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Conventional signs

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

Summary of projections

	2004	2005	2006	2004	2005				2006		Fourth quarter		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	2004	2005	2006
							Per cent						
Real GDP growth													
United States	4.4	3.6	3.3	3.8	3.6	3.4	3.6	3.3	3.3	3.3	3.9	3.5	3.3
Japan	2.6	1.5	1.7	0.1	5.3	0.8	1.2	1.5	1.9	1.9	0.9	2.2	1.9
Euro area	1.8	1.2	2.0	0.6	1.5	1.1	1.3	1.7	2.2	2.4	1.6	1.4	2.4
Total OECD	3.4	2.6	2.8	2.5	3.3	2.5	2.7	2.8	2.8	2.9	2.8	2.8	2.9
Inflation													
United States	2.1	2.4	2.2	2.3	3.2	1.9	2.1	2.1	2.5	2.2	2.4	2.3	2.3
Japan	-1.2	-0.9	0.0	0.2	-2.8	-0.8	-0.4	-0.1	0.0	0.2	-0.4	-1.0	0.3
Euro area	1.9	1.5	1.7	1.5	1.2	1.9	1.8	1.6	1.6	1.6	1.8	1.6	1.6
Total OECD	2.0	1.9	1.9	2.2	1.5	1.8	1.8	1.8	2.1	1.9	2.4	1.7	1.9
Unemployment rate													
United States	5.5	5.1	4.8	5.4	5.3	5.2	5.1	5.0	4.9	4.9	5.4	5.0	4.7
Japan	4.7	4.4	4.1	4.6	4.5	4.4	4.4	4.4	4.3	4.2	4.6	4.4	3.9
Euro area	8.9	9.0	8.7	8.9	9.0	9.1	9.1	9.0	8.9	8.8	8.9	9.0	8.5
Total OECD	6.7	6.7	6.4	6.7	6.7	6.7	6.7	6.6	6.5	6.5	6.7	6.6	6.3
World trade growth	9.4	7.4	9.4	7.2	5.2	8.1	9.1	9.5	9.5	9.5	8.7	8.0	9.5
Current account balance													
United States	-5.7	-6.4	-6.7										
Japan	3.6	3.6	4.1										
Euro area	0.6	0.1	0.3										
Total OECD	-1.2	-1.7	-1.7										
Cyclically-adjusted fiscal balance													
United States	-4.2	-4.1	-4.0										
Japan	-5.9	-6.0	-5.4										
Euro area	-2.0	-1.8	-1.8										
Total OECD	-3.3	-3.1	-3.0										
Short-term interest rate													
United States	1.6	3.4	4.7	2.3	2.8	3.2	3.6	4.2	4.4	4.6	2.3	4.2	4.9
Japan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Euro area	2.1	1.8	1.9	2.2	2.1	2.0	1.6	1.6	1.6	1.7	2.2	1.6	2.2

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

Assumptions underlying the projections include:

- no change in actual and announced fiscal policies;
- unchanged exchange rates as from 6 May 2005; in particular 1$ = 104.50 yen and 0.779 euros.

The cut-off date for other information used in the compilation of the projections is 20 May 2005.

Source: OECD Economic Outlook 77 database.

EDITORIAL: LOSING BALANCE AND MOMENTUM?

The smooth scenario where the recovery was expected to spread more evenly across the OECD has not materialised. While some elements of this scenario, such as a relatively successful "soft landing" in the United States and a rebound of activity in Japan may be in place, what is badly lacking is sustained momentum in the euro area. Indeed, as time passes it is becoming increasingly evident that circumstantial arguments (Iraq war, oil and commodity price shocks, exchange rate fluctuations…) are not sufficient to explain the string of aborted recoveries in Continental Europe. As a result, and looking ahead, growth prospects seem bound to differ widely across the OECD and the world economy, ranging from solid in Asia to back on trend in the United States, and weak and uncertain in Europe. Such contrasting economic perspectives will not contribute to reducing current account imbalances and may be reflected in slower aggregate world demand. These growth outcomes are not carved in stone, however: as always, they are contingent on the effectiveness of macroeconomic and structural policies and their capacity to adapt to a more globalised environment.

Focusing on regional developments, in the United States residual slack has been absorbed and the economy is likely to continue to grow in line with potential. Several years into the recovery, activity is still largely driven by domestic demand, with little help yet in sight from net exports. Notwithstanding a somewhat accidental fall in imports during the first quarter of the year, the contribution of net exports to growth has indeed been rather weak despite a substantial depreciation of the real effective exchange rate of the dollar.

In Continental Europe, after an encouraging upswing during the first half of 2004, growth weakened in the second half of last year, in parallel with sagging consumer and business confidence. Although on the surface recorded growth picked up somewhat in early 2005, it is flagging anew and no decisive upturn is in the offing before late this year. This abrupt weakening stems in large part from a stronger euro and higher oil prices. But it has been considerably amplified in countries such as Italy and Germany by a distinct and recurrent lack of resilience to outside shocks, in contrast with smaller economies such as Spain and the Nordic countries, which have held out well. The euro area's susceptibility to shocks makes short-term forecasting a highly contingent exercise: for a gradual recovery to materialise, as expected in this *Outlook*, a modicum of external stability will be needed for some time.

Policy must address this chronic pattern of weak resilience and diverging activity within the euro area as thoroughly and promptly as possible. It is of course a matter of central importance for the growth prospects of the countries involved but also, to some extent, for the credibility of the Economic and Monetary Union itself. In Germany, the problem is one of a persistent fall in domestic demand despite a very strong stimulus from the export side. In Italy, the traded sector, undermined by years of excessive cost inflation, has been losing market shares at a disquieting rate, which has laid the ground for the current recession.

Since its inception, European Monetary Union has provided member countries with invaluable benefits, including internal financial stability and historically low interest rates, as well as an environment of price stability that stood the test of rising oil prices. In the long run, however, a successful Monetary Union that works to the benefit of all requires well-functioning product, financial and labour markets as well as a substantial measure of homogeneity in the economic structures of its member countries. In such a context, whatever the political difficulties, the case for further European economic integration and structural reforms remains pressing.

In Asia, growth prospects remain bright. Conjunctural evidence points to a recovery in Japan, following the "soft patch" around mid-2004. In China, activity has been accelerating, reflecting thriving exports but also some domestic overheating, which the authorities are trying to contain. Over the past few years, East Asian economies have provided a strong impulse to world trade. This steadying influence should not be overlooked at a time where in other areas such as exchange rate policies, their contribution to the stability of the world economy seems less convincing.

These continuing divergences in domestic demand between Europe and some Asian countries on the one hand, and the United States on the other, cannot be treated with benign neglect. Given the unsustainable US current account position, endogenous pressures for correcting existing imbalances will become ever larger. At some point, they may take the form of an abrupt weakening of the dollar with adverse consequences for the OECD area as a whole according to model simulations from the Secretariat. More concretely, a falling dollar would not only curtail net exports but also domestic demand in Japan and Europe where resilience is low and monetary and fiscal room for manoeuvre is limited. Although not the most likely outcome at present, such an unpleasant scenario is gradually looming larger.

A happier reduction of external imbalances would have "excess savings" economies in Asia (China, Japan and others) and Continental Europe switch their growth patterns in favour of domestic demand, thus reducing global economic adjustment costs, while in the United States macroeconomic policies, whether fiscal or monetary, are firmly oriented towards raising unsustainably low national savings.

In some thriving Asian economies, co-operative adjustment would involve exchange rate appreciation and a reappraisal of the role of monetary policy which should be focusing on domestic objectives such as price stability and smoothing output fluctuations.

In Europe the immediate challenge lies in restoring a sustained momentum for domestic demand after a series of repeated failings. Beyond its contribution to economic stability and the rebalancing of current accounts, more robust domestic demand may also help avert a stalling of economic reforms, in a context where their potential deflationary impact raises apprehensions in many segments of public opinion. Having successful economic reforms and stronger potential growth would, in turn, help the Europeans become more resilient and better shoulder the costs of future exchange rate shifts.

Better managing the demand side of the economy will therefore remain a central priority in the future. First of all, monetary policy may have an immediate role to play by significantly cutting policy rates. In the current context of low underlying inflation* and weak aggregate demand, the case for easing the monetary stance in the euro area looks indeed rather compelling. As stressed in previous issues of the *Outlook*, reforms aiming at more flexible and consumer-friendly retail financial markets could also help bring a stronger focus on demand in the overall reform strategy, while endowing euro area economies with more effective monetary policy transmission channels during economic downswings.

Finally, while previous *Outlooks* talked at length about the need for fiscal rectitude, public finance consolidation is at best inching along in most large OECD countries. In Europe, the newly agreed and more flexible version of the Stability and Growth Pact should be associated with a greater sense of national ownership and implemented with a view to reduce in earnest the current budgetary imbalances.

Jean-Philippe Cotis
Chief Economist

* See this *Outlook*'s special chapter devoted to "core inflation" indicators and their predictive power for future inflation developments.

I. GENERAL ASSESSMENT OF THE MACROECONOMIC SITUATION

Overview

Performance recently diverged anew…

Against the backdrop of rising and volatile oil prices, coupled with exchange rate shifts, OECD-wide growth slowed in the course of 2004. Performance, however, diverged across countries. Momentum slackened less in the United States, the United Kingdom and France than in Japan, Germany and Italy, where activity decelerated markedly, even contracting for a time. Elsewhere, growth generally proved quite robust.

… but momentum should start broadening later in 2005, though at a rather low pace

While the pace of activity picked up in early 2005, it seems to have been moderating anew since. It is only later this year that OECD-wide growth is projected to strengthen modestly and to become more balanced, helped by sustained buoyancy in the rest of the world and an underlying assumption of oil prices not rising any further as well as respending by oil-producing non-OECD economies coming on stream. The OECD countries ahead in the cycle are seen to grow broadly on trend and the others to catch up, albeit incrementally and only partially in the case of some of the less resilient euro area economies. Where the cycle has lagged, investment is projected to strengthen on the back of ample profits, stronger balance sheets, easy credit and rising capacity utilisation rates. Unemployment, however, is not expected to decline rapidly (Table I.1).

Table I.1. **The expansion should gradually regain momentum**

OECD area, unless noted otherwise

	Average 1992-2001	2002	2003	2004	2005	2006	2004 q4	2005 q4	2006 q4
	Per cent								
Real GDP growth[1]	2.7	1.6	2.1	3.4	2.6	2.8	2.8	2.8	2.9
United States	3.4	1.9	3.0	4.4	3.6	3.3	3.9	3.5	3.3
Euro area	1.9	0.9	0.6	1.8	1.2	2.0	1.6	1.4	2.4
Japan	1.1	-0.3	1.5	2.6	1.5	1.7	0.9	2.2	1.9
Output gap[2]	-0.7	-1.3	-1.6	-0.7	-0.7	-0.5			
Unemployment rate[3]	6.8	6.8	6.9	6.7	6.7	6.4	6.7	6.6	6.3
Inflation[4]	3.8	2.6	2.2	2.0	1.9	1.9	2.4	1.7	1.9
Fiscal balance[5]	-2.6	-3.2	-3.7	-3.3	-3.2	-3.0			

1. Year-on-year increase; last three columns show the increase over a year earlier.
2. Per cent of potential GDP.
3. Per cent of labour force.
4. GDP deflator. Year-on-year increase; last three columns show the increase over a year earlier.
5. Per cent of GDP.

Source: OECD Economic Outlook 77 database.

Some serious imbalances persist

Many of the risks surrounding this baseline projection stem from enduring external and internal imbalances, in the form of widening current account gaps and persistent large fiscal deficits, while some classes of assets may be richly valued, in a context of abundant liquidity. Some of the imbalances could be in the process of turning around, with housing markets slowing in several countries and some credit spreads having recently begun to tick up. While the imbalances may well unwind relatively smoothly, serious turbulences cannot be ruled out. Furthermore, in some countries, another risk is that business investment would disappoint, if firms anticipate that final demand weakness is set to persist.

More fiscal restraint is called for

Monetary stimulus has started or continued to be withdrawn in English-speaking OECD countries, where slack is shrinking or essentially gone, and in North America the return towards neutral interest rate levels is expected to continue. In contrast, sizable and persisting margins of slack combined with declining core inflation with little upside risk now warrant an easing of the monetary stance in the euro area. In Japan, mild deflation endures and any move suggesting an early change in the monetary stance would seem premature. On the fiscal side, underlying positions have deteriorated in many countries and consolidation is in order, even where the recovery is not that advanced, but especially in the countries where expansions are firmly established.

Absorbing the shocks

Performance in the face of adversity has been uneven

In the year and a half to early May 2005, the spot price of oil soared by about $20, the largest increase in 25 years, with market participants widely expecting most of it to last (Figure I.1). In some OECD economies (including the euro area, Australia, Canada and Korea), this global shock was accompanied by exchange rate appreciation, which had an offsetting effect on inflation but an additional adverse impact on activity. In others, and most notably in the United States, the oil shock paralleled exchange rate weakening, which added somewhat to inflationary pressure and terms of trade loss but mitigated the output cost.[1] Some countries appear to have overcome these shocks at limited cost, in particular the United States, the United Kingdom and Canada and, outside the OECD, China.[2] Others – especially Japan and Germany, which were dependent on external demand that languished (Figure I.2) – appear to have had more difficulty coping with adversity.

The US economy slowed from a rapid pace…

In the face of the oil shock, US growth has remained vigorous, despite some slowing. Job creation resumed in earnest, but it remained sub-par; nonetheless, because participation rates failed to pick up decisively, unemployment declined more than what experience in past cycles might have suggested (Box I.1). Output growth was supported by a still accommodating policy stance but also reflected some strong

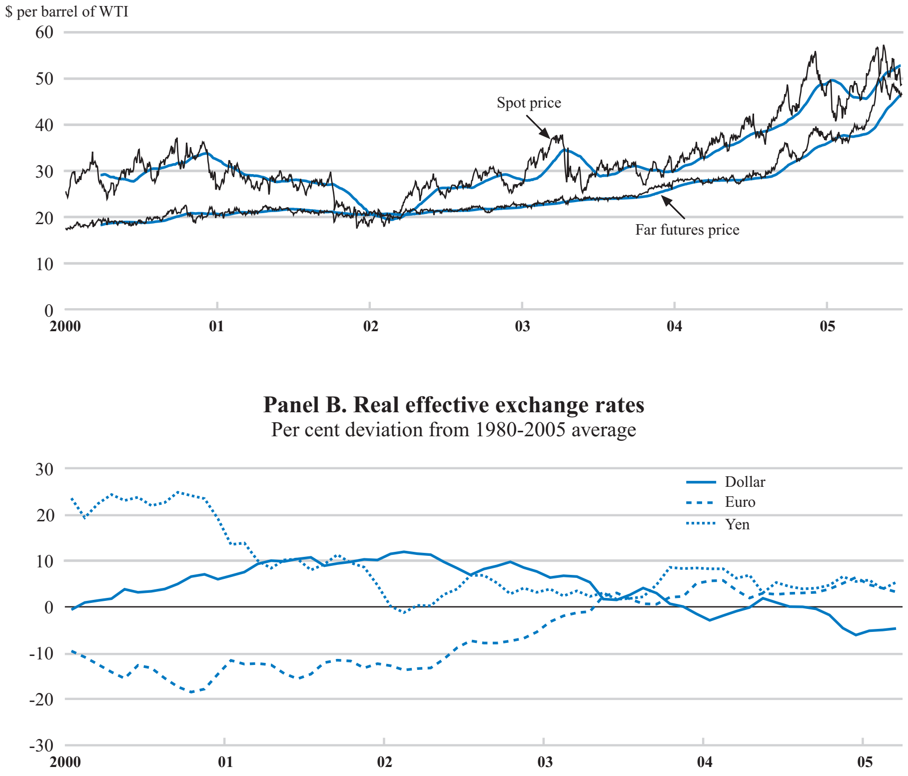
1. For an in-depth analysis of the oil market and of the economic impact of oil price fluctuations, see Brook, A-M., R. Price, D. Sutherland, N. Westerlund and C. André, "Oil price developments: drivers, economic consequences and policy responses", *OECD Economics Department Working Papers*, No. 412, 2004.
2. In the case of the first three countries, greater resilience may be helped by the fact that they are themselves large producers of oil.

fundamentals. Non-residential fixed investment was buoyant, driven by spending on equipment and software and spurred by favourable financing conditions, healthier balance sheets and ample profits. It slowed in early 2005, but to some extent this may have reflected the expiration at the turn of the year of temporary accelerated depreciation provisions favouring capital spending.[3] Household consumption expanded rapidly, despite some deceleration in the first quarter of 2005 associated with a drop in motor vehicle purchases. It has become less dependent on mortgage equity withdrawal and rests increasingly on employment growth. Against this backdrop and with shrinking slack, exchange-rate and commodity-price-driven cost-push pressures have been gathering strength. Core inflation has trended up, exceeding 2% for the consumer price measure (see Figure I.11 below). Core goods price inflation, which had turned positive in the course of 2004, has of late eased and remains well below core service price inflation. Inflation as measured by the core consumer expenditure deflator, however, has remained lower, at 1¾ per cent.

Figure I.1. **Oil prices are high and volatile, while exchange rates have shifted**

Panel A. Oil prices

West Texas Intermediate (WTI), current dollars, daily observations and three-month moving average



Source: Datastream and OECD Economic Outlook 77 database.

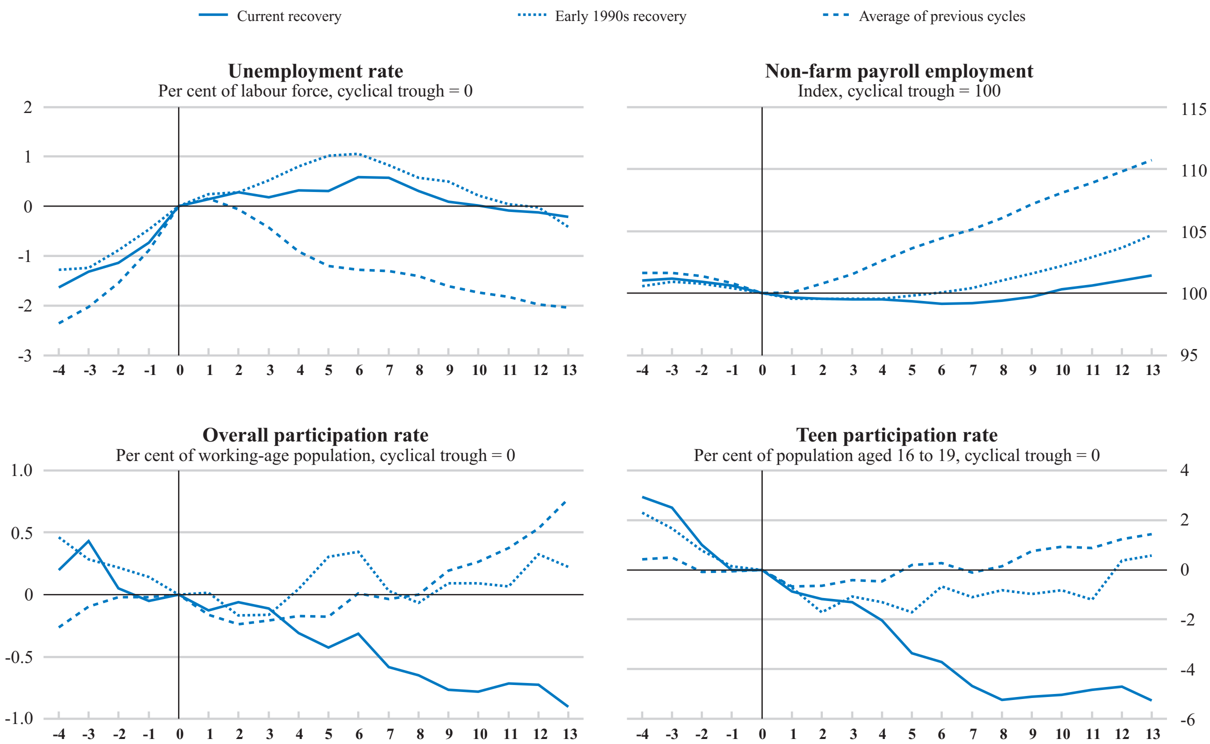
3. Indeed, spending on information processing equipment and software – which owing to its shorter economic life benefits less from this type of tax incentives – accelerated in the first quarter of 2005.

Box I.1. US employment, unemployment and labour force participation

The behaviour of the US labour market has been rather unusual in the current business cycle. Payroll employment continued to contract for almost two years after the recession had ended, twice as long as in the downturn of the early 1990s. Moreover, the subsequent recovery in employment has been subdued by historical standards. Meanwhile, the decline in the labour-force participation rate has been longer and more protracted than in earlier cycles. In contrast, the evolution of the unemployment rate has been less out of line with traditional patterns, easing from a cyclical peak of 6¼ per cent of the labour force in Spring 2003 to 5¼ per cent in the first quarter of 2005.

Surprisingly robust labour productivity accounts for the contrast between the recoveries in output and in job creation. Insofar as it is sustained, it should boost economic growth over the longer run. However, the persistently low labour-force participation rate may be a matter of concern, including for monetary policy. At issue is the extent to which it reflects cyclical

US unemployment declined more than job creation might have suggested



Note: Cyclical trough dates are given by the NBER chronology. The average of previous cycles includes major cycles from the 1960s to the 1980s. The last cyclical trough is 2001Q4.
Source: US Bureau of Labor Statistics.

… whilst growth in the euro area at large slackened…

The euro area's belated recovery has been crimped by the oil and exchange rate shocks. Economic slack increased in the second half of 2004, to over 1½ per cent of GDP, a shortfall in demand over one percentage point larger than in the rest of the OECD area. The pace of employment creation compared somewhat more favourably to that observed elsewhere but only barely sufficed to stabilise the unemployment rate, which remains close to 9% of the labour force, with a cyclical component of

Box I.1. US employment, unemployment and labour force participation *(cont.)*

rather than structural factors, and thus how much slack remains in the labour market and how close the economy is to potential. If the participation rate does eventually rebound, new hires will put less upward pressure on wages insofar as they draw in workers from outside the labour force.

At least four sets of forces impinge directly on participation rates, which may denote different cyclical behaviour or changes in some underlying trends:

- The participation rate of the 16 to 19 years-olds has plunged by about 8 percentage points in this cycle, twice as much as in the early 1990s downturn. This partly reflects increases in school enrolment,[1] which may have both a structural dimension (insofar as perceived returns to schooling rose) and a cyclical aspect.
- Participation rates for prime-age workers have also declined over the past few years. A major reason may be greater incentives for the low-skilled to take up disability rather than unemployment benefits. This is a long-standing trend,[2] but over time disability application rates are estimated to have become substantially more responsive to adverse cyclical shocks, not least because of a gradual increase in the replacement rate associated with this benefit for low-skilled workers.[3]
- Working in the opposite direction is a trend increase in the participation rate of older workers (aged 55 and over), by about 6 percentage points since the mid-1990s, possibly reflecting improvements in health but also, more recently, the bursting of the equity market bubble. This group being four times as numerous as that of the 16-19 year-olds, the increase in their participation rate has more than offset the decline in teen participation. On the other hand, the ageing of the baby-boom generation shifts individuals from the prime-age into the older-worker groups, whose average participation rate remains much lower, subtracting an estimated 0.1 percentage point per annum from the overall participation rate.[4]
- There is also evidence that the underlying pace at which women join the labour force may have slackened.[5]

In addition, the extent of the ongoing business restructuring might be greater than in the past and the associated shifts in the occupational structure of employment may translate into longer spells out of the labour force, not least for workers to invest in new skills allowing them to pursue more demanded occupations.[6] Rapidly rising non-wage labour costs, especially those related to health care, may be pushing in the same direction.[7]

The net effect of these various factors on participation is hard to evaluate, and its decomposition between trend and cycle even more so, especially when recalling that the labour market conditions prevailing around the turn of the millennium were themselves fairly unusual. That said, the projection in this *Economic Outlook* is for some pick-up in the cyclical component of the overall participation rate, which given the projected pace of job creation will contribute to limiting the decline in the unemployment rate.[8]

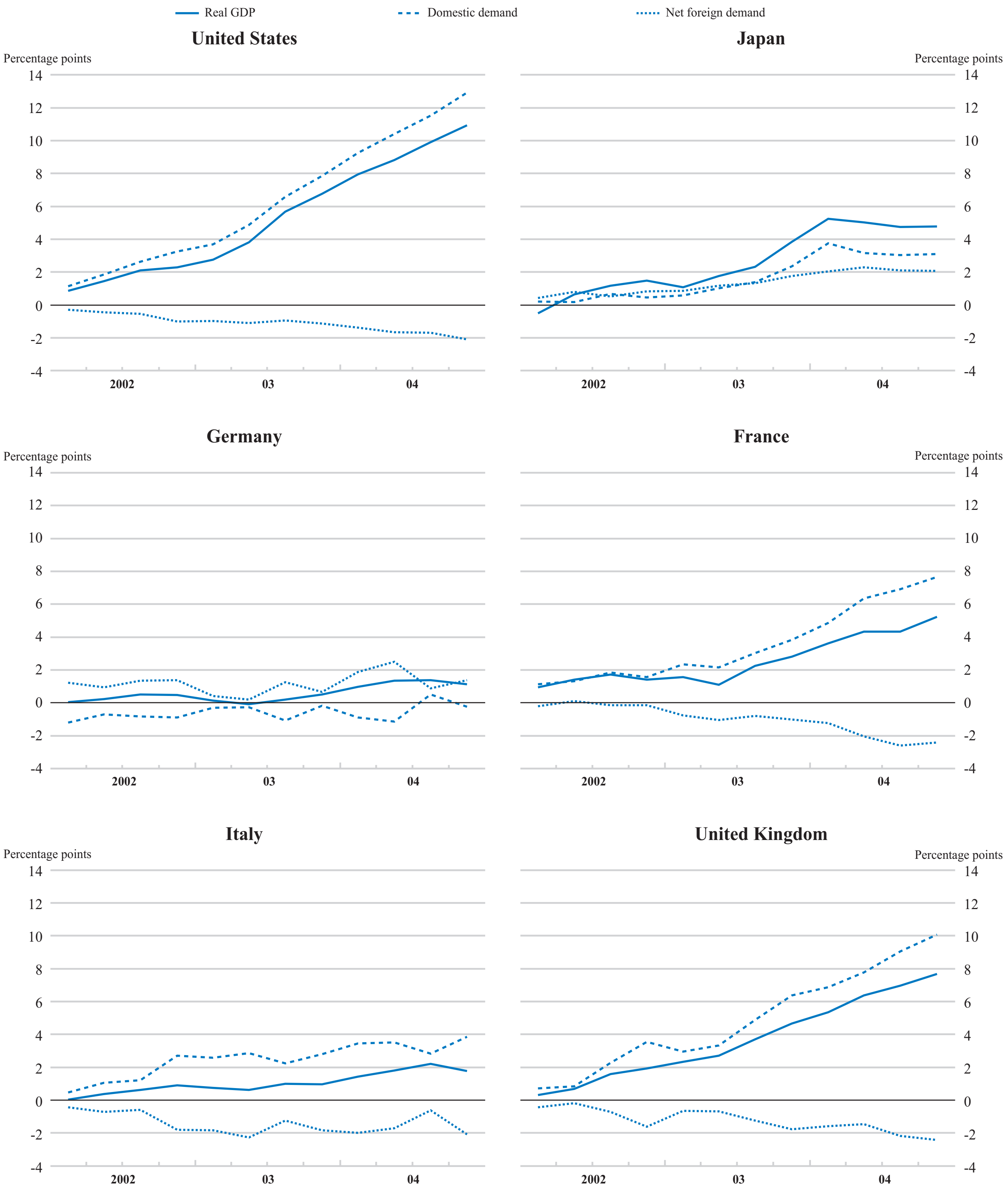
1. See Coffin, D., "Understanding the decline in the labor force participation of teenagers", *mimeo*, November 2004. The participation rates of 20-24 year-olds also dropped, but less starkly.
2. Between the mid-1980s (when the stringency of the screening governing access to disability benefits was reduced) and 2001, the rise in the share of non-elderly adults receiving Social Security disability insurance benefits reduced the unemployment rate by half a percentage point (Autor, D. and Duggan, M. "The rise in disability rolls and the decline in unemployment", *Quarterly Journal of Economics*, Vol. 118, No. 1, 2003).
3. As a result of the fact that the benefit is indexed on the average wage and that the dispersion of earnings rose during that period. In addition, the real value of the accompanying medical benefits also increased over time – an important factor in a context where a growing share of low-skilled workers do not enjoy company-paid health insurance.
4. See Congressional Budget Office, *CBO's Projections of the Labor Force*, September 2004.
5. See Congressional Budget Office, *ibidem*.
6. See for instance Schweitzer, M., "Economic restructuring and the slow recovery of employment", Federal Reserve Bank of Cleveland, *mimeo*, December 2004. The evidence in this area remains somewhat inconclusive, however.
7. See K. Baicker, K. and A. Chandra, "The labor market effects of rising health insurance premiums", *NBER Working Papers*, No. 11160, 2005.
8. Similar questions arise in other OECD countries, for instance in the United Kingdom, see Schweitzer, M. and D. Tinsley, "The UK labour force participation rate: business cycle and trend influences", *Bank of England Working Papers*, No. 228, 2004.

around ¾ percentage point.[4] Rising energy prices almost uninterruptedly kept headline inflation a few decimal points above the 2% mark but measures of underlying inflation remained below that threshold and have recently eased further.

4. In Germany, job creation reflected the take-off of publicly-sponsored "mini-jobs" of self-employment schemes, which drew a number of people back into the labour force, more than new full-time private sector hires. See Caliendo, M., R. Hujer and S. Thomsen, "The employment effects of job creation schemes in Germany: a microeconometric evaluation", *IZA Discussion Papers*, No. 1512, 2005.

Figure I.2. **Dependence on external demand has varied across economies**

Cumulated contributions to growth from 2002Q1 onwards



Source : OECD Economic Outlook 77 database.

… although with stark differences across countries

Developments across euro area members diverged, however. Growth proved fairly resilient in France and more clearly so in Spain and several smaller economies. This contrasted starkly with Germany and especially Italy, where over the past two quarters activity has been contracting at an annualised rate of close to 2%. Paradoxically, real GDP and total domestic demand continued to follow similar paths in France and in the United Kingdom, whereas divergence amongst the largest members of the common currency area tended to increase (Figure I.2 above). Private consumption held up well in France in the course of 2004, partly thanks to a decline in the household saving rate, which may have been facilitated by sizeable housing wealth gains. In Germany, where for many years house prices have been falling steadily, the saving rate increased and consumption was weaker, against the backdrop of a lacklustre labour market (see Box I.2). As a consequence, domestic demand stagnated, and the modest growth in real GDP in 2004 was fully accounted for by foreign trade, reflecting a sharp acceleration of exports, driven to a significant degree by market share gains. This was accompanied by a further widening of the current account surplus, to over 3½ per cent of GDP (coming from a deficit of 1½ per cent of GDP in 2000). In Italy instead, the drag exerted by anaemic domestic demand was compounded by eroding competitiveness, associated *inter alia* with insufficient service sector deregulation. Indeed, over the past five years, Italy's cumulative loss of competitiveness has approached 25% (Figure I.3).[5]

The recovery paused in Japan in 2004

The Japanese economy decelerated fairly abruptly in the spring of 2004 and contracted slightly in the second and third quarters.[6] This partly illustrated the dependence of the recovery on exports to China, where investment demand slowed, and on the high-tech cycle, which on some measures for semi-conductor equipment turned in the course of 2004, leaving Japanese firms with excess inventories. The deceleration also reflected domestic demand weakness. Fixed business investment slowed sharply and to a lesser extent so did household consumption. Despite the resumption of positive net job creation and a significant decline in unemployment, average nominal wages continued to falter, owing to the rising share in total employment of part-time employees, whose all-in compensation is much lower (not least because they receive very small if any bonuses). Activity and domestic demand were flat in the fourth quarter but accelerated sharply in early 2005, with both household consumption and private non-residential investment up substantially. Headline inflation turned positive in late 2004, but this reflected rising energy prices coupled with a jump in fresh food prices, so that core inflation remained in negative territory. In early 2005, sharp drops in rice prices and utility fees helped push the overall price level down again.

Growth picked up in most other OECD economies…

Growth picked up in 2004 in most of the other OECD economies, including in the four new European Union (EU) members (Poland, Hungary, the Czech Republic and the Slovak Republic), the smaller Northern European countries, Korea, Mexico and Turkey, despite some weakening during the second half of the year in several cases. In Australia, however, activity decelerated markedly, partly related to a surge in imports coupled with a contraction in exports, resulting in a widening of the current account deficit to 6¼ per cent of GDP for the year as a whole.

5. For further analysis on the resilience of euro area economies, see the forthcoming *OECD Survey of the Euro Area*, Paris, 2005.
6. It should be borne in mind that the Japanese national accounts underwent a comprehensive revision in December 2004, with the introduction of chain linking, which reduced annual real GDP growth estimates by around one percentage point.

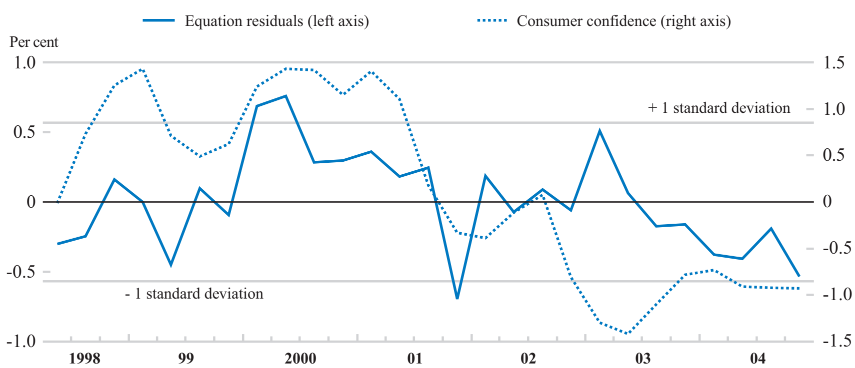
Box I.2. How can the weakness in German consumption be explained?

Over the past three years, the volume of private consumption in Germany declined cumulatively by 1½ per cent, whilst the household saving rate rose by almost ¾ percentage point.[1] To some extent, lacklustre consumption reflected subdued income growth, with real GDP expanding by only 1% over the same period. However, private consumption held up somewhat better in other euro area countries that also experienced weak real GDP growth, such as the Netherlands and Italy.

Against this background, a simple error-correction model was estimated to assess whether the usual determinants of private consumption could explain German households' behaviour. More specifically, this equation – estimated on quarterly data spanning the past 25 years – includes real disposable income, real short-term interest rates, inflation[2] and a proxy for real wealth[3] on the right hand side.[4] The inclusion of the unemployment rate, be it in level or in first-difference terms, was attempted, but, somewhat surprisingly, it failed to enter significantly. The residuals of the overall equation, which includes both the long-run relationship and the short-run dynamics, are plotted below.

Looking at the past seven years, the residuals are distinctly pro-cyclical and are correlated with consumer confidence, suggesting a limited degree of consumption smoothing and a lack of consumer resilience when the cycle is at a low ebb. Over the past two years, the residuals are not that large, but they clearly trend down, showing that the aforementioned fundamentals may not fully explain consumers' lack of stamina, and that confidence effects may have played a role. Indeed, in a context of far-reaching economic restructuring and balance sheet repair, which has translated into labour shedding and sluggish real wage growth, households are likely to worry more about possible future job or income losses, which would tend to push up precautionary saving and thereby depress demand further.[5] In addition, the psychological reverberations of the 2001 and 2003 pension system reforms, as well as of the recent labour market reforms – which are not captured in the above standard variables – may help explain greater precautionary saving.

The usual drivers do not fully account for consumer anaemia

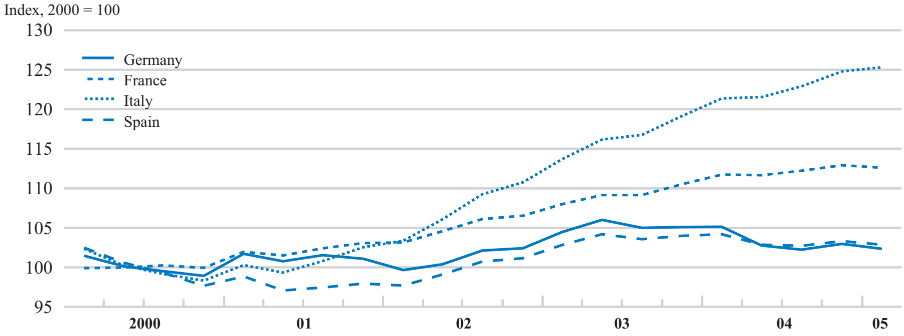


Note: Consumer confidence has been normalised at the average for the period starting in 1985 and is presented in units of standard deviation.

Source: OECD Economic Outlook 77 database and Datastream.

1. Consumption and GDP volumes are adjusted for working days.
2. The private consumption deflator is used as the measure of inflation as well as to deflate the variables expressed in real terms.
3. The DAX stock market index was used. Housing wealth exceeds equity holdings, but no good quarterly time series is available for this variable. In any event, studies conducted on annual data do not show housing wealth to affect consumption very significantly compared with other countries (see *e.g.* Catte, P., N. Girouard, R. Price and C. André, "The contribution of housing markets to cyclical resilience", *OECD Economic Studies*, No. 38, 2004).
4. Dummies for reunification and for a few outliers were added in as well.
5. Concerns have also been expressed that the deterioration in public finances may have heightened expectations of future tax increases (see the overview chapter of the Bundesbank's August 2004 *Monthly Report*). The presence of such effects was tested here by introducing changes in non-interest government spending on the right-hand side of the equation, but the results were inconclusive (the variable entered with the hypothesised negative sign and significantly but it did not markedly improve the fit of the overall equation).

Figure I.3. **Competitiveness trends diverge across euro area members**



Note: The competitiveness indicator is relative unit labour cost in the manufacturing sector corrected for changes in nominal effective exchange rates.
Source: OECD Economic Outlook 77 database.

… whilst on the whole remaining robust in the rest of the world

Non-OECD economies continued to be an important source of dynamism in world trade in goods and services, accounting for two fifths of the expansion in total volumes in 2004, well above their share in total trade. However, in net terms, OECD trade with the rest of the world was a drain on OECD-wide growth, as China's current account surplus widened and the respending of the extra oil revenue by producers displayed the usual lag. In China, real GDP grew by 9.5% for the full year, a pace maintained in the first quarter of 2005. The balance between investment, which had been overheating, and consumption improved. Despite a major positive terms-of-trade shock coupled with increasing fiscal stimulus, Russia slowed in the course of the year, largely as a result of a deterioration in the business climate. Nevertheless, growth for 2004 as a whole still topped 7%. Brazil recorded its fastest expansion in a decade, with real GDP rising by over 5%, although with some deceleration in the second half of the year. In Africa and the Middle East, growth was spurred by a significant appreciation of the terms of trade, and the additional export revenue has started to be recycled into greater demand for imports.

Maintaining or regaining momentum

Incoming data send mixed signals…

In a number of OECD countries, survey data have softened lately (Figure I.4), even as some of the incoming hard data pointed upwards.[7] On balance, the near-term indicator-based model forecasts, which incorporate both types of information, suggest that in the second quarter of 2005 growth should hold up in the United States and the United Kingdom, whilst slowing in Japan, following the rebound in the first

7. In the US case, the marked climb-down of the manufacturing purchasing manager index can be interpreted as a correction following some overshooting, as its output and new order components in particular move back in line with actual activity. More generally, the data flow around the turn of a leap year is typically noisy, as shifts in working days are not fully captured in standard deseasonalisation procedures.

Box I.3. Policy and other assumptions underlying the central projections[1]

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

- For the United States, the projection for federal government current receipts assumes that there will be no further tax initiatives pending the report of the President's Advisory Panel on Federal Tax Reform, due in July 2005, and that the increased exemption for the alternative minimum tax, currently scheduled to expire at the end of 2005, will be extended for another year. On the spending side, the projection incorporates the significant restraint in non-defence discretionary spending underpinning the President's 2006 budget proposal as well as the $80 billion supplemental appropriations request transmitted to Congress in February 2005, mostly for operations in Iraq and Afghanistan. It also assumes limited further funding of these operations beyond the current supplemental request.
- For Japan, the projection takes into account the 2004 pension reform, which increases contributions by individuals and employers in every year from fiscal year (FY) 2004 to FY 2017, as well as the recent broadening of the direct and indirect tax bases and the partial abolition of the income tax cut introduced in 1999. A Supplementary budget for FY 2004, mainly focused on disaster recovery, is also incorporated.
- In the European Union, the projection for Germany takes into account the cuts in income taxes and tax expenditures taking effect in 2005, the health care and pension reforms measures that are being phased in as well as the measures taken to contain the public sector wage bill. For France, the projection incorporates the phased increases in public sector wages announced in December 2004 and March 2005 and it is assumed that measures to keep public employment and health care outlays in check will have some success. For Italy, it is assumed that the announced caps on public spending will be broadly adhered to in 2005-06, and that personal income tax cuts are covered by further savings measures. For the United Kingdom, the projection rests on the premise that the government's nominal expenditures plans are broadly realised, but that the elasticity of revenue will be somewhat weaker than budgeted.

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

- In the United States, the federal funds target rate, which since mid-2004 has been raised in 25 basis point steps from 1 to 3%, is assumed to continue to increase incrementally and to reach 4¾ per cent around mid-2006.
- In the euro area, the main refinancing rate, which has remained at 2% since it was lowered by ½ percentage point in June 2003, is assumed to be cut by 50 basis points in mid-2005 and to start rising one year later, reaching 2¼ per cent in late 2006. The policy rate has already been raised by 125 basis points in the United Kingdom from its July 2003 low, to 4¾ per cent, and no further increase is built into the projection.
- In Japan, the policy-controlled rate is assumed to remain at zero through the end of 2006.

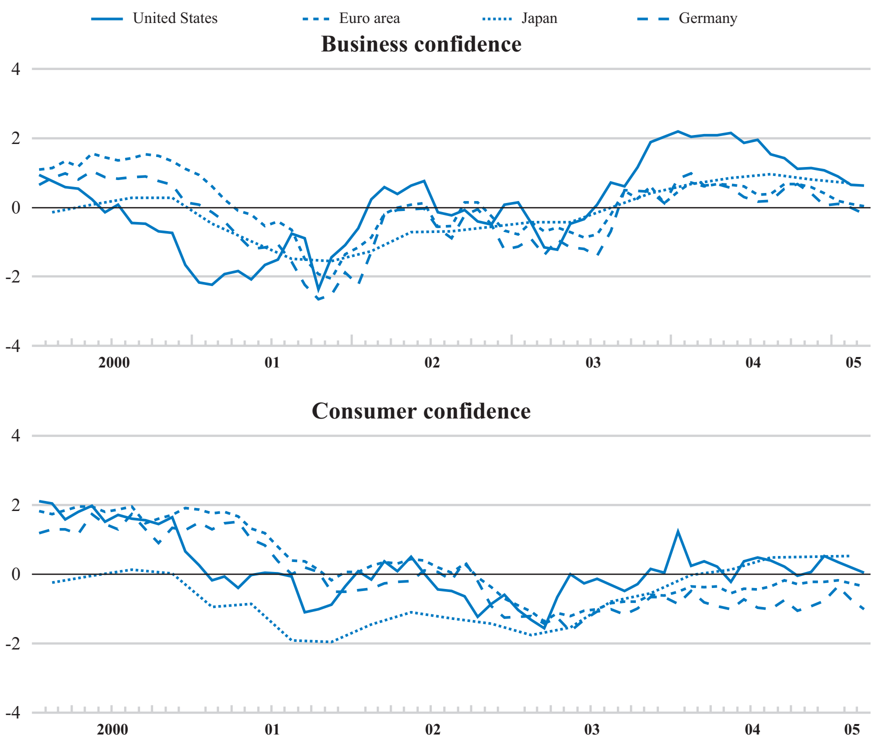
The projections assume unchanged exchange rates from those prevailing on 6 May 2005, at one US dollar equals ¥ 104.5 and € 0.779 (or equivalently, one euro equals $1.28). For Turkey, the exchange rate is assumed to depreciate in line with the projected inflation differential *vis-à-vis* the United States.

Notwithstanding the recent commitment by the Organisation of the Petroleum Exporting Countries to raise the cartel's daily output ceiling, oil prices are higher than six months ago. As a working hypothesis, the price of Brent crude is assumed to decline linearly from $51 per barrel in the second quarter of 2005 to $48 at the end of 2006. This is broadly in line with the assumption underpinning the OECD's medium-run baseline scenario that the price of oil will gradually revert towards its long-term equilibrium level, as risk premia and other temporary factors abate. The posited decline is also consistent, by and large, with what recent far-futures quotes have suggested. Commodity price inflation is assumed to begin easing in the course of the projection period.

The cut-off date for information used in the projections is 20 May 2005.

1. Details of assumptions for individual countries are provided in Chapter II, "Developments in individual OECD countries".

Figure I.4. **Confidence has sagged**



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

quarter (Table I.2). However, for Germany, these forecasts highlight that the bounce witnessed in the first quarter was largely a technical blip following the contraction recorded in the previous quarter, masking a much more gradual turnaround. For France, the forecasts point to a significant slowdown, while they suggest continued weakness in Italy.

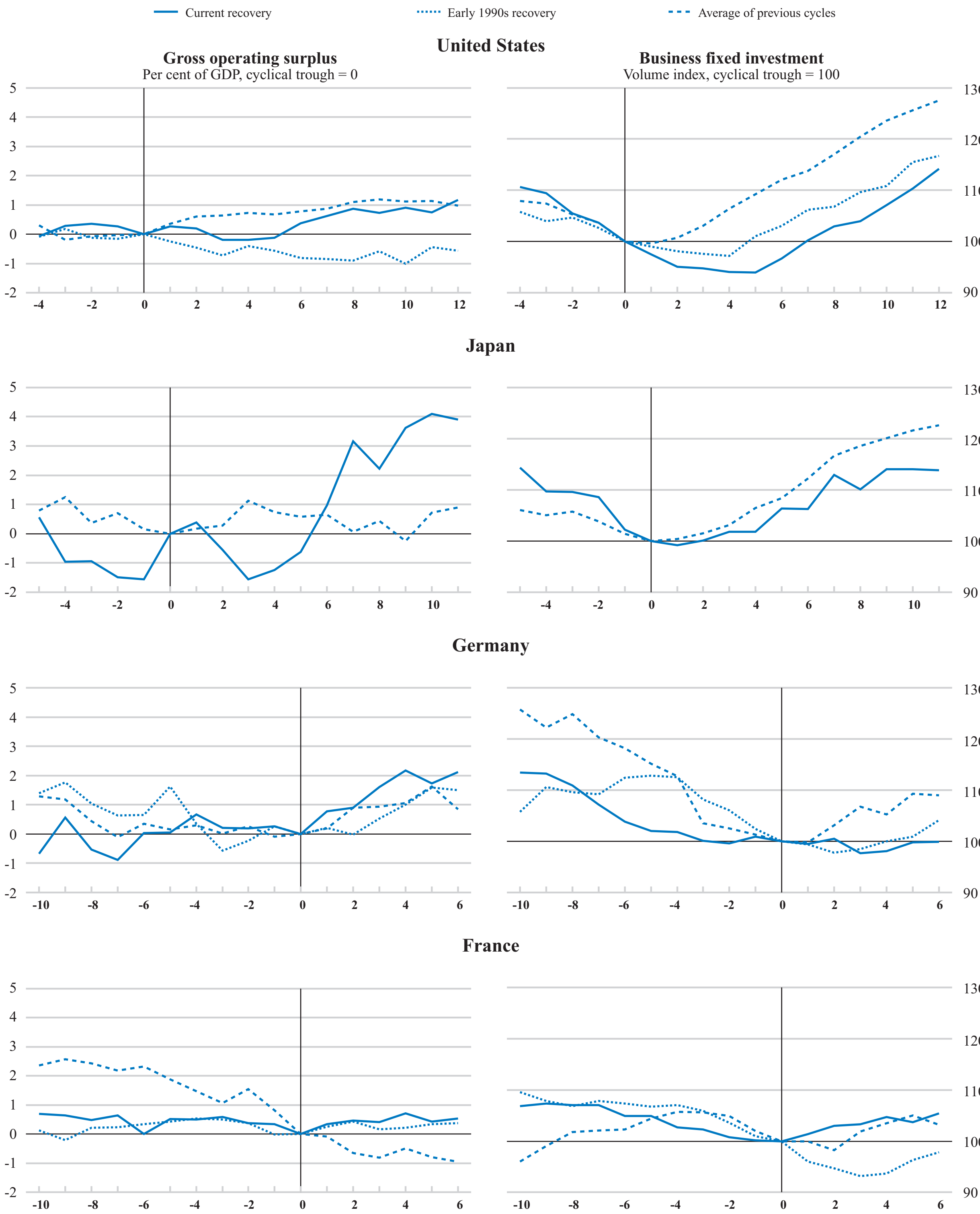
… and in some countries policy stimulus is waning…

In response to these developments, policies have become less accommodative in the United States, the United Kingdom and some smaller economies. Monetary policy actively supported the global recovery in its initial stages, accompanied in some cases by substantial fiscal stimulus, but several central banks have since begun to raise policy-controlled interest rates from the exceptionally low levels reached in the course of the downturn. The US Federal Reserve in particular is set to continue to bring its policy rates up towards neutrality (Box I.3). In contrast, no monetary tightening is assumed in Japan in the near term, and easing is built in for the euro area. At the same time, the fiscal stance for the OECD area at large is broadly neutral over the projection period.

… but some convergence in performance is projected

Against this background, domestic demand should decelerate in the course of this year and next in those countries where most of the cyclical slack has already been absorbed (including the United States, the United Kingdom and Canada). Deceleration will be led by private consumption, while fixed investment may

Figure I.5. **Profits have generally picked up more than investment**



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

Source: OECD, *Quarterly National Accounts* and Economic Outlook 77 database, Japanese Economic and Social Research Institute and Ministry of Finance.

Table I.2. Incoming data point to near-term weakness in some countries

Real GDP growth, per cent, quarter-on-quarter [1]

	Outcomes				Outcome / Estimate	Estimates[2]	
	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005Q1	2005Q2	2005Q3
United States	1.1	0.8	1.0	0.9	0.9 [3]	0.9 (+/- 0.5)	0.8 (+/- 0.6)
Japan	1.4	-0.2	-0.3	0.0	1.3	0.2 (+/- 0.5)	0.5 (+/- 0.7)
Euro area	0.7	0.4	0.3	0.1	0.4	0.2 (+/- 0.3)	0.3 (+/- 0.4)
Germany	0.5	0.4	0.0	-0.2	1.0	0.2 (+/- 0.5)	0.3 (+/- 0.6)
France	0.7	0.7	0.1	0.6	0.2	0.1 (+/- 0.4)	0.2 (+/- 0.4)
Italy	0.5	0.4	0.4	-0.4	-0.5	0.0 (+/- 0.4)	0.1 (+/- 0.4)
United Kingdom	0.7	1.0	0.6	0.7	0.6	0.5 (+/- 0.3)	0.6 (+/- 0.3)
Six largest OECD economies	1.0	0.6	0.5	0.5	0.8	0.5 (+/- 0.3)	0.6 (+/- 0.3)

1. Based on GDP releases and high-frequency indicators published by 20 May 2005. Seasonally and in some cases also working-day adjusted. Aggregation for the six largest OECD economies uses 2000 purchasing-power-parity weights.
2. These estimates are indicative of near-term GDP developments but do not necessarily coincide with the OECD projections. The one-standard-error range associated with the estimates is indicated in parentheses. Typically, OECD projections lie within that range.
3. The official advance estimate of 0.8 has been superseded by subsequent information, in particular as concerns imports.

Source: OECD Economic Outlook 77 database and OECD calculations.

continue to expand fairly robustly. In a number of countries where the cycle is less advanced (notably in Germany and France), business investment is expected to drive the recovery. The foreseen acceleration or continued strength of non-residential investment follows several years of negative or low net capital formation, and capital spending has lagged profits in most of the larger economies (Figure I.5). As a result, capacity utilisation rates in the manufacturing sector are reverting towards their long-term averages even in the slow-growing countries (Figure I.6).[8] The projected buoyancy of investment is also facilitated by the balance sheet repairs undertaken in the wake of the 2000-02 equity market correction, the subsequent rebound in equity prices, flush cash flows and readily available and relatively cheap credit.

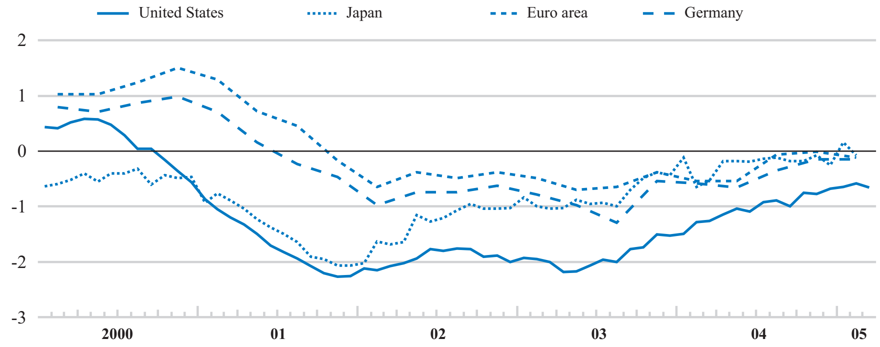
The US output gap is closing…

In a context of rising interest rates, and with a virtually closed output gap, growth is projected to remain around potential in the United States. In the process, labour productivity growth – which has fallen back towards its longer-run average (Figure I.7) – is likely to remain more moderate, and unit labour costs are set to pick up. Inflation, however, will continue to be damped – like in other OECD countries – by the ongoing offshoring trend, and more generally by the integration of China, India and other emerging markets into the world economy (including the recent removal of quotas on textiles and clothing).[9] As a result, much of the cost pressure is

8. Capacity utilisation rates in manufacturing, however, are not perfectly correlated with economy-wide output or employment gaps.
9. See the section on offshoring, jobs and structural policies in the first chapter of the *OECD Economic Outlook* No. 75, June 2004. The take-off of these large emerging economies also puts upward pressure on commodity prices, but the impact on inflation is at least partly offset by the downward pressure exerted on wages.

Figure I.6. **Capacity utilisation rates foreshadow some acceleration in capital spending**

Capacity utilisation in the manufacturing sector



Note: All series have been normalised at the average for the period starting in 1985 and are presented in units of standard deviation.
Source: OECD, *Main Economic Indicators*.

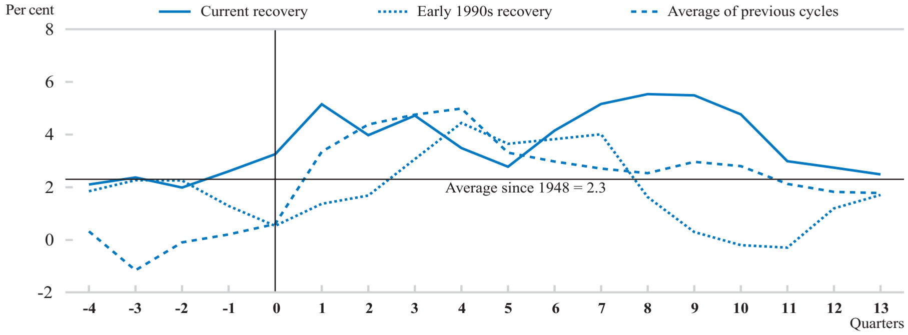
expected to be absorbed by profit margins, leaving core inflation still fairly subdued. As the impact of past exchange rate depreciation filters through, exports should accelerate and imports slow somewhat, although not sufficiently to stabilise the trade balance. With net investment income turning into a drag, as net foreign liabilities cumulate and exchange-rate induced valuation effects abate, the current account is projected to deteriorate further, to a new historical trough of 6¾ per cent of GDP in 2006.

… whilst slack is set to persist in the euro area

Activity in the euro area as a whole is projected to move back towards potential starting around late 2005, but the acceleration will not be sufficient for labour and product market slack to be absorbed by the end of 2006. As noted, business fixed investment is expected to drive the pick-up in activity, in particular in Germany, where following five years of investment contraction the profit share in national income is at a record high and credit standards are no longer being tightened. Although capital formation is gathering pace, the euro area-wide unemployment rate will not decline much

Figure I.7. **US labour productivity growth is reverting to trend**

Year-on-year change in output per hour in the non-farm business sector



Note: Time = 0 in the chart refers to the cyclical trough as defined by the National Bureau of Economic Research (NBER). The last trough is 2001Q4.
Source : US Bureau of Labor Statistics.

before next year. Against this backdrop, and as recent energy price increases fall out of the index, headline inflation is projected to ease somewhat. Looking further ahead (see Appendix I.1), potential and actual growth are likely to fall well short of the ambitious pace envisioned at the onset of the decade, when the so-called Lisbon Agenda was set out, in part because of delays in introducing some of the associated policy measures, not least as concerns the completion of a single market for goods and services.[10]

Growth has resumed in Japan

In Japan, growth has regained momentum, on the back of strong profits and a slowly recovering labour market. Business investment is projected to continue to expand vigorously, though at a more sustainable pace than in 2003-04 or the first quarter of 2005 (the strength of which partly reflected the postponement of spending on construction that was delayed by the late 2004 typhoons). The mix of new hires is improving, with a rising share of full-time contracts, implying that wage growth could become positive by 2006, contributing to a pick-up in household consumption. On the external side, the current account surplus is projected to widen to over 4% of GDP.

Table I.3. **World trade growth should be sustained**

	2003	2004	2005	2006
	Percentage change over previous period			
Goods and services trade volume				
World trade[1]	5.1	9.4	7.4	9.4
of which: OECD	3.1	8.1	5.8	7.8
NAFTA	2.7	9.0	7.1	7.4
OECD Asia-Pacific	8.0	13.1	6.7	9.0
OECD Europe	2.1	6.3	4.9	7.7
Non-OECD Asia	11.5	13.7	11.1	13.3
Other non-OECD	8.0	10.4	11.3	12.2
OECD exports	2.5	8.0	5.1	8.0
OECD imports	3.7	8.2	6.5	7.6
Trade prices[2]				
OECD exports	11.5	8.8	5.0	0.6
OECD imports	10.6	8.9	5.4	0.6
Non-OECD exports	6.0	10.6	8.0	2.9
Non-OECD imports	6.6	8.3	6.7	3.3
Current account balances	Per cent of GDP			
United States	-4.8	-5.7	-6.4	-6.7
Japan	3.1	3.6	3.6	4.1
Euro area	0.4	0.6	0.1	0.3
OECD	-1.1	-1.2	-1.7	-1.7
	$ billion			
United States	-531	-666	-800	-879
Japan	135	170	177	203
Euro area	31	59	14	36
OECD	-336	-409	-600	-630
Non-OECD	254	371	461	430
World	-83	-39	-139	-200

Note: Regional aggregates include intra-regional trade.
1. Growth rates of the arithmetic average of import volumes and export volumes.
2. Average unit values in dollars.
Source: OECD Economic Outlook 77 database.

10. Faster labour market reform would also help. See OECD, *Going for Growth*, Paris, 2005.

Momentum elsewhere should by and large be preserved

In most other OECD economies, growth is projected to generally remain fairly robust. Elsewhere, a limited deceleration is seen in China, Russia and Brazil, but from a rapid pace. In China in particular, investment should expand at a more sustainable rate. World trade growth, which held up well despite the oil price shock, is projected to pick up (Table I.3).[11] It will be fuelled to some extent by the acceleration of the imports of many of the major oil-producing nations, especially Russia and the Africa and Middle East region. In the latter, some three fifths of the additional oil export revenue since the start of 2004 is assumed to be re-spent by end-2006, generating import volume growth of 15% in 2005 and close to 20% in 2006. Within the OECD area, this recycling of revenues will benefit European countries most, as they trade more intensively with the major oil-producing economies. All told, import demand growth from the major oil producers will add almost 2 percentage points to the export market growth faced by the European OECD countries in 2005-06, as against 1 percentage point for the Asia-Pacific ones and ¾ percentage point for North America plus Mexico. Within Europe, the effects could be larger still for some countries, notably Turkey and Greece, but also Italy, France, Finland and the Central European economies.

Enduring risks and tensions

Uncertainties surround the baseline projection

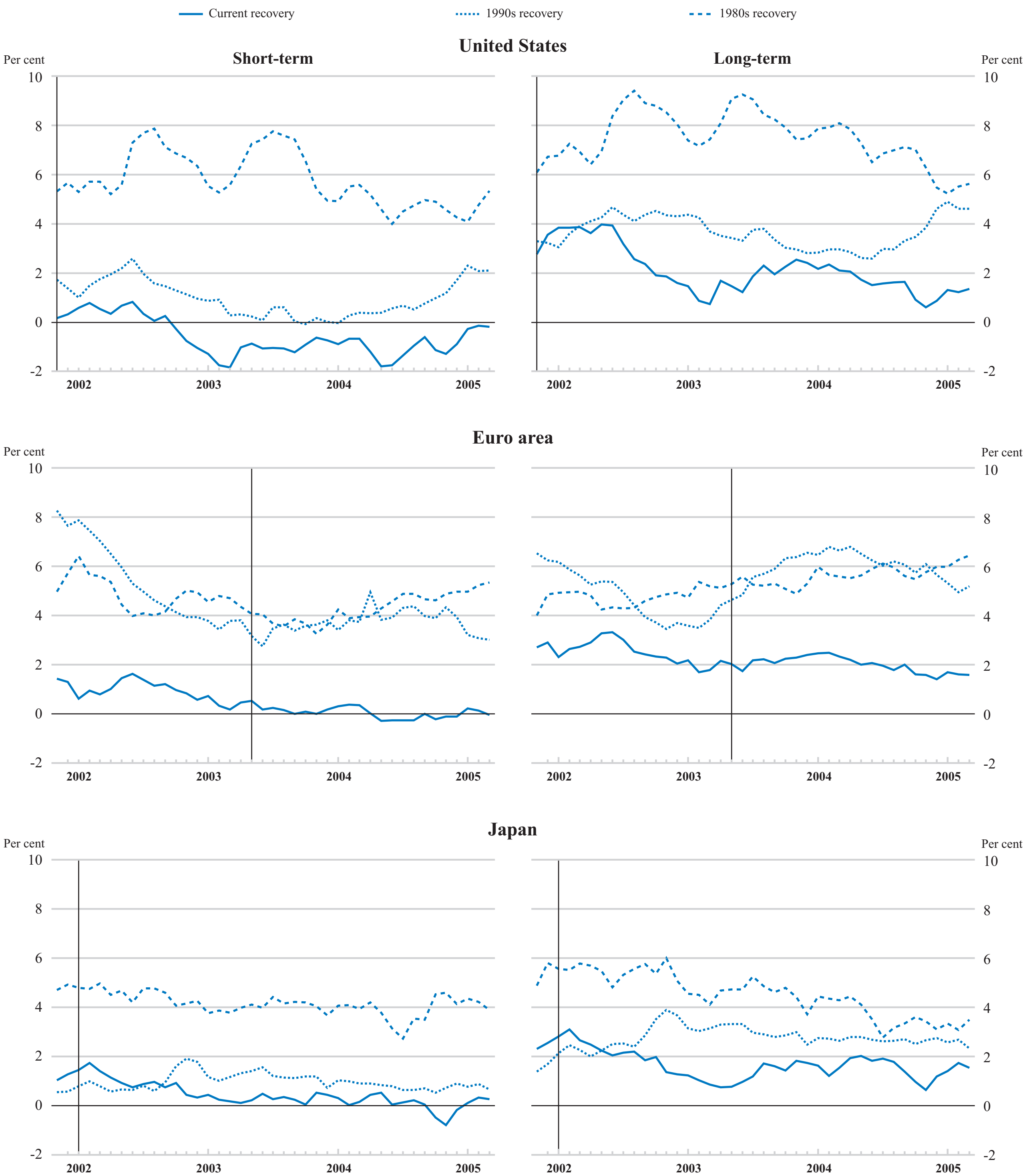
Most of the downside risks have been there for some time and not all of them are bound to unwind painfully. There may be some upside risks too, although they would seem to carry a lower probability. Some of the risks are interdependent, offsetting or compounding each other. For example, the widening current account deficit in the United States and some other OECD economies (United Kingdom, Australia and some euro area countries) is partly related to housing market features and developments, insofar as housing wealth gains tend to lower household and national saving. The housing market's apparent overextension in some countries is in turn related to the still low level of long-term interest rates, although judgement on the existence or absence of bubbles, be it in the real estate or other markets, is always difficult.[12]

Long-term interest rates and spreads remain low

Long-term interest rates remain low in historical perspective (Figure I.8). In real terms, US benchmark government bond yields are distinctly below the levels prevailing during the previous two decades, even though broadly speaking the fiscal deficit is as large and persistent as during the 1980s. To some extent, this might reflect better anchored inflation expectations, making for a lower inflation risk premium. In the euro area and Japan, nominal yields are even lower, partly reflecting more modest growth prospects, but also, in the case of Japan, the central bank's commitment to quantitative easing until deflation has been overcome. At the same time, spreads for corporate bonds and emerging-market paper alike remain on the low side despite the recent up-ticks (Figure I.9), pointing to limited market discrimination across classes of risk notwithstanding improvements in fundamentals.[13] One factor keeping a lid on US benchmark interest rates may be the steady stream of purchases by Asian central

11. Further out, sustaining a rapid expansion of trade requires that progress be made in the Doha Round negotiations.
12. See for instance Gurkaynak, R., "Econometric tests of asset price bubbles: taking stock", US Federal Reserve, *Finance and Economics Discussion Series*, No. 4, 2005.
13. See Sløk, T. and M. Kennedy, "Factors driving risk premia", *OECD Economics Department Working Papers*, No. 385, 2004. Equity prices, however, are not conspicuously overvalued, in that price-earnings ratios do not exceed long-run averages (in the United States) or are even below (in the euro area at large and Japan).

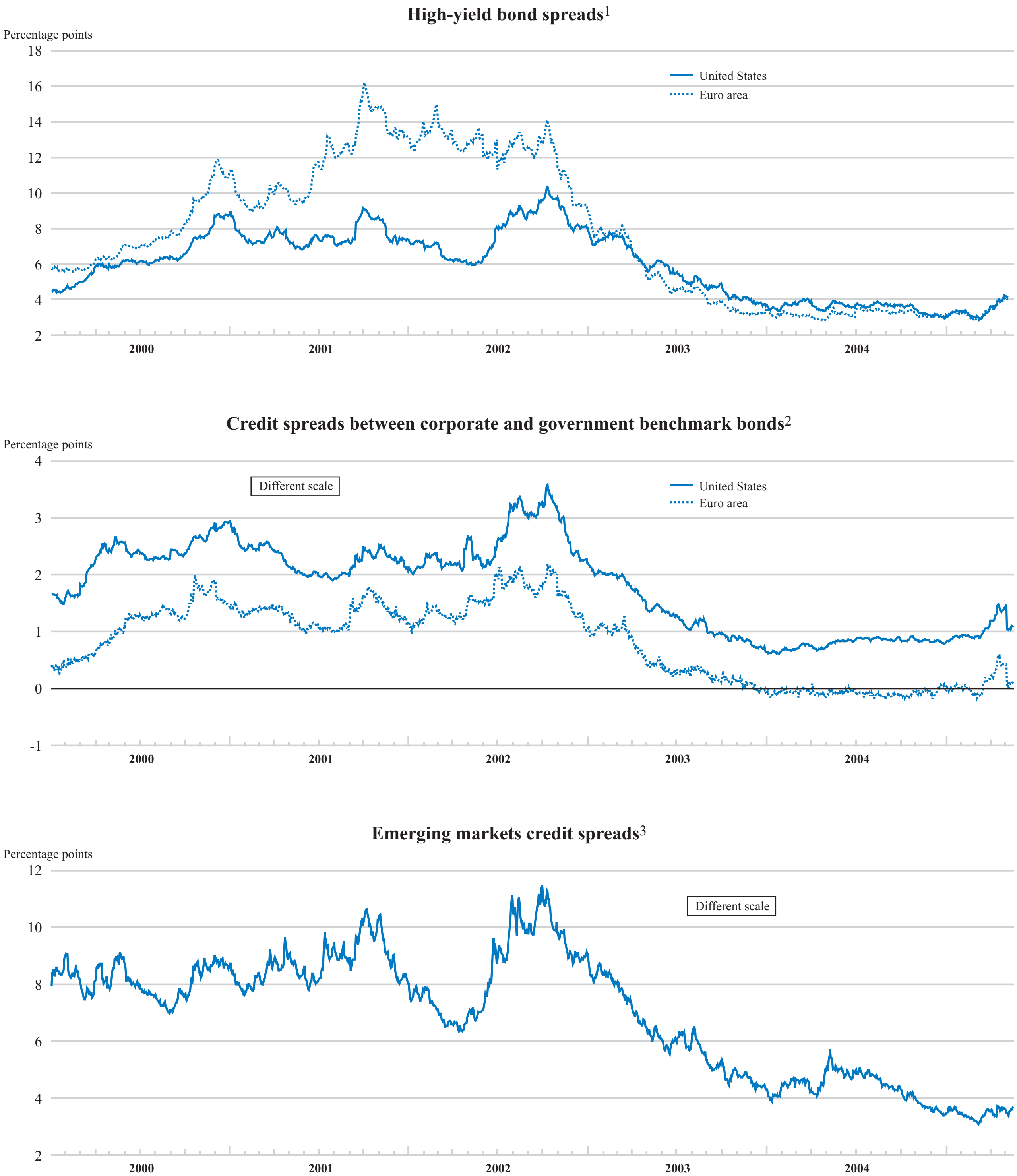
Figure I.8. **Real interest rates are lower than in earlier cycles**



Note: Short-term refers to 3-month money market rates and long-term to 10-year government bond yields. They have been deflated using the consumer price index (harmonised index for the euro area). Cyclical trough dates are taken from the NBER chronology for the United States, from the ESRI chronology for Japan and estimated by the OECD for the euro area. For Japan, the 1980s and 1990s recoveries refer to the average of two cycles in each of these decades. The last cyclical trough is November 2001 for the United States, January 2002 for Japan and May 2003 for the euro area.

Source : OECD, *Main Economic Indicators*.

Figure I.9. **Spreads remain relatively compressed**



1. Spreads of high yield bonds (Merrill Lynch indices) over government bond yields (10-year benchmark bonds).
2. United States: Lehman Baa corporate index; Euro area: Lehman euro Baa. Government bond yields are for 10-year benchmark bonds.
3. Spreads of JP Morgan Emerging Market Bonds Index (EMBI+) yields over US government bond yields.

Source: Datastream.

banks, whose foreign exchange reserves are predominantly invested in US government securities.[14] Another factor working in the same direction, both in the United States and in other OECD economies, could be an increased demand for bonds from pension funds and insurance companies in response to accounting changes and improved asset-liability management, in an environment where there is a dearth of very long-run bonds.[15] Abundant liquidity has been fuelling a general hunt for yield – witness the proliferation of hedge funds and of carry trades and the greater eagerness to sell protection from asset price changes. While such symptoms are a cause for concern, a sharper-than-assumed ratcheting up of long rates might be absorbed without too much disruption if it were to occur in the context of a stronger-than-projected recovery.

Housing market reversals could lie ahead

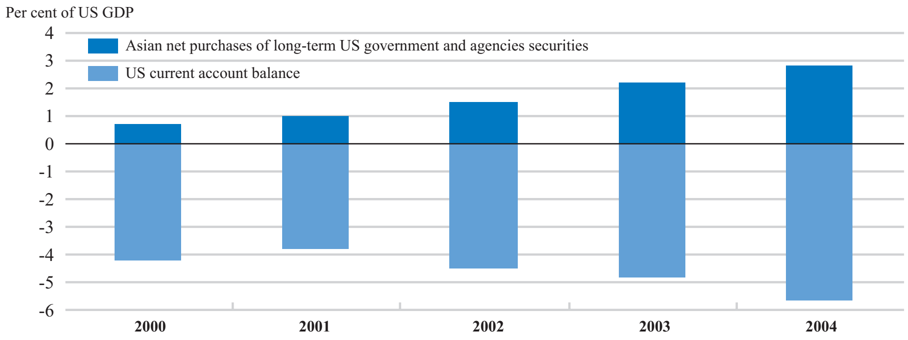
With price-to-rent ratios reaching record highs, housing markets may be overextended in a number of countries, even if demographic and other fundamentals can explain a sizeable portion if not all of the appreciation witnessed in recent years.[16] Indeed, signs of speculative demand can be spotted in a number of cases, in the form of seemingly exuberant expectations of further appreciation and of a rising share of buy-to-let purchases. In the United States in particular, the popularity of interest-only mortgages, the take-off of negative amortisation loans (the shortfall being added to the outstanding mortgage balance) and the spreading of low introductory "teaser" rates warrant concern. Several countries – including the Netherlands, Australia, and more recently the United Kingdom – have already entered an adjustment phase, illustrating that a mere stabilisation of nominal prices can translate into a significant slowdown in overall private consumption. The potency of the transmission mechanism from the housing market to household spending, however, depends on the institutional features of the mortgage market, and in many OECD countries it is not as rapid and strong as in these three cases.[17] Moreover, in countries with a national monetary policy, the central bank should be in a position to offset, at least to some extent, the impact on aggregate demand of an unexpectedly hard landing of the housing market.

External imbalances are worsening

External imbalances have been gradually worsening and are projected to widen further over the projection period, raising questions as to how and when adjustment might take place. By definition, current-account adjustment in one country or region will have to be offset by parallel adjustments elsewhere. Despite this symmetry, concerns that these imbalances are unsustainable tend to focus on deficits, and under the circumstances on the US deficit. The latter is set to approach $900 billion in 2006, with its main counterpart surpluses in Japan, China, dynamic Asian economies and oil producing countries. So far, the US deficit has been readily financed, and more and more so by Asian central banks (Figure I.10). At the same time, US external indebtedness has not risen in line with the accumulation of deficits over recent years because dollar depreciation has boosted the dollar value of the foreign assets held by

14. Estimates of their impact range from 40 to 200 basis points (Roubini, N. and B. Setser, "Will the Bretton Woods 2 regime unravel soon? The risk of a hard landing in 2005-2006", *mimeo*, February 2005). That said, more recently some central banks have slowed their rates of accumulation.
15. Markets' appetite for long-term bonds was illustrated by France's recent successful issuance of a 50-year government bond.
16. On France, see Bessone, A-J., B. Heitz and J. Boissinot, "Marché immobilier: voit-on une bulle?", INSEE, *Note de Conjoncture*, March 2005. They find no evidence of overvaluation, but underline that data and econometric limitations warrant caution when interpreting the evidence. The Bank of England and the Bank of Spain have voiced concerns about housing market overheating.
17. In particular because it is more difficult for households to withdraw equity from their housing wealth (Catte, P., N. Girouard, R. Price and C. André, "The contribution of housing markets to cyclical resilience", *OECD Economic Studies,* No. 38, 2004).

Figure I.10. **Asia is financing a growing share of the US current account gap**



Source: US Bureau of Economic Analysis and Treasury.

US residents. However, the losses concomitantly incurred by foreign investors on their dollar-denominated assets may not encourage them to hold a steadily increasing share of those assets in their portfolios. Indeed, it is clear that current trends cannot continue indefinitely, but the inflection point and modalities are hard to predict, although the likelihood that dollar depreciation would be one of the adjustment channels seems high.[18] The proximate cause may be a large adverse credit event, a realisation that the desired currency composition of portfolios held by central banks and/or private financial institutions is shifting,[19] an unexpectedly sharp rise in long-term interest rates, or yet some other factor. A sudden and large drop in the dollar would substantially damp the already modest expansion projected for the euro area and Japan, especially if accompanied by falls in bond, share and house prices, and all the more so given the structural features and narrow scope to use macroeconomic policy levers, which limit the resilience of US partner economies (Box I.4).

The investment accelerator may disappoint

Even in the absence of such an exchange rate or interest rate shock, the projected pick-up in activity in the euro area and Japan hinges on the strength of investment spending. As noted, the conditions for an acceleration in capital outlays do seem to be in place on the supply side. Nevertheless, businesses in these two regions might need more time to fully absorb past energy price increases and euro appreciation, and might remain cautious about final demand prospects, or choose to invest more in other regions of the world. If so, fixed investment might not pick up as forcefully as projected.

Even so, there are some upside risks

While downside risks loom large, some forces could work in the opposite direction. Although there are fears that they would rise further, oil prices could conceivably revert towards levels more in line with longer-run fundamentals and end up lower than assumed in the central projection. Furthermore, in some countries

18. As argued by Obstfeld, M. and K. Rogoff, "The unsustainable US current account position revisited", *NBER Working Papers*, No. 10869, 2004 and Blanchard, O., F. Giavazzi and F. Sa, "The US current account and the dollar", *NBER Working Papers*, No. 11137, 2005.
19. See Pringle, R. and N. Carver, "Trends in reserve management: results of a survey of central banks", *RBS Reserve Management Trends 2005*, Central Banking Publications, January 2005.

Box I.4. Channels for the adjustment of external imbalances

At some point in the future, the existing external imbalances will cease to widen and start to unwind. Adjustment may involve one or several mechanisms, among which dollar depreciation, fiscal consolidation in the United States or a cyclical catch-up in the countries where aggregate demand is lagging. It is less clear, however, how structural reforms outside the United States would affect current accounts.

Dollar depreciation

As a thought experiment as to what could happen if there were a steep fall in *ex ante* demand for dollar-denominated assets, the OECD's Interlink model has been used to simulate the impact of a sustained 30% drop in the value of the dollar (and all non-OECD currencies) against all other OECD currencies. Such a sharp adjustment is not a likely outcome but its implications throw some light on policy issues that could arise. Further detail on the assumptions and results is provided in Appendix I.2.

Dollar depreciation implies an inflationary impulse in the United States that is assumed to be met through a hike in short-term interest rates – by some 150 basis points in the near term but fading fairly rapidly thereafter. At the same time, the exchange rate shock is accompanied by declines in bond, share and house prices as a combined effect of higher short-term interest rates and increased risk premia. Against this background, US domestic demand and output are about 1% lower than baseline levels during the current and next couple of years, with the unemployment rate up by around ¾ percentage point.

Even though in this scenario the effective exchange rate of the euro appreciates by only 7% and despite the fact that the Eurosystem is assumed to react promptly and forcefully by moving all the way to the zero interest rate bound, euro area GDP is more than 1% below baseline levels during the current and next couple of years. While this impact is more severe than in the United States, it would be larger still if higher risk premia in US bond, equity and housing markets were to spread to the euro area through contagion effects. Even without contagion, however, the unemployment rate would be ½ percentage point higher than in the baseline and with contagion it would not come back to current levels before 2008.

Output losses in Japan are marginally larger than in the euro area, reflecting a more sizeable shock to the effective exchange rate (+15%) as well as the fact that room for additional interest rate cuts is nil.

Fiscal consolidation and closing of output gaps

The unpleasant consequences of a dollar hard landing warrant a search for policies that could bring about a smoother transition to a more sustainable level of the US current account deficit. An obvious candidate would be fiscal consolidation in the United States, not least because it is desirable in its own right. However, its effects on the current account are quite uncertain.[1] Moreover, fiscal consolidation is also desirable in Japan and the euro area – both regions faced with higher public debt and larger ageing-related fiscal pressures than the United States – raising questions as to the contribution towards current-account rebalancing that could come from generalised moves towards more sustainable fiscal positions.

Higher growth outside the United States might also be seen as desirable in its own right and at the same time as another channel for current-account rebalancing. However, cyclical and structural effects need to be kept separate. A cyclical rise in domestic demand outside the United States would certainly help improve the US current account balance. But apart from the euro area, output gaps are generally small or even positive, which limits the influence of this mechanism in the current situation. Indeed, the medium-term reference scenario (see Appendix I.1) is based on the closing of output gaps over the period to 2010 and does not feature any significant narrowing of the US external deficit.

– notably the United States – the investment rebound might be stronger than projected, with capital formation catching up more rapidly with what was observed in past cycles.

Macro policies: reverting to neutrality and restoring sustainability

As the cycle matures, policies should adjust

As noted, macroeconomic policy has been very accommodating during the downturn and well into the recovery. As and when cyclical slack is absorbed, monetary policy should adjust. With very few exceptions, fiscal policy has also been very loose. Public debt ratios are on the rise in a number of countries and the pressures associated with ageing populations are mounting, squeezing revenue and pushing up

Box I.4. Channels for the adjustment of external imbalances *(cont.)*

Structural reform and trend growth

Structural reform leading to higher trend growth outside the United States would have ambiguous effects on the US external balance. In general, a country's external balance corresponds to the difference between saving and investment and it is often not clear how these will be affected by structural reform. Put differently, structural reform will affect both the demand and the supply side of an economy, with the net impact not obvious *a priori*. For example, productivity-enhancing reform could stimulate not just supply but also demand to the extent expectations of higher future productivity growth and associated higher share prices boost private consumption and investment. This was the mechanism at work during the information and communication technology-generated acceleration of productivity in the United States in the 1990s when, at times, demand appeared to expand more rapidly than supply. However, there may be doubts as to the strength of similar effects in Europe and Japan. Even so, recent OECD work suggests that liberalisation of product markets – normally associated with better productivity performance – would tend to weaken a country's external balance.[2]

By contrast, structural reforms in labour markets aimed at boosting employment could have the effect of strengthening a country's external balance. This is significant given that labour market reform is a high policy priority in many countries outside the United States, not least in the euro area. Intuitively, reforms that lead to an increase in the effective supply of labour should lead to a fall in relative wages that boosts competitiveness and thereby the external balance.[3]

Welfare-enhancing structural reforms could also affect the external account without necessarily boosting trend income growth. For example, reforms to ensure a smoother functioning of financial markets and easier access to credit outside the United States could reduce saving relative to investment. Indeed, there is some evidence that financial market reforms negatively affect the external balance of the reforming country. By the same token, reform in the United States to correct overly strong incentives for private consumption as a result of housing taxation could also improve the US external balance.

Overall, the side-effects of structural reforms on external balances should not be their primary driver. Rather, they should be undertaken because they improve general welfare and enable economies to better withstand shocks. Indeed, even structural reforms that worsen international imbalances – as may be the case with labour market reform in Europe – could ultimately ease the unwinding of external imbalances by making non-US economies more resilient should current-account adjustment take place through other channels.

1. While there is empirical evidence that fiscal tightening may have less of a direct offset in lower private saving in the United States than in other OECD countries (see "Saving behaviour and the effectiveness of fiscal policy", *OECD Economic Outlook*, No. 76, December 2004), other quantifications suggest that only around 20% of a fiscal tightening in the United States is reflected in the external balance (Erceg, C., L. Guerrieri and C. Gust, "Expansionary fiscal shocks and the trade deficit", Federal Reserve Board, *International Finance Discussion Papers*, No. 825, 2005).
2. See M. Kennedy and T. Sløk, "Structural policy reforms and external imbalances", *OECD Economics Department Working Papers*, No. 415, 2005.
3. In principle, the return on capital will also improve, which could generate capital inflows that would tend to weaken the external balance.

pension and health care outlays. Hence, fiscal consolidation should not continue to be postponed, even where the recovery is lagging.

Gradual normalisation of the monetary stance

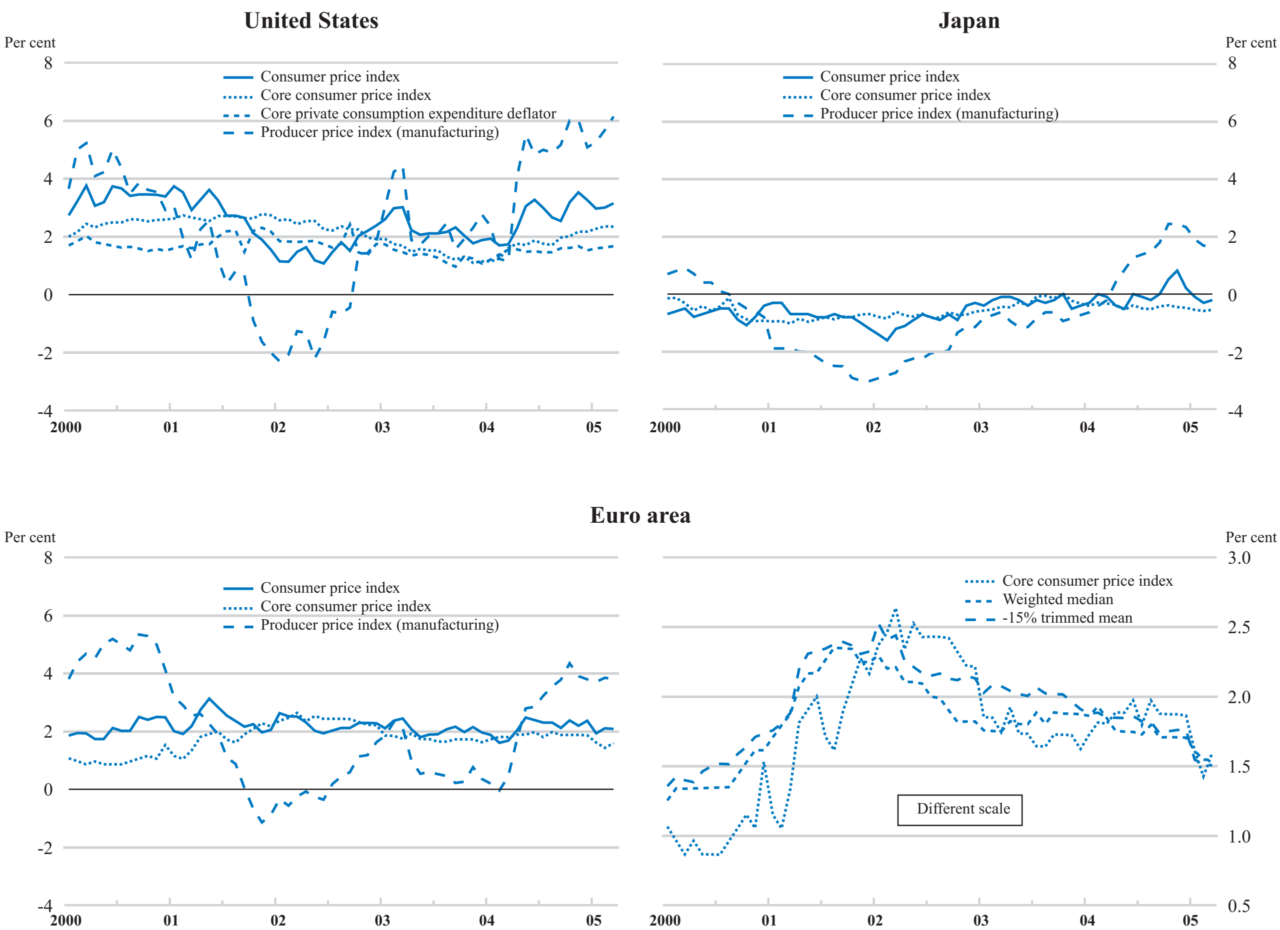
Central banks are removing stimulus or contemplating when to start

Despite accelerating producer prices, core consumer price inflation generally remains fairly subdued (Figure I.11).[20] Nonetheless, with output gaps closing or closed, several central banks have initiated and even in some cases completed a return to neutrality, notably in the United Kingdom, the United States, Canada,

20. For further discussion of how to interpret core inflation measures, see Chapter IV, "Measuring and assessing underlying inflation".

Figure I.11. **Core inflation is still subdued**

Year-on-year change



Note: The core consumer price index excludes food and energy.
Source : OECD, *Main Economic Indicators*, US Bureau of Economic Analysis and Statistical Office of the European Communities (Eurostat).

Australia, New Zealand and Switzerland, but also in some emerging markets such as Mexico and, outside the OECD area, China.[21] In the euro area and Japan, however, a wait-and-see posture has continued to prevail, in view of significant slack that is either increasing or being absorbed only slowly.[22]

21. Within the OECD, the new EU members stand out, however, with recent interest rate cuts.
22. A challenge faced by many central banks in this context is the uncertainty surrounding contemporaneous measures of slack, which are typically subject to sizeable subsequent revisions. See Orphanides, A. and S. van Norden "The reliability of inflation forecasts based on output gap estimates in real time", Federal Reserve, *Finance and Economics Discussion Series*, No. 68, 2004, and Cotis, J-P., J. Elmeskov and A. Mourougane, "Estimates of potential output: benefits and pitfalls from a policy perspective", *in* Reichlin, L. (ed.), *The Euro Area Business Cycle: Stylized Facts and Measurement Issues*, London: CEPR, 2005. In the United Kingdom, the Bank of England sees little, if any, slack, whereas Her Majesty's Treasury estimates that some spare capacity remains. In Japan, the lack of capital stock data consistent with the new chain-linked national accounts hampers output gap estimation, which in any event is delicate in a context of entrenched deflation.

Removal of US monetary accommodation should continue

In the United States, inflationary pressures are palpable, as unit labour costs rise anew and dollar depreciation slowly feeds through. Going forward, inflation should nonetheless by and large remain within a desirable range, thanks to the buffer provided by existing ample profit margins, and as the Federal Reserve continues to adjust the fed funds rate (Figure I.12). The latter has been raised in 25 basis point steps by a cumulative 200 basis points since mid-2004, but still lies well below neutrality on any plausible definition of this concept.[23] Long-term household survey measures of inflation expectations have remained well anchored, even if indexed-bond proxies have drifted up somewhat. This stability has helped limit the second-round effects from the oil price and exchange rate shocks, but it is all the more important that further policy action validate the still serene expectations. As the policy rate moves up towards neutral or possibly even above, the predictability of the size and speed of further moves is likely to start diminishing at some point, which might contribute to pushing up long rates through a higher term premium.

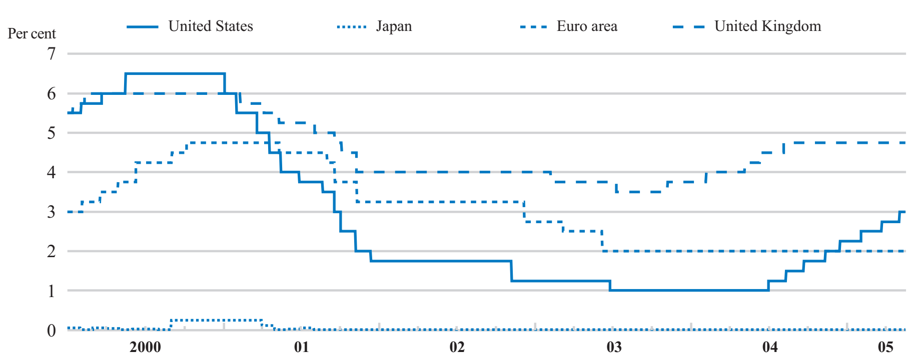
In contrast, easing is warranted in the euro area

In the euro area, the key policy rate has been kept at 2% since mid-2003, with headline inflation hovering most of the time a notch above 2% but various core inflation measures running below the 2% mark. Insofar as the latter capture underlying inflation momentum, the outlook for price stability is fairly benign. Indeed, going forward, headline and core inflation look set to recede to 1½ per cent or below by 2006. At the same time, the euro area's sizeable negative output and unemployment gaps are currently widening and will only just begin to shrink, slowly, towards the end of 2005. With domestic demand sluggish, resilience feeble and possible upward pressures on the euro looming ahead, the balance of risks on growth and inflation is clearly tilted to the downside, calling for an early easing of monetary policy. Across the Channel, the Bank of England has kept its repo rate at 4¾ per cent since August 2004, a level close to if not already around neutrality, and consistent over the projection period with the authorities' inflation target.

In Japan, no early change in stance is desirable

In Japan, the current policy of quantitative ease, which has kept short-term rates near zero, should continue as long as core inflation has not decisively crossed over into positive territory. In light of the progress achieved in dealing with non-performing

Figure I.12. **Policy rates are being steered back towards neutrality in several economies**



Source: US Federal Reserve Board, Bank of Japan, European Central Bank, Bank of England.

23. See Box I.4 in the *OECD Economic Outlook* No. 76, 2004.

loans and the seemingly dwindling appetite for excess liquidity on the part of banks, it has recently been suggested that it might be advisable to start bringing down the ¥ 30 to 35 trillion target range for banks' current accounts with the Bank of Japan, which would make it easier for banks to properly price risk. Such a move, however, would prematurely send a signal that deflation has been or is about to be overcome.

Resuming fiscal consolidation

Underlying fiscal positions are weak

In 2004, cyclically-adjusted fiscal deficits approached or exceeded 3% of GDP in six of the seven largest OECD economies, Canada standing out as an outlier, with a surplus of over 1% of GDP. Going forward, only very limited, if any, consolidation is in the pipeline, based on the measures enacted to date (Table I.4). Moreover, some recent policy initiatives, which are not factored into the projection, may go in the opposite direction. Yet, consolidation is urgently needed for longer-term reasons. Granted, the warranted pace of consolidation partly depends on cyclical conditions, but in many countries the underlying fiscal position is precarious and a change in course is required.

Consolidation may prove elusive in the United States…

In the United States, the overall fiscal stance was essentially neutral in 2004, despite increases in defence spending, the extension of tax cuts and some temporary tax incentives for certain types of investment. Going forward, the budget tabled by the Administration in February 2005 projects a reduction in the federal deficit from 3.5% of GDP in FY 2005 to 1.3% in FY 2009, on the basis of more restraint for discretionary outlays (other than those related to homeland security) than has been achieved in decades. At the same time, large swathes of entitlement spending have an autonomous momentum of their own (Figure I.13). The present projections are based

Table I.4. **Fiscal deficits are high and debt ratios are rising**

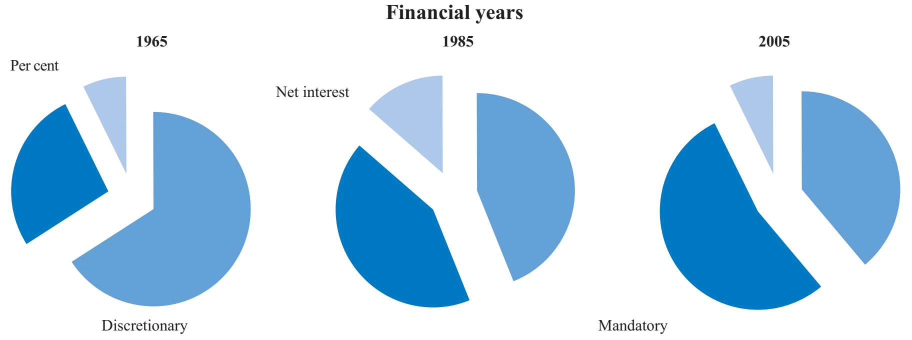
	2002	2003	2004	2005	2006
	Per cent of GDP / Potential GDP				
United States					
Actual balance	-3.8	-4.6	-4.3	-4.1	-3.9
Cyclically-adjusted balance	-3.2	-4.1	-4.2	-4.1	-4.0
Cyclically-adjusted primary balance	-1.2	-2.3	-2.4	-2.3	-2.0
Japan[1]					
Actual balance	-7.9	-7.7	-6.1	-6.1	-5.3
Cyclically-adjusted balance	-7.1	-7.0	-5.9	-6.0	-5.4
Cyclically-adjusted primary balance	-5.7	-5.6	-4.4	-4.3	-3.6
Euro area					
Actual balance	-2.5	-2.8	-2.7	-2.8	-2.7
Cyclically-adjusted balance	-2.5	-2.2	-2.0	-1.8	-1.8
Cyclically-adjusted primary balance	0.7	0.8	0.8	1.1	1.0
OECD[2]					
Actual balance	-3.2	-3.7	-3.3	-3.2	-3.0
Cyclically-adjusted balance	-3.2	-3.4	-3.3	-3.1	-3.0
Cyclically-adjusted primary balance	-0.9	-1.4	-1.3	-1.2	-1.0

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

1. Includes deferred tax payments on postal saving accounts amounting to 0.1 per cent of GDP in 2002.
2. Total OECD figures for the actual balance exclude Mexico and Turkey and those for the cyclically-adjusted balance further exclude the Czech Republic, Hungary, Korea, Luxembourg, Poland, the Slovak Republic and Switzerland.

Source: OECD Economic Outlook 77 database.

Figure I.13. **The share of mandatory programmes in US Federal government spending is rising**



Source: US Office of Management and Budget.

on the assumption that the exemption from the alternative minimum tax is carried forward, and that some limited additional funding for the operations in Iraq and Afghanistan will be required and imply that the federal government balance would barely improve by 2006, whilst the cyclically-adjusted general government deficit would remain around 4% of GDP. In the absence of new revenue-raising measures and of tax receipt windfalls, deviations from the spending path outlined by the Administration would further postpone the adjustment of a deficit that despite looming long-run pressures far exceeds its historical average.[24]

… where two major fiscal initiatives have recently been launched…

Two major long-run initiatives have been launched in recent months on the fiscal front. The Administration has outlined a far-reaching reform of social security (*i.e.* the publicly-financed pension pillar), involving the creation of a new type of voluntary individual savings accounts, into which workers would be able to redirect up to four percentage points of the social security payroll tax. The diversion of part of today's social contributions to these new accounts would increase the general government's deficit in the coming years, but the impact on financial markets would depend, inter alia, on the extent of enrolment, on any concomitant adjustments to entitlements (which remain to be determined), on the provisions concerning the investment of the funds deposited in the new accounts and on the extent to which they focus on headline deficits.[25] Proposals for comprehensive tax reform are also under consideration, as the tax code has become horrendously complex and replete with exemptions and distortions. Base broadening and streamlining, however, ought to be carried out with a view to raising overall tax revenue. It is also important that any tax reform preserve or, better, enhance labour force participation incentives, and release resources now tied up in managing tax liabilities to more productive uses.

24. Simulations carried out by the US Congressional Budget Office (CBO) show public spending on pensions and even more so on health care jointly rising by close to 10 percentage points of GDP between now and 2050 under an intermediate scenario, with most of the increase to come after 2020, however (*The Long-Term Budget Outlook*, December 2003).
25. The CBO estimates that participation of all eligible workers would add about 1% of GDP to the budget deficit by 2015 (*An Analysis of the President's Budgetary Proposals for Fiscal Year 2006*, March 2005).

… as well as in the euro area…

In the euro area as well, only minimal fiscal consolidation is in the making, even on the conventional measure of changes in the cyclically-adjusted balances, which does not take into account some one-off measures that only temporarily improve the fiscal position (Box I.5).[26] As regards the policy framework, the fiscal rules enshrined in the Stability and Growth Pact were substantially amended in March 2005. Henceforth, more attention will be given, when assessing fiscal positions, to country-specific factors such as spending on research and development and innovation, contributions to the EU budget, expenses deemed to foster international solidarity (including some military outlays) or European unification (referring inter alia to transfers to former East Germany) and structural reforms entailing short-run costs but strengthening public finances over the longer run (*e.g.* the introduction of a funded pension pillar). Also, the excessive deficit procedure can now be suspended when growth languishes below trend, as opposed to the earlier condition of a "severe economic downturn". In addition, more time will be granted for countries overshooting the 3% of GDP deficit mark to move back towards safer territory. These changes are likely to provide extra leeway to member countries where activity runs below potential and/or undertaking ambitious structural reforms. At the same time, a greater emphasis is to be placed on debt developments and sustainability, as well as on the reliability and timeliness of budgetary statistics. Moreover, the stated intention is to strengthen the Pact's preventive arm through enhanced budgetary discipline in periods of relatively buoyant growth, which would help create the room needed to accommodate economic downturns. Furthermore, the benchmark of an annual adjustment of ½ per cent of GDP in underlying terms for countries needing to move towards balance is maintained. Implementation of this more sophisticated set of rules – which allows both the European Commission and the member countries to exercise greater judgement – will show how effective they are. Greater flexibility should not come at the expense of fiscal discipline. In any event, whatever the exact codification of any formal rules, the longer-run fiscal challenges are more daunting than ever, calling for much more effective and transparent national budgetary institutions in support of the revised Pact.

… although with stark differences between members

Fiscal positions and stances differ considerably across euro area members, with most of the smaller countries typically displaying more resolve to stick to the Pact's maintained medium-run objective of close to balance or surplus (Figure I.14).[27] The underlying deficit – net of one-off measures – is not projected to improve much this year and next in Germany and France, and to largely stabilise in Italy as one-offs are phased out. The envisaged cuts in corporate tax rates (in Germany) or in personal income taxes (in Italy), irrespective of any longer-term merits on supply-side grounds, would also weigh on short-run outcomes. In the case of Italy, the fiscal challenge is compounded by the fact that growth will be far weaker than projected in the budget and this will be heightened by the expiration of a number of one-off measures which in recent times made for a better headline fiscal balance. In contrast, sustained tightening is in the cards in the Netherlands, amounting to 1½ percentage points of GDP over 2005-06. Two of the smaller countries, however, face serious difficulties, namely Greece, where the headline deficit reached 6% of GDP in 2004, and Portugal, where it is projected at 5% of GDP in 2005.

26. How much controlling in full for these measures would alter the time profile of the underlying position between 2004 and 2005 is a moot point, however: not all of them are known and some one-offs embellishing the 2004 accounts are no longer at work in 2005.
27. Under the new rules, however, the medium-run objective ranges from a deficit of 1% of GDP for low-debt or high-potential-growth countries to balance or surplus for high-debt or low-potential-growth countries, in cyclically-adjusted terms and net of temporary measures.

Box I.5. Seeing and believing

To analyse the evolution of countries' underlying fiscal positions, it is necessary to control for the effects of the cycle in economic activity. This "cyclically-adjusted" balance, however, may be affected by a number of other transient factors, including asset prices cycles,[1] one-off operations, creative accounting and classification errors.[2] In some cases, and with the benefit of hindsight, these have at times reached or exceeded 2 percentage points of GDP (*e.g.* Greece in at least six years since 1993, or Portugal in 2003 and 2004). In a growing number of countries, estimates taking some of these influences into account are produced and published.[3] It is difficult, however, to pin down all of them, especially in real time and even for governments themselves. *A fortiori*, for projection purposes, it is even harder to quantify them. Even so, when they are identified, they should in principle be excluded from measures of the underlying fiscal position, although it may be desirable to distinguish between those factors that have a direct effect on the real economy and those that do not, depending on the use to which the underlying measure is being put.

The concept of "standardised budget balance", developed by the US Congressional Budget Office (CBO), is a prominent example of a measure attempting to remove both the impact of the cycle and that of other short-lived factors, which are not directly related to changes in fiscal policy and are unlikely to significantly affect private agents' real incomes in the short run. It excludes items such as swings in the collection of capital gains tax receipts, temporary changes in the timing of tax payments or government outlays, discrepancies between tax liabilities and payments (overpayments one year, compensated by higher refunds the following year), changes in the inflation component of the government's net interest payments (which effectively adjusts the value of outstanding public debt for the impact of inflation and hence does not alter real private incomes) and government asset sales. At various times in the past, and most notably around shocks and cyclical turning points (1974-75, 1978-81 and 1989-91), changes in the standardised budget balance have deviated from changes in the cyclically-adjusted balance by over one percentage point of GDP.[4]

No similarly sophisticated measure exists as yet across EU countries, where one-offs, creative accounting and misclassification problems have taken on a bewildering variety of shapes. For example, in the context of EU countries' most recent notification to Eurostat of their deficit and debt data, the submitted estimates for last year and/or for earlier years could not be validated for Greece (inconsistencies in the recording of EU budget flows, improper accounting of expenditure on hospitals), Italy (treatment of payments to the Government by financial institutions acting as tax collectors, sectoral classification of government-owned entities, treatment of a securitisation operation, recording of transactions with the EU budget, inconsistencies between cash and accrual data) and Portugal (inconsistencies between cash and accrual data).[5]

Looking forward, another such example would be the one-time upfront payment to the Government that the French electricity company EdF is set to make in 2005 in the context of its partial privatisation, mainly as a counterpart of the transfer of its pension obligations to the State (which may amount to around ½ per cent of GDP). In Germany, 0.1 percentage point of GDP of the improvement in the cyclically-adjusted balance projected for 2005 is related to the repayment to state governments by state banks of past subsidies, which will be offset in the latter's balance sheets by new equity participations (which are recorded "below the line"). In addition, the capitalisation of claims by the pension funds for the civil servants of the former Post Office should reduce the government deficit in 2005 by about 0.2% of GDP. The tax amnesty that expired end-March 2005 will work in the same direction, although by a smaller amount. In the context of fiscal surveillance under the aegis of the Stability and Growth Pact, the European Commission has increasingly tried to control for these factors, but with mixed results, insofar as some of them only belatedly come to light, not least in the context of official audits following the election of a new majority.

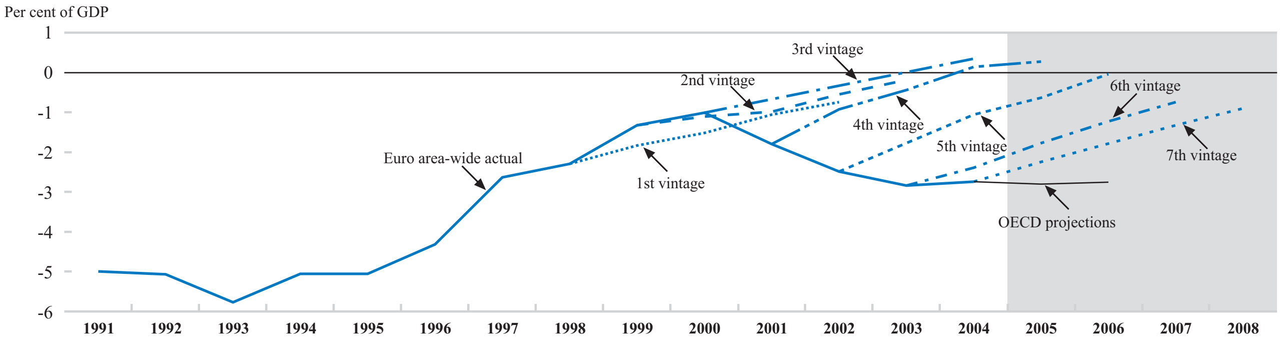
Outside Europe, a recent example is a capital transfer in Japan from the corporate pension funds to the Government, which amounted to 0.1% of GDP in 2003 and at least 0.6% of GDP in 2004. This is duly noted in the SNA data released in March 2005 but should be taken into account when assessing the timing and speed of fiscal consolidation in Japan.

Changes in headline budget deficits may also be biased in the opposite direction, however. Some one-offs temporarily worsen the recorded fiscal position, but make for more favourable outcomes down the road. This was the case for example in 1999, when the Irish government paid a capital transfer of 1.8% of GDP to discharge future pension payments to the employees of the privatised telecommunication company. More recently, accounting adjustments to recognise spending that had been under-reported in earlier years worsened the 2004 general government balance for Spain by ¾ per cent of GDP.

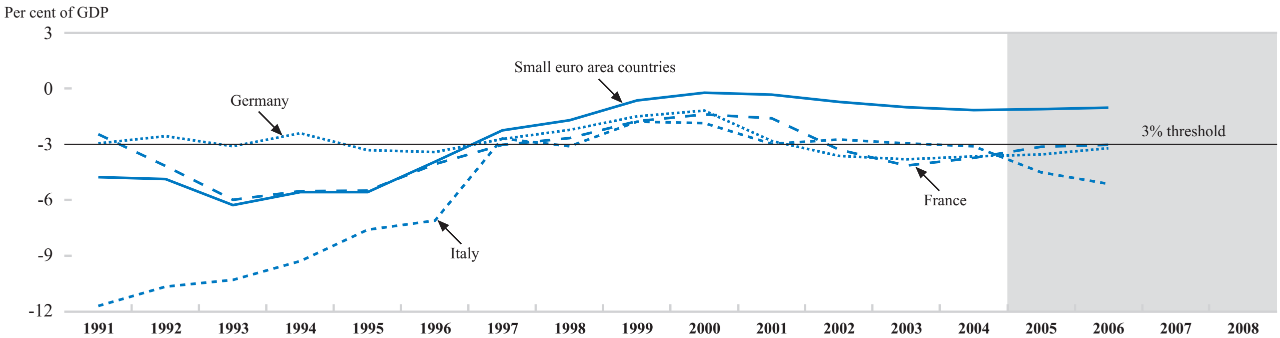
1. See Girouard, N. and R. Price, "Asset price cycles, "one-off" factors and structural budget balances", *OECD Economics Department Working Papers*, No. 391, 2004.
2. See Koen, V. and P. van den Noord, "Fiscal gimmickry in Europe: one-off measures and creative accounting", *OECD Economics Department Working Papers*, No. 417, 2005.
3. A number of EU countries now fairly transparently report the non-recurrent factors affecting the fiscal balance.
4. See CBO, *The Cyclically Adjusted and Standardized Budget Measures*, Washington DC, February 2005.
5. See Eurostat's 18 March 2005 news release.

Figure I.14. **Recurrent fiscal slippage in the euro area**

Area-wide projected and actual general government balance[1, 2]



Fiscal balances across members[1]



1. Excluding third generation mobile telephone licence proceeds.
2. The various vintages of the Stability Programmes were released over the following periods: 1st 1998/99, 2nd 1999/2000, 3rd 2000/01, 4th 2001/02, 5th 2002/03, 6th 2003/04, 7th 2004/05.

Source: Statistical Office of the European Communities (Eurostat) and OECD Economic Outlook 77 database.

Gradual adjustment is under way in Japan

In Japan, the underlying fiscal deficit, adjusted for the pension-related payment transfer described in Box I.5, improved somewhat in 2004, but the gross public debt ratio continued to rise, approaching a new high of 160% of GDP. Over the projection horizon, some further fiscal consolidation is foreseen, with the partial reversal of the tax cuts passed in 1999 and with incremental increases in social contributions. On the spending side, public investment and some other discretionary programmes are being cut further, but social outlays continue to grow rapidly. As a result, both the deficit and the debt ratio are projected to remain more than twice as high as in the OECD at large. In order to achieve the official target of a primary surplus in the early 2010s, measures to broaden the tax base need to be taken, with a rise in the value added tax rate to be considered once the expansion is more firmly established.[28]

28. See the 2005 *OECD Economic Survey of Japan*. The rate of the value added (or consumption) tax currently stands at only 5%.

Appendix I.1
The medium-term reference scenario

Area-wide, potential growth is expected to ease to around 2½ per cent by 2010

The medium-term reference scenario is a largely supply-side driven extension of the current short-term projections to the end of 2010, based on a set of specific assumptions, as described in Box I.6 (see Tables I.5 to I.7). It therefore serves as a benchmark for the analysis of some of the tensions discussed in the main text, nota-

Table I.5. Medium-term reference scenario summary

Per cent

	Real GDP growth	Inflation rate[1]		Unemployment rate[2]		Current balance[3]		Long-term interest rate	
	2007-2010	2006	2010	2006	2010	2006	2010	2006	2010
Australia	3.6	2.7	2.1	5.2	5.0	-4.9	-3.0	6.6	6.2
Austria	2.7	1.7	1.4	5.5	4.9	0.3	1.1	3.6	5.5
Belgium	2.4	1.6	1.5	8.0	7.2	3.3	3.1	3.6	5.5
Canada	2.9	1.5	1.6	6.8	7.2	2.5	3.9	5.1	5.6
Czech Republic	3.0	2.5	1.7	8.2	8.5	-4.5	-2.0	5.2	6.0
Denmark	1.8	1.9	1.6	5.0	4.8	1.6	2.1	3.7	5.5
Finland	1.9	1.9	1.7	8.3	8.0	3.5	2.2	3.6	5.5
France	2.6	1.7	1.5	9.6	8.8	-0.6	0.4	3.6	5.5
Germany	2.2	0.8	1.6	9.1	7.7	4.9	4.9	3.5	5.5
Greece	3.6	3.3	1.9	10.5	9.8	-4.9	-4.2	3.6	5.5
Hungary	3.5	3.8	2.5	6.0	5.0	-6.4	-5.7	5.8	6.5
Iceland	3.3	3.2	2.2	2.3	2.4	-12.3	-12.0	8.7	5.7
Ireland	4.7	2.7	2.0	4.3	4.8	1.5	4.0	3.6	5.5
Italy	1.8	1.8	1.7	8.4	8.4	-2.3	-2.7	3.7	5.5
Japan	0.8	0.1	0.9	4.1	3.9	4.1	3.9	1.8	4.2
Korea	4.4	3.1	2.8	3.3	3.5	1.7	-0.8	5.3	6.2
Mexico	4.2	3.6	3.6	3.8	2.4	-2.0	-2.0	10.4	8.2
Netherlands	3.0	0.5	1.5	6.1	3.2	4.6	5.8	3.5	5.5
New Zealand	3.3	2.0	1.6	4.5	4.7	-6.3	-5.6	6.0	6.2
Norway	2.7 [4]	2.5	2.0	3.8	4.1	14.7	14.5	4.6	5.6
Poland	5.2	2.5	2.1	17.3	15.1	-1.5	-2.3	5.9	5.2
Portugal	2.3	1.7	1.6	6.9	4.2	-8.9	-8.5	3.7	5.5
Slovak Republic	5.7	2.8	2.1	17.5	14.1	-5.3	-4.8	4.3	6.3
Spain	3.0	2.6	1.8	9.8	10.3	-6.7	-6.6	3.6	5.5
Sweden	2.3	1.9	1.9	4.7	4.7	6.5	5.2	4.4	6.1
Switzerland	1.7	0.9	0.7	3.5	2.2	12.5	13.2	2.5	3.6
Turkey	7.1	5.4	4.5	10.5	8.0	-4.5	-5.1	10.1	9.8
United Kingdom	2.6	2.1	1.9	5.2	5.3	-2.4	-1.7	4.8	5.9
United States	3.2	2.1	1.6	4.8	4.8	-6.7	-6.8	5.3	5.8
Euro area	2.5	1.6	1.6	8.7	7.9	0.3	0.6	3.6	5.5
Total of above OECD countries	2.8	1.8 [5]	1.7 [5]	6.4	5.9	-1.7	-1.8	4.5 [5]	5.6 [5]

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

1. Percentage change from the previous period in the private consumption deflator.
2. Per cent of labour force.
3. Per cent of nominal GDP.
4. Including oil-sector.
5. Excluding Turkey.

Source: OECD Economic Outlook 77 database.

Table I.6. Fiscal trends in the medium-term reference scenario

As a percentage of nominal GDP

	Financial balances[1]		Net financial liabilities[2]		Gross financial liabilities[3]		Gross public debt (Maastricht definition)[4]	
	2006	2010	2006	2010	2006	2010	2006	2010
Australia	0.8	1.1	0	-4	17	13	..	..
Austria	-1.9	-1.3	38	37	64	64	61	61
Belgium	-1.2	-0.4	88	78	98	87	93	82
Canada	0.8	0.8	27	19	66	58	..	..
Czech Republic	-4.2	-3.6	..	..	..	..	..	..
Denmark	1.5	0.6	1	-3	46	43	39	36
Finland	1.1	0.7	-40	-38	57	58	48	50
France	-3.0	-2.1	44	46	74	76	66	68
Germany	-3.2	-2.2	64	65	73	73	69	70
Greece	-3.5	-3.2	..	..	106	95	106	95
Hungary	-4.1	-4.9	..	..	..	..	..	..
Iceland	1.1	-0.2	16	14	30	28	..	..
Ireland	-0.7	-0.5	..	..	30	25	30	25
Italy	-5.0	-4.2	99	103	122	126	109	114
Japan	-5.3	-5.6	82	99	163	180	..	..
Korea	2.9	2.8	-29	-34	27	22	..	..
Netherlands	-1.7	1.3	38	29	66	58	56	48
New Zealand	2.8	2.8	-12	-20	15	7	..	..
Norway	14.6	12.1	-140	-160	46	26	..	..
Poland	-4.0	-3.6	..	..	54	57	..	..
Portugal	-4.8	-3.3	..	..	82	88	71	78
Slovak Republic	-3.2	-2.4	..	..	..	..	..	..
Spain	0.6	0.6	29	21	50	42	44	36
Sweden	0.8	0.6	-6	-8	61	59	50	48
Switzerland	-0.8	-0.1	..	..	..	..	..	..
United Kingdom	-3.0	-2.7	40	44	48	52	46	50
United States	-3.9	-3.5	50	54	69	74	..	..
Euro area	-2.7	-1.8	58	57	79	78	72	71
Total of above OECD countries	-3.0	-2.6	50	53	80	83		

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

1. General government fiscal surplus (+) or deficit (-) as a percentage of GDP.
2. 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.
3. 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.
4. Debt ratios are based on debt figures for 2004, provided by Eurostat, and GDP figures from national authorities, projected forward in line with the OECD projections for GDP and general government financial liabilities.

Source: OECD Economic Outlook 77 database.

bly the fiscal and external imbalances. Growth in output for any country from 2007 onwards is assumed basically to reflect the growth of potential output and a closing of the output gap. Over the period, growth in potential for the OECD area as a whole is expected to slow slightly to just below 2½ per cent *per annum* in 2010, reflecting a decline in trend labour force growth which is partially offset by some acceleration in trend labour productivity.

Table I.7. Growth in total economy potential output and its components

Annual averages, percentage points

	Output gap	Potential GDP growth		Potential labour productivity growth (output per employee)		Potential employment growth		Components of potential employment[1]					
								Trend participation rate		*Working age population*		*Structural unemployment*[2]	
	2006	1998-2006	2007-2010	1998-2006	2007-2010	1998-2006	2007-2010	1998-2006	2007-2010	1998-2006	2007-2010	1998-2006	2007-2010
Australia	-1.3	3.6	3.3	1.8	2.2	1.7	1.0	0.3	0.0	1.3	0.9	0.1	0.1
Austria	-2.1	2.4	2.1	1.6	2.0	0.8	0.2	0.2	0.1	0.5	0.0	0.0	0.0
Belgium	-1.3	2.1	2.1	1.3	1.7	0.7	0.4	0.4	0.1	0.3	0.3	0.0	0.0
Canada	-0.2	3.1	2.8	1.5	2.0	1.6	0.8	0.4	0.0	1.2	0.8	0.0	0.0
Denmark	-0.1	2.0	1.7	1.9	1.8	0.1	-0.1	-0.1	0.0	0.1	0.0	0.1	0.0
Finland	0.6	2.7	2.1	2.1	2.3	0.6	-0.3	0.0	-0.4	0.3	0.1	0.3	0.0
France	-2.1	2.2	2.0	1.4	1.8	0.8	0.2	0.2	-0.1	0.4	0.3	0.2	0.0
Germany	-2.1	1.4	1.7	1.1	1.6	0.2	0.1	0.5	0.3	-0.2	-0.2	-0.1	0.0
Greece	-0.1	3.5	3.5	2.8	2.8	0.7	0.7	0.6	0.6	0.1	-0.1	-0.1	0.2
Iceland	1.3	3.8	3.6	2.1	2.5	1.6	1.1	0.0	0.0	1.5	1.0	0.1	0.1
Ireland	-0.5	6.8	4.6	3.8	3.6	2.9	0.9	0.7	0.2	1.7	0.7	0.5	0.1
Italy	-2.0	1.3	1.3	0.8	1.3	0.4	-0.1	0.3	0.2	-0.1	-0.3	0.2	0.0
Japan	0.3	1.2	0.9	1.3	1.5	-0.1	-0.6	0.3	0.2	-0.3	-0.7	-0.1	0.0
Netherlands	-4.2	2.4	1.9	1.0	1.3	1.4	0.6	0.7	0.3	0.5	0.3	0.2	0.0
New Zealand	0.0	3.3	3.3	1.5	2.1	1.8	1.2	0.3	0.2	1.2	1.0	0.3	0.0
Norway[3]	0.8	2.7	2.9	1.8	2.2	0.9	0.7	0.1	0.1	0.8	0.6	0.0	0.0
Spain	-0.5	3.0	2.8	0.9	1.5	2.1	1.4	1.0	0.5	0.8	0.8	0.2	0.0
Sweden	0.3	2.5	2.4	2.2	2.2	0.3	0.2	-0.2	-0.1	0.5	0.3	0.1	0.0
Switzerland	-0.4	1.4	1.6	0.6	1.3	0.7	0.3	0.1	0.1	0.6	0.1	0.0	0.0
United Kingdom	0.0	2.7	2.5	1.9	2.1	0.7	0.4	0.0	0.0	0.6	0.4	0.2	0.0
United States	0.1	3.2	3.2	2.2	2.3	1.0	1.0	-0.4	-0.2	1.3	1.1	0.0	0.0
Euro area	-1.9	2.0	2.0	1.2	1.6	0.7	0.3	0.6	0.2	0.2	0.1	0.1	0.0
Total OECD	-0.5	2.5	2.4	1.7	1.9	0.7	0.5	0.1	0.0	0.8	0.6	0.0	0.0

1. Percentage point contributions to potential employment growth.
2. Estimates of the structural rate of unemployment are based on the concepts and methods described in "Revised OECD measures of structural unemployment", *Economic Outlook,* No. 68, 2000.
3. Excluding oil-sector.

Source: OECD Economic Outlook 77 database.

Unemployment falls, inflation remains moderate, but fiscal deficits endure

Since the OECD area as a whole is projected to operate slightly below potential in late 2006, the assumed closing of output gaps over the medium term implies growth in subsequent years which slightly exceeds estimated potential, at around 2¾ per cent. Area-wide unemployment falls gradually to an underlying structural rate of around 6% of the labour force and inflation remains stable at around 1¾ per cent. Fiscal balances for the area as a whole improve only marginally, reflecting continuing large structural deficits for the United States, Japan and the major European economies.

Growth is robust in the United States…

Potential output for the United States is projected to grow at around 3¼ per cent over the medium term, with robust labour productivity growth offsetting the declining growth in the working-age population and the labour force. With output at or

Box I.6. Assumptions underlying the medium-term reference scenario

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

- Gaps between actual and potential output are eliminated by 2010 in all OECD countries.
- Unemployment returns to its estimated structural rate (the NAIRU) in all OECD countries by 2010.[1]
- Most commodity prices and exchange rates remain broadly unchanged in real terms.
- Beyond the short term, world oil prices are assumed to decline from $48 per barrel (Brent crude) at the end of 2006 to around $42 per barrel by 2010.[2]
- Monetary policies are directed at keeping or bringing inflation in line with medium-term objectives.
- Fiscal policies are assumed to remain broadly unchanged (*i.e.* the cyclically-adjusted primary budget balance is held approximately unchanged from one year to the next),[3] subject to Secretariat assessment of specific influences implicit in currently legislated tax and expenditure measures.

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

1. The concept and measurement of structural unemployment rates are discussed in more detail in Chapter V, "Revised OECD measures of structural unemployment", *OECD Economic Outlook* No. 68, December 2000.
2. Consistent with the analysis in "Oil price developments: drivers, economic consequences and policies", Chapter IV, *OECD Economic Outlook* No. 76, December 2004.
3. This implicitly assumes that the authorities take measures to offset underlying changes in primary structural balances.

close to potential throughout the period and oil prices falling steadily, inflation declines to around 1½ per cent in 2010 (see Box I.6). The general government deficit barely shrinks over the medium term and still amounts to 3½ per cent of GDP in 2010, translating into a continuing deterioration in public debt, with general gross government financial liabilities approaching 74% of GDP at the same horizon.

… but more modest in Europe, where fiscal deficits persist as well

In the euro area, potential output growth, at 2% *per annum*, is much slower than in the United States, reflecting lower growth in both the working-age population and trend labour productivity. At the same time, the cyclical position in 2006 is much worse with a negative output gap of almost 2% of GDP, implying a larger contribution to growth from the closure of the gap, with GDP growth averaging 2½ per cent *per annum* over the period. Unemployment falls to a structural rate of slightly below 8% and inflation remains subdued at around 1½ per cent *per annum*. Over the period, the fiscal deficit for the euro area a whole shrinks from around 2¾ per cent of GDP in 2006 to 1¾ per cent of GDP in 2010. For most euro area economies, reduced deficits reflect exclusively the cyclical contribution from the closing of the gap. Thus, on present policy settings, substantial structural deficits persist in France, Italy, Germany, Greece and Portugal and to a lesser extent Austria. With the exception of the United Kingdom, which also remains in significant deficit over the period, the fiscal positions of most of the other European Union (EU) countries move steadily towards balance or remain in surplus.

Inflation moves back into positive territory in Japan

Potential output growth in Japan is projected to weaken from 1% to around ¾ per cent, with a decline in labour force more than offsetting a rise in productivity growth. With Japan operating at about potential in 2006, GDP growth is projected to slow down over the medium-term horizon Inflation is projected to return into positive territory, rising to close to 1% by 2010. In spite of some short-term improvement, the public deficit in Japan is projected to deteriorate slightly over the medium term, to around 5.6% of GDP in 2010 pushing the public sector debt ratio to around 180%of GDP. Indeed, the legislated annual increases in social security contributions that are taking effect throughout the projection period are offset by rising social spending on account of an ageing population.

Current accounts do not adjust

Given the recovery in GDP growth in the OECD area, world trade is projected to grow at around 9% *per annum*. This rate is slightly above the historical average of the 1990s, consistent with the assumption of sustained robust growth in China and Dynamic Asia. At broadly unchanged real exchange rates and in the absence of major cyclical fluctuations in individual countries, scant overall adjustment in the current external imbalances between regions is in the making. The euro area current account surplus remains around ½ per cent of GDP. The US current account deficit remains at around 6¾ per cent of GDP, owing to persistent public dissaving and little further adjustment in private sector saving and investment balances. Japan maintains a large surplus of around 4% of GDP.

Appendix I.2
Dollar hard landing scenarios: calibration and simulation

This appendix provides details and background information on the two illustrative dollar depreciation scenarios referred to in Box I.4 of the main text, one involving no cross-Atlantic financial contagion and the other based on the premise that higher long-term US interest rates do spill over onto the euro area. They are run using the OECD's Interlink model. For this purpose, the nominal effective exchange rate of the dollar is assumed to plunge by 30% against all OECD currencies, but to remain unchanged *vis-à-vis* the Chinese renminbi and other non-OECD currencies. Accordingly, the euro would appreciate by 7% in nominal effective terms, and the yen by 15%. In such a situation, interest rates as well as equity and house prices would be important transmission channels. Accordingly, the exchange rate shock is assumed to be accompanied by a significant adverse shock to US domestic demand, which considerably contributes to speeding up the adjustment of the US current account.

The OECD's medium-term baseline scenario, which runs to 2010, is used as a reference point in the simulations (see Appendix I.1). The magnitude of the posited exchange rate shock is large, though not unprecedented. Its uniformity *vis-à-vis* all other OECD currencies may be deemed unrealistic, since the Canadian dollar or the British pound for example might be expected, under the circumstances, to depreciate against the euro (exacerbating the predicament faced by euro area policymakers). It should be borne in mind, however, that this is merely a technical assumption, as is the unchanged parity with the non-OECD Asian currencies. Indeed, the simulations are a *ceteris paribus* thought experiment, intended to trace out certain important effects, rather than an attempt to flesh out probable future developments. The same obviously holds for the assumed central bank interest rate moves, which may not accord with Taylor rule or other classical reaction functions, and should not be construed as best guesses of what their decisions would most likely be.

Asset price responses

US short-term interest rates are assumed to rise initially by 150 basis points to contain the impact of exchange rate depreciation on inflation but to return to baseline soon, as inflation abates and activity falls below potential. Assuming that, once the shock has hit, financial markets perfectly anticipate future policy rates, term-structure considerations suggest that US long-term interest rates rise by less than short-term rates in the first year and then decline, albeit at a slower pace than policy rates (Table I.8).

The future path of US policy rates is only one factor impacting long-term interest rates. Two other relevant forces are a general, cross-border increase in uncertainty, pushing up risk premia globally. At the same time, some portfolio rebalancing may be set in motion, away from US-dollar denominated assets, leading to an extra risk premium on the latter. The sharp exchange rate change is therefore assumed to be accompanied by a sizeable, 200 basis points jump in the risk premium on US dollar-denominated assets.

As it becomes clear that the dollar has stabilised, such a premium would presumably fade. In the event, US long-term interest rates are assumed to revert to base-

Table I.8. Asset price assumptions

Units are percentage points, shock minus control

	2005	2006	2007	2008	2009	2010
United States						
Short-term interest rate	1.5	1.1	0.7	0.3	0.0	0.0
Term-structure effect[1]	0.4	0.2	0.1	0.0	0.0	0.0
Risk premium	2.0	2.0	2.0	1.5	0.5	0.0
Long-term interest rate	2.4	2.2	2.1	1.5	0.5	0.0
Equity prices[2]	-10.0	-9.0	-7.0	-5.5	-3.5	-2.0
House prices	-10.0	-9.0	-7.0	-5.5	-3.5	-2.0
Euro area						
Short-term interest rate	-1.7	-1.7	-1.7	-1.5	-1.0	-0.5
Term-structure effect[1]	-0.8	-0.6	-0.5	-0.3	-0.2	0.0
Without contagion						
Long-term interest rate	-0.8	-0.6	-0.5	-0.3	-0.2	0.0
Equity prices[3]	0.0	0.0	0.0	0.0	0.0	0.0
House prices	0.0	0.0	0.0	0.0	0.0	0.0
With contagion						
Long-term interest rate	1.2	1.1	1.0	0.8	0.3	0.0
Equity prices	-5.0	-4.5	-3.5	-3.0	-2.0	-1.0
House prices	-5.0	-4.5	-3.5	-3.0	-2.0	-1.0

1. Consistent with the geometric average of the path of short rates over a ten-year horizon.
2. Using the dividend discount model and assuming dividends are cut from $5 to $3 until 2011.
3. Assumes that interest rate effect is offset by a cut in dividends as the economy weakens.
Source: OECD calculations.

line by 2010. Not taken into account here is the possibility that the endogenous deterioration of the fiscal position could push up long-term interest rates further[29].

Two important caveats apply, however. First, in light of its mandate and of the short-lived nature of the inflation spike (see the simulation results below), the Federal Reserve might not react by raising its policy rate as sharply as posited here, in particular if the inflation response to exchange rate depreciation were judged to be more limited than captured in the model based on past experience.[30] Second, the risk premium on US dollar-denominated assets could be significantly smaller should market participants consider that risk is actually reduced once the dollar slide has occurred.

Based on term-structure arguments, and in the absence of contagion, euro-area long-term interest rates would fall over the simulation horizon. In the scenario involving contagion from US to euro-area long rates, it is assumed that the latter follow the former to a large extent. It is further assumed that financial markets in Japan

29. On some estimates, a 1 percentage point of GDP increase in the expected fiscal deficit could raise long rates by 20 to 40 basis points (Laubach, T., “New evidence on interest rate effects of budget deficits and debt”, Federal Reserve, *Finance and Economics Discussion Series*, No. 2003-12, 2003).
30. The pass-through to US inflation may be lower than apparent in the simulation. There is some evidence that the pass-through has declined over time (see for instance Marazzi, M., N. Sheets, R. Vigfusson *et al.*, “Exchange rate pass-through to U.S. import prices: some new evidence”, Federal Reserve, *International Finance Discussion Papers*, No. 833, 2005).

remain disconnected, as they have been for some time, although the economy is affected via the trade and valuation channels (see below).

The jump in long-term interest rates, which causes bond prices to plummet, would negatively affect the value of other assets. For the present simulations, the dividend discount model was used to calculate a path for the implied change in equity prices, assuming, for the United States, an initial dividend yield of 5%, a potential real growth rate of 3% and a real long-term interest rate of 4%. The implied equity price fall reflects the interest rate rise plus an assumed cut in the dividend yield to 3%, as firms try to restore the health of their balance sheets.[31] The dividend yield is not restored until after 2010, at which time equity prices are back to baseline. For the euro area, it is assumed that in the absence of contagion, the effect on equity prices of lower interest rates is offset by dividend cuts as the economy weakens, whereas with contagion, equity prices would decline by about half as much as in the United States.

The rise in US interest rates would also hit house prices, which are assumed to decline on impact by 10% in the United States, in nominal terms.[32] In the euro area, they are assumed to remain unchanged in the absence of contagion and to fall by half as much as in the United States in the case of contagion.[33]

Finally, the exchange rate shock entails capital gains and losses on net foreign asset positions, a channel that has gained importance with the rapid rise in gross cross-holdings of assets and liabilities. These effects improve the US net foreign debt position, since the value of US residents' assets denominated in foreign currency exceeds that of their foreign-currency denominated liabilities. In the case of the euro area and Japan, the opposite holds.[34]

Detailed results

On this basis, the first scenario, without financial contagion, has the following features, in terms of deviations from baseline (Table I.9 and Figure I.15):

- US activity initially falls by about 1¼ per cent, reopening the output gap, as the stimulus to exports from currency depreciation is more than offset by a sizeable contraction in domestic demand. Inflation initially spikes up by over 2%, but the output gap combined with monetary tightening bring it back towards its desired path fairly swiftly. As policy rates revert and asset prices recover, the output gap is gradually unwound. The current account improves by almost 3 percentage points of GDP already by the second year.[35] This is

31. Quite possibly, the initial drop in equity prices might be larger under such circumstances, as the equity risk premium would probably shoot up.
32. Historically, nominal US-wide average house prices – as measured by the index published by the Office of Federal Housing Enterprise Oversight – never declined significantly since 1975, although they were almost flat in 1989-91, at a time when the consumer price index was rising far more rapidly than now, implying a decline in real terms by some 7% in the two years to the third quarter of 1991. Earlier, between the beginning of 1979 and the end of 1982, real house prices fell by 14%. The 10% decline in nominal house prices posited in the simulations here translates into a decline in real house prices similar to the one recorded 15 years ago.
33. Some euro area countries – most prominently Germany, but also France (in the early 1990s) – have experienced significant declines in nominal and real house prices in the past.
34. For some broad-brush empirical estimates, see Blanchard, O., F. Giavazzi and F. Sa, "The US current account and the dollar", *NBER Working Papers*, No. 11137, 2005 and Gourinchas, P.-O. and H. Rey, "International financial adjustment," *NBER Working Papers*, No. 11155, 2005.
35. This is broadly in line with the typical result in the literature that a 10% depreciation improves the current account by 1% of GDP. See, for example, Obstfeld, M. and K. Rogoff, "The unsustainable US current account position revisited", *NBER Working Papers*, No. 10869, 2004 and Blanchard *et al*., *op. cit*.

Table I.9. **Simulation results**

Deviation from baseline levels

	No contagion				Contagion			
	2005	2006	2007	2010	2005	2006	2007	2010
United States								
Real GDP (%)	-1.2	-1.0	-1.0	-0.2	-1.3	-1.0	-1.0	-0.3
Output gap (pp)	-1.2	-0.9	-0.9	0.0	-1.3	-1.0	-1.0	0.0
Unemployment rate (pp)	0.6	0.8	0.8	0.1	0.6	0.7	0.8	0.1
Inflation (pp)	2.2	0.5	0.2	0.1	2.2	0.4	0.2	0.1
Current account (% of GDP)	0.7	2.9	2.9	2.8	0.7	2.8	2.8	2.8
Nominal effective exchange rate (%)	-30	-30	-30	-30	-30	-30	-30	-30
Euro area								
Real GDP (%)	-1.0	-1.5	-1.2	0.0	-1.3	-2.0	-1.6	-0.2
Output gap (pp)	-1.0	-1.5	-1.2	-0.1	-1.3	-1.9	-1.6	-0.4
Unemployment rate (pp)	0.2	0.5	0.5	0.2	0.3	0.7	0.7	0.2
Inflation (pp)	-0.3	-0.7	-0.6	-0.1	-0.3	-0.8	-0.8	-0.4
Current account (% of GDP)	-1.3	-2.1	-2.5	-2.4	-1.2	-2.0	-2.3	-2.2
Nominal effective exchange rate (%)	7	7	7	7	7	7	7	7
Japan								
Real GDP (%)	-1.4	-1.5	-1.4	-0.5	-1.4	-1.6	-1.4	-0.6
Output gap (pp)	-1.3	-1.5	-1.3	-0.5	-1.3	-1.5	-1.3	-0.5
Unemployment rate (pp)	0.1	0.2	0.2	0.1	0.1	0.2	0.2	0.1
Inflation (pp)	-0.1	-1.6	-0.8	-0.4	-0.1	-1.7	-0.8	-0.4
Current account (% of GDP)	-0.7	-1.9	-2.0	-2.5	-0.8	-1.9	-2.0	-2.7
Nominal effective exchange rate (%)	15	15	15	15	15	15	15	15

Source: OECD calculations.

much more than in simulations focusing on an exchange rate shock in isolation,[36] owing to the sizeable concomitant demand shock built in here, which by itself underpins about half of the overall current account correction.

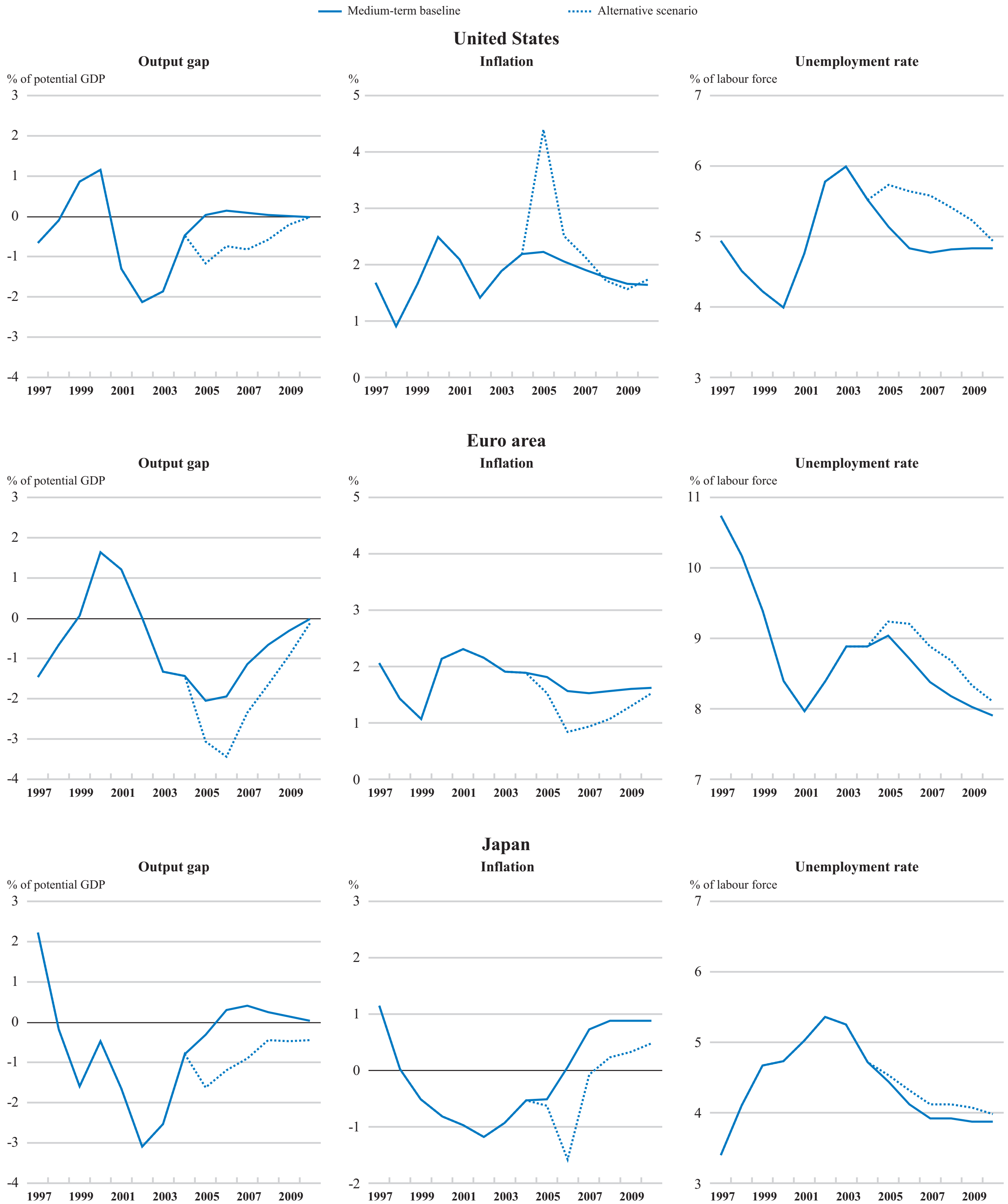
– The effect of the shock on the other economies depends on their exposure to the fall in US demand and on the room available to the domestic authorities to take offsetting action. In the euro area, already low policy interest rates limit the Eurosystem's ability to buffer the shock, and the output loss is larger than in the United States, with a gap worsening by 1½ percentage points in the second year. Inflation declines in the face of the output gap and of an unemployment rate rising by ½ percentage point. Japan is more exposed to the US economy and with policy rates stuck at zero, short-term real interest rates rise markedly whilst growth slows substantially, the exit from deflation being further delayed.

In the case of contagion, activity in the euro area suffers an even larger hit, with the output gap widening by up to 2 percentage points, accompanied by a ¾ percentage point increase in the unemployment rate. Developments in the United States and Japan are essentially the same as in the first scenario, given that feedback effects from the euro area and the rest of the world associated with contagion are of second-order magnitude.

36. See Brook, A.-M., F. Sédillot and P. Ollivaud, "Channels for narrowing the US current account deficit and implications for other economies", *OECD Economics Department Working Papers*, No. 390, 2004.

Figure I.15. **Output, inflation and unemployment effects**

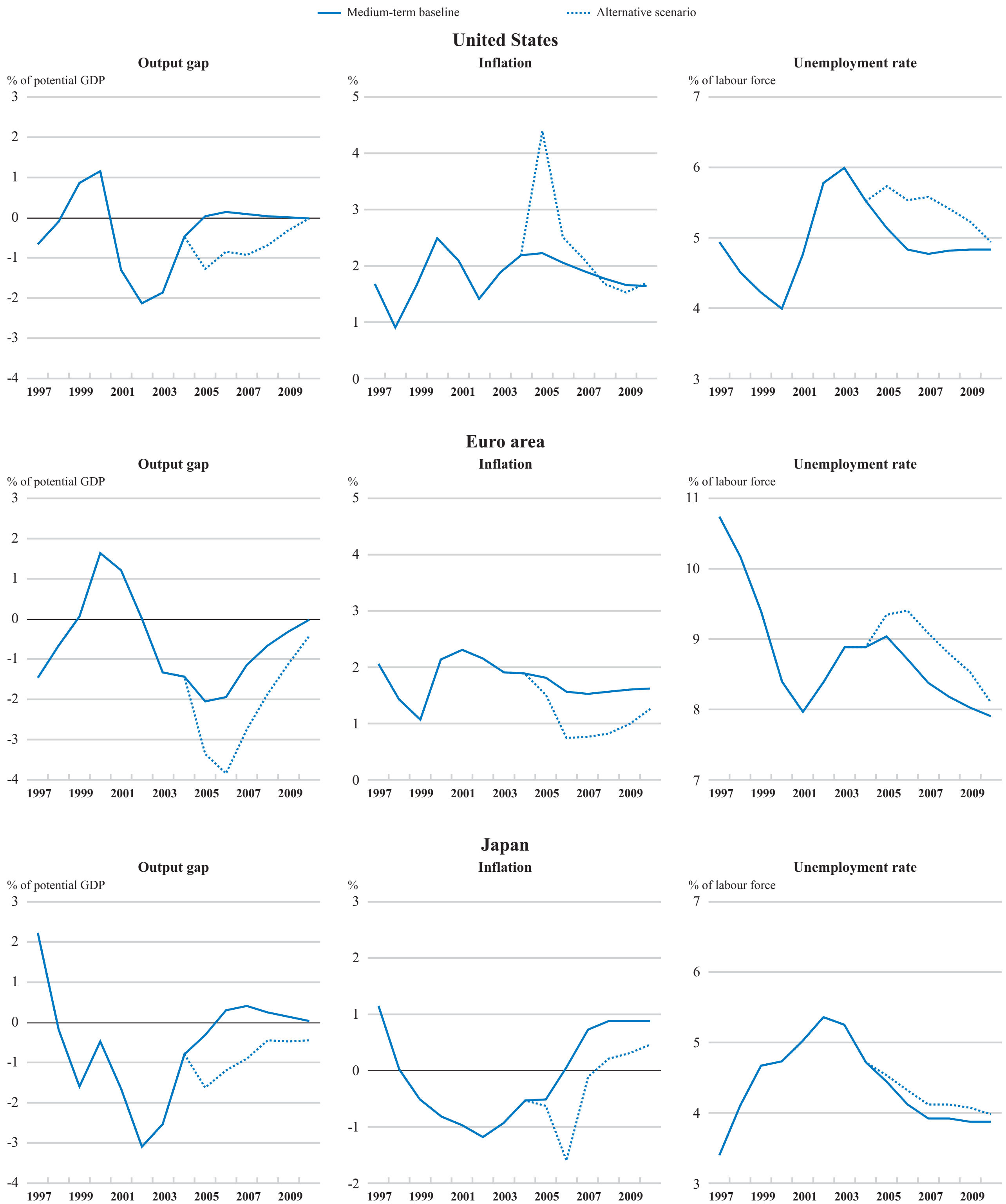
Scenario without contagion



Source: OECD calculations.

Figure I.15. **Output, inflation and unemployment effects** *(cont.)*

Scenario with contagion



Source: OECD calculations.

II. DEVELOPMENTS IN INDIVIDUAL OECD COUNTRIES

United States

The expansion has continued at a solid pace, driven by private domestic demand that has been little restrained thus far by energy price or interest rate increases. Household and business spending has been supported by ongoing wealth gains and favourable financial conditions. By contrast, net exports have subtracted considerably from growth, and the external account has again deteriorated. With resource slack diminishing and unit labour cost growth picking up, core inflation has moved higher. Growth is expected to slow towards potential during the next few quarters, and inflation to edge up.

Although some of the monetary stimulus has been removed, further tightening is needed to contain emerging inflationary pressures, not least because long-term interest rates have remained surprisingly low. Government finances have improved little, as faster revenue growth has been partly offset by higher spending. Projected deficits thus remain large, underlining the need to adjust tax and spending levels to rein in the debt accumulation and prepare for impending demographic pressures. This might also lessen the record external imbalance.

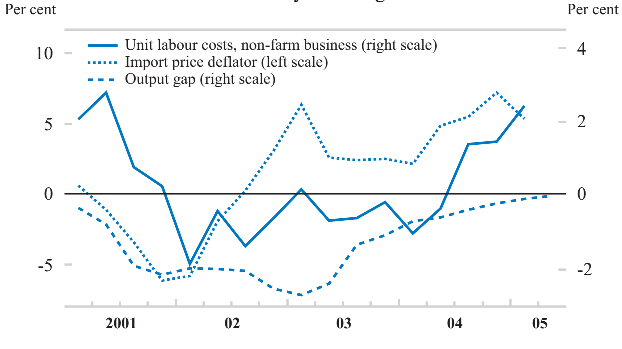
Output is growing above potential…

Real GDP growth, albeit slowing modestly, has been brisk since the middle of 2004, and, by the OECD's measure, the output gap has nearly closed. Household consumption has on balance expanded faster than real disposable income, owing to strong wealth gains on housing and easy access to credit, so that the saving ratio, after adjusting for a special dividend payment in the fourth quarter of 2004, has edged lower. Residential investment decelerated during the second half of 2004 but has since picked up once again, possibly in anticipation of mortgage rate increases. Business spending on equipment and software has slowed recently, likely reflecting the expiration of accelerated depreciation provisions, and the long decline in non-residential construction has not yet ended. While non-auto inventories have remained lean, stockbuilding has contributed positively to growth. Net exports have continued to subtract substantially from GDP growth as imports have, for the most part, expanded rapidly while exports have been surprisingly weak, and the current account deficit has widened sharply once again.

United States

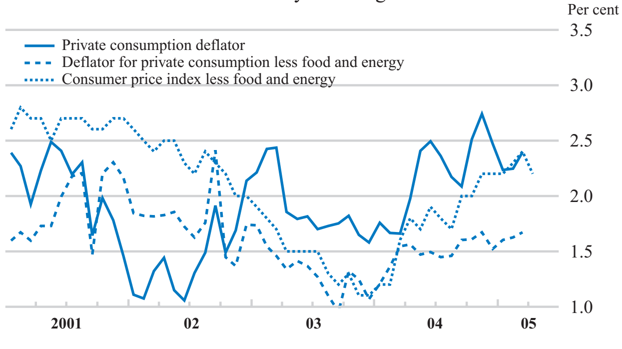
Cost and demand pressures are building

Year-on-year changes



Consumer price inflation is increasing

Year-on-year changes



Source: Department of Labor, Bureau of Economic Analysis and OECD Economic Outlook 77 database.

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

Percentage changes from previous period

	2002	2003	2004	2005	2006
Employment[1]	-1.2	0.0	1.1	1.8	1.7
Unemployment rate[2]	5.8	6.0	5.5	5.1	4.8
Employment cost index	3.8	4.0	3.9	3.6	4.3
Compensation per employee[3]	3.0	3.6	4.4	4.3	4.5
Labour productivity[3]	3.7	3.3	3.6	1.9	1.8
Unit labour cost[3]	-0.6	0.3	0.8	2.3	2.7
GDP deflator	1.7	1.8	2.1	2.4	2.2
Consumer price index	1.6	2.3	2.7	2.8	2.6
Private consumption deflator	1.4	1.9	2.2	2.2	2.1
Real household disposable income	3.1	2.3	3.5	3.3	4.1

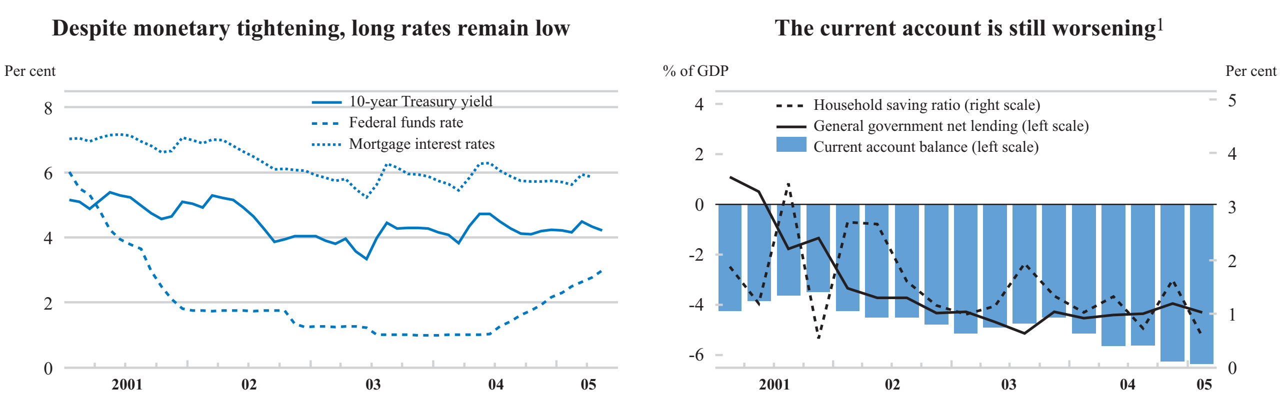
1. Whole economy, for further details see *OECD Economic Outlook* Sources and Methods, *(http://www.oecd.org/eco/sources-and-methods).*
2. As a percentage of labour force.
3. In the business sector.

Source: OECD Economic Outlook 77 database.

... and inflationary pressures are increasing...

Inflationary pressures have on the whole increased. As productivity has decelerated, growth in unit labour costs has picked up. Import prices, especially for crude oil and other commodities, have accelerated as well. These pressures seem to be feeding through to core inflation, although this is more evident for some measures than for others. They have been mitigated by remaining excess capacity in the labour market: the unemployment rate has been nearly unchanged for the past six months, well above its structural level, and labour force participation continues to be weak. Nonetheless, a greater risk of pass-through of cost increases is suggested by measures of inflation expectations derived from indexed bond yields and from household surveys, which have recently moved higher. While continued ample profit margins indicate that firms still have the capacity to absorb higher input costs, with tighter supply conditions, their willingness to pass these on to final consumers may be increasing.

United States



1. Figures for the first quarter of 2005 for general government net lending and the current account balance are estimates.

Source: Board of Governors of the Federal Reserve System, Bureau of Economic Analysis and OECD Economic Outlook 77 database.

United States: **Financial indicators**

	2002	2003	2004	2005	2006
Household saving ratio[1]	2.0	1.4	1.2	0.6	1.2
General government financial balance[2]	-3.8	-4.6	-4.3	-4.1	-3.9
Current account balance[2]	-4.5	-4.8	-5.7	-6.4	-6.7
Short-term interest rate[3]	1.8	1.2	1.6	3.4	4.7
Long-term interest rate[4]	4.6	4.0	4.3	4.5	5.3

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

Source: OECD Economic Outlook 77 database.

… while policy restraint is only gradually being felt

The withdrawal of monetary stimulus has been under way since the middle of 2004, but long-term interest rates have remained very low for most of the intervening period, effectively blunting the policy tightening. Federal fiscal policy has become less supportive, with no further tax relief imminent. As revenues have been expanding at a rapid pace, federal government net lending as a share of GDP narrowed (in absolute value) over the course of 2004 and stood at close to minus 3½ per cent in the fourth quarter.

Monetary tightening needs to continue for some time…

The upward trend in core inflation has been modest until now, but with resource slack diminishing, if not gone, and cost pressures increasing, the federal funds rate will have to be brought steadily back at least to a neutral level. With the current real federal funds rate only slightly above 1%, monetary policy continues to be stimulative. Nonetheless, after moving up from their exceptionally low levels in early February, long-term rates have fallen back again, apparently pricing in the view that the federal funds rate will not have to rise much, if at all, above 4% in the coming years.

United States: **Demand and output**

	2001	2002	2003	2004	2005	2006
	Current prices billion $	Percentage changes, volume				
Private consumption	7 055.1	3.1	3.3	3.8	3.8	3.4
Government consumption	1 501.6	4.0	2.9	1.7	1.9	1.1
Gross fixed investment	1 970.0	-3.1	4.5	9.0	5.8	5.1
Public	324.0	6.0	2.1	3.0	-0.4	2.5
Residential	469.3	4.8	8.8	9.7	3.8	-0.8
Non-residential	1 176.8	-8.9	3.3	10.6	8.8	8.9
Final domestic demand	10 526.8	2.1	3.4	4.4	3.9	3.4
Stockbuilding [1]	- 31.8	0.4	-0.1	0.4	0.1	0.0
Total domestic demand	10 495.0	2.5	3.3	4.8	3.9	3.4
Exports of goods and services	1 032.8	-2.3	1.9	8.6	6.6	8.8
Imports of goods and services	1 399.9	3.4	4.4	9.9	7.8	7.5
Net exports [1]	- 367.0	-0.7	-0.5	-0.6	-0.5	-0.3
GDP at market prices	10 128.0	1.9	3.0	4.4	3.6	3.3

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

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

Source: OECD Economic Outlook 77 database.

United States: **External indicators**

	2002	2003	2004	2005	2006
			$ billion		
Goods and services exports	1 005.0	1 046.2	1 175.5	1 297	1 441
Goods and services imports	1 429.9	1 544.3	1 781.6	2 008	2 202
Foreign balance	- 424.9	- 498.1	- 606.2	- 711	- 762
Invisibles, net	- 49.1	- 32.6	- 59.8	- 89	- 117
Current account balance	- 473.9	- 530.7	- 665.9	- 800	- 879
			Percentage changes		
Goods and services export volumes	- 2.3	1.9	8.6	6.6	8.8
Goods and services import volumes	3.4	4.4	9.9	7.8	7.5
Export performance[1]	- 4.3	- 2.0	- 1.0	- 1.3	0.1
Terms of trade	0.9	- 1.2	- 1.4	- 1.0	0.0

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 77 database.

… and the fiscal deficit has to be reduced

Despite recent improvements in revenues, the structural budget deficit is projected to remain large, primarily at the federal level. On the spending side, the projection incorporates the restraint in discretionary spending outside of defence and homeland security proposed in the Administration's budget for fiscal year (FY) 2006. Besides the $80 billion supplemental defence appropriations for FY 2005 already approved, it anticipates another, albeit smaller, request in FY 2006 for military operations and reconstruction in Iraq and Afghanistan. Growth in federal purchases of goods and services, which reached 8% in FY 2004, is expected to slow little in FY 2005 but to fall sharply thereafter. On the tax side, the projection follows the budget's assumption of no further initiatives pending the report of the Advisory Panel on Federal Tax Reform, other than an extension to 2006 of the current limited relief from the Alternative Minimum Tax. The federal deficit is projected to remain near 3½ per cent of GDP, boosted by the Medicare prescription drug benefit taking effect next year. Revenues of state and local governments have recently improved, and their net lending is projected to improve to minus ½ per cent of GDP. The general government deficit would thus remain near 4% of GDP in cyclically-adjusted terms.

Output is projected to decelerate towards trend…

Real GDP, which is estimated to grow by 3½ per cent in the first and second quarters, is thereafter projected to expand by close to its potential growth rate of about 3¼ per cent as the effects of more restrictive policies begin to be felt. Supported by stronger income gains, households are expected to rebuild their saving rate. Residential investment should remain flat on balance in response to a projected back-up in long-term interest rates, whereas business fixed investment is expected to rebound as much capacity is in need of renewal. Despite the recent weak export performance, the rise in worldwide demand will at least temporarily limit the drag from net exports on GDP growth. As productivity decelerates below trend, unit labour cost growth may continue to edge higher and, combined with tighter resource utilisation, maintain modest upward pressure on core inflation.

... but there are substantial risks around this projection

Given great uncertainty concerning how much resource slack remains, inflationary pressures, both home-made and imported, might intensify faster than projected. Based on past experience, the proposed spending restraint at the federal level is indeed ambitious; without it, upside risks to both real output and inflation would be greater. On the other hand, the protracted weakness in net exports over recent years, despite substantial dollar depreciation, could prove more persistent than projected, resulting in even greater current account deterioration. Either eventuality would increase the risk of a larger rise in long-term interest rates and a harder landing than projected.

Japan

Economic growth resumed at the beginning of 2005 after a pause in the latter half of 2004. The expansion is led by domestic demand, which is underpinned by strong corporate profits and a reversal of the declining trend in employment and wages. Despite a deceleration of export growth, the economy is projected to expand at a rate of between 1½ and 2% in 2005 and 2006, reducing the unemployment rate to 4% and helping to bring an end to deflation as measured by the core consumer price index.

The Bank of Japan's policy of quantitative easing should continue until inflation is sufficiently high so as to make the risk of renewed deflation negligible. Achieving the medium-term fiscal targets, which aim at a primary budget surplus in the early 2010s, is essential to slow the upward trend in public debt and maintain confidence in fiscal sustainability. Further progress in strengthening the banking sector is needed to help sustain economic growth, accompanied by a broad structural reform programme to improve competition, open new areas to the private sector and privatise Japan Post.

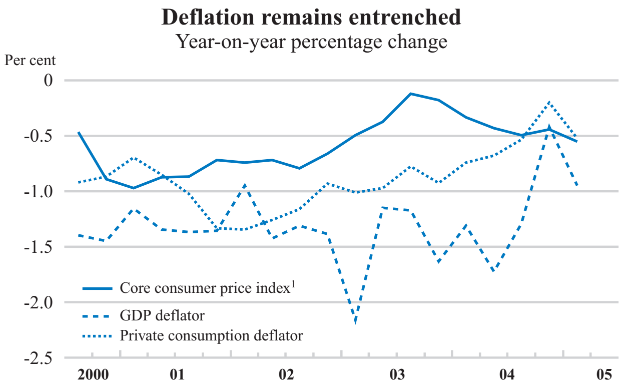
Following a downturn in the second half of 2004…

Output growth turned negative in the second half of 2004, stalling progress in ending deflation. The core consumer price index, which excludes food and energy products, fell 0.4% year-on-year. The pause in growth was due to adverse developments in both exports and domestic demand. On the external side, slowing exports of electrical machinery – a category that includes information and communications technology goods and semiconductors – resulted in an inventory build-up and production cutbacks in this key sector. In addition, private consumption declined in the second half of the year as wages continued to fall. Although employment growth was positive in 2004 for the first time in seven years, this was due to a rising number of part-time employees, who are paid less than half as much per hour as full-time workers.

… growth resumed in 2005, while land price deflation is slowing

Improved labour market conditions are a key factor supporting a return to strong growth in the first quarter of 2005. In particular, the number of full-time workers – whose wages have risen since mid-2004 – is now increasing, contributing to an upward trend in overall wages. In addition, the inventory adjustment in the electronics sector appears to be coming to an end, while strong machinery orders, especially

Japan



1. OECD definition, which excludes food and energy products.
2. Includes audio-visual and telecommunication equipment and semiconductors.
Source: Cabinet Office and Ministry of Finance.

Japan: **Employment, income and inflation**

Percentage changes from previous period

	2002	2003	2004	2005	2006
Employment	-1.3	-0.2	0.2	0.4	0.3
Unemployment rate [1]	5.4	5.3	4.7	4.4	4.1
Compensation of employees	-2.4	-0.5	-0.2	0.4	0.9
Unit labour cost	-2.1	-2.0	-2.7	-1.1	-0.8
Household disposable income	0.2	-0.3	1.0	0.2	1.0
GDP deflator	-1.3	-1.5	-1.2	-0.9	0.0
Consumer price index	-0.9	-0.3	0.0	-0.2	0.1
Private consumption deflator	-1.2	-0.9	-0.5	-0.5	0.1

1. As a percentage of labour force.
Source: OECD Economic Outlook 77 database.

from overseas, should spur production increases. The slowing of land price deflation, according to the most recent survey, should have a positive impact on the banking sector, which has returned to profitability. The major banks appear to have achieved the government's target of reducing the non-performing loan ratio to about half of the March 2002 level of 8.4% by March 2005. Nevertheless, bank lending continues to decline for the eighth consecutive year, although at a more moderate pace.

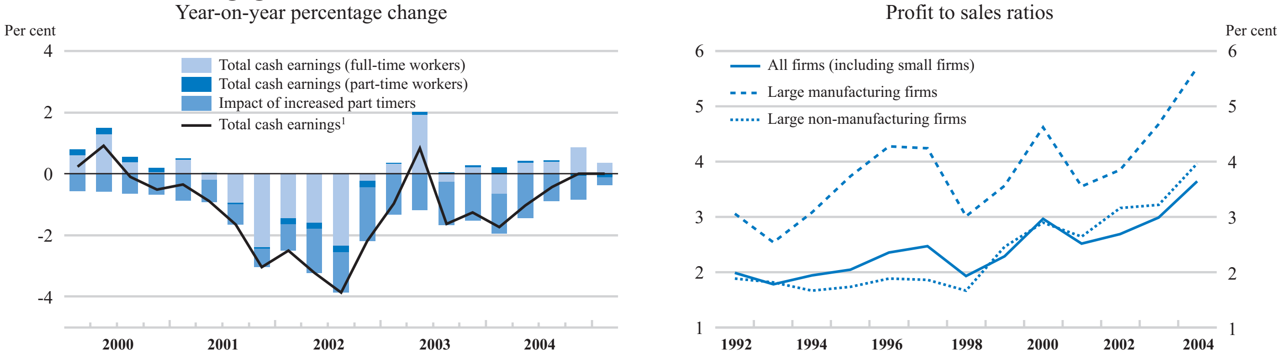
The Bank of Japan has maintained the quantitative easing policy

The contraction of bank lending has limited the effectiveness of the quantitative easing policy and zero short-term interest rates adopted by the Bank of Japan in 2001. The target range for current account balances at the central bank has been left unchanged since January 2004, although it has become more difficult to maintain this target as the improvement in the financial sector has made banks less willing to hold liquidity. While the quantitative easing approach has not been successful thus far in ending deflation, it has contributed to financial-sector stability and kept long-term interest rates at low levels. Monetary conditions have also been eased by a

Japan

Earnings growth has stabilised
Year-on-year percentage change

Profits continue to increase
Profit to sales ratios



1. All workers, bonus inclusive.
Source: Ministry of Health, Labour and Welfare and Ministry of Finance.

Japan: **Financial indicators**

	2002	2003	2004	2005	2006
Household saving ratio[1]	7.2	7.4	7.4	7.1	6.9
General government financial balance[2]	-7.9	-7.7	-6.1	-6.1	-5.3
Current account balance[2]	2.8	3.1	3.6	3.6	4.1
Short-term interest rate[3]	0.1	0.0	0.0	0.0	0.0
Long-term interest rate[4]	1.3	1.0	1.5	1.4	1.8

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

Source: OECD Economic Outlook 77 database.

small decline in the effective exchange rate during the course of 2004, although the authorities have not intervened since the first quarter of the year. The Bank of Japan has promised to maintain its current policy stance at least until the change in the core consumer price index is zero or above for a few months. The second condition for ending quantitative easing – that the Monetary Policy Board project core inflation to be positive – was met for fiscal year (FY) 2006.

Although the fiscal policy stance will be slightly restrictive in 2005-06…

The primary budget deficit is the largest in the OECD area at around 5¼ per cent of GDP in 2004 (excluding a one-off factor). The recent revision of the *Structural Reform and Medium-Term Economic and Fiscal Perspective* established a target of achieving a primary budget surplus in the early 2010s, in part by limiting government expenditures to near the FY 2002 level of 38% of GDP until FY 2006. Achieving this ceiling requires continued sharp declines in public investment to offset ageing-related spending increases. On the revenue side, a number of measures

Japan: **Demand and output**

	2001	2002	2003	2004	2005	2006
	Current prices trillion ¥	Percentage changes, volume (1995 prices)				
Private consumption	286.2	0.5	0.4	1.5	1.1	1.1
Government consumption	86.4	2.6	1.2	2.7	2.1	1.8
Gross fixed investment	130.4	-5.7	1.1	1.6	0.7	1.3
Public[1]	32.6	-4.3	-10.4	-10.8	-8.7	-3.4
Residential	19.0	-4.2	-1.2	2.2	-0.5	0.6
Non-residential	78.8	-6.7	6.5	5.8	3.8	2.7
Final domestic demand	503.0	-0.7	0.7	1.7	1.2	1.3
Stockbuilding[2]	0.0	0.1	0.2	0.2	0.3	0.0
Total domestic demand	503.0	-0.6	1.0	1.9	1.5	1.3
Exports of goods and services	52.6	7.3	9.0	14.5	4.6	7.8
Imports of goods and services	49.4	1.3	3.8	8.9	6.4	5.9
Net exports[2]	3.2	0.6	0.6	0.8	-0.1	0.4
GDP at market prices	506.2	-0.3	1.5	2.6	1.5	1.7

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

Source: OECD Economic Outlook 77 database.

Japan: **External indicators**

	2002	2003	2004	2005	2006
			$ billion		
Goods and services exports	446.6	508.6	612.7	652	703
Goods and services imports	395.4	439.5	523.7	573	606
Foreign balance	51.2	69.1	89.0	79	97
Invisibles, net	61.5	66.1	81.1	98	106
Current account balance	112.7	135.3	170.1	177	203
			Percentage changes		
Goods and services export volumes	7.3	9.0	14.5	4.6	7.8
Goods and services import volumes	1.3	3.8	8.9	6.4	5.9
Export performance[1]	2.1	2.8	3.3	- 3.0	- 1.8
Terms of trade	0.3	- 2.6	- 3.7	- 1.1	0.1

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 77 database.

have been introduced, including annual hikes in the pension contribution rate to be implemented over the period FY 2004 to FY 2017, measures to broaden the personal income and indirect tax bases and a phasing out of the temporary cut in income taxes introduced in 1999. Although the combined impact of these revenue increases is expected to be small at around ¼ to ½ per cent of GDP in both 2005 and 2006, the combination of spending restraint and higher revenue makes the stance of fiscal policy slightly restrictive in 2005 and 2006. The primary budget deficit is projected to fall to under 4% of GDP by 2006.

… growth is projected to continue through 2006

Despite the headwinds from mild fiscal contraction, the economy is projected to expand by between 1½ and 2% in 2005 and 2006, a rate above the latest estimates of Japan's potential growth. Further gains in employment, accompanied by rising wages, should support private consumption growth, even in the context of a stable household saving rate. Increased profits in the business sector, combined with the higher rate of scrapping of old equipment and the improved health of the banking sector, are expected to sustain business investment, though at a slower pace. In addition, the contribution from external demand is likely to remain positive, with the current account surplus rising to 4% of GDP in 2006. There is considerable uncertainty as to the timing of the end of deflation, given that price changes appear not to be very sensitive to demand conditions. Nevertheless, economic growth through 2006 is expected to bring an end to deflation. However, there are a number of risks, both external and domestic, to a sustained expansion. A delayed pick up in world trade or a significant appreciation of the yen in the context of large external imbalances in major regions would slow growth. There is also a risk that the downward trend in wages could continue, thereby slowing private consumption, while the steady increase of public debt into uncharted territory could raise the risk premium.

Euro area

The recovery has lost momentum since mid-2004, but it should resume in 2006. Growth is projected to drop from just below 2% in 2004 to 1¼ per cent in 2005 before recovering to around 2% in 2006, with final domestic demand firming. The output gap will remain negative and the unemployment rate high at over 8½ per cent. Once the impact of the oil price hike peters out, headline inflation should fall to 1¼ per cent. Another hike in oil prices or a further appreciation of the euro could sap the recovery further.

With inflation declining and a large output gap prevailing in 2006, there is room to ease monetary policy, even though liquidity will have to be withdrawn again once the recovery is firming towards the end of the projection period. The euro area lacks resilience against adverse shocks amid slow trend growth – less than 2% per annum. Both are shaped by structural factors. Structural policies should aim at completing the European internal market, boosting labour market performance and encouraging innovation. Fiscal policy should be rooted in long-term sustainability goals.

The recovery stalled since mid-2004

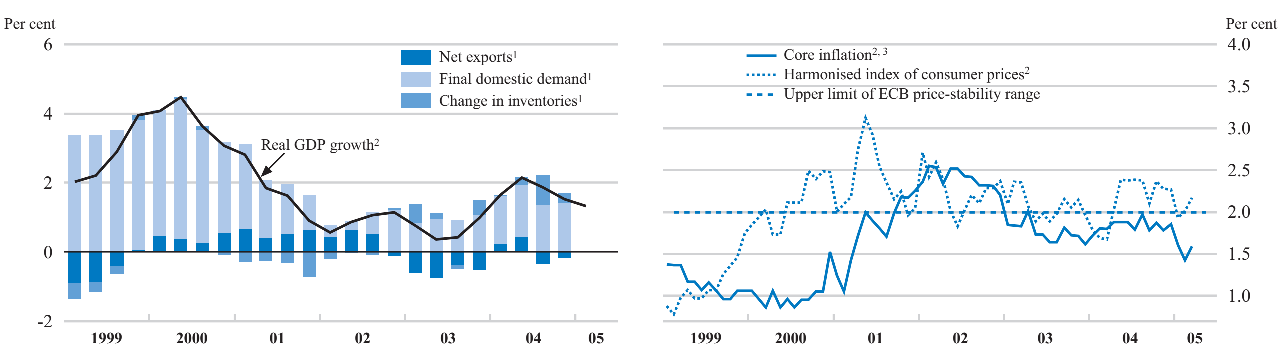
The recovery has lost steam since mid-2004, notwithstanding an apparent pick-up in growth in the first quarter of 2005 due mostly to calendar effects. A lull in world trade from mid-2004 onwards, compounded by continued losses in market shares associated with the effective appreciation of the euro since 2002, caused exports to slow significantly. Capital formation finally began to recover in 2004 but, according to business surveys, may have stalled again recently as sentiment has been adversely affected by high oil prices and the strong exchange rate. Starting from a low basis, household confidence has been steadily creeping up since early 2003 and underpinned a strengthening in consumer demand towards the end of 2004, which has continued in early 2005.

Employment growth kept up pace

Employment has remained relatively resilient so far, underpinned in several countries by wage moderation and policies to support the low-skilled and temporary work. As a result, the unemployment rate has been stable at just below 9% for almost two years – a mere 1 percentage point above its 8% low in 2001. Helped also by a cyclical rebound in labour productivity, unit labour costs decelerated from a trend of

Euro area

The recovery has lot steam since mid-2004 | **Disinflation is resuming**



1. Contribution to real GDP growth, in per cent of previous year's GDP.
2. Year-on-year percentage changes.
3. Harmonised index of consumer prices excluding energy, food, alcohol and tobacco.

Source: Statistical Office of the European Communities (Eurostat) and OECD Economic Outlook 77 database.

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

Percentage changes from previous period

	2002	2003	2004	2005	2006
Employment	0.5	0.2	0.8	0.7	1.0
Unemployment rate [1]	8.4	8.9	8.9	9.0	8.7
Compensation per employee [2]	2.4	2.2	1.7	1.7	1.9
Labour productivity [2]	0.5	0.5	1.1	0.6	1.1
Unit labour cost [2]	1.9	1.7	0.6	1.1	0.8
Household disposable income	3.3	3.0	3.1	2.9	3.2
GDP deflator	2.5	2.0	1.9	1.5	1.7
Harmonised index of consumer prices	2.3	2.1	2.1	1.8	1.3
Private consumption deflator	2.2	1.9	1.9	1.8	1.6

1. As a percentage of labour force.
2. In the business sector.
Source: OECD Economic Outlook 77 database.

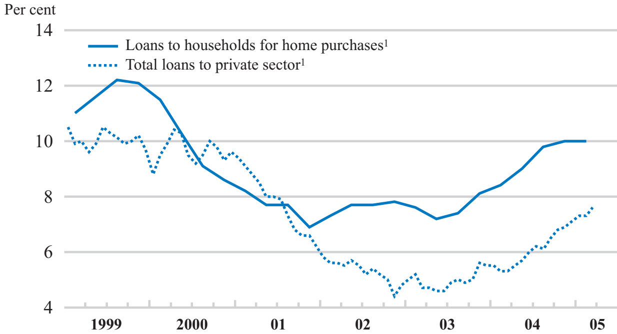
1½ to 2% annual growth since the onset of the downturn to close to half a per cent towards the end of 2004, boosting profitability and softening inflationary pressures. Core inflation (measured by the harmonised index of consumer prices excluding food and energy) fell from an average of close to 2% in 2004 to 1½ per cent in early 2005. Due to soaring energy prices, headline inflation has remained slightly above the 2% mark.

Monetary stimulus has lacked impact

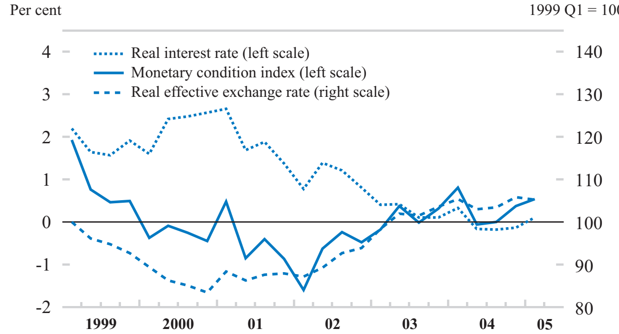
Monetary policy has been supportive since the onset of the downturn in 2001, but its impact on activity seems to have been significantly weaker than in other OECD areas. The European Central Bank has kept its main policy rate on hold at 2% since June 2003 and interest rates on benchmark government bonds have been hovering around a historical low of 4% for over two years and have even declined to close to 3½ per cent recently. Balance sheet restructuring seems to be near completion,

Euro area

Housing loans accelerate



Monetary policy impetus is muted by the exchange rate



1. Year-on-year percentage changes.
Source: European Central Bank, Monthly Bulletin and OECD Economic Outlook 77 database.

Euro area: **Financial indicators**

	2002	2003	2004	2005	2006
Household saving ratio[1]	11.1	11.0	11.1	10.8	10.7
General government financial balance[2]	-2.5	-2.8	-2.7	-2.8	-2.7
Current account balance[2]	0.8	0.4	0.6	0.1	0.3
Short-term interest rate[3]	3.3	2.3	2.1	1.8	1.9
Long-term interest rate[4]	4.9	4.1	4.1	3.5	3.6

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

Source: OECD Economic Outlook 77 database.

high-grade corporate yield spreads against government bonds have practically evaporated, and stock prices have been recovering in most markets. Yet investment remains hesitant and credit growth sluggish, aside from a rebound in lending for dwelling purchases. Strong house price increases have become widespread, supported by low mortgage interest rates and self perpetuating price dynamics associated with expectations of capital gains. However, this reflects partly that households, like businesses and financial institutions, are hedging against uncertainties over the longer term growth outlook and earnings prospects. This may be gradually changing, as investment is picking up and wealth effects from house price increases have begun to stimulate consumption. But as these tendencies still look fragile, and with inflation pressure receding, policy determined interest rates are assumed to be cut by 50 basis points this spring and to return in three steps to somewhat above 2% during the second half of 2006.

The fiscal stance is broadly neutral

Weak incentives built into the Stability and Growth Pact – in force since the advent of the euro in 1999 – contributed to an easing of fiscal policy in the early years of the single currency and thus removed all leeway for fiscal stimulus. A deci-

Euro area: **Demand and output**

	2001	2002	2003	2004	2005	2006
	Current prices billion €	Percentage changes, volume (1999 prices)				
Private consumption	3 928.3	0.7	1.1	1.2	1.3	1.7
Government consumption	1 372.5	3.1	1.7	1.7	1.0	2.0
Gross fixed investment	1 442.0	-2.2	-0.4	1.9	2.0	3.0
Public	181.2	2.3	0.4	1.5	2.4	2.2
Residential	372.4	-0.9	0.9	1.6	1.0	1.7
Non-residential	888.5	-3.7	-1.1	2.2	2.3	3.8
Final domestic demand	6 742.8	0.6	0.9	1.4	1.4	2.0
Stockbuilding[1]	- 14.6	-0.1	0.3	0.3	0.1	0.0
Total domestic demand	6 728.2	0.5	1.3	1.8	1.5	2.1
Net exports[1]	122.1	0.5	-0.6	0.1	-0.3	0.0
GDP at market prices	6 850.3	0.9	0.6	1.8	1.2	2.0

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

Source: OECD Economic Outlook 77 database.

Euro area: **External indicators**

	2002	2003	2004	2005	2006
			$ billion		
Foreign balance	178.1	182.7	198.9	151	166
Invisibles, net	- 123.8	- 151.6	- 139.6	- 137	- 130
Current account balance	54.2	31.1	59.3	14	36

Source: OECD Economic Outlook 77 database.

sion by the Council of Ministers (Ecofin) in March 2005 has sought to improve the Pact in a number of ways and has granted countries more time to correct general government deficits in breach of the 3% of GDP reference value stipulated in the Maastricht Treaty, if due to exceptional circumstances such as a severe recession or "other relevant factors". The amended Pact will allow consideration of development aid, public spending in the pursuit of European policy goals (*e.g.* research and development) and the cost of "European unification" in assessing the required speed at which excessive deficits need to be corrected. With external pressure to rein in fiscal imbalances thus somewhat softened, deficits are projected to remain or move above the 3% of GDP mark in about half of the euro area countries. As a result, the fiscal stance is expected to stay broadly neutral in both 2005 and 2006.

The recovery is poised to resume slowly

Against this backdrop, economic growth looks set to ease from 1¾ per cent in 2004 to 1¼ per cent in 2005, and to firm to 2% in 2006. Domestic demand is seen to be the engine of growth, with both private investment and consumption picking up. The unemployment rate is projected to remain at almost 9% in 2005 and to decline slightly to 8¾ per cent in 2006. With the output gap remaining negative and the impact of the hike in oil prices waning, inflation is projected to move below 2% during 2005 and be close to 1¼ per cent through 2006.

Downside risks cast a shadow

A combination of adverse shocks could dent the recovery further. Oil prices are currently very high, as is the uncertainty regarding their future development. Global current account imbalances may prompt renewed upward pressure on the euro exchange rate. A sharper than expected increase in long-term interest rates in the United States could spill over to the euro area and nip the investment recovery in the bud. A correction in housing markets may induce adverse wealth effects on consumption in those euro area countries where house prices have already reached very high levels. On the other hand, the oil price hike could unwind faster and accelerator mechanisms, underpinned by restored corporate profitability and balance sheets, could spur business investment to levels above those embodied in the projections.

Germany

Growth remains weak and heavily dependent on foreign demand, but both non-residential investment and – somewhat later – household consumption are projected to pick up in the course of 2005, leading to GDP growth of 1¾ per cent in 2006, sufficient to allow the output gap to begin to narrow. The general government deficit is projected to be 3½ per cent this year and to remain above 3% in 2006.

For economic performance to be raised in a durable way, reforms have to be continued and deepened within a coherent framework. Fiscal consolidation needs to be linked to more fundamental reform, requiring, inter alia, untangling responsibilities across different levels of government and continued reform of the social security system. Subsidies and tax expenditures should be reduced so as to create room for further cuts in statutory income tax rates.

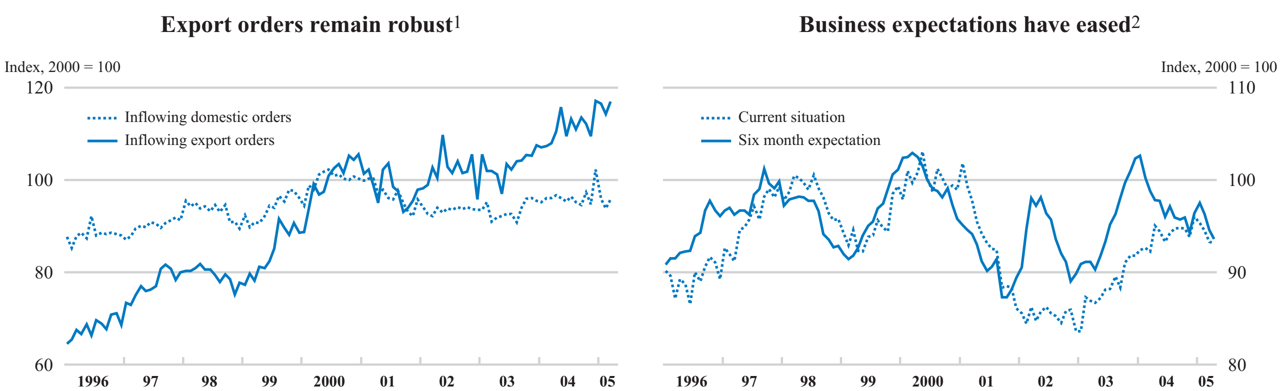
Strong exports pushed up activity in 2004…

The economy grew by 1.6% in 2004 (1% working-day adjusted), ending a couple of years of stagnation. The upswing was driven by exports, which expanded at double digit rates in the first half of the year. Strong external demand for investment goods, in particular in fast growing transition countries, were a major factor behind this development. However, activity stagnated again in the second half of 2004, as domestic demand remained subdued and exports decelerated in a context of slowing world trade and euro appreciation. Despite significant income tax reductions, private consumption contracted for the year as a whole, as the gain in household disposable income was blunted by weak labour market conditions, tighter social security benefits, and higher consumer prices. By contrast, growth of equipment investment began to pick up again, after three years of recession. Construction investment continued its long-term decline, abstracting from a temporary demand boost due to special factors.

… while growth remains moderate…

Strong net exports pushed up growth in the first quarter of 2005, while total domestic demand appears to have fallen. Forward looking indicators suggest that the economy will continue expanding, albeit at a growth trajectory that will be subdued well into 2005. Export expectations remained quite robust through the winter despite the slowing in world trade, and foreign orders even accelerated in the first quarter of this year. On the other hand, incoming domestic orders stagnated at the turn of the year, while business expectations declined over the first months of 2005, when production plans eased. Consumer confidence is still low.

Germany



1. Manufacturing, volume.
2. Manufacturing, construction, wholesale and retail trade.
Source: Deutsche Bundesbank; Ifo Institut für Wirtschaftsforschung.

Germany: **Employment, income and inflation**

Percentage changes from previous period

	2002	2003	2004	2005	2006
Employment	-0.6	-1.0	0.3	0.6	0.8
Unemployment rate [1]	8.2	9.1	9.3	9.6	9.1
Compensation of employees	0.8	0.2	0.1	0.5	1.3
Unit labour cost	0.6	0.4	-0.9	-0.7	-0.5
Household disposable income	0.7	1.2	1.2	1.8	1.8
GDP deflator	1.5	1.1	0.7	0.4	0.9
Harmonised index of consumer prices	1.3	1.0	1.8	1.2	0.8
Private consumption deflator	1.1	1.1	1.6	1.4	0.8

Note: The deflators are based on the national accounts conventions prior to the revisions of the German Statistics Office of 28th April 2005.

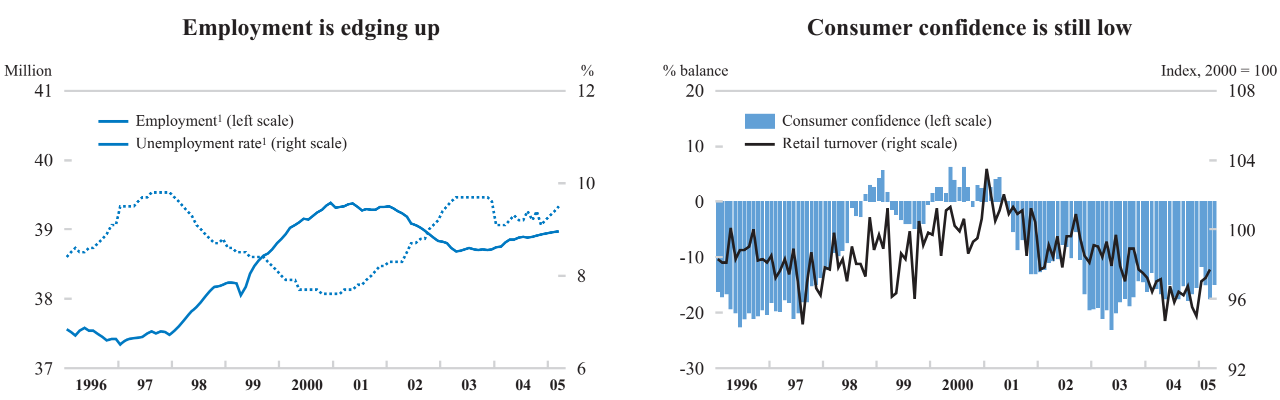
1. As a percentage of labour force.

Source: OECD Economic Outlook 77 database.

… and a turn-around on the labour market is not yet achieved

Employment has been rising since the beginning of 2004, accompanied by significant increases in labour force participation. The largest part of these gains are attributable to tax-favoured part-time jobs with few hours worked, subsidised self-employment schemes for formerly unemployed, and – more recently – work provision schemes for long-term unemployed. At the same time, shedding of regular employment continued. Unemployment also continued to rise, although a surge in the registered unemployment rate at the beginning of 2005 was entirely due to changed eligibility conditions for social assistance benefits requiring recipients who are able to work to register as unemployed. The social partners agreed to extend working hours without increasing pay in major industrial branches. Recent policy measures, notably stricter means testing and tighter work availability requirements that became effective in January 2005, should contribute to maintain pressure on wages.

Germany



1. Seasonally adjusted employment, domestic concept of the national accounts. Seasonally adjusted unemployment rate (ILO concept).

Source: Deutsche Bundesbank; Eurostat; OECD.

Germany: **Financial indicators**

	2002	2003	2004	2005	2006
Household saving ratio[1]	10.5	10.7	10.9	11.1	11.1
General government financial balance[2]	-3.6	-3.8	-3.6	-3.5	-3.2
Current account balance[2]	2.3	2.1	3.9	4.2	4.9
Short-term interest rate[3]	3.3	2.3	2.1	1.8	1.9
Long-term interest rate[4]	4.8	4.1	4.0	3.4	3.5

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

Source: OECD Economic Outlook 77 database.

Financial conditions are conducive to higher growth

Headline inflation (harmonised consumer price index) slowed by spring 2005 to below 1¾ per cent year-on-year despite the impact of higher energy and mineral oil prices, because at the same time the effects on inflation of increases in statutory co-payments for health care services are fading out. Inflation is likely to diminish further as the energy price hike in turn fades out, and unit labour costs decline. Overall, financial conditions are favourable for recovery. Inflation is low, profits have recovered, and an improved stock market performance is strengthening balance sheets, while real interest rates are significantly below average historical levels. This will be reinforced by the projected cut in policy rates.

Germany: **Demand and output**

	2001	2002	2003	2004	2005	2006
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption	1 238.2	-0.7	0.0	-0.8	0.4	1.2
Government consumption	394.2	1.9	0.1	0.4	-0.1	0.4
Gross fixed investment	421.3	-6.3	-2.2	-2.2	0.5	2.3
Public	36.8	-2.2	-10.2	-4.6	-0.5	0.4
Residential	132.5	-5.7	-2.6	-3.1	-2.8	-0.7
Non-residential	252.0	-7.2	-0.7	-1.4	2.2	3.9
Final domestic demand	2 053.7	-1.4	-0.4	-0.8	0.3	1.3
Stockbuilding [1]	- 19.6	-0.4	0.9	0.8	0.1	0.1
Total domestic demand	2 034.2	-1.9	0.5	0.0	0.4	1.4
Exports of goods and services	733.0	4.1	1.8	7.5	5.5	7.9
Imports of goods and services	691.2	-1.6	3.9	5.4	4.1	7.9
Net exports [1]	41.8	1.9	-0.6	1.0	0.8	0.5
GDP at market prices	2 076.0	0.1	-0.1	1.0	1.2	1.8
Memorandum items						
GDP without working day adjustments	2 074.0	0.1	-0.1	1.6	1.0	1.6
Investment in machinery and equipment	192.3	-7.2	-1.0	0.0	3.9	5.4
Construction investment	229.1	-5.6	-3.1	-4.1	-2.5	-0.7

Note: All entries are based on the national accounts conventions prior to the revsions of the German Statistics Office of 28th April 2005.

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

Source: OECD Economic Outlook 77 database.

Germany: **External indicators**

	2002	2003	2004	2005	2006
			$ billion		
Goods and services exports	723.0	872.4	1 029.5	1 136	1 220
Goods and services imports	632.4	767.3	890.4	985	1 053
Foreign balance	90.6	105.1	139.2	150	167
Invisibles, net	- 44.3	- 53.8	- 34.2	- 30	- 26
Current account balance	46.2	51.3	105.0	121	141
			Percentage changes		
Goods and services export volumes	4.1	1.8	7.5	5.5	7.9
Goods and services import volumes	- 1.6	3.9	5.4	4.1	7.9
Export performance[1]	1.0	- 2.5	- 1.2	- 1.9	- 1.3
Terms of trade	1.9	1.6	- 0.2	- 1.6	0.5

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 77 database.

The general government deficit remained close to 4% of GDP…

The general government deficit came in at 3.6% of GDP in 2004, exceeding the deficit limit of the Stability and Growth Pact for the third year in a row. While consolidation measures on the spending side of the budget became effective and indirect taxes were increased, major income tax reductions reduced government revenues. Higher than expected unemployment-related outlays and unforeseen revenue shortfalls also weighed on the budget. Consolidation measures scheduled for 2005 and 2006 comprise reductions in subsidies, tax expenditures and government employment and a tightening of social transfers. Moreover, revenues stemming from subsidy repayments by state banks, and spending reductions associated with the capitalisation of claims by the Pension Funds for workers of the former Post Office significantly reduce the general government deficit this year and next. Both of these items are one-off, however. Overall, the general government deficit is projected to total 3½ per cent of GDP in 2005, with the structural deficit declining by ¼ per cent on account of one-off measures. The deficit is projected to drop further to 3¼ per cent of GDP in 2006, helped by stronger economic growth and a further slight improvement of structural balances, with most of the one-off measures still being in force in 2006.

Economic activity will strengthen as it broadens

Foreign demand should remain the main force driving the recovery this year and will also be a significant factor in 2006. Though falling short of the high rates seen in the first half of 2004, exports may gain momentum as world trade accelerates later in the year. Private consumption is expected to strengthen only gradually as employment recovers. Income tax reductions will provide some stimulus to spending in 2005. Rising profits and increasing capacity utilisation should underpin a strengthening of equipment investment. Construction investment, however, is expected to remain a drag on growth. All in all, GDP is likely to grow by 1¼ per cent in 2005 (1% without working day adjustment), and as the upswing broadens, by 1¾ per cent in 2006, significantly above potential.

Risks to these projections are significant

With the resilience of domestic demand to negative shocks still low, the adverse impact of weaker world trade, a stronger euro or higher oil prices than assumed in these projections could be substantial.

France

Economic growth is likely to be uneven during the first half of 2005. A recovery is set to establish itself later in the year with growth averaging 2-2½ per cent through to the end of 2006. Domestic demand will be less strong in 2005 than in 2004 but export growth should respond to increasing foreign demand, picking up quite strongly later this year. Employment growth will be modest, permitting only a small fall in unemployment. Underlying inflation may increase slightly, though headline inflation is set to decline. While the budget deficit may ease, it is likely to stay stuck at 3% of GDP.

Quarterly data for GDP growth has been particularly volatile since mid-2004; the slowdown in the first quarter of 2005 was partly due to lower public spending. On the other hand, the recent announcement of a supplementary increase in public sector wages, relatively small in itself, is symptomatic of a need for continuing efforts to control public spending if the deficit is to be reduced by more than foreseen in these projections.

Demand and output were erratic since mid-2004

GDP growth fell sharply in the third quarter of 2004, but bounced back in the fourth quarter. The first quarter of 2005, according to first estimates, was characterised by a fall in public expenditure; while this fall was offset by relatively strong private demand, private consumption was weakening during the quarter and is expected to contribute to continuing weakness in the second quarter.

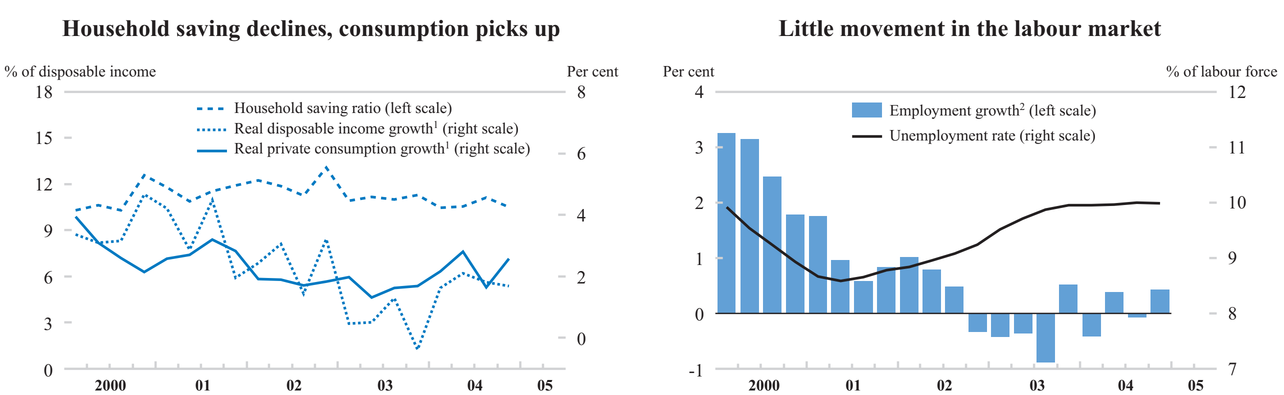
Employment growth remained elusive…

Unemployment was steady at 10% for most of 2004, but then rose to reach 10.2% in March 2005. An expected increase in employment has failed to occur, as employers evidently feel that prospects have not justified taking on significant numbers of extra workers. Indeed, despite reported rapid profit growth in a number of large companies in 2004, national accounts data suggest that overall it has not been spectacular, although the share of profits in national income probably continued its increase. There has been some, albeit hesitant, growth in investment expenditure.

… and inflation subdued

Though oil prices continued to rise, consumer price inflation has showed little reaction although the headline rate reached 1.9% in March, while the underlying rate was only 1.2%. Falling prices for a number of manufactured products offset energy

France



1. Year-on-year.
2. From previous at annual rates.
Source: National Institute for Statistics and Economic Studies (INSEE).

France: **Employment, income and inflation**

Percentage changes from previous period

	2002	2003	2004	2005	2006
Employment	0.7	-0.2	-0.1	0.3	0.7
Unemployment rate [1]	9.0	9.8	10.0	10.0	9.6
Compensation of employees	3.6	2.4	2.8	2.7	3.7
Unit labour cost	2.4	1.9	0.5	1.3	1.6
Household disposable income	4.3	2.3	3.2	3.0	3.5
GDP deflator	2.4	1.5	1.8	1.5	1.7
Harmonised index of consumer prices	1.9	2.2	2.3	1.6	1.7
Private consumption deflator	1.7	1.8	1.4	1.6	1.7

1. As a percentage of labour force.

Source: OECD Economic Outlook 77 database.

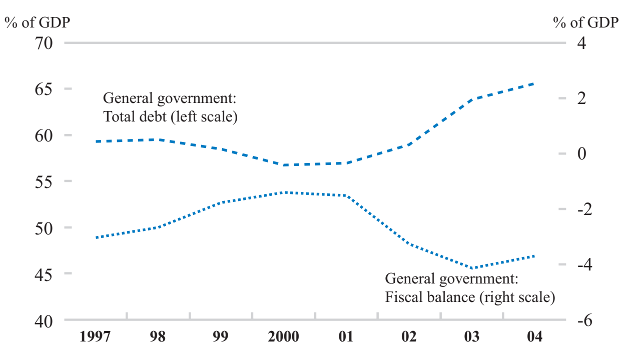
price increases. Comprehensive data on earnings are available only after a considerable delay, but private-sector wage growth appears to have hit a "floor" at around 2½ per cent despite continued high unemployment.

The upswing looks uneven…

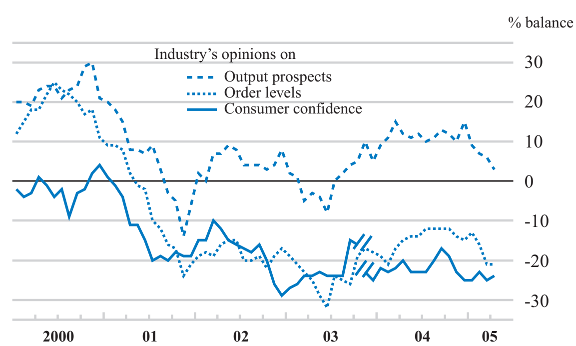
Industrial production fell in February and March 2005, accompanied by a significant weakening of business confidence; consumer confidence also moved down during the first quarter and demand is likely to remain weak in the second: the household saving rate fell considerably in the first quarter as consumers took advantage of one-off relaxations on withdrawals from tax-favoured saving schemes. While the government is considering repeating this experiment, it cannot be maintained for long. Although consumer demand may pause, investment is likely to begin to accelerate slightly, and exporters will be able to take advantage of increasing growth in demand abroad. The latter will come particularly from oil exporting countries as they spend the considerable sums accumulated from higher oil prices, which is estimated to contribute twice as much to export market growth for France as for Germany.

France

Public finances are in poor shape



Confidence may be weakening



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

France: **Financial indicators**

	2002	2003	2004	2005	2006
Household saving ratio[1]	12.1	11.1	10.7	9.6	9.1
General government financial balance[2]	-3.3	-4.1	-3.7	-3.0	-3.0
Current account balance[2]	0.9	0.4	-0.3	-1.0	-0.6
Short-term interest rate[3]	3.3	2.3	2.1	1.8	1.9
Long-term interest rate[4]	4.9	4.1	4.1	3.5	3.6

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

Source: OECD Economic Outlook 77 database.

… but GDP will grow somewhat faster than potential into 2006

The pick-up in demand will not be sufficient to close the output gap, in part because of a tendency to leak into imports. The output gap, which OECD estimates to be around 1¼ per cent at the end of 2004, will not diminish much before the end of 2006.

Employment growth should resume

Predictions of renewed employment growth have been confounded a number of times in this recovery, and unemployment remains stubbornly high. A major reduction in unemployment will require labour market reforms, not just a modest recovery, but an improving conjuncture will nevertheless bring about some employment growth towards the end of 2005 and into next year. The unemployment rate is likely to fall somewhat but remain above 9% through 2006.

Unit labour cost growth will increase

With unemployment likely to remain above the level where historical experience suggests labour market pressure would emerge, significant wage pressure is unlikely to emerge. The downward trend in unemployment, along with the precedent

France: **Demand and output**

	2001	2002	2003	2004	2005	2006
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption	807.2	1.8	1.7	2.4	1.9	1.9
Government consumption	342.8	4.6	2.6	2.6	1.4	2.0
Gross fixed investment	297.2	-1.8	0.3	3.3	3.3	2.9
Public	46.4	1.8	6.8	4.3	2.0	1.1
Residential	70.6	0.7	0.8	3.1	3.3	3.1
Non-residential	180.3	-3.7	-1.5	3.2	3.7	3.3
Final domestic demand	1 447.2	1.7	1.6	2.6	2.1	2.1
Stockbuilding[1]	4.5	-0.2	-0.2	0.8	0.1	-0.1
Total domestic demand	1 451.7	1.5	1.4	3.4	2.2	2.0
Exports of goods and services	413.2	1.7	-2.5	3.1	3.3	7.3
Imports of goods and services	389.2	3.3	0.2	6.9	5.8	7.0
Net exports[1]	24.1	-0.4	-0.8	-1.0	-0.7	0.0
GDP at market prices	1 475.8	1.1	0.5	2.3	1.4	2.0

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

Source: OECD Economic Outlook 77 database.

France: **External indicators**

	2002	2003	2004	2005	2006
			$ billion		
Goods and services exports	390.6	455.9	522.3	568	607
Goods and services imports	363.3	435.3	511.0	576	608
Foreign balance	27.3	20.6	11.3	- 8	- 1
Invisibles, net	- 14.0	- 12.8	- 17.3	- 14	- 12
Current account balance	13.3	7.8	- 6.1	- 22	- 12
			Percentage changes		
Goods and services export volumes	1.7	- 2.5	3.1	3.3	7.3
Goods and services import volumes	3.3	0.2	6.9	5.8	7.0
Export performance[1]	- 0.5	- 6.3	- 4.3	- 3.7	- 1.9
Terms of trade	2.8	0.2	1.2	- 1.2	1.1

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 77 database.

set in the public sector, where earnings growth is likely to equal or exceed that in the private sector in 2005-06, may nevertheless result in some acceleration in wages. Together with some slowdown in productivity growth, this will lead to an acceleration in overall unit labour costs, reaching about 1½ per cent in 2006. This will still allow further profit growth without much increase in inflation, although the underlying rate of growth of consumer prices may rise a little.

The budget deficit remains a problem

Government revenues will benefit from increasing profits and rising private-sector wages as well as, to some extent, from employment. An unexpected fall in public expenditure in the first quarter of 2005 may be overestimated, but there has been some slowdown in health expenditure. However, recent supplements to planned public sector wage increases, as well as insufficient productivity increases in the public sector at a time when large numbers of civil servants have been retiring, and, especially, the weakness of activity in the spring of 2005 make it likely that the overall budget deficit will remain around 3% of GDP. There should nevertheless be a slow improvement in the underlying fiscal position, though most of the apparent deficit reduction this year will be due to a one-off payment to compensate the state for taking on some pension liabilities from Électricité de France (EDF), amounting to some 0.5% of GDP, which will not in fact improve the long-run fiscal position. Eurostat national accounts procedures are for this “soulte” to be treated as fully paid in 2005, even though less than half the funds will actually be transferred this year, the rest being received over a number of years in the form of a special tax.

The recovery remains fragile

Activity is set to accelerate slightly later this year, and growth will average about 2¼ per cent in 2005-06. Confidence among both consumers and producers remains fragile, although measures to encourage consumption in the short run appear to have had some temporary effect. The recovery also depends on increasing export demand and on French firms remaining sufficiently competitive to take advantage of it.

Italy

After recovering throughout most of 2004, the economy fell into recession early in 2005. High unit labour cost growth, coupled with euro appreciation and strengthening global competition in Italy's areas of specialisation, have entailed large losses of market shares. Domestic demand, once sustained by strong employment growth and low real interest rates, has been slowing. Activity is projected to strengthen towards end-2005, reflecting a renewed upturn in world trade, improving labour productivity, and tax cuts.

Structural reforms are needed to address the underlying causes of poor competitiveness. Wage bargaining should be adapted to better reflect productivity developments. Sheltered sectors should be made subject to more effective competition to reduce downstream costs and inflation pressures. Debt reduction should be quickened to make room for lower taxes and higher human and physical capital investments.

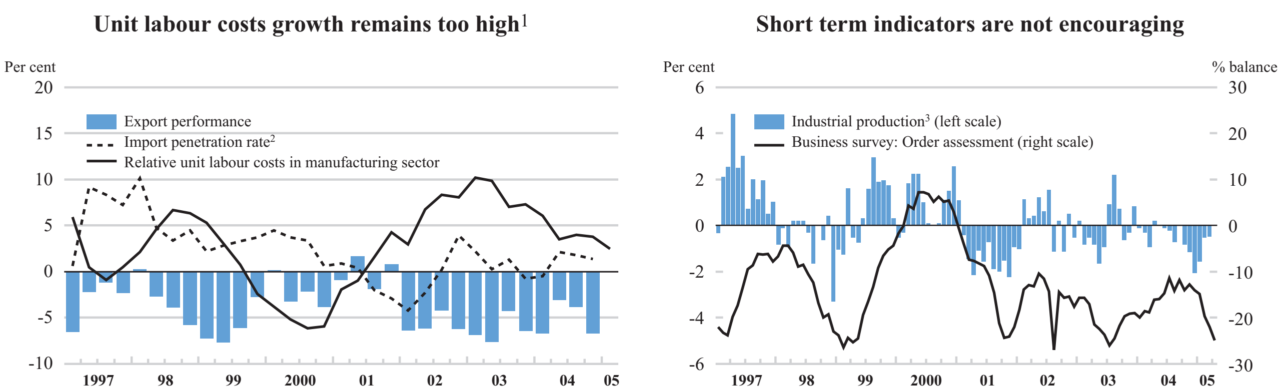
The recovery has stalled

The Italian economy followed its main partners in a mild recovery since the second half of 2003, with growth reaching a mere 1% (working-day-adjusted) in 2004. However, the economy is now in recession with negative growth in both the fourth quarter of 2004 and first quarter of 2005, mainly reflecting weak export demand and an associated decline in business investment. Previously strong housing investment also weakened. Manufacturing business surveys have sent ominous signals in the first months of 2005, with sharp drops in order books and business confidence, and falls in industrial production. Short-term indicators related to business services point to a continuous decline since mid-2004. It is likely that Italy is embarked on an "inventory-cycle" correction over the first two quarters of 2005.

Unit labour costs continue to rise faster than abroad…

Over the past four years, competitiveness has deteriorated by more than 25% measured in terms of relative unit labour costs, against losses of less than 10% sustained by France and Germany, indicating that the stronger euro is only part of the story. The key problem in Italy is productivity growth, which has been at best flat since 2001. Wages have barely risen in real terms, but full cost-of-living adjustments have led to losses in internationally exposed sectors. Employment growth has nonetheless been strong, thanks to labour contract liberalisations, which increased employer flexibility, as well as fiscal incentives, which improved profitability. How-

Italy



1. Year-on-year percentage changes.
2. Defined as imports of goods and services relative to imports plus gross domestic product, in real terms.
3. Quarter-on-quarter percentage changes.
Source: OECD Economic Outlook 77 database.

Italy: Employment, income and inflation

Percentage changes from previous period

	2002	2003	2004	2005	2006
Employment	1.5	1.0	1.5	0.0	0.4
Unemployment rate [1]	9.1	8.8	8.1	8.4	8.4
Compensation of employees	4.4	4.3	3.6	3.2	2.6
Unit labour cost	3.9	3.9	2.6	3.9	1.4
Household disposable income	4.0	4.1	3.5	3.1	3.5
GDP deflator	3.1	2.9	2.6	1.7	1.7
Harmonised index of consumer prices	2.6	2.8	2.3	2.0	2.0
Private consumption deflator	3.1	2.5	2.2	1.8	1.8

1. As a percentage of labour force.

Source: OECD Economic Outlook 77 database.

ever, after mid-2004, the impacts of reforms on employment were starting to fade, while fiscal tightening required a suspension of employment subsidies.

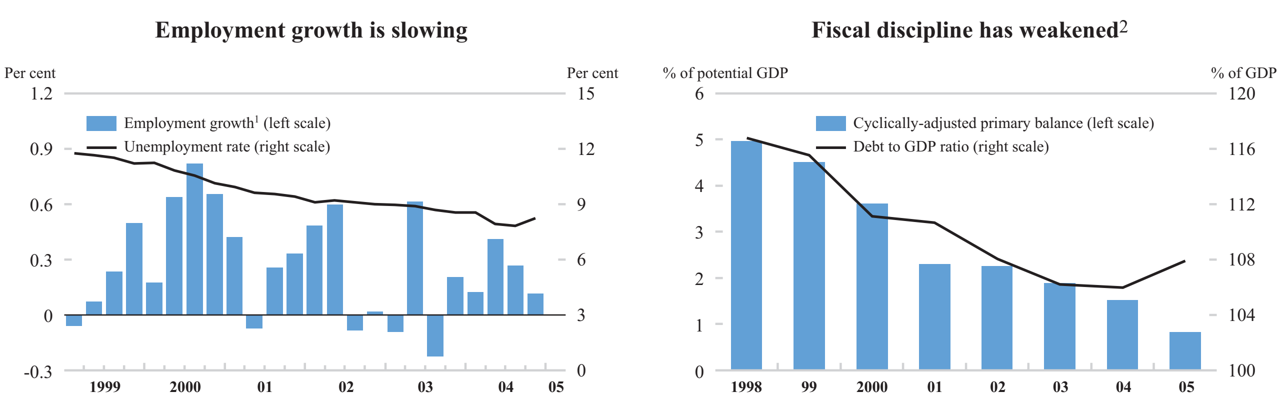
… though inflation has moderated

Inflation moderated throughout 2004, falling to under 2% in the fourth quarter where it has remained in the first months of 2005. This reflected a widening output gap and food price declines, as well as administrative measures starting in October to limit retail price rises. The pass-through of higher oil prices typically takes longer in Italy than elsewhere in the euro area, so that stronger inflationary pressures could be in the pipeline. Indeed, producer price inflation jumped to a 6% annual rate in late 2004, and sheltered sectors have maintained high profit growth. Nevertheless, given weak demand, inflation is likely to remain under 2%.

The policy stance tightened in latter half of 2004

The policy stance tightened in the latter half of 2004. The effective exchange rate appreciated by some 4% while real interest rates started to rise as inflation abated, entailing less easy monetary conditions. Fiscal policy tightened with the implementation of a ½ per cent of GDP mid-year supplementary budget designed to

Italy



1. National accounts basis, quarter-on-quarter percentages changes.
2. Data for 2005 are OECD projections.

Source: Istituto di Studi e Analisi Economica, OECD Economic Outlook 77 database and *Main Economic Indicators*.

Italy: **Financial indicators**

	2002	2003	2004	2005	2006
Household saving ratio[1]	10.5	10.7	11.0	11.5	11.4
General government financial balance[2,3,4]	-2.7	-3.0	-3.1	-4.4	-5.0
Current account balance[2]	-0.8	-1.3	-0.8	-2.2	-2.3
Short-term interest rate[5]	3.3	2.3	2.1	1.8	1.9
Long-term interest rate[6]	5.0	4.3	4.3	3.6	3.7

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. Excludes the impact of swaps and forward rate transactions on interest payments. These operations are however included in the financial balance reported to the European Commission for purposes of the excessive deficit procedure.
4. The deficit of ANAS, the state road agency (around 0.2 per cent of GDP) is included in the projections, pending a decision by the statistical agencies.
5. 3-month interbank rate.
6. 10-year government bonds.

Source: OECD Economic Outlook 77 database.

offset deficit slippage during the first half of the year. The full year deficit came in at 3.1% of GDP. This included the effects of a reclassification of capital injections into the state railroads agreed with Eurostat, from a financing to a capital transfer item, which added 0.3% to the annual deficits since 2001. Thus, on the basis of unchanged accounting, the 2004 deficit was 2.8% of GDP, below the original target of 2.9%.

Expansionary fiscal policy in 2005 and 2006

The 2005 budget calls for savings measures to the tune of 2% of GDP in order to reach a target deficit of 2.7% of GDP while allowing (mainly personal income) tax cuts of ½ per cent of GDP. The main projected savings arise from caps on spending

Italy: **Demand and output**

	2001	2002	2003	2004	2005	2006
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption[1]	731.6	0.4	1.4	1.0	0.7	1.7
Government consumption	229.5	1.9	2.3	0.6	0.2	0.2
Gross fixed investment	240.5	1.3	-1.8	1.9	-1.6	2.0
Machinery and equipment	140.2	-0.1	-4.4	1.1	-3.1	2.1
Construction	100.3	3.3	1.7	3.0	0.4	1.8
Residential	53.9	4.5	2.8	2.9	0.3	1.9
Non-residential	46.4	1.9	0.3	3.1	0.4	1.8
Final domestic demand	1 201.6	0.9	0.9	1.1	0.1	1.5
Stockbuilding[2]	- 0.7	0.4	0.4	-0.3	0.0	0.0
Total domestic demand	1 200.8	1.3	1.3	0.8	0.2	1.5
Exports of goods and services	345.9	-3.2	-1.9	3.2	0.0	5.8
Imports of goods and services	328.4	-0.5	1.3	2.5	2.8	6.8
Net exports[2]	17.5	-0.8	-0.9	0.2	-0.8	-0.3
GDP at market prices	1 218.3	0.4	0.4	1.0	-0.6	1.1

Note: Economic activity in 2004 and 2005 is subject to unusually large changes in the number of working days. The OECD projections are adjusted for this effect, whereas the official government projections are not. Other things equal, the adjusted projections are lower for 2004 and higher for 2005 than the unadjusted projections

1. Final consumption in the domestic market by households.
2. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

Source: OECD Economic Outlook 77 database.

Italy: **External indicators**

	2002	2003	2004	2005	2006
			$ billion		
Goods and services exports	321.8	380.2	447.5	477	508
Goods and services imports	309.7	371.4	434.0	486	523
Foreign balance	12.1	8.8	13.5	- 10	- 15
Invisibles, net	- 22.0	- 28.0	- 26.6	- 29	- 27
Current account balance	- 9.9	- 19.1	- 13.1	- 39	- 42
			Percentage changes		
Goods and services export volumes	- 3.2	- 1.9	3.2	0.0	5.8
Goods and services import volumes	- 0.5	1.3	2.5	2.8	6.8
Export performance[1]	- 5.8	- 6.3	- 5.3	- 7.4	- 3.6
Terms of trade	1.5	1.7	0.1	- 2.3	0.1

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 77 database.

growth, tough actions against tax evasion, securitisations of real estate and road tolls, a real estate amnesty, and excise tax increases. Most of these will continue into 2006. The OECD projections suggest a 2005 deficit of 4.4%, the difference from the government's target reflecting: *i)* 2½ per cent slower GDP growth than assumed in the budget;* and *ii)* unfavourable accounting treatment, compared with those assumed in the budget, for both capital injections to the state railroads and the operations of the state road agency (assumed by the OECD to remain in the general government rather than moving outside it). In the absence of new initiatives, the deficit is set to rise further in 2006, reflecting the complete phasing-out of one-off measures. The public sector debt ratio is projected to rise in both 2005 and 2006

Growth should pick up only in late 2005.

After a downturn during the first half of 2005, growth is likely to slowly recover and rise to around the potential rate of growth by early 2006 and continue at this pace throughout the year. Private consumption growth should pick up in response to tax cuts and labour income gains, though the response will be muted insofar as part of the tax cuts will be saved, and employment will decelerate as the impacts of previous years' labour market reforms fade. The counterpart of slower employment growth will be recovering productivity, allowing a slowing of the losses of both competitiveness and export market shares. Along with projected stronger growth abroad, this should spur exports and business investment. After a contraction of around ½ per cent in 2005, growth should be just over 1% in 2006.

The main risks appear to be on the downside

The fiscal situation poses particular risks in view of lower than expected growth. Households could save more of the tax cuts than predicted because of slowing employment and concern about the deterioration of the budget and still-high public debt levels. The latter would also weigh on business and market confidence, while general elections scheduled for 2006 could hinder the needed fiscal tightening. The performance of the external sector could also fail to improve as expected, especially if the euro were to appreciate further.

* Following the releases of recent national accounts data, the Minister of the Economy and Finance has indicated that upward revisions of the official deficit target are highly likely.

United Kingdom

Despite a marked slowdown in household spending due to the cooling housing market, output growth has remained close to trend rates since mid-2004 and into the first quarter of 2005. Nevertheless, inflationary pressures are emerging, suggesting that the economy is operating close to, or slightly above, capacity. Going forward, growth is likely to moderate further as export demand from Europe weakens in the near term and as the saving ratio continues to rise.

Despite the recent pick-up in inflation, weakening growth prospects suggest that monetary tightening will not be required to maintain inflation close to the target. The government deficit was 3% of GDP in the fiscal year ending in the first quarter of 2005 but, in the absence of a spontaneous rise in taxes, a slowdown in spending will be required to achieve a further decisive reduction.

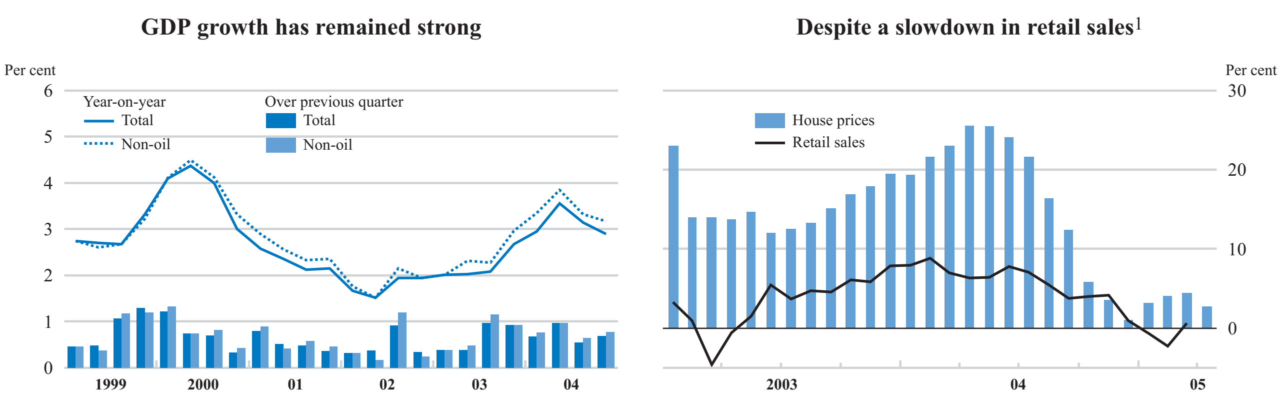
Activity remains buoyant despite a slowdown in consumption

GDP grew by over 3% in 2004 underpinned by fixed investment and government consumption, which were up by 5½ and 4¾ per cent, respectively. On the other hand, the contribution from consumers' expenditure is diminishing, with growth of just over 1% at an annualised rate in the fourth quarter of 2004, the lowest growth rate since early 2003 when consumer confidence was affected by concerns about Iraq. The major factor behind the current slowdown is the cooling of the housing market as reflected in a levelling off of house prices since last July, falling housing turnover and a sharp decline in the number of mortgage approvals. With growth stronger than in the main European trading partners, net exports have remained a drag on growth in 2004. The preliminary estimate of GDP growth in the first quarter of 2005 was 0.6% despite continued weakness in retail sales volumes.

Inflation has picked up

OECD measures of the output gap, as well as those based on surveys, suggest the economy is already operating at, or slightly above, capacity. There has been a steady rise in the employment rate which is back at levels not experienced since the early 1990s, with job creation in the public sector as important as in the private sector over the past 4 years. With the unemployment rate remaining close to 4¾ per cent, its lowest level since the 1970s and ½ per cent below the OECD estimate of the structural rate, the rate of increase in private sector average earnings (excluding bonus payments) has also risen over the past year to about 4½ per cent. There has also been a pick-up in the inflation rate, as measured by the Consumer Price Index

United Kingdom



1. Three month moving average, growth over previous three months at annual rate.
Source: National Statistics, Halifax and Bank of Scotland (HBOS) PLC and Nationwide.

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

Percentage changes from previous period

	2002	2003	2004	2005	2006
Employment	0.8	0.9	0.9	0.4	0.2
Unemployment rate [1]	5.2	5.0	4.7	4.9	5.2
Compensation of employees	4.4	4.5	5.1	5.4	4.7
Unit labour cost	2.6	2.3	1.9	2.9	2.3
Household disposable income	3.0	4.6	3.8	3.5	4.4
GDP deflator	3.2	3.2	2.2	2.0	2.2
Harmonised index of consumer prices [2]	1.3	1.4	1.3	2.0	2.1
Private consumption deflator	1.6	1.9	1.3	1.7	2.1

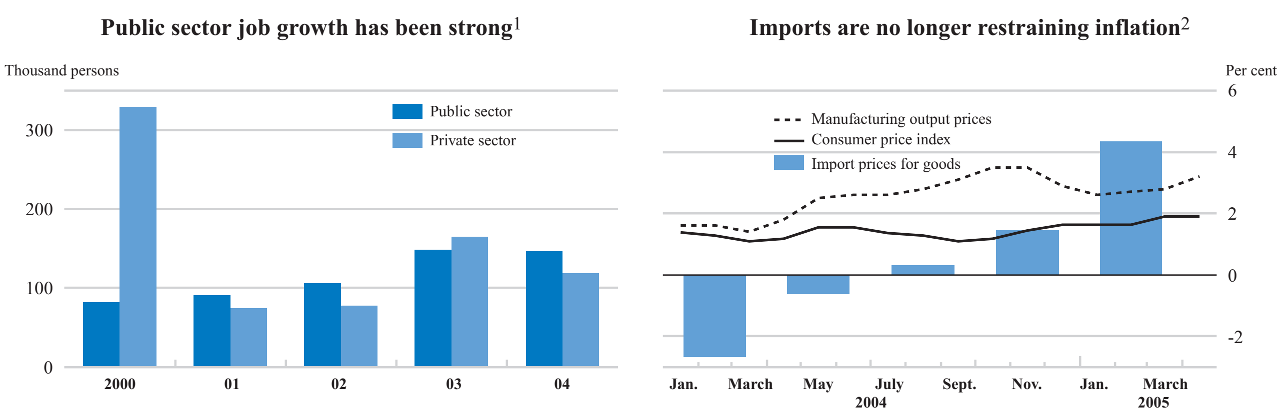
1. As a percentage of labour force.
2. The HICP is known as the Consumer Price Index in the United Kingdom.
Source: OECD Economic Outlook 77 database.

(CPI), from 1.1% in September to 1.9% in April; this rise was broadly based rather than being affected by a few exceptional factors. Apart from capacity constraints, imports are now playing less of a restraining influence than they did throughout much of 2004, reflecting both the depreciation of sterling since early 2004 as well as rising competitors' export prices.

On present policies the budget deficit is unlikely to narrow further

The general government deficit, on a Maastricht basis fell to 3% in the financial year ending in the first quarter of 2005 due to increased buoyancy in tax revenues. There was little change in the overall fiscal stance as a consequence of the 2005 budget with new policy initiatives (including council tax rebates for pensioners, an increase in the childcare element of the working family tax credit, and a lowering of the stamp duty) largely covered by further measures to reduce tax avoidance and bring forward the payment of corporate taxes by oil companies. Corporate taxes are likely to rise as a share of GDP because of the effects of the higher oil price on oil

United Kingdom



1. Data show the annual change and cover the period May-July up to 2003, February-April thereafter.
2. Percentage change year-on-year.
Source: National Statistics.

United Kingdom: **Financial indicators**

	2002	2003	2004	2005	2006
Household saving ratio[1]	5.3	5.8	5.6	6.3	6.6
General government financial balance[2]	-1.8	-3.4	-3.4	-2.9	-3.0
Current account balance[2]	-1.7	-1.7	-2.2	-2.3	-2.4
Short-term interest rate[3]	4.0	3.7	4.6	4.8	4.8
Long-term interest rate[4]	4.9	4.5	4.9	4.6	4.8

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

Source: OECD Economic Outlook 77 database.

company profits, as well as lagged effects from improvements in corporate profitability, which together may raise corporate tax revenues by ½ per cent of GDP between 2004 and 2006. Fiscal drag will push up income tax revenues by about 0.1 percentage point of GDP per annum. However, in the absence of an increase in tax rates, these additional revenues will be barely sufficient to cover the planned increase in nominal public expenditure of about 13% between 2004 and 2006 (equivalent to 0.8% of GDP on the budget projections). Thus, even after allowing for some under-spending on investment (in line with past experience), the deficit is likely to remain close to 3% of GDP.

The slowdown in the housing market should raise the saving ratio

The strong link between the housing market and consumer spending suggests that, even without any marked fall in the level of house prices, consumption growth is likely to remain modest. This should lead to a further rise in the saving ratio by ¾ of a percentage point by 2006, following a rise of just under ½ a percentage point

United Kingdom: **Demand and output**

	2001	2002	2003	2004	2005	2006
	Current prices billion £	Percentage changes, volume (2001 prices)				
Private consumption	659.9	3.3	2.3	3.3	1.7	1.9
Government consumption	189.7	3.8	3.2	4.7	2.9	2.8
Gross fixed investment	165.5	2.7	2.3	5.6	4.0	4.4
Public[1]	14.0	4.9	21.7	8.8	9.5	14.7
Residential	123.6	7.6	4.8	4.7	3.8	2.5
Non-residential	27.9	0.6	-1.2	5.5	3.2	3.3
Final domestic demand	1 015.2	3.3	2.5	3.9	2.3	2.5
Stockbuilding[2]	6.6	-0.4	0.0	-0.2	0.3	0.0
Total domestic demand	1 021.7	2.9	2.4	3.8	2.6	2.4
Exports of goods and services	272.4	0.1	0.9	3.0	2.9	7.7
Imports of goods and services	299.8	4.1	1.9	5.2	3.5	6.9
Net exports[2]	- 27.4	-1.2	-0.4	-0.8	-0.3	-0.1
GDP at market prices	994.3	1.8	2.2	3.1	2.4	2.4

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

Source: OECD Economic Outlook 77 database.

United Kingdom: **External indicators**

	2002	2003	2004	2005	2006
			$ billion		
Goods and services exports	411.2	457.1	525.2	570	616
Goods and services imports	458.1	509.7	596.4	647	699
Foreign balance	- 46.9	- 52.6	- 71.2	- 77	- 84
Invisibles, net	20.6	21.8	24.2	26	27
Current account balance	- 26.3	- 30.8	- 47.0	- 52	- 56
			Percentage changes		
Goods and services export volumes	0.1	0.9	3.0	2.9	7.7
Goods and services import volumes	4.1	1.9	5.2	3.5	6.9
Export performance[1]	- 2.4	- 2.8	- 4.8	- 4.3	- 1.2
Terms of trade	2.7	0.9	0.3	0.5	- 0.7

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 77 database.

between the first and second halves of 2004. The build-up of stocks at the end of 2004, mainly in retailing, suggests that the slowdown in consumption was not anticipated by retailers and hence implies some negative correction over the first half of 2005. On the other hand, other components of aggregate spending are likely to remain robust or could even strengthen: the government's fiscal plans imply continued strong growth in government consumption; and capacity constraints and high levels of corporate profitability suggest further buoyant business investment. A sustained pick-up in export volumes, which have been particularly erratic and have lost market share over recent years, is likely to be delayed into 2006 by near term weakness in European export markets.

No further tightening of monetary policy is needed

The Bank of England last increased the repo rate in August 2004, although at recent meetings some of its members have argued for a further immediate increase. If, as seems most likely, growth through the remainder of 2005 averages slightly below potential rates, estimated at 2½ per cent, then no additional monetary tightening would be necessary. Nevertheless, cost pressures, particularly from rising import prices, are still likely to push the consumer price inflation rate slightly above the 2% target in the near term, although the rate seems likely to return to the target towards the end of the year.

Short-term risks are on the downside

Despite recent surprises on the upside for inflation, downside risks to demand predominate in the short-term outlook, particularly in relation to export demand from Europe. The possibility of a much sharper retrenchment in consumption, brought about by a pronounced drop in house prices, remains a risk, although one that is diminishing as the likelihood of a soft landing in the housing market has increased.

Canada

The marked appreciation of the Canadian dollar has continued to restrain activity. The economy may now be operating slightly below potential, although most economic fundamentals have remained sound. Activity is expected to accelerate somewhat in the second half of 2005, once the effects of currency movements have been worked through, before slowing next year. The recent surge in oil prices is boosting headline inflation temporarily this year.

Uncertainties about the impact of the currency appreciation on activity have warranted a pause in monetary policy tightening, but further increases in interest rates will be needed from the second half of 2005 onwards. Regardless of how the current political uncertainties are resolved, fiscal policy needs to remain prudent, with the surplus allocated to paying down public debt while demographics remain favourable.

Currency appreciation has been a drag on activity…

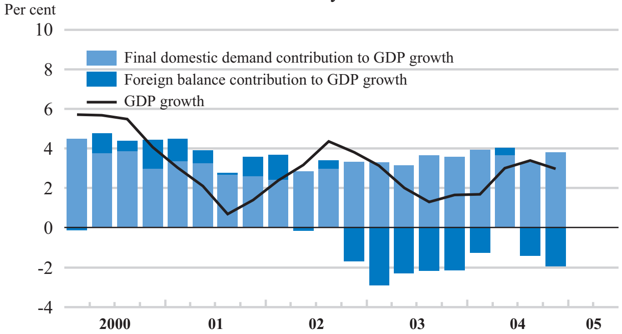
The rapid appreciation of the Canadian dollar weighed significantly on economic activity again in the final two quarters of 2004 as it had done during most of the previous two years, with exports shrinking and rapid growth in import volumes. Despite further sharp improvements in the terms of trade reflecting the recent commodity price rise, the current account surplus has been significantly reduced. By contrast, domestic demand has been extremely resilient, and most fundamentals have remained firm. Business investment has accelerated, spurred by lower imported machinery and equipment prices, above-average capacity utilisation, high corporate profits and robust business confidence. With the exception of manufacturing and some other tradable goods sectors, employment growth has remained buoyant and much stronger than in other major OECD countries. Strong gains in employment and disposable income, together with moderate inflation, have encouraged private consumption growth. Indeed, supported by steady increases in wealth, the household savings ratio – as measured by the national accounts – has plummeted in recent years and is now close to zero. However, after five years of rapid growth, housing investment is showing some signs of slowing down. Finally, a massive build-up of inventories in the wholesale and manufacturing sectors is likely to be partially unwound in the near future.

… and inflationary pressures are limited

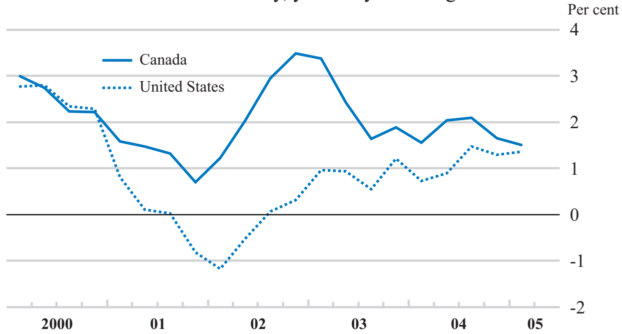
Headline inflation moved back up into the monetary policy target range in the second half of 2004, and the surge in oil prices has had only a limited impact so far, although it is likely to have a marked, but temporary, effect during the coming

Canada

Net exports have been a drag on activity
Year-on-year



Employment growth has been strong
Total economy, year-on-year change



Source: Statistics Canada; OECD.

Canada: **Employment, income and inflation**

Percentage changes from previous period

	2002	2003	2004	2005	2006
Employment	2.4	2.3	1.8	1.2	1.5
Unemployment rate[1]	7.7	7.6	7.2	6.9	6.8
Compensation of employees	4.0	3.5	4.1	4.7	5.0
Unit labour cost	0.5	1.5	1.3	1.8	1.8
Household disposable income	3.8	3.0	3.9	5.1	5.6
GDP deflator	1.0	3.2	3.3	2.6	2.4
Consumer price index	2.2	2.8	1.8	1.9	1.9
Private consumption deflator	2.1	1.6	1.4	1.7	1.5

1. As a percentage of labour force.

Source: OECD Economic Outlook 77 database.

months. Wages have been rising markedly in the end of 2004, but productivity performance has been poor, thereby resulting in rising unit labour costs. However, the recent high rates of business investment should help ease capacity constraints and favour a recovery in labour productivity growth, so that, overall, there are few signs as yet of emerging inflationary pressures.

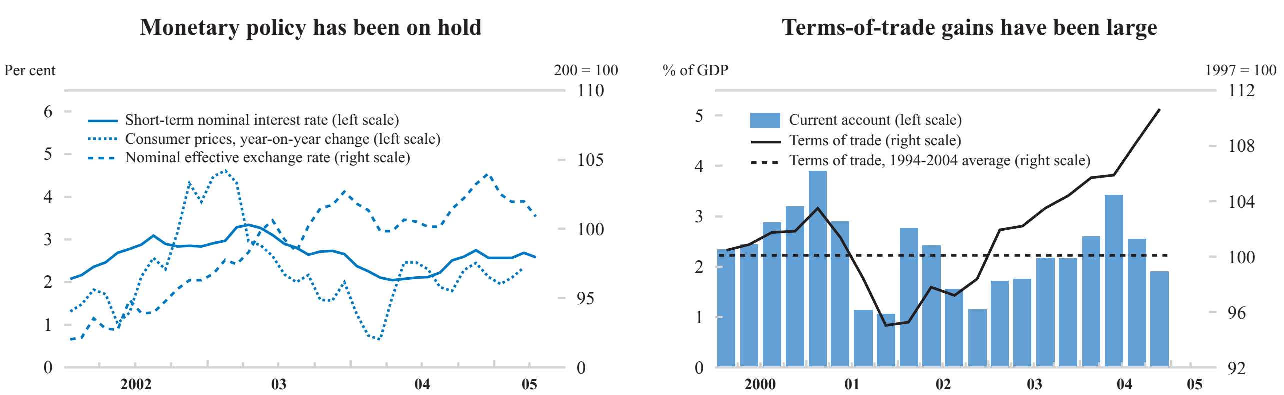
Monetary policy has paused…

Against this background, the Bank of Canada has adopted a wait-and-see attitude and stopped its tightening cycle last winter. However, the remaining monetary stimulus will need to be withdrawn to avoid the build-up of inflationary pressures once the effects of the currency appreciation have dissipated. Nominal short-term interest rates are projected to increase by a total of 1½ percentage points by the end of 2006, slightly less than in the United States. Long-term interest rates are expected to remain slightly below US rates throughout the projection period, reflecting Canada's good fiscal performance and better external balance.

… and the fiscal surplus is likely to shrink somewhat

In the 2005 federal budget plan, the government retained its commitment to fiscal prudence, with the goals of achieving fiscal balance or better and steadily paying down the debt. A number of new expenditures were announced on social assistance,

Canada



Source: Statistics Canada; Bank of Canada.

Canada: **Financial indicators**

	2002	2003	2004	2005	2006
Household saving ratio[1]	3.2	1.4	0.4	0.0	0.6
General government financial balance[2]	0.3	0.6	1.3	1.2	0.8
Current account balance[2]	2.0	2.0	2.6	1.7	2.5
Short-term interest rate[3]	2.6	3.0	2.3	2.9	3.9
Long-term interest rate[4]	5.3	4.8	4.6	4.4	5.1

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

Source: OECD Economic Outlook 77 database.

the environment and defence. In addition, an aid package of CAD 1 billion was allocated to farmers. Some tax reductions were also granted to households and, more importantly, to firms, with a decrease in the general corporate tax rate and in the surtax. More recently, the politically tense situation has led the government to agree to increase spending over the next two years by an additional CAD 4.5 billion beyond what was initially tabled in the Budget proposal. The succession of higher-than-expected budgetary surpluses and the recent favourable treatment of offshore oil revenues for some provinces within the equalisation scheme have also exacerbated demands on the federal government for increased transfers to other provinces and they too have been conceded to. Overall, the fiscal stance now look to be moderately expansionary, with the cyclically-adjusted general government primary balance falling by almost 1 percentage point of GDP from 2004 to 2006. Moreover, the

Canada: **Demand and output**

	2001	2002	2003	2004	2005	2006
	Current prices billion CAD	Percentage changes, volume				
Private consumption	622.9	3.4	3.1	3.5	3.8	3.3
Government consumption	211.1	2.8	3.8	2.5	3.1	3.3
Gross fixed investment	217.6	2.4	4.9	6.3	4.8	2.3
Public[1]	26.8	9.2	6.9	1.9	2.9	3.9
Residential	55.4	14.4	7.4	8.4	4.0	0.1
Non-residential	135.5	-4.0	3.2	6.1	5.8	3.2
Final domestic demand	1 051.6	3.1	3.6	3.8	3.9	3.1
Stockbuilding[2]	- 7.0	0.6	0.9	0.0	0.8	0.0
Total domestic demand	1 044.7	3.7	4.6	3.8	4.8	3.1
Exports of goods and services	483.1	1.1	-2.4	4.9	1.9	4.9
Imports of goods and services	419.5	1.4	3.8	8.2	7.5	4.9
Net exports[2]	63.5	-0.1	-2.4	-1.1	-2.1	0.0
GDP at market prices	1 108.2	3.4	2.0	2.8	2.8	3.1

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

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

Source: OECD Economic Outlook 77 database.

Canada: **External indicators**

	2002	2003	2004	2005	2006
			$ billion		
Goods and services exports	305.4	330.0	380.6	411	441
Goods and services imports	272.8	295.7	336.8	371	391
Foreign balance	32.5	34.2	43.9	39	50
Invisibles, net	- 18.1	- 17.1	- 18.0	- 21	- 20
Current account balance	14.4	17.1	25.8	18	29
			Percentage changes		
Goods and services export volumes	1.1	- 2.4	4.9	1.9	4.9
Goods and services import volumes	1.4	3.8	8.2	7.5	4.9
Export performance[1]	- 2.2	- 6.7	- 4.6	- 5.5	- 2.7
Terms of trade	- 2.5	6.0	4.5	3.2	1.9

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 77 database.

implementation of the climate change policy and its associated costs for private firms may lead to claims for rising business subsidies. Such additional spending would undermine the federal government's established strategy for dealing with long-term spending pressures from the ageing population.

Activity is expected to accelerate in the course of the year

In the near term, activity is expected to grow at a modest rate, as weak exports continue to be a drag on activity. Final domestic demand would nonetheless remain buoyant, so that the economy would accelerate in the second half of the year, once the effects of the currency appreciation wear off, global demand strengthens and temporary inflationary pressures stop eroding household disposable income. However, the progressive withdrawal of monetary stimulus should restrain growth in most components of private domestic demand and the economy is projected to grow at near its potential rate in the course of 2006. The impact of oil prices on inflation should be short-lived, and the annual rate of inflation would come close to the mid-point of the target range on average in 2005, before receding slightly during 2006. Terms-of-trade gains should decline over time – especially if the current depreciation in the Canadian currency persists – and are expected to be partly re-invested by companies and partly transferred to households through increased dividends. Capital deepening should help labour productivity growth in the business sector to recover steadily. The current account surplus is expected to widen slightly, especially in 2006, boosted by terms-of-trade increases, but offset by a heavier burden of payments on investment income account.

Adjustment to the higher exchange rate remains uncertain

The speed at which the economy adjusts to the currency appreciation and the magnitude of this adjustment are largely uncertain, in particular in the context of a persistent US current account deficit, which may foster expectations of a further bilateral appreciation of the Canadian dollar. Higher oil prices and their effect on the global economy could also be detrimental to Canadian export volumes, though this would be partially offset in terms of revenues. On the domestic side, economic growth could also be curbed by a rapid rebound in the household savings rate in response to higher interest rates, which themselves could restrain the rate of future increases in wealth.

Australia

Economic growth slowed in the second half of 2004, reflecting the ongoing drag from net exports, and a rundown in inventories. With domestic demand weakening as households restructure their finances towards lower dissavings, GDP growth should remain subdued this year but pick up thereafter, helped by an acceleration in exports. The slowing economy, combined with firmer monetary conditions, is expected to keep inflation within the Reserve Bank's 2 to 3% target band.

To create room for continued strong growth, the government should accelerate structural reforms to reduce the risks of capacity constraints proliferating. Reforms should focus on making wage bargaining more flexible, creating stronger incentives to labour market participation, removing disincentives to hiring, improving training and education, and promoting productivity growth by further strengthening competitive pressures in the economy.

Growth has slowed, but unemployment fell and inflation edged up

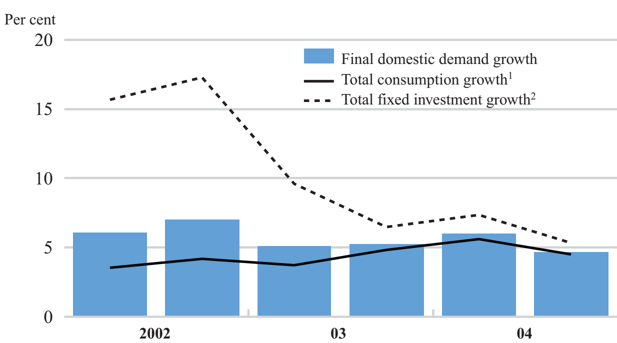
Although final domestic demand growth remained strong, the economy slowed down in the second half of 2004, reflecting declining inventories, shrinking export volumes and soaring imports. Supply constraints and transport bottlenecks seem to have held back commodity exports. Despite further terms-of-trade gains, the current account deficit widened to a record 7.3% of GDP by end-2004. Notwithstanding the recent slowing of economic activity, there were further substantial employment gains so that the unemployment rate fell to just above 5% in recent months, a twenty-seven year low and below most estimates of the structural unemployment rate. Nevertheless, wage growth remained rather moderate, although the significant slowing of productivity growth implied a marked increase in the growth of unit labour costs. While both headline and core inflation were very low for most of 2004, they accelerated in late 2004, suggesting that the economy has touched capacity limits after thirteen years of uninterrupted expansion.

Monetary policy tightening is preceding that of fiscal policy

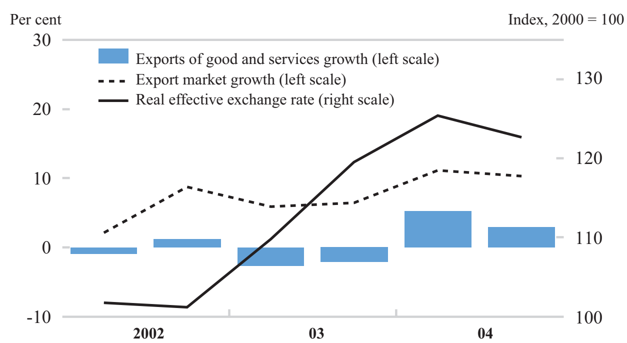
Concerned that inflation risked rising beyond the 3% upper target if the stance of monetary policy were to remain unchanged, the Reserve Bank raised the cash rate by 25 basis points to 5.5% in early March 2005, taking the rate 125 basis points above its previous low point from late 2001 to May 2002. With the cash rate now broadly in line with estimates of the cyclically "neutral" level and inflation expectations contained, the projections are for unchanged monetary policy. The May 2005 budget, providing cuts in personal income and business taxes and the abolition of charges on superannuation contributions, is estimated to be mildly supportive of the cycle in 2005-06. Because of buoyant budget revenues, government finances are expected to remain in surplus, which should eliminate net government debt in 2006.

Australia

Domestic demand has been strong



Exports have lagged behind markets



1. Private and public consumption.
2. Private and public fixed investment.

Source: OECD, Economic Outlook 77 database.

Australia: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion AUD	Percentage changes, volume				
Private consumption	412.8	4.0	4.4	5.4	2.6	3.0
Government consumption	122.9	3.5	4.0	3.8	3.7	3.2
Gross fixed capital formation	151.3	16.5	8.0	6.3	5.2	5.1
Final domestic demand	687.0	6.5	5.2	5.3	3.4	3.5
Stockbuilding [1]	0.1	-0.2	1.1	-0.7	-0.4	0.0
Total domestic demand	687.1	6.4	6.3	4.7	3.0	3.5
Exports of goods and services	155.3	0.1	-2.4	4.1	4.6	8.1
Imports of goods and services	152.5	11.3	10.4	14.2	7.6	8.0
Net exports [1]	2.8	-2.2	-2.7	-2.4	-1.0	-0.5
Statistical discrepancy [1]	0.0	-0.2	-0.1	0.5	0.2	0.0
GDP at market prices	690.0	3.8	3.6	2.9	2.5	3.4
GDP deflator	_	2.9	2.9	3.8	3.5	3.1
Memorandum items						
Consumer price index	_	3.0	2.8	2.3	2.6	2.8
Private consumption deflator	_	2.6	1.9	1.4	2.2	2.7
Unemployment rate	_	6.4	6.0	5.6	5.2	5.2
Household saving ratio [2]	_	-1.2	-3.4	-2.9	-2.0	-1.0
General government financial balance [3]	_	0.3	0.8	1.1	0.9	0.8
Current account balance [3]	_	-4.2	-5.9	-6.3	-5.4	-4.9

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

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

Source: OECD Economic Outlook 77 database.

Economic growth is likely to slow in 2005 but to pick up again in 2006

The projections see a rebalancing of growth from domestic demand towards net exports. Private consumption growth is projected to slow and residential investment to shrink along with both the gradual easing in house prices since late 2003, and the actual and expected increase in interest rates against a background of record levels of household debt. However, business investment is likely to strengthen further, given high company profitability, low corporate debt, buoyant business confidence, a favourable environment for raising equity finance and capacity constraints in the resources sector. The foreign balance contribution to growth should improve as recent capital deepening will allow firms to take better advantage of the ongoing strength in export markets, while import growth should ease in line with domestic demand. Together with further terms-of-trade gains, the current account deficit should thus narrow to about 5% of GDP in 2006. Because of tighter monetary conditions and slowing growth this year, inflation is expected to stay below 3%, while further employment gains are likely to be absorbed by higher labour force participation, leaving unemployment close to its current low level.

There are risks on both sides

There is an upside risk in the GDP growth projection from an earlier than expected recovery in residential investment. Given robust domestic demand and firming labour market conditions, there is also a risk of higher inflation as the price-damping effect of the earlier currency appreciation diminishes, in turn leading to higher interest rates. Given the high levels of household debt and debt-interest payments, households are vulnerable to such increases in interest rates. A further downside risk is high oil prices which depress real incomes worldwide.

Austria

Growth of GDP is expected to be about 2% in 2005, much the same as in 2004, with the positive stimulus from deficitfinanced tax reductions offset by slower growth of export markets on a yearoveryear basis. With growth picking up to 2¼ per cent in 2006, unemployment may begin to fall, notwithstanding strong labour supply growth, while the impact of higher oil prices on inflation is likely to fade.

Although legislated pension harmonisation marks progress towards longterm sustainability of government finances, further reductions in general government outlays will be necessary to offset the impact of tax reductions on the deficit and make progress in moving it back to balance.

A less favourable external environment has slowed the recovery

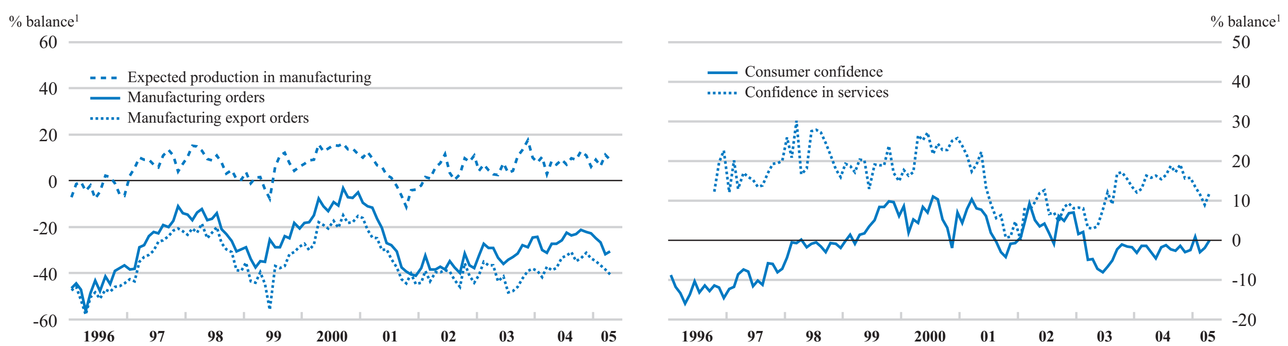
Economic activity slowed towards the end of the year, as export growth weakened, following a very strong performance in the first two quarters. Decelerating demand in the euro area, which absorbs about one half of Austrian exports, has to some extent been offset by ongoing geographic diversification of Austrian trade, with strong growth of exports to south eastern Europe as well as to the United States, notwithstanding the recent appreciation of the euro. The impending termination of subsidies for firms' purchases of machinery and equipment at the end of the year boosted investment. So did increased capacity utilisation. But consumption growth has weakened, as high oil prices weighed on disposable incomes and historically high unemployment continued to dent consumer confidence. Employment growth has accelerated, but not by enough to reduce the unemployment rate, as easier access to the labour market for foreigners resident in Austria as well as immigration are boosting labour supply. Orders and business confidence have declined in recent months, suggesting that economic activity will remain subdued in the near term.

Deficit-financed tax cuts are boosting domestic demand

With world trade growth slowing somewhat and economic activity in the euro area recovering only slowly, expansionary fiscal policy will provide the main impetus to activity in 2005. While legislation harmonising pension schemes across occupational groups will lower pension spending in the long term, the government deficit will increase substantially this year on account of personal income tax and corporate tax reductions as well as increased spending on childcare cash benefits. These mea-

Austria

Orders have fallen | **Confidence is subdued**



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

Austria: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion €	Percentage changes, volume (2000 prices)				
Private consumption	123.2	0.0	0.6	1.5	1.8	2.2
Government consumption	38.8	1.0	0.6	1.1	0.7	1.1
Gross fixed capital formation	47.4	-2.7	4.4	4.8	2.6	3.1
Final domestic demand	209.4	-0.5	1.5	2.2	1.8	2.2
Stockbuilding [1]	1.0	-0.3	-0.1	-0.3	0.2	0.0
Total domestic demand	210.4	-0.4	1.8	0.9	2.1	2.2
Exports of goods and services	103.0	3.7	1.6	9.0	5.1	8.0
Imports of goods and services	94.8	0.6	4.0	5.7	5.7	8.5
Net exports [1]	8.2	1.5	-1.0	1.8	-0.1	0.1
GDP at market prices	215.9	1.2	0.8	2.0	1.9	2.3
GDP deflator	_	1.1	1.6	1.9	2.2	1.7
Memorandum items						
Harmonised index of consumer prices	_	1.7	1.3	2.0	2.4	1.7
Private consumption deflator	_	1.2	1.1	1.8	2.3	1.7
Unemployment rate [2]	_	5.4	5.5	5.6	5.6	5.5
Household saving ratio [3]	_	7.8	8.9	9.2	9.5	9.4
General government financial balance [4]	_	-0.4	-1.3	-1.3	-2.0	-1.9
Current account balance [4]	_	0.3	-0.5	0.3	0.2	0.3

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

Source: OECD Economic Outlook 77 database.

sures are only partly offset by higher health insurance contributions, one-off revenue increases related to the sale of government-owned real estate, and the termination of the investment subsidies and savings on account of ongoing administrative reform. Stronger growth is expected to reduce the government deficit slightly in 2006, with the structural deficit broadly unchanged.

Growth will accelerate above potential in 2006, lowering unemployment

Yearly growth will remain at about 2% in 2005. While private consumption will accelerate on account of the tax reductions, the termination of investment subsidies will temporarily damp investment spending, and export growth will be subdued. In 2006, activity is projected to accelerate, benefiting from the projected reduction in policy interest rates and the recovery in world trade, lowering unemployment slightly, while the effect of recent oil price rises on inflation is expected to fade. The fiscal deficit is projected to reach 2% of GDP in 2005 and 2006.

The recovery will be sensitive to policy and external developments

Stronger appreciation of the euro than projected would slow export growth further, while achieving additional lasting government spending reductions could strengthen confidence in the sustainability of the tax reductions, boosting consumption more strongly than projected.

Belgium

Economic growth is projected to slow to 1.3% in 2005 but to rise to 2.4% in 2006 as domestic demand and exports strengthen. Despite a pick up in employment growth in 2006, the unemployment rate should only ease back to around 8%. Headline inflation is likely to fall to 1.6% as the effects of higher energy prices pass, converging with the underlying rate.

Additional consolidation measures will be required to keep the budget in balance. In view of the economic costs of the already high tax burden, these should focus on expenditure restraint. Subsidies for early retirement should be progressively phased out to increase the employment rate for older workers.

Domestic demand has weakened, interrupting the recovery

Economic growth has slowed sharply since autumn 2004, and was zero in the first quarter of 2005, after having averaged 0.7% (actual rate) since mid-2003. This slowdown is attributable to weaker growth in domestic demand. Growth in private consumption expenditure has fallen, partly owing to the adverse impact of rising energy prices on growth in real disposable incomes. Business investment growth has also weakened, despite improving profitability and favourable financial conditions, owing to the sluggish demand outlook and declining capacity utilisation. Business confidence has fallen sharply in recent months and now points to a period of growth below the estimated potential rate of around 2%. Export orders in the manufacturing sector have fallen well below normal and stocks of finished goods are significantly above desired levels. Employment growth strengthened in 2004 but not by enough to prevent a small rise in the unemployment rate to around 8%. With hiring lagging economic growth, labour productivity growth picked up markedly in 2004.

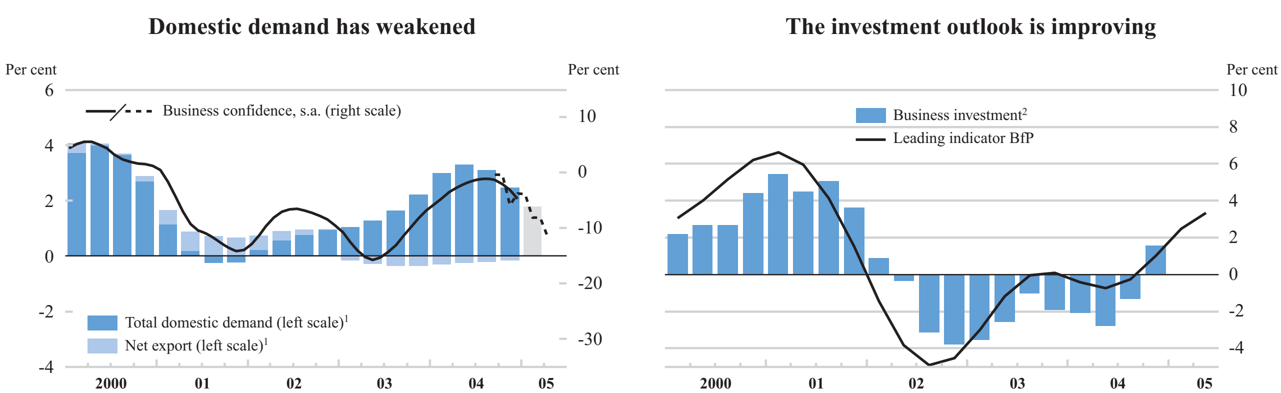
Moderate wage increases have been agreed

The social partners have agreed to a wage norm for increases in hourly wage costs of 4.5% spread over 2005-06, less than the estimated outcome of 5.3% for 2003-04. Headline inflation picked up sharply to 2½ per cent (year-on-year) in early 2005 owing to rising energy prices; however, underlying inflation (national CPI excluding energy and unprocessed food prices) remained at around 1¾ per cent.

Further consolidation measures are needed

The general government budget position deteriorated somewhat in 2004 mainly owing to the partial unwinding of non-recurring items that had boosted the fiscal position in 2003, but was nevertheless in balance. The contribution of such items will decline from 0.8% of GDP in 2004 to 0.3% in 2005 and zero in 2006. Further reductions in employers'- and employees' social security charges are programmed, mostly in 2005 but these

Belgium



1. Contribution to GDP growth, year-on-year.
2. Moving average on four quarters.
Source: National Accounts Institute and Federal Planning Bureau.

Belgium: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion €	Percentage changes, volume (2000 prices)				
Private consumption	138.4	0.3	2.2	2.1	1.2	2.0
Government consumption	55.1	2.3	2.7	2.9	1.1	2.6
Gross fixed capital formation	53.0	-3.4	-0.6	1.9	4.1	4.6
Final domestic demand	246.6	-0.1	1.7	2.2	1.8	2.7
Stockbuilding [1]	- 1.6	0.7	-0.1	1.0	-0.1	0.0
Total domestic demand	244.9	0.6	1.6	3.3	1.7	2.6
Exports of goods and services	218.6	1.3	1.7	5.0	5.6	7.3
Imports of goods and services	209.3	1.0	2.1	5.8	6.2	7.7
Net exports [1]	9.3	0.3	-0.3	-0.4	-0.3	-0.2
GDP at market prices	254.2	0.9	1.3	2.7	1.3	2.4
GDP deflator	_	1.8	2.0	2.2	1.5	1.8
Memorandum items						
Harmonised index of consumer prices	_	1.6	1.5	1.9	2.2	1.6
Private consumption deflator	_	1.7	1.8	2.1	2.2	1.6
Unemployment rate	_	7.3	7.9	7.8	8.2	8.0
Household saving ratio [2]	_	15.0	14.0	12.5	11.9	12.4
General government financial balance [3]	_	0.1	0.3	0.0	-0.5	-1.2
Current account balance [3]	_	5.7	4.5	3.4	3.3	3.3

Note: Corrected for calendar effects.
1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.
Source: OECD Economic Outlook 77 database.

are more than compensated by increases in indirect taxes. Personal income tax cuts amounting to 0.6% of GDP, are programmed, mostly in 2006. Infrastructure investment is likely to increase strongly but temporarily in 2005-06 ahead of the next municipal elections. Based on announced policies and allowing for these factors, the OECD projects that the budget balance will deteriorate to a deficit of 1.2% of GDP in 2006. Adjusting for non-recurring factors, the OECD estimates that the structural budget balance in 2004, at –0.3% of GDP was almost unchanged from the year before and will only deteriorate slightly (by 0.1% of GDP) over the projection period. Nevertheless, additional consolidation measures would be needed and are likely to be taken to realise the government's objective of maintaining the budget in balance. The government took over debt of the national railways amounting to 2.5% of GDP in January 2005, slowing somewhat the steady decline in general government debt as a percentage of GDP.

Domestic demand should lift the economy out of its weak spot

Economic growth is projected to strengthen progressively following the current weak patch, lifting growth from 1.3% in 2005, which is far below the rate achieved in 2004, to 2.4% in 2006. The resumption of the economic recovery should initially be driven by a strengthening in private consumption expenditure, underpinned by stronger growth in household disposable income, and in private business investment as the demand outlook improves. Subsequently, a pick-up in exports resulting from improving export markets and the fading effects of euro appreciation should help to lift growth back above potential. Although employment growth is set to pick up significantly in 2006, the unemployment rate is projected only to ease back to around 8% owing to high labour force growth, which reflects both demographic factors and rising participation rates. Headline inflation should fall markedly to 1.6% in 2006 as the effects of increases in energy prices pass, thereby converging with the underlying rate. The main risks to these projections are that the euro could appreciate further and that oil prices could be higher than assumed, depressing exports and domestic purchasing power.

Czech Republic

Output growth of 4% in 2004 surpassed expectations and is projected to be marginally higher than that in 2005 and 2006. Growth in the export sector is expected to fall off somewhat but will nevertheless remain robust while household consumption spending is likely to pick-up. Though inflation is currently low, pressures are expected to build and are projected to be met with some tightening of the monetary stance in 2006.

Though the prospects for reaching the Maastricht criteria for euro entry are good, faster progress is needed in structural reforms to make fiscal consolidation sustainable in the longer term. More rapid progress is also needed in making improvements to the business environment.

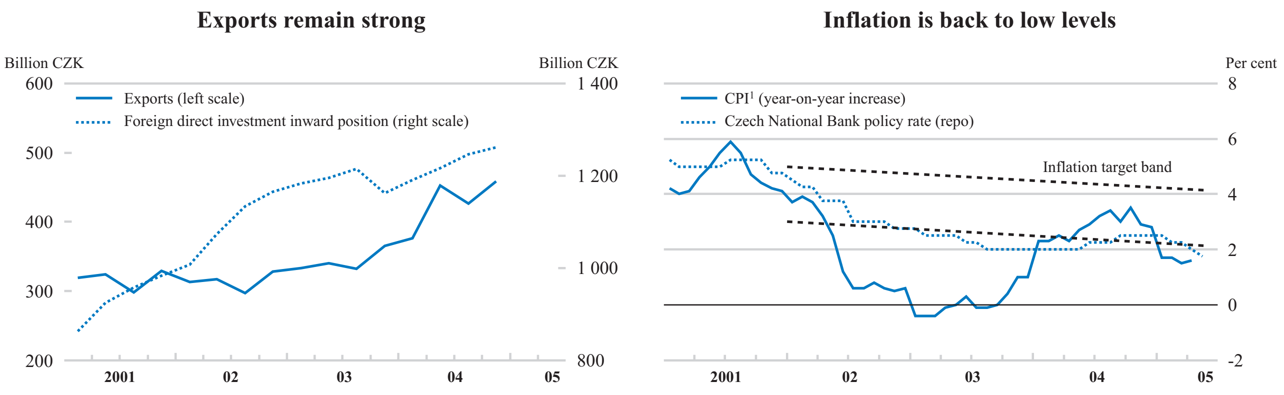
Indicators suggest continuing momentum in export-led growth

Export growth was some 20% in 2004, more than double that of 2003, with an extremely large increase in the second quarter. Though this was followed by some flattening in the profile of export volumes, recent monthly data suggest robust growth will continue. Domestic-demand growth in 2004, in contrast, was lower than in 2003. Fiscal consolidation brought a contraction in government consumption and households' disposable incomes were damped by a temporary rise in inflation resulting from a combination of increases in food and oil prices, and indirect taxes. The temporary rise in inflation is now over, the year-on-year rate for the first three months of 2005 was below 2% and growth in households' real disposable income and consumption are both expected to pick up. The recent low inflation outturns have prompted an easing of monetary policy, but the robust pace of growth is likely to create underlying inflationary pressures further out in the projection period and this is expected to prompt some tightening in monetary policy in 2006.

Fiscal consolidation for the medium term looks on track

Fiscal consolidation is likely to continue over the projection period, damping somewhat the pace of growth. The Maastricht-defined deficit for 2004 of 3% is partly due to one-off accounting items; correcting for these, the underlying deficit was 4.8%. Nevertheless, fiscal consolidation between 2003 and 2004 was substantial – the corrected deficit for 2003 is around 5.3%. This consolidation reflects concerted efforts to reduce the deficit through tighter budgetary discipline, including a new medium-term budgeting system with legally binding expenditure ceilings. The Maastricht-defined

Czech Republic



1. Consumer price index.
Source: Czech National Bank; Czech Statistical Office.

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

	2001	2002	2003	2004	2005	2006
	Current prices billion CZK	Percentage changes, volume (1995 prices)				
Private consumption	1 192.3	2.8	4.9	2.5	2.8	3.7
Government consumption	513.0	4.5	4.2	-3.2	0.8	0.4
Gross fixed capital formation	638.6	3.4	4.8	9.1	8.0	7.8
Final domestic demand	2 343.9	3.4	4.7	2.8	3.8	4.1
Stockbuilding [1]	30.0	0.1	-0.6	0.1	0.1	0.0
Total domestic demand	2 374.0	3.2	4.1	2.8	3.7	4.1
Exports of goods and services	1 539.3	2.1	7.3	20.9	12.2	12.4
Imports of goods and services	1 598.0	4.9	7.9	18.5	11.6	12.2
Net exports[1]	- 58.7	-2.7	-1.5	-0.5	-1.0	-1.5
GDP at market prices	2 315.3	1.5	3.7	4.0	4.1	4.3
GDP deflator	_	2.8	1.9	3.7	2.6	2.7
Memorandum items						
Consumer price index	_	1.8	0.1	2.8	2.0	2.5
Private consumption deflator	_	0.7	0.2	2.7	2.0	2.5
Unemployment rate	_	7.3	7.8	8.3	8.3	8.2
General government financial balance [2,]	_	-6.8	-11.6	-3.0	-4.5	-4.2
Current account balance [2]	_	-5.6	-4.8	-5.1	-4.8	-4.5

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

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.
3. Since the change in methodology in 2004, high-risk state guarantees are classified as capital transfers as soon as they are called for the first time. In 2003, the activation of guarantees issued mainly for the banking sector accounted for about 7.7 percentage points of the deficit.

Source: OECD Economic Outlook 77 database.

deficit looks set to increase to 4.5% this year, though the rise is a consequence of the unwinding of the one-off items, and the figure implies a corrected deficit reduction of ¼ of a percentage point. The same pace of consolidation is expected in 2006.

Growth for 2005 and 2006 will remain robust

GDP growth in 2005 is projected to continue at about 4% and to edge up to 4¼ per cent in 2006. Though the increase in exports will be lower than the exceptional performance in 2004, it is expected to remain above 12% each year and outpace import growth, thus contributing to a reduction in the current-account deficit. Investment will also rise strongly, perhaps, by 8% per annum with household consumption picking up to a growth rate of nearly 3¾ per cent by 2006.

Slow progress on structural reforms threatens long-term growth

The pace of export demand is the main source of uncertainty over the projection. Domestically, there is a risk that fiscal consolidation will be weaker than projected due to additional spending pressures in the run-up to the 2006 election. The very slow pace of structural reform poses a major risk to long-term growth. Hampered by a narrow parliamentary majority, many of the government's ambitions for structural reform are in a state of prolonged delay. Given the often long lags between implementation and impact, such delays mean that efficiency gains in health services and economies in public-sector pensions may not be made in time to cope with upcoming acceleration in the old-age population. And business-sector growth may become more constrained by the deficiencies in the regulatory environment and by labour shortages because of failure to release human resources from the public sector and to solve structural unemployment problems.

Denmark

Growth picked up again in 2004, as households raised their spending and strong external demand pulled up exports. The expansion should continue, with accelerating exports gradually taking over as the main driver of growth. Inflationary pressures are likely to be modest as the output gap is projected to stay just below zero, but they may be less benign if households spend even more out of their income and wealth gains.

Tax cuts in 2004 and other measures to strengthen households' disposable incomes continue to boost prospects for this year, while the planned resumption of Special Pension contributions will take back some of the stimulus next year. Monetary policy settings may provide further underpinning of growth in the near term, while a gradual tightening is projected in 2006, as Danish interest rates follow those of the European Central Bank. With growth likely to be above potential, the government should now return its focus to its medium-term targets for the fiscal balance and employment.

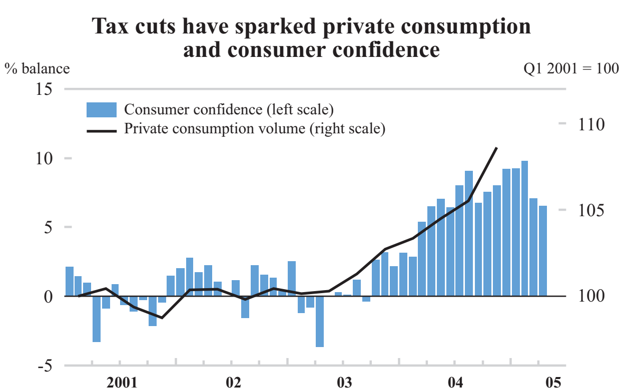
Domestic demand has rebounded strongly

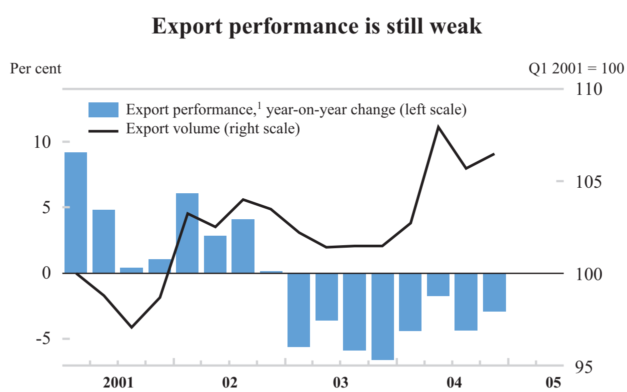
Private consumption accelerated markedly towards the end of 2004 as households responded to tax cuts and rising house prices. A strong pick-up in business investment added to the expansion of domestic demand. But net exports subtracted substantially from real GDP in the second half of the year, as export market share was lost and import penetration rose. Some weakening of retail sales suggests a more moderate expansion of household spending early this year, but car sales point to renewed growth from the second quarter. Business indicators are mixed, as manufacturing is on a downbeat note, while the construction and service sectors remain buoyant. A significant improvement in the labour market has still to materialise, although the unemployment rate has edged down over the past year. Part of the explanation is that much of the extra household spending has been on foreign-produced goods and services, generating little extra labour demand domestically. Wage gains have remained somewhat subdued as a consequence.

Activity should remain sturdy this year

The fiscal stimulus from the past year's tax cuts and other measures to boost households' disposable incomes continues to be the main driver of growth this year. In addition, lower interest rates, a moderate rise in house prices and a gradual improvement in employment prospects are likely to spur households to reduce their savings ratio. In this growth-supportive climate, the recovery should continue, with household spending driving up domestic demand and firms' expansion of capacity providing further underpinning of activity.

Denmark





1. Ratio between export volumes and export markets for total goods and services.
Source: Statistics Denmark; OECD.

Denmark: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion DKK	Percentage changes, volume (1995 prices)				
Private consumption	624.5	0.6	0.9	4.3	3.8	2.1
Government consumption	343.3	2.1	1.0	0.7	0.7	0.8
Gross fixed capital formation	268.4	2.3	1.5	4.7	5.7	5.3
Final domestic demand	1 236.2	1.4	1.1	3.5	3.5	2.6
Stockbuilding [1]	3.8	0.0	-0.2	0.4	0.0	0.1
Total domestic demand	1 240.0	1.4	0.9	3.9	3.5	2.7
Exports of goods and services	590.9	4.7	-1.6	4.0	3.3	6.3
Imports of goods and services	505.4	7.3	-1.4	7.4	5.6	7.0
Net exports [1]	85.5	-0.8	-0.1	-1.4	-1.0	-0.3
GDP at market prices	1 325.5	0.5	0.7	2.4	2.4	2.4
GDP deflator	_	1.4	2.2	1.6	1.6	1.8
Memorandum items						
Harmonised index of consumer prices	_	2.4	2.1	1.2	1.6	1.9
Private consumption deflator	_	2.1	1.8	1.1	1.6	1.9
Unemployment rate	_	4.6	5.6	5.7	5.4	5.0
Household saving ratio [2]	_	0.1	0.3	-1.1	-3.1	-2.6
General government financial balance [3]	_	1.6	1.0	2.3	1.8	1.5
Current account balance [3]	_	2.2	3.3	2.5	1.6	1.6

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of disposable income, net of household consumption of fixed capital.
3. As a percentage of GDP.
Source: OECD Economic Outlook 77 database.

The policy stance will become less supportive of growth next year

In 2006, the temporary suspension of compulsory Special Pension contributions is supposed to end, thus clawing back some of the earlier stimulus. Monetary conditions may not begin to tighten until next year, as domestic interest rates follow those in the euro area, and such tightening will be welcome when it comes. Private consumption growth could then begin to moderate as a consequence, while a projected re-acceleration in external demand would help keep the economy growing at a rate above potential. The labour market should improve further as firms increase hiring, but inflationary pressures may remain contained as output is expected to stay below its potential level until the end of 2006.

The fiscal balance is weakening in spite of strong activity

Despite substantial fiscal easing, the general government surplus rose above 2¼ per cent of GDP last year on the back of surprisingly high property income and revenue from, *inter alia*, the pension yield tax. Some of this is likely to be of a temporary nature, and the surplus is projected to drop back by around ¾ of a percentage point of GDP over this year and next. The resumption of tax-exempt Special Pension contributions in 2006 adds to the decline of the surplus that year. After adjusting for these one-off factors, the structural surplus is likely to be close to the lower bound of the government's target of 1½ to 2½ per cent of GDP. However, substantial adjustment costs in the run-up to the restructuring of local governments from 2007 risk pushing the structural surplus below the target next year.

The momentum of the expansion depends on household behaviour

Household consumption behaviour is the main source of uncertainty in the outlook. If households decide to spend even more of their extra income from the earlier policy stimulus, in particular on domestically produced goods and services, inflationary pressures may emerge. Also, floating-rate loans have become much more common among homeowners, making them more sensitive to the assumed near-term easing of the European Central Bank's monetary policy stance.

Finland

Following strong growth during 2004, output is now slightly above potential. With tax cuts worth nearly 1% of GDP being phased in during 2005-06, and strengthening export demand, economic growth should be about 2¼ per cent in 2005 and 3% in 2006. Wage and price inflation will remain moderate because of the recent incomes policy agreement, but with a positive output gap inflationary pressures could rise when the agreement ends in 2007.

To curb inflationary pressures and ensure that employment expands swiftly, reforms to reduce early retirement and motivate active job search are needed. Rising municipal deficits must be brought under control through greater service efficiency and spending restraint to avoid excessive fiscal stimulus.

Domestic demand drives the recovery while exports under-perform

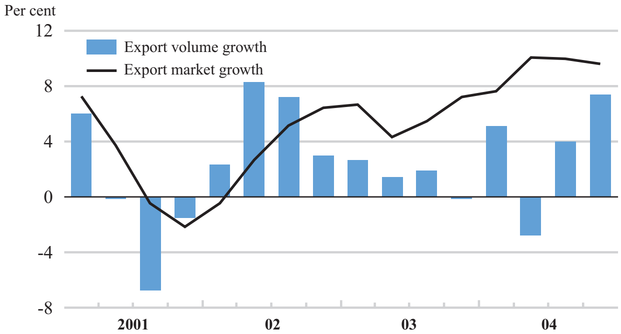
Real economic activity accelerated to 3.4% in 2004 in working and trading-day adjusted terms, closing the output gap well ahead of most other euro area countries. After years of decline, business investment has recovered, and housing investment has continued to expand rapidly. In the second half of 2004, investment spending has lost momentum, but private consumption has picked up. Both industrial and consumer confidence are now slightly above their long-run averages, and more positive than elsewhere in the euro area. The cooling of world trade associated with higher oil prices has had only limited consequences because of resilient growth in the main export markets – Sweden, Russia and the United Kingdom – although trade with Germany was subdued. However, despite the rapid expansion of export markets, export volume growth has remained sluggish and, because of rising import volumes, net exports did not contribute to GDP growth in 2004. This subdued response of exports to market growth is only partly explained by the euro appreciation, as much of the underperformance is concentrated in the electronics industry.

The income policy agreement will help employment

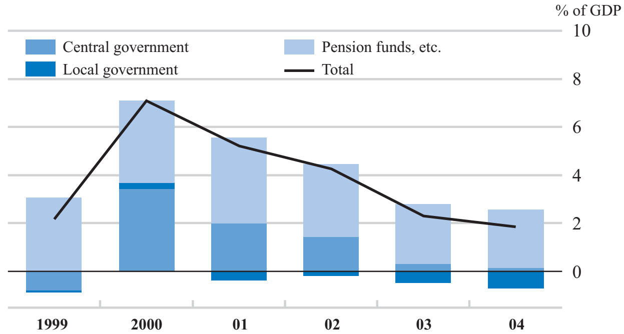
A collective wage agreement was reached in November 2004 covering more than 90% of all private and public sector employees and implying wage growth of 3½ and 2½ per cent in the calendar years 2005 and 2006, respectively, once allowance is made for wage drift. Following the wage agreement, the government announced a series of income tax cuts totalling 1¼ per cent of GDP over three years. Expansion of the earned income tax allowance will make employment more attractive relative to unemployment and other forms of inactivity, but otherwise the agreement did not include reforms to

Finland

Exports lag behing market growth[1]



Central and local governments are moving into deficit



1. Growth over the same quarter of the previous year.
Source: Statistics Finland and OECD Economic Outlook 77 database.

Finland: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion €	Percentage changes, volume (2000 prices)				
Private consumption	67.8	1.5	4.6	2.9	2.6	2.8
Government consumption	28.4	3.9	1.2	2.0	1.9	2.1
Gross fixed capital formation	27.8	-3.3	-1.5	4.5	3.5	3.5
Final domestic demand	124.0	1.0	2.5	3.0	2.6	2.8
Stockbuilding [1]	0.1	0.3	0.0	0.4	-0.2	0.0
Total domestic demand	124.1	1.3	2.4	3.5	2.4	2.8
Exports of goods and services	54.1	5.2	1.4	3.4	4.8	5.2
Imports of goods and services	42.8	1.7	3.1	4.6	6.0	5.5
Net exports [1]	11.3	1.6	-0.4	-0.1	0.0	0.4
GDP at market prices	135.5	2.2	2.5	3.4	2.2	2.9
GDP deflator	_	1.3	-0.2	0.8	1.3	1.4
Memorandum items						
GDP without working day adjustments	_	2.2	2.4	3.7	..	..
Harmonised index of consumer prices	_	2.0	1.3	0.1	0.8	1.9
Private consumption deflator	_	3.2	0.4	0.8	1.5	1.9
Unemployment rate	_	9.1	9.0	8.9	8.5	8.3
General government financial balance [2]	_	4.3	2.3	1.9	1.3	1.1
Current account balance [2]	_	7.6	3.8	4.3	3.3	3.5

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 77 database.

enhance labour supply. Moreover, as the wage increases are front loaded, any gains in cost competitiveness will not materialise until 2006 and 2007. With the income tax cuts spread more evenly over the three years, the main effect of the incomes policy agreement during this year and next will therefore be a stimulus to domestic demand. Consumer confidence has improved over recent months and in particular the share of consumers finding it attractive to raise a loan has risen sharply to levels far above the 1995-2004 average, suggesting that a large part of the increase in disposable income will be spent rather than saved. This will help employment growth, which has been sluggish in recent years; but with a projected increase of 30 000 jobs from 2003 to 2006, it is far from sufficient to attain the government's objective of raising employment by 100 000 between 2003 and 2007.

Both domestic demand and exports are set to expand rapidly

The monthly GDP indicator suggests that growth paused in late 2004 and early 2005, partly reflecting a mild winter with below normal energy needs. Still, output is projected to expand at around 2¼ per cent this year and 3% next year, with private consumption increasing 2¾ per cent each year and both residential and business investment set to rise by 4% per year. Domestic demand is fuelled by fiscal policy with a decline in the cyclically-adjusted balance by 1% of GDP. After a slowdown in the first half of 2005, export market growth is expected to regain momentum resulting in net exports contributing ½ percentage point to GDP growth next year.

Inflationary pressures could accumulate

With a positive output gap widening to ¾ per cent by the end of 2006, inflationary pressures will accumulate, although adherence to the collective wage agreement is likely to contain wage inflation and imply only moderate price increases over the next two years. There is a considerable risk, however, that these underlying inflationary pressures will unravel when the current wage agreement ends in September 2007. Unless curbed, continued expansion of public consumption by municipalities will contribute to these inflationary pressures.

Greece

The economy remained strong in 2004, fuelled by robust domestic demand. Nevertheless, the general government deficit rose to 6% of GDP. The ending of the Olympic Games related spending, together with a substantial fiscal tightening, is expected to curtail demand in 2005 especially, so that GDP growth may slow to about 3% in 2005-06, though remaining higher than the euro area average. Inflation is also likely to stay above the euro-area average, reducing competitiveness, but even so the current account deficit will gradually decline as the growth differential vis-à-vis the euro area narrows somewhat and service exports remain strong.

The underlying very fragile state of the public finances, revealed by the fiscal audit of public sector accounts going back to 1997, highlights the imperative to implement the recently announced consolidation programme. Cuts in primary spending are required, and recent proposals to modify the tax system should not be allowed to hinder consolidation. Greater labour market flexibility, and strengthened competition in product markets, could help boost both employment and competitiveness, and narrow the inflation gap with the euro area partners.

Growth and inflation differentials were relatively high

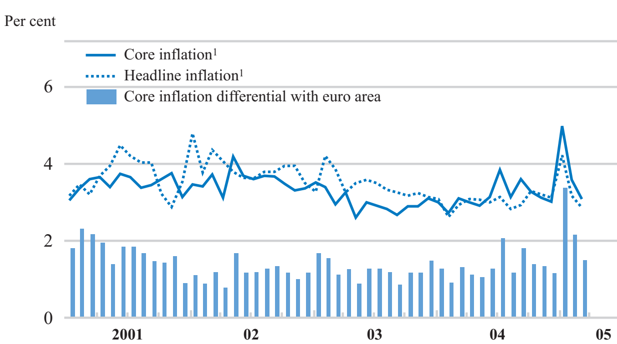
Real GDP expanded at a still brisk rate of over 4% in 2004, down from 4.7% in the previous year. Private consumption was underpinned by rapid credit growth, rising incomes, and employment gains. Although weaker than in 2003, investment activity was also buoyant reflecting the completion of the 2004 Olympic Games and the turnaround in housing investment. Net exports continued to act as a drag on growth. Despite falling food prices, inflation as measured by the harmonised consumer price index averaged around 3% in 2004. Core inflation rose, influenced by higher unit labour costs, demand pressures, and the second-round effects of oil price increases. The core inflation differential *vis-à-vis* the euro area stood at 1.3 percentage points in 2004 and the gap widened in early 2005. The unemployment rate remained high at 11% in 2004, despite substantial job creation, reflecting a strong increase in the labour force. The current account deficit narrowed significantly, helped by buoyant shipping receipts.

The policy stance remained accommodative

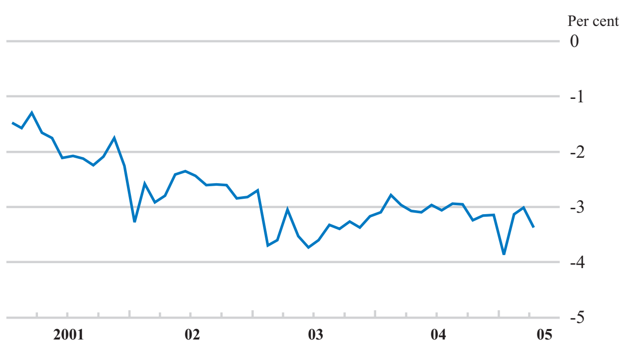
Real interest rates remained negative, and monetary conditions easy in 2004. Revisions to the fiscal data for 1997 to 2003, undertaken by the new Greek government in consultation with Eurostat, revealed that the general government deficit has

Greece

Inflation continues to be higher than in the euro area



Monetary conditions remain accommodative[2]



1. Year-on-year percentage changes. Harmonised index of consumer prices. Core inflation excludes energy, food, alcohol and tobacco.
2. Weighted sum of the relative change in the real effective exchange rate and the absolute change in the short-term interest rate compared with their average over the period January 1995 to April 2005.

Source: OECD Economic Outlook 77 database; Bank of Greece.

Greece: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption	89.2	3.1	4.0	3.3	3.0	3.1
Government consumption	22.0	8.3	-2.3	6.5	1.5	0.9
Gross fixed capital formation [1]	31.3	5.7	13.7	4.9	0.5	3.2
Final domestic demand	142.5	4.4	5.3	4.1	2.2	2.8
Stockbuilding [2, 3]	- 0.1	-0.2	0.3	0.0	0.0	0.0
Total domestic demand	142.4	4.2	5.6	4.1	2.2	2.8
Exports of goods and services	31.2	-7.7	1.0	10.0	8.2	8.5
Imports of goods and services	42.4	-2.9	4.8	8.2	4.4	5.4
Net exports [2]	- 11.1	-0.9	-1.3	-0.5	0.4	0.2
GDP at market prices	131.3	3.8	4.7	4.2	2.8	3.2
GDP deflator	_	4.0	3.5	3.4	3.7	3.4
Memorandum items	_					
Harmonised index of consumer prices	_	3.9	3.4	3.0	3.7	3.3
Private consumption deflator	_	3.6	3.4	2.9	3.6	3.3
Unemployment rate	_	10.9	10.4	11.0	10.8	10.5
General government financial balance [4]	_	-4.2	-5.2	-6.0	-3.8	-3.5
Current account balance [5]	_	-7.6	-6.4	-5.3	-5.2	-4.9

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

Source: OECD Economic Outlook 77 database.

substantially exceeded the 3% Maastricht ceiling in each of these years. The deficit widened to 6% of GDP in 2004, far above initial expectations. The slippage reflects overruns in expenditure for the Olympic Games, and substantial deviations from the original targets of current expenditure as well as revenues. The revised 2004 Stability and Growth Programme (submitted in March 2005) envisages the general government deficit falling below 4% this year, and below 3% of GDP by 2006. This is in compliance with the European Union Council's (Ecofin) decision in the context of the ongoing excessive deficit procedure for Greece. In the OECD's projection, the ending of Olympic Games-related expenditure and the recently introduced fiscal package (including measures on the revenue side) imply a sharp reduction in the deficit this year and a deficit of 3.5% of GDP in 2006.

Activity should slow somewhat

Output growth is set to ease to around 3% in 2005, reflecting the end of the Olympic Games-related investment spending and the substantial tightening of the fiscal stance. Even so, growth is expected to continue to outpace the euro-area average, with domestic demand buoyed by low interest rates, a more rapid implementation of the projects funded by the European Union, a gradual lowering of company tax rates and reductions in red-tape, as well as by the recently introduced investment incentives law. Exports of shipping and tourism services, are expected to remain strong over the projection period, despite the trend deterioration in cost-competitiveness, with the external sector contributing positively to output growth. Inflation is projected to rise to 3.7%, to a large extent reflecting the impact of indirect tax increases introduced in April 2005, decelerating to 3.3% in 2006. There is a downside risk that the sizeable tightening of fiscal policy may affect growth more adversely than projected.

Hungary

Activity expanded briskly in early 2004 but then slowed in the second half of the year. Growth is expected to pick up again from mid-2005, driven by accelerating export demand and investment activity. Inflation has fallen sharply since mid-2004 and is expected to fall further.

Although the macroeconomic policy mix has improved recently, significant further progress is required to meet the 2010 target date for euro adoption. While falling inflation expectations leave scope for further monetary easing, this needs to be assisted by a strong commitment to fiscal consolidation, including bolder steps on structural spending measures.

Growth slowed in the second half of 2004

Output growth was more balanced in 2004, with a lower rise of domestic consumption, while exports and corporate investment rebounded strongly. Although real GDP grew a healthy 4% in 2004 overall, it slowed in the second half of the year and indicators suggest that this slowdown has persisted into the first months of 2005. The driving force behind the deceleration of activity has been weaker domestic demand, with the substantial increase in interest rates at the end of 2003 playing a role. Household consumption has decelerated with the end of a series of large public sector wage hikes, moderate wage increases in the private sector, and increases in value-added tax (VAT) rates. By contrast, strong growth of foreign markets made for buoyant export demand and, although recent figures signal that export growth has weakened, exports remain the main engine of economic activity.

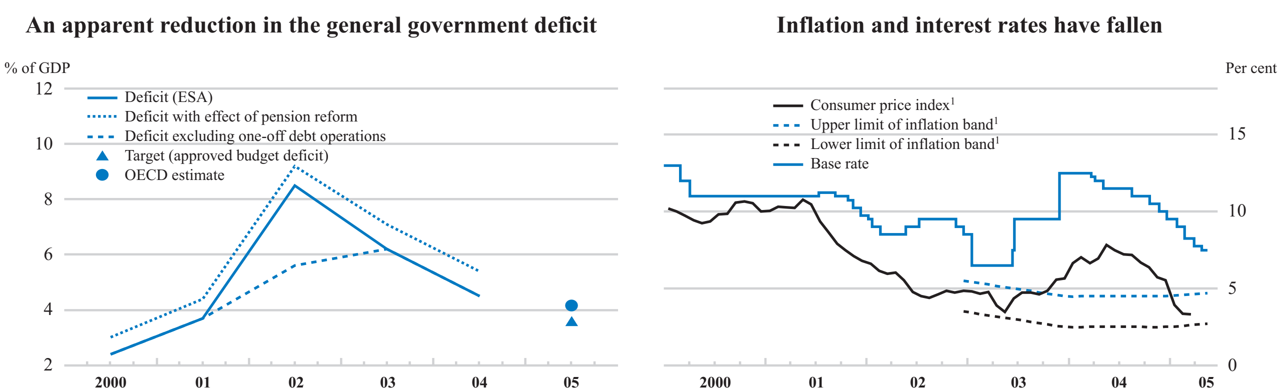
Indicators point to a moderate re-acceleration of activity

However, there are signs that growth will pick up in the near term. In particular, consumer confidence has strengthened, in large part because inflation has fallen to a low of 3.2% in February, as the effects of earlier VAT increases passed from the index. Also, export and related investment prospects remain reasonably good despite the sluggishness in Europe.

Monetary policy easing needs the backing of fiscal tightening

Although policy rates have declined significantly, monetary conditions remain tighter than appears necessary to meet inflation targets. Thus the projections assume additional base rate cuts in the course of 2005 sufficient to lead to an easing of real interest rates. According to the officially approved Maastricht deficit figures, Hungary has achieved considerable progress in fiscal consolidation, the general government def-

Hungary



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

Hungary: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion HUF	Percentage changes, volume (2000 prices)				
Private consumption	7 866.5	10.2	8.0	3.5	2.5	3.5
Government consumption	3 231.1	5.0	5.4	-1.3	-0.4	0.5
Gross fixed capital formation	3 493.0	8.0	3.4	8.3	4.7	7.8
Final domestic demand	14 590.5	8.5	6.4	3.6	2.5	4.0
Stockbuilding [1]	487.9	-2.9	-1.0	-0.3	0.0	0.0
Total domestic demand	15 078.4	5.4	5.4	3.3	2.5	4.1
Exports of goods and services	10 803.4	3.7	7.6	15.7	11.9	13.1
Imports of goods and services	11 032.0	6.2	10.4	14.0	10.1	13.0
Net exports [1]	- 228.6	-2.0	-2.5	0.5	1.1	-0.4
GDP at market prices	14 849.8	3.5	3.0	4.0	3.6	3.9
GDP deflator	_	8.9	7.6	4.7	4.4	3.9
Memorandum items						
Consumer price index	_	5.2	4.7	6.7	3.8	3.8
Private consumption deflator	_	3.7	4.6	7.6	3.8	3.8
Unemployment rate	_	5.9	5.9	6.2	6.3	6.0
General government financial balance [2, 3]	_	-8.5	-6.2	-4.5	-4.2	-4.1
Current account balance [2]	_	-7.1	-8.9	-9.4	-7.3	-6.4

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.
3. ESA95 accounts provided by the Ministry of Finance for 2001-2003.
Source: OECD Economic Outlook 77 database.

icit having fallen to 4.5% on an accruals basis in 2004. However, this apparently good progress towards reaching the Maastricht criteria is blurred by important accounting revisions. As recently permitted by Eurostat, compulsory contributions to private-sector pensions are being factored in government revenues, contributing to a 0.9% of GDP reduction of the deficit both in 2003 and 2004. In addition, progress in deficit reduction has been magnified by a significant upward revision of the deficit outturn for 2003, as accounting changes have entailed the backward re-imputation of VAT reimbursement (0.7% of GDP). Furthermore, the government's budget target for 2005 of 3.6% includes a 1.4-percentage-point saving from plans to take expenditure on motorway construction off budget. Thus, the combined impact of the budget and the increase in private infrastructure investment is expansionary.

2005 and 2006 should see a well balanced rate of expansion

GDP growth is projected to remain moderate in the first half of 2005 before picking up in the second half and expanding at a relatively robust pace of just below 4% in 2006. The main impetus for growth is expected to continue to come from the external sector due to continuing gains in Hungarian market shares within Europe. At the same time, the expected fall in market interest rates should help boost investment and consumption. Despite stronger import growth, the current account deficit is projected to fall somewhat because exports are likely to accelerate faster. At the same time financial flows from the European Union will increase the surplus in the capital account.

The projections are subject to both external and internal risk factors

The main external risk is that the pick-up of activity in Europe may be even smaller and more delayed than expected, weakening export and investment growth. Domestically, market interest rates may not ease as projected, either because the central bank takes a more cautious approach to monetary policy or because fiscal slippage widens the gap between policy and market rates.

Iceland

The economy is overheating, prompting aggressive monetary tightening to steer inflation back to the official target. With huge external deficits and debt levels, waning capital inflows as the large-scale investment projects gear down could lead to a reversal of the substantial currency appreciation in recent years, the first signs of which may already be seen. This could entail a protracted period of high interest rates and possibly a full-blown recession, as happened following the previous overheating period in 2002.

Further interest-rate increases will probably be needed to forestall a wage/price spiral. Now that tax cuts have been passed, the government should aim at budget surpluses higher than those currently planned to ensure a better policy mix. This should involve additional spending restraint and reductions in tax expenditures favouring the booming housing sector.

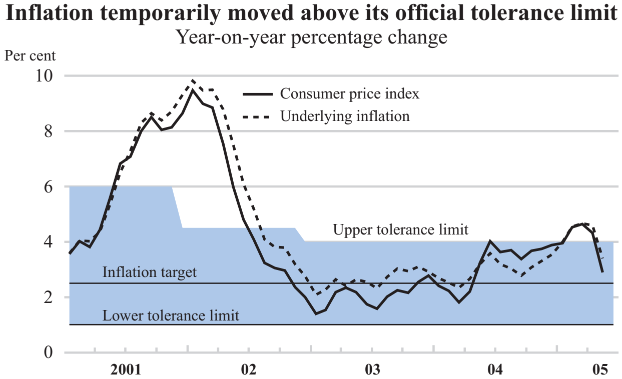
Inflation and the external deficit have soared

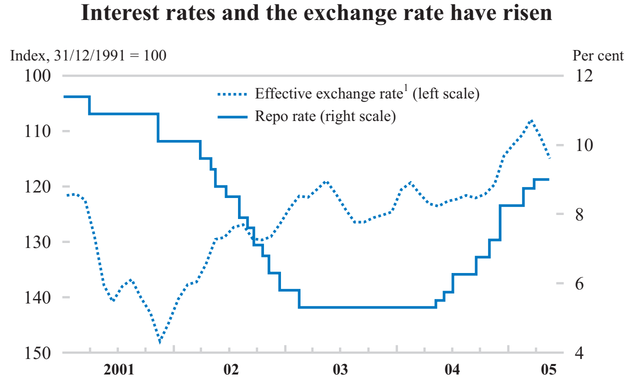
The economy rebounded briskly from the severe 2002 recession, as buoyant household demand reinforced the stimulatory effect of large-scale aluminium-related investment projects, and by 2004, with the recovery broadening to exports, real GDP growth reached 5¼ per cent. Rapid growth has closed the sizeable output gap that had emerged in 2002 and finally eliminated slack in the labour market, which had been surprisingly weak up to mid-2004. As a result, price and wage pressures have mounted. The oil price hike in 2004 pushed consumer price inflation toward the authorities' upper tolerance limit of 4%. Even so, overall imported inflation receded thanks to a further 10% currency appreciation over the six months to March 2005, though some of this rise has been reversed more recently. Surging housing costs have contributed to the annual increase in the consumer price index continuing to rise; it reached 4¾ per cent in March before falling back to 3% recently (partly due to a change in the way housing costs enter the index). At the same time, despite reviving exports, torrid import growth has meant that the current account deficit has been widening rapidly, reaching 8% of GDP in 2004.

Monetary conditions have tightened, but fiscal restraint is ending

Following several gradual increases, the Central Bank raised its policy interest rate by 1 percentage point in December as it became clear that, in the period ahead, fiscal policy would be less helpful than expected, while inflation expectations were mounting steadily, counteracting the Bank's tightening moves. Nonetheless, a tempo-

Iceland





1. Inverted scale. A rise therefore indicated an appreciation.
Source: Central Bank of Iceland and Statistics Iceland.

Iceland: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion ISK	Percentage changes, volume (1990 prices)				
Private consumption	408.0	-1.4	6.6	7.5	7.5	5.0
Government consumption	176.7	3.2	3.5	3.6	2.4	2.5
Gross fixed capital formation	165.6	-20.9	17.0	12.8	23.6	8.0
Final domestic demand	750.2	-4.8	7.9	7.8	9.9	5.2
Stockbuilding [1]	- 2.1	0.4	-0.1	-0.1	-0.2	0.0
Total domestic demand	748.1	-4.5	7.8	7.7	9.7	5.3
Exports of goods and services	299.4	3.9	1.4	8.3	8.2	6.7
Imports of goods and services	306.9	-2.6	10.5	14.3	16.3	6.4
Net exports [1]	- 7.5	2.5	-3.5	-2.7	-4.0	-0.4
GDP at market prices	740.6	-2.1	4.2	5.2	6.2	5.3
GDP deflator	_	5.7	-0.1	2.4	3.4	3.4
Memorandum items						
Consumer price index	_	5.2	2.1	3.2	4.0	3.6
Private consumption deflator	_	4.4	0.7	2.3	3.3	3.2
Unemployment rate	_	3.3	3.4	3.1	2.8	2.3
General government financial balance [2]	_	0.2	-1.0	0.4	1.1	1.1
Current account balance [2]	_	1.1	-5.3	-8.1	-12.4	-12.3

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 77 database.

rary overshoot of the authorities' upper tolerance limit for inflation could not be avoided, obliging the Bank to submit a report to the government in February explaining the reasons for the deviation, the policy response and the time needed to reach the 2½ per cent target again. At the same time, the Bank announced a ½ percentage point interest-rate increase, which was followed by another ¼ point hike in March, bringing its policy rate to 9%. After moving into deficit in the first year of the recovery, general government finances returned to a surplus of ½ per cent of GDP in 2004. About one half of this swing was due to discretionary measures. Much higher revenues (as nominal GDP growth was double the budget estimate) outweighed higher spending than envisaged (in particular at the local government level). Although government finances should remain in surplus through 2006, the tax cuts passed late last year mean that fiscal tightening will probably come to a halt just when the investment projects peak.

Avoiding a hard landing of the economy will be challenging

Economic growth is projected to exceed 6% in 2005 before slowing in response to a gradual cooling in household demand, as the higher interest rates begin to bite, and to a pronounced decline in investment activity when the mega-projects near completion. The current account deficit is expected to start declining after peaking at 12½ per cent of GDP this year. Inflation is projected to pick up in the short run due to the reversal of the currency appreciation and then to recede gradually owing to the tight monetary stance. However, the unwinding of economic imbalances might well not be so smooth. There is a risk that multi-year wage contracts will be revoked late this year, given inflation well above the official target and higher wage settlements in the interim. The exchange rate, which is assumed to remain constant, may fall sharply as capital inflows slow in the face of a continued high external imbalance, putting upward pressure on interest rates. In these circumstances, much will depend on the fiscal stance, both at the central and local government levels, suggesting that some early fiscal tightening would be prudent, reducing the risks of a hard landing.

Ireland

Growth is projected to continue steadily at a rate of close to 5%. Domestic demand should expand rapidly as strong income growth continues and government spending provides additional impetus. Despite strong wage growth, inflation is projected to remain relatively muted, edging up to 2¾ per cent in 2006. At the same time, increasing unit labour costs weigh on competitiveness.

Strong wage pressures in some sheltered sectors, where regulations limit the scope for competition, could revive inflation. Further liberalisation in network industries, in retail distribution and in professional services would improve resource allocation and help curb the risk of renewed price and wage inflation.

The economy is growing strongly

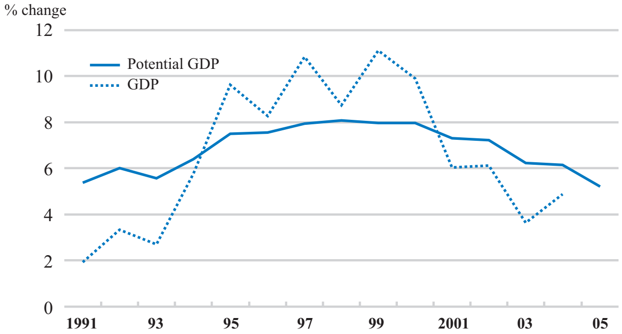
Confirming the cyclical rebound from the relatively modest performance of 2003, GDP growth reached 4.9% in 2004 and looks set to continue strongly in 2005. Benefiting *inter alia* from the upturn in the global information and communication technology market, net exports have played a leading role despite the euro appreciation. Private investment has also provided an important contribution to the cyclical upswing while consumption growth has been comparatively muted. The euro's strength has helped contain consumer price inflation at 2.2% in April 2005. Job creation has been strong, with employment expanding by 3% in 2004, and the unemployment rate has remained low and was only 4.2% in April 2005.

Irish exports are becoming less competitive

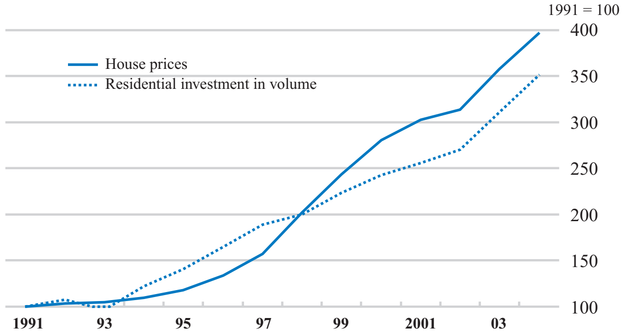
The recent strength of export volume growth masks a gradual deterioration in international competitiveness. This trend goes beyond the euro appreciation since 2002, which exporters have partly absorbed by lowering prices, a process which cannot be sustained indefinitely. Over the last decade, labour productivity growth has been robust at an annual average of 3.7% but compensation has risen faster, thus pushing unit labour costs up. These developments suggest that the "Celtic tiger" era of massive foreign direct investment flows spurring double digit growth rates is over, even if the fundamentals in terms of trend growth in labour productivity and labour force participation remain strong by international comparison. Potential growth is estimated to be at around 5% – a rate that is still dwarfing the performance of most other euro area countries.

Ireland

Potential growth is slowing



The housing boom continues[1]



1. Estimates for 2004.
Source: OECD, Economic Outlook 77 database and European Mortgage Federation.

Ireland: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption	53.6	2.6	2.6	3.2	4.3	4.9
Government consumption	16.2	8.8	2.6	2.9	3.1	3.5
Gross fixed capital formation	27.0	3.0	3.5	9.2	4.4	2.9
Final domestic demand	96.8	3.8	2.8	4.6	4.1	4.1
Stockbuilding[1]	0.4	-0.2	0.5	-0.5	0.0	0.0
Total domestic demand	97.1	3.5	3.3	4.0	4.1	4.1
Exports of goods and services	113.6	5.7	-0.9	4.4	7.4	7.5
Imports of goods and services	96.3	3.4	-2.3	2.6	6.9	7.3
Net exports[1]	17.3	3.1	1.1	2.3	1.9	1.7
GDP at market prices	115.4	6.1	3.6	4.9	5.3	5.0
GDP deflator	_	4.5	1.6	3.5	2.8	3.1
Memorandum items						
Harmonised index of consumer prices	_	4.7	4.0	2.3	2.5	2.7
Private consumption deflator	_	6.0	4.0	2.3	2.6	2.7
Unemployment rate	_	4.4	4.6	4.4	4.4	4.3
General government financial balance[2]	_	-0.3	0.2	1.3	-0.7	-0.7
Current account balance[2]	_	-1.3	-1.4	-0.4	0.6	1.5

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 77 database.

Fiscal and monetary policy are easy

The policy environment is likely to remain expansionary, particularly in light of the assumed lowering of the European Central Bank's key rate to 1½ per cent. Real short-term interest rates are thus strongly negative and may remain so through much of 2006. This will contribute to sustaining the housing boom. Fiscal policy is also projected to support activity. The government has reaffirmed its commitment to reach its infrastructure investment targets and announced its intent to increase funding for health services and tertiary education. The cyclically-adjusted budget balance is projected to turn negative in 2005 and remain stable in 2006.

Output growth is projected to be strong even if moderating…

GDP should edge up to 5¼ per cent in 2005 and then, as export growth flags, slightly decelerate to 5% in 2006. Consumption, both private and public, will make an increasing contribution to growth. Rapidly rising compensation in the private sector is expected to fuel household consumption, which should further accelerate in 2006 when the first third of government-sponsored Special Savings Incentive Accounts expires. Strong wage growth at 5¼ per cent, only partly offset by high labour productivity growth, is projected to push up consumer prices, with core inflation creeping up from 2.1% in 2004 to 2½ per cent in 2005 and 2¾ per cent in 2006.

… provided downside risks do not materialise

There are some downside risks to the projection. House prices are projected to slow down somewhat in 2005 and 2006. But, in case of a hard landing, possibly spurred by a stronger than expected increase in long-term interest rates, currently buoyant investment in residential property could grind to a halt, with negative wealth effects denting private consumption. The possibility of further euro appreciation poses a risk to Irish exports, 60% of which are shipped to destinations outside the euro area.

Korea

Buoyant exports, driven in large part by China, have led the expansion, while domestic demand has remained weak since the end of the household credit bubble. A gradual recovery in private consumption is projected to sustain economic growth in the 4 to 5% range in 2005 and 2006, despite some moderation in export growth.

Further reforms are needed to address the structural causes of weak domestic demand, notably debt delinquency and problems that discourage business investment. Monetary policy should maintain its expansionary stance until domestic demand recovers, while the appreciation of the won should be allowed to continue, in line with the country's flexible exchange rate policy. The recently announced "Comprehensive Investment Plan", which is intended to boost demand, should aim at promoting economic efficiency.

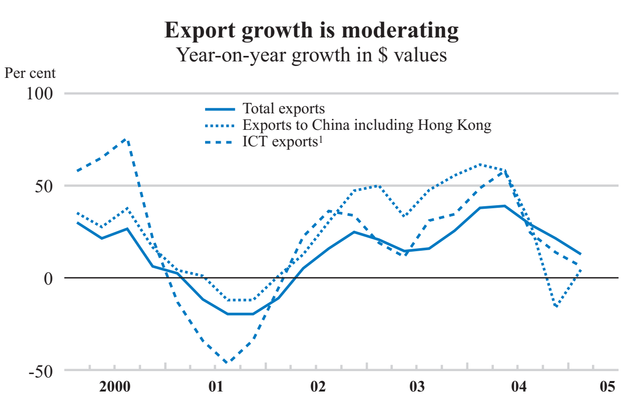
The key driver of growth is shifting from exports to domestic demand…

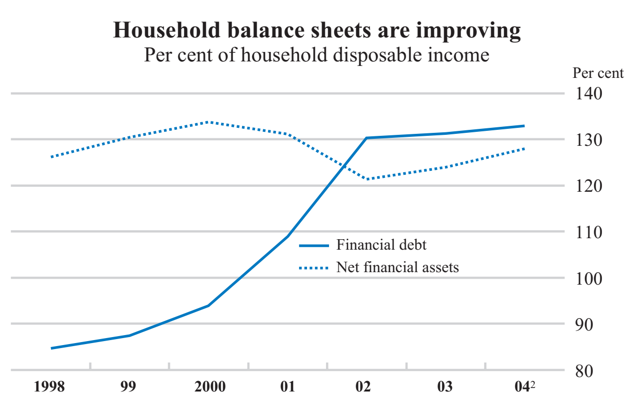
While domestic demand remained subdued, export growth of nearly 20% in 2004 has been the main factor in the economic recovery. China has been the key market, accounting for a quarter of the export increase. Given the export-led nature of the expansion, manufacturing accounted for more than half of the output gains in 2004, in contrast to weak growth in the service sector. Despite the unbalanced recovery, employment growth rebounded strongly from its decline in 2003. With wage growth accelerating, private consumption turned positive in the latter half of 2004 for the first time since 2002.

… thanks in part to the improvement in household balance sheets…

The turnaround in private consumption also reflects progress in overcoming the negative aftermath of the household credit bubble. Policies to encourage the use of credit cards, combined with a sharp increase in real estate-related loans, had boosted household debt from 85% of disposable income in 1999 to 131% in 2002, creating problems in the financial sector. Since then, households' net financial assets (relative to income) have rebounded from the 2002 trough. Nevertheless, the impact of the credit bubble remains significant; 3.6 million persons – equivalent to 10% of the working-age population – are delinquent in their credit repayments by at least three months. The government has launched a number of programmes, such as workouts and the creation of a bad bank, to deal with this problem. However, the sluggish real estate market, which accounts for more than 80% of household assets, has put the household sector under liquidity pressure.

Korea





1. Information and communication technology products, including semi-conductors.
2. OECD estimate of disposable income.
Source: Bank of Korea.

Korea: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices trillion KRW	Percentage changes, volume (2000 prices)				
Private consumption	343.4	7.9	-1.2	-0.5	2.6	4.2
Government consumption	80.3	6.0	3.8	3.0	3.4	3.4
Gross fixed capital formation	183.8	6.6	4.0	1.9	4.4	4.4
Final domestic demand	607.5	7.3	1.0	0.7	3.3	4.2
Stockbuilding [1]	- 1.3	-0.2	-0.5	0.8	0.0	0.0
Total domestic demand	606.2	7.0	0.5	1.6	3.3	4.1
Exports of goods and services	235.2	13.3	15.6	19.7	9.8	13.2
Imports of goods and services	220.9	15.2	10.1	13.8	8.7	13.1
Net exports [1]	14.3	-0.2	2.5	3.4	1.3	1.3
Statistical discrepancy [1]	1.7	0.4	0.0	-0.3	0.0	0.0
GDP at market prices	622.1	7.0	3.1	4.6	4.3	5.0
GDP deflator	_	2.8	2.7	2.7	1.0	1.0
Memorandum items						
Consumer price index	_	2.8	3.5	3.6	3.2	3.0
Private consumption deflator	_	2.8	3.4	3.5	3.3	3.1
Unemployment rate	_	3.1	3.4	3.5	3.4	3.3
Household saving ratio [2]	_	1.5	3.6	4.9	5.2	5.6
General government financial balance [3]	_	5.5	3.7	2.9	2.8	2.9
Current account balance [3]	_	1.0	1.9	4.1	3.0	1.7

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of disposable income.
3. As a percentage of GDP.
Source: OECD Economic Outlook 77 database.

… as well as tax cuts and the easing of monetary policy…

The impact of fiscal policy is likely to be slightly expansionary in 2005, with government spending set to rise by almost 9%. In addition, tax reductions, notably a 1 percentage point cut in income tax rates and the elimination of excise taxes on some luxury items, may encourage private consumption. The government has also announced a “Comprehensive Investment Plan” aimed at boosting infrastructure spending through the participation of private-sector firms and the use of non-budget revenues. As for monetary policy, the Bank of Korea cut its short-term policy rate in November 2004 to a record low of 3¼ per cent, a level close to the expected rate of inflation in 2005. The easing of monetary conditions, though, was partly offset by a 15% appreciation in the effective exchange rate since the first quarter of 2004. The strengthening of the won occurred despite intervention aimed at smoothing the currency’s rise, which helped boost Korea’s foreign exchange reserves to over $200 billion in early 2005.

The economic expansion is projected to continue through 2006

The appreciation of the exchange rate, together with slower growth in Korea’s export markets, is likely to reduce export growth significantly from its pace in 2004. However, an acceleration in domestic demand growth is projected to sustain growth of 4 to 5% through 2006. With the improvement in consumer sentiment in early 2005 to its highest level in three years, continued income gains should support a further recovery in private consumption. However, consumption growth is expected to lag behind income gains as the household sector is likely to continue increasing its saving rate from the record low of 1.5% reached in 2002. Business investment should also recover given that the capacity utilisation rate is above its historical average. Stronger domestic demand growth is likely to halve the current account surplus from its 2004 level of 4% of GDP by 2006. The main risk to domestic demand led growth appears to be debt delinquency problems that could prevent a pick-up in private consumption. On the external side, a significant appreciation of the won would result in a stronger-than-expected slowdown in exports.

Luxembourg

GDP growth is projected to slow to 3.3% in 2005 owing to weaker exports but to recover to 4% in 2006 as both exports and domestic demand strengthen. Harmonised consumer price inflation in 2005 should be pushed up towards 3% because of the high weight of oil products but then it is expected to ease to less than 2% in 2006. Unemployment will come down a little, but most of the employment increase continues to come from abroad.

The growth recovery should be used to initiate structural reforms to put fiscal balances on a sustainable path, notably by reducing replacement rates in the very generous first pillar pension scheme.

Consumer demand is set to pick up only moderately

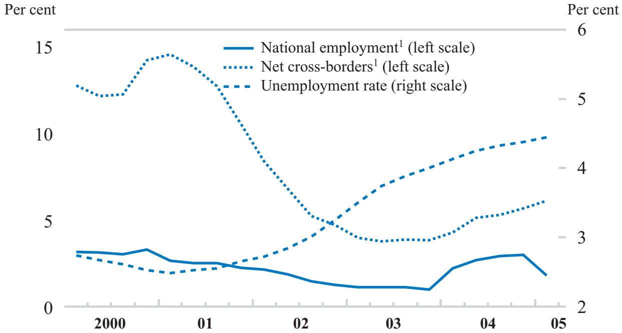
Luxembourg benefited strongly from the recovery in world trade in 2004, not only because of a stabilisation of financial services activities but also through terms of trade gains favouring its traditional steel sector. GDP growth for 2004 is estimated to have been around 4%, one of the highest rates in the OECD. However, the recent surge in oil prices and slowing trade growth have damped the outlook for exports in the near future, something that is also reflected in deteriorating order books. Unemployment has risen above 4% because the turnaround in employment is to a large extent benefiting cross-border workers. Nevertheless employment of residents is also increasing. Production expectations remain good; consumer confidence held up well until end 2004, though weakening recently. As a consequence of modest wage growth in 2003, there has been a further slowdown in the underlying inflation rate. High oil prices are exaggerating the inflation threat for Luxembourg, which comes from the high weight of oil products in the harmonised consumer price index.

Government budgets are deteriorating

The rise in the budget deficit remain limited during the projection period, but the underlying deterioration is worrying also because revenues have been boosted by possibly transitory developments like value-added tax payments by electronic service providers with headquarters in Luxembourg. The main driving force behind the trend deterioration of the budget is the decline in tax revenues associated with past tax reforms and the revenue shortfalls in the wake of the slump in financial sector profits. Contrary to the picture for revenues, public expenditure growth remains unabated in the absence of appropriate measures curbing generous benefits.

Luxembourg

Growing employment continues to come from abroad



Oil prices are a main driver of inflation
Year-on-year percentage change

1. Year-on-year percentage change.
Source: Central Service for Statistics and Economic Studies (STATEC).

Luxembourg: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion €	Percentage changes, volume (2000 prices)				
Private consumption	9.2	3.2	1.6	1.4	1.5	2.2
Government consumption	3.7	3.2	5.0	6.0	4.5	3.5
Gross fixed capital formation	5.0	-1.1	-6.3	3.5	2.5	5.0
Final domestic demand	18.0	2.0	0.2	2.9	2.4	3.2
Stockbuilding[1]	0.2	-1.8	2.0	-1.0	0.0	0.0
Total domestic demand	18.2	-0.2	2.6	1.7	2.4	3.2
Exports of goods and services	33.7	-0.6	1.8	8.2	5.2	6.5
Imports of goods and services	29.9	-2.6	1.6	6.8	5.0	6.6
Net exports[1]	3.8	2.5	0.6	3.5	1.5	1.4
GDP at market prices	22.0	2.5	2.9	4.5	3.3	3.9
GDP deflator	_	1.1	2.1	2.5	2.1	2.1
Memorandum items						
Harmonised index of consumer prices	_	2.1	2.5	3.2	2.7	1.7
Private consumption deflator	_	2.1	1.9	2.1	2.1	1.9
Unemployment rate	_	3.0	3.8	4.3	4.4	4.3
General government financial balance[2]	_	2.3	0.5	-1.1	-1.5	-1.5

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 77 database.

The growth slowdown should only be temporary

The pause in the expansion of world trade at the beginning of the year as well as the deterioration in the economic climate in neighbouring countries impacts negatively on export growth in Luxembourg. However, these developments should only be temporary and give way to more positive fundamentals favouring Luxembourg: industry will continue to benefit from the robust commodity boom worldwide; the recovery of the financial sector will proceed; and the dynamic business services sector, including the traditionally important logistics sector, should grow strongly. This will provide the basis for employment growth, which should be high enough to achieve a small decline in unemployment in 2006. A better outlook on the labour market is crucial for a turnaround of consumer sentiment and the projected strengthening of private consumption expenditures. All in all, GDP growth can be expected to slow in 2005 but to pick up to around 4% in 2006, a rate close to but still below potential, thus preventing a wage-price spiral from developing. Inflation will drop sharply once the oil price increases drop out of the year-on-year comparison. However, there is a risk that the delay in the recovery of the euro area may adversely affect export prospects, industrial confidence and investment.

Mexico

Growth quickened after mid-2004, underpinned principally by robust domestic demand, and prospects are expected to remain bright despite a projected slowdown of foreign demand. After a sharp rise, headline inflation turned down again in early 2005 and core inflation eased.

Faced with rising inflation expectations, the successive moves over 2003-05 to tighten the monetary policy stance have been appropriate. On the fiscal front, the 2004 budget target was easily met, thanks to higher-than-projected oil revenues. The supportive revenue environment is expected to allow further consolidation of public finances. But a revenue-enhancing tax reform remains essential to reduce the vulnerability of public finances to oil price changes.

Buoyant domestic demand has underpinned strong growth

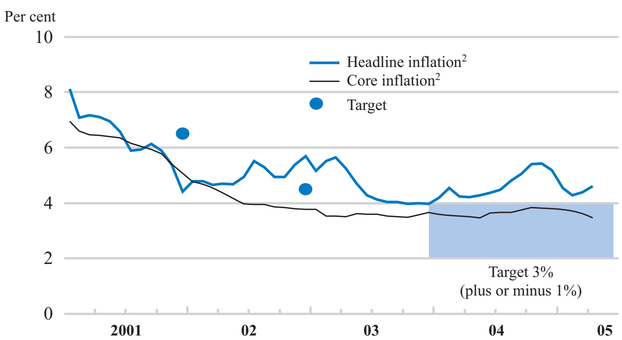
Real GDP growth reached 4.4% in 2004, the highest growth since 2000, helped by a strong US economy and high oil prices. Growth in private consumption and investment was robust, and public investment picked up sharply in the fourth quarter of 2004 fuelled by windfall gains on account of high oil prices. Mexico's export performance was good, despite some weakening near year end. The current account deficit narrowed, thanks to record migrants' remittances (up 24% in one year); and net foreign direct investment inflows reached 2.5% of GDP. After mid-2004 the peso appreciated against the US dollar, recovering some of the ground lost over the first six months. Consumer price inflation rose to 5.2% in December 2004, largely reflecting supply-side shocks while core inflation increased only slightly.

The monetary stance has been tightened…

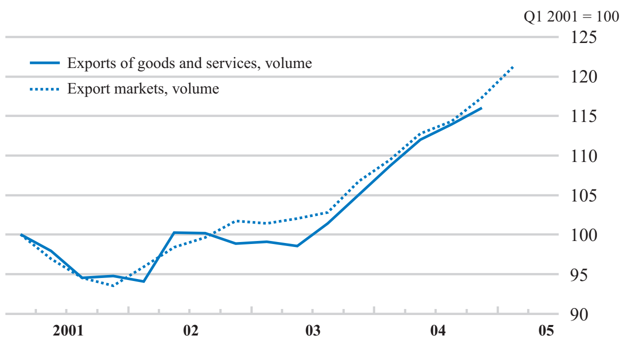
In response to rising inflationary pressures, the central bank tightened its policy stance several times in 2004 and early 2005, and short-term interest rates rose substantially faster than in the United States. By early May 2005 the three-month Cetes had risen by 5 percentage points above the mid-2003 low, to 10%. Inflation expectations, which had been rising steadily until the end of 2004, turned back down in early 2005 to below 4% for December 2005, falling within the central bank target range of 3% with a variability interval of plus or minus 1 point. The projections are based on the assumption that short-term rates continue edging up in line with US rates. This, together with the recent appreciation of the peso which is not projected to be reversed, implies continued firmness of the monetary stance, which is appropriate to keep disinflation on course.

Mexico

Inflation has risen above the 2004 target[1]



Exports are keeping pace with markets



1. The target is based on the consumer price index headline inflation.
2. Year-on-year percentage change. Core inflation excludes food and other items with erratic developments.

Source: OECD Economic Outlook 77 database; Bank of Mexico.

Mexico: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion MXN	Percentage changes, volume (1993 prices)				
Private consumption	4 044.9	1.6	2.3	5.5	4.8	4.3
Government consumption	683.4	-0.3	0.8	-1.2	-0.6	2.2
Gross fixed capital formation	1 162.0	-0.6	0.4	7.5	7.6	6.3
Final domestic demand	5 890.2	1.0	1.8	5.3	4.9	4.5
Stockbuilding[1]	53.4	-0.1	-1.0	-1.1	0.1	0.0
Total domestic demand	5 943.6	0.8	0.7	4.1	4.9	4.5
Exports of goods and services	1 598.5	1.6	2.7	11.5	7.6	7.4
Imports of goods and services	1 730.4	1.5	0.7	10.2	9.7	8.0
Net exports[1]	- 131.9	0.0	0.7	0.2	-1.0	-0.5
GDP at market prices	5 811.8	0.8	1.4	4.4	4.0	4.2
GDP deflator	_	7.0	8.5	6.1	6.3	3.8
Memorandum items						
Consumer price index	_	5.0	4.5	4.7	4.4	3.7
Private consumption deflator	_	5.3	6.9	4.7	4.6	3.6
Unemployment rate[2]	_	2.4	2.5	3.0	3.9	3.8
Current account balance[3]	_	-2.1	-1.3	-1.3	-1.9	-2.0

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. Based on National Employment Survey.
3. As a percentage of GDP.
Source: OECD Economic Outlook 77 database.

… while fiscal policy settings remain prudent

The public sector financial deficit was on target at ¼ per cent of GDP in 2004 and the public sector borrowing requirement (PSBR) came down to 2.5% of GDP (excluding non-recurrent revenue). Higher revenue on account of oil allowed some increase in both public investment and in the primary surplus. In accordance with budget rules, the spending increase was limited and part of the revenue windfalls was transferred to the oil stabilisation fund. The 2005 budget envisages a slight decline in the public sector deficit (both narrow and broad definition). An oil price fall of $5 per barrel is assumed in the budget projections. While public investment is expected to continue to increase, budget targets should be easy to reach, based on the OECD oil price assumption of a small increase in oil prices year on year.

Growth should slow to around 4%

Export markets are likely to become less supportive over the projection period and competition from China will continue to be felt, so that export growth looks set to decelerate. However, employment growth in the formal sector should continue to sustain the expansion of household consumption. Furthermore, with oil prices assumed to remain high in 2005 and presidential elections in mid-2006, public spending will likely continue to provide some stimulus to activity. Overall, GDP growth is projected to average about 4% this year and in 2006. The current account deficit is likely to remain moderate and should continue to be comfortably financed by net foreign direct investment inflows.

Vulnerabilities to external risks persist

This benign outlook remains subject to uncertainties. One of the main vulnerabilities of the Mexican economy lies in the dependency of budget revenue on world oil prices, while core spending programmes need predictable funding. And it has still not proved possible to find a consensus for a tax package that strengthens revenue while reducing distortions.

Netherlands

Economic growth turned negative at the end of 2004 and in the first quarter of 2005, interrupting the short and weak recovery that was underway. This slowdown reflected deteriorating net exports following the appreciation of the euro and depressed domestic demand in the first quarter of 2005. Following weakness in recent months, exports are projected to strengthen during 2005, leading to a more broadly based recovery and lifting growth to 1.7% in 2006. Employment, however, may only recover gradually, with the unemployment rate continuing to rise in 2005 but falling to 6.1% in 2006. Core inflation is expected to edge down further.

The government should complement the reforms stimulating labour supply with measures to reduce poverty traps in order to enhance employment prospects for low-skilled workers.

The export-led recovery has been interrupted…

Real GDP growth slowed sharply to a quarterly rate of –0.1% in the fourth quarter of 2004 and –0.2% in the first quarter of 2005, bringing average growth for the year 2004 to 1.3%, again less than in the euro area. While net exports contributed strongly to growth in the first half of 2004, they decelerated markedly in the second, owing to the appreciation of the euro. The pick up in private consumption expenditure evident in the first half of 2004 also faltered in the second as rising energy prices and deteriorating labour-market conditions depressed growth in disposable incomes. The household savings rate rose again in 2004 reflecting precautionary motives and increases in pension fund contribution rates. Business investment and employment further deteriorated in the third quarter before slowly picking up by the end of the year.

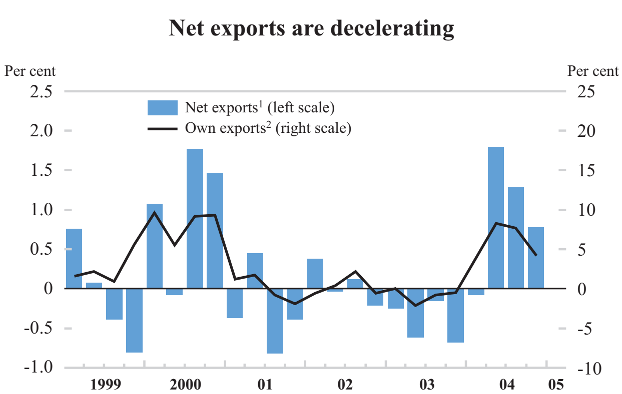
… further depressing wages and prices

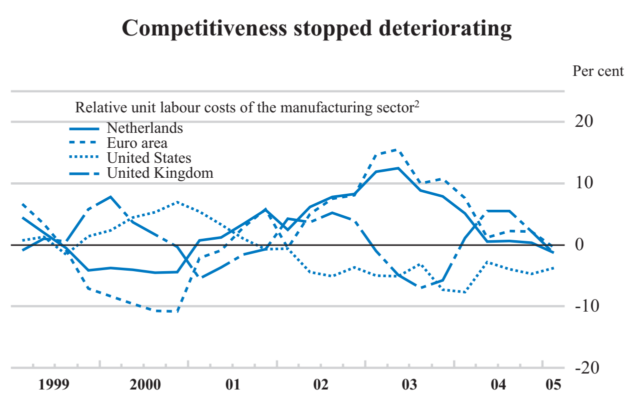
The worsened outlook for consumption and employment has continued to put downward pressures on price inflation and wage growth, with a deceleration of contractual wage growth in the market sector from 4.2% in 2001 to 1.5% in 2004. Consequently, despite rising energy prices, headline inflation decelerated to 1.5%, well below the euro area average, with core inflation decelerating even further to 0.7% in early 2005, down from 1.7% in 2004Q1.

Fiscal policy reacted rapidly to respect the 3% threshold

The budget deficit was brought to below 3% of GDP in 2004, reflecting both the consolidation – mainly on the expenditure side – that was programmed in the initial 2004 budget and additional measures amounting to ½ per cent of GDP, undertaken at the beginning of the year. Half of these additional measures represented anticipated 2005 revenues and postponed investment expenditure, accounting for the expected smaller improvement in the cyclically-adjusted balance in 2005. Nonetheless, the Budget for 2005 contains an additional consolidation effort of 0.4% of GDP, half of which will be

Netherlands





1. Contribution to changes in real GDP growth.
2. Year-on-year percentage change.
Source: OECD National accounts and Economic Outlook 77 database.

Netherlands: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion €	Percentage changes, volume				
Private consumption	212.8	1.3	-0.9	0.3	-0.3	-3.6
Government consumption	100.9	3.6	1.8	-0.2	0.5	9.9
Gross fixed capital formation	92.9	-3.6	-3.1	2.5	1.9	2.5
Final domestic demand	406.6	0.7	-0.7	0.6	0.4	1.2
Stockbuilding[1]	0.0	-0.2	0.2	0.0	0.3	0.0
Total domestic demand	406.6	0.5	-0.5	0.6	0.8	1.2
Exports of goods and services	280.0	0.8	0.0	8.3	0.7	7.3
Imports of goods and services	257.3	0.8	0.6	7.5	1.9	7.1
Net exports[1]	22.7	0.1	-0.4	0.9	-0.8	0.5
GDP at market prices	429.3	0.6	-0.9	1.4	0.5	1.7
GDP deflator	_	3.1	3.0	1.2	1.4	0.1
Memorandum items						
Harmonised index of consumer prices	_	3.9	2.2	1.4	1.0	-3.8
Private consumption deflator	_	2.7	2.3	1.2	0.9	0.5
Unemployment rate	_	2.9	4.1	5.0	6.3	6.1
Household saving ratio[2]	_	10.0	10.1	9.4	9.0	9.1
General government financial balance[3]	_	-1.9	-3.2	-2.3	-2.2	-1.7
Current account balance[3]	_	3.1	2.9	4.1	4.4	4.6

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see OECD Economic Outlook Sources and Methods, *(http://www.oecd.org/eco/sources-and-methods).*
1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of disposable income, including savings in life insurance and pension schemes.
3. As a percentage of GDP.
Source: OECD Economic Outlook 77 database.

achieved through lower social expenditure (tighter access rules to unemployment and disability benefit, lower sickness reintegration subsidies and introduction of no-claim rules reducing consumption by health funds). The other half originates in higher marginal income taxes for middle-income earners and higher energy taxes, which more than offset tax reductions for corporations and the self-employed amounting to 0.4% of GDP. A new health care insurance scheme is to be implemented in 2006, backed by public guarantees that should nevertheless not affect public deficits. Based on announced policies, the OECD projects that the budget deficit will fall to 1¾ per cent of GDP in 2006.

The recovery continues to depend on exports but should broaden in 2006

As the upswing broadens in the euro area and output growth remains at or above potential in other trading partner regions, activity in the Netherlands is expected to firm. With world trade growth regaining steam and the expected slight decline in real wages helping to restore cost competitiveness further, exports will continue to be the driving force. Better sales prospects will improve the financial situation of firms along with an increase in capacity utilisation, so that business investment should gradually gain strength and employment start growing moderately in 2005 and at a faster pace in 2006. The turnaround in employment is supported by the reforms increasing labour supply, which will also raise the unemployment rate temporarily in the current year, after which it is projected to fall to 6.1% in 2006. With increases in real house prices having apparently bottomed out at still moderately positive rates and households further improving their balance sheets, growth in private consumption is expected to exceed that in real disposable income in 2006.

External risks are on the downside

With the strong reliance on exports, a further appreciation of the euro and weaker than projected international trade represent external risks to the outlook, as would a continued increase in oil prices. A larger than expected increase in long-term interest rates could reduce house prices, depressing private consumption.

New Zealand

Economic growth has been running ahead of potential, with labour shortages and inflationary pressures mounting. Higher interest rates will damp domestic demand through the coming year, although this will be offset by the income effects of the "working for families" package. Increased business investment will help ease capacity constraints and pave the way for higher productivity growth and increasing real wages. Demand also continues to be boosted by a vigorous expansion in government consumption.

With the pace of activity now slowing, the recent monetary tightening should be sufficient to limit inflation, given the appreciation of the exchange rate. But additional fiscal stimulus beyond that already planned could put the projected soft landing at risk and would need to be offset by higher interest rates in order to bring the economy back onto a sustainable growth path.

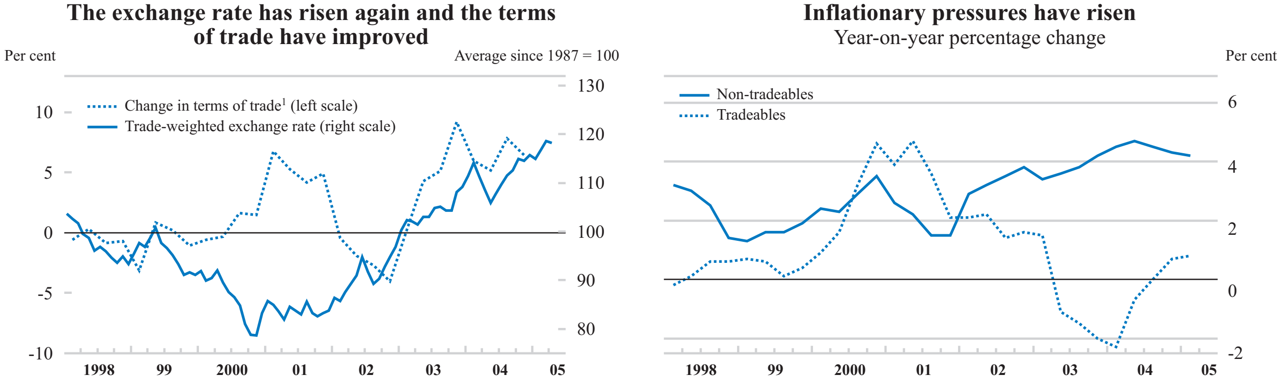
The pace of activity is starting to slow…

Domestic demand growth has weakened n the final quarter of 2004 significantly, once military equipment purchases are set aside, although the country continues to benefit from large terms-of-trade improvements. Real incomes have risen sharply, reflecting both wage gains and a further boost to employment. Nonetheless, household consumption growth is starting to ease as higher interest rates take effect. House prices have remained surprisingly resilient, although residential construction has been shrinking since the middle of 2004, and rents are reportedly starting to fall. Business investment continues to benefit from the high New Zealand dollar, and although business confidence has weakened, export market prospects are bright. But strong import growth and a significant jump in investment income outflows, reflecting profits of foreign-owned firms, have pushed the current account deficit to high levels.

… but inflationary pressures remain

The labour market remains under pressure, with the unemployment rate currently just below 4% and shortages of both skilled and unskilled labour becoming more widespread, despite the significant expansion of the labour force. Real wages have responded with the largest increases seen in many years. Inflation has also continued to mount, with consumer price inflation nudging the upper bound of the Reserve Bank's target band. The moderating effect of the exchange rate appreciation on tradeables prices has been offset by the flow-through of higher oil prices, and non-tradeables inflation remains above 4% (year-on-year). Inflationary expectations are still close to 3%.

New Zealand



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

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

	2001	2002	2003	2004	2005	2006
	Current prices billion NZD	Percentage changes, volume				
Private consumption	71.3	4.2	5.1	6.1	2.4	1.4
Government consumption	21.5	2.9	2.3	6.4	7.2	3.5
Gross fixed capital formation	23.7	10.7	10.8	13.1	2.2	3.2
Final domestic demand	116.5	5.3	5.8	7.6	3.2	2.2
Stockbuilding [1]	1.7	0.2	-0.3	0.4	0.3	-0.4
Total domestic demand	118.2	5.6	5.3	8.0	3.8	2.3
Exports of goods and services	43.5	6.3	1.7	5.2	5.4	8.3
Imports of goods and services	39.8	9.6	7.9	15.8	6.7	6.3
Net exports [1]	3.7	-0.9	-1.9	-3.6	-0.7	0.3
GDP at market prices	121.9	4.6	3.3	4.4	2.9	2.4
GDP deflator	_	0.4	2.0	3.9	3.1	2.1
Memorandum items						
GDP (production)	_	4.7	3.4	4.8	2.9	2.4
Consumer price index	_	2.7	1.8	2.3	3.2	2.8
Private consumption deflator	_	1.9	0.6	0.8	1.9	2.0
Unemployment rate	_	5.2	4.6	3.9	4.0	4.5
General government financial balance [2]	_	2.9	4.7	4.2	3.2	2.8
Current account balance [2]	_	-3.7	-4.2	-6.3	-6.1	-6.3

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

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

Source: OECD Economic Outlook 77 database.

Monetary conditions have tightened considerably…

Concerned about the ongoing momentum of activity, the Reserve Bank raised its official interest rate by a further ¼ percentage point in early March and the cumulative increase in this since the beginning of 2004 has now reached 1¾ percentage points. This tightening should be sufficient to bring the economy back onto a more sustainable path, giving the Bank room to start easing rates slowly during the course of 2006 as the positive output gap closes. However, its task has been complicated by the fiscal stimulus that has come from additional government spending in 2004 and 2005, and any further relaxation of fiscal policy would need to be offset by higher interest rates.

… and should bring about a soft landing

With GDP growth projected to be lower than potential in both 2005 and 2006, excess demand pressures are expected to disappear by the end of the projection period. But government consumption will be a major contributor to domestic demand growth, with private spending slowing considerably. Exports are projected to become increasingly buoyant as the exchange rate effects dissipate and export market growth picks up. Inflation is projected to fall back only slowly towards the mid-point of the target band, trimming the real value of nominal wage hikes.

But the risks tend to be on the downside

There are several risks to the outlook. Additional fiscal stimulus would crowd out private-sector spending through higher interest rates and jeopardise the projected soft landing. In any case, with the economy close to a turning point in the cycle, monetary judgements are especially difficult: if policy turns out to be too tight, the pace of activity could slow more rapidly and painfully, but if, instead, there remains inflationary pressure in the pipeline, the authorities might need to squeeze markets harder, raising the likelihood of an unwelcome downturn. A further risk would be a more pronounced household reaction to the turnaround in house prices.

Norway

After a soft landing in 2003, growth of Mainland GDP bounced back, reaching 3½ per cent in 2004. Domestic demand gained momentum in the second half, fuelled by historically low real interest rates, favourable terms of trade and rising domestic confidence. Mainland growth is projected to accelerate in 2005 to 3¾ per cent, while slowing to a more sustainable 3% pace in 2006.

Fiscal credibility needs to be reinforced via stricter adherence to the fiscal guidelines, and a less expansionary macro policy stance is necessary to support long term sustainability objectives. In this respect, the spring debate about reforming pensions and labour market incentives will be crucial.

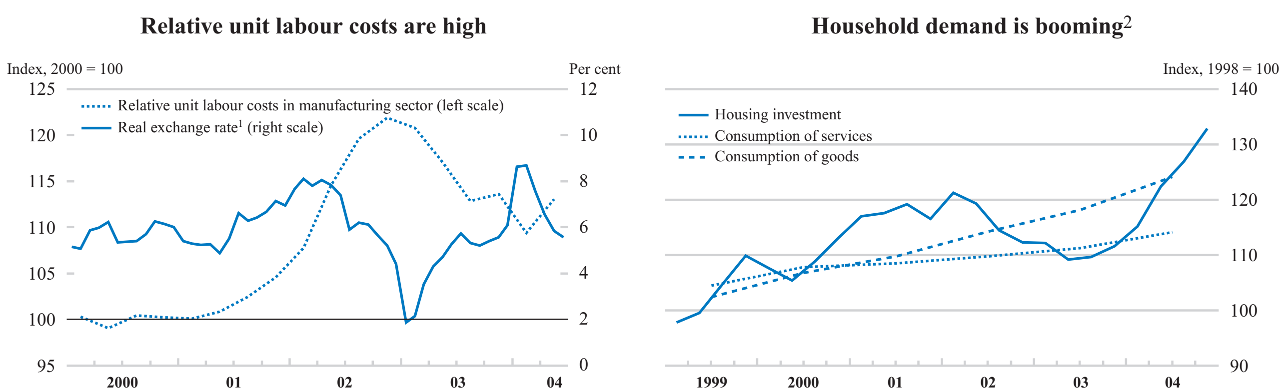
Robust domestic demand and favourable terms of trade boosted growth

Mainland GDP expanded at an annual rate of 5% in the second half of 2004, bringing growth for the year to 3½ per cent. Households raised their spending sharply in response to monetary easing and high real income growth. Non-oil business investment picked-up, following a massive upswing in oil investments. Deteriorating competitiveness resulted in weakening manufacturing exports. Private sector employment has risen since mid 2004 and the unemployment rate has levelled off at around 4½ per cent, slightly above estimates of the natural unemployment rate. Core inflation remained very low in the last months of 2004 thanks to pervasive falls in prices of imported consumer goods as well as strong price declines in recently liberalised service industries. Wages have been moderating thanks to labour market slack and competing low-wage immigrant workers in labour-intensive sectors. However, the output gap closed at the end of 2004, and wage pressures could emerge because of fast-rising demand and declining unemployment.

Macro policies should move towards a less expansionary stance

As the mainland economy is showing some signs of imbalances – high credit growth, record-high housing starts and fast-rising house prices, rapid import growth – monetary conditions should tighten gradually. The non-oil structural deficit has risen by over ½ per cent of GDP each year in 2003 and 2004, and again in the 2005 budget, providing support to the recovery. Despite moderate growth of central government consumption, the fiscal policy guidelines (a non-oil structural deficit of

Norway



1. Consumer price index based.
2. In real terms.
Source: Statistics Norway and OECD Economic Outlook 77 database.

Norway: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion NOK	Percentage changes, volume (2002 prices)				
Private consumption	651.3	3.0	3.0	4.3	4.1	3.0
Government consumption	314.8	3.7	1.4	2.0	1.8	1.8
Gross fixed capital formation	278.9	-1.0	-2.0	8.9	14.5	2.5
Final domestic demand	1 245.1	2.3	1.5	4.6	5.8	2.6
Stockbuilding [1]	20.7	-0.2	-0.9	0.9	0.0	0.0
Total domestic demand	1 265.7	2.1	0.4	5.7	5.7	2.6
Exports of goods and services	697.3	-0.8	1.6	1.3	0.1	2.5
Imports of goods and services	436.8	0.7	2.2	9.0	6.8	2.8
Net exports [1]	260.5	-0.5	0.0	-2.0	-2.0	0.1
GDP at market prices	1 526.2	1.1	0.4	2.9	3.1	2.5
GDP deflator	_	-1.6	2.4	4.9	5.4	2.8
Memorandum items						
Mainland GDP at market prices [2]	_	1.4	0.7	3.5	3.7	3.0
Consumer price index	_	1.3	2.5	0.5	1.4	2.4
Private consumption deflator	_	1.4	2.6	0.7	1.5	2.5
Unemployment rate	_	3.9	4.5	4.5	4.2	3.8
Household saving ratio [3]	_	8.8	9.9	9.6	9.2	4.9
General government financial balance [4]	_	9.3	7.7	11.5	14.4	14.6
Current account balance [4]	_	12.6	12.8	13.8	14.8	14.7

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

Source: OECD Economic Outlook 77 database.

4% of GDP) have been overshot by some 2 percentage points of GDP in each year. Getting back on track would require a modest fiscal tightening over the coming years. However, a continued mild tax relief plan in 2005 (not justified on cyclical grounds) could dent the credibility of the Norwegian fiscal rule.

A strong continuing recovery is projected…

Mainland GDP is projected to expand by 3¾ per cent in 2005, slowing toward 3% in 2006 under the impact of tightening monetary conditions. Private consumption is the main driver of growth, reflecting rising employment, and real wages. Because of a high sensitivity to floating interest rates, residential investment and consumption of durable goods should start to slow by the end of 2006. Business investment is projected to accelerate further in 2005, given high levels of both business confidence and profitability, while financing conditions are still very supportive. In the course of 2005, slowing productivity gains could translate into faster employment growth, and lower unemployment. The external sector should continue to recover, although export market share losses may remain significant because of weak competitiveness. Inflation should rise towards the Norges Bank target of around 2½ per cent by end-2006 in response to the weaker exchange rate and a rising positive output gap.

… and risks of overheating are rising

Domestic overheating could arise if consumption, housing or oil investment, of which intentions are at a record high level, were to grow even more rapidly than projected, given low real interest rates and capacity constraints. A wage response as in the previous upswing boom could justify a sharper and/or earlier monetary tightening. Another risk could be that of greater than assumed fiscal slippage, especially in light of the 2005 elections and of higher than expected oil revenues.

Poland

Economic expansion continued in 2004 despite some slowing in the second half of the year. Activity should remain robust in 2005, although it is expected to decelerate as exports weaken following the appreciation of the zloty. An investment-led recovery is well under way and should gain strength in 2005 as a consequence of accession in the European Union. This will also help to raise employment.

Despite robust growth in 2004, the budget deficit deteriorated substantially. With the expected moderation of GDP growth, public expenditure targets will need to be reinforced if medium-term fiscal sustainability is to be attained. Budgetary slippages could make the task of the central bank more difficult and could also trigger drastic consolidation measures, given the constitutional provisions to limit the level of debt.

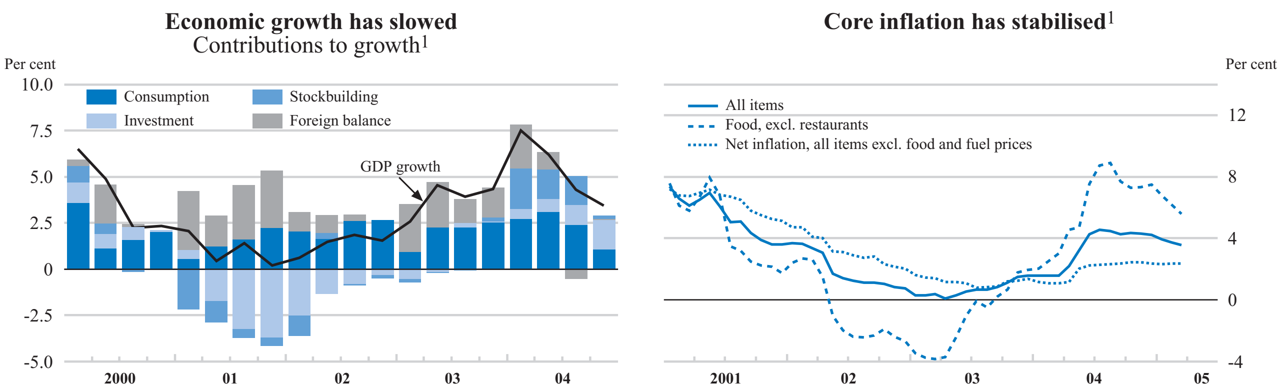
Economic growth decelerated in late 2004

Economic activity decelerated in the second half of 2004, with real GDP increasing at a 4% pace after following almost 7% in the first half of the year (year-on-year). Part of the deceleration arose from the rundown of stocks built up in preparation for Poland's accession to the European Union (EU). Household consumption slowed in response to a fall in real wages caused by the rise in inflation. By contrast, investment rebounded markedly, probably linked to EU accession and the emergence of new investment opportunities, although the development of investment projects in the framework of "co-financing" has only just begun. As the zloty continued to appreciate, exports decelerated, but imports fell in the fourth quarter in response to less dynamic domestic demand and apparent de-stocking. Industrial production continued to slow through March 2005 while household confidence has held up.

Inflation generated moderate upward pressures on wages

After an abrupt jump in the second quarter of 2004, because of higher food prices, inflation decreased gradually but remained over 3.5% in March. Food price inflation is staying fairly high year-on-year, as prices adjust to EU accession. Higher inflation translated into only slightly stronger wage growth, and core inflation, though it rose, remained subdued and below the central bank's official target; policy rates have been cut twice since November. Moderation in real wages has contributed to the improvement of the labour market: total employment rose throughout 2004 and the standardised unemployment rate fell to 18.1% in March from 19.8% in March 2004.

Poland



1. Percentage change from same period of previous year.
Source: Central Statistical Office.

Poland: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion PLZ	Percentage changes, volume				
Private consumption	493.7	3.4	3.0	3.2	3.4	4.1
Government consumption	137.1	0.4	0.1	1.4	1.1	1.0
Gross fixed capital formation	157.2	-5.8	-0.5	5.1	10.0	10.0
Final domestic demand	788.1	1.0	1.9	3.2	4.2	4.7
Stockbuilding [1]	0.5	-0.2	0.7	1.4	0.3	0.0
Total domestic demand	788.6	0.9	2.5	4.4	4.3	4.6
Exports of goods and services	210.6	4.8	14.7	11.4	8.6	7.9
Imports of goods and services	238.6	2.6	9.3	8.7	8.0	8.1
Net exports [1]	- 28.0	0.5	1.3	0.7	0.1	-0.1
GDP at market prices	760.6	1.4	3.8	5.3	4.2	4.5
GDP deflator	_	1.3	0.5	2.9	2.7	2.5
Memorandum items						
Consumer price index	_	1.9	0.7	3.4	2.5	2.6
Private consumption deflator	_	1.6	0.7	3.3	2.6	2.5
Unemployment rate	_	19.9	19.6	19.0	18.2	17.3
General government financial balance [2]	_	-4.9	-3.8	-4.8	-4.3	-4.0
Current account balance [2]	_	-2.6	-2.2	-1.5	-1.3	-1.5

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

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

Source: OECD Economic Outlook 77 database.

Fiscal policy consolidation in 2005 is uncertain

The general government deficit increased in 2004 to 4.8% of GDP from 3.8% in 2003, although revenues benefited from high GDP growth. Despite lower growth in 2005, the deficit should decline with the implementation of the Hausner plan. But the improvement will be less than planned, as some significant measures to reduce spending have been abandoned. This increases the risk that government debt may rise to levels that would trigger more drastic consolidation measures, under constitutional provisions designed to limit the stock of debt.

The recovery should continue

With the recent pace of growth continuing throughout the year, growth in 2005 will be somewhat lower than in 2004. Investment should continue to grow robustly, stimulated by EU accession. Moderate increases in real wages as well as the rebound of investment would lead to more robust growth of employment, although structural labour market weaknesses remain. Sustained by employment growth, EU transfers and confidence, private consumption should regain momentum. Exports, affected by the appreciation of the currency, will grow less strongly. Sustained domestic demand will be reflected in strong imports. Labour productivity will grow more slowly but unit labour costs will accelerate only slightly thanks to moderate wage growth. As a result, inflation should remain moderate. In 2006, with stronger world growth, the easing-off of exchange rate effects and declining oil prices, the growth of output and employment should pick up again.

Public finance and structural reforms remain vital

The main risks remain on the fiscal side and are related to the ability of the government to stick to its planned public expenditure limits. Significant slippage would lead to excessive domestic demand growth that could encourage wage inflation, require monetary tightening and threaten the recovery of employment. The continued upturn in employment and investment could also be threatened if structural reforms are not pursued.

Portugal

The Portuguese economy fell back into recession in the second half of 2004. While activity is expected to recover gradually in the course of 2005, and gain momentum in 2006, the negative output gap could remain among the largest in the OECD over the projection period. Against this background and with the unemployment rate still high, inflation should fall slightly below the euro area average.

If the new government stands by its decision not to rely on one-off measures to curb the fiscal deficit, the 3% of GDP deficit limit would be overshot by a large margin in 2005 and 2006. This underlines the urgent need for consolidation measures, in the form of fundamental reforms rather than temporary fixes.

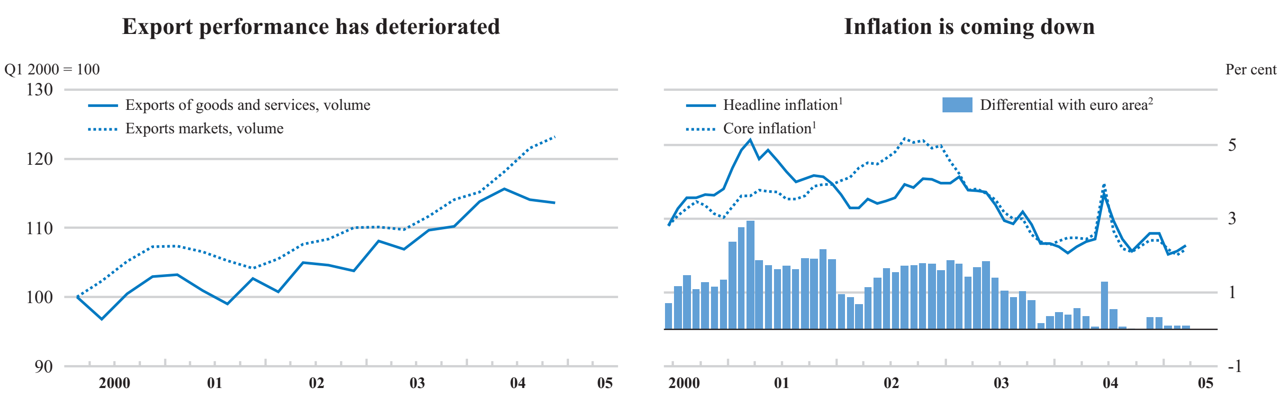
The 2004 recovery was short-lived

The strong recovery that started in late 2003 was short-lived and the Portuguese economy fell back into recession in the second half of 2004. Private consumption continued to support growth (though somewhat erratically on a quarter-to-quarter basis). But following competitiveness losses accumulated since 2001, Portuguese producers lost market shares both at home and abroad. Partly as a result, business confidence deteriorated in the second half of 2004 and private investment contracted. The transitory impact of the Euro 2004 football championship held in June also contributed to the erratic pattern of activity during the year. With strong imports and deteriorating terms of trade, the current account deficit widened by 2.5 percentage points of GDP in 2004 reaching a level of about 8% of GDP. As of March 2005, confidence indicators had not yet recovered and other recent short-term indicators also remained weak. Reflecting rising unemployment, nominal wages and unit labour costs have continued to decelerate and, after widening temporarily in mid-2004, the inflation differential with the euro area has stabilised at 0.1 percentage point above the area average.

Fiscal consolidation has to resume

The fiscal deficit was kept below 3% of GDP in 2004. One-off measures amounting to 2.3% of GDP compensated for current expenditure slippage, in particular on public pensions. Adjusting the structural deficit reduction for the impact of these one-off measures reveals an underlying consolidation effort of 0.4% of GDP. The 2005 budget approved under the previous government targeted a deficit of 2.8% of GDP, based on growth assumptions that now appear optimistic, the implementation of previously decided reforms in public administration and health, and substantial temporary measures. The new government that took office in March 2005 will

Portugal



1. Year-on-year percentage changes. Harmonised index of consumer prices. Core inflation excludes energy, food, alcohol and tobacco.
2. Harmonised index of consumer prices.
Source: OECD Economic Outlook 77 database.

Portugal: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption	75.3	1.1	-0.3	2.3	2.3	2.2
Government consumption	25.6	2.3	0.3	1.2	2.0	2.0
Gross fixed capital formation	33.3	-5.1	-9.9	1.3	0.2	3.6
Final domestic demand	134.1	-0.3	-2.5	1.9	1.8	2.5
Stockbuilding[1]	0.9	-0.1	-0.2	0.2	0.0	0.0
Total domestic demand	135.0	-0.3	-2.7	2.1	1.8	2.5
Exports of goods and services	37.5	2.0	5.0	5.1	1.7	5.8
Imports of goods and services	50.0	-0.2	-0.1	7.0	4.0	5.8
Net exports[1]	- 12.5	0.8	1.8	-1.3	-1.3	-0.6
GDP at market prices	122.5	0.4	-1.1	1.0	0.7	2.1
GDP deflator	_	4.4	2.8	2.4	2.3	1.9
Memorandum items						
Harmonised index of consumer prices	_	3.7	3.3	2.5	1.6	1.6
Private consumption deflator	_	3.5	3.2	2.3	1.8	1.7
Unemployment rate	_	5.0	6.3	6.7	7.2	6.9
Household saving ratio[2]	_	11.5	11.4	11.2	10.7	10.5
General government financial balance[3]	_	-2.7	-3.0	-3.0	-5.3	-4.8
Current account balance[3]	_	-6.7	-5.4	-7.8	-8.9	-8.9

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

Source: OECD Economic Outlook 77 database.

present a supplementary budget in June together with an update of the Stability and Growth Programme. It has announced that it will not resort to one-off measures to curb the deficit in 2005, but will instead introduce major consolidation efforts. In the absence of corrective efforts, the deficit would, on OECD calculations, reach 5.3% in 2005 and fall only to 4.8% in 2006. Hence, forceful implementation of the reforms already approved since 2002 and additional major initiatives are urgently needed to address Portugal's chronic weak spending control. Fundamental structural budget reforms would be preferable to temporary fixes (such as investment cuts and expenditure freezes) which, although sometimes effective in the short term, do not address the underlying problems and create inefficiencies if prolonged.

The recovery depends on exports performance

A gradual recovery is projected in the course of 2005, driven by still robust private consumption and a progressive recovery in exports. Investment and employment are set to recover though with some lag relative to the improvement of business confidence. Average GDP growth would remain low, below 1% in 2005, but strengthen to 2.1% in 2006. The negative output gap would widen again in 2005 before narrowing in 2006, though remaining among the largest in the OECD. Unemployment is not expected to start declining before early 2006. In this context, the inflation differential *vis-à-vis* the euro area might become slightly negative by the end of the projection period.

Risks are tilted to the downside

The main uncertainty in the recovery is the dynamism of exports. Besides the strength of external demand, the ability of Portuguese exporters to recover their competitiveness is key. In this context, it is important that wages do not accelerate early in the recovery process and that the deceleration of unit labour costs continues. On the domestic front, the fiscal policy measures that will be implemented by the new government are still largely unknown at this stage.

Slovak Republic

The expansion in domestic demand that began in the first half of 2004 has gathered pace, and GDP growth is expected to remain in the 4¾ to 6% range over the projection horizon. However, employment growth has disappointed, and the unemployment rate is not expected to fall below 17% until late 2006.

Fiscal policy outcomes have been good, but the plan to adopt the euro in January 2009 will remain credible only if strict adherence to planned expenditure cuts is achieved. Moreover, any sign of overheating or renewed exchange rate appreciation may require tighter fiscal policy.

Strong growth in domestic demand continues

Strong growth in domestic demand continues to be underpinned by gains in private consumption, which itself has benefited from higher real wage growth. Business and consumer confidence have strengthened and investment has also begun to pick up. Import growth has continued to outstrip the strong export performance, in large part due to investment related to the construction of new manufacturing plants. This led the current account deficit to widen to around 3½ per cent of GDP in 2004, although this was easily financed, primarily by strong foreign direct investment flows. However, the recovery has not been job-rich, despite tax and welfare reforms designed to motivate work incentives, and the unemployment rate remains above 17%.

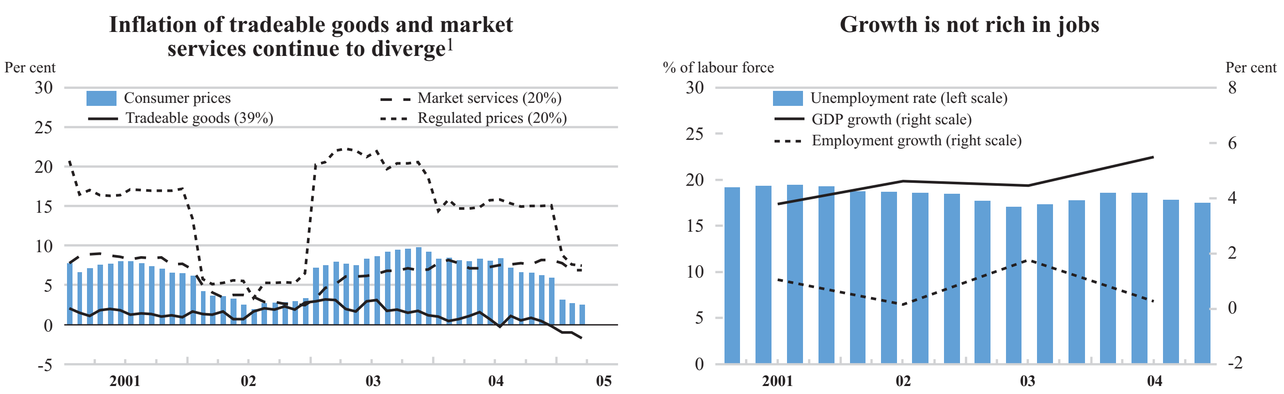
The drop in inflation is helpful on the path to joining the euro area…

As the impact of the increase in the value added tax (VAT) rate dropped out of the year on year rates of change, headline inflation fell sharply from 5.9% in December to 3.2% in January and subsequently to 2.7 % by April. These outcomes were much better than expected, suggesting little second-round effects on core inflation, thus giving the central bank the confidence to cut policy interest rates significantly in February in order to contain appreciation pressures on the Koruna at that time. Since then, upward pressure on the exchange rate has abated, and partly been reversed. Nevertheless, any renewed upward pressure on the exchange rate would rekindle the risk of entering the European exchange rate mechanism (ERM-II) – scheduled for the first half of 2006 – with an overvalued exchange rate.

… but tighter fiscal policy may be required

The fiscal deficit fell to 3.3% of GDP in 2004, versus an initial budget target of 3.9% Looking ahead, the table (below) projects the Maastricht-relevant measure of the fiscal deficit, which permits Slovakia to deduct 100% of the costs of pension reform from

Slovak Republic



1. Numbers in parentheses represent the component's average weight in the consumer price basket over the period. The components do not sum to total CPI inflation since inflation of food and the effect of changes in indirect taxes are not shown.

Source: National Bank of Slovakia and OECD, *National Accounts*.

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

	2001	2002	2003	2004	2005	2006
	Current prices billion SKK	Percentage changes, volume (1995 prices)				
Private consumption	585.9	5.5	-0.6	3.5	4.6	5.3
Government consumption	203.4	4.9	2.7	1.2	3.2	3.0
Gross fixed capital formation	291.0	-0.6	-1.5	2.5	10.0	7.8
Final domestic demand	1 080.3	3.7	-0.2	2.8	5.7	5.5
Stockbuilding[1]	12.0	0.9	-1.9	3.6	0.0	0.0
Total domestic demand	1 092.3	4.6	-2.0	6.5	5.5	5.3
Exports of goods and services	741.0	5.6	22.5	11.4	11.0	11.8
Imports of goods and services	823.5	5.5	13.6	12.7	11.9	11.5
Net exports[1]	- 82.4	-0.1	6.5	-0.8	-0.6	0.4
GDP at market prices	1 009.8	4.6	4.5	5.5	4.8	5.7
GDP deflator	_	4.0	4.7	4.6	2.4	2.7
Memorandum items						
Consumer price index	_	3.1	8.6	7.5	2.8	2.7
Private consumption deflator	_	2.5	7.7	6.9	2.7	2.8
Unemployment rate	_	18.6	17.5	18.1	17.9	17.5
General government financial balance[2, 3]	_	-5.7	-3.7	-3.3	-3.4	-3.2
Current account balance[2]	_	-8.0	-0.9	-3.6	-5.7	-5.3

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.
3. Maastricht-relevant definition (excludes 100% of the cost of transfering contributions to the second pillar of the pension system in 2005 and 80% in 2006).

Source: OECD Economic Outlook 77 database.

the fiscal deficit in 2005 and 80% in 2006. Although this results in a declining deficit, the extent of decline is mitigated by an upward revision in the estimated cost of the pension reform (due to a high number of people having transferred to the newly created funded pillar). Overall, the government's current fiscal policy targets – if achieved – are on track to bring the deficit below the Maastricht ceiling of 3% by 2007. However, more ambitious fiscal tightening prior to 2007 may be necessary if any signs of over-heating emerge, given the role that monetary policy must play in stabilising the exchange rate.

Strong growth and balanced inflation risks

Growth and foreign trade forecasts for 2005 and 2006 are influenced by construction and production time-tables for the new French- and Korean-owned automobile plants. Following just under 5% growth in 2005, GDP growth is expected to accelerate to around 5¾ per cent in 2006 as stronger export production comes on stream. Although inflation is not expected to rebound there are some upside risks. In particular there is a risk of strong wage growth in the highly productive manufacturing sector spilling over into higher prices in less productive market services. On the other hand, if further exchange rate appreciation occurs, inflation would be lower. Strong investment-linked imports will cause the current account deficit to widen temporarily to around 5¾ per cent of GDP, before narrowing slightly in 2006. Job creation should strengthen, but growth is expected to remain relatively capital-intensive and job shallow.

But some risks to competitiveness

An additional risk is that renewed upward pressure on the exchange rate will reduce competitiveness and that pre-election fiscal spending will reduce the room for monetary policy to counter such appreciation by setting low interest rates. In addition, if a new government alters the direction of macroeconomic and structural reforms after the 2006 elections, confidence could weaken and dampen growth, reducing the credibility of the current euro-adoption strategy.

Spain

Sustained by the persistent dynamism of domestic demand, activity should accelerate to over 3% by 2006. Net exports, however, are likely to remain a drag on activity. Inflation may moderate slightly after the pass-through of the oil price hike but should remain about one percentage point above the euro area average.

Although the neutral fiscal stance is currently appropriate, a tighter fiscal policy would be desirable in the medium run to reduce domestic demand pressures and prepare for the fiscal consequences of population ageing. Further pension reforms also need to be considered. Continued efforts to improve productivity growth and a reform of the wage bargaining system would help to halt the deterioration in competitiveness.

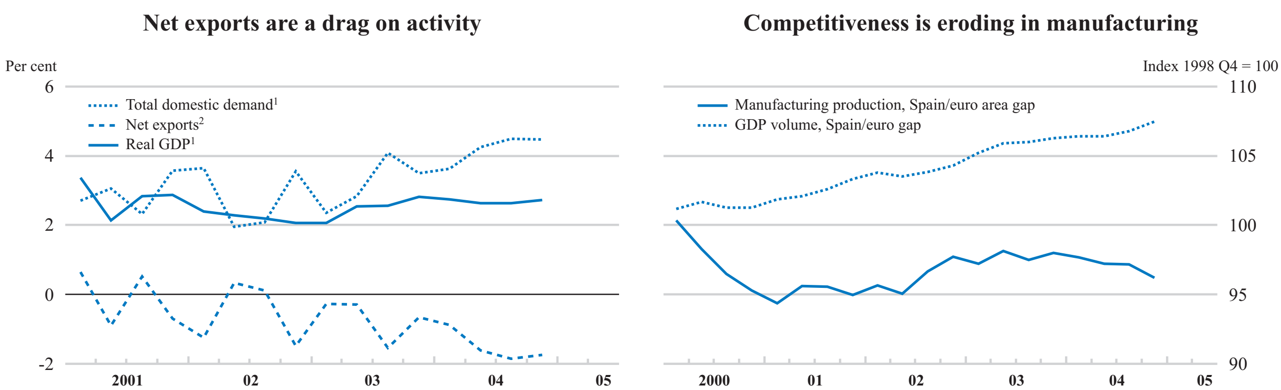
Robust growth is driven by domestic demand

GDP growth increased slightly in 2004 reaching 2.7%, about one percentage point above the euro area average, driven primarily by dynamic domestic demand. While export growth also picked up, this was swamped by the much sharper rise in imports, so that the contribution of net exports to growth became more markedly negative, reaching 1.7%. The acceleration in domestic demand was broad-based, reflecting a faster growth of private consumption, a strong recovery of investment in machinery and equipment and continued buoyancy of construction investment. The pick-up in exports resulted from the more rapid expansion of export markets, but market share losses were recorded. With imports soaring, the current account deficit widened further to about 5% of GDP. The first quarter of 2005 is likely to show again strong GDP growth driven by domestic demand. Employment growth accelerated slightly and despite increasing labour force participation, the unemployment rate continued to edge down to 10.2% in the first quarter, from 10.8% in 2004.* Recent rises in oil and fresh food prices have pushed headline inflation up to 3.5% in April 2005 (year-on-year), though core inflation moderated slightly.

Monetary conditions are very relaxed, while the fiscal stance is neutral

Monetary conditions are very relaxed, with euro area interest rates low and the inflation differential with the euro area persisting. The fiscal balance was slightly negative in 2004 owing to the regularisation of past exceptional outlays amounting to ¾ per cent of GDP. Excluding these non-recurrent expenditure items, the fiscal balance would have

Spain



1. Year-on-year percentage changes.
2. Contribution to GDP growth.
Source: OECD, *Main Economic Indicators* and Economic Outlook database 77.

* In order to maintain consistency with GDP numbers which had not yet been revised at the time of writing, the employment figures used in the analysis do not incorporate the recent labour force survey revisions.

Spain: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion €	Percentage changes, volume (1995 prices)				
Private consumption	381.9	2.9	2.9	3.5	3.5	3.5
Government consumption	115.1	4.1	3.9	4.9	3.9	3.5
Gross fixed capital formation	165.4	1.7	3.2	4.6	6.1	5.4
Final domestic demand	662.4	2.8	3.1	4.0	4.2	4.0
Stockbuilding [1]	1.9	0.0	0.1	0.2	0.0	0.1
Total domestic demand	664.3	2.8	3.2	4.2	4.2	4.0
Exports of goods and services	195.6	1.2	2.6	4.5	5.2	6.9
Imports of goods and services	206.0	3.1	4.8	9.0	8.4	8.7
Net exports [1]	- 10.4	-0.6	-0.8	-1.7	-1.4	-1.1
GDP at market prices	653.9	2.2	2.5	2.7	3.0	3.2
GDP deflator	_	4.5	4.0	4.4	3.6	3.6
Memorandum items						
Harmonised index of consumer prices	_	3.6	3.1	3.1	3.1	2.6
Private consumption deflator	_	3.4	3.1	3.0	3.0	2.6
Unemployment rate	_	11.4	11.3	10.8	10.2	9.8
Household saving ratio [2]	_	10.6	10.6	10.6	10.4	10.3
General government financial balance [3]	_	-0.1	0.4	-0.3	0.5	0.6
Current account balance [3]	_	-2.4	-2.8	-4.9	-6.2	-6.7

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

Source: OECD Economic Outlook 77 database.

been slightly positive, implying a neutral fiscal stance. The authorities aim at maintaining a neutral fiscal stance over the projection period. As in previous years, this is likely to translate into a somewhat higher fiscal surplus than in the budget, due to the better-than-expected 2004 outcome, the continued strength of tax receipts, and the ongoing regularisation of illegal immigrants which will boost social security receipts. Overall, the policy stance is likely to remain accommodative over the projection period.

Domestic demand will continue to drive growth

Private consumption growth should remain strong due to solid job creation and positive wealth effects from the buoyant housing market. The most dynamic component of domestic demand is expected to be investment in machinery and equipment, which is boosted by strong demand, a high level of profits, and low real interest rates. Growth of construction investment is projected to slow only marginally, as monetary conditions remain relaxed. Government consumption growth is expected to decelerate following an election-induced hike in 2004. Overall, domestic demand should remain buoyant, growing at about 4%. As export market growth is expected to gain traction from the second half of 2005 onwards, net exports should become less of a drag on GDP growth. However, the pick-up in exports is unlikely to be strong enough to prevent a further widening of the current account deficit. Employment growth is expected to remain firm without creating strong tensions in the labour market thanks to immigration and the persistent upward trend of female participation. Inflation could ease somewhat, after the effect of the recent increases in oil and fresh food prices wanes.

International and domestic risks seem to offset each other

This scenario could be compromised by a weaker international environment. Further oil price increases, which could pass through to wages more strongly in Spain than in the euro area as a whole due to indexation mechanisms, would pose a risk to inflation, and could further erode competitiveness. On the other hand, stronger-than-expected growth in construction investment could fuel domestic demand further, increasing inflationary pressures and widening the current account deficit.

Sweden

Strong growth has resumed after a brief pause last autumn. The export sector is projected to remain robust, with business investment playing an increasing role. Household consumption will be supported by low interest rates, rising house prices and tax cuts. The continuing expansion should eventually deliver the long-awaited improvement in the job market. Inflation has been surprisingly low recently, but is likely to pick up as the impact of various temporary factors abates and spare capacity is used up.

Fiscal policy has been pushed off track by the expansionary measures in the recent autumn's budget. The government will need to tighten policy again in order to achieve its target for the budget surplus. Meanwhile, the central bank can afford to keep interest rates on hold for some time yet, but it will need to raise interest rates as the output gap shrinks.

Growth has been strong, yet inflation has been falling

Sweden has been enjoying a three-year-long economic expansion despite the very hesitant pace of recovery in Europe as a whole. This has been driven primarily by demand for its exports, with the telecommunications and motor vehicle industries having done particularly well. The recovery broadened towards the end of 2004 to include domestic demand as well. Business investment picked up in response to low interest rates and high rates of manufacturing capacity utilisation, while residential construction has steadily gained strength. The labour market, however, remains soft. Employment fell throughout 2004, despite GDP growth that was significantly faster than trend. This reflects two main factors. First, companies have been able to expand production by increasing productivity at a pace that is well above the historical average. Second, sickness absenteeism fell last year, leading to more hours worked per employee. The weak employment situation implies that there is some spare capacity in the economy, holding back inflationary pressures. A stronger exchange rate, subdued international inflation, high productivity and tougher domestic competition have also helped keep prices in check.

The fiscal surplus will remain well short of the government's target

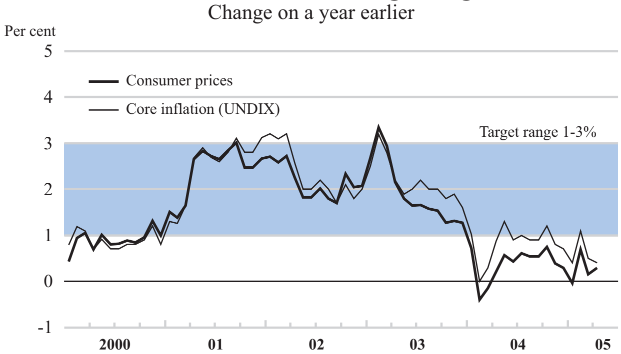
A large fiscal expansion worth around 1% of GDP is adding to demand this year, with a further 0.5% of GDP budgeted for 2006. This stimulus is probably ill-timed. It is fuelling activity at a time when growth would have been healthy anyway and creates a risk of overheating in 2006. Moreover, it will leave the surplus well short of the government's target of 2% of GDP on average over the cycle.

Investment and consumption will drive growth

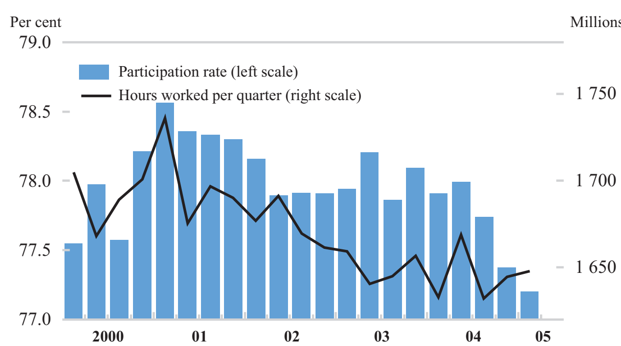
The economic expansion is expected to remain strong, with consumption and investment taking over as the main driving forces. Businesses should continue to reduce capacity constraints by investing in new capital equipment, and they are likely

Sweden

Inflation is below the target range
Change on a year earlier



The labour market remains weak



Source: Statistics Sweden.

Sweden: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion SEK	Percentage changes, volume				
Private consumption	1 108.4	1.4	1.5	1.8	2.4	2.7
Government consumption	613.3	2.3	0.8	0.3	1.2	1.6
Gross fixed capital formation	395.6	-2.6	-1.5	5.1	8.5	5.5
Final domestic demand	2 117.4	0.9	0.8	2.0	3.2	3.0
Stockbuilding [1]	5.9	-0.1	0.5	-0.7	0.1	0.0
Total domestic demand	2 123.3	0.8	1.3	1.2	3.3	3.0
Exports of goods and services	1 042.2	1.0	4.9	10.5	7.4	7.8
Imports of goods and services	896.3	-1.9	4.9	7.2	9.2	7.6
Net exports [1]	145.9	1.2	0.4	2.2	0.0	0.9
GDP at market prices	2 269.1	2.0	1.6	3.0	2.8	3.3
GDP deflator	_	1.7	2.0	1.2	-0.6	2.0
Memorandum items						
Consumer price index	_	2.2	1.9	0.4	0.6	1.9
Private consumption deflator	_	1.8	2.3	1.2	1.7	1.9
Unemployment rate [2]	_	4.0	4.9	5.5	5.0	4.7
Household saving ratio [3]	_	9.0	8.6	8.2	7.1	6.2
General government financial balance [4, 5]	_	-0.5	-0.1	1.2	0.8	0.8
Current account balance [4]	_	5.3	6.4	8.0	6.6	6.5

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

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

Source: OECD Economic Outlook 77 database.

to begin hiring again because the decline in absenteeism appears to be levelling off and productivity increases are becoming harder to find. The unemployment rate is therefore expected to fall to around 4½ per cent over the next year or so. Households should enjoy healthy gains in disposable income due to improved job prospects and the measures in the 2005 Budget. They should also feel wealthier because of the recent house price increases. Foreign demand should continue to provide stimulus as the international recovery gathers pace. While world trade is likely to re-accelerate, Sweden's exports are not expected to grow as briskly as they did in 2004.

Interest rates will need to rise

Although inflation is low, there are several reasons for expecting it to rise over the projection period. First, activity is growing faster than its potential rate, so the existing economic slack is likely to be absorbed within about a year. Second, productivity growth is expected to slow as the business cycle matures. Third, downward pressure from tougher retail competition and falling import prices should abate. These factors suggest that the existing monetary stimulus will need to be gradually withdrawn.

The productivity outlook is uncertain

The main uncertainty, at least when considering the appropriate policy stance, is the extent to which recent impressive productivity growth persists. The central scenario underlying these projections assumes that the sustainable productivity growth rate has increased in recent years, but that there has also been a cyclical element which will unwind. However, if productivity growth does not slow as expected, then inflation is likely to remain low for longer, implying less pressure for the central bank to return monetary settings to their neutral level.

Switzerland

Although activity increased by 1¾ per cent in 2004, the recovery remains fragile and dependent on developments in the euro area. The recovery should continue in 2005 at a more moderate rate of some 1¼ per cent and then gradually gather pace, with GDP growth reaching 2% in 2006 thanks to a more robust external environment. These developments will probably be accompanied by a decline in unemployment as of 2006, but without generating inflationary pressures.

In the absence of inflationary pressures, the continuing easy stance of the Swiss National Bank's monetary policy would seem appropriate to underpin the recovery. Continuing efforts are needed to contain public spending and so reign in its trend rise and pursue fiscal consolidation. Combined with the strengthening of competition, this policy will stimulate potential growth.

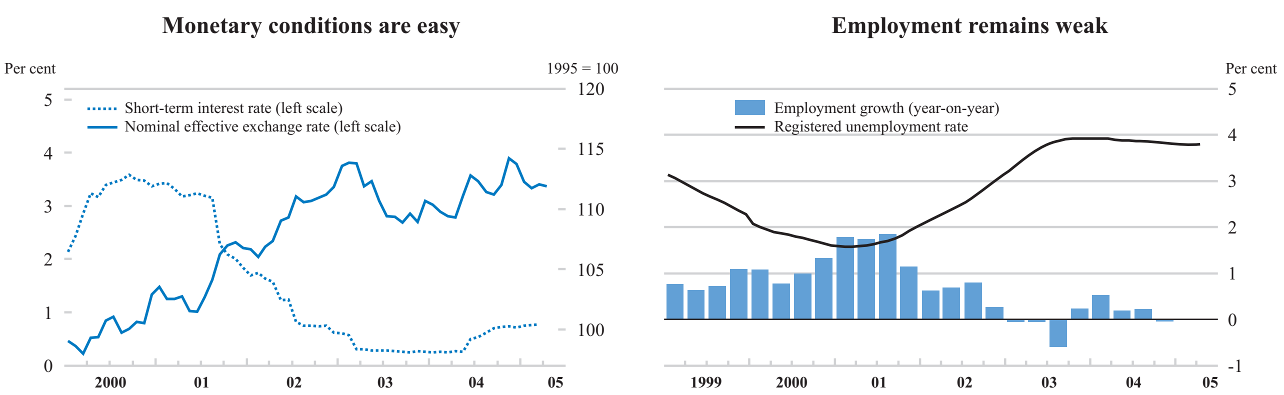
The recovery is on hold

The upturn in activity remains fragile, as witnessed by the slight fall in GDP in the four quarter of 2004. The weakening of exports at the end of the year has not been offset by stronger domestic demand, despite the support provided by monetary policy. With no improvement in employment and unemployment remaining stable at around 4% since autumn 2004, consumers have adopted a cautious attitude, while the completion of rail infrastructure work has had a negative impact on the construction sector in late 2004. Recent indicators hardly point to any improvement on the labour market or any pick-up in private consumption in the first half of 2005. The trend in building permits does, however, suggest some buoyancy in the real estate sector. In industry the situation remains fairly favourable, with capacity utilisation rates slightly up despite order books growing more slowly. Firms are in a healthy financial situation and also plan to increase their investment in 2005. With the rise in oil prices, inflation has accelerated over the past year, reaching 1.4% in April 2005, but underlying inflation is still under 1%.

Monetary conditions remain easy

To counter the deterioration of the economic situation, the Swiss National Bank (SNB) persisted with an easy monetary policy, keeping the 3-month Libor at ¾ per cent since early last autumn. With inflation low and the Swiss franc down slightly against the euro, the dollar depreciation did not result in any real effective appreciation of the currency. The projections are for monetary conditions to remain easy until the recovery is more firmly established.

Switzerland



Source: Swiss National Bank; OECD, *Main Economic Indicators* and Economic Outlook database 77.

Switzerland: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion CHF	Percentage changes, volume (2000 prices)				
Private consumption	255.3	0.3	0.5	1.3	0.8	1.4
Government consumption	49.0	3.2	1.4	1.2	0.4	0.3
Gross fixed capital formation	93.7	0.2	-0.4	3.4	2.5	3.6
Final domestic demand	398.0	0.6	0.4	1.7	1.2	1.8
Stockbuilding [1]	5.8	-1.3	-0.2	-0.8	0.1	0.0
Total domestic demand	403.8	-0.8	0.2	0.9	1.2	1.8
Exports of goods and services	190.7	-0.2	0.0	6.6	4.7	6.9
Imports of goods and services	172.1	-2.7	1.3	5.6	5.1	7.1
Net exports [1]	18.6	1.0	-0.5	0.8	0.1	0.3
GDP at market prices	422.4	0.3	-0.3	1.7	1.3	2.0
GDP deflator	_	1.7	0.9	0.8	0.4	0.8
Memorandum items						
Consumer price index	_	0.6	0.6	0.8	1.1	0.9
Private consumption deflator	_	1.6	0.6	1.0	1.1	0.9
Unemployment rate	_	3.1	4.0	4.2	4.0	3.5
General government financial balance [2]	_	0.2	-0.8	-1.0	-1.0	-0.8
Current account balance [2]	_	8.4	13.1	12.0	11.9	12.5

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

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

Source: OECD Economic Outlook 77 database.

Balancing the budget will require fresh efforts

The general government deficit, which may have reached some 1 per cent of GDP in 2004, is smaller than expected. In particular, the Confederation has reduced its deficit to 0.4% of GDP, instead of the 0.8% budgeted, thanks to a bigger-than-expected fall in financial charges and more buoyant receipts. The continuation of consolidation efforts included in the federal budget reduction plan could be undermined in 2005 and 2006 by the trend in cantonal and social security finances, with the result that fiscal policy is likely to be neutral during the projection period. If the cantons and Confederation use the revenues from the central banks sales of gold (representing 4½ per cent of GDP in 2005) towards reducing their debt, and hence their interest payments, this would contribute to curbing the trend rise in spending. In the absence of any specific information, the projections rest on the assumption that these exceptional receipts will go solely towards debt reduction.

Activity should pick up gradually

With the forward indicators pointing to relatively modest first-half growth prospects, the upturn in activity could be limited to around 1¼ per cent in 2005, which would be close to potential. The upturn could nevertheless gather pace in the second half and reach 2% in 2006, aided by a gradually improving external environment and increased investment, which will encourage a progressive strengthening in employment and private consumption. The fall in unemployment will probably not be appreciable before 2006, and so is unlikely to prompt any inflationary pressures in the immediate future. With the output gap gradually closing, price rises should remain small, at around 1%. This scenario, which depends very much on the recovery in the euro area gathering steam, could be jeopardized by a steeper increase in oil prices, which would weigh negatively on growth and inflation prospects.

Turkey

Dynamic household consumption and private investment backed by strong confidence raised GDP by nearly 9% in 2004, for a third consecutive year of high growth. Absent any shocks, expansion should remain robust in 2005 and 2006 at a more sustainable rate of around 6%.

The strict macroeconomic policy mix and structural reforms should be fully enforced to ensure that growing capital inflows do not reverse suddenly in the future, and that the domestic economy makes efficient use of such financial resources.

Strong growth continues

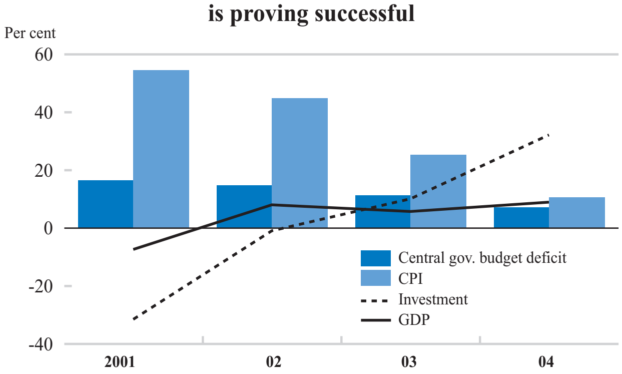
GDP growth reached nearly 9% in 2004, on the back of exceptionally strong international and domestic confidence. Exports increased rapidly despite currency appreciation, but with imports growing even more strongly, the net contribution of trade remained negative. The increasing current account deficit, just over 5% of GDP, and the persistently high unemployment rate, close to 10%, did not undermine confidence. The current account deficit has been funded by even larger portfolio capital inflows, while foreign direct investment inflows remained modest but began picking up in 2005.

Macroeconomic policy backs confidence

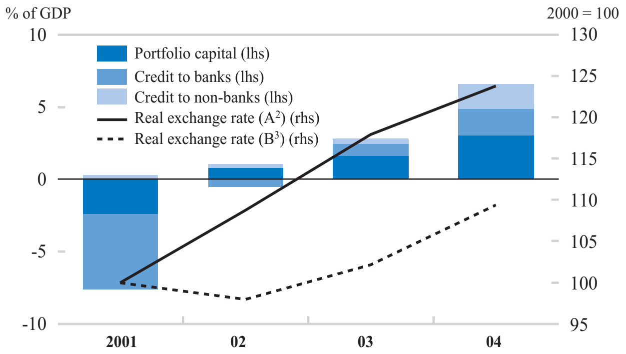
Fiscal policy remained on track with a general government primary surplus of 6.5% of GDP in 2004. The 2005 budget was approved with a similarly tight objective and the fiscal outcomes in the first four months of the year were above target. However, stronger-than-expected growth helped and, adjusting for the cycle, the stance is looser than initially planned. In the future, fiscal targets should be expressed in cyclically-adjusted terms as a guide in helping to preserve the fiscal stance. Monetary policy has attained its objectives with a headline inflation of 9.3% at the end of the year, below the implicit target of the central bank. The "credibility gap" between official inflation projections and market expectations has also disappeared, with market expectations below the official projections since mid-2004. The clear focus of monetary policy on monetary stability, with an implicit headline inflation target below 8% for the end of 2005, backed by subdued wage growth and good fiscal prospects, makes the monetary outlook credible. Monetary conditions remain nonetheless exposed to other influences. The currency strongly appreciated in both nominal and real terms between May 2004 and mid-March 2005 under strong portfolio capital inflows and in spite of record international reserve building by the central bank. It depreciated somewhat after its mid-March peak.

Turkey

Macroeconomic stabilisation is proving successful



Capital inflows raise competitiveness challenges[1]



1. Gross capital inflows = increase in gross external liabilities.
2. Real exchange rate on the basis of consumer prices (2000 = 100).
3. Real exchange rate on the basis of unit labour costs (2000 = 100).

Turkey: **Demand, output and prices**

	2001	2002	2003	2004	2005	2006
	Current prices billion TRL	Percentage changes, volume (1987 prices)				
Private consumption	128.5	2.1	6.6	10.1	5.3	4.8
Government consumption	25.4	5.4	-2.4	0.5	1.0	1.0
Gross fixed capital formation	32.4	-1.1	10.0	32.4	14.0	12.5
Final domestic demand	186.3	1.7	6.5	14.1	7.1	6.6
Stockbuilding [1]	- 2.5	7.1	3.0	1.1	1.0	0.1
Total domestic demand	183.9	9.3	9.3	14.1	7.5	6.1
Exports of goods and services	60.2	11.1	16.0	12.5	15.5	17.3
Imports of goods and services	55.9	15.8	27.1	24.7	17.5	16.5
Net exports [1]	4.3	-0.9	-3.1	-4.9	-1.5	-0.3
Statistical discrepancy [1]	- 9.7	0.1	0.0	-0.1	0.0	0.0
GDP at market prices	178.4	7.9	5.8	8.9	6.3	6.1
GDP deflator	_	44.1	22.5	9.9	9.5	6.2
Memorandum items						
Consumer price index	_	45.0	25.3	10.6	8.5	6.3
Private consumption deflator	_	40.6	21.8	7.9	8.0	5.4
Unemployment rate	_	10.1	10.3	10.2	10.4	10.5
Current account balance [2]	_	-0.8	-3.4	-5.1	-4.3	-4.5

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 77 database.

Structural reforms are perceived as more vulnerable

The pursuit of institutional and structural reforms is key for consolidating international markets' confidence. Some "reform fatigue" seemed to have appeared in the recent period, but this may also reflect the technically demanding and time-consuming character of the reform initiatives. In particular, bank supervision, taxation and social security look to have suffered reform delays, but progress was achieved prior to a new stand-by arrangement with the International Monetary Fund (IMF) approved in May. There are also other pending issues in bank privatisations and the full enforcement of the new fiscal transparency and management framework. The labour tax burden on formal sector activities which face growing competitiveness challenges remains high.

External policy anchors should be supported by domestic monitoring

The new agreement with the IMF and regular macroeconomic and structural monitoring implied by the European Union (EU) negotiation process will continue to provide strong external anchors for economic policy. However, the disciplines involved with these international guidelines should also be better internalised at the domestic level. A significant step would be the publication of more complete economic information according to international standards, including in the areas of general government and household accounts. The pending revisions to the national accounts announced for the first half of 2005, which may involve far-reaching changes, should be explained to the general public as an important step forward in the transparency of economic policies and outcomes.

The strong central scenario is surrounded by risks

GDP growth is likely to remain above 6% in 2005 and 2006. Investment is expected to drive growth, while private consumption should moderate to a more sustainable pace. There are important upward and downward risks to this "soft landing" scenario. If capital inflows and investment speed up when EU accession negotiations open in the Fall, growth could accelerate. But if international or domestic events undermine confidence, with risks running from regional geopolitical turbulences to market concerns about the sustainability of a large current account deficit, the favourable growth path could be jeopardised.

III. DEVELOPMENTS IN SELECTED NON-MEMBER ECONOMIES

Asian growth stabilised in 2004 at a high level with a slight increase in China being offset by weakness elsewhere in the area. The increase in Chinese growth came despite tighter fiscal policy and strengthened controls over investment. The latter were only partially effective as high profitability continues to drive outlays in the ever more important private sector. The strength of exports, and the economy as a whole, was also related to the depreciation of the effective exchange rate that resulted from the extensive foreign exchange intervention to stabilise the Renminbi rate against the dollar. This policy accentuated the increase in inflation. Going forward, domestic demand may slacken but rapid export growth will limit the slowdown and produce a marked increase in the current account surplus.

Growth in South America is estimated to have been above 5% in 2004, the strongest in almost 20 years. The strength of the Brazilian recovery was beyond market expectations. Growth continues to be driven by buoyant consumer demand in the major economies in the region, pushed by the recovery in employment and wages, and investment. Export growth also remains robust, due to favourable commodity prices and strong demand from OECD markets, as well as from China. Imports have surged on the back of robust private consumption and investment. Exchange rates have appreciated in the major economies, contributing to the maintenance of low inflation. Growth is set to continue in 2005-06, albeit at a lower pace than in 2004. The area-wide external current account is expected to remain close to balance at the end of the projection period, underscoring the region's renewed resilience to potential future external shocks.

Russia and other commodity exporters among the Newly Independent States are expected to continue to benefit from very high prices for hydrocarbons and metals. However, Russian activity should slow, as the growth rates of both investment and export volumes have fallen and are unlikely to pick up again in the absence of steps to restore shaken business confidence. Nevertheless, Russia's expansion is set to continue, as oil windfalls are increasingly used to finance expansionary fiscal policy and to fuel household consumption.

Economic growth weakens in the Dynamic Asian economies

The extremely rapid growth of the Dynamic Asian economies peaked in mid-2004, moderating thereafter towards a slower – although still healthy – trend, as a result of weakening external demand from OECD countries and higher oil prices. The persistence of high oil prices is likely to drive growth below 5% in 2005. A gradual acceleration in activity should occur, as oil prices moderate and external demand improves through the year and into 2006. Despite the tremendous human impact of the tsunami disaster on South Asia (and on Indonesia in particular) the overall economic effects appear to have been quite limited. Moreover, the ongoing revival of domestic demand in the Asian region appears to be persisting (including for imports) and could even cause a rise of inflation in Indonesia, Malaysia and the Philippines. For the economies most closely integrated with China – Hong Kong, China; Chinese Taipei; and Singapore – their growth outlook is highly dependent on China's and would be tempered by a moderation of growth there.

South America posted record growth in 2004

Growth was robust in the major South American economies in 2004. In Brazil, GDP grew by about 5%, led by the strengthening of private consumption and investment, and persistently strong net exports. Chile's performance has also been strong, with GDP growth at above 6% on the back of robust copper exports and a surge in investment. Argentina continues to recover and the resolution of debt restructuring bodes well for the near-term outlook. The prospects for sustained growth over the longer term depend largely on structural reform to improve the investment climate, including regulation of utility prices.

The Newly Independent States continue to grow rapidly

Growth in most of the Newly Independent States (NIS) accelerated in 2004, with the zone as a whole growing by an estimated 8%. As in 2003, activity was driven by both exports and strong domestic demand, supported in a number of cases by significant fiscal easing in connection with approaching elections. Export growth in the NIS continues to be fuelled largely by hydrocarbons and metals. Accelerating output and rising commodity prices have also contributed to a pick-up in inflation in most of the NIS, including Russia, Ukraine and Kazakhstan – the region's three largest economies.

China

Real GDP growth increased and inflation accelerated…

After slackening in the middle of 2004, economic growth regained momentum in the second half of the year, averaging 9½ per cent for the whole year. This slight acceleration in growth came despite a tight stance in policy: the budget deficit was reduced by an estimated 1% of GDP, while monetary growth slowed markedly, despite very significant increases in foreign exchange reserves. The rebound was driven by a pickup in investment growth from the extremely low levels seen in the spring, as uncertainty over the areas that would be affected by administrative controls dissipated. Controls still restrained the growth of investment in selected sectors, but there was strong growth in areas such as utilities where capacity is very short. Private consumption growth also picked up slightly. The favourable competitive position of the currency helped maintain rapid export growth, notably to oil-exporting countries, as well as restraining the growth of imports that were also checked by increasing domestic capacity in a number of areas. As a result of these movements, and despite higher oil prices, the current account surplus jumped to 4% of GDP, an increase of nearly one percentage point. Faster economic growth, together with higher food, commodity and oil prices led to a marked increase in the inflation rate in 2004.

Both monetary and fiscal policy will be tight…

Budgetary plans suggest that a strict rein will be kept on the growth of public outlays in 2005. In recent years, tax revenue has been notably more buoyant than the growth of GDP and this seems likely to continue in 2005, bringing a further reduction in the budget deficit. Monetary policy has also become tighter, with the central bank reducing its target for the growth of the money stock by two percentage points. Despite this tightening, the central bank has lowered its rate on excess reserves, in the process reducing the floor on inter-bank interest rates. As such a move would normally boost the growth of credit, the central bank has not allowed this change to be reflected in the level of administered interest rates and has continued with administrative controls on lending.

... bringing a slight moderation in growth

Some slight slowdown in growth is to be expected in 2005 as the result of weaker domestic demand growth. The investment boom is seen to moderate, as the full effect of restraint in the sectors the government targeted (steel, aluminium and cement) is felt. Growth of outlays on real estate is likely to slacken slightly as the result of increased interest rates on home loans, higher downpayments on mortgages and the introduction of a tax on short term transactions. Although world demand is moderating, the competitive value of the Renminbi, and the lifting of restrictions on textile exports, should mean that export growth continues at much the same pace as in 2004. By contrast, with weaker domestic demand, increasing capacity and a

Table III.1. **Projections for China**

	2003	2004	2005	2006
Real GDP growth	9.5	9.5	9.0	9.2
Inflation	1.2	3.9	4.0	4.0
Fiscal balance (per cent of GDP)[1]	-1.9	-0.9	-0.4	-0.2
Current account balance ($ billion)	45.9	68.7	100.0	101.0
Current account balance (per cent of GDP)	3.1	4.0	5.2	4.6

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

1. Consolidated budgetary and extrabudgetary accounts are presented on a national accounts base.

Source: Historic data are from national sources.

decline in the effective exchange rate, import growth is likely to weaken, leading to an increase in the current account surplus to 5¼ per cent of GDP. Although investment growth should moderate, the capital stock will keep on accelerating, pushing the potential growth rate higher and making any further acceleration in inflation unlikely. In 2006, low real interest rates are expected to stimulate consumption, bringing some rebound in output and import growth. As a result, the current account surplus should stabilise in nominal terms.

Market-based instruments could be more effective than administrative controls

The present cycle of economic policy tightening has had only mixed results; some investment components have slackened but GDP growth has been maintained. Moreover, the depreciation of the effective exchange rate has both accentuated inflationary pressures and driven actual inflation higher. With the effective exchange rate 3% lower this year, the banking system remaining very liquid and foreign exchange reserves continuing to rise rapidly, the risk of both faster output growth and higher inflation is present. There are also some downside risks to growth, stemming mainly from the real estate market. House prices have risen rapidly in real terms, raising the possibility that purchasers might stop buying newly constructed units, thereby bringing a marked slowdown in an important component of domestic investment.

Brazil

Growth was stronger than expected in 2004

GDP grew by about 5% in 2004, the highest rate in ten years, although the expansion is losing some momentum. Economic growth was underpinned by the healthy recovery in private consumption, fuelled by higher real wages, falling unemployment, and the upswing in consumer credit. The recovery in investment was stronger than expected, owing chiefly to favourable market conditions. The external sector also contributed positively to growth. Exports boomed on the back of robust international demand and high commodity prices, outstripping rising imports. Both the trade and the external current accounts posted record surpluses, making the economy less dependent on external financing and hence more resilient. On the supply side, manufacturing was the most dynamic sector.

Monetary policy continues to be restrictive

Monetary policy continues to be conducted in a forward-looking manner. The target for end-period inflation was met in 2004, albeit by a narrow margin. Since September 2004 – when the cycle of monetary easing had come to an end – the policy interest rate has been raised by 375 basis points to 19¾ per cent in May 2005. This is in response to the rising inflationary pressures associated with removal of slack in the economy, high oil and commodity prices, and above-target inflation expectations for 2005. The widening interest rate differential has put upward pressure on the exchange rate, tightening monetary conditions somewhat further. Sovereign risk premia remain at historically low levels. Benefiting from these favourable conditions, the central bank has been replenishing international reserves, reducing external vulnerability.

Fiscal policy stance could be tightened

The fiscal outcomes were better than expected in 2004. Spurred by the recovery, the consolidated primary budget surplus exceeded by a small margin the yearly target, which had been raised in mid-year to 4½ per cent of GDP. This outturn contributed to the reduction in the net public debt ratio by almost 5 percentage points since 2003, to about 52% of GDP at end-2004. A further reduction in the debt-to-GDP ratio in 2005 would be welcome. Public debt management has been facilitated by favourable financial conditions, resulting in a considerable reduction in the public sector's exposure to foreign exchange risk. Although revenue performance remains strong, the primary surplus target is unlikely to be raised from the current level of 4¼ per cent of GDP in 2005, while the overall budget deficit is expected to increase. This makes the fiscal stance somewhat less restrictive than desirable, and the policy mix unduly tilted towards monetary restraint.

Key reforms have recently been approved

Structural reform regained some impetus towards the end of the year, with approval by Congress of new legislation on bankruptcy and public-private partnerships. Congressional approval is pending for legislation on the regulatory agencies. Adherence to the government's ambitious structural reform agenda, including tax reform, will be key to improving the investment climate and unlocking Brazil's growth potential over the longer term.

Economic growth prospects are good…

Activity is expected to decelerate in 2005-06, mainly because of a tighter monetary stance in the near term, but should remain healthy. Domestic demand is set to continue to be the main driver of growth, with further improvements in the labour market sustaining private consumption. Investment growth may taper off. The external sector is expected to continue to contribute positively to growth, a sign of greater

Table III.2. **Projections for Brazil**

	2003	2004	2005	2006
Real GDP growth	0.5	4.9	3.6	3.5
Inflation	9.3	7.6	6.3	5.0
Fiscal balance (per cent of GDP)	-5.1	-2.7	-3.8	-2.8
Primary fiscal balance (per cent of GDP)	4.3	4.6	4.3	4.3
Current account balance ($ billion)	4.2	11.6	6.5	2.0
Current account balance (per cent of GDP)	0.8	1.9	0.9	0.3

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

Source: Data for 2003-04 are from national sources. Data for 2005-06 are OECD projections.

economic resilience. Contingent on the maintenance of a prudent policy mix, preferably underscored by some fiscal tightening, inflation is set to converge to the end-period targets, paving the way for some monetary easing later in the year.

… but risks remain to the downside

There are both domestic and external risks to this predominantly positive outlook. On the domestic front, inflation expectations may not converge swiftly to the end-year target and the inflationary pressures associated with high oil and commodity prices may persist, delaying monetary easing. On the external front, a reversal in market conditions may reduce investors' appetite for emerging market assets, putting downward pressure on the exchange rate.

The Russian Federation

Growth slowed during 2004 despite a huge positive terms-of-trade gain

Real GDP growth, at 7.1% in 2004, was only marginally lower than in 2003. However, this outcome is somewhat disappointing, as growth slowed through the course of the year even though Russia experienced a further dramatic improvement in its terms of trade. This contrasts with an average growth rate of 10% in the other former Soviet states. While factors such as rouble appreciation and banking-sector turbulence played a part, the slowdown appears to have resulted largely from a policy-driven deterioration in the business climate. Investment growth overall slowed and capital flight rose sharply amid increasing uncertainty about the security of property rights and other aspects of the business environment.

Consumption, supported by fiscal easing, is increasingly driving growth

Growth last year was even more consumption-driven than in 2002-03. The already rapid growth of household consumption picked up still further in 2004, supported by fiscal loosening, and contributed to a 24% increase in import volumes. Booming consumption and imports coincided with a marked slowdown in the growth of industrial production over the course of the year, caused largely by falling oil-sector investment and the consequent slowdown in the growth of oil production. Although the growth of import volumes far outstripped that of exports, rising export prices pushed the current account surplus up to 10% of GDP.

Disinflation continues to prove difficult

Consumer price inflation, at 11.7% for the year, was only marginally lower than in 2003. However, this was better than might have been expected in the circumstances, given that the central bank remains committed to partially contradictory goals in trying to reduce inflation while limiting real exchange-rate appreciation. Rapidly growing producer prices on the back of the world-wide increase in commodity prices and the growth of the current account surplus hugely complicated this balancing act. Despite such strong inflationary pressures, inflation was kept on a downward path thanks mainly to the fiscal sterilisation of a large part of the current account surplus via the accumulation of savings in the new stabilisation fund. Inflation surged again in early 2005, but this was chiefly the result of necessary increases in regulated utilities tariffs; core inflation remained relatively stable.

Many structural reforms have stalled

While the government is at work on needed legislation in many spheres, progress with respect to the implementation of the most important structural reforms has been limited. Electricity reform has experienced delays, administrative reform appears to have stopped, and gas-sector reform to have stalled even before it really

Table III.3. **Projections for the Russian Federation**

	2003	2004	2005	2006
Real GDP growth	7.3	7.1	6.0	6.0
Inflation	12.0	11.7	13.0	12.0
Fiscal balance (per cent of GDP)[1]	1.2	4.5	2.0	1.5
Primary fiscal balance (per cent of GDP)[2]	3.4	5.4	4.0	2.5
Current account balance ($ billion)	39.5	58.2	92.0	80.0
Current account balance (per cent of GDP)	8.3	10.0	12.0	8.5

1. Consolidated budget.
2. Federal Budget only.

Source: Data for 2003-04 are from national sources. Data for 2005-06 are OECD projections.

started. Failure to reform the gas industry complicates the reform of the power and utilities sectors. It also constrains the growth of the gas sector itself, which could, with a modest degree of reform, begin to grow very fast. Given an effective, regulated third-party access regime for the trunk pipeline network and some access to export markets, non-Gazprom producers could increase investment and output very rapidly. At the same time, the wave of social protest that erupted in response to reform of the system of in-kind social benefits in early 2005 risks reducing the government's willingness to undertake other reforms in socially sensitive spheres.

The damage done to the business climate in 2004 has yet to be repaired

The past year has seen considerable damage to the business climate as a result of the on-going assault on the Yukos oil company, the authorities' aggressive drive to tighten their grip on key "strategic" sectors, and increasingly arbitrary and aggressive behaviour on the part of the tax authorities. Instead of repairing the damage done to the business climate by recent events and pursuing structural reforms that could raise potential output growth, the authorities have been inclined to use short-term fiscal measures to stimulate domestic demand. Fiscal policy has been gradually loosened since 2003 and further easing is expected in 2005-06, as rapidly rising expenditure is financed by oil windfalls. Given the responsiveness of Russian business to signals emanating from the state, an acceleration of structural reforms and the adoption of concrete measures to strengthen property rights and improve the investment climate – such as recent proposals for curbing the arbitrary power of the tax service – could help trigger a revival of investment and a reduction in capital flight.

Growth will continue but at slower rates than in 2003-04

Growth should continue at somewhat lower rates during the projection period. However, given the authorities' stated goal of doubling GDP in a decade, there is a real risk that the windfall revenues generated by high export prices will be used for further short-term stimulus in an effort to keep growth at or above the 7.2% rate needed to meet this target. Such pro-cyclical fiscal policy would raise questions about the quality and medium-term sustainability of growth, as well as the sustainability of fiscal policy. Given the authorities' continued determination to limit the rate of exchange rate appreciation, disinflation will remain extremely difficult, owing to the large current account surplus and an expected sharp reduction in fiscal sterilisation. Ensuring that inflation continues to fall – or at least does not rise – may well require allowing faster rouble appreciation than the authorities would like.

IV. MEASURING AND ASSESSING UNDERLYING INFLATION

Introduction

Core inflation measures can help gauge underlying inflation…

Headline inflation rates can be volatile, often because of substantial movements in commodity or food prices. Such volatility in a key price index can make it difficult for policymakers to accurately judge the underlying state of, and prospects for, inflation. Therefore, core inflation rates – excluding or downplaying the more volatile price changes so as to reveal the underlying, more persistent components – can be helpful. This chapter discusses ways in which core consumer price inflation can be measured, as well as its potential usefulness for policymakers, based on evidence in the United States, the euro area, Japan, the United Kingdom and Canada. It then uses these measures to assess current inflation conditions in these economies. The chapter proceeds as follows:

… as they are less volatile than headline inflation

– In the next section, three broad types of core inflation measures are examined. The first exclude from the headline consumer price index (CPI) certain components based on the notion that their high volatility tends to reflect supply disruptions (*e.g.* oil and food prices). The second exclude each month the largest price changes, whatever the source, based on a predetermined statistical criterion. The third adjust the weights of individual CPI components so as to reduce the impact of historically volatile components. All these measures vary considerably less than headline inflation, consistent with the notion that they reflect underlying inflation developments.[1]

Headline inflation tends to move towards core rates

– To explore further what core rates can say about future inflation trends, two separate sets of tests employing these measures were performed, which are discussed in the third section. The first set looked only at the predictive power of the difference between current headline and core inflation rates, while the second used a more flexible format. Both suggest that a subset of core measures can be identified that contain potentially useful information about future headline inflation. In particular, there is a tendency for headline inflation to move back to core rates. That said, the specific higher-frequency measures of core inflation that provide the most information about future headline inflation differ across economies.

Policy inferences are best made in a broader context

– Based on what are considered to be the best performing core measures from the two types of tests (in terms of their information content), the final section notes that, looking at recent changes in these core rates, there appears to be a pick-up in underlying inflation pressures in the United States. No such pressures could be identified in Canada, while in the United Kingdom, underlying inflation rates have settled into a range around 2%. In the euro area, a modest downward trend can be seen. In Japan, deflation looks likely to continue for a

1. Other more model-based ways of computing indicators of core inflation, not covered here, include the structural vector autoregression approach proposed by Quah and Vahey (1995) and the dynamic factor index proposed by Bryan and Cecchetti (1993).

while yet, albeit mildly. That said, these indicators are of most value for policymakers when their implications are judged not in isolation but rather in the context of other information.

Typology of core inflation measures

Three types of core rates are examined

Three broad classes of core inflation measures, and the rationale underlying their use, will be discussed here: measures that permanently exclude pre-identified components of the CPI; those that exclude certain components on a period-by-period basis (according to specific statistical criteria); and those that downplay the more volatile components.

Permanently excluding particular components

The first excludes items like energy and food prices…

A standard core measure excludes food and energy from the overall CPI. This is often the one that receives the most public attention. There are, however, other variants that are readily available or in use: for example, there are versions for the euro area and the United Kingdom that exclude energy and unprocessed food; in Japan, fresh food is removed; and in Canada, the eight most volatile components, as well as indirect taxes, are taken out of the index. In the United States, in addition to the CPI-based measure excluding food and energy, the measure based on the private consumption expenditure (PCE) deflator, which is preferred by the monetary authorities, also has a core counterpart. What all these measures have in common is that the exclusions are permanent.[2]

… for which there is an economic rationale

The economic argument for excluding these components from the calculation of headline inflation rates is that they are the ones most likely to be subject to disruptions in supply, as opposed to reflecting aggregate demand. In this case, and provided that the stance of monetary policy has not changed, the influence of such large, one-off price changes (either positive or negative) will fade over time. Hence, excluding them provides a better picture of existing underlying inflation pressures.

Excluding various components on a period-by-period basis

The second excludes volatile items as they occur

A second method of calculating underlying inflation is to exclude what are regarded as excessively volatile changes as they occur. Here, the economic rationale that such "outsized" price changes are more likely to be relative price changes, rather than generalised inflation developments, may not always hold. There are, however, valid statistical arguments for excluding (or downplaying) volatile components.[3]

Trimmed means are one way to adjust the inflation rates

Trimmed means are one way of dealing with these statistical problems. These are constructed by first ranking in descending or ascending order the price changes recorded by all the individual CPI components in a given period and excluding the top and bottom x per cent – that is, the components corresponding to x per cent of total CPI weights on each side. The inflation rate is then calculated as the mean of the remaining price changes. The median inflation rate, which is equivalent to a trimming of 50%, is a limiting case of the trimmed mean.

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2. In some countries, such as Canada, statistical agencies also compute measures of inflation that exclude the impact of changes in indirect taxes, which are not regarded as related to inflation.
3. If the distribution of price changes is not normal (and even if it is symmetric, which may not be the case), then the calculated mean is a less efficient measure of actual inflation, which matters when large price changes (both positive and negative) are located at either end of the distribution ("fat tails"). See Bakhshi and Yates (1999), and Bryan *et al.* (1997).

Downplaying the influence of volatile items

The third type assigns smaller weights to more volatile items

The third way of dealing with components that are felt to be too volatile is to replace the expenditure-based CPI weights with ones that are inversely proportional to each item's price volatility over a reference period. The core inflation rate is then calculated as the mean from this volatility-weighted distribution. While more volatile items are not permanently excluded, their influence on average headline inflation is muted.

The core measures are…

From examining various measures of core inflation (see Box IV.1 and Figure IV.A1-IV.A5 in the Appendix), a few stylised facts are evident:

… generally less volatile than headline inflation rates…

– Most indicators are less volatile than the headline rate, consistent with the presumption that they should reflect the more persistent, or underlying, component of inflation. A comparison of standard deviations shows that the

Box IV.1. The various measures of core inflation under consideration

Standard core measures

In the figures appearing in this chapter, the measures of core inflation excluding food and energy are referred to as Core 1. The alternative core measures exclude other items, discussed in the text, on a permanent basis and are referred to as Core 2 with the items, which tend to be specific to each economy, identified in brackets.

Trimmed means

The trimmed means used here are calculated on a month-on-month basis.[1] Year-on-year or three-month inflation rates are then obtained by compounding monthly trimmed mean inflation rates. Five thresholds are used: 2, 5, 10, 15 and 25%.A special case of the trimmed mean is the weighted median, corresponding to a trimming percentage of 50%; in this case, only the component leaving 50% of the weights on each side of the distribution is retained.An additional indicator in this category – the one step Huber-type skipped mean – is constructed by eliminating in each period the price changes determined to be "outliers" on the basis of a standardisation procedure that is robust to non-normality.[2]

Volatility weighting

Two alternative measures of volatility weights are considered: 1) the standard deviation of the monthly price change relative to the overall index; 2) the standard deviation of the price's second difference. The first measure focuses on the volatility of relative price changes, while the second one focuses on high-frequency volatility. They are referred to in the tables as Definition 1 and Definition 2, respectively. An alternative are double-weighted indicators, where the original CPI expenditure-based weights are not discarded but re-weighted by being divided by one of these two volatility measures and then re-scaled.[3]

Data

For all five economies, the officially published core inflation measures used are those based on the CPI (the HICP for the euro area), except for the Core 2 indicator for the United States. The consumer price components used to calculate the various indicators are also based on the CPI/HICP. For the United Kingdom, where the definition of the inflation target shifted from the RPIX to the CPI (formerly known as HICP), CPI data are used. The component breakdown used consists of 42 items for the United States (36 before 1998); 94 for the euro area (but varying between 81 and 93 before 2001); 40 for Japan; 84 for the United Kingdom (between 78 and 83 in 1996-2000) and 54 for Canada.[4] The indicators are constructed from seasonally-adjusted component data for the United States, Japan and Canada. Only for the United States are seasonally-adjusted data at the level of disaggregation used here publicly available; for Japan and Canada, data were seasonally adjusted using X12. For the euro area and the United Kingdom, where the data series available are too short to allow reliable seasonal adjustment, the constructed indicators are based on raw data, the resulting indicator series being seasonally adjusted using X12.

1. For this chapter, the one-month changes were chosen in order to study the information content of core indicators at high frequencies.
2. See Aucremanne (2000) for details.
3. A measure of core inflation published by the Bank of Canada (CPIW) approximately corresponds to the double-weighted mean based on Definition 1 of volatility. However, it is calculated from 12-month rather than one-month price changes.
4. The results can vary depending on the level of disaggregation of the CPI (Bryan *et al.*, 1997; Aucremanne, 2000). For the euro area, the most disaggregated publicly available data were used. The same level of disaggregation was used for the United Kingdom. For the United States, Japan and Canada, intermediate levels of disaggregation were preferred for data availability and computational reasons.

reduction in volatility is greater if indicators are considered at higher frequencies (three or six-month annualised rates of change), where headline inflation itself is more volatile than when measured at year-on-year rates.[4]

… but there are several cross-country differences in how they behave

– For some economies, core inflation indicators generally lag the headline rate, while for others, the opposite holds. In addition, in a number of cases, the means of various indicators are different from those of headline inflation (Table IV.1). If the bias is stable over time, it can be offset by mean-adjusting the series when making comparison with actual inflation. However, there is evidence that the size and the sign of these biases can vary, for example due to the nature of the price shocks experienced. In other cases, the indicators appear to differ widely in the range of their variation over the period shown. Some of the differences across economies reflect the way CPI sub-components develop relative to each other.[5]

Table IV.1. **Average value of headline and core inflation**

	United States		Euro area	Japan		United Kingdom	Canada	
	1984-1995	1996-2004	1996-2004	1984-1995	1996-2004	1996-2004	1985-1995	1996-2004
CPI all items	3.62	2.42	1.88	1.49	-0.04	1.34	3.36	2.01
Standard core measure[1]	4.10 **	2.23 *	1.67 **	1.94 **	-0.01	1.10 **	3.22	1.62 **
Alternative core measure[2]	3.55	1.61 **	1.73 *	1.49	-0.03	1.25	3.58	1.75
Trimmed means								
2%	3.59	2.26	1.80	1.41	-0.09	1.25	3.61	1.86
5%	3.64	2.21 *	1.75	1.36	-0.03	1.30	3.56	1.72 *
10%	3.72	2.31	1.74 *	1.40	0.05	1.49 **	3.45	1.68 **
15%	3.77	2.41	1.71 *	1.43	0.10	1.61 **	3.42	1.66 **
25%	3.83	2.60 *	1.65 **	1.47	0.20 *	1.73 **	3.42	1.72 **
Weighted median	3.85 *	2.88 **	1.65 **	1.44	0.25 **	1.82 **	3.34	1.73 **
One-step Huber-type skipped mean	3.69	2.36	1.68 **	1.42	0.17	1.83 **	3.01	1.46 **
Volatility weighted means								
Definition 1	3.76	2.39	1.42 **	1.39	-0.27	2.06 **	3.60	1.76 *
Definition 2	3.63	2.11 *	1.47 **	1.36	-0.30 *	1.54 **	3.63	1.86
Double weighted means								
Definition 1	3.92 **	2.75 **	1.75	1.83 **	0.16	2.50 **	3.33	1.41 **
Definition 2	3.88 *	2.51	1.75	1.68	0.06	1.96 **	3.46	1.62 **

Note: The * and ** denote that the mean of the core measure is significantly different (using the ANOVA F-statistic) from the mean of headline inflation at the 95 and 99% level, respectively.

1. CPI excluding food and energy for the United States, Japan and Canada; HICP excluding energy, food, alcohol and tobacco for the euro area and the United Kingdom.
2. PCE deflator excluding food and energy for the United States; HICP excluding energy and unprocessed food for the euro area and the United Kingdom; CPI excluding fresh food for Japan; CPI excluding the 8 most volatile components for Canada.

Source: OECD calculations

4. See Catte and Sløk (2005).
5. Individual CPI components tend to have different patterns of variation, causing them to affect the individual indicators differently. In particular, while the aggregate inflation rate of the service component is everywhere very persistent, the behaviour of core goods prices (*i.e.* excluding food and energy) displays greater responsiveness to cyclical conditions in the United States than in the euro area.

Assessing the potential usefulness of various indicators

Two tests were used to assess the usefulness of core rates

Because of the different behaviour of various measures of core inflation, it is useful to establish which of them are most helpful for policy purposes. A standard method used is to see which provides the most information about future inflation prospects, additional to what would be obtained from looking just at current changes in the headline rate. Here, two separate tests, described in Box IV.2, were conducted over time horizons relevant to monetary policy. The general results of each test for the five economies are summarised in Table IV.A1 in the Appendix.[6]

The first looked at the gap between headline and core inflation…

The first test focused on the information content of the difference, or gap, between the current levels of headline and core inflation (proxied by the various indicators) in predicting future movements in headline inflation. The idea is to test

Box IV.2. Tests to distinguish between various measures of core inflation[1]

Testing for the convergence of headline inflation towards measures of core inflation

The first set of regressions were aimed at examining the information content of the core inflation indicators by testing whether or not the current *gap between headline and core inflation* is significantly related to the gap between current and future inflation. This helps assess whether there is a tendency for headline inflation to revert to some measure of core inflation in the short to medium run and the regression was carried out for predicted changes over 12, 18 and 24 months.[2] In this case, the regression equation took the following form:

$H_{t+j}^{12} - H_t^{12} = \alpha + \beta\left(H_t^{12} - C_t^{12}\right) + \varepsilon_t$ for j = 12, 18 and 24 months.

Here the explanatory power of the alternative indicators was assessed by examining whether or not the coefficient was both negative and significant.

Testing for additional informational content of core indicators at higher frequencies

The second set of tests focused on whether the information conveyed by core inflation indicators regarding future headline inflation is not already contained in the recent headline inflation rate itself. Regressions were run using a more general functional form where the dependent variable is the 12-month-ahead headline inflation rate, and the explanatory variables were present and lagged values of both headline and core inflation (proxied by each indicator in turn), considered at alternative frequencies.[3] Thus, the estimated equation had the following form:

$$H_{t+12}^{12} = \alpha + \sum_{\substack{i=0\\ stepk}}^{12-k} \beta_i H_{t-i}^{k} + \sum_{\substack{i=0\\ stepk}}^{12-k} \gamma_i C_{t-i}^{k} + \varepsilon_t \quad \text{for k = 1, 3, 6}$$

and 12 months.

In this case, statistical tests were conducted to see if the γ parameters were significant as a group in order to differentiate among competing measures.

For each approach, it is possible to differentiate among those measures that were found to be significant according to their ability to explain variations in the left-hand side of the equation.

1. For more details, see Catte and Sløk (2005).
2. Similar exercises have been performed in a number of studies for individual economies. See Clark (2001) and Cogley (2002) for the United States, and Johnson (1999) and Macklem (2001) for Canada.
3. That is, when the 1-month rates are used, all lagged values from time t to time t-11 are included; for 3-month rates, the values included are those at times t, t-3, t-6 and t-9; for six-month rates, those at time t and t-6; and for the 12-month rates, only the current (time t) value is included. The inclusion of only lagged values referring to non-overlapping periods is intended to ensure that the results are comparable across frequencies, as they can be seen as alternative ways of "packaging" the same information by aggregating it through time.

6. See Catte and Sløk (2005) for more details.

whether or not headline inflation returns to core inflation once a gap is opened. An examination of Table IV.A1 in the Appendix, under the column marked Test 1, suggests the following:

… and found that headline inflation tends to converge to core rates

– Across economies and time horizons, the coefficients obtained on the gap between headline and core inflation were negative, indicating that headline inflation tends to converge back towards the underlying rate. On the particulars, the weighted median and the 25% trimmed mean were always found to be significant in predicting future headline inflation.

For most economies, several measures performed well…

– For the United States and Canada, all measures of core inflation have statistically significant coefficients on the gap at the 12-month horizon.[7] Using the ability of a particular core measure to explain the variation in actual headline inflation (the adjusted R^2s) to differentiate among competing definitions that were found to be significant, one or the other of the standard core measures (the CPI excluding energy and food, and the analogous measure based on the PCE deflator) appears to perform best at all horizons for the United States. In the case of Canada, the same criterion suggests that measures that downplay the more volatile components in the price index do better. Japan has a large number of measures that were found to be statistically significant at the 12-month and other horizons and, like Canada, those that rely on volatility-type weighting schemes perform well.[8]

… but the euro area had the fewest

– The euro area has the fewest core measures that are statistically significant at the 12-month horizon and even these explain only a very small proportion of the overall variation of headline inflation. This may be due to the low variation in headline inflation. The United Kingdom is an intermediate case, based on the number of core measures that were found to be statistically significant.

Using a more flexible approach…

The second test assesses whether the information contained in core indicators has any additional ability to provide information on inflation over the coming 12 months, beyond what is suggested in the past history of headline inflation itself.

… there are always indicators that provide relevant information

Referring again to Table IV.A1 under the heading Test 2 in the Appendix, for all economies, there are always one or more core indicators that provide statistically significant additional information relative to that contained in the headline rate. In the case of the United States, Canada and the United Kingdom, a sizeable number of the core indicators were found to be statistically significant. For the euro area and Japan, on the other hand, only a handful of indicators seem to provide statistically significant additional information. Among various indicators that were found to be significant, those that have the greatest explanatory power differ across countries. No single indicator came out significantly across all economies.

---

7. Although not shown in Table IV.A1, this remains the case for the United States at the 18 and 24-month horizons, while for Canada the 2% trimmed mean drops out at the 18-month horizon and one of the volatility-weighted means at the 24-month horizon.
8. The preferred measure is the double-weighted mean based on the first definition of volatility (standard deviation of changes in the relative price) for Japan, while for Canada it varies with the time horizon of the forecast: it is the double-weighted mean (also based on the first definition of volatility) at the 12-month horizon, the volatility-weighted mean (based on the same definition) at longer horizons.

Some implications for current inflation pressures

Assessing current pressures with the best-performing indicators

As noted above, core measures are less volatile than headline rates at higher frequencies (three or six-month annualised changes). Indeed, one of the useful features of core inflation indicators is that these higher frequency changes can be used to discuss changes in low-frequency inflation trends (changes over a 12-month period) on a more timely basis. In other words, they can potentially provide some advance information on possible trends that are developing in underlying demand conditions in the economy that have not as yet become evident in the 12-month inflation rate, the one typically examined by central banks as well as the public. In this section, the indicators that were found to be the best predictors of future headline inflation[9] are analysed as to their implications for current inflation pressures. They are shown in Figure IV.1 for each of the five economies.[10] The patterns in the figures suggest the following:

Several US core measures have recently been rising

– In the United States, the sharp pick-up in headline inflation in the spring of 2004 is partly reflected in high-frequency core inflation rates. More recently, several of these core measures have been rising.

Euro area inflation appears to be moving down, but slowly

– In contrast with the United States, the lower volatility of all of the euro area inflation rates is striking. A key issue has been whether inflation would move back below the 2% threshold after the 1999-2000 energy price shock. The core measures indicate that the decline in inflation from the near-term peak reached in early 2002 has been a relatively continuous, if slow, process, even at the three-month frequency, a feature that is consistent with other studies of euro area inflation (see Box IV.3).

At best indicators point to a slow exit from deflation in Japan

– In Japan, it has been particularly difficult over the past two years to discern underlying price trends. In late 2004, increases in energy and food prices pushed up inflation (at all frequencies) but their effects have since begun to fade. Since the beginning of the year, the preferred high-frequency indicators have all slipped back into negative territory, although some are edging up.

Recent developments in core rates point to stable and low UK inflation

– In the United Kingdom, inflation (both actual and core) has been very stable in the face of high levels of economic activity. This stability has been ascribed to a combination of mostly declining import prices, heightened competition and strong productivity gains, including in the distribution sector, as well as moderate wage increases in spite of a relatively tight labour market.[11] After edging up somewhat, core inflation measures more recently appear to be clustered around the 2% mark.

Canadian inflation appears to be well anchored around 2%

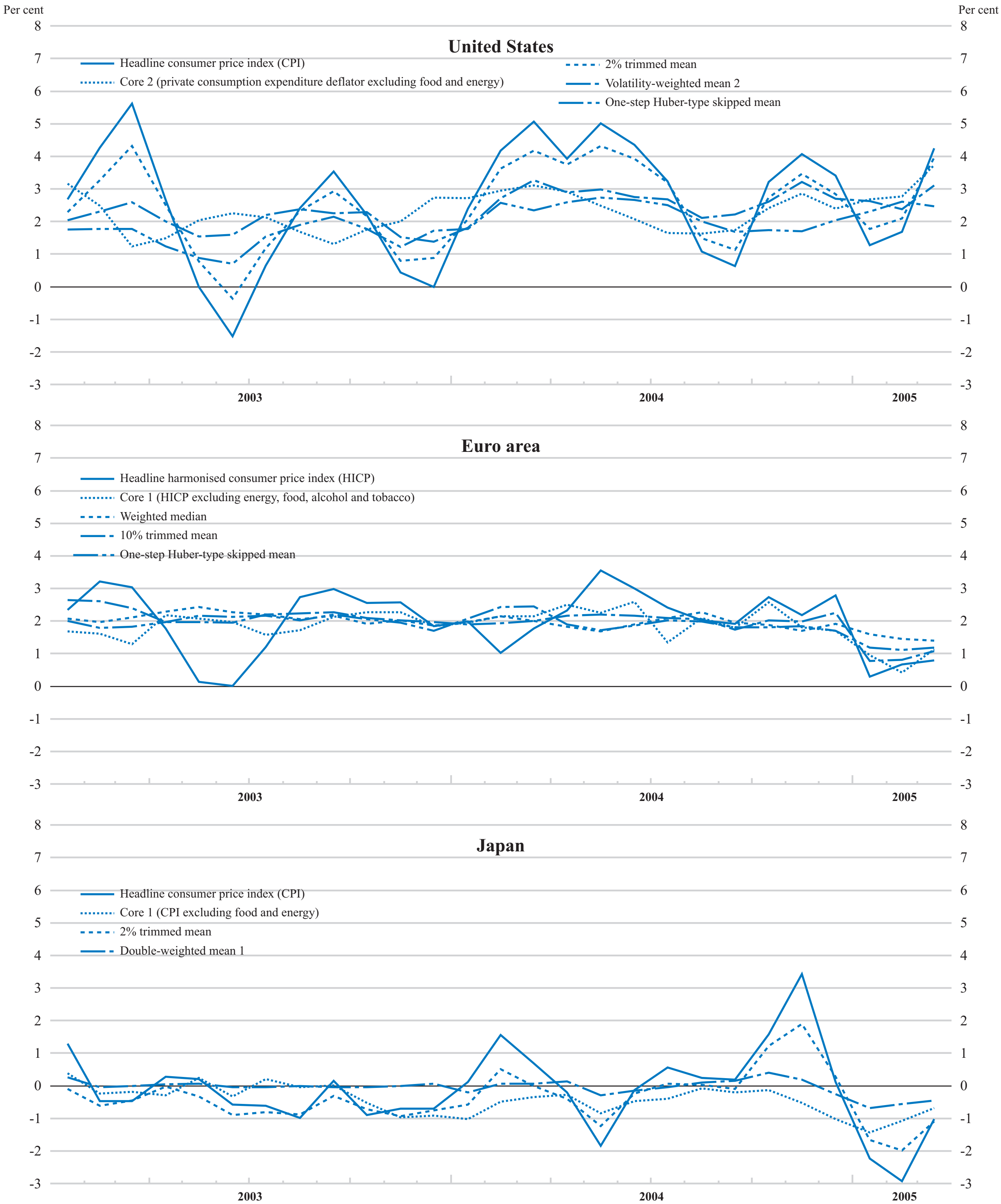
– The recent experience of headline inflation in Canada has been characterised by marked oscillations, but no clear trend. Measures of core inflation at the three-month frequency are significantly less volatile and they generally point to inflation remaining well-anchored around the 2% level.

---

9. For the gap model (Test 1), those core measures "within a certain class" were chosen that had the highest adjusted R^2s. For the distributed lag model (Test 2), the criteria aimed at identifying the core measure at the three-month frequency that can provide useful information about inflation 12 months hence, again based on adjusted R^2s.
10. In all cases, the data for the core measures shown have been adjusted so that they have the same average level over the 1996 to 2004 period as the headline inflation rate.
11. See Bank of England (2004).

Figure IV.1. **Headline inflation and selected indicators of core inflation**

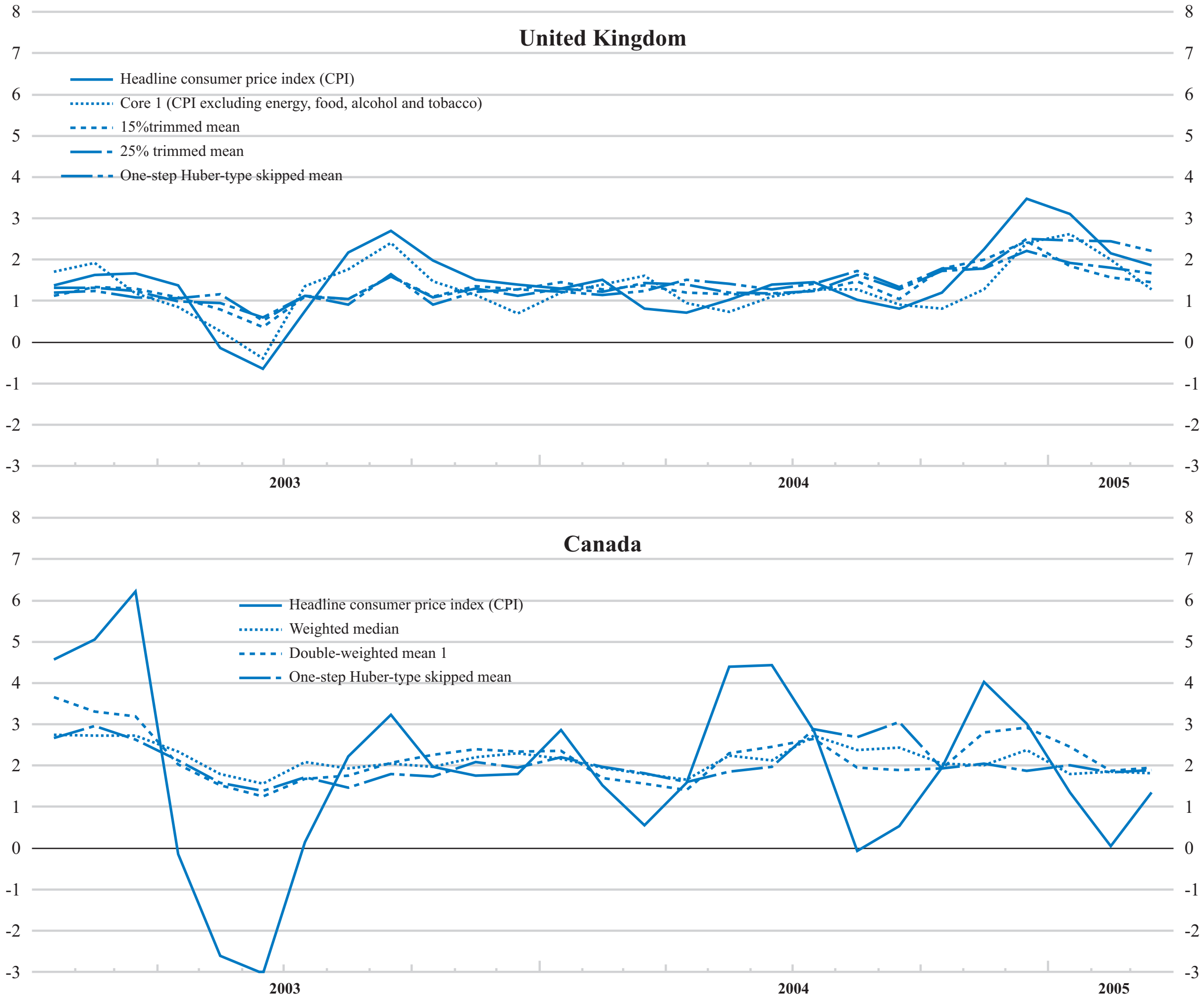
3-month annualised percentage change



Note: The level of all indicators of core inflation has been normalised at the average of the headline inflation rate over the period 1996-2004.
Source: OECD, *Main Economic Indicators* and OECD calculations.

Figure IV.1. Headline inflation and selected indicators of core inflation *(cont.)*

3-month annualised percentage change



Source: OECD, *Main Economic Indicators* and OECD calculations.

While useful, some caution is required in using core inflation

In conclusion, while core inflation measures do appear to provide relevant information for policy makers, a degree of caution is in order when interpreting them. To begin with, exercises that are based on purely time-series types of analysis (like those presented in this chapter) neglect other important information such as the output and labour market gaps. In this regard, it is perhaps not surprising that the out-of-sample predictions based solely on the test models reported above do not perform that well.[12] Furthermore, some of the price changes that are being excluded in these exercises on purely statistical criteria may have important information on the current state of

12. See Catte and Sløk (2005) for details. One possible reason is that the relationship between core and headline inflation is not invariant to policy. The behaviour of both variables will depend importantly on the success that the central bank achieves in controlling inflation.

Box IV.3. Why is euro area inflation so sticky?

Since the inception of the single currency on 1 January 1999, euro area headline inflation has remained at or just above 2%, with remarkably little variation around that level. This has been the case even as growth slowed and a sizeable negative output gap emerged in 2003 and persisted into 2004. To quite some extent, the inertia displayed by inflation can be ascribed to structural rigidities.

Inflation responds only weakly to cyclical slack

The failure of economic slack to exert significant downward pressure on inflation and wages contrasts with experience over the same period in the English-speaking OECD economies, which are generally more flexible.[1] Indeed, looking at a longer time horizon, there is evidence that the response of inflation to a negative output gap is comparatively weak in the euro area. This means that when inflation overshoots the ECB's price stability threshold, a larger and/or a longer-lasting output gap is required than elsewhere to bring it back to that level.

This inertia relative to other economies partly stems from a lack of flexibility in price adjustments.[2] Indeed, prices are changed only about half as frequently in the euro area as in the United States. In addition, implicit pricing contracts and strategic interactions among competing firms contribute to producer price stickiness. This is also borne out more recently by the failure of prices to decelerate when the euro appreciated, even for goods that have high import content. As well, sectors which show the most inertia (those related to services) tend to be responsible for persistence that is evident in nation-wide indices. These stylised facts suggest that the problem could be related to a lack of integration and competition in parts of the internal EU market.

Structural rigidities play an important role

Starting from this diagnosis, a recent OECD study has examined how rigidities in labour and product markets affect euro area inflation.[3] It confirmed that inflation responded more weakly to cyclical slack in the euro area than in English-speaking OECD economies and showed that it was associated with a lack of progress with the implementation of structural reforms. Specifically, cyclical slack has a significantly smaller negative impact on inflation in countries with strict employment protection legislation or tight product market regulations than in countries with more flexible policy settings in these areas.

By implication, implementing structural reforms should improve the resilience of the euro area economy, not least because it would provide the ECB with more scope to respond to weak demand conditions without jeopardizing price stability.

1. See OECD (2005).
2. Documented by Angeloni *et al*. (2004).
3. See Cournède *et al.* (2005).

inflation pressures. A case in point was the large oil-price shock in the 1970s, which, in retrospect, did contain information about inflation and, along with commodity price developments at the time, about the stance of monetary policy. As well, in some cases, the analysis of the data is complicated by the fact that statistical agencies change their methods in constructing price indices, leading to breaks in the underlying series. Finally, because many of the measures are based on somewhat complicated statistical criteria, using them for communication purposes is difficult. In this regard, while central banks do use these measures internally, they are also at pains to emphasise that the objective of policy is to stabilise headline inflation rates over the medium term.

Appendix

Table IV.A1. Summary of the test results to access the usefulness of core inflation measures, 1996-2004[1]

12 months ahead

Core inflation measure	United States		Euro area		Japan		United Kingdom		Canada	
	Test 1[1]	Test 2[2]	Test 1[1]	Test 2[2]	Test 1[1]	Test 2[2]	Test 1[1]	Test 2[2]	Test 1[1]	Test 2[2]
Standard core measure[3]	**	*		**	**	*		**	**	
Alternative core measure[4]	**				**			**	**	
Trimmed mean										
2%	*	**			**	*	**	**	**	
5%	**	**			**		**	**	**	
10%	**	**		**	**		**	**	**	*
15%	**	**			**		**	**	**	*
25%	**	**	**		**		**	**	**	*
Weighted median	**	*	**		**		**	**	**	**
One-step Huber-type skipped mean	**	**	**		**		**	**	**	**
Volatility weighted mean										
Definition 1	**				**	**	**	**	**	**
Definition 2	**	*				*	**	**	**	**
Double weighted mean										
Definition 1	**	*			**		**	**	**	**
Definition 2	**	**			**		*	**	**	**

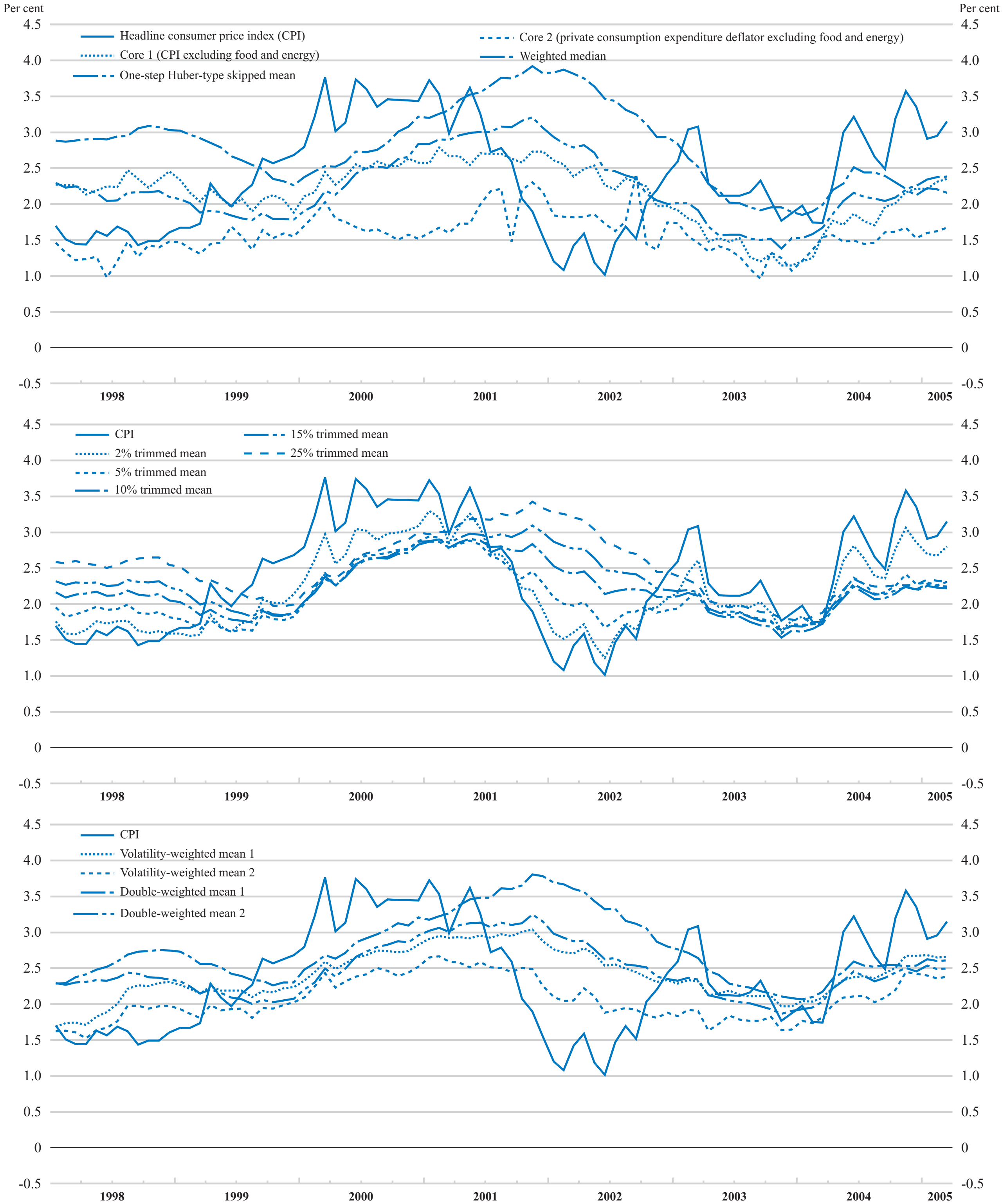
Note : For each measure of core inflation, * and ** indicates significance at the 95 and 99% levels, respectively. In the case of Test 1, the significance refers to the coefficient β in Box IV.2, while in the case of Test 2, it refers to the significance to the coefficients γ as a group, also described in Box IV.2. Results not significant at the 95% level are not shown.

1. In all cases, the coefficients were negative, indicating that headline inflation tends to converge to core. For Test 1, horizons of 18 and 24 months were also tested. Those results, not reported here, generally confirm the findings at the 12-month horizon.
2. Only the results for lags at three months are shown.
3. CPI excluding food and energy for the United States, Japan and Canada; HICP excluding energy, food alcohol and tobacco for the euro area and the United Kingdom.
4. PCE deflator excluding food and energy for the United States; HICP excluding energy and unprocessed food for the euro area and the United Kingdom CPI excluding fresh food for Japan; CPI excluding the eight most volatile components for Canada.

Source: OECD calculations

Figure IV.A1. **United States: indicators of core inflation**

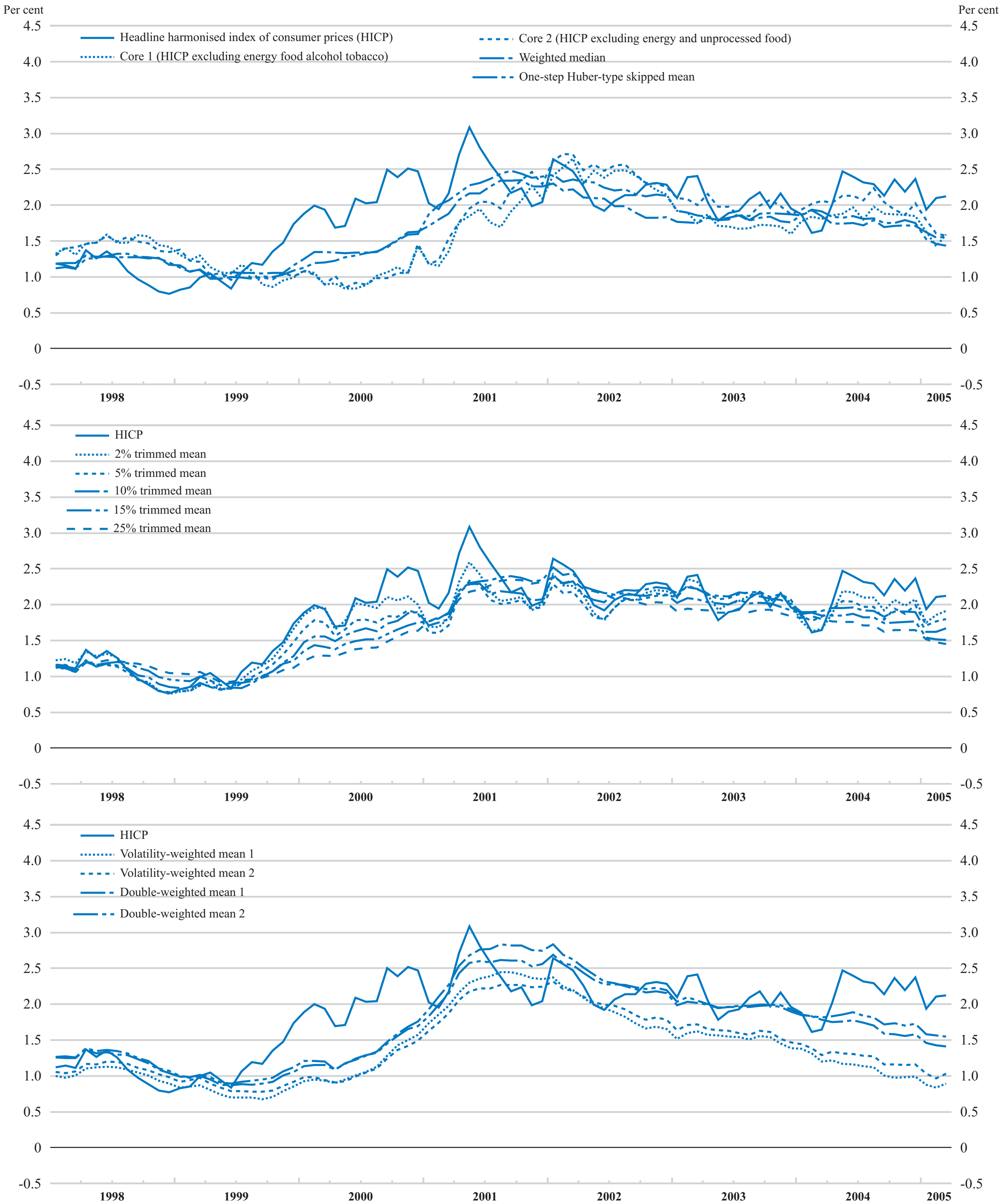
Year-on-year percentage change



Source: OECD, *Main Economic Indicators* and OECD calculations.

Figure IV.A2. Euro area: indicators of core inflation

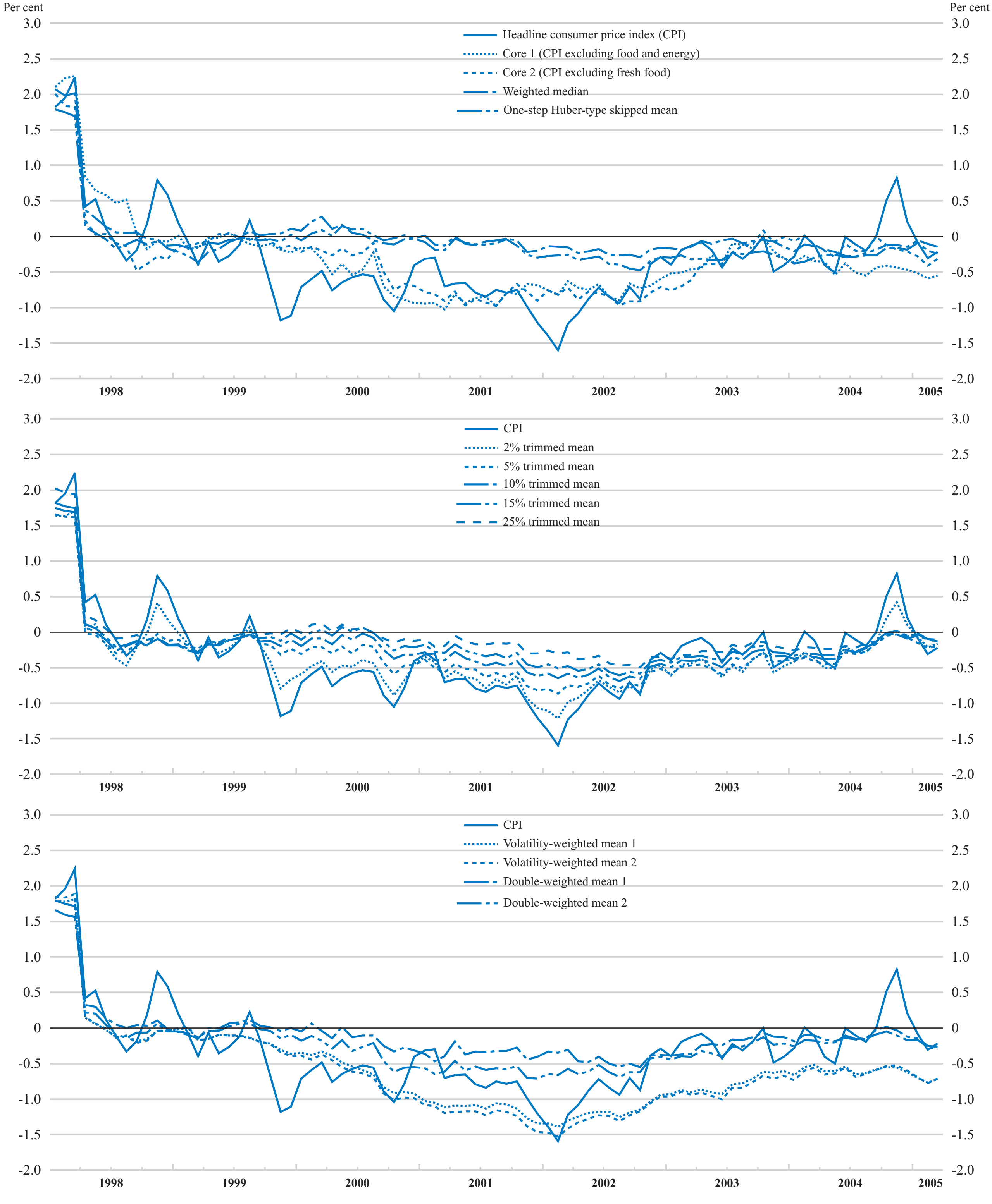
Year-on-year percentage change



Source: OECD, *Main Economic Indicators* and OECD calculations.

Figure IV.A3. **Japan: indicators of core inflation**

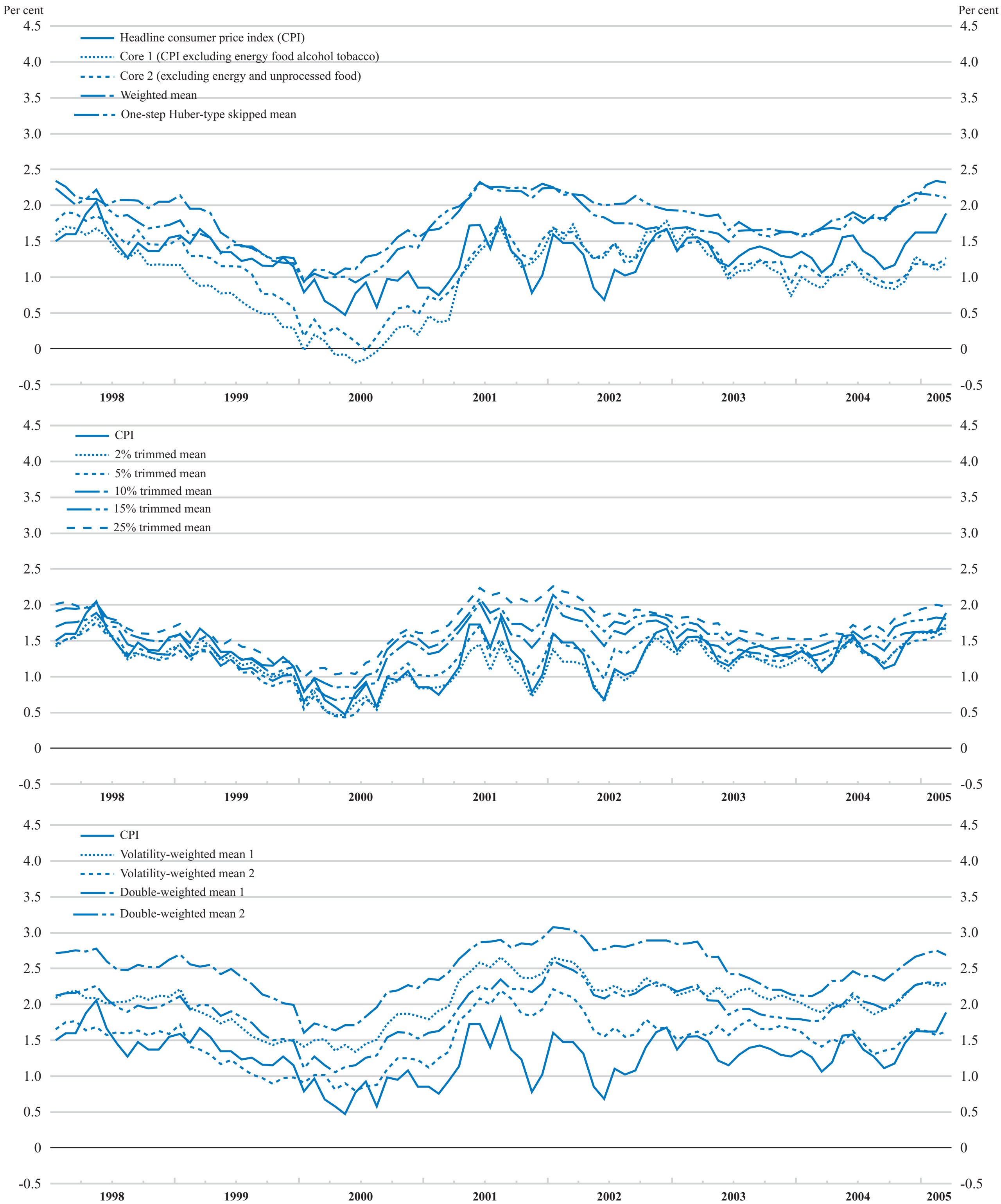
Year-on-year percentage change



Source: OECD, *Main Economic Indicators* and OECD calculations.

Figure IV.A4. **United Kingdom: indicators of core inflation**

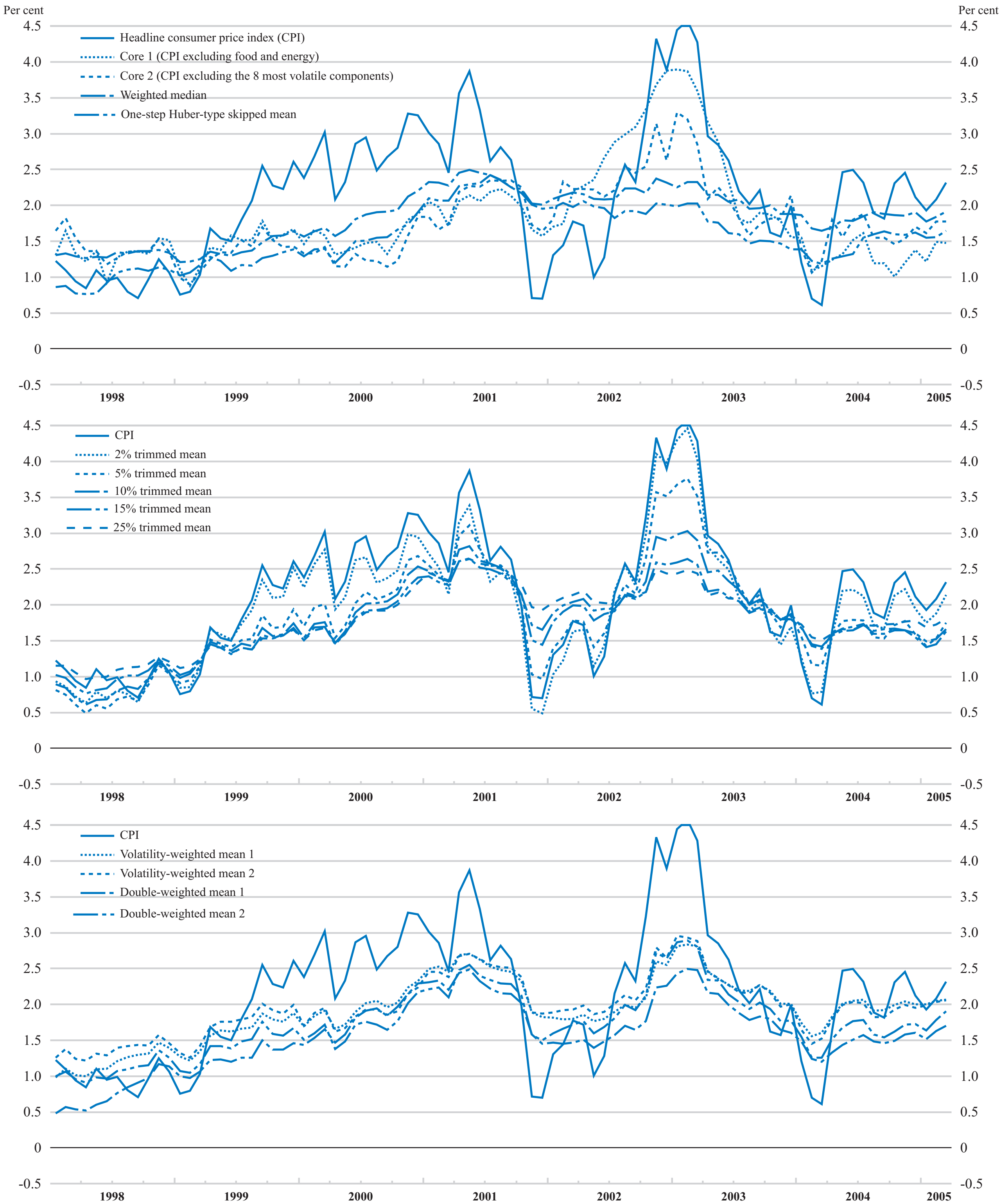
Year-on-year percentage change



Source: OECD, *Main Economic Indicators* and OECD calculations.

Figure IV.A5. Canada: indicators of core inflation

Year-on-year percentage change



Source: OECD, *Main Economic Indicators* and OECD calculations.

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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. The data on some of the tables have been adjusted to internationally agreed concepts and definitions in order to make them more comparable as between countries, as well as consistent with historical data shown in other OECD publications. Regional totals and sub totals are based on those countries in the table for which data are shown. Aggregate measures contained in the Annex, except the series for the euro area (see below), are computed on the basis of 2000 GDP weights expressed in 2000 purchasing power parities (see following page for weights). Aggregate measures for external trade and payments statistics, on the other hand, are based on current year exchange for values and base year exchange rates for volumes.

The OECD projection methods and underlying statistical concepts and sources are described in detail in documentation that can be downloaded from the OECD Internet site:

– *OECD Economic Outlook* Sources and Methods (*www.oecd.org/eco/sources-and-methods*).
– *OECD Economic Outlook* Database Inventory (*www.oecd.org/pdf/M00024000/M00024521.pdf*).
– The construction of macroeconomic series of the euro area (*www.oecd.org/pdf/M00017000/M00017861.pdf*).

NOTE ON NEW FORECASTING FREQUENCIES
AND THE STATISTICAL TREATMENT OF GERMANY, THE CZECH REPUBLIC,
HUNGARY, POLAND, THE SLOVAK REPUBLIC
AND THE EURO AREA AGGREGATE

– OECD is now making quarterly projections on a seasonal and working day-adjusted basis for selected key variables. This implies that differences between adjusted and unadjusted annual data may occur, though these in general are quite small. In some countries, official forecasts of annual figures do not include working-day adjustment. For Germany and Italy in particular, this makes for a marked difference over the projection period. Even when official forecasts do adjust for working days, the size of the adjustment may in some cases differ from that used by the OECD. The cut-off date for information used in the compilation of the projections is 20 May 2005.
– Data up to end 1990 are for western Germany only; unless otherwise indicated, they are for the whole of Germany from 1991 onwards. In tables showing percentage changes from the previous year, data refer to the whole of Germany from 1992 onwards. When data are available for western Germany only, a special mention is made in a footnote to the table.
– For the Czech Republic, Hungary, Poland and the Slovak Republic data are available from 1993 onwards. In tables showing percentage changes from the previous year, the Czech Republic, Hungary, Poland and the Slovak Republic are included from 1994 onwards.
– Greece has entered the euro area on 1 January 2001. In order to ensure comparability of the euro area data over time, Greeace has been included in the calculation of the eura area throughout.

Country classification

	OECD
Seven major OECD countries	Canada, France, Germany, Italy, Japan, United Kingdom and United States.
Euro area	Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.
	Non-OECD
Africa and the Middle East	Africa and the following countries (Middle East): Bahrain, Cyprus, Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates and Yemen.
Dynamic Asian Economies (DAEs)	Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; the Philippines; Singapore and Thailand.
Other Asia	Non-OECD Asia and Oceania, excluding China, the DAEs and the Middle East.
Latin America	Central and South America.
Central and Eastern Europe	Albania, Bulgaria, Romania, the Newly Independent States of the former Soviet Union, and the Baltic States.

Weighting scheme for aggregate measures

Per cent

Australia	1.82	Mexico	3.31
Austria	0.85	Netherlands	1.60
Belgium	0.99	New Zealand	0.29
Canada	3.21	Norway	0.60
Czech Republic	0.55	Poland	1.46
Denmark	0.56	Portugal	0.65
Finland	0.49	Slovak Republic	0.21
France	5.80	Spain	3.03
Germany	7.61	Sweden	0.88
Greece	0.65	Switzerland	0.81
Hungary	0.45	Turkey	1.69
Iceland	0.03	United Kingdom	5.63
Ireland	0.40	United States	36.12
Italy	5.32	Total OECD	100.00
Japan	12.18	*Memorandum items:*	
Korea	2.83	Euro area	27.46
Luxembourg	0.08		

Note: Based on 2000 GDP and purchasing power parities (PPPs).

Irrevocable euro conversion rates

National currency unit per euro

Austria	13.7603	Ireland	0.787564
Belgium	40.3399	Italy	1 936.27
Finland	5.94573	Luxembourg	40.3399
France	6.55957	Netherlands	2.20371
Germany	1.95583	Portugal	200.482
Greece	340.750	Spain	166.386

Source: European Central Bank.

National accounts reporting systems, base-years and latest data updates

Many countries are changing from the SNA68/ESA79 methodology for the national accounts data.
In the present edition of the OECD Economic Outlook, *the status of national accounts in the OECD countries is as follows :*

	Expenditure accounts	Household accounts	Government accounts	Use of chain weighted price indices	Benchmark/ base year
Australia	SNA93 (1959q1-2004q4)	SNA93 (1959q1-2004q4)	SNA93 (1959q1-2004q4)	YES	2002/2003
Austria	ESA95 (1989q1-2004q4)	ESA95 (1995-2003)	ESA95 (1995-2004)	YES	2000
Belgium	ESA95 (1970q1-2004q4)	ESA95 (1995-2004)	ESA95 (1970-2003)	NO	2000
Canada	SNA93 (1955q1-2004q4)	SNA93 (1955q1-2004q4)	SNA93 (1955q1-2004q4)	YES	1997
Czech Republic	SNA93 (1995q1-2004q4)	SNA93 (1995-2003)	SNA93 (1995-2004)	YES	2000
Denmark	ESA95 (1988q1-2004q4)	ESA95 (1988-2004)	ESA95 (1971-2002)	NO	1995
Finland	ESA95 (1975q1-2004q4)	ESA95 (1975-2004)	ESA95 (1975-2004)	NO	2000
France	ESA95 (1978q1-2004q4)	ESA95 (1978q1-2004q4)	ESA95 (1978-2003)	NO	1995
Germany+A31[1]	ESA95 (1991q1-2004q4)	ESA95 (1991-2004)	ESA95 (1991-2004)	NO	1995
Greece	ESA95 (1960-2004)	Not available	ESA95 (1960-2003)	YES	1995
Hungary	SNA93 (1995q1-2004q4)	SNA93 (1995-2003)	SNA93 (1995-2003)	NO	2000
Iceland	SNA93 (1970q1-2004q4)	Not available	SNA93 (1990-2004)	NO	1990
Ireland	ESA95 (1997q1-2004q4)	Not available	ESA95 (1985-2004)	NO	1995
Italy	ESA95 (1970q1-2004q4)	ESA95 (1980-2003)	ESA95 (1980-2004)	NO	1995
Japan	SNA93 (1980q1-2004q4)[2]	SNA93 (1990-2002)[2]	SNA93 (1990-2003)[2]	YES	2000
Korea	SNA93 (1970q1-2004q4)	SNA93 (1995-2002)	SNA93 (1995-2002)	NO	2000
Luxembourg	ESA95 (1970-2004)	Not available	ESA95(1990-2004)	NO	1995
Mexico	SNA93 (1980q1-2004q4)	Not available	Not available	NO	1993
Netherlands	ESA95 (1977q1-2005q1)	ESA95 (1980-2003)	ESA95 (1969-2004)	YES	1995
New Zealand	SNA93 (1987q1-2004q4)	Not available	SNA93 (1987-1997)	YES	1995/96
Norway	SNA93 (1978q1-2004q4)	SNA93 (1978-2003)	SNA93 (1978-2004)	YES	2002
Poland	SNA93 (1991q1-2004q4)	SNA93 (1991-2003)	SNA93 (1995-2003)	YES	2000
Portugal	ESA95 (1988q1-2004q4)	ESA95(1995-2003)	ESA95 (1977-2004)	NO	1995
Slovak Republic	SNA93 (1993-2004)	SNA93 (1994-2004)	SNA93 (1993-2004)	NO	1995
Spain	ESA95 (1995q1-2004q4)	ESA95 (1995-2003)	ESA95 (1995-2003)	NO	1995
Sweden	ESA95 (1993q1-2004q4)	ESA95 (1993-2004)	ESA95 (1993-2004)	YES	2000
Switzerland	SNA93 (1980q1-2004q4)	SNA93 (1990-2002)	SNA93 (1990-2002)	YES	2000
Turkey	SNA68 (1987q1-2004q4)	Not available	Not available	NO	1987
United Kingdom	ESA95 (1987q1-2004q4)	ESA95 (1987q1-2004q4)	ESA95 (1987q1-2004q4)	YES	2001
United-States	NIPA (SNA93) (1960q1-2005q1)	NIPA (SNA93) (1960q1-2004q4)	NIPA (SNA93) (1960q1-2004q4)	YES	2000

Note: SNA: System of National Accounts. ESA: European Standardised Accounts. NIPA: National Income and Product Accounts. GFS: Government Financial Statistics. The numbers in brackets indicate the starting year for the time series and the latest available historical data included in this Outlook database covered by the actual SNA.

1.. Data prior to 1991 refer to the new SNA93/ESA95 accounts for western Germany data..

2. Spliced to SNA68.

Annex Tables

Interest Rates and Exchange Rates

External Trade and Payments

Other Background Data

Annex Table 1. **Real GDP**

Percentage change from previous year

	Average 1980-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter 2004	Fourth quarter 2005	Fourth quarter 2006
Australia	3.2	-0.7	2.3	3.9	4.7	3.9	4.1	3.7	5.4	4.2	3.3	2.6	3.8	3.6	2.9	2.5	3.4	1.2	4.0	2.8
Austria	2.3	3.6	2.2	0.9	2.5	2.1	2.5	2.0	3.5	3.5	3.3	0.8	1.2	0.8	2.0	1.9	2.3	2.4	1.8	2.5
Belgium	2.0	1.8	1.3	-0.7	3.3	2.3	0.8	3.8	2.1	3.2	3.7	0.9	0.9	1.3	2.7	1.3	2.4	2.6	1.0	2.8
Canada	2.8	-2.1	0.9	2.3	4.8	2.8	1.6	4.2	4.1	5.5	5.2	1.8	3.4	2.0	2.8	2.8	3.1	3.0	3.0	3.1
Czech Republic	..	..	..	..	4.2	5.9	4.2	-0.7	-1.1	1.2	3.9	2.6	1.5	3.7	4.0	4.1	4.3	..	..	..
Denmark	1.6	1.1	0.6	0.0	5.5	2.8	2.5	3.0	2.5	2.6	2.8	1.3	0.5	0.7	2.4	2.4	2.4	2.9	2.5	2.4
Finland	3.1	-6.4	-4.2	-1.2	4.1	3.5	3.7	6.5	4.9	3.2	5.4	1.0	2.2	2.5	3.4	2.2	2.9	3.6	2.1	2.8
France	2.4	1.0	1.3	-0.9	1.9	1.8	1.0	1.9	3.6	3.2	4.2	2.1	1.1	0.5	2.3	1.4	2.0	2.2	1.2	2.5
Germany	2.3	5.1	1.8	-1.1	2.4	1.8	0.8	1.5	1.7	1.9	3.1	1.0	0.1	-0.1	1.0	1.2	1.8	0.6	1.6	2.3
Greece	0.7	3.1	0.7	-1.6	2.0	2.1	2.4	3.6	3.4	3.4	4.5	4.3	3.8	4.7	4.2	2.8	3.2	4.2	3.3	3.2
Hungary	..	..	..	..	2.9	1.5	1.3	4.6	4.9	4.2	5.2	3.8	3.5	3.0	4.0	3.6	3.9	..	..	..
Iceland	2.7	0.1	-3.3	0.8	4.0	0.1	5.2	4.7	5.7	4.4	5.7	2.6	-2.1	4.2	5.2	6.2	5.3	3.9	9.6	3.9
Ireland	3.6	1.9	3.3	2.7	5.8	9.6	8.3	10.8	8.7	11.1	9.9	6.0	6.1	3.6	4.9	5.3	5.0	..	..	..
Italy	2.3	1.4	0.7	-0.9	2.3	3.0	1.0	2.0	1.7	1.7	3.2	1.7	0.4	0.4	1.0	-0.6	1.1	0.8	-0.5	1.7
Japan	3.9	3.4	1.0	0.2	1.1	2.0	3.4	1.8	-1.0	-0.1	2.4	0.2	-0.3	1.5	2.6	1.5	1.7	0.9	2.2	1.9
Korea	8.7	9.4	5.9	6.1	8.5	9.2	7.0	4.7	-6.9	9.5	8.5	3.8	7.0	3.1	4.6	4.3	5.0	3.0	5.1	4.8
Luxembourg	5.0	8.6	1.8	4.2	3.8	1.4	3.3	8.3	6.9	7.8	9.0	1.5	2.5	2.9	4.5	3.3	3.9	..	..	..
Mexico	1.9	4.2	3.5	1.9	4.5	-6.2	5.1	6.8	4.9	3.9	6.6	-0.2	0.8	1.4	4.4	4.0	4.2	4.9	3.6	4.2
Netherlands	2.2	2.4	1.5	0.7	2.9	3.0	3.0	3.8	4.3	4.0	3.5	1.4	0.6	-0.9	1.4	0.5	1.7	1.2	1.0	1.8
New Zealand	2.5	-1.9	0.8	4.7	6.2	3.9	3.5	2.9	0.2	4.9	3.6	2.9	4.6	3.3	4.4	2.9	2.4	3.6	3.0	2.5
Norway	2.4	3.6	3.3	2.7	5.3	4.4	5.3	5.2	2.6	2.1	2.8	2.7	1.1	0.4	2.9	3.1	2.5	3.0	3.2	2.0
Poland	..	..	..	..	5.3	7.0	6.0	6.8	4.8	4.1	4.0	1.0	1.4	3.8	5.3	4.2	4.5	..	..	..
Portugal	3.3	4.4	1.1	-2.0	1.0	4.3	3.5	4.0	4.6	3.8	3.4	1.7	0.4	-1.1	1.0	0.7	2.1	0.6	1.9	2.2
Slovak Republic	..	..	..	..	6.2	5.8	6.1	4.6	4.2	1.5	2.0	3.8	4.6	4.5	5.5	4.8	5.7	..	..	..
Spain	2.9	2.5	0.9	-1.0	2.4	2.8	2.4	4.0	4.3	4.2	4.4	2.8	2.2	2.5	2.7	3.0	3.2	2.7	3.0	3.2
Sweden	2.2	-1.1	-1.2	-2.0	4.1	4.2	1.3	2.6	3.6	4.4	4.4	1.2	2.0	1.6	3.0	2.8	3.3	2.6	3.3	3.1
Switzerland	2.2	-0.8	0.0	-0.3	1.1	0.4	0.5	1.9	2.8	1.3	3.6	1.0	0.3	-0.3	1.7	1.3	2.0	..	..	..
Turkey	5.2	0.9	6.0	8.0	-5.5	7.2	7.0	7.5	3.1	-4.7	7.4	-7.5	7.9	5.8	8.9	6.3	6.1	..	..	..
United Kingdom	2.6	-1.4	0.2	2.3	4.4	2.9	2.8	3.3	3.1	2.9	3.9	2.3	1.8	2.2	3.1	2.4	2.4	2.9	2.2	2.6
United States	3.3	-0.2	3.3	2.7	4.0	2.5	3.7	4.5	4.2	4.4	3.7	0.8	1.9	3.0	4.4	3.6	3.3	3.9	3.5	3.3
Euro area	2.4	2.5	1.2	-0.8	2.4	2.3	1.4	2.4	2.8	2.8	3.7	1.7	0.9	0.6	1.8	1.2	2.0	1.6	1.4	2.4
Total OECD	3.2	1.3	2.0	1.5	3.3	2.5	3.1	3.6	2.7	3.3	3.9	1.1	1.6	2.1	3.4	2.6	2.8	2.8	2.8	2.9

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

These numbers are working-day adjusted and hence may differ from the basis used for official projections. The differences are particularly marked for certain countries -- see the notes to the "Demand and Output" table in the country notes for Germany and Italy.

Source: OECD Economic Outlook 77 database.

Annex Table 2. **Nominal GDP**

Percentage change from previous year

	Average 1980-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter 2004	2005	2006
Australia	11.1	1.6	3.6	5.0	5.5	5.4	6.4	5.4	5.7	4.9	7.6	6.4	6.8	6.6	6.8	6.0	6.6	5.4	6.3	6.7
Austria	5.9	7.6	5.9	3.5	5.0	4.2	3.3	2.1	3.7	4.1	5.0	2.7	2.3	2.3	4.0	4.1	4.0	4.5	3.9	4.0
Belgium	6.4	4.7	4.8	3.3	5.5	3.6	2.0	5.3	3.8	4.6	5.0	2.6	2.7	3.3	5.0	2.8	4.2	4.7	2.9	4.5
Canada	8.0	0.8	2.2	3.8	6.0	5.1	3.3	5.5	3.7	7.4	9.6	2.9	4.5	5.3	6.1	5.5	5.6	7.3	5.3	5.4
Czech Republic	..	..	..	..	14.0	16.8	13.2	7.5	9.9	4.0	5.3	7.7	4.3	5.6	7.9	6.8	7.0	..	..	..
Denmark	7.9	3.9	3.5	1.4	7.3	4.6	5.1	5.2	3.5	4.5	5.9	3.6	1.9	2.9	4.0	4.1	4.3	4.0	4.5	4.3
Finland	10.4	-4.2	-2.3	1.1	5.9	8.4	3.3	8.7	8.6	3.2	8.4	4.1	3.5	2.3	4.2	3.6	4.3	4.4	3.6	4.4
France	8.7	4.0	3.3	1.5	3.7	3.6	2.5	3.2	4.4	3.7	5.0	3.8	3.6	2.1	4.1	3.0	3.8	3.9	2.9	4.3
Germany	5.2	8.8	7.0	2.5	5.0	3.9	1.8	2.2	2.8	2.4	2.9	2.3	1.6	1.0	1.8	1.5	2.7	0.9	2.5	3.2
Greece	20.4	23.5	15.6	12.6	13.4	12.1	9.9	10.7	8.8	6.5	8.0	7.9	7.9	8.3	7.7	6.5	6.7	7.1	6.5	6.8
Hungary	..	..	..	..	23.0	27.4	22.8	23.9	18.1	12.9	15.6	12.7	12.7	10.9	8.9	8.2	7.9	..	..	..
Iceland	36.5	8.2	-0.1	3.1	6.2	3.0	7.3	8.0	11.2	7.2	8.6	12.1	3.5	4.1	7.7	9.8	8.9	6.7	15.8	5.3
Ireland	10.9	3.8	6.2	8.0	7.5	13.0	10.2	15.7	15.7	15.3	15.2	12.0	10.9	5.3	8.5	8.2	8.3	..	..	..
Italy	13.1	9.1	5.3	3.0	5.9	8.1	6.4	4.5	4.5	3.3	5.4	4.4	3.5	3.3	3.6	1.1	2.9	3.2	1.4	3.1
Japan	6.2	6.4	2.6	0.8	1.2	1.4	2.6	2.2	-1.2	-1.4	0.8	-1.1	-1.6	0.0	1.4	0.6	1.7	0.5	1.2	2.2
Korea	17.0	21.1	13.9	12.9	17.0	17.2	12.5	9.5	-1.4	9.4	9.3	7.5	10.0	5.9	7.4	5.4	6.0	5.5	6.0	5.8
Luxembourg	9.3	10.6	5.6	10.4	7.5	3.8	5.4	11.2	9.8	10.2	13.6	3.5	3.6	5.0	7.1	5.4	6.0	..	..	..
Mexico	65.6	28.4	18.6	11.6	13.3	29.3	37.4	25.7	21.0	19.5	19.5	5.7	7.8	10.0	10.7	10.5	8.2	13.0	7.7	8.1
Netherlands	4.2	5.3	3.9	2.5	5.2	5.1	4.2	5.9	6.1	5.6	7.5	6.7	3.7	2.0	2.6	1.9	1.8	2.5	2.1	1.3
New Zealand	12.6	-1.4	2.3	7.8	7.3	6.4	6.0	3.4	1.3	5.2	6.3	7.6	5.0	5.3	8.5	6.1	4.6	8.3	5.6	4.2
Norway	8.7	5.9	2.7	5.1	5.2	7.3	9.5	8.2	1.9	8.9	19.1	3.9	-0.5	2.8	7.9	8.6	5.4	9.7	7.4	4.9
Poland	..	..	..	..	44.5	36.9	25.7	21.6	16.9	10.7	10.9	5.1	2.7	4.3	8.4	7.0	7.1	..	..	..
Portugal	21.2	14.9	12.7	5.2	8.3	7.9	6.7	7.9	8.5	7.0	7.0	6.1	4.8	1.6	3.5	3.0	4.0	3.2	3.4	4.1
Slovak Republic	..	..	..	..	20.5	16.3	10.7	11.6	9.6	8.0	10.7	8.1	8.8	9.3	10.3	7.3	8.6	..	..	..
Spain	12.6	9.7	7.7	3.5	6.4	7.8	6.0	6.4	6.8	7.1	8.0	7.1	6.8	6.6	7.2	6.7	6.8	7.5	6.1	7.3
Sweden	10.0	7.8	-0.2	1.0	6.6	7.6	2.5	4.0	4.4	5.3	5.7	3.4	3.7	3.6	4.3	2.2	5.4	3.8	3.3	5.3
Switzerland	6.0	4.8	2.2	2.1	2.6	1.2	0.5	1.7	2.5	2.0	4.4	1.7	2.0	0.5	2.5	1.7	2.8	..	..	..
Turkey	54.0	60.3	73.5	81.3	95.2	100.7	90.3	95.2	81.1	48.2	60.9	43.2	55.6	29.6	19.7	16.4	12.7	..	..	..
United Kingdom	9.2	5.1	4.2	5.1	6.0	5.6	6.2	6.2	6.0	5.2	5.2	4.6	5.0	5.5	5.4	4.4	4.7	5.0	4.5	4.6
United States	7.6	3.3	5.7	5.0	6.2	4.6	5.7	6.2	5.3	6.0	5.9	3.2	3.5	4.9	6.6	6.1	5.7	6.4	5.9	5.7
Euro area	8.7	7.4	5.6	2.7	5.2	5.2	3.5	4.0	4.6	3.9	5.1	4.1	3.4	2.6	3.8	2.8	3.7	3.4	3.1	4.1
Total OECD	10.7	7.0	6.3	5.5	7.6	7.5	7.3	7.2	5.8	5.7	6.7	4.0	4.2	4.3	5.5	4.6	4.8	5.2	4.6	4.9

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence there are breaks in many national series. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD Economic Outlook 77 database.

Annex Table 3. **Real private consumption expenditure**

Percentage change from previous year

	Average 1980-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter 2004	2005	2006
Australia	3.1	0.6	2.5	1.6	3.7	4.7	3.2	4.0	4.5	4.9	3.1	2.9	4.0	4.4	5.4	2.6	3.0	3.9	2.5	3.2
Austria	2.5	3.6	3.3	0.3	2.9	0.8	3.0	0.3	1.6	2.0	3.8	1.0	0.0	0.6	1.5	1.8	2.2	1.2	2.2	2.2
Belgium	2.0	3.0	1.7	-0.3	2.4	1.0	1.0	2.2	3.1	2.3	3.4	0.7	0.3	2.2	2.1	1.2	2.0	2.0	1.4	2.1
Canada	2.7	-1.6	1.5	1.8	3.0	2.1	2.6	4.6	2.8	3.8	4.0	2.7	3.4	3.1	3.5	3.8	3.3	3.9	3.9	3.0
Czech Republic	..	..	..	..	4.5	5.9	8.8	1.3	-1.5	2.1	2.9	2.6	2.8	4.9	2.5	2.8	3.7	..	..	..
Denmark	1.0	1.6	1.9	0.5	6.5	1.2	2.5	2.9	2.3	0.7	-0.7	-0.2	0.6	0.9	4.3	3.8	2.1	5.8	1.7	2.0
Finland	3.4	-3.8	-4.1	-3.8	2.7	4.1	3.1	3.9	4.2	3.4	3.2	1.8	1.5	4.6	2.9	2.6	2.8	2.5	2.7	2.6
France	2.1	0.7	0.8	-0.2	0.9	1.3	1.3	0.2	3.6	3.5	2.9	2.8	1.8	1.7	2.4	1.9	1.9	2.6	1.5	2.4
Germany	2.1	4.6	2.3	0.2	1.1	2.3	0.9	0.7	1.7	3.6	2.2	1.8	-0.7	0.0	-0.8	0.4	1.2	0.0	0.6	1.5
Greece	2.2	2.9	2.3	-0.8	1.9	2.5	2.4	2.7	3.5	2.5	2.2	2.8	3.1	4.0	3.3	3.0	3.1	..	..	..
Hungary	..	..	..	..	0.2	-7.1	-3.6	1.9	4.8	5.6	5.5	5.7	10.2	8.0	3.5	2.5	3.5	..	..	..
Iceland	2.7	3.4	-3.1	-4.7	2.9	2.2	5.4	5.1	10.4	8.1	4.4	-3.5	-1.4	6.6	7.5	7.5	5.0	9.3	5.7	5.4
Ireland	1.9	1.8	2.9	2.9	4.4	3.4	6.4	7.2	7.0	9.6	8.5	5.2	2.6	2.6	3.2	4.3	4.9	..	..	..
Italy	2.7	2.9	1.9	-3.6	1.5	1.7	1.3	3.2	3.2	2.6	2.8	0.8	0.4	1.4	1.0	0.7	1.7	1.1	0.8	2.3
Japan	3.7	2.9	2.6	1.4	2.7	1.9	2.5	0.8	-0.2	0.0	0.5	1.1	0.5	0.4	1.5	1.1	1.1	0.2	1.8	1.3
Korea	8.0	8.7	6.0	6.0	8.4	9.9	6.7	3.3	-13.4	11.5	8.4	4.9	7.9	-1.2	-0.5	2.6	4.2	0.5	3.5	4.3
Luxembourg	2.9	7.0	-2.3	2.1	4.0	1.9	4.3	3.9	6.6	2.6	4.6	5.1	3.2	1.6	1.4	1.5	2.2	..	..	..
Mexico	2.0	4.7	4.7	1.5	4.6	-9.5	2.2	6.5	5.4	4.3	8.2	2.5	1.6	2.3	5.5	4.8	4.3	7.1	4.1	4.3
Netherlands	1.2	2.7	0.5	0.3	1.4	2.9	4.0	3.0	4.8	4.7	3.5	1.4	1.3	-0.9	0.3	-0.3	-3.6	0.6	-0.4	-5.6
New Zealand	2.1	-1.3	0.1	2.8	5.8	4.0	5.2	2.4	2.5	3.7	2.1	2.3	4.2	5.1	6.1	2.4	1.4	5.1	1.4	1.7
Norway	1.7	2.3	2.2	2.4	3.3	3.7	6.5	3.2	2.7	3.3	3.9	1.8	3.0	3.0	4.3	4.1	3.0	4.3	3.9	2.5
Poland	..	..	..	..	3.9	3.7	8.5	6.9	4.8	5.2	2.8	2.0	3.4	3.0	3.2	3.4	4.1	..	..	..
Portugal	2.8	4.2	4.7	1.1	1.0	0.6	3.0	3.3	5.0	5.1	2.9	1.2	1.1	-0.3	2.3	2.3	2.2	2.6	2.1	2.2
Slovak Republic	..	..	..	..	1.0	5.4	7.9	5.5	6.5	3.2	-0.8	4.7	5.5	-0.6	3.5	4.6	5.3	..	..	..
Spain	2.4	2.9	2.2	-1.9	1.1	1.7	2.2	3.2	4.4	4.7	4.1	2.8	2.9	2.9	3.5	3.5	3.5	3.5	3.5	3.5
Sweden	1.7	1.1	-1.3	-3.5	1.9	1.1	1.6	2.7	3.0	3.8	5.0	0.4	1.4	1.5	1.8	2.4	2.7	1.9	2.9	2.7
Switzerland	1.7	1.7	0.4	-0.6	1.0	0.7	1.0	1.5	2.4	2.3	2.4	2.0	0.3	0.5	1.3	0.8	1.4	..	..	..
Turkey	3.1	2.7	3.2	8.6	-5.4	4.8	8.5	8.4	0.6	-2.6	6.2	-9.2	2.1	6.6	10.1	5.3	4.8	..	..	..
United Kingdom	3.5	-1.5	0.5	2.9	3.1	1.6	3.6	3.6	3.9	4.4	4.6	2.9	3.3	2.3	3.3	1.7	1.9	3.0	1.7	1.9
United States	3.5	0.2	3.3	3.3	3.7	2.7	3.4	3.8	5.0	5.1	4.7	2.5	3.1	3.3	3.8	3.8	3.4	3.8	3.5	3.4
Euro area	2.2	2.8	1.7	-0.9	1.3	1.9	1.6	1.6	3.0	3.5	2.9	1.9	0.7	1.1	1.2	1.3	1.7	1.5	1.4	1.9
Total OECD	3.2	1.6	2.7	1.8	2.9	2.1	3.0	3.0	3.0	3.9	3.8	2.0	2.2	2.2	2.8	2.6	2.6	2.6	2.7	2.6

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD Economic Outlook 77 database.

Annex Table 4. **Real public consumption expenditure**

Percentage change from previous year

	Average 1980-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter 2004	Fourth quarter 2005	Fourth quarter 2006
Australia	3.7	3.0	0.4	0.2	3.1	4.1	3.0	2.7	3.6	2.3	4.6	0.5	3.5	4.0	3.8	3.7	3.2	3.9	3.1	3.2
Austria	1.5	2.4	2.6	3.2	2.7	3.1	1.6	3.2	2.7	1.6	1.1	-1.2	1.0	0.6	1.1	0.7	1.1	1.1	0.7	1.2
Belgium	1.0	3.6	1.6	-0.3	1.6	1.7	2.1	0.4	1.1	3.5	2.3	2.7	2.3	2.7	2.9	1.1	2.6	3.5	-0.3	3.9
Canada	2.4	2.9	1.0	0.0	-1.2	-0.6	-1.2	-1.0	3.2	2.1	3.1	3.7	2.8	3.8	2.5	3.1	3.3	2.1	3.6	3.2
Czech Republic	..	..	..	..	1.4	-4.3	1.5	1.4	-1.0	5.4	0.2	3.8	4.5	4.2	-3.2	0.8	0.4	..	..	..
Denmark	0.8	0.6	0.8	4.1	3.0	2.1	3.4	0.8	3.1	2.0	0.9	2.7	2.1	1.0	0.7	0.7	0.8	0.8	0.7	0.9
Finland	3.3	2.0	-2.5	-4.2	0.8	2.0	2.7	2.9	2.0	1.4	0.1	2.3	3.9	1.2	2.0	1.9	2.1	1.9	2.1	2.1
France	2.7	2.6	3.6	4.3	0.5	0.0	2.2	2.1	-0.1	1.5	3.0	2.9	4.6	2.6	2.6	1.4	2.0	2.1	1.4	1.8
Germany	1.4	1.9	5.0	0.1	2.4	1.5	1.8	0.3	1.9	0.8	1.1	1.0	1.9	0.1	0.4	-0.1	0.4	0.0	0.1	0.6
Greece	1.4	-1.5	-3.0	2.6	-1.1	5.6	0.9	3.0	1.7	2.1	14.8	-3.2	8.3	-2.3	6.5	1.5	0.9	..	..	..
Hungary	..	..	..	..	-7.4	-5.7	-2.3	3.1	1.8	1.5	1.9	6.2	5.0	5.4	-1.3	-0.4	0.5	..	..	..
Iceland	5.1	3.1	-0.7	2.3	4.0	1.8	1.2	2.5	3.4	4.9	4.4	3.1	3.2	3.5	3.6	2.4	2.5	1.2	4.9	1.3
Ireland	0.1	2.7	3.0	0.1	4.1	3.9	3.4	5.1	5.3	4.4	9.9	11.4	8.8	2.6	2.9	3.1	3.5	..	..	..
Italy	2.9	1.7	0.6	-0.2	-0.9	-2.2	1.0	0.2	0.2	1.3	1.7	3.9	1.9	2.3	0.6	0.2	0.2	0.2	-0.1	0.4
Japan	3.5	4.1	2.5	3.0	3.2	4.4	3.0	1.1	2.2	4.7	4.9	3.0	2.6	1.2	2.7	2.1	1.8	3.1	1.9	2.0
Korea	6.2	6.5	7.4	5.6	4.1	5.0	8.0	2.6	2.3	2.9	1.6	4.9	6.0	3.8	3.0	3.4	3.4	2.0	4.5	3.0
Luxembourg	4.4	4.0	3.2	5.2	1.0	4.7	5.6	3.0	1.3	7.3	4.8	6.5	3.2	5.0	6.0	4.5	3.5	..	..	..
Mexico	2.5	5.4	1.9	2.4	2.9	-1.3	-0.7	2.9	2.3	4.7	2.4	-2.0	-0.3	0.8	-1.2	-0.6	2.2	-0.9	0.2	2.5
Netherlands	2.8	2.9	2.9	1.6	1.5	1.5	-0.4	3.2	3.6	2.5	2.0	4.8	3.6	1.8	-0.2	0.5	9.9	-0.8	0.3	15.9
New Zealand	1.7	-0.6	1.1	1.3	0.8	4.8	2.3	6.6	0.0	6.4	-2.9	4.5	2.9	2.3	6.4	7.2	3.5	8.3	4.2	4.5
Norway	2.7	5.4	5.6	2.7	1.5	1.5	3.1	2.5	3.3	3.2	1.3	5.8	3.7	1.4	2.0	1.8	1.8	2.0	2.4	1.6
Poland	..	..	..	..	1.2	4.8	2.3	3.3	2.0	1.9	1.3	0.6	0.4	0.1	1.4	1.1	1.0	..	..	..
Portugal	5.0	9.6	-0.9	-0.2	4.3	1.0	3.4	2.2	4.1	5.6	4.1	3.3	2.3	0.3	1.2	2.0	2.0	1.8	2.0	2.0
Slovak Republic	..	..	..	..	-10.7	3.6	17.2	-5.4	12.5	-7.1	1.6	4.6	4.9	2.7	1.2	3.2	3.0	..	..	..
Spain	5.0	6.0	3.5	2.7	0.5	2.4	1.3	2.9	3.7	4.2	5.6	3.5	4.1	3.9	4.9	3.9	3.5	5.4	2.7	3.8
Sweden	1.7	3.4	2.1	0.1	-0.8	-0.4	0.6	-0.9	3.4	1.7	-1.2	0.9	2.3	0.8	0.3	1.2	1.6	-0.2	2.0	1.5
Switzerland	3.7	4.3	1.7	-0.7	2.0	1.0	0.8	-0.1	-0.9	0.3	2.6	4.2	3.2	1.4	1.2	0.4	0.3	..	..	..
Turkey	8.8	3.7	3.6	8.6	-5.5	6.8	8.6	4.1	7.8	6.5	7.1	-8.5	5.4	-2.4	0.5	1.0	1.0	..	..	..
United Kingdom	0.9	3.0	0.7	-0.7	1.0	1.4	1.3	-0.4	1.2	3.5	2.3	2.6	3.8	3.2	4.7	2.9	2.8	3.6	2.4	2.9
United States	2.8	1.3	0.4	-0.3	0.3	0.2	0.4	1.8	1.6	3.1	1.7	3.1	4.0	2.9	1.7	1.9	1.1	1.4	2.2	0.6
Euro area	2.4	2.6	2.9	1.3	1.2	0.8	1.7	1.4	1.4	1.7	2.5	2.6	3.1	1.7	1.7	1.0	2.0	1.4	0.8	2.6
Total OECD	2.9	2.6	1.7	1.0	1.0	1.3	1.6	1.5	1.9	3.0	2.5	2.6	3.4	2.2	1.9	1.7	1.7	1.9	1.6	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, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD Economic Outlook 77 database.

Annex Table 5. **Real total gross fixed capital formation**

Percentage change from previous year

	Average 1980-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter 2004	Fourth quarter 2005	Fourth quarter 2006
Australia	3.5	-8.3	1.3	5.4	11.2	1.9	3.9	9.3	8.3	6.6	0.4	-1.5	16.5	8.0	6.3	5.2	5.1	4.5	4.2	5.3
Austria	2.2	7.3	0.8	-0.1	3.5	0.5	1.8	1.7	2.7	3.3	5.1	-1.3	-2.7	4.4	4.8	2.6	3.1	4.6	1.5	3.5
Belgium	2.3	-3.9	0.6	-1.7	0.0	3.6	-0.3	8.3	3.5	4.5	3.4	0.6	-3.4	-0.6	1.9	4.1	4.6	3.1	6.9	4.7
Canada	3.5	-5.4	-2.7	-2.0	7.5	-2.1	4.4	15.2	2.4	7.3	4.7	4.1	2.4	4.9	6.3	4.8	2.3	5.8	3.6	1.9
Czech Republic	..	..	..	..	10.2	19.8	7.6	-3.4	-1.1	-3.5	4.9	5.4	3.4	4.8	9.1	8.0	7.8	..	..	..
Denmark	1.9	-3.3	-2.0	-4.0	7.6	11.6	4.0	10.9	10.1	1.5	6.9	3.8	2.3	1.5	4.7	5.7	5.3	4.6	4.1	5.8
Finland	3.5	-18.6	-16.5	-14.8	-3.6	11.3	5.8	13.8	9.0	2.3	4.1	4.0	-3.3	-1.5	4.5	3.5	3.5	4.6	3.7	3.1
France	2.6	-1.5	-1.8	-6.6	1.6	2.2	-0.1	-0.2	7.2	8.3	8.4	2.1	-1.8	0.3	3.3	3.3	2.9	2.7	3.1	3.2
Germany	1.6	5.2	3.4	-4.6	4.2	-0.5	-0.6	0.7	2.3	3.8	3.3	-3.9	-6.3	-2.2	-2.2	0.5	2.3	-2.4	0.5	3.1
Greece	-0.9	4.2	-3.5	-4.0	-3.1	4.1	8.4	6.8	10.6	11.0	8.0	6.5	5.7	13.7	4.9	0.5	3.2	..	..	..
Hungary	..	..	..	..	12.5	-4.3	6.7	9.2	13.2	5.9	7.7	5.0	8.0	3.4	8.3	4.7	7.8	..	..	..
Iceland	0.8	2.0	-11.1	-10.7	0.6	-1.1	25.7	10.0	32.6	-3.9	15.3	-6.4	-20.9	17.0	12.8	23.6	8.0	7.1	25.7	0.7
Ireland	0.9	-7.0	0.0	-5.1	11.8	15.8	17.4	18.0	16.3	15.5	7.1	-1.9	3.0	3.5	9.2	4.4	2.9	..	..	..
Italy	1.9	1.1	-1.7	-10.9	0.3	6.2	3.4	2.1	3.8	5.1	7.3	1.6	1.3	-1.8	1.9	-1.6	2.0	0.5	0.2	2.9
Japan	4.9	2.2	-2.3	-2.5	-1.4	0.8	6.5	0.6	-3.8	-1.1	2.0	-1.4	-5.7	1.1	1.6	0.7	1.3	-1.5	1.8	1.2
Korea	12.4	14.4	0.6	7.7	12.5	13.1	8.4	-2.3	-22.9	8.3	12.2	-0.2	6.6	4.0	1.9	4.4	4.4	-1.5	7.9	2.4
Luxembourg	3.9	15.8	-15.1	20.6	0.0	-1.5	3.8	12.7	11.8	14.6	-3.5	10.0	-1.1	-6.3	3.5	2.5	5.0	..	..	..
Mexico	-1.0	10.9	10.9	-2.5	8.4	-28.9	16.2	21.2	10.3	7.7	11.4	-5.6	-0.6	0.4	7.5	7.6	6.3	11.1	5.7	5.7
Netherlands	2.2	0.3	0.7	-3.2	2.1	4.1	6.3	6.6	4.2	7.8	1.4	0.2	-3.6	-3.1	2.5	1.9	2.5	4.0	1.1	1.3
New Zealand	4.0	-18.3	0.2	14.5	15.3	12.2	7.8	0.6	-5.5	6.8	8.2	0.8	10.7	10.8	13.1	2.2	3.2	8.0	5.0	2.1
Norway	-0.6	-3.0	-1.1	6.5	5.3	3.9	10.3	15.5	13.1	-5.6	-3.6	-0.7	-1.0	-2.0	8.9	14.5	2.5	24.9	6.7	2.4
Poland	..	..	..	..	9.2	16.6	19.7	21.7	14.2	6.8	2.7	-8.8	-5.8	-0.5	5.1	10.0	10.0	..	..	..
Portugal	3.0	3.3	4.5	-5.5	2.7	6.6	5.7	13.9	11.5	6.4	3.8	0.8	-5.1	-9.9	1.3	0.2	3.6	1.3	1.8	4.7
Slovak Republic	..	..	..	..	-2.5	0.6	29.1	15.0	11.0	-19.6	-7.2	13.9	-0.6	-1.5	2.5	10.0	7.8	..	..	..
Spain	5.3	1.7	-4.1	-8.9	1.9	7.7	2.1	5.0	10.0	8.8	5.7	3.0	1.7	3.2	4.6	6.1	5.4	6.0	4.7	5.6
Sweden	3.8	-8.5	-11.3	-14.6	6.6	9.9	4.5	-0.3	7.8	8.2	5.6	-1.0	-2.6	-1.5	5.1	8.5	5.5	9.3	7.6	4.2
Switzerland	3.5	-2.6	-7.4	-3.2	6.7	4.5	-1.7	2.0	6.5	1.1	4.4	-3.1	0.2	-0.4	3.4	2.5	3.6	..	..	..
Turkey	10.2	0.4	6.4	26.4	-16.0	9.1	14.1	14.8	-3.9	-15.7	16.9	-31.5	-1.1	10.0	32.4	14.0	12.5	..	..	..
United Kingdom	4.3	-8.2	-0.9	0.3	4.7	3.1	5.7	6.8	12.7	1.6	3.6	2.6	2.7	2.3	5.6	4.0	4.4	4.5	4.1	4.3
United States	3.4	-5.1	4.9	6.0	7.3	5.7	8.1	8.1	9.1	8.2	6.1	-1.7	-3.1	4.5	9.0	5.8	5.1	8.2	4.4	5.2
Euro area	2.3	1.1	-0.3	-6.3	2.4	2.6	1.3	2.6	5.1	6.0	5.3	0.0	-2.2	-0.4	1.9	2.0	3.0	1.6	2.0	3.5
Total OECD	3.6	-1.5	1.1	0.8	4.7	3.1	6.2	6.2	5.2	5.3	5.5	-1.3	-1.8	2.4	5.8	4.3	4.1	4.7	4.1	4.1

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, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD Economic Outlook 77 database.

Annex Table 6. **Real gross private non-residential fixed capital formation**

Percentage change from previous year

	Average 1980-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter 2004	Fourth quarter 2005	Fourth quarter 2006
Australia	5.4	-11.2	-2.4	2.3	11.4	7.3	10.1	7.7	7.2	6.1	-1.8	0.9	15.4	9.6	6.3	8.8	7.1	6.3	6.4	7.1
Austria	4.4	7.3	-3.3	-3.0	1.7	-2.5	3.2	10.7	7.1	5.9	10.6	2.5	-3.1	7.7	7.1	3.4	3.6	6.9	1.5	4.1
Belgium	5.5	-3.3	-1.4	-4.6	-2.5	4.3	3.8	8.5	5.2	2.3	4.4	3.6	-3.8	-1.9	1.9	2.9	4.1	4.5	3.8	4.1
Canada	3.6	-3.3	-7.8	-1.4	9.4	4.8	4.4	22.6	5.3	7.2	4.7	0.7	-4.0	3.2	6.1	5.8	3.2	6.7	4.2	2.9
Denmark	5.4	-1.4	-4.2	-8.3	7.6	13.9	2.7	13.7	13.5	1.9	6.6	5.9	2.3	-0.7	2.9	6.3	6.0	1.3	4.5	6.7
Finland	4.6	-23.5	-18.8	-17.8	-4.9	26.7	5.9	8.1	13.4	0.8	6.7	9.6	-7.2	-7.7	4.7	4.2	3.7	6.4	4.3	3.2
France	4.2	-1.0	-2.6	-8.0	0.7	3.4	-0.2	1.0	10.2	9.2	9.7	3.1	-3.7	-1.5	3.2	3.7	3.3	2.5	3.5	3.8
Germany	1.7	6.0	-0.5	-9.1	1.0	1.3	-0.6	2.3	4.2	4.9	7.5	-3.4	-7.2	-0.7	-1.4	2.2	3.9	-0.6	2.1	5.0
Greece	-0.5	5.2	0.7	1.1	0.9	2.9	14.7	5.4	12.0	16.7	9.6	8.2	7.6	14.9	5.6	3.7	5.4	..	..	..
Iceland	0.2	3.2	-17.8	-25.6	1.8	12.0	52.3	19.1	46.8	-5.7	16.1	-14.8	-27.9	23.8	12.8	38.8	10.6	5.6	42.9	-1.2
Ireland	2.3	-11.6	-3.1	-5.4	7.8	18.2	18.4	20.1	21.7	15.8	5.3	-7.5	1.5	2.5	11.2	3.5	4.4	..	..	..
Italy	2.4	0.1	-2.3	-14.3	5.1	10.7	3.5	3.7	4.0	6.1	8.8	1.0	0.0	-4.8	1.8	-3.4	1.7	-0.5	-1.1	3.4
Japan	7.8	4.3	-7.1	-10.3	-5.7	3.0	4.7	11.3	-1.6	-4.5	8.7	0.8	-6.7	6.5	5.8	3.8	2.7	0.8	4.2	2.4
Korea	12.2	14.3	1.1	6.8	17.1	15.3	8.5	-3.4	-29.2	13.8	18.9	-4.7	7.6	3.8	1.0	4.9	5.0	-3.7	9.7	2.4
Mexico	1.0	22.5	22.9	-5.5	-0.4	-38.8	45.4	34.1	18.3	8.8	10.0	-4.3	-3.7	-3.5	7.0	6.3	6.6	12.3	6.6	6.4
Netherlands	3.9	2.0	-3.2	-5.1	-0.4	5.5	7.0	9.7	5.2	9.9	1.0	-2.7	-6.4	-3.4	2.1	0.8	3.1	2.9	-1.9	3.9
New Zealand	4.9	-18.9	8.2	23.1	17.0	15.0	7.3	-6.7	-3.4	8.0	19.3	-1.3	4.7	13.3	16.1	3.3	4.7	11.0	5.7	4.1
Norway	-0.4	-3.3	-0.7	12.7	2.6	2.0	13.6	15.8	15.3	-8.7	-4.1	-4.2	-1.5	-3.6	10.5	17.8	2.3	31.3	10.6	0.9
Spain	4.8	3.7	-1.0	-13.5	3.5	12.4	3.6	6.4	9.2	9.7	7.4	2.9	-1.1	2.6	4.6	7.3	6.4	5.5	5.6	6.7
Sweden	5.4	-16.1	-15.9	-9.5	22.2	23.2	8.0	4.8	9.5	8.5	8.2	-2.9	-6.9	-2.8	4.9	10.1	6.3	9.8	9.1	4.6
Switzerland	..	-2.7	-10.3	-4.8	5.4	8.5	1.3	3.1	9.7	0.8	5.0	-2.0	2.5	-0.5	3.8	2.7	4.3	..	..	..
United Kingdom	5.2	-8.2	-3.8	-3.7	4.8	7.8	9.1	10.1	18.1	2.8	4.6	1.9	0.6	-1.2	5.5	3.2	3.3	4.4	3.2	3.2
United States	3.2	-5.4	3.2	8.7	9.2	10.5	9.3	12.1	11.1	9.2	8.7	-4.2	-8.9	3.3	10.6	8.8	8.9	11.0	7.0	9.0
Euro area	3.1	1.4	-2.0	-9.5	1.6	4.9	1.8	4.5	6.9	7.0	7.6	0.4	-3.7	-1.1	2.2	2.3	3.8	1.8	2.1	4.6
Total OECD	4.3	-1.0	-0.2	-1.0	4.9	6.0	7.6	10.1	7.5	6.2	8.1	-1.5	-5.0	1.9	6.5	5.7	5.8	5.9	5.0	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, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. Some countries, United States, Canada and France use hedonic price indices to deflate current-price values of investment in certain information and communication technology products such as computers. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex. National account data do not always have a sectoral breakdown of investment expenditures, and for some countries data are estimated by the OECD. See also *OECD Economic Outlook* Sources and Methods, *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD Economic Outlook 77 database.

Annex Table 7. **Real gross private residential fixed capital formation**

Percentage change from previous year

	Average 1980-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter 2004	Fourth quarter 2005	Fourth quarter 2006
Australia	0.0	-5.7	11.4	12.8	12.1	-7.6	-10.6	15.3	14.9	5.3	3.3	-10.1	24.7	7.1	5.5	-4.4	-0.6	-1.4	-2.1	0.5
Austria	-0.1	8.4	11.4	4.0	7.6	9.2	2.7	-1.6	-4.6	-0.7	-4.4	-6.6	-5.3	-4.2	0.4	-0.6	1.5	-1.3	1.1	1.7
Belgium	0.3	-9.0	4.9	1.8	5.5	4.3	-8.2	10.4	0.2	5.7	1.0	-3.4	-3.3	2.6	1.2	1.8	1.6	2.2	1.7	1.7
Canada	3.2	-14.4	6.9	-3.8	3.9	-14.9	9.7	8.2	-3.6	3.6	5.2	10.5	14.4	7.4	8.4	4.0	0.1	6.8	2.0	-0.1
Denmark	-2.9	-10.1	0.1	6.3	8.9	8.5	5.8	7.1	4.2	-1.0	7.7	-7.3	5.9	11.2	10.8	3.7	3.6	8.2	4.4	2.9
Finland	1.7	-17.2	-18.4	-7.9	-6.6	-4.2	3.5	25.9	8.8	7.8	3.0	-9.5	0.9	8.6	8.3	3.9	4.5	4.8	4.4	4.2
France	-0.5	-6.9	-3.7	-5.2	4.4	2.1	0.5	0.9	3.8	7.1	3.4	0.8	0.7	0.8	3.1	3.3	3.1	4.0	3.0	3.2
Germany	2.8	7.4	9.5	4.4	11.9	0.3	0.0	0.6	-0.5	1.2	-2.0	-6.0	-5.7	-2.6	-3.1	-2.8	-0.7	-5.0	-2.2	-0.3
Greece	-2.4	-0.3	-15.6	-10.5	-11.3	2.6	-1.2	6.6	8.8	3.8	-4.3	4.8	8.8	7.3	0.2	0.9	1.6	..	..	..
Iceland	-0.1	-4.1	-3.4	-5.2	4.1	-8.7	7.1	-9.3	1.0	0.7	12.7	15.3	5.0	13.4	2.9	11.7	8.0	0.5	16.5	5.6
Ireland	1.8	0.7	8.0	-11.9	24.0	14.5	18.3	15.8	7.2	12.3	6.5	0.8	6.0	15.0	13.0	2.2	-0.3	..	..	..
Italy	0.1	3.3	1.2	-1.5	-2.2	0.0	-1.6	-2.8	-0.7	1.9	5.5	1.3	4.5	2.8	2.9	0.3	1.9	2.8	1.2	2.0
Japan	3.3	-5.4	-5.9	1.1	7.2	-4.7	11.9	-12.0	-14.3	0.1	0.6	-5.4	-4.2	-1.2	2.2	-0.5	0.6	3.2	-1.6	1.0
Korea	14.3	12.5	-5.9	12.9	-0.2	9.9	2.8	-4.9	-13.4	-6.1	-9.3	12.9	11.4	9.0	3.1	1.5	2.6	1.1	3.7	2.0
Mexico	2.8	7.6	2.9	5.2	4.0	-7.9	2.5	5.1	3.5	3.0	6.4	-10.5	-5.1	4.7	12.8	11.5	5.6	11.5	5.4	5.7
Netherlands	0.1	-4.7	6.9	1.2	7.6	1.3	3.9	5.3	1.4	4.2	-0.3	2.0	-4.3	-4.3	3.8	3.5	1.7	5.8	5.8	-0.1
New Zealand	4.7	-15.5	3.8	17.1	13.1	3.3	5.9	6.7	-13.5	7.8	1.2	-9.7	18.4	20.4	5.2	-7.0	-0.4	-3.2	-1.8	0.0
Norway	-2.9	-15.2	-9.2	-0.8	24.5	10.6	2.9	12.1	7.8	3.0	5.6	8.2	-0.6	-5.3	12.4	15.5	5.0	19.1	10.6	4.2
Spain	2.1	-3.7	-4.0	-4.1	0.4	7.1	9.3	3.0	10.0	9.7	8.6	2.1	4.7	6.1	4.2	4.0	3.7	4.8	3.9	3.2
Sweden	2.6	-2.4	-11.6	-33.5	-34.1	-23.9	8.9	-11.5	-0.6	10.8	10.0	4.2	10.5	5.5	16.1	9.1	5.4	18.7	5.6	5.0
Switzerland	..	-6.6	-2.5	2.5	12.3	-2.0	-8.7	-0.1	2.8	-5.5	-2.7	-4.0	-3.7	0.4	4.1	3.3	2.8	..	..	..
United Kingdom	2.8	-11.3	0.9	5.8	2.8	-2.1	10.1	6.6	1.6	-1.3	0.2	0.7	7.6	4.8	4.7	3.8	2.5	5.0	3.0	2.3
United States	2.2	-9.6	13.8	8.2	9.6	-3.2	8.0	1.9	7.6	6.0	0.8	0.4	4.8	8.8	9.7	3.8	-0.8	6.5	1.9	-0.8
Euro area	0.9	0.0	2.5	0.0	6.3	1.6	0.7	1.4	1.5	3.7	1.4	-2.0	-0.9	0.9	1.6	1.0	1.7	1.3	1.3	1.6
Total OECD	2.7	-5.2	5.5	4.0	7.1	-2.2	5.7	0.6	1.5	3.5	1.1	-0.9	2.7	4.7	5.9	2.6	0.8	4.5	1.6	0.8

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD Economic Outlook 77 database.

Annex Table 8. **Real total domestic demand**

Percentage change from previous year

	Average 1980-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter 2004	Fourth quarter 2005	Fourth quarter 2006
Australia	3.3	-1.9	2.4	2.9	4.8	4.3	3.1	3.2	6.9	5.3	2.1	1.3	6.4	6.3	4.7	3.0	3.5	3.3	3.8	3.1
Austria	2.0	4.1	2.3	2.5	1.2	2.2	2.7	0.5	2.4	3.1	2.9	-0.2	-0.4	1.8	0.9	2.1	2.2	1.7	1.7	2.3
Belgium	1.7	1.8	1.8	-0.9	2.1	2.2	0.8	2.8	3.2	2.5	3.6	0.2	0.6	1.6	3.3	1.7	2.6	2.1	1.8	3.1
Canada	2.9	-1.9	0.3	1.4	3.4	1.8	1.3	6.2	2.5	4.3	4.8	1.2	3.7	4.6	3.8	4.8	3.1	4.9	3.6	2.8
Czech Republic	..	..	..	..	6.7	8.4	7.6	-0.9	-1.7	1.0	4.1	3.9	3.2	4.1	2.8	3.7	4.1	..	..	..
Denmark	1.2	-0.1	0.9	-0.3	7.0	4.2	2.2	4.9	4.0	0.1	2.4	0.8	1.4	0.9	3.9	3.5	2.7	4.3	2.9	2.6
Finland	3.2	-8.4	-6.1	-5.8	3.7	4.3	2.0	6.2	5.4	1.5	3.7	1.7	1.3	2.4	3.5	2.4	2.8	5.7	1.4	2.6
France	2.4	0.5	0.6	-1.7	1.9	1.7	0.7	0.7	4.2	3.7	4.5	2.0	1.5	1.4	3.4	2.2	2.0	3.5	1.6	2.4
Germany	1.9	4.4	2.4	-1.1	2.3	1.7	0.3	0.6	2.2	2.7	2.1	-0.6	-1.9	0.5	0.0	0.4	1.4	-0.1	0.5	1.7
Greece	1.3	3.5	-0.5	-1.0	1.1	3.5	3.3	3.5	4.5	3.8	5.5	2.4	4.2	5.6	4.1	2.2	2.8	..	..	..
Hungary	..	..	..	..	2.1	-3.8	0.3	4.9	8.2	5.1	4.8	1.9	5.4	5.4	3.3	2.5	4.1	..	..	..
Iceland	2.6	3.9	-4.5	-3.7	2.1	2.2	7.0	5.5	13.6	4.5	7.2	-3.7	-4.5	7.8	7.7	9.7	5.3	7.3	10.3	3.5
Ireland	1.7	0.1	-0.5	1.1	5.6	7.3	8.0	9.9	9.3	8.5	9.0	3.7	3.5	3.3	4.0	4.1	4.1	..	..	..
Italy	2.4	2.1	0.8	-5.1	1.7	2.0	0.8	2.7	3.1	3.2	2.4	1.4	1.3	1.3	0.8	0.2	1.5	1.0	-0.1	2.1
Japan	4.1	4.6	-2.4	-0.7	-0.4	2.5	3.9	0.7	-1.4	0.4	1.9	0.8	-0.6	1.0	1.9	1.5	1.3	0.7	2.0	1.4
Korea	8.9	10.9	4.2	5.4	10.4	9.4	8.2	0.1	-17.4	13.9	8.2	3.3	7.0	0.5	1.6	3.3	4.1	3.0	2.7	4.8
Luxembourg	3.9	8.5	-4.3	5.6	2.4	1.1	5.0	6.5	7.2	6.3	4.8	4.5	-0.2	2.6	1.7	2.4	3.2	..	..	..
Mexico	1.3	5.7	6.0	1.1	5.6	-14.0	5.6	9.6	6.1	4.4	8.3	0.6	0.8	0.7	4.1	4.9	4.5	5.5	4.1	4.5
Netherlands	1.7	2.0	1.3	-1.7	2.3	3.6	2.8	3.9	4.8	4.3	2.6	1.8	0.5	-0.5	0.6	0.8	1.2	1.1	0.3	1.4
New Zealand	2.6	-6.2	2.0	4.8	7.1	5.4	4.7	2.6	-0.2	6.1	1.9	2.6	5.6	5.3	8.0	3.8	2.3	6.9	2.8	2.4
Norway	1.6	1.5	2.2	3.2	4.3	4.8	3.9	6.6	5.7	0.4	2.4	0.8	2.1	0.4	5.7	5.7	2.6	8.7	4.0	2.3
Poland	..	..	..	..	4.1	7.2	8.5	9.8	6.2	4.9	2.8	-1.5	0.9	2.5	4.4	4.3	4.6	..	..	..
Portugal	3.2	6.1	3.4	-2.1	1.5	4.1	3.0	5.1	6.7	5.9	2.9	1.6	-0.3	-2.7	2.1	1.8	2.5	2.3	2.1	2.7
Slovak Republic	..	..	..	..	-4.5	9.9	18.2	3.7	7.2	-6.3	0.1	7.4	4.6	-2.0	6.5	5.5	5.3	..	..	..
Spain	3.4	3.0	1.0	-3.3	1.5	3.1	1.9	3.5	5.7	5.6	4.6	2.9	2.8	3.2	4.2	4.2	4.0	4.5	3.8	4.2
Sweden	2.2	-1.4	-1.2	-4.6	2.9	2.4	1.0	1.3	4.3	2.9	4.2	-0.3	0.8	1.3	1.2	3.3	3.0	0.9	3.8	2.6
Switzerland	2.3	-1.0	-2.4	-0.8	2.8	1.6	0.2	0.5	4.0	0.3	2.1	2.3	-0.8	0.2	0.9	1.2	1.8	..	..	..
Turkey	4.9	-0.6	5.6	14.2	-12.5	11.4	7.6	9.0	0.6	-3.7	9.8	-18.5	9.3	9.3	14.1	7.5	6.1	..	..	..
United Kingdom	3.0	-2.1	0.8	2.0	3.5	1.7	3.1	3.5	4.8	3.9	3.8	2.9	2.9	2.4	3.8	2.6	2.4	3.4	2.0	2.5
United States	3.4	-0.8	3.3	3.2	4.4	2.4	3.8	4.8	5.3	5.3	4.4	0.9	2.5	3.3	4.8	3.9	3.4	4.5	3.5	3.4
Euro area	2.3	2.3	1.2	-2.1	2.1	2.1	1.1	1.8	3.5	3.5	3.3	1.1	0.5	1.3	1.8	1.5	2.1	1.8	1.3	2.4
Total OECD	3.3	1.2	1.4	1.2	3.0	2.2	3.2	3.5	3.1	4.0	4.0	0.8	1.8	2.4	3.5	3.0	2.8	3.2	2.8	2.9

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD Economic Outlook 77 database.

Annex Table 9. **Foreign balance contributions to changes in real GDP**

As a per cent of real GDP in the previous period, seasonally adjusted at annual rates

	Average 1980-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter 2004	2005	2006
Australia	-0.1	2.2	-0.2	0.7	-0.6	-0.4	0.5	0.3	-1.2	-0.9	0.6	1.3	-2.2	-2.7	-2.4	-1.0	-0.5	-2.2	-0.3	-0.8
Austria	0.2	-0.5	-0.1	-1.4	0.4	0.2	0.0	1.5	1.1	0.3	0.5	1.0	1.5	-1.0	1.8	-0.1	0.1	-3.2	0.0	0.3
Belgium	0.4	0.0	-0.5	0.2	1.2	0.2	0.0	1.1	-1.0	0.8	0.2	0.6	0.3	-0.3	-0.4	-0.3	-0.2	2.9	0.9	-0.3
Canada	-0.2	-0.2	0.7	1.0	1.6	1.1	0.4	-1.7	1.7	1.5	0.7	0.7	-0.1	-2.4	-1.1	-2.1	0.0	-4.6	-0.2	0.3
Czech Republic	..	..	..	..	-2.2	-2.5	-3.9	0.2	0.5	-0.1	-1.1	-2.2	-2.7	-1.5	-0.5	-1.0	-1.5	..	..	..
Denmark	0.6	1.2	-0.2	0.3	-1.0	-1.2	0.4	-1.7	-1.4	2.6	0.5	0.6	-0.8	-0.1	-1.4	-1.0	-0.3	1.6	-0.4	-0.2
Finland	-0.3	1.7	2.0	3.4	0.8	0.9	0.1	1.2	1.0	1.2	2.4	-0.5	1.6	-0.4	-0.1	0.0	0.4	0.9	0.4	0.4
France	-0.1	0.5	0.7	0.7	0.0	0.1	0.4	1.2	-0.5	-0.4	-0.2	0.1	-0.4	-0.8	-1.0	-0.7	0.0	-0.1	-0.1	0.1
Germany	0.6	-5.2	-0.6	0.0	0.1	0.1	0.5	0.9	-0.5	-0.8	1.0	1.6	1.9	-0.6	1.0	0.8	0.5	2.0	0.4	0.6
Greece	-0.6	-0.7	1.3	-0.6	0.9	-1.6	-1.1	-0.1	-1.6	-0.8	-1.7	1.7	-0.9	-1.3	-0.5	0.4	0.2	..	..	..
Hungary	..	..	..	..	0.7	5.6	1.0	-0.3	-3.3	-1.1	0.2	1.9	-2.0	-2.5	0.5	1.1	-0.4	..	..	..
Iceland	0.1	-3.8	1.4	4.8	2.0	-2.0	-1.8	-0.8	-7.8	-0.4	-2.0	6.6	2.5	-3.5	-2.7	-4.0	-0.4	-16.2	-1.2	0.2
Ireland	1.5	1.8	3.4	1.8	1.0	3.9	1.2	2.5	-0.1	4.3	2.2	3.0	3.1	1.1	2.3	1.9	1.7	..	..	..
Italy	-0.4	-0.8	-0.1	4.4	0.6	1.0	0.2	-0.6	-1.2	-1.4	0.8	0.3	-0.8	-0.9	0.2	-0.8	-0.3	-5.7	-0.1	-0.4
Japan	0.1	0.4	0.4	0.1	-0.3	-0.6	-0.5	1.0	0.4	-0.2	0.4	-0.6	0.6	0.6	0.8	-0.1	0.4	-0.2	0.4	0.5
Korea	-0.2	-2.6	0.7	0.7	-2.4	-1.5	-1.8	4.2	11.3	-2.9	0.3	0.5	-0.2	2.5	3.4	1.3	1.3	-2.2	3.0	0.5
Luxembourg	0.7	0.8	5.9	0.2	2.0	1.0	-0.9	3.1	1.0	2.6	5.3	-2.0	2.5	0.6	3.5	1.5	1.4	..	..	..
Mexico	0.2	-1.6	-2.6	0.8	-1.4	8.5	-0.3	-2.5	-1.1	-0.5	-1.8	-0.7	0.0	0.7	0.2	-1.0	-0.5	-2.3	-0.4	-0.3
Netherlands	0.5	0.5	0.2	2.2	0.7	-0.3	0.4	0.2	-0.2	-0.1	1.1	-0.3	0.1	-0.4	0.9	-0.8	0.5	-2.8	0.7	0.7
New Zealand	0.1	3.9	-0.9	0.0	-0.5	-1.3	-1.1	0.5	0.2	-1.0	1.8	0.3	-0.9	-1.9	-3.6	-0.7	0.3	0.9	0.1	0.4
Norway	0.9	2.1	1.3	0.0	1.7	0.5	1.7	-0.1	-2.1	1.7	0.9	1.8	-0.5	0.0	-2.0	-2.0	0.1	-3.8	0.5	-0.1
Poland	..	..	..	..	0.3	-0.2	-3.3	-2.6	-1.9	-1.0	0.6	2.7	0.5	1.3	0.7	0.1	-0.1	..	..	..
Portugal	0.0	-1.8	-2.4	0.2	-0.6	-0.1	0.3	-1.5	-2.6	-2.6	0.1	0.0	0.8	1.8	-1.3	-1.3	-0.6	-1.6	-0.4	-0.8
Slovak Republic	..	..	..	..	10.9	-3.5	-11.6	0.6	-3.5	8.4	1.9	-3.7	-0.1	6.5	-0.8	-0.6	0.4	..	..	..
Spain	-0.4	-0.6	-0.1	2.4	0.9	-0.3	0.5	0.6	-1.3	-1.4	-0.3	-0.2	-0.6	-0.8	-1.7	-1.4	-1.1	-2.6	-1.0	-1.3
Sweden	0.0	0.9	0.2	2.9	0.8	1.5	0.3	1.0	-0.6	1.6	0.4	1.4	1.2	0.4	2.2	0.0	0.9	1.1	0.6	1.0
Switzerland	0.0	0.2	2.2	0.5	-1.6	-1.1	0.2	1.3	-1.0	1.0	1.5	-1.1	1.0	-0.5	0.8	0.1	0.3	..	..	..
Turkey	-0.4	1.8	-0.3	-6.2	8.6	-4.7	-0.6	-1.9	2.6	-0.9	-3.0	12.4	-0.9	-3.1	-4.9	-1.5	-0.3	..	..	..
United Kingdom	-0.3	0.9	-0.5	0.2	0.7	0.8	-0.2	-0.3	-1.6	-1.0	-0.1	-0.7	-1.2	-0.4	-0.8	-0.3	-0.1	-1.0	-0.1	-0.1
United States	0.0	0.6	0.0	-0.5	-0.4	0.1	-0.1	-0.3	-1.1	-1.0	-0.9	-0.2	-0.7	-0.5	-0.6	-0.5	-0.3	-1.4	-0.3	-0.4
Euro area	0.1	-1.6	0.0	1.2	0.3	0.2	0.3	0.6	-0.7	-0.7	0.5	0.6	0.5	-0.6	0.1	-0.3	0.0	-1.0	0.1	0.0
Total OECD	0.0	-0.1	0.0	0.2	0.0	0.2	-0.1	0.1	-0.4	-0.7	-0.2	0.3	-0.2	-0.4	-0.2	-0.4	-0.1	-1.1	0.0	-0.1

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, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

Source: OECD Economic Outlook 77 database.

Annex Table 10. **Output gaps**

Deviations of actual GDP from potential GDP as a per cent of potential GDP

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	-1.4	-1.0	-0.4	-2.5	-5.6	-5.6	-4.1	-2.1	-1.4	-1.0	-1.0	0.7	1.2	1.0	0.3	0.8	0.9	0.3	-1.0	-1.3
Austria	-2.3	-1.3	0.3	1.9	2.2	1.4	-0.5	-0.4	-0.5	-0.1	0.4	1.5	2.6	3.3	1.8	0.3	-1.4	-1.7	-2.2	-2.1
Belgium	-3.0	-0.6	0.5	1.4	0.4	-0.5	-3.1	-2.3	-1.8	-2.8	-1.1	-0.9	0.1	1.7	0.5	-0.7	-1.5	-0.8	-1.5	-1.2
Canada	0.4	2.6	2.5	0.4	-3.6	-4.5	-4.1	-1.9	-1.8	-3.1	-2.5	-2.1	-0.2	1.5	0.1	0.6	-0.1	-0.1	-0.3	-0.2
Denmark	2.4	1.5	0.0	-0.7	-1.2	-2.4	-4.2	-1.4	-1.0	-0.6	0.2	0.5	0.8	1.6	0.9	-0.5	-1.7	-1.2	-0.7	-0.1
Finland	2.3	4.2	6.4	3.6	-4.2	-9.4	-12.0	-9.8	-8.2	-6.3	-2.5	-0.7	-0.4	2.0	-0.1	-0.8	-0.8	0.3	0.1	0.6
France	-2.4	-0.5	1.5	2.1	1.1	0.7	-1.8	-1.5	-1.4	-2.4	-2.7	-1.4	-0.6	1.0	0.7	-0.4	-2.0	-1.6	-2.1	-2.1
Germany	-1.1	0.5	1.7	3.9	1.7	1.4	-2.1	-1.5	-1.0	-1.5	-1.3	-1.0	-0.4	1.6	1.3	-0.2	-1.7	-2.1	-2.4	-2.1
Greece	-3.5	-0.4	1.7	0.0	0.7	-0.5	-3.8	-3.8	-3.5	-3.5	-2.5	-1.4	-1.1	-0.1	0.5	0.4	1.0	1.4	0.5	-0.1
Iceland	6.4	2.8	0.6	0.1	-1.8	-6.6	-6.9	-4.3	-5.7	-2.9	-1.4	-0.3	0.0	1.1	0.2	-4.2	-2.4	-0.8	1.0	1.3
Ireland	-3.4	-1.7	0.4	4.1	0.7	-1.9	-4.5	-5.1	-3.2	-2.5	0.1	0.7	3.6	5.4	4.2	3.1	0.6	-0.6	-0.6	-0.5
Italy	-1.7	0.1	0.7	0.2	-0.5	-1.4	-3.7	-2.7	-1.3	-1.7	-1.0	-0.7	-0.3	1.3	1.6	0.7	-0.1	-0.3	-2.0	-2.0
Japan	-2.4	0.4	1.8	3.8	3.7	1.9	0.1	-0.4	-0.2	1.6	2.2	-0.2	-1.6	-0.5	-1.6	-3.1	-2.5	-0.8	-0.3	0.3
Netherlands	-0.6	-0.1	2.0	3.3	2.8	1.4	-0.9	-0.8	-0.5	0.0	1.1	2.4	3.2	4.0	2.5	0.4	-2.4	-2.8	-4.0	-4.2
New Zealand	0.9	-0.7	-0.8	-2.5	-5.5	-5.8	-2.8	0.3	1.4	2.1	1.1	-1.5	-0.2	0.7	0.4	1.4	0.8	1.7	0.9	0.0
Norway[1]	1.2	-1.9	-5.1	-5.6	-5.2	-4.8	-4.0	-2.8	-1.9	-0.5	1.3	2.5	2.5	2.1	1.7	0.8	-1.2	-0.1	0.7	0.8
Portugal	-4.8	-0.6	2.6	3.3	4.5	2.5	-2.1	-3.5	-1.6	-0.4	0.8	2.4	3.0	3.1	1.8	-0.5	-3.4	-3.8	-4.4	-3.7
Spain	-0.6	1.8	3.1	3.6	2.9	0.9	-2.7	-2.8	-3.1	-3.8	-2.8	-1.3	-0.1	1.0	0.7	-0.1	-0.6	-0.8	-0.8	-0.5
Sweden	1.8	1.8	1.6	0.0	-2.9	-5.2	-7.7	-5.6	-3.6	-3.9	-3.0	-1.5	0.4	1.7	-0.1	-0.7	-1.6	-1.0	-0.5	0.3
Switzerland	0.1	1.1	3.0	4.4	1.1	-0.8	-2.1	-2.0	-2.5	-3.0	-1.9	0.0	-0.4	1.6	1.3	0.3	-1.4	-1.0	-1.0	-0.4
United Kingdom	2.0	4.4	4.2	2.3	-1.7	-3.5	-3.4	-1.3	-0.9	-0.8	-0.1	0.1	-0.1	0.9	0.5	-0.3	-0.6	0.1	0.0	0.0
United States	-0.1	0.9	1.6	0.7	-2.2	-1.7	-2.1	-1.1	-1.7	-1.5	-0.7	-0.1	0.9	1.2	-1.3	-2.1	-1.9	-0.5	0.0	0.1
Euro area	-1.4	0.3	1.8	2.6	1.3	0.4	-2.5	-2.0	-1.5	-1.9	-1.5	-0.7	0.0	1.6	1.2	0.0	-1.3	-1.4	-2.1	-1.9
Total OECD	-0.7	0.9	1.8	1.7	-0.4	-0.9	-2.2	-1.4	-1.4	-1.2	-0.6	-0.3	0.2	1.1	-0.3	-1.3	-1.6	-0.7	-0.7	-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. Using this methodology, two broad changes have been made to the calculation of potential output since the last *OECD Economic Outlook.* First, the "smoothing parameters" applied in the calculations have been standardised across the OECD countries. Second, as was previously the case for the major seven economies only, the calculations now incorporate trend working hours for other Member economies also, excepting Austria and Portugal where the data span is insufficient. Potential output for Portugal is calculated using a Hodrick-Prescott filter of actual output. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Working-day adjusted -- see note to Table on Real GDP.

1. Mainland Norway.

Source: OECD Economic Outlook 77 database.

Annex Table 11. **Compensation per employee in the business sector**

Percentage change from previous period

	Average 1978-1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	8.7	6.5	8.1	7.6	2.8	4.3	2.6	2.3	2.7	5.6	4.0	3.6	2.8	2.7	4.2	4.0	3.1	5.6	4.8	4.5
Austria	6.0	3.7	4.4	5.3	6.1	5.6	4.0	3.5	2.4	0.3	1.4	2.0	0.9	2.0	1.8	2.3	1.8	2.2	2.3	2.2
Belgium	6.7	2.6	5.2	6.9	7.1	5.1	4.2	3.8	1.8	1.5	2.7	1.0	3.7	1.9	3.6	3.6	2.5	2.7	2.3	2.0
Canada	7.1	7.7	5.4	4.5	4.8	3.6	2.3	0.4	2.3	3.0	6.1	3.1	3.2	5.2	2.3	1.2	1.2	2.4	3.6	3.4
Czech Republic	..	..	..	..	..	..	..	..	..	18.1	4.3	9.5	4.5	6.4	6.9	5.2	7.5	5.2	5.9	6.2
Denmark	8.5	4.3	4.6	4.1	4.2	4.2	2.1	2.9	3.9	3.2	3.4	3.8	3.1	3.5	4.3	1.8	3.7	3.8	3.8	3.9
Finland	10.1	9.6	10.7	9.0	4.8	1.7	1.1	4.6	4.0	2.3	2.3	5.0	2.3	4.2	5.2	1.2	2.2	3.9	3.8	2.7
France	10.0	4.3	4.0	3.8	3.8	3.9	1.6	0.8	1.3	1.8	1.7	0.5	2.1	1.8	3.1	2.2	2.5	3.0	2.3	2.9
Germany	4.4	2.8	2.8	4.7	5.7	10.4	3.5	3.1	3.5	1.0	0.7	0.9	1.0	2.2	1.7	1.4	1.7	0.1	0.1	0.6
Greece	19.1	20.5	22.6	16.3	16.3	12.7	8.7	11.8	11.8	11.2	11.3	4.7	6.9	5.4	5.3	7.0	3.7	3.6	5.6	5.7
Hungary	..	..	..	..	..	..	..	..	23.6	21.5	18.7	12.4	1.8	17.1	16.2	8.8	5.8	9.4	4.8	7.2
Iceland	44.6	26.1	13.4	16.1	15.6	0.6	-3.7	3.7	4.9	8.1	5.7	9.7	9.6	9.2	7.0	7.7	-0.4	6.7	6.5	6.2
Ireland	12.6	5.2	6.8	1.9	3.3	7.8	4.9	1.7	2.8	1.9	6.0	3.3	5.8	5.2	5.5	3.4	2.4	4.0	4.9	4.9
Italy	14.4	7.3	8.8	8.5	9.0	6.2	5.2	3.1	4.8	4.8	3.2	-0.8	2.5	2.9	3.0	2.4	3.2	3.1	3.2	2.5
Japan	4.2	3.2	3.8	4.9	4.6	0.8	0.6	1.4	1.0	0.2	1.5	-0.8	-1.2	0.3	-1.1	-1.6	-0.2	-0.4	0.2	0.4
Korea	16.3	17.5	10.0	16.3	16.2	11.2	12.1	11.3	15.4	11.0	3.1	2.4	1.6	3.4	6.6	4.8	7.3	3.5	5.0	5.8
Luxembourg	5.2	3.8	8.5	3.1	5.6	6.5	5.5	4.1	0.9	1.1	1.9	2.2	4.5	5.3	4.0	3.1	2.3	4.6	3.4	3.5
Mexico	..	..	..	..	..	20.6	11.4	9.9	4.8	21.2	18.7	19.5	13.5	11.5	9.3	5.2	5.0	4.7	4.8	4.3
Netherlands	3.4	1.1	0.5	2.9	4.1	4.1	2.7	1.9	0.3	1.6	2.0	3.9	3.2	4.5	4.8	5.6	3.2	1.8	2.0	0.3
New Zealand	..	11.8	7.1	1.9	0.9	2.3	3.2	2.4	0.9	2.4	1.6	1.5	2.2	1.9	3.3	2.4	2.7	3.3	3.9	4.2
Norway	8.7	8.6	4.5	4.0	6.4	4.4	2.7	3.1	3.2	2.6	2.5	7.6	6.2	4.7	7.2	3.2	4.1	3.4	3.8	3.9
Poland	..	..	..	..	..	..	..	..	..	29.8	20.9	15.0	14.7	9.8	12.6	0.8	-1.0	2.6	2.5	2.6
Portugal	19.0	9.9	12.8	17.4	18.6	16.0	7.1	5.9	6.7	9.0	3.8	4.3	4.0	6.9	5.2	3.8	3.5	2.3	2.5	2.7
Slovak Republic	..	..	..	..	..	..	..	..	-0.2	5.3	15.7	11.6	8.3	15.0	5.4	7.2	4.1	9.5	6.9	5.9
Spain	14.7	7.2	7.3	10.0	10.3	10.4	8.3	4.0	3.5	5.5	3.5	2.5	2.5	3.6	4.4	4.7	4.9	4.1	4.4	4.5
Sweden	9.2	8.1	12.3	9.7	6.2	3.2	8.5	7.2	2.3	6.4	4.4	4.1	0.9	7.6	4.5	2.5	2.4	2.9	3.0	3.6
Switzerland	4.7	3.6	4.6	5.4	6.6	4.3	3.0	3.1	2.3	0.3	3.1	0.2	2.1	2.7	3.3	0.8	0.8	1.1	1.3	1.5
Turkey	..	83.2	86.2	81.9	86.1	57.7	73.0	49.8	62.5	93.8	102.4	68.2	74.1	48.9	40.6	33.4	27.2	19.2	17.4	13.7
United Kingdom	10.4	7.5	8.3	9.6	8.6	6.6	2.7	3.2	2.7	2.9	4.4	6.1	4.5	5.9	5.4	3.4	4.7	4.4	5.2	4.7
United States	6.5	4.7	3.2	4.6	4.0	6.2	2.0	1.8	2.3	3.0	4.0	5.4	4.5	6.7	2.6	3.0	3.6	4.4	4.3	4.5
Euro area	9.6	4.6	4.8	6.2	6.7	8.3	5.5	3.3	3.9	1.5	1.5	1.0	1.4	2.3	2.6	2.4	2.2	1.7	1.7	1.9
Total OECD	7.7	6.7	6.1	7.2	7.0	7.5	4.8	3.7	4.2	5.2	5.5	5.0	4.4	5.4	3.6	2.9	3.2	3.2	3.3	3.4

Note: The business sector is in the OECD terminology defined as total economy less the public sector. Hence business sector employees are defined as total employees less public sector employees. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 77 database.

Annex Table 12. **Labour productivity in the business sector**

Percentage change from previous period

	Average 1978-1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	1.7	0.8	-0.3	-0.2	1.6	3.4	4.1	1.6	-0.4	3.0	3.1	4.0	2.7	0.6	1.6	1.8	1.2	1.1	-0.2	1.6
Austria	2.3	3.1	3.3	3.1	2.6	2.0	1.5	2.8	2.7	2.5	1.9	2.5	1.9	2.5	0.2	1.4	0.7	1.2	1.1	1.3
Belgium	2.4	3.1	1.8	2.0	1.2	1.4	-0.2	3.8	1.8	0.4	3.2	0.4	2.1	1.9	-0.9	1.6	1.4	2.3	1.0	1.4
Canada	0.8	2.2	0.5	-0.4	-0.3	2.4	2.1	3.0	1.0	0.5	2.0	1.6	3.2	3.2	0.7	1.3	-0.3	1.1	1.7	2.0
Czech Republic	..	..	..	..	..	..	..	..	..	4.2	-0.8	-0.2	3.7	5.3	2.8	0.4	4.3	4.7	4.0	4.0
Denmark	1.1	-0.4	2.0	0.5	2.1	1.3	3.2	7.7	0.5	1.8	1.7	2.8	2.1	3.1	1.4	0.2	2.3	2.7	2.6	2.4
Finland	3.4	4.5	4.9	-0.1	-0.6	4.1	6.2	7.0	1.8	2.9	3.5	3.1	0.5	3.5	-0.6	1.7	3.0	3.6	2.5	2.8
France	2.5	3.8	3.0	2.0	1.1	2.5	0.7	2.1	1.0	0.6	1.5	2.2	1.2	1.5	0.2	0.4	0.7	2.8	1.3	1.3
Germany	1.1	2.6	2.3	2.8	2.4	3.8	0.1	2.8	1.7	1.1	1.7	0.5	0.6	1.3	0.5	0.7	0.9	0.7	0.6	1.0
Greece	0.0	2.8	3.9	-1.5	6.4	-0.9	-2.7	0.1	1.4	3.1	4.8	-0.9	3.8	5.2	5.2	4.1	3.6	1.3	1.7	2.0
Hungary	..	..	..	..	..	..	..	..	-2.3	1.4	4.7	3.0	0.5	3.6	3.8	3.5	1.7	4.0	3.6	4.0
Iceland	1.8	3.4	2.3	1.7	0.1	-3.6	1.1	3.8	-3.5	6.0	5.4	1.5	0.7	4.1	1.1	-0.7	4.8	6.6	5.1	2.5
Ireland	3.2	6.4	6.8	4.5	2.5	3.2	1.3	2.7	5.0	4.5	7.6	0.2	5.1	5.4	3.2	4.8	1.8	1.8	4.1	4.0
Italy	2.1	3.4	3.0	1.0	0.7	1.6	2.5	3.9	3.3	0.7	1.7	0.7	1.1	1.5	0.1	-1.0	-0.1	0.1	-0.4	1.0
Japan	2.6	5.2	3.5	3.5	1.6	-0.1	0.0	1.1	1.8	3.0	0.8	-0.7	0.3	2.7	0.6	0.9	2.0	2.9	1.1	1.3
Korea	5.6	8.2	2.7	6.6	6.8	4.2	5.2	5.6	6.6	5.0	3.0	-1.1	8.3	4.4	1.9	4.4	3.4	2.9	3.1	3.7
Luxembourg	..	..	..	..	5.0	-0.9	2.7	1.3	-1.4	0.6	5.7	2.7	3.0	3.5	-4.4	-0.8	1.1	2.5	1.1	1.5
Mexico	..	..	..	..	..	-0.2	-1.9	0.9	-8.0	1.3	0.4	2.2	2.9	4.8	-0.3	-1.9	0.2	0.2	2.0	1.6
Netherlands	0.6	1.3	2.5	1.2	0.6	0.2	0.4	2.6	0.8	0.8	0.7	1.9	1.5	1.4	-0.7	0.2	-0.6	3.0	1.8	0.5
New Zealand	1.1	3.3	4.5	-0.9	-0.5	0.3	3.4	1.5	-0.8	0.5	1.5	0.5	2.6	2.1	-0.1	2.1	1.1	1.7	0.8	2.1
Norway	1.5	-0.5	2.0	3.0	4.9	3.5	4.0	2.3	1.1	1.6	2.1	2.3	3.3	2.3	2.3	1.4	1.8	4.3	3.9	2.3
Poland	..	..	..	..	..	..	..	..	..	5.6	6.4	4.1	9.6	6.4	3.7	5.2	5.7	4.4	2.7	2.6
Portugal	1.7	5.3	4.8	1.9	1.5	0.5	-0.2	1.2	5.7	3.6	2.0	2.5	2.8	1.3	-0.3	-0.1	-1.0	1.0	0.4	1.0
Slovak Republic	..	..	..	..	..	..	..	..	-2.7	2.7	5.0	5.2	5.8	3.9	2.7	4.8	1.9	5.3	3.1	4.8
Spain	2.7	1.8	1.4	0.0	1.6	2.8	2.1	3.2	1.0	1.5	1.1	0.1	0.6	0.8	0.4	1.0	1.0	0.8	0.8	1.0
Sweden	2.3	1.5	1.5	0.1	0.3	4.2	6.0	6.2	2.7	2.5	4.7	2.2	2.5	1.2	-1.0	2.4	2.3	4.6	3.1	2.6
Switzerland	0.4	0.7	1.8	0.7	-3.0	0.2	0.7	1.8	0.5	0.5	2.1	1.7	0.1	2.5	-0.6	-0.2	-0.3	1.6	1.1	1.1
United Kingdom	2.6	0.8	-1.1	-0.1	2.0	4.5	3.2	3.7	1.3	1.6	1.3	2.0	1.4	2.9	1.7	1.2	1.6	2.6	2.3	2.5
United States	1.1	1.0	1.2	0.7	0.7	3.9	0.9	1.3	0.3	2.0	2.3	2.1	2.8	2.3	1.0	3.7	3.3	3.6	1.9	1.8
Euro area	2.1	3.2	2.9	1.9	1.7	2.6	1.1	3.0	1.8	0.9	1.7	0.8	0.8	1.4	0.1	0.5	0.5	1.1	0.6	1.1
Total OECD	1.8	2.4	1.8	1.6	1.3	2.9	1.4	1.9	1.0	1.9	2.0	1.3	2.0	2.5	0.6	2.1	2.1	2.6	1.6	1.7

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).*

Source: OECD Economic Outlook 77 database.

Annex Table 13. **Unemployment rates: commonly used definitions**

Per cent of labour force

	2001 Unemployment thousands	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter 2004	Fourth quarter 2005	Fourth quarter 2006
Australia	667	9.1	10.4	10.7	9.4	8.3	8.2	8.3	7.8	6.9	6.3	6.8	6.4	6.0	5.6	5.2	5.2	5.2	5.3	5.2
Austria	205	4.6	4.7	5.4	5.3	5.3	5.6	5.6	5.7	5.2	4.6	4.7	5.4	5.5	5.6	5.6	5.5	5.6	5.5	5.5
Belgium	300	6.4	7.1	8.6	9.8	9.7	9.5	9.2	9.3	8.6	6.9	6.7	7.3	7.9	7.8	8.2	8.0	7.9	8.2	7.9
Canada	1 166	10.3	11.3	11.4	10.4	9.5	9.7	9.2	8.4	7.6	6.8	7.2	7.7	7.6	7.2	6.9	6.8	7.1	6.8	6.8
Czech Republic	418	..	..	4.3	4.3	4.1	3.9	4.8	6.5	8.8	8.9	8.2	7.3	7.8	8.3	8.3	8.2	..	..	..
Denmark	124	7.9	8.6	9.6	7.7	6.8	6.3	5.3	4.9	4.8	4.4	4.3	4.6	5.6	5.7	5.4	5.0	5.6	5.2	4.9
Finland	237	6.6	11.7	16.4	16.6	15.4	14.6	12.7	11.4	10.3	9.8	9.1	9.1	9.0	8.9	8.5	8.3	8.6	8.4	8.2
France	2 325	9.5	10.4	11.7	12.1	11.5	12.1	12.1	11.5	10.8	9.4	8.7	9.0	9.8	10.0	10.0	9.6	10.0	9.9	9.4
Germany	3 109	5.3	6.2	7.5	8.0	7.7	8.4	9.2	8.7	8.0	7.3	7.4	8.2	9.1	9.3	9.6	9.1	9.4	9.6	8.7
Greece	494	7.7	8.7	9.7	9.6	9.1	9.8	9.8	11.4	12.3	11.6	11.2	10.9	10.4	11.0	10.8	10.5	..	..	..
Hungary	234	..	..	12.1	11.0	10.4	10.1	8.9	7.9	7.1	6.5	5.8	5.9	5.9	6.2	6.3	6.0	..	..	..
Iceland	4	2.6	4.3	5.3	5.3	4.7	3.7	3.9	2.7	2.0	2.3	2.3	3.3	3.4	3.1	2.8	2.3	2.5	2.7	2.1
Ireland	70	14.1	14.7	15.4	14.4	11.9	11.4	10.1	7.6	5.6	4.3	3.9	4.4	4.6	4.4	4.4	4.3	4.4	4.4	4.3
Italy	2 266	8.6	8.8	10.2	11.2	11.7	11.7	11.8	11.9	11.5	10.7	9.6	9.1	8.8	8.1	8.4	8.4	8.2	8.4	8.5
Japan	3 396	2.1	2.2	2.5	2.9	3.2	3.4	3.4	4.1	4.7	4.7	5.0	5.4	5.3	4.7	4.4	4.1	4.6	4.4	3.9
Korea	845	2.4	2.5	2.9	2.5	2.1	2.0	2.6	7.0	6.3	4.1	3.8	3.1	3.4	3.5	3.4	3.3	3.5	3.3	3.3
Luxembourg	5	1.4	1.6	2.1	2.7	3.0	3.3	3.6	3.1	2.9	2.6	2.6	3.0	3.8	4.3	4.4	4.3	4.4	4.3	4.3
Mexico[1]	837	3.0	3.1	3.2	3.5	5.8	4.3	3.4	2.9	2.1	2.2	2.1	2.4	2.5	3.0	3.9	3.8	3.1	3.8	3.8
Netherlands	215	5.2	5.2	6.3	7.2	6.8	6.3	5.4	4.2	3.5	3.0	2.5	2.9	4.1	5.0	6.3	6.1	5.0	6.8	5.7
New Zealand	104	10.3	10.3	9.5	8.1	6.2	6.1	6.6	7.5	6.8	6.0	5.3	5.2	4.6	3.9	4.0	4.5	3.6	4.2	4.6
Norway	84	5.5	5.9	6.0	5.4	4.9	4.8	4.0	3.2	3.2	3.4	3.6	3.9	4.5	4.5	4.2	3.8	4.5	4.0	3.8
Poland	3 170	..	..	14.0	14.4	13.3	12.3	11.2	10.6	13.9	16.1	18.2	19.9	19.6	19.0	18.2	17.3	..	..	..
Portugal	214	4.3	4.1	5.5	6.8	7.2	7.3	6.7	5.0	4.4	4.0	4.0	5.0	6.3	6.7	7.2	6.9	7.0	7.3	6.6
Slovak Republic	508	..	..	..	13.7	13.1	11.3	11.9	12.6	16.4	18.8	19.3	18.6	17.5	18.1	17.9	17.5	..	..	..
Spain[2]	1 869	11.8	13.0	16.6	18.4	18.1	17.5	16.6	15.0	12.8	11.0	10.5	11.4	11.3	10.8	10.2	9.8	10.4	10.1	9.6
Sweden	176	3.0	5.3	8.2	8.0	7.7	8.0	8.0	6.5	5.6	4.7	4.0	4.0	4.9	5.5	5.0	4.7	5.3	4.7	4.7
Switzerland	107	1.9	2.9	3.8	3.7	3.3	3.8	4.0	3.4	2.9	2.5	2.5	3.1	4.0	4.2	4.0	3.5	..	..	..
Turkey[3]	1 967	8.0	8.3	8.7	8.4	7.5	6.5	6.7	6.7	7.5	6.3	8.2	10.1	10.3	10.2	10.4	10.5	..	..	..
United Kingdom	1 488	7.9	9.9	10.4	9.5	8.6	8.1	7.0	6.2	6.0	5.5	5.1	5.2	5.0	4.7	4.9	5.2	4.7	5.0	5.4
United States	6 832	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.0	5.5	5.1	4.8	5.4	5.0	4.7
Euro area	11 310	7.5	8.3	9.9	10.7	10.4	10.7	10.7	10.2	9.4	8.4	8.0	8.4	8.9	8.9	9.0	8.7	8.9	9.0	8.5
Total OECD	33 435	6.1	6.8	7.5	7.4	7.1	7.0	6.7	6.6	6.4	5.9	6.2	6.8	6.9	6.7	6.7	6.4	6.7	6.6	6.3

Note: Labour market data are subject to differences in definitions across countries and to many series breaks, though the latter are often of a minor nature. For information about definitions, sources, data coverage, break in series and rebasings, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Based on National Employment Survey. Data not comparable with previous issues of the OECD Economic Outlook; see OECD Economic Outlook Sources and Methods.
2. Spanish data on unemployment are revised since 1976 using the methodology to be applied by the LFS as from 2002. Revisions are OECD calculations based on information from INE in Spain.
3. The figures incorporate important revisions to Turkish data; see OECD Economic Outlook Sources and Methods.

Source: OECD Economic Outlook 77 database.

Annex Table 14. **Standardised unemployment rates**[1]

Per cent of civilian labour force

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Australia	7.9	7.9	7.0	6.0	6.7	9.3	10.5	10.6	9.5	8.2	8.2	8.3	7.7	6.9	6.3	6.8	6.4	6.1	5.5
Austria	..	..	..	..	..	..	..	4.0	3.8	3.9	4.4	4.4	4.5	4.0	3.7	3.6	4.2	4.3	4.5
Belgium	10.0	9.8	8.8	7.4	6.6	6.4	7.1	8.6	9.8	9.7	9.5	9.2	9.3	8.6	6.9	6.7	7.3	7.9	7.8
Canada	9.7	8.8	7.8	7.6	8.2	10.3	11.2	11.4	10.4	9.6	9.7	9.2	8.4	7.6	6.8	7.2	7.7	7.6	7.2
Czech Republic	..	..	..	..	..	..	..	4.4	4.3	4.1	3.9	4.8	6.4	8.6	8.7	8.0	7.3	7.8	8.3
Denmark	5.0	5.0	5.7	6.8	7.2	7.9	8.6	9.6	7.7	6.8	6.3	5.2	4.9	4.8	4.4	4.3	4.6	5.6	5.4
Finland	6.7	4.9	4.1	3.1	3.2	6.7	11.6	16.4	16.8	15.4	14.6	12.7	11.4	10.2	9.7	9.1	9.1	9.0	8.9
France	9.8	9.9	9.4	8.9	8.5	9.0	9.9	11.1	11.7	11.1	11.6	11.5	11.1	10.5	9.1	8.4	8.9	9.5	9.7
Germany[2]	6.5	6.3	6.2	5.6	4.8	4.2	6.4	7.7	8.3	8.0	8.5	9.2	8.8	7.9	7.2	7.4	8.2	9.1	9.6
Greece	6.6	6.6	6.9	6.7	6.3	6.9	7.8	8.6	8.9	9.1	9.7	9.6	11.1	12.0	11.3	10.8	10.3	9.7	10.5
Hungary	..	..	..	..	..	..	9.9	12.1	11.0	10.4	9.6	9.0	8.4	6.9	6.3	5.6	5.6	5.7	5.9
Ireland	16.8	16.6	16.2	14.7	13.4	14.7	15.4	15.6	14.3	12.3	11.7	9.9	7.5	5.6	4.3	3.9	4.3	4.6	4.5
Italy	8.9	9.6	9.7	9.7	8.9	8.5	8.8	9.8	10.6	11.2	11.2	11.2	11.3	11.0	10.1	9.1	8.6	8.4	8.0
Japan	2.8	2.8	2.5	2.3	2.1	2.1	2.2	2.5	2.9	3.1	3.4	3.4	4.1	4.7	4.7	5.0	5.4	5.3	4.7
Korea	..	..	..	..	..	..	..	..	..	..	..	..	..	..	4.4	4.0	3.3	3.6	3.7
Luxembourg	2.5	2.5	2.0	1.8	1.6	1.6	2.1	2.6	3.2	2.9	2.9	2.7	2.7	2.4	2.3	2.1	2.8	3.7	4.2
Netherlands	7.8	7.7	7.2	6.6	5.9	5.5	5.3	6.2	6.8	6.6	6.0	4.9	3.8	3.2	2.8	2.2	2.8	3.7	4.6
New Zealand	4.1	4.1	5.6	7.1	7.8	10.3	10.4	9.5	8.1	6.3	6.1	6.6	7.4	6.8	6.0	5.3	5.2	4.6	3.9
Norway	2.0	2.1	3.2	5.4	5.8	6.0	6.6	6.6	6.0	5.5	4.8	4.0	3.2	3.2	3.4	3.6	3.9	4.5	4.4
Poland	..	..	..	..	..	..	..	14.0	14.4	13.3	12.3	10.9	10.2	13.4	16.4	18.5	19.8	19.2	18.8
Portugal	8.8	7.2	5.8	5.2	4.8	4.2	4.3	5.6	6.9	7.3	7.3	6.8	5.2	4.5	4.1	4.0	5.0	6.2	6.7
Slovak Republic	..	..	..	..	..	..	..	..	13.7	13.1	11.3	11.9	12.6	16.8	18.7	19.4	18.7	17.5	18.0
Spain	17.4	16.7	15.8	13.9	13.1	13.2	14.9	18.6	19.8	18.8	18.2	17.0	15.3	12.9	11.5	10.8	11.4	11.5	10.9
Sweden	2.7	2.2	1.8	1.5	1.7	3.1	5.6	9.0	9.4	8.8	9.6	9.9	8.2	6.7	5.6	4.9	4.9	5.6	6.4
Switzerland	..	..	..	..	..	1.9	3.0	3.9	3.9	3.5	3.9	4.2	3.6	3.0	2.7	2.6	3.2	4.2	4.4
United Kingdom	11.2	10.3	8.5	7.1	6.9	8.6	9.8	10.0	9.2	8.5	8.0	6.9	6.2	5.9	5.4	5.0	5.1	5.0	4.6
United States	7.0	6.2	5.5	5.3	5.6	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.7	5.8	6.0	5.5
Euro area	..	..	..	..	..	7.9	8.6	10.1	10.7	10.5	10.7	10.6	10.1	9.2	8.2	7.9	8.3	8.7	8.9
Total OECD	..	..	..	..	..	..	..	..	7.7	7.3	7.2	6.9	6.8	6.6	6.2	6.4	6.9	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.

1. See technical notes in OECD Quarterly Labour Force Statistics.
2. Prior to 1993 data refers to Western Germany.

Source: OECD Economic Outlook 77 database.

Annex Table 15. **Labour force, employment and unemployment**

Millions

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Labour force																			
Major seven countries	303.7	308.0	312.3	322.9	324.8	325.9	328.4	330.1	333.0	337.1	339.6	342.5	346.9	349.0	350.8	353.1	354.7	357.4	360.1
Total of smaller countries[1]	129.2	132.1	134.4	137.9	139.9	167.1	173.2	176.2	178.6	181.8	184.2	186.2	187.9	190.0	192.7	193.9	197.3	200.3	203.2
Euro area	119.8	120.7	122.2	131.6	131.5	131.5	132.2	132.8	133.9	135.1	137.0	138.6	140.4	141.9	143.3	144.3	145.4	146.7	147.6
Total OECD[1]	433.0	440.1	446.7	460.8	464.6	493.0	501.6	506.3	511.6	518.9	523.8	528.7	534.9	539.0	543.6	547.1	551.9	557.6	563.3
Employment																			
Major seven countries	285.6	291.1	295.4	302.7	302.2	302.5	305.5	308.1	310.6	315.1	318.3	321.7	327.3	328.4	328.0	329.5	332.1	335.2	338.7
Total of smaller countries[1]	94.9	97.4	99.3	129.8	130.9	153.8	159.1	162.0	165.3	169.0	171.1	173.1	175.7	177.1	178.8	179.6	182.6	185.2	188.4
Euro area	109.2	111.0	113.2	121.7	120.6	118.4	118.1	118.9	119.6	120.6	123.0	125.6	128.6	130.6	131.2	131.5	132.5	133.4	134.8
Total OECD[1]	380.6	388.4	394.7	432.6	433.2	456.3	464.6	470.1	475.9	484.1	489.3	494.8	503.0	505.6	506.8	509.1	514.8	520.5	527.1
Unemployment																			
Major seven countries	18.1	16.9	16.9	20.2	22.6	23.4	22.9	22.0	22.4	22.0	21.4	20.8	19.6	20.6	22.8	23.7	22.5	22.2	21.4
Total of smaller countries[1]	7.0	6.6	6.5	8.1	8.9	13.4	14.1	14.2	13.3	12.8	13.1	13.1	12.2	12.9	13.9	14.3	14.6	15.0	14.8
Euro area	10.6	9.7	9.0	9.9	10.9	13.0	14.1	13.9	14.3	14.5	13.9	13.0	11.8	11.3	12.0	12.8	12.9	13.3	12.9
Total OECD[1]	25.1	23.6	23.4	28.3	31.5	36.8	37.0	36.2	35.7	34.8	34.5	33.9	31.8	33.4	36.7	38.0	37.2	37.2	36.2

1. 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 Economic Outlook 77 database.

Annex Table 16. **GDP deflators**

Percentage change from previous year

	Average 1980-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter		
																		2004	2005	2006
Australia	7.6	2.3	1.3	1.1	0.8	1.5	2.2	1.6	0.3	0.7	4.2	3.6	2.9	2.9	3.8	3.5	3.1	4.2	2.3	3.7
Austria	3.5	3.9	3.6	2.6	2.5	2.1	0.8	0.1	0.2	0.6	1.7	1.8	1.1	1.6	1.9	2.2	1.7	2.1	2.1	1.5
Belgium	4.3	2.9	3.4	4.0	2.1	1.2	1.2	1.4	1.7	1.4	1.3	1.8	1.8	2.0	2.2	1.5	1.8	2.0	1.8	1.7
Canada	5.1	3.0	1.3	1.4	1.1	2.3	1.6	1.2	-0.4	1.7	4.1	1.1	1.0	3.2	3.3	2.6	2.4	4.2	2.2	2.2
Czech Republic	..	..	..	..	9.4	10.2	8.7	8.3	11.2	2.8	1.4	4.9	2.8	1.9	3.7	2.6	2.7	..	..	..
Denmark	6.2	2.8	2.9	1.4	1.7	1.8	2.5	2.2	1.0	1.8	3.0	2.3	1.4	2.2	1.6	1.6	1.8	1.1	2.0	1.9
Finland	7.1	2.3	1.9	2.3	1.8	4.7	-0.4	2.1	3.5	0.0	2.9	3.1	1.3	-0.2	0.8	1.3	1.4	0.7	1.5	1.6
France	6.2	3.0	2.0	2.4	1.8	1.7	1.4	1.3	0.8	0.4	0.7	1.7	2.4	1.5	1.8	1.5	1.7	1.7	1.6	1.8
Germany	2.9	3.5	5.0	3.7	2.5	2.0	1.0	0.7	1.1	0.5	-0.2	1.3	1.5	1.1	0.7	0.4	0.9	0.3	0.8	1.0
Greece	19.6	19.8	14.8	14.4	11.2	9.8	7.4	6.8	5.2	3.0	3.4	3.5	4.0	3.5	3.4	3.7	3.4	2.8	3.0	3.4
Hungary	..	..	..	..	19.5	25.6	21.2	18.5	12.6	8.4	9.9	8.6	8.9	7.6	4.7	4.4	3.9	..	..	..
Iceland	32.9	8.1	3.3	2.3	2.1	2.9	2.0	3.2	5.2	2.7	2.8	9.2	5.7	-0.1	2.4	3.4	3.4	2.7	5.6	1.3
Ireland	7.0	1.8	2.8	5.2	1.7	3.0	1.8	4.4	6.4	3.7	4.8	5.7	4.5	1.6	3.5	2.8	3.1	4.1	2.4	3.3
Italy	10.6	7.6	4.5	3.9	3.5	5.0	5.3	2.4	2.7	1.6	2.2	2.7	3.1	2.9	2.6	1.7	1.7	2.3	1.9	1.4
Japan	2.2	2.9	1.6	0.5	0.1	-0.6	-0.8	0.4	-0.2	-1.3	-1.5	-1.3	-1.3	-1.5	-1.2	-0.9	0.0	-0.4	-1.0	0.3
Korea	7.6	10.7	7.6	6.3	7.8	7.4	5.1	4.6	5.8	-0.1	0.7	3.5	2.8	2.7	2.7	1.0	1.0	2.4	0.8	1.0
Luxembourg	4.1	1.8	3.7	6.0	3.5	2.3	2.0	2.7	2.7	2.2	4.2	1.9	1.1	2.1	2.5	2.1	2.1	..	..	..
Mexico	62.5	23.3	14.5	9.5	8.5	37.9	30.7	17.7	15.4	15.1	12.1	5.9	7.0	8.5	6.1	6.3	3.8	7.7	3.9	3.7
Netherlands	2.0	2.9	2.3	1.9	2.3	2.0	1.2	2.0	1.7	1.6	3.9	5.2	3.1	3.0	1.2	1.4	0.1	1.3	1.1	-0.5
New Zealand	9.8	0.5	1.4	3.0	1.1	2.4	2.4	0.5	1.2	0.3	2.6	4.5	0.4	2.0	3.9	3.1	2.1	4.6	2.6	1.6
Norway	6.2	2.2	-0.6	2.3	-0.1	2.9	4.1	2.9	-0.7	6.6	15.9	1.1	-1.6	2.4	4.9	5.4	2.8	6.5	4.0	2.8
Poland	..	..	..	..	37.2	28.0	18.6	13.9	11.6	6.4	6.7	4.0	1.3	0.5	2.9	2.7	2.5	..	..	..
Portugal	17.3	10.1	11.4	7.4	7.3	3.4	3.0	3.8	3.8	3.1	3.5	4.3	4.4	2.8	2.4	2.3	1.9	2.6	1.5	1.8
Slovak Republic	..	..	..	..	13.4	9.9	4.3	6.7	5.2	6.5	8.5	4.2	4.0	4.7	4.6	2.4	2.7	..	..	..
Spain	9.4	6.9	6.7	4.5	3.9	4.9	3.5	2.3	2.4	2.8	3.4	4.2	4.5	4.0	4.4	3.6	3.6	4.7	3.0	4.0
Sweden	7.6	9.0	1.0	3.0	2.4	3.2	1.2	1.4	0.8	0.9	1.2	2.2	1.7	2.0	1.2	-0.6	2.0	1.2	-0.1	2.2
Switzerland	3.7	5.7	2.2	2.4	1.6	0.8	-0.1	-0.1	-0.3	0.6	0.8	0.6	1.7	0.9	0.8	0.4	0.8	..	..	..
Turkey	46.4	58.8	63.7	67.8	106.5	87.2	77.8	81.5	75.7	55.6	49.9	54.8	44.1	22.5	9.9	9.5	6.2	..	..	..
United Kingdom	6.4	6.6	4.0	2.7	1.5	2.6	3.2	2.9	2.8	2.3	1.3	2.2	3.2	3.2	2.2	2.0	2.2	2.1	2.3	1.9
United States	4.2	3.5	2.3	2.3	2.1	2.0	1.9	1.7	1.1	1.4	2.2	2.4	1.7	1.8	2.1	2.4	2.2	2.4	2.3	2.3
Euro area	6.2	4.8	4.4	3.6	2.8	2.8	2.1	1.6	1.7	1.1	1.4	2.4	2.5	2.0	1.9	1.5	1.7	1.8	1.6	1.6
Total OECD	7.8	5.8	4.5	3.9	4.7	5.3	4.4	3.8	3.3	2.5	2.8	3.0	2.6	2.2	2.0	1.9	1.9	2.4	1.7	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. See Table “National Account Reporting Systems and Base-years” at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 77 database.

Annex Table 17. **Private consumption deflators**

Percentage change from previous year

	Average 1980-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter 2004	Fourth quarter 2005	Fourth quarter 2006
Australia	7.8	4.4	2.2	2.1	1.0	2.1	1.9	1.5	1.3	1.0	3.3	3.8	2.6	1.9	1.4	2.2	2.7	1.6	2.6	2.7
Austria	3.6	3.5	3.2	3.6	2.7	2.1	1.2	2.0	0.2	0.9	2.4	2.2	1.2	1.1	1.8	2.3	1.7	2.6	2.1	1.5
Belgium	4.2	2.8	1.9	2.5	2.3	2.1	2.1	1.8	0.9	1.2	2.3	2.5	1.7	1.8	2.1	2.2	1.6	2.6	2.2	1.3
Canada	5.7	5.0	1.7	2.3	1.1	1.3	1.6	1.6	1.2	1.7	2.2	1.8	2.1	1.6	1.4	1.7	1.5	1.9	1.8	1.5
Czech Republic	..	..	..	..	9.6	9.2	7.4	8.6	8.7	2.6	3.0	3.5	0.7	0.2	2.7	2.0	2.5	..	..	..
Denmark	5.9	2.8	1.9	2.0	3.0	1.9	2.1	2.2	1.3	2.4	2.6	2.5	2.1	1.8	1.1	1.6	1.9	1.1	1.9	1.9
Finland	6.3	5.8	3.8	4.5	0.8	0.7	1.7	1.8	2.1	1.4	3.2	3.6	3.2	0.4	0.8	1.5	1.9	1.2	1.9	2.0
France	6.4	3.5	2.5	2.5	2.2	2.0	1.9	1.4	0.6	0.2	1.2	1.4	1.7	1.8	1.4	1.6	1.7	1.5	1.6	1.6
Germany	2.5	3.8	4.4	3.9	2.6	1.9	1.7	2.0	1.1	0.3	1.5	1.6	1.1	1.1	1.6	1.4	0.8	1.7	1.2	0.8
Greece	19.0	19.7	15.7	14.1	11.0	9.0	8.2	5.6	4.5	2.3	3.1	3.5	3.6	3.4	2.9	3.6	3.3	..	..	..
Hungary	..	..	..	..	19.7	27.0	22.9	18.0	13.6	10.2	9.1	8.2	3.7	4.6	7.6	3.8	3.8	..	..	..
Iceland	33.7	6.2	3.5	3.6	1.4	1.9	2.4	1.8	1.3	2.4	4.3	7.9	4.4	0.7	2.3	3.3	3.2	2.5	3.6	3.1
Ireland	7.2	2.7	3.0	2.2	2.7	2.8	2.6	2.6	3.8	3.1	4.1	4.3	6.0	4.0	2.3	2.6	2.7	2.9	2.4	2.9
Italy	10.0	7.0	5.5	5.5	4.9	6.0	4.4	2.2	2.1	2.1	2.9	2.7	3.1	2.5	2.2	1.8	1.8	1.9	1.9	1.7
Japan	2.2	2.7	1.6	1.0	0.5	-0.4	-0.1	1.1	0.0	-0.5	-0.8	-1.0	-1.2	-0.9	-0.5	-0.5	0.1	-0.2	-0.5	0.3
Korea	6.2	11.2	8.5	7.0	9.6	6.6	6.2	6.0	6.7	3.3	4.8	4.8	2.8	3.4	3.5	3.3	3.1	3.3	3.0	3.2
Luxembourg	4.8	3.4	4.2	4.0	2.6	2.0	1.4	1.4	1.1	1.5	2.6	3.2	2.1	1.9	2.1	2.1	1.9	..	..	..
Mexico	63.9	24.3	15.4	10.1	7.6	34.0	30.7	16.5	20.5	14.0	10.4	7.2	5.3	6.9	4.7	4.6	3.6	5.0	3.4	3.6
Netherlands	2.4	3.3	3.2	2.1	2.9	1.4	1.9	2.0	1.7	1.8	3.3	4.6	2.7	2.3	1.2	0.9	0.5	1.3	0.3	0.7
New Zealand	10.5	2.2	1.1	1.2	1.2	2.6	2.2	1.9	1.9	0.6	2.3	2.2	1.9	0.6	0.8	1.9	2.0	1.3	2.4	1.8
Norway	7.4	3.8	2.5	2.4	1.2	2.4	1.4	2.3	2.5	2.0	3.0	2.3	1.4	2.6	0.7	1.5	2.5	1.2	1.7	2.7
Poland	..	..	..	..	37.9	27.2	19.4	14.5	11.2	6.5	9.0	4.7	1.6	0.7	3.3	2.6	2.5	..	..	..
Portugal	17.2	11.8	9.2	6.9	5.6	4.3	3.7	2.9	2.8	2.1	3.3	3.9	3.5	3.2	2.3	1.8	1.7	2.4	1.8	1.6
Slovak Republic	..	..	..	..	13.4	9.2	5.0	6.0	5.8	8.6	10.8	5.9	2.5	7.7	6.9	2.7	2.8	..	..	..
Spain	9.2	6.4	6.6	5.3	4.9	4.8	3.5	2.6	2.2	2.4	3.1	3.3	3.4	3.1	3.0	3.0	2.6	3.3	2.7	2.5
Sweden	8.0	10.4	2.1	6.4	2.7	2.8	1.3	1.9	0.8	1.2	1.1	2.4	1.8	2.3	1.2	1.7	1.9	0.9	1.6	2.1
Switzerland	3.4	5.8	3.8	3.1	0.5	1.6	0.6	0.7	-0.4	0.3	0.6	0.4	1.6	0.6	1.0	1.1	0.9	..	..	..
Turkey	47.0	60.7	65.6	65.9	108.9	92.4	67.8	82.1	83.0	59.0	50.0	58.8	40.6	21.8	7.9	8.0	5.4	..	..	..
United Kingdom	6.2	7.8	4.9	3.5	2.1	3.4	3.4	2.5	2.6	1.7	1.1	2.4	1.6	1.9	1.3	1.7	2.1	1.0	2.0	2.0
United States	4.5	3.6	2.9	2.3	2.1	2.1	2.2	1.7	0.9	1.7	2.5	2.1	1.4	1.9	2.2	2.2	2.1	2.6	2.2	2.0
Euro area	6.2	5.1	4.5	4.1	3.3	3.0	2.5	2.1	1.4	1.1	2.1	2.3	2.2	1.9	1.9	1.8	1.6	2.0	1.7	1.5
Total OECD	7.9	6.2	4.9	4.3	5.1	5.4	4.5	4.0	3.5	2.8	3.2	3.1	2.2	2.1	1.9	1.9	1.8	2.2	1.8	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. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 77 database.

Annex Table 18. **Consumer price indices**

Percentage change from previous year

	Average 1980-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter 2004	Fourth quarter 2005	Fourth quarter 2006
Australia	8.1	3.2	1.0	1.8	1.9	4.6	2.6	0.3	0.9	1.5	4.5	4.4	3.0	2.8	2.3	2.6	2.8	2.6	2.7	2.8
Austria	3.5	3.1	3.4	3.2	2.7	1.6	1.8	1.2	0.8	0.5	2.0	2.3	1.7	1.3	2.0	2.4	1.7	2.7	2.4	1.5
Belgium	4.5	4.2	2.2	2.5	2.4	1.3	1.8	1.5	0.9	1.1	2.7	2.4	1.6	1.5	1.9	2.2	1.6	2.6	1.8	1.5
Canada	5.9	5.6	1.5	1.9	0.2	2.2	1.6	1.6	1.0	1.7	2.7	2.5	2.2	2.8	1.8	1.9	1.9	2.3	2.0	1.8
Czech Republic	..	..	..	..	10.0	9.1	8.8	8.5	10.7	2.1	3.9	4.7	1.8	0.1	2.8	2.0	2.5	..	..	..
Denmark	5.9	2.4	2.1	1.3	2.0	2.1	2.1	2.2	1.8	2.5	2.9	2.4	2.4	2.1	1.2	1.6	1.9	1.4	1.7	1.9
Finland	6.6	4.6	3.2	3.3	1.6	0.4	1.1	1.2	1.4	1.3	3.0	2.7	2.0	1.3	0.1	0.8	1.9	0.6	1.1	2.0
France	6.3	3.4	2.5	2.2	1.7	1.8	2.1	1.3	0.7	0.6	1.8	1.8	1.9	2.2	2.3	1.6	1.7	2.1	1.4	1.6
Germany	..	..	5.1	4.4	2.7	1.7	1.2	1.5	0.6	0.6	1.4	1.9	1.3	1.0	1.8	1.2	0.8	2.0	1.0	0.7
Greece	19.0	19.5	15.9	14.4	10.9	8.9	7.9	5.4	4.5	2.1	2.9	3.7	3.9	3.4	3.0	3.7	3.3	..	..	..
Hungary	..	..	..	..	18.9	28.3	23.5	18.3	14.2	10.0	9.8	9.1	5.2	4.7	6.7	3.8	3.8	..	..	..
Iceland[1]	33.8	6.8	3.9	4.0	1.6	1.7	2.3	1.8	1.7	3.2	5.1	6.4	5.2	2.1	3.2	4.0	3.6	3.8	3.7	3.5
Ireland	7.7	3.2	3.1	1.4	2.3	2.5	2.2	1.2	2.1	2.5	5.3	4.0	4.7	4.0	2.3	2.5	2.7	2.7	2.6	2.7
Italy	9.6	6.2	5.0	4.5	4.2	5.4	4.0	1.9	2.0	1.7	2.6	2.3	2.6	2.8	2.3	2.0	2.0	2.0	2.0	1.9
Japan	2.0	3.2	1.7	1.3	0.7	-0.1	0.1	1.7	0.7	-0.3	-0.7	-0.7	-0.9	-0.3	0.0	-0.2	0.1	0.5	-0.6	0.3
Korea	..	9.3	6.2	4.8	6.3	4.5	4.9	4.4	7.5	0.8	2.3	4.1	2.8	3.5	3.6	3.2	3.0	3.4	3.1	3.0
Luxembourg	4.4	3.1	3.2	3.6	2.2	1.4	1.2	1.4	1.0	1.0	3.8	2.4	2.1	2.5	3.2	2.7	1.7	..	..	..
Mexico	65.1	22.7	15.5	9.8	7.0	35.0	34.4	20.6	15.9	16.6	9.5	6.4	5.0	4.5	4.7	4.4	3.7	5.3	3.5	3.7
Netherlands	2.4	3.2	2.8	1.6	2.1	1.4	1.4	1.9	1.8	2.0	2.3	5.1	3.9	2.2	1.4	1.0	-3.8	1.3	0.6	0.2
New Zealand	10.7	2.6	1.0	1.3	1.7	3.8	2.3	1.2	1.3	-0.1	2.6	2.6	2.7	1.8	2.3	3.2	2.8	2.7	3.1	2.6
Norway	7.6	3.4	2.3	2.3	1.4	2.4	1.2	2.6	2.3	2.3	3.1	3.0	1.3	2.5	0.5	1.4	2.4	1.2	1.6	2.8
Poland	..	..	..	..	33.2	28.1	19.8	14.9	11.6	7.2	9.9	5.4	1.9	0.7	3.4	2.5	2.6	..	..	..
Portugal	17.1	11.4	8.9	5.9	5.0	4.0	2.9	1.9	2.2	2.2	2.8	4.4	3.7	3.3	2.5	1.6	1.6	2.4	1.2	1.6
Slovak Republic	..	..	..	..	13.4	9.8	5.8	6.1	6.7	10.6	12.0	7.3	3.1	8.6	7.5	2.8	2.7	..	..	..
Spain	9.3	5.9	5.9	4.9	4.6	4.6	3.6	1.9	1.8	2.2	3.5	2.8	3.6	3.1	3.1	3.1	2.6	3.4	2.7	2.5
Sweden	7.6	9.4	2.4	4.7	2.2	2.5	0.5	0.7	-0.3	0.5	0.9	2.4	2.2	1.9	0.4	0.6	1.9	0.5	0.9	2.1
Switzerland	3.4	5.9	4.0	3.3	0.9	1.8	0.8	0.5	0.0	0.8	1.6	1.0	0.6	0.6	0.8	1.1	0.9	..	..	..
Turkey[2]	45.1	66.0	70.1	66.1	105.2	89.1	80.4	85.7	84.6	64.9	54.9	54.4	45.0	25.3	10.6	8.5	6.3	..	..	..
United Kingdom[3]	6.1	7.5	4.2	2.5	2.0	2.7	2.5	1.8	1.6	1.3	0.8	1.2	1.3	1.4	1.3	2.0	2.1	1.4	2.2	2.0
United States[4]	4.7	4.2	3.0	3.0	2.6	2.8	2.9	2.3	1.5	2.2	3.4	2.8	1.6	2.3	2.7	2.8	2.6	3.4	2.6	2.5
Euro area	..	1.8	4.6	4.0	3.2	2.9	2.4	1.7	1.2	1.2	2.2	2.5	2.3	2.1	2.1	1.8	1.3	2.3	1.5	1.3

Note: Consumer price index. For the euro area countries, the euro area aggregate and the United Kingdom: harmonised index of consumer prices (HICP).

1. Excluding rent, but including imputed rent.
2. Until 1981: Istanbul index (154 items); from 1982, Turkish index.
3. Known as the CPI in the United Kingdom.
4. The methodology for calculating the Consumer Price Index has changed considerably over the past years, lowering measured inflation substantially.

Source: OECD Economic Outlook 77 database.

Annex Table 19. **Oil and other primary commodity markets**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Oil market conditions[1]																		
(in million barrels per day)																		
Demand																		
OECD[2]	41.2	41.4	41.8	42.9	43.2	44.4	44.8	45.9	46.7	46.9	47.8	47.9	47.9	48.0	48.9	49.6	50.0	..
of which: North America	21.0	20.7	20.5	20.8	21.1	21.7	21.6	22.2	22.7	23.1	23.8	24.1	24.0	24.1	24.6	25.2	25.5	..
Europe[3]	13.5	13.6	14.0	14.2	14.2	14.3	14.6	14.9	15.0	15.3	15.2	15.1	15.3	15.2	15.5	15.7	15.7	..
Pacific	6.7	7.1	7.4	7.9	7.9	8.4	8.6	8.8	9.0	8.5	8.8	8.7	8.7	8.6	8.8	8.6	8.7	..
Non-OECD[4]	24.7	24.8	25.2	24.7	24.8	24.3	25.2	26.0	27.0	27.5	28.2	28.7	29.4	29.9	30.9	32.9	34.3	..
Total	65.9	66.3	67.0	67.6	67.9	68.7	70.0	71.9	73.7	74.4	76.0	76.6	77.3	77.9	79.7	82.5	84.3	..
Supply																		
OECD[2]	18.9	19.0	19.5	19.8	20.0	20.8	21.1	21.7	22.1	21.9	21.4	21.9	21.8	21.8	21.6	21.3	21.1	..
OPEC total	23.8	25.1	25.3	26.5	26.9	27.6	27.9	28.7	30.2	31.0	29.6	30.9	30.4	28.8	30.7	33.0	..	..
Former USSR	12.2	11.5	10.4	8.9	7.9	7.2	7.1	7.1	7.2	7.3	7.5	7.9	8.6	9.4	10.3	11.2	11.7	..
Other non-OECD[4]	11.2	11.4	11.6	12.1	12.6	13.4	14.5	15.0	15.4	15.7	16.0	16.2	16.4	16.9	17.1	17.6	..	..
Total	66.1	66.9	66.8	67.2	67.5	69.1	70.6	72.5	74.9	75.9	74.5	76.9	77.2	76.9	79.7	83.0	..	..
Trade																		
OECD net imports[2]	22.5	22.7	22.3	23.1	23.4	23.8	23.4	24.2	25.0	25.3	25.6	26.2	26.4	25.9	27.5	28.5	29.0	..
Former USSR net exports	3.5	3.1	2.2	2.0	2.0	2.7	2.8	3.1	3.4	3.6	3.9	4.3	4.9	5.9	6.7	7.5	7.9	..
Other non-OECD net exports[4]	19.0	19.6	20.1	21.1	21.4	21.0	20.6	21.1	21.5	21.8	21.7	21.9	21.5	20.0	20.8	21.0	21.0	..
Prices[5]																		
Brent crude oil import price (cif, $ per bl)	18.2	23.7	20.0	19.3	17.0	15.8	17.0	20.7	19.1	12.7	17.9	28.4	24.5	25.0	28.8	38.2	49.6	48.8
Prices of other primary commodities[5]																		
($ indices)																		
Food and tropical beverages	137	123	116	111	113	155	158	153	167	142	112	100	91	102	109	109	109	109
of which: Food	130	115	112	117	119	128	135	160	144	118	100	100	96	107	119	136	112	112
Tropical beverages	142	129	118	107	109	172	172	150	183	158	121	100	87	98	103	110	127	118
Agricultural raw materials	114	125	108	110	105	120	139	119	113	97	94	100	86	85	104	114	119	127
Minerals, ores and metals	131	119	105	101	88	102	121	108	110	93	89	100	91	89	102	140	165	173
Total	128	119	111	112	111	129	139	143	139	116	100	100	92	99	111	128	122	124

1. Based on data published in in varoius issues of International Energy Agency, Oil Market Report and Annual Statistical Supplement, August 2004.
2. Excluding Czech Republic, Hungary, Korea, Mexico and Poland.
3. European Union countries and Iceland, Norway, Switzerland and Turkey.
4. Including Czech Republic, Hungary, Korea, Mexico and Poland.
5. Indices through 2004 are based on data compiled by International Energy Agency for oil and by Hamburg Institute for Economic Research for the prices of other primary commodities; OECD estimates and projections for 2005 and 2006.

Source: OECD Economic Outlook 77 database.

Annex Table 20. **Employment rates, participation rates and labour force**

	Employment rates						Labour force participation rates						Labour force					
	Average 1983-85	Average 1993-95	2003	2004	2005	2006	Average 1983-85	Average 1993-95	2003	2004	2005	2006	Average 1983-92	Average 1993-02	2003	2004	2005	2006
	Per cent						*Per cent*						*Percentage change*					
Australia	63.8	67.2	71.3	71.8	72.5	72.9	70.1	74.2	75.8	76.1	76.5	76.9	2.2	1.6	1.8	1.4	2.1	1.8
Austria	72.9	73.5	75.0	75.3	75.7	76.3	75.5	77.6	79.4	79.7	80.1	80.7	0.9	0.6	0.3	1.0	0.9	1.0
Belgium	55.2	57.8	61.6	61.9	61.8	62.2	61.8	63.8	66.9	67.1	67.3	67.6	0.3	0.7	0.7	0.5	0.7	0.9
Canada	65.7	67.9	73.4	73.9	73.8	73.9	74.1	75.9	79.5	79.6	79.3	79.3	1.5	1.6	2.3	1.4	0.9	1.4
Czech Republic	..	69.4	65.1	64.8	64.8	64.9	..	72.5	70.7	70.6	70.7	70.7	..	0.0	-0.1	0.3	0.2	0.2
Denmark	73.4	73.2	75.7	75.7	75.9	76.2	79.4	79.6	80.2	80.3	80.2	80.2	0.9	0.1	0.0	0.2	0.0	0.0
Finland	72.3	60.7	67.6	67.5	67.7	67.8	76.3	72.4	74.4	74.1	73.9	73.9	-0.1	0.6	-0.4	-0.2	0.2	0.3
France	59.7	58.7	63.0	62.7	62.7	62.9	66.1	66.5	69.8	69.6	69.6	69.5	0.5	0.9	0.6	0.2	0.3	0.2
Germany	63.9	67.3	69.6	69.9	70.4	71.1	68.4	72.9	76.6	77.0	77.9	78.2	3.8	0.5	0.0	0.5	1.0	0.2
Greece	55.9	54.6	55.9	57.6	58.4	59.2	60.8	60.3	62.3	64.8	65.5	66.2	0.5	0.8	0.7	3.6	0.9	1.0
Hungary	..	52.5	55.8	55.6	..	..	..	59.1	59.3	59.2	..	..	..	-0.1	1.3	-0.3	0.6	0.1
Iceland	83.9	81.3	82.8	81.1	80.9	81.6	85.5	85.6	85.6	83.6	83.2	83.5	1.3	1.3	0.2	-0.8	1.3	2.3
Ireland	53.8	54.9	67.0	67.8	68.2	68.4	63.8	63.8	70.3	71.0	71.3	71.5	0.4	3.0	2.1	2.8	1.3	1.2
Italy	54.9	51.6	56.3	57.2	57.2	57.5	59.9	58.0	61.7	62.2	62.5	62.8	0.4	0.6	0.6	0.8	0.3	0.4
Japan	70.6	74.1	73.4	73.8	74.5	75.3	72.5	76.3	77.5	77.5	78.0	78.6	1.2	0.1	-0.3	-0.4	0.1	0.0
Korea	56.0	63.0	64.5	65.4	65.9	66.2	58.3	64.6	66.8	67.8	68.2	68.4	2.9	1.6	0.2	2.0	1.2	1.3
Luxembourg	59.3	60.0	63.6	63.8	64.0	64.3	60.3	61.6	66.1	66.6	67.0	67.2	1.0	1.8	1.9	1.7	1.5	1.4
Mexico	..	56.4	56.9	58.1	58.3	58.6	..	58.8	58.4	59.9	60.7	60.9	..	2.4	1.3	4.5	2.9	2.5
Netherlands	59.7	66.6	75.5	74.7	73.9	74.5	66.2	71.4	78.7	78.6	78.9	79.3	1.3	1.6	0.8	0.2	0.8	1.0
New Zealand	74.9	68.5	73.7	75.0	..	..	78.5	74.4	77.3	78.0	..	..	0.5	1.8	1.7	2.6	2.2	1.0
Norway	74.5	72.8	76.1	75.8	75.7	75.9	76.9	77.0	79.7	79.4	79.0	78.9	0.6	1.2	-0.1	0.3	0.4	0.8
Poland	..	58.3	51.2	51.7	52.2	53.0	..	67.7	63.7	63.8	63.9	64.1	..	0.1	-1.6	0.5	0.6	0.7
Portugal	63.5	68.1	71.9	71.8	71.8	72.2	69.4	72.8	76.8	76.9	77.3	77.5	1.0	1.1	0.9	0.5	0.9	0.7
Slovak Republic	..	59.9	57.0	56.8	57.2	57.6	..	69.2	69.1	69.4	69.7	69.8	..	0.8	0.4	1.0	0.7	0.4
Spain	47.2	47.7	60.7	61.7	62.8	63.8	55.9	58.0	68.5	69.2	70.0	70.8	1.2	2.5	2.6	2.0	2.0	2.1
Sweden	80.3	72.1	74.2	73.5	73.3	73.7	82.9	78.3	78.0	77.8	77.2	77.3	0.2	0.3	0.7	0.2	-0.1	0.6
Switzerland	77.6	83.6	83.9	83.6	83.5	84.1	78.3	86.7	87.4	87.3	87.0	87.1	2.2	0.5	0.9	0.4	0.2	0.5
Turkey	60.1	53.1	47.1	46.4	46.3	45.9	64.8	57.8	52.5	51.7	51.7	51.3	2.1	1.7	-0.7	0.1	1.8	1.8
United Kingdom	65.9	68.2	72.0	72.3	72.2	72.0	74.1	75.4	75.8	75.9	76.0	76.0	0.6	0.5	0.8	0.6	0.6	0.5
United States	66.4	72.1	70.9	70.8	..	..	72.3	76.8	75.4	74.9	..	..	1.6	1.3	1.1	0.6	1.2	1.4
Euro area	58.4	59.2	64.3	64.7	65.0	65.5	64.2	66.0	70.6	71.0	71.5	71.8	1.5	1.0	0.7	0.8	0.8	0.6
Total OECD	63.1	64.9	65.8	66.1	64.8	65.1	68.2	70.0	70.8	70.9	69.9	70.1	2.3	1.1	0.6	0.9	1.0	1.0

Note: Employment rates are calculated as the ratio of total employment to the population of working age. The working age population concept used here and in the labour force participation rate is defined as all persons of the age 15 to 64 years (16 to 65 years for Spain). This definition does not correspond to the commonly-used working age population concepts for the United States (16 years and above), Hungary and New Zealand (15 years and above). Hence for these countries no projections are available. For information about sources and definitions, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 77 database.

Annex Table 21. **Potential GDP, employment and capital stock**

Percentage change from previous period

	Potential GDP						Employment						Capital stock					
	Average 1983-92	Average 1993-02	2003	2004	2005	2006	Average 1983-92	Average 1993-02	2003	2004	2005	2006	Average 1983-92	Average 1993-02	2003	2004	2005	2006
Australia	3.4	3.4	3.5	3.5	3.8	3.7	2.2	2.1	2.3	1.9	2.4	1.8	3.6	2.9	3.6	3.9	4.3	4.7
Austria	2.4	2.3	2.5	2.4	2.3	2.2	0.7	0.6	0.1	1.0	0.9	1.1	4.5	4.3	4.4	4.6	4.6	4.5
Belgium	2.2	2.0	2.0	2.0	2.1	2.1	0.7	0.9	0.1	0.7	0.3	1.0	3.1	2.7	2.3	2.3	2.3	2.4
Canada	2.3	3.2	2.7	2.8	3.0	3.0	1.6	2.0	2.3	1.8	1.2	1.5	2.7	2.7	1.7	1.7	2.2	2.3
Czech Republic	..	..	..	..	..	..	..	-0.3	-0.7	-0.3	0.2	0.3	..	..	..	..	..	..
Denmark	1.6	2.2	1.9	1.9	1.8	1.9	0.9	0.7	-1.1	0.1	0.3	0.4	3.4	3.5	3.5	3.5	3.6	3.7
Finland	2.3	2.4	2.5	2.3	2.4	2.4	-0.9	1.5	-0.3	0.0	0.6	0.5	2.9	0.8	0.6	0.8	1.0	1.1
France	2.0	2.1	2.1	1.9	1.9	2.0	0.3	1.3	-0.2	-0.1	0.3	0.7	4.3	3.2	2.7	2.8	2.8	2.9
Germany	3.8	1.4	1.3	1.4	1.5	1.5	3.9	0.4	-1.0	0.3	0.6	0.8	4.4	1.8	0.8	1.1	1.0	1.2
Greece	1.3	2.8	4.0	3.8	3.7	3.9	0.4	0.6	1.3	2.8	1.2	1.4	2.0	4.1	7.0	6.8	6.5	6.5
Hungary	..	4.1	4.2	4.1	3.9	3.7	..	0.6	1.3	-0.6	0.5	0.4	..	..	..	..	..	..
Iceland	2.7	3.0	2.4	3.5	4.4	4.9	1.0	1.5	0.1	-0.5	1.6	2.8	2.6	3.0	2.0	4.6	8.4	8.6
Ireland	3.8	7.5	6.2	6.1	5.2	4.9	0.4	4.4	1.9	3.0	1.4	1.3	2.4	4.5	4.5	4.9	4.6	4.5
Italy	2.2	1.4	1.2	1.1	1.1	1.2	0.2	0.7	1.0	1.5	0.0	0.4	3.3	2.5	2.3	2.3	1.9	1.9
Japan	3.6	1.4	0.9	0.9	1.0	1.0	1.3	-0.2	-0.2	0.2	0.4	0.3	6.5	3.4	1.4	1.3	2.2	2.6
Korea	..	..	..	..	..	..	3.1	1.6	-0.1	1.9	1.3	1.4	..	..	..	..	..	..
Luxembourg	..	..	..	..	..	..	1.0	1.7	1.0	1.2	1.3	1.5	..	..	..	..	..	..
Mexico	..	..	..	..	..	..	..	2.5	1.1	3.9	2.0	2.6	..	..	..	..	..	..
Netherlands	2.4	2.8	2.0	1.9	1.7	1.9	2.0	2.0	-0.4	-0.7	-0.6	1.2	2.3	2.7	1.9	2.0	1.9	2.0
New Zealand	1.6	3.0	4.1	3.9	3.6	3.3	0.0	2.3	2.3	3.4	2.1	0.5	2.9	2.7	4.2	5.1	4.7	4.6
Norway	2.3	2.7	2.7	2.4	2.9	2.9	0.3	1.5	-0.8	0.3	0.7	1.2	0.3	1.5	1.2	1.5	2.5	2.4
Poland	..	..	..	..	..	..	..	-0.8	-1.2	1.3	1.5	1.9	..	..	..	..	..	..
Portugal	2.8	2.8	1.9	1.4	1.3	1.3	1.4	1.1	-0.5	0.1	0.4	1.1	..	..	..	..	..	..
Slovak Republic	..	..	..	..	..	..	..	-0.1	1.8	0.3	0.9	0.9	..	..	..	..	..	..
Spain	2.7	3.0	3.0	2.9	2.9	2.9	1.3	3.2	2.7	2.5	2.7	2.5	4.0	3.8	3.1	3.0	3.3	3.5
Sweden	2.1	2.2	2.5	2.4	2.4	2.4	0.0	0.8	-0.2	-0.4	0.4	1.0	3.1	3.0	2.1	2.2	2.6	2.8
Switzerland	2.1	1.2	1.4	1.3	1.3	1.4	2.0	0.5	-0.1	0.2	0.3	1.1	2.8	2.7	2.6	2.7	2.7	2.8
Turkey	..	..	..	..	..	..	2.0	1.6	-0.9	0.3	1.5	1.7	..	..	..	..	..	..
United Kingdom	2.2	2.7	2.5	2.4	2.5	2.5	0.7	1.1	0.9	0.9	0.4	0.2	3.6	3.7	3.3	3.5	3.4	3.4
United States	3.0	3.3	2.8	3.0	3.1	3.2	1.8	1.4	0.9	1.1	1.6	1.7	2.9	3.2	1.5	2.2	2.6	3.0
Euro area	2.7	2.0	2.0	1.9	1.9	1.9	1.5	1.1	0.2	0.8	0.7	1.0	..	..	..	..	..	..
Total OECD	2.9	2.6	2.3	2.3	2.4	2.5	2.4	1.1	0.4	1.1	1.1	1.3	3.7	3.1	1.9	2.2	2.5	2.8

Note: Potential output is estimated using a Cobb-Douglas production function approach. For information about definitions, sources and data coverage, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 77 database.

Annex Table 22. **Structural unemployment, wage shares and unit labor costs**

	Structural unemployment rate						Wage shares in the business sector						Unit labour costs in the business sector					
	Average 1983-85	Average 1993-95	2003	2004	2005	2006	Average 1983-85	Average 1993-95	2003	2004	2005	2006	Average 1983-92	Average 1993-02	2003	2004	2005	2006
	Per cent						*Per cent of business GDP*						*Percentage change*					
Australia	5.6	6.8	5.6	5.5	5.4	5.4	44.0	44.0	44.8	45.2	45.9	45.9	4.8	1.5	1.9	4.5	5.0	2.9
Austria	3.0	4.8	4.9	4.9	4.9	4.9	55.3	53.1	52.0	51.9	51.5	51.3	2.6	-0.2	1.1	0.9	1.2	0.9
Belgium	7.4	7.3	7.2	7.2	7.2	7.2	49.4	50.8	49.7	49.2	49.1	48.7	3.2	1.0	1.1	0.4	1.2	0.6
Canada	7.8	8.1	7.3	7.3	7.3	7.3	44.3	46.4	47.1	46.4	46.1	45.7	3.9	1.1	1.5	1.3	1.8	1.4
Czech Republic	..	..	..	..	..	..	..	43.0	42.4	41.9	41.7	41.6	..	4.2	3.0	0.5	1.9	2.1
Denmark	5.6	6.6	4.8	4.8	4.8	4.8	41.1	40.0	39.2	39.3	39.4	39.4	4.2	1.0	1.4	1.0	1.1	1.5
Finland	3.9	8.7	8.6	8.6	8.4	8.2	47.8	40.6	40.6	40.5	40.6	40.3	4.7	0.9	-0.8	0.3	1.2	-0.2
France	7.6	10.3	9.1	9.0	8.9	8.8	49.9	42.9	41.9	41.7	41.6	41.7	2.2	0.6	1.6	0.2	1.0	1.4
Germany	5.0	6.3	7.7	7.7	7.6	7.6	52.3	52.1	52.2	51.8	51.5	51.0	2.2	0.5	0.8	-0.6	-0.5	-0.5
Greece	6.3	8.8	10.5	10.5	10.5	10.3	54.8	45.4	42.1	41.4	41.8	42.2	15.4	5.2	0.1	2.3	3.9	3.7
Hungary	..	..	..	..	..	..	..	47.1	38.2	39.6	38.8	38.8	..	10.4	4.0	5.2	1.1	3.0
Iceland	1.5	3.9	2.8	2.8	2.8	2.8	46.9	49.3	51.7	51.2	50.6	51.1	21.9	5.2	-5.0	0.1	1.3	3.6
Ireland	12.5	12.4	5.7	5.5	5.4	5.2	56.4	49.3	36.8	36.7	36.1	35.3	1.4	-0.3	0.5	2.2	0.8	0.9
Italy	6.7	9.3	9.3	9.0	8.7	8.5	54.4	49.4	47.1	47.4	48.1	48.1	6.2	1.5	3.4	3.0	3.6	1.5
Japan	2.4	3.0	3.9	3.9	3.9	3.9	65.3	59.5	55.6	54.7	54.9	54.6	0.4	-1.2	-2.2	-3.2	-0.9	-0.9
Korea	..	..	..	..	..	..	78.8	72.4	63.8	62.5	63.2	64.0	5.0	2.2	3.8	0.5	1.9	2.0
Luxembourg	..	..	..	..	..	..	..	47.2	46.9	47.7	48.2	48.4	7.5	1.9	0.3	0.3	0.9	1.0
Mexico	..	..	..	..	..	..	..	..	..	..	..	..	..	12.3	4.8	4.6	2.8	2.7
Netherlands	6.9	5.8	3.3	3.2	3.2	3.2	45.6	47.6	49.1	48.2	47.8	47.7	1.0	2.0	3.8	-1.2	0.2	-0.2
New Zealand	3.6	7.5	5.5	5.3	5.0	4.8	..	43.7	40.4	39.5	39.3	39.2	2.2	1.0	1.6	1.5	3.1	2.1
Norway	2.5	4.5	4.1	4.1	4.1	4.1	39.7	36.4	33.9	32.7	31.8	31.7	4.8	2.3	2.3	-0.9	-0.1	1.6
Poland	..	..	..	..	..	..	..	45.4	43.3	40.9	40.3	39.8	..	5.9	-6.3	-1.7	-0.2	0.0
Portugal	5.9	4.4	4.1	4.2	4.1	4.1	57.7	51.3	51.3	50.6	50.8	50.8	13.4	3.4	4.6	1.3	2.1	1.6
Slovak Republic	..	..	..	..	..	..	..	36.7	35.7	36.0	36.1	35.7	..	5.2	2.1	3.9	3.7	1.0
Spain	10.6	13.1	11.0	10.7	10.6	10.5	51.2	48.8	47.8	47.5	47.6	47.8	7.0	2.7	3.9	3.3	3.5	3.5
Sweden	2.4	4.4	4.7	4.7	4.7	4.7	38.9	38.9	43.8	42.9	43.4	43.3	5.8	1.8	0.1	-1.6	-0.1	1.0
Switzerland	0.3	2.4	2.2	2.2	2.2	2.2	50.5	53.6	56.3	55.7	55.6	55.6	4.0	1.1	1.0	-0.5	0.3	0.4
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	74.5	61.1	18.5	9.5	12.1	9.0
United Kingdom	7.5	7.4	5.4	5.3	5.3	5.3	50.3	52.8	55.2	55.1	55.8	55.9	5.5	2.3	3.0	1.8	2.8	2.1
United States	6.3	5.5	4.8	4.8	4.8	4.8	49.9	48.9	49.5	49.2	49.4	49.8	2.8	1.7	0.3	0.8	2.3	2.7
Euro area	6.8	8.4	8.2	8.1	8.0	7.9	51.5	50.1	48.3	47.9	47.8	47.6	3.5	1.0	1.7	0.6	1.1	0.8
Total OECD	5.9	6.2	5.9	5.8	5.8	5.8	52.8	51.1	50.1	49.7	49.8	49.8	4.3	2.6	1.1	0.6	1.7	1.7

Note: The structural unemployment rate corresponds to "NAIRU". For more information about sources and definitions, see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*
Source: OECD Economic Outlook 77 database.

Annex Table 23. **Household saving rates**

Per cent of disposable household income

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Net savings																				
Australia	8.2	7.0	8.7	9.3	6.2	5.7	5.0	5.8	4.8	5.8	4.0	2.0	1.5	2.7	1.8	-1.2	-3.4	-2.9	-2.0	-1.0
Austria	13.2	11.2	12.1	13.3	14.2	11.2	10.2	11.1	10.9	8.6	7.3	8.2	8.8	8.4	7.6	7.8	8.9	9.2	9.5	9.4
Canada	11.9	12.3	13.0	13.0	13.3	13.0	11.9	9.5	9.2	7.0	4.9	4.9	4.0	4.7	4.6	3.2	1.4	0.4	0.0	0.6
Finland	3.1	-1.0	-1.4	1.8	7.1	10.0	7.8	1.9	4.8	0.4	2.2	0.4	1.5	-1.4	-1.2	-0.3	0.6	1.9	1.2	0.7
France	6.4	6.9	7.2	7.8	8.7	9.7	10.4	9.8	11.2	10.0	11.3	10.8	10.4	10.9	11.5	12.1	11.1	10.7	9.6	9.1
Germany	12.9	13.2	12.7	13.9	13.0	13.0	12.3	11.6	11.2	10.8	10.4	10.3	9.8	9.7	10.2	10.5	10.7	10.9	11.1	11.1
Ireland	11.0	8.1	6.2	7.9	9.0	8.5	11.4	7.6	11.3	9.7	10.6	13.3	12.2	9.9	10.4	10.3	8.3	7.3	7.8	7.3
Italy	24.6	24.0	23.7	24.0	22.9	21.4	20.8	19.2	17.9	18.9	15.4	12.2	9.8	9.2	10.1	10.5	10.7	11.0	11.5	11.4
Japan	13.0	13.5	13.6	13.9	15.0	14.2	13.7	12.6	11.9	9.8	10.0	11.0	10.7	9.5	6.6	7.2	7.4	7.4	7.1	6.9
Korea	22.7	24.9	23.5	22.0	24.4	23.3	20.6	20.3	18.0	17.1	16.3	23.7	16.2	10.5	6.0	1.5	3.6	4.9	5.2	5.6
Netherlands	13.5	13.4	15.3	17.5	13.8	16.1	13.5	14.3	14.4	13.0	13.4	12.9	9.6	6.8	9.5	10.0	10.1	9.4	9.0	9.1
Norway	-4.6	-1.2	1.1	2.2	2.9	5.0	6.1	5.2	4.6	2.2	2.8	5.8	5.5	5.2	4.1	8.8	9.9	9.6	9.2	4.9
Sweden	-2.7	-4.7	-4.6	-0.1	3.4	8.0	10.7	11.1	8.3	7.1	4.9	3.1	2.0	3.1	8.3	9.0	8.6	8.2	7.1	6.2
Switzerland	..	..	..	9.6	10.0	10.8	11.2	11.1	11.6	11.3	10.5	10.7	10.0	11.8	11.9	8.2	8.3	8.3	8.5	8.6
United States	7.0	7.3	7.1	7.0	7.3	7.7	5.8	4.8	4.6	4.0	3.6	4.3	2.4	2.3	1.8	2.0	1.4	1.2	0.6	1.2
Gross savings																				
Belgium	15.2	15.4	15.0	17.3	17.4	18.4	19.5	19.5	18.6	16.9	15.6	14.4	14.5	13.0	14.5	15.0	14.0	12.5	11.9	12.4
Denmark	..	-1.2	-0.2	3.2	3.0	2.0	0.5	-3.6	-0.1	-1.7	-4.4	-3.2	-8.0	-5.7	-1.2	0.1	0.3	-1.1	-3.1	-2.6
Portugal	..	..	..	..	..	..	..	..	13.6	11.8	10.3	9.9	8.6	10.9	11.9	11.5	11.4	11.2	10.7	10.5
Spain	10.6	11.0	10.2	12.3	13.4	11.9	14.4	11.9	16.2	14.2	13.4	12.2	11.1	10.7	10.3	10.6	10.6	10.6	10.4	10.3
United Kingdom	6.4	4.9	6.7	8.0	10.2	11.6	10.8	9.3	10.0	9.4	9.4	6.1	4.9	5.0	6.5	5.3	5.8	5.6	6.3	6.6

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Countries differ in the way household disposable income is reported (in particular whether private pension benefits less pension contributions are included in disposable income or not), but the calculation of household saving is adjusted for this difference. Most countries are reporting household saving on a net basis (i.e. excluding consumption of fixed capital by households and unincorporated businesses). In most countries the households saving include saving by non-profit institutions (in some cases referred to as personal saving). Other countries (Czech Republic, Finland, France, Japan and New Zealand) report saving of households only.

Source: OECD Economic Outlook 77 database.

Annex Table 24. **Gross national saving**

Per cent of nominal GDP

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Australia	19.4	21.3	22.6	21.7	18.1	16.2	17.2	18.6	17.5	17.8	18.9	19.1	18.7	19.2	19.2	19.9	19.3	19.6	..
Austria	21.4	21.9	23.4	23.7	23.9	23.5	22.3	21.6	21.2	20.8	20.6	21.3	22.2	22.2	22.4	22.1	23.4	23.4	23.6
Belgium	19.0	19.8	22.5	23.6	23.9	23.1	23.5	24.6	25.9	25.7	24.7	25.7	25.7	26.1	25.7	24.9	25.0	23.4	23.5
Canada	18.8	20.0	20.8	20.1	17.6	14.9	13.6	14.2	16.5	18.6	19.1	19.9	19.4	21.0	23.9	22.4	22.0	22.4	..
Czech Republic	..	..	..	..	..	..	28.2	28.2	27.9	28.7	26.2	24.3	26.5	24.5	23.9	23.5	21.7	21.1	..
Denmark	18.3	18.6	19.2	19.5	20.7	20.0	20.3	19.2	19.1	20.4	20.4	21.2	20.8	21.5	22.5	23.4	22.3	23.0	22.6
Finland	23.8	23.7	26.2	26.1	24.8	17.1	14.4	15.5	18.8	22.2	21.1	24.5	25.8	25.8	27.8	27.5	26.7	23.7	24.5
France	19.4	19.6	20.8	21.6	21.5	20.9	20.5	19.0	19.2	19.5	19.2	20.4	21.4	22.3	22.4	22.0	21.0	19.3	..
Germany	24.6	23.8	24.9	26.1	26.1	23.3	23.1	21.9	21.9	21.8	21.3	21.4	21.5	20.8	20.6	19.8	19.7	19.9	21.5
Greece	22.4	18.9	21.3	19.0	19.1	20.7	20.0	18.5	19.4	18.0	17.4	17.9	17.8	16.8	15.7	16.7	15.9	17.4	17.7
Iceland	19.6	16.8	16.4	15.7	17.5	16.3	15.5	17.4	17.9	16.9	17.4	18.5	17.7	15.3	13.8	17.5	18.8	14.6	13.4
Ireland	13.4	14.5	14.7	15.0	18.0	17.7	15.6	17.7	18.0	20.7	22.2	24.2	26.1	25.0	25.8	23.8	22.2	22.2	..
Italy	22.4	21.9	21.8	21.0	20.7	19.6	18.3	19.2	19.7	21.6	21.9	21.6	21.2	20.7	20.0	20.0	19.7	18.6	19.4
Japan	32.1	32.3	33.5	33.6	33.8	34.5	33.7	32.3	30.4	29.5	29.8	30.1	29.1	27.9	27.8	26.4	25.7	..	..
Korea	34.6	38.3	40.6	37.6	37.6	37.3	36.5	36.3	35.7	36.2	35.3	35.4	37.2	35.0	33.6	31.6	31.2	32.5	..
Mexico	19.1	24.5	21.3	20.3	20.3	18.7	16.6	15.1	14.8	19.3	22.4	24.0	20.5	20.6	20.6	17.9	18.5	19.2	..
Netherlands	24.2	23.9	25.6	27.2	26.1	25.4	24.5	24.6	26.2	27.4	26.7	27.9	25.2	26.6	27.1	25.4	23.4	22.9	23.3
New Zealand	18.9	18.0	18.6	17.8	16.2	13.0	13.9	16.6	17.3	17.2	16.2	15.8	15.3	15.0	16.7	18.7	18.3	18.4	..
Norway	25.4	25.6	25.0	26.0	25.7	24.7	23.7	23.8	24.8	26.4	28.4	30.1	27.3	29.1	36.5	35.0	32.0	30.4	32.7
Portugal	10.6	11.9	11.6	12.4	11.1	8.6	8.0	5.0	4.1	4.7	3.8	3.7	4.3	3.1	0.6	0.2	0.4	-0.7	-2.5
Spain	22.9	22.6	23.5	22.9	22.9	22.3	20.5	20.5	20.0	22.3	22.0	22.5	22.4	22.5	22.3	22.5	22.8	22.6	-0.2
Sweden	21.4	21.7	22.4	23.1	21.6	18.5	15.7	14.0	17.7	20.7	20.2	20.5	21.3	21.7	22.6	22.3	22.1	22.1	23.9
Switzerland	31.4	31.1	33.2	34.0	33.7	31.6	29.1	30.0	29.6	29.9	29.4	31.3	32.3	33.1	35.0	31.8	29.0	..	..
Turkey	23.9	24.3	28.9	26.4	21.5	17.7	18.5	18.7	18.9	20.1	22.6	21.6	20.6	13.7	15.2	12.6	18.7	18.9	..
United Kingdom	17.2	17.3	17.2	17.1	16.2	15.3	14.0	13.9	15.5	15.7	15.9	17.0	17.7	15.1	15.0	15.1	15.0	14.8	14.8
United States	15.5	15.7	16.9	16.3	15.3	15.3	14.2	13.8	14.6	15.5	16.1	17.3	18.0	17.8	17.7	16.1	13.8	13.1	..

Note: Based on SNA93 or ESA95 except Turkey that reports on SNA68 basis.

Source: OECD Economic Outlook 77 database.

Annex Table 25. **General government total outlays**

Per cent of nominal GDP

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	38.9	36.3	35.5	36.2	37.9	39.7	39.8	39.4	39.2	38.0	37.0	36.9	35.8	35.7	37.5	36.4	36.1	35.5	35.5	35.2
Austria	54.7	53.8	52.3	52.1	53.0	53.7	56.5	56.3	56.0	55.5	53.0	53.5	53.2	51.5	50.8	50.6	50.8	50.6	50.1	49.1
Belgium	57.0	55.1	53.4	53.4	54.4	54.7	55.7	53.4	52.9	53.1	51.4	50.7	50.0	49.3	49.3	50.2	51.0	49.4	49.9	49.6
Canada	46.1	45.4	45.8	48.8	52.3	53.3	52.2	49.7	48.5	46.6	44.3	44.4	42.5	41.1	41.8	40.9	40.5	39.4	39.3	39.5
Czech Republic[1]	..	..	..	..	..	..	..	..	54.4	42.8	42.4	43.8	42.9	42.1	45.0	46.9	53.2	45.9	45.2	44.6
Denmark	55.0	57.2	57.3	57.2	57.9	59.1	61.7	61.6	60.3	59.8	58.0	57.6	56.3	54.9	55.3	56.2	56.4	56.3	55.8	55.5
Finland	48.5	47.0	45.1	48.7	57.6	62.9	64.1	62.8	59.5	59.8	56.4	52.8	52.1	49.1	49.1	50.0	50.9	50.7	51.0	50.7
France	51.9	51.4	50.4	50.7	51.5	53.0	55.3	54.9	55.2	55.4	54.9	53.7	53.5	52.5	52.5	53.4	54.5	54.4	54.5	54.3
Germany[2]	45.8	45.3	44.0	44.5	47.0	48.1	49.3	49.0	49.4	50.3	49.3	48.9	48.9	45.8	48.2	48.7	48.8	47.7	47.1	46.2
Greece	45.1	44.0	45.4	50.2	46.7	49.4	52.0	49.9	51.0	49.2	47.8	47.8	47.6	52.1	50.1	50.0	50.1	52.0	49.8	50.1
Hungary	..	..	..	..	56.7	60.3	59.8	63.4	56.9	53.9	51.8	51.9	48.5	47.9	48.6	52.6	49.8	49.3	47.6	47.6
Iceland	37.7	42.8	45.4	42.7	44.0	45.0	44.8	44.7	44.0	43.5	42.0	42.6	43.6	43.2	44.3	45.8	48.0	47.6	45.9	44.4
Ireland	52.0	48.5	42.1	43.2	44.8	45.3	45.1	44.3	41.5	39.6	37.2	34.9	34.5	32.0	33.5	33.9	34.4	34.3	35.2	34.8
Italy	50.8	51.5	52.8	54.4	55.5	56.7	57.7	54.5	53.4	53.2	51.1	49.9	48.9	46.9	49.0	48.4	49.2	48.6	49.5	50.1
Japan[3]	32.6	31.9	31.1	31.8	31.6	32.6	34.3	34.9	35.9	36.4	35.1	36.2	37.8	38.3	37.8	38.3	37.6	37.3	37.3	37.4
Korea	18.1	18.2	19.2	19.7	20.8	21.9	21.6	21.0	20.8	21.8	22.4	24.7	23.9	23.8	25.0	24.8	27.2	27.3	27.7	27.7
Luxembourg	..	..	..	43.3	44.6	46.5	45.7	44.7	45.0	45.4	43.6	42.1	41.6	38.5	39.1	43.7	45.1	45.9	46.2	46.0
Netherlands[4]	58.4	56.6	54.5	54.8	54.8	55.8	56.0	53.6	51.4	49.6	48.2	47.2	46.9	45.3	46.7	47.8	49.0	48.6	48.1	50.2
New Zealand	53.6	52.7	51.9	53.3	51.5	49.5	46.0	43.0	41.9	41.0	41.7	44.2	37.7	35.1	34.8	35.1	34.2	34.1	35.1	35.8
Norway	50.5	52.6	52.2	54.0	54.9	56.2	55.1	54.1	51.5	49.0	47.2	49.6	48.1	42.7	44.3	47.5	48.9	46.6	45.9	45.9
Poland	..	..	..	..	..	..	..	..	51.3	51.2	50.2	48.5	48.1	44.9	47.6	48.9	48.2	44.9	44.4	43.9
Portugal	40.0	38.5	38.8	42.1	45.1	46.2	47.8	46.0	45.0	45.8	44.8	44.1	45.3	45.2	46.3	46.0	47.6	48.4	49.1	48.9
Spain	41.0	40.9	42.2	43.4	44.9	45.9	49.4	47.3	45.0	43.7	41.8	41.4	40.2	40.0	39.6	39.9	39.6	40.6	40.1	40.2
Sweden	60.5	60.0	62.0	61.7	63.1	71.7	72.9	70.9	67.6	65.2	62.9	60.7	60.3	57.3	56.9	58.3	58.6	57.1	57.4	57.2
Switzerland	..	..	..	30.1	31.8	33.9	34.8	34.8	34.6	35.3	35.6	36.2	34.7	34.0	34.8	35.4	36.0	36.0	36.1	35.7
United Kingdom	43.6	41.1	40.5	42.2	44.0	46.1	46.1	45.3	45.0	43.0	41.4	40.2	39.7	37.5	41.0	41.8	43.4	44.1	44.5	44.8
United States[5]	37.0	36.2	36.1	37.1	37.8	38.5	38.0	37.0	37.0	36.5	35.4	34.7	34.3	34.2	35.3	36.3	36.5	36.0	35.9	36.0
Euro area	48.8	48.4	47.8	48.6	50.1	51.3	52.9	51.8	51.4	51.5	50.1	49.3	48.9	47.1	48.2	48.5	49.0	48.6	48.5	48.3
Total OECD	40.6	39.8	39.5	40.4	41.5	42.6	43.1	42.3	42.4	42.0	40.8	40.4	40.1	39.3	40.3	41.0	41.3	40.8	40.7	40.7

Note: Data refer to the general government sector, which is a consolidation of accounts for the central, state and local governments plus social security. Total outlays are defined as current outlays plus capital outlays. One-off revenues from the sale of mobile telephone licenses are recorded as negative capital outlays for countries listed in the note to Table 27. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. In 1995 data reflect the large privatisation campaign which transferred some public enterprises to private ownership through vouchers distributed to the population. In 2003 the activation of State guarantees, mainly for the banking sector, accounts for about 7.7 per cent of total outlays.
2. The 1995 outlays are net of the debt taken on from the Inherited Debt Funds.
3. The 1998 outlays would be 5.3 percentage points of GDP higher if it included central government's assumption of the debt of the Japan Railway Settlement Corporation and the National Forest Special Account. The 2000 outlays include capital transfers to the Deposit Insurance Company.
4. The 1995 outlays would be 4.9 percentage points of GDP higher if capital transfers to a housing agency offering rentals to low income people were taken into account.
5. These data include outlays net of operating surpluses of public enterprises.

Source: OECD Economic Outlook 77 database.

Annex Table 26. **General government total tax and non-tax receipts**

Per cent of nominal GDP

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	36.4	35.5	34.9	34.5	33.6	33.3	34.0	34.6	35.3	35.8	36.5	37.6	37.9	36.7	36.4	36.6	36.9	36.6	36.5	36.0
Austria	50.4	50.4	49.3	49.7	50.1	51.7	52.4	51.4	50.3	51.5	51.0	51.0	50.8	49.8	50.9	50.2	49.5	49.4	48.1	47.1
Belgium	49.0	47.7	45.7	46.6	46.9	46.6	48.3	48.3	48.5	49.3	49.4	50.0	49.6	49.5	49.9	50.3	51.3	49.4	49.4	48.4
Canada	40.6	41.0	41.2	43.0	43.9	44.2	43.5	43.0	43.2	43.8	44.5	44.5	44.1	44.1	42.9	41.2	41.2	40.7	40.5	40.3
Czech Republic	..	..	..	..	..	..	..	..	41.0	39.7	40.0	38.8	39.2	38.5	39.1	40.2	41.6	42.9	40.7	40.4
Denmark	57.5	58.7	57.6	56.0	55.4	56.7	58.9	59.1	58.0	58.8	58.3	58.7	59.5	57.4	58.2	57.8	57.5	58.6	57.6	56.9
Finland	50.1	52.3	52.0	54.2	56.6	57.3	56.9	57.1	55.7	56.9	55.1	54.4	54.3	56.1	54.3	54.2	53.2	52.6	52.4	51.8
France	49.9	49.0	48.6	48.6	49.1	48.8	49.3	49.4	49.7	51.3	51.8	51.1	51.7	51.1	50.9	50.2	50.3	50.7	51.5	51.3
Germany	44.0	43.3	44.1	42.5	44.0	45.6	46.2	46.6	46.1	46.8	46.6	46.7	47.4	47.1	45.4	45.0	44.9	44.0	43.6	43.0
Greece	35.5	32.4	31.8	34.5	35.6	37.2	38.6	40.7	40.9	41.7	43.7	45.3	45.8	47.9	46.5	45.9	44.9	46.0	46.1	46.7
Hungary	..	..	..	..	53.7	53.2	53.2	52.3	49.3	48.1	44.6	43.9	42.9	44.9	44.9	44.1	43.5	44.9	43.5	43.5
Iceland	36.8	40.8	40.8	39.3	41.0	42.1	40.3	39.8	41.0	41.9	41.9	43.1	46.0	45.7	44.5	46.0	46.9	48.1	47.0	45.6
Ireland	43.9	44.2	40.4	40.4	42.0	42.3	42.3	42.3	39.4	39.5	38.6	37.2	37.0	36.4	34.5	33.6	34.6	35.6	34.5	34.2
Italy	39.1	40.2	41.1	42.6	43.8	46.1	47.4	45.2	45.8	46.1	48.4	46.8	47.1	46.2	46.0	45.6	46.3	45.5	45.0	45.1
Japan[1]	32.9	33.0	32.8	33.9	33.4	33.3	32.0	31.1	31.2	31.3	31.3	30.7	30.6	30.8	31.7	30.3	29.9	31.2	31.2	32.0
Korea	20.5	21.5	22.4	23.0	22.4	23.2	23.8	23.8	24.6	25.2	25.7	26.5	26.7	29.3	29.6	30.3	30.8	30.2	30.4	30.7
Luxembourg	..	..	..	48.1	45.6	46.2	47.3	47.3	47.6	47.5	46.5	45.3	45.0	44.7	45.3	46.0	45.5	44.8	44.8	44.5
Netherlands	53.2	52.4	49.5	49.4	52.2	51.6	53.2	50.1	47.3	47.8	47.1	46.4	47.6	47.5	46.6	45.9	45.8	46.2	46.0	48.5
New Zealand	51.0	48.8	48.3	48.9	47.7	46.3	44.7	45.4	44.9	43.9	43.5	43.4	38.4	38.2	37.6	38.1	38.9	38.3	38.3	38.6
Norway	55.1	55.3	54.0	56.2	55.0	54.4	53.7	54.4	54.9	55.6	55.0	53.1	54.3	58.2	57.9	56.8	56.5	58.0	60.3	60.5
Poland	..	..	..	..	..	..	..	..	47.4	46.5	45.7	44.5	44.9	42.5	43.8	43.9	44.3	40.1	40.1	39.8
Portugal	32.8	34.8	35.7	35.5	37.5	41.5	39.7	38.3	39.6	41.0	41.2	41.0	42.4	42.3	41.9	43.3	44.6	45.4	43.8	44.1
Spain	38.0	37.8	39.6	39.5	40.3	42.3	42.4	40.8	38.4	38.8	38.6	38.3	39.0	39.1	39.2	39.8	40.0	40.3	40.6	40.8
Sweden	63.9	63.3	65.3	65.1	63.0	62.6	61.5	61.6	60.7	62.4	61.9	62.6	62.6	62.3	59.5	57.7	58.5	58.3	58.2	58.0
Switzerland	..	..	..	30.7	30.7	31.5	32.1	32.8	33.4	33.9	33.2	34.7	34.7	36.3	35.7	35.7	35.2	35.0	35.1	34.9
United Kingdom	41.8	41.6	41.3	40.7	40.9	39.6	38.1	38.6	39.1	38.8	39.2	40.2	40.7	41.3	41.7	40.1	40.0	40.7	41.6	41.8
United States[2]	32.7	32.6	32.9	32.8	32.9	32.8	33.0	33.4	33.8	34.3	34.6	35.1	35.2	35.8	34.9	32.5	31.9	31.7	31.8	32.1
Euro area	44.3	44.0	44.1	44.1	45.1	46.2	47.2	46.7	46.3	47.2	47.5	47.0	47.6	47.1	46.4	46.1	46.2	45.8	45.7	45.6
Total OECD	37.4	37.2	37.4	37.4	37.8	38.0	38.2	38.1	38.4	38.9	39.1	39.2	39.4	39.6	39.1	37.8	37.6	37.5	37.6	37.7

Note: Data refer to the general government sector, which is a consolidation of accounts for central, state and local governments plus social security. Non-tax receipts consist of property income (including dividends and other transfers from public enterprises), fees, charges, sales, fines, capital tranfers received by the general government, etc. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Includes deferred tax payments on postal savings accounts in 2000, 2001 and 2002. In 2002 corporate pension funds were authorised to transfer back to the government the basic part of their employees' pension scheme. This resulted in a capital transfer to the government which reduced the general government financial deficit by 0.1 percentage point of GDP in 2003 and at least by 0.6 percentage point in 2004.
2. Excludes the operating surpluses of public enterprises.

Source: OECD Economic Outlook 77 database.

Annex Table 27. **General government financial balances**

Surplus (+) or deficit (-) as a per cent of nominal GDP

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	-2.6	-0.9	-0.6	-1.7	-4.3	-6.4	-5.8	-4.8	-3.9	-2.2	-0.4	0.7	2.1	0.9	-1.1	0.3	0.8	1.1	0.9	0.8
Austria	-4.3	-3.4	-3.0	-2.4	-2.9	-1.9	-4.1	-4.9	-5.7	-4.0	-2.0	-2.5	-2.3	-1.6	0.1	-0.4	-1.3	-1.3	-2.0	-1.9
Belgium	-7.9	-7.3	-7.7	-6.8	-7.5	-8.1	-7.4	-5.1	-4.4	-3.8	-2.0	-0.7	-0.4	0.2	0.6	0.1	0.3	0.0	-0.5	-1.2
Canada	-5.4	-4.3	-4.6	-5.8	-8.4	-9.1	-8.7	-6.7	-5.3	-2.8	0.2	0.1	1.6	2.9	1.1	0.3	0.6	1.3	1.2	0.8
Czech Republic	..	..	..	..	..	..	..	..	-13.4	-3.1	-2.4	-5.0	-3.6	-3.7	-5.9	-6.8	-11.6	-3.0	-4.5	-4.2
Denmark	2.5	1.5	0.3	-1.2	-2.5	-2.3	-2.9	-2.4	-2.3	-1.0	0.4	1.1	3.2	2.5	2.8	1.6	1.0	2.3	1.8	1.5
Finland	1.6	5.3	6.9	5.5	-1.0	-5.5	-7.2	-5.7	-3.9	-2.9	-1.3	1.6	2.2	7.1	5.2	4.3	2.3	1.9	1.3	1.1
France	-2.0	-2.5	-1.8	-2.1	-2.4	-4.2	-6.0	-5.5	-5.5	-4.1	-3.0	-2.7	-1.8	-1.4	-1.5	-3.3	-4.1	-3.7	-3.0	-3.0
Germany	-1.8	-2.0	0.1	-2.0	-2.9	-2.6	-3.1	-2.4	-3.3	-3.4	-2.7	-2.2	-1.5	1.3	-2.8	-3.6	-3.8	-3.6	-3.5	-3.2
Greece[1]	-9.6	-11.6	-13.6	-15.7	-11.0	-12.2	-13.4	-9.3	-10.2	-7.4	-4.0	-2.5	-1.8	-4.2	-3.6	-4.2	-5.2	-6.0	-3.8	-3.5
Hungary	..	..	..	..	-3.0	-7.1	-6.6	-11.0	-7.6	-5.9	-7.2	-8.0	-5.6	-3.0	-3.7	-8.5	-6.2	-4.5	-4.2	-4.1
Iceland	-0.9	-2.0	-4.6	-3.3	-3.0	-2.9	-4.6	-4.8	-3.0	-1.6	0.0	0.5	2.4	2.5	0.2	0.2	-1.0	0.4	1.1	1.1
Ireland	-8.1	-4.2	-1.7	-2.8	-2.9	-3.0	-2.7	-2.0	-2.1	-0.1	1.5	2.3	2.5	4.4	1.0	-0.3	0.2	1.3	-0.7	-0.7
Italy	-11.8	-11.3	-11.7	-11.8	-11.7	-10.7	-10.3	-9.3	-7.6	-7.1	-2.7	-3.1	-1.8	-0.7	-3.0	-2.7	-3.0	-3.1	-4.4	-5.0
Japan	0.3	1.1	1.8	2.1	1.8	0.8	-2.4	-3.8	-4.7	-5.1	-3.8	-5.5	-7.2	-7.5	-6.1	-7.9	-7.7	-6.1	-6.1	-5.3
Korea	2.5	3.3	3.2	3.2	1.7	1.3	2.2	2.8	3.8	3.4	3.3	1.7	2.9	5.4	4.6	5.5	3.7	2.9	2.8	2.9
Luxembourg	..	..	..	4.8	1.0	-0.3	1.6	2.6	2.5	2.0	2.9	3.2	3.4	6.2	6.2	2.3	0.5	-1.1	-1.5	-1.5
Netherlands	-5.3	-4.2	-5.0	-5.3	-2.7	-4.2	-2.8	-3.5	-4.2	-1.8	-1.1	-0.8	0.7	2.2	-0.1	-1.9	-3.2	-2.3	-2.2	-1.7
New Zealand	-2.6	-4.0	-3.6	-4.3	-3.9	-3.3	-1.3	2.5	3.0	2.9	1.9	-0.8	0.7	3.1	2.8	2.9	4.7	4.2	3.2	2.8
Norway	4.6	2.6	1.8	2.2	0.1	-1.9	-1.4	0.3	3.4	6.5	7.7	3.6	6.2	15.6	13.6	9.3	7.7	11.5	14.4	14.6
Poland	..	..	..	..	..	..	..	..	-3.9	-4.7	-4.5	-4.0	-3.2	-2.4	-3.8	-4.9	-3.8	-4.8	-4.3	-4.0
Portugal	-7.2	-3.8	-3.1	-6.6	-7.6	-4.8	-8.1	-7.7	-5.5	-4.8	-3.6	-3.2	-2.9	-2.9	-4.4	-2.7	-3.0	-3.0	-5.3	-4.8
Slovak Republic	..	..	..	..	..	..	..	-6.1	-0.9	-7.4	-6.2	-3.8	-7.1	-12.3	-6.0	-5.7	-3.7	-3.3	-3.4	-3.2
Spain	-3.1	-3.1	-2.6	-3.9	-4.6	-3.7	-7.0	-6.5	-6.6	-5.0	-3.2	-3.0	-1.2	-0.9	-0.4	-0.1	0.4	-0.3	0.5	0.6
Sweden	3.4	3.4	3.3	3.4	-0.1	-9.0	-11.4	-9.3	-6.9	-2.8	-1.0	1.9	2.3	5.0	2.6	-0.5	-0.1	1.2	0.8	0.8
Switzerland	..	..	..	0.6	-1.1	-2.4	-2.7	-1.9	-1.2	-1.4	-2.4	-1.5	0.0	2.3	0.9	0.2	-0.8	-1.0	-1.0	-0.8
United Kingdom	-1.8	0.5	0.8	-1.6	-3.1	-6.5	-7.9	-6.8	-5.8	-4.2	-2.2	0.1	1.0	3.8	0.7	-1.8	-3.4	-3.4	-2.9	-3.0
United States	-4.3	-3.6	-3.2	-4.2	-4.9	-5.8	-4.9	-3.6	-3.1	-2.2	-0.8	0.4	0.9	1.6	-0.4	-3.8	-4.6	-4.3	-4.1	-3.9
Euro area	-4.6	-4.4	-3.7	-4.6	-5.0	-5.1	-5.8	-5.1	-5.1	-4.3	-2.6	-2.3	-1.3	0.1	-1.8	-2.5	-2.8	-2.7	-2.8	-2.7
Total OECD	-3.2	-2.6	-2.1	-3.0	-3.7	-4.6	-5.0	-4.2	-4.0	-3.1	-1.7	-1.2	-0.8	0.3	-1.2	-3.2	-3.7	-3.3	-3.2	-3.0
Memorandum items																				
General government financial balances excluding social security																				
United States	-4.8	-4.4	-4.2	-5.3	-5.8	-6.6	-5.6	-4.4	-3.9	-3.1	-1.9	-0.8	-0.6	0.1	-2.0	-5.4	-6.0	-5.6	-5.4	-5.4
Japan[2]	-2.5	-2.0	-1.4	-1.4	-0.9	-1.7	-4.6	-5.7	-6.6	-6.8	-5.6	-6.9	-8.3	-8.0	-6.1	-7.7	-7.7	-6.1	-6.0	-5.2

Note: Financial balances include one-off revenues from the sale of the mobile telephone licenses. These revenues are substantial in a number of countries including Australia (2000-2001), Austria (2000), Belgium (2001), Denmark (2001), France (2001-2002), Germany (2000), Greece (2001), Ireland (2002), Italy (2000), Netherlands (2000), New Zealand (2001), Portugal (2000), Spain (2000) and the United Kingdom (2000). As data are on a national account basis, the government financial balance may differ from the numbers reported to the European Commission under the Excessive Deficit Procedure for some EU countries. For more details see footnotes to Annex Tables 25 and 26 and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

1. Revisions to Greek budgetary data suggest deficits of 6.6, 4.3 and 3.4 per cent of GDP in 1997-1999 respectively. At the cut-off date for information, data were still not available for the underlying changes to the spending and revenue components.
2. Prior to 1991, when SNA93 was adopted, these data included private pension funds.

Source: OECD Economic Outlook 77 database.

Annex Table 28. **Cyclically-adjusted general government balances**

Surplus (+) or deficit (-) as a per cent of potential GDP

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	-2.2	-0.6	-0.5	-1.1	-2.6	-4.6	-4.6	-4.2	-3.4	-1.9	-0.1	0.5	1.8	0.4	-1.3	0.1	0.6	1.1	1.2	1.2
Austria	-3.6	-3.0	-3.1	-2.9	-3.6	-2.3	-4.0	-4.7	-5.6	-4.0	-2.1	-2.9	-3.1	-3.0	-0.4	-0.5	-0.9	-0.8	-1.3	-1.4
Belgium	-5.8	-7.0	-8.0	-7.7	-7.7	-7.8	-5.3	-3.6	-3.2	-2.0	-1.3	-0.1	-0.5	-0.9	0.1	0.5	1.2	0.5	0.5	-0.4
Canada	-5.6	-5.4	-5.7	-6.0	-6.5	-6.8	-6.7	-5.8	-4.5	-1.5	1.2	1.0	1.7	2.4	1.1	0.0	0.7	1.3	1.3	0.9
Denmark	0.7	0.3	0.3	-0.7	-1.6	-0.5	0.6	-1.3	-1.4	-0.5	0.2	0.7	2.6	1.4	1.9	1.9	2.4	3.3	2.3	1.6
Finland	0.2	2.8	3.2	3.3	2.0	1.6	2.0	1.9	2.1	1.7	0.5	2.1	2.4	5.9	5.3	4.7	2.8	1.7	1.2	0.7
France	-1.0	-2.3	-2.4	-2.9	-2.9	-4.5	-5.2	-4.9	-4.9	-3.0	-1.9	-2.1	-1.5	-1.8	-1.9	-3.1	-3.3	-3.0	-2.1	-2.1
Germany	-1.3	-2.3	-0.7	-3.8	-3.4	-3.3	-2.1	-1.6	-2.8	-2.6	-2.0	-1.7	-1.3	-2.0	-3.5	-3.5	-2.9	-2.6	-2.3	-2.2
Greece	-8.1	-11.4	-14.4	-15.7	-11.4	-12.0	-11.6	-7.5	-8.5	-5.9	-3.0	-1.9	-1.3	-4.1	-4.3	-4.4	-5.7	-6.7	-4.0	-3.4
Iceland	-3.1	-3.2	-4.8	-3.4	-2.2	-0.1	-1.7	-3.0	-0.7	-0.5	0.5	0.6	2.4	2.1	0.1	1.9	0.0	0.8	0.6	0.6
Ireland	-6.6	-3.5	-1.8	-4.4	-3.1	-2.2	-0.9	0.1	-0.9	0.8	1.4	2.1	1.3	2.8	-0.4	-1.5	0.0	1.5	-0.5	-0.5
Italy	-10.9	-11.3	-12.1	-11.9	-11.5	-10.0	-8.3	-7.9	-6.9	-6.3	-2.2	-2.8	-1.6	-2.5	-3.7	-3.1	-2.9	-3.0	-3.5	-4.0
Japan[1]	0.9	1.0	1.4	1.2	1.3	0.4	-2.4	-3.7	-4.7	-5.5	-4.3	-5.5	-6.8	-7.3	-5.7	-7.1	-7.0	-5.9	-6.0	-5.4
Netherlands	-4.8	-4.1	-6.6	-8.1	-5.0	-5.4	-2.1	-2.8	-3.8	-1.9	-1.9	-2.5	-1.6	-1.2	-1.9	-2.2	-1.4	-0.3	0.7	1.4
New Zealand	-3.1	-3.6	-3.2	-2.8	-0.6	0.1	0.3	2.3	2.3	1.9	1.3	0.0	0.8	2.8	2.6	2.3	4.4	3.5	2.8	2.8
Norway[2]	0.7	1.4	1.1	-0.4	-3.1	-5.1	-5.3	-4.2	-1.2	-1.3	-1.1	-2.3	-1.1	1.0	0.0	-2.6	-3.7	-3.1	-3.0	-2.8
Portugal	-5.7	-3.6	-3.9	-7.8	-9.3	-5.7	-7.2	-6.4	-4.9	-4.6	-3.9	-4.0	-4.0	-4.5	-5.1	-2.6	-1.6	-1.5	-3.5	-3.3
Spain	-2.8	-3.8	-3.9	-5.4	-5.8	-4.1	-5.7	-5.2	-5.3	-3.4	-2.0	-2.5	-1.1	-1.6	-0.7	-0.1	0.7	0.1	0.8	0.8
Sweden	2.1	2.2	2.2	3.4	1.9	-4.9	-5.2	-4.9	-4.2	0.1	1.1	3.0	2.1	3.9	2.6	0.0	1.0	1.9	1.2	0.6
United Kingdom	-2.9	-1.8	-1.3	-2.8	-2.2	-4.5	-6.0	-6.0	-5.3	-3.8	-2.1	0.0	1.1	1.0	0.4	-1.6	-3.1	-3.5	-2.9	-3.0
United States	-4.3	-3.8	-3.7	-4.4	-4.3	-5.2	-4.3	-3.3	-2.6	-1.8	-0.6	0.5	0.6	1.3	-0.1	-3.2	-4.1	-4.2	-4.1	-4.0
Euro area	-3.8	-4.6	-4.6	-5.9	-5.7	-5.3	-4.5	-4.0	-4.3	-3.3	-1.9	-2.0	-1.4	-1.8	-2.4	-2.5	-2.2	-2.0	-1.8	-1.8
Total OECD	-3.2	-3.1	-3.0	-3.9	-3.8	-4.4	-4.3	-3.8	-3.7	-2.8	-1.5	-1.1	-0.9	-0.8	-1.5	-3.2	-3.4	-3.3	-3.1	-3.0

Note: Cyclically-adjusted balances exclude one-off revenues from the sale of mobile telephone licenses for those countries listed in the note to Table 27. For details on the methodology used for estimating the cyclical component of government balances see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* .

1. Includes deferred tax payments on postal savings accounts in 2000, 2001 and 2002. The 2000 outlays include capital transfers to the Deposit Insurance Company.
2. As a percentage of mainland potential GDP. The financial balances shown exclude net revenues from petroleum activities.

Source: OECD Economic Outlook 77 database.

Annex Table 29. **General government primary balances**

Surplus (+) or deficit (-) as a per cent of nominal GDP

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	1.5	3.0	3.3	1.7	-1.1	-2.7	-2.7	-0.6	0.2	1.2	2.4	3.0	4.3	3.0	0.8	2.0	2.4	2.7	2.4	2.3
Austria	-1.7	-0.6	-0.3	0.4	0.0	1.1	-1.0	-1.8	-2.6	-0.7	1.1	0.5	0.6	1.2	2.9	2.2	1.1	1.1	0.3	0.3
Belgium	2.2	2.6	3.2	4.4	3.3	2.6	3.2	4.1	4.5	4.7	5.7	6.7	6.3	6.7	6.8	5.8	5.5	4.7	4.0	3.0
Canada	-1.2	-0.1	0.0	-0.7	-3.1	-3.8	-3.4	-1.5	0.4	2.5	5.0	4.9	5.9	6.0	4.0	2.8	2.4	2.8	2.5	2.0
Denmark	7.5	5.8	4.3	2.6	1.5	0.9	0.6	0.9	0.9	1.9	3.3	3.6	5.7	4.6	4.6	3.1	2.1	3.2	2.6	2.1
Finland	0.7	4.4	5.7	3.7	-2.9	-7.5	-7.6	-4.6	-3.0	-1.5	0.7	3.4	3.8	8.1	5.9	4.5	2.4	2.2	1.7	1.4
France	0.2	-0.3	0.4	0.3	0.1	-1.4	-3.0	-2.4	-2.2	-0.7	0.1	0.4	1.1	1.4	1.2	-0.5	-1.6	-1.2	-0.5	-0.4
Germany	0.7	0.4	2.4	0.3	-0.6	0.1	-0.3	0.4	-0.1	-0.2	0.5	1.0	1.7	4.3	0.0	-0.9	-1.0	-0.9	-0.8	-0.5
Greece	-3.1	-4.4	-6.3	-5.9	-1.7	-1.0	-1.1	4.2	2.0	4.0	4.2	5.8	5.6	3.3	3.2	1.8	0.3	-0.7	1.5	1.9
Iceland	-1.0	-1.3	-3.8	-2.1	-1.7	-1.8	-3.2	-3.4	-1.3	0.0	1.3	2.1	3.8	3.6	1.3	0.0	-0.6	0.6	1.2	1.2
Ireland	-1.2	2.2	4.5	3.4	2.8	2.2	2.1	2.6	1.9	3.1	4.1	4.7	3.9	5.3	1.1	-0.2	0.5	1.5	-0.2	-0.1
Italy	-4.2	-3.3	-2.7	-1.8	-0.4	1.5	2.3	1.7	3.3	3.8	6.1	4.7	4.4	5.3	3.0	2.6	1.8	1.4	0.0	-0.5
Japan	2.4	2.9	3.3	3.3	2.9	1.9	-1.2	-2.5	-3.4	-3.7	-2.5	-4.1	-5.8	-6.0	-4.7	-6.5	-6.3	-4.6	-4.4	-3.5
Korea	2.4	3.1	2.8	2.8	1.1	0.7	1.8	2.4	3.3	2.7	2.4	0.7	2.0	4.4	3.8	4.6	2.4	1.4	1.5	1.8
Luxembourg	..	..	..	2.7	-0.9	-2.1	0.2	1.4	1.5	1.3	2.1	2.4	2.8	5.3	4.9	1.3	-0.3	-1.9	-2.3	-2.4
Netherlands	-0.5	0.5	-0.8	-1.1	1.8	0.3	1.7	1.0	0.6	2.9	3.3	3.4	4.5	5.3	2.6	0.5	-0.9	-0.1	0.0	0.5
New Zealand	1.4	-0.6	0.0	-0.1	-0.7	-0.5	1.2	3.9	4.4	3.7	2.5	-0.4	0.9	3.3	2.8	2.7	4.4	3.8	2.8	2.3
Norway	1.7	-0.8	-1.6	-1.3	-3.6	-5.3	-4.2	-1.9	1.1	4.3	5.7	1.4	3.9	13.0	10.4	5.7	4.1	7.7	10.6	10.8
Poland	..	..	..	..	..	..	..	..	1.5	-0.5	-0.7	-0.3	-0.4	0.0	-1.2	-1.6	-1.1	-2.5	-1.8	-1.4
Portugal	0.3	2.9	3.1	2.0	1.2	3.8	-0.3	-1.1	0.8	0.6	0.7	0.3	0.4	0.4	-1.2	0.3	0.0	-0.1	-2.4	-1.9
Slovak Republic	..	..	..	..	..	..	..	-4.9	-0.1	-6.5	-5.0	-2.4	-5.7	-10.0	-3.4	-2.8	-2.4	-2.7	-2.7	-2.4
Spain	-0.6	-0.4	0.2	-0.8	-1.2	0.0	-2.3	-1.9	-1.8	0.0	1.2	0.9	2.2	2.2	2.4	2.4	2.6	1.6	2.3	2.4
Sweden	3.8	3.1	2.6	2.3	-1.2	-10.1	-11.8	-8.5	-5.5	-1.2	1.0	3.3	3.7	5.9	3.3	0.6	0.1	1.1	0.7	0.7
Switzerland	..	..	..	1.0	-0.7	-1.8	-2.1	-1.3	-0.5	-0.6	-1.6	-0.7	0.9	2.9	1.5	1.1	0.1	-0.2	-0.2	0.1
United Kingdom	1.6	3.5	3.6	1.1	-0.7	-4.1	-5.5	-4.1	-2.7	-1.1	1.0	3.1	3.6	6.2	2.7	0.0	-1.6	-1.7	-1.4	-1.5
United States	-1.2	-0.5	0.1	-0.8	-1.3	-2.2	-1.5	-0.2	0.4	1.2	2.4	3.5	3.6	4.1	1.9	-1.7	-2.8	-2.5	-2.3	-1.9
Euro area	-0.6	-0.4	0.4	-0.1	-0.2	0.1	-0.5	-0.1	0.0	0.8	2.0	2.0	2.5	3.7	1.7	0.8	0.2	0.2	0.1	0.1
Total OECD	-0.1	0.5	1.0	0.3	-0.4	-1.1	-1.5	-0.8	-0.4	0.4	1.6	1.9	2.0	2.8	1.1	-1.0	-1.7	-1.4	-1.3	-1.0

Note: The primary balance is the difference between the financial balance and net interest payments. For more details see footnotes to Annex Tables 27 and 31 and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* .

Source: OECD Economic Outlook 77 database.

Annex Table 30. **Cyclically-adjusted general government primary balances**

Surplus (+) or deficit (-) as a per cent of potential GDP

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	1.9	3.2	3.4	2.3	0.3	-1.2	-1.6	-0.1	0.6	1.5	2.7	2.8	4.0	2.5	0.6	1.8	2.2	2.6	2.7	2.6
Austria	-1.0	-0.2	-0.4	0.0	-0.6	0.7	-0.9	-1.7	-2.4	-0.6	1.0	0.1	-0.1	0.0	2.4	2.1	1.5	1.6	0.9	0.9
Belgium	4.0	2.9	2.9	3.7	3.1	2.9	5.0	5.4	5.5	6.3	6.3	7.2	6.2	5.7	6.4	6.2	6.4	5.1	4.9	3.7
Canada	-1.4	-1.1	-0.9	-0.8	-1.4	-1.7	-1.5	-0.7	1.1	3.7	5.9	5.6	6.0	5.5	3.9	2.6	2.5	2.9	2.6	2.1
Denmark	5.8	4.7	4.3	3.1	2.3	2.6	3.9	1.9	1.7	2.4	3.1	3.3	5.1	3.4	3.7	3.5	3.4	4.1	3.1	2.2
Finland	-0.7	1.8	1.9	1.5	0.1	-0.1	1.7	2.9	2.9	3.1	2.4	3.8	4.0	7.0	6.0	5.0	3.0	2.1	1.6	1.0
France	1.1	-0.1	-0.1	-0.5	-0.3	-1.7	-2.3	-1.8	-1.7	0.2	1.2	0.9	1.3	1.0	0.9	-0.4	-0.8	-0.6	0.3	0.4
Germany	1.2	0.2	1.6	-1.5	-1.0	-0.5	0.7	1.2	0.4	0.5	1.2	1.5	1.8	0.9	-0.6	-0.8	-0.2	0.1	0.3	0.5
Greece	-1.8	-4.3	-7.0	-5.9	-1.9	-0.9	0.2	5.4	3.2	5.2	5.1	6.3	6.0	3.3	2.5	1.7	-0.2	-1.3	1.3	2.0
Iceland	-3.2	-2.4	-4.0	-2.1	-1.0	0.9	-0.4	-1.7	0.9	1.1	1.9	2.2	3.9	3.2	1.2	1.8	0.5	1.0	0.8	0.6
Ireland	0.1	2.9	4.4	2.0	2.6	2.9	3.7	4.4	3.0	3.9	4.1	4.5	2.8	3.8	-0.2	-1.3	0.3	1.7	-0.1	0.1
Italy	-3.5	-3.3	-3.0	-1.9	-0.2	2.0	3.8	2.8	3.8	4.4	6.4	5.0	4.5	3.6	2.3	2.3	1.9	1.5	0.9	0.4
Japan[1]	2.9	2.8	2.9	2.5	2.4	1.5	-1.2	-2.5	-3.4	-4.1	-3.0	-4.1	-5.4	-5.9	-4.3	-5.7	-5.6	-4.4	-4.3	-3.6
Netherlands	-0.1	0.5	-2.3	-3.7	-0.4	-0.8	2.5	1.6	0.9	2.8	2.6	1.8	2.4	2.0	0.9	0.3	0.9	1.9	2.8	3.5
New Zealand	0.9	-0.3	0.5	1.3	2.4	2.8	2.7	3.7	3.8	2.7	1.9	0.4	1.0	2.9	2.5	2.1	4.1	3.1	2.4	2.3
Norway[2]	-2.6	-2.4	-2.6	-4.4	-7.3	-8.9	-8.5	-6.7	-3.9	-4.0	-3.6	-4.8	-3.9	-2.5	-4.1	-7.1	-8.1	-7.9	-7.9	-7.7
Portugal	1.5	3.0	2.4	1.1	-0.1	3.0	0.4	0.0	1.3	0.7	0.4	-0.5	-0.7	-1.1	-1.8	0.5	1.2	1.3	-0.8	-0.5
Spain	-0.4	-1.0	-0.9	-2.2	-2.4	-0.4	-1.1	-0.8	-0.6	1.4	2.2	1.5	2.2	1.5	2.2	2.4	2.9	2.0	2.6	2.6
Sweden	2.6	1.9	1.5	2.3	0.8	-5.9	-5.6	-4.1	-2.9	1.7	3.1	4.3	3.4	4.8	3.3	1.1	1.2	1.7	1.1	0.6
United Kingdom	0.6	1.5	1.6	0.0	0.1	-2.2	-3.6	-3.4	-2.3	-0.8	1.1	3.1	3.6	3.4	2.5	0.1	-1.3	-1.8	-1.4	-1.5
United States	-1.2	-0.7	-0.3	-1.0	-0.8	-1.8	-1.0	0.1	0.9	1.6	2.6	3.6	3.4	3.9	2.2	-1.2	-2.3	-2.4	-2.3	-2.0
Euro area	0.0	-0.6	-0.4	-1.3	-0.8	-0.1	0.7	0.8	0.7	1.7	2.7	2.4	2.5	1.9	1.1	0.7	0.8	0.8	1.1	1.0
Total OECD	0.0	0.1	0.3	-0.4	-0.3	-0.9	-0.8	-0.3	0.0	0.8	1.8	2.1	2.0	1.9	1.0	-0.9	-1.4	-1.3	-1.2	-1.0

Note: The cyclically-adjusted primary balance is the difference between the cyclically adjusted balance and net interest payments. It excludes one-off revenues from the sale of mobile telephone licenses. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)* for details on the methodology used for estimating the cyclical component of government balances.

1. Includes deferred tax payments on postal savings accounts in 2000, 2001 and 2002. The 2000 outlays include capital transfers to the Deposit Insurance Company.

2. As a percentage of mainland potential GDP. The financial balances shown exclude net revenues from petroleum activities.

Source: OECD Economic Outlook 77 database.

Annex Table 31. **General government net debt interest payments**

Per cent of nominal GDP

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	4.1	3.8	3.9	3.5	3.1	3.7	3.2	4.2	4.1	3.4	2.8	2.3	2.2	2.1	1.9	1.8	1.6	1.6	1.5	1.4
Austria	2.7	2.8	2.8	2.8	2.9	3.0	3.1	3.0	3.2	3.4	3.1	3.0	2.9	2.8	2.8	2.6	2.4	2.4	2.3	2.3
Belgium	10.1	9.9	10.9	11.3	10.8	10.8	10.6	9.2	8.9	8.5	7.7	7.3	6.7	6.5	6.2	5.7	5.2	4.7	4.4	4.2
Canada	4.2	4.2	4.6	5.2	5.3	5.3	5.3	5.2	5.7	5.3	4.8	4.8	4.3	3.1	2.9	2.5	1.8	1.5	1.2	1.2
Denmark	5.0	4.3	4.0	3.8	4.0	3.2	3.5	3.3	3.1	2.9	2.9	2.5	2.4	2.1	1.8	1.6	1.1	0.8	0.8	0.7
Finland	-0.9	-0.9	-1.2	-1.7	-1.9	-1.9	-0.3	1.1	0.9	1.5	1.9	1.7	1.6	1.1	0.7	0.2	0.1	0.4	0.4	0.3
France	2.2	2.1	2.2	2.4	2.6	2.7	3.0	3.1	3.3	3.3	3.2	3.1	2.9	2.8	2.8	2.7	2.6	2.5	2.5	2.5
Germany[1]	2.5	2.5	2.3	2.2	2.3	2.7	2.8	2.8	3.2	3.2	3.2	3.3	3.1	2.9	2.8	2.8	2.8	2.7	2.7	2.7
Greece	6.5	7.2	7.3	9.8	9.4	11.2	12.2	13.5	12.1	11.5	8.2	8.2	7.4	7.5	6.7	6.0	5.5	5.3	5.2	5.4
Iceland	-0.1	0.8	0.8	1.3	1.2	1.0	1.4	1.4	1.7	1.6	1.3	1.6	1.4	1.1	1.1	-0.2	0.4	0.2	0.2	0.0
Ireland	6.9	6.5	6.2	6.2	5.7	5.2	4.8	4.5	4.0	3.2	2.6	2.4	1.4	0.9	0.2	0.2	0.2	0.2	0.4	0.6
Italy	7.6	8.0	9.0	9.9	11.3	12.2	12.6	11.0	10.9	10.9	8.8	7.8	6.2	6.0	5.9	5.3	4.8	4.5	4.5	4.5
Japan[2]	2.0	1.8	1.5	1.3	1.1	1.1	1.2	1.2	1.3	1.3	1.3	1.4	1.5	1.5	1.4	1.5	1.4	1.5	1.6	1.8
Korea	-0.1	-0.2	-0.3	-0.5	-0.5	-0.5	-0.5	-0.4	-0.5	-0.7	-0.8	-1.1	-0.9	-1.1	-0.8	-0.9	-1.3	-1.4	-1.2	-1.2
Luxembourg	..	..	..	-2.0	-1.9	-1.8	-1.4	-1.1	-1.0	-0.8	-0.7	-0.8	-0.6	-0.9	-1.2	-1.0	-0.8	-0.8	-0.8	-0.8
Netherlands	4.7	4.7	4.2	4.3	4.5	4.5	4.6	4.4	4.7	4.7	4.4	4.2	3.8	3.1	2.7	2.5	2.4	2.2	2.2	2.2
New Zealand	4.0	3.3	3.7	4.2	3.2	2.8	2.5	1.4	1.4	0.8	0.6	0.4	0.2	0.2	0.0	-0.2	-0.3	-0.4	-0.5	-0.5
Norway	-2.9	-3.5	-3.4	-3.5	-3.7	-3.4	-2.8	-2.2	-2.3	-2.2	-2.1	-2.1	-2.3	-2.6	-3.1	-3.6	-3.5	-3.8	-3.8	-3.8
Poland	..	..	..	..	..	..	..	..	5.3	4.2	3.9	3.7	2.8	2.4	2.6	3.3	2.7	2.3	2.5	2.6
Portugal	7.5	6.6	6.1	8.6	8.8	8.5	7.7	6.6	6.3	5.4	4.2	3.5	3.2	3.3	3.2	3.1	2.9	2.9	2.9	2.9
Slovak Republic	..	..	..	..	..	..	..	1.3	0.8	0.9	1.2	1.3	1.5	2.3	2.6	2.9	1.4	0.6	0.7	0.8
Spain	2.5	2.8	2.9	3.1	3.3	3.7	4.7	4.6	4.9	5.0	4.4	4.0	3.3	3.1	2.8	2.5	2.2	1.9	1.8	1.8
Sweden	0.4	-0.3	-0.7	-1.1	-1.1	-1.0	-0.4	0.8	1.4	1.6	2.0	1.4	1.4	0.8	0.7	1.1	0.2	-0.2	-0.1	-0.1
Switzerland	..	..	..	0.4	0.4	0.6	0.6	0.7	0.8	0.7	0.8	0.8	0.9	0.5	0.7	0.8	0.9	0.9	0.9	0.8
United Kingdom	3.5	3.1	2.8	2.7	2.4	2.4	2.5	2.7	3.1	3.1	3.2	3.0	2.5	2.4	2.0	1.7	1.8	1.7	1.5	1.5
United States	3.1	3.1	3.3	3.4	3.6	3.5	3.4	3.4	3.6	3.4	3.2	3.1	2.7	2.5	2.3	2.1	1.8	1.8	1.8	2.0
Euro area	3.9	4.0	4.2	4.5	4.8	5.2	5.3	5.0	5.0	5.2	4.6	4.3	3.8	3.6	3.5	3.2	3.1	2.9	2.9	2.9
Total OECD	3.1	3.1	3.1	3.2	3.4	3.4	3.5	3.4	3.5	3.5	3.2	3.1	2.7	2.5	2.3	2.2	2.0	1.9	1.9	2.0

Note: In the case of Ireland and New Zealand where net interest payments are not available, net property income paid is used as a proxy. For Denmark, net interest payments include dividends received. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Includes interest payments on the debt of the Inherited Debt Funds from 1995 onwards.
2. Includes interest payments on the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

Source: OECD Economic Outlook 77 database.

Annex Table 32. **General government gross financial liabilities**

Per cent of nominal GDP

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	..	27.5	25.0	23.1	24.0	28.7	32.3	42.7	44.7	41.5	39.8	34.2	28.5	25.3	22.1	20.8	19.5	20.5	17.4	17.0
Austria	58.1	59.1	58.0	57.6	57.6	57.3	61.9	65.1	69.6	69.7	67.3	67.5	69.8	69.5	70.1	71.6	69.4	66.9	65.3	63.7
Belgium	128.7	129.1	125.7	129.7	131.4	140.5	144.3	141.2	138.8	136.1	129.9	124.7	120.3	115.0	113.5	110.4	104.9	101.0	99.7	97.8
Canada	71.5	71.1	72.3	74.5	82.1	89.9	96.9	98.2	100.8	100.3	96.2	93.9	89.5	81.8	81.0	77.7	73.3	71.5	68.3	65.9
Czech Republic	..	..	..	..	..	..	..	..	..	..	17.5	18.9	25.5	26.6	36.9	38.4	46.2	44.4	43.5	44.4
Denmark	72.2	70.7	69.0	69.8	70.8	74.9	88.9	82.4	78.4	74.5	70.4	67.1	61.1	54.4	53.7	54.5	51.9	49.4	47.7	46.2
Finland	20.3	19.1	16.9	16.7	25.1	45.1	58.3	60.9	65.7	66.6	64.8	61.2	55.8	53.2	51.3	50.6	52.1	53.3	54.7	56.5
France	40.1	40.0	39.9	39.5	40.3	44.7	51.6	55.3	63.9	67.5	69.4	71.1	67.3	66.2	64.9	68.7	71.1	73.2	74.2	74.0
Germany[1]	41.8	42.3	40.9	41.5	38.7	41.9	47.4	48.0	57.2	60.2	61.8	63.3	61.8	60.9	60.4	62.9	67.0	70.1	71.6	72.6
Greece[2]	53.0	62.7	65.7	79.6	82.2	87.8	110.1	107.9	108.7	111.3	108.2	105.8	105.2	114.0	114.8	112.2	109.3	110.5	108.3	105.7
Hungary	..	..	..	..	..	..	..	..	..	..	67.3	64.9	66.4	60.2	59.1	59.4	58.9	59.6	59.4	59.4
Iceland	28.3	31.8	37.5	37.2	39.4	47.5	54.7	57.3	60.7	58.1	54.7	49.4	44.6	42.0	47.6	44.3	42.1	36.3	32.4	29.8
Ireland	111.7	108.1	98.7	94.0	95.4	92.4	95.0	89.5	81.9	73.4	64.6	53.8	48.7	38.3	35.8	32.6	32.0	29.9	29.9	29.8
Italy	..	..	..	..	..	..	..	..	125.5	131.3	133.3	134.9	129.4	124.7	123.9	122.6	120.1	118.6	120.8	121.8
Japan[3]	76.4	74.1	70.8	68.6	64.8	68.7	74.9	79.7	87.1	93.9	100.3	112.2	125.7	134.0	142.3	149.4	154.6	157.6	161.1	163.1
Korea	12.8	9.8	8.9	7.8	6.7	6.4	5.6	5.2	5.5	5.9	7.5	13.1	15.6	16.3	17.4	16.6	19.2	21.7	24.0	26.5
Luxembourg	..	..	..	5.4	4.6	5.5	6.8	6.3	6.7	7.2	6.8	6.3	6.0	5.5	7.2	7.5	7.1	7.5	8.1	8.7
Netherlands	85.4	87.5	88.2	87.8	88.9	92.8	97.7	87.7	90.8	89.8	84.5	82.9	74.2	66.7	62.2	63.2	64.5	65.6	66.1	66.3
New Zealand	..	..	..	..	..	..	70.8	62.7	56.9	50.8	50.1	49.0	42.8	35.1	27.1	23.9	20.5	17.8	16.3	15.3
Norway	33.7	32.8	32.8	29.3	27.5	32.2	40.5	36.9	40.5	35.9	32.0	31.3	30.9	34.3	33.2	40.1	50.4	51.1	51.3	45.9
Poland	..	..	..	..	..	..	..	..	..	..	45.6	41.8	43.2	40.0	41.0	46.7	51.5	50.3	52.5	54.1
Portugal	..	..	..	..	..	..	..	..	72.5	71.8	68.0	64.2	62.8	62.4	65.2	67.8	69.3	72.3	77.7	81.9
Slovak Republic	..	..	..	..	..	..	..	..	..	30.6	33.1	34.0	47.2	49.9	48.7	43.3	42.6	43.6	45.6	46.6
Spain	..	..	..	48.8	50.6	53.0	66.8	65.4	70.3	77.1	76.0	76.1	70.3	68.0	64.1	62.3	57.4	55.2	52.5	49.8
Sweden	62.5	56.1	51.0	46.8	55.5	74.0	79.0	83.5	82.2	84.7	82.9	81.7	71.8	64.4	63.5	61.2	60.6	62.1	61.4	60.9
United Kingdom	48.9	42.8	36.9	33.0	33.6	39.8	49.6	47.8	52.7	52.6	53.2	53.8	48.8	45.9	41.2	41.5	42.0	44.2	46.3	48.3
United States	64.1	64.8	65.1	66.6	71.3	73.7	75.4	74.6	74.2	73.4	70.9	67.7	64.1	58.3	57.9	60.2	62.6	63.4	66.4	69.1
Euro area	50.6	51.0	50.1	50.3	50.1	54.0	61.1	61.5	77.6	81.8	82.7	83.2	79.5	77.3	76.0	77.1	77.8	78.5	79.0	78.9
Total OECD	59.2	58.1	57.0	57.1	58.7	62.4	67.1	67.6	73.7	75.3	74.5	74.8	73.6	71.1	71.4	73.4	75.3	76.4	78.1	79.5

Note: Gross debt data are not always comparable across countries due to different definitions or treatment of debt components. Notably, they include the funded portion of government employee pension liabilities for some OECD countries, including Australia and the United States. The debt position of these countries is thus overstated relative to countries that have large unfunded liabilities for such pensions which according to ESA95/SNA93 are not counted in the debt figures, but rather as a memorandum item to the debt. General government financial liabilities presented here are defined according to ESA95/SNA93 for all countries with the exception of Greece, Ireland, Luxembourg and the Slovak Republic where debt measures follow the definition of debt applied under the Maastricht Treaty. Maastricht debt for European Union countries is shown in Annex Table 60. For more details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Includes the debt of the Inherited Debt Fund from 1995 onwards.
2. Revisions to Greek budgetary data suggest gross debt data of 114.0, 112.4 and 112.3 per cent of GDP in 1997-1999 respectively.
3. Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

Source: OECD Economic Outlook 77 database.

Annex Table 33. **General government net financial liabilities**

Per cent of nominal GDP

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	..	16.3	11.9	10.9	11.7	16.5	22.6	27.5	28.2	22.4	22.6	17.1	16.0	9.9	5.8	4.1	2.4	1.9	0.6	0.0
Austria	34.8	36.7	36.0	35.7	35.5	36.7	41.2	43.5	48.0	47.4	45.8	44.5	44.8	43.5	43.8	45.1	43.2	40.8	39.1	37.6
Belgium	120.2	120.6	117.2	116.9	118.2	125.2	127.9	126.2	125.6	123.3	118.3	112.8	107.7	102.5	100.1	97.9	95.3	91.4	90.1	88.3
Canada	39.3	38.2	41.1	43.3	50.0	58.5	64.4	67.4	69.3	67.5	63.5	60.8	53.5	44.8	40.5	37.9	34.3	32.2	29.3	26.9
Denmark	18.7	19.8	18.6	18.4	21.0	23.1	25.3	25.6	25.9	24.5	21.3	21.1	12.6	8.7	6.5	8.0	6.8	4.2	2.4	0.9
Finland[1]	-28.0	-29.2	-33.4	-35.6	-34.1	-24.9	-16.1	-16.3	-4.1	-6.7	-7.5	-14.5	-51.1	-31.6	-32.4	-32.0	-40.4	-40.6	-40.5	-40.0
France	13.3	15.1	15.7	17.5	18.8	20.4	27.1	28.3	38.9	42.6	43.3	41.7	33.6	34.9	36.7	42.3	44.0	44.4	44.5	44.3
Germany[2]	21.1	22.0	20.5	21.0	20.2	24.5	28.1	29.3	39.7	42.5	43.4	46.2	45.5	42.5	44.2	48.4	53.2	57.4	61.4	64.4
Hungary	..	..	..	..	..	..	..	..	..	..	24.0	30.6	32.7	30.9	32.5	38.1	38.3	38.1	38.0	38.0
Iceland	8.2	10.0	18.0	19.5	20.3	27.3	35.6	38.7	40.7	40.5	38.5	31.8	24.2	24.0	27.0	23.8	23.8	21.8	18.9	16.3
Italy	..	..	..	..	..	..	..	..	101.2	106.5	107.4	109.8	104.6	99.1	98.9	98.6	97.2	95.6	97.8	98.9
Japan[3]	55.6	46.9	38.3	24.6	12.6	14.3	17.7	20.3	24.5	29.7	35.2	45.7	53.5	59.1	65.1	71.4	76.2	78.4	81.2	82.4
Korea	-9.5	-13.1	-15.5	-16.5	-15.3	-14.7	-15.5	-16.1	-17.4	-19.0	-21.5	-23.1	-23.9	-27.0	-30.0	-31.8	-28.3	-28.2	-28.4	-28.8
Netherlands	25.6	29.2	32.5	33.4	34.6	40.6	45.3	44.2	54.1	52.9	50.7	48.0	36.6	35.1	33.0	35.2	36.7	37.1	37.7	37.8
New Zealand	..	..	..	..	..	..	47.9	40.8	34.7	30.7	28.4	25.1	19.5	11.0	5.2	1.7	-3.0	-6.8	-9.5	-11.7
Norway	-42.6	-42.7	-41.9	-41.7	-37.9	-35.6	-32.4	-31.0	-36.5	-41.6	-49.5	-51.9	-59.1	-69.6	-87.3	-84.5	-99.2	-110.9	-124.2	-140.1
Portugal	..	..	..	..	..	..	..	..	26.4	28.6	28.7	28.3	27.2	28.5	30.1	33.8	37.6	40.5	45.9	50.1
Spain	..	..	..	30.7	32.7	33.2	41.5	41.3	47.6	52.4	51.4	50.9	45.3	42.6	40.8	39.3	35.8	33.7	31.1	28.5
Sweden	6.3	0.2	-5.9	-7.8	-5.0	4.5	10.3	20.4	25.2	25.7	23.2	20.1	9.2	1.2	-3.0	3.3	-1.3	-5.2	-5.9	-6.4
United Kingdom	25.8	20.5	15.6	14.9	15.5	22.5	32.3	33.0	38.9	40.5	42.6	43.7	39.8	36.9	33.5	34.3	34.7	37.0	38.7	40.4
United States	46.5	47.6	47.7	48.9	52.5	55.9	58.4	57.9	57.2	56.3	53.1	49.3	44.3	39.0	38.0	40.8	42.8	44.3	47.2	49.9
Euro area	24.9	26.2	25.7	27.2	27.9	31.4	37.0	37.7	54.7	58.6	59.1	59.1	54.1	52.3	52.7	55.0	56.1	56.7	57.7	58.1
Total OECD	36.7	35.4	33.7	32.8	33.2	36.8	40.9	41.6	47.3	48.7	48.0	47.7	44.5	41.7	41.5	44.1	45.7	46.6	48.3	49.6

Note: Net debt measures are not always comparable across countries due to different definitions or treatment of debt (and asset) components. First, the treatment of government liabilities in respect of their employee pension plans may be different (see note to Annex Table 32). Second, a range of items included as general government assets differs across countries. For example, equity holdings are excluded from government assets in some countries whereas foreign exchange, gold and SDR holdings are considered as assets in the United States and the United Kingdom. For details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. From 1995 onwards housing corporation shares are no longer classified as financial assets.
2. Includes the debt of the Inherited Debt Fund from 1995 onwards.
3. Includes the debt of the Japan Railway Settlement Corporation and the National Forest Special Account from 1998 onwards.

Source: OECD Economic Outlook 77 database.

Annex Table 34. **Short-term interest rates**

Per cent, per annum

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter		
																		2004	2005	2006
Australia	14.5	10.2	6.5	5.2	5.7	7.7	7.2	5.4	5.0	5.0	6.2	4.9	4.7	4.9	5.5	5.7	5.7	5.4	5.7	5.7
Austria	9.0	9.5	9.5	7.0	5.1	4.6	3.4	3.5	3.6											
Belgium	9.6	9.4	9.4	8.2	5.7	4.8	3.2	3.4	3.6											
Canada	13.0	9.0	6.7	5.0	5.5	7.1	4.5	3.6	5.1	4.9	5.7	4.0	2.6	3.0	2.3	2.9	3.9	2.6	3.5	4.1
Czech Republic	..	..	..	13.1	9.1	10.9	12.0	15.9	14.3	6.9	5.4	5.2	3.5	2.3	2.4	2.3	2.8	2.6	2.2	3.2
Denmark	10.9	9.7	11.0	10.4	6.1	6.1	3.9	3.7	4.1	3.3	4.9	4.6	3.5	2.4	2.1	1.8	1.9	2.2	1.6	2.2
Finland	14.0	13.1	13.3	7.8	5.4	5.8	3.6	3.2	3.6											
France	10.3	9.6	10.3	8.6	5.8	6.6	3.9	3.5	3.6											
Germany	8.5	9.2	9.5	7.3	5.4	4.5	3.3	3.3	3.5											
Greece	23.0	23.3	21.7	21.3	19.3	15.5	12.8	10.4	11.6	8.9	4.4									
Hungary	..	..	..	17.2	26.9	32.0	24.0	20.1	18.0	14.7	11.0	10.8	8.9	8.2	11.3	7.6	6.5	10.1	6.9	6.2
Iceland	14.8	14.6	10.5	8.8	4.9	7.0	7.0	7.1	7.4	8.6	11.2	11.0	8.0	5.0	6.1	8.9	8.7	7.1	9.5	8.0
Ireland	11.3	10.4	14.3	9.1	5.9	6.2	5.4	6.1	5.4											
Italy	12.2	12.2	14.0	10.2	8.5	10.5	8.8	6.9	5.0											
Japan	7.7	7.4	4.5	3.0	2.2	1.2	0.6	0.6	0.7	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Korea	..	18.3	16.4	13.0	13.3	14.1	12.7	13.4	15.2	6.8	7.1	5.3	4.8	4.3	3.8	3.6	4.3	3.4	3.8	4.5
Luxembourg	9.6	9.4	9.4	8.2	5.7	4.8	3.2	3.4	3.6											
Mexico	..	..	..	..	..	..	..	22.3	27.1	24.6	17.2	13.4	8.5	7.2	7.4	9.9	10.2	8.8	10.0	10.2
Netherlands	8.7	9.3	9.4	6.9	5.2	4.4	3.0	3.3	3.5											
New Zealand	13.9	10.0	6.7	6.3	6.7	9.0	9.3	7.7	7.3	4.8	6.5	5.7	5.7	5.4	6.1	7.0	6.8	6.7	7.1	6.6
Norway	11.5	10.6	11.8	7.3	5.9	5.5	4.9	3.7	5.8	6.5	6.7	7.2	6.9	4.1	2.0	2.1	2.9	2.0	2.3	3.4
Poland	..	..	..	34.9	31.8	27.7	21.3	23.1	19.9	14.7	18.9	15.7	8.8	5.7	6.2	6.1	5.9	6.8	6.0	5.9
Portugal	16.9	17.7	16.1	12.5	11.1	9.8	7.4	5.7	4.3											
Slovak Republic	..	..	..	..	..	..	11.5	20.2	18.1	14.8	8.2	7.5	7.5	5.9	4.4	2.5	2.7	3.8	2.5	3.0
Spain	15.2	13.2	13.3	11.7	8.0	9.4	7.5	5.4	4.2											
Sweden	13.7	11.6	12.9	8.4	7.4	8.7	5.8	4.1	4.2	3.1	4.0	4.0	4.1	3.0	2.1	2.0	2.9	2.0	2.0	3.5
Switzerland	8.9	8.2	7.9	4.9	4.2	2.9	2.0	1.6	1.5	1.4	3.2	2.9	1.1	0.3	0.5	0.7	1.3	0.7	0.7	1.8
Turkey	..	..	..	..	..	..	..	..	..	..	38.9	92.4	59.5	38.5	23.8	14.5	9.4	21.2	13.5	7.3
United Kingdom	14.8	11.5	9.6	5.9	5.5	6.7	6.0	6.8	7.3	5.4	6.1	5.0	4.0	3.7	4.6	4.8	4.8	4.8	4.8	4.8
United States	8.2	5.9	3.8	3.2	4.7	6.0	5.4	5.7	5.5	5.4	6.5	3.7	1.8	1.2	1.6	3.4	4.7	2.3	4.2	4.9
Euro area	10.7	..	11.2	8.6	6.3	6.5	4.8	4.3	3.9	3.0	4.4	4.3	3.3	2.3	2.1	1.8	1.9	2.2	1.6	2.2

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).* Individual euro area countries are not shown after 1998 (2000 for Greece) since their short term interest rates are equal to the euro area rate.

Source: OECD Economic Outlook 77 database.

Annex Table 35. **Long-term interest rates**

Per cent, per annum

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Fourth quarter		
																		2004	2005	2006
Australia	13.2	10.7	9.2	7.3	9.0	9.2	8.2	6.9	5.5	6.1	6.3	5.6	5.8	5.4	5.6	5.8	6.6	5.3	6.2	6.6
Austria	8.7	8.5	8.1	6.7	7.0	7.1	6.3	5.7	4.7	4.7	5.6	5.1	5.0	4.2	4.2	3.5	3.6	3.8	3.4	3.8
Belgium	10.1	9.3	8.7	7.2	7.7	7.4	6.3	5.6	4.7	4.7	5.6	5.1	4.9	4.1	4.1	3.5	3.6	3.8	3.4	3.8
Canada	10.7	9.5	8.1	7.2	8.4	8.2	7.2	6.1	5.3	5.5	5.9	5.5	5.3	4.8	4.6	4.4	5.1	4.5	4.7	5.2
Denmark	10.6	9.3	9.0	7.3	7.8	8.3	7.2	6.3	5.0	4.9	5.7	5.1	5.1	4.3	4.3	3.6	3.7	4.1	3.5	3.9
Finland	13.2	11.7	12.0	8.8	9.0	8.8	7.1	6.0	4.8	4.7	5.5	5.0	5.0	4.1	4.1	3.5	3.6	3.9	3.4	3.8
France	9.9	9.0	8.6	6.8	7.2	7.5	6.3	5.6	4.6	4.6	5.4	4.9	4.9	4.1	4.1	3.5	3.6	3.8	3.4	3.8
Germany	8.7	8.5	7.9	6.5	6.9	6.9	6.2	5.7	4.6	4.5	5.3	4.8	4.8	4.1	4.0	3.4	3.5	3.8	3.3	3.7
Greece	..	..	..	..	..	..	..	9.8	8.5	6.3	6.1	5.3	5.0	4.3	4.3	3.5	3.6	4.0	3.5	3.8
Iceland	..	..	13.1	13.4	7.0	9.7	9.2	8.7	7.7	8.5	11.2	10.4	8.0	6.7	7.5	9.0	9.0	7.9	9.2	8.8
Ireland	10.3	9.4	9.3	7.6	8.0	8.2	7.2	6.3	4.7	4.8	5.5	5.0	5.0	4.1	4.1	3.5	3.6	3.8	3.4	3.8
Italy	13.5	13.3	13.3	11.2	10.5	12.2	9.4	6.9	4.9	4.7	5.6	5.2	5.0	4.3	4.3	3.6	3.7	4.0	3.6	3.9
Japan	7.0	6.3	5.3	4.3	4.4	3.4	3.1	2.4	1.5	1.7	1.7	1.3	1.3	1.0	1.5	1.4	1.8	1.4	1.6	1.9
Korea	15.1	16.5	15.1	12.1	12.3	12.4	10.9	11.7	12.8	8.7	8.5	6.7	6.5	5.0	4.5	4.6	5.3	3.6	5.0	5.5
Luxembourg	..	..	..	..	7.2	7.2	6.3	5.6	4.7	4.7	5.5	4.9	4.7	3.3	2.8	2.6	2.8	2.6	2.6	3.0
Mexico	..	19.7	16.1	15.6	13.8	39.9	34.4	22.4	24.8	24.1	16.9	13.8	8.5	7.4	7.7	10.0	10.4	8.8	10.4	10.4
Netherlands	8.9	8.7	8.1	6.4	6.9	6.9	6.2	5.6	4.6	4.6	5.4	5.0	4.9	4.1	4.1	3.5	3.5	3.8	3.4	3.8
New Zealand	12.4	10.1	8.4	6.9	7.6	7.8	7.9	7.2	6.3	6.4	6.9	6.4	6.5	5.9	6.1	5.9	6.0	6.0	5.9	6.0
Norway	10.7	10.0	9.6	6.9	7.4	7.4	6.8	5.9	5.4	5.5	6.2	6.2	6.4	5.0	4.4	4.1	4.6	4.1	4.4	4.8
Portugal	..	..	..	..	10.5	11.5	8.6	6.4	4.9	4.8	5.6	5.2	5.0	4.2	4.1	3.6	3.7	3.8	3.5	3.9
Slovak Republic	..	..	..	..	..	..	9.7	9.4	21.7	16.2	9.8	8.1	6.9	5.0	5.0	4.1	4.3	4.9	4.2	4.5
Spain	14.6	12.8	11.7	10.2	10.0	11.3	8.7	6.4	4.8	4.7	5.5	5.1	5.0	4.1	4.1	3.5	3.6	3.8	3.4	3.8
Sweden	13.2	10.7	10.0	8.5	9.5	10.2	8.0	6.6	5.0	5.0	5.4	5.1	5.3	4.6	4.4	3.7	4.4	4.1	3.8	4.7
Switzerland	6.4	6.2	6.4	4.6	5.0	4.5	4.0	3.4	3.0	3.0	3.9	3.4	3.2	2.7	2.7	2.2	2.5	2.5	2.1	2.8
Turkey	..	..	..	..	..	..	..	..	..	..	37.7	99.6	63.5	44.1	24.9	15.1	10.1	22.9	13.2	8.4
United Kingdom	11.8	10.1	9.1	7.5	8.2	8.2	7.8	7.1	5.5	5.1	5.3	4.9	4.9	4.5	4.9	4.6	4.8	4.7	4.6	5.0
United States	8.6	7.9	7.0	5.9	7.1	6.6	6.4	6.4	5.3	5.6	6.0	5.0	4.6	4.0	4.3	4.5	5.3	4.2	4.8	5.4
Euro area	10.8	..	9.7	7.8	8.0	8.4	7.1	6.0	4.8	4.7	5.4	5.0	4.9	4.1	4.1	3.5	3.6	3.8	3.4	3.8

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).*

Source: OECD Economic Outlook 77 database.

Annex Table 36. **Nominal exchange rates (*vis-à-vis* the US dollar)**

Average of daily rates

	Monetary unit	1994	1995	1996	1997	1998	1999	1999	2000	2001	2002	2003	Estimates and assumptions[1] 2004	2005	2006
Australia	*Dollar*	1.369	1.350	1.277	1.348	1.592	1.550	1.550	1.727	1.935	1.841	1.542	1.359	1.289	1.290
Austria	*Schilling*	11.42	10.08	10.58	12.20	12.38	12.91								
Belgium	*Franc*	33.46	29.50	30.98	35.76	36.30	37.86								
Canada	*Dollar*	1.366	1.372	1.364	1.385	1.483	1.486	1.486	1.485	1.548	1.570	1.400	1.301	1.238	1.242
Czech Republic	*Koruny*	28.79	26.54	27.15	31.70	32.28	34.59	34.59	38.64	38.02	32.73	28.13	25.69	23.10	23.140
Denmark	*Krone*	6.360	5.604	5.798	6.604	6.699	6.980	6.980	8.088	8.321	7.884	6.577	5.988	5.768	5.804
Finland	*Markka*	5.223	4.367	4.592	5.187	5.345	5.580								
France	*Franc*	5.552	4.991	5.116	5.837	5.899	6.157								
Germany	*Deutschemark*	1.623	1.433	1.505	1.734	1.759	1.836								
Greece	*Drachma*	242.2	231.6	240.7	272.9	295.3	305.7								
Hungary	*Forint*	105.1	125.7	152.6	186.6	214.3	237.1	237.1	282.3	286.5	257.9	224.3	202.6	191.7	193.5
Iceland	*Krona*	69.99	64.77	66.69	70.97	71.17	72.43	72.43	78.84	97.67	91.59	76.69	70.19	63.35	64.14
Ireland	*Pound*	0.670	0.624	0.625	0.660	0.703	0.739								
Italy	*Lira*	1613	1629	1543	1703	1736	1817								
Japan	*Yen*	102.2	94.1	108.8	121.0	130.9	113.9	113.9	107.8	121.5	125.3	115.9	108.1	104.7	104.5
Korea	*Won*	804.3	771.4	804.4	950.5	1 400.5	1 186.7	1 186.7	1 130.6	1 290.4	1 251.0	1 191.0	1 145.2	1 006.6	1 000.3
Luxembourg	*Franc*	33.46	29.50	30.98	35.76	36.30	37.86								
Mexico	*Peso*	3.389	6.421	7.601	7.924	9.153	9.553	9.553	9.453	9.344	9.660	10.790	11.281	11.012	10.939
Netherlands	*Guilder*	1.820	1.605	1.686	1.951	1.983	2.068								
New Zealand	*Dollar*	1.687	1.524	1.454	1.513	1.869	1.892	1.892	2.205	2.382	2.163	1.724	1.509	1.374	1.363
Norway	*Krone*	7.057	6.337	6.457	7.072	7.545	7.797	7.797	8.797	8.993	7.986	7.078	6.739	6.294	6.295
Poland	*Zloty*	2.273	2.425	2.695	3.277	3.492	3.964	3.964	4.346	4.097	4.082	3.888	3.651	3.170	3.200
Portugal	*Escudo*	166.0	149.9	154.2	175.2	180.1	188.2								
Slovak Republic	*Koruna*	32.0	29.74	30.65	33.62	35.23	41.36	41.36	46.23	48.35	45.30	36.76	32.23	29.77	29.910
Spain	*Peseta*	134.0	124.7	126.7	146.4	149.4	156.2								
Sweden	*Krona*	7.716	7.134	6.707	7.635	7.947	8.262	8.262	9.161	10.338	9.721	8.078	7.346	7.090	7.153
Switzerland	*Franc*	1.367	1.182	1.236	1.450	1.450	1.503	1.503	1.688	1.687	1.557	1.345	1.243	1.199	1.206
Turkey	*Lira*	0.030	0.046	0.081	0.152	0.260	0.419	0.419	0.624	1.228	1.512	1.503	1.426	1.349	1.389
United Kingdom	*Pound*	0.653	0.634	0.641	0.611	0.604	0.618	0.618	0.661	0.694	0.667	0.612	0.546	0.529	0.529
United States	*Dollar*	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Euro area	*Euro*	..	..	..	..	..	..	0.938	1.085	1.117	1.061	0.885	0.805	0.775	0.780
	SDR	0.699	0.659	0.689	0.726	0.737	0.731	0.731	0.758	0.785	0.773	0.714	0.675	0.659	0.659

Note: No rate are shown for individual euro area countries after 1999.

1. On the technical assumption that exchange rates remain at their levels of 6 May 2005, except for Turkey, where exchange rates vary according to official exchange rate policy.

Source: OECD Economic Outlook 77 database.

Annex Table 37. **Effective exchange rates**

Indices 2000 = 100, average of daily rates

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Estimates and assumptions[1] 2004	2005	2006
Australia	111.9	104.8	99.5	107.2	103.9	113.9	115.4	107.4	107.6	100.0	93.7	97.2	108.6	117.2	119.7	119.7
Austria	90.3	92.5	95.6	97.8	102.5	101.5	99.6	101.6	102.3	100.0	100.4	101.0	104.4	105.5	105.1	105.0
Belgium	92.9	95.8	97.9	102.2	107.9	106.2	102.0	104.4	104.1	100.0	101.2	103.0	108.3	110.2	110.2	109.9
Canada	118.9	112.9	107.7	102.8	102.0	103.9	104.3	99.4	99.1	100.0	97.0	95.5	105.5	112.0	116.6	116.2
Czech Republic	..	..	94.7	98.1	98.8	100.4	97.4	99.1	98.7	100.0	105.0	117.0	116.7	117.0	124.7	125.2
Denmark	90.9	93.8	98.2	100.5	105.7	104.7	102.3	104.9	104.2	100.0	101.8	103.3	108.1	109.5	109.2	109.0
Finland	100.6	88.3	79.5	90.1	103.6	101.1	98.9	101.7	104.7	100.0	102.1	104.3	110.3	112.4	112.3	112.0
France	89.7	93.6	97.4	100.4	104.5	104.9	102.1	104.5	103.8	100.0	100.9	102.5	107.4	109.0	109.0	108.8
Germany	84.9	89.0	93.9	98.5	106.0	104.5	100.9	104.6	104.5	100.0	101.2	103.1	109.4	111.6	111.1	110.9
Greece	137.4	129.3	120.5	115.1	113.8	111.9	109.9	106.6	107.0	100.0	101.0	102.8	107.8	109.5	109.1	108.9
Hungary	..	..	214.4	192.8	153.0	130.3	120.7	109.3	105.4	100.0	101.9	108.9	108.3	110.4	112.0	111.5
Iceland	103.5	103.1	97.1	92.9	93.3	92.8	94.8	97.4	99.0	100.0	85.2	87.9	92.1	93.2	99.5	98.6
Ireland	108.5	113.1	107.4	109.2	111.2	114.1	113.9	110.5	107.3	100.0	101.2	103.6	112.6	115.1	115.9	115.5
Italy	116.3	115.2	99.2	99.1	91.3	100.5	101.8	104.0	103.8	100.0	101.3	103.2	108.3	110.1	109.9	109.7
Japan	55.4	60.1	74.3	86.4	92.5	80.6	77.1	80.0	91.9	100.0	92.3	88.4	91.4	95.3	95.9	96.2
Korea	128.3	119.6	117.8	119.1	119.5	121.4	112.4	81.3	93.3	100.0	92.4	95.4	94.8	94.8	105.4	106.1
Luxembourg	96.5	98.6	99.2	102.0	105.4	104.2	102.0	103.0	102.8	100.0	100.4	101.5	105.0	106.2	106.1	105.9
Mexico	259.0	259.3	272.4	263.8	138.6	117.7	115.5	102.6	97.9	100.0	102.8	99.7	87.1	81.9	82.9	83.5
Netherlands	89.2	92.7	97.2	101.8	108.8	107.3	102.1	105.7	105.4	100.0	101.4	103.7	110.8	113.4	113.7	113.4
New Zealand	104.7	97.4	102.0	109.4	116.9	124.3	127.3	114.3	110.3	100.0	98.7	106.8	121.6	129.7	137.5	138.7
Norway	99.3	101.1	100.0	100.8	104.5	104.6	105.6	102.4	102.2	100.0	103.3	112.1	109.7	106.0	109.0	109.4
Poland	..	..	170.5	139.2	122.7	114.4	106.3	104.0	97.0	100.0	110.2	105.4	94.8	92.7	102.2	101.7
Portugal	100.5	106.3	102.5	101.7	104.9	104.5	103.1	103.0	102.4	100.0	100.9	102.0	104.7	105.4	105.3	105.2
Slovak Republic	..	..	98.2	97.1	100.4	101.3	106.0	105.9	98.3	100.0	97.6	98.0	103.5	108.0	111.0	111.0
Spain	125.5	124.2	111.0	105.7	106.0	107.1	102.8	104.0	103.1	100.0	101.1	102.5	106.3	107.5	107.3	107.1
Sweden	109.7	112.4	92.5	93.6	94.0	103.5	100.2	99.9	99.7	100.0	91.9	94.1	99.5	101.3	100.7	100.2
Switzerland	83.4	82.9	86.8	95.6	104.0	102.7	96.9	101.0	101.8	100.0	104.0	109.3	111.1	111.5	111.5	111.3
Turkey	10 142.8	6 053.0	4 239.0	1 719.1	990.8	581.1	345.5	207.8	137.2	100.0	56.3	41.8	36.8	35.8	36.4	35.5
United Kingdom	84.9	82.8	76.6	79.0	76.4	78.1	91.1	97.0	97.4	100.0	99.0	100.2	96.3	100.8	100.4	100.8
United States	67.1	68.3	72.7	76.9	78.5	82.9	88.8	98.0	97.6	100.0	105.3	105.8	99.6	95.1	91.8	92.0
Euro area	89.4	95.2	94.2	100.8	109.5	111.7	104.6	110.8	109.9	100.0	102.5	106.4	119.4	123.8	123.8	123.4

Note: For details on the method of calculation, see the section on exchange rates and competitiveness indicators in *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. On the technical assumption that exchange rates remain at their levels of 6 May 2005, except for Turkey, where exchange rates vary according to official exchange rate policy.

Source: OECD Economic Outlook 77 database.

Annex Table 38. **Export volumes of goods and services**

National accounts basis, percentage changes from previous year

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	12.2	3.5	2.9	8.5	13.1	5.4	8.0	9.0	5.0	10.6	11.5	-0.2	4.7	10.9	1.8	0.1	-2.4	4.1	4.6	8.1
Austria	3.1	10.2	11.3	7.4	3.9	1.4	-1.8	5.5	6.1	4.4	12.1	8.2	6.1	10.6	6.7	3.7	1.6	9.0	5.1	8.0
Belgium	4.6	10.3	8.8	4.6	2.8	2.4	0.9	9.0	4.8	2.2	6.2	5.7	5.3	8.2	1.8	1.3	1.7	5.0	5.6	7.3
Canada	2.9	8.9	1.0	4.7	1.8	7.2	10.8	12.7	8.5	5.6	8.3	9.1	10.7	8.9	-2.8	1.1	-2.4	4.9	1.9	4.9
Czech Republic	..	..	..	..	..	..	..	3.9	16.7	5.5	8.4	10.5	5.5	16.5	11.5	2.1	7.3	20.9	12.2	12.4
Denmark	4.3	11.2	4.2	6.2	6.1	-0.9	-1.5	7.0	2.7	4.3	4.2	4.3	12.3	13.7	4.2	4.7	-1.6	4.0	3.3	6.3
Finland	3.0	2.9	3.0	1.6	-7.4	10.0	16.2	13.5	8.6	5.5	13.8	9.2	6.1	19.5	-0.8	5.2	1.4	3.4	4.8	5.2
France[1]	2.7	8.6	10.6	4.9	5.4	5.2	-0.1	7.9	7.7	3.2	12.0	8.4	4.2	13.4	1.9	1.7	-2.5	3.1	3.3	7.3
Germany	0.7	5.5	10.3	13.2	-7.3	-2.0	-5.4	7.7	6.0	5.3	11.4	6.4	5.1	14.2	6.1	4.1	1.8	7.5	5.5	7.9
Greece	6.0	-2.1	2.0	-3.5	4.1	10.0	-2.6	7.4	3.0	3.5	20.0	5.3	18.1	14.1	-1.0	-7.7	1.0	10.0	8.2	8.5
Hungary	..	..	..	..	..	..	..	13.7	36.4	12.1	22.3	17.6	12.2	21.0	7.8	3.7	7.6	15.7	11.9	13.1
Iceland	3.3	-3.6	2.9	0.0	-5.9	-2.0	6.5	9.5	-2.3	9.9	5.3	2.1	4.0	4.1	7.4	3.9	1.4	8.3	8.2	6.7
Ireland	13.7	9.0	10.3	8.7	5.7	13.9	9.7	15.1	20.0	12.2	17.4	22.0	15.2	20.4	8.5	5.7	-0.9	4.4	7.4	7.5
Italy	4.5	5.1	7.8	7.5	-1.4	7.3	9.0	9.8	12.6	0.6	6.4	3.4	0.1	9.7	1.6	-3.2	-1.9	3.2	0.0	5.8
Japan	-0.8	5.3	9.3	6.7	4.1	3.9	-0.1	3.6	4.3	6.2	11.3	-2.4	1.5	12.1	-6.0	7.3	9.0	14.5	4.6	7.8
Korea	21.8	11.7	-4.0	4.5	11.1	12.2	12.2	16.3	24.4	12.2	21.6	12.7	14.6	19.1	-2.7	13.3	15.6	19.7	9.8	13.2
Luxembourg	3.3	11.1	12.6	5.6	9.2	2.7	4.8	7.7	4.6	5.8	14.7	14.1	14.8	17.3	1.8	-0.6	1.8	8.2	5.2	6.5
Mexico	9.5	5.8	5.7	5.3	5.1	5.0	8.1	17.8	30.2	18.2	10.7	12.1	12.4	16.4	-3.8	1.6	2.7	11.5	7.6	7.4
Netherlands	3.5	8.1	7.5	5.6	5.6	1.8	4.8	9.7	8.8	4.6	8.8	7.4	5.1	11.3	1.6	0.8	0.0	8.3	0.7	7.3
New Zealand	5.6	6.1	-1.4	4.9	10.8	3.7	4.6	10.0	3.8	3.7	3.9	1.8	8.1	6.0	2.5	6.3	1.7	5.2	5.4	8.3
Norway	1.1	6.4	11.0	8.6	6.1	4.7	3.2	8.4	4.9	10.2	7.7	0.6	2.8	4.0	5.0	-0.8	1.6	1.3	0.1	2.5
Poland	..	..	..	..	..	..	..	13.1	22.9	12.0	12.2	14.3	-2.6	23.2	3.1	4.8	14.7	11.4	8.6	7.9
Portugal	11.2	8.2	12.2	9.5	1.2	3.2	-3.3	8.4	8.8	7.1	7.1	9.1	2.9	7.8	1.4	2.0	5.0	5.1	1.7	5.8
Slovak Republic	..	..	..	..	..	..	..	14.8	4.5	-1.1	17.6	12.8	5.0	13.7	6.3	5.6	22.5	11.4	11.0	11.8
Spain	5.3	3.8	1.4	4.7	8.3	7.5	7.8	16.7	9.4	10.4	15.3	8.2	7.7	10.1	3.6	1.2	2.6	4.5	5.2	6.9
Sweden	4.3	2.8	3.2	1.8	-1.9	2.2	8.3	13.8	11.2	4.0	13.4	8.5	8.1	11.0	0.7	1.0	4.9	10.5	7.4	7.8
Switzerland	1.3	6.3	6.1	2.9	-1.3	3.1	1.3	1.9	0.6	3.6	11.1	4.0	6.4	12.2	0.3	-0.2	0.0	6.6	4.7	6.9
Turkey	26.4	18.4	-0.3	2.6	3.7	11.0	7.7	15.2	8.0	22.0	19.1	12.0	-7.0	19.2	7.4	11.1	16.0	12.5	15.5	17.3
United Kingdom	6.1	0.7	4.5	5.5	-0.1	4.3	4.4	9.2	9.3	8.6	8.4	2.8	4.3	9.4	2.9	0.1	0.9	3.0	2.9	7.7
United States[1]	10.8	16.0	11.5	9.0	6.6	6.9	3.2	8.7	10.1	8.4	11.9	2.4	4.3	8.7	-5.4	-2.3	1.9	8.6	6.6	8.8
Total OECD	4.7	7.8	7.9	7.3	2.3	4.3	4.6	8.9	9.0	6.6	11.0	5.2	5.4	11.6	0.0	1.8	2.5	8.0	5.1	8.0

Note: Regional aggregates are calculated inclusive of intra-regional trade as the sum of volumes expressed in 2000 US$.

1. Volume data use hedonic price deflators for certain components.

Source: OECD Economic Outlook 77 database.

Annex Table 39. **Import volumes of goods and services**

National accounts basis, percentage changes from previous year

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	2.7	17.1	20.6	-4.0	-2.4	7.1	4.2	14.2	7.9	8.3	10.5	6.0	9.3	7.6	-4.2	11.3	10.4	14.2	7.6	8.0
Austria	5.4	10.4	8.4	6.8	5.1	1.7	2.2	4.1	5.1	4.2	7.8	5.5	5.5	9.8	4.7	0.6	4.0	5.7	5.7	8.5
Belgium	6.8	10.7	10.0	4.8	2.8	3.1	0.5	7.4	4.8	2.3	5.0	7.3	4.5	8.3	1.0	1.0	2.1	5.8	6.2	7.7
Canada	5.3	13.5	5.9	2.0	2.5	4.7	7.4	8.0	5.7	5.1	14.2	5.1	7.8	8.1	-5.0	1.4	3.8	8.2	7.5	4.9
Czech Republic	..	..	..	..	..	..	..	8.7	21.2	12.1	6.9	8.4	5.0	16.3	13.0	4.9	7.9	18.5	11.6	12.2
Denmark	-3.1	8.3	4.1	1.2	3.0	-0.4	-2.7	12.3	7.2	3.6	10.0	8.9	5.5	13.8	3.3	7.3	-1.4	7.4	5.6	7.0
Finland	9.2	9.4	9.6	0.0	-13.1	0.4	2.0	12.4	6.6	6.2	11.7	7.7	3.6	16.4	0.5	1.7	3.1	4.6	6.0	5.5
France[1]	7.6	8.6	8.4	5.5	2.4	1.7	-3.8	8.6	7.6	1.7	7.2	11.5	6.1	15.2	1.6	3.3	0.2	6.9	5.8	7.0
Germany	4.7	5.7	8.5	10.7	12.3	0.5	-5.4	7.4	5.8	3.3	8.4	8.6	8.1	11.1	1.3	-1.6	3.9	5.4	4.1	7.9
Greece	2.1	7.3	10.5	8.4	5.8	1.1	0.6	1.5	8.9	7.0	14.2	9.2	15.0	15.1	-5.2	-2.9	4.8	8.2	4.4	5.4
Hungary	..	..	..	..	..	..	..	8.8	15.1	9.4	23.1	23.8	13.3	19.4	5.1	6.2	10.4	14.0	10.1	13.0
Iceland	23.3	-4.6	-10.3	1.0	5.3	-6.0	-7.8	4.1	3.9	16.5	7.7	23.4	4.2	8.0	-9.1	-2.6	10.5	14.3	16.3	6.4
Ireland	6.2	4.9	13.5	5.1	2.4	8.2	7.5	15.5	16.4	12.5	16.7	26.1	12.1	21.3	6.7	3.4	-2.3	2.6	6.9	7.3
Italy	12.2	5.9	8.9	11.5	2.3	7.4	-10.9	8.1	9.7	-0.3	10.1	8.9	5.6	7.1	0.5	-0.5	1.3	2.5	2.8	6.8
Japan	13.6	18.5	16.9	7.8	-1.1	-0.7	-1.4	7.9	13.3	12.9	0.7	-6.7	3.7	8.5	-0.7	1.3	3.8	8.9	6.4	5.9
Korea	19.6	13.7	17.5	13.8	18.6	5.4	6.0	21.3	23.0	14.3	3.5	-21.8	27.8	20.1	-4.2	15.2	10.1	13.8	8.7	13.1
Luxembourg	7.3	10.5	9.1	5.0	9.1	-3.1	5.2	6.7	4.2	7.6	13.9	15.3	14.6	15.4	3.7	-2.6	1.6	6.8	5.0	6.6
Mexico	5.1	36.7	18.0	19.7	15.2	19.6	1.9	21.3	-15.0	22.9	22.7	16.6	14.1	21.5	-1.6	1.5	0.7	10.2	9.7	8.0
Netherlands	3.7	6.4	7.7	3.8	4.9	1.5	0.3	9.4	10.5	4.4	9.5	8.5	5.8	10.5	2.2	0.8	0.6	7.5	1.9	7.1
New Zealand	8.6	-0.9	13.5	3.6	-5.2	8.3	5.3	13.1	9.0	7.7	2.2	1.3	11.8	0.3	1.7	9.6	7.9	15.8	6.7	6.3
Norway	-6.5	-2.4	2.2	2.5	0.5	1.6	4.9	5.8	5.7	8.8	12.4	8.5	-1.8	2.7	0.9	0.7	2.2	9.0	6.8	2.8
Poland	..	..	..	..	..	..	..	11.3	24.2	28.0	21.4	18.5	1.0	15.6	-5.3	2.6	9.3	8.7	8.0	8.1
Portugal	23.1	18.0	5.9	14.5	7.2	10.7	-3.3	8.8	7.4	4.9	10.0	14.2	8.5	5.5	1.1	-0.2	-0.1	7.0	4.0	5.8
Slovak Republic	..	..	..	..	..	..	..	-4.7	11.6	19.7	14.2	16.5	-6.7	10.5	11.0	5.5	13.6	12.7	11.9	11.5
Spain	24.8	16.1	17.7	9.6	10.3	6.8	-5.2	11.4	11.1	8.0	13.3	13.2	12.6	10.5	3.9	3.1	4.8	9.0	8.4	8.7
Sweden	7.6	4.5	7.7	0.7	-4.9	1.5	-2.2	12.0	7.2	3.7	12.0	11.3	4.9	11.5	-2.8	-1.9	4.9	7.2	9.2	7.6
Switzerland	6.1	5.0	5.8	3.3	-2.0	-3.8	-0.1	7.7	4.3	3.3	8.4	7.5	4.3	9.6	3.1	-2.7	1.3	5.6	5.1	7.1
Turkey	23.0	-4.5	6.9	33.0	-5.2	10.9	35.8	-21.9	29.6	20.5	22.4	2.3	-3.7	25.4	-24.8	15.8	27.1	24.7	17.5	16.5
United Kingdom	7.9	12.8	7.4	0.5	-4.5	6.8	3.3	5.8	5.6	9.7	9.8	9.3	7.9	9.1	4.9	4.1	1.9	5.2	3.5	6.9
United States[1]	5.9	3.9	4.4	3.6	-0.6	6.9	8.7	11.9	8.0	8.7	13.6	11.6	11.5	13.1	-2.7	3.4	4.4	9.9	7.8	7.5
Total OECD	7.5	8.8	8.8	5.9	2.6	4.0	3.1	9.3	8.2	7.4	10.0	7.4	8.5	11.8	-0.3	2.5	3.7	8.2	6.5	7.6

Note: Regional aggregates are calculated inclusive of intra-regional trade as the sum of volumes expressed in 2000 US$.

1. Volume data use hedonic price deflators for certain components.

Source: OECD Economic Outlook 77 database.

Annex Table 40. **Export prices of goods and services**

National accounts basis, percentage changes from previous year, national currency terms

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	3.8	8.0	6.0	1.1	-5.1	2.0	1.0	-4.0	5.9	-2.6	-0.1	2.4	-5.1	13.0	6.9	-2.0	-5.3	4.0	7.4	3.1
Austria	-1.8	2.5	1.8	0.9	0.6	0.1	0.3	1.1	1.8	1.1	1.2	0.4	0.6	1.4	0.7	0.5	0.1	-0.1	0.7	0.6
Belgium	-3.3	3.8	6.9	-1.6	-0.8	-0.9	-1.5	1.3	1.6	1.7	4.8	-1.3	0.0	9.6	1.4	-1.1	-1.2	2.3	2.6	1.1
Canada	2.0	0.3	2.1	-0.7	-3.6	2.9	4.4	5.9	6.4	0.6	0.2	-0.3	1.1	6.2	1.3	-1.9	-1.3	2.1	0.9	2.6
Czech Republic	..	..	..	..	..	..	..	6.8	6.4	4.7	5.6	3.9	1.1	3.2	-0.4	-5.5	-0.2	2.0	-1.1	1.5
Denmark	-1.3	-0.8	6.8	0.7	1.7	2.5	-0.3	0.6	1.4	1.7	3.0	-2.5	-1.0	8.1	0.5	-2.7	0.3	1.7	1.2	-0.3
Finland	1.7	4.8	5.7	0.5	-0.3	6.0	6.8	1.3	4.9	-0.3	-0.7	-0.9	-5.1	3.3	-2.5	-4.9	-3.1	1.0	-0.3	-1.0
France[1]	-0.5	2.6	3.7	-1.3	-0.6	-1.7	-2.2	-0.1	0.7	1.6	2.0	-1.4	-1.4	2.3	-0.1	-1.7	0.1	1.1	1.4	0.3
Germany	-1.0	1.7	2.5	-0.2	1.0	1.0	0.7	0.9	2.0	0.1	1.2	0.2	-0.8	3.0	0.9	0.1	-0.8	-0.1	0.8	0.2
Greece	8.9	11.9	13.9	15.9	14.0	10.1	9.1	8.6	8.7	5.6	3.6	4.1	1.9	8.0	1.3	2.4	2.2	-0.2	3.1	0.9
Hungary	..	..	..	..	..	..	..	18.5	11.2	19.0	15.2	12.8	4.5	9.8	2.9	-4.4	-0.1	-1.5	1.0	1.5
Iceland	12.0	18.3	26.3	17.6	6.9	-1.3	4.8	5.9	4.8	-0.2	2.4	4.9	-0.1	4.0	21.5	-1.7	-7.1	1.2	0.0	1.5
Ireland	0.5	5.6	7.3	-8.1	-0.3	-2.0	6.8	0.2	1.9	-0.3	1.2	2.8	2.3	5.8	4.1	-0.3	-5.0	-0.3	-0.1	1.5
Italy	1.0	3.4	6.6	3.0	3.9	0.9	10.4	3.3	8.8	1.0	0.3	1.0	0.0	6.3	3.2	1.7	0.7	3.8	2.6	1.3
Japan	-4.2	-1.8	3.3	1.7	-2.3	-2.5	-6.6	-3.1	-2.0	3.2	1.6	0.6	-8.5	-3.7	1.2	-1.0	-3.3	-1.7	-1.5	-0.2
Korea	3.5	1.5	-0.6	4.8	2.7	2.5	0.4	1.1	2.0	-3.1	4.7	24.7	-19.3	-4.2	2.4	-9.4	-1.4	4.3	-5.8	-2.9
Luxembourg	-2.1	2.0	4.3	0.1	1.2	1.8	5.7	3.1	1.5	1.5	4.0	2.7	2.6	8.0	2.4	-2.2	-1.3	5.3	1.7	1.4
Mexico	150.7	64.5	18.9	25.2	7.6	5.2	3.3	5.9	79.6	22.8	7.1	9.4	6.6	3.5	-2.5	3.3	11.3	7.3	2.7	3.3
Netherlands	-5.0	0.2	4.0	-0.8	0.1	-2.0	-2.1	0.5	0.9	0.5	2.7	-1.4	-0.7	8.2	1.5	-1.0	0.0	0.8	0.9	-1.0
New Zealand	4.9	2.8	9.4	-0.2	-2.9	5.5	2.2	-2.7	-0.4	-2.6	-2.4	5.1	-0.2	15.5	7.6	-8.1	-7.5	1.4	-1.6	-2.0
Norway	1.8	0.6	10.7	3.0	-1.2	-7.0	2.0	-2.7	1.9	6.9	2.0	-7.9	10.7	35.7	-3.2	-9.7	1.7	12.8	10.2	1.6
Poland	..	..	..	..	..	..	..	31.7	19.6	7.6	13.9	13.2	5.9	1.7	1.3	4.8	5.8	10.5	-8.0	1.0
Portugal	10.8	11.7	11.8	6.3	3.4	0.5	4.9	6.4	5.6	-1.7	2.6	0.8	0.2	5.4	1.4	0.3	-2.6	1.0	1.9	0.7
Slovak Republic	..	..	..	..	..	..	..	10.7	8.4	4.0	-0.3	2.1	5.7	12.3	5.4	0.8	-3.4	-2.1	-2.3	0.0
Spain	3.5	4.7	6.0	0.8	1.5	2.9	5.0	4.6	5.9	1.5	3.3	0.6	0.4	7.3	2.7	1.1	0.7	-0.2	2.0	1.6
Sweden	2.6	5.1	6.5	1.8	1.6	-2.8	9.1	3.9	7.2	-4.9	0.1	-1.2	-2.3	3.0	2.3	-1.4	-2.0	-0.4	-2.0	0.6
Switzerland	0.3	2.0	5.9	0.5	3.3	1.6	1.7	0.0	-0.1	-0.8	0.7	-0.4	-0.7	2.1	0.3	-0.2	0.6	0.1	-0.2	0.5
Turkey	30.8	74.9	53.2	38.2	61.0	62.5	59.9	164.8	73.0	69.0	87.0	60.1	52.1	39.9	86.9	21.4	4.7	12.2	4.0	4.5
United Kingdom	2.9	0.3	8.2	4.4	1.6	1.6	8.8	1.0	3.2	1.3	-4.0	-3.8	-0.6	2.2	-0.8	0.4	1.3	-0.6	2.2	0.4
United States[1]	2.5	5.2	1.7	0.7	1.3	-0.4	0.0	1.1	2.3	-1.3	-1.7	-2.3	-0.6	1.7	-0.4	-0.4	2.1	3.5	3.5	2.1
Total OECD	3.7	4.5	4.7	1.9	0.3	1.4	0.5	2.3	5.1	1.6	1.5	0.9	-1.2	3.7	1.3	-0.7	0.2	1.8	1.3	0.9

Note: Regional aggregates are calculated inclusive of intra-regional trade. They are calculated as the geometric averages of prices weighted by trade volumes expressed in 2000 US$.

1. Certain components are estimated on a hedonic basis.

Source: OECD Economic Outlook 77 database.

Annex Table 41. **Import prices of goods and services**

National accounts basis, percentage changes from previous year, national currency terms

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	3.0	-4.0	-1.4	4.1	1.3	4.2	5.7	-4.3	3.4	-6.6	-1.7	6.8	-4.5	7.2	5.7	-4.1	-8.4	-5.2	-1.0	0.3
Austria	-2.6	2.0	3.5	0.9	0.9	1.7	-7.1	6.5	2.3	2.6	1.5	0.5	0.9	-0.1	-0.7	1.5	-0.1	0.2	0.9	0.5
Belgium	-4.1	2.4	5.8	-1.3	-1.0	-2.4	-2.6	1.7	1.4	2.5	5.6	-2.2	0.7	12.0	1.3	-2.1	-1.0	3.2	3.2	0.9
Canada	-1.2	-2.1	0.2	1.4	-1.6	4.4	6.4	6.6	3.4	-1.1	0.8	3.7	-0.2	2.1	3.0	0.6	-7.0	-2.2	-2.3	0.8
Czech Republic	..	..	..	..	..	..	..	5.5	5.8	1.8	5.2	-1.9	1.6	6.1	-2.6	-8.4	-0.6	1.0	-1.8	1.2
Denmark	-1.6	-1.4	6.8	-0.6	2.8	-0.8	-0.5	0.7	1.2	-0.1	2.1	-2.5	-2.4	6.9	0.3	-3.1	-1.9	1.6	2.6	-0.2
Finland	-0.1	2.4	4.4	0.6	2.9	8.1	7.6	0.0	0.5	0.4	0.7	-2.1	-2.0	6.9	-2.7	-2.9	0.4	3.4	0.5	-0.1
France[1]	-1.4	1.7	6.0	-1.6	-0.1	-3.1	-3.2	0.4	0.6	2.4	1.6	-2.8	-1.6	5.2	-1.1	-4.4	-0.1	-0.1	2.6	-0.7
Germany	-4.8	1.8	5.3	-0.9	2.3	-1.2	-1.0	0.6	0.8	0.5	3.1	-2.0	-1.0	7.4	0.8	-1.7	-2.4	0.1	2.5	-0.3
Greece	6.9	9.2	14.7	13.7	12.3	12.3	7.4	5.6	7.5	5.0	2.8	3.8	1.7	9.3	1.8	0.9	1.4	-0.8	2.8	0.6
Hungary	..	..	..	..	..	..	..	15.6	14.6	20.7	13.4	11.7	5.5	12.4	2.4	-5.3	0.3	-0.9	-0.3	0.9
Iceland	7.4	19.2	31.5	19.3	3.3	-0.8	9.1	5.6	3.5	3.1	0.3	-0.7	0.7	6.8	21.2	-2.2	-3.0	2.6	0.0	1.2
Ireland	1.3	6.4	6.2	-3.7	2.4	-1.2	4.5	2.4	3.8	-0.6	0.7	2.5	2.5	7.5	3.6	-1.0	-4.5	0.2	-0.3	0.5
Italy	-1.7	4.8	6.9	-1.8	0.5	1.1	14.8	4.8	11.1	-2.9	1.4	-1.3	0.2	14.2	2.6	0.2	-1.0	3.7	5.0	1.3
Japan	-8.9	-3.9	5.6	7.3	-5.1	-5.1	-8.3	-4.5	-1.7	8.8	6.3	-2.8	-8.5	2.2	3.8	-1.2	-0.8	2.2	-0.4	-0.3
Korea	0.2	-1.8	-5.7	7.1	1.9	3.5	0.3	1.1	4.2	3.0	11.4	27.2	-16.8	5.9	5.8	-8.9	1.0	5.4	-2.4	0.6
Luxembourg	-1.2	0.8	3.8	1.6	2.5	2.7	3.2	2.1	1.3	0.9	3.6	1.2	2.3	7.7	3.4	-2.1	-1.8	5.3	1.5	1.2
Mexico	131.3	68.3	14.9	16.2	9.1	4.3	3.7	5.3	95.2	21.2	3.6	12.2	3.3	0.1	-2.8	2.2	12.3	8.9	2.7	2.7
Netherlands	-3.0	-0.2	4.6	-1.3	0.3	-1.1	-2.1	0.1	0.2	1.2	2.2	-1.5	0.5	8.3	0.5	-1.0	-0.7	1.5	-0.6	-0.5
New Zealand	-4.9	-3.2	8.1	1.5	2.3	6.2	-1.4	-3.9	-1.8	-3.7	-0.5	5.6	0.6	14.7	2.3	-5.9	-11.7	-4.5	-2.9	0.5
Norway	6.9	4.4	7.0	1.2	-0.4	-1.8	1.5	0.9	0.8	1.0	0.3	1.4	-1.1	6.6	0.3	-5.3	1.7	5.4	1.5	1.0
Poland	..	..	..	..	..	..	..	27.0	18.0	10.4	15.7	10.8	7.1	7.7	1.3	5.2	6.9	10.6	-7.8	1.5
Portugal	9.5	11.7	10.6	4.1	1.0	-4.2	4.4	4.3	3.9	1.6	2.7	-1.2	-0.3	8.2	0.0	-2.1	-2.3	1.9	2.7	0.4
Slovak Republic	..	..	..	..	..	..	..	12.3	7.3	7.2	0.3	-0.2	8.1	11.6	8.4	-0.2	-3.3	-1.7	-2.0	-0.5
Spain	-2.8	0.1	1.9	-2.8	-1.5	1.2	6.1	5.8	4.4	0.7	3.5	-0.3	0.7	9.7	0.5	-1.3	-0.2	2.7	3.2	1.2
Sweden	3.8	4.1	5.7	3.3	0.3	-2.4	13.9	4.2	5.7	-4.8	1.3	-0.5	1.1	4.7	4.2	0.2	-2.2	0.3	1.9	1.3
Switzerland	-3.6	4.3	8.6	-1.1	0.9	2.3	-1.7	-4.5	-2.4	-0.1	3.5	-1.8	-0.2	5.7	0.5	-4.0	-1.5	0.5	1.1	0.2
Turkey	33.1	79.0	66.7	28.4	60.2	63.1	48.9	163.3	85.0	80.4	74.1	62.5	48.2	50.6	89.2	31.7	1.9	8.5	3.5	4.0
United Kingdom	2.4	-0.9	6.5	3.3	0.3	0.0	8.6	3.0	5.9	0.1	-7.1	-5.8	-1.2	3.1	-0.3	-2.3	0.4	-0.8	1.7	1.1
United States[1]	6.1	4.8	2.2	2.8	-0.4	0.1	-0.9	0.9	2.7	-1.8	-3.6	-5.4	0.6	4.2	-2.5	-1.2	3.4	5.0	4.5	2.1
Total OECD	3.2	4.1	4.9	2.4	0.1	1.1	-0.1	2.7	5.6	1.9	1.4	-0.5	-0.7	6.0	1.0	-1.4	0.3	2.4	2.0	0.9

Note: Regional aggregates are calculated inclusive of intra-regional trade. They are calculated as the geometric averages of prices weighted by trade volumes expressed in 2000 US$.
1. Certain components are estimated on a hedonic basis.
Source: OECD Economic Outlook 77 database.

Annex Table 42. **Competitive positions: relative consumer prices**

Indices, 1995 = 100

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Australia	108.4	119.4	127.0	125.0	122.4	110.6	102.1	107.2	105.4	115.3	114.2	104.3	104.9	100.0	96.1	101.5	114.7	124.0
Austria	106.1	105.4	103.3	105.5	103.8	105.3	106.5	106.7	109.7	107.2	103.5	103.8	102.7	100.0	100.2	100.5	103.2	104.0
Belgium	109.2	106.3	104.1	108.3	107.2	107.9	107.8	109.5	113.1	110.4	105.0	105.7	104.2	100.0	100.8	102.0	106.6	108.2
Canada	121.6	128.9	134.4	134.0	138.0	127.5	118.8	109.2	106.9	106.9	106.2	100.2	99.4	100.0	96.9	96.0	106.7	112.4
Czech Republic	..	..	..	..	..	..	77.3	81.1	83.9	89.3	90.9	99.5	98.1	100.0	106.7	118.7	115.8	116.4
Denmark	104.5	103.9	101.1	105.0	101.1	101.7	102.6	102.3	105.9	104.3	101.6	103.7	103.8	100.0	101.4	103.3	108.1	108.7
Finland	134.4	138.6	145.2	149.0	142.2	122.8	102.7	106.6	114.4	107.7	103.7	104.8	104.6	100.0	101.3	102.4	106.6	106.3
France	112.3	109.8	106.7	110.4	106.9	108.4	109.6	109.4	111.6	110.9	106.4	107.1	104.8	100.0	99.7	101.0	105.7	107.2
Germany	110.0	107.1	103.3	106.4	105.0	109.7	113.4	114.1	118.4	113.6	108.0	109.1	106.5	100.0	99.9	100.6	105.3	106.4
Greece	89.4	91.3	91.3	95.8	97.1	99.7	100.4	101.2	104.4	107.3	108.0	106.5	106.9	100.0	100.9	103.6	109.6	111.8
Hungary	..	..	..	..	..	..	95.9	93.6	88.9	89.8	95.3	95.9	98.7	100.0	108.2	119.1	121.6	129.5
Iceland	106.3	112.6	105.5	102.6	104.8	104.7	98.6	92.3	90.9	90.3	91.7	93.9	96.5	100.0	88.7	94.8	99.4	101.9
Ireland	122.0	117.4	113.9	119.0	115.1	118.8	110.1	109.8	110.8	112.6	111.2	107.8	104.3	100.0	103.6	109.1	120.0	122.4
Italy	118.8	117.5	119.3	123.9	124.6	122.5	103.4	100.6	93.3	103.3	103.7	105.1	104.1	100.0	101.1	103.1	108.6	110.2
Japan	86.9	92.1	82.6	74.9	80.7	83.1	96.4	104.0	105.8	88.5	83.5	84.3	94.5	100.0	89.5	83.9	84.9	86.1
Korea	104.6	108.2	120.5	117.7	117.2	110.2	107.1	108.3	109.6	113.5	107.0	81.6	92.9	100.0	94.6	99.6	101.1	102.7
Luxembourg	104.7	103.1	101.4	104.6	103.6	104.6	104.5	105.7	108.3	105.8	102.6	102.9	102.2	100.0	100.6	101.9	105.5	106.8
Mexico	56.9	71.9	75.2	77.7	86.1	93.3	99.7	95.3	64.5	72.1	83.4	84.2	92.1	100.0	106.5	106.7	95.3	91.5
Netherlands	115.1	112.1	106.2	108.4	106.2	108.1	108.5	108.6	112.7	109.6	103.7	106.6	105.8	100.0	102.9	106.6	113.9	115.4
New Zealand	123.6	130.9	122.6	121.0	114.8	104.0	106.5	112.2	120.2	127.4	129.8	115.9	110.3	100.0	98.9	108.2	122.9	131.5
Norway	111.6	114.6	113.8	111.9	108.1	108.1	104.0	101.3	103.7	102.4	103.7	100.9	101.4	100.0	103.8	111.9	109.9	104.8
Poland	..	..	..	..	..	..	73.5	74.3	79.3	85.1	88.0	93.5	90.8	100.0	112.8	107.7	95.4	94.4
Portugal	82.5	82.9	85.2	89.8	95.5	104.0	100.9	99.3	102.8	102.7	101.4	102.1	102.2	100.0	102.5	104.7	108.4	109.1
Slovak Republic	..	..	..	..	..	..	85.2	84.3	86.2	86.0	90.9	91.9	90.7	100.0	101.2	102.4	115.4	126.3
Spain	101.8	106.9	113.2	120.0	121.5	121.0	107.9	103.0	104.5	106.2	101.5	102.3	102.1	100.0	102.0	104.4	109.1	111.1
Sweden	114.5	117.4	119.5	124.0	129.9	130.0	106.8	105.3	104.4	112.4	106.7	103.6	101.6	100.0	91.6	93.9	99.1	99.2
Switzerland	106.6	104.6	97.4	104.2	103.9	102.1	104.0	108.7	115.2	111.1	102.5	104.2	103.0	100.0	102.1	105.8	106.0	104.9
Turkey	74.0	71.1	76.8	85.9	87.5	84.1	90.2	66.3	71.8	72.6	77.5	85.2	89.5	100.0	81.5	88.6	96.1	100.9
United Kingdom	80.9	87.2	86.6	89.7	91.6	88.2	78.7	79.0	76.1	77.3	90.6	97.4	97.2	100.0	98.0	98.5	95.5	100.7
United States	95.3	89.1	89.1	87.3	85.7	83.9	85.1	85.2	84.0	86.6	91.0	98.2	97.0	100.0	105.7	105.8	99.6	95.4
Euro area	127.9	122.5	117.4	128.3	124.1	128.9	121.2	120.7	125.0	123.8	112.8	115.5	111.5	100.0	101.7	105.5	117.7	121.4

Note: Competitiveness-weighted relative consumer prices in dollar terms. Competitiveness weights take into account the structure of competition in both export and import markets of the manufacturing sector of 42 countries. An increase in the index indicates a real effective appreciation and a corresponding deterioration of the competitive position. For details on the method of calculation see Durand, M., C. Madaschi and F. Terribile (1998), "Trends in OECD Countries' International Competitiveness: The Influence of Emerging Market Economies", *OECD Economics Department Working Papers,* No. 195. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 77 database.

Annex Table 43. **Competitive positions: relative unit labour costs**

Indices, 1995 = 100

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Australia	187.9	184.5	187.1	170.8	152.1	132.3	116.2	117.9	114.7	118.8	119.8	106.2	104.8	100.0	92.9	98.9	112.7	126.2
Austria	165.6	157.3	148.9	147.7	145.7	148.2	150.3	138.7	137.9	140.8	126.9	113.1	109.2	100.0	95.8	96.3	99.0	99.4
Belgium	109.7	106.7	104.5	110.6	111.2	111.3	110.5	111.0	114.6	109.5	101.9	104.2	106.0	100.0	102.1	103.3	108.3	111.3
Canada	112.0	120.7	124.7	128.0	131.7	120.5	107.8	100.4	102.6	108.6	109.0	103.1	102.1	100.0	100.5	101.1	112.8	116.4
Czech Republic	..	..	..	..	..	..	83.6	89.7	84.7	90.5	89.3	98.1	99.7	100.0	102.6	108.9	106.7	107.4
Denmark	94.7	95.8	89.9	97.7	94.4	96.3	101.1	96.4	100.9	104.7	99.3	104.0	103.8	100.0	101.1	104.0	109.1	114.8
Finland	150.8	155.8	163.2	170.9	165.1	129.4	98.7	104.4	120.6	113.5	107.3	109.8	110.5	100.0	103.7	103.1	108.3	111.2
France	131.5	126.6	121.9	128.3	123.5	121.3	123.1	121.9	121.5	121.0	114.5	109.6	106.2	100.0	97.8	99.7	103.6	103.3
Germany	93.2	92.7	89.7	91.8	89.6	96.3	98.3	99.5	107.8	105.0	99.9	101.9	103.4	100.0	101.3	101.1	105.1	103.3
Greece	87.0	96.0	102.0	107.3	99.5	95.9	89.8	93.8	102.1	104.8	108.0	102.9	104.4	100.0	99.9	102.8	107.9	115.3
Hungary	..	..	..	..	..	..	155.1	154.4	127.1	117.5	117.8	108.6	109.0	100.0	109.4	124.8	131.4	138.9
Iceland	79.8	87.2	77.2	74.2	80.9	81.4	74.3	73.0	73.5	72.7	76.7	83.0	92.0	100.0	86.8	92.4	96.9	98.7
Ireland	245.5	224.6	211.5	222.8	211.4	204.3	187.9	178.4	160.1	155.2	131.9	127.7	116.8	100.0	98.9	93.8	102.0	108.9
Italy	108.3	105.6	106.0	112.7	117.2	115.2	105.7	100.7	87.6	97.8	99.1	104.0	105.8	100.0	100.7	107.4	116.4	122.6
Japan	68.6	70.9	64.3	59.9	65.8	72.6	87.0	96.3	97.9	82.9	78.5	84.9	96.9	100.0	92.8	84.5	83.0	81.9
Korea	88.6	109.0	128.9	125.2	127.8	117.7	113.9	117.3	130.6	140.4	126.1	87.5	93.6	100.0	92.9	97.3	97.2	99.1
Luxembourg	139.1	126.3	119.4	120.0	118.4	118.3	117.2	115.4	113.7	109.0	104.9	104.8	100.5	100.0	104.2	103.6	105.8	108.6
Mexico	85.9	89.4	99.1	100.7	112.7	125.5	135.2	131.9	82.1	83.6	91.8	88.9	92.3	100.0	106.6	110.0	98.0	95.2
Netherlands	113.3	111.0	103.5	104.8	104.1	107.2	106.5	102.9	106.9	103.3	100.0	104.0	104.4	100.0	102.7	109.1	120.3	122.2
New Zealand	93.0	103.6	96.1	96.2	95.3	85.4	88.7	97.0	104.0	115.5	121.2	111.6	111.9	100.0	96.9	106.7	122.4	132.7
Norway	78.0	82.5	81.1	79.9	79.1	78.0	76.3	80.3	85.0	84.6	91.3	95.0	97.7	100.0	102.0	115.9	116.1	112.0
Poland	..	..	..	..	..	..	85.3	90.8	99.3	101.3	101.7	107.1	100.1	100.0	103.4	93.2	76.4	68.9
Portugal	85.5	88.9	96.7	91.1	93.6	102.7	93.5	97.0	102.2	93.4	94.7	96.4	99.0	100.0	102.4	105.0	108.7	111.5
Slovak Republic	..	..	..	..	..	..	68.4	79.7	85.1	93.5	101.4	104.4	99.9	100.0	96.4	98.4	105.0	113.7
Spain	79.0	84.0	90.6	101.0	102.7	105.4	96.0	93.0	94.0	98.0	96.9	99.4	99.5	100.0	102.2	105.1	109.2	112.1
Sweden	140.1	145.7	152.8	157.1	160.8	157.7	112.6	106.5	106.5	118.9	111.9	107.5	101.9	100.0	96.5	92.9	95.8	99.5
Switzerland	87.3	88.9	83.8	89.5	90.7	88.2	87.8	96.4	105.6	101.3	96.4	99.1	100.5	100.0	104.9	112.0	114.7	116.2
Turkey	52.8	48.3	72.9	102.8	113.9	102.9	102.5	66.7	60.0	60.1	67.4	75.0	87.3	100.0	71.2	69.7	72.7	77.7
United Kingdom	74.6	79.7	77.0	79.4	82.1	76.1	67.3	68.7	68.4	71.1	86.2	95.4	97.0	100.0	97.1	101.3	96.5	99.9
United States	103.2	95.6	96.5	93.7	92.1	88.7	87.8	87.0	82.5	83.3	87.5	95.0	95.4	100.0	102.2	98.7	93.6	89.1
Euro area	120.6	115.4	109.5	121.1	117.5	122.7	118.0	115.0	118.9	119.5	108.4	110.6	111.0	100.0	101.3	106.4	119.9	123.8

Note: Competitiveness-weighted relative unit labour costs in the manufactoring sector in dollar terms. Competitiveness weights take into account the structure of competition in both export and import markets of the manufacturing sector of 42 countries. An increase in the index indicates a real effective appreciation and a corresponding deterioration of the competitive position. For details on the method of calculation see Durand, M., C. Madaschi and F. Terribile (1998), "Trends in OECD Countries' International Competitiveness: The Influence of Emerging Market Economies", *OECD Economics Department Working Papers,* No. 195. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Source: OECD Economic Outlook 77 database.

Annex Table 44. **Export performance for total goods and services**

Percentage changes from previous year

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	3.1	-6.5	-6.8	1.7	8.3	0.1	2.7	-1.1	-6.2	0.8	4.1	2.6	-2.9	-1.5	2.5	-5.0	-8.1	-6.0	-3.1	-1.6
Austria	-1.9	3.6	3.6	1.9	1.8	3.3	-1.0	-1.9	-1.9	-1.0	2.4	0.8	-0.1	-1.3	4.3	1.9	-3.3	0.5	-2.1	-1.4
Belgium	-1.4	2.6	0.9	-0.8	-1.0	0.2	1.5	1.1	-2.9	-3.0	-3.0	-2.3	-1.6	-3.3	0.1	-0.8	-1.5	-2.2	-0.6	-1.2
Canada	-2.9	3.6	-4.0	0.8	1.4	0.9	2.9	1.1	0.1	-2.9	-3.8	-0.6	0.2	-3.6	-0.8	-2.2	-6.7	-4.6	-5.5	-2.7
Czech Republic	..	..	..	..	..	..	..	-2.4	7.8	-1.3	-1.4	2.2	0.8	3.9	8.6	0.1	1.3	11.5	4.2	2.5
Denmark	-1.2	4.5	-3.0	1.8	4.5	-2.3	-1.8	-1.6	-4.8	-1.8	-5.6	-3.6	5.7	2.2	3.6	3.3	-5.4	-3.5	-3.5	-1.6
Finland	-1.7	-4.1	-3.9	-0.7	-7.0	14.9	14.0	5.1	0.1	-1.0	3.7	3.7	1.0	6.2	-2.7	1.7	-4.2	-5.7	-3.7	-4.5
France	-3.4	0.9	2.5	-0.4	1.4	2.4	-0.3	0.4	-0.2	-2.7	2.0	1.3	-2.7	2.4	0.3	-0.5	-6.3	-4.3	-3.7	-1.9
Germany	-5.2	-2.2	2.5	8.6	-7.8	-3.4	-7.1	-0.3	-2.6	-1.2	1.3	-0.6	-1.0	1.9	4.5	1.0	-2.5	-1.2	-1.9	-1.3
Greece	0.9	-8.0	-4.4	-6.5	3.5	12.4	-4.5	0.1	-4.3	-2.7	9.1	-1.4	10.9	2.1	-2.3	-10.5	-3.8	1.0	-0.2	-1.2
Hungary	..	..	..	..	..	..	..	6.1	26.8	6.6	12.3	10.1	6.1	8.0	5.2	2.0	2.6	7.1	4.4	3.5
Iceland	-3.1	-11.7	-5.1	-4.7	-7.5	-4.1	6.3	1.1	-9.6	2.6	-3.2	-4.1	-2.7	-5.8	6.1	1.7	-1.7	0.7	2.1	-0.8
Ireland	6.4	0.5	2.2	3.6	3.3	9.9	8.6	6.3	11.1	5.3	7.3	14.3	7.2	8.2	7.4	3.0	-4.1	-3.0	1.1	-0.7
Italy	-1.0	-2.4	0.2	3.0	-4.4	7.7	7.5	2.2	4.1	-5.4	-3.1	-3.1	-6.0	-2.3	0.0	-5.8	-6.3	-5.3	-7.4	-3.6
Japan	-8.6	-4.1	1.5	-0.1	-2.8	-3.6	-7.5	-7.6	-6.4	-2.4	0.7	-2.3	-6.7	-2.3	-4.2	2.1	2.8	3.3	-3.0	-1.8
Korea	13.5	0.8	-11.6	-1.1	5.6	6.0	5.0	5.6	11.9	2.2	11.2	12.6	6.9	4.8	-2.1	8.0	8.0	7.9	1.2	2.5
Luxembourg	-2.8	3.2	4.4	0.3	5.8	0.5	5.3	-0.5	-2.7	0.9	5.2	5.1	7.7	5.3	0.4	-2.1	-0.9	1.0	-0.6	-1.3
Mexico	3.3	1.0	1.1	1.4	4.6	-1.9	-0.2	5.5	20.1	9.1	-2.4	1.1	1.9	3.3	-1.5	-1.2	-1.6	1.4	-0.3	-0.1
Netherlands	-2.7	0.1	-0.6	-0.3	1.5	-0.2	5.7	1.8	1.4	-0.5	-0.1	-0.1	-1.4	0.0	0.2	-0.8	-3.4	1.1	-5.3	-1.1
New Zealand	-1.2	-5.2	-11.7	1.0	8.0	-1.7	-0.1	-1.0	-5.9	-5.0	-4.5	0.3	0.0	-5.1	4.0	0.6	-4.3	-5.0	-2.1	-0.6
Norway	-4.9	-2.0	3.2	4.8	5.0	1.8	2.1	-0.3	-2.6	3.8	-2.1	-7.1	-3.9	-6.7	4.0	-3.1	-1.4	-5.7	-5.6	-4.8
Poland	..	..	..	..	..	..	..	5.5	13.8	6.4	3.3	8.3	-6.8	9.5	-0.8	2.0	8.4	1.6	-0.2	-2.4
Portugal	3.3	-0.2	3.1	3.4	-3.7	-0.4	-1.9	0.2	1.0	1.5	-2.7	-0.1	-4.5	-2.7	-0.7	0.1	1.7	-2.0	-4.6	-2.4
Slovak Republic	..	..	..	..	..	..	..	6.8	-5.0	-7.1	7.8	5.1	0.0	0.4	1.5	2.7	15.4	0.8	2.1	1.2
Spain	-1.6	-3.8	-5.3	-1.5	4.2	3.8	8.7	8.4	1.6	5.1	5.0	-0.4	1.6	-0.7	2.2	-0.1	-0.2	-2.6	-1.1	-1.4
Sweden	0.3	-3.9	-3.6	-2.3	-3.8	0.6	6.6	5.1	2.9	-2.6	2.9	1.6	2.3	-0.3	-0.6	-1.9	0.9	1.9	0.2	-0.6
Switzerland	-4.9	-1.4	-1.9	-3.3	-5.7	0.4	0.9	-5.8	-7.2	-2.2	1.5	-1.9	-0.4	0.4	-0.5	-2.3	-3.9	-1.3	-2.1	-1.9
Turkey	22.1	11.2	-6.7	0.5	2.2	17.5	7.1	8.2	0.9	15.3	9.8	7.2	-12.1	6.7	3.9	7.0	10.0	3.2	5.3	5.2
United Kingdom	0.5	-5.8	-3.0	0.3	-3.8	1.8	3.0	0.5	0.6	2.2	-1.4	-4.3	-2.7	-2.4	2.0	-2.4	-2.8	-4.8	-4.3	-1.2
United States	3.6	3.1	2.6	2.7	0.7	0.7	-1.3	-1.5	2.4	-0.2	0.7	-0.7	-1.9	-3.1	-4.7	-4.3	-2.0	-1.0	-1.3	0.1
Total OECD	-1.6	-0.7	0.1	1.9	-1.3	0.7	-0.7	-0.3	0.4	-0.5	0.6	-0.3	-1.6	-0.6	-0.3	-1.0	-1.9	-1.0	-2.3	-0.9
Memorandum items																				
China	..	..	..	..	9.4	11.8	10.2	15.9	-4.0	8.4	14.0	8.6	5.7	12.6	7.4	21.5	20.8	10.2	14.0	10.7
Dynamic Asia [1]	..	..	..	..	6.2	6.4	4.5	1.9	1.3	-4.4	-2.0	-2.0	-1.9	-1.5	-4.6	1.5	0.8	0.3	0.8	0.1
Other Asia	..	..	..	..	7.1	4.8	4.8	0.7	2.3	0.7	2.6	5.6	2.0	5.2	7.0	2.8	3.2	0.8	4.6	4.2
Latin America	..	..	..	..	-4.4	1.6	5.2	-5.2	-3.6	-1.0	-1.5	1.2	-2.8	-4.7	5.0	1.4	3.1	3.7	-0.5	-4.5
Africa and Middle-East	..	..	..	..	-4.8	4.1	3.4	-3.5	-7.7	-3.0	-2.1	1.1	-0.5	-4.4	1.2	-1.6	2.1	-5.5	-3.4	-1.2
Central and Eastern Europe [2]	..	..	..	..	-10.9	-8.3	15.5	-7.8	-6.5	-4.4	-4.3	0.1	3.8	-4.8	2.1	4.6	2.5	0.8	-0.1	-2.1

Note: Regional aggregates are calculated inclusive of intra-regional trade. Export performance is the ratio between export volumes and export markets for total goods and services. The calculation of export markets is based on a weighted average of import volumes in each exporting country's markets, with weights based on trade flows in 2000.

1. Dynamic Asia includes Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.
2. Data prior to 1996 are OECD estimates.

Source: OECD Economic Outlook 77 database.

Annex Table 45. **Shares in world exports and imports**

Percentage, values for goods and services, national accounts basis

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
A. Exports																
Canada	3.5	3.4	3.6	3.6	3.5	3.6	3.7	3.8	4.1	4.2	4.1	3.8	3.6	3.4	3.3	3.2
France	6.1	6.2	5.6	5.5	5.6	5.4	5.2	5.6	5.3	4.8	4.9	4.9	4.9	4.7	4.5	4.4
Germany	10.9	10.6	9.4	9.3	9.6	9.1	8.6	9.1	8.8	8.0	8.6	9.1	9.4	9.3	9.1	8.8
Italy	5.0	5.1	4.7	4.6	4.7	4.8	4.5	4.6	4.3	3.9	4.1	4.0	4.1	4.1	3.8	3.7
Japan	8.0	8.0	8.4	8.2	7.7	6.9	6.7	6.2	6.4	6.5	5.7	5.6	5.5	5.6	5.2	5.1
United Kingdom	5.5	5.5	5.2	5.2	5.1	5.3	5.5	5.6	5.5	5.2	5.2	5.2	5.0	4.8	4.6	4.4
United States	13.8	13.7	13.9	13.6	12.9	13.1	13.9	14.1	14.1	14.0	13.6	12.6	11.3	10.6	10.4	10.4
Other OECD countries	23.9	24.0	24.0	24.4	25.4	25.4	24.9	26.0	26.0	25.2	25.9	26.2	26.9	27.1	26.8	26.4
Total OECD	76.6	76.5	74.9	74.5	74.4	73.5	72.9	75.0	74.4	71.8	72.1	71.4	70.8	69.6	67.7	66.4
Non-OECD Asia	11.6	12.5	13.7	14.6	15.0	15.3	15.9	14.9	15.2	16.3	16.1	16.9	17.0	17.4	18.3	19.4
Latin America	2.6	2.6	2.8	2.9	2.8	2.8	3.0	2.9	2.8	2.9	2.9	2.7	2.7	2.9	3.0	2.9
Other non-OECD countries[1]	9.2	8.4	8.6	8.0	7.9	8.3	8.2	7.2	7.6	9.0	8.9	9.0	9.6	10.1	11.1	11.3
Total of non-OECD countries	23.4	23.5	25.1	25.5	25.6	26.5	27.1	25.0	25.6	28.2	27.9	28.6	29.2	30.4	32.3	33.6
B. Imports																
Canada	3.5	3.4	3.6	3.6	3.3	3.2	3.5	3.6	3.7	3.7	3.6	3.4	3.2	3.1	3.0	2.8
France	6.1	6.1	5.2	5.2	5.3	5.1	4.7	5.1	4.9	4.6	4.6	4.6	4.7	4.7	4.6	4.4
Germany	10.9	10.7	9.4	9.3	9.5	8.9	8.3	8.8	8.6	8.0	8.1	8.0	8.4	8.1	7.9	7.6
Italy	4.9	5.1	4.1	4.0	4.1	3.9	3.9	4.1	4.0	3.7	3.9	3.9	4.1	4.0	3.9	3.8
Japan	6.7	6.3	6.4	6.5	6.6	6.6	6.2	5.2	5.5	5.7	5.3	5.0	4.8	4.8	4.6	4.4
United Kingdom	5.8	5.7	5.5	5.5	5.3	5.4	5.6	5.9	5.9	5.5	5.7	5.8	5.6	5.5	5.2	5.0
United States	14.3	14.4	15.4	15.6	14.6	14.8	15.7	16.6	17.9	18.8	18.4	18.0	16.8	16.3	16.1	15.9
Other OECD countries	23.9	24.1	23.6	24.0	24.5	24.8	24.3	25.1	25.2	24.5	24.6	25.2	25.9	26.3	26.3	25.8
Total OECD	76.1	75.8	73.4	73.8	73.0	72.8	72.2	74.5	75.7	74.5	74.2	73.8	73.5	72.7	71.4	69.6
Non-OECD Asia	11.3	12.4	14.2	15.0	15.6	15.7	15.9	13.9	14.1	15.3	15.0	15.5	15.8	16.4	17.0	17.9
Latin America	2.3	2.5	3.0	3.0	3.2	3.1	3.5	3.6	3.0	2.9	3.0	2.5	2.3	2.5	2.6	2.7
Other non-OECD countries[1]	10.3	9.3	9.5	8.3	8.2	8.3	8.4	8.0	7.3	7.2	7.9	8.2	8.4	8.4	9.0	9.8
Total of non-OECD countries	23.9	24.2	26.6	26.2	27.0	27.2	27.8	25.5	24.3	25.5	25.8	26.2	26.5	27.3	28.6	30.4

Note: Regional aggregates are calculated inclusive of intra-regional trade.

1. Central and Eastern Europe data prior to 1995 are OECD estimates.

Source: OECD Economic Outlook 77 database.

Annex Table 46. **Geographical structure of world trade growth**

Average of export and import volumes

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
A. Trade growth by main regions (percentage changes from previous year)																
NAFTA[1]	3.2	7.2	6.5	11.1	8.3	8.9	12.8	7.9	8.9	11.5	-3.7	1.1	2.7	9.0	7.1	7.4
OECD Europe	1.7	3.0	3.1	8.2	8.1	5.2	10.1	8.2	5.8	11.7	2.6	1.6	2.1	6.3	4.9	7.7
OECD Asia & Pacific[2]	3.8	3.2	1.6	8.6	11.0	10.2	7.5	-3.9	7.1	12.3	-3.2	7.1	8.0	13.1	6.7	9.0
Total OECD	2.5	4.2	3.8	9.1	8.6	7.0	10.5	6.3	6.9	11.7	-0.2	2.2	3.1	8.1	5.8	7.8
China	15.3	22.8	24.2	21.3	13.0	22.8	18.2	1.9	16.4	25.4	6.1	23.1	26.4	19.1	17.2	19.7
Non-OECD Asia excluding China	12.8	12.4	12.0	13.7	14.2	6.8	8.3	-5.9	5.5	15.7	-4.3	6.2	6.4	11.4	8.4	10.2
Latin America	9.1	13.5	16.0	8.7	11.0	5.2	15.6	8.0	-5.2	5.9	3.4	-5.7	5.5	16.4	10.8	7.1
Other non-OECD countries	-4.9	-4.5	7.2	-0.1	1.2	4.9	5.5	0.0	5.2	9.1	5.8	6.7	8.7	8.6	11.5	13.8
Non-OECD[3]	4.1	5.7	11.3	8.4	9.2	7.3	9.1	-1.7	5.2	13.6	0.9	7.3	10.1	12.3	11.2	12.8
World	2.9	4.6	5.8	8.9	8.8	7.1	10.1	4.0	6.4	12.2	0.1	3.5	5.1	9.4	7.4	9.4
B. Contribution to World Trade growth by main regions (percentage points)																
NAFTA[1]	0.6	1.4	1.3	2.3	1.7	1.8	2.7	1.7	2.0	2.6	-0.8	0.2	0.6	1.9	1.5	1.5
OECD Europe	0.7	1.3	1.3	3.3	3.3	2.1	4.0	3.2	2.4	4.8	1.0	0.6	0.9	2.5	1.9	2.9
OECD Asia & Pacific[2]	0.4	0.4	0.2	0.9	1.2	1.1	0.8	-0.4	0.7	1.2	-0.3	0.7	0.8	1.3	0.7	0.9
Total OECD	1.8	3.1	2.8	6.5	6.1	5.0	7.5	4.5	5.1	8.6	-0.1	1.6	2.2	5.7	4.1	5.4
China	0.2	0.3	0.4	0.4	0.3	0.5	0.5	0.1	0.5	0.8	0.2	0.8	1.1	1.0	1.0	1.2
Non-OECD Asia excluding China	1.3	1.4	1.4	1.7	1.9	0.9	1.1	-0.8	0.7	1.9	-0.5	0.7	0.8	1.4	1.1	1.3
Latin America	0.2	0.4	0.5	0.3	0.4	0.2	0.5	0.3	-0.2	0.2	0.1	-0.2	0.2	0.5	0.3	0.2
Other non-OECD countries	-0.6	-0.5	0.8	0.0	0.1	0.5	0.5	0.0	0.4	0.8	0.5	0.6	0.8	0.8	1.0	1.3
Non-OECD[3]	1.1	1.5	3.1	2.4	2.6	2.1	2.6	-0.5	1.4	3.6	0.2	2.0	2.8	3.6	3.4	4.0
World	2.9	4.6	5.8	8.9	8.8	7.1	10.1	4.0	6.4	12.2	0.1	3.5	5.1	9.4	7.4	9.4

Note: Regional aggregates are calculated inclusive of intra-regional trade as the sum of volumes expressed in 2000 $.
1. Canada, Mexico and United States.
2. Australia, Japan, Korea and New Zealand.
3. Central and Eastern Europe data prior to 1996 are OECD estimates.
Source: OECD Economic Outlook 77 database.

Annex Table 47. **Trade balances for goods and services**

$ billion, national accounts basis

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	-2.1	-3.1	-7.7	-3.2	1.1	-0.9	-1.5	-4.5	-5.2	-0.7	1.5	-6.5	-10.7	-4.6	1.5	-5.7	-15.5	-19.0	-14.3	-11.3
Austria	-0.3	-0.2	0.3	0.8	-0.2	-1.6	0.8	-1.8	-1.8	-3.0	0.1	2.3	2.5	4.3	7.3	10.0	9.8	15.3	15.7	16.3
Belgium	2.3	3.8	3.9	4.0	4.3	5.8	7.3	10.1	12.5	10.7	11.2	10.5	10.8	6.8	8.3	11.1	12.1	9.8	7.4	7.6
Canada	5.0	3.8	0.2	0.8	-3.4	-2.2	0.0	6.7	18.9	24.7	12.6	12.3	24.2	41.6	41.1	32.5	34.2	43.9	39.4	49.7
Czech Republic	..	..	..	..	..	..	-0.3	-1.0	-2.4	-3.7	-3.1	-0.7	-0.7	-1.7	-1.5	-1.6	-2.0	-0.3	0.8	1.4
Denmark	1.9	3.2	3.3	6.8	7.9	9.7	9.4	8.1	7.4	9.0	6.0	3.5	8.3	9.4	10.3	9.8	13.1	12.3	9.6	9.3
Finland	0.1	-0.8	-2.3	-2.2	-1.1	1.0	4.1	5.7	10.2	9.7	9.9	11.4	10.8	11.2	10.1	11.2	10.7	10.2	9.8	9.3
France	-8.9	-8.1	-9.2	-11.8	-5.4	8.1	19.4	18.4	22.7	25.7	41.3	38.8	32.3	17.3	21.6	27.3	20.6	11.3	-8.0	-0.7
Germany	54.9	59.5	59.2	90.8	-3.4	-4.9	3.0	6.2	15.8	24.8	29.0	31.7	16.2	7.7	37.5	90.6	105.1	139.2	150.3	166.9
Greece	-2.5	-3.7	-5.3	-8.3	-8.6	-8.2	-7.6	-6.3	-8.6	-9.9	-8.9	-10.2	-10.7	-11.9	-10.0	-11.4	-15.5	-17.3	-17.4	-16.8
Hungary	..	..	..	..	..	..	-3.1	-2.4	-0.1	0.2	0.4	-0.7	-1.3	-1.8	-0.8	-1.6	-3.4	-3.7	-2.0	-1.7
Iceland	-0.1	-0.1	0.1	0.1	-0.1	0.0	0.2	0.3	0.3	0.0	0.0	-0.4	-0.4	-0.6	-0.1	0.1	-0.3	-0.7	-1.3	-1.4
Ireland	1.4	2.3	2.1	2.2	2.4	4.1	5.3	5.4	7.6	8.5	10.0	10.0	13.0	12.4	15.5	20.1	23.5	28.3	32.4	36.7
Italy	3.6	0.6	-1.6	0.6	-0.2	-1.3	32.1	35.7	44.6	60.8	47.4	40.6	24.4	10.7	15.8	12.1	8.8	13.5	-9.6	-14.8
Japan	72.8	64.4	45.5	28.5	56.2	82.2	97.0	96.5	74.8	23.4	47.4	72.4	69.4	68.0	26.2	51.2	69.1	89.0	79.0	97.0
Korea	9.8	13.4	4.7	-2.8	-8.2	-3.8	1.4	-3.1	-5.7	-19.2	-4.3	44.1	29.8	16.1	11.1	7.4	14.6	29.5	26.5	16.8
Luxembourg	0.0	0.1	0.4	0.4	0.3	1.0	1.3	1.8	2.2	2.1	2.4	2.8	3.3	4.1	3.4	4.0	5.1	6.9	7.8	8.5
Mexico	10.5	2.5	-0.1	-2.8	-9.1	-18.3	-15.8	-20.3	7.6	6.9	-0.4	-9.0	-7.8	-11.3	-14.1	-12.1	-10.4	-12.6	-19.4	-21.5
Netherlands	4.2	6.9	6.3	11.0	12.0	11.6	18.0	21.3	24.7	23.7	22.3	21.3	17.4	19.3	20.3	21.5	25.8	31.3	34.2	34.8
New Zealand	0.2	1.5	0.2	0.1	1.3	0.8	1.2	1.1	0.7	0.3	0.2	0.2	-0.5	0.5	1.6	0.7	0.5	-0.4	-0.4	-0.7
Norway	-2.0	-0.5	3.6	7.7	9.5	8.8	7.7	7.7	9.2	14.3	13.1	2.8	11.8	28.8	29.0	26.1	30.0	35.5	43.4	45.5
Poland	..	..	..	..	..	..	0.8	2.1	3.0	-2.2	-6.1	-8.3	-9.9	-10.9	-6.8	-6.4	-5.2	-4.3	-4.6	-5.9
Portugal	-2.0	-4.0	-3.1	-4.7	-5.8	-7.3	-6.0	-6.2	-6.7	-7.4	-8.2	-9.9	-11.9	-12.0	-11.2	-9.8	-9.5	-12.7	-15.8	-16.6
Slovak Republic	..	..	..	..	..	..	-0.6	0.9	0.5	-2.2	-2.0	-2.4	-0.9	-0.5	-1.7	-1.7	-0.5	-1.1	-1.7	-1.6
Spain	-0.4	-4.8	-13.6	-17.6	-17.9	-17.2	-4.0	-0.8	-1.1	3.1	5.7	0.3	-7.5	-12.5	-9.3	-8.6	-13.9	-36.9	-55.5	-64.9
Sweden	3.3	3.3	1.3	1.2	4.2	4.5	7.3	9.7	16.8	17.8	17.9	15.6	15.5	13.9	14.1	16.2	20.5	27.7	21.8	22.7
Switzerland	3.7	3.4	1.9	3.3	5.5	11.0	14.3	14.9	16.3	15.6	14.6	13.3	15.0	14.1	11.0	19.0	22.9	27.2	26.9	28.7
Turkey	-1.8	0.8	-1.6	-6.4	-4.1	-4.7	-10.2	0.5	-7.3	-11.4	-11.0	-7.4	-6.3	-14.9	3.1	-2.7	-8.0	-17.5	-23.8	-26.5
United Kingdom	-8.3	-30.4	-34.6	-25.2	-10.9	-13.3	-9.8	-7.3	-5.6	-5.3	1.7	-14.1	-25.8	-29.5	-39.5	-46.9	-52.6	-71.2	-77.4	-83.5
United States	-145.2	-110.4	-88.2	-78.0	-27.5	-33.3	-65.0	-93.6	-91.4	-96.3	-101.6	-160.0	-260.5	-379.5	-367.0	-424.9	-498.1	-606.2	-710.5	-761.7
Euro area	52.3	51.5	37.1	65.3	-23.6	-8.8	73.6	89.4	122.2	148.7	162.1	149.5	100.5	57.4	109.5	178.1	182.7	198.9	151.2	166.3
Total OECD	-0.1	3.5	-34.2	-4.5	-1.3	31.7	106.7	105.7	159.9	120.1	149.1	104.3	-50.3	-205.5	-173.2	-162.2	-208.4	-273.1	-456.7	-478.4

Source: OECD Economic Outlook 77 database.

Annex Table 48. **Investment income, net**

$ billion

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	-5.8	-8.6	-10.4	-13.2	-12.2	-10.1	-8.1	-12.4	-14.0	-15.2	-13.8	-11.4	-11.6	-10.8	-9.9	-11.0	-14.6	-20.2	-23.3	-24.8
Austria	-0.8	-0.9	-0.9	-0.9	-1.4	-1.4	-1.5	-1.7	-2.4	-0.9	-1.5	-2.0	-2.9	-2.5	-3.1	-1.6	-1.9	-2.3	-2.5	-2.5
Belgium[1]	1.8	2.1	4.0	4.8	5.7	6.4	6.9	7.4	7.3	6.8	6.3	6.9	6.6	5.9	5.6	7.6	7.9	7.4	8.1	8.4
Canada	-17.1	-17.5	-20.5	-19.4	-17.4	-17.5	-20.8	-18.9	-22.7	-21.5	-20.9	-20.0	-22.6	-22.3	-25.4	-18.3	-16.8	-17.3	-20.4	-19.6
Czech Republic	..	..	..	..	..	..	-0.1	0.0	-0.1	-0.7	-0.8	-1.1	-1.4	-1.4	-2.2	-3.6	-4.2	-5.4	-6.8	-7.4
Denmark	-4.1	-3.7	-3.8	-5.1	-5.1	-4.9	-3.8	-3.8	-3.8	-3.7	-3.4	-2.8	-2.5	-4.1	-3.0	-3.1	-2.6	-2.2	-1.0	-0.7
Finland	-1.6	-1.7	-2.7	-3.7	-4.7	-5.5	-4.9	-4.3	-4.4	-3.7	-2.5	-3.1	-2.4	-1.7	-0.9	-0.5	-3.4	-1.2	-0.2	1.0
France	-1.7	-1.0	-0.3	-1.6	-3.3	-6.0	-6.6	-6.0	-8.4	-1.9	7.1	8.7	19.0	15.5	14.6	4.0	7.1	8.2	8.1	10.5
Germany	5.2	9.4	14.3	20.5	20.3	21.8	16.7	2.9	0.2	1.3	-1.5	-7.7	-11.6	-6.7	-8.4	-14.2	-15.2	0.4	2.1	5.4
Greece	-1.7	-1.8	-1.9	-2.0	-2.0	-2.4	-1.7	-1.4	-1.8	-2.1	-1.7	-1.6	-0.7	-0.9	-1.8	-2.0	-2.9	-3.0	-2.8	-3.1
Hungary	..	..	..	..	..	..	-1.1	-1.3	-1.7	-2.0	-2.7	-3.0	-2.9	-2.6	-2.9	-3.6	-4.4	-6.1	-7.2	-7.5
Iceland	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.1	-0.2	-0.3	-0.6	-0.8
Ireland	-3.1	-3.9	-4.3	-5.0	-4.6	-5.6	-5.3	-5.4	-7.3	-8.2	-9.7	-10.6	-13.7	-13.5	-16.4	-22.2	-26.2	-29.5	-31.0	-32.9
Italy	-4.9	-5.5	-7.2	-14.5	-17.5	-21.9	-17.5	-16.8	-15.8	-15.5	-10.2	-11.2	-11.1	-11.8	-10.4	-14.5	-19.2	-17.1	-16.8	-14.6
Japan	16.4	21.1	22.9	22.7	26.1	35.5	41.1	40.5	44.1	53.3	58.1	54.6	58.4	60.4	69.3	66.0	71.6	86.0	105.0	113.5
Korea	-1.6	-1.3	-0.6	-0.1	-0.2	-0.4	-0.4	-0.5	-1.3	-1.8	-2.5	-5.6	-5.2	-2.4	-1.2	0.4	0.3	0.7	1.1	1.5
Luxembourg	..	..	..	..	..	..	..	..	1.6	1.3	0.5	0.2	-0.5	-1.3	-1.6	-2.3	-3.0	-3.7	-5.5	-5.9
Mexico	-6.8	-7.2	-8.3	-8.6	-8.6	-9.6	-11.4	-13.0	-13.3	-13.9	-12.8	-13.3	-12.9	-14.9	-14.0	-12.0	-12.2	-12.7	-12.7	-13.6
Netherlands	1.4	1.2	2.9	-0.6	0.4	-1.0	0.9	3.6	7.3	3.5	7.0	-2.7	3.5	-2.2	-0.2	1.9	-2.1	-2.4	0.6	2.6
New Zealand	-2.0	-2.1	-1.9	-1.6	-2.5	-2.5	-2.9	-3.4	-4.0	-4.7	-4.9	-2.6	-3.1	-3.2	-3.0	-3.0	-3.9	-5.9	-6.6	-6.9
Norway	-1.5	-2.5	-2.8	-3.4	-3.9	-2.8	-2.8	-2.2	-1.8	-1.9	-1.6	-1.3	-2.0	-1.8	-1.1	0.2	1.3	1.6	2.4	2.5
Poland	..	..	..	..	..	..	..	-2.6	-2.0	-1.1	-1.1	-1.2	-1.0	-1.5	-1.4	-1.9	-3.6	-4.6	-5.7	-5.9
Portugal	-0.8	-0.8	-0.6	-0.1	0.2	0.6	0.2	-0.6	0.0	-1.0	-1.5	-1.6	-1.8	-3.0	-3.0	-2.1	-1.7	-3.1	-3.6	-3.9
Slovak Republic	..	..	..	..	..	..	0.0	-0.1	0.0	0.0	-0.1	-0.2	-0.3	-0.4	-0.3	-0.5	-0.1	-0.4	-0.6	-0.7
Spain	-2.6	-3.3	-2.8	-3.5	-4.3	-5.8	-3.6	-7.8	-4.1	-6.1	-6.8	-7.5	-9.5	-8.3	-9.8	-10.6	-11.9	-15.9	-17.2	-18.1
Sweden	-1.6	-1.8	-2.3	-4.5	-6.4	-10.0	-8.8	-5.9	-5.5	-6.3	-4.9	-3.2	-2.0	-1.4	-1.4	-1.1	0.3	2.3	5.7	5.7
Switzerland	6.3	8.3	7.4	7.9	7.9	7.3	8.2	6.9	10.8	11.6	15.3	16.8	19.4	21.1	14.0	10.7	26.1	23.7	25.8	27.5
Turkey	-2.1	-2.5	-2.3	-2.5	-2.7	-2.6	-2.7	-3.3	-3.2	-2.9	-3.0	-3.0	-3.5	-4.0	-5.0	-4.6	-5.6	-5.5	-5.5	-6.2
United Kingdom	1.4	1.3	-1.2	-5.1	-5.9	0.2	-0.3	5.1	3.3	1.8	6.4	21.4	-1.8	8.0	16.8	33.4	37.9	44.1	47.2	50.1
United States	14.3	18.7	19.8	28.5	24.1	24.2	25.3	17.1	20.9	22.3	12.6	3.8	13.2	20.6	23.6	7.2	33.3	24.1	-2.3	-28.9
Euro area	-8.7	-6.0	0.6	-6.6	-11.2	-20.8	-16.4	-30.1	-27.9	-26.6	-14.5	-32.1	-25.0	-30.5	-35.3	-56.5	-72.5	-62.3	-60.7	-53.2
Total OECD	-13.1	-4.2	-3.7	-11.3	-18.3	-14.1	-5.2	-28.0	-22.5	-13.5	5.2	-4.2	-7.0	8.6	17.4	-1.2	30.1	39.6	33.9	24.4

Note: The classification of non-factor services and investment income is affected by the change in reporting system to the International Monetary Fund, Fifth Balance of Payments Manual.

1. Including Luxembourg until 1994.

Source: OECD Economic Outlook 77 database.

Annex Table 49. **Total transfers, net**

$ billion

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	0.0	0.0	0.2	0.4	0.1	-0.1	-0.1	-0.2	-0.1	0.1	0.0	-0.3	0.0	0.0	0.0	-0.1	-0.2	-0.3	-0.2	-0.2
Austria	-0.1	0.0	-0.1	0.0	-0.1	-1.0	-1.0	-1.1	-1.7	-1.8	-1.7	-1.9	-2.0	-1.3	-1.2	-1.8	-2.3	-2.7	-3.0	-3.1
Belgium[1]	-1.4	-1.7	-1.8	-2.0	-2.1	-2.5	-2.6	-3.3	-4.2	-4.1	-3.7	-4.3	-4.6	-3.9	-4.1	-4.3	-6.3	-6.8	-7.4	-7.7
Canada	-0.9	-0.9	-1.0	-0.8	-1.1	-0.9	-0.6	-0.3	-0.1	0.5	0.5	0.6	0.5	0.8	1.0	0.6	0.2	0.1	0.1	0.1
Czech Republic	..	..	..	..	..	..	0.1	0.1	0.6	0.4	0.4	0.5	0.6	0.4	0.5	0.9	0.5	0.2	0.1	0.1
Denmark	..	-1.0	-1.2	-1.2	-1.6	-1.7	-1.7	-2.0	-2.4	-2.6	-1.8	-2.3	-2.7	-3.0	-2.6	-3.0	-3.5	-4.2	-4.6	-4.6
Finland	-0.5	-0.5	-0.8	-1.0	-1.0	-0.8	-0.5	-0.5	-0.5	-0.9	-0.7	-1.1	-1.0	-0.7	-0.7	-0.7	-1.1	-1.1	-2.3	-2.3
France	-5.4	-6.7	-7.7	-9.8	-9.3	-11.1	-8.2	-11.5	-5.9	-7.4	-12.9	-12.1	-13.0	-13.9	-14.8	-14.4	-19.4	-21.8	-19.6	-19.5
Germany	-16.4	-18.7	-18.5	-21.9	-35.3	-32.6	-33.1	-36.5	-38.5	-33.8	-30.4	-30.2	-26.7	-26.1	-24.6	-26.4	-32.5	-35.0	-43.9	-43.6
Greece[2]	3.0	3.6	4.0	4.7	6.2	6.5	6.5	6.9	8.0	8.0	8.3	7.9	4.1	3.4	3.4	3.6	4.3	4.5	3.8	3.9
Hungary	..	..	..	..	..	..	0.8	0.9	0.2	0.0	0.2	0.2	0.4	0.4	0.4	0.5	0.7	0.3	1.2	1.6
Iceland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ireland	1.3	1.4	1.5	2.4	2.6	2.1	1.9	1.7	1.8	2.2	2.0	1.5	1.3	0.9	0.3	0.7	0.5	0.4	0.7	0.6
Italy	-0.8	-2.3	-3.9	-4.0	-7.6	-7.8	-7.3	-7.2	-4.2	-6.6	-4.2	-7.4	-5.4	-4.3	-5.8	-5.5	-8.1	-9.6	-13.3	-13.2
Japan	-3.1	-3.3	-3.1	-4.8	-12.0	-3.8	-5.1	-6.1	-7.7	-9.0	-8.9	-8.8	-12.1	-9.8	-7.9	-4.9	-7.4	-7.9	-7.3	-7.3
Korea	1.8	2.3	1.1	1.1	0.8	1.1	1.2	1.3	0.2	0.0	0.7	3.4	1.9	0.7	-0.4	-1.6	-2.9	-2.5	-3.3	-3.2
Luxembourg	..	..	..	..	..	..	..	..	-0.6	-0.6	-0.5	-0.4	-0.6	-0.5	-0.5	-0.2	-0.5	-1.2	-1.7	-1.5
Mexico	1.9	2.3	2.5	4.0	3.0	3.4	3.6	3.8	4.0	4.5	5.2	6.0	6.3	7.0	9.3	10.3	13.9	17.0	18.1	19.1
Netherlands	-2.0	-1.9	-1.9	-2.9	-4.1	-4.3	-4.5	-5.2	-6.4	-6.8	-6.1	-7.2	-6.4	-6.3	-6.7	-6.5	-7.9	-9.0	-9.5	-10.4
New Zealand	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.6	0.3	0.3	0.2	0.2	0.2	0.1	0.2	0.1	0.2	0.2
Norway	-1.0	-1.0	-1.0	-1.2	-1.2	-1.5	-1.3	-1.7	-2.1	-1.5	-1.4	-1.5	-1.4	-1.4	-1.6	-2.3	-3.0	-2.6	-2.9	-2.9
Poland	..	..	..	..	..	..	..	1.3	1.0	1.7	2.0	2.9	2.2	2.4	2.9	3.3	4.2	5.8	6.6	7.2
Portugal[2]	3.8	4.3	4.6	5.5	6.0	7.8	6.7	5.4	7.2	4.4	3.8	4.1	3.9	3.4	3.4	2.8	3.4	3.4	3.7	4.2
Slovak Republic	..	..	..	..	..	..	0.1	0.1	0.1	0.2	0.2	0.4	0.2	0.1	0.2	0.2	0.2	0.1	0.0	0.0
Spain	2.6	4.5	4.6	2.7	2.7	2.1	1.3	1.3	4.7	2.4	2.8	3.3	3.0	1.4	1.6	2.3	0.4	0.0	0.6	0.6
Sweden	-1.3	-1.4	-1.8	-1.9	-2.0	-1.4	-1.3	-1.2	-2.6	-2.0	-2.4	-2.6	-2.7	-2.5	-2.4	-2.8	-2.0	-4.8	-5.4	-5.4
Switzerland	-1.2	-1.3	-1.9	-2.4	-2.6	-3.1	-3.0	-3.5	-4.4	-4.3	-4.0	-4.6	-5.1	-4.2	-5.2	-5.7	-5.2	-5.6	-5.8	-5.8
Turkey	2.4	2.2	3.5	4.5	5.1	3.9	3.7	3.0	4.4	4.1	4.5	5.5	4.9	4.8	3.0	2.4	1.0	1.1	1.1	1.4
United Kingdom	-5.9	-6.3	-7.3	-8.8	-2.2	-9.9	-7.9	-8.2	-11.9	-7.4	-9.7	-13.9	-11.9	-14.7	-9.5	-12.8	-16.2	-19.9	-21.6	-22.9
United States	-23.3	-25.3	-26.2	-26.7	10.7	-33.1	-37.1	-36.8	-34.1	-38.6	-40.4	-48.4	-46.8	-55.7	-46.6	-59.4	-67.4	-72.9	-77.2	-77.2
Euro area	-15.8	-17.9	-20.0	-26.2	-42.1	-41.7	-40.8	-50.0	-40.3	-45.0	-43.5	-47.7	-47.3	-47.9	-49.7	-50.6	-69.4	-79.0	-91.8	-92.0
Total OECD	-46.1	-51.4	-55.8	-63.6	-44.9	-88.6	-89.3	-99.4	-95.1	-98.4	-98.1	-110.3	-112.9	-122.6	-108.4	-124.8	-156.2	-175.0	-192.8	-191.8

1. Including Luxembourg until 1994.
2. Breaks between 1998 and 1999 for Greece and between 1995 and 1996 for Portugal, reflecting change in methodology to the International Monetary Fund, Fifth Balance of Payments Manual (capital transfers from European Union are excluded from the current account).

Source: OECD Economic Outlook 77 database.

Annex Table 50. **Current account balances**

$ billion

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	-8.0	-11.6	-17.9	-15.9	-11.0	-11.1	-9.7	-17.1	-19.3	-15.8	-12.4	-18.1	-22.3	-15.4	-8.4	-16.8	-30.3	-39.2	-37.3	-35.9
Austria	-0.2	-0.3	0.3	1.2	0.0	-0.7	-1.4	-3.3	-6.2	-5.4	-6.5	-5.2	-6.7	-5.0	-3.7	0.7	-1.3	0.9	0.6	1.1
Belgium[1]	4.1	5.2	5.1	6.2	7.2	9.9	13.0	14.2	15.3	13.8	13.8	13.3	12.9	9.0	8.9	14.1	13.8	12.0	12.6	12.7
Canada	-13.5	-14.9	-21.8	-19.8	-22.4	-21.1	-21.7	-13.0	-4.4	3.4	-8.2	-7.7	1.7	19.7	16.2	14.4	17.1	25.8	18.2	29.3
Czech Republic	..	..	..	..	..	..	0.5	-0.8	-1.4	-4.1	-3.7	-1.3	-1.4	-2.7	-3.3	-4.2	-4.4	-5.5	-6.1	-6.1
Denmark	..	-1.6	-1.7	0.6	1.2	3.2	3.9	2.3	1.2	2.7	0.7	-1.6	3.1	2.3	4.9	3.8	7.0	6.0	4.2	4.3
Finland	-1.7	-2.8	-5.7	-6.9	-6.9	-5.2	-1.2	1.1	5.4	5.0	6.6	7.4	7.6	8.9	8.8	10.1	6.1	8.0	6.7	7.3
France	-4.5	-4.6	-4.6	-9.8	-5.7	4.8	9.6	7.4	11.0	20.8	37.2	38.9	42.0	18.2	21.0	13.3	7.8	-6.1	-22.1	-12.3
Germany	43.9	50.8	55.5	50.5	-21.8	-18.0	-14.2	-29.1	-26.7	-13.6	-9.2	-11.6	-29.9	-34.4	-0.9	46.2	51.3	105.0	120.8	140.8
Greece[2]	-1.7	-1.5	-3.3	-4.7	-2.6	-3.6	-1.9	-1.4	-4.5	-6.4	-5.3	-3.8	-7.7	-9.9	-9.5	-10.1	-11.2	-10.9	-11.9	-11.8
Hungary	..	..	..	..	..	..	-3.0	-3.4	-1.6	-1.7	-2.0	-3.4	-3.8	-4.0	-3.2	-4.7	-7.3	-9.3	-8.3	-7.8
Iceland	-0.2	-0.2	-0.1	-0.1	-0.3	-0.2	0.0	0.1	0.1	-0.1	-0.1	-0.6	-0.6	-0.9	-0.4	0.1	-0.6	-1.0	-1.8	-2.0
Ireland	-0.1	0.0	-0.6	-0.4	0.3	0.6	1.8	1.5	1.7	2.0	1.9	0.7	0.3	-0.3	-0.7	-1.5	-2.2	-0.8	1.2	3.4
Italy	-2.8	-7.6	-11.7	-16.5	-23.5	-28.9	7.4	12.6	24.8	39.5	33.4	22.7	8.0	-5.9	-0.9	-9.9	-19.1	-13.1	-39.0	-41.9
Japan	84.2	79.0	66.1	46.5	69.4	108.5	131.5	130.4	113.3	64.9	97.2	119.7	114.8	119.1	89.0	112.7	135.3	170.1	177.0	203.4
Korea	10.1	14.5	5.4	-2.0	-8.3	-3.9	1.0	-3.9	-8.5	-23.0	-8.2	40.4	24.5	12.2	8.0	5.4	11.9	27.6	24.3	15.1
Luxembourg	..	..	..	..	..	..	..	..	2.5	2.3	1.9	1.8	1.8	2.7	1.8	2.5	2.3	2.8	2.8	3.1
Mexico	4.2	-2.4	-5.8	-7.5	-14.7	-24.4	-23.4	-29.7	-1.6	-2.5	-7.7	-16.1	-14.0	-18.5	-17.8	-13.4	-8.6	-8.7	-14.5	-16.4
Netherlands	4.2	7.0	9.4	8.1	7.4	6.9	13.2	17.3	25.8	21.5	25.1	13.0	15.7	7.4	9.8	12.9	15.2	23.9	26.8	28.6
New Zealand	-1.7	-0.4	-1.6	-1.4	-1.1	-1.6	-1.7	-2.0	-3.1	-3.9	-4.4	-2.1	-3.5	-2.5	-1.3	-2.2	-3.3	-6.2	-6.9	-7.5
Norway	-4.4	-4.0	-0.2	3.1	4.2	4.2	3.4	3.8	5.3	11.0	10.1	0.0	8.2	24.6	26.3	24.1	28.4	34.6	42.9	45.1
Poland	..	..	..	..	..	..	..	1.0	0.9	-3.3	-5.7	-6.9	-12.5	-10.0	-5.4	-5.0	-4.6	-3.6	-3.8	-4.8
Portugal[2]	0.4	-1.0	0.2	-0.2	-0.7	-0.3	0.3	-2.3	-0.2	-4.2	-6.1	-7.8	-9.7	-11.6	-10.4	-8.1	-8.0	-13.2	-15.9	-16.5
Slovak Republic	..	..	..	..	..	..	-0.6	0.8	0.5	-2.0	-1.8	-2.0	-1.0	-0.7	-1.7	-1.9	-0.3	-1.4	-2.7	-2.8
Spain	-0.2	-3.7	-10.9	-18.1	-19.9	-21.6	-5.7	-6.4	0.8	0.4	2.5	-3.0	-13.8	-19.4	-16.4	-15.9	-23.6	-49.2	-68.3	-78.5
Sweden	0.0	-0.6	-3.1	-6.3	-4.7	-7.4	-2.7	2.5	8.5	9.7	10.3	9.7	10.7	9.8	9.7	12.8	19.4	27.6	24.1	25.0
Switzerland	7.4	9.0	6.9	7.9	9.6	14.5	18.8	16.9	20.7	21.3	24.6	25.0	29.3	30.6	20.0	23.4	42.3	43.0	44.8	48.3
Turkey	-0.8	1.6	0.9	-2.6	0.3	-1.0	-6.4	2.6	-2.3	-2.4	-2.6	2.0	-1.3	-9.8	3.4	-1.5	-8.0	-15.5	-16.1	-18.2
United Kingdom	-12.7	-35.4	-43.1	-39.1	-19.0	-22.9	-17.9	-10.3	-14.3	-10.9	-1.6	-6.6	-39.6	-36.2	-32.2	-26.3	-30.8	-47.0	-51.7	-56.4
United States	-160.7	-121.2	-99.5	-79.0	3.7	-48.0	-82.0	-118.0	-109.5	-120.2	-136.0	-209.6	-296.8	-413.5	-385.7	-473.9	-530.7	-665.9	-800.0	-878.7
Euro area	41.4	41.6	33.5	9.6	-66.2	-56.2	21.0	11.6	49.9	75.7	95.3	66.3	20.2	-40.3	7.8	54.2	31.1	59.3	14.2	36.0
Total OECD	-54.6	-46.4	-81.9	-106.1	-59.3	-67.6	11.0	-26.3	34.3	-1.3	43.9	-12.9	-184.2	-336.3	-274.1	-299.0	-336.5	-409.4	-599.6	-630.1

Note: The balance-of-payments data in this table are based on the concepts and definition of the International Monetary Fund, Fifth Balance of Payments Manual.

1. Including Luxembourg until 1994.
2. Breaks between 1998 and 1999 for Greece and between 1995 and 1996 for Portugal, reflecting change in methodology to the International Monetary Fund, Fifth Balance of Payments Manual (capital transfers from European Union are excluded from the current account).

Source: OECD Economic Outlook 77 database.

Annex Table 51. **Current account balances as a percentage of GDP**

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	-3.9	-4.4	-6.1	-5.2	-3.5	-3.7	-3.3	-5.1	-5.4	-3.9	-3.1	-5.0	-5.7	-4.1	-2.3	-4.2	-5.9	-6.3	-5.4	-4.9
Austria	-0.2	-0.2	0.2	0.7	0.0	-0.3	-0.8	-1.6	-2.6	-2.3	-3.1	-2.4	-3.2	-2.5	-1.9	0.3	-0.5	0.3	0.2	0.3
Belgium[1]	2.8	3.3	3.2	3.1	3.6	4.4	6.0	6.0	5.6	5.1	5.6	5.3	5.1	3.9	3.9	5.7	4.5	3.4	3.3	3.3
Canada	-3.2	-3.0	-3.9	-3.4	-3.7	-3.6	-3.9	-2.3	-0.8	0.5	-1.3	-1.2	0.3	2.7	2.3	2.0	2.0	2.6	1.7	2.5
Czech Republic	..	..	..	..	..	..	1.2	-1.8	-2.5	-6.7	-6.3	-2.1	-2.3	-4.9	-5.4	-5.6	-4.8	-5.1	-4.8	-4.5
Denmark	..	-1.4	-1.6	0.4	0.9	2.1	2.8	1.5	0.7	1.5	0.4	-0.9	1.8	1.5	3.0	2.2	3.3	2.5	1.6	1.6
Finland	-1.9	-2.6	-5.0	-5.0	-5.5	-4.8	-1.4	1.1	4.2	3.9	5.4	5.7	5.9	7.4	7.2	7.6	3.8	4.3	3.3	3.5
France	-0.5	-0.5	-0.5	-0.8	-0.4	0.4	0.8	0.5	0.7	1.3	2.7	2.7	2.9	1.4	1.6	0.9	0.4	-0.3	-1.0	-0.6
Germany	3.9	4.1	4.6	2.9	-1.2	-0.9	-0.7	-1.4	-1.1	-0.6	-0.4	-0.6	-1.4	-1.8	0.0	2.3	2.1	3.9	4.2	4.9
Greece[2]	-3.1	-2.3	-4.9	-5.6	-2.8	-3.5	-2.1	-1.4	-3.8	-5.1	-4.4	-3.1	-6.2	-8.7	-8.1	-7.6	-6.4	-5.3	-5.2	-4.9
Hungary	..	..	..	..	..	..	-7.6	-8.1	-3.4	-3.9	-4.4	-7.2	-7.8	-8.7	-6.3	-7.1	-8.9	-9.4	-7.3	-6.4
Iceland	-3.4	-3.7	-1.9	-2.1	-4.1	-2.4	0.7	2.0	0.8	-1.8	-1.7	-7.0	-7.0	-10.5	-4.6	1.1	-5.3	-8.1	-12.4	-12.3
Ireland	-0.2	0.0	-1.5	-0.8	0.7	1.0	3.7	2.7	2.6	2.8	2.4	0.8	0.3	-0.4	-0.7	-1.3	-1.4	-0.4	0.6	1.5
Italy	-0.4	-0.9	-1.3	-1.5	-2.0	-2.3	0.8	1.2	2.3	3.2	2.9	1.9	0.7	-0.6	-0.1	-0.8	-1.3	-0.8	-2.2	-2.3
Japan	3.5	2.7	2.2	1.5	2.0	2.9	3.0	2.7	2.1	1.4	2.3	3.0	2.6	2.5	2.1	2.8	3.1	3.6	3.6	4.1
Korea	7.2	7.7	2.3	-0.8	-2.7	-1.2	0.3	-0.9	-1.6	-4.2	-1.3	11.8	5.5	2.4	1.7	1.0	1.9	4.1	3.0	1.7
Luxembourg	..	..	..	..	..	..	..	..	13.9	12.7	11.0	9.4	8.9	13.7	9.0	11.8	8.2	8.8	8.0	8.4
Mexico	2.8	-1.3	-2.7	-2.9	-4.7	-6.7	-5.8	-7.1	-0.5	-0.8	-1.9	-3.8	-2.9	-3.2	-2.9	-2.1	-1.3	-1.3	-1.9	-2.0
Netherlands	1.8	2.9	3.9	2.7	2.4	2.1	4.1	5.0	6.2	5.2	6.6	3.3	3.9	2.0	2.5	3.1	2.9	4.1	4.4	4.6
New Zealand	-4.9	-0.9	-3.7	-3.1	-2.7	-4.1	-3.8	-3.9	-5.1	-5.9	-6.5	-4.0	-6.2	-4.8	-2.4	-3.7	-4.2	-6.3	-6.1	-6.3
Norway	-4.8	-4.1	-0.1	2.5	3.6	3.3	2.9	3.0	3.6	6.9	6.4	0.0	5.2	14.8	15.5	12.6	12.8	13.8	14.8	14.7
Poland	..	..	..	..	..	..	..	0.9	0.6	-2.2	-3.8	-4.1	-7.6	-6.0	-2.9	-2.6	-2.2	-1.5	-1.3	-1.5
Portugal[2]	1.0	-2.0	0.3	-0.3	-0.8	-0.2	0.4	-2.4	-0.1	-3.8	-5.7	-6.9	-8.5	-10.9	-9.5	-6.7	-5.4	-7.8	-8.9	-8.9
Slovak Republic	..	..	..	..	..	..	-4.6	4.9	2.6	-9.4	-8.5	-8.9	-4.8	-3.6	-8.4	-8.0	-0.9	-3.6	-5.7	-5.3
Spain	0.0	-1.0	-2.8	-3.5	-3.6	-3.6	-1.1	-1.3	0.1	0.1	0.5	-0.5	-2.3	-3.4	-2.8	-2.4	-2.8	-4.9	-6.2	-6.7
Sweden	0.0	-0.3	-1.5	-2.6	-1.9	-2.8	-1.3	1.1	3.4	3.6	4.2	3.9	4.3	4.1	4.4	5.3	6.4	8.0	6.6	6.5
Switzerland	4.2	4.7	3.7	3.3	4.1	5.7	7.7	6.3	6.5	7.1	9.4	9.3	11.1	12.4	8.0	8.4	13.1	12.0	11.9	12.5
Turkey	-0.9	2.1	0.9	-1.7	0.2	-0.6	-3.5	2.7	-1.6	-1.3	-1.3	1.2	-1.0	-4.9	2.5	-0.8	-3.4	-5.1	-4.3	-4.5
United Kingdom	-1.8	-4.2	-5.1	-4.0	-1.8	-2.1	-1.9	-1.0	-1.3	-0.9	-0.1	-0.5	-2.7	-2.5	-2.3	-1.7	-1.7	-2.2	-2.3	-2.4
United States	-3.4	-2.4	-1.8	-1.4	0.1	-0.8	-1.2	-1.7	-1.5	-1.5	-1.6	-2.4	-3.2	-4.2	-3.8	-4.5	-4.8	-5.7	-6.4	-6.7
Euro area	1.1	1.0	0.8	0.2	-1.2	-0.9	0.4	0.2	0.7	1.1	1.5	1.0	0.3	-0.7	0.1	0.8	0.4	0.6	0.1	0.3
Total OECD	-0.4	-0.3	-0.5	-0.6	-0.3	-0.3	0.1	-0.1	0.1	0.0	0.2	-0.1	-0.7	-1.3	-1.1	-1.1	-1.1	-1.2	-1.7	-1.7

1. Including Luxembourg until 1994.
2. Breaks between 1998 and 1999 for Greece and between 1995 and 1996 for Portugal, reflecting change in methodology to the International Monetary Fund, Fifth Balance of Payments Manual (capital transfers from European Union are excluded from the current account).

Source: OECD Economic Outlook 77 database.

Annex Table 52. **Structure of current account balances of major world regions**

$ billion

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Goods and services trade balance[1]																
OECD	-1	32	107	106	160	120	149	104	-50	-205	-173	-162	-208	-273	-457	-478
Non-OECD *of which:*	-27	-34	-57	-18	-57	-17	-13	-12	105	216	151	201	275	378	477	442
Non-OECD Asia *of which:*	10	3	-15	-6	-24	-10	21	81	91	79	83	116	127	123	165	200
China	12	5	-12	7	12	18	40	42	31	29	28	37	36	49	88	88
Dynamic Asia[2]	9	9	9	3	-12	0	5	62	79	72	71	90	107	95	105	134
Other Asia	-10	-12	-12	-16	-24	-28	-24	-23	-19	-22	-16	-12	-16	-22	-27	-22
Latin America	14	3	-6	-7	-19	-17	-32	-46	-16	-3	-9	21	38	53	49	36
Africa and Middle-East	-50	-37	-34	-11	-14	8	5	-43	6	92	48	38	77	145	187	145
Central and Eastern Europe[3]	-1	-4	-3	6	1	2	-7	-4	24	48	29	26	34	57	75	62
World[4]	-28	-2	49	87	103	103	136	92	54	11	-22	39	67	105	20	-36
Services and private transfers, net																
OECD	-18	-14	-5	-28	-22	-13	5	-4	-7	9	17	-1	30	40	34	24
Non-OECD *of which:*	-33	-39	-46	-44	-59	-69	-77	-81	-81	-90	-85	-88	-95	-97	-102	-103
Non-OECD Asia *of which:*	-9	-10	-12	-10	-20	-24	-25	-27	-25	-28	-26	-24	-14	-7	-4	-2
China	1	0	-1	-1	-12	-12	-16	-17	-14	-15	-19	-15	-8	-4	-2	-2
Dynamic Asia[2]	-4	-4	-4	-3	-2	-6	-2	-4	-4	-6	0	-1	4	8	11	14
Other Asia	-6	-6	-6	-6	-6	-6	-7	-7	-7	-7	-7	-8	-11	-12	-13	-13
Latin America	-23	-21	-23	-24	-28	-29	-35	-37	-39	-38	-41	-38	-44	-49	-61	-67
Africa and Middle-East	2	-2	-5	-8	-6	-8	-6	-3	-7	-12	-10	-14	-17	-18	-17	-14
Central and Eastern Europe[3]	-3	-6	-5	-2	-5	-7	-11	-14	-10	-11	-8	-11	-20	-22	-20	-20
World[4]	-51	-53	-51	-72	-82	-82	-72	-85	-88	-81	-68	-89	-64	-57	-68	-78
Net transfers, net																
OECD	-45	-89	-89	-99	-95	-98	-98	-110	-113	-123	-108	-125	-156	-175	-193	-192
Non-OECD *of which:*	-1	33	29	28	29	34	42	35	40	44	48	61	73	90	86	90
Non-OECD Asia *of which:*	11	14	13	17	15	19	26	19	22	26	27	37	48	62	54	54
China	1	1	1	1	1	2	5	4	5	6	8	13	18	23	15	15
Dynamic Asia[2]	1	2	1	1	-2	-2	-2	-4	-4	-4	-5	-5	-5	2	2	2
Other Asia	9	11	11	15	16	19	23	19	21	24	23	29	35	37	38	38
Latin America	7	8	7	9	11	10	10	11	13	13	15	17	19	21	24	26
Africa and Middle-East	-26	6	3	-1	-1	1	2	1	0	-1	0	-1	-3	-4	-3	-2
Central and Eastern Europe[3]	7	5	5	3	4	4	4	4	5	6	6	8	9	11	11	12
World[4]	-46	-56	-60	-72	-66	-64	-56	-75	-73	-78	-60	-64	-83	-85	-107	-102
Current balance																
OECD	-59	-68	11	-26	34	-1	44	-13	-184	-336	-274	-299	-336	-409	-600	-630
Non-OECD *of which:*	-61	-40	-74	-35	-87	-52	-48	-58	64	171	114	174	254	371	461	430
Non-OECD Asia *of which:*	12	7	-13	2	-29	-16	22	72	88	76	85	128	160	177	215	252
China	13	6	-12	8	2	7	30	29	21	21	17	35	46	69	100	101
Dynamic Asia[2]	6	8	6	1	-16	-8	0	54	72	61	66	84	106	105	118	149
Other Asia	-7	-7	-7	-7	-14	-15	-8	-11	-5	-5	1	9	8	3	-3	2
Latin America	-3	-10	-22	-22	-36	-36	-57	-72	-41	-28	-35	0	14	25	11	-6
Africa and Middle-East	-73	-32	-36	-21	-21	1	1	-44	-1	79	38	23	57	123	167	129
Central and Eastern Europe[3]	3	-4	-3	6	0	0	-13	-14	18	43	27	23	23	45	67	54
World[4]	-120	-107	-63	-61	-52	-53	-4	-71	-121	-166	-160	-125	-83	-39	-139	-200

Note: Historical data for the OECD area are aggregates of reported balance-of-payments data of each individual country. Because of various statistical problems as well as a large number of non-reporters among non-OECD countries, trade and current account balances estimated on the basis of these countries' own balance-of-payments records may differ from corresponding estimates shown in this table.

1. National accounts basis for OECD countries and balance-of-payments basis for the non-OECD regions.
2. Dynamic Asia includes Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.
3. Data prior to 1995 are OECD estimates.
4. Reflects statistical errors and asymmetries. Given the very large gross flows of world balance-of-payments transactions, statistical errors and asymmetries easily give rise to world totals (balances) that are significantly different from zero.

Source: OECD Economic Outlook 77 database.

Annex Table 53. **Export market growth in goods and services**

Percentage changes from previous year

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	8.8	10.7	10.4	6.7	4.4	5.2	5.2	10.3	12.0	9.7	7.1	-2.8	7.8	12.6	-0.7	5.4	6.2	10.7	8.0	9.9
Austria	5.1	6.3	7.4	5.4	2.0	-1.9	-0.9	7.6	8.1	5.4	9.5	7.4	6.3	12.1	2.3	1.8	5.1	8.4	7.3	9.5
Belgium	6.1	7.5	7.8	5.5	3.8	2.1	-0.6	7.9	8.0	5.4	9.5	8.2	7.0	11.9	1.7	2.1	3.2	7.4	6.3	8.6
Canada	6.0	5.1	5.2	3.9	0.3	6.3	7.7	11.4	8.4	8.7	12.7	9.8	10.5	13.0	-2.1	3.4	4.6	9.9	7.9	7.9
Czech Republic	..	..	..	..	..	..	..	6.4	8.2	6.9	10.0	8.1	4.6	12.1	2.7	2.1	6.0	8.4	7.8	9.7
Denmark	5.6	6.4	7.4	4.3	1.5	1.4	0.4	8.7	7.9	6.2	10.3	8.1	6.2	11.2	0.6	1.4	4.0	7.8	7.0	8.0
Finland	4.8	7.2	7.2	2.3	-0.4	-4.3	1.9	8.0	8.5	6.5	9.7	5.3	5.1	12.5	2.0	3.4	5.9	9.7	8.8	10.1
France	6.4	7.6	7.8	5.3	4.0	2.8	0.2	7.5	7.9	6.1	9.7	7.0	7.0	10.7	1.6	2.2	4.1	7.7	7.2	9.4
Germany	6.2	7.9	7.6	4.2	0.5	1.5	1.8	8.0	8.8	6.6	9.9	7.0	6.2	12.1	1.6	3.1	4.4	8.8	7.6	9.2
Greece	5.0	6.4	6.7	3.2	0.6	-2.1	2.0	7.3	7.6	6.4	10.1	6.8	6.6	11.8	1.3	3.1	5.0	9.0	8.4	9.8
Hungary	..	..	..	..	..	..	..	7.2	7.6	5.1	8.9	6.9	5.8	12.0	2.6	1.7	4.8	8.0	7.1	9.3
Iceland	6.6	9.1	8.5	4.9	1.7	2.2	0.2	8.3	8.1	7.1	8.8	6.5	6.8	10.4	1.2	2.2	3.2	7.6	6.1	7.5
Ireland	6.9	8.4	7.9	5.0	2.3	3.6	1.0	8.3	8.0	6.6	9.5	6.8	7.5	11.2	1.0	2.6	3.4	7.6	6.2	8.2
Italy	5.6	7.6	7.6	4.4	3.1	-0.4	1.4	7.5	8.1	6.4	9.7	6.7	6.5	12.3	1.6	2.7	4.7	8.9	8.1	9.7
Japan	8.6	9.8	7.8	6.8	7.2	7.8	8.0	12.0	11.4	8.7	10.6	-0.1	8.9	14.8	-1.9	5.0	6.1	10.9	7.9	9.8
Korea	7.3	10.7	8.7	5.6	5.2	5.8	6.9	10.1	11.1	9.8	9.4	0.1	7.2	13.7	-0.6	4.9	7.0	10.9	8.4	10.4
Luxembourg	6.3	7.7	7.9	5.3	3.2	2.2	-0.6	8.2	7.5	4.8	9.1	8.6	6.5	11.4	1.5	1.5	2.8	7.1	5.8	7.9
Mexico	6.0	4.7	4.5	3.9	0.5	7.0	8.3	11.6	8.4	8.3	13.4	10.8	10.3	12.7	-2.4	2.8	4.4	10.0	7.9	7.5
Netherlands	6.4	8.0	8.2	5.9	4.1	2.0	-0.8	7.7	7.3	5.1	9.0	7.5	6.7	11.3	1.4	1.6	3.5	7.1	6.3	8.4
New Zealand	6.9	12.0	11.6	3.8	2.6	5.5	4.7	11.1	10.3	9.1	8.8	1.5	8.1	11.7	-1.4	5.6	6.3	10.8	7.7	9.0
Norway	6.3	8.6	7.5	3.6	1.0	2.9	1.1	8.8	7.7	6.2	10.1	8.2	7.0	11.5	1.0	2.3	3.0	7.4	6.0	7.7
Poland	..	..	..	..	..	..	..	7.1	8.0	5.2	8.6	5.6	4.6	12.6	4.0	2.8	5.8	9.6	8.8	10.5
Portugal	7.7	8.4	8.8	5.9	5.0	3.6	-1.4	8.2	7.7	5.5	10.1	9.3	7.7	10.8	2.1	1.9	3.3	7.3	6.6	8.5
Slovak Republic	..	..	..	..	..	..	..	7.4	10.1	6.5	9.1	7.4	5.1	13.2	4.7	2.8	6.2	10.6	8.8	10.5
Spain	7.0	7.9	7.2	6.3	3.9	3.6	-0.8	7.6	7.7	5.0	9.9	8.6	6.0	10.8	1.4	1.4	2.9	7.3	6.4	8.4
Sweden	4.0	7.0	7.1	4.2	2.0	1.5	1.6	8.3	8.0	6.9	10.2	6.8	5.7	11.4	1.3	3.0	4.0	8.4	7.1	8.5
Switzerland	6.5	7.8	8.1	6.4	4.7	2.7	0.3	8.1	8.4	6.0	9.5	6.0	6.9	11.8	0.7	2.2	4.1	8.1	6.9	9.0
Turkey	3.5	6.5	6.9	2.1	1.5	-5.5	0.6	6.4	7.1	5.8	8.5	4.5	5.8	11.7	3.4	3.9	5.4	9.0	9.7	11.5
United Kingdom	5.5	6.9	7.8	5.1	3.9	2.4	1.4	8.7	8.6	6.2	10.0	7.3	7.2	12.1	0.8	2.6	3.7	8.2	7.5	9.0
United States	6.9	12.5	8.7	6.1	5.9	6.1	4.6	10.4	7.6	8.6	11.2	3.1	6.4	12.3	-0.8	2.1	4.0	9.7	8.1	8.6
Total OECD	6.4	8.6	7.7	5.3	3.6	3.6	5.3	9.2	8.5	7.2	10.3	5.5	7.1	12.3	0.3	2.8	4.4	9.0	7.6	9.0
Memorandum items																				
China	9.3	11.2	9.7	7.2	5.1	4.0	5.2	10.6	11.6	8.6	8.2	-2.1	6.7	13.4	-1.7	3.9	4.6	10.2	7.9	9.2
Dynamic Asia [1]	8.5	11.9	9.5	6.4	6.0	7.2	7.5	11.4	12.2	10.1	9.1	-1.4	8.4	14.7	-1.0	5.8	7.5	11.1	7.9	10.4
Other Asia	6.1	8.7	8.3	4.8	3.9	4.0	4.1	9.2	9.7	8.4	9.0	2.5	7.8	12.4	-0.1	4.4	5.5	9.6	8.2	9.9
Latin America	5.9	7.1	5.1	4.6	4.6	6.5	6.7	10.5	9.8	7.4	12.5	7.2	4.9	11.1	-0.3	0.4	4.3	10.6	8.6	8.8
Africa and Middle-East	6.9	8.8	8.9	6.0	5.1	4.1	2.4	8.8	10.5	8.3	8.2	1.1	8.1	12.3	0.1	4.6	5.5	9.4	8.3	10.4
Central and Eastern Euro]	3.7	6.9	6.9	0.0	-5.0	-14.4	3.2	5.9	9.2	7.2	8.8	2.3	2.7	14.5	4.5	5.9	9.1	12.0	11.6	12.7

Note: Regional aggregates are calculated inclusive of intra-regional trade. The calculation of export markets is based on a weighted average of import volumes in each exporting country's market, with weights based on goods and services trade flows in 2000.

1. Dynamic Asia includes Chinese Taipei; Hong Kong, China; Indonesia; Malaysia; Philippines; Singapore and Thailand.

Source: OECD Economic Outlook 77 database.

Annex Table 54. **Import penetration**

Goods and services import volume as a percentage of total final expenditure, constant prices

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Australia	10.7	11.9	13.5	12.9	12.6	13.1	13.2	14.3	14.7	15.3	16.2	16.2	16.9	17.5	16.6	17.5	18.5	20.2	21.0	21.8
Austria	23.2	24.4	25.2	25.7	25.9	25.9	26.1	26.5	27.0	27.3	28.4	28.8	29.3	30.5	31.3	31.2	31.9	32.5	33.3	34.7
Belgium	36.3	37.7	39.1	39.5	39.7	40.2	40.5	41.4	42.0	42.3	42.6	43.8	44.1	45.2	45.3	45.3	45.5	46.2	47.4	48.7
Canada	19.5	20.7	21.3	21.6	22.4	23.0	23.8	24.4	24.9	25.5	27.3	27.5	27.9	28.4	27.0	26.7	27.0	28.0	29.0	29.4
Czech Republic	..	..	..	..	..	..	31.6	32.5	35.5	37.2	39.0	41.2	42.2	45.1	47.7	48.6	49.8	53.3	55.3	57.4
Denmark	20.5	21.6	22.2	22.3	22.6	22.4	22.0	23.1	23.8	24.0	25.2	26.4	26.9	29.0	29.4	30.7	30.3	31.3	32.0	32.9
Finland	18.4	19.0	19.5	19.7	18.7	19.4	20.1	21.3	21.5	22.2	23.0	23.2	23.4	25.2	25.1	24.9	25.1	25.4	26.1	26.6
France	14.5	15.0	15.5	15.9	16.1	16.1	15.8	16.6	17.4	17.5	18.2	19.4	19.8	21.5	21.4	21.7	21.7	22.4	23.2	24.0
Germany	17.7	17.9	18.6	19.3	18.8	18.6	17.9	18.7	19.2	19.6	20.7	21.8	22.8	24.2	24.2	23.9	24.6	25.4	26.0	27.1
Greece	15.8	16.2	17.1	18.2	18.6	18.7	19.0	18.9	20.0	20.7	22.3	23.3	25.3	27.1	25.3	24.1	24.1	24.8	25.1	25.5
Hungary	..	..	..	..	..	..	26.0	27.0	29.6	31.2	34.8	38.7	40.7	43.8	44.1	44.7	46.4	48.7	50.2	52.3
Iceland	28.0	27.1	25.0	24.9	25.9	25.3	23.7	23.7	24.3	26.3	26.9	30.1	30.0	30.5	28.0	27.9	29.0	30.8	32.8	33.0
Ireland	32.7	33.0	34.6	33.9	34.0	35.1	36.1	38.1	39.3	40.2	41.4	45.1	45.2	47.7	47.8	47.2	45.7	45.0	45.4	45.9
Italy	15.2	15.4	16.2	17.4	17.5	18.5	16.9	17.7	18.7	18.5	19.6	20.7	21.4	22.0	21.8	21.6	21.8	22.1	22.7	23.6
Japan	5.6	6.0	6.6	6.8	6.5	6.5	6.5	7.0	7.7	8.4	8.3	7.9	8.1	8.6	8.5	8.6	8.8	9.2	9.7	10.0
Korea	17.2	17.6	19.0	19.4	20.7	20.7	20.6	22.5	24.7	25.9	25.8	22.6	25.3	27.3	25.8	27.3	28.6	30.3	31.2	32.8
Luxembourg	..	..	..	..	..	..	..	..	49.8	50.9	52.0	53.9	55.4	56.7	57.2	56.0	55.7	56.2	56.6	57.2
Mexico	7.9	10.4	11.7	13.1	14.2	16.1	16.1	18.2	16.8	19.1	21.3	23.1	24.8	27.4	27.1	27.2	27.1	28.2	29.2	30.0
Netherlands	29.3	30.1	30.7	30.6	31.2	31.2	31.1	32.4	34.0	34.3	35.5	36.4	36.8	38.3	38.5	38.6	39.0	40.3	40.8	42.1
New Zealand	17.8	17.3	19.0	19.5	19.0	20.1	20.2	21.2	22.0	22.7	22.6	22.8	23.9	23.3	23.1	24.0	24.8	26.7	27.4	28.1
Norway	20.4	20.1	20.2	20.2	19.8	19.5	19.8	19.9	20.0	20.6	21.6	22.6	21.9	21.9	21.6	21.5	21.8	22.8	23.5	23.5
Poland	..	..	..	..	..	..	14.2	15.0	17.0	19.9	21.9	24.1	23.6	25.6	24.4	24.6	25.5	26.1	26.8	27.4
Portugal	19.7	21.2	21.1	22.8	23.3	25.0	24.7	26.1	26.7	27.0	28.1	29.9	30.8	31.3	31.1	31.0	31.2	32.5	33.2	34.0
Slovak Republic	..	..	..	..	..	..	37.1	34.6	35.8	38.6	40.7	43.4	41.4	43.3	45.0	45.2	47.3	48.9	50.6	51.9
Spain	11.9	13.0	14.4	15.1	16.0	16.8	16.2	17.4	18.6	19.4	20.7	22.1	23.5	24.5	24.7	24.9	25.3	26.4	27.4	28.5
Sweden	21.1	21.4	22.3	22.2	21.4	21.9	21.8	23.2	23.7	24.2	25.9	27.3	27.4	28.8	27.9	27.2	27.8	28.6	29.8	30.6
Switzerland	22.8	23.1	23.3	23.3	23.0	22.4	22.4	23.5	24.2	24.7	25.9	26.8	27.4	28.5	29.0	28.3	28.7	29.5	30.3	31.3
Turkey	15.1	14.3	15.1	17.8	16.8	17.6	21.1	18.0	21.0	23.0	25.4	25.2	25.4	28.5	24.5	25.8	29.5	32.3	34.6	36.7
United Kingdom	15.4	16.4	17.0	17.0	16.5	17.4	17.6	17.8	18.2	19.2	20.1	21.1	21.9	22.7	23.2	23.6	23.5	23.9	24.1	24.9
United States	7.7	7.7	7.7	7.9	7.8	8.1	8.5	9.1	9.6	10.0	10.8	11.4	12.1	13.1	12.7	12.8	13.0	13.6	14.1	14.5
Total OECD	11.7	12.1	12.6	12.8	12.8	13.1	13.3	14.1	14.7	15.3	16.1	16.7	17.4	18.6	18.4	18.5	18.8	19.5	20.1	20.8

Note: Regional aggregate is calculated inclusive of intra-regional trade as the sum of import volumes expressed in 2000 $ divided by the sum of total final expenditure expressed in 2000 $.

Source: OECD Economic Outlook 77 database.

Annex Table 55. **Quarterly demand and output projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2004	2005	2006	2005			2006				Fourth quarter[1]		
				Q2	Q3	Q4	Q1	Q2	Q3	Q4	2004	2005	2006
Private consumption													
Canada	3.5	3.8	3.3	3.6	3.6	3.6	3.2	3.1	2.8	2.8	3.9	3.9	3.0
France	2.4	1.9	1.9	0.7	0.8	1.5	2.1	2.4	2.4	2.4	2.6	1.5	2.4
Germany	-0.8	0.4	1.2	0.5	0.9	1.1	1.2	1.4	1.7	1.8	0.0	0.6	1.5
Italy	1.0	0.7	1.7	0.8	0.6	1.0	2.0	2.4	2.4	2.4	1.1	0.8	2.3
Japan	1.5	1.1	1.1	0.6	0.9	1.0	1.3	1.3	1.3	1.3	0.2	1.8	1.3
United Kingdom	3.3	1.7	1.9	1.7	1.8	1.9	1.9	1.9	1.9	2.0	3.0	1.7	1.9
United States	3.8	3.8	3.4	3.9	3.3	3.3	3.4	3.4	3.4	3.4	3.8	3.5	3.4
Euro area	1.2	1.3	1.7	1.2	1.3	1.6	1.7	1.8	1.9	2.0	1.5	1.4	1.9
Total OECD	2.8	2.6	2.6	2.7	2.5	2.6	2.6	2.6	2.6	2.7	2.6	2.7	2.6
Public consumption													
Canada	2.5	3.1	3.3	4.1	3.2	3.2	3.2	3.2	3.2	3.2	2.1	3.6	3.2
France	2.6	1.4	2.0	4.1	1.8	1.8	1.8	1.8	1.8	1.8	2.1	1.4	1.8
Germany	0.4	-0.1	0.4	0.0	0.0	0.2	0.6	0.6	0.7	0.7	0.0	0.1	0.6
Italy	0.6	0.2	0.2	-0.3	-0.2	0.1	0.3	0.4	0.4	0.3	0.2	-0.1	0.4
Japan	2.7	2.1	1.8	1.5	1.5	1.5	2.0	2.0	2.0	2.0	3.1	1.9	2.0
United Kingdom	4.7	2.9	2.8	2.6	2.6	2.4	2.8	3.0	3.0	2.8	3.6	2.4	2.9
United States	1.7	1.9	1.1	3.2	2.2	1.4	0.6	0.6	0.6	0.6	1.4	2.2	0.6
Euro area	1.7	1.0	2.0	1.3	0.8	1.2	2.4	2.8	2.8	2.4	1.4	0.8	2.6
Total OECD	1.9	1.7	1.7	1.9	1.4	1.4	1.9	2.1	1.9	1.7	1.9	1.6	1.9
Business investment													
Canada	6.1	5.8	3.2	5.5	2.8	3.2	3.2	2.8	2.8	2.8	6.7	4.2	2.9
France	3.2	3.7	3.3	2.2	2.5	2.7	3.3	4.0	4.1	4.1	2.5	3.5	3.8
Germany	-1.4	2.2	3.9	0.8	2.3	3.5	4.2	4.8	5.3	5.6	-0.6	2.1	5.0
Italy	1.8	-3.4	1.7	-1.1	-1.2	-0.6	3.2	3.3	3.4	3.6	-0.5	-1.1	3.4
Japan	5.8	3.8	2.7	2.5	3.0	3.0	3.0	2.5	2.0	2.0	0.8	4.2	2.4
United Kingdom	5.5	3.2	3.3	4.1	3.2	3.2	3.2	3.2	3.2	3.2	4.4	3.2	3.2
United States	10.6	8.8	8.9	4.3	9.8	9.4	9.2	9.1	8.9	8.9	11.0	7.0	9.0
Euro area	2.2	2.3	3.8	2.1	2.3	3.0	4.3	4.6	4.8	4.8	1.8	2.1	4.6
Total OECD	6.5	5.6	5.7	3.8	5.8	5.9	5.9	5.9	5.8	5.8	5.7	4.9	5.8
Total investment													
Canada	6.3	4.8	2.3	4.3	2.3	2.4	2.3	1.8	1.8	1.8	5.8	3.6	1.9
France	3.3	3.3	2.9	2.2	2.4	2.4	2.9	3.5	3.3	3.3	2.7	3.1	3.2
Germany	-2.2	0.5	2.3	-0.5	1.0	2.0	2.4	3.0	3.3	3.6	-2.4	0.5	3.1
Italy	1.9	-1.6	2.0	0.2	0.2	0.6	2.8	2.9	3.0	3.1	0.5	0.2	2.9
Japan	1.6	0.7	1.3	1.5	1.1	1.3	1.5	1.3	1.0	1.2	-1.5	1.8	1.2
United Kingdom	5.6	4.0	4.4	5.4	4.5	4.1	4.1	4.6	4.6	4.1	4.5	4.1	4.3
United States	9.0	5.8	5.1	4.0	5.6	4.9	4.9	5.1	5.4	5.4	8.2	4.4	5.2
Euro area	1.9	2.0	3.0	2.0	2.5	2.4	3.3	3.5	3.6	3.6	1.6	2.0	3.5
Total OECD	5.8	4.3	4.1	4.2	4.6	4.1	4.0	4.1	4.1	4.2	4.7	4.1	4.1

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, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Year-on -year growth rates in per cent.

Source: OECD Economic Outlook 77 database.

Annex Table 55. **Quarterly demand and output projections** ***(cont'd)***

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2004	2005	2006	2005 Q2	Q3	Q4	2006 Q1	Q2	Q3	Q4	Fourth quarter[1] 2004	2005	2006
Total domestic demand													
Canada	3.8	4.8	3.1	3.6	3.3	3.3	3.0	2.9	2.7	2.7	4.9	3.6	2.8
France	3.4	2.2	2.0	1.8	1.2	1.7	2.1	2.5	2.4	2.4	3.5	1.6	2.4
Germany	0.0	0.4	1.4	0.3	0.7	1.1	1.5	1.7	1.9	1.9	-0.1	0.5	1.7
Italy	0.8	0.2	1.5	-0.9	0.7	0.8	1.9	2.1	2.2	2.2	1.0	-0.1	2.1
Japan	1.9	1.5	1.3	0.7	1.0	1.2	1.5	1.4	1.3	1.4	0.7	2.0	1.4
United Kingdom	3.8	2.6	2.4	2.3	2.3	2.3	2.4	2.6	2.6	2.5	3.4	2.0	2.5
United States	4.8	3.9	3.4	3.0	3.7	3.4	3.3	3.4	3.4	3.5	4.5	3.5	3.4
Euro area	1.8	1.5	2.1	1.2	1.5	1.7	2.2	2.4	2.5	2.5	1.8	1.3	2.4
Total OECD	3.5	3.0	2.8	2.4	2.8	2.7	2.8	2.9	2.9	3.0	3.2	2.8	2.9
Export of goods and services													
Canada	4.9	1.9	4.9	2.0	5.1	5.1	5.1	5.1	5.3	5.3	3.6	3.7	5.2
France	3.1	3.3	7.3	5.3	6.4	7.2	7.6	7.6	7.8	7.8	2.9	4.6	7.7
Germany	7.5	5.5	7.9	7.2	7.2	7.7	8.0	8.1	8.2	8.2	6.6	7.4	8.1
Italy	3.2	0.0	5.8	4.1	5.1	5.5	6.6	5.8	6.0	5.9	1.7	2.3	6.1
Japan	14.5	4.6	7.8	7.0	7.0	8.0	8.0	8.0	8.0	8.0	10.8	5.2	8.0
United Kingdom	3.0	2.9	7.7	6.1	6.3	7.5	7.8	8.3	8.4	8.3	4.4	3.7	8.2
United States	8.6	6.6	8.8	8.0	8.5	8.5	9.0	9.0	9.0	8.7	5.9	8.0	8.9
Total OECD[2]	8.5	5.5	8.2	6.9	7.6	8.1	8.5	8.5	8.5	8.3	6.6	6.6	8.5
Import of goods and services													
Canada	8.2	7.5	4.9	4.1	5.7	5.5	4.9	4.5	4.5	4.5	9.1	5.7	4.6
France	6.9	5.8	7.0	6.8	6.8	7.1	7.1	7.1	7.1	7.1	7.8	5.8	7.1
Germany	5.4	4.1	7.9	8.0	7.9	8.1	7.9	7.7	7.8	7.9	5.4	5.2	7.8
Italy	2.5	2.8	6.8	3.2	7.6	5.7	7.2	7.4	7.4	7.2	2.5	3.8	7.3
Japan	8.9	6.4	5.9	7.5	7.0	6.0	5.5	5.5	5.5	5.5	10.4	5.6	5.5
United Kingdom	5.2	3.5	6.9	6.1	6.8	6.7	6.8	7.3	7.5	7.2	5.7	2.9	7.2
United States	9.9	7.8	7.5	3.8	7.4	7.6	7.6	7.8	8.0	8.0	9.8	7.0	7.8
Total OECD[2]	8.8	6.8	7.5	5.6	7.3	7.3	7.7	7.9	7.9	7.8	8.8	6.2	7.8
GDP													
Canada	2.8	2.8	3.1	2.9	3.1	3.2	3.2	3.2	3.1	3.1	3.0	3.0	3.1
France	2.3	1.4	2.0	1.3	1.0	1.6	2.2	2.6	2.6	2.6	2.2	1.2	2.5
Germany	1.0	1.2	1.8	0.4	0.9	1.4	1.9	2.2	2.4	2.5	0.6	1.6	2.3
Italy	1.0	-0.6	1.1	-0.7	0.0	0.8	1.7	1.6	1.7	1.7	0.8	-0.5	1.7
Japan	2.6	1.5	1.7	0.8	1.2	1.5	1.9	1.9	1.8	1.9	0.9	2.2	1.9
United Kingdom	3.1	2.4	2.4	2.1	1.9	2.3	2.5	2.6	2.6	2.6	2.9	2.2	2.6
United States	4.4	3.6	3.3	3.4	3.6	3.3	3.3	3.3	3.3	3.3	3.9	3.5	3.3
Euro area	1.8	1.2	2.0	1.1	1.3	1.7	2.2	2.4	2.5	2.5	1.6	1.4	2.4
Total OECD	3.4	2.6	2.8	2.5	2.7	2.8	2.8	2.9	3.0	3.0	2.8	2.8	2.9

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Year-on -year growth rates in per cent.
2. Includes intra-regional trade.

Source: OECD Economic Outlook 77 database.

Annex Table 56. **Quarterly price, cost and unemployment projections**

Percentage changes from previous period, seasonally adjusted at annual rates, volume

	2004	2005	2006	2005			2006				Fourth quarter[1]		
				Q2	Q3	Q4	Q1	Q2	Q3	Q4	2004	2005	2006
Consumer price index[2]													
Canada	1.8	1.9	1.9	2.7	1.9	1.9	1.8	1.8	1.8	1.8	2.3	2.0	1.8
France	2.3	1.6	1.7	2.0	1.8	1.6	1.6	1.7	1.6	1.6	2.3	1.4	1.6
Germany	1.8	1.2	0.8	1.1	0.9	1.0	0.8	0.7	0.7	0.9	2.2	0.7	0.8
Italy	2.3	2.0	2.0	2.0	2.7	2.1	1.4	1.8	2.5	2.1	2.2	2.1	1.9
Japan	0.0	-0.2	0.1	-0.2	-0.1	-0.1	0.0	0.2	0.4	0.6	0.5	-0.6	0.3
United Kingdom	1.3	2.0	2.1	2.2	2.2	2.1	2.1	2.0	1.9	1.9	1.4	2.2	2.0
United States	2.7	2.8	2.6	2.9	2.6	2.5	2.5	2.5	2.6	2.6	3.4	2.6	2.5
Euro area	2.1	1.8	1.3	2.1	1.7	1.6	0.4	1.7	1.5	1.6	2.3	1.5	1.3
GDP deflator													
Canada	3.3	2.6	2.4	3.2	2.6	2.5	2.2	2.2	2.2	2.1	4.2	2.2	2.2
France	1.8	1.5	1.7	1.9	1.7	1.7	1.7	1.6	1.9	2.0	1.7	1.6	1.8
Germany	0.7	0.4	0.9	1.2	0.9	0.9	0.8	0.9	1.0	1.2	0.3	0.8	1.0
Italy	2.6	1.7	1.7	2.6	2.7	1.4	1.5	1.8	1.4	0.9	2.3	1.9	1.4
Japan	-1.2	-0.9	0.0	-0.8	-0.4	-0.1	0.0	0.2	0.4	0.6	-0.4	-1.0	0.3
United Kingdom	2.2	2.0	2.2	2.6	2.7	2.4	2.2	2.1	1.8	1.7	2.1	2.3	1.9
United States	2.1	2.4	2.2	1.9	2.1	2.1	2.5	2.2	2.2	2.2	2.4	2.3	2.3
Euro area	1.9	1.5	1.7	1.9	1.8	1.6	1.6	1.6	1.7	1.7	1.8	1.6	1.6
Total OECD	2.0	1.9	1.9	1.8	1.8	1.8	2.1	1.9	1.9	1.9	2.4	1.7	1.9
Unit labour cost (total economy)													
Canada	1.3	1.8	1.8	2.1	2.2	2.0	1.5	1.6	1.7	1.7	1.5	1.9	1.6
France	0.5	1.3	1.6	1.4	3.0	1.6	1.6	1.0	1.6	1.6	0.7	1.7	1.4
Germany	-0.9	-0.7	-0.5	0.9	0.5	-0.2	-0.9	-0.8	-0.9	-0.7	-0.5	-0.3	-0.8
Italy	2.6	3.9	1.4	2.5	1.9	1.7	1.2	1.3	1.2	1.0	4.2	2.6	1.2
Japan	-2.7	-1.1	-0.8	-1.5	-1.7	-1.9	-0.2	-0.2	-0.2	-0.2	-0.7	-2.7	-0.2
United Kingdom	1.9	2.9	2.3	3.6	3.1	2.7	2.2	1.7	1.4	1.5	2.5	2.9	1.7
United States	1.0	2.2	2.7	2.4	2.4	2.7	3.1	2.6	2.6	2.6	1.7	2.4	2.7
Euro area	0.7	1.3	1.0	1.4	1.6	1.2	0.8	0.7	0.8	0.9	1.3	1.3	0.8
Total OECD	0.8	1.7	1.8	1.8	1.7	1.6	2.0	1.7	1.7	1.6	1.6	1.5	1.8
	Per cent of labour force												
Unemployment													
Canada	7.2	6.9	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	7.1	6.8	6.8
France	10.0	10.0	9.6	10.0	9.9	9.9	9.8	9.6	9.5	9.4	10.0	9.9	9.4
Germany	9.3	9.6	9.1	9.6	9.7	9.6	9.5	9.2	9.0	8.7	9.4	9.6	8.7
Italy	8.1	8.4	8.4	8.5	8.4	8.4	8.4	8.4	8.5	8.5	8.2	8.4	8.5
Japan	4.7	4.4	4.1	4.4	4.4	4.4	4.3	4.2	4.1	3.9	4.6	4.4	3.9
United Kingdom	4.7	4.9	5.2	4.9	4.9	5.0	5.1	5.2	5.3	5.4	4.7	5.0	5.4
United States	5.5	5.1	4.8	5.2	5.1	5.0	4.9	4.9	4.8	4.7	5.4	5.0	4.7
Euro area	8.9	9.0	8.7	9.1	9.1	9.0	8.9	8.8	8.6	8.5	8.9	9.0	8.5
Total OECD	6.7	6.7	6.4	6.7	6.7	6.6	6.5	6.5	6.4	6.3	6.7	6.6	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, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Year-on -year growth rates in per cent.
2. For the United Kingdom, the euro area countries and the euro area aggregate, the Harmonised Index of Consumer Prices (HICP) is used.

Source: OECD Economic Outlook 77 database.

Annex Table 57. **Contributions to changes in real GDP in OECD countries**

As a per cent of real GDP in the previous period, seasonally adjusted at annual rates

	2003	2004	2005	2006		2003	2004	2005	2006
Australia					**Germany**				
Final domestic demand	5.2	5.5	3.6	3.7	Final domestic demand	-0.4	-0.8	0.3	1.2
Stockbuilding	1.1	-0.7	-0.4	0.0	Stockbuilding	0.9	0.8	0.1	0.1
Net exports	-2.7	-2.4	-1.0	-0.5	Net exports	-0.6	1.0	0.8	0.5
GDP	3.6	2.9	2.5	3.4	GDP	-0.1	1.0	1.2	1.8
Austria					**Greece**				
Final domestic demand	1.4	2.1	1.7	2.1	Final domestic demand	5.8	4.6	2.4	3.1
Stockbuilding	-0.1	-0.3	0.2	0.0	Stockbuilding	0.3	0.0	0.0	0.0
Net exports	-1.0	1.8	-0.1	0.1	Net exports	-1.3	-0.5	0.4	0.2
GDP	0.8	2.0	1.9	2.3	GDP	4.7	4.2	2.8	3.2
Belgium					**Hungary**				
Final domestic demand	1.6	2.1	1.7	2.6	Final domestic demand	6.6	3.8	2.6	4.2
Stockbuilding	-0.1	1.0	-0.1	0.0	Stockbuilding	-1.0	-0.3	0.0	0.0
Net exports	-0.3	-0.4	-0.3	-0.2	Net exports	-2.5	0.5	1.1	-0.4
GDP	1.3	2.7	1.3	2.4	GDP	3.0	4.0	3.6	3.9
Canada					**Iceland**				
Final domestic demand	3.4	3.7	3.8	3.0	Final domestic demand	7.8	7.9	10.4	5.7
Stockbuilding	0.9	0.0	0.8	0.0	Stockbuilding	-0.1	-0.1	-0.2	0.0
Net exports	-2.4	-1.1	-2.1	0.0	Net exports	-3.5	-2.7	-4.0	-0.4
GDP	2.0	2.8	2.8	3.1	GDP	4.2	5.2	6.2	5.3
Czech Republic					**Ireland**				
Final domestic demand	5.1	3.1	4.1	4.4	Final domestic demand	2.3	3.7	3.3	3.3
Stockbuilding	-0.6	0.1	0.1	0.0	Stockbuilding	0.5	-0.5	0.0	0.0
Net exports	-1.5	-0.5	-1.0	-1.5	Net exports	1.1	2.3	1.9	1.7
GDP	3.7	4.0	4.1	4.3	GDP	3.6	4.9	5.3	5.0
Denmark					**Italy**				
Final domestic demand	1.0	3.3	3.4	2.6	Final domestic demand	0.9	1.1	0.1	1.5
Stockbuilding	-0.2	0.4	0.0	0.1	Stockbuilding	0.4	-0.3	0.0	0.0
Net exports	-0.1	-1.4	-1.0	-0.3	Net exports	-0.9	0.2	-0.8	-0.3
GDP	0.7	2.4	2.4	2.4	GDP	0.4	1.0	-0.6	1.1
Finland					**Japan**				
Final domestic demand	2.2	2.7	2.4	2.5	Final domestic demand	0.7	1.7	1.2	1.3
Stockbuilding	0.0	0.4	-0.2	0.0	Stockbuilding	0.2	0.2	0.3	0.0
Net exports	-0.4	-0.1	0.0	0.4	Net exports	0.6	0.8	-0.1	0.4
GDP	2.5	3.4	2.2	2.9	GDP	1.5	2.6	1.5	1.7
France					**Korea**				
Final domestic demand	1.6	2.6	2.1	2.1	Final domestic demand	1.0	0.7	3.0	3.8
Stockbuilding	-0.2	0.8	0.1	-0.1	Stockbuilding	-0.5	0.8	0.0	0.0
Net exports	-0.8	-1.0	-0.7	0.0	Net exports	2.5	3.4	1.3	1.3
GDP	0.5	2.3	1.4	2.0	GDP	3.1	4.6	4.3	5.0

Note: The adoption of new national account systems, SNA93 or ESA95, has been proceeding at an uneven pace among OECD member countries, both with respect to variables and the time period covered. As a consequence, there are breaks in many national series. Moreover, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Totals may not add up due to rounding and/or statistical discrepancy.

Source: OECD Economic Outlook 77 database.

Annex Table 57. **Contributions to changes in real GDP in OECD countries** ***(cont'd)***

As a per cent of real GDP in the previous period

	2003	2004	2005	2006
Luxembourg				
Final domestic demand	0.1	2.3	1.9	2.4
Stockbuilding	2.0	-1.0	0.0	0.0
Net exports	0.6	3.5	1.5	1.4
GDP	2.9	4.5	3.3	3.9
Mexico				
Final domestic demand	1.8	5.3	4.9	4.6
Stockbuilding	-1.0	-1.1	0.1	0.0
Net exports	0.7	0.2	-1.0	-0.5
GDP	1.4	4.4	4.0	4.2
Netherlands				
Final domestic demand	-0.7	0.6	0.4	1.1
Stockbuilding	0.2	0.0	0.3	0.0
Net exports	-0.4	0.9	-0.8	0.5
GDP	-0.9	1.4	0.5	1.7
New Zealand				
Final domestic demand	5.7	7.6	3.3	2.3
Stockbuilding	-0.3	0.4	0.3	-0.4
Net exports	-1.9	-3.6	-0.7	0.3
GDP	3.3	4.4	2.9	2.4
Norway				
Final domestic demand	1.3	4.0	5.0	2.3
Stockbuilding	-0.9	0.9	0.0	0.0
Net exports	0.0	-2.0	-2.0	0.1
GDP	0.4	2.9	3.1	2.5
Poland				
Final domestic demand	1.9	3.3	4.2	4.7
Stockbuilding	0.7	1.4	0.3	0.0
Net exports	1.3	0.7	0.1	-0.1
GDP	3.8	5.3	4.2	4.5
Portugal				
Final domestic demand	-2.7	2.1	1.9	2.7
Stockbuilding	-0.2	0.2	0.0	0.0
Net exports	1.8	-1.3	-1.3	-0.6
GDP	-1.1	1.0	0.7	2.1
Slovak Republic				
Final domestic demand	-0.2	2.7	5.4	5.3
Stockbuilding	-1.9	3.6	0.0	0.0
Net exports	6.5	-0.8	-0.6	0.4
GDP	4.5	5.5	4.8	5.7
Spain				
Final domestic demand	3.2	4.1	4.4	4.2
Stockbuilding	0.1	0.2	0.0	0.1
Net exports	-0.8	-1.7	-1.4	-1.1
GDP	2.5	2.7	3.0	3.2
Sweden				
Final domestic demand	0.7	1.8	2.9	2.7
Stockbuilding	0.5	-0.7	0.1	0.0
Net exports	0.4	2.2	0.0	0.9
GDP	1.6	3.0	2.8	3.3
Switzerland				
Final domestic demand	0.4	1.6	1.1	1.7
Stockbuilding	-0.2	-0.8	0.1	0.0
Net exports	-0.5	0.8	0.1	0.3
GDP	-0.3	1.7	1.3	2.0
Turkey				
Final domestic demand	5.9	12.8	6.8	6.3
Stockbuilding	3.0	1.1	1.0	0.1
Net exports	-3.1	-4.9	-1.5	-0.3
GDP	5.8	8.9	6.3	6.1
United Kingdom				
Final domestic demand	2.5	4.1	2.4	2.6
Stockbuilding	0.0	-0.2	0.3	0.0
Net exports	-0.4	-0.8	-0.3	-0.1
GDP	2.2	3.1	2.4	2.4
United States				
Final domestic demand	3.6	4.6	4.0	3.5
Stockbuilding	-0.1	0.4	0.1	0.0
Net exports	-0.5	-0.6	-0.5	-0.3
GDP	3.0	4.4	3.6	3.3
Euro area				
Final domestic demand	0.9	1.4	1.4	2.0
Stockbuilding	0.3	0.3	0.1	0.0
Net exports	-0.6	0.1	-0.3	0.0
GDP	0.6	1.8	1.2	2.0
Total OECD				
Final domestic demand	2.3	3.3	2.9	2.9
Stockbuilding	0.1	0.3	0.2	0.0
Net exports	-0.4	-0.2	-0.4	-0.1
GDP	2.1	3.4	2.6	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, some countries are using chain-weighted price indices to calculate real GDP and expenditures components. See Table "National Account Reporting Systems and Base-years" at the beginning of the Statistical Annex and *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).* Totals may not add up due to rounding and/or statistical discrepancy.

Source: OECD Economic Outlook 77 database.

Annex Table 58. **Household wealth and indebtedness**[1]

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Canada												
Net wealth	459.1	477.3	481.3	497.7	509.2	514.5	514.2	509.0	509.4	516.3	519.2	523.1
Net financial wealth	203.8	212.8	223.8	236.8	245.2	249.5	246.0	246.7	240.7	234.4	226.4	220.2
Non-financial assets	255.3	264.5	257.6	260.9	264.0	265.0	268.1	262.2	268.7	281.9	292.8	302.9
Financial assets	303.4	315.9	327.2	343.6	354.8	361.5	360.1	359.4	355.7	351.7	346.6	343.6
of which: Equities	56.0	61.3	63.2	71.2	80.6	88.3	89.4	90.3	91.9	88.1	85.7	83.9
Liabilities	99.5	103.1	103.4	106.8	109.6	112.0	114.0	112.6	115.0	117.2	120.2	123.4
of which: Mortgages	66.5	68.5	68.8	70.8	71.6	71.8	71.8	69.6	69.8	70.9	73.0	74.8
France												
Net wealth	516.0	494.8	507.7	533.7	557.6	578.0	643.9	630.2	616.1	606.6	..	..
Net financial wealth	188.9	166.5	195.0	220.2	241.6	262.2	310.5	282.6	255.2	226.5	240.5	..
Non-financial assets	327.1	328.4	312.7	313.5	316.0	315.8	333.4	347.6	361.0	380.1	..	..
Financial assets	271.4	251.1	262.9	288.9	310.8	336.1	385.8	359.2	336.8	302.5	319.1	..
of which: Equities	126.2	94.9	89.6	104.5	117.1	137.6	177.6	155.7	129.9	100.7	110.2	..
Liabilities	82.6	84.6	67.9	68.7	69.2	73.8	75.3	76.6	81.7	76.0	78.6	..
of which: Long-term loans	54.7	53.7	51.6	52.2	52.6	52.9	55.0	55.2	55.6	56.9	59.9	..
Germany												
Net wealth	481.8	486.4	496.0	502.8	512.8	515.6	522.7	511.8	501.5	499.5	508.9	..
Net financial wealth	134.4	130.3	135.4	140.5	152.0	155.2	167.3	162.2	162.9	160.0	170.6	..
Non-financial assets	347.4	356.2	360.6	362.3	360.8	360.3	355.4	349.6	338.6	339.5	338.3	..
Financial assets	225.4	227.3	236.0	245.2	259.5	266.2	281.5	276.2	274.2	271.8	282.2	..
of which: Equities	39.5	40.7	43.4	46.8	57.2	53.0	75.4	74.5	70.6	57.1	62.2	..
Liabilities	91.0	97.0	100.6	104.8	107.6	111.0	114.2	114.0	111.3	111.8	111.6	..
of which: Mortgages	53.8	58.0	61.0	64.5	67.1	68.5	71.9	72.2	72.0	73.5	76.5	..
Italy												
Net wealth	782.4	748.0	739.4	721.5	752.8	772.1	805.4	819.3	799.6	810.9	..	..
Net financial wealth	226.6	228.6	228.3	230.4	250.1	275.1	310.7	314.7	278.8	251.9	..	..
Non-financial assets	555.8	519.4	511.1	491.1	502.8	497.1	494.6	504.6	520.8	559.0	..	..
Financial assets	261.0	256.0	254.6	263.3	283.9	314.9	349.1	350.2	323.5	295.5	..	..
of which: Equities	54.4	49.3	46.5	50.9	76.5	114.9	162.9	156.5	121.1	87.9	..	..
Liabilities	31.8	31.9	30.6	32.0	29.9	32.2	36.0	37.5	37.5	39.3	..	..
of which: Medium and long-term loans	14.9	15.2	18.6	19.1	20.5	22.5	25.9	27.3	27.6	29.7	..	..
Japan												
Net wealth	770.6	766.5	755.5	766.7	758.4	740.2	768.8	763.5	763.3	748.7	743.8	..
Net financial wealth	261.8	278.7	287.9	302.6	306.9	303.6	339.6	343.0	354.1	357.9	369.1	..
Non-financial assets	508.8	487.8	467.6	464.2	451.5	436.6	429.2	420.6	409.2	390.8	374.7	..
Financial assets	393.0	410.9	425.6	436.5	441.2	437.2	473.3	478.4	491.6	492.7	503.6	..
of which: Equities	36.9	45.5	44.7	40.0	35.9	25.4	47.5	41.4	37.6	41.3	52.1	..
Liabilities	131.2	132.2	137.6	133.9	134.3	133.6	133.7	135.4	137.5	134.7	134.4	..
of which: Mortgages	53.8	56.0	58.6	60.2	54.3	55.0	57.8	59.5	62.1	61.3	61.9	..
United Kingdom												
Net wealth	582.9	543.9	555.8	569.3	617.0	665.3	748.9	733.4	669.2	675.0	721.3	
Net financial wealth	278.7	257.1	285.6	291.0	336.2	352.8	407.5	370.2	305.8	249.7	256.1	261.9
Non-financial assets	304.2	286.8	270.2	278.3	280.8	312.5	341.3	363.2	363.4	425.1	453.4	
Financial assets	385.2	364.7	392.2	395.6	440.8	461.1	519.1	483.5	422.5	378.9	396.6	416.4
of which: Equities	73.6	70.2	76.2	75.6	91.3	91.7	120.2	108.7	76.6	56.5	60.3	65.2
Liabilities	106.5	107.5	106.6	104.6	104.7	108.3	111.5	113.3	116.7	129.2	140.5	154.5
of which: Mortgages	78.3	79.5	78.1	77.2	76.1	78.5	80.8	81.8	84.2	92.7	102.4	111.7
United States												
Net wealth	492.4	482.2	512.4	532.6	568.4	586.7	634.0	584.8	551.1	506.1	546.4	562.1
Net financial wealth	282.5	275.6	304.3	326.3	361.3	377.0	417.4	365.2	323.5	270.7	300.4	301.8
Non-financial assets	209.9	206.6	208.1	206.3	207.1	209.7	216.6	219.7	227.5	235.4	246.0	260.3
Financial assets	372.3	367.5	398.1	421.7	457.9	474.7	519.3	468.1	430.2	381.6	417.8	425.8
of which: Equities	85.4	78.9	97.5	111.6	137.4	148.8	181.6	147.9	123.8	94.2	115.0	116.9
Liabilities	89.7	91.9	93.8	95.4	96.6	97.7	102.0	103.0	106.7	110.8	117.4	124.0
of which: Mortgages	63.6	63.8	63.5	64.2	64.6	65.4	68.1	68.7	72.5	77.4	83.1	89.2

1. Assets and liabilities are amounts outstanding at the end of the period, in per cent of nominal disposable income. Vertical lines between columns indicate breaks in the series due to changes in the definitions or accounting systems. Figures after the most recent breaks in the series are based on the UN System of National Accounts 1993 (SNA 93) and, more specifically, for European Union countries, on the corresponding European System of Accounts 1995 (ESA 95).
Households include non-profit institutions serving households. Net wealth is defined as non-financial and financial assets minus liabilities; net financial wealth is financial assets minus liabilities. Non-financial assets include stock of durable goods and dwellings, at replacement cost and at market value, respectively. Financial assets comprise currency and deposits, securities other than shares, loans, shares and other equity, insurance technical reserves; and other accounts receivable/payable. Not included are assets with regard to social security pension insurance schemes. Equities comprise shares and other equity, including quoted, unquoted and mutual fund shares. See also *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

Sources: Canada: Statistics Canada, *National Balance Sheet Accounts.* France: INSEE, *Rapport sur les Comptes de la Nation* and *25 ans de Comptes de Patrimoine* (1969-1993) Banque de France, *Flow of Funds Accounts.* Germany: Deutsche Bundesbank, *Monthly Report* and *Financial accounts for Germany 1991 to 1999,* Special Statistical Publication, 2000. Italy: Banca d'Italia, *Supplements to the Statistical Bulletin*; Ando, A., L.Guiso, I.Visco (eds.)*, Saving and the Accumulation of Wealth,* Cambridge University Press*,* 1994; OECD, *Financial Accounts of OECD countries*. Japan: Economic Planning Agency, Government of Japan, *Annual Report on National Accounts.* United Kingdom: Office for National Statistics, *United Kingdom National Accounts,* and *Financial Statistics.* United States: Federal Reserve Statistical Release, *Flow of Funds Accounts* of the United States.

Annex Table 59. **Central government financial balances**

Surplus (+) or deficit (-) as a percentage of nominal GDP

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Canada	-4.6	-3.9	-2.0	0.7	0.8	0.9	1.9	1.3	0.8	0.4	1.2	0.7	0.6
France[1]	-4.9	-4.6	-3.7	-2.8	-2.9	-2.4	-2.1	-1.9	-3.2	-3.5	-2.8	-2.3	-2.3
Germany[2]	-1.1	-1.4	-1.9	-1.6	-1.8	-1.5	1.4	-1.4	-1.7	-1.8	-2.3	-2.0	-1.8
Italy	-9.1	-7.7	-6.9	-2.7	-2.5	-1.5	-1.1	-3.0	-3.1	-2.7	-2.7	-4.1	-4.8
Japan[3]	-4.3	-4.4	-4.4	-3.9	-5.5	-7.7	-6.7	-6.2	-7.2	-7.1	-6.5	-6.0	-5.4
United Kingdom	-6.7	-5.6	-4.4	-2.2	0.1	1.0	3.9	0.7	-1.8	-3.6	-3.5	-2.9	-3.0
United States	-3.1	-2.7	-1.9	-0.6	0.5	1.1	1.9	0.4	-2.6	-3.7	-3.6	-3.6	-3.5
excluding social security	-4.0	-3.5	-2.8	-1.6	-0.7	-0.4	0.4	-1.2	-4.2	-5.1	-5.0	-4.9	-4.9
Total of above countries	-4.0	-3.6	-3.0	-1.6	-1.2	-1.0	0.1	-1.2	-3.1	-3.8	-3.6	-3.5	-3.4

Note: Central government financial balances include one-off revenues from the sale of mobile telephone licenses.

1. Data for 2005 include the payment by EDF in respect of the transfer of its pension liabilities to the government.
2. The 1995 deficit would rise by 6.7 percentage points of GDP if it included the debt taken on this year from the Inherited Debt Funds.
3. Data are only available for fiscal years beginning April 1 of the year shown. The 1998 deficit would rise by 5.3 percentage points of GDP if it included the central government's assumption of the debt of the Japan Railway Settlement Corporation and the National Forest Special Account.

Source: OECD Economic Outlook 77 database.

Annex Table 60. **Maastricht definition of general government gross public debt**

As a percentage of nominal GDP

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Austria	63.5	67.9	67.8	63.7	64.3	66.5	65.8	66.1	65.9	64.7	64.2	62.5	61.0
Belgium	135.7	133.9	130.6	124.7	119.5	114.8	109.2	108.0	105.4	99.9	95.7	94.3	92.5
Czech Republic	..	..	..	12.2	12.9	13.4	18.2	27.2	30.7	38.3	37.4	36.5	37.4
Denmark	77.4	73.2	69.7	65.7	61.2	57.7	52.3	47.8	47.6	44.9	42.8	41.0	39.5
Finland	57.9	57.0	57.2	54.0	48.6	47.0	44.6	43.8	42.5	45.3	45.2	46.6	48.4
France	48.4	54.6	57.1	59.3	59.5	58.5	56.7	57.0	59.0	63.8	65.6	66.6	66.4
Germany	49.3	57.0	59.8	60.9	61.0	61.4	60.2	59.4	60.8	64.1	66.3	67.8	68.7
Greece[1]	107.9	108.7	111.3	108.2	105.8	105.2	114.0	114.8	112.2	109.3	110.5	108.3	105.7
Hungary	..	..	..	64.2	61.9	61.2	55.4	52.2	55.5	56.9	57.6	57.5	57.5
Ireland	89.5	81.9	73.4	64.6	53.8	48.7	38.3	35.8	32.6	32.0	29.9	29.9	29.8
Italy	124.8	124.2	123.2	120.5	116.8	115.5	111.1	110.7	108.0	106.2	106.0	108.1	109.1
Luxembourg	6.3	6.7	7.2	6.8	6.3	6.0	5.5	7.2	7.5	7.1	7.5	8.1	8.7
Netherlands	76.4	77.2	75.2	69.9	66.8	63.1	55.9	52.9	52.6	54.3	55.6	56.1	56.3
Poland	..	..	..	44.0	39.1	40.3	36.8	36.7	41.2	45.4	43.6	45.7	47.5
Portugal	62.1	64.3	62.9	59.1	55.0	54.3	53.3	55.9	58.5	60.1	61.9	67.2	71.4
Slovak Republic	..	..	30.6	33.1	34.0	47.2	49.9	48.7	43.3	42.6	43.6	45.6	46.6
Spain	61.1	63.9	68.1	66.6	64.6	63.1	61.1	57.8	55.0	51.4	48.9	46.3	43.5
Sweden	73.9	73.7	73.5	70.6	68.1	62.7	52.8	54.3	52.4	52.0	51.2	50.4	49.9
United Kingdom	48.6	51.8	52.3	50.8	47.7	45.1	42.0	38.8	38.3	39.7	41.5	43.6	45.6
Euro area	70.0	74.4	76.5	74.9	73.8	72.9	70.4	69.6	69.5	70.8	71.3	72.2	72.1

Note: For the period 1994-2004, gross debt figures are provided by Eurostat, the Statistical Office of the European Communities, unless more recent data are available, while GDP figures are provided by National Authorities. The 2005 to 2006 debt ratios are in line with the OECD projections for general government gross financial liabilities and GDP. See *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

1. Revisions to Greek budgetary data suggest gross debt data of 114.0, 112.4 and 112.3 per cent of GDP in 1997-1999 respectively.

Source: OECD Economic Outlook 77 database.

Annex Table 61. **Monetary and credit aggregates: recent trends**

Annualised percentage change, seasonally adjusted

		Annual change (to 4th quarter)					Latest twelve months	
		2000	2001	2002	2003	2004		
Canada	M2	7.3	5.7	6.0	5.3	6.4	6.4	(Mar. 2005)
	BL[1]	7.3	4.9	5.0	4.7	7.7	8.2	(Mar. 2005)
Japan	M2+CD	2.0	3.1	2.9	1.5	2.0	1.9	(Apr. 2005)
	BL[1]	2.5	-1.4	-3.1	-0.5	1.4	-0.5	(Feb. 2005)
United Kingdom	M0	6.6	7.7	6.9	7.5	5.6	4.8	(Apr. 2005)
	M4	8.9	7.7	5.9	6.5	9.3	10.4	(Apr. 2005)
	BL[1]	12.8	8.4	9.3	8.6	11.3	11.3	(Mar. 2005)
United States	M2	6.1	10.2	6.8	5.5	5.2	4.1	(Apr. 2005)
	M3	9.3	12.8	6.5	4.9	5.8	4.5	(Apr. 2005)
	BL[1]	12.1	2.5	5.0	5.9	10.2	9.8	(Apr. 2005)
Euro area	M2	4.0	8.4	6.6	6.8	6.3	7.0	(Mar. 2005)
	M3	4.6	10.5	6.8	7.0	6.0	6.5	(Mar. 2005)
	BL[1]	5.9	7.2	3.8	5.6	5.8	6.3	(Feb. 2005)

1. Commercial bank lending.

Source: OECD Economic Outlook 77 database.

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