	100.4	102.1	95.2	96.9	90.8
Austria	103.7	101.7	101.0	105.1	106.9	109.6	100.0	101.8	96.7	96.0	96.8	93.4	100.0	104.4	100.0	100.6	100.7	97.9
Belgium-Luxembourg	90.1	89.8	89.9	93.7	93.2	92.9	95.4	97.5	95.2	96.1	94.4	96.0	100.0	99.9	99.8	101.9	101.3	101.3
Canada	102.3	102.4	101.6	98.9	101.0	104.4	107.1	104.4	101.8	97.4	96.1	96.1	100.0	101.3	102.3	98.9	98.6	99.5
Czech Republic	..	..	..	..	..	..	..	..	..	..	94.2	98.1	100.0	102.1	102.1	107.5	104.6	106.4
Denmark	88.2	86.3	89.1	95.7	98.3	95.1	92.8	98.2	96.7	98.3	98.0	99.2	100.0	99.3	97.5	101.4	102.1	97.1
Finland	86.3	87.3	88.8	89.0	91.5	94.9	99.7	99.6	98.3	90.3	79.3	84.9	100.0	95.4	94.6	98.3	93.5	90.8
France	104.6	104.1	105.9	109.2	109.5	107.9	104.5	107.0	102.5	103.1	100.2	99.6	100.0	101.5	99.0	98.9	97.8	93.0
Germany	82.8	79.6	81.0	90.2	93.3	90.9	89.5	93.2	91.7	95.1	96.5	96.7	100.0	97.0	92.6	94.3	92.9	86.2
Greece	144.9	139.2	129.3	112.9	106.4	112.2	115.1	119.1	117.0	105.9	101.4	102.8	100.0	..	..	..	..	..
Hungary	..	..	..	..	..	..	..	..	..	..	103.2	102.7	100.0	99.6	103.4	105.1	102.8	104.1
Iceland	169.7	176.3	175.5	144.2	127.6	120.2	121.4	110.1	111.1	107.8	115.4	111.8	100.0	102.7	119.1	146.7	165.2	118.7
Ireland	106.5	105.7	108.5	110.9	103.6	108.2	108.6	103.7	101.8	104.4	100.6	99.3	100.0	102.3	106.1	106.8	105.8	104.9
Italy	101.6	102.1	102.6	104.7	105.1	101.2	108.1	113.4	114.4	112.9	100.9	98.7	100.0	105.3	104.3	107.7	107.7	107.8
Japan	70.3	70.1	71.7	80.7	79.4	81.5	79.4	74.7	80.4	84.1	94.5	100.9	100.0	92.7	89.6	89.9	97.8	102.9
Korea	108.0	110.5	100.3	86.6	99.1	112.0	123.4	116.1	109.6	103.0	101.0	98.9	100.0	103.8	104.7	83.8	80.6	83.1
Mexico	96.5	100.8	103.4	100.9	97.5	97.5	95.8	93.8	93.9	91.6	92.2	99.5	100.0	103.6	110.0	113.9	114.5	120.2
New Zealand	96.8	96.1	92.1	88.0	94.1	105.4	103.5	98.1	91.6	88.7	92.3	97.1	100.0	102.2	101.9	92.2	90.8	90.7
Norway	98.7	103.5	100.0	96.0	96.7	112.5	116.8	106.2	100.6	95.1	90.4	89.2	100.0	95.8	95.0	94.6	93.1	90.3
Poland	..	..	..	..	..	..	..	..	..	..	99.4	99.0	100.0	100.1	102.2	106.3	106.9	112.3
Portugal	107.8	110.2	111.1	108.7	106.5	106.7	101.8	102.4	103.9	105.8	101.2	100.0	100.0	98.5	95.1	97.4	95.4	94.5
Spain	82.7	85.1	88.0	96.1	98.4	102.3	102.4	107.9	112.5	112.2	102.5	98.4	100.0	100.7	99.4	100.9	99.4	97.1
Sweden	100.6	102.7	105.0	107.6	109.1	110.9	112.7	113.4	114.5	113.2	98.0	98.8	100.0	105.4	101.0	99.0	97.9	96.8
Switzerland	78.6	77.3	74.9	84.9	88.9	88.4	84.4	91.1	92.9	92.1	93.9	99.7	100.0	99.0	96.6	99.3	101.7	102.1
Turkey	162.9	157.6	143.3	113.3	120.4	109.3	106.9	105.3	105.1	102.6	101.1	98.8	100.0	96.9	98.9	95.9	104.7	114.8
United Kingdom	101.2	98.5	101.3	97.2	98.2	103.1	101.7	103.5	105.1	103.0	102.5	104.0	100.0	101.4	110.1	111.0	108.4	107.3
United States	153.7	153.5	151.2	133.9	123.3	119.1	119.4	114.8	114.3	111.2	112.6	108.8	100.0	98.8	101.4	105.6	105.8	108.1
Euro area	88.5	84.6	86.1	97.5	101.8	98.5	97.6	105.6	100.8	102.9	95.4	94.2	100.0	100.3	94.3	97.2	94.3	86.6

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 40 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.

Source: OECD.

Annex Table 46. **Export performance for total goods**

Total goods, percentage changes from previous year

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	-4.4	6.9	7.1	2.3	-1.9	-8.9	-1.9	2.0	11.0	0.5	2.7	-4.6	-5.4	8.1	3.1	-0.2	0.0	-0.6	-0.1	0.9
Austria	2.8	3.1	5.2	-4.8	-3.6	0.7	6.8	3.7	1.1	2.8	-0.1	0.3	-2.6	-6.8	6.7	-1.6	-0.2	-3.5	-0.1	0.1
Belgium[a]	2.5	-0.0	0.6	-1.1	0.3	-1.0	0.3	-3.0	-1.0	-2.7	10.3	-0.0	-2.4	-2.8	-1.3	-3.2	-0.8	3.6	0.4	0.3
Canada	-4.1	-0.8	-0.7	-2.6	-1.1	2.9	-3.8	3.9	1.6	-0.4	1.6	0.9	1.5	-2.5	-3.3	-1.5	-0.9	-1.5	-1.3	-0.7
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	-6.1	3.9	-4.4	5.8	3.8	5.6	6.3	3.4	3.3
Denmark	5.6	-0.4	-0.0	-3.5	-2.7	2.3	1.3	1.8	2.8	2.4	1.3	-1.9	-1.4	-3.4	-1.4	-6.2	2.3	-6.6	0.8	0.5
Finland	2.1	1.6	-2.7	-5.0	-3.8	-2.7	-6.2	-0.3	-11.9	7.6	19.8	8.4	-10.5	-2.9	1.9	-0.0	0.5	-0.9	0.2	0.3
France	4.6	0.5	1.9	-4.5	-0.9	1.1	1.2	-1.1	-0.9	1.0	1.5	-1.7	0.6	-3.4	1.8	-0.1	-1.8	1.5	-0.1	0.0
Germany	-1.4	1.9	1.6	-4.6	-3.3	-1.9	0.3	-2.6	-1.0	-2.4	-8.0	-1.9	-2.8	0.7	-1.7	0.2	-1.4	3.1	0.1	-0.5
Hungary	..	..	..	..	..	..	..	..	..	..	..	8.1	0.2	17.5	20.0	13.3	15.0	5.2	4.4	4.1
Iceland	7.6	-8.7	10.4	27.4	18.5	0.2	-6.4	9.5	-3.4	-6.0	-4.4	4.1	7.6	0.6	-4.7	-7.0	3.8	-4.1	-9.9	-2.9
Ireland	8.0	9.4	2.3	-1.3	9.2	-3.2	3.7	3.9	3.1	8.4	10.9	6.8	10.8	2.7	3.9	14.5	8.1	4.4	4.4	1.1
Italy	5.6	0.2	4.0	-5.0	-1.8	0.8	-1.8	-3.6	-4.1	0.1	11.9	2.2	-1.4	-1.8	-5.0	-6.2	-5.8	-2.1	-0.0	-0.2
Japan	3.0	2.0	-0.5	-6.0	-6.3	-5.8	-3.7	-0.4	-5.3	-6.3	-9.7	-10.5	-6.6	-7.3	0.7	-3.1	-7.7	-3.8	-4.9	-3.4
Korea	17.8	2.7	3.8	10.7	11.9	6.8	-12.9	2.8	5.9	1.8	0.5	2.8	7.7	-2.9	1.4	25.2	2.4	3.9	5.5	3.4
Mexico	7.7	-5.8	-7.4	1.3	5.0	9.4	3.2	7.6	10.3	-2.2	3.7	-3.9	16.6	8.3	0.5	-0.5	2.1	0.3	1.6	1.4
Netherlands	3.1	3.1	2.4	-2.0	-1.1	2.8	-0.2	-0.5	0.0	-0.2	3.5	-2.3	0.2	0.0	-0.8	0.2	2.3	0.5	1.0	-0.5
New Zealand	7.2	-4.9	9.0	-1.7	-5.1	-4.5	-11.6	4.3	8.7	-3.7	-0.4	0.7	-5.4	0.2	-0.1	-1.5	-3.4	-2.1	0.3	0.8
Norway	9.4	2.4	0.2	-5.1	6.4	-0.8	9.1	2.7	3.4	3.6	5.2	4.4	-0.2	6.7	-1.8	-4.5	-0.5	-2.4	-2.2	-2.9
Poland	..	..	..	..	..	..	..	..	..	..	..	7.1	6.7	3.7	5.1	-0.0	0.1	4.0	1.2	1.6
Portugal	16.9	8.7	6.5	1.5	4.0	-0.3	11.5	6.6	-3.8	4.0	-0.9	4.1	5.7	4.8	0.7	-5.3	-0.7	-1.2	0.7	0.9
Spain	6.2	13.7	-2.1	-13.0	-0.2	-0.3	-0.1	2.3	1.2	0.7	14.5	10.8	1.2	6.9	4.4	-2.5	1.6	0.6	1.3	1.5
Sweden	9.4	0.2	-1.9	-3.7	-2.1	-2.7	-4.3	-4.3	-4.9	-2.3	9.7	5.2	1.6	-1.1	0.9	-0.8	0.1	-0.8	-1.2	-1.8
Switzerland	-4.8	-2.6	6.2	-4.2	-4.7	-0.5	-0.1	-2.2	-8.8	0.9	1.7	-6.5	-5.5	-4.4	-3.4	-2.6	-2.3	-2.8	-2.2	-1.8
Turkey	6.3	25.5	15.9	-22.9	18.7	4.0	-4.7	-2.5	3.4	5.9	11.5	11.9	-4.1	7.2	11.5	-0.6	0.2	-4.8	-6.5	-0.9
United Kingdom	-0.5	1.8	3.2	-0.9	1.3	-2.9	-1.2	0.9	-3.6	-2.0	0.8	2.5	1.1	2.5	-1.7	-6.5	-2.4	-3.9	-2.0	-1.7
United States	-1.0	-1.3	0.8	0.8	8.5	5.2	4.0	3.2	0.0	-0.6	-2.2	-2.3	3.2	1.3	3.5	-1.1	-2.3	-1.1	-0.1	-0.3
European Union	2.3	2.0	1.8	-3.7	-1.4	-0.9	0.1	-1.4	-1.7	-0.5	1.7	0.5	-0.8	-0.3	-0.5	-1.8	-1.0	0.6	0.1	-0.3
Total OECD	2.1	1.6	1.5	-3.3	-0.6	-0.4	-0.4	-0.0	-1.2	-1.1	-0.3	-1.5	-0.4	-0.8	0.4	-0.8	-1.6	-0.2	-0.3	-0.4
Memorandum items																				
China	3.2	2.2	14.5	6.2	2.0	0.7	-3.0	0.5	8.2	10.1	2.6	19.3	-6.7	5.9	16.9	9.3	1.6	12.7	3.9	4.2
Dynamic Asia[b]	7.0	2.0	-4.2	15.2	10.0	4.6	2.3	4.4	5.2	3.5	3.6	2.4	0.3	-1.2	-0.2	1.7	-0.6	-0.1	-0.0	-0.1
Other Asia	1.9	-3.0	-3.1	5.1	3.8	-1.8	5.7	5.4	1.0	7.3	7.8	1.1	6.6	5.5	-4.2	2.0	1.6	1.9	1.1	0.6
Non-OECD Asia	5.6	1.4	-1.0	12.4	8.0	3.3	1.7	3.8	5.3	4.9	3.8	5.2	-0.6	0.6	2.8	3.2	0.0	2.9	1.0	1.0
Latin America	4.7	3.0	0.7	-8.6	-2.0	6.6	2.4	-2.9	-1.5	-4.1	3.4	-4.2	-6.8	1.3	-0.0	2.6	1.5	-0.5	-0.3	0.4
Africa and Middle-East	-4.6	-8.0	-0.7	21.0	-8.9	-1.3	-0.7	-6.0	0.4	-0.7	1.6	-5.3	-6.9	8.7	1.5	1.2	-0.3	-2.6	-0.8	0.1
Central and Eastern Europe	3.1	2.3	-8.3	1.5	-0.9	-3.7	-4.0	-3.4	-13.1	-13.6	-0.9	12.5	0.2	-4.5	-12.3	-7.2	6.4	-4.0	-2.8	-0.8
Total of non-OECD countries	1.1	-1.6	-3.2	8.3	-0.3	0.3	-0.3	-1.1	-0.2	-0.1	2.6	2.5	-2.4	1.5	0.5	1.7	0.9	1.0	0.2	0.6
World	1.8	0.8	0.3	-0.5	-0.6	-0.2	-0.3	-0.3	-0.9	-0.9	0.4	-0.4	-0.9	-0.2	0.4	-0.1	-1.0	0.1	-0.2	-0.1

a) Including Luxembourg until 1994.
b) Dynamic Asia includes Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.

Note: 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.

Source: OECD.

Annex Table 47. **Shares in World exports and imports**

Percentage, values for total goods, customs basis

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
A. Exports																				
Canada	4.4	4.8	4.8	4.5	4.2	4.2	4.2	3.8	3.7	3.7	4.0	4.0	3.8	3.9	4.0	4.0	4.4	4.5	4.4	4.4
France	5.5	5.2	5.4	6.1	6.1	5.4	5.3	5.7	5.6	5.7	5.1	5.2	5.4	5.2	5.1	5.5	5.2	4.7	4.5	4.6
Germany	10.1	9.6	10.1	12.3	12.6	11.8	11.5	12.9	11.5	11.6	10.2	10.2	10.3	9.8	9.2	10.0	9.7	8.6	8.2	8.2
Italy	4.2	4.0	4.2	4.7	4.8	4.6	4.7	5.0	4.9	4.9	4.6	4.6	4.7	4.8	4.4	4.6	4.3	3.8	3.8	3.8
Japan	8.6	9.4	9.6	10.5	9.8	9.3	8.9	8.1	8.7	8.8	9.3	9.0	8.3	7.4	7.2	6.7	7.0	7.2	6.9	6.7
United Kingdom	5.2	5.0	5.3	5.2	5.4	5.2	5.1	5.3	5.3	5.1	4.9	4.9	4.8	4.9	5.1	5.0	4.8	4.5	4.4	4.4
United States	11.3	11.6	11.3	10.5	10.2	12.0	12.6	11.8	12.4	12.3	12.5	12.3	11.7	11.8	12.7	12.8	12.7	12.8	13.1	13.0
Other OECD countries	19.5	19.5	19.7	20.7	21.6	22.7	22.3	23.0	22.9	23.0	22.8	23.0	24.2	24.4	23.9	24.8	24.8	24.2	24.4	24.7
Total OECD	68.7	69.2	70.5	74.3	74.6	75.2	74.5	75.5	75.0	75.0	73.3	73.0	73.2	72.2	71.6	73.5	72.9	70.3	69.7	69.7
Non-OECD Asia	9.4	10.1	9.8	9.7	10.5	10.5	11.0	10.8	12.3	13.2	14.6	15.3	15.4	15.8	16.3	15.7	16.1	17.0	17.3	17.6
Latin America	4.5	4.7	4.5	3.6	3.3	3.1	3.2	3.0	2.9	2.9	3.1	3.2	3.1	3.2	3.3	3.2	3.0	3.2	3.3	3.3
Other non-OECD countries	17.3	16.0	15.2	12.3	11.6	11.2	11.3	10.7	9.7	8.9	9.0	8.5	8.3	8.9	8.7	7.5	7.9	9.5	9.8	9.4
Total of non-OECD countries	31.3	30.8	29.5	25.7	25.4	24.8	25.5	24.5	25.0	25.0	26.7	27.0	26.8	27.8	28.4	26.5	27.1	29.7	30.3	30.3
B. Imports																				
Canada	3.1	3.5	3.7	3.6	3.4	3.9	3.9	3.6	3.6	3.5	3.7	3.7	3.4	3.3	3.7	3.8	4.0	4.0	3.9	3.8
France	5.8	5.4	5.6	6.0	6.3	6.0	5.9	6.4	6.1	5.9	5.0	5.2	5.3	5.1	4.7	5.1	5.0	4.6	4.5	4.5
Germany	8.4	8.0	8.2	9.0	9.3	9.0	8.9	10.0	11.1	10.9	9.3	9.2	9.2	8.6	8.1	8.6	8.4	7.6	7.2	7.1
Italy	4.1	4.1	4.3	4.3	4.7	4.7	4.8	5.1	5.1	4.9	3.9	3.9	4.0	3.9	3.8	4.0	3.9	3.7	3.6	3.6
Japan	6.2	6.3	6.0	5.4	5.4	5.9	6.4	6.3	6.0	5.5	5.6	5.7	5.8	5.9	5.5	4.5	4.9	5.2	5.2	4.9
United Kingdom	5.4	5.4	5.5	5.8	6.1	6.6	6.4	6.4	5.8	5.8	5.5	5.4	5.3	5.4	5.6	5.7	5.6	5.2	5.1	5.0
United States	15.2	17.7	17.9	17.6	17.0	16.5	16.2	15.0	14.5	14.9	16.2	16.4	15.3	15.5	16.4	17.4	18.9	20.0	20.2	19.7
Other OECD countries	20.6	20.1	20.8	22.1	23.3	23.2	23.4	24.5	24.3	24.2	23.5	23.6	24.4	24.7	24.2	24.8	24.8	24.1	24.0	24.3
Total OECD	68.7	70.5	72.0	73.9	75.4	76.1	76.1	77.2	76.4	75.6	72.9	73.2	72.8	72.4	72.0	74.1	75.4	74.4	73.6	73.1
Non-OECD Asia	9.5	9.7	10.1	9.5	9.8	10.6	10.9	10.8	12.1	13.2	15.2	15.8	16.1	16.3	16.2	14.2	14.4	15.6	15.8	16.2
Latin America	4.1	3.9	3.7	3.7	3.4	2.4	2.2	2.1	2.4	2.7	3.1	3.2	3.3	3.3	3.8	3.8	3.1	3.0	3.1	3.2
Other non-OECD countries	17.6	15.9	14.2	12.9	11.3	11.0	10.8	9.9	9.1	8.5	8.9	7.9	7.8	8.0	8.1	7.9	7.1	7.0	7.5	7.5
Total of non-OECD countries	31.3	29.5	28.0	26.1	24.6	23.9	23.9	22.8	23.6	24.4	27.1	26.8	27.2	27.6	28.0	25.9	24.6	25.6	26.4	26.9

Source: OECD.

Annex Table 48. **Trade balances**
Billions US dollars

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	0.0	-0.8	-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	-9.8	-5.6	-3.2	-2.5
Austria	-3.2	-3.2	-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	-3.5	-3.3	-2.8
Belgium[a]	-0.0	0.4	1.1	3.0	2.2	3.7	3.4	3.0	3.3	5.0	6.9	8.1	11.1	10.4	9.7	8.9	8.3	7.0	8.7	11.1
Canada	14.2	15.6	11.9	7.2	9.2	8.8	6.5	9.5	6.1	7.4	10.2	14.8	25.8	31.1	17.2	12.8	22.8	34.4	36.5	37.7
Czech Republic	..	..	..	..	..	..	..	..	..	..	-0.5	-1.4	-3.7	-5.9	-4.6	-2.6	-1.9	-3.0	-3.5	-4.0
Denmark	0.2	-0.2	-0.7	-1.0	0.8	2.1	2.7	5.3	5.2	7.4	7.8	7.4	6.5	7.6	5.7	3.9	6.9	7.0	8.6	10.0
Finland	0.1	1.5	0.9	1.7	1.5	1.2	-0.2	0.7	2.2	4.0	6.4	7.7	12.4	11.3	11.6	12.5	11.7	11.6	12.4	14.3
France	-8.3	-4.4	-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	24.8	19.8	8.0	7.0	8.3
Germany	19.5	21.4	28.3	54.6	67.6	76.3	74.9	68.4	19.5	28.2	41.2	50.9	65.1	70.6	72.0	79.7	73.1	64.1	69.4	80.6
Greece	-5.1	-5.0	-6.0	-5.4	-6.5	-7.3	-8.7	-12.0	-11.9	-13.7	-12.4	-13.4	-17.1	-18.3	-17.3	-16.7	-18.0	-18.7	-18.8	-20.7
Hungary	..	..	..	..	..	..	..	..	..	..	-3.3	-3.6	-2.4	-2.7	-2.0	-2.4	-2.2	-2.0	-2.2	-2.5
Iceland	0.0	-0.0	-0.0	0.1	-0.1	-0.0	0.1	0.1	-0.1	0.0	0.2	0.3	0.2	0.0	0.0	-0.3	-0.3	-0.4	-0.5	-0.5
Ireland	-0.2	0.2	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	24.2	25.8	28.5	31.5
Italy	-1.6	-5.1	-5.4	4.8	0.1	-0.7	-2.9	-1.7	-2.2	-0.3	29.0	31.4	38.7	54.0	40.1	36.4	20.6	12.3	13.0	13.2
Japan	31.5	44.3	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	122.4	123.1	124.8	117.1	130.7
Korea	-1.8	-1.1	-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	18.7	16.3	21.0
Mexico	14.1	13.2	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	-11.4	-16.6
Netherlands	5.5	6.6	6.8	7.4	6.3	10.1	9.8	12.0	12.0	12.3	16.9	18.7	23.9	22.8	21.8	20.8	17.9	17.2	18.1	18.3
New Zealand	0.3	-0.5	-0.0	0.1	0.6	2.2	1.0	0.9	2.1	1.6	1.7	1.4	1.0	0.5	0.8	0.9	-0.4	0.4	0.7	1.1
Norway	3.0	3.5	3.0	-3.8	-2.6	-2.1	1.1	4.6	6.0	8.3	6.9	7.5	8.6	12.9	11.5	1.7	10.5	29.0	37.0	35.8
Poland	..	..	..	..	..	..	..	..	..	..	-2.5	-0.6	-1.6	-7.3	-9.8	-12.8	-15.1	-15.8	-15.1	-14.3
Portugal	-3.0	-2.0	-1.4	-1.6	-3.5	-5.4	-4.8	-6.7	-7.7	-9.4	-8.1	-8.3	-9.0	-9.4	-10.1	-12.3	-14.2	-15.3	-16.4	-18.2
Spain	-7.8	-4.6	-4.7	-7.2	-13.7	-18.7	-25.4	-29.1	-30.4	-30.4	-15.0	-14.8	-18.2	-16.0	-13.2	-18.7	-29.3	-33.2	-34.1	-37.1
Sweden	1.9	3.4	2.4	5.1	4.5	4.8	4.0	3.4	6.3	6.2	7.2	9.4	16.9	18.7	18.4	16.8	15.7	15.5	13.1	12.6
Switzerland	-4.0	-4.2	-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	-1.7	-0.3	-1.8	-2.6	-3.4
Turkey	-3.0	-2.9	-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	-20.3	-22.5	-23.5
United Kingdom	-2.4	-7.1	-4.2	-14.1	-19.4	-38.3	-40.6	-32.8	-18.2	-22.8	-20.0	-17.0	-18.5	-20.4	-19.5	-34.1	-43.4	-45.5	-49.9	-52.3
United States	-67.1	-112.5	-122.2	-145.1	-159.6	-127.0	-115.2	-109.0	-74.1	-96.1	-132.6	-166.2	-173.7	-191.3	-196.7	-246.9	-345.6	-450.9	-490.5	-506.0
Euro area	-4.1	5.7	12.0	53.1	44.0	50.7	34.2	18.3	-29.2	-2.6	73.7	89.0	124.8	149.0	155.5	151.8	110.5	75.4	84.5	98.4
European Union	-4.4	1.9	9.4	43.1	29.9	19.3	0.4	-5.8	-35.9	-11.7	68.8	88.8	129.7	154.9	160.1	138.5	89.8	52.4	56.3	68.7
Total OECD	-17.2	-43.6	-42.5	-7.7	-23.7	-1.4	-36.0	-50.1	-23.5	8.9	64.6	57.9	102.0	57.3	61.8	23.8	-117.0	-248.1	-287.8	-278.3

a) Including Luxembourg until 1994.
Source: OECD.

Annex Table 49. **Non-factor services, net**

Billions US dollars

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	-2.8	-3.7	-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	-1.2	-1.0	-1.7	-1.0	-0.9
Austria	3.9	3.4	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	2.6	2.4	2.4	2.6
Belgium[a]	0.6	0.3	0.2	0.5	1.1	0.7	-0.8	0.1	-0.1	0.5	1.1	1.3	0.1	0.4	1.3	1.2	1.3	1.0	0.6	0.5
Canada	-3.8	-3.9	-4.1	-4.1	-4.6	-5.4	-6.9	-9.1	-10.0	-10.1	-10.5	-8.5	-7.4	-6.7	-6.8	-4.7	-4.1	-3.4	-2.5	-2.5
Czech Republic	..	..	..	..	..	..	..	..	..	..	1.0	0.5	1.8	1.9	1.8	1.8	1.1	1.2	1.2	1.3
Denmark	0.6	0.8	0.7	0.3	0.5	0.8	0.7	1.8	3.0	2.6	1.9	0.7	0.8	1.5	0.2	-0.6	1.0	0.1	-0.9	-1.1
Finland	0.0	-0.2	-0.5	-0.7	-1.2	-1.7	-2.1	-3.0	-3.2	-2.9	-2.2	-1.8	-2.2	-1.7	-1.6	-1.0	-1.0	-0.9	-0.6	-0.5
France	8.6	8.9	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	17.2	19.0	21.2	21.4	24.8
Germany	-7.2	-5.4	-4.5	-7.0	-10.7	-14.4	-13.7	-18.6	-22.7	-31.6	-33.8	-41.1	-47.0	-45.4	-43.2	-47.5	-52.3	-52.4	-52.4	-54.1
Greece	2.3	2.3	2.2	2.6	3.6	4.1	3.8	5.2	5.6	6.6	6.2	7.0	7.2	6.9	6.5	6.8	7.3	7.5	7.9	9.0
Hungary	..	..	..	..	..	..	..	..	..	..	0.2	0.2	0.6	1.5	2.3	1.8	1.4	1.9	1.8	2.0
Iceland	0.1	0.0	0.0	0.1	0.0	-0.0	0.0	0.0	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0	-0.0	-0.1	-0.1	-0.1	-0.1
Ireland	-0.2	-0.3	-0.3	-0.6	-0.9	-1.4	-1.8	-1.7	-2.0	-3.1	-3.0	-4.1	-6.3	-7.7	-9.0	-10.1	-11.4	-12.5	-15.1	-17.7
Italy	3.7	3.3	3.4	3.4	3.5	1.6	2.5	3.6	3.3	0.7	3.3	5.3	6.3	7.2	7.8	4.9	2.4	-0.6	0.2	0.8
Japan	-12.2	-12.0	-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	-47.0	-46.9	-47.8
Korea	0.4	0.4	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	-3.5	-4.6	-5.5
Mexico	-0.3	-0.3	-0.6	-0.4	0.3	0.0	-0.5	-1.9	-1.8	-2.3	-2.1	-2.0	0.7	0.5	-0.5	-0.9	-1.8	-3.0	-3.5	-3.9
Netherlands	-0.6	-0.6	-1.2	-1.3	-1.5	-2.3	-1.4	-0.4	-0.8	-0.1	-0.1	0.2	1.1	2.7	4.2	3.6	3.8	2.0	1.1	1.7
New Zealand	-0.5	-0.3	-0.3	-0.5	-0.5	-0.6	-0.8	-0.8	-0.8	-0.9	-0.6	-0.3	-0.2	-0.3	-0.6	-0.8	-0.3	0.0	0.2	0.3
Norway	1.8	2.0	1.8	1.2	0.6	1.6	2.6	3.2	3.5	0.4	0.8	0.2	0.2	0.6	0.2	-1.0	-1.4	-1.1	-0.6	-0.8
Poland	..	..	..	..	..	..	..	..	..	..	0.4	2.8	3.5	3.4	3.2	4.2	1.4	1.3	1.6	1.9
Portugal	0.4	0.6	0.8	1.0	1.1	0.9	1.0	1.1	0.8	0.6	1.3	1.3	1.5	1.4	1.3	1.6	1.6	1.7	1.8	1.9
Spain	6.3	7.9	8.1	11.8	13.4	13.9	12.7	11.9	12.1	12.4	11.3	14.5	17.8	19.8	19.3	21.2	23.0	20.5	19.5	20.5
Sweden	0.1	-0.0	-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	-2.3	-2.7	-3.8	-4.0	-4.7
Switzerland	4.4	4.4	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	13.2	13.5	13.8	14.8
Turkey	0.8	0.9	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	10.1	12.9	14.7
United Kingdom	6.0	5.8	8.6	9.5	10.9	7.7	6.4	7.1	7.8	10.0	9.9	10.0	14.1	14.0	20.3	20.8	18.7	16.8	16.4	17.3
United States	9.3	3.4	0.3	6.5	7.9	12.4	24.6	30.2	45.8	60.4	63.7	69.2	77.8	89.2	90.7	80.0	80.6	86.7	99.8	109.8
Euro area	17.9	20.2	21.2	24.6	24.5	17.6	20.6	22.1	19.7	12.1	9.0	7.7	-2.4	3.3	4.2	0.1	-3.7	-10.2	-13.1	-10.6
European Union	24.6	26.7	30.0	32.6	34.3	23.8	24.7	27.7	27.9	22.3	21.0	18.6	11.9	17.5	22.9	18.1	13.2	2.9	-1.5	0.8
Total OECD	21.8	17.7	20.8	29.2	27.7	13.4	15.1	16.5	33.6	37.0	45.2	48.0	50.2	58.2	79.4	75.7	54.8	57.9	70.5	84.3

a) Including Luxembourg until 1994.

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*.

Source: OECD.

Annex Table 50. **Investment income, net**

Billions US dollars

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	-3.2	-4.1	-4.5	-4.9	-5.8	-8.4	-10.5	-13.2	-12.2	-10.1	-8.1	-12.3	-14.2	-15.2	-13.9	-11.5	-12.0	-11.0	-11.4	-11.9
Austria	-0.3	-0.3	-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	-2.7	-2.8	-2.3	-2.2
Belgium[a]	0.1	0.2	0.2	0.3	0.5	0.6	1.8	1.8	2.3	2.3	3.2	3.4	4.1	4.5	4.3	4.4	4.5	5.8	5.9	5.8
Canada	-12.6	-12.4	-12.8	-14.0	-17.1	-17.5	-20.5	-19.4	-17.4	-17.5	-20.8	-18.9	-22.7	-21.5	-21.0	-19.6	-21.7	-19.1	-19.0	-19.2
Czech Republic	..	..	..	..	..	..	..	..	..	..	-0.1	-0.0	-0.1	-0.7	-0.8	-1.0	-0.7	-0.5	-0.5	-0.6
Denmark	-2.1	-2.3	-2.6	-3.5	-4.1	-3.9	-3.9	-5.2	-5.3	-5.0	-4.0	-3.9	-3.8	-3.8	-3.5	-2.9	-2.2	-2.2	-1.9	-1.8
Finland	-1.1	-1.1	-1.0	-1.3	-1.6	-1.7	-2.7	-3.8	-4.7	-5.4	-4.9	-4.4	-4.4	-3.6	-2.4	-3.1	-2.6	-3.0	-3.0	-2.6
France	-1.5	-2.4	-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	9.5	11.9	13.1	13.9	14.5
Germany	2.9	4.7	4.7	5.3	5.2	9.4	14.3	20.6	20.3	21.8	16.6	2.9	0.1	1.0	-1.5	-6.6	-12.7	-4.4	-3.9	-2.7
Greece	-0.9	-1.0	-1.2	-1.4	-1.5	-1.6	-1.7	-1.8	-1.8	-2.1	-1.5	-1.3	-1.7	-1.9	-1.6	-1.5	-0.7	-0.5	-0.5	-0.5
Hungary	..	..	..	..	..	..	..	..	..	..	-1.2	-1.4	-1.8	-1.5	-1.4	-1.9	-1.7	-1.9	-1.9	-2.1
Iceland	-0.1	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Ireland	-1.6	-1.8	-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	-13.4	-13.6	-14.2	-16.0
Italy	-2.5	-2.5	-2.7	-4.2	-4.9	-5.5	-7.3	-14.7	-17.6	-21.9	-17.3	-16.7	-15.9	-15.2	-11.3	-12.1	-11.0	-13.4	-10.8	-11.2
Japan	3.1	4.2	6.8	9.3	16.3	20.6	22.9	22.7	26.0	35.7	40.7	40.4	44.1	53.4	55.7	56.8	50.0	59.0	65.4	69.6
Korea	-0.8	-1.3	-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	-3.8	-3.0	-2.4
Mexico	-9.1	-10.1	-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	-13.1	-14.7	-16.2	-16.5
Netherlands	1.1	1.4	-0.2	-0.2	1.4	1.1	2.9	-0.6	0.4	-1.0	0.9	3.7	7.3	4.3	8.5	7.7	5.3	5.5	5.6	5.9
New Zealand	-0.9	-1.1	-1.3	-1.5	-2.0	-2.1	-1.9	-1.6	-2.5	-2.2	-2.3	-3.3	-4.0	-4.7	-4.9	-2.6	-3.1	-3.5	-3.3	-3.5
Norway	-1.8	-1.7	-1.2	-1.3	-1.4	-2.5	-2.8	-3.4	-4.0	-2.8	-2.8	-2.2	-1.9	-1.8	-1.6	-1.0	-1.6	-1.1	0.2	1.2
Poland	..	..	..	..	..	..	..	..	..	..	-3.4	-2.6	-2.0	-1.1	-1.1	-1.2	-1.0	-0.8	-1.5	-2.1
Portugal	-1.2	-1.3	-1.2	-1.1	-0.9	-0.8	-0.7	-0.1	0.2	0.7	0.3	-0.6	0.1	-1.0	-0.5	-0.6	-1.3	-1.1	-1.0	-1.0
Spain	-2.3	-2.3	-1.7	-1.8	-2.6	-3.3	-2.8	-3.5	-4.3	-5.8	-3.6	-7.8	-4.1	-6.1	-6.7	-7.5	-9.5	-8.7	-8.6	-9.1
Sweden	-1.8	-1.9	-2.0	-2.0	-1.6	-1.8	-2.3	-4.5	-6.4	-10.0	-8.8	-5.9	-6.5	-7.6	-5.8	-4.4	-3.4	-3.4	-2.9	-2.6
Switzerland	4.3	5.0	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	17.5	21.1	22.3	22.0	23.6
Turkey	-1.4	-1.5	-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	-5.0
United Kingdom	1.7	3.1	-0.0	4.2	2.4	2.3	-0.0	-0.9	-3.5	3.7	1.0	11.9	9.4	12.6	18.3	23.6	13.5	13.3	12.4	11.9
United States	36.4	35.1	25.7	15.5	14.3	18.7	19.8	28.5	24.1	23.0	23.9	16.7	20.5	18.9	6.2	-6.2	-18.5	-19.9	-30.6	-37.1
Euro area	-7.3	-6.4	-7.8	-9.4	-9.9	-7.5	-1.6	-9.6	-14.5	-24.3	-19.6	-33.9	-32.6	-29.1	-15.1	-22.5	-32.3	-23.2	-19.0	-19.1
European Union	-9.6	-7.5	-12.4	-10.7	-13.2	-10.8	-7.9	-20.2	-29.6	-35.7	-31.3	-31.8	-33.5	-27.8	-6.1	-6.2	-24.4	-15.5	-11.3	-11.6
Total OECD	4.1	4.3	-7.6	-13.6	-13.0	-4.5	-4.3	-9.3	-18.3	-14.0	-10.9	-24.5	-21.7	-8.3	8.8	1.0	-35.5	-14.6	-16.3	-17.8

a) Including Luxembourg until 1994.

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*.

Source: OECD.

Annex Table 51. **Current account balances**

Billions US dollars

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	-6.3	-8.9	-9.2	-9.9	-8.0	-11.7	-18.2	-16.0	-11.2	-11.2	-9.8	-17.2	-19.6	-15.9	-12.7	-18.3	-22.8	-18.5	-16.2	-15.8
Austria	0.3	-0.2	-0.1	0.3	-0.2	-0.3	0.3	1.2	-0.0	-0.7	-1.4	-3.3	-6.1	-5.4	-6.5	-5.2	-5.8	-5.5	-4.5	-3.8
Belgium[a]	-0.2	0.2	0.9	3.0	2.6	3.4	2.6	3.0	3.6	5.6	8.9	9.7	11.4	11.3	11.7	10.3	9.8	9.4	11.1	13.6
Canada	-2.5	-1.3	-5.7	-11.2	-13.5	-14.9	-21.8	-19.8	-22.4	-21.1	-21.7	-13.0	-4.4	3.4	-10.0	-11.0	-2.3	12.6	15.7	16.7
Czech Republic	..	..	..	..	..	..	..	..	..	..	0.5	-0.8	-1.4	-4.3	-3.3	-1.4	-1.1	-1.9	-2.5	-2.9
Denmark	-1.4	-1.7	-2.7	-4.5	-3.0	-1.5	-1.4	1.2	1.8	3.8	4.5	2.8	1.7	3.2	1.2	-1.1	3.0	2.3	3.4	4.4
Finland	-1.1	-0.0	-0.8	-0.7	-1.7	-2.7	-5.8	-7.0	-6.7	-5.1	-1.1	1.1	5.2	5.0	6.7	7.3	7.0	6.6	7.6	10.0
France	-5.0	-0.8	-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	38.2	37.5	30.0	27.9	31.5
Germany	5.2	10.0	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	-4.6	-19.3	-17.7	-10.6	-0.3
Greece	-1.9	-2.1	-3.3	-1.7	-1.3	-1.1	-2.7	-3.9	-1.9	-2.8	-1.3	-0.7	-3.5	-5.2	-5.0	-3.8	-5.2	-5.1	-5.0	-5.1
Hungary	..	..	..	..	..	..	..	..	..	..	-3.5	-4.0	-2.5	-1.7	-1.0	-2.3	-2.1	-1.5	-1.9	-2.1
Iceland	-0.1	-0.1	-0.1	0.0	-0.2	-0.3	-0.1	-0.1	-0.3	-0.2	0.0	0.1	0.1	-0.1	-0.1	-0.6	-0.6	-0.8	-0.8	-0.8
Ireland	-1.2	-1.0	-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	0.7	0.9	0.3	-1.1
Italy	0.8	-3.1	-4.2	2.2	-2.5	-6.9	-11.6	-16.8	-24.0	-29.3	7.7	12.8	24.9	39.4	32.4	21.8	6.6	-9.2	-7.4	-6.3
Japan	20.8	35.0	50.7	85.4	84.1	79.2	63.3	44.2	68.3	112.6	131.9	130.3	111.2	65.8	94.3	120.9	106.9	127.6	126.5	143.0
Korea	-1.5	-1.3	-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	11.7	8.6	12.1
Mexico	5.9	4.2	0.8	-1.4	4.2	-2.4	-5.8	-7.5	-14.6	-24.4	-23.4	-29.7	-1.6	-2.3	-7.4	-16.1	-14.1	-19.4	-24.4	-30.0
Netherlands	5.0	6.3	4.4	4.3	4.1	7.0	9.4	8.1	7.4	6.8	13.2	17.3	25.9	23.0	28.3	24.9	21.0	18.6	18.8	19.7
New Zealand	-1.0	-1.9	-1.6	-1.8	-1.7	-0.4	-1.6	-1.4	-1.2	-1.4	-1.0	-1.9	-3.0	-4.0	-4.4	-2.2	-3.6	-2.8	-2.2	-2.0
Norway	2.4	3.3	3.0	-4.7	-4.4	-4.0	-0.1	3.1	4.3	4.4	3.6	3.8	4.9	10.2	8.7	-1.9	6.0	24.8	34.5	34.1
Poland	..	..	..	..	..	..	..	..	..	..	-4.6	1.0	0.9	-3.3	-5.7	-6.9	-12.5	-12.3	-12.3	-12.1
Portugal[b]	-1.6	-0.6	0.4	1.2	0.4	-1.0	0.2	-0.2	-0.7	-0.3	0.3	-2.3	-0.2	-4.5	-5.5	-7.2	-9.9	-10.8	-11.4	-12.7
Spain	-2.9	1.8	2.8	3.9	-0.2	-3.7	-10.9	-18.1	-19.9	-21.6	-6.0	-6.7	0.2	0.2	2.3	-1.5	-12.7	-18.3	-20.0	-22.0
Sweden	-0.7	0.7	-1.0	0.0	-0.0	-0.6	-3.1	-6.3	-4.7	-7.5	-2.6	2.5	7.1	7.2	7.5	6.6	5.9	5.3	3.3	2.5
Switzerland	3.8	4.4	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	25.8	29.9	30.3	29.6	31.2
Turkey	-1.8	-1.4	-1.0	-1.5	-0.8	1.6	0.9	-2.6	0.3	-1.0	-6.4	2.6	-2.3	-2.4	-2.6	2.0	-1.4	-9.1	-9.1	-8.2
United Kingdom	2.8	-0.6	0.5	-3.5	-9.5	-31.2	-38.4	-34.2	-15.0	-17.8	-15.9	-2.1	-5.9	-0.8	10.8	-0.2	-17.8	-21.5	-26.8	-29.0
United States	-38.7	-94.3	-118.2	-147.2	-160.7	-121.2	-97.0	-77.0	6.6	-47.7	-82.7	-118.6	-109.5	-123.3	-140.5	-217.1	-331.5	-432.8	-470.5	-483.3
Euro area	-2.6	10.5	17.4	54.1	42.3	42.9	33.4	4.7	-66.0	-56.5	22.0	12.6	49.9	78.6	101.1	80.9	29.6	-1.0	6.9	23.5
European Union	-1.9	8.9	14.1	46.1	29.8	9.6	-9.6	-34.6	-83.8	-78.0	8.0	15.7	52.8	88.2	120.5	86.3	20.8	-15.0	-13.2	1.3
Total OECD	-21.1	-53.7	-62.9	-34.3	-53.5	-40.9	-77.5	-104.9	-51.7	-56.6	11.3	-18.1	38.2	9.3	53.1	-2.4	-204.0	-307.1	-338.2	-318.7

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).

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*.

Source: OECD.

Annex Table 52. **Current account balances as a percentage of GDP**

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Australia	-3.7	-4.7	-5.5	-5.7	-3.9	-4.5	-6.2	-5.2	-3.6	-3.7	-3.3	-5.1	-5.4	-3.9	-3.1	-5.0	-5.8	-4.8	-4.4	-4.0
Austria	0.3	-0.3	-0.1	0.3	-0.2	-0.2	0.2	0.7	0.0	-0.4	-0.8	-1.6	-2.6	-2.3	-3.1	-2.5	-2.8	-3.0	-2.5	-2.0
Belgium[a]	-0.3	0.2	1.1	2.6	1.8	2.1	1.7	1.5	1.8	2.5	4.1	4.2	4.1	4.2	4.8	4.1	3.9	4.2	5.1	6.0
Canada	-0.8	-0.4	-1.6	-3.0	-3.2	-3.0	-3.9	-3.4	-3.8	-3.6	-3.9	-2.3	-0.8	0.6	-1.6	-1.8	-0.4	1.8	2.2	2.2
Czech Republic	..	..	..	..	..	..	..	..	..	..	1.3	-1.9	-2.6	-7.4	-6.1	-2.4	-2.0	-3.9	-5.0	-5.4
Denmark	-2.4	-3.1	-4.6	-5.3	-2.9	-1.4	-1.3	0.9	1.4	2.6	3.3	1.8	1.0	1.8	0.7	-0.6	1.8	1.4	2.2	2.7
Finland	-2.3	-0.1	-1.4	-1.0	-1.9	-2.5	-5.0	-5.1	-5.4	-4.7	-1.3	1.1	4.0	3.9	5.5	5.7	5.4	5.5	6.5	8.0
France	-0.9	-0.1	-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	2.6	2.6	2.3	2.3	2.4
Germany	0.8	1.6	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	-0.2	-0.9	-0.9	-0.6	-0.0
Greece	-4.4	-5.1	-8.1	-3.6	-2.3	-1.7	-4.0	-4.6	-2.1	-2.8	-1.4	-0.7	-3.0	-4.2	-4.1	-3.2	-4.2	-4.6	-4.6	-4.4
Hungary	..	..	..	..	..	..	..	..	..	..	-9.0	-9.5	-5.5	-3.8	-2.1	-4.9	-4.3	-3.2	-4.1	-4.2
Iceland	-1.9	-4.5	-3.8	0.5	-3.4	-5.3	-1.7	-2.1	-4.0	-2.3	0.8	1.9	0.8	-1.8	-1.7	-6.9	-6.9	-9.1	-10.0	-9.2
Ireland	-5.8	-5.3	-3.7	-3.1	-0.2	-0.0	-1.5	-0.8	0.7	1.0	3.7	2.7	2.6	2.8	2.4	0.9	0.7	0.9	0.3	-1.0
Italy	0.2	-0.8	-1.0	0.3	-0.3	-0.8	-1.3	-1.5	-2.1	-2.4	0.8	1.2	2.3	3.2	2.8	1.8	0.6	-0.9	-0.7	-0.6
Japan	1.8	2.8	3.7	4.3	3.5	2.7	2.2	1.5	2.0	3.0	3.1	2.8	2.2	1.4	2.2	3.2	2.5	2.8	2.7	3.0
Korea	-1.8	-1.4	-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	2.5	1.7	2.3
Mexico	4.8	2.5	0.8	-0.8	2.8	-1.3	-2.7	-2.9	-4.7	-6.7	-5.8	-7.1	-0.5	-0.7	-1.9	-3.8	-2.9	-3.4	-3.8	-4.2
Netherlands	3.5	4.8	3.2	2.4	1.8	2.9	4.0	2.7	2.4	2.1	4.1	4.9	6.2	5.6	7.5	6.3	5.3	5.1	5.2	5.1
New Zealand	-4.4	-8.6	-7.3	-6.4	-5.0	-1.0	-3.8	-3.2	-2.8	-3.5	-2.4	-3.8	-5.0	-6.1	-6.7	-4.1	-6.7	-5.7	-4.7	-4.0
Norway	4.1	5.4	4.8	-6.2	-4.8	-4.1	-0.1	2.6	3.7	3.5	3.0	3.0	3.3	6.5	5.6	-1.3	3.9	15.4	20.5	19.7
Poland	..	..	..	..	..	..	..	..	..	..	-5.2	1.0	0.7	-2.3	-4.0	-4.4	-8.0	-7.6	-7.1	-6.0
Portugal[b]	-6.0	-2.5	1.5	3.3	1.0	-2.0	0.3	-0.3	-0.8	-0.2	0.4	-2.4	-0.1	-4.0	-5.2	-6.5	-8.9	-10.6	-11.5	-12.0
Spain	-1.7	1.1	1.6	1.6	-0.0	-1.0	-2.7	-3.5	-3.6	-3.6	-1.2	-1.3	0.0	0.0	0.4	-0.2	-2.1	-3.3	-3.7	-3.8
Sweden	-0.8	0.7	-1.0	0.0	-0.0	-0.3	-1.6	-2.6	-1.9	-2.9	-1.3	1.2	3.0	2.8	3.1	2.8	2.5	2.4	1.6	1.1
Switzerland	3.8	4.6	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	9.8	11.6	12.7	12.7	12.9
Turkey	-2.9	-2.4	-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	-4.6	-4.2	-3.4
United Kingdom	0.6	-0.1	0.1	-0.6	-1.4	-3.8	-4.6	-3.5	-1.5	-1.7	-1.7	-0.2	-0.5	-0.1	0.8	-0.0	-1.2	-1.5	-1.9	-1.9
United States	-1.1	-2.4	-2.8	-3.3	-3.4	-2.4	-1.8	-1.3	0.1	-0.8	-1.2	-1.7	-1.5	-1.6	-1.7	-2.5	-3.6	-4.3	-4.5	-4.3
Euro area	-0.1	0.5	0.8	1.7	1.1	1.0	0.8	0.1	-1.1	-0.9	0.4	0.2	0.7	1.1	1.5	1.2	0.4	-0.0	0.1	0.4
European Union	-0.1	0.3	0.5	1.2	0.6	0.2	-0.2	-0.5	-1.2	-1.0	0.1	0.2	0.6	1.0	1.5	1.0	0.2	-0.2	-0.2	0.0
Total OECD	-0.2	-0.6	-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	-0.8	-1.2	-1.3	-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 53. **Structure of current account balances of major world regions**

Billions US dollars

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Trade balance																				
OECD	-17	-44	-43	-8	-24	-1	-36	-50	-23	9	65	58	102	57	62	24	-117	-248	-288	-278
Non-OECD *of which:*	36	63	53	16	51	33	48	68	53	29	-2	29	8	35	50	44	150	260	266	245
Non-OECD Asia *of which:*	-13	0	-9	-1	13	2	3	7	9	3	-15	-6	-17	-14	24	94	101	92	100	102
China	2	0	-13	-9	-2	-5	-6	9	9	5	-11	7	18	20	46	47	36	43	45	43
Dynamic Asia[a]	-4	12	18	22	28	21	22	10	10	8	6	1	-15	-9	-1	67	83	70	76	79
Other Asia	-11	-12	-13	-14	-13	-14	-13	-12	-9	-10	-11	-14	-20	-24	-21	-20	-18	-20	-20	-20
Latin America	17	26	25	12	12	22	28	31	19	10	2	3	-7	-6	-18	-32	-0	9	9	6
Africa and Middle-East	20	24	31	-4	15	4	22	53	23	14	11	23	25	53	49	-12	29	123	127	113
Central and Eastern Europe	12	13	5	8	12	6	-6	-23	1	2	-0	10	8	2	-5	-6	21	36	29	23
World[b]	19	20	10	9	28	31	12	18	29	38	62	87	110	93	112	68	33	12	-22	-34
Services and private transfers																				
OECD	19	16	8	8	-0	-8	-7	-13	-2	1	15	2	2	22	50	45	-27	2	10	22
Non-OECD *of which:*	-84	-89	-83	-67	-68	-74	-83	-85	-102	-90	-91	-80	-112	-107	-110	-127	-114	-128	-146	-164
Non-OECD Asia *of which:*	-1	-5	-5	-1	-2	-4	-4	-2	-1	-0	-2	4	-16	-6	2	-21	-23	-34	-44	-54
China	2	2	2	2	2	2	1	3	4	1	-1	0	-17	-13	-10	-15	-21	-28	-32	-37
Dynamic Asia[a]	-8	-11	-9	-5	-6	-6	-5	-4	-4	-1	-1	0	-2	1	2	-13	-11	-13	-18	-24
Other Asia	5	4	3	3	2	0	-0	-1	-1	-0	1	4	3	6	10	8	9	7	6	6
Latin America	-32	-33	-30	-30	-28	-31	-33	-27	-24	-21	-27	-27	-30	-33	-43	-45	-36	-35	-37	-40
Africa and Middle-East	-56	-56	-49	-38	-40	-39	-47	-57	-73	-58	-56	-54	-56	-63	-60	-49	-47	-49	-54	-57
Central and Eastern Europe	4	5	1	1	1	1	1	1	-4	-10	-6	-4	-9	-5	-8	-12	-7	-10	-12	-13
World[b]	-65	-73	-74	-59	-68	-82	-90	-97	-105	-89	-76	-78	-109	-85	-60	-81	-141	-126	-136	-143
Official transfers																				
OECD	-23	-26	-29	-35	-30	-32	-35	-42	-26	-66	-69	-78	-66	-70	-59	-71	-60	-61	-60	-62
Non-OECD *of which:*	2	6	10	11	10	13	12	4	-9	18	18	14	17	15	15	14	14	13	13	13
Non-OECD Asia *of which:*	2	2	2	3	3	3	2	2	2	3	3	2	4	3	3	2	2	1	1	1
China	0	0	0	0	-0	0	0	0	0	0	0	-1	1	0	0	0	0	0	0	0
Dynamic Asia[a]	0	0	0	0	0	0	0	0	0	0	0	0	0	-0	0	0	-0	-1	-1	-1
Other Asia	2	2	2	2	2	2	2	2	2	2	2	3	3	3	2	2	2	2	2	2
Latin America	1	1	2	1	2	2	2	2	2	2	2	2	2	2	2	2	1	1	1	1
Africa and Middle-East	-1	3	6	7	6	8	8	-1	-20	10	10	8	9	9	8	8	9	9	9	10
Central and Eastern Europe	-0	0	0	0	0	0	0	1	6	4	4	2	2	2	2	2	2	2	2	2
World[b]	-21	-20	-19	-23	-20	-19	-22	-39	-35	-48	-50	-64	-49	-55	-44	-58	-47	-48	-47	-49
Current account balance																				
OECD	-21	-54	-63	-34	-54	-41	-78	-105	-52	-57	11	-18	38	9	53	-2	-204	-307	-338	-319
Non-OECD *of which:*	-46	-19	-20	-40	-6	-28	-22	-13	-59	-43	-75	-37	-86	-56	-45	-69	50	145	133	93
Non-OECD Asia *of which:*	-12	-2	-11	1	14	0	2	7	11	6	-14	0	-30	-17	29	75	80	60	57	49
China	4	2	-11	-7	0	-4	-4	12	13	6	-12	7	2	7	37	31	16	15	13	7
Dynamic Asia[a]	-11	2	8	17	22	16	17	7	6	8	5	1	-17	-8	1	54	72	56	57	54
Other Asia	-5	-6	-8	-9	-9	-11	-11	-12	-8	-8	-8	-8	-15	-16	-9	-11	-8	-12	-12	-12
Latin America	-14	-6	-4	-16	-14	-8	-3	6	-3	-9	-22	-22	-36	-37	-60	-75	-36	-25	-26	-33
Africa and Middle-East	-37	-29	-12	-35	-19	-27	-17	-4	-70	-35	-35	-23	-22	-1	-3	-53	-10	82	83	65
Central and Eastern Europe	16	18	6	10	13	7	-4	-21	3	-4	-3	7	1	-1	-11	-16	16	28	19	13
World[b]	-67	-73	-83	-74	-60	-69	-100	-118	-111	-100	-64	-55	-48	-47	8	-71	-154	-162	-206	-225

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.

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.

Source: OECD.

Annex Table 54. **Semiannual demand and output projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2000	2001	2002	2000		2001		2002	
				I	II	I	II	I	II
Private consumption									
Canada	3.6	2.8	2.6	3.5	3.1	2.8	2.5	2.6	2.6
France	2.6	2.3	2.2	2.6	2.4	2.2	2.2	2.2	2.2
Germany	1.7	2.6	2.4	1.4	2.6	2.6	2.6	2.3	2.3
Italy	2.0	1.8	2.3	2.9	1.2	1.9	2.0	2.3	2.5
Japan	1.6	2.1	2.2	3.0	1.3	2.4	2.2	2.2	2.2
United Kingdom	3.5	2.4	2.2	3.6	2.9	2.3	2.2	2.2	2.2
United States	5.4	3.6	3.0	6.0	4.1	3.6	3.0	3.0	3.0
Euro area	2.5	2.6	2.6	2.7	2.5	2.7	2.6	2.6	2.6
European Union	2.7	2.6	2.5	2.9	2.6	2.6	2.5	2.5	2.5
Total OECD	3.9	3.1	2.8	4.4	3.3	3.1	2.8	2.8	2.8
Public consumption									
Canada	2.0	1.7	1.5	2.2	2.0	1.6	1.5	1.5	1.5
France	1.3	1.3	1.3	1.1	1.1	1.4	1.4	1.4	1.3
Germany	1.0	0.5	0.6	3.0	-2.0	1.4	1.3	0.3	0.3
Italy	1.2	1.1	1.2	1.1	1.0	1.1	1.2	1.2	1.2
Japan	0.2	0.5	0.6	0.1	0.2	0.7	0.5	0.6	0.6
United Kingdom	1.8	4.3	3.3	0.9	4.9	4.3	3.9	3.2	3.0
United States	2.0	2.1	2.5	1.6	1.1	2.3	2.8	2.2	2.5
Euro area	1.3	1.1	1.1	1.8	0.4	1.4	1.4	1.1	1.0
European Union	1.3	1.6	1.5	1.6	1.1	1.8	1.7	1.4	1.3
Total OECD	1.6	1.7	1.8	1.8	1.0	1.9	1.9	1.7	1.8
Investment									
Canada	11.8	6.4	6.1	13.6	7.6	6.1	6.0	6.2	5.9
France	6.0	4.6	4.8	6.8	5.0	4.4	4.6	4.8	4.8
Germany	2.4	2.8	2.7	1.0	3.3	2.7	2.7	2.7	2.6
Italy	6.9	4.7	5.2	8.1	4.6	4.8	4.9	5.2	5.6
Japan	0.6	2.8	1.2	4.5	1.1	5.9	-1.5	2.1	2.2
United Kingdom	2.4	3.8	3.0	0.5	5.0	3.4	3.3	3.0	3.0
United States	9.0	5.1	5.4	11.9	4.3	5.4	5.3	5.5	5.5
Euro area	5.0	4.4	4.3	4.8	4.8	4.2	4.3	4.4	4.3
European Union	4.7	4.3	4.2	4.3	4.9	4.1	4.1	4.2	4.2
Total OECD	6.5	4.7	4.5	8.3	4.7	5.0	3.9	4.6	4.7
Total domestic demand									
Canada	5.4	3.4	3.2	5.5	3.9	3.3	3.1	3.2	3.1
France	3.0	2.5	2.5	3.3	2.5	2.5	2.5	2.6	2.5
Germany	1.9	2.1	2.1	2.3	1.7	2.1	2.2	2.1	2.0
Italy	2.2	2.2	2.7	3.0	1.8	2.3	2.4	2.7	3.0
Japan	1.3	2.4	1.8	3.4	1.4	3.5	1.0	2.0	2.0
United Kingdom	3.4	2.9	2.6	3.3	3.3	2.9	2.7	2.5	2.5
United States	5.8	3.6	3.4	6.5	4.0	3.5	3.3	3.4	3.5
Euro area	2.8	2.6	2.7	3.2	2.5	2.7	2.7	2.7	2.7
European Union	2.9	2.7	2.7	3.2	2.6	2.7	2.7	2.7	2.6
Total OECD	4.2	3.2	3.0	4.9	3.3	3.4	2.9	3.0	3.1
Export of goods and services									
Canada	11.6	7.5	6.4	13.5	10.2	6.8	6.5	6.3	6.5
France	12.8	8.7	7.4	13.6	10.4	8.4	7.8	7.3	7.3
Germany	12.6	9.3	7.4	12.5	10.8	9.0	8.5	7.0	7.0
Italy	9.5	9.3	7.6	7.9	11.3	9.0	8.1	7.4	7.4
Japan	13.6	5.5	5.3	17.0	8.0	4.5	5.0	5.1	6.0
United Kingdom	7.8	7.2	6.0	5.4	7.9	7.0	6.8	5.8	5.7
United States	10.4	9.3	7.7	9.3	13.9	8.0	7.7	7.7	7.5
Euro area	13.2	10.1	7.6	13.2	12.8	9.6	8.6	7.4	7.1
European Union	10.9	8.9	7.3	10.5	10.4	8.6	8.0	7.1	7.0
Total OECD	11.6	8.8	7.4	11.7	11.7	7.9	7.6	7.3	7.3

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, a growing number of 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/index.htm).*

Source: OECD.

Annex Table 54. *(cont'd)* **Semiannual demand and output projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2000	2001	2002	2000		2001		2002	
				I	II	I	II	I	II
Import of goods and services									
Canada	13.3	7.8	6.8	15.3	10.1	7.0	7.0	6.8	6.8
France	12.5	8.1	8.1	15.3	8.7	8.1	7.3	8.0	9.0
Germany	9.1	7.7	6.5	9.2	8.0	7.7	7.5	6.3	5.8
Italy	7.6	8.1	8.4	8.4	8.0	8.2	7.8	8.4	9.0
Japan	10.5	6.4	4.2	9.8	8.6	6.8	3.5	4.3	4.8
United Kingdom	8.5	7.5	6.1	6.9	8.0	7.6	7.0	5.8	5.7
United States	13.7	8.8	7.2	13.3	13.3	7.5	7.2	7.2	7.2
Euro area	10.0	8.5	7.5	11.1	9.1	8.5	7.8	7.5	7.4
European Union	9.5	8.1	7.3	10.1	8.3	8.3	7.6	7.2	7.3
Total OECD	12.0	8.5	7.0	12.2	10.9	8.0	7.1	7.0	7.1
GDP									
Canada	4.8	3.4	3.0	5.0	4.0	3.3	3.0	3.0	3.1
France	3.3	2.9	2.5	3.2	3.1	2.7	2.8	2.5	2.2
Germany	3.0	2.7	2.5	3.4	2.7	2.7	2.7	2.5	2.5
Italy	2.8	2.7	2.6	3.0	2.8	2.7	2.6	2.6	2.6
Japan	1.9	2.3	2.0	4.5	1.5	3.3	1.3	2.2	2.3
United Kingdom	3.0	2.6	2.3	2.7	3.1	2.4	2.4	2.3	2.3
United States	5.2	3.5	3.3	5.9	3.7	3.5	3.2	3.3	3.4
Euro area	3.5	3.1	2.8	3.7	3.3	3.0	3.0	2.8	2.7
European Union	3.4	3.0	2.7	3.5	3.4	2.8	2.8	2.7	2.6
Total OECD	4.3	3.3	3.1	5.0	3.5	3.3	2.9	3.1	3.1
	Per cent of GDP								
Current account balance									
Canada	1.8	2.2	2.2	1.6	2.0	2.2	2.2	2.2	2.2
France	2.3	2.3	2.4	2.3	2.4	2.2	2.3	2.4	2.4
Germany	-0.9	-0.6	0.0	-1.0	-0.9	-0.7	-0.5	-0.2	0.2
Italy	-0.9	-0.7	-0.6	-0.6	-1.2	-0.8	-0.7	-0.7	-0.5
Japan	2.8	2.7	3.0	2.9	2.7	2.6	2.8	3.0	3.1
United Kingdom	-1.5	-1.9	-1.9	-1.4	-1.6	-1.9	-1.9	-1.9	-1.9
United States	-4.3	-4.5	-4.3	-4.2	-4.4	-4.5	-4.4	-4.4	-4.3
Euro area	0.0	0.1	0.4	0.1	-0.1	0.0	0.2	0.3	0.5
European Union	-0.2	-0.2	0.0	-0.1	-0.3	-0.2	-0.1	0.0	0.1
Total OECD	-1.2	-1.3	-1.2	-1.1	-1.3	-1.3	-1.3	-1.2	-1.1
	$ billions								
Current account balance									
Canada	12.6	16	17	11.1	14.0	15	16	16	17
France	30.0	28	31	30.5	29.6	27	29	31	32
Germany	-17.7	-11	0	-18.8	-16.6	-13	-8	-4	3
Italy	-9.2	-7	-6	-6.5	-11.9	-8	-7	-7	-6
Japan	127.6	126	143	133.1	122.2	121	132	140	146
United Kingdom	-21.5	-27	-29	-20.7	-22.4	-26	-27	-28	-30
United States	-432.8	-470	-483	-415.3	-450.4	-466	-475	-479	-487
Euro area	-1.0	7	23	5.4	-7.4	3	11	18	29
European Union	-15.0	-13	1	-8.8	-21.3	-17	-9	-3	6
Total OECD	-307.1	-338	-319	-279.9	-334.3	-345	-331	-322	-315

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, a growing number of 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/index.htm).*

Source : OECD.

Annex Table 55. **Semiannual price, cost and unemployment projections**

Percentage changes from previous period, seasonally adjusted at annual rates

	2000	2001	2002	2000		2001		2002	
				I	II	I	II	I	II
Private consumption deflator									
Canada	1.7	2.3	2.1	1.3	2.4	2.4	2.2	2.1	2.0
France	1.5	2.1	2.0	1.6	1.9	2.1	2.1	2.0	1.9
Germany	1.5	1.6	1.6	1.3	1.9	1.6	1.4	1.5	1.7
Italy	2.7	2.5	2.0	2.7	2.7	2.5	2.2	2.0	1.8
Japan	-0.5	0.0	-0.1	-0.6	-0.1	0.2	-0.1	-0.1	-0.1
United Kingdom	1.4	2.4	2.3	0.8	2.1	2.6	2.5	2.3	2.2
United States	2.5	2.1	2.2	2.8	2.1	2.1	2.2	2.2	2.3
Euro area	2.2	2.3	2.0	2.2	2.6	2.3	2.1	2.0	2.0
European Union	2.1	2.3	2.1	2.0	2.5	2.3	2.2	2.1	2.0
Total OECD	3.1	2.6	2.2	3.3	3.1	2.5	2.3	2.2	2.2
Total OECD *less* high inflation countries [a]	1.9	2.0	1.9	1.9	2.2	1.9	1.9	1.9	1.9
GDP deflator									
Canada	3.3	2.4	2.0	3.8	2.6	2.4	2.1	2.0	2.0
France	0.9	1.7	2.3	0.8	1.6	1.6	1.9	2.3	2.6
Germany	0.0	1.0	1.4	-0.4	0.8	1.0	1.2	1.4	1.4
Italy	1.8	2.2	2.0	1.7	2.3	2.2	2.1	2.0	1.9
Japan	-1.5	-0.4	-0.2	-1.8	-0.8	-0.2	-0.4	-0.1	-0.1
United Kingdom	2.0	2.5	2.6	1.3	2.1	2.5	2.7	2.6	2.5
United States	2.1	2.2	2.3	2.6	2.1	2.3	2.2	2.3	2.3
Euro area	1.2	1.9	2.0	1.1	1.8	2.0	2.0	2.1	2.1
European Union	1.4	2.0	2.2	1.2	1.8	2.1	2.1	2.2	2.2
Total OECD	2.6	2.4	2.3	2.6	2.6	2.5	2.3	2.4	2.3
Total OECD *less* high inflation countries [a]	1.3	1.8	1.9	1.4	1.6	1.9	1.8	1.9	1.8
Unit labour cost (total economy)									
Canada	2.1	1.6	1.8	3.4	1.1	1.6	1.9	1.9	1.7
France	1.0	2.0	1.9	0.8	2.3	1.9	1.8	1.9	2.0
Germany	0.0	0.1	0.6	0.1	0.2	0.0	0.2	0.7	0.7
Italy	1.0	1.2	1.0	1.0	1.0	1.3	1.2	1.0	0.8
Japan	-0.8	-1.2	-0.6	1.0	-4.6	0.1	-0.1	-0.8	-0.8
United Kingdom	2.0	2.9	2.8	1.3	2.6	3.0	3.0	2.8	2.6
United States	1.2	2.6	2.8	0.8	2.3	2.7	2.7	2.9	2.8
European Union	1.2	1.7	1.8	1.3	1.5	1.8	1.7	1.8	1.8
Total OECD	2.1	2.3	2.2	2.3	1.9	2.5	2.4	2.2	2.1
Total OECD less high inflation countries [a]	1.1	1.7	1.8	1.2	1.1	2.0	1.9	1.8	1.8
				Per cent of labour force					
Unemployment									
Canada	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
France	9.7	8.8	8.2	9.9	9.4	8.9	8.6	8.3	8.1
Germany	7.7	6.9	6.3	7.8	7.5	7.1	6.7	6.4	6.2
Italy	10.8	10.1	9.4	11.0	10.6	10.3	9.9	9.6	9.3
Japan	4.7	4.6	4.6	4.8	4.7	4.7	4.6	4.6	4.6
United Kingdom	5.5	5.4	5.5	5.7	5.3	5.4	5.4	5.5	5.6
United States	4.0	4.2	4.5	4.0	4.0	4.1	4.3	4.4	4.6
Euro area	9.0	8.3	7.7	9.2	8.8	8.4	8.1	7.8	7.6
European Union	8.2	7.6	7.2	8.4	8.0	7.7	7.5	7.3	7.1
Total OECD	6.2	6.0	5.9	6.3	6.1	6.0	6.0	6.0	5.9

Note : The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, a growing number of countries are using chain-weighted price indices. 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/index.htm).*

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 1990s. Consequently, Greece, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD.

Annex Table 56. **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

	1999	2000	2001	2002
Australia				
Final domestic demand	5.6	4.2	3.9	3.6
Stockbuilding	0.3	-0.1	0.1	0.0
Net exports	-1.1	-0.1	0.1	0.0
GDP	4.7	4.2	3.7	3.7
Austria				
Final domestic demand	2.4	2.6	2.1	1.9
Stockbuilding	-0.7	-0.1	0.0	0.1
Net exports	0.7	1.1	0.7	0.5
GDP	2.1	3.6	2.9	2.6
Belgium				
Final domestic demand	2.8	2.5	2.1	2.0
Stockbuilding	-0.7	0.1	0.0	0.0
Net exports	0.7	1.2	1.0	0.9
GDP	2.7	3.8	3.1	2.9
Canada				
Final domestic demand	4.2	4.9	3.3	3.1
Stockbuilding	-0.2	0.4	0.0	0.0
Net exports	0.4	-0.4	0.1	-0.1
GDP	4.5	4.8	3.4	3.0
Czech Republic				
Final domestic demand	-1.1	2.4	3.9	3.9
Stockbuilding	0.8	-0.2	0.0	0.0
Net exports	0.1	0.3	-0.6	-0.8
GDP	-0.2	2.5	3.3	3.2
Denmark				
Final domestic demand	0.8	2.1	1.5	1.8
Stockbuilding	-1.2	0.1	0.0	0.0
Net exports	2.1	0.6	1.0	0.7
GDP	1.7	2.8	2.5	2.5
Finland				
Final domestic demand	3.1	2.8	2.5	2.3
Stockbuilding	-0.5	0.0	-0.1	0.0
Net exports	1.6	2.6	2.2	2.0
GDP	4.0	5.4	4.6	4.2
France				
Final domestic demand	3.2	2.9	2.5	2.5
Stockbuilding	-0.4	0.0	0.0	0.0
Net exports	0.1	0.4	0.4	0.0
GDP	2.9	3.3	2.9	2.5
Germany				
Final domestic demand	2.2	1.7	2.2	2.0
Stockbuilding	0.2	0.2	-0.2	0.0
Net exports	-0.8	1.1	0.7	0.5
GDP	1.6	3.0	2.7	2.5
Greece				
Final domestic demand	3.7	4.0	4.4	4.7
Stockbuilding	-0.5	0.0	0.0	0.0
Net exports	0.2	0.0	0.2	-0.3
GDP	3.4	4.0	4.6	4.4
Hungary				
Final domestic demand	4.6	3.9	4.7	4.9
Stockbuilding	-0.2	0.2	0.2	0.2
Net exports	0.1	1.3	0.5	0.1
GDP	4.5	5.5	5.5	5.1
Iceland				
Final domestic demand	5.0	5.9	1.9	2.2
Stockbuilding	-0.1	-0.1	0.1	0.1
Net exports	-0.6	-2.1	-0.6	0.1
GDP	4.3	3.6	1.3	2.4
Ireland				
Final domestic demand	7.5	7.4	6.6	6.7
Stockbuilding	-1.9	0.0	0.0	0.0
Net exports	4.5	2.7	1.4	0.4
GDP	9.8	11.0	7.9	7.0
Italy				
Final domestic demand	2.0	2.8	2.2	2.6
Stockbuilding	0.4	-0.6	0.0	0.0
Net exports	-1.0	0.6	0.5	-0.1
GDP	1.4	2.8	2.7	2.6
Japan				
Final domestic demand	0.5	1.1	2.1	1.7
Stockbuilding	0.1	0.1	0.2	0.0
Net exports	-0.3	0.7	0.0	0.3
GDP	0.2	1.9	2.3	2.0
Korea				
Final domestic demand	6.4	6.9	3.7	3.4
Stockbuilding	5.5	-0.6	1.0	0.0
Net exports	-0.8	2.6	1.1	2.3
GDP	10.7	8.9	5.8	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, a growing number of 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/index.htm).* Totals may not add up due to rounding and/or statistical discrepancy.

Source : OECD.

Annex Table 56. *(cont'd)* **Contributions to changes in real GDP in OECD countries**
As a per cent of real GDP in the previous period

	1999	2000	2001	2002
Luxembourg				
Final domestic demand	9.4	2.3	3.6	3.6
Stockbuilding	0.1	-0.1	0.0	0.0
Net exports	-1.9	6.0	2.6	2.0
GDP	7.5	8.1	6.2	5.5
Mexico				
Final domestic demand	4.2	7.9	5.9	5.6
Stockbuilding	-0.8	0.7	0.2	0.0
Net exports	0.3	-1.7	-1.0	-0.8
GDP	3.7	7.0	5.0	4.8
Netherlands				
Final domestic demand	4.1	4.3	3.6	3.3
Stockbuilding	-0.2	-0.1	0.0	0.0
Net exports	-0.1	0.3	0.3	0.2
GDP	3.9	4.5	3.9	3.4
New Zealand				
Final domestic demand	4.8	1.8	2.2	2.3
Stockbuilding	1.1	-0.1	0.0	0.0
Net exports	-2.2	1.8	0.7	0.5
GDP	3.7	3.6	2.9	2.8
Norway				
Final domestic demand	0.4	1.5	1.0	1.5
Stockbuilding	-1.2	0.2	-0.1	0.0
Net exports	1.8	1.5	1.1	0.2
GDP	0.9	3.1	2.4	1.9
Poland				
Final domestic demand	5.1	5.0	4.3	5.2
Stockbuilding	-0.2	0.1	0.1	0.1
Net exports	-1.2	0.2	0.8	-0.1
GDP	4.0	5.1	4.9	5.0
Portugal				
Final domestic demand	5.2	4.2	3.9	3.9
Stockbuilding	0.0	-0.1	-0.1	0.0
Net exports	-2.2	-0.9	-0.7	-1.1
GDP	3.0	3.2	3.0	2.9
Slovak Republic				
Final domestic demand	-8.6	-1.3	5.0	4.2
Stockbuilding	3.3	-0.5	-0.2	0.0
Net exports	7.2	3.7	-2.1	-0.7
GDP	1.9	1.9	2.7	3.5
Spain				
Final domestic demand	5.4	4.1	3.9	3.5
Stockbuilding	0.2	0.2	-0.1	0.0
Net exports	-1.5	-0.2	-0.3	-0.3
GDP	4.0	4.1	3.5	3.1
Sweden				
Final domestic demand	3.8	3.0	3.8	3.0
Stockbuilding	-0.5	0.1	-0.1	0.0
Net exports	0.5	1.3	-0.3	-0.4
GDP	3.8	4.0	3.2	2.4
Switzerland				
Final domestic demand	1.7	2.8	2.4	2.3
Stockbuilding	-0.2	-0.2	0.0	0.0
Net exports	0.1	0.7	-0.1	-0.4
GDP	1.5	3.3	2.4	2.0
Turkey				
Final domestic demand	-6.2	8.7	4.3	4.0
Stockbuilding	2.1	0.0	0.0	0.0
Net exports	-0.9	-1.7	0.6	0.3
GDP	-5.0	7.0	4.9	4.4
United Kingdom				
Final domestic demand	4.6	3.2	3.2	2.7
Stockbuilding	-0.7	0.4	-0.1	0.0
Net exports	-1.6	-0.6	-0.5	-0.3
GDP	2.2	3.0	2.6	2.3
United States				
Final domestic demand	5.7	5.8	3.8	3.5
Stockbuilding	-0.4	0.2	-0.1	-0.1
Net exports	-1.2	-0.9	-0.3	-0.3
GDP	4.2	5.2	3.5	3.3
Euro area				
Final domestic demand	2.9	2.8	2.6	2.6
Stockbuilding	-0.1	0.0	0.0	0.0
Net exports	-0.4	0.7	0.5	0.2
GDP	2.5	3.5	3.1	2.8
European Union				
Final domestic demand	3.2	2.9	2.7	2.6
Stockbuilding	-0.2	0.0	-0.1	0.0
Net exports	-0.6	0.5	0.3	0.1
GDP	2.4	3.4	3.0	2.7
Total OECD				
Final domestic demand	3.7	4.1	3.2	3.0
Stockbuilding	0.0	0.2	0.0	0.0
Net exports	-0.7	0.0	0.0	0.0
GDP	3.0	4.3	3.3	3.1

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, a growing number of 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/index.htm).* Totals may not add up due to rounding and/or statistical discrepancy.

Source : OECD.

Annex Table 57. **Household wealth and indebtedness**[a]

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Canada													
Net wealth	421.7	422.2	426.5	418.6	429.6	443.5	457.2	475.7	481.9	496.4	505.2	502.8	507.8
Net financial wealth	186.1	182.9	185.6	183.4	192.4	201.7	208.4	218.0	228.0	239.7	246.7	243.3	245.6
Non-financial assets	235.6	239.3	240.9	235.1	237.2	241.8	248.8	257.7	253.8	256.6	258.5	259.5	262.2
Financial assets	271.3	270.9	275.4	275.6	285.2	297.1	306.7	319.9	330.3	345.1	355.0	353.7	358.6
of which: Equities	58.6	55.6	54.1	53.8	56.5	58.3	65.3	69.3	72.4	79.6	88.0	93.8	94.3
Liabilities	85.1	88.0	89.7	92.2	92.8	95.4	98.3	101.9	102.3	105.3	108.3	110.4	113.1
of which: Mortgages	53.2	55.3	57.1	58.7	61.0	64.1	66.0	68.3	68.4	70.3	71.0	71.4	71.9
France													
Net wealth	423.3	438.6	447.2	417.6	439.6	437.9	466.9	452.5	454.2	481.8	501.6	520.4	..
Net financial wealth	117.9	137.8	155.4	130.5	150.6	156.4	189.8	178.2	184.6	208.4	228.7	251.8	309.8
Non-financial assets	305.4	300.8	291.7	287.1	289.0	281.6	277.2	274.3	269.6	273.3	272.8	270.9	..
Financial assets	195.2	223.2	243.1	218.8	234.1	238.5	267.1	254.2	248.9	273.5	294.2	317.6	378.5
of which: Equities	63.9	90.0	108.6	87.2	103.0	102.3	121.9	101.8	84.8	98.9	110.8	130.2	183.2
Liabilities	77.3	85.4	87.7	88.3	83.6	82.1	77.4	76.0	64.3	65.1	65.5	65.7	68.7
of which: Mortgages	49.6	52.0	51.6	51.8	50.7	48.4	51.9	50.6	48.8	49.4	49.8	50.2	52.4
Germany													
Net wealth	..	..	..	535.6	472.8	531.1	546.4	553.3	564.2	571.7	580.2	586.2	597.7
Net financial wealth	175.9	182.1	185.4	130.8	123.3	124.2	133.4	130.3	136.1	141.3	150.5	157.0	169.7
Non-financial assets	..	..	..	404.8	349.5	406.9	413.0	423.0	428.1	430.4	429.6	429.1	427.9
Financial assets	192.8	199.2	203.1	200.7	208.2	210.1	224.2	227.3	236.9	246.1	258.0	267.8	284.9
of which: Equities	10.7	12.9	15.1	11.6	30.4	30.8	37.7	40.7	42.5	46.8	55.7	61.9	77.6
Liabilities	16.9	17.1	17.8	70.0	84.9	85.8	90.8	97.0	100.7	104.8	107.5	110.8	115.2
of which: Mortgages	11.2	11.6	12.1	53.6	45.7	49.2	52.5	57.3	60.6	63.7	66.4	68.5	70.6
Italy													
Net wealth	334.2	355.7	417.1	430.9	435.5	447.4	487.5	468.6	469.0	464.4	..	..	..
Net financial wealth	152.8	162.5	195.6	196.3	202.4	207.0	229.2	224.1	217.1	223.5	234.3	258.4	271.7
Non-financial assets	181.5	193.2	221.5	234.6	233.2	240.3	258.3	244.5	244.1	238.1	..	..	..
Financial assets	163.4	174.3	223.9	225.4	232.2	237.7	261.0	256.0	248.1	255.9	268.2	295.4	311.9
of which: Equities	16.0	17.0	48.7	46.0	47.9	47.9	54.4	49.3	42.6	47.9	68.0	107.1	135.2
Liabilities	10.6	11.7	28.3	29.1	29.8	30.6	31.8	31.9	31.1	32.4	34.0	36.9	40.2
of which: Medium and long-term loans	7.6	8.5	13.0	13.7	14.3	14.4	14.9	15.2	15.7	15.9	17.9	19.6	21.8
Japan													
Net wealth	758.3	797.3	866.4	887.9	814.7	743.1	718.9	709.8	690.9	681.8	676.7	655.4	..
Net financial wealth	202.4	222.6	251.6	246.5	245.3	236.8	242.5	256.1	261.6	269.4	277.5	274.4	294.1
Non-financial assets	555.9	574.7	614.8	641.4	569.4	506.3	476.4	453.7	429.3	412.4	399.2	381.1	..
Financial assets	303.3	330.1	363.1	370.3	369.2	358.0	367.3	380.1	388.5	389.4	396.6	394.4	413.6
of which: Equities	52.4	70.2	89.9	48.7	45.7	32.5	33.9	40.6	39.9	35.9	33.0	23.3	33.4
Liabilities	100.9	107.5	111.5	123.8	123.9	121.2	124.8	124.0	126.9	119.9	119.1	120.0	119.5
of which: Mortgages	40.1	42.7	45.8	47.8	48.0	48.7	50.4	52.1	53.8	53.9	55.3	50.2	52.1
United Kingdom													
Net wealth	619.5	692.9	703.3	618.6	591.5	556.7	592.0	551.4	563.1	585.1	634.8	681.1	721.2
Net financial wealth	221.1	220.2	244.0	211.8	222.9	236.0	280.2	256.5	284.4	296.2	342.6	355.3	371.6
Non-financial assets	398.4	472.6	459.3	406.9	368.6	320.7	311.8	294.9	278.7	288.9	292.2	325.7	349.6
Financial assets	324.5	332.3	360.3	328.7	337.8	346.0	387.2	364.4	391.6	402.2	449.0	465.7	485.1
of which: Equities	51.7	49.3	55.5	56.9	59.7	61.6	74.0	70.5	76.2	80.8	96.8	92.8	110.6
Liabilities	103.4	112.0	116.3	116.9	114.8	110.0	106.9	108.0	107.2	106.0	106.3	110.4	113.4
of which: Mortgages	91.6	100.5	104.8	105.8	103.6	99.4	96.9	98.3	97.3	96.5	96.7	100.6	103.6
United States													
Net wealth	487.3	490.8	503.0	480.4	492.0	481.5	487.4	479.1	507.0	528.7	565.9	587.6	637.8
Net financial wealth	263.0	266.2	275.8	263.2	280.9	277.8	286.6	281.1	309.7	331.6	366.2	385.4	429.4
Non-financial assets	223.3	223.8	227.2	217.2	211.1	203.7	200.8	198.0	197.3	197.1	199.7	202.2	208.4
Financial assets	344.8	349.2	360.4	348.9	367.4	362.8	373.5	370.4	401.6	425.5	461.9	483.8	532.5
of which: Equities	48.8	52.9	60.3	52.4	69.8	74.8	84.7	78.3	96.8	109.4	129.4	140.2	174.1
Liabilities	81.9	82.9	84.6	85.7	86.5	85.1	86.9	89.3	91.9	93.9	95.7	98.4	103.1
of which: Mortgages	53.8	55.4	57.1	59.2	60.7	60.2	60.8	61.4	61.7	62.7	63.8	66.3	69.6

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 mainly on the UN System of National Accounts 1993 (SNA 93) (for Japan 1990-98 only) and, more specifically, for European Union countries, on the corresponding European System of Accounts 1995 (ESA 95). Definitions apply to those most recent data. Households include non-profit institutions serving households (according to SNA 93 and ESA 95, households also include self-employed persons and sole proprietors). 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.

Sources : Canada: Statistics Canada, *National Balance Sheet Accounts.* France: INSEE, *Rapport sur les Comptes de la Nation* and *25 ans de Comptes de Patrimoine* (1969-1993); Banque de France, *Flow of Funds Accounts.* Germany: Deutsche Bundesbank, *Monthly Report* and *Financial accounts for Germany 1991 to 1999*, Special Statistical Publication, 2000. Italy: Banca d'Italia, *Supplements to the Statistical Bulletin* ; Ando, A., L.Guiso, I.Visco (eds.), *Saving and the Accumulation of Wealth*, Cambridge University Press, 1994; OECD, *Financial Accounts of OECD countries* . Japan: Economic Planning Agency, Government of Japan, *Annual Report on National Accounts.* United Kingdom: Office for National Statistics, *United Kingdom National Accounts*, and *Financial Statistics.* United States: Federal Reserve Statistical Release, *Flow of Funds Accounts* of the United States.

Annex Table 59. **Central government financial balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Canada	-5.5	-4.6	-3.9	-2.0	0.5	0.5	0.6	1.2	1.0	0.9
France	-4.9	-4.9	-4.2	-3.7	-2.8	-3.0	-2.5	-2.4	-0.4	-1.0
Germany	-1.9	-1.2	-1.4	-2.2	-1.7	-1.5	-1.3	1.3	-1.5	-1.1
Italy	-9.3	-9.0	-7.7	-6.9	-2.9	-2.7	-1.4	0.4	-0.5	-0.3
Japan[a]	-2.8	-3.7	-4.1	-4.4	-3.9	-5.6	-7.0	-6.2	-5.8	-6.2
United Kingdom	-8.2	-6.7	-5.5	-4.7	-2.0	0.2	1.1	2.4	1.9	1.5
United States	-4.4	-3.2	-2.6	-1.9	-0.6	0.6	1.3	2.5	2.9	3.0
excluding social security[b]	-5.1	-4.0	-3.5	-2.7	-1.6	-0.6	-0.2	1.0	1.3	1.4
Total of above countries	-4.5	-3.9	-3.5	-3.0	-1.7	-1.3	-1.0	0.3	0.2	0.2

a) For the fiscal years beginning April 1 of the year shown. The 1998 deficit would have risen by 5.4 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. Deferred tax payments on postal savings accounts are included in 2000 and 2001.

b) OECD estimates, derived from fiscal year data converted to a calendar year basis.

Source: OECD.

Annex Table 60. **Maastricht definition of general government gross public debt**

As a percentage of nominal GDP

	1993	1994	1995	1996	1997	1998	1999	Estimates and projections 2000	2001	2002
Austria	61.6	64.6	68.4	69.1	64.5	64.0	65.2	64.1	62.4	59.9
Belgium	..	..	..	130.5	125.2	119.7	115.9	110.7	105.4	100.2
Denmark	..	..	..	65.1	61.4	55.8	52.6	48.0	43.9	39.8
Finland	56.0	58.0	57.2	57.1	54.1	48.7	46.6	43.5	39.7	36.1
France	..	..	54.6	57.0	59.3	59.7	58.9	58.8	58.0	57.3
Germany	47.1	49.4	57.1	59.8	60.9	60.7	61.1	60.0	58.2	57.9
Greece	..	..	108.7	111.3	108.3	105.5	104.6	102.7	99.7	96.3
Ireland	..	..	..	74.3	65.1	55.0	50.1	37.3	26.7	16.7
Italy	118.1	123.8	123.2	122.1	119.8	116.2	115.1	110.6	107.0	103.5
Luxembourg	..	..	..	6.2	6.0	6.4	6.0	..	..	..
Netherlands	..	..	..	75.2	70.0	66.6	62.9	57.7	53.4	49.4
Portugal	..	..	..	62.7	59.4	55.7	55.9	55.9	53.8	52.4
Spain	..	..	..	68.1	66.7	64.6	63.3	61.1	58.5	56.2
Sweden	..	..	..	76.0	75.0	72.4	65.7	58.2	50.6	42.8
United Kingdom	..	..	..	52.7	51.1	48.0	45.7	42.7	40.5	37.8

Note: Debt figures are based on ESA95 definitions. For the period 1996-99, they are provided by Eurostat, the Statistical Office of the European Communities. Where available, debt figures for years prior to 1996 as well as GDP figures for the whole period are provided by National Authorities. The 2000 to 2002 debt ratios are projected forward in line with the OECD projections for general government gross financial liabilities and GDP.

Source: OECD.

Annex Table 61. **Monetary and credit aggregates: recent trends and targets**

Annualised percentage change, seasonally adjusted

		Annual change (to 4th quarter)					Latest twelve months		From target base period	Current target or projection
		1995	1996	1997	1998	1999				
Canada	M2	3.9	2.3	-1.4	1.2	4.1	5.6	(Sep. 2000)		
	BL[a]	7.7	7.6	8.0	3.1	7.8	6.5	(Aug. 2000)		
Japan	M2+CD	3.0	3.3	3.3	4.5	3.1	2	(Sep. 2000)		
	BL[a]	1.7	0.4	1.2	-1.0	-0.6	1.3	(Aug. 2000)		
United Kingdom	M0	5.5	6.9	6.6	5.2	9.2	8.6	(Sep. 2000)		
	M4	9.3	10.3	5.4	8.7	3.5	9.2	(Sep. 2000)		
	BL[a]	13.7	11.7	12.6	5.4	8.5	13.1	(Sep. 2000)		
United States	M2	3.9	4.5	5.7	8.5	6.2	6.1	(Sep. 2000)	6.2	1-5
	M3	6.1	6.8	8.9	10.9	7.7	10.4	(Sep. 2000)	9.7	2-6
	BL[a]	10.7	6.1	8.6	9.8	4.5	13.8	(Sep. 2000)		
Euro area	M2	4.1	5.1	3.9	5.5	6.5	4.7	(Sep. 2000)		
	M3	4.9	4.5	4.6	4.8	6.9	7.3	(Sep. 2000)	5.5	4.5
	BL[a]	..	..	..	..	6.6	6.3	(Sep. 2000)		

a) BL= Commercial bank lending.

Source: OECD.

Annex Table 62. **Export market growth and performance in manufactured goods**

Percentage changes from previous year

	Import volume				Export market growth				Export volume				Export performance[a]			
	1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002
Australia	8.1	11.5	7.1	7.4	11.4	15.2	11.3	8.5	6.9	6.8	8.2	10.3	-4.0	-7.3	-2.7	1.6
Austria	6.2	8.5	7.6	6.8	6.7	13.5	9.6	8.1	5.2	9.1	9.8	8.5	-1.4	-3.9	0.2	0.4
Belgium[b]	3.7	15.1	9.3	7.9	6.7	12.5	9.3	7.9	5.7	15.5	9.8	8.3	-1.0	2.6	0.4	0.3
Canada	11.4	16.3	8.5	7.1	13.2	16.3	10.0	7.7	14.0	13.0	8.2	6.4	0.7	-2.8	-1.6	-1.2
Czech Republic	4.4	22.4	14.2	11.7	2.6	12.9	9.7	7.8	8.0	20.5	14.5	11.8	5.2	6.7	4.3	3.7
Denmark	2.3	3.8	7.1	6.2	5.2	11.8	9.0	7.4	6.5	4.2	10.2	8.7	1.2	-6.8	1.2	1.2
Finland	-1.6	5.5	7.7	6.4	4.9	12.4	9.8	7.9	6.0	11.9	10.3	8.4	1.0	-0.5	0.5	0.5
France	5.4	14.9	8.7	9.0	6.8	12.0	9.6	7.9	3.7	14.4	10.0	8.2	-3.0	2.1	0.4	0.3
Germany	7.5	14.5	8.7	7.3	6.4	12.6	9.6	8.1	5.3	16.1	9.9	7.5	-1.1	3.2	0.2	-0.6
Hungary	16.9	16.8	12.7	11.7	3.8	12.6	9.5	7.8	20.8	17.3	15.1	12.3	16.4	4.2	5.1	4.2
Iceland	6.7	7.9	-1.1	3.9	8.0	12.0	8.7	6.9	2.9	15.9	-2.7	5.0	-4.8	3.5	-10.5	-1.8
Ireland	6.9	14.7	13.5	9.0	7.8	12.2	9.0	7.4	15.2	15.5	13.3	8.8	6.9	2.9	4.0	1.3
Italy	6.9	10.0	9.2	9.5	6.2	13.0	9.6	8.0	-1.0	10.7	9.7	8.0	-6.7	-2.0	0.2	0.0
Japan	13.1	17.0	10.1	4.7	10.2	16.9	11.1	9.0	1.8	12.7	5.7	5.3	-7.6	-3.6	-4.8	-3.4
Korea	39.6	27.1	23.0	10.1	7.9	16.1	10.4	8.6	10.9	20.9	17.0	12.6	2.8	4.2	6.0	3.6
Mexico	14.6	20.7	13.6	10.7	12.0	15.9	9.8	7.6	15.4	16.0	10.8	8.3	3.0	0.0	0.8	0.6
Netherlands	6.7	12.3	10.6	7.9	6.2	12.7	9.1	7.8	6.3	13.1	10.3	7.6	0.1	0.4	1.1	-0.2
New Zealand	15.4	-3.4	6.3	6.7	9.6	14.2	9.3	7.4	4.7	11.2	11.8	10.1	-4.5	-2.6	2.3	2.5
Norway	-3.6	1.4	2.1	3.0	6.0	12.0	9.5	7.7	3.0	5.2	6.2	5.5	-2.8	-6.1	-3.0	-2.1
Poland	5.7	14.3	6.6	8.0	4.8	13.1	9.6	7.8	4.2	17.4	11.5	9.8	-0.6	3.8	1.7	1.9
Portugal	11.5	9.7	9.2	9.2	7.8	11.7	9.1	7.8	6.4	10.2	10.0	8.7	-1.3	-1.3	0.8	0.8
Spain	16.2	8.7	9.6	8.9	5.8	12.5	9.4	8.3	7.5	13.0	11.2	10.0	1.7	0.4	1.7	1.6
Sweden	3.0	11.2	11.0	7.9	5.8	11.6	8.9	7.5	5.7	10.9	7.8	5.6	-0.1	-0.6	-1.0	-1.7
Switzerland	11.1	8.2	6.8	6.4	7.0	13.4	9.5	8.0	4.4	10.2	7.0	5.9	-2.5	-2.8	-2.3	-1.9
Turkey	-3.9	19.4	3.8	5.0	4.2	12.2	10.1	7.9	4.1	6.0	2.9	6.6	-0.1	-5.6	-6.5	-1.2
United Kingdom	8.0	8.2	7.9	6.2	7.0	13.2	9.8	8.0	3.9	9.1	7.8	6.2	-2.9	-3.6	-1.9	-1.7
United States	14.2	16.5	9.9	7.6	7.8	15.4	10.5	8.3	4.8	14.3	10.8	7.9	-2.8	-1.0	0.3	-0.4
European Union	7.0	11.9	9.0	7.8	6.5	12.6	9.5	8.0	4.8	13.3	9.8	7.8	-1.6	0.6	0.2	-0.2
Total OECD	10.1	14.2	9.6	7.7	7.7	14.0	10.0	8.2	5.5	13.7	9.7	7.7	-2.1	-0.3	-0.2	-0.4
Memorandum items																
China	19.5	30.0	15.5	16.0	9.0	16.1	10.4	8.0	9.7	30.1	14.5	12.6	0.7	12.1	3.6	4.3
Dynamic Asia[c]	5.4	19.5	10.4	10.2	10.2	17.4	10.8	9.2	9.1	17.2	10.7	9.0	-1.0	-0.2	-0.1	-0.2
Other Asia	3.8	8.3	7.1	6.8	8.1	13.8	10.1	7.8	8.0	16.5	11.1	8.2	-0.1	2.3	1.0	0.3
Non-OECD Asia	8.1	20.7	11.3	11.3	9.8	16.9	10.7	8.9	9.2	20.1	11.7	9.9	-0.6	2.7	0.9	0.9
Latin America	-15.1	7.4	9.3	9.1	1.6	12.9	10.0	8.3	1.5	11.4	9.5	8.5	-0.1	-1.3	-0.4	0.2
Africa and Middle-East	1.2	5.2	13.2	7.5	6.9	12.8	10.2	7.9	3.3	8.6	9.4	7.6	-3.4	-3.7	-0.7	-0.3
Central and Eastern Europe	-18.6	10.9	15.4	8.1	0.6	14.0	11.3	8.7	4.0	10.1	10.8	9.7	3.4	-3.5	-0.5	0.9
Total of non-OECD countries	1.1	15.5	11.6	10.2	8.0	16.1	10.7	8.8	7.9	18.1	11.4	9.6	-0.1	1.8	0.6	0.8
World	7.8	14.5	10.1	8.3	7.8	14.5	10.1	8.3	6.0	14.7	10.1	8.2	-1.6	0.2	-0.0	-0.1

a) Export performance is calculated as the percentage change in the ratio of export volumes to export markets.
b) Including Luxembourg until 1994.
c) Dynamic Asia includes Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.

Note: 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.

Sources: OECD; Direction of trade data - United Nations Statistical Office; OECD, *Foreign Trade by Commodities*.

Annex Table 63. **Geographical structure of OECD trade**

Percentage of nominal GDP

Area or country	Source/destination		Source of imports						Destination of exports					
			1962	1972	1982	1992	1998	1999	1962	1972	1982	1992	1998	1999
OECD[a]	**OECD**		**6.17**	**8.21**	**10.68**	**11.22**	**13.18**	**13.07**	**5.93**	**8.09**	**10.33**	**11.02**	**13.26**	**13.08**
	of which:	European Union	3.58	4.94	6.16	6.62	7.29	7.05	3.58	4.86	6.39	6.74	7.53	7.21
		United States	1.23	1.28	1.66	1.67	2.22	2.20	0.86	1.39	1.67	1.85	2.64	2.81
		Other	1.36	2.00	2.86	2.94	3.67	3.82	1.49	1.85	2.27	2.43	3.09	3.07
	Non-OECD		**2.34**	**2.36**	**4.60**	**3.10**	**3.87**	**4.03**	**2.31**	**2.22**	**4.14**	**2.99**	**3.62**	**3.35**
	of which:	DAEs + China[b]	0.24	0.35	0.76	1.20	1.83	1.93	0.26	0.38	0.75	1.15	1.41	1.41
		OPEC	0.65	0.80	2.13	0.71	0.59	0.64	0.32	0.40	1.40	0.54	0.46	0.40
United States	**OECD**		**1.80**	**3.45**	**4.94**	**5.74**	**7.01**	**7.47**	**2.22**	**2.93**	**4.22**	**5.07**	**5.52**	**5.47**
	of which:	European Union	0.69	1.15	1.45	1.60	2.01	2.11	0.96	1.13	1.69	1.70	1.70	1.63
		Other	1.11	2.30	3.49	4.13	5.00	5.35	1.26	1.80	2.53	3.37	3.82	3.84
	Non-OECD		**0.99**	**1.03**	**2.55**	**2.67**	**3.39**	**3.55**	**1.46**	**1.08**	**2.29**	**2.01**	**2.22**	**1.98**
	of which:	DAEs + China[b]	0.14	0.30	0.72	1.45	2.02	2.08	0.12	0.18	0.54	0.83	0.93	0.89
		OPEC	0.24	0.21	0.90	0.49	0.39	0.44	0.17	0.21	0.67	0.33	0.29	0.22
Japan	**OECD**		**5.43**	**4.21**	**4.72**	**3.38**	**3.86**	**3.60**	**4.19**	**5.68**	**6.68**	**5.54**	**6.11**	**5.85**
	of which:	European Union	0.90	0.73	0.79	0.91	1.03	0.99	0.98	1.42	1.82	1.80	1.88	1.73
		United States	2.97	1.95	2.21	1.40	1.76	1.54	2.30	2.95	3.33	2.58	3.11	2.94
		Other	1.56	1.53	1.71	1.07	1.08	1.07	0.90	1.30	1.53	1.16	1.12	1.17
	Non-OECD		**3.84**	**3.62**	**7.36**	**2.89**	**3.50**	**3.55**	**3.90**	**3.88**	**6.03**	**3.60**	**4.08**	**3.80**
	of which:	DAEs + China[b]	1.09	0.76	1.45	1.25	1.97	2.03	1.26	1.52	2.11	2.39	2.86	2.81
		OPEC	1.11	1.50	4.45	1.04	0.91	0.94	0.52	0.61	1.97	0.50	0.39	0.31
European Union[c]	**OECD**		**11.20**	**13.58**	**18.11**	**17.80**	**20.42**	**20.57**	**10.46**	**13.63**	**17.22**	**17.05**	**21.45**	**21.64**
	of which:	European Union	7.65	10.31	13.32	13.53	15.04	15.09	7.52	10.28	13.45	13.54	16.18	16.21
		United States	1.77	1.44	2.06	1.53	2.07	2.07	1.05	1.37	1.56	1.31	2.09	2.25
		Other	1.77	1.82	2.73	2.73	3.31	3.40	1.89	1.98	2.22	2.20	3.18	3.18
	Non-OECD		**4.21**	**3.73**	**6.24**	**3.42**	**4.21**	**4.40**	**3.39**	**3.08**	**5.52**	**3.20**	**4.20**	**3.97**
	of which:	DAEs + China[b]	0.27	0.28	0.57	0.94	1.49	1.58	0.27	0.25	0.44	0.65	0.93	0.91
		OPEC	1.19	1.37	2.81	0.71	0.56	0.59	0.54	0.58	2.06	0.70	0.61	0.56

a) OECD includes Korea from 1988. Trade data for Greece and Turkey in 1999 are 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 1999 are OECD estimates.
Source: OECD.

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