European Commission
Directorate-General for Economic and Financial Affairs

Economic Forecast

Autumn 2008

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OVERVIEW

Escalating financial crisis...

The economic situation is exceptionally uncertain. The financial crisis deepened and broadened this autumn with the banking sector at the eye of the storm. Important policy measures have been undertaken by governments in both the US and the EU as well as by central banks to restore financial stability. Nonetheless, the EU and euro-area economies cannot escape the negative effects of the financial distress. Not least because in several countries it comes on top of severe housing-market corrections, which in turn have been further aggravated by the financial crisis. These shocks have put a brake on domestic demand at a time when external demand is fading.

The EU and euro-area economies at a stand-still next year...

GDP growth, thus, is expected to come to a stand-still in 2009 in both the EU and the euro area, implying a downward revision of about 1½ pps. since the spring forecast. Several EU countries are forecast to experience a technical recession, i.e. two consecutive quarters of negative quarter-on-quarter (q-o-q) growth. Some countries will be subject to more pronounced downturns and/or lasting corrections reflecting their exposure to the shocks above and to other country-specific factors. For 2010, a slow recovery is thus foreseen for most, but not all, economies suggesting an acceleration of GDP growth to about 1% in both regions.

...while inflation falls rapidly

Inflationary pressures are abating. The expected sharp slowdown in economic activity should lead to higher unemployment and weaken domestic demand growth, easing domestic pressures on consumer prices. Moreover, a rapid slowdown in the global economy has reversed the fierce commodity price inflation that drove consumer price inflation high in the past. Consumer price inflation is thus projected to decline further throughout 2009-2010.

Reflecting the rapid slowdown and increasing unemployment, as well as the potentially large costs of the measures to safeguard financial system stability, public finances are set to deteriorate appreciably.

Significant downside risks to the growth outlook

There are significant downside risks to our forecast. Most importantly, the deteriorating conditions on the real side could adversely affect the already tenuous conditions in financial markets, which in turn could further slow the economy, fuelling the feedback loop.

Forecasts crucially depend on the assumptions about how the financial crisis and its interaction with the real economy will play out. This forecast now assumes that uncertainty about the ultimate size and location of credit losses and hence the exceptionally high counterparty risk will continue over the coming months and that the negative effects on the broader economy will persist throughout the forecast period.

Global growth slows sharply...

Turning to the details of our new baseline forecast, the impact of the financial crisis, the ongoing correction in house prices and lagged effects from elevated commodity prices are causing global growth to fall sharply, with a particularly pronounced slowdown in *advanced economies*. Global real GDP growth is set to decelerate from the exceptionally strong 5% recorded on average in 2004-2007, to 3¾% this year and 2¼% in 2009. During 2010, growth is expected to pick up gradually as financial markets stabilise, boosting confidence and trade. Excluding the EU, global growth is projected to decline from 4¼% in 2008 to around 3% in 2009, but pick up again in 2010 to 3¾%. Reflecting these developments, world trade is forecast to slow markedly, from about 7% in 2007 to 5¼% this year and further down to just below 2½% in 2009, before reaccelerating to 4% in 2010.

...particularly in the US...

The US economy is facing a recession. The previously projected W-shaped growth profile is maintained, but the recovery is now expected to be more gradual. On the back of a significant fiscal stimulus and a stronger-than-expected depreciation of the dollar, an improvement in net exports and stronger consumer spending led to a better-than-expected performance in the first half of 2008. However, as the temporary impact of the fiscal package fades, while residential investment continues to fall, and employment declines, the outlook is for a recession in the US economy during the coming winter. Real GDP growth is expected to fall to 1½% this year and to -½% in 2009. As the impact of the massive easing of monetary policy becomes stronger, together with an expected decline in inflation on the back of lower oil prices, economic activity should rebound gradually from the second half of 2009 onwards. The pronounced deterioration in the fiscal position implies an increase in the budget deficit to 9% of GDP by 2010. At the same time, private savings will increase, leading to an appreciable improvement in the current-account balance.

...while emerging economies held up better, so far

Emerging economies appeared somewhat more resilient until recently, but the outlook is darkening. Still, a number of factors play to soften the impact of the global downturn. In many countries, macro-economic fundamentals have improved over recent years, with sounder fiscal policies and a healthy external position. Moreover, the increased importance of domestic demand and intra-regional trade has shielded these economies to a certain extent against external shocks. Nonetheless, no economy is expected to escape unscathed from the current financial crisis, particularly not those with close trade ties to the US.

Commodity-price hikes caused a huge terms-of-trade shock...

Commodity prices continued to soar in the first half of this year. In particular, the global economy was hit by a significant terms-of-trade shock in the second quarter of 2008 when commodity prices surged by 55% year-on-year (y-o-y). While the price increase for oil was particularly pronounced (at about 70% y-o-y), prices of non-oil commodities, such as food and metal prices, also rose sharply.

...which is set to slow ahead

The expected global slowdown should ease price pressures in commodity markets. This forecast includes a technical assumption for oil prices based on current expectations in futures markets, which lead to oil prices of 104 US-dollars per barrel (USD / bl.) on average in 2008, still well below the peak at 145 USD / bl. in July 2008, before easing somewhat in 2009-2010 to 86 and 90 USD / bl. respectively. Food and metal prices are also assumed to remain at high levels.

Sharp tightening of credit conditions

Concerning financing conditions, the intensification of the financial crisis has caused risk premia to increase sharply recently, leading to higher borrowing costs for enterprises and households. Moreover, the ECB's bank lending survey suggests a marked tightening of credit conditions. In this environment, the banking sector has found it increasingly difficult to raise new capital. The necessary deleveraging is therefore expected to slow lending going forward. Differences across EU countries are sizeable, with e.g. the UK already experiencing a credit crunch.

Soft and hard data suggests a contraction of GDP in the next quarters

Looking ahead, survey indicators point to a further weakening of the underlying growth momentum in the EU in the coming months. Confidence indicators have fallen almost uninterruptedly since May 2007 and are now well below their long-term averages. In September, the Commission's Economic Sentiment Indicator for the EU declined to its lowest level since December 1993, while in the euro area, it is approaching the level of the 2001 trough. Confidence has deteriorated significantly in all sectors and almost all Member States over the last year, and it is likely to deteriorate further in the near term, since the September data were collected before the marked intensification of the financial crisis that followed in the wake of the collapse of Lehman Brothers. Other high frequency data on economic activity also point to a marked deceleration in both the EU and the euro area. Most importantly, industrial production fell by 0.7% y-o-y, while retail sales were down by 1.8% y-o-y in August in the euro area.

Euro area in recession at present

Against the background of unfavourable external conditions as well as the further deterioration of soft and hard data in recent months, GDP is now expected to have declined in the third quarter of this year in both the EU and the euro area. This, together with the contraction recorded in the second quarter for the euro area, would imply that the euro area as a whole, a number of its Member States, but also some countries outside the euro area are already in, or set to enter a technical recession.

Bleak outlook for 2009...

Looking further ahead, the outlook for the EU and euro-area economies remains bleak. Real GDP is forecast to contract during the winter before recovering modestly in several countries in the course of 2009 on the back of a gradual stabilisation of financial markets and, towards the end of next year, an improved external demand. For 2009 as a whole, GDP is expected to expand by a mere 0.2% in the EU (0.1% in the euro area). GDP is forecast to accelerate gradually to 1.1% in the EU and 0.9% in the euro area in 2010.

In per capita terms, GDP is expected to decline by 0.1% in the EU and by 0.2% in the euro area before accelerating by about ¾% in 2010. As a comparison, GDP per capita in the US is expected to fall by almost 1½% next year before stabilising in 2010.

Table 1:

Main features of the autumn 2008 forecast - EU

(Real annual percentage change unless otherwise stated)				Autumn 2008 forecast [1]			Difference vs spring 2008 (a)	
	2005	2006	2007	2008	2009	2010	2008	2009
GDP	2.0	3.1	2.9	1.4	0.2	1.1	-0.6	-1.6
Private consumption	2.0	2.3	2.2	1.0	0.2	0.8	-0.6	-1.4
Public consumption	1.6	1.9	2.1	1.8	1.3	1.2	-0.1	-0.4
Total investment	3.6	6.1	5.4	1.2	-1.9	0.9	-1.6	-3.9
Employment	0.8	1.5	1.7	0.9	-0.5	0.1	0.1	-1.0
Unemployment rate (b)	8.9	8.2	7.1	7.0	7.8	8.1	0.2	1.0
Inflation (c)	2.3	2.3	2.4	3.9	2.4	2.2	0.3	0.0
Government balance (% GDP) (d)	-2.4	-1.4	-0.9	-1.6	-2.3	-2.6	-0.4	-1.0
Government debt (% GDP)	62.7	61.3	58.7	59.8	60.9	61.8	0.9	2.5
Adjusted current account balance (% GDP)	-0.2	-0.8	-0.7	-0.9	-0.7	-0.6	-0.2	0.0

[1] The Commission services' autumn 2008 Forecast is based on available data up to October 23, 2008.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to spring 2008.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.
(d) Including proceeds relative to UMTS licences.

...with GDP forecast to fall in several countries

The slowdown in economic activity is broad based, but with continued differences across Member States. This partly follows from a catching-up process in some, but it is also due to other country-specific characteristics such as the country's competitiveness, its exposure to the financial crisis or to a housing shock. Among the largest Member States, GDP is therefore expected to fall in Spain and the United Kingdom next year, whereas the economy is projected to come to a stand-still in France, Germany and Italy.

Growth slows with falling investment...

Regarding demand components, while investment, together with exports, was a key driving force behind the upswing in recent years, it is now slowing abruptly and is expected to act as a drag on growth next year. Indeed, reflecting the impact of the different shocks, investment has already been falling more rapidly than in the previous cyclical downswing at the beginning of this decade. Total investment growth is forecast to drop from some 5½% in 2007 to 1¼% in 2008 and -2% in 2009 before regaining some ground in 2010 (up to 1%) in the EU. The profile for the euro area is similar, albeit at a somewhat lower level.

...in both equipment and construction

This marked slowdown of investment follows from several factors: tighter lending conditions and reduced availability for credit reflecting the need for deleveraging in the financial sector; as well as a significant drop in investor confidence and demand expectations. Equipment investment, after growing by more than 6% in 2007, is projected to fall by about 3% in 2009 in the euro area. The downturn of construction investment reflects the cooling-off of overvalued housing markets in several EU economies. Construction investment is expected to fall by a cumulative 10% or more over the forecast period in Denmark, Estonia, Ireland, Spain and Lithuania and by more than 5% in France and the United Kingdom.

Private consumption, which was unusually weak during this business cycle relative to earlier ones, contracted slightly during the first half of this year, reflecting both reduced real household income due to high inflation and rapidly falling consumer confidence.

Consumption remains subdued

Despite a rebound in real disposable income growth as inflationary pressures abate, consumption is expected to remain subdued. Private consumption growth is forecast to stay at about ¼% in the EU and ½% in the euro area. Nonetheless, consumption is expected to fall, in several EU economies that are more directly affected by the financial and/or housing crises. A moderate recovery is foreseen for 2010 with consumption growth accelerating to around 1% in both the EU and the euro area.

Net exports are forecast to contribute positively to GDP growth by around ¼ pp. in both the EU and the euro area over the forecast years, despite export growth declining rapidly as global trade growth eases. Indeed, growth in exports of goods and services are expected to drop by more than two thirds in the EU from 2007 to 2009. Differences across countries reflect largely their regional and sectoral export composition as well as their competitive position. However, given the marked slowdown in final demand, the deceleration of imports is even more pronounced, resulting in the positive growth contribution overall.

Labour market at a turning point

The slowdown has started to affect the labour market as well, which has performed very well in recent years. Employment growth has eased gradually to 0.2% q-o-q in the second quarter of this year in both the EU and the euro area, while unemployment appears to have bottomed out at just below 7% of the labour force in the EU, and has increased somewhat in the euro area to stand at 7.5% in August. Looking ahead, the labour market situation is expected to deteriorate sharply next year. Business surveys point to a considerable weakening of employment prospects across sectors and the outlook is for a fall in employment next year by some ½% in both the EU and the euro area. Further out, some improvement in employment growth is noted for most Member States as economic activity picks up. Altogether, employment is expected to increase by a meagre ¼ million jobs in the EU and ½ million the euro area in 2009-2010, compared with the 6 million new jobs that were created in 2007-2008 in the EU (including 4 million in the euro area).

Unemployment rise to 8% in the EU...

As a result of the decline in employment, the unemployment rate is expected to increase by about 1 pp. in the next two years, to some 8% in the EU and 8¾% in the euro area by 2010, with increasing differences across Member States.

...easing wage pressures overall

During the first half of 2008, the labour market situation was still tight and capacity utilisation high in several countries and sectors. This, together with some limited second-round effects from the surge in consumer price inflation that started a year ago, caused wage growth to increase to 3.7% in the EU in 2008. With unemployment rising (above the estimated structural unemployment level in 2009) and demand for labour falling, wage pressures should ease over the forecast period. Compensation of employees per head is expected to decelerate gradually to 3.2% in 2009 and 3.0% in 2010 in the EU (and to 3.1% and 2.7%, respectively, in the euro area).

Competitiveness under pressure in some countries

Differences in wage growth persist across countries, sometimes going well beyond what could be explained by discrepancies in productivity growth, raising concern about competitiveness. In particular, while unit labour cost growth is expected to amount to 3.4% on average this year, it is forecast at 5% or more in Ireland, Greece, Italy, Hungary, Poland and Slovenia and at more than 13% in Bulgaria, the three Baltic countries and Romania. Not surprisingly, export performance is also projected to deteriorate in some of these economies. Going forward, unit labour cost growth is expected to slow to 2.7% in 2009 and 2.1% in 2010 in the EU, but to remain at above 5% in Bulgaria, Greece and Romania throughout the forecast period.

Table 2:

Main features of the autumn 2008 forecast - Euro area

(Real annual percentage change unless otherwise stated)				Autumn 2008 forecast [1]			Difference vs spring 2008 (a)	
	2005	2006	2007	2008	2009	2010	2008	2009
GDP	1.7	2.9	2.7	1.2	0.1	0.9	-0.6	-1.5
Private consumption	1.8	2.0	1.6	0.5	0.4	1.0	-0.9	-1.1
Public consumption	1.5	1.9	2.3	1.8	1.2	1.0	-0.1	-0.5
Total investment	3.3	5.5	4.3	1.2	-2.6	0.2	-0.9	-3.8
Employment	0.7	1.4	1.7	0.9	-0.4	0.1	0.0	-0.9
Unemployment rate (b)	9.0	8.3	7.5	7.6	8.4	8.7	0.4	1.1
Inflation (c)	2.2	2.2	2.1	3.5	2.2	2.1	0.4	0.0
Government balance (% GDP) (d)	-2.5	-1.3	-0.6	-1.3	-1.8	-2.0	-0.3	-0.7
Government debt (% GDP)	70.0	68.3	66.1	66.6	67.2	67.6	1.7	3.1
Adjusted current account balance (% GDP)	0.1	-0.1	0.1	-0.4	-0.1	-0.1	-0.4	-0.1

[1] The Commission services' autumn 2008 Forecast is based on available data up to October 23, 2008.
(a) A "+" ("-") sign means a higher (lower) positive figure or a lower (higher) negative one compared to spring 2008.
(b) Percentage of the labour force. (c) Harmonised index of consumer prices, nominal change.
(d) Including proceeds relative to UMTS licences.

Inflation at a 12-year high this summer...

Consumer price inflation continued to rise rapidly in the first half of this year on the back of soaring energy and food prices. Headline HICP inflation reached a peak of 4.4% in the EU in July (4.0% in the euro area), recording its highest value in 12 years. At the same time, core inflation, which excludes energy and unprocessed food, has increased by about ½ pp. However, with the impact of past increases in commodity prices fading away, inflation should have turned the corner. Indeed, HICP inflation has declined gradually in the most recent months and in September stood at 3.6% in the euro area.

...but quickly falls back to 2¼% by next year in the euro area

Overall, HICP inflation is thus forecast at 3.9% this year in the EU (3.5% in the euro area), up by almost 1½ pp. since 2007 in both regions. In 2009, inflation is expected to fall back to 2.4% in the EU with base effects remaining favourable (2.2% in the euro area) and to decelerate further in 2010, albeit more slowly. Besides reduced pressure from commodities, the weaker economic outlook will put a brake on wage growth, while productivity is set to rebound. Moreover, inflation expectations have fallen back significantly in recent months, thereby becoming well anchored again.

Persisting current-account differences

The current-account deficit declines gradually from 1% of GDP in the EU in 2008 to about ½% in 2010, whilst being broadly in balance in the euro area. However, aggregate developments continue to mask significant differences across Member States with several Member States forecast to post a double-digit deficit this year (i.e. Bulgaria, Estonia, Greece, Cyprus, Latvia, Lithuania, Portugal and Romania), while a significant surplus is expected in e.g. Germany, Luxembourg, the Netherlands and Finland. Although sizeable current-account deficits may facilitate a catching-up process, thereby supporting income convergence, both productivity growth and the investment share are relatively low for a number of the countries with large deficits. For others, productivity growth is relatively modest despite a still high investment share.

Judging from the first ten years of experience with EMU, imbalances across euro-area Member States have a tendency to persist. This may turn out to be particularly damaging in the current situation where some of the countries which have built up large external deficits, partly reflecting continued losses in competitiveness, are also those where housing markets are now going through the most significant adjustment.

Government finances hit by the downturn...

The economic downturn is expected to have a negative impact on government finances over the forecast period. The aggregate general government deficit in the EU is projected to rise from 0.9% of GDP in 2007 to 1.6% of GDP in 2008. Similarly, in the euro area the deficit is forecast to increase from 0.6% of GDP in 2007 to 1.3% in 2008. A gradual worsening of the government balance is foreseen in both 2009 and 2010, based on the usual no-policy-change assumption for the latter, with the deficit foreseen at 2.6% in the EU and at 2% in the euro area in 2010. Similarly, government debt positions have been revised up significantly compared to the spring forecast. In the euro area, the debt ratio is now expected to increase by over 1 pp. between 2007 and 2009, in contrast to a projected decline of almost 2 pps. in the spring forecast. Similarly, for the EU as a whole, the debt ratio is projected to rise by over 2 pps. between 2007 and 2009. Moreover, it must be noted that this projection does not include the potential impact of the recent rescue packages on debt.

The deterioration of government finances is due to developments on both the expenditure and the revenue side. In particular, over the forecast period the expenditure-to-GDP ratio is forecast to rise by close to 1 pp. in the euro area and more than 1 pp. in the EU. At the same time, the revenue-to-GDP ratio is projected to decline by around ½ pp. in both the EU and the euro area. A slower growth of tax bases, a shift away in the composition of growth from domestic demand to external demand, the ongoing decline in asset prices and tax cuts in some countries are the main factors behind the decline in the revenue ratio.

...with marked downside risks

Moreover, the public finance projections are subject to significant downside risk at present, due, in particular, to the risks related (i) to the general macroeconomic outlook, (ii) to uncertainties regarding the impact of the re-composition of growth and falling asset prices on government revenues, and (iii) to the potential impact on government finances of measures in support of financial stability. In particular, the recent rescue operations for financial sector companies may lead to higher debt levels. However, given that governments take up equity in and provide loans to banks, thereby also increasing government assets, this does not entail a rise in net liabilities, at this stage. Nonetheless, contingent liabilities (i.e. liabilities that may arise in the future if, for example, guarantees are called) have increased significantly in this process.

Broad-based budgetary deterioration

The projected deterioration of budgetary positions in 2008 and 2009 affects most EU countries. It is particularly sharp for Ireland, however, where the government balance is projected to reach a deficit of 5.5% of GDP in 2008 and almost 7% in 2009. Spain is also expected to see a marked budgetary deterioration between 2007 and 2009, by a total of 5 pps. relative to GDP, though starting from a surplus position. Overall, seven Member States are projected to breach and/or stay over the 3% of GDP reference value in 2009 (Ireland, France, Latvia, Lithuania, Hungary, Romania and the United Kingdom - Hungary and the United Kingdom already being subject to the excessive deficit procedure). While Hungary's headline deficit is forecast to fall to below 3½% in 2008 and 2009, the deficit for the UK is projected to rise to 4¼% of GDP in 2008 and to above 5½% in 2009.

Significant downside risks for growth...

Overall, this outlook implies a significant revision of the spring forecast figures. Many of the risks identified at the time have not only materialised simultaneously, but also intensified dramatically. This concerns in particular the deepening and widening of the financial crisis, which has aggravated the housing-market corrections in several countries, but also the spike in inflation, with the ensuing global downturn. The situation remains fragile as this report goes to print (end-October), with the uncertainty surrounding the outlook being exceptionally large and risks to the outlook sizeable.

...especially from the financial crisis and its impact on housing

Concerning the forecast for GDP growth, the most important downside risk is related to the ongoing financial crisis. It cannot be excluded that the financial stress may intensify even further, last longer or have a more pronounced impact on the real economy, fuelling the negative feedback loop. This could also reinforce the ongoing correction of some housing markets, putting balance sheets under increasing strains, which could both hamper the necessary deleveraging process in the financial sector and, via negative wealth and confidence effects, reduce private consumption. Moreover, abrupt shifts in risk-preferences cannot be ruled out in such a situation, suggesting that countries with sizeable external deficits and/or debts could face increasing difficulties in securing their financing. As the risk scenario in Box 1 demonstrate, even a relatively moderate (50-basis point) further increase in risk premium and a tightening of credit availability for households, not any longer a remote possibility, can trigger an outright recession (a decline of one percent in GDP in 2009) in the euro area.

Although declining, global imbalances remain significant and could trigger disruptive exchange-rate developments. In addition, protectionist or other trade-distorting measures can not be fully ruled out, although caused by the marked downturn in activity (rather than high food prices as was the case earlier this year). Finally, whilst emerging-market economies appeared more resilient than advanced economies earlier, their outlook has also deteriorated and they may be even more affected by the financial crisis and the marked slowdown among advanced economies than expected. This would have a significant impact on global growth, as their contribution to this amounted to 70% in 2007.

Commodity prices could recede more...

The future development of commodity prices could entail both upside and downside risks: with growth prospects deteriorating, commodity prices and also headline inflation could recede faster than expected, supporting real disposable income to a greater extent.

...with a direct impact on inflation

Upside risks to the inflation outlook have receded significantly since the spring. Besides the risks regarding future commodity prices, second-round effects have been largely contained so far and should become less likely as the labour market situation eases sharply. Inflation expectations have also fallen in recent months to the levels that prevailed before the outbreak of the financial turmoil last year.

To conclude, risks to economic activity have increased significantly and remain firmly tilted to the downside. This, in turn, eases inflationary pressures and makes the risks to the projection for consumer price inflation more balanced.

Box 1: Risk scenario autumn 2008 forecast

Uncertainties concerning future developments in financial markets form a major risk to the forecast. It is not impossible that financial markets will remain severely disrupted for a longer period of time than assumed in the baseline projections. If mistrust among banks and institutions continues to affect inter-bank lending for the foreseeable future, this could force them to reduce their debt and lending to other sectors in the economy even further (accelerated deleveraging). The economy could then face a prolonged period in which credit availability will be severely restricted.

In order to demonstrate the implications for the forecast, this box describes a model-based scenario which assumes such a prolonged and deepening credit crisis. In the current circumstances it is impossible to foresee how credit markets are going to recover from the present turmoil. The scenario presented here should therefore not been seen as an alternative forecast, but merely as an illustration of the potential uncertainties surrounding the central forecast.

The cost of finance for firms and households has increased dramatically over the last couple of months. As a result of the rise in bank lending rates and yields on loans, debt securities and shares, the overall financing costs for non-financial corporations were by September almost 100 bp above the average level in 2007, and lending rates for households for consumer credit, house purchases and other purposes were more than 50 bp higher. Following the deepening of the crisis in the weeks after the collapse of Lehman Brothers, these costs have risen further. As a result of the need for banks to de-leverage, inter-bank lending has been severely disrupted and reduced availability of credit has become a major concern for policy makers.

The central scenario shows a slowdown in growth to levels much below potential in the euro area: 1.2 per cent in 2008, 0.1 percent in 2009 and 0.9 per cent in 2010. The simulation presented here assumes a worse-case scenario, in which banks tighten their lending conditions further via even higher spreads and increased collateral requirements. The model used in this analysis is a new version of the QUEST III model, a multi-country dynamic stochastic general equilibrium model that includes some relevant features which make it a useful tool to analyse the current financial crisis, in particular the explicit modelling of housing investment and the presence of credit-constrained households. The disaggregation of the household sector into borrowers and lenders allows us to look more closely at the transmission of financial market (especially mortgage market) shocks throughout the economy.

The simulations assume a further increase in financing costs and a reduction in credit available to the economy. The spread firms and households are having to pay over and above official interest rates to finance (housing) investment is assumed to rise by an additional 50 basis points and to remain at this elevated level for the foreseeable future. The effect of this shock is to reduce investment growth by 3 per cent in both 2009 and 2010. In addition a further contraction of lending of banks to households is assumed through a tightening of the collateral requirements that credit-constrained households face when borrowing for house purchases, reducing the average loan-to-value ratio by an additional one percentage point in 2009. This has an impact on consumption and housing investment, especially by credit-constrained households, and reduces outstanding stock of mortgage debt relative to the baseline scenario by 2 percent in the long run. These model simulations suggest the overall effect of these shocks could be a further growth contraction of 1 percentage point in 2009 and between 0.1 and 0.2 percentage points in 2010. Roughly half of this effect would come from the increase in spreads (price rationing) and the other half from the restrictions in the access to credit (non-price rationing).

This simulation is for illustrative purposes only and it should be borne in mind that the QUEST model, like other global macro models, may not fully capture all factors that could play a role in the adjustment to the major upheavals in credit markets, as certain non-linearities and interactions may not be appropriately captured in the model. Nonetheless, the scenario illustrates the uncertainty surrounding the central forecast and gives an indication of the order of magnitude of the potential impact of a further deepening and/or lengthening of the financial crisis.

The impact on potential growth (see Box 2.3.1) would also be larger, as the increase in financing costs and/or rationing of credit would further reduce capital accumulation and hence reduce potential growth in the medium run.

Chapter 1

Current international developments and prospects

1. CHALLENGING TIMES FOR GLOBAL FINANCE AND GROWTH

The financial crisis has dramatically changed the global economic outlook. During the first half of 2008, global growth was relatively robust, notwithstanding the impact of the combined shocks of the surge in commodity prices, the financial turmoil and the downturn in several countries' housing markets. The terms-of-trade shock associated with rapidly rising commodity prices started to slow growth in most advanced economies from the spring onwards, but worse was to come when the financial turmoil escalated into a full-fledged crisis during the autumn, paralysing large parts of the financial system, with sizeable effects on confidence and subsequently on the real economy.

Led by the downturn in the US, growth in non-EU economies will be significantly lower over the forecasting period than in previous years. The slowdown will be most pronounced in advanced economies, while the resilience of individual emerging economies will vary, depending on their specific vulnerabilities.

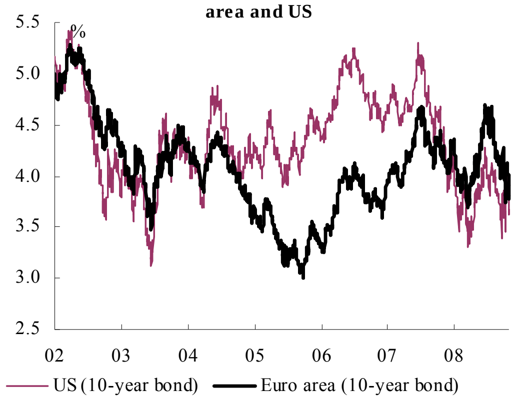
The baseline scenario projects a marked slowdown in world growth, falling to 2.3% in 2009, well below the long-term average of 3½%. The baseline scenario projects 3.7% world growth in 2008 (down from 5.0% in 2007) and 3.2% in 2010. For the world excluding the EU, growth is set to ease to 4.3% in 2008 (down from 5.6% in 2007), 2.9% in 2009, and return to 3.8% in 2010. This represents a substantially more pronounced slowdown in 2009 than forecast in the spring. The global downturn is expected to take hold in the second half of 2008 and to continue through 2009. During 2010, global growth will recover only very gradually.

The full impact of the financial crisis is still difficult to predict

This being the deepest financial crisis since World War II means there is exceptional uncertainty at present, and sizeable downside risks prevail. Due to its extraordinary character, it is very hard to estimate how deep the financial crisis will be, how long it will last, and what negative effects it will ultimately have on the real economy. Underlying this forecast is the assumption that the functioning of financial markets will resume only gradually in the coming months and that the negative effects of the crisis on the financial sector and on the broader economy will be persistent throughout the forecast period. Previous periods of significant financial distress can only give some guidance, as the combination of the deep and broad-based financial crisis (with its interplay with the housing market corrections) and the significant policy response to it, makes this episode a unique event.

In recent months, conditions in the global financial system have become extremely fragile, reflecting the dislocation of several key credit markets, notably the markets for interbank lending. This follows from the collapse in investor confidence, amid pervasive uncertainty about the strength of banks' balance sheets. The extreme degree of risk aversion, particularly since the collapse of Lehman Brothers, has led to a generalised flight to quality. Interest rates on ten-year government bonds declined in the US and in the euro area by, respectively, 60 bp and 90 bp (average for the area) between mid-June (when they reached their most recent high) and 23 October 2008, which is the cut-off data for the autumn forecast.

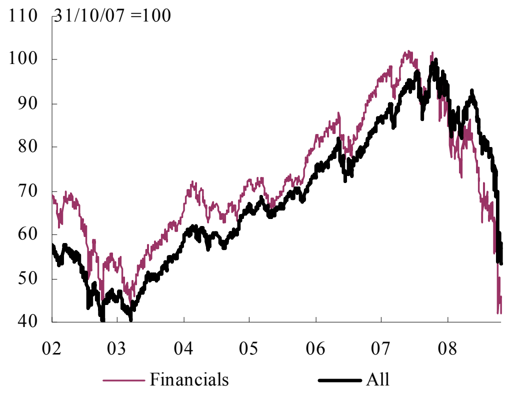
Graph 1.1.1: **Long-term interest rates, euro area and US**



Central banks have been performing their role of lender of last resort, but now also function as a market maker. Both at the discount window and in the repo tender operations, central banks now accept an increasingly wide range of collateral from more types of counterparties. Moreover, repo transactions are being carried out with an increased frequency and at an increasing range of maturities.

As a response to this financial crisis, the G7, the EU Member States and other countries have put in place rescue plans. These plans comprise capital injections into financial institutions, state-backed guarantees for bank loans, increased access to liquidity from central banks and higher levels of minimum deposit insurance. These measures appear to be having some effect, as indicators of stress in money and credit markets have eased somewhat from peak levels, although it is too early to draw conclusions about the robustness of these latest developments.

Graph 1.1.2: **World-wide share prices (FTSE)**



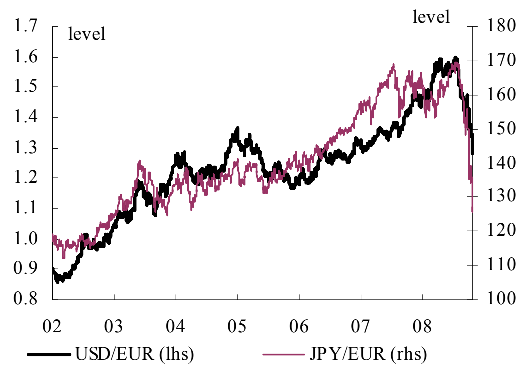
On top of the rescue plans, policy rates were lowered by the main central banks in a joint confidence-building effort on 8 October 2008.

The problems of the banking sector, linked to the freeze in the interbank markets and the lack of recapitalisation possibilities, has been reflected in its equity price. Compared with the start of the year, worldwide equity prices for financial companies were 53% lower on 23 October 2008 (against 43% for all companies). Problems have also spread to market segments that were previously unaffected. Some money-market funds, which are traditionally seen as safe-haven investments, have experienced heavy outflows, after incurring losses on their investments. Worries also spread to emerging markets, with a doubling in the emerging-market bond spread during October 2008.

The risk of a severe credit crunch is receding. Conditions in the credit markets have improved, but are still far from normal. As the details of the government rescue packages emerge, this trend should gather pace. On the other hand, the focus of financial-market attention has started to shift from the health of the banking system to the health of the real economy. In view of the strong linkages from the real to the financial side, there may be some way to go before financial markets stabilise on a durable basis. On 23 October 2008, euro-area corporate bond spreads (over government bonds) were at least twice as high as their level at the start of the year: 96 bp (from 43 bp) for AAA-bonds and 421 bp (from 160 bp) for BBB-bonds.

The financial crisis has also led to significant exchange-rate moves and high volatility. Markets continuously re-assess the relative positions and outlook for GDP growth, interest rates as well as financial stability. Since late summer 2008, growth projections for the euro area have deteriorated sharply, also relative to growth projections for the US, and markets' expectations of euro-area policy interest rates have declined. This led to a significant recovery of the US dollar. The bilateral euro-dollar rate fell to 1.28 on 23 October from a peak just below 1.60 in mid-July.

Graph 1.1.3: **Euro exchange rates, USD and JPY**



Meanwhile, the Japanese yen staged an impressive rebound, as carry trades were unwound and funds repatriated on account of higher risk aversion. The bilateral euro-yen rate fell to 127 on 23 October from a peak just below 169.5 in mid-July. The financial crisis implies a risk of further large exchange rate moves.

Looking at the broader picture, the euro is closer in line with fundamentals at the end of October, as its real effective exchange rate is down 6% from its April peak and now stands about 3% above its long-term average. The US dollar is also closer to its long-term average in real effective terms. From mid-July, the US dollar's real effective exchange rate rapidly appreciated and, at the end of October, stands 14% above its April trough and some 3% below its long-term average. The improvement of the US current account deficit has stalled at a still sizeable level of about 5% of GDP. Given that past dollar depreciation has occurred mainly against the currencies of some advanced economies (most prominently the euro), there is room for further dollar depreciation against the currencies of the main surplus countries in East Asia and among oil exporters.

Commodity prices: the straw that broke the camel's back?

The global economy was hit by a huge terms-of-trade shock in the second quarter of 2008. In dollar terms, commodity prices went up by 62% y-o-y (24% q-o-q). While the increase for oil stood out (78% y-o-y and 27% q-o-q), non-oil commodity prices also rose significantly. Food prices, notably, were up 26% y-o-y (with the bulk of the rise already in the first quarter). All over the world, households' real disposable income was squeezed, contributing to social unrest in some emerging markets (e.g. Indonesia). Global business was also affected: the global PMI for manufacturing dipped below 50 in June 2008 (for the first time since 2003) and world trade growth slowed to 5% y-o-y in the second quarter. The sizeable rise in global inflation in the second quarter slowed global growth significantly, especially among advanced economies.

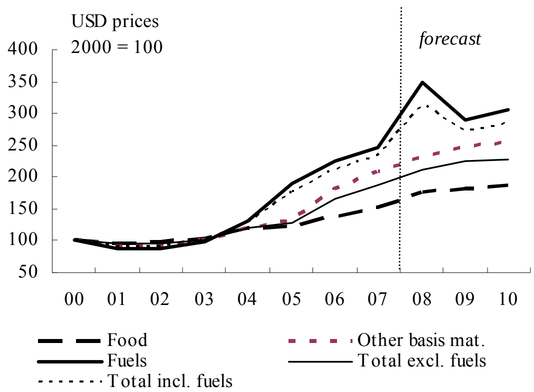
After reaching a peak of 146 USD/bl. in July, the (Brent) oil price declined considerably, to stay around 100 USD/bl. for most of September. During October, however, a continuous, sizeable downward correction of global growth expectations drove the oil price much lower, to reach 66 USD/bl. on 23 October. Using futures for the rest of 2008 and the two coming years, the average oil price for 2008 is expected to remain above the hundred-dollar mark at 104 USD/bl, while the futures indicate a decline to 85.7 USD/bl. on average in 2009 and to 90.4 USD/bl in 2010.

The futures curve is still upward-sloping as the structural shift towards stronger oil demand, mainly from Asia and the Middle East, is expected to constitute a floor for oil prices despite the sharp moderation in global growth. Moreover, oil producers are expected to continuously fine-tune supply in order to support prices. Nevertheless, the present lower level of oil prices (and its projected path) should be supportive to households' disposable income and firms' profits margins, helping growth, specifically in the advanced economies.

The price of food commodities went up strongly in the second half of 2007 and the first quarter of 2008. This is explained by several factors. First, demand for food is rising in India and China, reflecting increased income levels and population growth. Second, demand for some products by the bio-fuel industry is surging, with ensuing substitution effects; and, third, export taxes have been imposed in major producer countries. Futures point to a further, but more gradual increase. As a result, for 2008 as a whole, a rise in USD terms of 16% is assumed, which will moderate to 3.1% in 2009 and 2.3% in 2010.

Prices for most metals have also risen strongly in the first quarter of 2008, but have come down since the second quarter. On an annual basis, this implies a rise of 3.8% in 2008 and in 2009 (based on futures prices). In 2010, the rise will moderate to 2.4%. While the situation differs strongly from one metal to another, sustained demand will support metal prices. Finally, for non-food agricultural goods, substantially larger increases are foreseen for 2008 and 2009 (respectively +32.5% and +14.2%), moderating to 0.9% in 2010.

Graph 1.1.4: **Commodity prices (annual averages)**



World growth resumes in 2010, but remains well below the 2004-2007 rates

The period 2004-2007 was exceptional for world growth, reaching 5% in most years, against a long-term average of 3½%. Due to a strong first half of the year, annual world growth in 2008 (at 3.7%) will again exceed the long-term average. The growth rate for 2009 (around 2½%), however, is similar to the lowest point of the previous downturn (2001). Growth will re-accelerate only very gradually, to 3.2% in 2010.

A world growth rate of 5% can be expected to remain out of reach, even in the medium term, as reduced access to external financing means lower investment and, as a result, lower potential growth, also at the global level. Moreover, in the aftermath of the financial crisis, part of the capital stock will not be used in a productive way and business investments could be crowded out to some extent. The projected government deficit for the US in 2010 amounts to about 2% of world GDP, with the government deficits of the EU and Japan together adding another ¾%.

In 2009, the economies of the US and Japan are forecast to shrink both by about ½%. The 0.2% rise in EU GDP and stronger growth in some of the other advanced economies will, however, not be sufficient to keep the advanced economies as a group from stagnation in 2009. As a result, the contribution of advanced economies to world GDP growth, aggregated on a purchasing-power-parity basis, which will drop to an exceptionally low share of 22% already in 2008, will fall to zero in 2009, before rebounding to 21% in 2010. This share was above 30% in the period 2003-2006.

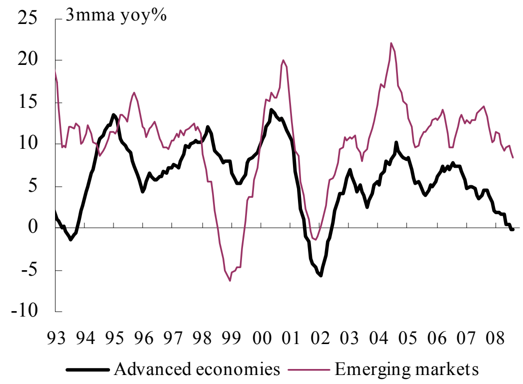
While emerging economies are expected to perform better, their GDP growth in 2009 and 2010 will also stay well below the achievements of the recent past, at respectively 6.2% and 6.9%, against an average growth rate of 8.2% over the period 2003-2008.

The relative resilience of emerging markets as a group masks substantial differences in individual growth developments (and outlook), linked to a number of key factors. These include the position of the economy as a net commodity exporter; the indebtedness of its economic agents; the currency and term structure of its financing needs; the openness of the economy and its trade exposure to low-growth areas; and the room of manoeuvre for economic policy.

The macro-economic fundamentals of many emerging markets have improved over recent years, driven by sounder fiscal policies than in the past, credible monetary policies and a generally healthy external position. Nevertheless, in October 2008, financial markets became increasingly worried about the impact of the financial crisis (on the emerging economies), the stagnation in advanced economies and significantly lower oil prices. As a result, emerging-market stocks, bonds and currencies all plummeted in the days before the cut-off date of this forecast.

The increasing reliance of the global economy on emerging markets is clearly visible in international trade. Imports of goods by emerging markets were still up by 9% y-o-y in July 2008, while imports by advanced economies were flat compared with one year ago.

Graph 1.1.5: **Imports of goods by region**



In the forecast, imports by advanced economies stagnate in 2009, due do the large drop in the US. As a result, the contribution of emerging economies to world import growth (aggregated on a current-exchange-rate basis) will reach 100% in 2009, up from a already previously unprecedented 73% in 2008, before falling back to 63% in 2010.

Overall, global trade growth is expected to decelerate from 5% in 2008 to 2.3% in 2009. The projected reacceleration to 4% in 2010 still falls short of its long-term average growth rate (6%).

Emerging economies put a floor under the fall in global growth

China's growth rate is likely to reach 9.7% in 2008, notwithstanding a slight deceleration in the second half, partly due to weaker exports. In 2009, lower export growth is projected to lead to a reduction in investment growth, bringing the growth rate down to 7.9%. Growth should still be supported by improving terms of trade and still-strong private consumption. The recent decline in commodity prices and the favourable harvests are expected to bring inflation down further, allowing for more monetary stimulus if needed. This possibility, as well as some improvement in the international environment will bring a slight acceleration in growth to 8.8% in 2010. The risks around the projected growth path are balanced. The main negative risk is a weaker-than-expected international environment. The main positive risk is the possibility – and by now probability – of a sizeable fiscal stimulus package. With export growth now projected to decelerate more than import growth, both the trade and the current-account surplus are likely to decline considerably.

Growth in **Asia (excluding China and Japan)** has remained resilient so far. Until mid-2008, it was thought that Asia had a fair chance to decouple from the slowdown in advanced economies. The momentum, however, has clearly turned. Currencies have come under pressure in most Asian countries and the cost of capital is rising. This coupled with capital outflows may expose structural deficiencies and external financing vulnerabilities in some Asian countries, which have unfavourable current account positions (in particular **Korea**, **Pakistan** and **India**).

Asian commodity exporter countries (such as **Indonesia**, **Malaysia** and **Thailand**) should nevertheless continue to benefit from commodity prices that are still high by historical standards. Also, countries where the economy and/or financial sector is relatively less exposed (e.g. **Singapore**), or where strong domestic demand has been driving growth (e.g. **India**), may prove to be more resilient at this juncture. The gradual re-orientation of growth towards domestic demand and prudent macroeconomic management in a number of countries has provided policymakers with some room for manoeuvre.

The robust performance of the **Russian** economy continued in the first half of 2008. Since this summer, a significant deceleration was observed, however, likely due to the transmission of the marked increase in financial instability into the real economy. The increased foreign borrowing by Russian companies, especially banks, is one of the elements behind the current fragility of the Russian banking system. Due to the strong performance in the first half of the year, the forecast for 2008 is a robust 7.1%, with a significant deceleration to 6.0% in 2009 and 6.5% in 2010, though with a larger margin of uncertainty around the forecast than in spring. Inflation will slowly fall back to single-digit levels, while the budget surplus, as well as the trade and the current account surplus are projected to shrink.

Economic growth in the **other CIS countries** (excluding Russia) reached 9.4% in 2007. The CIS remains one of the fastest-growing regions in the world. Growth in the region is expected to be close to 7.2% in 2008, but should decelerate further to 6% in 2009 and 2010. This deceleration reflects, in particular, the moderation in the largest CIS economies, notably in Kazakhstan, following the direct impact of the financial crisis.

Growth prospects in the **Middle East and North Africa (MENA)** region remain relatively positive in the face of the expected slowdown in global growth. The improvement in economic policy frameworks will help the region to maintain a growth rate of at least 5% during the period 2008-2010. In oil-exporting countries, the oil sector will continue to support the economic activity by financing large public investment projects and increases in wages. Non-oil exporting countries will face the consequences of slowing export markets but continue to benefit from capital inflows, especially from the Gulf countries, tourism demand and work remittances.

In **Latin America**, the unfavourable external environment and more difficult financing conditions are dampening growth in most countries in 2008. Growth in commodity-rich countries will reaccelerate again in 2010. In 2009, growth will slow down to 3.3% in **Brazil** and to 0.8% in **Mexico**, which are facing simultaneously the slowdown in the US and strong exposure to Chinese competition in third markets. **Argentina** and **Venezuela** should also see a strong deceleration in growth already in the current year, primarily due to soaring inflation.

In **sub-Saharan Africa**, growth in 2008 is estimated to slow down to 6%, from 6.6% in 2007, as the external environment starts to deteriorate and is reducing inflows of foreign capital. However, oil production is still increasing in several countries, while high domestic demand should continue to support growth in many oil-importing countries. Therefore, growth is expected to decelerate only slightly to 5½% in 2009 and to return to 6% in 2010.

Advanced economies stagnate in 2009

Due to the effects of the financial crisis, weaker external demand, and a housing shock in several economies, the growth projections for most developed economies follow a similar pattern: a sizeable deceleration of annual growth in 2008 and 2009, returning in 2010 to approximately the same low rate as in 2008. While a majority of advanced economies will see positive growth rates for 2009, some advanced economies are expected to experience technical recessions, defined as at least two consecutive quarters of negative real GDP growth.

The **US economy** performed better than expected in the first half of 2008, due to sharply improving net exports, against the background of dollar depreciation and softening domestic demand, reflecting *inter alia* the ongoing housing correction. Moreover, consumer spending held up reasonably well, as a result of the sizeable tax rebates. Thanks to the positive carry-over from 2007 and the performance in the first half of the year, real GDP growth in 2008 is projected to be 1.5%.

Real GDP is projected to decline from mid-2008 to mid-2009, resulting in a contraction of annual GDP by 0.5% in 2009. Already in the third quarter of 2008, private consumption is projected to contract (for the first time since the recession in 1990-91). Households are reining in their spending as employment falls, real wages are declining, credit conditions are tightening, and lower house and equity prices are reducing wealth. Importantly, the depression in the housing sector continues to deepen. Residential investment has already fallen by 40% since the peak of the housing boom. Housing starts and sales have fallen by even more and there is still a large excess of supply in the market, which is continuing to depress prices and building activity. At the same time, non-residential investment, both in buildings and equipment, looks precarious. Most indicators point to corporate retrenchment. Furthermore, growth in US export markets is slowing which will reduce the contribution from net exports to GDP growth.

The dramatic worsening of the financial crisis in September and October is bound to depress economic activity further. The extent to which the recent escalation of the financial crisis will impact on economic activity will, to a large extent, depend on the effectiveness of the various policy measures launched to address the crisis and improve confidence.

The US economy is projected to recover very slowly from the second half of 2009 on, with growth staying below potential throughout the forecast period. This results in an annual growth rate of 1.0% in 2010. This profile is based on a number of factors which will counteract a negative feedback loop between a deteriorating labour market and declining demand. First, monetary policy has been eased aggressively including the recent lowering of the Fed funds rate and an unprecedented provision of liquidity. Second, consumer-price inflation will decline sharply as commodity prices stabilise and with a large output gap exerting downward pressure on prices and wages. This will improve consumers' purchasing power in real terms. Third, net exports are

Table 1.1.1:

International environment

(Real annual percentage change)					Autumn 2008 forecast			Difference vs spring 2008	
		2005	2006	2007	2008	2009	2010	2008	2009
					Real GDP growth				
USA		2.9	2.8	2.0	1.5	-0.5	1.0	0.6	-1.2
Japan		1.9	2.4	2.1	0.4	-0.4	0.6	-0.8	-1.5
Asia (excl. Japan)		8.2	8.8	9.3	7.6	6.2	6.9	-0.3	-1.4
of which	China	10.4	11.1	11.9	9.7	7.9	8.8	-0.3	-1.2
	ASEAN4 (a) + Korea	5.0	5.3	5.7	5.0	4.0	4.3	-0.4	-1.4
Candidate Countries		8.0	6.7	4.7	3.4	2.7	3.9	-0.9	-2.1
CIS		6.4	8.1	8.5	7.1	6.0	6.3	-0.7	-1.5
of which	Russia	6.4	7.4	8.1	7.1	6.0	6.5	-0.2	-1.0
MENA		5.7	6.2	6.9	5.6	5.0	5.6	-0.6	-1.1
Latin America		4.4	5.5	5.7	4.4	2.3	3.1	0.1	-1.7
Sub-Saharan Africa		5.6	6.3	6.6	6.1	5.5	6.0	-0.6	-0.6
World		4.4	5.0	5.0	3.7	2.3	3.2	-0.1	-1.3
					World merchandise trade				
World import growth		8.4	9.3	6.7	5.0	2.2	4.1	-1.2	-3.6
Extra EU export market growth		:	9.3	8.9	6.5	4.1	5.4	-1.3	-3.2

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

expected to continue to contribute to GDP growth. Finally, it is projected that, by mid-2009, the share of residential construction in GDP will bottom out at 2.6%, down from 5.4% at the end of 2005. By then, the imbalances in the housing market are expected to have been absorbed. The contribution of residential construction to GDP growth would thus turn positive.

The **Japanese** economy is already in a technical recession. Growth in Japan is expected to slow markedly, from 2.1% in 2007 to 0.4% in 2008 and -0.4% in 2009 before gradually picking up to 0.6% in 2010, still remaining below potential. Against the backdrop of lower profits and the global economic slowdown, business investment growth is expected to remain sluggish, but slightly positive in 2008 and 2009. Towards the end of the forecast horizon, business activity is expected to gradually pick up, led in particular by brighter exports prospects, mainly to partners in the rest of Asia. As regards consumption, the deterioration in the labour market will contain wage growth while real disposable income will be reduced by inflation. As a result, household spending growth is forecast to remain subdued over the forecast horizon. On the external side, export growth is expected to decelerate further in 2009, before picking up again in 2010. Import growth will remain much weaker, in line with final demand, leading to a gradually increasing trade surplus.

Canada's GDP data for the first half of 2008 reflect a bipolar economy – sturdy domestic demand growth with an ailing external sector (partly due to the past appreciation against the USD). Overall, the subdued first half will cap 2008 GDP growth at 0.5%; a slightly lower rate is projected for 2009, due to the financial crisis and the resulting weak global demand. Sound macroeconomic fundamentals should help growth to accelerate to 2.0% in 2010. In **Australia**, growth is likely to decelerate to 2.5% in 2008 (from 4.2% in 2007) and to 2.1% in 2009 because of tighter financial conditions and the worsening external environment. However, its financial system has coped relatively well with the crisis due to low levels of problem loans and sound capitalisation. In 2010, growth is projected to accelerate again to 2.7%. **New Zealand**'s economy, in contrast, is already in a technical recession. Growth is expected to slow to 0.7% in 2008 from 2.2% in 2007. Growth is expected to accelerate somewhat in 2009 to 1.0% owing to the combined effects of tax cuts and the recovery from the drought, before stepping up to 1.7% in 2010.

Also for the largest **EFTA countries**, a return to more moderate growth is foreseen. In **Norway**, domestic demand will continue to be the main driver of growth, with still low interest rates fuelling strong private consumption. The large investments in the oil and gas sector that were spurred by soaring oil prices are expected to be completed in the course of 2008, implying a deceleration in investment growth going forward. The real GDP growth rate for 2008 is forecast to moderate to 1.9% (from 3.7% in 2007) and further down to 1.3% in 2009. For 2010, a rebound to higher growth at 2.1% of GDP is expected. In **Switzerland**, growth in 2008 (at 1.8%) reflects both relatively strong external demand in the first half and sound investment growth. Stable growth in consumer spending will be based on continued growth in incomes. Due to the slowdown in world growth, the positive external growth contribution will turn negative in 2009. Growth is expected to decelerate significantly to 1.2% in 2009 followed by a slight rebound to 1.6% for 2010. **Iceland** was particularly hit by the financial crisis, as its banking sector collapsed under the weight of its foreign debt. This forecast was closed before arrangements with international financial institutions were concluded and projects a substantial contraction in domestic demand and GDP for 2008 and 2009. Positive growth of 2% would return in 2010.

In the three **candidate countries**, economic activity is expected to benefit from strong domestic demand (including catching-up driven investment growth). However, going forward, lower external demand and tighter credit conditions will weigh on the growth dynamics. Growth in the three candidate countries as a whole is expected to be around 3.4% in 2008 and to decelerate to 2.7% in 2009, but to recover to some 4% in 2010. The acceleration in 2010 is mainly due to the recovery of domestic demand in **Turkey**.

Chapter 2

The economies of the euro area and the EU

1. A RAPIDLY COOLING ECONOMY

Renewed growth weakness in the first half of 2008

Economic activity in the EU and the euro area has weakened substantially in recent months, after almost three years of robust economic growth. GDP expanded well above trend in 2006 and 2007, with annual growth rates of 3.1% and 2.9% in the EU (2.8% and 2.6% in the euro area). During that period, the broadening of world growth boosted EU exports, while domestic demand benefited from favourable financing conditions, solid corporate earnings owing to moderate increases in unit labour costs, and positive developments in disposable income, as a result of significant improvements in labour market conditions. In some EU Member States, the marked increase in household net worth coupled with sustained borrowing further buoyed up consumption and investment.

Since mid-2007, the underlying pace of economic activity in the EU has moderated notably. Year-on-year GDP growth in the second quarter of 2008 (latest available figure) came in at 1.7% in the EU and just at 1.4% in the euro area, a deceleration of 1.2 pps. compared to one year earlier in both regions. For the year 2008 as a whole, real GDP growth is estimated to slow down to 1.4% in the EU and 1.2% in the euro area. This represents a downward revision of 0.6 pp. for the EU and 0.5 pp. for the euro area from the spring forecast.

Reflecting an external environment characterised by soaring commodity prices and a deceleration in world growth and trade (even if this deceleration must be seen in relative terms after the vibrant expansion of the previous year), as well as the adverse effects of the financial turmoil and housing market corrections in some EU countries, economic activity in the EU weakened again during the first half of 2008. In the second quarter of 2008, output even contracted in the euro area (-0.2%) for the first time since the inception of the monetary union and indeed since the early 1990s (it remained flat in the EU). The slowdown partly represented a technical reaction to the exceptionally strong growth in the first quarter (0.6% in the EU and 0.7% in the euro area), when the unusually mild winter in many parts of Europe boosted construction activity.

Table 2.1.1:

Composition of growth in 2008 - euro area

(Seasonally and working day adjusted)	(Quarter-on-quarter % ch.)			
	07Q3	**07Q4**	**08Q1**	**08Q2**
GDP	0.6	0.4	0.7	-0.2
Private consumption	0.4	0.2	-0.1	-0.2
Government consumption	0.5	0.3	0.3	0.5
Gross fixed capital formation, of which:	0.9	1.1	1.4	-1.0
- construction investment	0.7	0.7	2.4	-1.6
- equipment investment	0.7	1.6	0.4	-0.3
Export of goods and services	1.8	0.3	1.8	-0.2
Import of goods and services	2.2	-0.4	1.8	-0.5
	(Contributions in pp.)			
	07Q3	**07Q4**	**08Q1**	**08Q2**
Private consumption	0.2	0.1	0.0	-0.1
Government consumption	0.1	0.1	0.1	0.1
Gross fixed capital formation	0.2	0.2	0.3	-0.2
Changes in inventories	0.2	-0.4	0.3	-0.1
Net exports	-0.2	0.3	0.0	0.1

Nonetheless, the deceleration of activity in the euro area was not just a reflection of the short-term volatility of GDP data. In fact, if construction investment were excluded, GDP growth in the second quarter would have been as low as 0.2% in the EU and nil in the euro area. Taking the first two quarters together to smooth out the volatility of quarterly national accounts data, GDP in the first half of 2008 expanded at the modest (average) quarter-on-quarter growth rate of 0.3% in the EU and 0.2% in the euro area. This represents a sharp deceleration compared to the 0.5% registered during the previous half year and a sizeable downward revision compared to the spring forecast (0.5% for the EU and 0.4% for the euro area.

Softening of export and import growth

In terms of the composition of GDP, both export and import growth have been on a downward path since the third quarter of last year. This culminated in a contraction in the second quarter of 2008 in both the euro area and EU.

While the downward trend in import growth was in line with weak final demand, the deceleration in the growth of exports may be attributed to the slowdown in world trade growth and the previous appreciation of the euro. According to estimates by the CPB Netherlands Bureau of Economic Policy Analysis, world trade has continued to soften in recent quarters. The year-on-year growth rate of world imports decelerated from almost 8% in the third quarter of 2007 to less the 5% in the second quarter of 2008. The loss in import momentum was broad-based although sharper in industrial economies, where imports expanded by a mere 0.5% on the year, the lowest growth rate since the economic downturn in 2001.

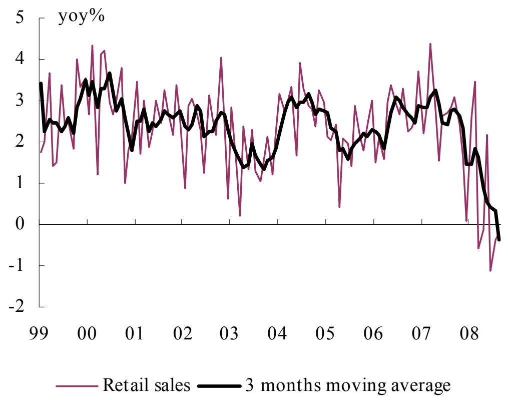
In parallel, the euro-area nominal effective exchange rate (NEER) appreciated by more than 7% in the first half of 2008, implying a considerable deterioration of euro-area price and cost competitiveness. The shift in the geographical composition of EU exports towards fast-growing and oil-exporting economies in recent years has limited the negative effects of the slowdown in developed economies. But the negative impact on euro-area exports is likely to be larger in the future than it has been in the recent past, due to the widespread cooling of global growth as well as the usual lags in the reaction of trade to exchange-rate developments.

Nearly stagnant private consumption

In the euro area, private consumption contracted in both the first (-0.1%) and the second quarter of 2008 (-0.2%) and was broadly flat in the EU. Household spending was dampened by muted real disposable income growth, following the sharp increase in commodity prices. Tighter lending conditions to households and adverse developments in asset prices also dampened private consumption. According to euro-area institutional sector accounts, in the first half of 2008 real disposable income rose only by 0.3% year-on-year, the lowest rate of growth since 1999. Soaring energy and food prices pushed up HICP inflation to 3.6% in the second quarter, which is higher than the 3.4% projected in the spring forecast. In addition, household net worth in the first half of 2008 was severely affected by the sharp decline in the value of share holdings (-12% on a year earlier) and further losses in house price momentum.

The stagnation of consumption growth during the first half of 2008 was in line with the deterioration of consumer confidence. According to the Commission's business and consumer surveys, managers became more pessimistic about employment prospects both in manufacturing and services, against the background of a visible turnaround in labour market conditions. Employment growth, while still positive, decelerated between the first and the second quarter and the unemployment rate rose marginally in recent months to stand at 7.5% in the euro area in August (compared to the historical low of 7.2% in March). The surveys also revealed consumer perceptions of stronger price trends in the first half of the year, though these were partly reversed during the third quarter. Such perceptions are likely to have been influenced by the dynamics of commodity prices, especially food prices, over the same period. In this context, the appreciation of the euro provided a shelter against a stronger impact of commodity price movements on domestic inflation.

Graph 2.1.1: **Retail sales, EU**



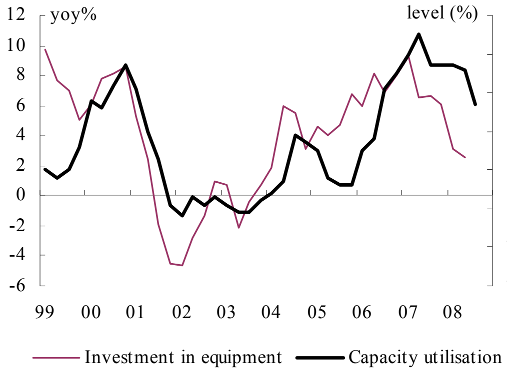
The subdued growth of private consumption goes hand in hand with the downward trend in the growth in loans observed since early 2006. In the second quarter of 2008, the year-on-year growth rate of loans to households slowed down to 5% and monetary data available for August 2008 showed the annual growth rate declining further to 3.9%. This slowdown reflects the impact of increases in bank lending rates since late 2007 and the moderation of housing market dynamics in a number of euro-area countries as well as a tightening of credit standards. Lending to households for house purchases is decelerating at a faster pace than total households loans.

Looking to the third quarter, initial indications suggest that the weakness in consumption may persist. The volume of euro-area retail trade was lower in July and August than in the previous quarter and was down by 2.5% on a year before. Consumers' intentions to make major purchases over the next twelve months fell in August to its lowest level since the survey began in 1985.

Subdued investment spending

Much of the volatility of quarterly domestic demand during the first half of the year was shaped by the profile on investment growth, which rose by 1.4% quarter-on-quarter in the first quarter in the euro area and fell by 1.0% in the subsequent quarter (+0.8% and -1.0, respectively, in the EU). The remarkable dynamism of investment in the first quarter was fuelled by construction investment, which rose by an extraordinary 2.3% quarter-on-quarter in the euro area (1.9% in the EU). This atypical increase was reversed in the second quarter: -1.6% in the euro-area and -2% in the EU.

Graph 2.1.2: **Investment in equipment and capacity utilisation, EU**



Taking the first two quarters together, data show a significant loss of momentum in investment spending so far this year. Compared to an average quarter-on-quarter growth rate above 1% in both the EU and the euro area in the second half of 2007, gross fixed capital formation in the first half of 2008 contracted slightly in the EU (-0.1%) and was hardly growing in the euro area (0.2%).

Several factors are dampening corporate spending. First, (expected) demand – one of the key driving forces of industrial investment according to surveys – is slowing down at a faster pace than in the recent past. In terms of sectoral activity, value added in industry (including constructions) was broadly flat in the first half of 2008 (-0.1%, quarter-on-quarter, on average) in the euro area, a marked weakening compared to the 0.7% growth rate observed in the second half of 2007. Activity in services was more resilient, while still softening from 0.5% to 0.4% over the same period.

Second, as demand softens, corporate profitability deteriorates. The year-on-year growth rate of gross operating surplus for the whole economy halved between the third quarter of 2007 (6%) and the second quarter of 2008 (3.2%). The deterioration in profitability was even stronger for non-financial corporations (from 6% to less than 2%). Tensions on profit margins seem confirmed by developments in real unit labour costs, in turn related to persistent sluggishness in labour productivity. Labour productivity growth came down from an annual growth rate of 0.9% in 2007 to just 0.3% in the first half of 2008. At the same time, unit labour costs accelerated from 1.6% to 3.4%. Enterprises seem to have shed much of the gain in profitability registered during the cyclical upswing (between mid-2005 and mid-2007).

Third, capacity constraints are waning. At 82.7 in the third quarter of 2008, the degree of capacity utilisation in the manufacturing sector was still above its long-term average, but is decelerating fast from the peak reached in the second quarter of 2007. According to the Commission manufacturing survey for the third quarter of 2008, firms' perception of a lack of equipment as a factor limiting production has been steadily waning.

Fourth, the tightening of credit conditions since the start of the financial turmoil are adversely affecting corporates' investment plans. The average cost of external financing for euro-area non-financial corporations increased by more than 200 bp. since August 2007. In line with these developments, the demand for loans by non-financial corporations is slowing down, while evidence of quantitative constraints on bank loans has been limited, so far.

Increased growth differences across Member States

Growth dispersion among EU and euro area countries, as measured by the (non-weighted) standard deviation of year-on-year growth rates, has remained almost unchanged between 07Q1and 08Q2. By contrast, growth dispersion among the largest EU countries has slightly increased (+0.4 pp.). The increased dispersion is likely to reflect the varying degrees of vulnerabilities in different countries. Germany appeared, until recently, more resilient and less exposed to current headwinds in credit and housing markets, but the latest data show a marked weakening. Both France and Italy suffer from a weak external competitive position, Italy also from subdued domestic demand. Spain and the UK are exposed to a downturn in the housing market reinforced by the financial distress.

Box 2.1.1: Sharp housing and construction sector corrections in the EU

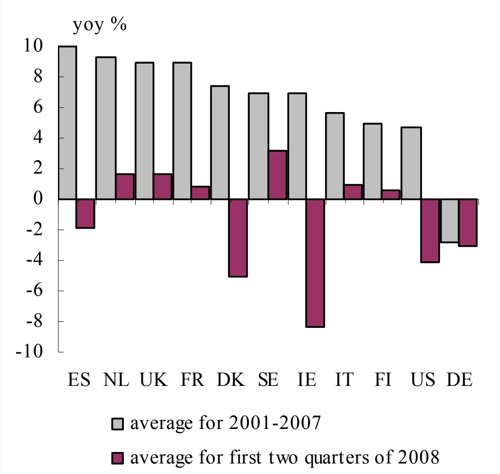
The housing cycle has turned in the EU and several Member States are currently experiencing sharp losses in price momentum, which is also reflected in a marked slowdown in residential construction activity. The acute stress in global financial markets of the last months is further aggravating this adjustment process and thereby adding considerable downside risks to the growth outlook. An important concern at the current juncture is therefore how far and for long the housing correction will last and what its overall impact on the economy will be. This box attempts to provide some insights by reference to recent research looking at the historical experience with previous house cycles in advanced countries.

The ongoing correction follows nearly a decade of buoyant housing markets in which, driven by low interest rates and – in some cases – dynamic demographics, several EU countries posted double-digit rates of house price increases in real terms for several years in a row. Among the largest countries, France, the United Kingdom and Spain were in that position from the turn of the century, while Ireland and Denmark stood out among the smaller countries. In fact, price increases have been considerably more pronounced for these countries than for the US over the same time period (Graph 1).

Recent developments in real house prices across selected EU Member States, however, tell a very different story. In Ireland, real prices declined by more than 8% in the first half of 2008 vis-à-vis to the same period of last year. This compares with an average annual increase of more than 6% between 2001 and 2007. A marked reversal in the dynamics of house prices can be seen also in Denmark and Spain. Real house prices also declined in Germany in the first half of 2008, but this represents the continuation of a prolonged downward trend observed since the construction boom following reunification. In several other EU countries, including Finland, France, Italy, United Kingdom, Netherlands and Sweden, real house price growth has remained positive in the first half of 2008, but the pace has slowed considerably compared to the (average) annual growth rate observed between 2001 and 2007.

The dynamics of real house prices appears to be on a parallel path to the ongoing adjustment in residential investment. In terms of the contribution of housing investment to GDP growth, the correction appears to be particularly strong in those countries where the downturn in house prices

Graph 1: **Real house prices**



Source: European Commission

has been most marked in recent quarters. Ireland is the prime example. In this case, housing investment subtracted as much as 3.6 pps. from GDP growth in the first half of 2008, against an annual contribution of about 0.4 pp. on average, between 2001 and 2007. A contraction in housing investment in the first half of 2008 was observed also in Spain, Germany, Italy and Denmark. In all these countries, but Germany, housing investment has supported growth over 2001-2007. On the basis of available data for other EU Member States, housing investment was still adding to GDP growth in the first half of 2008, albeit with a significantly smaller contribution than in the previous eight years. An exception is Sweden, where housing investment has not shown any signs of weakness so far.

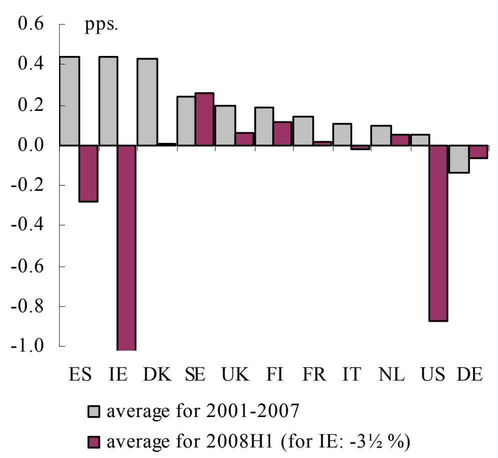
The extent of the correction in house prices still to be expected will depend, inter alia, on the degree to which house prices are considered to be overvalued. This requires an estimate of an equilibrium house price level, on the basis of its fundamental determinants. Typically such estimates vary depending on the estimation technique used, as well as on the sample, data sources and time period considered. Nonetheless, it seems reasonable to estimate the average overvaluation by the end of last year in Ireland and the UK at about 20-30%, and about 10-20% in Spain, France, Italy and the Netherlands (IMF, World Economic Outlook, 2008). However, the

(Continued on the next page)

Box (continued)

extent of the correction will also depend on other factors such as the general economic environment, the characteristics of the housing finance system (such as the ease of access to mortgage credit, the prevalence of variable-rate mortgages and the degree of mortgage exposure in the banking sector), as well as the policy responses. Therefore, the current downgrading of growth prospects combined with the severe tightening of credit conditions does not bode well for the ongoing housing corrections.

Graph 2: **Contribution of housing investment to GDP growth**



Source: European Commission

Regarding the possible duration and scale of the correction, research by the OECD on 18 countries over a 35 year period (Girouard, Kennedy, van den Noord and André, "Recent house price developments: the role of fundamentals", OECD Working Paper No. 475, 2006) suggests that the "average" cycle lasts about 10 years. During the expansion phase of about six years, real house prices increase on average by around 45%. In the subsequent contraction phase, which lasts around five years, the mean correction is in the order of 25%. What is noteworthy is that, if only major cycles are considered (those with a cumulative real price increase equalling or exceeding 15%), both the duration and extent of the most recent upturn are found to have far exceeded previous experience.

As regards the likely impact on the economy, previous research has shown that EU countries tend to have a lower sensitivity of consumption, residential investment and overall activity to swings in the housing markets than non-EU countries (such as the US). This is partly explained by differences in collateral and housing wealth effects. Nevertheless, the historical experience suggests that major housing downturns have also had a substantial macroeconomic impact in the EU. For example, in past housing downturns the *median* growth contribution of residential investment swung from a positive contribution of around ½ percentage point to a negative contribution of roughly the same magnitude. The *median* growth rate of household consumption and GDP have also tended to respond strongly, with household consumption plummeting from roughly 3½% (annual rate) prior to the housing peak to close to nil one year after the peak, and GDP falling from around 3% to almost -1% after 1½ years (Commission services' autumn 2007 forecast).

These findings on the EU are in line with research by the IMF (WEO 2007, 2008) that reviews post-war experience in industrial countries and indicates that abrupt adjustments in house prices (housing busts) are associated with a substantial slowing in real GDP growth. The average bust is associated with a roughly 3 pp fall in GDP growth, and declines in the growth rates of all the main components of private final domestic demand. The price correction during the busts averaged about 30%.

A comparison of recent developments in selected EU Member States with the median performance in previous housing cycles would indeed suggest that the adjustment is far from having run its full course (Graph 3). The median experience shows that three years after the peak, house prices continue falling, with no sign of a recovery. Moreover, all countries featured in the charts reached a higher peak in this cycle than in the median house cycle– though how much higher varied.

The unfolding global financial crisis is not only likely to exacerbate the scale and duration of the remaining adjustment, but the interaction of the phenomena is also adding considerable risks to the growth outlook. The combination of deteriorating growth prospects, tightening credit conditions, and falling asset prices could rapidly turn the current liquidity crisis into one of solvency in the economies concerned, with serious consequence for the overall economy. The evidence from the 1960s reviewed in Claessens, Kose and Terrones, "What happens during recessions, crunches and busts" IMF Working Paper forthcoming, 2008 shows that recessions in advance d economies that are associated with house price busts and a credit

(Continued on the next page)

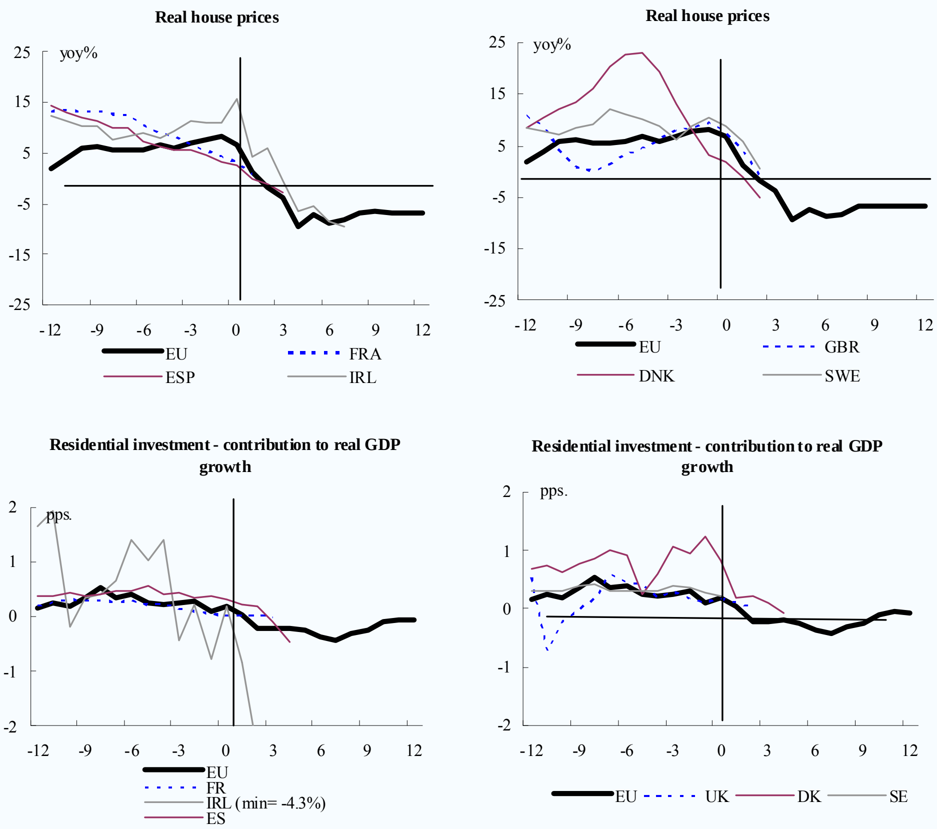
Box (continued)

crunch are slightly longer and deeper than other recessions. In particular, they are associated with a significantly steeper rise in unemployment (twice as high as in other recessions by the 12th quarter following the onset of the recession).

Finally, a related but separate consideration for the growth outlook is that the past decade of buoyant housing markets also saw a surge in household debt, which may have overshot its fundamental level since 2006Q4 (European Commission's Quarterly Report on the Euro Area, 2008 N°3). As indicated in the report, the necessary deleverage of households' balance sheets may have dampened consumption growth in the past two years and may continue to do so in the immediate future.

Features of housing cycles in the European Union

(median quarterly percent rates of change, year-on-year)



Note: Median and quartiles are across 18 completed real house price cycles in a selection of ten EU countries (DE, F, I, UK, DK, FI, IE, NL, ES, SE) over the period 1970-2007. The horizontal axis measure the number of quarters before and after the peak in real house prices. A peak is called if in any quarter real prices have have risen over a period of at least six quarters by an accumulated 15% and have subsequently fallen by a period of at least six quarters also by an accumulated 15%.

2. THE FINANCIAL CRISIS HAS STRONG REPERCUSSIONS FOR THE REAL ECONOMY

Financial crisis has intensified markedly in recent months

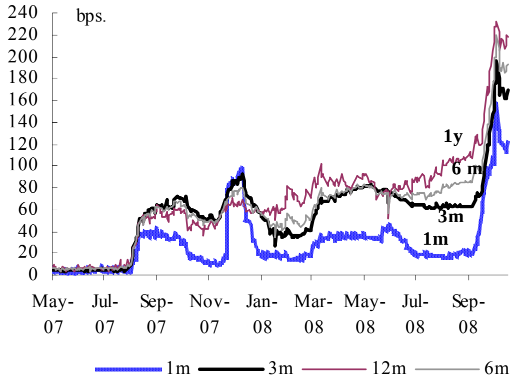
The global financial crisis is now in its second year and has intensified markedly in recent months. Since the bankruptcy of Lehman Brothers (then, the fourth largest US investment bank) in mid-September, confidence in the banking system has largely evaporated amid a perception of pervasive counterparty risk. This perception reflects continued uncertainty about the ultimate scale and location of credit losses and asset write-downs due to the crisis.

While the financial crisis was triggered by problems in the subprime segment of the US mortgage market, it has grown in scale over the past 16 months and has been transmitted around the global financial system via interconnected markets and complex investment instruments. So far, about USD 700 billion in credit losses and asset write-downs has been recorded globally – of which one third has been recorded in the EU – but most recent estimates put the likely total losses very much higher.

As investor confidence has collapsed, several key credit markets – including the markets for interbank lending – have become progressively dislocated, hampering the distribution of liquidity within the financial system and the broader economy. The accumulating stress in credit markets is evident from the sharp widening in Euribor-OIS spreads, which is a measure of the scarcity of liquidity (see Graph 2.2.1).

Central banks have responded to the problems with liquidity with a range of measures to facilitate access to their monetary operations. In this way, they have ensured that the demand for liquidity is met but the measures have not led to a recovery in interbank lending. Indeed, central banks have gradually assumed the role of market-maker as banks prefer to borrow and deposit money directly with a central bank rather than transact with each other.

Graph 2.2.1: **Euribor to swaps (OIS), selected maturities**



Banking sector in the eye of the storm

The banking sector has been most adversely affected by the financial crisis. EU banks have so far disclosed losses and booked write-downs of more than USD 200 billion, compared to about twice the amount in the United States. A number of banks – both in the United States and the EU – have been rescued by government intervention and partly or fully nationalised. These losses and likely further losses in the future have put pressure on bank balance sheets, requiring recapitalisation, sale of assets or a combination of both. In such circumstances and, given the bleak outlook for profitability, the share prices for banks have declined sharply making recapitalisation very difficult.

In October, Member States announced a comprehensive rescue package for their banking sectors, comprising measures to facilitate recapitalisation of systemically important financial institutions, to exchange government securities for illiquid assets and to guarantee bank debt. After an initial attempt to exit the crisis solely by buying toxic assets, the US moved also in this direction. The EU packages followed a significant reinforcement of national deposit insurance schemes. In parallel with the announcement of the EU rescue packages, there was a co-ordinated cut in interest rates by the major central banks, while the ECB further relaxed the rules governing access to its monetary operation.

The market reaction to the rescue packages has been relatively encouraging. Conditions in the credit markets have improved slightly (see Graph 2.2.1, for example), although they are still far from normal. As the details of the government rescue packages gradually emerge and the packages are implemented, this improving trend should gather pace. On the other hand, the focus of financial-market attention is increasingly shifting from the health of the banking system to the health of the real economy. Indicators outside of credit markets reflect mounting concerns about the prospect of a sharp economic slowdown and possible recession. On this basis, there may be some way to go before financial markets stabilise on a durable basis.

Financing conditions have tightened further

There is now growing evidence that the financial crisis is impacting on the real economy, as tightening in credit conditions for both the corporate and household sectors begins to feed through to activity levels.

In the euro area, a net balance of 43% of banks (subtracting those easing standards from those banks tightening them) tightened lending standards vis-à-vis firms in Q2/2008, indicating the fourth consecutive broad-based tightening of bank lending standards in a row. Banks are expected to have tightened standards further in Q3/2008. In Q2/2008 a near-record net balance of 30% of all banks reported a tightening of standards as regards loans for house purchase and a record 24% of all banks, on balance, reported a tightening of standards on consumer loans. Lending standards have been tightened by even more in some euro area countries, but also in the UK.

The tightening lending standards can also be partly seen in the interest rates charged by euro area banks for new loans, which have increased by an estimated 42 basis points (on average) for non-financial corporations from July 2007 to June 2008 (up 10 bps since March 2008). Interest rates for house purchases have increased by corresponding 27 basis points (up 16 bps since March 2008) during the same period.

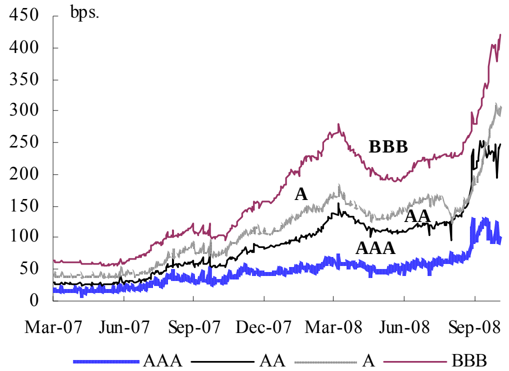
Risk premia have widened sharply in all corporate bond rating classes and the risk of insuring against corporate debt default has increased dramatically. The issuance of non-financial corporate securities issuance has also become negative, contracting by EUR 2.7 billion in June, its third drop within four months. As of June 2008, the year-on-year change in net issuance of non-financial corporate debt securities declined to 4.0%, down from the 7.8% recorded in March 2008. The annual rate of change for quoted shares has also decelerated, with the year-on-year growth of 0.3% rate, down from the still 1.2% recorded in March this year.

The risk of a broader credit retrenchment – or even a credit crunch – would rise if loan losses were to materialise at a significantly faster rate than expected. Indeed, tighter lending standards could contribute to higher delinquencies as they make refinancing more difficult. Indeed, the easy credit availability may have shielded banks from larger loan delinquencies in recent years.

Corporate sector under pressure

The outlook for the EU non-financial corporate sector has deteriorated in recent months. The change in outlook reflects concern about future earnings growth and has resulted in sharp declines in equity prices and widening yield spreads on corporate debt. So far in 2008, the pan-European Euro Stoxx 600 and the narrower DJ Euro Stoxx 50 indices have both declined by about 50%. The yield spreads on corporate bonds have increased in recent months to their highest level since 1999 for AA-rated and A-rated issuers and to the highest level since end-2002 for lower-rated bonds (see Graph 2.2.2).

Graph 2.2.2: **Corporate bond spreads, selected credit ratings**



The prospect of weaker corporate earnings growth must be assessed against the background of high levels of accumulated debt. The ratio of corporate debt to GDP was 88% in Q1/2008, while the ratio of debt to value-added in the sector has climbed to 177%. These high debt ratios leave the sector vulnerable to a significant further tightening in financing conditions. While the ratio of corporate debt to financial assets was still below earlier peaks in Q1/2008, the decline in equity prices suggests that this ratio may rise further. On the other hand, the sector retains very substantial cash balances, which could provide a cushion against the effects of tighter financing conditions.

Corporate debt/GDP ratios have reached particularly high levels in many EU Member States, e.g. Belgium, Denmark, Finland, France, Ireland, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. In contrast, the corporate debt/GDP in Germany remains relatively low, reducing the EU average. Corporate debt/GDP ratios in the recently acceded Member States have increased rapidly from the relatively low levels recorded only a few years ago, rising above 100% in Bulgaria and Estonia and moving in line with the EU average in Latvia and Hungary.

The tightening of financing conditions could impact severely on those companies with a high proportion of short-term debt. Significant refinancing needs within a relatively short period of time will be faced by many euro area companies, which have accumulated a total of more than EUR 1,300 billion in bank debt with a maturity of less than one year. Non-investment grade borrowers will face particular financing pressures as their access to direct financing via the bond market is curtailed and the lending standards on bank lending have been tightened. Leveraged buy-out companies are also likely to face particular problems in refinancing in the current credit environment.

The favourable financing conditions of recent years have arguably kept corporate default ratios at artificially low levels, as reflected in correspondingly low loan-loss provisioning in the banking sector. As financing conditions become markedly tighter, a rise in corporate debt defaults is to be expected putting additional pressure on bank balance sheets. Given the often observed pro-cyclical behaviour of banks, this could result in a further tightening of credit conditions in a vicious circle.

Household balance sheets suffer amid correction in housing markets

The EU household sector has been adversely affected by the deterioration in housing markets, with significant implications for consumer confidence. Housing wealth in the euro area is estimated to be about 450% of gross disposable income of households, making it by far the largest wealth component of the household sector. A negative evolution in house prices is, therefore, likely to weigh on consumer confidence and spending, amplifying the negative effects of higher-than-expected inflation on disposable income. Against this background, the consumer climate indicator for the euro area has declined to its lowest level in 15 years and the volume of euro-area retail sales has declined when compared with a year ago. Similar developments have been experienced in some Member States outside of the euro area.

As for the corporate sector, tighter financing conditions for households must be assessed in a context of high levels of accumulated debt. In the euro area, the household debt/GDP ratio was 59% in Q1/2008, broadly unchanged from the same period one year earlier but significantly higher than the 45% recorded in 1999. The ratio of household debt to gross disposable income was about 91% in Q1/2008 compared to less than 70% in 1999. Moreover, the euro-area average conceals important differences among Member States.

Household-debt/GDP ratios in some Member States are above 100% such as in Denmark, Ireland, Netherlands and the UK and between 80% and 90% in Portugal and Spain. Debt to gross disposable income has reached more than 200% in Denmark and Ireland, about 150% in the UK and roughly 130% in Spain, Portugal and Sweden. Household debt levels are generally much lower in the new Member States, but have increased rapidly in recent years amid a rapid expansion in domestic credit. The often heavy reliance on foreign currency borrowing by households in these Member States constitutes an additional concern.

As financing conditions have tightened, the share of non-performing loans to households appears to have increased. Only a limited number of Member States release non-performing loan data, but there is evidence of an increase in non-performing household loans in those Member States where data are available. The trend in non-performing household loans in individual Member States will also reflect the relative weight of fixed-rate mortgages and the relative ease with which the maturity of mortgage contracts can be extended. While such factors will benefit mortgage holders, limit debt defaults and help to underpin housing markets, they also imply lower profitability for banks and tighter lending standards as a result.

Member States with external imbalances particularly vulnerable

Several of the recently acceded Member States of central and eastern Europe have been affected by the deepening financial crisis. The catching-up process in these Member States has been driven by access to external financing on historically favourable conditions, resulting in significant current account deficits. In a number of these Member States, large current account deficits have resulted in the accumulation of external debt liabilities, often denominated in foreign currency. With financing conditions now more difficult, access to foreign capital has become more challenging. In such conditions, external funding gaps can emerge, resulting in balance of payments problems, downward pressure on exchange rates and possible risks to financial stability

Current account deficits and external debt levels have also become high in some euro-area Member States. For these, challenges relating to external financing will not be reflected in exchange rate pressures, but in a marked deceleration of domestic demand. The situation is aggravated by the increasing loss of competitiveness in some of the most exposed Member States. As a result, the export sector may not be able to offset the deceleration in domestic demand.

Box 2.2.1: Some technicalities behind the forecast

The overall cut-off date for taking new information into account in this macroeconomic outlook was 23 October. The forecast also incorporates validated public finance data from Eurostat's press release 147/2008, dated 22 October 2008.

External assumptions

This forecast is based on a set of external assumptions, reflecting the market expectations at the time of the forecast. To shield the assumptions from possible volatility during any given trading day, averages from a 10-day reference period (between 7 to 20 October 2008) were used for exchange and interest rates, and for oil prices.

Exchange and interest rates

The technical assumption as regards exchange rates was standardised using fixed nominal exchange rates for all currencies. This technical assumption leads to implied average USD/EUR rates of 1.48 in 2008 and 1.36 in 2009 and in 2010, and average JPY/EUR rates of 155.0 in 2008 and 137.4 in 2009 and in 2010.

Interest-rate assumptions are market-based. Short-term interest rates for the euro area are derived from future contracts. Long-term interest rates for the euro area, as well as short- and long-term interest rates for other Member States, are calculated using implicit forward swap rates, corrected for the spread between the 3-month inter-bank interest rate and the 3-month swap rate. In cases where no market instrument is available, a fixed spread vis-à-vis euro-area interest rates is taken for both short- and long-term rates. As a result, short-term interest rates are expected at 4.6% on average in 2008, 3.5 in 2009 and 4.1 in 2010 in the euro area. Long-term interest rates are assumed at 4.1% in 2008, 4.0% in 2009 and 4.1% in 2010.

Commodity prices

Commodity-price assumptions are also, as far as possible, based on market conditions, c.f. table 62 of the statistical annex. In the case of oil prices special attention is paid to futures' prices. Prices for Brent oil are, accordingly, projected to be 104.0 USD/bl in 2008, 85.7 USD/bl in 2009 and 90.4 in 2010. This would correspond to an oil price of 70.3 EUR/bl. in 2008, 63.0 EUR/bl. in 2009 and 66.5 EUR/bl. in 2010.

Budgetary data

Data up to 2007 are based on government debt and deficit data notified by Member States to the European Commission on 1 October 2008, except in the case of Denmark and the UK for which more recent data have become available after the notification. In validating these data, 'Eurostat has withdrawn the reservation on the data previously reported by Greece in the April 2008 notification (News Release 54/2008 of 18 April 2008 on the provision of data for the excessive deficit procedure)'.

Eurostat made the following reservation on the data for the UK: 'In 2007 the Bank of England made a loan of GBP 26.93 bn (1.9% of GDP) to Northern Rock Bank in the context of a rescue operation. Eurostat has taken the provisional view that the Bank of England lending to Northern Rock should have government as the principal party of the transaction in the national account framework. If the loan were to be treated in this way, the debt to GDP ratio would be 46.1% at end 2007 and 44.9% at end 2007/2008. The issue will be the object of further discussion with the Office for National Statistics (ONS). The lending to Northern Rock Bank has no direct impact on the UK government deficit for 2007.' Moreover, Eurostat has, as usual, amended the deficit data notified by the United Kingdom for years 2004 to 2007 for consistency of recording of UMTS licences proceeds. Reported debt figures were kept unchanged.

In addition, Eurostat noted that 'governments have implemented or announced a number of measures in support of financial stability. As far as 2008 is concerned, Eurostat is examining the statistical treatment of these bank rescue operations to ensure a consistent approach.

For the forecast, measures in support of financial stability have – as a rule – been recorded as follows. Unless reported otherwise by the Member State concerned, capital injections known in sufficient detail have been included in the forecast as financial transactions, i.e. increasing the debt (by the amount of the capital injection), but not the deficit. State guarantees on bank liabilities and deposits are not included as government expenditure, unless there is evidence that they have been called at the time the forecast was closed. Fees by financial institutions for receiving state guarantees were also not included as government revenue, unless for payments that were certain at

(Continued on the next page)

Box (continued)

the time of the forecast. This approach is to be considered as a technical assumption and in no way prejudges Eurostat's final decision on the statistical recording of each of these transactions.

For 2009, budgets adopted or presented to national parliaments and all other measures known in sufficient detail are taken into consideration. For 2010, the 'no-policy-change' assumption used in the forecasts implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail.

The general government balances reported by Member States to the European Commission may be slightly different from those published in the national accounts. The difference concerns settlements under swaps and forward rate agreements (FRA). According to ESA95 (amended by regulation No 2558/2001), swaps and FRA-related swaps are financial transactions and therefore excluded from the calculation of the government balance. However, for the purposes of the excessive deficit procedure, those flows are still booked as interest..

Calendar effects on GDP growth and output gaps

The number of working days may differ from one year to another. For 2005 and 2006, the effects in the EU and the euro area were negative at around -0.1 pp. each year, while in 2007 they were neutral. The Commission's annual GDP forecasts are not adjusted for the number of working days, while quarterly forecasts are. As 2008 is a leap year, the working-day adjustment is positive, estimated at around 0.1 pp. for the EU and the euro area. In 2009 the working-day effect is estimated to be broadly neutral in the EU and with -0.1 pp. slightly negative in the euro area while in 2010 it is estimated to be broadly neutral in both areas.

The calculation of potential growth and the output gap does not adjust for working days. Since it is considered temporary, it should not affect the cyclically-adjusted balances.

3. EUROPEAN ECONOMY AT A STAND-STILL

External environment weighing on the outlook

In the spring black clouds started to darken the sky of Europe's economic prospects. Those clouds have now become a heavy storm which the European economy is finding increasingly difficult to weather. What has been the most severe global financial crisis in many decades has brought several banks and insurers to the brink of bankruptcy. The stress in financial markets markedly intensified this autumn, bringing crucial credit markets to a stand-still. Financing conditions became significantly tighter for private enterprises and households. Heightened concerns about solvency obliged central banks and governments to intervene in order to stabilise financial markets and ensure that financial intermediation continued to function as far as possible.

The financial crisis has also been intensifying the correction of housing markets in several European economies, where it is creating an additional drag on growth. In addition, the financial and housing market crises are taking place against the background of a markedly slowing world economy, reducing the potentially stabilising effect of exports. Finally, even taking their recent decent into account, commodity prices remain at elevated levels, still weighing on real disposable income and fading out of inflation only gradually.

Amid this worsening economic environment, the European economy is set to slow markedly. As the situation on financial markets remains precarious, the risks to our forecast are significant and clearly tilted to the downside. Recognising that the situation is exceptionally uncertain, our baseline scenario is for a modest recession in the EU and the euro area until the end of this year with a gradual recovery to be expected from mid-2009 – for most but not all Member States. Overall, quarterly GDP growth turned slightly negative in the middle of this year in both the euro area and the EU, bringing the average growth rate for 2008 down to 1.2% and 1.4% respectively. Average GDP growth is expected to slow sharply next year to close to a stand-still, before accelerating gradually to around 1% in 2010. However, annual average growth rates mask the marked slowdown this year as well as the moderate recovery expected for 2009 due to the statistical carryover from 2007. In contrast, year-on-year (YoY) growth rates in the fourth quarter in the corresponding years are displaying the underlying momentum more clearly. For example, in the fourth quarter of 2008 the YoY growth rate is about 1 percentage point lower than the average annual growth rate in 2008. In 2009 however, the acceleration in the course of the year is stronger than in 2008 even if the annual average growth rate is about one percentage point lower.

Table 2.3.1:

Decomposition of the GDP growth forecast

EU	**2008**	**2009**	**2010**
Carry-over from preceding year	0.8	-0.2	0.3
YoY in Q4	0.3	0.6	1.3
Annual average	1.4	0.2	1.1
euro area	**2008**	**2009**	**2010**
Carry-over from preceding year	0.7	-0.2	0.3
YoY in Q4	0.3	0.6	1.1
Annual average	1.2	0.1	0.9

The impact of the financial crisis ...

As discussed in section 2.2, the crisis in financial markets has deepened, with events unfolding rapidly. The current situation is characterised by first steps to regain confidence after governments and central banks have undertaken unprecedented measures. Many key credit markets still are barely functioning while the ability of banks to mediate financing in the economy is still weakened. As the real economy cannot escape unaffected, the risk of a negative feedback loop emerges. Risks are particularly pronounced in those Member States where the economic dynamism of recent years was accompanied by a strong credit expansion and where current-account deficits are large.

Forecasts at this juncture depend crucially on the assumptions made regarding the financial crisis and its interaction with the real economy, particularly the housing sector. Our assumption is that authorities will succeed in avoiding further systemic crises, but that the deleveraging of financial markets will continue until the end of 2009 with corresponding negative effects on the real economy lasting well into 2010. Overall, financing conditions are expected to remain tighter than in early 2007 reflecting a repricing of risks.

... and housing market corrections ...

In several EU Members States increases in housing prices have come to a halt while in some countries prices even started to drop significantly. In consequence, housing investment has started to fall and negative wealth effects have started to weigh on private consumption in the economies concerned. The adverse effects of the global financial crisis are reinforcing the ongoing adjustments in housing markets, with the decline in nominal house prices accelerating.

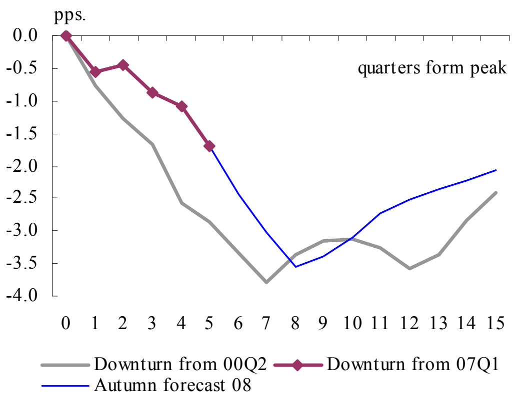
... in light of earlier slowdowns

Even if the current environment is characterised by several crises at the same time and therefore may not be directly comparable with earlier downswings, a comparison of different cyclical slowdowns may help to shed some light on the likely length and depth of the current downturn.

Earlier studies have shown that EU economies tend to have a lower sensitivity of consumption, residential investment and overall activities to swings in the housing markets than non-EU economies (such as the US, see also Box 2.1.1). Nevertheless, past experience suggests that major housing downturns have also had a substantial macroeconomic impact in the EU.

When comparing the current downswing with that of 2000-02 (see Graph 2.3.1), the current one appears to be less marked, with the YoY growth rate 5 quarters after the peak still only about 1½ pps. lower than at the peak; in the earlier slowdown the difference at the same stage was nearly twice as large. However, as the current situation is characterised by the existence of several, mutually reinforcing shocks, the current downswing is expected to continue in the coming quarters and to reach a trough of a similar depth and after a similar period as was the case in 2001/2002. In view of the structural adjustment needed in several economies (construction sectors and external balances), the recovery thereafter will remain moderate until 2010.

Graph 2.3.1: **Deviation from peak - GDP, EU**



The EU economy to contract further

Even though most of the available indicators were compiled before the tumultuous developments on

Table 2.3.2:

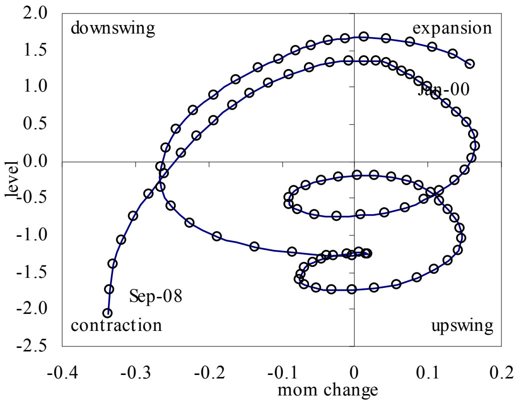
Composition of growth - EU

(Real annual percentage change)

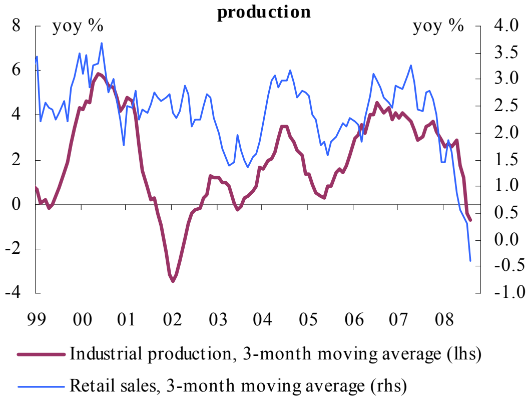
	2007 bn Euro curr. prices	2007 % GDP	2003	2004	2005	2006	2007	2008	2009	2010
			Real percentage change					Autumn 2008 forecast		
Private consumption	7072.8	57.3	1.7	2.1	2.0	2.3	2.2	1.0	0.2	0.8
Public consumption	2516.2	20.4	2.1	1.8	1.6	1.9	2.1	1.8	1.3	1.2
Gross fixed capital formation	2625.6	21.3	1.3	3.0	3.6	6.1	5.4	1.2	-1.9	0.9
Change in stocks as % of GDP	56.9	0.5	0.1	0.3	0.1	0.1	0.2	0.4	0.5	0.4
Exports of goods and services	4975.1	40.3	1.9	7.5	5.9	9.2	5.0	3.4	1.5	3.3
Final demand	17246.7	139.8	1.8	3.8	3.1	4.9	3.6	1.9	0.4	1.6
Imports of goods and services	4913.5	39.8	3.4	7.6	6.2	9.2	5.2	3.0	0.9	2.9
GDP	12333.2	100.0	1.3	2.5	2.0	3.1	2.9	1.4	0.2	1.1
GNI	12291.0	99.7	1.5	2.9	1.9	3.1	2.5	1.4	0.2	1.0
p.m. GDP euro area	8989.0	72.9	0.8	2.2	1.7	2.9	2.7	1.2	0.1	0.9
			Contribution to change in GDP							
Private consumption			1.0	1.2	1.2	1.3	1.3	0.6	0.1	0.5
Public consumption			0.4	0.4	0.3	0.4	0.4	0.4	0.3	0.2
Investment			0.3	0.6	0.7	1.2	1.1	0.3	-0.4	0.2
Inventories			0.1	0.2	-0.2	0.1	0.1	0.0	0.0	0.0
Exports			0.7	2.6	2.1	3.4	2.0	1.4	0.6	1.4
Final demand			2.5	5.1	4.2	6.6	5.0	2.6	0.5	2.3
Imports (minus)			-1.1	-2.5	-2.2	-3.4	-2.1	-1.2	-0.4	-1.2
Net exports			-0.5	0.1	-0.1	0.1	-0.1	0.2	0.2	0.2

financial markets in September, the downward trend is already clearly visible in both soft and hard data. Survey indicators, which have fallen almost uninterruptedly since May 2007, are now well below their long-term averages. In September, the Commission's Economic Sentiment Indicator for the EU reached its lowest level since December 1993. Moreover, the pace of the worsening has not yet slowed down and, as mentioned, the September values were collected before the intensification of the financial crisis. The Economic Climate Tracer suggests that the economy is set to contract and also purchasing managers' indices (PMI) for the last three months indicate that economic activity in the euro area was in contraction in the third quarter, hence signalling further contraction.

Graph 2.3.2: **Climate Tracer**



Graph 2.3.3: **EU - retail sales and industrial production**



The intensifying headwinds are not only visible in the soft data, but are increasingly reflected in hard data. The most prominent examples are industrial production and retail sales (see Graph 2.3.3). Plummeting retail sales indicate that private consumption is being severely affected. The main factors are the reduction of real disposable income linked to past commodity-price increases, substantial negative confidence effects at the current juncture, negative wealth effects due to both financial and housing markets, as well as the worsening of both credit availability and credit conditions for existing loans with adjustable rates.

Member States affected to varying degrees

EU Member States will be affected to different degrees depending on their exposure to global headwinds, country-specific characteristics and domestic adjustment needs.

The impact firstly depends on the scale of the housing market correction. Among the largest EU economies, Spain, the United Kingdom and, to a lesser degree, France have experienced a particularly sharp downturn in their housing prices. However, smaller economies like Denmark and Ireland are also facing substantial housing market adjustments. The direct growth contribution of housing investment, which has been substantial in recent years, has already become negative e.g. in Ireland, the UK and Spain and is expected to weigh on growth well into next year. In addition, housing-related wealth effects, which contributed significantly to private consumption growth in recent years, are now turning negative, an effect reinforced by tightening credit conditions. Meanwhile, the adverse effects of the global financial crisis are reinforcing ongoing adjustments in housing markets, with the decline in nominal house prices accelerating.

The impact also depends on how far an economy is integrated in the world economy and hence is affected by the slowdown in the main export markets. Germany, for example, being a relatively open economy, faces a reduction in export growth between 2006 and 2009 by more than 10 pps. However, at the same time open economies will start profiting from the moderate global recovery expected in the course of 2009. And countries that have gained in price competitiveness, like Germany, might be better placed to withstand any slowdown in global demand and take advantage of the expected uptick thereafter than those where wages have grown faster than productivity over many years such as Romania, the Baltics and Hungary as well as some large economies within the euro area such as Italy and Spain.

This is particularly important for countries with high current-account deficits. While sizeable current-account deficits may facilitate the catching-up process and support income convergence, the vulnerability of countries with high and persistent current-account deficits crucially depends on the following factors: productivity growth and investment shares achieved via capital inflows, unit labour costs reflecting nominal wage growth and productivity gains as well as continuity of financial intermediation at the current juncture, with particular importance of shares of foreign debt and debt in foreign currencies as well as the reliance on short- rather than long-term capital flows. Large current-account deficits may turn out to be particularly critical for countries like the Baltics which have built up large external deficits and debts, partly reflecting continued losses in competitiveness, and at the same time facing significant adjustment on their housing markets.

Finally, the crises on financial markets and solvency problems of banks will most severely affect economies with a relatively high share of financial intermediation in gross value added such as Luxembourg or the United Kingdom.

Private consumption growth will be dampened with a moderate recovery in 2010

In 2008, private consumption suffered from higher-than-expected inflation, reducing real disposable income. Despite the recent drop in most commodity prices, however, they remain at higher levels than those seen only a few years ago. In addition, consumption is being adversely affected by severe confidence effects due to the financial crisis as well as credit constraints in some Member States, which vary in degree and are partly due to the substantial decline in house prices.

The inflationary impact of higher commodity prices is, however, expected to fade out of inflation in the coming months and in the course of 2009. Moreover, wage growth remains relatively robust compared with recent years. This, in combination with a relatively moderate impact of the recession on the labour market, will support real disposable income. Consequently, the outlook for private consumption is expected to stabilise in several EU economies that are less affected by the housing and financial crises. Overall, a moderate recovery can be expected in 2010 in both the euro area and the EU. This projection would also bring the current downswing in consumption in line with the experience during the slowdown in the first years of this decade. While private consumption remained relatively robust after the YoY rates of GDP growth peaked in 2007Q1, consumption is now expected to fall in real terms in the coming quarters and differences in YoY growth rates compared with the peak are expected to bottom out only towards the end of 2008/beginning of 2009.

With lower private consumption growth and nominal disposable income continuing to improve relatively robustly, the private households´ savings rate is expected to increase in most European economies in line with the experience of countercyclical movements in the course of earlier

Table 2.3.3:

Composition of growth - Euro area

(Real annual percentage change)

	2007		2003	2004	2005	2006	2007	2008	2009	2010
	bn Euro curr. prices	% GDP	Real percentage change					Autumn 2008 forecast		
Private consumption	5062.5	56.3	1.2	1.6	1.8	2.0	1.6	0.5	0.4	1.0
Public consumption	1801.2	20.0	1.7	1.6	1.5	1.9	2.3	1.8	1.2	1.0
Gross fixed capital formation	1965.4	21.9	1.3	2.3	3.3	5.5	4.3	1.2	-2.6	0.2
Change in stocks as % of GDP	23.5	0.3	-0.1	0.1	-0.1	0.0	0.0	0.3	0.4	0.3
Exports of goods and services	3743.9	41.6	1.3	7.4	5.0	8.4	6.0	3.2	1.1	3.0
Final demand	12596.5	140.1	1.4	3.4	2.8	4.4	3.5	1.7	0.3	1.5
Imports of goods and services	3607.5	40.1	3.2	7.0	5.7	8.3	5.4	2.6	0.6	2.7
GDP	8989.0	100.0	0.8	2.2	1.7	2.9	2.7	1.2	0.1	0.9
GNI	8967.0	99.8	1.0	2.8	1.6	3.1	2.3	1.1	0.2	0.9
p.m. GDP EU	12333.2	137.2	1.3	2.5	2.0	3.1	2.9	1.4	0.2	1.1
			Contribution to change in GDP							
Private consumption			0.7	0.9	1.0	1.1	0.9	0.3	0.2	0.5
Public consumption			0.4	0.3	0.3	0.4	0.5	0.4	0.2	0.2
Investment			0.3	0.5	0.7	1.1	0.9	0.3	-0.6	0.1
Inventories			0.1	0.2	-0.1	0.1	0.1	0.1	0.0	0.0
Exports			0.4	2.6	1.8	3.2	2.4	1.3	0.4	1.3
Final demand			1.8	4.5	3.7	6.0	4.7	2.2	0.3	2.0
Imports (minus)			-1.1	-2.3	-2.0	-3.0	-2.1	-1.0	-0.2	-1.1
Net exports			-0.6	0.3	-0.1	0.2	0.3	0.3	0.2	0.2

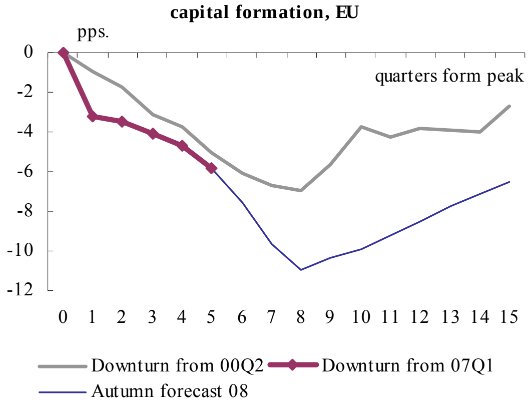
business cycles. The savings rate is therefore forecast to break its downward trend, which has been visible in most larger Member States since the mid-1990s.

Investment held back by slowdown and housing correction

Investment by the corporate sector in machinery and equipment is currently being squeezed by two factors. Firstly, in line with the severe economic downturn, expectations of future demand are dropping. Consequently, in accordance with the accelerator theory, corporate investment is falling sharply. This process is now being reinforced by credit tightening and increased requirements for collaterals, while financing directly via the financial markets has proven difficult. As a result, machinery and equipment investment in the euro area is expected to fall from nearly 6% annual growth in 2007 to nearly -3% in 2009. However, with a moderate recovery thereafter, the corporate sector is expected to start increasing its investment in 2010.

The recession in the housing sector is even more marked. However, the decline in housing investment by 5% in 2009 in the EU masks substantial differences across countries. In Ireland, for example, construction investment is expected to fall by about 19% in 2008 and by another 22% in 2009. It is also falling sharply, albeit less so, in Estonia, Lithuania, Spain, Denmark, the United Kingdom and France.

Graph 2.3.4: **Deviation from peak - Gross fixed capital formation, EU**



Due to the financial crisis and housing market corrections, total investment has already fallen more rapidly than in the previous downswing. Quarterly growth rates are forecast to remain negative well into 2009 and the level of gross fixed capital formation is expected to become constant only towards the end of 2009, with a moderate recovery thereafter. The maximal difference between the YoY growth rates compared with the peak of the business cycle is therefore expected to be about -11 percentage points in the current slowdown while at the beginning of the decade this difference was -7 percentage points (see Graph 2.3.4).

Government consumption remains stable

Government consumption is clearly expected to be a stabilising factor in this business cycle with broadly constant quarterly growth rates in the EU and a slight decline in 2009 and 2010 in the euro area. This is in line with the experience of earlier downswings which shows that that only after a time lag of one to two years does a deterioration in the stance of public finances (see section 2.6) lead to a slowdown in government consumption.

International trade supporting growth

Given the slowdown in world demand and world trade, growth of real EU exports is forecast to cool down from 5% in 2007 to about 1½% in the 2009 and regain some momentum thereafter to more than 3% in 2010. However, given the marked slowdown in domestic demand and recession in several European economies, the deceleration of imports is even stronger. As a consequence, net external demand will continue to contribute positively to a stabilisation of the business cycle by about 0.1 to 0.3 pp. in the EU and the euro area over the forecast period.

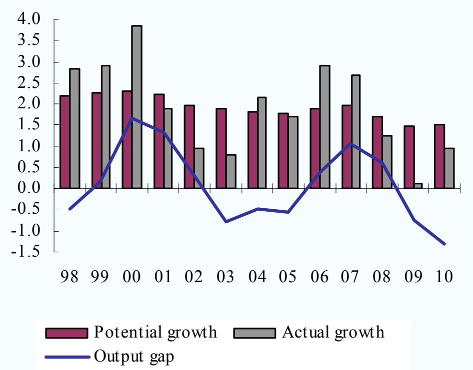
The current-account balance of the euro area is forecast to become only marginally negative in 2008 and 2009 and the deficit of the EU is forecast to stay at or below 1% of GDP. Moreover, the deficits of individual Member States are in most cases not expected to widen further, in contrast to a strong trend witnessed in recent years. That current account positions are not expected to improve more strongly over the forecast horizon is also due to the substantially higher level of imports than of exports. As a consequence a much more marked slowdown of imports compared with exports or even a drop in imports is needed in order to reduce the net balance.

Box 2.3.1: Impact of earlier oil price increases and the financial crisis on potential growth

Potential growth broadly stable so far…

Over the last 10 years potential growth in the euro area has remained largely stable, although a marginal decline of 0.2 pp. has been estimated (see Graph 1). The falling growth rates of total factor productivity (TFP) have been broadly balanced out by a stronger contribution from employment and, to a lesser degree, from capital formation. Potential growth is set to decline if both oil prices and borrowing costs associated with the financial crisis remain at elevated levels. Commission estimates using the production-function approach show that potential growth for the euro area could fall from 2% in 2007 to 1½% in 2010. This box illustrates the likely impact on potential growth from both events, using projections from the Commission's DSGE model, the so-called QUEST III model.

Graph 1: **Euro-area: Potential growth and output gap**



Source: Commission services.

…before the impact of oil price hikes and…

Oil prices have increased strongly over the last years. Even after having fallen sharply recently, future markets expect oil prices to remain about 150% above the average level of 2000 to 2003 of 27 euro (see box 2.2.1). These permanently higher oil prices could have long-run supply side effects because they negatively affect the marginal efficiency and, as a result, the level of capital and labour. In the medium-run employment will recover as real wages adjust to the new productivity level. The impact of employment on potential growth is hence negligible. The effect on capital formation is more permanent since there is no corresponding decline of capital costs for firms, leading to lower investment. Potential growth could thus be held back by just above 0.1% p.a. over the next 10 years and negative effects will not have entirely disappeared even after that. ([1])

…the financial crisis

The Commission's internal calculations show that financing costs for non-financial corporations are currently about 120 basis points above their 2007 levels. In this simulation it is assumed that the increase in financing costs is persistent, but is currently at a peak, and that financial frictions will not unwind quickly. Financing costs, including risk premia, will thus remain higher than in the middle of the current decade. Crucial financial markets may only gradually become functional again, and re-establishing efficient financial intermediation could take time. In addition, we also consider that banks are likely to become more cautious with mortgage lending, resulting in a reduced indebtedness of private households (with a permanent 5 pp. reduction of the loan-to-value ratio set by banks). Both financial market shocks will cause a substantial short-term decline in investment, consumption and employment. Again, there is no direct effect on the NAIRU and employment should recover after a cyclical slowdown. However, both the increase in the capital cost and a tightening of credit to private households is expected to have a medium-run effect on the capital stock. In addition, innovation processes will be slowed down and total factor productivity could need time to recover. As a consequence, potential growth might be reduced by a further 0.1 pp. per annum over a period of at least three to four years. Depending on how fast bank lending returns to normal levels, there could be a prolonged effect on capital formation. ([2])

Both shocks could result in about ¼ pp. being shaved off potential growth in the medium term. However, simply adding the impact of the two shocks might give a too-pessimistic picture, as oil prices could decline more strongly if the financial crisis causes world growth to slow more than is already priced in on oil futures markets.

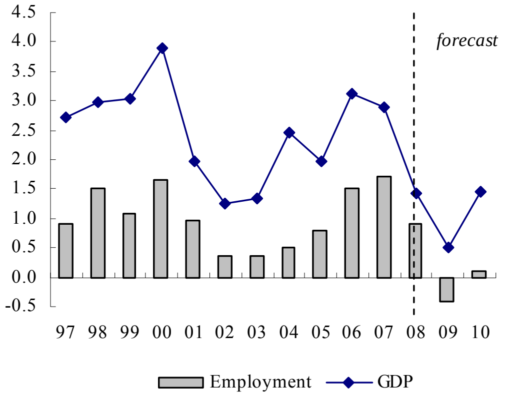
([1]) These findings appear to be in line with recent estimates by the OECD, Economic Outlook 83, June 2008, p.213.
([2]) Based on a permanent increase in the real interest rate of ½ percentage point, the OECD (idem) arrives at an estimate of -0.2% for potential growth.

4. WEAKNESS AHEAD IN THE LABOUR MARKET

Labour market developments in the EU are forecast to weaken notably during the coming two years, as firms react to weaker demand outlook, tighter financing conditions and some acceleration in labour costs. Labour market developments are expected to follow changes in economic growth with a certain time lag, in line with average cyclical patterns. Employment growth is forecast to turn negative in 2009 before broadly stagnating in 2010, while the rate of unemployment is expected to increase by about 1 pp.

Weaker employment growth in 2008

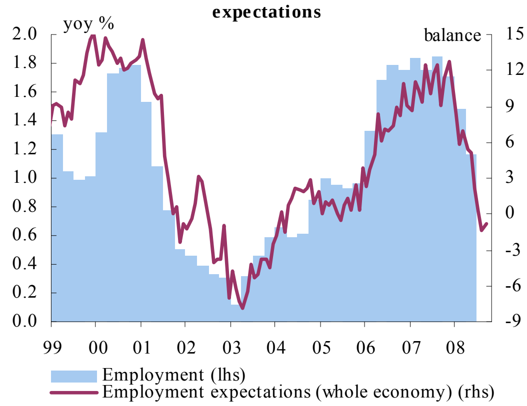
Graph 2.4.1: **Growth of GDP and employment, euro area**



After growing around 1½% per year during 2006–2007, employment is forecast to grow 0.9% in 2008 in both the euro area and in the EU. This cooling of the labour market reflects the general economic slowdown taking place in the course of 2008 and is broadly in line with the spring forecast. In fact, while downward revisions to the employment growth forecasts have been made in some countries where the economic outlook has deteriorated more rapidly, most notably Ireland and Spain, positive surprises have led to upward revisions especially in Bulgaria, Austria and Slovenia.

Employment growth is expected to slow in most Member States in 2008, especially in Ireland, Spain, Lithuania and Latvia, which are all relatively strongly affected by the ongoing economic slowdown. Employment growth is, however, still expected to be relatively benign in 2008 compared to historical averages across the Member States. Among the largest countries, this is particularly the case for Germany and Poland, where employment growth has been relatively weak during the past ten years.

Graph 2.4.2: **EU -Employment and employment expectations**



Signs of weakness have already emerged in the labour market, and the quarterly change in employment declined to 0.2% in both the euro area

Table 2.4.1:

Labour market outlook - Euro area and EU

(Annual percentage change)	Euro area				Difference vs spring 2008		EU				Difference vs spring 2008	
	2007	2008	2009	2010	2008	2009	2007	2008	2009	2010	2008	2009
Population in working age (15-64)	0.4	0.2	0.2	0.1	-0.1	0.0	0.3	0.2	0.2	0.1	0.0	0.0
Labour force	0.8	1.0	0.5	0.5	0.3	-0.2	0.6	0.9	0.4	0.4	0.4	-0.1
Employment	1.7	0.9	-0.4	0.1	0.0	-0.9	1.7	0.9	-0.5	0.1	0.1	-1.0
Employment (change in million)	2.5	1.6	0.1	0.4	0.3	-0.7	3.9	2.5	-0.4	0.6	0.5	-1.5
Unemployment (levels in millions)	11.7	11.9	13.3	13.9	0.6	1.7	16.9	16.9	18.9	19.6	0.8	2.6
Unemployment rate (% of labour force)	7.5	7.6	8.4	8.7	0.4	1.1	7.1	7.0	7.8	8.1	0.2	1.0
Labour productivity, whole economy	1.1	0.4	0.6	0.9	-0.5	-0.5	1.6	1.0	1.1	1.3	-0.2	-0.2
Employment rate (a)	65.7	66.2	65.8	65.8	-1.4	-2.0	65.4	65.9	65.5	65.5	0.1	-0.5

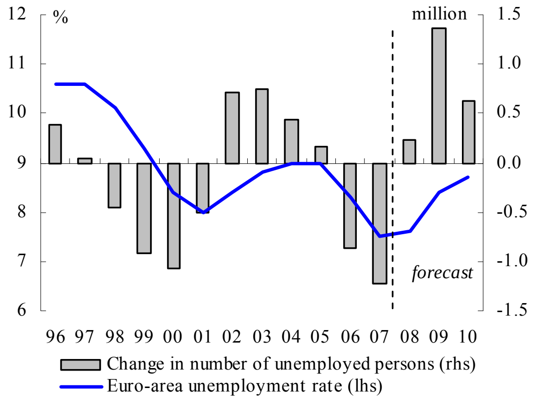
(a) As a percentage of population of working age. Definition according to structural indicators.

and the EU in the second quarter of 2008. Regarding employment developments across sectors, construction has been particularly affected thus far, while no significant deterioration has taken place in industry excluding construction. At the same time, there has been a slight slowdown in employment growth in services.

Unemployment broadly unchanged in 2008

The trough in the rate of unemployment appears to have been reached in late 2007 and early 2008, when unemployment declined to 7.2% of the labour force in the euro area and 6.8% in the EU. Since then, unemployment has increased somewhat, to stand at 7.5% in the euro area and 6.9% in the EU in August 2008.

Graph 2.4.3: **Unemployed persons and unemployment rate, euro area**



For the year as a whole, the unemployment rate is forecast to average 7.6% in the euro area in 2008, slightly up from 2007. In the EU, the unemployment rate is forecast to decline slightly to 7.0% in 2008. The marked decline of recent years has, however, come to an end (between 2004 and 2007, the unemployment rate declined in every Member State, except Portugal, Hungary, the UK and Ireland). Moreover, significant differences in unemployment levels persist. While the unemployment rate forecast for 2008 is close to 3% in Denmark, at the high end it is almost 11% in Spain.

Deterioration in employment expectations

Recent survey data show a rapid weakening in employment expectations in both the euro area and the EU, suggesting an increased easing in the labour market situation during the second half of 2008. According to the Commissions' business surveys, employment prospects have weakened considerably since late 2007 or early 2008 in services, retail trade and manufacturing, while in construction the deterioration started already earlier. The bleak short-term outlook for employment is supported by the recent Purchasing Managers' Indices (PMI), which also show a significant deterioration in employment expectations in both manufacturing and services in the euro area. In addition to business expectations, households' employment expectations have also weakened in recent months, according to the Commission's survey.

Bleak labour market outlook for 2009–2010

Further ahead, labour market developments are expected to deteriorate markedly. An outright decrease in the number of those employed is forecast in 2009, with employment decreasing by 0.4% in the euro area and by 0.5% in the EU. A marginal recovery is expected in 2010, with employment increasing again, though by a mere 0.1% in both areas. The number of employed is forecast to increase by roughly ½ million during 2009–2010 in the euro area and almost stagnate in the EU, a significant deterioration compared to the 6 million new jobs created during 2007–2008 in the EU (of which 4 million were in the euro area).

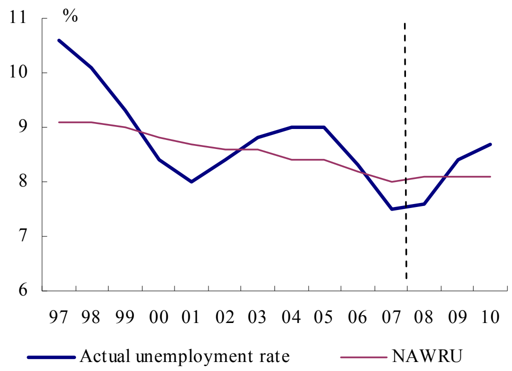
Employment developments are expected to weaken across most Member States. According to the forecast, the average change in employment during 2009–2010 is less than that during 2007–2008 in almost every Member State. The only exception is Hungary, where relative improvement in employment growth rate is expected after notable underperformance compared to EU average during the past five years. The most pronounced decreases in employment in percentage terms in 2009 are expected in Latvia, Lithuania, Spain, Estonia, the UK, Ireland and Denmark, all recently strongly affected by a downturn in the housing market, and all experiencing negative or very slow GDP growth in 2009 according to the forecast. While employment is expected to rebound marginally in 2010 in the euro area and the EU on average, it is expected to continue decreasing in Latvia, Lithuania, Denmark, Spain, Estonia, Sweden and France.

Unemployment rate set to rise

After broadly stagnating in 2008, unemployment is forecast to increase markedly in the next two years in both the euro area and in the EU, as the labour market cools down. By 2010, the rate of unemployment is expected to rise to 8.7% in the euro area and to 8.1% in the EU. The largest cumulative increase is expected to take place in Spain, with the unemployment rate rising from 8.3% in 2007 to 15.5% in 2010. As the Spanish unemployment rate was already among the highest in the EU in 2007, its expected strong rise leads to a renewed widening in the range of unemployment rates across the Member States during 2008–2010. The number of unemployed is forecast to increase by 2.0 million in the euro area and by 2.7 million in the EU between 2008 and 2010.

While the unemployment rates start increasing again in the euro area and in the EU, the structural rate of unemployment (NAWRU) is estimated to continue decreasing slightly in the EU and to remain broadly unchanged in the euro area. According to the forecasts and estimates, the unemployment rates in the euro area and in the EU are below the NAWRU levels in 2007 and 2008, but rising above them in 2009 and 2010. The recent tightness in the labour market situation is thus forecast to ease.

Graph 2.4.4: **Actual and structural unemployment rate, euro area**



Strong wage growth in 2008 and 2009

The annual change in compensation per employee in the euro area increased markedly during the first half of 2008. It rose to 3.6% in the second quarter of the year, the highest level since the mid-1990s. Other measures of nominal labour costs also accelerated at the same time. According to the data, the acceleration has been broad based across industries. Growth in real compensation has, however, been more muted due to the surge in inflation.

The annual change in compensation per employee is forecast to rise to 3.6% on average in the euro area in 2008, and to decrease thereafter to 3.1% in 2009 and to 2.7% in 2010. The growth of nominal compensation is thus forecast to remain high relative to recent years. The strong nominal wage growth in 2008 reflects the recent tight labour market situation in several countries and inter alia the effects of wage indexation to past inflation in some Member States. The slowdown expected during the next two years follows, above all, from the rapid loosening of the labour market situation.

In real terms, compensation per employee is expected to increase by just 0.3% in 2008, due to the rise in inflation. But as inflation is expected to decline thereafter, real compensation per employee is forecast to grow by 0.9% in 2009 and by 0.6% 2010 in the euro area, which would be significantly more than in the past five years on average.

As employment developments are forecast to follow changes in GDP growth with a certain lag, a considerable weakening in labour productivity growth is expected early on in the downturn, i.e. in 2008. Thereafter, labour productivity is forecast to accelerate somewhat. Together with the elevated compensation per employee growth in 2008 and 2009, this implies a surge in unit labour costs. In the euro area, the annual change in nominal unit labour costs is forecast to increase from 1.7% in 2007 to 3.3% in 2008. Thereafter in it is expected to gradually moderate, declining to 1.9% in 2010.

Lisbon employment target will not be reached

After several years of increases, the employment rate is forecast to decline in 2009 in both the euro area and the EU, before rising again slightly in 2010. The share of employed persons in the working-age population is expected to stand at 65.5% in the EU and at 65.8% in the euro area in 2010. Europe will thus fail – by a wide margin – to reach the 70% target set in the Lisbon agenda. This – together with the need to improve potential growth and to ensure sustainable public finances – points to the need to press ahead with structural reforms.

5. INFLATION SET TO FALL RAPIDLY

Headline inflation peaked in the summer...

Headline HICP inflation in the euro area surged in the first half of 2008 and reached a peak in July at 4.0%, which is twice as high as the level recorded in August 2007 and the highest value in 12 years. Since then, however, inflation has eased somewhat, to 3.6% in September. Inflation in the EU followed a similar pattern, more than doubling from 1.9% in August 2007 to 4.4% in July 2008, and moderating subsequently to 4.2% in September.

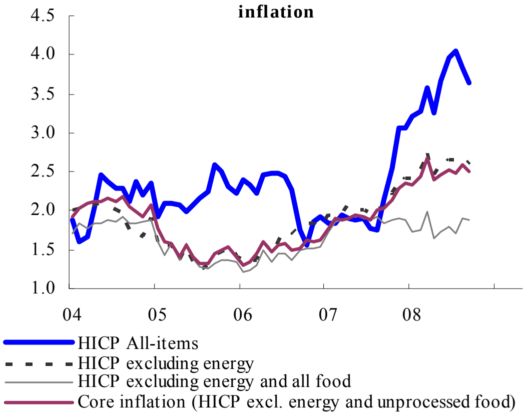
... on the back of surging oil and food prices ...

The surge in oil prices, which started in the second half of 2007, has increased the contribution of the energy component to headline inflation from just 0.1 pp. in the third quarter of 2007 to 1½ pps. one year later. Similarly, an unprecedented acceleration of world food commodity prices increased the contribution of the HICP food component from ½ pp. to 1¼ pps. (see also Box 2.5.1)

...but underlying inflation remained subdued

In contrast, *core inflation* (HICP inflation excluding energy and unprocessed food) in the euro area grew at a more subdued pace from 2.1% (y-o-y) in the second half of 2007 to 2.5% in the first three quarters of 2008. Similarly, another measure of underlying inflation – HICP inflation excluding energy only – increased from 2.2% to 2.6%. Although a rise of core inflation is in line with the economy reaching a mature cyclical position, it also reflects a certain pass-through of strong increases in primary commodity prices, particularly food prices. This is confirmed by a third measure of underlying inflation, i.e. HICP inflation excluding energy and all food, which decreased slightly from 1.9% in the second half of 2007 to 1.8% in the first three quarters of 2008.

Graph 2.5.1: **Euro-area headline and underlying inflation**



The rise in the first measure of underlying inflation can thus be mainly attributed to processed food, where inflation increased from 2% in the first half of 2007 to 6¾% in the third quarter of 2008. This hike is driven by a combination of both transitory and structural supply and demand factors. Supply was reduced due to damaged crops because of adverse weather conditions in 2007 and low inventory levels. Subsequent trade restrictions imposed by major food-exporting countries have also contributed to limiting global supply and thus increasing food prices. Conversely, demand was boosted due to a switch to biofuels and the rising income level in emerging economies. Moreover, part of the increase in food prices follows from the pass-through of higher energy prices to input and distribution costs. Indeed, the effect of elevated energy prices on the production and distribution costs of consumer prices of, for example, dairy products partly explains why processed food prices

Table 2.5.1:

Inflation outlook - Euro area and EU

(Annual percentage change)	Euro area				Difference vs spring 2008		EU				Difference vs spring 2008	
	2007	2008	2009	2010	2008	2009	2007	2008	2009	2010	2008	2009
Private consumption deflator	2.2	3.2	2.2	2.1	0.4	0.1	2.3	3.5	2.3	2.0	0.5	0.1
GDP deflator	2.3	2.5	2.2	2.1	0.1	0.2	2.6	2.8	2.4	2.2	0.3	0.2
HICP	2.1	3.5	2.2	2.1	0.4	0.0	2.4	3.9	2.4	2.2	0.3	0.0
Compensation per employee	2.6	3.6	3.1	2.7	0.3	0.1	3.0	3.7	3.2	3.0	-0.1	-0.3
Unit labour costs	1.7	3.3	2.5	1.9	0.9	0.6	2.0	3.4	2.7	2.1	0.8	0.5
Import prices of goods	1.1	4.2	2.4	1.9	1.7	0.8	0.9	4.0	2.6	2.0	1.8	0.9

have recently increased more than unprocessed food prices.

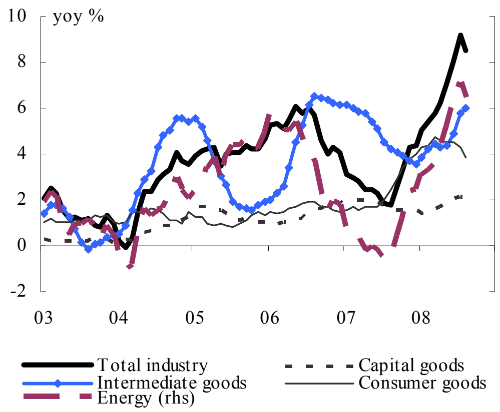
At the same time, *services inflation* in the first half of 2008 hovered around 2.5%, broadly unchanged from 2007 on average. However, during this summer, a certain acceleration was observed. This can be attributed to a larger contribution of recreational services (restaurants and cafes in particular) and transport services, which is linked to higher input prices (i.e. food and fuel, respectively).

In contrast, inflation in *non-energy industrial goods* was stable in the first half of 2008, at a slightly lower level than in 2007. Remarkably, increasing pressures from rising input costs and high capacity utilisation in the manufacturing sector seem not to have passed through to this price category. This can be explained by deflation recorded in the durable goods category (electronic equipment and cars in particular) and offsetting developments in the semi-durable and non-durable categories, all linked both to the dampening effect of the appreciating euro on import prices and a competitive international environment.

Price pressures mounted at the producer level

Price pressure has been building up, however, at the producer level. Between July 2007 and August 2008 *producer price* inflation surged from 1.9% to 8.5% in the euro area and from 1.7% to 10.4% in the EU on the back of accelerating prices of energy and food input products, as well as rising wages. At a sectoral level, the increase was particularly marked in the energy sector, in which inflation climbed from -2.2% to 22.5% in the euro area and from -2.7% to 27% in the EU.

Graph 2.5.2: **Producer price inflation, euro area**



At the same time, inflation in the durable consumer goods sector, the most immediately relevant component for consumer prices, only increased to around 2½%, 1 pp. higher than in the first half of 2007. The annual rate of price increases in intermediate goods, the largest component of the index, continued on a downward trend until end-2007 to increase substantially thereafter to close to 6% in the third quarter.

Nominal wage growth accelerated, though it did not keep up with headline inflation

As regards the *labour costs*, the loss of households' purchasing power due to surging inflation fuelled wage claims. The annual growth rate in compensation per employee in the euro area reached 3.6% in the second quarter of 2008, which compares with 2.2% one year earlier and with a 2.5% growth for the 2007 as a whole.

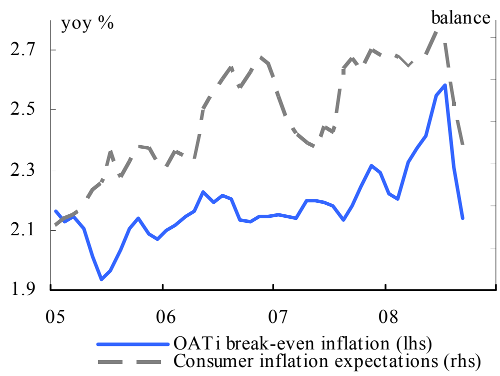
Other labour cost indicators also point to increasing nominal wages in 2008, after modest developments last year. The ECB's indicator of negotiated wages moved up from 2.1% in 2007 to 2.8% in the second quarter of 2008. The annual growth rate in Eurostat's hourly labour cost index for both the euro area and the EU shows an acceleration from 2.5% (3.7% in the EU) in the third quarter of 2007 to 3.5% (4.4% in the EU) in the first quarter of 2008, but with a subsequent easing to 2.7% (3.4% in the EU) in the following quarter, which can be linked to the effect of the timing of Easter on the number of hours. The real wage growth declined from 0.6% in the third quarter of 2007 to -0.9% in the second quarter of 2008. Rising wage pressures, which appear to have been broad-based across most sectors of the economy, can be attributed to several factors, including tighter labour markets and continued high capacity utilisation, as well as, in some European countries, to wage indexation schemes linking wages to past price developments. Nevertheless, as mentioned in the previous section, there appears to be limited evidence of broad-based second-round effects in the euro area so far.

The slowdown in labour productivity growth in the course of 2007 implied that the acceleration of wage growth had a non-negligible inflationary impact. It is estimated that productivity in the euro area rose by 0.9% (1.1% in the EU) in 2007, decelerating to 0.5% (0.6% in the EU) in the first half of 2008. Accordingly, growth in unit labour costs is estimated to have picked up in the euro area from 1.6% in 2007 to 3% in the first half of 2008 (the highest value in five years), whilst it declined in the EU as a whole from 2% to 0% in the same period, due to the developments in the UK, where decelerating labour productivity went hand in hand with declining compensation of employees in the light of the depreciation of the pound sterling.

Worries about unanchored inflation expectations dissipated

In the first half of 2008, a key concern was whether *inflation expectations* would remain well-anchored. In September 2008, the survey assessment of future price developments pointed to an easing in inflation. Compared to August, managers' input and selling-price expectations in September decreased markedly in both industry and services in the euro area. They are, however, still at high levels and above their long-term average, signalling that although the ongoing short-term inflationary pressures are easing, they could still continue in the months ahead. Consumers' price expectations decreased significantly from the peak this summer and currently stand below the long-term average. After increasing somewhat at the end of last year, long-term inflation expectations in the euro area, measured on the basis of French government inflation-indexed bonds maturing in 2015, hit a record high of 2.6% in July 2008, followed by a substantial decline to 2.1% in September and again to below 2% at the beginning of October.

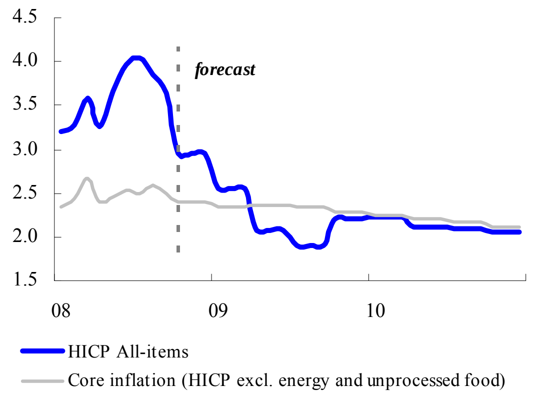
Graph 2.5.3: **Inflation expectations, euroarea**



Inflation set to fall on account of weak growth outlook

Looking ahead, average annual HICP inflation in the euro area is projected to rise sharply from 2.1% last year to 3.5% this year, before coming back to around 2.2% in 2009 and easing further to 2.1% in 2010. In the EU, inflation is expected to mount from 2.4% in 2007 to 3.9% this year and to ease significantly to 2.4% in 2009 and 2.2% in 2010. Compared to spring, the new projections entail an upward revision for 2008 (0.4 pp. for the euro area and 0.3 pp. for the EU), which mainly reflects higher commodity prices in the first half of 2008. For 2009, no revision has been done, neither for the for the euro area nor for the EU.

Graph 2.5.4: **Euro-area headline and core inflation - forecast**



In terms of quarterly profiles, inflation both in the euro area and in the EU is now considered to have reached a peak in the third quarter of 2008 and is expected to decrease significantly thereafter, on account of weak growth outlook, looser labour markets, falling capacity utilisation, lower price assumptions for commodities and, last but not least, favourable base effects from past hikes of commodity prices. From the third quarter of 2009 onwards, inflation is expected to stabilise at about 2.1% in both the euro area and the EU until the end of the forecast horizon.

The new projection for inflation originates externally from lower-than-earlier-expected commodity prices and, domestically by gradual deceleration in unit labour cost, after its surge in 2008. The annual rate of increase in total primary commodity prices (including fuels) in USD terms is assumed to rise sharply from 9.4% in 2007 to about 35% in 2008, but to lose momentum thereafter and even decrease in 2009, on account of falling fuel and metal prices. On the other hand, prices of other primary commodities are actually set to rebound again only in the fourth quarter of 2009. Meanwhile, the annual rate of increase of import prices is projected to increase from about 1% in 2007 to 4¼% in 2008 and ease thereafter to about 2% in 2010.

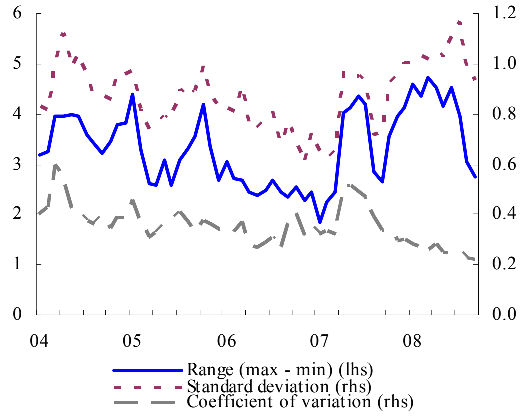
On the domestic side, growth in nominal unit labour costs in the euro area is expected to accelerate from 1.7% in 2007 to 3.3% in 2008 and to ease thereafter to 2.5% in 2009 and 1.9% the following year. This profile is explained chiefly by the elevated nominal compensation per employee over the forecast horizon, while productivity gains remain weak (at 0.4–0.6%), with a moderate up-tick in 2010 only. The acceleration in wage growth in 2008 appears in line with a tight labour market in several countries and a general loss of purchasing power due to surging inflation. The subsequent easing of wage pressures is expected on account of a markedly weak growth outlook and easing prices.

The euro-area unemployment rate is projected to stay below the NAWRU in 2008, exerting an upward pressure on wages and inflation. The unemployment rate, which dropped to its lowest rate since the early 1990s in the first half of 2008, is expected to rise from 7.6% in 2008 to 8.7% in 2010. With unemployment above the NAWRU, a negative output gap in 2009 and 2010 should eliminate inflationary pressures coming from the labour market.

Inflation prospects differ across Member States

As regards the situation in individual Member States, the upward revisions for 2008 were registered in all euro-area countries apart from the Netherlands (a downward revision) and Ireland (unchanged). The size of the corrections ranged from 0.1 pp. in Germany to 1.1 pp. in Belgium, bringing a wider dispersion of inflation rates across the euro-area Member States. Among the largest countries, Germany is set to see an increase in inflation in 2008 of 3.0%, France 3.3%, Italy 3.6% and Spain 4.2%. An expected sharp fall in inflation to around 2½% in these countries (with the exception of Italy) is likely to bring inflation in the euro area to 3.0% already in the last quarter of 2008. In 2009 the picture is more mixed, as inflation has been revised upwards since the spring forecast in most but not all countries (Spain, France and Italy being three notable exceptions). The different pace of pass-through from past commodity price hikes is reflected in diverse quarterly profiles for inflation. Contrary to other countries, in the Netherlands the peak in inflation is expected only in the first quarter of 2009. While in 2010 inflation in most of the larger euro-area Member States (but Spain) converges to about 2.1%, it is projected to remain above or close to 3% in Spain, Greece, Cyprus, Luxembourg, Slovenia and Slovakia.

Graph 2.5.5: **Dispersion of euro-area MS inflation rates**



Outside the euro area, inflation for 2008 was revised up in all Member States, with the exception of Poland and Hungary (unchanged) and Latvia (a downward revision). The largest upward revisions were recorded for Bulgaria, Lithuania and Estonia. In 2009 and 2010 inflation is set to ease again. Among the larger non-euro-area Member States, inflation in Poland is projected to increase to 4.3% in 2008 and ease thereafter to about 2½% by the end of 2010, while in the UK it is expected to rise to 3.7% in 2008 and come down rapidly due to a recession outlook to 1.9% in 2009 and 1.2% in 2010. Similarly, the expected economic recession in Latvia and Estonia is likely to bring inflation in these countries substantially down by the end of the forecast horizon, from double-digit levels recorded in 2008 to 4% and 3%, respectively. Other Member States with high inflation rates – Bulgaria and Lithuania – are also expected to see a decrease in inflation, albeit at a slower pace. Lithuania is a notable exception among all Member States with inflation increasing slightly in 2010 on the back of the expected strong rise in energy prices resulting from the planned closedown if its nuclear power plant.

Box 2.5.1: Commodity price hikes explained

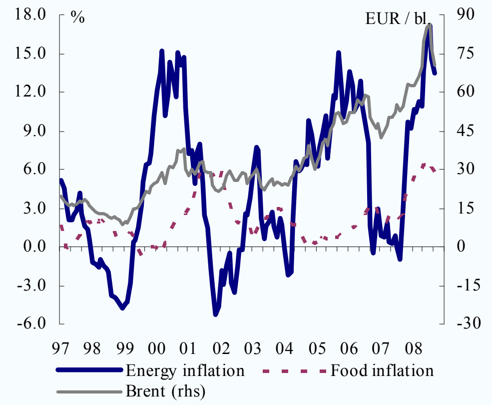
Commodity price hikes behind the surge in inflation

In the course of the last 12 months, the European economy was hit by a commodity price shock, particularly from oil and agricultural products. As a consequence, consumer price inflation doubled, peaking at 4.4% in the EU in July. Simulations with the Commission's QUEST model suggest that the accumulated effect of the oil price increase between 2004 and early October 2008 (i.e. from €27 to €65 per barrel) would imply a reduction in GDP of ¾% in 2008 and 1% in 2009, and an increase in consumer prices of 1.8% and 2.1%, respectively. The contribution from energy to headline HICP inflation in the EU surged from about 0.3 pp. at the beginning of 2007 to 1.7 pps. in July 2008. Meanwhile, the contribution from food prices to headline HICP increased from 0.6 pp. to 1.5 pps.

The impact of the commodity price hikes has differed from one country to another. Energy prices contributed most to inflation in Estonia, Latvia, Lithuania, Belgium, Cyprus and Luxembourg. In these countries, energy added between 2 and 3 pps. to inflation in the first half of 2008. By contrast, the role of energy in overall inflation has only moderately increased in Malta and the Netherlands, while it has decreased in Slovakia since end-2006. The sizeable variations in the contribution of energy prices to HICP inflation across Member States are due to differences in the increase in energy prices (on account of differences in the energy mix and in energy tax levels), the functioning of domestic energy markets, and the weight of energy in national HICP baskets (ranging from 5.4% in Malta to 18% in Romania).

Similarly, it can be observed that food price increases have had the largest impact in Latvia, Lithuania, Bulgaria, and Romania, where the contribution from both processed and unprocessed food ranged from 4.7 to 8.0 pps. in the first half of 2008. Conversely, hardly any change in contribution from food to headline inflation was observed in Germany, the Netherlands, Austria and Greece. The differences across countries can be attributed both to the degree of competition on food products markets and the relative importance of food in the HICP basket (ranging from 15% in the UK to 43% in Romania).

Graph 1: **Energy and food inflation, euro area**



Source: EU Commission

Structural and temporary factors, not speculation, behind price hikes

The recent commodity price surge, and the oil price boom in particular, has been driven by a combination of structural supply and demand factors. On one hand, sustained strong demand growth, in particular from emerging markets in Asia and the Middle East, has generally proved to be relatively unresponsive to oil price changes, at least in the short term, reflecting inter alia a high degree of subsidies. On the other hand, the response along the supply chain was sluggish, from exploration to extraction, oil transport and refining, due to underinvestment and slow capacity expansion in the late 1990s following many years of low commodity prices. Thus, the onset of the latest boom coincided with lower-than-usual inventory and spare capacity, which usually act as buffers at times of rapidly growing demand.

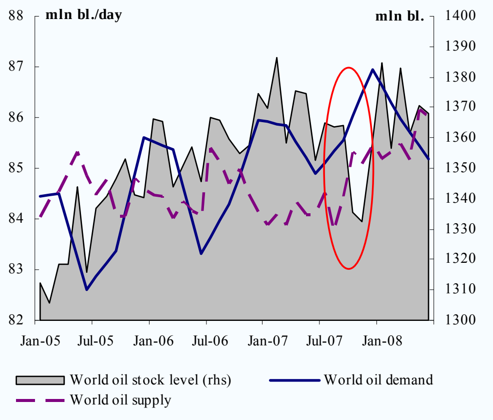
Contrary to common perception, there is hardly any evidence that real or financial speculation (the purchase of commodities intended for resale at a higher price rather than for commercial use) may have contributed to the commodity price increases. Inventory holdings of key commodities generally remained low or even declined in the current boom, indicating that any price increases cannot be ascribed to the build-up of real assets. The role of financial speculation in driving up the prices of

(Continued on the next page)

Box (continued)

commodities was also negligible, as there is little evidence to suggest that trading in futures markets has driven the price increases or has destabilised the commodity markets in the first half of 2008.[1]

Graph 2: **World oil supply, demand and stocks**



Source: EU Commission

The price of oil has more than halved from the recent peak in July, reaching about 70 USD/bl in mid-October. This decline was driven by a higher supply from the OPEC countries on one hand and on the other by the deteriorating growth outlook and materialising risk of recession in many advanced economies.

Similarly, the hike in food commodity prices reflects a combination of supply and demand factors, both structural and temporary.

On the supply side, there was a decline in yield growth rates in 2006-2007 linked to a series of weather-related shocks, including a drought damage, particularly in eastern Europe, North Africa and Australia. The impact of weather-related shocks is generally temporary and indeed the crop prospects for 2008 are favourable. The recent food commodities boom occurred in a setting with low global inventory levels, which can partly be attributed to declining relative prices and low investment rates due to high levels of protectionism in agriculture in advanced economies and the bias of public expenditure in developing economies towards subsidies rather than investment in infrastructure or research. Moreover, rising energy costs passed through to food prices due to higher input costs of agricultural production, most notably fuel and fertilisers (the production of which is itself energy-intensive). Another factor which pushed up world food prices is the more restrictive trade policy in a number of major food-exporting countries. The new restrictions were imposed in mid-2007 due to growing concerns about the domestic impact of rising food prices triggering panic buying and inventory hoarding, leading in many cases to short-term price overshooting.[2]

On the demand side, consumption increased strongly, driven by rapid income and population growth in emerging and developing economies. Moreover, biofuel production expanded rapidly in response to both rising fuel prices and environmental policy targets, boosting demand for corn and some vegetable oils and thus inducing some substitution effects with other crops.

[1] See e.g. IMF 2008 WEO, Box 3.1.

[2] FAO, "Food Outlook: Global Market Analysis", Rome, June 2008

6. PUBLIC FINANCES HIT BY THE DOWNTURN

Government finances in 2008-2010 hit hard by economic downturn

The economic downturn is expected to have a significant negative impact on government finances over the forecast period. In addition, the public finance outlook is also surrounded by particularly high uncertainties. Evidently, developments in public finances are closely related to the general macro-economic outlook. To the extent that the latter is subject to high ("fat-tail") downside risks, there are also considerable downside risks to the development of public finances. Moreover, following several years of tax-rich growth there is high uncertainty attached to the evolution of tax revenue, as it is unclear to what degree a much less tax-favourable growth pattern over the forecast period will dent the elasticity of tax revenue with respect to growth. Significant imponderables also stem from the public rescue operations for the financial sector. Potentially, the impact on government finances may be very large, but on the basis of the currently very limited knowledge only a few operations could be incorporated in the forecast (see Box 2.2.1 for more details on technical assumptions regarding the recording of these rescue operations).

Bearing these caveats in mind, the aggregate general government deficit in the EU is projected to rise from 0.9% of GDP in 2007, the most favourable position in many years, to 1.6% GDP in 2008, thereby more than offsetting the decline recorded in the year before. Similarly, in the euro area the aggregate deficit is forecast to bounce back from 0.6% of GDP in 2007 to 1.3% in 2008, following its decline by the same magnitude in 2007. This represents an upward revision of the spring forecast projections by 0.4 pp. in the EU and by 0.3 pp. in the euro area.

A further worsening of the government balance is foreseen in 2009, to a deficit of respectively 2.3% of GDP in the EU and 1.8% in the euro area – a deterioration of 1.0 and 0.7 pp. compared with the projections in the spring forecast. On the basis of the usual no-policy-change assumption, the deficit is projected to rise further in 2010, to 2.6% of GDP in the EU and to 2.0% in the euro area.

The deterioration of government finances is due to developments on both the expenditure and the revenue side. The somewhat more pronounced deterioration of the government balance in the EU compared to the euro area is explained by the fact that the projected upward dynamics of expenditure is stronger for countries outside the euro area than for those inside. In particular, the expenditure ratio (total government expenditure as a percentage of GDP) in the EU as a whole is forecast to rise from 45.8% in 2007 to 47.1% in 2010. In the euro area, the expenditure ratio is projected to rise more moderately, from 46.1% to 46.9% of GDP over the same period. This reverses the trend decline in the expenditure ratio observed for both areas in the years up until 2007. In line with the worsening of the economy, the expansion of government expenditure is projected to be predominantly driven by social benefits and transfers, while other

Table 2.6.1:

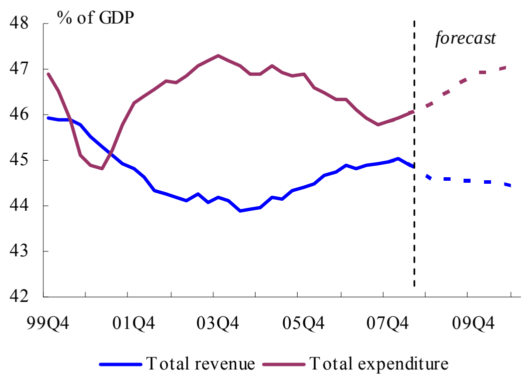
General government budgetary position - Euro area and EU

(% of GDP)	Euro area				Difference vs spring 2008		EU				Difference vs spring 2008	
	2007	2008	2009	2010	2008	2009	2007	2008	2009	2010	2008	2009
Total receipts (1)	45.5	45.0	45.0	44.9	-0.1	-0.1	44.9	44.6	44.6	44.4	0.0	0.1
Total expenditure (2)	46.1	46.3	46.9	46.9	0.1	0.8	45.8	46.2	46.9	47.1	0.4	1.1
Actual balance (3) = (1)-(2)	-0.6	-1.3	-1.8	-2.0	-0.3	-0.7	-0.9	-1.6	-2.3	-2.6	-0.4	-1.0
Interest expenditure (4)	3.0	3.0	2.9	2.9	0.1	0.1	2.7	2.7	2.7	2.8	0.0	0.1
Primary balance (5) = (3)+(4)	2.3	1.6	1.1	0.9	-0.3	-0.7	1.8	1.1	0.4	0.1	-0.3	-0.9
Cyclically adjusted budget balance	-1.2	-1.6	-1.4	-1.4	-0.6	-0.6	-1.5	-2.0	-1.9	-2.0	-0.8	-0.8
Cyclically adjusted primary balance	1.8	1.3	1.5	1.5	-0.6	-0.5	1.2	0.8	0.8	0.8	-0.6	-0.7
Structural budget balance	-1.2	-1.6	-1.5	-1.4	-0.6	-0.6	-1.5	-1.9	-2.0	-2.0	-0.7	-0.9
Change in structural budget balance	0.3	-0.4	0.1	0.1	-0.1	0.0	0.3	-0.5	-0.1	0.0	-0.3	-0.2
Gross debt	66.1	66.6	67.2	67.6	1.7	3.1	58.7	59.8	60.9	61.8	0.9	2.5

The structural budget balance is the cyclically-adjusted budget balance net of one-off and other temporary measures estimated by the Commission services.

expenditure categories, particularly capital expenditure and collective consumption, are expected to remain broadly steady over the forecast horizon.

Graph 2.6.1: **EU - Total revenue and expenditure (Four-quarter moving average)**



As for government revenue, the revenue-to-GDP ratio is projected to decline by around ½ pp. over the forecast period for both the EU and the euro area. Several factors are behind the decline. In particular, the economic slowdown is expected to dampen tax revenue via its impact on the respective tax bases (e.g. private consumption, profits, etc.). Moreover, the composition of output growth is set to move away from tax-rich domestic demand to tax-poor external demand, especially in countries where current account deficits are high. In addition, due to the ongoing correction in asset markets, extra revenue linked to asset price inflation and transaction duties ("stamp duties") are likely to dry up. Finally, several countries have announced or already implemented reforms aimed at cutting taxes. In view of the large number of factors adversely affecting government revenue the deterioration in government revenue remains surprisingly mild. This is due to various balancing factors such as the impact of fiscal drag and a relatively robust labour market situation over the forecast period.

Correcting for cyclical factors, one-offs and other temporary measures, the structural deficit is also projected to deteriorate in 2008, by ½ pp. in both the EU and the euro area, reaching 1½% and just below 2% of GDP, respectively. This represents an upward revision of the spring forecast figure by ½ and ¾ pp., partly reflecting a downward revision of the cyclical component of the deficit (in turn due to a higher than previously estimated output gap). In 2009 and 2010, the structural balance is forecast to stabilise in both areas, indicating that the deterioration in headline positions is mainly caused by less favourable cyclical conditions.

In the spring forecast it was already pointed out that the commonly agreed method of estimating potential output may overestimate potential growth in times when forecasts for actual growth have to be revised down. The downward revision of potential growth – and, mechanically, the concomitant upward revision of the cyclical part of growth – in the current forecast does not therefore come entirely as a surprise. Since further downward revisions of potential growth cannot be excluded, it may well be that future estimates will lead to a further worsening of structural balances without this necessarily being driven by an underlying deterioration in the fiscal position. This may affect in particular developments after 2008, when the current forecast projects structural balances to broadly stabilise in the EU and the euro area.

Table 2.6.2:
General government structural budget balance

(% of GDP)	2006	2007	2008	2009	2010
Belgium	-1.1	-1.0	-0.8	-0.9	-0.7
Germany	-1.6	-0.8	-0.5	-0.3	-0.4
Greece	-3.9	-4.1	-3.6	-3.3	-3.1
Spain	1.9	2.0	-1.1	-1.9	-1.9
France	-3.0	-3.2	-3.3	-3.0	-3.0
Ireland	2.3	-0.9	-4.9	-5.6	-6.1
Cyprus	-0.9	3.5	0.9	0.8	0.8
Italy	-3.1	-2.0	-2.5	-2.0	-1.3
Luxembourg	0.9	2.3	2.4	2.1	1.8
Malta	-2.5	-2.7	-3.0	-3.1	-2.5
The Netherlands	0.7	-0.4	0.4	0.2	0.6
Austria	-1.8	-1.1	-1.2	-1.2	-1.2
Portugal	-3.5	-2.7	-2.3	-2.6	-2.6
Slovenia	-1.3	-0.5	-1.0	-0.8	-0.3
Slovakia	-3.0	-2.7	-3.3	-2.7	-2.3
Finland	4.0	4.6	4.7	3.9	3.0
Euro area	**-1.5**	**-1.2**	**-1.6**	**-1.5**	**-1.4**
Bulgaria	2.5	2.9	2.8	3.0	3.3
Czech Republic	-3.1	-1.8	-2.0	-1.7	-1.5
Denmark	4.1	3.7	3.6	2.0	1.5
Estonia	0.2	0.0	-1.9	-1.0	-0.6
Latvia	-2.0	-2.7	-3.3	-4.8	-4.8
Lithuania	-1.5	-2.9	-3.9	-3.6	-3.0
Hungary	-10.1	-4.8	-4.0	-3.4	-3.3
Poland	-3.9	-2.6	-2.9	-2.5	-2.0
Romania	-2.5	-3.5	-5.0	-5.2	-4.7
Sweden	1.2	2.7	2.1	1.1	0.3
United Kingdom	-3.0	-3.5	-4.6	-5.0	-5.4
EU27	**-1.7**	**-1.5**	**-1.9**	**-2.0**	**-2.0**

Euro area: budgetary deterioration in most countries

The projected deterioration of (headline) budgetary positions in 2008 is broad-based among euro-area countries. Only Germany, Greece, the Netherlands and Portugal escape this general trend. In Greece, this is helped by sizeable one-off operations and follows a large statistical upward revision of the deficit for 2007 (to 3.5% of GDP). The swing between 2007 and 2008 is particularly large for Ireland and Spain (-5.7 and -3.8 pps.), the two countries that are hardest hit by the economic downturn. The projected rise in the budget deficit is also significant for Malta (-2 pps.) which, together with Ireland, is expected to breach the 3%-of-GDP reference value in 2008. Other euro-area countries where the deterioration in the budgetary balance is foreseen to be significant (more than, say, 0.5 pp.) are Italy and Cyprus. For France, the government balance is estimated to hit the 3% of GDP threshold in 2008 - though not to breach it.

In 2009, all euro-area countries except Greece, Malta and Slovakia are set to see a (further) worsening in their budgetary positions. A further rise in the deficit is forecast, in particular, for Ireland (to almost 7% of GDP) and Spain (to almost 3% of GDP), while the continued budgetary deterioration in France is expected to lift the deficit above the 3%-of-GDP reference value (to 3.5% of GDP). In Portugal, the deficit is projected to rise to 2.8% of GDP. By contrast, in Malta the deficit is expected to fall back below the 3%-of-GDP reference value.

In 2010, based on the customary no-policy-change assumption budgetary positions are projected to broadly stabilise for most euro-area countries. A strong rise of the deficit (of 0.5 pp. or higher) is projected for Greece and Portugal. Portugal's deficit would surpass the 3%-of-GDP reference value.

Correcting for cyclical factors, one-offs and other temporary measures, the underlying structural budgetary position in 2008 is forecast to deteriorate, in particular, for Spain and Ireland, Cyprus, Italy, Malta, Slovenia and Slovakia. The structural deficit of Spain and Ireland is forecast to further worsen in 2009, while most other countries are projected to see broadly unchanged or even improved structural positions in 2009.

Significant budgetary worsening also outside the euro area

Outside the euro area, two Member States, Hungary and the UK, are currently subject to the excessive deficit procedure. While Hungary's headline deficit is forecast to decline to 3.4% in 2008 (from 5% of GDP in 2007), the UK's is estimated to rise to 4.2% of GDP. A further small decline is projected for Hungary in 2009, while the UK is expected to see a further deterioration of its budgetary position, with the deficit rising to 5.6% of GDP.

Of the other Member States outside the euro area, budgetary positions are set to deteriorate markedly in the Baltic countries and in Romania. In the former, this is due in large part to the sharp economic downturn, while in Romania a lack of expenditure control seems to be behind the rising deficit. In 2008, only Romania is expected to exceed the 3%-of-GDP reference value, but in 2009 the budgetary balances of Latvia and Lithuania are also forecast to breach the 3%-of-GDP deficit threshold. Estonia is expected to keep its government finances within the 3%-of-GDP deficit limit over the whole forecast period.

Relatively steady budgetary positions are forecast for the Czech Republic and Poland, as the economic slowdown in those countries is expected to be mild. Among countries in surplus, i.e. Bulgaria, Denmark and Sweden, the budget balance is projected to remain largely unchanged in Bulgaria, while Denmark and Sweden will see a fairly substantial decline in their surpluses, with Denmark expected to remain in surplus over the forecast period but Sweden forecast to post a small deficit in 2010.

In structural terms, budgetary positions are projected to develop largely in line with headline positions, with notable deteriorations for the Baltic countries, Romania and the UK, but also for the countries in surplus (Denmark and Sweden). By contrast, improvements are projected for Bulgaria, the Czech Republic and Poland. For Hungary, the structural balance is projected to remain fairly stable around 3½% of GDP.

Debt again on the rise

Government debt positions have been revised upwards significantly compared to the spring forecast. In the EU, the debt ratio is projected to rise by 2¼ pps. between 2007 and 2009, a significantly worse development than the slight improvement projected in the spring. Similarly, in the euro area the debt ratio is now expected to increase by more than 1 pp. between 2007 and 2009, in contrast to a projected decline of 2 pps. in the spring forecast. The decline in the debt ratio observed between 2005 and 2007 will therefore reverse again.

In the euro area, an increase in the debt ratio is expected in 2008 for Belgium, Ireland (by more than 5 pps.), Spain, France, Luxembourg, Malta, the Netherlands and Portugal. With the exception of Belgium and the Netherlands these countries are forecast to also see their debt ratio increasing in 2009. Outside the euro area, rising government debt levels are projected for the Baltic countries and Romania (from very low levels), and for the UK.

As was mentioned above, there is a risk that the recently implemented or announced measures in support of financial stability may push up debt levels even further. However, as part of the rescue operations for financial sector companies, governments are also taking up equity and providing loans to banks, thereby increasing government assets. A rise in gross debt does therefore not entail a corresponding rise in net government liabilities at this stage.

7. DOWNSIDE RISKS PREVAIL

Risks to the growth outlook firmly on the downside…

The economic situation and outlook for the EU have turned exceptionally uncertain. Many of the main downside risks to the growth outlook identified in the spring have not only materialised simultaneously, but also intensified sharply. Prime among these is the financial crisis, the spike in inflation, the ensuing global downturn, and the housing market corrections in several Member States.

In the first place, the ongoing financial market turmoil, which originated in the US subprime mortgage market in the summer of 2007, intensified sharply over the last few months, turning into the most severe financial shock to industrial economies since the 1930s. From mid-September, against the background of a collapse in confidence among market participants and a generalised flight to quality, events unfolded rapidly, unpredictably, and with dramatic consequences. The failure of Lehman Brothers sent shockwaves to market segments previously unaffected in the US and abroad. Despite central banks repeatedly injecting massive liquidity into the system, key credit markets remained largely blocked, with investors unwilling to assume counterparty risk. Other major investment banks soon faced intense strain and had to be taken over. In an attempt to restore confidence an unprecedented bail-out package (700 billion USD) was announced, after some initial difficult negotiations, and passed in the US. This failed to restore confidence and problems continued to spread, with several major banks in various countries having to be rescued or nationalised. In early October, a wave of panic took hold of equity markets, leading to the largest slides in decades, in both industrialised and emerging economies. To prevent an outright run on their banking sectors, several governments enacted or raised blanket deposit guarantees. In an extraordinary move, a group of some of the main central banks, including the US Fed and the ECB, resorted to concerted surprise interest rate cuts in an effort to restore confidence and attenuate the impact on the real economy. EU governments also showed their strong determination to fight the crisis in a concerted fashion at the ECOFIN and European Council meetings in October. However, despite some encouraging signs in money markets, at the time of writing the situation remains fragile and highly uncertain, as illustrated by still plummeting stock markets.

The baseline scenario for the autumn projections assumes that the financial turmoil will last until 2009, with effects on the real economy being felt also in 2010. However, at the current juncture, there is a substantial risk that financial stress may intensify even further or remain very high for a longer time period. This could come about, for instance, through a "negative feedback loop", with the deteriorating economic prospects adversely affecting the already precarious conditions in financial markets, and vice versa. With a longer lasting period of uncertainty about counterparty risk in financial markets, it cannot be excluded that adverse credit conditions, such as increased spreads, collateral requirements and the required deleverage process may limit the pace of economic activity more than assumed in the current projections. Further abrupt adverse shifts in investor and consumer confidence cannot be ruled out either. In addition, the negative wealth effect caused by falling real and financial asset prices could hamper domestic demand further.

A second major risk to the growth outlook relates to the ongoing correction in housing markets in several Member States, which could be more pronounced and protracted than currently assumed. This concerns especially Ireland and Spain, but also Denmark, France, Sweden, and the UK, where house prices have been assessed as overvalued. Experience with housing cycles since the 1970s in industrial countries indicates that following a boom in house prices, the median downturn lasts for around five years and is associated with a substantial slowing in real GDP growth (an average decline of about 3 pps., six quarters after the peak), with all main growth components being negatively affected (see also Box 2.1.1). The risk associated with the ongoing housing corrections is clearly aggravated by the financial crisis, as the impact of a further tightening of lending conditions and reduced credit availability is likely to intensify the housing downturn.

The impact from the current distress in the financial markets could also have a large adverse impact on Member States with high external deficit and debt. One of the lessons to be drawn from ten years of experience with EMU is that imbalances across euro-area member countries have tended to persist. This may turn out to be particularly damaging in the current situation where countries which have built up large external deficits, partly reflecting continued losses in competitiveness, are also those where housing markets have been hit the hardest. Although outside the euro area differences in current-account positions partly reflect the increased heterogeneity within the EU, as the catching-up process may involve sizeable current-account deficits, in some cases it also points to a need for adjustment. A rising external debt servicing burden implies a loss of domestically available income, which ultimately limits growth. The ongoing financial market turmoil, by hampering the smooth flow of funds, increases the risks for the financing of large current account deficits.

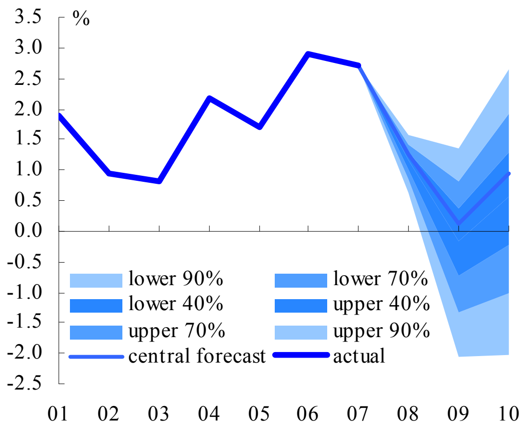
Other downside risks to the growth outlook relate to the possibility of disruptive exchange-rate developments associated with the continuation of significant global imbalances (though the US current-account deficit is projected to narrow further over the forecast period). While the euro has depreciated significantly since the summer, as markets have re-assessed the outlook for GDP growth and interest rates in the major economies, bringing it closer in line with fundamentals, it remains somewhat above its long term average in real effective terms. Foreign exchange markets have lately been going through a phase of volatility, reacting strongly to financial sector developments and policy efforts to safeguard financial stability. This suggests that as long as the financial crisis lasts, there is a heightened risk of abrupt exchange-rate moves. Furthermore, the possibility of rising protectionist and other measures distorting trade and capital flows represents an additional downside risk to the current growth projections. Finally, as the financial crisis spreads globally, it may end up affecting emerging markets more than currently anticipated, thereby depressing world and trade growth more than expected in the current projections.

On the upside, inflation, which continued to soar throughout this spring and into the summer, reaching levels not seen in a decade, appears to have passed its peak. Inflation developments largely reflected the surge in commodity prices, which have also retreated since reaching peak levels in the summer. On the back of deteriorating growth prospects, commodity prices, and also headline inflation, could recede faster than currently assumed, thus freeing up more disposable income than envisaged in this forecast. [1]

Another upside risk to the growth outlook relates to the relatively sound starting position in the current downturn of balance sheets in the non-financial corporate sector in the EU, which could allow European economies to withstand the current headwinds better than currently anticipated, as long as the period of financial stress is not sustained.

Graph 2.7.1 quantifies these risks in terms of the possible deviation of output growth from the main scenario. It shows the impact various combinations of risks could have on euro-area GDP growth, the outcomes being weighted by the probability of their occurrence. At a 90% confidence interval, GDP growth in the euro area in 2009 could be about -2 pp. lower than the central scenario if all negative factors materialise, but it could also be up to 1¼ pp. higher if the positive risks to the outlook were to materialise.

Graph 2.7.1: **Euro-area GDP forecasts: Uncertainity linked the balance of risks**



(1) Oil prices have continued to fall since the cut-off date for the autumn forecast and stood at 60 USD / bl. on 28 October. Recent developments would imply that the oil price assumptions based on future markets could have been close to 10 USD lower / bl. in 2009 if they had been derived when this report went to print, but only 5 euro / bl. lower taking into account recent exchange-rate movements as well. Using the multipliers from the Commission's DSGE model 'QUEST' as a rule of thumb, GDP would have increased by up to 0.1 pp. and consumer price inflation decreased by 0.2 pp.

In 2010, risks to the forecast become more pronounced and at the same time further skewed to the downside. Taking again the 90% confidence interval, euro-area GDP growth could be up to 3 pp lower, if mostly downside risks materialise. In the opposite case, euro-area GDP growth could also be somewhat (1 ¼ pp.) higher.

...while inflation risks more balanced

As regards the inflation outlook, risks appear to be broadly balanced, though slightly tilted to the downside. The risk identified in the spring forecast of a further up-tick in commodity prices has already materialised and have had a direct impact on consumer price inflation so far in 2008. However, second-round effects have been relatively limited thus far. Soaring oil and food prices, especially the latter, have had a significant but temporary impact on inflation expectations (see Graph 2.5.3), while wage claims have gathered pace mostly on account of a maturing cyclical position, including tighter labour markets and continued high capacity utilisation, though in some cases nominal wage indexation schemes linking wages to past inflation developments have also played a role. The easing of commodity price pressures after their peak in July 2008, falling confidence due to the financial crisis and the worsening outlook for GDP growth have brought expectations substantially down, to levels last seen before the supply shocks (see Section 2.5).

Looking ahead, the risk of additional second-round effects is considered to be small at the current juncture, with the European and global economy slowing sharply, implying an easing of labour markets and decreasing capacity utilisation. Moreover, if the emerging market economies were to be less resilient than currently assumed, it could result in commodity prices declining further, posing a downside risk to the inflation outlook. On the other hand, commodity prices have surprised on the upside several years in a row and there can be no certainty that they will gradually decline in the coming years, especially since global oil inventories are still relatively low and the oil market is prone to geopolitical tensions.

To conclude, in an exceptionally uncertain environment, the outlook for the EU is clouded with substantial and mostly downside risks. Already in the spring, but also in the interim forecast released in early September, it was stressed that risks to the growth outlook were on the downside. As a result of the deepening and widening financial crisis, downside risks to the growth outlook now appear even larger than at the time of the interim forecast. On the other hand, with the deteriorating growth prospects, risks for inflation have become more balanced than in both the spring and interim forecasts.

Given the substantial risks associated to the unfolding financial crisis and the exceptional surrounding uncertainty, an alternative scenario is presented in Box 1. It simulates the macroeconomic impact of a further tightening of financial conditions (an increase in spreads and a further tightening of collateral requirements). The results show that this would entail a significant additional loss in output for the euro area of some 1 pp. this year and a further 0.2 pp. next year, compared to the baseline scenario contained in this forecast.

Chapter 3

Member States

1. BELGIUM

Global shocks take a toll on domestic demand

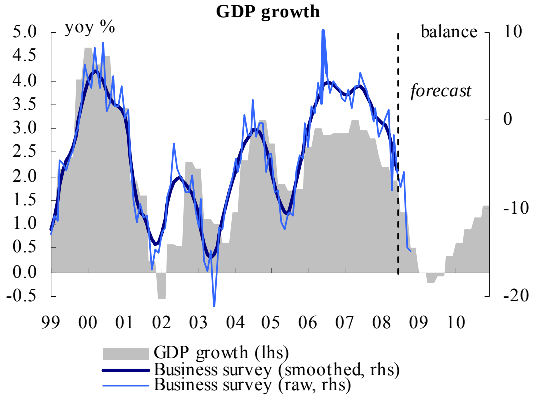
Economic activity decelerates strongly

The Belgian economy started losing momentum in the course of 2007. In particular, net exports became increasingly negative as export growth gradually slowed down in line with the weakening of external demand, while the further increase in domestic demand led to a strong rise in imports. From the beginning of 2008, also domestic demand softened as a result of the sharp increase in inflation, related to the rise in commodity prices and, more recently, the financial crisis. The slowdown is expected to have intensified in the second half of the year and activity is projected to contract in the current and the next quarter. Annual growth is forecast to amount to 1.4% in 2008 and to further slow down to 0.1% in 2009, before picking up to about 0.9% in 2010.

All components of demand under pressure

Real disposable income is expected to broadly stabilise in 2008. Sustained employment growth and the automatic indexation of wages are forecast to compensate the impact of high inflation (projected at 4.7% in 2008). Since the households' savings ratio is projected to decline in 2008 as a result of smoothing behaviour, consumption growth would still amount to 1.4%. In 2009, lower inflation, the indexation of personal income tax brackets as well as a number of tax reductions would lead to an increase in real disposable income, in spite of negative employment growth. However, households incurred very important losses on their financial asset portfolio and there may be significant confidence effects stemming from the problems in the financial sector in the second half of 2008 and the projected rise in unemployment. This is expected to lead to a rise in the savings rate in 2009 and, hence, a much smaller increase in consumption (0.4%) than in 2008. In 2010, consumption is forecast to develop broadly in line with real disposable income as negative confidence and wealth effects would gradually fade out.

Graph 3.1.1: **Belgium - Business confidence and GDP growth**



Both for households and corporations, a contraction of investment is projected in 2009. The further tightening of credit conditions, partly through higher interest rates, as well as confidence effects are expected to have a negative impact. In the case of the corporate sector, the uncertainty regarding demand, the decrease in capacity utilisation and lower profits are also likely to be important drivers of lower investment. As these factors are forecast to gradually disappear towards the end of 2009, investment is expected to pick up in 2010.

Export growth is projected to slow down in 2008 and 2009 as a result of the marked cooling of external demand. In addition, Belgium is expected to continue to lose market share, also as a result of the stronger rise in wages in 2008. The gradual recovery of export markets towards the end of 2009 should lead to higher export growth in 2010. As a result of lacklustre final demand in 2009, import growth is projected to remain subdued and the contribution of net exports to GDP growth is forecast to be neutral, after a very negative contribution in 2008. In 2010, the net contribution is projected to become slightly negative again.

Inflation and wage growth set to moderate

Inflation is projected to turn out 1.2 p.p. higher than the euro area average in 2008, as a result of the higher weight of the energy component, in particular heating oil, but also because gas providers implemented large price hikes and transport and distribution tariffs for gas and electricity were raised substantially. As energy prices have recently decreased, inflation is expected to come down to 2.5% in 2009, on the back of important base effects, and 2.0% in 2010. As a result of the pass-through of higher energy prices and wages in a wide range of products and services, core inflation is projected to decline more gradually, but starting from a much lower level.

Wage growth in 2008 is forecast to come out significantly higher than in the neighbouring countries as a result of their indexation to consumer prices (excluding *i.a.* motor fuels). For 2009 and 2010, wage developments largely depend on the outcome of the upcoming bargaining rounds, but should, according to the law on competitiveness, be in line with those in Germany, France and the Netherlands. The projected increase of the unemployment rate from 7.1% in 2008 to 8.7% in 2010 should help to contain wage growth.

Marked deterioration of government balance

For 2008, a deficit of 0.5% of GDP is projected, compared to a balanced budget target and following a deficit of 0.3% of GDP in 2007. While higher-than-expected inflation has a positive impact on personal income tax revenue, it also leads to higher expenditure. In particular, wage costs, health care expenditure and social benefits are projected to grow strongly. The latter also results from measures to raise these benefits. In addition, the decline in corporate profits, especially of banks, is expected to put a drag on tax revenue. In 2009, the deficit is forecast to widen to 1.4% of GDP, compared to a balanced budget presented by the government. The difference is explained by our more pessimistic macro-economic scenario and the exclusion of the measures which were, at the time of the forecast, not sufficiently specified. The impact of the economic deterioration on tax revenue is amplified by the indexation of personal income tax brackets (following high inflation in 2008) and a number of measures to reduce the tax burden on labour. In addition, the projected rise in health care expenditure and social benefits as a result of population ageing, the lagged impact of high inflation and a number of new measures, contribute to higher spending. Finally, interest costs are set to rise stronger than in the past as a result of the increase in government debt following the operations to stabilise the financial system. In 2010, the deficit is projected to widen further as tax revenue growth is expected to remain subdued.

For the forecast, and without prejudging the final statistical treatment to be approved by Eurostat, the technical assumption on the operations to stabilise Fortis, Dexia and Ethias is that they have no direct impact on the government balance. However, these measures have a debt-increasing effect on the public debt by about 5% of GDP in 2008. Overall, the debt-to-GDP ratio would, after the initial increase in 2008, hover around 86% until 2010.

Table 3.1.1:

Main features of country forecast - BELGIUM

		2007			Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		334.9	100.0	2.0	1.8	3.0	2.8	1.4	0.1	0.9
Private consumption		175.0	52.3	1.6	1.2	2.1	2.1	1.4	0.4	1.0
Public consumption		74.3	22.2	1.7	0.4	0.1	2.3	1.9	1.5	1.5
Gross fixed capital formation		72.5	21.7	2.1	6.9	4.7	6.2	4.6	-1.4	0.9
of which : equipment		32.4	9.7	2.1	5.4	5.1	8.2	6.4	-1.8	0.9
Exports (goods and services)		297.4	88.8	4.3	3.6	2.6	4.0	2.2	0.6	2.2
Imports (goods and services)		287.4	85.8	4.1	4.1	2.7	4.6	3.6	0.6	2.5
GNI at previous year prices (GDP deflator)		336.7	100.5	2.0	1.4	3.2	2.6	1.4	0.1	0.9
Contribution to GDP growth :	Domestic demand			1.7	2.1	2.1	2.9	2.2	0.3	1.1
	Stockbuilding			0.0	0.1	0.9	0.3	0.3	-0.1	0.0
	Foreign balance			0.3	-0.3	0.0	-0.4	-1.1	0.0	-0.2
Employment				0.6	1.3	1.4	1.8	1.2	-0.2	0.0
Unemployment rate (a)				8.4	8.5	8.3	7.5	7.1	8.0	8.7
Compensation of employees/head				2.9	2.1	3.3	3.7	3.8	3.1	2.8
Unit labour costs whole economy				1.6	1.5	1.7	2.8	3.6	2.7	1.8
Real unit labour costs				-0.3	-0.9	-0.6	0.4	0.8	0.3	-0.2
Savings rate of households (b)				-	-	12.9	13.7	12.3	13.1	13.2
GDP deflator				1.9	2.4	2.3	2.4	2.8	2.4	2.0
Harmonised index of consumer prices				1.8	2.5	2.3	1.8	4.7	2.5	2.0
Terms of trade of goods				-0.4	0.1	-0.3	0.5	-1.0	-0.4	0.0
Trade balance (c)				3.3	1.9	1.3	1.2	-0.5	-0.9	-1.2
Current account balance (c)				4.6	2.9	2.5	2.4	0.6	0.3	0.1
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				4.5	2.8	2.5	2.1	0.3	0.1	-0.1
General government balance (c)				-2.3	-2.6	0.3	-0.3	-0.5	-1.4	-1.8
Cyclically-adjusted budget balance (c)				-2.2	-2.7	-0.2	-1.1	-0.8	-0.9	-0.7
Structural budget balance (c)				-	-0.8	-1.1	-1.0	-0.8	-0.9	-0.7
General government gross debt (c)				116.6	92.1	87.8	83.9	86.5	86.1	85.6

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

2. BULGARIA

Large external imbalances and high inflation

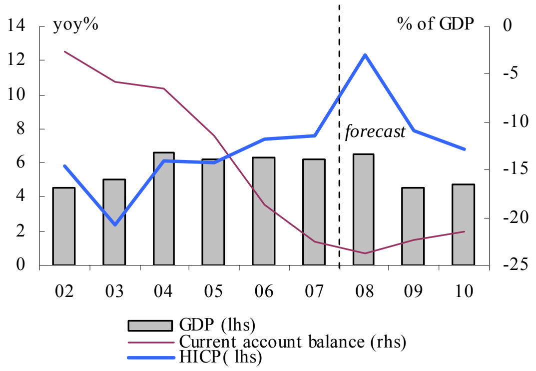
Buoyant growth to slow down

Economic activity has so far remained robust and resilient to the deterioration in the global economic environment. Real GDP growth accelerated to slightly above 7% in the first half of 2008, driven in particular by buoyant domestic demand and very strong investment. Nevertheless, the worsening external conditions are expected to have an impact on Bulgaria. The exceptional degree of uncertainty on the international financial markets, a longer-lasting slowdown in global economic activity and high energy prices will inevitably affect domestic demand. Thus, real GDP growth is expected to decrease from 6½% in 2008 to 4½% in 2009. However, there are major downside risks to this central scenario, especially for investment and private consumption. Growing risk aversion among foreign investors could result in a more significant deceleration in capital inflows and investment than assumed; rising interest rates and persistently high inflation may additionally dampen real disposable income and private consumption.

Consumption and investment expected to decelerate

In line with more moderate credit growth, rising interest rates and high inflation, as well as some deceleration in wage and employment growth, private consumption expenditure is expected to slow from 5% in 2008 to about 4½% in 2009. By contrast, public consumption expenditure growth will be further boosted by additional current spending in 2008, reaching around 4%.

Graph 3.2.1: **Bulgaria - Current account balance, GDP and inflation dynamics**



Driven by FDI inflows and surging credit growth, gross fixed capital formation will grow at about 19% in 2008. Tighter global liquidity conditions, rising interest rate spreads and lower returns have already started affecting FDI and investment growth, most noticeably in the construction sector. As a result, the financing of the external deficit is no longer covered entirely by FDI, but involves accumulation of short-term liabilities. With these developments likely to persist, gross fixed capital formation growth is projected to slow sharply to 9% in 2009 and to further decelerate to 7% in 2010.

A modest reduction in external imbalances

After a particularly weak performance in 2007, export growth seems to be recovering in 2008. However, as a result of lower external demand, exports will decelerate in 2009, while a partial upward correction will follow in 2010, as industrial restructuring and the large foreign investment stock affect the country's export potential. At the same time, due to weaker domestic demand, import growth will decelerate from 9% in 2008 to around 6¼% in 2009. Thus, the negative contribution of net exports to growth will decrease. The trade deficit is expected to narrow only gradually in 2008-2010, inducing a small reduction of the very high current account deficit to about 21½% of GDP from a level of slightly over 24% of GDP in the second half of 2008. This, together with capital transfers from the EU, should bring the economy's net borrowing position to slightly below 20% of GDP by 2010.

Wage growth and inflation to subside from current peak

Employment growth remains strong at around 3¼% in 2008. With the employment rate expected to reach almost 64% in 2008, increases in 2009-2010 are expected to be of a smaller magnitude. The unemployment rate will maintain its downward trend, falling below 6% in 2009.

Nominal wage growth has accelerated to above 20% in 2008, compared with 18% in 2007, largely as a result of tight labour market conditions. However, part of this wage growth might also be explained by the ongoing reduction in the grey economy triggered by successive cuts in income taxes and social contributions. Moreover, public sector wage developments have been in line with private sector increases. Nominal wage growth is expected to remain high during the forecast period. However, it may decelerate as a result of weaker labour demand due to increased wage costs and the economy slowing down in the next two years. Labour productivity is expected to increase from around 3% in 2008 and 2009 to almost 3½% in 2010, well below wage growth. As a result, nominal unit labour costs developments will continue to reflect a persistent deterioration of price competitiveness compared with the EU average.

HICP inflation has surged in the first half of 2008 and is expected to average 12½% in 2008. The imminent global economic downturn and the resulting fall in domestic demand could potentially slow inflation to below 8% in 2009, followed by a further deceleration in 2010. However, future developments in commodity prices and the capacity to contain second-round effects remain crucial to the inflation outlook.

Budgetary position remains strong

At around 3¼% of GDP, the projected general government surplus is above the official target of 3% of GDP in 2008. The better-than-targeted surplus is mainly due to higher-than-expected revenue and a result of favourable growth composition, higher inflation and improved collection of direct taxes. On the expenditure side, however, there may be some slippages with regard to the official targets, as additional social and infrastructure spending has been approved.

On the basis of the no-policy-change assumption the general government budget surplus will remain high at slightly below 3% of GDP in 2009 and 2010. A small decline in the revenue-to-GDP ratio compared to 2008 is linked to a less tax intensive composition of growth, notably a projected slowdown in domestic demand. The overall expenditure ratio is expected to remain below 40% during the forecast period.

In line with strong nominal GDP growth and continued high primary fiscal surpluses, general government gross debt is expected to drop well below 10% of GDP by the end of 2010.

Table 3.2.1:

Main features of country forecast - BULGARIA

	2007		Annual percentage change						
bn BGN	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	56.5	100.0	0.9	6.2	6.3	6.2	6.5	4.5	4.7
Private consumption	39.1	69.1	1.6	6.1	9.5	5.3	5.0	4.4	4.7
Public consumption	9.1	16.2	-3.2	2.5	-1.3	3.1	4.1	4.0	4.0
Gross fixed capital formation	16.8	29.8	-	23.3	14.7	21.7	19.0	9.0	7.0
of which : equipment	-	-	-	-	-	-	-	-	-
Exports (goods and services)	35.8	63.4	-	8.5	8.7	5.2	6.5	4.6	5.6
Imports (goods and services)	48.3	85.5	-	13.1	14.0	9.9	9.0	6.3	6.1
GNI at previous year prices (GDP deflator)	55.6	98.4	-	5.9	2.7	7.2	6.4	4.9	5.0
Contribution to GDP growth : Domestic demand			-	9.8	10.9	10.1	9.8	6.7	6.2
Stockbuilding			-	1.7	1.8	1.2	0.3	0.4	0.2
Foreign balance			-	-4.1	-5.4	-4.9	-3.6	-2.6	-1.7
Employment			-0.4	2.7	3.3	2.8	3.2	1.4	1.3
Unemployment rate (a)			15.1	10.1	9.0	6.9	6.0	5.8	5.7
Compensation of employees/head			-	5.9	7.4	17.9	19.0	13.7	11.3
Unit labour costs whole economy			-	2.4	4.4	14.2	15.3	10.4	7.6
Real unit labour costs			-	-1.3	-3.8	5.9	4.7	2.4	1.4
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			53.2	3.8	8.5	7.9	10.1	7.8	6.1
Harmonised index of consumer prices			-	6.0	7.4	7.6	12.4	7.9	6.8
Terms of trade of goods			-	-2.2	5.1	-1.4	0.1	1.8	0.7
Trade balance (c)			-6.2	-20.2	-22.0	-25.5	-26.6	-26.0	-25.8
Current account balance (c)			-3.8	-11.5	-18.6	-22.5	-23.8	-22.3	-21.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-3.8	-10.6	-17.9	-21.3	-22.4	-20.7	-19.7
General government balance (c)			-	1.9	3.0	0.1	3.3	2.9	2.9
Cyclically-adjusted budget balance (c)			-	1.3	2.4	-0.4	2.8	3.0	3.3
Structural budget balance (c)			-	1.5	2.5	2.9	2.8	3.0	3.3
General government gross debt (c)			-	29.2	22.7	18.2	13.8	10.6	7.9

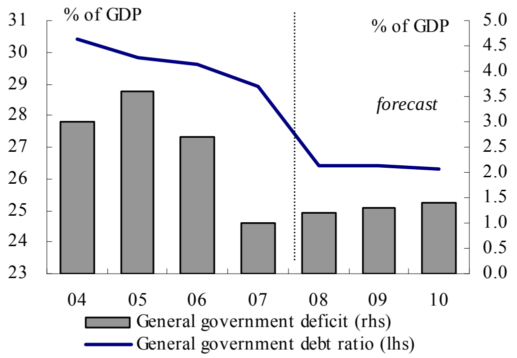
(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

3. THE CZECH REPUBLIC
Resilience limiting slowdown

Moderate growth while inflation still high

The economic performance in the first half of 2008 deteriorated as expected. Compared to the 6½% growth in 2007, GDP growth eased below 5% in the first half of 2008 with net exports as the main contributor to growth. Domestic demand, the engine of growth in the last two years, slowed down considerably in the first half of 2008 due to several reasons and in particular the negative impact of the stabilisation package mainly the increase in the lower band of VAT dampening private consumption. The current surge in inflation, chiefly due to increases in regulated and commodity prices, eroded disposable income growth. Gross fixed capital formation growth decelerated on account of weaker domestic and external demand, feeding mainly in construction, machinery and transport equipment. In spite of slowing external demand and the appreciation of the Czech koruna, export was still robust in the first half of 2008. On the contrary, import growth decelerated in the same period compared to 2007, affected by the relatively weaker domestic demand. The current account deficit has been modest so far. While the trade balance recorded a surplus for the third consecutive year, the income account registered a widening deficit reflecting wage and dividend transfers at foreign-owned companies. The cooling global economy as well as the expected weakening in domestic demand is likely to dampen future performance of the economy. The Czech financial sector which is dominated by banking has not been seriously affected so far by the global financial crisis. However, the main downside risk to the forecast stems from the potentially tighter credit conditions which could impede investment growth to materialise.

Graph 3.3.1: **The Czech Republic - Government finances**



Weaker exports partly counterbalanced by revived consumption

Economic growth is foreseen to slow down to about 4.4% for the whole of 2008 and further to 3.6% in 2009 before edging up again to 3.9% in 2010. Domestic demand is set to recover in 2009, while the contribution from net export is likely to drop on account of a weak external environment and in particular the outlook for Germany. Consumer spending is expected to accelerate in 2009, based on slowing inflation and the negative impact of the measures related to the Stabilisation Package fading away. Additionally, rising employment and strong wage growth should support the recovery of private consumption.

As the consequence of economic slowdown, employment growth is likely to moderate in the forecasting period. The unemployment rate is set to fall slightly in 2008 and to remain broadly stable. The nominal wage increase is anticipated to remain strong due to tight market conditions while real income growth of households, significantly eroded by the high inflation in 2008, should pick up again when inflation pressures ease down, supporting private consumption recovery in 2009-2010.

Investment growth is expected to pick up slightly in 2009 and 2010 supported by EU funds, FDI and the lower corporate tax rate. While export growth is anticipated to moderate visibly under the influence of weaker external demand in 2009 and the strong currency it is expected to pick up slightly afterwards, supported by new export-oriented investments and the likely better economic global outlook at the end of the forecast horizon. The trade balance should remain in surplus in 2009 and 2010.

Inflationary pressures anticipated to ease

Inflation escalated further in the first half of 2008, fuelled by a range of administrative measures, including the increase in the lower VAT rate from 5 to 9%, the introduction of environmental taxes effective from January 2008, a further rise in excise duty and hikes in regulated prices. The surge in commodity prices has boosted inflation additionally, while the appreciation of the currency has partly helped curbing imported inflation. While inflation is expected to remain high, at about 6.5% for 2008, it is anticipated to decelerate in 2009 and 2010. The gradual decline in inflation should be supported by moderate domestic demand and a strong currency. High nominal wage growth could lead to second round effects.

Mixed pressure on public finances

The 2007 general government deficit of -1% of GDP was significantly lower-than-anticipated. The better outturn was mainly due to continued strong growth, falling unemployment, and slower growth in government investment. A host of fiscal measures came into effect in 2008. Revenue from individual taxation will be affected by the introduction of a ‘flat-tax’ on personal income. On the other hand, the increase in the rate of the lower VAT band from five to nine per cent should significantly raise revenue from indirect taxation, even in the context of overall moderate private consumption, given that the lower band applies mainly to essential goods. On the expenditure side, growth in social expenditure should slow by a range of measures to reduce social and welfare benefits, as well as a consequence of continued low unemployment. In addition, the introduction of health charges on consultations, hospitalisation, and basic medicines should make an annual budgetary saving in the region of ¼% of GDP. The outturn of the central budget for the first half of 2008 has been consistent with the government’s budgetary plans. On the basis that budgeted expenditure will remain on track for the rest of the year, and that government investment will regain momentum, the forecast predicts that, despite the slow down, the government deficit will remain broadly contained at -1.2% of GDP in 2008. In 2009 and 2010, the deficit is forecast to slightly widen, due mainly to weakening growth. The wide range of tax changes implemented in 2008 and 2009 places a degree of uncertainty over revenues. Expenditure predictions are also complicated by the use of reserve funds, in which government departments roll over spending allocations, which accumulated to over 2½ of GDP at the beginning of 2008. The structural deficit is set to slightly improve to -1½% of GDP by 2010. The government debt ratio is predicted to continue falling to below 26½% of GDP in 2010.

Table 3.3.1:

Main features of country forecast - THE CZECH REPUBLIC

		2007			Annual percentage change					
bn CZK		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		3530.2	100.0	2.1	6.3	6.8	6.0	4.4	3.6	3.9
Private consumption		1697.6	48.1	3.8	2.5	5.4	5.3	3.2	4.1	4.2
Public consumption		718.5	20.4	0.8	2.9	-0.7	0.4	1.1	0.7	0.6
Gross fixed capital formation		857.7	24.3	4.9	1.8	6.5	6.7	4.5	4.4	5.0
of which : equipment		354.7	10.0	9.0	1.2	8.1	5.2	4.0	3.5	3.8
Exports (goods and services)		2830.3	80.2	9.9	11.6	15.8	14.9	11.1	6.8	8.5
Imports (goods and services)		2652.7	75.1	13.7	5.0	14.2	14.2	9.9	7.0	8.4
GNI at previous year prices (GDP deflator)		3316.9	94.0	-	7.4	5.8	5.2	3.8	3.5	4.9
Contribution to GDP growth :	Domestic demand			3.4	2.4	4.1	4.3	2.8	3.2	3.4
	Stockbuilding			0.3	-0.7	1.1	0.6	0.1	0.2	0.0
	Foreign balance			-1.6	4.6	1.6	1.0	1.5	0.2	0.5
Employment				-	1.1	1.7	2.7	1.1	0.6	0.3
Unemployment rate (a)				-	7.9	7.2	5.3	5.0	5.0	5.2
Compensation of employees/head				-	4.7	6.3	6.4	7.6	8.1	8.0
Unit labour costs whole economy				-	-0.4	1.3	3.1	4.2	4.9	4.3
Real unit labour costs				-	-0.1	0.4	-0.5	0.9	2.5	2.2
Savings rate of households (b)				-	-	9.1	8.8	8.6	9.4	10.6
GDP deflator				7.9	-0.3	0.9	3.6	3.2	2.3	2.0
Harmonised index of consumer prices				-	1.6	2.1	3.0	6.6	3.1	2.7
Terms of trade of goods				-	-1.7	-1.7	1.3	-0.9	-0.2	-0.3
Trade balance (c)				-4.5	2.0	2.0	3.4	3.4	3.2	3.1
Current account balance (c)				-3.8	-1.7	-2.2	-1.5	-1.9	-2.2	-1.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.0	-2.3	-1.8	-0.8	-1.7	-1.9	-0.9
General government balance (c)				-	-3.6	-2.7	-1.0	-1.2	-1.3	-1.4
Cyclically-adjusted budget balance (c)				-	-3.4	-3.3	-2.0	-2.0	-1.7	-1.5
Structural budget balance (c)				-	-2.2	-3.1	-1.8	-2.0	-1.7	-1.5
General government gross debt (c)				-	29.8	29.6	28.9	26.6	26.4	26.3

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

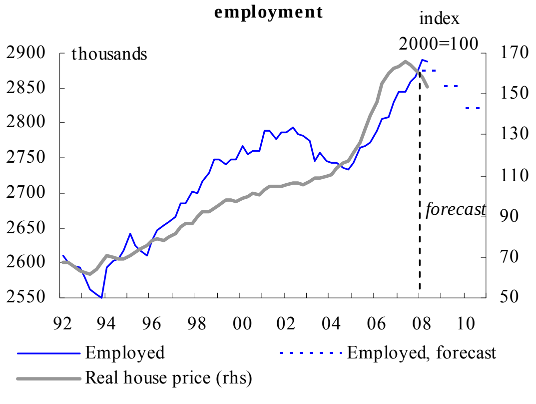
4. DENMARK
Sliding down from the roof-top

Housing market dragging down activity

The turn of the Danish business cycle set in earlier than in other Member States and was initially driven by domestic conditions. In the course of 2007 the annual GDP growth rate more than halved from 3.7% to 1.7%, thus dropping below potential. Hopes were high for a controlled slow-down of activity, avoiding potential overheating effects from capacity constraints and labour shortages. A brief spell of technical recession around the turn of the year gave a clear signal that the slow-down had set in, although temporary factors were also at play. The second quarter brought some respite, but growth was largely driven by developments in inventories.

With the successive worsening of financial market conditions, a soft landing of the housing market appears less likely. Declining house prices have become a more general trend rather than a regional phenomenon, and the price of one-family homes has now dropped some 4% from the peak in 2007. Despite significant cuts in asking prices, turnover remains low and the number of houses for sale is increasing. The number of forced sales has reached the pre-housing-boom level, which, while not being high compared to developments in the early 1990s, is clearly above the average of the past decade. The outlook for the housing market has turned more sombre with adverse developments in financing conditions. The correction foreseen is thus more rapid than was previously expected, bringing real house price developments closer in line with fundamentals. The extent of the housing market correction remains a downside risk to the forecast given the uncertainties related to financing conditions and estimates of current overvaluation.

Graph 3.4.1: **Denmark - Real house prices and employment**



The labour market will follow

Historically, house prices have often moved in parallel with labour market developments. Over the summer, unemployment reached a record low compared with the past 30 years. In line with past experiences, the unemployment rate is expected to increase from the second half of 2008 throughout the forecast period, albeit somewhat mitigated by a shrinking labour force and a net reduction in frontier workers.

The combination of high employment and low economic growth in 2007-2008 reflects very weak productivity developments, in part possibly due to labour hoarding effects. Productivity growth is now expected to pick up as the unemployment gap is closing.

Households hold up, government steps in

More generally, the financial turmoil has brought tighter credit conditions and troublesome confidence effects to the Danish economy. The coinciding negative dynamics in real and financial assets markets might put a significant drag on investment activity over the forecast period. Domestic demand is foreseen to slump in 2009 due to a sharp drop in residential construction, in particular, but also a weakening of other investment components and private consumption.

Negative wealth effects are likely to discourage private consumers. On the other hand, households' real disposable income will benefit from lower taxes in 2009 and 2010, as well as substantial real wage increases and a relatively resilient labour market. The savings rate is expected to pick up, in part due to the reintroduction of the "special pensions contribution", a personal compulsory savings scheme. Public consumption is foreseen to catch up in the second half of 2008 to approach the planned level of expenditure despite the late adoption of the budget in April and public sector strikes. For the coming years, general government is expected to take up some of the beginning slack in the economy through increasing consumption expenditure and investment.

External balance to improve despite cost pressure

In line with global developments, inflation reached a peak of 4.8% in August, and is expected to recede to trend over the forecast period as energy and commodity prices drop. Meanwhile, domestic inflationary pressure is foreseen to persist as higher labour costs feed through. After a spell of strikes in the spring of 2008, public sector wage negotiations resulted in wage increases of nearly 13% over three years. Private sector wages, negotiated the year before, are also foreseen to grow at a high pace.

Despite weak prospects for price competitiveness, the growth contribution from the external balance is expected to develop from negative to positive over the forecast period. This is mainly due to subdued import growth reflecting the weakening of domestic demand. Exports could, however, pick up as capacity constraints ease. Agricultural exports are also expected to benefit from lower input prices. The strong services balance should hold up, although both exports and imports are foreseen to increase more slowly over the period as the growth in shipping activity subsides. Overall, however, exports fail to keep up with the import growth of trading partners, indicating a loss of market shares.

Public finance remain in surplus

Public finances have benefited from the strong labour market and high oil prices. As energy prices as well as the extraction of oil and gas are foreseen to decline, revenue is expected to follow. Revenue is also quite sensitive to developments in financial asset prices. Deteriorating cyclical conditions and transitory revenue effects imply that the projected headline surplus of 3% of GDP for 2008 is foreseen to diminish gradually to ½% of GDP in 2010. In line with the government proposal, the "special pension contribution" is assumed to be reintroduced in 2010, causing income tax revenue to drop by some ¼% of GDP because such contributions are tax deductible. Continued budget surpluses are envisaged to contribute to a further reduction in the debt-to-GDP ratio to around 20% of GDP in 2010.

Table 3.4.1:

Main features of country forecast - DENMARK

	2007			Annual percentage change						
bn DKK		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		1696.3	100.0	2.2	2.5	3.9	1.7	0.7	0.1	0.9
Private consumption		839.8	49.5	1.9	5.2	3.8	2.3	1.1	0.8	1.0
Public consumption		438.8	25.9	2.2	0.9	2.0	1.6	1.5	1.3	1.1
Gross fixed capital formation		385.6	22.7	3.8	6.2	14.0	5.9	0.3	-4.5	-2.3
of which : equipment		146.9	8.7	3.6	3.4	16.2	11.3	1.7	-4.0	-0.1
Exports (goods and services)		885.0	52.2	4.5	8.3	9.0	1.9	2.4	1.7	2.4
Imports (goods and services)		863.6	50.9	5.5	11.3	14.1	3.8	3.1	1.0	1.4
GNI at previous year prices (GDP deflator)		1726.8	101.8	2.4	3.4	4.4	1.6	0.5	-0.2	1.0
Contribution to GDP growth :	Domestic demand			2.2	3.9	5.2	2.8	1.0	-0.3	0.3
	Stockbuilding			0.1	-0.7	0.6	-0.3	0.0	0.0	0.0
	Foreign balance			-0.1	-0.8	-1.8	-0.9	-0.3	0.4	0.6
Employment				0.3	0.8	1.6	1.7	0.7	-0.7	-1.1
Unemployment rate (a)				6.0	4.8	3.9	3.8	3.1	3.5	4.3
Compensation of employees/head				3.5	3.5	3.9	3.9	4.3	4.3	3.9
Unit labour costs whole economy				1.6	1.9	1.7	3.9	4.3	3.5	1.8
Real unit labour costs				-0.2	-1.1	-0.4	2.2	0.8	0.8	-0.7
Savings rate of households (b)				-	-	3.8	3.2	4.5	4.6	4.9
GDP deflator				1.8	3.1	2.0	1.7	3.4	2.6	2.5
Harmonised index of consumer prices				1.9	1.7	1.9	1.7	3.8	2.3	2.0
Terms of trade of goods				0.9	1.4	0.5	-1.1	1.3	0.2	0.1
Trade balance (c)				3.3	2.3	0.4	-0.9	-0.8	-0.6	0.0
Current account balance (c)				1.9	4.4	2.6	1.2	1.1	1.1	1.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				1.9	4.5	2.6	1.2	1.1	1.2	1.8
General government balance (c)				-0.4	5.2	5.2	4.5	3.1	1.1	0.4
Cyclically-adjusted budget balance (c)				-0.2	5.3	4.1	3.7	3.0	1.9	1.5
Structural budget balance (c)				-	5.3	4.1	3.7	3.6	2.0	1.5
General government gross debt (c)				60.4	36.4	30.5	26.2	21.1	21.1	20.1

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

5. GERMANY

Global downturn taking its toll

Marked deceleration of growth in 2008

After an exceptionally strong first quarter – largely thanks to favourable weather conditions boosting construction activity – real GDP contracted during spring. While this relapse was largely a technical correction following the strong growth at the beginning of the year, the worsening of the global economic environment has also clearly taken its toll. The slowdown of economic activity in key trading partners and a stronger euro have led to an abrupt deceleration of export growth. At the same time, high food and energy prices have weighed heavily on private consumption. As a result, household consumption is expected to decrease for a second year in a row. Moreover, the deterioration in the economic outlook – as reflected by rapidly weakening business confidence indicators – is also affecting investment plans and will drag down gross fixed capital formation. Therefore, real GDP is expected to contract further in the second half of the year, even though for the year as a whole real GDP growth will remain at around 1¾%.

Weaker exports and investment in 2009

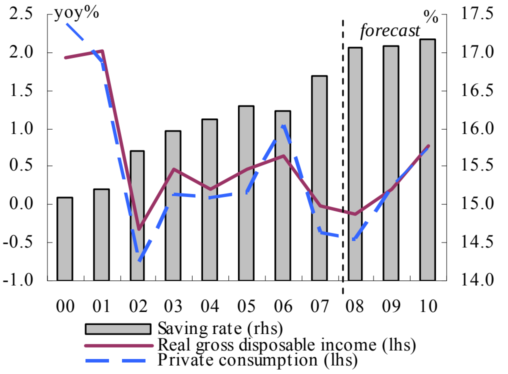
The global financial crisis and adjustments in the housing sector in a number of countries have triggered a sharp deceleration of economic activity both inside and outside the EU. As a heavily export-oriented economy, Germany will be directly affected by this global downturn. Export growth is expected to decrease from 4½% in 2008 to around just 1% in 2009. While exports to some emerging markets may still hold up relatively well, this will be insufficient to compensate for the downturn in other key trading partners.

The weakened outlook for economic activity and exports together with tighter financing conditions in the wake of the financial crisis will dampen investment growth, despite the relatively sound financial position of German companies. Investment in equipment in particular will contract significantly in 2009, while construction investment may be slightly less affected, thanks notably to higher public investment in infrastructure. Altogether, gross fixed capital formation is thus expected to decrease by around 1¾% in 2009.

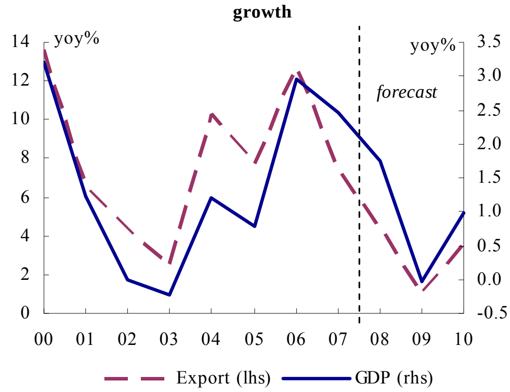
Subdued recovery of private consumption

High wage growth and strong employment creation in recent years should have laid the basis for a recovery of private consumption after more than five years of stagnation. However, the pronounced pick-up in inflation in 2008 has reduced real disposable incomes and weakened consumer confidence, leading to another year of negative growth in private consumption. On the back of falling inflation, high wage increases and a still fairly robust labour market, private consumption is set to expand in both 2009 and 2010. Nevertheless, the fallout from the global financial crisis and the downturn in consumer confidence imply a rather moderate recovery with annual growth rates expected to hover around ½% in both years. In combination with the weaker outlook for exports and investments, real GDP growth is therefore likely to stagnate in 2009.

Graph 3.5.1: **Germany - Private consumption and real disposable income**



Graph 3.5.2: **Germany - Exports and real GDP growth**



Sounder fundamentals may facilitate recovery

Thanks to improved macroeconomic conditions Germany should be well placed for a relatively broad-based economic recovery once the negative impact of the global downturn recedes. As a result of very moderate wage increases in recent years, Germany has gained in price competitiveness. Temporarily higher wage growth over the forecast period will not substantially change this situation. German exports can therefore be expected to pick up when the world economy starts to rebound from the current downturn. In this case, the sound financial position of German companies and comparatively low reliance on outside financing should also be conducive to a recovery of gross fixed capital formation. Finally, structural improvements in the labour market and the associated reduction in unemployment should help underpin consumption. Hence, a certain recovery with real GDP growth of around 1% can be expected for 2010, provided that the main negative effects of the global financial crisis have been overcome by then.

Labour market before the downturn

Employment growth has been buoyant in recent years, reflecting not only the cyclical upswing of economic activity, but also structural improvements following a series of labour market reforms. The unemployment rate has fallen from over 10% in 2005 to around 7½% in 2008. The economic slowdown in 2008 and 2009 will leave its mark on the labour market with temporarily higher unemployment and a decline in employment. However, in 2010 the labour market is set to recover somewhat as the economic situation improves.

Inflation gradually receding despite wage pressures

Wage growth has picked up during 2008 due to strong job creation and also in compensation for very moderate wage increases in recent years. This trend will continue in 2009 despite the worsening of the economic situation, when wage growth is expected to peak at around 3%. With productivity growth decreasing slightly, nominal labour costs would increase noticeably stronger than in recent years, by around 2¾% in 2009 and 1½% in 2010.

Due to higher wage growth and lagged effects from high energy and food prices, core inflation is expected to increase temporarily. However, as the impact of recent energy and food price hikes is petering out, headline inflation is set to gradually fall to below 2% in 2010 on the back of favourable base effects and falling oil prices.

Strong tax revenues help to balance the budget in 2008

The general government budget is estimated to be in balance in 2008. The improvement can principally be ascribed to a rise in revenue, in particular from direct taxes, reflecting positive developments on the labour market. Tax revenues have also benefited from stronger wage increases. Importantly, the negative short-run effects of the company tax reform have not materialised to the extent expected. Nevertheless, the budget has been burdened by a reduction of the contribution rate to unemployment insurance. The increase in the contribution to long-term care insurance has served in turn to fund additional spending.

On the expenditure side, the further decline in the jobless rate has led to a reduction in spending on unemployment benefits. Still, an additional burden to the budget has resulted from the ad-hoc upward adjustment of the retirement benefits which went beyond the legislation in force since the 2004 pension reform. In addition, public sector wages have been raised at all levels of the government.

Relative resilience in times of economic slowdown

Despite the marked economic slowdown, Germany's public finances are expected to remain relatively resilient in 2009. The general government balance is projected to relapse into a slight deficit of 0.2% of GDP. Tax revenue is likely to benefit from a still fairly robust labour market and expected substantial wage increases. However, higher wages are likely to dampen company profits, and hence profit-related taxes. The most significant budgetary measures are the increase in the rate of contributions to health-care insurance (from 14.9% to 15.5%) and a further reduction of the contribution rate to unemployment insurance (from 3.3% to 2.8%).

Total government spending will increase by 0.5 pp. of GDP on the back of additional expenditure in the health-care sector, increases in public sector wages and higher social spending (e.g. childcare and household allowances).

In 2010, the general government balance is projected to recede into a deficit of 0.5% of GDP. The key budgetary measure is the increase in the contribution rate to unemployment insurance (from 2.8% to 3.0% as of mid-year). On the no-policy-change assumption, other social contribution rates are forecast to remain unchanged. The budget is likely to be burdened by the tax deductibility of health-care insurance contributions to the order of around 0.3% of GDP. Finally, changes introduced in 2008 to adjust upwards the retirement benefits are expected to be reversed.

Moreover, both the 2008 and 2009 budgets will be burdened by the retroactive tax reimbursements resulting from the ruling of the European Court of Justice (ECJ) on taxation of foreign dividend income (with the total impact estimated at 0.2% of GDP). In 2009, a temporary budget relief of around 0.1% of GDP is expected from a reduction in Germany's contributions to the EU budget based on the Council decisions on own resources for the EU budget 2007-2013.

German public finances are also likely to be burdened by the rescue plan granted to troubled banks which are assumed to have a direct impact on the debt ([1]). While their impact in 2008 on the deficit remains still limited (0.06% of GDP), the effect on the debt was estimated at the time of the forecast at 1.6% of GDP. Nevertheless, the government debt ratio is projected to fall from 65% of GDP in 2007 to 62% of GDP by 2010.

The uncertainty surrounding the financial crisis may become a risk to Germany's public finances in the medium-term. In addition to the above mentioned direct effects, the budget might be affected indirectly through tax revenue losses, in particular from profit-related taxes.

([1]) The budgetary effects of the financial market stabilisation package from Oct. 2008 depend on the degree and timing of its utilisation which was unknown at the time of the forecast. Therefore, on the no-policy-change basis, they have not been included in the budgetary projection.

Table 3.5.1:

Main features of country forecast - GERMANY

	2007			Annual percentage change					
bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	2422.9	100.0	1.4	0.8	3.0	2.5	1.7	0.0	1.0
Private consumption	1373.7	56.7	1.4	0.2	1.0	-0.4	-0.5	0.2	0.7
Public consumption	435.6	18.0	1.4	0.4	0.6	2.2	1.7	1.5	1.1
Gross fixed capital formation	453.5	18.7	0.4	1.1	7.7	4.3	4.3	-1.7	1.1
of which : equipment	189.4	7.8	1.0	6.0	11.1	6.9	5.4	-4.4	0.3
Exports (goods and services)	1137.2	46.9	5.8	7.7	12.7	7.5	4.4	1.0	3.6
Imports (goods and services)	966.2	39.9	4.9	6.5	11.9	5.0	3.8	1.3	3.7
GNI at previous year prices (GDP deflator)	2464.2	101.7	1.4	1.0	3.5	2.4	1.7	0.2	0.9
Contribution to GDP growth : Domestic demand			1.2	0.3	2.1	1.0	0.8	0.1	0.8
Stockbuilding			-0.2	-0.4	-0.1	0.1	0.4	0.0	0.0
Foreign balance			0.4	0.8	1.0	1.4	0.5	-0.1	0.2
Employment			-0.8	-0.5	0.2	1.6	1.2	-0.3	0.2
Unemployment rate (a)			8.3	10.7	9.8	8.4	7.3	7.5	7.4
Compensation of employees/f.t.e.			3.4	0.5	1.5	1.3	2.5	3.1	2.4
Unit labour costs whole economy			1.2	-0.8	-1.2	0.4	2.0	2.8	1.6
Real unit labour costs			-0.2	-1.5	-1.7	-1.4	0.0	0.7	-0.3
Savings rate of households (b)			-	-	16.2	16.7	17.1	17.1	17.2
GDP deflator			1.4	0.7	0.5	1.9	1.9	2.1	1.9
Harmonised index of consumer prices			-	1.9	1.8	2.3	3.0	2.1	1.9
Terms of trade of goods			0.7	-1.8	-1.8	0.8	-1.2	0.2	0.6
Trade balance (c)			3.7	7.1	7.1	8.4	8.5	8.6	8.9
Current account balance (c)			0.0	5.3	6.3	7.6	7.5	7.7	7.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			0.0	5.3	6.3	7.6	7.5	7.8	7.9
General government balance (c)			-2.6	-3.3	-1.5	-0.2	0.0	-0.2	-0.5
Cyclically-adjusted budget balance (c)			-2.6	-2.5	-1.6	-0.8	-0.8	-0.3	-0.4
Structural budget balance (c)			-	-2.6	-1.6	-0.8	-0.5	-0.3	-0.4
General government gross debt (c)			56.8	67.8	67.6	65.1	64.3	63.2	61.9

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

6. ESTONIA

Prolonged adjustment ahead

Domestic demand contracts sharply

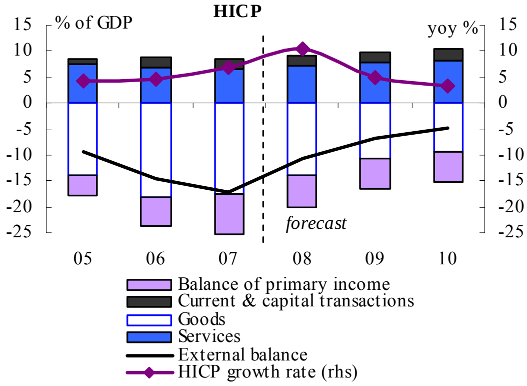
The deceleration of the Estonian economy, which began in the second half of 2007, turned into a steep decline in the first half of 2008, with two consecutive quarters of negative growth. The decline in domestic demand was largely caused by subsiding credit growth, as financing conditions became less attractive due to higher retail interest rates and more cautious lending practices by banks. Very low confidence levels among both consumers and businesses contributed to falling private consumption and a decline in investment. Consumers were particularly affected by very high inflation, which remained at double-digit levels from the beginning of 2008. In anticipation of lower real disposable income and fears about employment prospects, households reduced spending and increased precautionary saving. Business confidence plunged, largely in response to a perceived lack of demand.

The composition of GDP growth which characterised the peak years of the economic cycle, led by private consumption and construction investment, has given way since the beginning of 2008 to a negative contribution of domestic demand and (through a sharp contraction in imports) a positive contribution of net exports. Both exports and imports were affected by a decline in transit-type trade, while in some merchandise categories export volumes continue to increase.

Labour market is starting to adjust

Initially the labour market has been relatively slow to react to changes in domestic demand. Unemployment remained at historical low levels in the first half of 2008 and wage increases have continued to exceed productivity increases significantly.

Graph 3.6.1: **Estonia - External balance and HICP**



Signs of adjustment in the labour market have become clearer in the second half of 2008 with wage growth moderating and the number of unemployed increasing. The adjustment is expected to continue with a decline in employment and wage growth throughout the whole forecast period.

Unwinding imbalances

A reversal of the cycle is bringing about an unwinding of the imbalances that have been accumulated over the years of rapid growth. This is already clearly visible in the external balance, which narrowed to near 10% of GDP in the first half of 2008, compared with 17% in 2007. The most positive impact is expected to come from an improvement in the merchandise trade balance and to a lesser extent from the growing current and capital transfers, including those related to EU funds. However, no substantial improvement is expected in the primary income balance. The structure of Estonian gross liabilities, where FDI represents almost half, should help to limit the deterioration of the income account through a reduction in profits made in Estonia. At the same time, net income paid on other investments is showing a steady increase, which is expected to continue over the forecast period.

HICP headline inflation is likewise set to slow substantially, due to lower world commodity prices and the fading impact of large excise tax increases in January and July 2008, while core inflation is expected to fall along with domestic demand pressures. Nevertheless, a deterioration in cost competitiveness indicators is expected to abate only gradually.

Can a shift to tradeables save the day?

The credit-expansion-driven boom of recent years resulted in a rapid expansion of the non-tradeable sectors, in particular those related to real estate. To support further growth in a changed environment, a shift towards the tradeables sector and external demand will be necessary. Restructuring needs are also dictated by rapid rises in labour costs and energy prices. However, while the boom years were associated with very supportive financial conditions, the needed restructuring will now have to take place in a much less accommodative environment. Coupled with a dim outlook for external demand, this implies a more prolonged readjustment path.

Subdued private consumption and falling investments are expected to bring negative growth rates in both 2008 and 2009, with a moderate recovery in 2010. Any recovery in private consumption is unlikely to take place before the second half of 2009, when inflation is expected to abate and indexation of social benefits reinforces consumer confidence. Prospects of a recovery in investment activity are subject to considerable uncertainty, although positive effects are expected from the sizeable public sector investments related to the absorption of EU structural funds.

Deteriorating public finances

The decline in economic activity has led to a deterioration in public finances in 2008. Despite the mid-year adoption of a supplementary budget that lowered expenditure targets, a deficit of 1½% of GDP is expected for the year as a whole. The draft 2009 budget, adopted by the government in September, includes a postponement by a year of previously planned tax cuts and corporate income tax reform, coupled with some other revenue-increasing measures and restricted expenditure growth. While these measures will to some extent mitigate the worsening outlook for public finances, this nevertheless appears insufficient to avoid a further deterioration of the headline balance in 2009 and, based on the no-policy-change assumption, in 2010.

Deficits over the whole forecast period are projected to increase the debt to GDP ratio from 3.5% in 2007 to around 6% by the end of 2010. It is assumed that part of the deficit will be financed by running off assets accumulated during the earlier period of high growth and fiscal surpluses.

Table 3.6.1:

Main features of country forecast - ESTONIA

	2007			Annual percentage change						
bn EEK		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		238.9	100.0	-	9.2	10.4	6.3	-1.3	-1.2	2.0
Private consumption		131.8	55.2	-	9.9	12.7	7.9	-1.5	-1.7	0.7
Public consumption		41.2	17.2	-	1.9	1.8	3.9	2.6	-1.5	0.6
Gross fixed capital formation		77.6	32.5	-	9.4	19.5	4.8	-2.0	-6.2	1.7
of which : equipment		31.2	13.1	-	-	-	-	0.1	-3.0	2.5
Exports (goods and services)		177.7	74.4	-	20.9	11.6	0.0	-3.3	1.7	2.9
Imports (goods and services)		203.7	85.3	-	17.5	20.4	4.2	-6.5	-0.7	1.5
GNI at constant prices (GDP deflator)		220.2	92.2	-	10.3	8.7	3.5	0.5	-0.9	1.8
Contribution to GDP growth :	Domestic demand			-	8.8	13.6	6.7	-1.0	-3.1	0.9
	Stockbuilding			-	0.7	1.6	1.7	-3.3	0.0	0.0
	Foreign balance			-	1.0	-8.3	-3.9	3.1	1.8	1.0
Employment				-	1.8	5.6	0.4	-0.5	-1.8	-0.7
Unemployment rate (a)				-	7.9	5.9	4.7	5.0	6.7	7.7
Compensation of employees/f.t.e.				-	11.0	14.0	26.5	16.5	6.7	4.0
Unit labour costs whole economy				-	3.5	9.1	19.4	17.5	6.2	1.4
Real unit labour costs				-	-1.7	1.9	9.0	7.7	0.8	-1.8
Savings rate of households (b)				-	-	-3.0	0.8	7.9	10.6	10.8
GDP deflator				-	5.3	7.0	9.6	9.2	5.3	3.3
Harmonised index of consumer prices				-	4.1	4.4	6.7	10.6	4.9	3.3
Terms of trade of goods				-	1.3	2.7	3.3	0.7	2.8	0.5
Trade balance (c)				-	-13.9	-18.3	-17.6	-13.9	-10.6	-9.3
Current account balance (c)				-	-10.4	-17.0	-18.5	-12.1	-8.1	-6.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-9.4	-14.7	-17.1	-10.8	-6.6	-4.8
General government balance (c)				-	1.5	2.9	2.7	-1.4	-2.2	-2.8
Cyclically-adjusted budget balance (c)				-	0.4	0.7	0.4	-1.7	-1.0	-1.2
Structural budget balance (c)				-	0.4	0.2	0.0	-1.9	-1.0	-0.6
General government gross debt (c)				-	4.5	4.3	3.5	4.2	5.0	6.1

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

7. IRELAND

Housing market trimming the Celtic tiger's claws

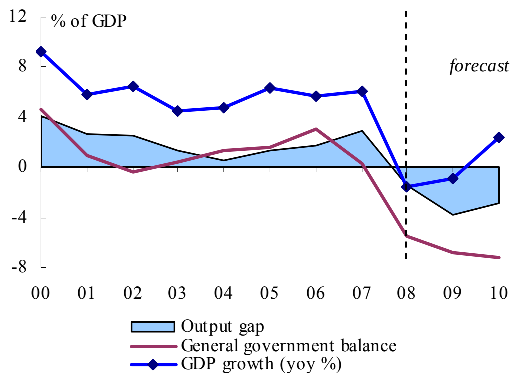
A sharp drop in GDP in 2008

In the first half of 2008, real GDP declined by 1% year-on-year. A further easing is projected in the second half, leading to a drop in real GDP by some 1½% for the year as a whole. The recession reflects the sharp adjustment in the housing market which has spread to the wider economy and has been amplified by the financial crisis and lower growth prospects in the main trading partners (euro area, US and UK). There is a significant and broad-based decline in investment. In face of soft retail sales, private consumption is set to decline by ¼%, even assuming more resilient consumption of services.

On the external side, the volume growth of merchandise exports is expected to moderate compared to 2007, with some sectors (in particular chemicals) still posting a strong performance. Exports of services are expected to grow less rapidly, reflecting inter alia reduced activity in the financial sector. Merchandise imports are forecast to decline by 7% in 2008, owing to reduced domestic demand and weaker exports, while services imports are projected to record positive growth with business services and royalties remaining relatively dynamic. Net exports are thus forecast to make a positive contribution to growth, providing a partial offset to the strongly negative contribution from domestic demand.

GDP is projected to fall not only in real but also in nominal terms (by 2¼%). The GDP deflator declines reflecting significantly negative terms of trade as well as falling property prices.

Graph 3.7.1: **Ireland - Growth and general government balance**



Recovery may start from end-2009

The economy is expected to shrink also in 2009, by almost 1%, with only a gradual pick-up in activity from the final quarter, leading to positive growth of some 2½% in 2010. The growth profile is driven to a large extent by a continued poor performance of investment. Residential housing construction is expected to remain below its estimated long-term equilibrium level in 2009 and 2010. The decline in other construction in 2009 reflects weak activity in the commercial property sector and a downward revision of government capital expenditure plans in the budget for 2009. Private consumption is expected to remain positive but weak in 2009 in view of limited wage growth and a soft labour market. A turnaround in these two factors together with low inflation should produce a rebound in 2010.

The fall in domestic demand in 2009 is expected to be partly compensated by a positive contribution from net exports to GDP. However, this reflects a further marked decrease in imports (on the back of declining domestic demand) rather than a strong performance of exports, as exports growth remains subdued. In 2010, domestic demand leads the recovery, with the contribution from net exports set to diminish in view of the competitiveness losses sustained in recent years. The trend shift within exports from goods to services is expected to continue on the forecast horizon.

The external deficit will decrease in light of the cyclical downturn of the economy and the expected improvement in the terms of trade.

Job losses and rising unemployment

Employment gains slowed significantly in the first half of 2008. A further deceleration is expected in the second half, resulting in a slight decrease for the year as a whole. A further, more marked decline is projected for 2009, followed by a pick-up in employment in 2010. The job losses in 2008-09 reflect in particular a sharp contraction in construction and the poor performance in manufacturing together with less dynamic services sector employment than in recent years. Although employment is projected to decline, labour productivity would decline as well in 2008 and post a small increase in 2009, reflecting labour hoarding. The recession is expected to slow inward migration so that labour force growth would be more subdued than in recent years. This mitigates the rise in the unemployment rate, which would reach some 6% in 2008 and 7½% in 2009-10.

Growth in compensation per employee is expected to moderate from 3½% in 2008 to 2¼% in 2009, reflecting weak labour market conditions and the national wage agreement, which sets low pay increases coupled with a pay pause. A likewise limited increase of 2¾% is expected in 2010.

Energy and food prices were the main factors behind the rising trend in HICP inflation until June 2008. Inflation is decelerating in the second half of 2008, reflecting also moderating service inflation and declining prices for non-energy industrial goods. In view of the negative output gap and subdued wage increases, inflation is projected to ease from 3.3% in 2008 to 2.1% in 2009 and 1.8% in 2010.

Large deficits expected over forecast horizon

The general government deficit is estimated at 5.5% of GDP, compared to a stability programme target of 0.9%. The marked deterioration owes largely to a massive tax undershoot linked not only with the correction in the property market but also reflecting the wider recession. Expenditure overruns play a much smaller role.

The deficit is projected to widen to 6¾% of GDP in 2009, worse than targeted (6.5%), reflecting the somewhat worse economic outlook and some limited slippages in the implementation of the budget. The budget includes several revenue-enhancing measures, such as an income levy and indirect tax hikes as well as a one-off improvement of 0.3% of GDP from advancing tax payment dates. On the expenditure side, it incorporates a social welfare package and much weaker expenditure growth (both current and capital) than in recent years. The deficit is projected to reach 7¼% of GDP in 2010 on a no-policy change basis.

With a sizable increase in the primary deficit, government debt is projected to almost double over the forecast horizon, from below 25% of GDP in 2007 to some 46% in 2010. Irish public finances could also be affected by the September 2008 financial rescue package but in the absence of information on the degree and timing of its utilisation the forecast includes no impact.

Table 3.7.1:

Main features of country forecast - IRELAND

	2007			Annual percentage change						
bn Euro	Curr. prices	% GDP		92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	190.6	100.0		7.0	6.4	5.7	6.0	-1.6	-0.9	2.4
Private consumption	88.1	46.2		5.3	7.2	7.0	6.0	-0.3	0.4	2.0
Public consumption	30.2	15.9		4.7	3.1	5.3	6.8	4.7	0.5	0.8
Gross fixed capital formation	50.1	26.3		8.1	14.0	4.0	1.3	-18.9	-17.4	3.8
of which : equipment	10.1	5.3		8.2	21.7	-4.5	14.1	-20.0	0.0	2.0
Exports (goods and services)	151.4	79.4		12.8	5.2	5.7	6.8	2.1	1.2	3.1
Imports (goods and services)	131.0	68.7		11.7	8.2	6.2	4.1	-1.7	-2.1	2.8
GNI at previous year prices (GDP deflator)	162.1	85.1		6.4	6.5	6.9	4.0	-1.9	-1.0	3.0
Contribution to GDP growth :	Domestic demand			5.0	7.1	5.1	4.1	-4.4	-3.4	1.8
	Stockbuilding			0.0	0.3	0.4	-0.8	0.0	0.0	0.0
	Foreign balance			2.2	-1.2	0.3	2.6	2.8	2.5	0.6
Employment				3.6	4.7	4.3	3.6	-0.2	-1.0	0.6
Unemployment rate (a)				8.8	4.4	4.5	4.6	6.1	7.6	7.4
Compensation of employees/head				5.3	6.4	4.6	6.0	3.5	2.3	2.7
Unit labour costs whole economy				2.0	4.7	3.2	3.6	5.0	2.2	0.9
Real unit labour costs				-1.8	2.3	-0.2	2.2	5.6	1.4	-0.2
Savings rate of households (b)				-	-	10.3	12.3	12.8	13.2	13.6
GDP deflator				3.8	2.3	3.4	1.4	-0.6	0.7	1.1
Harmonised index of consumer prices				-	2.2	2.7	2.9	3.3	2.1	1.8
Terms of trade of goods				-0.5	0.0	-3.7	-4.9	-5.4	-1.1	-1.0
Trade balance (c)				20.9	17.4	14.1	11.8	12.8	14.1	13.7
Current account balance (c)				1.3	-3.1	-3.6	-5.4	-5.3	-3.3	-2.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				2.2	-3.0	-3.4	-5.4	-5.1	-2.8	-2.1
General government balance (c)				0.4	1.7	3.0	0.2	-5.5	-6.8	-7.2
Cyclically-adjusted budget balance (c)				0.4	1.2	2.3	-0.9	-4.9	-5.3	-6.1
Structural budget balance (c)				-	1.5	2.3	-0.9	-4.9	-5.6	-6.1
General government gross debt (c)				58.4	27.3	24.7	24.8	31.6	39.2	46.2

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

8. GREECE

Twin deficits persist

Economic activity slows in 2008

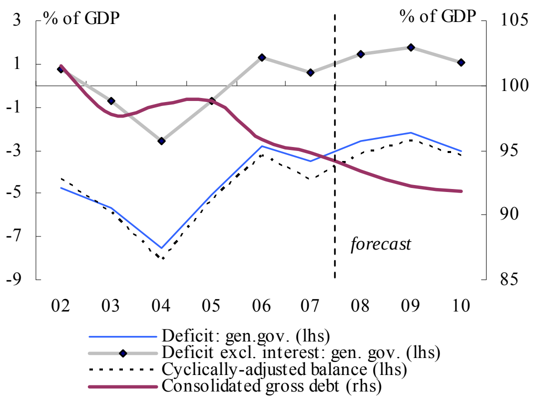
Economic growth decelerated to just above 3½% in the first half of 2008. Weakening domestic demand was the main reason behind the recorded slowdown, which is expected to continue in the second half of the year. In spite of this, economic activity is estimated to continue to grow at well above the euro area average at around 3% in 2008, on the back of resilient private consumption.

Although still benefiting from continued employment and wage growth, private consumption growth is expected to slow to 2½%, in a context of deteriorating confidence and financial uncertainty. Investment is expected to decelerate on the back of the housing sector weakening, which in contrast to the surge in the recent past will bring about a contraction of construction activity, especially dwellings. After recording strong growth in the first half of 2008, corporate investment in turn, is expected to decline in the second half. Public consumption growth is expected to decelerate from the unusually high levels of last year and return to long term trends. In spite of the gradual erosion of competitiveness, a deteriorated external environment and slowing economic activity in the euro area, exports appear to be growing strongly, mainly towards extra-EU trading partners. Imports on the other hand are foreseen to slow in line with domestic demand.

External imbalances persist while the outlook deteriorates

Economic growth is expected to decelerate further to 2½% over the forecast horizon, continuing to be exclusively driven by domestic demand. In a context of uncertainty in the global financial and capital markets, tightening credit conditions would induce a further slowdown in private consumption, though this is expected to show signs of recovery by the second half of 2010. Government consumption is expected to grow in line with GDP, while public investment is projected to rebound in 2009, largely reflecting an accelerating pace in the implementation of the Community Structural Funds. Credit conditions will also hinder investment in equipment, which is projected to decelerate in 2009, in parallel with a stagnation of dwellings. Both sectors might recover somewhat by the end of the forecast period. As a result, the contribution of domestic demand is projected to increase until 2010.

Graph 3.8.1: **Greece - Public Finances**



On the external side, rising unit labour costs above the euro area average, will weigh on competitiveness and somewhat hinder growth in exports of goods. However, following last years' rebound resulting from positive developments in transportation and tourism, exports of services are expected to decelerate back to historical trends. Although a more moderate growth of imports is foreseen, in line with domestic demand, the overall slowdown in exports will result in a negative contribution to GDP growth from the external sector. Consistent with these developments, the current account balance would continue to increase to above 15% of GDP by 2010, still financed through portfolio investment, while net foreign direct investment inflows are marginal.

Steady deterioration of competitiveness

The deceleration of economic activity will lead to lower growth in job creation, at around 1%, until 2010. The decline in unemployment observed in recent years is accordingly expected to end and the unemployment rate would increase. Nominal wages in turn would rise faster than productivity, thus pushing unit labour costs growth clearly above those of the euro area over the forecast horizon, which will further worsen the country's competitive position, especially in the goods sector.

Following the developments in oil and commodity markets, HICP inflation accelerated in the first 3 quarters of 2008 and is projected at 4.4%.

Inflationary pressures are expected to ease in 2009 and 2010, reflecting the expected stabilisation of oil prices.

Public finances remain fragile

The shortcomings as regards the Greek public finance statistics remain a recurrent issue. The general government deficit for 2007 has been revised upwards from 2.8% to 3.5% of GDP ([2]).

For 2008, the official public deficit target has been revised by ¾ p.p. of GDP, compared with the initial budgetary target of 1.6% of GDP. This deviation reflects expenditure overruns of 1 p.p. of GDP and revenue shortfalls of ½ p.p. of GDP, partially compensated by a series of measures implemented in September. This extraordinary package consisted of both revenue enhancing and public consumption cutting measures. The budgetary impact of this package is projected at some ¾ p.p. of GDP, including one-off revenues of ½ p.p. of GDP. On this basis, the government deficit is expected to attain 2½% of GDP. The structural balance will improve by some ½ p.p. of GDP.

The 2009 draft budget targets a deficit of 1.8% of GDP, including ¾ p.p. of GDP deficit-reducing one-offs. Total revenues are budgeted to rise by around ¾ p.p. of GDP, mainly through higher direct and indirect tax revenues. Total expenditures in turn would also increase by almost ¼ p.p. of GDP, mostly due to higher social transfers. On account of a less favourable growth scenario and a more prudent assessment of revenue enhancing discretionary measures, which is consistent with past outcomes, the Commission services project a deficit of 2¼% of GDP. Measured by the cyclically-adjusted balance net of one-offs, the structural balance would improve by some ¼ p.p. in 2009. Under the customary unchanged policy assumption, the 2010 deficit is projected close to 3% of GDP.

The general government debt ratio is projected to decrease slightly to 92% of GDP by 2010, compared with 93½ of GDP in 2008.

([2]) Eurostat has withdrawn the reservation on the data reported by Greece in the April 2008 notification. Issues clarified since April 2008 concern the recording of EU grants, statistical discrepancies (for 2007 data) and the coverage of source data for extra-budgetary funds, local government and social security funds.

Table 3.8.1:

Main features of country forecast - GREECE

		2007		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		228.2	100.0	3.0	2.9	4.5	4.0	3.1	2.5	2.6
Private consumption		162.5	71.2	2.8	4.3	4.8	3.0	2.6	2.2	2.3
Public consumption		38.1	16.7	2.7	1.2	0.0	7.7	2.9	2.7	2.7
Gross fixed capital formation		51.3	22.5	4.9	-0.5	9.2	4.9	3.2	2.8	3.3
of which : equipment		19.7	8.7	10.2	-1.0	14.2	9.1	8.0	5.3	5.8
Exports (goods and services)		52.5	23.0	6.5	4.2	10.9	3.1	4.2	3.1	3.3
Imports (goods and services)		76.4	33.5	5.9	1.4	9.7	6.7	2.6	2.5	3.0
GNI at constant prices (GDP deflator)		221.7	97.1	2.7	2.0	4.0	3.2	2.7	2.0	2.1
Contribution to GDP growth :	Domestic demand			3.5	3.1	5.5	4.6	3.1	2.6	2.9
	Stockbuilding			-0.1	-0.7	-0.3	1.0	-0.1	0.0	0.0
	Foreign balance			-0.4	0.5	-0.6	-1.5	0.1	-0.2	-0.3
Employment				1.1	1.0	2.1	1.3	1.0	0.9	0.9
Unemployment rate (a)				9.9	9.9	8.9	8.3	9.0	9.2	9.3
Compensation of employees/head				8.5	4.8	1.0	9.1	8.1	7.4	7.2
Unit labour costs whole economy				6.5	2.8	-1.3	6.3	5.9	5.7	5.4
Real unit labour costs				-0.5	-0.5	-4.4	3.3	2.1	2.3	2.2
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				7.0	3.4	3.2	2.9	3.7	3.3	3.2
Harmonised index of consumer prices				-	3.5	3.3	3.0	4.4	3.5	3.3
Terms of trade of goods				0.1	-7.8	1.3	0.0	0.3	-1.0	-0.9
Trade balance (c)				-15.4	-16.8	-16.8	-18.7	-18.9	-19.1	-19.2
Current account balance (c)				-5.6	-10.6	-11.4	-14.0	-14.3	-15.0	-15.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-9.3	-9.1	-12.1	-12.6	-13.3	-14.0
General government balance (c)				-6.8	-5.1	-2.8	-3.5	-2.5	-2.2	-3.0
Cyclically-adjusted budget balance (c)				-6.5	-5.4	-3.4	-4.3	-3.2	-2.5	-3.1
Structural budget balance (c)				-	-5.4	-3.9	-4.1	-3.6	-3.3	-3.1
General government gross debt (c)				99.4	98.8	95.9	94.8	93.4	92.2	91.9

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

9. SPAIN

External imbalances persist, fiscal surplus disappears

The end of a long expansionary phase

The outstanding economic performance of Spain since the mid-nineties came to an end in 2008. The long expansion of economic activity can be broadly attributed to a combination of positive shocks, such as a sustained credit expansion and strong immigration, together with sound choices in monetary and fiscal policies in the framework of the accession to the monetary union.

Significant imbalances emerged however during the expansionary phase: (i) an oversized housing sector, (ii) a growing current account deficit, (iii) a high indebtedness of private agents, households and firms, and (iv) a persistent inflation differential with the euro area which, coupled with insufficient productivity growth, has hurt the competitiveness of the Spanish economy.

Sharp deceleration in 2008

After having posted a remarkable GDP growth rate of 3.7% in 2007, economic activity rapidly decelerated in 2008, and is expected to record an average growth rate of slightly below 1½% for the year as a whole, with negative quarterly growth rates during the second half of the year.

Domestic demand started to show some signs of fatigue already during the first half of 2007, but the situation worsened substantially due to the housing sector adjustment, worsening consumer confidence, higher oil and food prices, and tighter credit conditions associated with the financial crisis. Specifically, investment in dwellings might decline by around 9½%. Additionally, investment in equipment, which had remained resilient and grew at two-digit levels in 2007, might stagnate in 2008. For the year as a whole, domestic demand is expected to contribute about ¾ percentage point to GDP growth.

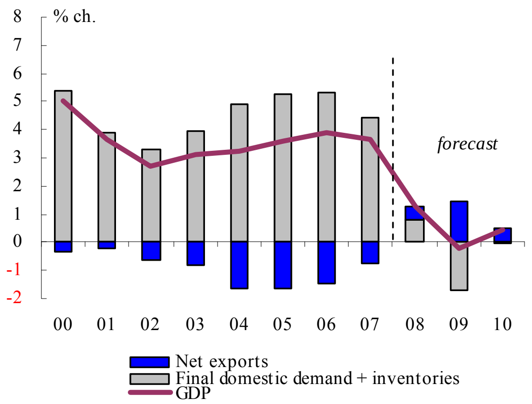
Exports could increase by 3½%, on the basis of a relatively good performance when compared to domestic demand, explained by efforts of domestic manufacturing exporters to keep market shares by reducing mark-ups. Due to the recorded slowdown in consumption, imports might increase by 1¼%, compared with more than 6¼% in 2007. As a result, the positive growth contribution of net exports could attain 0.5 pp. in 2008, compared to a negative contribution of 0.8 pp. in 2007.

Private consumption contracts in 2009

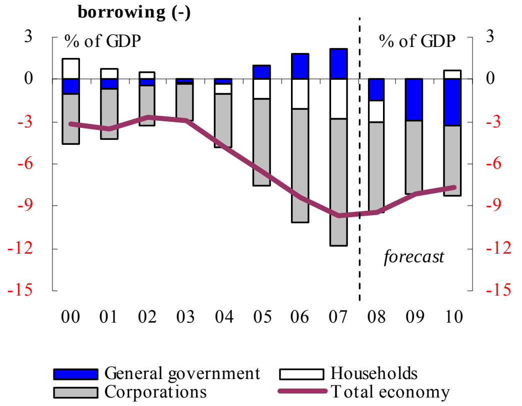
In 2009, GDP growth is expected to decline by around ¼% on the back of a negative carryover, lower private consumption and the ongoing contraction of housing and equipment investment, compensated in part with public consumption and exports.

Private consumption should develop in line with the outlook for disposable income and employment. Specifically, employment contraction would put pressure on labour income; and the negative prospects of net wealth effects and increasing interest payments are expected to weigh negatively on real disposable income, which might broadly stagnate, largely explaining why private consumption is unlikely to take off next year. Moreover, access to consumer credit, which could have cushioned the negative effects of real

Graph 3.9.1: **Spain - Contributions to growth**



Graph 3.9.2: **Spain - Net lending (+) or net borrowing (-)**



disposable income on private consumption, might be more difficult than in the past due to high household indebtedness and uncertainties in financial markets. The household saving rate should reverse its previous declining trend and slightly increase over the forecast horizon. Investment in dwellings is projected to decline by around 18%. Investment in equipment is also expected to decline in 2009. All in all, fixed capital formation could contract by 5¾%. Overall, domestic demand is projected to contribute -1¾ percentage points to GDP growth in 2009.

Following exporters' efforts to keep or even slightly expand market shares, export growth is forecast at around 2¼%, slightly above world trade growth. Consistent with private consumption developments, imports should decline by 2½% in real terms, increasing the positive contribution of net exports to GDP growth to 1½ percentage point of GDP.

Uncertainties prevail in 2010

GDP is projected to expand in 2010 by ½%. Private consumption should break out of negative territory on the basis of slightly better prospects for real disposable income, which could benefit from a timid recovery of employment creation. All in all, consumption is expected to increase by a meagre half of one percentage point. The ongoing contraction in housing investment should decelerate but is still projected to amount to around 10% for the year as a whole. Overall, the contribution of domestic demand to GDP growth will post a virtual zero.

On the back of the mild recovery in private consumption, it is envisaged that the positive contribution of net exports will decline to half a percentage point on the basis of import growth by around 1%. Exports are projected to accelerate slightly, allowing to broadly keep its market shares.

External imbalances persist

The deficit in trade of goods and services is forecast to decline from 6½% of GDP in 2008 to 4¼% in 2010. However, this may be insufficient as to unwind significantly the external imbalances: the negative balance of primary income, caused by the growing external debt and projected to reach 4% of GDP by the end of the forecast period, is expected to largely offset the improvement of the trade balance. The balance of current transfers, mainly immigrants' remittances, is forecast to slow and post a deficit of about 1% of GDP over the forecast horizon. All in all, the current account deficit is expected to record a slight improvement of two percentage points, from around 10% of GDP in 2008 to slightly above 8% in 2010.

On a sectoral basis, the improvement in private individuals' balance position will be in part offset by the worsening of the public sector financial position, which will shift from a comfortable net lender position to a net borrower already in 2008.

Risks are on the downside

Risks to this baseline scenario seem to be tilted towards the downside. A sharper-than-expected adjustment of the housing sector and further tightening of credit conditions could weigh on private consumption and investment activity more than projected above.

Labour market, costs and prices

Employment prospects reflect the picture for economic activity in general. Specifically, job creation (in full-time equivalents) is expected to reverse in 2008, from +3% in 2007 to -¼%.

For the rest of the forecast period, employment growth is expected to be negative as a result of weakening activity. Total jobs are set to be lost at around 2% and 1% in 2009 and 2010, respectively. Although the domestic labour force is on a declining path, still relatively strong migrant inflows could keep it growing above 1% over the forecast period, leading to an increase in the unemployment rate, to as much as 15½% in 2010.

Inflation has rocketed in 2008 on the back of higher oil and food average prices and might reach 4¼% for the year as a whole. Nevertheless, inflation is expected to diminish significantly in 2009 and 2010, mainly reflecting the sudden fall in oil prices since last summer and base-year effects associated with energy and food prices, but should then converge towards core inflation projections, at around 2.8% in 2010. The inflation differential with the euro area will remain not far from one percentage point, comparable to the average recorded over the last decade.

Compensation of employees is expected to closely follow inflation developments. Productivity growth for the economy as a whole is expected to increase over the forecast horizon, at around 1¾% per year. As a result, unit labour costs should grow by 3¼% in 2008 and 1% in 2010. Accordingly, the competitiveness of the Spanish economy vis-à-vis the rest of the euro area would deteriorate further, in a context of a high and persistent current account deficit.

Public finances entering the red territory

For 2008, the general government deficit is estimated at 1½% of GDP. This is a much worse budgetary outcome than in 2007 (a surplus of 2.2% of GDP), and well below the target in the 2008 budget law (a surplus of 1¼% of GDP). It can mainly be explained by lower-than-expected revenues, the impact of the discretionary measure of a tax allowance of €400 per taxpayer and the functioning of automatic stabilisers through unemployment benefits.

For 2009, the draft budget law targets a deficit of almost 2% of GDP, in contrast with a surplus of 1¼% in the updated 2007 stability programme. The draft budget law seems to be based on an optimistic macroeconomic scenario, in which GDP would grow by 1%, leading to favourable projections for tax revenues and unemployment benefits. On the basis of a more prudent macroeconomic scenario and budgetary prospects, the Commission expects the public sector deficit to reach 2.9% of GDP in 2009.

In 2010, based on the customary no-policy-change scenario, the general government deficit is forecast to slightly increase to 3.2%. Revenue is projected to grow at about 3%, close to nominal GDP. Total expenditure is assumed to grow by 3¾%, reflecting higher unemployment benefits in particular.

The primary balance should decline from equilibrium in 2008 to a deficit position of 1½% in 2010. The debt-to-GDP ratio is projected to increase from 37½% in 2008 to around 44½% in 2010.

For the forecast, and without prejudging the final statistical treatment, which will have to be approved by Eurostat, the technical assumption on the operations to stabilise the financial system is that they have no direct impact on both government balance and debt.

Table 3.9.1:

Main features of country forecast - SPAIN

		2007		Annual percentage change						
bn Euro		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		1050.6	100.0	2.9	3.6	3.9	3.7	1.3	-0.2	0.5
Private consumption		602.4	57.3	2.8	4.2	3.9	3.5	0.9	-0.4	0.5
Public consumption		192.0	18.3	3.5	5.5	4.6	4.9	4.1	1.3	0.7
Gross fixed capital formation		325.8	31.0	3.8	7.0	7.1	5.3	-1.6	-5.8	-1.7
of which : equipment		81.5	7.8	3.9	9.2	10.2	10.0	0.8	-5.2	-0.9
Exports (goods and services)		278.3	26.5	8.1	2.5	6.7	4.9	3.4	2.3	2.8
Imports (goods and services)		349.5	33.3	8.3	7.7	10.3	6.2	1.3	-2.5	0.8
GNI at previous year prices (GDP deflator)		1023.6	97.4	2.9	3.5	3.6	2.9	1.2	-0.5	0.3
Contribution to GDP growth :	Domestic demand			3.2	5.4	5.2	4.5	0.8	-1.7	0.0
	Stockbuilding			0.0	-0.1	0.2	-0.1	0.0	0.0	0.0
	Foreign balance			-0.3	-1.7	-1.5	-0.8	0.5	1.5	0.5
Employment				2.0	3.2	3.2	3.0	-0.2	-2.0	-0.9
Unemployment rate (a)				14.4	9.2	8.5	8.3	10.8	13.8	15.5
Compensation of employees/f.t.e.				4.0	3.7	3.9	3.6	5.0	3.2	2.4
Unit labour costs whole economy				3.1	3.3	3.2	2.9	3.4	1.4	1.0
Real unit labour costs				-0.8	-0.9	-0.8	-0.3	0.3	-0.6	-1.5
Savings rate of households (b)				-	-	11.4	10.2	11.0	11.9	12.0
GDP deflator				3.9	4.3	4.0	3.2	3.2	2.1	2.4
Harmonised index of consumer prices				-	3.4	3.6	2.8	4.2	2.1	2.8
Terms of trade of goods				0.3	0.8	0.4	0.1	-0.6	0.1	0.2
Trade balance (c)				-4.3	-7.5	-8.5	-8.5	-8.1	-6.7	-6.1
Current account balance (c)				-2.5	-7.5	-9.0	-10.1	-9.9	-8.6	-8.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.6	-6.5	-8.4	-9.7	-9.5	-8.2	-7.8
General government balance (c)				-3.0	1.0	2.0	2.2	-1.6	-2.9	-3.2
Cyclically-adjusted budget balance (c)				-2.7	1.0	1.9	2.0	-1.5	-2.0	-1.9
Structural budget balance (c)				-	1.0	1.9	2.0	-1.1	-1.9	-1.9
General government gross debt (c)				57.3	43.0	39.6	36.2	37.5	41.1	44.4

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

10. FRANCE

Stalling growth impacting on budget deficits

Domestic demand weakens in 2008

The French economy lost momentum in the first six months of 2008 with GDP declining in the second quarter by 0.3%. It is expected to contract again in the remainder of the year, resulting in an annual growth rate of 0.9%. Domestic demand, the traditional main support of growth is likely to shrink, making a negative contribution to economic activity for the first time since 2001.

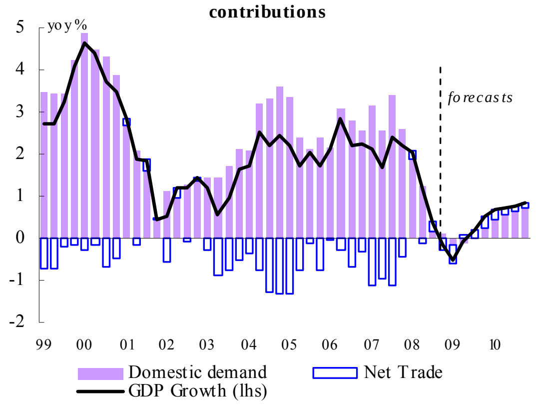
The disappointing economic performance in the second quarter largely reflected the strong decline in investment and exports. There are no signs of a significant pick up in growth in the coming quarters, as short-term indicators (e.g. business surveys and industrial production) are still showing a downward trend. The deceleration in foreign demand, associated with the effects of the euro's past appreciation, will continue to limit export growth. Private consumption will suffer from the decline in households' disposable income, as the worsening of the labour market in the second half of 2008 will gradually replace the impact of high inflation. Both productive and residential investment will shrink, as a result of the worsening economic outlook and the tightening of credit conditions. Imports will slow sharply reflecting the weak domestic demand. After picking up in the summer, inflation will decline strongly thanks to falling oil and food prices and in the absence of second round effects (the indexation of the minimum wage has only a small impact and there are no other indexation clauses). HICP inflation will be 3.3% on average in 2008 up from 1.6% in 2007.

Weak growth as domestic demand remains soft

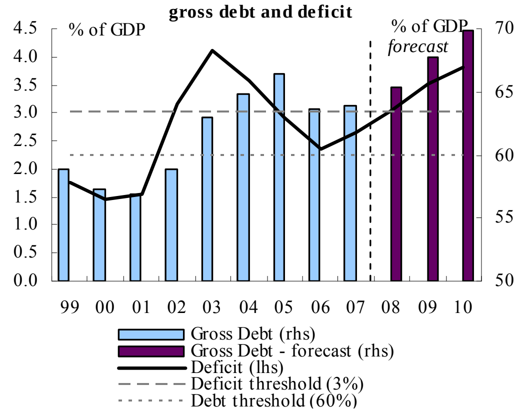
The financial crisis and the global slowdown are expected to contribute to the weak economic activity in 2009 with cooling private consumption and a contraction in investment. Subdued economic activity in the first half of 2009, combined with a negative carry-over from 2008, will imply stalling growth in 2009.

Private consumption is forecast to be weak and to provide only limited support to growth. This is due to the fact that the real disposable income will slow down, despite the easing of inflationary pressures because of a fall in employment. Moreover, the access to new bank loans to finance private consumption could become even more difficult due to the tightening of credit conditions. In a context of growing uncertainties, households are likely to remain pessimistic and to save more. Households' residential investment is likely to contract further in 2009, hampered by purchasing power losses, rising interest rates, the tightening of lending criteria on mortgage loans, and the delaying of purchasing decisions by buyers in response to the expected further fall in housing. The effects of these factors are already visible in the decline in the number of housing starts, transactions, and building permits. Investment in construction as a whole will also contract as the phasing out of the local electoral cycle in public investment will last into 2009. Business investment will be hampered by softer domestic and external demand, the likely fallback in production, and tighter financing conditions. In addition, capital spending will also be restrained as

Graph 3.10.1: **France - GDP growth and contributions**



Graph 3.10.2: **France - General government gross debt and deficit**



the capacity utilisation rate has fallen recently and the corporate investment ratio remains high.

In the external sector, exports will be limited by the slowdown of global demand and still unfavourable cost-competitiveness developments, implying a loss of market shares. With imports expected to be very weak, net trade will no longer put a drag on growth in 2009.

In 2010, GDP is expected to remain lacklustre. On average, GDP growth will come out at 0.8% in 2010. Private consumption will remain weak since households' disposable income will improve only slightly. Housing investment is expected to remain negative as the housing market continues to adjust and prices to fall. However, demographic factors as well as fiscal measures to support household investment may be expected to support demand for housing to some extent. Productive investment will gradually recover thanks to better demand expectations, mainly coming from abroad and to a limited easing of credit conditions. All in all, fixed capital formation is likely to stall. Exports will grow at a faster pace than in 2009 and benefit from stronger markets, associated with an improvement in price-competitiveness. However, the structural losses seen in market shares will persist. Consistent with domestic demand developments, imports will increase slightly, resulting in a positive contribution from net exports to growth.

The law for the modernisation of the economy (LME[3]) is assumed to have a limited impact on growth as the large-scale restructuring of the retail sector entailed would take time.

Unemployment will grow in 2009 and 2010

In 2008 employment will increase by 0.7% on average, due to a dynamic creation of employment in the first half of 2008 followed by a contraction in the second half and in 2009, which reflects the traditional lag between employment and growth and the contraction in the construction sector. In 2010, employment is set to almost stall in the face of continued job losses in the first half followed by a slight increase later in the year in the wake of the gradual economic recovery. Following two years of strong decline, the unemployment rate is projected to rise in 2009 and 2010. Given the deterioration in the labour market, wage growth will be moderate over the forecast horizon. Unit labour costs should be at 2% in 2009 and gradually decline in 2010, after a peak in 2008, as productivity growth is expected to slightly increase. HICP inflation should be around 1.8% in 2009 and 2010. Inflationary pressures will abate in line with the assumption on commodity prices, the slowing of demand and also assuming some positive impact on retail prices from the LME in 2009 and especially in 2010. Core inflation is likely to ease until the end of the forecast period.

Public finances hit by the downturn

The general government deficit, which increased from 2.5% of GDP in 2006 to 2.7% in 2007, is expected to deteriorate further, to 3.0% of GDP in 2008 against the background of a significant economic slowdown. This compares with a new official target of 2.7% of GDP (up from 2.5% in spring, and from 2.3% in the latest update of the Stability Programme). This difference stems from slightly higher expenditure and lower revenue. 2008 should show a small deterioration in the structural balance (cyclically-adjusted-balance net of one-offs) of around 0.1 % of GDP. Positive one-off measures in 2008 are expected to amount to around 0.1% of GDP, broadly similar to 2007 ([4]).

On the expenditure side, the state expenditure rule (a stabilisation in volume) should be achieved, but the underlying target in value terms will be breached, due to higher-than-envisaged inflation, which notably weighs on the cost of sovereign debt, partially indexed on inflation. Social Security expenditure should remain dynamic, and the target set for healthcare expenditure evolution would once again be exceeded (by ½ pp of GDP), although by a lesser extent than in 2007 thanks to measures adopted in the 2008 Social Security Finance Act. Local expenditure growth, and chiefly investments, should be contained. All in all, the expenditure-to-GDP ratio will increase marginally from 52.4% in 2007 to 52.6% of GDP, the second highest level of the EU. On the revenue side, the overall tax burden is foreseen to slightly decrease to 43.2% from 43.5% in 2007. This reflects both the economic environment and the tax cuts adopted in the previous years (including the fiscal package enacted in summer 2007 ([5]), with an overall negative impact of 0.3 % of GDP in 2008, and the *taxe professionnelle* rebates, with a negative impact of around 0.1 % of GDP). However, the latter would be partially offset by the reform of the dividend taxation (with a positive one-off effect of 0.1%).

In 2009, the deficit is expected to deteriorate significantly to 3.5% of GDP, compared with an official target of 2.7%. This increase above the 3% of GDP threshold represents the limited structural adjustment in years during which growth was firmer, as well as the envisaged deterioration of the macroeconomic environment. The latter will affect public finances more than in 2008, due to (a) the lag in the collection of certain taxes (income and most of the corporate tax), (b) the deceleration of inflation, which will no longer support VAT receipts anymore, (c) the labour market situation, with a negative effect on social contributions, and (d) on the expenditure side, the indexation of most of social benefits on last year's inflation. There are many new fiscal measures, yet their overall impact will be only slightly positive, since new taxes should be somewhat offset by tax cuts. Among the largest measures are the additional effect of the 2007 fiscal package, the additional taxation on savings revenue and the contribution of private healthcare insurances. The forecast also assumes that the "0 volume growth rule" for the state is observed. Local expenditure growth should remain moderate, while the forecast is based on a prudent assessment of corrective measures adopted in the 2009 social security Finance Act. The expenditure-to-GDP ratio will increase by 0.7 pp and the revenue-to-GDP ratio by 0.2 pp. In structural terms, the deficit will improve by 0.3 pp.

The deficit forecast for 2010 is 3.8%, under the conventional assumption of unchanged policies.

After a small deterioration to 63.9% in 2007, the debt ratio is expected to increase more dramatically over the forecast period, to 65.4% in 2008, 67.7% in 2009 and 69.9% in 2010. This takes into account the capital increase in Dexia to which the State subscribed (0.05% of GDP) and the injection of EUR10.5 billion (or 0.5% of GDP) worth of capital into the country's six largest banks by year-end (6); it assumes as well that privatisation proceeds, limited in 2008, would still be subdued in 2009 and 2010, reflecting the gloomy financial markets.

(3) *Loi de Modernisation de l'Economie*, adopted in summer 2008, should impact retail prices together with the *Loi Chatel*, both are set to increase competition in this sector.
(4) In 2008, the one-off measure envisaged broadly consists of a change in the collection of taxes on dividends, previously paid as part of income tax – i.e. with a one year lag – and now collected in the same year as the dividend is granted.
(5) *Loi en faveur du Travail, de l'Emploi et du Pouvoir d'Achat*, adopted in summer 2007 ("*Loi TEPA*").
(6) Not prejudging Eurostat final recording.

Table 3.10.1:
Main features of country forecast - FRANCE

		2007		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		1892.2	100.0	1.9	1.9	2.2	2.2	0.9	0.0	0.8
Private consumption		1072.0	56.7	2.0	2.6	2.3	2.4	0.9	0.5	0.9
Public consumption		438.0	23.1	1.6	1.2	1.3	1.4	1.3	0.9	0.7
Gross fixed capital formation		406.3	21.5	1.9	4.4	4.8	4.9	0.4	-2.3	-0.1
of which : equipment		105.3	5.6	3.2	3.2	2.8	5.8	2.1	-2.1	0.2
Exports (goods and services)		501.9	26.5	5.4	3.1	5.4	3.1	2.2	0.9	2.4
Imports (goods and services)		538.3	28.4	5.2	5.9	6.1	5.5	1.9	0.8	1.7
GNI at previous year prices (GDP deflator)		1902.1	100.5	2.0	1.7	2.2	2.0	0.9	-0.1	0.7
Contribution to GDP growth :	Domestic demand			1.8	2.6	2.6	2.7	0.9	0.0	0.6
	Stockbuilding			0.0	0.0	-0.1	0.2	0.0	0.0	0.0
	Foreign balance			0.1	-0.7	-0.2	-0.7	0.0	0.0	0.2
Employment				0.6	0.6	0.8	1.4	0.7	-0.6	-0.1
Unemployment rate (a)				10.2	9.2	9.2	8.3	8.0	9.0	9.3
Compensation of employees/f.t.e.				2.6	3.1	3.4	2.9	2.8	2.6	2.5
Unit labour costs whole economy				1.2	1.8	2.0	2.1	2.6	2.0	1.6
Real unit labour costs				-0.3	-0.3	-0.5	-0.4	0.1	0.1	-0.2
Savings rate of households (b)				-	-	14.9	15.6	15.5	15.7	15.8
GDP deflator				1.5	2.0	2.5	2.5	2.5	1.9	1.8
Harmonised index of consumer prices				1.8	1.9	1.9	1.6	3.3	1.8	1.7
Terms of trade of goods				0.1	-1.3	-0.5	0.1	-2.7	-0.1	-0.2
Trade balance (c)				0.6	-1.3	-1.5	-2.0	-2.7	-2.8	-2.8
Current account balance (c)				1.0	-1.8	-2.1	-2.8	-3.5	-3.7	-3.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				1.0	-1.8	-2.0	-2.8	-3.5	-3.7	-3.7
General government balance (c)				-3.5	-2.9	-2.4	-2.7	-3.0	-3.5	-3.8
Cyclically-adjusted budget balance (c)				-3.3	-3.1	-2.7	-3.1	-3.2	-3.0	-3.0
Structural budget balance (c)				-	-3.7	-3.0	-3.2	-3.3	-3.0	-3.0
General government gross debt (c)				55.5	66.4	63.6	63.9	65.4	67.7	69.9

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

11. ITALY

Stagnating economic activity and further competitiveness losses

Real GDP growth in negative territory for most of 2008

The marked slowdown of real GDP growth in Italy has already been under way since mid 2007, prior to the euro area peers and well before the deepening of the financial market crisis. It turned into a contraction in the second quarter of 2008. For the second half of the year, most available indicators, in particular industrial output and business confidence, signal that the country has moved into a technical recession. It is only thanks to the first-quarter rebound – to a large extent a statistical effect after a strongly negative outturn in the final quarter of 2007 – that economic activity in 2008 is expected to be flat. This implies a negative growth impulse into 2009.

The main driver of the negative developments is domestic demand. Under the impact of accelerating price increases, in particular of the most frequently purchased goods, as well as negative wealth effects and heightened uncertainty, households are cutting their consumption. This entails a substantial rise in the household savings rate in 2008, also on the back of substantial wage and employment growth. Falling demand and tightening financial conditions are leading firms to scale back their investment plans. Residential investment is bound to slow down in line with the sharp deceleration in loans for house purchases. In the external sector, imports are expected to contract compared with 2007 as domestic demand falls. Exports are slowing down after the rebound recorded in the first quarter of the year, under the lagged impact of the appreciation of the euro and deteriorating cost competitiveness. By sector, industry is the main driver of the quarterly real GDP contractions. The services sector continues to expand, albeit at a very slow pace.

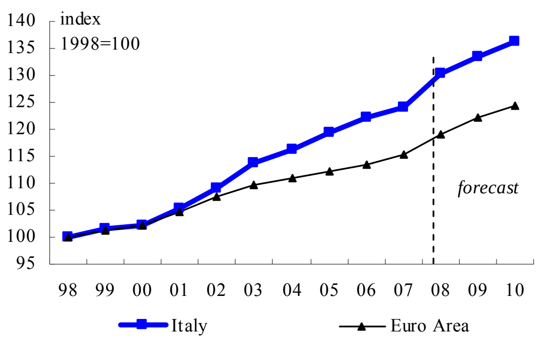
Lower inflationary pressures to support a mild recovery

Inflation is estimated to have peaked in the third quarter of 2008. Under the assumption of decelerating energy and non-oil commodity prices, it will return to 2% in 2009. The energy component of the HICP index will decline relative to 2008, whereas the unprocessed food component will moderate. Core inflation will decelerate but will remain slightly more dynamic than headline inflation throughout the forecast horizon.

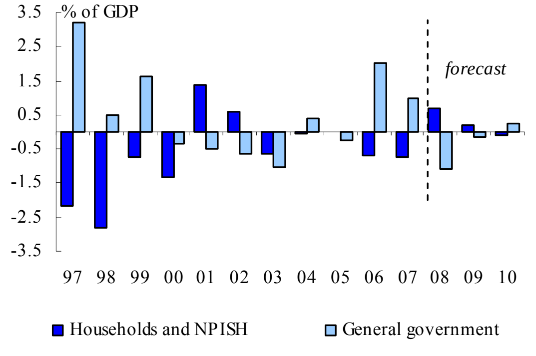
Lower inflation and some further wage increases will sustain real disposable incomes. A mild recovery in private consumption will gradually set in throughout 2009 and 2010, resulting in a stabilisation of the household savings rate. Prospects for a recovery of gross fixed capital formation appear to be somewhat further away. The negative impact of tighter financial conditions, decreasing profitability, lower confidence and sluggish demand will affect private investment throughout 2009. Only in 2010 will it recover pace, in particular as the turnaround in demand will support equipment investment. As for public investment, its dynamics will be affected by the planned containment of government expenditure.

With prospects of subdued global demand, on the one hand, and the assumed depreciation of the euro, on the other, export growth will gradually resume some strength in the second part of 2009

Graph 3.11.1: **Italy - Unit labour costs vs. euro area**



Graph 3.11.2: **Italy - Annual change in sectoral gross savings**



and more decisively in 2010. This will not prevent further losses of market shares. The recovery of import growth will be marginally stronger, entailing a slightly negative contribution of net exports to real GDP growth in 2010. Nevertheless, after increasing in 2008, the current account deficit will narrow in 2009 and 2010, as Italy's terms of trade are projected to improve thanks to lower commodity prices.

Overall, real GDP is expected to stagnate also in 2009 and to increase by 0.6% in 2010.

The labour market loses some of its vigour

Relatively robust employment growth in the first half of 2008, particularly in the services sector, is providing yet another illustration of the resilience displayed by the labour market over the past several years. In the forecast scenario, employment is set to increase by 0.7% in 2008 as a whole, assuming some contraction in the last two quarters of the year. Unemployment, however, is projected to increase for the first time in ten years as new jobseekers, many of them women and new or newly recorded immigrants, outnumber new hires. Under the lagged impact of the significant slowdown in economic activity, employment growth is projected to stall in 2009, before resuming pace in 2010. The unemployment rate is expected to continue increasing gradually, as the rise in the labour force still outpaces employment growth.

Labour productivity decreases substantially in 2008 and is forecast to remain virtually flat in 2009 and 2010. This scenario highlights the persistent productivity challenge for the Italian economy, with little prospects for any decisive improvement in the medium term in the absence of bold structural reforms. Moderate demand and sluggish productivity growth adversely affect profitability: the gross operating surplus is expected to decelerate markedly in 2008 and will not recover over the forecast period.

The wage agreements signed since late 2007 in many sectors of the economy, both private and public, are at the basis of the marked acceleration in compensation per employee in 2008. Combined with negative labour productivity growth, this gives rise to a sharp speeding up of unit labour costs and continues to weigh on the competitive position of the Italian economy, both within the euro area and against the rest of the world. In 2009, labour cost growth should ease; in real terms it will be broadly in line with productivity growth in both 2009 and 2010. In other words, the forecast scenario assumes that the recent sizeable increases in wages will not be repeated in the next few years and therefore will not generate second-round effects on prices. If that were not the case, accelerating domestic input prices would promote the diffusion and duration of inflationary and wage pressures.

Structural budgetary position to worsen in 2008…

After falling to 1.6% of GDP in 2007, its lowest level since 2000, the government deficit is forecast to increase again in 2008, to 2½% of GDP. The adverse economic cycle, together with discretionary expansionary measures, including the sizeable increase in compensation of employees, will lift the expenditure to GDP ratio by almost ¾ pp. compared with 2007. A marginal decline – ¼ pp. of GDP – is projected on the revenue side. Direct taxes, in particular on personal income, continue to display healthy growth, supported by the increase in employment and wages. By contrast, indirect taxes are declining on the back of sluggish private consumption and discretionary cuts.

The substantially higher headline deficit in 2008 relative to 2007 implies that the structural balance, i.e. the balance adjusted for the effects of the cycle and excluding one-offs, will worsen by ½ pp. of GDP. This follows the substantial structural improvement achieved over 2006-2007 to correct the excessive deficit, by around 3 pp. of GDP.

…before improving in 2009-2010 thanks to the three-year fiscal package

The forecast for 2009 and 2010 incorporates the impact of the three-year fiscal package that was approved by Parliament in the summer. With it, the government substantiated its commitment to achieving the medium-term objective of a balanced budget in 2011, mainly through a progressive containment of expenditure at all levels of government. The deficit targets for 2009 and 2010 were set at 2.1% and 1.2% of GDP, with real GDP growing by 0.5% and 0.9%, respectively.

In the Commission services' forecast, the headline deficit in 2009 will increase slightly compared with 2008, to 2.6% of GDP. This forecast assumes the firm implementation, at all levels of government, of the expenditure cuts envisaged in the fiscal package and confirmed in the draft 2009 budget presented to Parliament in September. On the revenue side, corporate income taxes are expected to fall, also because of the delayed impact of the economic downturn, while indirect taxes will gradually recover. Compared with the official target, the higher deficit forecast is essentially explained by lower GDP growth. In structural terms, the 2009 government balance will improve by ½ pp., bringing it back to the level seen in 2007.

In 2010, resolute consolidation efforts in a context of slightly positive economic growth will allow reducing the headline deficit to 2.1% of GDP. Starting form a more unhealthy budgetary position, the remaining difference with the official deficit target for 2010 is due to the lower expected economic growth, a more cautious projection of direct tax developments and the incorporation of some limited expenditure slippages, in particular at local level. The structural balance will improve again by ½ pp. of GDP relative to 2009.

The expected economic stagnation and a still low primary surplus – at around 2½% of GDP - will prevent any reduction in the government debt ratio in 2008 and 2009 from the 104.1% of GDP recorded in 2007. A slight decline is projected only in 2010 on the back of a higher primary surplus.

Downside risks to the forecast

Despite the relatively low indebtedness of the Italian private sector, there are risks of a more significant transmission of the financial crisis to the real economy. These risks primarily relate to consumer confidence: should it remain at very low levels or worsen further, private consumption will stay even more subdued than projected. In this context, this forecast assumes a consistent implementation of the planned fiscal consolidation effort, which will play a crucial positive role by anchoring consumers' and businesses' expectations of an orderly resolution of the crisis. Still, the execution of the expenditure containment provisions in the fiscal package is not without challenges, as they mainly take the form of financial constraints and leave it to the administrations in charge to define how the savings will be achieved, requiring them to increase spending efficiency.

Table 3.11.1:

Main features of country forecast - ITALY

		2007			Annual percentage change					
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		1535.5	100.0	1.4	0.6	1.8	1.5	0.0	0.0	0.6
Private consumption		906.3	59.0	1.3	0.9	1.1	1.5	-0.5	0.2	1.2
Public consumption		304.0	19.8	0.8	1.9	0.8	1.2	1.1	0.6	0.5
Gross fixed capital formation		323.3	21.1	1.5	0.7	2.5	1.2	-0.3	-1.5	-0.5
of which : equipment		138.8	9.0	2.0	1.3	3.5	-0.1	-0.7	-1.4	0.4
Exports (goods and services)		448.3	29.2	4.6	1.0	6.2	5.0	0.3	-0.1	1.8
Imports (goods and services)		453.0	29.5	3.9	2.2	5.9	4.4	-1.2	0.0	2.2
GNI at previous year prices (GDP deflator)		1527.4	99.5	1.5	0.8	2.0	1.1	-0.5	0.2	0.5
Contribution to GDP growth :	Domestic demand			1.2	1.1	1.3	1.4	-0.2	0.0	0.7
	Stockbuilding			0.0	-0.2	0.4	0.0	-0.3	0.1	-0.1
	Foreign balance			0.2	-0.3	0.1	0.1	0.4	0.0	-0.1
Employment				0.2	0.2	1.7	1.0	0.7	0.0	0.5
Unemployment rate (a)				10.0	7.7	6.8	6.1	6.8	7.1	7.3
Compensation of employees/f.t.e.				3.4	3.2	2.5	1.9	4.4	2.2	2.3
Unit labour costs whole economy				2.2	2.8	2.3	1.5	5.1	2.2	2.3
Real unit labour costs				-1.0	0.7	0.6	-0.8	1.8	-0.1	0.1
Savings rate of households (b)				-	-	15.1	14.2	15.1	15.4	15.2
GDP deflator				3.3	2.1	1.7	2.3	3.3	2.3	2.2
Harmonised index of consumer prices				3.2	2.2	2.2	2.0	3.6	2.0	2.1
Terms of trade of goods				0.0	-2.3	-3.3	1.5	-1.6	1.7	0.7
Trade balance (c)				2.0	0.0	-0.7	0.1	0.1	0.5	0.6
Current account balance (c)				0.7	-1.2	-2.0	-1.7	-2.1	-1.6	-1.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.8	-1.1	-1.8	-1.6	-2.1	-1.8	-1.7
General government balance (c)				-4.8	-4.3	-3.4	-1.6	-2.5	-2.6	-2.1
Cyclically-adjusted budget balance (c)				-4.5	-4.2	-3.5	-1.8	-2.3	-1.9	-1.2
Structural budget balance (c)				-	-4.8	-3.1	-2.0	-2.5	-2.0	-1.3
General government gross debt (c)				112.6	105.9	106.9	104.1	104.1	104.3	103.8

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

12. CYPRUS

Persistent external imbalances

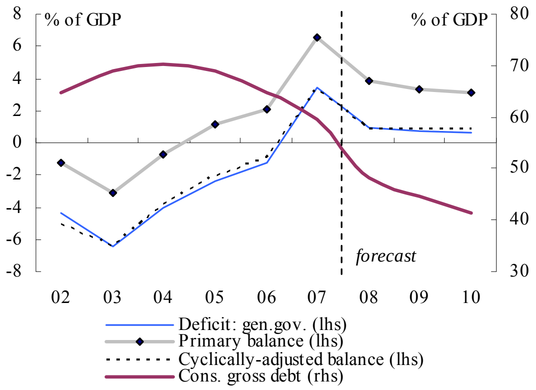
Buoyant but activity slowing down in 2008

Economic activity in Cyprus remained strong in the first half of 2008, recording a growth rate of 4%. However, GDP is expected to have decelerated somehow over the second half of the year, which should lead to an annual rate of 3¾%. Economic activity has been exclusively driven by robust domestic demand. Private consumption benefited from continued employment and wage growth, low interest rates and sustained credit expansion as well as euro adoption confidence effects. Gross fixed capital formation has decelerated from the unusually high levels of last year although still dynamic. A deteriorated external environment and a slowing of economic activity in Cyprus' main trading partners had an adverse effect on exports. Specifically, revenue from tourism decreased in nominal terms. Due to the more moderate growth of private consumption and investment, imports are also expected to slow down, compared with 2007. All in all, the growth contribution of external sector will be negative.

Subdued real estate activity weighs on 2009 growth prospects

In 2009, economic activity is foreseen to decelerate further and grow by almost 3%. GDP would continue being driven exclusively by domestic demand. Private consumption would still be robust supported by rising disposable income, which reflects sustained employment and wage growth, as well as the impact of the recent income tax reform. Compared with the most recent past though, private consumption is projected to show signs of moderation in the face of rising household debt burden, of a severely uncertain environment and of the ongoing international financial crisis. Housing investment will decelerate strongly and weigh on growth, largely due to a subdued demand for dwellings by non-residents. As a result, housing prices, mainly in the coastal areas, are foreseen to somehow moderate. The projected slowdown in private consumption and deceleration in investment should put a brake on import growth. Exports of goods would grow only moderately while exports of services are expected to grow below their long-term trend, due to the adverse external conditions. The contribution of net exports to GDP growth will remain negative.

Graph 3.12.1: **Cyprus - Public Finances**



GDP growth is projected to recover mildly in 2010, on the back of a soft rebound in private consumption and investment. Imports are foreseen to follow. In line with an improving external environment and demand, exports, particularly of services, are projected also to rebound. However, the contribution of net exports to growth will improve only marginally while the current account deficit is projected to remain at about 10% of GDP.

Labour market remains tight, while costs and prices rise

In line with moderating economic activity, employment growth is projected to decelerate and grow at around 1½% per year until 2010. Less dynamic immigration inflows, coupled with solid employment growth, should keep the unemployment rate decreasing despite the softening growth outlook. On top of higher than anticipated contractual salary increases in a context of tight labour market conditions, the application of the cost-of-living-allowance system would lead to strong high wage growth. Also, the increase in pension contributions in 2009, as part of the pension reform, will add additional pressure on the compensation of employees. As productivity will grow only moderately, unit labour costs will continue growing at high levels in the coming years, above the euro area average. As a result, the competitive position of the Cypriot economy will keep deteriorating, which would contribute to the persistent current account deficit.

Following the developments in oil and commodity markets, HICP inflation accelerated in the first eight months of 2008 to 4¾%. Base effects from the past sharp increase in oil prices would help rein in inflation. HICP inflation is projected to decrease just below 3% in 2009 and inch up in 2010, in line with the projected energy prices.

Public finances remain in surplus

For 2008, the government surplus is projected at 1% of GDP. This is much lower than the 2007 outturn of 3½% of GDP. Revenue decelerated, largely due to a more moderate property tax receipts, but still remain at historically high levels. However, expenditure increased on the back of higher contractual salary increases and transfers to disadvantaged social groups as well as spending related to the drought, such as importation of potable water and compensation to farmers whose crops were destroyed by the drought.

For 2009, a government surplus of ¾% is forecasted. This is slightly lower than the budget target of a 1% of GDP surplus, mainly on account of a somewhat less optimistic macroeconomic scenario and a more prudent assessment of measures on the revenue side. A small increase in revenue is totally offset by an equivalent rise in expenditure. A reduction in direct taxes and other revenues, associated with subdued real estate activity and lower corporate profitability would be only partially offset by an increase in indirect taxes. The latter reflects the introduction of the minimum rate on specific goods and services. However, social contributions are projected to rise by about ½ p.p. of GDP, within the framework of the recently adopted pension reform. In terms of GDP, expenditure is targeted to increase slightly. Increases in public wages, social transfers and other expenditure amounting to about 1 p.p. of GDP are expected to be only partially offset by a reduction in interest payments and subsidies. Measured by the cyclically-adjusted balance net of one-offs, the structural balance would remain at similar levels as in 2008. Based on the customary no-policy-change assumption, the 2010 surplus is projected to inch down at about ½% of GDP.

Debt would continue on a decreasing path attaining about 41% of GDP by 2010, largely reflecting high primary surpluses and the planned reduction of deposits with the central bank, amounting to almost 6% of GDP in 2008.

Table 3.12.1:

Main features of country forecast - CYPRUS

	2007				Annual percentage change					
mio Euro	Curr. prices	% GDP		92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		15578.5	100.0	4.4	3.9	4.1	4.4	3.7	2.9	3.2
Private consumption		10221.4	65.6	-	4.0	4.5	6.9	5.7	3.9	4.2
Public consumption		2764.5	17.7	-	3.4	7.4	-0.1	5.2	5.9	3.6
Gross fixed capital formation		3340.3	21.4	-	3.3	10.5	7.6	4.2	1.3	1.9
of which : equipment		923.0	5.9	-	-5.6	15.5	4.9	5.0	1.3	1.0
Exports (goods and services)		7605.4	48.8	-	4.7	3.8	7.5	5.5	2.4	3.2
Imports (goods and services)		8484.0	54.5	-	3.1	6.6	11.1	7.1	3.8	4.0
GNI at constant prices (GDP deflator)		15036.9	96.5	4.2	4.3	4.4	4.4	3.9	3.5	3.7
Contribution to GDP growth :	Domestic demand			-	3.8	6.2	6.1	5.6	3.9	4.0
	Stockbuilding			-	-0.6	-0.4	0.7	-0.7	0.0	0.0
	Foreign balance			-	0.7	-1.5	-2.2	-1.2	-1.0	-0.7
Employment				-	3.6	1.8	3.2	2.0	1.5	1.6
Unemployment rate (a)				-	5.3	4.6	4.0	3.9	3.8	3.7
Compensation of employees/head				-	1.8	3.0	3.3	5.5	5.7	4.5
Unit labour costs whole economy				-	1.4	0.6	2.1	3.8	4.2	2.8
Real unit labour costs				-	-0.9	-2.3	-1.1	-0.6	0.9	-0.7
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.3	2.4	3.0	3.3	4.4	3.3	3.5
Harmonised index of consumer prices				-	2.0	2.2	2.2	4.5	2.9	3.2
Terms of trade of goods				-	-3.7	4.3	-0.4	-1.5	0.0	-0.1
Trade balance (c)				-	-25.0	-27.2	-29.6	-31.7	-32.1	-32.3
Current account balance (c)				-	-5.9	-5.9	-9.7	-10.5	-10.3	-9.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-5.3	-5.7	-9.7	-10.2	-10.0	-9.6
General government balance (c)				-	-2.4	-1.2	3.5	1.0	0.7	0.6
Cyclically-adjusted budget balance (c)				-	-2.0	-0.9	3.5	0.9	0.8	0.8
Structural budget balance (c)				-	-2.9	-0.9	3.5	0.9	0.8	0.8
General government gross debt (c)				-	69.1	64.6	59.5	48.2	44.7	41.3

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

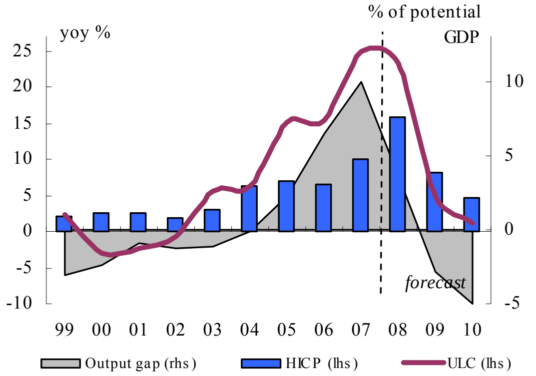
13. LATVIA

Domestic demand to fall sharply

Boom turned quickly into a recession

After real GDP growth of 10.3% in 2007, data suggest that Latvia entered a recession already in the first half of 2008. The sharper slowdown than assumed in the spring forecast is mainly a consequence of a steeper than expected drop in domestic demand following sharp falls in consumer and business confidence. The global financial crisis amplifies the shock of the reversal of Latvia's own lending and house price boom by tightening credit availability and conditions. The concomitant downturn on the export markets has hit the tradable sector, which was already weakened by huge cost increases from the previous years. On the expenditure side, private consumption and investment is falling in 2008, as house prices and credit continue their steep downward trend. Up to September 2008, prices of standard Riga apartments have fallen by around 30-40% from the peak in April 2007, but were still more than double their level at the time of Latvia's EU-entry. In view of the market conditions, the government has decided to lift some of the measures of its 2007 anti-inflation plan. However, these changes are unlikely to lead to a short-term revival, as potential buyers are waiting in anticipation of further price decreases, while banks are increasingly unwilling to lend. As regards external demand, exports have lost momentum, but the large drop in imports which accompanies the correction in domestic demand leads to a positive growth contribution of net exports. From the production side, wholesale and retail trade have become the worst performing sector, overtaking manufacturing, registering year-on-year contractions of 5.9% and 5.3% respectively in the second quarter. Services grew by 0.5% year-on-year and construction by 5.6%. Transport, storage and communication grew by a modest 2.0% y-o-y growth in Q2. Monthly statistics suggest a further deterioration essentially in all GDP categories in the third quarter of 2008.

Graph 3.13.1: **Latvia - Output gap, inflation, unit labour cost**



Bleak prospects for domestic demand

Unusually large uncertainty remains around short-term economic prospects due to the fading of earlier main growth drivers and serious doubts as to the ability of domestic industry to increase exports and thus to help achieve a more balanced growth path. The global financial crisis only adds to this uncertainty, with Latvia being heavily dependent on foreign funding both due to its relatively large foreign debt and to the need for further financing of its economic catching-up.

Although very difficult to gauge in speed and breadth, a readjustment from the non-tradable to the tradable sector is expected to take place over the forecast horizon. Domestic demand oriented sectors, mainly services, can be expected to lose output and workers. However, due to the lagging reaction of the labour market, the most painful part of this adjustment is still ahead. It is expected to take years until companies in the tradable sector regain their cost competitiveness. Till then, strong pressure remains to invest in technology and capital and public investment projects – increasingly directed towards strengthening the country's export potential, – will provide some cushion against a too-sharp drop in investment. Nevertheless, a recovery in private investment is expected to come only in 2010, after the trough of the recession. By then, real estate prices should reach levels substantiated by realistic long-term local income potential, which – together with obvious need for better and more housing units – should revive lending to households and developers. Net exports will likely keep their strong positive growth contribution during the correction, especially in 2008-2009. However, the short-term outlook for exports is constrained by weakness in key export markets, more difficult financing conditions and previous and forthcoming energy and labour cost increases. Private consumption is expected to become a positive growth driver only in the second-half of 2010. The ratio to GDP of net external liabilities is set to snow-ball higher during the recession, but the rate of deterioration is expected to decrease sharply in 2010. Although, the external imbalance is poised to moderate significantly, dependency on short-term financing is expected to remain with poor prospects for FDI in the immediate term.

Lasting impact of overheating

There are increasing signs that tight labour market conditions have started to ease, but there is a natural lag till the market adapts from an overheating environment of large nominal wage growth and high inflation to recessionary circumstances. Nevertheless, the reaction on the labour market to the drop in domestic demand is to be significant. This is expected to be apparent both from a rapid moderation in nominal wage growth and from rising unemployment, though the latter is to be restrained by a decrease in the participation rate (due to more retirement and emigration) and quick reshuffling of the workforce among different branches of the economy. Inflation is expected to moderate, due to base effects and falling domestic demand, but country-specific energy price increases and the still present wage pressure works against a quicker than forecasted improvement.

General government deficit to swell

The fiscal outturn for 2007 is reported to be around balance. In view of the unfolding economic situation, the original 2008 target of a surplus of 0.7% of GDP was abandoned in the July 2008 supplementary budget, which lowered the balance target by 1% of GDP, while also cutting government expenditures. The growth of VAT revenue slowed dramatically during 2008, indicating that tax elasticities are turning unfavourable in the slowdown phase of the economic cycle. Revenue from other major tax categories have so far held out well on the back of high inflation, but these favourable effects are starting to fade.

The forecast is based on the budget draft, as it was presented to the Saeima on 16 October. Taking into account less favourable macroeconomic - and hence revenue projections - than those on which the draft budget was based, deficits are forecast of over 5% of GDP in 2009 and 6% in 2010. The final version of the 2009 budget is to be adopted only at the end of November. Under the no-policy-change assumption, the debt ratio is projected to increase from 9.5% in 2007 to 23.0% by 2010.

Table 3.13.1:

Main features of country forecast - LATVIA

		2007		Annual percentage change						
	mio LVL	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		13957.3	100.0	0.5	10.6	12.2	10.3	-0.8	-2.7	1.0
Private consumption		9050.3	64.8	-	11.2	21.2	13.9	-5.5	-7.5	-2.0
Public consumption		2540.5	18.2	-	2.7	4.9	4.8	3.5	1.0	1.0
Gross fixed capital formation		4542.1	32.5	-	23.6	16.3	8.4	-10.0	-9.0	0.0
of which : equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		6197.1	44.4	-	20.3	6.6	11.1	2.1	3.1	4.5
Imports (goods and services)		9024.7	64.7	-	14.8	19.3	15.0	-9.8	-8.0	-0.2
GNI at constant prices (GDP deflator)		13435.5	96.3	0.2	11.6	10.3	9.4	-0.7	-2.5	1.2
Contribution to GDP growth :	Domestic demand			-	15.1	20.2	13.4	-7.1	-7.9	-1.1
	Stockbuilding			-	-4.2	0.7	1.8	-1.1	-0.9	0.0
	Foreign balance			-	-0.2	-8.6	-4.9	7.3	6.1	2.1
Employment				-2.5	1.7	4.7	3.5	1.0	-3.8	-2.2
Unemployment rate (a)				13.2	8.9	6.8	6.0	6.5	9.2	9.6
Compensation of employees/head				-	25.3	23.6	33.2	21.0	6.0	4.5
Unit labour costs whole economy				-	15.2	15.3	24.9	23.3	4.8	1.2
Real unit labour costs				-	4.6	4.9	10.3	7.3	0.6	-2.8
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				33.7	10.2	9.9	13.3	14.9	4.2	4.1
Harmonised index of consumer prices				-	6.9	6.6	10.1	15.7	8.2	4.7
Terms of trade of goods				-	-2.0	-1.1	9.0	0.0	-0.5	0.0
Trade balance (c)				-12.5	-18.9	-25.6	-24.5	-17.0	-13.0	-11.4
Current account balance (c)				-2.6	-12.5	-22.5	-22.9	-14.5	-8.7	-6.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-0.1	-11.2	-21.3	-20.8	-12.2	-6.7	-4.1
General government balance (c)				-	-0.4	-0.2	0.1	-2.3	-5.6	-6.2
Cyclically-adjusted budget balance (c)				-	-1.0	-2.0	-2.7	-3.3	-4.8	-4.8
Structural budget balance (c)				-	-1.0	-2.0	-2.7	-3.3	-4.8	-4.8
General government gross debt (c)				-	12.4	10.7	9.5	12.3	17.7	23.0

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

14. LITHUANIA

Gradual slowdown so far, rocky road ahead

Soft landing so far

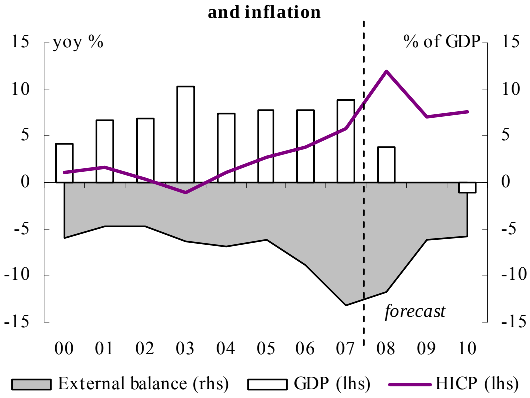
The expected slowdown has now clearly set in, and even though growth moderated to only 6.1% in the first half of 2008, rapidly deteriorating economic sentiment, slowing retail sales and weakening industrial production point to a more pronounced deceleration in the second half of the year and to around 4% for the year as a whole. Domestic demand remains the main growth driver.

Investment decelerated rapidly in the first half of the year, mainly due to a correction in the real estate market, and is expected to weaken further. Although consumer spending will also decelerate, it is forecast to remain relatively strong, as suggested by the still relatively high growth of credit and retail sales, though both are clearly slowing. Household disposable income has been boosted by the 3 pp. cut in the personal income tax rate in January 2008, as well as by accelerating wages and rising social transfers. The external balance widened significantly in the first half of the year, though some narrowing of the deficit can be expected as the slowdown progresses and imports slow.

Less bright prospects for the future

Hopes that Lithuania would "decouple" from the sharp growth slowdowns seen in the other two Baltic States seem less and less realistic. Real GDP growth is projected to weaken considerably in 2009, led by a sharp drop in domestic demand. This reflects global financial conditions, falling confidence among businesses and consumers and the deteriorating external environment. Lithuania will face additional challenges in 2010 related to the energy price shock expected as a result of the closure of the Ignalina nuclear power plant which is scheduled by the end of 2009, and overall growth is set to turn negative.

Graph 3.14.1: **Lithuania - External balance, GDP and inflation**



Investment growth is thus likely to decelerate significantly over the forecast period. Residential construction is expected to drop as a consequence of an ongoing housing market correction; tighter credit conditions are also likely to affect infrastructure and non-residential business investment. In 2010, there will be a pressing need for investment to improve energy efficiency and technologies, although tight credit conditions will act as a constraint. Private consumption growth is also forecast to weaken substantially, as inflation is expected to remain high, credit growth is rapidly decelerating and expectations are worsening. Any recovery of domestic demand in 2010 will be dampened by high inflation as a consequence of the Ignalina decision.

The external environment is now much less benign, with price pressures increasing and growth in Lithuania's main trading partners expected to weaken substantially. There is increasing uncertainty as to whether deteriorating export opportunities in EU countries will be offset by continuing demand from neighbouring CIS countries (the market for about a third of Lithuania's exports). Nevertheless, net exports are forecast to contribute positively to growth in 2009, with import growth set to recede. The external deficit is expected to narrow but remain substantial; the merchandise trade deficit is likely to improve and increasing current and capital transfers from the EU should exert a further moderating influence. In 2010, additional imports of energy will lead to a renewed widening of the external balance. Consequently, net external liabilities relative to GDP are expected to continue to increase during the forecast period.

Labour market flexibility to be tested

The previously tight labour market is easing somewhat. Unemployment started to increase in the first half of 2008, while vacancy rates fell in all sectors. However, continuing high wage increases in 2008 reflect a lagged labour market adjustment as well as higher wage growth in the public sector.

Unemployment is set to rise significantly further but this should help slow wage growth.

Serious energy price shock in 2010

HICP inflation escalated further from 5.8% in 2007 and reached double digits in the first half of 2008. It was fuelled mainly by rising food and energy prices, following global trends, but also reflected high domestic pressures. After a significant increase in the price of imported gas over the last two years, gas prices for consumers increased by around 65% at the beginning of 2008 and regulated prices for heating are set to go up by around 40% in autumn 2008. An increase of excise duties on fuel, alcohol and tobacco at the beginning of 2008 has also added to inflation. Overall, in 2008 inflation is expected to be just below 12%. In 2009, inflation is projected to ease somewhat but an increase in electricity prices is likely and increases in excise duties on tobacco are planned. After the closure of the Ignalina nuclear power plant, an expected electricity price shock will raise inflation pressures. The direct effect on inflation is estimated to be around 2.5pp and is included in the forecast. Upside risks relate to possible indirect effects.

Public finances under pressure

In 2008, the general government deficit is forecast to widen substantially to more than 2½%, far beyond the target of 0.5% in the previous convergence programme. This reflects both revenue-decreasing measures such as direct tax reductions and also higher spending, including an increase of social transfers and a substantial rise in public sector salaries. Moreover, tax receipts also started to weaken in the second half of the year against the backdrop of weaker domestic demand.

In 2009, given the rapid deterioration of domestic demand, and the expenditure-increasing measures adopted in 2008, the general government deficit is projected to deteriorate to about 3½% of GDP in the absence of corrective measures. The draft 2009 budget includes increased excise duties, tax exemptions for companies investing in R&D, significant wage increases for some public sector workers and a higher social contribution rate. In 2010 the general government deficit is set to reach 4% of GDP against the backdrop of negative growth and on the basis of the customary no-policy-change assumption. Gross public debt is set to increase to above 20% of GDP by the end of the forecast horizon.

Table 3.14.1:

Main features of country forecast - LITHUANIA

		2007		Annual percentage change						
	bn LTL	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		98.1	100.0	0.3	7.8	7.8	8.9	3.8	0.0	-1.1
Private consumption		63.5	64.7	-	12.2	10.6	12.4	5.6	-2.6	-1.2
Public consumption		17.9	18.2	-	3.5	3.7	3.3	5.3	3.7	2.6
Gross fixed capital formation		27.5	28.0	-	11.2	19.4	20.8	-3.2	-6.5	-2.3
of which : equipment		8.8	9.0	-	11.5	16.8	18.3	-5.5	-3.2	-2.6
Exports (goods and services)		53.4	54.4	-	17.7	12.0	4.3	12.5	3.2	3.7
Imports (goods and services)		66.5	67.8	-	16.4	13.7	11.6	11.4	-2.2	3.8
GNI at previous year prices (GDP deflator)		94.3	96.1	-	8.3	7.3	7.1	2.8	0.1	-1.2
Contribution to GDP growth :	Domestic demand			-	11.1	11.9	13.8	3.7	-2.7	-0.8
	Stockbuilding			-	-2.8	-2.2	0.5	1.0	-0.7	0.0
	Foreign balance			-	-0.5	-1.9	-5.5	-0.9	3.4	-0.3
Employment				-1.4	2.5	1.7	1.9	-1.3	-2.5	-1.5
Unemployment rate (a)				9.9	8.3	5.6	4.3	4.9	7.1	8.4
Compensation of employees/head				-	11.5	16.8	18.2	19.0	10.8	5.2
Unit labour costs whole economy				-	6.0	10.2	10.6	13.2	8.0	4.8
Real unit labour costs				-	-0.6	3.4	1.7	1.5	1.8	-0.1
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				46.5	6.6	6.5	8.8	11.5	6.0	4.9
Harmonised index of consumer prices				-	2.7	3.8	5.8	11.9	7.1	7.5
Terms of trade of goods				-	0.6	-3.5	1.8	4.6	1.7	-0.7
Trade balance (c)				-	-11.3	-13.9	-15.1	-12.4	-8.1	-9.0
Current account balance (c)				-	-7.1	-10.4	-15.1	-13.8	-8.7	-8.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-6.1	-8.9	-13.2	-11.7	-6.2	-5.8
General government balance (c)				-	-0.5	-0.4	-1.2	-2.7	-3.6	-4.0
Cyclically-adjusted budget balance (c)				-	-1.4	-1.5	-2.9	-3.9	-3.6	-3.0
Structural budget balance (c)				-	-1.4	-1.5	-2.9	-3.9	-3.6	-3.0
General government gross debt (c)				-	18.4	18.0	17.0	17.5	20.0	23.3

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

15. LUXEMBOURG

A financial centre in the midst of a global crisis

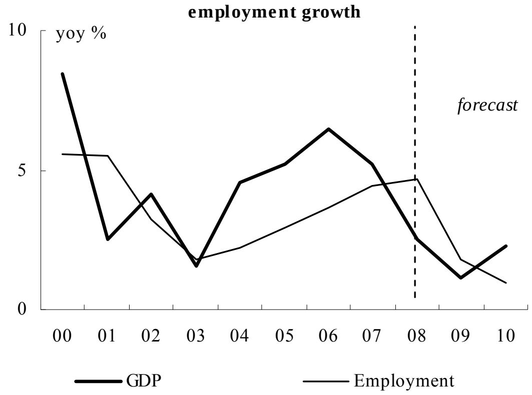
2007 was excellent and 2008 still rather good...

According to recently released revised data, real GDP grew by 5.2% in Luxembourg in 2007, only slightly less than in 2006 (6.4%). A deceleration has clearly been underway since the second quarter of 2007 but, according to the latest available data, the first half of 2008 was still rather strong. Employment has remained buoyant, rising by an annual 5.1% in the first half of this year. Private consumption has been rather subdued in 2008 despite the tax cuts foreseen by the budget and the non negligible increase in wages (1¼% a year in real terms in 2006 and 2007). Investment is likely to slow down considerably (but it was very strong in 2007): private investment, in particular, is projected to be weak, growing by around 1%, while government investment should rise by nearly 5% in volume. Exports of services have already slowed down considerably. In total, real GDP is expected to grow by about 2½% in 2008, chiefly thanks to the still rather strong first semester.

... but 2009 might be quite gloomy

The crisis on the financial markets and the global slowdown in growth will certainly take their toll on Luxembourg too: exports of goods will suffer from the global slowdown in the world economy, rising by about 1% in volume. Exports of services are likely to post negative growth rates in 2009, reflecting the decline in the activity of the financial sector, and so will private investment. The main support to growth in 2009 will probably come from the government, whose consumption and investment are projected to continue to rise strongly. Besides, private consumption will be fuelled by a new cut in income tax foreseen in the 2009 budget, the ex ante cost of which is estimated at 0.9% of GDP (after a first one provided by the 2008 budget and amounting to 0.5% of GDP). Moreover, the 2009 budget foresees the replacement of the current tax reductions for children by a system of tax credits, a reform which will result in an additional increase in households' disposable income by about 0.25% of GDP. Furthermore, wage increases are projected to remain relatively strong in 2009, though less than in 2008. However, these positive factors will be at least partially offset by wealth effects resulting from the drop in stock markets and by the negative impact that the financial turbulences and the economic downturn are already exerting on consumer confidence. GDP growth will thus slow down considerably in 2009, probably to slightly more than 1%, which would constitute the lowest growth rate ever recorded in Luxembourg since the beginning of the country's success story in the mid 80's. The economy is forecast to improve in 2010 in line with the rest of the EU: exports of services should again post positive growth rates, exports of goods will re-accelerate with world trade and investment will probably recover from the trough projected for 2009. However, the speed of the upturn will crucially depend on the recovery on the financial markets: it could thus well be relatively slow and growth will probably hardly exceed 2%.

Graph 3.15.1: **Luxembourg - GDP and employment growth**



Needless to say, this forecast is subject to considerable downside risks. A priori, the Luxembourgish financial sector does not seem weaker than those of other countries but its size [7] and its extreme dependency on abroad [8] imply that financial shocks might have a much bigger impact than on most other countries. If any forecast made at this juncture is marked by a deep uncertainty, this is especially true for Luxembourg.

Employment growth will slow down...

Employment growth, too, will slow down in 2009 but this deceleration will be less visible in the yearly average than that in output, particularly because of the very large carry-over from 2008. The lag between the slowdowns in output and in employment seems to be especially long in Luxembourg, as could already be observed during the 2001-2003 downturn. Employment growth will probably continue to decline all over the forecast period and might fall to about 1% in 2010, which would be the lowest growth rate recorded since 1985. As a result, unemployment, which had begun to decline in the autumn of 2007, will rise again. Due to the lag in employment, productivity will drop next year, as was already the case in 2001. This will strongly push up unit labour costs, which might well increase significantly over the forecast period as they already did in 2001-2003.

...and inflation is going to decrease...

Consumer prices accelerated markedly in 2008, following the rise in oil and food prices. The HICP will probably increase by about 4.4% this year (after 2.7% in 2007) and the national CPI, which excludes consumption by non-residents and especially their large purchases of car fuel, by about 3.7%. In view of the recent decline in oil and food prices, inflation should diminish in 2009.

...and so will the government surplus

The general government surplus rose from 1.3% of GDP in 2006 to 3.2% in 2007. It will decline this year and more substantially in 2009 and 2010, first as an effect of the large cuts in income tax provided by the 2008 and 2009 budgets (the latter also foresees a reduction in the corporate tax rate from 22% to 21%) and of the strong rise in government consumption and investment but also because of the impact of the economic slowdown on revenues. However, this effect is difficult to assess as, for institutional reasons, the shortfalls in revenues form corporate tax can be spread over the five years following the decline in profits (or the losses) that generated them. The recent operations in support of financial stability (in particular in the case of Fortis and Dexia) comprised a convertible loan granted by the Luxembourgish authorities to the local subsidiaries of these banks and amounting to about 7% of GDP. This loan will be financed by borrowing. This operation will have in itself no effect on the government balance but it will result in a doubling of the public debt ratio, from 7% of GDP in 2007 to about 14% in 2008.

[7] 27% of total value added, of which 18% for financial intermediation.

[8] 95% of the banking sector (measuring by the share of foreign-controlled banks in the sector's total balance sheet) depends on foreign groups. Credits to non-residents account for more than two-thirds of credits to non-banking sectors.

Table 3.15.1:

Main features of country forecast - LUXEMBOURG

		2007		Annual percentage change						
	mio Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		36277.7	100.0	4.2	5.2	6.4	5.2	2.5	1.2	2.3
Private consumption		11728.0	32.3	2.5	1.9	2.9	2.0	2.4	2.7	2.4
Public consumption		5572.5	15.4	4.4	3.4	2.7	2.6	4.3	4.2	4.0
Gross fixed capital formation		7110.7	19.6	4.5	3.4	1.0	11.8	2.7	-1.6	1.4
of which : equipment		2374.0	6.5	2.7	4.6	2.5	22.2	2.5	-3.0	1.5
Exports (goods and services)		65381.0	180.2	7.3	6.0	14.6	4.4	3.3	-0.4	1.8
Imports (goods and services)		53709.6	148.1	7.1	6.0	13.4	3.5	3.4	-0.3	1.7
GNI at constant prices (GDP deflator)		29206.9	80.5	3.5	3.3	-5.7	15.4	0.8	0.3	2.4
Contribution to GDP growth :	Domestic demand			2.8	2.0	1.7	3.3	2.1	1.2	1.8
	Stockbuilding			-0.1	1.7	-0.5	-0.7	-0.2	0.2	-0.2
	Foreign balance			1.5	1.5	5.3	2.7	0.7	-0.2	0.7
Employment				3.3	2.9	3.6	4.5	4.7	1.8	1.0
Unemployment rate (a)				2.8	4.6	4.6	4.1	4.0	4.3	4.7
Compensation of employees/head				3.3	3.7	3.1	4.3	2.7	2.7	3.0
Unit labour costs whole economy				2.5	1.4	0.4	3.6	4.9	3.4	1.7
Real unit labour costs				-0.1	-2.9	-4.8	1.9	4.3	3.1	-1.2
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.6	4.5	5.4	1.7	0.5	0.3	2.9
Harmonised index of consumer prices				-	3.8	3.0	2.7	4.4	2.2	2.7
Terms of trade of goods				-0.6	-0.4	1.7	3.4	-1.0	0.2	0.0
Trade balance (c)				-11.2	-11.3	-9.6	-8.1	-8.8	-8.5	-8.1
Current account balance (c)				11.1	11.0	10.5	9.8	8.3	5.4	5.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	8.3	5.4	5.6
General government balance (c)				2.4	-0.1	1.3	3.2	2.7	1.3	0.5
Cyclically-adjusted budget balance (c)				-	0.2	0.9	2.3	2.4	2.1	1.8
Structural budget balance (c)				-	0.2	0.9	2.3	2.4	2.1	1.8
General government gross debt (c)				6.6	6.1	6.6	7.0	14.1	14.6	14.5

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

16. HUNGARY

Painful adjustments ahead

The starting economic recovery...

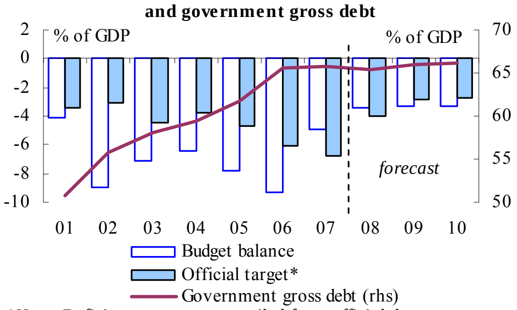
Growth fell to 1.1% in 2007 compared with a historical average of 4.2% between 2001 and 2006. The fiscal austerity measures from mid-2006 certainly played a role in the slowdown. Nevertheless, the private sector showed some resilience as consumption expenditure grew by a moderate 0.7% in 2007 despite the close to 5% decrease in real wages (as measured on cash-flow basis). Gross fixed capital formation also increased at a modest rate, while net exports continued their surge, providing the momentum for the economy. These trends continued in the first half of 2008. However, preliminary data for end summer 2008 and current soft indicators suggest that external shocks, such as the financial crisis, may have interrupted the recovery of the economy.

...was obliterated by the financial crisis

Hungarian financial markets came under severe stress from early October 2008, as there was a freeze on the government bond market, a sharp fall in the stock market and a strong depreciation of the forint exchange rate. These events were provoked by the substantially increased risk aversion vis-à-vis emerging markets, and in particular with respect to Hungary due to its vulnerabilities (e.g. large external debt). ([9])

The financial crisis will have the largest impact on the Hungarian real economy through two channels. First, foreign demand and thus export performance will have to abate due to the slowdown in the EU and the rest of the world. Second, widespread credit rationing will seriously affect households' ability to borrow. Consumption expenditure is thus foreseen to decline in 2009 by more than 1%, assuming a temporary halt in foreign currency lending to households. The evolving credit crunch would also hinder the reacceleration of investment activities, albeit some stimulus is still expected from the already announced foreign direct investments and an increasing inflow of EU funds. Export performance is likely to slow down to below 8% in 2008 and to below 2% in 2009.

Graph 3.16.1: **Hungary - Budget balance and government gross debt**



**Note: Deficit targets were compiled from official documents as defined in the preceding year in successive Pre-Accession Economic Programmes, Convergence Programmes and budget bills.*

Based on monetary conditions prevailing in mid-October, GDP growth is anticipated to decline to 0.7% in 2009 before resuming its recovery by reaching 1.8% in 2009. At the same time, given falling consumption and the adjusted fiscal plans, the current account deficit is foreseen to decrease to around 5% of GDP in 2009. However, should the financial turmoil turn out to be more serious, or should the authorities adopt additional austerity measures as currently discussed, the slowdown will be more pronounced and the recovery will be even more protracted.

Inflationary pressures subside

After reaching 8% in 2007, inflation is expected to decline in the coming years, supported by both the significant fall in oil and food prices and tighter monetary conditions, as well as the widening negative output gap. However, wages are expected to remain more persistent than inflation, providing a moderate rise in real wages. Since mid-2006, firms' profitability has been suffering from persistently high wages and increases in labour taxes. This together with changes in retirement regulations has led to a decline in employment in the first half of 2008. The radical slowdown in economic activity is likely to take its toll on employment as well, which is now expected to decrease by around 1% both in 2008 and in 2009.

Public finances

After the very high budgetary outturn recorded in 2006 (a deficit of 9.3% of GDP), the deficit was reduced significantly to 5% of GDP in 2007 as a result of the fiscal consolidation programme. In 2008, due mainly to further expenditure restraints and the elimination of deficit increasing one-off operations, the deficit is expected to decrease to 3.4% of GDP (well below the official target of 4%

of GDP). This improved outcome is chiefly explained by higher-than-expected revenues by 0.4% of GDP compared to the budgeted figures thanks to the combined impact of higher-than-expected wage dynamics and further economic whitening. The changes in the expenditure side are expected to move in both directions (e.g. indexed social transfers are up, investment expenditures are down), and finally would lead to another 0.2% of GDP deficit reduction. In 2009, the general government deficit is expected to decline moderately to 3.3% of GDP in 2008 (against the 2.9% of GDP target set in the revised draft budget). Based on the usual no-policy-change assumption, the deficit is envisaged to remain at this level in 2010.

The forecast is based on the measures contained in the revised draft budget (submitted to Parliament on 18 October); therefore it could not incorporate any additional expenditure cuts as currently discussed. On the revenues side, given the full withdrawal of the measures of the Government's multi-year tax package, the forecast is based on an unchanged tax code. The foreseen meagre growth would especially take its toll in the form of a slowdown in the growth of indirect taxes. On the expenditure side, the forecast assumes that the planned savings in social transfers and government consumption will only partly be achieved after 2008, since it may be difficult to continue to contain spending, particularly for operational expenditures and the public wage bill in 2010. The forecast does not incorporate any budgetary loosening linked to the forthcoming election scheduled for 2010. This assumption, however, is subject to considerable risks as evidenced by past experience; although historical trends cannot be extrapolated, since various structural changes have taken place since mid-2006. It also does not consider any receipt or capital transfer in relation to the ongoing privatisation of the State-owned railway company's (MÁV) cargo division.

After the stabilisation of the debt-to-GDP ratio in 2007 at 65¾%, a gradual decrease is expected for 2008 to below 65½%, chiefly as a result of the anticipated shift to a primary surplus of around ½% of GDP. However, the debt ratio is projected to increase again in both 2009 and 2010.

(9) On 29 October, it was announced that the EU was ready to provide a medium-term assistance of €6.5 billion to Hungary in conjunction with IMF assistance of €12.5 billion and World Bank assistance of €1 billion.

Table 3.16.1:

Main features of country forecast - HUNGARY

	2007			Annual percentage change						
bn HUF	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	25419.2	100.0	3.0	4.0	4.1	1.1	1.7	0.7	1.8
Private consumption	13645.4	53.7	-	3.4	1.7	0.6	1.0	-1.2	1.4
Public consumption	5369.7	21.1	1.1	2.4	4.3	-7.4	-0.8	2.1	2.7
Gross fixed capital formation	5343.7	21.0	5.7	8.5	-6.2	1.5	1.5	2.7	4.6
of which : equipment	2268.9	8.9	-	-	-	-	1.6	3.8	6.4
Exports (goods and services)	20400.9	80.3	12.6	11.3	18.6	15.9	7.7	1.3	6.8
Imports (goods and services)	20017.1	78.7	13.4	7.0	14.8	13.1	7.7	0.8	7.6
GNI at previous year prices (GDP deflator)	23564.2	92.7	-	3.5	3.5	-0.1	1.7	1.3	1.7
Contribution to GDP growth :	Domestic demand		3.0	4.3	0.5	-1.0	0.7	0.3	2.3
	Stockbuilding		0.5	-2.9	1.4	0.1	0.8	0.0	0.0
	Foreign balance		-0.5	2.5	2.3	2.1	0.2	0.4	-0.5
Employment			-	0.4	0.9	-0.1	-1.2	-0.8	0.2
Unemployment rate (a)			8.1	7.2	7.5	7.4	8.1	8.6	8.5
Compensation of employees/f.t.e.			-	7.1	4.5	6.2	8.9	7.1	5.9
Unit labour costs whole economy			-	3.4	1.3	4.9	5.9	5.6	4.3
Real unit labour costs			-	1.1	-2.5	-0.8	0.6	1.6	1.1
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			14.0	2.2	3.9	5.7	5.3	3.9	3.2
Harmonised index of consumer prices			-	3.5	4.0	7.9	6.3	3.9	2.9
Terms of trade of goods			-	-2.7	-1.9	0.5	0.0	0.3	0.2
Trade balance (c)			-4.7	-2.5	-2.3	0.2	0.3	0.7	0.2
Current account balance (c)			-	-7.5	-7.5	-6.4	-6.3	-5.1	-5.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-6.7	-6.9	-5.3	-5.1	-3.7	-3.8
General government balance (c)			-	-7.8	-9.3	-5.0	-3.4	-3.3	-3.3
Cyclically-adjusted budget balance (c)			-	-8.3	-10.5	-5.7	-3.9	-3.4	-3.3
Structural budget balance (c)			-	-8.7	-10.1	-4.8	-4.0	-3.4	-3.3
General government gross debt (c)			-	61.7	65.6	65.8	65.4	66.0	66.2

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

17. MALTA

Deteriorating public finances amid weaker activity

GDP growth slows down in 2008

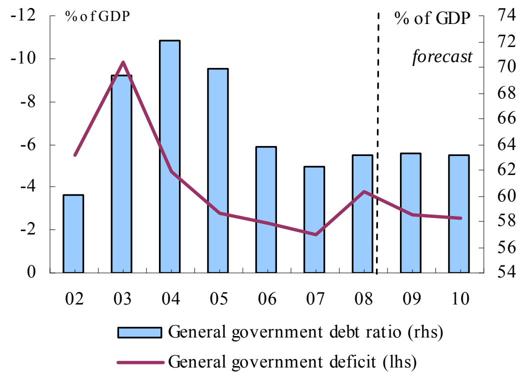
Following a strong outturn for 2007, economic activity decelerated in the first half of 2008. The downward trend is set to persist, bringing GDP growth for 2008 to 2.4%. Private consumption is foreseen to grow by 2.2%. Purchasing power benefitted from income tax cuts and higher transfer payments but was dented by increases in food and utility prices as well as softer employment growth. Growth in gross fixed capital formation is expected to decelerate in 2008 mainly due to a decline in public investment following the completion of the *Mater Dei* hospital. The pace of private investment is expected to slow from the highs of the previous two years on the back of lower housing starts and investment by the manufacturing sector. Growth in exports is projected to be mainly driven by services, specifically remote gaming and ICT. Following a strong result in 2007, the performance of tourism is projected to be modest this year.

Subdued consumption but investment picks up in 2009-10

Going forward, real GDP growth is expected to weaken further in 2009 and remain practically unchanged in 2010. Until now the financial crisis had a modest effect on Malta but economic activity, especially the external sector, is expected to suffer from the ensuing global slowdown. Domestic demand will remain the main driver of growth.

Though benefitting from lower inflation, private consumption growth is anticipated to slow in 2009 on the back of weaker labour market conditions. For 2010, consumption is foreseen to increase at a similar pace with somewhat better employment growth.

Graph 3.17.1: **Malta - General government finances**



Investment is foreseen to pick up in 2009 mainly on account of public capital spending. Private construction will be supported by the commencement of construction on a major ICT business park but in general the weak international economic scenario is likely to adversely impact investment decisions. For 2010, investment is anticipated to accelerate further.

Net exports affected by the global slowdown

The external sector will remain fragile in the face of worsening global conditions. Tourism is anticipated to weaken over the forecast horizon as a result of sluggish demand especially from the price-sensitive British market, which is Malta's single most important source market. On the other hand the business services sector, specifically ICT and remote gaming, is anticipated to show resilience to the global slowdown and will continue to be the main contributor to growth in export of services. Foreign sales of goods, dominated by semi-conductors, will remain sluggish, albeit supported by the further expansion of the emerging pharmaceutical industry. Imports are projected to remain moderate in line with the slowdown in both private consumption and the import-intensive exports.

The current account deficit is projected to worsen over the forecast horizon. In view of the projected weak external demand, the deficit of trade in goods (in percent of GDP) is set to widen until 2009 to 19.5% of GDP, and to broadly stabilise thereafter. The surplus on the services account, which peaked at 15.5% of GDP in 2007, is projected to decrease over the forecast horizon, mainly on account of weaker tourism earnings.

Inflation to recede amid a softer jobs market

Inflation continued to rise rapidly in the first half of 2008 driven by an acceleration in food and tourist accommodation prices, the latter representing around 20% of the index, and reinforced by unfavourable base effects. The authorities' decision to reverse the freeze on water and electricity prices in mid-year added impulse to inflation. For 2008, inflation is expected to average 4.4%, reflecting the assumed reduced price pressures from unprocessed food and the lower tourist accommodation prices in the wake of softer demand.

For 2009 and 2010, inflation is anticipated to decelerate on the back of lower commodity prices and the anticipated weak prospects for tourism which will ease accommodation prices. Wage increases may feed into inflation but this would be more a reflection of already negotiated salary rises and automatic wage indexation rather than prevailing labour market conditions. Indeed, the strong pace of employment creation in the first half of 2008 is expected to slow down. The labour market is projected to remain soft over the forecast period reflecting subdued activity in manufacturing as well as in tourism and wholesale and retail.

Budgetary position weakens

The downward trend in the general government deficit, which had started in 2005, is projected to experience a marked setback. In 2008, the deficit ratio is estimated to increase to 3.8% of GDP from 1.8% of GDP in the previous year. The deterioration results primarily from the expenditure side: (i) a higher increase in the wage bill on account of additional recruitment and higher wages in particular in the health sector; (ii) higher subsidies given the decision to freeze water and electricity prices and the sharp rise in the oil price; and (iii) early retirement schemes in preparation for the privatisation of the Malta Shipyards with an estimated one-off cost of 1% of GDP.

On a pre-budget basis and with the one-off cost of the early retirement schemes vanishing, the deficit is projected to decline to 2¾% of GDP in 2009. Tax revenue and social contributions are projected to be less buoyant reflecting the sluggish economic activity. Under the customary no-policy-change assumption, the deficit ratio in 2010 is projected to decline to 2½% of GDP.

In line with weaker nominal GDP growth and a return to a deficit on the primary balance, government debt is estimated to increase from 62.2% of GDP in 2007 to 63.1% in 2008. Thereafter the ratio is expected to remain practically unchanged.

Table 3.17.1:

Main features of country forecast - MALTA

	2007			Annual percentage change						
mio Euro	Curr. prices	% GDP		92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	5415.0	100.0		3.5	3.5	3.1	3.7	2.4	2.0	2.2
Private consumption	3308.8	61.1		-	1.8	0.7	1.6	2.2	1.7	1.8
Public consumption	1043.3	19.3		-	-0.5	5.9	-0.1	4.3	2.8	2.4
Gross fixed capital formation	1062.3	19.6		-	8.6	4.2	4.1	0.5	3.1	3.5
of which : equipment	-	-		-	-	-	-	-	-	-
Exports (goods and services)	4853.8	89.6		-	1.2	17.1	-4.1	0.2	-0.3	0.1
Imports (goods and services)	5004.8	92.4		-	3.6	14.7	-3.8	0.1	-0.1	0.3
GNI at constant prices (GDP deflator)	5269.1	97.3		2.9	0.0	3.3	5.6	2.6	2.1	2.3
Contribution to GDP growth :	Domestic demand			-	2.8	2.4	1.9	2.3	2.2	2.4
	Stockbuilding			-	3.2	-0.3	1.9	0.0	0.0	0.0
	Foreign balance			-	-2.5	1.1	-0.1	0.0	-0.2	-0.2
Employment				0.9	1.3	1.3	2.7	1.7	0.9	1.0
Unemployment rate (a)				6.3	7.2	7.1	6.4	5.9	6.2	6.4
Compensation of employees/head				5.4	1.9	3.2	1.7	2.8	3.0	2.7
Unit labour costs whole economy				2.8	-0.2	1.4	0.7	2.1	1.9	1.5
Real unit labour costs				0.3	-3.0	-1.5	-1.7	-0.3	-0.3	-0.7
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				2.5	2.9	2.9	2.5	2.5	2.2	2.2
Harmonised index of consumer prices				-	2.5	2.6	0.7	4.4	3.0	2.2
Terms of trade of goods				-	-4.9	-2.3	2.6	-3.4	-2.0	-1.3
Trade balance (c)				-18.2	-18.6	-18.9	-18.3	-19.2	-19.5	-19.5
Current account balance (c)				-	-8.7	-8.2	-5.5	-6.6	-7.1	-7.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-5.5	-5.3	-4.6	-5.6	-5.8	-5.4
General government balance (c)				-	-2.8	-2.3	-1.8	-3.8	-2.7	-2.5
Cyclically-adjusted budget balance (c)				-	-2.1	-1.8	-2.0	-4.0	-2.8	-2.5
Structural budget balance (c)				-	-3.7	-2.5	-2.7	-3.0	-3.1	-2.5
General government gross debt (c)				-	69.9	63.9	62.2	63.1	63.2	63.1

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

18. THE NETHERLANDS

Ending a period of strong growth

Activity in 2008: still positive but weakening underlying growth impetus

Following a buoyant economic performance in 2007, GDP growth slowed in the first half of 2008, with the first two quarters posting 0.4% and 0.1% respectively. In the first quarter growth was mainly driven by investment, the bulk of which was one-off investments in airplanes and energy projects. Looking beyond the incidental factors, underlying economic growth impetus has weakened considerably. Economic activity is expected to be subdued in the second half of the year. Due to the exceptional momentum generated in 2007 however, annual GDP growth should still reach 2.3% in 2008.

Private consumption expenditure is expected to expand by 2.0% in 2008. It is being driven by higher natural gas consumption, a reform in the health care system shifting public to private consumption and a high carry-over from 2007. On the other hand, consumption is being weakened by increases in taxes and social premiums, which act as a brake on purchasing power growth. Furthermore, the sharp drop in consumer confidence is expected to start having a negative impact on consumption as consumers expect their personal financial situation to worsen in view of the financial crisis. On balance, quarterly growth in 2008 remains well below the long term average.

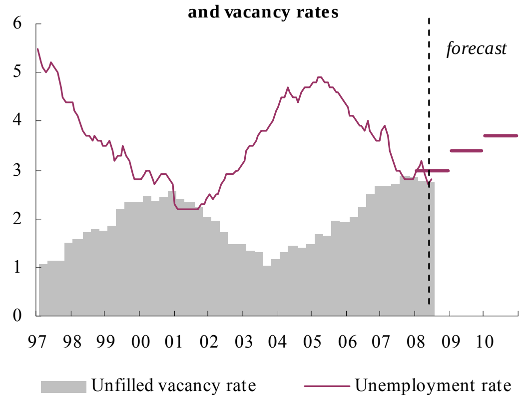
Despite an expected marked slowdown in the second half of 2008, private investment growth is expected to reach 7.1% this year. This is mainly due to the one-off investments, which contributed to an unusually strong first quarter. These also largely explain the expected negative contribution of 0.5 pp of the foreign balance to GDP growth in 2008, as a large part of investment demand is directed towards transportation equipment, most of which is being imported. Exports are slowing in 2008 to 4.0% and will stay broadly in line with the international import demand, thereby retaining their market share.

Falling consumer confidence and tightening credit conditions result in a slowdown in 2009 and 2010

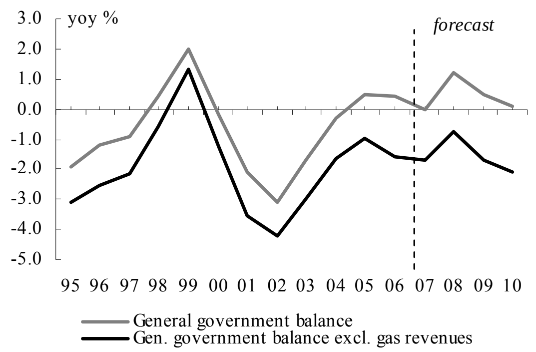
Economic growth is expected to slow down further in 2009, as the impact of the ongoing financial crisis on the Dutch economy and the euro area is likely to be much stronger than previously expected. On average, GDP growth in 2009 is projected to fall to a mere 0.4%. With the slowdown already starting in the second quarter of 2008, the carry-over for 2009 is expected to be relatively low at 0.1% of GDP, down from 1.7% at the end of 2007. For 2010, the annual growth rate is expected to come out at 0.9%, due to a modest recovery of domestic demand, which is likely to profit from lower inflation and somewhat less tight credit conditions.

Private consumption growth is expected to slow down to 0.6% in 2009, despite an increase in real disposable income growth from 1.1% in 2008 to 2.4% in 2009, which is the result of decreases in taxes and social premiums on the one hand and falling employment growth and rising inflation on the other. The slowdown is assumed to be caused mainly by falling consumer confidence and tightening credit conditions, which are likely to

Graph 3.18.1: **The Netherlands - Unemployment and vacancy rates**



Graph 3.18.2: **The Netherlands - General government balance including and excluding gas revenues**



lead to a significant increase in the savings rate, thereby lowering consumption. For 2010, private consumption growth is forecast to increase slightly to 0.8% of GDP as a decrease in inflation benefits purchasing power.

The combination of tightening credit conditions, falling confidence and the maturing economic cycle is expected to have a significant impact on gross fixed capital formation. Investment growth is forecast to decrease by 2.7% in 2009. In particular cyclically sensitive type investment, such as equipment, is likely to show a large decrease. Construction is likely to be more heavily influenced by stricter lending criteria. With these tighter lending conditions still largely in place, only a modest recovery is assumed for investment in 2010, with the average growth rate remaining negative at -0.5%.

Net exports are expected to contribute positively to GDP growth in 2009 and 2010, at around 0.3 pp in both years. Although export growth is expected to slow down to 1.3% in 2009, due to an assumed slowdown in world trade growth, this is also the case for import growth in line with the weak domestic and external demand. In 2010 export growth is forecast to increase to 3.0%, reflecting the more benign external environment. At the same time a rebound of import growth to 2.9% is expected, which is largely linked to a revival of external demand and the stimulus on imports from re-exports as the Netherlands is an important transit country.

Labour market loosening, prices still rising

The labour market is currently very tight with a projected unemployment rate of 3.0% in 2008 and a high number of unfilled vacancies. From 2009 on, tensions in the labour market are expected to loosen. Unemployment is forecast to rise to 3.4% in 2009 and 3.7% in 2010. The increase in unemployment is caused by a slowdown in labour demand and in employment growth.

Employment growth is forecast to slow from 1.8% in 2008 to 0.3% in 2009 and 2010, mainly as a consequence of the ageing population. Over the forecast period, the population of working age is projected to remain almost stagnant. Employment growth in 2009 and 2010 will be driven mainly by (young) women entering the labour market. The main trend is for older women outside the labour market being replaced by younger women who are supplying labour, thereby increasing the activity rate.

Despite the apparent tightness of the labour market, labour unions have kept their wage demands relatively subdued to date. Over the forecast horizon, wages are expected to increase, in response to both the still tight labour market and increasing inflation. Although rising, wage demands are likely to remain reasonably low, limiting growth of wages and salaries per full-time equivalent to 3.7% in 2009 and 4.0 % in 2010, which is a relatively small increase from the expected 3.6% rise in 2008. Wage demands are expected to be weakened to some extent by the government offer to lower social contributions in exchange for lower wage demands. Furthermore, they are moderated in view of the uncertainty surrounding employment because of the ongoing financial crisis.

HICP inflation is expected to increase to 2.5% in 2008, from 1.6% in 2007. For 2009, a further increase in inflation to 3.0% is expected, despite a projected lowering in the prices of oil and other raw materials. This rise is mainly caused by a slow pass-through of higher prices of raw materials into consumer prices. Energy and rental prices tend to have especially long adjustment lags, as consumer gas prices are only adjusted twice a year and rental prices of regulated housing only once a year. In 2010, inflation is projected to decrease to 2.3%, mainly driven by an expected fall in energy prices.

Public finances show surpluses

The government balance is expected to improve substantially from a surplus of 0.3% in 2007 to 1.2% in 2008. This improvement is mainly caused by higher gas revenues and an increase in taxes. Specifically, some new indirect taxes were introduced during 2008, for instance taxes on aviation (plane tickets) and on packaging of both imported and domestically produced goods.

In 2009, the government balance is projected to deteriorate to a surplus of ½% of GDP. The budget in 2009 will benefit from higher natural gas revenues and from the reduction of the contribution to the EU budget in accordance with the Council decision on the EU own resources. Because the lower contribution has officially entered into force with the new financial perspectives in 2007, the EU will also reimburse the Netherlands for excess contributions paid in

2007 and 2008. In total this amounts to 0.5% of GDP, out of which 0.3% of GDP is a one-off, linked to 2007 and 2008. On the other hand, the budget is affected by a 0.4% of GDP cut in taxes and premiums. The most important measures are a decrease in health care premiums, which mainly affects corporations, and the lowering of social contributions for employees. The first measure results from the fact that in previous years premiums have been set at too high a rate. The lowering of social contributions by 0.3% of GDP was made conditional by the government on reasonable wage demands by labour unions. Tax elasticities in 2009 are expected to be below their historical average in the light of the projected economic downturn. The rise in interest payments is linked to the forecasted increase in the debt ratio.

Based on the usual no-policy-change assumption, the general government balance in 2010 is forecast to deteriorate further to close to balance. The deterioration stems in large part from the reversed effects of events in 2009.

The structural balance is expected to increase from a deficit of ½% in 2007 to a surplus of ½% in 2008 and is likely to deteriorate slightly in 2009 to ¼% of GDP.

In spite of a government balance surplus, the government debt ratio is forecast to increase to 48.2% in 2008 from 45.7% in 2007. This increase can be more than fully explained by the government operations in the financial markets, such as the purchase of Fortis bank, approximately 2¾% of GDP, and the capital injection for ING bank, approximately 1¾% of GDP. These operations -following a technical assumption (and not prejudging the final statistical recording to be approved by Eurostat)- do not affect the deficit, but increase the debt. In 2009 and 2010, the debt ratio is expected to decrease gradually again to just above 45 % of GDP at the end of the forecast period

Table 3.18.1:

Main features of country forecast - THE NETHERLANDS

		2007			Annual percentage change					
bn Euro		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		567.1	100.0	2.6	2.0	3.4	3.5	2.3	0.4	0.9
Private consumption		264.3	46.6	2.4	1.0	0.0	2.1	2.0	0.6	0.8
Public consumption		142.5	25.1	2.2	0.5	9.0	3.0	1.2	2.1	1.0
Gross fixed capital formation		113.2	20.0	2.5	3.7	7.5	4.9	7.1	-2.7	-0.5
of which : equipment		32.8	5.8	4.3	3.2	14.1	8.7	8.6	-5.0	-0.9
Exports (goods and services)		424.8	74.9	6.2	6.0	7.3	6.5	4.0	1.3	3.0
Imports (goods and services)		376.1	66.3	6.1	5.4	8.2	5.7	5.2	1.0	2.9
GNI at previous year prices (GDP deflator)		582.3	102.7	2.8	-0.1	6.1	3.0	1.3	0.3	0.8
Contribution to GDP growth :	Domestic demand			2.3	1.3	3.5	2.7	2.6	0.2	0.5
	Stockbuilding			0.0	-0.1	-0.2	-0.2	0.1	-0.1	0.0
	Foreign balance			0.4	0.8	0.0	1.0	-0.5	0.3	0.3
Employment				1.1	0.0	1.9	2.3	1.8	0.3	0.3
Unemployment rate (a)				4.5	4.7	3.9	3.2	3.0	3.4	3.7
Compensation of employees/f.t.e.				3.7	1.7	2.4	3.2	3.6	3.7	4.0
Unit labour costs whole economy				2.2	-0.4	0.9	2.0	3.1	3.6	3.4
Real unit labour costs				-0.2	-2.7	-0.8	0.5	1.6	1.1	1.5
Savings rate of households (b)				-	-	11.5	13.4	12.6	14.2	14.6
GDP deflator				2.4	2.4	1.7	1.5	1.5	2.5	1.9
Harmonised index of consumer prices				2.3	1.5	1.7	1.6	2.5	3.0	2.3
Terms of trade of goods				0.5	0.5	-0.4	-0.3	-2.3	-0.8	-1.0
Trade balance (c)				5.5	7.9	7.8	7.7	6.0	5.7	5.2
Current account balance (c)				5.2	7.5	9.8	9.8	7.1	7.1	6.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				4.9	7.1	9.3	9.4	6.6	6.6	5.9
General government balance (c)				-1.8	-0.3	0.6	0.3	1.2	0.5	0.1
Cyclically-adjusted budget balance (c)				-1.7	0.6	0.7	-0.4	0.4	0.5	0.6
Structural budget balance (c)				-	0.6	0.7	-0.4	0.4	0.2	0.6
General government gross debt (c)				64.3	51.8	47.4	45.7	48.2	47.0	45.9

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

19. AUSTRIA

Robust fundamentals amidst difficult environment

Respectable growth until mid-2008

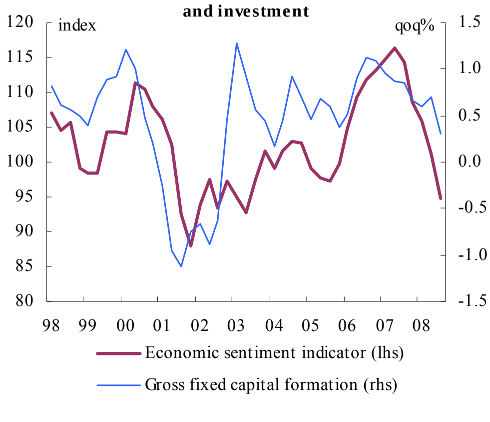
The Austrian economy enjoyed strong economic performance over the period 2005-2007, with real GDP advancing by close to or above 3% each year, thereby exceeding the euro area average. On the back of lively demand in key foreign markets and strong price competitiveness, exports provided the major growth momentum that was amplified by a rebound in corporate investment. Private consumption expanded at a more moderate pace, relying on growing employment rather than on gains in real per-capita earnings. Output growth and job creation remained remarkably resilient until mid-2008, but the weakening external environment is increasingly taking its toll.

Solid fundamentals in an unfavourable environment

Even though the banking sector in Austria so far has not been directly exposed to the global financial crisis, confidence indicators have started to decline across the board and there are signs that spending plans for investment and consumption are being retrenched. This is likely to entail a slowdown to quarterly growth rates close to zero already in the second half of this year. For 2008 as a whole, an annual growth rate of 2% appears, however, within reach.

Sluggish growth will continue well into 2009 as a result of the global slowdown combined with a general loss of confidence. Austria's otherwise strong competitive position, lack of a real estate bubble and healthy balance sheets, suggest, however, that the downturn should be less pronounced than in most other euro area Member States. In a difficult external environment, real GDP may thus still edge up by around ½ % in 2009. The assumed gradual global recovery during the course of 2009 would be in line with a projected growth rate of 1¼ % in 2010.

Graph 3.19.1: **Austria - Confidence indicator and investment**



After solid growth rates in the last year, business fixed investment volumes are expected to decline, as it is hit simultaneously by a weakening export demand, lower confidence and more difficult financing conditions. Only as these three factors peter out, probably towards the end of 2009, will investment growth resume.

Decelerating activity is expected to bring to a halt the strong employment growth that by mid 2008 has brought the unemployment rate down below 4% (Eurostat definition). As job creation will not be sufficient to match the growing labour force due to increased inflow of migrants and rising participation rates of women and older workers, unemployment is expected to notch up in 2009 and 2010.

Consumption is expected to provide the main support to growth in 2009 and beyond, and should increase at a rate of about 1% annually. Although a relatively modest increase in consumption over the past few years suggests that pent-up demand may unwind, a weakening employment growth, modest wage increases, still relatively high rates of inflation, and falling consumer confidence are taking their toll. The savings rate, which has been on the rise for a few years already, is therefore expected to stay high.

Easing inflationary pressures

On the positive side, the high inflation rate in Austria, which touched nearly 4% in the summer of 2008, is likely to come down substantially over the forecast period. This is driven mostly by an easing of prices in the commodity markets, and the fact that second-round effects have remained limited so far, and since cost increases might become progressively more difficult to pass on to consumers as demand weakens. In addition, in 2009 inflation is dampened by reduction in VAT rates for pharmaceuticals and the lowering of student tuition fees.

External competitiveness being maintained

Even though the immediate growth prospects of Austria are curtailed by a weakening external environment, Austria will continue to profit from the high competitiveness it acquired through wage restraint over the past decade and its strong position as an exporter to Central and Eastern European markets. With continued moderate gains in price competitiveness, Austria should be able to enjoy a small growth contribution from the foreign balance over the forecast period.

Budget deficit set to widen

The first half of 2008 brought unexpectedly high tax revenues. In spite of this, the fiscal deficit in 2008 is expected to remain broadly unchanged, because of discretionary measures that raised spending, notably the increased child care and family allowances, the heating subsidy for the elderly and the advancement of the pension increase.

For 2009, the forecast suffers from the fact that no new government has been formed yet and no draft budget is available. It is clear, however, that the slowdown of the economy and the rising unemployment rate is likely to have a tangible negative impact on public finances, both on the revenue and the expenditure side. On the basis of the no-policy-change assumption and reflecting budgetary measures decided before 23 October, it is expected that the deficit will widen by about ½ % of GDP in 2009 and rise a further ¼ % of GDP in 2010. Much of the deterioration is owed to the weak business cycle. The deficit could widen further, however, if an additional fiscal stimulus package should be decided by Parliament.

In spite of the rising government deficits, the debt-to-GDP ratio is expected to fall from 59.5% in 2007 to around 57 % in 2010.

Table 3.19.1:

Main features of country forecast - AUSTRIA

	2007			Annual percentage change						
bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	270.8	100.0	2.1	2.9	3.4	3.1	1.9	0.6	1.3
Private consumption	143.9	53.1	1.4	2.6	2.4	1.0	1.1	1.0	1.2
Public consumption	49.2	18.2	2.0	1.5	2.3	1.8	2.6	1.9	1.7
Gross fixed capital formation	60.2	22.2	1.8	2.4	2.6	4.7	2.4	-0.5	0.7
of which : equipment	23.3	8.6	2.0	6.9	-0.8	5.9	2.8	-1.5	0.4
Exports (goods and services)	161.4	59.6	5.8	7.0	7.5	8.8	3.6	1.7	4.1
Imports (goods and services)	145.5	53.7	4.9	6.3	5.1	7.5	3.3	2.2	4.1
GNI at previous year prices (GDP deflator)	265.2	97.9	2.1	2.6	2.6	2.7	2.2	0.6	1.3
Contribution to GDP growth : Domestic demand			1.6	2.2	2.3	1.9	1.6	0.8	1.1
Stockbuilding			0.0	0.1	0.0	-0.2	0.0	0.0	0.0
Foreign balance			0.4	0.6	1.5	1.1	0.4	-0.2	0.2
Employment			0.4	1.2	1.4	1.8	1.8	0.2	0.3
Unemployment rate (a)			4.1	5.2	4.8	4.4	3.9	4.2	4.5
Compensation of employees/f.t.e.			2.7	2.5	3.0	2.1	2.9	2.9	2.5
Unit labour costs whole economy			1.0	0.8	1.0	0.8	2.7	2.5	1.5
Real unit labour costs			-0.5	-1.2	-0.8	-1.3	-0.1	0.2	-0.4
Savings rate of households (b)			-	-	15.4	16.3	16.4	16.4	16.5
GDP deflator			1.5	2.1	1.8	2.1	2.8	2.3	1.8
Harmonised index of consumer prices			1.9	2.1	1.7	2.2	3.4	2.1	1.9
Terms of trade of goods			-0.1	-0.8	-1.1	0.1	-1.0	-0.2	0.0
Trade balance (c)			-2.3	-0.5	0.2	0.6	0.3	0.1	0.1
Current account balance (c)			-0.8	2.1	2.5	3.3	3.1	2.7	2.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-0.9	2.0	2.2	3.3	3.1	2.8	2.9
General government balance (c)			-2.7	-1.5	-1.5	-0.4	-0.6	-1.2	-1.4
Cyclically-adjusted budget balance (c)			-2.6	-1.2	-1.8	-1.1	-1.2	-1.2	-1.2
Structural budget balance (c)			-	-1.2	-1.8	-1.1	-1.2	-1.2	-1.2
General government gross debt (c)			64.8	63.7	62.0	59.5	57.4	57.1	56.9

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

20. POLAND

Slower growth despite sound fundamentals

Robust growth on the back of domestic demand

Robust economic activity continued in the first half of 2008. Driven by domestic demand, real GDP growth eased to 6.1% year-on-year from 6.6% in 2007. Growth was driven by rebounding private consumption (4.8%) and investment (15.2%).

Quarterly data indicate only a marginal loss in momentum in the second quarter (6%) after some deterioration in the first quarter (6.2%). Strong consumption activity was backed up by rising employment and wages, the second round of tax wedge cuts and the indexation of pensions. Investment activity remained healthy thanks to construction which picked up after the winter.

Export and import growth in the first half of 2008 decreased to about 7½% and 10% respectively in real terms, year-on-year. Nonetheless, net exports contributed negatively to GDP growth (–½ p.p.) to a much lower extent than in 2007 (–1.8 p.p.) due to strong external demand.

The Polish financial sector which is dominated by universal banks with a strong deposit base has proved to be resilient to the global financial crisis so far, but some small and medium sized banks are dependent on foreign financing making them vulnerable to external developments. The number of completed dwellings grew in the first half of 2008, while the gap between offer and transaction prices has widened, indicating faltering demand due to tighter lending conditions.

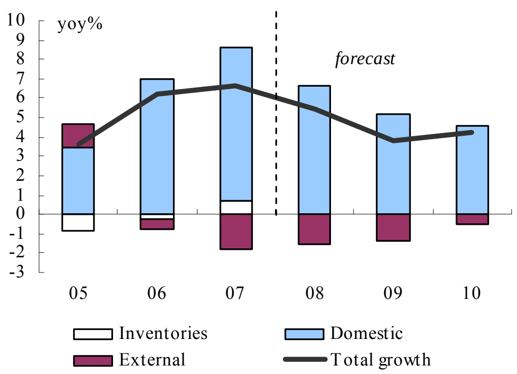
Slowdown expected but fundamentals remain sound

GDP growth is expected to slow considerably, to around 0.6% quarter-on-quarter until the end of 2008. Lower external demand on the side of the main trading partners will be the main drag on growth exacerbated by weakening consumption and investment in the second half of the year. Falling consumer confidence and a rising cost of credit will limit consumption growth in the second half of 2008, which however remains supported by strong wage increases (owing to a tax wedge cut and a tight labour market). For 2008 as a whole, GDP is projected to grow at 5.4%.

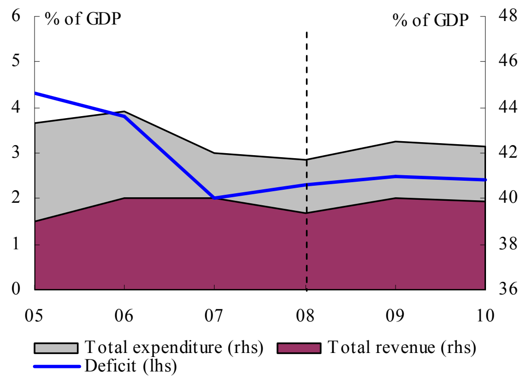
Domestic demand will continue to be the main driving force of GDP growth, which is expected to fall to 3.8% in 2009 and 4.2% in 2010. Both investment and private consumption growth are likely to decrease somewhat over the projection period. Investment is set to grow at around 8% in 2009-2010, supported by the inflow of EU funds, foreign direct investment and companies' own funds accumulated during the last years, but the rising cost of capital and falling stock prices will exert a negative influence. The strong housing investment is set to taper off out throughout 2009 and into 2010, as tightened access to mortgages will limit demand and induce a fall in prices in some segments of the housing market (mainly apartments in large cities), but the effect thereof on disposable income will be limited.

Private consumption growth is expected to slow gradually over the forecast period, to 3.4% in 2010. The tight labour market (exerting upward

Graph 3.20.1: **Poland - GDP growth and its contributors**



Graph 3.20.2: **Poland - General government finances**



pressure on wages) and lower personal income taxes in 2009 are the main factors supporting a moderate decrease in consumption dynamics, in spite of a fall in consumer confidence, expected reduced availability of credit and faltering employment growth. Falling investment and private consumption is set to steadily decrease import dynamics to 5.7% in 2010, limiting the negative contribution of net exports to GDP growth towards the end of the forecast period.

Export growth is expected to slow considerably, to about 3.9% in 2009 due to lower external demand in the EU – the main trading partner – and to rebound thereafter to 5.6% in 2010. The relatively robust performance of Polish exports despite the negative external outlook will stem *inter alia* from the structure and cost competiveness of the Polish export industry. External imbalances will augment, widening the trade and current account deficit in 2009 to –5¼% of GDP and around –6% of GDP, respectively. An export rebound and a further decrease in imports in 2010 will leave the trade and current account deficits for that year at similar levels. Thanks to higher transfers from the EU the external deficit will be limited to 3¾% of GDP in 2010, which still represents a widening compared with the previous years.

Employment growth expected to falter

In the course of the first half of 2008 an impressive improvement was seen in the labour market, continuing the trend seen in 2006. In August 2008 the unemployment rate fell to 6.7% from an annual average of 9.6% in 2007, which corresponds to a decrease of more than 450 000 in the number of unemployed. Although total employment increased (by 3% in the first half of 2008), part of the drop in the unemployment rate may be attributed to the labour force contracting due to increased early retirement. As economic activity is expected to weaken employment growth should decelerate to 0.1% in 2010, while a return of emigrants, activation of older workers and a reduction of taxes on labour should increase the participation rate. The number of unemployed is projected to reach some 1.2 million in 2009 – close to 7¼% of the labour force – and to increase in 2010 by about 0.1 million leaving the unemployment rate at around 7¾%.

Inflationary pressures limited by weakening economic outlook

Annual HICP inflation decreased from 4.5% in the first quarter of 2008 to 4.3% in the second quarter and bounced back to 4.4% in the third quarter, boosted by strong wage pressure and elevated energy prices. Inflation is likely to fall, on the back of favourable base effects, stabilising fuel and food prices and weakening growth to 3½% in 2009, and to decrease further to about 2.6% in 2010, which remains marginally above the Polish central bank's medium-term target of 2.5%.

Unit labour costs are projected to increase by about 5¾% in 2008, as a result of strong wage growth combined with modest productivity increases. In 2009 and 2010, nominal unit labour costs are likely to continue to rise, albeit at a slower pace, as productivity growth recovers supported by high investments from previous years and slow employment creation mitigating the impact of rising wages.

The main downside risk to the forecast stems from the potentially tighter credit conditions which could hamper the inflow of the foreign direct investment and limit private investment. Moreover, the recent depreciation of the Polish zloty, if experienced for a longer period of time, could substantially affect foreign investment and the inflation outlook.

Fiscal deficit broadly stable under tax cuts and restrained expenditure growth

The 2007 general government deficit was 2.0% of GDP, as confirmed in the October 2008 fiscal notification. Spending in 2008 is significantly below planned levels, especially due to low central government investment, though it is expected to accelerate before the end of the year, as it used to in the previous years. While employment and wage growth remain high, especially in the first half of 2008, direct taxes generate windfall revenues. As a result, the 2008 general government deficit is expected to deteriorate less than expected in the spring 2008 forecast to 2.3% of GDP (compared to 2.5% of GDP previously thought). The deterioration results mainly from the reduction of social contributions (of almost 1½ pp. of GDP, more than previously expected) but also from increases in personal income tax reliefs for families (which turned out less costly than foreseen before) and a generous indexation of social benefits and pensions (indexation based on cumulated inflation for 2006-2007).

Despite the restraint imposed by the 2009 draft central budget on the growth of many expenditure items, the general government deficit is forecast to deteriorate slightly to 2½% of GDP in 2009. This is the expected outcome of a worse economic situation, a personal income tax reform, which was adopted by the previous parliament before the autumn 2007 elections. According to the reform, the current three income tax rates of 19%, 30% and 40% will be replaced by two rates of 18% and 32%, with a total cost of more than ½% of GDP for the general government. Moreover, various measures taken to improve the business climate, including slightly lower value-added and corporate income taxes together with the restitution of the "Alimony Fund" social transfers, are foreseen to costs about ⅓% of GDP in total. High wage increases for large groups of public sector, such as teachers, medical staff and judiciary personnel, are also expected to contribute to the deterioration in the budget balance. A planned increase of excise duties on cigarettes and the replacement of publicly fully financed early pensions available to numerous professional groups with more narrowly targeted "bridge pensions", partly financed with new social contributions will be insufficient to offset these deficit-increasing measures.

In 2010, the general government deficit is expected to remain broadly the same as in 2009 under the assumption of no policy change. In particular, the possible introduction of a flat personal income tax and higher healthcare contributions are not considered in the forecast.

Gross debt is projected to decrease gradually from 44.9% of GDP in 2007 to about 43% in 2010. A faster reduction in the debt ratio than projected in this forecast will require a considerable improvement in the effectiveness of the process of privatisation. In the recent years, revenue from this source and the number of privatised enterprises were notably below the plans and the financial crisis may additionally curb privatisation.

Table 3.20.1:

Main features of country forecast - POLAND

		2007			Annual percentage change					
bn PLN		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		1175.3	100.0	4.4	3.6	6.2	6.6	5.4	3.8	4.2
Private consumption		711.4	60.5	4.4	2.1	5.0	5.0	5.0	4.5	3.4
Public consumption		210.1	17.9	2.9	5.2	6.1	5.8	1.7	1.2	1.5
Gross fixed capital formation		259.8	22.1	6.2	6.5	14.9	17.6	13.8	8.8	8.4
of which : equipment		108.6	9.2	-	9.9	17.1	33.3	10.4	7.4	7.1
Exports (goods and services)		477.3	40.6	10.9	8.0	14.6	8.4	6.1	3.9	5.6
Imports (goods and services)		508.9	43.3	11.7	4.7	17.3	12.2	9.0	6.6	5.7
GNI at previous year prices (GDP deflator)		1130.6	96.2	4.5	4.5	5.6	6.0	5.9	3.9	4.2
Contribution to GDP growth :	Domestic demand			4.6	3.4	7.0	7.7	6.6	5.2	4.6
	Stockbuilding			0.1	-0.9	0.4	0.7	0.0	0.0	0.0
	Foreign balance			-0.3	1.1	-1.1	-1.8	-1.5	-1.4	-0.5
Employment				-	2.3	3.3	4.5	2.7	0.5	0.1
Unemployment rate (a)				15.0	17.8	13.9	9.6	7.3	7.3	7.8
Compensation of employees/head				19.4	1.5	1.8	4.5	8.5	6.8	5.3
Unit labour costs whole economy				-	0.3	-1.1	2.4	5.8	3.3	1.2
Real unit labour costs				-	-2.3	-2.5	-0.9	2.6	0.2	-1.2
Savings rate of households (b)				-	-	5.9	8.9	9.9	10.3	11.0
GDP deflator				14.7	2.6	1.5	3.3	3.1	3.1	2.5
Harmonised index of consumer prices				-	2.2	1.3	2.6	4.3	3.5	2.6
Terms of trade of goods				0.2	1.0	-0.3	1.7	0.2	0.0	0.0
Trade balance (c)				-3.1	-0.9	-2.0	-3.7	-4.3	-5.2	-5.3
Current account balance (c)				-1.9	-1.2	-2.9	-4.5	-5.2	-6.1	-6.2
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.2	-0.9	-2.3	-3.5	-3.7	-3.7	-3.8
General government balance (c)				-	-4.3	-3.8	-2.0	-2.3	-2.5	-2.4
Cyclically-adjusted budget balance (c)				-	-4.0	-3.9	-2.6	-2.9	-2.5	-2.0
Structural budget balance (c)				-	-4.1	-3.9	-2.6	-2.9	-2.5	-2.0
General government gross debt (c)				-	47.1	47.7	44.9	43.9	43.6	43.1

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

21. PORTUGAL

Growth stagnates, imbalances persist

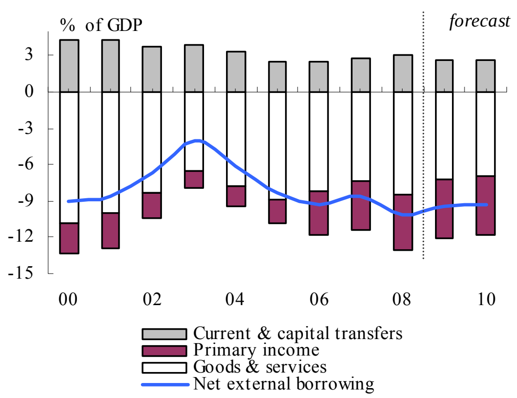
Activity decelerating in the course of 2008

Economic activity in Portugal decelerated rapidly in the course of 2008 after a gentle upswing in 2006-2007, such that for 2008 as a whole, GDP is projected to grow by only ½%, down from almost 2% in 2007. Domestic demand has weakened mainly as the result of construction falling back into the red. Furthermore, exports growth has worsened rapidly while high demand for equipment goods has added to imports, leading to a negative contribution of net exports to GDP growth after the positive readings of 2006-2007. Thus, the large trade deficit worsened, hurt now also by higher commodity prices. The primary income deficit also deteriorated markedly mainly reflecting a rapidly growing external debt service burden. As a result, the already high external deficit deteriorated further.

Gloomy prospects for 2009 and 2010

GDP growth is expected to fall further and stagnate in 2009 and only slight rebound in 2010, lifted by the tide in the euro area, albeit with a lag. The economic prospects for the forecast period are clouded by the current financial crisis – marked inter alia by lower credit supply, unstable interest rates and falling asset prices – and weakening external demand. These shocks are expected to bite throughout the forecast period. They may be particularly hurting given the mismatch between aggregate spending and income observed for a number of years in the Portuguese economy, which has been reflected in the persistent and large external deficits and debt accumulation. In all, these shocks are expected to reinforce the need for balance sheet consolidation to lift savings in the years ahead, consequently constraining expansions of domestic spending.

Graph 3.21.1: **Portugal - Net external borrowing**



The rising service of relatively high households' debt levels, together with tighter credit conditions, will dampen consumption opportunities. However, in 2009, accelerating social transfers may give some support to disposable income, though not enough to offset a deceleration in labour income. Investment is expected to decline in response to gloomier demand prospects. In addition, the current financial crisis seems bound to trigger a deleveraging of corporate balance sheets, which, together with rising capital costs and stress on profits, will limit the room for investment.

Exports growth is projected to be clearly hurt by the global downturn. Imports will trend down with weak activity and with imports of equipment and durable consumer goods tapering off. As a result, the trade deficit is expected to decline, helped also by more stable commodity prices, including falling oil prices in 2009. Yet the external debt service burden will put further pressure on external borrowing needs, such that only a marginal improvement is projected for the external deficit.

Against the current backdrop, risks to the forecast scenario are unusually high. First, more substantial changes in financial markets may take a heavier toll than projected, especially on agents with more vulnerable balance sheets and hence trigger a faster spending adjustment. Second, exports may suffer more if the downturn in key export markets turns out stronger than expected.

Labour market, costs and prices without improvements

After a decline in 2008, the unemployment rate is expected to rise in 2009 as activity loses pace. Average wage growth has remained relatively flat, while the apparent labour productivity has receded in 2008 and, on account of poor employment creation, is expected only to very mildly accelerate over the remainder of the forecast period. Overall, sluggish productivity growth seems to be hampering gains in unit labour costs vis-à-vis trade partners. Hence, cost competitiveness will remain more or less unchanged, which will give limited help in correcting external imbalances. In 2009 and

2010, inflationary pressures are expected to ease somewhat owing to the stabilisation of commodity prices and continued sluggish demand.

Public finances remain weak

In 2008, the general government deficit is forecast at 2¼% of GDP, down from 2.6% of GDP in 2007. The 2008 fiscal outturn benefits from one-off sales of concessions by the government, which, in total, lower its deficit by 0.4% of GDP. A higher tax revenue-to-GDP ratio has also helped the budgetary outcome: in particular, corporate tax and social contributions proceeds have grown at high, albeit declining, rates. Some spending moderation has again been observed, notably on personnel and social transfers; however, with economic growth low, expenditure has risen in terms of GDP.

For 2009, the government deficit is projected to rebound to over 2¾% of GDP. On the revenue side, the economic downturn is expected to take a heavy toll on tax proceeds. On the spending side, some acceleration is expected on the back of higher social transfers, which reflect, first, the (partial) indexation of cash transfers to the previous year's inflation rate; second, recent policy measures, and, third, no further decline in unemployment benefits. However, tighter retirement conditions introduced in earlier years should relieve some pressure from spending. Finally, the budgetary execution will temporarily profit from the sale of concessions by the government worth some 0.3% of GDP.([10]) In 2010, on the basis of the customary no-policy change assumption, the government deficit is forecast at around 3¼% of GDP reflecting also the impact of the continued downturn on the budget.

After falling in 2007, the government debt ratio is projected to resume its upward trend over the forecast period reaching 66½% of GDP by 2010.

([10]) There is a break between 2008 and 2009 in the series of government expenditure and revenue due to a change in the recording of payments to the government employees' pension scheme. Without such a break, both total expenditure and revenue for 2009 and 2010 would be some 1½% of GDP higher. The adoption of this methodological change in these forecasts is a technical assumption to be in line with the draft 2009 budget; the consistency of this change with ESA95 will be scrutinised by Eurostat in due time. While this change has no impact on the government deficit and debt levels, it will have a significant impact on a number of deflators, on nominal GDP (by around 1½%) and consequently on GDP ratios. Note, however, that these implications have not yet been considered in these forecasts.

Table 3.21.1:

Main features of country forecast - PORTUGAL

		2007		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		163.1	100.0	2.1	0.9	1.4	1.9	0.5	0.1	0.7
Private consumption		106.0	65.0	2.6	2.0	1.9	1.6	1.3	0.1	0.3
Public consumption		33.0	20.2	2.5	3.2	-1.4	0.0	-0.1	0.2	0.5
Gross fixed capital formation		35.6	21.8	2.9	-0.9	-0.7	3.1	0.1	-2.7	0.5
of which : equipment		12.1	7.4	3.2	1.0	7.3	8.2	3.8	-3.8	0.5
Exports (goods and services)		53.2	32.6	4.6	2.0	8.7	7.5	2.1	1.1	2.5
Imports (goods and services)		65.3	40.0	5.5	3.5	5.1	5.6	2.6	-0.5	1.3
GNI at previous year prices (GDP deflator)		156.6	96.0	2.1	0.5	-0.3	1.5	-0.2	0.0	0.5
Contribution to GDP growth :	Domestic demand			2.7	1.7	0.8	1.8	0.8	-0.5	0.4
	Stockbuilding			0.1	-0.1	0.1	0.0	0.1	0.0	0.0
	Foreign balance			-0.7	-0.7	0.6	0.1	-0.4	0.6	0.3
Employment				0.5	-0.3	0.5	0.0	0.8	0.0	0.2
Unemployment rate (a)				5.6	7.7	7.8	8.1	7.7	7.9	7.9
Compensation of employees/head				6.0	4.7	2.1	3.4	3.1	2.7	2.4
Unit labour costs whole economy				4.3	3.4	1.3	1.4	3.4	2.6	1.9
Real unit labour costs				-0.3	0.8	-1.5	-1.5	1.3	-0.5	-0.3
Savings rate of households (b)				-	-	8.1	6.6	6.3	7.4	7.8
GDP deflator				4.5	2.5	2.8	2.9	2.1	3.1	2.2
Harmonised index of consumer prices				3.8	2.1	3.0	2.4	2.9	2.3	2.1
Terms of trade of goods				0.1	-1.2	0.4	1.5	-1.9	1.3	0.1
Trade balance (c)				-9.6	-10.3	-10.1	-9.9	-11.1	-10.0	-9.8
Current account balance (c)				-6.3	-9.8	-10.4	-10.0	-11.6	-10.6	-10.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.0	-8.3	-9.3	-8.7	-10.1	-9.4	-9.3
General government balance (c)				-3.8	-6.1	-3.9	-2.6	-2.2	-2.8	-3.3
Cyclically-adjusted budget balance (c)				-3.8	-5.6	-3.5	-2.6	-1.9	-2.2	-2.6
Structural budget balance (c)				-	-5.4	-3.5	-2.7	-2.3	-2.6	-2.6
General government gross debt (c)				55.5	63.6	64.7	63.6	64.3	65.2	66.6

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

22. ROMANIA

Slowing growth, continued imbalances

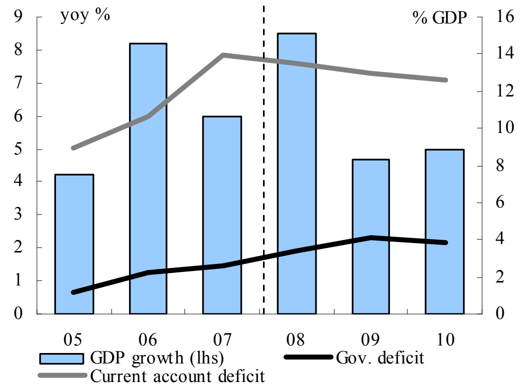
Romania's economy is overheating, but growth is set to slow down. Nevertheless, the current account deficit will remain at worrying and only slightly falling levels. This, together with a worsening fiscal outlook, protracts the vulnerability to external shocks, particularly in the current period of global financial stress.

Domestic demand boom set to slow down

After reaching 6.0% in 2007, real GDP growth accelerated to 8.8% in the first half of 2008. This performance significantly exceeded expectations and has mainly been driven by a record surge in private consumption and gross fixed capital formation, following high real wage growth, a boom in domestic credit and sustained FDI inflows. A procyclical fiscal policy added to the domestic demand pressures. GDP growth was further boosted by an improvement in the trade performance, following significant investments in the manufacturing sector in past years and helped by a 15% RON depreciation since August 2007.

From the second half of 2008, domestic demand is expected to moderate, leading to a still very high GDP growth rate of 8½% for the whole of 2008, also due to a positive one-off effect from agriculture, following the severe drought in 2007. Growth is anticipated to fall to 4¾% in 2009 and to 5% in 2010. Domestic demand is expected to slow down due to tighter credit conditions induced by monetary policy and the general global financial situation. In addition, it is likely to be affected by a decrease in consumer and investor confidence.

Graph 3.22.1: **Romania - GDP, gov. deficit and current account**



External vulnerabilities remain

Export growth is set to decelerate on the back of lower growth prospects in the euro area, which represents about 70% of all exports. However, further FDI-driven improvements in export competitiveness are likely to play a more prominent role towards the end of the forecast period. Hence, the current account deficit is expected to ease from almost 14% of GDP in 2007 to around 12½% in 2010. Although FDI flows covered about 60% of the current account deficit in the first half of 2008, the reliance on short-term debt has increased over recent years, putting an additional premium on policies that strengthen investor confidence.

Labour market, costs and prices

The labour market continues to tighten, with unemployment decreasing to a record low of around 6% in the first half of 2008. Shortages on the labour market have also driven up gross wages, which have risen by 25% y-o-y in July 2008. Unemployment is expected to slightly pick up in 2009 and fall back again in 2010.

Wage and exchange-rate developments, compounded by supply-side shocks, have also fuelled an upturn in inflation, which is expected to edge up to 7¾ % in 2008, from 4.9% in 2007. In response, the main policy rate has been raised by a cumulative 325bps since November 2007 and new prudential rules on foreign exchange lending have been imposed. As both supply and demand pressures are expected to ease somewhat over the forecast period, inflation is projected to decelerate to 5¾% in 2009 and 4% in 2010.

Risks to the outlook

While the forecast scenario projects a rather gradual moderation of GDP growth, a sharper and more sudden adjustment cannot be ruled out. Trade, financial and confidence spillovers related to the international financial crisis could lead to a much faster reduction of both export and domestic demand. The crisis could also lead to a sudden reassessment of Romania's external vulnerabilities and fiscal policy stance by international investors. Associated higher exchange rate volatility would affect household and enterprise balance sheets, which are increasingly relying on foreign exchange denominated credits.

Public finances

The fiscal loosening continues and the budget deficit is expected to deteriorate from 2.6% of GDP in 2007 to almost 3½% of GDP in 2008. Several budget amendments have been implemented, which implied that windfall tax revenues have been used mostly for increasing current expenditure, in particular higher public wages, subsidies and social transfers. On the other hand, the public investment to GDP ratio is projected to remain broadly at its 2007 level. Despite some measures aimed at broadening the contribution base, social contributions are predicted to be negatively affected by a shift of pension revenues from the first to the second funded, pillar (the budgetary cost is estimated at 0.2% of GDP) and by a gradual cut in the social contribution rate by 6pps in the course of 2008.

In 2009, the deficit is expected to widen further to about 4% of GDP due to another increase in pensions, the full impact of the 2008 cuts in the contribution rate and the cost related to the second pension pillar (0.3% of GDP). Public sector wage increases are assumed to remain high.

Under the assumption of unchanged policies, the budget deficit is expected to remain well above 3½% of GDP in 2010. A pension reform cost of 0.3% of GDP is included in the 2010 deficit forecast.

However, there are considerable risks of significantly higher deficits, adding to the already expansionary fiscal policy in a context where macro-economic vulnerabilities would call for a more restrictive fiscal policy. First, there is a major risk that public wage increases will be substantially higher already in 2008, notably if the recent decision to increase teachers' wages by 50% is actually implemented. This could trigger similar wage claims in the rest of the public sector. Secondly, there is the risk that revenues could turn out lower, especially if there is a sharper growth slowdown. Thirdly, there could be further pressures for more public spending ahead of the forthcoming elections in 2008 and 2009. All this would continue the general dismal track record in budgetary planning and execution.

Table 3.22.1:

Main features of country forecast - ROMANIA

		2007		Annual percentage change						
bn RON		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		404.7	100.0	1.6	4.2	8.2	6.0	8.5	4.7	5.0
Private consumption		276.2	68.2	3.4	9.9	12.8	11.1	9.5	5.5	5.6
Public consumption		66.6	16.5	2.0	8.5	-6.5	5.2	3.5	3.5	3.3
Gross fixed capital formation		123.2	30.4	6.5	12.7	23.5	28.9	21.3	10.1	10.8
of which : equipment		59.3	14.6	8.4	17.8	28.8	26.7	21.0	9.4	9.8
Exports (goods and services)		123.2	30.4	11.2	7.7	10.4	8.7	9.2	6.4	7.2
Imports (goods and services)		181.0	44.7	11.6	16.0	22.6	26.1	17.7	10.7	11.1
GNI at previous year prices (GDP deflator)		390.0	96.4	1.3	5.5	7.7	5.7	8.6	5.0	5.3
Contribution to GDP growth :	Domestic demand			4.7	11.0	13.2	15.9	13.5	7.6	7.9
	Stockbuilding			-1.8	-2.3	1.4	-1.2	0.1	0.0	-0.1
	Foreign balance			-1.0	-4.4	-6.4	-8.7	-5.1	-2.9	-2.8
Employment				-2.1	-1.5	0.7	0.4	1.2	0.6	0.7
Unemployment rate (a)				6.5	7.2	7.3	6.4	6.1	6.4	6.1
Compensation of employees/head				73.1	28.6	12.6	22.4	22.5	15.1	13.5
Unit labour costs whole economy				66.8	21.5	4.8	16.0	14.3	10.6	8.8
Real unit labour costs				-1.2	8.3	-5.2	4.7	-0.1	0.6	0.8
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				68.9	12.2	10.6	10.8	14.4	10.0	8.0
Harmonised index of consumer prices				-	9.1	6.6	4.9	7.8	5.7	4.0
Terms of trade of goods				1.1	3.5	7.2	8.9	8.8	4.8	4.5
Trade balance (c)				-7.0	-9.8	-12.0	-14.5	-14.4	-14.2	-13.9
Current account balance (c)				-	-8.9	-10.6	-13.9	-13.5	-13.0	-12.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-4.1	-7.9	-10.4	-13.2	-12.9	-12.4	-12.0
General government balance (c)				-	-1.2	-2.2	-2.6	-3.4	-4.1	-3.8
Cyclically-adjusted budget balance (c)				-	-1.3	-3.2	-3.5	-5.0	-5.2	-4.7
Structural budget balance (c)				-	-1.3	-2.5	-3.5	-5.0	-5.2	-4.7
General government gross debt (c)				-	15.8	12.4	12.9	13.4	15.4	17.1

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

23. SLOVENIA

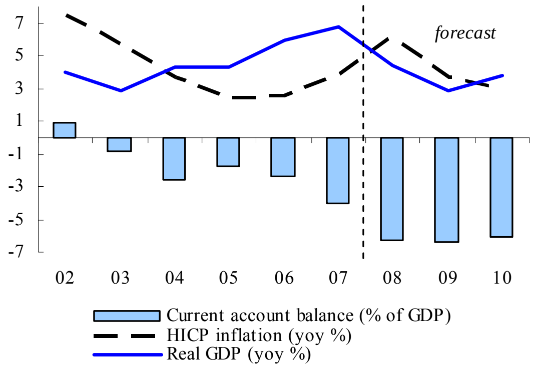
Relatively high inflation despite weakening economy

Moderating activity in 2008

Economic growth remained strong in 2008, albeit well below the exceptional performance recorded in 2007. Real GDP increased at an annual rate of 5.5% in the first half of the year, but with leading indicators pointing to some moderation for the remaining quarters, growth of 4.4% is projected for the year as a whole.

Domestic demand was the driving force behind the continuing strong growth in the first two quarters. In particular, gross fixed capital formation remained buoyant, recording a 12.6% increase year-on-year. The construction sector expanded strongly, especially in non-housing construction reflecting ongoing motorway investment. Equipment investment was also buoyant. In view of the deterioration of the external environment and a decreasing trend in capacity utilisation, investment is expected to slow in the second half of the year. While continuing to be lively in the first half of the year, private consumption growth slowed in 2008 (+3.3%) because of high inflation, despite sizeable increases in nominal wages and still strong employment growth. Owing to the deteriorating external environment, export growth slowed considerably in 2008. Despite a significant moderation in import growth in view of lower domestic demand and reduced demand for intermediate goods for exports, the external sector is expected to make a negative contribution to growth in 2008.

Graph 3.23.1: **Slovenia - HICP inflation, real GDP growth and current account balance**



Further deceleration in 2009, some recovery in 2010

In 2009, growth is projected to slow to 2.9%, driven by a broad-based deceleration in investment activity. Motorway construction investment is expected to be slower compared to previous years and also housing and equipment investment is projected to moderate further. Private consumption growth should remain broadly unchanged from 2008. It would be supported by slowing inflation and significant wage increases, while much lower employment growth is likely to have a dampening effect. The weak external environment is forecast to lead to a further deceleration of exports. Even so, the contribution of the external sector to growth is projected to be somewhat less negative than in 2007-08 because of an even more pronounced moderation in import growth given more subdued demand in particular for investment goods.

In 2010, some recovery is expected, driven by a pick-up in investment growth, especially in railways infrastructure. Growth in equipment investment should also quicken in line with the general pick-up in the economy. Higher employment growth and continued strong wage inflation should lead to a slight acceleration of private consumption. Exports should benefit from the expected recovery in the external environment.

The high current account deficit (6.3% of GDP in 2008) is projected to decline somewhat over the forecast period. However, this outlook is subject to risks as high wage and price growth going forward may further endanger competitiveness, which has already weakened since 2007.

Risk to the inflation and employment outlook from high wage growth

Having picked up markedly to an average annual rate of 3.8% in 2007, inflation peaked in mid-2008, reaching 6.9% in July. Commodity price shocks played a significant role and were amplified by domestic factors such as strong demand pressures, with core inflation rising to a peak of 6.0% in April 2008. With the influence of rising commodity prices fading out and the gradual slowdown of activity setting in, inflation started to slowly come down in the second half of the year and is expected to average 6.2% in 2008, the highest in the euro area by far. For 2009-10 some further moderation is expected but Slovenia would remain among the worst inflation performers in the euro area. Risks to the inflation outlook are on the upside, in particular with regard to wage growth.

The average nominal wage is projected to increase strongly in 2008 (+8.7%), reflecting inter alia nearly full indexation to 2007 inflation. The public sector wage agreement reached in mid-2008, which aims at reducing “wage disparities”, entails increases of 13% over 2008-2010. Together with the agreed sizeable wage increases in the private sector and further second-round effects in 2009 based on the agreed backward-looking indexation of wages, this is expected to increase the average wage by 7.5% in 2009 and 6.9% in 2010.

After the remarkable 3% employment growth recorded in 2007, a similar increase was recorded in the first half of 2008. Some deceleration is expected in the second half, leading to employment growth of about 1.8% for 2008 as a whole. The ongoing economic deceleration and high projected wage increases should bring employment growth down substantially next year (+0.1%) before it picks up again in 2010.

Small government deficits

The general government deficit is estimated at 0.2% of GDP in 2008, better than the target of 0.9% in the stability programme. The main reason for the more favourable outcome is a better-than-expected 2007 outturn (a surplus of 0.5% of GDP compared to a 0.6% deficit in the programme). At the same time, however, additional expenditure was decided in the run-up to the elections, which is projected to be only partly compensated by a tax overshoot from recent strong economic activity.

The deficit is projected to widen to around ¾% of GDP in 2009, broadly in line with the stability programme target. The impact of the economic slowdown and the agreed public sector wage increases would by and large offset stronger tax revenue from higher-than-anticipated inflation. With government coalition negotiations after the recent elections ongoing, a (revised) budget for 2009 is only expected to be adopted in spring 2009. On a no-policy-change basis, the deficit should narrow to about ½% of GDP in 2010 due to the pick-up in economic activity.

Debt as a share of GDP is expected to continue on a decreasing path, reaching about 20% by 2010.

Table 3.23.1:

Main features of country forecast - SLOVENIA

		2007		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		34.5	100.0	3.2	4.3	5.9	6.8	4.4	2.9	3.7
Private consumption		18.0	52.2	3.8	2.6	2.9	5.0	3.3	3.2	3.4
Public consumption		6.1	17.7	3.0	3.3	4.1	2.5	3.2	2.6	2.6
Gross fixed capital formation		9.5	27.5	6.8	3.8	10.4	11.9	9.5	3.9	5.6
of which : equipment		3.8	11.2	9.8	5.4	15.2	9.3	8.8	3.0	5.0
Exports (goods and services)		24.2	70.2	3.8	10.6	12.5	13.8	6.2	4.8	7.5
Imports (goods and services)		24.6	71.5	6.0	6.6	12.2	15.7	6.9	5.1	7.4
GNI at previous year prices (GDP deflator)		33.8	98.0	3.1	4.7	5.5	5.9	4.4	2.8	3.7
Contribution to GDP growth :	Domestic demand			4.2	2.9	5.2	6.6	4.9	3.3	3.9
	Stockbuilding			0.4	-0.8	0.8	1.8	0.0	0.0	0.0
	Foreign balance			-1.3	2.2	0.2	-1.3	-0.6	-0.4	-0.2
Employment				-	-0.1	1.5	3.0	1.8	0.1	0.5
Unemployment rate (a)				-	6.5	6.0	4.9	4.5	4.8	4.7
Compensation of employees/head				-	5.3	5.5	6.3	8.7	7.5	6.9
Unit labour costs whole economy				-	0.8	1.1	2.5	6.0	4.6	3.6
Real unit labour costs				-	-0.8	-0.9	-1.5	1.6	0.5	-0.2
Savings rate of households (b)				-	-	15.1	13.6	13.4	13.5	13.5
GDP deflator				21.0	1.6	2.0	4.1	4.3	4.1	3.8
Harmonised index of consumer prices				-	2.5	2.5	3.8	6.2	3.7	3.1
Terms of trade of goods				1.1	-2.4	-0.4	0.2	-2.7	0.3	0.4
Trade balance (c)				-2.7	-3.6	-3.8	-4.9	-7.5	-7.7	-7.7
Current account balance (c)				0.1	-1.8	-2.4	-4.0	-6.3	-6.3	-6.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				0.1	-1.7	-2.3	-3.7	-6.2	-6.3	-6.1
General government balance (c)				-	-1.4	-1.2	0.5	-0.2	-0.7	-0.5
Cyclically-adjusted budget balance (c)				-	-0.9	-1.3	-0.5	-1.0	-0.8	-0.3
Structural budget balance (c)				-	-0.9	-1.3	-0.5	-1.0	-0.8	-0.3
General government gross debt (c)				-	27.0	26.7	23.4	21.8	21.1	20.1

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

24. SLOVAKIA

Domestic demand expected to remain resilient

Economic situation in 2008

Despite robust growth in the first two quarters, economic expansion in 2008 may slow down to 7% from 10½% in 2007. It should be mainly driven by domestic demand while the external growth contribution is likely to decelerate.

Private consumption growth seems to remain resilient in 2008 against the backdrop of strong wage and employment growth while government consumption is increasing. Vigorous investment activity in construction is maintaining gross fixed capital formation growth at about 6½%.

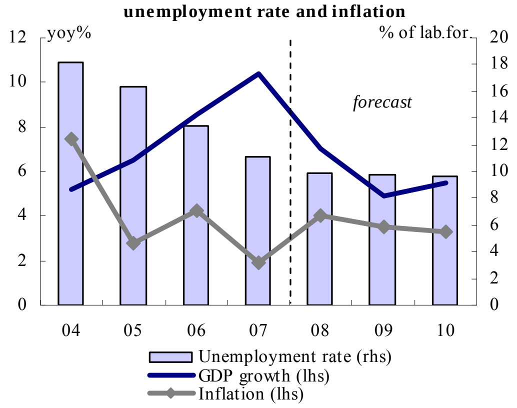
Export growth is about to slow down by some 6 percentage points to roughly 10%. At the same time, as import growth is set to move in the same direction to around 9%, the declining trade deficit is likely to contribute to a further decline in net borrowing from the rest of the world.

Domestic resilience in 2009 and 2010

GDP growth is expected to decrease to just below 5% in 2009 before increasing again to some 5½% in 2010.

It is especially domestic demand that is likely to drive the economy over the forecast horizon. Wage growth and further improvements in the labour market, albeit moderated, are projected to continue to support the somewhat weaker private consumption growth, which should, nevertheless, remain at roughly 5% over the forecast horizon. Gross fixed capital formation growth is also anticipated to slow down in 2009 before recovering in 2010. It should still remain healthy, as new infrastructure projects in the public sector are expected to be started. However, since some of these projects have a private financing component (public private partnerships), financing difficulties and a possible reversal of investor sentiment might postpone their launch.

Graph 3.24.1: **Slovakia - GDP growth, unemployment rate and inflation**



The contribution of net exports should stay in positive territory. Against the backdrop of lower growth prospects in the euro area and the recent exchange rate appreciation, exports growth is projected to decline. Nevertheless, it is likely to continue to outpace import growth and, hence, the trade balance is anticipated to keep improving over the forecast horizon.

Labour markets, costs and prices

After a healthy increase in the first half of the year, mainly due to improved employment opportunities in the construction sector, total employment is projected to perk up by some 2¼% in 2008 and by more moderate rates in 2009 and 2010. The unemployment rate is likely to decrease to below 10% in 2008 and further decline in 2009 and 2010, albeit only marginally, as Slovaks working abroad are expected to increasingly seek job opportunities at home. Given strong public sector wage growth, unit labour costs are likely to increase by around 4% in 2008. Thereafter, lower productivity growth should keep their growth at some 3½% and 2½% in 2009 and 2010.

Average annual HICP inflation is estimated to increase to around 4% in 2008 and then to decrease gradually to some 3½% in 2009 and 3¼% in 2010. Annual HICP inflation has been gradually increasing since August 2007 as it was pushed up by rising food and energy prices. Favourable base effects at the end of 2008 should ensure some moderation in the inflation rate which will, however, be partly offset by a jump in the inflation contribution of tobacco prices. Moreover, regulated gas prices for households are expected to be increased at the beginning of 2009 in order to reflect past oil price hikes, thus counterbalancing disinflationary effects induced by recent strong exchange rate appreciation. Thereafter, decelerating food and energy prices are likely to ensure gradual decreases in overall HICP inflation which should in 2010 be partly offset by accelerating goods and services prices as favourable effects of past exchange rate appreciation fade out.

Public finances

The 2008 general government deficit is likely to end up close to the budget target at around 2¼% of GDP. The January 2008 increase in excise taxes induced a large accumulation of stocks of cigarettes by consumers and enterprises at the end of 2007 and thus resulted in a revenue-shortfall of some ½% of GDP in 2008. However, another hoarding of cigarettes motivated by a lower excise tax hike set for February 2009 should partly offset this negative revenue effect while resulting in a revenue shortfall of some ¼% of GDP in 2009.

In addition, revenue-increasing measures in 2008 such as a broadening of the corporate and personal income tax base and an increase in the maximum ceiling on social contributions are foreseen to generate additional revenue of around ¼% of GDP in 2008. Moreover, the temporary opening of the second pension pillar in the first half of 2008 induced an outflow of some 7% of participants from the scheme and thus resulted in one-off revenue of around ¼% of GDP in 2008 as pension savings accumulated in previous years have been transferred from the second to the first pillar, i.e. from the private to the general government sector. On the expenditure side, farming subsidies are set to continue increasing substantially.

In 2009, the general government deficit is expected to remain close to 2¼% of GDP. The 2009 budget proposal approved by the government foresees some expenditure growth restraint, mostly regarding defence spending and public sector wages. On the other hand, the budget also reflects the so-called social package, including measures such as a forward shift in pension indexation from July to January 2009 and an increase in child-birth benefits requiring additional public expenditure of some ½% of GDP. Nevertheless, another temporary opening of the second pension pillar in the first half of 2009 could generate further one-off revenue of around ¼% of GDP.

Under the customary no-policy-change assumption the budget deficit is projected to rise to around 2½% of GDP in 2010. The debt-to-GDP ratio is expected to increase slightly over the forecast horizon from 28¾% of GDP in 2008 to 29¼% of GDP in 2010.

Table 3.24.1:

Main features of country forecast - SLOVAKIA

	2007		Annual percentage change						
bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	61.5	100.0	-	6.5	8.5	10.4	7.0	4.9	5.5
Private consumption	34.4	55.9	-	6.5	5.8	7.0	6.7	5.0	5.2
Public consumption	10.7	17.3	-	3.3	10.2	-1.3	3.9	2.8	3.6
Gross fixed capital formation	16.0	26.1	-	17.6	9.3	8.7	6.4	5.2	6.0
of which : equipment	6.2	10.1	-	22.0	-6.3	4.2	6.4	4.8	5.9
Exports (goods and services)	53.2	86.5	-	13.9	21.0	16.2	10.0	5.9	6.2
Imports (goods and services)	53.8	87.5	-	16.1	17.7	11.2	8.9	5.6	5.6
GNI at previous year prices (GDP deflator)	59.8	97.2	-	7.9	9.0	10.0	5.9	4.9	5.6
Contribution to GDP growth : Domestic demand			-	8.7	7.5	6.5	6.1	4.6	5.1
Stockbuilding			-	0.1	-0.5	-0.3	0.1	0.0	0.0
Foreign balance			-	-2.1	1.7	3.8	0.8	0.3	0.5
Employment			-	1.4	2.3	2.1	2.2	0.8	0.6
Unemployment rate (a)			-	16.3	13.4	11.1	9.9	9.8	9.6
Compensation of employees/head			-	9.7	7.7	8.8	9.0	7.6	7.4
Unit labour costs whole economy			-	4.3	1.5	0.6	4.0	3.4	2.4
Real unit labour costs			-	1.9	-1.4	-0.5	0.3	-0.2	-0.9
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			-	2.4	2.9	1.1	3.7	3.7	3.3
Harmonised index of consumer prices			-	2.8	4.3	1.9	4.0	3.5	3.3
Terms of trade of goods			-	0.0	-1.8	-1.6	-1.0	-0.1	-0.3
Trade balance (c)			-	-5.4	-5.2	-1.7	-1.5	-1.1	-0.8
Current account balance (c)			-	-8.6	-7.4	-5.1	-5.6	-4.7	-3.5
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-9.0	-7.0	-4.7	-4.9	-3.6	-2.1
General government balance (c)			-	-2.8	-3.5	-1.9	-2.3	-2.2	-2.5
Cyclically-adjusted budget balance (c)			-	-2.0	-3.2	-2.7	-3.1	-2.5	-2.3
Structural budget balance (c)			-	-1.2	-3.0	-2.7	-3.3	-2.7	-2.3
General government gross debt (c)			-	34.2	30.4	29.4	28.8	29.0	29.3

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

25. FINLAND

Solid fundamentals supporting growth

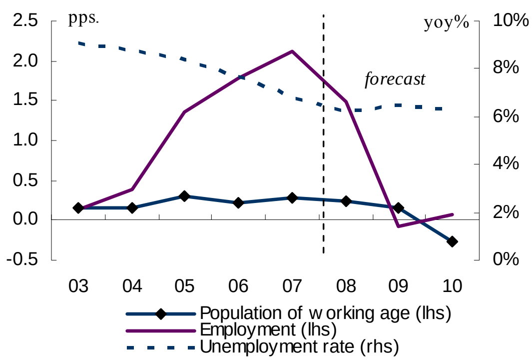
Buoyant, yet balanced growth over past years

Finland has enjoyed an extended period of economic boom, with GDP growth reaching 4.9% in 2006 and 4.5% in 2007, exceeding estimated potential growth by over 1 percentage point. Moreover, growth was free of distortions, avoiding the accumulation of major macro-economic imbalances or asset price bubbles. Also, inflation stayed one of the lowest among the EU Member States. Exports provided strong forward momentum, maintaining the current account at a sizeable surplus of close to 5% of GDP. Investment activity was particularly robust in 2007, expanding by 8.5%, especially on account of non-residential construction and spending on equipment. Private consumption increased by a solid rate of slightly over 3% in 2007. Over the first half of 2008, the business cycle has taken a downturn. GDP growth has moderated to about 2½ %, led by slowing domestic demand.

Strong wage growth, but inflation set to ease from the present high

Even though the recent economic upswing created labour shortages in many sectors, wage growth remained contained by the previous general wage agreement. The current wage settlement from autumn 2007 resulted in notably higher wages for the following 3-year period, growing by 5½ % in 2008 and slightly less thereafter. In the setting of slowing economic activity, it leads to a sharp rise in unit labour costs. Indeed, inflation has increased sharply over the past year, though mainly reflecting higher global food and energy prices. Additionally, a hike in energy and alcohol excises

Graph 3.25.1: **Finland - Labour market and population ageing**



in 2008 contributed by about 0.3 pp. to inflation. Since August 2008, also core inflation (excluding energy and food) has accelerated, driven by a rise in healthcare fees. Annual inflation is forecast to drop from 4.1% in 2008 to slightly above 2½ % in 2009 and further to below 2% in 2010, in line with the easing of global energy and food prices. Decelerating economic activity would counteract the upward inflationary pressures resulting from the wage hikes. A notable disinflationary effect will come in October 2009 from cuts to VAT rates on food.

Economy to remain resilient

Economic growth is forecast to decelerate further in the course of 2008 and 2009, as the domestic slowdown coincides with the global downturn. In line with the rest of the euro area, consumer and business confidence indicators have plummeted over 2008. Economic activity is expected to slowly revive from the end of 2009 onwards as the external environment is assumed to stabilise. Finland is expected to weather the global financial market crisis relatively better than most other euro area countries, given the strength of its macroeconomic fundamentals, public finances and the financial sector, which is relatively well shielded from the direct impacts of the global crisis. Households' purchasing power is forecast to remain at par with the previous boom years, supported by higher wages, substantial income tax cuts focused to 2009, moderating inflation and the labour market seen to remain resilient. Nevertheless, private consumption is still expected to slow in 2009 as households would increase savings in an environment of economic uncertainty.

Investment is seen to contract in 2009, led by a decline in housing construction and more cautious business expansion in the aftermath of the financial crisis. Investment activity is forecast to resume in line with the economic recovery in 2010. Also, the relative scarcity of housing in some regions would encourage residential construction. Net exports are predicted to weaken sharply in 2009 in line with faltering demand in Europe and the prominent forest industry facing major challenges from Russian raw-wood export duties eventually halting timber supply from Russia. Also in 2010, the relatively high wage growth and its impact on competitiveness will still weigh on export growth.

Labour market defying the economic slump

Over the first half of 2008, employment growth has maintained the momentum gained during the boom years, still growing at almost 2% annually. Unemployment has declined further to close to 6% of the labour force. The labour market faces a fundamental change as the working age population would turn to a constant decline from 2010 onwards. The resulting tightness in the labour market is seen to hold unemployment down even with weak employment developments. It is expected that in spite of below-potential GDP growth in 2009, employment and unemployment rates would hold steady at broadly present levels. Employment is initially supported by the high vacancy rates that built up during the economic boom years and the imminent decline in labour supply would encourage labour hoarding.

Strong public finances afford tax cuts

Expenditure growth was effectively contained during the economic upswing, providing the margin for substantial tax cuts while still building up a considerable surplus in public finances, amounting to 5.3% of GDP in 2007 and forecast to stay at broadly the same level in 2008. The surplus arises from the central government finances (about 2% of GDP) and from social security (over 3% of GDP, which is used to further accumulate pension fund assets). The local government finances have remained close to balance. Over the forecast period, the trend of increasing surpluses will however be reversed. Expenditure is set to grow relatively faster than in the previous years due to higher inflation and wage growth in the public sector. On the revenue side, the government has decided to concentrate its income tax cuts package, amounting to almost 0.9% of GDP, mainly in 2009. Coupled with a slow-down of tax revenue during the economic downturn, the general government surplus would decline by about 1½ pp. of GDP in 2009 and a by a further 1 pp. in the following year. The surplus would still amount to 2½% of GDP in 2010. In view of continued budget surpluses, the government debt-to-GDP ratio is set to decline to below 30% by 2010.

Table 3.25.1:

Main features of country forecast - FINLAND

		2007		Annual percentage change						
	bn Euro	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		179.7	100.0	2.8	2.8	4.9	4.5	2.4	1.3	2.0
Private consumption		90.6	50.4	2.2	3.3	4.1	3.2	3.2	2.1	2.3
Public consumption		38.2	21.2	0.8	1.9	0.6	1.3	1.5	1.4	1.2
Gross fixed capital formation		36.5	20.3	1.6	3.5	4.7	8.5	2.9	-0.6	1.4
of which : equipment		9.6	5.4	2.1	-0.2	4.1	11.5	2.0	0.7	2.1
Exports (goods and services)		82.2	45.7	8.9	7.0	11.8	8.2	4.6	2.7	3.3
Imports (goods and services)		73.1	40.7	6.5	11.8	7.8	6.6	2.6	2.8	3.1
GNI at previous year prices (GDP deflator)		181.9	101.2	3.2	2.7	5.3	4.7	2.4	1.3	2.0
Contribution to GDP growth :	Domestic demand			1.6	2.8	3.2	3.7	2.5	1.3	1.7
	Stockbuilding			0.2	1.2	-0.2	0.6	-0.2	0.0	0.0
	Foreign balance			1.1	-1.1	2.0	1.1	1.0	0.1	0.2
Employment				0.1	1.4	1.8	2.2	1.5	-0.1	0.0
Unemployment rate (a)				11.9	8.4	7.7	6.9	6.3	6.5	6.4
Compensation of employees/head				2.9	3.8	2.9	3.5	5.5	4.7	4.3
Unit labour costs whole economy				0.2	2.3	-0.2	1.1	4.6	3.2	2.3
Real unit labour costs				-1.5	1.9	-1.4	-1.8	1.2	0.7	0.2
Savings rate of households (b)				-	-	5.6	5.5	5.4	6.1	6.8
GDP deflator				1.7	0.4	1.3	2.9	3.4	2.4	2.1
Harmonised index of consumer prices				1.7	0.8	1.3	1.6	4.2	2.6	1.8
Terms of trade of goods				-0.3	-4.3	-3.8	-1.6	-1.8	-1.3	-0.9
Trade balance (c)				8.6	4.9	5.5	4.9	4.8	4.1	3.8
Current account balance (c)				4.6	3.9	4.9	5.3	5.6	5.0	4.9
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				5.1	5.2	6.1	6.4	6.6	6.0	5.8
General government balance (c)				-0.5	2.9	4.1	5.3	5.1	3.6	2.4
Cyclically-adjusted budget balance (c)				0.3	3.5	4.0	4.6	4.7	3.9	3.0
Structural budget balance (c)				-	3.5	4.0	4.6	4.7	3.9	3.0
General government gross debt (c)				48.5	41.3	39.2	35.1	31.6	30.2	29.8

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

26. SWEDEN

Worsening growth outlook, eroding fiscal surpluses

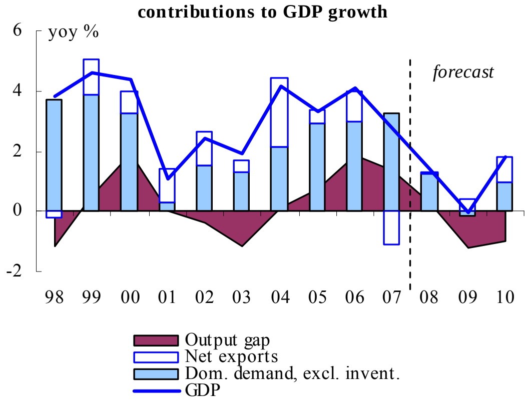
The economic slowdown worsened in 2008

Over the summer and early autumn months, hopes that the Swedish economy would be only mildly affected by the ongoing international financial crisis have rapidly faded. The second quarter of 2008 saw growth in economic activity that started to slow in the first half of 2006 coming to a screeching halt, with real GDP staying flat compared to the first quarter. Driving the downturn since the cyclical peak has been a weakening of external demand in the wake of the unfolding global financial crisis. Exports actually fell by more than 1% in the second quarter.

Thanks to relatively strong employment and wage growth and implemented tax cuts, household consumption held up reasonably well in the first half of 2008. Over the summer, however, consumer confidence has plunged dramatically to levels not seen since the crisis in the early 90s.

Rising consumer price inflation, which reached a new high of 4.4% in September (year-over-year), has eroded the purchasing power of households and triggered a series of rate hikes from the central bank. The last hike took place as recently as in early September. To instil confidence in the faltering financial markets and to counteract the worsening growth outlook, however, the central bank has made an abrupt about-face and cut rates by a cumulative 100 basis points to 3.75% in October. Unusually wide spreads have also contributed to taking a large bite out of household disposable income and borrowing conditions have been tightened.

Graph 3.26.1: **Sweden - Output gap and contributions to GDP growth**



Over the summer, business sentiment has also weakened significantly, weighed down by rising production and financing costs, a continued fall in productivity and a dwindling number of new orders. Moreover, the number of bankruptcies has started to pick up.

The downturn expected to continue in 2009

While household consumption is likely to be supported by income tax cuts and a gradual fall in inflation in 2009, consumer pessimism and worsening labour market prospects are likely to lead to a period of subdued household consumption growth over the forecast period.

Households entered the downturn with fairly strong balance sheets, but as borrowing costs rise and the labour market worsens, an increasing number of households are expected to encounter difficulties servicing their loans. Consumer sentiment and household wealth has also taken a hit from plunging stock markets, with the OMX index falling by about half since its peak last summer. Overall, the housing market has cooled down, with single-family house prices rising by only 2% over the three months to September and prices of flats falling by 5% over the same period.

With gloomy prospects for economic growth, capacity utilisation is likely to fall with negative repercussions on investment activity. Therefore, gross fixed capital formation is likely to fall in 2009 and only stage a muted recovery in 2010 on the back of an expected pick-up in exports. After growing by only 1.9% in 2009, exports should gain some support from a gradual recovery in trading partners' economies and the lagged effects of a somewhat weaker Swedish krona.

In sum, annual GDP growth is expected to slow down significantly in the coming year, decelerating from 1.4% in 2008 to 0% in 2009. The subsequent recovery is expected to be gradual and muted, with GDP growth rising to 1.8% in 2010.

Unemployment is expected to rise rapidly in 2009-10

As noted above, employment held up well in the first half of 2008. In the autumn, the situation has drastically changed with the number of announced lay-offs rising rapidly. The prolonged period of slow productivity growth observed over the last year and a half seems to a large extent to be due to companies not having adapted their workforce to the surprisingly weak demand. Only very recently, they have started to do so by cutting employment. In combination with the rapidly deteriorating growth outlook, this is expected to lead to a rapid rise in the unemployment rate, which is foreseen to rise to about 7½% in 2010.

Fiscal surplus expected to turn into small deficit in 2010

Public finances recorded a strong surplus of about 3½% of GDP in 2007. Despite various expansionary elements contained in the 2007 budget, including reductions of income taxes and the abolition of wealth taxes, the strengthening of the labour market contributed to both higher-than-foreseen tax revenues and lower expenditure. Due to the continued relative strength of employment growth and household consumption in the first half of 2008, public finances continued to register solid surpluses, despite the introduction of further tax cuts and the ongoing weakening of economic activity.

A combination of slower economic growth (with its concomitant worsening of the labour market), sharp falls in share prices and the implementation of a fiscal stimulus package should lead to significant worsening of the fiscal balance over the forecast period. The Budget Bill for 2009, which was presented in September, contains tax cuts and spending increases of about 1% of GDP in total. In 2008, the surplus is expected to hold up relatively well at around 2½% of GDP, but should then decline to ½% of GDP in 2009 and turn into a small deficit of about the same size in 2010. The fiscal policy target of having a 1% surplus over the cycle is, however, likely to continue to be respected.

On the basis of continued general government surpluses and privatisation receipts to date, the government debt-to-GDP ratio is projected to decline further to around 32% in 2010.

Table 3.26.1:

Main features of country forecast - SWEDEN

		2007		Annual percentage change						
bn SEK		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		3070.6	100.0	2.4	3.3	4.1	2.7	1.4	0.0	1.8
Private consumption		1434.1	46.7	1.7	2.7	2.5	3.0	1.5	0.4	1.0
Public consumption		796.6	25.9	0.6	0.4	1.5	1.1	0.4	0.5	0.9
Gross fixed capital formation		581.6	18.9	1.5	8.9	7.7	8.0	2.2	-2.3	1.5
of which : equipment		239.2	7.8	4.6	12.3	5.6	11.1	2.3	-2.5	2.0
Exports (goods and services)		1609.2	52.4	7.4	6.6	8.9	6.0	3.5	1.9	3.8
Imports (goods and services)		1375.0	44.8	5.3	7.0	8.2	9.6	4.2	1.4	2.9
GNI at previous year prices (GDP deflator)		3073.5	100.1	2.5	3.4	6.0	3.1	1.4	0.0	1.8
Contribution to GDP growth :	Domestic demand			1.2	2.9	3.0	3.2	1.3	-0.1	1.0
	Stockbuilding			0.1	0.0	0.2	0.7	-0.4	-0.3	0.0
	Foreign balance			1.1	0.4	1.0	-1.1	0.0	0.4	0.8
Employment				-0.3	0.3	1.7	2.3	0.8	-0.6	-0.2
Unemployment rate (a)				7.3	7.4	7.0	6.1	6.0	6.8	7.3
Compensation of employees/head				4.2	3.1	2.2	5.0	3.5	3.5	3.1
Unit labour costs whole economy				1.5	0.1	-0.2	4.5	2.9	2.9	1.0
Real unit labour costs				-0.4	-0.8	-2.0	1.4	2.6	1.2	-0.6
Savings rate of households (b)				-	-	9.8	11.0	8.9	12.1	13.4
GDP deflator				1.8	0.9	1.8	3.1	0.3	1.7	1.7
Harmonised index of consumer prices				1.9	0.8	1.5	1.7	3.0	1.7	1.9
Terms of trade of goods				-1.0	-2.0	-0.8	2.7	-4.7	-1.0	-0.3
Trade balance (c)				6.1	5.8	5.8	4.6	2.8	2.7	2.9
Current account balance (c)				3.7	6.1	8.5	8.4	4.6	4.2	4.6
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				3.4	6.2	7.9	8.3	4.5	4.1	4.5
General government balance (c)				-2.6	2.4	2.3	3.6	2.6	0.5	-0.4
Cyclically-adjusted budget balance (c)				-1.7	1.9	1.2	2.7	2.4	1.2	0.3
Structural budget balance (c)				-	1.9	1.2	2.7	2.1	1.1	0.3
General government gross debt (c)				62.8	50.9	45.9	40.4	34.7	33.7	32.2

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

27. THE UNITED KINGDOM

Budget deficit and debt spiral as economy contracts

Domestic demand begins to fall

Economic activity in the first two quarters of 2008 slowed sharply compared to the previous year, reaching standstill in the second quarter, and contracted by 0.5% in the third. ([11]) In 2007 annual growth had reached 3.0%, following 2.8% in 2006.

Notwithstanding the overall slowdown, growth continued to be supported mainly by private consumption in the first half of 2008, which however stagnated in the second quarter following a sharp increase in the first. Gross disposable income increased slightly in the first half of the year, with a notable rise in the second quarter. In the face of the high household spending, the saving ratio nonetheless turned negative (-0.6%) in the first half, compared to an already low 2.5% in 2007.

Fixed investment fell markedly in the first two quarters, subtracting on average 0.4 percentage points from quarterly growth. The weakening was broad-based, driven by a fall in both residential and business investment, although general government investment provided a small stimulus. General government consumption contributed positively to overall growth in the first half while the build-up of inventories dampened it slightly.

Net external demand provided a sizeable stimulus in the first two quarters on account of falls in imports and a slight improvement in exports. The current external balance showed marked swings in the first two quarters due to sharp changes in the income balance, leaving the current balance in deficit by 3.0% of GDP in the second quarter, following a deficit of 3.8% in 2007.

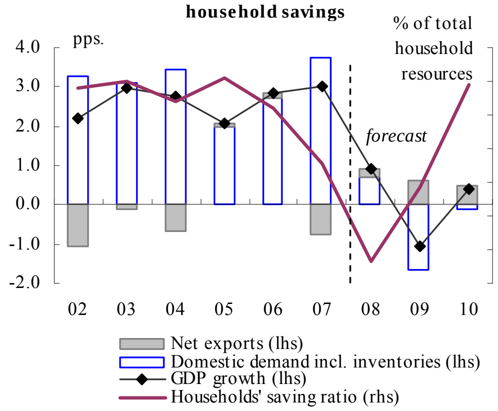
Financial market conditions proved both tense and volatile throughout the year, culminating in sharp rises in money market spreads and a pronounced weakening in equity markets. Following the nationalisation of the Northern Rock (NR) bank in February 2008, the UK government took ownership of Bradford & Bingley (B&B), another UK mortgage lender, in late September. In response to mounting pressures on the banking sector, the government announced a banking recapitalisation plan on 8 October, accompanied by a sovereign guarantee of certain types of new short- and medium-term corporate debt as well as an enhanced extension of the Bank of England's Special Liquidity Scheme.

Financial and housing markets depress outlook

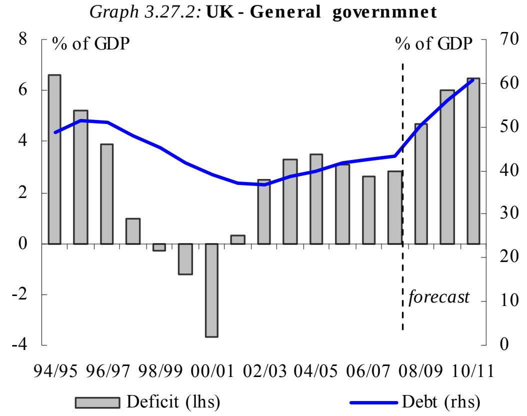
The economic outlook in the medium term is shaped by developments in the housing market and domestic credit conditions, both of which will weigh on domestic demand going forward. The historically large depreciation of the pound's nominal effective exchange rate since mid-2007 is likely to improve the price competitiveness of UK exports in the medium term.

The central outlook envisages a marked fall in private consumption in 2009 and 2010, driven by more restrictive borrowing conditions and lower household wealth. The Bank of England's October 2008 credit conditions survey showed that conditions for all types of lending to households and corporations tightened successively from the onset of the credit crunch through to the third

Graph 3.27.1: **UK - GDP growth contributions and household savings**



Graph 3.27.2: **UK - General governmnet**



quarter 2008, and would be restricted further in the fourth. The expected continuation of the downward correction in house prices will also weaken the collateral value of housing for secured borrowing, thus compounding the ongoing tightening of credit conditions. Private consumption will be dampened further as household spending responds to falling employment, which depresses disposable income, as well as to falls in net housing and financial wealth. The heightened unemployment risk is also likely to prompt increases in savings from their currently very low level.

Fixed investment is set to fall sharply in both 2008 and 2009 on account of a restrictive borrowing environment, as well due to a weak demand outlook in both the housing market and business sector. Faced with easing capacity pressures, business investment will fall until end-2009 before recovering, while housing investment will be cut in response to house price falls, low turnover and a weak and uncertain demand outlook. Government consumption will continue providing a moderate stimulus over the entire forecast period, with expenditure plans confirmed until 2010.

The growth contribution of net external demand is expected to continue to be weakly positive. Imports are expected to slow in 2009 in line with domestic demand growth, while exports will increase only moderately due to an appreciable softening of export markets and some absorption of a weaker exchange rate in UK exporters' profit margins. ([12]) Foreign income flows will be affected by writedowns of both UK assets and liabilities, but will continue to help finance the UK's substantial trade deficit and the external deficit is therefore likely to stabilise at slightly below 3% of GDP over the forecast period.

In summary, growth in the UK economy is expected to slow to 0.9% in 2008. In 2009, a negative carryover and the contraction in domestic demand through the year will lead to a contraction of around 1%, followed by a gradual recovery in 2010 to annual growth of around ½%. This scenario is subject to downside risks relating to the length and severity of financial market problems, which remain highly uncertain but are crucial in view of the scale of household indebtedness and the typically strong growth contribution of the UK's financial sector.

Employment falls and inflation drops sharply

The previously strong labour market showed early weakening, with employment starting to fall and unemployment rising markedly over the summer. Over the forecast period employment growth is expected to turn negative as a result of falling output. The supply of labour is also projected to increase at a slower pace, reflecting reduced immigration. As activity weakens the unemployment rate will rise by around 1½ percentage points over the forecast period. Average earnings growth remained stable at just below 4% in the first half of 2008, but is expected to moderate in 2009 due to labour market weakening. HICP inflation will remain high at above 4% in the final quarter of 2008, but will ease sharply in 2009 as economic activity and energy and commodity prices weaken.

Government deficit set to reach 6½% of GDP by 2010/11

In the 2008/09 financial year the general government deficit is forecast to rise to 4¾% of GDP.([13]) Thereafter, public finances are expected to continue deteriorating, with the deficit ratio forecast to reach 6% in 2009/10 and 6½% in 2010/11. The structural budget balance in 2008/09 is set to deteriorate substantially, the greater part of the deterioration due to the weakening of economic activities yielding high tax intakes.

Table: 3.27:
General government projections on a financial year basis

	2007/08[1]	2008/09	2009/10	2010/11
Budget balance	-2.8	-4.7	-6.0	-6.5
Cyclically-adjusted budget balance	-3.4	-4.9	-5.3	-5.4
Debt[2]	43.2	50.4	55.9	60.8

[1] Actual data.
[2] In 2007 the Bank of England made a loan equivalent to 1.9% of GDP to Northern Rock (NR) bank in the context of a rescue operation. Eurostat has taken the provisional view that the lending should have the government as the principal party of the transaction in the national accounts framework. If the loan were to be treated in this way, the debt-to-GDP ratio would be 46.1% at end-2007 and 44.9% at end 2007/08. The lending to NR has no direct impact on the government deficit in 2007/08.

In 2008/09 the revenue ratio is forecast to drop by almost a three-quarter-percentage point. Revenue from corporate taxation, which accounted for a quarter of tax revenue increases over the past five years, is expected to decrease, primarily reflecting financial sector difficulties. An increase in corporate taxes as a result of higher profits from oil and gas extraction will be largely offset by lower profitability in the oil-consuming industries. Meanwhile, the sharp drop in property transactions and falling property prices will reduce stamp duty revenue. VAT revenues are also forecast to grow at a lower rate than in 2007/08, due to an increase in the share of household expenditure on food and domestic energy, which are not subject to the standard VAT rate.

Subsequent to the March 2008 budget, which was fiscally neutral, the UK authorities announced for 2008/09 fiscal relaxation measures costing around ¼% of GDP in foregone revenue. On the expenditure side, the forecast assumes adherence to the envelope set in the government's 2007 Comprehensive Spending Review for the three years from April 2008, which foresees decelerating non-cyclical primary expenditure. By contrast, the sudden rise in inflation in 2008 will result in higher interest payments on index-linked gilts and sharply uprated social benefits in the near term.

In 2009/10 and 2010/11, the deceleration in corporate profits will weigh down on tax revenue, with no significant improvement in the contribution of the financial sector. Personal income tax receipts are also expected to slow sharply, mirroring lower employment and a deceleration in earnings, while the contraction in real consumption expenditure and low inflation depresses indirect tax revenue. Social transfers are forecast to continue growing at a high rate, in part due to a weak labour market. Interest payments in 2010/11 are expected to increase by a third compared to 2007/08, mirroring a surge in government debt. The general government gross debt ratio is forecast to rise by more than 15 percentage points, to over 60% by 2010/11, driven by the primary deficits and government capital injections to the banking sector.

The deficit projections above could be subject to upside adjustment as a result of government decisions concerning the financial sector. The latter include the probable conversion into equity of debt owed by NR and the transfer of funds to Abbey following its takeover of B&B's retail deposits. The projections above do not include possible revenues and/or expenses from the government guarantee on interbank lending. The statistical implications of these operations are currently being examined by Eurostat.

(11) The preliminary Q3 GDP estimate published by the UK Office for National Statistics after the cut-off point for this forecast increases downside risks to our forecast.
(12) The projections for export and import volumes exclude the impact of Missing Trader Intra-Community (MTIC) fraud.
(13) The UK financial year runs from April to March.

Table 3.27.1:

Main features of country forecast - THE UNITED KINGDOM

		2007			Annual percentage change					
bn GBP		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		1401.0	100.0	2.8	2.1	2.8	3.0	0.9	-1.0	0.4
Private consumption		893.4	63.8	3.3	1.9	2.1	3.0	1.8	-2.1	-1.1
Public consumption		296.9	21.2	1.8	1.7	1.6	1.8	2.0	1.3	2.0
Gross fixed capital formation		249.2	17.8	3.8	2.2	6.0	7.1	-3.3	-3.0	0.9
of which : equipment		84.2	6.0	5.3	1.7	4.0	9.0	-3.2	-2.5	-0.4
Exports (goods and services)		368.3	26.3	5.4	8.1	11.0	-4.5	1.6	1.3	2.7
Imports (goods and services)		415.8	29.7	6.6	7.0	9.6	-1.9	0.8	-0.9	0.9
GNI at constant prices (GDP deflator)		1408.0	100.5	3.1	2.3	1.8	2.8	1.9	-1.3	0.5
Contribution to GDP growth :	Domestic demand			3.1	2.0	2.7	3.5	1.0	-1.6	-0.1
	Stockbuilding			0.1	0.0	0.0	0.2	-0.3	-0.1	0.0
	Foreign balance			-0.4	0.1	0.0	-0.7	0.2	0.6	0.5
Employment				0.7	1.0	0.9	0.7	0.5	-1.6	0.3
Unemployment rate (a)				6.9	4.8	5.4	5.3	5.7	7.1	6.9
Compensation of employees/head				4.3	3.7	4.6	3.7	2.8	2.7	2.8
Unit labour costs whole economy				2.1	2.7	2.6	1.3	2.4	2.1	2.7
Real unit labour costs				-0.4	0.4	0.0	-1.5	-0.8	-0.2	0.6
Savings rate of households (b)				-	-	4.2	2.6	-0.3	1.8	4.9
GDP deflator				2.6	2.2	2.6	2.9	3.3	2.3	2.0
Harmonised index of consumer prices				1.9	2.1	2.3	2.3	3.7	1.9	1.2
Terms of trade of goods				0.3	-2.3	-0.6	1.6	0.9	1.1	0.7
Trade balance (c)				-2.9	-5.5	-5.8	-6.4	-6.5	-6.1	-5.6
Current account balance (c)				-1.5	-2.6	-3.4	-3.8	-2.8	-2.6	-1.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-1.4	-2.5	-3.3	-3.6	-2.5	-2.4	-1.7
General government balance (c)				-2.8	-3.4	-2.7	-2.8	-4.2	-5.6	-6.5
Cyclically-adjusted budget balance (c)				-2.7	-3.6	-3.0	-3.5	-4.6	-5.0	-5.4
Structural budget balance (c)				-	-3.9	-3.0	-3.5	-4.6	-5.0	-5.4
General government gross debt (c)				43.7	42.3	43.4	44.2	50.1	55.1	60.3

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

Chapter 4

Candidate Countries

1. CROATIA

A slowing economy reduces risks of overheating

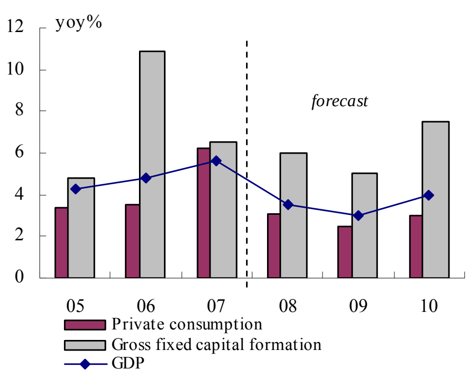
Growth started to decelerate as consumption moderated...

Amid a rather solid economic performance, economic growth has started to decelerate in the last quarter of 2007. In the first half of 2008, GDP grew by 3.8% year-on-on year, down from 6.8% in the same period a year before. The slowdown was largely due to a significant moderation of total consumption. Household consumption growth decelerated strongly, partly due to lower government transfers to pensioners, amounting to 1.3% of GDP, and slowing credit growth. Public consumption growth also declined from a high base in 2007, fuelled by increases in spending in the run-up to the November 2007 general elections. At the same time, investments remained strong, partly fuelled by construction activity and some major public investment projects. The export performance has started to weaken, reflecting lower demand from major EU trading partners.

...and the slowdown will accentuate in 2008 and 2009

The forecast predicts a significant slowdown of real GDP in 2008 and 2009 with downside risks being more elevated compared to the Spring forecast. The global financial crisis has so far had limited direct effects on the Croatian economy. However, spreads and borrowing costs have increased and a growth slowdown in the main EU trading partners will dampen prospects for exports and growth. Regardless of the impact of the external environment, growth will also be affected by specific domestic factors. The forecast predicts a significant moderation of domestic consumption.

Graph 4.1.1: **Croatia - Real GDP, consumption and investment**



Debt repayments to pensioners will be considerably lower in 2008 and 2009 as compared to 2007. The recent rise in inflation has reduced real disposable incomes and consumer expectations have worsened. Wealth effects resulting from stock exchange losses may further dampen consumer spending. A continuation of relatively tight monetary policies by retaining existing credit controls will continue to affect real domestic credit growth. Public spending is likely to moderate from the high base of 2007, also in view of tighter fiscal constraints as revenue growth is expected to decelerate. Recent increases in public sector employment and wages may partly compensate for lower spending on goods and services. Higher domestic borrowing costs and a possible decline in confidence levels may dampen private investment activity. Moreover, it cannot be excluded that cross-border lending, currently an important financing source of the corporate sector, will be adversely affected by the global financial crisis. Public investment is likely to slow down, in view of tighter financing conditions in combination with significant refinancing needs of the general government sector in 2009.

External imbalances continue to widen as external demand drops

The current account deficit has continued to widen, notably as a result of higher world energy and commodity prices and still strong import growth. Net external demand is expected to weaken in 2008 and 2009, largely as a result of lower growth in the EU and in the main regional trading partners. At the same time, the growth of imports will not decelerate to the same extent, as a certain level of investment activity would require sustaining a relatively robust level of imports. The contribution of net exports to GDP growth is forecast to remain in the negative territory. The current account deficit is expected to increase to above 10% of GDP and remain around that level, before it slightly improves towards 2010 as the growth of total exports is likely to recover.

Inflation has risen strongly since mid-2007, but is expected to subside from the current peak

Higher inflation was mainly due to a surge in agricultural, food and energy prices, but it was also partly driven by adjustments in administrative prices. Core inflation has also increased markedly, indicating that higher energy and commodity prices have led to second round effects. End-of-period inflation has somewhat fallen since July, and some moderation of inflationary pressures is likely to occur in the event of a slowing economy. As a result, average inflation in 2008 is projected to reach 6.5%. In the short term, additional pressures may arise from further adjustments of administered prices, e.g. for gas. However, a sound monetary policy framework in combination with lower domestic demand and a stabilisation of world energy and commodity prices will help containing inflationary pressures during the forecast period. Overall, average inflation is set to gradually fall to 4% by 2010.

Labour market developments not immune to slowdown

Wage developments have so far been moderate and remained in line with productivity growth. However, the recent increase in average inflation and public sector wage adjustments may add to temporarily stronger wage pressures. At the same time, the economic slowdown would only provide for moderate increases in labour costs.

Slowing growth and investment dynamics will have its impact on labour market developments. Employment growth is set to decelerate and the fall in unemployment (LFS) will decelerate.

Fiscal consolidation unlikely to continue as envisaged

A particularly strong revenue performance in 2007 led to a further reduction of the general government deficit (ESA 95) to 1.6% of GDP (from 2.5% in 2006). However, including pension debt repayments, the deficit stood at 2.8% of GDP (3.4%). In 2008, the growth of public consumption is expected to moderate somewhat, but spending on subsidies, transfers and social benefits are expected to remain strong, in the absence of policies to support an expenditure-led fiscal consolidation process. At the same time, lower growth will affect revenue collection. Therefore, the fiscal balance is forecast to slightly deteriorate in 2008 and in 2009, before it improves in 2010 on the back of stronger growth and revenues.

Table 4.1.1:

Main features of country forecast - CROATIA

		2007		Annual percentage change						
	bn HRK	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		275.1	100.0	-	4.3	4.8	5.6	3.5	3.0	4.0
Private consumption		153.4	55.8	-	3.4	3.5	6.2	3.1	2.5	3.0
Public consumption		55.3	20.1	-	0.8	2.2	3.4	3.0	2.5	2.0
Gross fixed capital formation		82.4	30.0	-	4.9	10.9	6.5	6.0	5.0	7.5
of which : equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		131.2	47.7	-	4.6	6.9	5.7	3.7	3.5	5.0
Imports (goods and services)		154.2	56.1	-	3.5	7.3	5.8	4.3	3.9	4.8
GNI at constant prices (GDP deflator)		266.6	96.9	-	3.5	4.4	6.0	3.2	3.6	4.5
Contribution to GDP growth :	Domestic demand			-	3.7	5.7	6.4	4.3	3.6	4.6
	Stockbuilding			-	0.6	0.2	0.0	0.0	0.2	-0.1
	Foreign balance			-	0.1	-1.1	-0.8	-0.9	-0.7	-0.6
Employment				-	0.8	0.8	1.8	1.0	0.7	1.0
Unemployment rate (a)				-	12.7	11.2	9.6	9.2	9.0	8.7
Compensation of employees/head				-	4.1	6.0	6.2	8.4	7.3	7.8
Unit labour costs whole economy				-	0.6	2.0	2.5	5.9	4.9	4.7
Real unit labour costs				-	-2.5	-1.3	-1.5	-1.1	0.7	0.0
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				-	3.2	3.4	4.0	7.1	4.2	4.7
Harmonised index of consumer prices				-	3.3	3.2	2.9	6.5	4.5	4.0
Terms of trade of goods				-	-	-	-	-2.6	0.0	1.5
Trade balance (c)				-	-24.0	-24.4	-25.2	-26.3	-26.5	-26.0
Current account balance (c)				-	-6.3	-7.9	-8.6	-10.5	-10.2	-9.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-6.1	-8.3	-8.5	-	-	-
General government balance (c)				-	-4.0	-	-	-2.3	-2.5	-2.4
Cyclically-adjusted budget balance (c)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				-	43.7	40.8	37.7	35.8	35.4	34.3

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

2. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Catching-up in a more difficult environment

Growth has remained strong so far

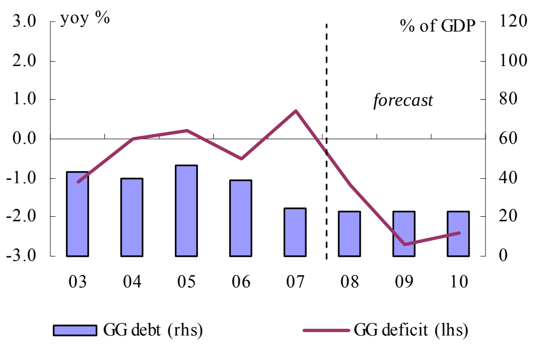
After years of subdued growth, economic activity has continued to accelerate during 2007 and the first half of 2008, reaching real GDP growth of 6%. The acceleration in economic activity was mainly based on stronger domestic demand. However, imports also rose sharply, partly reflecting higher expenditures for energy imports, but also due to machinery imports.

The labour market situation continued to improve, albeit at a slow speed. Employment rose by some 3½% during the first half of 2008, while the number of unemployed dropped by 1½%. As a result, unemployment declined to 33.8% in mid 2008. However, youth unemployment, which accounts for some 20% of the unemployed, stayed at 56% of the labour force in this age group.

Consumer price inflation started to decelerate by mid-2008, after higher food and energy prices had brought inflation close to 10% in the first half of 2008. By September, average inflation had come down to 9.3%, compared to 1.4% a year before.

The current account started to deteriorate by the end of 2007, reaching a deficit of 3% of GDP by the end of the year and of 13% of GDP by June 2008. The main factors for this strong increase in imports were higher expenditures for energy and machinery. However, FDI rose sharply during the last year, reaching some 9% of GDP in mid-2008, compared to 3% a year before. A considerable part of these capital inflows was related to investment of foreign banks in private local banks.

Graph 4.2.1: **The former Yugoslav Republic of Macedonia - Public finances**



Central government accounts registered a significant surplus of some 2% of GDP during the first half of 2008, mainly due to a strong revenue performance. In June and October, the parliament adopted supplementary budgets, envisaging additional expenditures amounting to some 2½% of GDP. The additional funds will be used to cover losses of the state owned electricity generation, for additional social and labour market related measures and for construction and renovation. The fiscal target for 2008 envisages a deficit of 1.5% of GDP, compared to a realised surplus of 0.6% in 2007. The general government debt ratio declined from 39% of GDP at the end of 2006 to some 25% at the end 2007. This drop was mainly due to early debt repayments.

Lower global growth and constrained external financing will take their toll in 2009

In the last quarter of 2008 and during 2009, the economy is likely to experience the indirect effects of the global slowdown, in the form of a more difficult export environment and lower capital inflows, affecting investment and private consumption. However, recent progress in structural reforms and the country's EU accession perspective should help to sustain a domestic driven growth momentum, benefitting from increased employment and consumer confidence.

Overall, GDP growth is likely to slow down to 4½% in 2009, which is about 1 percentage point lower than forecasted in spring. The probably more favourable growth conditions towards the end of the forecasting horizon should lead a slight acceleration of output expansion in 2010, to about 5%. However, in case of a more protracted slowdown in the country's main trading partners, economic growth could slow down further.

Private and public consumption are seen to be the main sources for economic growth. The former is likely to benefit from the positive effect of recent social security reforms on employment and thus on income. Furthermore, the forecast expects workers remittances to remain an important support for households. Public consumption is likely to remain high during the forecast period, taking into account the new government's ambitious programme for boosting economic growth and employment. Domestic and foreign investment is seen to respond to the overall less benign international environment, with a slowdown in investment growth to some 6% in 2009 and 8% in 2010. However, the external financing constraint will also result in a slowdown of imports.

Unemployment will remain an issue, while inflation will slow down

Recent reforms in social security legislation should improve the functioning of the labour market. However, the level of unemployment is expected to remain high. A large part of the new jobs are likely to be filled by so far unregistered labour, which will dampen the decline in the number of unemployed. Overall, employment is expected to increase by more than 3% on average in 2009 and 2010, which will help to bring down unemployment to about 31% of the labour force.

Once the inflationary impulse of higher prices for food, energy and basic materials will have petered out, annual inflation rates are likely to come down to some 7% in 2008. In view of the countries de-facto peg with the Euro, the high trade integration with the EU and the still negative output gap, inflationary pressures are likely to remain low. However, in view of strong growth and the need to adjust electricity prices to cost-covering levels inflation will remain above EU levels, at some 3½% in 2009 and to 2¾% in 2010.

Public sector deficits are likely to rise

A more expansionary policy stance of the government, and the need to modernise the country's infrastructure and institutions will result in a shift from the close-to-balance deficits or surpluses of the previous years, to higher deficits in the near future. In 2008, the deficit is expected to increase to about 1% of GDP, compared to a surplus of 0.6% in 2007. In 2009 and 2010, the budget deficits probably will be significantly higher. In view of the country's sizeable external imbalance, good governance and maintaining a sound fiscal policy will be of utmost importance. The higher deficits could neutralise the positive base effect of strong nominal growth on the debt ratio. As a result, public sector debt would remain stable at some 23% of GDP or - in a less benign environment - could even start to rise.

Table 4.2.1:

Main features of country forecast - THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

		2007		Annual percentage change						
	bn MKD	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		343.1	100.0	-	4.1	4.0	5.1	5.5	4.6	5.0
Private consumption		265.5	77.4	-	5.7	6.0	4.0	8.0	3.0	3.5
Public consumption		65.6	19.1	-	0.4	1.8	4.0	10.0	8.0	8.0
Gross fixed capital formation		68.0	19.8	-	-5.4	11.6	20.0	25.0	6.0	8.0
of which : equipment		25.9	7.5	-	-6.7	8.0	-	-	-	-
Exports (goods and services)		188.3	54.9	-	11.2	8.4	22.9	12.0	6.0	8.0
Imports (goods and services)		255.9	74.6	-	6.2	11.0	20.0	19.0	5.0	7.0
GNI at previous year prices (GDP deflator)		343.1	100.0	-	2.8	5.4	5.7	5.5	4.6	5.0
Contribution to GDP growth :	Domestic demand			-	3.6	7.0	7.5	13.1	5.5	6.4
	Stockbuilding			-	-0.2	0.0	0.0	0.0	0.0	0.0
	Foreign balance			-	0.7	-3.1	-2.3	-7.6	-0.8	-1.3
Employment				-	2.1	3.2	3.5	3.3	3.2	3.5
Unemployment rate (a)				-	36.7	36.0	34.6	33.3	32.3	31.0
Compensation of employees/head				-	0.1	9.9	8.9	9.6	5.9	4.6
Unit labour costs whole economy				-	-1.9	9.1	7.3	7.4	4.5	3.1
Real unit labour costs				-	-5.5	4.6	2.2	3.1	0.3	0.2
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				-	3.8	4.3	5.0	4.1	4.1	2.9
Harmonised index of consumer prices				-	0.5	3.2	2.3	7.0	3.5	2.7
Terms of trade of goods				-	4.8	2.4	-0.2	-3.1	0.0	0.8
Trade balance (c)				-	-18.3	-20.2	-21.9	-29.6	-29.2	-28.9
Current account balance (c)				-	-2.7	-0.9	-	-12.1	-10.0	-8.4
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	0.2	-0.5	0.6	-1.0	-2.7	-2.4
Cyclically-adjusted budget balance (c)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				-	46.5	38.7	25.4	23.2	23.0	22.8

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

3. TURKEY

Global credit crunch poses important challenges for the Turkish economy

A tense political situation exacerbated the economic slowdown in 2008

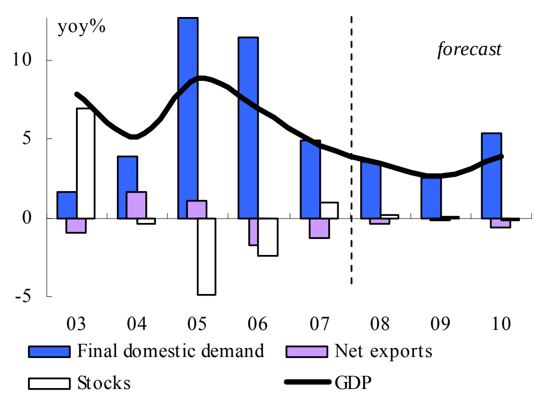
The Turkish economy still lives in close symbiosis with politics. This became highly visible when the governing party was sued for anti-secular actions, and the Constitutional Court ruled against the requested ban, but imposed fines. In addition, domestic political uncertainties stemming from this court case were aggravated by the global credit crisis. GDP growth decelerated from 7% in 2006 to 4⅔% in 2007 and further to 4¼% in the first half of 2008, chiefly due to weaker private consumption and lower investment. Imports grew at 6½% in the first half of 2008, up from 5% in 2007. Export growth rose from 6⅔% in 2007 to 7% in the first six months of 2008.

Inflation went up significantly in large part due to rising price pressures of energy and foodstuff. Consumer price inflation rose from around 9% in 2007 to 11% in the third quarter of 2008.

Labour markets appeared to react to the economic slowdown. The unemployment rate went up by over ½% in the first three quarters of 2008. The labour force participation rate remained still low at around 49¾% in mid-2008.

The current account deficit rose – partly reflecting high oil and energy prices in the first half of the year - from 5⅔% in 2006 to 6½ % in 2007. Net FDI-inflows fell by one third, and covered only about 30% of the current account deficit in the first half of 2008.

Graph 4.3.1: **Turkey - GDP growth and contributions**



A slowdown in economic activity in 2009 looks inevitable, as a result of weaker external demand and tighter credit conditions

The economy is in a better position than in the past to weather the global financial crisis, but the large external financing needs increase the vulnerability to shocks. A sharp slowdown in economic activity, coupled with the already ongoing correction in asset prices and the value of the currency, looks inevitable. GDP growth is expected to fall gradually from about 3½% in 2008 to 2¾% in 2009, due to the weakening consumer and business confidence and lower lending and spending linked to the global financial crisis. A weaker external demand, including from the EU, should also adversely affect export growth.

As from 2010, output growth is expected to accelerate to around 4% and become increasingly balanced, with higher private consumption and equipment investment growth mitigating lower public consumption growth. Along with a declining inflation, growth of real disposable income will accelerate, which allows the private sector to increase consumption growth from 2⅓% in 2009 to 4½% in 2010. Fixed investment is expected to rebound rapidly as a result of reduced macroeconomic and political uncertainty and declining real interest rates. Strong investment and higher consumption growth will lead to continued high growth of imports, in particular of consumer durables and capital goods. Exports will accelerate and benefit from diversification and quality improvements resulting from earlier high investments. However, the large financing needs of the non-financial corporate sector are a source of vulnerability, even as the slow down in growth and the decline in oil prices are expected to ease the pressure on the current account. If the global credit crunch and the slowdown were to prove deeper and more persistent than we currently expect, the Turkish economy may have to undergo a more serious adjustment process.

Labour markets and prices react to the rebalancing process in 2009 and 2010

In line with the economic slowdown, employment growth is forecast to decrease from 1% per year in 2007 to ⅓% in 2009. This will lead to a rise in the unemployment rate by one percentage point by 2009. In 2010, stronger GDP growth will reduce unemployment by about ½ percentage point.

Annual consumer price inflation is expected to fall to rates close to the end-year targets of 7½% by 2009 and to 6½% by 2010. While the monetary and fiscal policy mix in combination with falling energy and commodity prices will support the disinflation process, this may be – in particular in 2009 – partially mitigated by the exchange rate pass-through stemming from the TRY-depreciation in 2008-2009. However, in 2010, a decline in inflationary pressures will allow a fall in interest rates and help improving the investment climate.

The current account deficit is forecast to fall from 6⅓% of GDP in 2008 to 5½% of GDP in 2009, before growing to 6% of GDP in 2010 as imports start responding to increasing domestic demand. A higher surplus of the services balance should help to maintain positive medium-term prospects in the external sector.

Public sector balances will be affected by higher interest rates, and the announced higher public spending

Public sector balances will be affected by higher interest rates, and the announced higher public spending, including the South-Eastern Anatolia project and lower revenues as growth slows down. Public finance reforms will help to widen the tax base and to improve the efficiency of tax collection. The general government deficit is seen to rise from 1¼% of GDP in 2008 to a deficit of 2½% of GDP in 2009. In 2010, a budgetary deficit of 1¾% of GDP is projected as a result of a gradual fiscal tightening and falling interest rates.

General government debt is seen to further decline, albeit at a decelerating pace. The government made progress in lengthening the average maturity and swapping foreign denominated into lira denominated debt. However, Turkey pays relatively high interest rates on its debt, which highlights the country's relatively high vulnerability to interest and exchange rate volatility and rollover risk.

Table 4.3.1:

Main features of country forecast - TURKEY

	2007		Annual percentage change						
bn TRY	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	853.6	100.0	3.9	8.4	6.9	4.6	3.4	2.7	3.9
Private consumption	604.7	70.8	4.0	7.9	4.6	4.1	3.5	2.4	4.5
Public consumption	107.8	12.6	3.9	2.5	8.4	6.5	2.3	3.6	3.4
Gross fixed capital formation	184.1	21.6	4.6	17.4	13.3	5.5	3.8	2.2	4.9
of which : equipment	101.5	11.9	6.2	22.2	10.2	5.1	4.2	2.8	5.3
Exports (goods and services)	188.2	22.1	9.6	7.9	6.6	7.3	6.6	4.9	6.8
Imports (goods and services)	230.9	27.0	10.5	12.2	6.9	10.7	6.5	4.1	7.4
GNI at constant prices (GDP deflator)	844.4	98.9	3.9	8.7	6.8	4.8	3.4	2.6	3.9
Contribution to GDP growth :	Domestic demand		4.5	9.9	7.4	5.2	3.6	2.6	4.7
	Stockbuilding		0.1	0.0	-0.1	0.7	0.2	0.1	-0.2
	Foreign balance		-0.6	-1.5	-0.4	-1.4	-0.4	-0.1	-0.6
Employment			0.7	1.4	1.3	1.1	1.0	0.4	1.4
Unemployment rate (a)			8.2	10.2	9.9	8.5	8.8	9.5	9.1
Compensation of employees/head			59.3	11.6	12.7	12.7	11.8	8.8	9.0
Unit labour costs whole economy			54.5	4.4	6.8	9.0	9.2	6.4	6.4
Real unit labour costs			-2.6	-2.5	-2.3	1.3	-1.3	-1.5	-0.2
Savings rate of households (b)			-	-	-	-	-	-	-
GDP deflator			58.6	7.1	9.3	7.6	10.6	8.1	6.6
Harmonised index of consumer prices			-	8.1	9.3	8.8	10.3	9.1	7.0
Terms of trade of goods			-0.1	-0.5	-4.7	3.4	-0.7	4.0	-1.3
Trade balance (c)			-6.3	-6.8	-7.5	-7.2	-7.8	-6.8	-7.3
Current account balance (c)			-1.7	-4.4	-5.8	-5.8	-6.3	-5.4	-6.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)			-	-	-	-	-	-	-
General government balance (c)			-	-0.6	-0.1	-1.2	-1.3	-2.5	-1.8
Cyclically-adjusted budget balance (c)			-	-	-	-	-	-	-
Structural budget balance (c)			-	-	-	-	-	-	-
General government gross debt (c)			-	52.3	46.1	38.9	35.1	34.3	33.2

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

Chapter 5

Other non-EU Countries

1. THE UNITED STATES OF AMERICA

Recession deepened by the financial crisis

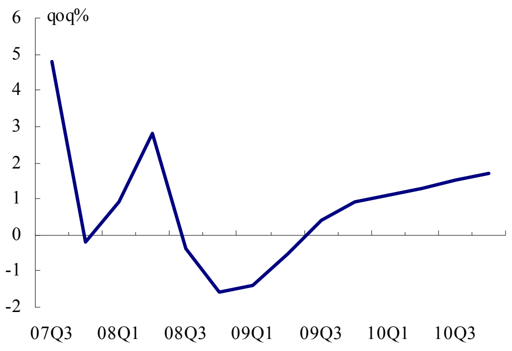
Fiscal stimulus provided temporary support

Following a slight contraction at the end of last year, the US economy performed better than expected in the first half of 2008 considering the bursting of the housing bubble, financial market dislocations, and soaring energy prices. In the second quarter, GDP expanded even at an annual rate of 2.8%. Most of this was due to sharply improving net exports which happened against the background of the dollar depreciation and softening domestic demand. But consumer spending held up reasonably well, too. This seems to have been the result of the earlier-than-expected disbursement of tax rebates which has pulled forward much of the expansionary effect of the fiscal stimulus adopted in February. However, residential investment continued its cyclical downturn unabated, business investment was subdued and payroll employment declined at a moderate rate. All this indicated a persisting fundamental weakness of the economy.

The second leg of the downturn has started

In the third quarter, the signs of recession became increasingly clearer, including a sharply rising unemployment rate and a collapsing ISM manufacturing survey. Most importantly, consumer spending declined in the context of falling employment and real wages, tighter credit conditions, and a negative wealth effect from lower house and equity prices. These headwinds for consumer spending are all set to intensify in the near term and consumer confidence has already plunged to long-time lows.

Graph 5.1.1: **USA - W-shaped Real GDP growth profile (saar)**



The depression in the housing sector continues to deepen. Residential investment has already fallen by 40% since the peak of the housing boom. Housing starts and sales have fallen even more. Some nationwide house price indices are 20% below their historical highs in 2006. There is still a large excess of supply which continues to push down prices and building activity. At the same time, non-residential investment, both in structures and equipment, looks precarious. Most indicators point to corporate retrenchment. Furthermore, US export markets are slowing sharply and the dollar's appreciation since July (more than 10% in effective terms) will offset much of the gain in competitiveness acquired during the dollar's previous depreciation.

Financial distress intensifies

The dramatic worsening of the financial crisis in September and October is bound to depress economic activity further, but to an uncertain extent. Even before the recent escalation, financial conditions had tightened markedly despite a substantial easing of monetary policy. Interest rate spreads for riskier borrowers had widened and credit standards had become much stricter since the summer of 2007.

Recession to last until mid-2009

The present forecast projects a relatively mild recession which will lower the level of real GDP by 1% between 2008Q2 and 2009Q2. The economy is currently in the early stages of a negative feedback loop between a deteriorating labour market and declining demand. Most of the negative wealth effects from housing and financial markets have still to materialise. The malfunctioning financial system will exacerbate the downturn in the real economy. But a number of factors will counteract the strong negative momentum. First, monetary policy has been eased massively with the accumulated cuts in the fed funds rate since September 2007 and an unprecedented provision of liquidity. Secondly, consumer price inflation will decline as oil and other commodity prices stabilise at their new and lower level and with a large output gap exerting downward pressure on prices and wages. This will improve consumers' purchasing power in real terms. Thirdly, net export is likely to continue to contribute to GDP growth, although at a diminishing rate. Finally, the projected end of the recession in mid-2009 is based on a gradually declining drag from residential construction as the imbalances in the housing market are being eliminated. It is projected that residential construction will fall to the level of 2.6% of GDP in 2008Q3, down from 5.4% at the end of 2005. Subsequently, residential construction should embark on a gradual recovery.

Recession followed by subpar growth

Annual growth in 2008 should still register 1.5% thanks to the carryover from last year and the performance in the first half of the year. Real GDP is projected to contract at an average annual rate of 1% between mid-2008 and mid-2009. Subsequently, the growth rate is projected to rise only slowly, remaining significantly below its estimated long-term potential of about 2½% throughout the forecast period. This W-shaped growth profile (cf. Graph 5.1.1.) implies annual growth rates of -0.5% in 2009 and 1.0% in 2010.

The labour market has already seen a sustained decline in payroll employment and a sharp rise in unemployment. In view of protracted subpar growth, the unemployment rate is projected to rise by 2 additional percentage points to 8.1% over the next two years. The increasing slack in resource utilisation combined with the stabilisation in commodity prices will push headline inflation down from 4.4% in the current year to below 1% in 2010. The fiscal deficit of general government has suffered from February's stimulus package and has already surpassed 5% of GDP, up from 2.9% in 2007. The recession and the various financial rescue operations will increase public deficit and debt significantly over the forecast period. The general government deficit is projected to reach 9% by 2010. On the other hand, the current account will benefit from the downturn with the deficit falling below 3% of GDP. The household saving rate is projected to increase by more than 3 percentage points from 2008 to 2010 as households try to restore their wealth.

The downside risks to this forecast are considerable as it is premised on a relatively benign resolution of the financial crisis. The negative wealth effects from declining house and equity prices could also be much stronger than assumed here. Drastic policy measures may be adopted which adds extraordinary uncertainty.

Table 5.1.1:

Main features of country forecast - THE UNITED STATES

	2007			Annual percentage change						
bn USD	Curr. prices	% GDP		92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices	13807.7	100.0		3.2	2.9	2.8	2.0	1.5	-0.5	1.0
Private consumption	9710.2	70.3		3.6	3.0	3.0	2.8	0.5	-1.6	-0.9
Public consumption	2212.0	16.0		1.6	0.5	1.8	1.8	2.3	2.6	2.8
Gross fixed capital formation	2596.9	18.8		5.3	5.8	1.9	-2.2	-2.3	-5.5	2.5
of which : equipment	1187.0	8.6		7.5	9.2	7.3	1.8	-0.3	-4.2	2.7
Exports (goods and services)	1662.4	12.0		5.1	7.0	9.1	8.4	9.0	2.3	3.3
Imports (goods and services)	2370.2	17.2		8.4	5.9	6.0	2.2	-2.3	-4.7	-1.0
GNI at constant prices (GDP deflator)	13910.1	100.7		3.2	3.0	2.6	2.2	1.6	-0.6	0.9
Contribution to GDP growth :			Domestic demand	3.6	3.3	2.8	1.8	0.3	-1.8	0.3
			Stockbuilding	0.1	-0.1	0.0	-0.4	-0.2	0.2	0.1
			Foreign balance	-0.5	-0.2	0.0	0.6	1.5	1.1	0.6
Employment				1.3	1.3	2.1	1.1	-0.3	-1.2	-0.1
Unemployment rate (a)				5.5	5.1	4.6	4.6	5.7	7.5	8.1
Compensation of employees/head				3.7	3.6	4.0	3.7	3.7	2.6	1.2
Unit labour costs whole economy				1.8	2.0	3.3	2.8	1.9	1.9	0.1
Real unit labour costs				-0.2	-1.2	0.0	0.1	-0.6	-0.2	-0.7
Savings rate of households (b)				-	-	3.6	3.4	4.1	5.4	7.3
GDP deflator				2.0	3.3	3.2	2.7	2.5	2.1	0.8
General index of consumer prices				-	3.4	3.2	2.8	4.4	1.5	0.8
Terms of trade of goods				0.0	-3.2	-0.8	-0.1	-4.6	3.2	-0.6
Trade balance (c)				-3.4	-6.5	-6.5	-6.1	-5.7	-4.3	-3.9
Current account balance (c)				-2.6	-5.8	-5.9	-5.2	-4.6	-3.2	-2.8
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-2.7	-5.8	-5.9	-5.2	-4.6	-3.2	-2.8
General government balance (c)				-2.4	-3.1	-2.1	-2.8	-5.3	-7.2	-9.0
Cyclically-adjusted budget balance (c)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				64.9	62.7	62.2	63.1	67.1	76.7	84.3

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

2. JAPAN

Recession - again

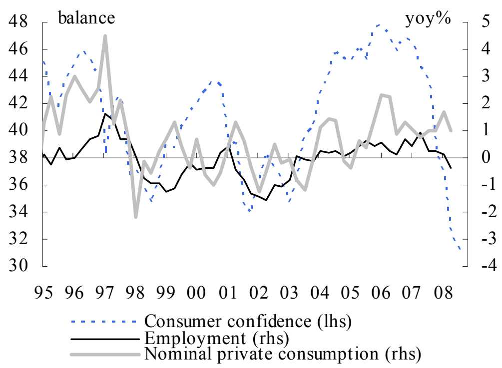
Economic activity started contracting in Q2 2008...

After a strong first quarter of the year, GDP contracted by 3.0% q-o-q annualised in the second quarter. Private consumption fell sharply in the second quarter as higher food and energy prices eroded real income; real wages resumed their declining trend and consumer confidence collapsed further. After having plummeted in 2007 due to errant implementation of the revised building standard law and having increased significantly in the first quarter, growth in housing investment turned again negative in the second quarter. Moreover, business investment started to decline dramatically in the first half of 2008 as corporate profits fell and confidence disappeared. Lastly, a sharp drop in public investment also implied a drag on growth as the temporary suspension of the gasoline tax in April limited funding for road-related spending. On the external front, exports declined for the first time since Q1-2005. Despite a decline in imports, net exports, which had been the main engine of the economy, made a negative contribution to GDP growth in the second quarter for the first time since Q4-2004. High frequency indicators and business surveys have continued to deteriorate during the summer, suggesting that the Japanese economy is in recession.

...and the economy is likely to enter another period of anaemic growth

While the Japanese banks and financial institutions were initially relatively shielded from the fallout of the US subprime crisis (mainly because they had adopted very cautious investment strategies following the banking sector crisis of the 1990s), the Japanese economy is now also adversely impacted through channels like weakening external trade, falling corporate profits, low confidence and deteriorating financial market conditions. The initially sound position of the Japanese banking system is, however, expected to allow for relatively accommodative financing conditions, thus lowering the likelihood of a broad credit crunch.

Graph 5.2.1: **Japan - Consumption, consumer confidence and employment growth**



Looking ahead, business surveys show a significant deterioration in business leaders' sentiment amid rising costs, squeezed profitability, concerns over sluggish domestic demand and weakening export markets. Against the backdrop of lower profits and the global economic slowdown, business investment is expected to decline in 2008 and part of 2009 before gradually recovering towards the end of the forecast horizon on the back of sound financial situation, little credit tightening and relatively resilient export markets (mainly in the rest of Asia). Construction activity is already showing signs of improvement. Barring a significant credit crunch, residential investment is forecast to stabilise. For households, with a situation in the labour market expected to deteriorate, wage growth will remain constrained while confidence will continue to be low. As a result, consumer spending is forecast to remain sluggish in 2008, to fall in 2009 and to regain some impetus in 2010 when the gradual economic recovery is expected to gradually translate into higher income. On the external side, though decelerating, emerging market economies (which account for almost half of Japanese exports) are expected to show some relative resilience to the global economic slowdown. However, as Japan's trading partners are also affected by the global slowdown, the contribution of external trade to Japanese GDP growth is expected to decline steadily, before regaining gradually momentum towards the end of 2009 and in 2010. All in all, GDP growth is forecast to slow from 2.1% in 2007 to respectively 0.4% in 2008 and -0.4% in 2009 before regaining some speed (at 0.6%) in 2010, yet still well below potential.

Headline inflation to remain positive

In August, headline inflation reached 2.1%, while the Bank of Japan's core CPI (excluding fresh food only) grew by 2.4% year-on-year. Excluding food and energy, core inflation remained subdued and was even zero in August. The unfavourable base effect from soaring energy and food prices in 2008 is forecast to gradually fade. In 2008, headline inflation is expected to average 1.6%. In line with the slowdown in economic activity, inflation is expected to gradually decelerate to respectively 0.8% in 2009 and 0.7% the following year.

The Bank of Japan (BoJ) has kept its policy rate unchanged at 0.5% since February 2007. On the basis of the weaker outlook, the BoJ has toned down its normalisation policy strategy, implying a reversal to a more neutral policy stance. Most economists and market participants expect the policy rate to remain unchanged at this juncture but a rate cut cannot be ruled out if the downturn intensifies.

An economic stimulus package with limited room of manoeuvre

On the fiscal front, some improvement had been registered thanks to cyclical revenue buoyancy and expenditure cuts in fiscal year (FY) 2007 (ending 30 March 2008). However, in calendar year terms, the general government deficit is estimated to have increased from 1.4% to 2.2% of GDP in 2007.

The authorities' medium term fiscal consolidation programme was presented in 2006. It foresaw two stages: first, a primary surplus (excluding social security) to be achieved by FY2011. Thereafter, the debt-to-GDP ratio would be progressively brought down. Following new downward revisions of the growth projections, the risk of missing the government's target have now materialised. Even in the most optimistic scenario, the primary balance is projected to remain in deficit in FY2011. Moreover, on 29 August, the government announced an economic stimulus package of 11.7trl JPY (2.3% GDP). The bulk of the measures consist of subsidies for low-income households and industries, government loans and credit guarantees and measures to promote energy efficiency. With limited room of fiscal manoeuvre, the package only included 0.3% of GDP of additional spending. The net impact of the package is therefore expected to be limited. Following its nomination on 24 September, the new government is envisaging an additional stimulus package. Unsurprisingly, discussions on raising the consumption tax rate have been postponed in this uneasy political context.

Table 5.2.1:

Main features of country forecast - JAPAN

		2007		Annual percentage change						
bn YEN		Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		515475.2	100.0	1.1	1.9	2.4	2.1	0.4	-0.4	0.6
Private consumption		293514.4	56.9	1.3	1.3	2.0	1.5	0.5	-0.3	0.3
Public consumption		90480.2	17.6	2.8	1.6	-0.4	0.7	0.2	0.2	0.4
Gross fixed capital formation		119736.5	23.2	-1.1	3.1	1.3	-0.6	-2.6	-1.8	0.4
of which : equipment		-	-	-	-	-	-	-	-	-
Exports (goods and services)		90830.4	17.6	4.8	7.0	9.7	8.6	6.1	3.0	4.3
Imports (goods and services)		82198.0	15.9	3.9	5.8	4.2	1.7	1.5	1.3	3.3
GNI at constant prices (GDP deflator)		532713.6	103.3	1.2	2.4	2.9	2.6	-0.2	-0.4	0.7
Contribution to GDP growth :	Domestic demand			0.9	1.8	1.4	0.8	-0.2	-0.5	0.3
	Stockbuilding			0.0	-0.1	0.2	0.1	-0.2	-0.3	0.0
	Foreign balance			0.2	0.3	0.8	1.1	0.8	0.3	0.4
Employment				-0.2	0.4	0.4	-0.2	-0.2	-1.5	0.1
Unemployment rate (a)				4.0	4.4	4.1	3.9	4.1	4.7	4.6
Compensation of employees/head				0.1	-0.1	0.1	-0.1	0.3	0.4	0.1
Unit labour costs whole economy				-1.2	-1.6	-1.8	-2.3	-0.4	-0.7	-0.4
Real unit labour costs				-0.6	-0.4	-0.8	-1.5	0.4	-0.8	-0.9
Savings rate of households (b)				-	-	9.8	9.2	8.8	9.2	9.4
GDP deflator				-0.6	-1.2	-1.0	-0.8	-0.7	0.1	0.5
General index of consumer prices				-	-0.3	0.3	0.0	1.6	0.8	0.7
Terms of trade of goods				-	-7.2	-7.9	-4.4	-6.6	-0.4	-0.2
Trade balance (c)				2.6	2.1	1.9	2.4	2.2	2.5	2.8
Current account balance (c)				2.7	3.6	3.9	4.8	4.0	4.1	4.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				2.5	3.5	3.8	4.7	3.8	4.0	4.1
General government balance (c)				-5.5	-6.7	-1.4	-2.2	-1.9	-2.6	-3.5
Cyclically-adjusted budget balance (c)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				116.3	177.3	171.9	173.6	177.8	182.5	185.5

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

3. CHINA

A beacon of stability?

Strong growth performance in first half of '08

GDP growth in the first nine months of the current year reached 9.9% y-o-y, with annual growth declining from 10.4% in the first quarter to around 9% in the third quarter. Growth was in particular driven by still very high investment rates and rising private consumption, while the growth contribution of net exports declined strongly.

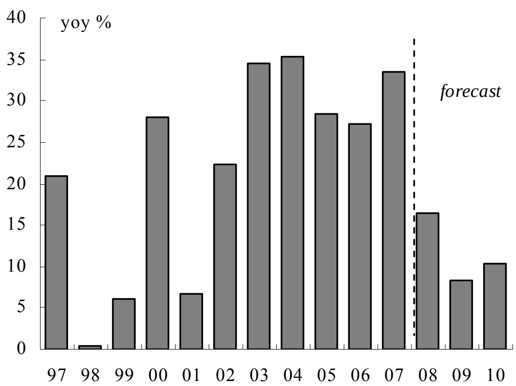
In the fourth quarter of 2008, annual growth rates are expected to decline further, due both to a statistical base effect (very high growth rates in the same period of last year) and the deceleration in global trade growth. Already in the months up to September for which customs data are available, Chinese exports to the US and to Japan in particular posted sub-average growth numbers.

All in all, China's growth rate is still forecast to reach 9.7% in 2008. At the same time, however, 2008 would mark the second year in a row where China's contribution to global economic growth is the highest in the world.

With inflation decelerating fast, monetary easing has set in

Consumer price inflation, which had reached a peak of 8.7% in February, has decelerated to a year-on-year rate of 4.6% in September. Against the background of a fast deceleration in global growth, the People's Bank of China (PBoC) has lowered its benchmark lending rate by 27 basis points to 7.2% as of 16 September and additional cut of 27 bp. as of 15 October, as well as the reserve requirement ratio for smaller banks to 16.5% as of 25 September. Given the recent decline in commodity prices and the good harvests in China, the inflation rate should continue to decline, allowing the PBoC to ease monetary conditions further.

Graph 5.3.1: **China - Export growth**



Such a monetary easing would be in line with recent reports that the country's leadership – which had so far given priority to the fight against inflation – has decided end of July to prioritize economic growth.

Growth outlook for next year and 2010

Given the expected recessions in many advanced economies, 2009 should be the first year since 2002 with a single-digit annual growth rate. Relatively low export growth (see chart) is projected to lead to a reduction in investment growth, bringing the overall growth rate to 7.9% y-o-y. Growth should be supported by improving terms-of trade and still strong private consumption. Developments in the medium-term are likely to benefit from the projected easing in monetary conditions and the projected recovery in advanced economies, implying a slight acceleration in the GDP growth rate to 8.8% in 2010.

The risks around the projected growth path are balanced. On the one hand, a stronger than projected slowdown in advanced economies coupled with a further fall in commodity prices would clearly constitute the biggest negative risk to this outlook.

On the other hand, following a general government surplus of around ½ point of GDP in 2007, budgetary developments in the first seven months of the current year indicate a further improvement in government finances. Not astonishingly under these circumstances, the Chinese leadership seems to be discussing a fiscal stimulus package, which would not only consist of tax cuts for companies and individuals, but also of rising expenditure on infrastructure; reports both in the Chinese and in the western media talk about a total amount of up to USD 58 billion (or slightly more than 2 ½ pp. of GDP). Should such a programme be implemented, the current forecast for GDP growth would clearly have to be revised up.

Trade surplus, current account ...

According to Chinese customs' data, China's trade surplus in 2007 reached USD 262 billion (up by 48% compared to 2006). According to the same source, Chinese exports were up by 22.3% in the first nine months of 2008 compared to the same period last year; with imports rising by 29%, the trade surplus decreased slightly to USD 153.2 billion. The EU is now by far China's most important trading partner; the EU trade deficit up to September reached USD 118.4 billion, slightly lower than the US deficit of USD 126.8 billion.

While the trade surplus has decreased slightly, FDI in the first six months of 2008 was up by 39.9% on the year, reaching USD 74.4 billion, partially explaining the strong increase in foreign exchange reserves from USD 1.53 trillion end of 2007 to USD 1.9 trillion end of |September this year (of which at least USD 500 billion in US treasuries).

With export growth now projected to decelerate considerably while import growth is likely to remain relatively buoyant, both the trade surplus and the current account are likely to decline considerably in nominal and relative terms.

Worst-case-scenario

Under such a scenario, global trade would decelerate much more than currently projected, forcing many of China's manufacturers to cut profits even more and then to shut down. Some evidence of this happening is already observed (e.g. FerroChina). Under these assumptions, China would join other countries in having to face severe economic, political and social developments. As already pointed out, however, in terms of monetary and budgetary policies, China's point of departure seems much better than that of other emerging economies, let alone most advanced economies.

Table 5.3.1:

Main features of country forecast - CHINA

		2007			Annual percentage change					
	bn CNY	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		24952.0	100.0	10.2	11.1	11.6	11.9	9.7	7.9	8.8
Private consumption		9245.0	37.1	-	-	-	-	-	-	-
Public consumption		3587.0	14.4	-	-	-	-	-	-	-
Gross fixed capital formation		11025.0	44.2	-	-	-	-	-	-	-
of which : equipment		-	-	-	-	-	-	-	-	-
Change in stocks as % of GDP		-	-	-	-	-	-	-	-	-
Exports (goods and services)		9248.0	37.1	17.7	22.1	21.3	23.2	11.3	4.8	7.5
Final demand		-	-	-	-	-	-	-	-	-
Imports (goods and services)		7259.0	29.1	16.5	11.7	13.8	14.0	18.7	10.7	13.4
GNI at constant prices (GDP deflator)		-	-	-	-	-	-	-	-	-
Contribution to GDP growth :	Domestic demand			-	-	-	-	-	-	-
	Stockbuilding			-	-	-	-	-	-	-
	Foreign balance			-	-	-	-	-	-	-
Employment				1.1	0.8	0.8	1.0	0.8	-0.1	0.2
Unemployment (a)				3.2	4.2	4.1	4.0	4.0	4.1	4.1
Compensation of employees/head				-	-	-	-	-	-	-
Unit labour costs				-	-	-	-	-	-	-
Real unit labour costs				-	-	-	-	-	-	-
Savings rate of households				-	-	-	-	-	-	-
GDP deflator				-	-	1.3	4.0	5.0	3.9	3.0
Private consumption deflator				-	-	-	-	-	-	-
Index of consumer prices (c)				5.9	-	1.5	4.8	6.1	3.0	3.0
Trade balance (b)				3.1		8.2	9.7	5.4	4.3	2.5
Current account balance (b)				1.7	7.2	9.4	10.8	7.4	5.7	4.5
Net lending(+) or borrowing(-) vis-à-vis ROW (b)				-	-	-	-	-	-	-
General government balance (b)				1.5	-1.0	-0.5	0.6	0.6	0.1	0.2
General government gross debt (b)				-	-	-	-	-	-	-

(a) urban unemployment, as % of labour force. (b) as a percentage of GDP. (c) national indicator.

4. EFTA

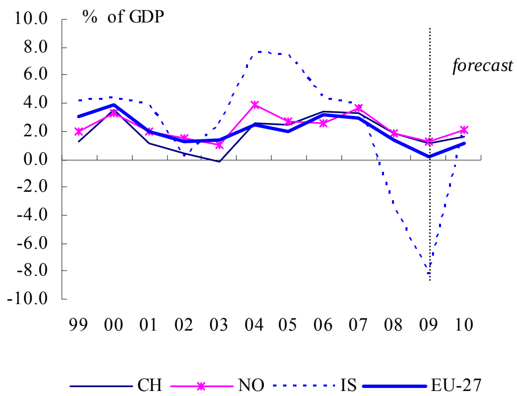
Economic growth past the boom

Norway continues to enjoy solid economic growth...

Norway continued to enjoy dynamic growth for the fourth year in a row, with GDP growth for the mainland reaching the second highest level in 10 years in 2007 at 3.7%. Growth in Norway is broadly based, sustained by an expansion in almost all demand components and in most main industries. Driven by domestic demand, which is partly offsetting the slightly less favourable terms of trade, the real GDP growth rate for 2008 is forecast to moderate to 2.6% and further down to 1.9% in 2009 thus slightly narrowing the output gap. For the year 2010 a rebound to higher growth at 2.1% of GDP is expected whereas the output gap will remain roughly the same at around 2%.

Domestic activity will continue to be the main driver of growth, with relatively low interest rates fuelling strong private consumption. The latter is expected to keep growing at annual rates up or above 2.5% until 2010 included. The financial crisis will effect Norway mostly through the supply of capital, which has declined, and it is more expensive and more difficult for banks, enterprises and households to obtain funding. The large investments in the oil and gas sector that were spurred by soaring oil prices are completed in the course of 2008, implying a continuation of the deceleration in investment growth that started already in 2007. Norway is expected to continue its expansionary fiscal policy, which is mainly funded through high oil revenues and tax increases. Government consumption is expected to decelerate while public investments remain strong.

Graph 5.4.1: **EFTA - GDP growth**



...however unemployment is on the rise

The expansion in economic activity has led to a decline in unemployment, which has reached the lowest level in 20 years despite high labour force growth. Unemployment is forecast to remain low, but to inch up slightly in the years 2008 until 2010 included. Inflation peaks in 2008 close to 4% however is expected to decrease to around 2% during the forecast years.

The outlook for Switzerland remains positive...

The economic upturn that started four years ago has ended in 2007. The upswing, which was initially driven by foreign demand, has become more broadly based over the last two years thanks to a significant expansion in domestic demand. Further supported by an accommodative monetary policy, GDP growth in 2007 was largely driven by domestic demand. However, the global slowdown and the expected recession in the US will limit GDP growth in Switzerland significantly to 1.8% in 2008 and 1.2% in 2009, followed by a slight rebound to 1.6% for 2010. The slowdown in world growth is expected to dampen foreign demand for Swiss goods and services this year and next. Consequently, real growth in exports of goods and services is expected to decelerate significantly in the forecast years. Imports grew at a slower pace than exports in 2007 but are likely to match and overtake export growth in the forecast years. Overall external trade should continue to make a positive, albeit declining, net contribution to economic growth over the whole forecast period.

All in all, GDP growth in 2008 reflects both relatively strong external demand and sound investment growth, mirroring a healthy business environment. The capacity of the domestic economy to stimulate growth can be observed through the remaining strong demand for imported consumer and capital goods. Stable growth in consumer spending will be based on continued growth in incomes. Though the financial crisis does not seem to have a significant impact on the economy, corporate investments and consumer spending will be affected and possibly postponed to some extend. Through the lower growth rates GDP will approach potential growth, eventually possibly turning the small positive output gap into a negative output gap towards the end of 2009.

...while unemployment continues to be low

Employment is expected to increase slightly in the forecast period, while the unemployment rate is expected to remain low at around 3.0%. The prospects for employment and wage income declining but remain positive and are likely to support consumer confidence, which in turn should provide support to private consumption.

Iceland, ripples in the water or a sinking ship...

After a period of high growth rates supported by large investment projects and strong domestic demand, which have generated significant imbalances, Iceland is now facing a period of macroeconomic adjustment. Demand pressures in the economy decline sharply in 2008 and onwards, due to very high interest rates, slowing private consumption and expected ongoing weakness of domestic demand. Incomes are under pressure and specifically pensioners are facing benefit cuts following the worsened position of the Icelandic pension fund. Unemployment is set to increase significantly this year following the impact of the crisis on the banking sector specifically, tripling the number of unemployed. Inflation is peaking in 2008 and expected to remain high in 2009 and 2010. The current account deficit in 2008 is high at around 20% of GDP but is expected to decline significantly following decreasing imports.

The financial crisis is gravely worsening this period of unwinding unbalances. GDP is expected to already shrink in 2008 and even more significantly in 2009 to return to modest growth only in 2010. Declining domestic demand and a worsening labour market are turning the positive output gap in 2008 into a negative gap in 2009 and 2010.

The uncertainty generated by the current credit crisis and the massive devaluation of the krona as well as the increasing unemployment entail a significant downside risk, which could easily lead to a much higher GDP contraction in 2009 and onwards. Another factor of uncertainty is the possible effect of international rescue operations. The impact of a combined IMF – EU financial assistance programme may dampen the effects of the crisis on GDP growth for the forecast years, while its absence could lead to worsening conditions for the Icelandic economy.

Table 5.4.1:

Main features of country forecast - EFTA

		Iceland			Norway			Switzerland		
(Annual percentage change)		**2008**	**2009**	**2010**	**2008**	**2009**	**2010**	**2008**	**2009**	**2010**
GDP at constant prices		-3.4	-8.3	2.0	1.9	1.3	2.1	1.8	1.2	1.6
Private consumption		-5.5	-6.1	1.6	1.9	2.1	2.5	2.1	1.7	1.9
Public consumption		5.8	2.8	2.8	3.3	2.9	2.5	0.2	0.5	0.5
Gross fixed capital formation		-19.8	-20.1	5.1	3.4	0.4	2.2	0.8	2.1	2.1
of which : equipment		-21.0	-22.5	5.6	3.9	1.9	2.5	1.1	3.0	2.5
Exports (goods and services)		-8.3	-2.8	3.6	1.7	2.2	3.0	3.3	1.8	2.4
Imports (goods and services)		-13.1	-0.2	3.7	3.4	4.3	4.3	2.6	2.8	2.8
GNI at constant prices (GDP deflator)		-8.3	-8.4	1.8	1.8	1.4	2.1	1.5	0.5	1.4
Contribution to GDP growth :	Domestic demand	-7.5	-7.6	2.8	2.3	1.7	2.2	1.4	1.5	1.6
	Stockbuilding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Foreign balance	3.2	-0.9	-0.4	-0.5	-0.7	-0.3	0.6	-0.3	0.0
Employment		2.5	1.0	2.0	2.3	2.0	2.4	1.2	-0.1	-0.2
Unemployment rate (a)		2.7	3.6	3.8	2.5	2.9	3.0	2.5	2.8	3.1
Compensation of employees/head		-	-	-	1.9	2.0	1.9	-	-	-
Unit labour costs whole economy		-	-	-	2.3	2.7	2.3	-	-	-
Real unit labour costs		-	-	-	-8.4	5.0	0.0	-	-	-
Savings rate of households (b)		9.1	15.2	17.7	0.1	-0.8	-1.9	17.0	14.7	12.8
GDP deflator		9.3	-3.1	11.8	11.7	-2.2	2.2	1.7	1.7	1.6
Harmonised index of consumer prices		15.2	18.5	2.1	3.8	2.9	2.1	3.0	1.5	1.9
Terms of trade of goods		-3.9	-24.7	-4.5	27.0	-11.0	1.0	-0.4	0.0	0.2
Trade balance (c)		-6.9	-20.6	-20.2	21.0	17.6	17.7	2.1	1.5	1.5
Current account balance (c)		-13.7	-32.6	-32.5	23.9	20.2	20.1	8.8	7.5	7.0
Net lending(+) or borrowing(-) vis-à-vis ROW (c)		-14.6	-33.3	-32.9	23.8	20.1	20.1	8.8	7.5	7.0
General government balance (c)		-1.4	-8.0	-11.0	13.9	13.7	13.7	-1.0	-1.1	-1.6
Cyclically-adjusted budget balance (c)		-	-	-	-	-	-	-	-	-
Structural budget balance (c)		-	-	-	-	-	-	-	-	-
General government gross debt (c)		21.9	32.5	39.5	43.7	42.3	38.1	41.7	39.8	38.2

(a) unemployment, as % of labour force. (b) as a percentage of GDP. (c) national indicator.

5. RUSSIAN FEDERATION

Worldwide financial instability affects medium-term prospects

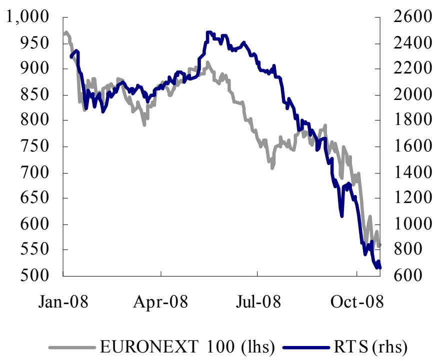
Uncertain growth prospects

2007 was the 9th straight year of strong growth for Russia, reaching 8.1%, while the average 1999-2007 is 7%. This strong performance was sustained until the summer of 2008. GDP growth was around 8% in the first half of 2008, supported by an investment growth of 17%. Starting in the summer, a deceleration was observed, initially due to a base effect, but later likely due to the transmission of the increased financial instability into the real economy. According to preliminary estimates, GDP growth during January-September fell, albeit somewhat marginally, to 7.7%. Similarly, the growth rate of investment is estimated to have fallen to 13% during the same period. With the expected slowdown during the last quarter of 2008, the forecast for the whole of 2008 is a robust 7.1%. The deceleration is expected to last until mid-2009, resulting in a 6% growth, increasing to 6.5% in 2010, although the margin of uncertainty of the forecast has increased.

External position and unstable capital flows

The effects of greater capital inflows in the 2007 growth performance are highlighted by changes in the current account. The Central Bank of Russia (CBR) estimate of *net* capital inflows for 2007 is close to EUR 63.5 billion, far above the figure for 2006. This was largely fuelled by borrowing by Russian companies and especially banks: this increased foreign borrowing is one of the elements behind the current instability of the Russian banking system. For 2008 estimates point to a significant capital outflow (perhaps as high as EUR 90 billion for the period August-October), while CBR preliminary figures indicate a EUR 11.9 billion outflow for the July-September period - 95% of which out of the banking sector - but also showing a marginal positive inflow of EUR 0.6 billion for the first nine months of 2008. The capital outflow was initially driven by the conflict with Georgia in early August, and picked up speed with the ongoing global financial instability. CBR's reserves (the third largest in the world) stood at around EUR 400 billion by mid October 2008, but in USD terms (as both the euro and the rouble have fallen towards the USD) this figure is a 13% fall since their position at end-July.

Graph 5.5.1: **Russia - Russian and EU stock markets**



The instability in the capital account described above has been partially compensated by an increase in the trade surplus, due to higher oil prices. The price of the Urals Blend was close to USD 90 by early 2008, above USD 130 by July 2008, but fell again to around USD 70 in mid October. Up to September 2008 the rise in oil prices generated a record trade surplus of USD 153 billion, or a 68% increase in nominal USD over the same period of 2007 (nevertheless, the recent fall in oil prices to the levels observed in October 2007 shall reduce the *growth rate* of the trade surplus for the whole of 2008). In 2007 the current account surplus was around 6% of GDP, and the trade surplus 10%. Due to higher oil prices, the forecast projects an increase of both aggregates in 2008, to, respectively, above 6.5% and 12%. At the same time, the forecast fall in oil prices is expected to reduce swiftly both the trade and the current account surplus during 2009-2010, which are to fall to 3.9% and -0.3%, respectively.

A still strong fiscal surplus

The budget surplus reached 5.5% in 2007. Again due to oil prices, this figure is expected to increase in 2008 to 6.4%. Nevertheless, the surplus is expected to decline to below 3% of GDP by 2010. Additionally, the flurry of measures announced in support of the Russian financial system may too have *some* future fiscal effects (see below).

Inflation bounces back

Russian CPI inflation reached 11.9% in 2007 on the back of worldwide food price increases and a continued monetary expansion fuelled by capital inflows. The September 2008 CPI inflation reached 15% y-o-y, due to high commodity prices and the inflows from an increased trade surplus. Hence, inflation is forecast to fall slowly to close to 10% by 2010 only.

Financial instability

Russian stock markets have been falling since May of 2008, after a series of global shocks to investor confidence. There are also Russian-specific components in this performance (the cases of TNK-BP and Mechel, the Georgia conflict and the recent fall in oil prices, as Russian stock markets are dominated by stocks from energy and commodity firms). This said, the events observed in September-October are clearly related to the spreading of instability from developed markets into emerging ones such as Russia, so far considered as a relatively "safe havens". As a result, Russia's two main stock markets, MICEX and RTS, are both down by over 70% since the start of the year (see graph in the previous page).

Currently, debt markets in Russia seem largely shut to second and third-tier banks, bar the access to CBR and Ministry of Finance (MinFin) injections of liquidity. The CBR also reduced reserve requirements, to release extra liquidity. In addition, the MinFin is holding frequent auctions of fiscal funds for on-lending to banks. The government also announced a series of other measures, including cuts in crude oil export duties, an extension of the bank deposit insurance scheme, delayed payment of certain taxes, large support packages for the re-financing of maturing external debt and provision of long-term financing. The support packages announced until mid October are estimated to reach over 12% of GDP, albeit not all of these measures imply fiscal costs.

Overall prospects till 2010

Overall, Russia's growth is expected to remain strong during 2008-2010, albeit a deceleration from the very high rates observed recently is expected. As a result, GDP growth is likely to average 6.5% in 2008-2010, although there is a considerable degree of uncertainty concerning the forecast for 2009. Inflation will fall back to below double-digit levels only gradually. The budget surplus shall fall below of 3% of GDP by 2010, while Russia is also forecast to have a reduction of both trade and current account surpluses.

Table 5.5.1:

Main features of country forecast - RUSSIA

		2007			Annual percentage change					
	bn RUB	Curr. prices	% GDP	92-04	2005	2006	2007	2008	2009	2010
GDP at constant prices		32987.4	100.0	-	6.4	7.4	8.1	7.1	6.0	6.5
Private consumption		15990.5	48.5	-	11.3	11.1	12.6	10.8	9.2	8.6
Public consumption		5820.4	17.6	-	1.3	2.5	5.0	4.0	4.0	3.5
Gross fixed capital formation		7286.7	22.1	-	10.6	17.7	20.8	13.5	8.0	10.0
of which : equipment		2616.3	7.9	-	-	-	-	13.5	8.0	10.0
Exports (goods and services)		10067.3	30.5	-	6.5	7.3	6.4	6.5	6.8	4.9
Imports (goods and services)		7224.9	21.9	-	16.6	21.9	27.3	21.6	15.0	11.0
GNI at constant prices (GDP deflator)		32181.9	97.6	-	6.0	6.8	8.7	6.4	7.1	6.9
Contribution to GDP growth :	Domestic demand			-	7.8	9.0	10.8	10.1	8.1	8.4
	Stockbuilding			-	0.0	0.5	1.0	0.5	0.3	0.3
	Foreign balance			-	-1.4	-2.1	-3.6	-2.7	-1.7	-1.5
Employment				-	0.6	0.6	0.8	-0.5	1.1	1.2
Unemployment rate (a)				-	-	-	-	5.9	5.6	5.2
Compensation of employees/head				-	-	-	-	-	-	-
Unit labour costs whole economy				-	-	-	-	-	-	-
Real unit labour costs				-	-	-	-	-	-	-
Savings rate of households (b)				-	-	-	-	-	-	-
GDP deflator				-	19.2	15.7	13.5	21.4	3.8	7.0
General index of consumer prices				-	12.7	9.7	9.0	13.8	11.7	10.4
Terms of trade of goods				-	-	-	-	24.2	-17.4	-4.2
Trade balance (c)				-	15.5	14.1	10.1	12.3	6.1	3.9
Current account balance (c)				-	11.0	9.5	5.9	6.7	1.1	-0.3
Net lending(+) or borrowing(-) vis-à-vis ROW (c)				-	9.4	9.6	5.1	-	-	-
General government balance (c)				-	-	-	-	-	-	-
Cyclically-adjusted budget balance (c)				-	-	-	-	-	-	-
Structural budget balance (c)				-	-	-	-	-	-	-
General government gross debt (c)				-	-	-	-	6.0	6.8	7.3

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

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TABLE 1 : Gross domestic product, volume (percentage change on preceding year, 1992-2010) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	1.5	2.6	2.1	3.0	1.8	3.0	2.8	*1.7*	1.4	*1.5*	0.1	*:*	0.9
Germany	1.4	2.1	0.9	1.2	0.8	3.0	2.5	*1.8*	1.7	*1.5*	0.0	*:*	1.0
Ireland	5.9	9.1	5.5	4.7	6.4	5.7	6.0	*2.3*	-1.6	*3.2*	-0.9	*:*	2.4
Greece	1.1	3.8	4.3	4.9	2.9	4.5	4.0	*3.4*	3.1	*3.3*	2.5	*:*	2.6
Spain	1.5	4.4	3.3	3.3	3.6	3.9	3.7	*2.2*	1.3	*1.8*	-0.2	*:*	0.5
France	1.2	3.0	1.7	2.5	1.9	2.2	2.2	*1.6*	0.9	*1.4*	0.0	*:*	0.8
Italy	1.2	2.0	0.9	1.5	0.6	1.8	1.5	*0.5*	0.0	*0.8*	0.0	*:*	0.6
Cyprus	5.5	4.2	3.3	4.2	3.9	4.1	4.4	*3.7*	3.7	*3.7*	2.9	*:*	3.2
Luxembourg	2.6	6.3	4.4	4.5	5.2	6.4	5.2	*3.6*	2.5	*3.5*	1.2	*:*	2.3
Malta	5.0	3.4	2.0	1.1	3.5	3.1	3.7	*2.6*	2.4	*2.5*	2.0	*:*	2.2
Netherlands	2.5	3.7	1.6	2.2	2.0	3.4	3.5	*2.6*	2.3	*1.8*	0.4	*:*	0.9
Austria	1.8	2.6	2.2	2.5	2.9	3.4	3.1	*2.2*	1.9	*1.8*	0.6	*:*	1.3
Portugal	1.6	3.8	0.7	1.5	0.9	1.4	1.9	*1.7*	0.5	*1.6*	0.1	*:*	0.7
Slovenia	2.0	4.2	4.3	4.3	4.3	5.9	6.8	*4.2*	4.4	*3.8*	2.9	*:*	3.7
Slovakia	:	2.7	5.9	5.2	6.5	8.5	10.4	*7.0*	7.0	*6.2*	4.9	*:*	5.5
Finland	1.3	4.6	3.0	3.7	2.8	4.9	4.5	*2.8*	2.4	*2.6*	1.3	*:*	2.0
Euro area	1.5	2.8	1.7	2.2	1.7	2.9	2.7	*1.8*	1.2	*1.6*	0.1	*:*	0.9
Bulgaria	-2.8	2.0	5.7	6.6	6.2	6.3	6.2	*5.8*	6.5	*5.6*	4.5	*:*	4.7
Czech Republic	2.3	1.2	4.6	4.5	6.3	6.8	6.0	*4.7*	4.4	*5.0*	3.6	*:*	3.9
Denmark	2.6	2.4	1.9	2.3	2.5	3.9	1.7	*1.3*	0.7	*1.1*	0.1	*:*	0.9
Estonia	:	6.6	8.4	7.5	9.2	10.4	6.3	*2.7*	-1.3	*4.3*	-1.2	*:*	2.0
Latvia	-8.7	6.3	9.0	8.7	10.6	12.2	10.3	*3.8*	-0.8	*2.5*	-2.7	*:*	1.0
Lithuania	-8.4	5.0	8.0	7.4	7.8	7.8	8.9	*6.1*	3.8	*3.7*	0.0	*:*	-1.1
Hungary	0.6	4.6	4.3	4.8	4.0	4.1	1.1	*1.9*	1.7	*3.2*	0.7	*:*	1.8
Poland	4.9	4.4	4.1	5.3	3.6	6.2	6.6	*5.3*	5.4	*5.0*	3.8	*:*	4.2
Romania	1.4	-0.9	6.2	8.5	4.2	8.2	6.0	*6.2*	8.5	*5.1*	4.7	*:*	5.0
Sweden	1.2	3.3	3.2	4.1	3.3	4.1	2.7	*2.2*	1.4	*1.8*	0.0	*:*	1.8
United Kingdom	2.5	3.4	2.5	2.8	2.1	2.8	3.0	*1.7*	0.9	*1.6*	-1.0	*:*	0.4
EU	1.4	2.9	2.0	2.5	2.0	3.1	2.9	*2.0*	1.4	*1.8*	0.2	*:*	1.1
USA	3.3	3.5	2.7	3.6	2.9	2.8	2.0	*0.9*	1.5	*0.7*	-0.5	*:*	1.0
Japan	1.4	0.5	1.8	2.7	1.9	2.4	2.1	*1.2*	0.4	*1.1*	-0.4	*:*	0.6

TABLE 2 : Profiles (qoq) of quarterly GDP, volume (percentage change from previous quarter, 2008-2010)

	2008/1	2008/2	2008/3	2008/4	2009/1	2009/2	2009/3	2009/4	2010/1	2010/2	2010/3	2010/4
Belgium	0.5	0.2	0.0	-0.2	-0.1	0.0	0.1	0.2	0.2	0.3	0.4	0.5
Germany	1.3	-0.5	-0.1	-0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3
Ireland	-0.3	-0.5	-0.6	-0.3	-0.1	-0.2	-0.1	0.2	0.6	1.1	1.4	1.2
Greece	1.1	0.8	0.4	0.4	0.7	0.7	0.7	0.7	0.6	0.6	0.7	0.7
Spain	0.3	0.1	-0.2	-0.3	-0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
France	0.4	-0.3	-0.1	-0.2	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Italy	0.5	-0.3	-0.2	-0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2
Cyprus	1.0	0.8	0.7	0.6	0.8	0.8	0.8	0.8	0.7	0.8	0.9	1.0
Luxembourg	0.1	1.1	:	:	:	:	:	:	:	:	:	:
Malta	0.7	0.7	:	:	:	:	:	:	:	:	:	:
Netherlands	0.4	0.1	0.1	0.1	0.1	0.0	0.1	0.2	0.2	0.3	0.3	0.4
Austria	0.6	0.4	0.2	0.0	0.1	0.2	0.3	0.3	0.3	0.3	0.4	0.4
Portugal	-0.2	0.3	-0.3	-0.1	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Slovenia	:	:	:	:	:	:	:	:	:	:	:	:
Slovakia	1.7	1.9	1.1	1.0	0.7	0.9	1.3	1.4	1.1	1.3	1.5	1.6
Finland	0.3	0.8	0.5	0.3	0.1	0.2	0.4	0.4	0.4	0.5	0.7	0.8
Euro area	0.7	-0.2	-0.1	-0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3
Bulgaria	1.3	1.9	0.6	0.4	1.3	1.3	1.4	1.5	1.0	1.0	1.1	1.1
Czech Republic	0.9	0.9	0.8	0.7	1.0	1.1	1.1	1.2	0.9	0.9	0.9	0.9
Denmark	-0.6	0.4	1.1	0.6	-0.8	-0.2	-0.1	0.0	0.3	0.4	0.5	0.7
Estonia	-0.9	-0.8	-0.6	-0.5	-0.3	-0.2	0.0	0.3	0.5	0.6	1.1	1.1
Latvia	-0.5	-0.5	-1.8	-0.8	-0.6	-0.4	-0.4	-0.2	0.3	0.7	0.9	1.1
Lithuania	-0.4	1.0	-0.1	-0.1	-0.1	-0.3	-0.3	-0.4	-1.1	-0.4	0.0	0.8
Hungary	0.6	0.6	-1.0	-0.6	0.5	0.4	0.3	0.4	0.5	0.6	0.7	0.8
Poland	1.4	1.5	0.6	0.6	1.0	1.0	1.1	1.1	1.0	1.0	1.0	1.1
Romania	2.3	2.4	2.0	1.0	0.8	0.8	0.8	1.0	1.0	1.1	1.2	1.2
Sweden	0.1	0.0	-0.2	-0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
United Kingdom	0.3	0.0	-0.4	-0.4	-0.3	-0.2	-0.2	0.0	0.1	0.2	0.3	0.4
EU	0.6	0.0	-0.1	-0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.4
USA	0.2	0.7	-0.1	-0.4	-0.3	-0.1	0.1	0.2	0.3	0.3	0.4	0.4
Japan	0.7	-0.7	-0.3	-0.2	-0.1	0.0	0.1	0.2	0.1	0.2	0.2	0.2

TABLE 3 : Profiles (yoy) of quarterly GDP, volume (percentage change from corresponding quarter in previous year, 2008-2010) 23.10.2008

	2008/1	2008/2	2008/3	2008/4	2009/1	2009/2	2009/3	2009/4	2010/1	2010/2	2010/3	2010/4
Belgium	2.2	1.9	1.2	0.5	0.0	-0.2	-0.1	0.3	0.6	0.9	1.2	1.4
Germany	2.6	1.7	1.0	0.5	-0.7	0.0	0.3	0.7	0.9	0.9	0.9	0.9
Ireland	-1.4	-0.7	-1.3	-1.7	-1.5	-1.2	-0.7	-0.2	0.5	1.8	3.2	4.2
Greece	3.6	3.5	3.0	2.6	2.2	2.2	2.6	3.0	2.8	2.6	2.5	2.4
Spain	2.6	1.8	0.8	-0.2	-0.5	-0.6	-0.2	0.3	0.4	0.4	0.5	0.5
France	2.1	1.1	0.4	-0.1	-0.5	-0.1	0.2	0.5	0.7	0.7	0.8	0.8
Italy	0.3	-0.1	-0.4	-0.2	-0.6	-0.2	0.1	0.5	0.5	0.5	0.5	0.5
Cyprus	4.1	3.9	3.5	3.0	2.8	2.8	2.9	3.2	3.1	3.1	3.2	3.5
Luxembourg	1.2	2.8	:	:	:	:	:	:	:	:	:	:
Malta	3.3	3.3	:	:	:	:	:	:	:	:	:	:
Netherlands	3.7	3.0	1.9	0.6	0.4	0.3	0.3	0.4	0.4	0.7	1.0	1.3
Austria	2.5	2.2	1.9	1.2	0.6	0.4	0.5	0.8	1.1	1.3	1.4	1.5
Portugal	0.9	0.7	0.4	-0.3	-0.1	-0.2	0.2	0.5	0.6	0.7	0.8	0.9
Slovenia	:	:	:	:	:	:	:	:	:	:	:	:
Slovakia	8.8	8.0	6.9	5.9	4.8	3.8	3.9	4.3	4.8	5.2	5.4	5.6
Finland	2.7	2.4	2.6	2.0	1.8	1.2	1.1	1.3	1.6	1.8	2.1	2.5
Euro area	2.1	1.4	0.8	0.3	-0.3	0.0	0.3	0.6	0.8	0.9	0.9	1.0
Bulgaria	8.7	6.0	7.4	4.3	4.3	3.6	4.5	5.6	5.2	4.9	4.6	4.2
Czech Republic	5.4	4.6	3.9	3.3	3.4	3.6	3.9	4.5	4.3	4.1	3.9	3.6
Denmark	-0.6	1.0	0.7	1.5	1.4	0.7	-0.5	-1.1	0.0	0.6	1.2	1.9
Estonia	0.8	-1.0	-2.2	-2.8	-2.2	-1.6	-1.0	-0.2	0.6	1.5	2.5	3.3
Latvia	3.8	0.6	-2.5	-3.5	-3.6	-3.5	-2.1	-1.6	-0.7	0.3	1.6	2.9
Lithuania	6.9	5.2	2.3	0.4	0.7	-0.6	-0.8	-1.0	-2.0	-2.1	-1.8	-0.7
Hungary	1.2	1.7	0.4	-0.4	-0.5	-0.7	0.6	1.6	1.6	1.8	2.2	2.6
Poland	6.2	6.1	5.4	4.1	3.8	3.3	3.8	4.4	4.4	4.3	4.1	4.0
Romania	8.2	9.0	9.3	7.4	5.5	4.4	4.4	4.6	4.8	5.0	5.5	5.5
Sweden	1.8	0.9	0.4	-0.6	-0.3	0.2	0.9	1.9	1.9	1.9	1.8	1.8
United Kingdom	2.3	1.5	0.4	-0.5	-1.1	-1.3	-1.1	-0.7	-0.3	0.1	0.7	1.0
EU	2.3	1.7	0.9	0.4	-0.2	0.0	0.3	0.6	0.8	1.0	1.1	1.3
USA	2.5	2.1	0.8	0.4	-0.2	-1.0	-0.8	-0.1	0.5	0.9	1.2	1.4
Japan	1.2	0.8	0.3	-0.5	-1.3	-0.5	-0.1	0.3	0.5	0.7	0.7	0.7

TABLE 4 : Gross domestic product per capita (percentage change on preceding year, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	1.2	2.4	1.5	2.5	1.3	2.3	2.0	*1.5*	0.7	*1.3*	-0.6	*:*	0.2
Germany	0.9	1.9	0.9	1.2	0.8	3.1	2.6	*2.0*	1.9	*1.7*	0.1	*:*	1.1
Ireland	5.3	7.8	3.5	2.9	4.1	3.1	3.5	*0.9*	-3.4	*1.8*	-1.8	*:*	1.6
Greece	0.2	3.4	3.9	4.6	2.5	4.1	3.8	*3.1*	2.8	*3.0*	2.2	*:*	2.3
Spain	1.3	3.7	1.7	1.6	1.9	2.3	1.8	*0.9*	0.0	*0.6*	-1.4	*:*	-0.3
France	0.8	2.4	1.1	1.8	1.3	1.6	1.6	*1.1*	0.4	*0.9*	-0.5	*:*	0.3
Italy	1.2	2.0	0.2	0.5	-0.2	1.3	0.8	*0.4*	-0.2	*0.6*	-0.2	*:*	0.4
Cyprus	3.3	3.0	1.3	1.8	1.5	2.1	2.7	*1.7*	2.0	*1.7*	1.3	*:*	1.6
Luxembourg	1.1	5.1	2.9	3.1	3.6	4.8	3.6	*2.7*	1.6	*2.6*	0.3	*:*	1.5
Malta	4.1	2.7	1.3	0.4	2.9	2.3	3.0	*2.1*	1.9	*2.0*	1.5	*:*	1.7
Netherlands	1.9	3.1	1.2	1.9	1.8	3.2	3.2	*2.5*	2.1	*1.6*	0.2	*:*	0.7
Austria	1.3	2.4	1.6	1.8	2.1	2.8	2.6	*1.9*	1.6	*1.5*	0.3	*:*	1.0
Portugal	1.4	3.3	0.2	0.9	0.5	1.0	1.7	*1.3*	0.3	*1.3*	-0.1	*:*	0.6
Slovenia	2.1	4.1	4.1	4.2	4.2	5.5	6.2	*3.9*	3.7	*3.6*	2.7	*:*	3.5
Slovakia	:	2.7	5.9	5.1	6.5	8.4	10.3	*6.9*	6.9	*6.1*	4.8	*:*	5.4
Finland	0.8	4.3	2.7	3.4	2.5	4.4	4.1	*2.5*	2.0	*2.2*	1.0	*:*	1.6
Euro area	1.1	2.5	1.1	1.5	1.1	2.3	2.1	*1.4*	0.9	*1.2*	-0.2	*:*	0.7
Bulgaria	-2.2	3.1	6.3	7.2	6.8	6.6	6.2	*6.3*	7.0	*6.1*	5.0	*:*	5.2
Czech Republic	2.3	1.4	4.5	4.4	6.0	6.4	5.4	*4.4*	4.2	*4.7*	3.4	*:*	3.7
Denmark	2.2	2.1	1.6	2.1	2.2	3.6	1.2	*0.8*	0.4	*0.8*	-0.1	*:*	0.7
Estonia	:	7.5	8.8	7.5	9.8	10.6	6.5	*2.8*	-1.2	*4.4*	-1.1	*:*	2.1
Latvia	-7.4	7.2	9.6	9.3	11.2	12.9	10.9	*4.3*	-0.3	*3.0*	-2.2	*:*	1.5
Lithuania	-7.9	5.7	8.6	7.9	8.5	8.5	9.5	*6.6*	4.2	*3.9*	0.2	*:*	-0.9
Hungary	0.7	4.8	4.5	5.1	4.2	4.3	1.2	*2.1*	1.9	*3.5*	0.8	*:*	1.9
Poland	4.7	4.4	4.2	5.4	3.7	6.3	6.7	*5.4*	5.4	*5.1*	3.8	*:*	4.2
Romania	2.0	-0.7	6.5	8.7	4.4	8.4	6.3	*6.5*	8.8	*5.5*	5.0	*:*	5.4
Sweden	0.7	3.1	2.7	3.7	2.9	3.5	2.0	*2.0*	0.6	*1.6*	-0.5	*:*	1.5
United Kingdom	2.2	3.0	2.0	2.3	1.4	2.2	2.7	*1.3*	0.5	*1.1*	-1.4	*:*	-0.1
EU	1.2	2.7	1.6	2.0	1.5	2.7	2.4	*1.7*	1.1	*1.5*	-0.1	*:*	0.8
USA	2.0	2.4	1.7	2.7	2.0	1.8	1.0	*0.0*	0.6	*-0.2*	-1.4	*:*	0.1
Japan	1.1	0.2	1.7	2.7	1.9	2.4	2.1	*1.2*	0.4	*1.2*	-0.3	*:*	0.8

TABLE 5 : Domestic demand, volume (percentage change on preceding year, 1992-2010) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	1.3	2.4	2.0	2.8	2.2	3.1	3.3	*1.9*	2.5	*1.7*	0.2	*:*	1.1
Germany	1.5	1.5	0.1	-0.1	0.0	2.2	1.2	*1.6*	1.3	*1.4*	0.0	*:*	0.8
Ireland	4.1	8.2	5.5	4.1	8.7	6.2	3.7	*0.3*	-4.9	*2.7*	-3.8	*:*	2.1
Greece	1.2	4.3	3.9	2.8	2.1	4.7	5.1	*3.9*	2.7	*3.7*	2.4	*:*	2.6
Spain	0.8	5.0	4.4	4.8	5.1	5.1	4.2	*2.4*	0.8	*1.4*	-1.6	*:*	0.0
France	0.7	3.0	2.2	3.2	2.6	2.4	2.8	*1.7*	0.9	*1.5*	0.0	*:*	0.6
Italy	0.0	2.6	1.2	1.3	0.8	1.8	1.3	*0.5*	-0.5	*0.9*	0.0	*:*	0.7
Cyprus	:	3.6	4.3	6.5	3.1	5.6	6.5	*4.5*	4.6	*4.5*	3.7	*:*	3.7
Luxembourg	1.6	5.9	2.5	3.3	4.9	1.5	3.7	*3.7*	2.5	*3.4*	1.9	*:*	2.2
Malta	:	1.4	2.5	2.6	5.7	1.9	3.6	*2.3*	2.2	*2.3*	2.1	*:*	2.2
Netherlands	2.1	3.9	1.1	0.5	1.3	3.7	2.7	*2.3*	3.0	*1.2*	0.1	*:*	0.6
Austria	1.9	1.6	1.6	1.9	2.4	2.4	1.8	*1.9*	1.7	*1.4*	0.8	*:*	1.2
Portugal	2.0	4.6	0.6	2.5	1.5	0.8	1.6	*1.4*	0.8	*1.2*	-0.5	*:*	0.4
Slovenia	5.2	4.2	4.2	5.0	2.1	5.9	8.4	*4.0*	4.9	*3.6*	3.2	*:*	3.8
Slovakia	:	2.5	4.9	5.5	8.6	6.6	5.9	*5.3*	6.1	*4.9*	4.6	*:*	5.0
Finland	-0.3	3.8	3.2	3.0	4.3	3.2	4.5	*3.0*	2.5	*2.4*	1.3	*:*	1.8
Euro area	1.1	2.7	1.7	1.9	1.9	2.8	2.4	*1.9*	1.0	*1.5*	0.0	*:*	0.8
Bulgaria	:	5.1	8.5	7.4	10.3	10.9	9.5	*7.0*	8.3	*6.4*	5.7	*:*	5.2
Czech Republic	6.2	1.2	3.6	3.1	1.7	5.4	5.1	*4.5*	3.1	*4.3*	3.5	*:*	3.6
Denmark	2.9	2.2	3.1	4.3	3.4	6.0	2.6	*1.7*	1.0	*0.8*	-0.3	*:*	0.3
Estonia	:	6.1	10.7	7.9	8.8	14.2	7.5	*1.8*	-4.0	*3.8*	-2.9	*:*	0.9
Latvia	:	6.9	11.2	12.1	9.3	18.1	12.5	*0.9*	-6.6	*1.2*	-7.6	*:*	-1.0
Lithuania	:	5.6	9.6	12.8	7.7	9.1	13.1	*5.6*	4.1	*3.6*	-3.0	*:*	-0.7
Hungary	0.6	4.9	4.0	4.4	1.4	1.8	-0.9	*0.7*	1.5	*2.7*	0.3	*:*	2.3
Poland	5.4	4.5	3.9	6.2	2.5	7.3	8.3	*6.9*	6.3	*5.9*	4.9	*:*	4.3
Romania	1.4	0.4	9.0	12.0	7.9	13.2	13.1	*9.0*	11.9	*7.5*	6.6	*:*	6.9
Sweden	0.0	2.6	2.3	2.0	3.2	3.4	4.3	*1.6*	1.0	*1.9*	-0.5	*:*	1.1
United Kingdom	2.3	4.1	2.8	3.4	1.9	2.6	3.6	*1.4*	0.7	*1.2*	-1.6	*:*	-0.1
EU	1.4	3.0	2.1	2.4	2.0	3.1	3.0	*2.0*	1.2	*1.7*	0.0	*:*	0.9
USA	3.4	4.2	3.0	4.1	3.0	2.7	1.3	*0.1*	0.1	*-0.2*	-1.5	*:*	0.4
Japan	1.6	0.3	1.1	1.9	1.7	1.6	1.0	*0.4*	-0.5	*0.8*	-0.8	*:*	0.3

TABLE 6 : Final demand, volume (percentage change on preceding year, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	2.3	3.6	2.6	4.5	2.9	2.9	3.6	*2.9*	2.4	*2.6*	0.4	*:*	1.7
Germany	1.7	3.2	2.2	2.8	2.3	5.5	3.3	*2.9*	2.3	*2.6*	0.4	*:*	1.8
Ireland	8.3	12.1	5.1	6.1	8.5	6.2	3.9	*2.7*	-1.6	*3.7*	-1.4	*:*	2.6
Greece	1.6	5.3	4.0	4.5	2.5	5.8	4.7	*4.1*	3.0	*4.0*	2.5	*:*	2.7
Spain	2.3	5.8	4.3	4.7	4.6	5.4	4.3	*2.7*	1.3	*2.1*	-0.8	*:*	0.5
France	1.5	4.0	2.3	3.4	2.7	3.1	2.9	*1.8*	1.1	*1.6*	0.1	*:*	1.0
Italy	1.3	2.9	1.3	2.1	0.9	2.7	2.1	*1.1*	-0.3	*1.4*	0.0	*:*	0.9
Cyprus	:	4.5	3.3	6.0	3.6	5.0	6.8	*4.3*	4.9	*4.4*	3.3	*:*	3.5
Luxembourg	3.0	8.9	6.3	8.6	5.7	10.4	4.2	*3.1*	3.1	*3.8*	0.3	*:*	1.9
Malta	:	2.7	3.4	1.0	3.6	8.9	-0.2	*1.6*	1.2	*1.6*	1.0	*:*	1.3
Netherlands	3.5	5.6	2.6	3.5	3.3	5.2	4.4	*3.2*	3.5	*2.5*	0.7	*:*	1.7
Austria	2.2	3.8	3.1	4.7	4.0	4.2	4.4	*3.5*	2.4	*3.1*	1.2	*:*	2.3
Portugal	2.7	4.8	1.3	2.9	1.6	2.6	3.0	*2.1*	1.1	*1.9*	-0.1	*:*	0.9
Slovenia	2.7	5.4	6.1	7.8	5.4	8.6	10.7	*6.2*	5.4	*5.8*	3.8	*:*	5.3
Slovakia	:	5.4	8.2	6.3	11.0	13.3	10.9	*8.3*	7.9	*7.2*	5.2	*:*	5.6
Finland	2.0	5.7	4.0	4.8	5.2	6.0	5.8	*3.1*	3.2	*2.8*	1.8	*:*	2.3
Euro area	2.0	4.1	2.6	3.4	2.8	4.4	3.5	*2.6*	1.7	*2.3*	0.3	*:*	1.5
Bulgaria	:	5.2	8.8	9.2	9.7	9.9	8.0	*7.0*	7.6	*6.5*	5.3	*:*	5.4
Czech Republic	7.3	4.3	6.9	10.2	6.0	10.3	9.9	*7.5*	6.8	*8.3*	5.0	*:*	5.8
Denmark	3.0	3.7	3.6	3.8	5.1	7.1	2.4	*2.2*	1.5	*1.7*	0.4	*:*	1.1
Estonia	:	8.7	10.6	10.4	13.8	13.0	4.3	*2.5*	-3.7	*4.6*	-1.0	*:*	1.7
Latvia	:	6.6	10.7	11.4	12.1	14.9	12.1	*2.8*	-4.4	*3.2*	-4.7	*:*	0.6
Lithuania	:	5.7	10.4	10.1	10.7	10.1	9.9	*6.9*	6.8	*4.8*	-0.9	*:*	0.9
Hungary	:	9.1	7.1	8.8	5.8	9.6	7.5	*5.0*	4.3	*6.1*	0.8	*:*	4.4
Poland	6.4	5.4	5.6	8.1	3.8	9.3	8.4	*6.9*	6.2	*6.1*	4.7	*:*	4.7
Romania	0.9	2.6	9.7	12.5	7.9	12.5	12.2	*9.0*	11.4	*7.8*	6.6	*:*	6.9
Sweden	1.9	4.3	3.7	5.0	4.4	5.4	4.9	*2.9*	1.9	*2.8*	0.4	*:*	2.2
United Kingdom	3.3	4.4	3.3	3.6	3.2	4.4	1.8	*2.1*	0.9	*2.1*	-1.0	*:*	0.5
EU	2.2	4.2	3.0	3.8	3.1	4.9	3.6	*2.8*	1.9	*2.6*	0.4	*:*	1.6
USA	3.8	4.2	3.1	4.6	3.3	3.2	2.0	*1.0*	1.0	*0.6*	-1.1	*:*	0.7
Japan	1.7	0.5	2.0	3.2	2.3	2.6	2.0	*1.3*	0.4	*1.5*	-0.3	*:*	0.9

TABLE 7 : Private consumption expenditure, volume (percentage change on preceding year, 1992-2010) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	1.3	2.3	1.3	1.4	1.2	2.1	2.1	*1.5*	1.4	*1.4*	0.4	*:*	1.0
Germany	1.9	1.9	0.1	0.1	0.2	1.0	-0.4	*0.6*	-0.5	*1.4*	0.2	*:*	0.7
Ireland	4.1	7.7	4.9	3.7	7.2	7.0	6.0	*2.9*	-0.3	*3.2*	0.4	*:*	2.0
Greece	1.8	3.1	4.2	3.7	4.3	4.8	3.0	*3.1*	2.6	*3.0*	2.2	*:*	2.3
Spain	1.1	4.3	3.6	4.2	4.2	3.9	3.5	*2.2*	0.9	*1.9*	-0.4	*:*	0.5
France	1.0	2.8	2.3	2.5	2.6	2.3	2.4	*1.8*	0.9	*1.7*	0.5	*:*	0.9
Italy	0.5	2.5	0.8	0.8	0.9	1.1	1.5	*0.4*	-0.5	*0.9*	0.2	*:*	1.2
Cyprus	:	4.4	3.6	6.3	4.0	4.5	6.9	*5.3*	5.7	*4.8*	3.9	*:*	4.2
Luxembourg	1.7	4.3	1.5	2.7	1.9	2.9	2.0	*3.4*	2.4	*3.2*	2.7	*:*	2.4
Malta	:	3.6	1.4	2.5	1.8	0.7	1.6	*2.3*	2.2	*2.5*	1.7	*:*	1.8
Netherlands	2.1	3.9	0.5	1.0	1.0	0.0	2.1	*2.2*	2.0	*0.9*	0.6	*:*	0.8
Austria	1.3	1.6	1.9	2.2	2.6	2.4	1.0	*1.4*	1.1	*1.5*	1.0	*:*	1.2
Portugal	2.1	3.8	1.5	2.5	2.0	1.9	1.6	*1.2*	1.3	*1.4*	0.1	*:*	0.3
Slovenia	5.1	3.0	2.8	2.7	2.6	2.9	5.0	*3.2*	3.3	*3.4*	3.2	*:*	3.4
Slovakia	:	3.7	4.8	4.6	6.5	5.8	7.0	*5.5*	6.7	*5.3*	5.0	*:*	5.2
Finland	0.5	3.2	3.5	3.0	3.3	4.1	3.2	*3.0*	3.2	*2.6*	2.1	*:*	2.3
Euro area	1.4	2.7	1.5	1.6	1.8	2.0	1.6	*1.4*	0.5	*1.5*	0.4	*:*	1.0
Bulgaria	-1.4	2.0	6.8	5.9	6.1	9.5	5.3	*5.0*	5.0	*4.8*	4.4	*:*	4.7
Czech Republic	6.2	1.5	3.8	2.9	2.5	5.4	5.3	*3.8*	3.2	*4.2*	4.1	*:*	4.2
Denmark	2.4	1.0	3.2	4.7	5.2	3.8	2.3	*2.1*	1.1	*1.4*	0.8	*:*	1.0
Estonia	:	5.9	10.6	9.5	9.9	12.7	7.9	*2.6*	-1.5	*4.3*	-1.7	*:*	0.7
Latvia	:	4.7	11.5	9.8	11.2	21.2	13.9	*3.0*	-5.5	*1.0*	-7.5	*:*	-2.0
Lithuania	:	4.8	10.2	11.9	12.2	10.6	12.4	*6.6*	5.6	*3.7*	-2.6	*:*	-1.2
Hungary	:	4.8	5.3	2.7	3.4	1.7	0.6	*0.3*	1.0	*1.5*	-1.2	*:*	1.4
Poland	4.8	4.6	3.4	4.7	2.1	5.0	5.0	*5.6*	5.0	*4.7*	4.5	*:*	3.4
Romania	3.1	0.3	10.1	14.6	9.9	12.8	11.1	*8.2*	9.5	*7.1*	5.5	*:*	5.6
Sweden	0.0	3.0	2.5	2.6	2.7	2.5	3.0	*2.0*	1.5	*1.8*	0.4	*:*	1.0
United Kingdom	2.4	4.2	2.7	2.9	1.9	2.1	3.0	*1.1*	1.8	*0.8*	-2.1	*:*	-1.1
EU	1.7	3.0	2.0	2.1	2.0	2.3	2.2	*1.6*	1.0	*1.6*	0.2	*:*	0.8
USA	3.3	4.2	3.0	3.6	3.0	3.0	2.8	*0.8*	0.5	*-0.7*	-1.6	*:*	-0.9
Japan	2.2	0.6	1.3	1.6	1.3	2.0	1.5	*0.7*	0.5	*0.7*	-0.3	*:*	0.3

TABLE 8 : Government consumption expenditure, volume (percentage change on preceding year, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	1.2	2.0	1.5	1.8	0.4	0.1	2.3	*2.4*	1.9	*2.2*	1.5	*:*	1.5
Germany	2.4	1.1	0.4	-0.7	0.4	0.6	2.2	*1.4*	1.7	*1.4*	1.5	*:*	1.1
Ireland	2.8	7.3	3.9	2.3	3.1	5.3	6.8	*3.5*	4.7	*1.6*	0.5	*:*	0.8
Greece	1.0	4.3	2.0	2.9	1.2	0.0	7.7	*3.6*	2.9	*3.3*	2.7	*:*	2.7
Spain	2.1	3.8	5.1	6.3	5.5	4.6	4.9	*5.0*	4.1	*4.3*	1.3	*:*	0.7
France	1.8	1.0	1.7	2.3	1.2	1.3	1.4	*1.4*	1.3	*1.4*	0.9	*:*	0.7
Italy	-1.0	1.7	1.9	2.2	1.9	0.8	1.2	*1.0*	1.1	*1.2*	0.6	*:*	0.5
Cyprus	:	5.3	3.5	-5.5	3.4	7.4	-0.1	*5.5*	5.2	*3.9*	5.9	*:*	3.6
Luxembourg	4.1	4.8	3.9	4.6	3.4	2.7	2.6	*3.7*	4.3	*3.6*	4.2	*:*	4.0
Malta	:	0.0	2.6	0.5	-0.5	5.9	-0.1	*1.6*	4.3	*1.2*	2.8	*:*	2.4
Netherlands	1.7	2.9	3.1	-0.1	0.5	9.0	3.0	*1.1*	1.2	*1.5*	2.1	*:*	1.0
Austria	2.8	2.0	1.3	1.0	1.5	2.3	1.8	*3.3*	2.6	*0.4*	1.9	*:*	1.7
Portugal	1.6	3.8	1.4	2.6	3.2	-1.4	0.0	*0.3*	-0.1	*0.5*	0.2	*:*	0.5
Slovenia	2.2	3.8	3.3	3.4	3.3	4.1	2.5	*2.9*	3.2	*2.6*	2.6	*:*	2.6
Slovakia	:	1.6	3.8	-2.2	3.3	10.2	-1.3	*2.4*	3.9	*2.8*	2.8	*:*	3.6
Finland	-0.6	1.5	1.7	1.7	1.9	0.6	1.3	*1.9*	1.5	*1.4*	1.4	*:*	1.2
Euro area	1.5	1.7	1.8	1.6	1.5	1.9	2.3	*1.9*	1.8	*1.7*	1.2	*:*	1.0
Bulgaria	-15.4	5.2	3.4	3.8	2.5	-1.3	3.1	*4.1*	4.1	*4.1*	4.0	*:*	4.0
Czech Republic	-1.7	1.9	2.4	-3.5	2.9	-0.7	0.4	*-0.1*	1.1	*0.1*	0.7	*:*	0.6
Denmark	2.6	2.2	1.5	1.8	0.9	2.0	1.6	*1.7*	1.5	*1.3*	1.3	*:*	1.1
Estonia	:	0.1	1.5	2.3	1.9	1.8	3.9	*3.9*	2.6	*3.0*	-1.5	*:*	0.6
Latvia	:	2.8	2.7	2.1	2.7	4.9	4.8	*4.5*	3.5	*3.0*	1.0	*:*	1.0
Lithuania	:	3.0	4.1	8.2	3.5	3.7	3.3	*4.6*	5.3	*5.4*	3.7	*:*	2.6
Hungary	-1.7	2.1	3.9	1.8	2.4	4.3	-7.4	*-1.7*	-0.8	*3.1*	2.1	*:*	2.7
Poland	3.3	2.4	4.1	3.1	5.2	6.1	5.8	*0.7*	1.7	*1.3*	1.2	*:*	1.5
Romania	3.6	0.5	1.4	-4.9	8.5	-6.5	5.2	*4.1*	3.5	*3.5*	3.5	*:*	3.3
Sweden	0.4	0.8	0.8	-0.2	0.4	1.5	1.1	*1.2*	0.4	*1.3*	0.5	*:*	0.9
United Kingdom	0.6	1.9	2.7	3.4	1.7	1.6	1.8	*2.2*	2.0	*1.6*	1.3	*:*	2.0
EU	0.8	1.8	2.0	1.8	1.6	1.9	2.1	*1.9*	1.8	*1.7*	1.3	*:*	1.2
USA	0.0	2.3	2.3	1.8	0.5	1.8	1.8	*2.0*	2.3	*2.1*	2.6	*:*	2.8
Japan	3.1	2.8	1.6	1.9	1.6	-0.4	0.7	*1.0*	0.2	*0.8*	0.2	*:*	0.4

TABLE 9 : Total investment, volume (percentage change on preceding year, 1992-2010) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	0.8	3.9	3.1	7.1	6.9	4.7	6.2	*2.2*	4.6	*1.9*	-1.4	:	0.9
Germany	0.7	1.8	0.3	-0.3	1.1	7.7	4.3	*3.4*	4.3	*1.7*	-1.7	:	1.1
Ireland	7.2	10.3	7.0	9.1	14.0	4.0	1.3	*-7.4*	-18.9	*2.5*	-17.4	:	3.8
Greece	-0.2	8.2	6.5	1.9	-0.5	9.2	4.9	*5.8*	3.2	*5.5*	2.8	:	3.3
Spain	-0.3	7.6	5.7	5.1	7.0	7.1	5.3	*1.4*	-1.6	*-1.5*	-5.8	:	-1.7
France	-0.9	5.0	2.6	3.6	4.4	4.8	4.9	*2.0*	0.4	*1.6*	-2.3	:	-0.1
Italy	-0.8	3.7	1.6	2.3	0.7	2.5	1.2	*0.5*	-0.3	*0.5*	-1.5	:	-0.5
Cyprus	:	1.7	6.8	11.4	3.3	10.5	7.6	*4.2*	4.2	*4.0*	1.3	:	1.9
Luxembourg	1.1	8.2	3.4	0.8	3.4	1.0	11.8	*5.2*	2.7	*3.8*	-1.6	:	1.4
Malta	:	-0.1	1.7	-2.8	8.6	4.2	4.1	*3.5*	0.5	*3.0*	3.1	:	3.5
Netherlands	3.3	4.9	0.6	-1.6	3.7	7.5	4.9	*3.0*	7.1	*1.3*	-2.7	:	-0.5
Austria	2.9	1.6	1.2	0.7	2.4	2.6	4.7	*2.4*	2.4	*2.1*	-0.5	:	0.7
Portugal	2.7	7.2	-2.5	0.2	-0.9	-0.7	3.1	*2.9*	0.1	*1.4*	-2.7	:	0.5
Slovenia	6.9	7.9	5.6	5.6	3.8	10.4	11.9	*6.5*	9.5	*4.8*	3.9	:	5.6
Slovakia	:	1.4	5.6	4.8	17.6	9.3	8.7	*7.0*	6.4	*6.8*	5.2	:	6.0
Finland	-3.8	7.5	2.5	3.6	3.5	4.7	8.5	*4.7*	2.9	*3.5*	-0.6	:	1.4
Euro area	0.4	4.0	2.2	2.3	3.3	5.5	4.3	*2.1*	1.2	*1.2*	-2.6	:	0.2
Bulgaria	:	13.0	14.7	13.5	23.3	14.7	21.7	*14.0*	19.0	*11.0*	9.0	:	7.0
Czech Republic	10.9	0.3	3.5	3.9	1.8	6.5	6.7	*7.7*	4.5	*7.4*	4.4	:	5.0
Denmark	4.3	4.8	4.7	3.9	6.2	14.0	5.9	*0.9*	0.3	*-0.9*	-4.5	:	-2.3
Estonia	:	10.1	15.1	5.2	9.4	19.5	4.8	*2.1*	-2.0	*3.9*	-6.2	:	1.7
Latvia	:	17.4	17.7	23.8	23.6	16.3	8.4	*-5.0*	-10.0	*1.0*	-9.0	:	0.0
Lithuania	:	8.1	14.1	15.7	11.2	19.4	20.8	*4.5*	-3.2	*2.6*	-6.5	:	-2.3
Hungary	2.7	8.2	4.3	7.9	8.5	-6.2	1.5	*4.3*	1.5	*5.8*	2.7	:	4.6
Poland	9.9	6.6	4.0	6.4	6.5	14.9	17.6	*15.3*	13.8	*12.0*	8.8	:	8.4
Romania	10.4	1.2	12.7	11.1	12.7	23.5	28.9	*13.4*	21.3	*10.3*	10.1	:	10.8
Sweden	-1.4	4.4	4.3	5.7	8.9	7.7	8.0	*3.9*	2.2	*3.4*	-2.3	:	1.5
United Kingdom	2.3	5.7	3.5	4.9	2.2	6.0	7.1	*2.9*	-3.3	*2.2*	-3.0	:	0.9
EU	2.1	4.3	2.7	3.0	3.6	6.1	5.4	*2.8*	1.2	*2.0*	-1.9	:	0.9
USA	6.9	6.0	2.5	6.0	5.8	1.9	-2.2	*-4.0*	-2.3	*-0.7*	-5.5	:	2.5
Japan	-0.3	-1.6	0.0	1.4	3.1	1.3	-0.6	*-0.3*	-2.6	*1.5*	-1.8	:	0.4

TABLE 10 : Investment in construction, volume (percentage change on preceding year, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	1.4	1.4	3.4	5.7	8.7	4.4	4.4	*1.3*	2.6	*1.1*	-1.0	:	1.0
Germany	2.9	-1.6	-1.9	-3.9	-3.0	5.0	1.8	*0.9*	3.3	*0.9*	0.1	:	1.7
Ireland	7.1	10.3	7.8	9.8	12.6	6.0	-1.9	*-11.8*	-18.6	*1.6*	-22.3	:	4.4
Greece	-3.1	6.6	4.0	-5.6	0.6	5.8	1.6	*4.0*	-1.9	*4.1*	0.6	:	1.3
Spain	-0.9	6.6	6.0	5.4	6.1	5.9	3.8	*-0.7*	-3.8	*-4.8*	-7.6	:	-3.0
France	-2.5	2.8	3.2	3.6	4.7	5.6	4.2	*1.1*	-1.8	*0.6*	-3.5	:	-0.5
Italy	-2.0	2.2	2.5	2.2	0.5	1.6	2.2	*0.4*	-0.2	*0.4*	-1.7	:	-1.3
Cyprus	:	-0.1	8.4	9.4	8.6	8.1	8.5	*3.8*	3.8	*3.5*	1.3	:	2.3
Luxembourg	4.1	6.2	4.5	-7.1	2.2	-0.5	3.6	*4.0*	1.1	*3.1*	0.0	:	1.2
Malta	:	:	:	:	:	:	:	*:*	:	*:*	:	:	:
Netherlands	1.3	3.7	-0.6	-1.8	3.7	4.1	5.6	*2.3*	6.2	*1.0*	-1.1	:	-0.2
Austria	2.1	-0.4	1.1	1.6	-0.4	4.2	2.8	*2.3*	2.0	*2.3*	0.2	:	0.9
Portugal	3.4	6.5	-4.5	-1.5	-3.0	-4.9	-0.2	*2.3*	-3.6	*1.9*	-1.5	:	0.7
Slovenia	2.5	4.6	4.1	2.0	3.3	6.7	13.5	*7.8*	10.4	*4.6*	4.7	:	6.2
Slovakia	:	1.7	6.9	7.0	13.3	31.0	4.4	*6.6*	6.1	*7.1*	5.2	:	5.7
Finland	-5.9	7.8	2.7	4.9	4.2	4.9	8.0	*4.4*	4.0	*2.9*	-1.3	:	1.2
Euro area	:	2.3	1.7	1.0	1.9	4.4	3.0	*0.8*	0.2	*0.3*	-2.5	:	-0.1
Bulgaria	:	:	:	:	:	:	:	*:*	:	*:*	:	:	:
Czech Republic	4.3	-4.9	4.1	2.3	2.5	5.4	7.7	*9.1*	5.4	*8.6*	5.4	:	6.2
Denmark	3.2	2.3	4.9	4.3	8.9	12.9	2.3	*-1.2*	-1.6	*-0.8*	-5.5	:	-4.1
Estonia	:	:	:	:	:	:	:	*-1.2*	-3.5	*-0.5*	-8.8	:	1.1
Latvia	:	:	:	:	:	:	:	*:*	:	*:*	:	:	:
Lithuania	:	4.1	13.9	5.8	11.3	22.0	21.3	*3.3*	-2.2	*2.0*	-8.4	:	-2.3
Hungary	:	:	:	:	:	:	:	*3.1*	1.4	*5.3*	1.8	:	3.1
Poland	:	5.6	3.7	5.3	5.0	13.0	12.6	*13.3*	9.1	*11.2*	10.1	:	9.7
Romania	:	:	:	:	:	:	:	*13.8*	21.9	*9.8*	10.9	:	11.8
Sweden	-7.4	0.8	4.2	6.3	4.7	9.9	6.5	*1.7*	1.2	*1.7*	-1.8	:	0.4
United Kingdom	0.8	2.6	4.7	3.2	3.0	7.3	6.6	*3.1*	-4.0	*2.1*	-4.0	:	1.8
EU	:	:	:	:	:	:	:	*:*	:	*:*	:	:	:
USA	3.9	3.4	1.3	5.2	3.2	-2.4	-5.7	*-9.5*	-4.9	*-3.7*	-7.2	:	2.2
Japan	:	:	:	:	:	:	:	*:*	:	*:*	:	:	:

TABLE 11 : Investment in equipment, volume (percentage change on preceding year, 1992-2010) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	IV-2008	X-2008	IV-2008	X-2008	IV-2008	X-2008
Belgium	-0.5	6.2	2.0	7.5	5.4	5.1	8.2	3.2	6.4	2.8	-1.8	:	0.9
Germany	-2.9	6.3	2.9	4.6	6.0	11.1	6.9	6.2	5.4	2.6	-4.4	:	0.3
Ireland	8.9	10.0	5.6	9.5	21.7	-4.5	14.1	10.0	-20.0	6.0	0.0	:	2.0
Greece	7.4	10.9	10.7	12.7	-1.0	14.2	9.1	8.6	8.0	7.6	5.3	:	5.8
Spain	-0.1	9.1	5.1	5.1	9.2	10.2	10.0	4.3	0.8	1.5	-5.2	:	-0.9
France	0.8	7.6	1.2	2.3	3.2	2.8	5.8	2.7	2.1	2.0	-2.1	:	0.2
Italy	0.1	5.2	0.9	3.0	1.3	3.5	-0.1	0.4	-0.7	0.4	-1.4	:	0.4
Cyprus	:	5.3	4.3	16.1	-5.6	15.5	4.9	5.0	5.0	5.0	1.3	:	1.0
Luxembourg	-4.2	11.0	2.2	20.8	4.6	2.5	22.2	6.5	2.5	4.0	-3.0	:	1.5
Malta	:	:	:	:	:	:	:	:	:	:	:	:	:
Netherlands	5.6	6.1	2.8	-2.5	3.2	14.1	8.7	4.0	8.6	1.8	-5.0	:	-0.9
Austria	2.9	2.9	0.5	-1.8	6.9	-0.8	5.9	2.5	2.8	1.8	-1.5	:	0.4
Portugal	1.1	9.1	-0.1	5.2	1.0	7.3	8.2	3.6	3.8	0.9	-3.8	:	0.5
Slovenia	9.7	11.8	8.0	9.0	5.4	15.2	9.3	4.0	8.8	4.6	3.0	:	5.0
Slovakia	:	1.8	4.4	3.5	22.0	-6.3	4.2	7.4	6.4	6.7	4.8	:	5.9
Finland	-1.4	6.7	1.2	0.4	-0.2	4.1	11.5	4.9	2.0	4.2	0.7	:	2.1
Euro area	:	6.9	2.5	3.6	4.7	7.0	6.3	3.9	2.7	2.1	-2.9	:	0.5
Bulgaria	:	:	:	:	:	:	:	:	:	:	:	:	:
Czech Republic	17.0	5.6	3.2	5.2	1.2	8.1	5.2	5.9	4.0	5.6	3.5	:	3.8
Denmark	3.4	6.2	3.7	3.2	3.4	16.2	11.3	3.2	1.7	-1.6	-4.0	:	-0.1
Estonia	:	:	:	:	:	:	:	4.8	0.1	7.5	-3.0	:	2.5
Latvia	:	:	:	:	:	:	:	:	:	:	:	:	:
Lithuania	:	13.5	15.2	32.1	11.5	16.8	18.3	6.0	-5.5	3.0	-3.2	:	-2.6
Hungary	:	:	:	:	:	:	:	6.6	1.6	7.0	3.8	:	6.4
Poland	:	7.1	4.8	9.0	9.9	17.1	33.3	18.0	10.4	13.0	7.4	:	7.1
Romania	6.2	9.3	15.6	8.2	17.8	28.8	26.7	13.0	21.0	11.0	9.4	:	9.8
Sweden	5.1	5.9	4.5	3.9	12.3	5.6	11.1	5.0	2.3	5.0	-2.5	:	2.0
United Kingdom	4.6	8.1	2.3	7.9	1.7	4.0	9.0	2.8	-3.2	2.2	-2.5	:	-0.4
EU	:	:	:	:	:	:	:	:	:	:	:	:	:
USA	10.3	8.6	4.0	7.0	9.2	7.3	1.8	0.4	-0.3	1.5	-4.2	:	2.7
Japan	:	:	:	:	:	:	:	:	:	:	:	:	:

TABLE 12 : Public investment (as a percentage of GDP, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	IV-2008	X-2008	IV-2008	X-2008	IV-2008	X-2008
Belgium	1.6	1.8	1.7	1.6	1.8	1.6	1.6	1.7	1.6	1.7	1.6	:	1.6
Germany	2.4	1.8	1.5	1.4	1.4	1.4	1.5	1.6	1.5	1.6	1.6	:	1.6
Ireland	2.2	3.2	3.7	3.5	3.5	3.6	4.1	4.5	4.8	4.5	4.3	:	4.3
Greece	3.0	3.4	3.3	3.7	2.9	3.0	3.0	3.0	3.0	3.0	2.5	:	2.5
Spain	3.7	3.2	3.6	3.4	3.6	3.7	3.8	3.8	3.9	3.8	3.9	:	3.9
France	3.2	3.0	3.1	3.1	3.3	3.2	3.3	3.2	3.2	3.2	3.3	:	3.2
Italy	2.4	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.3	2.4	2.2	:	2.2
Cyprus	:	:	3.3	4.0	3.1	3.0	3.0	2.9	3.0	2.9	3.0	:	3.0
Luxembourg	4.2	4.0	4.4	4.3	4.5	3.6	3.7	4.0	4.0	4.1	4.5	:	4.7
Malta	:	4.0	4.4	3.9	4.9	4.2	4.0	3.9	3.3	3.3	3.8	:	4.2
Netherlands	2.5	3.1	3.4	3.2	3.3	3.3	3.3	3.5	3.4	3.4	3.5	:	3.5
Austria	3.1	1.6	1.2	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.1	:	1.1
Portugal	3.7	4.0	3.0	3.1	2.9	2.4	2.3	2.4	2.3	2.4	2.5	:	2.3
Slovenia	:	3.2	3.3	3.5	3.2	3.7	3.7	3.7	3.8	3.6	3.7	:	3.7
Slovakia	:	3.6	2.5	2.4	2.1	2.2	1.9	1.9	1.9	1.9	1.9	:	2.0
Finland	2.9	2.8	2.7	2.9	2.6	2.4	2.6	2.5	2.6	2.5	2.6	:	2.6
Euro area	2.8	2.5	2.5	2.5	2.5	2.5	2.5	2.6	2.6	2.6	2.6	:	2.6
Bulgaria	:	3.1	3.4	2.9	4.2	4.2	4.8	5.4	5.2	5.9	5.7	:	6.3
Czech Republic	:	3.8	4.6	4.8	4.9	5.0	4.7	4.8	4.9	4.9	5.2	:	5.3
Denmark	1.8	1.7	1.8	1.9	1.8	1.9	1.8	1.9	1.8	1.9	1.8	:	1.8
Estonia	:	4.3	4.5	3.8	4.0	5.1	5.4	4.4	5.6	4.8	6.0	:	6.2
Latvia	:	1.3	3.0	3.1	3.4	4.7	5.7	5.4	5.6	5.6	6.2	:	6.3
Lithuania	:	2.4	3.4	3.4	3.4	4.1	5.2	5.2	5.3	5.2	5.5	:	5.7
Hungary	:	3.1	4.1	3.5	4.0	4.4	3.6	3.6	3.3	3.3	3.1	:	3.2
Poland	:	3.4	3.5	3.4	3.4	3.9	4.1	4.5	4.1	4.8	4.9	:	5.3
Romania	:	:	3.7	3.0	3.9	5.1	5.7	5.8	5.7	6.1	5.8	:	6.0
Sweden	2.7	3.0	3.0	2.9	3.0	3.1	3.1	3.2	3.2	3.2	3.3	:	3.3
United Kingdom	1.8	1.3	1.4	1.7	0.7	1.8	1.8	2.0	2.0	1.9	2.0	:	2.2
EU	:	2.4	2.4	2.4	2.3	2.5	2.5	2.6	2.6	2.6	2.6	:	2.7
USA	2.4	2.5	2.5	2.5	2.5	2.5	2.6	3.5	3.4	3.6	3.6	:	3.7
Japan	6.2	5.5	4.0	3.9	3.6	3.2	3.1	3.0	3.0	2.8	2.9	:	2.8

TABLE 13 : Output gap relative to potential GDP (deviation of actual output from potential output as % of potential GDP, 1992-2010) [1] 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	-1.1	0.4	0.2	0.4	0.2	1.0	1.4	*-0.3*	0.6	*-1.0*	-1.1	*:*	-1.9
Germany	0.2	0.1	-0.9	-1.4	-1.5	0.2	1.3	*0.9*	1.6	*0.8*	0.2	*:*	-0.2
Ireland	-3.2	2.2	1.5	0.5	1.3	1.7	2.9	*-1.4*	-1.4	*-2.0*	-3.8	*:*	-2.9
Greece	-1.6	-1.1	0.8	1.7	0.8	1.4	1.8	*1.1*	1.5	*0.7*	0.7	*:*	0.2
Spain	-2.3	0.3	0.3	-0.1	-0.2	0.3	0.6	*-1.2*	-0.2	*-2.1*	-2.1	*:*	-3.1
France	-1.5	0.3	0.4	0.4	0.4	0.8	1.0	*-0.5*	0.3	*-0.8*	-1.1	*:*	-1.6
Italy	-1.5	0.0	0.1	0.1	-0.3	0.3	0.5	*-1.0*	-0.3	*-1.6*	-1.3	*:*	-1.8
Cyprus	:	0.4	-0.2	-0.7	-1.1	-0.8	0.0	*-0.6*	0.2	*-0.6*	-0.3	*:*	-0.4
Luxembourg	-0.3	0.2	-0.2	-0.8	-0.7	0.8	1.9	*-0.5*	0.7	*-1.3*	-1.6	*:*	-2.6
Malta	:	2.0	-1.7	-3.2	-2.1	-1.3	0.7	*0.0*	0.6	*0.0*	0.2	*:*	-0.1
Netherlands	-1.0	1.5	-1.3	-1.8	-1.5	-0.2	1.3	*0.7*	1.4	*0.4*	0.0	*:*	-0.9
Austria	-0.2	0.3	-0.7	-1.4	-0.6	0.7	1.5	*0.9*	1.3	*0.6*	0.0	*:*	-0.5
Portugal	-1.7	1.5	-0.6	-1.0	-1.2	-0.9	0.0	*-1.0*	-0.6	*-1.0*	-1.4	*:*	-1.7
Slovenia	:	0.3	-1.0	-1.6	-1.3	0.2	2.3	*0.9*	1.7	*0.2*	0.1	*:*	-0.6
Slovakia	:	-3.5	-2.6	-3.1	-2.7	-1.1	2.5	*2.7*	2.9	*2.5*	0.8	*:*	-0.7
Finland	-5.1	2.0	-0.6	-0.9	-1.3	0.3	1.6	*0.3*	0.9	*-0.4*	-0.6	*:*	-1.1
Euro area	-1.2	0.3	-0.2	-0.5	-0.5	0.4	1.1	*-0.1*	0.6	*-0.5*	-0.7	*:*	-1.3
Bulgaria	:	-3.1	1.3	1.6	1.6	1.8	1.5	*0.8*	1.5	*0.2*	-0.1	*:*	-1.2
Czech Republic	:	-2.0	-1.5	-2.6	-0.6	1.7	2.9	*1.4*	2.4	*1.1*	1.2	*:*	0.3
Denmark	-1.5	1.3	-0.2	-0.8	-0.1	1.6	1.2	*-0.3*	0.1	*-1.0*	-1.2	*:*	-1.6
Estonia	:	-1.8	2.6	1.1	3.5	7.1	7.7	*-0.5*	1.1	*-2.9*	-4.1	*:*	-5.4
Latvia	:	-1.2	1.2	-0.2	2.2	6.5	9.9	*1.0*	3.6	*-3.5*	-2.9	*:*	-5.0
Lithuania	:	-3.0	2.1	2.5	3.2	4.1	6.1	*1.4*	4.4	*-1.1*	0.3	*:*	-3.8
Hungary	:	-1.2	0.5	0.5	1.1	2.6	1.6	*-0.8*	1.2	*-0.5*	0.0	*:*	0.0
Poland	:	0.5	-0.7	0.1	-0.7	0.3	1.7	*0.5*	1.4	*-0.7*	-0.1	*:*	-0.9
Romania	:	-5.2	-0.5	1.0	0.4	3.0	2.9	*2.6*	4.8	*1.2*	3.4	*:*	2.8
Sweden	-3.4	-0.2	0.3	0.2	0.8	1.9	1.5	*0.3*	0.5	*-0.3*	-1.3	*:*	-1.2
United Kingdom	-1.8	0.5	0.5	0.7	0.4	0.9	1.7	*-0.3*	1.0	*-1.0*	-1.4	*:*	-2.5
EU	:	0.3	-0.1	-0.2	-0.3	0.6	1.3	*-0.1*	0.7	*-0.6*	-0.8	*:*	-1.5

[1] When comparing output gaps between the spring and the autumn forecast it has to be taken into account that the overall revisions to the forecast may have led to changes in the estimates for potential output.

TABLE 14 : Deflator of gross domestic product (percentage change on preceding year, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	2.2	1.5	2.1	2.4	2.4	2.3	2.4	*2.6*	2.8	*2.1*	2.4	*:*	2.0
Germany	2.7	0.3	1.0	1.0	0.7	0.5	1.9	*1.9*	1.9	*1.4*	2.1	*:*	1.9
Ireland	3.0	5.2	3.0	2.0	2.3	3.4	1.4	*1.7*	-0.6	*1.4*	0.7	*:*	1.1
Greece	11.5	4.8	3.4	3.3	3.4	3.2	2.9	*3.5*	3.7	*3.6*	3.3	*:*	3.2
Spain	4.7	3.0	4.2	4.0	4.3	4.0	3.2	*2.6*	3.2	*2.0*	2.1	*:*	2.4
France	1.6	1.1	2.1	1.6	2.0	2.5	2.5	*2.3*	2.5	*2.0*	1.9	*:*	1.8
Italy	4.3	2.4	2.6	2.6	2.1	1.7	2.3	*2.8*	3.3	*2.1*	2.3	*:*	2.2
Cyprus	3.6	3.0	3.0	3.3	2.4	3.0	3.3	*3.7*	4.4	*2.7*	3.3	*:*	3.5
Luxembourg	3.7	1.0	4.0	1.9	4.5	5.4	1.7	*0.7*	0.5	*0.8*	0.3	*:*	2.9
Malta	3.0	2.1	2.7	1.6	2.9	2.9	2.5	*2.1*	2.5	*2.2*	2.2	*:*	2.2
Netherlands	1.9	3.1	2.2	0.7	2.4	1.7	1.5	*2.6*	1.5	*2.9*	2.5	*:*	1.9
Austria	2.4	0.7	1.6	1.7	2.1	1.8	2.1	*2.8*	2.8	*1.8*	2.3	*:*	1.8
Portugal	6.4	3.5	3.0	2.4	2.5	2.8	2.9	*2.1*	2.1	*2.4*	3.1	*:*	2.2
Slovenia	47.9	7.5	4.0	3.4	1.6	2.0	4.1	*4.0*	4.3	*3.3*	4.1	*:*	3.8
Slovakia	:	6.6	4.1	5.9	2.4	2.9	1.1	*2.4*	3.7	*2.4*	3.7	*:*	3.3
Finland	1.7	2.4	0.6	0.6	0.4	1.3	2.9	*3.1*	3.4	*2.4*	2.4	*:*	2.1
Euro area	3.4	1.6	2.1	1.9	2.0	1.9	2.3	*2.4*	2.5	*2.0*	2.2	*:*	2.1
Bulgaria	71.8	72.6	4.7	5.1	3.8	8.5	7.9	*8.6*	10.1	*5.8*	7.8	*:*	6.1
Czech Republic	13.4	5.7	1.8	4.5	-0.3	0.9	3.6	*3.5*	3.2	*2.4*	2.3	*:*	2.0
Denmark	1.4	2.1	2.3	2.3	3.1	2.0	1.7	*3.1*	3.4	*2.5*	2.6	*:*	2.5
Estonia	:	6.8	4.8	3.3	5.3	7.0	9.6	*9.4*	9.2	*4.8*	5.3	*:*	3.3
Latvia	98.4	4.3	6.8	7.0	10.2	9.9	13.3	*15.1*	14.9	*7.6*	4.2	*:*	4.1
Lithuania	160.7	3.1	3.0	2.5	6.6	6.5	8.8	*9.7*	11.5	*7.3*	6.0	*:*	4.9
Hungary	21.8	11.5	4.8	4.4	2.2	3.9	5.7	*4.5*	5.3	*3.7*	3.9	*:*	3.2
Poland	30.3	8.3	2.2	4.1	2.6	1.5	3.3	*4.9*	3.1	*3.1*	3.1	*:*	2.5
Romania	115.1	62.2	16.9	15.0	12.2	10.6	10.8	*9.4*	14.4	*8.6*	10.0	*:*	8.0
Sweden	2.6	1.4	1.3	0.2	0.9	1.8	3.1	*1.1*	0.3	*1.8*	1.7	*:*	1.7
United Kingdom	2.9	2.1	2.7	2.5	2.2	2.6	2.9	*2.0*	3.3	*2.2*	2.3	*:*	2.0
EU	20.6	2.3	2.3	2.1	2.1	2.2	2.6	*2.5*	2.8	*2.2*	2.4	*:*	2.2
USA	2.1	1.8	2.6	2.9	3.3	3.2	2.7	*2.1*	2.5	*1.7*	2.1	*:*	0.8
Japan	0.1	-0.7	-1.3	-1.1	-1.2	-1.0	-0.8	*-0.3*	-0.7	*-0.2*	0.1	*:*	0.5

TABLE 15 : Price deflator of private consumption (percentage change on preceding year, 1992-2010) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	1.8	1.7	2.2	2.6	2.9	2.8	2.8	*3.5*	4.6	*2.2*	2.5	*:*	2.1
Germany	2.4	1.0	1.4	1.3	1.5	1.3	1.7	*2.1*	2.4	*1.5*	2.0	*:*	1.8
Ireland	2.6	3.7	2.9	1.6	1.5	2.2	3.0	*2.6*	3.3	*2.4*	2.0	*:*	1.6
Greece	11.6	4.5	3.2	3.3	3.4	3.5	3.2	*3.7*	4.5	*3.6*	3.9	*:*	3.5
Spain	4.9	2.8	3.3	3.6	3.4	3.4	3.2	*3.8*	4.1	*2.6*	2.2	*:*	2.7
France	1.6	0.9	1.7	1.9	1.8	2.2	2.0	*2.8*	3.0	*1.9*	1.8	*:*	1.7
Italy	5.1	2.4	2.6	2.6	2.3	2.7	2.2	*3.0*	3.6	*2.2*	2.0	*:*	2.1
Cyprus	:	2.3	2.6	1.8	2.5	2.3	2.8	*4.0*	4.6	*2.5*	3.0	*:*	3.3
Luxembourg	2.8	2.3	2.0	2.4	2.7	2.2	2.1	*3.4*	3.7	*2.4*	2.5	*:*	2.7
Malta	:	1.9	2.0	2.3	2.6	2.5	1.6	*3.6*	4.3	*2.4*	2.9	*:*	2.2
Netherlands	2.4	2.9	2.1	1.0	2.1	1.9	1.6	*2.7*	2.9	*2.8*	3.1	*:*	2.5
Austria	2.8	1.4	1.6	2.0	2.2	1.8	2.1	*3.0*	3.4	*2.0*	2.2	*:*	1.9
Portugal	5.7	2.8	2.9	2.5	2.7	3.1	2.7	*2.8*	2.9	*2.2*	2.4	*:*	2.1
Slovenia	45.7	7.9	4.1	3.0	2.2	2.4	4.1	*5.4*	6.2	*3.2*	3.7	*:*	3.1
Slovakia	:	7.5	4.8	7.3	2.6	4.9	2.6	*4.2*	4.3	*3.4*	3.7	*:*	3.4
Finland	1.9	2.5	1.0	1.0	0.6	1.6	2.2	*3.1*	4.2	*2.1*	2.8	*:*	1.8
Euro area	3.6	1.8	2.1	2.1	2.1	2.2	2.2	*2.8*	3.2	*2.1*	2.2	*:*	2.1
Bulgaria	80.5	70.1	3.9	4.4	5.2	5.7	6.8	*8.1*	11.3	*4.8*	6.4	*:*	5.3
Czech Republic	11.2	5.3	1.3	3.3	0.8	1.5	2.8	*5.0*	5.9	*2.7*	3.0	*:*	2.5
Denmark	1.7	2.1	1.7	1.3	2.1	2.1	1.9	*3.3*	3.1	*2.4*	2.1	*:*	1.9
Estonia	:	6.6	2.7	2.0	3.5	4.1	7.8	*8.8*	10.6	*4.5*	4.8	*:*	3.3
Latvia	:	4.2	5.4	7.0	8.7	6.0	9.2	*15.0*	14.0	*8.0*	6.0	*:*	4.0
Lithuania	:	3.0	0.9	-0.3	1.7	4.0	5.7	*10.1*	10.7	*7.1*	6.3	*:*	6.9
Hungary	:	11.8	4.0	4.6	3.8	3.4	6.4	*6.3*	6.3	*3.7*	3.8	*:*	2.9
Poland	31.6	9.0	2.0	3.0	2.1	1.2	2.3	*4.1*	4.3	*3.1*	3.5	*:*	2.6
Romania	117.3	60.5	12.4	13.9	7.3	4.9	4.7	*7.0*	7.9	*4.6*	5.5	*:*	4.1
Sweden	3.7	1.3	1.3	0.9	1.2	0.9	1.3	*2.6*	2.8	*2.2*	2.4	*:*	1.9
United Kingdom	3.4	1.8	2.0	1.6	2.5	2.3	2.4	*2.8*	3.5	*2.2*	1.9	*:*	1.2
EU	20.9	2.5	2.1	2.1	2.2	2.2	2.3	*3.0*	3.5	*2.2*	2.3	*:*	2.0
USA	2.3	1.8	2.4	2.6	2.9	2.8	2.6	*3.2*	3.8	*1.7*	1.5	*:*	0.8
Japan	0.2	-0.2	-0.8	-0.7	-0.8	-0.3	-0.5	*0.2*	0.4	*0.1*	0.1	*:*	0.2

TABLE 16 : Harmonised index of consumer prices (national index if not available), (percentage change on preceding year, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	2.2	1.7	2.0	1.9	2.5	2.3	1.8	*3.6*	4.7	*2.3*	2.5	*:*	2.0
Germany	3.1	1.2	1.6	1.8	1.9	1.8	2.3	*2.9*	3.0	*1.8*	2.1	*:*	1.9
Ireland	2.2	3.0	3.2	2.3	2.2	2.7	2.9	*3.3*	3.3	*2.4*	2.1	*:*	1.8
Greece	11.6	3.7	3.4	3.0	3.5	3.3	3.0	*3.7*	4.4	*3.6*	3.5	*:*	3.3
Spain	4.7	2.4	3.3	3.1	3.4	3.6	2.8	*3.8*	4.2	*2.6*	2.1	*:*	2.8
France	2.0	1.2	2.1	2.3	1.9	1.9	1.6	*3.0*	3.3	*2.0*	1.8	*:*	1.7
Italy	4.6	2.1	2.4	2.3	2.2	2.2	2.0	*3.0*	3.6	*2.2*	2.0	*:*	2.1
Cyprus	4.3	2.7	2.6	1.9	2.0	2.2	2.2	*3.8*	4.5	*2.5*	2.9	*:*	3.2
Luxembourg	1.8	1.9	2.9	3.2	3.8	3.0	2.7	*4.2*	4.4	*2.5*	2.2	*:*	2.7
Malta	3.3	3.1	2.5	2.7	2.5	2.6	0.7	*3.4*	4.4	*2.2*	3.0	*:*	2.2
Netherlands	2.5	2.6	2.1	1.4	1.5	1.7	1.6	*2.7*	2.5	*2.9*	3.0	*:*	2.3
Austria	2.9	1.3	1.7	2.0	2.1	1.7	2.2	*3.0*	3.4	*1.9*	2.1	*:*	1.9
Portugal	5.6	2.7	2.9	2.5	2.1	3.0	2.4	*2.8*	2.9	*2.3*	2.3	*:*	2.1
Slovenia	:	8.0	4.3	3.7	2.5	2.5	3.8	*5.4*	6.2	*3.3*	3.7	*:*	3.1
Slovakia	:	8.5	5.3	7.5	2.8	4.3	1.9	*3.8*	4.0	*3.2*	3.5	*:*	3.3
Finland	1.5	1.9	1.1	0.1	0.8	1.3	1.6	*3.4*	4.2	*2.3*	2.6	*:*	1.8
Euro area	3.4	1.8	2.2	2.2	2.2	2.2	2.1	*3.2*	3.5	*2.2*	2.2	*:*	2.1
Bulgaria	87.7	:	5.5	6.1	6.0	7.4	7.6	*9.9*	12.4	*5.9*	7.9	*:*	6.8
Czech Republic	:	5.6	1.5	2.6	1.6	2.1	3.0	*6.2*	6.6	*2.7*	3.1	*:*	2.7
Denmark	1.9	2.1	1.8	0.9	1.7	1.9	1.7	*3.3*	3.8	*2.3*	2.3	*:*	2.0
Estonia	120.7	6.1	3.3	3.0	4.1	4.4	6.7	*9.5*	10.6	*5.1*	4.9	*:*	3.3
Latvia	70.3	3.9	4.9	6.2	6.9	6.6	10.1	*15.8*	15.7	*8.5*	8.2	*:*	4.7
Lithuania	179.8	3.9	1.4	1.2	2.7	3.8	5.8	*10.1*	11.9	*7.2*	7.1	*:*	7.5
Hungary	23.2	12.3	4.8	6.8	3.5	4.0	7.9	*6.3*	6.3	*3.7*	3.9	*:*	2.9
Poland	31.4	9.8	1.9	3.6	2.2	1.3	2.6	*4.3*	4.3	*3.4*	3.5	*:*	2.6
Romania	116.9	63.2	12.9	11.9	9.1	6.6	4.9	*7.6*	7.8	*4.8*	5.7	*:*	4.0
Sweden	2.4	1.5	1.5	1.0	0.8	1.5	1.7	*2.4*	3.0	*1.9*	1.7	*:*	1.9
United Kingdom	2.8	1.3	1.7	1.3	2.1	2.3	2.3	*2.8*	3.7	*2.2*	1.9	*:*	1.2
EU	22.1	4.3	2.3	2.3	2.3	2.3	2.4	*3.6*	3.9	*2.4*	2.4	*:*	2.2
USA	2.9	2.5	2.6	2.7	3.4	3.2	2.8	*3.6*	4.4	*1.6*	1.5	*:*	0.8
Japan	0.7	0.1	-0.2	0.0	-0.3	0.3	0.0	*0.7*	1.6	*0.6*	0.8	*:*	0.7

TABLE 17 : Profiles of quarterly harmonised index of consumer prices (percentage change on corresponding quarter in previous year, 2008-2010) 23.10.2008

	2008/1	2008/2	2008/3	2008/4	2009/1	2009/2	2009/3	2009/4	2010/1	2010/2	2010/3	2010/4
Belgium	3.8	5.0	5.6	4.5	3.6	2.3	1.7	2.3	2.1	2.0	1.9	1.8
Germany	3.1	3.0	3.2	2.5	2.3	2.2	2.0	2.1	2.0	2.0	1.9	1.8
Ireland	3.4	3.6	3.5	2.8	2.6	2.1	1.6	2.0	1.8	1.8	1.8	1.8
Greece	4.3	4.8	4.7	4.0	3.8	3.5	3.3	3.5	3.6	3.4	3.2	3.3
Spain	4.5	4.7	5.0	2.7	2.2	1.8	1.5	2.8	3.1	2.8	2.7	2.7
France	3.3	3.7	3.6	2.6	2.2	1.6	1.5	1.9	1.7	1.7	1.6	1.6
Italy	3.3	3.8	4.1	3.4	2.6	2.0	1.7	1.9	2.1	2.1	2.1	2.1
Cyprus	4.4	4.7	5.2	3.8	3.4	2.8	2.7	2.9	3.2	3.2	3.1	3.1
Luxembourg	4.2	4.8	5.1	3.6	3.2	1.7	1.5	2.6	2.7	2.8	2.8	2.7
Malta	4.0	4.2	5.2	4.2	3.4	3.4	2.5	2.5	2.4	2.2	2.3	2.2
Netherlands	1.9	2.0	2.9	3.0	3.3	3.0	3.0	2.5	2.5	2.3	2.4	2.2
Austria	3.2	3.7	3.4	3.2	2.7	1.9	1.9	2.0	2.2	1.9	1.9	1.7
Portugal	3.0	2.9	3.1	2.8	2.4	2.1	2.3	2.4	2.2	2.2	2.1	2.1
Slovenia	6.5	6.4	6.2	5.6	4.3	3.4	3.5	3.4	3.3	3.1	3.1	2.8
Slovakia	3.4	4.0	4.5	4.1	3.7	3.4	3.4	3.4	3.2	3.3	3.4	3.2
Finland	3.4	3.9	4.6	4.8	3.4	2.8	2.3	1.9	1.8	1.7	1.7	2.1
Euro area	3.4	3.6	3.8	3.0	2.5	2.1	1.9	2.2	2.2	2.1	2.1	2.0
Bulgaria	12.4	14.0	12.2	10.9	9.0	6.9	7.7	7.9	7.8	7.9	6.0	5.7
Czech Republic	7.6	6.7	6.4	5.7	3.6	3.2	3.0	2.7	2.7	2.7	2.7	2.8
Denmark	3.2	3.7	4.6	3.9	3.1	2.3	2.0	2.0	2.1	2.1	1.9	1.8
Estonia	11.3	11.5	11.0	8.5	6.2	5.2	4.3	3.8	3.6	3.3	3.1	3.1
Latvia	16.3	17.5	15.6	13.7	10.0	8.2	7.7	6.4	5.5	4.5	4.2	4.0
Lithuania	10.8	12.3	12.0	12.5	10.1	7.7	6.7	4.2	8.5	7.9	7.4	6.2
Hungary	6.9	6.8	6.3	5.6	4.8	3.7	3.8	3.3	2.8	3.3	2.8	2.7
Poland	4.5	4.3	4.4	4.1	4.0	3.5	3.4	3.1	2.8	2.6	2.6	2.4
Romania	8.0	8.6	8.2	6.6	6.9	5.8	5.2	4.8	3.9	4.2	4.2	3.8
Sweden	3.1	3.6	3.3	1.9	1.5	1.7	1.7	1.8	1.9	1.9	1.9	1.9
United Kingdom	2.4	3.4	4.8	4.1	3.8	2.0	1.1	0.9	0.8	1.2	1.4	1.6
EU	3.5	3.9	4.3	3.4	3.0	2.3	2.0	2.2	2.2	2.1	2.1	2.1
USA	4.2	4.3	5.3	4.0	3.1	1.9	0.5	0.7	0.8	0.8	0.8	0.8
Japan	1.0	1.4	2.2	2.0	1.7	1.1	0.2	0.1	0.3	0.5	0.9	0.9

TABLE 18 : Price deflator of exports of goods in national currency (percentage change on preceding year, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	0.0	3.2	1.4	2.0	4.9	4.1	2.9	*1.8*	3.2	*1.9*	3.4	*:*	2.1
Germany	0.4	0.5	-0.1	-0.2	0.6	1.3	0.5	*1.9*	2.1	*1.3*	2.5	*:*	1.8
Ireland	1.4	1.4	-2.5	-3.5	-0.6	0.5	-3.6	*-3.0*	-4.0	*-1.0*	1.9	*:*	0.0
Greece	7.5	4.1	1.9	2.2	0.6	5.3	3.0	*2.8*	7.0	*2.6*	3.8	*:*	3.0
Spain	3.5	2.1	1.7	1.3	5.0	4.4	2.0	*1.8*	3.3	*1.9*	1.8	*:*	1.8
France	-0.8	0.0	-0.1	0.5	1.5	2.3	0.4	*1.5*	1.6	*1.5*	2.4	*:*	2.0
Italy	4.7	2.0	2.6	2.5	4.4	5.2	4.2	*3.5*	4.3	*2.5*	3.6	*:*	3.2
Cyprus	:	3.6	0.7	2.3	2.5	6.7	1.8	*3.0*	3.0	*2.4*	2.5	*:*	2.4
Luxembourg	-0.2	0.5	2.3	6.6	5.9	3.0	5.2	*2.5*	3.0	*1.5*	2.7	*:*	2.0
Malta	:	1.4	-0.5	-6.1	-4.1	9.0	7.9	*4.8*	-1.7	*2.1*	-0.7	*:*	0.1
Netherlands	-0.9	0.9	0.5	0.5	3.7	3.3	1.4	*1.9*	3.4	*0.7*	2.3	*:*	1.6
Austria	0.3	0.5	0.8	1.0	2.1	2.6	1.7	*1.4*	1.7	*0.8*	1.9	*:*	1.7
Portugal	0.7	1.9	0.8	1.1	1.8	4.5	2.7	*3.4*	3.0	*1.4*	2.1	*:*	2.4
Slovenia	39.9	5.3	2.8	2.6	2.7	2.8	2.8	*3.5*	3.0	*2.5*	3.0	*:*	2.4
Slovakia	:	5.0	1.1	2.7	-1.7	1.8	-2.2	*-0.4*	-1.4	*0.8*	0.4	*:*	1.9
Finland	3.7	-1.6	-0.4	-0.6	1.0	3.0	0.1	*0.5*	1.7	*0.7*	0.2	*:*	0.8
Euro area	1.6	1.1	0.5	0.6	2.2	2.8	1.3	*1.8*	2.4	*1.4*	2.5	*:*	1.9
Bulgaria	:	:	4.8	6.5	7.5	17.0	5.9	*3.4*	8.1	*4.5*	3.5	*:*	3.8
Czech Republic	:	2.0	-1.8	2.1	-2.8	-1.6	-0.1	*-6.0*	-6.8	*1.8*	1.3	*:*	1.6
Denmark	0.2	1.3	1.7	0.6	5.5	3.7	1.8	*1.7*	5.8	*1.7*	2.6	*:*	2.0
Estonia	:	4.5	2.3	1.2	5.0	7.6	6.6	*5.0*	7.5	*5.0*	5.5	*:*	3.3
Latvia	:	-0.2	9.1	13.6	10.1	11.2	12.4	*6.0*	9.0	*4.5*	3.5	*:*	3.5
Lithuania	:	0.8	2.9	7.7	9.6	4.9	6.7	*6.9*	15.0	*3.7*	4.7	*:*	4.2
Hungary	:	8.6	-0.6	-2.2	-1.0	6.1	-3.8	*3.9*	4.3	*3.4*	3.7	*:*	3.0
Poland	21.1	6.5	3.8	9.4	-3.3	2.5	3.0	*2.2*	-2.8	*2.5*	3.0	*:*	1.8
Romania	115.2	49.7	10.7	13.3	-0.2	5.8	0.8	*14.0*	17.0	*6.5*	8.0	*:*	6.4
Sweden	2.4	0.0	0.1	-0.7	2.9	3.2	2.2	*1.2*	2.0	*1.2*	2.0	*:*	1.5
United Kingdom	3.1	-2.7	0.9	-0.2	1.4	2.1	2.9	*10.7*	16.8	*2.9*	7.5	*:*	3.3
EU	:	5.8	0.7	0.8	2.0	2.8	1.4	*1.7*	2.7	*1.6*	2.7	*:*	2.1
USA	-0.3	-1.4	2.3	3.7	3.1	3.3	3.5	*4.3*	7.2	*2.8*	3.5	*:*	2.0
Japan	:	-1.9	-0.2	-1.3	1.4	3.8	2.0	*0.5*	-1.0	*1.0*	1.1	*:*	1.4

TABLE 19 : Price deflator of imports of goods in national currency (percentage change on preceding year, 1992-2010) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	0.2	3.9	1.5	2.8	4.8	4.4	2.3	*2.3*	4.3	*1.9*	3.8	*:*	2.1
Germany	-1.2	1.2	-0.2	0.2	2.4	3.2	-0.4	*1.9*	3.3	*1.3*	2.3	*:*	1.2
Ireland	1.6	3.4	-2.6	-1.6	-0.6	4.4	1.4	*-2.0*	1.5	*1.0*	3.0	*:*	1.0
Greece	7.2	4.3	3.2	1.7	9.1	3.9	3.0	*3.0*	6.7	*2.7*	4.9	*:*	3.9
Spain	2.9	2.1	1.1	2.3	4.2	4.0	1.9	*3.6*	3.9	*2.4*	1.7	*:*	1.6
France	-1.0	0.2	-0.1	0.7	2.8	2.8	0.3	*2.4*	4.4	*1.7*	2.5	*:*	2.2
Italy	5.0	2.1	3.3	3.0	6.8	8.9	2.6	*4.5*	6.0	*2.0*	1.9	*:*	2.5
Cyprus	:	2.3	2.4	4.0	6.4	2.3	2.2	*3.7*	4.6	*2.5*	2.5	*:*	2.5
Luxembourg	0.4	1.9	1.6	6.2	6.4	1.3	1.7	*3.0*	4.0	*2.0*	2.5	*:*	2.0
Malta	:	2.5	1.9	0.3	0.9	11.6	5.2	*5.2*	1.8	*2.4*	1.3	*:*	1.5
Netherlands	-1.3	0.2	0.1	1.0	3.2	3.8	1.7	*1.8*	5.8	*0.7*	3.1	*:*	2.6
Austria	0.5	0.7	0.9	1.1	2.9	3.7	1.6	*1.4*	2.7	*1.2*	2.2	*:*	1.7
Portugal	0.6	1.7	0.9	2.2	3.0	4.0	1.2	*4.9*	5.0	*0.8*	0.7	*:*	2.3
Slovenia	36.0	5.5	3.1	3.9	5.2	3.3	2.6	*4.7*	5.9	*2.1*	2.8	*:*	2.1
Slovakia	:	4.6	1.4	2.3	-1.7	3.6	-0.6	*0.6*	-0.4	*1.6*	0.5	*:*	2.2
Finland	3.2	-1.0	2.0	2.2	5.5	7.1	1.8	*2.4*	3.6	*1.6*	1.5	*:*	1.7
Euro area	1.1	1.5	0.8	1.3	3.6	4.2	1.1	*2.5*	4.2	*1.6*	2.4	*:*	1.9
Bulgaria	:	:	4.0	5.9	10.0	11.4	7.3	*2.4*	8.0	*2.7*	1.7	*:*	3.1
Czech Republic	:	1.9	-1.8	1.4	-1.1	0.1	-1.4	*-6.1*	-6.0	*1.7*	1.5	*:*	1.9
Denmark	-0.8	0.4	0.7	0.0	4.0	3.1	2.9	*1.2*	4.4	*1.5*	2.4	*:*	1.9
Estonia	:	2.7	1.6	1.0	3.6	4.8	3.2	*2.9*	6.8	*3.3*	2.6	*:*	2.8
Latvia	:	2.2	9.1	8.2	12.3	12.4	3.2	*4.0*	9.0	*4.0*	4.0	*:*	3.5
Lithuania	:	-1.5	1.6	-0.5	9.0	8.8	4.8	*5.5*	9.9	*3.0*	2.9	*:*	4.9
Hungary	:	9.1	0.7	-0.7	1.8	8.2	-4.4	*4.2*	4.4	*3.2*	3.4	*:*	2.8
Poland	19.3	7.7	3.5	4.9	-4.2	2.8	1.3	*0.4*	-3.0	*2.2*	3.0	*:*	1.8
Romania	125.4	41.2	6.7	8.7	-3.6	-1.2	-7.5	*11.0*	7.5	*2.0*	3.1	*:*	1.8
Sweden	2.8	1.5	1.3	0.7	5.1	4.0	-0.5	*3.0*	7.0	*1.5*	3.0	*:*	1.8
United Kingdom	3.4	-2.8	0.4	-0.6	3.8	2.6	1.2	*12.8*	15.7	*3.0*	6.3	*:*	2.6
EU	:	5.2	0.8	1.2	3.4	3.9	0.9	*2.2*	4.0	*1.7*	2.6	*:*	2.0
USA	-0.2	-1.7	3.3	5.0	6.5	4.2	3.6	*9.1*	12.3	*1.5*	0.2	*:*	2.6
Japan	:	-0.8	4.2	2.8	9.3	12.7	6.7	*3.5*	6.0	*3.0*	1.5	*:*	1.6

TABLE 20 : Terms of trade of goods (percentage change on preceding year, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	-0.2	-0.7	-0.1	-0.8	0.1	-0.3	0.5	*-0.4*	-1.0	*0.0*	-0.4	*:*	0.0
Germany	1.6	-0.7	0.1	-0.4	-1.8	-1.8	0.8	*0.0*	-1.2	*0.0*	0.2	*:*	0.6
Ireland	-0.2	-2.0	0.1	-1.9	0.0	-3.7	-4.9	*-1.0*	-5.4	*-2.0*	-1.1	*:*	-1.0
Greece	0.3	-0.1	-1.3	0.5	-7.8	1.3	0.0	*-0.2*	0.3	*-0.1*	-1.0	*:*	-0.9
Spain	0.6	0.0	0.5	-1.0	0.8	0.4	0.1	*-1.8*	-0.6	*-0.4*	0.1	*:*	0.2
France	0.1	-0.2	-0.1	-0.2	-1.3	-0.5	0.1	*-0.9*	-2.7	*-0.2*	-0.1	*:*	-0.2
Italy	-0.3	-0.1	-0.7	-0.5	-2.3	-3.3	1.5	*-1.0*	-1.6	*0.5*	1.7	*:*	0.7
Cyprus	:	1.3	-1.7	-1.6	-3.7	4.3	-0.4	*-0.7*	-1.5	*-0.1*	0.0	*:*	-0.1
Luxembourg	-0.6	-1.4	0.7	0.4	-0.4	1.7	3.4	*-0.5*	-1.0	*-0.5*	0.2	*:*	0.0
Malta	:	-1.1	-2.3	-6.5	-4.9	-2.3	2.6	*-0.4*	-3.4	*-0.3*	-2.0	*:*	-1.3
Netherlands	0.4	0.7	0.4	-0.4	0.5	-0.4	-0.3	*0.1*	-2.3	*0.0*	-0.8	*:*	-1.0
Austria	-0.2	-0.2	-0.1	-0.1	-0.8	-1.1	0.1	*0.0*	-1.0	*-0.4*	-0.2	*:*	0.0
Portugal	0.1	0.2	-0.1	-1.1	-1.2	0.4	1.5	*-1.4*	-1.9	*0.6*	1.3	*:*	0.1
Slovenia	2.9	-0.2	-0.3	-1.2	-2.4	-0.4	0.2	*-1.1*	-2.7	*0.4*	0.3	*:*	0.4
Slovakia	:	0.4	-0.3	0.4	0.0	-1.8	-1.6	*-1.0*	-1.0	*-0.8*	-0.1	*:*	-0.3
Finland	0.5	-0.6	-2.3	-2.8	-4.3	-3.8	-1.6	*-1.9*	-1.8	*-0.9*	-1.3	*:*	-0.9
Euro area	0.5	-0.4	-0.2	-0.7	-1.4	-1.4	0.2	*-0.6*	-1.7	*-0.2*	0.1	*:*	0.0
Bulgaria	:	:	0.8	0.6	-2.2	5.1	-1.4	*1.0*	0.1	*1.8*	1.8	*:*	0.7
Czech Republic	:	0.1	-0.1	0.7	-1.7	-1.7	1.3	*0.1*	-0.9	*0.1*	-0.2	*:*	-0.3
Denmark	1.0	0.9	0.9	0.6	1.4	0.5	-1.1	*0.5*	1.3	*0.2*	0.2	*:*	0.1
Estonia	:	1.7	0.7	0.2	1.3	2.7	3.3	*2.0*	0.7	*1.6*	2.8	*:*	0.5
Latvia	:	-2.3	0.0	5.0	-2.0	-1.1	9.0	*1.9*	0.0	*0.5*	-0.5	*:*	0.0
Lithuania	:	2.3	1.2	8.3	0.6	-3.5	1.8	*1.3*	4.6	*0.7*	1.7	*:*	-0.7
Hungary	:	-0.4	-1.3	-1.6	-2.7	-1.9	0.5	*-0.2*	0.0	*0.2*	0.3	*:*	0.2
Poland	1.5	-1.1	0.3	4.3	1.0	-0.3	1.7	*1.8*	0.2	*0.3*	0.0	*:*	0.0
Romania	-4.5	6.0	3.8	4.3	3.5	7.2	8.9	*2.7*	8.8	*4.4*	4.8	*:*	4.5
Sweden	-0.4	-1.5	-1.2	-1.4	-2.0	-0.8	2.7	*-1.7*	-4.7	*-0.3*	-1.0	*:*	-0.3
United Kingdom	-0.3	0.1	0.4	0.4	-2.3	-0.6	1.6	*-1.9*	0.9	*-0.1*	1.1	*:*	0.7
EU	:	0.5	-0.1	-0.4	-1.3	-1.1	0.5	*-0.5*	-1.2	*-0.1*	0.1	*:*	0.1
USA	-0.1	0.4	-1.0	-1.2	-3.2	-0.8	-0.1	*-4.4*	-4.6	*1.2*	3.2	*:*	-0.6
Japan	:	-1.1	-4.3	-4.0	-7.2	-7.9	-4.4	*-2.9*	-6.6	*-1.9*	-0.4	*:*	-0.2

TABLE 21 : Total population (percentage change on preceding year, 1992-2009) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	0.3	0.2	0.5	0.4	0.5	0.7	0.7	*0.2*	0.7	*0.2*	0.7	*:*	0.7
Germany	0.5	0.1	0.0	0.0	0.0	-0.1	-0.1	*-0.1*	-0.1	*-0.1*	-0.1	*:*	-0.1
Ireland	0.6	1.3	2.0	1.7	2.2	2.5	2.4	*1.4*	1.9	*1.3*	0.8	*:*	0.8
Greece	0.9	0.4	0.4	0.3	0.4	0.4	0.2	*0.2*	0.2	*0.2*	0.3	*:*	0.3
Spain	0.2	0.6	1.6	1.6	1.7	1.5	1.8	*1.3*	1.3	*1.2*	1.2	*:*	0.8
France	0.4	0.5	0.6	0.6	0.6	0.6	0.6	*0.5*	0.5	*0.5*	0.5	*:*	0.5
Italy	0.0	0.0	0.7	1.0	0.7	0.6	0.6	*0.2*	0.2	*0.1*	0.1	*:*	0.1
Cyprus	2.1	1.2	1.9	2.4	2.4	2.0	1.6	*1.9*	1.6	*2.0*	1.6	*:*	1.6
Luxembourg	1.4	1.2	1.4	1.4	1.5	1.6	1.6	*0.9*	0.9	*0.8*	0.8	*:*	0.8
Malta	0.9	0.7	0.7	0.7	0.6	0.8	0.6	*0.5*	0.5	*0.5*	0.5	*:*	0.5
Netherlands	0.6	0.7	0.4	0.3	0.3	0.1	0.2	*0.1*	0.2	*0.2*	0.2	*:*	0.2
Austria	0.5	0.2	0.6	0.7	0.7	0.6	0.4	*0.3*	0.3	*0.3*	0.3	*:*	0.3
Portugal	0.2	0.5	0.6	0.6	0.5	0.3	0.2	*0.3*	0.2	*0.3*	0.2	*:*	0.2
Slovenia	-0.1	0.0	0.2	0.0	0.2	0.4	0.5	*0.3*	0.7	*0.1*	0.2	*:*	0.2
Slovakia	0.3	0.0	0.0	0.1	0.1	0.1	0.1	*0.1*	0.1	*0.1*	0.1	*:*	0.1
Finland	0.4	0.2	0.3	0.3	0.3	0.4	0.4	*0.4*	0.4	*0.4*	0.4	*:*	0.4
Euro area	0.3	0.3	0.6	0.6	0.6	0.5	0.6	*0.4*	0.4	*0.3*	0.3	*:*	0.3
Bulgaria	-0.6	-1.2	-0.5	-0.5	-0.5	-0.3	0.0	*-0.5*	-0.5	*-0.5*	-0.5	*:*	-0.5
Czech Republic	0.0	-0.2	0.1	0.1	0.3	0.3	0.5	*0.3*	0.2	*0.3*	0.2	*:*	0.2
Denmark	0.4	0.4	0.3	0.2	0.3	0.3	0.4	*0.5*	0.2	*0.3*	0.3	*:*	0.2
Estonia	-2.0	-0.8	-0.3	0.0	-0.6	-0.2	-0.2	*-0.1*	-0.1	*-0.1*	-0.1	*:*	-0.1
Latvia	-1.5	-0.8	-0.6	-0.5	-0.5	-0.5	-0.5	*-0.5*	-0.5	*-0.5*	-0.5	*:*	-0.5
Lithuania	-0.6	-0.7	-0.5	-0.5	-0.6	-0.6	-0.5	*-0.5*	-0.4	*-0.2*	-0.2	*:*	-0.2
Hungary	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	*-0.2*	-0.2	*-0.2*	-0.1	*:*	0.0
Poland	0.2	0.0	-0.1	0.0	0.0	-0.1	0.0	*-0.1*	0.0	*-0.1*	0.0	*:*	0.0
Romania	-0.6	-0.2	-0.2	-0.3	-0.2	-0.2	-0.3	*-0.4*	-0.3	*-0.4*	-0.3	*:*	-0.3
Sweden	0.5	0.1	0.4	0.4	0.4	0.6	0.7	*0.2*	0.8	*0.2*	0.5	*:*	0.3
United Kingdom	0.3	0.3	0.5	0.5	0.6	0.6	0.3	*0.4*	0.5	*0.4*	0.4	*:*	0.5
EU	0.2	0.2	0.4	0.4	0.4	0.4	0.4	*0.3*	0.3	*0.2*	0.3	*:*	0.2
USA	1.2	1.1	1.0	0.9	0.9	1.0	1.0	*1.0*	0.9	*0.9*	0.9	*:*	0.9
Japan	0.3	0.2	0.1	0.1	0.1	0.0	0.0	*0.0*	0.0	*-0.1*	-0.1	*:*	-0.1

TABLE 22 : Total employment (percentage change on preceding year, 1992-2009)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	0.1	1.3	0.7	0.7	1.3	1.4	1.8	*0.9*	1.2	*0.4*	-0.2	*:*	0.0
Germany	-1.4	0.0	-0.7	-0.4	-0.5	0.2	1.6	*1.0*	1.2	*0.3*	-0.3	*:*	0.2
Ireland	2.5	5.6	3.2	3.1	4.7	4.3	3.6	*0.7*	-0.2	*1.6*	-1.0	*:*	0.6
Greece	1.0	0.7	1.7	2.3	1.0	2.1	1.3	*1.1*	1.0	*1.1*	0.9	*:*	0.9
Spain	-0.3	4.1	2.8	2.7	3.2	3.2	3.0	*1.3*	-0.2	*0.7*	-2.0	*:*	-0.9
France	-0.5	1.7	0.5	0.1	0.6	0.8	1.4	*0.6*	0.7	*0.3*	-0.6	*:*	-0.1
Italy	-0.9	1.1	0.8	0.4	0.2	1.7	1.0	*0.4*	0.7	*0.5*	0.0	*:*	0.5
Cyprus	:	1.6	3.0	3.8	3.6	1.8	3.2	*1.5*	2.0	*1.5*	1.5	*:*	1.6
Luxembourg	2.5	4.7	2.8	2.2	2.9	3.6	4.5	*4.0*	4.7	*3.3*	1.8	*:*	1.0
Malta	1.5	0.8	0.7	-0.6	1.3	1.3	2.7	*1.3*	1.7	*1.3*	0.9	*:*	1.0
Netherlands	1.0	2.4	-0.1	-1.0	0.0	1.9	2.3	*1.3*	1.8	*0.7*	0.3	*:*	0.3
Austria	0.0	0.8	0.6	0.3	1.2	1.4	1.8	*0.9*	1.8	*0.5*	0.2	*:*	0.3
Portugal	-0.8	2.1	0.0	-0.1	-0.3	0.5	0.0	*0.7*	0.8	*0.5*	0.0	*:*	0.2
Slovenia	:	0.2	0.6	0.3	-0.1	1.5	3.0	*0.9*	1.8	*0.5*	0.1	*:*	0.5
Slovakia	:	-1.1	0.9	-0.2	1.4	2.3	2.1	*1.5*	2.2	*0.9*	0.8	*:*	0.6
Finland	-2.3	2.3	0.9	0.4	1.4	1.8	2.2	*1.2*	1.5	*0.6*	-0.1	*:*	0.0
Euro area	-0.6	1.4	0.6	0.5	0.7	1.4	1.7	*0.9*	0.9	*0.5*	-0.4	*:*	0.1
Bulgaria	-1.6	-0.4	2.4	2.6	2.7	3.3	2.8	*1.6*	3.2	*1.2*	1.4	*:*	1.3
Czech Republic	:	-0.8	0.4	0.1	1.1	1.7	2.7	*1.1*	1.1	*0.5*	0.6	*:*	0.3
Denmark	0.1	1.0	0.2	-0.6	0.8	1.6	1.7	*0.2*	0.7	*-0.4*	-0.7	*:*	-1.1
Estonia	:	-1.3	1.9	0.1	1.8	5.6	0.4	*-1.0*	-0.5	*0.0*	-1.8	*:*	-0.7
Latvia	-7.4	0.3	2.2	1.1	1.7	4.7	3.5	*-0.4*	1.0	*-1.2*	-3.8	*:*	-2.2
Lithuania	-2.7	-2.1	2.0	0.0	2.5	1.7	1.9	*0.1*	-1.3	*-0.1*	-2.5	*:*	-1.5
Hungary	:	1.3	0.3	-0.5	0.4	0.9	-0.1	*-1.1*	-1.2	*0.6*	-0.8	*:*	0.2
Poland	:	-1.0	0.5	1.3	2.3	3.3	4.5	*2.6*	2.7	*1.3*	0.5	*:*	0.1
Romania	-2.8	-1.8	-1.1	-1.7	-1.5	0.7	0.4	*0.9*	1.2	*0.8*	0.6	*:*	0.7
Sweden	-1.9	1.4	0.1	-0.7	0.3	1.7	2.3	*0.8*	0.8	*0.2*	-0.6	*:*	-0.2
United Kingdom	0.0	1.2	0.9	1.0	1.0	0.9	0.7	*0.1*	0.5	*0.0*	-1.6	*:*	0.3
EU	:	0.9	0.6	0.5	0.8	1.5	1.7	*0.8*	0.9	*0.5*	-0.5	*:*	0.1
USA	1.8	1.7	0.6	0.9	1.3	2.1	1.1	*-0.2*	-0.3	*-0.3*	-1.2	*:*	-0.1
Japan	0.4	-0.6	-0.2	0.2	0.4	0.4	-0.2	*0.2*	-0.2	*0.2*	-1.5	*:*	0.1

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 23 : Number of unemployed (as a percentage of total labour force, 1992-2009) [1] 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	8.9	8.1	8.2	8.4	8.5	8.3	7.5	*7.3*	7.1	*7.5*	8.0	*:*	8.7
Germany	7.8	8.4	9.6	9.8	10.7	9.8	8.4	*7.3*	7.3	*7.1*	7.5	*:*	7.4
Ireland	13.9	6.3	4.5	4.5	4.4	4.5	4.6	*5.6*	6.1	*5.8*	7.6	*:*	7.4
Greece	8.8	10.9	9.9	10.5	9.9	8.9	8.3	*8.3*	9.0	*8.0*	9.2	*:*	9.3
Spain	17.8	13.1	10.1	10.6	9.2	8.5	8.3	*9.3*	10.8	*10.6*	13.8	*:*	15.5
France	11.0	10.0	9.1	9.3	9.2	9.2	8.3	*8.0*	8.0	*8.1*	9.0	*:*	9.3
Italy	10.3	10.6	7.9	8.1	7.7	6.8	6.1	*6.0*	6.8	*5.9*	7.1	*:*	7.3
Cyprus	:	3.9	4.5	4.7	5.3	4.6	4.0	*3.7*	3.9	*3.5*	3.8	*:*	3.7
Luxembourg	2.7	2.4	4.1	5.0	4.6	4.6	4.1	*4.5*	4.0	*4.4*	4.3	*:*	4.7
Malta	5.2	6.8	7.4	7.4	7.2	7.1	6.4	*6.3*	5.9	*6.2*	6.2	*:*	6.4
Netherlands	6.2	3.4	3.9	4.6	4.7	3.9	3.2	*2.9*	3.0	*2.8*	3.4	*:*	3.7
Austria	3.9	4.0	4.7	4.9	5.2	4.8	4.4	*4.2*	3.9	*4.3*	4.2	*:*	4.5
Portugal	6.2	4.9	6.7	6.7	7.7	7.8	8.1	*7.9*	7.7	*7.9*	7.9	*:*	7.9
Slovenia	:	6.9	6.4	6.3	6.5	6.0	4.9	*4.7*	4.5	*4.7*	4.8	*:*	4.7
Slovakia	:	15.8	16.8	18.2	16.3	13.4	11.1	*9.8*	9.9	*9.3*	9.8	*:*	9.6
Finland	14.9	10.6	8.6	8.8	8.4	7.7	6.9	*6.3*	6.3	*6.1*	6.5	*:*	6.4
Euro area	10.2	9.3	8.7	9.0	9.0	8.3	7.5	*7.2*	7.6	*7.3*	8.4	*:*	8.7
Bulgaria	14.1	16.4	12.6	12.1	10.1	9.0	6.9	*6.0*	6.0	*5.4*	5.8	*:*	5.7
Czech Republic	:	7.3	7.7	8.3	7.9	7.2	5.3	*4.5*	5.0	*4.4*	5.0	*:*	5.2
Denmark	7.8	4.8	4.8	5.5	4.8	3.9	3.8	*3.1*	3.1	*3.2*	3.5	*:*	4.3
Estonia	:	11.1	8.8	9.7	7.9	5.9	4.7	*6.0*	5.0	*6.0*	6.7	*:*	7.7
Latvia	13.8	14.0	9.8	10.4	8.9	6.8	6.0	*6.4*	6.5	*6.9*	9.2	*:*	9.6
Lithuania	5.0	13.3	10.3	11.4	8.3	5.6	4.3	*4.5*	4.9	*4.8*	7.1	*:*	8.4
Hungary	10.3	7.3	6.5	6.1	7.2	7.5	7.4	*8.3*	8.1	*7.8*	8.6	*:*	8.5
Poland	13.4	13.8	18.1	19.0	17.8	13.9	9.6	*7.1*	7.3	*6.1*	7.3	*:*	7.8
Romania	5.8	6.4	7.6	8.1	7.2	7.3	6.4	*6.1*	6.1	*5.9*	6.4	*:*	6.1
Sweden	8.5	7.1	6.2	6.3	7.4	7.0	6.1	*6.2*	6.0	*6.5*	6.8	*:*	7.3
United Kingdom	9.1	5.8	5.0	4.7	4.8	5.4	5.3	*5.4*	5.7	*5.7*	7.1	*:*	6.9
EU	9.8	8.8	8.8	9.0	8.9	8.2	7.1	*6.8*	7.0	*6.8*	7.8	*:*	8.1
USA	6.3	4.5	5.4	5.5	5.1	4.6	4.6	*5.4*	5.7	*6.2*	7.5	*:*	8.1
Japan	2.8	4.4	4.8	4.7	4.4	4.1	3.9	*4.0*	4.1	*4.2*	4.7	*:*	4.6

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

TABLE 24 : Compensation of employees per head (percentage change on preceding year, 1992-2009)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	3.4	2.8	2.5	1.9	2.1	3.3	3.7	*3.5*	3.8	*2.9*	3.1	*:*	2.8
Germany	5.4	2.3	1.6	1.5	0.5	1.5	1.3	*2.1*	2.5	*2.6*	3.1	*:*	2.4
Ireland	4.5	5.9	5.4	5.3	6.4	4.6	6.0	*4.9*	3.5	*3.5*	2.3	*:*	2.7
Greece	10.8	7.0	5.4	5.1	4.8	1.0	9.1	*7.4*	8.1	*6.8*	7.4	*:*	7.2
Spain	6.0	2.5	3.5	3.0	3.7	3.9	3.6	*4.3*	5.0	*3.3*	3.2	*:*	2.4
France	2.8	2.1	3.1	3.4	3.1	3.4	2.9	*3.0*	2.8	*2.9*	2.6	*:*	2.5
Italy	4.8	2.1	3.1	3.3	3.2	2.5	1.9	*3.8*	4.4	*2.2*	2.2	*:*	2.3
Cyprus	:	4.6	3.8	1.9	1.8	3.0	3.3	*3.5*	5.5	*3.5*	5.7	*:*	4.5
Luxembourg	3.9	3.2	2.9	3.7	3.7	3.1	4.3	*3.2*	2.7	*3.5*	2.7	*:*	3.0
Malta	7.8	4.5	2.8	1.3	1.9	3.2	1.7	*3.0*	2.8	*3.2*	3.0	*:*	2.7
Netherlands	2.9	4.1	3.4	3.5	1.7	2.4	3.2	*3.6*	3.6	*3.9*	3.7	*:*	4.0
Austria	4.0	1.9	2.2	1.6	2.5	3.0	2.1	*3.2*	2.9	*2.8*	2.9	*:*	2.5
Portugal	8.2	5.4	3.3	2.6	4.7	2.1	3.4	*2.6*	3.1	*2.7*	2.7	*:*	2.4
Slovenia	:	10.4	7.1	7.8	5.3	5.5	6.3	*7.8*	8.7	*6.5*	7.5	*:*	6.9
Slovakia	:	10.3	8.5	8.4	9.7	7.7	8.8	*8.4*	9.0	*8.6*	7.6	*:*	7.4
Finland	2.5	3.3	3.0	3.6	3.8	2.9	3.5	*5.5*	5.5	*4.5*	4.7	*:*	4.3
Euro area	4.6	2.5	2.6	2.6	2.2	2.5	2.6	*3.3*	3.6	*3.0*	3.1	*:*	2.7
Bulgaria	:	73.8	5.8	4.9	5.9	7.4	17.9	*13.7*	19.0	*10.9*	13.7	*:*	11.3
Czech Republic	:	7.8	6.6	5.7	4.7	6.3	6.4	*7.2*	7.6	*7.2*	8.1	*:*	8.0
Denmark	3.2	3.8	3.7	3.3	3.5	3.9	3.9	*4.6*	4.3	*4.5*	4.3	*:*	3.9
Estonia	:	12.8	11.5	11.2	11.0	14.0	26.5	*13.6*	16.5	*8.2*	6.7	*:*	4.0
Latvia	:	7.3	15.4	14.3	25.3	23.6	33.2	*21.0*	21.0	*12.0*	6.0	*:*	4.5
Lithuania	:	9.1	10.6	10.9	11.5	16.8	18.2	*15.0*	19.0	*9.6*	10.8	*:*	5.2
Hungary	:	14.0	9.2	11.2	7.1	4.5	6.2	*6.9*	8.9	*6.7*	7.1	*:*	5.9
Poland	37.8	13.8	1.8	1.8	1.5	1.8	4.5	*8.0*	8.5	*7.0*	6.8	*:*	5.3
Romania	117.4	69.6	21.6	13.9	28.6	12.6	22.4	*18.1*	22.5	*16.4*	15.1	*:*	13.5
Sweden	4.8	4.0	3.1	4.0	3.1	2.2	5.0	*4.6*	3.5	*3.7*	3.5	*:*	3.1
United Kingdom	3.6	5.1	4.1	4.2	3.7	4.6	3.7	*4.3*	2.8	*4.4*	2.7	*:*	2.8
EU	:	4.1	3.0	2.7	2.7	2.7	3.0	*3.8*	3.7	*3.5*	3.2	*:*	3.0
USA	3.0	4.2	3.9	4.3	3.6	4.0	3.7	*2.7*	3.7	*2.2*	2.6	*:*	1.2
Japan	1.1	0.0	-0.9	-1.3	-0.1	0.1	-0.1	*0.6*	0.3	*0.9*	0.4	*:*	0.1

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 25 : Real compensation of employees per head [1] (percentage change on preceding year, 1992-2009) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	1.6	1.1	0.3	-0.7	-0.8	0.5	0.9	*0.1*	-0.7	*0.7*	0.6	*:*	0.7
Germany	2.8	1.3	0.2	0.1	-1.0	0.2	-0.4	*0.0*	0.1	*1.1*	1.1	*:*	0.6
Ireland	1.9	2.1	2.5	3.7	4.7	2.3	3.0	*2.3*	0.2	*1.0*	0.2	*:*	1.1
Greece	-0.7	2.4	2.1	1.8	1.3	-2.5	5.8	*3.5*	3.4	*3.1*	3.4	*:*	3.6
Spain	1.0	-0.3	0.2	-0.5	0.2	0.5	0.4	*0.5*	0.8	*0.7*	1.0	*:*	-0.3
France	1.1	1.2	1.4	1.5	1.3	1.2	0.8	*0.3*	-0.2	*1.0*	0.8	*:*	0.8
Italy	-0.3	-0.2	0.4	0.7	0.9	-0.2	-0.2	*0.8*	0.7	*0.0*	0.1	*:*	0.1
Cyprus	:	2.2	1.2	0.2	-0.8	0.7	0.5	*-0.4*	0.9	*0.9*	2.6	*:*	1.2
Luxembourg	1.0	0.9	0.9	1.3	0.9	0.9	2.2	*-0.2*	-1.0	*1.1*	0.2	*:*	0.3
Malta	:	2.5	0.8	-0.9	-0.6	0.7	0.0	*-0.5*	-1.4	*0.8*	0.1	*:*	0.4
Netherlands	0.5	1.2	1.3	2.5	-0.4	0.5	1.6	*0.9*	0.7	*1.1*	0.6	*:*	1.4
Austria	1.2	0.6	0.5	-0.3	0.3	1.1	-0.1	*0.2*	-0.5	*0.7*	0.7	*:*	0.5
Portugal	2.3	2.5	0.4	0.1	1.9	-1.0	0.6	*-0.2*	0.2	*0.4*	0.3	*:*	0.2
Slovenia	:	2.3	2.8	4.7	3.0	3.0	2.1	*2.2*	2.3	*3.2*	3.7	*:*	3.6
Slovakia	:	2.7	3.5	1.0	6.9	2.6	6.0	*4.1*	4.5	*5.1*	3.8	*:*	3.8
Finland	0.6	0.8	2.0	2.6	3.1	1.3	1.2	*2.3*	1.3	*2.4*	1.8	*:*	2.5
Euro area	1.3	0.7	0.5	0.5	0.1	0.3	0.4	*0.4*	0.3	*0.9*	0.9	*:*	0.6
Bulgaria	:	2.2	1.9	0.5	0.7	1.6	10.5	*5.2*	6.9	*5.8*	6.9	*:*	5.7
Czech Republic	:	2.4	5.3	2.3	3.9	4.7	3.4	*2.1*	1.6	*4.4*	4.9	*:*	5.4
Denmark	1.5	1.7	1.9	2.1	1.4	1.8	2.0	*1.3*	1.1	*2.1*	2.2	*:*	2.0
Estonia	:	5.9	8.6	9.0	7.3	9.5	17.3	*4.4*	5.4	*3.5*	1.9	*:*	0.7
Latvia	:	3.1	9.6	6.8	15.2	16.6	22.0	*5.2*	6.1	*3.7*	0.0	*:*	0.5
Lithuania	:	6.0	9.6	11.2	9.7	12.3	11.8	*4.4*	7.5	*2.3*	4.3	*:*	-1.6
Hungary	:	1.9	5.0	6.3	3.2	1.1	-0.2	*0.6*	2.5	*3.0*	3.2	*:*	2.9
Poland	4.7	4.4	-0.2	-1.2	-0.6	0.6	2.2	*3.7*	4.1	*3.8*	3.1	*:*	2.6
Romania	0.0	5.7	8.2	0.0	19.8	7.4	16.9	*10.4*	13.6	*11.3*	9.1	*:*	9.0
Sweden	1.1	2.6	1.8	3.1	1.9	1.2	3.6	*1.9*	0.7	*1.5*	1.0	*:*	1.2
United Kingdom	0.2	3.2	2.1	2.5	1.2	2.2	1.2	*1.5*	-0.6	*2.2*	0.8	*:*	1.5
EU	:	1.5	0.8	0.6	0.5	0.4	0.7	*0.7*	0.2	*1.3*	0.9	*:*	1.0
USA	0.7	2.4	1.6	1.6	0.6	1.2	1.1	*-0.5*	-0.1	*0.4*	1.1	*:*	0.4
Japan	0.9	0.3	0.0	-0.7	0.7	0.5	0.4	*0.4*	-0.1	*0.8*	0.3	*:*	-0.1

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

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 26 : Labour productivity (real GDP per occupied person) (percentage change on preceding year, 1992-2009)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	1.3	1.3	1.4	2.3	0.5	1.6	0.9	*0.8*	0.2	*1.1*	0.3	*:*	0.9
Germany	2.8	2.0	1.6	1.7	1.3	2.7	0.9	*0.8*	0.5	*1.2*	0.3	*:*	0.8
Ireland	3.3	3.3	2.3	1.6	1.6	1.4	2.4	*1.6*	-1.4	*1.6*	0.1	*:*	1.8
Greece	0.1	3.1	2.5	2.5	1.9	2.3	2.7	*2.2*	2.1	*2.2*	1.6	*:*	1.7
Spain	1.8	0.2	0.5	0.6	0.4	0.7	0.7	*0.9*	1.5	*1.1*	1.8	*:*	1.4
France	1.6	1.2	1.2	2.3	1.3	1.4	0.8	*0.9*	0.2	*1.0*	0.6	*:*	0.9
Italy	2.2	0.9	0.0	1.2	0.4	0.1	0.5	*0.1*	-0.7	*0.2*	0.0	*:*	0.0
Cyprus	:	2.6	0.3	0.4	0.3	2.3	1.1	*2.2*	1.6	*2.3*	1.4	*:*	1.6
Luxembourg	0.1	1.5	1.6	2.3	2.2	2.7	0.7	*-0.4*	-2.1	*0.2*	-0.6	*:*	1.3
Malta	3.5	2.6	1.3	1.7	2.1	1.8	0.9	*1.3*	0.7	*1.2*	1.1	*:*	1.2
Netherlands	1.4	1.4	1.7	3.3	2.1	1.5	1.1	*1.3*	0.5	*1.0*	0.1	*:*	0.6
Austria	1.7	1.8	1.6	2.2	1.6	1.9	1.3	*1.3*	0.2	*1.3*	0.4	*:*	1.0
Portugal	2.3	1.6	0.7	1.6	1.2	0.9	1.9	*1.0*	-0.3	*1.0*	0.1	*:*	0.5
Slovenia	:	3.9	3.7	4.0	4.5	4.3	3.7	*3.3*	2.6	*3.2*	2.7	*:*	3.2
Slovakia	:	3.8	5.0	5.4	5.1	6.1	8.1	*5.5*	4.8	*5.2*	4.0	*:*	4.9
Finland	3.7	2.2	2.0	3.3	1.4	3.0	2.3	*1.6*	0.9	*1.9*	1.4	*:*	2.0
Euro area	2.1	1.5	1.2	1.8	1.2	1.6	1.1	*0.9*	0.4	*1.1*	0.6	*:*	0.9
Bulgaria	-1.2	2.4	3.3	3.9	3.5	2.9	3.3	*4.1*	3.2	*4.3*	3.0	*:*	3.4
Czech Republic	:	2.0	4.1	4.3	5.1	5.0	3.2	*3.5*	3.2	*4.5*	3.0	*:*	3.6
Denmark	2.5	1.4	1.7	2.9	1.6	2.2	0.0	*1.1*	0.0	*1.5*	0.9	*:*	2.1
Estonia	:	8.0	6.3	7.5	7.3	4.5	5.9	*3.7*	-0.8	*4.3*	0.5	*:*	2.7
Latvia	-1.5	6.0	6.7	7.5	8.7	7.2	6.6	*4.3*	-1.8	*3.8*	1.1	*:*	3.3
Lithuania	-5.9	7.2	5.9	7.4	5.2	6.0	6.8	*6.0*	5.1	*3.7*	2.7	*:*	0.4
Hungary	:	3.2	3.9	5.4	3.6	3.2	1.2	*3.1*	2.8	*2.6*	1.5	*:*	1.6
Poland	:	5.5	3.6	4.0	1.3	2.9	2.0	*2.6*	2.6	*3.6*	3.3	*:*	4.0
Romania	4.3	0.9	7.4	10.3	5.8	7.4	5.5	*5.2*	7.2	*4.2*	4.0	*:*	4.3
Sweden	3.1	1.8	3.0	4.9	3.0	2.4	0.5	*1.5*	0.6	*1.6*	0.5	*:*	2.0
United Kingdom	2.5	2.1	1.6	1.7	1.0	2.0	2.3	*1.7*	0.4	*1.6*	0.6	*:*	0.1
EU	:	2.0	2.0	2.6	1.6	2.2	1.6	*1.2*	1.0	*1.3*	1.1	*:*	1.3
USA	1.5	1.8	2.1	2.7	1.6	0.7	0.9	*1.1*	1.8	*1.0*	0.7	*:*	1.0
Japan	1.0	1.1	1.9	2.5	1.5	2.0	2.2	*1.0*	0.6	*0.9*	1.1	*:*	0.5

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 27 : Unit labour costs, whole economy [1] (percentage change on preceding year, 1992-2009) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	IV-2008	X-2008	IV-2008	X-2008	IV-2008	X-2008
Belgium	2.1	1.5	1.1	-0.4	1.5	1.7	2.8	2.7	3.6	1.8	2.7	:	1.8
Germany	2.5	0.3	-0.1	-0.2	-0.8	-1.2	0.4	1.2	2.0	1.3	2.8	:	1.6
Ireland	1.2	2.5	3.0	3.7	4.7	3.2	3.6	3.3	5.0	1.9	2.2	:	0.9
Greece	10.7	3.8	2.9	2.5	2.8	-1.3	6.3	5.1	5.9	4.5	5.7	:	5.4
Spain	4.1	2.3	3.0	2.4	3.3	3.2	2.9	3.4	3.4	2.2	1.4	:	1.0
France	1.1	0.8	1.9	1.1	1.8	2.0	2.1	2.1	2.6	1.8	2.0	:	1.6
Italy	2.6	1.2	3.0	2.1	2.8	2.3	1.5	3.7	5.1	2.0	2.2	:	2.3
Cyprus	:	1.9	3.5	1.5	1.4	0.6	2.1	1.3	3.8	1.2	4.2	:	2.8
Luxembourg	3.8	1.7	1.4	1.4	1.4	0.4	3.6	3.6	4.9	3.3	3.4	:	1.7
Malta	4.2	1.9	1.5	-0.4	-0.2	1.4	0.7	1.7	2.1	1.9	1.9	:	1.5
Netherlands	1.5	2.7	1.6	0.2	-0.4	0.9	2.0	2.3	3.1	2.8	3.6	:	3.4
Austria	2.2	0.1	0.6	-0.6	0.8	1.0	0.8	1.9	2.7	1.4	2.5	:	1.5
Portugal	5.7	3.8	2.5	1.0	3.4	1.3	1.4	1.7	3.4	1.6	2.6	:	1.9
Slovenia	:	6.2	3.3	3.7	0.8	1.1	2.5	4.4	6.0	3.2	4.6	:	3.6
Slovakia	:	6.3	3.4	2.9	4.3	1.5	0.6	2.8	4.0	3.3	3.4	:	2.4
Finland	-1.1	1.1	0.9	0.2	2.3	-0.2	1.1	3.9	4.6	2.5	3.2	:	2.3
Euro area	2.5	1.1	1.6	1.0	1.3	1.1	1.7	2.4	3.3	1.9	2.5	:	1.9
Bulgaria	:	69.7	2.5	1.0	2.4	4.4	14.2	9.3	15.3	6.3	10.4	:	7.6
Czech Republic	:	5.7	2.4	1.3	-0.4	1.3	3.1	3.5	4.2	2.6	4.9	:	4.3
Denmark	0.6	2.3	1.9	0.4	1.9	1.7	3.9	3.5	4.3	2.9	3.5	:	1.8
Estonia	:	4.5	4.9	3.5	3.5	9.1	19.4	9.5	17.5	3.7	6.2	:	1.4
Latvia	:	1.3	8.2	6.4	15.2	15.3	24.9	16.1	23.3	7.9	4.8	:	1.2
Lithuania	:	1.8	4.4	3.3	6.0	10.2	10.6	8.4	13.2	5.6	8.0	:	4.8
Hungary	:	10.4	5.0	5.5	3.4	1.3	4.9	3.7	5.9	4.0	5.6	:	4.3
Poland	:	7.9	-1.7	-2.1	0.3	-1.1	2.4	5.2	5.8	3.3	3.3	:	1.2
Romania	108.4	68.1	13.3	3.3	21.5	4.8	16.0	12.3	14.3	11.6	10.6	:	8.8
Sweden	1.6	2.1	0.0	-0.8	0.1	-0.2	4.5	3.0	2.9	2.1	2.9	:	1.0
United Kingdom	1.1	2.9	2.5	2.4	2.7	2.6	1.3	2.6	2.4	2.8	2.1	:	2.7
EU	:	2.1	1.8	1.1	1.7	1.3	2.0	2.6	3.4	2.2	2.7	:	2.1
USA	1.5	2.4	1.8	1.6	2.0	3.3	2.8	1.6	1.9	1.1	1.9	:	0.1
Japan	0.1	-1.1	-2.7	-3.8	-1.6	-1.8	-2.3	-0.4	-0.4	0.0	-0.7	:	-0.4

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

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 28 : Real unit labour costs [1] (percentage change on preceding year, 1992-2009)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	IV-2008	X-2008	IV-2008	X-2008	IV-2008	X-2008
Belgium	-0.2	0.0	-1.0	-2.7	-0.9	-0.6	0.4	0.1	0.8	-0.3	0.3	:	-0.2
Germany	-0.2	-0.1	-1.0	-1.1	-1.5	-1.7	-1.4	-0.7	0.0	-0.1	0.7	:	-0.3
Ireland	-1.7	-2.5	0.1	1.7	2.3	-0.2	2.2	1.5	5.6	0.4	1.4	:	-0.2
Greece	-0.7	-0.9	-0.5	-0.8	-0.5	-4.4	3.3	1.5	2.1	0.9	2.3	:	2.2
Spain	-0.6	-0.7	-1.1	-1.5	-0.9	-0.8	-0.3	0.8	0.3	0.1	-0.6	:	-1.5
France	-0.4	-0.2	-0.2	-0.5	-0.3	-0.5	-0.4	-0.2	0.1	-0.1	0.1	:	-0.2
Italy	-1.6	-1.2	0.4	-0.5	0.7	0.6	-0.8	0.8	1.8	-0.1	-0.1	:	0.1
Cyprus	:	-1.1	0.6	-1.7	-0.9	-2.3	-1.1	-2.3	-0.6	-1.4	0.9	:	-0.7
Luxembourg	0.1	0.7	-2.5	-0.4	-2.9	-4.8	1.9	2.9	4.3	2.5	3.1	:	-1.2
Malta	1.2	-0.2	-1.1	-1.9	-3.0	-1.5	-1.7	-0.5	-0.3	-0.3	-0.3	:	-0.7
Netherlands	-0.4	-0.4	-0.5	-0.5	-2.7	-0.8	0.5	-0.3	1.6	0.0	1.1	:	1.5
Austria	-0.2	-0.6	-1.0	-2.2	-1.2	-0.8	-1.3	-0.9	-0.1	-0.3	0.2	:	-0.4
Portugal	-0.6	0.2	-0.4	-1.4	0.8	-1.5	-1.5	-0.4	1.3	-0.8	-0.5	:	-0.3
Slovenia	:	-1.2	-0.7	0.3	-0.8	-0.9	-1.5	0.3	1.6	-0.1	0.5	:	-0.2
Slovakia	:	-0.3	-0.7	-2.8	1.9	-1.4	-0.5	0.4	0.3	0.8	-0.2	:	-0.9
Finland	-2.8	-1.3	0.3	-0.4	1.9	-1.4	-1.8	0.7	1.2	0.1	0.7	:	0.2
Euro area	-0.7	-0.5	-0.6	-1.0	-0.8	-0.9	-0.6	0.0	0.7	-0.1	0.3	:	-0.2
Bulgaria	:	-1.7	-2.1	-4.0	-1.3	-3.8	5.9	0.6	4.7	0.4	2.4	:	1.4
Czech Republic	:	0.0	0.6	-3.1	-0.1	0.4	-0.5	0.0	0.9	0.2	2.5	:	2.2
Denmark	-0.8	0.3	-0.4	-1.9	-1.1	-0.4	2.2	0.4	0.8	0.4	0.8	:	-0.7
Estonia	:	-2.1	0.0	0.2	-1.7	1.9	9.0	0.1	7.7	-1.1	0.8	:	-1.8
Latvia	:	-2.8	1.3	-0.6	4.6	4.9	10.3	0.9	7.3	0.3	0.6	:	-2.8
Lithuania	:	-1.2	1.4	0.8	-0.6	3.4	1.7	-1.2	1.5	-1.5	1.8	:	-0.1
Hungary	:	-1.0	0.2	1.1	1.1	-2.5	-0.8	-0.7	0.6	0.3	1.6	:	1.1
Poland	:	-0.4	-3.8	-6.0	-2.3	-2.5	-0.9	0.2	2.6	0.1	0.2	:	-1.2
Romania	-3.1	3.6	-3.1	-10.2	8.3	-5.2	4.7	2.7	-0.1	2.8	0.6	:	0.8
Sweden	-1.0	0.7	-1.2	-1.1	-0.8	-2.0	1.4	1.9	2.6	0.2	1.2	:	-0.6
United Kingdom	-1.7	0.8	-0.2	-0.1	0.4	0.0	-1.5	0.6	-0.8	0.6	-0.2	:	0.6
EU	:	-0.3	-0.8	-1.4	-0.6	-1.1	-0.7	0.1	0.4	0.0	0.2	:	-0.1
USA	-0.6	0.6	-0.8	-1.3	-1.2	0.0	0.1	-0.6	-0.6	-0.6	-0.2	:	-0.7
Japan	0.0	-0.4	-1.5	-2.7	-0.4	-0.8	-1.5	-0.1	0.4	0.2	-0.8	:	-0.9

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

Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 29 : Nominal bilateral exchange rates against Ecu/euro (1992-2010) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	39.91	40.43	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Germany	1.93	1.96	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Ireland	0.79	0.78	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Greece	282.43	328.65	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Spain	152.86	166.45	:	:	:	:	:	*:*	:	*:*	:	*:*	:
France	6.62	6.58	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Italy	1888.18	1936.35	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Cyprus	0.59	0.58	0.58	0.58	0.58	0.58	0.58	*:*	:	*:*	:	*:*	:
Luxembourg	39.91	40.43	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Malta	0.45	0.42	0.42	0.43	0.43	0.43	0.43	*:*	:	*:*	:	*:*	:
Netherlands	2.17	2.21	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Austria	13.60	13.79	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Portugal	190.37	200.35	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Slovenia	143.42	197.20	235.62	239.09	239.57	239.60	:	*:*	:	*:*	:	*:*	:
Slovakia	:	41.54	40.01	40.02	38.60	37.23	33.77	*32.63*	31.24	*32.49*	:	*:*	:
Finland	6.05	5.94	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Euro area	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
Bulgaria	0.09	1.95	1.95	1.95	1.96	1.96	1.96	*1.96*	1.96	*1.96*	1.96	*:*	1.96
Czech Republic	34.86	35.71	30.53	31.89	29.78	28.34	27.77	*25.27*	24.81	*25.17*	24.77	*:*	24.77
Denmark	7.53	7.46	7.44	7.44	7.45	7.46	7.45	*7.46*	7.46	*7.46*	7.45	*:*	7.45
Estonia	15.36	15.68	15.65	15.65	15.65	15.65	15.65	*15.65*	15.65	*15.65*	15.65	*:*	15.65
Latvia	0.75	0.61	0.66	0.67	0.70	0.70	0.70	*0.70*	0.70	*0.70*	0.71	*:*	0.71
Lithuania	4.45	4.11	3.45	3.45	3.45	3.45	3.45	*3.45*	3.45	*3.45*	3.45	*:*	3.45
Hungary	152.74	244.33	252.11	251.66	248.05	264.26	251.35	*257.41*	250.07	*256.78*	258.39	*:*	258.39
Poland	2.88	3.91	4.14	4.53	4.02	3.90	3.78	*3.52*	3.45	*3.50*	3.52	*:*	3.52
Romania	0.20	1.61	3.62	4.05	3.62	3.53	3.34	*3.70*	3.68	*3.71*	3.79	*:*	3.79
Sweden	8.73	8.81	9.19	9.12	9.28	9.25	9.25	*9.38*	9.50	*9.38*	9.78	*:*	9.78
United Kingdom	0.79	0.65	0.67	0.68	0.68	0.68	0.68	*0.78*	0.78	*0.79*	0.78	*:*	0.78
EU	:	:	:	:	:	:	:	*:*	:	*:*	:	*:*	:
USA	1.25	1.03	1.16	1.24	1.24	1.26	1.37	*1.55*	1.48	*1.57*	1.36	*:*	1.36
Japan	135.36	122.59	133.27	134.44	136.85	146.02	161.25	*158.63*	154.99	*158.91*	137.44	*:*	137.44

TABLE 30 : Nominal effective exchange rates to rest of a group [1] of industrialised countries (percentage change on preceding year, 1992-2010)

	5-year averages						2008		2009		2010	
	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	-1.1	1.4	1.1	-0.3	0.4	1.2	*2.6*	1.9	*0.3*	-1.0	*:*	0.0
Germany	-1.0	1.8	1.7	-0.6	0.5	1.8	*2.9*	1.9	*0.3*	-1.5	*:*	0.0
Ireland	-1.8	2.4	2.3	-0.1	0.6	2.6	*5.2*	3.9	*0.5*	-2.1	*:*	0.0
Greece	0.3	1.7	1.4	-0.8	0.6	0.9	*2.9*	2.1	*0.4*	-0.6	*:*	0.0
Spain	-1.1	1.4	1.1	-0.4	0.4	1.3	*2.7*	2.1	*0.3*	-0.8	*:*	0.0
France	-1.0	1.7	1.4	-0.3	0.6	1.6	*3.0*	2.1	*0.3*	-1.3	*:*	0.0
Italy	0.1	1.9	1.7	-0.6	0.6	1.6	*2.9*	2.0	*0.3*	-1.3	*:*	0.0
Cyprus	5.0	1.6	0.8	0.7	0.6	-0.3	*3.0*	2.4	*0.3*	-0.6	*:*	0.0
Luxembourg	-1.1	1.4	1.1	-0.3	0.4	1.2	*2.6*	1.9	*0.3*	-1.0	*:*	0.0
Malta	0.4	1.3	1.9	-0.4	1.0	3.1	*3.8*	2.5	*0.4*	-2.9	*:*	0.0
Netherlands	-1.0	1.2	0.9	-0.3	0.3	1.1	*2.5*	1.9	*0.3*	-0.8	*:*	0.0
Austria	-0.1	1.1	1.0	-0.7	0.3	1.0	*1.7*	1.1	*0.2*	-0.9	*:*	0.0
Portugal	-1.1	1.1	0.8	-0.2	0.3	1.1	*2.4*	1.8	*0.2*	-0.9	*:*	0.0
Slovenia	-3.9	-1.1	-1.4	-1.1	0.2	0.3	*1.1*	0.5	*0.1*	-0.4	*:*	0.0
Slovakia	-1.3	3.6	4.6	2.4	3.7	10.4	*4.3*	8.1	*0.6*	3.6	*:*	0.0
Finland	-1.0	1.7	1.6	-0.4	0.5	1.6	*2.7*	2.0	*0.3*	-1.0	*:*	0.0
Euro area	-1.7	3.6	3.2	-1.0	1.2	3.5	*5.4*	4.3	*0.6*	-2.5	*:*	0.0
Bulgaria	-32.2	1.7	1.2	-1.2	0.8	0.6	*2.7*	1.7	*0.5*	-0.3	*:*	0.0
Czech Republic	0.8	4.5	0.4	6.2	5.2	2.3	*11.2*	12.6	*0.5*	-0.3	*:*	0.0
Denmark	-1.0	1.4	1.2	-0.5	0.3	1.4	*2.5*	2.0	*0.3*	-0.6	*:*	0.0
Estonia	-0.4	1.0	0.9	-0.1	0.2	1.1	*1.9*	1.4	*0.2*	-0.5	*:*	0.0
Latvia	4.4	-3.4	-3.2	-5.0	0.0	0.0	*2.0*	0.9	*0.2*	-1.1	*:*	0.0
Lithuania	8.3	2.1	1.1	-0.6	0.1	0.8	*1.6*	1.0	*0.2*	-0.4	*:*	0.0
Hungary	-4.7	0.3	1.5	0.7	-6.1	5.4	*-1.0*	1.4	*0.4*	-3.7	*:*	0.0
Poland	-1.1	-0.5	-2.3	12.1	3.5	3.4	*9.3*	11.0	*0.7*	-2.2	*:*	0.0
Romania	-30.1	-4.7	-6.6	11.2	3.6	6.2	*-8.1*	-8.1	*0.2*	-3.4	*:*	0.0
Sweden	-2.5	1.8	2.0	-2.4	0.8	1.7	*1.5*	-0.5	*0.4*	-3.8	*:*	0.0
United Kingdom	4.8	0.2	4.5	-1.2	1.0	1.9	*-10.0*	-11.1	*-0.7*	-1.9	*:*	0.0
EU	-0.8	5.2	6.1	-0.8	2.8	6.6	*5.5*	2.5	*0.9*	-4.8	*:*	0.0
USA	5.0	-3.9	-6.5	-2.0	-0.8	-5.0	*-8.5*	-5.0	*-0.6*	8.3	*:*	0.0
Japan	1.5	-2.4	1.6	-2.4	-5.8	-5.9	*8.6*	9.1	*0.5*	10.1	*:*	0.0

[1] 35 countries : EUR26 (excl. LU), TR, CH, NO, US, CA, JP, AU, MX and NZ.

TABLE 31 : Relative unit labour costs, to rest of a group [1] of industrialised countries (nat. curr.) (percentage change on preceding year, 1992-2010) 23.10.2008

	5-year averages						2008		2009		2010	
	1997-01	2002-06	2004	2005	2006	2007	IV-2008	X-2008	IV-2008	X-2008	IV-2008	X-2008
Belgium	-0.7	-0.4	-1.3	0.2	0.3	0.8	0.4	0.6	-0.2	0.2	:	:
Germany	-2.9	-1.9	-1.2	-2.6	-3.1	-1.9	-1.5	-1.4	-0.8	0.3	:	:
Ireland	0.3	1.4	2.7	3.1	1.5	1.6	1.1	2.2	0.0	-0.1	:	:
Greece	-1.8	0.5	1.1	0.8	-3.1	3.2	1.8	1.6	2.0	2.4	:	:
Spain	-0.3	1.1	1.3	1.6	1.6	0.8	1.0	0.2	0.1	-1.2	:	:
France	-1.8	0.2	0.1	0.2	0.5	0.1	-0.4	-0.5	-0.2	-0.5	:	:
Italy	-2.0	1.3	1.1	1.1	0.8	-0.8	1.2	1.9	-0.1	-0.4	:	:
Cyprus	-6.4	1.5	0.0	-0.6	-0.8	-0.5	-1.6	0.3	-1.3	1.2	:	:
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Malta	-0.1	0.2	-1.1	-1.5	-0.1	-0.8	-0.3	-0.3	0.2	-0.2	:	:
Netherlands	0.6	0.2	-0.6	-1.7	-0.3	0.1	-0.1	0.1	0.9	1.1	:	:
Austria	-2.5	-0.9	-1.4	-0.5	0.0	-1.2	-0.6	-0.6	-0.6	-0.3	:	:
Portugal	1.7	0.7	-0.2	1.6	-0.6	-0.7	-0.9	0.3	-0.4	0.3	:	:
Slovenia	3.3	1.6	2.8	-0.6	-0.1	0.4	1.6	2.3	1.0	1.7	:	:
Slovakia	2.9	2.0	2.3	3.4	0.6	-1.5	0.1	0.5	1.1	0.4	:	:
Finland	-1.6	-0.5	-0.5	0.9	-1.7	-1.5	1.2	1.2	0.4	0.5	:	:
Euro area	-3.7	-0.6	-0.5	-1.1	-1.5	-1.4	-0.8	-0.3	-0.6	0.0	:	:
Bulgaria	58.3	-0.4	-0.9	0.2	2.6	10.6	5.7	10.5	3.5	6.7	:	:
Czech Republic	2.9	1.1	0.7	-1.4	0.5	1.1	1.0	0.9	0.5	2.0	:	:
Denmark	0.1	0.6	-0.2	0.7	0.4	1.5	1.0	1.2	0.8	0.8	:	:
Estonia	1.5	3.1	2.6	1.4	7.1	15.2	5.7	12.3	1.1	3.0	:	:
Latvia	-1.8	6.4	5.4	13.4	13.1	20.8	12.2	17.9	5.2	1.5	:	:
Lithuania	-2.1	2.4	2.3	3.7	7.7	6.3	4.5	7.8	2.9	4.8	:	:
Hungary	7.1	3.5	4.9	2.0	0.2	2.6	1.0	2.3	1.7	2.5	:	:
Poland	5.3	-3.2	-3.0	-1.0	-2.3	0.1	2.5	2.3	1.0	0.4	:	:
Romania	60.8	10.8	1.8	19.5	3.0	13.1	9.1	10.0	9.2	7.4	:	:
Sweden	-0.6	-1.5	-1.7	-1.5	-2.0	2.0	0.4	-0.2	-0.2	0.3	:	:
United Kingdom	0.5	0.9	1.5	1.2	1.0	-0.9	0.3	-0.6	1.0	-0.3	:	:
EU	-3.3	-0.3	-0.2	-0.4	-1.4	-0.6	0.5	0.7	0.6	0.7	:	:
USA	-0.6	0.2	0.5	0.5	1.1	1.0	-0.9	-1.2	-1.1	-0.6	:	:
Japan	-3.5	-4.5	-5.2	-3.5	-3.8	-4.7	-2.6	-3.1	-1.8	-3.2	:	:

[1] 35 countries : EUR26 (excl. LU), TR, CH, NO, US, CA, JP, AU, MX and NZ.
Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 32 : Real effective exchange rate : ulc relative to rest of a group [1] of industrialised countries (usd) (% change on preceding year, 1992-2010)

	5-year averages						2008		2009		2010	
	1997-01	2002-06	2004	2005	2006	2007	IV-2008	X-2008	IV-2008	X-2008	IV-2008	X-2008
Belgium	-1.9	0.9	-0.3	-0.1	0.7	2.1	3.0	2.5	0.1	-0.7	:	:
Germany	-3.9	-0.1	0.5	-3.2	-2.6	-0.2	1.4	0.5	-0.5	-1.2	:	:
Ireland	-1.5	3.8	5.1	3.1	2.0	4.3	6.3	6.3	0.5	-2.2	:	:
Greece	-1.5	2.2	2.5	-0.1	-2.5	4.1	4.8	3.8	2.4	1.8	:	:
Spain	-1.3	2.5	2.4	1.2	2.0	2.1	3.7	2.3	0.4	-2.0	:	:
France	-2.7	1.9	1.4	-0.1	1.1	1.7	2.6	1.6	0.2	-1.8	:	:
Italy	-1.9	3.2	2.9	0.5	1.4	0.8	4.1	4.0	0.2	-1.7	:	:
Cyprus	-1.7	3.1	0.8	0.2	-0.2	-0.8	1.3	2.7	-1.0	0.6	:	:
Luxembourg	:	:	:	:	:	:	:	:	:	:	:	:
Malta	0.3	1.5	0.8	-1.9	0.9	2.3	3.5	2.2	0.7	-3.0	:	:
Netherlands	-0.4	1.3	0.2	-2.0	0.0	1.2	2.4	2.0	1.1	0.3	:	:
Austria	-2.7	0.1	-0.4	-1.1	0.3	-0.3	1.1	0.5	-0.4	-1.2	:	:
Portugal	0.6	1.8	0.6	1.4	-0.3	0.4	1.5	2.2	-0.1	-0.6	:	:
Slovenia	-0.8	0.5	1.4	-1.7	0.1	0.7	2.7	2.8	1.2	1.3	:	:
Slovakia	1.5	5.6	7.0	5.9	4.3	8.8	4.4	8.6	1.6	4.1	:	:
Finland	-2.7	1.2	1.0	0.5	-1.1	0.1	3.9	3.2	0.7	-0.5	:	:
Euro area	-5.3	3.0	2.7	-2.1	-0.2	2.1	4.6	4.0	0.0	-2.4	:	:
Bulgaria	7.3	1.3	0.3	-1.0	3.5	11.2	8.5	12.4	4.0	6.4	:	:
Czech Republic	3.7	5.7	1.1	4.6	5.7	3.5	12.3	13.6	1.0	1.8	:	:
Denmark	-0.8	2.0	1.0	0.2	0.6	3.0	3.5	3.3	1.1	0.3	:	:
Estonia	1.1	4.1	3.5	1.2	7.3	16.4	7.7	13.9	1.3	2.5	:	:
Latvia	2.4	2.8	2.1	7.7	13.1	20.7	14.5	18.9	5.4	0.3	:	:
Lithuania	6.0	4.5	3.5	3.2	7.8	7.1	6.1	8.9	3.1	4.4	:	:
Hungary	2.1	3.8	6.4	2.7	-5.8	8.1	0.0	3.7	2.1	-1.2	:	:
Poland	4.1	-3.7	-5.2	10.9	1.1	3.5	12.0	13.5	1.8	-1.9	:	:
Romania	12.4	5.6	-4.9	32.9	6.7	20.1	0.2	1.0	9.4	3.8	:	:
Sweden	-3.1	0.2	0.3	-3.9	-1.2	3.7	1.9	-0.7	0.2	-3.5	:	:
United Kingdom	5.3	1.1	6.1	-0.1	2.0	1.0	-9.8	-11.6	0.3	-2.2	:	:
EU	-4.0	4.8	5.9	-1.2	1.3	6.0	6.0	3.1	1.4	-4.2	:	:
USA	4.4	-3.7	-6.0	-1.5	0.4	-4.0	-9.4	-6.1	-1.6	7.6	:	:
Japan	-2.1	-6.8	-3.7	-5.7	-9.4	-10.4	5.8	5.7	-1.3	6.6	:	:

[1] 35 countries : EUR26 (excl. LU), TR, CH, NO, US, CA, JP, AU, MX and NZ.
Note : See note 6 on concepts and sources where countries using full time equivalents are listed.

TABLE 33 : Short term interest rates (1992-2008) 23.10.2008

	5-year averages												
	1992-96	1997-01	2002-06	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belgium	6.2	3.7	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Germany	6.0	3.7	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Ireland	7.8	4.6	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Greece	20.3	9.8	2.6	10.1	7.7	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Spain	10.0	4.2	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
France	7.1	3.7	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Italy	10.3	4.7	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Cyprus	:	:	4.1	6.3	6.4	5.9	4.4	3.9	4.7	4.3	3.4	4.2	4.6
Luxembourg	:	:	:	:	:	:	:	:	:	:	3.1	4.3	4.6
Malta	:	5.1	3.4	5.2	4.9	4.9	4.0	3.3	2.9	3.2	3.5	4.3	4.6
Netherlands	5.7	3.7	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Austria	5.9	3.7	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Portugal	11.5	4.3	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Slovenia	:	:	5.4	8.6	10.9	10.9	8.0	6.8	4.7	4.0	3.6	4.3	4.6
Slovakia	:	15.0	5.2	15.7	8.6	7.8	7.8	6.2	4.7	2.9	4.3	4.3	4.6
Finland	7.1	3.7	2.6	3.0	4.4	4.3	3.3	2.3	2.1	2.2	3.1	4.3	4.6
Euro area	7.9	4.2	2.6	3.3	4.5	4.3	3.4	2.4	2.2	2.2	3.1	4.3	4.6
Bulgaria	:	:	3.9	5.9	4.6	5.1	4.9	3.7	3.7	3.6	3.7	4.9	7.1
Czech Republic	:	9.5	2.5	6.9	5.4	5.2	3.5	2.3	2.4	2.0	2.3	3.1	4.1
Denmark	7.8	4.2	2.7	3.4	5.0	4.7	3.5	2.4	2.2	2.2	3.2	4.4	5.3
Estonia	:	8.3	3.0	7.8	5.7	5.3	3.9	2.9	2.5	2.4	3.2	4.9	6.2
Latvia	:	7.0	4.0	8.4	5.4	6.9	4.4	3.8	4.2	3.1	4.4	8.7	6.3
Lithuania	:	:	3.0	13.9	8.6	5.9	3.7	2.8	2.7	2.4	3.1	5.1	5.3
Hungary	:	15.1	8.6	15.1	11.4	10.9	9.2	8.5	11.5	6.7	7.2	7.9	8.5
Poland	:	18.7	6.1	14.7	18.8	16.1	9.0	5.7	6.2	5.3	4.2	4.7	6.4
Romania	:	64.4	16.1	79.6	50.7	41.3	27.3	*17.7*	19.1	*8.4*	8.1	*7.2*	10.7
Sweden	8.9	4.1	2.9	3.3	4.1	4.1	4.3	*3.2*	2.3	*1.9*	2.6	*3.9*	5.1
United Kingdom	6.8	6.2	4.4	5.6	6.2	5.0	4.1	*3.7*	4.6	*4.8*	4.9	*6.0*	5.9
EU	:	8.5	3.3	5.0	5.9	5.4	4.1	*3.0*	3.1	*2.9*	3.5	*4.6*	5.0
USA	4.7	5.4	2.7	5.4	6.5	3.8	1.8	*1.2*	1.6	*3.6*	5.2	*5.3*	3.3
Japan	2.3	0.4	0.1	0.2	0.3	0.2	0.1	*0.1*	0.1	*0.1*	0.3	*0.8*	1.0

TABLE 34 : Long term interest rates (1992-2008)

	5-year averages												
	1992-96	1997-01	2002-06	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belgium	7.5	5.2	4.1	4.8	5.6	5.1	5.0	4.2	4.2	3.4	3.8	4.3	4.5
Germany	6.9	5.0	4.0	4.5	5.3	4.8	4.8	4.1	4.0	3.4	3.8	4.2	4.1
Ireland	8.0	5.3	4.1	4.7	5.5	5.0	5.0	4.1	4.1	3.3	3.8	4.3	4.5
Greece	19.9	7.2	4.3	6.3	6.1	5.3	5.1	4.3	4.3	3.6	4.1	4.5	4.8
Spain	10.4	5.3	4.1	4.7	5.5	5.1	5.0	4.1	4.1	3.4	3.8	4.3	4.5
France	7.3	5.0	4.1	4.6	5.4	4.9	4.9	4.1	4.1	3.4	3.8	4.3	4.3
Italy	11.3	5.4	4.2	4.7	5.6	5.2	5.0	4.3	4.3	3.6	4.1	4.5	4.7
Cyprus	:	7.2	5.1	7.4	7.6	7.6	5.7	4.7	5.8	5.2	4.1	4.5	4.5
Luxembourg	7.0	5.1	4.0	4.7	5.5	4.9	4.7	4.0	4.2	3.4	3.9	4.6	4.7
Malta	:	:	4.9	:	5.8	6.2	5.8	5.0	4.7	4.6	4.3	4.7	4.9
Netherlands	6.9	5.0	4.1	4.6	5.4	5.0	4.9	4.1	4.1	3.4	3.8	4.3	4.3
Austria	7.1	5.1	4.1	4.7	5.6	5.1	5.0	4.2	4.2	3.4	3.8	4.3	4.4
Portugal	10.8	5.4	4.1	4.8	5.6	5.2	5.0	4.2	4.1	3.4	3.9	4.4	4.6
Slovenia	:	:	5.5	:	:	:	8.7	6.4	4.7	3.8	3.9	4.5	4.6
Slovakia	:	:	5.0	:	8.3	8.0	6.9	5.0	5.0	3.5	4.4	4.5	4.8
Finland	9.1	5.2	4.1	4.7	5.5	5.0	5.0	4.1	4.1	3.4	3.8	4.3	4.3
Euro area	8.6	5.2	4.1	4.7	5.4	5.0	4.9	4.2	4.1	3.4	3.8	4.3	4.1
Bulgaria	:	:	5.6	:	:	:	8.3	6.5	5.4	3.9	4.2	4.5	5.3
Czech Republic	:	:	4.2	:	:	6.3	4.9	4.1	4.8	3.5	3.8	4.3	4.6
Denmark	7.9	5.4	4.2	4.9	5.6	5.1	5.1	4.3	4.3	3.4	3.8	4.3	4.4
Estonia	:	:	5.4	11.4	10.5	10.2	8.4	5.3	4.4	4.2	5.0	6.1	7.9
Latvia	:	:	4.6	:	:	7.6	5.4	4.9	4.9	3.9	4.1	5.3	6.1
Lithuania	:	:	4.7	:	:	8.2	6.1	5.3	4.5	3.7	4.1	4.6	5.1
Hungary	:	:	7.2	9.9	8.6	8.0	7.1	6.8	8.2	6.6	7.1	6.7	8.4
Poland	:	:	6.1	9.5	11.8	10.7	7.4	5.8	6.9	5.2	5.2	5.5	6.1
Romania	:	:	:	:	:	:	:	:	:	:	7.2	*7.1*	7.7
Sweden	9.3	5.4	4.3	5.0	5.4	5.1	5.3	*4.6*	4.4	*3.4*	3.7	*4.2*	4.0
United Kingdom	8.2	5.6	4.7	5.0	5.3	5.0	4.9	*4.6*	4.9	*4.5*	4.4	*5.1*	4.6
EU	:	:	:	:	:	:	:	:	:	:	4.1	*4.6*	4.5
USA	6.7	5.7	4.4	5.6	6.0	5.0	4.6	*4.0*	4.3	*4.3*	4.8	*4.6*	3.8
Japan	4.0	1.7	1.4	1.8	1.8	1.3	1.3	*1.0*	1.5	*1.4*	1.7	*1.7*	1.5

TABLE 35 : Total expenditure, general government (as a percentage of GDP, 1992-2010) [1] 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	IV-2008	X-2008	IV-2008	X-2008	IV-2008	X-2008
Belgium	52.8	50.0	50.1	49.3	51.9	48.4	48.3	49.0	48.7	49.3	49.8	:	50.2
Germany	47.8	47.4	47.2	47.1	46.8	45.3	44.1	43.3	43.3	43.0	43.8	:	43.6
Ireland	39.4	34.0	33.6	33.7	33.7	33.8	35.4	38.1	40.1	38.5	42.1	:	42.8
Greece	44.3	45.6	44.1	45.5	43.1	41.9	43.4	42.4	43.2	42.4	43.4	:	43.5
Spain	44.6	40.0	38.6	38.9	38.4	38.5	38.8	39.7	39.9	40.2	41.0	:	41.3
France	53.3	52.5	53.0	53.2	53.3	52.7	52.4	52.5	52.5	52.5	53.3	:	53.6
Italy	53.2	48.3	48.0	47.7	48.1	48.8	48.2	48.7	48.9	48.7	48.8	:	48.7
Cyprus	:	:	43.0	42.8	43.6	43.4	43.0	43.9	44.6	43.8	44.9	:	44.9
Luxembourg	:	39.3	41.2	42.5	41.6	38.6	37.8	38.8	39.8	39.4	42.5	:	43.0
Malta	:	42.6	44.9	45.4	44.7	43.6	42.4	42.5	44.5	41.8	43.6	:	44.2
Netherlands	52.0	45.9	45.9	46.1	44.8	45.6	45.3	45.9	45.9	45.7	46.6	:	47.4
Austria	53.5	52.9	51.0	53.9	49.7	49.2	48.3	47.7	48.3	47.5	49.0	:	49.3
Portugal	41.4	43.3	46.0	46.5	47.7	46.3	45.7	45.7	46.2	45.9	45.6	:	45.9
Slovenia	:	46.5	45.7	45.8	45.3	44.5	42.4	43.3	42.4	42.5	42.4	:	42.0
Slovakia	:	47.6	39.6	37.7	38.1	37.1	34.6	36.3	34.3	36.1	34.3	:	34.2
Finland	59.9	51.3	49.5	50.0	50.2	48.8	47.3	47.5	47.1	47.4	47.7	:	48.0
Euro area	50.1	47.7	47.4	47.5	47.3	46.6	46.1	46.2	46.3	46.1	46.9	:	46.9
Bulgaria	:	:	39.1	39.7	39.3	36.5	41.5	37.7	38.1	37.7	38.1	:	38.2
Czech Republic	:	43.0	45.5	45.2	45.0	43.9	42.6	42.2	42.0	41.8	41.8	:	41.3
Denmark	59.0	55.1	53.4	54.4	52.5	51.1	50.8	51.0	50.9	50.8	51.4	:	51.9
Estonia	:	37.7	34.6	34.1	34.0	34.2	35.5	36.1	39.4	36.5	40.7	:	41.1
Latvia	:	38.0	35.9	35.8	35.6	37.9	37.7	38.2	39.5	38.5	42.3	:	42.0
Lithuania	:	41.3	33.6	33.3	33.3	33.6	35.2	36.4	36.6	36.7	38.2	:	39.6
Hungary	:	48.9	50.3	49.0	50.1	51.9	49.8	49.1	48.9	48.4	49.0	:	49.1
Poland	:	43.7	43.7	42.6	43.3	43.8	42.0	42.6	41.7	42.3	42.5	:	42.3
Romania	:	:	35.1	33.6	33.5	35.3	37.3	38.5	38.3	39.9	39.0	:	38.9
Sweden	64.6	57.9	55.5	55.3	55.0	54.2	52.6	52.8	53.6	52.6	54.9	:	55.0
United Kingdom	42.2	39.1	42.9	42.9	44.1	44.2	44.4	44.1	45.8	44.3	47.2	:	48.2
EU	:	46.7	46.8	46.8	46.8	46.3	45.8	45.8	46.2	45.8	46.9	:	47.1
USA	36.5	34.8	36.5	36.4	36.6	36.5	37.4	36.7	36.8	37.7	38.8	:	40.5
Japan	:	38.9	37.7	37.0	38.4	36.0	:	38.7	39.0	40.0	40.2	:	41.4

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 36 : Total revenue, general government (as a percentage of GDP, 1992-2010) [1]

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	IV-2008	X-2008	IV-2008	X-2008	IV-2008	X-2008
Belgium	47.4	49.4	49.6	49.1	49.4	48.7	48.1	48.7	48.2	48.6	48.3	:	48.4
Germany	44.8	45.9	43.9	43.3	43.5	43.8	43.9	42.8	43.4	42.7	43.6	:	43.1
Ireland	37.7	36.4	34.9	35.1	35.4	36.8	35.7	36.7	34.7	36.8	35.3	:	35.6
Greece	34.5	41.4	38.9	38.0	38.1	39.1	40.0	40.4	40.7	40.4	41.2	:	40.5
Spain	39.1	38.1	39.0	38.5	39.4	40.5	41.0	40.3	38.3	40.2	38.1	:	38.1
France	48.4	50.4	49.8	49.6	50.4	50.3	49.7	49.6	49.5	49.5	49.7	:	49.7
Italy	44.9	46.1	44.5	44.2	43.8	45.4	46.6	46.4	46.4	46.4	46.2	:	46.6
Cyprus	:	:	39.3	38.7	41.2	42.2	46.5	45.6	45.6	45.7	45.6	:	45.6
Luxembourg	:	43.8	41.7	41.3	41.5	39.9	41.0	41.2	42.5	41.7	43.8	:	43.5
Malta	:	35.0	39.9	40.7	41.8	41.3	40.6	40.9	40.7	40.9	40.9	:	41.7
Netherlands	48.7	46.0	44.6	44.3	44.5	46.2	45.6	47.3	47.1	47.6	47.1	:	47.5
Austria	49.4	51.2	49.1	49.5	48.2	47.7	47.9	47.0	47.7	46.8	47.8	:	47.9
Portugal	36.7	40.0	42.2	43.1	41.6	42.3	43.2	43.6	44.0	43.3	42.8	:	42.6
Slovenia	:	43.5	43.7	43.6	43.8	43.3	42.9	42.7	42.2	41.9	41.6	:	41.4
Slovakia	:	40.1	35.7	35.4	35.3	33.5	32.7	34.3	32.0	33.8	32.0	:	31.7
Finland	54.0	54.1	52.7	52.4	53.1	52.9	52.6	52.4	52.3	52.0	51.3	:	50.5
Euro area	45.1	46.0	44.9	44.6	44.8	45.3	45.5	45.1	45.0	45.1	45.0	:	44.9
Bulgaria	:	:	40.4	41.3	41.2	39.5	41.6	40.9	41.4	40.9	41.0	:	41.1
Czech Republic	:	38.6	41.0	42.2	41.4	41.2	41.6	40.7	40.8	40.7	40.5	:	39.9
Denmark	56.5	56.1	56.0	56.4	57.7	56.2	55.2	54.8	54.0	53.7	52.4	:	52.2
Estonia	:	37.3	36.2	35.7	35.5	37.1	38.2	36.5	38.0	35.8	38.5	:	38.3
Latvia	:	36.5	34.8	34.7	35.2	37.7	37.7	37.2	37.3	36.4	36.7	:	35.8
Lithuania	:	36.4	32.5	31.8	32.8	33.1	33.9	34.7	33.9	35.1	34.6	:	35.6
Hungary	:	43.7	42.4	42.6	42.3	42.6	44.9	45.1	45.5	44.8	45.6	:	45.8
Poland	:	39.8	38.7	36.9	39.0	40.0	40.0	40.1	39.4	39.7	40.0	:	39.9
Romania	:	:	33.5	32.4	32.3	33.1	34.7	35.6	34.9	36.2	34.9	:	35.1
Sweden	56.9	59.1	56.2	56.1	57.3	56.5	56.2	55.5	56.2	55.0	55.4	:	54.6
United Kingdom	36.2	39.7	39.9	39.5	40.7	41.5	41.6	40.8	41.6	41.0	41.6	:	41.7
EU	:	45.4	44.3	44.0	44.4	44.9	44.9	44.6	44.6	44.5	44.6	:	44.4
USA	32.4	35.2	32.9	32.2	33.5	34.4	34.6	31.6	31.6	31.9	31.6	:	31.5
Japan	:	31.6	31.7	30.9	31.7	34.6	:	36.8	37.1	37.2	37.7	:	37.8

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 37 : Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1992-2010) [1] 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	-5.4	-0.6	-0.5	-0.2	-2.6	0.3	-0.3	*-0.4*	-0.5	*-0.6*	-1.4	*:*	-1.8
Germany	-3.0	-1.6	-3.3	-3.8	-3.3	-1.5	-0.2	*-0.5*	0.0	*-0.2*	-0.2	*:*	-0.5
Ireland	-1.7	2.4	1.2	1.4	1.7	3.0	0.2	*-1.4*	-5.5	*-1.7*	-6.8	*:*	-7.2
Greece	-9.8	-4.2	-5.2	-7.5	-5.1	-2.8	-3.5	*-2.0*	-2.5	*-2.0*	-2.2	*:*	-3.0
Spain	-5.6	-1.9	0.4	-0.3	1.0	2.0	2.2	*0.6*	-1.6	*0.0*	-2.9	*:*	-3.2
France	-4.9	-2.1	-3.2	-3.6	-2.9	-2.4	-2.7	*-2.9*	-3.0	*-3.0*	-3.5	*:*	-3.8
Italy	-8.3	-2.2	-3.5	-3.5	-4.3	-3.4	-1.6	*-2.3*	-2.5	*-2.4*	-2.6	*:*	-2.1
Cyprus	:	:	-3.7	-4.1	-2.4	-1.2	3.5	*1.7*	1.0	*1.8*	0.7	*:*	0.6
Luxembourg	1.6	4.5	0.5	-1.2	-0.1	1.3	3.2	*2.4*	2.7	*2.3*	1.3	*:*	0.5
Malta	:	-7.6	-5.0	-4.7	-2.8	-2.3	-1.8	*-1.6*	-3.8	*-1.0*	-2.7	*:*	-2.5
Netherlands	-3.3	0.0	-1.3	-1.7	-0.3	0.6	0.3	*1.4*	1.2	*1.8*	0.5	*:*	0.1
Austria	-4.1	-1.6	-1.9	-4.4	-1.5	-1.5	-0.4	*-0.7*	-0.6	*-0.6*	-1.2	*:*	-1.4
Portugal	-4.7	-3.4	-3.8	-3.4	-6.1	-3.9	-2.6	*-2.2*	-2.2	*-2.6*	-2.8	*:*	-3.3
Slovenia	:	-2.9	-2.0	-2.2	-1.4	-1.2	0.5	*-0.6*	-0.2	*-0.6*	-0.7	*:*	-0.5
Slovakia	:	-7.6	-3.9	-2.3	-2.8	-3.5	-1.9	*-2.0*	-2.3	*-2.3*	-2.2	*:*	-2.5
Finland	-5.8	2.8	3.2	2.4	2.9	4.1	5.3	*4.9*	5.1	*4.6*	3.6	*:*	2.4
Euro area	-5.0	-1.6	-2.5	-2.9	-2.5	-1.3	-0.6	*-1.0*	-1.3	*-1.1*	-1.8	*:*	-2.0
Bulgaria	:	1.4	1.1	1.6	1.9	3.0	0.1	*3.2*	3.3	*3.2*	2.9	*:*	2.9
Czech Republic	:	-4.4	-4.5	-3.0	-3.6	-2.7	-1.0	*-1.4*	-1.2	*-1.1*	-1.3	*:*	-1.4
Denmark	-2.5	0.9	2.5	2.0	5.2	5.2	4.5	*3.9*	3.1	*2.9*	1.1	*:*	0.4
Estonia	:	-0.5	1.6	1.7	1.5	2.9	2.7	*0.4*	-1.4	*-0.7*	-2.2	*:*	-2.8
Latvia	:	-1.5	-1.1	-1.0	-0.4	-0.2	0.1	*-1.1*	-2.3	*-2.1*	-5.6	*:*	-6.2
Lithuania	:	-4.9	-1.1	-1.5	-0.5	-0.4	-1.2	*-1.7*	-2.7	*-1.5*	-3.6	*:*	-4.0
Hungary	:	-5.3	-7.9	-6.4	-7.8	-9.3	-5.0	*-4.0*	-3.4	*-3.6*	-3.3	*:*	-3.3
Poland	:	-3.9	-5.0	-5.7	-4.3	-3.8	-2.0	*-2.5*	-2.3	*-2.6*	-2.5	*:*	-2.4
Romania	:	:	-1.6	-1.2	-1.2	-2.2	-2.6	*-2.9*	-3.4	*-3.7*	-4.1	*:*	-3.8
Sweden	-7.7	1.2	0.7	0.8	2.4	2.3	3.6	*2.7*	2.6	*2.3*	0.5	*:*	-0.4
United Kingdom	-6.1	0.6	-3.0	-3.4	-3.4	-2.7	-2.8	*-3.3*	-4.2	*-3.3*	-5.6	*:*	-6.5
EU	:	-1.4	-2.5	-2.9	-2.4	-1.4	-0.9	*-1.2*	-1.6	*-1.3*	-2.3	*:*	-2.6
USA	-4.2	0.4	-3.6	-4.3	-3.1	-2.1	-2.8	*-5.0*	-5.3	*-5.9*	-7.2	*:*	-9.0
Japan	-2.5	-7.3	-6.0	-6.2	-6.7	-1.4	-2.2	*-1.9*	-1.9	*-2.7*	-2.6	*:*	-3.5

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 38 : Interest expenditure, general government (as a percentage of GDP, 1992-2010) [1]

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	9.5	7.0	4.8	4.7	4.2	3.9	3.8	*3.7*	3.7	*3.6*	3.7	*:*	3.6
Germany	3.3	3.2	2.9	2.8	2.8	2.8	2.8	*2.6*	2.7	*2.6*	2.7	*:*	2.6
Ireland	5.6	2.7	1.1	1.1	1.0	0.9	1.0	*1.0*	1.1	*1.1*	1.6	*:*	1.9
Greece	11.5	7.9	4.8	4.9	4.4	4.1	4.1	*3.9*	4.0	*3.9*	4.0	*:*	4.1
Spain	4.8	3.7	2.1	2.0	1.8	1.6	1.6	*1.5*	1.6	*1.5*	1.6	*:*	1.6
France	3.4	3.1	2.7	2.7	2.6	2.5	2.7	*2.8*	2.9	*2.7*	2.9	*:*	2.8
Italy	11.3	7.3	4.9	4.7	4.6	4.6	5.0	*4.9*	5.1	*4.9*	4.9	*:*	4.9
Cyprus	:	:	3.3	3.3	3.5	3.3	3.1	*2.9*	2.9	*2.7*	2.6	*:*	2.5
Luxembourg	0.3	0.4	0.2	0.2	0.2	0.2	0.3	*0.2*	0.3	*0.2*	0.6	*:*	0.6
Malta	:	3.3	3.6	3.6	3.7	3.5	3.4	*3.2*	3.4	*3.0*	3.4	*:*	3.3
Netherlands	5.7	4.1	2.5	2.5	2.3	2.2	2.2	*2.0*	2.2	*1.9*	2.3	*:*	2.3
Austria	4.0	3.5	2.9	2.9	2.9	2.7	2.7	*2.6*	2.6	*2.6*	2.6	*:*	2.6
Portugal	5.8	3.2	2.7	2.6	2.6	2.7	2.8	*2.8*	2.9	*2.7*	2.9	*:*	3.0
Slovenia	:	2.3	1.8	1.7	1.6	1.4	1.3	*1.2*	1.2	*1.1*	1.1	*:*	1.0
Slovakia	:	3.3	2.3	2.2	1.7	1.5	1.4	*1.4*	1.4	*1.4*	1.3	*:*	1.3
Finland	4.0	3.2	1.7	1.6	1.5	1.4	1.4	*1.4*	1.4	*1.3*	1.4	*:*	1.3
Euro area	5.6	4.3	3.1	3.1	2.9	2.9	3.0	*2.9*	3.0	*2.8*	2.9	*:*	2.9
Bulgaria	:	4.8	1.8	1.8	1.7	1.4	1.0	*0.9*	0.9	*0.8*	0.8	*:*	0.7
Czech Republic	:	1.0	1.2	1.2	1.2	1.1	1.2	*1.1*	1.2	*1.1*	1.2	*:*	1.1
Denmark	6.4	4.1	2.3	2.3	1.8	1.6	1.5	*1.4*	1.4	*1.2*	1.2	*:*	1.2
Estonia	:	0.3	0.2	0.2	0.2	0.2	0.2	*0.1*	0.2	*0.1*	0.2	*:*	0.2
Latvia	:	0.8	0.6	0.7	0.6	0.5	0.5	*0.5*	0.5	*0.6*	0.8	*:*	1.2
Lithuania	:	1.3	1.0	0.9	0.8	0.7	0.7	*0.7*	0.7	*0.7*	0.8	*:*	0.9
Hungary	:	6.8	4.1	4.4	4.1	3.9	4.1	*4.2*	4.0	*4.1*	4.2	*:*	4.2
Poland	:	3.5	2.8	2.8	2.8	2.7	2.4	*2.7*	2.5	*2.7*	2.7	*:*	2.8
Romania	:	:	1.5	1.4	1.1	0.8	0.8	*0.8*	0.9	*0.9*	1.0	*:*	1.1
Sweden	5.5	4.0	2.0	1.6	1.6	1.7	1.8	*1.8*	1.9	*1.7*	1.8	*:*	1.6
United Kingdom	3.1	3.0	2.0	2.0	2.1	2.0	2.2	*2.2*	2.3	*2.1*	2.5	*:*	2.6
EU	:	4.0	2.9	2.8	2.7	2.6	2.7	*2.7*	2.7	*2.6*	2.7	*:*	2.8
USA	4.7	3.8	2.7	2.6	2.7	2.8	2.9	*2.9*	2.9	*3.0*	3.1	*:*	3.3
Japan	3.6	3.4	2.6	2.5	2.4	2.4	2.8	*2.7*	2.8	*3.0*	3.1	*:*	3.3

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 39 : Primary balance, general government (as a percentage of GDP, 1992-2010) [1] [2] 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	4.2	6.4	4.3	4.5	1.6	4.3	3.5	*3.3*	3.2	*2.9*	2.3	*:*	1.9
Germany	0.3	1.7	-0.4	-1.0	-0.5	1.3	2.6	*2.2*	2.7	*2.3*	2.5	*:*	2.1
Ireland	4.0	5.0	2.4	2.5	2.7	3.9	1.2	*-0.3*	-4.4	*-0.6*	-5.2	*:*	-5.3
Greece	1.7	3.7	-0.4	-2.6	-0.7	1.3	0.6	*2.0*	1.5	*1.9*	1.8	*:*	1.0
Spain	-0.8	1.8	2.5	1.7	2.8	3.7	3.8	*2.2*	0.0	*1.6*	-1.3	*:*	-1.6
France	-1.5	1.0	-0.5	-0.9	-0.3	0.2	0.1	*-0.1*	-0.2	*-0.3*	-0.7	*:*	-1.0
Italy	3.0	5.1	1.4	1.2	0.3	1.3	3.4	*2.6*	2.6	*2.5*	2.3	*:*	2.8
Cyprus	:	:	-0.4	-0.8	1.1	2.1	6.5	*4.6*	3.9	*4.6*	3.3	*:*	3.1
Luxembourg	1.9	4.9	0.7	-1.0	0.1	1.5	3.5	*2.6*	3.0	*2.5*	1.9	*:*	1.1
Malta	:	-4.3	-1.5	-1.1	0.9	1.2	1.6	*1.7*	-0.4	*2.1*	0.7	*:*	0.8
Netherlands	2.4	4.1	1.1	0.7	2.1	2.8	2.6	*3.4*	3.4	*3.7*	2.9	*:*	2.4
Austria	-0.1	1.9	1.0	-1.5	1.4	1.2	2.3	*1.9*	2.0	*2.0*	1.4	*:*	1.2
Portugal	1.1	-0.1	-1.1	-0.7	-3.5	-1.2	0.2	*0.6*	0.8	*0.1*	0.0	*:*	-0.3
Slovenia	:	-0.6	-0.2	-0.5	0.1	0.2	1.8	*0.6*	0.9	*0.5*	0.3	*:*	0.4
Slovakia	:	-4.3	-1.6	-0.1	-1.1	-2.1	-0.6	*-0.6*	-0.9	*-1.0*	-0.9	*:*	-1.2
Finland	-1.8	6.0	4.9	3.9	4.4	5.5	6.8	*6.3*	6.6	*5.9*	5.0	*:*	3.8
Euro area	0.6	2.6	0.7	0.2	0.4	1.6	2.3	*1.9*	1.6	*1.8*	1.1	*:*	0.9
Bulgaria	:	6.2	2.9	3.4	3.6	4.4	1.1	*4.1*	4.1	*4.0*	3.7	*:*	3.6
Czech Republic	:	-3.4	-3.3	-1.8	-2.4	-1.6	0.2	*-0.3*	0.1	*0.0*	-0.1	*:*	-0.2
Denmark	3.9	5.0	4.8	4.3	7.0	6.8	6.0	*5.3*	4.4	*4.1*	2.3	*:*	1.5
Estonia	:	-0.2	1.8	1.9	1.7	3.1	2.9	*0.5*	-1.3	*-0.6*	-2.0	*:*	-2.6
Latvia	:	-0.7	-0.5	-0.3	0.2	0.3	0.5	*-0.5*	-1.7	*-1.5*	-4.8	*:*	-5.0
Lithuania	:	-3.6	-0.1	-0.6	0.3	0.3	-0.5	*-0.9*	-2.1	*-0.8*	-2.8	*:*	-3.1
Hungary	:	1.6	-3.8	-2.0	-3.7	-5.4	-0.9	*0.2*	0.6	*0.5*	0.8	*:*	0.9
Poland	:	-0.3	-2.2	-2.9	-1.5	-1.1	0.5	*0.2*	0.2	*0.1*	0.2	*:*	0.4
Romania	:	:	-0.2	0.2	-0.1	-1.4	-1.8	*-2.1*	-2.5	*-2.9*	-3.1	*:*	-2.7
Sweden	-2.2	5.3	2.6	2.4	4.0	4.0	5.4	*4.4*	4.5	*4.0*	2.2	*:*	1.2
United Kingdom	-2.9	3.5	-1.0	-1.5	-1.3	-0.6	-0.6	*-1.2*	-1.9	*-1.1*	-3.2	*:*	-3.9
EU	:	2.7	0.4	-0.1	0.3	1.2	1.8	*1.4*	1.1	*1.3*	0.4	*:*	0.1
USA	0.5	4.3	-0.9	-1.7	-0.4	0.7	0.2	*-2.2*	-2.3	*-2.9*	-4.1	*:*	-5.7
Japan	1.1	-3.9	-3.4	-3.6	-4.3	1.0	0.6	*0.8*	0.9	*0.3*	0.5	*:*	-0.2

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

[2] Net lending/borrowing excluding interest expenditure.

TABLE 40 : Cyclically adjusted net lending (+) or net borrowing (-), general government (as a percentage of GDP, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	-4.8	-0.9	-0.6	-0.4	-2.7	-0.2	-1.1	*-0.2*	-0.8	*-0.1*	-0.9	*:*	-0.7
Germany	-3.1	-1.6	-2.8	-3.1	-2.5	-1.6	-0.8	*-0.9*	-0.8	*-0.7*	-0.3	*:*	-0.4
Ireland	-0.2	1.5	0.6	1.2	1.2	2.3	-0.9	*-0.8*	-4.9	*-0.9*	-5.3	*:*	-6.1
Greece	-9.2	-3.8	-5.5	-8.2	-5.4	-3.4	-4.3	*-2.5*	-3.2	*-2.3*	-2.5	*:*	-3.1
Spain	-4.6	-2.0	0.3	-0.3	1.0	1.9	2.0	*1.1*	-1.5	*0.9*	-2.0	*:*	-1.9
France	-4.1	-2.3	-3.4	-3.8	-3.1	-2.7	-3.1	*-2.7*	-3.2	*-2.6*	-3.0	*:*	-3.0
Italy	-7.5	-2.2	-3.6	-3.6	-4.2	-3.5	-1.8	*-1.8*	-2.3	*-1.6*	-1.9	*:*	-1.2
Cyprus	:	:	-3.6	-3.8	-2.0	-0.9	3.5	*1.9*	0.9	*2.0*	0.8	*:*	0.8
Luxembourg	:	4.4	0.6	-0.8	0.2	0.9	2.3	*2.7*	2.4	*2.9*	2.1	*:*	1.8
Malta	:	-8.2	-4.4	-3.5	-2.1	-1.8	-2.0	*-1.6*	-4.0	*-1.0*	-2.8	*:*	-2.5
Netherlands	-2.7	-0.8	-0.6	-0.8	0.6	0.7	-0.4	*1.0*	0.4	*1.6*	0.5	*:*	0.6
Austria	-4.0	-1.8	-1.6	-3.7	-1.2	-1.8	-1.1	*-1.2*	-1.2	*-0.9*	-1.2	*:*	-1.2
Portugal	-4.0	-4.0	-3.5	-2.9	-5.6	-3.5	-2.6	*-1.8*	-1.9	*-2.2*	-2.2	*:*	-2.6
Slovenia	:	-3.1	-1.5	-1.5	-0.9	-1.3	-0.5	*-1.1*	-1.0	*-0.7*	-0.8	*:*	-0.3
Slovakia	:	-6.4	-3.2	-1.4	-2.0	-3.2	-2.7	*-2.8*	-3.1	*-3.1*	-2.5	*:*	-2.3
Finland	-3.1	1.8	3.5	2.8	3.5	4.0	4.6	*4.8*	4.7	*4.9*	3.9	*:*	3.0
Euro area	-4.4	-1.8	-2.4	-2.7	-2.2	-1.5	-1.2	*-1.0*	-1.6	*-0.8*	-1.4	*:*	-1.4
Bulgaria	:	:	0.6	1.0	1.3	2.4	-0.4	*2.9*	2.8	*3.2*	3.0	*:*	3.3
Czech Republic	:	-3.7	-4.0	-2.0	-3.4	-3.3	-2.0	*-1.9*	-2.0	*-1.5*	-1.7	*:*	-1.5
Denmark	-1.5	0.1	2.6	2.5	5.3	4.1	3.7	*4.0*	3.0	*3.6*	1.9	*:*	1.5
Estonia	:	0.1	0.8	1.3	0.4	0.7	0.4	*0.6*	-1.7	*0.2*	-1.0	*:*	-1.2
Latvia	:	-1.2	-1.4	-1.0	-1.0	-2.0	-2.7	*-1.3*	-3.3	*-1.1*	-4.8	*:*	-4.8
Lithuania	:	-4.1	-1.7	-2.2	-1.4	-1.5	-2.9	*-2.0*	-3.9	*-1.3*	-3.6	*:*	-3.0
Hungary	:	-4.8	-8.1	-6.6	-8.3	-10.5	-5.7	*-3.6*	-3.9	*-3.3*	-3.4	*:*	-3.3
Poland	:	-4.1	-4.8	-5.7	-4.0	-3.9	-2.6	*-2.7*	-2.9	*-2.3*	-2.5	*:*	-2.0
Romania	:	:	-1.5	-1.5	-1.3	-3.2	-3.5	*-3.7*	-5.0	*-4.1*	-5.2	*:*	-4.7
Sweden	-5.8	1.4	0.5	0.7	1.9	1.2	2.7	*2.5*	2.4	*2.5*	1.2	*:*	0.3
United Kingdom	-5.4	0.3	-3.2	-3.7	-3.6	-3.0	-3.5	*-3.2*	-4.6	*-2.8*	-5.0	*:*	-5.4
EU	:	-1.5	-2.4	-2.7	-2.3	-1.7	-1.5	*-1.2*	-2.0	*-1.1*	-1.9	*:*	-2.0

TABLE 41 : Cyclically adjusted primary balance, general government (as a percentage of GDP, 1992-2010) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	4.7	6.1	4.2	4.3	1.5	3.7	2.8	*3.4*	2.9	*3.4*	2.9	*:*	2.9
Germany	0.2	1.6	0.0	-0.2	0.2	1.2	1.9	*1.7*	1.9	*1.9*	2.4	*:*	2.2
Ireland	5.4	4.1	1.8	2.3	2.2	3.2	0.0	*0.2*	-3.8	*0.2*	-3.6	*:*	-4.2
Greece	2.2	4.1	-0.7	-3.3	-1.1	0.7	-0.2	*1.5*	0.8	*1.6*	1.5	*:*	1.0
Spain	0.2	1.7	2.4	1.7	2.8	3.5	3.6	*2.7*	0.1	*2.5*	-0.4	*:*	-0.3
France	-0.7	0.9	-0.7	-1.0	-0.5	-0.2	-0.4	*0.1*	-0.3	*0.1*	-0.1	*:*	-0.2
Italy	3.8	5.1	1.4	1.2	0.4	1.1	3.2	*3.2*	2.7	*3.3*	3.0	*:*	3.7
Cyprus	:	:	-0.3	-0.5	1.5	2.4	6.5	*4.8*	3.8	*4.8*	3.4	*:*	3.3
Luxembourg	:	4.8	0.8	-0.6	0.4	1.1	2.5	*2.9*	2.6	*3.1*	2.7	*:*	2.4
Malta	:	-4.9	-0.8	0.1	1.6	1.7	1.3	*1.7*	-0.6	*2.1*	0.6	*:*	0.8
Netherlands	3.0	3.3	1.8	1.7	2.9	2.9	1.9	*3.0*	2.6	*3.5*	2.9	*:*	2.9
Austria	0.0	1.7	1.4	-0.9	1.7	0.9	1.6	*1.5*	1.4	*1.7*	1.4	*:*	1.4
Portugal	1.7	-0.8	-0.8	-0.3	-3.0	-0.8	0.2	*1.0*	1.0	*0.6*	0.6	*:*	0.4
Slovenia	:	-0.7	0.2	0.2	0.7	0.1	0.8	*0.1*	0.2	*0.4*	0.3	*:*	0.7
Slovakia	:	-3.2	-0.9	0.8	-0.3	-1.8	-1.3	*-1.4*	-1.7	*-1.7*	-1.1	*:*	-1.0
Finland	0.9	5.0	5.2	4.4	5.0	5.4	6.0	*6.2*	6.1	*6.1*	5.2	*:*	4.3
Euro area	1.2	2.5	0.8	0.4	0.7	1.4	1.8	*1.9*	1.3	*2.0*	1.5	*:*	1.5
Bulgaria	:	:	2.4	2.8	3.0	3.8	0.6	*3.8*	3.6	*4.0*	3.7	*:*	4.0
Czech Republic	:	-2.7	-2.8	-0.8	-2.2	-2.2	-0.9	*-0.8*	-0.8	*-0.4*	-0.5	*:*	-0.3
Denmark	4.9	4.2	4.9	4.8	7.1	5.7	5.2	*5.5*	4.4	*4.8*	3.1	*:*	2.6
Estonia	:	0.4	1.0	1.6	0.6	0.9	0.5	*0.7*	-1.6	*0.3*	-0.8	*:*	-0.9
Latvia	:	-0.3	-0.8	-0.2	-0.4	-1.5	-2.2	*-0.8*	-2.8	*-0.6*	-4.0	*:*	-3.6
Lithuania	:	-2.7	-0.7	-1.3	-0.6	-0.8	-2.2	*-1.3*	-3.2	*-0.6*	-2.9	*:*	-2.1
Hungary	:	2.1	-4.0	-2.2	-4.2	-6.6	-1.6	*0.5*	0.1	*0.8*	0.8	*:*	0.9
Poland	:	-0.5	-1.9	-3.0	-1.3	-1.2	-0.2	*0.0*	-0.3	*0.3*	0.2	*:*	0.8
Romania	:	:	0.0	-0.1	-0.3	-2.4	-2.7	*-2.9*	-4.1	*-3.2*	-4.2	*:*	-3.6
Sweden	-0.3	5.4	2.5	2.3	3.6	2.9	4.5	*4.3*	4.3	*4.2*	2.9	*:*	1.9
United Kingdom	-2.3	3.3	-1.2	-1.8	-1.4	-1.0	-1.3	*-1.1*	-2.3	*-0.7*	-2.6	*:*	-2.8
EU	:	2.5	0.4	0.1	0.4	0.9	1.2	*1.4*	0.8	*1.5*	0.8	*:*	0.8

TABLE 42 : Gross debt, general government (as a percentage of GDP, 2001-2010)

								2008		2009		2010	
	2001	2002	2003	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	106.5	103.4	98.6	94.3	92.1	87.8	83.9	*81.9*	86.5	*79.9*	86.1	*:*	85.6
Germany	58.8	60.3	63.8	65.6	67.8	67.6	65.1	*63.1*	64.3	*61.6*	63.2	*:*	61.9
Ireland	35.5	32.2	31.1	29.4	27.3	24.7	24.8	*26.9*	31.6	*28.8*	39.2	*:*	46.2
Greece	102.9	101.5	97.8	98.6	98.8	95.9	94.8	*92.4*	93.4	*90.2*	92.2	*:*	91.9
Spain	55.5	52.5	48.7	46.2	43.0	39.6	36.2	*35.3*	37.5	*35.2*	41.1	*:*	44.4
France	56.2	58.2	62.9	64.9	66.4	63.6	63.9	*64.4*	65.4	*65.1*	67.7	*:*	69.9
Italy	108.8	105.7	104.4	103.8	105.9	106.9	104.1	*103.2*	104.1	*102.6*	104.3	*:*	103.8
Cyprus	60.7	64.6	68.9	70.2	69.1	64.6	59.5	*47.3*	48.2	*43.2*	44.7	*:*	41.3
Luxembourg	6.5	6.5	6.2	6.3	6.1	6.6	7.0	*7.4*	14.1	*7.6*	14.6	*:*	14.5
Malta	62.1	60.1	69.3	72.1	69.9	63.9	62.2	*60.6*	63.1	*58.8*	63.2	*:*	63.1
Netherlands	50.7	50.5	52.0	52.4	51.8	47.4	45.7	*42.4*	48.2	*39.0*	47.0	*:*	45.9
Austria	67.0	66.4	65.4	64.8	63.7	62.0	59.5	*57.7*	57.4	*56.8*	57.1	*:*	56.9
Portugal	52.9	55.5	56.9	58.3	63.6	64.7	63.6	*64.1*	64.3	*64.3*	65.2	*:*	66.6
Slovenia	27.4	28.1	27.5	27.2	27.0	26.7	23.4	*23.4*	21.8	*22.5*	21.1	*:*	20.1
Slovakia	48.9	43.4	42.4	41.4	34.2	30.4	29.4	*29.2*	28.8	*29.7*	29.0	*:*	29.3
Finland	42.3	41.3	44.3	44.1	41.3	39.2	35.1	*31.9*	31.6	*29.1*	30.2	*:*	29.8
Euro area	68.0	67.8	69.1	69.5	70.0	68.3	66.1	*64.9*	66.6	*64.1*	67.2	*:*	67.6
Bulgaria	67.3	53.6	45.9	37.9	29.2	22.7	18.2	*14.1*	13.8	*10.8*	10.6	*:*	7.9
Czech Republic	25.1	28.5	30.1	30.4	29.8	29.6	28.9	*28.1*	26.6	*27.2*	26.4	*:*	26.3
Denmark	47.4	46.8	45.8	43.8	36.4	30.5	26.2	*21.7*	21.1	*18.4*	21.1	*:*	20.1
Estonia	4.8	5.6	5.5	5.0	4.5	4.3	3.5	*3.4*	4.2	*3.5*	5.0	*:*	6.1
Latvia	14.0	13.5	14.6	14.9	12.4	10.7	9.5	*10.0*	12.3	*11.2*	17.7	*:*	23.0
Lithuania	23.1	22.3	21.1	19.4	18.4	18.0	17.0	*17.0*	17.5	*16.8*	20.0	*:*	23.3
Hungary	52.1	55.8	58.1	59.4	61.7	65.6	65.8	*66.5*	65.4	*65.7*	66.0	*:*	66.2
Poland	37.6	42.2	47.1	45.7	47.1	47.7	44.9	*44.5*	43.9	*44.1*	43.6	*:*	43.1
Romania	26.0	25.0	21.5	18.8	15.8	12.4	12.9	*13.6*	13.4	*14.9*	15.4	*:*	17.1
Sweden	54.4	52.6	52.3	51.2	50.9	45.9	40.4	*35.5*	34.7	*31.9*	33.7	*:*	32.2
United Kingdom	37.7	37.5	38.7	40.6	42.3	43.4	44.2	*45.6*	50.1	*48.2*	55.1	*:*	60.3
EU	60.8	60.2	61.8	62.2	62.7	61.3	58.7	*58.9*	59.8	*58.4*	60.9	*:*	61.8

TABLE 43 : Gross national saving (as a percentage of GDP, 1992-2010) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	24.8	25.7	24.0	24.0	23.7	24.6	25.0	*24.7*	23.8	*24.6*	23.1	*:*	22.9
Germany	21.2	20.3	21.4	22.0	22.2	23.9	25.9	*25.7*	26.8	*25.8*	26.6	*:*	26.7
Ireland	18.6	23.8	23.5	24.0	24.0	24.8	21.8	*18.6*	16.9	*18.4*	14.9	*:*	15.3
Greece	19.3	15.1	10.8	12.3	10.3	10.2	8.6	*10.0*	8.0	*10.3*	7.3	*:*	6.9
Spain	20.6	22.3	22.5	22.4	22.0	21.9	21.1	*19.6*	20.0	*18.2*	19.5	*:*	19.1
France	18.9	21.1	19.1	19.0	18.5	19.1	19.3	*19.2*	18.9	*19.2*	18.3	*:*	18.2
Italy	20.6	21.3	20.0	20.3	19.6	19.6	19.7	*19.3*	18.8	*19.2*	19.1	*:*	18.9
Cyprus	:	13.8	14.9	15.2	14.1	14.9	12.6	*12.4*	11.1	*13.0*	10.9	*:*	10.9
Luxembourg	35.0	33.4	32.0	33.4	33.4	30.3	30.0	*26.2*	28.8	*26.6*	26.1	*:*	26.1
Malta	:	14.2	13.3	11.3	12.2	12.7	16.9	*14.6*	15.8	*14.8*	15.5	*:*	15.7
Netherlands	25.9	27.1	26.9	27.6	26.5	29.4	29.5	*28.8*	28.0	*29.6*	27.2	*:*	26.2
Austria	21.7	23.1	24.8	25.0	25.0	25.0	26.1	*26.1*	26.1	*26.3*	25.4	*:*	25.3
Portugal	20.3	18.4	14.6	15.3	12.8	11.7	12.1	*12.4*	10.6	*12.8*	10.9	*:*	11.0
Slovenia	23.4	24.4	25.1	24.8	25.3	26.3	27.4	*26.5*	26.8	*26.9*	26.6	*:*	26.9
Slovakia	:	23.9	20.1	19.7	20.2	20.4	22.8	*22.7*	22.1	*23.3*	22.9	*:*	24.2
Finland	18.0	26.9	26.4	26.6	25.7	26.8	28.6	*27.6*	27.7	*27.7*	26.6	*:*	26.4
Euro area	20.9	21.6	21.1	21.4	21.0	21.8	22.3	*21.9*	21.9	*21.8*	21.5	*:*	21.4
Bulgaria	:	:	15.8	17.3	16.5	13.1	14.3	*15.7*	14.7	*17.0*	16.2	*:*	17.1
Czech Republic	28.1	24.9	22.7	22.0	23.9	24.3	25.0	*24.6*	24.5	*25.0*	24.3	*:*	25.3
Denmark	19.9	22.0	23.8	23.4	24.5	25.2	24.6	*23.8*	23.9	*23.4*	22.8	*:*	22.7
Estonia	:	21.8	22.4	21.9	23.3	23.0	20.2	*24.1*	19.4	*24.3*	20.0	*:*	20.7
Latvia	31.2	16.6	20.0	20.2	21.9	17.2	14.3	*13.6*	16.7	*14.5*	18.2	*:*	20.3
Lithuania	:	13.8	15.7	15.2	16.8	16.0	15.4	*15.6*	14.3	*15.6*	15.8	*:*	14.5
Hungary	:	20.4	17.2	17.3	16.1	16.9	17.4	*18.8*	17.7	*19.8*	19.1	*:*	19.2
Poland	17.2	19.9	17.1	15.9	18.0	18.1	19.3	*20.8*	19.8	*21.4*	19.6	*:*	20.3
Romania	22.9	14.3	17.2	18.8	13.7	15.9	15.7	*16.1*	19.9	*17.6*	22.6	*:*	24.8
Sweden	17.8	21.9	23.8	23.1	23.4	26.7	28.1	*25.5*	24.3	*25.4*	23.3	*:*	23.6
United Kingdom	15.2	16.2	14.9	15.0	14.6	14.2	14.7	*15.8*	14.5	*15.9*	14.3	*:*	15.2
EU	:	20.9	20.0	20.2	19.9	20.5	21.0	*20.9*	20.6	*20.8*	20.3	*:*	20.4
USA	16.4	16.9	13.6	13.5	13.8	13.7	13.1	*12.5*	12.8	*13.1*	13.2	*:*	13.8
Japan	31.6	28.5	26.8	26.8	27.2	27.9	28.7	*28.6*	27.2	*28.8*	26.9	*:*	27.3

TABLE 44 : Gross saving, private sector (as a percentage of GDP, 1992-2010) [1]

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	28.0	23.8	22.4	22.6	21.9	22.5	23.1	*23.0*	22.2	*23.1*	22.6	*:*	22.7
Germany	20.8	19.6	22.1	23.3	23.1	23.2	23.5	*23.9*	24.4	*23.7*	24.5	*:*	25.0
Ireland	18.5	18.3	18.8	19.3	19.0	18.5	17.2	*15.0*	17.2	*15.0*	17.2	*:*	18.3
Greece	25.5	15.6	12.5	15.1	12.4	11.6	10.5	*10.4*	8.9	*10.8*	7.7	*:*	8.1
Spain	21.8	20.1	17.8	18.3	16.9	15.5	14.1	*14.2*	16.9	*13.3*	17.6	*:*	17.6
France	20.0	19.7	18.9	19.1	18.2	17.8	18.2	*18.4*	18.2	*18.5*	18.0	*:*	18.2
Italy	25.6	20.5	20.0	20.7	20.2	18.2	17.5	*17.7*	17.7	*17.7*	18.0	*:*	17.5
Cyprus	:	:	15.2	15.8	13.9	12.4	5.5	*7.5*	6.4	*8.0*	6.5	*:*	6.6
Luxembourg	:	24.4	25.8	28.9	27.7	23.9	21.9	*18.7*	20.8	*19.2*	19.0	*:*	19.7
Malta	:	17.9	15.0	13.5	13.7	13.8	16.1	*14.1*	17.1	*13.6*	15.9	*:*	16.0
Netherlands	26.4	24.1	24.9	26.2	23.7	25.8	25.9	*24.0*	23.2	*24.3*	23.0	*:*	22.3
Austria	21.1	21.2	23.0	22.9	23.4	23.5	23.6	*24.1*	23.9	*24.3*	24.0	*:*	24.0
Portugal	21.5	17.7	16.4	17.7	16.0	13.4	12.1	*12.4*	11.0	*12.9*	11.6	*:*	12.1
Slovenia	:	23.0	22.9	22.7	22.8	23.4	22.8	*23.2*	22.8	*23.6*	23.1	*:*	23.3
Slovakia	:	23.7	20.2	19.3	19.2	21.0	22.2	*21.8*	21.9	*22.7*	22.7	*:*	24.0
Finland	20.0	21.3	20.6	21.4	20.3	20.4	20.8	*20.2*	20.1	*20.6*	20.5	*:*	21.4
Euro area	22.3	20.2	20.4	21.1	20.3	19.8	19.6	*19.7*	19.9	*19.6*	20.1	*:*	20.2
Bulgaria	:	:	10.2	11.2	9.8	5.6	6.7	*8.4*	7.1	*9.4*	8.8	*:*	9.5
Czech Republic	:	21.5	19.8	18.0	20.4	20.7	20.7	*20.4*	20.2	*20.5*	20.1	*:*	21.1
Denmark	20.5	19.3	19.7	19.9	17.8	18.5	18.6	*17.8*	18.7	*18.7*	20.1	*:*	20.6
Estonia	:	17.8	16.5	16.7	18.1	15.5	12.3	*19.9*	15.4	*20.9*	16.7	*:*	17.9
Latvia	:	15.6	17.1	17.5	18.1	11.4	8.2	*9.5*	13.6	*10.9*	17.8	*:*	20.9
Lithuania	:	12.4	13.5	13.2	14.4	12.9	12.0	*13.0*	12.7	*13.3*	15.3	*:*	14.9
Hungary	:	19.9	19.6	19.4	19.2	20.9	17.8	*18.6*	17.2	*19.8*	18.9	*:*	19.2
Poland	:	19.6	17.9	17.6	18.4	17.5	16.8	*18.9*	18.2	*19.4*	17.8	*:*	18.1
Romania	:	:	13.6	15.4	10.4	11.6	11.5	*12.3*	16.3	*14.4*	19.6	*:*	21.2
Sweden	21.6	17.8	20.1	19.4	17.9	21.2	21.4	*19.6*	18.4	*19.8*	19.5	*:*	20.6
United Kingdom	18.6	14.5	15.6	16.2	15.8	14.4	15.0	*16.4*	15.7	*16.7*	17.1	*:*	18.6
EU	:	19.4	19.4	20.1	19.3	18.7	18.6	*18.8*	18.9	*18.9*	19.3	*:*	19.7
USA	18.4	14.3	14.7	15.3	14.4	13.5	13.2	*14.0*	14.6	*15.3*	16.7	*:*	19.0
Japan	26.6	27.7	28.5	29.4	28.6	27.8	29.2	*29.1*	27.9	*30.2*	28.5	*:*	30.1

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 45 : Gross saving, general government (as a percentage of GDP, 1992-2010) [1] 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	-3.2	1.9	1.6	1.4	1.8	2.1	1.9	*1.7*	1.6	*1.5*	0.5	*:*	0.2
Germany	0.4	0.7	-0.7	-1.3	-0.9	0.7	2.4	*1.8*	2.4	*2.0*	2.2	*:*	1.8
Ireland	0.0	5.4	4.6	4.7	4.9	6.3	4.6	*3.6*	-0.3	*3.4*	-2.3	*:*	-2.9
Greece	-6.2	-0.5	-1.7	-2.8	-2.1	-1.4	-2.0	*-0.4*	-0.9	*-0.4*	-0.4	*:*	-1.2
Spain	-1.1	2.1	4.7	4.0	5.1	6.4	7.0	*5.4*	3.1	*4.9*	1.8	*:*	1.5
France	-1.1	1.5	0.2	-0.1	0.3	1.3	1.1	*0.8*	0.7	*0.6*	0.3	*:*	-0.1
Italy	-5.0	0.8	-0.1	-0.4	-0.7	1.3	2.3	*1.6*	1.1	*1.5*	1.1	*:*	1.3
Cyprus	:	:	-0.3	-0.6	0.2	2.5	7.1	*4.9*	4.7	*5.0*	4.4	*:*	4.3
Luxembourg	:	9.0	6.2	4.5	5.7	6.4	8.1	*7.5*	7.9	*7.4*	7.0	*:*	6.4
Malta	:	-3.7	-1.7	-2.2	-1.5	-1.1	0.8	*0.5*	-1.3	*1.2*	-0.5	*:*	-0.4
Netherlands	-0.4	3.0	2.0	1.4	2.8	3.6	3.6	*4.8*	4.8	*5.3*	4.2	*:*	3.8
Austria	0.5	1.9	1.8	2.1	1.6	1.5	2.5	*2.0*	2.2	*2.1*	1.5	*:*	1.3
Portugal	-1.2	0.6	-1.8	-2.4	-3.2	-1.6	0.0	*0.0*	-0.5	*-0.1*	-0.7	*:*	-1.1
Slovenia	:	1.4	2.1	2.2	2.5	2.9	4.6	*3.3*	3.9	*3.2*	3.4	*:*	3.7
Slovakia	:	0.2	-0.2	0.4	1.0	-0.6	0.6	*0.9*	0.2	*0.5*	0.3	*:*	0.2
Finland	-2.0	5.7	5.8	5.2	5.4	6.3	7.8	*7.4*	7.7	*7.1*	6.1	*:*	5.0
Euro area	-1.4	1.4	0.7	0.3	0.7	2.0	2.7	*2.3*	2.0	*2.2*	1.5	*:*	1.2
Bulgaria	:	6.5	5.6	6.1	6.6	7.5	7.6	*7.3*	7.5	*7.6*	7.4	*:*	7.7
Czech Republic	:	3.3	2.9	4.0	3.5	3.6	4.3	*4.3*	4.2	*4.5*	4.1	*:*	4.3
Denmark	-0.6	2.6	4.1	3.5	6.6	6.7	6.0	*6.1*	5.2	*4.7*	2.7	*:*	2.1
Estonia	:	4.0	5.9	5.1	5.2	7.6	7.9	*4.2*	4.0	*3.3*	3.3	*:*	2.8
Latvia	:	1.0	2.9	2.7	3.9	5.8	6.1	*4.1*	3.1	*3.6*	0.4	*:*	-0.6
Lithuania	:	1.4	2.2	2.0	2.4	3.0	3.4	*2.6*	1.6	*2.3*	0.5	*:*	-0.4
Hungary	:	0.5	-2.4	-2.1	-3.2	-4.0	-0.4	*0.2*	0.5	*0.1*	0.1	*:*	0.0
Poland	:	0.3	-0.8	-1.7	-0.4	0.6	2.5	*1.9*	1.5	*2.0*	1.8	*:*	2.2
Romania	:	:	3.6	3.4	3.4	4.3	4.2	*3.8*	3.6	*3.2*	3.0	*:*	3.5
Sweden	-3.8	4.1	3.7	3.6	5.5	5.5	6.8	*5.9*	5.9	*5.6*	3.8	*:*	3.0
United Kingdom	-3.4	1.7	-0.8	-1.2	-1.1	-0.2	-0.3	*-0.7*	-1.2	*-0.8*	-2.7	*:*	-3.4
EU	:	1.6	0.6	0.2	0.6	1.8	2.4	*2.0*	1.7	*2.0*	1.0	*:*	0.7
USA	-2.0	2.6	-1.1	-1.8	-0.7	0.2	-0.1	*-1.5*	-1.8	*-2.2*	-3.5	*:*	-5.1
Japan	5.0	0.8	-1.7	-2.6	-1.4	0.1	-0.5	*-0.6*	-0.7	*-1.4*	-1.6	*:*	-2.8

[1] ESA 79 up to 1994, ESA 95 from 1995 onwards.

TABLE 46 : Exports of goods and services, volume (percentage change on preceding year, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	3.9	5.2	3.4	6.5	3.6	2.6	4.0	*3.9*	2.2	*3.6*	0.6	*:*	2.2
Germany	2.8	9.1	7.4	10.3	7.7	12.7	7.5	*5.6*	4.4	*4.7*	1.0	*:*	3.6
Ireland	14.2	16.9	4.8	7.5	5.2	5.7	6.8	*5.4*	2.1	*4.9*	1.2	*:*	3.1
Greece	4.2	11.2	4.5	13.9	4.2	10.9	3.1	*5.5*	4.2	*5.4*	3.1	*:*	3.3
Spain	10.3	8.9	3.8	4.2	2.5	6.7	4.9	*4.0*	3.4	*4.9*	2.3	*:*	2.8
France	5.2	8.1	2.5	4.0	3.1	5.4	3.1	*2.2*	2.2	*2.0*	0.9	*:*	2.4
Italy	7.7	4.3	1.4	4.9	1.0	6.2	5.0	*3.2*	0.3	*3.0*	-0.1	*:*	1.8
Cyprus	:	6.0	1.5	5.1	4.7	3.8	7.5	*3.8*	5.5	*4.1*	2.4	*:*	3.2
Luxembourg	4.4	10.7	8.1	11.2	6.0	14.6	4.4	*2.8*	3.3	*3.9*	-0.4	*:*	1.8
Malta	:	4.8	4.4	-0.9	1.2	17.1	-4.1	*0.8*	0.2	*0.8*	-0.3	*:*	0.1
Netherlands	5.8	8.3	4.7	7.9	6.0	7.3	6.5	*4.4*	4.0	*4.1*	1.3	*:*	3.0
Austria	2.9	9.1	5.9	10.1	7.0	7.5	8.8	*6.0*	3.6	*5.7*	1.7	*:*	4.1
Portugal	4.5	5.5	4.0	4.0	2.0	8.7	7.5	*4.6*	2.1	*4.2*	1.1	*:*	2.5
Slovenia	-2.1	7.9	9.0	12.4	10.6	12.5	13.8	*9.3*	6.2	*8.8*	4.8	*:*	7.5
Slovakia	:	10.8	12.6	7.4	13.9	21.0	16.2	*11.7*	10.0	*9.7*	5.9	*:*	6.2
Finland	10.7	10.6	5.6	8.6	7.0	11.8	8.2	*3.4*	4.6	*3.5*	2.7	*:*	3.3
Euro area	5.8	8.1	4.8	7.4	5.0	8.4	6.0	*4.5*	3.2	*4.1*	1.1	*:*	3.0
Bulgaria	:	5.5	9.2	12.7	8.5	8.7	5.2	*7.1*	6.5	*6.7*	4.6	*:*	5.6
Czech Republic	9.7	10.3	11.3	20.7	11.6	15.8	14.9	*11.1*	11.1	*13.2*	6.8	*:*	8.5
Denmark	3.4	7.2	4.6	2.8	8.3	9.0	1.9	*3.3*	2.4	*3.2*	1.7	*:*	2.4
Estonia	:	13.0	10.4	14.2	20.9	11.6	0.0	*3.5*	-3.3	*5.7*	1.7	*:*	2.9
Latvia	:	5.8	9.2	9.4	20.3	6.6	11.1	*8.6*	2.1	*8.8*	3.1	*:*	4.5
Lithuania	:	6.7	11.9	4.4	17.7	12.0	4.3	*9.4*	12.5	*7.2*	3.2	*:*	3.7
Hungary	11.7	16.3	10.9	15.0	11.3	18.6	15.9	*10.3*	7.7	*10.0*	1.3	*:*	6.8
Poland	12.2	9.7	11.0	14.0	8.0	14.6	8.4	*6.9*	6.1	*6.6*	3.9	*:*	5.6
Romania	10.4	10.8	11.5	13.9	7.7	10.4	8.7	*8.9*	9.2	*8.6*	6.4	*:*	7.2
Sweden	7.8	8.2	6.3	11.0	6.6	8.9	6.0	*5.1*	3.5	*4.3*	1.9	*:*	3.8
United Kingdom	7.2	5.4	5.3	4.8	8.1	11.0	-4.5	*5.0*	1.6	*5.4*	1.3	*:*	2.7
EU	6.7	7.9	5.2	7.5	5.9	9.2	5.0	*4.9*	3.4	*4.7*	1.5	*:*	3.3
USA	7.4	4.2	4.9	9.7	7.0	9.1	8.4	*8.6*	9.0	*6.6*	2.3	*:*	3.3
Japan	3.5	2.9	9.4	13.9	7.0	9.7	8.6	*7.0*	6.1	*5.2*	3.0	*:*	4.3

TABLE 47 : Imports of goods and services, volume (percentage change on preceding year, 1992-2010) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	3.7	5.1	3.3	6.6	4.1	2.7	4.6	*4.3*	3.6	*3.8*	0.6	*:*	2.5
Germany	3.2	7.5	5.8	7.3	6.5	11.9	5.0	*5.7*	3.8	*5.1*	1.3	*:*	3.7
Ireland	12.0	16.9	4.6	8.5	8.2	6.2	4.1	*3.3*	-1.7	*4.5*	-2.1	*:*	2.8
Greece	3.8	10.8	3.2	3.3	1.4	9.7	6.7	*6.1*	2.6	*5.7*	2.5	*:*	3.0
Spain	6.4	11.4	7.5	9.6	7.7	10.3	6.2	*4.5*	1.3	*3.0*	-2.5	*:*	0.8
France	3.2	8.6	4.4	7.1	5.9	6.1	5.5	*2.6*	1.9	*2.4*	0.8	*:*	1.7
Italy	2.1	7.0	2.7	4.2	2.2	5.9	4.4	*3.2*	-1.2	*3.3*	0.0	*:*	2.2
Cyprus	:	4.8	3.4	9.6	3.1	6.6	11.1	*5.3*	7.1	*5.4*	3.8	*:*	4.0
Luxembourg	3.6	11.1	7.7	11.8	6.0	13.4	3.5	*2.8*	3.4	*4.0*	-0.3	*:*	1.7
Malta	:	2.4	4.8	0.8	3.6	14.7	-3.8	*0.6*	0.1	*0.7*	-0.1	*:*	0.3
Netherlands	5.5	8.9	4.2	5.7	5.4	8.2	5.7	*4.1*	5.2	*3.6*	1.0	*:*	2.9
Austria	3.4	6.7	5.0	9.8	6.3	5.1	7.5	*5.9*	3.3	*5.5*	2.2	*:*	4.1
Portugal	5.6	7.7	2.7	6.7	3.5	5.1	5.6	*3.3*	2.6	*2.8*	-0.5	*:*	1.3
Slovenia	3.1	7.7	8.7	13.3	6.6	12.2	15.7	*8.9*	6.9	*8.3*	5.1	*:*	7.4
Slovakia	:	9.6	10.7	8.3	16.1	17.7	11.2	*9.7*	8.9	*8.3*	5.6	*:*	5.6
Finland	5.7	8.7	6.6	7.2	11.8	7.8	6.6	*3.7*	2.6	*3.2*	2.8	*:*	3.1
Euro area	3.9	8.2	4.9	7.0	5.7	8.3	5.4	*4.4*	2.6	*4.0*	0.6	*:*	2.7
Bulgaria	:	13.1	12.7	14.5	13.1	14.0	9.9	*8.5*	9.0	*7.7*	6.3	*:*	6.1
Czech Republic	20.1	9.8	9.9	17.9	5.0	14.2	14.2	*11.0*	9.9	*12.6*	7.0	*:*	8.4
Denmark	4.3	7.2	7.7	7.7	11.3	14.1	3.8	*4.0*	3.1	*2.8*	1.0	*:*	1.4
Estonia	:	12.5	13.8	15.5	17.5	20.4	4.2	*2.4*	-6.5	*4.9*	-0.7	*:*	1.5
Latvia	:	7.3	13.6	16.6	14.8	19.3	15.0	*1.4*	-9.8	*4.4*	-8.0	*:*	-0.2
Lithuania	:	7.5	14.6	14.9	16.4	13.7	11.6	*8.0*	11.4	*6.5*	-2.2	*:*	3.8
Hungary	12.0	16.9	10.3	13.7	7.0	14.8	13.1	*9.1*	7.7	*9.7*	0.8	*:*	7.6
Poland	15.3	9.7	9.9	15.8	4.7	17.3	12.2	*10.5*	9.0	*8.7*	6.6	*:*	5.7
Romania	8.1	12.1	17.7	22.1	16.0	22.6	26.1	*15.3*	17.7	*13.3*	10.7	*:*	11.1
Sweden	4.4	7.6	4.8	6.8	7.0	8.2	9.6	*5.6*	4.2	*5.0*	1.4	*:*	2.9
United Kingdom	6.2	8.1	6.1	6.8	7.0	9.6	-1.9	*3.3*	0.8	*3.8*	-0.9	*:*	0.9
EU	5.2	8.3	5.5	7.6	6.2	9.2	5.2	*4.8*	3.0	*4.5*	0.9	*:*	2.9
USA	8.9	9.2	6.1	11.3	5.9	6.0	2.2	*0.9*	-2.3	*-0.5*	-4.7	*:*	-1.0
Japan	6.3	1.3	4.6	8.1	5.8	4.2	1.7	*3.2*	1.5	*4.7*	1.3	*:*	3.3

TABLE 48 : Merchandise trade balance (fob-fob, as a percentage of GDP, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	3.3	3.2	2.7	2.9	1.9	1.3	1.2	*0.7*	-0.5	*0.7*	-0.9	*:*	-1.2
Germany	2.2	3.6	6.7	7.0	7.1	7.1	8.4	*9.0*	8.5	*9.1*	8.6	*:*	8.9
Ireland	16.6	23.2	20.9	21.6	17.4	14.1	11.8	*11.3*	12.8	*10.3*	14.1	*:*	13.7
Greece	-12.5	-16.3	-17.9	-18.0	-16.8	-16.8	-18.7	*-19.3*	-18.9	*-19.5*	-19.1	*:*	-19.2
Spain	-3.3	-4.6	-6.5	-6.3	-7.5	-8.5	-8.5	*-9.1*	-8.1	*-9.0*	-6.7	*:*	-6.1
France	0.6	1.0	-0.5	-0.3	-1.3	-1.5	-2.0	*-3.1*	-2.7	*-3.2*	-2.8	*:*	-2.8
Italy	2.7	2.1	0.4	0.6	0.0	-0.7	0.1	*0.1*	0.1	*0.3*	0.5	*:*	0.6
Cyprus	:	-24.6	-25.8	-25.6	-25.0	-27.2	-29.6	*-29.8*	-31.7	*-30.8*	-32.1	*:*	-32.3
Luxembourg	-10.2	-12.7	-10.4	-10.0	-11.3	-9.6	-8.1	*-10.6*	-8.8	*-10.8*	-8.5	*:*	-8.1
Malta	-22.4	-17.6	-14.7	-15.4	-18.6	-18.9	-18.3	*-17.9*	-19.2	*-17.8*	-19.5	*:*	-19.5
Netherlands	5.0	5.3	7.2	7.2	7.9	7.8	7.7	*7.6*	6.0	*7.9*	5.7	*:*	5.2
Austria	-3.7	-2.2	-0.1	-0.2	-0.5	0.2	0.6	*2.0*	0.3	*1.9*	0.1	*:*	0.1
Portugal	-8.9	-10.6	-9.6	-9.5	-10.3	-10.1	-9.9	*-10.6*	-11.1	*-10.1*	-10.0	*:*	-9.8
Slovenia	-1.1	-4.5	-2.9	-3.8	-3.6	-3.8	-4.9	*-5.6*	-7.5	*-5.2*	-7.7	*:*	-7.7
Slovakia	:	-8.6	-5.2	-3.8	-5.4	-5.2	-1.7	*-0.1*	-1.5	*0.5*	-1.1	*:*	-0.8
Finland	7.5	10.0	6.9	6.7	4.9	5.5	4.9	*4.1*	4.8	*3.9*	4.1	*:*	3.8
Euro area	1.2	1.5	1.5	1.7	1.1	0.7	1.0	*0.8*	0.7	*0.8*	0.9	*:*	1.0
Euro area, adjusted [1]			:	1.3	0.6	0.3	0.7	*0.6*	0.4	*0.6*	0.6	*:*	0.7
Bulgaria	-2.6	-5.6	-16.4	-14.9	-20.2	-22.0	-25.5	*-24.9*	-26.6	*-24.6*	-26.0	*:*	-25.8
Czech Republic	-5.2	-5.3	-0.4	-0.5	2.0	2.0	3.4	*3.2*	3.4	*3.8*	3.2	*:*	3.1
Denmark	3.8	2.7	2.6	2.7	2.3	0.4	-0.9	*-0.6*	-0.8	*-0.3*	-0.6	*:*	0.0
Estonia	:	-16.7	-16.1	-17.3	-13.9	-18.3	-17.6	*-13.2*	-13.9	*-11.7*	-10.6	*:*	-9.3
Latvia	-7.0	-14.8	-19.7	-20.2	-18.9	-25.6	-24.5	*-20.0*	-17.0	*-18.5*	-13.0	*:*	-11.4
Lithuania	:	-11.3	-10.8	-10.6	-11.3	-13.9	-15.1	*-12.8*	-12.4	*-12.0*	-8.1	*:*	-9.0
Hungary	-5.6	-4.4	-3.1	-3.5	-2.5	-2.3	0.2	*1.9*	0.3	*2.5*	0.7	*:*	0.2
Poland	-0.1	-6.4	-2.3	-2.2	-0.9	-2.0	-3.7	*-3.9*	-4.3	*-4.7*	-5.2	*:*	-5.3
Romania	-7.3	-6.6	-8.8	-8.7	-9.8	-12.0	-14.5	*-17.2*	-14.4	*-17.8*	-14.2	*:*	-13.9
Sweden	5.0	6.9	6.3	6.8	5.8	5.8	4.6	*4.0*	2.8	*3.7*	2.7	*:*	2.9
United Kingdom	-1.8	-2.9	-5.0	-5.1	-5.5	-5.8	-6.4	*-7.1*	-6.5	*-7.0*	-6.1	*:*	-5.6
EU	-0.2	0.7	0.3	0.4	-0.1	-0.5	-0.6	*-0.7*	-0.8	*-0.7*	-0.6	*:*	-0.4
EU, adjusted [1]			:	-0.4	-0.9	-1.4	-1.3	*-1.4*	-1.5	*-1.4*	-1.3	*:*	-1.1
USA	-2.1	-3.6	-5.7	-5.9	-6.5	-6.5	-6.1	*-6.1*	-5.7	*-5.2*	-4.3	*:*	-3.9
Japan	2.7	2.5	2.3	2.8	2.1	1.9	2.4	*2.6*	2.2	*2.6*	2.5	*:*	2.8

[1] See note 8 on concepts and sources.

TABLE 49 : Current account balance (as a percentage of GDP, 1992-2010) 23.10.2008

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	4.6	4.8	3.7	3.8	2.9	2.5	2.4	*2.7*	0.6	*2.5*	0.3	*:*	0.1
Germany	-1.1	-0.8	4.1	4.8	5.3	6.3	7.6	*7.2*	7.5	*7.3*	7.7	*:*	7.9
Ireland	2.6	0.7	-1.2	0.0	-3.1	-3.6	-5.4	*-4.8*	-5.3	*-4.7*	-3.3	*:*	-2.9
Greece	-0.6	-7.0	-11.5	-10.4	-10.6	-11.4	-14.0	*-16.2*	-14.3	*-16.2*	-15.0	*:*	-15.5
Spain	-1.4	-2.4	-6.0	-5.9	-7.5	-9.0	-10.1	*-11.0*	-9.9	*-11.2*	-8.6	*:*	-8.2
France	0.5	1.9	-0.7	-0.6	-1.8	-2.1	-2.8	*-2.9*	-3.5	*-3.0*	-3.7	*:*	-3.6
Italy	1.0	1.2	-1.0	-0.5	-1.2	-2.0	-1.7	*-2.0*	-2.1	*-2.0*	-1.6	*:*	-1.6
Cyprus	:	-4.3	-4.5	-5.0	-5.9	-5.9	-9.7	*-8.5*	-10.5	*-8.0*	-10.3	*:*	-9.8
Luxembourg	12.8	10.0	10.4	11.8	11.0	10.5	9.8	*6.2*	8.3	*6.3*	5.4	*:*	5.6
Malta	:	-6.4	-4.7	-5.8	-8.7	-8.2	-5.5	*-5.9*	-6.6	*-5.6*	-7.1	*:*	-7.3
Netherlands	4.6	4.8	7.6	8.6	7.5	9.8	9.8	*9.0*	7.1	*10.0*	7.1	*:*	6.3
Austria	-2.1	-1.4	2.3	2.2	2.1	2.5	3.3	*5.0*	3.1	*5.2*	2.7	*:*	2.8
Portugal	-3.1	-8.7	-8.6	-7.8	-9.8	-10.4	-10.0	*-10.1*	-11.6	*-9.4*	-10.6	*:*	-10.4
Slovenia	2.5	-1.8	-1.4	-2.6	-1.8	-2.4	-4.0	*-4.9*	-6.3	*-4.3*	-6.3	*:*	-6.0
Slovakia	:	-6.4	-7.3	-6.6	-8.6	-7.4	-5.1	*-4.0*	-5.6	*-3.1*	-4.7	*:*	-3.5
Finland	0.7	7.2	5.8	6.7	3.9	4.9	5.3	*3.4*	5.6	*3.2*	5.0	*:*	4.9
Euro area	0.3	0.4	0.5	1.0	0.2	0.2	0.2	*-0.2*	-0.3	*-0.1*	-0.1	*:*	0.0
Euro area, adjusted [1]			:	0.8	0.1	-0.1	0.1	*0.0*	-0.4	*0.0*	-0.1	*:*	-0.1
Bulgaria	-4.3	-2.7	-9.0	-6.5	-11.5	-18.6	-22.5	*-21.2*	-23.8	*-20.9*	-22.3	*:*	-21.5
Czech Republic	-2.1	-4.1	-4.4	-5.5	-1.7	-2.2	-1.5	*-2.9*	-1.9	*-2.6*	-2.2	*:*	-1.2
Denmark	1.8	1.2	3.2	3.0	4.4	2.6	1.2	*0.9*	1.1	*1.1*	1.1	*:*	1.8
Estonia	:	-7.5	-12.4	-12.8	-10.4	-17.0	-18.5	*-11.2*	-12.1	*-9.3*	-8.1	*:*	-6.5
Latvia	6.0	-7.3	-12.5	-12.8	-12.5	-22.5	-22.9	*-17.7*	-14.5	*-15.5*	-8.7	*:*	-6.2
Lithuania	:	-8.6	-7.4	-7.5	-7.1	-10.4	-15.1	*-12.3*	-13.8	*-11.2*	-8.7	*:*	-8.9
Hungary	:	-8.0	-7.7	-8.6	-7.5	-7.5	-6.4	*-4.4*	-6.3	*-3.9*	-5.1	*:*	-5.5
Poland	0.6	-4.0	-2.4	-4.1	-1.2	-2.9	-4.5	*-4.6*	-5.2	*-5.5*	-6.1	*:*	-6.2
Romania	:	-5.0	-6.1	-5.0	-8.9	-10.6	-13.9	*-16.1*	-13.5	*-16.2*	-13.0	*:*	-12.6
Sweden	1.2	4.6	6.7	6.7	6.1	8.5	8.4	*5.9*	4.6	*5.6*	4.2	*:*	4.6
United Kingdom	-1.4	-1.5	-2.3	-2.1	-2.6	-3.4	-3.8	*-3.2*	-2.8	*-3.2*	-2.6	*:*	-1.8
EU	-0.1	0.0	0.0	0.3	-0.2	-0.5	-0.7	*-0.9*	-1.0	*-0.9*	-0.8	*:*	-0.6
EU, adjusted [1]			:	0.1	-0.2	-0.8	-0.7	*-0.7*	-0.9	*-0.7*	-0.7	*:*	-0.6
USA	-1.1	-2.8	-5.2	-5.4	-5.8	-5.9	-5.2	*-5.0*	-4.6	*-4.0*	-3.2	*:*	-2.8
Japan	2.5	2.5	3.5	3.7	3.6	3.9	4.8	*5.1*	4.0	*5.0*	4.1	*:*	4.3

[1] See note 8 on concepts and sources.

TABLE 50 : Net lending (+) or net borrowing (-) of the nation (as a percentage of GDP, 1992-2010)

	5-year averages							2008		2009		2010	
	1992-96	1997-01	2002-06	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	4.4	4.7	3.7	3.8	2.8	2.5	2.1	*2.6*	0.3	*2.4*	0.1	*:*	-0.1
Germany	-1.1	-0.7	4.1	4.8	5.3	6.3	7.6	*7.3*	7.5	*7.5*	7.8	*:*	7.9
Ireland	3.8	1.6	-1.0	0.2	-3.0	-3.4	-5.4	*-4.7*	-5.1	*-4.6*	-2.8	*:*	-2.1
Greece	:	-5.0	-10.0	-8.9	-9.3	-9.1	-12.1	*-14.3*	-12.6	*-14.4*	-13.3	*:*	-14.0
Spain	-0.7	-1.4	-5.1	-4.8	-6.5	-8.4	-9.7	*-10.6*	-9.5	*-10.8*	-8.2	*:*	-7.8
France	0.5	2.0	-0.8	-0.5	-1.8	-2.0	-2.8	*-3.6*	-3.5	*-3.5*	-3.7	*:*	-3.7
Italy	1.1	1.4	-0.9	-0.4	-1.1	-1.8	-1.6	*-1.8*	-2.1	*-1.8*	-1.8	*:*	-1.7
Cyprus	:	-4.3	-4.1	-4.1	-5.3	-5.7	-9.7	*-8.3*	-10.2	*-7.9*	-10.0	*:*	-9.6
Luxembourg	:	:	:	:	:	:	:	*6.2*	8.3	*6.3*	5.4	*:*	5.6
Malta	:	-6.0	-3.1	-4.4	-5.5	-5.3	-4.6	*-5.0*	-5.6	*-4.8*	-5.8	*:*	-5.4
Netherlands	4.2	4.6	7.3	8.3	7.1	9.3	9.4	*8.5*	6.6	*9.5*	6.6	*:*	5.9
Austria	-2.2	-1.5	2.1	2.1	2.0	2.2	3.3	*4.8*	3.1	*5.0*	2.8	*:*	2.9
Portugal	-0.6	-6.4	-6.9	-6.1	-8.3	-9.3	-8.7	*-8.7*	-10.1	*-8.1*	-9.4	*:*	-9.3
Slovenia	2.4	-1.7	-1.3	-2.5	-1.7	-2.3	-3.7	*-4.7*	-6.2	*-4.1*	-6.3	*:*	-6.1
Slovakia	:	-6.5	-7.7	-6.4	-9.0	-7.0	-4.7	*-3.4*	-4.9	*-2.7*	-3.6	*:*	-2.1
Finland	0.8	7.6	7.1	7.9	5.2	6.1	6.4	*3.5*	6.6	*3.3*	6.0	*:*	5.8
Euro area	0.4	0.7	0.7	1.2	0.4	0.4	0.5	*0.0*	-0.1	*0.1*	0.2	*:*	0.1
Euro area, adjusted [1]			:	1.0	0.3	0.1	0.4	*0.2*	-0.1	*0.3*	0.1	*:*	0.1
Bulgaria	-4.6	-2.5	-8.6	-5.0	-10.6	-17.9	-21.3	*-19.8*	-22.4	*-19.3*	-20.7	*:*	-19.7
Czech Republic	-3.0	-4.0	-4.1	-5.4	-2.3	-1.8	-0.8	*-2.3*	-1.7	*-1.8*	-1.9	*:*	-0.9
Denmark	1.8	1.4	3.2	3.0	4.5	2.6	1.2	*0.9*	1.1	*1.1*	1.2	*:*	1.8
Estonia	:	-7.0	-11.3	-11.8	-9.4	-14.7	-17.1	*-10.0*	-10.8	*-8.0*	-6.6	*:*	-4.8
Latvia	11.9	-7.0	-11.6	-11.8	-11.2	-21.3	-20.8	*-15.5*	-12.2	*-13.7*	-6.7	*:*	-4.1
Lithuania	:	-8.6	-6.6	-6.8	-6.1	-8.9	-13.2	*-10.2*	-11.7	*-8.8*	-6.2	*:*	-5.8
Hungary	:	-7.6	-7.3	-8.3	-6.7	-6.9	-5.3	*-2.4*	-5.1	*-1.6*	-3.7	*:*	-3.8
Poland	2.4	-4.0	-2.2	-3.9	-0.9	-2.3	-3.5	*-2.3*	-3.7	*-3.6*	-3.7	*:*	-3.8
Romania	-3.8	-4.8	-5.5	-4.1	-7.9	-10.4	-13.2	*-15.4*	-12.9	*-15.5*	-12.4	*:*	-12.0
Sweden	0.9	4.3	6.6	6.7	6.2	7.9	8.3	*5.3*	4.5	*5.1*	4.1	*:*	4.5
United Kingdom	-1.3	-1.4	-2.2	-1.9	-2.5	-3.3	-3.6	*-3.1*	-2.5	*-3.1*	-2.4	*:*	-1.7
EU	-0.4	-0.4	-0.7	-0.1	-1.2	-1.9	-2.4	*-2.6*	-2.8	*-2.5*	-2.4	*:*	-0.4
EU, adjusted [1]			:	-0.4	-1.2	-2.3	-2.4	*-2.4*	-2.7	*-2.3*	-2.3	*:*	-0.3
USA	-1.2	-2.9	-5.2	-5.4	-5.8	-5.9	-5.2	*-5.0*	-4.6	*-4.0*	-3.2	*:*	-2.8
Japan	2.4	2.3	3.4	3.6	3.5	3.8	4.7	*4.9*	3.8	*4.9*	4.0	*:*	4.1

[1] See note 8 on concepts and sources.

TABLE 51 : Merchandise trade balance (fob-fob, in billions of Ecu/euro, 2002-2010) 23.10.2008

							2008		2009		2010	
	2002	2003	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	10.2	9.7	8.3	5.7	4.1	3.9	*2.5*	-1.9	*2.3*	-3.1	*:*	-4.3
Germany	136.6	131.9	154.0	160.2	165.1	204.4	*225.5*	212.7	*236.8*	219.8	*:*	236.3
Ireland	36.2	33.2	32.2	28.2	25.0	22.5	*21.8*	23.9	*20.8*	26.3	*:*	26.3
Greece	-30.0	-32.0	-33.4	-33.1	-35.8	-42.6	*-47.4*	-46.1	*-51.3*	-49.4	*:*	-52.7
Spain	-36.6	-40.2	-53.2	-67.9	-83.0	-89.6	*-100.4*	-89.2	*-103.1*	-75.0	*:*	-70.4
France	8.4	2.4	-5.1	-21.6	-26.6	-38.4	*-59.4*	-53.8	*-64.8*	-56.4	*:*	-56.9
Italy	14.3	9.5	8.8	0.4	-10.5	1.1	*1.0*	2.1	*4.1*	8.4	*:*	10.3
Cyprus	-3.0	-2.8	-3.3	-3.4	-4.0	-4.6	*-5.0*	-5.3	*-5.5*	-5.7	*:*	-6.2
Luxembourg	-2.5	-2.7	-2.8	-3.4	-3.3	-2.9	*-4.0*	-3.3	*-4.2*	-3.2	*:*	-3.2
Malta	-0.4	-0.6	-0.7	-0.9	-1.0	-1.0	*-1.0*	-1.1	*-1.1*	-1.2	*:*	-1.2
Netherlands	31.2	31.0	35.4	40.7	42.2	43.8	*44.6*	35.3	*48.7*	34.5	*:*	32.6
Austria	1.4	-1.5	-0.6	-1.2	0.6	1.5	*5.8*	0.9	*5.6*	0.3	*:*	0.3
Portugal	-13.1	-11.2	-13.7	-15.4	-15.7	-16.2	*-17.9*	-18.6	*-17.7*	-17.3	*:*	-17.4
Slovenia	-0.3	-0.6	-1.0	-1.0	-1.2	-1.7	*-2.0*	-2.8	*-2.0*	-3.1	*:*	-3.3
Slovakia	-2.4	-0.7	-1.3	-2.1	-2.3	-1.1	*-0.1*	-1.0	*0.3*	-0.8	*:*	-0.6
Finland	13.5	11.4	10.2	7.7	9.2	8.7	*7.8*	9.1	*7.8*	8.2	*:*	7.9
Euro area	163.2	136.9	134.0	92.9	62.7	87.8	*71.9*	61.0	*76.7*	82.2	*:*	97.5
Euro area, adjusted [1]	127.8	105.0	104.4	49.4	24.8	60.7	*53.9*	33.9	*58.7*	55.1	*:*	70.4
Bulgaria	-1.9	-2.4	-3.0	-4.4	-5.6	-7.4	*-8.2*	-9.0	*-9.1*	-9.9	*:*	-10.9
Czech Republic	-2.3	-2.2	-0.4	2.0	2.3	4.3	*4.9*	5.3	*6.3*	5.2	*:*	5.4
Denmark	6.7	7.0	5.3	4.8	0.8	-2.1	*-1.4*	-2.0	*-0.8*	-1.6	*:*	-0.1
Estonia	-1.2	-1.4	-1.7	-1.5	-2.4	-2.7	*-2.3*	-2.3	*-2.2*	-1.8	*:*	-1.7
Latvia	-1.6	-1.8	-2.3	-2.5	-4.1	-4.9	*-4.8*	-3.9	*-4.8*	-2.9	*:*	-2.7
Lithuania	-1.4	-1.5	-1.9	-2.4	-3.3	-4.3	*-4.2*	-4.1	*-4.4*	-2.8	*:*	-3.2
Hungary	-2.3	-2.9	-2.9	-2.2	-2.1	0.2	*2.0*	0.3	*2.8*	0.8	*:*	0.3
Poland	-7.7	-5.1	-4.6	-2.2	-5.5	-11.3	*-14.2*	-15.7	*-18.8*	-20.2	*:*	-22.0
Romania	-2.8	-4.0	-5.3	-7.8	-11.8	-17.6	*-21.9*	-19.7	*-25.7*	-21.6	*:*	-24.1
Sweden	17.4	17.5	19.7	17.1	18.2	15.2	*13.5*	9.3	*13.0*	8.6	*:*	9.8
United Kingdom	-75.9	-70.3	-89.8	-100.3	-111.9	-130.4	*-131.0*	-120.8	*-132.1*	-115.4	*:*	-109.2
EU	90.5	69.9	47.3	-6.6	-62.7	-73.0	*-95.6*	-101.6	*-99.0*	-79.4	*:*	-60.9
EU, adjusted [1]	:	:	-43.1	-101.5	-168.4	-160.2	*-179.4*	-188.8	*-182.8*	-166.6	*:*	-148.1
USA	-521.2	-495.3	-548.2	-640.8	-677.7	-610.3	*-559.8*	-553.1	*-484.6*	-463.6	*:*	-428.7
Japan	97.9	91.5	103.5	75.5	64.8	76.4	*86.8*	74.0	*84.5*	95.0	*:*	105.6

[1] See note 8 on concepts and sources.

TABLE 52 : Current account balance (in billions of Ecu/euro, 2002-2010)

							2008		2009		2010	
	2002	2003	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Belgium	13.3	12.4	11.0	8.7	8.0	8.1	*9.2*	2.0	*9.0*	1.1	*:*	0.5
Germany	46.1	44.4	106.5	119.1	145.2	184.0	*179.9*	188.9	*189.2*	197.8	*:*	208.3
Ireland	-0.4	1.3	0.0	-5.1	-6.3	-10.3	*-9.2*	-9.8	*-9.4*	-6.2	*:*	-5.6
Greece	-19.8	-21.6	-19.3	-21.0	-24.3	-32.1	*-39.7*	-35.0	*-42.5*	-38.7	*:*	-42.5
Spain	-27.4	-31.6	-49.5	-67.8	-88.8	-107.5	*-121.5*	-109.2	*-128.3*	-96.6	*:*	-93.9
France	12.2	3.9	-9.7	-30.8	-37.4	-53.7	*-56.4*	-68.4	*-60.8*	-73.4	*:*	-74.7
Italy	-4.3	-12.0	-7.6	-16.9	-29.1	-26.8	*-31.0*	-34.0	*-32.1*	-26.7	*:*	-27.0
Cyprus	-0.4	-0.3	-0.6	-0.8	-0.9	-1.5	*-1.4*	-1.8	*-1.4*	-1.8	*:*	-1.9
Luxembourg	2.5	2.1	3.3	3.3	3.5	4.2	*2.3*	3.1	*2.5*	2.0	*:*	2.3
Malta	0.1	-0.1	-0.3	-0.4	-0.4	-0.3	*-0.3*	-0.4	*-0.3*	-0.4	*:*	-0.5
Netherlands	28.2	29.2	42.2	38.4	52.7	55.6	*52.9*	42.1	*61.4*	43.1	*:*	39.4
Austria	6.0	3.9	5.2	5.1	6.5	9.0	*14.3*	8.7	*15.3*	7.9	*:*	8.4
Portugal	-11.5	-8.9	-11.3	-14.6	-16.2	-16.3	*-17.1*	-19.5	*-16.6*	-18.3	*:*	-18.5
Slovenia	0.2	-0.2	-0.7	-0.5	-0.7	-1.4	*-1.8*	-2.4	*-1.7*	-2.5	*:*	-2.6
Slovakia	-1.9	-1.9	-2.3	-3.3	-3.3	-3.1	*-2.5*	-3.8	*-2.1*	-3.5	*:*	-2.8
Finland	12.7	7.0	10.2	6.1	8.3	9.6	*6.5*	10.7	*6.4*	10.0	*:*	10.0
Euro area	55.5	27.7	77.1	19.6	16.8	17.5	*-15.9*	-28.7	*-11.5*	-6.3	*:*	-1.1
Euro area, adjusted [1]	56.9	33.6	63.8	10.1	-10.8	13.1	*-5.4*	-33.1	*-1.0*	-10.7	*:*	-5.5
Bulgaria	-0.4	-1.0	-1.3	-2.5	-4.7	-6.5	*-7.0*	-8.0	*-7.7*	-8.5	*:*	-9.1
Czech Republic	-4.9	-5.3	-4.8	-1.7	-2.5	-1.9	*-4.5*	-3.0	*-4.3*	-3.6	*:*	-2.0
Denmark	4.6	6.5	5.9	9.1	5.8	2.7	*2.0*	2.5	*2.6*	2.8	*:*	4.5
Estonia	-0.8	-1.0	-1.2	-1.1	-2.2	-2.8	*-1.9*	-2.0	*-1.8*	-1.4	*:*	-1.2
Latvia	-0.7	-0.8	-1.4	-1.6	-3.6	-4.6	*-4.2*	-3.3	*-4.1*	-2.0	*:*	-1.5
Lithuania	-0.8	-1.1	-1.4	-1.5	-2.5	-4.3	*-4.0*	-4.5	*-4.1*	-3.0	*:*	-3.2
Hungary	-4.9	-5.9	-7.1	-6.6	-6.8	-6.5	*-4.6*	-6.8	*-4.4*	-5.6	*:*	-6.4
Poland	-4.5	-3.3	-8.5	-3.0	-8.0	-14.0	*-17.0*	-19.3	*-21.9*	-23.6	*:*	-25.6
Romania	-0.5	-2.5	-3.0	-7.1	-10.4	-16.8	*-20.4*	-18.4	*-23.5*	-19.8	*:*	-21.7
Sweden	14.4	18.9	19.2	18.1	26.7	21.1	*20.0*	15.0	*19.8*	13.8	*:*	15.5
United Kingdom	-29.7	-26.5	-37.1	-47.8	-66.0	-76.8	*-59.6*	-51.6	*-59.7*	-48.4	*:*	-35.6
EU	27.3	5.7	36.4	-26.3	-57.3	-92.8	*-117.2*	-128.1	*-120.6*	-105.7	*:*	-87.3
EU, adjusted [1]	:	:	10.3	-27.6	-96.3	-80.8	*-83.7*	-116.0	*-87.1*	-93.7	*:*	-75.3
USA	-485.8	-453.5	-502.3	-571.6	-614.8	-524.7	*-459.6*	-442.9	*-375.1*	-346.0	*:*	-308.0
Japan	119.8	120.5	138.6	133.4	136.0	154.8	*165.8*	131.3	*166.0*	153.7	*:*	161.4

[1] See note 8 on concepts and sources.

TABLE 53 : Export markets (a) (percentage change on preceding year, 2002-2010) 23.10.2008

	2002	2003	2004	2005	2006	2007	2008 IV-2008	2008 X-2008	2009 IV-2008	2009 X-2008	2010 IV-2008	2010 X-2008
Belgium	:	:	:	6.1	8.8	5.3	*4.8*	3.5	*4.6*	1.3	*:*	3.2
Germany	:	:	:	6.2	8.7	6.8	*6.0*	4.6	*5.7*	2.4	*:*	4.0
Ireland	:	:	:	5.7	8.3	4.1	*4.5*	2.7	*4.2*	0.6	*:*	2.6
Greece	:	:	:	6.5	8.7	5.7	*5.2*	3.6	*4.8*	1.6	*:*	3.4
Spain	:	:	:	5.6	8.3	5.0	*4.8*	3.2	*4.6*	1.4	*:*	3.1
France	:	:	:	6.0	8.6	5.9	*5.6*	3.9	*5.2*	1.8	*:*	3.7
Italy	:	:	:	6.7	9.2	6.6	*6.0*	4.7	*5.6*	2.4	*:*	4.0
Cyprus	:	:	:	8.3	10.8	6.7	*7.4*	5.2	*7.2*	3.3	*:*	4.4
Luxembourg (b)	:	:	:	5.3	7.9	4.9	*4.6*	2.8	*4.3*	1.0	*:*	2.9
Malta	:	:	:	6.4	8.6	5.2	*5.2*	3.5	*5.1*	1.7	*:*	3.5
Netherlands	:	:	:	5.8	8.8	5.5	*5.4*	3.7	*5.1*	1.6	*:*	3.5
Austria	:	:	:	6.0	10.0	6.8	*6.3*	4.6	*6.0*	2.4	*:*	4.3
Portugal	:	:	:	6.2	8.7	5.5	*4.8*	2.7	*4.1*	0.3	*:*	2.6
Slovenia	:	:	:	5.5	9.3	7.3	*6.6*	4.8	*6.3*	3.0	*:*	4.5
Slovakia	:	:	:	5.9	10.8	8.3	*7.3*	5.7	*7.2*	3.2	*:*	5.1
Finland	:	:	:	8.4	10.6	8.7	*7.9*	6.4	*7.5*	4.0	*:*	5.1
Euro area (c)	:	:	:	6.1	8.8	6.1	*5.7*	4.1	*5.3*	2.0	*:*	3.7
Bulgaria	:	:	:	6.6	9.4	8.5	*7.3*	5.9	*6.9*	3.6	*:*	5.1
Czech Republic	:	:	:	6.5	10.8	7.0	*6.6*	5.1	*6.1*	2.7	*:*	4.3
Denmark	:	:	:	7.0	8.8	6.4	*5.6*	4.0	*5.2*	1.9	*:*	3.7
Estonia	:	:	:	9.7	10.0	9.3	*7.1*	5.1	*6.8*	3.1	*:*	4.7
Latvia	:	:	:	9.1	11.8	8.9	*8.0*	6.2	*7.5*	3.5	*:*	5.0
Lithuania	:	:	:	10.2	12.0	11.1	*8.3*	5.5	*8.1*	4.2	*:*	5.5
Hungary	:	:	:	6.2	10.2	7.8	*7.0*	5.5	*6.5*	3.2	*:*	4.8
Poland	:	:	:	7.3	10.5	8.0	*7.0*	5.5	*6.7*	3.1	*:*	4.9
Romania	:	:	:	5.6	8.4	7.0	*6.1*	4.3	*5.8*	2.6	*:*	4.5
Sweden	:	:	:	7.5	9.0	5.9	*5.2*	3.7	*4.7*	2.0	*:*	3.5
United Kingdom	:	:	:	6.5	7.8	6.2	*5.0*	3.4	*4.6*	1.3	*:*	3.4
EU (c)	:	:	:	6.3	8.8	6.2	*5.7*	4.1	*5.3*	2.0	*:*	3.8
USA	:	:	:	6.7	8.2	7.2	*6.6*	5.1	*6.5*	2.9	*:*	4.3
Japan	:	:	:	7.2	8.8	7.7	*7.1*	6.2	*7.0*	3.2	*:*	5.1

(a) Imports of goods and services to the various markets (incl. EU-markets) weighted according to their share in country's exports of goods and services.
(b) Included in the figures for Belgium up to 2003.
(c) Intra- and extra-EU trade.

TABLE 54 : Export performance (a) (percentage change on preceding year, 2002-2010)

	2002	2003	2004	2005	2006	2007	2008 IV-2008	2008 X-2008	2009 IV-2008	2009 X-2008	2010 IV-2008	2010 X-2008
Belgium	:	:	:	-2.4	-5.7	-1.3	*-0.9*	-1.3	*-1.1*	-0.7	*:*	-1.0
Germany	:	:	:	1.4	3.7	0.6	*-0.4*	-0.2	*-0.9*	-1.4	*:*	-0.4
Ireland	:	:	:	-0.4	-2.4	2.6	*0.7*	-0.7	*0.5*	0.5	*:*	0.4
Greece	:	:	:	-2.2	2.0	-2.4	*0.3*	0.6	*0.6*	1.5	*:*	-0.1
Spain	:	:	:	-2.9	-1.5	-0.1	*-0.8*	0.2	*0.3*	0.9	*:*	-0.3
France	:	:	:	-2.7	-2.9	-2.6	*-3.2*	-1.6	*-3.0*	-0.9	*:*	-1.2
Italy	:	:	:	-5.3	-2.7	-1.5	*-2.6*	-4.2	*-2.6*	-2.4	*:*	-2.1
Cyprus	:	:	:	-3.4	-6.3	0.7	*-3.4*	0.3	*-2.9*	-0.9	*:*	-1.1
Luxembourg (b)	:	:	:	0.7	6.2	-0.5	*-1.7*	0.5	*-0.4*	-1.4	*:*	-1.1
Malta	:	:	:	-4.9	7.9	-8.8	*-4.2*	-3.2	*-4.1*	-2.0	*:*	-3.3
Netherlands	:	:	:	0.2	-1.4	0.9	*-0.9*	0.3	*-1.0*	-0.3	*:*	-0.5
Austria	:	:	:	0.9	-2.3	1.9	*-0.3*	-1.0	*-0.3*	-0.7	*:*	-0.2
Portugal	:	:	:	-4.0	0.0	1.9	*-0.2*	-0.6	*0.1*	0.8	*:*	-0.1
Slovenia	:	:	:	4.8	3.0	6.1	*2.5*	1.3	*2.4*	1.7	*:*	2.9
Slovakia	:	:	:	7.5	9.2	7.3	*4.1*	4.1	*2.3*	2.6	*:*	1.0
Finland	:	:	:	-1.3	1.1	-0.4	*-4.2*	-1.7	*-3.7*	-1.3	*:*	-1.7
Euro area (c)	:	:	:	-1.0	-0.3	-0.1	*-1.1*	-0.9	*-1.1*	-0.9	*:*	-0.7
Bulgaria	:	:	:	1.8	-0.6	-3.1	*-0.2*	0.6	*-0.2*	1.0	*:*	0.5
Czech Republic	:	:	:	4.8	4.5	7.4	*4.2*	5.7	*6.8*	4.0	*:*	4.0
Denmark	:	:	:	1.2	0.1	-4.3	*-2.2*	-1.5	*-1.9*	-0.2	*:*	-1.3
Estonia	:	:	:	10.2	1.5	-8.5	*-3.4*	-8.0	*-1.0*	-1.4	*:*	-1.7
Latvia	:	:	:	10.3	-4.7	2.0	*0.6*	-3.9	*1.2*	-0.4	*:*	-0.5
Lithuania	:	:	:	6.8	0.0	-6.1	*1.0*	6.4	*-0.8*	-1.1	*:*	-1.7
Hungary	:	:	:	4.8	7.7	7.5	*3.2*	2.1	*3.3*	-1.8	*:*	1.9
Poland	:	:	:	0.6	3.7	0.4	*-0.1*	0.6	*-0.1*	0.8	*:*	0.7
Romania	:	:	:	2.0	1.8	1.6	*2.7*	4.7	*2.7*	3.7	*:*	2.6
Sweden	:	:	:	-0.8	-0.1	0.0	*-0.1*	-0.2	*-0.4*	-0.1	*:*	0.3
United Kingdom	:	:	:	1.5	3.0	-10.1	*0.0*	-1.7	*0.8*	0.0	*:*	-0.7
EU (c)	:	:	:	-0.4	0.4	-1.1	*-0.8*	-0.7	*-0.6*	-0.5	*:*	-0.5
USA	:	:	:	0.3	0.8	1.2	*1.9*	3.7	*0.1*	-0.6	*:*	-1.0
Japan	:	:	:	-0.2	0.8	0.9	*-0.1*	-0.1	*-1.7*	-0.2	*:*	-0.8

(a) Index for exports of goods and services divided by an index for growth of markets.
(b) Included in the figures for Belgium up to 2003.
(c) Intra- and extra-EU trade.

TABLE 55 : World GDP, volume (percentage change on preceding year, 2003-2010) 23.10.2008

							2008		2009		2010	
	(a)	2003	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
EU	22.5	1.3	2.5	2.0	3.1	2.9	*2.0*	1.4	*1.8*	0.2	*:*	1.1
Euro area	16.5	0.8	2.2	1.7	2.9	2.7	*1.8*	1.2	*1.6*	0.1	*:*	0.9
Belgium	0.6	1.0	3.0	1.8	3.0	2.8	*1.7*	1.4	*1.5*	0.1	*:*	0.9
Bulgaria	0.1	5.0	6.6	6.2	6.3	6.2	*5.8*	6.5	*5.6*	4.5	*:*	4.7
Czech Republic	0.2	3.6	4.5	6.3	6.8	6.0	*4.7*	4.4	*5.0*	3.6	*:*	3.9
Denmark	0.4	0.4	2.3	2.5	3.9	1.7	*1.3*	0.7	*1.1*	0.1	*:*	0.9
Germany	4.4	-0.2	1.2	0.8	3.0	2.5	*1.8*	1.7	*1.5*	0.0	*:*	1.0
Estonia	0.0	7.1	7.5	9.2	10.4	6.3	*2.7*	-1.3	*4.3*	-1.2	*:*	2.0
Ireland	0.3	4.5	4.7	6.4	5.7	6.0	*2.3*	-1.6	*3.2*	-0.9	*:*	2.4
Greece	0.4	5.6	4.9	2.9	4.5	4.0	*3.4*	3.1	*3.3*	2.5	*:*	2.6
Spain	1.9	3.1	3.3	3.6	3.9	3.7	*2.2*	1.3	*1.8*	-0.2	*:*	0.5
France	3.4	1.1	2.5	1.9	2.2	2.2	*1.6*	0.9	*1.4*	0.0	*:*	0.8
Italy	2.8	0.0	1.5	0.6	1.8	1.5	*0.5*	0.0	*0.8*	0.0	*:*	0.6
Cyprus	0.0	1.9	4.2	3.9	4.1	4.4	*3.7*	3.7	*3.7*	2.9	*:*	3.2
Latvia	0.0	7.2	8.7	10.6	12.2	10.3	*3.8*	-0.8	*2.5*	-2.7	*:*	1.0
Lithuania	0.1	10.2	7.4	7.8	7.8	8.9	*6.1*	3.8	*3.7*	0.0	*:*	-1.1
Luxembourg	0.1	1.5	4.5	5.2	6.4	5.2	*3.6*	2.5	*3.5*	1.2	*:*	2.3
Hungary	0.2	4.2	4.8	4.0	4.1	1.1	*1.9*	1.7	*3.2*	0.7	*:*	1.8
Malta	0.0	-0.3	1.1	3.5	3.1	3.7	*2.6*	2.4	*2.5*	2.0	*:*	2.2
Netherlands	1.0	0.3	2.2	2.0	3.4	3.5	*2.6*	2.3	*1.8*	0.4	*:*	0.9
Austria	0.5	0.8	2.5	2.9	3.4	3.1	*2.2*	1.9	*1.8*	0.6	*:*	1.3
Poland	0.6	3.9	5.3	3.6	6.2	6.6	*5.3*	5.4	*5.0*	3.8	*:*	4.2
Portugal	0.3	-0.8	1.5	0.9	1.4	1.9	*1.7*	0.5	*1.6*	0.1	*:*	0.7
Romania	0.2	5.2	8.5	4.2	8.2	6.0	*6.2*	8.5	*5.1*	4.7	*:*	5.0
Slovenia	0.1	2.8	4.3	4.3	5.9	6.8	*4.2*	4.4	*3.8*	2.9	*:*	3.7
Slovakia	0.1	4.7	5.2	6.5	8.5	10.4	*7.0*	7.0	*6.2*	4.9	*:*	5.5
Finland	0.3	1.8	3.7	2.8	4.9	4.5	*2.8*	2.4	*2.6*	1.3	*:*	2.0
Sweden	0.6	1.9	4.1	3.3	4.1	2.7	*2.2*	1.4	*1.8*	0.0	*:*	1.8
United Kingdom	3.7	2.8	2.8	2.1	2.8	3.0	*1.7*	0.9	*1.6*	-1.0	*:*	0.4
Candidate Countries	1.5	5.2	8.8	8.0	6.7	4.7	*4.3*	3.4	*4.8*	2.7	*:*	3.9
- Croatia	0.1	5.3	4.3	4.3	4.8	5.6	*4.5*	3.5	*5.0*	3.0	*:*	4.0
- Turkey	1.4	5.3	9.4	8.4	6.9	4.6	*4.3*	3.4	*4.7*	2.7	*:*	3.9
- The former Yugoslav Republic of Macedonia	0.0	2.8	4.1	4.1	4.0	5.1	*4.8*	5.5	*5.5*	4.6	*:*	5.0
Potential Candidates	0.1	2.9	6.9	5.3	5.9	6.7	*5.9*	6.2	*6.2*	5.4	*:*	5.9
USA	21.6	2.5	3.6	2.9	2.8	2.0	*0.9*	1.5	*0.7*	-0.5	*:*	1.0
Japan	6.7	1.4	2.7	1.9	2.4	2.1	*1.2*	0.4	*1.1*	-0.4	*:*	0.6
Canada	2.0	1.9	3.1	3.1	2.8	2.7	*1.5*	0.5	*1.9*	0.3	*:*	2.0
Norway	0.4	1.0	3.9	2.7	2.5	3.7	*2.5*	1.9	*2.1*	1.3	*:*	2.1
Switzerland	0.5	-0.2	2.5	2.5	3.4	3.3	*2.2*	1.8	*2.2*	1.2	*:*	1.6
Iceland	0.0	2.4	7.7	7.5	4.4	3.8	*1.3*	-3.4	*0.4*	-8.3	*:*	2.0
Australia	1.2	4.1	2.7	2.8	2.5	4.2	*3.5*	2.5	*3.5*	2.1	*:*	2.7
New Zealand	0.2	3.4	3.7	2.0	1.9	2.2	*1.7*	0.7	*1.6*	1.0	*:*	1.7
Industrialised countries	56.5	2.0	3.2	2.6	3.0	2.5	*1.5*	1.4	*1.4*	0.0	*:*	1.2
Others	43.5	5.7	7.5	6.9	7.7	8.1	*6.9*	6.7	*6.6*	5.3	*:*	5.9
CIS	4.5	7.8	8.2	6.4	8.1	8.5	*7.8*	7.1	*7.5*	6.0	*:*	6.3
- Russia	3.2	7.3	7.2	6.4	7.4	8.1	*7.3*	7.1	*7.0*	6.0	*:*	6.5
- Other	1.3	9.0	10.8	6.5	9.9	9.4	*8.2*	7.2	*7.8*	6.0	*:*	6.0
MENA	4.8	4.3	7.3	5.7	6.2	6.9	*6.2*	5.6	*6.1*	5.0	*:*	5.6
Other emerging markets	34.2	5.7	7.5	7.1	7.9	8.2	*6.9*	6.7	*6.6*	5.2	*:*	5.9
Asia	23.6	7.2	8.1	8.2	8.8	9.3	*7.9*	7.6	*7.6*	6.2	*:*	6.9
- China	10.9	10.0	10.1	10.4	11.1	11.9	*10.0*	9.7	*9.1*	7.9	*:*	8.8
- India	4.6	6.9	7.9	9.1	9.8	9.3	*8.0*	8.0	*8.0*	6.7	*:*	7.0
- Hong Kong	0.5	3.0	8.5	7.1	6.8	6.6	*6.4*	3.7	*6.7*	1.5	*:*	3.0
- Korea	1.9	3.1	4.7	4.2	5.0	5.0	*4.7*	4.1	*4.8*	3.1	*:*	3.5
- Indonesia	1.3	4.7	5.0	5.7	5.5	6.3	*6.1*	6.0	*6.0*	4.8	*:*	5.0
Latin America	8.3	1.9	6.1	4.4	5.5	5.7	*4.3*	4.4	*4.0*	2.3	*:*	3.1
- Brazil	2.8	1.1	5.7	2.9	4.1	5.4	*4.6*	5.1	*4.3*	3.3	*:*	3.8
- Mexico	2.1	1.4	4.2	2.7	4.8	3.6	*2.6*	1.9	*2.5*	0.8	*:*	1.6
Sub-Saharan Africa	2.3	3.5	5.8	5.6	6.3	6.6	*6.7*	6.1	*6.1*	5.5	*:*	6.0
World	100.0	3.6	5.1	4.4	5.0	5.0	*3.8*	3.7	*3.6*	2.3	*:*	3.2
World excluding EU	77.5	4.3	5.8	5.2	5.6	5.6	*4.4*	4.3	*4.2*	2.9	*:*	3.8
World excluding euro area	83.5	4.2	5.6	5.0	5.5	5.4	*4.3*	4.1	*4.0*	2.7	*:*	3.7

(a) Relative weights, based on GDP (at constant prices and pps) in 2007.

TABLE 56 : World exports of goods and services, volume (percentage change on preceding year, 2003-2010) 23.10.2008

							2008		2009		2010	
	(a)	2003	2004	2005	2006	2007	IV-2008	X-2008	IV-2008	X-2008	IV-2008	X-2008
EU (b)	40.5	1.9	7.5	5.9	9.2	5.0	4.9	3.4	4.7	1.5	:	3.3
Euro area (b)	30.5	1.3	7.4	5.0	8.4	6.0	4.5	3.2	4.1	1.1	:	3.0
Candidate Countries	1.0	7.5	10.4	7.4	6.7	7.0	7.2	6.2	6.5	4.7	:	6.5
- Croatia	0.1	11.4	5.7	4.6	6.9	5.7	6.2	3.7	7.0	3.5	:	5.0
- Turkey	0.9	6.9	11.2	7.9	6.6	7.3	7.4	6.6	6.5	4.9	:	6.8
- The former Yugoslav Republic of Macedonia	0.0	-5.7	12.9	11.2	8.4	22.9	11.0	12.0	11.5	6.0	:	8.0
USA	9.9	1.3	9.7	7.0	9.1	8.4	8.6	9.0	6.6	2.3	:	3.3
Japan	4.6	9.2	13.9	7.0	9.7	8.6	7.0	6.1	5.2	3.0	:	4.3
Canada	3.0	-2.3	4.8	2.2	0.7	1.0	-2.7	-4.2	0.3	-3.3	:	-0.7
Norway	1.1	-0.2	1.1	1.1	0.4	2.8	2.0	1.7	1.8	2.2	:	3.0
Switzerland	1.4	-0.5	7.9	7.3	9.9	9.4	5.1	3.3	5.3	1.8	:	2.4
Iceland	0.0	1.6	8.4	7.2	-5.0	18.1	8.1	-8.3	6.0	-2.8	:	3.6
Australia	0.9	-0.5	2.8	3.0	2.6	1.3	6.5	5.2	8.0	4.3	:	5.6
New Zealand	0.2	0.7	5.0	-1.3	1.2	4.0	6.0	3.1	6.1	3.0	:	5.0
Industrialised countries	62.6	2.1	8.1	5.9	8.5	5.7	5.3	4.2	4.9	1.6	:	3.2
Others	37.4	12.1	18.1	13.5	12.5	9.5	8.2	7.1	7.6	3.8	:	5.3
CIS	3.4	12.3	15.6	6.7	10.0	10.0	7.2	6.9	6.0	6.3	:	5.0
- Russia	2.3	12.5	11.8	6.5	7.3	6.4	7.7	6.5	6.4	6.8	:	4.9
- Other	1.0	11.7	24.1	7.2	16.1	18.0	7.8	7.8	5.2	5.2	:	5.2
MENA	5.3	11.1	9.0	16.8	9.4	1.4	4.8	6.3	4.7	4.2	:	5.2
Other emerging markets	28.8	12.3	20.0	13.7	13.3	10.9	9.0	7.3	8.4	3.4	:	5.4
Asia	22.3	14.7	21.7	14.4	14.7	12.9	10.1	8.3	9.2	4.0	:	5.9
- China	8.4	29.0	28.0	21.0	21.7	22.7	14.4	11.3	11.8	4.7	:	7.4
- India	1.2	6.1	26.1	23.1	22.6	-0.3	13.1	7.0	12.6	2.8	:	5.3
- Hong Kong	2.5	12.8	16.0	10.8	9.4	7.8	7.8	4.4	7.9	2.2	:	4.0
- Korea	2.6	14.6	21.2	8.0	12.8	14.2	8.2	7.9	8.2	4.5	:	5.2
- Indonesia	0.8	-4.6	9.9	63.2	7.8	8.2	7.9	7.7	7.7	2.9	:	3.9
Latin America	4.7	4.9	16.3	8.4	11.1	4.6	5.6	4.0	5.5	1.1	:	3.3
- Brazil	1.1	7.8	15.8	4.2	6.7	8.5	6.7	5.2	6.0	2.6	:	4.2
- Mexico	1.4	3.6	12.1	6.2	10.6	5.7	3.0	2.0	2.9	-1.6	:	1.5
Sub-Saharan Africa	1.7	1.5	9.1	19.6	1.3	2.4	6.1	4.4	6.1	2.4	:	4.6
World	100.0	5.8	11.8	8.7	10.0	7.1	6.4	5.3	5.9	2.4	:	4.0
World excluding EU	59.5	8.6	14.8	10.7	10.5	8.5	7.4	6.5	6.7	3.1	:	4.5
World excluding euro area	69.5	8.0	13.9	10.4	10.7	7.7	7.2	6.2	6.6	3.0	:	4.5

(a) Relative weights, based on exports of goods and services (at current prices and current exchange rates) in 2007.

(b) Intra- and extra-EU trade.

TABLE 57 : Export shares in EU trade (goods only - 2007)

	EU	Candidate Countries	USA	Japan	Canada	Other Industr. Countries	CIS	MENA	Rest Asia	Latin America	Sub Saharan Africa	World
EU	67.9	1.9	7.2	1.2	0.7	4.3	3.6	3.8	6.0	2.0	1.4	100
Belgium	76.8	1.2	6.0	0.8	0.7	2.3	1.6	3.1	4.9	1.2	1.3	100
Bulgaria	63.8	17.1	2.9	0.2	0.4	1.1	4.6	3.6	4.6	1.1	0.4	100
Czech Republic	85.5	1.1	2.2	0.4	0.2	2.0	4.1	1.5	1.9	0.6	0.4	100
Denmark	71.2	0.6	6.0	1.9	1.0	7.9	2.6	1.5	5.1	1.4	0.7	100
Germany	62.9	2.0	8.3	1.5	0.7	5.4	4.4	3.2	8.1	2.3	1.2	100
Estonia	67.3	1.2	6.4	0.6	0.6	3.4	12.7	1.0	4.1	0.9	1.8	100
Ireland	63.0	0.5	18.5	2.3	0.4	4.9	0.5	1.5	6.0	1.7	0.8	100
Greece	66.7	8.7	4.4	0.3	0.5	1.4	3.5	9.2	2.9	1.2	1.0	100
Spain	72.6	2.0	4.4	0.7	0.5	2.9	1.4	5.0	3.3	5.8	1.4	100
France	66.0	1.6	6.5	1.4	0.7	3.8	2.1	6.3	7.0	2.3	2.4	100
Italy	60.6	3.1	7.3	1.3	0.8	5.3	4.0	6.7	6.4	3.0	1.4	100
Cyprus	68.6	0.2	0.9	1.5	0.2	1.6	3.5	15.9	5.0	0.2	2.5	100
Latvia	70.1	0.3	1.7	0.7	0.4	4.3	19.6	1.3	1.0	0.3	0.2	100
Lithuania	61.3	1.0	3.9	0.1	1.9	3.3	24.3	0.4	3.1	0.4	0.3	100
Luxembourg	89.2	1.5	2.0	0.1	0.3	1.4	1.1	0.9	2.3	0.7	0.3	100
Hungary	79.5	3.3	2.6	0.5	0.2	1.4	6.0	2.6	2.6	0.5	0.8	100
Malta	49.0	0.2	12.5	4.8	0.5	1.0	0.7	5.5	23.2	0.7	1.9	100
Netherlands	79.2	1.2	4.4	0.6	0.3	2.6	2.5	2.5	4.1	1.4	1.4	100
Austria	72.1	2.2	5.5	1.1	0.9	5.7	4.1	2.1	4.2	1.2	0.9	100
Poland	77.8	1.6	1.8	0.2	0.4	2.9	11.0	1.2	1.8	0.8	0.4	100
Portugal	77.3	0.8	6.1	0.3	0.5	1.4	0.5	1.8	4.0	2.0	5.4	100
Romania	71.1	9.0	2.4	0.3	0.2	1.7	5.7	5.6	2.5	0.7	0.7	100
Slovenia	73.2	11.1	2.2	0.1	0.2	1.4	7.5	2.2	1.3	0.4	0.3	100
Slovakia	86.9	1.5	3.0	0.3	0.3	1.2	3.9	0.9	1.3	0.4	0.3	100
Finland	55.4	1.3	6.1	1.5	0.8	4.5	13.7	5.1	7.6	2.4	1.5	100
Sweden	58.6	1.1	9.1	1.5	1.1	12.3	2.9	3.1	6.7	2.2	1.3	100
United Kingdom	59.5	1.2	13.7	1.7	1.7	4.2	1.8	4.5	7.8	1.6	2.2	100

TABLE 58 : World imports of goods and services, volume (percentage change on preceding year, 2003-2010) 23.10.2008

	(a)	2003	2004	2005	2006	2007	2008 IV-2008	2008 X-2008	2009 IV-2008	2009 X-2008	2010 IV-2008	2010 X-2008
EU (b)	40.8	3.4	7.6	6.2	9.2	5.2	*4.8*	3.0	*4.5*	0.9	*:*	2.9
Euro area (b)	29.9	3.2	7.0	5.7	8.3	5.4	*4.4*	2.6	*4.0*	0.6	*:*	2.7
Candidate Countries	1.3	21.9	18.6	11.0	6.9	10.0	*8.8*	6.2	*7.8*	4.1	*:*	7.0
- Croatia	0.2	12.1	4.6	3.5	7.3	5.8	*5.2*	4.3	*6.2*	3.9	*:*	4.8
- Turkey	1.1	23.5	20.8	12.2	6.9	10.7	*9.4*	6.5	*8.0*	4.1	*:*	7.4
- The former Yugoslav Republic of Macedonia	0.0	-15.2	16.7	6.2	11.0	20.0	*11.0*	19.0	*11.3*	5.0	*:*	7.0
USA	14.4	4.1	11.3	5.9	6.0	2.2	*0.9*	-2.3	*-0.5*	-4.7	*:*	-1.0
Japan	4.2	3.9	8.1	5.8	4.2	1.7	*3.2*	1.5	*4.7*	1.3	*:*	3.3
Canada	2.8	4.1	8.3	7.5	5.0	5.5	*4.4*	2.7	*4.3*	1.8	*:*	2.7
Norway	0.7	1.4	8.8	8.7	8.1	8.7	*5.1*	3.4	*3.7*	4.3	*:*	4.3
Switzerland	1.2	1.3	7.3	6.6	6.5	5.9	*5.1*	2.6	*5.1*	2.8	*:*	2.8
Iceland	0.1	10.7	14.5	29.4	10.2	-1.4	*-3.6*	-13.1	*-4.0*	-0.2	*:*	3.7
Australia	0.9	6.5	12.9	7.1	6.7	8.7	*5.5*	11.3	*6.4*	5.6	*:*	4.9
New Zealand	0.2	4.1	12.4	5.9	-0.1	5.4	*7.4*	6.0	*7.2*	3.3	*:*	6.3
Industrialised countries	66.6	3.9	8.8	6.3	7.8	4.6	*3.9*	1.9	*3.5*	0.0	*:*	2.2
Others	33.4	12.6	15.4	11.0	10.9	10.1	*10.4*	10.4	*10.1*	6.6	*:*	7.6
CIS	2.8	16.3	22.2	14.2	19.7	24.4	*18.9*	18.2	*16.5*	13.4	*:*	11.0
- Russia	1.7	17.7	23.3	16.6	21.9	27.3	*9.6*	21.6	*13.6*	15.0	*:*	11.0
- Other	1.1	14.3	20.5	10.5	16.5	20.0	*13.1*	13.1	*11.0*	11.0	*:*	11.1
MENA	4.0	5.9	10.7	11.4	9.6	13.9	*7.6*	9.7	*6.4*	7.9	*:*	7.1
Other emerging markets	26.6	13.2	15.4	10.7	10.1	8.0	*10.0*	9.7	*10.1*	5.7	*:*	7.3
Asia	20.4	14.2	18.6	11.4	10.6	7.2	*10.4*	10.7	*10.9*	6.5	*:*	7.9
- China	6.7	31.7	24.3	11.3	14.3	13.4	*17.3*	17.8	*17.6*	10.7	*:*	13.2
- India	1.7	19.2	16.2	47.1	20.0	0.8	*10.8*	12.1	*10.2*	4.5	*:*	4.8
- Hong Kong	2.5	11.3	14.6	7.5	9.2	8.0	*6.1*	3.4	*6.7*	1.7	*:*	3.2
- Korea	2.6	6.3	12.5	5.9	9.5	11.1	*6.2*	6.7	*6.6*	3.4	*:*	3.6
- Indonesia	0.6	-0.1	18.6	22.2	-4.2	0.4	*10.4*	10.2	*11.1*	4.8	*:*	6.5
Latin America	4.6	11.6	3.4	5.1	8.9	12.2	*9.0*	7.7	*7.7*	3.0	*:*	4.9
- Brazil	1.0	29.4	-14.7	-6.1	-1.2	11.9	*11.3*	16.8	*8.0*	4.4	*:*	9.6
- Mexico	1.6	1.3	12.0	7.6	11.5	7.0	*8.9*	1.7	*7.6*	0.9	*:*	1.5
Sub-Saharan Africa	1.6	4.6	8.1	16.7	7.2	5.4	*8.3*	3.3	*6.9*	3.5	*:*	5.6
World	100.0	6.8	11.0	7.9	8.9	6.4	*6.0*	4.8	*5.6*	2.2	*:*	4.0
World excluding EU	59.2	9.2	13.3	9.1	8.6	7.2	*6.8*	6.0	*6.4*	3.1	*:*	4.7
World excluding euro area	70.1	8.5	12.8	8.9	9.2	6.9	*6.6*	5.7	*6.3*	2.8	*:*	4.5

(a) Relative weights, based on imports of goods and services (at current prices and current exchange rates) in 2007.
(b) Intra- and extra-EU trade.

TABLE 59 : Import shares in EU trade (goods only - 2007)

	EU	Candidate Countries	USA	Japan	Canada	Other Industr. Countries	CIS	MENA	Rest Asia	Latin America	Sub Saharan Africa	World
EU	67.1	1.2	4.3	1.8	0.5	4.5	4.9	3.5	9.0	1.9	1.2	100
Belgium	74.4	0.5	6.2	2.0	0.6	2.1	1.0	2.9	7.5	1.8	1.1	100
Bulgaria	56.3	8.1	1.3	0.3	0.2	1.4	17.7	0.6	9.7	4.1	0.4	100
Czech Republic	81.5	0.6	1.2	2.0	0.2	2.4	6.3	0.3	5.2	0.1	0.1	100
Denmark	75.4	1.1	2.6	1.0	0.3	7.0	1.4	0.7	9.0	1.1	0.3	100
Germany	68.9	1.3	4.4	2.1	0.4	5.2	3.6	1.8	9.7	1.7	0.9	100
Estonia	69.8	0.5	1.3	1.0	0.2	1.4	19.5	0.1	5.8	0.4	0.1	100
Ireland	70.6	0.8	10.0	1.9	0.4	3.8	0.8	0.3	10.2	0.8	0.4	100
Greece	62.3	3.2	2.4	1.9	0.2	2.1	6.3	9.6	10.4	1.1	0.4	100
Spain	68.4	1.2	2.1	1.6	0.3	2.9	1.5	7.2	7.6	4.2	2.9	100
France	73.2	0.9	4.2	1.3	0.4	4.3	2.0	4.5	6.1	1.5	1.7	100
Italy	59.9	2.2	2.7	1.4	0.4	4.3	8.1	9.8	7.9	2.4	1.1	100
Cyprus	44.3	0.4	1.5	2.5	0.1	1.0	31.2	4.9	12.7	1.3	0.1	100
Latvia	68.8	0.6	1.8	0.4	0.4	2.9	18.7	0.4	5.3	0.7	0.1	100
Lithuania	60.9	0.9	2.9	0.4	0.1	1.6	27.3	0.5	4.5	0.8	0.0	100
Luxembourg	82.4	0.1	2.2	0.7	0.6	1.3	0.7	1.6	10.2	0.1	0.1	100
Hungary	73.5	0.9	1.5	2.2	0.2	1.1	10.3	0.2	9.9	0.2	0.0	100
Malta	55.5	5.0	2.2	2.2	0.1	3.9	6.0	1.2	22.9	0.3	0.6	100
Netherlands	50.0	0.6	6.7	3.1	0.6	4.7	9.5	4.1	15.0	3.9	1.8	100
Austria	83.7	1.0	2.1	0.8	0.3	3.7	3.4	1.3	2.9	0.2	0.6	100
Poland	75.1	0.9	1.4	0.7	0.2	1.9	11.5	0.4	6.5	0.9	0.4	100
Portugal	76.0	0.8	2.0	1.0	0.2	2.4	3.1	4.4	4.1	3.4	2.7	100
Romania	66.0	4.6	1.0	0.3	0.3	1.5	11.1	1.3	12.9	0.9	0.1	100
Slovenia	83.1	6.3	1.1	0.5	0.2	1.4	1.6	0.9	3.8	1.1	0.1	100
Slovakia	78.1	0.6	1.1	1.0	0.0	0.9	12.6	0.1	5.3	0.1	0.0	100
Finland	59.8	0.5	3.2	2.9	0.5	4.8	12.7	0.3	13.1	1.8	0.3	100
Sweden	76.2	0.9	3.2	1.4	0.3	7.8	2.3	0.4	5.9	1.3	0.4	100
United Kingdom	57.9	1.3	8.0	2.6	1.6	9.0	2.3	2.3	12.0	1.6	1.4	100

TABLE 60 : World merchandise trade balances (fob-fob, bn. US dollars, 2002-2010) 23.10.2008

							2008		2009		2010	
	2002	2003	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
EU	85.3	78.9	58.7	-8.2	-78.7	-100.0	*-148.2*	-150.3	*-155.5*	-108.0	*:*	-82.8
EU, adjusted [1]	:	:	-53.6	-126.2	-211.3	-219.4	*-278.1*	-279.4	*-287.0*	-226.6	*:*	-201.4
Euro area	154.0	154.6	166.5	115.5	78.7	120.3	*111.5*	90.3	*120.5*	111.8	*:*	132.6
Euro area, adjusted [1]	120.6	118.6	129.7	61.4	31.1	83.1	*83.5*	50.1	*92.1*	74.9	*:*	95.7
Candidate Countries	-7.8	-13.5	-23.7	-32.5	-39.8	-61.1	*-88.1*	-78.8	*-99.8*	-70.8	*:*	-81.8
USA	-491.7	-559.5	-681.2	-796.9	-850.6	-835.9	*-867.7*	-818.5	*-760.9*	-630.5	*:*	-583.0
Japan	92.3	103.4	128.6	93.9	81.4	104.7	*134.5*	109.5	*132.6*	129.2	*:*	143.6
Canada	36.5	40.3	50.5	52.4	45.2	44.8	*35.8*	47.8	*23.0*	13.7	*:*	-3.8
Norway	23.4	27.0	32.4	46.8	56.7	54.7	*66.6*	99.1	*68.4*	72.0	*:*	75.2
Switzerland	3.3	3.2	5.4	2.4	4.1	7.8	*16.3*	10.2	*18.4*	7.5	*:*	7.4
Iceland	0.2	-0.2	-0.5	-1.5	-2.2	-1.4	*-3.9*	-0.8	*-3.6*	-2.5	*:*	-3.1
Australia	-5.5	-15.3	-18.1	-13.4	-9.6	-4.0	*9.2*	-2.2	*12.8*	-32.7	*:*	-32.0
New Zealand	0.1	-0.5	-1.4	-2.6	-2.0	-2.3	*3.3*	-2.9	*2.9*	-2.1	*:*	-2.5
Industrialised countries	-263.9	-336.3	-449.3	-659.5	-795.6	-792.6	*-842.2*	-787.0	*-761.6*	-624.3	*:*	-562.8
Others	288.3	378.4	466.0	711.9	914.5	894.3	*1349.7*	1079.8	*1307.6*	786.7	*:*	682.1
CIS	49.2	62.3	92.3	124.3	143.0	129.3	*186.4*	231.1	*173.4*	92.9	*:*	41.1
MENA	76.4	109.8	137.2	254.5	319.9	266.9	*600.4*	471.6	*630.9*	343.9	*:*	372.6
Other emerging markets	162.6	206.3	236.5	333.1	451.5	498.1	*563.0*	377.1	*503.4*	349.9	*:*	268.4
Asia	128.5	151.2	152.8	212.5	310.6	385.5	*329.9*	211.1	*273.9*	232.3	*:*	152.7
Latin America	21.4	43.3	58.8	81.2	100.9	62.5	*159.0*	91.5	*151.2*	51.8	*:*	49.6
Sub-Saharan Africa	12.7	11.8	24.9	39.4	40.0	50.1	*74.0*	74.6	*78.3*	65.8	*:*	66.1
World	24.4	42.2	16.7	52.4	118.8	101.7	*507.5*	292.8	*546.1*	162.4	*:*	119.3

[1] See note 8 on concepts and sources.

TABLE 61 : World current account balances (bn. US dollars, 2002-2010)

							2008		2009		2010	
	2002	2003	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
EU	25.7	6.4	45.2	-32.7	-72.0	-127.1	*-181.6*	-189.5	*-189.3*	-143.8	*:*	-118.8
EU, adjusted [1]	:	:	12.8	-34.3	-120.9	-110.7	*-129.8*	-171.7	*-136.8*	-127.4	*:*	-102.4
Euro area	52.4	31.3	95.8	24.3	21.1	24.0	*-24.7*	-42.5	*-18.1*	-8.6	*:*	-1.5
Euro area, adjusted [1]	53.7	38.0	79.3	12.6	-13.6	17.9	*-8.4*	-49.1	*-1.6*	-14.6	*:*	-7.5
Candidate Countries	1.7	-7.7	-14.8	-21.2	-30.9	-42.3	*-51.9*	-56.0	*-56.5*	-48.3	*:*	-57.3
USA	-458.3	-512.3	-624.1	-710.9	-771.6	-718.6	*-712.4*	-655.4	*-589.0*	-470.5	*:*	-418.9
Japan	113.0	136.1	172.2	165.9	170.6	212.0	*257.0*	194.4	*260.6*	209.0	*:*	219.5
Canada	14.0	12.0	21.4	22.1	22.5	13.6	*1.7*	13.3	*-14.8*	-20.7	*:*	-41.8
Norway	24.2	27.7	32.9	49.1	58.2	66.7	*68.2*	112.7	*69.3*	82.5	*:*	85.7
Switzerland	20.8	39.0	41.6	51.0	53.7	38.2	*79.7*	43.6	*83.2*	36.2	*:*	34.9
Iceland	0.1	-0.5	-1.3	-2.6	-4.2	-1.9	*-4.6*	-1.7	*-4.0*	-3.9	*:*	-4.9
Australia	-15.8	-28.7	-38.8	-41.0	-41.0	-56.9	*-42.8*	-59.7	*-40.7*	-100.3	*:*	-101.3
New Zealand	-2.4	-3.5	-6.3	-9.3	-9.1	-10.2	*-6.2*	-12.6	*-6.9*	-12.0	*:*	-12.6
Industrialised countries	-277.0	-331.5	-372.0	-529.4	-623.7	-626.6	*-592.8*	-611.0	*-488.0*	-471.7	*:*	-415.5
Others	170.8	278.0	362.1	593.2	791.5	822.9	*1260.1*	661.3	*1222.5*	427.0	*:*	321.9
CIS	30.2	36.1	63.5	87.4	93.0	74.8	*152.0*	126.6	*130.4*	-8.7	*:*	-57.8
MENA	39.0	74.2	104.3	220.4	281.3	227.4	*548.3*	139.5	*579.4*	97.9	*:*	82.9
Other emerging markets	101.7	167.8	194.3	285.3	417.2	520.7	*559.8*	395.2	*512.7*	337.8	*:*	296.8
Asia	121.7	164.9	171.8	242.2	356.4	493.0	*444.0*	345.0	*408.7*	345.1	*:*	315.4
Latin America	-15.5	9.0	21.6	36.6	55.9	17.2	*68.5*	-1.4	*54.5*	-44.8	*:*	-54.5
Sub-Saharan Africa	-4.5	-6.1	0.9	6.6	4.9	10.5	*47.3*	51.6	*49.5*	37.5	*:*	35.9
World	-106.2	-53.5	-9.9	63.8	167.8	196.3	*667.3*	50.3	*734.5*	-44.7	*:*	-93.5

[1] See note 8 on concepts and sources.

TABLE 62 : Primary commodity prices (in US dollars, percentage change on preceding year, 2002-2010)

SITC							2008		2009		2010	
Classification	2002	2003	2004	2005	2006	2007	*IV-2008*	X-2008	*IV-2008*	X-2008	*IV-2008*	X-2008
Food (0 + 1)	3.0	4.5	15.0	2.9	11.8	10.9	*38.6*	16.1	*-0.5*	3.1	*:*	2.3
Basic materials (2 + 4)	0.1	7.7	19.8	9.4	37.9	13.8	*16.1*	12.1	*-0.1*	7.4	*:*	1.8
- of which :												
Agricultures non-food	4.8	4.6	2.9	-2.9	2.6	13.1	*27.8*	32.5	*0.0*	14.2	*:*	0.9
- of which :												
Wood and pulp	-2.4	5.7	11.6	3.3	7.3	1.1	*-8.5*	10.4	*-0.7*	0.2	*:*	0.1
Minerals and metals	-4.5	11.1	37.3	18.8	60.3	14.1	*7.9*	3.8	*-0.2*	3.8	*:*	2.4
Fuel products (3)	-1.5	13.2	32.3	44.4	19.4	8.7	*39.4*	42.1	*2.0*	-17.1	*:*	5.2
- of which :												
Crude petroleum	0.1	13.9	33.4	44.7	20.2	9.5	*39.7*	43.4	*-1.3*	-17.5	*:*	5.5
Primary commodities												
- Total excluding fuels	1.3	6.4	17.9	6.8	28.0	12.9	*22.3*	13.4	*-0.2*	5.9	*:*	2.0
- Total including fuels	0.5	11.6	28.0	35.8	21.0	9.4	*32.6*	35.4	*1.2*	-13.5	*:*	4.6
					Crude petroleum - price per barrel							
Brent (usd)	25.0	28.5	38.0	55.1	66.2	72.5	*101.2*	104.0	*100.0*	85.7	*:*	90.4
Brent (euro)	26.5	25.2	30.6	44.3	52.7	52.9	*65.3*	70.3	*63.7*	63.0	*:*	66.5

Note on concepts and sources

1. The directorate general for economic and financial affairs (DG ECFIN) produces, under its own responsibility, short-term fully-fledged economic forecasts twice a year : in the spring and in the autumn. These forecasts cover the principal macroeconomic aggregates for the Member States, the Candidate Countries, the European Union as a whole, the euro area and the international environment. Interim forecasts, updating the outlook for the seven largest Member States, EU and the euro area, are presented in between the fully-fledged forecasts.

2. Data for 2008, 2009 and 2010 are forecasts.
   The sources for all tables are the Commission services, unless otherwise stated.
   Historical data for the Member States are based on the European System of Accounting (ESA 1995). Most Member States have now introduced chain-linking in their national accounts to measure the development of economic aggregates in volume terms.
   For the USA and Japan the definitions are as in the SNA.

3. Tables 5 and 6 on domestic demand and final demand respectively, present data including inventories.

4. In Table 16, the data are based on the national index for USA and Japan, and for EU Member States and aggregates prior to 1996.

5. The potential output gap is calculated with reference to potential output as estimated via a production function, where the increase in the capital stock and the difference between actual unemployment and the NAWRU play a key role.

6. Employment data used in tables 21-25, 27 and 31-32 are based on full-time-equivalents (FTEs), where available. Currently, Germany, Estonia, Spain, France, Italy, Hungary, the Netherlands and Austria report FTE data (taken together, these countries represent 90% of euro-area GDP and 65% of EU GDP). In the absence of FTE data, employment is based on numbers of persons. In the calculation of EU and euro-area aggregates, priority is given to FTE data, as this is regarded as more representative of diverse patterns of working time.

7. The nominal short term interest rates are defined as the 3-month inter-bank rates. The nominal long term interest rates are defined as the yield on the central government benchmark 10-year bond. For Estonia, where no appropriate benchmark government bond is available, the indicator provided in Table 34 is a weighted average of MFI interest rates for new EEK-denominated loans to households and non-financial businesses.

8. EU and euro-area data are aggregated using exchange rates.
   World GDP is aggregated using Purchasing Power Standards (PPS).
   In the tables on world trade and international payments, the aggregation is carried out on the basis of current exchange rates.
   Tables 48 - 52, 60 and 61 show also EU and euro-area "adjusted" balances. Theoretically, balances of EU and euro area vis-à-vis third countries should be identical to the sum of the balances of the individual countries in the EU or the euro area. However, intra-EU or intra-euro-area balances are non-zero because of reporting errors. The creation of the internal market in 1993 reduced border controls and formalities, and accordingly the scope and precision of intra-EU trade coverage. Typically, intra-EU imports are underestimated compared to intra-EU exports, leading to an overestimation of the surplus. For the past the "adjusted" balances are Eurostat estimates for EU and ECB estimates for the euro area. For the future, they are ECFIN's forecasts based on the extrapolation of the discrepancies observed in 2006.

9. With respect to the 12 RAMS (recently-acceded Member States), which are currently in a transition phase, the quality of statistical data may not always be directly comparable to most EU15 Member States.

10. Geographical zones are defined as follows :
    Euro area :
    EA16 (BE,DE,IE,EL,ES,FR,IT,CY,LU,MT,NL,AT,PT,SI,SK,FI)

    Candidate countries :
    Croatia, Turkey and former Yugoslav Republic of Macedonia.

    Potential Candidates :
    Albania, Bosnia-Herzegovina, Kosovo, Montenegro and Serbia.

    Industrialised Countries :
    EU, Candidate Countries, USA, Japan, Canada, Norway, Switzerland, Iceland, Australia and New Zealand.

    MENA (Middle East and Northern Africa) :
    Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Lybia, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen.

    Asia :
    All countries except Japan and the Asian MENA countries.

    Latin America :
    All countries.

    Sub-Saharan Africa :
    All countries except the African MENA countries.